Summary Translation of Question & Answer Session at
FY 2006 Full-Year Financial Results Briefing for Analysts

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Questioner A: *Device Solutions operating income was 19 billion yen in fiscal 2006, but you are projecting 30 billion yen for fiscal 2007. I assume this is mostly because you expect to reduce losses in logic devices. Could you explain what accounts for this expected improvement?*

Mr. Ogura: In fiscal 2006, losses in the LSI Devices sub-segment amounted to nearly 20 billion yen, but we expect the losses in fiscal 2007 to decline to the single-digit billions of yen range. In the first half of fiscal 2007, we expect market conditions to remain severe, resulting in continued losses, but we expect a recovery in the second half. For advanced technology products, volume production using 65nm process technology at our Mie Plant's Fab No. 2 will begin in July, but a portion of the capital expenditure we had originally planned for fiscal 2007 will be pushed back to fiscal 2008. So now the capital expenditure plan for Fab No. 2 is: about 16 billion yen in fiscal 2006, about 56 billion yen in fiscal 2007, and about 50 billion yen in fiscal 2008. These revisions to our initial investment plan are based on the projected needs of our customers for 65nm process technology. So, although volume production will begin in July, we believe it will not be in full gear until the second half of the fiscal year. As for actual customer demand for our 65nm technology products, within the first half of fiscal 2007 we should be able to have a clearer picture of this and move in synch with our customers' product shipment plans. We have very high expectations that there will be solid demand starting from the second half.

Questioner A: *Ubiquitous Product Solutions operating income in fiscal 2006 was about 40 billion yen, far exceeding your initial projection of 30 billion yen, but your projection for fiscal 2007 is back down to 30 billion yen. Since you are projecting higher shipment volumes of mobile phones and PCs, what accounts for this reduction in your profit forecast for the segment?*

Mr. Ogura: Our Ubiquitous Product Solutions segment has been performing relatively well. In fiscal 2006, operating profit in the PCs / Mobile Phones sub-segment was 37 billion yen, and in hard disk drives (HDDs) it was about 4 billion yen. For fiscal 2007, even taking into account possible market fluctuations, we are projecting operating income in excess of 30 billion yen for PCs / Mobile Phones. In HDDs, however, the decline in prices is severe, and we expect to post a slight loss.

Just to elaborate on HDD market conditions, in the 2.5" HDD market, for example, there are many competitors, and price declines in fiscal 2006 were severe. We think this trend will continue in fiscal 2007. Around July, however, we will begin shipping larger-capacity perpendicular magnetic recording products. We think perpendicular magnetic recording products will quickly gain a large share of the market starting in the second half of this fiscal year. We expect them to account for about 50% of the 2.5” market in fiscal 2007 and over 70% in fiscal 2008. Because this will enable us to reduce our costs, we think we will be able to restore profitability in the second half of this fiscal year, but we still expect a loss for the full year. In large-capacity perpendicular magnetic recording HDDs, we are confident that we will be able to demonstrate our competitive edge.

Questioner A: *What accounts for the projected 10 billion yen increase in “elimination”?*

Mr. Ogura: Certain company-wide shared expenses will increase, for example: strategic business development expenses for our solutions business, internal IT systems innovation that will enable us to serve as a reference model to our customers, internal control expenses relating to compliance with Japan’s Financial Instruments and Exchange Law, and higher basic research expenses.

Questioner A: *Is the sale of your holdings in Japan Cablenet that was announced recently included in your fiscal 2007 projections?*

Mr. Ogura: As for the effect of the sale of our shareholdings in Japan Cablenet, it is already reflected in our projections.

Questioner B: *Please explain the changes in depreciation method for property, plant, and equipment that you are implementing from this fiscal year.*

Mr. Ogura: We are changing from the declining balance method to the straight-line method for depreciation of property, plant, and equipment. In addition, we are changing from tax regulation-based legal durable life to estimated useful life of assets, which reflects the period of time we can earn a return on capital invested in each business.

