Net Sales

In the fiscal year ending March 31, 2002 (fiscal 2001), the Fujitsu Group faced a difficult global economic environment, with the impact of the slowdown in the U.S. economy reverberating throughout Japan, Europe and Asia through December. The IT industry has good prospects for growth in the medium to long term, owing to its core role in supporting emerging high-speed, large-volume networks. However, it was in an exceptionally severe position throughout fiscal 2001, as global shipments of cellular phones and personal computers declined, and telecommunications carriers around the world, particularly those North America, continued to sharply curtail capital investment.

On the other hand, since January there have begun to be indications of a market recovery, including signs — mainly in the U.S. and Asia — that the economy has bottomed out; that the slump in overseas demand for PCs and mobile phones may be ending; and that inventory adjustments in semiconductors may have run their course.

Against this backdrop, consolidated net sales in fiscal 2001 were ¥5,006.9 billion, an 8.7% decline from the previous fiscal year.

In Japan, responding to diverse market needs in the area of large-scale IT systems for enterprises and organizations, we achieved higher sales of systems integration and outsourcing services, as well as enterprise servers. Sales of base station systems and other equipment for 3G telecommunications services also increased. Still, with sluggish demand for PCs worldwide and a glut of electronic devices eroding prices, revenues in those areas fell, resulting in a 3.6% decline in overall domestic sales, to ¥3,460.9 billion.

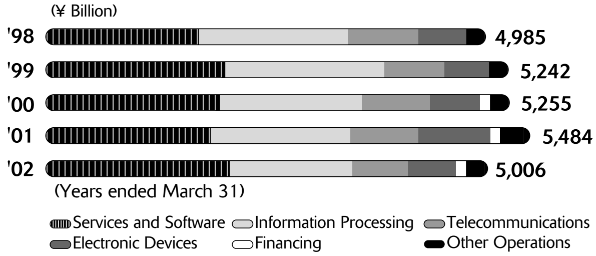
Overseas, deterioration in the financial performance of telecommunications carriers, especially in North America, led to large cutbacks in capital spending, and sales of optical transmission systems were sharply lower. In addition, our exit from the business of small form factor hard disk drives for desktop PCs, the severe deterioration in demand for electronic devices, and lower sales in our European and U.S. services businesses all contributed to an 18.4% overall decline in overseas sales, to ¥1,546.0 billion.

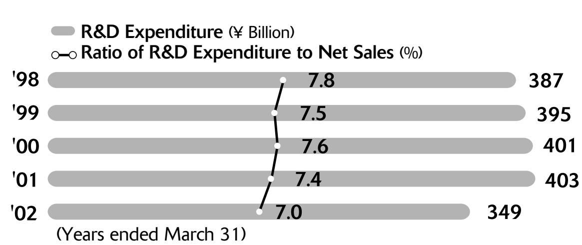
Cost of Sales, Selling, General & Administrative Expenses, and Operating Income

The cost of sales for fiscal 2001 totaled ¥3,731.2 billion, 5.4% lower than the previous fiscal year. The cost of sales ratio rose 2.6%, to 74.5%. The gross profit on sales (net sales minus the cost of sales) was ¥1,275.7 billion, a decline of 17.3%. The gross profit margin was 25.5%, 2.6% lower than the previous year's figure of 28.1%. The decline in profitability resulted from lower demand and prices in telecommunications and electronic devices, as well as lower capacity utilization.

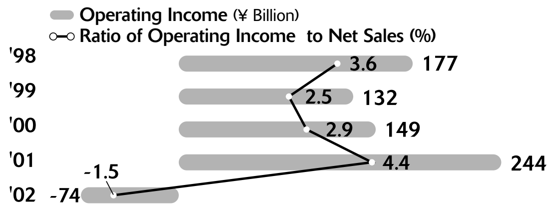
Selling, general and administrative (SG&A) expenses totaled ¥1,350.1 billion. Some indirect costs related to operational control that previously were included in the cost of sales are included in this period's SG&A expenses. Due to this and other factors, SG&A increased by 4.0%, and it rose 3.3% as a percentage of sales, to 27.0%. Our R&D investments were focused on web services and other advanced technologies in software and services, computer and telecommunications systems for next-generation networks, and the electronic devices that power these systems. As a result, the portion of SG&A attributable to R&D spending was ¥349.8 billion, down 13.3% from the previous year.

