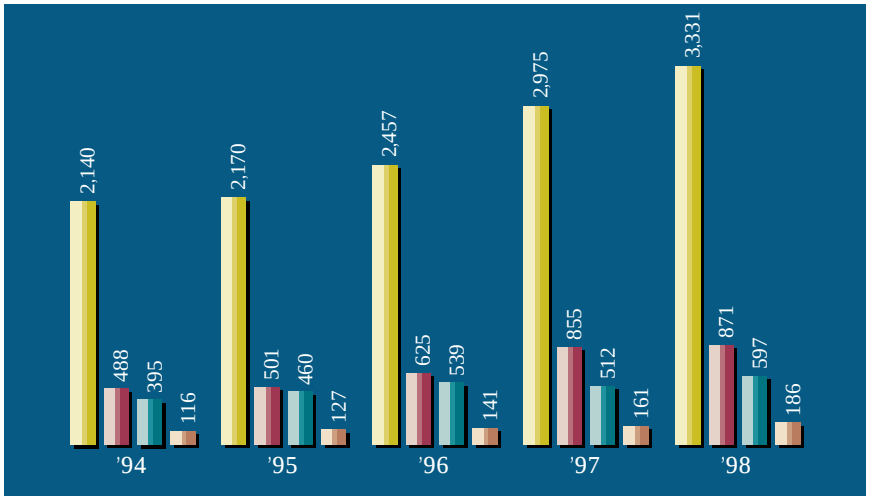
Consolidated Net Sales by Segment

(Years ended March 31)

(¥ Billion)

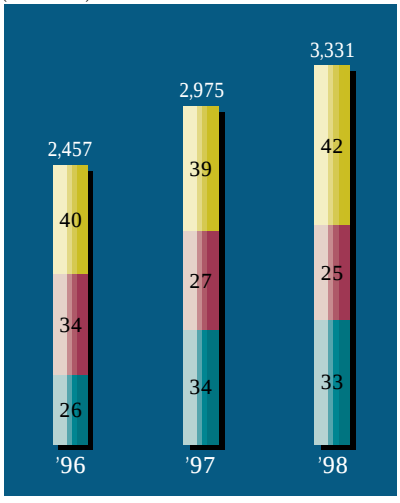


Information Processing
Telecommunications
Electronic Devices
Other operations
[Car navigation systems, batteries, etc.]

Information Processing

Segment Sales

(¥ Billion/%) Years ended March 31



Services & Software
Servers
PCs & Peripherals

Fujitsu's Information Processing Business Strategies & Goals

- To be a solutions provider with global-scale systems integration capability
- To be a leader in network computing
- To provide top quality, leading-edge systems products
- Worldwide market share goals in 2000:

Services and Software	Top 2
Large-Scale Servers	Top 2
PCs	Top 5
Hard Disk Drives	Top 3

In the year ended March 1998, the Information Processing Group's sales rose 12% to ¥3,330.6 billion, paced by growth in the services and software business as well as hard disk drives (HDDs). Services and software revenue increased 18% to account for 42% of sales; sales of servers, including global servers, rose 6% to account for 25% of sales; the personal computer-related business, including HDDs, increased 9% and represented 33% of sales. Despite one-time costs relating to the Amdahl acquisition, earnings rose on higher margins for services and software. Profitability is expected to improve even further in fiscal 1998 and beyond.

SERVICES AND SOFTWARE

Sales in the services and software business rose by 18% in fiscal 1997. This sector's share of total information processing sales has been increasing every year, and accounted for 42% in the year under review.

Particularly strong growth is being seen in the outsourcing segment. To handle customers' data processing requirements, we have established the Akashi System Center, our second such installation in Japan. ICL is also enjoying more than 20% annual growth in its outsourcing business, one noteworthy example of which is the £160 million contract it was awarded by British Gas (BG) Transco in 1997 for management of its communications network.

The foundation for growth in our services business is Fujitsu's FENICS nationwide network of over 200 access points and domestic user base of 28,000 corporations. In addition, we have recently entered into a tie-up agreement with one of the world's largest communications networks covering some 50 countries and about 6,000 access points. This will serve as the foundation for developing a world-scale network service business.

In this regard, Fujitsu and the U.S.'s WebTV Networks, Inc. have established a joint venture company in Japan to provide access to the Internet on household TV sets. Fujitsu is constructing a WebTV network center in Japan and will supply operation and billing systems based on its superior know-how in the network service business.

