1. Significant Accounting Policies

(a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with accounting principles and practices generally accepted in Japan and the regulations under the Securities and Exchange Law of Japan. The accounting principles and practices adopted by the consolidated subsidiaries outside Japan in their respective countries basically conform to those adopted by the Company. In presenting the accompanying consolidated financial statements, certain items have been reclassified for the convenience of readers outside Japan.

The differences between the accounting principles and practices adopted by the Group and those prescribed by International Accounting Standards ("IAS") are set forth in Note 2.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and, with minor exceptions, those of its majority-owned subsidiaries, whether directly or indirectly controlled.

Acquisitions of companies are accounted for using the purchase method. Goodwill represents the excess of the acquisition cost over the fair value of the net assets of the acquired companies, and is being amortized on a straight-line basis over periods not exceeding 20 years.

Investments in affiliates owned 20% to 50%, with minor exceptions, are accounted for by the equity method.

(c) Cash equivalents

For the purpose of the statement of cash flows, the Group considers all short-term, highly liquid instruments with a maturity of three months or less to be cash equivalents.

(d) Translation of foreign currency accounts

Current receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. Noncurrent monetary items denominated in foreign currencies are translated into Japanese yen at historical exchange rates.

The asset and liability accounts of the consolidated subsidiaries outside Japan are translated into Japanese yen at the applicable fiscal year-end rates. Income and expense accounts are translated at the average rate during the year. The resulting translation adjustments are recorded in assets as cumulative translation adjustment in conformity with accounting principles generally accepted in Japan.

(e) Revenue recognition

Revenues from sales of communications products and computer systems are generally recognized upon acceptance by the customers, while revenues from sales of personal computers, peripherals, other equipment and electronic devices are recognized when the products are shipped.

(f) Marketable securities

Marketable securities included in short-term investments, and investments and long-term loans are stated at the lower of cost or market, cost being determined by the moving average method.

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount that is deemed sufficient to cover estimated future losses.

(h) Inventories

Finished goods are stated at cost determined by the moving average method and the first-in, first-out method ("FIFO").

Work in process is stated at cost determined by FIFO.

Raw materials are stated at cost determined by the moving average method, the most recent purchase price method and FIFO.

(i) Property, plant and equipment and depreciation

Property, plant and equipment, including renewals and additions, are carried at cost.

Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the respective assets, which vary according to their general classification, type of construction and function.

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(j) Leases

Leased assets are recorded under property, plant and equipment and lease liabilities are included in long-term liabilities under finance leases except those in Japan. The Company and its consolidated subsidiaries in Japan treat finance leases in the same way as operating leases.

(k) Retirement and severance benefits

Employees who terminate their services with the Group are generally entitled to annuities or lump-sum severance payments based on their current basic rates of pay and length of service.

The Company and its consolidated subsidiaries in Japan have contributory defined benefit plans with insurance companies, trust banks and investment management companies to supplement the public welfare pension plan. The plans entitle eligible employees upon retirement to receive either a lump-sum payment or annuity payments for life, or a combination of both.

Most consolidated subsidiaries outside Japan have defined benefit plans and/or defined contribution plans covering substantially all employees. The cost of benefits for annuities and lump-sum severance payments is currently funded or accrued.

(l) Provision for loss on repurchase of computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Company Limited ("JECC") and other leasing companies and financial institutions for leasing to the ultimate users under contracts which require that the Group repurchase the computers if they are returned by the users after a certain period. Based on past experience, an estimated amount for the loss arising from such repurchases is provided at the point of sale and is charged to income.

(m) Income taxes

The Group has adopted the balance sheet liability method of tax effect accounting to recognize the effect of all temporary differences in the recognition of assets and liabilities for tax and financial reporting purposes.

(n) Earnings per share

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during the respective years.

Diluted earnings per share is computed based on the weighted average number of shares after consideration of the dilutive effect of the shares of common stock issuable upon the exercise of warrants and the conversion of convertible bonds.

(o) Derivative financial instruments

Gains and losses on derivative financial instruments used to reduce exposure on receivables and liabilities denominated in foreign currencies are recognized over the lives of the contracts. Gains and losses arising from the related receivables and liabilities are offset.

The differentials to be paid or received related to swap contracts are recognized over the lives of the contracts.

2. Differences with International Accounting Standards

The differences between the accounting principles and practices adopted by the Group and those prescribed by International Accounting Standards ("IAS") are summarized as follows.

Noncurrent monetary items denominated in foreign currencies

Had noncurrent monetary items denominated in foreign currencies been translated at the exchange rates in effect at the balance sheet dates pursuant to IAS No. 21, the differences would not have been significant.

Cumulative translation adjustment

Although IAS No. 21 requires that cumulative translation adjustment be reported as a component of shareholders' equity, the Group reported it in assets.

Decrease in cumulative translation adjustment

According to IAS No. 21, upon the liquidation of a foreign subsidiary, the amount of the cumulative translation adjustment related to the foreign subsidiary should be recognized as income or expenses. The Group records this amount directly in the retained earnings.

Marketable Securities (Note 4)

Although IAS No. 25 requires that marketable securities recorded in investments and long-term loans be stated at the lower of cost or market on a portfolio basis, the Company determines the value of the securities on an item-by-item basis in order to state the value of the securities more conservatively. The difference is immaterial.

Inventories

IAS No. 2 requires that inventories be valued at the lower of their historical cost or net realizable value. Had IAS No. 2 been applied, the difference in the aggregate value of the inventories would not have been significant.

Detachable stock purchase warrants (Note 9)

According to IAS No. 32, detachable stock purchase warrants should be recorded as a component of shareholders' equity. The Group includes warrants in other current liabilities.

Leases (Note 15)

Although IAS No. 17 stipulates that leased assets be recorded under property, plant and equipment and lease liabilities be reflected in long-term liabilities under any finance leases, finance leases in Japan are treated in the same way as operating leases.

Scope of consolidation (Note 6)

According to IAS No. 27, Fujitsu Leasing Co., Ltd., an affiliate of the Group, should be included in consolidation. The Company excludes this enterprise from consolidation in accordance with the regulations under the Securities and Exchange Law of Japan.

