3. FY 2004 First-Half Financial Results

Overview

(Billion Yen)

	First Half FY 2004	Change from First Half FY 2003	Change (%)	Change on continuing-operations basis excluding impact of restructuring
Net Sales	2,220.0	78.1	3.6 %	8.1 %
Operating Income	33.2	51.2		
Net Income (Loss)	(8.1)	50.4		

Change in Net Sales from First Half FY 2003

	Change (%)	Change on continuing-operations basis excluding impact of restructuring (%)
Total Net Sales:	3.6%	8.1%
Software & Services:	0.8%	2.0%
Platforms:	8.9%	8.9%
Electronic Devices:	17.6%	27.1%
Others:	- 1.2%	23.7%

Restructuring Impact: - 88.8 billion yen

Major Items

Sale of Fujitsu Consulting's Spain operations
Flash memory operations shifted to JV
Compound semiconductor operations shifted to JV
Outside equity tie-up for FDK
Outside equity tie-up for leasing operation

Note: Segment net sales to unaffiliated customers

Operating Income by Business Segment

(Billion Yen)

	First Half FY 2004	Change from First Half FY 2003
Software & Services	15.5	- 13.3
Platforms	3.7	24.4
Electronic Devices	34.5	35.7

Consolidated net sales for the first half of fiscal 2004 (April 1 – September 30, 2004) were 2,220.0 billion yen (US$ 20,182 million), up 3.6% over the first half of the previous fiscal year. Sales rose only slightly in Software & Services, but strong gains were recorded for sales of 3G mobile phone base stations, financial terminals capable of accommodating new Japanese banknotes, system chips for digital AV equipment, and hard disk drives. On a pro-forma basis, excluding the impact of restructuring initiatives undertaken last fiscal year, sales rose 8.1% over the same period last year.

Consolidated operating income was 33.2 billion yen (US$303 million), the first operating profit for the first half in four years and a major improvement of 51.2 billion yen over the first half of fiscal 2003. In Software & Services, operating income declined as a result of lower sales prices and higher losses from projects with deteriorating profitability. In Platforms and Electronic Devices, however, the combination of higher sales and cost-cutting benefits returned both segments to profitability compared to prior-year first-half losses. All three major business segments posted operating profits for the first half, as well as for the second quarter.

We were able to maintain our cost of sales ratio at 73.6%, the same level as in the first half of last year, primarily by promoting further cost-cutting measures amid continuing severe price competition in our hardware business. Selling, general and administrative expenses as a percentage of sales decreased by over two percentage points, to 24.9%. In addition to efforts to boost efficiency, this was attributable to the impact of overseas-focused restructuring initiatives last year and the shift of subsidiaries to equity method affiliates. Combining cost of goods sold and operating expenses, overall costs as a percentage of sales improved by 2.3% from the same period last year.

In addition to the improvement in operating income, with respect to other income and expenses, net interest expense decreased by 3.4 billion yen over the same period in fiscal 2003 as a result of a reduction in interest-bearing loans and other factors. Amortization expenses relating to the unrecognized obligation for retirement benefits decreased by 9.2 billion yen due to the transfer of the substitutional portion of employees' pension funds and stock price increases during the previous fiscal year. Equity in earnings of affiliates also improved, by 4.1 billion yen. Higher earnings from our joint venture with AMD in Flash memory and our joint venture with Alcatel in 3G mobile phone base stations for overseas markets offset the impact of eliminating Fanuc as an equity method affiliate as a result of stock sales last year. In addition, net foreign exchange gains were 2.2 billion yen, an improvement of 6.3 billion yen over the same period last year.

The consolidated net loss for the first half of fiscal 2004 was 8.1 billion yen (US$74 million), an improvement of 50.4 billion yen over the first half of fiscal 2003.

Results by Business Segment

Consolidated net sales to unaffiliated customers and operating income for the first half of fiscal 2004 are described by business segment below.

1. Software & Services

	First Half FY 2004 (Billion Yen)	Change from First Half FY 2003	Change on continuing-operations basis excluding impact of restructuring
Net Sales	916.5	0.8 %	2.0 %
Japan	667.7	- 0.5 %	- 0.5 %
Overseas	248.7	4.6 %	9.5 %

Net Sales by Sub-segment

	First Half FY 2004 (Billion Yen)	Change from First Half FY 2003
Solutions / S I	392.8	- 5.1 %
Infrastructure Services	523.7	5.7 %

First-half consolidated net sales in the Software & Services segment were 916.5 billion yen (US$8,332 million). Excluding the impact of last fiscal year's restructuring of overseas subsidiaries, this represented a pro forma increase of 2.0%. Sales in Japan were sluggish, due to pricing pressures in the Solutions/Systems Integration segment and other factors, but overseas sales increased, boosted by successive large-scale government-sector outsourcing orders won by Fujitsu Services in the UK.

