Summary Translation of Question & Answer Session at
Medium-Term Management Plan Progress Update
and FY 2024 Financial Results Briefing for Analysts

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Location: Live-streamed from the 20th Floor of Fujitsu Technology Park
Presenters: Takahito Tokita, Representative Director, CEO
Takeshi Isobe, Representative Director, CFO

Questioner A

Q1: Your operating profit (before adjustments) for fiscal 2024 came in below the revised forecast you announced at the time of your third quarter earnings announcement. The adjusted items for operating profit and profit of Global Solutions fell short of your forecast, so I assume there was a major change in your views during the fourth quarter. Could you explain the background to this issue, including whether there were any one-time factors?

A1 (Isobe): First, our adjusted operating profit exceeded the full-year forecast we reported at the time of our third quarter earnings announcement. Among the sub-segments in Service Solutions, our performance in Global Solutions fell short of our forecast, but Regions (Japan) outperformed relative to our forecast, so there was some variation in the results. As a whole, however, results in Service Solutions exceeded our forecast, and results in Hardware Solutions were roughly in line with our forecast. On the other hand, adjusted items for operating profit dragged down our results by around 20.0 billion yen. This is because, in the first half, we recorded 20.0 billion yen in expenses relating to our human resource portfolio transformation, and we recorded an additional 20.0 billion yen for these expenses in the second half. If we just take the second half, adjusted operating profit in the segment exceeded our forecast by 17.0 billion yen, but because of the expenses of additional human resource portfolio transformation measures, we had around 20.0 billion yen in expenses as adjusted items. Therefore, when these are added back in, operating profit prior to adjustments fell slightly short.

Q2: In fiscal 2024, your results in Global Solutions fell significantly short of your forecast. Why, then, are you projecting an increase in profits in fiscal 2025?

A2 (Isobe): Relative to the full-year forecast we reported at the time of our third quarter earnings announcement, results in Global Solutions fell short of our forecast, and results in Regions (Japan) exceeded our forecast. In total, the results for our business in Japan were positive, but results in Global Solutions underperformed relative to our forecast by around 14.0 billion yen, while results in Regions (Japan) exceeded our forecast by around 20.0 billion yen. The reasons for this are because the growth in the Vertical areas and the Horizontal areas of Fujitsu Uvance differed from our expectations. The increase in our Vertical offerings fell slightly short of our forecast. For our Horizonal offerings, however, in addition to SAP, ServiceNow and Salesforce, there was also exceptionally strong demand for cloud-based systems that are part of hybrid IT, so that is where we focused our efforts. For many of our Horizontal offerings, the personnel of Regions (Japan) are the ones who add value and sell these offerings. As a result, revenue fell in Global Solutions, which makes and sells the Vertical offerings, while revenue increased in Regions (Japan). That was how those discrepancies occurred, causing those variations in our performance. For the Vertical offerings, in particular, because this is value-added business with high profitability, falling short of the forecast had a major negative impact on Global Solutions, including on the profit side. While an increase in lower-margin products and a decrease in higher-margin ones would typically lead to an overall negative impact, Regions (Japan) has exceeded forecasted profit through margin improvement initiatives such as reducing unprofitable projects. As a result, profitability has improved even further than planned. In our revenue forecast for Fujitsu Uvance for fiscal 2025, we left the revenue forecast unchanged at 700 billion yen, but we revised downward our forecast for Vertical areas, and revised upward our forecast for Horizontal areas by the same amount in light of our immediate circumstances. Accordingly, for the fiscal 2025 forecast levels, we expect Global Solutions to underperform and Regions (Japan) to outperform. Our original plan for fiscal 2025 was to slightly squeeze expenses, but because demand is currently so strong now, we are thinking of investing a bit more in our modernization business and Fujitsu Uvance as well as in transforming delivery using generative AI while building revenue and profit. Global Solutions are responsible for leveraging modernization knowledge and developing Fujitsu Uvance offerings, which means investment in Global Solutions will be slightly accelerated. Accordingly, our fiscal 2025 forecast for the adjusted operating profit margin in Global Solutions is only 5%. That is a completely insufficient level for a services business in Japan. While things are in the process of getting better, our forecast reflects the fact that the investment phase is not yet over.

Q3: Regarding the demand environment in Japan for IT services, you had very strong figures for orders in the fourth quarter, even in light of the strong numbers you had in the previous year, but which industry sectors are driving this growth? In addition, as we enter fiscal 2025, the macro environment is also changing, and the reality is that I think we are beginning to see signs of caution on the part of enterprises and other users when it comes to investment spending. Have you seen any signs of projects being cancelled or paused?

