

Fujitsu Reports FY 2003 Third-Quarter Financial Results

Net Sales Up 5%, All Segments Post Operating Profit

Tokyo, January 29, 2004 - Fujitsu Limited, a leader in customer-focused IT and communications solutions for the global marketplace, today reported consolidated net sales of 1,068.2 billion yen (approximately US\$9.9 billion*) for the third quarter of fiscal year 2003 (October 1 – December 31, 2003), a 5.0% increase over the third quarter of fiscal 2002. The company posted higher year-over-year third-quarter sales in each of its main business segments – Software & Services, Platforms, and Electronic Devices. In addition to strong sales of semiconductors and other electronic devices, sales of new server and storage system models contributed to the positive results. Higher sales and the effects of cost cutting initiatives combined to produce an operating profit of 10.1 billion yen (US\$95.2 million) for the third quarter, with all three business segments posting an operating profit for the quarter.

Non-operating items such as pension obligation expenses were offset by a significant gain on sales of marketable securities resulting from further sales of the company's shares in FANUC Ltd.** Consolidated net income for the quarter was 7.6 billion yen (US\$71.5 million), compared to a net loss of 24.9 billion yen a year ago.

The positive results across all of its business segments in the third quarter indicate that Fujitsu is on course to achieving a fundamental strengthening of its profitability. The company left unchanged its previous full-year projections for net sales, operating income, and net income.

* All yen figures have been converted to U.S. dollars for convenience only at a uniform rate of \$1 = 107 yen.

** Please see attachment regarding the effects of the sales of FANUC shares.

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Overview of Third-Quarter Consolidated Financial Results

(Billion Yen)

	Third Quarter FY 2003	Third Quarter FY 2002	Change
Net Sales	1,068.2	1,017.6	+ 50.5 (+ 5.0%)
Operating Income	10.1	- 13.1	+ 23.3 (--)
Net Income	7.6	- 24.9	+ 32.5 (--)

Net sales in the third quarter were 1,068.2 billion yen, an increase of 5.0% over the same period in the previous year. It was the second consecutive quarter of year-over-year sales growth, following the 3.1% rise in sales in the second quarter.

Against the backdrop of a global recovery in IT spending, Fujitsu saw increased sales of new server and storage system models in global markets, as well as major server system wins, contributing to the overall rise in sales. Worldwide demand for solutions/systems integration and outsourcing was solid. In addition, Fujitsu posted higher sales of financial terminals able to accommodate new Japanese banknotes, as well as a wide range of products central to the digital age, such as hard disk drives, system-on-chip devices, plasma display panels, and liquid crystal displays. Revenues from PC sales, however, which had been strong through the second quarter, declined in the third quarter as a result of rapidly intensifying pricing pressures.

Operating income was 10.1 billion yen. Although third-quarter sales were roughly as low as they were in the first quarter, Fujitsu was able to post an operating profit. This marks a 23.3 billion yen improvement over the third quarter of last year, much larger than the year-over-year improvement posted in the second quarter. Although severe pricing pressure impacting areas such as PCs and software and services eroded the benefit from increased revenues, the company's efforts to further drive down costs and improve efficiencies resulted in the higher profitability.

Net income for the third quarter was 7.6 billion yen, an improvement of 32.5 billion yen over last year's third quarter. Although amortization of pension obligation expenses weighed heavily on profits, this was offset by a gain on the sale of a portion of Fujitsu's equity holdings in FANUC, which provided a 25 billion yen upswing in net profitability. Net sales, operating income, and net income in the third quarter all posted improvements over the third quarter of the previous year.

Comparison of Third-Quarter Results with Previous Projections

(Billion Yen)

	Projections as of Oct. 2003	Actual Results	Difference
Net Sales	1,100.0	1,068.2	- 31.7
Operating Income	5.0	10.1	+ 5.1

Net sales in the third quarter were 31.7 billion lower than the level projected last October. The main reasons for the shortfall were the intensification of price competition in PCs in Japan and weaker than anticipated unit shipments of mobile phones.

Operating income was 5.1 billion yen higher than projected. Although third-quarter sales were over 130 billion yen lower than second-quarter sales, and price competition intensified in PCs and other areas, higher sales of servers and other hardware, in addition to overall cost reductions and improved efficiencies, enabled Fujitsu to post higher-than-forecast operating income.

