

2. FY 2004 Second-Quarter Financial Results

(Billion Yen)				
	Second Quarter FY 2004	Change from Second Quarter FY 2003	Change (%)	Change on continuing- operations basis excluding impact of restructuring
Net Sales	1,211.9	8.7	0.7 %	3.9 %
Operating Income	37.6	17.7		
Net Income	3.6	22.4		

Overview

Second-quarter (July 1 – September 30, 2004) consolidated net sales were 1,211.9 billion yen (US\$11,017 million*), up 0.7% in comparison with the same period in the last fiscal year. If the impact of last year's restructuring is excluded, revenue increased by 3.9%. In addition to higher sales of base stations for 3G mobile communication systems, results were favorable for automated teller machines (ATMs) able to handle the new Japanese banknotes and system chips used in digital AV equipment.

Consolidated operating income was 37.6 billion yen (US\$342 million), an increase of 17.7 billion yen over the same period last year. While profitability deteriorated in the Solutions/Systems Integration segment, the overall gain in operating income reflected higher income from mobile phone base stations and system chips, as well as cost cutting efforts and the expense-reduction effects of last year's restructuring. The cost of sales ratio was 73.2%, an improvement of 0.5% in comparison with the same period last year. This marked the first year-on-year quarterly improvement in the cost of sales ratio since the fourth quarter of fiscal 2002. In addition to ongoing cost reduction measures focusing on hardware, the cost of sales ratio improvement during this period was helped by strong sales of high-profit products.

Other income and expenses recorded a negative balance of 19.9 billion yen; however this was an improvement of 18.1 billion yen compared to the second quarter of fiscal 2003. Expenses for amortization of the unrecognized obligation for retirement benefits decreased by 4.6 billion yen, due to such factors as the increase in stock prices and transfer of the substitutional portion of employees' pension funds last fiscal year. Moreover, thanks in part to the improved profitability of our Flash memory joint venture, equity in earnings of affiliated companies improved by 3.4 billion yen. Near the end of the second quarter in the previous fiscal year, the rapid appreciation of the yen resulted in currency translation losses of 4.8 billion yen. During this period, however, exchange rates were stable, and we realized a net foreign exchange gain of 1.4 billion yen, an improvement of 6.3 billion yen over the same period last year.

Consolidated net income for the period was 3.6 billion yen (US\$33 million), the first second-quarter profit in four years and an improvement of 22.4 billion yen over the comparable period last year.

Operating Income by Business Segment

(Billion Yen)		
	Second Quarter FY 2004	Change from Second Quarter FY 2003
Software & Services	26.4	- 6.0
Platforms	10.8	12.1
Electronic Devices	10.7	5.7

Compared to the same period last year, operating income in Software & Services declined, but the Platforms segment returned to profitability, and operating income in Electronic Devices increased. All three major business segments recorded second-quarter profits for the first time in four years.

Note: Throughout these explanatory materials, yen figures are converted to US dollars for convenience only at a uniform rate of \$1 = 110 yen, the approximate closing exchange rate on September 30, 2004.