

Part II. Explanation of Financial Results

1. Overview

Business Environment

During the first quarter the business environment in which we operate was characterized by the continuation of a mild overall recovery, despite concerns over the impact of rising crude-oil prices and rising interest rates. Solid economic expansion continued in both the US and China, and Europe also continued its steady economic recovery. In Japan, IT-sector inventory adjustments bottomed out in latter part of last fiscal year, and there were indications of resurgence in personal consumption.

With respect to IT investment, although there has been a healthy trend in spending overseas, especially among multinational companies, there are still few signs of a strong recovery in overall spending in Japan, with the exception of certain corporations.

While corporate IT systems have typically been used for operational management or processing transactions with other companies, the convergence of the revolution in LSI technology with cheap, large-capacity broadband networks and software is dramatically expanding the use of IT. It is increasingly being used at various frontline points of contact between companies and their customers to provide more comfortable and convenient shopping, financial services, medical services, and other benefits. At the same time, this new utilization of IT is bringing with it a corresponding need for greater information security.

Fujitsu will strive to continuously provide efficient, technologically advanced solutions that will enable everyone to safely and securely enjoy the benefits of this information technology-driven innovation.

FY 2005 First-Quarter Results

	First Quarter FY 2005 <i>4/1/05-6/30/05</i>	First Quarter FY 2004 <i>4/1/04-6/30/04</i>	Change	(Billion Yen) Difference From April Projections
Net Sales	1,026.3	1,008.1	18.1	16.3
[% change vs. same period in prior fiscal year]	[1.8%]*	[7.4%]		
Operating Income (Loss)	14.8	(4.3)	19.1	24.8
[Operating Margin]	[1.4%]	[-0.4%]	[1.8%]	[2.4%]
Net Income (Loss)	2.4	(11.8)	14.3	32.4

*Excluding the impact of changes in accounting policies and restructuring of businesses, change was 0.8%

Note: Throughout these explanatory materials, yen figures are converted to U.S. dollars, for convenience only, at a uniform rate of \$1 = 111 yen, which was the approximate Tokyo foreign exchange market rate at June 30, 2005.

Profit and Loss

First-quarter consolidated net sales were 1,026.3 billion yen (US\$9,246 million), a year-on-year increase of 1.8%. Excluding the impact of the reorganization of our display businesses and other operations, and of the application of the percentage of completion method for software development contracts, results were roughly the same as in the first quarter of fiscal 2004. There were continued inventory adjustments on LSI devices for consumer electronics, which had sold strongly a year previously; demand for financial terminals capable of handling new Japanese banknotes, which had been strong a year ago when the new notes were introduced, ran its course; and there was severe price competition in personal computers, all of which had a negative effect on sales compared to the first quarter of fiscal 2004. However, sales increased for 3G mobile phone base station systems and optical transmission systems, as well as for hard disk drives (HDDs) and mobile phones.

Consolidated operating income was 14.8 billion yen (US\$133 million), an improvement of 19.1 billion yen over the first quarter the year before. This is the first time we have posted an operating profit for the first quarter since we began reporting financial results on a quarterly basis in fiscal 2000. Although profits in our LSI business were sharply lower due to customer inventory adjustments, in our solutions/systems integration business the systems and procedures implemented to prevent project losses and to improve overall project management began to produce the desired results. In addition, income was up in network equipment, hard disk drives, and mobile phones, and thanks to an intensified focus on manufacturing innovation, we succeeded in driving down costs and improving expense efficiency, helping to realize a major improvement in operating income compared with the first quarter of fiscal 2004. As a result, our cost of sales ratio improved by 0.8 percentage points year-on-year to 73.2%; the ratio of selling, general and administrative expenses to net sales improved by 1.0 percentage point; and our operating income margin improved by 1.8 percentage points. The adoption of the percentage of completion method for software development contracts added 4.0 billion yen in income compared to the previous method of revenue recognition based on customer acceptance.

In other income (expenses), equity in earnings of affiliated companies declined.

A suit 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.

As a result of the above factors, we reported consolidated net income of 2.4 billion yen (US\$23 million), an improvement of 14.3 billion yen over the first quarter of fiscal 2004.

Regarding Projections Announced in April

Although domestic server-related and PC sales fell short of predictions, there was strong demand for mobile phones and related equipment in Japan, optical transmission systems in North America, and HDDs. These positive results, along with the impact of applying the percentage of completion method for software development contracts, led to higher than projected sales overall.

Operating income was 24.8 billion yen higher than forecast in April. This significant increase reflected progress in cost cutting, more efficient expense allocation, progress in generating a more equal distribution of earnings throughout the fiscal year in line with a rethinking of our business cycle, and the ability of almost all our business units to meet the targets we established at the beginning of the fiscal year. The shift to the percentage of completion method contributed 4.0 billion yen to income in the first quarter.

The improvement in operating income, together with better than expected other income due to foreign currency transaction gains and the posting of a gain on settlement of HDD litigation, resulted in significantly greater net income than initially projected.