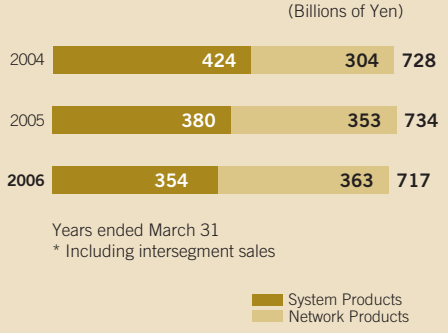
Operational Review and Outlook

Technology Solutions—System Platforms

Sub-segment Sales* by Main Product



System Products
Grounded on our high-performance, highly reliable mainframe technologies, our PRIMEPOWER UNIX servers (left), PRIMEQUEST mission-critical IA servers (center) and ETERNUS storage systems (right) are capable of meeting a wide range of customers' operational needs.

Business Overview

The Technology Solutions business segment comprises products and services primarily for corporate and government customers and, within this, the System Platforms sub-segment encompasses development, manufacture and sales of server-related systems, network equipment and other products. System Platforms is divided into two categories: System Products, covering mainframes and open-standard servers including UNIX, mission-critical Intel Architecture (IA) and PC servers, and storage systems; and Network Products, including optical transmission systems and mobile phone base stations.

Operating Environment and Performance

The worldwide server market continues to grow, paced by increasing demand for open-standard servers. In Japan, despite some signs of recovery in IT spending, conditions remained challenging due to intensifying competition and the impact of the shift from mainframe to open-standard servers.

In this business climate, System Platforms reported a 2.2% year-on-year drop in sales to ¥717.6 billion (US$6,082 million). This reflected lower sales of System Products, which, despite relatively robust sales of PC servers and stronger demand for UNIX servers overseas, faced a highly competitive operating environment in Japan. Network Products sales rose, thanks to firm demand from communications carriers in North America for optical transmission systems.

Operating income for the System Platforms sub-segment declined ¥18.9 billion, to ¥26.2 billion (US$223 million). This was mainly attributable to sluggish growth in domestic server-related sales, more intense price competition and higher expenses related to the development of next-generation servers and network equipment, which outweighed the positive impact of higher sales of optical transmission systems.

Initiatives

In System Products, we launched our PRIMEQUEST mission-critical IA server worldwide in April 2005. In a related development, we concluded a technology alliance agreement with Electronic Data Systems Corporation (EDS), one of the world's leading IT services companies. Under this agreement,

Network Products
The jointly developed Fujitsu and Cisco CRS-1 high-end routing system for communications carriers (left) and our FLASHWAVE optical transmission system (right) are being used to build broadband internet and other next-generation communications networks.

Platform Solution Center (Shanghai, China)
A one-stop support site providing everything from system consulting to verification and performance testing using actual equipment.

PRIMEQUEST has become part of the solution infrastructure for hosting services, legacy migration and other solutions provided by EDS. In addition, to further expand business related to our TRIOLE IT infrastructure optimization model on a global basis, we opened new open-standard system verification sites called Platform Solution Centers in Singapore, South Korea, and Hong Kong and Shanghai, China to support customers' system construction. These centers complement existing facilities in Japan, the UK, Germany and California in the US.

In Network Products, we steadily expanded our business in North America by leveraging our track record as the region's market leader in the next-generation synchronous optical network (SONET) segment. In the UK, Fujitsu was selected by the BT Group plc, a world leader in next-generation network deployment, as a preferred supplier in the access domain for the company's 21st Century Network program. This deal recognizes our capabilities and track record in the communications equipment field. Finally, mobile phone base stations recorded firm growth during the year, supported by a steady rise in 3G subscribers in Japan.

