**Summary Translation of Question & Answer Session at the
Briefing for Investors and Analysts on Fujitsu IR Day 2023 (Day 2)**

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Location: Fujitsu Headquarters, Tokyo Hybrid Event (At venue/Live stream)
Presenters: Hidenori Furuta, COO
Shunsuke Onishi, SEVP, Chief Revenue Officer and Head of Global Customer Success
Hiroyuki Tsutsumi, SEVP and CEO, Japan Region

Questioner A

Q1: I want to ask about your managed infrastructure services in the International Region. Considering that these are services that do not include hardware maintenance services, my impression is that, generally, if you manage it efficiently, it is a business that is highly profitable, so I do not understand why your business has such low earnings. Please tell us about your managed infrastructure services business and why its earnings are so low. Rather than reskilling engineers to switch from managed infrastructure services to business application services, would it not be faster just to improve the earnings of the business?

A1 (Furuta): Managed infrastructure services consist of data center outsourcing services, service desk services, and the monitoring, operations, and management of the infrastructure environment of customer sites. As to why profitability is low, it is because the competitive environment in this area is very severe. Particularly in the US and Europe, Indian ICT vendors are pushing very low prices. Over the past five years or more, the pricing structure has declined, and the competitive environment has dramatically changed. One of the unique features of managed infrastructure services is that, in contrast to systems integration services or business application services, the contract period is long, five or ten years. Our business model is to reduce the total cost of ownership for the customer by continuously reducing our cost. By using the Global Delivery Centers, we have also reduced our costs, but in cases in which we are unable to keep up, our gross margin goes down. This has been our understanding for some time, and we have been thoroughly using the GDCs, but we have been unable to keep pace with changes in the market environment. Just so you know, hardware maintenance is included in the Hardware Solutions segment.

Q2: Regarding the managed infrastructure services business, the skills needed are different from those required by the business applications services business, and I think it is going to be difficult to go through a reskilling process in just three years. What do you think?

A2 (Furuta): Structurally, we are trying to shift people to the GDCs, but in some countries, the fact is that we have a lot of frontline staff. We are trying to have our GDC staff develop multiple capabilities, so the hurdle for reskilling is lower compared to the frontline staff. As you point out, for the frontline delivery staff in each country, the hurdles on reskilling are high, but we are creating a reskilling program. As a company, we are dedicated to providing reskilling programs.

Q3: Am I correct in understanding that your employees handling managed infrastructure services are frontline workers who establish the strong relationship with customers, and that, for business application services, you will use the GDCs to improve earnings?

A3 (Furuta): Yes, that is right. Each country handling managed infrastructure services has, like Japan, a large customer base, so we will engage with customers and shift toward business application services.

Questioner B

Q1: I have the impression that your market share in Japan is slightly declining. Please tell us if you think you can increase your market share in the future.

A1 (Tsutsumi): In today's materials regarding our market share, we are using Gartner's data, and we consider that data to be very fair. We think we have an extraordinarily large business opportunity. CFO Takeshi Isobe spoke about it in relation to our medium-term management plan, but the IT market in Japan is projected to grow at a rate of 6-7%. Within that, by providing services such as Uvance and modernization services, without question we have an opportunity to increase our market share, mainly in the enterprise market. In the public sector market, we already have a certain foundation. We can leverage that to achieve a further leap, and rather than just expanding our existing business, we think it will be important to create new value. Accordingly, I consider it my mission to increase our market share.

Q2: In relation to positive growth for the market as a whole, it seems that your revenue from services in Japan have stagnated, and honestly it seems like you have been losing out over the past year and a half or two years. Do you think there is a possibility that you can outperform that market growth rate in the next 1-2 years?

A2 (Tsutsumi): We shifted our business from mainly hardware to mainly solutions, and I think we have built a solid foundation. Accordingly, if it is true that our market share has fallen, I think we can now use that foundation to make a big leap ahead, and please understand that we will do so using Uvance and modernization as two big pillars of our business.

(Furuta): I would like to add my thoughts. Over the past two years, of course there was the COVID pandemic. There were supply issues with components, and there were also changes in Fujitsu's business portfolio, so there may be some truth to the saying that Fujitsu has lost out a bit. On the other hand, as Hiroyuki Tsutsumi pointed out in his presentation, the modernization business will be an extremely big trend in the coming years. Instead of focusing on their past legacy systems, customers have an extremely strong intention to get past 2027 and get past 2030. Ahead of them is their digital transformation. Fujitsu has been providing support for their important operational assets, and by taking advantage of this opportunity we think we will be able to achieve significant growth in the Japan market. In addition, we also spoke earlier about our strategic partners, and our partners also have an extremely positive view of market trends in Japan. SAP, AWS, and Microsoft, with which we announced a strategic alliance the other day, have a very passionate view of opportunities in Japan, and that is from their global headquarters, not just their subsidiary in Japan. They have shown a willingness to invest in their alliance with

Fujitsu. In that sense, this is an opportunity that we cannot afford to miss, and we think there is the possibility of achieving very significant growth over the next three years.

