FUJITSU

Crafting leading-edge IT solutions for customers around the world

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annual report 1998

Customer focus is key to meeting the challenges of an era of mega-transformation.

Naoyuki Akikusa
President, Fujitsu Limited

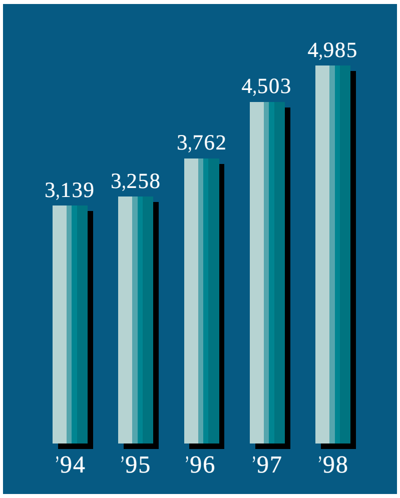
CONTENTS

Financial Highlights

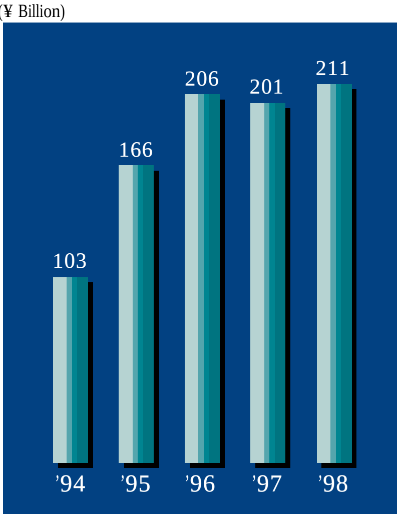
For the years ended March 31,1997 and 1998	Yen (millions) (except per share data and number of employees) 1997	1998	U.S. dollars (thousands) (except per share data) 1998
Net Sales	¥4,503,474	¥4,985,382	$37,768,045
Operating Income	200,681	211,262	1,600,470
Net Income	46,147	5,587	42,326
Amounts per share of common stock:			
Basic Earnings	25.1	3.0	0.023
Diluted Earnings	24.0	3.0	0.023
Cash Dividends	10.0	10.0	0.076
Shareholders' Equity	641.6	636.4	4.821
Number of Employees	167,000	180,000	

Notes: 1. See Note 1 of Consolidated Financial Statements with respect to calculation of basic and diluted earnings per share.
2. The U.S. dollar amounts above and elsewhere in the Annual Report have been translated from yen, for convenience only, at the rate of ¥132=US$1.

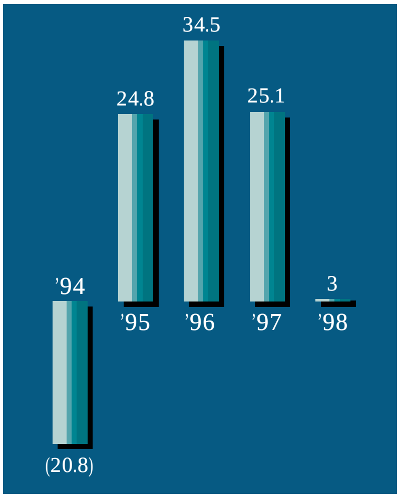
Net Sales
(¥ Billion)



Operating Income
(¥ Billion)



Basic Earnings (Loss) Per Share
(¥)



Networking is the foundation of today's information technology industry. We provide a broad range of value-added, network-based solutions to help our customers – from individuals to large corporations – achieve their goals. In so doing, we are well positioned to consolidate our leadership in the global IT industry as we enter the 21st century.

Fiscal 1997 Results

Despite adverse economic conditions in Japan and Asia, consolidated net sales for fiscal 1997 rose 11% to ¥4,985.3 billion, a record high. By geographical area, domestic sales were up 2%, while overseas sales jumped 31% to ¥1,757.0 billion, rising from 30% to 35% of total sales. Operating income increased 5% to ¥211.2 billion. However, exchange losses due to currency declines in Asia, plus amortization of goodwill-related expenses incident to the Amdahl acquisition, combined to limit net income to ¥5.5 billion.

Looking Ahead: Building Our Global Solutions Business

Fujitsu's broad lineup of competitive products – from large-scale and midrange servers to personal computers, peripherals, software and services – and strong customer focus enable us to offer comprehensive business solutions in a wide range of industries. And in order to meet the needs of customers doing business in an increasingly global marketplace, we have been expanding our overseas operations and working to increase synergy among them. As a result of these efforts, overseas markets have grown to account for 35% of overall consolidated sales.

Long active as a solutions provider in the Asia/Oceania region, our 1990 acquisition of ICL helped us to extend our reach to Europe as well. Likewise, by making long-time partner Amdahl Corporation a full-fledged member of the Fujitsu Group last September, we made clear our intention to build our solutions business in North America, the largest IT market in the world. Having marketed products based on Fujitsu technologies for more than 25 years, Amdahl has recently been moving forcefully into services and software, which now account for about two-thirds of its business. Tak-

Tadashi Sekizawa, Chairman (right)
Naoyuki Akikusa, President (left)

ing advantage of this expertise and Amdahl's impressive customer base, including numerous Fortune 100 companies, and by marshalling the extensive resources of the entire Fujitsu Group, we are determined to be the world's leading IT solutions company on a worldwide basis.

To achieve this goal, we will pursue a strategy that aims to leverage the combined resources of the Fujitsu Group while relying on local operations to provide the customized, market-sensitive attention that their customers require. In this regard, Fujitsu will concentrate on the Japanese and Asian markets, while Amdahl and ICL will take the lead in North America and Europe, respectively. Supporting these efforts are Fujitsu's abundant know-how and solid track record in constructing sophisticated, large-scale systems, as well as the talents of the Group's 52,000 highly qualified services and software personnel around the world. These strengths, together with our comprehensive capabilities in the development and manufacture of computers, communications systems and electronic devices, enable us to offer our customers optimal solutions of uncompromising quality.

Leveraging Our Strength in Network Technology

Increasingly, networking is playing a vital role in creating such solutions. Fujitsu has long been at the forefront of network technology, developing and deploying advanced optical transmission and digital switching systems that have contributed to the communications infrastructures of countries around the world. In the United States, where network implementation is furthest advanced, Fujitsu is a market leader in the high-speed optical transmission field. Our track record also includes furnishing ATM switching systems for the North Carolina Information

Highway, the world's first commercial broadband ISDN network. We will continue to be a leader in the construction of global communications infrastructure by providing the most advanced and reliable optical transmission, switching and mobile communications systems. At the same time, backed by our know-how in communications technology and network management, we will move further into the LAN and WAN fields, working to more fully integrate computer and communications technologies in order to offer CTI and other solutions that meet a wide variety of customer needs.

Fujitsu will continue to pursue the development of key electronic devices essential to creating competitive products. This includes emphasizing research and development in system LSI and other leading-edge technologies, as well as strengthening our world-leading market shares in flash memories and compound semiconductors used in mobile information and communications equipment.

"Reliability and Creativity" and "What Mankind Can Dream, Technology Can Achieve" have been Fujitsu's corporate mottoes for many years. In the spirit of these slogans, we will continue to stress research and development and to seek original and creative ways of utilizing our current technology to realize the dreams of tomorrow. By maintaining an unwavering focus on the customer and staying ahead of the pack in anticipating market needs, we can offer optimal solutions that will enable us to enhance the trust of our customers and secure our leadership position in the global IT industry.

Financial Targets

Fujitsu is committed to achieving greater growth and profitability by providing solutions that anticipate market needs and by aggressively pursuing worldwide business development. We use global standard indicators, such as return on equity (ROE) and free cash flows, to measure management efficiency. In fiscal 1997 we experienced a decline in ROE, attributable to the drop in DRAM prices and amortization of goodwill and restructuring costs associated with the Amdahl acquisition. However, by pushing to commercialize high value-added products in the electronic devices field and other measures, we are actively working to make our business and management more efficient. Through these efforts, and by concentrating our resources in growth fields, we will resolutely pursue our previously stated goal of achieving 10% ROE by fiscal 2000.

Fujitsu aims at nothing less than being the world's leading IT company in terms of growth and profitability. We thank our shareholders for their ongoing support and encouragement in this endeavor.

July, 1998

Tadashi Sekizawa

Tadashi Sekizawa, Chairman

Naoyuki Akikusa

Naoyuki Akikusa, President

FAQ ABOUT FUJITSU

Question 1—Although Fujitsu offers solutions covering a wide range of information and communications fields, the company's consolidated net sales of ¥5 trillion are reported as a single business segment. What is the breakdown on profitability by division?

Excluding fiscal 1997 expenses that could not be allocated to information processing, telecommunications or electronic devices, operating income as a share of sales in each business was 6% for information processing and 12% for telecommunications. The corresponding figures in fiscal 1996 were 6% and 16%. Electronic devices had a loss in both years.

Information processing and telecommunications infrastructure business fueled growth in Fujitsu's earnings in fiscal 1997. In the information processing sector, we expect profitability to increase as we complete a full line of solutions business products and implement our plans for global business development. In fiscal 1998, Amdahl's earnings will improve substantially as its new and highly regarded Millennium 700 Series servers make further inroads into the market. Our superior systems integration capabilities will enable us to capitalize on growing solutions business opportunities. These, in turn, will lead to higher sales of hardware and software, thereby contributing to increased profitability.

In the telecommunications sector, NTT, facing divestiture, will hold capital investment down in the short term. And with the domestic economy still in the doldrums and uncertainties surrounding business in Asia, we believe that demand will bottom out in the first half of fiscal 1998. On the mid-term horizon, however, we anticipate that sales and profits will rise. NTT is expected to resume capital investments after its reorganization. Furthermore, by taking advantage of progress in deregulation and next-generation mobile communications, we will expand our global business in this sector.

The electronic devices group supplies the core products essential to the competitiveness of the other two groups. Although earnings have been hurt by the steep plunge in DRAM market prices, system LSIs and flash memory devices are growing as a share of sales. The group is expected to contribute to profits in and after fiscal 1999.

Question 2—What is the outlook for Fujitsu's large-scale server business and the development of new technologies?

Fujitsu has now completed the shift from Emitter Coupled Logic (ECL) to Complementary Metal-Oxide Semiconductor (CMOS) technology. Although the performance of ECL machines is currently superior to that of their CMOS counterparts, by the year 2000 that situation will be reversed. Moreover, with respect to maintenance, power consumption, floor space and other criteria, the total cost of CMOS systems is lower. Customers who value superior cost-performance will thus boost demand for CMOS machines.

In February 1998 Fujitsu began shipping machines with 12 CPUs that boast maximum performance of 700 MIPS. This exceeds the performance of our existing ECL units. For early 1999, we have under development a system with performance approaching 1,000 MIPS, and for the first half of the year 2000, systems that can perform nearly 2,000 MIPS.

Question 3–What are Fujitsu's special strengths in the services and software businesses?

Over the past 20-30 years Fujitsu has engaged in stiff competition with IBM and other companies in this area. In order to offer sophisticated solutions to customers' IT requirements, we have provided assistance ranging from consulting to software development and training. This capability has been a major reason why we have been able to maintain our number-one position in Japan in terms of IT sales. Having cultivated system engineers in a wide variety of specialized fields, Fujitsu now boasts Japan's largest corps of such experts. Including customer engineers, our service personnel worldwide number 52,000.

The tools, documentation and information management systems needed to provide leading-edge solutions are firmly in place. Fujitsu's communications technology, our FENICS domestic network infrastructure with more than two hundred connections, and our ability to deliver increasingly important network solutions are especially important assets.

Fujitsu offers a strategic set of service products called "PROPOSE," which enables customers to select service offerings as easily as they would hardware products. In 1997 we also announced "SOLUTIONVISION," a new concept in which hardware, services and software solutions are tailored to match the requirements of customers in a particular industry or field. With a solid track record in meeting or exceeding customer requirements for quality, delivery and function, Fujitsu has become the company of choice when it comes to new, large-scale or high-level systems. Going forward, we will continue to develop superior solutions on a global scale.

Question 4–What is the outlook for semiconductors, especially the difficult DRAM business?