A3 (Isobe): Regarding the sectors driving the growth in orders, this is spelled out on page 11 of today's presentation materials, "FY2024 Consolidated Financial Results." The way we see it is that there continues to be strong demand from all sectors in Japan. In the fourth quarter, we were able to win a large-scale project in finance sector. However, this doesn't indicate any particular weakness elsewhere, and our quarterly figures can be inflated by the presence of very large deals. For that reason, on the right side of the table, we have listed the compound annual growth rate over the past two fiscal years for each sector. As reflected in the figures, there has been strong demand from all sectors. Demand is strong from major enterprise customers, and conditions continue to be strong in the field of national security. I think we may have worried some of you when orders in the first half of last fiscal year were not making significant growth, but the actual business trend is that orders have been growing at a rate of around 10% for the past two years. Please understand that, while making production processes more efficient and expanding standardization, and while implementing delivery improvements, we have been working very hard to meet those demands. As for the immediate environment, it is true that we hear a variety of talk, but the reality is that we do not know what will happen. As with your question, in this environment, for projects that are just getting off the ground or for planned projects that have been clearly decided, we have not heard many cases in which projects have suddenly been halted. For example, if it appears that tariffs, interest rates, and exchange rates are moving in the wrong direction over the medium- to long-term, I think the feeling that the economy is slowing will become a reality, but at this stage we have not heard of any clear cases of our IT projects being halted or budgets being slashed. In that sense, regarding the impact of all of this, while to a certain degree we have built into our projections the possibility that the growth in revenue will slow, we have not factored in a significant decline.

Q4: By forming 1FINITY Inc. and consolidating all aspects of your operations and processes in Network Products in it, will it have such effects as generating cost efficiencies that will benefit its profitability? In addition, in your forecast for fiscal 2025, sales of network products decline by 30 billion yen or more compared to the previous year. Is that from factors in Japan or outside of Japan?

A4 (Isobe): Our forecast mainly reflects our assumption that demand in Japan will be very weak. Although we are hoping that there might be a slight rebound in demand, we are taking a conservative stance in our projection. In this severe environment, our plan is to ensure that even if demand declines further, the profitability will not be damaged, as 1FINITY will bring greater efficiencies to the management and operation. We recognize that becoming an independent company will not instantly improve our profitability. However, our aim is to systematically generate productivity improvements by consolidating previously fragmented initiatives and operating as a unified business. We anticipate benefits from improving efficiency of indirect functions, enhancing information sharing between sales and manufacturing departments, and reducing inventory

Questioner B

Q1: Looking at your capital allocation plans for fiscal 2025, the allocation is 500 billion yen, but the planned amount of your base cash flow in your forecast is 610 billion yen, and that extra 110 billion is not included in your allocation. Does this mean you will just hold that extra 110 billion yen in cash? Or, since there was a mention of the possibility of acquisitions in your explanation earlier today, is the extra 110 billion yen in consideration of the possibility of that kind of additional investment?

A1 (Isobe): We always think of capital allocation as the total amount being allocated over the three-year period from fiscal 2023 to fiscal 2025. So far, everything has gone according to plan. Please understand that approximately 300 billion yen in cash inflows from the sale of non-core assets was also anticipated in our plan. Within this three-year period, while recognizing that our cash position would decline to a certain extent in fiscal 2023 and fiscal 2024, we implemented some front-end allocations. In the case of fiscal 2024, compared with fiscal 2023, we significantly increased the pace of our share buybacks. In relation to base cash flow of around 390 billion yen, we ended up allocating around 450 billion yen, and the share buybacks were one factor. Compared to the past, you may think our current level of cash and cash equivalents is getting a bit worse, but because we have mainly become a services business, there is no longer a need to keep that much funds on hand. Even if our cash position falls down another level, we would not consider it to be a particular problem. It is true that, in our growth investment plans for fiscal 2025, the amount may be a bit on the high side, including for the possibility of acquisitions, but we would only implement something after confirming that it would facilitate our next phase of growth. If we cannot find a good way to use the funds in that way, or if we get higher cash inflows than we had anticipated, we will rethink our allocation.

Q2: In your forecast for fiscal 2025, adjusted ROE is 13.7%, down from 13.8% in fiscal 2024. When you have made this much progress in improving your performance, it is disappointing to me that your ROE would deteriorate. For your next Medium-Term Management Plan, what level of ROE are you seeking to achieve?

