

**Summary Translation of Question & Answer Session at  
FY 2006 Third Quarter Financial Results Briefing for Analysts**

Date: January 31, 2007  
Location: Fujitsu Headquarters, Tokyo  
Presenter: Masamichi Ogura  
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**Mr. Kawada, Mizuho Securities:** *Could you tell us to what extent third-quarter results in each business segment either exceeded or fell short of your projections?*

**Mr. Ogura:** Our results in Technology Solutions were slightly above projections. For Ubiquitous Product Solutions, there were some adverse trends, particularly in PCs. For HDDs, as well, we started to see signs of a downturn in October and November, but we did not expect the level of downward pricing pressures that occurred in December. For Device Solutions, overall we posted operating income of nearly 500 million yen, but the operating loss in LSI Devices was about 10 billion yen. That was offset somewhat by better-than-expected results from Shinko Electric, but our results in the Device Solutions segment were still well below projections.

**Mr. Kawada:** *For Ubiquitous Product Solutions, you have revised your full-year sales projections downward by 40 billion yen, but could you explain why you have not changed your projections for operating income?*

**Mr. Ogura:** As a whole, we expect our HDD business to remain profitable, but we previously had projected a profit of 5 billion yen, whereas we now expect it to be just above break-even. Most of the segment's 30 billion yen in projected operating profit is in the PCs/Mobile Phones sub-segment, and we expect profits in our mobile phone business to cover profit declines in PCs.

**Mr. Kawada:** *How have you factored the third-quarter loss in LSI Devices into your full-year projections?*

**Mr. Ogura:** We have revised downward our full-year operating income projection for Device Solutions by 10 billion yen. Within the segment, our revised projection for the LSI Devices sub-segment is down 15 billion yen from our original plan, but we expect that to be partially offset by a 5 billion yen improvement in the Electronic Components, Others sub-segment. The year-end consumer shopping season market dynamics were weaker than we had expected. Orders for December were better than for November, but it is still unclear whether we will see a full-fledged recovery for January and the months ahead, and it is unclear when we will see a recovery in 2007. We are running at about 70-80% capacity utilization in standard technology logic devices and at full capacity, over 80%, in advanced technology logic devices, but these rates seem to be coming down. Sales of chips for digital consumer audio-visual equipment were hurt by the poor year-end shopping season, we posted losses in our chips for mobile phones and, especially in advanced technology logic chips, there was a delay in customer orders in the field of computer games

**Mr. Wakabayashi, Finoweb Investment:** *Regarding the capacity utilization rate in your semiconductor plants, if we assume that your amortization costs will be rising going forward, can you really expect to generate earnings if your capacity utilization rates remain at current levels? What impact will that have on your capital expenditure plans?*

**Mr. Ogura:** A temporary lowering of our capacity utilization rates affected our profitability in the third quarter. We are viewing this as a temporary downturn in demand due to a change in customer plans. As to how much of an impact this will have on our overall plans, I think we first need to assess our customer demand situation in greater detail. For fiscal 2006, capital expenditures for semiconductors will be 140 billion yen, of which 100 billion yen is for advanced logic devices. Those plans have not changed.

Regarding our plans for fiscal 2007 and beyond, however, we will make decisions as we assess the status of any delays in customer plans. In particular, I think we may need look carefully again at our investment in volume production at our Mie Plant Fab No. 2 and assess what impact that will have. We would like to make that assessment as quickly as possible within the next couple of months.

In terms of the broader trend, however, our expectations remain high regarding a shift in market demand from 90nm to 65nm, so we need to prepare ourselves accordingly. But at the same time we need to assess how much customer demand might be delayed in the next six months so we can set our capital expenditure plans for fiscal 2007.

**Mr. Wakabayashi:** *How has the introduction of mobile phone number portability in Japan affected your mobile phone base station and handset businesses? Also, how is the launch of Windows Vista affecting the PC market?*

Regarding the mobile phone base station business, my feeling is that we have passed through the first cycle of 3G investments. In particular, for NTT DoCoMo, our orders are primarily for base stations in metropolitan areas, and we are not heavily involved in regional base stations, such as for the 800MHz bandwidth, so business has dropped off a bit. We have been selected as DoCoMo's joint development vendor for Super 3G equipment, so we will be thoroughly preparing ourselves to handle this business.

In mobile phone handsets, sales continue to be relatively strong for our easy-to-use universal design models as well as newer models, so we are not accumulating inventory. I think the trend has been steady, and we do not expect to see any major changes to this trend the fourth quarter.

We were significantly affected in the third quarter by the postponement of PC purchases due to the delayed launch of Windows Vista. But in our case, particularly for the consumer market, we are structured to produce for weekly deliveries based on a firm grasp of market demand, so it is not as if there is a backlog of inventory in our distribution channels. We think fourth quarter sales will be about 1.5 times third quarter sales. But our expectation of higher fourth-quarter sales is primarily because corporate PC purchases tend to be concentrated in the fourth quarter, rather than higher consumer sales associated with the launch of Windows Vista. We expect fourth-quarter PC sales in fiscal 2006 to be slightly above last year's fourth quarter.

**Mr. Wakabayashi:** *So will the major impact of Windows Vista be in the second half of fiscal 2007?*

**Mr. Ogura:** I think it is correct to say that we will first start to see the impact on consumer PC purchases in February and March. In terms of corporate PC purchases, it will take some time to verify compatibility with customers' current applications, so I think the immediate uptake will be limited. We really expect to see more of an impact on corporate purchases starting in the second half of 2007.