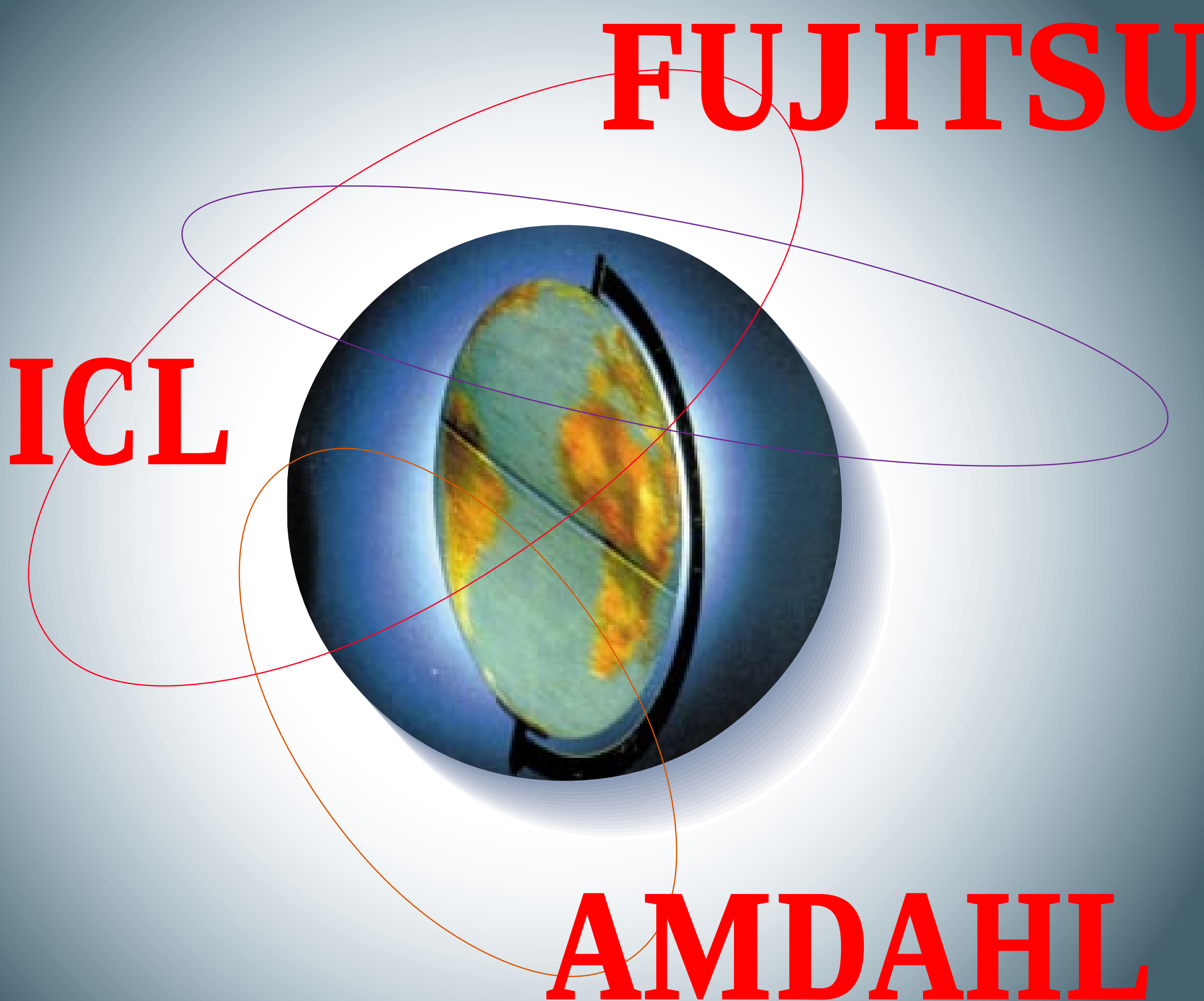
Fujitsu's electronic devices group develops components essential for the development of competitive computer and communications products. For this reason, we are committed to staying at the vanguard of technological progress. We intend to pursue growth in existing businesses, mainly logic devices, and will place particular emphasis on system LSI for digital AV applications and for the IT industry, including Fujitsu itself. We have no plans for withdrawing from the DRAM field. Indeed, leading-edge DRAM development is essential to support progress in system LSI, which combines RAM and logic on a single chip. On the other hand, the current oversupply situation dictates that DRAM mass production be scaled back. In its place, we will increase production of flash memories—an area where Fujitsu, combined with joint venture partner Advanced Micro Devices, Inc., already holds the world's top market share.

Mixed production at our DRAM factories will continue but will be accompanied by structural reforms, such as a shift to logic devices and flash memories. These steps are intended to improve the profitability of the semiconductor group as a whole.

Question 5–What is Fujitsu's overall strategy for the future?

Speed is essential. We need to anticipate changes quickly and make decisions faster. To achieve this goal, we have set forth three major objectives: generate results from global strategies as soon as possible; become number one in customer satisfaction; and use networks as a foundation for achieving high growth and earnings.

We also have important goals for our financial position. First and foremost, we are committed to increasing profits for our shareholders. To do so, we will strive to reduce interest-bearing liabilities and to boost return on investment by becoming more selective in making new investments, as well as concentrating investment in promising areas. In essence, Fujitsu aims to be an organization that can anticipate and respond to global trends while remaining focused on our customers' requirements. We believe this strategy will allow us to grow and prosper.



Fujitsu's Global Solutions Business Structure

IT is bringing about unparalleled changes in the economy, society and culture at a speed far greater than that of the Industrial Revolution. We use the term "mega-transformation" to denote this phenomenon, which will have a major impact on corporations and individuals, Fujitsu and its customers alike.

Fujitsu will bring its traditional customer focus even more to the fore. We will offer optimal solutions based on products and services that lead market changes. From individuals to corporations to society at large, our customers' needs will be met. Leveraging our advanced technology, we will contribute to the implementation of a "networked society."

NAOYUKI AKIKUSA
[President, Fujitsu Limited]

Fujitsu possesses abundant human resources with highly specialized knowledge and skills, and we have put in place an extensive employee education program. We also have a solid track record in constructing highly integrated large-scale systems and databases that support shared information infrastructure. Moving forward, we intend to fully utilize the combined talents and resources of personnel at Amdahl, ICL and our telecommunications and semiconductor group companies around the world to respond to all our customers' needs.

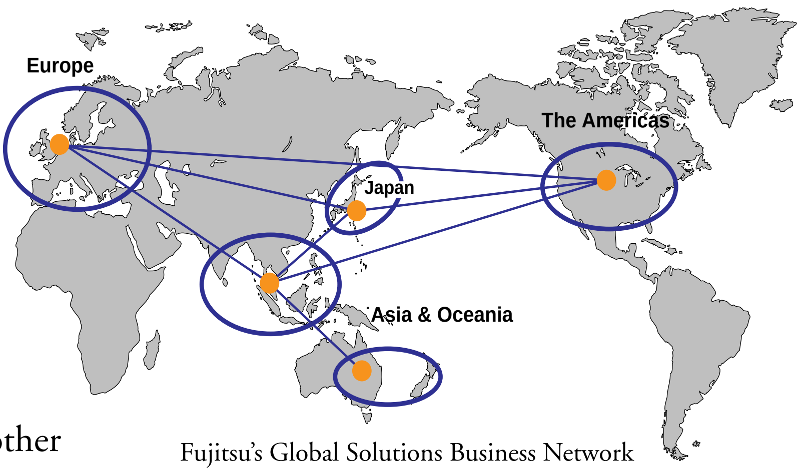
As a comprehensive solutions provider with core strengths in hardware, software, and network infrastructure technology, we are determined to consolidate our leadership position in the global IT industry.

Amdahl Purchase Is Springboard for Expanding Fujitsu's Global Solutions Business

Fujitsu is firmly positioned as a provider of solutions that leverage our expertise in hardware, services and software. In fact, we have been number one in Japan in this regard since 1979. Building from a solid base in Asia/Oceania, Fujitsu acquired ICL in 1990 to extend the solutions business to Europe, and in 1997 Amdahl became a wholly owned subsidiary. This provided a powerful base for growth in the United States, the world's largest IT market, thereby creating a global solutions business infrastructure.

Regional Autonomy and Coordination Propel Growth on a Global Scale

Aiming to extend services of consistently high quality to customers worldwide, we announced our Global Solution Link concept in 1997. This concept lays the groundwork for effectively linking Amdahl, ICL, Fujitsu Australia Limited and other



Fujitsu's Global Solutions Business Network

DAVID. B. WRIGHT
[President, Amdahl Corporation]

Amdahl is focused on helping its Global 2000 customers develop, deploy and manage mission-critical information systems. As a $2.2 billion subsidiary of Fujitsu Ltd., Amdahl has successfully expanded its account base to include major customers throughout North America, Europe, and other key markets around the globe.

Amdahl has a strong competency in the OS390 environment, which provides excellent synergy with Fujitsu's own technology and industry direction. This valuable partnership allows us to explore all areas of the enterprise, from software to platform technology and distribution avenues for the wide range of Fujitsu and Amdahl products.

Our ability to focus on our customers' changes, either in the computing infrastructure or application environment, is key to our future. Our DMR Consulting Group provides us the ability to address such areas as electronic commerce, Year 2000 and industry-focused applications. Amdahl Global Services assists our customers with managing performance, security availability and connectivity.

Overall, 1998 will be a "breakthrough" year for Amdahl. It will be a year in which increased revenues, profits and expanding market share will enhance our reputation as the "indispensable vendor" in the information technology business.

core group companies in a confederation that will enable us to provide truly global solutions to customers worldwide.

Globalization at Fujitsu differs from many other companies. Group members have horizontally integrated relationships but maintain their own cultures and business styles. Thus, Fujitsu Limited, ICL, Amdahl and other Group companies are free to place priority on serving their customers in a manner that conforms to local requirements. At the same time, resources are shared to enable us to offer superior solutions to customers anywhere in the world. To raise efficiency, Group companies share selected products and other resources on a global scale. But ultimately, services are extended by the local company. This system has proven highly effective at optimizing the synergies of the entire Group.

Focus on Solutions Supports Continuous Progress in Technology and Services

One of Amdahl's greatest strengths is its customer base, which includes many Fortune 100 companies. Now that Amdahl has access to the worldwide resources of the Fujitsu Group, the door is open for developing an even more comprehensive solutions business. And by catering to the sophisticated needs of its clients, Amdahl also becomes a valuable source of knowledge for other Fujitsu companies.

KEITH TODD
[Chief Executive, ICL PLC]

Over the past three years, ICL has transformed itself into a Systems & Service Business, having sold our manufacturing operations and consolidated our PC business with Fujitsu. Our performance has improved as a result. In calendar 1997, income before taxes was £30m. Particularly gratifying was the 25% growth in outsourcing and other services. We are now firmly on the path to increased growth and earnings, and we are making numerous investments that will generate profits for many years to come. Two highlights are the operation of a communications network for British Gas (BG) Transco and the automation of a network for the U.K. postal service.

Through global cooperation with Fujitsu, we developed a new system for retailers called GlobalSTORE. Our precision retail system, which is linked to GlobalSTORE, enables retailers to accurately monitor such data as customers' propensity to make purchases and customer demographics. This makes it possible to use precision retailing to create entirely new types of services in Europe and the Americas. Barriers separating retailing and financial services are falling and many new opportunities are appearing. ICL is in a position to share knowledge about these opportunities with Fujitsu and then work together to assemble global solutions.

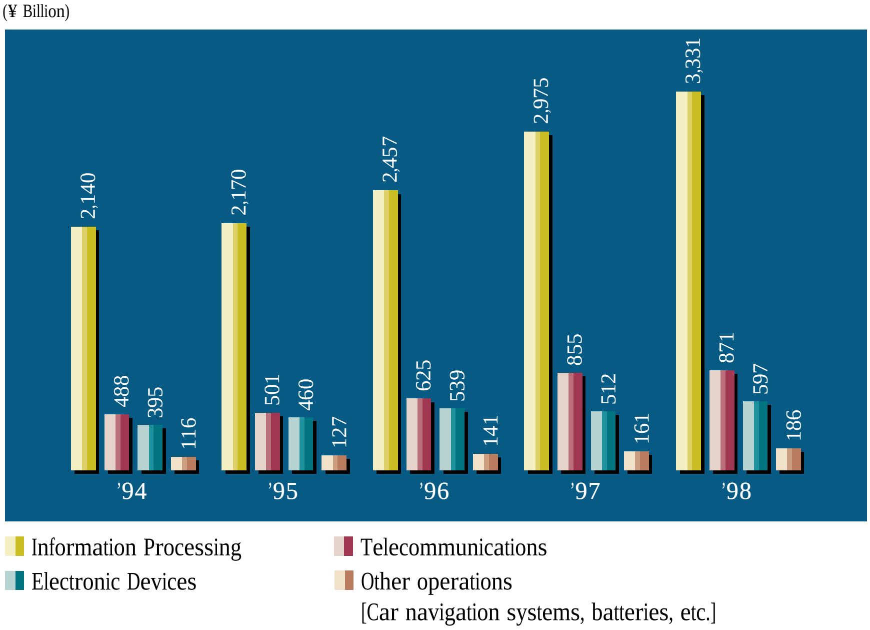
Fujitsu, ICL and Amdahl serve many customers that operate on a multinational basis. This points to opportunities to develop global accounts. Through regional bases at Amdahl in the U.S., ICL in Europe, Fujitsu in Japan and Fujitsu Asia Pte. Limited in Southeast Asia, customers can count on Fujitsu to provide global coverage. This system ensures reliable regional support in concert with the best IT solutions for worldwide operations. In addition, our experience in supplying switching systems, transmission systems and other communications equipment in many countries means that Fujitsu's solutions can extend to structuring advanced, integrated computer and communications systems as well.

Concentrating on the solutions business on a global scale creates an extremely beneficial cycle at the Fujitsu Group. Providing solutions opens up opportunities for learning about emerging markets not only in Japan but also around the world. This yields a crucial edge in creating competitive hardware and software products ahead of other companies. Backed by our global marketing network, such products, in turn, fuel sales growth, and more knowledge is gained about emerging needs.

With a global network now firmly in place, we anticipate making even greater strides in expanding our global stature as a total solutions provider.

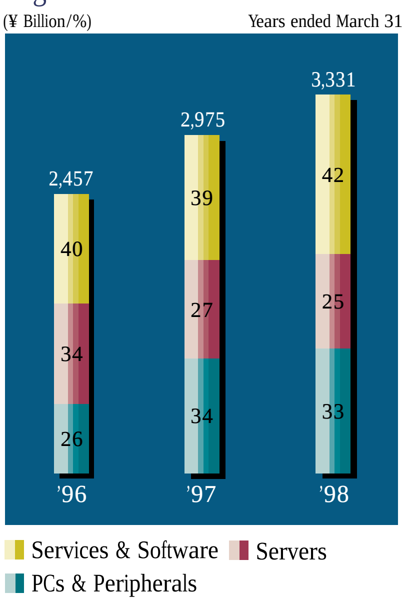
Consolidated Net Sales by Segment

(Years ended March 31)



Information Processing

Segment Sales



Fujitsu's Information Processing Business Strategies & Goals

- To be a solutions provider with global-scale systems integration capability
- To be a leader in network computing
- To provide top quality, leading-edge systems products
- Worldwide market share goals in 2000:

Services and Software	Top 2
Large-Scale Servers	Top 2
PCs	Top 5
Hard Disk Drives	Top 3

In the year ended March 1998, the Information Processing Group's sales rose 12% to ¥3,330.6 billion, paced by growth in the services and software business as well as hard disk drives (HDDs). Services and software revenue increased 18% to account for 42% of sales; sales of servers, including global servers, rose 6% to account for 25% of sales; the personal computer-related business, including HDDs, increased 9% and represented 33% of sales. Despite one-time costs relating to the Amdahl acquisition, earnings rose on higher margins for services and software. Profitability is expected to improve even further in fiscal 1998 and beyond.

SERVICES AND SOFTWARE

Sales in the services and software business rose by 18% in fiscal 1997. This sector's share of total information processing sales has been increasing every year, and accounted for 42% in the year under review.

