

FY 2004 First-Quarter Financial Results

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1. Summary of FY 2004 First-Quarter Consolidated Results

(Three months ended June 30)

a. Summary of Consolidated Statements of Operations

	Yen (millions) (except per share data)		
	2004	2003	Change (%)
Net sales	Y 1,008,148	Y 938,738	+7.4
Operating income (loss)	(4,381)	(37,886)	-
Income (loss) before income taxes and minority interests	(15,803)	(32,853)	-
Net income (loss)	(11,841)	(39,808)	-
Net income (loss) per common share	Y (5.92)	Y (19.90)	-

b. Net Sales to Unaffiliated Customers by Business Segment

	Yen (millions)		
	2004	2003	Change (%)
Software & Services	Y 384,547	Y 383,346	+0.3
Platforms	359,488	312,249	+15.1
Electronic Devices	203,910	162,646	+25.4
Financing	-	20,795	-
Other Operations	60,203	59,702	+0.8
Total	Y 1,008,148	Y 938,738	+7.4

c. Summary of Consolidated Financial Condition

	Yen (millions)		
	June 30 2004	March 31 2004	June 30 2003
Total assets	Y 3,607,501	Y 3,865,589	Y 4,056,251
Shareholders' equity	815,241	827,177	679,471
Shareholders' equity ratio	22.6 %	21.4 %	16.8 %
Shareholders' equity per share	Y 407.56	Y 413.22	Y 339.68

d. Summary of Consolidated Statements of Cash Flows

	Yen (millions)		
	2004	2003	FY 2003 Full Year
Cash flows from operating activities	Y (53,647)	Y (85,902)	Y 304,045
Cash flows from investing activities	(35,117)	5,566	67,389
Cash flows from financing activities	(67,006)	69,719	(239,902)
Cash and cash equivalents at end of period	246,561	272,623	413,826

2. Consolidated Earnings Forecast for FY 2004 (April 1, 2004 - March 31, 2005)

	Yen	
	(billions)	
	(except per share data)	
	FY 2004 1st Half (Forecast)	FY 2004 Full Year (Forecast)
Net sales	Y 2,250.0	Y 4,950.0
Operating income	10.0	200.0
Net income (loss)	(25.0)	70.0
Net income (loss) per common share	Y (12.50)	Y 35.00

3. First-Quarter Consolidated Statements of Operations (Unaudited)

(Three months ended June 30)

	Yen (millions)		
	2004	2003	Change (%)
Net sales	Y 1,008,148	Y 938,738	+7.4
Operating costs and expenses:			
Cost of goods sold	745,848	689,561	+8.2
Selling, general and administrative expenses	266,681	287,063	-7.1
	<u>1,012,529</u>	<u>976,624</u>	
Operating income (loss)	(4,381)	(37,886)	-
Other income (expenses):			
Net interest	(911)	(3,119)	
Equity in earnings of affiliated companies, net	2,559	1,860	
Amortization of unrecognized obligation for retirement benefits	(9,863)	(14,446)	
Casualty loss	-	(4,700)	
Gain on sales of marketable securities	-	26,974	
Other, net	(3,207)	(1,536)	
	<u>(11,422)</u>	<u>5,033</u>	-
Income (loss) before income taxes and minority interests	(15,803)	(32,853)	-
Income taxes	(5,630)	7,161	-
Minority interests	(1,668)	206	-
Net income (loss)	<u>Y (11,841)</u>	<u>Y (39,808)</u>	-

Increase in Net Sales Excluding Impact of Restructuring

	Increase (%) FY 03 1Q to FY 04 1Q	
	Actual	Excluding restructuring impact
Net Sales	7.4%	13.8%
Software & Services*	0.3%	1.8%
Platforms	15.1%	15.1%
Electronic Devices	25.4%	45.0%
Other Operations	0.8%	24.6%

*Increase by segment is calculated by net sales to unaffiliated customers.

Restructuring impact: -52.5 billion yen

Major realignments: Sale of Fujitsu Consulting's operations in Spain
Joint venture in Flash memory business
Joint venture in compound semiconductor business
Outside capital tie-up for FDK Corporation
Outside capital tie-up for leasing operation

