

**Net Sales**

In fiscal 1997, the year ended March 31, 1998, consolidated net sales climbed 11% to ¥4,985.3 billion (\$37,768 million), an all-time high. These sales included operations of the parent company, 129 subsidiaries in Japan and 384 subsidiaries outside Japan.

Sales in Japan rose 2% to ¥3,228.3 billion (\$24,457 million). Sales outside Japan were up by 31% to ¥1,757.0 billion (\$13,310 million), mostly due to strong growth in information-related investments in the United States. As a result, sales outside Japan increased from 30% to 35% as a share of the total. Compared with the prior fiscal year, the average yen rate fell from ¥113 to ¥123 against the U.S. dollar and from ¥179 to ¥202 against the British pound. Overall, changes in foreign exchange rates had the net effect of increasing net sales by approximately ¥110.0 billion (\$833 million).

Sales of information processing systems rose 12% to ¥3,330.6 billion (\$25,231 million). Major contributors were growth in hard disk drive sales and higher sales of services and software in Japan and overseas.

Telecommunications sales grew by 2% to ¥871.3 billion (\$6,601 million). Sales in Japan declined as Japanese telecommunications providers cut back

on capital spending. Sales outside Japan increased as demand for networks rose in the United States and as Asian nations, particularly China, made large investments in telecommunications equipment to meet expanding demand.

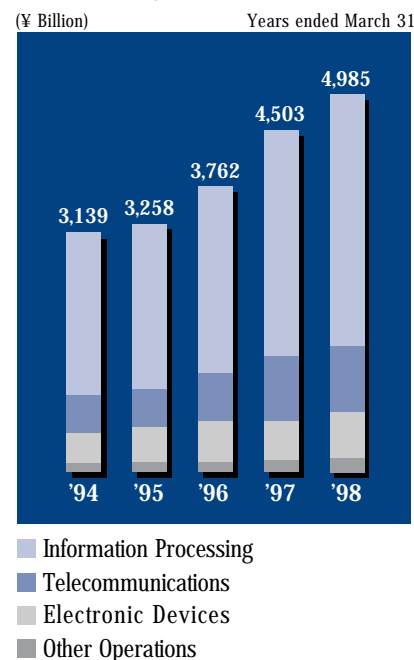
Sales of electronic devices were up by 17% to ¥597.3 billion (\$4,525 million), on strong demand in the U.S. Although sales rose substantially, earnings were impacted by a steep fall in market prices for DRAMs.

**Expenses and Net Income**

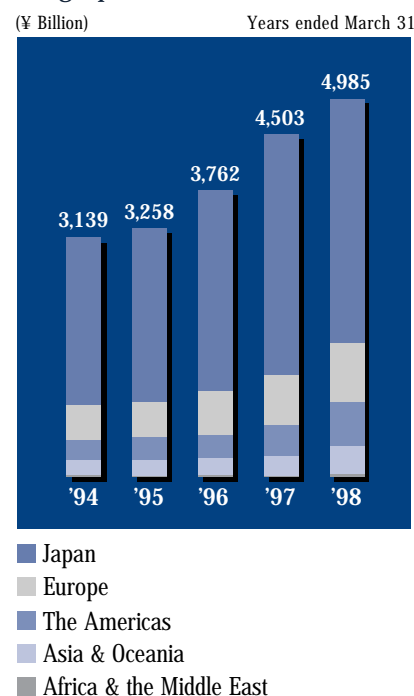
Gross profit increased 8% to ¥1,466.5 billion (\$11,110 million), although the gross profit margin declined from 30% to 29%. The margin was adversely affected by lower DRAM prices, a drop in PC prices overseas, a loss at Amdahl Corporation and other factors.

Selling, general and administrative expenses increased 9% to ¥1,255.2 billion (\$9,509 million), declining from 26% to 25% as a percentage of net sales. Progress continued to be made in cutting expenses, while a commitment to research and development was maintained. Accordingly, research and development expenditure rose 10% to ¥387.1 billion (\$2,932 million). At 8%, the proportion of net sales was unchanged.

