

## **Fujitsu Reports FY2002 Third Quarter Financial Results**

**Tokyo, January 28, 2003**—Fujitsu Limited, the global leader in customer-focused IT and communications solutions, today reported consolidated net sales of 1,017.6 billion yen (US\$8,480 million) for the third quarter of fiscal 2002 (October 1 - December 31, 2002), a decline of 4% over the same period in fiscal 2001. Although sales declined, benefits from the company's previous restructuring initiatives and successful efforts to further reduce costs resulted in major improvements in profitability.

Despite some isolated bright economic signs, Fujitsu continued to face a difficult business environment in the third quarter. The e-Japan initiative gathered momentum, China and other Asian markets recovered, and in North America and Europe there were indications that investment by telecommunications carriers may have hit bottom. However, the aftereffects of the bursting of the IT bubble the year before last were felt in the prolongation of the stock market downturn, and there was an increase in global deflationary pressures. Amidst this, consumer spending languished and corporate spending on IT continued to be restrained.

As a result of spending cutbacks by telecommunications carriers and a cyclical downturn in sales of large-scale systems, Fujitsu recorded a sharp decline in sales of platform products. These were offset to some extent by increasingly strong growth in sales of services and software to customers in the public sector and healthcare fields, as well as gains in sales of consumer PCs and mobility products. In electronic devices, the supply-demand balance for logic and flash memory chips improved dramatically, but pricing pressures intensified.

To cope with this difficult environment, Fujitsu continued to aggressively pursue efforts to improve its cost structure. These efforts, together with reductions in fixed costs achieved from its extensive restructuring measures to date, resulted in a major narrowing of the company's consolidated third-quarter operating loss, to 13.1 billion yen (US\$110 million), an improvement of 32.6 billion yen over the operating loss recorded in the same period in fiscal 2001. In addition, because restructuring charges were booked in the first half of the fiscal year, extraordinary losses for the third quarter were limited to a 7.0 billion yen (US\$59 million) loss on the devaluation of marketable securities. This was offset in part by 1.3 billion yen (US\$11 million) in extraordinary income from the sale of marketable securities. As a result, Fujitsu's consolidated net loss for the third quarter narrowed to 24.9 billion yen (US\$208 million), an improvement of 81.2 billion yen compared with the 106.1 billion yen net loss recorded in the third quarter of fiscal 2001.

For the first nine months of fiscal 2002, reflecting in particular the renewed downturn in the global telecommunications business in the first half of the fiscal year, consolidated net sales declined 8% compared with the first nine months of fiscal 2001, to 3,168.0 billion yen (US\$26,400 million). On the other hand, consolidated operating income improved in each of the first three quarters compared with the same periods last fiscal year, and by a cumulative 68.5 billion yen for the nine months. Fujitsu's consolidated operating loss for the nine-month period was 36.4 billion yen (US\$304 million), and the consolidated net loss for this period was 172.3 billion yen (US\$1,436 million) due to the restructuring charge posted in the first half, but still an improvement of 108.5 billion yen from the first three quarters of the previous fiscal year.

## **Results by Business Segment**

### ***Services & Software***

In Japan, Fujitsu deepened its involvement in the e-Japan initiative and recorded steady gains in sales of solutions, systems integration and outsourcing services to central and local government authorities, as well as in the healthcare sector. The company also strengthened efforts to gain from IT investment in services & software in the manufacturing sector, primarily by targeting major manufacturers with global operations. In addition, Fujitsu received large outsourcing orders from government agencies in the UK. However, sales of services & software in the telecommunications and financial sectors were sluggish, both in Japan and overseas. As a result, consolidated third-quarter sales of services & software were 419.8 billion yen (US\$3,499 million), an increase of 2% from the third quarter of fiscal 2001. For the first nine months of fiscal 2002, in light of the restraints in overseas IT investment through the first half of the year, cumulative sales of services & software remained at about the same level as in the same nine-month period in fiscal 2001.

Consolidated services & software operating income for the first nine months of fiscal 2002 was roughly the same level as in the comparable period the previous year. However, due to a higher concentration of major contracts at the end of the fiscal year, third-quarter operating income declined slightly, to 16.6 billion yen (US\$138 million). To further reduce costs and improve profitability, the company is continuing to improve software development efficiency through advancing EJB componentization technology, as well as expand information sharing and reuse of accumulated know-how through improvements in knowledge management.

### ***Platforms***

In personal computers, while the Japanese market saw a decline in the number of units shipped in the third quarter, Fujitsu's PC sales to public-sector authorities increased, and consumer sales of new desktop models with built-in LCD screens also rose, helping to achieve unit and market share gains in

those segments. Fujitsu also recorded growth in domestic sales of IMT-2000 (3G) mobile communications systems, as well as in mobile telephones, thanks to the introduction of popular new models. However, investment by global telecommunications carriers remained depressed, and sales of transmission systems in North America in particular fell sharply. Likewise, due to the completion last year of large system orders to financial institutions and other corporate customers, server-related sales, in particular large-scale enterprise systems, declined significantly. As a result, consolidated third-quarter sales in the Platforms sector were 352.8 billion yen (US\$2,940 million), down 21% from the same period in the previous fiscal year, and sales for the first nine months of the year declined by a similar margin.

In spite of the large decline in sales, thanks to reductions in fixed costs from restructuring and other cost-saving measures, the company was able to hold its consolidated operating loss in this sector to 13.7 billion yen (US\$114 million), a slight deterioration over the operating loss recorded in the third quarter of fiscal 2001. On the other hand, the operating loss for the first nine months of fiscal 2002 narrowed compared with the first three quarters of the previous fiscal year.

