FUJI SOFT INCORPORATED

Q2 Financial Results Briefing for the Fiscal Year Ending December 2023

August 10, 2023

Presentation

Moderator: So, to begin, I would like to introduce today's attendees.

Satoyasu Sakashita, President & Representative Director.

Sakashita: I am Sakashita. Best regards.

Moderator: Tateyuki Oosako, Director & Senior Executive Operating Officer.

Oosako: I am Oosako. Best regards.

Moderator: Mari Morimoto, Director and Executive Officer.

Morimoto: My name is Morimoto. Thank you for your cooperation.

Moderator: Masashi Umetsu, Director and Operating Officer.

Umetsu: My name is Umetsu. Thank you for your cooperation.

Moderator: That is all those present. Thank you very much for your cooperation.

First, Sakashita will explain the financial results and the status of the Corporate Value Enhancement Committee. There will be time for questions and answers after the presentation.

Now, President Sakashita, please accept my best regards.

1. Consolidated Financial Highlights-1 (1H Results Jan-Jun)

Net sales increased due to strong results in the system construction business.

◇ Net sales rose 7.2% year on year, to 151,480 million yen, due primarily to the strong results of infrastructure construction and backbone system development projects in operation software, mainly for the financial services and manufacturing sectors, of development projects on automotive systems in the field of EVs and advanced technologies in embedded software, and of development projects on machine control systems for the industrial and consumer electronics fields.

Operating profit rose due to higher sales, despite an increase in labor costs and expenses.

◇ Operating profit increased 8.8% year on year, to 9,790 million yen, mainly reflecting higher sales and productivity improvements, offsetting an increase in labor costs, recruiting expenses, and other costs associated with reinforcing the structure.

◇ Ordinary profit rose 2.1% year on year, to 10,166 million yen, due to the increase of sales, offsetting a decrease in foreign exchange gains.

◇ Profit attributable to owners of parent stood at 6,061 million yen, up 3.6% year on year, due to the increase of sales and sales of property, plant and equipment.

(Million yen)

	FY2022 1H Results	FY2023 1H Results	YoY change (Amount)	YoY change (%)	FY2023 1H Plan	FY2023 Comparison with the plan
Net sales	141,328	151,480	+10,152	107.2%	151,800	99.8%
Operating profit	8,995	9,790	+795	108.8%	9,600	102.0%
Operating profit margin	6.4%	6.5%			6.3%	
Ordinary profit	9,954	10,166	+212	102.1%	9,800	103.7%
Ordinary profit margin	7.0%	6.7%			6.5%	
Profit attributable to owners of parent	5,850	6,061	+210	103.6%	6,100	99.4%
Profit margin attributable to owners of parent	4.1%	4.0%			4.0%	

2

Sakashita: I will now explain our financial results for the fiscal year ending December 31, 2023.

First, let me give you the consolidated financial highlights.

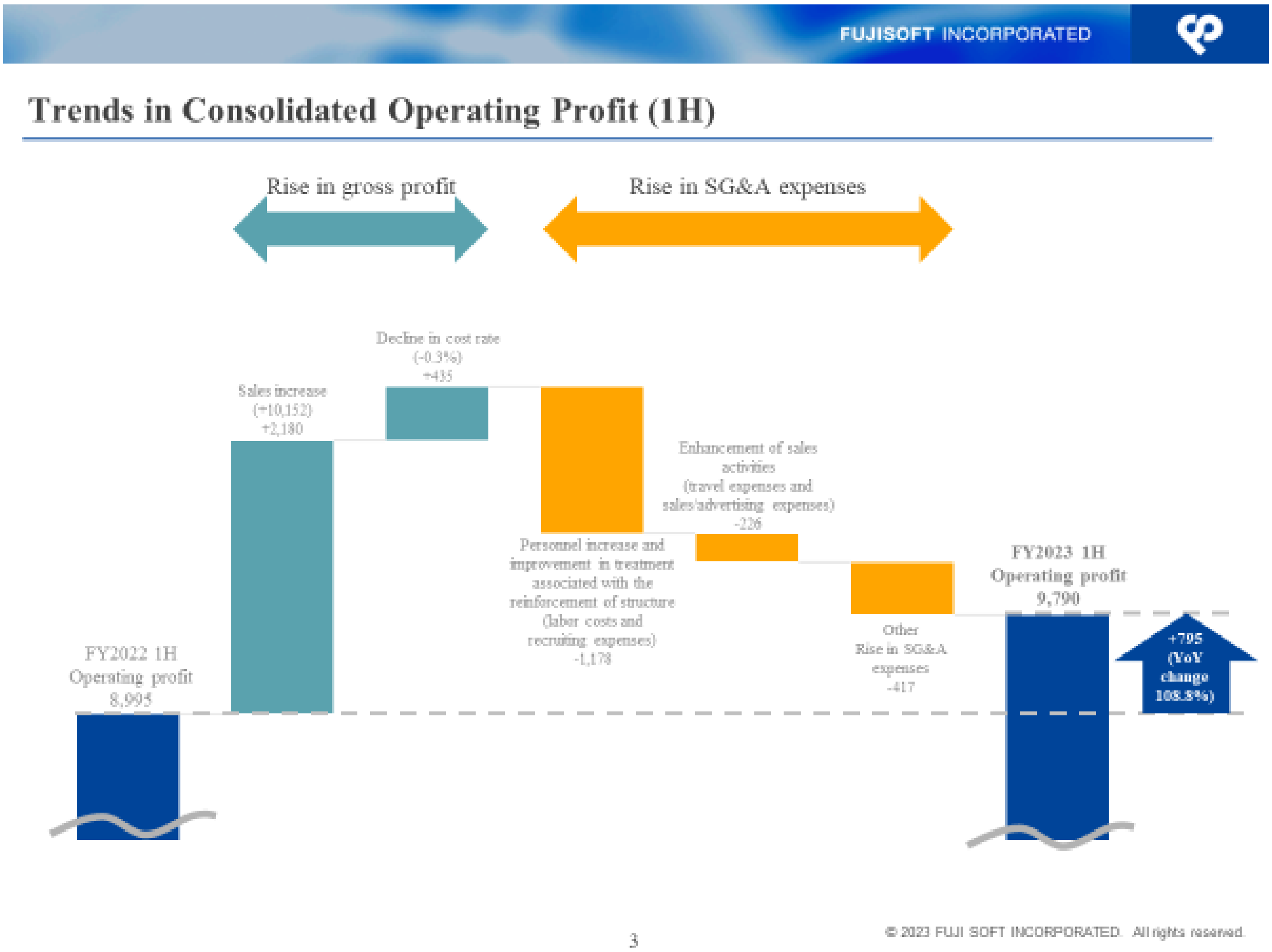
As you can see from the figures below, sales were just under JPY151.5 billion, operating income just under JPY9.8 billion, ordinary income JPY10.1 billion, and net income just over JPY6 billion. YoY, the numbers are 107%, 108%, 102%, and 103% for revenue and profit growth, respectively. The internal plan is slightly negative, but is almost in line with the plan.

As noted above, in terms of sales, infrastructure and mission-critical system development, mainly in the financial and manufacturing sectors, is performing well in the business sector, and in the embedded systems sector, automotive and machine control systems are doing well.

Operating income increased due to higher revenues and improved productivity, although there were increases in personnel costs and expenses. Operating income increased due to higher revenues and improved productivity, although some expenses were higher due to system enhancements and other factors.

Ordinary income was positive, although foreign exchange gains decreased slightly.

Quarterly income was approximately 103.6% of the previous year's level due to increased revenues and sales of property, plant and equipment.



The graph shows that the increase in revenue, decrease in the cost of sales ratio, reinforcement of the system, sales activities, and increase/decrease in other SG&A expenses, etc., will result in this positive figure.

1. Consolidated Financial Highlights-2 (2Q Results Apr-Jun)

Net sales rose 4.7% year on year.

The cost of sales margin declined to 78.6% (improved).

◇ The cost of sales margin decreased (improved) 0.4 percentage points from the pervious year, mainly reflecting the improvement of productivity in the system construction business. (Year-ago level: 79.0%)

SG&A expenses increased 1,024 million yen year on year.

◇ SG&A expenses increased 1,024 million yen year on year due to an increase in labor costs and expenses associated with a personnel increase for responding to strong orders.

◇ Operating profit rose 0.8% year on year, to 3,934 million yen.

(Million yen)

	FY2023 1Q Results	YoY change (Amount)	YoY change (%)	FY2023 2Q Results	YoY change (Amount)	YoY change (%)
Net sales	75,631	+6,756	109.8%	75,849	+3,395	104.7%
Cost of sales	58,919	+5,193	109.7%	59,585	+2,341	104.1%
Cost of sales margin	77.9%			78.6%		
Gross profit	16,711	+1,562	110.3%	16,263	+1,054	106.9%
SG&A expenses	10,855	+796	107.9%	12,329	+1,024	109.1%
Operating profit	5,855	+766	115.0%	3,934	+29	100.8%
Operating profit margin	7.7%			5.2%		

4

If you look at the two quarters of the fiscal year, as you can see here, shows a slight increase from the double-digit figures of Q1, but the increase in revenues and income has been modest. In particular, the cost of sales ratio is still high in some areas at 78.6%, but since it was 79% the previous year, it is improving.

Selling, general and administrative expenses are increasing.

As a result, operating income was slightly higher than the previous year.