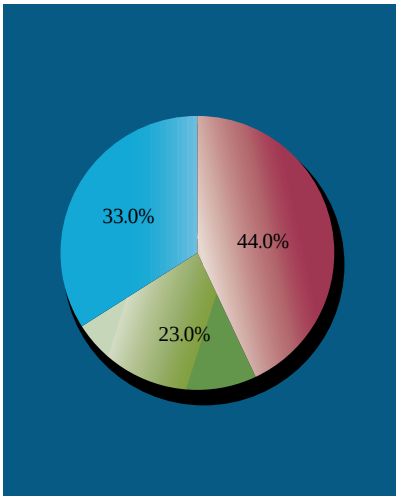
With the diffusion of client-server systems and increasing integration of multimedia applications, demand for multimedia systems maintenance services is growing rapidly. Fujitsu's Client-Server Support Desk has drawn high praise for its computer operation management and hardware/software support for systems comprising both Fujitsu's products and those of other vendors. This unit also responds quickly to inquiries about various types of applications.

Global software development and marketing are essential to the solutions we offer. In 1997, we began worldwide marketing of Jasmine, an object-oriented database software product co-developed with Computer Associates International, Inc. in the U.S. In addition, we launched a new joint venture company in the U.S., called GLOVIA International, LLC., to expand marketing of the GLOVIA integrated Enterprise Resource Planning (ERP) package that supports accounting, personnel, production management and sales management functions.

The strength of Fujitsu's solutions business lies in its vast array of superior hardware and software products. To facilitate selection of the most appropriate solution, in late 1997 we unveiled "SOLUTION-VISION," a new business architecture which combines and integrates Fujitsu's network-based hardware and software components as well as services for corporate computing environments. We are now actively marketing SOLUTIONVISION in connection with electronic commerce, finance and other areas.

Services and Software Sales

Year ended March 31, 1998



- Services
  - •Systems Integration
  - •Professional Services (consulting, training,etc)
  - •Outsourcing
  - •Help Desk Services
  - •Network Services
- Software
  - •Application Packages
  - •Middleware
  - •Multimedia Content
- Maintenance & Support
  - •Maintenance
  - •Construction (installation & cabling)

SERVERS

Server products constitute one of Fujitsu's most important and promising business segments.

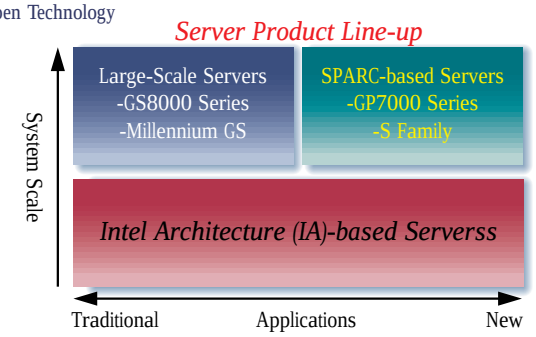
Thanks to lower power consumption, a radically smaller footprint, and lower overall costs, the locus of the large-scale server market is now shifting from Emitter Coupled Logic (ECL) to Complementary Metal-Oxide Semiconductor (CMOS) technology. Anticipating this trend, Fujitsu completed the shift to CMOS-based products in 1996. In 1997 we began shipping the GS8800 Global Server, a top-of-the-line large-scale server employing advanced CMOS technology. In addition, Amdahl launched its Millennium 700 Series, which employs the same technology, and ICL has also begun marketing large-scale servers based on Fujitsu's CMOS technology. Fujitsu is also supplying CMOS global servers to Siemens Nixdorf Informationssysteme AG on an OEM basis. The new CMOS servers, which offer excellent cost-performance characteristics, have been exceedingly well received in the market. Moreover, recent development advances have led us to announce a single-CPU CMOS that will surpass the performance of ECL systems by the year 2000. In medium- and small-scale servers, we now offer a complete line of GP7000 UNIX servers and have expanded the lineup of IA-based servers as well.

