

## **FY 2005 First-Half Financial Results**

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## Part I: Financial Tables

### 1. Summary of FY 2005 First-Half Consolidated Results

#### a. Summary of Consolidated Statements of Operations

		Yen (millions) (except per share data)		
		1st Half 2005 (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	Change (%)
Net sales	Y	2,192,332	2,220,059	-1.2
Operating income		47,575	33,285	+42.9
Income before income taxes and minority interests		29,834	1,913	-
Net income (loss)		7,666	(8,161)	-
Net income (loss) per common share:				
Basic	Y	3.71	(4.08)	-
Diluted		3.35	-	-
Average number of shares outstanding		2,067,828,542	2,000,252,806	

#### b. Net Sales by Business Segment (including intersegment)

		Yen (millions)		
		1st Half 2005 (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	Change (%)
Technology Solutions	Y	1,344,080	1,313,898	+2.3
Ubiquitous Product Solutions		498,455	481,665	+3.5
Device Solutions		336,047	426,191	-21.2
Other Operations		210,813	185,548	+13.6
Elimination		(197,063)	(187,243)	-
Total	Y	2,192,332	2,220,059	-1.2

#### c. Summary of Consolidated Financial Condition

		Yen (millions) (except per share data)		
		September 30 2005	March 31 2005	September 30 2004
Total assets	Y	3,611,917	Y3,640,198	Y3,561,426
Shareholders' equity		819,062	856,990	803,044
Shareholders' equity ratio		22.7 %	23.5 %	22.5 %
Shareholders' equity per share	Y	396.08	414.18	401.49
Number of shares issued		2,067,936,649	2,067,824,941	2,000,171,543

#### d. Summary of Consolidated Statements of Cash Flows

		Yen (millions)		
		1st Half 2005 (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	FY 2004 (4/1/04~3/31/05)
Cash flows from operating activities	Y	143,039	50,196	277,232
Cash flows from investing activities		(104,193)	(55,675)	(15,129)
Cash flows from financing activities		(15,179)	(184,810)	(212,034)
Cash and cash equivalents at end of period		478,719	212,860	454,516

## 2. Summary of FY 2005 Second-Quarter Consolidated Results

### a. Summary of Consolidated Statements of Operations

	Yen (millions)		
	2Q FY 2005 (7/1/05~9/30/05)	2Q FY 2004 (7/1/04~9/30/04)	Change (%)
Net sales	Y 1,165,993	Y 1,211,911	-3.8
Operating income	32,764	37,666	-13.0
Income before income taxes and minority interests	13,399	17,716	-24.4
Net income	Y 5,168	Y 3,680	+40.4

### b. Net Sales by Business Segment (including intersegment)

	Yen (millions)		
	2Q FY 2005 (7/1/05~9/30/05)	2Q FY 2004 (7/1/04~9/30/04)	Change (%)
Technology Solutions	Y 730,665	755,510	-3.3
Ubiquitous Product Solutions	257,089	257,300	-0.1
Device Solutions	176,875	206,167	-14.2
Other Operations	108,625	92,880	+17.0
Elimination	(107,261)	(99,946)	-
Total	Y 1,165,993	1,211,911	-3.8

## 3. Consolidated Earnings Forecast for FY 2005 (April 1, 2005 - March 31, 2006)

	Yen (billions) (except per share data)	
	FY 2005 Full Year (Forecast)	Change (%) FY04 to FY05
Net sales	Y 4,800.0	+0.8
Operating income	175.0	+9.2
Net income	50.0	+56.7
Net income per common share	Y 24.18	+56.8

#### 4. Summary of FY 2005 First-Half Unconsolidated Results

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

	Yen (millions) (except per share data)		
	<b>1st Half 2005</b> (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	Change (%)
Net sales	<b>Y 1,308,410</b>	Y 1,295,790	+1.0
Operating income (loss)	<b>(12,648)</b>	(23,636)	-
Income (loss) before income taxes	<b>13,231</b>	(26,471)	-
Net income (loss)	<b>Y 15,119</b>	Y (12,126)	-
<b>Amounts per share of common stock:</b>			
Net income (loss)	<b>Y 7.31</b>	Y (6.06)	
Interim cash dividends	<b>Y 3.00</b>	Y 3.00	

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

	Yen (millions) (except per share data)		
	<b>September 30</b> <b>2005</b>	March 31 2005	September 30 2004
Total assets	<b>Y 2,745,128</b>	<b>2,944,291</b>	<b>Y 2,815,794</b>
Shareholders' equity	<b>905,704</b>	<b>854,328</b>	<b>897,598</b>
Shareholders' equity ratio	<b>33.0%</b>	<b>29.0%</b>	<b>31.9%</b>
Shareholders' equity per share	<b>437.97</b>	<b>413.15</b>	<b>Y 448.76</b>

#### 5. Unconsolidated Earnings Forecast for FY 2005

(April 1, 2005 - March 31, 2006)

	Yen (billions) (except per share data)	
	<b>FY 2005 Full Year</b> <b>(Forecast)</b>	Change (%) FY04 to FY05
Net sales	<b>Y 2,830.0</b>	-0.6
Operating income	<b>45.0</b>	+46.9
Net income	<b>30.0</b>	-
Net income per common share	<b>Y 14.51</b>	-

## 6. First-Half Consolidated Statements of Operations

	Yen (millions)		Change (%)
	<u>1st Half 2005</u> (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	
<b>Net sales</b>	<b>Y 2,192,332</b>	2,220,059	-1.2
<b>Operating costs and expenses:</b>			
Cost of sales	<b>1,607,142</b>	1,632,917	-1.6
Selling, general and administrative expenses	<u>537,615</u>	<u>553,857</u>	-2.9
	<u><b>2,144,757</b></u>	<u>2,186,774</u>	
<b>Operating income</b>	<b>47,575</b>	33,285	+42.9
<b>Other income (expenses):</b>			
Net interest*	<b>(3,561)</b>	(4,354)	
Equity in earnings of affiliated companies, net	<b>(4,812)</b>	4,524	
Amortization of unrecognized obligation for retirement benefits	<b>(18,082)</b>	(19,695)	
Settlement gain**	<b>15,957</b>	-	
Gain on business transfer***	<b>3,455</b>	-	
Gain on sales of marketable securities	-	2,485	
Restructuring charges****	<b>(5,474)</b>	(4,599)	
Other, net	<u><b>(5,224)</b></u>	<u>(9,733)</u>	
	<u><b>(17,741)</b></u>	<u>(31,372)</u>	-
<b>Income before income taxes and minority interests</b>	<b>29,834</b>	1,913	-
<b>Income taxes</b>	<b>17,412</b>	3,680	
<b>Minority interests</b>	<b>(4,756)</b>	(6,394)	
<b>Net income (loss)</b>	<b>Y <u><u>7,666</u></u></b>	<u><u>(8,161)</u></u>	-

Notes:

- \* Net interest consists of interest income, dividend income and interest charges.
- \*\* Settlement gain is related to reconciliation of HDD litigation.
- \*\*\* Gain on business transfer refers to the transfer of LCD panel operations.
- \*\*\*\* Restructuring charges are related to expenses for restructuring to improve business profitability and asset efficiency, realignment of business locations, etc.

## 7. First-Half Consolidated Business Segment Information

### a. Net Sales\* and Operating Income

		Yen (millions)			
		1st Half 2005 (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	Change (%)	
<b>Technology Solutions</b>	Japan	Y 950,052	956,625	-0.7	
	Overseas	394,028	357,273	+10.3	
	Total	<u>1,344,080</u>	1,313,898	+2.3	
	Operating Income	42,913	18,895	+127.1	
	[Operating Income Margin]	[3.2%]	[1.4%]		
	<i>System Platforms</i>				
	Operating Income	3,557	5,125	-30.6	
	[Operating Income Margin]	[1.1%]	[1.6%]		
	<i>Services</i>				
	Operating Income	39,356	13,770	+185.8	
[Operating Income Margin]	[3.9%]	[1.4%]			
<b>Ubiquitous Product Solutions</b>	Japan	328,943	346,353	-5.0	
	Overseas	169,512	135,312	+25.3	
	Total	<u>498,455</u>	481,665	+3.5	
	Operating Income	16,608	3,421	+385.5	
[Operating Income Margin]	[3.3%]	[0.7%]			
<b>Device Solutions</b>	Japan	190,767	251,874	-24.3	
	Overseas	145,280	174,317	-16.7	
	Total	<u>336,047</u>	426,191	-21.2	
	Operating Income	14,486	34,577	-58.1	
[Operating Income Margin]	[4.3%]	[8.1%]			
<b>Other Operations</b>	Japan	161,378	147,076	+9.7	
	Overseas	49,435	38,472	+28.5	
	Total	<u>210,813</u>	185,548	+13.6	
	Operating Income	2,097	3,682	-43.0	
[Operating Income Margin]	[1.0%]	[2.0%]			
<b>Elimination</b>	Sales	(197,063)	(187,243)	-	
	Operating Income	(28,529)	(27,290)	-	
<b>Total</b>	Japan	Y 1,469,890	1,538,060	-4.4	
	Overseas	722,442	681,999	+5.9	
	Total	<u>2,192,332</u>	2,220,059	-1.2	
	Operating Income	47,575	33,285	+42.9	
	[Operating Income Margin]	[2.2%]	[1.5%]		

