



Sun's Financial Overview

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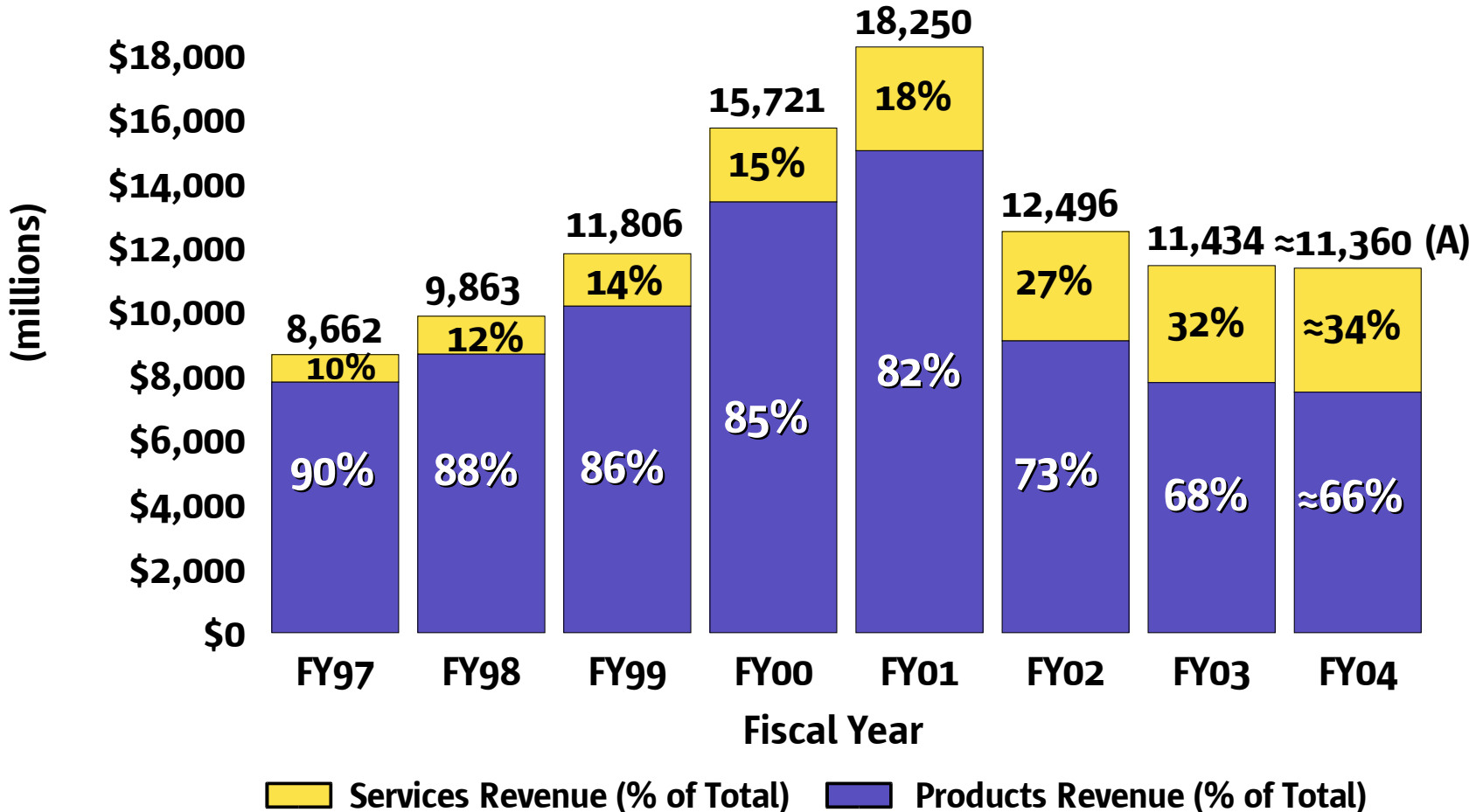
This presentation contains projections and other forward-looking statements regarding future products and services, opportunities, results or financial performance of Sun Microsystems, Inc., including statements related to the First Call consensus for Sun's FY04 revenue, where we're going: on track for over \$250 million savings, where we're going: approximately \$5.2B R&D/SG&A spend for FY04, our Q404 cash conversion cycle goal, our FY04 target for capital and spares expenditures, our financial priorities, expanding our portfolio and addressable market, our estimates for our addressable market, our recurring revenue goals and opportunities, cost opportunities and FY05 cost savings, cost reduction opportunities, FY04 targets for real estate and depreciation and amortization, and our Q404 and Q405 cash conversion cycle goal. These statements are predictions only and actual results could differ materially. Factors that might cause actual results to differ include risks associated with developing and marketing new products and services, lack of acceptance of new products and services, cancellation or delay of projects, products and services or delay in other initiatives, failure to reduce or control expenses, increased competition, failure to attract and retain key employees and uncertain macroeconomic conditions in the US and internationally. These and other risks are detailed from time to time in Sun's periodic reports that are filed with the Securities and Exchange Commission, including Sun's annual report on Form 10-K for the fiscal year ended June 30, 2003 and our quarterly reports on Form 10-Q for the fiscal quarters ended September 28, 2003 and December 28, 2003.