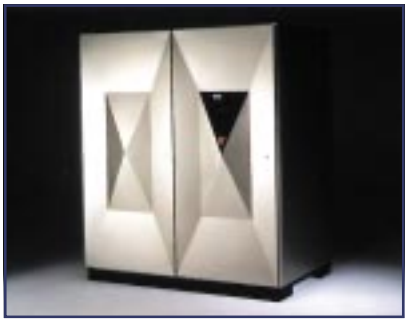
To fully develop the server field, we are implementing a multi-level strategy. First, we are offering world-class servers for both system and network environments. Second, we are leveraging our sophisticated system technology to achieve a high level of scalability and robustness. Third, we are integrating Fujitsu's technology with best-of-breed third party technology to offer customers the advantages of both. Finally, we are conducting all these actions on a global scale. We believe this multi-level strategy will result in higher sales. Accurately anticipating customers' requirements, we will strive to offer optimal solutions by combining our world-class server products, systems integration capability and consulting services.

Large-scale servers is a field in which Fujitsu has long excelled. In Japan, Fujitsu ranks first with a 40.4% share according to an October 1997 study by Fuji Chimera Research Institute, Inc. Many industry observers believe that demand for large-scale servers will continue to grow in the 21st century, since they are essential for building reliable large-scale back-end systems and restructuring legacy systems. Fujitsu's management shares that belief. This is why we are working to optimize our servers for new network computing and Web-centric environments.

Fujitsu's Server Business Strategies

- System and Network Oriented Products
- Advanced System Technology
- Best Mix of In-house & Open Technology
- Global Operations





The Amdahl Millennium 700 series has drawn much attention in the computer industry. It is based on the same technology as the Fujitsu GS8800 global server series.

Personal Computers and Peripherals

Personal Computers

In fiscal 1997, while Japanese domestic shipments of personal computers declined 5% by volume, Fujitsu's shipments remained unchanged at 2.0 million units. Overseas, European demand was particularly strong. As a result, Fujitsu shipped 3.2 million personal computers worldwide, 14% more than a year earlier. In desktops for corporate use, we commenced build-to-order service, tailoring memory, hard disks and other components to order, with the same service for notebooks scheduled to begin in the summer of 1998. About 60% of Fujitsu's PCs are supplied to corporations. The personal computer is thus an important element in the solutions we offer.

Fujitsu has a decisive advantage in that a large proportion of key PC components are developed and manufactured internally. In the portable PC sector, for example, up to 80% of a typical model's value is derived from in-house design and production. Our rigorous testing of components and systems assures product reliability and quality.

In parallel, Fujitsu has a strong infrastructure for global-based procurement and logistics. Design work is carried out worldwide to assure compatibility with regional requirements. Key components are manufactured in Asian countries as well as in Japan. Final assembly is located close to the customer. Our global manufacturing and logistics network, including strong partnerships with third-party component vendors, contributes substantially to cost reduction and customer satisfaction.

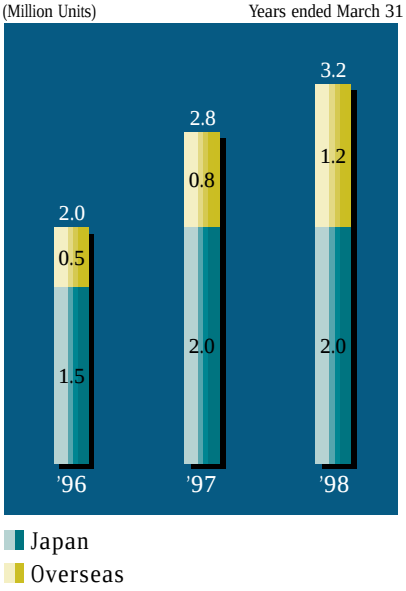
In addition, Fujitsu was one of the first in the industry to promote environmentally sound designs. Our PCs are engineered to maximize the recycling of components.

Hard Disk Drives

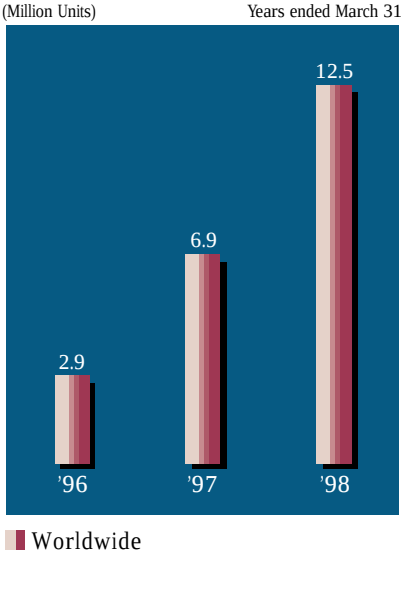
As U.S. and European demand has expanded, we have raised production of compact hard disk drives (HDDs) at our plants in the Philippines, Thailand and Vietnam. Annual shipments in fiscal 1997 climbed 81% to 12.5 million units and our market share also rose. By the year 2000, we are aiming for a worldwide market share of 15% by volume and a position in the top three in terms of revenue. Fujitsu's strength in this field lies in our development power and internal manufacture of high added-value components to achieve high quality. For example, more than 60% of the MR heads we use are manufactured in-house.

