**Summary Translation of Question & Answer Session at
Briefing for Analysts on Fujitsu's Server Business Strategy**

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Location:        Fujitsu Headquarters, Tokyo
Presenter:      Tatsuo Tomita
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*Questioner A: Although your profit level is recovering, it is still only about 2%, which I think is lower than the levels you achieved in the past. How do you plan to improve your profitability, and what are your target levels for sales and profits?*

**Tatsuo Tomita:**  As our president, Mr. Kurokawa, has been saying, at a minimum, the operating income margin should be 3%. Our target level is 5%, and we expect to come close to achieving this level in fiscal 2007. Behind this improvement is our focus on QCD and cost controls as well as the results of our collaboration with Sun Microsystems in the SPARC Enterprise line of servers. Going forward, by continuing to pursue even further cost reductions and growing our sales by launching competitive products, our goal is to deliver results that exceed our 5% target.

*Questioner A: Sales of your PRIMEQUEST servers have not met the expectations you announced at the time of launch. Moreover, the market itself does not appear to be expanding to a significant degree. How do you plan to expand your business and raise profitability in this area?*

**Mr. Tomita:** The major market trends have not changed, and when we launched the line, our expectation was that a significant portion of the market for mission-critical systems would shift from mainframes and UNIX servers to PRIMEQUEST. Against that background, we have not achieved the unit sales volumes we projected at the time of launch, but we are now revising our projections.

In the market for mission-critical systems, we cannot compete on GS mainframe models alone. It is essential to have open-standard mission-critical server products. For that reason, we are serving the mission-critical market with two models, PRIMEQUEST and the SPARC Enterprise line. Regarding the shift from mainframes to open-standard systems, we are also moving forward on developing Linux-based systems. While we have not achieved the level of sales of PRIMEQUEST servers that we first anticipated, it is one of the four major pillars in our line of server products, and we plan to achieve a balanced sales mix of these different products.

In terms of product development, however, because it is costly to have these four different server platforms, we are collaborating with Fujitsu Siemens on PRIMERGY, and we are collaborating with Sun Microsystems on UNIX servers to save on development costs. I

think that being able to offer each of these four different sever platforms will be very important in increasing our business.

***Questioner B****: Sun Microsystems is now developing its next lines of server products (Rock and Niagara). Is Fujitsu involved in developing these products? What will be your relationship with Sun Microsystems going forward – will it continue as it has thus far?*

**Mr. Tomita:** Although we cannot make any promises with respect to alliances with other companies in the future, at the present time we have divided responsibilities with Sun Microsystems, with Fujitsu responsible for high-end systems and Sun Microsystems responsible for lower-end systems. At this time, we do not know where Rock will be positioned. We have not yet decided such matters as how we will split responsibilities with Sun Microsystems in the future, but we have a commitment over the medium-term to continue to offer Solaris products with Sun Microsystems, so we will continue to collaborate in offering products.

***Questioner B:*** *Are there examples in the past of someone being put in charge of the server division who did not come up through the ranks of the server division? How do you plan to put your experience in other divisions to use in the server division?*

**Mr. Tomita:** While I did not come up through the ranks of the server division, I did work in the server division at a previous point in my career. Most recently, for three years I was in charge of our mobile phone business. Within Fujitsu, managers tend to rotate around different divisions, so previous heads of the server division also had experience in a variety of other divisions.
I think the know-how I gained in the mobile phone business in such areas as product quality, simulation for durability and other characteristics, and design methods is something that is also applicable to server development and can be put to use here. There are obviously differences in the end-users and product cycles, but I definitely want to pursue QCD based on my previous experience.

***Questioner B:*** *You are using Fujitsu's own semiconductors in the SPARC Enterprise line, but do you expect the importance of using your own semiconductors to decline in the future?*

**Mr. Tomita:** Even up until now, not all of the semiconductors used in our servers were made by Fujitsu. That said, the use of Fujitsu semiconductors has enabled us to compress product development times and maintain or increase our technological edge. As long as there are benefits to both our server business and our semiconductor business, we would like to continue to use Fujitsu's semiconductors.

*Questioner C: In light of the shift in the server market over time from centralized to decentralized systems, and now from decentralized to integrated systems, how do you plan to develop your business?*

**Mr. Tomita:** We plan to take the dispersed, stand-alone servers in customer locations and consolidate everything onto one PRIMEQUEST or SPARC Enterprise server, or consolidate multiple servers onto one blade server. As the next step beyond integration, we will focus on data center business.

*Questioner C: Please tell us the stance of the server division with respect to using Fujitsu's own semiconductors in light of the semiconductor division's future production plans.*

**Mr. Tomita:** If Fujitsu manufactures 45nm chips that we can use, we will design our hardware accordingly. Beyond 45nm, even if there are differences between us and the semiconductor division in terms of our strategic business direction, that does not mean we will not use Fujitsu's semiconductors.

