

**Summary Translation of Question & Answer Session at
Briefing for Analysts on New Subsidiary for LSI Business**

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Questioner A

***Q1:** For fiscal 2009, your goal is to achieve an operating income margin of 5%, but what steps do you plan to take to achieve that goal? Change your product mix? Increase sales? Reduce fixed costs?*

A1: One of the main elements is that our ASSP business, an area in which we have spent the last several years solidifying our position, is entering a period in which it will generate returns on investment. In addition, we will reduce fixed costs at some point.

***Q2:** You recently announced that you will incur charges of 10.0 billion yen this fiscal year for relocating facilities from the Akiruno Technology Center. Do you expect to incur any further restructuring costs in fiscal 2008?*

A2: We do not anticipate incurring significant charges relating to structural reforms to the LSI business in fiscal 2008. There will be, however, a need to improve efficiency, including through investments in production lines.

***Q3:** Please clarify your stance on R&D in process technology for 32nm generation and beyond.*

A3: We are in the process of reviewing our collaboration with Fujitsu Laboratories in various ways, but we intend to move forward while continuing to maintain our fundamental relationship.

***Q4:** To strengthen your sales capabilities, you converted Fujitsu Devices into a wholly owned subsidiary and reformed the unit under the new corporate name Fujitsu Electronics. Are you starting to reap benefits from these moves?*

A4: The sales function is now integrated and the lines of responsibility are now clear. In addition, there has been collaboration on software development, for reference boards and other products, and the sales group is starting to leverage that experience in generating proposals for customers, so I think we are starting to see benefits in that respect, as well.

***Q5:** What levels of R&D expenses and capital expenditures are you planning for fiscal 2008?*

A5: Our level of R&D expenses will not decline significantly from fiscal 2007 levels. As for capital expenditures, we made major investments in fiscal 2006 and fiscal 2007, we will scale down our investments in fiscal 2008. We want to retain a flexible stance and make adjustments when we have a firmer grasp on what our cash flow will be, but for the time being we are planning to restrain capital spending.

Questioner B

***Q1:** Looking ahead to after the LSI business becomes a subsidiary, in operating the semiconductor business separately from the parent company, in what areas do you think you may face shortcomings? There may be a number of issues, such as fundraising ability or management capacity, for example. And, in the future, in the event the new company is no longer a consolidated subsidiary, do you think there will be any loss of shareholder value?*

A1: We are aware of issues, such as fundraising ability, that may arise after the unit becomes a subsidiary. But the decision to form a separate subsidiary was not preconditioned on some future event. We have not made any decisions about the future. As for raising funds, we have run cash flow simulations for fiscal 2008 and beyond. If necessary, we think there is always the possibility of relying on the cash management company within the Fujitsu Group to raise funds. We have no plans to get a capital infusion from a third-party company.

***Q2:** In the LSI product business, do you think it is essential for Fujitsu to have proprietary process technology?*

A2: It may be true that there are a lot of common parts of process technology, but for the parts that our customers value, we want to retain our own processes.

***Q3:** Regarding your recent announcement, some of your competitors have said very similar things. In order to differentiate yourself and achieve superior performance, what do you think you need to do?*

A3: I know that it is difficult to evaluate software expertise from the outside, but in our case, we think our ASSPs, which we spent four long years developing, will lead us to outstanding performance.

Questioner C

***Q1:** Please describe the overall impact of the decision to reorganize the semiconductor division into a new subsidiary on the overall management of Fujitsu's hardware business.*

A1: We think our semiconductors are the source of the competitiveness of Fujitsu's hardware, and we decided that operating our semiconductor business as a separate subsidiary would enable us to keep pace with the rapid changes that characterize the semiconductor market.

Q2: For fiscal 2007 and beyond, what will be the levels of free cash flow generated by the semiconductor business?

A2: For fiscal 2007, free cash flow will be negative, but we will start to generate some level of positive free cash flow in fiscal 2008.

Q3: In your presentation material (p.22), for sales of ASSP/general-purpose products, approximately what percentage is ASSP sales? Will chips for WiMAX make a significant contribution to growth in the future?

A3: ASSP sales in fiscal 2007 will be approximately 10% of the total. By fiscal 2010, we aim to double sales. The overall contribution of WiMAX chips will be fairly small, even in fiscal 2010. The contribution will begin to be more evident starting in fiscal 2011.

Q4: What are the reasons behind your decision to change your production capacity plan at Fab No. 2 at the Mie Plant in fiscal 2008?

A4: Although we have already done prototype production of 65nm devices, some customers have changed their production plans due to changes in market demand.

Q5: What do you think the growth rate will be in the semiconductor market?

A5: For fiscal 2008, we expect it to be in the 0-3% range.

Questioner D

Q1: Did your decision to form a separate subsidiary stem from obstacles to management independence? In becoming a subsidiary, I assume that you will have greater freedom, but in what ways will this manifest itself?

