

Operational Review and Outlook

Technology Solutions/Services

Fujitsu provides solutions/system integration services that integrate ICT system consulting, design, application development and hardware installation, as well as infrastructure services centered on outsourcing services (complete ICT system operation and management including ICT system management via datacenters) and maintenance services.



Machine room in the new annex of Fujitsu Tatebayashi System Center



POS system



Fiscal 2009 Performance (Year-on-year Comparison)

(Billions of Yen)

Net Sales	2,510.4 (3.4%)
Operating Income	131.1 (-32.2)
R&D Expenses*	124.0 (-8.8%)
Capital Expenditure*	74.7 (-14.8%)

* For entire Technology Solutions segment

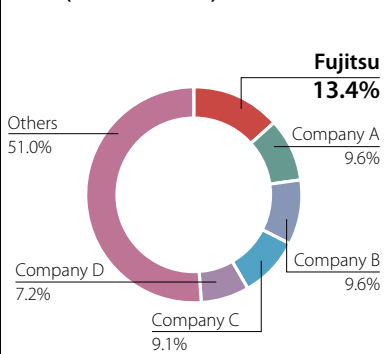
OUR STRENGTH

Fujitsu's services business holds the leading market share in Japan and the third-largest share worldwide. We provide services across a wide range of countries and regions, including Europe, the Americas, Asia and Oceania.

Outsourcing services are a key field for us, and we remain No. 1 in the Japan outsourcing market. Through our network of 91 datacenters in 16 countries worldwide, mainly in Japan and Europe, we meet a wide variety of customer needs. Among other benefits, our services make operation of customers' information and communication technology (ICT) systems easier, and help to make their operations greener.

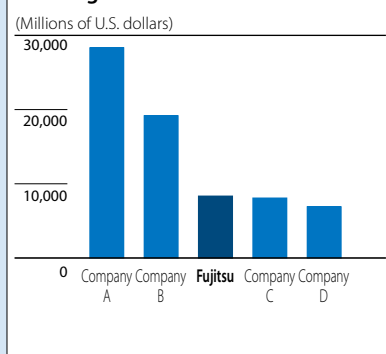
Fujitsu's strengths lie in its global services structure, a wealth of experience in building large-scale, advanced systems, and the technological capabilities to support these operations. We use these capabilities to help diverse customers across countries, regions and languages in utilizing their ICT systems, including government organizations, and customers with locations around the world.

IT Services Market Share in Japan 2009 (Revenue Basis)



(Source: Gartner, "IT Services Market Metrics Worldwide Market Share: Database" 19 April 2010)

Global Outsourcing Sales Vendor Ranking 2009



(Source: IDC June 2010 Worldwide Services 2009 Vendor Analysis: Revenue Performance of the Top 10)

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Operational Review and Outlook

Technology Solutions/Services

MARKET TRENDS

2009 Global Market Trends

The value of Japan's IT services market in 2009 declined a significant 3.8% year on year to US\$53.7 billion. The decline was due to delayed effects of the economic recession touched off by the financial crisis, which saw heavy cuts in corporate IT investment, mainly in the manufacturing, retail and distribution, and finance sectors.

By field, demand for system integration fell heavily, while the outsourcing market continued to expand. The use of outsourcing by customers seeking to cut costs was steady, and outsourcing of system operation and other non-core business processes increased.

The global market for IT services contracted 2.6% year on year to US\$56.48 billion. → **GRAPH 2** In Europe, the market shrank significantly, as IT investment fell with economic deterioration, and governments cut public spending. IT investment also failed to recover fully in the North American market. Meanwhile, emerging countries such as China and the APAC region continued to see strong market growth, despite a slight deceleration.

Outlook for 2010

The Japanese IT services market in 2010 is projected to decline 1.0% year on year to US\$53.2 billion. → **GRAPH 3**

Despite signs of recovery in some sectors, namely manufacturing and finance, the Japanese economy remained weak and unable to recover, hampered by a prolonged slump in capital expenditures and reduced public spending. However, wide recognition of the crucial role of IT investment in maintaining and improving competitive strength is expected to reverse the trend of investment restraint that has persisted since last year. The hardware sector currently shows signs of recovery and the service sector, centering on software development, is expected to follow from the second half of fiscal 2010. New modes of using ICT, especially cloud computing, are expected to drive the recovery in ICT investment.

The global IT services market is expected to grow 1.5% year on year to US\$573.4 billion. → **GRAPH 2** Globally, the economy is gradually recovering, but recovery strength is varied across regions. Emerging countries such as India and China show strong signs of

OPERATIONAL REVIEW AND INITIATIVES

Fiscal 2009 Business Results

Sales from the Services sub-segment (Solutions/System Integration, Infrastructure Services) increased 3.4% from the previous fiscal year to ¥2,510.4 billion. → **GRAPH 4**

Excluding the effects of consolidation of Fujitsu Technology Solutions (Holding) B.V. and currency exchange rate effects, sales decreased by 5%.

Solutions/System Integration: Sales decreased 8.7% to ¥1,117.2 billion. Excluding currency exchange rate effects, sales decreased 8%.

In Japan, sales were strong in fields relatively unaffected by the business climate, such as an upgrade of legacy systems in the public sector and an increase in projects to automate and digitalize hospitals. However, in fields such as manufacturing and logistics, communications, finance, and regional public sector demand, Fujitsu's business was strongly affected by lingering constraints in capital expenditure for ICT due to the economic downturn. Performance outside Japan was strong partly due to the effect of M&As conducted by Fujitsu last year. In North America, the market failed to make a full-fledged recovery though Fujitsu was successful winning a number of large-scale projects.

Infrastructure Services: Sales increased 15.5% to ¥1,303.9 billion. Excluding the consolidation of Fujitsu Technology Solutions and exchange rate effects, sales fell by 4% year on year.

