

# Operational Review and Outlook

## Technology Solutions—System Platforms

### ■ Fiscal 2006 Performance (Year-on-Year Comparison) (¥ billion)

#### Net Sales

703.7 (−1.9%)

#### Operating Income

7.5 (−69.5%)

#### R&D Expenses\*

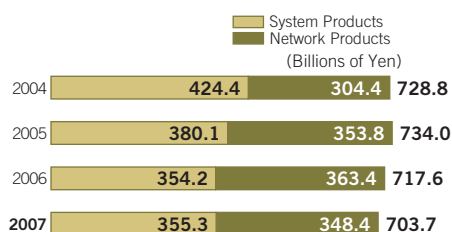
130.7 (−0.7%)

#### Capital Expenditure\*

91.3 (−1.9%)

\* Figures are for the entire Technology Solutions segment

### ■ Sub-segment Sales\* by Main Product



Years ended March 31

\* Including intersegment sales



#### 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.

### ■ Fiscal 2006 Performance Overview

In System Platforms, we worked to boost earnings by expanding operations globally, centered on our TRIOLE IT infrastructure optimization model, and in parallel developing our network business focused on next-generation networks.

In Japan, although sales of our ETERNUS storage systems were strong, reflecting demand related to corporate compliance with Japan's Financial Instruments and Exchange Law (known colloquially as J-SOX) and the Personal Information Protection Law, demand for mobile phone base stations declined compared to the previous fiscal year when it was particularly strong. As a result, domestic sales declined 4.5% year on year. Overseas, however, sales rose 5.2%, as higher sales of servers and related products outweighed a slowdown in sales of optical transmission systems in North America.

As a result, for the period under review the System Platforms sub-segment reported an overall year-on-year decline in sales of 1.9% to ¥703.7 billion (US\$5,964 million). Operating income dropped ¥17.0 billion to ¥7.5 billion (US\$64 million), as efforts to boost sales failed to cover higher expenses related to the development of new optical transmission systems products for next-generation networks (NGN) in the US and UK.

### ■ Announcement Highlights

- Fujitsu and Cisco Introduce New High-Performance Routers for IP Next-Generation Networks (May 25, 2006)
- Fujitsu Unveils WiMAX\*1 Strategy Encompassing Silicon, Systems and Services (October 9, 2006)
- Fujitsu Selected to Develop and Manufacture Super 3G\*2 Wireless Base Station Equipment for NTT DoCoMo (November 21, 2006)
- Fujitsu and Sun Microsystems Set the Standard for Open Systems Computing with Fastest, Most Reliable Solaris/SPARC Servers (April 17, 2007)
- Fujitsu Receives Intel® Server & Storage Innovation Award for PRIMERGY TX120 Compact Server (April 18, 2007)
- Fujitsu Opens Platform Solution Center in Brazil (May 30, 2007)

### ■ Initiatives Going Forward

#### System Products

In the domestic server market, we expect challenging conditions to remain due to intensifying price competition and other factors. Overseas, the market is expected to remain firm. Customer requirements are becoming more sophisticated as they seek to comply with stricter regulations on internal control, reinforce



### System Products

Grounded on our high-performance, highly reliable mainframe technologies, our SPARC Enterprise 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.



### Mobile WiMAX Base Station System

We exhibited our WiMAX base station at ITU Telecom World 2006, an international networking exhibition held in Hong Kong in December 2006.

security, and ensure business continuity. We will work to provide system products that meet these needs on a global basis and also strive to boost sales of related products and services.

Specifically, centered on competitive products such as our PRIMEQUEST mission-critical IA server, which combines mainframe reliability with the agility and economy of open-standard servers, and SPARC Enterprise, our new line of UNIX servers jointly developed with Sun Microsystems, we will work to grow sales globally, and increase market share and profits. Furthermore, by enhancing collaboration between sales and product development and streamlining the number of product variations, we will strive to improve resource utilization efficiency and accelerate business execution in order to develop more competitive offerings that customers and sales channels will support.

