

**Summary Translation of Question & Answer Session at
FY 2008 First-Half Financial Results Briefing for Analysts**

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Location: Fujitsu Headquarters, Tokyo
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Questioner A

***Q1:** You appear to have a severe outlook for your Device Solutions business in the second half of fiscal 2008. Is that based on the current level of orders, or is there some other element of risk?*

A1: The projections for our Device Solutions business take into account the flow of orders up through last week. Orders for logic LSI have gotten progressively worse each week. The book-to-bill (BB) ratio for the second quarter fell below 1.0 times in the second quarter, and in September the 3-month average BB ratio was 0.9 times. In logic LSIs, our top 10 customers account for approximately 60% of our sales, and those top 10 customers all have lowered their earnings projections, so we will also be affected.

We think current market conditions will continue through the first half of fiscal 2009. Right now, product development is a key factor to position ourselves to succeed when we expect the market to recover starting in the second half of next fiscal year.

Because of the impact of the earthquakes, some of our production had to be reallocated to other lines, and those lines are running at high capacity. But other lines are slow because demand has fallen. As a result, we expect our capacity utilization rate in the second half to be 75-80% overall.

In addition, for electronic components, we think our projections are fairly conservative in that they take a number of risk factors into account. In terms of the risk of further deterioration, if the yen/dollar exchange rate average for the second half falls below 100 yen, it will adversely impact our earnings.

***Q2:** Your Services business is performing very well, but what risk factors could hurt your Services business in the second half?*

A2: We have not heard of any particularly negative issues. For the full-year sales projections for IT spending in Japan, including hardware, we are expecting 2% growth over the previous year. The economic downturn has not had an impact on our business in Japan. For business outside Japan, IT spending in the financial services sectors is being squeezed, and as a result we have reduced our full-year sales projection for servers and related business by about 10 billion yen. In Services, most of our business in Europe is longer-term outsourcing contracts that are less affected by the state of the economy. For our Services business in the US, much of our business is onsite staff augmentation at the customers' premises, which can be affected by the economy. In the US, to strengthen our capabilities in infrastructure services, in

October we began reorganizing three of our subsidiaries, and we plan to shift our Services business toward longer-term outsourcing contract business that leverages our datacenters.

***Q3:** Will the earnings deterioration in semiconductors and HDDs affect Fujitsu's restructuring plans?*

A3: In our Device Solutions business, we cannot just focus on short-term issues. We need to move ahead in strengthening the business for next year and beyond. While taking appropriate measures to deal with business in the short term, therefore, we also need to focus on strengthening our product development capabilities based on a vision for the future.

In HDDs, price competition in 2.5" products is especially severe, and for the ultralow-cost PC market, we cannot match the price reductions of some of our competitors. We are aiming at a different market. At the same time, we think it will be difficult to continue in this business on our own, so we need to consider speeding up our process of forming alliances with other companies.

Questioner B

***Q1:** For the first half, by how much did operating income in your Services sub-segment exceed your projections? In addition, you mentioned that you have not changed your full-year projections for the sub-segment. What kind of risk factor could affect results in the second half?*

A1: We did not publicly announce our first-half projections for the Services sub-segment, but results exceeded our projections by about 5 billion yen. With respect to risk factors in the second half, there are no significant business-related risks, but if the yen appreciates in value, the yen value of the operating income of our subsidiaries outside Japan will decline.

***Q2:** Please tell us the operating income for the first half and your operating income projections for the second half for the Ubiquitous Product Solutions and Device Solutions segments.*

A2: In Ubiquitous Product Solutions, operating income in the first half was 8.8 billion yen, with PC/mobile phones posting a 10-billion-yen operating profit and HDDs posting a 2-billion-yen operating loss. For the full year, we expect Ubiquitous Product Solutions to have 20 billion yen in operating income, with PC/mobile phones posting a 30 billion yen operating profit and HDDs posting a 10 billion yen operating loss. For HDDs, we expect the third quarter to be the most difficult. On the other hand, if we can shift to volume production of fourth-generation perpendicular magnetic recording products in the fourth quarter as planned, we may be able to reduce that 10 billion yen operating loss.

