A Conversation with the President

What prompted the change to Fujitsu's business segments in fiscal 2005?

Our operations were previously categorized under Software & Services, Platforms, and Electronic Devices, in other words, from the producer's perspective. We decided to change these business segment classifications to make them more customer-centric and ensure they better reflect the nature of our businesses. We have also added the term "solutions" to each segment to clearly emphasize our business objective at Fujitsu—provide solutions that convert technology into business value for our customers.

First, I'd like to talk about our Technology Solutions segment. IT systems only begin to generate value once they are in operation and actually being utilized. But if we just talk to customers about IT services or servers, they see them as nothing more than structural elements of their IT operations. With IT becoming increasingly complex, we have decided to focus on providing value by helping to weave together these various elements for customers. So, aiming to link technology with actual usage as our business objective, we have brought together Services and System Platforms under the same Technology Solutions segment.

Next is our Device Solutions segment. Electronic devices are central to our technology, and in this area we have nearly completed our shift in focus to logic LSI devices. Going forward, we plan to leverage our strengths in software and verification and analysis technologies to offer customers solutions that deliver even greater added value.

Our other main segment is Ubiquitous Product Solutions. Hard disk drives (HDDs), personal computers (PCs) and mobile phones are unique markets in their own right and are characterized by intensifying global competition. Focusing on achieving even greater sophistication in our supply chain management and in manufacturing innovation, we created this new segment in order to pursue further advances in these operations as independent businesses.

How would you assess Fujitsu's performance in fiscal 2005?

Consolidated net sales in fiscal 2005 grew just 0.6% year on year to ¥4,791.4 billion. This primarily reflected strong growth in overseas sales, particularly in optical transmission systems in North America and outsourcing services in the UK, as opposed to Japan, where sales of servers and in some other businesses were sluggish. Buoyed by higher revenues from overseas business, as well as success in enhancing manufacturing innovation to cut costs, and reducing losses from loss-generating systems integration projects in Japan, we reported an increase in operating income of 13.3%, to ¥181.4 billion.

One thing is very clear in my mind: Fujitsu must become a company capable of consistently generating profits. I believe this is the foundation for realizing growth. Increasing sales remains an important issue that we have to tackle, but I think our results for fiscal 2005 show that we are steadily becoming a company that can deliver stable profits.

Another feature of our performance in fiscal 2005 was the progress we made in strengthening our financial position, as illustrated by improvements in our inventory turnover and D/E ratios. I think this shows that our efforts to transform Fujitsu into a truly powerful company are starting to bear fruit.

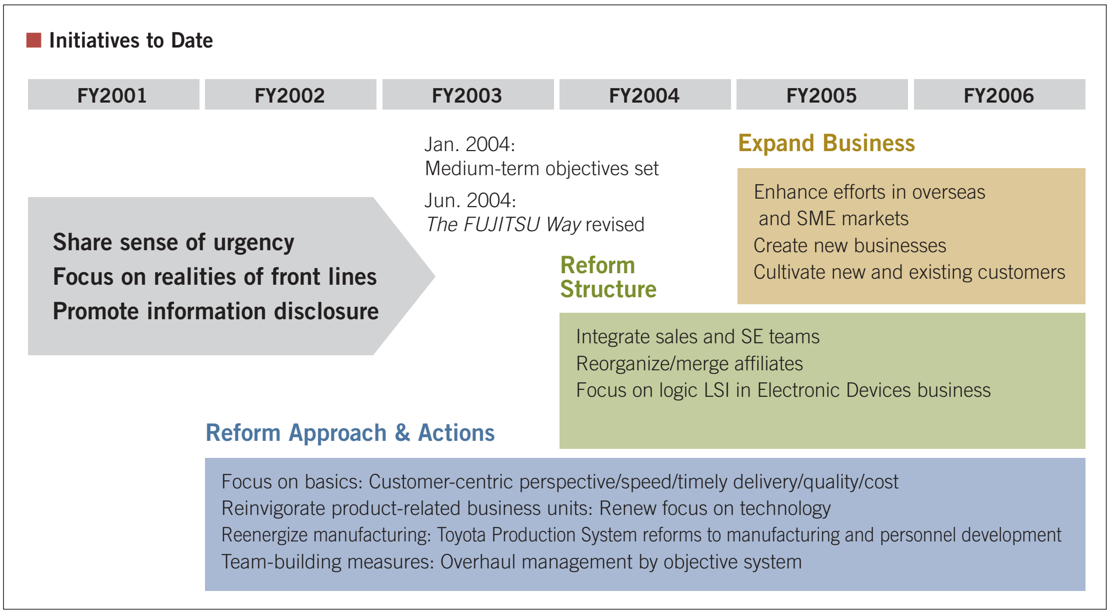
What were the reasons behind Fujitsu's growth overseas and its relatively weak performance in Japan?