Third-Quarter Results by Business Segment

Within Fujitsu's three main business segments, in the third quarter both Software & Services and Electronic Devices posted a second consecutive quarter of operating profits, and Platforms returned to operating profitability, albeit by a slim margin. Segment information for the third quarter is as follows:

Business Segment Operating Income for Last Three Quarters

(Billion Yen)

	First Quarter FY 2003	Second Quarter FY 2003	Third Quarter FY 2003
Software & Services	- 3.6	32.5	7.6
Platforms	- 19.4	- 1.2	0.1
Electronic Devices	- 6.1	4.9	15.5

1. Software & Services

(Billion Yen)

	Third Quarter FY 2003	Change from FY 2002 Third Quarter
Net Sales	436.1	+ 3.9 %
<i>Japan</i>	307.8	+ 8.5 %
<i>Overseas</i>	128.3	- 5.7 %
<i>Solutions / S I</i>	181.6	+ 6.7 %
<i>Infrastructure Services</i>	254.5	+ 2.0 %

Net sales in Software & Services were 436.1 billion yen, up 3.9% from a year earlier. In Japan, sales increased by 8.5%, fueled by strong demand from the manufacturing and e-government sectors for solutions, systems integration and outsourcing services. Overseas demand also remained firm, particularly in the U.K., but the impact of currency translation losses due to the high yen and last fiscal year's sale of European business units combined to reduce overseas sales in this segment.

Fujitsu continues to enhance its business operations in Europe, North America, Asia, and Australasia. In Europe, the company has received many major IT services contracts from the U.K. government, and in the third quarter, working in conjunction with Cap Gemini Ernst & Young of France, Fujitsu received a contract from the U.K.'s Inland Revenue Agency that is among the largest outsourcing contracts in Europe. Also during the third quarter, the company established an alliance with Siemens Business Services to cooperate in the IT services sector in Europe and Asia. Fujitsu is continuing to revise its overseas group company structure and plans to place particular emphasis on strengthening its business in North America.

	Third Quarter FY 2003	Change from FY 2002 Third Quarter
Operating Income	7.6 billion yen	- 8.9 billion yen

Software & Services operating income for the quarter was 7.6 billion yen, a decline of 8.9 billion yen from a year earlier. The major factors behind the decline were the intensification of price competition in solutions/systems integration, deterioration in the profitability of some large projects, and increased investments in developing new markets, as well as new technologies, such as Linux.

Fujitsu upgraded its SDAS comprehensive system development methodology, aimed at shortening development time and helping customers speed up their management processes. In addition, the company plans to aggressively expand its consulting and outsourcing businesses as well as its business in such vertical markets as healthcare and e-government. As the age of ubiquitous computing and communications takes fuller shape, the company is also increasing investments in key technologies such as middleware and Linux. It is also capitalizing on its strengths, developing optimal solutions that integrate cutting-edge technology with its expertise in software and services.

Overseas, the profitability of Fujitsu's IT services subsidiary in the U.K. continued to improve, building on the momentum achieved last year. Going forward, the company will strive to improve the profitability of its services business on a worldwide basis by increasing cooperation with hardware groups, as well as among its various overseas services units.

In Japan, in November the company opened "Fujitsu Solution Square," a new office building in Tokyo that will bring together approximately 4,000 solution experts previously scattered at multiple locations. Fujitsu expects that the synergies created by the new work environment will help it to optimize support for customers' IT systems and increase its revenues going forward.

2. Platforms

(Billion Yen)

	Third Quarter FY 2003	Change from FY 2002 Third Quarter
Net Sales	373.8	+ 5.9 %
<i>Japan</i>	255.4	+ 3.6 %
<i>Overseas</i>	118.4	+ 11.4 %
<i>Servers</i>	84.6	+ 25.1 %
<i>Mobile / IP Networks</i>	46.6	+ 9.9 %
<i>Transmission Systems</i>	38.9	+ 2.4 %
<i>PCs / Mobile Phones</i>	152.2	- 4.5 %
<i>*Hard Disk Drives, Others</i>	51.5	+ 13.2 %

* HDD-related sales were up 28.4% compared with third-quarter FY 2002

Net sales in the Platforms segment were 373.8 billion yen, an increase of 5.9% over the same period last year. There was a clear trend toward recovery in the sector, with revenues up by 3.6% in Japan and 11.4% overseas.