### Network Products

The shift to NGN is under way both in Japan and overseas, and competition is intensifying. Against this backdrop, we are overhauling our organizational structure to enhance our responsiveness to customer needs, reinforce product planning capabilities and strengthen product competitiveness. Specific steps include the establishment of a Telecom Business Group and making

Fujitsu Access Ltd. and Fujitsu Wireless Systems Ltd. wholly owned subsidiaries.

In optical transmission systems, we will build on our leadership in the North American market for next-generation SONET<sup>\*3</sup> equipment by advancing the convergence of Internet Protocol technology and optical networks. In Japan, we will strengthen our response to developments in NGN by leveraging our global track record in advanced network technologies. In Europe, anchored by our leading share of the UK ADSL market, we will work toward the completion of BT's 21<sup>st</sup> Century Network program as a preferred supplier of access equipment, and capitalize on this experience to support the move to NGN in other markets.

In mobile systems, along with continuing to advance our 3G business in Japan, we will focus on business expansion in Super 3G, following our selection by NTT DoCoMo to develop and manufacture base stations for this standard, and WiMAX. We will also enhance our service delivery platform for NGN.

<sup>\*1</sup> WiMAX (Worldwide Interoperability for Microwave Access): General term for a wireless network protocol based on the IEEE802.16 and IEEE802.16e wireless interface standards.

<sup>\*2</sup> Super 3G: A proposed mobile communications protocol to achieve higher performance, will reduce connectivity delays and improve bandwidth utilization efficiency.

<sup>\*3</sup> SONET (Synchronous Optical Network): A high-speed digital transmission system that utilizes optical fiber.

## Technology Solutions—Services

### ■ Fiscal 2006 Performance (Year-on-Year Comparison) (¥ billion)

#### Net Sales

2,453.2 (8.3%)

#### Operating Income

156.1 (21.5%)

#### R&D Expenses\*

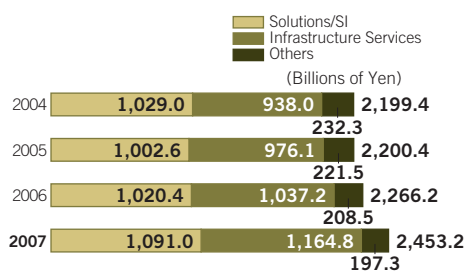
130.7 (−0.7%)

#### Capital Expenditure\*

91.3 (−1.9%)

\* Figures are for the entire Technology Solutions segment

### ■ Sub-segment Sales\* by Main Product



Years ended March 31

\* Including intersegment sales



#### Home-use Healthcare Support System

A remote health management and medical support system for the elderly. The system, which connects users with a central care center via a network, allows healthcare professionals to assess vital health signs and provide advice via a video phone.

### ■ Fiscal 2006 Performance Overview

In Japan, we focused on boosting earnings by reinforcing project risk management and creating mechanisms to increase the efficiency of system development. We also strengthened our operational services and packaged solutions, areas that are expected to generate stable earnings going forward. Overseas, we actively rolled out our strategy of services business development tailored to the requirements of different regional markets. In Europe, centered on UK subsidiary Fujitsu Services, we worked to expand business not only for government IT outsourcing projects but also projects in the commercial sector, and at the same time enhance our ability to supply systems to customers across the European continent. In North America, meanwhile, we worked to strengthen service provision through acquisitions and alliances.

