

## **FY 2004 First-Half Financial Results**

[ for the first-half fiscal period, ended September 30, 2004]

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# 1. Summary of FY 2004 First-Half Consolidated Results

(Six months ended September 30)

## a. Summary of Consolidated Statements of Operations

	Yen (millions) (except per share data)		
	1st Half 2004	1st Half 2003	Change (%)
Net sales	Y 2,220,059	Y 2,141,934	+3.6
Operating income (loss)	33,285	(17,990)	-
Income (loss) before income taxes and minority interests	1,913	(51,082)	-
Net income (loss)	(8,161)	(58,562)	-
Net income (loss) per common share	Y (4.08)	Y (29.28)	-
Average number of shares outstanding	2,000,252,806	2,000,381,605	

## b. Net Sales to Unaffiliated Customers by Business Segment

	Yen (millions)		
	1st Half 2004	1st Half 2003	Change (%)
Software & Services	Y 916,512	Y 909,325	+0.8
Platforms	787,938	723,821	+8.9
Electronic Devices	393,500	334,746	+17.6
Financing	-	50,391	-
Other Operations	122,109	123,651	-1.2
Total	Y 2,220,059	Y 2,141,934	+3.6

## c. Summary of Consolidated Financial Condition

	Yen (millions)		
	September 30 2004	March 31 2004	September 30 2003
Total assets	Y 3,561,426	Y 3,865,589	Y 3,740,469
Shareholders' equity	803,044	827,177	649,866
Shareholders' equity ratio	22.5 %	21.4 %	17.4 %
Shareholders' equity per share	Y 401.49	Y 413.22	Y 324.87
Number of shares issued	2,000,171,543	2,000,332,760	2,000,388,006

## d. Summary of Consolidated Statements of Cash Flows

	Yen (millions)		
	1st Half 2004	1st Half 2003	FY 2003 Full Year
Cash flows from operating activities	Y 50,196	Y 37,424	Y 304,045
Cash flows from investing activities	(55,675)	(30,352)	67,389
Cash flows from financing activities	(184,810)	(50,637)	(239,902)
Cash and cash equivalents at end of period	212,860	Y 236,658	413,826

## 2. Summary of FY 2004 Second-Quarter Consolidated Results

(Three months ended September 30)

### a. Summary of Consolidated Statements of Operations

	Yen (millions) (except per share data)		
	2nd Quarter 2004	2nd Quarter 2003	Change (%)
Net sales	Y 1,211,911	Y 1,203,196	+0.7
Operating income	37,666	19,896	+89.3
Income (loss) before income taxes and minority interests	17,716	(18,229)	-
Net income (loss)	Y 3,680	Y (18,754)	-

### b. Net Sales to Unaffiliated Customers by Business Segment

	Yen (millions)		
	2nd Quarter 2004	2nd Quarter 2003	Change (%)
Software & Services	Y 531,965	Y 525,979	+1.1
Platforms	428,450	411,572	+4.1
Electronic Devices	189,590	172,100	+10.2
Financing	-	29,596	-
Other Operations	61,906	63,949	-3.2
Total	Y 1,211,911	Y 1,203,196	+0.7

## 3. Consolidated Earnings Forecast for FY 2004

(April 1, 2004 - March 31, 2005)

	Yen (billions) (except per share data)	
	FY 2004 Full Year (Forecast)	Change (%) FY03 to FY04
Net sales	Y 4,900.0	+2.8
Operating income	200.0	+33.0
Net income	70.0	+40.8
Net income per common share	Y 34.41	+40.2

#### 4. Summary of FY 2004 First-Half Unconsolidated Results

(Six months ended September 30)

##### a. Summary of Unconsolidated Statements of Operations

	Yen (millions) (except per share data)		
	1st Half 2004	1st Half 2003	Change (%)
Net sales	Y 1,295,790	Y 1,207,551	+7.3
Operating income (loss)	(23,636)	(44,021)	-
Income (loss) before income taxes	(26,471)	17,346	-
Net income (loss)	Y (12,126)	Y 18,708	-
<b>Amounts per share of common stock:</b>			
Net income (loss)	Y (6.06)	Y 9.35	
Interim cash dividends	Y 3.00	Y 0.00	

##### b. Net Sales by Business Segment

	Yen (millions)		
	1st Half 2004	1st Half 2003	Change (%)
Software & Services	Y 445,624	Y 458,841	-2.9
Platforms	671,563	625,533	+7.4
Electronic Devices	178,603	123,177	+45.0
Total	Y 1,295,790	Y 1,207,551	+7.3

##### b. Summary of Unconsolidated Financial Condition

	Yen (millions)		
	September 30 2004	March 31 2004	September 30 2003
Total assets	Y 2,815,794	Y 3,022,975	Y 2,820,007
Shareholders' equity	897,598	934,603	801,768
Shareholders' equity ratio	31.9%	30.9%	28.4%
Shareholders' equity per share	Y 448.76	Y 467.18	Y 400.81

#### 5. Unconsolidated Earnings Forecast for FY 2004

(April 1, 2004 - March 31, 2005)

	Yen (billions) (except per share data)	
	FY 2004 Full Year (Forecast)	Change (%) FY03 to FY04
Net sales	Y 2,880.0	+3.3
Operating income	70.0	+112.4
Net income	40.0	+134.4
Net income per common share	Y 19.66	+131.6

## 6. Second-Quarter Consolidated Statements of Operations

(Three months ended September 30)

		Yen (millions)		Change (%)
		2nd Quarter 2004	2nd Quarter 2003	
Net sales	Y	1,211,911	1,203,196	+0.7
<b>Operating costs and expenses:</b>				
Cost of goods sold		887,069	886,893	+0.0
Selling, general and administrative expenses		287,176	296,407	-3.1
		<u>1,174,245</u>	<u>1,183,300</u>	
Operating income		37,666	19,896	+89.3
<b>Other income (expenses):</b>				
Net interest*		(3,443)	(4,636)	
Equity in earnings of affiliated companies, net		1,965	(1,442)	
Gain on sales of marketable securities		2,485	7,496	
Amortization of unrecognized obligation for retirement benefits		(9,832)	(14,492)	
Restructuring charges**		(4,599)	(4,674)	
Other, net		(6,526)	(20,377)	
		<u>(19,950)</u>	<u>(38,125)</u>	-
Income (loss) before income taxes and minority interests		17,716	(18,229)	-
Income taxes		9,310	(3,374)	
Minority interests		(4,726)	(3,899)	
Net income (loss)	Y	<u>3,680</u>	<u>(18,754)</u>	-

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

Note\*\*: Restructuring charges for the second quarter of the fiscal 2004 are related to expenses for workforce reductions, realignment, and disposal of assets at subsidiaries.

