**Summary Translation of Question & Answer Session at**
**FY 2024 First Half Financial Results Briefing for Investors and Analysts**

Date: October 31, 2024
Location: Live-streamed from Fujitsu Technology Park WEB STUDIO
Presenters: Takeshi Isobe, Representative Director, Corporate Vice President, CFO

**Questioner A**

***Q1: You mentioned that there has been no change in demand environment in (Regions) Japan, but compared to what we were told about your expectations for orders when you announced your first quarter results, orders in the second quarter do not appear to be very strong. The same could be said for revenue growth. Before we were told that, based on your backlog of orders, there was a possibility that revenues could accelerate, but instead they were flat. Please tell us why revenue did not grow much and why the growth in orders was not very strong. Did your outlook change compared to three months ago?***

**A1:** I may have been a little bit loose in the guidance I provided at the time of our first quarter earnings announcement. I may have described it that way because, overall, conditions in (Regions) Japan were not weak at all. As you point out, both orders and revenues in the second quarter appear to have been very weak. I should point out, however, that, in the case of Fujitsu, we have large-scale deal projects from such customers as the megabanks, the government, large-scale hospitals, and the national security agencies. With these deal projects, the order size can be several billion yen or double-digit billions of yen, and the timing of when particular deal projects start has a big impact on our revenue. In addition, in the past, government project contracts were just for a single fiscal year, but in recent years we also see government contracts that extend across multiple fiscal years. In the first half of last fiscal year, we had around three contracts for extremely large multi-year projects. The pullback from that is having a big impact on our results this fiscal year. For the large-scale orders last fiscal year, the project work started in the second quarter, and revenues from those projects also started to quickly ram up in last fiscal year's second quarter, so that is why this fiscal year's second quarter seems weak. We expect the orders we have received to materialize into project revenues in the second half of this fiscal year. In the first half of this fiscal year, we won around 28 large-scale hospital deals, and we expect to be able to win around 46 of such deals in the second half. In both cases, most of the deals are several billion yen per hospital, so when we add them up, I think it comes to a big figure. Until we get the actual figures from the second half I cannot give you a very convincing description of them, but in terms of our treatment of these figures, we have incorporated them into our order backlog and our pipeline of expected orders. If there is a pullback from a prior year in terms of large-scale project deals, I would like to be able to cover that amount with new large-scale project deals. On the other hand, if too many large-scale deals pile up at one time, we face a problem in having sufficient delivery resources, so even though I want demand to be strong, securing adequate resources is a concern. As you pointed out, it is true that the second quarter results appear weak.

***Q2: Please tell us by about how much the order backlog increased as of the end of the second quarter compared to last year's second quarter. In addition, for the second half of this fiscal year, if you receive orders for large-scale projects in the fourth quarter, I assume they will not contribute to your ability to meet your revenue targets for this fiscal year, but at the present time are you anticipating that the trend in orders will somewhat recover starting in the third quarter?***

**A2:** Compared to the previous fiscal year, the order backlog grew at a rate in the high single digits. Our pipeline of expected orders that we do not yet have but seek to receive in the second half of this fiscal year is up by around 20% compared to the previous year. Of course, there is no guarantee that we will get them all, but please understand that our pipeline is extremely strong. At the present time, in our target plan, we anticipate higher orders in both the third and fourth quarters. From each of our front-line units, we are receiving very strong figures on anticipated orders in the third quarter, but we do not have a full grasp of the timing at which they will be recorded or the extent to which they will contribute to revenue in the fourth quarter, so I can't say with sufficient confidence that we'll see double-digit growth from the third quarter..

***Q3: Regarding Hardware Solutions, operating profit fell sharply in the first quarter, although it slightly exceeded your internal projections, and total results for the first half of this fiscal year we in line with your projections. For the full year, however, you would need to achieve figures for adjusted operating profit in the second half that are roughly on par with results in last fiscal year's second half. In the fourth quarter of last year, however, you received some highly profitable mainframe deals, and I think it will be difficult to return to the previous year's levels. What will be the driving force for the second half, and what is your view?***

**A3:** In the first half of this fiscal year, we received a significant amount of orders for network products in North America in the form of photonics deals, and for the second half, we expect operating profit to come back, mainly from this area, but the biggest difference will come from large-scale sales of system products. These will be servers and storage equipment, and we anticipate deals from public sector entities, mainly the national security agencies, and we have incorporated these into our fourth quarter revenue projections.

