



# Management Direction Briefing

**May 25, 2005**

**Hiroaki Kurokawa  
President  
Fujitsu Limited**

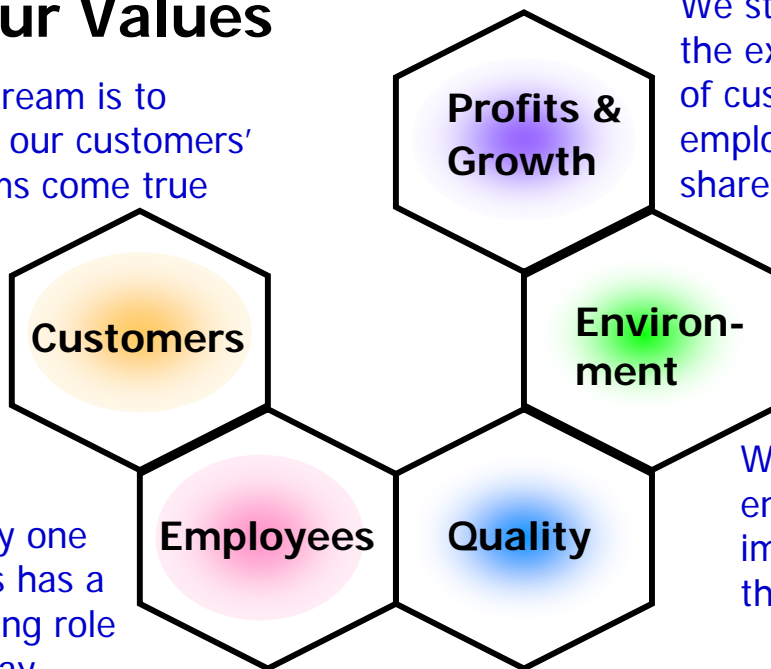
# The FUJITSU Way – Making Dreams Come True –

## ■ Our Mission

FUJITSU continually seeks to create new value by providing customers with comprehensive solutions comprising highly reliable high-performance products and services based on powerful technologies. Through this, we aim to grow, realize profits and foster mutually beneficial relationships in our communities worldwide.

## ■ Our Values

Our dream is to make our customers' dreams come true



Every one of us has a leading role to play

We strive to meet the expectations of customers, employees and shareholders

We consider environmental impact in all that we do

We aim to earn our customers' trust in FUJITSU

## ■ Our Code of Conduct

- Respect human rights
- Comply with laws and regulations
- Maintain confidentiality
- Protect intellectual property
- Reject unethical behavior
- Act with fairness in our business dealings



# Overview of FY 2004

# FY 2004: Operating Targets and Results

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(billion yen)

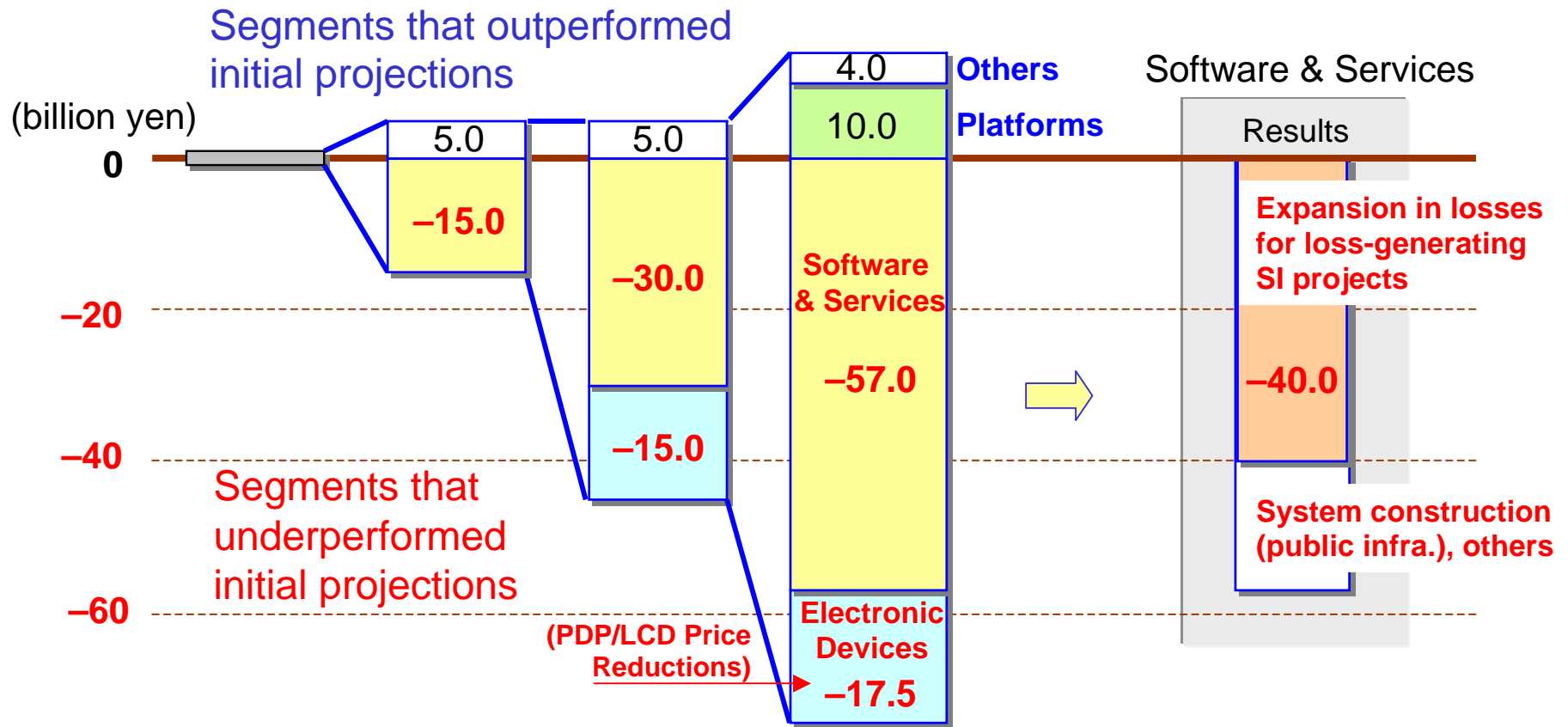
	Targets	Results	Difference
Net Sales	4,950.0	4,762.7	- 187.3
Operating Income	200.0	160.1	- 39.9
Net Income	70.0	31.9	- 38.1

# Trends in Operating Income by Segment

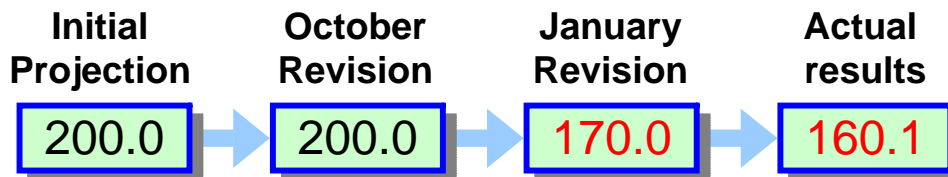
(billion yen)

	FY 2002	FY 2003	FY 2004			
	Results	Results	Initial Targets (Apr. '04)	Revised Targets (Oct. '04)	Revised Targets (Jan. '05)	Results
<b>Software &amp; Services</b>	176.5	138.7	170.0	155.0	140.0	113.0
<b>Platforms</b>	0.9	29.2	45.0	45.0	45.0	55.0
<b>Electronic Devices</b>	- 31.6	27.5	50.0	50.0	35.0	32.5
<b>Other Operations</b>	14.3	15.6	10.0	15.0	15.0	14.0
<b>Consolidated Total</b>	100.4	150.3	200.0	200.0	170.0	160.1

# Operating Income: Shortfall vs. Initial Projection



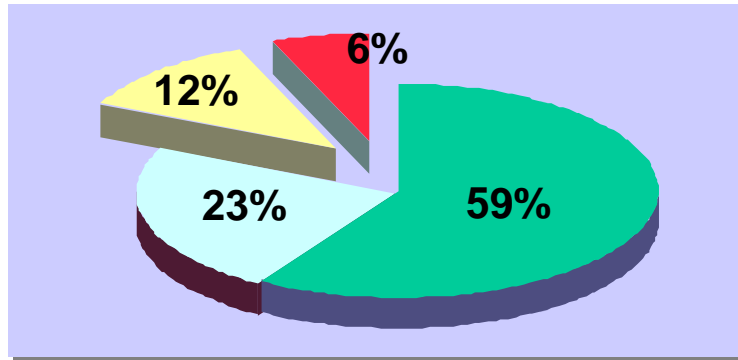
## Consolidated



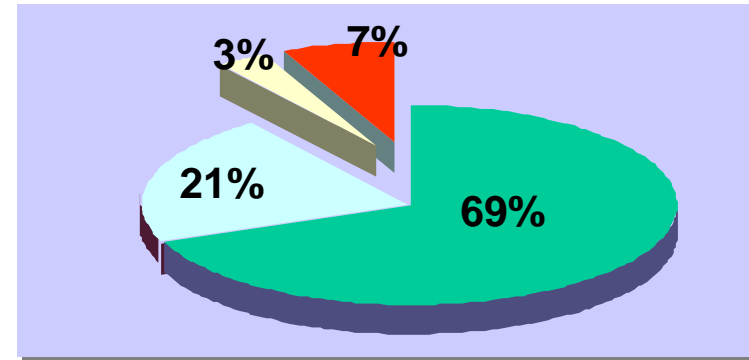
# Efforts to Improve Quality

## Status of Quality for Principal Products in FY 2004

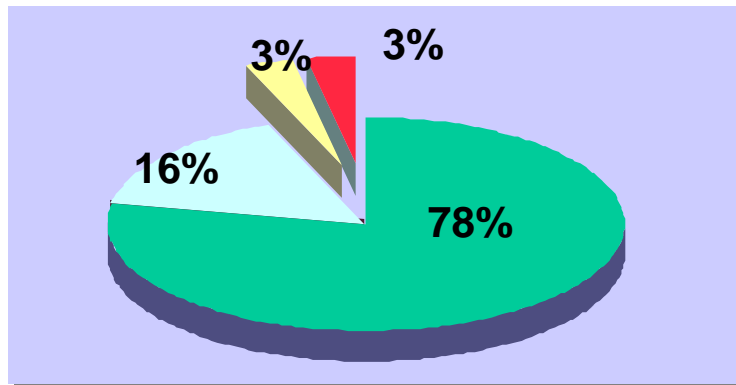
1Q FY03



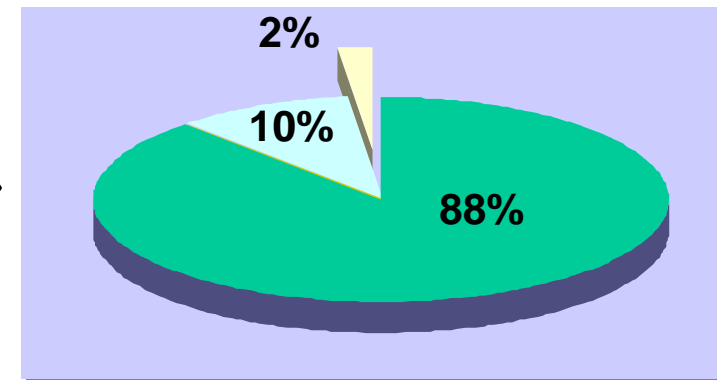
2Q FY03



4Q FY03



4Q FY04



■ Top Quality    ■ Above Average    ■ Below Average    ■ Unacceptable

# Results in Implementing TPS Manufacturing Innovation

## FY 2004 Progress in Reducing Manufacturing Time

		2H FY 2004 (vs. 2H FY 2003)	
<b>Systems Products</b>	Optical Transmission Equipment		- 40%
	Wireless Base Stations		- 38%
	Servers	Equipment	- 38%
		Printed Circuit Board	- 13%
	Storage Systems		- 31%
<b>Ubiquitous Products</b>	Notebook PCs	Equipment	- 18%
		Printed Circuit Board	- 17%
	Desktop PCs		- 19%
	Displays		- 29%
	Mobile Phones		- 11%



# Meeting Platform Product Launch Targets in FY04

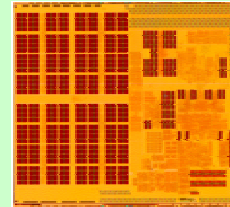
	Targeted Product Launch		Actual Product Launch	
PRIMEPOWER (1.89GHz) Announced in June	Model 2500	Nov.	As Announced	Nov.
	Model 1500/900	Sep.	As Announced	Sep.
	Model 850/650	Aug.	As Announced	Aug.
PRIMERGY (64bit) Announced in April	RXI600	Apr.	As Announced	Apr.
PRIMERGY (Blade Server) Announced in May	BX600	May	As Announced	May
PRIMERGY (64bit) Announced in July	RXI300	Sep.		Nov.
	RX100	Jul.		Jan. 05
ETERNUS 3000 Announced in July	Model 700, Others	Aug.	As Announced	Aug.
ETERNUS 6000 Announced in October	Model 1100, Others	Dec.	As Announced	Dec.

# 90nm Technology Mass Production Begun

## In-house Application of 90nm Technology in FY 2004

### ■ Processors for PRIMEPOWER

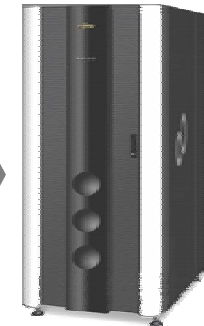
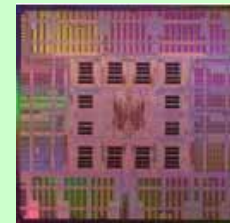
Achieves world-leading performance and reliability



### ■ Chipset for PRIMEQUEST

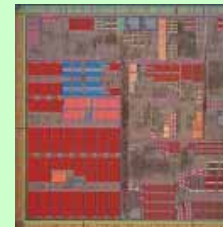
Achieves mainframe-class reliability and scalability

Helped reduce development time



### ■ Baseband chip for FOMA 3G mobile phones

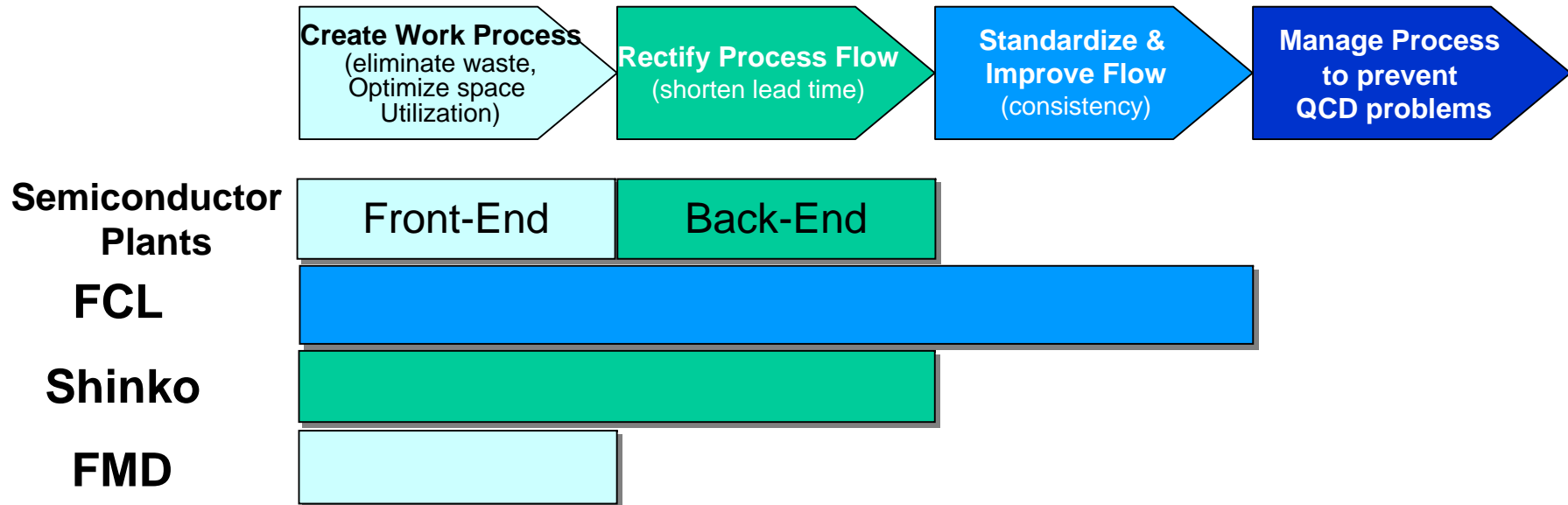
LSI power consumption reduced 50% (compared to existing tech)



# Results in Implementing TPS Manufacturing Innovation

## FY 2004 Progress in Manufacturing Innovation Campaign

- Implementation starting from assembly-type plants
- Strove to optimize total process, from order to manufacturing to shipment



### Example of improvement: Reduction in semiconductor assembly lead-times (vs. FY03)

FIM Aizu	- 32%
FIM Miyagi	- 38%
FIM Gifu	- 35%
FIM Kyushu	- 23%

FIM: Fujitsu Integrated Microtechnology Limited

# Structural Reform: Concentrating Management Resources

## FY 2004 Business Restructuring

	Subsidiary	Counterparty	Action
Vertical Integration	<b>■ FHP</b> Plasma display business	<b>Hitachi</b>	<b>Equity Transfer</b>
	<b>■ FDTC</b> LCD business	<b>SHARP</b>	<b>Business Transfer</b>
Horizontal Segmentation	<b>■ FVD</b> Manufacturing equipment business	<b>ULVAC</b>	<b>Business Transfer</b>

