

OPERATIONAL REVIEW AND OUTLOOK

Technology Solutions/System Platforms



Fujitsu provides customers with advanced network equipment to support their IT infrastructure and advanced network systems, centered on high-performance, high-reliability servers fundamental to customers' critical systems.

**FISCAL 2007 PERFORMANCE
(YEAR-ON-YEAR COMPARISON)**

(Billions of Yen)

Net Sales	712.8 (1.3%)
Operating Income	39.7 (429.5%)
R&D Expenses*	134.7 (3.1%)
Capital Expenditure*	81.6 (–10.6%)

* Figures are for the entire Technology Solutions segment


A

B

C

D

E
System Products

A: SPARC Enterprise M9000 UNIX server co-developed with Sun Microsystems

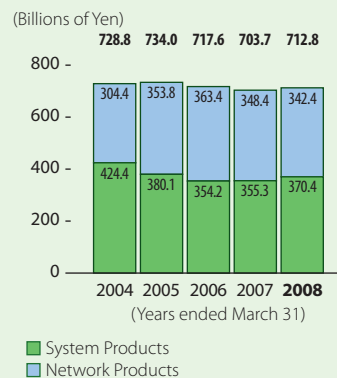
B: PRIMEQUEST 580A high-performance and high-reliability mission-critical IA server suited for mainframe applications

C: The energy efficient, compact PRIMERGY BX620 S4 blade server can be easily upgraded as required

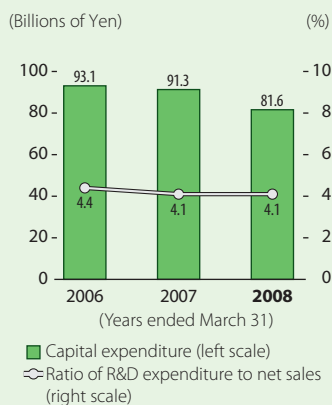
Network Products

D: The BroadOne™ WX300 is the world's smallest, fully integrated mobile WIMAX™ base station

E: FLASHWAVE® 7500X WDM System is an optical transmission system serving as the backbone of Next-Generation Networks

SUB-SEGMENT SALES*

* Including intersegment sales

**OPERATING INCOME/
OPERATING INCOME MARGIN****CAPITAL EXPENDITURE, RATIO OF
R&D EXPENDITURE TO NET SALES**

* For entire Technology Solutions segment

[FISCAL 2007 BUSINESS RESULTS]**■Market Trends**

System Products: In 2007, the server market in Japan contracted 5.9% year on year to ¥636.5 billion. While PC server sales posted strong growth mainly from the widespread adoption of blade servers, the markets for mainframe and RISC servers contracted. In contrast, the global server market held firm, growing 4.1% to US\$58.35 billion, primarily due to strong demand in China and other newly emerging economies.

Network Products: The Japan market for network equipment*¹ saw overall sales decline roughly 7% year on year to around ¥600.0 billion in 2007. This decrease largely reflected declining investment in 3G mobile phone base stations, which has peaked, and a modest start in investment into Next-Generation Network (NGN) services from the end of March 2008.

In North America, the value of the optical transmission market climbed 19% over the previous year to US\$4.90 billion, with major telecommunications carriers rolling out broadband infrastructure and making other large-scale investments as the shift to network IP technology continued.

■Operational Review

The System Platforms sub-segment, which includes System Products and Network Products, reported sales of ¥712.8 billion, an increase of 1.3% over the previous fiscal year.

System Products: Sales of System Products rose 4.3% year on year to ¥370.4 billion. Fiscal 2007 saw the launch of the SPARC Enterprise server, codeveloped with Sun Microsystems, Inc. of the US, triggering sharp growth in sales of UNIX servers. In PC servers, we unveiled a lineup of quiet, compact and power-efficient products and aggressively marketed new blade servers. These efforts expanded our share of the growing PC server field, enabling Fujitsu to capture the top share of the Japanese server market in 2007 for the first time in four years. In storage systems, we promoted open systems, primarily in the rapidly growing markets in Asia.

Network Products: Sales of Network Products edged 1.7% lower to ¥342.4 billion. Sales of optical transmission systems were higher due to growth in Metro DWDM services in the North American market and new projects to construct optical submarine cable systems. This performance was offset, however, by sharply lower sales of mobile phone base stations, as Japanese telecommunications carriers scaled back investment in 3G mobile phone base stations.

Operating income was ¥39.7 billion, ¥32.2 billion higher than the previous fiscal year. Excluding the impact of changes in accounting policies, operating income increased ¥35.3 billion on the year.

In System Products, income rose sharply, primarily from growth in sales of UNIX servers and cost reductions in PC servers and storage systems.

In Network Products, operating income was lower due to increased development costs for new optical transmission systems designed for NGN in the US and the UK, along with changes in the network product mix and flagging sales of mobile phone base stations.

*¹ Total for optical transmission equipment, optical access devices, IP routers for carriers, switches, and mobile system infrastructure devices related to Fujitsu businesses. Market size based on Fujitsu estimates.

