Net Sales

In fiscal 1999, the year ended March 31, 2000, the Fujitsu Group's domestic operating environment was characterized by signs of recovery in some categories of personal consumption, such as personal computers. Nevertheless, the economy as a whole failed to rebound, affected partly by continued sluggish corporate capital investment levels. The European and U.S. economies expanded, and Asian economies continued to recover. At the same time, the business environment for the Fujitsu Group as a whole remained challenging, owing to global corporate efforts to rein in IT-related investments out of concern for the ramifications of Year 2000 (Y2K) problems.

In this environment, consolidated net sales remained essentially unchanged from the preceding term, at ¥5,255.1 billion ($49,576 million). Domestic information system sales declined as a result of companies reducing investment, however PC sales to individual consumers increased, and our outsourcing business as well as flash memory and logic semiconductor businesses expanded. Consequently, domestic sales rose 7.2%, to ¥3,352.8 billion ($31,630 million).

Conversely, overseas sales fell 10.1%, to ¥1,902.2 billion ($17,945 million). Among the factors affecting these sales were restrained global capital investment, owing to Y2K-related concerns, and the October 1999 merger of our European PC manufacturing and sales subsidiary with a unit of Germany's Siemens AG, which resulted in shift to the equity accounting method for the new joint venture company. Also, there was a decrease in the value of overseas sales due to yen appreciation.

The average exchange rate during the year rose from ¥128 to ¥112 against the U.S. dollar, and from ¥212 to ¥180 against the British pound. This yen appreciation caused a decrease of approximately ¥267.0 billion ($2,519 million) in the value of sales after yen conversion, as compared to the value if calculated at the previous year's conversion rate.

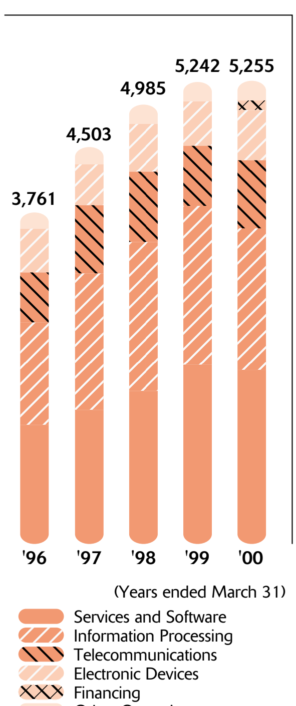
Cost of Sales
Selling, General & Administrative Expenses
Operating Income

Cost of sales totaled ¥3,796.9 billion ($35,819 million), an increase of 0.5% from fiscal 1998. The cost of sales ratio for the year was 72.3%.

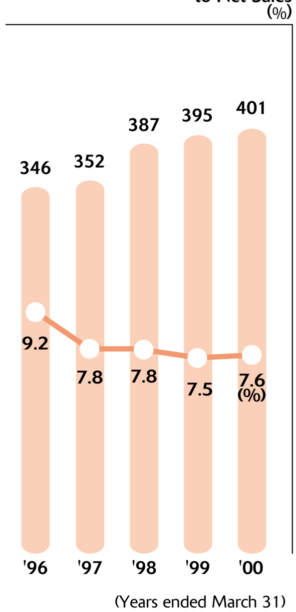
Gross profit was down slightly, to ¥1,458.1 billion ($13,756 million). Affected by Y2K concerns, sales of global servers declined. This factor, combined with price erosion in small form factor hard disk drives, reduced gross profit margin from 28.0% to 27.7%.

