

Summary Translation of Question & Answer Session at Fujitsu Management Direction Briefing

Date: June 8, 2007
Location: Grand Prince Hotel Akasaka
Presenter: Hiroaki Kurokawa
President, Fujitsu Limited

***Questioner A:** Could you please tell us your views from a managerial (rather than frontline) perspective regarding possible restructuring of businesses with low profitability, such as your hard disk drive and semiconductor businesses?*

Hiroaki Kurokawa: I suppose one possible option is to split up and sell off businesses with low profitability, but we have to make these operations sustainable businesses in any case. So we are working hard to increase profits for each of these businesses. We are also regularly considering collaborations with other companies, for instance, a partnership in which another company would provide the OS for our mobile phones. Aside from efforts to raise the profitability of these operations as Fujitsu businesses, we are also regularly examining and managing them from a higher dimension than the front lines and thinking of ways to foster their growth.

***Questioner A:** Aside from a frontlines-oriented, short-term approach, are you also considering a management approach that takes an industry-wide, long-term perspective?*

Mr. Kurokawa: Of course we are also considering the long-term and overall picture. We are looking at how we can improve our current business in parallel with our goals for the medium to long term.

***Questioner A:** You have improved Fujitsu's balance sheet and stabilized free cash flow, but what level of capital expenditure are you planning for in your medium-term plan?*

Mr. Kurokawa: For the medium term, in order to expand our business worldwide, we are striving to increase the amount of cash we have available to invest. We want to maintain our current strengths while aggressively expanding our business.

Our planned capital expenditure for fiscal 2007 is about 290 billion yen. This represents a decrease from last year, but it is in accordance with our policy of investing within the range of each business unit's cash flow. In order to fully manage cash flow, we are strictly holding each business unit to their plans.

***Questioner B:** With respect to your medium-term target of generating an operating income margin of 5% by fiscal 2009, could you please break out the targeted margin on a segment-by-segment basis?*

Mr. Kurokawa: In Services, we are seeking to increase our operating margin from the fiscal 2006 level of 6.4% to around 8% in fiscal 2009; in System Platforms, from 1.1% to around 3%; and in Electronic Devices, from 2.5% to about 7 or 8%. In the HDD business, we realize that in order to survive we need to invest in the next generation of technology after perpendicular magnetic recording, so we expect the operating conditions in that business to continue to remain difficult.

In order to improve profit margins in our System Platforms sub-segment, we need to shift more production in-house, thoroughly eliminate waste, reform our sales approach, and have our sales, system engineering and business units work together as one in making the products that our customer want.

To take a concrete example, in servers and related products, we plan to cut the number of product variations we offer to one-third of the previous number and internalize costs previously spent on outside sub-contractors, thereby enabling us to reduce our cost ratio. We also intend to take measures to change the outlook of our sales units and sell the products we make at appropriate prices.

Questioner B: *What is your equity capital strategy for Fujitsu subsidiaries?*

Mr. Kurokawa: We need to manage our business on a Group-wide basis if we are to succeed. By making our subsidiaries in such areas as telecom equipment and semiconductors into wholly owned subsidiaries, we can reduce redundancies within the Group and also increase the fluidity of our human resources allocation, enabling us to flexibly shift resources to the most profitable business areas.

Conversely, in the case of NIFTY Corp., having undertaken an initial public offering it can now develop business opportunities outside of Fujitsu that will open up new avenues for growth.

Questioner B: *What are your thoughts on Fujitsu's investment in advanced technology semiconductor devices?*

Mr. Kurokawa: Going forward, 45nm, 32nm and finer miniaturization technologies will continue to advance, but I do not think these are areas in which any one company can succeed on its own. If we could find a mutually beneficial alliance with another company, I would certainly consider it.

Questioner C: *I understand you have set an operating income margin target of 5% as an absolute must for fiscal 2009; what is your net sales target for this same period?*

Mr. Kurokawa: Yes, we do consider a 5% operating income margin to be essential. I think that if we do not have this as a basis, we will not be able to put ourselves on track to proceed with structural reforms.