Q3: You have struggled for many years in your business outside of Japan, and I do not think it will be easy to quickly improve things, but I felt that the successful example of the Americas was cause for hope. How long do you think it will take for your business in Europe to reach the point where you can be relieved that the direction ahead is clear, as it has become with your business in the Americas region? Do you think it will take at least five years?

A3 (Furuta): The revitalization of Americas was accomplished in one year in fiscal 2021. Still, compared to other regions, the scale of our business there is small, so in that sense it was easier to accomplish. In the medium-term management plan, we proposed a plan in which the Americas region would be used as a reference model in rebuilding our business elsewhere, mainly in Europe and the Asia Pacific region. It is not something we can do in just one year. Based on our plan, we are at the execution stage of shifting to a structure focused on Uvance, and the question is whether we can complete this shift by fiscal 2025. Internally, our plan is to aim for an operating profit margin of over 3%, and this year will be crucial if we are going to achieve it. As a manager, it is kind of embarrassing for me to say that our operating profit margin target for the International Region is only 3%, but within this fiscal year we will establish a pathway that will lead us ahead into fiscal 2026 and 2027.

<u>Questioner C</u>
Q1: How will you achieve your fiscal 2025 target of an operating profit margin of 19.3% for the Japan Region? It is higher than that of your competitors, and it is an operating profit margin that will surpass the highest levels in the industry. Is there some specific factor that will enable Fujitsu to achieve this?

A1 (Tsutsumi): We are going to thoroughly manage the five policies we mentioned today, and we think there will be some synergistic effects as well as the potential for lateral expansion. Moreover, through the efficient use of data, such as in the examples we showed today, we think that new business models will emerge that generate recurring revenue and revenue sharing. We can also build platforms, and we have a strong pipeline of individual integration projects as well as Uvance and modernization projects. Through value creation, we think we are in the range in which we can achieve our sales revenue targets. We want to accelerate the positive aspects, reduce what needs to be reduced, ensure productivity and reliability, and fundamentally reform our operations. By doing so, I would like us to achieve our targets.

(Onishi): If you look at the cost efficiencies Fujitsu has achieved in the past three years, first, from the perspective of cost, I do not think there is any other company in Japan's IT industry that has brought work internally on the scale that we have, and that enabled us to significantly increase our gross margin in three years. We have also integrated group companies, and the scale of that integration, as well as the extent to which we have done the work internally, has led to an improvement in earnings. In addition, in terms of operating expenses, we have set KPIs for sales per employee and greater pre-sales cost efficiencies. Over the past three years we have gone through a reskilling process with our salesforce and implemented a global CRM project. Starting this year we will use CRM with AI-based enhancements. In addition, we will carry out efficiency sales activities, such as digital sales, and that will help us achieve greater efficiencies in operating expenses. In terms of revenue, we are also transforming our business portfolio, such as the shift to Uvance, and by delivering value-added services we will increase our profits. We are confident that, through these measures, we can achieve an operating profit margin of 19%.

Q2: To achieve high profitability, it seems to me that there will be no increase in your selling and administrative expenses for the next three years, but are you considering any one-time structural reforms to reduce expenses?

A2 (Furuta): We are not considering any structural reforms that would reduce our headcount. Through an increase in scale and the digital transformation of our front lines, we will increase sales efficiencies, so the plan is to reduce our operating expense ratio.

Q3: Is the scope of the Chief Revenue Officer's responsibilities and authority Fujitsu-wide, or is it limited to the scope of what was explained today?

A3 (Onishi): I am responsible for revenue across all of Fujitsu.

Q4: What KPIs will we be able to look at externally to check the progress being made over the next three years? Also, as Chief Revenue Officer, will you take responsibility if Fujitsu is unable to achieve its targets?

A4 (Onishi): It is, of course, my responsibility. At any rate, we will work to achieve these results. In regards to how we will disclose information, we will continue to consider how to do this.

Questioner D

Q1: How much have your average unit price per customer increased compared to the previous fiscal year? I believe that some of your projects last longer than one year, so can we expect your unit price per customer to increase enough to offset the increase in personnel expenses?

