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Fujitsu Reports FY2003 First Quarter Financial Results

Lower Sales Posted, But Orders In Line With Expectations

Tokyo, July 29, 2003 – Fujitsu Limited, a leader in customer-focused IT and communications solutions for the global marketplace, today reported consolidated net sales of 938.7 billion yen, approximately US$7.8 billion*, for the first quarter of fiscal year 2003 (April 1 – June 30, 2003), a 4.5% decrease from the first quarter of fiscal 2002. Lower sales of platforms products and other factors contributed to the overall decline in sales. While the company is reaping the benefits of lower fixed costs stemming from the restructuring initiatives implemented last year, the impact of lower sales resulted in an operating loss of 37.8 billion yen.

Weakness in the equity market led to higher pension obligation expenses and damages sustained in an earthquake that occurred off the coast of Miyagi Prefecture in May resulted in an extraordinary charge of 4.7 billion yen. These items, however, were offset by a turnaround in equity in earnings of affiliates to 1.8 billion yen and a 26.9 billion yen gain on sales of marketable securities resulting from the sale of a portion of the company's shares in Fanuc. The consolidated net loss was 39.8 billion yen, representing a narrowing of the first quarter loss in the previous year of 56.4 billion yen.

To date, Fujitsu's sales orders are in line with anticipated levels, and the company's financial projections for the full year remain unchanged.

Results by Business Segment

1. Software & Services

	Three months ended June 30 **FY2003** (Billion Yen)	Change FY02 to FY03
Net Sales		
Japan	266.0	+4.2%
Overseas	117.2	- 6.7%
Total	383.3	+0.6%
Operating Profit	(3.6)	-4.5 billion yen
Net Sales		
Solutions/SI	154.8	+6.1%
Infrastructure Services	228.5	-2.8%

In Japan, although IT spending overall remained sluggish, the company achieved a 4% sales increase due to strong sales in the government, manufacturing and healthcare sectors, compared to the first quarter of fiscal 2002. Sales in the U.S. decreased, reflecting the overall weakness in IT spending. In the U.K., however, last year's sale of unprofitable businesses resulted in improved profitability, although sales were lower compared to the previous year. Profitability in this segment deteriorated in the first quarter as a result of seasonal factors impacting sales, weak market conditions, and higher expenses associated with Linux development costs and other factors.

Solutions/Systems Integration

Sales of solutions and systems integration services increased, bolstered by continued strength in the public sector field in connection with the roll-out of the e-Japan initiative and sales of solutions, such as supply chain management and enterprise resource planning software, such as GLOVIA, particularly to manufacturers that are expanding their global operations. An increase in marketing expenses for solutions, however, held operating income at a level roughly equivalent to last year's results.

Infrastructure Services

The company posted lower sales of infrastructure services in the first quarter. The corporate outsourcing business had a strong quarter, but sales of server-related software & services remained weak. As broadband network infrastructure has grown more pervasive, the market for corporate network services is expanding, but price competition is also intensifying, putting pressure on profit margins.

At U.K. subsidiary Fujitsu Services, the decision to exit unprofitable businesses last year has resulted in lower sales but a sharper business focus. That sharper focus, along with contributions from new orders from the government associated with the private finance initiative, has returned that unit to profitability.

FY2003 Earnings Projections for Software & Services

	FY2003 (Billion yen)	Change FY02 to FY03
Net Sales	2,120.0	+4.7%
Operating Profit	190.0	+13.4 billion yen
Solutions/SI	1,015.0	+7.9%
Infrastructure Services	1,105.0	+1.8%

The spread of broadband networking clearly expands business opportunities for Fujitsu in this sector, and the company is well-positioned to take advantage of these trends. In overseas markets, while circumstances differ depending on the individual operating entity, the company anticipates being able to meet the earnings projections announced at the start of the fiscal year. While there is some concern over the intensified price competition accompanying the market shift toward open standards, the company is also optimistic about its plans to release a stream of new software & services products linked with new hardware offerings under its TRIOLE IT infrastructure initiative. Taking these factors into account, Fujitsu's earlier earnings projections for the full year remain unchanged.

2. Platforms

	Three months ended June 30 FY2003 (Billion Yen)	Change FY02 to FY03
Net Sales	312.2	-17.6%
Operating Income (Loss)	(19.4)	-6.4 billion yen

Net sales by product segment	FY2003 (Billion Yen)	Change (%) FY02 to FY03
PCs & Mobile Telephones	140.0	-7.0
Telecommunications	73.7	-19.1
[Transmission Equipment]	[36.4]	[-23.5]
Servers	65.1	-30.4
HDDs	33.3	-23.8

The company posted strong sales of consumer PCs, and the strong yen also helped to contain costs. In mobile phones, a delay in the shipment of a new model until July resulted in lower sales than projected in the company's initial plans in April. In optical transmission systems, sales of earlier models of equipment in the U.S. and other markets declined sharply, but the effect of lower fixed costs stemming from the restructuring efforts implemented last year helped to trim operating losses.

