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

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Location: Live-streamed from Fujitsu Headquarters, Tokyo
Presenter: Takeshi Isobe, SEVP & CFO

Questioner A

Q1: Mr. Isobe, I saw an article in which you were interviewed, and you said you wanted to expand investments outside of Japan. My recollection is that you said that, if it was a large-scale deal, it could be as big as nearly 100 billion yen. Is it true that you are considering investments that could be as large as that? I believe that, currently, you are struggling in your business outside of Japan. Under these circumstances, please tell us what kind of investments you are considering.

A1: In the article to which you are referring, my statement came up in the context of our also looking at acquisitions when considering investments outside of Japan. The fact is that it is difficult to make an acquisition in Japan, so we are also considering transactions outside of Japan. On the other hand, if we were to attempt to acquire a company outside of Japan on the scale of several hundred billions of yen or an organization with several thousand or several tens of thousands of employees, I think it would be extremely difficult to generate synergies from such an acquisition. Rather, we are considering acquisitions as just one way of obtaining capabilities that are aligned with our purpose and priority business areas. To date, we have done just a few small-scale acquisitions, mainly in the Asia Pacific region, but we have a fair number of acquisition candidates on our short list. We currently are in the process of carefully evaluating them. Acquisitions on the scale of upper double-digit billions of yen, or not quite 100 billion yen, are always on the list of candidates we are considering. In addition to the business environment being tough for our businesses outside of Japan, the fact that this remains a challenge for us is a reflection of our own weaknesses. Whether it is to grow our footprint or acquire technology, we are always considering whether we can use such means as acquisitions to bolster our business. Please understand that it is not as if I said that we would do multiple acquisitions on the scale of 100 billion yen and that we are ready to pull the trigger. I merely said we are not ruling out such options.

Q2: Even compared to the past, the level of operating profit for System Platforms in the third quarter was extremely high. Were there any kind of one-time factors involved, or do you think you will be able to maintain that level of profit on a stable basis in the future?

A2: Included in the profit for System Platforms there were certain amounts from sales of idle land and facilities outside of Japan, for example. In that sense, you could say that there were some one-time profits. A considerable share of the profits, however, were from the strong performance of our network products business in North America. Moreover, for the System Platforms business overall, with the impact of easing of the global chip shortage easing, we were finally able to make deliveries to customers that had been waiting up until now. In that sense, pent-up demand was very high, but at the same time, the question becomes how long that level of demand will persist, and this remains an issue that we may need to monitor very carefully.

Q3: With PFU no longer included in your consolidated results, what impact does that have on your sales?

A3: The impact on our consolidated sales is essentially what is shown under "Impact of Restructuring" on pages 5 and 6 of the presentation materials. The impact in terms of the reduction in sales was around 25.0 billion yen in the third quarter and around 33.0 billion yen for the first 9 months of this fiscal year.

<u>**Questioner B**</u>

Q1: How was the actual cumulative operating profit for Technology Solutions in the first 9 months in comparison with your original target at the start of the fiscal year? Also, the projected operating profit margin for the fourth quarter appears to be extremely high, but, on a qualitative basis, how much visibility into future performance do you have in order to make the revisions to your forecast? We can calculate your operating profit plan for the fourth quarter by subtracting the first nine months from your full-year forecast. Please tell us whether your projected fourth quarter profit is high because of the impact of foreign exchange or whether it is from your actual business.

