Summary Translation of Question & Answer Session at Management Direction Briefing for Analysts

Date: August 5, 2008
Location: Fujitsu Headquarters, Tokyo
Presenter: Kuniaki Nozoe, President

**Questioner A**

**Q1:** Considering the current operating environment, it would appear difficult to achieve your medium-term target of a 5% operating income margin by fiscal 2009. How do you intend to meet the target?

**A1:** In fiscal 2007, the operating income margin for our business outside of Japan was approximately 1.2%, while it was 5.7% for our business in Japan, so our results outside of Japan are dragging down the overall margin. I think operating income in our Services business in Japan in fiscal 2008 will improve considerably, driving an improvement in our overall operating margin. I have asked all other units to make every effort to achieve an operating income margin as close to 5% as possible.

Fujitsu has 52 business units, and each business unit has responsibility for its own profit and loss. In addition, even if a particular business unit is producing an operating loss, we are working to make sure that at the business group level, which is the next higher organizational tier, the 5% operating income margin target can be achieved. We feel Fujitsu’s survival is dependent on meeting this target, so we have a strong sense of urgency in achieving it.

**Q2:** You have said that your semiconductor business is at a crossroads, but I am wondering what metrics you are using to evaluate progress in your semiconductor business. In addition, if you were to consider creating a strategic alliance with another company, would you be willing to agree to layoffs, if they were required?

**A2:** With respect to 32nm process advanced logic devices, Fujitsu does not intend to invest alone. For sustainable growth, we feel it would be best to form a strategic alliance, but currently there are no concrete discussions taking place. Mr. Haruki Okada, the president of Fujitsu Microelectronics, has been given the responsibility for our overall semiconductor business, but issues relating to investment and personnel will be addressed at the Fujitsu Group level.

**Questioner B**

**Q1:** The operating income margins of some of your businesses are quite high, but it appears that your shared expenses are also quite high. What measures do you think will be required to constrain shared expenses?

**A1:** Starting with the corporate headquarters division, we are trying to convert back-office administrative divisions from cost centers into profit centers. For example, our initial group of Field Innovators included management-class experts from accounting, general affairs, personnel and other administrative business units, and we are spending 2-3 billion yen each year on training them to be consultants. By enabling these people to develop expertise in visualization technologies and become senior business consultants, we are converting back-office divisions into divisions that can make a sales contribution. In addition, we are pursuing structural reforms in which divisions within Fujitsu Limited are being split off as subsidiaries.
Q2: Your medium-term target of an inventory turnover ratio of 2 times appears difficult to achieve. Why did you set the target and what specific measures are you taking to achieve it?
A2: It is a challenging target, and having set it as one of our medium-to-long term targets, we will do our best to achieve it. Up until now, each business group was responsible for managing its own inventory levels, but we will be pursuing process reforms to improve our inventory turnover in an initiative led by Corporate Senior Executive Vice President Tatsuo Tomita and including Corporate First Senior Vice President Junichi Murashima of our Solutions business.

We set an inventory turnover ratio target of 2 times as part of the goal of becoming a strong global company, and also because we wanted employees involved in manufacturing and development innovation initiatives to have a tangible target to pursue.

Q3: What is your vision of the kind of company you would like Fujitsu to become by 2012?
A3: I would like Fujitsu to be a company that our employees take great pride in, and which is seen by the public as a company with a uniquely strong capabilities in specific areas, for example, the environment.
In addition, I would like us to resolutely follow the principles of the Fujitsu Way and become the world’s top company in delivering global business solutions.

Questioner C
Q1: What are your thoughts with respect to the potential restructuring of your hard disk drive (HDD) and mobile phone businesses?
A1: The person responsible for considering the future direction of our HDD business is Corporate Senior Vice President Ichiro Komura. I have told Mr. Komura that I want him to accelerate the pace of operations to achieve sustainable growth and profit improvement. Our mobile phone business made a solid contribution to consolidated operating income in fiscal 2007. Up until now, in both mobile phones and mobile phone base stations, we have worked very closely with NTT DoCoMo, and if we are to expand our global business, we need to work even more closely with them. I strongly feel that the LTE mobile base station technology we are developing with NTT DoCoMo is the best of its kind in the world. The multiband base stations we are currently promoting, for example, have received extremely favorable evaluations for their drastic size reduction compared to previous models and energy-saving features. Rather than thinking about the global expansion of our mobile phone business on its own, we are thinking about mobile phones together with the very powerful technological capabilities we have in mobile phone base stations.