2. Results by Group Company

	FY2023 Net sales 1H Results	FY2023 Net sales Component ratio	Cost rate	SG&A rate	FY2023 Operating profit 1H Results	FY2023 Operating profit Component ratio	Operating profit margin
Consolidated	**151,480**	**100.0%**	**78.2%**	**15.3%**	**9,790**	**100.0%**	**6.5%**
FUJI SOFT INCORPORATED	106,024 (+7.4%)	70.0%	79.5%	14.2%	6,721 (+27.0%)	68.6%	6.3%
Net sales increased due primarily to the strong results of infrastructure construction and backbone system development projects in operation software, mainly for the financial services and manufacturing sectors, of development projects in the fields of EVs and advanced technologies for automotive systems in embedded software, and of development projects for machine control systems in the industrial and consumer electronics fields. Operating profit increased thanks mainly to higher sales and productivity improvement.							
CYBERNET SYSTEMS Co., Ltd.	10,003 (+2.7%)	6.6%	60.5%	33.1%	640 (-38.0%)	6.5%	6.4%
Net sales increased, mainly reflecting the renewal of maintenance contracts in Japan in the solution simulation service business and the strong performance of the IT solution service business. Operating profit decreased due in part to an increase in labor costs and recruiting expenses associated with human capital investment. The decline also reflected an increase in travel expenses and costs for sales support activities associated with an increase in the volume of sales activities.							
VINX CORP.	17,071 (+5.5%)	11.3%	76.2%	13.5%	1,771 (+12.4%)	18.1%	10.4%
Net sales increased chiefly due to growing needs for DX in the retail industry in Japan and the deepening of relationships with existing customers. Operating profit increased due to higher sales.							
CYBER COM Co., Ltd.	8,572 (+3.7%)	5.7%	79.1%	13.1%	670 (+4.8%)	6.9%	7.8%
Net sales increased thanks to the strong performance of operation system development projects, mainly including finance systems, and control and system development projects, mainly including automotive systems, in the software development business. Operating profit rose, thanks to higher sales and the improved cost of sales margin (0.3%).							
FUJI SOFT SERVICE BUREAU INCORPORATED	6,021 (+8.2%)	4.0%	82.2%	12.5%	318 (-17.8%)	3.3%	5.3%
Net sales increased with the contribution of pension-related operations, which were started in the previous fiscal year, to both call center services and BPO services. Operating profit decreased due to the significant impact of unprofitable projects.							
Other subsidiaries and consolidation adjustments	3,789	2.5%	90.8%	18.0%	-333	-3.4%	-8.8%

5

Performance by group company.

This chart is slightly different from the previous charts. The order of Fuji Soft, Cybernet Systems, VINX, CyberCom, and Fuji Soft Service Bureau remains the same. Here, we have arranged the sales and profit composition ratio, cost and SG&A expense ratio, and operating income for the Group as a whole, so that you can see the position and size of each group.

The main body of the Company's sales and operating income were plus 7.4% and 27%, respectively, which is a significant increase in profit. This means that there are strong fields for both business and embedded systems, as I mentioned earlier.

Cybernet's sales are slightly positive, but the operating income side is quite negative. This is a situation where, as noted here, there are naturally some areas that are performing well, and revenues are increasing, but operating income is being squeezed by a much higher SG&A to sales ratio due to investments in people or increased recruiting and hiring costs, travel expenses associated with increased sales activity volume, and sales support activity costs. I think this just means that there are upfront investment costs involved.

Vinx has increased revenues and significantly increased profits because of DX or deepening of existing customers in the retail sector.

CyberCom is also at the same level, increasing revenues and profits, with strong performance in business system development, mainly in the financial sector, and control system development, mainly in the automotive sector.

The Service Bureau's revenue increased, and profit decreased. Although they are getting a variety of projects, there were a few unprofitable projects, which resulted in a decrease in profit.

The adjustment will be omitted from the explanation.

As you can see, the main unit accounts for about 70% of sales and operating profit, and Cybernet's operating profit margin is also low this term, but the Company has basically been able to make double-digit operating profit now, so we have rebuilt this area.

On the VINX side, the Company is in good shape, with both sales and profits on an increasing trend, with operating income also exceeding double digits.

CyberCom is also increasing revenues and profits, with operating income also improving. This is a good example of how we are doing well, although various further enhancements are needed.

The bureau is a temporary problem, but we will extend our earning power in this area a little more.

We hope that you will see the Group's positioning from this perspective.

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3. Consolidated Net Sales/Operating Profit by Segment

(Million yen)

	FY2023 Net sales		YoY change (Amount)	YoY change (%)	FY2023 Operating profit		YoY change (Amount)	YoY change (%)
	1H Results	Component ratio			1H Results	Operating profit margin		
Consolidated total	151,480	100.0%	+10,152	107.2%	9,790	6.5%	+795	108.8%
SI Business	143,152	94.5%	+9,365	107.0%	8,935	6.2%	+708	108.6%
System Construction	88,218	58.2%	+7,957	109.9%	6,056	6.9%	+914	117.8%
Embedded/Control Software	38,983	25.7%	+2,508	106.9%	3,253	8.3%	+239	107.9%
Operation Software	49,234	32.5%	+5,448	112.4%	2,803	5.7%	+675	131.8%
Products and Services	54,933	36.3%	+1,408	102.6%	2,879	5.2%	-206	93.3%
Products and Services	47,753	31.5%	+1,737	103.8%	2,569	5.4%	+19	100.8%
Outsourcing	7,180	4.7%	-329	95.6%	309	4.3%	-226	57.8%
Facility Business	1,461	1.0%	+120	109.0%	480	32.9%	+107	128.7%
Other Businesses	6,867	4.5%	+665	110.7%	374	5.5%	-19	95.1%

Highlights of Sales by Segment

- Embedded/Control Software

Net sales increased 6.9% year on year, despite the decline in mobile systems and social infrastructure systems that was more than offset by the steady performance of development projects in the field of EVs for automotive systems and development projects on machine control systems for the industrial and consumer electronics fields.
Operating profit also rose 7.9% year on year following sales growth.

- Operation Software

Net sales increased 12.4% year on year thanks to the strong results of infrastructure construction and backbone system development projects in a number of fields, such as financial services and manufacturing.
Operating profit rose 31.8% year on year due to the sales increase and productivity improvement.

- Products and Services

Net sales increased 3.8% year on year thanks mainly to the strong performance of sales of licenses from other companies and POS-related FUJI SOFT products at subsidiaries.
Operating profit also rose 0.8% year on year following sales growth.

- Outsourcing

Net sales decreased 4.4% year on year, because of a decrease in IT services for overseas retailers.
Operating profit decreased 42.2% year on year due to a sales decrease and the impact of the rising electricity price on data center services.

6

This is breakdown by segment.

As you can see, both sales and profits are on a growth trend, with some variation, but on an increasing revenue and profit basis. Compared to the same period last year, product services are slightly negative and outsourcing is negative, but the rest of the trend is positive across the board.

You can read the comments, but various areas of embedded/control systems are doing well.

Business software, again, is also performing well. Especially in terms of operating income, this means that there has been a great deal of improvement in the operational areas.

Product and service sales were slightly higher than the previous year due to strong sales of third-party licenses and in-house POS-related products at subsidiaries. Operating income was also positive.

Outsourcing was lower than the previous year due to declines at overseas retailers and at subsidiary-related places. This decrease in revenues and the data center business, which I will talk about later, were both dragged down by the sharp rise in the price of electricity. As a result of these trends, product and service income decreased from the previous year.

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4. Consolidated Income Statement

(Million yen)

	FY2022 1H Results	FY2023 1H Results		YoY change (Amount)	YoY change (%)	FY2023 1H Plan	FY2023 Comparison with the plan
Net sales	141,328	151,480		+10,152	107.2%	151,800	99.8%
Cost of sales	110,969	118,504		+7,535	106.8%	–	–
Cost of sales margin	78.5%	78.2%	(1)				
Gross profit	30,358	32,975		+2,616	108.6%	–	–
Gross profit margin	21.5%	21.8%					
Selling, general and administrative expenses	21,363	23,184		+1,821	108.5%	–	–
SG&A expense ratio	15.1%	15.3%					
Operating profit	8,995	9,790		+795	108.8%	9,600	102.0%
Operating profit margin	6.4%	6.5%				6.3%	
Non-operating income	1,101	676	(2)	-425	61.4%	–	–
Non-operating expenses	151	143		-8	94.6%	–	–
Share of (profit) loss of entities accounted for using equity method	9	-156		-166	-	–	–
Ordinary profit	9,954	10,166		+212	102.1%	9,800	103.7%
Ordinary profit margin	7.0%	6.7%				6.5%	
Extraordinary income	157	489		+332	-	–	–
Extraordinary losses	356	117		-238	33.0%	–	–
Profit before income taxes	9,755	10,539		+783	108.0%	–	–
Total income taxes	2,819	3,547		+727	125.8%	–	–
Profit	6,935	6,991		+56	100.8%	–	–
Profit attributable to non-controlling interests	1,084	930		-154	85.8%	–	–
Profit attributable to owners of parent	5,850	6,061		+210	103.6%	6,100	99.4%
Profit margin attributable to owners of parent	4.1%	4.0%				4.0%	

Points of Income Statement

(1) Cost of sales margin (-0.3pt)

The cost of sales margin improved, despite the impact of unprofitable projects at some Group companies that was more than offset by the improvement of productivity at FUJI SOFT.

(2) Non-operating income (-425 million yen)

Decreased in foreign exchange gains

7

Income Statement.

We will omit this part of the report because the cost ratio was a little high and the effect of the exchange rate was only slightly reduced.

