Net Sales

Market conditions affecting Fujitsu in the fiscal year ended March 31, 2003 (fiscal 2002) remained difficult. Amid the prolonged aftermath of the bursting of the IT bubble in the U.S. and the subsequent economic downturn and global deflationary trends, stock markets remained depressed, personal consumption lagged and businesses continued to place stringent restraints on their investments in IT. With price competition increasingly fierce as a result of the rise in production capacity in China and elsewhere, the IT sector continued to experience drastic and rapid structural change, and market conditions remained severe throughout the year. At the same time, however, the implementation of the e-Japan initiative continued to have a beneficial effect, and China and other Asian markets began to recover in the second half. There were also signs that the decline in IT investment by telecommunications carriers in Europe and the U.S. had finally hit bottom. Unfortunately, toward the close of the fiscal year, the prospects for economic recovery worldwide became less certain as a result of the tense international situation, including the Iraq conflict and possible adverse effects from the SARS epidemic.

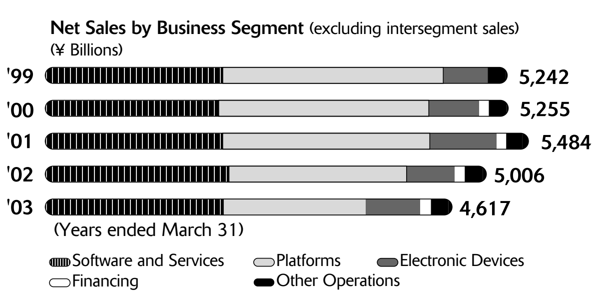
In this difficult environment, fiscal 2002 consolidated net sales were ¥4,617.5 billion ($38,480 million), a decrease of 7.8% from the previous fiscal year.

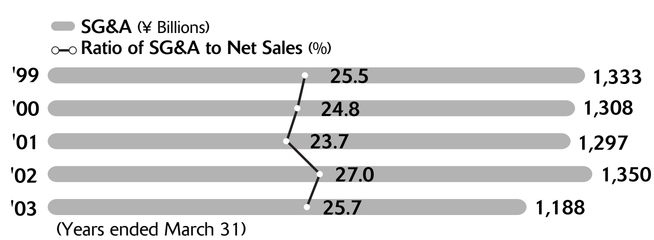
We accelerated worldwide efforts to increase sales of software and services to the manufacturing, government and healthcare sectors and also strived to expand sales of consumer products, such as personal computers and mobile telephones. Despite these initiatives, however, telecommunications carriers worldwide continued to cut back on their capital investments. There was also a drop-off in large-scale system orders in Japan, particularly from financial institutions. As a result, sales of platform products fell significantly. Our services business was also impacted by conditions in the telecommunications and financial sectors. In semiconductors, however, although price competition intensified, there was great improvement in the demand-supply balance for logic chips and flash memory, and sales increased.

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

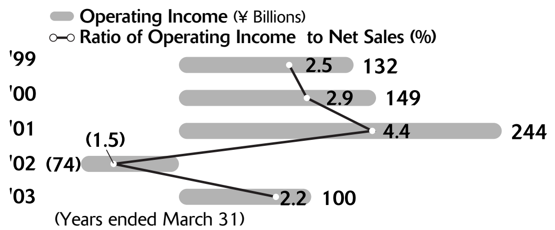
Compared to the previous year, the cost of sales decreased by 10.8%, to ¥3,328.2 billion ($27,736 million), while the cost of sales ratio also fell by 2.4% from the previous fiscal year, to 72.1%. Gross profit on sales (net sales minus the cost of goods sold) rose to ¥1,289.3 billion ($10,744 million), a 1.1% increase over the previous fiscal year. As a result, the gross profit margin improved by 2.4% from last year's 25.5%, to 27.9%. This improvement in profitability is a result of the effects of the streamlining achieved by restructuring as well as concerted efforts to cut costs and make expenditures more productive.

Selling, general and administrative expenses declined by 11.9% from the previous year, to ¥1,188.8 billion ($9,907 million). These efficiency gains, combined with the decrease in sales, led to a 1.3% reduction in the ratio of these expenses to net sales, to 25.7%. As a result of the





foregoing factors, operating income for fiscal 2002 increased by ¥174.8 billion over the previous year, to ¥100.4 billion ($837 million). The ratio of operating income to net sales was 2.2%.



Other Income and Expenses, Net Income

Other income and expenses amounted to -¥248.0 billion (-$2,067 million), compared to -¥520.3 billion in the previous year.

