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Fujitsu Limited

April 27, 2004

FY 2003 Full Year and Fourth Quarter Financial Results

Contents

Part I: Financial Tables

1. Summary of FY 2003 Full Year Consolidated Results

a. Summary of Consolidated Statements of Operations

	Yen (millions) (except per share data)			*U.S. Dollars (millions) (except per share data)*
	FY 2003	FY 2002	Change (%)	***FY 2003***
Net Sales	**Y 4,766,888**	Y 4,617,580	+3.2	***$44,971***
Operating Income	**150,342**	100,427	+49.7	***1,418***
Income (Loss) Before Income Taxes and Minority Interests	**157,018**	(147,606)	-	***1,481***
Net Income (Loss)	**49,704**	(122,066)	-	***469***
Net Income (Loss) per Common Share	**Y 24.55**	Y (61.29)	-	***$0.232***

b. Net Sales by Business Segment

	Yen (millions)			*U.S. Dollars (millions)*
	FY 2003	FY 2002	Change (%)	***FY 2003***
Software & Services	**Y 2,094,261**	Y 2,025,790	+3.4	***$19,757***
Platforms	**1,608,178**	1,612,016	-0.2	***15,172***
Electronic Devices	**734,320**	618,632	+18.7	***6,928***
Financing	**50,391**	119,279	-57.8	***475***
Other Operations	**279,738**	241,863	+15.7	***2,639***
Total	**Y 4,766,888**	Y 4,617,580	+3.2	***$44,971***

c. Summary of Consolidated Financial Condition

	Yen (millions)		*U.S. Dollars (millions)*
	March 31 2004	March 31 2003	***March 31 2003***
Total Assets	**Y 3,865,589**	Y 4,225,361	***$36,468***
Shareholders' Equity	**827,177**	702,390	***7,804***
Shareholders' Equity Ratio	**21.4 %**	16.6 %	
Shareholders' Equity Per Share	**Y 413.22**	Y 385.49	***$3.898***

d. Summary of Consolidated Statements of Cash Flows

	Yen (millions)		*U.S. Dollars (millions)*
	FY 2003	FY 2002	***FY 2003***
Cash Flows from Operating Activities	**Y 304,045**	Y 117,797	***$2,868***
Cash Flows from Investing Activities	**67,389**	(64,415)	***636***
Cash Flows from Financing Activities	**(239,902)**	(67,237)	***(2,263)***
Cash and Cash Equivalents at End of Period	**Y 413,826**	Y282,333	***$3,904***

Note: Throughout these statements, yen figures have been converted to U.S. dollars for convenience only at a uniform rate of $1=106 yen.

2. Summary of FY 2003 Fourth Quarter Consolidated Results
(Three months ended March 31)

a. Summary of Consolidated Statements of Operations

	Yen (millions)			*U.S. Dollars (millions)*
	FY 2003	FY 2002	Change (%)	***FY 2003***
Net Sales	**Y 1,556,752**	Y 1,449,580	+7.4	***$14,686***
Operating Income	**158,146**	136,847	+15.6	***1,492***
Income Before Income Taxes and Minority Interests	**136,445**	107,480	+26.9	***1,287***
Net Income	**Y 100,614**	Y 50,285	+100.1	***$949***

b. Net Sales by Business Segment

	Yen (millions)			*U.S. Dollars (millions)*
	FY 2003	FY 2002	Change (%)	***FY 2003***
Software & Services	**Y 748,745**	Y 687,892	+8.8	***$7,063***
Platforms	**510,516**	489,454	+4.3	***4,816***
Electronic Devices	**208,367**	173,081	+20.4	***1,966***
Financing	**-**	35,615	-	***-***
Other Operations	**89,124**	63,538	+40.3	***841***
Total	**Y 1,556,752**	Y 1,449,580	+7.4	***$14,686***

3. Consolidated Earnings Forecast for FY 2004 (April 1, 2004 - March 31, 2005)

		Yen (billions)	Change (%)
		FY 2004 (Forecast)	FY 03 to FY 04
a. 1st Half FY 2004	Net Sales	Y 2,250.0	+5.0
(April 1, 2004 - September 30, 2004)	Operating Income	10.0	-
	Net Loss	Y (25.0)	-
b. Full Year FY 2004	Net Sales	Y 4,950.0	+3.8
(April 1, 2004 - March 31, 2005)	Operating Income	200.0	+33.0
	Net Income	Y 70.0	+40.8

4. Summary of FY 2003 Full Year Unconsolidated Results

a. Summary of Unconsolidated Statements of Operations

	Yen (millions) (except per share data)			*U.S. Dollars (millions) (except per share data)*
	FY 2003	FY 2002	Change (%)	***FY 2003***
Net Sales	**Y 2,788,526**	Y 2,695,055	+3.5	***$26,306***
Operating Income	**32,962**	21,858	+50.8	***310***
Income (Loss) Before Income Taxes and Minority Interests	**80,085**	(230,211)	-	***755***
Net Income (Loss)	**Y 17,067**	Y (175,054)	-	***$161***
Amounts Per Share of Common Stock:				
Net Income (Loss)	**Y 8.49**	Y (87.48)	-	***$0.080***
Cash Dividends	**Y 3.00**	Y 0.00	-	***$0.028***

b. Summary of Unconsolidated Financial Condition

	Yen (millions) (except per share data)		*U.S. Dollars (millions) (except per share data)*
	March 31 2004	March 31 2003	***March 31 2003***
Total Assets	**Y 3,022,975**	Y 2,926,275	***$28,518***
Shareholders' Equity	**934,603**	771,133	***8,817***
Shareholders' Equity Ratio	**30.9** %	26.4 %	
Shareholders' Equity Per Share	**Y 467.18**	Y 385.49	***$4.408***

5. Unconsolidated Earnings Forecast for FY 2004 (April 1, 2004 - March 31, 2005)

		Yen (billions)	Change (%)
		FY 2004 (Forecast)	FY 03 to FY 04
a. 1st Half FY 2004	Net Sales	Y 1,300.0	+7.7
(April 1, 2004 - September 30, 2004)	Operating Loss	(25.0)	-
	Net Loss	Y (10.0)	-
b. Full Year FY 2004	Net Sales	Y 2,900.0	+4.0
(April 1, 2004 - March 31, 2005)	Operating Income	70.0	+112.4
	Net Income	Y 40.0	+134.4

6. Full Year Consolidated Statements of Operations

	Yen (millions)			*U.S. Dollars (millions)*
	FY 2003	FY 2002	Change (%)	***FY 2003***
Net sales	**Y 4,766,888**	Y 4,617,580	+3.2	***$44,971***
Operating costs and expenses:				
Cost of goods sold	**3,460,932**	3,328,261	+4.0	***32,651***
Selling, general and administrative expenses	**1,155,614**	2,673,197	-2.8	***10,902***
	4,616,546	4,517,153		***43,553***
Operating income	**150,342**	100,427	+49.7	***1,418***
Other income (expenses):				
Net interest*	**(16,663)**	(21,418)		***(157)***
Equity in earnings of affiliated companies, net	**(862)**	570		***(8)***
Amortization of unrecognized obligation for retirement benefits	**(56,943)**	(43,901)		***(537)***
Gain on transfer of substitutional portion of employees' pension funds	**146,532**	-		***1,382***
Gain on sale of marketable securities	**134,624**	29,362		***1,270***
Gain on sale of property, plant and equipment	**13,649**	-		***129***
Gain on business transfer	**-**	14,536		*-*
Restructuring charges	**(164,202)**	(151,486)		***(1,549)***
HDD litigation-related expenses	**(10,220)**	-		***(97)***
Casualty loss	**(4,700)**	-		***(44)***
Cost of corrective measures for products	**-**	(30,600)		*-*
Valuation loss on marketable securities	**-**	(21,802)		*-*
Other, net	**(34,539)**	(23,294)		***(326)***
	6,676	(248,033)		***63***
Income (Loss) before income taxes and minority interests	**157,018**	(147,606)	-	***1,481***
Income taxes	**92,210**	(28,789)		***870***
Minority interests	**(15,104)**	(3,249)		***(142)***
Net income (loss)	**Y 49,704**	Y (122,066)	-	***$469***

Note * Net interest consists of interest income, dividend income and interest charges.

7. Explanation of Extraordinary Items

Extraordinary Income **<u>Total: 294.8 billion yen</u>**

(1) Asset Sales

A. Gain on Sales of Marketable Securities **<u>134.6 billion yen</u>**

- At the request of FANUC, we sold shares in the company in May and November of 2003.

  Capital gain: 117.0 billion yen (Sales proceeds: 217.5 billion yen)

  - On an unconsolidated basis, there was a capital gain of 217.1 billion yen, and because profits on an unconsolidated basis are taxable, the contribution to net income on a consolidated basis was limited to 28.1 billion yen.
  - Since Fujitsu's equity stake in FANUC was reduced to 18.6%, its results are no longer consolidated under equity-method accounting. As a result, other income (equity in earnings of affiliates) was reduced by approximately 5 billion yen. And because holdings are treated as ordinary investment securities and valued at their market price, there was a resulting increase in capital of 67.0 billion yen.
- Sale of ordinary equity portfolio and other holdings

  Capital gain: 17.5 billion yen (Sales proceeds: 35.5 billion yen)

B. Gain on Sales of Fixed Assets **<u>13.6 billion yen</u>**

- Securitization of the land and buildings of Fujitsu Solution Square (located in Kamata, Tokyo), and the sale of other properties that had been used for employee recreation.

  Capital gain: 13.6 billion yen (Sales proceeds: 29.3 billion yen)

(2) Transfer of Substitutional Portion of Employees' Pension Plan **<u>146.5 billion yen</u>**

- Fujitsu applied for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the employees' pension plan, in which we and our domestic subsidiaries participate. On March 23, 2004, we received approval of the exemption from the Minister of Health, Labor and Welfare. Accordingly, as of the approval date, we recognized the elimination of both the employee retirement obligations and pension assets relating to the substitutional portion, resulting in an extraordinary gain of 146.5 billion yen. The rise in stock prices toward the end of the fiscal year increased the amount of the capital gain.
- The unfunded portion of pension plan obligation was 435.0 billion yen (a large reduction of 336.2 billion yen compared to the previous fiscal year). Of that amount, the impact of the portion transferred to the government was approximately 130 billion yen. The other major factor behind the reduction was the rise in stock prices at the end of the fiscal year.
- The reduction in next fiscal year's pension expense burden was approximately 20 billion yen. There was an approximately 20 billion yen increase in assets, a roughly 10 billion yen reduction resulting from the substitutional portion transfer, and the discount rate was revised from 3.0% to 2.5%, increasing the burden by 10 billion yen.

Extraordinary Losses **<u>Total: 187.5 billion yen</u>**

(1) Restructuring Charges **<u>164.2 billion yen</u>**

A. Global Restructuring Focusing on North America **<u>75.7 billion yen</u>**

- For customers expanding their businesses on a global basis, we are enhancing our ability to offer leading-edge hardware and software on a global basis under a consistent Fujitsu brand and to continually provide high-quality one-stop solutions in each region.
- In fiscal 2003, we consolidated two computer hardware operations in the U.S., Fujitsu PC Corporation (focusing on PCs) and Fujitsu Technology Solutions Inc. (focusing on

servers), a subsidiary of Fujitsu IT Holdings (FIH, the former Amdahl), integrating them into the newly established Fujitsu Computer Systems. This move created a unified organization for hardware offerings and enabled a reduction in overlapping functions and personnel, and an elimination of assets.

- In software and services, we realigned the operations of Fujitsu Consulting (the former DMR), which had been a subsidiary of FIH, to focus on the North American market. In conjunction with this, operations in Spain were sold to a third party, and other European operations were merged into Fujitsu Services (the former ICL). Operations in Oceania were merged into Fujitsu Australia Limited. These moves enabled a reduction in overlapping functions and personnel, and an elimination of assets.
- The scope of personnel reductions, primarily in North America and Europe, was approximately 1,000 employees globally.
- In North America, Fujitsu Computer Systems and Fujitsu Consulting were made direct subsidiaries of Fujitsu Limited, and the FIH holding company is being liquidated. As a result of these measures, we took a one-time charge to write off the goodwill associated with the acquisition of Amdahl, the predecessor of FIH, as well as currency translation adjustments of past investments.
- Amount of Loss

  Restructuring charges: 28.9 billion yen (personnel reductions, asset disposals)
  Goodwill write-offs, etc.: 46.8 billion yen (including currency translation adjustments on investments)
- These moves completed the global restructuring designed to create a consistent Fujitsu brand and presence. Under a new global business model we will develop our business worldwide, with closer coordination among operations in each region.

