Summary Translation of Question & Answer Session at
Medium-Term Management Plan Progress Update
and FY 2023 Financial Results Briefing for Analysts

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

Q1: Your IT services business in Japan performed very well, with a double-digit increase for orders in Japan for fiscal 2023. Do you think the strong market expansion for IT services in Japan will continue? Please tell us if there is a possibility of a slowdown or any other factors of concern.

A1 (Isobe): At present, in our IT services business in Japan, demand continues to be extremely strong for digital transformation and modernization business among customers across a fairly broad array of industries. We think it is because our capabilities in such areas as Fujitsu Uvance and our Modernization Knowledge Center match the needs of the market. Unless there are special circumstances, such as dramatic changes in the global situation or economy, we think the current trends are likely to continue for the time being. We need to continue to make sure that we have the resources and capabilities to meet market demand, and also make sure that we maintain the reliability of our services. If we can meet market needs, we think it will lead to orders and revenue.

Q2: I believe your fiscal 2024 forecast for Device Solutions includes Shinko Electric. If it is no longer included in your consolidated results because of a sale, will you need to revise your operating profit and other figures to reflect that amount?

A2 (Isobe): Regarding Shinko Electric, we have already announced our intention to transfer our share ownership, but we are waiting to receive authorization from various regulatory agencies. If all goes well, we are assuming that the tender offer will start sometime in fiscal 2024, resulting in a carve-out of the business. Because we currently cannot foresee what the timing will be, for the time being, we are looking at things based upon our existing business portfolio. Our fiscal 2024 forecast for operating profit in Device Solutions is 40.0 billion yen, and the majority of that is from Shinko Electric. If Shinko Electric is carved out and becomes treated as a discontinued operation at some point during fiscal 2024, that figure will need to be changed. On the other hand, in terms of profit for the year, it is a 50% consolidated subsidiary, so about half of its profit for the year will impact us. As we carve out non-core businesses like this, our plan is to fill the gaps created in our financial results by expanding our Service Solutions business and expanding our profit. We also want to effectively use the cash we will receive from the sale of non-core businesses.

<u>Questioner B</u>

Q1: Please tell us the factors that caused you to fall short of your adjusted operating profit for fiscal 2023, and that factors that caused you to exceed your forecast for profit for the year.

A1 (Isobe): Looking at our actual results for adjusted operating profit, revenue fell short by approximately 50.0 billion yen and operating profit fell short by approximately 35.0 billion yen. On the other hand, profit for the year exceeded our forecast by approximately 30.0 billion yen. The factors that caused us to fall short of our target for adjusted operating profit were mostly from Services in Japan and Device Solutions, with the size of the impact being roughly half and half. In Services in Japan, against a backdrop of the strength of our backlog of orders and our pipeline of potential orders, we thought we could boost even higher profits, but that view turned out to be overly optimistic. Despite falling short of our target for operating profit, the reason why profit for the year exceeded our forecast is because there was a change in expected tax effects resulting from the structural reforms we implemented in Europe. In accordance with corporate accounting standards, there was a change in the breakdown of recoverable deferred tax assets, and there was a large impact from an extension, compared to before, in the period during which deferred tax assets can be recorded. As for adjusted items, as I explained at our last briefing, adjustment items reduced operating profit by approximately 70.0 billion yen. The major components were the carve-out implemented in the third quarter of the private cloud business in Germany and the cost of exiting the Client Computing Device business in Europe. I said that we would try somehow to make up for these factors in the fourth quarter. We recorded further negative adjustment of 50.0 billion yen in the fourth quarter from exiting low-profit regions in Europe and downsizing our corporate functions in Europe, bringing the total for the year to about 120.0 billion yen. On the other hand, as an offset to these reductions, we had positive adjustments of approximately 140.0 billion yen, primarily the tax effects of the structural reforms implemented in Europe. As a result, the net benefit was around 20.0 billion yen.

Q2: I would like to know more about your capital allocation plans. You have not made changes to your plans to generate total shareholder returns of 600.0 billion yen over three years, but the source of that capital is base cash flow, and that was just 303.0 billon yen in fiscal 2023. I assume this was lower than the level you expected when you announced your Medium-Term Management Plan, but how much lower was it compared to your original plan? In addition, given this start to the first year of your Medium-Term Management Plan, are you worried about meeting your target of generating base cash flow of 1.3 trillion yen over three years?