With a significant decline in sales volume, we continued the business restructuring initiatives begun in the previous year, recording restructuring charges of ¥151.4 billion ($1,262 million), compared to ¥417.0 billion in the previous year. The restructuring, which included workforce reductions at our production facilities in Japan, was aimed at a fundamental reform of our cost structure in the face of the structural changes in the IT market following the bursting of the IT bubble in the U.S. and the persistence of worldwide deflationary trends.

In addition, we posted ¥30.6 billion ($255 million) for charges to cover the costs of corrective measures for certain small form factor hard disk drives. We recorded ¥21.8 billion ($182 million) in valuation losses for investment securities as a result of stock price declines, compared to ¥20.5 billion of such losses the previous year. We also posted ¥29.3 billion ($245 million) in gains on the sale of investment securities as well as a gain of ¥14.5 billion ($121 million) related to the sale of our printer business. As a result of these factors, we posted a loss before income taxes and minority interests of ¥147.6 billion ($1,230 million). After factoring in income taxes of -¥28.7 billion (-$240 million) and minority interests of ¥3.2 billion ($27 million), the net loss was ¥122.0 billion ($1,017 million). This represented an improvement of ¥260.4 billion compared to the previous year's net loss. The net loss per share was ¥61.3 ($0.511).

Business Segment Information

Software and Services

Fiscal 2002 sales of software and services declined from the previous year by 2.9%, to ¥2,025.7 billion ($16,882 million).

Amid general weakness in IT spending, there were a few bright spots. The spread of the e-Japan initiative helped boost sales to the healthcare sector, overseas expansion resulted in higher sales to the manufacturing sector, and the expanding infrastructure for broadband networks favorably impacted our outsourcing business. With the continuing curtailment of IT investments by telecommunications carriers in Japan, the U.S. and Europe, however, and fewer large-scale projects among financial institutions, overall sales in this segment declined.

The restructuring of our overseas subsidiaries returned our operations in the U.K. and the U.S. to a profitable footing. Business productivity also increased as a result of our promotion of packaged solution offerings and the full-scale utilization of Enterprise Java Beans component technology in software development. As a result, operating income in this segment was ¥176.5 billion ($1,471 million), an improvement of ¥18.6 billion over the previous year.

Platforms

Platforms sales totaled ¥1,612.0 billion ($13,433 million), a significant decrease of 20.0% over the previous year.

Although the overall number of personal computers shipped in the Japanese market was down from the preceding year and price competition became more severe, we increased our share, especially for consumer products. In mobile telephones, sales were particularly strong for our innovative, easy-to-use models.

On the other hand, reflecting the continuing major cutbacks in spending by telecommunications carriers in North America as well as Japan, sales of optical transmission systems fell significantly compared to the previous year. Domestic sales of 3G mobile systems were also weak. A drop-off in major IT investment in the financial sector caused sales of large-scale servers and storage systems to fall sharply. Our withdrawal from the business of small form factor hard disk drives for desktop PCs was another factor that contributed to the large overall decline in platform sales compared to the previous fiscal year. Despite the decline in sales, our restructuring initiatives to streamline operations, cut costs, and improve efficiency resulted in a return to profitability. Operating income for the segment was ¥0.9 billion ($8 million), a ¥58.5 billion improvement compared to the previous year.

Electronic Devices

Electronic Devices net sales were up 13.2% from the previous year, to ¥618.6 billion ($5,155 million).

In semiconductors, thanks to the working through of inventory adjustments, particularly for chips used in digital AV equipment and mobile phones, sales of logic chips and flash memory increased. Other areas, such as plasma display panels and telecommunications components, also posted higher sales.

Although prices for flash memory products remained depressed, the semiconductor market as a whole began to recover. Benefits from the streamlining of our operations materialized, and strong demand for plasma display TVs boosted the profitability of our PDP business. While electronic devices posted an operating loss of ¥31.6 billion ($263 million), this nevertheless represented a major improvement of ¥77.6 billion over the previous year's loss.

Financing

Financing net sales were up 4.2% from the previous year, to ¥119.2 billion ($994 million), with operating income of ¥4.3 billion ($36 million), an increase of ¥0.1 billion.

Other

Other net sales fell 1.2% from the previous year, to ¥241.8 billion ($2,016 million). Operating income was ¥10.0 billion ($83 million), an increase of ¥9.7 billion.