A1: Regarding the comparison between our actual results and our plan, for Technology Solutions, overall we underperformed by around 5.0 billion yen. About half of that is accounted for by the impact of foreign exchange rates, and the remaining half is from poor performance in our regions outside of Japan. In addition, in my presentation I said that in the third quarter we underperformed in relation to our plan by high single-digit billions of yen. The difference between that and our underperformance in Technology Solutions is essentially attributable to the underperformance in Devices Solutions, where our actual performance was below plan. As to your question about the high projected operating profit in the fourth quarter, of course we are aiming to achieve it. Based on the trend of higher revenue and higher profit we achieved in the third quarter and the deal pipeline we have accumulated, we remain confident that we will achieve our forecast, primarily through higher earnings and because the global chip shortage has been largely resolved. The impact of the global chip shortage, which had a large negative effect on our results last year, will improve to have a positive effect, and we think we can expect an increase in operating profit by 20-30 billion yen in the fourth quarter compared to the prior year. Because we passed along higher costs to our customers in the form of higher prices, we achieved a full offset in the third quarter, and when volumes increase at new pricing in the fourth quarter, there should be a positive upside. Moreover, there is not just the positive impact of the recovery from the global chip shortage. Aside from that, we are also expecting an expansion of our Services revenues, and we are expecting an increase in operating profit from that on a similar scale. In the fourth quarter, excluding the impact of special items and restructuring, we are expecting higher operating profit of over 70.0 billion yen, and over half of that is from these two factors. We are also expecting some one-time factors to boost profit. Our profit forecast includes several billions of yen from such factors as sales of idle real estate. Aside from that, however, we will generate profit from improvements in profitability, improvements in the cost of sales ratio, and enhanced cost controls. Of course, we understand that we have set a very high target. It is unfortunate that we had to revise downward our operating profit projection, but in light of the improvement we achieved in the gross margin in the third quarter, I think we will be able to achieve the target.

Q2: Just to confirm, for the first nine months, I understood from your explanation that half of the 5.0 billion yen in underperformance versus the plan for Technology Solutions was due to foreign exchange. In addition, according to page 31 of the presentation materials, 15.0 billion yen of the downward revision to the forecast for operating profit in Technology Solutions is attributable to foreign exchange. Subtracting the difference, does that mean that 12-13 billion yen of downward revisions to the operating profit forecast of Technology Solutions for the fourth quarter is attributable to foreign exchange?

A2: Based on the understanding that foreign exchange movements negatively impact Technology Solutions and positively impact Device Solutions, up until now we had not changed our projections for foreign exchange rates. In our overall projections, we had factored in a plan that we could offset the negative impact by reducing costs or by passing along higher costs to customers through higher prices. Conversely, our current forecast assumes that there may be a partial reversal of the foreign exchange tailwinds that had been benefiting Device Solutions. There was a negative impact from foreign exchange on Technology Solutions in the third quarter, and we had tried to find ways to cover that amount. Accordingly, if we just look at the immediate impact, the foreign exchange impact is 2-3 billion yen, but when you consider the cumulative impact, we had tried to find ways of covering that larger amount, and this time we decided it would be impossible. Moreover, we had also been thinking of ways to use the beneficial impact from foreign exchange on Device Solutions up until now, but because that was no longer realistic, we revised the figures for Device Solutions at the same time. It could be that we presented the figures in a way that is very difficult to understand, but I have just described how we were thinking about these issues.

<u>Questioner C</u>

Q1: Looking at your third quarter results, I again felt that, with your hardware business performing well in the wake of the recovery from the global chip shortage, when your hardware business performs well, that is when your Solutions & Services business generates a solid profit. Looking at that pattern, even though your target operating profit for the fourth quarter is high, do you feel that you have sufficient visibility into future performance trends? In addition, after the second quarter, you had said that not a whole lot of progress had been made on Fujitsu's transformation into a DX company. If the resolution of the global chip shortage has led to a boost in overall demand for your products and services, I have a feeling that the boost in demand from such factor may run out of steam in the first half of next fiscal year. Please share your thought about whether, by that time, you will be able to make the shift from your traditional business model, in which you push your hardware products and listen to customer requests, to a new business model, in which you make proposals to customers.

A1: I think your question is whether, when our hardware business performs well it boosts performance in our Services business, as well, as it has with the easing of the global chip shortage. It could be that there are certain aspects in which that is the case, but I do not think that we are providing services as an adjunct to our hardware business. As I explained earlier, the reason why the System Platforms business performed well relates to the fact that, with the easing of the global chip shortage, we were suddenly able to deliver products for which our customers had been waiting. Please understand that the momentum in our hardware business was unrelated to the increase in operating profit in our Solution & Services business. Excluding the impact of the sale of PFU, revenue from Solutions & Services recorded solid growth, and operating profit increased to roughly 1.5 times last year's level. Profitability is steadily improving. We are also making progress on our approach to standardization and quality in our development work processes. On the other hand, I think we have made very little progress on extricating ourselves from a business model in which we simply respond to customer requests. To achieve sustained progress, we are now working hard to create Fujitsu Uvance offerings. We will change our business model based primarily on those offerings, and growing that business will be an important point for our next medium-term management plan. In terms of our transformation into a DX company, I can say that at least we have made progress on our internal transformation. I feel strongly that we are making progress in transforming everyone's mindset at Fujitsu, including the mindset of management. Based on that progress, I would like us to continue making strides to transforming our business, as well, and I would like to be able to show you that progress in the figures we will put together for the next medium-term management plan. I would like you to understand that we are only midway through our transformation into a DX company, but we have taken the first steps. I would also like you to understand that we are seeing very strong demand in our Solutions & Services business, and we are working to ensure that we fully meet that demand.

