5. Change in Accounting Policies in the Current Consolidated Reporting Period

The European stock exchanges on which Fujitsu’s shares are listed require that companies from outside of the European Union present their financial statements in accordance with International Financial Reporting Standards (IFRS) starting from the 2009 fiscal year. In view of the increasing convergence of Japanese Generally Accepted Accounting Principles (GAAP) with IFRS, the Fujitsu Group has already made progress aligning its financial accounting with IFRS to the extent permitted under Japanese accounting standards, such as by applying the percentage of completion method for software development contracts. Continuing this initiative, in the current fiscal year, together with implementing improvements in our management control systems, we have also implemented changes in our accounting policies as outlined below. We will continue to adjust our policies as needed, as further convergence between Japanese GAAP and IFRS occurs in the future.

(1) Change of Accounting Standard for Measurement of Inventories
Starting this fiscal year the Fujitsu Group has implemented early adoption of the Accounting Standard for Measurement of Inventories (Accounting Standards Board of Japan Statement No. 9), and has accordingly changed the method for valuing inventories from the cost method to the lower of cost or market method.

Previously, parts held for maintenance and related services were recorded on our books at acquisition cost and were expensed when used, with losses on any unused parts recognized upon disposal. In order to more strictly tie these expenses to income, however, starting this fiscal year we have changed our method of recognizing expenses for these parts to regular write-downs over the period for which maintenance and services are provided. As a result of the implementation of this change, we recorded a one-time loss of 16.2 billion yen on write-downs of inventories held at the start of the period.

In addition to previous initiatives implemented to minimize the risk associated with obsolescence through effective inventory utilization, we are now, through the establishment of systems to evaluate the risk of reduced profitability, comparing the net selling value with the acquisition cost and, for inventories that fall outside the normal operating cycle, recognizing valuation mark-downs that take into account the risk of future disposal. As a result of implementing these monitoring procedures and valuation standards, we recorded a one-time loss of 8.8 billion yen on mark-downs of inventories held at the start of the period.

As a result of these changes, operating income in first half was reduced by 2.1 billion yen, and it is anticipated that the impact on full-year operating income will be a reduction of 2.0 billion yen.

(2) Change in the Method of Depreciation for Property, Plant and Equipment and Revisions to Useful Life and Residual Value

In prior periods, the company and its subsidiaries in Japan depreciated property, plant and equipment in accordance with the declining balance method, while overseas subsidiaries most often adopted the straight-line depreciation method. Starting this fiscal year, we have, on the whole, uniformly adopted straight-line depreciation over the useful life of the assets, which will be determined in accordance with what is judged to be the likely period over which the value of the asset can be realized under actual business conditions, and with the actual residual value for the asset deemed, as a general principle, to be zero. As a result of these changes, the calculated useful life of major assets is now shorter than it previously had been. These changes and revisions have been implemented in view of the changes in the business reality of the Fujitsu Group's major businesses, such as the global expansion of the outsourcing business and the focus in the Device Solutions segment on logic LSI business, along with the initiation of operations at new facilities. As a result of these changes, the actual performance of each business is more accurately reflected by more closely linking depreciation after investment to a stable stream of earnings.

With respect to our core business of Technology Solutions, in the IT services business in general, and, more specifically in the IT outsourcing business, providing operational services to customers over a long period of time is becoming increasingly important. The pattern of earnings generated in the outsourcing business is, as a general principle, a fixed amount per period.

In the Device Solutions segment, as a result of our staged exit from the memory business, which is prone to both severe downward pricing pressure and wide fluctuations in demand, we have positioned the logic LSI business, which is based on long-term and close relationships with customers, as our core business. At our Mie Plant, during the second half of fiscal 2006 we completed capital expenditures to increase the production capacity of Fab No. 1 and have commenced full production. Fab No. 2 has become operational this fiscal year. In the area of advanced technology logic LSI devices, with increasing miniaturization, very large upfront investments are required, and it may take over a year to gear up to mass production and delivery. Afterwards, however, in accordance with the production capacity of the facility, stable earnings can be expected for a certain period of time.

