

## Summary Translation of Question and Answer Session at Mizuho Investment Conference

Date: December 9, 2008

Location: The Ritz Carlton Tokyo

Presenter: Kazuhiko Kato, Corporate First Senior Vice President, CFO, Fujitsu Limited

### **Questioner A:**

*Q1. Please tell us about the restructuring of your hard disk drive (HDD), semiconductor, and mobile phone operations.*

A1. Demand for HDDs for ultra-low-cost PCs is expanding, but demand for the high-performance, high-quality HDDs that we specialize in is not growing as much. In Europe, ultra-low-cost PCs have captured about a one-third share of the PC market and now about 10% in Japan, so the share of this segment is growing rapidly. Under such circumstances, it is extremely difficult to continue this business on an independent basis. We are having discussions with other companies about tie-ups and other possible business arrangements, and would like to decide on a course of action quickly.

In the semiconductor business, we continue to invest in advanced technology. ASIC products tailored to the specifications of individual customers are the mainstay of our business. Our top 10 customers account for a considerable proportion of our business, and when sales of their final products slow down, it makes conditions difficult for us. Of course, all semiconductor manufacturers are hurting, not just Fujitsu. There is uncertainty about next-generation 32nm process technology because it is not clear what its main product applications will be. This has made it difficult to invest. Going forward, the restructuring of the semiconductor industry will accelerate as companies try to survive under these conditions, and Fujitsu, for its part, would also like to decide upon its future direction as quickly as possible.

In mobile phones, we supply products exclusively to NTT DoCoMo in Japan. Even though Japan's domestic market is not growing, we have been able to maintain stable shipment volumes by meeting demand for handset replacement. Due to a change in the sales system in Japan, there is concern about the lengthening of the replacement cycle. We can still generate a profit if we ship about 300,000 units per month, so we plan to continue this business. In addition, the deployment of LTE will commence in 2010, and we are anticipating growth driven by corporate services utilizing mobile phones. At this time, we are not considering the sale of our mobile phone business.

### **Questioner B:**

*Q1. Please tell us what policies and direction Fujitsu will need to take in the medium term, focusing on expanding your business outside Japan.*

A1. We plan to quickly deal with the problem businesses in our portfolio. Our highest priority is on raising the operating income margin of our Technology Solutions segment above 7%.

Today, an operating margin of at least 10% is necessary to compete globally. In terms of geography, our profitability is solid in Japan and Europe, but still not good in North America and Asia, so we intend to take steps to improve it.

One driver of profitability for us will be Fujitsu Siemens Computers in Germany. We believe that Siemens, our joint-venture partner, will remain an important customer of Fujitsu Siemens Computers. In expanding our services business globally, we plan to customize the business model of UK-based Fujitsu Services so that we can handle large- and small-scale accounts in various regions. We plan to sell IA servers manufactured by Fujitsu Siemens Computers to complement the services offerings. This strategy will unleash new synergies to support the expansion of our global business. In addition, the profitability of the consumer PC business of Fujitsu Siemens is declining, and we intend to decide on a business direction by March. In April, when Fujitsu Siemens Computers becomes a wholly owned subsidiary of Fujitsu Limited, we plan to focus the company on servers and IT services.

**Questioner C:**

*Q1. At a separate investor conference the other day, President Nozoe called platform systems and IT services the two engines of your business. In this regard, how do you position semiconductors, which support servers?*

A1. Our semiconductor operations supply chips for mainframes and for UNIX servers, where we partner with Sun Microsystems. Since there are semiconductor manufacturers that could supply us with products appropriate for the sophistication level of our equipment on a timely basis, it is not absolutely necessary that we maintain semiconductor operations internally.

*Q2. I understand that you have achieved a financial position that enables you to generate free cash flow of 100 billion yen annually. If, however, you were to reduce capital investment and R&D for your semiconductor business in the future, what new uses would you make of the funds?*

A2. In the last few years, we have used free cash flow to reduce interest-bearing debt. At present, we have about 500 billion yen in cash. In fiscal 2009, however, we will have 300 billion yen in corporate bond redemptions, primarily convertible bonds, and we plan to use our cash to cover these redemptions as well as the financing of the acquisition of Fujitsu Siemens Computers. In the current fiscal year, we are projecting free cash flow of about 100 billion yen, and we believe that in order to accelerate growth in markets outside of Japan, we may also need to undertake some acquisitions.

**Questioner D:**

*Q1. Under your medium-term plan, you are aiming to expand your business outside Japan and increase your profit margins, but do you have any medium-term plan in regard to returns to shareholders?*

A1. We have announced a medium-term target of increasing sales outside Japan to 40% of total sales. This is because the growth rate for the Japanese market is 1-2%, and therefore business outside Japan is indispensable for the future growth of the Fujitsu Group. In this regard, by making Fujitsu Siemens a wholly owned subsidiary, we can achieve the sales ratio outside Japan called for in the medium-term plan. The problem, however, is the profit margin. We are aiming for a consolidated operating income margin of 5%, but this will be difficult to achieve in the current environment. We are also moving to improve the inventory turnover rate, which is important for generating cash. At present, the rate is about one time per month, but we believe that by increasing it to two times per month, we can improve our ability to generate cash.

At this time, we plan to pay an annual dividend of 10 yen per share for this fiscal year. In the future, by dealing with problem operations, reducing business risks, and improving cash generation, we would like to be in a position to promise shareholders a dividend payout rate of about 30% of net income.

**Questioner E:**

*Q1. Please explain why operating income in your Services sub-segment temporarily worsened in fiscal 2004. Please also explain your plans for improving income in your Services sub-segment in the future.*

A1. Following the burst of the IT bubble, operating margins in our Services business temporarily declined due to the incidence of loss-generating projects. By revising our internal systems, however, we were able to constrain loss-generating projects, and from fiscal 2005 on, we succeeded in improving our margins. Moreover, Fujitsu Services benefited from strengthening its capability to offer proposals to customers and began to increase its sales and improve its margins, and its business started to get back on track in Europe, particularly in the UK. In fiscal 2007, Fujitsu Services acquired companies in Germany and Sweden, with the goal of bolstering private sector business in Europe, which previously had been weak. Fujitsu Services has some private-sector contracts that are very demanding in terms of pricing, but it is making progress in improving profitability by bringing in project management know-how cultivated in Japan. We are gradually making progress in the Technology Solutions business through these efforts, but we are still not satisfied with our present margins. Unless we increase our margins for Technology Solutions, especially in the Services sub-segment, to about 10%, we will not prevail in global competition. In the future, we are working to further improve our margins by expanding our outsourcing business on a global basis. As we move forward with this initiative, having our own strong products, such as servers, will be an important advantage. We believe we can increase our margins by expanding our business globally on the two engines of strong systems platforms and IT services.