In Japan, in addition to higher sales of new UNIX servers and storage systems, sales of mainframe systems also increased as the result of major contract wins. Sales of 3G wireless base stations and mobile phone handsets also rose, as did sales of financial terminals as a result of demand for equipment able to accommodate new banknotes. In contrast, PC sales experienced a large decline as a result of increasingly severe price competition and the early introduction of winter models in September.

Overseas, particularly in Europe and North America, sales of UNIX servers, PCs and hard disk drives showed solid growth. One of Fujitsu's goals has been to expand sales of its high-performance, high-reliability UNIX servers on a global basis. The company has made steady progress in achieving this goal in North America and Europe with the new products introduced in the first half of the fiscal year. It also enjoyed increased sales for transmission systems along with the recovery of markets for such products in North America and Europe.

	Third Quarter FY 2003	Change from FY 2002 Third Quarter
Operating Income	0.1 billion yen	+ 13.8 billion yen

Operating income for Platforms was 100 million yen, an improvement of 13.8 billion yen over the comparable period last year. Thanks to restructuring measures implemented over the past two years and efforts to enhance its production quality and efficiency, the company was able to either restore each product segment to profitability or substantially stem its losses. In comparison with the same period last year, profitability as well as revenue increased for servers, storage systems, financial terminals and hard disk drives. In addition, as a result of restructuring measures carried out last year, losses in transmission systems were reduced. The company's hard disk drive business recorded a profit for the second consecutive quarter.

On the other hand, profitability declined in PCs, where prices fell rapidly due to heightened competition, and mobile phones, where the introduction of enhanced features adversely affected profits.

3. Electronic Devices

(Billion Yen)

	Third Quarter FY 2003	Change from FY 2002 Third Quarter
Net Sales	191.2	+ 22.2 %
<i>Japan</i>	100.4	+ 28.6 %
<i>Overseas</i>	90.7	+ 15.7 %
<i>Semiconductors</i>	104.0	+ 19.5 %
<i>Other</i>	87.2	+ 25.5 %

Net sales of Electronic Devices were 191.2 billion yen, a significant 22.2% increase over the results a year ago. In Japan, sales increased 28.6%, while overseas sales rose 15.7%. Because of continued strong demand for digital consumer electronics and mobile phones, sales of logic chips increased more than 50% over the same quarter last year.

Due to the realignment of Fujitsu's flash memory business in the second quarter, revenues from flash memory dropped 14.8%. With the establishment of the new joint venture with AMD to develop and manufacture flash memory, flash memory operations are now accounted for using the equity method, so sales from the joint venture to AMD are excluded from Fujitsu's accounts. Adjusting for this removal from consolidated accounts, revenues from flash memory were actually up over 70% compared to the same period last year.

Apart from semiconductors, the strong market for plasma display panels and liquid crystal displays resulted in sales increases of about 50% in each of these areas compared to the same quarter last year.

	Third Quarter FY 2003	Change from FY 2002 Third Quarter
Operating Income	15.5 billion yen	+ 21.1 billion yen

Operating income was 15.5 billion yen in the third quarter, more than triple the 4.9 billion yen operating profit achieved in the second quarter and up 21.1 billion yen from the third quarter of last year. With semiconductor operations bolstered by strong demand for chips used in digital consumer electronics, capacity utilization rates at the company's production facilities greatly increased, resulting in significantly lower unit costs and much higher profitability. Taking advantage of the strong market for flat-panel TVs, Fujitsu raised its production capacity in plasma display panels and achieved higher revenues and profits. In addition, the company's liquid crystal display operations were able to post their first quarterly operating profit in three years.

Fujitsu continues to streamline its semiconductor operations. After spinning off its flash memory operations in the second quarter, the company consolidated three domestic backend chip assembly operations into one company in the third quarter. In December, Fujitsu also came to a general agreement with Sumitomo Electric Industries to merge their compound semiconductor device operations.

4. Other

The business operations of FDK, whose main business areas include manufacturing and sales of batteries and hybrid modules, will be revitalized with capital from a third-party investor. Accordingly, in April of this year FDK will become an affiliated company whose results will be reflected in Fujitsu's financial statements in accordance with the applied equity method of accounting.

Note: Net sales represents net sales to third parties.