4. First-Quarter Consolidated Business Segment Information (Unaudited)

(Three months ended June 30)

a. Sales to Unaffiliated Customers

		Yen (millions)		Change (%)
		2004	2003	
Software & Services	Japan	Y 266,181	Y 266,064	0.0
	Overseas	118,366	117,282	+0.9
	Total	Y 384,547	Y 383,346	+0.3
Platforms	Japan	248,858	216,109	+15.2
	Overseas	110,630	96,140	+15.1
	Total	359,488	312,249	+15.1
Electronic Devices	Japan	108,545	75,634	+43.5
	Overseas	95,365	87,012	+9.6
	Total	203,910	162,646	+25.4
Financing	Japan	-	20,795	-
	Overseas	-	-	-
	Total	-	20,795	-
Other Operations	Japan	47,368	49,065	-3.5
	Overseas	12,835	10,637	+20.7
	Total	60,203	59,702	+0.8
Total	Japan	670,952	627,667	+6.9
	Overseas	337,196	311,071	+8.4
	Total	Y 1,008,148	Y 938,738	+7.4

b. Sales to Unaffiliated Customers by Products and Services

		Yen (billions)		Change (%)
		2004	2003	
Software & Services	Solutions/SI	Y 146.7	Y 154.8	-5.2
	Infrastructure Services	237.8	228.5	+4.1
	Total	Y 384.5	Y 383.3	+0.3
Platforms	Server-related	Y 75.0	Y 65.1	+15.2
	Mobile / IP Networks	43.9	37.4	+17.4
	Transmission Systems	39.4	36.4	+8.2
	PCs & Mobile Phones	152.2	140.0	+8.7
	HDD-related	48.9	33.3	+46.8
	Total	Y 359.4	Y 312.2	+15.1
Electronic Devices	Semiconductors	Y 110.3	Y 90.3	+22.1
	Others	93.6	72.3	+29.5
	Total	Y 203.9	Y 162.6	+25.4

c. Net Sales including Intersegment Sales

		Yen (millions)		Change (%)
		2004	2003	
Software & Services	Unaffiliated customers	Y 384,547	Y 383,346	+0.3
	Intersegment	7,366	11,925	-38.2
	Total	Y 391,913	Y 395,271	-0.8
Platforms	Unaffiliated customers	359,488	312,249	+15.1
	Intersegment	30,331	41,711	-27.3
	Total	389,819	353,960	+10.1
Electronic Devices	Unaffiliated customers	203,910	162,646	+25.4
	Intersegment	16,114	16,728	-3.7
	Total	220,024	179,374	+22.7
Financing	Unaffiliated customers	-	20,795	-
	Intersegment	-	1,312	-
	Total	-	22,107	-
Other Operations	Unaffiliated customers	60,203	59,702	+0.8
	Intersegment	26,187	31,136	-15.9
	Total	86,390	90,838	-4.9
Elimination		(79,998)	(102,812)	-
Total		Y 1,008,148	Y 938,738	+7.4

d. Operating Income (Loss) including Intersegment Transactions

		Yen (millions)		Change (Million Yen)
		2004	2003	
Software & Services		Y (10,958)	Y (3,635)	-7,323
	[Operating Margin]	[(2.8%)]	[(0.9%)]	[-1.9%]
Platforms		(7,043)	(19,429)	+12,386
		[(1.8%)]	[(5.5%)]	[+3.7%]
Electronic Devices		23,863	(6,190)	+30,053
		[10.8%]	[(3.5%)]	[+14.3%]
Financing		-	974	-974
		[-]	[4.4%]	[-]
Other Operations		3,052	2,020	+1,032
		[3.5%]	[2.2%]	[+1.3%]
Elimination		(13,295)	(11,626)	-1,669
Total		Y (4,381)	Y (37,886)	+33,505
		[(0.4%)]	[(4.0%)]	[+3.6%]

5. First-Quarter Consolidated Balance Sheets (Unaudited)

	Yen (millions)	
	June 30 2004	March 31 2004
Assets		
Current assets:		
Cash and cash equivalents and short-term investments	Y 249,893	Y 416,929
Receivables, trade	633,129	810,469
Inventories	577,185	521,126
Other current assets	270,694	267,050
Total current assets	1,730,901	2,015,574
Investments and long-term loans	878,314	827,063
Property, plant and equipment less accumulated depreciation	780,556	803,023
Intangible assets	217,730	219,929
Total assets	Y 3,607,501	Y 3,865,589
Liabilities, minority interests and shareholders' equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	Y 350,398	Y 382,749
Payables, trade	655,534	796,915
Other current liabilities	498,579	538,398
Total current liabilities	1,504,511	1,718,062
Long-term liabilities:		
Long-term debt	880,491	894,372
Other long-term liabilities	225,656	235,518
Total long-term liabilities	1,106,147	1,129,890
Minority interests	181,602	190,460
Shareholders' equity:		
Common stock	324,625	324,624
Capital surplus	455,966	455,963
Retained earnings (Deficit)	(54,217)	(35,734)
Unrealized gains on securities and revaluation surplus on land	156,739	153,082
Foreign currency translation adjustments	(66,974)	(69,901)
Treasury stock	(898)	(857)
Total shareholders' equity	815,241	827,177
Total liabilities, minority interests and shareholders' equity	Y 3,607,501	Y 3,865,589
Ending balance of interest-bearing loans	Y 1,230,889	Y 1,277,121
D/E ratio	1.51	1.54

Supplementary Information

	Yen (billions)		
	FY2004 (Forecast)	FY2003 (Actual)	Change (%)
Capital expenditure	Y 235.0	Y 159.7	+47.1
Depreciation	195.0	200.0	-2.5

