Summary Translation of Question & Answer Session at Management Direction FY2021 Progress Review and FY2021 Financial Results Briefing for Analysts

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Location: Live-streamed from Fujitsu Headquarters, Tokyo
Presenters: Takahito Tokita, CEO & CDXO
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Questioner A

Q1: *I would like to get a clearer picture of the macroeconomic factors, so I would like you to elaborate on the impact of semiconductor shortages and the situation in Ukraine. As you said at your previous financial results briefing, the impact of semiconductor shortages in the fourth quarter would be roughly equal to the impact in the third quarter, and I think you may have mitigated the impact to some extent. You said the negative monetary impact in fiscal 2022 would shrink, but how much of an impact on profits are you expecting for the current fiscal year? In addition, regarding a prolonged period of semiconductor shortages, has there been any change in your outlook? At the same time, regarding the situation in Ukraine, do you see any changes in the demand environment for your customers in Europe, which indirectly accounts for a relatively high proportion of your business?*

A1 (Isobe): First, regarding the impact of the semiconductor shortages, as noted on page 12 of today's materials, the impact in fiscal 2021 was nearly 80.0 billion yen in lower sales revenues. For fiscal 2022, there will be some recovery from delayed shipments but there will still be shortages of semiconductors, and our view is that the impact of not being able to procure components will continue at roughly current levels to the third quarter. On the other hand, there will be deliveries of components that were delayed from previous quarters, so we think we can expect the impact to be roughly half on an annual basis. Accordingly, although the impact on revenue in fiscal 2021 was roughly 80.0 billion yen, we think the impact in fiscal 2022 will be to lower sales revenues by around 40.0 billion yen. At the same time, because our costs have increased, we have tried to pass on those costs through higher pricing, and we adjusted our list prices, mainly in the fourth quarter. We pass on those higher costs in higher prices for new orders, so the impact of the higher prices will expand over time. In our projections, we have assumed that a negative impact will remain in fiscal 2022, but we expect it to shrink. Regarding the impact of the situation in Ukraine, we have a Global Delivery Center (GDC) in Russia, and while we cannot transfer everything all at once, we are proceeding with shifting services that are provided as necessary so as to mitigate any potential disruptions to our support for customers. Now we can support a variety of systems from remote regions, and our GDC in Russia supports customers in a variety of regions mainly in Europe, and since we have multiple GDCs around the world, we are trying to make it so that other locations can provide these services. Accordingly, please understand that we are proceeding in a way that mitigates the impact to our customers. The conflict between Russia and Ukraine has generated many concerns, including around energy supplies, for example. We assume the impact of these issues will remain most significant in Europe, and we need to carefully follow developments to determine the varying effects on demand and supply, including whether these will impact IT spending. Because this is a major conflict, it will be difficult to anticipate what impact it might have on the global economy, but we will need to remain flexible in our response as we assess any additional developments.

Q2: *In conjunction with the reason why your Solutions and Services business performed under target in fiscal 2021, your fourth quarter orders for System Integration (SI)/services appear weak, but what is the reason for this weakness? On the other hand, I think you are expecting a big rise in profit in the current period. Excluding the impact of the sale of PFU, what kind of organic growth are you anticipating?*

A2 (Isobe): Regarding the difficult results for fiscal 2021, the reason why we could not achieve a sufficient recovery is because of the impact of the subject we were just talking about: the supply of components. The impact of component shortages also had a big impact on our system products business, but it also affects what we call our business integrated with hardware, in which we deliver a variety of things in combination, including services. Delays in component supplies reduced sales revenue by 80.0 billion yen, and in terms of profitability, there was a negative effect of over 30.0 billion yen, a significant amount of which impacted Technology Solutions. This really tripped us up from the start. As we talked about a little earlier, this negative impact will ease a bit in fiscal 2022, so one important point is that there will be a relatively positive impact this year. Another point, and this was in your question, is that you say our revenue will significantly expand in fiscal 2022. Excluding the impact of PFU, we are factoring in an increase in revenue of 8% for fiscal 2022. We are expecting 1% growth from the fact that the negative impact of the component supply problem will be less than last year, and another 1% from the Fujitsu Uvance business, which will begin to have an impact this year, although the main effects of the launch will begin to appear in fiscal 2023. Most of our global offerings are in fields that are fairly close to the Fujitsu Uvance business. Because this business will begin to increase in fiscal 2022, we expect it to add about 1%, or, in yen terms, about 30.0 billion yen to fiscal 2022 revenue. As a result, other than that, we are expecting a revenue increase of 6%. As I mentioned in my briefing, if you take into consideration the situation over the past two years it may seem like we are expecting fairly strong sales revenue, but the market growth rate is certainly between 4% and 5%. By catching up with projects that were delayed, I think we can achieve that. Looking at the growth in orders on a per-quarter basis, there are pockets of strength and weakness, but as I mentioned earlier, we are starting to see that SI/services are on a recovery path both inside and outside Japan. There are still weak aspects, but to make sure that we achieve those sales revenues we have already started sales activities with units that cut across industry boundaries and focus on priority accounts. Expanding sales is one of our major themes. I would like us to make sure that we achieve baseline growth of 6%.

