Part II. Explanation of Financial Results

1. Overview of FY 2005 Consolidated Financial Results

FY 2005 Full-Year Financial Results

(Billion Yen)

	Full-Year FY 2005 *4/1/05-3/31/06*	Full-Year FY 2004 *4/1/04-3/31/05*	Change	*Change excluding impact of change in accounting policies and restructuring*
Net Sales	4,791.4	4,762.7	28.6	
(% Change vs. Prior Fiscal Year)	(0.6%)	(-0.1%)		*(2.4%)*
Operating Income	181.4	160.1	21.2	
(Operating Income Margin)	(3.8%)	(3.4%)	(0.4%)	
Net Income	68.5	31.9	36.6	

Results by Business Segment

(Billion Yen)

		Full-Year FY 2005 *4/1/05-3/31/06*	Full-Year FY 2004 *4/1/04-3/31/05*	Change
Technology Solutions	Net Sales	2,983.9	2,934.4	49.5
	Operating Income	164.2	142.0	22.1
	(Operating Income Margin)	(5.5%)	(4.8%)	(0.7%)
Ubiquitous Product Solutions	Net Sales	1,059.9	1,031.4	28.5
	Operating Income	34.4	31.3	3.1
	(Operating Income Margin)	(3.3%)	(3.0%)	(0.3%)
Device Solutions	Net Sales	707.5	794.7	-87.2
	Operating Income	33.3	32.5	0.7
	(Operating Income Margin)	(4.7%)	(4.1%)	(0.6%)

Note: Net Sales includes intersegment sales. Business segment classification revised from fiscal 2005.

Major Financial Indices*

(Billion Yen, except for D/E Ratio)

	FY 2005 *March 31, 2006*	FY 2004 *March 31, 2005*	Change
Shareholders' Equity	917.0	856.9	60.0
(Shareholders' Equity Ratio)	(24.1%)	(23.5%)	(0.6%)
Interest-Bearing Loans	928.6	1,082.7	-154.1
(Net Interest-Bearing Loans)	507.2	628.0	-120.7
D/E Ratio	1.01	1.26	-0.25
(Net D/E Ratio)	0.55	0.73	-0.18

Please refer to page 28 for details on method of calculation.

Impact of Change in Accounting Policies

(Billion Yen)

	FY 2005	Adoption of Percentage-of-Completion Method in Japan	Provision for Product Warranties	Shift to IFRS by Fujitsu Services	
				Recording of Unrecognized Pension Obligations	Others
Net Sales	5.3	10.4	-	-	-5.1
Operating Income	4.8	1.6	-3.0	5.9	0.2

Note: For consolidated UK subsidiaries other than Fujitsu Services, the impact on operating income from change in retirement benefit accounting methods was negligible.

In fiscal 2005 we strove to increase sales and income by focusing efforts on addressing four key challenges outlined at the start of the year: to strengthen our existing businesses, to create and cultivate new businesses, to reform our organization and approach, and to reform our management systems. In particular, we focused on reforming our cost structure to ensure profitability even without sales increases, renewing initiatives to grow our global business, and improving our ability to identify and manage risks through a management framework with clear accountability.

Improving Our Current and Future Revenue Base

Consolidated net sales for fiscal 2005—in the 4,700 billion yen range—were roughly on par with last year's level, but costs as a ratio of sales were 73.5%, three tenths of a percentage point below last year's level, and selling, general, and administrative expenses were also lower. Operating income margin was 3.8%, an increase of four tenths of a percentage point over last year's level, and operating income increased by 21.2 billion yen compared to the prior year.

These achievements were the result of several factors. In Japan, in addition to the impact from the restructuring of our flat panel display and other unprofitable businesses, we were able to reduce losses from loss-generating projects in our domestic solutions/systems integration business to acceptable levels. We were also able to generate cost reductions through enhanced company-wide initiatives in manufacturing innovation, particularly through lower inventories across our product development, production, and sales operations. In addition, we achieved solid business results outside Japan, particularly in regard to sales of government-related IT outsourcing services in the UK and optical transmission systems in the US, as well as overseas sales of hard disk drives (HDDs), personal computers (PCs), servers, and logic LSI devices. Together, these were able to offset the impact of such factors as the drop-off in demand for equipment to accommodate new Japanese banknotes (which had been significant during the previous fiscal year due to special one-time demand), deteriorating profitability due to intensified competition in the server market, costs in our LSI business associated with the start of volume production at the new 300mm wafer production line at our Mie Plant, and development costs for next-generation system platform products.

Along with increasing sales and income, we were able to exceed the projections we announced at the outset of the fiscal year for consolidated operating income and net income. Moreover, in all three of our main business segments, which were newly categorized this fiscal year, we recorded higher operating income and operating income margins. In terms of results by principal geographic region, while performance in Japan was roughly on a par with last year, we posted both higher sales and income in each of our main overseas geographic segments.

