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 efforts to align 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 Inventories
Starting this fiscal year the Fujitsu Group has implemented early adoption of the Accounting Standard for Measurement of Inventories (Accounting Standard 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 net selling value 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 8.7 billion yen on mark-downs of inventories held at the start of the period.

The impact of these changes on the operating income of the first quarter is insignificant, and it is also expected that their impact on operating income for the first half and the full fiscal year will similarly be immaterial.

(2) Change in the Method of Depreciation for Property, Plant and Equipment
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 straight-line depreciation. Starting this fiscal year, we have, as a general principle, 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 for the asset deemed, as a general principle, to be zero.

In our core business of Technology Solutions, the IT services business, in general, and, more specifically, IT outsourcing, providing operational services to customers over a long period of time is becoming increasingly important. The revenue for this type of business in general is a fixed monthly or annual amount, and services are usually covered under long-term contracts extending over several years. For equipment used in the provision of these operational services, the change to straight-line depreciation is the most appropriate way of recording results in keeping with the actual timing of income and expenses.

In the Device Solutions segment, as a result of progressively exiting from the memory and display businesses, which are both prone to severe downward pricing pressure, we have positioned the logic LSI business, which is based on building long-term and close relationships with customers, as our core business. 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. At our Mie Plant, during the second half of the last fiscal year 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. Taking into consideration the changes in the operating environment and the pattern of earnings generation of these operations, the change to straight-line depreciation best indicates actual results by more closely linking depreciation just after investment to earnings.

The effect of this accounting change on first quarter operating income is insignificant. For the first half and full fiscal year it is expected to result in increases in operating income of 2.0 billion yen and 12.0 billion yen, respectively. The impact for the full fiscal year includes an increase in depreciation expense of 8.0 billion yen due to restarting depreciation over a five-year period on facilities with a value of 40.0 billion yen, for which 5% of the acquisition cost had already been depreciated as of the end of last fiscal year.

We had already adopted the practice of treating financial leases, in which there is no transfer of ownership, 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 Standard 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 from 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 now 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.

The impact of these changes on first-quarter, first-half and full-year net sales and operating income 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 have changed to treating it as an operating expense. The Fujitsu Group in past years 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 improvements in the allocation of investments, together with improved investment returns on pension assets, the unfunded obligation has significantly decreased. Due to a decrease in market price volatility risk, there has been a decrease in expenses. In addition, there has also been a decrease in the materiality of the amounts involved, and we have accordingly revised our accounting policies.

The application of this change has no impact on net income, but it resulted in a reduction in operating income of 1.8 billion yen in the first quarter, and is expected to reduce operating income by 3.5 billion yen for the first half and 7.0 billion for the full fiscal year.

Impact of Change in Accounting Policies (Consolidated)

(Billion Yen)

	1Q FY07 (actual)	Change in Valuation Method of Inventories	Change in Depreciation Method	Other Changes, Including for Amortization of Unrecognized Retirement Obligations
Operating Income	-2.7	-	-0.2	-2.5
Valuation Loss on Inventories	-25.0	-25.0	-	-
Impact on Operating Income of Business Segments				
Technology Solutions	-1.8	-	-0.5	-1.3
System Platforms	-0.4	-	-0.3	-0.2
Services	-1.4	-	-0.1	-1.1
Ubiquitous Product Solutions	-0.6	-	-0.4	-0.2
Device Solutions	0.1	-	1.0	-0.8

(Billion Yen)

	Full-Year FY07 (forecast)	Change in Valuation Method of Inventories	Change in Depreciation Method	Other Changes, Including for Amortization of Unrecognized Retirement Obligations
Operating Income	5.0	-	12.0	-7.0
Valuation Loss on Inventories	-25.0	-25.0	-	-
Impact on Operating Income of Business Segments				
Technology Solutions	-5.0	-	1.0	-6.0
System Platforms	-	-	-	-
Services	-5.0	-	1.0	-6.0
Ubiquitous Product Solutions	-	-	-	-
Device Solutions	10.0	-	11.0	-1.0