Determined ...

...To Deliver on Four Key Commitments

We made real progress in fiscal 2004, refocusing our efforts and resources on fields where we can leverage Fujitsu's competitive advantages. Consequently, we are poised to enter the next stage of growth.

We are confident that we can now fully maximize our traditional strengths as a company—our broad and diversified customer base, depth of applications expertise, and broad scope of technologies, as well as our strong integration capabilities—to generate this growth.

As discussed in the following pages, we are determined to deliver on four key commitments to achieve our ultimate goal of transforming Fujitsu into a truly powerful company.

Naoyuki Akikusa

Left: Naoyuki Akikusa
Chairman

Hiroaki Kurokawa

Right: Hiroaki Kurokawa
President

. . . To Change Our Business Structure

Strengthening Existing Businesses

Fiscal 2004 was a year when we made significant changes to the operational focus of the company. Specifically, we adopted a framework that moves from our past reliance on individual employee skills and expertise to a greater emphasis on the collective strengths of the organization.

As part of efforts to reform the company's structure, we realigned our solutions business in Japan by unifying sales and systems engineering groups along customer lines. This step, aimed at creating clearer points of contact for customers, also involved reorganizing regional systems engineering companies. These efforts were supported by progress in standardizing business processes, allowing more systematic project management and implementation that more accurately reflects customer needs.

We also took the decision to withdraw from the plasma display panel (PDP) and liquid crystal display (LCD) fields in our Electronic Devices business segment, which is facing seismic change in its operating landscape. By concentrating resources in the system LSI field, where Fujitsu boasts a strong competitive advantage, we are determined to achieve profitable growth in Electronic Devices going forward.

Fujitsu has now moved from a period of consolidation and recovery to refocus on growth. Supported by a new operating framework, we are implementing a number of initiatives designed to deliver this growth.

Creating and Cultivating New Businesses

To generate growth in new areas, we will focus on using IT to drive "innovation in the field," that is, the various front lines of business and personal lifestyles. Until now, we have primarily leveraged the power of IT to help customers improve management and back-office systems. Now, we plan to help them use IT to realize far-reaching change in frontline areas like R&D, manufacturing, distribution and sales. This will lead to the wide-ranging application of Fujitsu products and services in areas where the actual movement of people and goods takes place. For individuals as well, there are numerous frontline areas where IT can bring greater dynamism, security, enjoyment and convenience to daily lives.

I believe that the combination of Fujitsu's broad and diversified customer base, depth of applications expertise, and broad scope of technologies, as well as our strong integration capabilities, are key success factors that will enable us to provide IT utilization solutions for these frontline scenarios.

In order to pioneer IT-driven innovation in the field, we will promote more flexible and dynamic allocation of skilled personnel in parallel with business development, and strive to ensure the results of R&D projects are rapidly translated into viable products and services. This will mean bringing together the collective strengths of Fujitsu Laboratories Ltd. and the rest of the Fujitsu Group, and channeling resources into new growth fields like security/public safety and ubiquitous networking-related businesses.

. . . To Boost Earnings Power

Bringing an End to Loss-generating Projects

Profitability in our Software & Services business segment has been deteriorating over the last few years, mainly due to a number of large loss-generating projects. After being appointed president, starting with new projects, I tackled this issue head on, implementing stringent risk management measures that begin right from the contract negotiation stage and that allow us to better visualize project progress. Thanks to these and other initiatives, the incidence of new loss-generating projects has fallen significantly since October 2003.

During fiscal 2004, we also pushed forward with our Solution Business Restructuring initiative. Specifically, we integrated sales and systems engineering groups to more effectively control profits, and established a Systems Integration Assurance Unit to reinforce risk management systems and reform contractual procedures. This allowed us to deal with around 75% of the loss-generating projects in monetary terms, and essentially bring under control the remaining 25%. Not only have these measures enabled us to significantly improve the cost ratios of existing projects, they have also helped boost the productivity of new projects and given us the agility we need to compete in a more and more challenging marketplace.

In the past year, we essentially resolved our biggest problem—loss-generating projects. Our goal now is to rapidly build a robust financial structure, giving us the base we need to prevail over the increasingly intense competition in our markets.

