

4. Management Direction

Our Basic Stance on the Company's Business

Information technology has moved beyond the realm of business and come to permeate nearly every aspect of our daily lives, rapidly expanding convenience and bringing us closer to a world of ubiquitous networking in which people can connect with anyone, anywhere and at any time. At the same time, the importance of IT to our customers' businesses has increased dramatically. When selecting a vendor to build and deploy their IT systems, customers require not simply a supplier of goods and services but rather a true partner with the ability to propose and implement solutions encompassing the entire IT system lifecycle.

The mission of the Fujitsu Group is as follows:

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.

Based on a thorough understanding of the environments in which our customers operate and the overall nature of their operations, we create and deploy IT solutions that contribute to the growth and development of their businesses. In so doing, as a trusted business partner to our customers, we seek to grow as they grow.

Medium-Term Business Strategy and Priority Tasks

Despite a gradual increase in IT investment in Japan and around the world, downward pressure on prices for services and products, intensifying competition and other factors suggest that our operating environment will remain difficult. Despite these challenges, we are striving for the earnings capacity that will enable us to achieve steady profitable growth. Moreover, along with working to achieve further progress in firming up our financial condition, we will intensify our push into new sectors that will lead to growth.

In fiscal 2004, we articulated and began pursuing four key challenges facing the Fujitsu Group: to strengthen our existing businesses, to create and cultivate new businesses, to reform our organization and approach, and to reform our management systems. The entire group has pulled together to address these challenges, and we intend to redouble our efforts in all these areas in fiscal 2005.

(1) Strengthening our existing businesses

We are working to raise quality, lower costs and increase speed in every aspect of our operations, including design, development, production and sales. We are pursuing these aims in production, through continuing company-wide manufacturing innovation, and in software development, by advancing the deployment of our SDAS comprehensive systems development framework. In addition, in April we established the Systems Integration Assurance Unit, reporting directly to the president, to reinforce the soundness of our systems integration business.

While striving to further differentiate our servers, storage systems, middleware and other products, and pursuing a companywide sales expansion campaign for these products, we will continue to promote our TRIOLE strategy for IT infrastructure optimization and superior overall system reliability. As a complement to this, we plan to further expand our outsourcing services business, which we believe has strong growth potential going forward.

(2) Creating and cultivating new businesses

We are pursuing various solutions made possible by the fusing of telecommunications and information processing. Specifically, focusing on bringing change to healthcare, education, business, and our everyday lives, we are aggressively developing business in such areas as security solutions that utilize our palm vein pattern authentication technology and other unique Fujitsu technologies, bio-IT solutions that build on our high-performance servers and simulation technology, and electronic medical record solutions. We are also leveraging our alliance with Cisco Systems to strengthen our enterprise network services business.

In addition, we are actively working to grow our business around the world. PRIMEQUEST, our new series of mission-critical IA servers, is at the heart of our aggressive efforts to increase global market share and drive a new wave of expansion in open architecture servers.

In the Electronic Devices segment, our 300-mm wafer fab began full-fledged operations this April, producing logic chips using our leading-edge 90- and 65-nm process technologies. Volume production and shipments are due to commence in September.

(3) Reforming our organization and approach

To provide speedier service to customers and seamless support of their entire IT system lifecycle, we have been eliminating redundancy and internal competition in our operations and functions and rebuilding our organization to make it more transparent to customers. We integrated our systems engineering and sales groups in June 2004, reorganizing them along industry and regional lines, and restructured regional systems engineering subsidiaries in Japan in order to be more responsive to local and medium-sized businesses. We will continue to reform our organization to improve our responsiveness to customers, strengthening connections between Fujitsu and our group companies as well as mutual ties among group companies.

We will also continually review and revise our business portfolio as necessary.

(4) Reforming our management systems

Based on the mission, values and code of conduct set forth in The FUJITSU Way, we will continue to emphasize sustainability in the management of our business. More specifically, we are reforming our management structure to ensure that each business unit contributes to the optimal performance of the Fujitsu Group as a whole, rather than focusing narrowly on its own earnings, and we are making our internal controls more complete. In addition, to make the most of our human resources, we are re-examining business processes and enhancing internal training.

We will work unceasingly to meet these challenges, serve as a trusted partner to our customers, and pursue further reforms as global company that contributes to the creation of a rich and dynamic networked economy and earns the trust of our customers and society at large.

Corporate Governance: Basic Stance and Policy Implementation

Our Basic Stance on Corporate Governance

Fujitsu believes that ensuring the transparency and effectiveness of corporate management for shareholders and other stakeholders is essential for good corporate governance. In order to do so, we utilize outside directors and separate management oversight and operational execution functions. We believe that clear separation of these two functions helps to ensure management transparency and efficiency.

Implementation of Corporate Governance Policy

1. Management organization regarding business decisions, operational execution and oversight, and other structural issues regarding corporate governance

1) Nature of Corporate Institutions and Internal Control Systems

Fujitsu's Board of Directors carries out a management oversight function, supervising the execution functions of the Management Strategy Council and the Management Council under its authority.