\*FVD: Fujitsu VLSI Limited

# Improved Overseas Business Status

## Status of Overseas Business in FY 2004

### Operating Income by Region

(billion yen)

	FY 2003	FY 2004	Change
The Americas	- 13.1	4.3	+ 17.5
Europe	6.6	11.7	+ 5.0
Asia, Australasia, others	13.5	12.1	- 1.3
Overseas Total	7.0	28.1	+ 21.1

### Operating Income of Principal Subsidiaries

(billion yen)

	FY 2003	FY 2004	Change
FCS	- 0.8	2.7	+ 3.5
FC	- 2.5	0.9	+ 3.4
FS	7.0	13.6	+ 6.6
FAL	0.6	1.8	+ 1.2

	Net Income	Net Income	Change
FSC	5.1	9.5	+ 4.4

# Improved Financial Condition

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## **(1) Reduced Net Amount of Deferred Tax Assets**

→Valuation allowance taken for 100% of deferred tax assets relating to previous years' net operating losses

## **(2) Insufficient Pension Reserves**

→Now considering reform of pension system

## **(3) Risk from Stock Impairment (unconsolidated)**

→Disposed of 60 billion yen in stock impairment in FY 2004

# Major Financial Indicators

	FY 2003	FY 2004	Change from Prior year
<b>Total Assets Turnover Ratio</b>	<b>1.18x</b>	<b>1.27x</b>	<b>+ 0.09x</b>
<b>Shareholders' Equity Ratio</b>	<b>21.4%</b>	<b>23.5%</b>	<b>+ 2.1%</b>
<b>Free Cash Flow</b>	<b>371.4 bil. yen</b>	<b>262.1 bil. yen</b>	<b>- 109.3 bil. yen</b>
<b>Free Cash Flow (from business operations)</b>	<b>89.1 bil. yen</b>	<b>93.7 bil. yen</b>	<b>+ 4.6 bil. yen</b>
<b>Interest-Bearing Loans</b>	<b>1,277.1 bil. yen</b>	<b>1,082.7 bil. yen</b>	<b>- 194.4 bil. yen</b>
<b>Net Interest-Bearing Loans</b>	<b>861.2 bil. yen</b>	<b>628.0 bil. yen</b>	<b>- 233.1 bil. yen</b>
<b>D/E Ratio</b>	<b>1.54</b>	<b>1.26</b>	<b>- 0.28</b>
<b>Net D/E Ratio</b>	<b>1.04</b>	<b>0.73</b>	<b>- 0.31</b>

# Looking Back at FY 2004

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## Status of Each Segment

- **SI Business:** risk management organization in place (effect of Solutions Business Restructuring)
  - About 75% of loss-generating contracted projects were completed; situation brought under control
  - Strict risk management procedures applied to all new SI projects
- **Platforms Business:** return to profitability completed in nearly every sub-segment
- **Electronic Devices Business:** completed preparations for concentration on LSI business



# Remaining Issues

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- (1) Standardization of Sales/System Engineering business processes**
- (2) Shift efforts to growth/new business fields**
- (3) Strengthen global business**



# Strategic Direction for FY 2005

# Four Key Challenges (The Second Year)

## Intensify and Accelerate Efforts

### (1) Strengthen Existing Businesses

- Consider profits as fixed cost of doing business
- Continue to reduce cost ratio
- Continue to accelerate management speed

### (2) Create and Cultivate New Businesses

- Rejuvenate our overseas businesses
- Drive creation of ubiquitous networking market

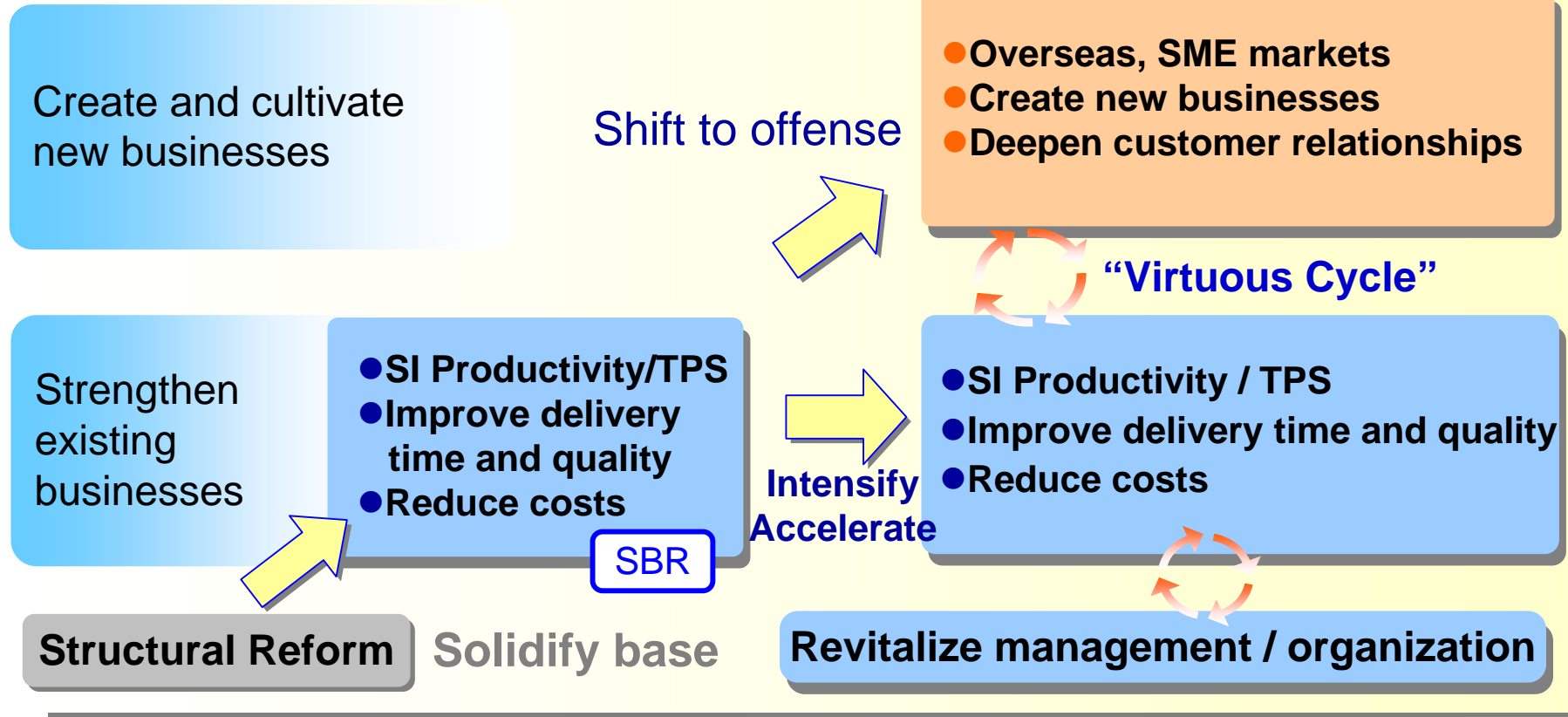
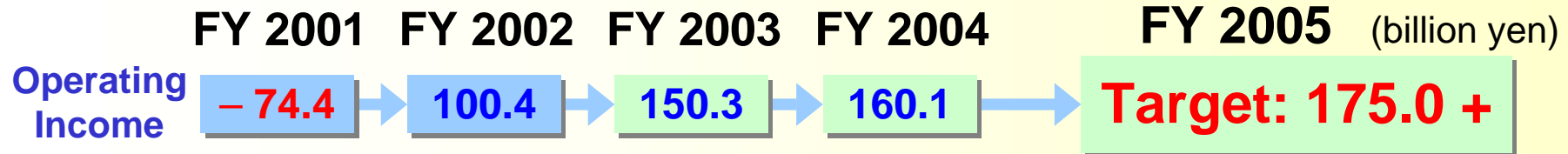
### (3) Reform Our Organization and Approach

- Optimize organization from customer's perspective

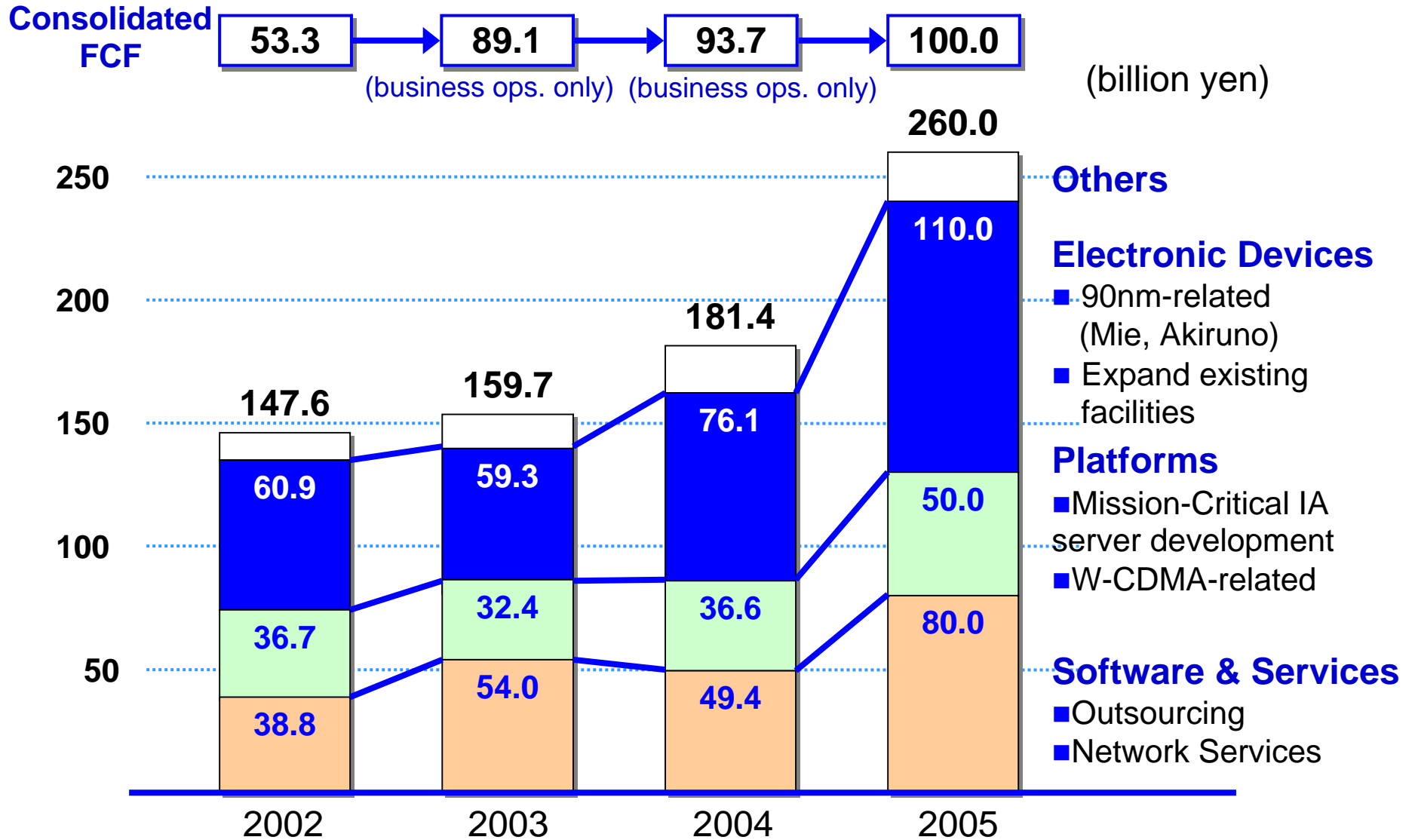
### (4) Reform Management Systems

- Enhance visibility
- Simplify

# Target for FY 2005



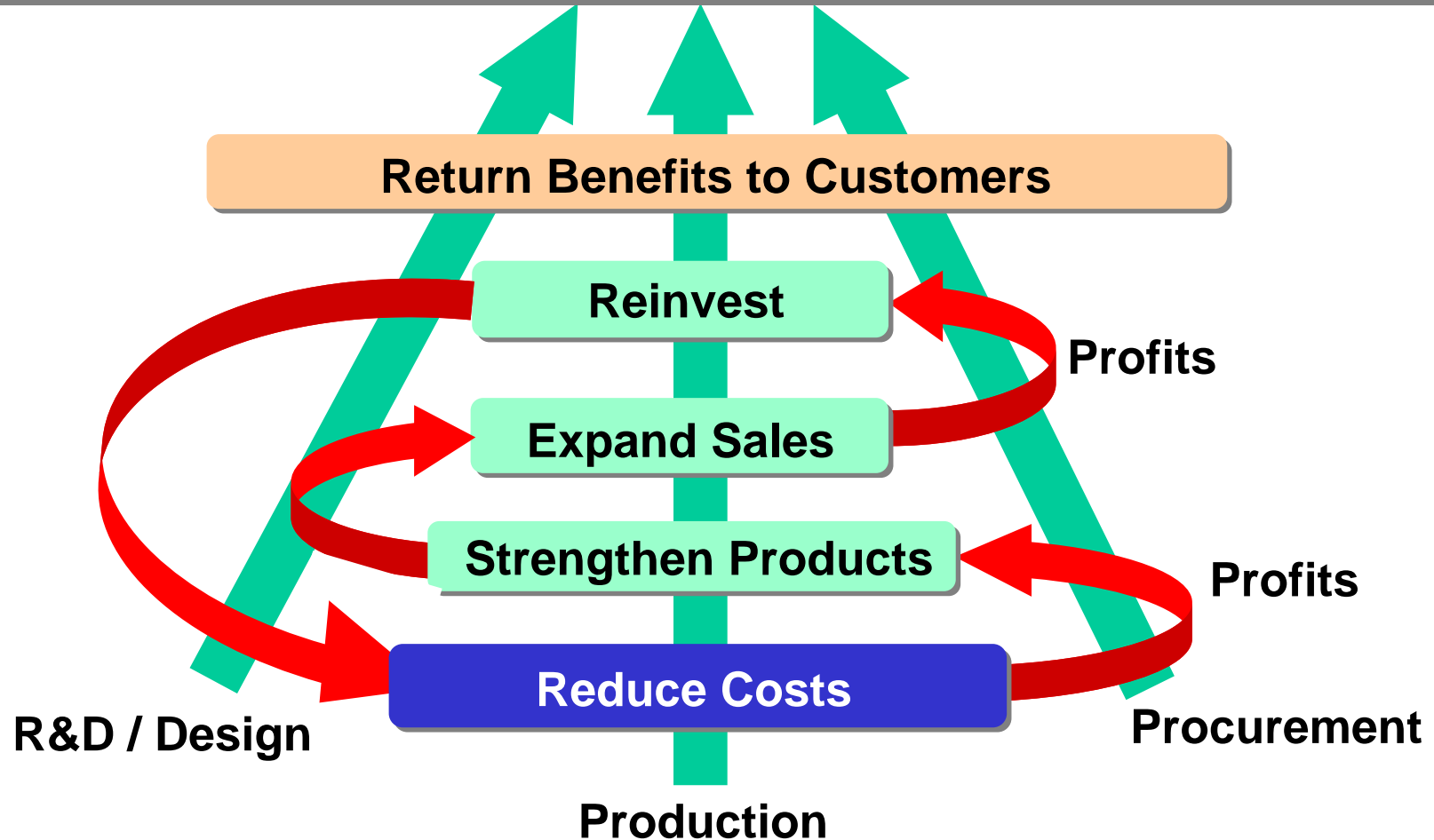
# Capital Expenditure Plan



# Create a Virtuous Cycle

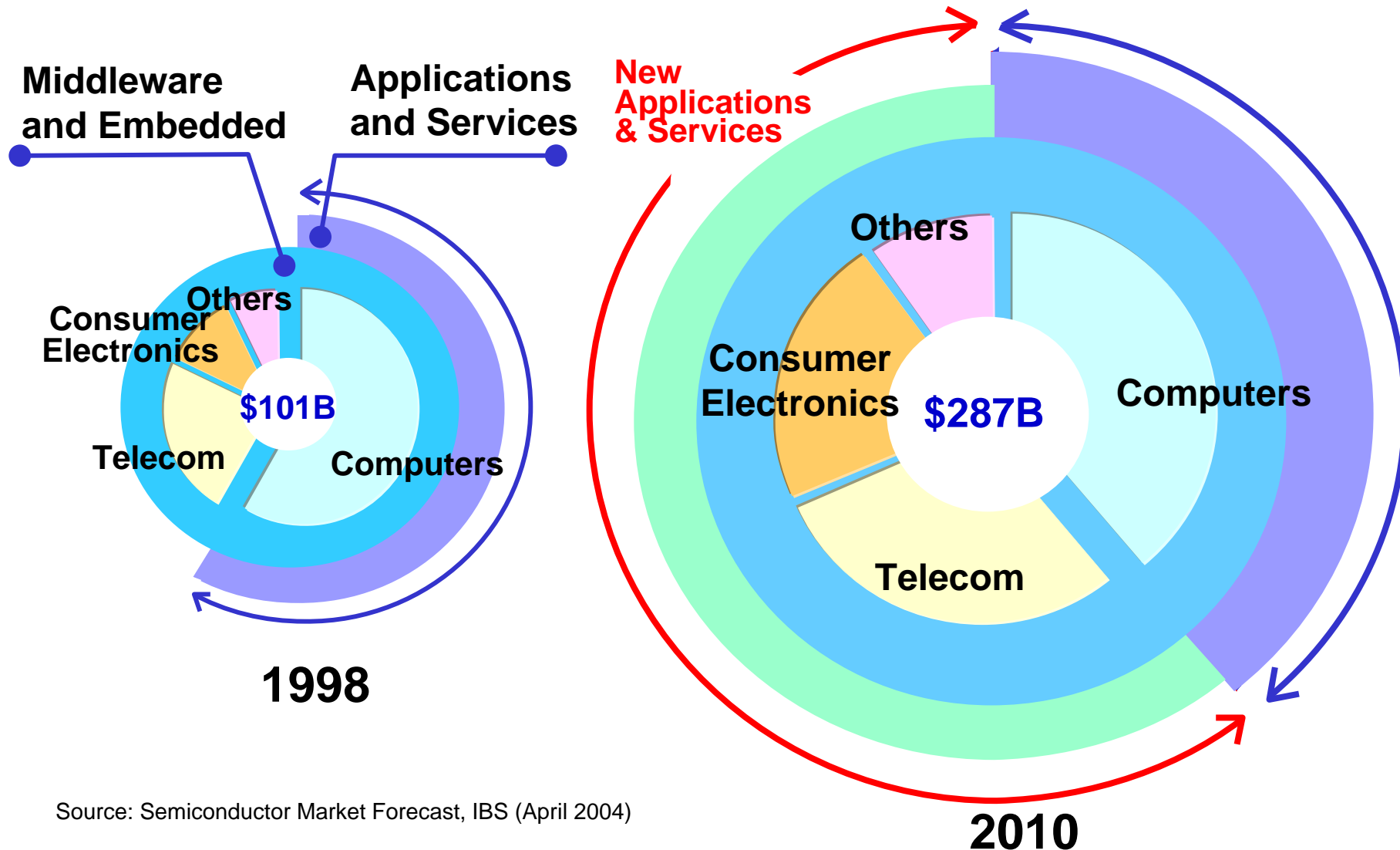
Cost Reduction (Improving QCD) Is the Foundation