Particularly strong growth is being seen in the outsourcing segment. To handle customers' data processing requirements, we have established the Akashi System Center, our second such installation in Japan. ICL is also enjoying more than 20% annual growth in its outsourcing business, one noteworthy example of which is the £160 million contract it was awarded by British Gas (BG) Transco in 1997 for management of its communications network.

The foundation for growth in our services business is Fujitsu's FENICS nationwide network of over 200 access points and domestic user base of 28,000 corporations. In addition, we have recently entered into a tie-up agreement with one of the world's largest communications networks covering some 50 countries and about 6,000 access points. This will serve as the foundation for developing a world-scale network service business.

In this regard, Fujitsu and the U.S.'s WebTV Networks, Inc. have established a joint venture company in Japan to provide access to the Internet on household TV sets. Fujitsu is constructing a WebTV network center in Japan and will supply operation and billing systems based on its superior know-how in the network service business.

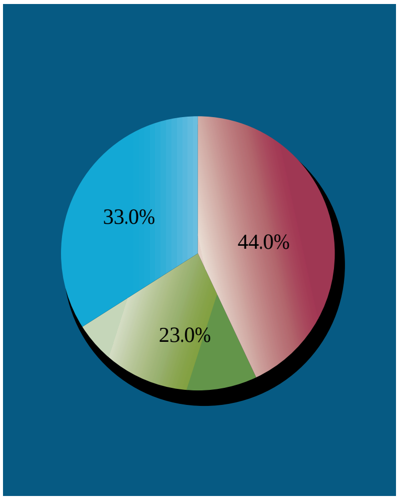
With the diffusion of client-server systems and increasing integration of multimedia applications, demand for multimedia systems maintenance services is growing rapidly. Fujitsu's Client-Server Support Desk has drawn high praise for its computer operation management and hardware/software support for systems comprising both Fujitsu's products and those of other vendors. This unit also responds quickly to inquiries about various types of applications.

Global software development and marketing are essential to the solutions we offer. In 1997, we began worldwide marketing of Jasmine, an object-oriented database software product co-developed with Computer Associates International, Inc. in the U.S. In addition, we launched a new joint venture company in the U.S., called GLOVIA International, LLC., to expand marketing of the GLOVIA integrated Enterprise Resource Planning (ERP) package that supports accounting, personnel, production management and sales management functions.

The strength of Fujitsu's solutions business lies in its vast array of superior hardware and software products. To facilitate selection of the most appropriate solution, in late 1997 we unveiled "SOLUTIONVISION," a new business architecture which combines and integrates Fujitsu's network-based hardware and software components as well as services for corporate computing environments. We are now actively marketing SOLUTIONVISION in connection with electronic commerce, finance and other areas.

Services and Software Sales

Year ended March 31, 1998



- Services
  - •Systems Integration
  - •Professional Services (consulting, training,etc)
  - •Outsourcing
  - •Help Desk Services
  - •Network Services
- Software
  - •Application Packages
  - •Middleware
  - •Multimedia Content
- Maintenance & Support
  - •Maintenance
  - •Construction (installation & cabling)

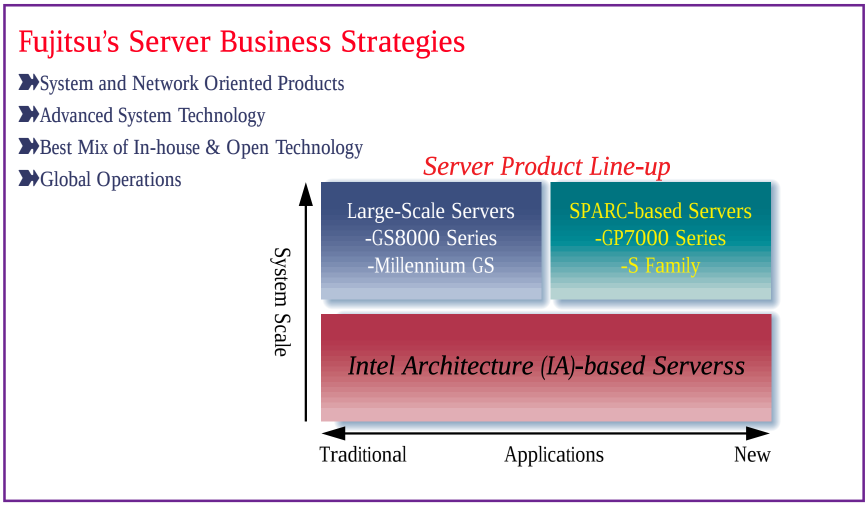
SERVERS

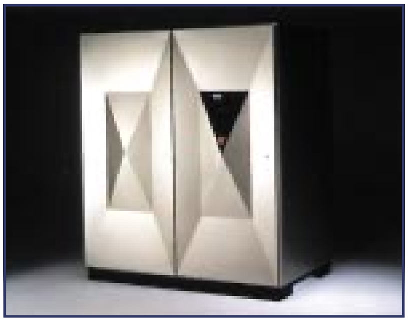
Server products constitute one of Fujitsu's most important and promising business segments.

Thanks to lower power consumption, a radically smaller footprint, and lower overall costs, the locus of the large-scale server market is now shifting from Emitter Coupled Logic (ECL) to Complementary Metal-Oxide Semiconductor (CMOS) technology. Anticipating this trend, Fujitsu completed the shift to CMOS-based products in 1996. In 1997 we began shipping the GS8800 Global Server, a top-of-the-line large-scale server employing advanced CMOS technology. In addition, Amdahl launched its Millennium 700 Series, which employs the same technology, and ICL has also begun marketing large-scale servers based on Fujitsu's CMOS technology. Fujitsu is also supplying CMOS global servers to Siemens Nixdorf Informationssysteme AG on an OEM basis. The new CMOS servers, which offer excellent cost-performance characteristics, have been exceedingly well received in the market. Moreover, recent development advances have led us to announce a single-CPU CMOS that will surpass the performance of ECL systems by the year 2000. In medium- and small-scale servers, we now offer a complete line of GP7000 UNIX servers and have expanded the lineup of IA-based servers as well.

To fully develop the server field, we are implementing a multi-level strategy. First, we are offering world-class servers for both system and network environments. Second, we are leveraging our sophisticated system technology to achieve a high level of scalability and robustness. Third, we are integrating Fujitsu's technology with best-of-breed third party technology to offer customers the advantages of both. Finally, we are conducting all these actions on a global scale. We believe this multi-level strategy will result in higher sales. Accurately anticipating customers' requirements, we will strive to offer optimal solutions by combining our world-class server products, systems integration capability and consulting services.

Large-scale servers is a field in which Fujitsu has long excelled. In Japan, Fujitsu ranks first with a 40.4% share according to an October 1997 study by Fuji Chimera Research Institute, Inc. Many industry observers believe that demand for large-scale servers will continue to grow in the 21st century, since they are essential for building reliable large-scale back-end systems and restructuring legacy systems. Fujitsu's management shares that belief. This is why we are working to optimize our servers for new network computing and Web-centric environments.





The Amdahl Millennium 700 series has drawn much attention in the computer industry. It is based on the same technology as the Fujitsu GS8800 global server series.

Personal Computers and Peripherals

Personal Computers

In fiscal 1997, while Japanese domestic shipments of personal computers declined 5% by volume, Fujitsu's shipments remained unchanged at 2.0 million units. Overseas, European demand was particularly strong. As a result, Fujitsu shipped 3.2 million personal computers worldwide, 14% more than a year earlier. In desktops for corporate use, we commenced build-to-order service, tailoring memory, hard disks and other components to order, with the same service for notebooks scheduled to begin in the summer of 1998. About 60% of Fujitsu's PCs are supplied to corporations. The personal computer is thus an important element in the solutions we offer.

Fujitsu has a decisive advantage in that a large proportion of key PC components are developed and manufactured internally. In the portable PC sector, for example, up to 80% of a typical model's value is derived from in-house design and production. Our rigorous testing of components and systems assures product reliability and quality.

In parallel, Fujitsu has a strong infrastructure for global-based procurement and logistics. Design work is carried out worldwide to assure compatibility with regional requirements. Key components are manufactured in Asian countries as well as in Japan. Final assembly is located close to the customer. Our global manufacturing and logistics network, including strong partnerships with third-party component vendors, contributes substantially to cost reduction and customer satisfaction.

In addition, Fujitsu was one of the first in the industry to promote environmentally sound designs. Our PCs are engineered to maximize the recycling of components.

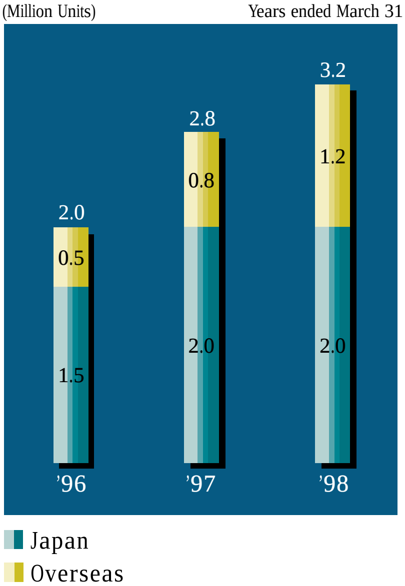
Hard Disk Drives

As U.S. and European demand has expanded, we have raised production of compact hard disk drives (HDDs) at our plants in the Philippines, Thailand and Vietnam. Annual shipments in fiscal 1997 climbed 81% to 12.5 million units and our market share also rose. By the year 2000, we are aiming for a worldwide market share of 15% by volume and a position in the top three in terms of revenue. Fujitsu's strength in this field lies in our development power and internal manufacture of high added-value components to achieve high quality. For example, more than 60% of the MR heads we use are manufactured in-house.

GMR head development has been completed and will be implemented in products starting in the summer of 1998. At the InterMag 1997 conference, we unveiled the world's first 8Gbit per square inch storage technology. With today's HDD business requiring optimum combinations of highly sophisticated technologies, technical superiority and vertical integration give Fujitsu an invaluable competitive edge.

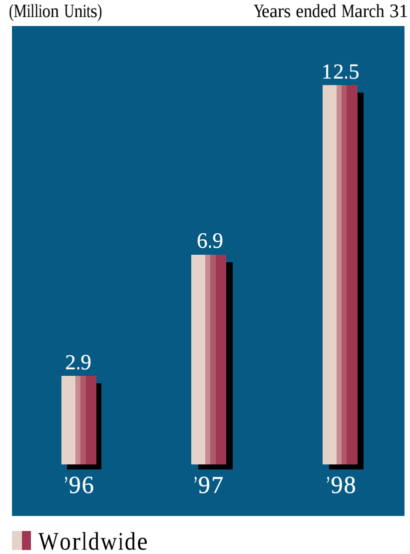
Personal Computer Shipments

(Million Units) Years ended March 31



Hard Disk Drive Shipments

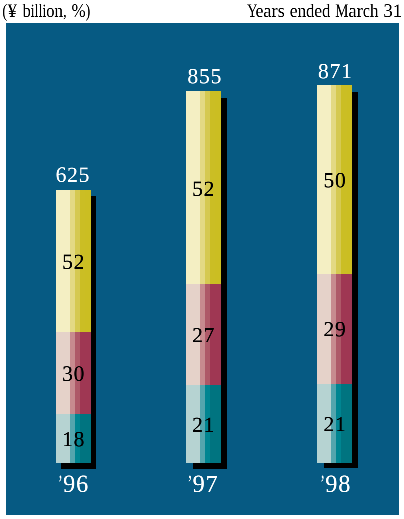
(Million Units) Years ended March 31



Telecommunications

Segment Sales

(¥ billion, %) Years ended March 31



Fujitsu's Telecommunications Business Strategies and Goals

TRANSMISSION

- Attain No. 1 position in the global SONET/SDH market. Fujitsu's successful SONET optical transmission business in the U.S. has significantly contributed to success in Asia, Australia and China.
- Broadband access–focus on ATM-PON, xDSL (Japan, U.S., UK, etc.)

SWITCHING

- Apply Fujitsu's experience from information highway projects such as North Carolina Information Highway, first commercial wide area ATM network, to Asia and Europe (Japan, Hong Kong, Spain, Germany, etc.).

MOBILE

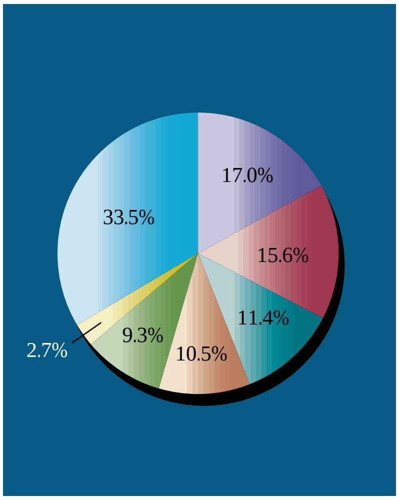
- Focus on CDMA, deploy W-CDMA by year 2000
- Pursue global development (Japan, U.S., UK, China)

Our telecommunications business was adversely affected by reduced capital spending on the part of domestic carriers in the fiscal year's second half. An aggressive response to global networking demand, however, enabled us to increase sales in this segment by 2% to ¥871.3 billion. Profitability declined from the prior year's record high due to price cuts brought about by competition among domestic carriers and a higher proportion of business in Asia, where margins were tighter. The outlook for the next several years is favorable. Demand and profitability are expected to rise as a result of deregulation, a projected rise in capital investment after the upcoming divestiture of NTT, the advent of W-CDMA and other factors.