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





Due to these factors, we posted an operating loss for fiscal 2001 of ¥74.4 billion, down ¥318.4 billion from the previous year's operating profit. Our operating margin was –1.5%.



(Years ended March 31)

Other Income and Expenses, Net Income

Other income and expenses amounted to –¥520.3 billion, as expenses increased by ¥433.8 billion over the previous year.

Of this amount, charges to cover a deficit in pension liabilities rose by ¥13.2 billion, to ¥35.7 billion, as a result of lower prices for stock assets. A deterioration in operating results caused equity in earnings of affiliated companies to decline by ¥10.7 billion, to ¥2.6 billion.

We designated fiscal 2001 as a year of thorough structural reform for the Fujitsu Group. We restructured in every business segment, and related charges totaled ¥417.0 billion, an increase of ¥314.5 billion over the previous year. Major items in the overall restructuring charge are broken out below.

Restructuring Charges by Business Segment (¥ Billion)

Year ended March 31	2002
Services and Software	¥ 42
Information Processing	100
Telecommunications	65
Electronic Devices	208
Consolidated restructuring charge	¥417

Services and Software: Reorganized ICL of the U.K. (renamed "Fujitsu Services Holdings PLC" as of April 2002) and DMR Consulting of the U.S. (renamed "Fujitsu Consulting Inc." as of April 2002) as part of our global push in IT services.

Information Processing: Exited business of small form factor hard disk drives for desktop PCs; restructured manufacturing operations for servers and storage systems.

Telecommunications: Exited North American PBX business and implemented strategy to cope with decline in North American optical transmission market.

Electronic Devices: Closed North American semiconductor plant and reorganized semiconductor production operations in Japan.

Also in the category of other income and expenses was a ¥20.5 billion valuation loss on marketable securities as a result of stock price declines (¥9.9 billion greater than the previous year's valuation loss).

As a result of these factors, the net loss before income taxes and minority interests totaled ¥594.7 billion, a reversal of ¥752.2 billion from the previous year. After factoring in income taxes of –¥199.4 billion and minority interests of –¥12.7 billion, the net loss was ¥382.5 billion, a decline of ¥391.0 billion in income from the previous year. The net loss per share was ¥193.0.

Segment Information
Business Segment Information

Services and Software

Fiscal 2001 sales of services and software rose 5.5% in Japan, to ¥1,534.5 billion, but declined by 1.5% in overseas markets, to ¥551.3 billion. Overall sales were ¥2,085.8 billion, an increase of 3.5% over the previous year. Sales of services in Japan rose steadily, benefiting from brighter prospects for expansion in the IT services market from e-Japan-related key projects, as well as the enhancement of our operational base. Solution services, including supply chain management and other services aimed at helping customers improve the efficiency of their enterprise operations — from parts procurement through manufacturing, distribution and sales — met with favorable demand. In infrastructure services, sales of network-delivered outsourcing services enjoyed solid growth. Overseas, however, cutbacks in corporate IT spending in the U.S. and Europe resulted in a decline in sales, holding overall sales of services to a small gain.

Nevertheless, thanks to higher domestic sales of services and efficiency gains, as well as progress from the restructuring of overseas subsidiaries, operating income in this segment increased by 22.6%, to ¥157.8 billion.