*Questioner D: How are your profit margins in the storage systems business?*

A1: We do not disclose profit margins for individual business lines. In storage systems, our main focus has been geared toward mainframes, and we have been relatively weak in storage systems for open-standard systems, but recently the ratio geared toward open-standard systems is increasing. Even though, our profit margins are improving, and I think we can say that our storage systems business is on the verge of achieving profitability.

*Questioner D: Can we assume that your business model for servers is the same as your business model for storage systems?*

**Mr. Tomita:** In our current storage business, in most cases our storage systems are sold in conjunction with servers, so there are slight differences with the business model we use in our server business. We are now beginning to promote stand-alone sales of our storage systems. At present, there are few cases we can point to, but in Asia, for example, we are selling ETERNUS, and there are cases in which these efforts lead to spillover effects on sales of systems. We would like to expand this business model.

*Questioner D: What are the respective ratios of your development costs for each of your server products?*

**Mr. Tomita:** We do not disclose the development costs of our individual product lines. In mainframes, we are pursuing development cost synergies with UNIX servers. In addition, through joint development work with Fujitsu Siemens in PC servers and with Sun Microsystems in UNIX servers, we are trying to hold down increases in development costs.

**Questioner D:** *Your profit margins in servers are increasing, but is this the result of reining in development costs?*

**Mr. Tomita:** I think we can say that the improvement in our profit margins is a result of an overall effort that includes controlling our development costs and reducing other costs as well. Part of that involves efforts to improve operating profit margins regardless of our sales levels, and here we have been able to achieve reductions in development and personnel costs by pursuing development efficiencies and shortening our development times. In addition, we have also achieved savings through company-wide initiatives to reduce costs. Of course, we are also placing great emphasis on increasing profitability by expanding sales through the release of competitive products.

Regarding development costs, I think we can continue to upgrade our current line of products without significant increases in future development costs. Product development cycles differ depending on the product, however, so there still may be slight variations in expense levels depending on the fiscal year.

**Questioner D:** *When you are able to reduce development costs for one line, are those savings then used to augment the development budgets of other product lines, or, as a general rule, are the savings simply leading to higher operating income?*

**Mr. Tomita:** Generally speaking, for each product line, the amount we spend on development is in line with our original projections. If we used savings on one line to augment the development budget of another line, it does not necessarily mean that the added level of spending would result in a better product. Ultimately, what is important is to strike an overall balance and meet launch schedules. Of course, we are also setting our overall development budgets with an eye on the development trends of our competitors, overall market movements, and the profitability of our business.

**Questioner D:** *You mentioned that the server business generates spillover effects in terms of sales of services, storage systems, corporate PCs, and middleware. In terms of profits, however, what is the distribution of profits associated with those spillover effects? In addition, what are the time lags associated with those spillover effects in each product area?*

**Mr. Tomita**: Profit levels vary in each of the respective product areas, but in each area we seek to achieve a reasonable return commensurate with the investments we make.

With respect to time lags, for storage systems and middleware, we see the spillover effects from server sales almost immediately. More specifically, for storage systems, we see a gradual stream of sales as customers upgrade their systems over time. The same is true for corporate PC sales. In terms of services, there are immediate spillover effects in sales of maintenance and operational services, but these contracts end after a certain number of years.

*Questioner D: Has there been a tendency in your domestic business for profit to shift back and forth over time between your server business and your services business?*

**Mr. Tomita**: No, that has not been the case. With respect to both businesses, when either one suffered a deterioration in profitability, it was the result of factors specific to that particular business at that particular point in time. Conversely, just because there is a recovery in our server business, it does not follow that we would expect an offsetting decline in our services business.

*Questioner E: Do you plan to continue selling SPARC Enterprise servers even if the development of Rock by Sun Microsystems moves ahead smoothly?*

**Mr. Tomita:** According to our agreement with Sun Microsystems, we cannot talk about upcoming products. Fujitsu will continue to offer Solaris-based products in the future.

*Questioner E: In his briefing on management strategy, President Kurokawa spoke about streamlining (reducing to one-third) the number of server models. Please tell us how this is progressing.*

**Mr. Tomita:** There have been some misunderstandings about our server streamlining. The number of option features for each line is extremely large, and this made for a difficult situation for our salespeople. We are aiming at reducing the number of such features, but we have no intention of cutting back the product lineup. As far as the status of this effort is concerned, we are making good progress.

*Questioner F: In regard to sales of ETERNUS storage systems, please tell us whether the proportion of sales is larger for ETERNUS on a stand-alone basis or in conjunction with sales from your server or other businesses.*

**Mr. Tomita:** Stand-alone ETERNUS sales predominate overseas; however, overall, the bulk of ETERNUS sales occur in conjunction with our server business or other types of business.