\* Includes intersegment sales

## b. Net Sales\* by Principal Products and Services

		Yen (millions)		
		<b>1st Half 2005</b> (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	Change (%)
<b>Technology Solutions</b>				
	System Products	Y <b>156,150</b>	157,413	-0.8
	Network Products	<b>176,507</b>	168,166	+5.0
	<i>System Platforms</i>	<b>332,657</b>	325,579	+2.2
	Solutions / SI	<b>457,553</b>	438,068	+4.4
	Infrastructure Services	<b>472,593</b>	455,978	+3.6
	Others	<b>81,277</b>	94,273	-13.8
	<i>Services</i>	<b>1,011,423</b>	988,319	+2.3
	Total	<b>1,344,080</b>	1,313,898	+2.3
<b>Ubiquitous Product Solutions</b>				
	PCs / Mobile Phones	<b>352,170</b>	362,970	-3.0
	Hard Disk Drives	<b>136,864</b>	108,380	+26.3
	Others	<b>9,421</b>	10,315	-8.7
	Total	<b>498,455</b>	481,665	+3.5
<b>Device Solutions</b>				
	LSI Devices	<b>219,300</b>	246,000	-10.9
	Electronic Components, Others	<b>116,747</b>	180,191	-35.2
	Total	Y <b>336,047</b>	426,191	-21.2

\* Includes intersegment sales

## 8. First-Half Consolidated Geographic Segment Information

### a. Net Sales\* and Operating Income

		Yen (millions)		
		<b>1st Half 2005</b> (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	Change (%)
<b>Japan</b>	Sales	<b>Y 1,816,658</b>	1,876,211	-3.2
	Operating Income	<b>56,178</b>	52,682	+6.6
	[Operating Margin]	<b>[3.1%]</b>	[2.8%]	
<b>Europe</b>	Sales	<b>278,212</b>	279,047	-0.3
	Operating Income	<b>6,352</b>	2,049	+210.0
	[Operating Margin]	<b>[2.3%]</b>	[0.7%]	
<b>The Americas</b>	Sales	<b>168,886</b>	146,094	+15.6
	Operating Income	<b>5,190</b>	2,105	+146.6
	[Operating Margin]	<b>[3.1%]</b>	[1.4%]	
<b>Asia, Australasia &amp; Others</b>	Sales	<b>341,538</b>	284,140	+20.2
	Operating Income	<b>6,693</b>	5,023	+33.2
	[Operating Margin]	<b>[2.0%]</b>	[1.8%]	
<b>Elimination</b>	Sales	<b>(412,962)</b>	(365,433)	-
	Operating Income	<b>(26,838)</b>	(28,574)	-
<b>Total</b>	Sales	<b>Y 2,192,332</b>	2,220,059	-1.2
	Operating Income	<b>47,575</b>	33,285	+42.9
	[Operating Margin]	<b>[2.2%]</b>	[1.5%]	

\* Includes intersegment sales

### b. Net Overseas Sales\* by Customer's Geographic Location

		Yen (millions)		
		<b>1st Half 2005</b> (4/1/05~9/30/05)	1st Half 2004 (4/1/04~9/30/04)	Change (%)
<b>Europe</b>		<b>Y 300,359</b>	291,936	+2.9
<b>The Americas</b>		<b>186,397</b>	157,311	+18.5
<b>Asia, Australasia &amp; Others</b>		<b>235,686</b>	232,752	+1.3
<b>Total</b>		<b>Y 722,442</b>	681,999	+5.9

\* Sales to unaffiliated customers



## 9. First-Half Consolidated Balance Sheets

	Yen (millions)		Change (Million Yen)
	September 30 2005	March 31 2005	
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents and short-term investments	Y 481,973	457,188	+24,785
Receivables, trade	684,441	824,992	-140,551
Inventories	448,298	478,510	-30,212
Other current assets	208,487	220,847	-12,360
<b>Total current assets</b>	<b>1,823,199</b>	<b>1,981,537</b>	<b>-158,338</b>
<b>Investments and long-term loans</b>	<b>800,457</b>	<b>706,466</b>	<b>+93,991</b>
<b>Property, plant and equipment less accumulated depreciation</b>	<b>770,283</b>	<b>727,900</b>	<b>+42,383</b>
<b>Intangible assets</b>	<b>217,978</b>	<b>224,295</b>	<b>-6,317</b>
<b>Total assets</b>	<b>Y 3,611,917</b>	<b>3,640,198</b>	<b>-28,281</b>
<b>Liabilities, minority interests and shareholders' equity</b>			
<b>Current liabilities:</b>			
Short-term borrowings and current portion of long-term debt	Y 335,403	209,553	+125,850
Payables, trade	609,977	735,981	-126,004
Other current liabilities	524,478	545,983	-21,505
<b>Total current liabilities</b>	<b>1,469,858</b>	<b>1,491,517</b>	<b>-21,659</b>
<b>Long-term liabilities:</b>			
Long-term debt	753,143	873,235	-120,092
Other long-term liabilities	404,107	254,249	+149,858
<b>Total long-term liabilities</b>	<b>1,157,250</b>	<b>1,127,484</b>	<b>+29,766</b>
<b>Minority interests</b>	<b>165,747</b>	<b>164,207</b>	<b>+1,540</b>
<b>Shareholders' equity:</b>			
Common stock	324,625	324,625	-
Capital surplus	498,013	497,882	+131
Retained earnings (Deficit)	(92,281)	(7,823)	-84,458
Unrealized gains on securities and revaluation surplus on land	143,896	101,529	+42,367
Foreign currency translation adjustments	(53,997)	(57,980)	+3,983
Treasury stock	(1,194)	(1,243)	+49
<b>Total shareholders' equity</b>	<b>819,062</b>	<b>856,990</b>	<b>-37,928</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>Y 3,611,917</b>	<b>3,640,198</b>	<b>-28,281</b>
<b>Ending balance of interest-bearing loans</b>	<b>Y 1,088,546</b>	<b>1,082,788</b>	<b>+5,758</b>
<b>D/E ratio</b>	<b>1.33</b>	<b>1.26</b>	<b>+0.07</b>

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

	Yen (millions)		
	<b>1st Half 2005</b>	1st Half 2004	Change
	(4/1/05~9/30/05)	(4/1/04~9/30/04)	(Million Yen)
<b>1. Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests	Y <b>29,834</b>	1,913	+27,921
Depreciation and amortization	<b>112,594</b>	113,507	-913
Increase (decrease) in provisions	<b>(12,940)</b>	(3,891)	-9,049
Equity in earnings of affiliates, net	<b>4,812</b>	(4,524)	+9,336
Disposal of property, plant and equipment	<b>9,934</b>	10,594	-660
(Increase) decrease in receivables, trade	<b>193,543</b>	113,430	+80,113
(Increase) decrease in inventories	<b>(39,052)</b>	(56,455)	+17,403
Increase (decrease) in payables, trade	<b>(114,655)</b>	(113,628)	-1,027
Other, net	<b>(41,031)</b>	(10,750)	-30,281
Net cash provided by (used in) operating activities	<b>143,039</b>	50,196	+92,843
<b>2. Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	<b>(127,704)</b>	(60,920)	-66,784
(Increase) decrease in investments and long-term loans	<b>(24,837)</b>	11,092	-35,929
Other, net	<b>48,348</b>	(5,847)	+54,195
Net cash provided by (used in) investing activities	<b>(104,193)</b>	(55,675)	-48,518
<b>1+2 [ Free Cash Flow ]</b>	<b>38,846</b>	(5,479)	+44,325
<b>3. Cash flows from financing activities:</b>			
Increase (decrease) in bonds, notes, short-term borrowings and long-term debt	<b>4,992</b>	(156,606)	+161,598
Dividends paid	<b>(6,204)</b>	(6,000)	-204
Other, net	<b>(13,967)</b>	(22,204)	+8,237
Net cash provided by (used in) financing activities	<b>(15,179)</b>	(184,810)	+169,631
<b>4. Effect of exchange rate changes on cash and cash equivalents</b>	<b>536</b>	1,310	-774
<b>5. Net increase (decrease) in cash and cash equivalents</b>	<b>24,203</b>	(188,979)	+213,182
<b>6. Cash and cash equivalents at beginning of period</b>	<b>454,516</b>	413,826	+40,690
<b>7. Cash and cash equivalents of deconsolidated subsidiaries</b>	<b>-</b>	(11,987)	+11,987
<b>8. Cash and cash equivalents at end of period</b>	<b>Y 478,719</b>	212,860	+265,859

