

Notes to the Consolidated Financial Statements

Note 1

BASIS OF PREPARING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Fuji Electric Holdings Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as

required by the Financial Products Exchange Law of Japan.

In preparing these statements, certain reclassifications and rearrangements have been made to the consolidated financial statements prepared domestically in Japan in order to present these statements in a form that is more familiar to readers outside Japan.

In addition, the notes to the consolidated financial statements include additional information which is not required under accounting principles generally accepted in Japan.

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation

The consolidated financial statements for the year ended March 31, 2008 include the accounts of the Company and its 68 significant subsidiaries (67 in 2007 and 67 in 2006) (together, the "Companies").

Under the control or influence concept, the accompanying consolidated financial statements include the accounts of the Company and, with minor exceptions, those of its subsidiaries, whether directly or indirectly controlled, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies is eliminated. The Company does not consolidate nor applies the equity method to subsidiaries or affiliates whose gross assets, net sales, net income (loss) and retained earnings are not significant to the consolidated financial statements.

Investments in unconsolidated subsidiaries and affiliates are stated at cost.

The balance sheet date of the certain consolidated subsidiaries is December 31. The financial statements of such subsidiaries were tentatively prepared in accordance with the fiscal year of the Company, and those were consolidated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The excess of the Company's equity in the net assets at the respective dates of acquisition over goodwill and negative goodwill, is being amortized over a period of 5 years.

b. Cash Equivalents

For the purpose of the statement of cash flows, the Companies consider all short-term, highly liquid instruments with a maturity of three months or less to be cash equivalents.

c. Inventories

Raw materials are stated at cost determined by the most recent purchase price method. Finished goods and work in process are stated at actual cost determined by accumulated production cost for contract items or average cost for regular production items, except that finished goods of certain consolidated subsidiaries are priced by the most recent purchase price method. In accordance with accounting practices generally accepted in the heavy electric industry, inventories include items with a manufacturing period exceeding one year.

d. Securities

Securities classified as other securities are stated at fair value. Unrealized gains and losses, net of taxes, are reported in a separate component of net assets.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

e. Depreciation

Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to the buildings of the Company and domestic subsidiaries acquired after April 1, 1998. The range of useful lives is from 7 to 50 years for buildings and from 5 to 13 years for machinery and equipment.

In the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their depreciation method in terms of the tangible fixed assets acquired after April 1, 2007 in accordance with the corporation tax law as amended. The effects of this change were immaterial. The effects on the segment information were immaterial.

After having depreciated fixed assets acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior corporate tax law, the Company and its domestic consolidated subsidiaries have depreciated 5 percent of the remaining acquisition cost less minimum salvage value, using a straight-line method over 5 years and booked as depreciation expense, according to the corporation

tax law as amended. As a result of change, operating income, ordinary income and income before income taxes and minority interests decreased by ¥1,018 million (\$10,181 thousand) for the year ended March 31, 2008. The effects on the segment information are described in “NOTE 16. Segment information”.

f. Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

g. Retirement Benefits

The Company and its domestic consolidated subsidiaries have contributory funded pension plans, non-contributory funded pension plans and unfunded retirement benefit plans as defined benefit plans. Certain domestic subsidiaries have defined contribution pension plans.

The Companies accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation, determined as of April 1, 2000, is being amortized over ten years.

The prior service cost is amortized by the straight-line method over the expected remaining working lives of the then-active employee participants.

The actuarial gains and losses are amortized by the straight-line method over the expected remaining working lives of the then-active employee participants from the next period in which they arise, respectively.

The plan assets significantly exceeded project benefit obligation. As a result, unrecognized actuarial gain became extremely large mainly because the Company's employees decreased to a large extent. To eliminate this excess, in April 2004, marketable securities held in the employee retirement benefit trust were returned to the Company. Due to the large decrease in the number of employees, the unrecognized actuarial gain calculated by the proportion of the plan assets to trusted assets was recognized in the accompanying statement of income as an extraordinary gain.

h. Reserve for Directors' Retirement Benefits

In the year ended March 31, 2006, the Company and some of its consolidated subsidiaries changed their accounting for directors' retirement benefits. The accrued retirement benefits for directors were provided mainly at the amount of their compensation at the time of termination calculated based on its internal regulations.

In the year ended March 31, 2006, the Company and some of its consolidated subsidiaries changed their accounting for directors' retirement benefits. The accrued retirement benefits for directors were provided mainly at the amount of their compensation at the time of termination calculated based on its internal regulations. “Accounting Standard for Directors' Bonus” (ASBJ Statement No. 4, issued on November 29,

2005) have been adopted effective the fiscal year ended March 31, 2008. Until March 31, 2007, directors' retirement benefits of the certain consolidated subsidiaries were expensed as incurred. Effective April 1, 2007, such subsidiaries changed their accounting for directors' retirement benefits by “Auditing Treatment Relating to Reserve Defined under the Special Tax Measurement Law, Reserve defined under the Special Law and Reserve for Director and Corporate Auditor Retirement Benefits” (The Japanese Institute of Certified Public Accountants (“JICPA”) Auditing and Assurance Practice Committee Report No. 42, issued on April 13, 2007). The accrued retirement benefits for directors were provided mainly at the amount of their compensation at the time of termination calculated based on its internal regulations. As a result of the change, operating income and ordinary income decreased by ¥184 million (\$1,843 thousand), income before income taxes and minority interests decreased by ¥820 million (\$8,203 thousand), for the year ended March 31, 2008. The effects on the segment information were immaterial.