In regard to our target for net sales, comparing our operating income for fiscal 2004 and fiscal 2006, the impact of price declines was approximately 600 billion yen. We did our best to cover this shortfall with increases in unit sales volumes and cost reductions and somehow managed to increase operating income by 30 billion yen over this period. Based on this experience, we have decided that we should refrain from setting targets for sales. As far as continuing to increase sales year-on-year is concerned, unless we continue to make acquisitions, it is possible that we will reach a limit at some point. Therefore, we are now focusing our management efforts on achieving an operating income margin of 5% and, as a result, anticipating net sales in the range of 5.0 to 5.5 trillion yen.

Questioner C: *Regarding your targeted operating income margin of 8% for Services, will you be able to achieve this by continuing your current business approach or are you considering other measures?*

Mr. Kurokawa: By no means will this be easy to accomplish; I believe that we will need to step up our efforts and reforms. It is impossible to implement IT solutions unless you are able to

describe what is needed from the standpoint of the customer and his business. In order to achieve this, we must further strengthen our role as field innovators.

Moreover, in regard to our global business, which we are in the process of expanding, I believe that we can further improve performance in our Services business if we make greater use of the 4,000-person-strong offshore resources or Rapidigm in India.

One more area we will emphasize is standardizing and automating services. For this purpose, the bulk of our platform solutions centers and talented personnel from our shared technology divisions – a total of 300 to 400 people – are being shifted to our Fujitsu Support and Service subsidiary. In this way, we will advance the standardization and industrialization of individual work processes, thereby shifting to a more industrialized style and an organizational structure in which we accumulate know-how regarding cost reductions and agility as well as knowledge.

I mentioned that we are aiming for an operating income margin of 8% in Services. I personally, however, would like to aim even higher. Considerable efforts and structural changes will be necessary to achieve this, but I believe success here is an important step in developing global business for a relative latecomer like Fujitsu.

***Questioner C:** Is your goal of achieving an 8% operating income margin in Services in fiscal 2009 premised on maintaining the same number of system engineers in 2009 as you now have, or do you think it will be necessary to strengthen your resources?*

Mr. Kurokawa: I do not think that we will be able to increase our own system engineering staff very much. This is precisely why I believe that we must reorient existing resources outward. In addition, we need to shift staff in our indirect divisions to BPO business, so that they can contribute value through profits gained from outside the company. Through this kind of initiative, I would like to expand our resources dedicated to IT solutions and business solutions, even if we do not increase the absolute number of system engineers.

Moreover, I would like to gradually bring our upstream IT solutions business up to world-class levels and be able to make fuller use of our resources in India and elsewhere.

***Questioner D:** What is management's view of the medium-term target of generating an operating income margin of over 5%?*

Mr. Kurokawa: This number is based on the figures in the three-year plans of each business unit. An operating income margin of 5% is a management hurdle that we, as a company, need to overcome. We will be managing the company based on this plan.

***Questioner D:** In your overseas business, the profitability of your product businesses, in particular, appears to be low. What is your strategy for raising profitability in this business?*

Mr. Kurokawa: As is the case in Japan, the profitability of our services business is also increasing overseas, but the issue is how to improve our product businesses. The presidents of our overseas subsidiaries are very aware about the need to improve profitability, so if they can set the proper goals and get support from the head office, we think their profitability will improve.

Regardless of whether it is in Japan or overseas, if we do not think about what Fujitsu's true strengths are, we will not be able to expand our business in the future. We are now steering the company toward a consensus that we need to expand our product businesses on a global scale. Our

old approach was to simply take whatever business we were doing in Japan and replicate it overseas. I would like to improve our profitability by fundamentally changing that approach.

Questioner D: When you refer to positive structural reforms, would that also include potential sales of business units?

Mr. Kurokawa: If selling a business unit would result in improved motivation on the part of its employees and an improvement in its financial results, we would consider it. While a sale is an option we always have in mind, I am first firmly urging our managers to improve the performance of their business units.

Questioner D: What is your future equity capital strategy for your electronic devices divisions?

A4: With respect to Shinko Electric and Fujitsu Components, there is no change in our equity capital strategy. For listed subsidiaries that are pursuing their own business expansion, we expect them to run their businesses as they deem appropriate.

Questioner E: Why is it that profits in your HDD business are not increasing, despite higher sales and higher shipment volumes? When will the higher sales translate into higher profits?

Mr. Kurokawa: The HDD industry is oligopolistic, but price competition is extremely severe. We think the severe conditions in this market will continue for the time being. It is not, however, our intention to get drawn into price competition. We seek to differentiate ourselves with superior technology that our customers value highly and expand our business on that basis.