In fiscal 1997 domestic demand was sluggish as a whole, resulting in an 8% decline in sales within Japan. Although mobile communication systems posted solid growth, there were a number of negative trends. One was slow growth in orders for systems needed to build next-generation networks. In addition, sales were held back as communication providers curbed capital spending and orders for switching systems and transmission systems fell. Future

Worldwide Optical Transmission Market

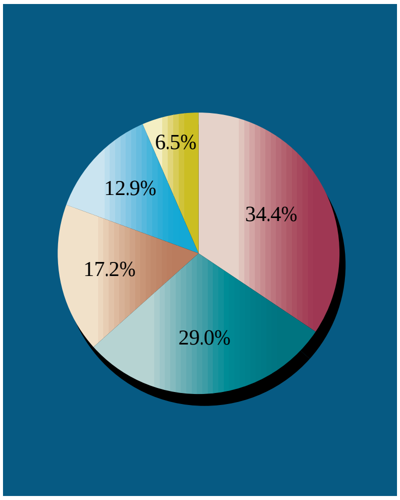
(Shipped amount, 1996)
Market Size U.S. $8,156 Million



[Source: Dataquest 1997 (GG98-Fuj-035)]

SONET* Market for RBOCs**

(Shipped amount, 1996)
Market Size: U.S. $1,661 Million



[Source: Dataquest 1997 (GG98-Fuj-036)]

* Sonet is equivalent to SDH.
** Regional Bell Operating Companies

prospects are brighter. Post-NTT breakup capital investment and the spread of the Internet and intranets are expected to spark demand for communications systems.

In fiscal 1997 overseas demand expanded substantially, particularly in the United States and Asia, boosting sales by 34%. In the United States, demand for high-volume networks grew as the popularity of CALS, electronic commerce and other networked activities fueled growth in traffic. Fujitsu's U.S. communications subsidiary delivered a large number of new optical transmission systems. In China and other Asian countries, where there was rapid progress in expanding the communications infrastructure, demand for digital communications systems rose sharply. In addition, the company supplied a 10-gigabit-per-second optical communications network, the world's largest for a commercial application, to a communications company in Australia. In the field of broadband Asynchronous Transfer Mode (ATM) switching, our FETEX-150 ESP broadband switches were installed by Hong Kong Telecom to power its Interactive Media Service. And in Spain, Fujitsu captured an order from the Galicia provincial government for an ATM switching system. One factor in selecting Fujitsu was its central role in the North Carolina information superhighway project in the U.S.

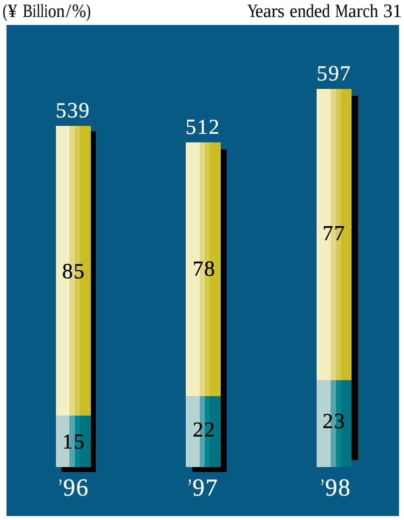
In research and development, the company devised a method to process real-time transmission of the large volumes of data required for moving image and voice traffic: a 10-gigabit optical signal in 32 wavelengths, for a total of 320 gigabits, that is among the world's largest. In addition, we confirmed the ability of Wavelength Division Multiplexing (WDM) to add flexibility and expandability to existing optical networks. And in mobile communications base stations, Fujitsu was selected by NTT Docomo Co. to provide experimental W-CDMA-type systems, recognized as the world standard for next-generation mobile communication systems that can accommodate mobile multimedia. R&D is progressing, with plans to implement the system at an early date.

Fujitsu Laboratories and Fujitsu Limited have developed a WDM system, shown here, that processes a 10-gigabit optical system in 32 wavelengths. Other noteworthy R&D advances include successful prototypes of an Optical Add/Drop Multiplexer (OADM) and an Optical Cross-connect System (OCS).

Electronic Devices

Segment Sales

(¥ Billion/%) Years ended March 31



Semiconductors
Other
[Media devices, PDPs, LCDs, relays, connectors, keybords, etc.]

Fujitsu's Electronic Devices Business Strategies and Goals

- Focus on system LSIs for:
  Digital audio/video
  Networks/mobile communication
  PCs and peripherals (for 3D graphics and storage)
- Maintain top share in flash memories with AMD
- Maintain top share in compound semiconductors:
  Optical devices, Microwave devices, GaAs ICs
- Continue to lead in the PDP market, with advanced mass-production techniques and key patents for design and operations.

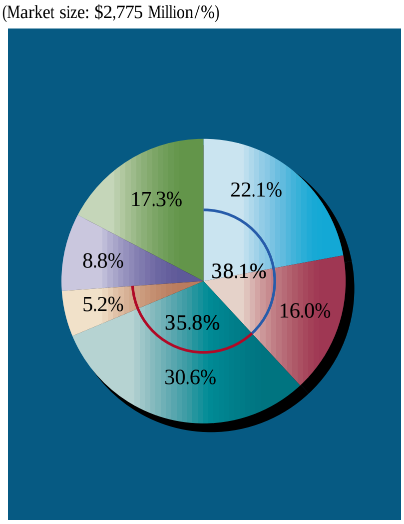
Fujitsu's Electronic Devices group is instrumental in supplying the key components that underpin the competitive products of the Information and Telecommunications groups. Despite depressed DRAM prices in fiscal 1997, gains in demand for flash memories and such media devices as SAW filters resulted in a 17% increase in sales to ¥597.3 billion. This included ¥460.0 billion in semiconductor sales and ¥137.3 billion in sales of other products, including media devices, plasma display panels (PDPs), liquid crystal displays (LCDs), relays, connectors and keyboards.

Semiconductor production by value, which included ¥110.0 billion used internally, was up 4% to ¥570.0 billion. Logic ICs accounted for 44% (48% the year before), DRAMs 20% (21% the year before), flash memories 17% (12% the year before), and other ICs, including compound semiconductors, 19%. Although logic ICs, flash memories and other semiconductors were profitable, the Electronic Devices group recorded a loss overall because of falling DRAM prices.

Logic IC sales were up, mainly the result of growth in sales of system LSIs built around the SPARClite microcontroller. Sales of flash memories surged, driven by demand related to the popularity of mobile telephones and digital cameras. We augmented production capacity by bringing the Fujitsu AMD Semiconductor Limited

Flash Memory Market Share '97

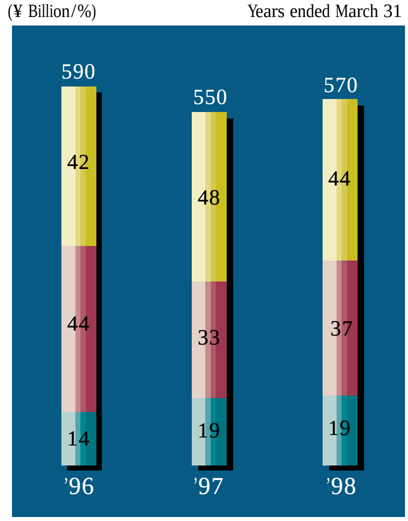
(Market size: $2,775 Million/%)



AMD Intel Atmel
Fujitsu Sharp Others
[Source: Dataquest, Apr. 1998 (GG98-Fuj-034)]

Semiconductor Production

(¥ Billion/%) Years ended March 31



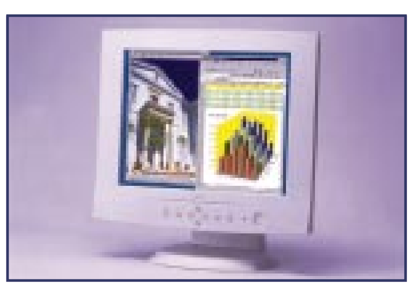
Logic
Memory [DRAMs, flash memories]
Other semiconductors
[including compound semiconductors]

No. 2 plant on stream. According to Dataquest, Fujitsu and AMD together ranked number one worldwide in the flash memory market in 1997. In the DRAM field, Fujitsu began shifting production from 16-Mbit to highly integrated 64-Mbit synchronous DRAMs. At the same time, efficiency was improved by making increasing use of production facilities that can make multiple products, including logic ICs, rather than just DRAM chips. Moving ahead, Fujitsu will focus on logic devices, mainly system LSIs, and in the memory field, flash memory production capacity will be expanded while DRAM output is held back. These moves are designed to raise the overall profitability of the semiconductor division.

Responding to rising demand, Fujitsu boosted production capacity for SAW filters used in mobile telephones, preserving its top share in the world marketplace. Compound semiconductors are another sector in which Fujitsu excels. Demand is rising for use in communications equipment. Fujitsu is developing these businesses under independent management to quickly seize emerging opportunities.

In 1997 Fujitsu introduced a high-contrast version of its 42-inch color plasma display panel (PDP) that produces remarkably sharp images and natural colors, and is ideally suited as a wall-hanging TV. At the same time, it is extremely light and thin, and has a wide viewing angle. These qualities make PDPs ideal for such uses as mini-theaters, electronic posters and other large-scale displays. Adding to our extensive patent portfolio, Fujitsu was awarded patents covering basic PDP manufacturing in the U.S., Japan and Europe for the PDP stripe rib panel structure and an advanced drive system for circuits. With these advantages, we are confident of maintaining leadership in the PDP market. In addition, we increased sales of LCDs for notebook computers. In a notable technological advance, we developed a high-resolution 15-inch MVA (Multi-domain Vertical Alignment)-type LCD desktop monitor.

In October 1996 Fujitsu became the world's first manufacturer to mass produce 42-inch full-color plasma display panels. The product, called Image Site, is being marketed worldwide.



A large-screen, high-resolution LCD monitor incorporating Fujitsu's proprietary wide-view MVA panel technology.

FUJITSU'S COMMITMENT TO THE ENVIRONMENT

The precepts contained in "Fujitsu's Commitment to the Environment," announced in 1992, still guide company policy to this day. A fundamental part of this policy is our pledge to "use creativity and technology to harmonize human activity with the global environment." In this vein, there are clear guidelines to govern such activities as developing technology that contributes to environmental protection, making efficient use of energy and resources, and taking into consideration the environmental impact of operations.

Currently, we are operating under the directives of Fujitsu's Second Environmental Protection Program. Launched in April 1996, this program has set several targets to be achieved by the end of fiscal 2000:

- establish and implement an environmental management system in plants and offices, including development and service activities based on ISO standards;
- attain a recycling rate of 90% for collected waste products;
- cut industrial waste output to 80% of fiscal 1991 levels;
- reduce chemical emissions by 20% from fiscal 1995 levels; and
- lower sales-linked electricity consumption by 20~30% of fiscal 1990 levels.

Discarded personal computers ready to be processed at recycling center. Fujitsu's goal is to achieve a 90% recycle rate by the end of fiscal 2000.

A Fujitsu Recycling Center in Japan. Here discarded personal computers and other office equipment are collected for recycling.

Achievement of ISO14001 certification, an international standard for environmental management systems, was accomplished for all 11 of our domestic production bases by December 1997. Subsequent plans call for the Fujitsu Group's major manufacturing affiliates to do likewise by the end of March 1999. And the end of fiscal 2000 has been set as the target date for obtaining ISO14001 certification at the main offices in the service and development division.

An aggressive recycling program is another part of Fujitsu's environmental activities. Collection terminals have been set up in 13 locations in Japan to collect used or discarded computers and other products. They are then dismantled and parts sorted at five Fujitsu Recycling Centers. Then, reusable components are stored at Recycle Parts Centers so they can be used for product maintenance. This system has already produced tangible results—Fujitsu has raised its recycling rate from 55% in fiscal 1996 to 86% in fiscal 1997.

In addition, Fujitsu processes garbage from its employee cafeterias into organic fertilizer for use by nearby vegetable growers; their produce is in turn sold to Fujitsu employees. It is expected that this food cycle will lead to a marked reduction in the volume of discarded garbage.

CONTRIBUTIONS TO SOCIETY

For his contributions to international education, Takuma Yamamoto (right), Chairman Emeritus of Fujitsu and chairman of the Japan-America Institute of Management Science (JAIMS), was recognized in 1997 by the Mayor of Honolulu on the occasion of JAIMS's 25th anniversary. Over 14,000 people from more than 40 countries have attended JAIMS. Its graduates are active around the world.

Fujitsu has undertaken a wide range of activities in support of such areas as academic research, education, global environmental preservation, international exchange, cultural and artistic activities, social welfare and contributions to community activities. A particularly noteworthy aspect is the company's long history of support for independent academic and educational institutions, centering on the Japan-America Institute of Management Science (JAIMS).

• Academic and Educational Support

In 1972, the Japan-America Institute of Management Science was established in Hawaii. A nonprofit educational organization, JAIMS is dedicated to promoting mutual understanding among businesspeople in the Pacific Rim. The institute undertakes education and research in management concepts and methods, focusing on Japan, the US and China. Fujitsu has also established the Foundation for International Information Processing Education (FINIPED) to cultivate information-processing personnel resources in Japan and overseas. Together with JAIMS, it provides support to students pursuing their studies in this field at home and abroad.

Furthermore, Fujitsu has since 1994 supported the MY TOWNMAP Concours, a map-making competition that is sponsored by FINIPED, Japan's Ministries of Education and International Trade and Industry, the EU and others. Fujitsu engages in a wide range of other community activities: for example, support for Japan's only specialized data processing library and the Mathematics Olympics Foundation.

•The Run for the Kids Charity Race

Employees at Fujitsu's overseas operations regularly contribute to local communities. There are many examples of this. One is the Run for the Kids charity race, sponsored for the past 11 years by Fujitsu Microelectronics, Inc. (FMI), in San Jose, California. Since its inception the event, which includes an 8-km race, a 5-km wheelchair race and a 2-mile walk, has raised more than $600,000 for local children's charities. In addition to organizing the races and making its own sizeable donation, FMI contacts its business partners and major vendors to encourage contributions. FMI employees participate in the fund-raising and publicity, and help out at the actual event itself. An FMI employee who wanted to "make a difference" got the idea for the race more than a decade ago.

MY TOWNMAP Concours is a contest for the production of original maps containing information pertinent to everyday activities. The maps, which are generated by personal computers, are submitted by individuals and organizations from around the world. Shown here is the awards ceremony for fiscal 1997.