The Company and some of its consolidated subsidiaries determined abolition of the retirement benefits system for the directors and corporate auditors at the Company's stockholders' meeting held in June 2007. The amount of the reserve for directors' retirement benefits are included in “OTHER LONG-TERM LIABILITIES” on the consolidated balance sheet as of March 31, 2008.

i. Research and Development Costs

Research and development costs are charged to income as incurred.

j. Leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are accounted for by the method that is applicable to ordinary operating leases.

k. Revenue Recognition

Sales of products are generally recognized as delivery is made. Sales of installation products are recognized when installation is completed.

l. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The Company filed a consolidated tax return, which allows companies to file tax payments on the combined basis of profits or losses of the parent company and its wholly owned domestic subsidiaries. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. Foreign Currency Transactions

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income to the extent that they are not hedged by forward exchange contracts.

n. Foreign Currency Financial Statements

Assets, liabilities, revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation are included in Foreign currency translation adjustments and minority interests in consolidated subsidiaries as a separate component of net assets.

o. Derivatives and Hedging Activities

The Companies enter into derivative financial instruments ("derivatives"), including foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies and interest rate swap agreements as a means of managing its interest rate exposures on certain assets and liabilities. In addition, the Companies enter into commodity swap agreements to hedge the risk of fluctuation of commodity prices for raw materials.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

- a) All derivatives are recognized as either assets or liabilities and measured at fair value, and forward contracts applied for forecasted transactions are measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed if the forward contracts qualify for hedge accounting.

- b) Trade receivables and trade payables denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.
- c) The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

p. Accounting Standard for Presentation of Net Assets in the Balance Sheet

"Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5, issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8, issued on December 9, 2005) have been adopted effective for the year ended March 31, 2007.

For the years ended March 31, 2006, the consolidated financial statements were restated to reflect this change.

q. Accounting for Consumption Taxes

The Japanese consumption taxes withheld and consumption taxes paid are not included in the accompanying consolidated statements of income.

r. Net Income per Share

Net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because it is anti-dilutive at March 31, 2006.

Note 3

U.S. DOLLAR AMOUNTS

The U.S. dollar amounts included in accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating yen into dollars at ¥100=U.S.\$1, the

approximate exchange rate at March 31, 2008. The U.S. dollar amounts are presented solely for the convenience of the readers outside Japan.

Note 4

SECURITIES

Information regarding the marketable securities classified as other securities at March 31, 2008, 2007 and 2006 were as follows:

March 31, 2008	Millions of yen			
	Cost	Carrying amounts	Unrealized gains	Unrealized losses
2008				
Marketable securities classified as other securities				
Equity securities	¥124,932	¥212,784	¥ 89,662	¥1,810
Debt securities	-	-	-	-
Others	-	-	-	-
	¥124,932	¥212,784	¥ 89,662	¥1,810
2007				
March 31, 2007				
Marketable securities classified as other securities				
Equity securities	¥125,592	¥265,161	¥139,652	¥ 83
Debt securities	-	-	-	-
Others	-	-	-	-
	¥125,592	¥265,161	¥139,652	¥ 83
2006				
March 31, 2006				
Marketable securities classified as other securities				
Equity securities	¥113,604	¥282,824	¥169,253	¥ 33
Debt securities	-	-	-	-
Others	51	52	1	-
	¥113,655	¥282,876	¥169,254	¥ 33

March 31, 2008	Thousands of U.S. dollars (Note 3)			
	Cost	Carrying amounts	Unrealized gains	Unrealized losses
2008				
Marketable securities classified as other securities				
Equity securities	\$1,249,327	\$2,127,841	\$896,630	\$18,116
Debt securities	-	-	-	-
Others	-	-	-	-
	\$1,249,327	\$2,127,841	\$896,630	\$18,116

Other securities whose fair value is not readily determinable as of March 31, 2008, 2007 and 2006 were as follows:

Others	Carrying amounts			Thousands of U.S. dollars (Note 3)
	Millions of yen			
	2008	2007	2006	
Unquoted securities	¥ 3,594	¥ 3,489	¥ 4,191	\$ 35,949
Preferred shares	2,000	5,000	5,000	20,000
Preferred stock	5,050	5,050	5,050	50,500
	¥10,644	¥13,539	¥14,241	\$106,449

Sales of other securities:

Proceeds from sales of other securities for the years ended March 31, 2008, 2007 and 2006 were ¥808 million (\$8,080 thousand), ¥2,388 million and ¥2,396 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥485 million (\$4,853 thousand) and ¥3

million (\$35 thousand), respectively, for the year ended March 31, 2008, ¥1,434 million and ¥323 million, respectively, for the year ended March 31, 2007 and ¥1,033 million and ¥1 million, respectively, for the year ended March 31, 2006, always excepting the sales of public bond investment trusts and money management funds.