## 7. Second-Quarter Consolidated Business Segment Information (Three months ended September 30)

### a. Sales to Unaffiliated Customers

		Yen (millions)		Change (%)
		2nd Quarter 2004	2nd Quarter 2003	
<b>Software &amp; Services</b>	Japan	Y 401,600	405,398	-0.9
	Overseas	130,365	120,581	+8.1
	Total	Y 531,965	525,979	+1.1
<b>Platforms</b>	Japan	303,515	288,910	+5.1
	Overseas	124,935	122,662	+1.9
	Total	428,450	411,572	+4.1
<b>Electronic Devices</b>	Japan	111,415	89,018	+25.2
	Overseas	78,175	83,082	-5.9
	Total	189,590	172,100	+10.2
<b>Financing</b>	Japan	-	29,596	-
	Overseas	-	-	-
	Total	-	29,596	-
<b>Other Operations</b>	Japan	50,578	51,917	-2.6
	Overseas	11,328	12,032	-5.9
	Total	61,906	63,949	-3.2
<b>Total</b>	Japan	Y 867,108	864,839	+0.3
	Overseas	344,803	338,357	+1.9
	Total	Y 1,211,911	1,203,196	+0.7

### b. Sales to Unaffiliated Customers by Products and Services

		Yen (billions)		Change (%)
		2nd Quarter 2004	2nd Quarter 2003	
<b>Software &amp; Services</b>	Solutions/SI	Y 246.1	258.9	-4.9
	Infrastructure Services	285.8	267.0	+7.0
	Total	Y 531.9	525.9	+1.1
<b>Platforms</b>	Server-related	Y 98.9	88.8	+11.4
	Mobile / IP Networks	59.1	43.5	+35.9
	Transmission Systems	41.7	44.2	-5.7
	PCs & Mobile Phones	173.8	182.0	-4.5
	HDD-related	54.9	53.0	+3.6
	Total	Y 428.4	411.5	+4.1
<b>Electronic Devices</b>	Semiconductors	Y 109.6	92.0	+19.1
	Others	79.9	80.1	-0.2
	Total	Y 189.5	172.1	+10.2

### c. Net Sales including Intersegment Sales

		Yen (millions)		Change (%)
		2nd Quarter 2004	2nd Quarter 2003	
<b>Software &amp; Services</b>	Unaffiliated customers	Y 531,965	525,979	+1.1
	Intersegment	10,429	19,942	-47.7
	Total	Y 542,394	545,921	-0.6
<b>Platforms</b>	Unaffiliated customers	428,450	411,572	+4.1
	Intersegment	44,974	62,467	-28.0
	Total	473,424	474,039	-0.1
<b>Electronic Devices</b>	Unaffiliated customers	189,590	172,100	+10.2
	Intersegment	16,577	16,272	+1.9
	Total	206,167	188,372	+9.4
<b>Financing</b>	Unaffiliated customers	-	29,596	-
	Intersegment	-	2,715	-
	Total	-	32,311	-
<b>Other Operations</b>	Unaffiliated customers	61,906	63,949	-3.2
	Intersegment	25,045	35,210	-28.9
	Total	86,951	99,159	-12.3
<b>Elimination</b>		(97,025)	(136,606)	-
<b>Total</b>	Y	1,211,911	1,203,196	+0.7

### d. Operating Income (Loss) including Intersegment Transactions [Operating Margin]

		Yen (millions)		Change (Million Yen)
		2nd Quarter 2004	2nd Quarter 2003	
<b>Software &amp; Services</b>	Y	26,499	32,525	-6,026
		[4.9%]	[6.0%]	[-1.1%]
<b>Platforms</b>		10,824	(1,286)	+12,110
		[2.3%]	[(0.3%)]	[+2.6%]
<b>Electronic Devices</b>		10,714	4,972	+5,742
		[5.2%]	[2.6%]	[+2.6%]
<b>Financing</b>		-	1,033	-1,033
		[ -]	[3.2%]	[ -]
<b>Other Operations</b>		3,702	3,011	+691
		[4.3%]	[3.0%]	[+1.3%]
<b>Elimination</b>		(14,073)	(20,359)	+6,286
<b>Total</b>	Y	37,666	19,896	+17,770
		[3.1%]	[1.7%]	[+1.4%]

## 8. First-Half Consolidated Statements of Operations

(Six months ended September 30)

		Yen (millions)		Change (%)
		1st Half 2004	1st Half 2003	
<b>Net sales</b>	<b>Y</b>	<b>2,220,059</b>	2,141,934	+3.6
<b>Operating costs and expenses:</b>				
Cost of goods sold		1,632,917	1,576,454	+3.6
Selling, general and administrative expenses		553,857	583,470	-5.1
		<u>2,186,774</u>	<u>2,159,924</u>	
<b>Operating income (loss)</b>		<b>33,285</b>	(17,990)	-
<b>Other income (expenses):</b>				
Net interest*		(4,354)	(7,755)	
Equity in earnings of affiliated companies, net		4,524	418	
Amortization of unrecognized obligation for retirement benefits		(19,695)	(28,938)	
Gain on sales of marketable securities		2,485	34,470	
Restructuring charges**		(4,599)	(4,674)	
Casualty loss		-	(4,700)	
Other, net		(9,733)	(21,913)	
		<u>(31,372)</u>	<u>(33,092)</u>	-
<b>Income (loss) before income taxes and minority interests</b>		<b>1,913</b>	(51,082)	-
<b>Income taxes</b>		<b>3,680</b>	3,787	
<b>Minority interests</b>		<b>(6,394)</b>	(3,693)	
<b>Net income (loss)</b>	<b>Y</b>	<b><u>(8,161)</u></b>	<b><u>(58,562)</u></b>	-

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

Note\*\*: Restructuring charges for the second quarter of the fiscal 2004 are related to expenses for workforce reductions, realignment, and disposal of assets at subsidiaries.



