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

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Presenter: Takeshi Isobe, SEVP & CFO

Questioner A

Q1: Your financial forecast for the fourth quarter seems extremely aggressive. In particular, I think the level of your forecast for adjusted operating profit in Regions (Japan) is unprecedented. Please tell us your thoughts about the prospects for achieving it.

A1: We think the prospects are good for being able to achieve the forecast. Our gross margin in Regions (Japan) is roughly 35%, and, in relation to the expansion in revenue, our operating expenses will not increase that much, and that is why the adjusted operating profit margin appears high. It is true that the forecast for adjusted operating profit is high, but the main driver for achieving the forecast is our revenue forecast. Our level of orders so far has been extremely high, and if we include our pipeline of orders that are very likely to materialize, we are already covering 95% of the fourth quarter revenue forecast. That coverage ratio is roughly similar to that of a typical year, but I think the prospects for us being able to achieve our revenue forecast are very good. In addition, in the third quarter our gross margin in the Service Solutions segment improved by roughly two percentage points from the previous year. In addition to such measures as expanding the utilization of Global Delivery Centers and the Japan Global Gateway, we are also seeing the effects of a rising proportion of Uvance revenue and our measures to raise pricing, and we have factored in these effects in the high revenue forecast for the fourth quarter. We do not think that it is a low hurdle, but we think the prospects for achieving this target are high.

Q2: In the third quarter you recorded expenses for structural reforms and adjustment items, and I think you are reforming your business in a wide range of areas. Is there a possibility that you will record new structural reform expenses in the fourth quarter?

A2: We undertook two major structural reforms in the third quarter, and we are expecting further expenses in the fourth quarter. In considering both expenses and profits, we think that we can eliminate 70 billion yen in expenses or losses that we incurred through the third quarter at net profit level. I cannot discuss individual items, but there are several remaining items that fall into the category of structural reforms or items that we need to address, and we are working on them. We are also working on a major opportunity, and we would like to move ahead in a way in which a mix of positive items and negative items are able to offset each other.

Questioner B

Q1: Please tell us how you are viewing your performance in the next fiscal year. My general impression is that you will increase profits from IT services, and that we may start to see some positive effects from the structural reforms you are making to your operations outside of Japan. On the other hand, your Device Solutions business will be impacted by no longer having Shinko Electric. In light of these factors, how should we be looking in general at your
adjusted operating profit? Should we also assume that the further structural reforms you are planning in this fiscal year’s fourth quarter will make positive contributions to higher profits next fiscal year?

A1: In our publicly disclosed medium-term management plan, our target for adjusted operating profit from Service Solutions in fiscal 2025 is 360 billion yen, with an adjusted operating profit margin of 15%. Because our target this year is 255 billion yen, we think next fiscal year should be somewhere in the middle. Compared to the previous fiscal year, we are projecting an increase in profits of nearly 100 billion yen, so first we need to achieve that, and our plan is to achieve a further profit increase of 100 billion yen in the last two remaining years of our medium-term management plan. Our orders are building very solidly, and by working to increase our modernization deals, we think we can steadily grow our revenue over the next 2-3 years. On the other hand, if we look at our other segments, in Device Solutions, revenue and profit from Shinko Electric will no longer be part of our consolidated results upon the closing of that sale. In our medium-term management plan, we had assumed that operating profit in Device Solutions would remain roughly at the same level achieved in fiscal 2022, so we need to rethink that by excluding Shinko Electric. We also made several structural reforms in the third quarter, such as the carve-out of our private cloud business in Germany and our exit from the Client Computing Devices business in Europe. Because these were loss-making businesses, we think that not having them will make a positive contribution to profitability. We expect to incur some expenses on some of the structural reforms we are envisioning for the fourth quarter, but we assume they will result in greater business efficiencies, so we view them as contributing to higher profits in fiscal 2024 and fiscal 2025. In our medium-term management plan, we set the targets for our business outside Japan at very low levels, but we think that, if we can shift their business portfolios, we might expect a certain degree of improvement in profitability. Regarding reforms to our segments, such as the possible elimination of Device Solutions, as we work through the fourth quarter, we plan to make full public disclosures when available.

Q2: On the UK Post Office issue, I listened to EVP Paul Patterson’s testimony at a House of Commons committee meeting the other day. Regarding accountability for this issue, there seemed to be a discussion about three parties being involved: Fujitsu, as the vendor, senior Post Office executives, and the UK government. Will there be any other people held responsible?

A2: We regard this matter with the utmost seriousness, and offer our sincere apologies for what happened. We are fully cooperating with a statutory inquiry in the UK, and the inquiry should fully clarify the entire issue. As a result, in terms of who was exactly involved and who should be held responsible, I think the inquiry will make all of this clear. As for any preliminary findings from the investigation, since no firm conclusions have been reached at the present time, I will refrain from making any comments about it. We think that working with the investigators is the best way to quickly get to the bottom of this, and that is where we are fully devoting our efforts.
**Questioner C**

**Q1:** In the third quarter, the adjusted operating profit of Regions (International) improved by 5 billion yen compared to the same period the previous year. Please explain the factors behind this improvement and whether they will continue in the fourth quarter.

