Changes in Business Segment Categories
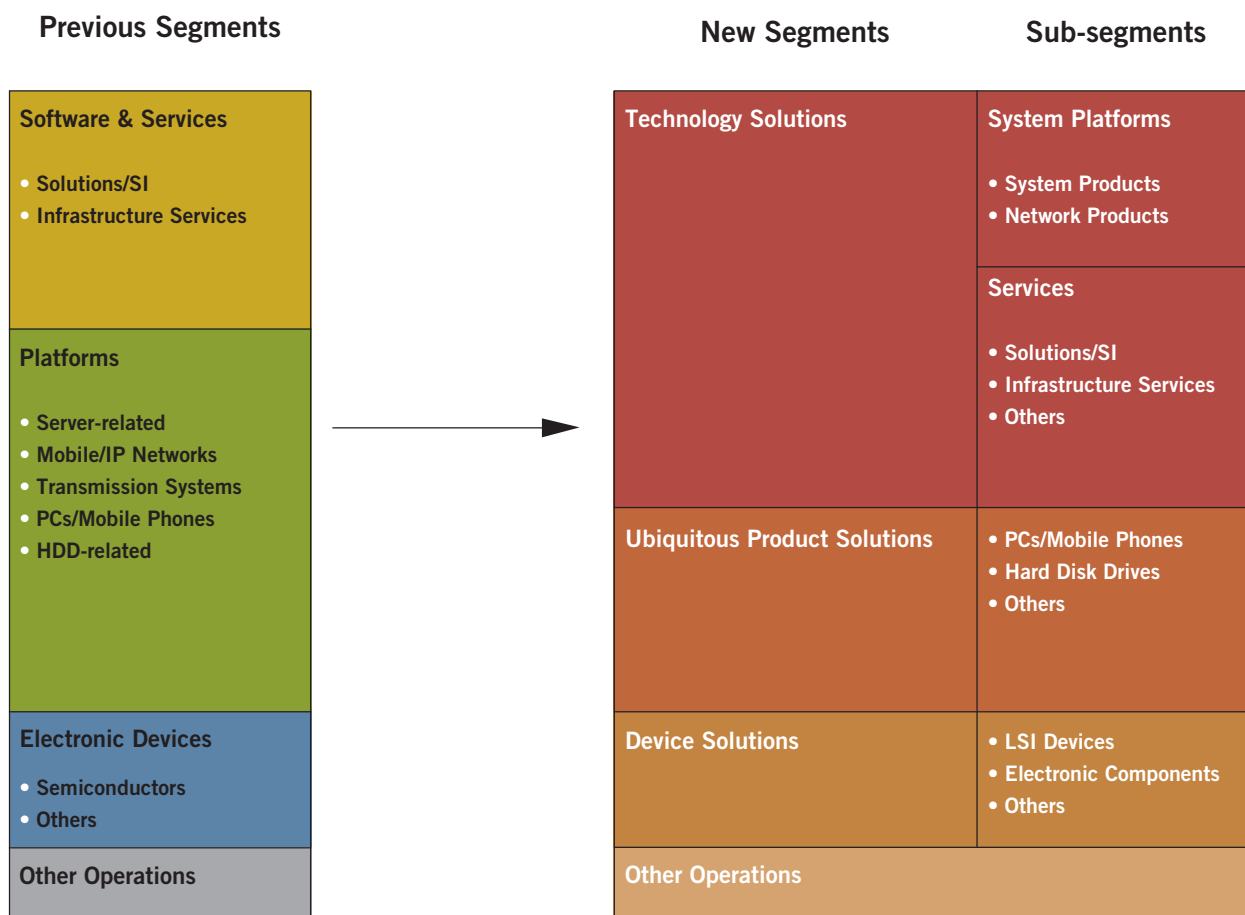
From the next fiscal year, ending March 31, 2006, we will revise our business segments into customer-centric product categories. First, we are positioning Technology Solutions—covering the provision of comprehensive solutions comprising the high-performance, high-quality products and services that customers are demanding—as the principal business domain of the Fujitsu Group, and we will aggressively pursue greater profitability and growth.