Information Processing

Information processing sales in Japan declined 9.7% from the previous year, to ¥983.8 billion, and overseas sales declined 16.8%, to ¥401.4 billion. Overall sales in this segment totaled ¥1,385.3 billion, a decline of 11.9%. Domestic sales of enterprise servers and storage equipment for large-scale systems increased, and new cellular phones introduced in the second quarter sold well, but demand for PCs dropped significantly, resulting in lower overall domestic sales. Overseas, our exit from the business of small form factor hard disk drives for desktop PCs, coupled with cutbacks in corporate IT spending, especially in the U.S., caused sales to decline.

Reflecting the impact of lower sales, operating income declined by 23.0%, to ¥14.5 billion.

Telecommunications

Telecommunications sales in Japan declined 1.4%, to ¥377.1 billion. Overseas sales in this segment fell 36.1%, to ¥252.7 billion, resulting in a 19.0% decrease in overall sales, to ¥629.8 billion. In Japan, amidst a rapid shift toward broadband networks, demand for conventional switching systems and other equipment declined. On the other hand, sales of base station systems and other equipment for 3G wireless networks increased. Overseas, the weak business performance of telecommunications carriers, particularly in North America, forced major cutbacks in capital spending, resulting in sharply lower sales, especially of optical transmission systems.

Operating income was impacted by the combination of lower sales of optical transmission systems and lower prices, resulting in an operating loss of ¥72.4 billion (compared to operating income of ¥37.9 billion the previous year).

Electronic Devices

Domestic sales of electronic devices totaled ¥263.2 billion, a decrease of 29.6% from the previous year, and overseas sales were ¥283.2 billion, a decline of 26.6%. Overall sales in this segment were ¥546.5 billion, down 28.1%. The deteriorating supply-demand balance, especially in semiconductors, caused unprecedented inventory and production adjustments and severe price competition. All major product categories, including flash memory, logic, SAW filters, and compound semiconductors, experienced significant sales declines.

Lower sales, steep declines in pricing, and low capacity utilization rates severely impacted profitability in this segment, resulting in an operating loss of ¥109.3 billion (compared to operating income of ¥113.4 billion in fiscal 2000).

Financing

Financing net sales totaled ¥114.4 billion, with operating income of ¥4.2 billion.

Other

Other domestic sales rose 2.4%, to ¥187.5 billion, and other overseas sales declined 18.1%, to ¥57.2 billion. Overall, other sales amounted to ¥244.8 billion, a 3.3% decline. Operating income was ¥0.2 billion, a 96.9% decline.

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

Years ended March 31	2001	**2002**	Increase (Decrease) rate(%)
Net sales (including intersegment sales)			
Services and Software	¥2,076	**¥2,138**	3.0%
Information Processing	1,842	**1,637**	(11.1)
Telecommunications	793	**643**	(18.9)
Electronic Devices	908	**637**	(29.9)
Financing	115	**123**	7.6
Other	381	**371**	(2.6)
Intersegment elimination	(633)	**(545)**	
Consolidated net sales	¥5,484	**¥5,006**	(8.7)%
Operating Income			
Services and Software	¥128	**¥157**	22.6%
Information Processing	18	**14**	(23.0)
Telecommunications	37	**(72)**	—
Electronic Devices	113	**(109)**	—
Financing	3	**4**	23.8
Other	8	**0**	(96.9)
Unallocated operating costs and expenses/intersegment elimination	(66)	**(69)**	
Consolidated operating income	¥244	**¥(74)**	—%

Segment Information by Region

Japan

Domestic sales in fiscal 2001 fell by 4.5%, to ¥3,759.7 billion. While services such as systems integration and outsourcing remained strong, lower unit sales of PCs and the market imbalance and price erosion in electronic devices led to lower overall domestic sales. Operating income declined 83.8%, to ¥53.3 billion.

Europe

A decline in ICL's sales of infrastructure services, the market imbalance in electronic devices, and lower sales of optical transmission systems and small form factor hard disk drives all contributed to an 11.8% decline in European sales, to ¥591.6 billion. There was an operating loss of ¥17.9 billion (compared to an operating loss the previous year of ¥6.0 billion).