Questioner D
Q1: On page 12 of the presentation materials, you explain that in fiscal 2007 the operating income margin in the Solutions/SI segment in Japan improved to 9.8% (graph shows operating income figures for Fujitsu parent and Japan subsidiaries, excluding corporate expenses). What level of operating income margin do you anticipate for fiscal 2009?
A1: For Solutions/SI business in Japan, I first established 10% as a target for the internal operating income margin for fiscal 2008 and, as an interim step to achieving that target, set 8.6% as our target for fiscal 2007. We beat that target by achieving a margin of 9.8% in fiscal 2007. We have not announced a specific margin for fiscal 2009, but we expect it will be improved.
In Japan, Group companies have a total of about 22,000 system engineers, and in fiscal 2007, we improved our system engineer project turnover ratio to 2.6 times with this number of system engineers, achieving an operating income margin of 9.8%. We think that it is possible
to increase the turnover ratio to 3 times, enabling us to improve operating income. In addition, I believe that such measures as promoting our packaged solutions business and our “infrastructure industrialization” initiative will also contribute to improving the operating income margin. Besides this, we have set up the TRIOLE Business Promotion Division and are making progress in creating IT utilization templates, and we think that these initiatives will make a major contribution to our results from fiscal 2008 on.

**Q2:** On the same page, you indicate that the SI business in Japan accounts for about 600 billion yen of the net sales of 1,258.8 trillion yen for your Solutions/SI business. Please tell us about the remaining portion.

**A2:** Fujitsu Business Systems, PFU, and Fujitsu Consulting in the US, among others, account for the remainder.

**Q3:** Please tell us about your thinking regarding a global strategy for servers, including the role of Fujitsu-Siemens Computers.

**A3:** Fujitsu’s business model calls for our Technology Solutions segment to drive our overall business, and we are strongly committed to further strengthening our server business. I imagine that your intention is to ask what we will do in the future about our Fujitsu-Siemens Computers joint venture, and we will continue our discussions with Siemens in accordance with this policy. We have absolutely no intention of abandoning our server initiatives or putting ourselves in a weak position.

**Q4:** Fujitsu has reached the point where it is able to create free cash flow on the level of above 100 billion yen annually. How are you thinking about using it?

**A4:** We believe that M&A is one effective means of strengthening our businesses and increasing our competitiveness, but first we will emphasize fostering Field Innovators. After this, we will consider M&As, proceeding after having our recently established global steering committee consider it in relation to advancing our global strategy.

**Questioner E**

**Q1:** On page 8 of your presentation, under business areas being considered for “selection and consolidation,” about how many units are you now assessing?

**A1:** For our 62 solution-related affiliates in and outside Japan, 30 of which are system engineering companies, we have already carried out a certain degree of reforms. In the future, some of these companies have the potential to become publicly listed. On the other hand, among subsidiaries that are already publicly listed, some have not achieved their purpose in being listed, and others, while generating profits, have seen their value and share price stagnate. We are now considering how best to handle these companies. For semiconductor subsidiaries as well, we are considering structural reforms for under-performing companies. Likewise, in regard to hardware product companies in which we hold a 50% equity share, unless they can improve their performance, we will decide to either make them 100% subsidiaries or sell our holdings in them.

**Q2:** You have said that up to now you have been shifting your business resources to Technology Solutions. Will you accelerate this shift in the future? Please tell us about the allocation of your management resources.

**A2:** As exemplified by our Field Innovators, we think it is necessary to foster human resources as we proceed with expanding our business in Technology Solutions. Shifting resources is not a simple matter because we believe that thorough human resource training must be carried out. Premised on carrying out this type of training, we believe that we should
Accelerate the shift in resources toward Technology Solutions in the future. In order to increase the proportional weight of Technology Solutions in our overall sales and income, a shift of resources is required, including on the global level. In the future, there will be a real need for a resource shift in order to expand our hardware product business globally.

**Q3:** Have you changed your earlier management policy that called for each business to be self-reliant within the scope of its own cash flow?

**A3:** For the 52 business units in the company, the policy is that they turn a profit. We ask them to use those profits to fund investments and reinvest their return on those investments. Unless cash flow is positive, there will be no funds to invest. That is why I say that it will be difficult for us to fund by ourselves the investments required in advanced logic semiconductors. If we do not form an alliance with another company, it will be extremely difficult to make the required investments in the future within the limits of our own cash flow. Our 52 business units are organized into 10 business groups, and we have instructed our 10 business groups (excluding cost centers) to manage their own cash flow and to invest within the scope of their own cash flow.