5. Consolidated Balance Sheet

(Million yen)

	FY2022 End of FY2022	FY2023 End of 1H		Change (Amount)	FY2022 End of 1H (Reference)
Current assets	112,730	114,036		+1,305	114,075
Cash and deposits	32,736	33,099		+363	39,472
Notes and accounts receivable - trade	56,634	57,020		+385	53,827
Securities	8,500	8,300		-200	7,500
Inventories	5,552	4,977		-574	4,284
Other	9,307	10,638		+1,331	8,981
Non-current assets	128,104	128,362		+257	125,173
Property, plant and equipment	99,160	99,084		-76	96,135
Intangible assets	5,426	5,254		-171	4,601
Investments and other assets	23,518	24,024		+505	22,436
Total assets	240,835	242,398		+1,562	237,249
Current liabilities	71,945	67,949		-3,995	72,956
Notes and accounts payable - trade	14,083	14,256		+173	14,900
Short-term borrowings	17,855	14,833	(1)	-3,021	20,856
Accrued expenses / provision for bonuses	12,974	15,147		+2,172	11,025
Income taxes payable	2,828	4,439		+1,610	3,145
Provision for loss on construction contracts	421	255		-166	197
Other	23,782	19,018	(2)	-4,764	22,839
Non-current liabilities	16,145	15,987		-158	16,215
Long-term loans payable	8,783	8,567		-215	9,007
Other	7,362	7,419		+57	7,208
Total liabilities	88,091	83,937		-4,153	89,172
Total net assets	152,744	158,461		+5,716	148,076
Total liabilities and net assets	240,835	242,398		+1,562	237,249

Points of the Balance Sheet

(1) Short-term loans payable (-3,021 million yen)

The decline was the result of the planned repayment of funds.

(2) Other (-4,764 million yen)

The decline was the result of the payment of consumption tax, social insurance premiums and other factors.

The balance sheet also shows a slight decrease in short-term borrowings and a slight decrease in other areas, so this is not a very large change.

6. Consolidated Cash Flow Statement

(Million yen)

	FY2022 1H Results	FY2023 1H Results	YoY change (Amount)
Cash flows from operating activities	5,278	8,615	+3,337
Cash flows from investing activities	-7,714	-3,934	+3,780
Cash flows from financing activities	-572	-5,927	-5,355
Effect of exchange rate change on cash and cash equivalents	700	234	
Net increase (decrease) in cash and cash equivalents	-2,308	-1,011	
Cash and cash equivalents at beginning of period	40,876	33,086	
Cash and cash equivalents at end of period	38,568	32,075	

Highlights of Cash Flows

- Cash flows from operating activities
  Net cash provided by operating activities stood at 8,615 million yen due to an increase in money received, attributable to higher sales and profits. The amount increased 3,337 million yen year on year due in part to an increase in the payment of income taxes associated with the sales of securities in the previous fiscal year.
- Cash flows from investing activities
  Net cash used in investing activities was 3,934 million yen, despite money received due to sales of property, plant and equipment, offset by expenses for construction of the Company's own office that had previously been planned and the acquisition of securities by Group companies. The amount increased 3,780 million yen year on yea due to the withdrawal of time deposits.
- Cash flows from financing activities
  Net cash used in financing activities stood at 5,927 million yen, mainly reflecting the repayment of borrowings and payment of dividends. The amount decreased 5,355 million yen year on year.

Consolidated cash flow.

Cash flow from operating activities was a positive JPY8.6 billion, due to increased revenues and increased deposits. Since there was an increase in payments for the sale of securities in the previous period, the difference for the same period was a positive JPY3.3 billion.

Regarding cash flow from investing activities, in the period under review, there was a cash inflow from the sale of property, plant, and equipment. In addition, the construction of our own offices and the acquisition of marketable securities by group companies, which we had planned to do until now, resulted in an additional outflow of JPY3.9 billion.

Net cash used in financing activities decreased by JPY5.3 billion from the same period last year, as JPY5.9 billion was used for the repayment of loans and dividend payments.

7. Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	FY2023 1H Results							
	Order backlog at beginning of term	YoY change (%)	Orders	YoY change (%)	Net sales	YoY change (%)	Order backlog at end of term	YoY change (%)
SI Business total	72,963	125.1%	144,824	103.9%	143,152	107.0%	74,635	111.2%
System Construction	46,427	121.3%	88,419	106.2%	88,218	109.9%	46,628	113.1%
Embedded/Control Software	14,884	110.2%	39,641	108.6%	38,983	106.9%	15,542	114.8%
Operation Software	31,542	127.4%	48,778	104.4%	49,234	112.4%	31,086	112.2%
Products and Services	26,536	132.3%	56,404	100.4%	54,933	102.6%	28,006	108.3%
Products and Services	24,717	135.7%	49,169	101.1%	47,753	103.8%	26,134	109.0%
Outsourcing	1,818	98.2%	7,234	95.9%	7,180	95.6%	1,872	99.1%

Highlights of Orders and Order Backlogs

● Highlights in System Construction

- Embedded/Control Software
  Orders received rose 8.6% year on year due in part to an increase in automotive and machine control systems.
  The order backlog at the end of the term increased 14.8% year on year.

- Operation Software
  Orders received, increased 4.4% year on year with growth in development projects for the manufacturing and financial services industries.
  The order backlog at the end of the term increased 12.2% year on year.

● Highlights in Products and Services

- Products and Services
  Orders received increased 1.1% year on year due to strong performance in sales of products from other companies and FUJI SOFT products.
  The order backlog at the end of the term increased 9.0% year on year.

- Outsourcing
  Orders received decreased 4.1% year on year due to a decline in orders received for IT services intended for overseas retailers.
  The order backlog at the end of the term decreased 0.9% year on year.

10

This is the sales orders and order backlog.

The following chart shows the change in orders and sales during the period and the backlog of orders at the end of the period for those orders that were quite large during the period. This shows that we have a large order backlog and have been practicing sales while receiving orders to achieve this result in the current term. Slightly, the orders received during this period appear to be lower than the numbers here, but for now, we still have a large enough order backlog.

Again, embedded/control is strong in these areas, and the same is true for business systems. We believe that the same applies to products and services, and that orders and backlogs can be explained in much the same way as they are explained now.

8. Dividend

Interim dividends will be 68 yen per share as forecasted at the beginning of the fiscal year.

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Interim dividends

	At the end of the second quarter of FY2023	Dividend payout ratio	Most recent dividend forecast
Dividend per share	**68.00 yen**	**35.3%**	68.00 yen

- (Reference) The year-end dividend forecast has been revised as follows reflecting the stock split announced on April 25, 2023. The following revision to the dividend forecast is a result of the stock split and does not indicate any practical changes.

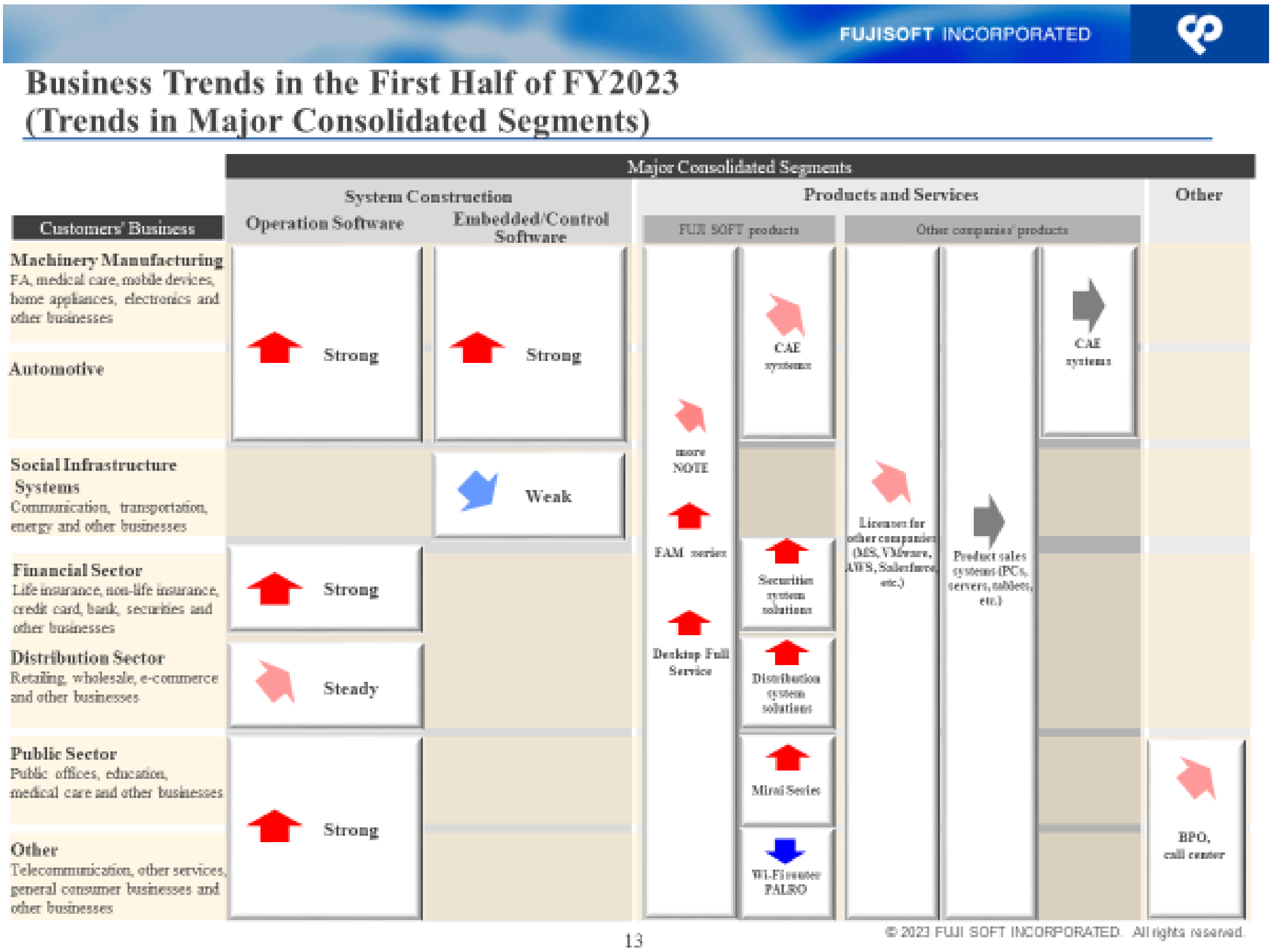
(Reference) Year-end dividend forecast

(Yen)

	At the end of the second quarter of FY2023	At the end of FY2023	Total	Dividend payout ratio
Previously announced forecasts	**68.00 yen**	**69.00 yen**	**137.00 yen**	**35.0%**
Revised forecast	**68.00 yen**	**34.50 yen**	-	**35.0%**

11

The interim dividend is JPY68 per share, as forecasted at the beginning of the fiscal year, and we intend to do the same for the dividend payout ratio. As I write here, we are conducting a stock split, and the year-end dividend amount will remain basically the same, but the effect of the stock split will be JPY69, and [inaudible] will be JPY34.50. We are pleased to report that this is basically unchanged.