Sun's Financial Overview

- Financial performance
- Financial priorities

Revenue

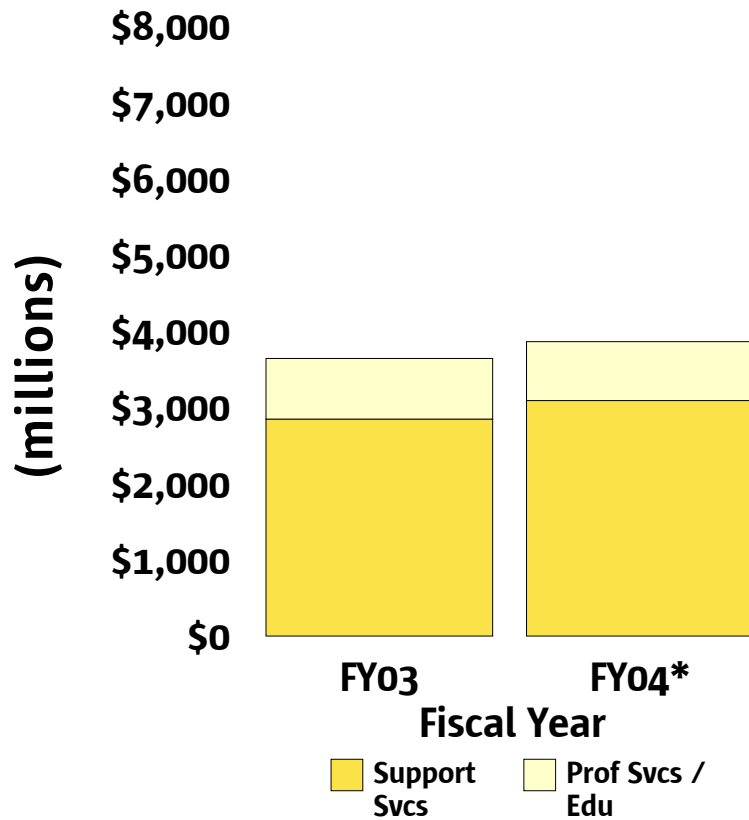
Products/Services



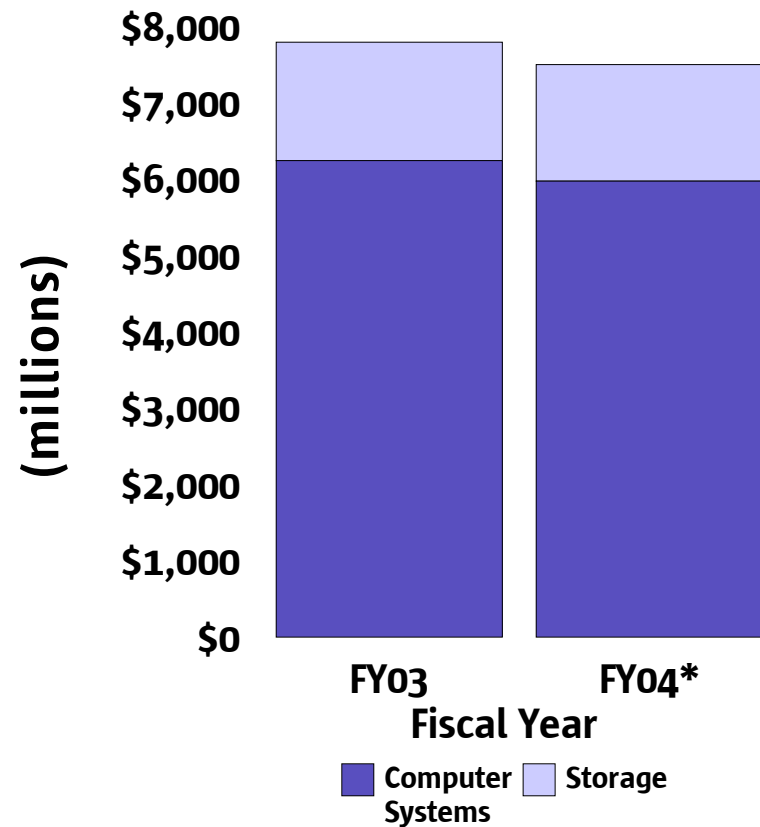
(A) First Call Consensus 2/4/04. Sun is providing this First Call number for informational purposes only and does not endorse nor accept any responsibility for it.

Revenue

Services



Products



* FY04 Projection based on First Call Consensus Estimate 2/4/04 with Revenue by Category estimated based on ratio of YTD Actuals. Sun is providing this First Call number for informational purposes only and does not endorse nor accept any responsibility for it. The ratio used for Revenue by Category for FY04 is provided as an illustration only and is not intended and should not be used as guidance for Sun's FY04 actual performance.