The Americas

Sales in this region were impacted by sharp cutbacks in capital spending by North American telecommunications carriers, which resulted in dramatically lower sales of optical transmission systems. Overall sales in the region declined 35.2%, to ¥403.9 billion. As a result, there was an operating loss of ¥57.4 billion (compared to the previous year's operating loss of ¥17.4 billion).

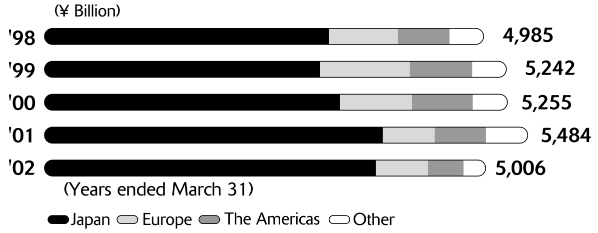
Other

Sales in all other regions, including Asia, totaled ¥251.6 billion, a decline of 0.9%. Worsening operations at small form factor hard disk drive and printed circuit board manufacturing subsidiaries in Southeast Asia resulted in a 57.8% decline in operating income, to ¥5.9 billion.

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

Years ended March 31	2001	**2002**	Increase (Decrease) rate (%)
Net sales (including intersegment sales)			
Japan	¥4,549	**¥4,161**	(8.5)%
Europe	698	**605**	(13.3)
The Americas	696	**446**	(36.0)
Other	555	**473**	(14.7)
Intersegment elimination	(1,016)	**(680)**	
Consolidated net sales	¥5,484	**¥5,006**	(8.7)%
Operating income			
Japan	¥ 328	**¥ 53**	(83.8)%
Europe	(6)	**(17)**	—
The Americas	(17)	**(57)**	—
Other	14	**5**	(57.8)
Unallocated operating costs and expenses/intersegment elimination	(75)	**(58)**	
Consolidated operating income	¥ 244	**¥ (74)**	—%

Net Sales by Customers' Geographic Location
(¥ Billion)



Capital Expenditure

In light of the challenging business environment, capital expenditure in fiscal 2001 contracted by 29.9%, to ¥306.9 billion, targeted only at the most promising growth sectors. Broken out by business segment, capital expenditure was ¥46.5 billion in services and software, ¥40.4 billion in information processing, ¥19.4 billion in telecommunications, ¥180.2 billion in electronic devices (of which ¥122.3 billion was for semiconductors), and ¥20.1 billion in general corporate and other areas.

Capital Expenditure (¥ Billion)

Years ended March 31	2001	**2002**	Increase (Decrease) rate (%)
Services and Software	¥ 65	**¥ 46**	(28.4)%
Information Processing	54	**40**	(26.2)
Telecommunications	44	**19**	(56.0)
Electronic Devices	249	**180**	(27.7)
[Semiconductor production]	[196]	**[122]**	[(37.9)]
Financing	—	**—**	—
Corporate*	24	**20**	(18.2)
Total	¥438	**¥306**	(29.9)%
Domestic	338	**244**	(27.7)
Overseas	99	**62**	(37.4)

* Non-allocable capital expenditure for shared R&D and parent company management division

Major Capital Expenditures

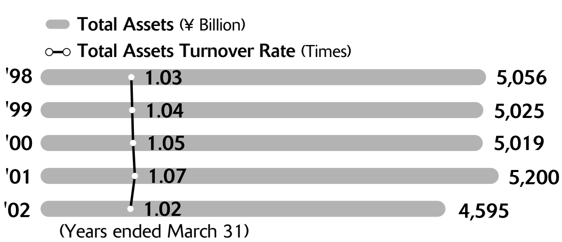
Services and Software:	Outsourcing facilities and network infrastructure
Information Processing:	Development and manufacturing facilities for servers and notebook PC hard disk drives
Telecommunications:	Development and production facilities for 3G wireless base stations
Electronic Devices:	Development facilities for advanced logic chips; production facilities for logic, flash memory, and FRAM devices

