Net Sales

In fiscal 1998, the year ended March 31, 1999, consolidated net sales increased 5% from the previous year, to ¥5,242.9 billion ($43,330 million), an all-time high. These sales included the operations of the parent company, 132 subsidiaries in Japan and 386 subsidiaries overseas.

Although domestic sales benefited from the continued growth in our services business, particularly systems integration, the impact of sharply lower capital investment by domestic telecommunications carriers contributed to a 3% decrease in domestic sales, to ¥3,127.5 billion ($25,847 million). However, overseas sales jumped 20%, to ¥2,115.4 billion ($17,483 million), and as a proportion of total sales rose from 35% to 40%. The strong growth in overseas sales was attributable to the inclusion of Amdahl Corporation—which joined the consolidated Group in the second half of the previous term and enjoyed robust global server (mainframe) sales in the U.S.—in the consolidated results for the full period, expansion of our services and software business, increased network demand in the U.S. and Europe, buoyant sales of PCs in the European consumer market, and higher global demand for small form factor hard disk drives.

The average yen exchange rate during the year fell from ¥123 to ¥128 against the U.S. dollar, from ¥202 to ¥212 against the British pound, and moved from ¥88 to ¥79 against the Australian dollar. The average yen rate against the Euro was ¥131. The increase in overseas sales attributable to the effects of exchange rate differences on overseas subsidiaries' earnings totaled ¥60.0 billion.

Cost of Sales and Selling, General and Administrative Expenses

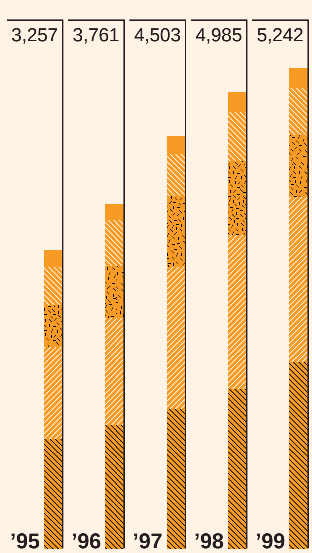
Cost of sales totaled ¥3,776.8 billion ($31,213 million), an increase of 7% from fiscal 1997. The cost of sales ratio for the year was 72%.

Gross profit was marginally down at ¥1,466.1 billion ($12,116 million). The gross profit margin fell from 29.4% to 28.0%, adversely affected by capital spending cutbacks implemented by domestic telecommunications firms and the global decline in semiconductor prices, particularly DRAM prices.

Selling, general and administrative expenses increased ¥44.6 billion, to ¥1,333.8 billion ($11,023 million), of which ¥44.4 billion ($366 million) was the result of the inclusion of Amdahl in the consolidated results for the full fiscal period. Selling, general and administrative expenses as a proportion of net sales, however, improved to 25.5%, a 0.3% reduction on the previous year. We continued to pursue increases in efficiency and reductions in expenses while maintaining our commitment to R&D. R&D expenditure rose 2%, to ¥395.0 billion ($3,264 million). However, as a proportion of net sales, R&D expenditure decreased by 0.3%, to 7.5%.

In the previous fiscal year, amortization of goodwill totaled ¥33.9 billion, primarily attributable to the amortization of ¥20.0 billion in goodwill resulting from the acquisition of Amdahl as a wholly owned subsidiary. This amount comprised a lump-sum amortization of ¥15.2 billion and amortization of ¥4.8 billion, which was the fiscal 1997 portion of goodwill to be amortized over a ten-year period. In fiscal 1998, amortization of goodwill declined ¥12.1 billion, to ¥21.7 billion ($179 million), of which ¥10.1 billion ($83 million) was related to Amdahl.

Net Sales by Business Segment (excluding intersegment sales)
(¥ Billion)

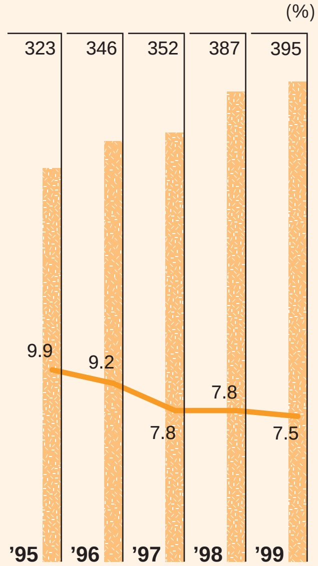


(Years ended March 31)

Services and Software
Information Processing
Telecommunications
Electronic Devices
Other Operations

R&D Expenditure
(¥ Billion)

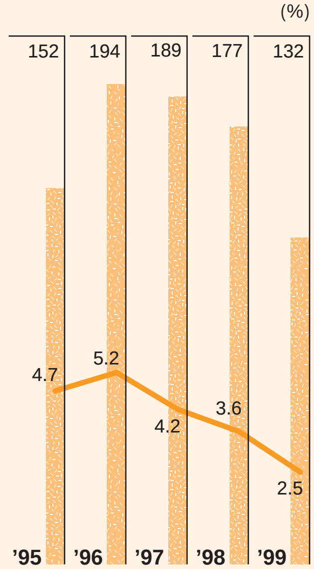
Ratio of R&D Expenditure to Net Sales
(%)



(Years ended March 31)

Operating Income
(¥ Billion)

Ratio of Operating Income to Net Sales
(%)



(Years ended March 31)

Other Income and Expenses and Net Income (Loss)

Increases in selling, general and administrative expenses caused operating income to decline ¥45.0 billion, to ¥132.2 billion ($1,093 million). Operating income comprised 2.5% of net sales, a decrease of 1.1% from the previous year.

