Summary Translation of Question & Answer Session at
FY 2023 First Quarter Financial Results Briefing for Analysts

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Presenter: Takeshi Isobe, SEVP & CFO

Questioner A

Q1: In relation to your full-year forecast for revenue in the Japan region, what is your take on the progress made in terms of revenue in the first quarter?

A1: We consider the progress made in the first quarter for revenue in the Japan region to be consistent with our planning. Our full-year revenue forecast for the Service Solutions segment as a whole is for roughly 10% growth over the prior year, and in relation to this full-year forecast, as of now, our first-quarter results and our order backlog cover 69% of our forecast. Moreover, when we factor in our pipeline of likely orders , we cover around 80% of our forecast. I wouldn't go as far as to say that we've made unusually strong progress relative to other years, but we believe that our progress is proceeding in line with our plans. We want to continue to make progress in expanding our orders and revenue to meet our full-year forecast.

Q2: The loss in the Inter-segment Eliminations and Corporate segment in the first quarter was 27.8 billion yen, which is larger than one-quarter of your full-year forecast of a loss of 74.0 billion yen, which would be a loss of 18.5 billion yen. Were there any kind of special factors that caused the loss to be so high?

A2: For the Inter-segment Eliminations and Corporate segment, in the first quarter we mainly recorded upfront R&D expenses in Fujitsu Research and expenses associated with our One Fujitsu program, which is our group-wide ERP deployment. In addition to that, in terms of special factors, we recorded several billions of yen as a consolidation adjustment figure. We recorded large-scale orders and sales from a hardware-related contract, but the hardware kitting that was to have been provided by a group company was unable to be delivered because that company was operationally backed-up. To eliminate this unrealized profit in the first quarter, the loss for the Inter-segment Eliminations and Corporate segment became larger, but it will disappear in the second and third quarters as our delivery progresses.

Questioner B

Q1: Because there are parts of the definitions relating to Fujitsu Uvance that are not yet well-understood by the market, for both the Vertical areas and Horizontal areas, please explain what specific businesses have grown as well as the background to that growth. In addition, what are the prospects for continued growth in the second quarter and beyond? Can you expect continued growth on a similar level as you achieved in the first quarter?

A1: Orders for Uvance in the first quarter were around 73 billion yen, roughly 34% higher than in last year's first quarter, and the results for sales are about the same. The overall picture is that we are receiving a strong flow of orders, leading to sales revenue. Looking at our pipeline of potential orders, we think this situation is going to continue in the second quarter and beyond.

The Horizontal areas, in particular, are growing. These are technical areas that support the Vertical areas. Specifically, they consist of what are called Digital Shifts, Hybrid IT, and Business Applications. Hybrid IT is an area that we have been expanding for years now, and the core of Business Applications is customer implementations of SAP, ServiceNow, and Salesforce. Demand for these services was extremely high last fiscal year, and that trend is continuing this fiscal year. Revenue in the first quarter for the Vertical areas was roughly 10 billion yen, and it was around 3 billion yen in the first quarter of last year, so the growth there has been significant. Still, in the Vertical areas, the only offerings that we have been able to launch are a few offerings in the field of Sustainable Manufacturing, so the number of offerings is limited. We are now investing in developing a full line of Vertical offerings, and these will be launched in phases starting in the second half of this fiscal year. That will enable us to clearly grow our business in the Vertical areas. In light of our results to date and our current pipeline of potential orders, we think we should be able to meet our full-year target of 300 billion yen in Uvance revenue. In doing so, the extent to which we can grow revenue in the Vertical areas will be important. In relation to our full-year revenue target of 300 billion yen this year for Uvance, we think we made reasonable progress in the first quarter with roughly 70 billion yen in revenue. If, however, we just look at the Vertical areas, with roughly 10 billion yen in revenue, our plan for the full year is to achieve revenue of 100 billion yen, and then increase it further in the future to the extent that, in fiscal 2025, revenue from the Vertical areas exceeds revenue from the Horizontal areas. Therefore, we really want to focus on growth in the Vertical areas.