B. Fundamental Reform of Software & Services Business in Japan **<u>68.3 billion yen</u>**

- We posted an extraordinary loss of 68.3 billion yen to cover potentially uncollectable accounts in 2004 and 2005.

<Method of Calculation>

- In fiscal 2003, in addition to calculating potential future losses relating to projects whose worsening profitability had become apparent, we carried out an exhaustive analysis of all projects under development to predict future returns, including for work not yet implemented.
- Losses for projects completed in fiscal 2003 were recognized as operating losses for the period.

<Content of Deterioration in Profitability>

- The projects for which the deterioration in profitability was particularly apparent were large-scale projects of relatively long-term contract duration of 2-3 years. Many of these contracts were structured solely around the outcome of development work, and it was determined that it would be difficult to cover the costs incurred on these contracts. At present, Fujitsu's systems engineering group is working at full capacity, and it seems that many of the problems stemmed from aggressive expansion of sales orders, despite potential difficulties that might likely arise due to the rapid shift toward open standards.
- In these projects, along with the wider choices available with open system standards, systems development work has become more complex. Moreover, because our customers' business environments are continually changing, and with an increase in the number of development items subject to tight delivery deadlines, there have been an increasing number of cases with unanticipated expansions in the scope of the project and the personnel required. In almost all cases neither Fujitsu nor our customers were able to accurately anticipate the amount of work required.

<Premise for Recognizing Extraordinary Loss>

- Ordinarily with system development projects, revenue is recognized using the completed contract method. Because of this, all development costs, including orders to subcontractors, are accumulated at the end of the project. Under this standard practice, project profitability is usually not recognized before these processes are completed. Upon becoming aware of some underperforming projects that will continue over coming years, we undertook a thorough review of all projects – normally done at the time of completion – to confirm details with respect to contracts with customers and the progress of development work being done by partners and subcontractors.

- In conjunction with the change in our policy regarding loss recognition and the decision to post an extraordinary loss, we have thoroughly analyzed all of our deals and contracts, and while of course we will also quickly recognize any losses in the future, we will make concerted efforts to prevent such losses from occurring in the first place. Therefore, reforming our business management structure for that purpose is of primary importance.

<Measures Going Forward>

- To prevent such losses from occurring in the future, in February we established a Business Risk Management Office that audits all large deals, and also put in place a structure for having third parties quickly check all other deals. In addition, we are promoting the usage of our innovative TRIOLE and SDAS initiatives to respond to open systems requirements.
- Through such measures as increasing the transparency of contractual arrangements with customers and suppliers, we are reforming our business practices and are committed to increasing the level of customer satisfaction. Specifically, we will prohibit any oral agreements, and, following the usual practice of corporate contracts in the U.S. and Europe, will pursue agreements with customers over detailed plans and, as much as possible, seek to have the timing of cash flows match the work requirements.
- In addition, through the internal implementation of percentage of completion accounting methodology, we will strictly enforce our new rules regarding early recognition of any losses and take a very clear approach to project management with the aim of improving the profitability of our software and services business.

<Impact on Earnings in Fiscal 2004 and Beyond>

- In terms of the impact on earnings in fiscal 2004 and beyond, which is predicated on the thorough implementation of the measures described above, the new procedures will undergo a comprehensive review in the first quarter, and, throughout our organization we will make every effort to ensure that the losses recognized now lead to improved profitability in fiscal 2004.
- Finally, in terms of external factors, we continue to study the possibility of implementing new international accounting standards in 2005, at the same time they will become required in Europe. The percentage of completion accounting standards have been the most contentious aspect of the new international accounting standards, but we are now putting them into practice internally a year in advance. We also intend to pursue the implementation of these standards with our overseas subsidiaries, such as Fujitsu Consulting in the U.S. and Fujitsu Services in Europe. We view this as an important step that will boost our position as a leading global player in the software and services business.

C. Other Restructuring Charges — <u>20.1 billion yen</u>

- We recognized an extraordinary loss on other restructuring charges, primarily related to restructuring initiatives implemented by publicly traded domestic subsidiaries, including FDK (5.6 billion yen), Fujitsu Support and Service (4.1 billion yen), and Shinko Electric (2.0 billion yen).

(2) Other Extraordinary Losses

A. HDD Litigation-Related Expenses **10.2 billion yen**

- With respect to claims relating to certain Fujitsu-manufactured hard disk drives, we posted an extraordinary charge to cover the settlement and related expenses of a class action lawsuit in the U.S., as well as corrective measures for customers. In fiscal 2002 we posted a charge of 30.6 billion yen to cover expenses for corrective measures for products. The amount of the loss posted in fiscal 2003 could not be determined at the end of the prior fiscal year because claims were still in the process of being negotiated.

B. Casualty Losses **4.7 billion yen**

- We posted a casualty loss for the cost of repairing damages our Iwate plant incurred in the earthquake off the coast of Miyagi Prefecture on May 26, 2003.

C. Other **8.4 billion yen**

- In accordance with the implementation in fiscal 2003 of a new system for calculating social insurance premiums based on an employee's total compensation, we posted a charge to cover the impact of the change in relative contributions.

8. Full Year Consolidated Business Segment Information

a. Sales to Unaffiliated Customers

		Yen (millions)			*U.S. Dollars (millions)*
		FY 2003	FY 2002	Change (%)	***FY 2003***
Software & Services	Japan	**Y 1,580,833**	Y 1,506,860	+4.9	***$14,914***
	Overseas	**513,428**	518,930	-1.1	***4,843***
	Total	**Y 2,094,261**	Y 2,025,790	+3.4	***$19,757***
Platforms	Japan	**1,150,440**	1,159,909	-0.8	***10,853***
	Overseas	**457,738**	452,107	+1.2	***4,319***
	Total	**1,608,178**	1,612,016	-0.2	***15,172***
Electronic Devices	Japan	**378,489**	299,617	+26.3	***3,571***
	Overseas	**355,831**	319,015	+11.5	***3,357***
	Total	**734,320**	618,632	+18.7	***6,928***
Financing*	Japan	**50,391**	119,279	-57.8	***475***
	Overseas	**-**	-	-	*-*
	Total	**50,391**	119,279	-57.8	***475***
Other Operations	Japan	**218,112**	195,000	+11.9	***2,058***
	Overseas	**61,626**	46,863	+31.5	***581***
	Total	**279,738**	241,863	+15.7	***2,639***
Total	Japan	**Y 3,378,265**	Y 3,280,665	+3.0	***$31,871***
	Overseas	**1,388,623**	1,336,915	+3.9	***13,100***
	Total	**Y 4,766,888**	Y 4,617,580	+3.2	***$44,971***

Note: * In the Financing segment, due to the change in status of the company's leasing operating subsidiary to an affiliate company accounted for under the equity method from the third quarter, the FY 2003 results for that segment (50,391 million yen) were limited to amounts earned in the first half of the fiscal year only.

b. Sales to Unaffiliated Customers by Products and Services

		Yen (billions)			*U.S. Dollars (millions)*
		FY 2003	FY 2002	Change (%)	***FY 2003***
Software & Services	Solutions/SI	**Y 970.0**	Y 940.5	+3.1	***$9,151***
	Infrastructure Services	**1,124.2**	1,085.2	+3.6	***10,606***
	Total	**Y 2,094.2**	Y 2,025.7	+3.4	***$19,757***
Platforms	Servers	**Y 365.6**	Y 382.8	-4.5	***$3,449***
	Mobile Infrastructure/ IP Network	**207.2**	189.7	+9.2	***1,955***
	Transmission Equipment	**167.4**	180.0	-7.0	***1,580***
	PCs & Mobile Telephones	**680.9**	655.5	+3.9	***6,424***
	Others	**187.0**	204.0	-8.3	***1,764***
	Total	**Y 1,608.1**	Y 1,612.0	-0.2	***$15,172***
Electronic Devices	Semiconductors	**Y 403.9**	Y 349.3	+15.6	***$3,811***
	Others	**330.4**	269.3	+22.7	***3,117***
	Total	**Y 734.3**	Y 618.6	+18.7	***$6,928***

c. Net Sales

		Yen (millions)			U.S. Dollars (millions)
		FY 2003	FY 2002	Change (%)	***FY 2003***
Software & Services	Unaffiliated customers	**Y 2,094,261**	Y 2,025,790	+3.4	***$19,757***
	Intersegment	**52,112**	72,167	-27.8	***$492***
	Total	**Y 2,146,373**	Y 2,097,957	+2.3	***$20,249***
Platforms	Unaffiliated customers	**1,608,178**	1,612,016	-0.2	***15,172***
	Intersegment	**224,705**	231,260	-2.8	***2,119***
	Total	**1,832,883**	1,843,276	-0.6	***17,291***
Electronic Devices	Unaffiliated customers	**734,320**	618,632	+18.7	***6,928***
	Intersegment	**70,365**	68,816	+2.3	***663***
	Total	**804,685**	687,448	+17.1	***7,591***
Financing	Unaffiliated customers	**50,391**	119,279	-57.8	***475***
	Intersegment	**4,027**	9,148	-56.0	***39***
	Total	**54,418**	128,427	-57.6	***514***
Other Operations	Unaffiliated customers	**279,738**	241,863	+15.7	***2,639***
	Intersegment	**138,554**	137,082	+1.1	***1,307***
	Total	**418,292**	378,945	+10.4	***3,946***
Elimination		**(489,763)**	(518,473)	-	***(4,620)***
Total		**Y 4,766,888**	Y 4,617,580	+3.2	***$44,971***

d. Operating Income (Loss)

[Operating Margin]

	Yen (millions)		Change	U.S. Dollars (millions)
	FY 2003	FY 2002	(Million Yen)	***FY 2003***
Software & Services	**Y 138,758**	Y 176,529	-37,771	***$1,309***
	[6.5%]	[8.4%]	[-1.9%]	
Platforms	**29,244**	973	+28,271	***275***
	[1.6%]	[0.1%]	[+1.5%]	
Electronic Devices	**27,538**	(31,623)	+59,161	***260***
	[3.4%]	[(4.6%)]	[+8.0%]	
Financing	**2,007**	4,328	-2,321	***19***
	[3.7%]	[3.4%]	[+0.3%]	
Other Operations	**13,638**	10,002	+3,636	***129***
	[3.3%]	[2.6%]	[+0.7%]	
Elimination	**(60,843)**	(59,782)	-1,061	***(574)***
Total	**Y 150,342**	Y 100,427	+49,915	***$1,418***
	[3.2%]	[2.2%]	[+1.0%]	

9. Full Year Consolidated Geographic Segment Information

a. Net Sales

		Yen (millions)			*U.S. Dollars (millions)*
		FY 2003	FY 2002	Change (%)	***FY 2003***
Japan	Unaffiliated customers	**Y 3,605,665**	Y 3,556,437	+1.4	***$34,016***
	Intersegment	**465,811**	332,151	+40.2	***4,394***
	Total	**Y 4,071,476**	Y 3,888,588	+4.7	***$38,410***
Europe	Unaffiliated customers	**544,593**	524,910	+3.7	***5,138***
	Intersegment	**18,768**	18,130	+3.5	***177***
	Total	**563,361**	543,040	+3.7	***5,315***
The Americas	Unaffiliated customers	**254,488**	257,575	-1.2	***2,401***
	Intersegment	**20,210**	20,595	-1.9	***191***
	Total	**274,698**	278,170	-1.2	***2,592***
Others	Unaffiliated customers	**362,142**	278,658	+30.0	***3,416***
	Intersegment	**217,037**	185,505	+17.0	***2,048***
	Total	**579,179**	464,163	+24.8	***5,464***
Elimination		**(721,826)**	(556,381)	-	***(6,810)***
Total		**Y 4,766,888**	Y 4,617,580	+3.2	***$44,971***

b. Operating Income (Loss)

[Operating Margin]

	Yen (millions)		Change	*U.S. Dollars (millions)*
	FY 2003	FY 2002	(Million Yen)	***FY 2003***
Japan	**Y 203,733**	Y 160,858	+42,875	***$1,922***
	[5.0%]	[4.1%]	[+0.9%]	
Europe	**6,686**	3,632	+3,054	***63***
	[1.2%]	[0.7%]	[+0.5%]	
The Americas	**(13,161)**	(18,782)	+5,621	***(124)***
	[(4.8%)]	[(6.8%)]	[+2.0%]	
Others	**13,504**	12,744	+760	***127***
	[2.3%]	[2.7%]	[-0.4%]	
Elimination	**(60,420)**	(58,025)	-2,395	***(570)***
Total	**Y 150,342**	Y 100,427	+49,915	***$1,418***
	[3.2%]	[2.2%]	[+1.0%]	

c. Net Overseas Sales by Customer's Geographic Location

	Yen (millions)			U.S. Dollars (millions)
	FY 2003	FY 2002	Change (%)	***FY 2003***
Europe	**Y 605,051**	Y 568,763	+6.4	***$5,708***
The Americas	**324,269**	390,482	-17.0 *	***3,059***
Others Outside Japan	**459,303**	377,670	+21.6	***4,333***
Total	**Y 1,388,623**	Y 1,336,915	+3.9	***$13,100***

Note: * Sales to the Americas decreased by 17.0% in large part because of exclusion from consolidation of flash memory sales due to the shift of the company's flash memory operations to equity-method accounting in conjunction with the establishment of a new joint venture company with AMD in the second quarter.