To illustrate business conditions in H1 a little more clearly, both business systems and embedded systems in the system construction field are progressing well for machine control.

In the business sector, financial and distribution sectors are doing fairly well, but in the public sector and others, social infrastructure sectors have been a little sluggish.

As for products and services, CAE is slanted, but our own products are fair to good. CAE, the ones we bring from other overseas companies, are not growing much.

Our own products are tiny in size, but they are growing fairly well.

WiFi routers and PALROs are down a little bit, especially in this context, although there was a bit of demand for them, but it's like a rebound.

As for the others, they are working in this way.

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FUJI SOFT non-consolidated: Overview of Results by Segment

(Million yen)	FY2023 Net sales 1H Results	Component ratio	YoY change (%)	Cost rate	SG&A rate	FY2023 Operating profit 1H Results	Operating profit margin	YoY change (%)	Operating profit margin YoY change (Amount)
Consolidated total	106,024	100.0%	107.4%	79.5%	14.2%	6,721	6.3%	127.0%	+1.0pt
SI Business	104,234	98.3%	107.4%	80.0%	14.1%	6,237	6.0%	126.7%	+0.9pt
System Construction	70,845	66.8%	111.0%	75.1%	17.7%	5,121	7.2%	128.3%	+1.0pt
Embedded/Control Software	35,886	33.8%	108.6%	74.4%	17.0%	3,082	8.6%	111.6%	+0.2pt
Operation Software	34,958	33.0%	113.6%	75.9%	18.3%	2,039	5.8%	165.5%	+1.8pt
Products and Services	33,388	31.5%	100.4%	90.2%	6.4%	1,115	3.3%	119.9%	+0.5pt
Other companies' products	28,831	27.2%	101.0%	92.4%	4.4%	923	3.2%	137.8%	+0.9pt
FUJI SOFT products	1,428	1.3%	90.7%	60.1%	23.4%	234	16.4%	219.9%	+9.7pt
Outsourcing	3,128	3.0%	100.1%	83.8%	17.6%	-42	-	-	-
Facility Business	1,723	1.6%	107.7%	53.0%	18.8%	486	28.2%	128.3%	+4.5pt
Other Businesses	66	0.1%	87.5%	49.0%	53.9%	-1	-	-	-

System Construction	• Invested approx. 2.0 billion yen in human resources (recruitment training and education) as a growth investment to strengthen system construction
Embedded/Control Software	• Demand from Customers' related to IT investments in machine control systems and the automotive sector continues to grow (It remains on trend toward a recovery from the COVID-19 pandemic.). • Despite an increase in costs attributed to unprofitable projects, profit has been trending upward due to the improvement of productivity, mainly in the automotive sector and in machine control systems.
Operation Software	• There is a lot of momentum in the utilization of IT reflecting DX, with growth drivers being backbone system development and infrastructure construction projects mainly for the financial services and manufacturing sectors. • Although SG&A expenses increased mainly due to the strengthening of management systems and sales activities, the profit margin is trending upward reflecting the improvement of productivity.
Other companies' products	(Overview) Sales of licenses from other companies and hardware-related products (including sales of products from other companies used in commissioned development projects (sales of services incidental to development)) • Although the profit margin is low, the products will continue to be maintained and promoted to a certain degree as tools for creating contact points for obtaining new customers.
FUJI SOFT products	(Overview) Manufacturing and sales of products developed in-house (SW/HW) applying expertise in system construction technologies such as communication, cloud computing and robot technologies • Sales decreased due to a decline in sales of mainstay products that happened following the end of the COVID-19 pandemic, but the Company will respond to new demand in the market, aiming to expand its scale.
Outsourcing	(Overview) This business is promoted as a part of comprehensive services, including operation and maintenance services in system development projects and the data center business operated using the Company's own real-estate properties. • There was a temporary decline in profit attributed to an increase in costs in the data center business, reflecting the rising electricity prices.

14

This is the new segment disclosure.

As I mentioned earlier, non-consolidated sales and operating income account for 70% of the Group's total sales and operating income, and we are still examining profitability and other factors, but in order to disclose more segments and explain them more clearly to you, I will present the non-consolidated segment in detail.

System construction is divided into embedded/control, and product is divided into other companies, in-house, and outsourcing. We will explain each segment.

First, system construction has sales of about JPY70.8 billion and a profit of JPY5.1 billion. In consolidated terms, about half of the profits are generated here, and I will explain this first.

System building is a people-based business. In H1 alone, we invested about JPY2 billion in human resources, including hiring and education and training, as an investment for growth to strengthen the system construction. This can be called an investment for growth, which we have been making every year, and we have already generated an operating income of JPY5.1 billion. In addition to this, we hope to use the additional JPY2 billion in H1 of this fiscal year as an investment in human resources. We have not done a lot of calculations to determine what we would have done without this investment, but it could be said that we would have spent about JPY7 billion if we had not.

As for embedded/control and business systems, as noted here, they are performing equally well from earlier. Embedded/control is a bit more detailed, and there is an increase in cost of unprofitable projects, but productivity is also improving, so profits are increasing. Operating income is up 0.2 points, or 111.6% YoY, but the operating margin has also improved by 0.2 points.

In terms of business software, DX inquiries have been very strong, with financial, manufacturing, mission-critical, and infrastructure systems driving growth.

However, SG&A expenses are increasing due to the strengthening of the management system and sales activities. Since productivity is improving, profits are on the rise, and although it is not a high operating profit, it is JPY2 billion. The operating profit margin is a significant point from the previous year, and although it was not good in the previous year due to some troubles, I think we can see that it is improving considerably.

We have not been very open in this area until now, but we have divided our products and services into other companies' products and product/service offerings, in-house and outsourcing. Other companies are those that sell licenses or hardware-related products. Cloud licensing also comes into this area, but we also include sales of other companies' products used for contract development projects. Development ancillary services also come into this area.

With an operating profit of 3.2%, or JPY900 million out of JPY28 billion in sales, the profit margin is low, but this has a certain value as a tool for developing new customers and making new contacts. We have been working on this project because we believe that this is one of the growth investments we have made in the past. Although it is undeniable that these investments have pushed down the overall operating income margin, we are disclosing this information.

In-house products are a small percentage, but they are the part of the business that generates a reasonable amount of operating income, and this is revenue from telecommunications, cloud computing, robotics, and other sources. Sales have declined due to a drop in sales of mainstay products after the pandemic has settled down, but we are hopeful that sales will pick up a bit again in the future.

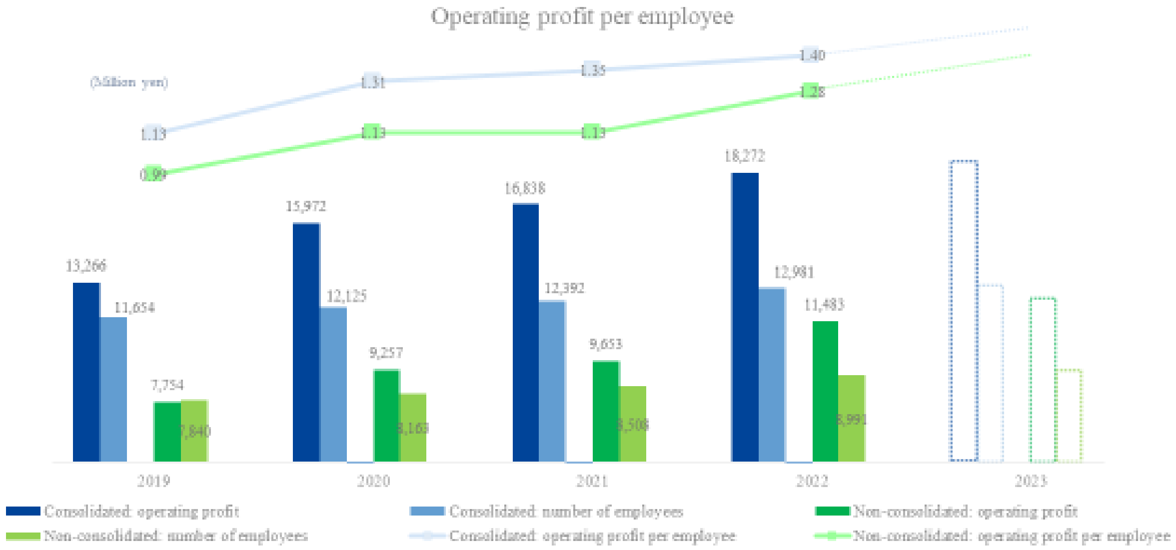
Outsourcing is also a data center business, but the rising price of electricity is putting a bit of a squeeze on earnings right now.

This is our current segment.

Production Capacity Expansion and Productivity Improvement

Productivity was improved and production capacity was expanded (recruitment) to increase the operating profit per employee.

