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

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Presenter: Takeshi Isobe, Corporate Executive Officer and CFO

Questioner A
Q1: *Please tell us the status of System Integration and Services orders for the third quarter for the Private Enterprise, Finance & Retail, and the Japan Region segments.*

A1: I will answer in terms of cumulative orders through the third quarter. Orders increased by 7% in the Private Enterprise segment, 17% in Finance & Retail, and 4% in the Japan Region. Overall, we can see a recovery in System Integration and Services orders from the second quarter. While there are both increases as well as decreases, the areas that decreased were supercomputer-related services and business related to telecom carriers. Other than that, orders increased compared to the previous year.

Q2: *Is it correct to say that your IT services business is recovering to its previous growth rate?*

A2: Yes.

Q3: *Excluding Fujitsu Japan, is it recovering to a growth rate of around 10%?*

A3: Yes.

Q4: *Is the digital transformation business driving the recovery? Your Ridgelinez business does not appear to be making a big difference.*

A4: There are many DX-related deals. Business is growing with our offering base, such as SAP based offerings, our own cloud, or another company's cloud.

Q5: *Your business is growing in line with the market, the external environment. As the scale of your business is large, can we assume that your growth will be in line with the macro environment?*

A5: Yes. Fujitsu Japan is facing a challenging period, but our evaluation is that business from large-scale customers is recovering. Educational institutions, local governments, and SMEs are being negatively affected by the burden of dealing with COVID-19 as well as their own component shortages. For these customers, we are providing services integrated with hardware. In accordance with customer needs, we provide services along with hardware, or we combine solutions with an infrastructure platform that includes hardware, and for some of these projects Fujitsu Japan is the point of contact with the customer as the sales company. Although our business in services with integrated hardware is weak right now, our pure services business is growing. The market recovery for SMEs, local governments, and educational institutions has been slow, and the category of products that has been struggling is hardware. Local governments are expressing enthusiasm about the move toward standardization, and we would like to provide leadership in this area. However, at present, we get the impression that local government is still a little bit reluctant in moving toward standardization.

Questioner B

Q1: *To achieve your target operating profit margin of 10% in your medium-term plan during the next fiscal year, you will need to significantly increase your profit, but what will be the factor that enables you to increase your profits?*

A1: At the start of this fiscal year, our plan called for 240.0 billion yen in operating profit from Technology Solutions for this fiscal year, with a big increase in the next fiscal year to 350.0 billion yen. Compared to the previous fiscal year, our plan for this fiscal year called for a roughly 50.0 billion yen increase in profit from higher revenue, another roughly 50.0 billion yen increase in profit from margin improvements, and a decrease in profit of about 50.0 billion yen from higher growth investments, for a net total increase in profit of about 50.0 billion. However, factors such as the global chip shortage have negatively impacted our results. For the next fiscal year we are planning a further increase in profits of about 100.0 billion yen from this fiscal year, with 50.0 billion yen in higher profits from an increase in revenue, and another 50.0 billion yen in higher profits from margin improvements, including improvements resulting from our growth investments. Because growth investments in fiscal 2022 would be at or slightly lower than the level for fiscal 2021, the negative drag would be eliminated next fiscal year. Some growth investments produce immediate effects, and some do not. From this fiscal year into next fiscal year, we are incurring expenses for investments in areas including borderless offices, office relocations, measures to enhance our office environment, and transformations in the ways we work. However, we expect to see some positive effects from these investments such as reduced rental expenses during the next fiscal year. I would like to provide a detailed explanation at the time we present our financial forecast for fiscal 2022.

Q2: *Please tell us your thoughts about your equity holdings in Shinko Electric Industries, Fujitsu General, and Socionext.*

A2: There has been no change at all in our direction to concentrate our management resources on Technology Solutions and make our non-core businesses stand on their own as independent entities. We are considering various approaches, including partnerships to further strengthen our independent businesses, at a timing that offers us the maximum value. We may be taking some time in making decisions in these areas, as you seem to indicate, but please understand that we are unable to comment on detailed plans or how far along we may be in negotiations. We are moving forward while keeping a close eye on our demand for funds, such as for growth investments.