Cost Savings

What We Said: ≈\$250M FY04 Savings

Where We're Going: On-track for >\$250M Savings

- Component and spare parts costs
- Logistics/supply chain improvement
- Services

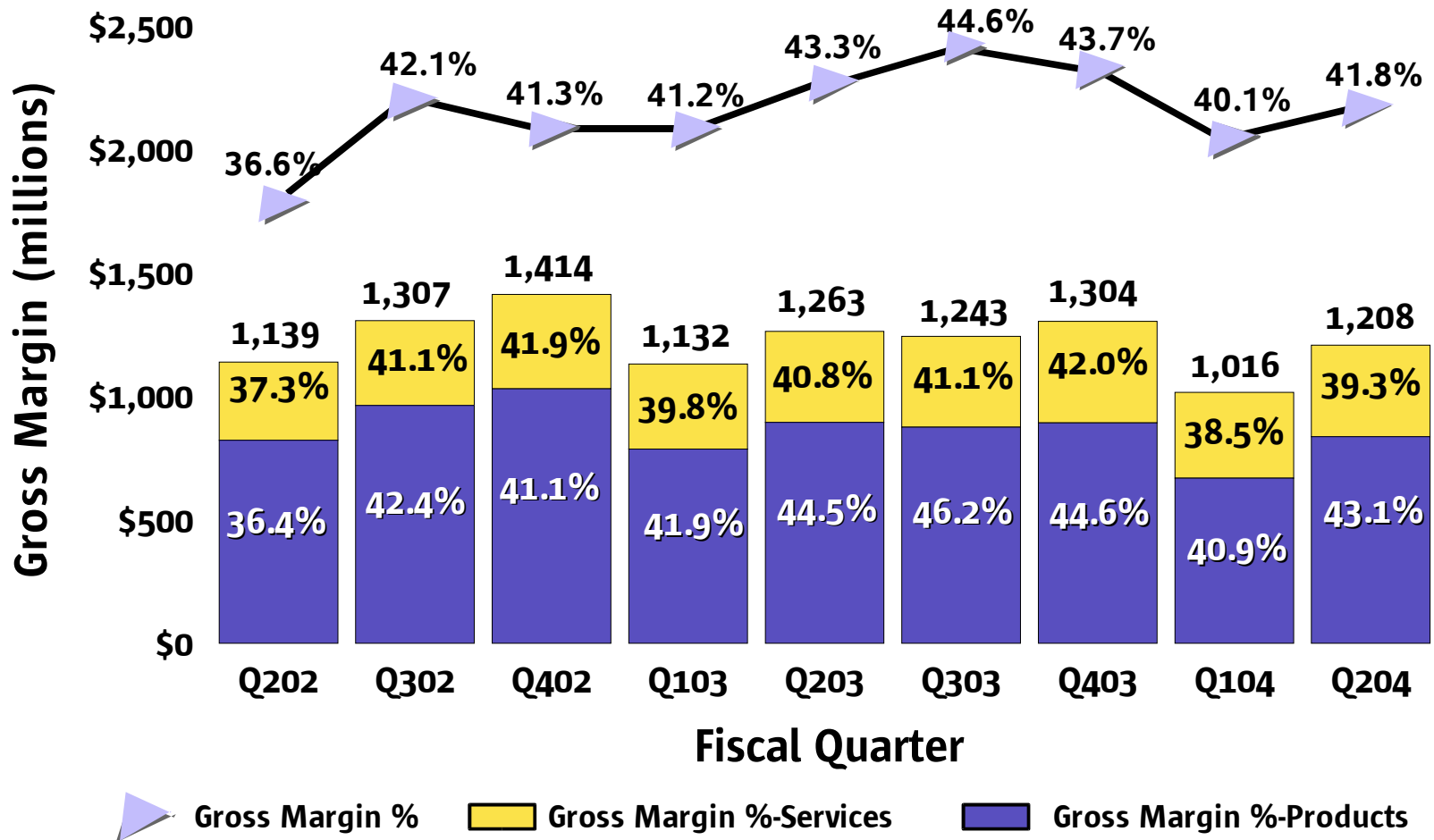
Savings to Fund

- Pricing, re-investment, market share, profit

YTD Pricing and Mix > the Cost Savings

Gross Margin

PRODUCTS/SERVICES



R&D / SG&A Spend

What We Said: ≈\$5.3B R&D/SG&A Spend “Steady State”
 ≈\$5.1B R&D/SG&A Spend “With Opportunities”

Where We’re Going: ≈\$5.2B R&D/SG&A Spend for FY04

(\$B)

Baseline R&D / SG&A spend	≈\$5.3
Savings	≈(\$0.3)
FX Impact	≈\$0.1
R&D Spend & Separation Costs	≈\$0.1
FY04 Target	≈\$5.2

Note: Total Operating Expenses differ from SG&A and R&D Expenses because Total Operating Expense includes IPRD, Restructuring, & Intangible Impairment charges.