***Q4: Does that mean that, instead of from sales in Japan of base stations and the AT&T project, you expect network product revenue to increase in the fourth quarter because of the expansion of your photonics business?***

**A4:** The AT&T project is mainly photonics, and we expect revenue to be slightly higher in the fourth quarter.

***Q5: Are you viewing the O-RAN project from AT&T to mainly contribute to your results in fiscal 2025 and beyond, as you had originally foreseen?***

**A5:** The main contributions will be in the future. Our existing business with AT&T had continued to be weak, but we received a fairly substantial photonics–related order, and we expect to record some revenues from it in the fourth quarter. We view the higher demand cycle for the

O-RAN project to come in the second half of fiscal 2025 or in fiscal 2026, and continue in fiscal 2027.

**Questioner B**

***Q1: Regarding revenues for Uvance and the rate of growth in operating profit for Service Solutions, your plan shows a tapering off of the growth rate in the second half of this fiscal year. Are there factors that could cause a deceleration in the second half or are you simply being conservative in your plan?***

**A1:** If I said we are being conservative, I might cause a misunderstanding on your part, but we strongly believe that we want the level of Uvance revenues to exceed our plan. We launched the Uvance and modernization businesses, and they are now growing at an extremely strong pace. On the other hand, the growth rate was from a very low baseline, so there is some concern about whether they can continue to grow at the same growth rate. Of course, our desire is that they blow through our targets, but we are viewing this somewhat cautiously. The same is basically true for the growth of operating profit for Service Solutions. The improvement in the gross margin has gone extremely well, and if we just look at the first half of this fiscal year, we think we may have achieved a level that was almost too good. The question is whether we can sustain the pace of improvements. Another issue, just considering the operating profit margin, is that, in the second half, we are planning on recruiting human resources and incurring other investment expenses. Because of the mix of these two factors, our plan for the second half of this fiscal year anticipates a lower rate of growth in operating profit. We want to definitely meet this target and continue to make substantial progress.

***Q2: In fiscal 2025, will the cost of investments in development work for Uvance offerings start to decline? Also, please tell us when you expect the losses in Global Solutions to peak, and when it will turn profitable.***

**A2:** This year is the peak year for investments in developing Uvance offerings. We expect them to decline next fiscal year. What is increasing now are investments in go-to-market capabilities and sales expansion for the Uvance offerings we have created. In addition, we call it the Modernization Knowledge Center, but we are also making investments in enhancing visibility into our know-how in the modernization business. In Global Solutions, these investment costs are large. In Uvance's Vertical areas, the gross margin in the second quarter exceeded 40%, so if we can increase volumes, we are confident we can produce a profit. For Global Solutions, our plan is to have the business turn profitable in the second half of this fiscal year, with a growth in profits for the full year. We do not expect our Uvance and modernization businesses to peak this fiscal year and we think they still have plenty of growth ahead.

***Q3: As an adjustment item, you have 20 billion yen for the Self-Produce Support System, which you explained would be implemented at the end of October, but do you expect to record additional expenses in the third quarter?***

**A3:** For the pursuit of new opportunities outside of the Fujitsu Group, the actual retirement period is mainly the end of October, but we are recording the full expenses of 20 billion yen in the second quarter.

**<u>Questioner C</u>**

***Q1: Your full year targets for both core free cash flows and free cash flows remain unchanged. Based on the results of the progress made in the first half of this fiscal year, do you believe you are still on track to achieve your targets?***

**A1:** We do not feel as though it will be that difficult to achieve our targets for both core free cash flows and free cash flows.