Ideal partner to support customers' IT



# Future Evolution of the IT Market

## Diversification in Use of Semiconductors

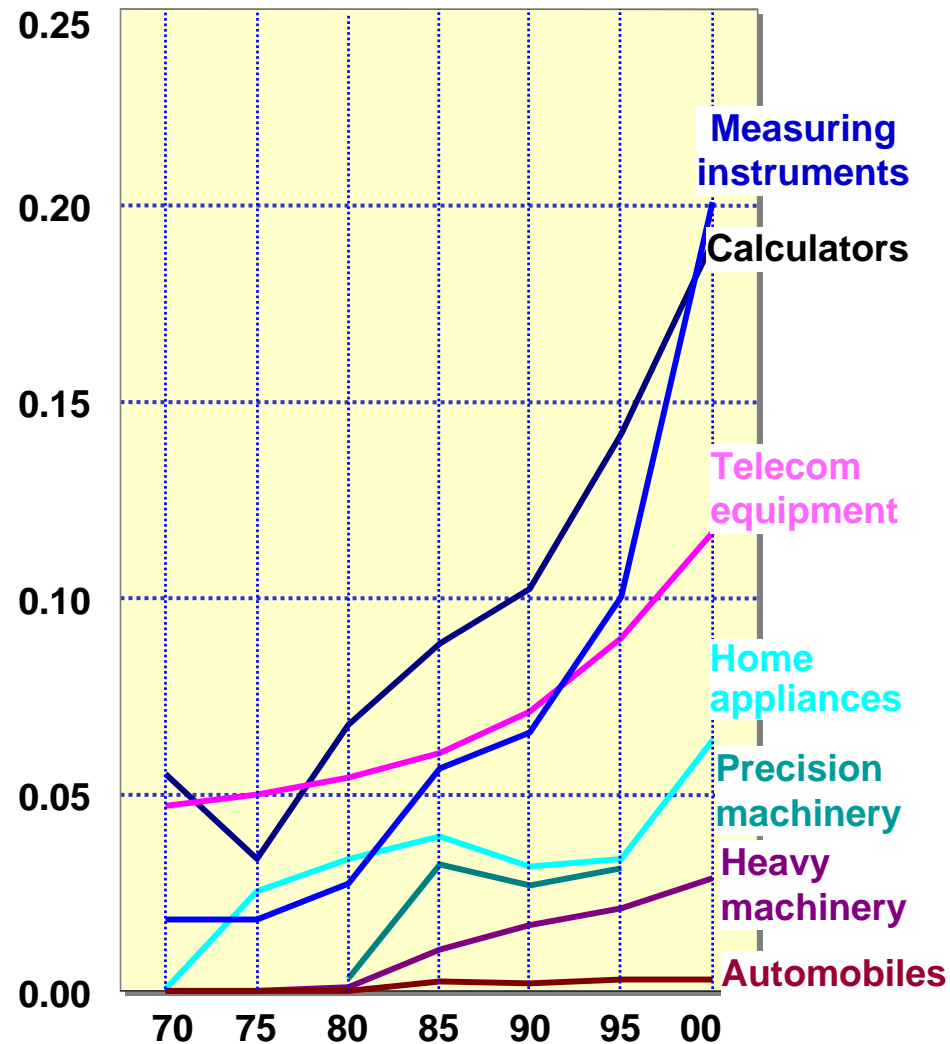


Source: Semiconductor Market Forecast, IBS (April 2004)

# Future Evolution of the IT Market

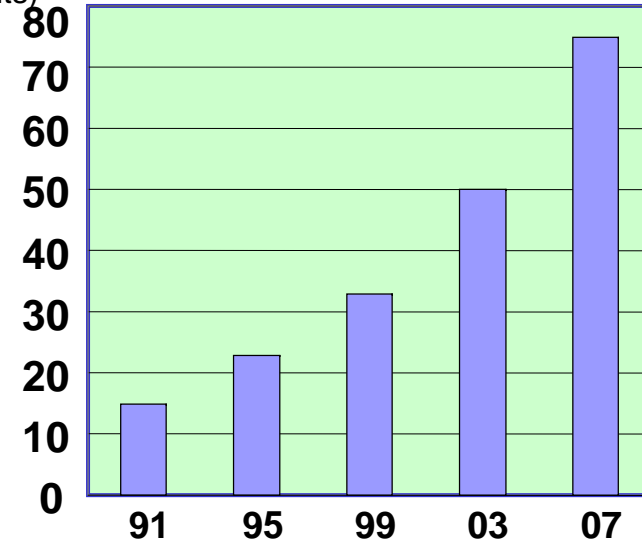
## Everything Involves IT

Share of Semiconductors in Value of Production

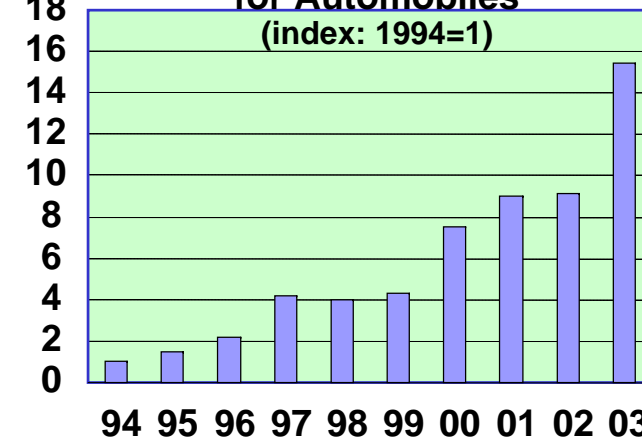


Based on data from Census of Manufacturers (Japan)

(units) Microcontrollers Used per Automobile



Volume of Software Developed for Automobiles (index: 1994=1)

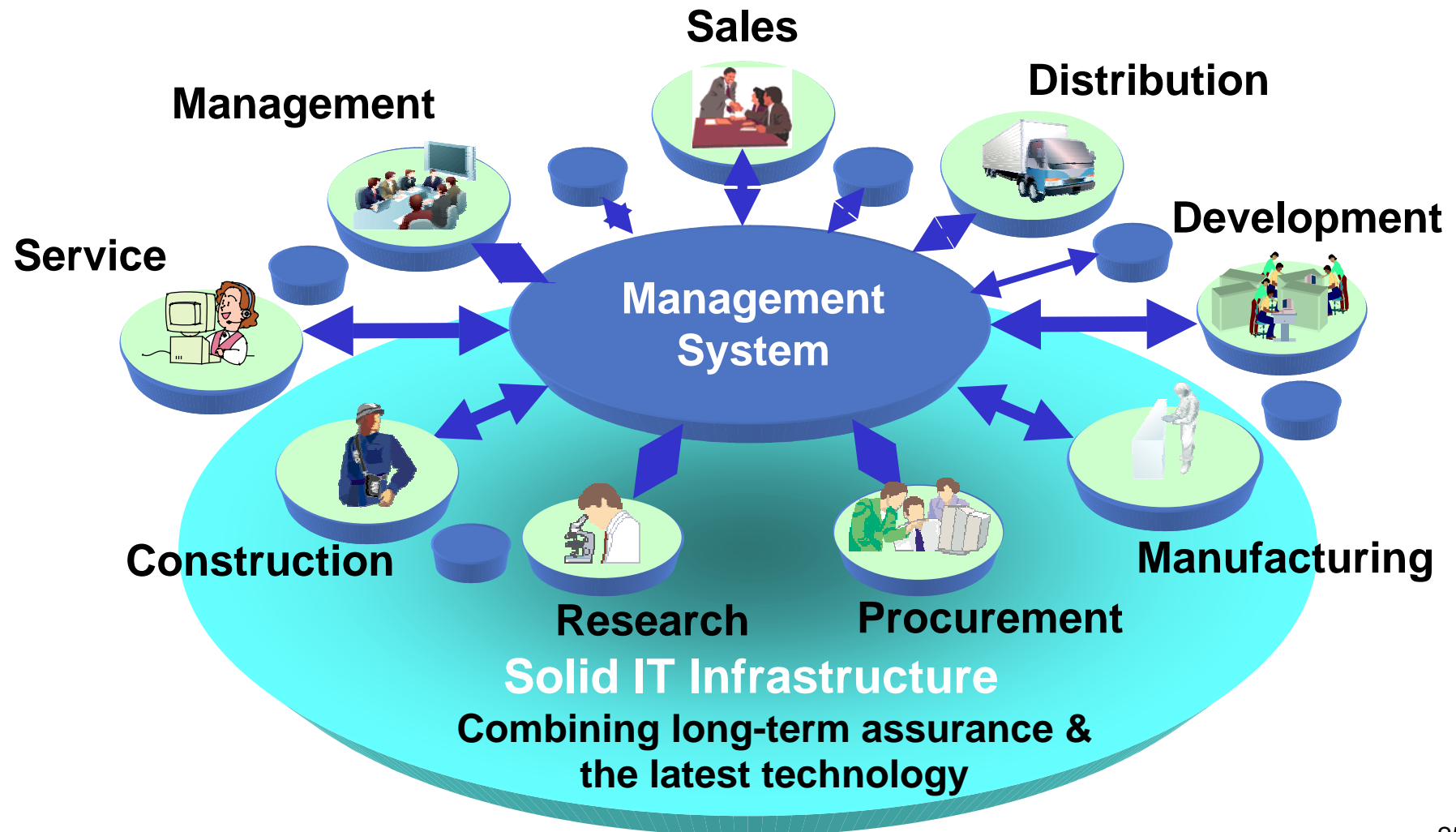


Source: Nikkei Electronics, 3/1/03

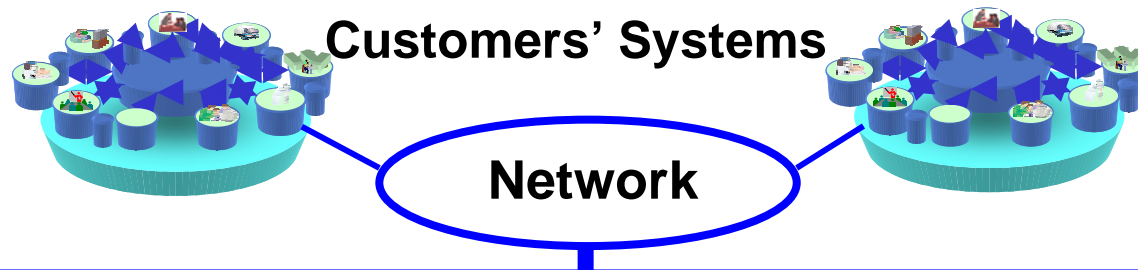


# IT to Drive Innovation in the Field

IT-driven Innovation on the Front Lines Will Deliver  
New Competitive Power



# Automating On-Site Maintenance Support (Fujitsu Example)



## Maintaining Customers' Systems via the Network

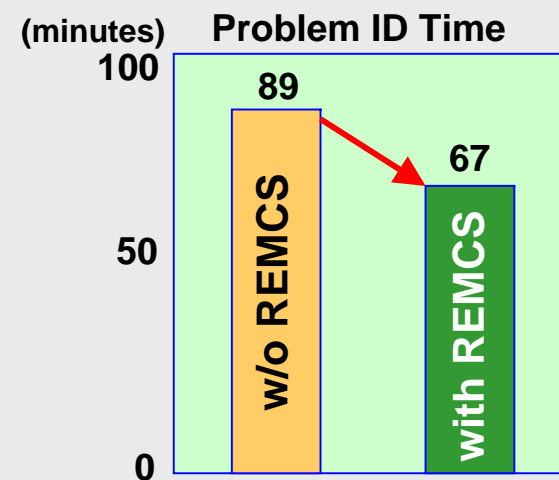
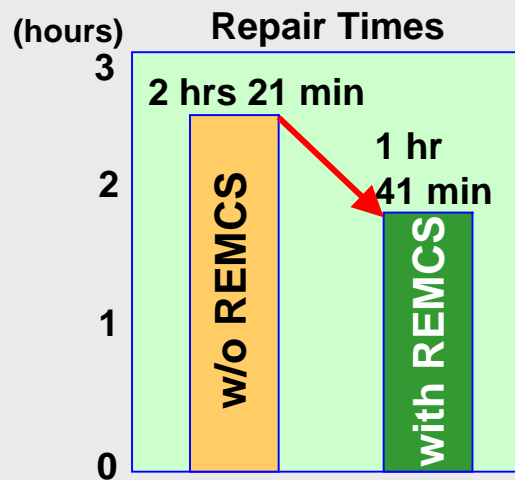
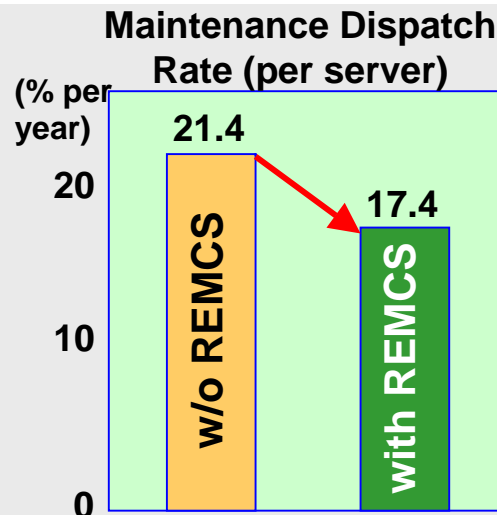


