Summary Translation of Question & Answer Session at the Briefing for Analysts on the Medium-Term Management Plan

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Presenters: Takahito Tokita, CEO
Takeshi Isobe, SEVP & CFO

Questioner A

Q1: It seems that you are saying that, during the period of the medium-term management plan, there will be essentially no growth in the International Regions and Hardware Solutions. Is that correct? For the International Regions, please tell us what policies you need to undertake and what your targets are for the next three years.

A1 (Tokita): It is not as if we do not intend to grow our business in the International Regions and Hardware Solutions segments. It is just that, during the period of the medium-term management plan, those segments are not positioned as growth areas. For that reason, we are concentrating our resources in the Service Solutions segment. Therefore, we are separating out the Hardware Solutions segment to thoroughly leverage our capabilities in the services business, and that is where we are focused on growth. That is where we are building our foundation for further growth. As for our business outside of Japan, very severe conditions have continued for several years. I will refrain from commenting at this time on what measures we should take, but we have positioned Uvance as our growth driver, and I would like us to make an even greater push in our shift towards the services business for business internationally.

(Isobe): In terms of a general view of our segments, we want the take-away for you to be that our emphasis is on growing the Service Solutions segment. While we are growing our profits in that segment, we may, for example, transform the structure of the international business. When we talk of transforming the structure, you might think of a business restructuring, but rather than a strategy for each region, we are thinking of a uniform promotion of Uvance and other global offerings, and a uniform promotion through our global delivery organization. Regarding Uvance, our focus right now is getting our offerings in place. The offerings are mainly being created in Japan, so in each region internationally we are going to support their introduction and their promotion. First, we want to significantly raise the proportional share of these global solutions and raise the share of Uvance, as I explained. Because we now fully comprehend the limitations of trying to make individual efforts in each region, we are shifting to an organization that works on global offerings. Even over the past three years, we have been basically trying to improve our performance on a region-by-region basis, but the result was that we could not keep up with the speed of changes in the business environment. With a clear head, we recognize our past mistakes, and now we are going to make another serious try. Accordingly, for the International Regions, we have not factored in a large amount of growth, and our profit growth target for three years may not be sufficient, but we would like to turn things around so that, in the next plan after fiscal 2025, the International Regions could become one of our growth drivers. As for Hardware Solutions, in the network business the timing coincides with a move toward the next cycle, and we do not see a lot of growth in volume in this next cycle over a three-year period. It is not as if we are resigned to not growing, or that we will not grow, but in this type of cycle we need to be making the next round of investments and think about what we need to do for growth in the future. As a result, if you just look at the next three years, the level of profits is the same as last fiscal year's level, but please understand that this is our strategy.

Q2: In your new segments, it appears that your gross margin for the Japan Region is higher than the gross margin for Global Solutions. How will the gross margins for the Japan Region and Global Solutions change over time? In addition, please tell us the contribution from cost and expense reductions.

A2 (Isobe): Right now in fact, the gross margin for Global Solutions is slightly higher. I explained that, in Global Solutions, we will provide global offerings centered on Uvance, but it also includes, for example, Hybrid IT, such as the licensing business for middleware and software, as well as other solutions that we create and sell. The volume of our middleware business is fairly significant, so the base level of the gross margin for Global Solutions is a bit higher than that of the Japan Region. Still, the difference is not that large. Both are a bit over 35%. Moreover, for Global Solutions, we want to expand Uvance and move our profit margins up to a new level. The big figure of the improvement in profitability of 80 billion yen is mainly from further improvements in standardization and efficiency in the delivery of service through the Global Delivery Centers and the Japan Global Gateway. From the perspective of standardization or the use of Global Delivery Centers, there is also a need for greater standardization and efficiency where offerings are created. Even in conventional system integration services, there is still a lot of room for greater standardization and efficiency. In that sense, last year we raised the gross margin by over 1%, and we think that, by raising the level of sophistication in our delivery of services, we can uniformly raise the gross margin by over 1% a year in both Global Solutions and the Japan Region. We do not think one or the other improves most rapidly. One might go so far as to say that if there is an enormous expansion in the Uvance solutions business, it will have the effect of raising profitability, and since Global Solutions will create and deliver the Uvance solutions, it may have the upper hand in raising profitability. On the other hand, the Japan Region will also be involved in the implementation and delivery of those solutions including Uvance, so the benefits will accrue to the Japan Region, too, not just to Global Solutions. Global Solutions is spending a lot on investments, so the condition of the operating profit margin is very severe, but once the preparations are over and the sales expand, the profit margin will sharply improve. We are targeting 10%, but we consider this to be just an interim point. By 2030, we aim for the profitability and operating profit margin for Global Solutions to be higher than that of the Japan Region.