Retirement and severance benefits (Note 10)

IAS No. 19 requires that the cost of providing retirement benefits should be determined using an accrued benefit valuation method or a projected benefit valuation method.

Under the severance benefit plans adopted by the Company and most consolidated subsidiaries in Japan, accrued severance benefits in the consolidated balance sheets are stated at the present value of the vested benefit obligation. The difference is calculated assuming that the Company and most consolidated subsidiaries in Japan had used an accrued benefit valuation method from the year ended March 31, 1999.

Had IAS been applied, the significant effects on the accompanying consolidated financial statements would have been as follows:

	Yen (millions)		U.S. Dollars (thousands)
Amount of significant effects on consolidated financial statements	1998	1999	1999
Cumulative translation adjustment			
Cumulative translation adjustment	¥ –66,780	¥ –86,660	$–716,199
Total shareholders' equity	–66,780	–86,660	–716,199
Decrease in cumulative translation adjustment			
Net loss	—	–5,927	–48,983
Decrease in cumulative translation adjustment [Statement of shareholders' equity]	—	+5,927	+48,983
Detachable stock purchase warrants (Note 9)			
Other current liabilities	–8,593	–8,477	–70,058
Total shareholders' equity	+8,593	+8,477	+70,058
Leases (Note 15)			
Property, plant and equipment, net	+76,217	+72,830	+601,901
Total long-term liabilities	+76,217	+72,830	+601,901
Scope of consolidation (Note 6)		(Unaudited)	
Total assets	+156,395	+162,531	+1,343,231
Total liabilities	+152,228	+157,888	+1,304,859
Minority interests in consolidated subsidiaries	+4,167	+4,643	+38,372
Retirement and severance benefits (Note 10)		(Unaudited)	
Investments and long-term loans—other	—	+12,418	+102,628
Accrued severance benefits	—	+29,567	+244,355
Retained earnings (= Net loss)	—	–17,149	–141,727

3. U.S. Dollar Amounts

The Company and its consolidated subsidiaries in Japan maintain their books of account in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into dollars at ¥121= US$1, the approximate rate of exchange prevailing on March 31, 1999. The U.S. dollar amounts are presented solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could readily be converted, realized or settled in U.S. dollars at the above or any other rate.

4. Marketable Securities

The current and noncurrent portfolios of marketable securities at March 31, 1998 and 1999, which are included in short-term investments (current) and in investments and long-term loans—other (noncurrent), are summarized as follows:

	Yen (millions)		U.S. Dollars (thousands)
	1998	1999	1999
Current:			
Carrying value	¥ 24,521	¥ 12,447	$ 102,868
Market value	24,745	12,270	101,405
Net unrealized gains (losses)	¥ 224	¥ (177)	$ (1,463)
Noncurrent:			
Carrying value	¥103,624	¥119,346	$ 986,331
Market value	164,324	179,806	1,486,000
Net unrealized gains	¥ 60,700	¥ 60,460	$ 499,669

5. Inventories

Inventories at March 31, 1998 and 1999 consisted of the following:

	Yen (millions)		U.S. Dollars (thousands)
	1998	**1999**	***1999***
Finished goods	¥433,620	**¥421,986**	***$3,487,488***
Work in process	366,251	**342,507**	***2,830,636***
Raw materials	158,595	**141,499**	***1,169,413***
	¥958,466	**¥905,992**	***$7,487,537***

6. Investments in Affiliates

A summary of the financial information of the affiliates accounted for on an equity basis is presented below:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	1998	**1999**	***1999***
Current assets	¥ 772,633	**¥ 819,430**	***$ 6,772,149***
Noncurrent assets	543,585	**547,105**	***4,521,529***
	1,316,218	**1,366,535**	***11,293,678***
Current liabilities	454,928	**371,247**	***3,068,157***
Long-term liabilities	109,339	**188,933**	***1,561,430***
Net assets	¥ 751,951	**¥ 806,355**	***$ 6,664,091***

	Yen (millions)			U.S. Dollars (thousands)
Years ended March 31	1997	1998	**1999**	***1999***
Net sales	¥937,439	¥1,062,300	**¥822,282**	***$6,795,719***
Net income	16,182	60,812	**58,000**	***479,339***

Of the affiliates accounted for on an equity basis, the carrying and market values of the shares of the publicly listed companies at March 31, 1998 and 1999 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
At March 31	1998	**1999**	***1999***
Carrying value	¥256,356	**¥271,158**	***$2,240,975***
Market value	646,212	**685,100**	***5,661,983***

At March 31, 1998 and 1999, the amount of ¥19,373 million ($160,107 thousand) representing the Company's 29.49% investment in JECC was included in investments and long-term loans—other. The Company does not regard JECC as an affiliate, as it is unable to exercise significant influence over JECC's affairs. JECC's principal business is the leasing of computers and peripherals which it purchases from its seven shareholders. At March 31, 1999, JECC's issued share capital was ¥65,700 million ($542,975 thousand). Its net sales for the years ended March 31, 1997, 1998 and 1999 amounted to ¥305,221 million, ¥299,269 million and ¥298,957 million ($2,470,719 thousand).

Due to the amendment to the scope of consolidation based on controlling powers in regulations under the Securities and Exchange Law of Japan, Fujitsu Leasing Co., Ltd., which was an affiliate of the Group as of March 31, 1999, will become a consolidated subsidiary effective the year beginning April 1, 1999.

