Summary Translation of Question & Answer Session at
FY 2022 First Quarter Financial Results Briefing for Analysts

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Presenter: Takeshi Isobe, SEVP & CFO

Questioner A

Q1: *On page 6 of the briefing materials, regarding the factors behind the changes in operating profit compared to last year's first quarter, please tell us what the figures would be just for Technology Solutions.*

A1: The figures for growth investments and the impact of the global chip shortage already just refer to Technology Solutions. The figure for costs/expense efficiency is roughly 8.0 billion yen, and the figure for changes in profit due to changes in revenue, including the impact of higher costs because of foreign exchange movements, is negative 3.0 billion yen.

Q2: *I believe that, on a full-year basis for this fiscal year, you are projecting an increase in operating profit from costs/ expense efficiencies of 60.0 billion yen, so why, at only 8.0 billion yen, is the figure for the first quarter so low?*

A2: Let me give you a breakdown of the factors behind that 8.0 billion yen. First, the impact of the reduction in overhead costs from the DX human resource measures we implemented at the end of last fiscal year and the impact of regular profitability improvements and cost efficiencies was each 8.0 billion yen. On the other hand, several large-scale and highly profitable public sector contracts in the UK came to an end, significantly reducing our revenue. That was slightly offset by our hardware business, but our profitability temporarily deteriorated because of these changes in our mix of business. We posted a loss on our business outside of Japan for the first quarter, with those major public sector contracts rolling off, and kind of a pause in winning new major public sector contracts to replace them, but starting from the second quarter onwards, we expect to win some large-scale public sector contracts. The overall picture for the first quarter, therefore, is positive 8.0 billion yen from the DX human resource measures, positive 8.0 billion yen from regular gross margin improvements and expense efficiencies, and negative 8.0 billion yen from changes in the business mix. I realize that, from the perspective of the status of our progress, overall it may appear that we are off to a weak start, but this was exactly as we had projected.

Q3: *You are saying that negative 8.0 billion yen from changes in the business mix is included, but, in the second quarter and beyond, do you expect to receive profitable deals that will wipe out that negative impact?*

A3: Yes, we do. We are projecting that the business mix will become much better from increases in new public sector contracts and network equipment deals with high profitability.

Questioner B

Q1: *You said that orders for IT services in Japan are on an upward trend, but sales of Solutions & Services fell by roughly 3% this quarter again, compared to the previous year. At some point, will sales also start to grow again?*

A1: I know that it appears that there is some disconnect in the relationship between orders and sales of services. One reason behind that is, within the Solutions/Services category, hardware supplied by Fujitsu Japan is also included, and because hardware sales were adversely affected by the global chip shortage, sales of Solutions/Services appear to be weak. In addition, while orders have really rebounded since last fiscal year's fourth quarter, for particularly large-scale contracts for Solutions/Services there are some contracts for which it can take time to book the sales because of revenue recognition standards. We think that, for the Japan region and the Enterprise segment, we should be able to show steady growth in sales starting in the second quarter. For the second quarter and beyond, there is a backlog of orders, so we are confident that it will result in an expansion of sales.

Q2: *Outside of Japan, when the macroeconomic environment deteriorates, there is a tendency for corporations to quickly cut back on their IT spending plans. Is my understanding correct that such a downturn in the macroeconomic environment could, as a factor of concern, make it more likely for you to be affected to the downside in the second half of the fiscal year?*

A2: It is difficult to say, but of course there is that possibility. A major market for us is Europe, so that is where we could be most affected. In the UK, we also have many public sector contracts, but there is still a possibility, of course, that we could be affected. On the other hand, outside of the UK, it is not as if we have such a big market share. In terms of our sales revenue from the Europe region, in those countries where we do have some significant share of business, I think we will need to keep a close eye on changes in Europe's economic environment.

Questioner C

Q1: *I would like to ask about your progress in terms of profits. You said that, in terms of your full-year forecast, your performance in the first quarter was in line with your expectations. You also said that your projections for this fiscal year's profits are skewed to the second half, but you are starting with a decline in profits in the first quarter. Broadly speaking, are you assuming that profits will also decline in the second quarter and then, starting in the second half, increase quite significantly? Or, since the impact of the global chip shortage started from the second quarter of fiscal 2021, lowering the hurdle for year-over-year comparisons, will profits return to growth in the second quarter?*

A1: We think profits will return to growth in the second quarter, and we think we can create a foundation for higher revenues and higher profits.