For the LSI business, there was an operating loss in the first half of over 10 billion yen, and we expect an operating loss of just under 30 billion yen for the full year.

***Q3:** For the operating loss of just under 30 billion yen you expect in the LSI business, how much is attributable to the impact of the earthquakes? Please also tell us the factors contributing to lower earnings in standard logic LSI versus advanced logic LSI.*

A3: Losses attributable to the earthquakes amounted to a few billion yen. The damage from the earthquake in July was relatively minor, but the opportunity loss was significant.

Regarding business conditions in standard logic LSI versus advanced logic LSI, growth in standard products has stagnated. And in advanced products, customer demand has shifted from 90nm to 65nm, so growth in 90nm products has also stagnated. In our capital expenditure plans, we are shifting from 90nm production lines to 65nm lines accordingly. Capacity utilization in the second quarter was about 80% for both standard and advanced products, and we expect it will be 75-80% in the second half, so we are expecting market conditions to remain severe.

Questioner C

***Q1:** For amortization costs for unrecognized retirement benefit obligations and the decline in unrealized gains on your investment securities, what are your projections for fiscal 2008 and fiscal 2009?*

A1: Amortization costs for unrecognized retirement benefit obligations are expected to increase by about 20 billion yen in fiscal 2008 over the previous year, about 10 billion of which was in the first half. Of the 1 trillion yen we have in pension assets, we allocated about 30% to Japanese equities but then shifted a portion of this to bonds in April. But if the Nikkei 225 index stays in the 7,000 yen range, it is possible that the value of this 30% will decline. If that happens, the unfunded obligations, which stood at approximately 200 billion yen at the end of fiscal 2007, will further increase at the end of this fiscal year, which would lead to higher amortization costs of unrecognized retirement benefit obligations next fiscal year.

Regarding the status of our investment securities for the second half, our projections take into account the level of stock prices up through the middle of the week of October 20, and we expect there will be some impact on non-operating income. Our projections, however, do not take into account the recent decline in the Nikkei 225 index below 8,000 yen. If we look at our balance sheet, as of October 27, unrealized gains on investment securities declined by approximately 60 billion yen. Considering tax effect accounting, there is a possibility that net assets could decline by approximately 30 billion yen.

***Q2:** Performance in your Services business in Japan is very strong. What is the situation outside Japan? A number of financial institutions have failed, but how do you view your risk on collections?*

A2: In our business outside Japan, the portion with the financial services industry is not very large. Particularly in Europe, much of our business is with government agencies. Accordingly, compared to other companies, we think our risk on collections is relatively low. In addition, in our outsourcing business, some of it entails receiving advance payment, so there are ways of reducing collection risk.

***Q3:** Have you revised your projections for Fujitsu Services and your other subsidiaries outside Japan?*

A3: In some cases, we have. Let me explain the situation of each of the major subsidiaries in terms of local currencies.

For Fujitsu Services, our projection for full-year sales is £2,700 million, £10 million higher than the projection made at the end of the first quarter, but we have kept our projection for operating income unchanged at £170 million. Due to high start-up costs for a couple of large private-sector contracts we received on the European continent were high, operating income for the first half was only £40 million.

For Fujitsu Consulting in the US, our projection for full-year sales is \$730 million, \$10 million higher than the projection made at the end of the first quarter, but we have revised our projection for operating income down by \$10 million, to \$20 million. We hope to improve profitability through expense reductions efforts, but risks remain.

For Fujitsu Computer Systems, our projection for full-year sales is \$680 million, \$20 million lower than the projection made at the end of the first quarter, but because of cost improvements, we have left our projection for operating income unchanged at \$15 million. It was \$5 million in the first half, and we are projecting \$10 million in the second half.

For Fujitsu Siemens Computers, our projection for full-year sales is €6,000 million, €1,200 million lower than the projection made at the end of the first quarter, and we are projecting a net loss of €100 million, which represents a deterioration of €10 million from our previous projection. This is because of a significant deterioration in the consumer business.

