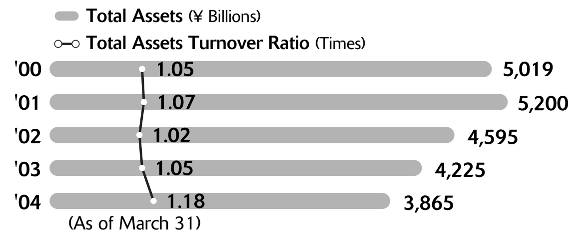
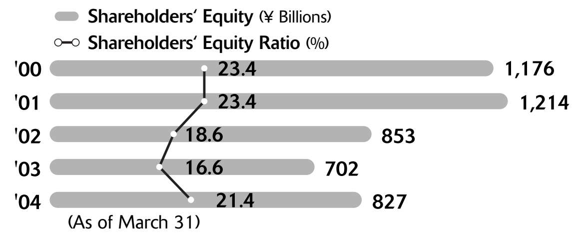
increased profits in our business operations, sales of marketable securities, and gain on transfer of the substitutional portion of the employees' pension funds, as well as revaluation at fair market value for holdings in Fanuc, which from the third quarter was no longer treated as an equity method affiliate.





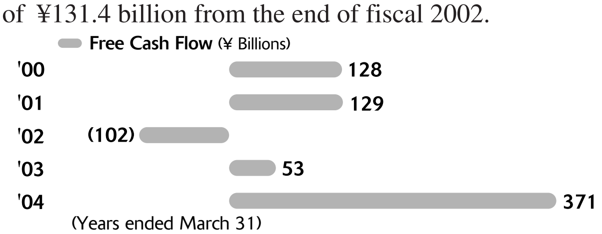
Summary of Cash Flows

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