The following section, Management's Discussion and Analysis of Operations, provides an overview of the consolidated financial statements of Fujitsu Limited (the "Company") and its consolidated subsidiaries (together, the "Group") for the year ended March 31, 2004 (fiscal 2003). Forward-looking statements in this section are based on management's understanding and best judgment as of June 28, 2004.

1. Analysis of Results

Business Environment

Although the Iraq War and SARS epidemic temporarily slowed the global economy at the beginning of the fiscal year, from the second half there was continuing growth in demand for third-generation (3G) and other mobile telephones and significant expansion of broadband communication networks, as well as solidifying demand for new digital AV equipment, signaling the dawn of an era of ubiquitous networking. US and other stock markets around the world began to recover, and by the fourth quarter overall economic conditions were showing steady signs of improvement.

Led by a strong recovery in the US economy, other regions also began to show gradual improvement. In Japan, which has benefited the most from the rapid growth in demand for digital AV equipment, corporate results improved, supported by strong exports by the manufacturing sector. Along with considerable recovery in the Japanese stock markets, the value of the yen continued to rise against other currencies. Similarly, China and other countries in Asia have benefited from a rise in new demand, and economies throughout the world are generally on a path towards recovery.

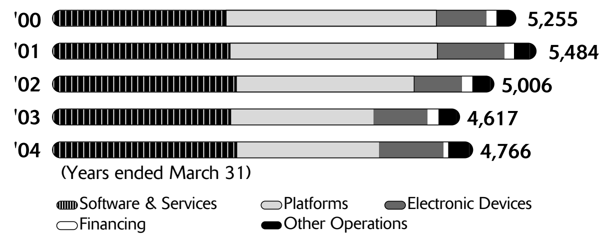
At the same time, corporate capital investment began to rebound on a global basis, and since the end of 2003 Japanese corporate investment in IT has begun to recover strength. As a result, we are seeing considerable activity in business orders.

Net Sales

Fiscal 2003 consolidated net sales were ¥4,766.8 billion ($44,971 million), with the growth rate compared to the prior year improving progressively in each quarter and a full-year increase of 3.2%. Overall, it was the first year-on-year increase in net sales since fiscal 2000. Sales rose by only a small margin in Software & Services, but Platforms sales finally rebounded to a level of parity with the previous year, and Electronic Devices sales jumped by nearly 20% both in Japan and overseas.

In addition to major gains in sales of logic chips, the fundamental technology driving advances in popular digital AV equipment, sales of other electronic devices supporting the digital revolution – including plasma display panels (PDPs), liquid crystal displays (LCDs) and hard disk drives (HDDs) – enjoyed strong growth. In mobile communications, the shift toward 3G solidified. In Japan, although firm corporate demand for IT-enabled services contributed to growth in services income, there was a decline in large-scale systems projects, which, together with intensifying price competition and other factors, led to sluggish domestic sales of servers, PCs and other hardware products. There was clear recovery during the second half of the fiscal year in the sales of transmission systems for North American carriers, but investment by Japanese telecommunications carriers continued to be restrained.

Net Sales by Business Segment (excluding intersegment sales)
(¥ Billions)

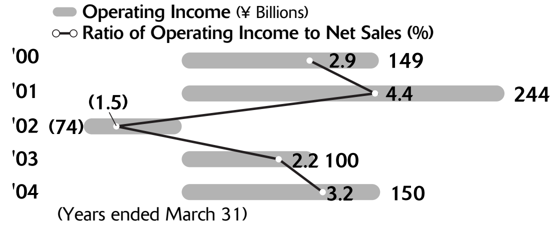


Cost of Sales, Selling, General & Administrative Expenses and Operating Income

The cost of sales increased by 4.0% compared to the previous year, to ¥3,460.9 billion ($32,650 million), but because of increasingly intense price competition, costs increased at a faster rate than sales, resulting in the cost of sales ratio climbing 0.5% from the previous year, to 72.6%. Gross profit on sales (net sales minus the cost of sales) was ¥1,305.9 billion ($12,320 million), an increase of 1.3% compared to the previous year. Despite higher net sales, selling, general and administrative expenses declined 2.8% from the prior year, to ¥1,155.6 billion ($10.902 million), as a result of efforts to streamline expenses.

Operating income increased by ¥49.9 billion over the previous year, or approximately 50%, to ¥150.3 billion ($1,418 million).

By business segment, Electronic Devices, which had suffered a major loss in the previous year, returned to profitability with a ¥59.1 billion improvement in operating income. In the Platforms segment, although intensified competition reduced profits in PCs and mobile phones, in transmission systems and HDDs, two areas that had suffered large losses the previous year, there were major improvements in operating income. Moreover, in the fourth quarter, there was unique demand in Japan for financial terminals able to accommodate new banknotes. These and other factors resulted in an improvement in the operating income of the Platforms segment of ¥28.2 billion. These improvements offset the ¥37.7 billion decline in operating income in Software & Services, which suffered from deterioration in the profitability of some projects. Thus, overall, we were able to achieve the 150 billion yen operating income level we had targeted at the beginning of the fiscal year.