6. First-Quarter Consolidated Statements of Cash Flows (Unaudited)

(Three months ended June 30)

	Yen (millions)		Change (Million Yen)
	2004	2003	
1. Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	Y (15,803)	Y (32,853)	+17,050
Depreciation and amortization	53,113	72,776	-19,663
Increase (decrease) in provisions	(189)	1,802	-1,991
Equity in earnings of affiliates, net	(2,559)	(1,860)	-699
Disposal of property, plant and equipment	1,859	2,417	-558
(Increase) decrease in receivables, trade	164,241	149,470	+14,771
(Increase) decrease in inventories	(59,236)	(80,902)	+21,666
Increase (decrease) in payables, trade	(135,112)	(112,429)	-22,683
Other, net	(59,961)	(84,323)	+24,362
Net cash provided by (used in) operating activities	(53,647)	(85,902)	+32,255
2. Cash flows from investing activities:			
Purchase of property, plant and equipment	(32,501)	(39,109)	+6,608
(Increase) decrease in investments and long-term loans	1,097	53,143	-52,046
Other, net	(3,713)	(8,468)	+4,755
Net cash provided by (used in) investing activities	(35,117)	5,566	-40,683
1+2 [Free Cash Flow]	(88,764)	(80,336)	-8,428
3. Cash flows from financing activities:			
Increase (decrease) in bonds, notes, short-term borrowings and long-term debt	(48,955)	79,832	-128,787
Dividends paid	(6,000)	-	-6,000
Other, net	(12,051)	(10,113)	-1,938
Net cash provided by (used in) financing activities	(67,006)	69,719	-136,725
4. Effect of exchange rate changes on cash and cash equivalents	492	907	-415
5. Net increase (decrease) in cash and cash equivalents	(155,278)	(9,710)	-145,568
6. Cash and cash equivalents at beginning of period	413,826	282,333	+131,493
7. Cash and cash equivalents of deconsolidated subsidiaries	(11,987)	-	-11,987
8. Cash and cash equivalents at end of period	Y 246,561	Y 272,623	-26,062

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.

2. Trends in Principal Financial Indicators

(Billion Yen)

	1Q FY 2000	1Q FY 2001	1Q FY 2002	1Q FY 2003	1Q FY 2004
	<i>(100)</i>	<i>(102)</i>	<i>(92)</i>	<i>(88)</i>	<i>(94)</i>
Net Sales	1,071.8	1,089.7	982.9	938.7	1,008.1
Operating Income (Loss)	(12.5)	(42.3)	(29.0)	(37.8)	(4.3)

Free Cash Flow	---	(233.8)	(147.7)	(141.7)	(88.7)
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Note 1: Italicized figures at upper left corner of Net Sales row are index numbers based on 1Q FY 2000 = 100.

Note 2: The 1Q FY 2003 figure for Free Cash Flow excludes income of ¥61.4 billion from sales of marketable securities.

(Billion Yen)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004 (forecast)
	<i>(100)</i>	<i>(91)</i>	<i>(84)</i>	<i>(87)</i>	<i>(90)</i>
Net Sales	5,484.4	5,006.9	4,617.5	4,766.8	4,950.0
Operating Income (Loss)	244.0	(74.4)	100.4	150.3	200.0

Note 3: Italicized figures at upper left corner of Net Sales row are index numbers based on FY 2000 = 100.

(Billion Yen)

	FY 2000	FY 2001	FY 2002	FY 2003	1Q FY 2004
	<i>(100)</i>	<i>(88)</i>	<i>(81)</i>	<i>(74)</i>	<i>(69)</i>
Total Assets	5,200.0	4,595.8	4,225.3	3,865.5	3,607.5
Ending Balance of Interest-Bearing Loans	<i>(100)</i>	<i>(108)</i>	<i>(108)</i>	<i>(78)</i>	<i>(75)</i>
	1,636.2	1,760.6	1,763.7	1,277.1	1,230.8
Total Shareholders' Equity	1,214.3	853.7	702.3	827.1	815.2
Shareholders' Equity Ratio	23.4%	18.6%	16.6%	21.4%	22.6%
D/E Ratio	1.35	2.06	2.51	1.54	1.51

Note 4: Italicized figures at upper left corner of Total Assets and Ending Balance of Interest-Bearing Loans rows are index numbers based on FY 2000 = 100.

Note 5: D/E Ratio is Ending Balance of Interest-Bearing Loans / Ending Balance of Shareholders' Equity.

3. First-Quarter Results by Business Segment

Information on net sales to unaffiliated customers and operating income for the first quarter broken out by business segment is presented below.