Questioner C

Q1: *In your full-year financial forecast, you made adjustments to figures within your segments, but the adjustments you made at the time of your second quarter financial results announcement and the adjustments you have made this time seem to me to be of a different nature. Last time, when you lowered your forecast for Technology Solutions, I had the impression you were creating a buffer, but this time you have seemed to factor in the real impact of such factors as the global chip shortage and made more significant downward adjustments. Is this the case? In addition, is there the possibility that your performance could exceed your forecast?*

A1: That is correct. The revisions we made at the time of the second quarter financial results announcement took into account that performance in Device Solutions was exceeding our expectations, and that the risk of the global chip supply shortage was further increasing, even in the face of our countermeasures. Due to the uncertainty stemming from that risk, we did not have the confidence to make upward revisions. At the end of the third quarter, however, the chip shortage is having an even greater impact than we anticipated. In particular, costs for components have increased significantly. We couldn't compensate for this internally and ultimately had to issue a press release earlier in January announcing price increases for our x86 servers. In addition, as the recovery in our business related to SMEs, local governments, and educational institutions has been much slower than anticipated, we made downward revisions to Technology Solutions based on the actual situation. Internally we are taking further measures to get back to our planned scenario, but we had to adjust our expectations in accordance with the current actual situation. Of course we are working hard to try to exceed our forecast, but we feel that our forecast is reflecting actual current trends.

Q2: *It seems to me that you face considerable obstacles in meeting your financial plan for the fourth quarter. While there is a possibility that Shinko Electric Industries could further exceed its fourth quarter plan, I think there may be concerns that System Platforms and Solutions and Services may fall short of the plan. What plan do you have to meet your targets?*

A2: What you say is correct. However, on the other hand, in our projections for the fourth quarter of fiscal 2021, we see a rebound in orders, particularly large-scale orders, primarily for System Integration and Services, from customers in industry segments including manufacturing, mobility, and the public sector. I had previously mentioned that we expected a large number of projects in the second half of the fiscal year, and the number of orders we already received and are about to receive is increasing. As long as we make sure not to lose these orders, we should be able to fully meet our targets. In addition, although we are not planning to limit our growth investments, conditions are very difficult, and we are doing thorough checks of each item, including our planned expenses and investments, and determine whether it is necessary and whether the scale of the spending is appropriate. Right now it is extremely difficult to predict future circumstances, due to the spread of the

COVID-19 omicron variant, the impact of the global chip shortage, and, even beyond that, international tensions and interest rate policy. However, at the present time, we think we can meet our full-year targets with the elements I just mentioned and move forward on investments that will lead to growth during the next fiscal year and beyond.

Q3: *The global chip shortage led to a decline in operating profit in the third quarter by 11.9 billion yen. In light of this, does your full-year plan reflect the net amount based on the effects of the countermeasures you just explained? Or should we assume it reflects the gross impact, without taking these countermeasures into account?*

A3: It is the net amount.

<u>Questioner D</u>
Q1. *With regard to the impact of components, could you explain to us to what extent the inability to procure components and the increased prices of the components respectively impacted your results? Assuming that sales that couldn't be generated this year due to the inability to procure components will slide into the next fiscal year, the final impact would be more or less zero in the end. On the other hand, for cases where component prices have increased, your company is also raising prices, so I think things should gradually ease up as we head into the next period. Please tell us about your expectations for these factors for both this period and the next period.*

A1. Our impression is that the volume of sales that were delayed due to delays in component supplies amounts to about 100 billion yen for the year. At the same time, there was a question earlier about whether this is net or gross. Of that negative 100 billion yen, we have been able to recover a bit less than 40 billion yen. For the temporarily delayed sales, we will see some recovery from sales that slipped from the first half to the third or fourth quarter, for example. However, please note that there remains a difference of around 60 billion yen due to the sales we couldn't recover. Then there is also the impact of cost increases, but we are offsetting the amount of the cost increases by transferring that amount to our prices, so this factor has had a negative impact of less than 10 billion yen on our operating profit. The increases in costs for substitute components is happening first, so our price transfers always end up trailing behind. Although we are adjusting our prices in order to recover the losses, we will not be able to cover the full amount of the losses this fiscal year. Providing that the procurement costs do not further increase, we will proceed on the assumption that we well be able to make up the gap during the next fiscal year based on our current price revisions. This is how we see this fiscal year.

Q2. *I would like to ask about potential sources of uncertainty in achieving your goals for the year. I think that you are assuming growth of about 14% in sales for Solutions/Services in Technology Solutions for the fourth quarter compared to the previous year. At the same time, I think there is still a lack of clarity about the impact of component supplies as well, so could you tell us about where the factors of uncertainty are in your current pipeline, or* *in business deal opportunities you are counting on to achieve your management goal for the year?*