Special Items

FY03:

- Goodwill and intangibles impairment of \$2.1B
- Deferred tax asset allowance of \$1.1B

Note: Remaining DTA balance of \approx \$600M

Cash Conversion Cycle

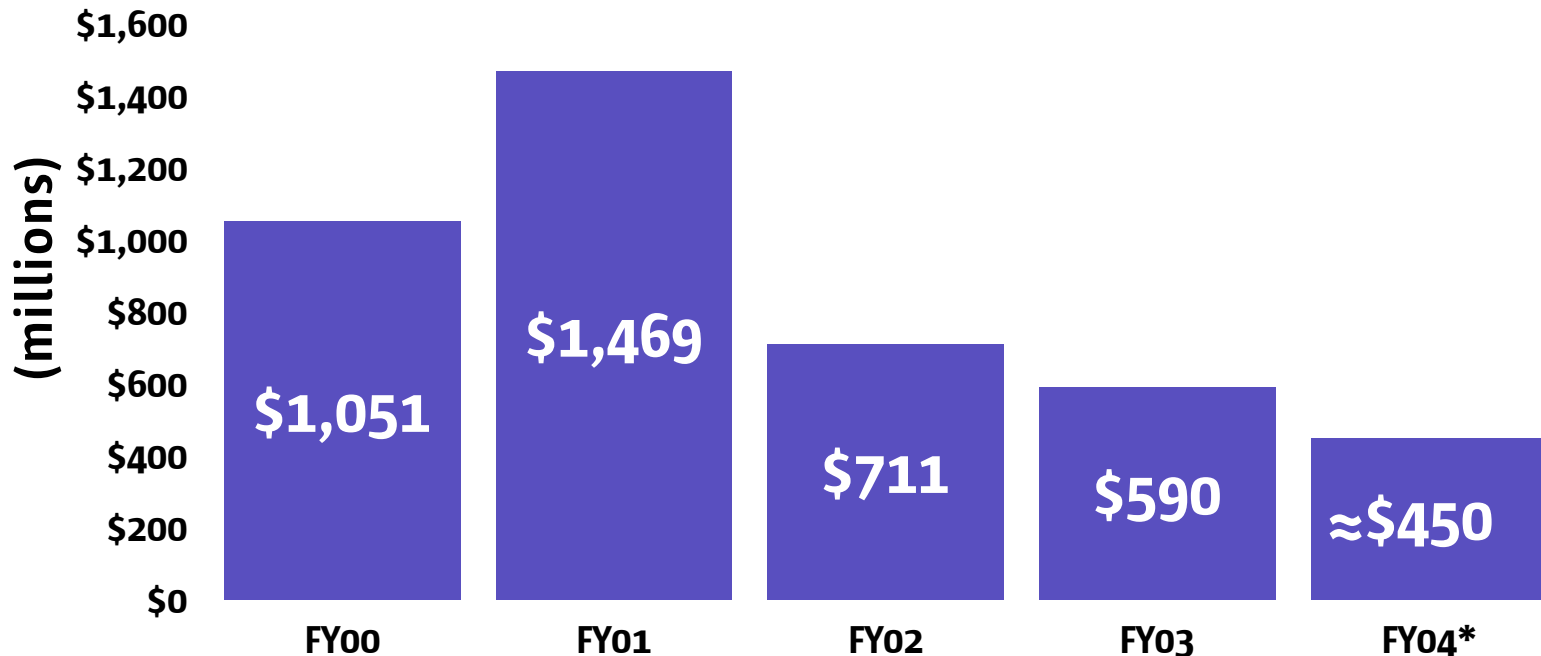
What We Said: 10 Day improvement in CCC

What We've Done: 6 Day improvement YTD

	Baseline Q402	Q204	Goal Q404
DSO	72	69	71
DOS	27	26	22
DPO	(47)	(49)	(51)
CCC	52	46	42

Net Capital and Spares Expenditures

What We Said: Manage capital and spares
Where We're Going:



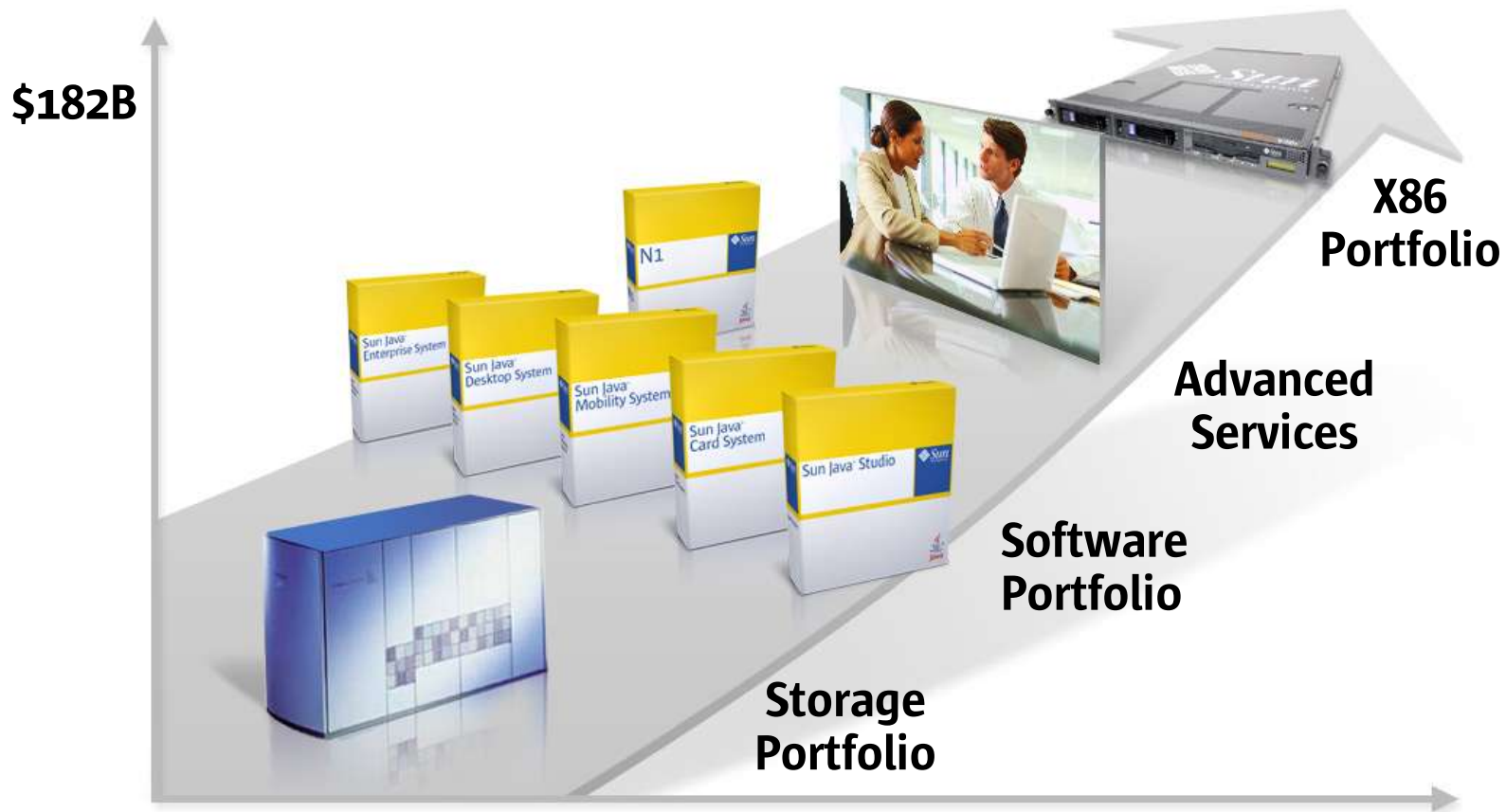
* Target FY04 ≈ \$450M

Fiscal Year

Financial Priorities

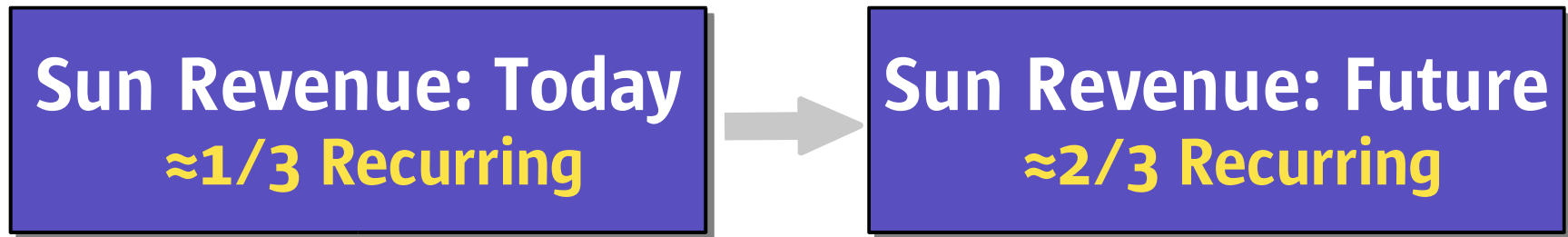
- Grow revenue
- Achieve sustained profitability
- Generate cash flow from operations

Expanding Our Portfolio and Addressable Market



Source: IDC & Sun Analysis

Recurring Revenue



For Example:

- Support services
- Subscription software
- Managed services
- Utility computing
- On-book leasing

Cost Opportunities

≈\$250M FY05 Cost Savings

- Dynamic bidding/second sourcing
- Value engineering/common components
- Low cost suppliers/geographies
- Plant consolidation
- Services – back office sourcing efficiencies