In and outside Japan, the outsourcing services business expanded due to strong demand

from companies looking to cut ICT operation costs following the economic slump. In Europe, Fujitsu saw sales in the U.K. decline year on year in local currency as a result of government cuts on public spending.

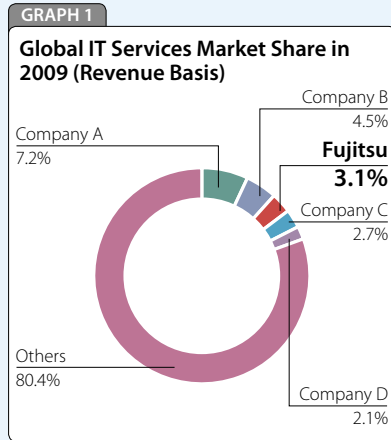
Operating income fell ¥32.2 billion year on year to ¥131.1 billion. In Japan, income was affected by lower sales in Solutions/System Integration and rising costs of ¥11.5 billion in retirement benefits due to a worsening environment for management of pension assets in the previous year. → **GRAPH 5** Another factor was a decline in profitability of projects that emerged at the end of the fiscal year. Outside Japan, income was affected by the economic slump, mainly in Europe. As well, profitability worsened in some projects with public and government entities.

Initiatives Going Forward

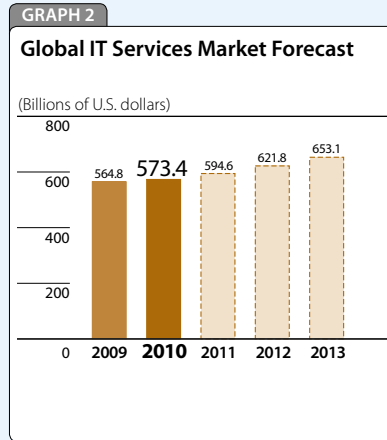
Solutions/System Integration: In Japan, Fujitsu will market solutions for enhancing productivity and competitive strength with a focus on industries and fields that have continued to restrain their IT investment up until now. We will deploy our Field Innovators to create proposals for enhancing operational efficiency for our customers, while stimulating demand for system upgrades by offering support in transitioning to International Financial Reporting Standards and complying with legal amendments. We will also leverage our framework for providing global services to offer ICT support for globally expanding Japanese companies, offering the

recovery, and are expected to increase investments in ICT. In Europe, however, the financial crisis in Greece and the slump in consumer spending due to worsening employment conditions, along with reduced

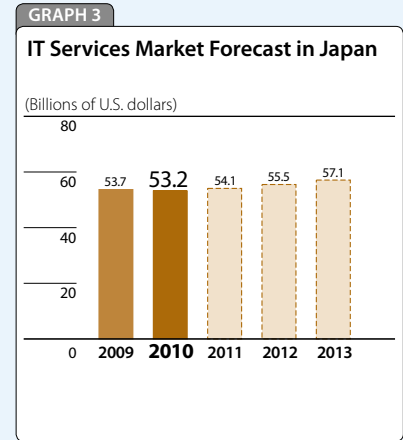
capital expenditure because of a fall in demand and other factors, suggest that economic stagnation in this region will be prolonged.



(Source: Gartner, "IT Services Market Metrics Worldwide Market Share: Database" 19 April 2010)



(Source: IDC The Worldwide Black Book Q1 2010)



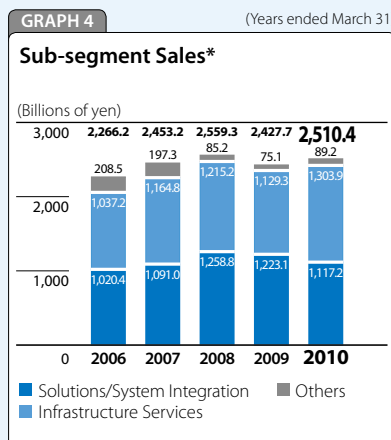
(Source: IDC The Worldwide Black Book Q1 2010)

same services that we provide in Japan in other countries. Outside Japan, we will continue to steadily develop businesses that have close ties with local regions, centering our efforts on North America and Australia.

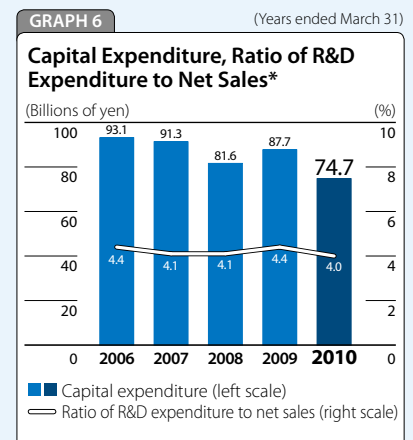
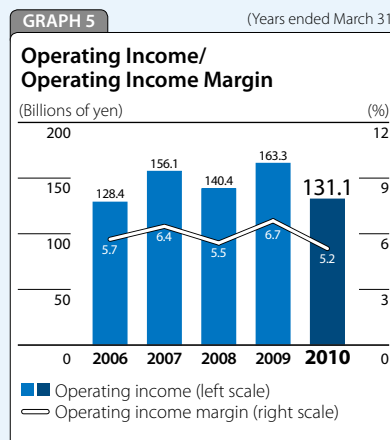
Infrastructure Services: In Japan, Fujitsu opened the new annex of the Fujitsu Tatebayashi System Center in November 2009. This state-of-the-art facility meets the highest industry standards in every respect, including high security and environmental performance to satisfy diverse customer needs. As the core datacenter for Fujitsu's cloud computing business in Japan, the new annex will provide a host of cloud computing services ranging from ICT infrastructure to Software-as-a-Service (SaaS) format software. Outside Japan, Fujitsu will roll out a common

global cloud computing platform with services based on it in five countries during 2010. We will also proceed with the integration of Fujitsu Services in the U.K. and Fujitsu Technology Solutions in Germany. This is part of a reorganization of Fujitsu's business in Europe into three sub-regions, the U.K. and Ireland, the Nordics, and Continental Europe. Through this, we aim to tailor our business development closely with the respective characteristics of each region.