A2. There are only two or three months left in this fiscal year, so we have some idea of the balance of orders and the pipeline. If we can properly convert those orders in the pipeline to sales without tripping at the finish line, I think we will achieve the revenue scale we need. Projects are, however, quite concentrated in the fourth quarter of this fiscal year, so we are working hard to not drop the ball at the finish line due to some sort of unpredictable troubles. As the level of revenue in the fourth quarter will be extremely high, and there will also be a large number of SI projects, we will work to ensure that there are no unprofitable projects. Regarding the components issue that has already been mentioned in an earlier question, there have been negative factors as shortages of some components, as well as a significant increase in vendors that did not keep their commitments in the third quarter. However, fortunately the amount of components in short supply has diminished to a great degree. Please note that these components in short supply are indeed key components, but the shortages have eased. At the end of the first half our predictions about how much we could make up the gap fell short, so we need to be cautious as we look forward. I mentioned earlier that we would thoroughly examine our expenses in case those sorts of shortages expanded, so we are looking at the situation in light of those measures. Only the fourth quarter remains, so business deals keep coming into view. Although we can take certain countermeasures, we will not be able to take any “drastic” countermeasures during the remaining time. In that sense, we need to remain careful, keeping in mind that the measures we can take are limited in case of unpredictable negative events such as a loss on components or an unprofitable project.

Questioner E

Q1. *With regard to delays in component procurement, you mentioned that your forecasts were made on the assumption that the situation would improve by about the end of December this year, but making that assumption, it seems that your revenue target for Technology Solutions in your medium-term plan for the next fiscal year is becoming an increasingly difficult obstacle to avoid. Could you tell us your thoughts on this topic?*

A1. With regard to our assessment of the impact of component supply delays, please note that this is still somewhat based on intuition at the moment, but I think the impacts will be fairly prolonged. We began to see a slightly negative impact in the later part of the first half of this fiscal year, but that expanded as we entered the third quarter. In the first half, up until partway through the second quarter, we had not seen a very significant impact. Comparing this fiscal year with the next fiscal year, we are assuming that the impact will continue at current levels into the first half of the next fiscal year, so that will be a negative factor. On the other hand, we expect things to gradually improve in the second half of the next fiscal year, starting around December, so our estimation is that the second half will probably see a less negative impact than this year. Looking at the full year, we think the impact of semiconductor supply delays will be in line with this fiscal year. However, in the worst case, we might be affected even stronger than this fiscal year if similar trends continue in the first half. On the other hand, we are taking countermeasures in terms of prices, so as long as component prices do not continue to rise unceasingly, we think we will be able to do some amount of mitigation in terms of profit and loss. I don't want to blame this on the Omicron variant, but in addition to the stagnation or delay of sales due to supply delays, there is also the problem that recovery of orders in certain fields are delayed, which we feel will raise the hurdles for us to meet our sales targets next fiscal year even higher. Nevertheless we still have a year from now, so we will take measures to expand sales, which include new measures such as alliances and collaborations which we are currently promoting.

Q2. *I understand that your integrated hardware business has been affected by the component supply delays, but with regard to the shift to the cloud, could you tell us what sort of efforts you have undertaken, and what sort of outcomes you have seen?*

A2. With regard to the current situation, we would rather say that problem is that market areas where our integrated hardware business is larger are not really recovering, and do not think that our integrated hardware business itself has been damaged. Fujitsu Japan is also essentially moving in the direction of offering cloud based solutions, and rather than offering hardware and services, we are steering toward not just using our own cloud platforms, but also the platforms of our alliance partners as we move forward. We wouldn't say that it is only the hardware part of our integrated hardware business that is falling - it is rather the fact that the recovery is weak in fields where that sort of business is larger, such as with SME customers. We are making strong progress in our shift to the cloud, including in the field of SMEs, and we are fundamentally heading in the direction of the digital shift.

Q3. *Please tell us about the trends at Ridgelinez. I think there is strong demand for DX consulting, but could you tell us about the state of personnel training, as well as your goals and your progress toward them in a quantitative sense?*

A3. We have concentrated upstream strategic consulting talent at Ridgelinez, but we also have consulting personnel at Fujitsu itself. Ridgelinez is still quite small, consisting of around 340-350 people, but we are beginning to see steady results. Ridgelinez's revenue has currently not yet reached 10 billion yen per year, but it grew by about 40% compared to the previous year. In addition, we are also beginning to see results in the form that we were able to secure a broad range of customers. Only about 20% of Ridgeline's customers overlap with those of Fujitsu. This means that the remaining 80% do not overlap, thus Ridgelinez can reach out to CDXOs and CFOs Fujitsu couldn't approach until now as it has been focusing on CIOs and customers from information system departments. We view that as a positive result as well. In addition, we are making progress in bringing in new outside personnel. We would like to create a synergistic cycle, where Ridgelinez is handling strategic consulting, while Fujitsu is taking up the actual execution, and those results lead to new growth for Ridgelinez. We don't want Ridgelinez to be caught in the boundaries of Fujitsu, and we would like to proceed with a sense of tension that naturally Fujitsu needs to be chosen by Ridgelinez, and that Ridgelinez also needs to be chosen by Fujitsu. I think there are parts that are not visible in the numbers, but I feel that they are making steady progress. Going forward, I want us to strengthen our efforts so that we can demonstrate the strengths of Ridgelinez in quantitative, concrete numbers.