Questioner D

***Q1.** What do you intend to do about Fujitsu Siemens Computers going forward? Demand trends for PCs are changing, so is it possible that the substance of your discussions with Siemens could change?*

A1. We are actively holding discussions in regard to Fujitsu Siemens Computers, but have not reached any agreement yet. As for Fujitsu Siemens Computers's consumer PC business, we will be considering what to do about it.

***Q2.** It seems that your free cash flow will be lower than you originally planned. On account of this, will there be a change in your M&A strategy in North America?*

A2. It is fruitless for existing stand-alone business units to try to offer infrastructure services, so we are proceeding with the consolidation of three affiliates in North America to expand our business by combining the hardware and services businesses. It will also be difficult to expand business simply through sales to existing customers. As to how to implement the business models used by Fujitsu Services and Fujitsu Siemens Computers in North America to expand business, we think it is necessary to consider acquisitions because it is important to have sufficiently large operations. To achieve this, we have made consolidating the three North American subsidiaries an urgent task. Of course, the current yen appreciation makes acquisitions attractive. Our North American management believes, however, that consolidating the three affiliates is our top priority, and so, first of all, we are strengthening our footing in North America.

Q3. Shareholders are concerned about the costs related to the possible acquisition of the remainder of Fujitsu Siemens Computers. Are the negotiations with Siemens proceeding on the basis of a reasonable acquisition price?

A3. There are appropriate valuation methods for undertaking acquisitions, and we are adhering to them in carrying out our negotiations.

Questioner E

Q1. Although results in the Services segment are favorable, based on my experience, there is usually a short lag between the deterioration of the economic climate and the slowdown in IT spending, and so I assume that IT investment will weaken. Do you think that there is a possibility of weakening in the next fiscal year? In addition, how do you view prospects for your profit levels in HDDs and semiconductors from next year on?

A1. We expect IT-related investment in Japan, including hardware, to rise by 2%. Although there is some talk about investment being postponed on the part of regional real estate and construction companies, on the whole there is little talk of a deterioration in IT spending. We believe that there is demand driven by the view that successful companies are the companies that utilize IT effectively. I believe that this view will be validated when IT investment remains strong into next year. It is our obligation to provide high-level services to meet such customer needs.

For mobile phones in the Ubiquitous Product Solutions segment, we will follow a business model in which we are able to generate a certain level of profit by shipping around 350,000 units per month. In regard to Long Term Evolution (LTE) business, there are many opportunities to expand our business in wireless base stations and wireless integration services both inside and outside Japan, and mobile phones can play a major role in this. For PCs, we are continuing those businesses that are profitable. For HDDs, we are creating an organization in which new products can be quickly developed and delivered to customers.

For semiconductors, we would like to generate profits in the second half of next year.

Q2. What will be your free cash flow for the year?

A2. At the beginning of the year, we anticipated 150 billion yen. In the current forecast, we are projecting 95 billion yen, but I believe the amount will exceed 100 billion yen. If we improve our working capital efficiency, I think we will be able to achieve it.

Questioner F

Q1. You lowered your projections for the year. At this time, what is your thinking about the target of 5% for next year's operating income margin that is part of your medium-term plan?

A1. At this point, we are not lowering our target of 5% operating income margin for next fiscal year, but we are fully aware that it will be difficult to achieve under current market

conditions. Under President Nozoe's new structure, there is a possibility that review of the medium-term plan might come around the beginning of the next fiscal year. However, there is no change in the basic Fujitsu strategy, continued from the former president, Mr. Kurokawa, of a strong services business driving our strong product business on a global basis. In the future, we will still maintain this basic direction.

Q2. In semiconductors, apart from your structural reforms, such as reorganization, what kind of reforms will you implement that you can do on your own?

A2. We believe economic conditions and the semiconductor market will start to recover in the second half of the next fiscal year, and to position ourselves for success, I think we should reexamine what type of products match the emerging trends. It is possible that these will not be the products we have been focusing on up to now. To begin with, we are now considering internally what type of product development we should pursue in relation to such emerging trends. We might follow the wrong path unless we implement an action plan based on the product development vision.