Next, the Ubiquitous Product Solutions segment includes products such as PCs, mobile phones and hard disk drives, which are integral to meeting individuals' needs in the era of ubiquitous networking. In this segment we will work to improve speed and quality and reduce costs.

In Device Solutions, through a series of restructuring initiatives and alliances, we are focusing our resources on leading-edge logic LSI devices, and, together with related components businesses, we will pursue advanced technologies that other companies cannot match, as well as higher quality and greater efficiency.

Previous Segments

Software & Services

• Solutions/SI
• Infrastructure Services

Platforms

• Server-related
• Mobile/IP Networks
• Transmission Systems
• PCs/Mobile Phones
• HDD-related

Electronic Devices

• Semiconductors
• Others

Other Operations

New Segments

Technology Solutions

Ubiquitous Product Solutions

Device Solutions

Other Operations

Sub-segments

System Platforms

• System Products
• Network Products

Services

• Solutions/SI
• Infrastructure Services
• Others

• PCs/Mobile Phones
• Hard Disk Drives
• Others

• LSI Devices
• Electronic Components
• Others

Software & Services

■ Operating Environment and Performance

Spending on IT in Japan in fiscal 2004 continued to lack strength. Although there were moves to develop next-generation systems, including steps by financial institutions to upgrade security and the introduction of traceability systems by companies in the logistics and transport industries, overall, commitment to IT investment was patchy at the individual company level depending on industry, business size and region. Overseas, the outsourcing business was buoyant, particularly in Europe, and we expect continued growth in this field going forward.

Against this backdrop, we worked to more aggressively implement our comprehensive system development methodology, called SDAS[*1], as well as build a distinctive presence in the marketplace by advancing our TRIOLE[*2] strategy for optimized IT infrastructure to provide greater business efficiency, agility and continuity. Despite these efforts, our solutions and systems integration (SI) business slowed in Japan, and we again experienced increased losses from certain domestic loss-generating projects. Overseas, we made strong efforts to grow our business, especially in Europe and the Americas. Overall, however, net sales in the Software & Services segment declined 1.1% from a year earlier, to ¥2,070.4 billion ($19,350 million). Excluding the impact of measures undertaken in fiscal 2003 to restructure our North American operations, sales were roughly the same as last year on a continuing operations basis. Although major government-sector
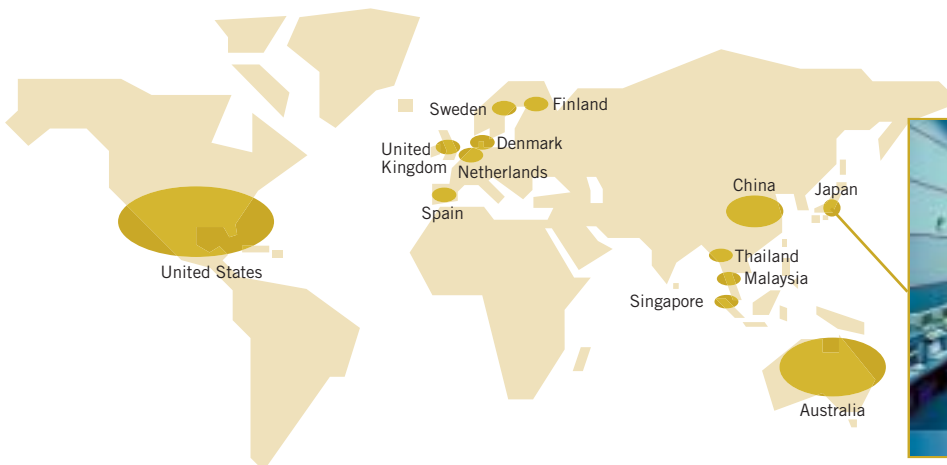
We operate a global network of system centers.

The Fujitsu Tatebayashi System Center is among the largest in Japan.

outsourcing wins by Fujitsu Services in the UK and benefits from restructuring at Fujitsu Consulting in the US boosted income from overseas operations, this was not enough to off-set factors such as rising development costs related to loss-generating projects in the domestic market. Consequently, the segment posted a year-on-year decline in operating income of ¥25.7 billion, to ¥113.0 billion ($1,057 million).