The carrying values of debt securities by contractual maturities for securities classified as other securities at March 31, 2008, 2007 and 2008 were as follows:

	Millions of yen						Thousands of U.S. dollars (Note 3)	
	Debt securities	Other securities	Debt securities	Other securities	Debt securities	Other securities	Debt securities	Other securities
	2008		2007		2006		2008	
Due in one year or less	¥0	¥-	¥0	¥-	¥0	¥-	\$ 3	\$-
Due after one year through five years	1	-	1	-	1	-	13	-
Due after five years through ten years	-	-	0	-	1	-	-	-
Due after ten years	-	-	-	-	-	-	-	-
Total	¥1	¥-	¥1	¥-	¥2	¥-	\$16	\$-

Note 5

INVENTORIES

Inventories at March 31, 2008, 2007 and 2006 comprised the following:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
	Finished goods	¥ 67,691	¥ 59,967	¥ 50,423
Work in process	67,940	62,572	69,223	679,407
Raw materials	31,107	27,177	17,796	311,070
	¥166,738	¥149,716	¥137,442	\$1,667,387

Note 6

PLEGDED ASSETS AND FINANCIAL ASSETS ACCEPTED AS COLLATERAL

The amounts of assets pledged as collateral for trade payables, short-term debt and long-term debt at March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
	Time deposits	¥ 60	¥ 60	¥ 60
Investment securities	448	737	732	4,482
Property, plant and equipment	39,387	40,541	41,748	393,878
	¥ 39,895	¥ 41,338	¥ 42,540	\$ 398,960

Note 7

SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
	Loans, principally from banks	¥ 67,495	¥ 61,393	¥ 59,275
Commercial paper	65,500	28,000	47,700	655,000
	¥132,995	¥ 89,393	¥106,975	\$1,329,955

The weighted average interest rates on short-term debt at March 31, 2008, 2007 and 2006 were 1.23%, 1.24% and 0.80%, respectively.

Long-term debt at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Loans, principally from banks and insurance companies	¥ 53,230	¥ 60,514	¥ 48,071	\$ 532,309
Bonds issued by the Companies:				
1.02% Yen bonds due 2006	-	-	20,000	-
1.06% Yen bonds due 2006	-	-	20,000	-
1.07% Yen bonds due 2007	-	8,000	8,000	-
1.11% Yen bonds due 2007	-	12,000	12,000	-
1.12% Yen bonds due 2007	-	7,000	7,000	-
1.15% Yen bonds due 2007	-	13,000	13,000	-
0.83% Yen bonds due 2008	10,000	10,000	10,000	100,000
1.08% Yen bonds due 2009	20,000	20,000	20,000	200,000
1.14% Yen bonds due 2010	10,000	10,000	10,000	100,000
1.78% Yen bonds due 2011	20,000	20,000	-	200,000
1.56% Yen bonds due 2011	20,000	20,000	-	200,000
1.48% Yen bonds due 2012	20,000	-	-	200,000
1.62% Yen bonds due 2012	20,000	-	-	200,000
1.34% Yen bonds due 2013	20,000	-	-	200,000
Zero coupon convertible bonds with stock acquisition rights due 2016	30,000	30,000	-	300,000
	223,230	210,514	168,071	2,232,309
Less: Portion due within one year	48,437	63,134	45,370	484,371
	¥174,793	¥147,380	¥122,701	\$1,747,938

The weighted average interest rates on loans, principally from banks and insurance companies, at March 31, 2008, 2007 and 2006 were 2.90%, 1.79% and 1.17%, respectively.

As of March 31, 2008, the aggregate annual maturities of long-term debt during the next five years are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 3)
2009	¥ 48,437	\$ 484,371
2010	15,048	150,489
2011	17,537	175,380
2012	47,016	470,164
2013 thereafter	95,192	951,905
	¥223,230	\$2,232,309

Note 8

RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have corporate pension, tax-qualified pension plans and lump-sum payment plans as defined benefit plans and defined contribution

pension plans.

In addition, the Companies pay other retirement benefits other than the above plans.