Other Income (Expenses) and Net Income

Other income (expenses) totaled ¥6.6 billion ($63 million). We posted a loss of ¥0.8 billion ($8 million) in net equity in earnings of affiliates, compared to income of about ¥0.5 billion in the previous year. This was because our investment in Fanuc Ltd. became no longer subject to equity method accounting as a result of our sales of Fanuc shares during the fiscal year. Interest charges were ¥23.3 billion ($220 million), a decrease of ¥6.5 billion from the previous year, reflecting the continuing redemption of corporate bonds that contributed to the reduction in interest-bearing loans.

Also with respect to other income (expenses), we recorded gains on sales of marketable securities and the transfer of the substitutional portion of our employees' pension funds to the Japanese government, and losses from restructuring charges and other items. Further details are provided in the "Explanation of Extraordinary Items in Other Income (Expenses)" section below.

The amortization of unrecognized obligation for retirement benefits was ¥56.9 billion ($537 million), an increase of ¥13.0 billion compared to the prior year. This occurred because weakness in equity markets during the prior fiscal year resulted in a larger actuarial variance. After factoring in these items, income before income taxes and minority interests was ¥157.0 billion ($1,481 million).

Income taxes were ¥92.2 billion ($870 million), and the effective tax rate with respect to income before income taxes and minority interests was 58.7%. Because of differences in consolidated and non-consolidated capital gains recorded on the sales of Fanuc shares, this exceeded the statutory income tax rate. Current income tax in fiscal 2003 amounted to ¥34.1 billion ($322 million) and was primarily recorded for domestic subsidiaries in the Software & Services segment. Deferred income tax was ¥58.0 billion ($548 million), mostly reflecting the reversal of deferred tax assets for the Company and its consolidated domestic subsidiaries.

Minority interests were ¥15.1 billion ($142 million), an increase of ¥11.8 billion over the prior year. This was due mainly to the increase in profits of such publicly listed domestic companies as Fujitsu Support and Service Inc., Fujitsu Business Systems Ltd., and Shinko Electric Industries Co., Ltd., as well as of Fujitsu TEN Limited.

Consolidated net income for the year was ¥49.7 billion ($469 million), representing the first net profit posted since fiscal 2000.

Explanation of Extraordinary Items in Other Income (Expenses)

During fiscal 2003, in addition to aggressive sales of assets aimed at improving our financial strength, we transferred the substitutional portion of our employees' pension funds in order to reduce the unrecognized obligation of retirement benefits and lower the asset management risk related to pension assets.

· Gain on Sales of Marketable Securities
....¥134.6 billion ($1,270 million)

At the request of Fanuc, we sold approximately 37 million shares of our shareholdings in the company. The proceeds from the sales were ¥217.5 billion ($2,052 million), and the gains realized were ¥117.0 billion ($1,104 million). As a result of the sales, our ownership interest in Fanuc was reduced to 18.64% (including shares held in our pension trust account), and we therefore no longer treated it as an equity method affiliate. Because the capital gains on these sales were taxable on a non-consolidated basis, the contribution of the sales proceeds to consolidated net income in the fiscal year was limited to ¥28.1 billion ($265 million). Including gains from the sales of Fanuc shares, total gains on the sales of marketable securities were ¥134.6 billion ($1,270 million).

· Gain on Sales of Property, Plant and Equipment
....¥13.6 billion ($129 million)

In addition to securitizing the land and buildings of newly constructed Fujitsu Solution Square (located in Kamata, Tokyo), we aggressively sold properties, including those that had been used for employee recreation, realizing sales proceeds of ¥29.3 billion ($276 million).

· Gain on Transfer of Substitutional Portion of Employees' Pension Funds ....¥146.5 billion ($1,382 million)

We applied for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the employees' pension funds in which the Company and our domestic subsidiaries participate. On March 23, 2004, we received the approval for the exemption from the Minister of Health, Labour and Welfare. Accordingly, as of the date of approval, we recognized the elimination of both the employee retirement obligations and pension assets corresponding to the substitutional portion, reporting the resulting gain in other income (expenses).

In order to strengthen the profitability of our global business and our software and services business in Japan, we implemented various measures to improve our business structure, resulting in the following restructuring charges.