## 9. First-Half Consolidated Business Segment Information

(Six months ended September 30)

### a. Sales to Unaffiliated Customers

		Yen (millions)		Change (%)
		1st Half 2004	1st Half 2003	
<b>Software &amp; Services</b>	Japan	Y 667,781	671,462	-0.5
	Overseas	248,731	237,863	+4.6
	Total	Y 916,512	909,325	+0.8
<b>Platforms</b>	Japan	552,373	505,019	+9.4
	Overseas	235,565	218,802	+7.7
	Total	787,938	723,821	+8.9
<b>Electronic Devices</b>	Japan	219,960	164,652	+33.6
	Overseas	173,540	170,094	+2.0
	Total	393,500	334,746	+17.6
<b>Financing</b>	Japan	-	50,391	-
	Overseas	-	-	-
	Total	-	50,391	-
<b>Other Operations</b>	Japan	97,946	100,982	-3.0
	Overseas	24,163	22,669	+6.6
	Total	122,109	123,651	-1.2
<b>Total</b>	Japan	Y 1,538,060	1,492,506	+3.1
	Overseas	681,999	649,428	+5.0
	Total	Y 2,220,059	2,141,934	+3.6

### b. Sales to Unaffiliated Customers by Products and Services

		Yen (billions)		Change (%)
		1st Half 2004	1st Half 2003	
<b>Software &amp; Services</b>	Solutions/SI	Y 392.8	413.7	-5.1
	Infrastructure Services	523.7	495.6	+5.7
	Total	Y 916.5	909.3	+0.8
<b>Platforms</b>	Server-related	Y 174.0	154.0	+13.0
	Mobile / IP Networks	103.0	80.9	+27.3
	Transmission Systems	81.1	80.6	+0.6
	PCs & Mobile Phones	326.0	322.0	+1.2
	HDD-related	103.8	86.3	+20.3
	Total	Y 787.9	723.8	+8.9
<b>Electronic Devices</b>	Semiconductors	Y 219.9	182.3	+20.6
	Others	173.6	152.4	+13.9
	Total	Y 393.5	334.7	+17.6

### c. Net Sales including Intersegment Sales

		Yen (millions)		Change (%)
		1st Half 2004	1st Half 2003	
<b>Software &amp; Services</b>	Unaffiliated customers	Y 916,512	909,325	+0.8
	Intersegment	17,795	31,867	-44.2
	Total	Y 934,307	941,192	-0.7
<b>Platforms</b>	Unaffiliated customers	787,938	723,821	+8.9
	Intersegment	75,305	104,178	-27.7
	Total	863,243	827,999	+4.3
<b>Electronic Devices</b>	Unaffiliated customers	393,500	334,746	+17.6
	Intersegment	32,691	33,000	-0.9
	Total	426,191	367,746	+15.9
<b>Financing</b>	Unaffiliated customers	-	50,391	-
	Intersegment	-	4,027	-
	Total	-	54,418	-
<b>Other Operations</b>	Unaffiliated customers	122,109	123,651	-1.2
	Intersegment	51,232	66,346	-22.8
	Total	173,341	189,997	-8.8
<b>Elimination</b>		(177,023)	(239,418)	-
<b>Total</b>		Y 2,220,059	2,141,934	+3.6

### d. Operating Income (Loss) including Intersegment Transactions [Operating Margin]

		Yen (millions)		Change (Million Yen)
		1st Half 2004	1st Half 2003	
<b>Software &amp; Services</b>		Y 15,541	28,890	-13,349
		[1.7%]	[3.1%]	[-1.4%]
<b>Platforms</b>		3,781	(20,715)	+24,496
		[0.4%]	[(2.5%)]	[+2.9%]
<b>Electronic Devices</b>		34,577	(1,218)	+35,795
		[8.1%]	[(0.3%)]	[+8.4%]
<b>Financing</b>		-	2,007	-2,007
		[ -]	[3.7%]	[ -]
<b>Other Operations</b>		6,754	5,031	+1,723
		[3.9%]	[2.6%]	[+1.3%]
<b>Elimination</b>		(27,368)	(31,985)	+4,617
<b>Total</b>		Y 33,285	(17,990)	+51,275
		[1.5%]	[(0.8%)]	[+2.3%]

## 10. First-Half Consolidated Geographic Segment Information

(Six months ended September 30)

### a. Net Sales

		Yen (millions)		Change (%)
		1st Half 2004	1st Half 2003	
<b>Japan</b>	Unaffiliated customers	Y 1,646,117	1,616,284	+1.8
	Intersegment	230,094	201,698	+14.1
	Total	Y 1,876,211	1,817,982	+3.2
<b>Europe</b>	Unaffiliated customers	274,060	244,339	+12.2
	Intersegment	4,987	10,668	-53.3
	Total	279,047	255,007	+9.4
<b>The Americas</b>	Unaffiliated customers	136,603	117,186	+16.6
	Intersegment	9,491	9,068	+4.7
	Total	146,094	126,254	+15.7
<b>Asia, Australasia &amp; Others</b>	Unaffiliated customers	163,279	164,125	-0.5
	Intersegment	120,861	92,396	+30.8
	Total	284,140	256,521	+10.8
<b>Elimination</b>		(365,433)	(313,830)	-
<b>Total</b>		Y 2,220,059	2,141,934	+3.6

### b. Operating Income (Loss)

[Operating Margin]

		Yen (millions)		Change (Million Yen)
		1st Half 2004	1st Half 2003	
<b>Japan</b>	Y	52,682	16,195	+36,487
		[2.8%]	[0.9%]	[+1.9%]
<b>Europe</b>		2,049	(2,042)	+4,091
		[0.7%]	[(0.8%)]	[+1.5%]
<b>The Americas</b>		2,105	(7,803)	+9,908
		[1.4%]	[(6.2%)]	[+7.6%]
<b>Asia, Australasia &amp; Others</b>		5,023	5,154	-131
		[1.8%]	[2.0%]	[-0.2%]
<b>Elimination</b>		(28,574)	(29,494)	+920
<b>Total</b>		Y 33,285	(17,990)	+51,275
		[1.5%]	[(0.8%)]	[+2.3%]

### c. Net Overseas Sales by Customer's Geographic Location

		Yen (millions)		Change (%)
		1st Half 2004	1st Half 2003	
<b>Europe</b>		Y 291,936	268,964	+8.5
<b>The Americas</b>		157,311	168,650	-6.7
<b>Asia, Australasia &amp; Others</b>		232,752	211,814	+9.9
<b>Total</b>		Y 681,999	649,428	+5.0