Q2: *I would like to ask you about component procurements. You said that the range of products affected by shortages is shrinking, and that the situation seems to be coming under control, yet the scale of the actual negative impact on operating profit caused by the shortages in the first quarter has been increasing since the third and fourth quarters of last fiscal year. Is it correct for us to assume that you will be able to hold down the absolute levels of the negative impacts in the second quarter and beyond?*

A2: Because the negative impact on sales will be reduced, and because we will make progress in passing along a portion of the increase in prices, we think we will be able to slightly hold down the actual negative impact starting in the second quarter, but we are prepared to accept that some level of negative impacts will persist. In terms of the scale, we do not think it will be much different than the level in last fiscal year's second quarter. As to when the impact of the shortages will be less compared to the previous fiscal year, we think it will start in the second half.

Q3: *Regarding the figures for orders on page 8, for orders in the Network segment I would like to ask about the breakout between Japan and the rest of the world. My understanding was that the decline in orders in the first quarter was simply due to quarterly fluctuations, and that, for the full year, you plan to bring orders up to a level that is consistent with the previous year. For your main customers in Japan and outside Japan, to the extent that you know, have there been any changes to their spending plans? Also, in terms of the quarterly trend of orders, it would seem likely that, in the second quarter, there would also be a pullback from last year's high levels, so are we likely to see continuing declines in orders in the near term?*

A3: For Network orders, there are 5G base station orders from carriers in Japan and from Dish Network in North America, so we have presented them together in the materials. For our overall sales revenue forecast for our network business, we are projecting an increase in sales for this fiscal year. In addition, demand for optical transmission equipment in North America continues to be extremely strong. In light of this, for the full year, while we think sales revenue in Japan will be essentially the same level as last year, we anticipate that sales revenue in North America will be significantly higher than last year. The number of customers for our network business is limited, and orders from North America for the first half of fiscal 2021 came in as lot orders. Especially because of the issue of the global chip shortage, customers were ordering in advance, so the way the orders came in was concentrated in the first half of the fiscal year. As a result, orders in the second quarter may be lower than last year's second quarter. Customer demand, however, has not changed, and ultimately, on a full-year basis, we think we will end up higher than the previous year.

Q4: *Regarding North America, including base stations outside of photonics, is it correct to assume that your results this year will top last year's?*

A4: For base stations in North America, we think the scale of our results will be on par with last year's.

<u>Questioner D</u>

Q1. *With regard to the impact of component supply delays, last time you explained that January through March would be the bottom, and that the situation would gradually improve, so why has the impact on operating profit been worse in April through June? Please tell us about the reasons for your estimations being off, and about your expectations for future recovery.*

A1. As you say, the impact has been slightly worse than that of the fourth quarter of the previous fiscal year, in terms of profit and loss, but on the other hand, the impact to sales has shrunk. This is due to the fact that the impact of component procurement delays was stronger in our Network-related business, which has relatively higher profit margins. In the first quarter, we were unable to stockpile certain components for 5G base stations and optical transmission equipment, but we are seeing that these specific components will be coming in the second quarter, so that will have a positive effect on the second quarter. In our initial forecasts, we assumed that the impact would gradually shrink beginning in the first quarter, but those forecasts were a bit optimistic. We expect that in the second quarter, the negative impact will be smaller, in absolute terms, than in this first quarter. We assume that in the third quarter, our policy of passing on price increases to customers will have begun to take effect, but some small negative impact will remain. We will continue to reap the benefits of these measures in the fourth quarter, but we will have to keep a very close and thorough eye on the situation and respond as appropriate.

Q2. *I would like to ask about the status of incoming orders as of the end of June. I believe you had a significant balance of outstanding orders already at the end of March. Now, incoming orders are being extended even as sales are not measuring up, but is this level of buildup such that you could say that you would be able to convert them all to sales if only the impact of component shortages improved?*

A2. I do not have the numbers in front of me, but incoming orders have piled up to a significant degree. We are managing the pipeline of potential orders as a whole, from the balance of incoming orders to contracts in hand, and my sense is that things have increased to a fair degree. Every month, the backlog for the sales revenue in this fiscal year increases by around several hundred billion yen just from the orders in Japan alone, on an unconsolidated basis. Our book-to-bill ratio by market, for all markets in Japan other than Networks, continues to be over 1, so we are thinking this will lead to sales. Of course, there has been no change to the need for us to increase incoming orders in the second and third quarters, particularly in the second quarter, but we can say that backlog levels are increasing.