Core free cash flows in the first half of the fiscal year were up slightly compared to the same period in the previous year. It is for this reason that, in the second half of the year, core free cash flows will need to be up by 20 billion yen compared to the same period in the previous year. Fujitsu's business is skewed toward the second half of the fiscal year. Therefore, it is inevitable that the figures at the end of the first half of the fiscal year are not that large. We are, however, making progress on reducing inventories, mainly in our product businesses, which is also proceeding as planned. It is for this reason that we believe an improvement of 20 billion yen compared to the second half of fiscal 2023 will be enough for us to be able to achieve our target.

In addition, from the perspective of free cash flow, it has taken longer than anticipated for demand for Shinko Electric to recover, so we have reviewed the timing of our capital investment. This has also had a positive impact. We recorded an expense related to the full implementation of the Self-Produce Support System, but this was able to be offset by the review of our capital investment in Shinko Electric, so we believe that we will be able to achieve our target.

***Q2: Shinko Electric will remain a subsidiary of Fujitsu for longer than initially planned. Does this mean that, as a result, you are anticipating an improvement from the perspectives of the cash flow from Shinko Electric being added to the figures and an improvement in free cash flow due to a delay in capital investment?***

**A2:** Of the capital investment planned for Shinko Electric, approximately 20 billion yen will now be pushed back to the next fiscal year. Due to this, the capital investment planned for Fujitsu as a whole will also decrease by approximately 20 billion yen. We believe that, if a portion of the overall cash flow were to deteriorate slightly, this improvement would be able to eliminate the negative impact.

***Q3: In regards to reaching the halfway point of your current Medium-Term Management Plan, you mentioned that the progress you have made toward achieving its goals has been in line with your plan. Back when Fujitsu announced the company's current Medium-Term Management Plan, there was a strong impression that Fujitsu was a company that always issues aggressive guidance, and the consensus of the sell-side analysts was that Fujitsu would not be able to achieve its earnings forecast. But I feel that, as of this fiscal year, Fujitsu has started to communicate more realistic numbers. Taking into account this change in your policy, is there no need to consider the possibility that the targets of your Medium-Term Management Plan may be too difficult to achieve?***

**A3:** At the very least, the performance of Service Solutions is completely in line with our plan. The reason we can set such aggressive targets is that we are making incredibly good progress on improving the gross margin. In this fiscal year, in particular, the gross margin from business in Japan is on track to improve by more than 3 percentage points. One reason for this is the standardization in development work for which we have been making progress. This has also contributed to ensuring the quality of our products. By implementing initiatives such as the detection of issues from the manufacturing process, we have been able to curb unprofitable projects and the deterioration of the cost rate. In addition, there have also been the positive effects from shifting to a highly profitable market and services, as well as increasing prices. These factors have contributed to an improvement of 1 percentage point each. When we formulated our plan for fiscal 2024 and fiscal 2025, we did not assume that we would be able to achieve such a significant improvement in profitability. Therefore, even if some part were to perform worse than planned, we believe that we will be able to sufficiently increase the performance of Service Solutions through this improvement. If there were to be a risk, it would be with the recovery of demand for System Products and Shinko Electric. We believed that there would be a bit more of a recovery in this fiscal year, but recovery has taken far longer than we initially anticipated. Although I am certain that the semiconductor industry will have a strong recovery in demand, there is some variation depending on the field they are used in. For example, demand for semiconductors for datacenters has completely recovered, but the recovery in demand for semiconductors for PCs and AI servers is delayed. There are also differences in the trends of the major customers of Shinko Electric, and Shinko Electric's recovery has taken longer than we initially anticipated. In the current Medium-Term Management Plan, we presumed that results for both Shinko Electric and System Products would also start to recover to the level of fiscal 2022, which was before the start of the current Medium-Term Management Plan. Therefore, we recognize that there is a risk that we may not be able to achieve our plan. Including Shinko Electric, it has been difficult to discern the trend in recovery of device-related demand, so we believe that there is also the potential that we may recover to fiscal 2022 levels in line with our plan.

The target revenue for Service Solutions for fiscal 2025 is not a surprising figure for which there is no basis. The key factors will be making progress in transforming our portfolio and improving the gross margin. We do plan to increase our investments to a certain degree, but we will not continuously increase them. I believe we have already hit the peak of our investments. As a whole, please understand that we are confidently making progress in Service Solutions.