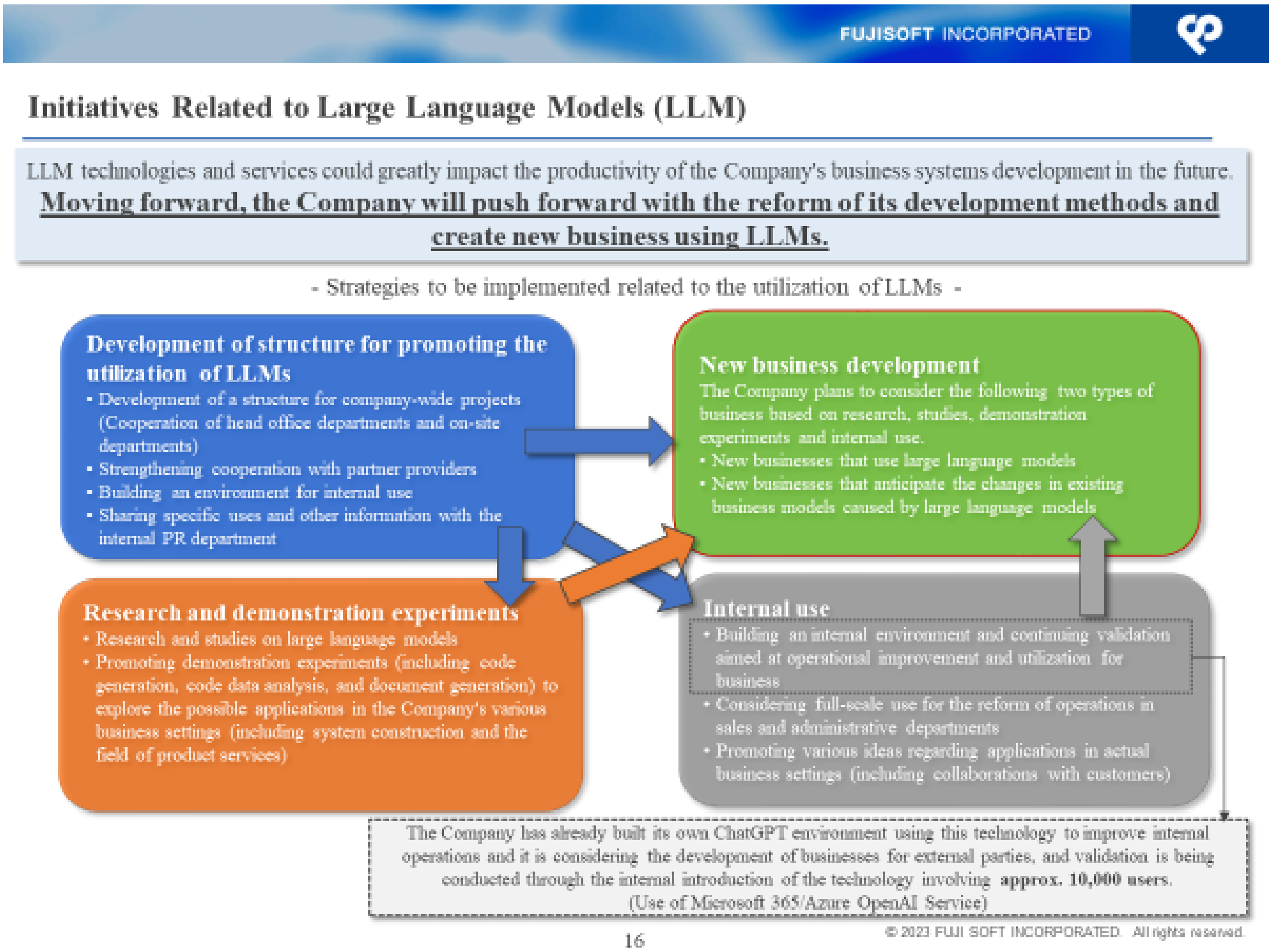
◇ The Company increased recruitment of new graduates and mid-career employees, which had been restrained temporarily in response to the COVID-19 pandemic, so that it could continue to expand its production capacity, and the Company is also working proactively to enhance the value provided to customers and reduce costs and SG&A expenses. As a result, operating profit per employee has been increasing every year.
In FY2023, the Company will continue promoting the continued increase of production capacity and improvement of productivity with a focus on initiatives enhancing its corporate value.



* Consolidated number of employees: Excluding the number of temporary employees

15

This is over time, and we are now trying to emphasize the amount of operating income per capita, which we will come back to later, so we are laying out the amount of operating income per capita on a non-consolidated and consolidated basis. Looking at operating income and its transition, we see that it has been steadily improving and growing, and we would like to further expand this area in the future.



Finally, I would like to mention a few words about large-scale language models.

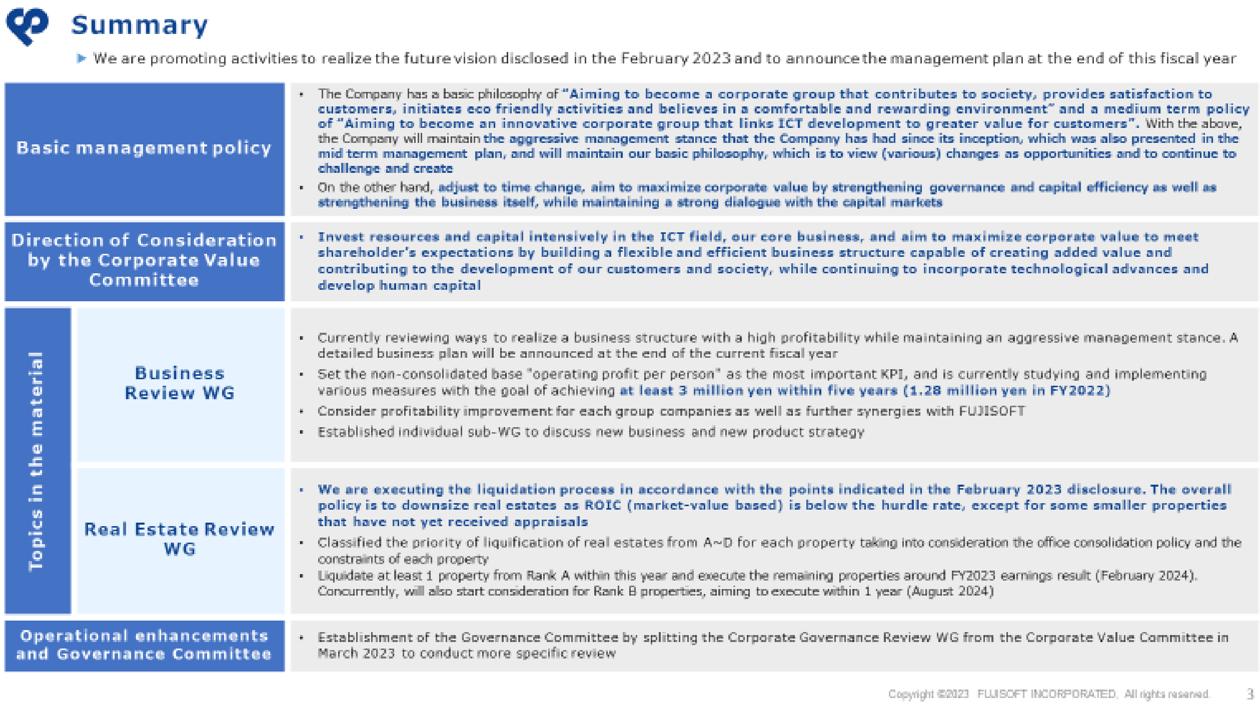
We have begun to promote various initiatives very strongly, as they will have a significant impact on the productivity of our business and system development in the future.

We have created a utilization promotion system, created a company-wide project, collaborated with head office divisions and each field division, and strengthened cooperation with Microsoft and others to immediately create an environment for internal use and begin internal publicity and guidance on how to use the system.

In this context, how are we going to use research and development and large-scale language models? We are researching various ways to use it and are making very strong progress on where it can be used in our business scene.

We will adapt the system to our own needs as we move forward. Naturally, we will create an environment that can be used by all employees, using Microsoft/Azure OpenAI Service for 10,000 people. This includes thorough use of the service in the sales and administrative departments, where it is also used for business reform. In the field and in the business scene, customers also want to use various things, so we are also working on these field projects while linking with this research and development. We are also promoting productivity improvements through in-house applications. This is what we are doing on a large scale and vigorously.

This is the status of business conditions in H1.



I would like to continue with another presentation on the activities of the Corporate Value Enhancement Committee and the Governance Committee.

As stated in the main purpose of this report, we are promoting study activities toward the release of the future vision and the management plan for the next fiscal year and beyond at the end of this fiscal year, which was February 2023.

Our basic management stance is exactly what we announced in February. In addition to this basic stance, we announced in February that we would engage in dialogue with the capital market to strengthen our governance and capital efficiency as well as our business itself.

This is a new section that we have added, and we have worded it in terms of the direction of the deliberations at the Corporate Value Enhancement Committee, in terms of what stance we are taking.

We aim to maximize our corporate value to meet the expectations of our shareholders by focusing resources and investments on our core ICT business field, capturing technological advancements, developing human resources without ceasing, and building a flexible and efficient business structure capable of creating added value, thereby contributing to the development of our customers and society. With these things in mind, the Corporate Value Enhancement Committee has been proceeding.

Today, I would like to make a presentation on the Business Verification Working Group, which is promoting studies aimed at realizing a business structure that will ensure high profitability while maintaining an aggressive management stance, which is our basic stance. We will be presenting a concrete business plan for the next fiscal year and beyond at the time of the closing of accounts, but this time we would like to explain our thinking behind the plan.

Fuji Soft, the core of our group, has set operating income per employee as the most important KPI. We aim to achieve an operating income per capita of more than JPY3 million within the next five years. This was JPY1.28 million in FY2022, and we are considering and promoting various measures to more than double this figure.

Each company in the Group is also considering individual measures to increase corporate value, while at the same time developing our own initiatives and further synergies.

Although the focus here is on organic aspects, individual sub working groups will also be formed to discuss new business and product strategies.

Today, I would like to talk mainly about this area.