As an executive organ, the Management Strategy Council discusses and decides upon fundamental policies and strategy regarding business management. The Management Council makes decisions on important matters regarding operational execution. Issues discussed by the two councils are reported to the Board of Directors, which makes decisions on items of particular importance.

Statutory auditors carry out an auditing function, reviewing the Board of Directors as well as operational execution functions.

The Board of Directors is composed of nine internal directors and two outside directors, for a total of 11 members. There are five statutory auditors: two standing auditors and three outside auditors.

2) Statutory Auditors' Audits, Internal Audits, and Accounting Audits

The company has adopted a statutory auditor system. Auditors attend important management meetings, including those held by the Board of Directors, the Management Council, and the Management Strategy Council, and they audit the Board of Directors and operational execution bodies. Additionally, the Corporate Internal Audit Division has been established within the Corporate Center to serve as an internal audit group. This division audits the internal affairs of the company and its affiliates, proposes improvements in their business practices, and regularly reports its audit findings to the Management Council.

Accounting audits are carried out by four certified public accountants (Yoji Suzuki, Gen Ikegami, Yuichi Mochinaga and Noriyuki Tsunoda) who are employed by Shin Nihon & Co.

3) Overview of Outside Directors' and Auditors' Interests in the Company, Including Personal, Financial and Business Relationships

(1) Interests between Fujitsu and outside directors and auditors

Outside directors and auditors are listed below. There is no relationship of special interest between the company and any of these directors or auditors.

Outside Directors: Kunihiko Sawa, Ikujiro Nonaka

Outside Auditors: Takeo Kato, Katsuhiko Kondo, Yoshiharu Inaba

(2) Interests between Fujitsu and the companies with which outside directors and auditors are affiliated

Board member Kunihiro Sawa is a representative director of Fuji Electric Holdings Co., Ltd., a holding company for the Fuji Electric Group, which holds 4.74% of the stock in Fujitsu Limited, and whose employee benefit trust holds 6.68% of Fujitsu's stock. In addition, a Fujitsu auditor and a Fujitsu advisor serve as auditor and board member, respectively, of Fuji Electric Holdings, and Fujitsu holds 9.96% of the company's stock. There is a business relationship between the companies.

Auditor Yoshiharu Inaba is a representative director of FANUC, Ltd. Fujitsu holds 7.78% of FANUC's stock, and one of Fujitsu's representative directors serves as an auditor of that company. There is a business relationship between the companies.

In addition, although not considered an outside director according to the Japanese commercial code, director Hiroshi Oura is chairman and a representative director of Advantest Corporation. Fujitsu holds 10.09% of the stock in Advantest through its employee retirement benefit trust, and a Fujitsu auditor and a Fujitsu board member serve as auditors of that company. There is a business relationship between the companies.

2. Initiatives to Enhance Corporate Governance in FY 2004

In July 2004 we established The FUJITSU Way Promotion Council, as a body reporting directly to the president, and a Compliance Committee, charging them with raising awareness of risk management and promoting structures and procedures for internal compliance in conjunction with the tenets of The FUJITSU Way. In addition, the following three committees have been aligned under the FUJITSU Way Promotion Council to help achieve good corporate governance in accordance with the FUJITSU Way.

- **Compliance Committee**
This committee is responsible for promoting structures and systems to ensure strict compliance with external as well as internal rules, regulations and norms of behavior. To support these efforts, since September 2004 we have put in place a "help line" system to serve as a confidential liaison for receiving reports from employees and providing guidance to them on matters of conduct.
- **Risk Management Committee**
This committee takes measures to obtain information regarding specific incidences of risk and to minimize the impact of risk incidences on customers and the company. Serious issues are reported to the Management Council or Board of Directors for discussion and response. Through these measures, risk issues and countermeasures are communicated throughout the Fujitsu Group, strengthening our overall risk management posture.
- **Environmental Committee**
This committee is responsible for promoting and strengthening the environmental protection activities of the Fujitsu Group, which are based on The Fujitsu Group Environmental Policy and The Fujitsu Group Environmental Protection Program.

Parent Company Information

Fujitsu Limited is a publicly listed company with no parent company.

Our Basic Stance Regarding Lowering of Minimum Tradable Share Units*

Recognizing that participation in the equity market by individual investors can help promote the vitality of the market as well as foster a stable base of long-term Fujitsu shareholders, we carry out an active investor relations program aimed at making accurate company information available on a regular and timely basis.

Although reducing the minimum number of shares that individuals could trade would help promote the participation of individual investors in capital markets and be one effective means of increasing stock liquidity, taking into consideration the current level of Fujitsu's shares, the total number of shareholders and proportion of individual shareholders, as well as the liquidity of Fujitsu's shares in the market, we believe it would be premature at present to do so.

We will review this stance as appropriate, taking into consideration future trends regarding individual investors in the capital markets as well as changes in the price of our shares and other factors.

* Refers to current practice whereby Fujitsu's shares may only be traded in units of not less than 1,000 shares.