· Restructuring Charges ....¥164.2 billion ($1,549 million)

· Global Restructuring Focusing on North America.................¥75.7 billion ($715 million)

To better serve customers expanding their business on a global basis, we are enhancing our ability to offer leading-edge hardware and software worldwide under a unified presence (our "One FUJITSU" initiative), and to continually provide high-quality one-stop solutions in each region.

We merged two computer hardware sales operations in the US, Fujitsu PC Corporation (focusing on PCs), and Fujitsu Technology Solutions Inc. (focusing on servers), a subsidiary of Fujitsu IT Holdings, Inc. ("FIH," formerly Amdahl), integrating them into the newly established Fujitsu Computer Systems Corporation. This merger created a unified organization for hardware offerings and enabled a reduction in overlapping functions and personnel, as well as the disposal of assets.

In software and services, we realigned the operations of Fujitsu Consulting Holdings, Inc. (the former DMR), which had been a subsidiary of FIH, to focus on the North American market. In conjunction with this, Fujitsu Consulting's operations in Spain were sold to a third party, and other European operations were merged into Fujitsu Services Holdings PLC (the former ICL). Operations in Australasia were merged into Fujitsu Australia Limited. These moves also enabled a reduction in overlapping functions and personnel, and the elimination of assets.

The scope of the personnel reductions from these measures, primarily in North America and Europe, was approximately 1,000 employees globally.

Thus, in North America, Fujitsu Computer Systems and Fujitsu Consulting were made direct subsidiaries of Fujitsu Limited, and FIH is being liquidated. Along with these measures, we took a one-time charge for the amortization of goodwill associated with the acquisition of Amdahl, the predecessor of FIH, as well as for currency translation adjustments on past investments.

The breakdown of the recognized losses was ¥28.9 billion ($273 million) for charges related to personnel reductions and disposal of assets, and ¥46.8 billion ($442 million) for the one-time amortization of goodwill (including currency translation adjustments on investments). Going forward, under a new global business model, we will develop our business worldwide, with closer coordination among operations in each region, including those in Japan.

· Fundamental Reform of Software & Services
Business in Japan................¥68.3 billion ($644 million)

In fiscal 2003, we recognized losses to cover potentially uncollectible accounts related to projects expected to be completed or delivered in fiscal 2004 and 2005. This represented our estimates of the future expected losses from projects whose deterioration in profitability had already become apparent, as well as estimates based on a comprehensive review of potential future collections with respect to projects under development, including work not yet completed. Losses related to projects completed in fiscal 2003 were recognized as operating losses for the period.

These problematic projects were those in which, during the development stage, the scope of the work and the amount of manpower required escalated far above what had been initially foreseen, a situation not uncommon when dealing with long-term contracts for large-scale, cutting-edge systems. While this was in part a result of the difficulties encountered in the rapid switchover of systems to open standards, we also believe that it reflected the effects of a sudden expansion of business orders in the past.

In order to ensure that such losses do not occur again, we put in place a system for thoroughly managing project risk for all major contracts above a certain size. We are also strongly promoting the utilization of our innovative technologies, such as those relating to TRIOLE* and SDAS**, for handling the growing shift toward open standards. In order to improve the future profitability of our software and services business, we are also working to stringently implement rules for the immediate recognition of losses based on the percentage-of-completion method and bring enhanced clarity to project management, including work performed by outside contractors.

*TRIOLE: A highly reliable IT infrastructure model that brings together pre-verified combinations of servers, storage systems, networking and other equipment.

**SDAS (Systems Development Architecture & Support): A comprehensive application development framework covering all aspects of information system operations.

· Other Restructuring Charges
....¥20.1 billion ($190 million)

We also recognized losses resulting from the restructuring measures carried out by publicly listed and other domestic subsidiaries. This included ¥5.6 billion ($53 million) for FDK Corporation, ¥4.1 billion ($39 million) for Fujitsu Support and Service, and ¥2.0 billion ($19 million) for Shinko Electric Industries.

2. Segment Information

"Net sales" below refer to sales to unaffiliated customers.

Business Segment Information

Looking at fiscal 2003 operating income by business segment, although Software & Services showed a decline in income compared to the previous year, Electronic Devices – which last year had an operating loss – returned to profitability and, for the first time in three years, all three principal business segments recorded profits.

Software & Services

Consolidated net sales increased 3.4% from the prior fiscal year to ¥2,094.2 billion ($19,757 million). In Japan the increase was 4.9%, primarily as a result of demand from Japanese manufacturers pursuing global business expansion and from the public and healthcare sectors in conjunction with the e-Japan initiative.

Overseas, net sales decreased 1.1% due to the impact from the sale of some European operations. Excluding that impact, however, revenues actually saw a healthy increase of 2.5%. In the UK in particular, we won a series of major outsourcing orders from government agencies, including the Inland Revenue and the National Health Service. We also formed an IT services partnership with Siemens Business Services GmbH & Co. OHG of Germany to provide reciprocal support in the IT services field in Europe and Asia. Through restructuring and realigning of overseas operations, in particular our North American services subsidiaries, we worked to strengthen our ability to support customers' global business growth.