With respect to the extraordinary charge posted at mid-year to cover costs of corrective measures for certain small form-factor hard disk drives due to some procured parts that were found to be defective, the company is continuing corrective measures, while making strong efforts to prevent any reoccurrence of such problems.

### ***Electronic Devices***

Buoyed by an upturn at the start of the US Christmas selling season, as well as a trend toward recovery in Asian markets, sales of logic chips, primarily for digital electronic appliances, increased significantly over the third quarter of the previous fiscal year. In flash memory, continuing progress in inventory adjustments led to a major recovery in terms of units shipped, as well as a large increase in sales. In addition, strong demand emerged for plasma display panels (PDPs) and other high-quality displays, and those sales increased significantly. As a result, overall third-quarter sales of electronic devices jumped 31%, to 156.5 billion yen (US\$1,304 million), and cumulative sales for the first nine months of the fiscal year were also ahead of the comparable period in fiscal 2001.

Although flash memory and other products faced intensified pricing pressures, the shift of its PDP operations into the black along with major reductions in fixed costs from aggressive restructuring helped greatly reduce Fujitsu's operating loss in this segment to 5.5 billion yen (US\$46 million), an improvement of 32.0 billion yen.

### **Summary of Cash Flows**

Regarding cash flows, free cash flow in the third quarter improved by 14.7 billion yen to negative 54.5 billion yen (\$455 million). Despite the large improvement in income, lower depreciation and large cash outflows from restructuring charges booked at mid-year pushed cash flows from operating activities to negative 49.3 billion yen (US\$411 million) for the third quarter. On the other hand, cash flows from investing activities for the period were held to negative 5.2 billion yen (US\$44 million), an improvement of 85.1 billion yen from the same period last fiscal year, as a result of tightly focusing new plant and equipment investment on growth sectors and from the sale of fixed assets. Adding negative 21.8 billion yen (US\$182 million) in cash flows from repayment of loans and bonds, cash and cash equivalents in the third quarter declined to negative 76.7 billion yen (US\$640 million).

For the first nine months of fiscal 2002, free cash flow was negative 146.1 billion yen (US\$1,218 million), a major improvement of 221.3 billion yen over the comparable period in the previous fiscal year. This was made possible by a 302.5 billion yen improvement in cash flow from investment activities, stemming from increased efficiency in capital expenditure and from asset sales.

### **Revised Projections for Fiscal 2002**

Since the last earnings projections in October, the e-Japan initiative has gained further momentum, Asian economies have picked up, and signs have emerged that investment by North American and European telecommunications carriers may have bottomed out. But these glimmers of light are being overshadowed in the immediate term by increasingly uncertain consumer spending and corporate investment attitudes due to rising tensions between the US and Iraq. In Japan, as well, delays in adequately responding to the problem of non-performing loans has prolonged the severe downturn in the stock market, and there is growing uncertainty regarding domestic telecommunications carriers' investment plans, as well as instability regarding overall corporate earnings.

Continuing its cost reduction and restructuring initiatives from the mid-term, Fujitsu was able to improve operating income in the third quarter more than previously planned, despite a continuing decline in sales. This trend is expected to continue into the fourth quarter, and sales to domestic telecommunications carriers and financial institutions are now expected to be lower than previously forecast. Overseas, because of a delay in the recovery of US markets, sales of electronic devices are also now expected to fall short of previous projections. Nevertheless, the company anticipates that cost reductions and efficiency improvements in all its business segments will enable it to absorb these sales declines, without further eroding profitability. Taking these factors into consideration, Fujitsu has revised the earnings projections it made in October as follows:

## Fujitsu Limited Consolidated Earnings Forecast for Fiscal 2002

(Billion Yen)

	FY2002 Projections			FY2001 (actual)
	Previous Forecast (As of Oct. 29, 2002)	<b>Revised Forecast (As of Jan. 28, 2003)</b>	Difference	
Net Sales	4,800	4,700	- 100	5,006.9
Operating Income (Loss)	100	100	0	(74.4)
Net Income (Loss)	(110)	(110)	0	(382.5)

### Notes:

- All yen figures have been converted to US dollars for convenience only at a uniform rate of \$1=120 yen.
- FY 2002 from April 1, 2002 - March 31, 2003; FY 2001 from April 1, 2001 - March 31, 2002
- Due to uncertainties relating to changes in demand for products and components in key markets (Japan, U.S., Europe, etc.), currency exchange rate fluctuations, Japan and U.S. stock market conditions, and other factors, actual results may vary substantially from projections above.

### About Fujitsu

Fujitsu is a leading provider of customer-focused IT and communications solutions for the global marketplace. Pace-setting technologies, high-reliability/performance computing and telecommunications platforms, and a worldwide corps of systems and services experts make Fujitsu uniquely positioned to unleash the infinite possibilities of the broadband Internet to help its customers succeed. Headquartered in Tokyo, Fujitsu Limited (TSE:6702) reported consolidated revenues of 5 trillion yen (about US\$38 billion) for the fiscal year ended March 31, 2002. For more information, please see: <http://www.fujitsu.com/>

### Press Contacts

Yuri Momomoto, Robert Pomeroy

Fujitsu Limited, Public & Investor Relations

Tel: +81(0) 3-3215-5236 (Tokyo)

Press Inquiries: <http://pr.fujitsu.com/en/news/pressinquiries.html>