A1 (Onishi): As Fujitsu is in the IT services industry, it might be more appropriate to use billing rates instead of unit price per customer. For consulting companies and global IT companies, the billing rate is an important KPI. We also track this KPI. However, the change in pricing of our value-based services that was mentioned in our presentation today is completely different from a so-called across-the-board price increase. For our competitive services and services that are of high value to our customers, we have a variable price strategy in which we charge a suitable price for our services. In the previous fiscal year, we have implemented such pricing on a limited basis in the areas of SAP, ServiceNow, and Salesforce, and, although we are not able to mention the specific amount, we have seen some success with this strategy. In fiscal 2023, we are going to expand this strategy to not only the Japan Region, but globally as well.

Q2: Would it be possible for you to tell us quantitatively how much your prices have increased in comparison to the previous fiscal year?

A2 (Onishi): The full-scale implementation of this pricing strategy mechanism will take place during fiscal 2023, so, going forward, we will set an internal KPI for this and work to promote it.

Q3: ***I understand that there was a little over 20.0 billion yen in unprofitable projects in fiscal 2021 and fiscal 2022. I believe that getting unprofitable projects under control is a major mission to increase profitability. Since there have been a number of fiscal years in which unprofitable projects have occurred, how much do you expect to curb unprofitable projects in the new medium-term management plan, and what sort of structure do you have in mind to achieve it?***

A3 (Tsutsumi): In today's presentation we explained several policies for strengthening quality management. We will form a mechanism for utilizing the knowledge aggregated by the Fujitsu Developers Platform in the field, which will be an effective way of eliminating unprofitable projects. Also, regarding strengthening the pipeline management CRM, it includes not just the pipeline and customer trends, but also project management. We will set up many check-points to check each and every project, while also aligning with the governance launched by our Chief Quality Officer. We will also develop training to further improve our productivity. We are in the process of identifying and hedging risks from the frontline by overseeing how we manage projects, where the risks are, where insufficiencies are, and where there is waste. We will continue to strengthen our initiatives to reduce unprofitable projects.

(Onishi): There are two things that we have been trying to change or feel have been effective in our initiatives during the previous medium-term management plan. One is the way we create services. Our collaboration with global partners, such as SAP and ServiceNow, has increased, especially in projects for customers in the manufacturing industry. In the beginning, we struggled with these projects, but now the majority of them are coming along on-time and on-budget. We believe this change to our business portfolio itself was very effective. The second is internal governance. Last year we changed the authority of the global quality assurance division. For example, we established a mechanism in the requirement specification phase of a project in which, if we are unable to reach a consensus among all stakeholders, including the general manager of projects, myself and the general manager of quality assurance, and the head of the Japan Global Gateway's delivery division, then that project will be unable to proceed to the next phase. Many unprofitable projects have issues in the upstream process, so stopping the project in the requirement specification phase would be the better decision for the customer as well in the long run. Last year, there was also a case in which we ended a project in the initial requirement specification phase. Beginning next fiscal year, we will also start cross-regional projects, which will be a major challenge from the perspective of quality management, but we will continue to develop our management, including such policies and a more efficient use of data. It may not be feasible to completely eliminate all unprofitable projects, but we will strive to minimize them.

(Furuta): The mechanism that incorporates a group decision made by stakeholders is a system we internally call "OneDelivery", which was introduced in the previous fiscal year. As we recently announced, Tomoko Tsukahara, the former general manager of the global quality management division, will be appointed to the position of Chief Quality Officer. She will oversee the quality management units in each business group and region.

<u>Questioner E</u>

Q1: I have a question about your internal evaluation system. On the one hand, I do think that if the front line, offerings, and delivery work well together, then their synergy will create a very good cycle, but on the other hand, if there is miscommunication, then it could turn into a setup in which all of them blame each other. What sort of internal abilities do you have for seeing where the bottlenecks are and what sort of objective internal evaluation system do you have?

A1 (Furuta): It has been a full two years since the launch of Uvance, and what you mentioned actually occurred. Targets, such as financial targets and non-financial targets, cascade down from us, the executives, to the regional heads, business group heads, and general managers, and based on our experiences over these past two years, we are reviewing individual organization targets on the balanced scorecard and also thinking of creating KPIs that can include other organizations in the company-wide universal targets section. We are currently in the process of discussing this, and although I cannot give specifics as it is an internal discussion, we are devising ways to prevent conflicts from occurring.

Q2: I hope that you will consider an information disclosure method in which progress can be tracked externally as well. I understand that the vertical areas of Uvance, in particular, are not solutions that are highly competitive at this point in time and can simply be sold, but rather something that can be brought closer to perfection through being enhanced and accumulating case studies. I hope that you will consider disclosing not only the revenue of the new segments, but also how each of them is progressing with respect to Uvance.

A2: (Furuta): We will certainly consider this.