■ Initiatives in Fiscal 2004

In order to boost profitability in this segment, we took priority measures to deal with the issue of rising losses from loss-generating projects. Specifically, since creating a new organization in February 2004 to assess project status at each stage of development and implementation, we have taken steps including reinforcing project risk management and reviewing our approach to contracts. As part of our efforts to reform our organization and approach, in June 2004, we realigned our solutions business organization in Japan by unifying our sales and systems engineering groups along customer lines. This has resulted in a structure that enables us to respond more rapidly to changes in customers' business environments. More recently, in April 2005, we set up an SI Assurance Unit reporting directly to the president in order to enhance our ability to prevent the recurrence of loss-generating projects. Thanks to these initiatives, we are seeing a dramatic drop-off in new incidences of such projects.

Additionally, in October 2004, we made Fujitsu Support & Service a wholly owned subsidiary in order to reinforce our ability to provide operational support to customers throughout the entire IT system lifecycle.

■ Issues to Be Addressed

Going forward, we plan to apply SDAS to all new projects to reduce development lead times and boost development efficiency. And in addition to continuing to promote TRIOLE, we will work to further expand our outsourcing business, which we believe offers potential for growth both in Japan and overseas.

In project management, we will apply the percentage of completion method for all new software development contract orders in fiscal 2005. This will realize real-time project management and improve project visibility. We will also actively utilize the SI Assurance Unit to boost project profitability.

*1 SDAS: System Development Architecture & Support, a comprehensive application development framework covering all aspects of information system operations.
*2 TRIOLE: A highly reliable IT infrastructure model that brings together pre-verified combinations of servers, storage systems, networking and other equipment. Meets the requirements of enterprises and organizations to support business expansion, speed operational development, deliver stable operations and reduce total cost of ownership.
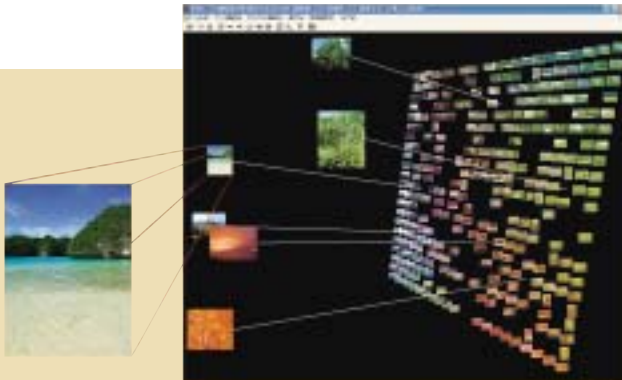
Our MultimediaArchiveExplorer lets users search the web by selecting images.

Our netCommunity showroom in Tokyo gives visitors a glimpse of how IT will be used in the ubiquitous networking future.

Platforms

Operating Environment and Performance

Despite continued weakness in Japan, the server market overall improved steadily in fiscal 2004 along with the recovery in business confidence overseas. In the mobile communication systems market, business generated by the expansion of third-generation (3G) network services in Japan grew. At the same time, the full-scale shift to IP networks by carriers and enterprises worldwide gathered steam, and the optical network systems business also expanded.

In this environment, our Platforms segment posted an increase of 6.0% in net sales, to ¥1,705.1 billion ($15,936 million), supported by strong sales of UNIX servers in Europe, North America and other overseas markets. Operating income increased ¥25.7 billion, to ¥55.0 billion ($514 million).

Initiatives in Fiscal 2004

In June 2004, we launched the world's first UNIX server featuring 64-bit processors built on leading-edge 90-nanometer (nm) semiconductor technology. In December 2004, we opened our Platform Solution Center in central Tokyo, where customers can efficiently verify system performance, quality and other requirements.

In another major server-related initiative, we announced the worldwide launch of our PRIMEQUEST server in April 2005. This new mission-critical Intel Architecture (IA) server boasts mainframe-class reliability and performance.

