Summary Translation of Question & Answer Session at
FY 2026 First Half Financial Results Briefing for Analysts

Date: October 29, 2026
Location: Live-streamed from Boardroom A on the 20th Floor of Fujitsu Technology Park
Presenter: Takeshi Isobe, Representative Director, Corporate Vice President, CFO

Questioner A

Q1: Regarding the second-quarter decline in the gross margin for Service Solutions, I understand that negative factors reduced the gross margin by approximately 1 percentage point in the first half overall and, looking at the second quarter alone, by approximately 2 percentage points compared to the same period of the prior year. My estimation is that this amounts to a negative impact of approximately 10 billion yen. Could you provide a quantitative breakdown of the extent to which each factor contributed to this decline?

A1: You are correct that adverse factors were concentrated in the second quarter, resulting in a negative impact of around 10 billion yen. Of this amount, roughly half was due to unprofitable projects, and the other half to seasonal factors. The approximately 5 billion yen attributable to unprofitable projects resulted from losses incurred on several projects, including those outside of Japan, but we have taken measures to address this situation.

The remaining amount of approximately 5 billion yen attributable to seasonal factors was mainly a result of fewer working days for system engineers, a decrease in large-scale middleware deals, and higher costs associated with responding to regulatory changes. The lower number of working days means fewer hours in which system engineers are available for project work, and this reduces revenue. For each working day lost, the impact on profit is approximately 2 billion yen. Due to calendar differences, the second quarter had one fewer working day than in the same period of the prior year, while the fourth quarter will have one additional day. This reduced our second-quarter profit by approximately 2 billion yen.

Of the remaining approximately 3 billion yen, roughly half was due to seasonal differences in the timing of large-scale middleware deals. For example, in fiscal 2025, we had some large-scale deals related to electronic medical record data solutions in the first half of the year. In fiscal 2026, however, we have large-scale middleware deals with government agencies scheduled for the fourth quarter. The other half of the 3 billion yen was attributable to costs for application maintenance work performed under fixed-fee contracts, which was heavily concentrated in the second quarter of this year. Specifically, due to regulatory changes in the healthcare sector and other areas, we had to carry out multiple system modification tasks around the same time, which temporarily increased costs while selling prices remained unchanged. By contrast, in fiscal 2025, costs increased in the second half. Because we receive fixed fees throughout the year, profit fluctuates depending on when the work takes place. As outlined above, we have identified the factors that caused the decline in gross margin, so in the second half, our plan is to manage operations in a way that prevents further unprofitable projects from arising and to make up for the negative impact of seasonal factors.

Q2: Will we see gradual improvement in the gross margin starting in the third quarter? Please explain your outlook for how you expect the gross margin to return to normal levels in the third and fourth quarters.

A2: For the third quarter, you can expect the temporary negative factors that arose in the second quarter to disappear. We will work to ensure that new unprofitable projects do not arise, and the negative impacts from projects that adversely affected second-quarter performance will be gone. As for the approximately 5 billion yen impact of seasonal factors I mentioned earlier, we expect the positive rebound to occur entirely in the fourth quarter. In other words, we expect the gross margin to improve in the second half, with a return to normal levels in the third quarter, followed by a recovery of the approximately 5 billion yen attributable to seasonal factors in the fourth quarter.

Q3: Could you explain the factors behind the increase in revenue but decline in profit in Hardware Solutions, with a breakdown of the performance of System Products and Network Products? In particular, how did the impact of rising memory chip prices, which reduced profit by 2 to 3 billion yen in the first quarter, change in the second quarter? How do you expect it to progress in the second half?