1) Software & Services

	First Quarter FY 2004	Change from Same Period Last Year
Net Sales	¥384.5 billion	+ 0.3 %
<i>Japan</i>	¥266.1 billion	0.0 %
<i>Overseas</i>	¥118.3 billion	+ 0.9 %

Net Sales by Sub-Segment

	First Quarter FY 2004	Change from Same Period Last Year
Solutions / SI	¥146.7 billion	- 5.2 %
Infrastructure Services	¥237.8 billion	+ 4.1 %

Net sales in Software & Services were 384.5 billion yen (US\$3,528 million), up only 0.3% from the first quarter a year earlier. Excluding the impact of last year's restructuring of operations in North America, net sales increased 1.8%. Although price competition in Japan remains severe, overall IT spending is experiencing a mild rebound.

In Solutions/Systems Integration, excluding factors such as last year's restructuring of operations in North America, sales were roughly at the same level as the first quarter of last year. In Infrastructure Services, on the other hand, the large-scale public sector outsourcing contracts received last year by Fujitsu Services in the UK are starting to gradually contribute to sales, and overall sales in this business increased 4.1% over the previous year. Also in the first quarter, Fujitsu Services won an important new large-scale outsourcing contract from the National Health Service in the UK.

(Billion Yen)

	First Quarter FY 2004	Change from Same Period Last Year
Operating Income (Loss)	(10.9)	- 7.3

Software & Services posted an operating loss for the quarter of 10.9 billion yen (US\$101 million), representing a 7.3 billion yen decline in operating income compared to the first quarter of the previous year.

As a result of business restructuring initiatives implemented last year, our overseas business in this segment was profitable. However, in Japan the combination of a number of factors led to a higher operating loss. First-quarter sales in Japan tend to be lower than in other quarters, and this was the case again in this period. In addition, intensified price competition from last year continued, there were some projects whose profitability deteriorated, and we incurred higher expenses associated with forward-looking investments in Linux and other activities to open new markets. We expect to maintain our current earnings plan for the full year.

Please note that first-quarter earnings are not based on the percentage of completion method. With respect to projects whose profitability worsened in the first quarter, we are immediately recognizing projected losses. Of the 68.3 billion yen charge we took in fiscal 2003 to cover potentially uncollectible accounts, projects completed or delivered in the first quarter of fiscal 2004 accounted for 3.0 billion yen.

On June 23 of this year, we reorganized our sales and systems engineering groups, which had been separate entities since the full-fledged start of our solutions business, unifying and realigning them along industry and regional lines based on the principle of maintaining a customer-centric perspective. In the past, the sales group focused on orders and sales, while systems engineering took responsibility for profitability. Now, the groups are combined under a single authority responsible for both sales and profits. At present, we are working not only to resolve problematic projects whose profitability has worsened but are thoroughly reviewing our project management procedures for all existing projects and bolstering our customer relationships. In so doing, we will steadily improve customer satisfaction and move to a healthier business structure that can ensure an appropriate level of profits.

In addition, as a result of the sweeping global organizational improvements we implemented last fiscal year, we now have in place a clearly aligned structure for handling customers in each region, focusing on Fujitsu Consulting in North America, Fujitsu Services in Europe, and Fujitsu Limited in Japan, China and the rest of Asia, as well as strengthening intra-regional links within the group. Going forward, we intend to enhance our ability to service the needs of Japan-based customers' global business expansion while bringing the full strengths of the group to bear in servicing the needs of global corporations based in North America and Europe.

To further enhance the support we provide for lifecycle management of customers' IT systems, we will convert our core systems support and outsourcing operation, Fujitsu Support and Service, into a wholly owned subsidiary from October. By consolidating call centers and other maintenance functions within this company, we will be able to more efficiently allocate resources, speed responsiveness to customers and provide enhanced onsite operational support services, thereby providing comprehensive solutions from system delivery through operations that closely match customers' requirements.

2) Platforms

	First Quarter FY 2004	Change from Same Period Last Year
Net Sales	¥359.4 billion	+ 15.1 %
<i>Japan</i>	¥248.8 billion	+ 15.2 %
<i>Overseas</i>	¥110.6 billion	+ 15.1 %

Net Sales by Sub-Segment

	First Quarter FY 2004	Change from Same Period Last Year
Server-related	¥75.0 billion	+ 15.2 %
Mobile / IP Networks	¥43.9 billion	+ 17.4 %
Transmission Systems	¥39.4 billion	+8.2 %
PCs / Mobile Phones	¥152.2 billion	+ 8.7 %
HDD-related	¥48.9 billion	+ 46.8 %

Net sales in the Platforms segment were 359.4 billion yen (US\$3,298 million), an increase of 15.1% over the same period last year. Sales increased sharply compared to the same period last year both in Japan and overseas, as well as across all product categories. This reflected a recovery in IT spending during this quarter, and the impact on sales in the first quarter of last year relating to the transition to new products being launched then.