Fujitsu will also make strategic investments both in and outside Japan, relating mainly to its cloud computing business. Through these investments, we intend to further consolidate our position as top vendor of ICT services in Japan and enhance our competitive strength on a global level.



* Including intersegment sales



* For entire Technology Solutions segment

Operational Review and Outlook

Technology Solutions/System Platforms

System products and network products are the foundation of ICT infrastructure. System products comprise the servers (such as mainframes, UNIX, mission-critical x86 servers), storage systems and middleware on which information systems are built. Network products include the mobile phone base stations, optical transmission systems and other equipment used to build communications infrastructure.



UNIX server SPARC Enterprise M9000



Fiscal 2009 Performance (Year-on-year Comparison)

(Billions of Yen)

Net Sales	610.6 (-6.0%)
Operating Income	21.3 (-4.0)
R&D Expenses*	124.0 (-8.8%)
Capital Expenditure*	74.7 (-14.8%)

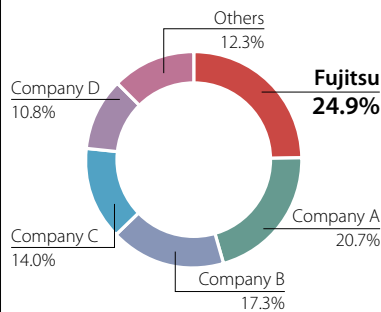
* For entire Technology Solutions segment

OUR STRENGTH

In system products, Fujitsu has a broad lineup of offerings to meet the needs of customers around the world. These include sophisticated and highly reliable mainframe and UNIX servers that support the backbone systems of corporations and incorporate proprietary CPUs—Fujitsu is one of the few remaining companies in the world with the technology to make its own processor chips. We also provide the x86 servers for cloud computing and other promising business areas, as well as storage systems able to hold increasingly vast amounts of data.

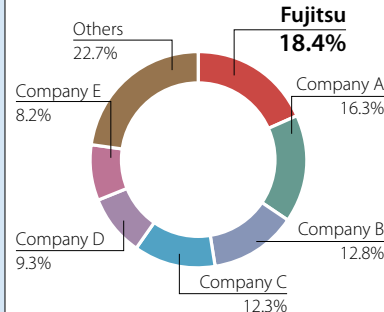
In network products, Fujitsu holds a large market share for the optical transmission systems and mobile phone base stations used by mobile communications carriers in Japan, backed by its advanced technology and support capabilities. We also have the leading market share in the highly competitive North American market for optical transmission systems, building on our highly rated technical capabilities and track record.

Server Share in Japan 2009 (Revenue Basis)



(Source: IDC Japan, Japan Server Quarterly Model Analysis, 2010 Q1)

Optical Transmission Market Share in North America 2009 (Revenue Basis)



(Source: Ovum-RHK 2010. 4)



Operational Review and Outlook

Technology Solutions/System Platforms

MARKET TRENDS

2009 Global Market Trends

System Products: In 2009, the server market in Japan contracted 18.8% year on year to US\$5.6 billion. Cut-backs in corporate IT investment particularly in the manufacturing, retail and distribution, and financial sectors due to the economic downturn caused significant declines in all major server products, including mainframe, UNIX and x86 servers.

Similarly, despite firm demand from China and other emerging economies, the global server market declined a substantial 16.9% to US\$46.1 billion, due to the global economic downturn. → [GRAPH 2](#)

Network Products: The Japan market for network equipment in 2009 saw diminished performance from Wavelength Division Multiplexing (WDM) and other optical transmission equipment, routers, and other IP devices, as the current investment cycle in Next-Generation Network (NGN) equipment has passed its peak. The mobile infrastructure market declined year on year as investments waned in line with the maturation of 3G network technology.

In North America, overall spending in the optical transmission market was lower than the previous year, reflecting reductions in capital expenditures due to the economic recession. This overshadowed firm investment in mobile backhaul networks and other backbone infrastructure to cope with increased data traffic.

Outlook for 2010

System Products: The Japanese server market is expected to contract a further 11.0% in fiscal 2010 to US\$4.9 billion. Demand for x86 servers, notably blade servers, is projected to rise with customer needs for server consolidation and virtualization. Nevertheless, growing cost consciousness among corporations will likely cause stagnation in the mainframe and UNIX server markets.

The global server market is projected to grow 3.8% to US\$47.8 billion, due to increased investment from China and other emerging countries, as well as a partial recovery in investment anticipated in North America and other developed markets. → [GRAPH 2](#)

OPERATIONAL REVIEW AND INITIATIVES

Fiscal 2009 Business Results

The System Platforms sub-segment, comprising System Products and Network Products, reported sales of ¥610.6 billion, a decrease of 6.0% from the previous fiscal year. → [GRAPH 4](#)

System Products: Sales declined 2.5% year on year to ¥317.8 billion. In Japan, while sales of UNIX servers and storage systems struggled due to market weakness, sales of mainframe servers were brisk, benefiting from upgrade demand from major customers. Shipment volume for x86 servers grew considerably, as Fujitsu expanded its product lineup, opted for more competitive pricing, and enhanced its sales structure. As a result, although server sales in Japan declined year on year, Fujitsu successfully captured the top share of the Japanese server market for a third consecutive year. Outside Japan, sales suffered due to lackluster market conditions, but ultimately increased from the consolidation of Fujitsu Technology Solutions.