A1: It is not as if there were obstacles. It is just that Fujitsu's business is comprised of a number of different areas, such as IT services, servers, telecommunications, and mobile phones, and each of those businesses has a completely different management cycle and a different way of handling contracts. Because of that, for each area, we feel it is best for those with expertise in each respective market to be making the business decisions. Regarding decision-making freedom, we have 100% freedom with respect to the cash flow we generate. President Kurokawa has also promoted reforms so that authority over decision-making is delegated, to the extent possible, to the frontlines in order to strengthen the organization as quickly as possible.

Q2: There are various business models, such as fab-less, fab-light, and foundry. Which business model will you pursue in the future?

A2: We have no plans to recklessly expand the scale of our production, but we plan to continue our COT business. And, while we do not plan to get rid of our fabrication facilities, there are some areas in which it is necessary to pursue a fab-less model in order

to raise the value of products, so I think we have to consider a balance between those areas.

***Q3:** You talked about using software to differentiate yourselves from competitors, but to what extent can you expect repeat orders from customers? Is it possible that a competitor could provide a reference design that would completely disrupt your strategy for a particular customer?*

A3: Although I cannot disclose the name of the customer, there is a customer that, for one product, our share of the customer's business went from 10% to 100% within just a few years. I think it stems from a realization on the customer's part that hardware and software are really inseparable. For that reason, if a competitor offered something completely different in hardware and software to one of our customers, unless it was for a completely new product, the chances of our losing the customer's business to a competitor are very low.

Questioner E

***Q1:** Is there any special reason behind the timing of your decision to form a subsidiary? Is there something that could only be done if you formed a subsidiary or new company at this time?*

A1: We felt that, in order to accelerate the speed of our business, it is important to clarify who the key decision-makers are. We do not have time to spend on endless discussions, and we chose to form a separate subsidiary in order to enable people with the proper authority to quickly make decisions.

***Q2:** You still hold shares in Spansion Inc. How long do you intend to retain those shares?*

A2: We retain a small shareholding in Spansion Inc. Since this issue relates to our relationship with another company, we will refrain from commenting at this time.

***Q3:** You have a subsidiary involved in downstream assembly operations. Are there any plans to bring these operations into the new company, or will the new company just focus on upstream operations?*

A3: Performance of the subsidiary handling downstream assembly became good after restructuring. In the future, depending on the circumstances, we may decide to make changes.

Questioner F

***Q1:** After becoming a separate subsidiary, is there a possibility of doing an IPO or making other significant changes?*

A1: We have laid the foundations to operate as an independent company, but we have not made any decisions in that regard for what actions we will take after we become a separate subsidiary.

Q2: Your capital expenditures in semiconductors were 100 billion yen in fiscal 2007. What levels are you planning for fiscal 2008 and beyond?

A2: For fiscal 2008, we are planning capital expenditures of 50-60 billion yen.

Questioner G

Q1: Does the senior management of the new company feel the company could succeed in the event that it were no longer a consolidated subsidiary of Fujitsu?

A1: There are no plans to not operate as a consolidated subsidiary of Fujitsu, but if that were to happen, we certainly believe that we could succeed. In this business, if we did not feel we could succeed, we would not be able to survive.

Q2: In your presentation, in describing how each of the operating companies in the Electronic Devices Group will support each other in order to grow, you used the analogy of an airplane. If the airplane were no longer a consolidated subsidiary of Fujitsu, would it still function well enough to succeed?

A2: We are on a very focused path. On that path, even if we were not a consolidated subsidiary of Fujitsu, we certainly believe we could succeed.

Questioner H

Q1: Is there anything you have learned by the success or failure of other companies that have converted their operations to a separate subsidiary?

A1: I cannot comment on any specific examples involving other companies, but as a general principle, what we think is important is how the new company will increase corporate value. One of our strengths is our intellectual property portfolio, and how we handle it will be very important. We have spent a long time preparing for this. In addition to that, another important element is clarifying authority and responsibility when having fewer numbers of management.

Questioner I

Q1: After becoming a separate subsidiary, the company will be delegated management responsibility by your parent company, Fujitsu, but I am wondering how much authority you will have. For example, if you decided to enter into a joint venture with another company, would it be acceptable to notify your parent company after the fact?

A1: Decisions by the Board of Directors of Fujitsu Microelectronics will be reported to Fujitsu, our parent company, after the fact.

Q2: You are projecting an operating profit margin for Fujitsu Microelectronics of 5% in fiscal 2009, but that level does not seem to be very satisfactory. What is your view?

A2: I agree that the operating profit margin of 5% for fiscal 2009 is not satisfactory. For that reason, we plan to reduce fixed costs.

Q3: *What level of operating profit margin would you consider satisfactory?*

A3: I think it should be at least 10-12%.

Q4: *You talked about maintaining a level of capital expenditures in semiconductors of 50-60 billion yen, but that sounds to me like you are planning to reduce production at your own facilities and increase the level of foundry business you outsource. Is that the case?*

A4: It is not the case that we are planning to reduce production at our own facilities and increase the level of foundry business we outsource. Our level of new capital investment is a function of the level of demand from our customers.