Consolidated operating income in this segment declined by ¥37.7 billion from the previous year, to ¥138.7 billion ($1,309 million). The decline stemmed from a deterioration of profitability in certain projects in the solutions/systems integration business and increased forward-looking investment in Linux and other technologies key to opening up new markets.

Going forward, we will strive to reduce development times through the deployment of our renewed SDAS comprehensive systems development framework. We will also work to simplify the introduction and operation of new systems, reduce the occurrence of system errors, and bring about significant cost reductions by using pre-verified combinations of hardware and middleware under our TRIOLE model.

Last November we completed construction of Fujitsu Solution Square in Kamata, Tokyo, bringing together in one location 4,000 solutions experts from the greater Tokyo-Yokohama metropolitan area. We are leveraging real-time knowledge shared across the worldwide Fujitsu Group to provide higher value-added solutions to meet customers' needs in a timely manner. Going forward, as the only Japanese vendor that is truly a global player, we will strive to strengthen and expand our global business and work to increase the profitability of our software and services business.

Platforms

Consolidated net sales were roughly flat compared with the previous year, amounting to ¥1,608.1 billion ($15,171 million). First-quarter sales were markedly lower than in the comparable period in fiscal 2002, but with the improvement in economic conditions toward the end of the fiscal year, sales of 3G mobile phones and base stations, PCs and HDDs picked up, and full-year sales recovered to about the same level of the prior year.

In Japan, sales of transmission systems and servers declined. In PCs, the impact of price erosion was offset by gains in unit shipments, and sales were held to roughly the same level as in the previous year. Sales of mobile phones and systems increased with the progressive switchover to 3G technology, and sales were also higher for financial terminals accommodating new banknotes. As a result, overall sales in Japan for the Platforms segment finished at about the same level as the previous year.

Overseas, sales of UNIX servers, PCs and HDDs increased, particularly in Europe and North America, resulting in sales growth of 1.2% over the previous year. Sales of transmission systems for the full fiscal year decreased, but significant recovery could be seen in the second half.

Consolidated operating income was ¥29.2 billion ($276 million), an increase of ¥28.2 billion over the previous year. Profitability benefited from the effects of restructuring carried out over the previous two years and the impact of cost reduction measures in conjunction with continuing efforts to improve manufacturing innovation and efficiency. It was further bolstered by the beginning of full-scale recovery in IT demand, which had been sluggish.

Profitability increased in HDDs used in notebook PCs, as well as in financial terminals due to the sudden increase in demand for models accommodating new banknotes in Japan. In addition, thanks to the recovery in demand by North American telecommunications carriers and the impact of previous restructuring, losses in transmission systems were greatly reduced. Although we were able to minimize the impact of intense price competition on profitability in PCs, we incurred greater costs in equipping mobile phones with high-level functionality, and profitability for mobile phones deteriorated.

We have been developing our server and PC businesses in four key regional markets: Japan, North America, Europe and Asia. In fiscal 2003, our highly reliable high-performance UNIX servers received much favorable attention in the market, particularly in Europe and the US, and sales of these systems by Fujitsu Siemens Computers (Holding) B.V. in Europe, Fujitsu Computer Systems in North America and group companies in other areas increased. In PCs, as well, solidifying our organizational ability to supply products globally and on very short timeframes, we enjoyed a large increase in overseas unit sales, particularly in Europe. Going forward, we intend to further strengthen our structure for developing and delivering leading-edge products to the global market.

Electronic Devices

Consolidated net sales totaled ¥734.3 billion ($6,928 million), an increase of 18.7% over the previous year. In semiconductors, driven by especially strong demand for use in digital AV equipment and mobile phones, sales of logic chips rose by nearly 30%. Flash memory sales recorded a 1.7% decline. This decline, however, was attributable to the shift of our Flash memory operation to equity method affiliate in conjunction with the establishment of a new joint venture company with Advanced Micro Devices, Inc. (AMD) at the end of June 2003. As a result, sales to AMD by the manufacturing subsidiary in Japan were removed from our consolidated accounts. Excluding the effect of this removal, on the basis of continuing operations, Flash memory sales would actually have risen by 66% over fiscal 2002.

In addition, robust demand for PDPs and LCDs led to year-on-year sales increases of over 50% in both segments.

Consolidated operating income made a significant turnaround, reaching ¥27.5 billion ($260 million), an improvement of ¥59.1 billion yen from the loss recorded in the previous year. Although there was a short-term slowdown in operations caused by an earthquake in May 2003 that damaged our Iwate Plant, buoyant demand significantly increased capacity utilization at all of our production facilities, resulting in improved profitability. In addition, PDP operations returned to profitability on a full-year basis, and profits in all key segments within Electronic Devices improved.