Network Products: Sales decreased 9.5% to ¥292.7 billion. Sales of optical transmission systems fell year on year, as the current cycle of NGN-related investment in Japan peaked. In North America, sales rose on a local currency basis thanks to growth in investments in mobile backhaul networks and other backbone infrastructure. Upon conversion, however, the yen's appreciation caused sales to end lower for the year.

In mobile systems, sales declined on lower sales of base stations following reduced 3G investment.

Operating income was ¥21.3 billion, ¥4.0 billion lower year on year. Income benefited from business deals with major customers for mainframe upgrades, growth in sales of optical transmission systems in North America and ongoing cost reductions. These were outweighed, however, by issues accompanying the consolidation of Fujitsu Technology Solutions, including extraordinary losses in the x86 server business and the amortization of goodwill. → [GRAPH 5](#)

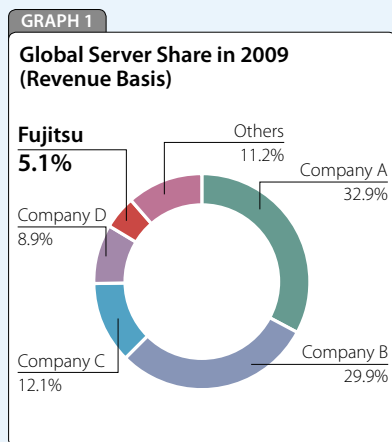
Initiatives Going Forward

System Products: Information and communications technology (ICT) plays an increasingly vital role in ensuring social prosperity and security. This trend is raising the importance of servers and other infrastructure products that support society's development. Fujitsu will also move to develop optimal platforms to underpin cloud computing, an emerging paradigm that will enable flexible ICT utilization. → [GRAPH 6](#)

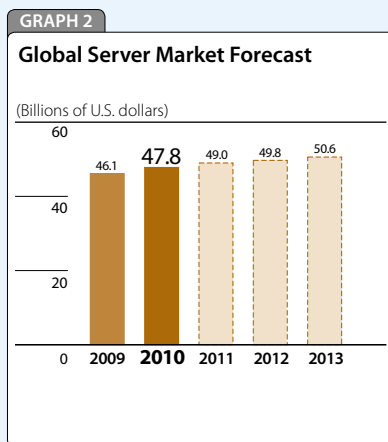
In x86 servers, Fujitsu will expand its global business together with Fujitsu Technology Solutions, which became a consolidated subsidiary in April 2009. The goal is to achieve global annual x86 server sales of 500,000 units in the shortest possible timeframe. To this end, we will enhance competitiveness through sweeping cost reductions in development, manufacturing, and procurement, while reviewing our global sales structure and offering new and distinctive Fujitsu products developed for the advent of cloud computing. In storage systems, in

Network Products: The 2010 Japanese network equipment market may see lower year-on-year performance from optical access devices and mobile infrastructure now that the NGN investment cycle has peaked. Another factor will be the lull in investment ahead of the full-scale rollout of the next-generation Long-Term Evolution (LTE) mobile communication networks.

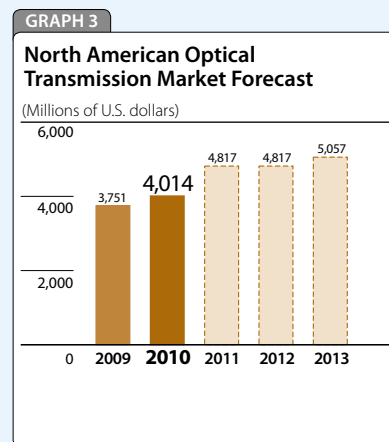
Meanwhile, the value of the North American optical transmission market is expected to increase year on year due to continued investments for network integration via IP/Ethernet, and to augment mobile backhaul networks and other backbone infrastructure to handle growth in data traffic. → **GRAPH 3**



(Source: IDC Worldwide Quarterly Server Tracker 2010 Q1)



(Source: IDC The Worldwide Black Book Forecast Q1 2010)



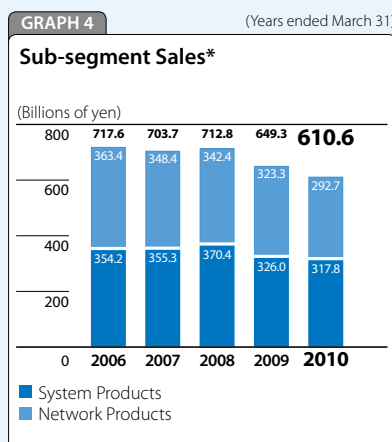
(Source: Ovum-RHK 2009. 12)

addition to bolstering our worldwide sales framework through integration of operations with Fujitsu Technology Solutions, we will expand our global business by raising the industry profile of our products through partnerships with prominent vendors. In UNIX servers, Fujitsu will move swiftly to develop a long-term, cooperative relationship with Oracle, which recently acquired Sun Microsystems. Our goal here is to boost market share and strengthen earnings power by developing more robust product capabilities in this server category.

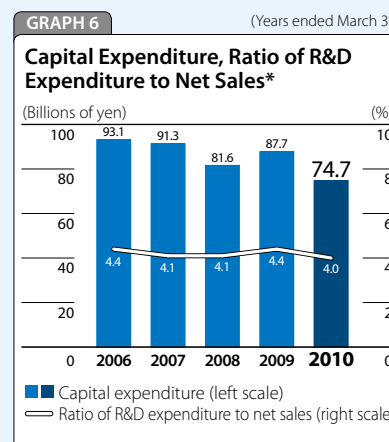
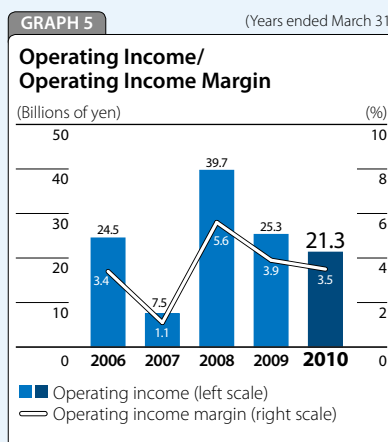
Network Products: The convergence of data and networks is gaining momentum as the era of cloud computing approaches. Network Products have assumed greater importance as this trend unfolds.