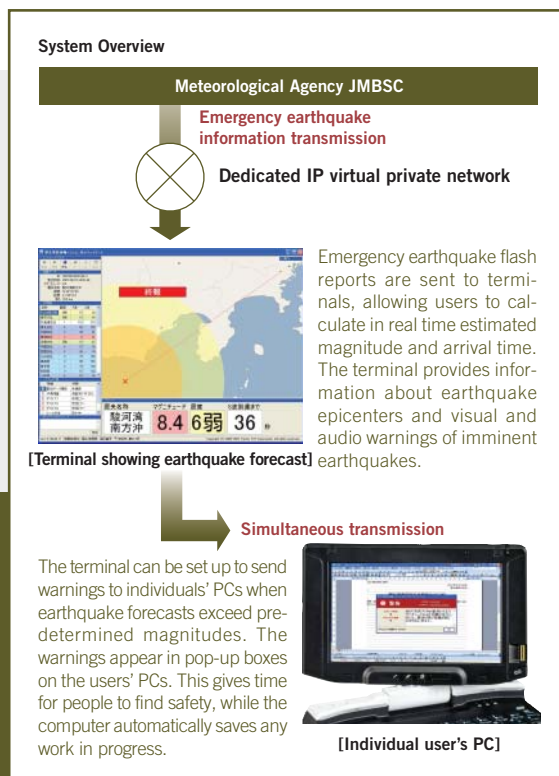
In Japan, sales rose 1.2% year on year as systems integration business expanded for banks, insurance companies, securities firms and other clients in the financial field, as well as for automakers and other manufacturers. Outsourcing services sales were also firm. Overseas, we reported a significant 23.9% increase in sales compared to a year earlier. This reflected growth in our services

business in North America through the acquisition of new companies, and continued strong growth in our outsourcing business in the UK. As a result, the Services sub-segment posted an overall increase in sales of 8.3%, to ¥2,453.2 billion (US\$20,790 million).

Despite a delay in the recovery of our retailing solutions business in North America and heavier upfront strategic expenditures in our systems integration business in Japan, operating income surged 21.5% year on year to ¥156.1 billion (US\$1,323 million). This rise reflected the effect of higher sales in the services business both in Japan and overseas, as well as stronger risk management and improved project profitability due to greater efficiency in system development.

### ■ Announcement Highlights

- Yarra Valley Water Selects Fujitsu as Strategic IT Outsourcing Partner in AUS\$21 Million Agreement (August 15, 2006)
- Fujitsu Remains at the Top in Japanese IT Outsourcing Revenue Ranking for Two Consecutive Years (September 4, 2006)
- Fujitsu and SAP AG Strengthen Services Partnership (October 5, 2006)



#### Emergency Earthquake Warning System, AlertStation EQ

Using emergency earthquake flash reports transmitted by the Japan Meteorological Business Support Center (JMBSC), an organization run by the Meteorological Agency, the system gives users vital seconds to prepare themselves before major tremors hit. This is just one of the systems Fujitsu supplies in the increasingly important fields of disaster countermeasures and business continuity.



#### Large-screen 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 IC card-enabled mobile phones to the screen, the display shows personalized recommendations for restaurants and products, as well as store locations. UBWALL has already been adopted by some local governments, financial services providers and numerous other customers.

- Fujitsu Services Signs Contract to Acquire Majority Interest in German IT Services Company TDS AG (December 11, 2006)
- Fujitsu Strengthens Consulting Operations (March 27, 2007)
- Fujitsu Wins £80m Outsourcing Contract from the UK's Financial Services Authority (April 19, 2007)
- Fujitsu Signs €400 Million Outsourcing Partnership with Allianz IT Service Provider AGIS (May 15, 2007)

### ■ Initiatives Going Forward

Worldwide investment in IT is being underpinned by global economic expansion, and we expect this to drive further strong growth in our services business going forward. In order to make a leap forward in this business, we will expand our operational focus from IT solutions into business solutions.

In Japan, where the rate of market growth is low, we will seek to expand by tapping customer demand for operational field innovation. In support of this, we will transfer experienced personnel capable of communicating with customers from a business perspective to the Fujitsu Research Institute, where they will be trained as "field innovators." In addition, following the

consolidation of infrastructure system engineering resources at Fujitsu FSAS in May 2007, we will push forward with the industrialization and standardization of our infrastructure services, aiming for further expansion in this buoyant field.

Overseas, where the services business is expanding at a higher pace, we will strive to accurately identify and meet the specific needs of each region, and aim for further growth. In Europe, this will mean working to capture more business from the private sector and extending our reach across the continent. In North America, we will enhance our services provision capabilities through M&A and other means, and in China and India, where market expansion is especially rapid, we will establish a full-scale operational presence.