Besides our joint venture with AMD in the Flash memory business, we also established a new joint venture with Sumitomo Electric Industries, Ltd. for compound semiconductors, which commenced operations in April 2004. In October 2003, we merged four back-end semiconductor assembly companies into a single company, achieving greater production efficiency and reducing costs.

In addition, we decided to build a new fab at our Mie Plant to mass-produce chips using our advanced 90nm process technology on 300mm wafers. By sharing the risk with strategic partners and undertaking phased investment in accordance with changes in demand, we expect to greatly increase profits.

In the PDP business, as well, with the goal of increasing production capacity to meet rising demand, we decided to invest in the construction of a new facility at the Miyazaki Plant of Fujitsu Hitachi Plasma Display Limited. By investing aggressively to increase production, we expect to reap even greater profits in PDPs.

Financing and Other

In May 2003, we transferred to a third party all of our shares in Kanda Tsushin Kogyo Co., Ltd., previously an equity method affiliate. Also, in September 2003, in a move aimed at strengthening our leasing business, we transferred a portion of the shares of Fujitsu Leasing Co., Ltd. to a third party. And in March 2004, FDK Corporation, which is primarily involved in the manufacture and sales of hybrid modules and batteries, received equity capital from a third party, entailing a switch to equity method affiliate as well.

As a result of making the leasing company an equity method affiliate, from the third quarter of fiscal 2003 we eliminated the Financing segment from our financial statements.

Net Sales and Operating Income by Business Segment (¥ Billions)

Years ended March 31	2003	2004	Increase (Decrease) rate (%)
Net sales (including intersegment sales)			
Software & Services	¥2,097	**¥2,146**	2.3%
Platforms	1,843	**1,832**	(0.6)
Electronic Devices	687	**804**	17.1
Financing	128	**54**	(57.6)
Other	378	**418**	10.4
Intersegment elimination	(518)	**(489)**	
Consolidated net sales	¥4,617	**¥4,766**	3.2%
			Increase (Decrease)
Operating Income			
Software & Services	¥176	**¥138**	¥(37)
Platforms	0	**29**	28
Electronic Devices	(31)	**27**	59
Financing	4	**2**	(2)
Other	10	**13**	3
Unallocated operating costs and expenses/intersegment elimination	(59)	**(60)**	(1)
Consolidated operating income	¥100	**¥150**	¥ 49

Geographic Segment Information

Japan

Net sales were ¥3,605.6 billion ($34,016 million), an improvement of 1.4% compared to the previous fiscal year. Sales of electronic devices, particularly those used in digital equipment, were strong. In Software & Services, there were increased sales to manufacturers undertaking global expansion, and the spread of the e-Japan initiative also helped boost sales, particularly to the public and healthcare sectors.

Operating income was ¥203.7 billion ($1,922 million), up by ¥42.8 billion over the previous year. The increase was attributable to the improvement in profitability for the Electronic Devices segment driven by sales growth, as well as to reductions in operating expenses and other factors.

Europe

Net sales were ¥544.5 billion ($5,138 million), an increase of 3.7% compared to the previous year. Although the selling off of certain business operations reduced sales in the Software &

Services segment, strong results by our electronic devices sales company and higher sales to telecommunications carriers led to an increase in overall sales in Europe.

Operating income was ¥6.6 billion ($63 million), an improvement of ¥3.0 billion compared to the prior year, largely related to strong performance in Electronic Devices.

The Americas

Net sales were ¥254.4 billion ($2,401 million), a decline of 1.2% compared to the previous year. This was primarily because of decreased revenue from the FIH group, lower sales of transmission systems, and lower sales of HDDs for servers due to price declines.

The operating loss amounted to ¥13.1 billion ($124 million). Although, the FIH group still ended with a loss, restructuring initiatives completed in fiscal 2002 in transmission systems helped to reduce losses in that sector by ¥5.6 billion compared to the previous year.

Other

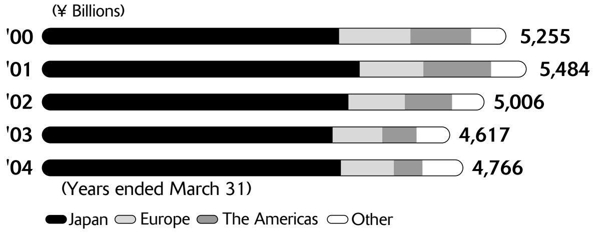
Sales in other regions, including Asia and Australia, totaled ¥362.1 billion ($3,416 million), an increase of 30.0% over the previous year. The increase related primarily to higher sales of electronic devices used in digital equipment and HDDs used in notebook PCs.