Q3: *In seeing an actual recovery in your orders, with an aim of achieving an organic growth rate in revenue of 6%, in what areas, such as what industry segments, are you expecting a recovery? In addition, as noted on page 32 of your materials, you are expecting* *cost/expense efficiencies of 60.0 billion yen for fiscal 2022, but in terms of the reasons given for these efficiencies, could you tell us what initiatives are expected to have a stronger impact, if some are stronger than others?*

A3 (Isobe): In terms of a sense of recovery among different industry segments, on page 8 of your materials we have shown orders in Japan for fiscal 2021, including, in the right margin, the increase in SI/services. In terms of Fujitsu Japan, the demand was quite weak in fiscal 2021. On the other hand, outside of that, the Enterprise segment was slightly weak at a growth rate of just 2%, but Finance & Retail grew 9%, and the Japan region grew by 5%, so bear in mind that we can see a clear recovery during the year. Fujitsu Japan is in charge of business for local governments, healthcare, educational institutions, and medium-sized businesses. For local governments, the movement toward system standardization is happening a bit later than we anticipated, but we are fairly certain that it will happen. For medium-sized businesses as well, many customers have been severely impacted by higher natural resource prices and COVID. We think the speed of the recovery has been slower than we initially anticipated, but we think that there will be a bounce back from these low levels. Regarding your other question about cost and expense efficiencies in fiscal 2022, as shown on page 34 of our materials, we achieved over 40.0 billion yen in cost and expense efficiencies in fiscal 2021. In terms of achieving an additional 20.0 billion yen in efficiencies, in fiscal 2022 we will double our usage of GDCs through the Japan Global Gateway compared to fiscal 2021. This will save several billions of yen in terms of just cost elimination, and that will contribute to the biggest impact. In terms of sales expenses, we have brought efficiencies to our offices and reallocated office space as part of our borderless office initiative. By the end of fiscal 2022, we expect the total area of our offices to be nearly half of what it was before, and there will be further rent savings in fiscal 2022. In addition, we are retraining our salespeople to become business producers, as Mr. Tokita mentioned in his presentation, so we are fostering the development of business producers who are adept at making proposals to customers and can provide consulting services. This partially happened in fiscal 2021, but we anticipate that we can charge fees for our sales activities, which used to simply be a cost in past. This will reduce expenses by several billions of yen and lead to sales, so we will receive earnings on the cost of our sales activities. In light of these initiatives, I am very confident that we can achieve cost and expense efficiencies of 60.0 billion yen. Please understand that the areas I highlighted are the main components.

Questioner B

Q1. *I would like to ask about your company's forecasts. First, I would like to ask about Device Solutions. Shinko Electric has announced its forecast for operating profit for fiscal 2022 of 85 billion yen. On the other hand, you explained that, for Device Solutions, you are expecting lower revenue from optical component products, but is that reduction in revenue of such a scale that it will negate a portion of Shinko's operating profits? Also, for Technology Solutions, you are forecasting increases in operating profit, excluding special items, of 35 billion yen for System Platforms, and 10 billion for international regions* *excluding Japan, but could you explain the factors behind these increases in operating profit?*

A1. (Isobe): First, with regard to Device Solutions, one point is that we are forecasting an exchange rate level of 115 yen to the dollar, which is a bit of a conservative view of exchange rates from Device Solutions' perspective. In addition, when we refer to optical components, we are referring to Fujitsu Optical Components, a Group company, and sales there have been a bit low. In light of that, bear in mind that we are taking a somewhat conservative view with the Device Solutions segment. With regard to the status of the various sub-segments of Technology Solutions, for System Platforms, we think that we will achieve strongly higher results in our network products business. As for international regions excluding Japan, please understand that we are aiming for improved profits because we are beginning to see a recovery to some degree in incoming orders for services in the various regions, profitability is being improved through even greater utilization of our Global Delivery Centers, and we will be providing new global offerings around the world, so our profits will increase through a greater focus on comparatively more profitable products and services.

Q2. *I would like to ask about shareholder returns. With regard to stock repurchases, even in light of your original capital allocation policy, it seems like you have stepped things up quite a bit, but should we expect you to continue at this level, or even higher, in fiscal 2023 and beyond? Or is your decision to aim for shareholder returns of 20 billion yen due to one-time factors, as with the sale of PFU?*

A2. (Isobe): Regarding the level of shareholder returns, in addition to the fact that our ability to generate cash flow has increased as our business efficiency and profit base have improved, we feel that our financial foundation has also become sufficiently stable. Therefore, we are rethinking our allocation in line with the growth in our cash flow, which forms the base of our capital allocation. Our way of thinking is not that our cash has increased because of the sale of PFU, so we should return that to shareholders. While we had an inflow from the sale of PFU, we also had a cash outflow accompanying the expansion of the Self Produce Support System, so we had more or less the same levels of inflows and outflows. With regard to free cash flow and base cash flow, these refer to the flows generated by our regular businesses, excluding special items. As a result, I would like you to understand that this is not the result of a way of thinking that we have sold something and generated one-shot profits, so we should return them to shareholders. We will update our overall plan for capital allocation, including what level of total cash we expect to generate and how much of that we will allocate to growth investments, when we announce the next medium-term plan. We feel that cash flow generation will increase significantly, so for shareholder returns, rather than increasing them this year because we have a lot of cash and then reducing them next year because we are short on cash, we are instead aiming to handle things as stably as possible. In that sense, please understand this rethinking of our level of shareholder returns as being done in advance of an update of our overall capital allocation plan. To put it another way, with our current forecasts for cash flow, even if we step on the gas in a big way with growth investments, including acquisitions, this is a level we feel we may be able to maintain, which is why we decided to expand shareholder returns now. Naturally, if, hypothetically, there is an extremely major acquisition, there may be a chance that we will change things flexibly in fiscal 2023 and beyond, but this is our basic way of thinking. Our current shareholder returns are handled with a thorough medium-term awareness of the market situation, or of our own capital efficiency, so this is not some ephemeral increase. I would like you to take this as a sign that we have finally shifted into a somewhat different mode.