10. Full Year Consolidated Balance Sheets

	Yen (millions)		*U.S. Dollars (millions)*
	March 31 2004	March 31 2003	***March 31 2004***
Assets			
Current assets:			
Cash and cash equivalents and short-term investments	**Y 416,929**	Y 283,985	***$3,933***
Receivables, trade	**810,469**	840,408	***7,646***
Inventories	**521,126**	595,984	***4,916***
Other current assets	**267,050**	351,263	***2,520***
Total current assets	**2,015,574**	2,071,640	***19,015***
Investments and long-term loans	**827,063**	901,587	***7,802***
Property, plant and equipment less accumulated depreciation	**803,023**	990,552	***7,576***
Intangible assets	**219,929**	261,582	***2,075***
Total assets	**Y 3,865,589**	Y 4,225,361	***$36,468***
Liabilities, minority interests and shareholders' equity			
Current liabilities:			
Short-term borrowings and current portion of long-term debt	**Y 382,749**	Y 506,091	***$3,611***
Payables, trade	**796,915**	716,842	***7,518***
Other current liabilities	**538,398**	542,291	***5,079***
Total current liabilities	**1,718,062**	1,765,224	***16,208***
Long-term liabilities:			
Long-term debt	**894,372**	1,257,678	***8,437***
Other long-term liabilities	**235,518**	285,513	***2,222***
Total long-term liabilities	**1,129,890**	1,543,191	***10,659***
Minority interests	**190,460**	214,556	***1,797***
Shareholders' equity:			
Common stock	**324,624**	324,624	***3,062***
Capital surplus	**455,963**	519,720	***4,302***
Retained earnings (Deficit)	**(35,734)**	(60,718)	***(337)***
Unrealized gains on securities and revaluation surplus on land	**153,082**	6,090	***1,444***
Foreign currency translation adjustments	**(69,901)**	(86,517)	***(659)***
Treasury stock	**(857)**	(809)	***(8)***
Total shareholders' equity	**827,177**	702,390	***7,804***
Total liabilities, minority interests and shareholders' equity	**Y 3,865,589**	Y 4,225,361	***$36,468***
Ending balance of interest bearing loans	**Y 1,277,121**	Y 1,763,769	***$12,048***

Supplementary Information

	Yen (billions)		
	FY 2003	FY 2002	Change (%)
Capital expenditure	**Y 159.7**	Y 147.6	+8.2
[Semiconductors]	**[30.1]**	[38.0]	[-20.8]
Depreciation	**Y 200.0**	Y 264.6	-24.4

11. Full Year Consolidated Statements of Cash Flows

	Yen (millions) FY 2003	Yen (millions) FY 2002	Change (Million Yen)	*U.S. Dollars (millions) FY 2003*
1. Cash flows from operating activities:				
Income (Loss) before income taxes and minority interests	**Y 157,018**	Y (147,606)	+304,624	***$1,481***
Depreciation and amortization	**292,949**	343,285	-50,336	***2,764***
Accrual (Reversal) of provisions	**13,388**	(7,534)	+20,922	***126***
Equity in earnings of affiliates, net	**862**	(570)	+1,432	***8***
Disposal of property, plant and equipment	**30,714**	53,855	-23,141	***290***
(Increase) Decrease in receivables, trade	**(101,803)**	63,246	-165,049	***(960)***
(Increase) Decrease in inventories	**42,637**	39,538	+3,099	***402***
Increase (Decrease) in payables, trade	**158,327**	(60,500)	+218,827	***1,493***
Deduction of gain on transfer of substitutional portion of employees' pension plan	**(146,532)**	-	-146,532	***(1,382)***
Other, net*	**(143,515)**	(165,917)	+22,402	***(1,354)***
Net cash provided by (used in) operating activities	**304,045**	117,797	+186,248	***2,868***
2. Cash flows from investing activities:				
Purchase of property, plant and equipment	**(141,596)**	(163,503)	+21,907	***(1,336)***
(Purchases of) Proceeds from Sales of Investment Securities	**221,905**	64,024	+157,881	***2,093***
Other, net	**(12,920)**	35,064	-47,984	***(121)***
Net cash provided by (used in) investing activities	**67,389**	(64,415)	+131,804	***636***
1+2 [Free Cash Flow]	**371,434**	53,382	+318,052	***3,504***
3. Cash flows from financing activities:				
Increase (Decrease) in bonds, notes, short-term borrowings and long-term debt	**(217,467)**	30,669	-248,136	***(2,051)***
Dividends paid	**-**	(5,005)	+5,005	-
Other, net	**(22,435)**	(92,901)	+70,466	***(212)***
Net cash provided by (used in) financing activities	**(239,902)**	(67,237)	-172,665	***(2,263)***
4. Effect of exchange rate changes on cash and cash equivalents	**(3,199)**	(3,230)	+31	***(30)***
5. Net increase (decrease) in cash and cash equivalents	**128,333**	(17,085)	+145,418	***1,211***
6. Cash and cash equivalents at beginning of period	**282,333**	299,418	-17,085	***2,664***
7. Cash and cash equivalents of newly consolidated subsidiaries	**3,160**	-	+3,160	***29***
8. Cash and cash equivalents at end of period	**Y 413,826**	Y 282,333	+131,493	***$3,904***

Note: * "Other, net" in cash flows from operating activities refers mainly to the reclassification of a 134,624 million yen gain on sale of marketable securities included in income before income taxes and minori interests to cash flows from investing activities.

12. Marketable Securities

1. Net Unrealized Gain on Marketable Securities

	Yen (millions)			Yen (millions)		
	March 31, 2004			March 31, 2003		
	Carrying Value	Fair Value	Net Unrealized Gains	Carrying Value	Fair Value	Net Unrealized Gains (Losses)
Held-to-maturity securities	**Y 2,208**	**Y 2,225**	**Y 17**	Y 1,509	Y 1,506	Y (3)
Investment in affiliates	**18,148**	**79,581**	**61,433**	202,621	391,237	188,616
Total	**Y 20,356**	**Y 81,806**	**Y 61,450**	Y 204,130	Y 392,743	Y 188,613

2. Summary of Marketable Securities at Fair Value

	Yen (millions)			Yen (millions)		
	March 31, 2004			March 31, 2003		
	Cost	Carrying Value (Fair Value)	Net Unrealized Gains	Cost	Carrying Value (Fair Value)	Net Unrealized Gains (Losses)
Available-for-sale:						
Equity securities	**Y 57,544**	**Y 310,584**	**Y 253,040**	Y 75,425	Y 79,372	Y 3,947
Debt securities and others	**7,250**	**7,307**	**57**	3,789	3,609	(180)
Total	**Y 64,794**	**Y 317,891**	**Y 253,097**	Y 79,214	Y 82,981	Y 3,767

13. Fourth Quarter Consolidated Statements of Operations
(Three months ended March 31)

	Yen (millions)			*U.S. Dollars (millions)*
	FY 2003	FY 2002	Change (%)	***FY 2003***
Net sales	**Y 1,556,752**	Y 1,449,580	+7.4	***$14,686***
Operating costs and expenses:				
Cost of goods sold	**1,102,844**	1,019,435	+8.2	***10,404***
Selling, general and administrative expenses	**295,762**	293,298	+0.8	***2,790***
	1,398,606	1,312,733		***13,194***
Operating income (loss)	**158,146**	136,847	+15.6	***1,492***
Other income (expenses):				
Net interest *	**(5,084)**	(5,205)		***(48)***
Equity in earnings of affiliated companies, net	**1,597**	1,346		***15***
Amortization of unrecognized obligation for retirement benefits	**(13,630)**	(11,113)		***(129)***
Gain on transfer of substitutional portion of employees' pension funds	**146,532**	-		***1,382***
Gain on sale of marketable securities	**9,169**	-		***86***
Gain on sale of property, plant and equipment	**13,649**	-		***129***
Gain on business transfer	**-**	14,536		-
Restructuring charges	**(156,793)**	(1,486)		***(1,479)***
HDD litigation-related expenses	**(10,220)**	-		***(96)***
Cost of corrective measures for products	**-**	(5,600)		-
Valuation loss on marketable securities	**-**	(7,071)		-
Other, net	**(6,921)**	(14,774)		***(65)***
	(21,701)	(29,367)		***(205)***
Income before income taxes and minority interests	**136,445**	107,480	+26.9	***1,287***
Income taxes	**24,734**	49,651		***233***
Minority interests	**(11,097)**	(7,544)		***(105)***
Net income	**Y 100,614**	Y 50,285	+100.1	***$949***

Note * Net interest consists of interest income, dividend income and interest charges.

14. Fourth Quarter Consolidated Business Segment Information
(Three months ended March 31)

a. Sales to Unaffiliated Customers

		Yen (millions)			*U.S. Dollars (millions)*
		FY 2003	FY 2002	Change (%)	***FY 2003***
Software & Services	Japan	**Y 601,527**	Y 556,813	+8.0	***$5,674***
	Overseas	**147,218**	131,079	+12.3	***1,389***
	Total	**Y 748,745**	Y 687,892	+8.8	***$7,063***
Platforms	Japan	**389,998**	374,298	+4.2	***3,679***
	Overseas	**120,518**	115,156	+4.7	***1,137***
	Total	**510,516**	489,454	+4.3	***4,816***
Electronic Devices	Japan	**113,367**	75,605	+49.9	***1,070***
	Overseas	**95,000**	97,476	-2.5	***896***
	Total	**208,367**	173,081	+20.4	***1,966***
Financing	Japan	-	35,615	-	-
	Overseas	-	-	-	-
	Total	-	35,615	-	-
Other Operations	Japan	**61,211**	51,720	+18.4	***578***
	Overseas	**27,913**	11,818	+136.2	***263***
	Total	**89,124**	63,538	+40.3	***841***
Total	Japan	**Y 1,166,103**	Y 1,094,051	+6.6	***$11,001***
	Overseas	**390,649**	355,529	+9.9	***3,685***
	Total	**Y 1,556,752**	Y 1,449,580	+7.4	***$14,686***

b. Sales to Unaffiliated Customers by Products and Services

		Yen (billions)			*U.S. Dollars (millions)*
		FY 2003	FY 2002	Change (%)	***FY 2003***
Software & Services	Solutions/SI	**Y 374.7**	Y 367.1	+2.1	***$3,535***
	Infrastructure Services	**374.0**	320.8	+16.6	***3,528***
	Total	**Y 748.7**	Y 687.8	+8.8	***$7,063***
Platforms	Servers	**Y 127.0**	Y 123.5	+2.8	***$1,198***
	Mobile Infrastructure/ IP Network	**79.7**	61.6	+29.4	***752***
	Transmission Equipment	**47.9**	48.6	-1.4	***452***
	PCs & Mobile Telephones	**206.7**	188.5	+9.7	***1,950***
	Others	**49.2**	67.3	-26.9	***464***
	Total	**Y 510.5**	Y 489.4	+4.3	***$4,816***
Electronic Devices	Semiconductors	**Y 117.6**	Y 97.0	+21.2	***$1,110***
	Others	**90.7**	76.1	+19.2	***856***
	Total	**Y 208.3**	Y 173.0	+20.4	***$1,966***