Our approach of implementing strategies tailored to each market resulted in sales and earnings growth in each of our key overseas geographies. In North America, our optical transmission systems business aimed at communications carriers and our services business performed strongly. In Europe, we posted robust growth in sales of PRIMEPOWER UNIX servers and other server-related products, while in services we achieved steady growth in sales and earnings, particularly in the UK, by continuing our success in winning new large-scale outsourcing contracts. This is an area where we have continued high expectations going forward.

The picture was different in Japan, where sales of server-related products and PCs declined, and services were impacted by sluggish corporate IT investment. However, our server-related business regained some strength in the second half of the fiscal year as we rolled out initiatives to boost sales centered on PC servers. With respect to services in Japan, I believe there are still plenty of opportunities to increase earnings by reinforcing our high-margin outsourcing services, and by targeting markets with potential for growth, such as the small and medium-size enterprise sector.

Please tell us about initiatives to realize your medium-term vision.

Since announcing a medium-term vision for Fujitsu in 2004, we have been vigorously pursuing four key challenges: strengthening our existing businesses, creating and cultivating new businesses, reforming our organization and approach, and reforming our management systems. In the first area, we have been striving to realize a virtuous cycle of management anchored by efforts to reduce costs. Specifically, we have worked to reduce costs by thoroughly improving our design and development, production, and procurement processes, and enhancing productivity in software development. Profits generated through these reforms are then reinvested in design and development to create a virtuous cycle. In this way, we are striving to be an invaluable partner to customers. Based on this thinking, we have sought to transform our whole approach to how we do business, and backed this up with structural reforms. In fiscal 2006 we plan to complete the challenges we set forth in this medium-term vision, striving to realize further business expansion by focusing on aggressively developing our business outside Japan, creating new businesses and other measures.



How do you plan to grow the services business in Japan going forward?

I think that IT investment in Japan is generally on a recovery trend, particularly in the industrial, retail and financial services sectors. It is important that we tap into this trend, but I also want to build an earnings structure that is resilient to external factors. Specifically, we will work to raise profitability in our systems integration business, which accounts for around 60% of our services business in Japan, and to increase the ratio of high-margin packaged services and operational services in our services business by making new proposals to clients. Through these and other measures, we will strive to increase profit margins across our services business.

In systems integration, we will continue to bolster our project management capabilities. In recent years we have had to tackle the issue of loss-generating projects. Compared to the previous two years we have been able to achieve a marked reduction in such projects by reinforcing our systems integration assurance capabilities to ensure rigorous project risk management. Other initiatives have included upgrading project management using web-based tools, among other methods, and concluding customer contracts based on percentage-of-completion standards. These measures have allowed both Fujitsu and our customers to visualize project progress and clearly delineate our respective responsibilities.

In fiscal 2005, we experienced some painful incidents related to the operation of Fujitsu systems. With the benefit of hindsight, I think we can see now that we tended to place too much emphasis on system design and development at the expense of operation, and we have reflected seriously on this issue. With any IT system, value starts with operational stability. We therefore must reaffirm the importance of system operations and work to raise operational quality by enhancing training for our personnel, improving business processes, and implementing design and development from the operational standpoint.

What are you doing to expand Fujitsu's business globally?

We eschew a one-size-fits-all global business approach and pursue instead business development strategies tailored to specific regional markets. Strategies for our key geographic markets are discussed on pages 10 and 11.

What initiatives are you taking to strengthen sales in System Platforms?

I'd like to answer the question in two parts by talking first about System Products, which includes our range of servers, and then Network Products, which covers network equipment.

Our System Products business in Japan is currently battling a tough business climate of falling prices, particularly in the server market, where price competition is increasingly fierce. Especially for PC servers, it is essential that we further strengthen sales, and we will strive to do so by working with partners to enhance our sales channels and by using the internet to expand direct sales to customers.

Outside Japan, our high-quality, high-performance servers are selling well, particularly in Europe and North America, where they have won a strong reputation among customers in the financial services and communications sectors. We plan to build on this success by working to boost sales further. In fiscal 2005, we concluded a deal with Electronic Data Systems Corporation (EDS) of the US, the world's second biggest IT services vendor, under which EDS will utilize our PRIMEQUEST mission-critical IA server as part of its solutions infrastructure. In addition, we have been steadily opening Platform Solution Centers in various locations around the world. These centers act as one-stop pre-verification and evaluation sites providing a whole range of customer support, from consulting to actual system verification and performance testing.