Operating income improved by ¥0.7 billion yen, to ¥13.5 billion ($127 million).

Net Sales and Operating Income by Geographic Segment (¥ Billions)

Years ended March 31	2003	2004	Increase (Decrease) rate (%)
Net sales (including intersegment sales)			
Japan	¥3,888	**¥4,071**	4.7%
Europe	543	**563**	3.7
The Americas	278	**274**	(1.2)
Other	464	**579**	24.8
Intersegment elimination	(556)	**(721)**	
Consolidated net sales	¥4,617	**¥4,766**	3.2%
			Increase (Decrease)
Operating income (loss)			
Japan	¥160	**¥203**	¥42
Europe	3	**6**	3
The Americas	(18)	**(13)**	5
Other	12	**13**	0
Unallocated operating costs and expenses/intersegment elimination	(58)	**(60)**	(2)
Consolidated operating income	¥100	**¥150**	¥49

For reference:
Net Sales by Customers' Geographic Location
(¥ Billions)



3. Capital Resources and Liquidity

Improvement in Financial Strength

As a result of the deterioration of performance following the collapse of the IT boom and the large charges stemming from restructuring initiatives, there had been significant deterioration in the company's financial condition. In fiscal 2003, in addition to working to improve the profitability of our business operations, we took various steps to restore our financial strength, such as selling marketable securities in order to raise the efficiency of asset utilization and converting our Flash memory business, leasing business, and FDK into equity method affiliates.

We also continued efforts to reduce inventories to a target level of 500 billion yen, a reduction by half from their peak level of approximately 1,000 billion yen. At the end of fiscal 2003, inventories had been reduced to ¥521.1 billion ($4,916 million), just shy of our target. Going forward, we will accelerate the implementation of Toyota-style manufacturing innovation throughout the Group and establish new targets in line with progress in applying the percentage-of-completion method in our software and services business.

Shareholders' equity reached ¥827.1 billion ($7,804 million), and the shareholders' equity ratio rebounded to 21.4%. This increase was a reflection of recovery in earnings from our business operations, gains on sales of marketable securities, transfer of the substitutional portion of the employees' pension funds, and the effect of Fanuc shares not being accounted for as an equity method affiliate but revaluated at fair market value.

We achieved the target we set at the beginning of the fiscal year to reduce interest-bearing loans to 1,500 billion yen or below, ending the year with a balance of ¥1,277.1 billion ($12,048 million). The D/E ratio also improved to 1.54 from 2.51 in the prior fiscal year.

Going forward, we will strive to attain a D/E ratio below 1.0, and continue to pursue higher earnings from our business operations and generate stronger cash flow.

Assets, Liabilities, and Shareholders' Equity

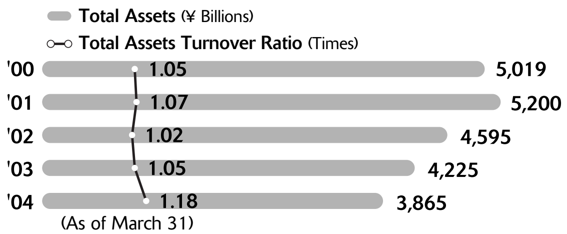
Total assets at the end of fiscal 2003 were ¥3,865.5 billion ($36,468 million), a reduction of ¥359.7 billion from the end of the previous year. This was attributable to the shift of our Flash memory operation, leasing operation and FDK to equity method affiliates, as well as to sales of marketable securities and other measures that we pursued to improve asset efficiency.

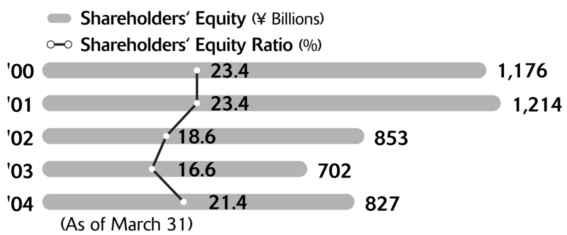
We reduced total current assets by ¥56.0 billion from the end of the previous year. Although cash and cash equivalents increased, inventories shrank and, as a result of shifting the leasing business to an equity method affiliate, lease receivables also declined.

Investments and long-term loans declined by ¥74.5 billion from the end of the prior fiscal year, primarily as a result of such factors as the sales of Fanuc shares and the shift to equity method affiliate for the leasing operation. Property, plant and equipment less accumulated depreciation decreased by ¥187.5 billion, due to the shift to equity method affiliate for the Flash memory business and selectivity in new capital expenditure.