## 11. Marketable Securities at Fair Value

	Yen (millions)			Yen (millions)		
	September 30, 2005			March 31, 2005		
	Cost	Carrying Value (Fair Value)	Net Unrealized Gains	Cost	Carrying Value (Fair Value)	Net Unrealized Gains (Losses)
<b>Available-for-sale:</b>						
Equity securities	Y 55,370	Y 293,066	Y 237,696	Y 54,308	Y 220,677	Y 166,369
Debt securities and others	8,883	9,005	122	7,850	7,752	(98)
<b>Total</b>	<b>Y 64,253</b>	<b>Y 302,071</b>	<b>Y 237,818</b>	<b>Y 62,158</b>	<b>Y 228,429</b>	<b>Y 166,271</b>

## 12. Second-Quarter Consolidated Statements of Operations

		Yen (millions)		Change (%)
		2Q FY 2005 (7/1/05~9/30/05)	2Q FY 2004 (7/1/04~9/30/04)	
<b>Net sales</b>	<b>Y</b>	<b>1,165,993</b>	1,211,911	-3.8
<b>Operating costs and expenses:</b>				
Cost of sales		855,971	887,069	-3.5
Selling, general and administrative expenses		<u>277,258</u>	<u>287,176</u>	-3.5
		<u>1,133,229</u>	<u>1,174,245</u>	
<b>Operating income</b>		<b>32,764</b>	37,666	-13.0
<b>Other income (expenses):</b>				
Net interest*		(3,307)	(3,443)	
Equity in earnings of affiliated companies, net		(598)	1,965	
Gain on business transfer**		3,455	-	
Gain on sales of marketable securities		-	2,485	
Amortization of unrecognized obligation for retirement benefits		(8,267)	(9,832)	
Restructuring charges***		(5,474)	(4,599)	
Other, net		<u>(5,174)</u>	<u>(6,526)</u>	
		<u>(19,365)</u>	<u>(19,950)</u>	-
<b>Income before income taxes and minority interests</b>		<b>13,399</b>	17,716	-24.4
<b>Income taxes</b>		<b>4,700</b>	9,310	
<b>Minority interests</b>		<b>(3,531)</b>	(4,726)	
<b>Net income</b>	<b>Y</b>	<b><u>5,168</u></b>	<u>3,680</u>	+40.4

Notes:

- \* Net interest consists of interest income, dividend income and interest charges.
- \*\* Gain on business transfer refers to the transfer of LCD panel operations.
- \*\*\* Restructuring charges are related to expenses for restructuring to improve business profitability and asset efficiency, realignment of business locations, etc.

### 13. Second-Quarter Consolidated Business Segment Information

#### a. Net Sales\* and Operating Income

		Yen (millions)			
		2Q FY 2005 (7/1/05~9/30/05)	2Q FY 2004 (7/1/04~9/30/04)	Change (%)	
<b>Technology Solutions</b>	Japan	Y 524,216	567,596	-7.6	
	Overseas	206,449	187,914	+9.9	
	Total	730,665	755,510	-3.3	
	Operating Income [Operating Margin]	35,544 [4.9%]	35,777 [4.7%]	-0.7	
	<i>System Platforms</i>				
	Operating Income [Operating Margin]	4,214 [2.4%]	9,448 [5.2%]	-55.4	
	<i>Services</i>				
	Operating Income [Operating Margin]	31,330 [5.7%]	26,329 [4.6%]	+19.0	
	<b>Ubiquitous Product Solutions</b>	Japan	168,874	185,665	-9.0
		Overseas	88,215	71,635	+23.1
Total		257,089	257,300	-0.1	
Operating Income [Operating Margin]		5,198 [2.0%]	3,592 [1.4%]	+44.7	
<b>Device Solutions</b>	Japan	98,949	127,600	-22.5	
	Overseas	77,926	78,567	-0.8	
	Total	176,875	206,167	-14.2	
	Operating Income [Operating Margin]	7,235 [4.1%]	10,714 [5.2%]	-32.5	
<b>Other Operations</b>	Japan	82,663	73,792	+12.0	
	Overseas	25,962	19,088	+36.0	
	Total	108,625	92,880	+17.0	
	Operating Income [Operating Margin]	480 [0.4%]	1,767 [1.9%]	-72.8	
<b>Elimination</b>	Sales	(107,261)	(99,946)	-	
	Operating Income	(15,693)	(14,184)	-	
<b>Total</b>	Japan	Y 787,878	867,108	-9.1	
	Overseas	378,115	344,803	+9.7	
	Total	1,165,993	1,211,911	-3.8	
	Operating Income [Operating Margin]	32,764 [2.8%]	37,666 [3.1%]	-13.0	

\* Includes intersegment sales

## b. Net Sales\* by Principal Products and Services

		Yen		Change (%)
		(millions)		
		<b>2Q FY 2005</b> (7/1/05~9/30/05)	<b>2Q FY 2004</b> (7/1/04~9/30/04)	
<b>Technology Solutions</b>				
	System Products	Y <b>94,963</b>	91,082	+4.3
	Network Products	<b>82,822</b>	92,233	-10.2
	<i>System Platforms</i>	<b>177,785</b>	183,315	-3.0
	Solutions / SI	<b>252,455</b>	268,770	-6.1
	Infrastructure Services	<b>251,141</b>	245,363	+2.4
	Others	<b>49,284</b>	58,062	-15.1
	<i>Services</i>	<b>552,880</b>	572,195	-3.4
	Total	<b>730,665</b>	755,510	-3.3
<b>Ubiquitous Product Solutions</b>				
	PCs / Mobile Phones	<b>182,094</b>	194,912	-6.6
	Hard Disk Drives	<b>69,869</b>	57,007	+22.6
	Others	<b>5,126</b>	5,381	-4.7
	Total	<b>257,089</b>	257,300	-0.1
<b>Device Solutions</b>				
	LSI Devices	<b>117,700</b>	123,300	-4.5
	Electronic Components, Others	<b>59,175</b>	82,867	-28.6
	Total	Y <b>176,875</b>	206,167	-14.2

\* Includes intersegment sales

## Part II. Explanation of Financial Results

### 1. Overview of FY 2005 First-Half Financial Results

#### Business Environment

While soaring crude oil prices and rising interest rates in the United States were a cause for concern, the impact of such factors was limited and, as a whole, the business environment in which we operate gradually continued to improve during the first half. Economic conditions were somewhat weak in Europe; however, solid economic expansion continued in both the United States and China. In Japan, thanks to a gradual recovery in consumer demand resulting from improvements in the labor market and increased capital investments reflecting improved corporate profits, economic conditions continued to be characterized by mild recovery.

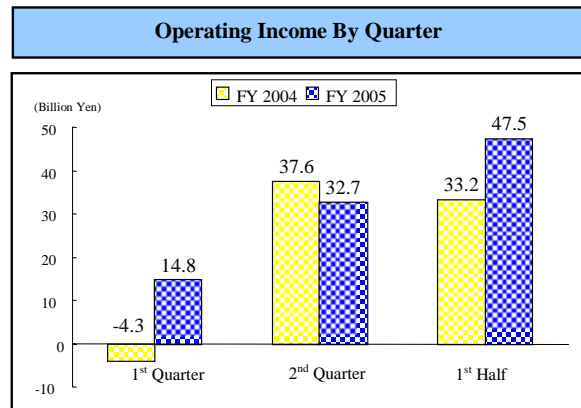
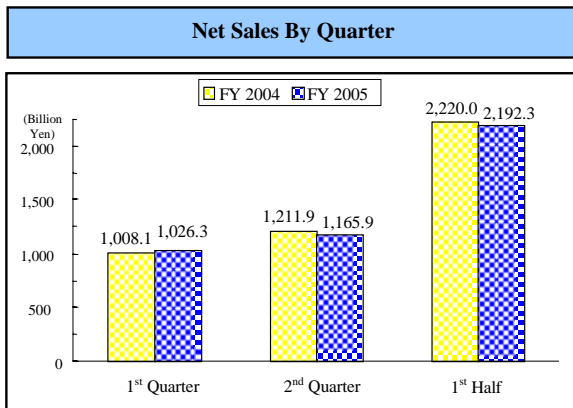
With respect to IT investment, there was evidence of strong interest in such investment overseas, particularly on the part of multinational corporations. In Japan, on the other hand, investment was patchy, varying from industry to industry and company to company. Business conditions remained especially challenging in Japan's public sector and regional markets, and overall there were few indications of a full-fledged recovery. Even in regard to electronic devices, although demand bottomed out in global markets in the first half, recovery lagged in the Japanese market.

As a result of the rapid pace of technological advancement, the scope for investment in corporate IT systems is expanding. While in the past such investment was focused on bringing greater efficiency to management and administration and to transactions between companies, it now also supports innovation and boosts competitiveness on the front lines of sales and marketing, product development, manufacturing, procurement and distribution. In daily life as well, IT systems are enhancing such areas as healthcare, education, shopping and entertainment, and government services. At the same time, the rapid development of IT is being accompanied by increasing demand for higher levels of safety and security.