[OUTLOOK FOR FISCAL 2008]

■Market Trends

System Products: Supported by firm PC server performance, the Japanese server market is expected to grow 2.3% in fiscal 2008 to approximately ¥651.5 billion, according to IDC. The global server market, meanwhile, is projected to grow 3.6% to US\$60.42 billion, reflecting continued market expansion in China and other newly emerging economies.

Network Products: The 2008 Japanese network equipment market is expected to grow by around 1% year on year, with increased NGN investment accompanying the rollout of new services likely to offset a continued decline in investment in 3G mobile phone base stations.

Despite concerns over a possible economic recession, the value of the North American optical transmission market is expected to increase by about 17% year on year as major carriers continue to make large-scale investments.

■Initiatives Going Forward

System Products: The growing importance of IT as social infrastructure in recent years has sparked increased demand for mission-critical systems. System platforms that offer superior reliability, quality and performance play a vital role in answering this demand from customers. Fujitsu is one of the few vendors worldwide that develops everything from mainframe processors to systems in-house. The advanced technology honed through this process is evident in the mainframe reliability and open-standard economy delivered by our PRIMEQUEST mission-critical IA servers and our new line of SPARC Enterprise UNIX servers developed in collaboration with Sun Microsystems, Inc. Fujitsu's promotion of these types of competitive products is accelerating global business expansion. With expansion in the market for data center services also anticipated, we intend to promote optimal solutions for the components (servers, middleware, OS, virtualization technology, etc.) that comprise these centers. This will include the development of blade servers featuring low power consumption and innovative virtualization technologies.

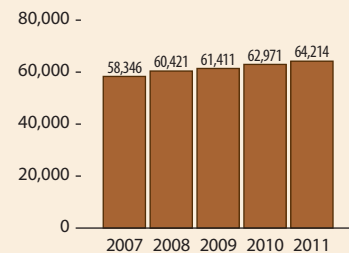
Network Products: In Japan and elsewhere, competition is set to intensify as the shift to NGN gains momentum, prompting enormous changes in technology and customers' investment environments.

We have moved forward with the integration of sales and product development functions to meet customer needs faster and enhance our business structure. In the optical transmission systems market in Japan, we plan to strengthen the business structure further by consolidating development and all related production activities for the Fujitsu Group in Japan into Fujitsu Telecom Networks Limited in July 2008.

Another aim for Fujitsu is to expand business in the global market, which shows substantial growth potential. In optical transmission systems, while we operate mainly in Japan, the US and Europe, we plan to leverage our No. 1 share of the next-generation SONET market in North America to expand growth for Metro DWDM and other services. We are also eyeing entry into the growing markets of BRIC countries. In mobile systems, we hope to leverage our superior technology to advance globally, primarily through Super 3G and mobile WiMAX technologies. Fujitsu has been chosen by NTT DoCoMo as a vendor for Super 3G base stations, and by UQ Communications Inc. as a vendor for its rollout of mobile WiMAX™.

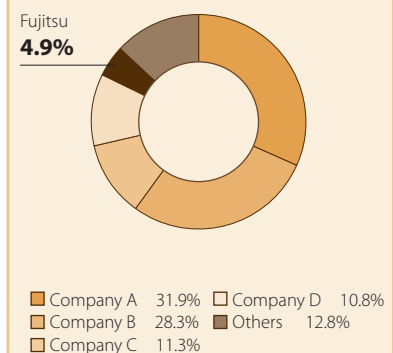
GLOBAL SERVER MARKET FORECAST

(Millions of Dollars)



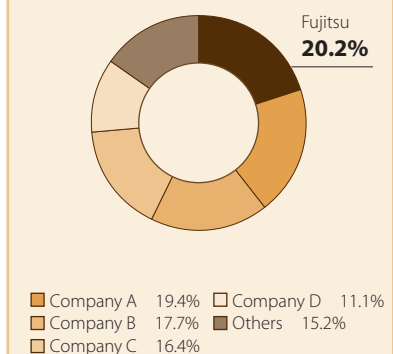
(Source: IDC's Worldwide Quarterly Server Forecast Q1 2008)

GLOBAL SERVER SHARE IN 2007 (REVENUE BASIS)



(Source: IDC's Worldwide Quarterly Server Tracker Q1 2008)

2007 SERVER SHARE IN JAPAN (REVENUE BASIS)



(Source: IDC Japan, Japan Server Quarterly Model Analysis Q1 2008)

Technology Solutions/Services



Fujitsu offers a full range of services for customers' IT lifecycle, from consulting to system integration, operation and maintenance, targeting customers in the financial, public, manufacturing, distribution, medical and other varied fields worldwide.

FISCAL 2007 PERFORMANCE (YEAR-ON-YEAR COMPARISON)

(Billions of Yen)

Net Sales	2,559.3 (4.3%)
Operating Income	140.4 (–10.0%)
R&D Expenses*	134.7 (3.1%)
Capital Expenditure*	81.6 (–10.6%)

* Figures are for the entire Technology Solutions segment



A



B



C

A : Enterprise Innovation Support Center

At this center, Fujitsu offers seminars and training on issues vital for effective corporate management, ranging from internal control systems and reliability and safety (i.e., business continuity and security), to the environment. In conjunction with these services, we offer IT solutions that address these and other management issues.