However, owing to successful efforts to improve the efficiency of selling expenses while at the same time promoting leading-edge R&D, selling, general and administrative expenses declined by ¥25.6 billion, to ¥1,308.2 billion ($12,341 million), and sales, general and administrative expenses as a percentage of net sales dropped 0.7 of a percentage point, to 24.8%. We continued to aggressively invest in advanced technology for future growth areas such as next-generation telecommunications systems for IMT-2000. As a result, R&D expenditure rose 1.5%, to ¥401.0 billion ($3,783 million). As a proportion of net sales, R&D expenditure increased 0.1 percentage point, to 7.6%. In addition, amortization of goodwill grew ¥5.8 billion over fiscal 1998, to ¥27.6 billion ($260

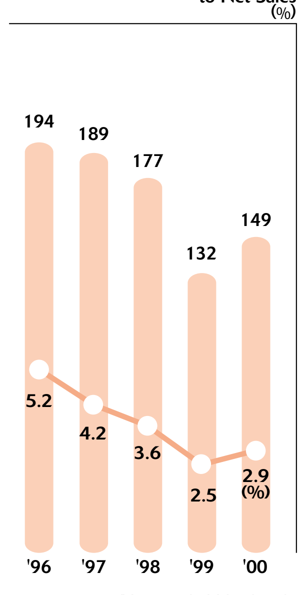
Net Sales by Business Segment
(excluding intersegment sales)
(¥ Billion)



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



Operating Income
(¥ Billion)
Ratio of Operating Income to Net Sales (%)



million), due to such factors as the inclusion of NIFTY Corporation as a consolidated subsidiary.

Accordingly, operating income rose ¥17.6 billion, to ¥149.9 billion ($1,414 million). Operating income as a percentage of net sales improved 0.4 of a percentage point, to 2.9%.

Other Income and Expenses
Net Income (Loss)

Other income and expenses improved ¥7.5 billion, to –¥75.1 billion (–$708 million), while interest and dividend income less interest charges improved ¥8.8 billion, to –¥36.9 billion (–$348 million), due to a reduction in interest-bearing liabilities. On the other hand, foreign exchange losses increased by ¥8.8 billion to ¥25.6 billion ($242 million). As we are gradually shifting our severance benefit plans to contributory defined plans in order to fortify our pension assets, pension costs increased by ¥17.4 billion over the previous period.

In addition, we recorded a gain of ¥20.4 billion ($192 million) from the sale of shares in a Finnish subsidiary of ICL PLC and ¥22.1 billion ($209 million) in gains on sales of marketable securities and other factors, totaling ¥42.6 billion ($402 million), down ¥12.0 billion from the previous year. We recorded ¥37.9 billion ($358 million) in restructuring costs, down ¥5.7 billion from last year, related to continued restructuring activities. Fujitsu's restructuring costs accounted for ¥14.7 billion ($138 million) of this amount, while those of our domestic and overseas subsidiaries, including ICL and Amdahl Corporation, totaled ¥23.2 billion ($219 million). In fiscal 1998, we recorded a charge of ¥38.1 billion related to the restructuring of the Pathway Project being carried out by ICL.

As a result of these factors, income before income taxes and minority interests increased 50.8% from the previous fiscal term, to ¥74.8 billion ($706 million). After deducting corporate income tax of ¥28.3 billion ($267 million) and minority interests of ¥3.7 billion ($35 million), net income improved ¥56.3 billion, to ¥42.7 billion ($403 million), compared with a net loss during fiscal 1998. Net income per share was ¥22.1 ($0.208), and return on equity was 3.5%.

Segment Information

Because of the change in the status of Fujitsu Leasing Co., Ltd. during this period from an affiliated company to a consolidated subsidiary, we have added an additional business segment (Financing) to the previous five segments (Services and Software, Information Processing, Telecommunications, Electronic Devices and Other Operations).