7. Property, Plant and Equipment

Changes in property, plant and equipment have resulted from the following:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	1998	**1999**	***1999***
Land			
Balance at beginning of year, net	¥122,798	**¥134,890**	***$1,114,793***
Additions	11,590	**6,230**	***51,488***
Translation differences	189	**(1,505)**	***(12,438)***
Other, net	313	**(5,732)**	***(47,372)***
Balance at end of year, net	¥134,890	**¥133,883**	***$1,106,471***
Buildings			
Balance at beginning of year, net	¥391,142	**¥416,632**	***$3,443,240***
Additions	67,419	**32,106**	***265,339***
Depreciation	35,410	**39,129**	***323,380***
Translation differences	71	**(7,855)**	***(64,918)***
Other, net	(6,590)	**310**	***2,562***
Balance at end of year, net	¥416,632	**¥402,064**	***$3,322,843***
Machinery and equipment			
Balance at beginning of year, net	¥651,259	**¥750,262**	***$6,200,512***
Additions	426,941	**279,608**	***2,310,810***
Depreciation	279,627	**286,049**	***2,364,041***
Translation differences	(2,077)	**(23,289)**	***(192,471)***
Other, net	(46,234)	**(52,097)**	***(430,554)***
Balance at end of year, net	¥750,262	**¥668,435**	***$5,524,256***
Construction in progress			
Balance at beginning of year, net	¥ 96,077	**¥ 54,337**	***$ 449,066***
Additions	292,756	**175,321**	***1,448,934***
Translation differences	80	**(753)**	***(6,223)***
Transfer	(334,576)	**(190,859)**	***(1,577,347)***
Balance at end of year, net	¥ 54,337	**¥ 38,046**	***$ 314,430***

8. Goodwill

An analysis of goodwill is shown below:

	Yen (millions)		U.S. Dollars (thousands)
Years ended March 31	1998	**1999**	***1999***
Balance at beginning of year	¥137,667	**¥231,267**	***$1,911,297***
Additions	114,627	**27,311**	***225,711***
Amortization	33,909	**21,754**	***179,785***
Translation differences	12,882	**(14,216)**	***(117,488)***
Balance at end of year	¥231,267	**¥222,608**	***$1,839,735***

9. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 1998 and 1999 comprised the following:

	Yen (millions)		U.S. Dollars (thousands)
	1998	**1999**	***1999***
Loans, principally from banks, at interest rates ranging from 0.81% to 8.41% at March 31, 1998 and from 0.47% to 8.00% at March 31, 1999:			
Secured	¥ 9,113	**¥ 867**	***$ 7,165***
Unsecured	572,194	**573,716**	***4,741,455***
Commercial paper at interest rates ranging from 0.50% to 7.95% at March 31, 1998 and from 0.10% to 0.31% at March 31, 1999	80,550	**114,000**	***942,149***
	¥661,857	**¥688,583**	***$5,690,769***

Long-term debt at March 31, 1998 and 1999 consisted of:

	Yen (millions)		U.S. Dollars (thousands)
	1998	**1999**	***1999***
Loans, principally from banks and insurance companies, due from 1999 to 2025 at interest rates ranging from 0.47% to 11.70% at March 31, 1998 and 1999:			
Secured	¥ 18,339	**¥ 21,623**	***$ 178,703***
Unsecured	284,684	**277,956**	***2,297,157***
Bonds and notes issued by the Company:			
3.0% U.S. dollar convertible bonds due 1999	274	**—**	***—***
1.3% unsecured convertible bonds due 1998	39,782	**—**	***—***
1.4% unsecured convertible bonds due 2004	39,649	**39,649**	***327,678***
1.9% unsecured convertible bonds due 2002	38,139	**38,087**	***314,769***
1.95% unsecured convertible bonds due 2003	39,342	**39,303**	***324,818***
2.0% unsecured convertible bonds due 2004	18,045	**18,044**	***149,124***
3.0% Swiss franc notes due 1998 with warrants	29,578	**—**	***—***
3 1/8% U.S. dollar bonds due 2000 with warrants	50,341	**50,341**	***416,041***
4.1% bonds due 1999 with warrants	35,000	**35,000**	***289,256***
7.0% bonds due 1998	30,000	**—**	***—***
3 3/4% bonds due 1999	30,000	**30,000**	***247,934***
3.6% bonds due 1998	20,000	**—**	***—***
2.3% bonds due 2001	30,000	**30,000**	***247,934***
2.6% bonds due 2002	30,000	**30,000**	***247,934***
2.825% bonds due 2001	60,000	**60,000**	***495,868***
3.025% bonds due 2002	30,000	**30,000**	***247,934***
3.225% bonds due 2003	30,000	**30,000**	***247,934***
2.425% bonds due 2003	50,000	**50,000**	***413,223***
2.875% bonds due 2006	50,000	**50,000**	***413,223***
2.575% bonds due 2004	50,000	**50,000**	***413,223***
3.15% bonds due 2009	50,000	**50,000**	***413,223***
3.0% dual currency bonds due 2001	30,000	**30,000**	***247,934***
2.3% bonds due 2007	50,000	**50,000**	***413,223***
2.325% bonds due 2008	50,000	**50,000**	***413,223***
3.0% bonds due 2018	—	**30,000**	***247,934***
2.175% bonds due 2008	—	**50,000**	***413,223***
2.15% bonds due 2008	—	**50,000**	***413,223***
Bonds and notes issued by consolidated subsidiaries:			
Unsecured (2.66% to 3.45%, due 1999–2006)	45,812	**48,757**	***402,950***
Less amounts due within one year	165,460	**110,385**	***912,273***
	¥1,063,525	**¥1,128,375**	***$9,325,413***

Assets pledged as collateral for bank loans and long-term debt at March 31, 1998 and 1999 are presented below:

	Yen (millions)		U.S. Dollars (thousands)
	1998	**1999**	***1999***
Investments and long-term loans	¥ 330	**¥ 7**	***$ 58***
Property, plant and equipment, net	27,181	**23,411**	***193,479***
	¥27,511	**¥23,418**	***$193,537***

As is customary in Japan, substantially all loans from banks (including short-term loans) are made under general agreements which provide that, at the request of the banks, the borrower is required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to such loans, and that all assets pledged as collateral under such agreements will be applicable to all present and future indebtedness to the banks concerned. These general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by default, to offset deposits at the banks against the indebtedness due to the banks.

The current conversion prices of the 1.4%, 1.9%, 1.95% and 2.0% convertible bonds issued by the Company are ¥1,751.50, ¥998.00, ¥998.00 and ¥998.00 per share, respectively, and the current exercise prices of the warrants issued with the 3 1/8% and 4.1% bonds are ¥1,220.00 and ¥1,144.90 per share, respectively. The conversion and exercise prices referred to above are subject to adjustment in certain circumstances, including stock splits or free share distributions of common stock. At March 31, 1999, approximately 188 million shares of common stock were reserved for the conversion or exercise of all outstanding convertible bonds and warrants.