Combining current and long-term liabilities, total liabilities amounted to ¥2,847.9 billion ($26,867 million), a reduction of ¥460.4 billion compared to the end of the prior fiscal year. The reduction of ¥486.6 billion in interest-bearing loans was accomplished as a result of restored profitability in business operations, sales of marketable securities, and the shift to equity method affiliate for the leasing operation.

Total shareholders' equity was ¥827.1 billion ($7,804 million), and the shareholders' equity ratio increased to 21.4%. This increase was attributable to such factors as increased profits in our business operations, sales of marketable securities, and gain on transfer of the substitutional portion of the employees' pension funds, as well as revaluation at fair market value for holdings in Fanuc, which from the third quarter was no longer treated as an equity method affiliate.





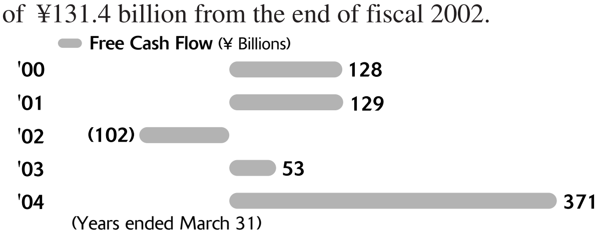
Summary of Cash Flows

Net cash provided by operating activities during the fiscal year was ¥304.0 billion ($2,868 million). The earnings recovery in our business operations pushed operating cash flow back above the 300 billion yen level, an improvement of ¥186.2 billion compared to the prior fiscal year.

Net cash provided by investing activities was ¥67.3 billion ($636 million). In addition to reducing the outflow of funds from investing activities due to greater selectivity in capital expenditure, we had an inflow of funds from the sale of marketable securities and property, plant and equipment.

Adding together cash flows from operating activities and cash flows from investing activities, free cash flow was strongly positive, at ¥371.4 billion ($3,504 million). A portion of this was used to redeem corporate bonds and repay borrowings. Net cash used in financing activities was ¥239.9 billion ($2,263 million).

As a result, cash and cash equivalents stood at ¥413.8 billion ($3,904 million) at the end of fiscal 2003, an increase of ¥131.4 billion from the end of fiscal 2002.



4. Capital Expenditure

In fiscal 2003, capital expenditure, which was targeted at the most promising growth sectors and held within the same range as depreciation expenses, totaled ¥159.7 billion ($1,508 million). Broken out by business segment, capital expenditure was ¥54.0 billion ($509 million) in Software & Services, ¥32.4 billion ($306 million) in Platforms, ¥59.3 billion ($559 million) in Electronic Devices (of which ¥30.1 billion ($284 million) was for semiconductors), and ¥13.9 billion ($131 million) for general corporate and other areas.

Capital Expenditure (¥ Billions)

Years ended March 31	2003	2004	Increase (Decrease) rate (%)
Software & Services	¥ 38	**¥ 54**	39.2%
Platforms	36	**32**	(11.7)
Electronic Devices	60	**59**	(2.6)
[Semiconductor production]	[38]	**[30]**	[(20.8)]
Corporate and others*	11	**13**	25.3
Total	¥147	**¥159**	8.2%
Japan	125	**135**	7.7
Overseas	21	**24**	11.5

* Non-allocable capital expenditure for shared R&D and parent company management division

5. Consolidated Subsidiaries

At the end of fiscal 2003, the Company had 455 consolidated subsidiaries, 136 in Japan and 319 overseas, representing a decrease of 32 from last year's total of 487. Our Flash memory business, leasing business and FDK became equity method affiliates. In addition, we consolidated and reorganized our domestic semiconductor back-end assembly and testing operations as well as our network development companies, and we restructured our global operations, particularly in North America. This resulted in a decrease in the total number of subsidiary companies. From fiscal 2003, we newly consolidated the subsidiaries of Fujitsu TEN.

The number of affiliated companies accounted for by the equity method increased by three, to 32. This included FDK, Fujitsu Leasing, and FASL LLC (which was renamed Spansion LLC on June 28, 2004), while Fanuc was no longer accounted for by the equity method.

6. Critical Accounting Policies and Estimates

Accounting Principles and Practices

The accompanying consolidated financial statements of the Group have been prepared in accordance with accounting principles and practices generally accepted in Japan and the regulations under the Securities and Exchange Law of Japan. The accounting principles and practices adopted by the consolidated subsidiaries outside of Japan conform to those of their respective countries.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amount of the assets, liabilities, contingent assets and contingent liabilities reported at the end of the fiscal year as well as the amount of revenue and expenses recognized during that term. Actual results may differ from these estimates.

The Group is discussing the requirements for the adoption of International Financial Reporting Standards (IFRS/IAS). When these standards are adopted, it is possible that differences may arise from financial statements prepared under Japanese standards.