A2 (Isobe): We do not think that this level of adjusted ROE is sufficient. We seek to achieve a higher level. Compared to the past, our current ability to build profits has become much stronger, but because we frontloaded shareholder returns to a significant extent from fiscal 2023 to fiscal 2024, the speed at which our capital was decreasing was faster than the speed at which our profits were increasing. As a result, adjusted ROE temporarily increased in fiscal 2023, but since then, it may appear to be slightly declining. We plan to thoroughly organize and present our future direction within our next Medium-Term Management Plan.

Questioner C

Q1: For Hardware Solutions, in fiscal 2025, although a significant decline in revenue is projected, you do not plan for there to be such a large decline in operating profit. How do you plan to improve profitability? Will the establishment of 1FINITY contribute to this?

A1 (Isobe): For Network Products, although we project there will be a decline in revenue, we project that profit will improve slightly compared to the prior year. In the midst of business having been difficult, we are implementing measures to improve business efficiency. However, with fragmented organizational structures and functions, these measures may not be fully effective. It is for this reason we believe that, by unifying things under 1FINITY, we will be able to achieve these measures.

On the other hand, while System Products are projected to experience a significant decrease in revenue, the decline in profit is not expected to be as substantial. This is primarily due to the anticipated contraction of our European business. This business has not been highly profitable, so the decrease in sales will not significantly impact overall profit.

Q2: In fiscal 2024, Fujitsu expanded its Self-Produce Support System measure, which became a reason that operating profit (before adjustment) fell short of your forecast. On the other hand, for your earnings forecast for fiscal 2025, you do not anticipate there will be adjusted items. But is there a possibility that, like fiscal 2024, there could be some adjusted items that are not incorporated into your forecast?

A2 (Isobe): We believe that fiscal 2025 will not have any significant items like the prior fiscal year. In the event of a sudden slowdown in business conditions, then it would, of course, be possible that we consider taking some strong countermeasures, but we do not anticipate doing so at this point in time.

Questioner D

Q1: The gross margin for Service Solutions is improving every year, and has grown to the high level of 40%. Please tell us if there is room for even further improvement in your next Medium-Term Management Plan period (starting in fiscal 2026).

A1 (Isobe): There are three main reasons why the gross margin for Service Solutions has improved over the past two to three years. The first is the efforts related to standardization and automation of development work, initiatives we have been working on for a while. Through the utilization of Japan Global Gateway and Global Delivery Centers (offshoring centers), we have been able to make progress on implementing standardization and decreasing the cost per standard unit of time. In addition, by integrating several systems engineering companies, we have made progress on improving our utilization rate and standardizing production. The second reason is ensuring quality. We have started utilizing AI for the predictive detection of issues in the development process or the operations process. As a result, there have been fewer cases in which the cost rate is worse than initially anticipated. Up until now, certain projects with high-cost ratios caused the overall gross margin to decline, but we have eliminated such things. The third reason is that we have been gradually implementing value-based pricing strategies, as exemplified by Fujitsu Uvance. Part of this is price negotiations in the sense of passing on the higher labor cost to customers; however, we are not simply raising the price of something that has the same value, but rather have gradually made progress on proposals that highlight the value-added aspects we provide and in the use of rate cards. We do not believe that our measures for standardizing development work and value-based pricing are sufficient, so there is room for improvement. But, on the other hand, we anticipate that the rate of improvement will gradually start to slow down. In light of this situation, we are now taking on the challenge of ensuring further standardization of production work and higher quality by implementing generative AI in production work as well. In our modernization business, in particular, while applying generative AI to analysis, we aim to provide even higher value to customers at a faster pace, rather than simply cutting costs through greater efficiencies. As a result, we will use pricing that aligns with this value. We have only just begun to work on this, so we believe that, at the very least, we will be able to make improvements over the next two to three years. In regards to regions outside of Japan, their gross margin is only 20%, so we believe it is possible to improve this figure by changing our offering portfolio.

A1 (Tokita): We believe that there is still more room to improve productivity. We have improved productivity through process transformations to the way we have done things up until now, including standardization and enhancing governance. But we believe that our initiatives for the mobilization of IT, digitalization, and automation are still insufficient, so we think there is that much room for improvement.

Q2: It is my understanding that enterprise AI will be a source of future growth globally, but although the spread of AI applications is anticipated, there has not been much progress made in its usage in major corporations due to obstacles such as security and data maintenance. Please tell us your impressions on whether the progress for enterprise AI solutions in the Japanese market, including AI agents, has been faster slower than anticipated, as well as what services you believe will grow.

