

Explanation of Financial Results

1. Overview

Business Environment

During the first quarter of fiscal 2004 the overall business environment in which we operate showed improvement worldwide. In Japan, corporate results sharply recovered, spurred by exports to markets like China and the US. In terms of consumer spending, with the Olympics approaching, products like digital AV equipment showed signs of growth, and the mild recovery continued. Overseas, the US economy continued to expand, strong growth continued in China and other Asian countries, and signs of mild recovery, including expansion of exports, became evident in Europe and elsewhere. Although there were differences in degree from country to country, evidence of a global trend toward recovery became more pronounced.

Earlier this month, many visitors attended Fujitsu Solution Forum 2004 in Tokyo – whose theme was “Experiencing the Ubiquitous Networking Future” – to see our technologies and products. There, they were able to experience first-hand the ways in which we are incorporating major technological advances in wireless communications, power saving, chip miniaturization and biometrics into solutions that will provide unprecedented convenience in shopping, financial services and medical services, as well as sophisticated office environments offering greater efficiency and mobility. To support this sort of future, there is greater need than ever for revolutionary, highly efficient systems that integrate networks, software and high-speed, highly reliable servers able to process vast amounts of data. With core strengths in these technologies, Fujitsu is ideally positioned to contribute to the realization of this exciting new world.

In today’s IT industry, resources must be continuously funneled into developing new technologies and products as well as costly facilities, and new technologies are quickly put into widespread use. It is a relentlessly competitive industry in which there can be rapid reductions in prices but also explosive increases in unit volumes. Nevertheless, we expect that the coming world of ubiquitous networking will bring qualitative changes to – and a quantitative expansion of – the IT market and that significant growth will continue into the future.

Profit and Loss

Net sales for the first quarter were 1,008.1 billion yen (US\$9,249 million), marking a recovery in which sales for the quarter exceeded the one trillion yen level for the first time in three years, and representing a 7.4% increase over the same period last year. For continuing operations excluding the impact of the restructuring of our Flash memory business and other operations

implemented last year, there was a substantial 13.8% increase in revenue over the comparable period in fiscal 2003.

Although sales in the Software & Services segment rose only slightly, sales of chips, hard disk drives and plasma display panels – key components for mobile phones, digital AV equipment and other products – increased significantly. In addition, in response to growth in demand, there were higher sales of mobile communication base stations, optical transmission equipment, mission-critical servers, and ATM machines able to accommodate new banknotes in Japan.

The cost of sales ratio was 74.0%, a deterioration of 0.5% from the same period last year. Selling, general and administrative expenses, however, declined to the 260 billion yen level, or 26.4% of sales, marking a major reduction of 4.1% from the comparable period last year. As a result of these factors, we recorded an operating loss of 4.3 billion yen (US\$40 million). Although still a loss, the higher sales and reduction in expenses produced a significant improvement of 33.5 billion yen compared with the operating loss of 37.8 billion yen in the comparable period last year. It is the smallest first-quarter operating loss since we began announcing financial results on a quarterly basis.

Pricing pressure became more intense in our software and services businesses as well as in servers and personal computers, and profit margins deteriorated for mobile phones requiring more sophisticated functionality. Nevertheless, thanks to substantial cost reductions from manufacturing innovation, as well as the effects of the global restructuring carried out last year and other efforts to improve operational efficiency, we were able to control overall costs in relation to the increase in sales.

Net other expenses amounted to 11.4 billion yen, a major improvement of 5.8 billion yen over the same period last year. As a result of the rise in stock prices at the end of fiscal 2003 and the transfer of the substitutional portion of the employees' pension plan, we were able to reduce expenses for elimination of employee retirement obligations by 4.5 billion yen. Moreover, by reducing interest-bearing liabilities, interest payments for corporate bonds and long-term debt declined, resulting in a 2.2 billion yen improvement in financing expenditures.

The resulting net loss of 11.8 billion yen (US\$109 million) for the first quarter represents a significant improvement of 27.9 billion yen over the 39.8 billion yen net loss recorded in the same period in fiscal 2003.

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