Rapidly Building a Robust Financial Base

We are making good progress in creating the strong financial base we need to take on our increasingly competitive rivals. Determined to ensure we build a sound financial position for Fujitsu, I set the target of reducing the balance of interest-bearing loans to less than ¥1,100.0 billion by the end of fiscal 2004. Despite a challenging operating environment, we kept a tight rein on our financial position and were able to achieve our target—as of March 31, 2005, interest-bearing loans totaled ¥1,082.7 billion. At the same time, we aggressively implemented a range of other measures, including the booking of an allowance for deferred tax assets, leading to improvement in the total asset turnover and debt-equity ratios and other financial indices. Combined, these efforts are steadily leading to the creation of a healthier financial structure.

In parallel with efforts to streamline assets, we are actively channeling capital investment into new growth fields. In fiscal 2005, plans call for capital expenditure of ¥260 billion in Electronic Devices and other segments, an increase of more than 40% year on year.

...To Enhance Manufacturing Competitiveness

Regaining Our Position of Strength in Manufacturing

We have been working to improve quality, cost and delivery (QCD) across all our operational areas, from design and development to production and sales. In fiscal 2004, the benefits of these efforts started to emerge in a significant way.

In quality, for example, we worked to eliminate the inclusion of any of our principal products in the low- or deficient-quality product rankings in the industry, and at the same time to expand the number of Fujitsu products recognized as having industry-leading quality. Progress has been good: in the first quarter of fiscal 2003, 18% of our principal products were ranked low or deficient in terms of quality. By the last quarter of fiscal 2004, this figure had dropped to just 2%, with no products at all in the deficient product category. In the same period, the ratio of Fujitsu products ranked as industry-leading in terms of quality rose from 59% to 88%.

Our adoption of the Toyota Production System is also leading to benefits in manufacturing innovation. In the second half of fiscal 2004, we reduced manufacturing lead times for optical transmission systems and mobile phone base stations by 40% and 38%, respectively, compared to a year earlier. Significant improvements were also achieved in servers, storage systems, PCs and other products. The benefits of these gains have been threefold—lower costs, better quality and more reliable launch dates.

Fujitsu has been regaining its traditional strength in manufacturing innovation. Looking ahead, we are determined to more effectively translate our advantages in technology development and production into new business opportunities.

Reducing Costs to Build a Stronger Fujitsu

Going forward, we will work meticulously to improve QCD and reduce our cost ratio not only in manufacturing but in design, development, procurement and all key processes. Cost reductions from these efforts will free up more cash to enhance the competitiveness of our products, thereby helping to increase sales revenue, which we can then reinvest. I am determined to establish this kind of virtuous cycle in our business.

Our product competitiveness is dependent upon unflagging R&D efforts covering a wide range of fields. But in the future, we need to translate the fruits of our research into actual business opportunities more quickly. With this in mind, we plan to realize more efficient and rapid product development by more tightly aligning research with product development and launch roadmaps.

...To Expand Our Business Globally

Forging Strategic Partnerships

Demand for IT is growing worldwide, so we are naturally focusing on further developing our global operations. Setting the stage for this, in fiscal 2004 we linked up with several leading companies to form strategic alliances in a range of fields. Specific examples included a joint product development and supply alliance with Sun Microsystems, Inc. in the UNIX server field; collaboration with Microsoft and Red Hat in the development of our next-generation mission-critical IA server; and an alliance with Cisco Systems focusing on routers and switches that includes the joint development of basic software and marketing of co-branded products. These and other strategic alliances will help further accelerate the expansion of our global business.

Fiscal 2004 was a significant year for our overseas business. Building on this, we aim to capture a larger share for our products and services in overseas markets, where the application of IT is rapidly spreading into new fields.

Accelerating Global Business Development

We are achieving some solid results in our overseas business. For example, in Software & Services, we saw increased profitability at our overseas operations in fiscal 2004, including benefits from the integration of Group companies in Europe, Australia and other regions from the beginning of the fiscal year, as well as the return to operating profitability at our North American services subsidiary. Our server and network businesses are helping to drive this newfound strength, particularly in the network field, where we have been achieving market leadership in an increasing number of areas, including optical transmission systems in North America and ADSL in the UK.

We will continue to reinforce the foundation to support further overseas business growth, accelerating the expansion of global product volumes and advancing our solutions business to secure competitive advantage.