Q2: In terms of bolstering your business outside of Japan, even though I have been listening to what you have been saying, I do not quite understand the specific measures you plan to make. Other companies that have expanded their services business globally, such as IBM, for example, are spending multiples of what Fujitsu spends on R&D, but still the best they can do is maintain their existing level of sales. I think that companies that have specialized industry expertise or strengths in terms of their customer base might be able to perform reasonably well. In these circumstances, and in light of the scale of Fujitsu's business and your areas of strength, in what direction will you advance to bolster your business? In addition, in terms of your options, please also tell us to what degree you are prioritizing acquisitions.

A2: The situation outside of Japan is very challenging. One major direction for us is to further narrow our focus to specific business areas. We could narrow our geographic focus, but even within those regions, if we spread ourselves in various directions by simply listening to customer requests, we will not succeed because we lack sufficient capabilities. We are narrowing our offerings down to those that will be accepted globally, and we will provide those in each region. We call these our 7 Key Focus Areas, but it is not the case that we will provide all seven in every region. Among the seven, there may be some that succeed in Germany, and others that succeed in the US, so we will focus on those successes, and I think the speed at which we are able to execute our plans will be important. In terms of delivery, we will mainly expand through our Global Delivery Centers (GDCs). This is the direction we have been talking about for many quarters, and in no way do we think it is the wrong direction. Still, because we feel our efforts have lacked sufficient speed and thoroughness, we are now tweaking our strategy. We will move forward with urgency.

Questioner D

Q1: Please tell us the background behind the improvement in the gross margin for Solutions & Services on page 15 of the briefing materials. Is it due to winning profitable projects or fewer unprofitable projects?
A1: The expanded use of GDCs has contributed to improvements in our gross margin. In addition to holding down the personnel expenses of our locations outside of Japan, the use of GDCs also contribute to the promotion of standardized work processes. In the past, because system engineers executed development work using a variety of methods, there were some inefficiencies, but by standardizing development processes through the use of GDCs, we can improve overall efficiency, and it also makes it less likely that we will generate any unprofitable projects. In terms of other factors that resulted in improved gross margins in the third quarter, because there was an increase in the number of our conventional system integration services projects, there was a tendency toward a fuller utilization rate for our system engineers. Seasonally, therefore, as we move from the first quarter through the fourth quarter, the number of projects increases, leading to improvements in the gross margin.

Q2: Excluding the decline due to the drop-off in the number of large-scale projects, it seems as though orders in Japan are very strong overall. Are there any business segments that will be at risk for a slowdown in the future, such as those affected by the macroeconomic environment?

A2: We believe there is room for demand to grow. Although they are affected by the macro environment of rising prices, we feel that the demand from our customers is so strong that they have been unfazed by those effects. We believe that, at the very least, orders will continue to trend higher next fiscal year, and we consider it our mission to meet that demand.

Questioner E
Q1: The photonics business is currently performing strongly, but on the other hand, we have also heard comments that carriers in North America are curtailing their investments. Please share with us your outlook and whether there is a risk of demand dropping in the next fiscal year.

A1: Regarding the current situation, we do not feel that demand for optical transmission equipment has weakened, and our understanding is that business is quite brisk. There have always been changes in demand trends, such as customers building up their inventories or demand declining, but we have not received any such information at this time. While demand may be slightly stronger or weaker from quarter to quarter, we believe that the overall trend of optimizing networks with optical transmission will continue, and demand for it will remain strong.