CONTENTS

	Yen (millions) (except per share data and number of employees)					U.S. dollars (thousands)
Years ended March 31	1994	1995	1996	1997	1998	1998
Net sales	¥3,139,330	¥3,257,706	¥3,761,966	¥4,503,474	¥4,985,382	$37,768,045
Operating income	103,357	165,875	205,882	200,681	211,262	1,600,470
Income before income taxes	26,227	85,371	127,686	143,074	104,891	794,629
Net income (loss)	(37,672)	45,020	63,113	46,147	5,587	42,326
Total assets	3,594,743	3,713,816	4,324,490	4,727,687	5,123,063	38,811,083
Shareholders' equity	1,057,907	1,100,315	1,149,399	1,181,490	1,185,253	8,979,189
Amounts per share of common stock:						
Basic earnings (loss)	(20.8)	24.8	34.5	25.1	3.0	0.023
Diluted earnings	–	24.2	32.5	24.0	3.0	0.023
Cash dividends	8.0	10.0	10.0	10.0	10.0	0.076
Shareholders' equity	582.4	605.6	624.2	641.6	636.4	4.821
R&D expenditure	329,916	323,900	346,389	352,818	387,129	2,932,795
Capital expenditure	184,634	234,841	403,839	435,692	435,771	3,301,295
Number of employees	164,000	164,000	165,000	167,000	180,000	
Net sales by main product:						
Information processing	2,140,548	2,169,753	2,456,939	2,974,948	3,330,600	25,231,818
Telecommunications	487,942	500,664	624,705	855,049	871,375	6,601,326
Electronic devices	394,552	460,340	538,814	511,839	597,317	4,525,129
Other operations	116,288	126,949	141,508	161,638	186,090	1,409,772
Total	3,139,330	3,257,706	3,761,966	4,503,474	4,985,382	37,768,045
Net sales by customers' geographic location:						
Japan	2,213,694	2,283,353	2,645,077	3,161,365	3,228,363	24,457,295
Europe	459,170	470,985	564,537	664,697	782,946	5,931,409
The Americas	261,273	280,114	310,416	403,206	586,215	4,441,023
Asia & Oceania	184,766	201,295	218,002	251,299	358,396	2,715,121
Africa & the Middle East	20,427	21,959	23,934	22,907	29,462	223,197
Total	3,139,330	3,257,706	3,761,966	4,503,474	4,985,382	37,768,045

Notes: 1. See Note 1 of Notes to Consolidated Financial Statements with respect to the calculation of basic and diluted earnings (loss) per share.
2. The U.S. dollar amounts above have been translated from yen, for convenience only, at the rate of ¥132 = US$1.

Net Sales

In fiscal 1997, the year ended March 31, 1998, consolidated net sales climbed 11% to ¥4,985.3 billion ($37,768 million), an all-time high. These sales included operations of the parent company, 129 subsidiaries in Japan and 384 subsidiaries outside Japan.

Sales in Japan rose 2% to ¥3,228.3 billion ($24,457 million). Sales outside Japan were up by 31% to ¥1,757.0 billion ($13,310 million), mostly due to strong growth in information-related investments in the United States. As a result, sales outside Japan increased from 30% to 35% as a share of the total. Compared with the prior fiscal year, the average yen rate fell from ¥113 to ¥123 against the U.S. dollar and from ¥179 to ¥202 against the British pound. Overall, changes in foreign exchange rates had the net effect of increasing net sales by approximately ¥110.0 billion ($833 million).

Sales of information processing systems rose 12% to ¥3,330.6 billion ($25,231 million). Major contributors were growth in hard disk drive sales and higher sales of services and software in Japan and overseas.

Telecommunications sales grew by 2% to ¥871.3 billion ($6,601 million). Sales in Japan declined as Japanese telecommunications providers cut back on capital spending. Sales outside Japan increased as demand for networks rose in the United States and as Asian nations, particularly China, made large investments in telecommunications equipment to meet expanding demand.

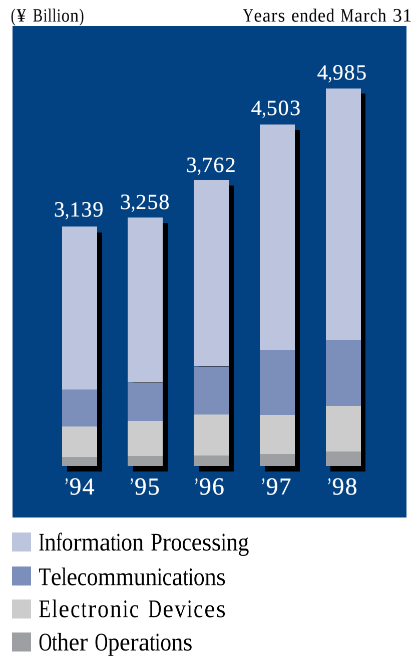
Sales of electronic devices were up by 17% to ¥597.3 billion ($4,525 million), on strong demand in the U.S. Although sales rose substantially, earnings were impacted by a steep fall in market prices for DRAMs.

Expenses and Net Income

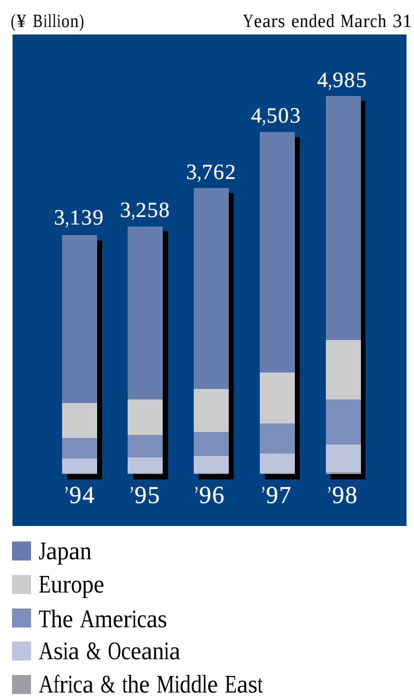
Gross profit increased 8% to ¥1,466.5 billion ($11,110 million), although the gross profit margin declined from 30% to 29%. The margin was adversely affected by lower DRAM prices, a drop in PC prices overseas, a loss at Amdahl Corporation and other factors.

Selling, general and administrative expenses increased 9% to ¥1,255.2 billion ($9,509 million), declining from 26% to 25% as a percentage of net sales. Progress continued to be made in cutting expenses, while a commitment to research and development was maintained. Accordingly, research and development expenditure rose 10% to ¥387.1 billion ($2,932 million). At 8%, the proportion of net sales was unchanged.

Net Sales by Main Product

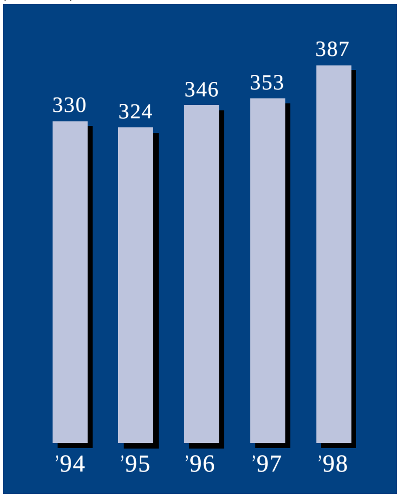


Net Sales by Customers' Geographic Location



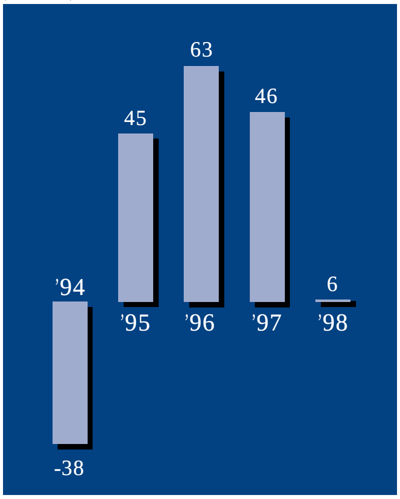
R&D Expenditure

(¥ Billion) Years ended March 31



Net Income

(¥ Billion) Years ended March 31



Operating income climbed 5% to ¥211.2 billion ($1,600 million), which was 4% of net sales, about the same as in the prior fiscal year.

Net financial expenses, which is interest and dividend income less interest charges, increased by ¥4.3 billion ($32 million) to ¥43.8 billion ($332 million). Foreign exchange movements, especially the sudden fall in Asian currencies, resulted in foreign exchange losses of ¥9.4 billion ($71 million), compared with a gain of ¥22.5 billion in the prior fiscal year. Amortization of goodwill rose by ¥23.0 billion ($174 million) to ¥33.9 billion ($256 million). This is primarily attributable to the amortization of ¥20.0 billion in goodwill resulting from the acquisition of Amdahl Corporation, a wholly owned subsidiary. The ¥20.0 billion ($151 million) represents a lump-sum amortization of ¥15.2 billion ($115 million) and amortization of ¥4.8 billion ($36 million), which is the fiscal 1997 portion of goodwill to be amortized over a ten-year period.

As investment securities are valued at the lower of cost or market, weak stock prices in Japan, mainly among financial institutions, resulted in a substantial valuation loss. A sufficient volume of investment securities was sold to generate earnings to offset these losses. Latent profits on investments in affiliates amounted to ¥389.9 billion ($2,954 million) at the fiscal year-end, an increase of ¥102.0 billion ($773 million) over the previous year.

Other income (expenses) – other, net in the prior fiscal year included a ¥4.9 billion charge for losses on disposal of magnetic head inventories as a part of restructuring expenses at FDK Corporation. No such restructuring charge was expensed in this year.

Income before income taxes decreased 27% to ¥104.8 billion ($794 million), but income taxes rose by ¥12.0 billion ($91 million) to ¥108.5 billion ($822 million). Minority interests increased by ¥5.5 billion ($41 million) to ¥9.7 billion ($73 million). Equity in earnings of affiliates improved by ¥15.2 billion ($115 million) to ¥18.9 billion ($143 million), mostly reflecting higher earnings at Fanuc Ltd. and Advantest Corporation. This improvement also reflects the fact that equity method losses at Amdahl Corporation no longer applied after Amdahl became a consolidated subsidiary in the second half of fiscal 1997.

Net income fell 88% to ¥5.5 billion ($42 million) and net income per share was ¥3.0 ($0.023). This resulted in a return on equity of 0.5%. Cash dividends per share applicable to fiscal 1997 were unchanged at ¥10 ($0.076).

Results by Geographical Area

Japan

Sales in Japan were ¥4,010.9 billion ($30,385 million) and operating income was ¥219.0 billion ($1,659 million). Sales were impacted by an extremely difficult operating environment as Japan's economy stagnated. In addition, telecommunications providers limited capital spending and DRAM prices fell sharply. Sales and earnings were aided by a large increase in sales of hard disk drives and growth in services and software.

Europe

Sales in Europe totaled ¥826.6 billion ($6,262 million) and operating income was ¥3.5 billion ($27 million). Healthy demand for information-related systems supported growth at ICL PLC and hard-disk drive sales subsidiaries. However, semiconductor subsidiaries posted losses.

The Americas

In the Americas, sales were ¥511.6 billion ($3,876 million), but the region posted an operating loss of ¥38.1 billion ($288 million). Sales benefited from expanding demand for networks, rising investments in various information-related equipment and strong demand for electronic devices. The consolidation of Amdahl Corporation in the second half of the fiscal year further contributed to the increase in sales. The operating loss chiefly reflects losses at Amdahl, semiconductor subsidiaries and PC sales subsidiaries.

Others

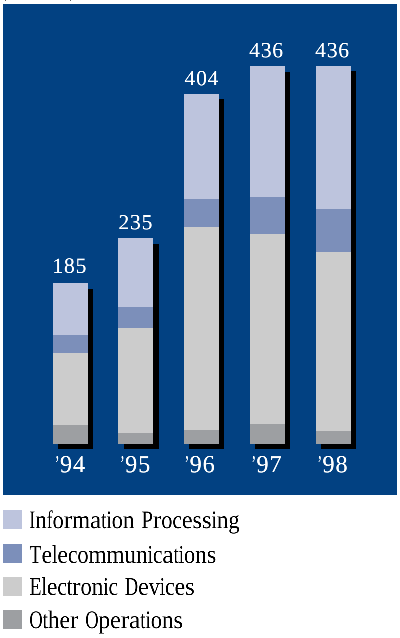
Sales in other geographic regions amounted to ¥523.8 billion ($3,968 million) and operating income was ¥26.6 billion ($201 million). Demand for telecommunications systems was especially strong in China and other Asian nations. Additionally, robust PC demand in Europe and the Americas led to higher output at factories in the Philippines, Thailand and Vietnam.

Capital Expenditures

Fiscal 1997 capital expenditures totaled ¥435.7 billion ($3,301 million), about the same as in the prior year. This represents expenditures of ¥164.3 billion ($1,244 million) for information processing, ¥50.0 billion ($378 million) for telecommunications, ¥206.2 billion ($1,562 million) for electronic devices, and ¥15.2 billion

Capital Expenditure

(¥ Billion) Years ended March 31



Capital Expenditure

(¥ Billion) Years ended March 31

	1994	1995	1996	1997	**1998**
Information Processing	60	78	121	151	**165**
Telecommunications	20	24	32	42	**50**
Electronic Devices	83	121	234	220	**206**
Other Operations	22	12	17	23	**15**
Total	185	235	404	436	**436**

($115 million) for others. The capital expenditures of electronic devices include ¥175.3 billion ($1,328 million) in semiconductor-related outlays. Major capital expenditures included:

- Information processing – construction of the Akashi System Center to bolster outsourcing business, upgrading of value-added network equipment, launch of the ICL PLC private finance initiative, and new building and equipment at Fujitsu Computer Products of Vietnam, Inc.;
- Telecommunications – new building at Fujitsu Network Communications, Inc. in the United States;
- Electronic devices – new facilities at the Mie Works to support development of leading-edge technology, equipment to increase output of flash memories at Fujitsu AMD Semiconductor Limited, 8-inch wafer production equipment at the Wakamatsu Works to upgrade logic IC activities, and equipment to strengthen 64M synchronous DRAM production in the United States.

