

2. Changes in Accounting Policies

1) Application of Percentage of Completion Accounting for Software Development Contracts*

Since last fiscal year, we have instituted organizational changes and other measures designed to strengthen the risk management function of our solutions/systems integration business by providing organizational support from the initiation of business discussions to provision of estimates, negotiation of contracts and on through project completion, thereby enabling us to grasp and respond to project risks as early as possible. For the development phase, we have instituted a monthly progress management system based on output, including development work performed by outside contractors, in order to improve project planning, track progress, and promote risk visibility. Along with realigning this project management structure, we have begun applying the percentage of completion method for contracted software development work starting this fiscal year, requiring detailed development plans to accompany all contracts. Recognizing income and expenses on development work in accordance with the progress of completion enables more timely performance monitoring and disclosure.

The impact of this accounting policy change on first-quarter results was to increase sales by 43.2 billion yen and operating income by 4.0 billion yen. The impact on first-half and full-year fiscal 2005 results is expected to be an increase in sales of 20.0 billion yen and an increase in operating income of 2.0 billion yen for each period. The impact on operating income of applying the percentage of completion method to work in progress at the beginning of the first quarter was an increase of 1.5 billion yen. Starting from the second quarter, we will expand the application of this method to include subsidiaries' major projects.

* Refers to contracted software development work in which Fujitsu is responsible for providing all or some portion of a customer's software development work.

2) Recording of Liabilities for Retirement Benefit Obligations at UK Subsidiaries

In the UK, as in Japan, defined contribution retirement benefit plans have become widespread, and, in accordance with new British accounting standards as well as International Financial Reporting Standards (IFRS), companies are obligated to record as liabilities the full amount of their unfunded retirement benefit obligations. UK-based Fujitsu Services has switched to IFRS starting this fiscal year, and another UK subsidiary, Fujitsu Telecommunications Europe, has reported its unfunded retirement benefit obligations as required under the new British accounting standards. As a result of recording liabilities associated with these companies' unfunded retirement benefit obligations, reserves for accrued retirement benefits were increased by 106.1 billion yen, reducing retained earnings net of tax by 82.7 billion yen. Compared with previous methods, the new accounting changes for retirement benefits had the effect of increasing first-quarter operating income by 1.3 billion yen. The impact on full-year results is expected to be an increase in operating income of 5.1 billion yen.

3) Accounting for Impaired Property, Plant, and Equipment

Starting this fiscal year, we are recording in our financial statements any impairment to the value of property, plant, and equipment. In the first quarter, there were no impairment losses to record.

Status of Plans to Adopt International Financial Reporting Standards (IFRS)

The Fujitsu Group is currently in the process of moving toward the adoption of IFRS. This switch is being implemented while taking into consideration the trend toward convergence between different countries' accounting standards and IFRS.

This fiscal year, for operations in Japan, the shift toward IFRS included introducing the adoption of the percentage of completion method for software development contracts and asset impairment accounting for property, plant, and equipment. In addition, for Fujitsu Services, in conjunction with the required shift in accounting for retirement benefit obligations, IFRS has been fully adopted.

Going forward, while keeping in mind the situation with respect to dealing with converging accounting standards, we intend to adopt IFRS as fully as possible as the necessary internal organizational changes are made, aiming for complete adoption by fiscal 2007.

4) Changes in Business Segment Classification

Today's IT market is characterized by increasing technology convergence and complexity and a widening array of services. There is now greater need than ever for vendors who can integrate servers, networks and software to construct highly stable and reliable IT infrastructure and who can offer full lifecycle support for a variety of services. Accordingly, we have been working to quickly shift our overall business to a model that, departing from the traditional product and services sales framework, centers on the provision of full lifecycle solutions—ranging from the construction of IT infrastructure to consulting, systems integration and outsourcing—all based on cultivating long-term partnerships with our customers.

In order to further improve this solutions model, last year we integrated our sales and system engineering groups in Japan and pursued other organizational reforms to make our group structure more efficient. In light of these ongoing organizational reforms, and taking into account the similarities in particular product and service offerings and sales methods, from this fiscal year we have reclassified our business segments as: Technology Solutions, Ubiquitous Product Solutions, Device Solutions, and Other Operations.

In the Technology Solutions segment, we offer customers full lifecycle solutions through the provision of various services optimized to meet customers' individual needs and based on high-performance, highly reliable IT infrastructure comprising system platforms built on cutting-edge technology. In Ubiquitous Product Solutions, we provide personal computers, mobile phones and HDDs, products that are indispensable to realizing a ubiquitous networking world. In this area of our business we place a premium on speed and cost competitiveness through the aggressive pursuit of manufacturing innovation. And in Device Solutions we provide optimal solutions centering on pivotal logic LSI devices and other electronic components to both internal and external customers in order to help boost the competitiveness of their products.

New Segment Classification

Segment	Sub-segment	Main products/services
Technology Solutions	System Platforms	
	System Products	Servers (mainframes, UNIX servers, IA servers), peripheral equipment used in information systems (disk arrays, etc), software, etc. *Business-use PCs are included in Ubiquitous Product Solutions
	Network Products	Mobile systems (3G base station systems, etc), optical transmission systems, etc.
	Services	
	Solutions / SI	System construction (systems integration services), system installation and operational support, consulting, etc.
	Infrastructure Services	One-stop information system operational management (outsourcing services), network environments and networking-related services for information systems (network services, Internet services), information system and network maintenance and monitoring services
	Others	Information system installation, network construction, custom terminal installation (ATMs, POS systems, etc.)
Ubiquitous Product Solutions	PCs / Mobile Phones	Personal computers, mobile phones
	Hard Disk Drives	Storage devices (compact magnetic drives, magneto-optical drives)
	Others	Optical modules
Device Solutions	LSI Devices	Logic LSI devices (system LSI, ASIC, microcontrollers, FRAM-embedded logic), memory LSI (Flash memory, FCRAM)
	Electronic Components, Others	Semiconductor packages, SAW filters, relays, connectors, etc.
Other Operations		Audio and navigation equipment, electronic equipment for automobile control, printed circuit boards, magnesium molds, etc.

Note: As a result of anticipated changes in product sales patterns and organizational responsibilities going forward, some of the product sub-segment classification included in the Technology Solutions segment at the time of the earnings announcement in April has been revised. The principal change is the shifting of IP Systems from the Network Products sub-segment to the Infrastructure Services sub-segment. This reflects the fact that, as a result of the tie-up with Cisco Systems, we will be offering total solutions combining products and network services.