GMR head development has been completed and will be implemented in products starting in the summer of 1998. At the InterMag 1997 conference, we unveiled the world's first 8Gbit per square inch storage technology. With today's HDD business requiring optimum combinations of highly sophisticated technologies, technical superiority and vertical integration give Fujitsu an invaluable competitive edge.

Personal Computer Shipments



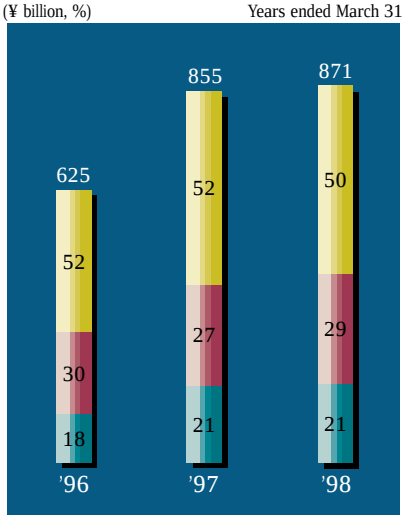
Hard Disk Drive Shipments



Telecommunications

Segment Sales

(¥ billion, %) Years ended March 31



Fujitsu's Telecommunications Business Strategies and Goals

TRANSMISSION

- Attain No. 1 position in the global SONET/SDH market. Fujitsu's successful SONET optical transmission business in the U.S. has significantly contributed to success in Asia, Australia and China.
- Broadband access–focus on ATM-PON, xDSL (Japan, U.S., UK, etc.)

SWITCHING

- Apply Fujitsu's experience from information highway projects such as North Carolina Information Highway, first commercial wide area ATM network, to Asia and Europe (Japan, Hong Kong, Spain, Germany, etc.).

MOBILE

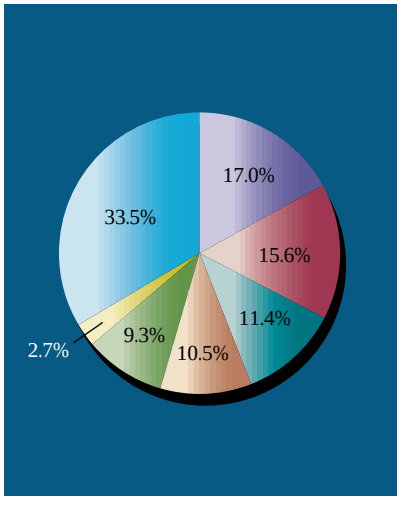
- Focus on CDMA, deploy W-CDMA by year 2000
- Pursue global development (Japan, U.S., UK, China)

Our telecommunications business was adversely affected by reduced capital spending on the part of domestic carriers in the fiscal year's second half. An aggressive response to global networking demand, however, enabled us to increase sales in this segment by 2% to ¥871.3 billion. Profitability declined from the prior year's record high due to price cuts brought about by competition among domestic carriers and a higher proportion of business in Asia, where margins were tighter. The outlook for the next several years is favorable. Demand and profitability are expected to rise as a result of deregulation, a projected rise in capital investment after the upcoming divestiture of NTT, the advent of W-CDMA and other factors.

In fiscal 1997 domestic demand was sluggish as a whole, resulting in an 8% decline in sales within Japan. Although mobile communication systems posted solid growth, there were a number of negative trends. One was slow growth in orders for systems needed to build next-generation networks. In addition, sales were held back as communication providers curbed capital spending and orders for switching systems and transmission systems fell. Future

Worldwide Optical Transmission Market

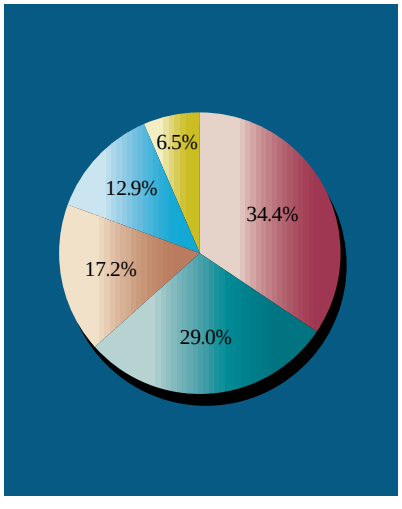
(Shipped amount, 1996)
Market Size U.S. $8,156 Million



