

To Our Shareholders

Fiscal 2002 Summary

Fujitsu faced another challenging market environment in fiscal 2002, as market conditions in the U.S. continued to deteriorate amidst the aftermath of the telecom bubble and global deflationary trends. To ensure our future competitiveness in global markets, we continued the comprehensive restructuring initiatives we began the previous year. We streamlined our operations. We looked for ways to cut costs throughout our organization. And we dedicated ourselves to developing new business. As a result of these efforts, we succeeded in generating a major turnaround, posting consolidated operating income of ¥100.4 billion, despite a decline in sales.

Summary of Results

Our consolidated net sales were ¥4,617.5 billion, down 7.8% from the previous year. While sales of PCs and mobile phones increased, overall sales of platform products declined sharply as telecom carriers worldwide cut back on new investments and large-scale system orders in Japan, particularly from financial institutions, dropped off. Our services business also recorded lower sales to the telecommunications and financial sectors. Sales of semiconductors increased, however, as a result of much stronger demand for logic chips and flash memory products.

We managed a significant turnaround in operating income, moving from a loss of ¥74.4 billion the previous year to a profit of ¥100.4 billion in fiscal 2002. Our software and services business achieved better productivity in software development and improved profitability in our U.S. and U.K. services subsidiaries. Our platforms business returned to profitability as a result of restructuring initiatives. And our electronic devices business managed to trim operating losses. With the extraordinary losses stemming from restructuring charges and a charge to cover corrective measures for certain small form-factor hard disk drives, however, we recorded a consolidated net loss of ¥122.0 billion.

By clamping down on capital expenditures, allocating funds to only the most promising growth areas, and selling a portion of our investment securities, we generated free cash flow of ¥53.3 billion.

Restructuring Initiatives in Fiscal 2002

Following the major restructuring we undertook the previous year, in order to further improve our cost structure to cope with increasingly stringent market conditions, we implemented another round of restructuring in fiscal 2002, mainly in our platforms and electronic devices businesses.

Spending constraints among telecom carriers—in Japan as well as North America—continued to be severe. To cope with these business realities, we reorganized our telecommunications equipment production facilities in Japan, as well as our development and production operations for telecom components.

We also reorganized our printed circuit board production facilities in Japan. We spun off our

From left:

Naoyuki Akikusa, Chairman and Representative Director

Hiroaki Kurokawa, President and Representative Director

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printed circuit board division into an independent company in order to enable it to respond more quickly to market opportunities and focus on its value-added interconnect technology offerings for global customers in the IT industry.

Through these initiatives we were able to streamline our operations and raise efficiency. In fiscal 2002, we were able to achieve fixed cost savings of an additional ¥170 billion compared to the previous year. We expect to realize a further ¥30 billion in fixed cost savings in the current fiscal year. Although we have placed the large restructuring charges behind us in fiscal 2002, we will continue to implement measures designed to enhance our competitiveness in response to changes in our markets and the needs of our customers.

Rebuilding Our Balance Sheet

The two consecutive years of large net losses arising from our restructuring efforts have led to a serious deterioration in our balance sheet. Shareholders' equity ratio, which stood at 23.4% at the end of fiscal 2000, declined to 16.6% in fiscal 2002, while interest bearing liabilities remain at an uncomfortably high level of roughly ¥1.7 trillion. We are committed to rebuilding our shareholders' equity base and reducing debt levels. We intend to accomplish this by generating higher profits from our business operations and through more strategic utilization of our asset holdings.

A Trusted Partner to Our Customers

● **Changes in IT and the Business Environment**

Information technology is progressing at an extremely rapid pace. Particularly in recent years, customers have become able to assemble systems comprising high-performance computers and



networking equipment from a variety of different vendors at reasonable prices. In addition, it has become relatively inexpensive to scale IT systems to accommodate new application software and higher processing capacity as their business needs expand. These trends have produced real benefits for IT users and have promoted the widespread use of information technology throughout the business world.