The liability (asset) for employees' retirement benefits at March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Projected benefit obligation	¥(223,576)	¥(227,970)	¥(221,518)	\$(2,235,761)
Fair value of plan assets	187,981	207,786	246,201	1,879,808
Excess projected benefit obligation over plan assets	(35,595)	(20,184)	24,683	(355,953)
Unrecognized transitional obligation	2,916	4,360	5,822	29,165
Unrecognized actuarial loss	66,573	49,107	20,916	665,736
Unrecognized prior service cost	1,344	893	(10,018)	13,433
Carrying amount	35,238	34,176	41,403	352,381
Prepaid pension expense	48,500	46,327	51,733	485,008
Net liability	¥ (13,262)	¥ (12,151)	¥ (10,330)	\$ (132,627)

The Company and some of its domestic consolidated subsidiaries have pension trust. As a result of a recovery in stock market conditions and some other factors, the plan assets significantly exceeded project benefit obligation. To eliminate this excess, in March

2007, marketable securities held in the employee retirement benefit trust were returned to the Company. The effect of this transaction was as follows:

	Millions of yen
	2007
Decrease in plan assets	¥(12,084)
Recognized actuarial gain	991
Increase in liability for severance payments	350
Decrease in prepaid pension expense	(10,743)

The components of net periodic benefit costs for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Service cost	¥ 6,800	¥ 7,151	¥ 7,146	\$ 68,009
Interest cost	4,972	5,009	4,370	49,722
Expected return on plan assets	(2,798)	(3,165)	(2,706)	(27,986)
Amortization of transitional obligation	1,443	1,462	1,443	14,438
Recognized actuarial loss	5,043	2,703	6,123	50,435
Amortization of prior service cost	(78)	(212)	(797)	(792)
Net periodic benefit costs	15,382	12,948	15,579	153,826
Gain on withdrawing pension assets in trust	-	(991)	-	-
Loss on end of retirement benefits plans	-	(330)	-	-
Gain on transition to the basis methods from the simplified methods are permitted to small companies	-	(26)	-	-
Contributory portion to a defined contribution pension plan	1,105	823	96	11,046
Total	¥16,487	¥12,424	¥15,675	\$164,872

Special additional termination benefits which have been excluded from the amounts shown in the above table were ¥2,811 million (\$28,115 thousand), ¥3,384 million and ¥1,336 million for the years ended March 31, 2008, 2007 and 2006, respectively, and were charged to income as paid.

Assumptions used for the years ended March 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Decrease in projected benefit obligation	2.5%	2.5%	2.5%
Decrease in liability for severance payments	mainly 2.5%	mainly 2.5%	mainly 2.5%

The transitional obligation, determined as of the beginning of the year, is being amortized over ten years. The prior service cost is amortized by the straight-line method over the expected remaining working lives of the then-active employee participants.

The actuarial gains and losses are amortized by the straight-line method over the expected remaining working lives of the then-active employee participants from the next period in which they arise, respectively.

Note 9

SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new Corporate Law (the "Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant

changes in the Law that affect financial and accounting matters are as follows:

a. Dividends:

The Law allows Japanese companies to pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting.

b. Increases/decreases and transfer of common stock, reserve and surplus:

The Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

Note 10

RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥31,260 million (\$312,601 thousand), ¥32,554 million and ¥29,021 million for the years ended March 31, 2008, 2007 and 2006, respectively.

Note 11

EXTRAORDINARY LOSS, NET

Extraordinary loss, net, for the years ended March 31, 2008, 2007 and 2006 was as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Extraordinary income				
Gain on sales of property, plant and equipment	¥ 945	¥55	¥ 3,347	\$ 9,458
Gain on sales of investment securities	493	1,434	1,033	4,936
Gain on withdrawing pension assets in trust	—	991	—	—
Gain on transition of retirement benefits plans	—	357	—	—
Gain on adjustments of repair expense	484	—	—	4,843
Gain on foreign currency translation adjustments by liquidation of the Consolidated Foreign Subsidiaries	412	—	—	4,127
Extraordinary loss				
Loss on sales of property, plant and equipment	(2,318)	(2,509)	(4,960)	(23,190)
Loss on devaluation of investment securities	(222)	(417)	(1,024)	(2,220)
Special termination benefits	(1,271)	(2,458)	(495)	(12,719)
Recognized actuarial loss	(925)	—	—	(9,250)
Loss on reserve for directors' retirement benefits in prior years	(635)	—	(730)	(6,359)
Special repair expense	—	(1,900)	—	—
Loss on disposal of inventories	—	(1,389)	(924)	—
Others	(2,253)	(2,452)	(3,915)	(22,524)
	¥(5,290)	¥(8,288)	¥(7,668)	\$(52,898)

Note 12**INCOME TAXES**

The components of income taxes for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Current	¥ 9,983	¥14,077	¥ 13,264	\$ 99,838
Deferred	3,223	2,269	1,987	32,225
	¥ 13,206	¥16,346	¥ 15,251	\$132,063

The Company and domestic subsidiaries are subject to corporate income tax, prefectural and municipal inhabitants' taxes and enterprise tax, based on income.