Fujitsu will strive to continuously provide leading-edge solutions based on advanced technology and sophisticated services that will enable everyone to safely and securely enjoy the benefits of this technology-driven innovation.

#### First-Half Summary

	(Billion Yen)			
	<b>First Half FY 2005</b>	First Half FY 2004	Change	
	<i>4/1/05-9/30/05</i>	<i>4/1/04-9/30/04</i>		
Net Sales	2,192.3	2,220.0	-27.7	
[% Change vs. Same Period in Prior Fiscal Year]	[-1.2%]	[3.6%]		[-0.1%]
Operating Income	47.5	33.2	14.2	
[Operating Income Margin]	[2.2%]	[1.5%]	[0.7%]	
Net Income	7.6	-8.1	15.8	



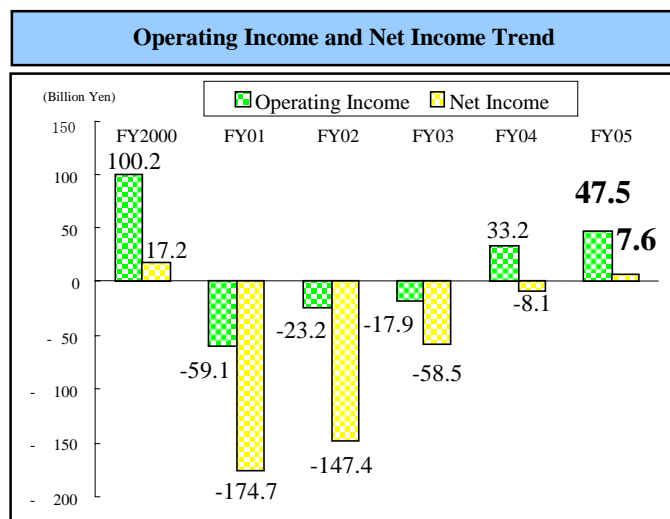
*Note: Throughout these explanatory materials, yen figures are converted to U.S. dollars, for convenience only, at a uniform rate of \$1 = 114 yen, which was the approximate Tokyo foreign exchange market rate at September 30, 2005.*

## Profit and Loss

Consolidated net sales for the first half were 2,192.3 billion yen (US\$19,231 million), a decrease of 1.2% compared to the first half of fiscal 2004. Excluding the impact of the transfer of our flat panel display businesses and other restructuring, and of a change in accounting policies from this fiscal year, results were roughly the same as in the first half of last year. Lower sales from intensified competition in LSI devices and PCs, as well as the end of the demand cycle for financial terminals capable of handling new Japanese banknotes, were offset by higher sales of optical transmission systems and other network products, hard disk drives (HDDs), and outsourcing services in the UK.

Consolidated operating income was 47.5 billion yen (US\$417 million), an improvement of 14.2 billion yen over the first half the year before, including a 5.5 billion yen improvement stemming from accounting policy changes. Although profits in our LSI devices business were lower due to intensified competition and start-up costs associated with our new 300mm wafer fab, the systems and procedures implemented in our solutions/systems integration business to prevent project losses and to improve overall project management have been gradually producing the desired results.

Moreover, in addition to the positive contribution to profits from higher sales of networking equipment to telecommunications carriers in Japan and overseas, HDDs, and outsourcing services in the UK, there were major improvements resulting from quality enhancements in mobile phones, as well as from progress in driving down costs in conjunction with intensified efforts in





manufacturing innovation, as well as in achieving expense efficiencies. As a result, our operating income margin improved by 0.7 of a percentage point year on year to 2.2%, and we achieved reductions in our cost of sales ratio as well as the ratio of selling, general and administrative expenses to net sales.

In other income (expenses), equity in earnings of affiliated companies deteriorated. Separately, a suit that we brought against component vendors and others, prompted by problems that emerged in 2001 involving our HDDs, was settled in June this year. As a result, we reported a 15.9 billion yen gain on this settlement. In addition, we posted a gain of 3.4 billion yen associated with the transfer of our LCD business and a loss of 5.4 billion yen on restructuring expenses related to restructuring of our businesses and consolidation of business locations.

As a result of the above factors, we reported consolidated net income of 7.6 billion yen (US\$67 million), an improvement of 15.8 billion yen over the first half of fiscal 2004. This marks the first time in five years—since fiscal 2000, before the IT bubble burst—that we have posted a net profit in the first half.

#### ***Pension System Revisions and the Return of the Past Substitutional Portion of the Pension Plan***

As of September 1, 2005, the Fujitsu Welfare Pension Fund (the “Plan”), in which Fujitsu and its consolidated domestic subsidiaries participate, received approval from the Minister of Health, Labour and Welfare for the past substitutional portion of the Plan it has returned to the government and for revisions to its pension system, which are designed to improve the financial soundness of the Plan and promote the long-term stability of the system. With these revisions, our consolidated projected benefit obligation and unrecognized obligation each decreased by approximately 180.0 billion yen, resulting in a reduction in amortization of unrecognized obligation for retirement benefits of 1.5 billion yen in the first half. For the full year, amortization of unrecognized obligation for retirement benefits is expected to be reduced by approximately 10.0 billion yen.

#### ***Impact of Change in Accounting Policies***

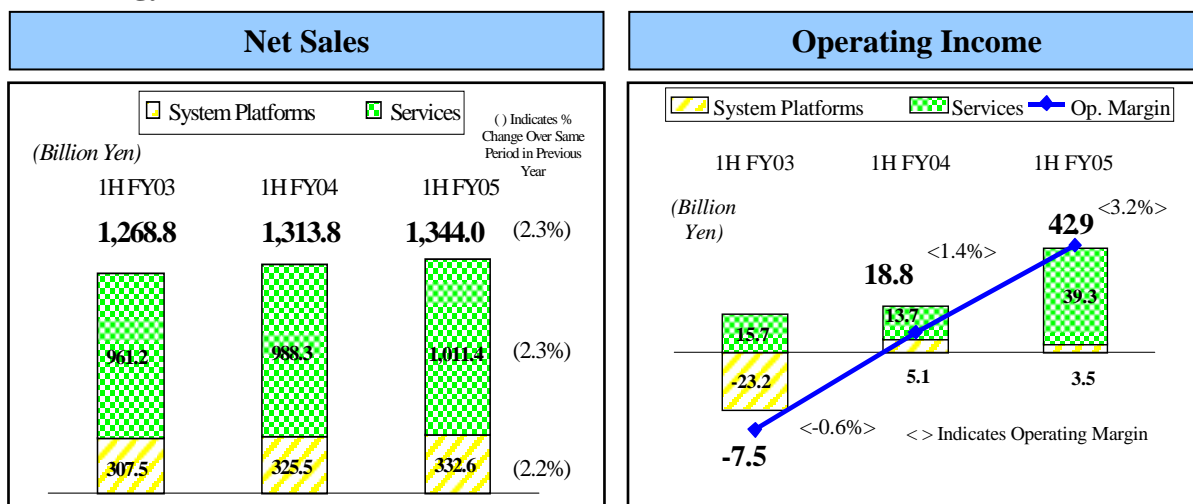
	First Half FY 2005 (Actual)			(Billion Yen)
	Percentage of Completion Method	Recording of Unrecognized Pension Obligations of UK Subsidiaries	Total	Full Year FY 2005 (Estimate) Total
Net Sales	30.0	-	30.0	20.0
Operating Income	2.9	2.5	5.5	7.1

*Note: Separate from the impacts listed above, Fujitsu Services in the UK has adopted the International Financial Reporting Standards (IFRS) for accounting, and therefore moved to the percentage of completion method. The impact of this change on first-half results is minimal. The impact on results for the full year is still being calculated.*

## 2. Results by Business Segment

Information on consolidated net sales (including intersegment sales) and operating income for the first half broken out by business segment is presented below.

### Technology Solutions



Consolidated net sales in this segment were 1,344.0 billion yen (US\$11,790 million), up 2.3% over the first half of fiscal 2004. In Japan, the elimination of special demand for financial terminals capable of handling new Japanese bank notes and other factors resulted in a decline in sales. However, overseas sales jumped 10.3%, driven by especially strong growth in our optical transmission business in North America and outsourcing services business in the UK.

Operating income for the segment was 42.9 billion yen (US\$376 million), a major increase of 24.0 billion yen over the first half last year. In addition to the impact from the sales trends described above, a reduction in unprofitable projects and other factors contributed to roughly a three-fold increase in profitability, to 39.3 billion yen (US\$345 million) in Services, while income in System Platforms remained level with the same period a year ago due to sluggish growth in domestic IT investment.