<u>Questioner B</u>

Q1: Please tell us about the sales revenue of the Global Solutions sub-segment. On page 5 of the briefing materials from CFO Isobe, it shows the plan for fiscal 2023 using the revised segments. The plan for Global Solutions projects an increase in revenue of 12% over the previous year. Please tell us your confidence in this projection, the status of orders, and which regions and which services will increase. In addition, in your medium-term management plan, even after meeting your revenue target in fiscal 2023, you then need to grow by 15% in both fiscal 2024 and 2025. Just because you have completed your menu of offerings, it is difficult for me to see how that will result in large increases in sales revenue. What, specifically, will increase?

A1 (Isobe): The engine of our growth in sales revenue is Uvance. In fiscal 2022, Uvance sales were roughly 200 billion yen, and Japan accounted for only 90 billion yen of that. In fiscal 2023, there will be an expansion of Vertical offerings, and we are projecting that this will lead to much higher sales. We also expect for the acquisition we made, GK Software, to be part of Global Solutions, and we expect it to be another growth engine.

Q2: You explained that base cash flow will be 1.3 trillion yen. Since your core free cash flow is 780 billion yen, over 500 billion yen must be from the sale of non-core businesses, but if we look at the current market price of some non-core assets that are often a topic of discussion, the amount falls short once taxes are taken into account. Does that mean that these figures take into account a possible spin-off of the Hardware Solutions segment?

A2 (Isobe): As you noted, core free cash flow excludes the effect of things like M&A. On the other hand, we think of base cash flow as the source of funds for capital allocation, so that is the amount before making any growth investments. Therefore, it does not take into account any growth investments, such as the development costs for Uvance or the One Fujitsu project. We think of it as an amount that will be divided between growth investments and shareholder returns. If core free cash flow is nearly 800 billion yen, that already included growth investments, so please understand that base cash flow will also be much larger. We have factored in cash inflows from the sale of non-core assets, but the amount that is factored in is not as large as the difference between core free cash flow and base cash flow.

<u>Questioner C</u>
Q1: For the Japan Region, for actual revenue in fiscal 2022 and your plan for fiscal 2023, what is the breakdown between For Growth and For Stability? In addition, in the For Growth category, what degree of growth, and in which business areas, are you projecting?

A1 (Isobe): From the perspective of what we intend to grow, first there is Uvance. The implementation of Uvance is included in the Japan Region, so, for example, the development of SAP business would increase revenue in the Japan Region. Another point is the growth of modernization business. Modernization is not just general-purpose equipment. It also includes UNIX, so revenue will grow as we approach the peak years of fiscal 2025 and 2026. We are projecting that the average growth rate for the Japan Region of just under 7%. We expect the two factors I just mentioned to boost revenue, enabling the Japan Region to exceed the 6% growth rate projected for the market in Japan as a whole. From now on, rather than the simple categories of For Growth and For Stability, I would like to discuss our growth in terms of Uvance and modernization.

Q2: In the 6.7% average growth rate for the Japan Region, is it correct to assume that there is similar area i, such as Uvance implementation and modernization, for which you are projecting growth rates of 10-15% just like in Global Solutions sub-segment?

A2 (Isobe): The growth rates for the parts included in the Japan Region are slightly lower, but, yes, the basic structure is the same.

