

Part II. Explanation of Financial Results

1. Overview of FY 2006 First-Half Financial Results

Business Environment

During the first half of fiscal 2006 (April 1 – September 30, 2006), the business environment in which the Fujitsu Group operates was characterized by a continuation of the relatively stable conditions that prevailed during the previous fiscal year. The earlier rapid rise in crude oil prices and increases in interest rates in the US subsided, and their influence on the global economy appeared to be limited. Bolstered by increased capital investment that reflected favorable corporate performance and by buoyant personal consumption, the Japanese economy continued to grow at a steady pace.

IT investment continued at a robust pace overseas, while in Japan an increasing strategic focus on growth on the part of business leaders has started to result in more active investment, and companies are also beginning to step up investment in response to reform measures such as the Financial Instruments and Exchange Law (Japan's version of Sarbanes-Oxley legislation). On an industry basis, increased vitality is particularly evident in financial services and also in the manufacturing and retail sectors, and IT investment is gradually increasing in Japan's regional markets which, with some exceptions, are experiencing economic recovery.

In order to maintain a firm, detailed grasp of global market trends and rapidly respond to them, in June we designated senior executives as heads of Fujitsu Group business operations in four major regions: the Americas, EMEA (Europe, Middle East and Africa), China and Asia-Pacific. This organizational change represents an important step toward strengthening our business outside Japan, and we intend to make still further efforts to expand our business on a global basis.

As we move from an era focused on making IT to one that emphasizes its utilization, we will respond to the changing needs of our customers by further expanding and enhancing our operations-oriented offerings, including IT outsourcing, business process outsourcing (BPO) and security services, thereby further adding to the value that IT generates for our customers.

First Half Summary

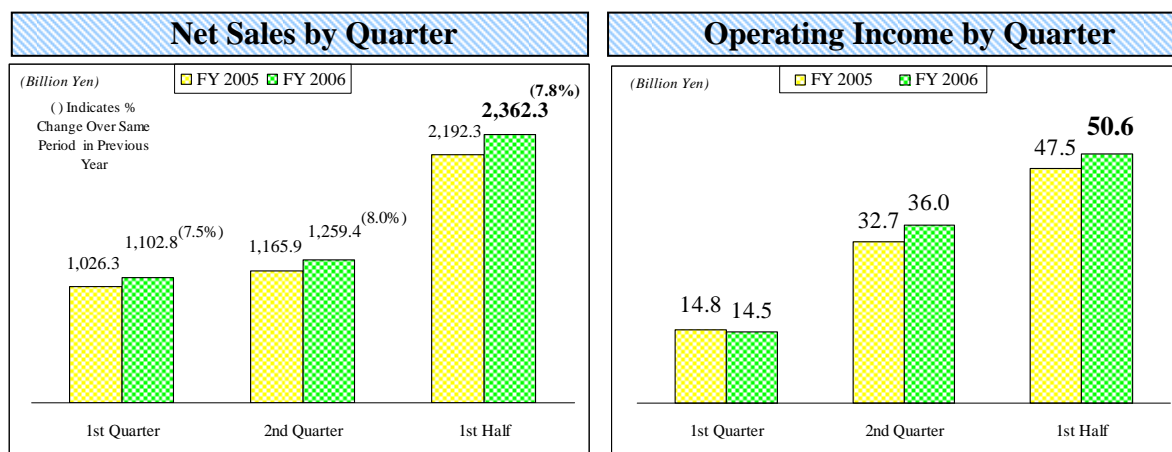
	(Billion Yen)			
	First Half FY 2006 (4/1/06-9/30/06)	First Half FY 2005 (4/1/05-9/30/05)	Change	Change vs. July 27 Projection
Net Sales [% Change vs. Same Period in Prior Fiscal Year]	2,362.3 [7.8%]	2,192.3 [-1.2%]	170.0	12.3
Operating Income [Operating Income Margin]	50.6 [2.1%]	47.5 [2.2%]	3.0 [-0.1%]	15.6 [0.6%]
Net Income	14.8	7.6	7.1	9.8