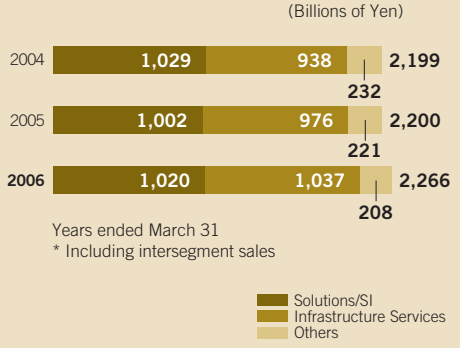
Issues to Be Addressed

In System Products, amid the continuing trend toward server consolidation, we will develop our business globally by leveraging our strengths in mission-critical technology, network technology and superior quality. Key products in this endeavor will be our PRIMEQUEST mission-critical IA servers, which offer mainframe-class performance and reliability on an open-standard platform, and our unified product line of PRIMEPOWER UNIX servers offered in conjunction with partner Sun Microsystems, Inc. Strengthening sales of these system products overseas will be a key theme. We plan to do this by working closely with our Group companies in North America and Europe and by leveraging our strategic alliance with EDS.

In Network Products, we will pursue opportunities in fields that require leading-edge technologies. To break into new businesses we will focus particular attention on optical access networks, which are becoming increasingly common, and actively respond to opportunities in WiMAX and other broadband wireless access fields.

Technology Solutions—Services

Sub-segment Sales* by Main Product



Bedside Medical Terminals
These terminals, attached to patient beds, display electronic patient chart data to help doctors and nurses provide medical care. They also improve the quality of patient care by displaying information and messages from the hospital.

Business Overview

The Technology Solutions business segment comprises products and services primarily for corporate and government customers and, within this, the Services sub-segment includes systems integration, outsourcing and other services. The Services sub-segment is further divided into three categories: Solutions/SI, centered on systems integration; Infrastructure Services, which encompasses outsourcing services, network services and system support services; and Others, which includes the installation of ATMs, contactless palm vein pattern authentication systems and IT systems.

Operating Environment and Performance

In fiscal 2005, the global IT market continued to expand on strong corporate IT investment. In Japan, the IT market gradually recovered overall, although there were differences between industry sectors—IT investment picked up among forward-looking companies in the manufacturing and retail industries, as well as certain areas in the financial services and telecommunications fields.

Under these conditions, Services posted sales of ¥2,266.2 billion (US$19,206 million), up 3.0% from the previous year, or an increase of 2.7% excluding the impact of change in accounting policies. The major factors supporting this growth were brisk demand for outsourcing services in the UK and sharply higher sales driven by business expansion in North America. This more than compensated for sluggish IT investment in Japan and a fallback in special demand generated by the redesign of Japanese banknotes in fiscal 2004. Operating income rose ¥41.0 billion to ¥137.9 billion (US$1,169 million), mainly reflecting a substantial decline in losses related to loss-generating projects, growth in outsourcing services in the UK, and change in accounting policies.

UBWALL Interactive Displays
Installed in shopping malls or other sites that attract large numbers of people, UBWALL displays information tailored to individual consumer interests. When users hold up IC card-enabled mobile phones to the screen, the display shows recommended restaurants, products and store locations.

Food Product Traceability
Fitting electronic tags to individual food products enables management of traceability data (product origin, distribution history) so that customers can check the origin of products and other information, helping them to purchase safe produce with greater confidence.

Initiatives

In Solutions/SI, we reduced the number of loss-generating projects to a normal level. This was the result of ongoing efforts by a dedicated unit formed to strengthen assurance and business support systems, realignment of sales and system engineering groups into integrated units along customer lines, and improvements to the project management framework. Additionally, aiming to drive full-scale expansion overseas, consolidated subsidiary Fujitsu Consulting acquired Rapidigm, Inc., an IT consulting firm based in the US with around 2,000 consultants in North America and India. This move has given us an even stronger business base in the North American market.

In Infrastructure Services, Fujitsu Services of the UK, building on its successes of fiscal 2004, captured new large-scale IT outsourcing projects to support further business growth. New deals included a central government business process outsourcing (BPO) contract with Northern Ireland's Department of Finance and Personnel.