In optical transmission systems, Fujitsu will improve profitability by simplifying its business structure and making business, development and manufacturing processes more efficient, while also promoting extensive component sharing and cost reductions. To encourage business expansion, Fujitsu is also reinforcing its structure in order to meet the outsourcing and global development needs of communications carriers, particularly those in North America.

In mobile systems, together with the definitive launch of an LTE business for NTT DOCOMO in Japan, we will leverage our advantages in LTE base stations and alliances with other companies to offer total solutions and develop peripheral services, with an eye to achieving business expansion.



* Including intersegment sales



* For entire Technology Solutions segment

Operational Review and Outlook

Ubiquitous Product Solutions

Fujitsu offers the PCs, mobile phones and other products indispensable for a ubiquitous networked society. In PCs, we provide a full, global lineup of desktop and notebook PCs. In mobile phones, we deliver a diverse variety of products that include high-performance models with superb specs and water resistance, and products created from collaborations with famous brands.



The world's first separable handset, doxomo PRIME series F04-B*



The FMV BIBLO S/D50 features a stylish design

Fiscal 2009 Performance (Year-on-year Comparison)

(Billions of Yen)

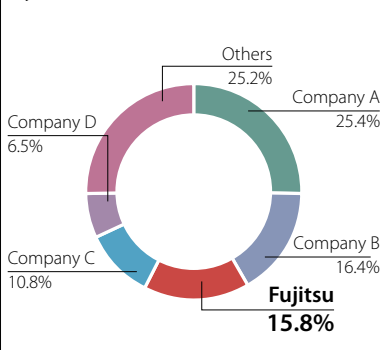
Net Sales	918.7 (-3.2%)
Operating Income	22.9 (+22.4)
R&D Expenses	33.4 (-7.5%)
Capital Expenditure	8.6 (-54.0%)

OUR STRENGTH

Fujitsu PCs reflect a firm commitment to quality, with a lineup of high-value-added products under the single "FUJITSU" brand following the integration of Fujitsu Technology Solutions. Our notebook PCs are fully manufactured by Shimane Fujitsu Limited, including everything from printed circuit board design to computer manufacturing, assembly, and customization. Our desktop PCs are assembled and customized for Japan by Fujitsu Isotec Limited using components sourced from outside Japan, and for other markets, mainly Europe, by Fujitsu Technology Solutions.

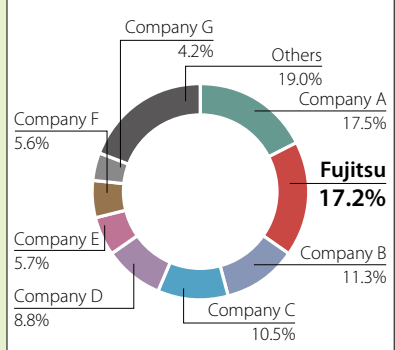
In mobile phones, we offer a lineup of high-quality handsets with advanced functions, including the world's first separable handset, water-resistant handsets that are both thin and provide sophisticated functionality, as well as the Raku-Raku Phone series of models with easy-to-read display, easy-to-hear speakers, and easy-to-use functions.

Mobile Phone Shipments in Japan by Vendor Share 2009



(Source: IDC Japan "Scale of the Mobile Phone Market in Japan in 2009" Apr. 1, 2010)

PC Market Share in Japan 2009 (Unit Basis)



(Source: Gartner, "Personal Computer Quarterly Statistics Worldwide By Region: Final Database" 27 May 2010)
* Including x86 servers

**doxomo PRIME series" is a registered trademark of NTT DOCOMO, INC.



Operational Review and Outlook

Ubiquitous Product Solutions

MARKET TRENDS

2009 Global Market Trends

Total PC shipments in Japan declined 4.2% year on year in 2009 to 13.86 million units. The corporate market contracted significantly as companies curtailed IT investment in the wake of the economic downturn. In the consumer market, however, sales volume rose on rapid growth for compact, low-priced notebook PCs, and from market stimulation provided by the release of the Windows® 7 operating system. Globally, the PC market expanded 5.5% year on year to 308.3 million units. → **GRAPH 3** As in Japan, there was significant growth in sales of compact, low-priced notebook PCs, and sales were boosted overall by the release of Windows® 7.

Mobile phone shipments in Japan in 2009 decreased 19.6% year on year to 33.90 million units. This was due mainly to a longer handset replacement cycle and slumping demand stemming from a change in the sales incentive system and the prolonged economic downturn.

Outlook for 2010

For PCs, the Japanese consumer market is expected to expand year on year, as the boost from terminals incorporating Windows® 7 continues, and demand continues to increase for both traditional full-function notebooks and compact, low-priced notebook PCs. The corporate market is also expected to expand, with demand driven by an upturn in the equipment replacement cycle. The U.S. market is expected to increase markedly with continued overall expansion for notebook PCs and rapid growth from tablet PCs. The European market, despite continued sluggishness in the corporate market, is expected to increase on growth in the consumer market for notebook PCs. Meanwhile, the Asia-Pacific market is forecast to expand significantly year on year, boosted by strong economic growth and demand for IT products. Overall, the worldwide PC market is expected to expand 20.3% year on year to 371 million units. → **GRAPH 3**

In mobile phones, the Japanese market is forecast to remain weak in 2010. Although new smartphone

OPERATIONAL REVIEW AND INITIATIVES

Fiscal 2009 Business Results

Net sales in the Ubiquitous Product Solutions segment totaled ¥918.7 billion in fiscal 2009 (down 3.2% year on year). → **GRAPH 4** Fujitsu's worldwide PC shipments declined 23.5% year on year to 5.63 million units. Shipments increased in Japan as a result of the introduction of models with the Windows® 7 operating system and higher demand for educational-use PCs, but were down outside Japan, mainly in the European market, where economic recovery continues to lag. Mobile phone shipments in Japan rose 10.2% year on year to 5.18 million units, with firm demand for Raku-Raku Phone user-friendly models, and steady growth for water-resistant handsets and handsets with high-resolution cameras.