B : IT Management Center

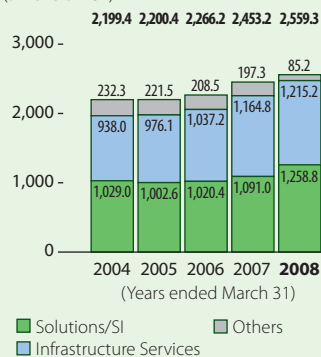
We remotely monitor our customers' information systems from this facility, which boasts advanced security countermeasures and cutting-edge monitoring equipment. Centralized control at the center is conducted on a round-the-clock, year-round basis to support the stable operation of customers' information systems.

C : Fujitsu Australia's Data Center Control Room

The Australia Systems Center has been instrumental to Fujitsu's outsourcing services for Oceania since 1972. Today, the center is leveraging its years of experience and impressive track record to offer a variety of services that meet business needs, from on-demand outsourcing to help desk services.

SUB-SEGMENT SALES*

(Billions of Yen)



* Including intersegment sales

OPERATING INCOME/ OPERATING INCOME MARGIN

(Billions of Yen)

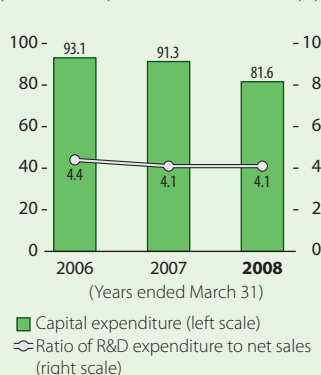
(%)



CAPITAL EXPENDITURE, RATIO OF R&D EXPENDITURE TO NET SALES

(Billions of Yen)

(%)



* For entire Technology Solutions segment

FUJITSU LIMITED ANNUAL REPORT 2008

[FISCAL 2007 BUSINESS RESULTS]

Market Trends

The value of Japan's IT services market in 2007 increased 3.8% to US\$43.00 billion. IT investment increased in a wide array of industry sectors, reflecting major bank mergers, moves by insurance and securities firms to enhance compliance, and system upgrades for the local government sector. By service type, in addition to system integration demand, customers are now relying more heavily on outsourcing. Accordingly, many firms opted to outsource system operations and non-core operations, such as data center-style outsourcing and business process outsourcing, during the year under review.

The global market for IT services grew 6.5% in 2007 year on year to US\$513.64 billion. There was growing concern of a slowdown in investment in the North American and European financial sectors due to market turmoil caused by the subprime mortgage crisis. A double-digit increase in demand in newly emerging economies, however, spearheaded overall growth in the IT services market outside Japan. The method for the delivery of services also diversified, as the "Software as a Service" (SaaS) model—whereby networks serve as vehicles for service provision—began to gain traction, especially in North America.

Operational Review

Sales from the Services sub-segment (Solutions/Sl, Infrastructure Services) rose 4.3% over the previous fiscal year to ¥2,559.3 billion.

Solutions/Sl: Sales increased 15.4% to ¥1,258.8 billion. Excluding the effects of business transfers accompanying internal organizational changes carried out in fiscal 2007, sales increased by 4.2%. In Japan, our system integration business expanded in a wide range of fields, most notably in the financial and healthcare sectors. Consulting functions and infrastructure construction SE were integrated into the business at consolidated subsidiaries to enhance business efficiency. Outside Japan, progress was made in strengthening the business structure, thanks to acquisitions in the US, Canada and New Zealand.

Infrastructure Services: Sales increased 4.3% to ¥1,215.2 billion. Demand for outsourcing services grew strongly on a global basis. In Japan, we constructed city-center data centers in order to respond effectively to spiking outsourcing demand. Outside Japan, following similar actions in Germany in the previous fiscal year, we made aggressive acquisitions in Scandinavia and other areas. As a result, we attracted new customers in Germany and Sweden as well as orders for large projects in Europe.

Operating income declined 10.0% year on year to ¥140.4 billion. Excluding the effect of changes in accounting policies, income decreased by ¥10.6 billion for the year. In Japan, increased expenses stemming from efforts to standardize and automate IT infrastructure and the construction of data centers were effectively absorbed by benefits from higher sales and higher cost efficiencies, leading to income growth. This was offset, however, by lower income outside Japan. Despite benefits from sales growth mainly in European markets, income declined due largely to the booking of a provision for losses for an unprofitable project in the UK.

[OUTLOOK FOR FISCAL 2008]

■Market Trends

The Japanese IT services market in 2008 is projected to grow by 3.6% to US\$44.55 billion. Although growth will be somewhat subdued vis-à-vis the elevated watermark set last year, levels of investment in the field are expected to remain high. The effective utilization of IT to optimize operational efficiency and raise competitiveness is expected to be an even more urgent issue in a business environment defined by soaring crude oil prices, the yen's appreciation, rising raw material prices, and financial uncertainty. Moreover, the use of outsourcing is widely expected to gain further momentum as customers channel management resources in core business fields and implement measures for business continuity and environmental protection, particularly measures to combat global warming. The year should also see more widespread use of network-based applications as the advancement of Next-Generation Networks (NGN) gains ground.