Certain outstanding convertible bonds and notes can be repurchased at any time and may be redeemed at the option of the Company, in whole or in part, at prices ranging from 105% to 100% of their principal amounts.

The aggregate annual maturities of long-term debt subsequent to March 31, 1999 are summarized as follows:

Years ending March 31	Yen (millions)	*U.S. Dollars (thousands)*
2000	¥110,385	*$ 912,273*
2001	115,621	*955,545*
2002	195,611	*1,616,620*
2003	161,158	*1,331,884*
2004 and thereafter	655,985	*5,421,364*

Bonds with detachable stock purchase warrants issued on or after April 1, 1994 have been accounted for as amounts separately attributable to the bonds and the stock purchase warrants. As for bonds with warrants issued before that date, the value of the stock purchase warrants have not been computed retroactively as they are not detachable.

The aggregate amount attributable to the stock purchase warrants is reported in other current liabilities in conformity with accounting principles generally accepted in Japan. The warrants outstanding at March 31, 1998 and 1999 amounted to ¥8,593 million and ¥8,477 million ($70,058 thousand), respectively.

Convertible bonds are treated entirely as bonds and no value inherent in the conversion feature is recognized in accordance with accounting principles generally accepted in Japan. The total amount of convertible bonds are included in long-term debt.

10. Retirement and Severance Benefits

Accrued severance benefits in the consolidated balance sheets comprise the principal pension plans which are unfunded defined benefit plans. Under the plans, employees are entitled to lump-sum payments based on their current basic rates of pay and length of service. Accrued severance benefits in the consolidated balance sheets are stated at the present value of the vested benefit obligation which would be required if all employees voluntarily terminated their services at the balance sheet dates. Provisions for employees' severance benefits charged to income for the years ended March 31, 1997, 1998 and 1999 amounted to ¥26,697 million, ¥25,352 million and ¥31,975 million ($264,256 thousand), respectively.

In addition to the plans described above, substantially all employees of the Company and most subsidiaries in Japan are covered by contributory defined benefit plans, which include a substitutional portion of the benefits under the National Welfare Pension Plan of Japan ("the NWP Plan"). The plans require that the liability reserve and the annual contributions be actuarially calculated by the open aggregate cost method for the substitutional portion of the NWP Plan, and by the entry-age normal cost method for the remainder.

The liability reserve for the substitutional portion of the NWP Plan of the Company and certain subsidiaries at March 31, 1997 and 1998, the most recent valuation dates, amounted to ¥217,740 million and ¥242,300 million ($2,002,479 thousand), respectively. The liability reserve for the remainder at March 31, 1997 and 1998 amounted to ¥245,892 million and ¥312,194 million ($2,580,116 thousand), respectively.

At March 31, 1997 and 1998 the aggregate fair value of the plan assets of the contributory defined benefit plans, which primarily consist of marketable securities, totaled ¥463,782 million and ¥528,633 million ($4,368,868 thousand), respectively.

The assumed rate for salary increases, the expected long-term rate of return and the discount rate for the above contributory pension plans ranged from 2.2% to 5.3%, 5.5%, and 5.5%, respectively.

The unrecognized balance of past service cost of ¥33,088 million ($273,455 thousand) as of March 31, 1998 is being amortized over 7 years. Amortization of past service cost for the years ended March 31, 1996, 1997 and 1998 totaled ¥5,132 million, ¥5,578 million and ¥6,064 million ($50,116 thousand), respectively.

Effective January 1, 1999 the Company and most consolidated subsidiaries in Japan determined to shift their severance benefit plans to contributory defined benefit plans. For the year ended March 31, 1999, the shift covered only employees who retire at the age of sixty and, therefore, there was no accompanying reversal of the accrued severance benefits. The unrecognized past service cost resulting from this shift is being amortized over 10 years.

Most subsidiaries outside Japan have defined benefit pension plans and/or defined contribution pension plans covering substantially all employees. The major plan is the ICL Group Pension Plan, which is a defined benefit plan. The pension cost of this plan is calculated by the projected unit method. The plan is subject to formal actuarial valuation and the fair value of the plan assets at April 5, 1997, the most recent valuation date, was sufficient to cover the actuarial present value of future benefit obligations.

IAS No. 19 requires that the cost of providing retirement benefits be determined by the accrued benefit valuation method or a projected benefit valuation method.

Under the contributory defined benefit plans adopted by the Company and most consolidated subsidiaries in Japan, the liability reserve and the annual contributions are calculated actuarially by the projected benefit valuation method and, therefore, the difference is immaterial.

However, under the severance benefit plans adopted by the Company and most consolidated subsidiaries in Japan, accrued severance benefits in the consolidated balance sheets are stated at the present value of the vested benefit obligation which would be satisfied if all employees voluntarily terminated their services at the balance sheet dates. Had the Company and most consolidated subsidiaries in Japan followed the accrued benefit valuation method, the material difference would have been as follows. The difference has been calculated assuming that the Company and most consolidated subsidiaries in Japan had followed the method from the year ended March 31, 1999.

The severance benefit plans (The Company and most subsidiaries in Japan)

Year ended March 31	Yen (millions)	*U.S. Dollars (thousands)*
As of March 31, 1999 (estimated):	(Unaudited)	
Present value of severance benefits	¥410,783	*$3,394,901*
Fair value of plan assets of tax-qualified pension plans	(12,880)	*(106,446)*
Excess of projected benefit obligation over plan assets	397,903	*3,288,455*
Unrecognized net obligation at transition (assuming that it is amortized over 10 years from April 1998)	(206,635)	*(1,707,727)*
Unrecognized accrued severance benefits (the difference between IAS and the accounting principles adopted by the Group)	(29,567)	*(244,355)*
Accrued severance benefits in the consolidated balance sheet	¥161,701	*$1,336,372*
The year ended March 31, 1999 (estimated):	(Unaudited)	
Current service cost of severance benefit plans	¥ 40,530	*$ 334,959*
Expected return on plan assets	(732)	*(6,050)*
Past service cost (depreciation of net obligation at transition)	22,960	*189,752*
Cost of the severance benefit plans, net	62,758	*518,661*
Unrecognized cost of severance benefit plans (the difference between IAS and the accounting principles adopted by the Group)	(29,567)	*(244,355)*
Cost of the severance benefit plans in the consolidated statement of operations	¥ 33,191	*$ 274,306*

The above estimation of the cost of the severance benefit plans for the year ended March 31, 1999 was based on the following rates assumed to be in effect as of April 1, 1998. The discount rate, the expected long-term rate of return, and the assumed rate for salary increases were assumed at 4.5%, 6.7% and from 2.7% to 4.6%, respectively.