With regard to other income and expenses, interest and dividend income less interest charges decreased ¥1.8 billion, to –¥45.7 billion (–$378 million). Foreign exchange losses resulting from the stronger yen in the second half of the fiscal period totaled ¥16.7 billion ($138 million), compared with ¥9.4 billion in the previous fiscal year.

Investment profits arising from the equity method increased ¥3.5 billion, to ¥22.4 billion ($185 million), as a result of healthy earnings at 34 affiliated companies accounted for by the equity method.

Other, net includes ¥41.0 billion ($338 million) in gains on the listings of three domestic subsidiaries—Fujitsu Support and Service Inc., Fujitsu Systems Construction Ltd. and Fujitsu Devices Inc.—on the Tokyo Stock Exchange and ¥19.2 billion ($159 million) in gains on disposals of marketable securities.

Other, net also includes an exceptional charge of ¥38.1 billion ($314 million) related to the realignment of a Pathway project involving U.K. subsidiary ICL PLC. This large-scale project relates to the design, installation and operation of systems to enable increased automation at U.K. post offices and the payment of social welfare benefits through post offices. Losses incurred on restructuring expenses totaled ¥43.7 billion ($361 million), which comprised ¥17.2 billion ($142 million) for structural upgrading, mainly relating to our domestic semiconductor facilities, and ¥18.4 billion ($152 million) incurred on the closure of a U.K. semiconductor subsidiary. Devaluation losses on marketable securities amounted to ¥5.5 billion ($46 million).

As a result of these factors, income before income taxes and minority interests decreased 60% from the previous fiscal term, to ¥49.6 billion ($410 million).

After deducting corporate income tax of ¥54.6 billion ($451 million) and minority interests of ¥8.5 billion ($70 million), net income declined ¥19.2 billion, resulting in a net loss of ¥13.6 billion ($112 million). Net loss per share was ¥7.3 ($0.060) and return on equity was –1.2%. Cash dividends per share were unchanged at ¥10 ($0.083).

Segment Information

To enable a more precise breakdown of information by segments, from fiscal 1998 we have adopted the following business segments: Services and Software, Information Processing, Telecommunications, Electronic Devices, and Other Operations. For comparison purposes, consolidated financial information for the previous fiscal year has been restated according to the new segment breakdown.

Business Segment Information

Services and Software: Led by robust domestic and overseas sales of systems integration, outsourcing and other services, which rose by 36%, fiscal 1998 consolidated sales for the services and software segment jumped 17%, to ¥2,034.5 billion ($16,814 million). Of these, domestic services and software sales grew 11%, to ¥1,260.7 billion ($10,420 million), while overseas sales in this category advanced 29%, to ¥773.8 billion ($6,395 million). Services and software operating income jumped 39%, to ¥166.3 billion ($1,375 million), thanks to strong growth in our services, particularly systems integration, software and maintenance businesses. By making the most of our worldwide corps of 55,000 services and software professionals and our accumulated expertise in systems design and construction, the services and software segment succeeded in achieving improved sales, operating income and operating income ratio compared to the previous fiscal year.

Information Processing: Strong overseas sales of information processing systems and equipment, up 30%, to ¥726.5 billion ($6,005 million), helped offset a 5% decline in domestic sales of ¥1,074.8 billion ($8,882 million), boosting consolidated sales for the category as a whole by 7%, to ¥1,801.4 billion ($14,887 million). In addition to expanding sales of global servers (mainframes) in the U.S., we enjoyed robust growth in sales of personal computers in the European consumer market, while strong demand for small form factor hard disk drives was reflected in solid sales gains, particularly overseas. Operating income for the category jumped 88%, to ¥94.0 billion ($777 million).

Telecommunications: Increased network demand, mainly in the U.S. and Europe, led to buoyant overseas telecommunications sales, which grew 12%, to ¥284.8 billion ($2,355 million). However, due to major reductions in capital investment by Japanese telecommunications service providers, domestic sales declined 27%, to ¥396.1 billion ($3,274 million), resulting in a 15% drop in overall consolidated telecommunications sales, to ¥681.0 billion ($5,629 million). Operating income in this business segment sank 84% from the previous fiscal period, to ¥15.6 billion ($129 million). This fall was principally due to the aforementioned reductions in spending by Japanese telecommunications carriers, as well as to our increased R&D investment in W-CDMA and other multimedia-capable telecommunications technologies.

Net Sales and Operating Income by Business Segment (¥ Billion)

Years ended March 31	1998	**1999**	Increase (decrease) rate (%)
Net Sales (including intersegment sales)			
Services and software	¥1,782	**¥2,092**	17.4%
Information processing	1,934	**2,102**	8.7
Telecommunications	811	**691**	(14.8)
Electronic devices	656	**609**	(7.1)
Other operations	347	**320**	(7.8)
Intersegment elimination	(546)	**(573)**	—
Consolidated net sales	¥4,985	**¥5,242**	5.2%
Operating Income			
Services and software	¥119	**¥166**	39.0%
Information processing	49	**94**	88.4
Telecommunications	100	**15**	(84.5)
Electronic devices	(32)	**(83)**	—
Other operations	4	**7**	76.4
Unallocated operating costs and expenses/intersegment elimination	(64)	**(67)**	—
Consolidated operating income	¥177	**¥132**	(25.4)%