The global IT services market, meanwhile, is projected to grow 5.5% year on year to US\$541.76 billion. A downturn in investment is expected to emerge primarily in North America and Europe as fallout persists from the subprime mortgage problem and the risk of economic recession, stemming from escalating crude oil prices, looms. In contrast, newly emerging economies are expected to continue posting double-digit growth, most notably India and China. China in particular is witnessing an ongoing shift in demand away from hardware in favor of SI businesses.

■Initiatives Going Forward

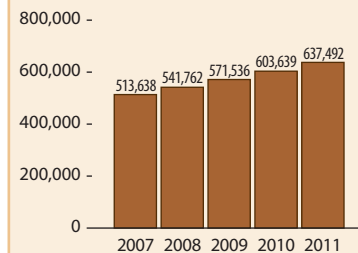
Solutions/SI: In Japan, we intend to use pipeline management to bolster management of everything from initial consultation to project order. This will parallel a drive to expand orders by cultivating "Field Innovators" and involving them in the frontlines of our customers' businesses so that they can propose IT and business solutions from a more customer-centric viewpoint. Another goal is to boost productivity of systems integration by enhancing performance during the system design phase and pursuing industrialization and standardization during the development phase. This will lead to lower costs and higher quality for the customer as well as higher profit margins. Outside of Japan, Fujitsu Consulting will spearhead efforts to reinforce our consulting capabilities and promote greater utilization of offshore resources as we roll out initiatives targeting SaaS and other new business domains to expand business.

Infrastructure Services: In Japan, we will enhance our support of customers' business continuity plans and responses to environmental issues by building a high-performance data center (CASBEE S-compliant, Tier 4-compatible). This center will seek to meet growing data-center outsourcing demand in Japan, and will be compatible with newly emerging, highly integrated system and green IT needs.

In line with the full-scale advancement of NGN, we will expand our SaaS business, whereby we leverage networks to offer a variety of application services. In overseas markets, UK-based Fujitsu Services will lead the push to bring benefits from recent M&As to the fore as we accelerate business expansion in Europe, most notably outsourcing.

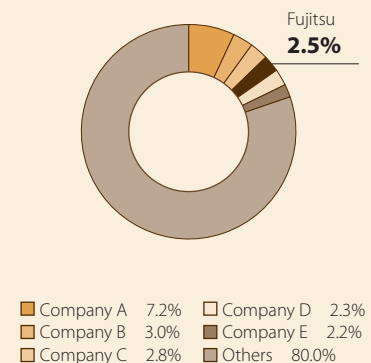
GLOBAL IT SERVICES MARKET FORECAST

(Millions of Dollars)



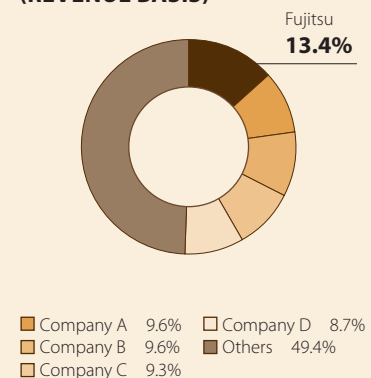
(Source: IDC's Worldwide IT Spending Patterns: The Worldwide Black Book Q1 2008)

GLOBAL IT SERVICES MARKET SHARE IN 2007 (REVENUE BASIS)



(Source: Gartner, April 2008, GJ08337)

IT SERVICES MARKET SHARE IN JAPAN IN 2007 (REVENUE BASIS)



(Source: Gartner, April 2008, GJ08335)

Ubiquitous Product Solutions



Fujitsu's pursuit of manufacturing excellence, with an emphasis on speed and cost efficiency, enables it to offer the PCs, mobile phones and hard disk drives indispensable to a ubiquitous society.

**FISCAL 2007 PERFORMANCE
(YEAR-ON-YEAR COMPARISON)**

(Billions of Yen)

Net Sales	1,188.9 (6.3%)
Operating Income	52.5 (26.2%)
R&D Expenses	36.9 (0.5%)
Capital Expenditure	27.6 (11.3%)



A



B



C

A : MHZ2 CJ Series 320 GB 2.5-Inch HDD With Built-in Encryption Function

Fujitsu developed the MHZ2 CJ series of 320 GB 2.5-inch hard disk drives. This series is equipped with the industry's fastest encryption function compatible with AES 256 encryption, and is first in the world to offer this feature. Data on the disk are encrypted and recorded automatically.