Sales of UNIX servers and mainframes for mission-critical enterprise systems increased, as did sales of financial terminals able to accommodate new Japanese banknotes. With the spread of 3G mobile phones and broadband networks, there were also higher sales of mobile network base stations and transmission systems to handle the increase in data loads. PC sales were impacted

by declining prices, but the strong growth since last year's second quarter in hard disk drives – particularly those for notebook PCs – continued, with significantly higher sales compared to the same period last year.

(Billion Yen)		
	First Quarter FY 2004	Change from Same Period Last Year
Operating Income (Loss)	(7.0)	+ 12.3

We recorded an operating loss of 7.0 billion yen (US\$65 million) in the Platforms segment, an improvement of 12.3 billion yen over the comparable period last year. Although products such as servers and PCs continued to face declining prices, this impact was offset by higher sales from unit volume increases as well as progress in cost efficiencies from manufacturing reforms, resulting in a significant improvement in operating income compared to the previous year.

To strengthen and develop our business on a worldwide basis as a leading global IT vendor, we pursued further strategic alliances with key global partners in the fundamentally important field of servers.

In UNIX servers, we reached an agreement to partner with Sun Microsystems in jointly developing future generation products centering on our device technology, with the first products scheduled to be launched in 2006 and marketed under a unified brand through each company's sales channels. It is also planned that prior to 2006 Sun will sell our existing servers.

In the field of Intel Architecture (IA) servers, in addition to our ongoing collaboration with Intel, we enhanced our cooperation with Microsoft, reaching an agreement to use Microsoft's next operating system in our next-generation mission-critical IA server, which is scheduled to launch in 2005.

Our objective in pursuing these types of alliances with leading global corporations is to secure product development and support efficiencies as servers move more toward open standards and to leverage the mission-critical technology we have developed as a leading mainframe vendor to strengthen our overall server business.

In addition, we will extend our TRIOLE IT infrastructure model, which is already being rolled out in Japan, to overseas markets, thereby advancing our comprehensive global IT solutions business – from hardware to software.

*TRIOLE: High-reliability IT infrastructure utilizing pre-verified combinations of servers, storage systems, network equipment, etc.

3) Electronic Devices

	First Quarter FY 2004	Change from Same Period Last Year
Net Sales	¥203.9 billion	+ 25.4 %
<i>Japan</i>	¥108.5 billion	+ 43.5 %
<i>Overseas</i>	¥95.3 billion	+ 9.6 %

Net Sales by Sub-Segment

	First Quarter FY 2004	Change from Same Period Last Year
Semiconductors	¥110.3 billion	+ 22.1 %
Other	¥93.6 billion	+ 29.5 %

Net sales of Electronic Devices were 203.9 billion yen (US\$1,871 million), a 25.4% gain over the first quarter the year before. Adjusting for the accounting impact of transferring our compound semiconductor business to a joint venture with Sumitomo Electric Industries in April of this year (entailing a switch to equity method accounting) and the loss of revenues associated with the reorganization of our Flash memory operations at the end of June of last year, sales would have increased by the high rate of 45.0%

The steep rise in sales was attributable to continued strong demand for logic chips and Flash memory used in mobile phones and digital AV equipment, as well as strong demand for plasma display panels and liquid crystal displays in advance of this summer's Athens Olympics.

(Billion Yen)

	First Quarter FY 2004	Change from Same Period Last Year
Operating Income	23.8	+ 30.0

Electronic Devices posted a fourth straight profitable quarter, with operating income of 23.8 billion yen (US\$219 million). Last year's first-quarter results were affected by such factors as an earthquake that temporarily limited production operations, resulting in an operating loss, but capacity utilization rates have remained high since the second quarter of last year. As a result, compared to the previous year, operating income improved sharply, rising by 30.0 billion yen.

In April we started construction according to plan on a new facility at our Mie Plant to mass-produce logic chips utilizing state-of-the-art 90- and 65-nanometer volume process technology on 300mm wafers. Going forward, in line with internal needs we will strengthen our collaboration with strategic partners and, undertaking facilities expansion in phases, work to minimize risk and maximize earnings and cash flow.

4) Other

On June 1 of this year, we sold our logistics subsidiary to the Japanese subsidiary of UK-based Exel. Through collaboration with Exel, we will continue to improve our global distribution network, deploy more sophisticated supply chain management, and strive to ensure more timely supply of products to customers around the world.

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

4. Financial Condition

Assets, Liabilities and Shareholders' Equity

(Billion Yen)

	First Quarter FY 2004	Change from FY 2003 Year-End
Total Assets	3,607.5	- 258.0
(Cash, Deposits and Marketable Securities)	(249.8)	(- 167.0)
Interest-Bearing Loans	1,230.8	- 46.2
Shareholders' Equity	815.2	- 11.9

Debt/Equity Ratio	1.51	- 0.03
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Total assets at the end of the first quarter were 3,607.5 billion yen, a decrease of 258.0 billion yen compared to the end of the previous fiscal year, as we further increased asset utilization efficiency. During this period we moved our compound semiconductor business to a joint venture with Sumitomo Electric Industries and now account for that business under the equity method.

