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

Date: October 27, 2021
Location: Live-streamed from Fujitsu Limited Headquarters, Tokyo
Presenter: Takeshi Isobe, Corporate Executive Officer and CFO

**<u>Questioner A</u>**
***Q1:*** *You mentioned that, relative to your internal targets, operating profit in the second quarter was 5.0 billion lower than anticipated, but please provide a break-out of this 5.0 billion yen between Technology Solutions and Device Solutions.*

**A1:** While Technology Solutions underperformed relative to our target by 7.0 billion yen, Device Solutions outperformed by 2.0 billion yen, mainly because of the foreign exchange impact on Shinko Electric. Results in Technology Solutions were impacted by delays in the supply of components, but if we exclude that impact, operating profit in Technology Solutions was in line with our expectations.

***Q2:*** *For the full fiscal year, you have revised your operating profit projections for Technology Solutions down by 20.0 billion yen, but please explain the relationship between this and the reasons why the segment underperformed relative to your target in the first half by 7.0 billion yen.*

**A2:** Regarding the underperformance of 7.0 billion yen in the first half, we expect to recover in the second half through the procurement of components and passing on price increases, fully offsetting that impact for the full year. On the other hand, component supply risks other than these are emerging, and because we have come to understand what scale these are likely to be, we have projected the possibility that the impact of component supply delays will be 20.0 billion yen for the full year.

***Q3:*** *You explained that, because revenue of 5G base stations increased, your profit margins deteriorated, but could you please explain the background to this situation?*

**A3:** The reason why the profit margin for Network Products declined compared to the previous year is because there was a large volume of revenue during the second quarter of fiscal 2020 in Japan recorded for 5G base stations, and there was a relatively high proportion of products that had high profitability. On the other hand, in the second quarter of fiscal 2021, the proportion of 5G base stations for North America customer increased. The types of 5G base station products we sell in North America are different from those that we sell in Japan, and because their gross margins are lower, our profit margin deteriorated.

**<u>Questioner B</u>**
***Q1:*** *In the second quarter, the status of orders for Solutions and Services moved in a positive direction, but has the current status of order changed from what you expected at the beginning of the fiscal year? In addition, in the briefing for your first quarter results, you explained that sales*

*tend to be concentrated in the third and fourth quarters, but how are you now viewing the status of orders for the second half?*

**A1:** From the start, we had projected a modest recovery in the first half, and things have turned out more or less according to our internal projections. To be honest, our top-line growth has not been as strong as we would have liked, as we had hoped for a recovery that would cause us to exceed our internal projections, but it turned out to be no more than what we had projected. Please understand that in the structure of our projections for this year in particular, we had anticipated that our performance in the second half would be instrumental to achieving our fiscal year target.

***Q2:*** *Backing out the calculation from your full-year forecast, I think your view is that you need a significant boost in performance in the second half, but do you envision a recovery starting in the third quarter, or is everything riding on the fourth quarter. Please tell us your view of meeting revenue and operating profit targets in the second half.*

**A2:** In terms of orders, we think we need to accumulate a bit more starting in the third quarter. On the other hand, regarding revenue and operating profit, we think the third quarter will still be relatively weak, for two reasons. One is that, in this fiscal year, large-scale deals, including for government ministries and agencies, are concentrated in the fourth quarter. In addition, we anticipate that component supply delays will continue until part-way through the third quarter, and so we expect that, in terms of revenue and operating profit, we still will not have an adequate recovery in the third quarter.

***Q3:*** *Will component supplies also affect your performance in Solutions and Services?*

**A3:** For Solutions and Services business that is packaged with hardware, such as our x86 server business, or the business of Group companies selling scanners, there will be an impact from the delay of component supplies.

***Q4:*** *You said that profitability of  your regions outside of Japan are improving, but, looking just at the second quarter, there appears to be a slight decrease in profit, and profit also declined in the Americas region, where you have conducted structural reforms. I think that there is a global recovery trend in IT services market, so please tell us why profit has declined. In addition, if you are to meet your full-year targets, I think you need a big increase in profits in the second half, so please tell us how you are viewing the second half.*

**A4:** Regarding our business outside of Japan, it is finally at a level where we are able to secure profit. Looking at individual regions, there was a decline in profit in the Americas region in the second quarter compared to the prior fiscal year, but certain one-time special items impacted results last fiscal year, so we do not view this year’s second quarter result as underperforming. Still, it would be a problem if profits were stuck at this level, and we think we need much stronger performance. We have not been disclosing the status of orders for regions outside of Japan, but, to a certain extent, we now are starting to see the development of a pipeline of services-related deals. Our plans project a solid recovery.