Q2: I think your revenues and pipeline are quite strong, and that your progress has been according to plan, but looking at adjusted operating profit for Global Solutions, you are still not making a profit. I think this must be because heavy development expenses are weighing down your results, but starting from next fiscal year, with growth in revenue, do you think you can produce a large profit?

A2: In the first quarter, we were still left with a loss in Global Solutions, but for the full year, we expect the sub-segment to at least become profitable. Compared to the first quarter of last year, this first quarter we were able to significantly narrow the loss because of growth from Uvance. Although our investments in developing offerings are increasing, our operating profit is also improving, so please understand that, like any normal business, as our revenue expands, our profitability is improving. We want to be sure to record a profit for the full year this fiscal year and further accelerate our progress next fiscal year and beyond.

Q3: Please tell us about conditions in your Network Products business. In particular, please tell us details about your mobile systems and photonics business outside of Japan.

A3: In our Network Products business, the decline in revenue in the first quarter was roughly the same level in Japan and outside of Japan. For the full year, we expect a considerable drop in momentum, in part because of the strong demand last fiscal year in North America. Particularly in the photonics business, we had very strong demand for optical transmission equipment last fiscal year from a major telecom carrier, but that demand has already peaked, and we are expecting a sharp fall in demand. For mobile systems as well, for the full year we are expecting a slight decline in revenue, but it will not be nearly as large as the decline in our photonics business. As to whether business will continue to contract from here, the trends of higher capacity, lower latency, and lower power consumption are continuing for both photonics and mobile systems, and both in Japan and around the world, the trends toward open standards and embedding features in software are becoming even more pronounced. As we anticipated, conditions this fiscal year will be very severe, but we are making investments in product development to cultivate future growth.

Q4: Are we correct to understand that your first quarter results in Network Products were as you had planned? In your photonics business, our view is that conditions in North America will become even more severe in the second quarter and beyond, but is that understanding correct?

A4: First-quarter results for both mobile systems and photonics in North America were as planned. Because of the strong levels of demand in last year's second quarter, comparisons this year with the prior year will continue to be tough, and that is what we had anticipated.

<u>Questioner C</u>

Q1: The categorization of your disclosures for orders has changed this time. Do these new categories include the figures for Hardware Solutions? In addition, aside from mission-critical systems, your performance was strong across the board. Please comment on the general outlook for each of the industry sectors.

A1: The status of orders shown on page 9 of the presentation materials only shows orders for Service Solutions. It does not include the figures for Hardware Solutions and Ubiquitous Solutions. First-quarter orders in Japan were strong, with orders in Service Solutions up 18%, orders in Hardware Solutions up 5%, and orders in Ubiquitous Solutions up 7%. By industry, Private Enterprise Business is growing across the board in the manufacturing, mobility, and distribution and retail industries. The Finance Business has also experienced strong growth from upgrades to mission-critical systems, mainly with banks. Likewise, Public & Healthcare has grown strongly due to government system renewal projects and the kickoff of large-scale projects in the healthcare field. As for Mission Critical and National Security, orders declined by 8%. This is due to the high level of orders we received in this sector category in the previous year, and also because the size of a single project in this field is large, ranging in scale from the low single digits of billions of yen to 10.0 billion yen, and is dependent on the timing of the project. For the full year, however, we plan for both orders and revenue to exceed the previous year's levels. Rather than one or more particular areas performing strongly, we feel thatgenerally speaking, digital transformation and modernization projects are thriving. Considering the status of our order pipeline, we believe that demand will remain strong for some time, and that the most important thing for us to do is to prepare resources and build a project structure that can meet this demand.

Q2: In International Regions, operating profit was down from the previous year, which was an off-season because of certain large-scale projects, and both the Europe and APAC regions recorded an operating loss. Is there a special reason for this? Also, please explain the business environment and background behind this.