Regarding the real estate working group, we are proceeding with the liquidation process in accordance with the direction reported in February. With the exception of some smaller properties that have not yet received appraisals, the overall policy is to downsize as the market value-to-earnings ratio is below the market value hurdle rate.

Then, for each property, we categorize each property with a liquidation priority from A to D, taking into consideration our office consolidation policy and the constraints of each property, etc. We aim to liquidate at least one of the A-rated properties by the end of the year and complete liquidation of the remaining properties before or after the announcement of year-end financial results.

We are simultaneously studying the B-rated properties and are aiming to implement the plan within a year.

Finally, there is the Governance Committee. In March 2023, the Corporate Governance Verification Working was split from the Corporate Value Enhancement Committee to create the Governance Committee. More specific verification is underway.

Overview of current business and direction for improving profitability

▶ Currently reviewing ways to realize a business structure with a high profitability while maintaining an aggressive management stance, which is the foundation of our company. A detailed business plan will be announced with the financial report at the end of the current fiscal year, and this will act as an interim report to explain the direction

- Consolidated financials (FY2022) (Billions JPY)

	Sales	Operating profit	Net Income	ROE
Non consolidated	192.3	11.5	9.8	8.5%
4 listed subsidiaries	80.1	6.6	4.3	11.7% (Total)
Others	6.4	0.2	0.1	---
Total	278.8	18.3	13.4	8.8%

- Considering profitability improvement in line with each company's strategy regarding the 4 listed subsidiaries (Cybernet Systems, VINX, Cyber Com and FUJI SOFT SERVICE BUREAU)
- In addition, considering to further strengthen synergies within the FUJISOFT GROUP

- Non-consolidated financials and improvement measures (Billions JPY)

	Sales	SG&A	Operating profit	OPM	Measures for improvement in FY2023
Contracted Development	131.1	22.4	9.0	6.8%	• Continued 3 bn JPY of human resource investments • As our core business, improve operating profit per person, which will be the driving force for improving the profitability of the entire company
FUJI SOFT Products	2.7	0.6	0.3	10.4%	• Aim an operating profit margin of at least 20%, excluding new investments
Other Company Products	48.9	2.6	1.2	2.4%	• Despite low margins, we intend to continue to expand the business at a certain level as a tool for creating contacts to develop new customers • In addition, since the business does not require a large capital investment, the profitability of the business is evaluated based on the profit margin on invested capital
Data Center	6.1	1.0	0.2	3.4%	• Operate without pursuing expansion of scale, aiming to improve efficiency of existing projects and contribute to value-added enhancement through collaboration with other businesses.
Facility	3.2	0.6	0.8	26.0%	• Operating profit is expected to be zero following the reduction of the real estate business
Total	192.2	27.5	11.5	6.0%	

- Reduction of SG&A ratio through operational reforms and construction of next-generation systems, etc.

Medium-term (within 5 years) quantitative target

- (Non-consolidated financial) Operating profit of more than 3mn JPY per person (FY2022: 1.28 mn JPY of operating profit per person)
- Realization of operating income growth exceeding sales growth

By combining these measures, we will strongly promote the improvement of ROE, ROIC, and CF per share

5

Let me explain a little more.

This is similar to the structure that was presented earlier in the earnings announcement, but it shows our non-consolidated sales, operating income, and net income when looking at our earnings structure for FY2022.

The structure is such that operating income accounts for about 70% of the total. Listed subsidiaries proceed on a listed subsidiary basis, and each company develops its own strategy individually.

Looking at the non-consolidated P&L composition, this JPY130 and JPY192.2 billion, the numbers are slightly off, but the breakdown of JPY2.3 billion is as follows: JPY131.1 billion for contracted services and JPY9 billion for operating income, which again means that about half of the total is held here.

As I explained earlier, in H1, we said that we would invest JPY2 billion in growth and human resources, but we are spending about JPY3 billion a year. While this is being done as a growth investment, as our core business, we will aim to improve the amount of operating income per employee, which will naturally improve the operating margin and increase the absolute amount of operating income.

The rest are our own products and the products of other companies. This is a bit of a duplication of explanation, but although the superficial profit margins are low, it is still an important measure that we are taking. Naturally, I think it would be worthwhile to do a profitability evaluation as well as a return on invested capital as a factor to consider.

I believe that the facility will eventually disappear.

We will also consider reducing SG&A expenses through business reforms and allowances for next-generation systems and other measures.

Our basic idea is to increase our non-consolidated operating income per employee to more than JPY3 million within the next five years, and to achieve an increase in operating income per employee that exceeds the level of sales. The Company is also considering to strengthen its business profitability by combining these measures from the approach of improving ROE, ROIC, and cash flow per share.

Reference: Results for the First Half of FY2023

- Consolidated financials breakdown

(Billions JPY)

	Sales	Operating Profit	Net Income
Non consolidated	106.1	6.8	5.4
4 listed subsidiaries	41.6	3.4	2.0
Others	3.8	-0.3	-0.6
Total	151.6	9.9	6.2

- Non-consolidated financials and improvement measures

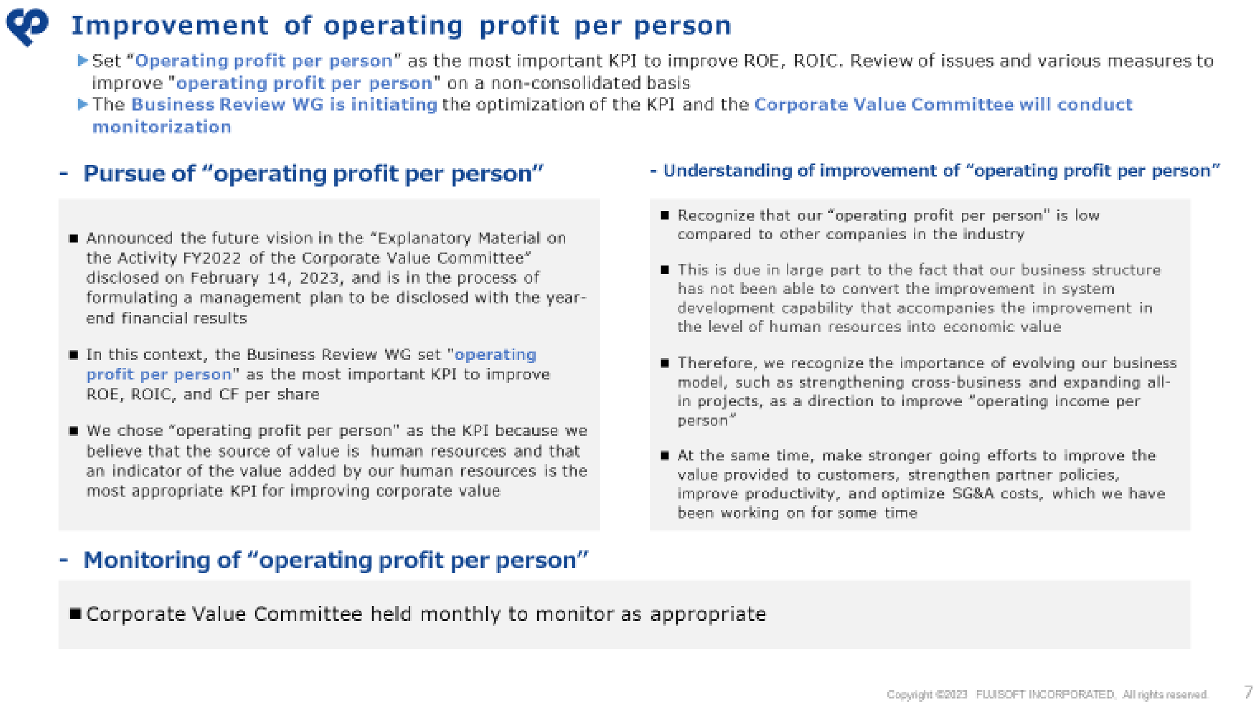
(Billions JPY)

	Sales	SG&A	Operating profit	OPM	Measures for improvement in FY2023
Contracted Development	708	125	51	7.2%	• Effectiveness of ongoing value-added measures
FUJI SOFT Products	14	3	2	16.4%	• *Margin improvements post COVID-19*
Other Company Products	288	12	9	3.2%	
Data Center	31	5	0	--	• Reduction in in earnings due to electricity and other cost pressure factors (Improvements to be made)
Facility	17	3	5	28.2%	
Total	1,060	150	67	6.3%	

 6

If you break down the first half business results announced earlier into stand-alone and separate units, the non-consolidated operating income still accounts for 60% or 70% of our total, and about 60% of that is operating income, which is about half of the total.