Questioner D

Q1: Regarding the International Regions, while you have set a target for the sales ratio of Fujitsu Uvance to increase from 20% in fiscal 2022 to 45% in fiscal 2025, the target that you have set for your operating profit margin only makes modest improvement , with an increase from 1.8% in fiscal 2022 to 3.3% in fiscal 2025. This may be because Fujitsu is in a transitional period, but it gave me the impression that Fujitsu should consider exiting from the International Regions if the operating profit margin is 3% after three years. Please explain to us why the operating profit margin is so low, even though the scope of International Regions sub-segment was narrowed down to only services. Also please explain the background behind why the operating profit margin will not improve significantly, despite the improvement made to Fujitsu's business mix.

A1 (Isobe): The operating profit margin for the International Regions is small. It shows that we may have inefficiently developed our business and spread ourselves too thin with business that has little added value. Basically, it will take effort to fix this issue, but we have a large enough customer base in some areas. We will replace this business with Fujitsu Uvance, and rebuild it over the next three years. These three years will be a transitionary period, and although our internal operating profit margin target is above 3%, we will prioritize changing the structure of our business, so we decided to set 3% as our target. We may change the regions handled by the International Regions segment and the content of our offerings, but we currently have no plans to exit from the Internationals Regions entirely. We will approach these next three years in a level-headed manner, change the structure of our business in the International Regions, and make it a driver for growth by 2030.

Q2: In the International Regions, you project that the proportion of sales from Fujitsu Uvance, a high value added business, will increase from 20% to 45%, while the operating profit margin will only increase from 1% to 3%. Please tell us the reason for this.

A2 (Isobe): The offerings in our horizontal areas have a low operating profit margin. The increase in the operating profit margin to 3% for the International Regions is the minimum target that we have set to achieve, and we have made it our management policy to first increase the proportional share of Fujitsu Uvance. Our internal operating profit target is above 3% and, if possible, we will increase the operating profit margin more than planned.

Q3: At your fiscal year 2022 results announcement, under your old classification of segments, in the Common Expenses of Technology Solutions, you planned to increase your investment in internal transformations to 96.0 billion yen. How will the Common Expenses, which affect profit and loss, shift over the next three years? For example, this year there is a large burden from the expenses, but will that burden lessen after the three years?

A3 (Isobe): The Common Expenses of the Technology Solutions segment has been reclassified, so now it looks different. As shown on page 9 of the presentation materials, for fiscal 2025, we plan to invest 60.0 billion yen, an increase of approximately 20.0 billion yen from fiscal 2022. This is due to an increase in R&D investment by Fujitsu Research, particularly for AI, and investments in our internal transformation. There will be a relatively higher investment burden in the first two of these three years, but please understand that we will not make any significant changes to the balance among three years as we continue to accelerate our investments over this period.

Q4: So, to put it in terms of your old classification of segments, could we picture this as the Common Expenses of Technology Solutions increasing to 96.0 billion yen in fiscal 2023, and the investment burden lessening in fiscal 2025?

A4 (Isobe): As shown on page 5 of the presentation materials, under our old classification of segments, we planned for our investments in the Common Expenses of Technology Solutions segment to be 96.0 billion yen. Under our new segment classification, this is now 74.0 billion yen. We will use this 74.0 billion yen as a starting point and slowly decrease it to 60.0 billion yen by fiscal 2025.

Questioner E

Q1: Please explain Fujitsu Uvance's competitiveness and strengths. You plan to increase its revenue by 500.0 billion yen over this three year period, but I feel that the details for this plan seem a little abstract and hard to grasp. As an IT business, hyperscale companies such as IBM perform strongly because of their integrated hardware, software, and services, but I think it would be structurally difficult for Fujitsu to make that its business model. In addition, the scale of Fujitsu's system integration business is big, but if you compare it to a company that specializes in system integration services, then it does not have many areas it excels in. My understanding is that, with Uvance, you have taken the best parts of those businesses, systemize the knowledge and insights you have collected, and you now sell them as services. Could you tell us which of the solutions shown in the breakdown by industry on pages 6 through 7 of the CEO's briefing materials are likely to be the most competitive and become the driving force behind the 500.0 billion yen revenue increase?

