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.

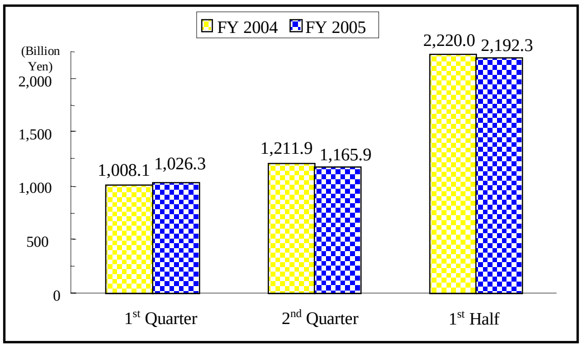
Fujitsu will strive to continuously provide leading-edge solutions based on advanced technology and sophisticated services that will enable everyone to safely and securely enjoy the benefits of this technology-driven innovation.

First-Half Summary

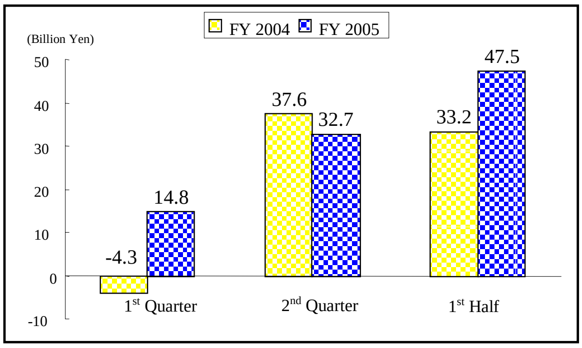
(Billion Yen)

	First Half FY 2005 *4/1/05-9/30/05*	First Half FY 2004 *4/1/04-9/30/04*	Change	*% Change Excluding Impact of Change in Accounting Policies and Business Restructuring*
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	

Net Sales By Quarter



Operating Income By Quarter



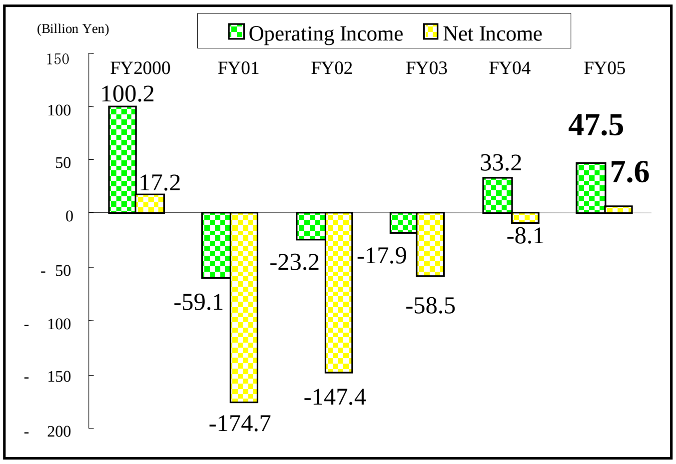
Note: Throughout these explanatory materials, yen figures are converted to U.S. dollars, for convenience only, at a uniform rate of $1 = 114 yen, which was the approximate Tokyo foreign exchange market rate at September 30, 2005.

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.

Operating Income and Net Income Trend



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

(Billion Yen)

	First Half FY 2005 (Actual)			Full Year FY 2005 (Estimate)
	Percentage of Completion Method	Recording of Unrecognized Pension Obligations of UK Subsidiaries	Total	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.