The hard disk drive (HDD) business was transferred to other companies during fiscal 2009, with the HDD media business transferred to Showa Denko K.K. in July 2009, and the drive business to Toshiba Corporation in October 2009.

Operating income increased ¥22.4 billion from the previous fiscal year to ¥22.9 billion. → **GRAPH 5** This reflected higher sales from the increase in mobile phone shipments, and the positive impact from cost reductions in PC components. Other positive factors included the sale of the HDD business, which had

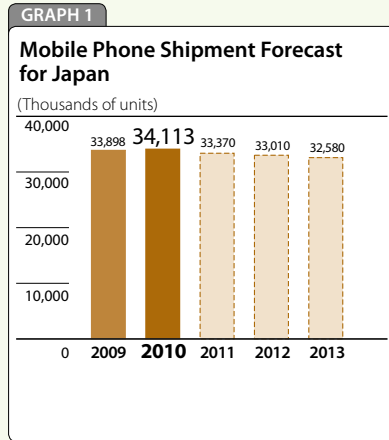
posted considerable losses in the previous fiscal year, and a one-time reduction in expenses stemming from a reduction in copyright levies in the PC business of Fujitsu Technology Solutions.

Outlook for Fiscal 2010

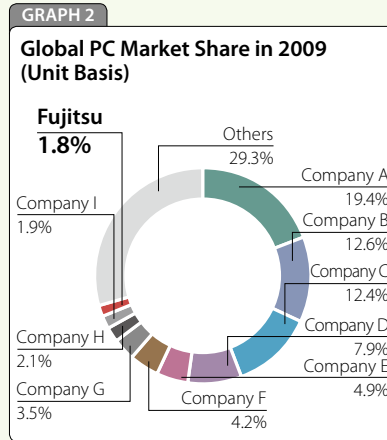
For PCs, in the Japanese consumer market, Fujitsu will boost sales of low-priced mobile notebook PCs with enhanced usability enabled by the spread of wireless communication access and improved battery life. We will also increase sales of "F" and "MT" series models with touch panels, expand sales of models with Blu-ray Disc functionality, and introduce models produced in collaboration with celebrities or featuring stylish designs. In the corporate market, where replacement demand is expected to increase with the recovery in the economy, Fujitsu will continue to enhance product energy efficiency and reliability in terms of security, and develop its lineup to allow highly individualized services for a wide range of customers. In Europe, we will focus on high-quality, value-added products for the corporate market, and develop sales strategies emphasizing profitability. In North America, we anticipate growth for tablet PCs in fields such as medicine and education. In Asia-Pacific, we will expand sales of volume products to

handsets are expected to stimulate demand, this will likely be tempered by higher handset prices and a longer handset replacement cycle as consumers adopt fixed-term subscription contracts, and special sales incentives are abolished. New handset sales are also

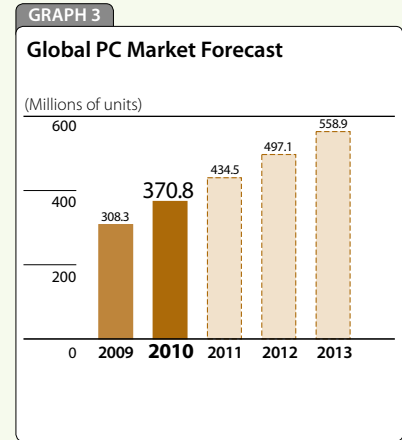
likely to be impacted by the sluggish economy. Handset shipments in Japan are forecast to be up slightly, to around 34 million units. This is just over 60% of the peak 2007 unit sales volume. → GRAPH 1



(Source: IDC Japan "Mobile Phone Market in Japan—Analysis of 4Q 2009 and Forecast for 2010 to 2014" April 2010)



(Source: Gartner, "Personal Computer Quarterly Statistics Worldwide By Region: Final Database" 27 May 2010) * Including x86 servers



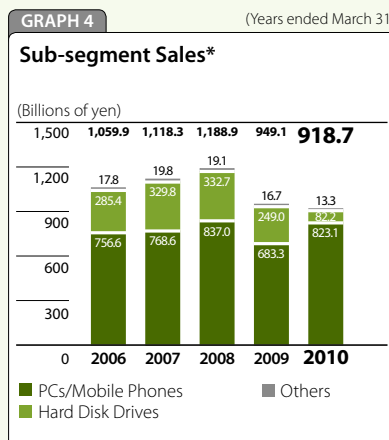
(Source: Gartner, "Global PC Forecast and Shipments Quarterly Statistics: Database" 9 June 2010)

the consumer market, with a particular focus on increasing sales in China. We will lower our expenses by using the integration with Fujitsu Technology Solutions to enhance development efficiency through merging of product lines, and to lower component costs through centralized purchasing.

