Summary Translation of Question & Answer Session at
FY 2024 Third Quarter Financial Results Briefing for Analysts

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Presenters: Takeshi Isobe, Representative Director, Corporate Vice President, CFO

Questioner A

Q1: I would like to ask two questions about Service Solutions. The first is about the environment for orders. Orders in the first half for Fujitsu Uvance and Regions (Japan) seemed a bit weak, but they recovered in the third quarter. Does the level of the recovery just represent a slight shifting of orders from one quarter to another quarter? Or has there been a fundamental change in the trend? Please help us to understand this, along with any differences in the strength or weakness among market segments.

A1: Broadly speaking, we do not think the order environment is changing. Some areas faced difficulties in the first half, but we think the results for Q3 were comparable to the last year, when the level of orders was high. To take one example, regarding the mission critical area, both last year and this year we have received an extremely strong flow of orders. For the past several years, we have received a very strong flow of national security-related orders, and I suppose one could call that a trend. Both for Fujitsu Uvance and our modernization business, the extremely strong level of demand is continuing. Regarding the unevenness of the figures, please understand that there are apparent timing differences, and it depends on the timing of when we happen to book major orders.

Q2: There was a concern that there would be a downturn in the Public & Healthcare market segments in the third quarter compared to the previous year, but orders increased by over 10%. Was this the result of deals to standardize local government systems, or was it something else? Please also tell us which market segments have been strong in terms of Fujitsu Uvance orders.

A2: In the Public & Healthcare segment, while there were standardization initiatives by local governments, the better results in the third quarter were not because of special increases in that area of services in particular. Rather, after very little momentum in the first half in terms of large-scale national government deals and deals with large hospitals, there was a pick-up in these types of deals in the third quarter. Fujitsu Uvance is still in its start-up phase, so please understand that orders are increasing in every segment. We have filled out our line of offerings, and we have started to see some variations in the reception of different offerings among customers, with some being very favorably received, and others not, so we are adjusting our approach to focus on offerings the deliver especially high value. Offerings for retailers, for example, are doing very well. On the other hand, with our sustainable manufacturing offerings, our people have a strong habit of pushing deals based on customer needs, but parts of these offerings have not fit well with our customers. In that sense, there have been variations in terms of strength or weakness, but please understand that, overall, orders are growing.

Q3: I have a second question. While I do not think there has been any major change in your earnings trends, in addition to your Service Solutions orders for Regions (Japan), in Regions (International) earnings are improving even beyond the effect of the structural reforms, and my impression is that the figures may have exceeded your internal targets. Please tell us the reasons for the gross margin improvements for both Regions (Japan) and Regions (International), as well as how sustainable they are.

A3: The gross margin improvements for Regions (Japan) are higher than for Service Solutions overall. There are three reasons. The first is the standardization of development work and automation. We have been continually working on this, but we have shifted to offshore resources and the Japan Global Gateway, and we have also used AI to automate part of the work for building systems. The second reason is ensuring quality. We mainly have been securing quality through predictive detection of troubles in the production process and through our Chief Quality Officer, enabling us to prevent unprofitable projects or an erosion in our margins to a certain degree. The third reason is a shift in our portfolio. We have been shifting toward more profitable services and markets, with high value-added services, primarily through Fujitsu Uvance, leading to higher pricing. It is a mix of these three factors. Strengthening and thoroughly managing profitability at the time we receive an order has also been extremely effective. We have been working to standardize our development work for some time, and we have also gradually become better at ensuring quality. In terms of our portfolio, the effects of our initiatives, including pricing, strongly began to appear in the second half of last fiscal year. We do not think we have hit the ceiling for any of these factors. For fiscal 2025 and beyond, I do not know if we will be able to maintain improvement rates of 3%, but we believe we can achieve certain level of improvement. For Regions (International), as well, on a cumulative basis, this fiscal year we have improved our gross margin by around 2%. Still, it is also true that our exit of the private cloud business in Germany that we implemented last fiscal year has had a major positive impact. In addition, the shift in our business towards Fujitsu Uvance has also had the effect of reducing unprofitable projects. On an absolute level, our gross margin in Regions (International) is still low. We need to make a fundamental shift toward global offerings and deliver even better services.

Q4: The revenue target in your Medium-Term Management plan seem slightly aggressive in light of the progress you have made in revenue growth so far. On the other hand, if the improvements you have achieved in profitability in Japan are sustainable, has the likelihood of achieving your target for adjusted operating income for Service Solutions of 360 billion yen in fiscal 2025 increased? Or is it still an aggressive target?