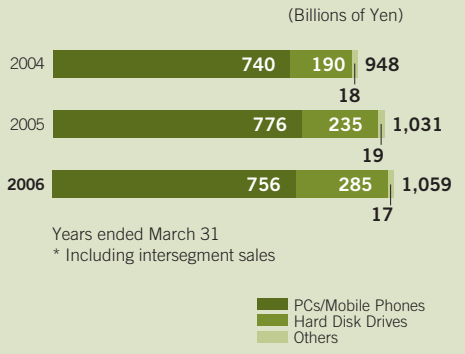
Issues to Be Addressed

In our services business in Japan, we will focus on enhancing our earnings capabilities by deploying our System Development Architecture & Support (SDAS) and other tools to boost systems development efficiency, and working to further reduce the number of loss-generating projects. We will also aggressively pursue business growth in six fields positioned as key for the future: infrastructure optimization, IT operational improvement, security, internal control and the environment, utilization of integrated enterprise resource planning (ERP), and ubiquitous networking.

Based on our belief that overseas expansion will drive growth, we also intend to aggressively pursue expansion centered on North American operations and European outsourcing services.

Ubiquitous Product Solutions

Segment Sales* by Main Product



FMV-DESKPOWER TX Series of PCs
TX series PCs come with 37-inch full-spec, wide-screen LCD screens that allow users to enjoy impressive high-definition video in their own living rooms. At the heart of the TX series is a hybrid Dixel filter that faithfully reproduces vivid high-definition pictures.

Business Overview

The Ubiquitous Product Solutions business segment comprises mainly products sold in high volumes, such as personal computers (PCs), mobile phones and hard disk drives (HDDs).

Operating Environment and Performance

In fiscal 2005, the global PC market grew, paced by overseas demand for notebook PCs. In HDDs, the markets for 3.5-inch drives for servers and 2.5-inch drives for notebook PCs also expanded. The 2.5-inch HDD market saw particularly strong growth thanks to healthy demand for notebook PCs and the emergence of new markets in the digital consumer electronics field.

In this business climate, the Ubiquitous Product Solutions segment posted an increase in sales of 2.8% over the previous fiscal year to ¥1,059.9 billion (US$8,982 million). The main reason for this rise was robust HDD sales, which grew more than 20% compared to a year earlier. Although PC sales were higher overseas, competition in Japan intensified, resulting in a decline in PC sales overall. In mobile phones, universal design handsets proved popular with consumers.

Operating income rose ¥3.1 billion to ¥34.4 billion (US$292 million). Increased component procurement costs due to the weaker yen were more than offset by cost reductions and savings from quality improvements yielded by manufacturing innovation initiatives, as well as higher earnings in HDDs.

Initiatives

During fiscal 2005, we worked to reduce costs and raise quality through company-wide manufacturing innovation initiatives. Specific steps included improving coordination among production sites, increasing use of automated testing to boost quality, and further extending the implementation of Toyota Production System reforms to drive down total operation costs.

In PCs, we leveraged our technological advantages to create more distinctive products with upgraded security functions and enhanced audio-visual capabilities, striving to develop and launch these differentiated products in a timelier manner. In

FOMA® F902iS Mobile Phone
The FOMA® F902iS mobile phone is a full-fledged music player that allows users to download and listen to WMA music files from the internet. The phone also incorporates a fingerprint sensor for added security.

Hard Disk Drives
Our hard disk drives are used in PCs, servers and storage systems. Fujitsu was the first company in the world to develop and launch a 200GB 2.5-inch HDD compatible with serial ATA interfaces.

mobile phones, we focused on developing original products and moving to standardized platforms, aiming to achieve a more stable operating base. Finally, in HDDs, we realized higher levels of quality by bringing the production of elemental technologies and core components in house. This helped us to capture the number two ranking worldwide in both 3.5-inch HDDs for servers and 2.5-inch HDDs for notebook PCs.

