3. First-Quarter Results by Business Segment

Information on net sales to unaffiliated customers and operating income for the first quarter broken out by business segment is presented below.

1) Software & Services

	First Quarter FY 2004	Change from Same Period Last Year
Net Sales	¥384.5 billion	+ 0.3 %
Japan	*¥266.1 billion*	*0.0 %*
Overseas	*¥118.3 billion*	*+ 0.9 %*

Net Sales by Sub-Segment

	First Quarter FY 2004	Change from Same Period Last Year
Solutions / SI	¥146.7 billion	- 5.2 %
Infrastructure Services	¥237.8 billion	+ 4.1 %

Net sales in Software & Services were 384.5 billion yen (US$3,528 million), up only 0.3% from the first quarter a year earlier. Excluding the impact of last year's restructuring of operations in North America, net sales increased 1.8%. Although price competition in Japan remains severe, overall IT spending is experiencing a mild rebound.

In Solutions/Systems Integration, excluding factors such as last year's restructuring of operations in North America, sales were roughly at the same level as the first quarter of last year. In Infrastructure Services, on the other hand, the large-scale public sector outsourcing contracts received last year by Fujitsu Services in the UK are starting to gradually contribute to sales, and overall sales in this business increased 4.1% over the previous year. Also in the first quarter, Fujitsu Services won an important new large-scale outsourcing contract from the National Health Service in the UK.

(Billion Yen)

	First Quarter FY 2004	Change from Same Period Last Year
Operating Income (Loss)	(10.9)	- 7.3

Software & Services posted an operating loss for the quarter of 10.9 billion yen (US$101 million), representing a 7.3 billion yen decline in operating income compared to the first quarter of the previous year.

As a result of business restructuring initiatives implemented last year, our overseas business in this segment was profitable. However, in Japan the combination of a number of factors led to a higher operating loss. First-quarter sales in Japan tend to be lower than in other quarters, and this was the case again in this period. In addition, intensified price competition from last year continued, there were some projects whose profitability deteriorated, and we incurred higher expenses associated with forward-looking investments in Linux and other activities to open new markets. We expect to maintain our current earnings plan for the full year.

Please note that first-quarter earnings are not based on the percentage of completion method. With respect to projects whose profitability worsened in the first quarter, we are immediately recognizing projected losses. Of the 68.3 billion yen charge we took in fiscal 2003 to cover potentially uncollectible accounts, projects completed or delivered in the first quarter of fiscal 2004 accounted for 3.0 billion yen.

On June 23 of this year, we reorganized our sales and systems engineering groups, which had been separate entities since the full-fledged start of our solutions business, unifying and realigning them along industry and regional lines based on the principle of maintaining a customer-centric perspective. In the past, the sales group focused on orders and sales, while systems engineering took responsibility for profitability. Now, the groups are combined under a single authority responsible for both sales and profits. At present, we are working not only to resolve problematic projects whose profitability has worsened but are thoroughly reviewing our project management procedures for all existing projects and bolstering our customer relationships. In so doing, we will steadily improve customer satisfaction and move to a healthier business structure that can ensure an appropriate level of profits.

In addition, as a result of the sweeping global organizational improvements we implemented last fiscal year, we now have in place a clearly aligned structure for handling customers in each region, focusing on Fujitsu Consulting in North America, Fujitsu Services in Europe, and Fujitsu Limited in Japan, China and the rest of Asia, as well as strengthening intra-regional links within the group. Going forward, we intend to enhance our ability to service the needs of Japan-based customers' global business expansion while bringing the full strengths of the group to bear in servicing the needs of global corporations based in North America and Europe.

To further enhance the support we provide for lifecycle management of customers' IT systems, we will convert our core systems support and outsourcing operation, Fujitsu Support and Service, into a wholly owned subsidiary from October. By consolidating call centers and other maintenance functions within this company, we will be able to more efficiently allocate resources, speed responsiveness to customers and provide enhanced onsite operational support services, thereby providing comprehensive solutions from system delivery through operations that closely match customers' requirements.

2) Platforms

	First Quarter FY 2004	Change from Same Period Last Year
Net Sales	¥359.4 billion	+ 15.1 %
Japan	*¥248.8 billion*	*+ 15.2 %*
Overseas	*¥110.6 billion*	*+ 15.1 %*

Net Sales by Sub-Segment

	First Quarter FY 2004	Change from Same Period Last Year
Server-related	¥75.0 billion	+ 15.2 %
Mobile / IP Networks	¥43.9 billion	+ 17.4 %
Transmission Systems	¥39.4 billion	+8.2 %
PCs / Mobile Phones	¥152.2 billion	+ 8.7 %
HDD-related	¥48.9 billion	+ 46.8 %

Net sales in the Platforms segment were 359.4 billion yen (US$3,298 million), an increase of 15.1% over the same period last year. Sales increased sharply compared to the same period last year both in Japan and overseas, as well as across all product categories. This reflected a recovery in IT spending during this quarter, and the impact on sales in the first quarter of last year relating to the transition to new products being launched then.

