

## Part II. Explanation of Financial Results

### 1. Overview

#### Business Environment

During the first quarter of fiscal 2006 (April 1 – June 30, 2006), the business environment in which the Fujitsu Group operates was characterized by a continuation of the relatively stable conditions that characterized the previous fiscal year. Rapidly rising crude oil prices and higher materials prices persisted, and the combination of higher interest rates in the US and consideration by Japan of ending its ultra-low interest rate policy appeared to cause a temporary disruption in the financial markets. Nevertheless, overall economic conditions, notably in the US and China, developed favorably on a global basis. In Japan, as well, personal consumption continued to expand and, with corporate investment sentiment remaining strong, growth continued at a steady pace.

With respect to IT investment, in addition to continued robust investment overseas, strategic investment began to take place in Japan, where there has been a shift in corporate thinking from a focus primarily on improving efficiency to one promoting growth. This mindset has been particularly evident in the financial services industry, as well as in the manufacturing and retail sectors, and it appears to have broadened from the main centers of economic activity to outlying regions.

In order to maintain a firm, detailed grasp of global market trends and rapidly respond to them, in June we designated four 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.

In addition, in line with the increasing integration of management and IT, in order to speed up decision making and make our operations more efficient, we are accelerating efforts to pursue innovation in our own in-house IT systems and improve our business processes, thus seeking to make Fujitsu an example of cutting-edge IT utilization. We intend to utilize the practical know-how we gain through this process to provide our customers with compelling proposals and thereby expand our business on a global basis.

#### FY 2006 First-Quarter Results

	<b>First Quarter FY 2006</b> <i>4/1/06-6/30/06</i>	First Quarter FY 2005 <i>4/1/05-6/30/05</i>	Change	<i>(Billion Yen)</i> Change vs. April Forecast*
Net Sales	1,102.8	1,026.3	76.5	2.8
[% Change vs. Same Period in Prior Fiscal Year]	[7.5%]	[1.8%]		
Operating Income	14.5	14.8	-0.2	14.5
[Operating Income Margin]	[1.3%]	[1.4%]	[-0.1%]	[1.3%]
Extraordinary Gains**	-	15.9	-15.9	
Net Income	0.6	2.4	-1.8	

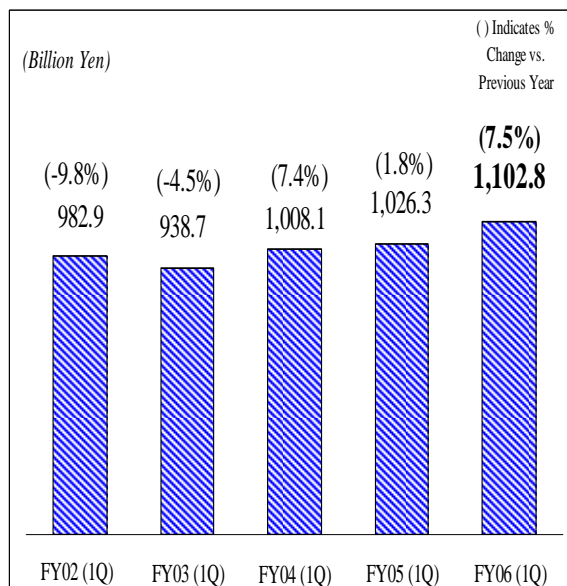
\*April forecast as of April 27, 2006.