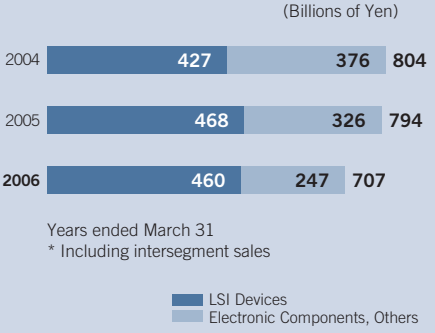
Issues to Be Addressed

In our domestic PC business, we will place emphasis on delivering high-value-added products that are compatible with terrestrial digital broadcasting and have larger screens and enhanced security features. Overseas, where continued growth is expected, we plan to expand our business focusing on notebook PCs. In mobile phones, although significant growth in unit sales cannot be expected due to the already high diffusion rate in Japan, we will continue to develop original products, primarily universal design handsets, while also pursuing development alliances and further enhancing manufacturing reforms in a determined effort to boost earnings. In HDDs, we will upgrade and expand our product lineup, with a particular focus on 2.5-inch HDDs for notebook PCs and digital consumer electronics, both markets where rapid growth is forecast. In addition, we will enter the promising growth market for 1.8-inch HDDs used in mobile device applications, developing the products in partnership with Cornice Inc. In addition to promoting vertical integration by manufacturing elemental technologies and core components in house, we will forge a hybrid business model through strategic alliances. This, together with the development and manufacturing of products that incorporate sophisticated perpendicular magnetic recording technology, will underpin our efforts to build a more powerful HDD business.

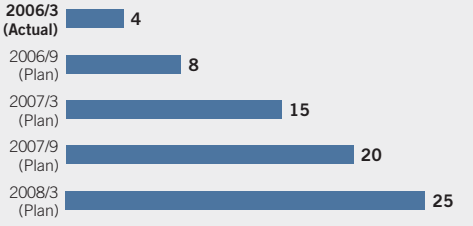
Device Solutions

Mie Plant for Advanced Logic LSI Production
Onstream since April 2005, the Mie Plant produces logic LSI devices on 300mm wafers. The plant will boast world-class production capacity in advanced logic LSI devices when a second fab scheduled for construction at the site becomes operational.

Segment Sales* by Main Product



Increasing 300mm Wafer Production Capacity (90nm/65nm process technology)



Business Overview

The Device Solutions business segment is comprised of two sub-segments: LSI Devices, centered on logic LSI devices and including system memory products; and Electronic Components, Others, including semiconductor packages, SAW devices and a range of other electronic components.

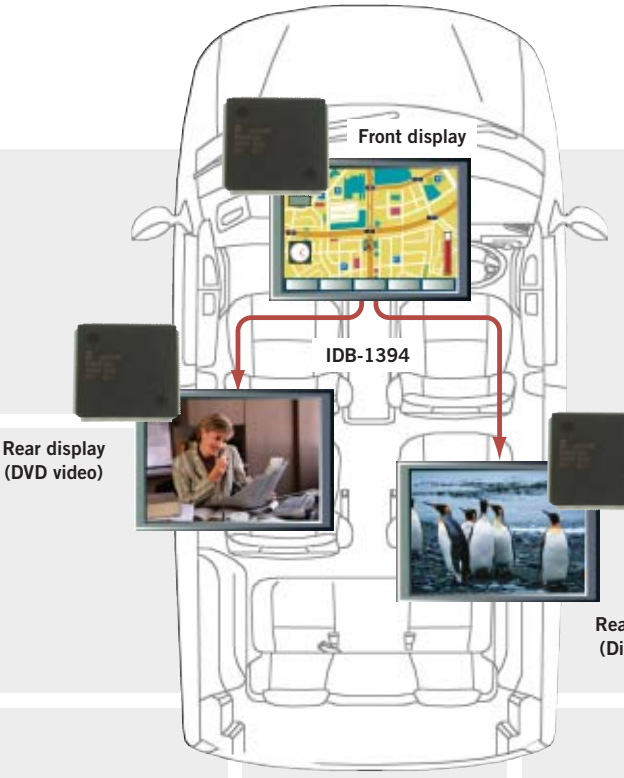
Operating Environment and Performance

In the first quarter of fiscal 2005, the logic LSI device market experienced a downturn as manufacturers, particularly in the digital consumer electronics and mobile phone sectors, continued to reduce inventories. From July onwards, however, demand expanded, centered on digital AV products, mobile phones and automotive applications. Prices for logic LSI devices continued to decline during the year, in parallel with falling prices for finished digital AV products and mobile phones. There was a similar picture in the system memory products market, with shipments increasing, primarily for digital AV and mobile phone applications, but prices continuing to decline.

