Summary Translation of Question & Answer Session at
Briefing for Analysts on LSI Products Business Strategy

Date: August 27, 2009
Location: Fujitsu Limited Headquarters, Tokyo
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Questioner A

Q1: *What are the challenges facing Fujitsu Microelectronics Limited (FML), as well as the company's strengths?*

A1 (Okada): FML needs to strengthen the competitiveness of its products. The company has to be able to offer valuable solutions to its customers if it is going to survive. Until now, FML has pursued a business model that emphasized large-scale investments in the field of advanced technology, but in this severe business environment this has resulted in a large excess of both human resources and production facilities. In response, we have shifted to a fab-lite model, consolidating our production lines, reallocating our personnel, drastically curtailing our fixed costs, and have implemented a significant change of course towards maximizing the use of our optimized production facilities. As a result, we now see a prospect of restoring profitability in the second half of the fiscal year. We are focusing on four business domains in our plan to strengthen the competitiveness of our products. In the future, by combining our individual technologies, we should be able to provide stronger solutions to our customers. I think it will be possible for FML to achieve an average operating income margin of 8% between fiscal 2012 and 2014.

Q2: *How is the semiconductor business being positioned within the Fujitsu Group? Also, what contributions can the semiconductor business make to the Fujitsu Group?*

A2 (Okada): Unfortunately, our semiconductor business has been in the red for a long time, and returning the business to profitability is a pressing and important concern for us. We view the current severe economic situation as a valuable opportunity, and have taken advantage of it to significantly reform our business model, cost structure, and product portfolio. The purpose of these reforms is to transform FML into a company that on its own can consistently generate profits. Additionally, we are able to contribute by supplying advanced LSI devices for use in Fujitsu's products.

Q3: *Will FML be able to create an equal partnership with Taiwan Semiconductor Manufacturing Company (TSMC)?*

A3 (Okada): Our partnership is not based on a simple foundry model. In view of our intellectual property to be shared, we are pursuing the joint development of 28nm process technology. We are also exploring the joint development of packaging that

take advantage of FML's strengths. I think that our partnership with TSMC will be mutually advantageous. As you know, until a year ago we were competitors. However, after several negotiations, we have forged a forward-looking partnership. I think this collaboration model will benefit our customers. Additionally, we are also in discussions about co-developing a global ASIC model for TSMC's major global customers.

Q4: *When compared to fiscal 2008, what changes do you anticipate in your cost structure for the period between fiscal 2012 and 2014?*

A4 (Okada): In fiscal 2008, we posted approximately 50 billion JPY in impairment losses for Fab No. 2 at our Mie Plant, so that a good part of it has been depreciated. Our plants in Iwate and Aizu-Wakamatsu have been largely depreciated already as well. Hereafter, we will generate profit by thoroughly optimizing the use of our production plants, which will be reduced to an optimal size. We are aware that our R&D expenses are still high in relation to sales, but we plan to shift our investments from advanced processes, to focus on strengthening the competitiveness of our products, while leveling our R&D expenses to appropriately reflect the level of our sales.

In regard to the transition of our medium-term targets based on strengthening our product competitiveness for fiscal year 2010, we anticipate operating income of 10 billion JPY with an operating income margin of approximately 3%. For fiscal 2011, we anticipate operating income of over15 billion yen and an operating income margin of approximately 5%. Afterwards, we are envisioning an operating income margin of approximately 6% for fiscal 2012, approximately 8% for fiscal 2013, and approximately 10% for fiscal 2014. Regarding our target sales, we anticipate sales of 290 billion JPY for fiscal 2009, and sales of 310 JPY for 2010. Following fiscal 2011, by fiscal 2014 we expect sales to grow to about 340 billion JPY.