<u>Questioner E</u>

Q1. *On page 13 of your presentation materials, under Solutions/Services, while you have an increase in profit of 9.7 billion yen in the first quarter, at the same time my understanding is that for fiscal 2022 you have a positive impact of 7-8 billion yen per quarter due to your DX human resource measures, spread evenly throughout the year from the first quarter. In light of this, I believe the additive and subtractive effects of the DX human resource measures have contributed most significantly to the increase in profits in Solutions/Services. As the increase in added value from things like DX consulting and profitability improvements has been remarkable in the IT services sector, although your company has lagged behind your competitors to some degree, I still thought that profitability improvements and increases to added value would contribute to increased profits, but it looks like that is not the case. Are you assuming that the effects of profitability improvements on your financial results will appear disproportionately in the second half? Are you successfully capturing high-profit-margin projects that will improve your added value?*

A1. The effect of the DX human resource measures on profit increases in Solutions/Services is about 6 billion yen. Excluding the impact of component procurement delays, operating profit for the first quarter in Solutions/Services increased by 12.6 billion yen, so half is due to the effects of the DX human resource measures, and the remaining half is profitability improvements. I understand your point that the impact of these profitability improvements is somewhat weak, and I agree, they are a bit weak. The background to that is that, in my opinion, the essential issue is that we have not sufficiently shifted our lines of business to DX just yet. We are trying to transform from our previous business model of monthly man-hour service contracts and shift to an offering-based business model, as with Fujitsu Uvance, but the scale of that shift is still relatively small, and we have not fully made the transition. The major factor in increases in profits this fiscal year is going to be from gradually accumulating straightforward profitability improvement effects, such as expanding the ratio of offshoring using the Japan Global Gateway. In cases where monthly man-hour service contract-based business makes up a higher proportion, the contribution of profitability improvements will be proportionally larger as the volume of business gets larger, so we have long since been on a trend of improving our profit margins in the fourth quarter. This is proof of the need to shift to business on the DX side for us as well, and I think the fact that we have not achieved this is reflected in our results for the first quarter.

Q2. *So, my understanding of your answer is that this fiscal year, it is not the case that profitability improvements due to shifting to a more profitable business model such as DX consulting will be contributing to your performance results for the year, but rather that increased revenue and reduced costs in your monthly man-hour business will be contributing. Is that correct?*

A2. We are planning to expand our Fujitsu Uvance business, and this fiscal year will be the start of expanding our offerings in this domain. The volume of the revenue increase, however, will be fairly limited, at around 30 billion yen, which is about one percent of our annual revenue of 3 trillion yen. The primary factors in our increased profit will be the increase in gross profit that accompanies higher revenue, and in the profitability improvements that occur from our efforts in our existing monthly man-hour business model, such as efforts to increase productivity, expand use of offshoring, and implement standardization through the Japan Global Gateway. We are thinking of this as a year in which we increase the scale of our offering model, which we want to grow going forward, and connect that to future growth, while maintaining the overall scale of revenue. We feel that the effects of productivity improvements will contribute to our financial results for this fiscal year, but, on the flip side, it is not the case that we are forecasting that our performance results will improve primarily due to the transformation of our business model. This is a fiscal year for transforming our structure, and our way of thinking is that we will reap the fruits of this effort in next fiscal year and beyond.

<u>Questioner F</u>
Q1: *Your revenue target for Solutions/Services is about 1,900.0 billion yen, with 800.0 billion yen from regions outside Japan, but roughly what is your backlog of orders?*

A1: For Solutions/Services, much of our business is based on monthly man-hour contracts, and the backlog of orders accounts for a significant portion of the total revenue target for the year. For just Fujitsu Limited on an unconsolidated basis, at the present time the backlog of orders accounts for 60-70% of the total revenue target. In addition to this, we have figures on our pipeline of potential orders. Together, these account for 1.2-1.3 times of what our full-year sales forecast is, but we are working to further increase it. Outside of Japan, most of our business operates on multi-year contracts, so the overall order balance is fairly stable, but on the other hand, it is difficult to immediately increase the balance very much. In Japan, aside from the Network segment, orders are up by roughly 10%, so the backlog of orders is increasing.

Q2: *For regions outside of Japan, your forecast for this fiscal year calls for an increase in operating profit of 6.1 billion yen, but operating profit declined by 8.3 billion yen in the first quarter, and I think last year you had several billion yen in gains on the sales of businesses. Over the remaining nine months, I think you need over 20.0 billion yen in increases in operating income over the prior year. From what you can see in terms of deal flow at this time, do you think you will have a pipeline of potential orders large enough to cover that gap, or do you think you will need to challenge yourselves to bring in more deals?*

A2: We expect to cover the losses we had in the first quarter in the Europe region in the second half, but there is no question that it will be a challenge to achieve those figures. Because the Europe region includes hardware, we will need to minimize the impact of the global chip shortage and raise profitability. As you point out, whether or not we are able to strongly raise our performance in the Europe region is the greatest risk or concern we face.