**REMCS** (hardware trouble/symptom report system)

**HRM** (structural information collection system)

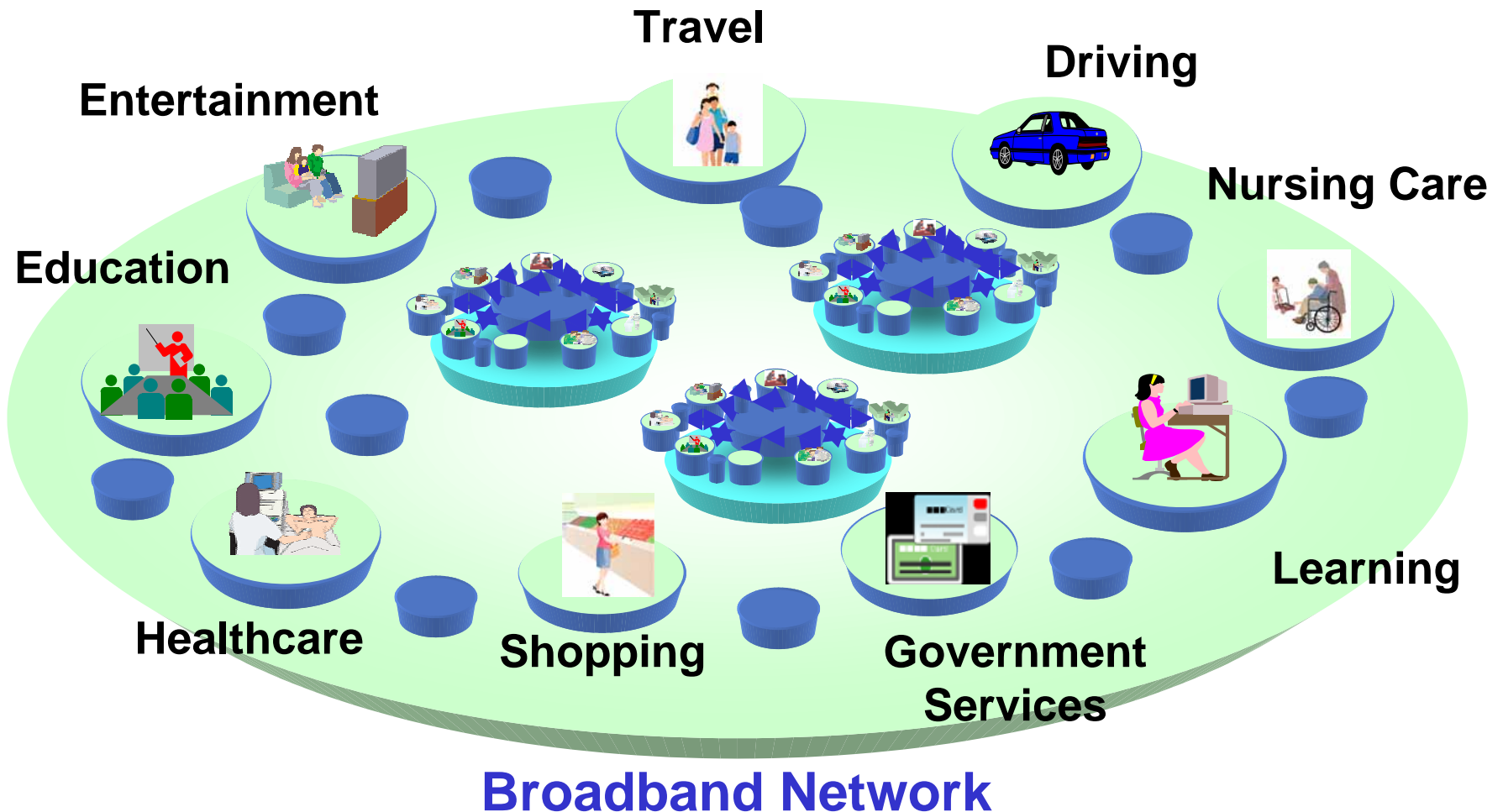
**SDB** (operational status logging system)

## PRIMEPOWER: Maintenance Examples



# IT to Drive Innovation in the Field

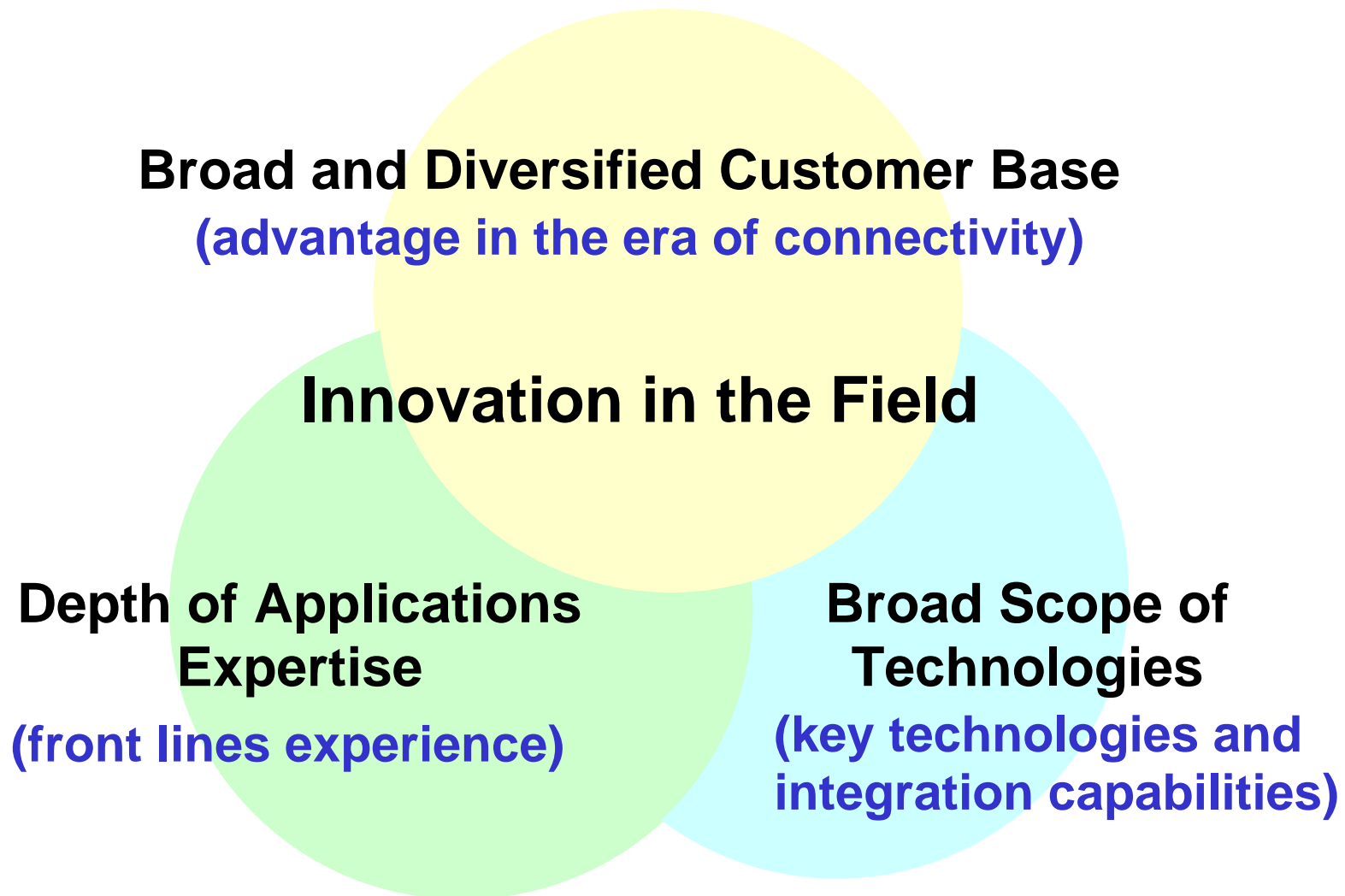
Providing Greater Dynamism, Security, Enjoyment and Convenience from Individual's Perspective



# IT to Drive Innovation in the Field

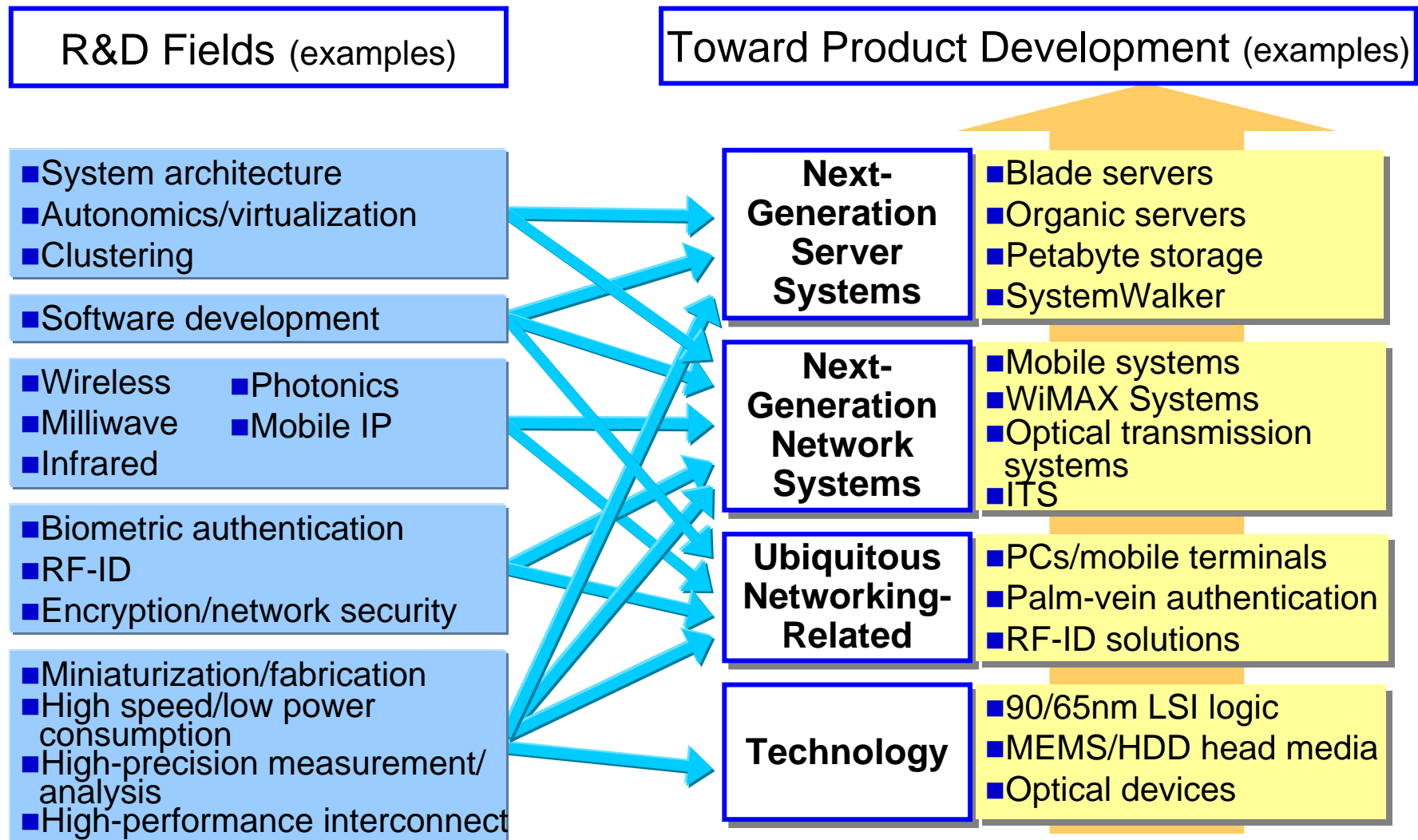
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## Key Success Factors

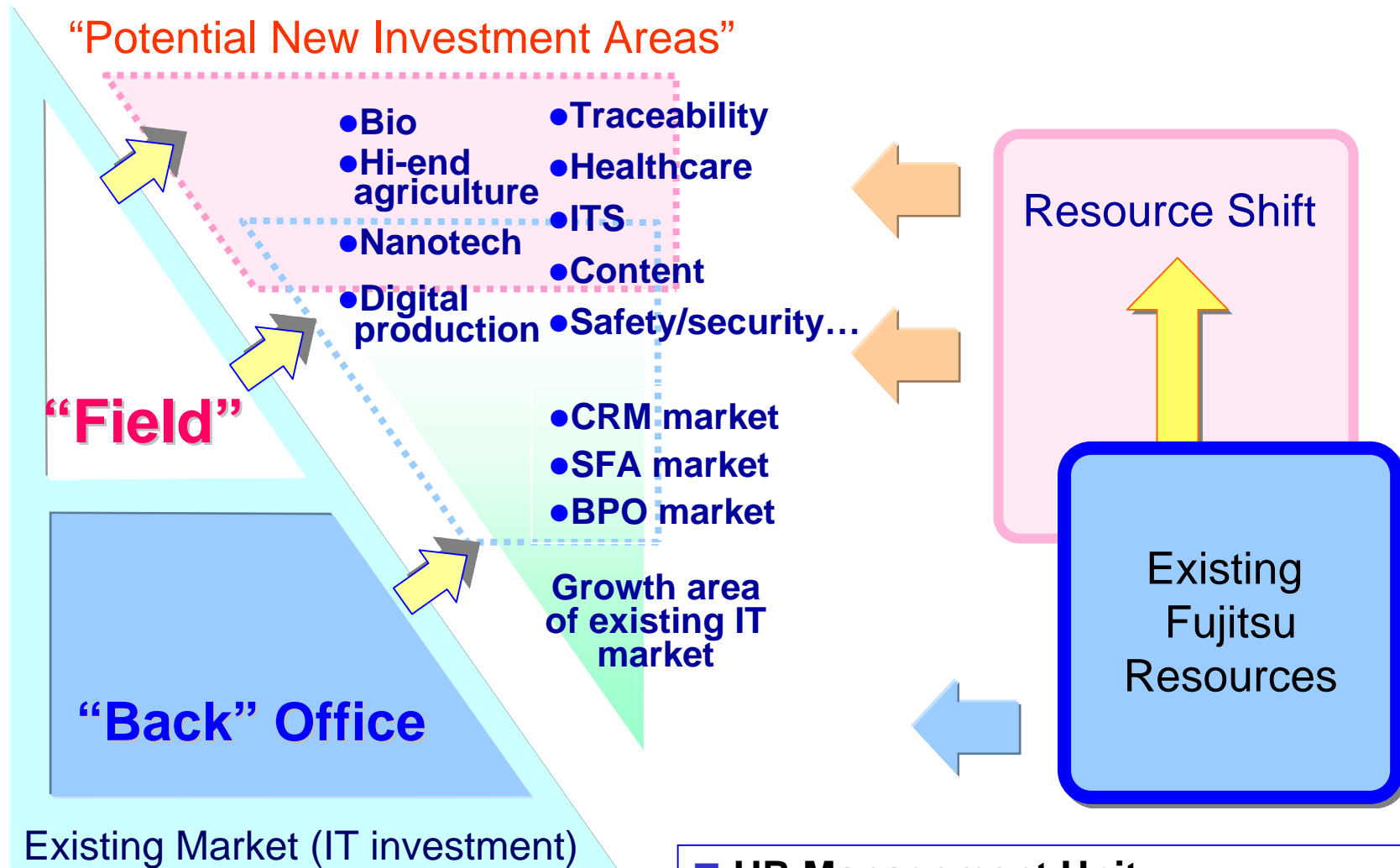


# Quickly Turn R&D Results into Business Opportunities

## Coordinate R&D and Product Roadmaps

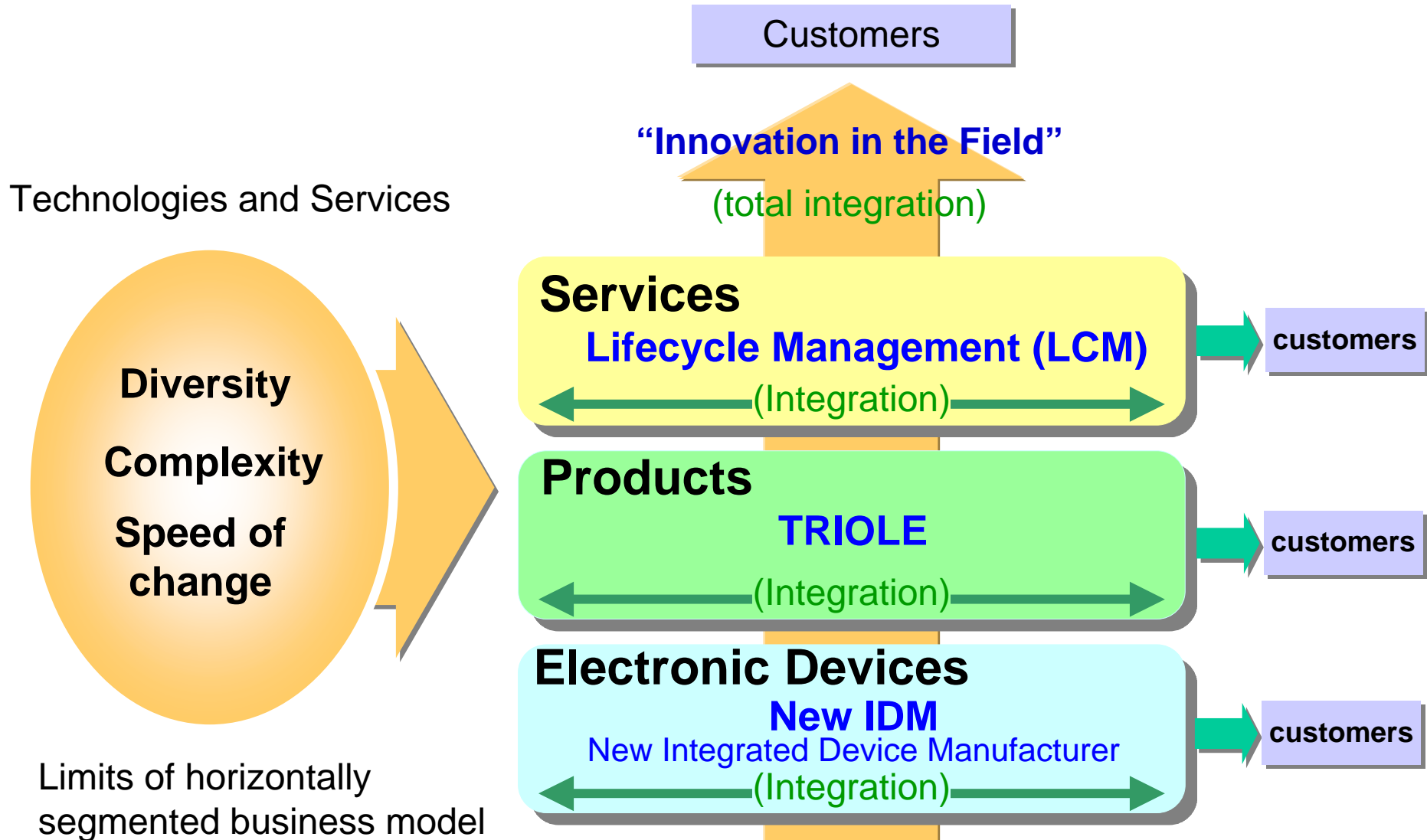


# Shift Resources to New Growth Fields



■ **HR Management Unit**  
 Promote flexible HR allocation in line with business development