Moreover, centered on India, we will continue to expand our offshore development operations\*, which are vital to growing our business globally. Our goal is to create an offshore development framework comprising around 8,500 personnel by fiscal 2009.

\* Outsourcing of systems development, operational management and other functions to overseas businesses and subsidiaries.

## Ubiquitous Product Solutions

### ■ Fiscal 2006 Performance (Year-on-Year Comparison) (¥ billion)

#### Net Sales

1,118.3 (5.5%)

#### Operating Income

41.6 (19.7%)

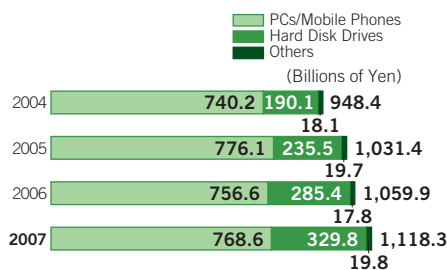
#### R&D Expenses

36.7 (13.6%)

#### Capital Expenditure

24.8 (27.8%)

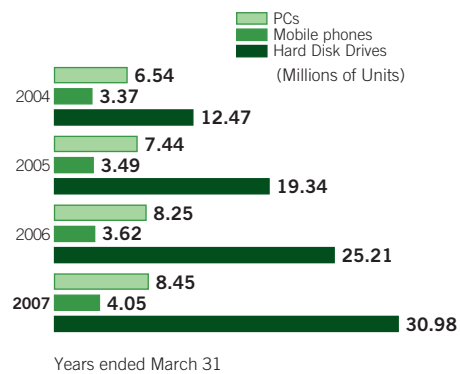
### ■ Segment Sales\* by Main Product



Years ended March 31

\* Including intersegment sales

### ■ Unit Shipments (PCs/Mobile Phones/HDDs)



Years ended March 31

### ■ Fiscal 2006 Performance Overview

In this business segment, we continued efforts to cut costs and raise product quality by stepping up manufacturing innovation initiatives. Sales of PCs were sluggish as individual consumers postponed purchases prior to the launch of the Windows Vista™ operating system and competition intensified in the business-use market. Sales of mobile phones, however, were firm. Hard disk drives (HDDs) also saw strong sales, with record shipments of 2.5-inch drives for notebook PCs and 3.5-inch models for servers. Overall, the Ubiquitous Product Solutions segment posted a year-on-year increase in sales of 5.5%, to ¥1,118.3 billion (US\$9,477 million).

Despite bigger-than-anticipated price declines centered on PCs and 2.5-inch HDDs for notebook PCs due to intense competition in markets worldwide, operating income rose ¥6.8 billion compared to a year earlier to ¥41.6 billion (US\$353 million). This increase reflected the effect of higher sales of mobile phones, the growing adoption of HDDs in non-PC fields, and improved cost efficiency and product quality due to enhanced manufacturing innovation initiatives.

### ■ Announcement Highlights

- Fujitsu Introduces World's First 300GB 2.5-inch SATA Hard Disk Drive (December 12, 2006)
- NTT DoCoMo, Renesas, Fujitsu, Mitsubishi Electric, Sharp and Sony Ericsson to Jointly Develop Platform for 3G Mobile Phone Handsets (February 8, 2007)
- Onshi Invention Prize Awarded to Fujitsu for Its Synthetic Ferromagnetic Media Technology for Use in HDDs (May 8, 2007)
- Fujitsu to Release New 2.5-inch HDD with 250 GB Capacity in a 9.5mm-thin Profile (May 15, 2007)
- Fujitsu Announces the New 'U Series' of Tablet-Convertible Notebook PCs, the World's Smallest in Its Class (May 16, 2007)
- Sales of Fujitsu Raku Raku Phone Series of Mobile Phones Surpass the 10 Million Unit Mark (May 31, 2007)



#### Fujitsu Raku Raku Phone Series

A range of phones designed for ease of use. Total shipments since their launch in September 2001 now exceed 10 million units.



