Koichi Nishimura, Ph.D.

Chairman of the Board,
President and Chief Executive Officer
Solectron Corporation

To our shareholders, customers, suppliers, associates and friends:

Fiscal 2002 was a year of challenges driven by the economic downturn and its impact on the end markets for electronics products.

During the year, we had three primary objectives:

- Improve our balance sheet and performance measurements;
- Execute our restructuring program to strengthen the company; and
- Implement our end-to-end service strategy.

We met those objectives, despite prolonged weakness in the economy.

We strengthened our balance sheet. We rapidly tightened our spending and reduced the size of the organization. We significantly realigned our facilities footprint. And — with an expanded service offering that spans the electronics product life cycle — we took advantage of opportunities to grow our customer base and win new business.

These actions will enable us to return to profitability and to generate long-term profitable growth for our company and shareholders.

FINANCIAL RESULTS

Our financial results in 2002 reflect how severely the economic downturn affected our customers' end markets — and, as a result, our business. Given our strong presence in telecommunications and networking equipment — the segments hardest hit by the downturn — the impact on our business was significant.

Sales for the year were $12.3 billion, compared with $18.7 billion in 2001. Sales declined steadily in the first half of the year, then stabilized in the second half. We posted a net loss of $3.1 billion, or $3.98 per diluted share. The net loss included $3 billion of charges for goodwill, intangible asset and inventory revaluation; restructuring; and gains related to debt retirement. Excluding those items, our company lost $92.4 million, or 12 cents per share.

Through restructuring and tight cost control, we improved key performance measures through the year. In 2003, we are focused on continuing our progress — and returning to profitability.

STRENGTHENING OUR CAPITAL STRUCTURE

During 2002, we significantly strengthened our company's capital structure. We used our strong cash position to reduce our debt by $1.5 billion. We improved our debt-to-capitalization ratio to 45 percent. And we effectively extended the maturity of our remaining debt.

We reduced inventories by $1.3 billion, which freed up cash for other uses. At year end, inventories were down 42 percent from a year earlier and down nearly $3 billion from their peak.

In addition, we generated more than $2 billion in cash flow from operations, an indication of the underlying vitality

2002 Milestones

Expanded Services

Rounded out our full product life-cycle services by adding customer contact and customer relationship management services from Stream International; new component and additional full-system services from C-MAC Industries; and complementary optical technology expertise with the acquisition of Iphotonics.

Grew Low-Cost Manufacturing Capacity

For Global Operations, manufacturing square footage in Asia surpassed our manufacturing square footage in North America — part of a plan to expand low-cost manufacturing capacity. In the fourth quarter, the percentage of our manufacturing revenues from Asia nearly doubled from the fourth quarter of 2000.

Increased Presence in Asia

Added post-manufacturing services in China and Singapore; developed an Asia materials hub; gained high-end computing expertise in Japan; and expanded our facility in Suzhou, China.

of our business. We expect to continue to generate cash from operations and working capital improvements — giving Solectron plenty of financial strength, flexibility and liquidity.

RESTRUCTURING FOR THE FUTURE

Our aggressive restructuring activities continued throughout 2002.

During the year, we eliminated about 15,000 positions, primarily in printed circuit board assembly (PCBA) operations. Since the onset of the economic downturn, we retired more than 600 PCBA production lines and reduced manufacturing floor space by nearly 5.5 million square feet — primarily in the Americas and Europe.

Beyond resizing our footprint, our restructuring activities involve strategically locating service capabilities where they will generate the most value for our customers and for our shareholders.

Over the coming years, success will require product life-cycle service offerings, outstanding quality and world-class execution — and an unwavering emphasis on providing services at the lowest total cost.

From cell phones to Internet services to wireless applications, end users want more — but they're not necessarily willing to pay more for it. This forces brand-name companies to focus intensely on costs. For Solectron, that means we must deliver lower-cost solutions — even on complex products.

Solectron is ready. In 2002, we accelerated our shift of manufacturing production to lower-cost locations. That action is part of our plan to have 60 percent of our Global Operations manufacturing capacity in low-cost areas — Eastern Europe, Latin America and Asia. As I wrote in this letter last year, Asia is attractive because it is a cost-competitive region *and* has a strong, well-developed supply base. With the world's largest and fastest-growing population, Asia is also a growing consumer end market.