A3: Breaking down the first-half results, Network Products was essentially unchanged from the same period of the prior year, while System Products accounted for most of the decline in profit. The main factor behind the decline was higher costs due to sharp increases in the prices of components, such as memory chips, while a large share of first-half revenue came from orders received in fiscal 2025. For contracts signed in fiscal 2026 onward, we have revised the terms to allow us to pass on increases in component costs to customers. In the first quarter of fiscal 2026, however, more than 90% of server revenue came from orders received before fiscal 2026. We have been working with customers to negotiate new prices that reflect the higher component costs, but passing on these increases for orders already received in fiscal 2025 has proved difficult in some cases. As the share of revenue from orders received in fiscal 2025 or earlier declined to 70% in the second quarter, the share was approximately 80% for the first half overall, and the impact of rising component prices was substantial. Because sales volume in absolute terms was higher in the second quarter than in the first, rising component prices had an impact of approximately 5 billion yen in the second quarter. This, combined with the first quarter, brought the total impact of cost increases that we were unable to pass on to customers to approximately 8 billion yen for the first half. This drove down the profit in System Products. In the second half, however, we expect the share of contracts from fiscal 2025 to shrink to around 15%. Approximately 85% will be contracts signed in fiscal 2026 that allow us to pass on higher component costs to customers. As a result, we expect this impact to diminish in the second half.

That being said, another risk facing the server business is difficulty in procuring components. Customer demand is strong, so in order to avoid losing business opportunities due to component shortages, we are strategically building up our inventory by securing components in advance. We are confident that we can reduce the difficulties we have faced in passing on higher costs to customers in the second half, but when it comes to securing components in sufficient quantities, we believe we still need to make an additional effort.

Questioner B

Q1: You plan to improve the gross margin for Service Solutions by 2 percentage points each year. To achieve this fiscal year's target, my calculations suggest that you would need to achieve quite a high gross margin of approximately 43% in the second half. What is your outlook for the second half?

A1: Although a number of negative factors have emerged in the second quarter, we believe that achieving the necessary gross margin level of 43% in the second half is by no means unattainable. We expect sales volume to substantially increase in the second half, supported in part by the accumulation of regular system integration projects. As the volume of development work increases, resource utilization rates will improve, as will development efficiency.

We normally should be able to absorb the negative impact of approximately 5 billion yen from the seasonal factors that I mentioned earlier through our usual productivity improvements, but unfortunately, it ended up being surfaced. We believe that one of the reasons for this is that the factors driving productivity improvements have been changing. Over the past several years, our main method of improving productivity has been to reduce development costs by standardizing development through our Japan Global Gateway and Global Delivery Center and by One Delivery. More recently, however, we have begun to see benefits from AI-driven delivery. In the first half alone, AI-driven delivery generated approximately 7 billion yen in productivity improvements. AI-driven delivery is still something we have only recently introduced, however, and the proportion of level 2 utilization remains limited. This approach will become the most powerful driver of productivity improvement going forward. In the second half, we expect the productivity improvement benefits from AI-driven delivery to be two to three times those achieved in the first half.

In addition to the seasonal benefit of development work being more heavily concentrated in the second half, we are also expecting to see dramatic cost reductions from implementing AI-driven delivery. These are not merely theoretical figures or impractical theories. We intend to ensure that these benefits are clearly demonstrated through actual results in the second half.

Q2: Please explain the differences between your first-half results and your internal plan by segment.

A2: First-half profit fell approximately 4-5 billion yen short of our internal plan. This was primarily due to the emergence of unprofitable projects. Looking at the results by sub-segment, it may appear that Enterprise had the weakest performance, but in fact, the unprofitable projects were in the Public sub-segment. Enterprise's second-quarter results appear weak because we increased investment in future growth. Specifically, this included strengthening the capabilities of our forward deployed engineers (FDEs) and enhancing the training of our data analysts and data scientists following the integration of BrainPad. All of these investments were already factored into our initial plan. Hardware Solutions, Ubiquitous Solutions, and R&D expenses under Inter-Segment Eliminations and Corporate were also all in line with our internal plan.