**Net Sales by Main Product**

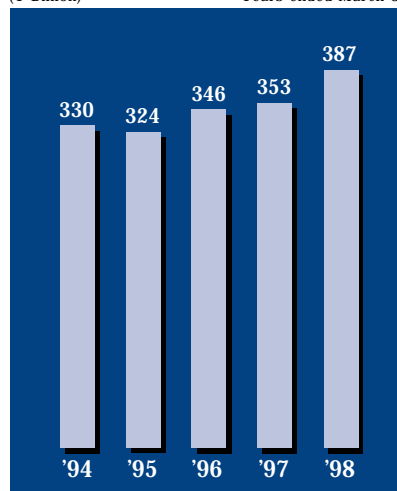


**Net Sales by Customers' Geographic Location**



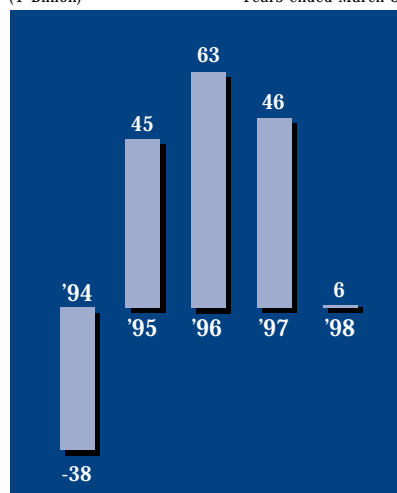
## R&D Expenditure

(¥ Billion) Years ended March 31



## Net Income

(¥ Billion) Years ended March 31



Operating income climbed 5% to ¥211.2 billion (\$1,600 million), which was 4% of net sales, about the same as in the prior fiscal year.

Net financial expenses, which is interest and dividend income less interest charges, increased by ¥4.3 billion (\$32 million) to ¥43.8 billion (\$332 million). Foreign exchange movements, especially the sudden fall in Asian currencies, resulted in foreign exchange losses of ¥9.4 billion (\$71 million), compared with a gain of ¥22.5 billion in the prior fiscal year. Amortization of goodwill rose by ¥23.0 billion (\$174 million) to ¥33.9 billion (\$256 million). This is primarily attributable to the amortization of ¥20.0 billion in goodwill resulting from the acquisition of Amdahl Corporation, a wholly owned subsidiary. The ¥20.0 billion (\$151 million) represents a lump-sum amortization of ¥15.2 billion (\$115 million) and amortization of ¥4.8 billion (\$36 million), which is the fiscal 1997 portion of goodwill to be amortized over a ten-year period.

As investment securities are valued at the lower of cost or market, weak stock prices in Japan, mainly among financial institutions, resulted in a substantial valuation loss. A sufficient volume of investment securities was sold to generate earnings to offset these losses. Latent profits on investments in

affiliates amounted to ¥389.9 billion (\$2,954 million) at the fiscal year-end, an increase of ¥102.0 billion (\$773 million) over the previous year.

Other income (expenses) – other, net in the prior fiscal year included a ¥4.9 billion charge for losses on disposal of magnetic head inventories as a part of restructuring expenses at FDK Corporation. No such restructuring charge was expensed in this year.

Income before income taxes decreased 27% to ¥104.8 billion (\$794 million), but income taxes rose by ¥12.0 billion (\$91 million) to ¥108.5 billion (\$822 million). Minority interests increased by ¥5.5 billion (\$41 million) to ¥9.7 billion (\$73 million). Equity in earnings of affiliates improved by ¥15.2 billion (\$115 million) to ¥18.9 billion (\$143 million), mostly reflecting higher earnings at Fanuc Ltd. and Advantest Corporation. This improvement also reflects the fact that equity method losses at Amdahl Corporation no longer applied after Amdahl became a consolidated subsidiary in the second half of fiscal 1997.

Net income fell 88% to ¥5.5 billion (\$42 million) and net income per share was ¥3.0 (\$0.023). This resulted in a return on equity of 0.5%. Cash dividends per share applicable to fiscal 1997 were unchanged at ¥10 (\$0.076).

### Japan

Sales in Japan were ¥4,010.9 billion (\$3,385 million) and operating income was ¥219.0 billion (\$1,659 million). Sales were impacted by an extremely difficult operating environment as Japan's economy stagnated. In addition, telecommunications providers limited capital spending and DRAM prices fell sharply. Sales and earnings were aided by a large increase in sales of hard disk drives and growth in services and software.

### Europe

Sales in Europe totaled ¥826.6 billion (\$6,262 million) and operating income was ¥3.5 billion (\$27 million). Healthy demand for information-related systems supported growth at ICL PLC and hard-disk drive sales subsidiaries. However, semiconductor subsidiaries posted losses.

### The Americas

In the Americas, sales were ¥511.6 billion (\$3,876 million), but the region posted an operating loss of ¥38.1 billion (\$288 million). Sales benefited from expanding demand for networks, rising investments in various information-related equipment and strong demand for electronic devices. The consolidation of Amdahl

Corporation in the second half of the fiscal year further contributed to the increase in sales. The operating loss chiefly reflects losses at Amdahl, semiconductor subsidiaries and PC sales subsidiaries.