c. Net Sales

		Yen (millions)			U.S. Dollars (millions)
		FY 2003	FY 2002	Change (%)	***FY 2003***
Software & Services	Unaffiliated customers	**Y 748,745**	Y 687,892	+8.8	***$7,063***
	Intersegment	**11,606**	25,165	-53.9	***$110***
	Total	**Y 760,351**	Y 713,057	+6.6	***$7,173***
Platforms	Unaffiliated customers	**510,516**	489,454	+4.3	***4,816***
	Intersegment	**74,454**	76,309	-2.4	***703***
	Total	**584,970**	565,763	+3.4	***5,519***
Electronic Devices	Unaffiliated customers	**208,367**	173,081	+20.4	***1,966***
	Intersegment	**19,451**	13,650	+42.5	***183***
	Total	**227,818**	186,731	+22.0	***2,149***
Financing	Unaffiliated customers	**-**	35,615	-	-
	Intersegment	**-**	1,867	-	-
	Total	**-**	37,482	-	-
Other Operations	Unaffiliated customers	**89,124**	63,538	+40.3	***841***
	Intersegment	**38,401**	36,627	+4.8	***362***
	Total	**127,525**	100,165	+27.3	***1,203***
Elimination		**(143,912)**	(153,618)	-	***(1,358)***
Total		**Y 1,556,752**	Y 1,449,580	+7.4	***$14,686***

d. Operating Income (Loss)

[Operating Margin]

	Yen (millions)		Change	U.S. Dollars (millions)
	FY 2003	FY 2002	(Million Yen)	***FY 2003***
Software & Services	**Y 102,210**	Y 108,419	-6,209	***$964***
	[13.4%]	[15.2%]	[-1.8%]	
Platforms	**49,844**	45,493	+4,351	***470***
	[8.5%]	[8.0%]	[+0.5%]	
Electronic Devices	**13,173**	(3,004)	+16,177	***125***
	[5.8%]	[(1.6%)]	[+7.4%]	
Financing	**-**	765	-765	-
	[-%]	[2.0%]	[-%]	
Other Operations	**6,667**	3,589	+3,078	***63***
	[5.2%]	[3.6%]	[+1.6%]	
Elimination	**(13,748)**	(18,415)	+4,667	***(130)***
Total	**Y 158,146**	Y 136,847	+21,299	***$1,492***
	[10.2%]	[9.4%]	[+0.8%]	

15. Full Year Unconsolidated Statements of Operations

	Yen (millions)			U.S. Dollars (millions)
	FY 2003	FY 2002	Change (%)	***FY 2003***
Net sales	**Y 2,788,526**	Y 2,695,055	+3.5	***$26,306***
Operating costs and expenses:				
Cost of goods sold	**2,120,169**	2,012,461	+5.4	***20,001***
Selling, general and administrative expenses	**635,395**	660,735	-3.8	***5,994***
	2,755,564	2,673,197		***25,995***
Operating income	**32,962**	21,858	+50.8	***310***
Other income (expenses):				
Net interest *1	**48,243**	8,037		***455***
Amortization of unrecognized obligation for retirement benefits	**(26,537)**	(17,253)		***(250)***
Gain on sale of marketable securities *2	**237,621**	81,412		***2,241***
Gain on transfer of substitutional portion of employees' pension funds	**81,358**	-		***767***
Gain on sale of property, plant and equipment	**13,649**	-		***128***
Gain on business transfer	**-**	14,536		***-***
Loss on devaluation of subsidiaries' and affiliates' stock *3	**(206,742)**	(185,224)		***(1,950)***
Restructuring charges *4	**(66,376)**	(113,400)		***(626)***
HDD litigation-related expenses *5	**(10,220)**	-		***(96)***
Casualty loss *6	**(4,700)**	-		***(44)***
Cost of corrective measures for products	**-**	(30,600)		***-***
Other, net	**(19,172)**	(9,578)		***(180)***
	47,123	(252,069)		***444***
Income (Loss) before income taxes and minority interests	**80,085**	(230,211)	-	***755***
Income taxes				
Current	**(7,382)**	(12,256)		***(69)***
Deferred	**70,400**	(42,900)		***664***
	63,017	(55,156)		***594***
Net income (loss)	**Y 17,067**	Y (175,054)	-	***$161***
Unappropriated retained earnings at the beginning of this year	**10,043**	7,351		***94***
Reversal of legal reserve	**36,447**	-		***343***
Unappropriated retained earnings (loss) at the end of this year	**Y 63,558**	Y (167,703)		***$599***

Note *1 Net interest consists of interest income, dividend income and interest charges.

*2 Gain on sales of marketable securities refers to a 227,010 million yen gain on sales of affiliates' stock and 10,610 million yen on sales of available-for-sale securities.

*3 Of the 206,742 million yen loss under "Loss on devaluation of subsidiaries' and affiliates' stock," there was a valuation loss of 201,037 million yen on stock in Fujitsu IT Holdings, which was restructured as part of the realignment of Fujitsu's global business structure.

*4 Of the restructuring charges of 66,376 million yen, 64,063 million yen was for reforms in the company's domestic software & services business structure and difficulties in realizing future returns on some projects.

*5 HDD litigation-related expenses included expenses relating to the settlement of a class-action lawsuit in the United States regarding certain Fujitsu-manufactured magnetic hard disk drives, as well as other litigation-related expenses and expenses for corrective measures for customers.

*6 Casualty loss refers to repair expenses incurred to cover damages to property as a result of the earthquake that occurred off the coast of Miyagi Prefecture, Japan, on May 26, 2003.

16. Full Year Unconsolidated Appropriation of Retained Earnings and Other Capital Surplus

a. Appropriation of Retained Earnings (Loss)

	Yen (millions)		U.S. Dollars (millions)
	FY 2003	FY 2002	***FY 2003***
Unappropriated retained earnings (loss)	**Y 63,558**	Y (167,703)	***$599***
Reversal of reserve for:			
Losses on overseas investment	**-**	1,226	-
Software development	**-**	30,817	-
Special depreciation	**-**	8,420	-
Advanced depreciation	**-**	641	-
General reserve	**-**	138,942	-
Total	**Y 63,558**	Y 12,343	***$599***
To be appropriated as follows:			
Dividends	**6,000**	-	***56***
(3.0 yen per share in FY 2003 and 0.0 yen per share in FY 2002)			
Bonuses to directors and statutory auditor	**81**	-	-
Reserve for:			
Software development	**-**	2,300	-
Special depreciation	**2,900**	-	***27***
Earnings to be carried forward	**Y 54,576**	Y 10,043	***$514***

b. Appropriation of Other Capital Surplus

	Yen (millions)		U.S. Dollars (millions)
	FY 2003	FY 2002	***FY 2003***
Other capital surplus	**Y 300,016**	**-**	***$2,830***
To be appropriated as follows:			
Other capital surplus to be carried forward	**Y 300,016**	**-**	***$2,830***

Policy on Dividends

With regard to distributions of profits, Fujitsu's policy is to provide shareholders with a stable return and to secure sufficient internal reserves to strengthen its financial position for future business growth and improved profitability in the mid to long term.

In fiscal 2003 the company recorded consolidated operating income of 150.3 billion yen, up 49.7% over the previous fiscal year, and unconsolidated operating income of 32.9 billion yen, an increase of 50.8%, reflecting the contribution of restructuring measures over the previous two years to steady recovery of profitability. In addition to improving profitability in its core businesses, Fujitsu steadily implemented policies including maximizing effective use of its assets to accelerate the strengthening of its financial condition. Going forward, the company will further speed the pace of reform and – moving from "recovery" to "growth" – achieve even greater improvements in profitability and financial position.

Taking these factors into consideration, and in light of the forgoing of dividend payments from mid-term of fiscal 2002, Fujitsu will pay a FY 2004 year-end dividend of 3.0 yen per share.

17. Full Year Unconsolidated Balance Sheets

	Yen (millions)		U.S. Dollars (millions)
	March 31 2004	March 31 2003	***March 31 2004***
Assets			
Current assets:			
Cash and cash equivalents and short-term investments	**Y 163,686**	Y 121,819	***$1,544***
Receivables, trade	**482,886**	431,568	***4,555***
Inventories	**241,389**	292,270	***2,277***
Other current assets	**297,842**	249,971	***2,809***
Total current assets	**1,185,805**	1,095,630	***11,186***
Investments and long-term loans	**1,348,664**	1,310,261	***12,723***
Property, plant and equipment less accumulated depreciation	**390,963**	419,073	***3,688***
Intangible assets	**97,542**	101,310	***920***
Total assets	**Y 3,022,975**	Y 2,926,275	***$28,518***
Liabilities, minority interests and shareholders' equity			
Current liabilities:			
Short-term borrowings and current portion of long-term debt	**Y 301,591**	Y 240,608	***$2,845***
Payables, trade	**706,998**	614,833	***6,669***
Other current liabilities	**178,695**	187,382	***1,685***
Total current liabilities	**1,187,285**	1,042,824	***11,200***
Long-term liabilities:			
Long-term debt	**832,116**	1,037,262	***7,850***
Other long-term liabilities	**68,969**	75,054	***650***
Total long-term liabilities	**901,086**	1,112,317	***8,500***
Shareholders' equity:			
Common stock	**324,624**	324,624	***3,062***
Capital surplus	**394,458**	394,441	***3,721***
Retained earnings	**67,858**	50,790	***640***
Unrealized gains on securities, net of taxes	**148,519**	2,086	***1,401***
Treasury stock	**(857)**	(809)	***(8)***
Total shareholders' equity	**934,603**	771,133	***8,817***
Total liabilities and shareholders' equity	**Y 3,022,975**	Y 2,926,275	***$28,518***
Ending balance of interest bearing loans	**Y 1,133,708**	Y 1,277,871	***$10,695***

Supplementary Information

	Yen (billions)		
	FY 2003	FY 2002	Change (%)
Capital expenditure	**Y 70.0**	Y 51.0	37.4
Depreciation	**63.6**	78.8	-19.3

Explanation of Financial Results

1. Overview

Business Environment

With respect to surrounding business conditions, although the Iraq War and SARS epidemic impacted the global economy at the beginning of the fiscal year, new trends in technology had a major impact on market conditions in the second half. In addition to continuing growth in demand for 3G and other new mobile telephones and significant expansion of broadband networks, demand for new digital electronics products suddenly intensified in late 2003, signaling the dawn of a ubiquitous networking era. U.S. and other stock markets around the world began to recover, and by the fourth quarter overall economic conditions were showing steady signs of improvement.

In the United States, renewed business confidence led to the start of a steady recovery, and in other regions as well there began to be gradual improvement. In Japan, the economy was boosted by a sudden jump in demand for digital electronics products in which Japanese companies maintained technological leadership, and corporate results improved, particularly for manufacturers buoyed by growth in exports. Along with considerable recovery in the Japanese stock markets, the value of the yen continued to rise against other currencies. In China and other parts of Asia as well, there was an awakening of new demand, and the overall global economy advanced.

At the same time, corporate capital investment began to rebound on a global basis, and since the end of the last year Japanese corporate investment in IT has become stronger again. As a result, we are seeing considerable activity in business orders.

Profit and Loss Situation

Fujitsu recorded fiscal 2003 consolidated net sales of 4,766.8 billion yen (about US$44.9 billion), up 3.2% over the previous fiscal year. On a quarterly basis, except for the first quarter, which was off 4.5% versus the first quarter of fiscal 2002, each successive quarter showed increasing gains over the comparable quarter in fiscal 2002, rising 3.1%, 5.0% and 7.4%, respectively. Overall, it was the first year-on-year increase in net sales since fiscal 2000. Sales rose only by a small margin in Software & Services, but Platforms sales finally rebounded to a level of parity with the previous year, and Electronic Devices sales jumped by nearly 20% both in Japan and overseas.