## 11. First-Half Consolidated Balance Sheets

		Yen (millions)		Change (Million Yen)
		September 30 2004	March 31 2004	
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents and short-term investments	Y	216,938	416,929	-199,991
Receivables, trade		686,865	810,469	-123,604
Inventories		575,854	521,126	+54,728
Other current assets		247,780	267,050	-19,270
<b>Total current assets</b>		<b>1,727,437</b>	<b>2,015,574</b>	<b>-288,137</b>
<b>Investments and long-term loans</b>		<b>840,303</b>	<b>827,063</b>	<b>+13,240</b>
<b>Property, plant and equipment less accumulated depreciation</b>		<b>781,015</b>	<b>803,023</b>	<b>-22,008</b>
<b>Intangible assets</b>		<b>212,671</b>	<b>219,929</b>	<b>-7,258</b>
<b>Total assets</b>	Y	<b>3,561,426</b>	<b>3,865,589</b>	<b>-304,163</b>
<b>Liabilities, minority interests and shareholders' equity</b>				
<b>Current liabilities:</b>				
Short-term borrowings and current portion of long-term debt	Y	274,633	382,749	-108,116
Payables, trade		679,273	796,915	-117,642
Other current liabilities		542,247	538,398	+3,849
<b>Total current liabilities</b>	Y	<b>1,496,153</b>	<b>1,718,062</b>	<b>-221,909</b>
<b>Long-term liabilities:</b>				
Long-term debt		850,285	894,372	-44,087
Other long-term liabilities		226,224	235,518	-9,294
<b>Total long-term liabilities</b>		<b>1,076,509</b>	<b>1,129,890</b>	<b>-53,381</b>
<b>Minority interests</b>		<b>185,720</b>	<b>190,460</b>	<b>-4,740</b>
<b>Shareholders' equity:</b>				
Common stock		324,625	324,624	+1
Capital surplus		455,970	455,963	+7
Retained earnings (Deficit)		(50,895)	(35,734)	-15,161
Unrealized gains on securities and revaluation surplus on land		134,278	153,082	-18,804
Foreign currency translation adjustments		(59,956)	(69,901)	+9,945
Treasury stock		(978)	(857)	-121
<b>Total shareholders' equity</b>		<b>803,044</b>	<b>827,177</b>	<b>-24,133</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	Y	<b>3,561,426</b>	<b>3,865,589</b>	<b>-304,163</b>
<b>Ending balance of interest-bearing loans</b>	Y	<b>1,124,918</b>	<b>1,277,121</b>	<b>-152,203</b>
<b>D/E ratio</b>		<b>1.40</b>	<b>1.54</b>	<b>-0.14</b>

## Supplementary Information

	Yen (billions)		
	<b>1st Half FY2003 (Actual)</b>	FY2004 (Forecast)	FY2003 (Actual)
Capital expenditure	<b>Y 84.6</b>	Y 235.0	Y 159.7
Depreciation	<b>81.0</b>	185.0	200.0

## 12. First-Half Consolidated Statements of Cash Flows

(Six months ended September 30)

		Yen (millions)		Change (Million Yen)
		1st Half 2004	1st Half 2003	
<b>1. Cash flows from operating activities:</b>				
Income (loss) before income taxes and minority interests	Y	<b>1,913</b>	(51,082)	+52,995
Depreciation and amortization		<b>113,507</b>	137,316	-23,809
Increase (decrease) in provisions		<b>(3,891)</b>	2,319	-6,210
Equity in earnings of affiliates, net		<b>(4,524)</b>	(418)	-4,106
Disposal of property, plant and equipment		<b>10,594</b>	9,531	+1,063
(Increase) decrease in receivables, trade		<b>113,430</b>	79,147	+34,283
(Increase) decrease in inventories		<b>(56,455)</b>	(60,294)	+3,839
Increase (decrease) in payables, trade		<b>(113,628)</b>	(11,307)	-102,321
Other, net		<b>(10,750)</b>	(67,788)	+57,038
Net cash provided by (used in) operating activities		<b>50,196</b>	37,424	+12,772
<b>2. Cash flows from investing activities:</b>				
Purchase of property, plant and equipment		<b>(60,920)</b>	(68,766)	+7,846
(Increase) decrease in investments and long-term loans		<b>11,092</b>	59,252	-48,160
Other, net		<b>(5,847)</b>	(20,838)	+14,991
Net cash provided by (used in) investing activities		<b>(55,675)</b>	(30,352)	-25,323
<b>1+2 [ Free Cash Flow ]</b>		<b>(5,479)</b>	7,072	-12,551
<b>3. Cash flows from financing activities:</b>				
Increase (decrease) in bonds, notes, short-term borrowings and long-term debt		<b>(156,606)</b>	(39,434)	-117,172
Dividends paid		<b>(6,000)</b>	-	-6,000
Other, net		<b>(22,204)</b>	(11,203)	-11,001
Net cash provided by (used in) financing activities		<b>(184,810)</b>	(50,637)	-134,173
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>		<b>1,310</b>	(2,110)	+3,420
<b>5. Net increase (decrease) in cash and cash equivalents</b>		<b>(188,979)</b>	(45,675)	-143,304
<b>6. Cash and cash equivalents at beginning of period</b>		<b>413,826</b>	282,333	+131,493
<b>7. Cash and cash equivalents of deconsolidated subsidiaries</b>		<b>(11,987)</b>	-	-11,987
<b>8. Cash and cash equivalents at end of period</b>	Y	<b>212,860</b>	236,658	-23,798

### 13. Marketable Securities

(Six months ended September 30)

#### 1. Net Unrealized Gain on Marketable Securities

	Yen (millions)			Yen (millions)		
	September 30, 2004			March 31, 2004		
	Carrying Value	Fair Value	Net Unrealized Gains	Carrying Value	Fair Value	Net Unrealized Gains
<b>Held-to-maturity securities</b>	<b>Y 1,914</b>	<b>Y 1,941</b>	<b>Y 27</b>	Y 2,208	Y 2,225	Y 17
<b>Investment in affiliates</b>	<b>21,048</b>	<b>58,327</b>	<b>37,279</b>	18,148	79,581	61,433
<b>Total</b>	<b>Y 22,962</b>	<b>Y 60,268</b>	<b>Y 37,306</b>	Y 20,356	Y 81,806	Y 61,450

#### 2. Summary of Marketable Securities at Fair Value

	Yen (millions)			Yen (millions)		
	September 30, 2004			March 31, 2004		
	Cost	Carrying Value (Fair Value)	Net Unrealized Gains (Losses)	Cost	Carrying Value (Fair Value)	Net Unrealized Gains
<b>Available-for-sale:</b>						
Equity securities	<b>Y 55,703</b>	<b>Y 276,724</b>	<b>Y 221,021</b>	Y 57,544	Y 310,584	Y 253,040
Debt securities and others	<b>6,593</b>	<b>6,449</b>	<b>(144)</b>	7,250	7,307	57
<b>Total</b>	<b>Y 62,296</b>	<b>Y 283,173</b>	<b>Y 220,877</b>	Y 64,794	Y 317,891	Y 253,097

# Explanation of Financial Results

## 1. Overview

### Business Environment

In the first half of fiscal 2004 (April 1 – September 30, 2004), the business environment overseas was on the whole favorable, despite a trend toward slower growth in the US and China due to such factors as the rapid rise in global oil prices and higher US interest rates. In Japan, in spite of some deterioration in business conditions after the Olympic Games, moderate growth also continued, thanks to sustained expansion of consumer spending, particularly for digital AV equipment, as well as increased IT investment by corporations.

In the IT industry, ubiquitous networking is moving to a new stage. In the first half of the fiscal year demand increased again for digital AV equipment, for which market penetration is starting to become even more widespread. Nevertheless, with open standards technology intensifying competition, competitive differences in specific products are having an increasing impact on business success or failure.