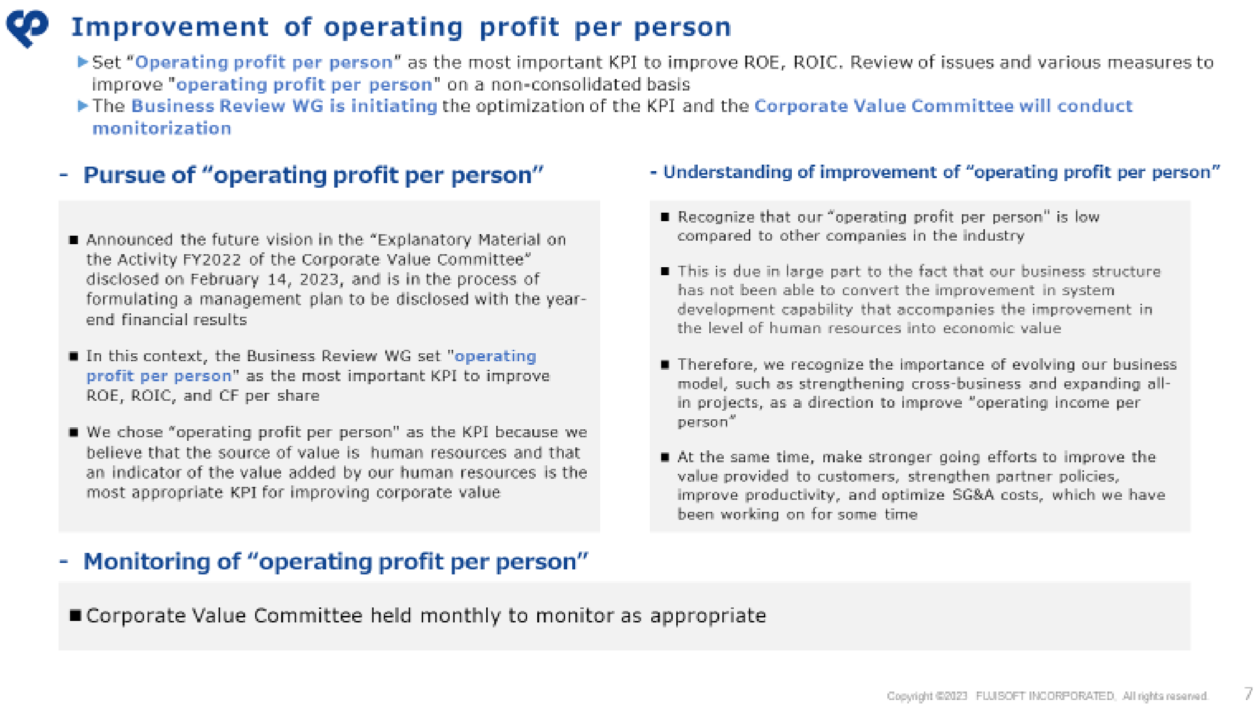
The figure here was 6.8% last year and 7.2% in the first half. Naturally, strengthening profitability has been a theme we have been pursuing for a long time, and this improvement is due to the effects of the value-added improvement measures we are continuing to implement. I think you can see that we are getting better in this area as well.



The reason why we decided to pursue the improvement of operating income per employee is that we announced our vision for the future in the "Corporate Value Enhancement Committee FY2022 Activity Report" and are currently working on the management plan to be disclosed with the year-end financial results. In order to improve ROIC, ROE, and cash flow per employee, we have decided to make operating income per employee the most important KPI. Since we are a people-based company, the amount of operating income per employee will be very important.

On the other hand, we recognize that our per-capita operating income is not high. We believe that the main reason for this is that our business structure is not fully converting the improvement in system development capability that accompanies the improvement in the level of our human resources into economic value. We recognize the importance of evolving our business model by strengthening cross-businesses that increase internal value and expanding lump-sum outsourcing projects.

At the same time, the Company will also make stronger efforts to improve the value provided to customers, strengthen partner policies, improve productivity, and optimize SG&A expenses, which it has been working on for a long time. We will monitor this as appropriate.



Specific measures are a bit detailed, so I will briefly describe them, but we will start looking at operating income per employee in terms of gross profit and reduction of SG&A and general administrative expenses. In addition, in order to improve the value provided to customers, we will continue to cultivate customers in depth and strengthen cross-business, which we have been doing, but we will do it more strongly.

We have long been promoting a variety of technological capabilities, and we will further strengthen these capabilities as well.

We have a wide range of expertise in embedded/control, telecommunications, and business systems, so we are promoting a one-stop service from upstream to operation and maintenance or strengthening each of these areas.

We will also review the division of roles with clients and modify the way we work with them. We are also in the business of providing value in the form of a single fee, such as man-months, and we are working to change our business to a results-oriented business along with this type of business.

We are trying to increase the number of lump-sum outsourced contracting projects, especially those that we can promote on our own initiative, in order to increase their value.

The partner policy is to review the relationship with customers and also to make partners more sophisticated.

Productivity improvement measures include customer relations, trouble prevention, and also applying new tools and technologies such as generative AI, test automation, environment, and various other new tools and technologies to improve productivity.

With regard to selling expenses, we will promote efficiency and sophistication by reviewing various indicators of sales activities, etc.

As for administrative expenses, we have been promoting business reform for a long time, so we are trying to visualize and optimize business processes, and based on this, we are planning to modernize the core system and our external systems and to promote DX more and more.

This means that these measures are now being materialized.

Updates from announcement in February

▶Real Estate Review WG is currently conducting review in accordance with the points indicated in the February 2023 disclosure. Progress on each point is as follows

Points from February	Update status
Comparison of hurdle rate and ROIC (market value-based)	• Except for some small properties, ROIC (market value-based) is basically to be below the hurdle rate
Reduction of real-estate business	• Classified the priority of liquification of real estates from A~D for each property • (Details on the next page)
Appointment of new external advisors	• As all Rank A properties are below 3 bn JPY, appointment of external advisor will be determined case-by-case considering the timeline and cost for liquidation • Rank B properties consist of larger properties including Akihabara and are under complex circumstances, and an advisor will be appointed to optimize the scheme, maximize the price, and ensure the fairness of the process
Execute liquidation at an appropriate time, taking into consideration office plans, impact on existing tenants	• Liquidate at least 1 property from Rank A within this year and execute the remaining properties around FY2023 earnings result (February 2024) • Concurrently, will also start consideration for Rank B properties, aiming to execute within 1 year (August 2024) • Schedule image on pg.12

 10

Next, I would like to talk about the real estate working group.

This would be done by making a public announcement in February, such as hurdle rates, real estate downsizing, using an advisor, or other appropriate timing.

As for progress, we analyzed that for hurdle rates, except for small properties, the market value rate of return is basically below the hurdle rate.

Regarding the prevention of liquidation of real estate owned by the Company, after classifying the properties into the four categories from A to D mentioned earlier, the appointment of a specialized advisor for A-rated properties will be considered on a case-by-case basis. The B-rated properties will be optimized and maximized using an advisor for properties with high value and complex circumstances, including Akihabara.

First, we aim to liquidate at least one of the A-rated properties by the end of the year and complete the liquidation of the remaining properties around the time of the announcement of year-end financial results. We are also simultaneously studying the B-rated properties, and are moving forward to do so within a year.

Evaluation of each property

▶Acknowledge that except for some small properties, **ROIC (market value-based) is basically to be below the hurdle rate**
▶Based on the above recognition, classified the liquidation priority of each property in four ranks from A to D, taking into consideration the office consolidation policy and the constraints of each property

- Comparison of ROIC and hurdle rate

Except for some small properties, ROIC (market value-based) is basically to be below the hurdle rate

- Criteria for each property

- Rank A: No obstacles to liquidation and limited financial impact, making it possible to proceed quickly
- Rank B: Certain amount of time is expected to be required
- Rank C: Careful consideration of liquidation scheme, timing and need for relocation
- Rank D: Not subject to liquidation for the time being as land is under non-transferable period

Priority for liquidation

Rank	Number of properties	Notable property	Book value (Mn JPY)	Note
A Rank	8	Ryogoku	2,573	
		Fukuoka	1,417	
		Osaka	1,271	
B Rank	9	Akihabara	29,128	One of the largest properties and under special circumstances such as the unique usage of facilities and relationships with tenants, a certain amount of time is expected to be required for the liquidation process
		Kinshicho	4,626	
		Oomiya	1,331	
C Rank	5	Shin-Nagoya	9,935	Careful consideration of liquidation scheme, timing, need for relocation as properties are fully utilized for business purposes, such as offices and data centers
		Sakuragicho	9,060	
D Rank	1	Shiodome	30,811	Non-transferable due to land acquisition clause

 11

To be a little more specific, the A-rated properties, such as Ryogoku, Fukuoka, Osaka, etc., have no obstacles to liquidation, are not too big, and can be done in the fastest possible time.

We are considering the B-rated property on the assumption that it will be liquidated, but it will take a considerable amount of time because it is one of the largest properties we own, and it involves our unique facilities, tenants, and various other factors, so we need to establish various conditions and so on. This is the kind of thing that takes a certain amount of time for adjustments, etc., but we are going ahead with it.

The C-rated properties are properties that will be carefully considered for liquidation schemes, timing, and the need for relocation, etc. The offices are data centers and full business use properties that will be carefully considered for timing and the need for relocation, etc.

I believe that the D-rated properties are not subject to liquidation for the time being because they are non-transferable for a certain period of time due to a variety of conditions.

Schedule Image

▶A standard schedule image for the sale (liquidation) of large properties is as follows and we are following such schedule
▶Meanwhile, we are prioritizing Rank A properties and liquidated in **four to six months at the earliest** by omitting some steps. For Rank B properties, we aims to liquidate them within a year at the most, including internal reviews

About 1 year for process completion

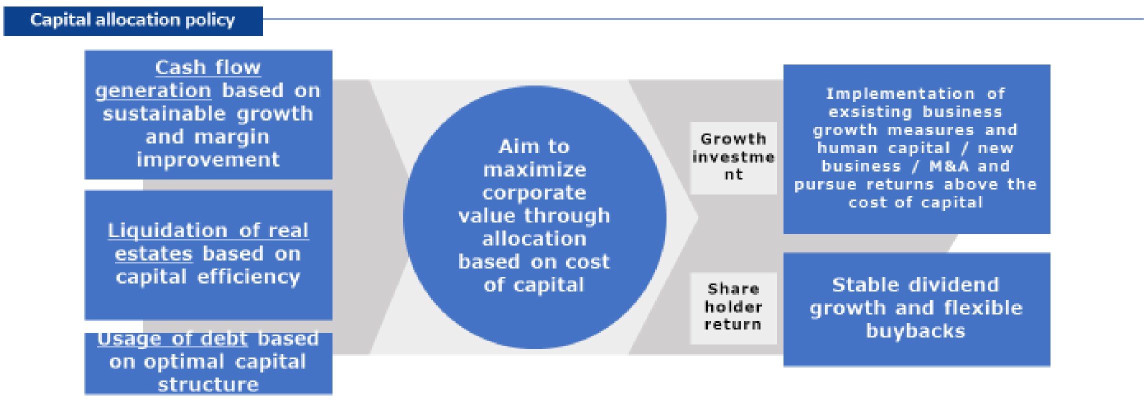
	Preparation	Tapping	Confidential agreement (CA)	Detailed consideration / preview / QA	Preferential negotiating rights / contract negotiation	Execution of sale contract / settlement
	3 months	3 months		3 months		3 months
External advisor / brokerage company	• Initial valuation • Consideration of divestiture scheme	• Preparation of long-list • Research on acquisition intentions	• Receival of CA from a buyers with intent to acquisition	• Consideration of candidate selection • Support of process for seller/buyer	• Receipt of Letter of Intent (LOI) from the buyer	• Support of minor terms • Arrangement of disclosure statement
Seller (FUJISOFT)	• Consideration of divestiture scheme • Preparation of documents	• Review of long-list	• Agreement of CA	• Q&A support from buyer • Disclosure of detailed documents	• Selection of preferred bidder • Additional DD	• Disclosure statement • Real estate purchase agreement
Buyer	–	• Initial consideration		• Detailed review and QA based on disclosure documents • Estimation of bidding price	• Submission of LOI • Additional DD	

 12

I have written a schedule image, but it is a bit technical, so if we try to do a lot of things, we can do it in four or six months at the fastest, but a D-rated property requires a lot of preparation, including internal reviews, and it can only be done with a certain amount of time. We are also new to this area, so when we tried it, we were reminded of the considerable amount of time and effort required to complete the process.

