Summary Translation of Question & Answer Session at
FY 2025 Third Quarter Financial Results Briefing for Analysts

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Presenter: Takeshi Isobe, Representative Director, CFO

Questioner A

Q1: Regarding the price increases for memory chips, I would like you to tell us your expectations on what impact they will have on your financial performance in the fourth quarter and beyond, as well as your reasons for those expectations. I do not think the price increases had any impact yet on the third quarter, but to what extent do you think you will be able to pass through price increases going forward? Also, because I think the situation differs between PCs and servers, please tell us what your current expectations are for each of those businesses.

A1: We are aware of the price increases for memory chips, and we expect to see increases in fiscal 2026 and maybe into the first half of fiscal 2027. Of course, there will be an impact on both servers and PCs, but it is not as if memory chips comprise the entire cost of those products. They are just a fraction of the entire cost. Even if the price of memory chips doubled or tripled, it would not be as if the prices of PCs would triple. Through a combination of working to reduce overall costs and passing through some price increases, we think we should be able to cope with higher memory chip prices. In addition, right now we are in the midst of extreme fluctuations in the exchange rate, but if we start to move toward a stronger yen, component purchases from outside Japan will become cheaper in yen terms, so we are also paying close attention on that.

On the other hand, if memory chip prices were suddenly to shoot up, we have two concerns. One is that it could cause imbalances in demand and supply, which could make it difficult for us to make timely purchases of components, leading to the risk that our deliveries to customers would be delayed. The other concern is that, because any pass through of price increases would increase product prices throughout the market, not just Fujitsu's prices, there is a risk that customers could delay the timing of spending on projects or seek to reduce the scale of projects. We are already working on ways of dealing with this situation. For example, we are seeking to procure components earlier because we anticipate that we will need longer lead times to get supplies, and we are also asking customers to place their orders earlier.

On the other hand, broadly speaking, we think the price increases for memory chips are a reflection for higher demand by data center providers and AI servers. From a big picture perspective, we view it as part of the larger trend of cloud-based computing and the use of data and AI.

As you know, Fujitsu is not just a provider of hardware. The scale of our services business is much larger. In the context of the expansion of our modernization business and Uvance business, we think the market trends I just mentioned could work to our advantage. Regardless, while being aware of potential risks, at the present time we think we can minimize the impact of higher

memory chip prices through a combination of reducing overall costs and passing through price increases, while also expanding our services business.

We are already seeing that there will be some procurement difficulties in the fourth quarter, so we are already working to minimize the damage through the measures I just outlined.

Q2: It seems that the profitability of Regions (Japan) has significantly improved. Please tell us what is behind this improvement. In today's explanation, you mentioned that the proportional use of generative AI has expanded at a much faster pace than you had imagined. Did this also contribute to an improvement in margins?

A2: For the first nine months, the operating profit margin of Regions (Japan) improved by 1.9% compared to the previous year, and please understand that its gross margin had a similar pattern of improvement. Looking at results on a quarterly basis, it may appear that Regions (Japan)s revenue and profit jumped up in the third quarter, but during the first half, investments in the consulting business increased compared to fiscal 2024, and there were also some unprofitable projects. By contrast, it just so happened that the third quarter coincided with slightly better orders and revenue, but it was not as if anything significantly changed in the third quarter. On the whole, the business of Regions (Japan) is performing well.

As for productivity improvements from the use of generative AI, it is not just Regions (Japan), because our Global Solutions business is in the same situation, and in addition to our ongoing efforts at standardization and automation, the use of generative AI is also expanding. At present, about 60% of projects use generative AI in some form or another. At the end of the first quarter, it was 10%, at the end of the second quarter it was around 30%, and now we have reached our fiscal year-end target of 60% slightly earlier than expected. Still, processes using generative AI are quite limited. Actually, even though a small number of processes employ generative AI, because of the large scale of our development work, when 60% of projects use it even a little, we can reduce costs by several billions of yen, but that is just the beginning. The impact of cost efficiencies for the first nine months was just over 30 billion yen, and the use of generative AI is beginning to be an important part of that, but we view it as part of a mix of ways to reduce costs, including the use of the Japan Global Gateway and the use of offshoring. Put another way, because the impact of using generative AI is still quite limited, the scope for further improving our gross margin is very significant.

