Part II. Explanation of Financial Results

1. Overview of FY 2006 Consolidated Financial Results

Business Environment

During fiscal 2006, while soaring crude oil prices and higher prices for raw materials starting from the first half of the fiscal year were cause for concern, the overall business environment in which the Fujitsu Group operates was positive, supported by a global rise in stock prices and stable foreign exchange rates. In addition, while there were signs of a slight deceleration in growth in the second half of the fiscal year, global economic growth was mostly solid, boosted by strong growth in Asia, particularly China and India. Although overall economic growth in Japan was restrained by weak household spending and other factors, the corporate sector continued to exhibit steady growth.

With respect to investment in information technology, spending in overseas markets continued to be strong, particularly in the US and EMEA (Europe, Middle East, and Africa). Although IT investment in Japan was not as strong as in overseas markets, there was upward momentum as a result of strategic investments spurred by improvement in corporate earnings and increased demand driven by companies seeking to upgrade IT systems for enhancing internal control, security and business continuity. Both in Japan and overseas, our IT services business was strong, but in our product-related businesses we faced a growing shift to lower price points resulting from performance improvements for products like servers and storage systems, as well as price declines in our electronic devices business due to intensified competition in digital consumer electronic products.

In order to enhance our competitive position in an expanding IT market driven by IT services, we will work on a global basis to strengthen our relationships with customers and expand our services covering the entire life cycle of IT operations. In addition, in order to strengthen product businesses that add value to our IT services offerings, we will strive to enhance product competitiveness by stepping up collaboration between sales and product development units and eliminating excess product variations. As a reliable partner to our customers and a global corporation that is contributing to the creation of a prosperous and dynamic networked society, we will seek to continually improve our operations in order to deepen the trust we enjoy from customers and society as a whole.

FY 2006 Full-Year Financial Results

(Billion Yen)

	Full-Year FY 2006 *4/1/06-3/31/07*	Full-Year FY 2005 *4/1/05-3/31/06*	Change
Net Sales	5,100.1	4,791.4	308.7
(% Change vs. Prior Fiscal Year)	(6.4%)	(0.6%)	
Operating Income	182.0	181.4	0.6
(Operating Income Margin)	(3.6%)	(3.8%)	(- 0.2%)
Net Income	102.4	68.5	33.8

Results by Business Segment

(Billion Yen)

		Full-Year FY 2006 *4/1/06-3/31/07*	Full-Year FY 2005 *4/1/05-3/31/06*	Change
Technology Solutions	Net Sales	3,157.0	2,983.9	173.0
	Operating Income	163.6	153.0	10.5
	(Operating Income Margin)	(5.2%)	(5.1%)	(0.1%)
Ubiquitous Product Solutions	Net Sales	1,118.3	1,059.9	58.4
	Operating Income	41.6	34.8	6.8
	(Operating Income Margin)	(3.7%)	(3.3%)	(0.4%)
Device Solutions	Net Sales	762.6	707.5	55.1
	Operating Income	19.0	29.5	- 10.4
	(Operating Income Margin)	(2.5%)	(4.2%)	(- 1.7%)

Note: Net Sales includes intersegment sales. Business segment classification revised from fiscal 2005. Figures for FY 2005 have been restated for comparison purposes in accordance with the new method of allocating operating expenses that was introduced at mid-year FY 2006.

Results by Geography

(Billion Yen)

		Full-Year FY 2006 *4/1/06-3/31/07*	Full-Year FY 2005 *4/1/05-3/31/06*	Change
Japan	Net Sales	4,077.1	3,944.4	132.7
	Operating Income	191.8	171.1	20.7
	(Operating Income Margin)	(4.7%)	(4.3%)	(0.4%)
Overseas	Net Sales	1,985.8	1,714.8	270.9
	Operating Income	44.2	51.4	- 7.1
	(Operating Income Margin)	(2.2%)	(3.0%)	(- 0.8%)

Note: Net Sales includes intersegment sales. Business segment classification revised from fiscal 2005. Figures for FY 2005 have been restated for comparison purposes in accordance with the new method of allocating operating expenses that was introduced at mid-year FY 2006.

Major Financial Indices

(Billion Yen)

	FY 2006	FY 2005	Change
Shareholders' Equity	875.0	780.6	94.3
(Shareholders' Equity Ratio)	(22.2%)	(20.5%)	(1.7%)
Net Assets	969.5	917.0	52.4
(Owners' Equity Ratio)	(24.6%)	(24.1%)	(0.5%)
Interest-Bearing Loans	745.8	928.6	-182.7
(Net Interest-Bearing Loans)	300.8	507.2	-206.4
D/E Ratio	0.77	1.01	-0.24
(Net D/E Ratio)	0.31	0.55	-0.24
Free Cash Flow	257.6	170.8	86.7
(From Business Operations)	(152.8)	(170.8)	(-18.0)

Issues and Initiatives in FY 2006

In order to increase sales and income, in fiscal 2006 we diligently continued to pursue four key challenges that we first articulated in fiscal 2004: to strengthen our existing businesses, to create and cultivate new businesses, to reform our organization and approach, and to reform our management systems.