In July we held Fujitsu Solution Forum 2004 under the banner: “Experiencing the Ubiquitous Networking Future.” There, visitors were able to experience for themselves what the ubiquitous networking world – in which comfortable and convenient shopping, financial services and medical services are made possible by ultra-efficient infrastructure systems integrating highly reliable servers, networks and software – can offer. The advent of the ubiquitous networking era is expected to qualitatively and quantitatively expand the IT market and result in continuing significant growth. This is creating increasingly strong demand for comprehensive solutions encompassing highly reliable, high-quality products and services based on advanced information technologies. We believe this is an environment in which Fujitsu – as a leader in these core technologies – is well positioned to make a major contribution to the realization of the ubiquitous networking world.

Consolidated financial results for the Fujitsu Group in the second quarter and first half of fiscal 2004 are summarized below.

### FY 2004 Second-Quarter Financial Results

(For the three months ended September 30, 2004)

(Billion Yen)

	Second Quarter FY 2004	Second Quarter FY 2003	Change	%
Net Sales	1,211.9	1,203.1	8.7	0.7%
Operating Income	37.6	19.8	17.7	89.3%
Net Income (Loss)	3.6	(18.7)	22.4	-

Change on continuing-  
operations basis excluding  
impact of restructuring

3.9 %

### FY 2004 First-Half Financial Results

(For the six months ended September 30, 2004)

(Billion Yen)

	First Half FY 2004	First Half FY 2003	Change	%
Net Sales	2,220.0	2,141.9	78.1	3.6 %
Operating Income (Loss)	33.2	(17.9)	51.2	-
Net Income (Loss)	(8.1)	(58.5)	50.4	-

Change on continuing-  
operations basis excluding  
impact of restructuring

8.1%



## 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.

### 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 (%)	Restructuring Impact: - 88.8 billion yen <i>Major Items</i> 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
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%	

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.

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

(Billion Yen)

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

	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.



## 4. Financial Condition

### Assets, Liabilities and Shareholders' Equity

(Billion Yen)		
	End of First Half FY 2004	Change from End of FY 2003
Total assets [Cash and cash equivalents and short-term investments]	3,561.4 [216.9]	- 304.1 [- 199.9]
Interest-bearing loans	1,124.9	- 152.2
Shareholders' equity [Shareholders' equity ratio]	803.0 [22.5%]	- 24.1 [+ 1.1%]
D/E ratio	1.40	- 0.14

Total assets at the end of the first half were 3,561.4 billion yen, a decrease of 304.1 billion yen compared to the end of fiscal 2003.

Total current assets were 1,727.4 billion yen, down 288.1 billion yen from the end of the previous fiscal year. While inventories increased to support higher anticipated sales in the second half and beyond, trade receivables that had resulted from the concentration of sales at the end of the prior fiscal year decreased, and cash on hand was drawn down for bond redemptions as well as the payment of trade payables and operating expenses.

Total fixed assets were 1,833.9 billion yen, a decrease of 16.0 billion yen compared to the end of the last fiscal year. This was primarily due to a decrease in property, plant and equipment less accumulated depreciation resulting from the reorganization of our compound semiconductor business.

Total liabilities were 2,572.6 billion yen, a reduction of 275.2 billion yen compared to the end of the previous fiscal year. This was largely because interest-bearing loans were reduced by 152.2 billion yen due to the redemption of bonds and because trade payables from the end of the previous fiscal year were paid down. As a result of the decrease in interest-bearing loans, the D/E ratio improved by 0.14 from the end of fiscal 2003 to 1.40, bringing it below the 1.50 mark.

Total shareholders' equity declined to 803.0 billion yen as a result of the net loss for the half and a decrease in the unrealized gains on marketable securities and other assets held. Nevertheless, because of the degree to which the reduction in total assets exceeded the decline in shareholders' equity, the shareholders' equity ratio improved 1.1% over the end of the prior fiscal year to 22.5%.

### Summary of Cash Flows

(Billion Yen)		
	First Half FY 2004	Change from First Half FY 2003
Cash flows from operating activities	50.1	12.7
Cash flows from investing activities	- 55.6	- 25.3
Free cash flow	- 5.4	- 12.5

Net cash provided by operating activities in the first half was 50.1 billion yen. Profits from business operations exceeded the requirements for working funds. Compared to the same period in

the preceding fiscal year, this represented an improvement of 12.7 billion yen, resulting from improved earnings.

Net cash used in investing activities was 55.6 billion yen, related primarily to expenditures in plant and equipment. This represented increased outflow of 25.3 billion yen from the same period in the prior fiscal year, when there was an 85.5 billion yen inflow of cash as a result of the sales of investment securities.

Free cash flow was negative 5.4 billion yen. Excluding the impact of last year's sales of investment securities, this represented an improvement of 73.0 billion yen over the same period in fiscal 2003.

As a result of applying cash on hand to the redemption of bonds and other payments, cash flows from financing activities were negative 184.8 billion yen.

Combining the effect of all of the above factors, cash and cash equivalents at the end of the half stood at 212.8 billion yen, a decrease of 200.9 billion yen from the end of the prior fiscal year.

## **5. 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 ushering in an era of ubiquitous networking in which people can connect with anyone or anything, anywhere and at any time. Amidst this trend, IT is becoming increasingly important to our customers' businesses. In seeking help in building and utilizing IT systems, customers are not simply looking for suppliers of products and services. Rather, they are looking for partners who can make proposals and implement them throughout the entire IT system lifecycle.

The mission of the Fujitsu Group is to continually strive to create new value by providing customers with comprehensive solutions comprising highly reliable high-performance products and services based on powerful technologies. Through this, we aim to grow, realize profits and foster mutually beneficial relationships in our communities worldwide. Based on our thorough understanding of their business environments and overall situations, we help customers utilize IT to contribute to their business growth and development. In so doing, 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 IT investment is gradually increasing in Japan and abroad, we believe that the environment in which Fujitsu operates will continue to be difficult due to such factors as increasing erosion in prices for services and products, and intensifying competition. We aim to secure sufficient earnings power to consistently achieve profitable growth, even in a difficult business environment. In addition, to strengthen our relationships of trust with customers even more, we will work to further bolster our financial condition.

Along with redoubling our emphasis on the fundamentals of thinking and acting from the customer's perspective, assuring quality and timely delivery, and improving speed of action, we are marshalling the efforts of the entire Fujitsu Group in pursuit of the following four key challenges in fiscal 2004 and beyond.

#### (1) Reinforcing our existing businesses

We are working aggressively to raise quality, lower costs, and pick up the pace in every aspect of our operations, including design, development, production and sales. Along with advancing our company-wide manufacturing innovation campaign, we are pursuing improvements in the quality, cost and speed of our software development activities by promoting the broader application of our SDAS comprehensive system development framework. In addition, we are enhancing the structure of our Risk Management Office, which assesses business agreements, to deal more effectively with risk. And looking toward the application of percentage-of-completion methods going forward, we are working to improve project visibility and further strengthen project management.