#### Hard Disk Drives (HDDs)

Our HDDs are used in PCs, servers, storage systems and other products. We supply 3.5-inch models mainly for servers, and 2.5-inch products for mobile devices. By adopting perpendicular magnetic recording technology, we plan to boost capacity and reliability further.



#### FMV-BIBLO LOOX U Series

The world's smallest PC in the tablet-convertible class, the FMV-BIBLO LOOX U Series weighs just 580g and comes in an ultra-compact body only 26.5mm thick. Users can easily connect to the Internet anytime, anywhere.

## ■ Initiatives Going Forward

In our PC business, we will strive to make our products even easier to use and further raise quality. At the same time, we will boost profitability by offering high-value-added models that feature enhanced security and AV functions. Centered on Europe and the growing Asian market, we will work to expand our PC business overseas and strive for higher volume in low-price models.

In mobile phones, although growth is slowing in Japan, we plan to boost earnings by rolling out more appealing and distinctive new models, such as the easy-to-use Fujitsu Raku Raku Phone series, and continuing to enhance our product development partnerships and manufacturing capabilities. Moreover, based on our view that mobile phones will become the key wireless device of the ubiquitous networked world, we will develop new products that combine the capabilities of both mobile phones and PCs.

In HDDs, our aim is to sustain growth by maintaining Fujitsu's reputation for high-quality products and further enhancing the competitiveness of our offerings. In enterprise HDDs, where we have captured the second largest share worldwide, we will respond to the growing shift from 3.5-inch to 2.5-inch HDDs and seek to grow our market share by launching

new 2.5-inch enterprise models to supplement our existing 3.5-inch range. Meanwhile, the mobile HDD market is projected to sustain annual growth of more than 20% in the years ahead, as HDDs are increasingly used in consumer electronics such as digital home appliances and game consoles, as well as in products in the IT sector. We have built an industry-leading lineup of 2.5-inch ATA products capable of covering a wide-range of applications in the IT and consumer electronics fields. We will use these products, which offer high performance, industry-leading capacity, and can also be used for automotive applications, to drive further business growth. In addition, we will continue developing powerful new technologies to support further growth, including magnetic heads for large-capacity storage devices and synthetic ferrimagnetic media technology, a recent winner of the Onshi Invention Prize.

Going forward, we plan to maintain our competitiveness by leveraging perpendicular magnetic recording and other new technologies, and expand our existing business while preserving Fujitsu's high quality brand image. We will also develop the business further in consumer electronics and other fields outside the traditional PC market.

## Device Solutions

### ■ Fiscal 2006 Performance (Year-on-Year Comparison) (¥ billion)

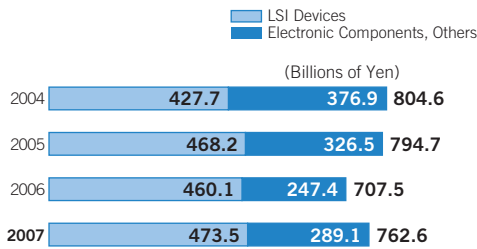
**Net Sales**  
762.6 (7.8%)

**Operating Income**  
19.0 (-35.6%)

**R&D Expenses**  
46.3 (21.8%)

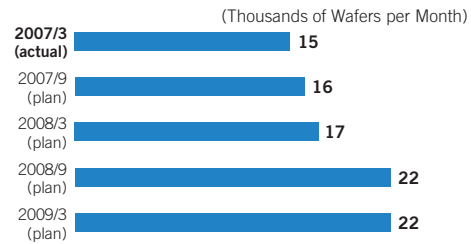
**Capital Expenditure**  
166.2 (43.9%)

### ■ Segment Sales\* by Main Product



Years ended March 31  
\* Including intersegment sales

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



Forecasts as of March 31, 2007

### ■ Fiscal 2006 Performance Overview

The Device Solutions business segment is comprised of two sub-segments: LSI Devices and Electronic Components, Others. In LSI Devices, we have focused our resources on logic LSI technologies. Specifically, we have been working to increase earnings while maintaining a balance between our advanced technology logic LSI business, which includes 90nm/65nm process technology, and our standard technology logic LSI business, based on 130nm and earlier process technologies.