Building a Global PSC* Network

Providing comprehensive support close to customer operating sites

2002:	Germany
Nov. 2004:	UK
Dec. 2004:	Japan (Tokyo)
May 2005:	Singapore, US (California)
Sep. 2005:	South Korea
Apr. 2006:	China (Shanghai)
Jun. 2006:	China (Hong Kong)

* Platform Solution Center

In Network Products, in addition to steady expansion of our business in North America, in Europe we signed an agreement with BT Group plc as a preferred supplier for its 21st Century Network program. Looking ahead, we intend to offer the world's most advanced technologies as a partner to leading communications carriers in Japan, the US and Europe.

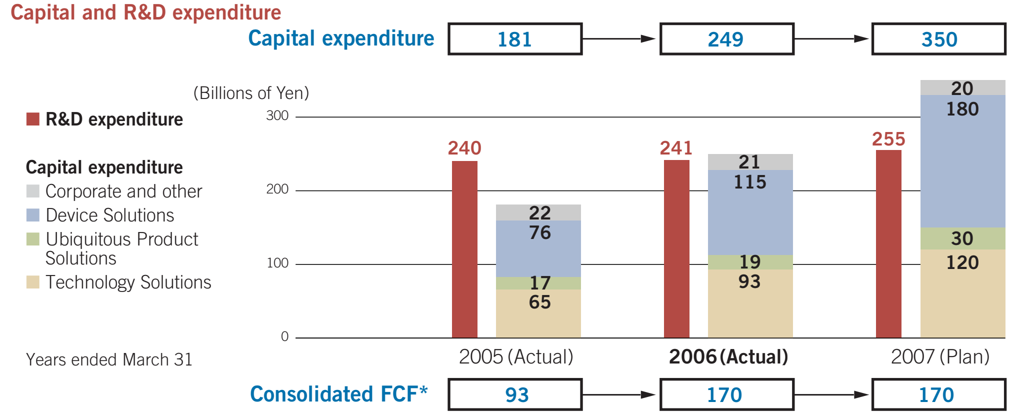
Please explain Fujitsu's investment strategy in fiscal 2006.

We are forecasting an 8.5% increase in sales in fiscal 2006, driven by further expansion of our overseas business and initiatives to tap into recovering IT spending in Japan. In recent years, our emphasis has been on enhancing operational efficiency. Now, we intend to aggressively invest in growth fields to achieve sustained profitable growth. In fiscal 2006, we are budgeting ¥350.0 billion in capital expenditure, focused primarily in Device Solutions and Technology Solutions. This represents a year-on-year increase of 40.1%. Still, we are committed to posting higher earnings and are targeting an increase in operating income to ¥190.0 billion.

In Device Solutions, we are channeling resources into logic LSI products. In our world-class advanced logic LSI business, we are front-loading investment to meet surging demand from existing customers. In fiscal 2006, we plan to invest ¥180.0 billion, primarily in 300mm wafer semiconductor production facilities (Fab No. 1 and Fab No. 2) at our Mie Plant. In Technology Solutions, we will invest a total of ¥120.0 billion to bolster our domestic and international outsourcing, server, and next-generation network businesses, while in Ubiquitous Product Solutions we will invest ¥30.0 billion in our HDD, PC and mobile phone operations.

Investing for Growth

Capital and R&D expenditure



* Free cash flow for business operations, excluding sales of shareholdings and other items

Could you please close with a few words for shareholders, including your thinking on shareholder value?

Fujitsu is gearing up for a new stage of growth driven by global expansion of our business and other measures. It goes without saying that our shareholders are a vitally important stakeholder group and that we are constantly seeking to raise shareholder value. We believe that improvement in shareholder value is fundamentally derived from sustained growth in earnings. With respect to profits generated by this growth, along with generating stable returns for shareholders, we will strive to secure sufficient internal reserves to strengthen our financial position and to support active business development for further growth and improved profitability in the medium to long term.

A string of corporate scandals in recent years has highlighted the importance of corporate ethics. We have formulated *The FUJITSU Way*, a common set of principles guiding the individual actions of every employee in the Fujitsu Group. We practice these principles in all our business activities. Guided by *The FUJITSU Way* and all that it stands for, I will sincerely work to ensure sound management while striving to realize sustained profitable growth. Please look forward to great things from Fujitsu as we move back on the path to growth.

The FUJITSU Way: Turning Dreams into Reality

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

Customers	Employees	Quality	Environment	Profits & Growth
Our dream is to make our customers' dreams come true	Every one of us has a leading role to play	We aim to earn customers' trust in Fujitsu	We consider environmental impact in all that we do	We strive to meet the expectations of customers, employees and shareholders

Code of Conduct

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

Company-wide Activities
Manufacturing innovation, environmental initiatives, etc.

Business Policy
President's management direction

Business Plan
Formulated at business unit level