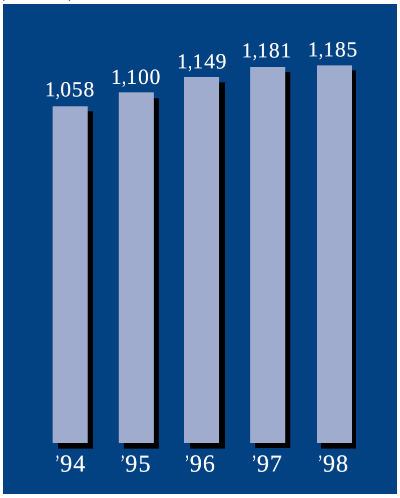
Financial Condition and Liquidity

Total assets at March 31, 1998 amounted to ¥5,123.0 billion ($38,811 million), 8.4% more than the previous year's ¥4,727.6 billion. Total interest-bearing liabilities rose by ¥178.9 billion ($1,355 million) to ¥1,890.8 billion ($14,324 million), due in large part to the acquisition of the remaining shares of Amdahl Corporation.

Shareholders' equity increased by ¥3.7 billion ($28 million) to ¥1,185.2 billion ($8,979 million), but the equity ratio decreased from 25% to 23%. Equity per share, based on the number of shares outstanding at year-end, was ¥636.4 ($4.821) compared with ¥641.6 the previous year.

Shareholders' equity

(¥ Billion) Years ended March 31



Cash Flows

Net cash provided by operating activities increased by ¥41.8 billion ($316 million) to ¥324.8 billion ($2,461 million). Although income before income taxes decreased, depreciation and amortization expenses were up by ¥50.7 billion ($384 million) to ¥350.6 billion ($2,656 million). This resulted in positive operating cash flow.

Net cash used in investing activities was ¥502.2 billion ($3,805 million), ¥57.6 billion ($436 million) more than in the prior fiscal year. Capital expenditures were largely unchanged. The increase in expenditures incident to the Amdahl acquisition boosted cash outflow significantly.

Net cash provided by financing activities was ¥153.6 billion ($1,163 million), mostly the result of an increase in long-term borrowings.

As cash used in investing activities exceeded net cash provided by operating and financing activities, cash and cash equivalents decreased by ¥21.7 billion ($164 million) to ¥392.1 billion ($2,971 million).

At March 31	Yen (millions) 1997	Yen (millions) 1998	U.S. dollars (thousands) (Note 2) 1998
Assets			
Current assets:			
Cash and cash equivalents	¥ 413,900	¥ 392,190	$ 2,971,136
Short-term investments (Note 4)	38,239	27,691	209,780
Receivables, trade (Note 13)	1,172,583	1,325,868	10,044,455
Allowance for doubtful accounts	(18,942)	(21,300)	(161,363)
Inventories (Note 5)	880,582	958,466	7,261,106
Other current assets (Note 10)	173,237	194,492	1,473,424
Total current assets	2,659,599	2,877,407	21,798,538
Investments and long-term loans:			
Affiliates (Note 6)	339,241	311,799	2,362,113
Other (Notes 4, 6 and 8)	312,002	326,123	2,470,629
	651,243	637,922	4,832,742
Property, plant and equipment:			
Land	122,798	134,890	1,021,894
Buildings	738,603	787,442	5,965,470
Machinery and equipment	2,239,680	2,378,998	18,022,712
Construction in progress	96,077	54,337	411,644
	3,197,158	3,355,667	25,421,720
Less accumulated depreciation	1,935,882	1,999,546	15,148,076
Property, plant and equipment, net (Note 8)	1,261,276	1,356,121	10,273,644
Other assets (Notes 3 and 7)	155,569	251,613	1,906,159
Total assets	¥4,727,687	¥5,123,063	$38,811,083

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

	Yen (millions)		U.S. dollars (thousands) (Note 2)
	1997	1998	1998
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings (Note 8)	¥ 665,387	¥ 661,857	$ 5,014,068
Current portion of long-term debt (Note 8)	202,692	165,460	1,253,485
Payables, trade (Note 13)	753,606	836,543	6,337,447
Accrued expenses	296,286	403,653	3,057,978
Customers' advances	29,936	35,201	266,674
Accrued income taxes	74,433	83,883	635,477
Employees' savings deposits	39,134	479	3,629
Other current liabilities	182,799	157,888	1,196,121
Total current liabilities	2,244,273	2,344,964	17,764,879
Long-term liabilities:			
Long-term debt (Note 8)	843,831	1,063,525	8,057,008
Accrued severance benefits (Note 9)	137,330	147,125	1,114,583
Provision for loss on repurchase of computers	96,436	96,247	729,144
Other long-term liabilities (Note 10)	57,001	112,838	854,833
	1,134,598	1,419,735	10,755,568
Minority interests in consolidated subsidiaries	167,326	173,111	1,311,447
Shareholders' equity (Note 11):			
Common stock:			
Authorized–5,000,000,000 shares			
Issued (¥50 par value)			
1997–1,841,435,783 shares	237,674		
1998–1,862,355,910 shares		249,347	1,888,992
Capital surplus	424,578	436,023	3,303,205
Legal reserve	27,767	29,647	224,598
Retained earnings	491,471	470,236	3,562,394
Total shareholders' equity	1,181,490	1,185,253	8,979,189
Commitments and contingent liabilities (Note 16)			
Total liabilities and shareholders' equity	¥4,727,687	¥5,123,063	$38,811,083

	Yen (millions)			U.S. dollars (thousands) (Note 2)
Years ended March 31	1996	1997	1998	1998
Net sales	¥3,761,966	¥4,503,474	¥4,985,382	$37,768,045
Operating costs and expenses:				
Cost of goods sold	2,495,014	3,149,607	3,518,821	26,657,734
Selling, general and administrative expenses	1,061,070	1,153,186	1,255,299	9,509,841
	3,556,084	4,302,793	4,774,120	36,167,575
Operating income	205,882	200,681	211,262	1,600,470
Other income (expenses):				
Interest and dividend income	10,976	9,758	12,760	96,667
Interest charges	(48,589)	(49,276)	(56,615)	(428,902)
Other, net (Note 14)	(40,583)	(18,089)	(62,516)	(473,606)
	(78,196)	(57,607)	(106,371)	(805,841)
Income before income taxes	127,686	143,074	104,891	794,629
Income taxes (Note 10):				
Current	71,675	96,620	111,220	842,576
Deferred	(19)	(121)	(2,670)	(20,227)
	71,656	96,499	108,550	822,349
Income (loss) before minority interests and equity in earnings	56,030	46,575	(3,659)	(27,720)
Minority interests in income of consolidated subsidiaries	(4,818)	(4,175)	(9,718)	(73,621)
Equity in earnings of affiliates, net	11,901	3,747	18,964	143,667
Net income	¥ 63,113	¥ 46,147	¥ 5,587	$ 42,326

Amounts per share of common stock:

	Yen			U.S. dollars (Note 2)
Basic earnings	¥34.5	¥25.1	¥ 3.0	$0.023
Diluted earnings	32.5	24.0	3.0	0.023
Cash dividends	10.0	10.0	10.0	0.076

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

	Yen (millions)			U.S. dollars (thousands) (Note 2)
Years ended March 31	1996	1997	1998	1998
Common stock:				
Balance at beginning of year	¥223,650	¥237,626	¥237,674	$1,800,561
Exercise of warrants	–	–	9,547	72,325
Conversion of bonds	13,976	48	2,126	16,106
Balance at end of year	¥237,626	¥237,674	¥249,347	$1,888,992
Capital surplus:				
Balance at beginning of year	¥398,801	¥419,780	¥424,578	$3,216,500
Exercise of warrants	–	–	9,576	72,546
Conversion of bonds	13,951	79	2,126	16,106
Other, net	7,028	4,719	(257)	(1,947)
Balance at end of year	¥419,780	¥424,578	¥436,023	$3,303,205
Legal reserve:				
Balance at beginning of year	¥24,056	¥ 25,907	¥ 27,767	$210,356
Transfer from retained earnings	1,851	1,860	1,880	14,242
Balance at end of year	¥25,907	¥ 27,767	¥ 29,647	$224,598
Retained earnings:				
Balance at beginning of year	¥453,808	¥466,086	¥491,471	$3,723,265
Net income	63,113	46,147	5,587	42,326
Cash dividends paid	(18,289)	(18,413)	(18,508)	(140,212)
Transfer to legal reserve	(1,851)	(1,860)	(1,880)	(14,243)
Bonuses to directors and statutory auditors	(726)	(869)	(940)	(7,121)
Translation adjustments	(23,438)	–	–	–
Other, net	(6,531)	380	(5,494)	(41,621)
Balance at end of year	¥466,086	¥491,471	¥470,236	$3,562,394

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

	Yen (millions)			U.S. dollars (thousands) (Note 2)
Years ended March 31	1996	1997	1998	1998
Cash flows from operating activities:				
Income before income taxes	¥127,686	¥143,074	¥104,891	$ 794,629
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	241,543	299,892	350,675	2,656,629
Accrual for severance benefits, less payments	13,822	14,781	10,443	79,113
Provision for loss on repurchase of computers	54,066	53,272	53,124	402,454
Reversal of provision for loss on repurchase of computers	(61,846)	(57,697)	(53,313)	(403,886)
Interest charges	48,589	49,276	56,615	428,901
Interest and dividend income	(10,976)	(9,758)	(12,760)	(96,667)
Loss on disposal of property, plant and equipment	9,824	11,656	12,866	97,470
(Increase) in receivables, trade	(146,983)	(155,299)	(96,607)	(731,871)
(Increase) in inventories	(177,681)	(26,835)	(65,771)	(498,265)
(Increase) decrease in other current assets	(21,736)	941	1,709	12,947
Increase in payables, trade	146,323	103,991	68,166	516,409
Increase (decrease) in other current liabilities	58,338	(31,831)	4,260	32,273
Other, net	(5,258)	(5,505)	41,003	310,629
Cash generated from operations	275,711	389,958	475,301	3,600,765
Interest paid	(49,196)	(48,113)	(57,462)	(435,318)
Interest received	10,059	6,829	8,964	67,909
Dividends received	2,095	2,808	976	7,394
Income taxes paid	(66,967)	(68,450)	(102,920)	(779,697)
Net cash provided by operating activities	171,702	283,032	324,859	2,461,053
Cash flows from investing activities:				
Acquisitions of property, plant and equipment	(388,860)	(438,969)	(448,869)	(3,400,523)
Proceeds from sales of equipment	2,541	8,250	17,418	131,955
(Increase) in investments and long-term loans	(41,761)	(22,699)	(14,209)	(107,644)
(Increase) decrease in short-term investments	14,452	(11,153)	33,385	252,917
Acquisition of Amdahl Corporation, net of cash acquired	–	–	(97,403)	(737,902)
Other, net	(15,998)	19,914	7,384	55,939
Net cash used in investing activities	(429,626)	(444,657)	(502,294)	(3,805,258)
Cash flows from financing activities:				
Proceeds from long-term debt	206,483	274,100	466,540	3,534,394
Repayment of long-term debt	(88,564)	(128,399)	(279,700)	(2,118,940)
Increase (decrease) in short-term borrowings	176,176	(1,416)	(23,630)	(179,015)
Increase (decrease) in minority interests	9,795	8,828	(4,483)	(33,962)
Dividends paid	(18,289)	(18,413)	(18,508)	(140,212)
Other, net	8,367	(5,721)	13,386	101,409
Net cash provided by financing activities	293,968	128,979	153,605	1,163,674
Effect of exchange rate changes on cash and cash equivalents	8,843	12,608	2,120	16,061
Net increase (decrease) in cash and cash equivalents	44,887	(20,038)	(21,710)	(164,470)
Cash and cash equivalents at beginning of year	389,051	433,938	413,900	3,135,606
Cash and cash equivalents at end of year	¥433,938	¥413,900	¥392,190	$2,971,136
Noncash financing activities:				
Conversion of bonds into common stock and capital surplus	¥ 27,927	¥ 127	¥ 4,252	$ 32,212

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

1. Significant accounting policies

(a) Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") have been prepared in accordance with accounting principles and practices generally accepted in Japan, and the regulations under the Securities and Exchange Law of Japan. The accounting principles and practices adopted by the consolidated subsidiaries outside Japan in their respective countries basically conform to those adopted by the Company. In presenting the accompanying consolidated financial statements, certain items have been reclassified for the convenience of readers outside Japan.

The accounting principles and practices adopted by the Group are in conformity with International Accounting Standards ("IAS") except for certain differences which are set forth in the relevant notes on accounting policies.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and, with minor exceptions, those of its majority-owned subsidiaries, whether directly or indirectly controlled. All intercompany accounts and transactions have been eliminated in consolidation.

Investments in affiliates owned 20% to 50%, with minor exceptions, have been stated at cost plus the equity in their respective undistributed earnings (losses) and reserves since acquisition. Net income or loss includes the equity in the current net earnings (losses) of such companies, after the elimination of unrealized intercompany profit.

The difference between the cost and the underlying equity in the net assets of subsidiaries and affiliates accounted for on an equity basis is allocated to identifiable assets based on their fair value at the dates of acquisition. The unassigned residual value is recognized as goodwill, and is being amortized on a straight-line basis over periods not exceeding 20 years.

(c) Cash equivalents

For the purpose of the statement of cash flows, the Company considers all short-term, highly liquid instruments with a maturity of three months or less to be cash equivalents.

(d) Translation of foreign currency accounts

Current receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. Noncurrent monetary items denominated in foreign currencies are translated into Japanese yen at historical exchange rates. Had noncurrent receivables and payables been translated at the exchange rates in effect at the balance sheet dates pursuant to IAS No. 21, the differences would not have been significant.

Asset and liability accounts of the consolidated subsidiaries outside Japan are translated into Japanese yen at the applicable fiscal year-end rates. Income and expense accounts are translated at the average rate during the year. The resulting translation adjustments are reflected in assets in conformity with accounting principles generally accepted in Japan.

(e) Revenue recognition

Revenues from sales of communications products and computer systems are generally recognized upon acceptance by the customers, while revenues from sales of personal computers and other equipment and electronic devices are recognized when the products are shipped.

(f) Marketable securities

Marketable securities included in short-term investments, and investments and long-term loans are stated at the lower of cost or market, cost being determined by the moving average method.

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount that is deemed sufficient to cover estimated future losses.

(h) Inventories

Finished goods are stated at cost not in excess of their market value. Cost is determined by the actual cost method, the moving average method and the first-in, first-out method ("FIFO").

Work in process is stated at actual cost and cost determined by FIFO.

Raw materials are stated at cost not in excess of their market value. Cost is determined by the moving average method, the most recent purchase price method and FIFO.