Now we are working to steadily broaden its use and deepen its use within our development processes. At the same time, we are challenging ourselves to develop more transformative uses of generative AI. For example, for some industries and market areas, we are trying to automate the use of generative AI for all processes, from design to coding, testing, applications, and operations. We are testing it on roughly 300 projects from fiscal 2024, and some cases have emerged in which the application of generative AI to all processes worked well. In the best case, development work that ordinarily requires three man-months to complete was completed in 3-4 hours, resulting in a productivity improvement of nearly 100 times. I am not saying that such a transformative initiative can be applied to all projects, but if we pursue it in parallel with steady improvements, of course we will reduce costs, but we believe it will also accelerate our speed in

providing services and improve quality. Rather than just pursuing cost reductions, we want to continue to move forward on also improving the value we deliver.

Questioner B

Q1: In your explanation, you mentioned that, by more closely scrutinizing development spending for each offering, you were able to improve the profit of Global Solutions. Specifically, what are you scrutinizing, and what criteria do you use to pick and choose? For example, are you using internal rate of return as the criterion?

A1: We are not looking at the internal rate of return for each offering to make spending decisions. Especially when we develop new offerings, rather than trying to create a fully formed offering from the start, our method is to work with a customer to develop it once we have reached a certain level of planning. At that point, we may decide that, rather than a standardized offering, it would be best to keep it as an individualized project. We also look at the customers' reaction, and if we think it might be something that could succeed as a standardized offering, our priority is on quickly launching it, even if it adds to the cost. For example, in the Trusted Society area, offerings such as Software-Defined Vehicles, digital twins for urban infrastructure, and optimizing logistics using AI have attracted strong customer interest across all industries, so we will invest further in them. From a manufacturer's perspective, there may be a tendency to want to make all different kinds of products, but with our Uvance development work, we try to pick and choose quickly and move with agility. We are still in the early growth phase of our offerings, and if the scale of our business grows, we may start using a criterion like internal rate of return, but now we are using the process I just described.

Q2: Please describe how higher memory chip prices will affect your services business. If the market price of servers goes up, customers may decide to cut back on their spending, which would have a negative effect. On the other hand, they may decide to quickly move to the cloud, accelerating spending in your modernization business as a positive effect. How are you viewing these potential tradeoffs?

A2: We cannot be overly optimistic, but we think the impact on our services business will be positive. The backdrop to higher server prices is the major trends of shifting to the cloud and AI servers. We anticipate that rather than building servers, the customers would move toward developing applications in the cloud, or using them as services. In our case, we have decided to end the sales of mainframes at the end of 2030, and the reason why is because we think societal infrastructure should be in the cloud. Therefore, our view is that a slowdown in server purchases should expand business opportunities for our services business, and we will make services proposals to them.

Q3: In your Intersegment Elimination/Corporate segment, while you are working to generate corporate cost efficiencies, I think you are also accelerating upfront investments, such as AI. What is the upshot of these different trends? Also, what is your expectation for this segment in next fiscal year and beyond?

A3: In areas such as AI and quantum computing, we are expanding investments to a certain extent. On the other hand, our business portfolio has shifted to the services business, and because

it is more narrowly focused now, we are pursuing efficiencies in our corporate units. Looking at the first nine months, we increased R&D spending, but because we generated corporate cost efficiencies, total expenses went down. Going forward, AI will be deployed in our Accounting and Human Resources units, and we will pursue further standardization globally. By doing so, we can generate further efficiencies in our corporate-related costs. We can then use the human resources that will be freed up through these moves and, using the expertise they have accumulated, shift their roles to provide value to customers. At present, the pace of these moves is still slow, but we are moving ahead with these initiatives.

Questioner C

Q1: You mentioned that you believe that you will be able to curb the impact of price hikes in memory chips. Is this something that you foresee with a high degree of certainty? For example, is it something you can anticipate with enough clarity to say that you will not take a negative hit from costs in the fourth quarter?