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

Years ended March 31	2002	**2003**	Increase (Decrease) rate(%)
Net sales (including intersegment sales)			
Software and Services	¥2,138	**¥2,097**	(1.9)%
Platforms	2,255	**1,843**	(18.3)
Electronic Devices	637	**687**	7.8
Financing	123	**128**	3.7
Other	371	**378**	2.0
Intersegment elimination	(520)	**(518)**	
Consolidated net sales	¥5,006	**¥4,617**	(7.8)%

	2002	**2003**	Increase (Decrease)
Operating Income			
Software and Services	¥ 157	**¥176**	¥ 18
Platforms	(57)	**0**	58
Electronic Devices	(109)	**(31)**	77
Financing	4	**4**	0
Other	0	**10**	9
Unallocated operating costs and expenses/intersegment elimination	(69)	**(59)**	10
Consolidated operating income	¥ (74)	**¥100**	¥174

Geographic Segment Information

Japan

Domestic sales in fiscal 2002 fell by 5.4%, to ¥3,556.4 billion ($29,637 million).

Sales of services to the manufacturing, government and healthcare sectors remained strong, as did sales of outsourcing services and mobile phones. Net sales overall declined, however, as a result of the drop in demand for optical transmission systems and the effects of our previous withdrawal from the small form factor hard disk drive business for desktop PCs. The streamlining effects of our restructuring initiatives boosted operating income to ¥160.8 billion ($1,340 million), compared to ¥53.3 billion the previous fiscal year.

Europe

Reduced sales from the software and support businesses, along with the effects of the withdrawal from the small form factor hard disk drive business for desktop PCs, contributed to an 11.3% decline in sales in Europe from the previous fiscal year, to ¥524.9 billion ($4,374 million). Operating income, however, improved to a positive ¥3.6 billion ($30 million), compared to an operating loss of ¥17.9 billion in the prior fiscal year.

The Americas

Sales in the Americas in fiscal 2002 were impacted by sharp cutbacks in spending by North American telecommunications carriers, which resulted in lower sales of optical transmission systems. Overall sales in the region declined 36.2%, to ¥257.5 billion ($2,146 million). Through the streamlining of our operations, however, we managed to reduce our operating loss to ¥18.7 billion ($157 million), compared to a ¥57.4 billion loss in the previous fiscal year.

Other

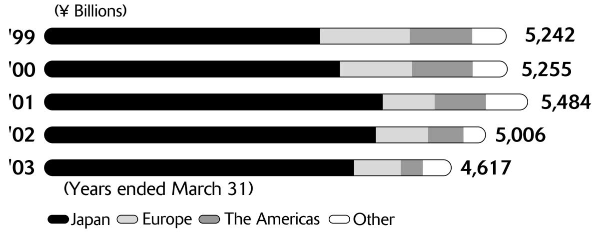
Sales in other regions including Asia totaled ¥278.6 billion ($2,322 million), an increase of 10.8%. Streamlining of our small form factor hard disk drive manufacturing subsidiaries in Southeast Asia contributed to an increase in operating income to ¥12.7 billion ($106 million), compared to ¥5.9 billion in the preceding year.

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

Years ended March 31	2002	**2003**	Increase (Decrease) rate (%)
Net sales (including intersegment sales)			
Japan	¥4,161	**¥3,888**	(6.6)%
Europe	605	**543**	(10.3)
The Americas	446	**278**	(37.6)
Other	473	**464**	(2.1)
Intersegment elimination	(680)	**(556)**	
Consolidated net sales	¥5,006	**¥4,617**	(7.8)%

	2002	**2003**	Increase (Decrease)
Operating income			
Japan	¥ 53	**¥160**	¥107
Europe	(17)	**3**	21
The Americas	(57)	**(18)**	38
Other	5	**12**	6
Unallocated operating costs and expenses/intersegment elimination	(58)	**(58)**	0
Consolidated operating income	¥ (74)	**¥100**	¥174

For reference:
Net Sales by Customers' Geographic Location
(¥ Billions)



Capital Expenditure

In view of the challenging business environment, we reduced capital expenditure in fiscal 2002 by 51.9%, to ¥147.6 billion ($1,230 million). Such expenditure was targeted at the most promising growth sectors and held within the same range as depreciation expenses. Broken out by business segment, capital expenditures were ¥38.8 billion ($323 million) in software and services, ¥36.7 billion ($306 million) in platforms, ¥60.9 billion ($508 million) in electronic devices (of which ¥38.0 billion ($317 million) was for semiconductors) and ¥11.1 billion ($93 million) for general corporate and other areas.