In addition to major gains in sales of logic chips, the fundamental device technology in popular digital electronics products, sales of other electronic devices driving the digital revolution – including plasma display panels (PDPs), liquid crystal displays (LCDs) and hard disk drives (HDDs) – enjoyed strong growth. In mobile communications, there was also a solidifying of the shift toward third-generation (3G) mobile telephones and base stations. In Japan, although corporate demand for IT-enabled services contributed to growth in services income, there was a decline in large-scale systems projects, which, together with intensifying price competition and other factors, led to sluggish domestic sales of servers, PCs and other hardware products. There was clear recovery during the second half of the fiscal year in the sales of transmission systems for North American operators, but investment by Japanese telecommunications carriers continued to be restrained.

Consolidated operating income was 150.3 billion yen (US$1,418 million), an increase of nearly 50% over fiscal 2002. Cost rate was 72.6%, up 0.5% from the previous year due to intensifying price competition. However, amid the 3.2% rise in net sales, we were able to boost efficiency in operating expenses by 2.8%, thereby making a major contribution to the overall increase in operating income.

By business segment, Electronic Devices, which had suffered a major loss last year, returned to profitability with a 60 billion yen improvement in operating income. In the Platforms segment, although intensified competition reduced operating income in PCs and mobile telephones, in transmission systems and HDDs, areas that had suffered large losses the previous year, there were major improvements in income. Moreover, in the fourth quarter, there was unique demand in Japan for financial terminals able to accommodate the introduction of new banknotes. As a result of these and other factors, operating income in the Platforms sector as a whole increased by close to 30 billion yen, making up for a significant portion of the nearly 40 billion yen operating income decline in Software & Services, where intensifying pricing pressures became more apparent in the second half of the fiscal year, and enabling us to achieve our overall operating income target set at the beginning of the fiscal year.

A total of 294.8 billion yen (US$2,781 million) in extraordinary income was recorded for the fiscal year. There was also an extraordinary loss of 187.5 billion yen (US$1,769 million), but this was more than offset by the extraordinary gains. (Please see the following section for details regarding these extraordinary items.) As a result, we were able to achieve consolidated net income of 49.7 billion yen (US$469 million). Of this amount, operating profits from business operations accounted for about 20 billion yen, and extraordinary profits about 30 billion yen. The increase in extraordinary income beyond expectations enabled us to exceed by 20 billion yen our net income forecast made at the beginning of the year.

Improvement in Financial Condition

During fiscal 2001 and 2002, following the bursting of the IT bubble, Fujitsu's financial condition deteriorated markedly as a result of worsening business results and the outlay of large restructuring expenses to cope with that situation. Along with concerted efforts to strengthen the profitability of our business operations, we have set forth basic financial goals as outlined below and undertaken various measures to restore our financial condition, including efforts to make more effective use of assets.

- Reduce inventories to 500 billion yen or below (by end of FY 2003)
- Reduce ending balance of interest bearing loans below 1.3 trillion yen (by end of FY 2003)
- Increase shareholders' equity to 1 trillion yen or above
- Reduce D/E ratio to below 1.0 (i.e., reduce interest bearing loans below 1 trillion yen)

With respect to improving profitability in our business operations, in addition to working to increase sales, we have pursued various cost reduction measures and trimmed expenses. As a result, we were able to improve our overall operating margin to 3.2% in fiscal 2003.

Although we made significant progress on our goal of cutting inventories in half from their peak level of 1 trillion yen by the end of fiscal 2003, we came in just over that mark, at 521.1 billion yen (US$4,916 million). Going forward, we will accelerate the introduction of Toyota-style production management throughout the company and apply the percentage of completion accounting method in our Software & Services business. We intend to set demanding new targets and to achieve them quickly through these measures.

Free cash flow was 371.4 billion yen (US$3,504 million), a major increase over fiscal 2002. To more effectively utilize our assets, we sold shareholdings in FANUC and other marketable securities, as well as some fixed assets. At the same time, through outside capital tie-ups, we moved several operations off our consolidated balance sheet, including realigning our flash memory business with AMD, our leasing operations with Tokyo Lease, and our FDK subsidiary with an investment fund. As a result, total assets at fiscal 2003 year-end stood at 3,865.5

billion yen (US$36,468 million), a decrease of more than 350 billion yen over the previous year and down below the 4 trillion yen level.

In addition to increased profitability as a result of higher income in our business operations, extraordinary income from gains on the sales of marketable securities and on the transfer of the substitutional portion of our employees' pension plan to the Japanese government led to an increase in shareholders' equity to 827.1 billion yen (US$7,804 million), and a recovery in our shareholders' equity ratio to 21.4%.

We achieved our target of reducing the ending balance of interest bearing loans to below 1,300 billion yen, recording a fiscal 2003 ending balance of 1,277.1 billion yen (US$12,048 million). After subtracting out cash and cash equivalents of 415.8 billion yen, net interest bearing loans stood at 861.2 billion yen. This represents an improvement of 639.3 billion yen over the previous year. There were improvements of about 217.5 billion yen on the sale of shares in FANUC, 254.0 billion yen on the shift to equity method accounting for Fujitsu Leasing and FDK, 65.0 billion yen from the sale of marketable securities and fixed assets, and about a 100.0 billion yen improvement in free cash flow from business operations.

The D/E ratio improved from 2.51 last year to 1.54, and the net D/E ratio, as calculated using the net balance of interest bearing loans, was 1.04, very close to our mid-term target number.

Going forward, we will continue to strive to raise shareholders' equity to 1 trillion yen or above, reduce interest bearing loans below 1 trillion yen, and hold our D/E ratio below 1.0. At the same time, we will set new targets aimed at strengthening the ability of our business operations to generate greater profits and cash flows.

2. Results by Business Segment

Looking at earnings by business segment in FY 2003, although Software & Services operating income declined compared with the previous year, the Electronic Devices segment, which had suffered an operating loss in fiscal 2002, returned to profitability, and for the first time since fiscal 2000, all three of our key business segments were in the black. Results for each segment are described below.

*Note: “Net Sales” are sales to unaffiliated customers

1. Software & Services

	FY 2003 (Billion Yen)	Change from FY 2002
Net Sales	2,094.2	+3.4%
Japan	1,580.8	+4.9%
Overseas	513.4	-1.1%

Breakdown

	Net Sales (Billion Yen)	Change from FY 2002
Solutions / S I	970.0	+3.1%
Infrastructure Services	1,124.2	+3.6%

Software & Services consolidated net sales increased 3.4% from the prior fiscal year to ¥2,094.2 billion yen (US$19,757 million). In Japan the increase was 4.9%, primarily as a result of demand from Japanese manufacturers pursuing global business expansion and from the public and healthcare sectors in conjunction with the e-Japan initiative.

Overseas, net sales decreased 1.1%, due to the effect of the sale of some European operations. However, excluding that impact, revenues actually saw a healthy increase of 2.5%. In the UK in particular, we won a series of major government outsourcing orders from agencies including the Inland Revenue Service and the National Health Service. We also formed an IT services partnership with Siemens Business Services of Germany to provide reciprocal support in the IT services field in Europe and Asia. And through restructuring and consolidation of overseas operations, in particular our North American services subsidiary, we worked to strengthen our ability to support customers’ global business growth.

(Billion Yen)

	FY 2003	Change from FY 2002
Operating Income	138.7	-37.7

Consolidated operating income in this segment declined by 37.7 billion yen from the previous year, to 138.7 billion yen (US$1,309 million). Price competition intensified in the Solutions/Systems Integration businesses, and profitability for some projects deteriorated. In addition, increased investment was required for initiatives to open new markets and for Linux technology development.

Going forward, in addition to working to reduce development times through the deployment of our renewed SDAS comprehensive system development framework, based on our TRIOLE concept, we will utilize pre-verified combinations of hardware and middleware products to help reduce system deployment and operation burdens, prevent system errors from occurring and greatly improve cost efficiency.

Last November we completed construction of Fujitsu Solution Square in Kamata, Tokyo, bringing together in one location 4,000 solutions experts from the greater Tokyo/Yokohama metropolitan area. We are leveraging real-time knowledge sharing across the worldwide Fujitsu group to more rapidly develop and provide higher value-added solutions to meet customers' needs. Going forward, we will fortify and expand our global business, as a leading global IT services player, in order to strengthen revenues in software and services.

* SDAS (Systems Development Architecture & Support): A comprehensive application development framework covering all aspects of information systems operations.

* TRIOLE: High-reliability IT infrastructure utilizing pre-verified combinations of servers, storage systems, network equipment, etc.

2. Platforms

	FY 2003 (Billion Yen)	Change from FY 2002
Net Sales	1,608.1	- 0.2%
Japan	1,150.4	- 0.8%
Overseas	457.7	+1.2%

Breakdown

	Net Sales (Billion Yen)	Change from FY 2002
Servers	365.6	-4.5%
Mobile / IP Networks	207.2	+9.2%
Transmission Systems	167.4	-7.0%
PCs / Mobile Phones	680.9	+3.9%
HDD-related	187.0	+15.9%

Consolidated net sales in the Platforms segment were roughly flat compared with the previous year, amounting to 1,608.1 billion yen (US$15,172 million). First quarter sales were markedly lower (17.6%) than the comparable period in fiscal 2002, but with increased sales of 3G mobile phones and base stations, PCs and HDDs, owing to the pickup in the economy and other factors, full-year sales in the segment were able to recover to essentially the same level as the previous year.

In Japan, sales of transmission systems and servers declined. In PCs, the impact of price erosion was offset by gains in unit shipments, and sales were held to roughly the same level as in the previous year. On the other hand, sales of mobile phones and systems in conjunction with the shift to 3G and sales of financial terminals capable of accommodating new banknotes both increased, so that domestic Platforms sales as a whole were roughly even with the previous year.

Overseas, sales of UNIX servers, PCs and HDDs increased, particularly in Europe and North America, resulting in a 1.2% increase over the previous year. Although overseas sales of transmission systems declined on a full-year basis, significant recovery could be seen in the second half.

(Billion Yen)

	FY 2003	Change from FY 2002
Operating Income	29.2	+28.2

Operating income was 29.2 billion yen (US$275 million), an increase of 28.2 billion yen over the previous year. In addition to benefiting from the effects of restructuring over the previous two years and the impact of cost reduction measures in conjunction with continuing efforts to improve manufacturing innovation and efficiency, profitability was aided by the beginning of solid recovery in previously sluggish IT demand.

Profitability increased in HDDs, particularly those used in notebook PCs, as well as in financial terminals, due to the sudden increase in demand for models accommodating new banknotes in Japan. In addition, thanks to the impact of previous restructuring and a recovery in demand by North American telecommunications carriers, losses in transmission systems were greatly reduced. Although we were able to minimize the adverse impact of intense price competition on profitability in PCs, we incurred greater costs in equipping mobile phones with high-level functionality, and income for mobile phones diminished as a result.

We have been developing our server and PC businesses in four key regional markets: Japan, North America, Europe and Asia-Pacific. In fiscal 2003, our high-performance, high-reliability UNIX servers received much favorable attention in the market, particularly in Europe and the US, and sales of these systems by Fujitsu Siemens Computers in Europe, Fujitsu Computer Systems in North America (a company established in January 2004 combining our local server and PC sales companies), and others increased. In PCs as well, solidifying our organizational ability to supply products globally on very short timeframes, we enjoyed a large increase in overseas unit sales, particularly in Europe. Going forward, we intend to further strengthen our structure for development and supply of leading-edge technology-based products to the global marketplace.

As one of very few IT vendors in the world capable of providing the full range of hardware, software and services, we intend to introduce more offerings based on “TRIOLE,” our high-performance, high-reliability open IT infrastructure, in order to further strengthen our IT business.