Savings to Fund

- Pricing, market share, profit

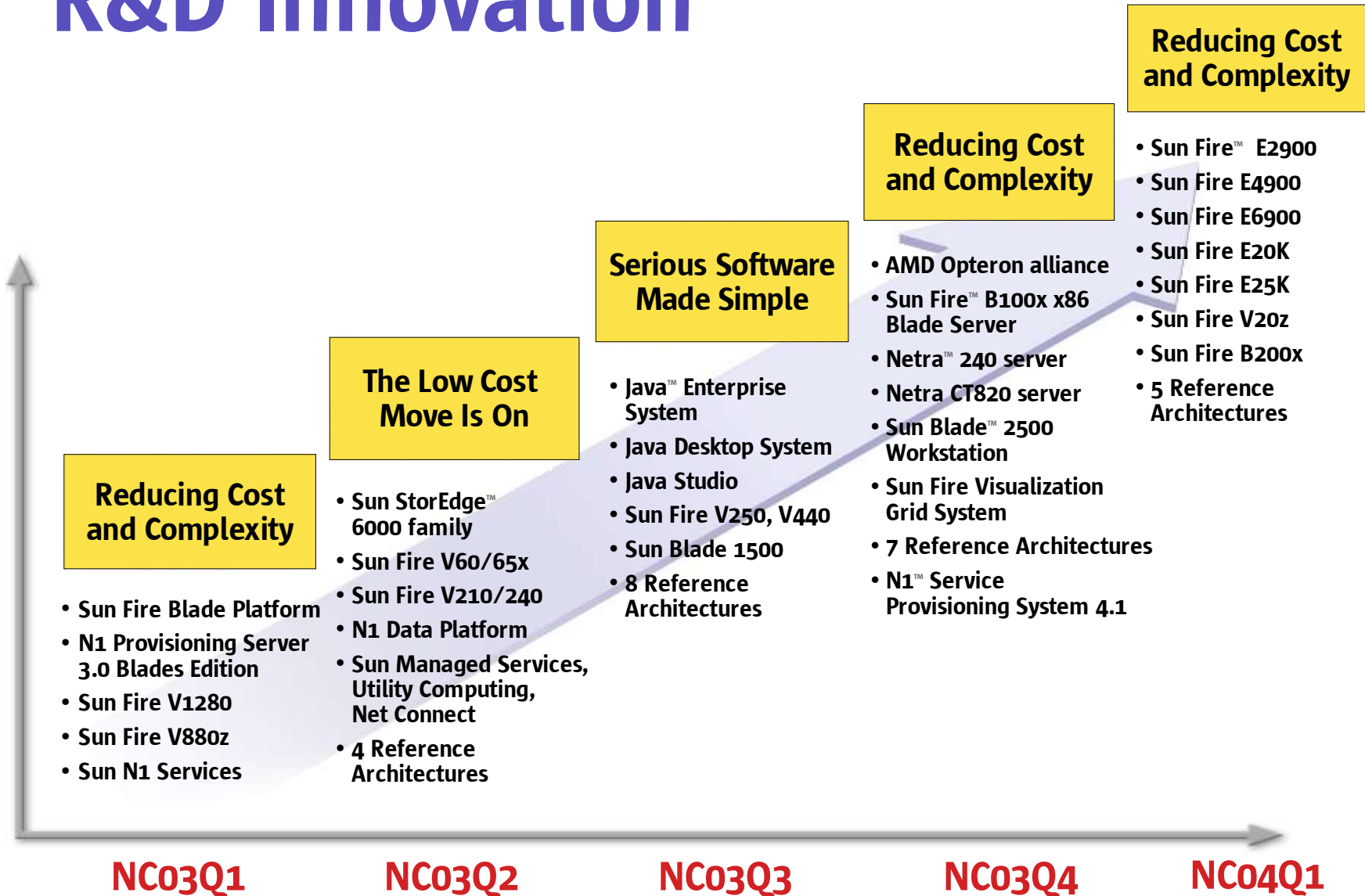
R&D Investment: Comparison

	Fiscal 2001		Fiscal 2002		Fiscal 2003	
	R&D spending		R&D spending		R&D spending	
	<u>(\$M)</u>	<u>% of sales</u>	<u>(\$M)</u>	<u>% of sales</u>	<u>(\$M)</u>	<u>% of sales</u>
Cisco	\$3,922	18%	\$3,448	18%	\$3,135	17%
Sun Microsystems	\$2,016	11%	\$1,832	15%	\$1,837	16%
Intel	\$3,796	14%	\$4,034	15%	\$4,360	14%
Microsoft	\$4,379	17%	\$4,307	15%	\$4,659	14%
EMC	\$929	13%	\$781	14%	\$718	12%
Oracle	\$1,139	10%	\$1,076	11%	\$1,180	12%
IBM	\$4,986	6%	\$4,750	6%	\$5,077	6%
Hewlett-Packard	\$4,115 **	5%	\$3,890 **	5%	\$3,652	5%