A2 (Tokita): I believe that it is a global recognition that we have already shifted from the era of the prompt type of AI, which provide an answer when asked a question, to the era of AI agents. We are starting to use AI agents in Fujitsu as well. From the viewpoint of why it has not yet spread further, I believe there are two obstacles. One is due to a sense of caution in anticipation of a multi-agent era. When companies internally use various digital tools, it is hard for CIOs to manage multiple types of tools and multiple outputs, and that is a high hurdle to overcome. Generative AI that answers prompts will not transform work to the desired level, so there are certain challenges that need to be overcome. The other obstacle is that the most effective way to maximize the performance of AI with data. To ensure the probability of that, business processes need to be rectified, but I believe there are many companies that have not yet reached this stage. We also have a solid sense of this from using AI internally. Although there are obstacles, in the midst of a decreasing workforce, there is the global common understanding that companies who do not use AI will not generate competitiveness. So how companies will take on the challenge of AI and how Fujitsu will support the companies that do take on the challenge will be a key issue for Fujitsu's future growth.

<u>Questioner E</u>

Q1: Regarding increasing investment inService Solutions, in fiscal 2024 investment increased by 42.1 billion yen, but subtracting the nine months ended December 31, 2024, this means that 23.0 billion yen was used in the fourth quarter alone. I believe that you were of the opinion that you were behind on hiring consultants, so you will not be able to fully use up the amount planned for investment expenses. Is there some background behind why you recorded this large of an expense in the fourth quarter alone? Also, what was this investment expense used on?

A1 (Isobe): We increased investment by 42.1 billion yen, but we did not reach the original planned amount of 52.0 billion yen. Things piled up in the fourth quarter as there was an accumulation due to year-end inspections, etc., , but we were unable to fully use up the amount that we originally planned. As for the contents of the expenses, it is not that we made a significant investment in a certain area, but rather they were generally used in areas such as modernization, consulting, reskilling, and security. In addition, we had originally anticipated costs related to the hiring of people from outside of Fujitsu, and it is true that we did not fully use up the amount planned in investment expenses for this.

Q2: In fiscal 2025, you plan to increase investment in Service Solutions as a whole by 15.0 billion yen. Could you please tell us your opinion on whether this increase of 15.0 billion yen will be sufficient?

A2 (Isobe): For fiscal 2025, we are mainly projecting an increase in investment in the areas of modernization and consulting, as well as an increase for a part of security. Originally, in our Medium-Term Management Plan, our approach was to significantly increase investment expenses in fiscal 2024, followed by a peak and subsequent reduction in fiscal 2025. But, in addition to 10.0 billion yen shifting from fiscal 2024 to fiscal 2025, modernization and Fujitsu Uvance have had incredibly strong growth in revenue, and our plan has changed to further increase their profits. In fiscal 2024, we increased investment by 40.0 billion yen, and we will increase this by a further 15.0 billion yen in fiscal 2025, so we believe that we are strongly accelerating investments every year. Please understand that rather than increasing fixed costs, we are allocating more budget to project expenses, reflecting a strong focus on new initiatives.

Q3: I would like to ask about the impact of foreign exchange rates. Shinko Electric has become a discontinued operation, and the strong yen is advantageous for this. I believe that

the strong yen is fundamentally advantageous in, for example, Ubiquitous Solutions, but you project a decline in operating profit of 11.0 billion yen for the segment. Please tell us how the impact of foreign exchange rates is incorporated into the projections for Hardware Solutions and Ubiquitous Solutions.

A3 (Isobe): When the yen appreciates by 1 yen, there is a positive effect of approximately 1.0 billion yen, primarily in Ubiquitous Solutions. On the other hand, as a whole, currency movements do not cause that much of an impact. System Products and Network Products have exports, so the effects of purchasing imported components are offset by exports. In Ubiquitous Solutions, we have incorporated some weak figures into our projected revenue and profit for fiscal 2025. But, in addition to the large-lot business deals that occurred in fiscal 2024, we consider it an area that will be affected by a slowdown in business conditions, so we are somewhat conservative in our outlook for revenue and profit. Demand has risen from Windows 10 support ending in October 2025, and we believe that, following this, in normal circumstances a slight demand will remain instead of slowing down all at once. But we conservatively anticipate that the baseline for demand itself will slightly fall.