A4: We feel that, at least for Service Solutions, there is a sufficient likelihood of meeting our targets. Looking at the progress we have made this fiscal year in improving our gross margin, that likelihood has increased. For example, for next fiscal year, we have set high hurdles for ourselves, such as a Fujitsu Uvance revenue target of 700 billion yen, but if we achieve an overall expansion in revenue and continue to improve our gross margin, we think our adjusted operating profit target for Service Solutions for next fiscal year is achievable.

<u>Questioner B</u>

Q1: Please tell us about the profitability improvements in Service Solutions. For Regions (Japan) in the third quarter, your adjusted operating profit margin last fiscal year was 16.1%, but this fiscal year it has dramatically improved to 19.4%. Aside from the improvement initiatives you have been implementing up until now, were there any unsustainable improvement factors?

A1: We have continued to work for several years on standardizing our development work and expanding our use of offshore resources, and these factors have enabled us to improve our gross margin by a little over 1% per year. Starting in the second half of fiscal 2023, such factors as the pricing for the value we deliver resulted in improved profitability at the time we received orders, enabling us to achieve another 1%-plus in improvements. We had been pursuing that initiative since the start of fiscal 2023, but it only applied to new orders, so we did not see the effects begin to appear until the second half of fiscal 2023. In fiscal 2024, those effects were benefiting our results from the start. In addition, strengthening our quality management has contributed to a reduction in unprofitable projects. The impact of these three factors led to a large improvement in our profitability. Still, if we let our guard down, there is always the possibility that unprofitable projects of over 10 billion yen level could emerge, so we cannot be complacent, but so far these factors have served us well in producing results.

Q2: Have each of those three factors produced improvements of 1%?

A2: The benefits from the reduction in unprofitable was not that significant relative to other factors, but the other two factors have each contributed over 1% in profitability improvements.

Q3: Looking ahead to the next fiscal year and beyond, to what extent do you think you can continue to produce improvements?

A3: In fiscal 2024, we had already made progress in limiting the emergence of unprofitable projects, so it is difficult to hope for further improvement benefits from that. On the other hand, we still feel there is a large scope for further profitability improvements from such areas as productivity improvements from the expanded use of offshore resources and shifting the pricing for the value we deliver. With demand extremely strong, as I said before, we are working to shift our pricing and expand our Fujitsu Uvance business offerings as well as our recurring business. The profitability of the Fujitsu Uvance business is still low compared to our legacy systems integration business, so there is still tremendous scope for improvement there. Against a backdrop of strong demand, we have made greater progress than anticipated in shifting the pricing for the value we deliver. On the other hand, with the standardization of development work and the expanded use of offshore resources, we think we have made only halting progress in some areas, and we think we still have the ability to make further improvements. The rate of our usage of offshore resources through the Japan Global Gateway is still only round 15% level, so there is still room for improvement here. Over the next 3-5 years, we think it will be difficult to continue to achieve gross margin improvements of 3% per year, but we think there is plenty of potential to achieve improvements of 1-2% per year over the next three years and beyond, and we think that is the level we need to achieve.

Q4: Even if there is a continuation of gross margin improvements of 1-2% per year, am I right in assuming that it would add around 10-20% per year in higher profits?

A4: Yes. Please understand that is what we are aiming to achieve.

Q5: With this much progress made in improving profitability, and if the progress to date in the fourth quarter has been good, in consideration of the profits made through the first three quarters compared to the previous year, I find it a bit difficult to accept the view that the adjusted operating profit in the fourth quarter will just be around 120 billion yen, around the same level as the previous year. There is a very strong tendency for telecom carriers to skew their investments in 5G to the fourth quarter. Accordingly, are we right to understand that your results could face the risk of falling below your target because of this?

A5: Yes, I think there certainly is that risk, but Service Solutions will not be very exposed to the impact of 5G investments. Although, of course, our plan is to use expenses for future growth to a certain extent, we want to stick to our plan, and even seek to exceed our plan for Service Solution. Regarding Network Products in Hardware Solutions, there is a tendency for business to be skewed toward the fourth quarter every year, and it is true that there is always a lot of back and forth negotiations with the major telecom carriers. We revised down our forecast for Hardware Solutions for the fourth quarter, but because our profit levels in the fourth quarter are large, we first want to keep a close eye on things so that we meet our targets, while making a last spurt of effort for the end of the fiscal year.

Q6: Even if there is a risk in Hardware Solutions, are we right to assume that, looking at Fujitsu as a whole, you feel comfortable that you can meet your target for adjusted operating profit? Should we assume that you are looking at around the bottom of the range that you could achieve?

A6: We think it is a level that we have ample opportunity to achieve.

<u>Questioner C</u>
Q1: I have a question regarding the adjusted items for your operating profit. In your targets for the fourth quarter, what figure are you anticipating for adjusted items and what specifically are you planning?