**<u>Questioner C</u>**

***Q1:*** *Regarding orders, in the briefing on the first quarter results, you said that, because of projects that had been shifted to the second half, orders would not increase in the second quarter. On the other hand, you have said that orders from government ministries and agencies were pulled in earlier, so, because of that, have there been any changes in your outlook of orders for the full year now compared to the beginning of the fiscal year or the time of your briefing on your first quarter results?*

**A1:** Our expectations have not changed very much. As you will understand by looking at the figures, the recovery in the second quarter has not been that strong. Orders for the Japan region rose 20%, which may seem like a significant rise, but that is only because we were able to win some orders in the second quarter for government deals that will materialize in the fourth quarter. Other than that, the pace of orders is pretty much as we expected. We think we really need to put our business in higher gear in the second half.

***Q2:*** *On slide 10 of your briefing materials, you state that the profitability improvement in Solutions and Services is continuing, but, in terms of gross margin improvements based on your capabilities, how much of an effect is being generated? Please also comment on balancing growth investments in Solutions and Services.*

**A2:** If we look at Solutions and Services on a quarter-by-quarter basis, the absolute level of the gross margin was essentially flat from the first quarter to the second quarter. Partly, that reflects the fact that growth investments were a bit heavy in the second quarter, but the momentum of gross margin improvements has remained steady. Overall in the first half, the level of operating profit in Solutions and Services is essentially the same as last fiscal year, but please understand that there was roughly a 10.0 billion yen improvement in profitability, but that was matched by about a 10.0 billion yen increase in growth investments.

**<u>Questioner D</u>**

***Q1:*** *Because of the impact of component supply delays, you reduced this fiscal year's operating profit forecast for System Platforms by 15.0 billion yen. You explained that this was to be conservative, but if the component supply delay issue is resolved, does that mean that a portion of those operating profits will come back this fiscal year, or can we expect that they can be recovered in the first half of next fiscal year? If conditions improve, is there a possibility of upside revisions? In addition, you have also reduced this fiscal year's operating profit forecast for Solutions and Services by 5.0 billion yen, but please explain the reasons for this.*

**A1:** Please note that, the revisions in our profit forecast for both Solutions and Services, amounting to 5.0 billion yen, and for System Platforms, amounting to 15.0 billion yen, came solely from factoring in the risk of component supply delays. For Solutions and Services, this is because of business that is integrated with hardware, and for System Platforms, this is because of x86 servers and network equipment, and we have factored in the risk of those impacts.

As for whether there could be upside improvements, yes, we think that is a possibility. Even if the delays in the first half are recovered in the second half, it is likely that there could be other component shortages, so we have factored in the risk that there could be new component supply delays in the second half. Of course, we are working to get components and bring about a recovery in order to minimize any impact. Because demand is strong, even if there is slippage into the next period, we think we will still be able to recover that revenue. Even if it happens that we are not able to adequately minimize the impact on this fiscal year, there will be very minimal impact on our performance targets for fiscal 2022, as we think we can solidly recover by then.

In Device Solutions, mainly for Shinko Electric, we can clearly see the positives stemming from strong demand. On the other hand, for Technology Solutions, in a situation in which we have difficulty assessing how large the risk might be in terms of the impact on our hardware that uses semiconductors, please understand that we have not changed our full-year targets for total operating profit.

***Q2:*** *This is a question regarding your view of future prospects, including orders. For example, looking at the Current Survey of Selected Services Industries or the Bank of Japan's quarterly Short-term Economic Survey of Principal Enterprise, I feel that future prospects are not so dim, and that economic activity is improving. On the other hand, even if the recovery at this point is more or less what you had anticipated, you said that you feel that conditions are not quite sufficient, but in which industries do you think the recovery is not quite sufficient? Please comment on an industry-by-industry basis.*

**A2:** I think things are not quite sufficient overall, but for this fiscal year, our forecast from the start was that our business would be concentrated in the second half or fourth quarter. When it is concentrated in the second half or fourth quarter, of course that entails a high degree of risk, so we need to win orders in advance, and, in that sense, things are not quite satisfactory. In terms of industry segments, medium-sized enterprise customers, which are covered by Fujitsu Japan, seem to lack much momentum. For these mid-sized enterprise customers, in particular, orders in the "For Stability" area take precedent over deals "For Growth" at the moment, and many continue to work to overcome the impact of the COVID-19 pandemic. Moreover, our medium-sized enterprise customers have also been broadly affected by component supply delays. In particular, in terms of current semiconductor supply delays, rather than cutting-edge process chips, it is matured process chips for which there are shortages. For example, shortages of integrated circuits with embedded power modules are having a very wide impact, and, unfortunately, that also includes medium-sized enterprise customers. We would like to help and support these customers with added-value proposals for digital transformation, but we have not reached that stage yet, so I am saying that we have not yet reached where we expected to be.