As a result of these changes and revisions, operating income in the first half increased by 3.7 billion yen, and it is anticipated that the impact on operating income for the full fiscal year will be an increase of 14.0 billion yen. These amounts include an increase in depreciation expense of 4.0 billion yen for the first half and 8.0 billion yen for the full fiscal year as a result of restarting depreciation of facilities (with a total book value of approximately 40.0 billion yen) over a five-year period with a residual value of zero, for which depreciation of the facilities had already been depreciated to 5% of the acquisition cost as of the end of last fiscal year.

For finance leases in which there is no reasonable certainty that the lessee will obtain ownership, we had already adopted the practice of treating them as sales in our consolidated financial statements, but we continued to apply lease accounting in our unconsolidated financial statements. Together with the increase in the amount of lease assets on the unconsolidated financial statements and the present change in the method of depreciation, we have implemented early adoption of the Accounting Standard for Lease Transactions (Accounting Standards Board of Japan Statement No. 13) and now treat such transactions as sales. These changes do not have a material impact on unconsolidated results and have no impact on consolidated results.

These depreciation and other changes will provide increased visibility regarding the return on investments and support the effective management of the expected returns.

(3) Change in the Basis of Revenue Recognition

We previously recorded sales of personal computers, peripheral equipment, and electronic devices at the time of shipment, but starting this fiscal year we are recording sales upon customer receipt.

For other system products, revenue is recognized at time of acceptance by the customer, and revenue from software development contracts is recognized on a percentage-of-completion basis.

As a result of these changes, first-half net sales decreased by 4.2 billion yen and operating income decreased by 1.0 billion yen. The impact on results for the full fiscal year is expected to be insignificant.

(4) Change in Classification of Amortization of Unrecognized Obligation for Retirement Benefits

We previously treated the amortization of unrecognized obligation for retirement benefits as a non-operating expense, but starting this fiscal year we are including it in cost of sales or selling, general and administrative expenses. In the past, Fujitsu Limited and consolidated subsidiaries in Japan using defined benefit retirement plans had very large unfunded retirement benefit obligations. From fiscal 2003 on, however, as a result of the implementation of such measures as the transfer of the substitutional portion of employees' pension plan to the government, the reform of the pension system, and the reallocation of investment assets, together with improved investment returns on pension assets, the unfunded obligation has significantly decreased. Due to a decrease in the price volatility of investment assets, it is no longer necessary to treat this item as a non-operating expense. In addition, there has also been a decrease in the materiality of the amounts involved, and we have accordingly changed our accounting policies.

The application of this change has no impact on net income, but it resulted in a reduction in operating income of 3.7 billion yen in the first half and is expected to reduce operating income by 7.0 billion for the full fiscal year.

Effect of Specific Changes in Accounting Policies on Income/Segments (Consolidated)

(Billion Yen)

	First-Half FY07 (Actual)	Inventory Measurement Standard	Depreciation Method	Retirement Benefit Amortization and Other	Full-Year FY07 (Forecast)	Inventory Measurement Standard	Depreciation Method	Retirement Benefit Amortization and Other
Operating Income	-3.2	-2.1	3.7	-4.8	5.0	-2.0	14.0	-7.0
Other Losses	-25.0	-25.0	-	-	-25.0	-25.0	-	-

Impact on Segments

	First-Half FY07 (Actual)	Inventory Measurement Standard	Depreciation Method	Retirement Benefit Amortization and Other	Full-Year FY07 (Forecast)	Inventory Measurement Standard	Depreciation Method	Retirement Benefit Amortization and Other
Technology Solutions	-4.8	-1.3	-0.5	-2.9	-6.0	-1.0	1.0	-6.0
System Platforms	-1.2	-0.1	-0.5	-0.5	-	-	-	-
Services	-3.5	-1.2	-	-2.3	-6.0	-1.0	1.0	-6.0
Ubiquitous Product Solutions	-0.9	0.2	-0.4	-0.7	-	-	-	-
Device Solutions	3.2	-0.9	5.1	-0.8	11.0	-1.0	13.0	-1.0