The significant components of deferred tax assets and liabilities at March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Deferred tax assets				
Liability for severance payments	¥ 27,211	¥ 28,438	¥ 29,368	\$ 272,118
Accrued employee benefits	8,193	8,482	8,135	81,930
Tax loss carryforwards	6,529	5,850	5,508	65,293
Investment securities	3,768	4,659	3,752	37,688
Tangible fixed assets	3,438	2,177	2,814	34,385
Inventories	2,946	3,501	3,642	29,462
Other	8,768	9,295	7,782	87,655
Gross deferred tax assets	60,853	62,402	61,001	608,531
Less: Valuation allowance	(11,669)	(9,560)	(6,971)	(116,687)
Total deferred tax assets	49,184	52,842	54,030	491,844
Deferred tax liabilities				
Unrealized gain on other securities	(35,973)	(56,531)	(68,773)	(359,739)
Gain on securities contribution to employee retirement benefit trust	(31,694)	(32,033)	(35,409)	(316,942)
Investment securities	(7,688)	(7,789)	(3,549)	(76,880)
Retained earning appropriated for tax deductible reserves	(413)	(389)	(363)	(4,130)
Others	-	-	(27)	-
Gross deferred tax liabilities	(75,768)	(96,742)	(108,121)	(757,691)
Net deferred tax assets (liabilities)	¥(26,584)	¥(43,900)	¥ (54,091)	\$(265,847)

Reconciliation of the difference between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2007 was not disclosed because it was not material. The reconciliation between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2008 and 2006 was as follows:

	2008	2007	2006
Statutory income tax rate	40.7%	-	40.7%
Permanent difference resulting from expenses not deductible for income tax purposes	6.9	-	5.3
Valuation allowance	6.1	-	5.3
Tax credit	(4.0)	-	(6.0)
Permanent difference resulting from non-taxable income, including dividends received	(2.3)	-	(1.7)
Tax rates difference of the Consolidated Foreign Subsidiaries	(2.1)	-	-
Other	(2.0)	-	1.0
Effective income tax rate	43.3%	-	44.6%

Note 13**CONTINGENT LIABILITIES**

Contingent liabilities at March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Notes discounted and endorsed	¥ -	¥ -	¥ 21	\$ -
Guarantees	5,844	6,867	8,049	58,450

Note 14**LEASES**

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, lease expense, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008, 2007 and 2006 were as follows:

Acquisition cost, accumulated depreciation under finance leases:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
	Machinery and Equipment	Machinery and Equipment	Machinery and Equipment	Machinery and Equipment
Acquisition cost	¥153,659	¥135,637	¥117,764	\$1,536,596
Accumulated depreciation	64,565	55,481	44,409	645,653
Net leased property	¥ 89,094	¥ 80,156	¥ 73,355	\$ 890,943

Obligations under finance leases:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Due within one year	¥ 29,788	¥ 26,635	¥ 22,465	\$ 297,882
Due after one year	61,987	55,365	52,659	619,872
Total	¥ 91,775	¥ 82,000	¥ 75,124	\$ 917,754

Lease expense, depreciation expense and interest expense of finance leases:

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Lease expense	¥ 31,537	¥ 25,915	¥ 21,932	\$ 315,375
Depreciation expense	30,711	25,260	21,384	307,118
Interest expense	2,045	1,574	1,372	20,453

Note 15

DERIVATIVES

The Companies, which operate globally, are exposed to market risk arising from fluctuations in foreign currency exchange rates and enter into derivative financial instruments for the purpose of reducing such risk. The Companies also enter into interest rate swap agreements as a means of managing their interest rate exposure. In addition, the Companies enter into commodity swap agreements to hedge the risk of fluctuation of commodity prices for raw materials. The Companies do not hold or issue derivatives for speculative or dealing purposes.

Because the counterparties to these derivatives are limited to authentic financial institutions, the Companies do not anticipate any losses arising from credit risk.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. Derivative transactions entered into by the Companies have been made in accordance with the Companies' policies. The execution and control of derivatives, which is based on the application of each section, are controlled by the Finance Department or the Material Section. Each derivative transaction is periodically reported to the management and each section.

Fair Value of Derivative Financial Instruments:

The fair value of the Companies' derivative financial instruments at March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen								
	2008			2007			2006		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:									
Receivables:									
U.S. dollars	¥4,345	¥4,073	¥272	¥16,280	¥16,245	¥35	¥7,221	¥7,329	¥(108)
Euro	1,104	1,097	7	—	—	—	—	—	—
Canadian dollars	—	—	—	27	29	(2)	—	—	—
Total	¥5,449	¥5,170	¥279	¥16,307	¥16,274	¥33	¥7,221	¥7,329	¥(108)

	Thousands of U.S. dollars (Note 3)		
	2008		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:			
Receivables:			
U.S. dollars	\$43,468	\$40,739	\$2,729
Euro	11,029	10,964	65
Canadian dollars	—	—	—
Total	\$54,497	\$51,703	\$2,794

Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2008, 2007 and 2006 and such amounts which are assigned to the associated assets and liabilities and were recorded on the balance sheets at March 31, 2008, 2007 and 2006, are excluded from disclosure of market value information.