IAS No. 2 requires that inventories be valued at the lower of historical cost or net realizable value. Had IAS No. 2 been applied, the difference in the aggregate value of the inventories would not have been significant.

(i) Property, plant and equipment and depreciation

Property, plant and equipment, including renewals and additions, are carried at cost.

Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the respective assets, which vary according to their general classification, type of construction and function.

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(j) Leases

Leased assets are recorded in property, plant and equipment and lease liabilities are included in long-term liabilities under finance leases except those in Japan. The Company and its consolidated subsidiaries in Japan treat finance leases in the same way as operating leases.

(k) Retirement and severance benefits

Employees who terminate their service with the Group are generally entitled to annuities or lump-sum severance payments based on their current basic rates of pay and length of service.

The Company and its consolidated subsidiaries in Japan have contributory defined benefit plans with insurance companies, trust banks and investment management companies to supplement the public welfare pension plan. The plans entitle eligible employees upon retirement to receive either a lump-sum payment or annuity payments for life, or a combination of both.

Most consolidated subsidiaries outside Japan have defined benefit plans and/or defined contribution plans covering substantially all employees. The costs of benefits for annuities and lump-sum severance payments are currently funded or accrued.

(l) Provision for loss on repurchase of computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Company Limited ("JECC") and other leasing companies and financial institutions for leasing to the ultimate users under contracts which require that the Group repurchase the computers if they are returned by the users after a certain period. Based on past experience, an estimated amount for the loss arising from such repurchases is provided at the point of sale and is charged to income.

(m) Income taxes

The Company has adopted the liability method of tax effect accounting to recognize the effect of all temporary differences in the recognition of assets and liabilities for tax and their financial reporting purposes.

(n) Earnings or loss per share

Basic earnings or loss per share is computed based on the weighted average number of shares of common stock outstanding during the respective years.

Diluted earnings per share is computed based on the weighted average number of shares after consideration of the dilutive effect of potential ordinary shares including warrants and convertible bonds.

(o) Derivative financial instruments

Gains and losses on derivative financial instruments used to reduce exposures regarding receivables and liabilities denominated in foreign currencies are recognized over the lives of the contracts. They offset gains and losses arising from the related receivables and liabilities.

The differentials to be paid or received related to swap contracts are recognized over the lives of the contracts.

2. U.S. dollar amounts

The Company and its consolidated subsidiaries in Japan maintain their books of account in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetic results of translating yen into dollars at ¥132 = US$1, the approximate rate of exchange prevailing on March 31, 1998. The U.S. dollar amounts are included solely for the convenience of the reader and the translation is not intended to imply that the assets and liabilities which originated in yen have been or could readily be converted, realized or settled in U.S. dollars at the above or any other rate.

3. Acquisition

In September 1997, the Company acquired a 58% shares of Amdahl Corporation, a leading U.S. information systems supplier, for ¥111,072 million ($841,455 thousand) in cash. Upon this acquisition, Amdahl Corporation became a wholly owned consolidated subsidiary of Fujitsu Limited.

The acquisition was accounted for as a purchase and the operating results of the acquired company has been included in the accompanying consolidated financial statements since the date of acquisition. The excess of the purchase price over the estimated fair value of the net assets has been recorded as goodwill.

Out of the total goodwill, which amounted to ¥111,791 million ($846,902 thousand), ¥15,236 million ($115,424 thousand) was expensed upon acquisition and ¥96,555 million ($731,477 thousand) is to be amortized on a straight-line basis over a ten-year period.

The amortization of goodwill for the year ended March 31, 1998 amounted to ¥4,816 million ($36,485 thousand).

4. Marketable securities

The current and noncurrent portfolios of marketable securities at March 31, 1997 and 1998, which are included in short-term investments (current) and in investments and long-term loans–other (noncurrent), were summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Current:			
Carrying value	¥ 31,788	¥ 24,521	$ 185,765
Market value	31,376	24,745	187,462
Net unrealized gains (losses)	¥ (412)	¥ 224	$ 1,697
Noncurrent:			
Carrying value	¥106,138	¥103,624	$ 785,030
Market value	202,747	164,324	1,244,879
Net unrealized gains	¥ 96,609	¥ 60,700	$ 459,849

5. Inventories

Inventories at March 31, 1997 and 1998 consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Finished goods	¥403,277	¥433,620	$3,285,000
Work in process	333,312	366,251	2,774,629
Raw materials	143,993	158,595	1,201,477
	¥880,582	¥958,466	$7,261,106

6. Investments in affiliates

A summary of the financial information of the affiliates accounted for on an equity basis is presented below:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Current assets	¥ 799,324	¥ 772,633	$5,853,280
Other assets, including property, plant and equipment, net	569,122	543,585	4,118,068
	1,368,446	1,316,218	9,971,348
Current liabilities	486,136	454,928	3,446,424
Long-term liabilities	124,823	109,339	828,326
Net assets	¥ 757,487	¥ 751,951	$5,696,598

	Yen (millions)			U.S. dollars (thousands)
	1996	1997	1998	1998
Net sales	¥859,826	¥937,439	¥1,062,300	$8,047,727
Net income	41,436	16,182	60,812	460,697

Of the affiliates which are accounted for on an equity basis, the carrying and market values of the shares of the publicly listed companies at March 31, 1997 and 1998 were as follows:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Carrying value	¥284,177	¥256,356	$1,942,091
Market value	572,075	646,212	4,895,545

At March 31, 1997 and 1998, the amount of ¥19,373 million ($146,765 thousand) representing the Company's 29.49% investment in JECC was included in investments and long-term loans—other. The Company does not regard JECC as an affiliate as it is unable to exercise significant influence over JECC's affairs. JECC's principal business is the leasing of computers and peripheral computer equipment which it purchases from its seven shareholders. At March 31, 1997 and 1998, JECC's issued share capital was ¥65,700 million ($497,727 thousand). Its net sales for the years ended March 31, 1996, 1997 and 1998 amounted to ¥315,536 million, ¥305,221 million and ¥299,269 million ($2,267,189 thousand), respectively.

7. Other assets

At March 31, 1997 and 1998, other assets principally consisted of goodwill of ¥137,667 million and ¥231,267 million ($1,752,023 thousand), respectively.

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 1997 and 1998 consisted of:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Loans, principally from banks, at interest rates ranging from 0.58% to 7.75% at March 31, 1997, and from 0.81% to 8.41% at March 31, 1998:			
Secured	¥ 3,425	¥ 9,113	$ 69,038
Unsecured	573,306	572,194	4,334,803
Commercial paper at interest rates ranging from 0.56% to 6.30% at March 31, 1997, and from 0.50% to 7.95% at March 31, 1998	88,656	80,550	610,227
	¥665,387	¥661,857	$5,014,068

Long-term debt at March 31, 1997 and 1998 consisted of:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Loans, principally from banks and insurance companies, due from 1997 to 2013 at interest rates ranging from 0.76% to 8.30% at March 31, 1997 and 1998:			
Secured	¥ 17,620	¥ 18,339	$ 138,932
Unsecured	211,354	284,684	2,156,697
Bonds and notes issued by the Company:			
3.0% U.S. dollar convertible bonds due 1999	289	274	2,076
1.3% unsecured convertible bonds due 1998	39,782	39,782	301,379
1.4% unsecured convertible bonds due 2004	39,649	39,649	300,371
1.9% unsecured convertible bonds due 2002	39,876	38,139	288,932
1.95% unsecured convertible bonds due 2003	39,968	39,342	298,045
2.0% unsecured convertible bonds due 2004	19,919	18,045	136,704
3.0% Swiss Franc notes due 1998 with warrants	29,578	29,578	224,076
3 1/8% U.S. dollar bonds due 2000 with warrants	50,341	50,341	381,371
4.1% bonds due 1999 with warrants	35,000	35,000	265,151
7 3/8% bonds due 1997	30,000	–	–
7.0% bonds due 1998	30,000	30,000	227,273
3 1/4% bonds due 1997	30,000	–	–
3 3/4% bonds due 1999	30,000	30,000	227,273
3.95% bonds due 1997	28,500	–	–
3.15% bonds due 1997	20,000	–	–
3.6% bonds due 1998	20,000	20,000	151,515
2.3% bonds due 2001	30,000	30,000	227,273
2.6% bonds due 2002	30,000	30,000	227,273
2.825% bonds due 2001	60,000	60,000	454,545
3.025% bonds due 2002	30,000	30,000	227,273
3.225% bonds due 2003	30,000	30,000	227,273
2.425% bonds due 2003	50,000	50,000	378,788
2.875% bonds due 2006	50,000	50,000	378,788
2.575% bonds due 2004	–	50,000	378,788
3.15% bonds due 2009	–	50,000	378,788
3.0% dual currency bonds due 2001	–	30,000	227,273
2.3% bonds due 2007	–	50,000	378,788
2.325% bonds due 2008	–	50,000	378,788
Bonds and notes issued by consolidated subsidiaries:			
Unsecured (3.00% - 3.45%, due 1997 - 2002)	54,647	45,812	347,060
Less amounts due within one year	202,692	165,460	1,253,485
	¥843,831	¥1,063,525	$8,057,008

Assets pledged as collateral for bank loans and long-term debt at March 31, 1997 and 1998 were summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Investments-noncurrent	¥ 352	¥ 330	$ 2,500
Property, plant and equipment, net	30,467	27,181	205,917
	¥30,819	¥27,511	$208,417

As is customary in Japan, substantially all loans from banks (including short-term loans) are made under general agreements which provide that, at the request of the banks, the borrower is required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to such loans, and that all assets pledged as collateral under such agreements will be applicable to all present and future indebtedness to the banks concerned. These general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by default, to offset any deposits at the banks against the indebtedness.

The current conversion prices of the 3%, 1.3%, 1.4%, 1.9%, 1.95% and 2.0% convertble bonds issued by the Company are ¥1,093.90, ¥1,751.50, ¥1,751.50, ¥998.00, ¥998.00 and ¥998.00 per share, respectively, and the current exercise prices of the warrants issued with the 3.0% notes and the 3 1/8% and 4.1% bonds are ¥1,144.90, ¥1,220.00 and ¥1,144.90 per share, respectively. The conversion and exercise prices referred to above are subject to adjustment in certain circumstances including stock splits or free share distributions of common stock. At March 31, 1998, approximately 231 million shares of common stock were reserved for the conversion or exercise of all outstanding convertible bonds and warrants. Conversion options of convertible bonds and warrants are recorded under liabilities in accordance with accounting principles generally accepted in Japan.

Certain outstanding convertible bonds and notes can be repurchased at any time and may be redeemed at the option of the Company, in whole or in part, at prices ranging from 106% to 100% of their principal amounts.

The aggregate annual maturities of long-term debt subsequent to March 31, 1998 are summarized as follows:

Year ending March 31	Yen (millions)	U.S. dollars (thousands)
1999	¥165,460	$1,253,485
2000	109,522	829,712
2001	111,419	844,083
2002	177,682	1,346,076
2003 and thereafter	664,902	5,037,137

9. Retirement and severance benefits

Accrued severance benefits in the consolidated balance sheets comprise the principal pension plans which are unfunded defined benefit plans. Under the plans, employees are entitled to lump-sum payments based on current basic rates of pay and length of service. Accrued severance benefits in the consolidated balance sheets are stated at the present value of the vested benefit obligation which would be required if all employees voluntarily terminated their employment at the balance sheet dates. Provisions for employees' severance benefits charged to income for the years ended March 31, 1996, 1997 and 1998 amounted to ¥23,140 million, ¥26,697 million and ¥25,352 ($192,061) million, respectively.

In addition to the plans described above, substantially all employees of the Company and most subsidiaries in Japan are covered by contributory defined benefit plans which include a substitutional portion of the benefits under the National Welfare Pension Plan of Japan ("the NWP Plan"). The plans require that the liability reserve and annual contributions be actuarially calculated by the open aggregate cost method for the substitutional portion under the NWP Plan, and by the entry-age normal cost method for the remainder.

The liability reserve for the substitutional portion of the NWP Plan of the Company and certain subsidiaries at March 31, 1996 and 1997, the most recent valuation dates, amounted to ¥223,600 million and ¥217,740 million ($1,649,545 thousand), respectively. The liability reserve for the remainder at March 31, 1996 and 1997 amounted to ¥199,784 million and ¥245,892 million ($1,862,818 thousand), respectively.

The aggregate fair value of the plan assets of the contributory defined benefit plans, primarily marketable securities and loans, at March 31, 1996 and 1997 totaled ¥422,947 million and ¥463,782 million ($3,513,500 thousand), respectively.

The assumed rate for salary increases, the expected long-term rate of return and the discount rate for the above contributory pension plans were from 2.2% to 5.3%, 5.5%, and 5.5%, respectively.

The balance of past service cost of ¥35,479 million ($268,780 thousand) as of March 31, 1997 is being amortized over 8 years. Amortization of past service cost for the years ended March 31, 1995, 1996 and 1997 totaled ¥4,701 million, ¥5,132 million and ¥5,578 million ($42,258 thousand), respectively.

Most subsidiaries outside Japan have defined benefit pension plans and/or defined contribution pension plans covering substantially all employees. The major plan is the ICL Group Pension Plan, which is a defined benefit plan. The pension cost of the plan is calculated by the projected unit method. The plan is subject to formal actuarial valuation and the fair value of the plan assets at April 5, 1997, the most recent valuation date, was sufficient to cover the actuarial present value of future benefit obligations.

10. Income taxes

The presentation of the following income tax information is prepared in accordance with the regulations under the Securities and Exchange Law of Japan.

The Group is subject to a number of income taxes. The relationship between the aggregate statutory rate in Japan (approximately 50%) and the effective rates on income (loss) before income taxes is normally distorted as tax benefits are not available for the operating losses of certain consolidated subsidiaries, and also because of the effect of various tax credits, certain expenses of which are not deductible for income tax purposes, and the different tax rates applicable to the consolidated subsidiaries outside Japan.