A1: In the third quarter, despite experiencing some difficulties due to delays in component procurement, this has mostly been resolved. Currently, there is not much of an impact from the rise in cost of memory chips. We have also resolved the procurement of components, so we believe that we will not take a significant hit from it in the fourth quarter. But, in the extreme scenario in which the price was to further increase and we are unable to procure any of the components, we believe that there is a possibility that an incredibly challenging situation could arise sometime in fiscal 2026. As for PCs, they are manufactured at Fujitsu Client Computing (FCCL), and their parts are procured through a global framework. We believe we will be able to handle this by utilizing not only our own procurement power, but also our partnership with FCCL and its influence.

Q2: I think that there have been cases in which the cost of memory chips has gone up after Fujitsu received an order from a customer. It appears that you were able to absorb that increase in cost incredibly quickly. How was this cost absorbed?

A2: We place orders for one to two months' worth of components by keeping an eye on order lead times and anticipating the amount of components needed. Through this, we are able to absorb increases in price during this period. It would be challenging to do so for a longer period of time than this, so we have also asked customers to place their orders as soon as possible. Currently, by implementing this matter of course measure, we believe that we will be able to sufficiently handle the increases in costs in the fourth quarter.

Q3: Does this mean that, even if the spot price or future price for semiconductors were to go up, because you are able to procure the semiconductors at the price from one to two months prior, you can handle this increase by aligning your procurement of the semiconductors with the lead time for customers' orders and raising prices before you are negatively affected by the price hike?

A3: That is correct. The basic principle is to have already raised the price at the point of time when new orders come in and then have the customer purchase it at the higher price.

Questioner D

Q1: You mentioned that you received a large-scale order in the field of national security in the third quarter. Please tell us about the trends in orders received and revenue in the field.

A1: In the field of national security, quarterly figures fluctuate depending on when we are able to receive large-scale projects. Looking at the figures by fiscal year, we anticipate that fiscal 2025 will be on the same level as the prior fiscal year. Fiscal 2024 had a high level of orders, and the focus for defense-related procurement in fiscal 2025 was slightly outside of Fujitsu's domain, so orders and revenue have not significantly grown. We anticipate that the next big wave will come starting in the second half of fiscal 2026.

Q2: Please tell us about direction of revenue for local governments and governmental institutions.

A2: In the public sector as a whole, there continue to be DX initiatives and there are many modernization projects, so we anticipate that revenue will increase. On the other hand, in standardization projects for local governments alone, we are using all of our resources, so we expect that its revenue will flatten out. The demand for DX projects from local governments and governmental institutions is growing, and we are struggling with how much we are able to scrape together resources while handling them. We believe that revenue will continue to grow in this area in fiscal 2026.

Questioner E

Q1: I believe that fiscal 2026 will be a period in which more customers will review their IT investments. In the US, there has been a trend to reduce personnel by using generative AI. From Fujitsu's perspective, how do customers in Japan view the arrival of AI, and what do you feel is their perspective on investment and personnel?

A1: What we provide customers with is often not general-purpose generative AI, but rather enterprise generative AI that is deeply integrated into the customer's business process. By combining enterprise generative AI with multiple AI agents, we are working to achieve higher value, and believe that customers will also proceed in this direction going forward.

While there may be an aspect of generative AI utilization in which it is used to reduce personnel, it is generally viewed within the context of improving productivity. In Japan in particular, as the working age population continues to decline, there is a sense of urgency about how productivity must be increased to maintain business. We believe that Japan is in a phase in which the utilization of generative AI will be essential to achieve this.

Q2: In the System Products and Ubiquitous Solutions segments, excluding software, such as middleware, and maintenance, what is the scale of revenue for each segment's so-called pure hardware, including servers and PCs?

A2: We do not disclose revenue by each individual device. To give you a reference, revenue for middleware is recorded in Service Solutions. Products procured from outside companies, Fujitsu Frontech's hardware products, and hardware maintenance are included in System Products, and

we do not disclose revenue for individual products, such as servers, alone. In Ubiquitous Solutions as well, revenue is recorded for the PC business as a whole, including such items as maintenance.