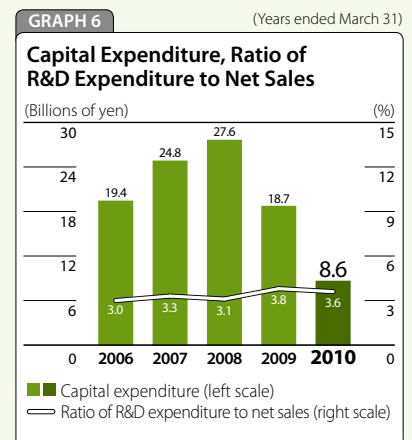
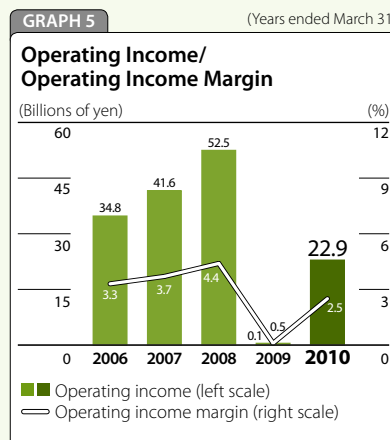
In mobile phones, despite the contraction in the Japanese handset market, we will continue to develop mobile handsets based on the concepts of safety and security. These include the long time best-selling Raku-Raku Phone series of models with easy-to-read display, easy-to-hear speakers, and easy-to-use functions, as well as models featuring improved security, and water- and dust-resistance. We will continue to distinguish

ourselves from the competition by developing high-quality, value-added models such as the F-04B, the world's first separable handset, and the F-07B, a thin, horizontally rotating mobile phone with a one-touch open button. We will also create new business fields with leading products for human centric computing.

On June 17, 2010, Fujitsu and Toshiba Corporation reached a basic agreement to merge their mobile phone businesses. This agreement is scheduled to culminate in the establishment of a new company on October 1, 2010. Following the transfer of Toshiba's mobile phone business to the joint venture, Fujitsu is set to acquire more than half of the new company's shares.



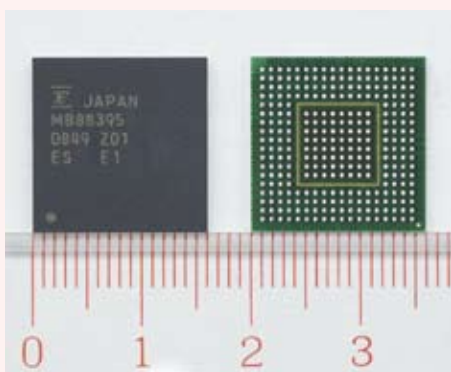
* Including intersegment sales



Operational Review and Outlook

Device Solutions

Fujitsu's lineup of device solutions comprises LSI devices and electronics components. Through the Group company Fujitsu Semiconductor Limited, we supply LSI devices used in digital consumer electronics, automobiles, mobile phones, servers, and many other products. Our listed consolidated subsidiaries Shinko Electric Industries Co., Ltd. and Fujitsu Component Limited, as well as FDK Corporation, which became a consolidated subsidiary in 2009, supply semiconductor packages and other electronics components, as well as batteries, relays, connectors and other mechanical parts.



LSI devices compliant with 1394 Automotive standard are capable of transmitting high-definition images



Fiscal 2009 Performance (Year-on-year Comparison)

(Billions of Yen)

Net Sales	547.2 (-6.9%)
Operating Income	-8.7 (+63.1)
R&D Expenses	31.3 (-15.9%)
Capital Expenditure	30.0 (-24.2%)

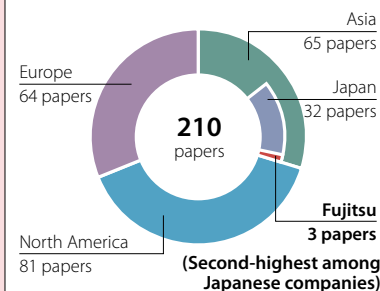
OUR STRENGTH

Fujitsu Semiconductor's strengths lie in its highly competitive products, based on strong capabilities in state-of-the-art process technologies, technology development, and product development. Today, state-of-the-art processes include the new-generation 40nm and 28nm technologies that underpin ultra-high speed performance in supercomputers and enable extremely complex functions in mobile devices through unprecedented levels of chip integration. In collaboration with Taiwan Semiconductor Manufacturing Company (TSMC), Fujitsu Semiconductor develops world-leading process technologies and provides value-added LSI devices.

Meanwhile, our technology development capabilities involve making use of our in-house manufacturing facilities and improving basic performance of in-house manufactured LSI devices through to 45nm technology generation products to offer distinctive device technologies that enable cost reductions. For example, by developing LSI devices that integrate highly reliable memory, we can achieve advanced security at low cost.

In product development, Fujitsu Semiconductor optimizes the functionality of LSI devices to suit the products in which they will be used. To this end, we are expanding our intellectual property (IP)*¹ and software lineup. Specifically, we will propose application software that operates on standard interface circuitry for interconnecting memory devices and electronic devices, and on global standard operating systems. In doing so our aim is to help customers to create better products more efficiently.

Breakdown of Papers Accepted for the ISSCC* 2010 International Semiconductor Technology Conference



*The International Solid-State Circuits Conference

*1 IP: Intellectual property refers to design assets such as circuit diagrams and software.



Operational Review and Outlook

Device Solutions

MARKET TRENDS

2009 Global Market Trends

The value of the global semiconductor market declined by 9.0%* year on year to US\$226.3 billion in 2009, compared with a 2.8% contraction in 2008. → **GRAPH 2** The market fluctuated sharply during the year. The January–March quarter in particular saw the sharpest decline in demand, with a drop of approximately 30% year on year, caused by the global financial crisis that started in the second half of 2008. However, the market made a clear recovery from April, driven by new semiconductor demand for use in netbook PCs, smartphones, and other mobile devices and robust demand for electronics components in emerging countries, particularly China and India. The market expanded by around 30% year on year in the October–December quarter.