In this business climate, Device Solutions posted sales of ¥707.5 billion (US$5,996 million), down 11.0% compared to a year earlier. However, excluding the impact of the transfer of our flat panel display businesses, sales on a continuing operations basis increased by 0.5%. In LSI Devices, sales of system memory products decreased due to declining market prices, but the market for logic LSI devices recovered in the latter half of the fiscal year, especially for devices used in mobile phones and digital AV products. The start of volume production of advanced logic LSI devices also contributed to sales. The combination of these factors supported a slight overall rise in sales of LSI devices, mostly from overseas sales, compared to fiscal 2004.

Operating income totaled ¥33.3 billion (US$282 million), an increase of ¥0.7 billion compared to the previous fiscal year. Although operating income in the LSI Devices sub-segment declined due to a weaker market during the first half of the fiscal year, as well as the impact of expenses relating to the start-up of the 300mm wafer facility at our Mie Plant, the Electronic Components, Others sub-segment continued to post strong results, and losses associated with the flat panel dis-

Large-diameter 300mm Wafers
Corporate Senior Executive Vice President Toshihiko Ono holds one of the Mie Plant's 300mm wafers, which employs 90nm process technology, at an electronic device strategy briefing in February 2006.



MB88387 LSI Devices Compatible with IDB-1394 In-Vehicle Network Standard
Our electronic devices enable the rapid transmission of digital content inside vehicles, heralding the development of cars where passengers can enjoy high-definition DVDs and other digital content on seat-back screens.

play businesses were eliminated. These factors supported the slight increase in operating income compared to fiscal 2004.

Initiatives

At the end of the previous fiscal year, we transferred our PDP business to Hitachi, Ltd. Then, early in fiscal 2004, we transferred our LCD operations to Sharp Corporation. These moves were taken to shift resources into the logic LSI business. In conjunction with this strategy, we plan to drive a significant increase in sales by focusing on advanced 90nm technology and beyond as future growth drivers. As part of this approach to grow our semiconductor operations by adopting cutting-edge technologies, we brought a new 300mm wafer semiconductor fabrication facility at our Mie Plant (Fab No. 1) onstream in April 2005. This facility, which can utilize 90/65nm process technology for logic LSI devices, began volume production in September 2005. Subsequently, in January 2006, we made the decision to construct a second 300mm-facility (Fab No. 2) at the same plant. When operational, this facility will give us world-leading levels of output for advanced logic devices.

Issues to Be Addressed

In the LSI field, we will continue to channel resources into our logic LSI business. Along with fully leveraging our 300mm wafer capacity at Mie and expanding our lineup of cutting-edge growth-driver products, we will further strengthen our standard product offerings. Pursuing a balanced LSI business in this way will help us to enhance our overall earnings capabilities.

Additionally, by utilizing our strengths in the imaging, wireless, security and other fields, we will roll out ASSPs*1 in global markets, and reinforce our New IDM business model, which balances COT*2 and SoC*3 approaches. This strategy will underpin efforts to boost profitability and enhance our market presence.

*1 Application-specific standard products: Standardized LSI products designed for power supply, file management, image processing and HDTV applications in PCs, mobile devices, communications networks and other products. They can be sold to multiple users.
*2 Customer-owned tooling: The manufacture of LSI devices (masks, wafers, etc.) based on design and development carried out by the user.
*3 System on a chip: The integration of microprocessors, chipsets, video chips, memory and other functions on a single chip.