Source: 10-K filings. Fiscal year as each company reports

** Includes Compaq results

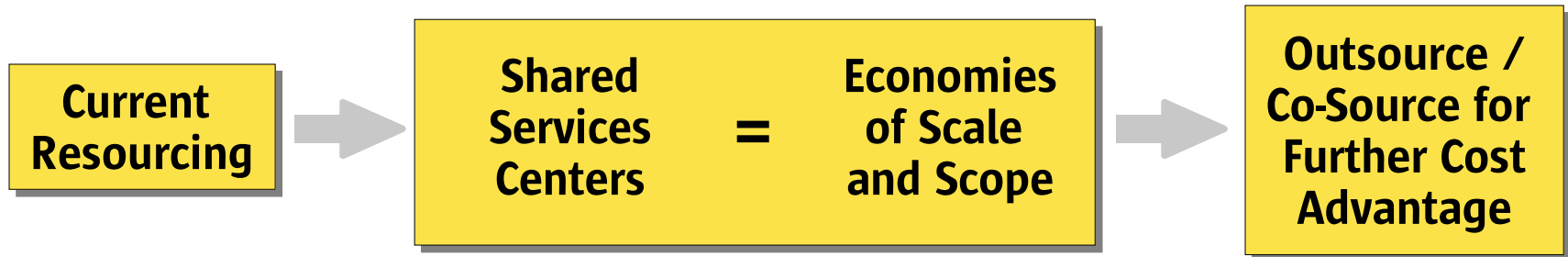
R&D Innovation



Cost Reduction Opportunities

- Resourcing
- Real estate
- Depreciation and amortization

Resourcing Efficiency



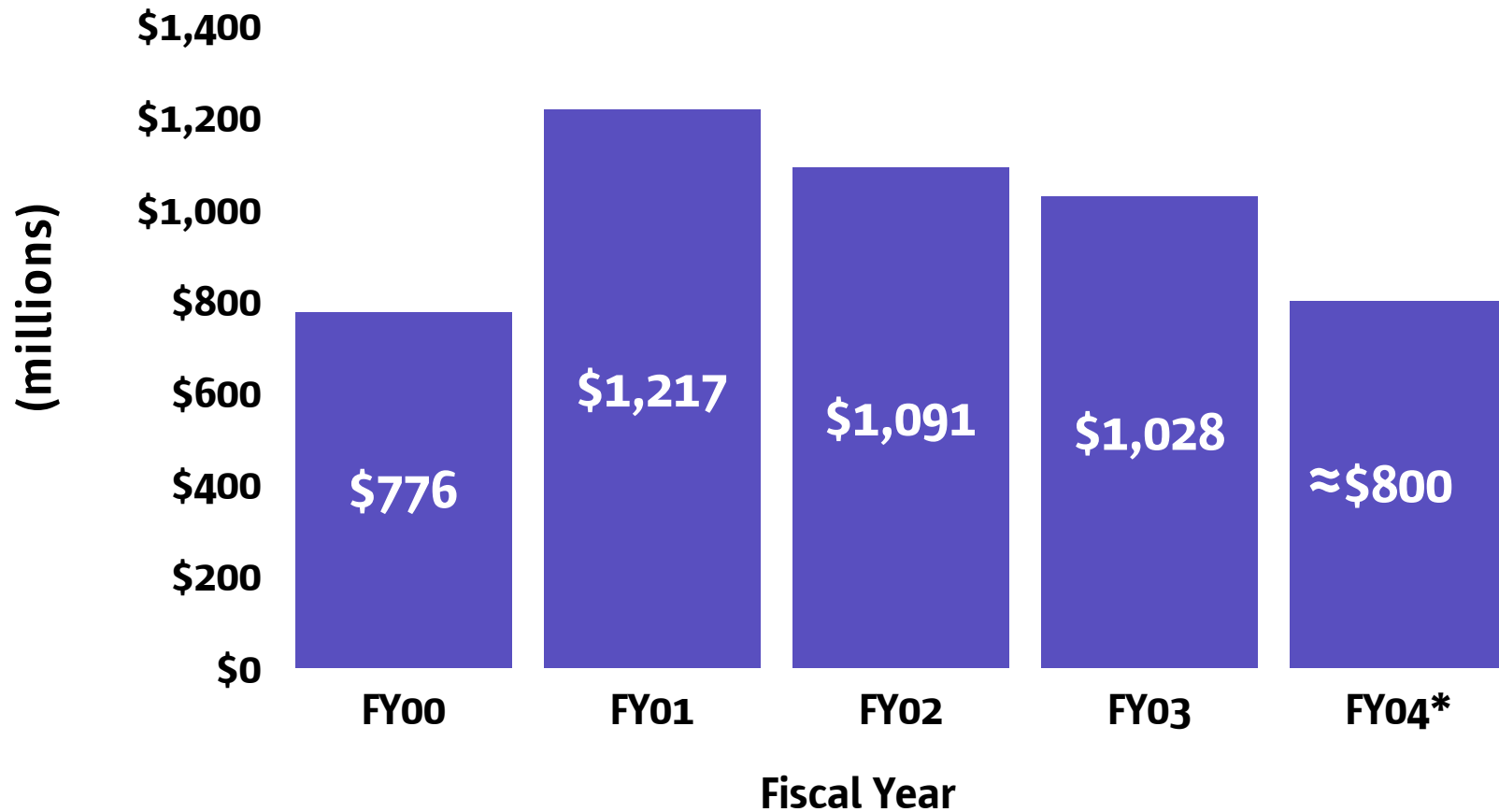
- Appointed Sun vice president, Global business services
- Focused on:
 - Reduce Sun’s total spend
 - Transition Sun’s “Back Office” to our partners’ “Front Office”
 - Increase efficiencies of Sun’s “Front Office” through Shared Service Centers in cost effective locations
 - Convert fixed cost structure to variable
 - Streamline processes and increase customer service levels