Separately, underpinned by rising demand for security systems in response to new personal data privacy regulations and efforts to combat credit card fraud, a number of customers

PRIMEQUEST mission-critical IA server
Left: System board (CPU/memory unit)
Right: Dedicated chipset (CPU control)

in the financial services field adopted our pioneering contactless palm vein pattern authentication technology for use in ATMs and with other services.

Overseas, we aggressively marketed our optical transport systems to two of North America's largest carriers—SBC Communications Inc. and Verizon Communications Inc.— as well as to major cable TV operator Comcast Corporation. This helped us maintain leadership in the synchronous optical network (SONET) segment there. In the UK, we leveraged our powerful partnership with British Telecommunications plc (BT) to secure the top share in the ADSL systems market. Based on our strong track record, BT selected Fujitsu as a preferred supplier for its 21st Century Network.

We also advanced partnerships with other leading global companies in fiscal 2004. These included: a joint product development and supply alliance with Sun Microsystems, Inc. in the UNIX server field; collaboration with Microsoft Corporation and Red Hat, Inc. in the development of our next-generation mission-critical IA server; a strategic alliance with Cisco Systems, Inc. in the router and switch field; and the establishment of a joint venture with TDK Corporation to manufacture HDD heads.

■ Issues to Be Addressed

We view our server business as dedicated to shouldering the business processing burdens of our customers, and in pursuing global expansion of this business we aim to also grow our business in related product and service fields. As part of this approach, we will work particularly hard on boosting sales of our new PRIMEQUEST mission-critical IA server.

In addition, we will strive to grow our IP network business by leveraging our collaboration with Cisco Systems to provide a wider lineup of IP solutions for communications carriers and enterprise customers, as well as offer integrated IT and telecommunications solutions.

In the 3G mobile communication systems business, we will continue to focus on the growing domestic market and work with partner Alcatel to win a larger share of global demand. In North America and Europe, we aim to build on our current strong customer relationships by offering powerful optical transport systems to support the build-out of broadband and IP network infrastructure, helping to drive further business growth in these markets. In addition, along with focusing on the full-scale deployment of fixed-line optical access systems, we also plan to win new business through aggressive efforts in the broadband wireless access field related to WiMAX* and various other protocols.

In the PC business, we will enhance our consumer products with greater AV functionality and introduce more stringent security functions for products targeting business users. Our efforts in mobile phones will target greater productivity and lower costs, while we will focus on further boosting the quality of our HDD products.

* WiMAX: Offering wider coverage than Wi-Fi, Bluetooth® and other wireless communication protocols, WiMAX can provide connectivity over an area of several square kilometers.

The server room at our Platform Solution Center in Tokyo

Proprietary development tools are used to ensure high-quality mainboard design for the FMV-LIFEBOOK PC (Shimane Fujitsu Limited).

Electronic Devices

■ Operating Environment and Performance

There was strong demand for digital consumer electronics products such as PDP and LCD televisions and DVD recorders in the first half of fiscal 2004. However, from the second half, demand for these products began to stagnate and the electronic components market deteriorated rapidly.

Amid these overall industry trends, although intensifying price competition led to lower income from our PDP and LCD products, higher sales of LSI devices for other digital consumer electronics products and automotive applications, and strong performance by electronic components subsidiaries made positive contributions to our results. Accordingly, Electronic Devices reported only a marginal decline of 0.1% in net sales, to ¥733.8 billion ($6,859 million). On a continuing operations basis, after excluding the impact of making our compound semiconductor business and Flash memory manufacturing subsidiary equity-method affiliates, sales grew 4.6% year on year. Although operating income was adversely impacted by the deteriorating situation in PDPs and LCDs, there was a significant increase in operating income from semiconductors thanks to higher income in the logic chip business and improved earnings in the system memory business. Consequently, the segment recorded an increase of ¥5.0 billion in operating income, to ¥32.5 billion ($305 million).