In servers, although sales in overseas markets are growing, large-scale orders in Japan from such sectors as telecommunications and finance were minimal, leaving overall sales sharply lower compared to the first quarter of last year.

Sales of small form-factor hard disk drives declined, in part because of delays in shipping new models of hard drives for servers, but the operating loss has been reduced by the impact of lower fixed costs resulting from last year's restructuring initiatives.

FY2003 Earnings Projections for Platforms

	FY2003 (Billion Yen)	Change FY02 to FY03
Net Sales	1,610.0	-0.1%
Operating Income	15.0	+14.0 billion yen

In PCs, by getting a jump on competitors in introducing new summer models with improved audio-video functions, Fujitsu was able to increase both unit shipments and market share. While the increase in shipment volumes is expected to carry through for the full year, the company also anticipates intensified price competition, and therefore projections for operating income remain unchanged.

In mobile phones, although there was a delay in shipping a new handset model equipped with a high-resolution camera, that model will be introduced in the second quarter, and the company expects to meet its original projections for sales and unit volume shipped for the full year. With respect to profitability, although unit volumes will increase, there are also higher production costs associated with more sophisticated product functions, the impact of which is already reflected in the company's projections.

In transmission systems, with a delayed recovery in capital spending among both foreign and domestic telecom carriers, the company anticipates that sales will be lower than last year's levels. On the other hand, in North America, shipments of the next generation optical transmission equipment for Verizon Communications and other telecom operators are materializing, and, with the impact of lower fixed costs stemming from last year's restructuring, the company anticipates a substantial narrowing of operating losses.

In servers, while shipments of new models have been strong in Europe, those in the U.S. have been slower than anticipated. In the second quarter, volume shipments will begin in Japan for a new low-priced server based upon Fujitsu's new TRIOLE IT infrastructure, which will enhance the company's ability to deal with price competition and is expected to make a solid contribution to sales and operating income.

In small form-factor hard disk drives, shipments for notebook PCs are strong, and the business unit is expected to return to profitability for the full year.

3. Electronic Devices

	Three months ended June 30	
	FY2003 (Billion Yen)	Change FY02 to FY03
Net Sales	162.6	+14.5%
Operating Income (Loss)	(6.1)	+1.2 billion yen

Net sales by product segment	**FY2003** (Billion Yen)	Change (%) FY02 to FY03
Semiconductors	90.3	+14.3
Others	72.3	+14.9

Fujitsu has had a flash memory joint venture with U.S.-based Advanced Micro Devices, Inc. (AMD), and to realize greater efficiencies and strengthen their competitiveness in this sector, the two companies have decided to integrate their operations, including marketing and R&D. Toward that end, on June 30 the two companies established a new joint venture, with Fujitsu's equity share at 40% and AMD's at 60%, into which both companies have transferred their entire flash memory operations, including their production facilities. With integrated operations extending from R&D to production dedicated solely to the flash memory market, the new venture will have the focus and responsiveness required to succeed in this market. This transaction had no impact on the company's consolidated earnings for the first quarter.

The earthquake that occurred off the coast of Miyagi Prefecture on May 26 inflicted damage to the semiconductor production facilities at the company's Iwate plant. While the facility has been restored to full production, the company incurred a 4.7 billion yen casualty loss as an extraordinary charge in the first quarter. The temporary disruption to production has affected sales and profitability for the first and second quarters.

First quarter sales in this sector overall rose sharply, increasing 14.5% over the same period in the prior year. Although damage from the earthquake had an adverse impact on a portion of sales, sales of semiconductors were up sharply, particularly of chips used in digital audio-visual equipment and mobile phones. Sales of plasma display panels also posted a substantial increase, buoyed by growing demand for plasma display televisions.

The operating loss for the first quarter narrowed by 1.2 billion yen compared to the previous year. Although results were adversely affected by lower prices in some product lines, the positive impact of higher sales, lower fixed costs stemming from previous restructuring initiatives, and stabilized profitability in the plasma display panel business contributed to the sector's improvement.

FY2003 Earnings Projections for Electronic Devices

	FY2003 (Billion Yen)	Change FY02 to FY03
Net Sales	710.0	+14.8%
Operating Income	15.0	+46.6 billion yen

Full-year projections for sales and operating income remain unchanged. While there is some uncertainty regarding market price trends for some products, the markets for end-products such as PCs and mobile phones equipped with a high-resolution camera are recovering, so the company anticipates a rising trend for sales of semiconductors and semiconductor parts. The company also anticipates a continued strong market for plasma display panels.

Balance Sheet Summary

Total assets at the end of the first quarter were 4,056.2 billion yen, a decrease of 169.1 billion yen compared to the end of the previous fiscal year. A reorganization of the company's flash memory operations and lower trade receivables were the two main factors behind the decrease.

Total current assets were 1,973.8 billion yen, down 97.8 billion yen from the end of the last fiscal year. Inventories increased by 50.6 billion yen, to 646.5 billion yen, partly as a result of the delay in shipping a new mobile phone model until the second quarter, and partly in anticipation of higher sales starting in the second quarter. Trade receivables declined by 166.1 billion yen, to 674.2 billion yen, reflecting the seasonal effect of a concentration of sales in the fourth quarter, generating higher trade receivables, with collection of these receivables during the first quarter.