*Questioner F: Regarding the reason why the ratio of stand-alone sales of ETERNUS is low, is it correct to say that it is a result of, up until now, your lack of a stand-alone sales business model and that, compared to products from companies specializing in storage, the quality of ETERNUS is competitive?*

**Mr. Tomita:** I believe that we are highly competitive in terms of quality. For Fujitsu, sales in our storage business have mainly been in the context of systems installations. In the future, however, we would like to expand our stand-alone server business.

***Questioner F:*** *According to market data from research companies, it looks as if the server market outside Japan is growing but the domestic server market is tapering off. Please share with us how Fujitsu views the market in light of this situation.*

**Mr. Tomita:** The Japanese server market is already mature, and we anticipate that as system integration proceeds in the future, growth rates will remain low for the number of servers installed and server sales. Data center services will expand, however, and we believe that demand for high-value-added servers for this market will continue to grow in the future. At the same time, there are many new markets for us overseas, and we expect our sales there to grow going forward.

***Questioner F:*** *Have your server sales been growing in the most recent 2-to-3 years?*

**Mr. Tomita**: They have been flat; however, this year, due partly to the start of SPARC Enterprise server shipments, they are growing.

***Questioner F:*** *Please explain the extent to which each of the following three factors contributed to the improvement in the profitability of your server business from fiscal 2006 to fiscal 2007: increased revenue, changes in the composition of your product lineup, or reductions in fixed costs, particularly development costs. Please also tell us your expectations in this regard, comparing fiscal 2007 with fiscal 2008.*

**Mr. Tomita:** Many factors were behind the improvement from fiscal 2006 to fiscal 2007. Cost-cutting was of course one, but increased revenue due to increased sales of UNIX and PRIMERGY servers also contributed. For fiscal 2008, we are creating a structure that can generate profits even if sales are flat, and we are also improving our product lines, so we are also hoping to expand our sales.

***Questioner F:*** *How will development costs for fiscal 2008 compare with those for fiscal 2007?*

**Mr. Tomita:** At this point, we anticipate that they will be at about the same level.


***Questioner G:*** *In regard to sales of UNIX servers, I believe there are spillover effects on your services business. When there is a shift in the market toward greater weight on PC servers, where the ratio of indirect sales is high, will you change your sales methods for servers?*

**Mr. Tomita:** In some cases we sell servers on a stand-alone basis, and in some cases they are sold as part of a larger system. For PC servers, there are various approaches, including of course focusing on the performance of the servers themselves and, for the middle market, offering differentiated products, such as compact servers. I believe the most effective way for us to approach customers is by emphasizing optimization with TRIOLE.

*Questioner G: Please describe your strategy for expanding PC server sales overseas.*

**Mr. Tomita**: At present, our PC server business is mainly based in Japan and the EMEA regions. Since our overseas PC server business is principally stand-alone server business, we believe that improving the performance level of our servers helps to strengthen our competitive position. We will pursue this approach in concert with Fujitsu Siemens and our other overseas operations.

*Questioner G: As you expand the business for your mission-critical PRIMEQUEST IA servers, in the future I think this could eat into your sales of SPARC Enterprise UNIX servers. How long will you continue to offer the UNIX servers?*

**Mr. Tomita:** Since this is something that ultimately our customers will decide, I cannot say precisely. I believe, however, that neither will be totally dominant. Naturally, some customers will change to PRIMEQUEST servers, but I also think some customers will stick with the UNIX servers. At this point, we would like to offer both options.

*Questioner G: Are stand-alone sales of ETERNUS storage products overseas setting the stage for expanding sales of PRIMERGY PC servers in the future?*

**Mr. Tomita:** That is not the sole objective. We are promoting stand-alone sales and also aiming for synergy with PC servers.


*Questioner H: You mentioned that your data center business is growing. Please tell us about your server business in connection with data centers.*

**Mr. Tomita:** Several outside data centers have already installed our servers. Strengthening our offerings for data centers is one of our priorities going forward, but at this point we do not have much business with data centers.

*Questioner H: Quad Core is mentioned in the PRIMEQUEST product roadmap, but recently Intel has not said anything recently about its Itanium products. Please tell us about your partnership with Intel in the future.*

**Mr. Tomita:** Fujitsu cannot comment about the Intel Itanium processor family (IPF); however, we would like to follow the IPF roadmap. But, rather than IPF, Fujitsu's main focus is simply on developing good products, and we are examining various possibilities in regard to promoting mission-critical IA servers in the future.

*Questioner H: I understand that you are considering blade servers with SSDs (solid state drives). Please about the timing and conditions required for you to utilize SSDs.*

**Mr. Tomita:** As this is a new technology, we are still at the stage of considering such factors as cost and quality, so I cannot give you any definite answer.