

Striving to achieve steady profitable growth by intensifying and accelerating efforts to meet four key challenges.

Overview of Fiscal 2005 Business Performance

In fiscal 2005, we increased both sales and profits compared with the prior fiscal year, achieving consolidated net sales of 4,791.4 billion yen, operating income of 181.4 billion yen, and net income of 68.5 billion yen.

In fiscal 2005, we also shifted our focus from one centered on products to one that better emphasizes the customer, and we revised our business segmentation to help facilitate business development in directions that exploit our strengths. We reorganized our former business segments of Software & Services, Platforms, and Electronic Devices, into a new classification comprising: Technology Solutions, which includes Services and System Platforms; Ubiquitous Product Solutions, centered on hard disk drives, mobile phones, and PCs; and Device Solutions, which encompasses our electronic devices business.

In Technology Solutions, by unifying our sales and system engineering teams and bolstering risk management in our systems integration business, we were able to reduce losses from loss-generating domestic SI projects to about one quarter that of the previous year, and income in this segment increased substantially. We were also able to establish a firm footing for growth in our outsourcing services business. Issues remain in System Platforms, however, where unit shipments increased, but price competition became more intense and the shift to lower-priced models continued, resulting in reductions in both revenue and income.

In our overseas operations, we were able to achieve double-digit sales growth in both Services and System

Platforms. Increases in sales of outsourcing services to the public sector in the UK and growth through acquisitions in the US drove significant revenue gains in our services business. In the System Platforms area, as well, sales in Europe and the US grew strongly, due in good part to the performance of Fujitsu Siemens Computers. Our optical communications business in North America also performed well.

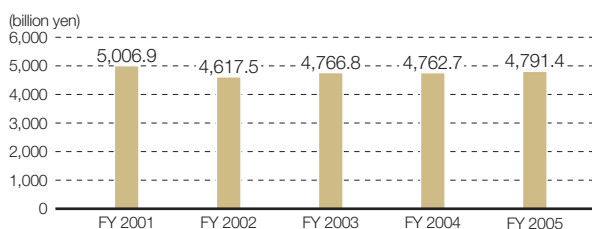
In Ubiquitous Product Solutions, we established our hard disk drives as a high-quality brand and accelerated time-to-market, achieving significant sales growth. We also achieved favorable performance in PCs and mobile phones through efforts to strengthen supply chain management and product competitiveness.

In Device Solutions, our leading-edge logic LSI business has been winning acclaim, and we achieved growth in orders. Despite increased investment in our Mie Plant, we recorded higher profitability thanks to business restructuring and thoroughgoing efficiency improvements in our standard products business.

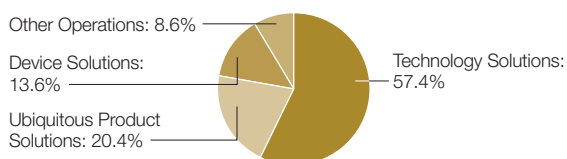
As a result of company-wide manufacturing innovation initiatives, we made further progress in reducing inventories and improved our ability to respond to market changes. In addition, revisions to our pension system together with favorable trends in the stock market contributed to an increase in net income, and we were also able to reduce the balance of interest-bearing loans to under 1,000 billion yen and further improve our financial condition.

However, overall growth in sales was minimal and there are remaining issues that must be resolved for further business expansion.

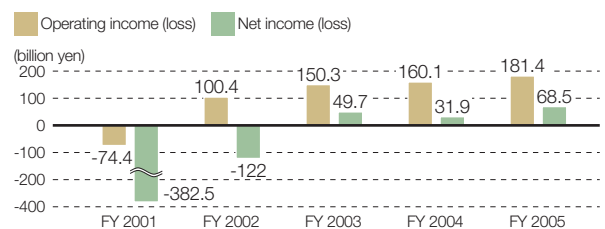
Consolidated Net Sales



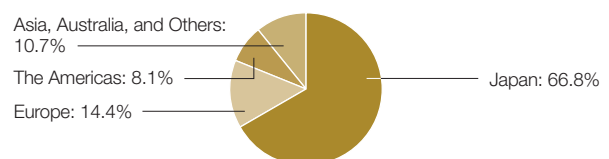
Net Sales by Business Segment



Consolidated Operating Income/Net Income



Net Sales by Region*



*Net sales to unaffiliated customers by customer's geographic location

Management Direction in Fiscal 2006

We see fiscal 2006 as the year in which we will complete our efforts to meet the four key challenges we articulated in fiscal 2004.