The major plan outside Japan is the ICL Group Pension Plan, which is a defined benefit plan. Under the plan, the cost of providing retirement benefits is determined using the accrued benefit valuation method.

11. Income Taxes

The Group is subject to a number of different income taxes. The statutory tax rates in Japan for the years ended March 31, 1997, 1998, and 1999 were, in the aggregate, approximately 51%, 51%, and 47%, respectively. Due to a recent revision to the Corporate Tax Law, the statutory rate has been reduced to approximately 42% effective the year ending March 31, 2000 or after, and this figure has been used in calculating the future tax effects of temporary differences as of March 31, 1999.

The components of income taxes are summarized as follows:

			Yen (millions)	*U.S. Dollars (thousands)*
Years ended March 31	1997	1998	**1999**	***1999***
Current	¥96,620	¥111,220	**¥57,588**	***$475,934***
Deferred	(121)	(1,731)	**(2,053)**	***(16,967)***
Changes in deferred tax rate	—	(939)	**(856)**	***(7,074)***
Income taxes	¥96,499	¥108,550	**¥54,679**	***$451,893***

The significant components of deferred tax assets and liabilities at March 31, 1998 and 1999 are summarized as follows:

		Yen (millions)	*U.S. Dollars (thousands)*
	1998	**1999**	***1999***
Deferred tax assets:			
Accrued severance benefits	¥19,854	**¥23,125**	***$191,116***
Intercompany profit on inventories and property, plant and equipment	8,588	**12,365**	***102,190***
Accrued enterprise taxes	6,623	**2,935**	***24,256***
Accrued employee benefits	57	**2,148**	***17,752***
Other	17,182	**12,021**	***99,347***
Gross deferred tax assets	52,304	**52,594**	***434,661***
Less: Valuation allowance	(1,510)	**(9,496)**	***(78,479)***
Total deferred tax assets	50,794	**43,098**	***356,182***
Deferred tax liabilities:			
Retained earnings appropriated for tax deductible reserves	(40,271)	**(28,760)**	***(237,686)***
Other	(12,298)	**(7,311)**	***(60,422)***
Gross deferred tax liabilities	(52,569)	**(36,071)**	***(298,108)***
Net deferred tax assets (liabilities)	¥ (1,775)	**¥ 7,027**	***$ 58,074***

Net deferred tax assets (liabilities) have been reflected in the consolidated balance sheets as follows:

		Yen (millions)	*U.S. Dollars (thousands)*
At March 31	1998	**1999**	***1999***
Other current assets	¥17,266	**¥23,309**	***$192,636***
Investments and long-term loans—other	—	**967**	***7,992***
Other current liabilities	—	**(2,338)**	***(19,322)***
Other long-term liabilities	(19,041)	**(14,911)**	***(123,232)***
Net deferred tax assets (liabilities)	¥ (1,775)	**¥ 7,027**	***$ 58,074***

Unused tax loss carryforwards

In addition, at March 31, 1999, for tax return purposes, the Group had tax loss carryforwards amounting to approximately ¥179,947 million ($1,487,165 thousand). These carryforwards expire at various dates, but primarily extend up to 20 years. Realization is dependent on the ability of the companies to generate sufficient taxable income prior to the expiration of the tax loss carryforwards. No deferred tax assets have been recorded for these carryforwards, as the utilization of these losses is currently not able to be determined.

Undistributed profits of affiliates

Deferred tax liabilities have not been provided on the undistributed profit of affiliates as it is deemed that any distributions will not give rise to tax liabilities.

Valuation allowance for losses of subsidiaries

Deferred tax assets have not been provided on valuation allowance for losses of subsidiaries, as the utilization of these losses is currently not able to be determined.

12. Shareholders' Equity

The changes in the number of issued shares of common stock during the years ended March 31, 1997, 1998 and 1999 were as follows:

	Number of shares		
	1997	1998	**1999**
Balance at beginning of year	1,841,272,768	1,841,435,783	**1,862,355,910**
Exercise of warrants	—	16,661,107	**20,275,164**
Conversion of bonds	163,015	4,259,020	**328,628**
Increase by merger	—	—	**1,179,702**
Balance at end of year	1,841,435,783	1,862,355,910	**1,884,139,404**

The issuance of shares upon conversion of convertible bonds and the exercise of stock purchase warrants is accounted for by crediting an amount equal to at least 50% of the amount of each issuance to the common stock account and the balance to the capital surplus account in accordance with certain provisions of the Commercial Code of Japan, which became effective October 1, 1982.

Appropriations of retained earnings for the year ended March 31, 1999, which included year-end cash dividends of ¥9,420 million ($77,851 thousand), were recorded on the Company's statutory books of account after approval at the general shareholders' meeting held on June 29, 1999, and will be included in the following year's consolidated balance sheet.

Increase by merger during the year ended March 31, 1999 reflects the issuance of stock in connection with the merger of Fujitsu Towa Electron Ltd. with the Company in October 1998.

13. Commitments and Contingent Liabilities

Commitments outstanding at March 31, 1999 for purchases of property, plant and equipment were approximately ¥16,180 million ($133,719 thousand).

Contingent liabilities for guarantee contracts amounted to ¥68,858 million ($569,074 thousand) at March 31, 1999. Of the total contingent liabilities, guarantees given for employees' housing loans were ¥33,230 million ($274,628 thousand) in the aggregate and guarantees given as buyers' credit related to exports to China were ¥10,033 million ($82,917 thousand).

14. Derivative Financial Instruments

Purpose of Derivative Trading

The Group enters into derivative transactions related to foreign currency and interest to reduce the risk exposure arising from fluctuations in foreign currency exchange rates and interest rates, to reduce the costs of the funds financed, and to improve their return on invested funds.

