Structural Reform of Electronic Devices Business
- Concentrating Full Resources on LSIs -

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Corporate Executive Vice President
Fujitsu Limited
Market Situation

Severe conditions in second half of FY 2004; FY 2005 conditions similar to FY 2004

System chips are source of our products’ competitiveness (performance, cost, delivery)

Technology advances exacerbating limitations of horizontally segmented business model

Basic Strategy

Increase focus on logic business

Strengthen strategy of partnering with customers

Continue QCD improvements (quality, cost, delivery)
Electronic Devices Business Status

Sales: 734.3 billion yen → 740.0 billion yen
Operating income: 27.5 billion yen → 35.0 billion yen

Electronic Devices Business

- Logic
- System Memory
- Media Devices
- PDPs
- LCDs
- Electronic Components

Maintain technological superiority
Expand business
Maintain profits
Introduce new products
Maintain profits
Maintain profits

Op. Loss
Poor
Fair
Good
## Third Quarter Results for Electronic Devices

### (billion yen)

<table>
<thead>
<tr>
<th></th>
<th>FY 2004 3Q</th>
<th>Change from FY’03 3Q</th>
<th>FY 2004 ( projected )</th>
<th>Change from previous year</th>
<th>Change from previous year*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>170.1</td>
<td>-11.0%</td>
<td></td>
<td>740</td>
<td>0.8%</td>
</tr>
<tr>
<td>Domestic</td>
<td>100.8</td>
<td>0.4%</td>
<td>420</td>
<td>11.0%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Overseas</td>
<td>69.2</td>
<td>-23.7%</td>
<td>320</td>
<td>-10.1%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Semiconductors</td>
<td>96.4</td>
<td>-7.3%</td>
<td>420</td>
<td>4.0%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Other</td>
<td>73.7</td>
<td>-15.5%</td>
<td>320</td>
<td>-3.1%</td>
<td>-3.1%</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>0.3</td>
<td>---</td>
<td>35</td>
<td>27.3%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>0.2%</td>
<td>-7.9%</td>
<td>4.7%</td>
<td>1.0%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

* If operations shifted to equity method affiliates are included
Our Areas of Focus in Semiconductors

Focus Requirements

- Semiconductors
  - Single-chip devices
  - Device solutions
- Provide a choice
  - Exploit strengths through collaboration
- Enhance internal technological expertise
  - Promote internal synergies
Direction of Structural Reforms

Structural Reform of Electronic Devices Business since 2002

- **Logic**
- **Flash memory**
- **Media devices**
- **Electronic components**
- **LCDs**
- **PDPs**
- **Compound semiconductors**

**FY 02, FY 03:** Restructuring and strengthening of LSI business
**FY 04:** Advanced Logic LSI strategy

- **Advanced COT / ASIC**
- **ASSP (MPEG, FR-V)**
- **Advanced Products**
- **FRAM**
- **Standard Products**
- **Standard ASICs**
- **Analog Devices**
- **Microcontrollers**

Concentrating Resources on LSIs
Evolution in Structural Reforms:
Internal Organizational Reforms in FY 2002

From June 2002: Shifted LSI operations to matrix-type organization

- Clarification of quantitative input-output of each operating unit
- Clarification of focus areas
- Integrated organization for marketing, production, delivery
- Consistent efficiency gains in software, design methods and manufacturing innovation
Points of Emphasis in Strengthening Our LSI Operations

Worldwide Development

- “Image Processing” & “Low Power”

Standard Products: Reduce cost ratio

- Boost capability with minimal investment
- Improve structural efficiencies
- Manufacturing innovation (Toyota Production System)

Advanced Products: Completely reform former approach

- Quick return
- Rapid, low-cost development (first-time-complete)
- Software verification

Resources: Design/Software
## Evolution in Structural Reforms: Business Restructuring in FY 2003

### Company Objective

<table>
<thead>
<tr>
<th>Date</th>
<th>Business Unit</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul. ’03</td>
<td>Spansion</td>
<td>Improve efficiency and boost competitiveness (Flash business)</td>
</tr>
<tr>
<td>Dec. ’03</td>
<td>Eudyna</td>
<td>Strengthen single module business</td>
</tr>
<tr>
<td>Oct. ’03</td>
<td>FMSL</td>
<td>Shift design and software resources from telecommunications division (Strengthen R&amp;D)</td>
</tr>
<tr>
<td>Oct. ’03</td>
<td>FIM</td>
<td>Strengthen back-end competitiveness - Focus on assembly/testing</td>
</tr>
<tr>
<td>Oct. ’03</td>
<td>FMC</td>
<td>Strengthen business development in China</td>
</tr>
</tbody>
</table>
New IDM Business Model: Focus on Advanced Logic LSIs from 2004

Shift to New IDM Business Model

Partner A
- Set design
- Software
- LSI design

Partner B
- Set design
- Software
- LSI design

Partner C
- Set design
- Software
- LSI design

Fujitsu
- Development (Process/CAD)
- LSI design/Software
- Testing, Evaluation, Verification
- Production (Front end, back end)

Shift to Joint Creation

*IDM: Integrated Device Manufacturer
Construction of New 90/65nm 300mm Fab: Begun in March 2004

Exterior view (photo as of 11/04)

World’s first semiconductor fab utilizing seismic isolation construction

Status of New Mie Facility

- 4/21/04: Groundbreaking ceremony
- 11/20/04: Completion of construction
- 2/8/05~: Pilot testing now under way
- 4/1/05: Official start of operations
- 9/05: Start of mass production
## This Time

<table>
<thead>
<tr>
<th>Strengthening Business Operations</th>
<th>Vertical Integration</th>
<th>Horizontal Segmentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fujitsu Entity</td>
<td>Counterparty</td>
<td>Action</td>
</tr>
<tr>
<td>FHP</td>
<td>Hitachi</td>
<td>Equity Transfer</td>
</tr>
<tr>
<td>FDTC</td>
<td>Sharp</td>
<td>Business Transfer</td>
</tr>
<tr>
<td>LCD business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FVD</td>
<td>ULVAC</td>
<td></td>
</tr>
<tr>
<td>Manufacturing equipment business</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Fujitsu Entity
- **FHP**
- **FDTC**
  - LCD business

### Counterparty
- **Hitachi**
- **Sharp**

### Action
- **Equity Transfer**
  - 30.1% of issued stock
  - intellectual property rights
- **Business Transfer**
  - R&D, manufacturing, sales
  - Yonago Plant
  - CLC low-temperature poly-silicon technology (Fujitsu Laboratories)
  - Semiconductor process manufacturing equipment
  - LCD one drop filling system (ODF equipment)
  - PDP panel, bump inspection equipment
Four Pillars Supporting Our Partners:
World-class Leadership in LSI Technology

**Software**
- Global leadership in development of embedded software
  - Middleware
  - Real-time OS

**Design**
- Global leadership in design methodology
  - Ultra low-power/low noise design methodology
  - UML design & Verification methodology (Cedar®)
  - LSI-PCB concurrent design

**Analysis, Verification**
- Global leadership in analysis & inspection capability
  - DFM: Design for Manufacturing
  - Concurrent test design with failure analysis
  - LSI-PKG-PCB concurrent verification

**Manufacturing**
- World’s leading advanced process technology
  - Process technology (Performance Power Ratio)
  - Stable LSI delivery
  - Ultra low-power chip
  - High yield
Going Forward

- Expand business fields that can become “cash cows”
- Bolster design and embedded software resources
- Reform sales structure
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The possibilities are infinite