Second Quarter Summary

	(Billion Yen)		
	2Q FY 2006 (7/1/06-9/30/06)	2Q FY 2005 (7/1/05-9/30/05)	Change
Net Sales [% Change vs. Same Period in Prior Fiscal Year]	1,259.4 [8.0%]	1,165.9 [-3.8%]	93.4
Operating Income [Operating Income Margin]	36.0 [2.9%]	32.7 [2.8%]	3.3 [0.1%]
Net Income	14.1	5.1	9.0

Note: Throughout these explanatory materials, yen figures are converted to U.S. dollars, for convenience only, at a uniform rate of \$1 = 118 yen, which was the approximate Tokyo foreign exchange market rate at September 30, 2006.

Profit and Loss



Consolidated net sales for the first half were 2,362.3 billion yen (US\$20,020 million), an increase of 7.8% compared to the first half of fiscal 2005. Following the 7.5% sales growth posted in the first quarter, solid growth continued in the second quarter, rising 8.0%.

Overseas sales increased by 18.9% compared to the first half of fiscal 2005. Sales of IT services continued their strong growth trend, boosted by continued strength in sales of outsourcing services in the UK and the impact of acquisitions in North America, and optical transmission systems, hard disk drives (HDDs), and electronic components also posted higher sales, resulting in double-digit overseas sales growth in all three major business segments.

Sales in Japan increased by 2.3% compared to the first half of fiscal 2005. There was a sharp drop in investment in mobile phone base stations compared to the first half of fiscal 2005, and sales of PCs were sluggish as a result of lackluster consumer demand. In the solutions/systems integration business, there were signs that the recovery in IT spending is spreading, particularly in the financial services, manufacturing, and retail sectors. In addition, mobile phones, LSI devices, and electronic components all posted higher sales.

Consolidated operating income was 50.6 billion yen (US\$429 million), an increase of 3.0 billion yen over the first half of fiscal 2005. Selling, general and administrative expenses increased by 29.1 billion yen over the same period in the previous year, primarily due to the growth in our outsourcing services business in the UK, the increased scale of our operations in North America as a result of acquisitions and other factors, and aggressive up-front strategic investments, particularly in the Technology Solutions segment. Although first-half sales of mobile phone base stations decreased year-on-year, we achieved solid results in our outsourcing business, especially overseas, and made progress in improving cost efficiencies, particularly in HDDs and mobile phones, resulting in higher overall operating income.

In other income (expenses), as a result of pension system revisions that took place in September of 2005 and the effect of the rise in stock prices that occurred at the end of fiscal 2005, there was a substantial reduction in the amortization of unrecognized obligation for retirement benefits, which fell from 18.0 billion yen in the first half of fiscal 2005 to only 1.6 billion yen in the first half of fiscal 2006. Moreover, net interest expenses decreased as a result of a reduction in the balance of

interest-bearing loans, and there was a reduction in investment losses under net equity in earnings of affiliated companies.

Consolidated net income was 14.8 billion yen (US\$126 million) in the first half. Although there were no extraordinary gains such as the gain on settlement of litigation last year, we were still able to achieve an increase of 7.1 billion yen over the first half of fiscal 2005.

Comparison with First Half Projections Announced in July

Although actual first-half sales of PCs were lower than the level we had projected in July, higher-than-anticipated sales in the domestic solutions/systems integration business, electronic components business, and outsourcing and other IT services businesses overseas, as well as earlier-than-expected pickup in demand for mobile phone base stations, resulted in overall sales that exceeded the projections we made in July.

Operating income exceeded the level projected in July by 15.6 billion yen. In addition to higher sales, the impact of manufacturing innovation initiatives and progress in reducing costs enabled us to absorb the negative effects of sales price reductions and other market fluctuation risks.