Questioner C

Q1: I believe the negative impact of approximately 8 billion yen from the increased cost of memory chips that occurred in the first half of the fiscal year was not initially incorporated into your earnings forecast. Was this a factor that caused the results to be below expectations? In addition, this was the first time you mentioned an impact from working days. Was this also included in your earnings forecast?

A1: The negative impact from the increased cost of memory chips refers to the timing in which the orders we won in fiscal 2025 were converted into revenue. As such, these negative impacts will be incorporated into our full-year plan for Hardware Solutions. However, since orders will increase in the second half of the fiscal year, the negative impact will diminish. As for the working days, we do not often mention factors that are normally around 2 billion yen, but we did this time as the cost-saving effects were not clearly evident. We have, of course, incorporated this into our plan, and we expect this will actually be a positive factor in the fourth quarter.

Q2: Looking at the second quarter results for orders in Uvance, growth was limited to 2% compared to the same period of the prior year, which gives the impression that there is a slowdown in growth. Should this be thought of as an issue of the timing of the quarter? Also, should we expect a strong growth rate in the second half of the fiscal year?

A2: We anticipate that Uvance will ultimately exceed our plan for the full fiscal year. Although there may be some variation due to the timing of large-scale deals, both orders and sales remain strong. We believe it is on track to surpass our full-year target of 840 billion yen.

Questioner D

Q1: It is my understanding that, among the factors for changes in the adjusted operating profit for Service Solutions compared to the same period of the prior year, increased investment also includes increased fixed costs. Year-on-year, the increase in expenses was larger in the second quarter than in the first quarter. Do you anticipate that expenses will increase in the third and fourth quarters as they did in the second quarter? In addition, regarding the unprofitable projects, was there one unique project both in and outside of Japan? If there were multiple, then please tell us if there are any common factors causing these unprofitable projects.

A1: Many of our increased investments in Service Solutions need to continue. We will also continue to invest in enhancing our FDEs, consultants, and data analysts, as well as AI-driven development. There tends to be a higher amount of expenses at the end of the fiscal year, and while expenses might not exceed 10 billion yen every quarter, they will continue to occur. As for the unprofitable projects, there were multiple, with about half of the amount coming from Japan and half from outside of Japan. There were not any special factors in these projects. Unfortunately, the pattern in their occurrence was the same as it had been in general: we were unable to sufficiently coordinate specifications with the customer in the early stages of negotiations, misunderstandings occurred, and there were oversights in detecting this. Outside of Japan, there were relatively large unprofitable projects, while in the Public business in Japan, there were several smaller ones. We do not believe that this is a trend, so we will once again focus our efforts on preventing unprofitable projects and have the Assurance Unit keep a close eye on things.

Questioner E

Q1: It seems that the effects of the productivity improvements were muted. Was this due to a negative impact akin to growing pains in implementing and distributing AI-driven delivery, such as temporary confusion or setbacks?

A1: We are increasing investment to advance AI-driven delivery. But in terms of productivity improvements, there was not a negative impact akin to growing pains.

As the initiatives to standardize development through One Delivery and improve productivity up until now feel as though they have started to hit a plateau, we have accelerated our AI-driven development. As it was only in its early stages as of the first half of fiscal 2026, it has not yet reached a sufficient depth of utilization. We are planning for AI-driven development to have a significant impact as it is more deeply utilized.

Questioner F

Q1: It appears that there was a large fluctuation in the figures for Inter-Segment Eliminations and Corporate from the first to second quarter. Please tell us about the factors behind this change. Also, how do you foresee these figures shifting in the second half of the fiscal year?