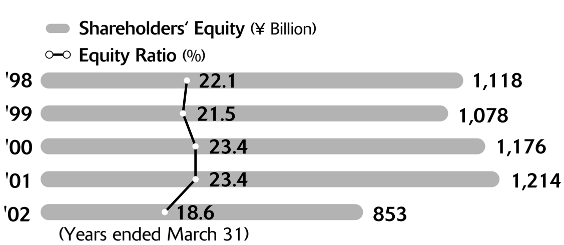
Financial Condition and Liquidity

Total assets at the end of fiscal 2001 amounted to ¥4,595.8 billion, a decrease of ¥604.2 billion from the previous year. Current assets were ¥2,223.0 billion, down ¥514.4 billion. Inventories were reduced by ¥260.8 billion thanks to group-wide containment efforts. Receivables, trade declined ¥267.4 billion as a result of lower sales and more efficient collections. Fixed assets amounted to ¥2,372.7 billion, a decrease of ¥89.8 billion from the previous year, reflecting streamlining from restructuring initiatives.

Total liabilities amounted to ¥3,526.5 billion, a decrease of ¥242.1 billion. Current liabilities declined ¥322.4 billion, to ¥2,121.2 billion. Fixed liabilities rose ¥80.2 billion, to ¥1,405.2 billion, as a result of capital procurement through bond issuance and other factors. Because free cash flow was negative, interest-bearing liabilities rose ¥124.4 billion, to ¥1,760.6 billion.

The large net loss resulting from restructuring charges and other factors reduced total shareholders' equity by ¥360.6 billion, to ¥853.7 billion, resulting in the shareholders' equity ratio declining to 18.6%. Of this, the balance of retained earnings decreased by ¥407.5 billion, to ¥76.1 billion. Based on the number of shares outstanding at the end of the period, shareholders' equity per share was ¥426.5.



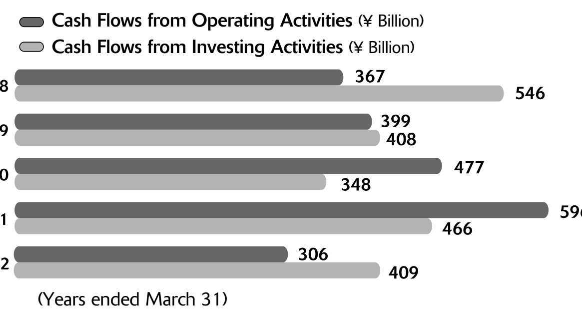


Cash Flows

Despite significant improvements in business efficiency, such as the group-wide initiative that succeeded in reducing inventories by 29.1%, net cash generated by operating activities in fiscal 2001 declined by ¥289.8 billion, to ¥306.5 billion, primarily as a result of the large net loss stemming from the significant restructuring charges. Because capital expenditures were limited only to the most promising growth sectors, net cash used in investing activities declined by ¥57.3 billion, to ¥409.4 billion.

Free cash flow was negative ¥102.8 billion, compared to positive free cash flow of ¥129.6 billion the previous year.

Net cash generated from financing activities amounted to ¥91.3 billion, compared with ¥137.6 billion the previous year. A corporate bond issue in September 2001 raised ¥180.0 billion for working capital and to cover corporate bond maturities, and additional funds were raised to cover the shortfall in free cash flow.



Consolidated Subsidiaries

At the end of fiscal 2001, Fujitsu had 494 consolidated subsidiaries, 129 in Japan and 365 abroad, representing a decrease of 23 from last year's total of 517. This decrease was achieved by reorganizing four domestic subsidiaries in the network solutions sector, merging and reorganizing other domestic subsidiaries to make them more competitive, and reorganizing the Amdahl Group and ICL Group. In April 2002, DMR Consulting Group, Inc. was renamed Fujitsu Consulting Inc., and ICL PLC became Fujitsu Services Holdings PLC.

The number of equity affiliates remained at 28.