A2 (Isobe): It is true that we fell a bit short of our target for base cash flow in fiscal 2023. In relation to base cash flow, however, one factor is that we made aggressive growth investments, and we do not think there was that large of an impact. In putting together our original capital allocation policy, we envisioned base cash flow of roughly a little over 300.0 billion yen per year, and we expect that amount to increase as our business and profits expand. On top of that, there is the impact of selling non-core assets. Specifically, that includes the funds we will receive from selling shares including Shinko Electric, and that would add roughly another 300.0 billion yen. These add up to 1.3 trillion yen, and that is what we plan to generate. As we implement a variety of transformations, we will generate expenses, but there will also be positive effects, such as tax effects we will receive. In full consideration of these factors, we think we can generate base cash flow of 1.3 trillion yen. It will take time to reap the benefits of these tax effects, but cash outflows for reserves and other items are expected to come to approximately 120.0 billion yen, which will be balanced by cash savings of 140.0 billion yen, mainly from tax effects. We need to do more detailed investigations into the timing of these effects, but there are no changes to the general framework of our capital allocation.

Questioner C

Q1: In Solution Services, your business is steadily growing and your profitability is improving. On the other hand, I get the impression that conditions in your hardware-related business are very severe. Please tell us your outlook for fiscal 2004 for Hardware Solutions and Device Solutions.

A1 (Isobe): For the hardware business, it is difficult to see any bright spots at the moment. For our Network Products business, fiscal 2023 was, honestly, a very tough year. Our plans were made with the assumption that demand would be weak, but it was even weaker than we expected. It is partly the result of comparisons with fiscal 2022, when the performance figures were strong, but both in Japan and outside of Japan, overall sales of both photonics and mobile equipment were very weak. Demand in and outside Japan for high transmission capacity and low energy consumption networks will continue to be strong. In addition, we think our O-RAN initiatives will be a positive factor in the future, but we are still in a preparatory phase in fiscal 2024. Further out in the future, in the fiscal 2025-2026 timeframe, we are hoping for a certain level of growth, but we still do not expect demand to be very buoyant, and we have a very cautious view of the outlook for fiscal 2024. As for Device Solutions, in which currently Shinko Electric is still included, it is said that in 2024 the global semiconductor market will grow by around 10-12% over the previous year, so to a certain extent we have hit the bottom, and we are expecting an expansion going forward. We heard this from major customers of ours, so we are expecting some level of recovery. On the other hand, for fiscal 2024, we think it will be difficult to recover to the high level of fiscal 2022. In terms of the level of profit increase, we expect the combined total for Hardware Solutions, Ubiquitous Solutions, and Device Solutions to be on a par with the profit level of fiscal 2023, and we are working to advance our initiatives.

Q2: What is the outlook for Ubiquitous Solutions? In Japan, it seems there could be the possibility of positive tailwinds from talk of a new version of Windows or special demand to support local government clouds, but will that be outweighed by the impact of reductions from exiting Europe?

A2 (Isobe): Regarding a reduction in revenue, the impact of exiting Europe is significant, but since the business in Europe was not profitable, it will have a positive impact on profits, not a negative impact. In that sense, you could say we are taking a conservative stance on the outlook for Ubiquitous Solutions.

Q3: You say you are taking a conservative stance on the outlook for Ubiquitous Solutions, but is there a possibility that you could increase profits?

A3 (Isobe): Unless there is a total collapse in pricing, there is a possibility that we may be able to increase profits.

__Questioner D__

Q1. Looking at the status of Regions (International), I believe that you have done a relatively good job in regard to profit, but please tell us about revenue in Europe. In local currency terms, I believe that revenue has considerably declined. Regarding conditions in the fourth quarter, please tell us if this was the result of temporary factors, such as a pull back on large-scale projects in the quarter, or if it is a result of an organically worsening business environment.

A1 (Isobe): Unfortunately, the status of our business in Europe has not improved, but it has also not grown exceptionally worse. When looking at each quarter, please consider that there is some variance in the timing that revenue from large-scale projects is recorded.

Q2. Regarding the UK post office issue, is my understanding correct that there is no significant impact to Fujitsu's business outside of the UK at the moment?

A2 (Isobe): There has not been a significant impact to Fujitsu's business. To explain a bit more, the reason that the fourth quarter revenue appears to be a bit smaller is because of the effects of the German private cloud business carve-out, which closed at the end of January. Please understand that this is why revenue fell in February and March. We do not believe that our business in Europe overall is losing ground due to the reputational impact from the UK post office issue.

Q3: Orders and revenue for Fujitsu Uvance were strong and surpassed expectations. I would like to ask the reason for this. In addition, you forecast that revenue would grow for fiscal 2024 as well. Could you please explain to us how profitability is improving while development costs are increasing, including your forecast for fiscal 2024?