3. Electronic Devices

	FY 2003 (Billion Yen)	Change from FY 2002
Net Sales	734.3	+18.7%
Japan	378.4	+26.3%
Overseas	355.8	+11.5%

Breakdown

	FY 2003 (Billion Yen)	Change from FY 2002
Semiconductors	403.9	+15.6%
Other	330.4	+22.7%

Consolidated net sales totaled 734.3 billion yen (US$6,928 million), an increase of 18.7% over the previous year. In semiconductors, driven by especially strong demand for use in digital AV equipment and mobile telephones, sales of logic chips rose by nearly 30%. Flash memory sales recorded a 1.7% decline. This decline, however, was attributable to the shift of our flash memory operations to equity-method accounting in conjunction with the establishment at the end of June of a new joint venture company with AMD. As a result, sales by the Japan-based manufacturing JV to AMD were removed from our consolidated accounts. Excluding the effect of this removal, on the basis of continuing operations flash memory sales would actually have risen by 66% over fiscal 2002.

In addition, robust demand for PDPs and LCDs led to year-on-year sales increases of over 50% in both segments.

(Billion Yen)

	FY 2003	Change from FY 2002
Operating Income	27.5	59.1

Operating income in Electronic Devices made a significant turnaround, reaching 27.5 billion yen (US$260 million), an increase of 59.1 billion yen over the previous year's loss. Although there was a short-term slowdown in operations caused by an earthquake last May that damaged the Iwate plant, buoyant demand has significantly increased capacity utilization at all of our production facilities, resulting in improved profitability. In addition, PDP operations returned to profitability on a full-year basis, and all business segments achieved improvements in income.

Besides our joint venture with AMD in flash-memory operations, we have also established a new joint venture with Sumitomo Electric Industries for compound semiconductors, which commences operations this month. Last October, we consolidated four back-end semiconductor assembly companies into a single company, achieving greater production efficiency and reducing costs.

In fiscal 2003 we made the decision to build a new fab at our Mie plant to mass-produce chips using our advanced 90-nm process technology on 300-mm wafers. Sharing the risk with strategic partners, and investing in phases in accordance with changes in demand, we expect to greatly increase profits.

Also, with the goal of increasing production capacity to meet rising demand, we decided to invest in construction of a new production facility at Fujitsu-Hitachi Plasma Display's Miyazaki plant. By investing aggressively to increase production, we expect to reap even greater profits in PDPs.

4. Other

In May last year, we transferred all our shares in Kanda Tsushin Kogyo Co., Ltd., a company previously accounted for under the equity method, to a third party. In September, in a move aimed at strengthening our leasing business, we transferred a portion of the shares of Fujitsu Leasing to a third party; and in March of this year, FDK, which is primarily involved in the manufacture and sales of hybrid modules and batteries, received equity capital form a third-party, entailing a switch to equity-method accounting for this affiliate, as well.

3. Financial Condition

Assets, Liabilities and Shareholders' Equity

(Billion Yen)

	As of March 31, 2004	Change from March 31, 2003
Total assets (Cash and cash equivalents and short-term investments)	3,865.5 (416.9)	-359.7 (132.9)
Interest bearing loans	1,277.1	-486.6
Total shareholders' equity	827.1	124.7

Total assets at the end of fiscal 2003 were 3,865.5 billion yen (US$36,468 million), a reduction of 359.7 billion yen from the end of the previous fiscal year. The reduction in assets is a result of the switch to equity-method accounting for our flash memory operations and leasing affiliate, as well as the sale of marketable securities and other measures that we have pursued to improve asset efficiency.

We reduced total current assets by 56.0 billion yen from the end of the last fiscal year. Cash and cash equivalents and short-term investments increased by 132.9 billion yen. We had a 74.8 billion yen decline in inventories, and other current assets declined by 84.2 billion yen, primarily as a result of a decrease in lease receivables associated with the shift to the equity method of accounting for the leasing operation.

Total fixed assets decreased by 303.7 billion yen from the end of the prior fiscal year. Property, plant, and equipment less accumulated depreciation decreased by 187.5 billion yen, due in large part to the shift to the equity method of accounting for the flash memory operation and selectivity in making new capital investments. Investments and other assets decreased by 74.5 billion yen as a result of such factors as the sale of FANUC shares and the effect of the shift to the equity method of accounting for the leasing operation.

Total liabilities were 2,847.9 billion yen (US$26,867 million), a reduction of 460.4 billion yen compared to the end of the prior fiscal year. The reduction of 486.6 billion yen in interest bearing loans was accomplished as a result of improved profitability in business operations, as well as proceeds from the sale of marketable securities and by the shift to equity-method accounting for the leasing operation.

Total shareholders' equity increased by 124.7 billion yen, to 827.1 billion yen (US$7,804 million). As a result, the shareholders' equity ratio increased to 21.4%, surpassing the 20% mark for the first time in three years. This increase was attributable to increased profits in our business operations as well as a change to market value accounting for holdings in FANUC from the third quarter.

Summary of Cash Flows

(Billion Yen)

	FY 2003	Change from FY 2003
Cash flows from operating activities	304.0	186.2
Cash flows from investing activities	67.3	131.8
Free cash flow	371.4	318.0

Net cash provided by operating activities during the fiscal year was 304.0 billion yen (US$2,868 million). The earnings recovery in our business operations pushed operating cash flows back above the 300 billion yen level, an improvement of 186.2 billion yen compared to the prior fiscal year.

Net cash provided by investing activities was 67.3 yen (US$636 million). In addition to a decrease in the outflow of funds from investing activities due to greater selectivity in capital expenditures, there was inflow of funds from the sale of shareholdings as well as from sales of fixed assets.

Adding together the cash flows from operating activities and the cash flows from investing activities, free cash flow strongly rebounded, amounting to 371.4 billion yen (US$3,504 million), a portion of which was used to redeem corporate bonds and repay borrowings. Net cash provided by financing activities was negative 239.9 billion yen (US$2,263 million).

As a result, cash and cash equivalents stood at 413.8 billion yen (US$3,904 million) at the end of the period, 131.4 billion yen more than at year-end in fiscal 2002.

Financial Index

All of our key financial indices showed major improvement in fiscal 2003, and a number of them recorded even better results than in fiscal 2000, just before the bursting of the IT bubble.

With respect to profitability, operating margins rose to 3.2%, moving closer to the 4.4% level of fiscal 2000. Although shareholders' equity was about 400 billion yen lower than in fiscal 2000, we achieved a major improvement in our shareholders' equity ratio, raising it to 21.4% and approaching the 23.4% level recorded in fiscal 2000. There were also considerable improvements compared to fiscal 2000 in the areas of total assets and interest bearing liabilities. Total assets were reduced by 25% compared with the peak level in fiscal 2000, and efficiency increased significantly as the total assets turnover ratio improved from 1.07 times in fiscal 2000 to 1.18 times in fiscal 2003. Furthermore, the ending balance of interest bearing loans was reduced by more than 350 billion yen to 1,277.1 billion yen. And net interest bearing liabilities, defined as interest bearing liabilities minus cash deposits, dropped by nearly 500 billion yen from fiscal 2000 to fiscal 2003. Likewise, the D/E ratio, when calculated on the basis of net interest bearing liabilities, moved from 1.11 times in fiscal 2000 to 1.04 times in fiscal 2003, contributing to the stability of our balance sheets.

On the other hand, our net worth ratio at market value was 34.4%, just half that of the level in fiscal 2000, reflecting the fact that our stock price remained relatively undervalued. In fiscal 2004, we will continue to strengthen our earnings, further solidify our financial condition, and strive to raise our market valuation.

(Billion Yen)

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Net sales	5,255.1	5,484.4	5,006.9	4,617.5	4,766.8
Operating margin	2.9%	4.4%	-1.5%	2.2%	3.2%
Total assets	5,019.7	5,200.0	4,595.8	4,225.3	3,865.5
Total assets turnover ratio	(1.05 times)	(1.07 times)	(1.02 times)	(1.05 times)	(1.18 times)
Shareholders' equity	1,176.5	1,214.3	853.7	702.3	827.1
Shareholders' equity ratio	(23.4%)	(23.4%)	(18.6%)	(16.6%)	(21.4%)
Shareholders' equity ratio at market value	123.2%	63.5%	43.8%	15.2%	34.4%
Debt repayment period	3.6 years	2.7 years	5.7 years	15.0 years	4.2 years
Interest coverage ratio	9.6	12.2	7.1	3.9	13.0

(Billion Yen)

Interest bearing loans	1,725.0	1,636.2	1,760.6	1,763.7	1,277.1
Ending balance of net interest bearing loans	1,451.0	1,347.2	1,460.0	1,500.5	861.2
D/E ratio	1.47	1.35	2.06	2.51	1.54

(Billion Yen)

Cash flows from operating activities	477.0	596.4	306.5	117.7	304.0
Free cash flow	128.7	129.6	-102.8	53.3	371.4

(Note 1)

- Total assets turnover ratio: net sales / {(ending balance of total assets in current period + ending balance of total assets in previous period) / 2}
- Shareholders' equity ratio: balance of shareholders' equity / balance of total assets
- Shareholders' equity ratio at market value: total market capitalization / total assets
- Debt repayment period: balance of interest bearing loans / cash flows from operating activities
- Interest coverage ratio: cash flows from operating activities / interest paid
- Ending balance of net interest bearing loans: ending balance of interest bearing loans – ending balance of cash and cash equivalents
- D / E ratio: balance of interest bearing loans / balance of shareholders' equity

(Note 2) The above are all calculated based on consolidated financial data.

4. Management Direction

Our Basic Stance on the Company's Business Direction

Information technology has moved beyond the realm of business and is coming to permeate every aspect of our lives, rapidly extending convenience and bringing us closer to the time when ubiquitous networks will enable people to connect with anyone, anywhere and anytime. Amidst these trends, IT has also become increasingly central to our customers' business operations. Nowadays, customers do not simply look for suppliers of products and services when selecting vendors to build and operate their IT systems. Rather, they expect IT vendors to be true partners who, based on long-term relationships of mutual trust, can make appropriate proposals and implement them throughout the entire IT system lifecycle.

Fujitsu is in the business of providing total solutions comprising top-quality products and services based on leading-edge technologies offering superlative performance and reliability. The starting point for every action we take is with our customers. We use our detailed knowledge of their particular business environments and situations to contribute to their long-term growth by providing comprehensive, integrated solutions on an ongoing basis. Our goal is to help our customers grow – and to grow together with them – as a trusted partner.

Medium-Term Business Strategy and Priority Tasks

Although the IT sector is undergoing a modest recovery, we expect our business environment to remain tough, due to continued pricing pressures on products and services and other factors. Despite this challenging environment, we will strive to achieve steady gains in profitability and growth by intensifying our focus on customer-centric thinking and thorough implementation of measures to improve quality, timeliness, and speed. In addition, to solidify our customers' trust in us as their valued business partner, we will work to further strengthen our financial condition.

Specifically, starting from fiscal 2004 we will marshal the collective efforts of the entire Fujitsu group in pursuit of four key challenges: 1) reinforcing our existing businesses, 2) seizing new opportunities for growth, 3) fundamentally reforming our organization, and 4) innovating our management systems and approach.

(1) <u>Reinforcing our existing businesses</u>

In order to create a business structure that can ensure profitability even amidst a difficult market environment, we will work to bolster the competitiveness of our products and reform our business processes, as well as reexamine the structure of our business operations and product lines.

In the solutions area, we will further strengthen the links between our Software & Services and Platforms groups and develop products revolving around TRIOLE, our new optimized IT infrastructure. In Electronic Devices, we have decided to invest in constructing a new 300mm wafer fab for mass-producing leading-edge logic chips, in order to support and exploit further business opportunities utilizing our world-class high-performance 90-nanometer process technology.

In addition, we will strive to strengthen our business structure by reforming business processes in every group – including design, development, manufacturing, systems engineering and sales functions – aimed at improving quality, ensuring on-time delivery and reducing costs. In particular, with respect to manufacturing innovation, along with continuing the company-wide movement to revolutionize our manufacturing activities, which has already produced successful results, we will work to ensure that our development groups are building in quality and cost considerations from the earliest design stages. In software development as well, we will deploy our renewed SDAS comprehensive systems development framework to further shorten development times and improve quality. At the same time, we will pursue various measures to enhance project visibility and management, utilizing our business risk management structure and percentage of completion accounting under international accounting standards, and thereby reform our business structure.

Furthermore, we will strengthen profitability management for operations and projects and align our business to those fields and products in which we can be most competitive.