Basic Policies for Derivative Trading

The Group basically enters into derivative transactions only to cover their actual requirements for the effective management of receivables/liabilities, and not for speculative or dealing purposes.

The Group, in principle, has no intention to use derivative financial instruments that would increase market risks. Furthermore, the counterparties to the derivative transactions are thoroughly assessed in terms of their credit risks. Therefore, the Group believes that their derivative financial instruments entails minimal market and credit risks.

Notional amounts of derivative financial instruments

The notional amounts related to the forward exchange contracts, the interest rate and currency swap contracts and the option contracts at March 31, 1998 and 1999 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	1998	**1999**	***1999***
Forward exchange contracts:			
To buy foreign currencies	¥123,182	**¥ 73,658**	***$ 608,744***
To sell foreign currencies	142,760	**37,537**	***310,223***
Interest rate and currency swap contracts	249,463	**259,343**	***2,143,331***
Option contracts:			
Purchased	16,218	**33,489**	***276,769***
Written	16,158	**38,887**	***321,380***

Fair values of derivative financial instruments

The estimated fair values of the forward exchange contracts at March 31, 1998 and 1999 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	1998	**1999**	***1999***
Forward exchange contracts	¥1,386	**¥(104)**	***$(860)***

The carrying amounts and estimated fair values of the interest rate and currency swap contracts and the option contracts at March 31, 1998 and 1999 were as follows:

	Yen (millions)				U.S. Dollars (thousands)	
	1998		**1999**		***1999***	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	*Carrying amount*	*Estimated fair value*
Interest rate and currency swap contracts	¥ —	¥(1,695)	**¥ —**	**¥(3,132)**	***$ —***	***$(25,884)***
Option contracts:						
Purchased	203	317	**991**	**1,104**	***8,190***	***9,124***
Written	202	204	**1,016**	**1,200**	***8,397***	***9,917***

Estimate of fair values

The fair values of the forward exchange contracts have been based on quoted market rates at March 31, 1998 and 1999.

The fair values of the interest rate and currency swap contracts and the option contracts have been valued by the discounted cash flow analysis methods.

The estimates of the fair values were performed as of March 31, 1998 and 1999, based on various assumptions. Accordingly, the Group believes that the estimated fair values may be of limited usefulness.

15. Leases

At March 31, 1998, the equivalent amount of the book value of the leased assets of the Company and its consolidated subsidiaries in Japan was ¥76,217 million.

At March 31, 1999, the equivalent amounts of acquisition cost, accumulated depreciation and book value of leased assets of the Company and its consolidated subsidiaries in Japan were ¥138,150 million ($1,141,736 thousand), ¥65,320 million ($539,835 thousand) and ¥72,830 million ($601,901 thousand), respectively.

At March 31, 1999, future minimum lease payments under finance leases of the consolidated subsidiaries outside Japan amounted to ¥16,654 million ($137,636 thousand) due within one year, ¥44,176 million ($365,091 thousand) due over one year and within five years, and ¥23,443 million ($193,744 thousand) due over five years.

At March 31, 1999, future minimum lease payments under finance leases of the Company and its consolidated subsidiaries in Japan consisted of ¥23,558 million ($194,694 thousand) due within one year, ¥44,937 million ($371,380 thousand) due over one year and within five years, and ¥4,335 million ($35,826 thousand) due over five years.

Total lease payments under finance leases of the Company and its consolidated subsidiaries in Japan for the years ended March 31,1997, 1998 and 1999 amounted to ¥21,993 million, ¥23,118 million and ¥24,695 million ($204,091 thousand), respectively.

The equivalent amount of depreciation under finance leases of the Company and its consolidated subsidiaries in Japan for the year ended March 31,1999 was ¥24,695 million ($204,091 thousand). Presentation of the 1997 and 1998 information is not required by the regulations under the Securities and Exchange Law of Japan.

At March 31, 1999, future minimum lease payments under operating leases of the Company and its consolidated subsidiaries in Japan represented ¥1,136 million ($9,388 thousand) due within one year and ¥184 million ($1,521 thousand) due over one year and within five years.

16. Supplementary Information to the Consolidated Balance Sheet

Balances with affiliates at March 31, 1998 and 1999 were shown below:

	Yen (millions)		*U.S. Dollars (thousands)*
	1998	**1999**	***1999***
Receivables, trade	¥88,817	**¥87,608**	***$724,033***
Payables, trade	36,842	**40,178**	***332,050***

17. Earnings Per Share

Basic earnings per share and diluted earnings per share are calculated as follows:

	Net income (loss)	Weighted-average shares	*Earnings (loss) per share*	
	Yen (millions)	(thousands)	Yen	*U.S. Dollars*
For the year ended March 31, 1997				
Basic earnings per share	¥ 46,147	1,841,365	¥25.1	
Effect of dilutive securities				
Convertible bonds	1,482	145,653		
Diluted earnings per share	¥ 47,629	1,987,018	¥24.0	
For the year ended March 31, 1998				
Basic earnings per share	¥ 5,587	1,857,216	¥ 3.0	
Effect of dilutive securities				
Warrants	—	16,149		
Diluted earnings per share	¥ 5,587	1,873,365	¥ 3.0	
For the year ended March 31, 1999				
Basic losses per share	**¥(13,638)**	**1,874,396**	**¥(7.3)**	***$(0.060)***

Note: Diluted earnings per share for the year ended March 31, 1999 are not presented as a net loss was recorded.

18. Supplementary Information to the Consolidated Statements of Operations

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 1997, 1998 and 1999 were ¥352,818 million, ¥387,129 million and ¥395,063 million ($3,264,983 thousand), respectively.