(Billion Yen)

	First Half FY 2004	Change from First Half FY 2003
Operating Income	15.5	- 13.3

Consolidated operating income in the first half fell by 13.3 billion yen over the same period in fiscal 2003, to 15.5 billion yen ($US141 million). North America-based Fujitsu Consulting and UK-based Fujitsu Services both saw improved profitability, the former buoyed by the effects of last year's restructuring and the latter by higher income from major government-sector outsourcing contracts. In the Solutions/Systems Integration sector in Japan, however, cost cutting measures could not keep pace with continuing pricing pressures, and new or additional losses were generated in conjunction with projects whose profitability deteriorated, resulting in a decline in sales compared with the first half of the previous year.

Of the 68.3 billion yen charge taken at the end of fiscal 2003 to cover potentially uncollectible accounts, projects completed or delivered in the first half of this fiscal year accounted for 22.0 billion yen. We are now concentrating on reducing losses from projects whose profitability has deteriorated under a new organizational structure dedicated to improving project oversight and control.

In late June we realigned our organization by merging our sales and systems engineering groups. Along with creating a single point of contact to speed responsiveness and improve customer satisfaction and reforming our solutions business structure to ensure our ability to generate steady profits, going forward we will integrate our project oversight methods and organization, extending to even hardware provision. Keeping the customer's viewpoint firmly in mind, we will continue to strive to bolster corporate-wide profitability. In Japan, we merged our systems engineering subsidiaries in the Tohoku Region in July and in the Shikoku Region in October, and we plan to undertake a similar reorganization of our systems engineering companies in the Chugoku Region in December. By consolidating purchasing work for these subsidiaries at the parent company, moreover, we aim to unify and strengthen our purchasing practices.

Seeking to reduce costs in order to cope with downward pricing pressures, last year we overhauled our SDAS comprehensive system development framework, and we are now working to apply it to an increasing proportion of system development projects in order to reduce development times and significantly improve efficiencies. In addition, to differentiate ourselves from our competitors, we are leveraging our TRIOLE IT optimization model, actively compiling and enhancing Platform-integration Templates of pre-verified system construction patterns that will enable us to construct systems with superior reliability in open environments. In December we will open one of the largest platform solution centers in Japan, bringing together the platform products of various vendors to provide everything from consulting to system assembly and testing from a single location.

To enhance our support capabilities for full IT system lifecycle management support, Fujitsu Support and Service in October become a wholly owned subsidiary and will serve as the core provider of system support outsourcing services. By consolidating call centers and other maintenance functions in this subsidiary and enhancing our on-site support for customers' operations, we will provide optimal solutions spanning everything from system provision to operational support.

In addition, we are actively pursuing a variety of measures to strengthen project management, including introducing percentage-of-completion methods.

Percentage-of-Completion Methods and Other Measures to Strengthen Project Management

In the first half, as part of our efforts to strengthen project management in the Solutions/Systems Integration business, we introduced standardized methods of measuring project progress and worked to improve project visibility. In addition, as a means of strengthening systems integration development processes in the unified organization created from the combining of our sales and systems engineering groups in the first quarter, we introduced an enhanced internal project audit system that includes third-party review, particularly for large-scale projects. At present, we have selected certain projects in every Solutions/SI-related business unit and begun applying percentage-of-completion methods on a trial basis to verify measurement and evaluation of project progress. In the second half, in preparation for formally introducing these methods from fiscal

2005, we will set up a full-fledged organization with dedicated full-time staff to advance this effort. Along with working to increase the use of monthly progress appraisal methods, we will continue to strive to improve the transparency of contractual arrangements with customers. We will also work to upgrade and link our information infrastructures with affiliated companies in support of these efforts.

2. Platforms

	First Half FY 2004 (Billion Yen)	Change from First Half FY 2003
Net Sales	787.9	8.9 %
Japan	552.3	9.4 %
Overseas	235.5	7.7 %

Net Sales by Sub-segment

	First Half FY 2004 (Billion Yen)	Change from First Half FY 2003
Server-related	174.0	13.0 %
Mobile / IP Networks	103.0	27.3 %
Transmission Systems	81.1	0.6 %
PCs & Mobile Phones	326.0	1.2 %
HDD-related	103.8	20.3 %

Consolidated net sales in the Platforms segment increased 8.9% compared with the same period in the previous year, to 787.9 billion yen (US$7,163 million). In Japan, there were robust sales of 3G mobile phone base stations and financial terminals capable of accommodating new Japanese banknotes, and strong market recognition of the quality and reliability of our HDD products contributed to a major increase in revenue.

(Billion Yen)

	First Half FY 2004	Change from First Half FY 2003
Operating Income	3.7	24.4

Consolidated operating income in this segment was 3.7 billion yen (US$34 million), marking a major shift back to profitability from the previous year's first-half loss of 20.7 billion yen. In addition to increased revenue as noted above, there was improved profitability in servers, IP network equipment and optical transmission systems as a result of cost cutting measures. On the other hand, profitability deteriorated significantly in mobile phones due to sluggish sales and rising costs for higher functionality models.