(2) Seizing new opportunities for growth

We will boost our efforts in three market areas that we believe offer particular opportunities for growth going forward: ubiquitous networking-related fields, small and mid-size businesses in Japan, and overseas markets.

In the ubiquitous networking-related market, we will differentiate ourselves through our ability to offer total solutions that capitalize on the synergies between our leading-edge electronic devices and software & services capabilities. With respect to small and mid-size businesses, we will enhance our product lineup and renew our sales channels to take advantage of growing demand for IT being driven by the expansion of networks. Overseas, in addition to strengthening our software & services business structure we will make concerted efforts to further globalize our product businesses.

(3) <u>Fundamentally reforming our organization</u>

In Japan, to strengthen our responsiveness to the customer throughout the business lifecycle, we have brought together our systems engineering and sales organizations to create customer-centric teams, and designated systems engineer liaisons for specific customers. These moves are intended to make Fujitsu's organization simpler and easier to understand from the customer's perspective. Going forward, we plan to further integrate our sales and systems engineering departments and reform our business formation, including group companies, to enhance the customer-centric nature of our organization.

Overseas as well, we are reviewing the roles of each of our group companies in our major regional markets (North America, Europe, Asia-Pacific) and working to realize the goals of our "One Fujitsu" initiative by building a business structure that will enable us to provide high-quality one-stop solutions in each market.

(4) <u>Innovating our management systems and approach</u>

We are also boldly revising our management systems and structures in order to be able to respond to market and customer changes. In regard to research and development, we will reform our research theme selection processes and strengthen our intellectual property strategies in order to tighten alignment with our business operations. To meet these challenges, we will further cultivate our human resources through enhanced training and other measures.

In addition to the above measures, improving the company's financial position will continue to be a top management priority. Besides ongoing efforts to increase the profitability of our core businesses, we will strive to make even more efficient use of assets to put the company on a firmer financial footing.

Addressing these issues through unflagging effort and determination, we will continually aim to serve as a trusted partner to our customers and carry out business reforms so that we, as a leading global company, can contribute to building an affluent, networked economy.

Corporate Governance: Our Basic Position and Status of Initiatives

<u>1. Basic Position</u>

Fujitsu believes that ensuring the transparency and effectiveness of corporate management for shareholders and other stakeholders is essential for good corporate governance. In order to do so, we utilize outside directors and separate management oversight and operational execution functions. We believe that clear separation of these two functions helps to ensure management transparency and efficiency.

2. Status of Initiatives

(1) Management organization regarding business decisions, operational execution and oversight, and other structural issues regarding corporate governance

Fujitsu's Board of Directors carries out a management oversight function, supervising the execution functions of the Management Strategy Council and the Management Council under its authority.

As an executive organ, the Management Strategy Council discusses and decides upon fundamental policies and strategy regarding business management. The Management Council makes decisions on important matters regarding operational execution. The Board of Directors makes decisions on items of particular importance on the agendas of the two councils. Statutory auditors carry out an auditing function, reviewing the Board of Directors as well as operational execution functions.

The Board of Directors is composed of nine internal directors and one outside director, for a total of 10 members. There are five statutory auditors: two standing auditors and three outside auditors.

(2) Initiatives to strengthen corporate governance during the last year

In fiscal 2002, in order to separate the management oversight and operational execution functions, Fujitsu introduced a Corporate Executive Officer system and made a major reduction in the size of the Board of Directors, reducing the number of directors from 32 to 7. In fiscal 2003, although the total number of directors was increased from 7 to 10, we continued the general policy of maintaining a relatively streamlined Board of Directors.

The rationale for increasing the number of directors was to promote vigorous debate through the participation of a sufficient number of directors having a full grasp of the actual operations of the company. Directors who are also corporate executive officers have the dual responsibility of reporting to the Board on the operations they manage as corporate executive officers and, at the same time, considering the perspective of the overall management of the company in their roles as directors.

At the General Shareholders Meeting in June 2003, Hiroshi Oura (Chairman of the Board and CEO, Advantest Corporation) was selected as director to replace Toshihiko Fukui, who resigned in March 2003 to become Governor of the Bank of Japan. Although Mr. Oura previously served as an officer of Fujitsu and thus does not qualify as an outside director under the definition of Japan's Commercial Code, he, along with outside director Kunihiko Sawa (President and CEO, Fuji Electric Co., Ltd.), as non-executive directors, help to bring an objective perspective to the task of management oversight.

Additionally, the company's Risk Management Committee, which was established in fiscal 2002, monitors on an ongoing basis the variety of risks to which the company is exposed and develops strategies to mitigate them. The Committee reports serious risk-related issues to the Management Council and to the Board of Directors so that countermeasures can be thoroughly considered. Through these and other measures, we have been working to strengthen the risk management structure for the entire Fujitsu Group.

5. FY 2004 Earnings Projections

In fiscal 2003, technological breakthroughs in digital electronics products – particularly those emanating from Japan – were a major driving force in the recovery of the Japanese and world economies.

In fiscal 2004 as well, the upcoming summer Olympic Games in Athens and the commencement of regular terrestrial digital broadcasting are expected to spur even further growth in demand for digital equipment, next-generation mobile phones and other products. Along with the rapid progress in digitalization, these developments are moving us closer to the dawn of a full-fledged ubiquitous networking era. These advances in information technology are creating rapid changes in the social and economic infrastructure, which in turn are causing major shifts in our customers' business environments, and this is significantly affecting the nature of customers' investments in IT itself.

As a company uniquely positioned to provide total solutions encompassing everything from servers, storage systems and broadband infrastructure to solutions, systems integration and outsourcing services, Fujitsu strongly believes that demand for its products and services will increase in the mid to long term.

On the other hand, with the further globalization of manufacturing and procurement accompanying technological progress, price competition will also intensify on a global basis, not only for hardware products but for software and services as well. In order to properly meet customer requirements and ensure our own profitability, we must maximize the efficiency of both our hardware production and software and services development activities, continually ensuring that our cost reduction and expense trimming efforts exceed the pace of price reductions in the marketplace. In fiscal 2004 and beyond, we will further strengthen company-wide initiatives to innovate our manufacturing activities and deploy our renewed SDAS comprehensive systems development framework, as well as vigorously pursue other measures aimed at improving quality, ensuring timely delivery, and strengthening our overall cost-competitiveness.

In fiscal 2003 we carried out a restructuring of our global business organization, with a particular focus on North American operations, and also began a comprehensive review of our domestic Software & Services business structure. These measures were aimed at building a structure that will enable us to provide high-quality one-stop solutions to customers around the world. In fiscal 2004, on top of the benefits of these restructuring measures, we will actively pursue further alliances with other companies in leading-edge fields and provide a variety of solutions utilizing our leading-edge technologies to the global marketplace. Furthermore, utilizing percentage of completion accounting, we will improve project visibility in our Software & Services business and work to unify our global business structure in order to build even deeper bonds of trust with our customers.

Based on the foregoing, at this time we make the following earnings projections for fiscal 2004.

Fujitsu Limited Consolidated Earnings Forecast for Fiscal 2004

(Billion Yen)

	Half Year			Full Year		
	FY 2003	FY2004	Change	FY 2003	FY2004	Change
Net Sales	2,141.9	2,250	+5.0%	4,766.8	4,950	+3.8%
Operating Income	-17.9	10	-	150.3	200	+33.0%
Net Income	-58.5	-25	-	49.7	70	+40.8%

Due to uncertainties relating to changes in demand for products and components in key markets (Japan, U.S., Europe, etc.), currency exchange rate fluctuations, Japan and U.S. stock market conditions, and other factors, actual results may vary substantially from projections above.

Part III: Supplementary Information

1. Forecasts for FY 2004

a. Consolidated Business Segment Information

(1) Sales to Unaffiliated Customers

		Yen (billions) FY 2002	Yen (billions) FY 2003	Change (%) FY 02 to FY 03	Yen (billions) FY 2004 (Forecast)	Change (%) FY 03 to FY 04
Software & Services	Japan	Y 1,506.8	Y 1,580.8	+4.9	**Y 1,590.0**	+0.6
	Overseas	518.9	513.4	-1.1	**530.0**	+3.2
	Total	Y 2,025.7	Y 2,094.2	+3.4	**Y 2,120.0**	+1.2
Platforms	Japan	1,159.9	1,150.4	-0.8	**1,240.0**	+7.8
	Overseas	452.1	457.7	+1.2	**520.0**	+13.6
	Total	1,612.0	1,608.1	-0.2	**1,760.0**	+9.4
Electronic Devices	Japan	299.6	378.4	+26.3	**460.0**	+21.5
	Overseas	319.0	355.8	+11.5	**370.0**	+4.0
	Total	618.6	734.3	+18.7	**830.0**	+13.0
Financing	Japan	119.2	50.3	-57.8	-	-
	Overseas	-	-	-	-	-
	Total	119.2	50.3	-57.8	-	-
Other Operations	Japan	195.0	218.1	+11.9	**200.0**	-8.3
	Overseas	46.8	61.6	+31.5	**40.0**	-35.1
	Total	241.8	279.7	+15.7	**240.0**	-14.2
Total	Japan	Y 3,280.6	Y 3,378.2	+3.0	**Y 3,490.0**	+3.3
	Overseas	1,336.9	1,388.6	+3.9	**1,460.0**	+5.1
	Total	Y 4,617.5	Y 4,766.8	+3.2	**Y 4,950.0**	+3.8

(2) Sales to Unaffiliated Customers by Products and Services

		Yen (billions) FY 2002	Yen (billions) FY 2003	Change (%) FY 02 to FY 03	Yen (billions) FY 2004 (Forecast)	Change (%) FY 03 to FY 04
Software & Services	Solutions/SI	Y 940.5	Y 970.0	+3.1	**Y 940.0**	-3.1
	Infrastructure Services	1,085.2	1,124.2	+3.6	**1,180.0**	+5.0
	Total	Y 2,025.7	Y 2,094.2	+3.4	**Y 2,120.0**	+1.2
Platforms	Servers	Y 382.8	Y 365.6	-4.5	**Y 395.0**	+8.0
	Mobile Infrastructure/ IP network	189.7	207.2	+9.2	**190.0**	-8.3
	Transmission Equipment	180.0	167.4	-7.0	**200.0**	+19.5
	PCs & Mobile Telephones	655.5	680.9	+3.9	**740.0**	+8.7
	Others	204.0	187.0	-8.3	**235.0**	+25.7
	Total	Y 1,612.0	Y 1,608.1	-0.2	**Y 1,760.0**	+9.4
Electronic Devices	Semiconductors	Y 349.3	Y 403.9	+15.6	**Y 430.0**	+6.5
	Others	269.3	330.4	+22.7	**400.0**	+21.1
	Total	Y 618.6	Y 734.3	+18.7	**Y 830.0**	+13.0

(3) Net Sales including Intersegment Sales

		Yen (billions) FY 2002	FY 2003	Change (%) FY 02 to FY 03	Yen (billions) **FY 2004 (Forecast)**	Change (%) FY 03 to FY 04
Software & Services	Unaffiliated customers	Y 2,025.7	Y 2,094.2	+3.4	**Y 2,120.0**	+1.2
	Intersegment	72.1	52.1	-27.8	**40.0**	-23.2
	Total	Y 2,097.9	Y 2,146.3	+2.3	**Y 2,160.0**	+0.6
Platforms	Unaffiliated customers	1,612.0	1,608.1	-0.2	**1,760.0**	+9.4
	Intersegment	231.2	224.7	-2.8	**160.0**	-28.8
	Total	1,843.2	1,832.8	-0.6	**1,920.0**	+4.8
Electronic Devices	Unaffiliated customers	618.6	734.3	+18.7	**830.0**	+13.0
	Intersegment	68.8	70.3	+2.3	**70.0**	-0.5
	Total	687.4	804.6	+17.1	**900.0**	+11.8
Financing	Unaffiliated customers	119.2	50.3	-57.8	**-**	-
	Intersegment	9.1	4.0	-56.0	**-**	-
	Total	128.4	54.4	-57.6	**-**	-
Other Operations	Unaffiliated customers	241.8	279.7	+15.7	**240.0**	-14.2
	Intersegment	137.0	138.5	+1.1	**100.0**	-27.8
	Total	378.9	418.2	+10.4	**340.0**	-18.7
Elimination		(518.4)	(489.7)	-	**(370.0)**	-
Total		Y 4,617.5	Y 4,766.8	+3.2	**Y 4,950.0**	+3.8