#### (1) System Platforms

Net sales in the System Platforms sub-segment were 332.6 billion yen (US\$2,918 million), up 2.2% from the first half of fiscal 2004. In System Products, overseas sales of UNIX servers were robust, but in Japan the recovery in IT spending lacked strong momentum, and there was a decline in earnings compared to the same period a year earlier, when there were a number of large-scale orders. In Network Products, an increase in investment by telecommunications carriers to expand network capacity and improve transmission speeds resulted in significantly higher sales of optical transmission systems, particularly in North America.

	First Half FY 2005 (Billion Yen)	% Change from 1H FY 2004
Net Sales	332.6	2.2%
Japan	244.3	-2.6%
Overseas	88.3	18.0%

System Platforms posted operating income of 3.5 billion yen (US\$31 million). Although there was a positive impact on income from higher sales in the Network Products category, the intensified competitive environment for servers and other products held profits for the sub-segment to roughly the same as in the first half of the previous year.

We have been engaged in group-wide efforts to expand sales related to our TRIOLE strategy for IT infrastructure optimization, which is aimed at helping customers respond quickly to changes in their businesses while providing stable system operations and lower total cost of ownership. To further expand our TRIOLE strategy on a global basis, during the first half of this fiscal year we opened two new system construction support centers, in Singapore and Korea, where we provide comprehensive verification of various platform products based on customers' particular requirements. The new centers complement existing facilities in Japan, England, Germany, and California in the US. And in July, to further promote software-related business for TRIOLE, we realigned several software development subsidiaries.

In April we launched global sales of PRIMEQUEST, the world's most advanced mission-critical IA server, which combines the economy of an open architecture server with the reliability of a mainframe.

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

## (2) Services

Net sales in the Services sub-segment were 1,011.4 billion yen (US\$8,872 million), up 2.3% from the same period a year earlier. Excluding the impact of applying the percentage of completion method, sales were roughly at the same level as the first half of last year. Although there was no business related to financial terminals for handling of new Japanese banknotes, as there had been in the first half of fiscal 2004, there were signs of favorable conditions in certain industry sectors within our solutions/systems integration business. In Infrastructure Services, sales increased thanks to continuing outsourcing business wins by Fujitsu Services.

	First Half FY 2005 (Billion Yen)	% Change from 1H FY 2004	<i>% Change Excluding Impact of Change in Accounting Policies</i>
Net Sales	1,011.4	2.3%	-0.7%
Japan	705.7	-0.0%	-4.3%
Overseas	305.6	8.2%	8.2%

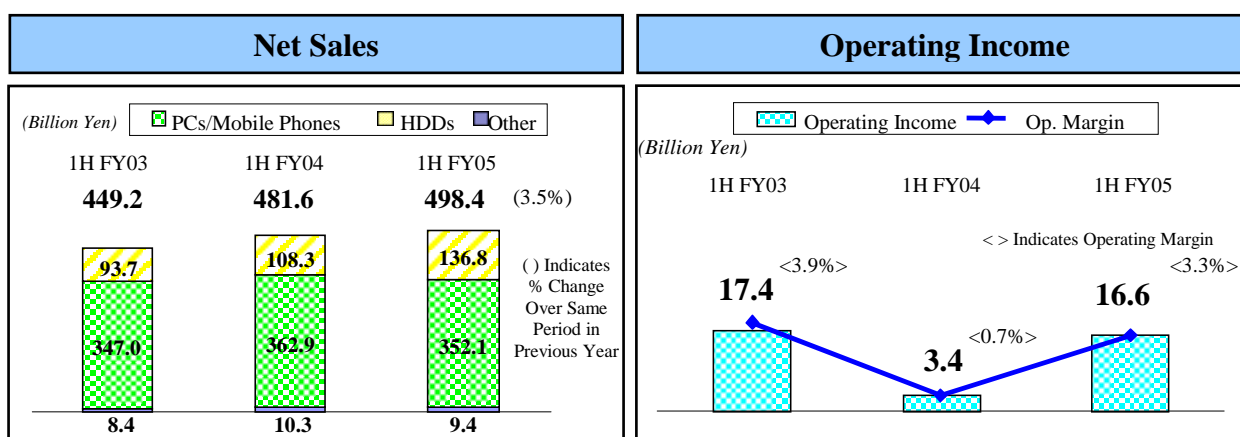
Operating income for Services was 39.3 billion yen (US\$345 million), an improvement of 25.5 billion yen over the same period last year. Although some of this was attributable to the change in accounting policies, including the application of the percentage of completion method, and other changes, in the Solutions/Systems Integration category there was a major decrease in losses relating to loss-generating projects from the first half of fiscal 2004. This, together with the impact from higher earnings by Fujitsu Services, cost reductions and streamlining of expenses, contributed to the higher profits in the Services sub-segment.

As part of our Solution Business Restructuring initiative, in fiscal 2004 we instituted new risk management procedures, which are proving effective in preventing losses from new projects. During the current fiscal year, we have been working to standardize sales and system engineering business processes, as well as bolstering our systems integration assurance function to facilitate risk management from the initial business discussion stage through to project completion. These

measures are serving to systematize strict project risk management and improve project profitability.

In July of this year we launched an initiative to expand sales of our contactless palm vein authentication system business worldwide. With governments, private sector organizations and individuals around the world increasing their demands for higher levels of security, we are aiming to establish the system as a de facto standard in the security market. In collaboration with our group companies in North America, Europe and other parts of Asia, we will vigorously promote this business.

## Ubiquitous Product Solutions



Net sales in the Ubiquitous Product Solutions segment were 498.4 billion yen (US\$4,372 million), an increase of 3.5% over the same period last year. PC sales in Japan were impacted by intensified price competition, but because of favorable response to our mobile phone handsets based on universal design concepts, mobile phone sales increased. In addition, HDD sales for both notebook PCs and servers were strong, expanding at a double-digit rate, with particularly robust growth overseas.

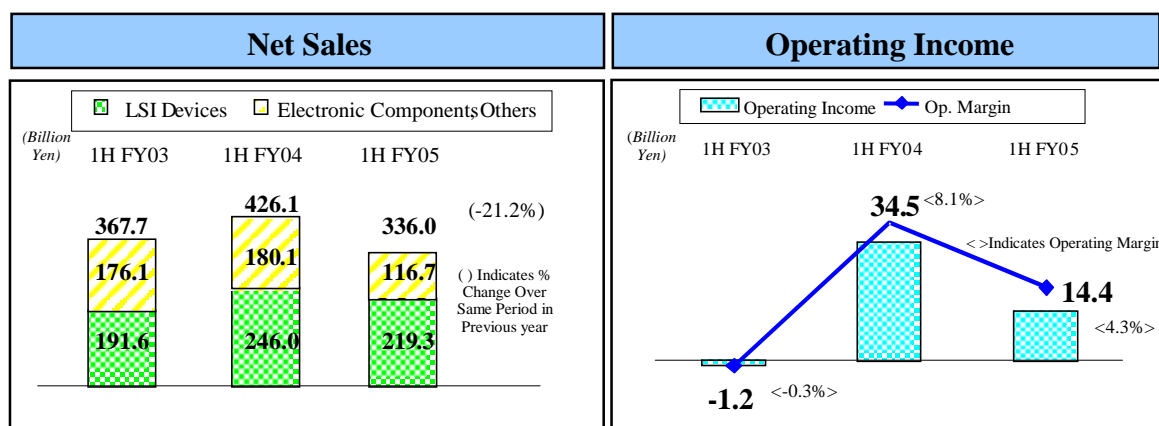
	First Half FY 2005 (Billion Yen)	% Change from 1H FY 2004
Net Sales	498.4	3.5%
Japan	328.9	-5.0%
Overseas	169.5	25.3%

Operating income for Ubiquitous Product Solutions was 16.6 billion yen (US\$146 million), an improvement of 13.1 billion yen over the comparable period last year. Along with the contribution to profits from higher mobile phone sales as well as improved quality and cost efficiencies generated by our manufacturing innovation initiatives, we also posted higher sales and profitability in HDDs. In addition, although sales of PCs declined due to intensified competition in Japan, this impact was offset by continued progress in reducing component costs, resulting in operating income for PCs on par with the first half of last year.

In light of the full-fledged implementation the Personal Data Protection Law in Japan from this April and the increase in crimes related to credit card counterfeiting, society's needs for increased security are growing rapidly, and this will be a basis for further proliferation of IT systems. To

meet these needs, we introduced a thin client solution, which provides increased protection against unauthorized data removal or information leaks by using client PCs not equipped with hard disk drives. In addition, we introduced mobile phones and other products that offer increased protection of personal data. We will continue to enhance our security solutions while providing highly secure systems tailored to the specific requirements of our customers' businesses.

## Device Solutions



Net sales of Device Solutions were 336.0 billion yen (US\$2,948 million), a decrease of 21.2% compared to the first half of fiscal 2004. Excluding the impact of the transfer of our flat panel display businesses, results on a continuing operations basis declined by 8.9%. In the LSI Devices sub-segment, memory sales decreased as a result of intensifying competition primarily in the markets for mobile phones and digital consumer electronics products. Sales of logic chips were approximately the same as in the first half of last year.