A2: In Europe, revenue increased by approximately 10.0 billion yen, but about half of that is due to the positive impact of foreign exchange movements, and it is not as though the region has experienced a particularly strong recovery. Large and highly profitable projects are dwindling, and without fundamental measures being taken or an increase in Uvance's Verticle areas, we do not foresee any positive signs of recovery. During our current Medium-Term Management Plan, rather than expanding the scale of our business, we are working on shifting the make-up of our business, increasing the ratio of revenue that comes from Uvance, and improving our business efficiency. We have not, however, fully implemented these countermeasures, so we had an operating loss in the first quarter. Revenue in the APAC region also remained flat, but operating profit deteriorated by 1.0 billion yen. In the Oceania region, our profitable projects have come to an end, and we are taking steps to recover, including with other projects, and deal with areas of inefficiency, such as in our data center business. In our International Regions, there was a positive sign in that orders have increased, but we have not yet taken fundamental steps to transform our business, and we are determined to thoroughly implement those steps during the period of this Medium-Term Management Plan.

Q3: Is there hope of turning the operating loss into an operating profit starting in the second quarter?

A3: In our plan, we are hoping to make slight profit in the second quarter, and we are working to ensure that we will be able to at least make a small positive operating profit for the full year, but please understand that we are putting more effort into changing the overall structure of Fujitsu than into immediately making a profit.

<u>Questioner D</u>
Q1: Is the sale of Fujitsu's listed subsidiaries taking longer than you originally anticipated? Since you are at a standstill, are you reviewing options other than selling the subsidiary to a fund or business firm, such as selling your shares on the market?

A1: Please understand that we are unable to comment on the progress of specific matters. With each of these we are considering various options and are proceeding broadly. Not all of these are at a standstill, and we are making steady, but careful progress. We will let you know as soon as we are able to make an announcement.

<u>Questioner E</u>
Q1: I have a question about the International Regions. It was mentioned earlier that you are focusing on a structural tranformation of the International Regions. Do you have the resources in place, such as sales and engineering teams, to expand Uvance, which are different solutions than the ones you have had to date? In addition, what is the current status of the acquisitions that you have made outside of Japan to date?

A1: We are aware that our global sales and delivery resources are insufficient at the moment. We believe that the only solution for rebuilding our International Regions is to sell global offerings centered on Uvance, and to do so with a global delivery organization. At the present time, our focus is not on the volume of overall revenue, but rather on increasing the ratio of revenue coming from global offerings. In addition to enhancing our global delivery organization, we have also dispatched personnel that deliver Uvance and SAP offerings from Japan and other regions to Europe, and also have several HQ executives based in the Europe region. We are also creating a scheme in which we will dispatch engineers to areas outside of Japan in groups of 100 to lead the implementation of our offerings, which we internally refer to as the “Extended Arm.” We have not yet reached the point where we can expand our business from this starting point, but we are taking steps to do so. As for the acquisitions we have made, the ones that are starting to be functional as of now are in the APAC region. We have acquired some additional capabilities through acquisitions and are beginning to spread these capabilities in our business in Asia, starting with the Oceania region, but at this time the figures are not big enough to have a major impact on the revenue and profitability of whole region. In addition, as a medium-sized acquisition, we acquired GK Software, a German company with good intellectual property in the retail field. At the present time, we have a roughly 70% stake in the company, and it will be integrated into the Fujitsu Group. Rather than solely to increase our business in Germany, the reason we acquired the company was to increase our business in the retail industry as one of our global offerings. By increasing the synergies with GK Software, we think we will be able to provide a robust offering, not just in Japan but also in Europe, the Americas, and other regions. It is true that, as the corporate entity owning the IP, GK Software is in Germany, so we are thinking that we will need to build a delivery support organization close to GK Software’s location. Unfortunately, we cannot rebuild everything in an instant and it will take a certain amount of time. This fiscal year’s profit target for International Regions is very low. On the other hand, rather than short-term increases in revenue or restructurings that would improve our P&L figures, we are committed to a thorough transformation of our structure, and rather than leaving everything to each region, we are trying to transform our entire structure so that each region and our headquarters in Japan are all moving in the same direction. The impact of our acquisitions will appear over time, but we have just recently brought GK Software into the Fujitsu fold, and the expansion that it will bring about will take some time.