Note 16**SEGMENT INFORMATION**

The Companies' primary business activities include (1) Energy & Electric Systems, (2) ED&C-Drive Systems, (3) Electronic Devices, (4) Retail Systems and (5) Others.

• BUSINESS SEGMENT INFORMATION

	Millions of yen							
Year ended March 31, 2008	Energy & Electric Systems	ED&C-Drive Systems	Electronic Devices	Retail Systems	Others	Total	Elimination and Corporate	Consolidated Total
Sales								
Unaffiliated customers	¥392,812	¥180,006	¥178,564	¥158,158	¥12,632	¥ 922,172	¥ -	¥ 922,172
Intersegment	17,069	11,734	6,241	556	52,646	88,246	(88,246)	-
Total sales	¥409,881	¥191,740	¥184,805	¥158,714	¥65,278	¥1,010,418	¥(88,246)	¥ 922,172
Operating costs and expenses	396,628	181,028	176,643	155,897	62,792	972,988	(86,699)	886,289
Operating income	¥ 13,253	¥ 10,712	¥ 8,162	¥ 2,817	¥ 2,486	¥ 37,430	¥ (1,547)	¥ 35,883
Total assets	¥357,831	¥152,385	¥225,863	¥102,320	¥50,749	¥ 889,148	¥146,803	¥1,035,951
Depreciation and amortization	5,339	2,171	11,368	1,425	982	21,285	243	21,528
Capital expenditure	¥ 5,944	¥ 2,022	¥ 31,882	¥ 1,460	¥ 1,003	¥ 42,311	¥ 340	¥ 42,651

	Millions of yen							
Year ended March 31, 2007	Energy & Electric Systems	ED&C-Drive Systems	Electronic Devices	Retail Systems	Others	Total	Elimination and Corporate	Consolidated Total
Sales								
Unaffiliated customers	¥384,587	¥182,348	¥176,979	¥151,356	¥12,789	¥ 908,059	¥ -	¥ 908,059
Intersegment	17,268	11,561	5,420	1,215	52,718	88,182	(88,182)	-
Total sales	¥401,855	¥193,909	¥182,399	¥152,571	¥65,507	¥ 996,241	¥ (88,182)	¥ 908,059
Operating costs and expenses	389,694	182,316	163,177	150,064	63,400	948,651	(86,800)	861,851
Operating income	¥ 12,161	¥ 11,593	¥ 19,222	¥ 2,507	¥ 2,107	¥ 47,590	¥ (1,382)	¥ 46,208
Total assets	¥326,265	¥148,926	¥188,339	¥103,600	¥54,730	¥ 821,860	¥202,972	¥1,024,832
Depreciation and amortization	5,157	1,839	8,037	1,317	938	17,288	256	17,544
Capital expenditure	¥ 5,637	¥ 2,911	¥ 26,011	¥ 2,739	¥ 733	¥ 38,031	¥ 36	¥ 38,067

Millions of yen								
Year ended March 31, 2006	Energy & Electric Systems	ED&C-Drive Systems	Electronic Devices	Retail Systems	Others	Total	Elimination and Corporate	Consolidated Total
Sales								
Unaffiliated customers								
	¥ 383,643	¥ 170,522	¥ 169,053	¥ 160,939	¥13,120	¥ 897,277	¥ –	¥ 897,277
Intersegment								
	14,554	11,989	4,349	1,256	39,083	71,231	(71,231)	–
Total sales								
	¥ 398,197	¥ 182,511	¥ 173,402	¥ 162,195	¥52,203	¥ 968,508	¥ (71,231)	¥ 897,277
Operating costs and expenses								
	391,173	174,608	155,207	156,322	50,065	927,375	(71,110)	856,265
Operating income								
	¥ 7,024	¥ 7,903	¥ 18,195	¥ 5,873	¥ 2,138	¥ 41,133	¥ (121)	¥ 41,012
Total assets								
	¥ 318,713	¥ 131,381	¥ 149,568	¥ 92,355	¥44,666	¥ 736,683	¥ 253,371	¥ 990,054
Depreciation and amortization								
	4,632	1,797	6,707	1,337	920	15,393	328	15,721
Capital expenditure								
	¥ 4,206	¥ 2,188	¥ 17,342	¥ 2,028	¥ 826	¥ 26,590	¥ 216	¥ 26,806