First, to “strengthen our existing businesses,” we will work to increase management speed across our entire supply chain and to further reduce inventories so as to achieve even greater gains in our business efficiency. Furthermore, we are working to take full advantage of IT to revolutionize our design processes and thereby improve cost competitiveness and speed in our development and manufacturing activities.

Second, to “create and cultivate new businesses,” we will move forward with further expansion of our overseas businesses, which are showing solid profitability, and domestically, with expansion of new outsourcing business areas, such as business process outsourcing (BPO) and application portfolio management (APM). We will also work to develop our business with small and medium-sized enterprises in Japan. Third, to “reform our organization and approach,” we will advance process reforms in our sales activities to complete the integration of our sales and systems engineering teams.

Finally, to “reform our management systems,” taking improved visibility and simplicity as watchwords, we will work to reform our business processes and renovate our in-house IT systems in conformity with the new Japanese version of the Sarbanes-Oxley (SOX) law.

In the Technology Solutions segment, we will strive to further strengthen management of our systems integration business, which is the backbone of our domestic services business, in order to increase our earning capacity. At the same time, leveraging the lessons learned from the comprehensive inspections of customers’ critical infrastructure systems that we began in fiscal 2005, we will pursue a paradigm shift to an operations-oriented and packaged services business model in pursuit of more stable profitability. In our overseas services business, along with deploying strategies that are closely aligned with local market requirements, we will strengthen our ties with local business partners and enhance our ability to handle global accounts. We will devote particular attention to the strategically important markets of North America and China.

In System Platforms, striving to further expand our promising overseas business, we will expand our global network of open-standard system verification centers and

Four Key Challenges

(1) Strengthen Our Existing Businesses

- Consider profits as fixed cost of doing business
- Continue to reduce cost ratio
- Continue to accelerate management speed

(2) Create and Cultivate New Businesses

- Rejuvenate our overseas businesses
- Drive creation of ubiquitous networking market

(3) Reform Our Organization and Approach

- Optimize organization from customer’s perspective

(4) Reform Management Systems
• Enhance visibility • Simplify

work to develop our business in close step with customer requirements. In addition, we will pursue steady business expansion by capitalizing on the benefits of various alliances, including the provision of our mission-critical IA servers to EDS, the deployment of a unified line of server products with Sun Microsystems, and joint development activity with Cisco Systems.

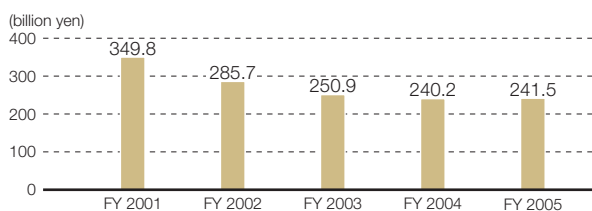
In the Ubiquitous Product Solutions segment, we plan to further strengthen our global operations and solidify our ability as a business to respond to market changes and to develop new businesses with improved profitability.

In Device Solutions, to grow our advanced logic LSI business we will front-load investment in expanding production capacity based on actual demand, while also pursuing business expansion in fields with higher added value, such as module and board implementations, and leveraging our software strengths to expand our business in specific application-oriented ICs globally.

Seeking to lay the foundation for stepping up the pace of our business expansion beyond fiscal 2006, we will increase capital investment to 350 billion yen, 100 billion yen more than in fiscal 2005, and at the same time increase R&D expenditure. Furthermore, to respond to the shift in customers’ attitudes towards IT from a view focused on the construction of IT systems to one centered on their utilization, we will work to make Fujitsu itself a reference model for the reform of business processes and utilization of IT, and thereby strengthen our ability to present customers with compelling proposals. In addition, since we see our employees as our greatest asset, we will focus on strengthening our human resource development programs.

Through these measures, in fiscal 2006 we aim to increase revenue and income and have set targets of 5,200 billion yen in consolidated net sales, 190 billion yen in operating income, and 80 billion yen in net income.

Research and Development Expenditures



Capital Expenditures