	First Half FY 2005 (Billion Yen)	% Change from 1H FY 2004	<i>Change Excluding Impact of Business Restructuring</i>
Net Sales	336.0	-21.2%	-8.9%
Japan	190.7	-24.3%	-12.6%
Overseas	145.2	-16.7%	-3.2%

Operating income for Device Solutions was 14.4 billion yen (US\$127 million), a decrease of 20.0 billion yen compared to the same period last year. In contrast with the favorable conditions that characterized the LSI devices business a year ago, the competitive environment in this sector became more severe. In addition, income was reduced by expenses related to start-up of the new 300mm semiconductor fabrication facility at our Mie Plant that began operation in April of this year. As scheduled, the new facility began volume shipments in September.

Along with accelerating the concentration of our resources on our LSI devices business, we are working to further raise production efficiency and strengthen cost competitiveness.

### 3. Financial Condition

#### Assets, Liabilities and Shareholders' Equity

(Billion Yen)

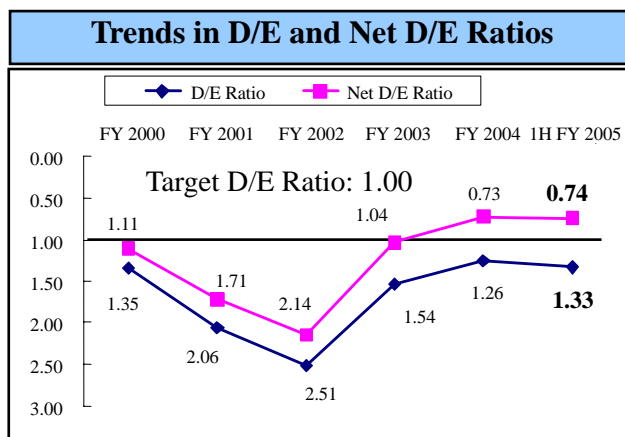
	End of First Half FY 2005	Change from End of FY 2004	<i>For reference)</i> <i>End of 1H FY04</i>
Total assets	3,611.9	-28.2	3,561.4
Interest-bearing loans	1,088.5	5.7	1,124.9
Net interest-bearing loans	608.3	-19.7	909.8
Shareholders' equity	819.0	-37.9	803.0
Retained earnings (Deficit)	(92.2)	-84.4	-50.8
D/E ratio	1.33	0.07	1.40
Net D/E ratio	0.74	0.01	1.13

Total assets at the end of the first half were 3,611.9 billion yen, a decrease of 28.2 billion yen compared to the end of fiscal 2004.

Total current assets were 1,823.1 billion yen, down 158.3 billion yen from the end of the previous fiscal year, primarily as a result of collections on trade receivables. Total fixed assets increased to 1,788.7 billion yen, an increase of 130.0 billion yen compared to the end of the last fiscal year. This was primarily due to an increase in property, plant and equipment less accumulated depreciation from new capital expenditures and an increase in the market value of marketable securities. Excluding the impact of a 62.1 billion yen reduction relating to accounting policy changes and a 9.3 billion yen reduction due to restructuring during the period, inventories increased 41.3 billion yen from the end of the previous fiscal year.

Total liabilities were 2,627.1 billion yen, an increase of 8.1 billion yen compared to the end of the previous fiscal year. Although there was a reduction in trade payables relating to fiscal year-end sales, there was an increase in reserves for retirement benefits associated with the change in pension accounting for the company's UK subsidiaries. Interest-bearing loans totaled 1,088.5 billion yen, roughly the same as at the end of the previous fiscal year.

Total shareholders' equity was 819.0 billion yen, a decrease of 37.9 billion yen compared to the end of fiscal 2004. Although we posted a net profit for the period and there was an increase in unrealized gains on marketable securities as a result of higher stock market prices, retained earnings declined due to changes in pension accounting at our UK subsidiaries. As a result of the foregoing, the shareholders' equity ratio at the end of the first half was 22.7% and the D/E ratio was 1.33.



## Summary of Cash Flows

(Billion Yen)

	First Half FY 2005	Change from First Half FY 2004
Cash flows from operating activities	143.0	92.8
Cash flows from investing activities	-104.1	-48.5
Free cash flow	38.8	44.3

Net cash provided by operating activities in the first half was 143.0 billion yen, with internal reserve flowing directly into operating cash flow. This represents an increase of 92.8 billion yen compared with the same period in the preceding fiscal year, resulting from higher earnings and improvements in working capital.

Net cash used in investing activities was 104.1 billion yen, an increase in outflows of 48.5 billion yen compared to the same period in the prior fiscal year. This was primarily attributable to increased capital expenditure at facilities such as our Mie Plant and acquisition of investment securities.

Free cash flow, the sum of operating and investment cash flows, was positive 38.8 billion yen, an improvement of 44.3 billion yen over the same period in fiscal 2004.

Net cash used in financing activities was 15.1 billion yen, due to dividend payments and other factors, and the balance of cash and cash equivalents at the end of the first half was 478.7 billion yen, an increase of 24.2 billion yen from the end of the prior fiscal year.

## **4. Management Direction**

### **Our Basic Stance on the Company's Business**

Information technology has moved beyond the realm of business and come to permeate nearly every aspect of our daily lives, rapidly expanding convenience and bringing us closer to a world of ubiquitous networking in which people can connect with anyone, anywhere and at any time. At the same time, the importance of IT to our customers' businesses has increased dramatically. When selecting a vendor to build and deploy their IT systems, customers require not simply a supplier of goods and services but rather a true partner with the ability to propose and implement solutions encompassing the entire IT system lifecycle.

Our mission is as follows:

Fujitsu continually seeks 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 a thorough understanding of the environments in which our customers operate and the overall nature of their operations, we create and deploy IT solutions that contribute to the growth and development of their businesses. In so doing, as a trusted business partner to our customers, we seek to grow as they grow.

### **Medium-Term Business Strategy and Priority Tasks**

While on a global basis IT investment is gradually increasing, in Japan there are disparities in the degree of recovery of such investment among different industries and companies, and evidence of a robust recovery is lacking. Moreover, the continuing trend toward downward pressure on prices for services and products, and intensifying competition, suggests that our operating environment will remain difficult going forward. Despite these challenges, we are striving for the earnings capacity that will enable us to achieve steady profitable growth. Achieving high earnings capacity will help make possible a stronger product line-up, expanded sales and reinvestment of profits, thereby laying the basis for long-term growth.

In fiscal 2004, we articulated and began pursuing four key challenges facing the Fujitsu Group: to strengthen our existing businesses, to create and cultivate new businesses, to reform our organization and approach, and to reform our management systems. Since then, the entire group has pulled together to address these challenges, and we are redoubling and accelerating our efforts in these areas in fiscal 2005.

#### **1) Strengthening our existing businesses**

We are working to raise quality, lower costs and increase speed in every aspect of our operations, including design, development, production and sales. In our production operations, we are continuing to pursue company-wide manufacturing innovation. In our contract software development operations, through such measures as the application from the beginning of this fiscal year of the percentage of completion method, we are making vigorous efforts to closely track and control project planning, progress and risk. Moreover, along with working to speed up software development, we are continuing initiatives such as the rigorous standardization of business processes for sales and systems engineering in order to strengthen our systems integration



business.

We are also working to boost the competitiveness of our server, storage, middleware and other products, and are engaged in a company-wide sales promotion effort for these products. In regard to our TRIOLE strategy for IT infrastructure optimization, we established a new company in Japan responsible for support of related software products and service operations in an effort to speed up the expansion of this business. As a complement to this, we plan to further expand businesses that we believe have strong growth potential going forward, such as product life cycle management (LCM) and outsourcing services.

## **(2) Creating and cultivating new businesses**

IT has traditionally been used mainly for back office corporate management operations. We are convinced, however, that the domains where IT use will grow in the future are the front lines where the movement of people and goods takes place. We will therefore place particular emphasis on helping to bring about IT-enabled innovation at these frontline operations. More specifically, we will help customers achieve greater efficiency through the deployment of IT at the front lines of such fields as manufacturing and retailing as well as R&D and sales. We will also work to foster greater dynamism, security, enjoyment and convenience in daily life through the application of IT at the front lines of such fields as travel, medical treatment, nursing care, and education.

In addition, we are actively working to grow our business around the world, including aggressive efforts to expand overseas sales of the new PRIMEQUEST series of mission-critical IA servers, which we launched in April of this year.

In the electronic devices area, in September of this year we began volume shipments of logic chips produced at our 300-mm wafer fab using leading-edge 90- and 65-nm process technologies. Aiming to recover our investment at an early date, we will work to strengthen this business going forward.

## **(3) Reforming our organization and approach**

To provide speedier service to customers and seamless support over the entire IT system lifecycle, we have been eliminating redundancy and internal competition in our operations and functions and realigning our organization. In July of this year we merged five development subsidiaries into Fujitsu Limited, thereby concentrating our capabilities in software and networking technologies, as well as product development and overall expertise. Through this and other measures, we have been making steady progress in building an organizational structure that will enable us to maximize the group's R&D potential. Going forward, while working to realize benefits from these initiatives, we will continue to reform our organization, strengthening connections with and among our group companies.