Sales of UNIX servers and mainframes for mission-critical enterprise systems increased, as did sales of financial terminals able to accommodate new Japanese banknotes. With the spread of 3G mobile phones and broadband networks, there were also higher sales of mobile network base stations and transmission systems to handle the increase in data loads. PC sales were impacted by declining prices, but the strong growth since last year's second quarter in hard disk drives – particularly those for notebook PCs – continued, with significantly higher sales compared to the same period last year.

(Billion Yen)

	First Quarter FY 2004	Change from Same Period Last Year
Operating Income (Loss)	(7.0)	+ 12.3

We recorded an operating loss of 7.0 billion yen (US$65 million) in the Platforms segment, an improvement of 12.3 billion yen over the comparable period last year. Although products such as servers and PCs continued to face declining prices, this impact was offset by higher sales from unit volume increases as well as progress in cost efficiencies from manufacturing reforms, resulting in a significant improvement in operating income compared to the previous year.

To strengthen and develop our business on a worldwide basis as a leading global IT vendor, we pursued further strategic alliances with key global partners in the fundamentally important field of servers.

In UNIX servers, we reached an agreement to partner with Sun Microsystems in jointly developing future generation products centering on our device technology, with the first products scheduled to be launched in 2006 and marketed under a unified brand through each company's sales channels. It is also planned that prior to 2006 Sun will sell our existing servers.

In the field of Intel Architecture (IA) servers, in addition to our ongoing collaboration with Intel, we enhanced our cooperation with Microsoft, reaching an agreement to use Microsoft's next operating system in our next-generation mission-critical IA server, which is scheduled to launch in 2005.

Our objective in pursuing these types of alliances with leading global corporations is to secure product development and support efficiencies as servers move more toward open standards and to leverage the mission-critical technology we have developed as a leading mainframe vendor to strengthen our overall server business.

In addition, we will extend our TRIOLE IT infrastructure model, which is already being rolled out in Japan, to overseas markets, thereby advancing our comprehensive global IT solutions business – from hardware to software.

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

3) Electronic Devices

	First Quarter FY 2004	Change from Same Period Last Year
Net Sales	¥203.9 billion	+ 25.4 %
Japan	*¥108.5 billion*	*+ 43.5 %*
Overseas	*¥95.3 billion*	*+ 9.6 %*

Net Sales by Sub-Segment

	First Quarter FY 2004	Change from Same Period Last Year
Semiconductors	¥110.3 billion	+ 22.1 %
Other	¥93.6 billion	+ 29.5 %

Net sales of Electronic Devices were 203.9 billion yen (US$1,871 million), a 25.4% gain over the first quarter the year before. Adjusting for the accounting impact of transferring our compound semiconductor business to a joint venture with Sumitomo Electric Industries in April of this year (entailing a switch to equity method accounting) and the loss of revenues associated with the reorganization of our Flash memory operations at the end of June of last year, sales would have increased by the high rate of 45.0%

The steep rise in sales was attributable to continued strong demand for logic chips and Flash memory used in mobile phones and digital AV equipment, as well as strong demand for plasma display panels and liquid crystal displays in advance of this summer’s Athens Olympics.

(Billion Yen)

	First Quarter FY 2004	Change from Same Period Last Year
Operating Income	23.8	+ 30.0

Electronic Devices posted a fourth straight profitable quarter, with operating income of 23.8 billion yen (US$219 million). Last year's first-quarter results were affected by such factors as an earthquake that temporarily limited production operations, resulting in an operating loss, but capacity utilization rates have remained high since the second quarter of last year. As a result, compared to the previous year, operating income improved sharply, rising by 30.0 billion yen.

In April we started construction according to plan on a new facility at our Mie Plant to mass-produce logic chips utilizing state-of-the-art 90- and 65-nanometer volume process technology on 300mm wafers. Going forward, in line with internal needs we will strengthen our collaboration with strategic partners and, undertaking facilities expansion in phases, work to minimize risk and maximize earnings and cash flow.

4) Other

On June 1 of this year, we sold our logistics subsidiary to the Japanese subsidiary of UK-based Exel. Through collaboration with Exel, we will continue to improve our global distribution network, deploy more sophisticated supply chain management, and strive to ensure more timely supply of products to customers around the world.

*Note: Yen figures are converted to US dollars for convenience only at a uniform rate of $1 = 109 yen.