B : FOMA® F706i Mobile Phone

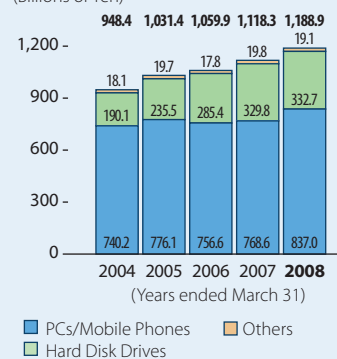
Fujitsu's new FOMA® F706i water-resistant phone with "One Segment" functionality lets users easily watch their favorite digital programming wherever they are, be it the bathtub or the kitchen.

C : FMV-BIBLO NF Series of Notebook PCs

Fujitsu has unveiled the stylish and slim FMV-BIBLO NF notebook PC series. Built to meet increased demand for more elegant design, this PC offers users a variety of interchangeable color options for the notebook's top panel.

SUB-SEGMENT SALES*

(Billions of Yen)

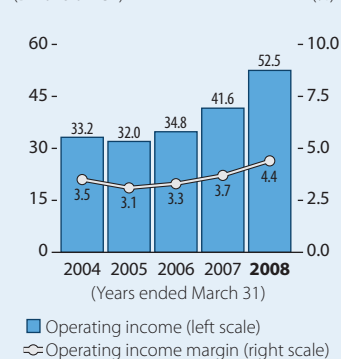


* Including intersegment sales

**OPERATING INCOME/
OPERATING INCOME MARGIN**

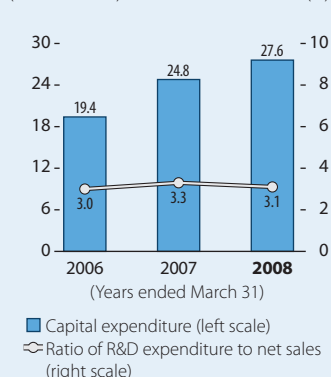
(Billions of Yen)

(%)

**CAPITAL EXPENDITURE, RATIO OF
R&D EXPENDITURE TO NET SALES**

(Billions of Yen)

(%)

**[FISCAL 2007 BUSINESS RESULTS]****■Market Trends**

PCs/Mobile Phones: PC shipments in Japan declined 1.0% year on year in 2007 to 14.13 million units. This came as sluggish growth in corporate demand for Windows Vista™ overshadowed increased new and replacement demand mainly among individual consumers for Windows Vista™ PCs. In contrast, worldwide PC shipments increased 15.4% year on year to 269.1 million units, as sales of notebook PCs grew briskly, mainly in Europe and Asia, outweighing slower U.S. sales.

Mobile phone shipments in the domestic market in 2007 increased 4.4% year on year to 51.52 million units. Shipment volume was led by handset models with “One-Segment” broadcast reception and music player functions.

HDDs: The global enterprise 3.5-inch hard disk drive (HDD) market climbed 8.1% year on year in 2007 to 29.86 million units on the back of robust server demand. Shipments of 2.5-inch HDDs models for the mobile market rose 35.7% year on year to 164.45 million units, benefiting from a global increase in demand for notebook PCs.

■Operational Review

Sales from the Ubiquitous Product Solutions segment rose 6.3% year on year to ¥1,188.9 billion.

PCs/Mobile Phones: Sales increased 8.9% to ¥837.0 billion, boosted by growth in global PC shipments, up 4.3% to 8.81 million units, and surging shipments of mobile phones, up 45.7% to 5.9 million units on brisk demand for our Raku Raku Phone and 900 Series models. In the mobile phone business, we established a new subsidiary in January 2008 through the merger of our production divisions and customer service centers with the production and repair divisions of Fujitsu Wireless Systems, which was made a wholly owned subsidiary through a share exchange, and other subsidiaries. This step will enable Fujitsu to improve quality across the full range of services, allowing, for example, faster responses to customer requests.

HDDs: Sales increased 0.9% year on year to ¥332.7 billion. Although shipments of 2.5-inch mobile HDD models rose a robust 19.7% to 37.07 million units in line with increased demand for notebook PCs, the competitive environment remained severe due to falling prices and other factors.

Operating income increased by ¥10.9 billion over the previous fiscal year to ¥52.5 billion. Excluding changes in accounting policies, operating income increased by ¥12.6 billion for the year. Income growth reflected benefits gained from higher PC sales and steady progress in reducing component costs and managing operations more efficiently. Income also grew from firm mobile phone performance, particularly for Raku Raku Phone. Another factor was HDDs, where the impact of falling prices in the first half of the year leveled off in the second half, and full-scale sales of HDDs with perpendicular magnetic recording technology and other new models got under way.

[OUTLOOK FOR FISCAL 2008]

■Market Trends

PCs/Mobile Phones: Japan PC shipments in 2008 are projected to increase 3.7% year on year to 14.68 million units. Sales of PC models compatible with terrestrial digital broadcasts and ultra-mobile PCs to individual consumers are expected to increase. Sales of PCs to the corporate sector, meanwhile, are likely to track growth in demand for system security such as biometric authentication and HDD encryption, and replacement demand for Windows Vista™ PCs. Worldwide PC shipments in 2008 are expected to increase 15.2% year on year to 309.9 million units, reflecting continued expansion in demand for notebook PCs.