Questioner B

Q1: *Please describe the reasoning behind your decision to reduce or halt six areas of your new product development.*

A1 (Okada): Basically, the businesses were unprofitable. Because our resources are limited, we have separated our businesses into three groups: those we will close, those we will grow, or those we will newly develop. In the end, we decided to withdraw from businesses which have been unprofitable. Of course, we will provide continuous support to existing customers of these products, but by taking necessary procedures, over time we plan to gradually discontinue these products. We have decided that, even if the market for these products expands in the future, it is not a sufficient condition to continue. FML's continued participation will depend on whether its core technologies coincide with the needs of the market.

Q2: *Please describe the reasons why these six areas became unprofitable.*

A2 (Okada): There are many reasons why these areas became unprofitable, including the fact that the markets did not grow as much as we had anticipated, and I cannot go

into all the reasons here, but I think it can be said that we overstretched our limited resources in a number of fields.

Q3: *How competitive is the production of your Mie Plant, for which you realized valuation losses in fiscal 2008?*

A3 (Fujii): For the 90nm process production line, it is almost fully depreciated, and from a cost structure perspective as well as in terms of scale and technology, I think it is fully competitive, even on a global basis. As for the 65nm process production line, as we were operating at less than half of our originally scheduled production capacity of 25,000 wafers per month, we decided to post valuation losses this time.

Q4: *How do you plan to divide production between TSMC's fabs and FML's Mie Plant?*

A4 (Fujii): FML will handle production that uses technologies up to the 45nm process generation. For 40nm process technologies and beyond, we will use TSMC's fabs. Up to the 45nm process generation, from the standpoint of total cost and performance, including IP and the support library, we feel that it is advantageous to use FML's facility.

Questioner C

Q1: *With respect to your collaboration with TSMC, you mentioned that there is some consideration of a global ASIC model in the future, but for ASICs, up until now, the IDM model has been the dominant approach. In light of this, could you explain your thinking on creating a fab-less ASIC model and what the key success factors of that model will be?*

A1 (Okada): Up until about two years ago, the ASIC COT business was an area that we placed a lot of emphasis on and planned to expand, but now it is an area that we are forced to exit, as you can tell from our statements that now we will not have production lines for 40nm generation chips and beyond. On the other hand, the ASIC business itself is the main source of FML's profits, as well as a core technology. Looking at the current market in Japan, we think the ASIC market will be very difficult going forward, but by leveraging TSMC's capabilities in 40nm and 28nm process technologies, we think our ASIC business in Japan can perform well. Looking further into the future, I think there is an opportunity for us to expand outside of Japan to the global market, and that is why I introduced the concept of the global ASIC model. For us to succeed in this approach, I think it will be critical for us to successfully combine our strengths in IP and customer support with TSMC's global customer base.

Q2: *In order to break even, what will FML's approximate capacity utilization rate need to be?*

A2 (Okada): Unless we are able to achieve a capacity utilization rate of at least 80%, it will be difficult for us to generate profits. For the second quarter of fiscal 2009, we see the capacity utilization rate of our advanced product lines (90nm and 65nm process lines) recovering to a level above 80%, and we are projecting a level in the mid-80s% for the second half of the fiscal year. On the other hand, for our basic technology product lines (90nm and prior generation processes) we expect capacity utilization in the second quarter to be above 70% and to move up to above 80% in the second half.

Q3: *If we hypothetically suppose that FML's current production lines were operating at full capacity and that FML were to need additional capacity, what would you do?*

A3 (Okada): We are restricting capital expenditures as much as possible so that, at the most, we would like to spend no more than about 20 billion yen. Moreover, our policy is that spending would not be on expanding our production capacity but, rather, on sustaining our current production facilities.

Q4: *With respect to your microcontroller business, you said you would be reducing your 16-bit products and continuing only your 32-bit products and products for the automotive sector. Have you considered extending your 16-bit products by procuring the IP cores from outside suppliers?*

A4 (Fujii): The decision to exit the business of 16-bit general purpose microcontrollers was based on the fact that market demand for digital audio-visual products and home appliances is shifting to low-end 8-bit products and high-end 32-bit products, and demand for 16-bit products is diminishing. In addition, FML's position in the market for 16-bit general purpose microcontrollers had not been very strong. For CAN microcontrollers for the automotive sector, however, because we have a large market share, we will expand our business with a full line of products, including 16-bit products.