A1: Regarding adjusted items, we recorded a approximately 20 billion yen loss in the first half of the fiscal year, and approximately 10 billion yen in the third quarter, and in total the actual results for the first nine months of the fiscal year was more than approximately 30 billion yen of loss. Our figure we announced for the full year is 20 billion yen loss, so, calculating backward, this would mean that we would return 10 billion yen in the fourth quarter. Though we do have various things that we would like to do for the fourth quarter, we are ascertaining whether we will be able to implement them. Meanwhile, we already have factors that will positively contribute to adjusted items, including profit on sales of businesses that we have already announced as factors. As a whole, this means that, at the present point in time, we have items that would reverse the reduction of 10 billion yen. I believe you are aware that, at the present point in time, I am unable to speak on what exactly we are thinking of and how much we will accelerate our transformation in the fourth quarter, but we will work to thoroughly implement these things.

Q2: Do you anticipate recording the profit from the carve-outs of Shinko Electric, Fujitsu General, and Fujitsu Optical Components (FOC) in the fourth quarter of fiscal 2024?

A2: No, we anticipate recording the profit from these sales in fiscal 2025.

A3: Regarding capital allocation, you commented that you are on track to generate 1,300 billion yen in base cash flow. Please tell what was the intent of your comment. In addition, one year and nine months have passed since you announced the capital allocation. What progress has been made toward the 700 billion yen allocation for growth investments?

A3: Regarding the 1,300 billion yen in base cash flow, we anticipated approximately 300 billion yen from the asset recycling of non-core business and a base cash flow generation of approximately 300 billion yen per fiscal year from our regular business. The base cash flow generation from our business came at cruising speed, but now we are on track to recycle assets from our non-core businesses, and therefore forecast that base cash flow, as a whole, will be 1,300 billion yen. For our shareholder returns, we anticipated base cash flow generation of 1,300 billion yen, and executed it ahead of time, so if, for argument's sake, we did not secure this base cash flow amount, there would have been the possibility of us coming up short. We wanted to convey that we have now secured this base amount. It was the purpose of my comment. Regarding balancing growth investments and shareholder returns, while shareholder returns are progressing according to our plan, there is still some room for growth investments. In acquisitions, as well, we already have a list and are in the process of carrying out reviews, and, of course, have the amount allocated for this portion. So, in that sense, it could seem like we have not made sufficient progress in growth investment. We will, of course, not simply use the amount allocated just because it is there, and will carefully look at the way the money is spent. If, as a result of this, we are not on track to use up the amount allocated for growth investments, or if we exceed our base cash flow, then once we have discerned that, we will naturally consider rebalancing the overall allocation.

Questioner D

Q1: Was Global Solutions not becoming profitable in the first nine months of the fiscal year above or below your expectations in terms of the speed of its improvement in profitability? If it was below your expectations, please share your impressions on this, such as if the return on investments in Uvance were lower than you expected, or if you are expecting stronger than anticipated orders and accelerated the speed of your upfront investments.

A1: Global Solutions became profitable during the third quarter, but is slightly below our target. Uvance, as a whole, is progressing as planned, but Global Solutions, which develops and delivers Uvance offerings, is slightly behind. There are two main reasons for this. The first reason is that we are focusing on the delivery of offerings. The cost related to developing offerings and selling them is also accelerating, which are upfront investments that we were prepared for, so it is not something negative. The other reason is that, although the portion of offerings that we have added value to and are offering in Regions (Japan) is performing well, we must increase our standardization even more. Between the offering itself and value added processing, there are more value added processing. In terms of the value that is delivered to customers, I believe they are the same, but to further enhance efficiency and profitability, I believe that we need to change the balance by further increasing the volume of standardized offerings that Global Solutions is offering and slightly decreasing the value added processing in Regions (Japan). In Service Solutions as a whole, we have secured a profit, but Global Solutions has come up a bit short compared to our target, and Regions (Japan) is slightly above our target. Due to this, we must effectively balance making further progress in standardization and, now that we have finally increased the number of our Vertical offerings, accelerating our offerings that have captured the most customer interest and changing course in the offerings that have not captured customer interest. Revenue in Global Solutions will increase in the fourth quarter as well, and we believe it will become profitable for the full year and be up compared to the previous year.

Q2: Regarding the launch of OneERP+ for 70,000 people in Japan, please tell us if this will be an additional driver of improved profitability in your IT services in Japan from the end of the fourth quarter financial results.