Real Estate

	FY00	FY01	FY02	FY03	FY04*
Real Estate Spend (\$M)	506	631	700	670	630
# Sq. Ft. Active (millions)	11.4	14.0	15.0	12.8	12.8


* Target FY04 ≈ \$630M

Depreciation and Amortization

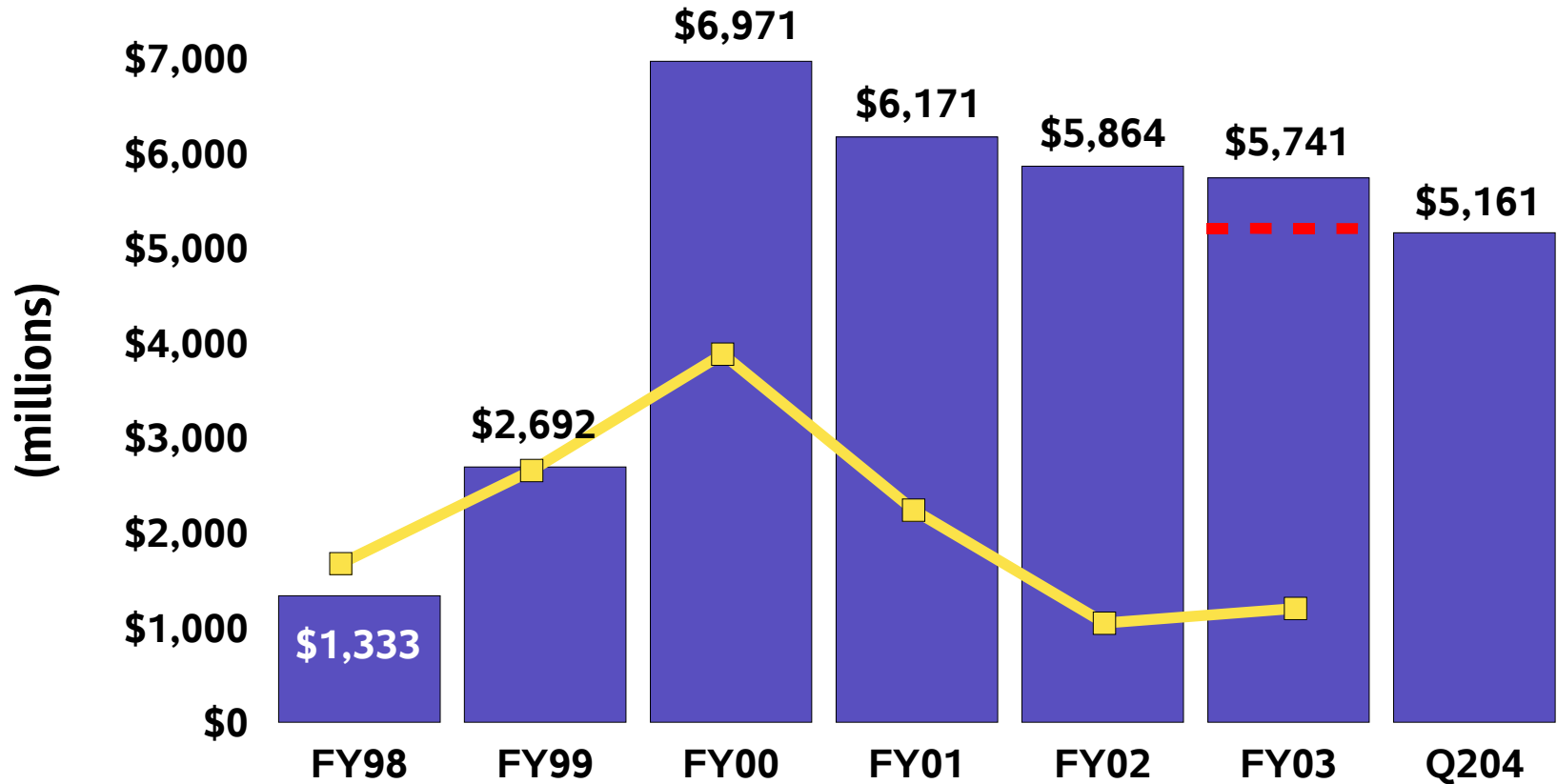


* Target FY04 ≈ \$800M

Cash Conversion Cycle

	Baseline Q402	Q204	Goal Q404	Goal Q405
DSO	72	69	71	—
DOS	27	26	22	—
DPO	(47)	(49)	(51)	—
CCC	52	46	42	

Cash and Marketable Securities



--- Cash & Mkt Securities ending Q203 = \$5,277M

— Cash Flow from Operations

Summary

- Strong balance sheet
- Liquidity that provides flexibility
- Focused on:
 - Revenue growth
 - Sustained profitability
 - Cash generation



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