Total current assets were 1,730.9 billion yen, down 284.6 billion yen from the end of the last fiscal year. While inventories increased to support higher anticipated sales in the second quarter 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 payment of trade payables and operating expenses.

Total fixed assets were 1,876.6 billion yen, an increase of 26.5 billion yen from the end of the prior fiscal year. While property, plant and equipment decreased, investments and other assets increased because of higher market prices for marketable securities and other factors.

Total liabilities were 2,610.6 billion yen, a reduction of 237.2 billion yen compared to the end of the previous fiscal year. This was largely because trade payables were paid and corporate bonds were redeemed. Interest-bearing loans totaled 1,230.8 billion yen, a reduction of 46.2 billion yen from the end of the preceding fiscal year. The debt/equity ratio also continued to improve toward the targeted ratio of 1.0, ending the first quarter at 1.51. Net interest-bearing loans (total interest-bearing loans less cash and cash equivalents) increased, however, by 121.0 billion yen because the reduction of cash on hand exceeded the amount of bond redemptions.

Total shareholders' equity declined by 11.9 billion yen from the end of the preceding fiscal year, to 815.2 billion yen as a result of the net loss for the quarter. Because the reduction in total assets exceeded the decrease in equity, however, the shareholders' equity ratio improved 1.2% over the end of the prior fiscal year, to 22.6%.

Summary of Cash Flows

(Billion Yen)

	First Quarter FY 2004	Change from First Quarter FY 2003
Cash Flows from Operating Activities	- 53.6	+ 32.2
Cash Flows from Investing Activities	- 35.1	- 40.6
Free Cash Flow	- 88.7	- 8.4

Net cash used in operating activities in the first quarter of fiscal 2004 was 53.6 billion yen. Although there was an increase in cash flow as a result of the collection of trade receivables booked at the end of the preceding fiscal year, this was offset by the outflow due to the expansion of inventories in anticipation of higher sales starting in the second quarter. Compared to the same period last year, this marked an improvement of 32.2 billion yen, resulting from the greater profitability of business operations and higher efficiency in the management of working capital, particularly inventories.

Net cash used in investing activities was 35.1 billion yen, related primarily to expenditures in plant and equipment. This represented a deterioration of 40.6 billion yen from the same period in the preceding fiscal year when there was an inflow of cash as a result of the sales of investment securities, including shares in Fanuc Ltd.

Free cash flow, the sum of operating and investing cash flows, was a negative 88.7 billion yen, representing an increase in outflows of 8.4 billion yen over the same period last year. If, however, the effects of prior gains from the sales of investment securities are factored out, there was an improvement of 53.0 billion yen.

As a result of applying cash on hand to the redemption of bonds and the payment of dividends, net cash used in financing activities was 67.0 billion yen.

Combining the effect of all of the above factors, total cash and cash equivalents at the end of the quarter were 246.5 billion yen, a decrease of 167.2 billion yen from the end of the prior fiscal year.

5. FY 2004 Earnings Projections

During the first quarter, against a backdrop of worldwide IT market growth centered on digital audio-visual equipment and mobile phones, signs began to emerge of renewed growth in corporate IT spending both in Japan and overseas. Compared to targets set at the beginning of the fiscal year, actual results for the quarter, particularly in our electronic devices-related businesses, exceeded expectations. Thanks to factors such as next month's broadcast of the Athens Olympics, we expect demand for IT to remain strong for the time being.

Following the second quarter, however, there are a number of uncertain elements that could impact business conditions. For example, a shift in the supply/demand balance for semiconductors and displays could push prices down, market competition in the field of mobile phones in Japan and elsewhere in Asia could intensify, and there are concerns about the impact a monetary tightening in the US could have on the global economy. On the other hand, we expect to be able to stem the slip in profitability since last year in our Software & Services business segment.

Based on the foregoing, at this time we maintain the half-year and full-year earnings projections for fiscal 2004 that we made at the beginning of the fiscal year. They are as follows:

<u>Half Year</u>	(Billion Yen)		
	<u>FY 2003</u>	<u>FY 2004</u>	<u>Change</u>
Net Sales	2,141.9	2,250.0	+ 5.0%
Operating Income (Loss)	(17.9)	10.0	--
Net Income (Loss)	(58.5)	(25.0)	--

<u>Full Year</u>	(Billion Yen)		
	<u>FY 2003</u>	<u>FY 2004</u>	<u>Change</u>
Net Sales	4,766.8	4,950.0	+ 3.8%
Operating Income (Loss)	150.3	200.0	+ 33.0%
Net Income (Loss)	49.7	70.0	+ 40.8%