In tandem with these trends, in the UK we continued to win several new large-scale government outsourcing contracts and, in the US, in March 2006 we acquired Rapidigm, Inc., which has about 2,000 consultants in North America and India. We commenced global sales of our PRIMEQUEST mission-critical IA servers and also entered into an agreement to provide them to Electronic Data Systems Corporation (EDS). In addition, to further boost global business expansion relating to our TRIOLE model for IT infrastructure optimization, we established verification centers for open-standard systems in several key overseas locations. And to meet demand for our leading-edge semiconductor technology products, we made the decision to construct a second 300mm wafer production facility at our Mie Plant.

Improving Our Financial Condition

The balance of interest-bearing loans at fiscal year-end was 928.6 billion yen, thus meeting our fiscal 2005 target of bringing the balance to 1,000 billion yen or below. We also nearly met the mid-range target of reducing our D/E ratio to 1.0 or below, achieving a ratio of 1.01 at fiscal year end.

In addition, the Fujitsu Welfare Pension Fund (the "Plan"), in which Fujitsu and its consolidated domestic subsidiaries participate, received Japanese government approval for the past substitutional portion of the Plan returned to the government and for revisions to the pension system. As a result of a significant improvement in the financial markets during the second half of the fiscal year, the unrecognized obligation for retirement benefits at fiscal year-end was dissolved.

As a result, compared to fiscal 2004, there was a 1.0 billion yen reduction in interest expenses from reduced interest-bearing loans, and an 11.0 billion yen reduction in amortization of unrecognized obligation for retirement benefits. For fiscal 2006, as a result of the improvement in the investment climate at the end of fiscal 2005, we anticipate a reduction in the amortization of unrecognized obligation for retirement benefits, leading to a further improvement in other income (expenses).

Change in Accounting Policies and Further Initiatives toward Adoption of IFRS

As part of our initiatives in fiscal 2005 toward the shift to International Financial Reporting Standards (IFRS), we applied the percentage-of-completion method in our Solutions/Systems Integration business in Japan as well as in the UK. This was part of the full-fledged shift to IFRS by Fujitsu Services in the UK, bringing it in line with the reporting standards of publicly listed companies there. In addition, because of the requirement to record on our balance sheet the unrecognized obligation for defined-benefit plan retirement benefits at our UK subsidiaries, retained earnings declined by a total of 85.9 billion yen, and the impact on earnings from retirement expenses was reduced.

Separately, we posted provisions for product warranties to cover estimated repair and replacement expenses under long-term warranties, primarily for hard disk drives, for which sales volumes have significantly increased. We recorded a provision of 3.0 billion yen against cost of goods sold for product sales made in fiscal 2005, and an extraordinary loss of 7.4 billion yen for product sales made previously.

The total impact of the change in accounting policies was an increase in consolidated net sales of 5.3 billion yen, and an increase in operating income of 4.8 billion yen.

Business Environment

Compared to previous years, during fiscal 2005 the business environment in which the Fujitsu Group operates was relatively stable. While soaring crude oil prices and higher prices for raw materials, as well as rising interest rates in the United States, were cause for concern, the global economy was boosted by growth in the US and Asia, especially China. Japan's economy also shifted to a firmer footing, helped by a rising equity market, a recovery in corporate earnings resulting from solid export growth, and a recovery in household spending.

With respect to IT investment, there was continued robustness in overseas markets, and even within Japan, which had been seen as lagging other markets, there was evidence of more aggressive spending on the part of corporations seeking to ensure their future competitiveness, particularly companies in the telecommunications and financial services industries.

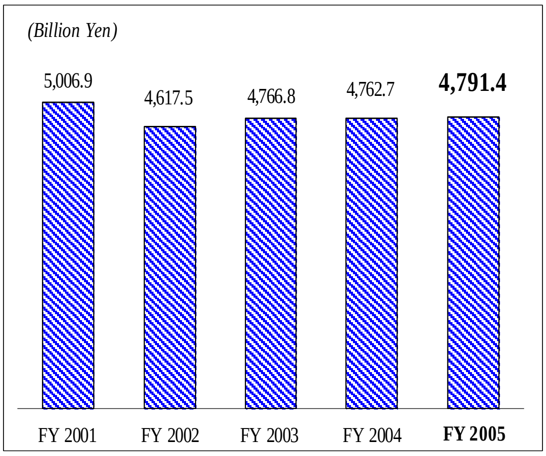
Corporations are now broadening their objectives for employing IT systems. While in the past the focus was on boosting management and operational efficiency, IT systems are increasingly being used to support innovation on the front lines of sales and marketing, product development, manufacturing, procurement and distribution. In line with the broader role IT systems are playing in corporate management, there is now greater emphasis being placed on addressing the rising need for security and business continuity, as well as on strengthening internal control in light of corporate regulatory reforms. In daily life as well, the expansion of IT networks into the fabric of society is enhancing services in such areas as medical and nursing care, education, and entertainment.