A3 (Isobe): Fujitsu Uvance has been strongly expanding. It is our understanding digital transformation, sustainability transformation, and cross-industry solutions are in line with market needs. In particular, the market for sustainable manufacturing has significantly expanded. These things are having a positive impact on revenue. In addition to this, we are also making every effort to release Vertical offerings. We released 37 Vertical offerings in fiscal 2023, and plan to increase this to 64 offerings in fiscal 2024. We believe that we will be able to respond to market demand by offering focused and swift offerings to meet market needs. The purchase of GK Software is a one factor of why our results for fiscal 2023 appear strong. GK Software works in an area congruent with Fujitsu Uvance offerings, so there was a positive effect of approximately 3.0 billion yen from GK Software throughout the year. But even if we had not purchased GK Software, revenue would have still grown by approximately 70%, and it is our understanding that our customers are starting to embrace Fujitsu Uvance. For Fujitsu Uvance, there are some areas where it difficult to see the full picture, but we are currently applying it as we explain the specifics to our comparatively large customers face-to-face. Fujitsu Uvance is still new, but its revenue grew from 200.0 billion yen to 360.0 billion yen in fiscal 2023. So even without the acquisition of GK Software, we would have had revenue of 330.0 billion, and business inquiries were very strong. On the other hand, we are projecting revenue of 450.0 billion yen for Fujitsu Uvance in fiscal 2024, so it appears that its growth has somewhat slowed. Based on Fujitsu Uvance's current results and its accumulation of a backlog of orders, I am personally hopeful that Fujitsu Uvance will be able to expand by a factor of 1.5 in fiscal 2024. In addition, we would like to aim even higher than our current forecast. The factors for succeeding in this will be increasing the speed at which we release offerings, achieving our goal of a 50% or higher standardization rate, and ensuring that we have the resources to deliver our offerings. In addition, in terms of improving profitability, with our offerings, the structure is such that if the standardization rate is hypothetically 50%, then our operating profit will increase after we meet the remaining 50%. Of course, this is just a simplified picture, and the structure is more complex than this, but the basic concept is that profitability will strongly increase as revenue increases. The gross margin for the Vertical offerings is, unfortunately, still in the mid-30% range, but our target is to increase the gross margin to over 40% in fiscal 2025 or fiscal 2026 by increasing revenue. The gross margin is also improving for our traditional systems integration business. So, although the gross margin has not reached this level of system integration business yet, we believe that the gross margin level of Fujitsu Uvance will increase as revenue increases.

Q4: Regarding the profitability of Fujitsu Uvance's base operating profit after accounting for its development costs, I would like to ask for additional information regarding the actual trends of its profitability at operation profit level and what you project for fiscal 2024. Has Fujitsu Uvance's operating profit already started to improve as a result of leverage from higher revenue? Also, will this improvement continue?

A4 (Isobe): It has, of course, improved, and we have seen a sufficient increase in operating profit. The gross margin for Vertical offerings is slightly below 40%, and the gross margin for Horizontal offerings is still only 20%, but Fujitsu Uvance overall has a gross margin of in the mid-20% range, with 100.0 billion yen out of its revenue of 360.0 billion yen being gross profit. In terms of marginal profit, our investment in developing Fujitsu Uvance offerings is on the lower end of the base of tens of billions of yen, so it has a sufficient operating profit. We still need to implement improvements, but our calculation for the gross margin includes these factors. The fact that the gross margin is below 30%, however, means that its gross margin is at an insufficient level for our services business. Please understand that, although this is bringing down our overall operating profit margin, Fujitsu Uvance is already generating profit. We believe that when Fujitsu Uvance's revenue reaches 700.0 billion yen, the overall operating profit will receive a boost.

<u>Questioner E</u>

Q1: Looking at page 30 of the presentation materials (FY2023 Consolidated Financial Results), you plan to increase upfront investments in Service Solutions in fiscal 2024. Please tell us more details about this plan.

A1 (Isobe): Mainly, we are thinking of increasing investment spending by more than 20.0 billion yen in order to expand our consulting capabilities. Half of this will be an investment to secure human resources, and the other half will be an investment toward reskilling employees. We believe that strengthening upstream processes will expand Fujitsu Uvance's revenue. We will focus on external recruitment and reskilling, and hope to increase our team of consultants from our current number of 2,000 to 10,000 in a short period of time. Once our human resources have been developed, the increase in cash outflow will slow, so we do not expect expenses to increase in fiscal 2024.