We will also continually review and revise our business portfolio as necessary.

## **(4) Reforming our management systems**

Based on the mission, values and code of conduct set forth in *The FUJITSU Way*, we will continue to emphasize sustainability in the management of our business. We will also strive to improve our internal business processes and strengthen our internal control functions. In addition, to make the most of our human resources, we will enhance our internal training and education programs.

We will work unceasingly to meet these challenges, serve as a trusted partner to our customers, and pursue further reforms as global company that contributes to the creation of a rich and dynamic networked economy and earns the trust of our customers and society at large.

## 5. Second-Quarter Financial Results

### Profit and Loss

(Billion Yen)

	Second Quarter FY 2005	% Change from 2Q FY 2004
Net Sales	1,165.9	-3.8%
Japan	787.8	-9.1%
Overseas	378.1	9.7%

*% Change Excluding  
Impact of Change in  
Accounting Policies and  
Business Restructuring*

-0.8%  
-5.9%  
12.1%

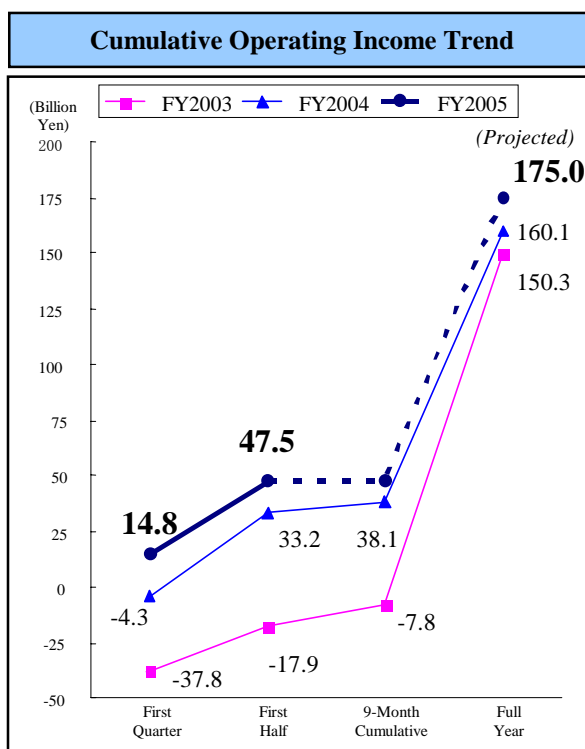
(Billion Yen)

	Second Quarter FY 2005	Change from 2Q FY 2004
Operating Income	32.7	-4.9

Consolidated net sales for the second quarter were 1,165.9 billion yen (US\$10,228 million), a decrease of 3.8% compared to the second quarter of fiscal 2004. However, excluding the impact of business restructuring and changes in accounting policies, results were roughly the same as the second quarter of last year. A large year-on-year decline in sales in Japan was attributable in part to the fact that sales of mobile phone base stations and financial terminals capable of handling new Japanese banknotes were strong during the same period last year. Outside Japan, however, sales increased markedly due to the global competitiveness of such Fujitsu products as optical transmission systems for customers in North America and HDDs. Strong results were also recorded in overseas sales of UNIX servers and notebook computers as well as in outsourcing services in the UK.

Consolidated operating income was 32.7 billion yen (US\$287 million), a decline of 4.9 billion yen from the second quarter of the previous year. Despite an improvement in the profitability of the solutions/systems integration business in Japan and the effects of the reorganization of our flat panel display and other businesses, as well as increased profits in businesses like optical transmission systems and outsourcing services in the UK, declines in businesses that, as noted above, were strong in the comparable period last year, as well as intensified competition in the LSI devices business, ultimately resulted in the decline in operating income.

As a result of improved results in the first quarter, cumulative operating income for the first half was 47.5 billion yen (US\$417 million), exceeding last year's level and indicative that our recovery remains on track.



In other income (expenses), although equity in earnings of affiliated companies declined, there was a reduction in amortization of unrecognized obligations for retirement benefits as a result of pension system revisions. As a result of these factors, other income (expenses) was more-or-less equivalent to the same period in fiscal 2004.

We posted a gain in connection with the business transfer of our LCD panel operations, and a loss in connection with business restructuring expenses.

We reported consolidated net income of 5.1 billion yen (US\$45 million) for the quarter, an increase of 1.4 billion yen over the same period in fiscal 2004. In the second quarter of fiscal 2004, losses generated by subsidiaries resulted in a higher ratio of income tax in relation to income before income taxes and minority interests.

## 6. FY 2005 Earnings Projections

Consolidated net sales for the first half were in line with projections. However, operating income for the period greatly exceeded our initial projections. The results reflected the impact of higher sales relating to increased demand for mobile phone base stations and optical transmission systems, as well as the expansion of our overseas businesses. Additionally, group-wide initiatives aimed at improving profitability, such as the strengthening of controls to prevent the emergence of loss-generating projects in our domestic solutions/systems integration business, manufacturing innovation-driven progress in paring costs, and improvements in operating expense efficiency, were able to offset the effects of sluggish demand and increased competition in the Japanese IT market.

Consolidated earnings projections for the full fiscal year remain as announced on October 18. While we project third-quarter consolidated net sales of 1,110.0 billion yen, an increase compared to the same period in the previous year, given the difficult Japanese IT market environment, we expect third-quarter operating income to break even. In light of our traditional business structure—in which sales and profits tend to be concentrated in the fourth quarter—and with conditions in the IT market in Japan still difficult to predict, we have maintained our previous projections for full-year consolidated operating income of 175.0 billion yen. In other income (expenses), amortization of unrecognized obligation for retirement benefits is expected to be further reduced as a result of pension system revisions. In light of this and other factors, including fluctuations in corporate income tax, our full-year consolidated net income forecast of 50.0 billion yen has been left unchanged. We expect that the group-wide application of International Financial Reporting Standards (IFRS) will have an upward impact on profitability of 7.1 billion yen compared to the previous year.

In order to achieve our targets for the fiscal year, we will further leverage the unified organization created through the integration of our domestic sales and systems engineering groups last year, and, seeking to help customers realize new innovation in the field, continue to deliver quality solutions incorporating powerful technologies. In addition, striving to boost our earnings capacity, we will aggressively promote sales of globally competitive products that reflect the relentless pursuit of cost efficiencies along with leadership in cutting-edge technologies, while continually working to improve the financial soundness of our businesses by meticulously pursuing the efficient use of capital and other resources and enhancing profitability.

(Billion Yen)

	<b>FY 2005 (Forecast)</b>	FY 2004 (Actual)	Change
Net Sales	4,800.0	4,762.7	37.2
Operating Income	175.0	160.1	14.8
Net Income	50.0	31.9	18.0

### *Net Sales and Operating Income on a Quarterly Basis*

(Billion Yen)

	1Q FY 2005 (Actual)	2Q FY 2005 (Actual)	3Q FY 2005 (Forecast)	4Q FY 2005 (Forecast)
Net Sales	1,026.3	1,165.9	1,110.0	1,497.6
Operating Income	14.8	32.7	0	127.4

*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 in Japan, North America and Europe)*
- Rapid changes in high-technology markets (particularly semiconductors, PCs, mobile phones, etc.)*
- Fluctuations in 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 the procurement of parts and components*
- Changes in competitive relationships relating to collaborations, alliances and technical provisions*
- Potential emergence of unprofitable projects*
- Changes in accounting policies*