Deferred income taxes at March 31, 1997 and 1998 were reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Other current assets	¥15,371	¥17,266	$130,803
Other long-term liabilities	19,888	19,041	144,250

11. Shareholders' equity

The changes in the number of issued shares of common stock during the years ended March 31, 1996, 1997 and 1998 were as follows:

	Number of shares		
	1996	1997	1998
Balance at beginning of year	1,816,848,438	1,841,272,768	1,841,435,783
Exercise of warrants	–	–	16,661,107
Conversion of bonds	24,424,330	163,015	4,259,020
Balance at end of year	1,841,272,768	1,841,435,783	1,862,355,910

The issuance of shares upon conversion of convertible bonds and the exercise of stock purchase warrants are accounted for by crediting an amount equal to at least 50% of the amount of the issue to the common stock account and the balance to the capital surplus account in accordance with certain provisions of the Commercial Code of Japan, which became effective October 1, 1982.

The Commercial Code further provides that an amount equal to at least 10% of cash dividends and bonuses to directors and statutory auditors paid by a company and its subsidiaries in Japan from retained earnings be appropriated to the legal reserve until the reserve equals 25% of common stock.

Appropriations of retained earnings for the year ended March 31, 1998, which included year-end cash dividends of ¥9,311 million ($70,538 thousand), were recorded on the Company's statutory books of account after approval at the general shareholders' meeting held on June 26, 1998, and will be included in the consolidated balance sheet in the following year.

12. Derivative financial instruments

Purpose and classes of derivative financial instruments

The Company and representing consolidated subsidiaries in Japan enter into derivative financial instruments related to foreign currency and interest to reduce exposure arising from fluctuations in foreign currency exchange rates and interest rates, to reduce the costs of funds financed, and to improve the return of invested funds.

Policy for derivative financial instruments and risk levels

The Company and representing consolidated subsidiaries in Japan basically enter into derivative financial instruments only to cover the actual needs for receivables/liabilities, and not for speculative or dealing purposes.

The Company and representing consolidated subsidiaries in Japan in principle, have no intention to use derivative financial instruments that may enlarge market risks. Furthermore, the counterparties to derivative financial instruments are thoroughly evaluated in terms of credit risk. Therefore, the Company and representing consolidated subsidiaries in Japan regard derivative financial instruments they use have minimal market and credit risks.

The Company and representing consolidated subsidiaries in Japan had the following contracts at March 31, 1998.

		Yen (millions)		U.S. dollars (thousands)	
		1998		1998	
		Principal amount	Estimated fair value	Principal amount	Estimated fair value
Forward exchange contracts	Receivables	¥ 4,071	¥ 4,203	$ 30,841	$ 31,841
	Liabilities	1,452	2,033	11,000	15,402
Interest rate and currency swap contracts		126,113	(1,968)	955,402	(14,909)
Option contracts	Call	16,218	209	122,864	1,583
	Put	16,158	312	122,409	2,364

The fair value estimates presented above are made as of March 31, 1998, based on various assumptions. Accordingly, the Company and representing consolidated subsidiaries in Japan believe that the estimated fair value may be of limited usefulness.

13. Supplementary information to the consolidated balance sheets

Balances with affiliates at March 31, 1997 and 1998 were as follows:

	Yen (millions)		U.S. dollars (thousands)
	1997	1998	1998
Receivables, trade	¥85,600	¥88,817	$672,856
Payables, trade	30,735	36,842	279,106

14. Supplementary information to the consolidated statements of income

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 1996, 1997 and 1998 amounted to ¥346,389 million, ¥352,818 million and ¥387,129 million ($2,932,795 thousand), respectively.

Other income (expenses) – other, net for the years ended March 31, 1996, 1997 and 1998 consisted of the following:

	Yen (millions)			U.S. dollars (thousands)
	1996	1997	1998	1998
Foreign exchange gains (losses), net	¥ 6,212	¥ 22,524	¥ (9,445)	$ (71,553)
Loss on disposal of property, plant and equipment	(9,824)	(11,656)	(12,866)	(97,470)
Expenses for issuance and offering of securities	(1,948)	(1,264)	(1,818)	(13,773)
Loss on devaluation of marketable securities	(1,290)	(5,283)	(13,200)	(100,000)
Gain on sales of marketable securities	–	–	14,593	110,553
Amortization of goodwill	(11,010)	(10,896)	(33,909)	(256,886)
Restructuring charges	(31,618)	(4,964)	–	–
Other, net	8,895	(6,550)	(5,871)	(44,477)
	¥(40,583)	¥(18,089)	¥(62,516)	$(473,606)

Restructuring charges related mainly to the reorganization of manufacturing and office facilities and the disposal of assets throughout the Group in order to streamline its business structure. The amount of ¥4,964 million for the year ended March 31, 1997 related to the restructuring of FDK Corporation. The amount of ¥31,618 million for the year ended March 31, 1996 included an exceptional charge incurred to facilitate the re-engineering of ICL.

15. Leases

At March 31, 1998 future minimum lease payments of the consolidated subsidiaries outside Japan amounted to ¥17,611 million ($133,416 thousand) for within one year, ¥60,457 million ($458,007 thousand) for over one year and within five years, and ¥35,279 million ($267,265 thousand) for over five years.

At March 31, 1998 future minimum lease payments of the Company and its consolidated subsidiaries in Japan amounted to ¥21,265 million ($161,098 thousand) for within one year, ¥39,596 million ($299,969 thousand) for over one year and within five years, and ¥15,356 million ($116,333 thousand) for over five years. Total lease payments for the years ended March 31,1997 and 1998 amouned to ¥21,993 million and ¥23,118 million ($175,136 thousand), respectively. The persentation of 1996 information was not required by the regulations under the Securities and Exchange Law of Japan.

16. Commitments and contingent liabilities

Commitments outstanding at March 31, 1998 for purchases of property, plant and equipment were approximately ¥20,636 million ($156,333 thousand) in the aggregate.

Contingent liabilities for guarantees given in the ordinary course of business and for loans to employees amounted to approximately ¥66,659 million ($504,992 thousand) at March 31, 1998.

17. Segment information

The following segment information is prepared in accordance with the regulations under the Securities and Exchange Law of Japan.

Industry segment information

In the information technology industry, the Group operates in one business segment. The Group, as a total supplier, supplies products and services which satisfy customers' needs by incorporating leading-edge technologies.

Geographic segment information

The following is a breakdown of net sales, operating income and total assets at March 31, 1996, 1997 and 1998 by geographic segment (presentation of 1996 and 1997 breakdown information on overseas segments was not required).

Years ended March 31

		Yen (millions)			
		Japan	Overseas	Elimination	Consolidated
1996	Net sales				
	Unaffiliated customers	¥2,829,526	¥ 932,440	¥ –	¥3,761,966
	Intersegment	292,405	170,255	(462,660)	–
	Total	¥3,121,931	¥1,102,695	¥(462,660)	¥3,761,966
	Operating income	¥ 194,805	¥ 15,033	¥ (3,956)	¥ 205,882
	Total assets	¥3,501,647	¥ 886,163	¥ (63,320)	¥4,324,490
1997	Net sales				
	Unaffiliated customers	¥3,376,708	¥1,126,766	¥ –	¥4,503,474
	Intersegment	385,520	278,621	(664,141)	–
	Total	¥3,762,228	¥1,405,387	¥(664,141)	¥4,503,474
	Operating income	¥ 218,644	¥ (20,410)	¥ 2,447	¥ 200,681
	Total assets	¥3,789,830	¥1,099,054	¥(161,197)	¥4,727,687

		Yen (millions)					
		Japan	Europe	The Americas	Other	Elimination	Consolidated
1998	Net sales						
	Unaffiliated customers	¥3,528,164	¥795,932	¥449,998	¥211,288	¥ –	¥4,985,382
	Intersegment	482,785	30,751	61,694	312,581	(887,811)	–
	Total	¥4,010,949	¥826,683	¥511,692	¥523,869	¥(887,811)	¥4,985,382
	Operating income	¥ 219,095	¥ 3,566	¥ (38,106)	¥ 26,642	¥ 65	¥ 211,262
	Total assets	¥3,942,138	¥711,051	¥488,686	¥275,313	¥(294,125)	¥5,123,063

		U.S. dollars (thousands)					
		Japan	Europe	The Americas	Other	Elimination	Consolidated
1998	Net sales						
	Unaffiliated customers	$26,728,515	$6,029,788	$3,409,076	$1,600,666	$ –	$37,768,045
	Intersegment	3,657,462	232,962	467,379	2,368,038	(6,725,841)	–
	Total	$30,385,977	$6,262,750	$3,876,455	$3,968,704	$(6,725,841)	$37,768,045
	Operating income	$ 1,659,811	$ 27,015	$ (288,682)	$ 201,834	$ 492	$ 1,600,470
	Total assets	$29,864,682	$5,386,750	$3,702,167	$2,085,704	$(2,228,220)	$38,811,083

18. Subsequent event

The Company issued ¥30,000 million ($ 227,273 thousand) 3.0% bonds due 2018 on May 8, 1998 and ¥50,000 million ($378,788 thousand) 2.175% bonds due 2008 on June 10, 1998.

Showa Ota & Co.
CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
FUJITSU LIMITED

We have examined the consolidated balance sheets of Fujitsu Limited and consolidated subsidiaries (the "Group") as of March 31, 1997 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in Japanese yen, present fairly the consolidated financial position of the Group at March 31, 1997 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 1998 are presented solely for convenience. Our examination also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Tokyo, Japan
June 26, 1998

Showa Ota & Co.

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Vice Chairman
Michio Naruto

President
Naoyuki Akikusa

Senior Executive Vice Presidents
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Masuo Tanaka
Keizo Fukagawa

Executive Vice Presidents
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Michio Naruto
Vice Chairman


Takesi Maruyama
Senior Executive Vice President


Masuo Tanaka
Senior Executive Vice President


Keizo Fukagawa
Senior Executive Vice President

Principal Subsidiaries and Affiliates

(July 1, 1998)

–Consolidated Subsidiaries 513
(in Japan 129, outside Japan 384)
–Principal Affiliates 32

Japan

Subsidiaries

Listed

Shinko Electric Industries Co., Ltd.
Fujitsu Business Systems Ltd.
Fujitsu Kiden Ltd.
FDK Corporation
Fujitsu Denso Ltd.
Takamisawa Electric Co., Ltd.
Fujitsu Devices Inc.

Unlisted

Fujitsu Laboratories Ltd.
Fujitsu TEN Limited
PFU Limited
Fujitsu Support and Service Inc.
Fujitsu FIP Corporation
Fujitsu Systems Construction Limited
Fujitsu AMD Semiconductor Limited

Affiliates

Fanuc Ltd.
Advantest Corporation

Asia

Subsidiaries

Fujitsu Asia Pte. Ltd.

Australia

Subsidiaries

Fujitsu Australia Limited

The Americas

Subsidiaries

Amdahl Corporation
Fujitsu America, Inc.
Fujitsu PC Corporation
Fujitsu Network Communications, Inc.
Fujitsu Microelectronics, Inc.

Europe

Subsidiaries

ICL PLC
Fujitsu Computers (Europe) Ltd.
Fujitsu Europe Limited
Fujitsu Microelectronics Limited
Fujitsu Telecommunications Europe Limited
Fujitsu ICL España, S.A.

Shareholders' Data

(March 31, 1998)

Capital

¥249,347 million

Common Stock

Authorized: 5,000,000,000 shares
Issued: 1,862,355,910 shares
Number of shareholders: 169,234

Principal Shareholders

Name	No. of shares held (thousands)	Percentage of total shares outstanding
Fuji Electric Co., Ltd.	244,657	13.1%
Asahi Mutual Life Insurance Company	117,142	6.3
The Dai-Ichi Kangyo Bank, Limited	84,076	4.5
The Sumitomo Trust and Banking Company, Limited	52,188	2.8
The Mitsubishi Trust and Banking Corporation	44,750	2.4
The Industrial Bank of Japan, Limited	42,202	2.3
The Toyo Trust and Banking Company, Limited	38,719	2.1
The Chuo Trust and Banking Company, Limited (for trust)	38,413	2.1
The Chase Manhattan Bank NA London (Standing proxy: The Fuji Bank, Ltd.)	38,383	2.1
The Asahi Bank, Ltd.	29,202	1.6

Corporate Headquarters

6-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-8211, Japan
Phone: 81-3-3216-3211

Transfer Agent

The Toyo Trust and Banking Company, Limited
4-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-0005, Japan

Stock Exchange Listings

Japan: Tokyo, Osaka, Nagoya
Overseas: Frankfurt, London, Zurich, Basel, Geneva

Shareholder Information

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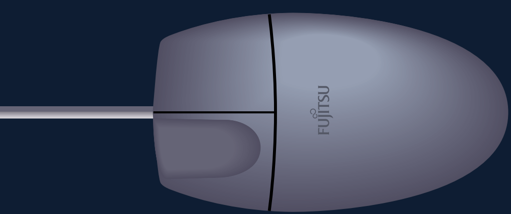

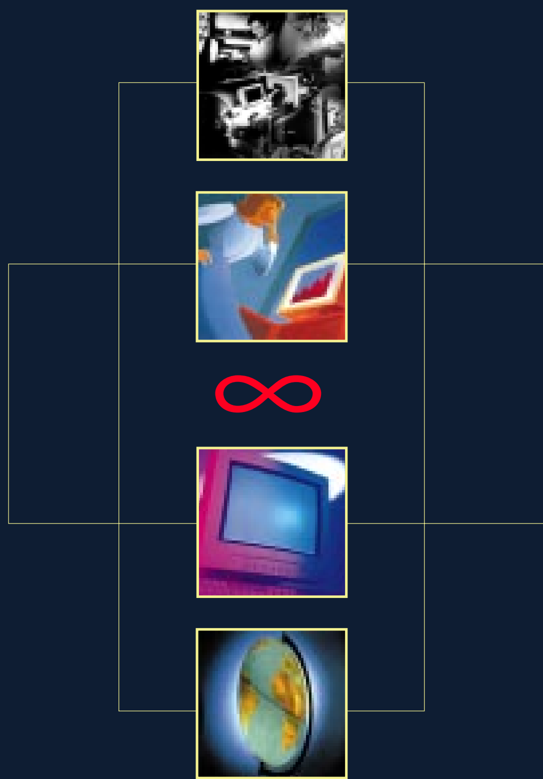

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