Capital Expenditure (¥ Billions)

Years ended March 31	2002	**2003**	Increase (Decrease) rate (%)
Software and Services	¥ 46	**¥ 38**	(16.6)%
Platforms	59	**36**	(38.7)
Electronic Devices	180	**60**	(66.2)
[Semiconductor production]	[122]	**[38]**	[(68.9)]
Corporate and others*	20	**11**	(44.7)
Total	¥306	**¥147**	(51.9)%
Japan	244	**125**	(48.6)
Overseas	62	**21**	(64.9)

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

Major Capital Expenditures

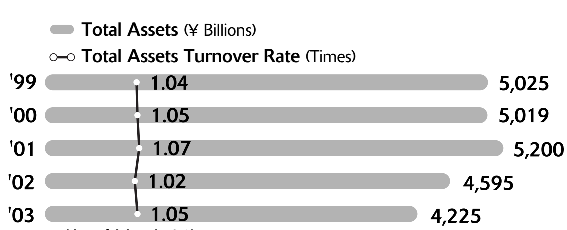
Software and Services:	Outsourcing facilities and network infrastructure
Platforms:	Development and production facilities for servers and network equipment
Electronic Devices:	Volume production facilities for leading-edge logic chips

Financial Condition and Liquidity

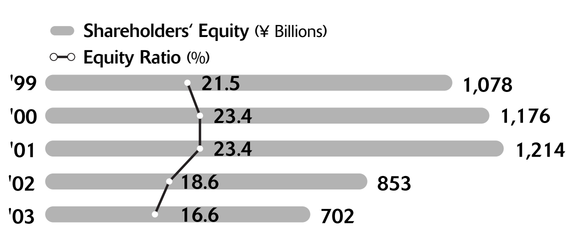
Total assets at the end of fiscal 2002 amounted to ¥4,225.3 billion ($35,211 million), a decrease of ¥370.4 billion from the previous year. Current assets were ¥2,071.6 billion ($17,264 million), down ¥151.4 billion, primarily as a result of a decline of ¥80.6 billion in trade receivables in conjunction with lower sales and an inventory reduction of ¥39.9 billion from the previous fiscal year end. Fixed assets amounted to ¥2,153.7 billion ($17,947 million), a decrease of ¥219.0 billion from the previous fiscal year as a result of confining capital expenditure to only the most promising growth areas.

Total liabilities amounted to ¥3,308.4 billion ($27,570 million), a decrease of ¥218.1 billion. Current liabilities declined ¥356.0 billion to ¥1,765.2 billion ($14,710 million) as a result of decreases in accrued expenses, bonds and short-term borrowings. Fixed liabilities rose ¥137.8 billion, to ¥1,543.1 billion ($12,860 million), as a result of the issuance of zero coupon convertible bonds and other factors. Interest-bearing liabilities also rose by ¥3.1 billion from the previous fiscal year, to ¥1,763.7 billion ($14,698 million).

The large net loss resulting from restructuring charges and other factors reduced total shareholders' equity by ¥151.3 billion, to ¥702.3 billion ($5,853 million), resulting in a decline in the shareholders' equity ratio to 16.6%. Based on the number of shares outstanding at the end of the period, shareholders' equity per share was ¥350.8 ($2.923).



(As of March 31)



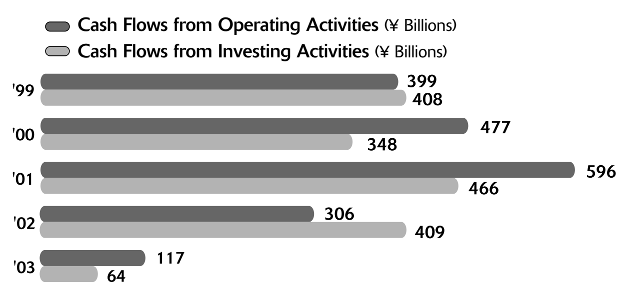
(As of March 31)

Cash Flows

Although we significantly improved operating income in the period, extraordinary charges stemming from restructuring initiatives and other factors reduced cash flows from operating activities by ¥188.7 billion, to ¥117.7 billion ($982 million). Because capital expenditures were confined to the most promising growth sectors and some assets were sold, cash flows from investing activities declined to -¥64.4 billion (-$537 million), an improvement of ¥345.0 billion from the previous fiscal year.

As a result of the above factors, free cash flow was ¥53.3 billion ($445 million), compared to -¥102.8 billion in the previous fiscal year.

Due in part to the issuance of ¥250.0 billion ($2,083 million) of zero coupon convertible bonds in May 2002 as well as the redemption of bonds and the repayment of outstanding debt, cash flows from financing activities were -¥67.2 billion (-$560 million), compared with ¥91.3 billion last fiscal year.



(Years ended March 31)

Consolidated Subsidiaries

At the end of fiscal 2002, Fujitsu had 487 consolidated subsidiaries, 138 in Japan and 349 abroad, representing a decrease of 7 from last year's total of 494. While subsidiaries of Fujitsu Components and Fujitsu Quantum Devices were newly consolidated, we also merged and reorganized other subsidiaries with the aim of increasing their competitiveness, including a reorganization of the Fujitsu Services Group. The net result was a decrease in the total number of subsidiary companies.

The number of affiliates accounted for by the equity method increased by 1 to 29.