## Part III: Supplementary Information

### a. Consolidated Business Segment Information

#### (1) Net Sales\* and Operating Income

	Yen (billions)		Yen (billions)				
	FY 2004		FY 2005				
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY04 (%)	Full Year (Forecast)	Change vs. FY04 (%)	Change vs. previous forecast** (Bil. Yen)
<b>Technology Solutions</b>							
Japan	Y 956.6	2,157.6	950.0	-0.7	<b>2,160.0</b>	+0.1	-40.0
Overseas	357.2	776.7	394.0	+10.3	<b>860.0</b>	+10.7	+40.0
Total	Y 1,313.8	2,934.4	1,344.0	+2.3	<b>3,020.0</b>	+2.9	-
Operating Income	Y 18.8	142.0	42.9	+127.1	<b>180.0</b>	+26.7	-
[Operating Margin]	[1.4%]	[4.8%]	[3.2%]		<b>[6.0%]</b>		
<i>System Platforms</i>							
Operating Income	5.1	45.1	3.5	-30.6	<b>40.0</b>	-11.5	-
[Operating Margin]	[1.6%]	[6.2%]	[1.1%]		<b>[5.6%]</b>		
<i>Services</i>							
Operating Income	13.7	96.8	39.3	+185.8	<b>140.0</b>	+44.5	-
[Operating Margin]	[1.4%]	[4.4%]	[3.9%]		<b>[6.1%]</b>		
<b>Ubiquitous Product Solutions</b>							
Japan	346.3	733.0	328.9	-5.0	<b>700.0</b>	-4.5	-30.0
Overseas	135.3	298.3	169.5	+25.3	<b>350.0</b>	+17.3	+30.0
Total	481.6	1,031.4	498.4	+3.5	<b>1,050.0</b>	+1.8	-
Operating Income	3.4	31.3	16.6	+385.5	<b>25.0</b>	-20.2	-
[Operating Margin]	[0.7%]	[3.0%]	[3.3%]		<b>[2.4%]</b>		-
<b>Device Solutions</b>							
Japan	251.8	474.8	190.7	-24.3	<b>390.0</b>	-17.9	-40.0
Overseas	174.3	319.9	145.2	-16.7	<b>290.0</b>	-9.4	-10.0
Total	426.1	794.7	336.0	-21.2	<b>680.0</b>	-14.4	-50.0
Operating Income	34.5	32.5	14.4	-58.1	<b>20.0</b>	-38.6	+5.0
[Operating Margin]	[8.1%]	[4.1%]	[4.3%]		<b>[2.9%]</b>		[+0.8%]
<b>Other Operations</b>							
Japan	147.0	297.4	161.3	+9.7	<b>310.0</b>	+4.2	-
Overseas	38.4	79.7	49.4	+28.5	<b>100.0</b>	+25.4	-
Total	185.5	377.2	210.8	+13.6	<b>410.0</b>	+8.7	-
Operating Income	3.6	9.0	2.0	-43.0	<b>10.0</b>	+10.5	-5.0
[Operating Margin]	[2.0%]	[2.4%]	[1.0%]		<b>[2.4%]</b>		[-1.3%]
<b>Elimination</b>							
Sales	(187.2)	(375.0)	(197.0)	-	<b>(360.0)</b>	-	-
Operating Income	(27.2)	(54.8)	(28.5)	-	<b>(60.0)</b>	-	-
<b>Total</b>							
Japan	1,538.0	3,340.6	1,469.8	-4.4	<b>3,250.0</b>	-2.7	-110.0
Overseas	681.9	1,422.0	722.4	+5.9	<b>1,550.0</b>	+9.0	+60.0
Total	2,220.0	4,762.7	2,192.3	-1.2	<b>4,800.0</b>	+0.8	-50.0
Operating Income	Y 33.2	160.1	47.5	+42.9	<b>175.0</b>	+9.2	-
[Operating Margin]	[1.5%]	[3.4%]	[2.2%]		<b>[3.6%]</b>		

\* Includes intersegment sales

\*\*Previous forecast as of July 28, 2005

(2) Net Sales\* by Principal Products and Services

	Yen (billions)		Yen (billions)				
	FY 2004		FY 2005				
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY04 (%)	Full Year (Forecast)	Change vs. FY05 (%)	Change vs. previous forecast** (Bil. Yen)
<b>Technology Solutions</b>							
System Products	Y 157.4	380.1	156.1	-0.8	<b>370.0</b>	-2.7	-10.0
Network Products	168.1	353.8	176.5	+5.0	<b>340.0</b>	-3.9	+10.0
<i>System Platforms</i>	325.5	734.0	332.6	-2.2	<b>710.0</b>	-3.3	-
Solutions / SI	438.0	1,002.6	457.5	+4.4	<b>1,025.0</b>	+2.2	-
Infrastructure Services	455.9	976.1	472.5	+3.6	<b>1,070.0</b>	+9.6	+10.0
Others	94.2	221.5	81.2	-13.8	<b>215.0</b>	-3.0	-10.0
<i>Services</i>	988.3	2,200.4	1,011.4	+2.3	<b>2,310.0</b>	+5.0	-
Total	1,313.8	2,934.4	1,344.0	+2.3	<b>3,020.0</b>	+2.9	-
<b>Ubiquitous Product Solutions</b>							
PCs / Mobile Phones	362.9	776.1	352.1	-3.0	<b>750.0</b>	-3.4	-20.0
Hard Disk Drives	108.3	235.5	136.8	+26.3	<b>280.0</b>	+18.9	+20.0
Others	10.3	19.7	9.4	-8.7	<b>20.0</b>	+1.3	-
Total	481.6	1,031.4	498.4	+3.5	<b>1,050.0</b>	+1.8	-
<b>Device Solutions</b>							
LSI Devices	246.0	468.2	219.3	-10.9	<b>450.0</b>	-3.9	-35.0
Electronic Components, Others	Y 180.1	326.5	116.7	-35.2	<b>230.0</b>	-29.6	-15.0
Total	426.1	794.7	336.0	-21.2	<b>680.0</b>	-14.4	-50.0

\* Includes intersegment sales

\*\*Previous forecast as of July 28, 2005

## b. R&D Expenses

	Yen (billions)		Yen (billions)				
	FY 2004		FY 2005		FY 2005		
	1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY04 (%)	<b>Full Year (Forecast)</b>	Change vs. FY04 (%)	Change vs. previous forecast* (Bil. Yen)
As % of sales	125.9	240.2	121.0	-3.8	<b>245.0</b>	+2.0	-
	5.7%	5.0%	5.5%		<b>5.1%</b>		

## c. Capital Expenditures, Depreciation

		Yen (billions)		Yen (billions)				
		FY 2004		FY 2005		FY 2005		
		1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Change vs. 1H FY04 (%)	<b>Full Year (Forecast)</b>	Change vs. FY04 (%)	Change vs. previous forecast* (Bil. Yen)
<b>Capital Expenditures</b>								
Technology Solutions	Y	34.4	65.8	40.6	+17.7	<b>110.0</b>	+66.9	-
Ubiquitous Product Solutions		8.7	17.2	9.4	+8.4	<b>20.0</b>	+16.1	-
Device Solutions		32.3	76.1	70.4	+117.8	<b>110.0</b>	+44.4	-
Corporate and others		9.1	22.0	9.1	+0.6	<b>20.0</b>	-9.5	-
<b>Total</b>	Y	<u>84.6</u>	<u>181.4</u>	<u>129.6</u>	<u>+53.1</u>	<u><b>260.0</b></u>	<u>+43.3</u>	<u>-</u>
Japan		63.9	142.3	104.3	+63.1	<b>200.0</b>	+40.5	-
Overseas		20.6	39.0	25.3	+22.3	<b>60.0</b>	+53.6	-
<b>Depreciation</b>		81.0	169.9	77.5	-4.4	<b>190.0</b>	+11.8	-

## d. Cash Flows

		(Billion Yen)				
		FY 2004		FY 2005		Change vs. previous forecast*
		1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	<b>Full Year (Forecast)</b>	
(A) Cash flows from operating activities	Y	50.1	277.2	143.0	<b>350.0</b>	-
[Net income]		[(8.1)]	[31.9]	[7.6]	<b>[50.0]</b>	-
[Depreciation **]		[113.5]	[232.1]	[112.5]	<b>[260.0]</b>	-
[Others]		[(55.1)]	[13.2]	[22.7]	<b>[40.0]</b>	-
(B) Cash flows from investing activities		(55.6)	(15.1)	(104.1)	<b>(250.0)</b>	-
(C) Free cash flow (A)+(B)		(5.4)	262.1	38.8	<b>100.0</b>	-
(D) Cash flows from financing activities		(184.8)	(212.0)	(15.1)	<b>(120.0)</b>	-
(E) Total (C)+(D)	Y	<u>(190.2)</u>	<u>50.0</u>	<u>23.6</u>	<u><b>(20.0)</b></u>	<u>-</u>

\*Previous forecast as of July 28, 2005

\*\* Including amortization of goodwill



#### e. Exchange Rates

Average Rates for

FY 2004		FY 2005	
1st Half (Actual)	2nd half (Actual)	1st Half (Actual)	2nd Half (Forecast)
\$1=110 yen	\$1=105 yen	\$1=109 yen	\$1=105 yen

#### f. Employees

(Thousands)				
	2004/3/31	2004/9/30	2005/3/31	2005/9/30
Japan [Parent Company]	105 [35]	103 [34]	101 [34]	100 [37]
Overseas	51	50	50	53
Total	156	153	151	153

#### g. PC Shipments

(Million Units)				
FY 2004		FY 2005		Change vs. previous forecast*
1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
3.24	7.44	3.67	<b>8.00</b>	-

#### h. Mobile Phone Shipments

(Million Units)				
FY 2004		FY 2005		Change vs. previous forecast*
1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
1.53	3.49	1.68	<b>3.10</b>	-

#### i. HDD Production

(Million Units)				
FY 2004		FY 2005		Change vs. previous forecast*
1st Half (Actual)	Full Year (Actual)	1st Half (Actual)	Full Year (Forecast)	
8.50	19.34	12.18	<b>26.00</b>	+1.00

\*Previous forecast as of July 28, 2005