Recognizing the central role Fujitsu plays in supporting the infrastructures underpinning our customers' businesses as well as society as a whole, we are very conscious of the important responsibility we bear in maintaining the reliability of information technology and in proposing new applications for it. Going forward, along with placing even further emphasis on ensuring stable systems operation, we will seek to take the lead in demonstrating new uses of IT in our own operations. In addition, all of our employees are committed to conducting themselves in a manner deserving of the trust our customers place in us and that will meet their high expectations. Seeking to serve as a valued and indispensable partner in the operation and management of our customers' businesses, we will strive to continuously provide the most advanced and efficient solutions based on superior technology and sophisticated services.

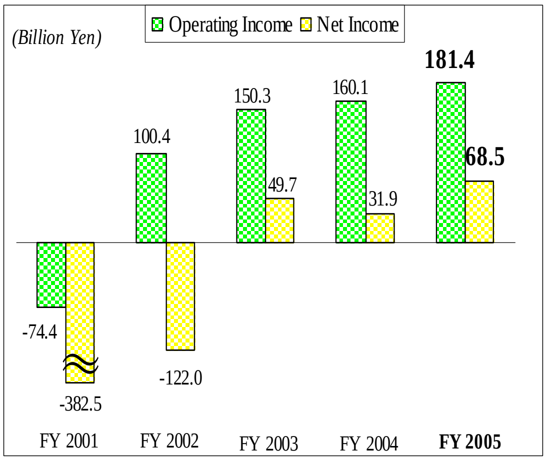
Profit and Loss

Note: In various places throughout these explanatory materials, yen figures for net sales, operating income and net income 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 March 31, 2006.

Trends in Net Sales



Trends in Net Income & Operating Income



Consolidated net sales for fiscal 2005 were 4,791.4 billion yen (US$40,605 million), an increase of 0.6% over the previous fiscal year. Excluding the impact of a change in accounting policies from this fiscal year and the transfer of our flat panel display businesses last fiscal year, net sales increased by 2.4%. In Japan, sales of server-related products and PCs declined, but optical transmission systems in North America, outsourcing services in the UK, consulting services in North America, and HDDs in overseas markets all posted significantly higher sales. Consolidated operating income was 181.4 billion yen (US$1,538 million), an increase of 21.2 billion yen over the previous fiscal year. Excluding a positive impact of 4.8 billion yen stemming from the change in accounting policies this fiscal year, operating income increased by 16.4 billion yen. Income was negatively impacted by factors such as intensified competition in server-related markets in Japan and overseas, as well as forward-looking investments including accelerated development expenses for certain products and expenses related to start-up of the 300mm wafer semiconductor production facility (Building No. 1) at our Mie Plant. However, this was offset by the impact of higher sales of optical transmission systems, outsourcing services, and HDDs, as well as by cost reductions stemming from enhanced initiatives in manufacturing innovation, significantly lower losses from loss-generating projects in our domestic Solutions/Systems Integration business, and the impact of the restructuring of our flat panel display business, together enabling us to post higher profits.

As a result, the cost of sales ratio was 73.5%, three tenths of a percentage point below last year's level, and selling, general, and administrative expenses as a ratio of sales were 22.7%, one tenth of a percentage point below last year's level.

Other income (expenses) was positively impacted by a number of factors, including lower amortization of the unrecognized obligation for retirement benefits as a result of revisions to our pension system, lower net interest expenses, and foreign currency translation gains. 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 of 2005, resulting in a 15.9 billion yen gain. In addition, we posted a gain of 3.4 billion yen associated with the transfer of our LCD business. On the other hand, we posted a loss of 8.4 billion yen associated with the change in our ownership interest in the affiliate Spansion Inc. in conjunction with that company's initial public offering; a loss of 11.5 billion yen on expenses related to restructuring of our businesses and consolidation of business locations; and a loss of 7.4 billion yen on a provision for product warranties for products sold in prior years, which we newly initiated in fiscal 2005.

As a result of the above factors, we reported fiscal 2005 consolidated net income of 68.5 billion yen (US$581 million), an increase of 36.6 billion yen over fiscal 2004. Income taxes in fiscal 2004 were higher than usual because we posted a valuation allowance for deferred tax assets. The increase in fiscal 2005 net income is a result of higher operating income, improvements in other income (expenses), and a lower income tax burden.