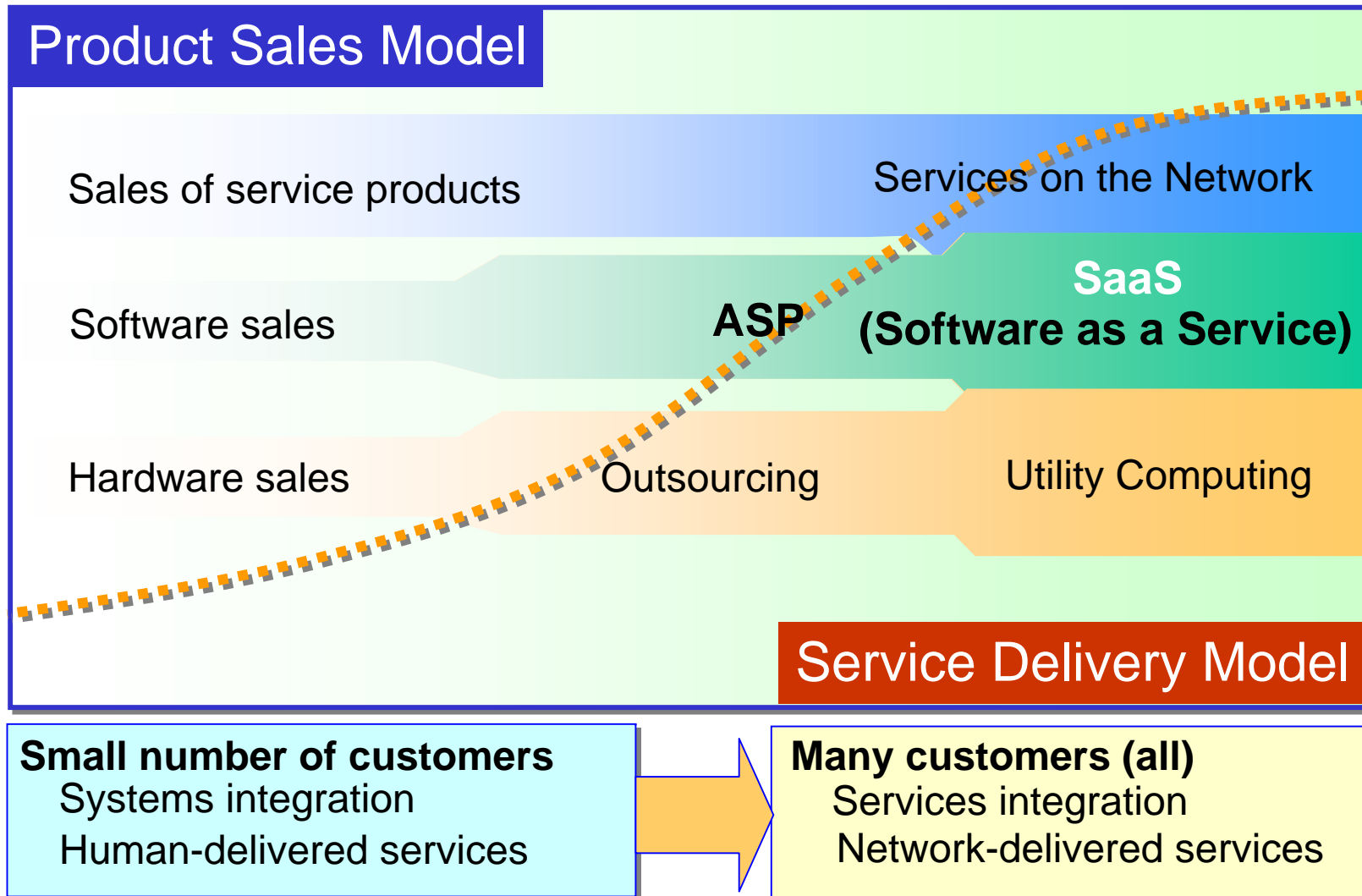
# Pursue Advantages of Integration Model



# Move from Product Sales to Service Delivery Model

## Reform Our Delivery Structure

Production  Utilization







# Products

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## Market Trends

**Unit volume demand will recover, but downward pressure on prices will continue**

**Increasing demand for higher reliability in an open architecture environment**

**High growth in overseas markets continuing**

## Basic Strategy

**Continue QCD improvements (Quality, Cost, Delivery)**

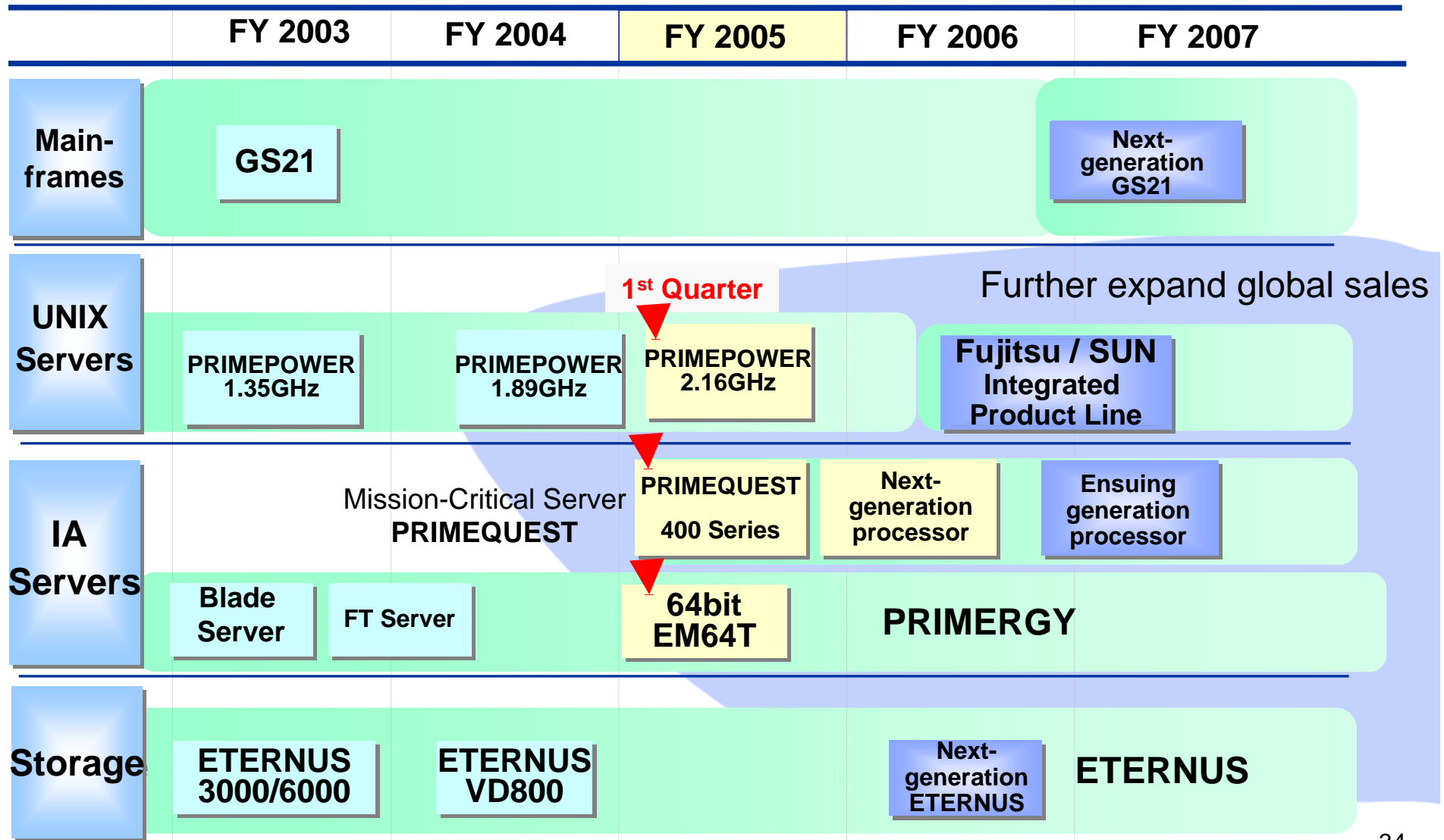
Extend manufacturing reforms to include reforms at development stage

**Differentiate based on overall system reliability leveraging integration model (TRIOLE)**

**Accelerate push in global markets**

# Make 1Q Shipments Basic Principal for Roadmap

## Server Roadmap Example



# System Products

**New Product Introduction and TRIOLE Expansion  
Are Key Points in 2005**

## Server-related

### **Introduce competitive new products**

**PRIMEQUEST** (mission-critical IA server)

**PRIMEPOWER** new model (2.16GHz)

**PRIMERGY** new model (64bit EM64T)

**ETERNUS** IA server-compatible low-price model

**IPCOM S** (network server) new model

## Middleware

### **Provide speedier migration to open environments and deliver new functionality**

Early compatibility with mission-critical IA server (**Interstage/Systemwalker**)

Provide SOA (**Service Oriented Architecture**) infrastructure (**Interstage**)

## TRIOLE Expansion

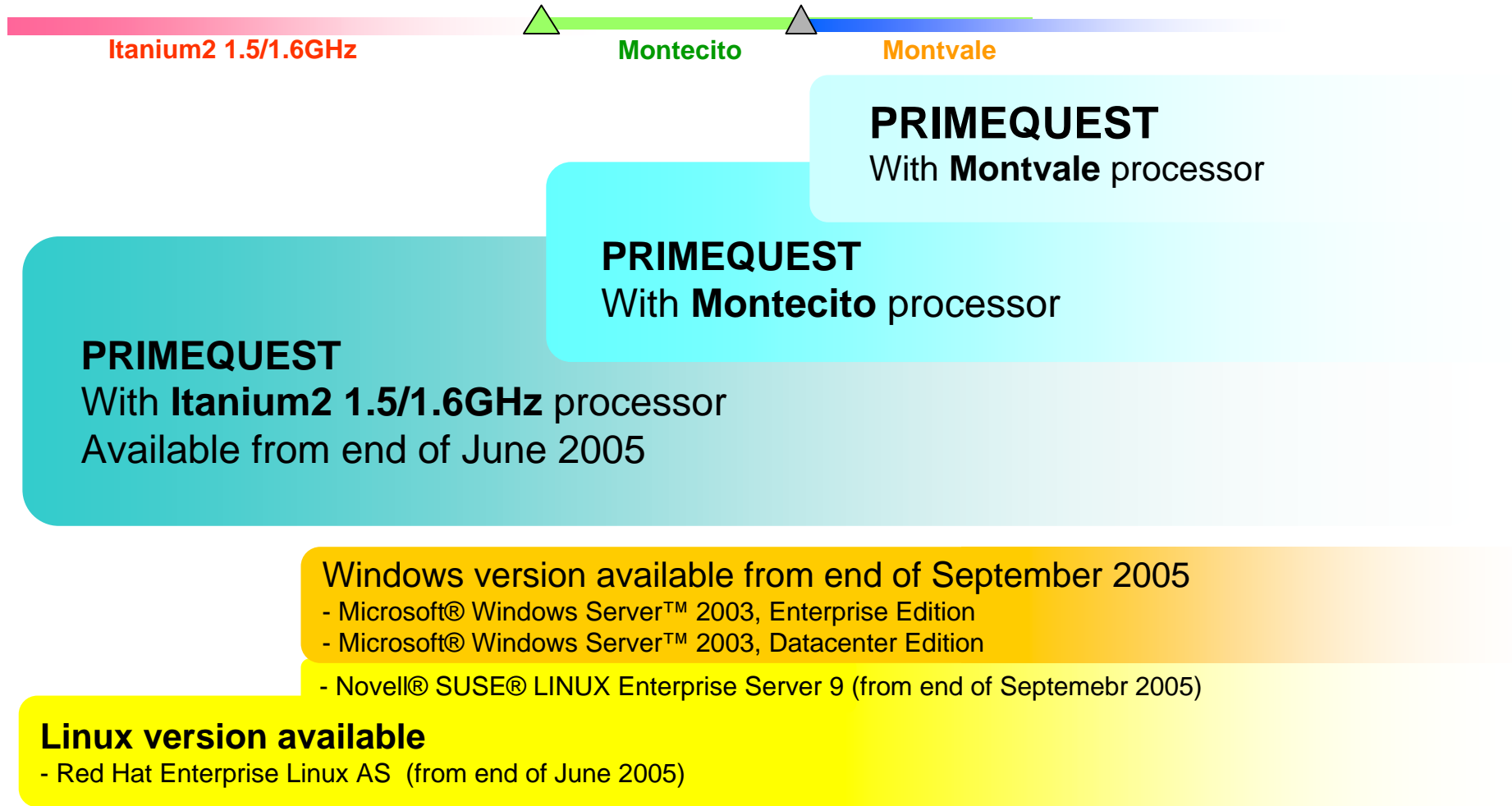
### **Strengthen integration capabilities**

Expand global competency centers

Intensify development and utilization of TRIOLE templates

# PRIMEQUEST Roadmap

## Commercialization of System with Latest Intel® Itanium®2 Processor



# Accelerate TRIOLE Expansion

## Expansion of Global Competency Centers

- Verify wide range of systems based on customer's needs
- Joint verification together with business partners
- Platform consulting

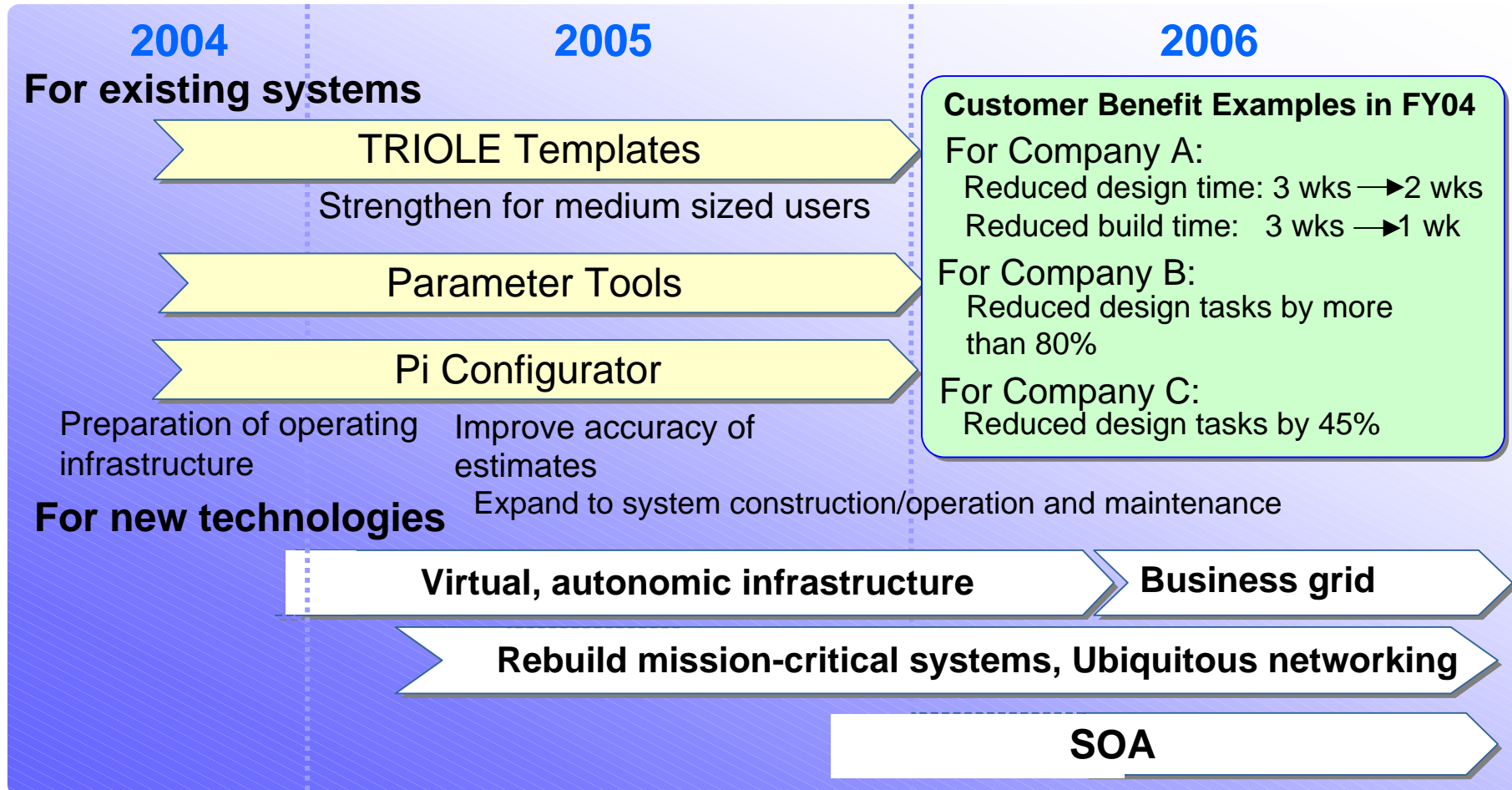


### Visitors to Platform Solution Center in Tokyo

Dec. 2004	Jan. 2005	Feb. 2005	Mar. 2005	Apr. 2005	Total (as of May 17)
1,500	2,600	3,600	3,000	2,800	About 15,000