■ Initiatives in Fiscal 2004

During the fiscal year we launched a diverse stream of high value-added devices. These included COT, ASIC and other products built on our leading-edge 90nm semiconductor technology, FRAM*[1] devices with world-leading 1Mbit memory, and the world's smallest mobile phone SAW duplexer compatible with the North American PCS protocol.

ASIC lineup
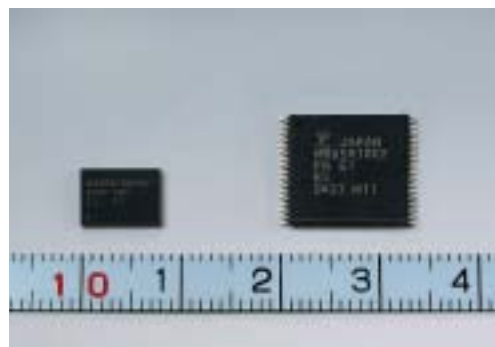
FRAM devices with world-leading 1Mbit memory

As part of group-wide business restructuring reforms since 2002, we have been channeling resources into our most competitive business field—LSI devices—and these reforms progressed steadily during fiscal 2004. Targeting the digital consumer electronics, mobile phone, PC and peripherals, and server and network fields, we strove to strike a balance between our advanced product (90nm devices) and standard product (130nm and higher devices) businesses, and to boost profitability in both. In advanced products, we leveraged our industry-leading 90nm technology to offer a broad range of solutions to customers, from products to foundry services. This helped us forge strong customer relationships and create a launch pad for business expansion, illustrated by the fact we have secured business with more than 20 companies. In standard products, we worked to raise productivity by expanding the implementation of Toyota Production System reforms, thereby moving toward an earnings structure that will enable us to secure greater competitiveness and profitability on a sustainable basis.

Our decision to channel resources into the LSI business is underpinned by the fact that we boast world-leading technological capabilities in a broad range of related fields, from embedded software development, design methodologies, analysis and verification, to cutting-edge process technologies.

We proceeded as scheduled with plans to increase manufacturing capacity for volume production of next-generation LSI devices. In April 2004, we began constructing a new facility at our Mie Plant for the mass production of logic devices on 300mm wafers using 90nm and 65nm process technologies and completed pilot testing in February 2005—the fastest-ever facility start-up in the industry. Since the facility became officially operational in April, we have been steadily progressing toward scheduled full volume production in September.

Also in conjunction with the shift of resources to the LSI business, we transferred the majority of our PDP business shareholding to joint venture partner Hitachi, Ltd. in March 2005, and in June, we transferred our LCD operations to Sharp Corporation.

■ Issues to Be Addressed

Going forward, we will work to further strengthen our New IDM business, leveraging our distinctive low-power and first-time-right[2] design technologies and internal and external collaboration to enhance strategic partnerships with customers, starting from upstream processes. Through this approach, we will harness our technological strengths to create a powerful lineup of competitive products with our customers. At the same time, in anticipation of intensifying price competition and other challenges, we will strive to build an operating structure that is more resilient to changes in the business landscape. This will include enhancing our design capabilities, developing new technologies and pursuing continuous innovation in manufacturing to create a lower cost base by reducing costs and boosting productivity.

[1] Ferroelectric Random Access Memory: non-volatile memory offering higher endurance for multiple read/write operations
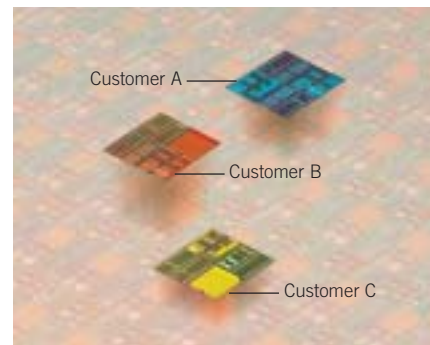[2] Design that achieves a fully functioning LSI device at first iteration

Magnified image of a 90nm transistor

Advanced, multilayer wiring used in LSI devices

Customer A
Customer B
Customer C

SiExpress™: With our technology, different ICs can be designed into a single mask, realizing the production of ICs for multiple customers on the same wafer.