(4) Operating Income (Loss) including Intersegment Transactions
[Operating margin]

	Yen (billions) FY 2002	FY 2003	Change FY 02 to FY 03	Yen (billions) **FY 2004 (Forecast)**	Change FY 03 to FY 04
Software & Services	Y 176.5	Y 138.7	-37.7	**Y 170.0**	+31.2
.	[8.4%]	[6.5%]	[-1.9%]	[7.9%]	[1.4%]
Platforms	0.9	29.2	+28.2	**45.0**	+15.7
	[0.1%]	[1.6%]	[+1.5%]	[2.3%]	[+0.7%]
Electronic Devices	(31.6)	27.5	+59.1	**50.0**	+22.4
	[(4.6%)]	[3.4%]	[+8.0%]	[5.6%]	[+2.2%]
Financing	4.3	2.0	-2.3	**-**	-2.0
	[3.4%]	[3.7%]	[+0.3%]	[-%]	[-%]
Other Operations	10.0	13.6	+3.6	**10.0**	-3.6
	[2.6%]	[3.3%]	[+0.7%]	[2.9%]	[-0.4%]
Elimination	(59.7)	(60.8)	-1.0	**(75.0)**	-14.1
Total	Y 100.4	Y 150.3	+49.9	**Y 200.0**	+49.6
	[2.2%]	[3.2%]	[+1.0%]	[4.0%]	[+0.8%]

b. PC Shipments

(1) By Customer's Geographic Location

(Million Units)

	FY 2002	FY 2003	**FY 2004 (Forecast)**
Japan	2.47	2.58	**2.75**
Overseas	3.21	3.96	**4.36**
Total	5.68	6.54	**7.11**

(2) By Product Category

(%)

	FY 2002	FY 2003	**FY 2004 (Forecast)**
Desktop	47	46	**46**
Notebook	53	54	**54**

c. Mobile Phone Shipments

(Million Units)

FY 2002	FY 2003	**FY 2004 (Forecast)**
3.34	3.37	**4.00**

d. HDD Production

(Million Units)

FY 2002	FY 2003	**FY 2004 (Forecast)**
8.76	12.47	**18.50**

e. Electronic Devices

(1) Net Sales of Semiconductors

(Billion Yen)

	FY 2002	FY 2003	**FY 2004 (Forecast)**
	398.3	453.4	**480.0**
[Internal use]	[49.0]	[49.5]	**[50.0]**

(2) Composition of Net Sales by Product Category (Semiconductors)

(%)

	FY 2002	FY 2003	**FY 2004 (Forecast)**
Logic	57	63	**72**
System memory	36	31	**28**
Compound semiconductor and others	7	6	**-**

(3) Composition of Capital Expenditure

(Billion Yen)

	FY 2002	FY 2003	**FY 2004 (Forecast)**
Total	60.9	59.3	**90.0**
[Semiconductors]	[38.0]	[30.1]	**[50.0]**
[PDP]	[4.2]	[10.7]	**[19.0]**

f. R&D Expenditure

	Yen (billions) FY 2002	FY 2003	Change (%) FY02 to FY03	Yen (billions) **FY 2004 (Forecast)**	Change (%) FY03 to FY04
	285.7	250.9	-12.2	**265.0**	+5.6
As % of Sales	6.2%	5.3%		**5.4%**	

g. Capital Expenditures, Depreciation

	Yen (billions) FY 2002	FY 2003	Change (%) FY02 to FY03	Yen (billions) **FY 2004 (Forecast)**	Change (%) FY03 to FY04
Capital Expenditures					
Software & Services	38.8	54.0	+39.2	**70.0**	+29.5
Platforms	36.7	32.4	-11.7	**50.0**	+54.2
Electronic Devices	60.9	59.3	-2.6	**90.0**	+51.7
Corporate and others	11.1	13.9	+25.3	**25.0**	+78.9
Total	147.6	159.7	+8.2	**235.0**	+47.1
Japan	125.6	135.3	+7.7	**185.0**	+36.7
Overseas	21.9	24.4	+11.5	**50.0**	+104.4
Depreciation	264.6	200.0	-24.4	**195.0**	-2.5

h. Consolidated Statements of Cash Flows

(Billion Yen)

	FY 2002	FY 2003	**FY 2004 (Forecast)**
(A) Cash flows from operating activities	117.7	304.0	**370.0**
[Net income]	[(122.0)]	[49.7]	**[70.0]**
[Depreciation *]	[343.2]	[292.9]	**[270.0]**
[Others]	[(103.4)]	[(38.6)]	**[30.0]**
(B) Cash flows from investing activities	(64.4)	67.3	**(270.0)**
(C) Free cash flows (A)+(B)	53.3	371.4	**100.0**
(D) Cash flows from financing activities	(67.2)	(239.9)	**(230.0)**
(E) Total (C)+(D)	(13.8)	131.5	**(130.0)**

Note: * Including amortization of goodwill

2. Exchange Rates

(1) Average Rates

FY 2002	FY 2003
$1=122 yen	$1=113 yen

(2) Forecast Average Rates for FY 2004

1st Half	2nd Half
$1=110 yen	$1=110 yen

3. Employees

(Thousands)

	2003/3/31	**2004/3/31**
Japan	109	**105**
[Parent Company]	[35]	**[35]**
Overseas	48	**51**
	157	**156**

4. Retirement Benefit Plan

(1) Itemization of Unrecognized Obligation, etc.

(as of March 31, 2004, consolidated domestic accounts)

	Yen (billions)
a. Projected benefit obligation	(1,210.0)
b. Plan assets	800.0
[plan assets for retirement benefit plan stock holding trust]	[205.0]
c. Accrued retirement benefits	80.0
d. Prepaid pension cost	(105.0)
Unrecognized obligation (a+b+c+d)	(435.0)
Breakdown of total	
i. Unrecognized net obligation at transition	(100.0)
ii. Unrecognized actuarial loss	(335.0)
iii. Unrecognized prior service cost (reduced obligation)	-
Unrecognized obligation (i+ii+iii)	(435.0)

Regarding its employees' pension plan, in response to the enactment of the law on defined-benefit pension plans, Fujitsu applied for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion and on March 23, 2004, received approval of the exemption from the Minister of Health, Labor and Welfare. Applying the transitional provisions as prescribed in paragraph 47-2 of "Practical Guidelines of Accounting and Retirement Benefits – Interim Report" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants), Fujitsu accounted for the elimination of the future and past benefit obligations of the substitutional portion as well as the related government-specified portion of the employees' pension plan assets at the date of the approval.

As a result, for FY 2003 the company recorded an extraordinary gain of 146.5 billion yen on a consolidated basis and 81.3 billion yen on an unconsolidated basis.

At the end of FY 2003, the returned equivalent value of the company's pension assets was 320.0 billion yen.

(2) Basis for Tabulating Projected Benefit Obligation

a. Discount rate	3.0% (at March 31, 2003) 2.5% (at March 31, 2004)
b. Amortization period for net obligation at transition	10 years (one-time amortization for parent company)
c. Method of allocating actuarial loss	Straight-line method over employees' average remaining employment period starting from next period
d. Method of allocating prior service obligation	Straight-line method over 10 years

(3) Analysis of Change in Unrecognized Obligation

	Yen (billions)
a. Unrecognized obligation at March 31, 2003	(771.2)
b. Unrecognized obligation at March 31, 2004	(435.0)
Change (b-a)	336.2
Breakdown of the change	
i. Amortization of unrecognized obligation in FY 2003	56.9
ii. One-time amortization of unrecognized obligation of the substitutional portion	126.3
iii. Discount rate revision (3.0% to 2.5%)	(100.0)
iv. Decrease of actuarial loss due to rising share prices, etc.	253.0
Total (i+ii+iii+iv)	336.2

5. Environmental Accounting

a. Cost/Benefit Trends

(Billion Yen)

	FY 2001		FY 2002		FY 2003		FY 2004 (Forecast)	
	Costs	Benefits	Costs	Benefits	Costs	Benefits	Costs	Benefits
Fujitsu Limited	7.7	12.3	7.9	8.8	7.9	10.3	8.5	11.2
Affiliated companies	11.0	12.0	11.0	12.2	11.1	13.6	11.1	14.4
Total	18.7	24.3	18.9	21.0	19.0	23.9	19.6	25.6

b. Itemization of Fiscal Year 2003 Results [*1]

(Billion Yen)

Costs	Item	Fujitsu Limited	Affiliated companies	Total
Business area costs				
Pollution prevention costs	Costs incurred to prevent air pollution and water contamination (fees for water treatment facilities) and other activities	2.9	2.6	5.5
Global environmental conservation costs	Costs of energy-saving measures, as well as costs of global warming reduction measures	0.9	2.7	3.6
Resource circulation costs	Costs incurred for waste reduction and disposal, as well as for water conservation, rainwater usage and other measures aimed at efficient resources usage	1.4	2.0	3.4
Upstream/downstream costs	Costs of lowering the environmental burden imposed upstream and downstream by manufacturing and service activities (costs incurred for recycling /reuse of waste products and packaging, Green Procurement, etc.)	0.1	0.7	0.8
Administration costs	Management-related environmental protection costs, including personnel expenses for environmental promotion activities and costs associated with acquiring and maintaining ISO14001 certification, measuring environmental burden, greenification programs, environmental reporting and environmental publicity	2.1	1.6	3.7
R&D/solutions business costs	Environmental protection costs for R&D activities and costs of environmental solutions business activities (Green Product/environmental technology design and development costs, environmental solutions business costs, others)	0.4	1.5	1.9
Social activities costs	Environmental protection costs stemming from participation in social activities, such as participation in organizations concerned with environmental preservation	0.0	0.0	0.0
Environmental Remediation costs	Costs of environmental restoration operations (eliminating soil and groundwater contamination, environmental compensation, etc.)	0.1	0.0	0.1
Total		7.9	11.1	19.0

(Continued)

(Billion Yen)

Benefits	Item	Fujitsu Limited	Affiliated companies	Total
Business area benefits				
Pollution prevention benefits	Stemming from failure to observe environmental laws and regulations as well as contribution of environmental protection activities to value added*2 in manufacturing	3.9	5.6	9.5
	Savings from avoidance of operating losses*3	0.1	0.5	0.6
Global environmental conservation benefits	Cost savings from reductions in electricity, oil and gas consumption*4	1.7	1.0	2.7
Resource circulation benefits	Cost savings from reduction and effective use of waste*4	2.6	4.6	7.2
Upstream/downstream benefits	Sales value of recycled and reused products*4	0.0	0.9	0.9
Administration benefits	Efficiency enhancement through ISO14001 system implementation, effects of employee training, corporate image enhancement from environment-related publicity	0.4	0.4	0.8
R&D/Solutions business benefits	Contribution to sales made by Green Products, other eco-friendly products and the environmental solutions business	1.0	0.6	1.6
Environmental remediation benefits	Savings of compensation payments to residents for groundwater and soil contamination*5	0.6	0.0	0.6
Total		10.3	13.6	23.9

*1 Classification system is in accordance with "Environmental Accounting Guidelines 2002" issued by Japan's Ministry of the Environment.
*2 Avoidance of operating losses: value added/days of operation x days lost
*3 Contribution of environmental protection activities in relation to value added: value added x maintenance and management costs for environmental facilities/total generated costs
*4 Actual Benefit
*5 Estimate of risk avoidance assuming such events arise

c. Comment

In FY 2003, resource recycling benefits increased compared with the previous year due to the implementation of new resource saving activities (Green Process Activities). The total benefit for the whole group was 23.9 billion yen. Regarding FY 2004, Fujitsu projects consolidated environmental costs of 19.6 billion yen and benefits of 25.6 billion yen due to production increases, expansion of resource saving activities, benefits of super-green products, and other factors.

d. Third Party Audit

This information is being released following completion of an audit of Fujitsu's FY 2003 environmental accounting by Shin Nihon Environmental Management and Quality Research Institute. Information on the improvement indicator, which shows the relationship between environmental impact and the cost of environmental protection measures, will be released separately.