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

Years ended March 31	1999	2000	Increase (Decrease) rate(%)
Net Sales (including intersegment sales)			
Services and software	¥2,092	**¥2,053**	(1.9)%
Information processing	2,102	**1,884**	(10.4)
Telecommunications	691	**784**	13.4
Electronic devices	609	**716**	17.5
Financing	—	**119**	—
Other operations	320	**346**	8.1
Intersegment elimination	(573)	**(648)**	—
Consolidated net sales	¥5,242	**¥5,255**	0.2 %
Operating Income			
Services and software	¥166	**¥134**	(18.9)%
Information processing	94	**38**	(58.7)
Telecommunications	15	**17**	9.6
Electronic devices	(83)	**20**	—
Financing	—	**3**	—
Other operations	7	**3**	(50.6)
Unallocated operating costs and expenses/intersegment elimination	(67)	**(67)**	—
Consolidated operating income	¥132	**¥149**	13.4%

Business Segment Information

Services and Software

Fiscal 1999 consolidated services and software sales rose 4.8% domestically, to ¥1,320.8 billion ($12,461 million), while overseas sales in this category fell 15.4%, to ¥654.5 billion ($6,175 million). Together, these sales declined 2.9%, to ¥1,975.4 billion ($18,636 million). Bolstering domestic sales in this category were steady increases in our network services business, focusing primarily on outsourcing, while overseas, favorable developments in European PFI projects and other matters contributed to sales. However, Y2K-related concerns caused a slowdown in domestic and overseas systems integration sales, and overseas sales in this segment were also adversely affected by yen appreciation, which reduced the value of sales by overseas subsidiaries by ¥110.0 billion ($1,037 million) when compared to the value as calculated at last year's exchange rate, and as a result, overall sales for the category declined. Affected by such factors as the lower performance of ICL and DMR Consulting Group, Inc. owing to Y2K-related issues, operating income for this sector slipped 18.9%, to ¥134.9 billion ($1,273 million).

Information Processing

Domestic sales of information processing systems and equipment fell 2.6%, to ¥1,047.1 billion ($9,878 million), and overseas sales dropped 23.2%, to ¥558.1 billion ($5,265 million). As a result, consolidated sales for the category as a whole decreased 10.9%, to ¥1,605.3 billion

($15,144 million). Owing to the expansion of Internet usage, domestic sales of PCs and UNIX servers were buoyant, and overseas sales of small form factor hard disk drives for notebook PCs and UNIX servers also increased. However, because of lower IT investment globally due to Y2K-related concerns, sales of global servers fell in Japan, the Americas and Europe.

In addition to an ¥87.8 billion ($828 million) impact on overseas sales due to yen appreciation, the sales decline in this category was also attributable in part to the October 1999 merger of Fujitsu's European PC manufacturing and sales subsidiary with a unit of Germany's Siemens AG, making the resulting joint venture company subject to the equity accounting method.

Operating income for the category dropped 58.7%, to ¥38.8 billion ($366 million). This reduction was attributable primarily to lower sales of corporate information systems, as well as increased competition in large-scale servers (especially in the US) and substantial price erosion in the small form factor hard disk drive and desktop products businesses.

Telecommunications

Domestic sales in the telecommunications segment rose 5.3%, to ¥417.2 billion ($3,936 million), while overseas sales expanded 24.7%, to ¥355.1 billion ($3,350 million). For the segment as a whole, consolidated sales improved 13.4%, to ¥772.4 billion ($7,287 million). Offsetting increasingly severe market competition in China, which caused a decrease in sales of switching systems, and a ¥44.6 billion ($420 million) decrease in the value of overseas sales due to yen appreciation, our aggressive efforts to increase both the speed and capacity of network systems that provide Internet and database support were successful; US sales of optical transmission systems surged, and sales of large-scale optical submarine cables also increased. Due in part to active promotion of leading-edge R&D in next-generation mobile communications systems for IMT-2000, growth in operating income in this business segment was limited to a gain of 9.6%, to ¥17.1 billion ($161 million).