*Mr. Yamazaki, Nomura Securities: Could you please explain the status of orders in your services business in Japan by industry segment?*

**Mr. Ogura:** Orders for our solutions business as a whole were up 2% in the third quarter and are expected to be up 2% for the full year. In manufacturing and retail, orders were up 5% in the third quarter, and we are projecting a 9% increase for the full year. With respect to manufacturing sector orders, particularly for the automobile industry, our business in core infrastructure systems for sales logistics and supply chain management is particularly active. In retailing, we are seeing orders in the areas of infrastructure integration, security, and internal control.

In the telecom and utilities sector, orders were down 16% in the third quarter, but we predict a cumulative decrease of only 6% for the full year. Our main business in this area is with NTT and other telecommunications carriers, and the business environment is difficult. This also affected our mobile base station business. Our business with electric and gas utilities is also down, primarily as a result of their need to reduce costs in preparation for market liberalization.

Orders in the financial services sector are strong, up 21% in the third quarter. A 7% increase is predicted for the full year. Our business in this sector is being pulled up overall by expanded investment by top commercial and regional banks, as well as securities companies. Business related to upgrading of regional bank retail branches is also very active.

In the government and insurance sector, orders were up 15% in the third quarter, and we expect a 7% increase for the full year. There has been a decrease in supplementary budgets for government agency IT-related investment. We are, however, seeing more business associated with the privatization of agencies in the areas of postal services, roads and airports, as well as for our IT outsourcing services for entities seeking to improve the efficiency of their operations. We also do a significant amount of business with national research laboratories in such fields as science and space, as well as for the National Genome Research Laboratory, and orders in this area are strong. Our business relating to the privatization of public sector entities continues to be strong, as is our business in the healthcare sector.

Regional business orders were up 7% in the third quarter, and we expect an increase of 3% for the full year. Opposition to municipality mergers has contributed to a continued decline of orders in outlying regions, but we have started to see signs that orders will be in excess of those last year for major urban areas. Regional business orders in the Tokyo greater metropolitan area, the Kansai region and the Kyushu region were all strong.

*Mr. Yamazaki: What is the situation with strategic expenses in your services business?*

**Mr. Ogura:** Expenses for strategic investment in sales promotion as well as expenses associated with the expansion of our overseas services businesses have been growing. In particular, these are due to expenses related to new business areas and support for cutting-edge projects. This includes expenses related to the promotion and expansion of sales in the ubiquitous networking market, as well as to those relating to our partnering activities.

*Mr. Yamazaki: What is the status of your PRIMEQUEST server sales, and how will the decision by Sun Microsystems to use Intel chips will effect your relationship with Sun?*

**Mr. Ogura:** We began shipping PRIMEQUEST last June, but because of a lack of sufficient middleware and other software, sales were initially lackluster. In the third quarter and moving into the fourth quarter, however, there has been an uptick in new business. We are also working to expand sales in conjunction with SAP and Oracle implementations. The PRIMEQUEST business is really just now beginning.

Our advanced product line being jointly developed with Sun is on track to become a major offering in fiscal 2007. Since Sun's use of Intel chips will be primarily for low-end servers, we do not expect any direct effect on our relationship.

*Mr. Izumi, JP Morgan: Do you expect to be able to achieve your target of limiting inventories to the 300 billion yen range?*

**Mr. Ogura:** Our Toyota Production System reforms have spread throughout our organization, so I think a level in the 300 billion yen range is achievable. But it will also depend on market conditions, particularly on our sales at the end of the fiscal year.

*Mr. Izumi: Is it correct to regard the current fiscal year as the peak-level year for server development and sales promotion expenses?*

**Mr. Ogura:** Server development costs continue to mount, and heavy expenses are likely to continue to constrain profitability into next fiscal year. The server development organization at Fujitsu Siemens Computer needs to become more efficient. We will continue to put emphasis on cutting-edge servers. In our mid-range planning, one thing we need to do in our server business is to expand our marketing from the current focus on Japan to a more global orientation. We need to firmly control our products divisions. We also need to explore possibilities for alliances as well as consolidate our development model. Changes in executive appointments are also part of this effort. With the shift toward expanded use of IP networks in telecommunications, the heavy burden of R&D investment is beginning to take its toll, so we also need to reform our R&D structure at Fujitsu Network Communications and Fujitsu Telecommunications Europe.

*Mr. Izumi: In setting your mid-range plan, what type of restructuring initiatives are you considering for under-performing businesses?*

**Mr. Ogura:** Our services business is now performing well. During the past two or three years, we had many problems to address in our systems integration business, but we now have the ability to closely track the status of business deals in progress through our pipeline management system. We now have a very straightforward organizational structure for our systems integration business. Nevertheless, given the earnings structure of this business, it is difficult to generate substantial profits. While we can improve development efficiencies, it is hard to raise our operating income margin to the double-digit level. There are also some disadvantages from the fact that we deal with a wide range of industries in our systems integration business. On the other hand, our expectations for our IT outsourcing business are high, even over the medium-term. In particular, we believe that customers are beginning to understand the operational risks of maintaining their own data centers, and in outsourcing their operations they are most interested in ensuring that they select a reliable partner. One of our medium-range goals is to carry out structural reforms that will enable us to build a business structure capable of producing double-digit operating profit margins.