Allocation policy after liquidation

▶**Cash generated from liquidation of real estate will be determined in the following capital allocation to pursue the improvement of corporate value**
▶Amount image is currently under review and will be disclosed appropriately



Improvement of Economic Value

・Sales growth rate
・Operating profit growth rate
・CF per share
・ROE

Improvement of Social Value

・Pursue the provision of software, systems, and services of greater value to our customers
・Utilization of ICT, accumulation of knowledge, and dissemination in various forms
・Contribution to the improvement of our customers' value and competitiveness through ICT
・Contribution to the development of society and a sustainable social creation through ICT
・Maintain and expand employment of diverse human resources and development of ICT professionals
・Contribution to the promotion of diverse work styles and diversity and the creation of an environmentally sustainable society through ICT and corporate activities

 13

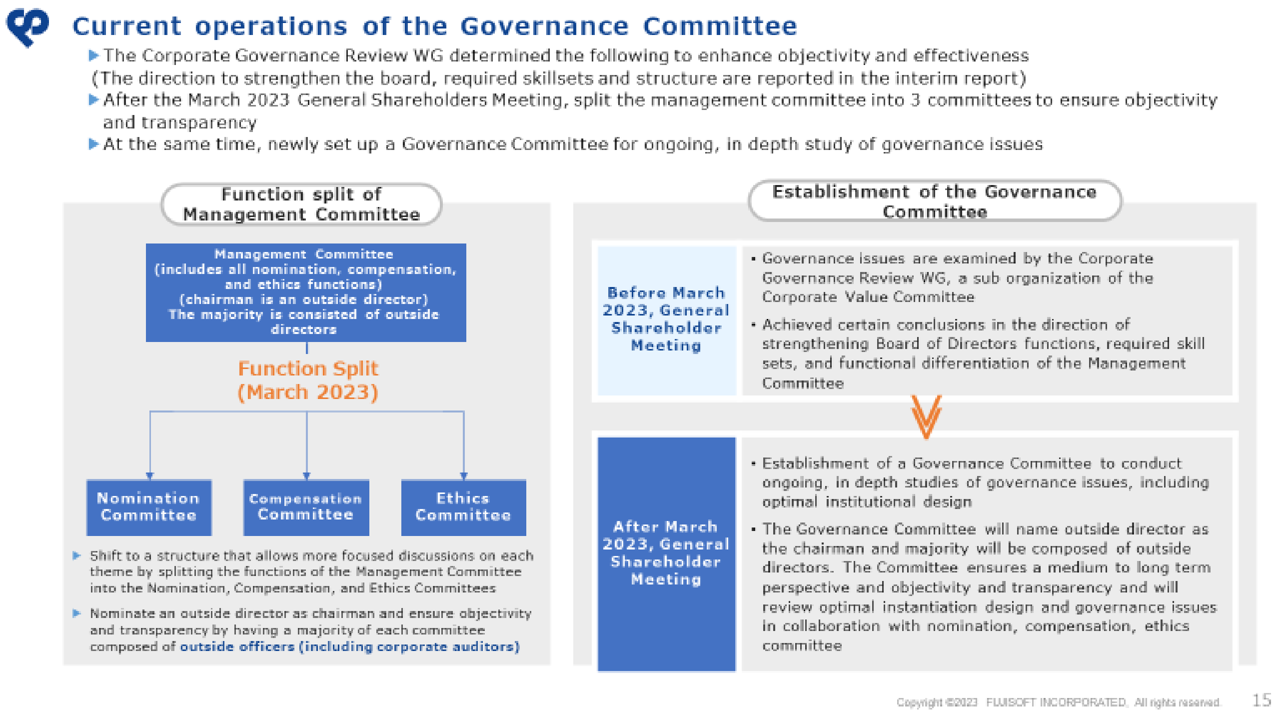
Finally, there is the allocation policy.

With regard to the cash generated by the liquidation of real estate, we pursue value enhancement based on the following capital allocation policy. I will explain the figures again firmly when they are available, but we aim to maximize corporate value through allocations based on the cost of capital, while generating cash flow through sustained growth and improved profitability, and also liquidating real estate, or borrowing as necessary.

Growth investment includes human capital investment, new business development, M&A, and other investments.

We are thinking about returning profits to shareholders by ensuring stable dividend growth and flexible share buybacks.

We intend to link our definition of "economic value" to the enhancement of "social value."

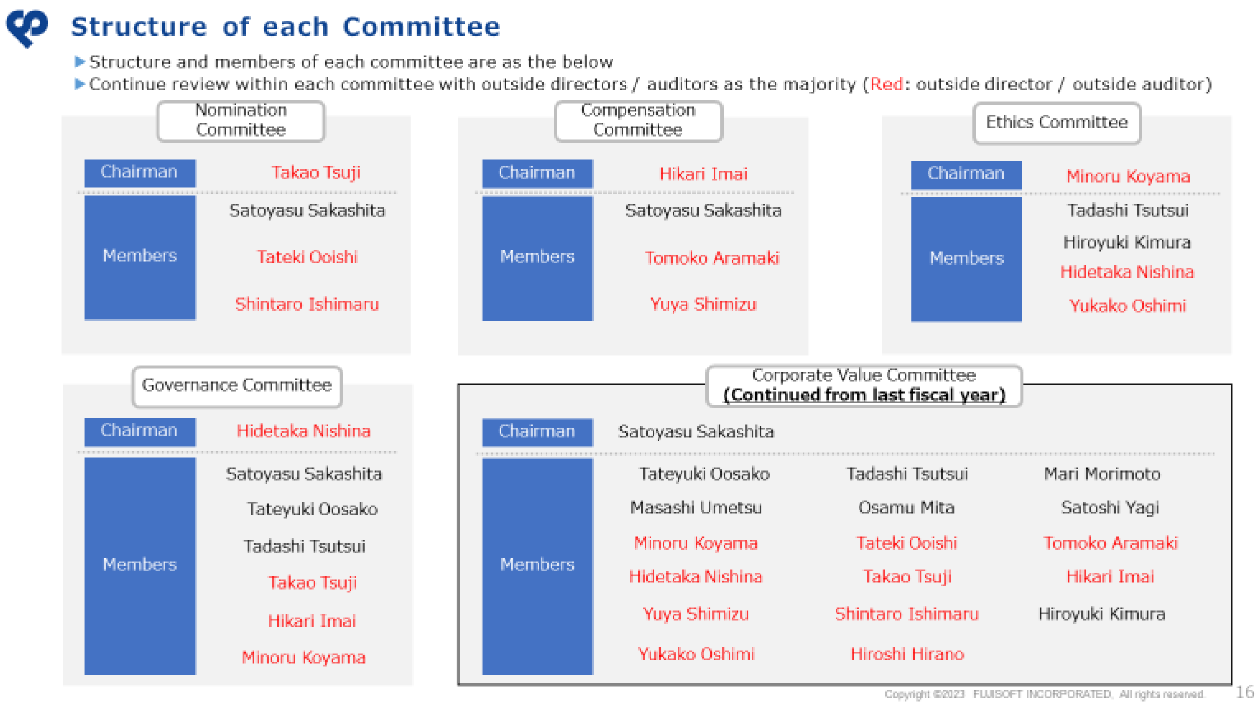


Finally, I would like to talk about the operation of the Governance Committee.

In March 2023, the Management Committee, which had previously included the nomination, compensation, and ethics functions, was separated from the Management Committee, which I had chaired, to form the Nominating Committee, the Compensation Committee, and the Ethics Committee. I will explain the structure later, but we have created a governance structure in which we have an external person chairing the meeting.

In March, we reorganized the Governance Committee, which had been a subordinate body of the Corporate Value Enhancement Committee, into an independent committee to address various governance issues.

Here, we are trying to delve deeper into governance issues such as optimal institutional design, and the Governance Committee is chaired by an outside auditor. The composition of this area is on the next page.



The Nominating Committee is chaired by outside personnel, those marked in red are those people. Four people, one to three, so that the majority is from outside the Company. In terms of nomination, compensation, and ethics, the Governance Committee has also been chaired by an outsider for some time now, and the majority of the committee members are outside directors.

I chair the Corporate Value Enhancement Committee, and the majority of the members are from outside the Company. We are also doing this kind of committee activity while ensuring our uniqueness.

These are the financial figures for H1 and the reports of the Corporate Value Enhancement Committee and the Governance Committee.

This has been a bit long, but thank you for your attention.

Moderator: That concludes my explanation.