* 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)
- Rapid change in the high-technology market (particularly semiconductors, PCs, 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 technical provisions
- 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)		Change (Billion Yen)	Yen (billions)	Change (%)
		FY 2004 (Forecast)			FY 2003	FY 03 to
		Previous*	Revised**		(Actual)	Revised FY 04
Software & Services	Japan	Y 1,590.0	Y 1,590.0	-	Y 1,580.8	+0.6
	Overseas	530.0	530.0	-	513.4	+3.2
	Total	Y 2,120.0	Y 2,120.0	-	Y 2,094.2	+1.2
Platforms	Japan	1,240.0	1,240.0	-	1,150.4	+7.8
	Overseas	520.0	520.0	-	457.7	+13.6
	Total	1,760.0	1,760.0	-	1,608.1	+9.4
Electronic Devices	Japan	460.0	460.0	-	378.4	+21.5
	Overseas	370.0	370.0	-	355.8	+4.0
	Total	830.0	830.0	-	734.3	+13.0
Financing	Japan	-	-	-	50.3	-
	Overseas	-	-	-	-	-
	Total	-	-	-	50.3	-
Other Operations	Japan	200.0	200.0	-	218.1	-8.3
	Overseas	40.0	40.0	-	61.6	-35.1
	Total	240.0	240.0	-	279.7	-14.2
Total	Japan	Y 3,490.0	Y 3,490.0	-	Y 3,378.2	+3.3
	Overseas	1,460.0	1,460.0	-	1,388.6	+5.1
	Total	Y 4,950.0	Y 4,950.0	-	Y 4,766.8	+3.8

(2) Sales to Unaffiliated Customers by Products and Services

		Yen (billions)		Change (Billion Yen)	Yen (billions)	Change (%)
		FY 2004 (Forecast)			FY 2003 (Actual)	FY 03 to Revised FY 04
		Previous*	Revised**			
Software & Services	Solutions/SI	Y 940.0	Y 940.0	-	Y 970.0	-3.1
	Infrastructure Services	1,180.0	1,180.0	-	1,124.2	+5.0
	Total	Y 2,120.0	Y 2,120.0	-	Y 2,094.2	+1.2
Platforms	Server-related	Y 395.0	Y 395.0	-	Y 365.6	+8.0
	Mobile / IP Networks	190.0	190.0	-	207.2	-8.3
	Transmission Systems	200.0	200.0	-	167.4	+19.5
	PCs & Mobile Phones	740.0	740.0	-	680.9	+8.7
	HDD-related	235.0	235.0	-	187.0	+25.7
	Total	Y 1,760.0	Y 1,760.0	-	Y 1,608.1	+9.4
Electronic Devices	Semiconductors	Y 430.0	Y 430.0	-	Y 403.9	+6.5
	Others	400.0	400.0	-	330.4	+21.1
	Total	Y 830.0	Y 830.0	-	Y 734.3	+13.0

Note: *Previous forecast: as of April 27, 2004 **Revised forecast: as of July 29, 2004

(3) Net Sales including Intersegment Sales

		Yen (billions)		Change (Billion Yen)	Yen (billions)	Change (%)
		FY 2004 (Forecast)			FY 2003	FY 03 to
		Previous*	Revised**		(Actual)	Revised FY 04
Software & Services	Unaffiliated customers	Y 2,120.0	Y 2,120.0	-	Y 2,094.2	+1.2
	Intersegment	40.0	40.0	-	52.1	-23.2
	Total	Y 2,160.0	Y 2,160.0	-	Y 2,146.3	+0.6
Platforms	Unaffiliated customers	1,760.0	1,760.0	-	1,608.1	+9.4
	Intersegment	160.0	160.0	-	224.7	-28.8
	Total	1,920.0	1,920.0	-	1,832.8	+4.8
Electronic Devices	Unaffiliated customers	830.0	830.0	-	734.3	+13.0
	Intersegment	70.0	70.0	-	70.3	-0.5
	Total	900.0	900.0	-	804.6	+11.8
Financing	Unaffiliated customers	-	-	-	50.3	-
	Intersegment	-	-	-	4.0	-
	Total	-	-	-	54.4	-
Other Operations	Unaffiliated customers	240.0	240.0	-	279.7	-14.2
	Intersegment	100.0	100.0	-	138.5	-27.8
	Total	340.0	340.0	-	418.2	-18.7
Elimination		(370.0)	(370.0)	-	(489.7)	-
Total		Y 4,950.0	Y 4,950.0	-	Y 4,766.8	+3.8

(4) Operating Income (Loss) including Intersegment Transactions
[Operating margin]