[Source: Dataquest 1997 (GG98-Fuj-035)]

SONET* Market for RBOCs**

(Shipped amount, 1996)
Market Size: U.S. $1,661 Million



[Source: Dataquest 1997 (GG98-Fuj-036)]

* Sonet is equivalent to SDH.
** Regional Bell Operating Companies

prospects are brighter. Post-NTT breakup capital investment and the spread of the Internet and intranets are expected to spark demand for communications systems.

In fiscal 1997 overseas demand expanded substantially, particularly in the United States and Asia, boosting sales by 34%. In the United States, demand for high-volume networks grew as the popularity of CALS, electronic commerce and other networked activities fueled growth in traffic. Fujitsu's U.S. communications subsidiary delivered a large number of new optical transmission systems. In China and other Asian countries, where there was rapid progress in expanding the communications infrastructure, demand for digital communications systems rose sharply. In addition, the company supplied a 10-gigabit-per-second optical communications network, the world's largest for a commercial application, to a communications company in Australia. In the field of broadband Asynchronous Transfer Mode (ATM) switching, our FETEX-150 ESP broadband switches were installed by Hong Kong Telecom to power its Interactive Media Service. And in Spain, Fujitsu captured an order from the Galicia provincial government for an ATM switching system. One factor in selecting Fujitsu was its central role in the North Carolina information superhighway project in the U.S.

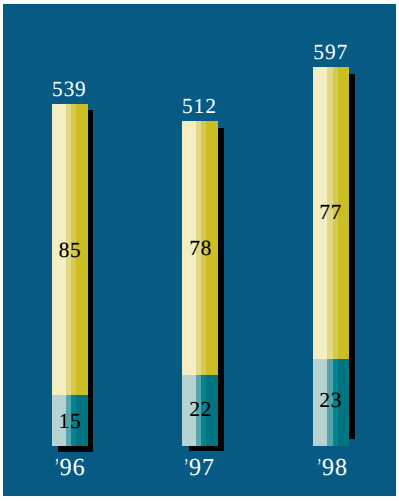
In research and development, the company devised a method to process real-time transmission of the large volumes of data required for moving image and voice traffic: a 10-gigabit optical signal in 32 wavelengths, for a total of 320 gigabits, that is among the world's largest. In addition, we confirmed the ability of Wavelength Division Multiplexing (WDM) to add flexibility and expandability to existing optical networks. And in mobile communications base stations, Fujitsu was selected by NTT Docomo Co. to provide experimental W-CDMA-type systems, recognized as the world standard for next-generation mobile communication systems that can accommodate mobile multimedia. R&D is progressing, with plans to implement the system at an early date.

Fujitsu Laboratories and Fujitsu Limited have developed a WDM system, shown here, that processes a 10-gigabit optical system in 32 wavelengths. Other noteworthy R&D advances include successful prototypes of an Optical Add/Drop Multiplexer (OADM) and an Optical Cross-connect System (OCS).

Electronic Devices

Segment Sales

(¥ Billion/%) Years ended March 31



Semiconductors
Other
[Media devices, PDPs, LCDs, relays, connectors, keybords, etc.]

Fujitsu's Electronic Devices Business Strategies and Goals

- Focus on system LSIs for:
  Digital audio/video
  Networks/mobile communication
  PCs and peripherals (for 3D graphics and storage)
- Maintain top share in flash memories with AMD
- Maintain top share in compound semiconductors:
  Optical devices, Microwave devices, GaAs ICs
- Continue to lead in the PDP market, with advanced mass-production techniques and key patents for design and operations.