Electronic Devices

Overall consolidated sales of electronic devices rose 12.1%, to ¥568.1 billion ($5,359 million), including domestic sales of ¥296.3 billion ($2,795 million), up 24.4%, and overseas sales of ¥271.8 billion ($2,564 million), which were up 1.3%. Although overseas sales were subjected to a negative yen conversion effect of ¥24.7 billion ($233 million), our efforts to restructure our DRAM business and concentrate management resources on higher-value-added products bore fruit. Demand soared for flash memories and logic ICs used in mobile telephones and digital AV equipment, prompting significant sales increases in this category. Also favorable were sales of SAW filters for mobile telephones and compound semiconductors for optical transmission systems. As a result, operating income for the electronic devices segment in fiscal 1999 was ¥20.1 billion ($190 million), compared with a ¥83.3 billion loss in fiscal 1998.

Financing

In fiscal 1999, the financing segment generated consolidated sales of ¥113.0 billion ($1,066 million) and operating income of ¥3.0 billion ($28 million). This segment was added as the result of the inclusion of Fujitsu Leasing as a consolidated subsidiary beginning in fiscal 1999.

Other Operations

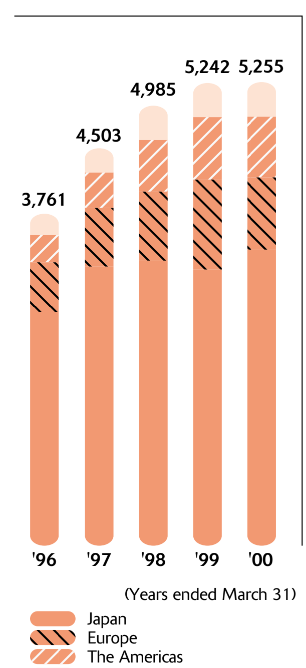
Total sales accounted for by other operations edged up 0.6% from the preceding period, to ¥220.6 billion ($2,081 million). Domestic sales rose 0.4%, to ¥158.1 billion ($1,492 million), while overseas sales expanded 1.2%, to ¥62.4 billion ($589 million). Operating income in this business segment amounted to ¥3.4 billion ($32 million).

Geographic Segment Information

Japan

Overall domestic sales grew 6.3%, to ¥3,631.0 billion ($34,254 million), thanks to improvements in the semiconductor business. Domestic operating income improved 8.9%, to ¥227.7 billion ($2,148 million).

Net Sales by Customers' Geographic Location
(¥ Billion)



Europe

Sales in European markets sank 21.7%, to ¥787.5 billion ($7,429 million), owing to the combined effects of sluggish sales of ICL's services and software and yen appreciation, as well as the shift to the equity accounting method for consolidating the results of our European PC sales and manufacturing subsidiary following its merger with a unit of

Siemens. Our operating income for this region declined, and we posted an operating loss of ¥10.4 billion ($98 million).

The Americas

Lower information systems sales by Amdahl and yen appreciation negatively affected sales in this region, but boosted by the strong performance of our transmission business, sales in the Americas rose 2.1%, to ¥585.4 billion ($5,523 million). Increased sales and business restructuring, together with a smaller loss by our U.S. semiconductor plant, resulted in a ¥5.7 billion operating-level improvement, and we recorded an operating loss of ¥13.2 billion ($125 million) in this region.

Other

Sales in this geographic segment, which includes Asian markets outside Japan, increased 0.6%, to ¥251.0 billion ($2,368 million). Operating income soared 41.8%, to ¥19.3 billion ($182 million).

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

Years ended March 31	1999	2000	Increase (Decrease) rate (%)
Net sales (including intersegment sales)			
Japan	¥3,986	**¥4,224**	6.0%
Europe	1,059	**817**	(22.8)
The Americas	669	**663**	(0.9)
Other	572	**549**	(4.1)
Intersegment elimination	(1,044)	**(1,000)**	—
Consolidated net sales	¥5,242	**¥5,255**	0.2%
Operating income			
Japan	¥ 209	**¥ 227**	8.9%
Europe	0	**(10)**	—
The Americas	(19)	**(13)**	—
Other	13	**19**	41.8
Unallocated operating costs and expenses/intersegment elimination	(71)	**(73)**	—
Consolidated operating income	¥ 132	**¥ 149**	13.4%