A1 (Isobe): Recently, most of Fujitsu Uvance's sales have come from its horizontal areas, which mainly consist of services such as Hybrid IT and Business Applications, including SAP and ServiceNow. We will also prepare a line up of Vertical area offerings in fiscal 2023. In fiscal 2022, sales of offerings in the vertical area only amounted to 10.0 billion yen, but we will increase the scale of these offerings to 400.0 billion yen by fiscal 2025. We are the most excited about our Sustainable Manufacturing offering, which is centered on supply chains and manufacturing. We also project that Consumer Experience will expand, with the acquisition of GK Software becoming an engine for expansion. In the Horizontal areas, as well, with our partnerships with SAP and ServiceNow, as well as our own capabilities, we hope to see a significant increase. We will hold a session on Uvance during next week's IR Day, when you will be able to hear more about this.

Q2: Base cash flow includes sales of assets. What is your anticipated time frame for implementing non-core asset sales in your medium-term management plan? If the assets were to be sold later than planned, would this have an impact on the capital for shareholder returns? Or do you already have a plan in place for the capital for shareholder returns?

A2 (Isobe): We would like to carry out the sale of non-core assets during this medium-term management plan. Even if we did not complete the sale of certain non-core assets during this period, if is was a minor extension, we would not plan to make any major changes to our approach to shareholder returns. Looking at individual years, there is a possibility that there could be a fiscal year in which we have a lot of inorganic investments, so we need to take a flexible approach to shareholder returns. However, we will not make any big changes to our overall plan. We will make every effort to provide stable shareholder returns, including share buybacks.

Questioner F

Q1: Please tell us about the demand for Fujitsu Uvance and customer inquiries. Your plan calls for a large increase in sales, but does that mean that, to a certain extent, you can already see that there is customer interest? Or in the first half of the medium-term management plan, would it be necessary to time stirring up demand?

A1 (Isobe): There are areas for which we need to stir up demand, and there are areas in which demand has already been stirred up. In fiscal 2022 and 2023, demand has already been stirred up for the Horizontal areas. I will use SAP business as an example that is easy to understand. In this area, demand is so strong that we can only keep up by aggressively adding resources. While we are doing this, we will prepare a lineup of offerings in the Vertical areas this year. This will also include some new areas, so it may take until fiscal 2024 before we see a big increase in sales. So, in fiscal 2023 we will complete the line and stir up demand, and we expect business to increase significantly in fiscal 2024 and beyond. In the first half of the medium-term management plan, we start with a fairly strong pipeline of orders for offerings in the Horizontal areas, and once the offerings in the Vertical areas are ready, we expect Uvance as a whole to drive our growth.

Q2: I want to ask about the expansion of your consulting capabilities that are on page 22 of CEO Tokita's materials. Up until now, I believe Fujitsu has been carrying out reskilling activities, and not just for consultants. How are you using the insights or expertise regarding reskilling that you have gained through this process? In addition, what are the hurdles in kicking your reskilling activities up to a higher gear? What has been the reaction of employees to these activities? If you have any feedback, please share it with us.

A2 (Isobe): Regarding the expansion of our consulting capabilities, we established Ridgelinez, which is a pure consulting company and unlike anything in the Fujitsu Group before. In the three years since it was established, it has turned profitable, and it now has nearly 400 consultants. When it was first established, it recruited many of its employees from Fujitsu internally, but now it has switched to primarily recruiting consultants from outside. Its policies are completely different from those of Fujitsu. It is closer to a non-Japanese consulting firm. Its organizational capabilities are built on the very strict personnel policies of "up or out," and Ridgelinez has brought such organizational capabilities to Fujitsu Group. There is an enormous amount that we can learn from Ridgelinez. We have gotten a first-hand view of how a consulting company like that is created, how to recruit top talent, and what kinds of personnel policies are needed to drive a consulting business. We want to feed those lessons back into the Fujitsu Group and expand the number of our consultants to nearly 10,000. Regarding reskilling, of the 11,000 employees in our global salesforce, about 8,000 have undergone reskilling. Over the past three years, Fujitsu's overall training programs have completely changed, and we prepare employees to learn on their own. If we look at how different generations of employees have reacted to reskilling, the groups that has demonstrated the greatest enthusiasm for self-directed learning are employees in their 40s and 50s. It is not just employees in their 20s and 30s who are willing to learn and try new things. We have seen a lot of movement that exceeds our preconceptions about different generations. Many employees have been working on reskilling with a very positive attitude.