

4. Management Direction

Our Basic Stance on the Company's Business Direction

Information technology has moved beyond the realm of business and is coming to permeate every aspect of our lives, rapidly extending convenience and bringing us closer to the time when ubiquitous networks will enable people to connect with anyone, anywhere and anytime. Amidst these trends, IT has also become increasingly central to our customers' business operations. Nowadays, customers do not simply look for suppliers of products and services when selecting vendors to build and operate their IT systems. Rather, they expect IT vendors to be true partners who, based on long-term relationships of mutual trust, can make appropriate proposals and implement them throughout the entire IT system lifecycle.

Fujitsu is in the business of providing total solutions comprising top-quality products and services based on leading-edge technologies offering superlative performance and reliability. The starting point for every action we take is with our customers. We use our detailed knowledge of their particular business environments and situations to contribute to their long-term growth by providing comprehensive, integrated solutions on an ongoing basis. Our goal is to help our customers grow – and to grow together with them – as a trusted partner.

Medium-Term Business Strategy and Priority Tasks

Although the IT sector is undergoing a modest recovery, we expect our business environment to remain tough, due to continued pricing pressures on products and services and other factors. Despite this challenging environment, we will strive to achieve steady gains in profitability and growth by intensifying our focus on customer-centric thinking and thorough implementation of measures to improve quality, timeliness, and speed. In addition, to solidify our customers' trust in us as their valued business partner, we will work to further strengthen our financial condition.

Specifically, starting from fiscal 2004 we will marshal the collective efforts of the entire Fujitsu group in pursuit of four key challenges: 1) reinforcing our existing businesses, 2) seizing new opportunities for growth, 3) fundamentally reforming our organization, and 4) innovating our management systems and approach.

(1) Reinforcing our existing businesses

In order to create a business structure that can ensure profitability even amidst a difficult market

environment, we will work to bolster the competitiveness of our products and reform our business processes, as well as reexamine the structure of our business operations and product lines.

In the solutions area, we will further strengthen the links between our Software & Services and Platforms groups and develop products revolving around TRIOLE, our new optimized IT infrastructure. In Electronic Devices, we have decided to invest in constructing a new 300mm wafer fab for mass-producing leading-edge logic chips, in order to support and exploit further business opportunities utilizing our world-class high-performance 90-nanometer process technology.

In addition, we will strive to strengthen our business structure by reforming business processes in every group – including design, development, manufacturing, systems engineering and sales functions – aimed at improving quality, ensuring on-time delivery and reducing costs. In particular, with respect to manufacturing innovation, along with continuing the company-wide movement to revolutionize our manufacturing activities, which has already produced successful results, we will work to ensure that our development groups are building in quality and cost considerations from the earliest design stages. In software development as well, we will deploy our renewed SDAS comprehensive systems development framework to further shorten development times and improve quality. At the same time, we will pursue various measures to enhance project visibility and management, utilizing our business risk management structure and percentage of completion accounting under international accounting standards, and thereby reform our business structure.

Furthermore, we will strengthen profitability management for operations and projects and align our business to those fields and products in which we can be most competitive.

(2) Seizing new opportunities for growth

We will boost our efforts in three market areas that we believe offer particular opportunities for growth going forward: ubiquitous networking-related fields, small and mid-size businesses in Japan, and overseas markets.

In the ubiquitous networking-related market, we will differentiate ourselves through our ability to offer total solutions that capitalize on the synergies between our leading-edge electronic devices and software & services capabilities. With respect to small and mid-size businesses, we will enhance our product lineup and renew our sales channels to take advantage of growing demand for IT being driven by the expansion of networks. Overseas, in addition to

strengthening our software & services business structure we will make concerted efforts to further globalize our product businesses.

(3) Fundamentally reforming our organization

In Japan, to strengthen our responsiveness to the customer throughout the business lifecycle, we have brought together our systems engineering and sales organizations to create customer-centric teams, and designated systems engineer liaisons for specific customers. These moves are intended to make Fujitsu's organization simpler and easier to understand from the customer's perspective. Going forward, we plan to further integrate our sales and systems engineering departments and reform our business formation, including group companies, to enhance the customer-centric nature of our organization.

Overseas as well, we are reviewing the roles of each of our group companies in our major regional markets (North America, Europe, Asia-Pacific) and working to realize the goals of our "One Fujitsu" initiative by building a business structure that will enable us to provide high-quality one-stop solutions in each market.

(4) Innovating our management systems and approach

We are also boldly revising our management systems and structures in order to be able to respond to market and customer changes. In regard to research and development, we will reform our research theme selection processes and strengthen our intellectual property strategies in order to tighten alignment with our business operations. To meet these challenges, we will further cultivate our human resources through enhanced training and other measures.

In addition to the above measures, improving the company's financial position will continue to be a top management priority. Besides ongoing efforts to increase the profitability of our core businesses, we will strive to make even more efficient use of assets to put the company on a firmer financial footing.

Addressing these issues through unflagging effort and determination, we will continually aim to serve as a trusted partner to our customers and carry out business reforms so that we, as a leading global company, can contribute to building an affluent, networked economy.

Corporate Governance: Our Basic Position and Status of Initiatives

1. Basic Position

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.

2. Status of Initiatives

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

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. The Board of Directors makes decisions on items of particular importance on the agendas of the two councils. 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 one outside director, for a total of 10 members. There are five statutory auditors: two standing auditors and three outside auditors.

(2) Initiatives to strengthen corporate governance during the last year

In fiscal 2002, in order to separate the management oversight and operational execution functions, Fujitsu introduced a Corporate Executive Officer system and made a major reduction in the size of the Board of Directors, reducing the number of directors from 32 to 7. In fiscal 2003, although the total number of directors was increased from 7 to 10, we continued the general policy of maintaining a relatively streamlined Board of Directors.

The rationale for increasing the number of directors was to promote vigorous debate through the participation of a sufficient number of directors having a full grasp of the actual operations of the company. Directors who are also corporate executive officers have the dual responsibility of reporting to the Board on the operations they manage as corporate executive officers and, at the same time, considering the perspective of the overall management of the company in their roles as directors.

At the General Shareholders Meeting in June 2003, Hiroshi Oura (Chairman of the Board and CEO, Advantest Corporation) was selected as director to replace Toshihiko Fukui, who resigned in March 2003 to become Governor of the Bank of Japan. Although Mr. Oura previously served as an officer of Fujitsu and thus does not qualify as an outside director under the definition of Japan's Commercial Code, he, along with outside director Kunihiko Sawa (President and CEO, Fuji Electric Co., Ltd.), as non-executive directors, help to bring an objective perspective to the task of management oversight.

Additionally, the company's Risk Management Committee, which was established in fiscal 2002, monitors on an ongoing basis the variety of risks to which the company is exposed and develops strategies to mitigate them. The Committee reports serious risk-related issues to the Management Council and to the Board of Directors so that countermeasures can be thoroughly considered. Through these and other measures, we have been working to strengthen the risk management structure for the entire Fujitsu Group.