Balance Sheet Summary

	(Billion Yen)	
	As of December 31, 2003	Change from September 30, 2003
Total Assets	3,780.0	39.5
Cash and Cash Equivalents and Short-Term Investments	290.0	50.5
Interest Bearing Liabilities	1,409.6	- 66.9
Shareholders' Equity	690.7	40.8

Total assets at the end of the third quarter came to 3,780.0 billion yen, up 39.5 billion yen from the close of the fiscal half-year at the end of September. Current assets increased by 102.8 billion yen from the end of September. The rise was due to a 57.5 billion yen increase in inventories in preparation for the expected run-up in sales at the end of the fiscal year, as well as a 50.5 billion yen increase in cash resulting from the sale of shares in FANUC.

Fixed assets decreased by 63.2 billion yen from the end of September. The decrease was from a decline in marketable securities on the sale of FANUC shares and a decrease in deferred tax assets. The current and fixed deferred tax assets together declined by 150 billion yen.

Total liabilities came to 2,922.0 billion yen, almost unchanged from the end of the prior quarter. Although trade payables increased by 70.5 billion yen in preparation for the expected fiscal year-end increase in production, corporate bonds and short-term borrowings declined as the proceeds from the sale of FANUC shares was used to pay down these liabilities.

Interest-bearing liabilities totaled 1,409.6 billion yen, down 66.9 billion yen from the end of September. After adjusting for the 50.5 billion yen increase in cash from September, the net interest-bearing liabilities figure is closer to the 1,350 billion yen level.

Shareholders' equity amounted to 690.7 billion yen, up 40.8 billion yen from the end of September. This was due primarily to a change to the market value accounting method for Fujitsu's holdings in FANUC, as well as the profits recorded by the company.

Summary of Cash Flows

(Billion Yen)

	Third Quarter FY 2003	Change from FY 2002 Third Quarter
Cash Flows from Operating Activities	6.8	56.1
Cash Flows from Investing Activities	124.9	130.1
Free Cash Flow	131.7	186.2

Net cash flows provided by operating activities were 6.8 billion yen, up 56.1 billion yen from the year-earlier period. The company was able to cover the required cash on hand to prepare for the expected rise in sales at the end of the fiscal year with profits generated by operating activities during the third quarter. There was a substantial improvement in cash flow compared to the prior-year third quarter, at which time there were large cash payments associated with restructuring initiatives.

Net cash flows provided by investing activities were 124.9 billion yen, primarily stemming from the profits generated by the sale of shares in FANUC.

Free cash flow, the sum of operating and investing cash flows, came to a robust 131.7 billion yen. A portion of this was used to pay down corporate bonds and borrowings, bringing total cash flows from financing activities to negative 79.1 billion yen.

As a result, total cash and cash equivalents at the end of the third quarter were 288.3 billion yen. After using cash generated by the sale of marketable securities to pay down interest-bearing liabilities, the remainder was retained, and cash and cash equivalents rose 51.7 billion yen from the end of September.

Note: Please see attachment regarding the effects of the sales of FANUC shares.

Financial Results for the First Nine Months of FY2003

(Billion Yen)

	First Nine Months of FY 2003	Change from First Nine Months of FY 2002
Net Sales	3,210.1	+ 42.1 (+ 1.3%)
Operating Loss	- 7.8	+ 28.6 (--)
Income Before Income Taxes and Minority Interests	20.5	+ 275.6 (--)
Net Loss	- 50.9	+ 121.4 (--)

Summary

Combined net sales for the first three quarters of fiscal 2003 (April 1, 2003 – December 31, 2003) were 3,210.1 billion yen, a 1.3% increase over the same nine-month period the year before. Software & Services sales were essentially flat, rising just 0.6%. Platforms sales dropped 2.2% overall. Despite strong sales of hard disk drives, sales of servers and storage systems in the first half were sluggish, impacted by changeovers to new models. On the strength of healthy demand for the chips used in digital consumer electronics products and for plasma display panels, Electronic Devices posted vigorous sales growth of 18.0%. Because leasing operations were shifted to become a non-consolidated affiliate at the end of the second quarter, financing-related revenues declined.

Fujitsu posted an operating loss of 7.8 billion yen for the first nine months, an improvement of 28.6 billion yen over the same period the year before. This improvement can be attributed primarily to higher profitability from increased sales in the Electronic Devices segment, as well as the impact of cost-reduction and operating-efficiency measures adopted to cope with downward pricing pressures for various products, particularly in Platforms.

During this period, Fujitsu posted extraordinary income of 125.4 billion yen from the sale of shares in FANUC and other holdings. There was also an extraordinary loss associated with earthquake damage to its Iwate plant and charges associated with restructuring of company subsidiaries. Compared to the very large restructuring charges incurred during the previous fiscal year, this period's charges were minimal.