Turning to mobile phones, forecasts for the Japanese market in 2008 are for shipments of less than 45 million units. Changes to mobile carriers' contract obligation and sales incentive systems are expected to dent demand for new models and extend the replacement cycle, leading to overall lower shipments.

HDDs: In HDDs, shipments in the enterprise 3.5-inch HDD market are expected to increase by around 3% to 4% as stable market growth continues. The mobile market for 2.5-inch HDD products is projected to grow 25% to 270 million units, mainly due to growth in products for notebook PCs, joined by sales for use in digital home appliances, games consoles and other consumer products.

■Initiatives Going Forward

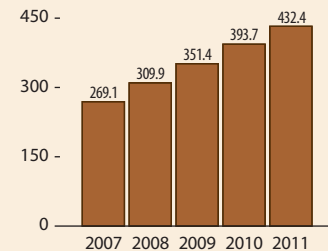
PCs/Mobile Phones: In Japan, our PC initiatives will seek to address growing interest in PCs manufactured from environmentally friendly materials, along with efforts to capture consumer demand by adding to our line of aesthetically creative NF Series PCs. In parallel, we will work to fill new and replacement demand from the increased uptake of Windows Vista™ PCs in the corporate sector. Plans also call for rolling out product lines that meet the specific needs of small- and medium-sized enterprises. Finally, with growth in worldwide notebook PC demand anticipated, we will take steps to expand our sales channels in newly emerging economies, especially in Asia.

In mobile phones, despite concerns over how shipments may be impacted by a new sales system in Japan, we plan to boost income by expanding sales of innovative products clearly differentiated from those of competitors. These include the Raku Raku Phone, where our pursuit of an intuitive, easy-to-use handset has led to brisk sales, the 900 Series of large-screen, "One-Segment" handsets, the thin and water-resistant 700 Series, and the "Kids' Keitai" mobile phone for elementary school-aged users.

HDDs: In HDDs, we have positioned the fast-growing mobile market for 2.5-inch HDD models as one of our strategic markets, where we plan to offer a broader lineup to meet diverse customer needs. Beyond notebook PC demand, we intend to enhance our market position by developing a presence in game consoles, industrial applications and other non-PC markets. In the enterprise market for 3.5-inch HDDs, performance and reliability are the key factors that determine market share. Fujitsu's position in this field is growing, as the number of vendors able to meet these conditions is limited. Going forward, we will bolster the promotion of small form factor (SFF) HDDs—widely expected to aid in lowering system power consumption—and move quickly to meet the growing interest in low-power systems that has emerged in recent years.

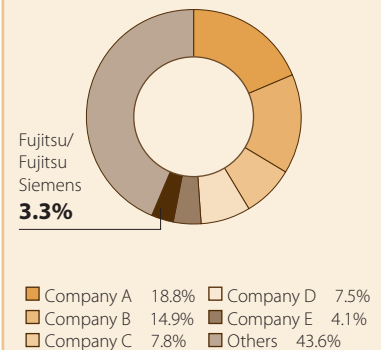
GLOBAL PC MARKET FORECAST

(Millions of Units)



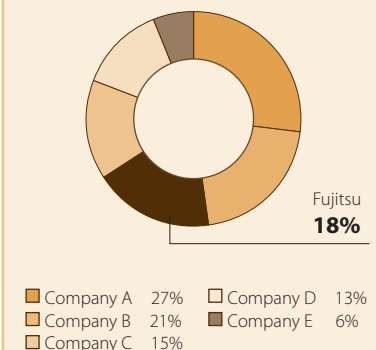
(Source: IDC's Worldwide Quarterly PC Tracker Q1 2008)

SHARE OF GLOBAL PC MARKET (UNIT BASIS)



(Source: IDC's Worldwide Quarterly PC Tracker Q1 2008)

SHARE OF 2.5-INCH HDD MOBILE MARKET (UNIT BASIS)



(Source: Gartner, April 2008, GJ08338)

Device Solutions

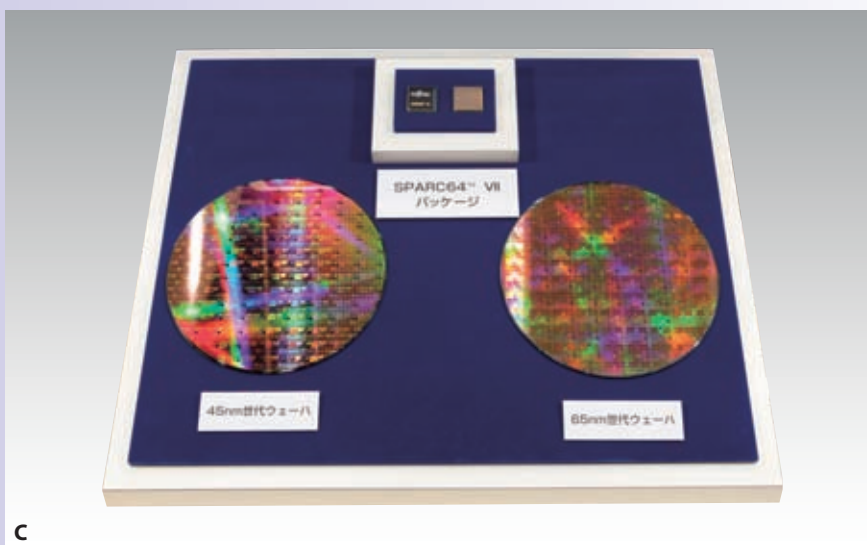
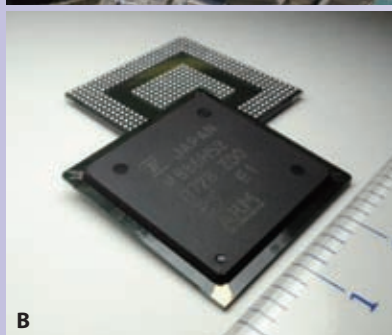