Other income (expenses)—other, net for the years ended March 31, 1997, 1998 and 1999 consisted of the following:

	Yen (millions)			*U.S. Dollars (thousands)*
	1997	1998	**1999**	***1999***
Foreign exchange gains (losses), net	¥22,524	¥ (9,445)	**¥(16,787)**	***$(138,736)***
Loss on disposal of property, plant and equipment	(11,656)	(12,866)	**(15,610)**	***(129,008)***
Expenses for issuance and offering of securities	(1,264)	(1,818)	**(1,286)**	***(10,628)***
Loss on devaluation of marketable securities	(5,283)	(13,200)	**(5,575)**	***(46,074)***
Gain on sales of marketable securities	—	14,593	**19,279**	***159,331***
Gain on sales of subsidiaries' stock	—	—	**41,002**	***338,859***
Restructuring charges	(4,964)	—	**(43,714)**	***(361,273)***
Provision for loss on Pathway project	—	—	**(38,111)**	***(314,967)***
Other, net	(6,550)	(5,871)	**1,406**	***11,620***
	¥ (7,193)	¥(28,607)	**¥(59,396)**	***$(490,876)***

Restructuring charges related mainly to the reorganization of manufacturing and office facilities and the disposal of assets throughout the Group in order to streamline its business structure. The amount of ¥4,964 million for the year ended March 31, 1997 related to the restructuring of FDK Corporation. The amount of ¥43,714 million ($361,273 thousand) for the year ended March 31, 1999 includes ¥17,221 million ($142,322 thousand) principally for restructuring of the semiconductor factories at the Company and ¥18,440 million ($152,397 thousand) in connection with the liquidation of Fujitsu Microelectronics Ltd. in the U.K.

The provision for loss on the Pathway project of ¥38,111 million ($314,967 thousand) for the year ended March 31, 1999 is related to the realignment of the ICL Pathway Private Finance Initiative (PFI) project, which is a large-scale plan to automate postal services throughout the U.K. and to construct, implement and operate a system to deliver social benefit payments through the postal service.

19. Segment Information

The Group, as a total supplier, supplies products and services which satisfy customers' needs by incorporating leading-ledge technologies in one business segment, the information technology industry. Effective the year ended March 31, 1999, however, this business segment has been divided into 5 new segments of "Services & Software," "Information Processing," "Telecommunications," "Electronic Devices" and "Other Operations" in order to present more useful information regarding the Group's business. These segments are classified based upon similarity of products and services, and selling methods, etc.

Business Segment Information

Yen (millions)

Years ended March 31	Services & Software	Information Processing	Telecom-munications	Electronic Devices	Other Operations	Elimination & Corporate	Consolidated
1997							
Sales							
Unaffiliated customers	¥1,521,065	¥1,547,239	¥774,456	¥464,500	¥196,214	¥ —	¥4,503,474
Intersegment	44,013	210,607	19,510	150,634	133,769	(558,533)	—
Total sales	1,565,078	1,757,846	793,966	615,134	329,983	(558,533)	4,503,474
Operating costs and expenses	1,463,665	1,722,671	638,676	661,972	324,260	(497,555)	4,313,689
Operating income (loss)	101,413	35,175	155,290	(46,838)	5,723	(60,978)	189,785
Total assets	1,032,210	1,414,489	508,743	909,841	361,462	500,855	4,727,600
Depreciation	35,264	75,417	23,059	140,107	7,374	7,937	289,158
Capital expenditure	52,391	113,906	37,128	203,292	9,792	15,178	431,687
1998							
Sales							
Unaffiliated customers	¥1,736,697	¥1,688,402	¥799,287	¥541,023	¥219,973	¥ —	¥4,985,382
Intersegment	45,305	246,012	12,450	115,667	127,483	(546,917)	—
Total sales	1,782,002	1,934,414	811,737	656,690	347,456	(546,917)	4,985,382
Operating costs and expenses	1,662,314	1,884,477	710,823	689,163	343,455	(482,203)	4,808,029
Operating income (loss)	119,688	49,937	100,914	(32,473)	4,001	(64,714)	177,353
Total assets	1,266,111	1,449,784	601,298	982,234	375,193	448,419	5,123,039
Depreciation	43,095	77,892	27,648	150,628	7,905	7,676	314,844
Capital expenditure	60,087	97,165	51,451	196,461	8,794	18,324	432,282

Year ended March 31	Services & Software	Information Processing	Telecom-munications	Electronic Devices	Other Operations	Elimination & Corporate	Consolidated
							Yen (millions)
1999							
Sales							
Unaffiliated customers	**¥2,034,569**	**¥1,801,409**	**¥681,059**	**¥506,645**	**¥219,304**	**¥ —**	**¥5,242,986**
Intersegment	**58,245**	**300,661**	**10,759**	**103,161**	**100,949**	**(573,775)**	**—**
Total sales	**2,092,814**	**2,102,070**	**691,818**	**609,806**	**320,253**	**(573,775)**	**5,242,986**
Operating costs and expenses	**1,926,478**	**2,007,998**	**676,161**	**693,145**	**313,196**	**(506,279)**	**5,110,699**
Operating income (loss)	**166,336**	**94,072**	**15,657**	**(83,339)**	**7,057**	**(67,496)**	**132,287**
Total assets	**1,359,518**	**1,354,471**	**582,633**	**890,014**	**372,640**	**553,054**	**5,112,330**
Depreciation	**42,609**	**79,596**	**41,764**	**149,913**	**8,173**	**7,167**	**329,222**
Capital expenditure	**42,637**	**86,775**	**41,351**	**92,252**	**8,123**	**11,317**	**282,455**
							U.S. Dollars (thousands)
1999 (in U.S. Dollars)							
Sales							
Unaffiliated customers	***$16,814,620***	***$14,887,677***	***$5,628,587***	***$4,187,149***	***$1,812,430***	***$ —***	***$43,330,463***
Intersegment	***481,364***	***2,484,802***	***88,917***	***852,570***	***834,289***	***(4,741,942)***	***—***
Total sales	***17,295,984***	***17,372,479***	***5,717,504***	***5,039,719***	***2,646,719***	***(4,741,942)***	***43,330,463***
Operating costs and expenses	***15,921,306***	***16,595,025***	***5,588,107***	***5,728,471***	***2,588,397***	***(4,184,124)***	***42,237,182***
Operating income (loss)	***1,374,678***	***777,454***	***129,397***	***(688,752)***	***58,322***	***(557,818)***	***1,093,281***
Total assets	***11,235,686***	***11,193,975***	***4,815,149***	***7,355,488***	***3,079,669***	***4,570,694***	***42,250,661***
Depreciation	***352,140***	***657,820***	***345,157***	***1,238,950***	***67,545***	***59,231***	***2,720,843***
Capital expenditure	***352,372***	***717,149***	***341,744***	***762,413***	***67,132***	***93,529***	***2,334,339***