Q2: It appears that revenue and operating profit for North American Mobile Systems are growing as a result of the effect of a weakened yen and increased demand from customers. However, there is also word of North American customers procuring 5G base stations from multiple vendors. If that is the case, how will that change Fujitsu's market share, as well as your revenue and operating profit?

A2: The mobile systems business is becoming increasingly competitive, and we must enhance ours both in terms of technology and cost. Though customer demand is not rapidly weakening, there is an increased risk of changes to our market share.

Q3: ***I assume that the North America region does not account for a large percentage of Mobile System's operating profit, and even if your North American customers were to procure products from multiple vendors, it would not have a significant impact on Fujitsu's overall operating profit. Is this correct?***

A3: For mobile systems, the profit margin for business outside of Japan is lower than that for Japan. As such, if revenue in the North America region were to decline, there would not be much of a decline in our overall operating profit. That being said, we do not believe that loss of revenue in the North American region would be good for our global expansion efforts.

Questioner F

Q1: Page 15 of the briefing materials shows the trends in gross margins. How much do you expect the gross margin for Solutions & Services to improve in the fourth quarter? I believe you previously estimated it would improve to approximately 30%, but since the margin is increasing, including because of the expanded use of your global delivery centers, please tell us what you think would be a reasonable to achieve in the medium- to long-term.

A1: We are forecasting that fourth quarter gross margins will be slightly better than the third quarter. This is not just because the offshoring ratio will increase, but rather because of an increased utilization of engineers due to the enlarged volume of orders in the fourth quarter. However, though the gross margin has increased by approximately 3 percentage points from the second to third quarter, the improvements from third to fourth quarter will not be that level. As for what margin level we would like to see in the medium- to long-term, we believe there is still a lot of room to increase productivity. I do not believe that the conventional systems integration business will disappear so easily, but I do believe it is possible to further increase our gross margins if we increase the number of value-added models, such as with Fujitsu Uvance, instead of models in which we charge for the number of total man-hours. Since not all conventional solutions business can be offshored or standardized, we believe that it will eventually level off at some point, but we are continuing to internally discuss how far we can go with offshoring.

Q2: ***Please share with us the background behind your efforts to expand your businesses outside Japan, despite the difficult market conditions. I believe that the profitability of Fujitsu's businesses in Japan is improving, and the potential for growth, including demand for DX, is higher than before. I believe that your previous motivation to expand your business outside Japan was because the market for it in Japan would eventually shrink, but now there are more things that can be done within Japan, and I think it would be difficult to pursue both business in Japan and business in your international regions excluding Japan at the same time.***

A2: We are providing value based on technology, not simple services. In the technology industry, it is difficult to evolve if you limit yourself to business in Japan. To remain competitive

as a global technology company, we must create and compete with products that can be accepted in the global market. We are also making sure to not neglect our domestic market.
So then the question is, even though we have such high level of service and standardization in Japan, provide value with reasonable margins, and have satisfied Japanese customers, why is it so difficult to do well outside of Japan? We want to provide value in a broader market by breaking through this barrier, no matter what. We believe that expanding our business base in this way will give Fujitsu the energy it needs to continue to grow, which we believe is necessary. We do not think in the slightest that our Japanese market is shrinking or that the Japanese market is as far as we can go. Our underlying thought is, as a technology company, our range would be too limited if we only confined ourselves to just the Japanese market. We believe that to accelerate our revenue growth and provide higher quality services, we will need to come out as a leader in the global competition.

Questioner G

Q1: Please tell us about the increases or decreases in operating profit in the waterfall chart on page 9 of the briefing materials. You spoke of improved gross margins through Technology Solution's strong performance, but based on that, I felt that there could have been a larger improvement from optimizing costs and expenses. Was there any reason that it was not larger?

A1: Regarding cost and expense efficiencies, while Technology Solutions has shown an improvement, the unit sales volumes in Device Solutions have fallen. Due to this, the rate of operations, which was very high last year, has come down, and that is the main reason why the improvement appears smaller. So please understand that, although profitability in Technology Solutions has improved, the performance of Device Solutions was weak in comparison to the prior year, and cost and expense efficiencies appear to be a bit small.