Capital Expenditure

Responding to increased demand for semiconductors and focusing our investments in growth areas, we expanded capital expenditure in fiscal 1999 by 12.8%, or ¥36.9 billion to ¥325.7 billion ($3,072 million). By business segment, outlays for services and software totaled ¥64.7 billion ($610 million), ¥89.2 billion ($841 million) for information processing, ¥35.5 billion ($334 million) for telecommunications, ¥113.6 billion ($1,071 million) for electronic devices, of which ¥87.9 billion ($829 million) was invested in semiconductors, and ¥9.8 billion ($92 million) in other operations.

Capital Expenditure (¥ Billion)

Years ended March 31	1999	2000	Increase (Decrease) rate (%)
Services and software	¥ 48	**¥ 64**	32.4%
Information processing	79	**89**	11.6
Telecommunications	41	**35**	(13.9)
Electronic devices	97	**113**	16.0
[Semiconductor production]	[80]	**[87]**	[9.4]
Financing	—	**—**	—
Other operations	9	**9**	1.8
Corporate*	11	**12**	13.5
Capital expenditure	¥288	**¥325**	12.8%
Domestic	207	**227**	9.8
Overseas	81	**98**	20.1

* Nonallocable capital expenditure for shared R&D and parent company management division

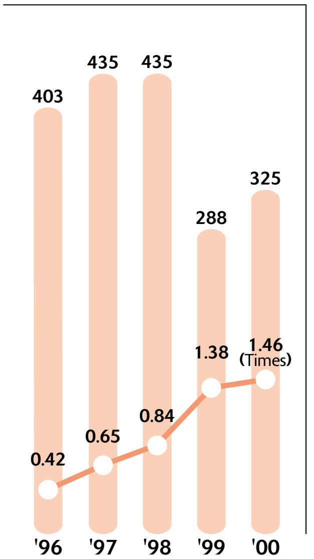
Major capital expenditure included:

* Services and software — Outsourcing facilities for the network services business, server expansion and infrastructure related to the consolidation of NiftyServe and InfoWeb into @nifty

* Information processing — Magnetic disk drive development and manufacturing facilities, printed circuit board production facilities, UNIX systems R&D facilities

Capital Expenditure
(¥ Billion)

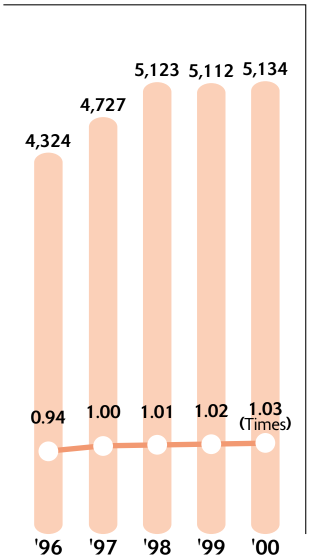
Coverage of Capital Expenditure
(Times)



(Years ended March 31)

Total Assets
(¥ Billion)

Total Assets Turnover Rate
(Times)



(Years ended March 31)

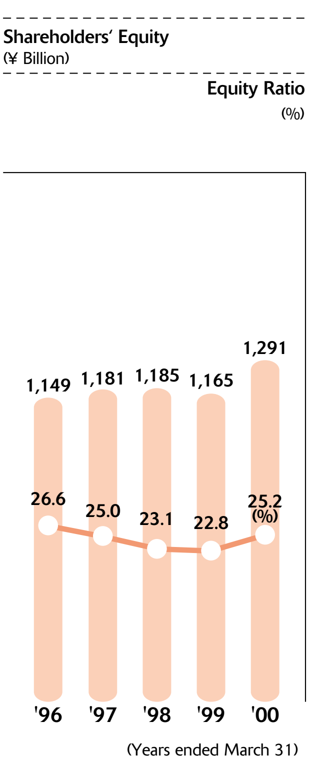
* Telecommunications — R&D and production equipment for optical transmission systems and next-generation mobile communications systems
* Electronic devices — Advanced logic development line, logic and flash memory production facilities, and SAW filter mass-production facilities