**Questioner D**

***A1: In the midst of you making progress on standardizing the system for local government municipalities by next fiscal year, the media has reported that, in terms of resources, Fujitsu will be unable to carry this out. Please tell us the current status of your efforts. In addition, when considering the digitalization of government agencies across Japan as a whole, do you really believe that it will be completed in the next fiscal year, or will it be prolonged by one or two years, and will it ultimately have a positive effect on Fujitsu's financial results? Please share with us your perception of the matter.***

**A1:** Regarding Fujitsu's standardization of multiple local government municipalities, the fact of the matter is that we are making adjustments to when the standardization will be implemented and having discussions. It is rather difficult to ensure stable quality for the entire system while having the sufficient number of systems engineers needed to support the effort. But we are not reducing the resources we are putting into this project from the previous year. We are giving it our all with all the resources we have. It is not as though Fujitsu alone would be able to provide services for all of Japan's local government municipalities, so while I cannot comment on if the standardization as a whole will meet the timeframe of the next fiscal year, we will continue to work on it while we make adjustments on an individual basis as we communicate with customers.

***Q2: If Fujitsu does not have the resources to carry the project out, is there a possibility that the local government municipalities will supplement the project with another company's resources, ultimately resulting in Fujitsu losing a share of the business? Or would it be difficult for the local government municipalities to secure supplementary resources, so Fujitsu will see the project through until the end, even though it will take time to complete?***

**A2:** I am not in the position to comment on the status of resources at other companies, but Fujitsu is fully in favor of standardizing the systems of the local government municipalities as soon as possible, and we would like to work toward this. Unfortunately, as we form a system to guarantee quality, we are unable to devote any additional resources to this project. This is just a possibility, but if there is a company with the resources that is able to guarantee high quality work, then there is the potential for another company handling the portion that Fujitsu is unable to due to strong demand. Whether we will be able to meet customer demand, however, is not limited to local government municipalities, but demand from national government entities and private sector demand as well, and we are working with the same difficulties in these areas as well.

**Questioner E**

***Q1: Regarding the Self-Produce Support System, you mentioned that you will offer a bonus in severance pay and record an expense of 20 billion yen. Please tell us how much you expect this will reduce fix costs by in the next fiscal year.***

**A1:** To improve productivity, we will implement an early retirement of employees in indirect support units. Therefore, of course, the cost reduction from this will be shown in the next fiscal year. We calculate that this will reduce costs by single digit billions of yen across the full year. This is not a so-called personnel cut, but rather support for employees to change their careers, and we will offer each of the employees a bonus in severance pay while supporting them in changing careers.

***Q2: It was mentioned that, although the consolidated results before adjustments were revised downward by 20 billion yen, the results for Service Solutions were comparatively strong. Did you not consider absorbing the downward revision by upward revision of the business, with a focus on achieving the annual forecast, and what was the reason for that?***

**A2:** There were, of course, a variety of factors that went into our decision. During the previous fiscal year, we implemented various drastic measures, but we have always considered the pros and cons when making a decision, including the implementation of measures for this. Rather than include something that is very vague, we believed that we should share what has come to light, and, although it is unfortunate, made the decision to revise the adjusted operating profit downward. We do, of course, feel a sense of regret that we were unable to indicate that we will be able to offset this negative impact. But we would like for you to please understand that this measure was implemented to achieve our goals for a single fiscal year, but rather for sustainable growth in the next fiscal year and beyond.

**Questioner F**

**Q1:** ***In Regions (International), in the first half of this fiscal year you recorded about 3 billion yen in adjusted operating profit, but I think your target of 20 billion yen for the full year is somewhat conservative. What policies are you planning to implement in the second half?***

**A1:** For our business outside of Japan, our operating profit was 3 billion yen in the first half of this fiscal year, and our plan calls for 17 billion yen in the second half. For the second half, we expect the level to be relatively unchanged from last fiscal year. We strongly want to go up a notch in speed, but last fiscal year we implemented a fairly significant structural transformation in our business outside Japan, so please understand that we want this figure to be the bottom from which we rebuild the business.