In the year under review, the market deteriorated rapidly from the second half of the fiscal year, particularly in the digital consumer electronics sector. Although there was some fluctuation in demand for advanced technology logic products, Mie Plant Fab No. 1, producing logic LSI devices on 300mm wafers, was fully operational, and demand for other electronic components was strong. As a result, the Device Solutions segment posted an increase in sales of 7.8% year on year, to ¥762.6 billion (US\$6,463 million).

In terms of operating income, the effect of higher sales of advanced technology logic LSI products and other electronic components was not sufficient to offset the impact of sluggish sales

of standard technology logic LSI products, increased depreciation associated with Mie Plant Fab No. 1, and higher development expenses. Consequently, operating income for the segment declined ¥10.4 billion, to ¥19.0 billion (US\$161 million).

### ■ Announcement Highlights

- Fujitsu and Lattice Strengthen Partnership (June 13, 2006)
- Fujitsu and Advantest Establish Joint Venture for LSI Prototyping Services: e-Shuttle (October 30, 2006)
- Fujitsu Consolidates Back-end LSI Assembly Facilities (March 30, 2007)
- Fujitsu Semiconductor Technologies Begins Operations (March 30, 2007)
- Fujitsu Announces Mobile WiMAX SoC Performance and Delivery Schedule (May 21, 2007)
- Fujitsu Devices Inc. to Become a Wholly Owned Subsidiary of Fujitsu Limited through an Exchange of Shares (May 24, 2007)
- Jazz and Fujitsu to Collaborate on Providing Complete Solution for 90nm and 65nm RF CMOS Foundry Customers (May 25, 2007)



**Mie Plant for Advanced Logic LSI Production**  
The Mie Plant produces LSI devices on 300mm wafers. Fab No.1 has been onstream since April 2005, and Fab No. 2, which utilizes 65nm process technology, became operational in April 2007.



■ Development Roadmap for Baseband LSI Chips Used in Mobile WiMAX Terminals

## ■ Initiatives Going Forward

In the logic LSI field, we will work to enhance and deepen implementation of the New IDM business model that we have been pursuing, as well as develop our volume-oriented business while maintaining a balanced operational focus on advanced and standard technology products. We have been advancing 65nm process technology as part of our strategy for growing our advanced technology logic LSI business. Specifically, Mie Plant Fab No. 2 came onstream in April 2007 as scheduled and will begin volume shipments in July. Additional investment to boost capacity will be implemented as necessary in line with customer requirements. In standard technology logic LSI products, we purchased front-end semiconductor production facilities from Spansion Japan to boost production capacity in order to meet growing demand for Flash microcontrollers used in automobiles and digital appliances. Fujitsu Semiconductor Technologies began operating this site, which has a monthly output of 30,000 200mm wafers, in April 2007. Meanwhile, in a move designed to boost production efficiency and cost-competitiveness in our back-end assembly operations, we decided to integrate our Gifu Plant's operations at our Kyushu Plant.

Going forward, to secure higher volumes in the global market centered on high-growth Asia, we will strengthen our ASSP\* and standard product businesses. In particular, we will enhance our lineup of distinctive products for mobile devices built on low-leak, energy efficient technologies. We will also leverage our strong intellectual property portfolio in image processing-related technologies to reinforce our "Fujitsu for Image Processing" brand reputation.

Moreover, to ensure the timely provision of optimal solutions for customers, we will continue to push forward the realignment of our organizational structure, including Group companies. Our goal will be to build an operating structure capable of meeting the whole range of customer demands, from device manufacturing to LSI solutions. As one step in this process, we announced in May 2007 that Fujitsu Devices Inc. will become a wholly owned subsidiary. In this way, we will strive to create a simpler, easier to understand structure for customers, while also enhancing collaboration between sales and product development.

\* ASSP (application-specific standard products): Standardized LSI products designed for power supply, file and image processing, HDTV and other applications in PCs, mobile devices, communications networks and other products. ASSP products can be sold to multiple users.