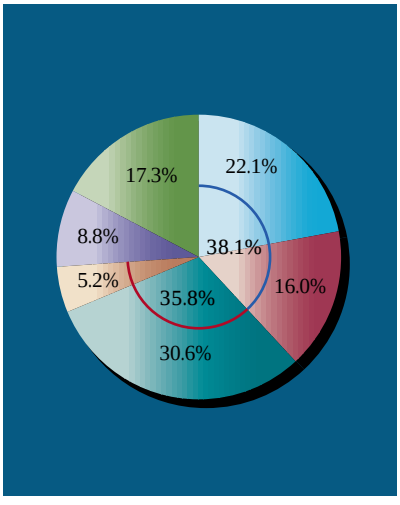
Fujitsu's Electronic Devices group is instrumental in supplying the key components that underpin the competitive products of the Information and Telecommunications groups. Despite depressed DRAM prices in fiscal 1997, gains in demand for flash memories and such media devices as SAW filters resulted in a 17% increase in sales to ¥597.3 billion. This included ¥460.0 billion in semiconductor sales and ¥137.3 billion in sales of other products, including media devices, plasma display panels (PDPs), liquid crystal displays (LCDs), relays, connectors and keyboards.

Semiconductor production by value, which included ¥110.0 billion used internally, was up 4% to ¥570.0 billion. Logic ICs accounted for 44% (48% the year before), DRAMs 20% (21% the year before), flash memories 17% (12% the year before), and other ICs, including compound semiconductors, 19%. Although logic ICs, flash memories and other semiconductors were profitable, the Electronic Devices group recorded a loss overall because of falling DRAM prices.

Logic IC sales were up, mainly the result of growth in sales of system LSIs built around the SPARClite microcontroller. Sales of flash memories surged, driven by demand related to the popularity of mobile telephones and digital cameras. We augmented production capacity by bringing the Fujitsu AMD Semiconductor Limited

Flash Memory Market Share '97

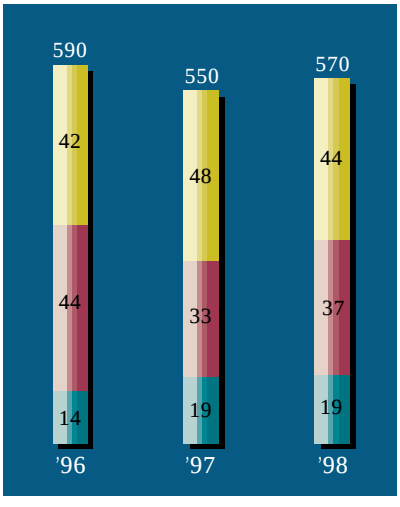
(Market size: $2,775 Million/%)



AMD Intel Atmel
Fujitsu Sharp Others
[Source: Dataquest, Apr. 1998 (GG98-Fuj-034)]

Semiconductor Production

(¥ Billion/%) Years ended March 31



Logic
Memory [DRAMs, flash memories]
Other semiconductors
[including compound semiconductors]

No. 2 plant on stream. According to Dataquest, Fujitsu and AMD together ranked number one worldwide in the flash memory market in 1997. In the DRAM field, Fujitsu began shifting production from 16-Mbit to highly integrated 64-Mbit synchronous DRAMs. At the same time, efficiency was improved by making increasing use of production facilities that can make multiple products, including logic ICs, rather than just DRAM chips. Moving ahead, Fujitsu will focus on logic devices, mainly system LSIs, and in the memory field, flash memory production capacity will be expanded while DRAM output is held back. These moves are designed to raise the overall profitability of the semiconductor division.

Responding to rising demand, Fujitsu boosted production capacity for SAW filters used in mobile telephones, preserving its top share in the world marketplace. Compound semiconductors are another sector in which Fujitsu excels. Demand is rising for use in communications equipment. Fujitsu is developing these businesses under independent management to quickly seize emerging opportunities.

In 1997 Fujitsu introduced a high-contrast version of its 42-inch color plasma display panel (PDP) that produces remarkably sharp images and natural colors, and is ideally suited as a wall-hanging TV. At the same time, it is extremely light and thin, and has a wide viewing angle. These qualities make PDPs ideal for such uses as mini-theaters, electronic posters and other large-scale displays. Adding to our extensive patent portfolio, Fujitsu was awarded patents covering basic PDP manufacturing in the U.S., Japan and Europe for the PDP stripe rib panel structure and an advanced drive system for circuits. With these advantages, we are confident of maintaining leadership in the PDP market. In addition, we increased sales of LCDs for notebook computers. In a notable technological advance, we developed a high-resolution 15-inch MVA (Multi-domain Vertical Alignment)-type LCD desktop monitor.

In October 1996 Fujitsu became the world's first manufacturer to mass produce 42-inch full-color plasma display panels. The product, called Image Site, is being marketed worldwide.

A large-screen, high-resolution LCD monitor incorporating Fujitsu's proprietary wide-view MVA panel technology.