# Accelerating TRIOLE Expansion

## Intensify TRIOLE Template Development



Project Orders:  
 FY03: 88 → FY04: 561 → FY05: 1,800 (target)  
 Pi Experts: Total 3,000 people in FY2005

# Network Products

**Returned to Profitability in FY04;  
Reinforce Profit Structure in FY05**

## Optical Systems

Maintain No. 1 share in N. America ('04: 28%→ '07: 30%+); exploit CATV market

## Access

Japan: Consolidate operations at Fujitsu Access to improve speed/cost

Overseas (UK): Selected as preferred supplier for BT's 21<sup>st</sup> Century Network

Exploit new access technology (WiMAX) for business development

## Mobile Systems

Japan: Maintain position in NTT DoCoMo market

Participate in eAccess field trial (commercialization in FY06)

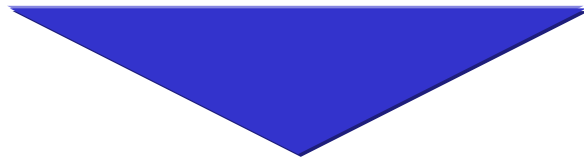
Overseas: Leverage collaboration with Alcatel (Evolium) to expand in Europe and China markets

## IP Systems

Alliance with Cisco for joint development of high-end routers

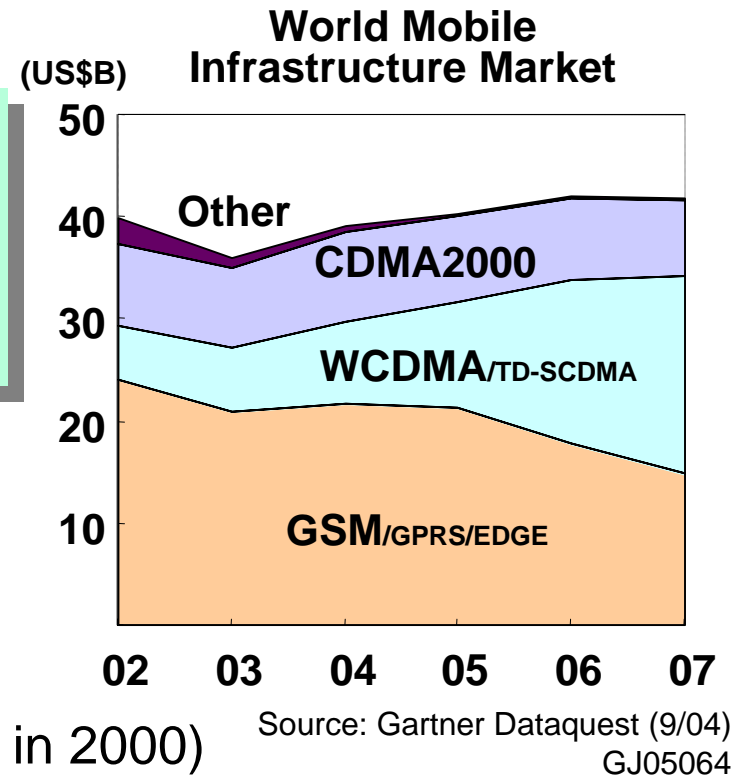
# Expand Mobile Systems Sales in Overseas Markets

- Accelerating investment in W-CDMA (FY05)
  - Europe: Start of full-fledged service
  - China: Licensing from this year



- Cooperation with Alcatel
  - Development JV: Evolium (established in 2000)  
GSM (2G) compatible, low cost, scalable
  - Adopted by 24 carriers in 20 countries (including Orange)

**Global W-CDMA Share: 10% ('04) ⇒ 15% ('07 Target)  
(Fujitsu and Alcatel)**





# Ubiquitous Products

## Boost Product Competitiveness and Intensify QCD Improvements in FY 2005

### PCs

Deliver new value through leading-edge technology

Consumer: “view/record/save” functionality

Enterprise: Pursue advanced security; customize to meet customer needs

Expand manufacturing innovation (high-level SCM and development innovation combined with manufacturing reforms)

Pursue world’s highest levels of quality

### HDDs

Continue to increase share through competitiveness in delivery and quality

3.5-inch ('03: 20% '04: 23%)

2.5-inch ('03: 18% '04: 24% leap into second place)

Reduce development burden through collaboration with TDK

### Mobile Phones

Make further cost reductions and quality improvements through development reforms

# Deliver New Value

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## ■ Unprecedented Power: 32" Wide-Screen LCD All-in-One-Unit PC DESKPOWER TX

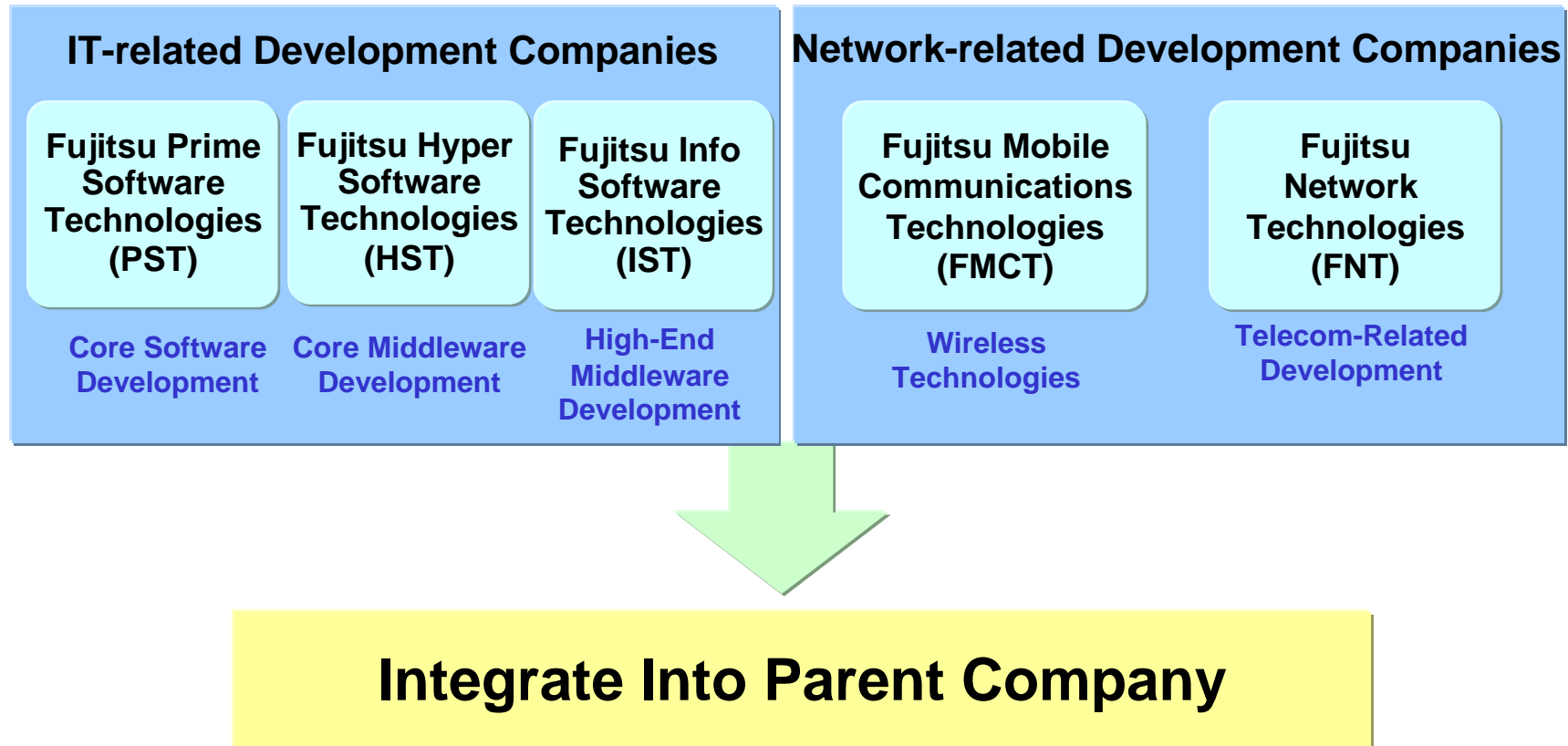
- ✓ The power of Hi-Vision quality in a 32" wide-screen liquid crystal display
- ✓ Combines LCD television, DVD recorder and PC into a single unit
- ✓ Beautiful picture quality using Dixel technology



- Supports Terrestrial, BS and 110° CS Digital Broadcasts

# Restructure Product Development Organization

## Accelerate Pace and Optimize Development Capabilities



- Concentrate technical strengths, know-how, and development management
- Further accelerate high-quality product development



# Services

## Market Trends

**Demand for services is gradually recovering, but competition intensifying**

- **Manufacturing:** Mainly large companies continue aggressive spending for global operations
- **Retailing:** Bifurcated market, large companies aggressively investing
- **Financial Services:** Greater inclination toward IT investment
- **Public Sector:** Fewer large projects
- **Carriers:** Amidst severe conditions, aggressive investment in targeted areas
- **Healthcare:** Digital medical record business expanding, but competition increasing
- **Regional (Japan):** Severe conditions continue

**Demand for outsourcing services continues to increase**

## Basic Strategy

**Make SI business healthier**

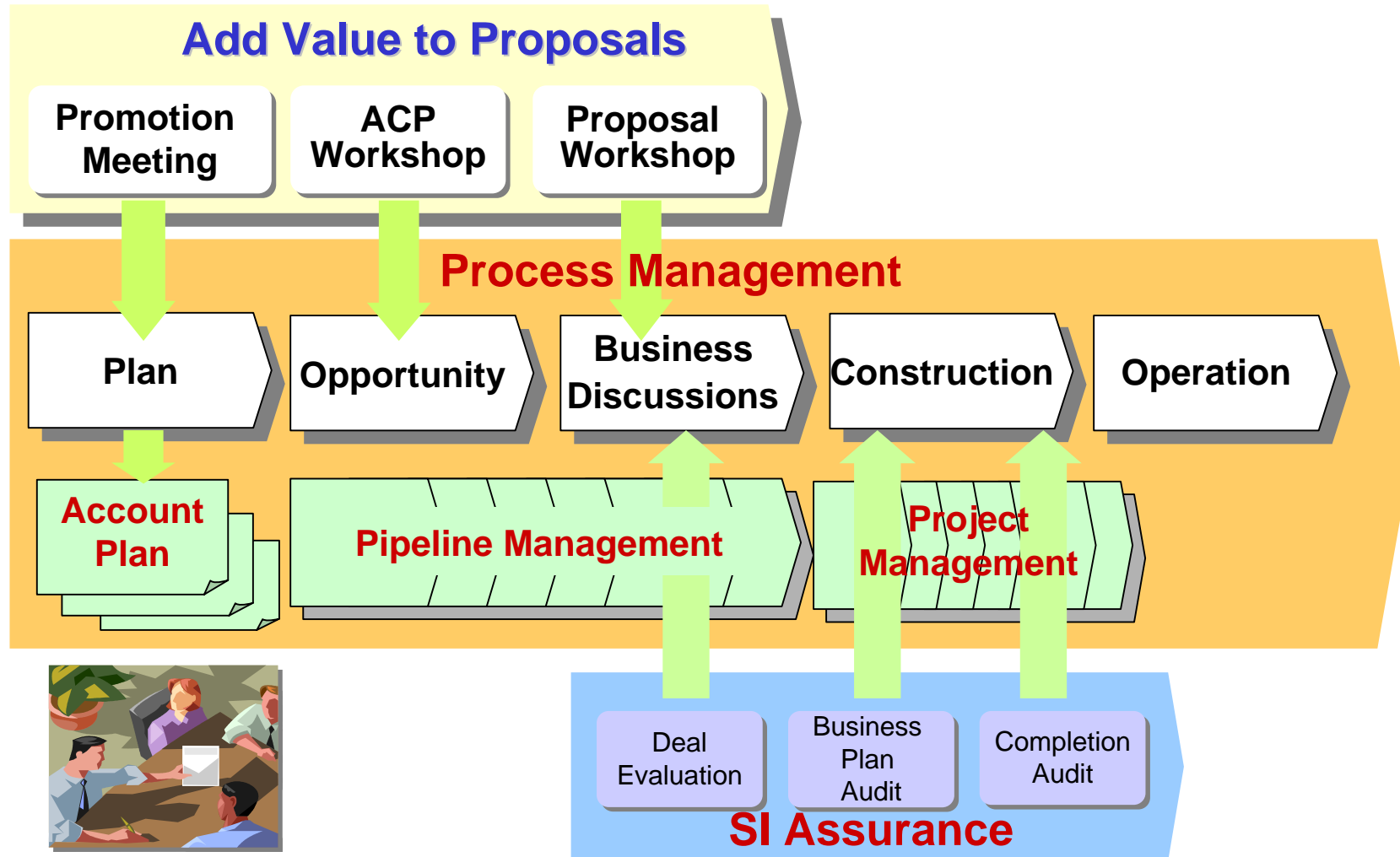
**Focus on Lifecycle Management (LCM)**

**Increase orders in new business areas**

**Place emphasis on technology and human resources**

# Standardize Sales/SE Business Processes

## From Individual to Organization-Wide Activities



SI Assurance Unit

Follow-up after SI project deal

Eliminate SI losses and improve customer satisfaction

# Implement Percentage of Completion Methods

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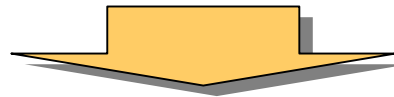
**Introduced as Standard Procedure in  
Following Projects from April 2005**

**(1) Applicable Products: SI, PROPOSE (combined product)**

**(2) Cycle: Recognize income based on monitored monthly  
progress and costs**

- Projects with formal contract signed, amount and conditions set
- Projects with work plan that has been agreed to by customer
- Projects with defined progress milestones

**(Required for all projects with development costs of 100 million yen or more)**



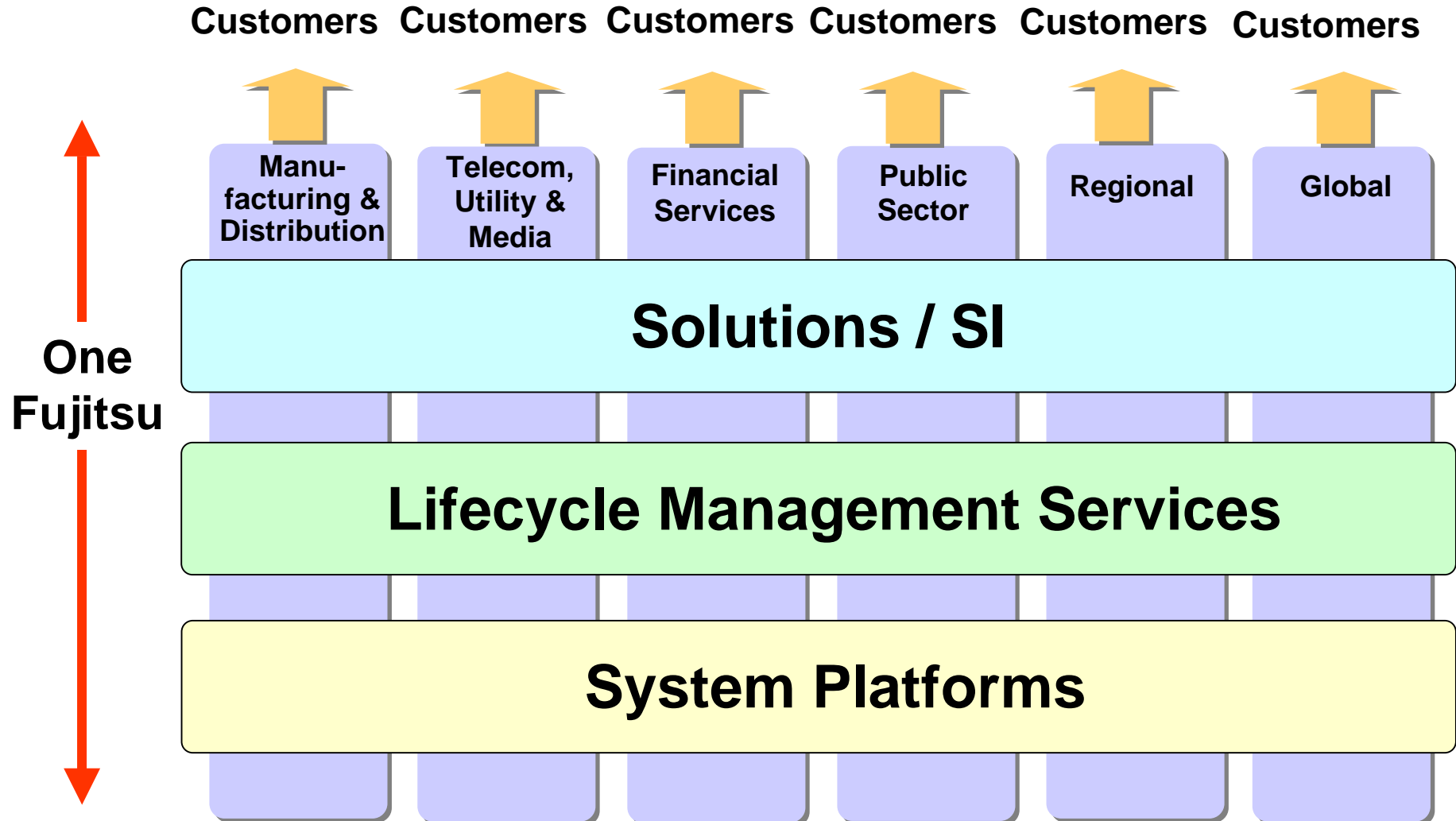
**Achieve Real-Time Management of the SI Business**