Consequently, we are expanding our presence in Asia — not only with additional manufacturing capacity, but also with design, supply-base and post-manufacturing services.

Overall, we are locating all our services — whether it be design, new product introduction, manufacturing, repair or customer relationship management (CRM) — where they add the most value to ensure we're providing the lowest total-cost solutions.

A LIFE CYCLE OF SERVICES

During the year, we rounded out our full range of services and capabilities through transactions that included C-MAC Industries, Stream International and Iphotonics. Today, our offering includes design, engineering, full systems manufacturing, post-manufacturing services and CRM.

Those steps, and others, support our strategy to provide a full range of integrated solutions to meet the supply-chain and product life-cycle needs of customers in a variety of industries.

Pressures on the world's brand-name electronics companies require them to do more with less, and to do it faster. And more companies in more industries are realizing the advantages of outsourcing more of their supply-chain and product life-cycle needs.

Solectron is uniquely positioned to meet those needs — with the world's most efficient supply chains and with

Won New Business

Won new business in emerging market segments — including automotive and high-end consumer — as well as business in networking, high-end computing and telecommunications.

Received Customer Recognition

Several customers recognized us for excellent service in 2002. Awards included the Best in Class Supplier Award from Sun Microsystems; Dell's Supplier of the Year Award; and Brocade's CEO Award for outstanding performance across the supply chain.

Strengthened Balance Sheet

Reduced overall debt by $1.5 billion and effectively extended the maturity of remaining debt; improved our debt-to-capitalization ratio; cut inventories by $1.3 billion; and generated $2.1 billion in cash flow from operations.

Implemented Restructuring

Continued an aggressive plan to restructure the company to meet current conditions and future customer requirements. Actions included consolidating facilities, retiring equipment and reducing the size of the organization.

Baldrige-quality solutions that span the product life cycle. We provide customers with key benefits, such as faster time to market, better asset utilization and lower total costs.

The strategy is working. We are winning new business—in our traditional market segments, as well as in new areas of opportunity. For example, in 2002 we established a major presence in the set-top box category of consumer products, through a life-cycle services agreement with Pace Micro Technologies, Europe's leading set-top box producer. We also made gains in transportation, for example, with new business from Boeing and several players in the automotive industry. We even began working with a major household appliance maker to provide services for new-generation washing machines that use technology to make life a little easier.

More opportunities are ahead. Electronics supply-chain outsourcing continues to expand—and as it does, our company will be there to deliver value to our customers and generate value for our shareholders.

LOOKING AHEAD

We have three areas of emphasis in fiscal 2003.

First, we will continue to improve our financial performance—with a goal of returning to profitability by fiscal year end. We will do that by generating healthy cash from operations, realizing the benefits of our restructuring actions, keeping a tight rein on costs, improving working capital and providing higher-value services to our customers.

Second, we will complete the plan to optimize our manufacturing footprint, including the shift of manufacturing activity to Asia. These steps are essential to our ability to deliver high-value, low-cost solutions.

Third, we will use the strength of our offering to expand our business in targeted market segments. We will rapidly deploy our full-service offering, providing value-adding services that benefit customers through faster time to market, better asset utilization, lowest total-cost solutions, access to advanced technology and enhanced end-customer satisfaction.

On a personal note, in September I notified the board of my desire to retire from my CEO duties by the end of fiscal 2003, when I turn 65. In accordance with our succession process, the board established a formal committee to identify my successor. To ensure continuity, I have an active role as a member of the search committee, and I remain fully engaged in our company's day-to-day business. I anticipate a smooth transition of CEO leadership during the year.

Tucked amid the turmoil and activity of 2002 was an important milestone: Solectron turned 25 years old. In the current business environment, we acknowledged this accomplishment with quiet pride. Solectron is fortunate to have smart, dedicated and motivated people—our company's fundamental strength. I thank them for their efforts and accomplishments.

Of all the achievements we could point to over the years, chief among them is our company's ability to anticipate and adapt to market opportunities. Today, we are doing so once again. Following our long-term strategy, we have built the industry's strongest offering—one that meets the expanding original equipment manufacturer's (OEM) need for a solid partner to provide supply-chain services throughout the product life cycle. We will continue to execute that strategy to the benefit of our customers, shareholders and other constituents.

We look forward to 2003 and to sharing our progress with you.

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