**A1:** Looking at the Regions (International) as a whole, there was an improvement of 5 billion yen in the third quarter, but the status varies from region to region. For example, in the Americas Region, operating profit is low, but business is becoming healthier through advancing the shift to global offerings, and orders are strong. On the other hand, in the Europe Region, operating profit improved, and the region turned a profit in the third quarter, but this is the result of the existence of specific business deals, rather than a structural improvement. We do not believe that the profit structure or business portfolio has inherently changed. We are still continuing our efforts to transform our portfolio, including through carving out existing businesses with lower profitability and expanding Uvance offerings, and as such, we can’t necessarily attribute this outcome to our ongoing efforts to put the business on a healthier footing, candidly speaking.

**Q2:** Besides the private cloud business in Germany and the Ubiquitous Solutions business in Europe, are there still any other businesses outside of Japan that you plan to reform or restructure? Also, you announced that you would consolidate your hardware business into Fsas Technologies, but putting aside your network products business for telecommunication carriers, will there be any change in the positioning of your hardware business?

**A2:** In the Regions (International), there are still areas that we need to address—this not only includes exiting certain business areas, but also considering how to make the shift to global offerings. Currently, the ratio of our revenue from Fujitsu Uvance is approximately 25%, which represents an increase over the previous fiscal year. As we aim to increase this ratio to 45% in fiscal 2025, we will need to reshuffle our business portfolio. Please understand that, as it would be difficult to increase the ratio to approximately 50% through revenue growth in Fujitsu Uvance alone, there is still room to implement structural reforms. As for our hardware business, Fsas Technologies will start up in April. This is because we believe that there is room to significantly increase business efficiency through creating a one-stop organization. To provide value to customers through one, comprehensive solution, rather than having development, manufacturing, sales, and maintenance all separate from each other, we want to consolidate these functions under one roof with Fujitsu Fsas, which will streamline the business and help us bring good products to market more quickly. Our aim is to quickly provide higher value to customers through Fsas Technologies for Hardware Solutions and for consulting and services at Fujitsu, and is not intended to be a carve-out of the business.

**Questioner D**

**Q1.** Regarding orders in Japan, the figures for Enterprise and Public & Healthcare have fluctuated each quarter. Please tell us details about this. Also, are these increases and decreases changes that could impact your future revenue forecast?

**A1.** We do not believe the increases and decreases in orders each quarter are enough of a factor to change our view on future trends. As for Enterprise, orders may not appear to be that strong in
the third quarter, but the numbers significantly increase when we win large-scale projects. In the area of Enterprise, we have a large pipeline of digital transformation and modernization projects, and since it is the area with the strongest demand, we do not believe this is reason for concern. On the other hand, Public & Healthcare recorded multiple large projects for customers in the public sector, and orders were up sharply by 30% in the third quarter. Looking ahead, we expect double-digit growth, but we believe it is best not to focus too much on quarterly increases and decreases. Overall, demand for digital transformation and modernization has become incredibly strong, and we anticipate that the demand for modernization, which has seen a particular boom, will not be limited to this fiscal year, but rather will continue to grow further into fiscal 2026. Even if there are slight increases and decreases by quarter, we anticipate that we will be able to expand orders at a high level.

**Q2. For the multiple large-scale projects in the public sector, will you receive revenue from these projects over several years?**

**A2.** There are some two-year projects, but not many.

**Q3: In the third quarter, the operating profit for your Hardware Solutions unit was sharply lower, from 35.8 billion yen in the previous year to 19.6 billion yen this fiscal year. Even if we take out the special demand in your optical transmission equipment business in North America in last year’s third quarter, your operating profit is much lower. What are the factors behind the decline in profit?**

**A3:** The biggest factor is weakness in the network products business in North America as well as Japan. In addition, we purchased components in advance to avoid supply disruptions, but our sales lagged behind our projections, resulting in an excessive level of inventories, and we took some losses on a part of these inventories by treating them as impaired assets.

**Q4: How large was the impairment charge? Shouldn’t it be treated as an adjustment item in operating profit? Are we to understand that this is a one-time charge?**

**A4:** It was on the scale of several billion yen. We think that taking impairment charges on excessive inventory levels is something that can happen in the normal course of business cycles. If, however, it was related to a business restructuring, then it would appear as an adjustment item to operating profit. For example, in exiting the Client Computing Device business in Europe, the impairment charges for inventory assets were included in the adjustments. Our sales of network products this fiscal year are at a low level but we think things will improve starting next fiscal year. And, yes, please consider the impairment charge on our inventory assets to be a one-time event.