Thousands of U.S. dollars (Note 3)								
Year ended March 31, 2008	Energy & Electric Systems	ED&C-Drive Systems	Electronic Devices	Retail Systems	Others	Total	Elimination and Corporate	Consolidated Total
Sales								
Unaffiliated customers								
	\$3,928,120	\$1,800,064	\$1,785,645	\$1,581,581	\$126,314	\$ 9,221,724	\$ –	\$ 9,221,724
Intersegment								
	170,692	117,339	62,414	5,565	526,448	882,458	(882,458)	–
Total sales								
	\$4,098,812	\$1,917,403	\$1,848,059	\$1,587,146	\$652,762	\$10,104,182	\$ (882,458)	\$ 9,221,724
Operating costs and expenses								
	3,966,282	1,810,281	1,766,429	1,558,970	627,911	9,729,873	(866,986)	8,862,887
Operating income								
	\$ 132,530	\$ 107,122	\$ 81,630	\$ 28,176	\$ 24,851	\$ 374,309	\$ (15,472)	\$ 358,837
Total assets								
	\$3,578,319	\$1,523,854	\$2,258,637	\$1,023,205	\$507,468	\$ 8,891,483	\$1,468,033	\$10,359,516
Depreciation and amortization								
	53,392	21,710	113,687	14,251	9,812	212,852	2,432	215,284
Capital expenditure								
	\$ 59,447	\$ 20,220	\$ 318,828	\$ 14,608	\$ 10,012	\$ 423,115	\$ 3,401	\$ 426,516

After having depreciated fixed assets acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior corporate tax law, the Company and its domestic consolidated subsidiaries have depreciated 5 percent of the remaining acquisition cost less minimum salvage value, using a straight-line method over 5 years and booked as depreciation expense, according to the corporation tax law as amended. As a result of the change, operating costs and expenses increased by ¥268 million (\$2,683 thousand) in Energy & Electric Systems, ¥285 million (\$2,858 thousand) in ED&C Drive Systems, ¥350 million (\$3,508 thousand) in Electronic Devices, ¥92 million (\$922 thousand) in Retail Systems, ¥11 million (\$118 thousand) in Others, ¥9 million (\$92 thousand) in Elimination and Corporate, for the year ended March 31, 2008. Operating income decreased by the same amount.

• GEOGRAPHIC INFORMATION

Year ended March 31, 2008	Millions of yen							Elimination and Corporate	Consolidated Total
	Japan	North America	Europe	Asia (except for China)	China	Total			
Sales									
Unaffiliated customers	¥ 851,581	¥ 8,077	¥ 15,774	¥ 13,909	¥ 32,831	¥ 922,172	¥ -	¥ 922,172	
Intersegment	73,274	425	124	28,062	11,393	113,278	(113,278)	-	
Total sales	¥ 924,855	¥ 8,502	¥ 15,898	¥ 41,971	¥ 44,224	¥ 1,035,450	¥ (113,278)	¥ 922,172	
Operating costs and expenses ...	890,673	8,374	15,644	42,107	41,564	998,362	(112,073)	886,289	
Operating income	¥ 34,182	¥ 128	¥ 254	¥ (136)	¥ 2,660	¥ 37,088	¥ (1,205)	¥ 35,883	
Total assets	¥ 815,427	¥ 7,399	¥ 7,125	¥ 79,295	¥ 26,876	¥ 936,122	¥ 99,829	¥ 1,035,951	

Year ended March 31, 2007	Millions of yen							Elimination and Corporate	Consolidated Total
	Japan	North America	Europe	Asia (except for China)	China	Total			
Sales									
Unaffiliated customers	¥ 839,350	¥ 6,911	¥ 14,003	¥ 15,112	¥ 32,683	¥ 908,059	¥ -	¥ 908,059	
Intersegment	59,186	535	324	26,030	13,229	99,304	(99,304)	-	
Total sales	¥ 898,536	¥ 7,446	¥ 14,327	¥ 41,142	¥ 45,912	¥ 1,007,363	¥ (99,304)	¥ 908,059	
Operating costs and expenses ...	857,160	7,077	13,919	39,125	43,223	960,504	(98,653)	861,851	
Operating income	¥41,376	¥ 369	¥408	¥ 2,017	¥ 2,689	¥ 46,859	¥ (651)	¥ 46,208	
Total assets	¥ 764,471	¥ 3,405	¥ 5,304	¥ 47,267	¥ 30,000	¥ 850,447	¥ 174,385	¥ 1,024,832	

Year ended March 31, 2006	Millions of yen							Elimination and Corporate	Consolidated Total
	Japan	North America	Europe	Asia (except for China)	China	Total			
Sales									
Unaffiliated customers	¥ 823,937	¥ 8,721	¥ 14,158	¥ 18,032	¥ 32,429	¥ 897,277	¥ -	¥ 897,277	
Intersegment	55,611	775	608	17,107	10,989	85,090	(85,090)	-	
Total sales	¥ 879,548	¥ 9,496	¥ 14,766	¥ 35,139	¥ 43,418	¥ 982,367	¥ (85,090)	¥ 897,277	
Operating costs and expenses ...	843,441	9,257	14,507	32,963	41,681	941,849	(85,584)	856,265	
Operating income	¥36,107	¥ 239	¥ 259	¥ 2,176	¥ 1,737	¥ 40,518	¥ 494	¥ 41,012	
Total assets	¥ 703,755	¥ 4,304	¥ 5,904	¥ 25,143	¥ 25,942	¥ 765,048	¥ 225,006	¥ 990,054	