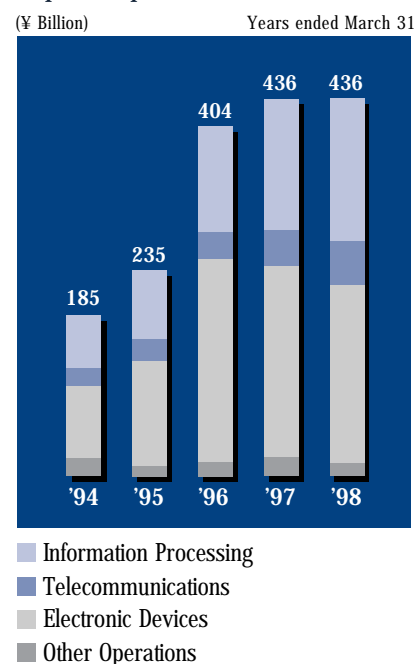
### Others

Sales in other geographic regions amounted to ¥523.8 billion (\$3,968 million) and operating income was ¥26.6 billion (\$201 million). Demand for telecommunications systems was especially strong in China and other Asian nations. Additionally, robust PC demand in Europe and the Americas led to higher output at factories in the Philippines, Thailand and Vietnam.

### Capital Expenditures

Fiscal 1997 capital expenditures totaled ¥435.7 billion (\$3,301 million), about the same as in the prior year. This represents expenditures of ¥164.3 billion (\$1,244 million) for information processing, ¥50.0 billion (\$378 million) for telecommunications, ¥206.2 billion (\$1,562 million) for electronic devices, and ¥15.2 billion

### Capital Expenditure



### Capital Expenditure

(¥ Billion) Years ended March 31

	1994	1995	1996	1997	1998
Information Processing . . . . .	60	78	121	151	<b>165</b>
Telecommunications . . . . .	20	24	32	42	<b>50</b>
Electronic Devices . . . . .	83	121	234	220	<b>206</b>
Other Operations . . . . .	22	12	17	23	<b>15</b>
<b>Total . . . . .</b>	<b>185</b>	<b>235</b>	<b>404</b>	<b>436</b>	<b>436</b>

(\$115 million) for others. The capital expenditures of electronic devices include ¥175.3 billion (\$1,328 million) in semiconductor-related outlays. Major capital expenditures included:

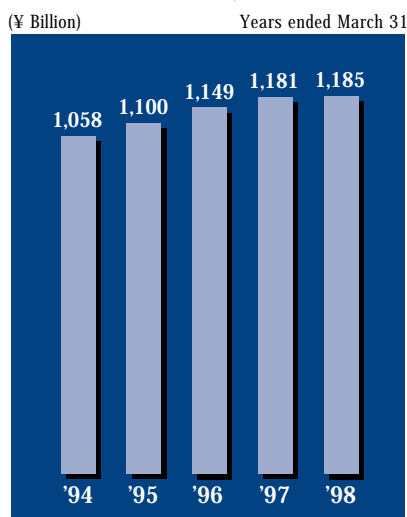
- Information processing – construction of the Akashi System Center to bolster outsourcing business, upgrading of value-added network equipment, launch of the ICL PLC private finance initiative, and new building and equipment at Fujitsu Computer Products of Vietnam, Inc.;
- Telecommunications – new building at Fujitsu Network Communications, Inc. in the United States;
- Electronic devices – new facilities at the Mie Works to support development of leading-edge technology, equipment to increase output of flash memories at Fujitsu AMD Semiconductor Limited, 8-inch wafer production equipment at the Wakamatsu Works to upgrade logic IC activities, and equipment to strengthen 64M synchronous DRAM production in the United States.

### Financial Condition and Liquidity

Total assets at March 31, 1998 amounted to ¥5,123.0 billion (\$38,811 million), 8.4% more than the previous year's ¥4,727.6 billion. Total interest-bearing liabilities rose by ¥178.9 billion (\$1,355 million) to ¥1,890.8 billion (\$14,324 million), due in large part to the acquisition of the remaining shares of Amdahl Corporation.

Shareholders' equity increased by ¥3.7 billion (\$28 million) to ¥1,185.2 billion (\$8,979 million), but the equity ratio decreased from 25% to 23%. Equity per share, based on the number of shares outstanding at year-end, was ¥636.4 (\$4.821) compared with ¥641.6 the previous year.

### Shareholders' equity



### Cash Flows

Net cash provided by operating activities increased by ¥41.8 billion (\$316 million) to ¥324.8 billion (\$2,461 million). Although income before income taxes decreased, depreciation and amortization expenses were up by ¥50.7 billion (\$384 million) to ¥350.6 billion (\$2,656 million). This resulted in positive operating cash flow.

Net cash used in investing activities was ¥502.2 billion (\$3,805 million), ¥57.6 billion (\$436 million) more than in the prior fiscal year. Capital expenditures were largely unchanged. The increase in expenditures incident to the Amdahl acquisition boosted cash outflow significantly.

Net cash provided by financing activities was ¥153.6 billion (\$1,163 million), mostly the result of an increase in long-term borrowings.

As cash used in investing activities exceeded net cash provided by operating and financing activities, cash and cash equivalents decreased by ¥21.7 billion (\$164 million) to ¥392.1 billion (\$2,971 million).