**Contribute to a More Level Distribution of Sales**

**(Correct the tendency to concentrate sales in the 4<sup>th</sup> Quarter)**

# Shift to P&L Management by Market Segment

## Capture Customers' Total IT Investment



# Expand LCM Services

LCM: Lifecycle Management

## Net Sales

(billion yen)

600

500

400

300

200

100

-

**Target for Sales Growth: 120%+**  
**Target for Operating Income: 60 billion yen**

**Operating Margin**

Growth Targets for 2004-2007			
ITO (IDC)	25%	Networks	10%
ITO (onsite)	20%	APM	35%
Support Desk	10%	BPO	10%

2003

2004

2005

2006

2007

308.0

345.0

410.0

490.0

600.0

9.5%

10%

10%

9%

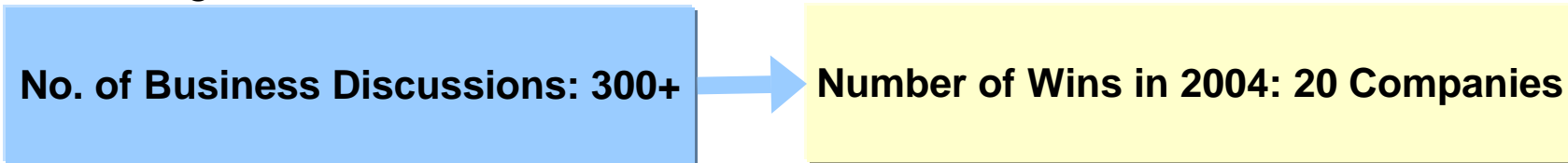
## Operating Income



# Results from Consolidation of System Support & FSAS

## PC Lifecycle Management Sales

Sales begun June 2004



**FY 2005 Targets**

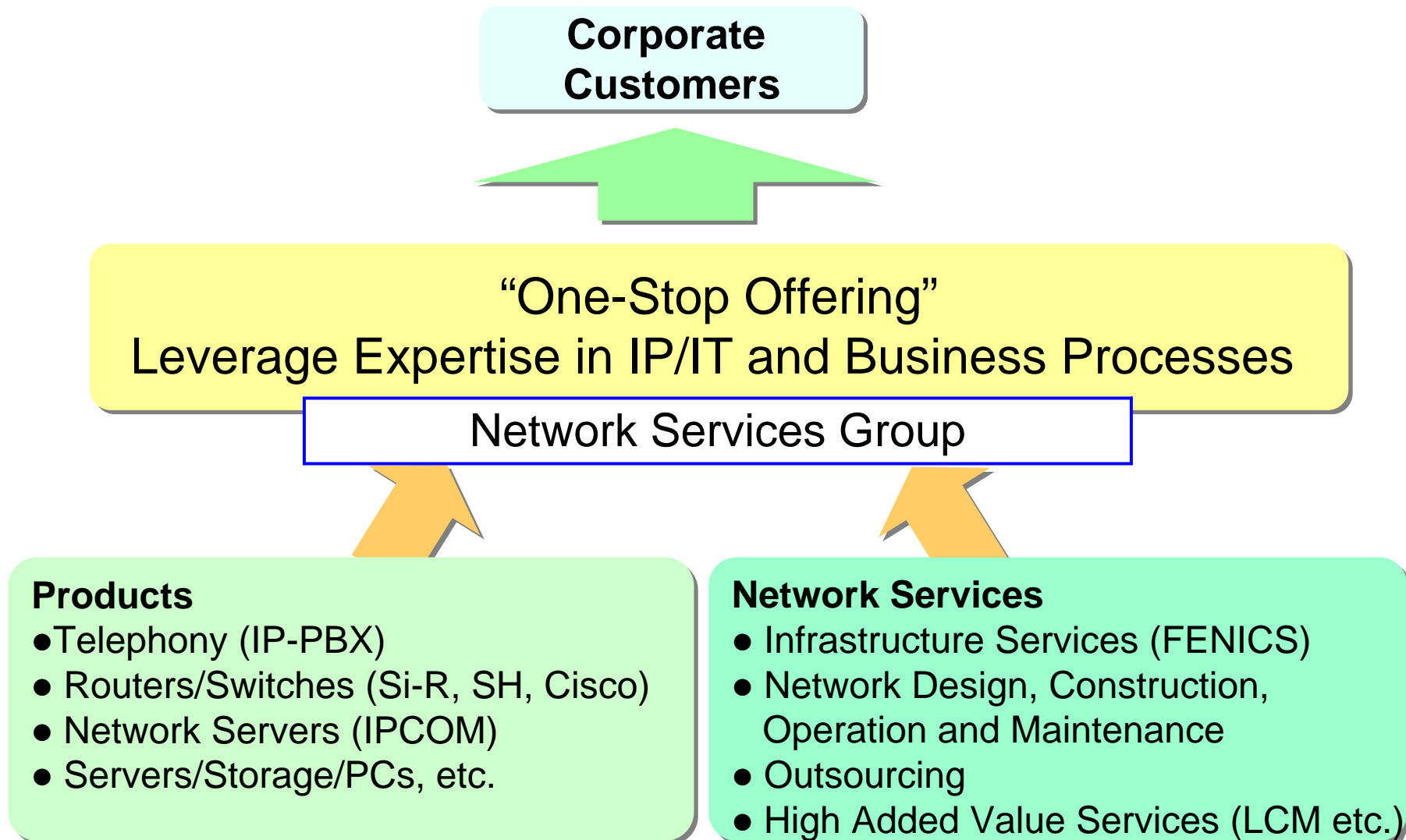
(billion yen)

		2004 Results	2005 Targets	04 → 05
<b>PC-LCM Sales</b>	Orders	9.0	12.0	+ 33%
	Sales	2.8	7.5	+ 168%

**Sales Target:** 400 company wins, 100 billion yen in orders over a three year period

# Strengthen Our Network Services Group

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**LCM: Lifecycle Management**

# **Increase Efforts in Growth/New Business Areas**

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**(1) Strengthen Business in Tokyo Metropolitan Area**

**(2) Expand Business in Healthcare Sector**

**(3) Expand Business in Security/Public Safety Fields**

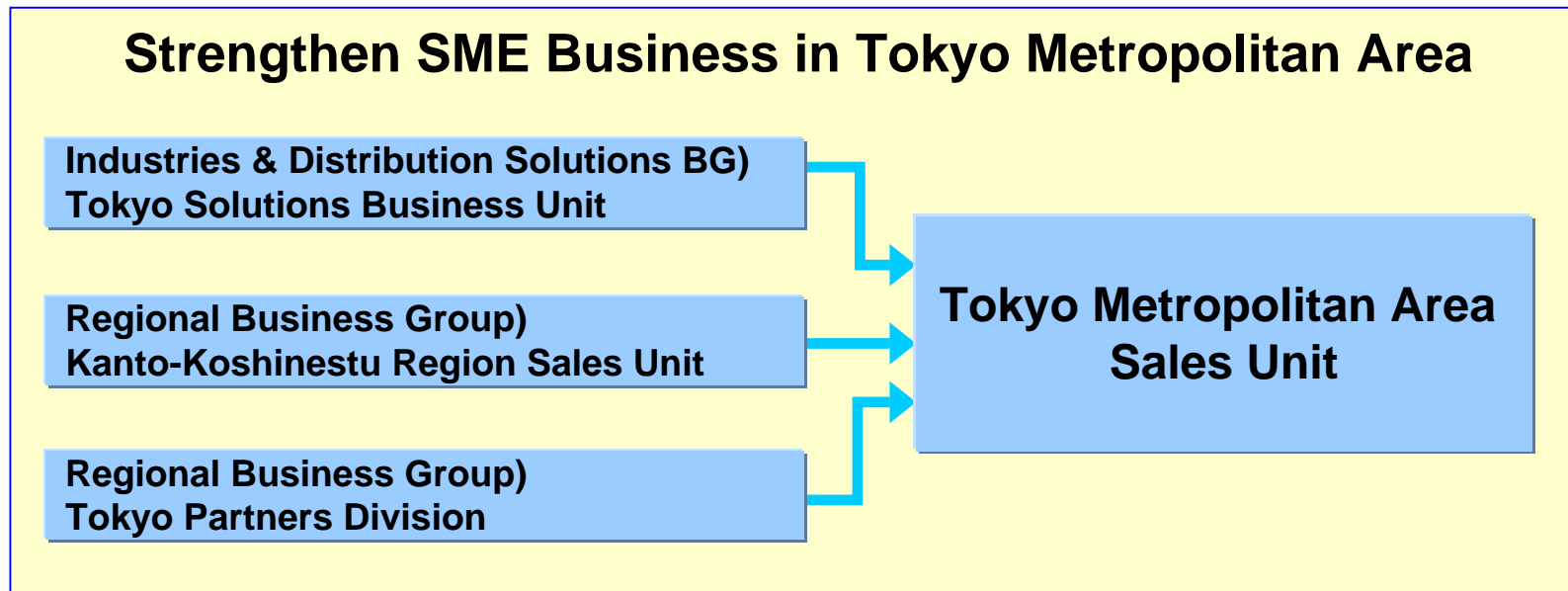
**(4) Expand Ubiquitous Networking-related Business**

RF-ID, ITS, Biometric Authentication (palm-vein pattern recognition, etc.)

# Strengthen Business in Tokyo Metropolitan Area

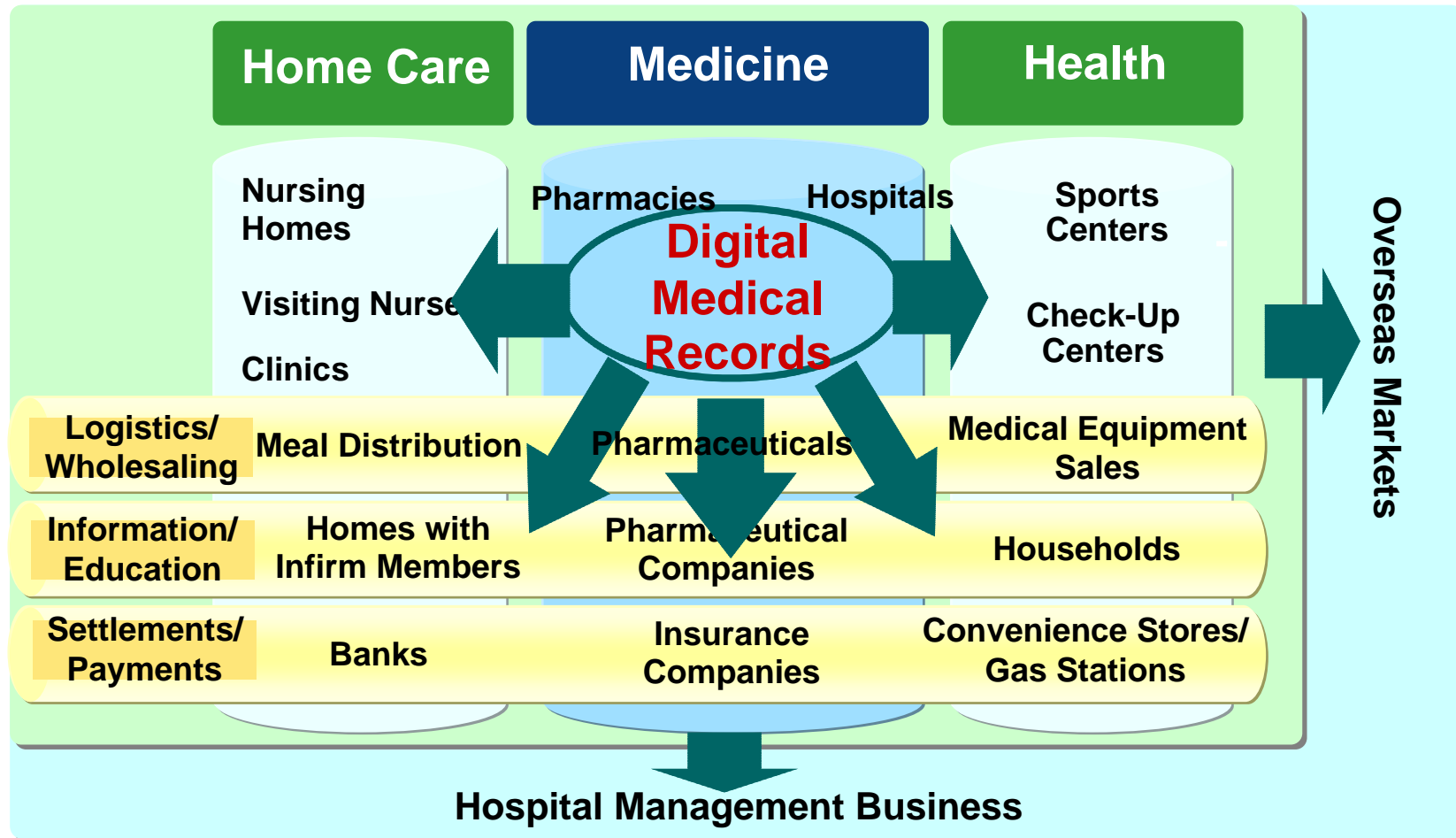
## Shift Efforts to Tokyo Metropolitan Area, Where We Can Expect High Growth Rates

- Through reorganization along industry lines, accumulate know-how and strengthen industry-specific strategies
- Maximize customer satisfaction by accelerating and fully implementing the integration of sales and system engineering groups



# Expand Business in Healthcare Sector

## Foothold for Pursuing Field Innovation

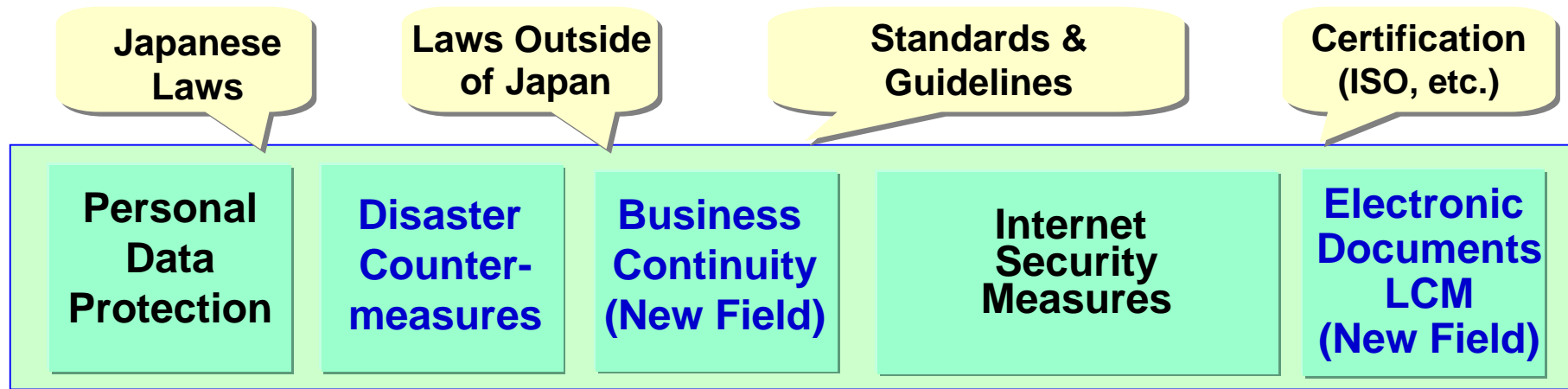


Market Size (next 3 years):

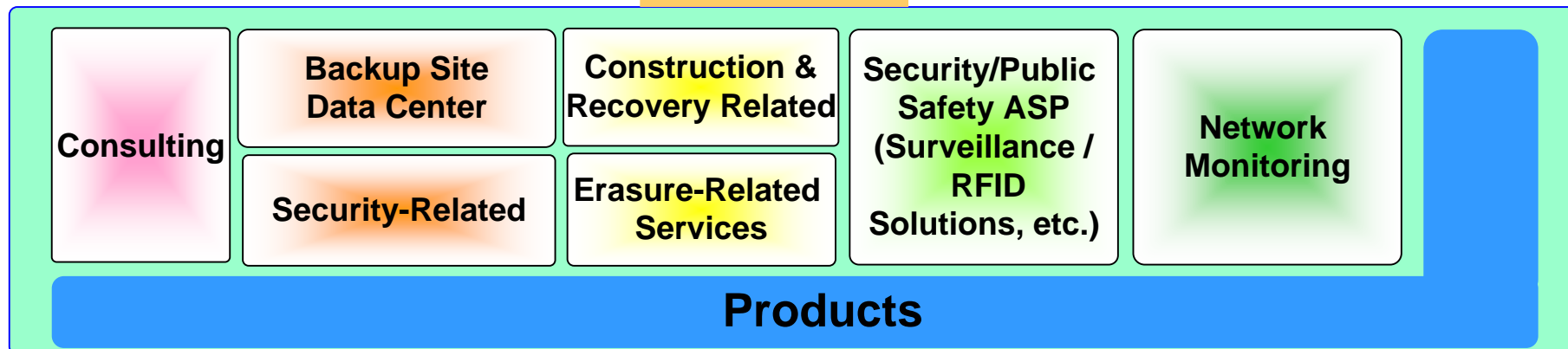
Medical IT Market: 1.0 trillion yen + **Healthcare IT Market: 1.5 trillion yen**