Notes:
1. The business segments are classified based on similarity of products and services, and selling methods, etc.
2. Principal products and services of business segments are as follows:
   (1) Services & Software .... System integration service, Outsourcing, Network service, Consulting, SE support, User training, Internet service, Maintenance and system construction works, Operating system, Middleware, Application software, Multimedia contents
   (2) Information Processing ... High performance computer, Global server, UNIX server, Intel-architecture server, Workstation, Personal computer, LAN, ATM, Smart card, POS system, Handy terminal, Medicare system, Magnetic disk, Optical magnetic disk, Magnetic tape, Printer, Word processor
   (3) Telecommunications ...... Electronic switching system, ATM switching system, Optical transmission system, Optical undersea transmission system, Wireless system, Satellite telecommunication system, Corporate information network system, Mobile telecommunication system, Cellular phone
   (4) Electronic Devices .... Memory IC (DRAM, Flash memory), Logic IC (ASIC, Microcontroller, System LSI), Media device (PC card, SAW device), PDP, LCD, Compound semiconductor, Relay, Connector, Keyboard
   (5) Other Operations .... Electronic material, Battery, Audio/Visual equipment, Auto electronic device, Logistic service, Insurance and travel service
3. Unallocated operating costs and expenses reported in “Elimination & Corporate” for the years ended March 31, 1997, 1998 and 1999 were ¥62,292 million, ¥65,234 million and ¥64,049 million ($529,331 thousand), respectively. Most of those costs and expenses are incurred as basic research and development expenses and general and administrative expenses at the Company.
4. Corporate assets included in “Elimination & Corporate” at March 31, 1997, 1998 and 1999 were ¥729,369 million, ¥735,282 million and ¥803,905 million ($6,643,843 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents), long-term investments and miscellaneous assets held by the general and administrative sections.

Geographic Segment Information

Years ended March 31	Japan	Europe	The Americas	Other	Elimination & Corporate	Consolidated
						Yen (millions)
1997						
Sales						
Unaffiliated customers	¥3,376,708	¥637,011	¥324,819	¥164,936	¥ —	¥4,503,474
Intersegment	385,520	24,770	51,757	229,724	(691,771)	—
Total	3,762,228	661,781	376,576	394,660	(691,771)	4,503,474
Operating costs and expenses	3,481,405	684,557	390,593	389,372	(632,238)	4,313,689
Operating income (loss)	280,823	(22,776)	(14,017)	5,288	(59,533)	189,785
Total assets	3,072,360	359,705	488,303	250,060	557,172	4,727,600
1998						
Sales						
Unaffiliated customers	¥3,528,164	¥795,932	¥449,998	¥211,288	¥ —	¥4,985,382
Intersegment	482,785	30,751	61,694	312,581	(887,811)	—
Total	4,010,949	826,683	511,692	523,869	(887,811)	4,985,382
Operating costs and expenses	3,726,943	834,102	572,293	497,333	(822,642)	4,808,029
Operating income (loss)	284,006	(7,419)	(60,601)	26,536	(65,169)	177,353
Total assets	3,214,068	710,828	484,473	275,152	438,518	5,123,039
1999						
Sales						
Unaffiliated customers	**¥3,414,620**	**¥1,005,646**	**¥573,191**	**¥249,529**	**¥ —**	**¥5,242,986**
Intersegment	**571,769**	**53,409**	**95,938**	**323,426**	**(1,044,542)**	**—**
Total	**3,986,389**	**1,059,055**	**669,129**	**572,955**	**(1,044,542)**	**5,242,986**
Operating costs and expenses	**3,777,230**	**1,058,644**	**688,148**	**559,328**	**(972,651)**	**5,110,699**
Operating income (loss)	**209,159**	**411**	**(19,019)**	**13,627**	**(71,891)**	**132,287**
Total assets	**3,266,960**	**624,572**	**371,253**	**271,378**	**578,167**	**5,112,330**
						U.S. Dollars (thousands)
1999 (in U.S. Dollars)						
Sales						
Unaffiliated customers	***$28,220,000***	***$8,311,124***	***$4,737,116***	***$2,062,223***	***$ —***	***$43,330,463***
Intersegment	***4,725,364***	***441,397***	***792,876***	***2,672,942***	***(8,632,579)***	***—***
Total	***32,945,364***	***8,752,521***	***5,529,992***	***4,735,165***	***(8,632,579)***	***43,330,463***
Operating costs and expenses	***31,216,777***	***8,749,124***	***5,687,174***	***4,622,546***	***(8,038,439)***	***42,237,182***
Operating income (loss)	***1,728,587***	***3,397***	***(157,182)***	***112,619***	***(594,140)***	***1,093,281***
Total assets	***26,999,669***	***5,161,752***	***3,068,207***	***2,242,793***	***4,778,240***	***42,250,661***

Notes: 1. Classification of the geographic segments is determined by geographical location.

2. Principal countries and regions belong to geographic segments except Japan:
   (1) Europe................ U.K., Spain, Sweden, Germany, Finland, the Netherlands
   (2) The Americas....... U.S.A., Canada
   (3) Others .... China, Thailand, Vietnam, Malaysia, the Philippines, Singapore, Taiwan, Australia
3. Unallocated operating costs and expenses reported in "Elimination & Corporate" for the years ended March 31, 1997, 1998 and 1999 were ¥62,292 million, ¥65,234 million and ¥64,049 million ($529,331 thousand), respectively. Most of those costs and expenses are incurred as basic research and development expenses and general and administrative expenses at the Company.
4. Corporate assets included in "Elimination & Corporate" at March 31, 1997, 1998 and 1999 were ¥729,369 million, ¥735,282 million and ¥803,905 million ($6,643,843 thousand), respectively. The assets principally consisted of working capital (cash and cash equivalents), long-term investments and miscellaneous assets held by the general and administrative sections.