A2: Initiative of OneERP+ started in 2020 with an overall investment of over 100 billion yen. We have finally rolled it out to our Services business with the largest constituencies in Japan (systems engineers, business producers, finance, procurement, etc.), and are still in the process of rolling it out to areas such as Europe through Global One Instance. This is fairly large-scale system architecture, so the reality is, now that we are implementing it ourselves, we are making progress as we face various difficulties. Although we advocate for operational excellence and data-driven management, we have not yet shown results in either front. Because it will not take effect all at once, we believe the impact of implementing OneERP+ will not be shown in the figures for the fourth quarter, and will take two to three years. What will appear in the profit and loss figures for Fujitsu as a whole, such as improved productivity in the corporate sector, is that, through the promotion of data-driven management, management and business units will be able to make more well-timed decisions. We believe that the most significant impact of this will be an improvement in overall management. Though we would like to convey the return on investment a little more clearly, we have finally reached the starting line. We have suggested the same thing to customers, so we would also like to provide customers with our efforts as an internal reference, including Fujitsu’s struggles with the system’s internal implementation and what did and did not go well.

Q3: Please tell us about the status of your reskilling and recruitment efforts to achieve your target of 10,000 consultants.

A3: Our hiring of additional consultants has not gone according to our initial plan. At the end of fiscal 2023, we had approximately 2,000 consultants, and it has currently increased to approximately 3,000. We are struggling to recruit talent from outside of Fujitsu, so we are advancing the reskilling of employees within Fujitsu, and are discovering and certifying them. We believe that we will be able to double the number of consultants in fiscal 2024, but that is proving quite difficult. While, in the sense that we are also pressing forward with our internal efforts, we professed that we would have 10,000 consultants, the number of consultants is not a foregone conclusion. We are moving with the aim of securing half of that amount in fiscal 2025, but we believe that the most important thing is how much output can be generated from these consultants. We finally have 3,000 consultants, so the consultants are gradually becoming more active with the senior executives of customers when there are modernization and Fujitsu Uvance proposals. We are also working to recruit outside talent, even with incurring the cost, while focusing on providing quality output with the consultants we have. We are also, of course, considering acquisitions. However, even if we were to buy a company, there may be a loss of those employees, so we believe that it is important to proceed with a two-fold approach of implementing this and developing our internal talent.

Questioner E

Q1: Regarding the revision to the business results for Hardware Solutions, what would the revision look like when divided into the portion that was revised in the results through the first nine months and the portion that you anticipate from orders in the fourth quarter? In addition, has your forecast for Fujitsu Open-RAN (O-RAN) in the US changed?

A1: Essentially most of it is in light of our forecast for the fourth quarter. In System Products, the cumulative revenue through the third quarter was up slightly, but there was also a portion in which profit deteriorated due to increased costs, so there was not much change in terms of profitability. The biggest impact will be on Network Products, which will face a difficult situation in addition to not securing a pipeline of orders for software, and we no longer forecast there to be demand from several carriers. Instead, we will minimize the negative impact on revenue to an extent through sales of hardware and products from other companies. The impact on the replacement of software with hardware, however, will have a significant negative impact on profits. In addition, with hardware revenue being sluggish, there will also be a write-down of inventory, so please understand that the revision was a result of an expected significant negative impact in terms of profitability. Furthermore, there have not been any significant changes in regard to O-RAN in the US. We never anticipated O-RAN in the US would have substantial revenue in the second half of fiscal 2024. Rather, we have been chosen to be part of a larger trend for FY25 and beyond , and the revision is not the result of a change to O-RAN in the US.

Q2: In regard to the recycling of non-core assets, I believe you mentioned that you are on track to execute large-scale recycling of assets during fiscal 2024. I believe the size will change, but will you still continue to recycle assets after fiscal 2025? Or will it generally be over?

A2: There will also be a change in what is non-core business, but for what was originally considered non-core business, we are largely on track, so there may not be any large-scale recycling of assets. Still, our business portfolio will change as we move forward. Just as an example, in our Services business, systems integration may become a non-core business as Fujitsu Uvance progresses. In that sense, I do not believe that it is the case that this sort of restructuring will never happen again. In fiscal 2025, I do not expect that there will be recycling of assets as large as that of fiscal 2024. Also, we are making progress on selling our strategic cross-shareholdings, and plan to continue reducing them in 2025 as well. In general, fiscal 2025 will not have as large a scale of asset recycling as fiscal 2024, but thinking of the medium- to long-term, this will be the context in which we continue transforming our portfolio.

Q3: Do you anticipate recycling assets on the scale of FOC and Fujitsu Communication Services (CSL)?

A3: In regard to Group companies and businesses within Fujitsu, if a small company of a certain size can grow more by working with other companies, then, of course, there is a possibility that we will sell them. Though FOC and CSL were about this size, it is possible that the recycling of assets of this scale could occur as we change our portfolio.