While pursuing a company-wide sales expansion campaign leveraging our competitive server, storage, middleware and other products – and differentiating them from the offerings of competitors – we are also further promoting and enhancing TRIOLE, our integrated infrastructure for IT optimization and superior overall system reliability. At the same time, we are working to further expand our outsourcing services, a field in which we expect to see growth in the future.

#### (2) Seizing new opportunities for growth

We are also working to strengthen our involvement in emerging markets related to ubiquitous networking as well as in overseas markets. In ubiquitous networking, we will differentiate ourselves from competitors on the strength of our ability to provide comprehensive solutions

combining our leading-edge electronic devices, products, software and services. With respect to overseas markets, we have reviewed and realigned our group company structure in Europe, North America, Asia and Australasia. As part of the overseas rollout of TRIOLE, we are setting up a TRIOLE Integration Centre in the UK to advance the development of high-reliability system construction and operation models and the sharing of advanced case studies globally. We are also working to expand our overseas business by pursuing strategic alliances with global partners, such as our collaborations with Sun Microsystems and Microsoft in the server business.

In our electronic devices business, construction is proceeding according to schedule for a new mass-production line at our Mie semiconductor plant. Scheduled to become operational in April 2005, the new line will produce logic chips on 300 mm wafers utilizing our leading-edge 90nm and 65nm process technologies.

### (3) Fundamentally reforming our organization

To respond to customers more quickly and provide seamless support throughout the lifecycles of their IT systems, we are fundamentally reforming our organization to eliminate overlap and competition among business operations and functions, and to create an organization that is easy for customers to understand. More specifically, to enhance our maintenance and support organization and expand operating services, we have made Fujitsu Support & Service a wholly owned subsidiary. Further, in addition to the integration of our systems engineering and sales groups in June and their reorganization along industry-specific and regional lines, we are realigning our regional systems engineering companies and taking other measures to steadily improve our organization and strengthen our ability to respond to the needs of regional and mid-sized corporate customers. Going forward, we will continue to reform our organization by strengthening parent-subsidiary ties, as well as relationships among group companies, in order to improve the quality and speed of our responsiveness to customers.

### (4) Innovating our management systems and approach

We are also revising our internal systems and methods. To bring R&D even more closely in alignment with business operations, we are re-examining our decision-making process for selecting research themes and strengthening our intellectual property strategy. With respect to personnel systems, we are continually reforming methods and approach so as to make the most of each employee's potential, and we are revising our approach to organizational structure, including clarifying responsibilities and authority.

As a foundation for promoting the above measures, we promulgated a creed called "The FUJITSU Way," which sets forth the company's mission, values and code of conduct. To further speed its taking root throughout the organization, in July we established The Fujitsu Way Promotion Committee, which reports directly to the Management Council, and The Fujitsu Way Promotion Office, to coordinate implementation activities.

Through unwavering efforts, and a spirit of further self-improvement, we are committed to meeting these challenges, serving as trusted partner to our customers, and being a respected global company that contributes to the realization of a vibrant networked world.

## **Our Position Regarding Lowering of Minimum Tradable Share Units\***

Recognizing that participation in the equity market by individual investors can help promote the vitality of the market as well as foster a stable base of long-term Fujitsu shareholders, we carry out an active investor relations program aimed at making accurate company information available on a regular and timely basis.

Although reducing the minimum number of shares that individuals could trade would help promote the participation of individual investors in capital markets and be one effective means of increasing stock liquidity, taking into consideration the current level of Fujitsu's shares, the total number of shareholders and proportion of individual shareholders, as well as the liquidity of Fujitsu's shares in the market, we believe it would be premature at present to do so.

We will review this stance as appropriate, taking into consideration future trends regarding individual investors in the capital markets as well as changes in the price of our shares and other factors.

\* Refers to current practice whereby Fujitsu's shares may only be traded in units of not less than 1,000 shares.

## 6. FY 2004 Earnings Projections

### FY 2004 Full-Year Projections

(Billion Yen)			
	FY 2004 (Projected)	Comparison with July projection	FY 2003 (Actual)
Net Sales	4,900	- 50	4,766.8
Operating Income	200	-	150.3
Net Income	70	-	49.7

During the first half we experienced strong demand for such products as 3G mobile phone base stations and system chips for digital AV equipment. As a result of this, as well as progress made in reducing costs and decreased expenses from restructuring initiatives, operating income and net income exceeded the targets set at the beginning of the fiscal year.

Regarding net sales for the full fiscal year, we now foresee a downturn during the second half in the markets for certain products, including semiconductors, displays, and mobile phones. Therefore, we have revised downwards by 50 billion yen, to 4,900 billion yen, our consolidated net sales projection for the full year compared to what we forecast previously.

We are maintaining the full-year projection of 200 billion yen in consolidated operating income that we made at the beginning of the fiscal year. In the Software & Services segment, although our overseas business is moving in a favorable direction, especially in Europe where major government-sector projects have now started to contribute to earnings, in Japan downward pressure on prices is continuing and uncertainties have increased. At present, we do not foresee being able to offset by the end of the fiscal year the impact from projects whose deteriorating profitability became apparent during the first half. As previously mentioned, we are now concentrating on reducing losses from projects whose profitability has deteriorated under a new organizational structure dedicated to improving project oversight.

Going forward, we will continue to make every possible effort to improve the profitability of our software and services business. In addition to strengthening support for and speeding responsiveness to customers through such measures as consolidating our sales and systems engineering groups and realigning Fujitsu Support and Services as a wholly owned subsidiary, we are working to improve operating efficiencies through the application of our SDAS comprehensive systems development framework and implement more stringent project management.

Although first-half results in the Platforms and Electronic Devices business segments exceeded initial targets, due to anticipated deterioration in the market conditions for semiconductors, displays and mobile phones in the second half, we expect full-year results in these business segments to be roughly in line with the projections we made at the beginning of the fiscal year. Despite increasing uncertainty regarding future market conditions, we will continue to work to strengthen earnings in our operations through further improvements in the area of manufacturing innovation and through ongoing efforts to reduce costs and trim operating expenses.

In addition to the foregoing factors, through initiatives in non-business units to improve corporate-wide efficiencies, we expect that overall results will be able to make up for deterioration in the Software & Services segment.

We are currently moving forward with preparations for the adoption of the International Financial Reporting Standards (IFRS) and plan to finalize the time frame and methodology for making this transition, taking into account the degree of progress in developing the necessary operational procedures and developments in the securities and exchange laws of Japan and Europe. We are

working to steadily bring our accounting policies in line with the IFRS through such steps as the application of the percentage-of-completion method for software development contracts.