Questioner F

Q1. *Earlier you mentioned the fact that the components in short supply have decreased to some degree. I would like you to comment on that in as much detail as you can. It had an impact of 11.9 billion yen on your operating profit in the third quarter, but when will the impact of component shortages on your quarterly profits bottom out, due to factors such as future price shifting? Is there a possibility that it will spread to the fourth quarter, or even to the first half of the next fiscal year? Please explain how you perceive the impact of component shortages in terms of quarters.*

A1. I cannot give further details about components that are in short supply, but the biggest bottleneck are components that are core to x86 servers. Starting in the latter part of the second quarter, we had a number of commitments fall through across a wide range of products, and while that has settled down to some degree, key parts are still in short supply. The negative impact was a loss of 11.9 billion yen in the third quarter. While we are moving forward with price shifting, we feel that the level of the negative impact in the fourth quarter will be close to that in the third quarter. We feel that the third and fourth quarters will be the bottom in terms of losses, and that we may be able to minimize the negative impact in the first half of the next fiscal year, once price shifting has taken effect. We think that the impact on revenue may well continue at about the same level through the first half of fiscal 2022. We expect that we will see some real improvement during the third quarter of the next fiscal year. As for price shifting, we have revised our prices but need to continuously keep an eye on how we can mitigate the impact of sudden jumps in component prices.

Q2. *Revenue in the fourth quarter is seasonally quite high, but do you think the negative impact on profits will be about the same as in the third quarter?*

A2. Yes, that is correct.

Q3. *According to your financial plans, I think you are forecasting high growth in both revenues and profits in Solutions/Services in the fourth quarter. I think your incoming orders have recovered to some extent, but does your forecast for your fourth quarter revenue include cases where orders and sales/revenue will be recorded in the same quarter?*

A3. Of course it includes cases where both orders and sales/revenue are recorded in the fourth quarter. With regard to cases in the pipeline where we receive the order and also deliver to customers in the fourth quarter, we are making necessary preparations, including allocation of our personnel. Internally, we categorize expected deals by ranks from A-C, and even among projects that have not yet made it to the contract phase, they are mostly full of A rank projects. There remains a certain fear that we might be tripping at the finish line due to a lack of orders, but we are filling the gap with our existing order balance and a pipeline of high certainty projects.

Q4. *Concerning profits, effects of increased productivity through greater use of GDCs have been apparent from the second quarter, but in what form are you forecasting these effects will appear in the fourth quarter and in the next fiscal year?*

A4. The Japan Global Gateway has started operation, and we are working to standardize Japan-based business at the Global Delivery Centers ("GDC"). We had plans to train and employ personnel located overseas in Japan, but these plans have been affected by COVID-19. We began to see positive effects from the second quarter, and as the volume of resources increases, the use of the GDCs will further expand. In fact, the cost-reducing effects of greater use of the GDCs is increasing from the second quarter to the fourth quarter. As the volume of resources increases more and more for our business in service-type solutions, it has a multiplicative effect on increasing efficiency, and the power of having facilities outside Japan absorbs the parts that get extremely busy will play a major role. As a result, we feel there is a strong connection between cost-saving effects and an increase in revenue.

Questioner G

Q1: *In terms of the division of responsibilities between Fujitsu Japan and your partner companies, are you segregating responsibilities based on geographic areas?*

A1: I think there are cases where we leave all the responsibilities to a certain partner if that partner is particularly strong in a specific local area. However, in most cases, we divide responsibilities based on the special skills of our partners or their track record with particular customers rather than doing geographic segregation.

Q2: *Regarding your training of business producers, you previously announced that, of a future force of 8,000 people, 3,000 employees had completed the first round of training. Please give us an update about the current status.*

A2: Regarding the training status of business producers, we did complete the first round of the reskilling program, but it doesn't mean that everyone is reskilled after a one-time program, so ongoing initiatives are required. Nevertheless, we have gained a certain understanding of the skills of our employees in consulting and were able to create skill maps based on their strengths and are as where they need to further grow. Overall, we can now see where we have people with certain capabilities, and how many of those people there are, or where business producers can deliver value if we strengthen areas in which they are weak, so I think we have made a big step forward. We understand that only some of these employees have already reached a level at which they could be called business producers, but we are confident that, through ongoing initiatives, we can create a field force that fully deserves the title "business producer". In that sense, it is still a work in progress.