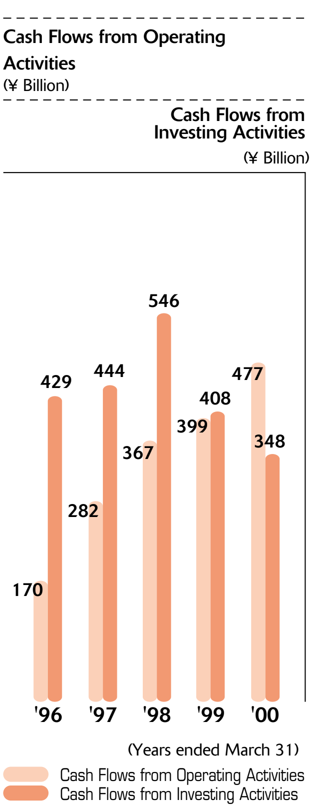
Financial Condition and Liquidity

Total assets at March 31, 2000 stood at ¥5,134.6 billion ($48,440 million), up ¥22.3 billion from the end of previous fiscal year. This rise was owing to the increase in lease assets resulting from the inclusion of Fujitsu Leasing as a consolidated subsidiary. Excluding this factor, total assets decreased approximately ¥300.0 billion, attributable primarily to our efforts to slim overall current assets through effective use of excess cash, successful collection of accounts receivable, reduction of inventories, and other means.

By slimming current assets and thanks to aggressive conversion of convertible bonds into stock, interest-bearing liabilities were reduced by ¥202.2 billion, to ¥1,725.0 billion ($16,274 million), despite an increase of ¥205.3 billion relating to the consolidation of Fujitsu Leasing.

Shareholders' equity increased ¥126.1 billion, to ¥1,291.4 billion ($12,183 million), due to the conversion of convertible bonds into shares, as well as exercise of stock purchase warrants. The shareholders' equity ratio rose from 22.8% to 25.2%, and shareholders' equity per share, based on the number of shares outstanding at year-end, was ¥657.9 ($6.207), compared with ¥618.5 the previous year.





Cash Flows

Net cash provided by operating activities increased ¥77.3 billion, to ¥477.0 billion ($4,500 million). This rise resulted from an increase in overall profit and the slimming of current assets.

Primarily because of a decrease in investments and long-term loans, net cash used in investing activities fell ¥60.4 billion, to ¥348.2 billion ($3,285 million).

Stemming from the factors described above, the difference between cash provided by operating activities and cash used in investing activities (free cash flow) improved ¥137.7 billion from the –¥9.0 billion of fiscal 1998, resulting in positive cash flow of ¥128.7 billion ($1,214 million).

As a result of a reduction in interest bearing liabilities, net cash used in financing activities stood at ¥271.2 billion ($2,558 million), down ¥340.4 billion from the previous year.

Consolidated Subsidiaries

As of March 31, 2000, Fujitsu's consolidated subsidiaries numbered 493, of which 134 were based in Japan and 359 overseas. In April 1999, we established Fujitsu Hitachi Plasma Display Co., Ltd. as a specialized manufacturer of PDP devices. In January 2000, we created Internet Trading Securities Inc. Also, we have included Fujitsu Leasing in our consolidation. Despite these increases in the number of consolidated subsidiaries, our former European PC sales and marketing subsidiary, Fujitsu Computers (Europe) Limited, was united in a joint venture company with a unit of Siemens of Germany, and overall, the number of subsidiaries decreased by 25 during the year, from 518 at the end of fiscal 1998.