Q2: In your Medium-Term Management Plan, Service Solutions has a target operating profit of 360.0 billion yen in fiscal 2025. To achieve this, are you planning to decrease your upfront investments in fiscal 2025? Or are you aiming to achieve an operating profit of 360.0 billion yen after offsetting your increase in expenditures?

A2 (Isobe): We were able to achieve an increase in operating profit of approximately 75.0 billion yen compared to the previous year. We are anticipating an increase of more than 40.0 billion yen in fiscal 2024, and an increase of approximately 80.0 billion yen in fiscal 2025. If we can expand revenue in the same way in fiscal 2024 and fiscal 2025, we believe that we will be able to achieve this target. If revenue grows by approximately 150.0 billion yen in fiscal 2025 compared to fiscal 2024, the increase in revenue will lead to an increase in operating profit of approximately 60.0 billion yen. In addition, the gross profit margin has improved by approximately 2% last fiscal year. Even if, hypothetically, it were to be cut in half to 1%, this would represent an increase of approximately 24.0 billion yen in profit. In fiscal 2024, the increase in operating profit will slow as a result of our plans to enhance our consulting capabilities to ensure revenue growth. We are accelerating our investments in order to grow revenue starting in fiscal 2025.

Questioner F

Q1: You achieved your target revenue for Fujitsu Uvance in fiscal 2023. What measures contributed to this? Also, what areas in Fujitsu Uvance's Vertical offerings contributed to increasing its revenue?

A1 (Isobe): Customers are worried about the areas of sustainable transformation and cross-industry solutions, so we matched Fujitsu Uvance's offerings to suit their needs. I think the major contributor was that customers are beginning to understand that linking their data with Fujitsu Uvance offerings adds much more additional value and increases productivity. Also, in regards to Vertical offerings, the major contributor was Sustainable Manufacturing. There are also offerings that originated from Sustainable Manufacturing, so it is the strongest area. In fiscal 2023, about half of the revenue for Vertical offerings of Fujitsu Uvance came from incredibly strong growth in the area of Sustainable Manufacturing.

Q2: Please tell us if there are any differences in the demand for Fujitsu Uvance in and outside of Japan.

A2 (Isobe): There has always been an incredibly large amount of demand for Fujitsu Uvance's Horizontal offerings outside of Japan. But currently, Fujitsu Uvance is experiencing incredibly strong growth in Japan. In terms of revenue, about half comes from in Japan and about half comes from outside of Japan. For fiscal 2024, we project about 55% of Fujitsu Uvance's revenue will come from Japan. I believe that this is because we have solid projects with our major customers in Japan, which is Fujitsu's main market, and customer understanding of Fujitsu Uvance is growing in Japan. We have entered the phase in which we will strongly pitch Fujitsu's value or ensure that our stakeholders all have a firm understanding of what Fujitsu Uvance is.
In reality, we are starting with our major customers, but we aim to expand Fujitsu Uvance's range. We are also trying to convert our business in Regions (International) into a business with

these kinds of offerings, and we would like to quickly shape Fujitsu Uvance's offerings in such a way where we are able to create a model of them and spread the offerings outside of Japan. We are still in the initial phases of this, but our current Vertical offerings are from Sustainable Manufacturing and our major customers in Japan. By acquiring more of these businesses, we believe that Fujitsu Uvance will be able to become a major pillar of support for Fujitsu.

A2 (Tokita): I would like to elaborate on a few points. Rather than the launch of a brand or new brand for solutions, I have said that Fujitsu Uvance is a new business model. One reason Fujitsu Uvance is growing so fast is that customers are beginning to understand the value of Fujitsu Uvance. That includes an understanding that the use of data can change a company's activities and lead to sustainable management. There is no question that the building out of Fujitsu Uvance's offering is contributing to higher sales, but that is not the only factor. The way we are promoting sales of Fujitsu Uvance offering is completely different from our past approach to selling solutions. Fujitsu's headquarters is shifting to Kawasaki, and we are creating a space there where customers can experience Fujitsu Uvance. We bring top executives from our customers to this zone, such as the CEO, Sustainability Officer, or the Chief Digital Officer, and top executives from Fujitsu, including me, directly convey the effects. So we have changed our approach to promotion. In addition to that, at the same time, we can show them Fujitsu Research's technology, and we also borrow real data from customers so that they can experience the benefits. We are also implementing these same methods outside of Japan, so customers are able to get the same understanding in and outside of Japan, and we are receiving very strong approval from customers. In short, we are not taking the approach in which a sales person goes to a customer's IT department with a catalogue of products. We will expand the number of consultants and have them meet with top executives from our customers to convey the benefits of Fujitsu Uvance, and that will drive a further expansion of our Fujitsu Uvance business.