In June of this year, we began global sales of 64-bit UNIX servers equipped with our leading-edge 90nm semiconductor technology, with simultaneous launches in Japan as well as in Europe, through Fujitsu Siemens Computers, and in North America, through Fujitsu Computer Systems. We also advanced strategic partnerships with global corporations in our server business.

In UNIX servers, we announced a major collaboration with Sun Microsystems, under which we have agreed to jointly develop future-generation products utilizing our device technology and market them under a unified brand through both companies' sales channels. We are targeting market introduction of these new systems in fiscal 2006. In addition, we began cross-supply of existing products in Europe from October, and we are planning to do so in North America as well.

In the Intel Architecture (IA) server business, in addition to our ongoing partnership with Intel, we have strengthened our collaboration with Microsoft, agreeing to work together in the mission-critical system space with respect to our next-generation mission-critical IA server, slated for introduction in 2005, and Microsoft's next-generation operating system.

In the HDD head business, we are collaborating with TDK and have reached a basic agreement to merge the operations of our drive-head assembly division in the Philippines with TDK's Philippines subsidiary.

In the area of the security technology, demand for biometric user authentication systems has increased markedly. Our pioneering palm vein recognition technology was adopted for use in teller window services introduced by Suruga Bank, as well as in ATMs for new services launched by Bank of Tokyo-Mitsubishi. In addition, responding to increasing customer needs to protect information security, we incorporated fingerprint-based authentication technology in products such as our 3G mobile phones with transaction settlement functionality and notebook PCs.

3. Electronic Devices

	First Half FY 2004 (Billion Yen)	Change from First Half FY 2003	Change on continuing-operations basis excluding impact of restructuring
Net Sales	393.5	17.6 %	27.1 %
Japan	219.9	33.6 %	34.2 %
Overseas	173.5	2.0 %	19.1 %

Net Sales by Sub-segment

	First Half FY 2004 (Billion Yen)	Change from First Half FY 2003
Semiconductors	219.9	20.6 %
Other	173.6	13.9 %

Consolidated net sales in Electronic Devices were 393.5 billion yen (US$ 3,577 million), an increase of 17.6% over the first half in the previous year. On a continuing operations basis, excluding the impact of the shift of our compound semiconductor and Flash memory operations to equity method affiliates, the increase is a much larger 27.1%. This represents a pro forma expansion of 34.2% in Japan and 19.1% overseas. In displays, due to lower volume resulting from customers' inventory adjustments, revenue was lower than in the previous first-half period, but strong growth continued in system chips for digital AV equipment, as well as for our electronic component subsidiaries.

(Billion Yen)

	First Half FY 2004	Change from First Half FY 2003
Operating Income	34.5	35.7

Consolidated operating income was 34.5 billion yen (US$ 314 million), a dramatic turnaround of 35.7 billion yen from the previous year's first-half operating loss. Higher sales of system chips and increased sales from electronic component subsidiaries, coupled with progress in cost-cutting, contributed to major gains in profitability. These were impacted, however, by a large drop in PDP profits due to price reductions, as well as erosion in profitability of LCDs, which had enjoyed favorable conditions in the first quarter but saw a sudden worsening of the market in the beginning of the second quarter.

Construction of a new mass-production facility at our Mie semiconductor plant that will utilize our leading-edge 90nm and 65nm process technology on 300mm wafers was begun in April of this year and continues to progress on schedule. We entered into an agreement with Lattice Semiconductor under which we are to receive advance payment for products we provide, and we have already received part of this advance payment.

Results by Geographic Location

Net Sales

	First Half FY 2004 (Billion Yen)	Change from First Half FY 2003	Change on continuing-operations basis excluding impact of restructuring
Japan	1,646.1	1.8 %	6.6 %
Europe	274.0	12.2 %	16.9 %
Americas	136.6	16.6 %	22.0 %
Asia, Australasia & Others	163.2	- 0.5 %	0.7 %

Operating Income

(Billion Yen)

	First Half FY 2004	Change from First Half FY 2003
Japan	52.6	36.4
Europe	2.0	4.0
The Americas	2.1	9.9
Asia, Australasia & Others	5.0	- 0.1

As a result of restructuring our operations in the Americas last year, we were able to improve first-half operating income in the region by 9.9 billion yen, achieving an operating profit of 2.1 billion yen. In Europe, strong sales contributed to an operating profit of 2.0 billion yen for the region, up 4.0 billion yen from the first half of fiscal 2003. As a result, we were able to achieve first-half operating profits in all four of our major geographic segments (Japan, Europe, the Americas, and Asia, Australasia & Others).

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.