	Yen (billions)			Change (Billion Yen)	Yen (billions)		Change (%) FY 03 to Revised FY 04
	FY 2004 (Forecast)		FY 2003 (Actual)				
	Previous*	Revised**					
Software & Services	Y 170.0	Y 170.0	-	Y 138.7	+31.2		
[Operating margin]	[7.9%]	[7.9%]	[-%]	[6.5%]	[+1.4%]		
Platforms	45.0	45.0	-	29.2	+15.7		
	[2.3%]	[2.3%]	[-%]	[1.6%]	[+0.7%]		
Electronic Devices	50.0	50.0	-	27.5	+22.4		
	[5.6%]	[5.6%]	[-%]	[3.4%]	[+2.2%]		
Financing	-	-	-	2.0	-2.0		
	[-%]	[-%]	[-%]	[3.7%]	[-%]		
Other Operations	10.0	10.0	-	13.6	-3.6		
	[2.9%]	[2.9%]	[-%]	[3.3%]	[-0.4%]		
Elimination	(75.0)	(75.0)	-	(60.8)	-14.1		
Total	Y 200.0	Y 200.0	-	Y 150.3	+49.6		
	[4.0%]	[4.0%]	[-%]	[3.2%]	[+0.8%]		

Note: *Previous forecast: as of April 27, 2004 **Revised forecast: as of July 29, 2004

b. PC Shipments

(1) By Customer's Geographic Location

	FY 2004 (Forecast)		Change	FY 2003
	Previous*	Revised**		
Japan	2.75	2.75	-	2.58
Overseas	4.36	4.36	-	3.96
Total	7.11	7.11	-	6.54

(2) By Product Category

	FY 2004 (Forecast)		FY 2003
	Previous*	Revised**	
Desktop	46	48	46
Notebook	54	52	54

c. Mobile Phone Shipments

	FY 2004 (Forecast)		Change	FY 2003
	Previous*	Revised**		
	4.00	4.00	-	3.37

d. HDD Production

	FY 2004 (Forecast)		Change	FY 2003
	Previous*	Revised**		
	18.50	18.50	-	12.47

e. Electronic Devices

(1) Net Sales of Semiconductors

	FY 2004 (Forecast)		Change	FY 2003
	Previous*	Revised**		
	480.0	480.0	-	453.4
[Internal use]	[50.0]	[50.0]	[-]	[49.5]

(2) Composition of Semiconductor Sales by Product Category

	FY 2004 (Forecast)		FY 2003
	Previous*	Revised**	
Logic	72	72	63
System memory	28	28	31
Compound semiconductor and others	0	0	6

(3) Composition of Capital Expenditure

	FY 2004 (Forecast)		Change	FY 2003
	Previous*	Revised**		
Total	90.0	90.0	-	59.3
[Semiconductors]	[50.0]	[50.0]	[-]	[30.1]
[PDP]	[19.0]	[19.0]	[-]	[10.7]

Note: *Previous forecast: as of April 27, 2004 **Revised forecast: as of July 29, 2004

f. R&D Expenditure

(Billion Yen)

	FY 2004 (Forecast)		Change	FY 2003
	Previous**	Revised***		
	265.0	265.0	-	250.9
As % of sales	5.4%	5.4%	-	5.3%

g. Capital Expenditures, Depreciation

	Yen (billions)			Yen (billions)		Change (%)
	FY 2004 (Forecast)			FY 2003	FY 03 to	
	Previous**	Revised***	Change	(Actual)	Revised FY 04	
Capital Expenditures						
Software & Services	70.0	70.0	-	54.0	+29.5	
Platforms	50.0	50.0	-	32.4	+54.2	
Electronic Devices	90.0	90.0	-	59.3	+51.7	
Corporate and others	25.0	25.0	-	13.9	+78.9	
Total	235.0	235.0	-	159.7	+47.1	
Japan	185.0	185.0	-	135.3	+36.7	
Overseas	50.0	50.0	-	24.4	+104.4	
Depreciation	195.0	195.0	-	200.0	-2.5	

h. Consolidated Statements of Cash Flows

(Billion Yen)

	FY 2004 (Forecast)		Change	FY 2003
	Previous**	Revised***		
(A) Cash flows from operating activities	370.0	370.0	-	304.0
[Net income]	[70.0]	[70.0]	[-]	[49.7]
[Depreciation *]	[270.0]	[270.0]	[-]	[292.9]
[Others]	[30.0]	[30.0]	[-]	[(38.6)]
(B) Cash flows from investing activities	(270.0)	(270.0)	-	67.3
(C) Free cash flow (A)+(B)	100.0	100.0	-	371.4
(D) Cash flows from financing activities	(230.0)	(230.0)	-	(239.9)
(E) Total (C)+(D)	(130.0)	(130.0)	-	131.5

Note: *Including amortization of goodwill

Previous forecast: as of April 27, 2004 *Revised forecast: as of July 29, 2004

2. Exchange Rates

Forecast Average Rates for

2nd Quarter of FY 2004			1st Quarter of FY 2004
Previous*	Revised**	Change	Actual
\$1=110 yen	\$1=110 yen	-	\$1=110 yen
2nd Half of FY 2004			
Previous*	Revised**	Change	
\$1=110 yen	\$1=110 yen	-	

Note: *Previous forecast: as of April 27, 2004 **Revised forecast: as of July 29, 2004