A1: Inter-segment Elimination/Corporate was affected by the gains on the sale of property assets. In the first quarter of fiscal 2026, there was a gain of approximately 12 billion yen recorded on the sale of property assets as a part of the Fujitsu Technology Park redevelopment project in Kawasaki, Japan. On the other hand, in the second quarter of fiscal 2025, there was a gain of about 12 billion yen from the sale of land and buildings at regional offices. Excluding the gains from the sale of these property assets, expenses decreased in the first quarter of 2026 compared to the same period of the prior year, but then increased by 7 billion yen in the second quarter. Most of this 7 billion yen figure is investments in cutting-edge technologies, including FUJITSU-MONAKA and quantum computing. We anticipate that investments in the second half of the fiscal year will increase on a similar scale to that of the first half. Please understand that this increase in the second half includes investments in such things as the expenditures associated with FUJITSU-MONAKA's release in the second half, as well as investment in quantum computing and physical AI.

Questioner G

Q1: You mentioned that you will begin selling FUJITSU-MONAKA in November of this year. It is my understanding that you plan to start with providing the standalone CPU in the initial stage, and then begin shipping out the servers in fiscal 2027. When you do so, while the development costs have been recorded in Inter-Segment Eliminations and Corporate, will the revenue from FUJITSU-MONAKA be recorded in Hardware Solutions? You have set a revenue target of 35 billion yen for fiscal 2027. Please tell us what you envision FUJITSU-MONAKA's contribution to profit will be, current inquiries, and what the response has been.

A1: We are unsure whether we will include the revenue from FUJITSU-MONAKA following its full-scale rollout in Hardware Solutions or an entirely new segment. FUJITSU-MONAKA will become a pillar of our new business going forward, both as a standalone CPU business and server business, so it is also possible that we may disclose it as an independent segment.

Your understanding of the timeline is correct. We will first begin with the standalone CPU business. As for the rollout of the server business, we expect that the business will have a small-scale revenue of about several hundred million yen in fiscal 2026, and it will start to materially pick up from fiscal 2027. We have similar expectations for the standalone CPU business, and anticipate its revenue for fiscal 2026 will also be limited to about several hundred million yen to 1-2 billion yen.

As for profit margin, we are naturally expecting the standalone CPU business to have a gross margin of 30% to above 40%. In our business plan, we are certainly focusing on a gross margin of about 40%, on par with Service Solutions, and we will also aim for it to reach an even higher level.

On the other hand, for the server business, in which we will equip the FUJITSU-MONAKA CPUs onto Fujitsu MONAKA servers, we hope to expand the business with a slightly higher level of profitability. This will, however, depend on market demand.

45 customers are already working on field trials for test servers, and we are also receiving inquiries for them. We are also already receiving inquiries for the standalone CPU, so we believe that it will be entirely possible to achieve the fiscal 2027 revenue target of 35 billion yen. In addition, in our internal plans, we also believe it may be possible to exceed our target of 250 billion yen in total revenue by fiscal 2030.

FUJITSU-MONAKA will be released in November of this year, and we are already working on developing the next-generation model, FUJITSU-MONAKA-X. We aim to install this model onto the FugakuNEXT supercomputer. In addition, we have also already started planning FUJITSU-MONAKA-XX for even further into the future. The fact that we have started up a processor business again means one thing: we are approaching this business with the determination to sustainably and steadily grow it and ensure its success. The response has also been such that we believe we will be able to achieve this.

Questioner H

Q1: It appears that the growth rate of the Vertical areas of Uvance has significantly slowed down. Please tell us about the background behind this, including if you have seen a shift in demand.

A1: Revenue from Uvance's Vertical areas increased 26% compared to the same period of the prior year. We do not believe that its growth rate has slowed down. We have received positive feedback for our newly released Uvance for Finance and Uvance for Retail, and they have garnered strong inquiries. We do not think that a growth rate of approximately 50% per year for Uvance as a whole will continue; rather, we will increase the amount of revenue Uvance accounts for in Service Solutions and position it as the overall driver of growth for the segment. We anticipate an 18% growth rate this fiscal year, and believe that a growth rate of nearly 20% will be sufficient to accelerate business. There is also strong demand for the newly released offerings in Uvance's Vertical areas, so we do not think that its growth is slowing down.