Logic LSI chips and related electronic components are core technologies that we provide to customers inside and outside the Group as optimized solutions to help enhance the competitiveness of their products.

**FISCAL 2007 PERFORMANCE
(YEAR-ON-YEAR COMPARISON)**

(Billions of Yen)

Net Sales	796.7(4.5%)
Operating Income	18.2(−3.9%)
R&D Expenses	42.3 (−8.6%)
Capital Expenditure	117.3(−29.4%)



A : Fujitsu's Mie Plant—producer of advanced logic LSI products

This site fabricates advanced logic LSI products compatible with large 300mm wafers.

B : H.264 transcoder LSI compatible with full high-definition video

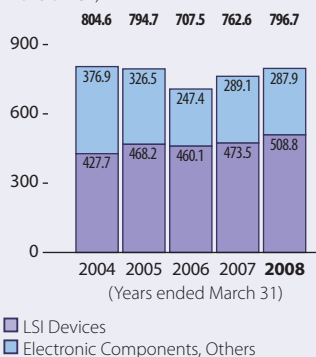
This transcoder LSI converts video data from terrestrial digital and BS digital satellite in MPEG-2 format to the more highly compressed H.264 format. This process reduces data size by over half with no loss in resolution.

C : 300mm wafers built from state-of-the-art technology

300mm wafers (left: wafer fabricated from 45nm process technology; right: wafer fabricated from 65nm process technology) unveiled at Fujitsu Forum 2008, in May 2008.

SUB-SEGMENT SALES*

(Billions of Yen)

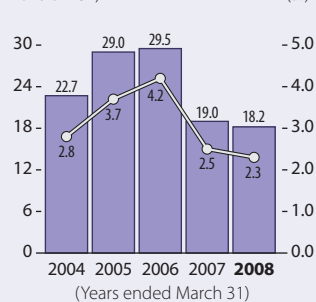


* Including intersegment sales

**OPERATING INCOME/
OPERATING INCOME MARGIN**

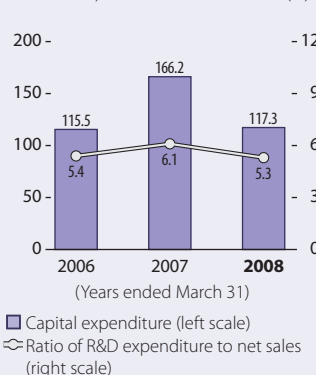
(Billions of Yen)

(%)

**CAPITAL EXPENDITURE, RATIO OF
R&D EXPENDITURE TO NET SALES**

(Billions of Yen)

(%)

**[FISCAL 2007 BUSINESS RESULTS]****■Market Trends*¹**

The value of the global semiconductor market rose by 3.2% to US\$255.65 billion in 2007. Market growth was substantially lower than the robust 8.9% growth rate recorded in 2006.

Market conditions rapidly deteriorated in semiconductors for the digital consumer electronics sector from the second half of fiscal 2006. Signs of a rebound began to emerge, however, from the outset of fiscal 2007, culminating in firm demand for semiconductors for use in digital consumer electronics and mobile phones in the first half. Adverse conditions re-emerged in the second half of the year, however. Anticipated growth in semiconductor demand ahead of the 2008 Beijing Olympics was undermined by fears of a US economic downturn due to the subprime mortgage crisis. Demand was also stymied by deepening concerns that escalating prices for crude oil and other raw materials would trigger an economic slowdown. These trends prompted a more cautious approach to increasing inventories among electronic equipment manufacturers, resulting in lackluster semiconductor demand in the run up to the Olympic Games.

■Operational Review

Sales from the Device Solutions segment increased 4.5% year on year to ¥796.7 billion. While sales in Japan of standard technology logic products struggled, most visibly in the industrial machinery and digital consumer electronics sectors, sales of advanced technology logic products based on 90nm process technology to the digital camera, mobile phone and server sectors grew. Coupled with the start of outsourced production of flash memory at semiconductor production facilities acquired from Spansion Japan Limited, sales in Japan increased 14.1% for the year. In contrast, sales outside Japan declined 9.9%. This outcome mainly reflected decreased business volume due to changes in the flash memory sales structure at Fujitsu sales companies outside Japan.