However, because of the complexities involved in linking a variety of different equipment together, unforeseen problems can occur. The expected level of system-wide performance may fail to materialize, or it may be difficult to diagnose the root cause when system failures occur. As complexity has increased, so has the time and cost required to run and manage IT systems. Now operations and maintenance costs account for an increasing portion of customers' IT budgets.

On the other hand, with competition intensifying on a global scale, economic conditions and a variety of risk factors have resulted in a rapidly changing business environment. To enhance their competitive positions, customers need to use information effectively and respond quickly, while at the same time controlling costs. In their IT spending, customers are looking more closely than ever at the efficiency of their investments, how quickly they can achieve their objectives, and the total cost of ownership over the lifecycle of their IT systems, from development to operation and maintenance.

● Solutions from Fujitsu

Here is where Fujitsu can create value as a strategic partner helping customers to make optimal use of information technology. Working with customers to find solutions to the management issues they face is the cornerstone of our business strategy.





Our unique combination of strengths in leading-edge computing and network equipment and sophisticated middleware technology enable us to provide a fully integrated IT infrastructure. The result to customers is faster deployment of new systems, smooth connections between disparate systems, reliable operations, lower maintenance and dependable security. In short, we make our customers' lives easier.

Moreover, based on the strong bonds of trust that we have established with our customers over many years, and with a firm understanding of their business processes, we aim to provide solutions to the biggest management challenges our customers face, helping them to accelerate the responsiveness of their businesses and reduce costs.

Building a Prosperous Networked Society

● IT as an Integral Part of Our Daily Lives

With the rapid proliferation of broadband Internet access, information technology is becoming an indispensable part of business and our everyday lives. In homes, schools, retail outlets, banks, hospitals and public transportation, information technology is being used all around us. As information technology is woven into the fabric of our lives, we move ever closer to a ubiquitous networked world, where information sharing is available anytime, anyplace and with anyone. For example, frontline salespeople can use PDAs that are linked to a database at their headquarters to exchange data in real time, enabling them to instantly verify inventory levels or place orders. Through instant access to information, they are able to provide their customers with better products and a higher level of service.

● Bringing the Benefits of IT to Business and Society

Fujitsu is working to make the ubiquitous networked world a reality. We are building an IT infrastructure that offers 24/7 failsafe availability and that can seamlessly connect disparate systems, enabling information to be smoothly exchanged and put to use. We are also using this IT infrastructure to deliver enterprise solutions as well as services in the fields of healthcare, educational and government.

Fujitsu has three main business areas: IT services; platforms, comprised mainly of hardware products; and electronic devices, such as semiconductors. Our goal is not simply to provide stand-alone products or services. Our unique value is in providing comprehensive IT solutions comprising high-performance, high-quality products and services that incorporate leading-edge electronic device technologies. In helping a vast number of customers make their businesses more efficient through the deployment of information technology, we have accumulated a sophisticated understanding of business needs in a wide array of industries and organizations. This is a unique strength, and we are committed to leveraging it to enhance our customers' competitiveness and build an infrastructure for a more prosperous society.

Focusing on these efforts, we are working to strengthen our financial condition and profitability. As a trusted partner helping our customers use IT to manage their businesses, we also aim to stay a step ahead in the continuously evolving IT industry by constantly improving our own ways of doing business. We understand that providing highly reliable products and services is our first priority, and we will continue to look for ways to improve quality in every aspect of our operations. In addition, we are seeking to enhance our overall approach to risk management by assessing and finding ways to mitigate the risks we face.

At Fujitsu, we approach corporate responsibility from an environmental standpoint, an economic standpoint, and from the standpoint of the communities we serve. We are taking a balanced approach to business that will contribute to the sustainable growth of society.

This year, we have made the difficult decision not to distribute a dividend. We ask for the understanding of our shareholders and apologize for falling short of expectations. We will continue to implement operational reforms to generate stronger earnings and put Fujitsu back on a firm foundation of profitability. We thank you for your continued support.



Naoyuki Akikusa
Chairman and Representative Director



Hiroaki Kurokawa
President and Representative Director