Questioner B: *I understand that the optical transmission systems business environment is improving. Should we regard your sluggish results in fiscal 2006 as a temporary phenomenon?*

Mr. Ogura: Yes. Fiscal 2006 was indeed difficult for the telecommunications equipment business, both in Japan and overseas. Domestically, investment was constrained as carriers prepared to shift to next-generation equipment. Overseas, there was also a slowdown in carriers’ investment. In North America the shift from next-generation SONET to metro DWDM occurred earlier than anticipated, and new product development expenses mushroomed. We also incurred expenses in regard to our participation in BT’s 21st Century Network project. I believe, however, that we will see progress in the early part of the first half. The heavy volume of expenses will continue from fiscal 2006 into midway through the first half of fiscal 2007, but I think that the know-how we are accumulating will enable us to expand our next-generation business.

Questioner C: *What is your outlook for your IT services business growth in Japan by industry sector?*

Mr. Ogura: We believe the overall Japanese IT market will grow by 2 to 3 percent in fiscal 2007; in terms of orders, we are projecting growth of around 3 percent for our own solutions business in Japan.

Broken down by industry, we expect 6 percent growth in the manufacturing and retail fields. In the manufacturing sector, we are seeing increased activity in server consolidation and mission-critical infrastructure replacement deals, and in the retail sector, more activity in electronic money and disaster recovery back-up systems. We expect a continuation of last year's favorable performance in these sectors.

In the critical infrastructure systems market, we anticipate growth of 3 percent. We expect that reduced investment in 3G infrastructure will continue into fiscal 2007. However, we are seeing more deals for new systems and for rebuilding business systems for companies in the energy sector in connection with industry liberalization.

In the financial services sector, we are projecting growth of 6 percent. In the credit and leasing segments, deterioration in the business environment is beginning to constrain investment. However, the overall market is expanding due to such factors as a continuing investment by mega-banks, upgrades of accounting systems for regional banks, and investment related to compliance with Japan's Financial Instruments and Exchange Law.

We are forecasting slightly higher growth of 10% for the public-sector market. We foresee a continuation of last year's good results in privatization-related business, as well as a favorable situation in the science area, which is a particularly strong one for us, as well as healthcare-related business.

In terms of regional business, we are projecting 4 percent growth. While the environment has not improved very much, we are anticipating a nation-wide investment recovery centered primarily in urban areas and driven by private-sector demand in the manufacturing, retailing and information industries.

Questioner C: *For fiscal 2007, you are projecting profit growth of 7.4 billion yen for System Platforms. What is the breakdown of this in terms of System Products and Network Products?*

Mr. Ogura: I think that fiscal 2007 will also be an off-year for Network Products. In contrast, we anticipate an improvement for servers and other system products. In April we began shipping our SPARC Enterprise servers, jointly developed under our alliance with Sun Microsystems, and we believe these products will be well received by many Solaris users. Sun is a competitor in the sales arena, yet it is a powerful partner in development and manufacturing. We believe this partnership will become more and more valuable in the future. Along with our PRIMEQUEST and PRIMERGY servers, I think we have a strong server line-up for fiscal 2007. We are planning to capitalize on this, along with the expected market recovery, to increase profits for System Products.

Questioner D: *Were you able to maintain profitability in Network Products?*

Mr. Ogura: We more or less broke even.

Questioner D: *Please tell us about any inventory adjustments for servers and the impact they had on your results.*

Mr. Ogura: We have shortened the time required between production and delivery, so we can adjust production levels to market conditions. Therefore, we were not in a position to have large inventories. As for the impact on our results, there was a significant impact from price reductions of server equipment.

Questioner D: *Your forecasts seem to show stagnating operating profit growth. What are your thoughts on this?*

Mr. Ogura: For Ubiquitous Product Solutions, we are taking a conservative view. In Device Solutions, the market seems to have bottomed out and so we expect there will be an upswing in the market for LSI devices. With respect to Technology Solutions, in the System Platforms sub-segment we are expecting a recovery with the release of our server products. The key is really our services business. We are currently predicting an increase in operating income from the 156 billion yen we posted in fiscal 2006 to 170 billion in fiscal 2007. Our solutions/systems integration business is also on track to expand in each industry sector. Furthermore, in infrastructure services, where we expect business with recurring income streams to be the pillar of our profits, we have the business structure in place to expand our business both in Japan and overseas.

Although our fiscal 2007 forecasts for income in the Ubiquitous Product Solutions segment are lower than those for fiscal 2006, perhaps giving the impression of stagnation, the trend for Technology Solutions, our core business segment, is continued expansion, so I do not think we are in a bad position at all.