Fiscal 2006 sales increased by 6.4% over the previous year, and while our operating income of 182.0 billion yen fell short of our initial target level of 190.0 billion yen, we nevertheless achieved year-on-year increases in sales and income, including higher net income. We expanded our manufacturing innovation initiatives throughout the Fujitsu Group, and monthly inventory turnover rate increased to 0.93 times, an improvement of 0.05 points compared to the previous year. Fiscal year-end inventories were 412.3 billion yen, falling short of our target of reducing them to below 400 billion yen, as higher inventory turnover was not able to fully offset the impact of higher sales. Gross profit margin was 25.9%, a deterioration of 0.6 percentage points. While we continued to make progress in our cost reduction initiatives, amid increasing global price competition we were not able to keep pace with higher-than-anticipated price reductions. We will strengthen collaboration between our sales and product development units in order to promote closer communication and awareness of customer needs among our frontline sales, production, and development operations. This will enable us to respond more quickly to customer needs and changes in the market, and thereby improve our earnings.

Our Technology Solutions segment recorded both higher sales and income. In our systems integration business in Japan, continuing efforts to raise project profitability resulted in improved earnings. To enhance our customer proposal capabilities, from April 2007 we have consolidated our consulting business in Japan with our subsidiary, Fujitsu Research Institute.

In order to strengthen our overseas business, in June 2006 we initiated a new organizational structure in which we designated senior executives as heads of business operations in four key regions: the Americas, EMEA (Europe, Middle East and Africa), China and Asia-Pacific. In EMEA, with UK-based Fujitsu Services at the core, we will work to expand our business across the European continent. As part of this effort, in January 2007 we acquired a majority stake in Germany's TDS AG. In the Americas, we posted higher sales, but income declined as a result of deterioration in the profitability of our optical transmission systems and retail solutions businesses. We posted higher sales in China and Asia-Pacific but had problems improving profitability.

In UNIX servers, for which we have been increasing sales worldwide, there was a delay in releasing the new line of servers jointly developed with Sun Microsystems, but the line was launched globally under the SPARC Enterprise brand name in April 2007. We will work to expand sales of these systems globally, as well as those of our PRIMEQUEST mission-critical IA servers running Linux and Windows and our ETERNUS open-standard storage systems.

In Ubiquitous Product Solutions, both sales and income increased. Amid intensified global price competition, we are working to further improve operational efficiency. In PCs, we are differentiating our products through higher quality and enhanced security and multimedia features. In hard disk drives (HDDs), we are pursuing higher profitability by maintaining our reputation for quality while quickly deploying next-generation technologies, such as perpendicular magnetic recording. In mobile phones, we are enhancing our growth strategy based on the anticipated convergence of PCs and mobile phones, positioning mobile phones as a key platform for the ubiquitous networking world ahead.

In Device Solutions, because of deterioration in market conditions for standard technology logic, we posted lower income despite higher sales. In fiscal 2006, in order to further concentrate our business on logic devices, we sold a portion of our shareholdings in Spansion Inc., which became a publicly listed company in the previous fiscal year. Our shareholding in Spansion is now less than 20%, and in April 2007 we utilized the sales proceeds to purchase some of Spansion Japan's fabrication facilities in order to expand our standard technology logic production capacity. In advanced technology logic, we invested in expanding the capacity of the 300mm Fab No. 1 at our Mie Plant and in April 2007 commenced operations at Fab No. 2, which employs 65nm process technology. In back-end assembly operations, in March 2007 we decided to consolidate the operations of our Gifu Plant at our Kyushu Plant.

On a consolidated basis, we position each of our business units as independent business entities, and we have reorganized our business management structure to further clarify responsibilities for earning a return on investment and to appropriately allocate shared Group-wide expenses to each unit. Accordingly, we revised the method by which we allocate operating expenses. In addition, we established a new company that takes advantage of our expertise and technology in evaluating and analyzing the reliability of components and materials, and the company is now offering these services to customers.

We achieved a significant improvement in our financial position. Our shareholders' equity ratio increased to 22.2%, an improvement of 1.7 percentage points compared to the previous year. Interest-bearing loans were 745.8 billion yen at fiscal year-end, and net interest-bearing loans, calculated by subtracting cash and cash equivalents, declined to 300.8 billion yen. As a result, the D/E ratio declined to 0.77 times, well within our medium-term target of 1.0, and the net D/E ratio declined to 0.31 times. Free cash flow was 257.6 billion yen, or 152.8 billion yen if the sale of shareholdings is excluded. Because we were able to post net income in excess of 100 billion yen for fiscal 2006, consolidated retained earnings, which had been negative since fiscal 2002, achieved a balance of 54.3 billion yen, the first positive balance in five years.