Notes:

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.

These materials may contain forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results may differ materially from those projected or implied in the forward-looking statements due to, without limitation, the following factors:

- General economic and market conditions in key markets (particularly Japan, North America and Europe)
- Variability in high-technology markets (particularly for semiconductors, PCs, mobile phones, etc.)
- Fluctuations in currency exchange rates or interest rates
- Fluctuations in capital markets
- Intensifying price competition
- Changes in market positioning due to competition in R&D
- Changes in the environment for procurement of parts and components
- Changes in competitive relationships relating to collaborations, alliances and technology provision
- Potential emergence of unprofitable projects

## Part III: Supplementary Information

### 1. Forecasts for FY 2004

#### a. Consolidated Business Segment Information

##### (1) Sales to Unaffiliated Customers

		Yen (billions)		Yen (billions)				
		FY 2003		FY 2004				
		1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY03 (%)	Full Year (Forecast)	Change vs. FY03 (%)	Change vs. previous forecast* (Bil. Yen)
<b>Software &amp; Services</b>	Japan	Y 671.4	1,580.8	667.7	-0.5	<b>1,590.0</b>	+0.6	-
	Overseas	237.8	513.4	248.7	+4.6	<b>530.0</b>	+3.2	-
	Total	Y 909.3	2,094.2	916.5	+0.8	<b>2,120.0</b>	+1.2	-
<b>Platforms</b>	Japan	505.0	1,150.4	552.3	+9.4	<b>1,220.0</b>	+6.0	-20.0
	Overseas	218.8	457.7	235.5	+7.7	<b>520.0</b>	+13.6	-
	Total	723.8	1,608.1	787.9	+8.9	<b>1,740.0</b>	+8.2	-20.0
<b>Electronic Devices</b>	Japan	164.6	378.4	219.9	+33.6	<b>450.0</b>	+18.9	-10.0
	Overseas	170.0	355.8	173.5	+2.0	<b>350.0</b>	-1.6	-20.0
	Total	334.7	734.3	393.5	+17.6	<b>800.0</b>	+8.9	-30.0
<b>Financing</b>	Japan	50.3	50.3	-	-	-	-	-
	Overseas	-	-	-	-	-	-	-
	Total	50.3	50.3	-	-	-	-	-
<b>Other Operations</b>	Japan	100.9	218.1	97.9	-3.0	<b>200.0</b>	-8.3	-
	Overseas	22.6	61.6	24.1	+6.6	<b>40.0</b>	-35.1	-
	Total	123.6	279.7	122.1	-1.2	<b>240.0</b>	-14.2	-
<b>Total</b>	Japan	Y 1,492.5	3,378.2	1,538.0	+3.1	<b>3,460.0</b>	+2.4	-30.0
	Overseas	649.4	1,388.6	681.9	+5.0	<b>1,440.0</b>	+3.7	-20.0
	Total	Y 2,141.9	4,766.8	2,220.0	+3.6	<b>4,900.0</b>	+2.8	-50.0

##### (2) Sales to Unaffiliated Customers by Products and Services

		Yen (billions)		Yen (billions)				
		FY 2003		FY 2004				
		1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY03 (%)	Full Year (Forecast)	Change vs. FY03 (%)	Change vs. previous forecast* (Bil. Yen)
<b>Software &amp; Services</b>	Solutions/SI	Y 413.7	970.0	392.8	-5.1	<b>940.0</b>	-3.1	-
	Infrastructure Services	495.6	1,124.2	523.7	+5.7	<b>1,180.0</b>	+5.0	-
	Total	Y 909.3	2,094.2	916.5	+0.8	<b>2,120.0</b>	+1.2	-
<b>Platforms</b>	Server-related	Y 154.0	365.6	174.0	+13.0	<b>395.0</b>	+8.0	-
	Mobile / IP Networks	80.9	207.2	103.0	+27.3	<b>210.0</b>	+1.4	+20.0
	Transmission Systems	80.6	167.4	81.1	+0.6	<b>200.0</b>	+19.5	-
	PCs & Mobile Phones	322.0	680.9	326.0	+1.2	<b>700.0</b>	+2.8	-40.0
	HDD-related	86.3	187.0	103.8	+20.3	<b>235.0</b>	+25.7	-
	Total	Y 723.8	1,608.1	787.9	+8.9	<b>1,740.0</b>	+8.2	-20.0
<b>Electronic Devices</b>	Semiconductors	Y 182.3	403.9	219.9	+20.6	<b>430.0</b>	+6.5	-
	Others	152.4	330.4	173.6	+13.9	<b>370.0</b>	+12.0	-30.0
	Total	Y 334.7	734.3	393.5	+17.6	<b>800.0</b>	+8.9	-30.0

\*Change vs. previous forecast refers to comparison with previous forecast made on July 29, 2004.



(3) Net Sales including Intersegment Sales:

		Yen (billions)		Yen (billions)				
		FY 2003		FY 2004				
		1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY03 (%)	Full Year (Forecast)	Change vs. FY03 (%)	Change vs. previous forecast* (Bil. Yen)
Software & Services	Unaffiliated customers	Y 909.3	2,094.2	916.5	+0.8	2,120.0	+1.2	-
	Intersegment	31.8	52.1	17.7	-44.2	40.0	-23.2	-
	Total	Y 941.1	2,146.3	934.3	-0.7	2,160.0	+0.6	-
Platforms	Unaffiliated customers	723.8	1,608.1	787.9	+8.9	1,740.0	+8.2	-20.0
	Intersegment	104.1	224.7	75.3	-27.7	160.0	-28.8	-
	Total	827.9	1,832.8	863.2	+4.3	1,900.0	+3.7	-20.0
Electronic Devices	Unaffiliated customers	334.7	734.3	393.5	+17.6	800.0	+8.9	-30.0
	Intersegment	33.0	70.3	32.6	-0.9	70.0	-0.5	-
	Total	367.7	804.6	426.1	+15.9	870.0	+8.1	-30.0
Financing	Unaffiliated customers	50.3	50.3	-	-	-	-	-
	Intersegment	4.0	4.0	-	-	-	-	-
	Total	54.4	54.4	-	-	-	-	-
Other Operations	Unaffiliated customers	123.6	279.7	122.1	-1.2	240.0	-14.2	-
	Intersegment	66.3	138.5	51.2	-22.8	100.0	-27.8	-
	Total	189.9	418.2	173.3	-8.8	340.0	-18.7	-
Elimination		(239.4)	(489.7)	(177.0)	-	(370.0)	-	-
Total	Y	2,141.9	4,766.8	2,220.0	+3.6	4,900.0	+2.8	-50.0

(4) Operating Income (Loss) including Intersegment Transaction:  
[Operating margin]