Revenue Recognition

Revenue from sales of IT systems and products, including software development contracts is recognized upon acceptance by the customers, whereas revenue from sales of personal computers, other equipment and electronic devices is recognized when the products are shipped.

Going forward, we plan to introduce the percentage-of-completion method to thoroughly improve the visibility of project management for software development contracts, beginning with the initial customer contract and including work performed by outside contractors. Based on this premise, in fiscal 2003 we undertook a stringent assessment of the potential revenue recoverable on those projects for which estimated costs had exceeded estimated revenue, and we recognized as losses the amounts assessed as non-recoverable. If the estimated costs relating to those contracts increase further in the future, additional losses may be recognized.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives of the respective assets, which vary according to their general classification, type of construction and function. In the future, some equipment and facilities may become obsolete as a result of technical innovation or other factors, and some equipment and facilities may no longer be required as the result of withdrawal from certain businesses, in which case their actual useful lives may become less than their originally estimated useful lives. Losses may occur as a result.

We are not adopting in advance the impairment accounting standard that will become mandatory in fiscal 2005 in Japan. Accordingly, at the time that standard is applied, losses may have to be recognized in cases in which there is a decline in the anticipated amount of future cash flows and a corresponding decline in the amounts judged to be recoverable as a result of deterioration in the projected results of a business unit.

Intangible Assets

Computer software for sale is amortized based on projected unit sales volume during the period for which the projections are made. The projected unit sales volume is estimated based on a feasible sales plan, but losses may occur if anticipated unit sales fall short of the original sales plan.

Computer software for internal use is amortized by the straight-line method over its estimated useful life. Losses may occur if the actual useful life falls short of the initially estimated useful life.

Goodwill

Goodwill arising from the acquisition of a business is amortized by the straight-line method over the period corresponding to the premium of the acquired business. Losses may be recognized when the business is withdrawn or sold by the Group, or when the profitability of the acquired business decreases during the period the Group expected the return.

Marketable Securities

Held-to-maturity investments, which are the debt securities which the Group has the positive intent and ability to hold to maturity, are stated at amortized cost, adjusted for the amortization of premium or discount to maturity. Available-for sale securities, which are “equity securities” or “debt securities not classified as held-to-maturity,” are carried at fair market value as of the balance sheet date of the fiscal year if a market price is available. If no market price is available, they are carried at cost based on the moving average method. Fluctuations in the market value of available-for-sale securities for which market prices are available cause fluctuations in the carrying value of marketable securities, resulting in increases or decreases in shareholders’ equity. Impairment losses are recognized on available-for-sale securities when the market value or the net worth falls significantly and is proved to be unrecoverable. If a significant decline in market value occurs and is proved to be unrecoverable in the future, additional impairment losses may need to be recognized.

Deferred Tax Assets

In fiscal 2001 and 2002, the Group posted large losses as a result of a deterioration in operating performance and related business restructuring charges. With respect to the timing difference on tax loss carryforwards and others, an estimate has been made of the amount of the deferred tax assets within the extent of which the Group judges to be recoverable over the next five years. By recording a valuation allowance for the amount exceeding the projected recoverable amount, an appropriate level of deferred tax assets is recorded. Future increases or decreases in the valuation allowance may be made if projected taxable income decreases or increases as a result of trends in future results. The deferred tax asset is recognized based on the statutory tax rate. Future revisions in the tax rate would result in increases or decreases of the deferred tax asset.

Retirement Benefits

Retirement benefit costs and obligations are determined based on certain actuarial assumptions. These assumptions include the discount rate, rates of retirement, death rates, and the expected rate of return on the plan assets. The discount rate for the company and its domestic subsidiaries is estimated based on the market rate of return in Japan for long-term corporate bonds of a certain rating. The expected rate of return is estimated based on the weighted average of the expected rates of return for each type of asset in which the pension funds are invested. When actual results differ from the assumptions or when the assumptions are changed, retirement benefit costs and obligations can be affected. In the event an actuarial loss arises, the actuarial loss is amortized using a straight-line method over employees’ average remaining service period.

Overseas subsidiaries recognize retirement benefit costs and obligations in conformity with the accounting principles and standards generally accepted in their respective countries. Any future revisions to these accounting standards could impact the retirement benefit costs and obligations recognized by these subsidiaries.

Provision for Loss on Repurchase of Computers

Certain computers manufactured by the Group are sold to Japan Electronic Computer Co., Ltd. (JECC) and other leasing companies for leasing to the ultimate users under contracts that require the repurchase of the computers if they are returned by the users after a certain period. Based on past experience, an estimated amount for the loss arising from such repurchases is provided at the point of sale and is recorded as a provision. If there are future changes in the usage trends of the ultimate users, there may need to be additions or reductions to the provision.