Outlook for 2010

The global semiconductor market is expected to recover significantly by 28.6%* year on year to about US\$291.0 billion in 2010, due to a rebound from the contraction in 2009 and strong demand for electronics components in emerging countries, particularly in Asia. → **GRAPH 2** By region, the Americas is expected to grow 24.9%* year on year, with Europe to grow 27.9%*, Japan 16.9%*, and Asia-Pacific 33.7%*. The global semiconductor market is expected to reach the highest value to date due to the strong growth in all regions and especially in Asia-Pacific.

By product, the memory market, including DRAM and Flash memory, is expected to grow a significant 45.6%* and a substantial market recovery is anticipated overall, with MOS logic products expected to grow 18.0% and MOS microcontrollers 22.7%*.

OPERATIONAL REVIEW AND INITIATIVES

Fiscal 2009 Business Results

Sales from the Device Solutions segment were ¥547.2 billion, down 6.9% year on year. In Japan, sales fell 15.5% due to market deterioration. → **GRAPH 3** Annualized logic LSI device sales declined, but demand recovery mainly for digital home appliances and automotive applications saw fourth quarter sales rise year on year. Outside Japan, sales rose 8.1%, but were almost flat year on year if foreign exchange factors and the inclusion of FDK as a consolidated subsidiary are excluded. Through the year, the drop in first-half sales had an impact on results for LSI devices, but in electronics components demand recovered enough to generate year-on-year growth in sales.

The Device Solutions segment reported an operating loss of ¥8.7 billion, which marks a significant ¥63.1 billion improvement over the previous year. → **GRAPH 4** Electronics components moved back into the black, as did logic LSI devices in the second half, but the substantial first quarter loss meant the segment still reported a loss over the full year. Structural reforms in the LSI device business reduced fixed costs such as depreciation expense and employee costs. We started reorganization of our manufacturing sites in January 2009 and completed a phased consolidation and integration of three wafer fabrication lines between September and the end

of the fiscal year. This contributed to the improved profitability, along with the recovery in demand for electronics components.

Future Initiatives

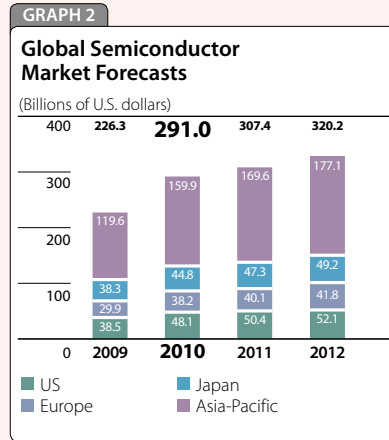
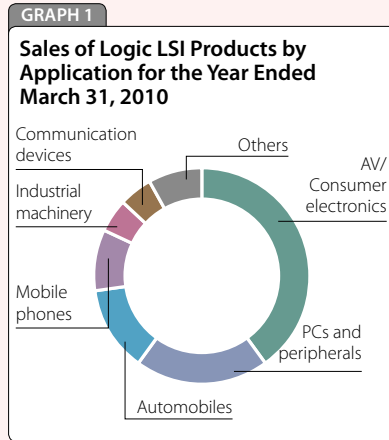
In the LSI device business, Fujitsu is shifting to a fab-lite* model to ensure a healthy profit structure in the volatile semiconductor market. We will fully utilize our efficiency-enhanced standard lines and advanced technology (45nm, 65nm, 90nm) lines, as well as outsourcing manufacturing to TSMC for 40nm and 28nm technologies which are expected to see growth in demand. In line with this move, we will shift our investment focus from advanced processes to enhancing our product development capabilities. We are working in collaboration with TSMC to begin shipping advanced logic products that use 40nm technology in fiscal 2010. Our collaboration also involves joint development of 28nm high-performance process technologies for application in the next generation of high-performance products.

Our strategy for enhancing our product development capability is to concentrate management resources in four business areas: advanced imaging, automotive, mobile/ecological, and high-performance industrial equipment. We will promote application

The market is expected to continue recovering gradually from 2011, with an anticipated increase of 5.6%* to US\$307.4 billion in 2011. The market is also expected to continue growing 4.2%* in 2012, to

US\$320.2 billion, for an average annual growth rate of 4.9%* between 2010 and 2012. → **GRAPH 2**

* Semiconductor market estimates according to World Semiconductor Trade Statistics (WSTS), spring 2009 forecast

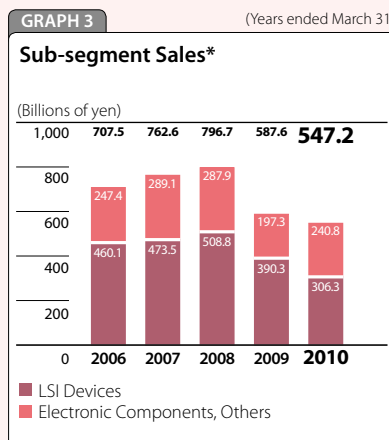


(Source: World Semiconductor Trade Statistics (WSTS))

development in new fields, targeting growth over the medium- to long-term, and step up efforts to develop products that achieve greater synergies across the Group, including computers and network devices. We are also working to commercialize gallium nitride (GaN) power devices as a new business for the future. Since devices using GaN experience only one third of the power loss associated with conventional silicon-based power devices, this technology is expected to significantly reduce power consumption in various electronic devices.

We are also working to expand our business globally. In China and other emerging growth markets, we are working to develop our microcontroller solutions business. We have established a new division responsible for our China business, and have bolstered our engineering systems for product development and local customer support. By actively developing our business in this way, we are preparing to meet the rapid growth expected in emerging markets.

* Fab-lite: A semiconductor business model in which a company minimizes its own production scale, with the bulk of production outsourced to external foundries. This configuration allows for a greater degree of management freedom.



* Including intersegment sales

