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 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 other 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
Because it is allowable to apply the Accounting Standard for Measurement of Inventories (Accounting Standards Board of Japan Statement No. 9 issued July 5, 2006) in financial statements relating to consolidated accounting fiscal years beginning prior to April 1, 2008, the Fujitsu Group has implemented early adoption of this accounting standard starting this fiscal year.

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 lower 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, compared to the previous method of accounting, operating income was reduced by 2.7 billion yen and income before taxes and minority interests was reduced by 27.7 billon 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 with the declining balance method, while consolidated overseas subsidiaries most often adopted the straight-line depreciation method. Starting this fiscal year, we have 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 residual value of the asset deemed to be

the actual residual value. As a result of these changes, the calculated useful life of major assets is now shorter that it previously had been. These changes and revisions have been implemented in view of major restructuring of the Fujitsu Group's core 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 structural 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 outsourcing business, providing operational services to customers over a long period of time is becoming increasingly important. In addition, in order to further globally expand the scale of the outsourcing business, in the second half of fiscal year 2006, we clarified the position of our UK subsidiary, Fujitsu Services Holdings PLC, as a core group company in Europe. The pattern of earnings generated in the outsourcing business is, as a general principle, a fixed amount per period.

In the Device Solutions segment, we are making a staged exit from the memory business, which is prone to both severe downward pricing pressure and wide fluctuations in demand, and in November 2006 sold our shares in Spansion Inc., a joint venture Flash memory business. In accordance with these moves, we have positioned the logic LSI business, which is based on long-term and close relationships with customers, as the primary business. At the Mie Plant, during the second half of fiscal 2006 we completed an expansion of production capacity at 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, 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, compared to the previous method of accounting, operating income increased by 11.4 billion yen and income before taxes and minority interests increased by 11.7 billion yen. These amounts include an increase in depreciation expense of 7.2 billion yen as a result of restarting depreciation of facilities over a five-year period with a residual value of zero for those facilities that had already been depreciated to 5% of the acquisition cost as of the end of the last fiscal year.

(3) Accounting Standard for Lease Transactions

Because it is allowable to apply the Accounting Standard for Lease Transactions (Accounting Standards Board of Japan Statement No. 13 issued June 17, 1993, [Business Accounting Council, the First Committee] and revised March 30, 2007) and the Implementation Guidance on the Accounting Standard for Lease Transactions (Accounting Standards Board of Japan Implementation Guidance No. 16 issued January 18, 1994, [Japanese Institute of Certified Public Accountants, Accounting System Committee], and revised March 30, 2007) from consolidated accounting fiscal years beginning Apri1 1, 2007 or later, starting this fiscal year we have implemented early adoption of the Accounting Standard for Lease Transactions and the Implementation Guidance on the Accounting Standard for Lease Transactions.

On a consolidated basis, we have already implemented the sales and purchase accounting method, and therefore there is no effect on profit and loss. These changes do not have a material impact on unconsolidated results.

(4) Change in the Basis of Revenue Recognition

Fujitsu and its consolidated subsidiaries 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. This change was implemented because of the increasingly significant financial amounts involved in the sales of these types of products, which have become crucial products in the era of ubiquitous networking and whose sales volume has increased dramatically with the global expansion of the market. This change also reflects the clear responsibility we have for timely delivery to our customers as we respond to changes in the marketplace, including the increasingly stringent requirements of customers for shorter lead times. For other system products, revenue is recognized at the 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, compared to the previous method of accounting, consolidated net sales decreased by 5.7 billion yen and operating income and income before taxes and minority interests decreased by 1.7 billion yen.

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

Fujitsu Limited and consolidated subsidiaries in Japan previously treated the amortization of unrecognized obligation for retirement benefits as a non-operating expense or non-operating income, 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 pension 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 or income. In addition, there has also been a decrease in the materiality of the amounts involved, and we have accordingly changed our accounting policies.

As a result of this change, compared to the previous method of accounting, operating income decreased by 7.4 billion yen but there is no impact on income before taxes and minority interests.

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

(Billion Yen)

	FY 2007	Inventory Measurement Standard	Depreciation Method	Lease Transactions	Revenue Recognition Standard	Retirement Benefit Amortization and Other
Operating Income	-0.5	-2.7	11.4	-	-1.7	-7.4
Loss on revaluation of Inventories	-25.0	-25.0	-	-	-	-
Net Income	-13.1	-19.5	7.4	-	-1.0	-

Impact on Operating Income by Segments

Technology Solutions	-8.1	-1.8	-	-	-0.5	-5.6
System Platforms	-3.0	-0.8	-0.7	-	-0.4	-1.0
Services	-5.0	-1.0	0.7	-	-	-4.6
Ubiquitous Product Solutions	-1.7	0.6	-1.0	-	-0.9	-0.4
Device Solutions	10.3	-1.4	13.1	-	-0.2	-1.1