Segment operating income edged down ¥0.7 billion to ¥18.2 billion. Excluding the effect of changes in accounting policies, income was ¥7.9 billion, representing a year-on-year decrease of ¥11.0 billion. In the LSI Devices sub-segment, higher sales of advanced technology logic products were not sufficient to offset the impact of a slow recovery in demand for standard technology logic products. Earnings were also impacted by increased depreciation associated with the start of operations at the Mie Plant Fab No. 2, a facility specializing in 65nm process technology. The Electronic Components, Others sub-segment met with similar results, as the yen's appreciation from the end of December 2007, tougher price competition and increased upfront investments all weighed on earnings.

[OUTLOOK FOR FISCAL 2008]

■Market Trends*¹

The global semiconductor market in 2008 is projected to grow by a modest 4.7% year on year to US\$267.69 billion. By region, the US, Europe, Japan and Asia-Pacific semiconductor markets are expected to grow by 1.9%, 3.1%, 7.4% and 5.2%, respectively.

In terms of products, while the memory market (including DRAM and flash memory) is expected to decline by 5.5% in fiscal 2008, sales of MOS logic products and MOS microcontrollers should rise by 13.4% and 5.4%, respectively.

The Company's business environment will likely remain challenging, as customers, particularly in the consumer electronics sector, cope with the effects of an economic slowdown centered on North America and a stronger yen.

Ahead of an anticipated recovery in the semiconductor market from 2009, the market is projected to post healthy growth of 5.8% in 2009 to US\$283.24 billion, followed by growth of 8.8% to US\$308.18 billion in 2010, for an average annual growth rate of 6.4% from 2007 to 2010, according to IDC. The most notable growth, however, will be in the Asia-Pacific region, where a high average annual growth rate of 7.4% will likely surpass that of other regions for the same period.

■Initiatives Going Forward

On March 21, 2008, Fujitsu reorganized its LSI business into a new subsidiary to form Fujitsu Microelectronics Limited. This move put in place a more independent management structure which can support fast and timely business decisions.

Over the years, Fujitsu has built core competencies in the LSI business that include advanced process technologies, a competitive and rich portfolio of intellectual properties, design technologies for "first-shot full operation"^{**2} of system LSIs, and a strong customer base. Fujitsu has leveraged these competencies to develop a strong business foundation underpinned by ASICs^{*3}, COT^{*4}, and a growing lineup of promising ASSP^{*5} products.

Going forward, we will prioritize the investment of development resources in ASSPs, microcontrollers, analog products and other general-purpose products, especially in Asia, to achieve a growing lineup of such products, while working in parallel to reinforce our sales structure globally.

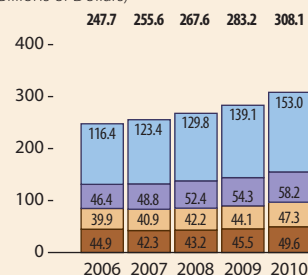
These measures will enable Fujitsu to increase the proportion of high-value-added products in its sales mix, and promote a stronger and more efficient business base for LSI operations. At the same time, these changes will ensure more stable capacity utilization, which in turn will improve business profitability.

Additionally, we intend to strengthen synergies between Fujitsu Microelectronics and other Group companies. The purpose of these collaborations is to enable Fujitsu to offer a broader range of total solutions, and will not merely target business on a per-chip basis, but at the component level, including in modules and boards.

Fujitsu Microelectronics will be largely responsible for investment decisions with respect to production equipment for advanced logic LSI products, with investments made as necessary within the scope of the company's free cash flow. That said, the company will constantly revise its investment plan as needed relative to current production capacity requirements and future demand trends.

GLOBAL SEMICONDUCTOR MARKET FORECASTS

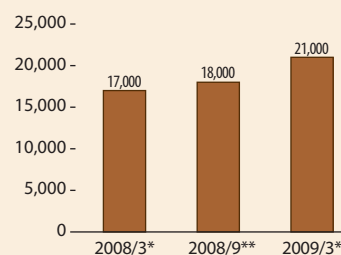
(Billions of Dollars)



(Source: World Semiconductor Trade Statistics (WSTS))

CAPACITY INCREASE PLAN FOR 300MM WAFER FAB (90NM/65NM)

(Wafers/Month)



*Actual **Forecast
(As of May 31, 2008)

*¹ Semiconductor market estimates according to World Semiconductor Trade Statistics (WSTS), spring 2008 forecast.

*² First-shot full operation: First-try successful operation of an LSI from the initial prototype chip.

*³ ASIC: Application specific integrated circuit. Customized ICs for specific applications and customers.

*⁴ COT: Customer-owned tooling. A business model in which LSIs designed and developed by the customer are manufactured by an LSI manufacturer. Unlike foundry manufacturing, the manufacturer co-develops with the customer from initial design stages.

*⁵ ASSP: Application specific standard product. Standard LSI products for specific applications such as power supplies and image processing, for use in PCs, mobile phone handsets, and other devices. These LSIs can be sold to multiple users.