Total fixed assets were 2,082.4 billion yen, a reduction of 71.2 billion yen compared to the end of prior fiscal year. Property, plant and equipment declined by 106.5 billion yen, to 884.0 billion yen, and investments and long-term loans increased by 40.2 billion yen, to 941.7 billion yen. These changes primarily reflect the shift in the accounting treatment of the company's flash memory operations to the equity method, in accordance with the new joint venture status.

Total liabilities were 3,201.6 billion yen, a reduction of 106.7 billion yen compared to the end of the previous fiscal year. The reduction is primarily attributed to a 128.4 billion yen reduction in trade payables.

Total shareholders' equity declined by 22.9 billion yen, to 679.4 billion yen. Higher equity prices resulted in an increase in unrealized gains on securities, but this was offset by the company's net loss. Because, proportionally, assets contracted by more than shareholders' equity, the shareholders' equity ratio increased by 0.2%, to 16.8%.

Total interest-bearing liabilities increased by 64.3 billion yen, to 1,828.1 billion yen, primarily as a result of posting a net loss and a temporary increase in inventories.

Summary of Cash Flows

Net cash generated by operating activities in the first quarter was negative 85.9 billion yen. There was a narrowing of the loss before income taxes and minority interests compared to the first quarter of the previous year, and a decline in trade receivables through collections. But these factors were offset by the temporary increase in inventories in anticipation of higher sales starting in the second quarter and a decrease in trade payables.

Net cash generated from investing activities was 5.5 billion yen, a 58.9 billion yen improvement compared to the first quarter of the previous year. This improvement resulted from keeping capital expenditures within amount of the depreciation charges taken and the sale of marketable securities.

Therefore, free cash flow was negative 80.3 billion yen, an improvement of 67.3 billion yen compared to the prior year. The negative free cash flow was funded through increased borrowing, primarily through the commercial paper market, and net cash generated from financing activities was 69.7 billion yen. The net decrease in cash and cash equivalents was 9.7 billion yen.

Initiatives to Strengthen Fujitsu's Financial Condition

Fujitsu is undertaking a number of initiatives to wring operating efficiencies out of its core businesses while raising their capacity to generate strong earnings. For example, particularly in its domestic operations, Fujitsu is redoubling its focus on quality manufacturing. It is also organizing its global supply chain management activities for servers, PCs and other hardware around four operation centers in Japan, Singapore, Germany, and the U.S. In addition, it is making organizational changes to enhance its ability to provide services and support to global customers in Japan, North America, Europe, and other Asian markets.

Starting in the second quarter, the company is implementing plans to reduce inventory levels and take other actions designed to enhance the efficiency of asset utilization. Through these measures, by the end of this fiscal year Fujitsu plans to reduce interest-bearing liabilities to a level no greater than 1,500.0 billion yen.

The company intends to quickly restore the strength of its balance sheet by utilizing its existing assets in the most effective manner possible, while restoring the profitability of its businesses.

Earnings Projections for FY2003

Although the disruption in production at one of the company's semiconductor production facilities resulting from the earthquake caused a temporary setback, at present the company's sales orders match the levels anticipated in its original plan. With respect to the company's projections for its mid-term financial results (from April 1 to September 30, 2003), taking into account the extraordinary charge and other effects on earnings resulting from the earthquake, the company is revising its net income projection for the first half only from a net loss of 40 billion yen to a net loss of 50 billion yen. The company's projections for the full 2003 fiscal year remain unchanged from the levels announced in April, with the expectation that this impact on earnings will be offset by recovery in the second half of the fiscal year.

Fujitsu Limited Consolidated Earnings Forecast for Fiscal 2003

(Billion Yen)

	Half Year (Apr.1 – Sep. 30)		Full Year (Apr.1 – Mar. 31)	
	FY2002	**FY2003**	FY2002	**FY2003**
Net Sales	2,150.3	**2,150.0**	4,617.5	**4,800.0**
Operating Income (Loss)	(23.2)	**(20.0)**	100.4	**150.0**
Net Income (Loss)	(147.4)	**(50.0)**	(122.0)	**30.0**

Note:

* All yen figures have been converted to US dollars for convenience only at a uniform rate of $1=120 yen.
* FY2003 from April 1, 2003 – March 31, 2004; FY2002 from April 1, 2002 – March 31, 2003
* 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, highly reliable computing and telecommunications platforms, and a worldwide corps of systems and services experts uniquely position Fujitsu to deliver comprehensive solutions that open up infinite possibilities for its customers' success. Headquartered in Tokyo, Fujitsu Limited (TSE:6702) reported consolidated revenues of 4.6 trillion yen (US$38 billion) for the fiscal year ended March 31, 2003. For more information, please see: www.fujitsu.com

For details and supplemental information regarding Fujitsu's FY2002 financial results, please see http://pr.fujitsu.com/en/ir/