\*\* Settlement gain related to reconciliation of litigation

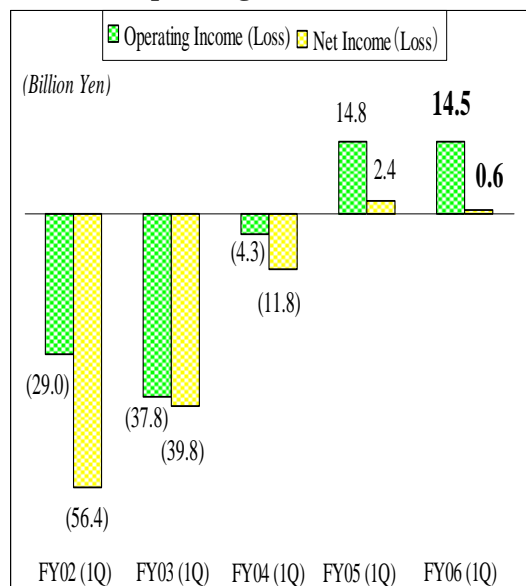
## Profit and Loss

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 = 114 yen, which was the approximate Tokyo foreign exchange market rate at June 30, 2006.

### Trend in Net Sales



### Trend in Operating Income & Net Income



First-quarter consolidated net sales were 1,102.8 billion yen (US\$9,674 million), a year-on-year increase of 7.5%. Excluding the impact of the shift to the adoption of the percentage of completion method in the previous fiscal year, this represented a nearly 10% increase in sales compared to the same quarter of fiscal 2005.

In Japan, sales were roughly even with the first quarter of fiscal 2005. Sales of logic LSI devices and other electronic components were strong. In addition, domestic sales of server-related products and solutions and systems integration services increased, particularly in financial services as well as in the manufacturing and retail sectors. However, although sales of mobile phone base stations were favorable, because demand had been especially strong during the same quarter of the preceding fiscal year, revenue in that sector showed a year-on-year decrease. Despite overall sluggish growth in the consumer market for PCs, sales of new models capable of handling digital terrestrial broadcast reception fared relatively well.

Outside Japan, first-quarter sales increased by more than 20% on a year-on-year basis. Sales of optical transmission systems, outsourcing services and logic LSI devices increased significantly, while there were also higher sales of PCs and HDDs. Revenue increased in all three principal business segments.

Consolidated operating income was 14.5 billion yen (US\$128 million), roughly the same level as in the corresponding quarter of fiscal 2005 but significantly exceeding the forecast figure announced at the start of the fiscal year. In addition to strong performance in our outsourcing services business both inside and outside of Japan, due to such factors as a comparative decrease in start-up costs for the new 300mm-wafer LSI production line at our Mie Plant and progress in increasing cost efficiencies, particularly in the production of mobile phones, we were able to increase the underlying profitability of our business operations. However, selling, general and administrative expenses increased by 12.8 billion yen over the same period in fiscal 2005 due to such factors as the growth in our outsourcing services business in the UK, the increase in business

scale resulting from corporate acquisitions made in North America, and aggressive up-front strategic investments, primarily in the Technology Solutions segment. As a result, operating income was roughly on par with the first quarter of fiscal 2005.

In other income (expenses), net interest was positive 0.4 billion yen, and there was a reduction in the amortization of unrecognized obligation for retirement benefits to 0.8 billion yen, representing a significant decrease of 9.0 billion yen from the level of almost 10.0 billion yen in the first quarter of fiscal 2005. This was due to the pension system revisions that took place in September of 2005, as well as the effect of the rise in stock market prices at the end of the fiscal year.

No extraordinary gains or losses were posted in the first quarter, as opposed to the first quarter of fiscal 2005 when there was a settlement gain of 15.9 billion yen related to reconciliation of litigation, and net income was 0.6 billion yen (US\$6 million). Thus, consistent with the preceding fiscal year, we were able once again to report a net profit for the first quarter.

***Comparison with April 2006 Forecast***

Actual consolidated net sales in the first quarter were very close to the forecast figure announced in April at the beginning of the fiscal year. In Ubiquitous Product Solutions, although sales of HDDs and other products fell short of projections, sales of LSI devices and of outsourcing services both inside and outside of Japan exceeded forecast.

Operating income exceeded our initial forecast by 14.5 billion yen. In addition to better than expected performance in logic LSI devices and in outsourcing services both inside and outside of Japan, improved cost efficiencies in nearly all our business units enabled us to cover the impact of declining sales prices and other market volatility risks.