As a result, net profit before income taxes and minority interests amounted to 20.5 billion yen, but because taxes on the sale of FANUC shares were accounted for on an unconsolidated basis, the overall tax burden increased, resulting in a net loss of 50.9 billion yen (an improvement of 121.4 billion yen over the same period the year before).

Operating Income by Business Segment

	(Billion Yen)	
	First Nine Months of FY 2003	Change from First Nine Months of FY 2002
Software & Services	36.5	- 31.5
Platforms	- 20.6	+ 23.9
Electronic Devices	14.3	+ 42.9

For the first nine months of FY 2003, Software & Services posted operating income of 36.5 billion yen, a decline of 31.5 billion yen from the first nine months of the previous year. This decline was attributable to such factors as downward pricing pressure from intensified competition and deterioration in the profitability of some projects.

Platforms had an operating loss of 20.6 billion yen, though this represented an improvement of 23.9 billion yen over the nine-month period the year before. The improvement resulted from restructuring of domestic and overseas production sites, as well as cost-reduction measures to cope with downward pricing pressures.

Electronic Devices posted operating income of 14.3 billion yen, a major turnaround of 42.9 billion yen from the operating loss of 28.6 billion yen the year before. In addition to

the benefits of prior restructuring initiatives and cost-cutting measures, the significant turnaround in profitability resulted from strong demand for chips used in digital consumer electronics products and for plasma display panels.

Note: Please see attachment regarding the effects of the sales of FANUC shares.

Earnings Projections for FY2003

Fujitsu's financial performance is on a solid path toward recovery, as reflected in the company's results in the second and third quarters, including consecutive year-over-year increases in operating income. In addition, as the era of ubiquitous computing and communications comes into clearer focus, demand for digital consumer electronics equipment is becoming more robust, and throughout the world signs are emerging of a new phase of growth in IT spending across wide market segments, ranging from local governments seeking to upgrade public services to global corporations. Over the medium- to long-term, Fujitsu expects growing demand for its products and services, encompassing broadband network infrastructure equipment such as servers and storage systems, as well as solutions, systems integration and outsourcing services.

On the other hand, accelerating advances in semiconductor and other technologies, combined with the globalization of competition in production and procurement, have intensified price competition in all fields of IT, including software and services as well as hardware. Although on a volume basis IT demand is expected to expand for the foreseeable future, that will not necessarily translate into greater income, making it increasingly difficult to secure a high level of profitability.

By continuing to vigorously pursue efficiencies throughout its global business structure and introducing comprehensive reforms in its approach to development and production – for hardware as well as software and services operations – Fujitsu is committed to enhancing the cost competitiveness and quality of its products and services. Furthermore, the company is aggressively investing in initiatives that will enhance the integration of products and services based on its TRIOLE[™] IT infrastructure approach. These measures will enable Fujitsu to differentiate itself in system design, development and operation. At the same time, the company will enhance the integration of its global operations. By so doing, it will continuously improve its business, building a strong foundation that will enable it to take the lead in the major changes in market structure in the future.

For the full fiscal year, Fujitsu expects net sales to be in line with the projections made when the company last announced its financial results in October. With respect to operating income, in the Platforms segment, strong results in servers and storage systems are expected to more than offset the impact of price declines for PCs. On the other hand, in Software & Services, because of intensified price competition and deterioration in the profitability of some projects, the company expects to fall short of previous projections. Results for Electronic Devices, however, are proceeding according to plan, and on an overall basis Fujitsu expects to be able to achieve the results projected at the beginning of the fiscal year. With respect to net income, deterioration in non-operating income is expected to be offset by extraordinary gains on the sales of shareholdings, and the company expects to achieve the 30 billion yen in net income it projected at the beginning of the fiscal year.

Consolidated Earnings Forecast for FY 2003

(Billion Yen)

	FY 2003 (forecast)	Change from October 2003 Projections	FY2002 (actual)
Net Sales	4,750.0	--	4,617.5
Operating Income	150.0	--	100.4
Net Income	30.0	--	- 122.0

Notes:

Actual results may vary substantially from projections above, 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.

* TRIOLE is Fujitsu's IT infrastructure approach that is designed to deliver scalability for business growth, rapid integration of departmental systems, fail-safe operational reliability, and a reduction in total cost of operation.