As to whether we will use IP from other companies, we will decide on a case-by-case basis, depending on the application.

Questioner D

Q1: *In discussing your priority business domains, you plan to expand sales beyond fiscal 2008 levels to over 100 billion yen by fiscal 2013, but you are also planning to scale back or exit some business areas. Could you break out increases and decreases for each product area? In addition, in your priority business domains, it would appear that your sales targets are very aggressive. Could you explain how you specifically intend to increase sales?*

A1 (Okada): I am afraid I will have to refrain from disclosing detailed projections for each product area, but the areas in which we expect sales to expand are our four priority domain areas. On the other hand, the COT area is expected to decrease going forward. In addition, while we would like to grow ASIC sales outside of Japan, we do not expect them to expand right away.

As for the increase in sales in our priority areas, the advanced imaging field is an area in which we excel, and I do not think our growth targets are aggressive. In addition, outside of that field, we are expecting large growth in the mobile/ecological domain. Among new business domains, this is the one we are emphasizing the most, and we plan to aggressively devote a lot of resources to it. Because it is a new domain, we are entering uncharted waters, but considering the future growth potential, I do not think our sales targets are too aggressive.

Q2: *In commercializing gallium-nitride (GaN)-based devices, what kind of capacity range are you targeting for power devices? In addition, what is your planning in terms of wafer costs?*

A2 (Fujii): We are just at the stage at which we start planning for commercialization, and we will be considering various possibilities as we move closer to mass production. Regarding the capacity range, we are targeting an extension of our current mobile LSI power devices, where the greatest competition is around several dozens of volts. In this area, we plan to expand our business through the customers of our sales subsidiary, Fujitsu Electronics Inc. Outside of that area, the automotive sectors are also areas with great promise.

Q3: *If you were to be approached by another Japanese company in the sector about a collaboration or alliance, what would Fujitsu's reaction be?*

A3 (Fujii): I cannot respond to hypothetical scenarios. Right now, restoring FML to profitability on its own is the most important issue for us. In the future, there is the possibility that we will tie up with another company, but until we restore our own company to profitability, we will not even be in a position to negotiate with another company.

Questioner E

Q1*: Within your 18,000-wafer monthly production capacity for advanced products, how much is for 90nm process devices and how much is for 65nm process products? In addition, you mentioned that you would be producing 45nm process devices in your own fabs, but could you tell us what your approximate production capacity will be?*

A1 (Okada): We are not publicly disclosing the ratio of 90nm process devices to 65nm process devices. Regarding the 45nm process devices, we are building a production line, but it is for use in Fujitsu servers, so the production capacity will be limited. For 40nm process devices and beyond, we will be outsourcing production to TSMC.

Q2: *As miniaturization continues to advance, when customers of your 65nm process devices shift to the 40nm process technology devices for which you are outsourcing production to TSMC, will FML's capacity utilization rate decline? In addition, will the products you are currently producing on your 200mm wafer production line be shifted relatively quickly to 300mm wafers?*

A2 (Okada): Because of high customer demand, our 65nm production line is currently operating at full capacity. In addition, because our production capacity is not that large, we do not expect capacity utilization for our 65nm production line to decline.

(Fujii): For production lines using previous-generation technologies, at the point at which product miniaturization advances, we need other products to fill the gap on the older-technology lines. In terms of products that can fill the gap, there are the gallium-nitride (GaN)-based devices I spoke about earlier, as well as flash memory microcontrollers. For flash memory microcontrollers, depending on the customer, there will be demand for a variety of flash memory capacities, and we will meet the demand using a variety of process technologies, including 180nm and 90nm process technologies.

In addition, as there are analog-rich devices, such as radio frequency (RF) chips, not all products will shift to 300mm wafers. Around those times when 180nm or 90nm process technologies were introduced, the speed of miniaturization shifts was rapid, but recently

the speed of miniaturization shifts has moderated, and the number of products that do not require further iterations in miniaturization is increasing.