# Expand Business in Security/Public Safety Fields

## Foothold for Pursuing Field Innovation



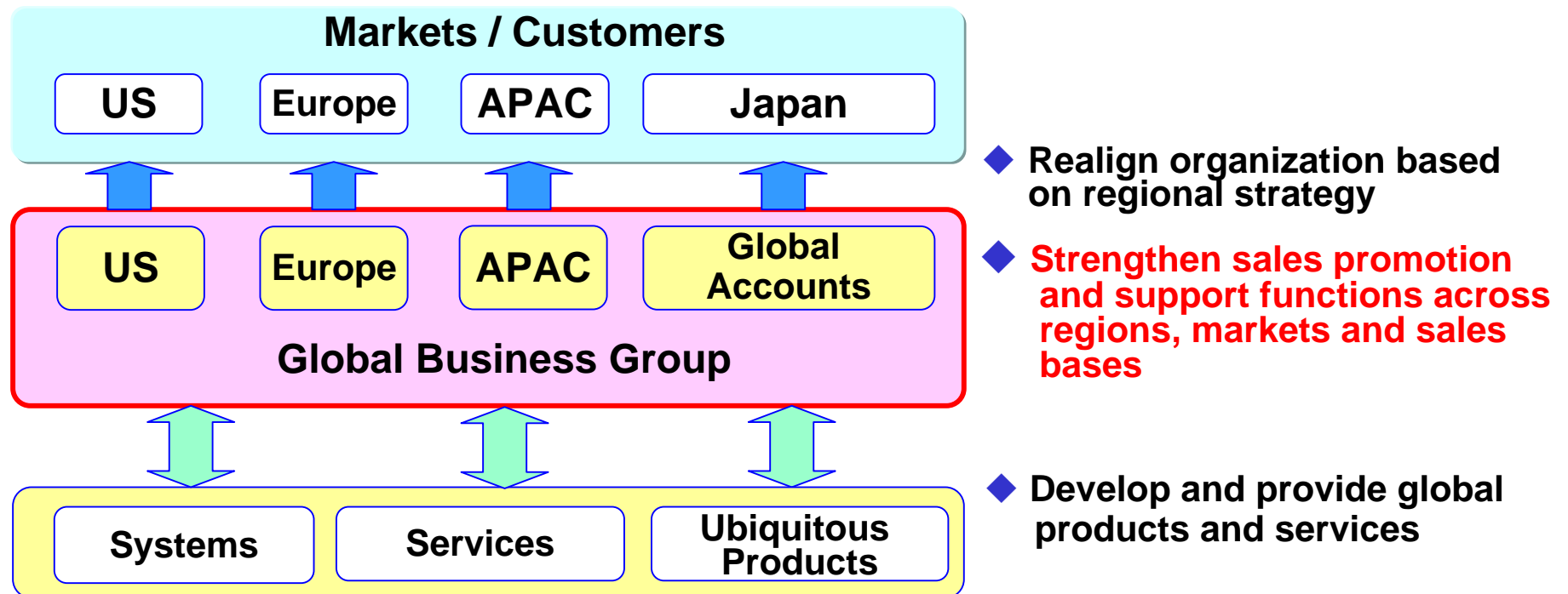
## Provide in “One Stop”



# Reform Our Global Business Organization

- Support customers' global expansion
- Accelerate push for global-scale product volumes
- Strengthen competitive position through expansion of solutions business

## Newly Established Global Business Group





## **Electronic Devices**

### **Market Trends**

**FY05 market conditions likely to be similar to those in FY04**

**SoC will be the source of product competitiveness (performance, cost, delivery)**

**Technology evolution making limitations of horizontally segmented business model apparent**

### **Basic Strategies**

**Accelerate focus on logic IC business**

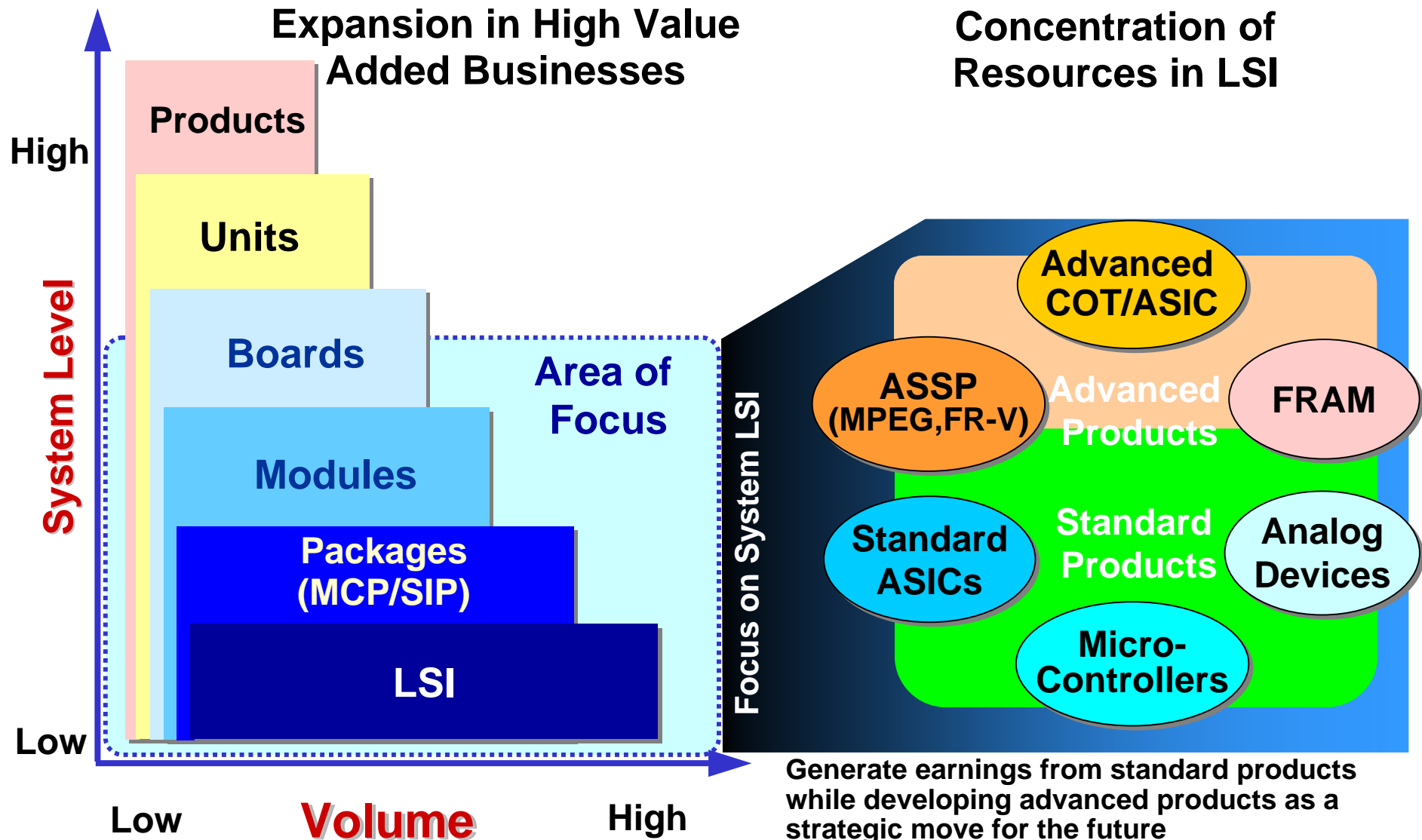
**Strengthen partnership strategy with customers**

**New IDM**

**Continue to improve QCD (Quality, Cost, Delivery)**



# Area of Focus in Semiconductor Business



# LSI Business Strategy

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**Realize Profitable Growth through Balance of  
Standard and Advanced Products**

## Standard Products

**Position as cash cow**

**Enhance capacity with minimum investment  
Manufacturing innovation (TPS)**

## Advanced Products

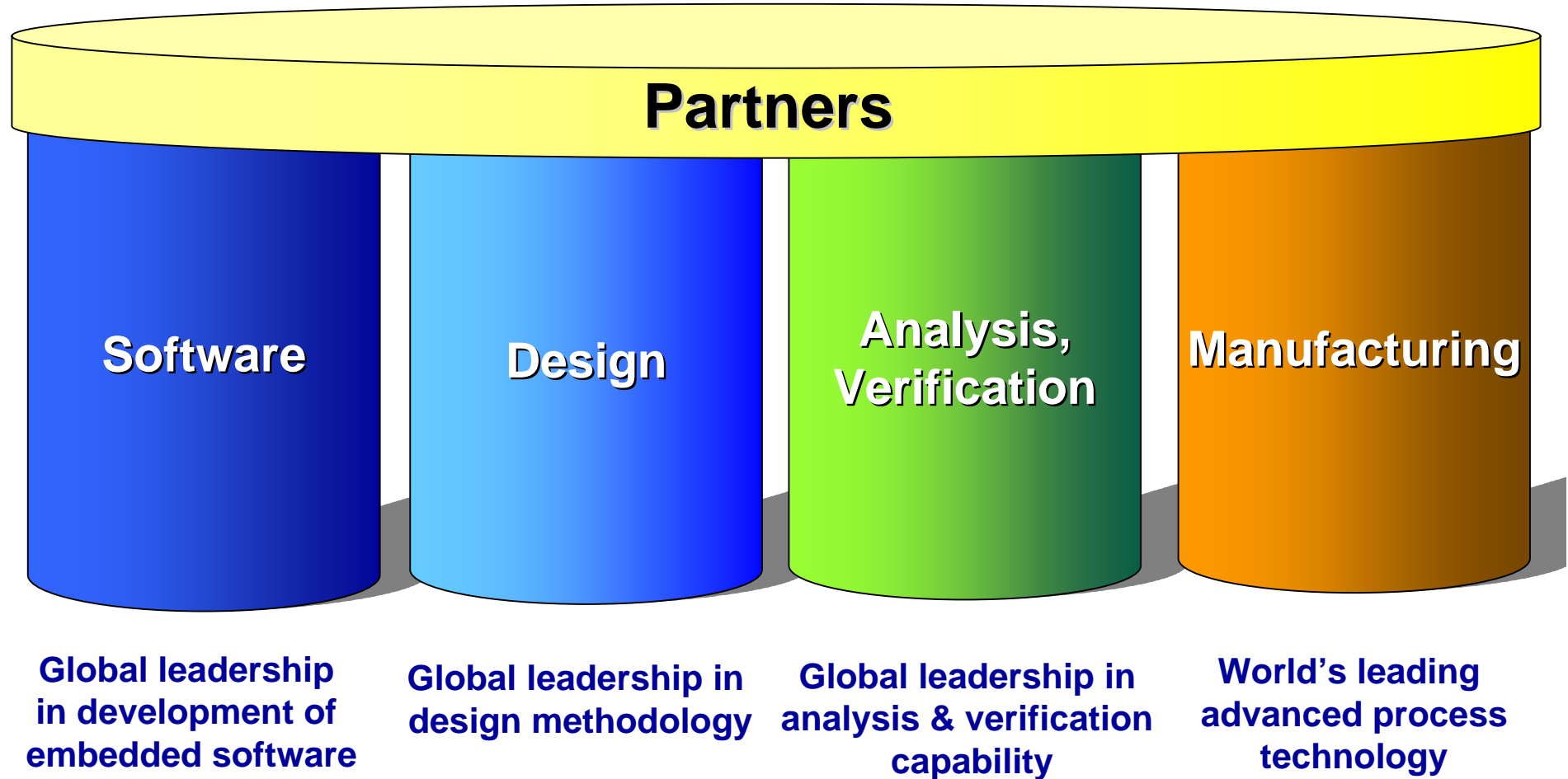
**Position as axis for growth**

**Quick return on capital investment  
Collaborations with partners  
Quick and low-cost development (first time right)  
Software verification**

**Strengthen Design and Embedded Software Resources**

# Four Pillars Supporting Our Partners

## World Leadership in LSI Technology

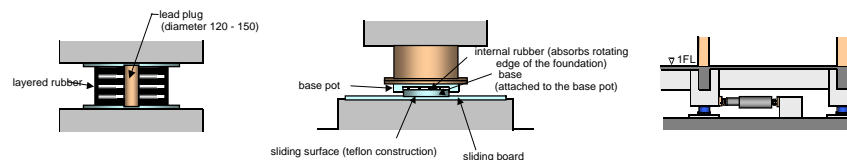
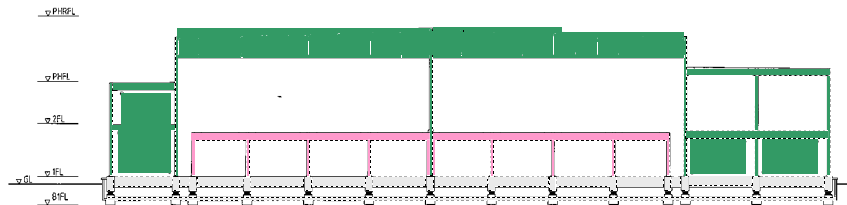


# Construction of New 90/65nm 300mm Fab

Exterior View (photo as of 11/04)



World's first semiconductor fab  
utilizing seismic isolation construction



## Status of new Mie facility

**Achieved in Record Time**  
**(Just 293 days from start of**  
**construction to full lot out)**

- 4/21/04: Groundbreaking ceremony
- 11/20/04: Completion of construction
- 4/1/05: Official start of operations
- 9/05: Start of mass production



# FY 2005 Earnings Projections

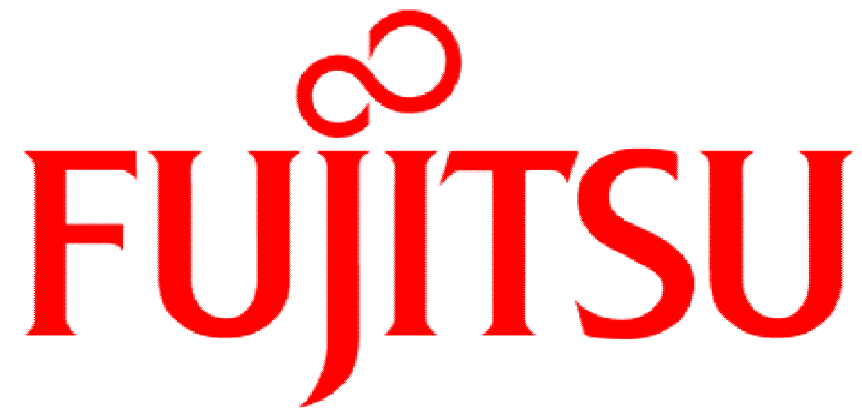
# FY2005 Consolidated Financial Projections

(billion yen)

<b>Consolidated Earnings</b>	<b>Net Sales</b>	<b>4,850</b>
	<b>Operating Income</b>	<b>175</b>
	<b>Net Income</b>	<b>50</b>

(billion yen)

<b>Operating Income By Segment</b>	<b>■ Technology Solutions</b>	<b>180</b>
	<b>System Platforms</b>	<b>40</b>
	<b>Services</b>	<b>140</b>
	<b>■ Ubiquitous Product Solutions</b>	<b>25</b>
	<b>■ Device Solutions</b>	<b>20</b>



**FUJITSU**

**THE POSSIBILITIES ARE INFINITE**

# Cautionary Statement

These presentation materials and other information on our meeting may contain forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects," and similar expressions which indicate future events and trends identify forward-looking statements. Actual results may differ materially from those projected or implied in the forward-looking statements due to, without limitation, the following factors:

- general economic and market conditions in the major geographic markets for Fujitsu's services and products, which are the United States, EU, Japan and elsewhere in Asia, particularly as such conditions may effect customer spending;
- rapid technological change, fluctuations in customer demand and intensifying price competition in the IT, telecommunications, and microelectronics markets in which Fujitsu competes;
- Fujitsu's ability to dispose of non-core businesses and related assets through strategic alliances and sales on commercially reasonable terms, and the effect of realization of losses which may result from such transactions;
- uncertainty as to Fujitsu's access to, or protection for, certain intellectual property rights;
- uncertainty as to the performance of Fujitsu's strategic business partners;
- declines in the market prices of Japanese and foreign equity securities held by Fujitsu which could cause Fujitsu to recognize significant losses in the value of its holdings and require Fujitsu to make significant additional contributions to its pension funds in order to make up shortfalls in minimum reserve requirements resulting from such declines;
- poor operating results, inability to access financing on commercially reasonable terms, insolvency or bankruptcy of Fujitsu's customers, any of which factors could adversely affect or preclude these customers' ability to timely pay accounts receivables owed to Fujitsu; and
- fluctuations in rates of exchange for the yen and other currencies in which Fujitsu makes significant sales or in which Fujitsu's assets and liabilities are denominated, particularly between the yen and the British pound and U.S. dollar, respectively.