		Yen (billions)		Yen (billions)				
		FY 2003		FY 2004				
		1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY03	Full Year (Forecast)	Change vs. FY03	Change vs. previous forecast*
Software & Services	Y	28.8	138.7	15.5	-13.3	155.0	+16.2	-15.0
		[3.1%]	[6.5%]	[1.7%]	[-1.4%]	[7.2%]	[+0.7%]	[-0.7%]
Platforms		(20.7)	29.2	3.7	+24.4	45.0	+15.7	-
		[(2.5%)]	[1.6%]	[0.4%]	[+2.9%]	[2.4%]	[+0.8%]	[+0.1%]
Electronic Devices		(1.2)	27.5	34.5	+35.7	50.0	+22.4	-
		[(0.3%)]	[3.4%]	[8.1%]	[+8.4%]	[5.7%]	[+2.3%]	[+0.1%]
Financing		2.0	2.0	-	-2.0	-	-2.0	-
		[3.7%]	[3.7%]	-	[-]	[-]	[-]	[-]
Other Operations		5.0	13.6	6.7	+1.7	15.0	+1.3	+5.0
		[2.6%]	[3.3%]	[3.9%]	[+1.3%]	[4.4%]	[+1.1%]	[+1.5%]
Elimination		(31.9)	(60.8)	(27.3)	+4.6	(65.0)	-4.1	+10.0
Total	Y	(17.9)	150.3	33.2	+51.2	200.0	+49.6	-
		[(0.8%)]	[3.2%]	[1.5%]	[+2.3%]	[4.1%]	[+0.9%]	[+0.1%]

\*Change vs. previous forecast refers to comparison with previous forecast made on July 29, 2004.

## b. PC Shipments

### (1) By Customer's Geographic Location

(Million Units)					
	FY 2003		FY 2004		Change vs. previous forecast*
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
Japan	1.24	2.58	1.235	<b>2.65</b>	-0.10
Overseas	1.54	3.96	2.005	<b>4.52</b>	+0.16
Total	2.78	6.54	3.240	<b>7.17</b>	+0.06

### (2) By Product Category

(%)					
	FY 2003		FY 2004		Change vs. previous forecast*
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
Desktop	45	46	47	<b>48</b>	-
Notebook	55	54	53	<b>52</b>	-

## c. Mobile Phone Shipments

(Million Units)					
	FY 2003		FY 2004		Change vs. previous forecast*
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
	1.78	3.37	1.53	<b>3.23</b>	-0.77

## d. HDD Production

(Million Units)					
	FY 2003		FY 2004		Change vs. previous forecast*
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
	5.53	12.47	8.50	<b>20.00</b>	+1.50

## e. Electronic Devices

### (1) Net Sales of Semiconductors

(Billion Yen)					
	FY 2003		FY 2004		Change vs. previous forecast*
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
	204.5	453.4	245.8	<b>480.0</b>	-
[Internal use]	[22.2]	[49.5]	[25.9]	<b>[50.0]</b>	[-]

### (2) Composition of Semiconductor Sales by Product Category

(%)					
	FY 2003		FY 2004		Change vs. previous forecast*
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
Logic	60	63	71	<b>72</b>	-
System memory	33	31	29	<b>28</b>	-
Compound semiconductor and others	7	6	0	<b>0</b>	-

### (3) Composition of Capital Expenditure

(Billion Yen)					
	FY 2003		FY 2004		Change vs. previous forecast*
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
Total	24.7	59.3	32.3	<b>95.0</b>	+5.0
[Semiconductors]	[13.9]	[30.1]	[17.9]	<b>[55.0]</b>	[+5.0]
[PDP]	[2.4]	[10.7]	[6.1]	<b>[18.0]</b>	[-1.0]

\*Change vs. previous forecast refers to comparison with previous forecast made on July 29, 2004.

## f. R&D Expenditure

	Yen (billions)		Yen (billions)				
	FY 2003		FY 2004				
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY03 (%)	Full Year (Forecast)	Change vs. FY03 (%)	Change vs. previous forecast* (Bil. Yen)
	126.4	250.9	125.9	-0.4	255.0	+1.6	-10.0
As % of sales	5.9%	5.3%	5.7%		5.2%		-0.2%

## g. Capital Expenditures, Depreciation

	Yen (billions)		Yen (billions)				
	FY 2003		FY 2004				
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY03 (%)	Full Year (Forecast)	Change vs. FY03 (%)	Change vs. previous forecast* (Bil. Yen)
<b>Capital Expenditures</b>							
Software & Services	22.5	54.0	26.7	+18.6	70.0	+29.5	-
Platforms	14.3	32.4	18.1	+25.9	45.0	+38.7	-5.0
Electronic Devices	24.7	59.3	32.3	+30.6	95.0	+60.1	+5.0
Corporate and others	4.9	13.9	7.4	+48.9	25.0	+78.9	-
Total	66.7	159.7	84.6	+26.9	235.0	+47.1	-
Japan	57.8	135.3	63.9	+10.6	185.0	+36.7	-
Overseas	8.8	24.4	20.6	+133.0	50.0	+104.4	-
<b>Depreciation</b>	97.3	200.0	81.0	-16.8	185.0	-7.5	-10.0

## h. Consolidated Statements of Cash Flows

	FY 2003		FY 2004		
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	Change vs. previous forecast*
(A) Cash flows from operating activities	37.4	304.0	50.1	360.0	-10.0
[Net income]	[(58.5)]	[49.7]	[(8.1)]	[70.0]	-
[Depreciation **]	[137.3]	[292.9]	[113.5]	[260.0]	-10.0
[Others]	[(41.3)]	[(38.6)]	[(55.1)]	[30.0]	-
(B) Cash flows from investing activities	(30.3)	67.3	(55.6)	(260.0)	+10.0
(C) Free cash flow (A)+(B)	7.0	371.4	(5.4)	100.0	-
(D) Cash flows from financing activities	(50.6)	(239.9)	(184.8)	(230.0)	-
(E) Total (C)+(D)	(43.5)	131.5	(190.2)	(130.0)	-

\*Change vs. previous forecast refers to comparison with previous forecast made on July 29, 2004.

\*\* Including amortization of goodwill

## 2. Exchange Rates

Average Rates for

FY 2003		FY 2004		Change vs. previous forecast*
1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	<b>2nd Half (Forecast)</b>	
\$1=118 yen	\$1=108 yen	\$1=110 yen	\$1=110 yen	-

## 3. Employees

		(Thousands)		
		2003/3/31	2003/9/30	2004/3/31
				<b>2004/9/30</b>
Japan		109	107	105
[Parent Company]		[35]	[35]	[35]
Overseas		48	48	51
Total		157	155	156
				<b>153</b>

\*Change vs. previous forecast refers to comparison with previous forecast made on July 29, 2004.