Year ended March 31, 2008	Thousands of U.S. dollars (Note 3)							Elimination and Corporate	Consolidated Total
	Japan	North America	Europe	Asia (except for China)	China	Total			
Sales									
Unaffiliated customers	\$8,515,814	\$80,780	\$157,747	\$139,095	\$328,288	\$ 9,221,724	\$ -	\$ 9,221,724	
Intersegment	732,744	4,244	1,242	280,625	113,926	1,132,781	(1,132,781)	-	
Total sales	\$9,248,558	\$85,024	\$158,989	\$419,720	\$442,214	\$10,354,505	\$(1,132,781)	\$ 9,221,724	
Operating costs and expenses ...	8,906,737	83,741	156,440	421,080	415,621	9,983,619	(1,120,732)	8,862,887	
Operating income	\$ 341,821	\$ 1,283	\$ 2,549	\$ (1,360)	\$ 26,593	\$ 370,886	\$ (12,049)	\$ 358,837	
Total assets	\$8,154,275	\$73,994	\$ 71,250	\$792,956	\$268,754	\$ 9,361,229	\$ 998,287	\$10,359,516	

Notes: 1. Classification of the geographic segments is determined by geographical location.

2. The principal countries and regions belonging to geographic segments other than Japan:

- (1) North America U.S.A., Canada
- (2) Europe Germany, France, U.K.
- (3) Asia (except for China) Taiwan, Singapore

After having depreciated fixed assets acquired before March 31, 2007 up to 5 percent of the remaining acquisition cost based on the prior corporate tax law, the Company and its domestic consolidated subsidiaries have depreciated 5 percent of the remaining acquisition cost less minimum salvage value, using a straight-line method over 5 years and booked as depreciation expense, according to the corporation tax law as amended. As a result of the change, operating costs and expenses increased by ¥1,008 million (\$10,089 thousand) in Japan, ¥9 million (\$92 thousand) in Elimination and Corporate, for the year ended March 31, 2008. Operating income decreased by the same amount.

• OVERSEAS SALES

Year ended March 31, 2008	Millions of yen					
	North America	Europe	Asia (except for China)	China	Other	Total
Overseas sales	¥ 15,866	¥ 17,723	¥ 104,295	¥ 46,188	¥ 6,637	¥ 190,709
Consolidated net sales						¥ 922,172
Overseas sales as a percentage of consolidated net sales	1.7%	1.9%	11.3%	5.0%	0.8%	20.7%

Year ended March 31, 2007	Millions of yen					
	North America	Europe	Asia (except for China)	China	Other	Total
Overseas sales	¥ 15,796	¥ 16,787	¥ 114,408	¥ 40,205	¥ 7,048	¥ 194,244
Consolidated net sales						¥ 908,059
Overseas sales as a percentage of consolidated net sales	1.7%	1.9%	12.6%	4.4%	0.8%	21.4%

Year ended March 31, 2006	Millions of yen					
	North America	Europe	Asia (except for China)	China	Other	Total
Overseas sales	¥ 17,643	¥ 19,721	¥ 125,988	¥ 31,216	¥ 9,580	¥ 204,148
Consolidated net sales						¥ 897,277
Overseas sales as a percentage of consolidated net sales	2.0%	2.2%	14.0%	3.5%	1.1%	22.8%

Year ended March 31, 2008	Thousands of U.S. dollars (Note 3)					
	North America	Europe	Asia (except for China)	China	Other	Total
Overseas sales	\$158,663	\$177,235	\$1,042,957	\$461,889	\$66,349	\$1,907,093
Consolidated net sales						\$9,221,724
Overseas sales as a percentage of consolidated net sales	1.7%	1.9%	11.3%	5.0%	0.8%	20.7%

Note 17

SUBSEQUENT EVENTS

- Following the resolution of respective board meeting held on November 9, 2007, Fuji Electric Water Environmental Systems Co., Ltd ("FWS"), a consolidated subsidiary of the Company and a wholly owned subsidiary of Fuji Electric Systems Co., Ltd. ("FES"), and NGK Water Environment Systems, Ltd. ("NWS"), a wholly owned subsidiary of NGK Insulators., Ltd., signed the merger agreement on November 26, 2007. FWS was merged into NWS on April 1, 2008.
- The Board of Directors resolved that the system machinery business section and power supply sales section in Fuji Electric FA Components & Systems Co., Ltd., a wholly owned and consolidated subsidiary of the Company, will be spin off and transfer to FES, a wholly owned and consolidated subsidiary of the Company, on July 1, 2008, at its Meeting held on April 24, 2008.
- The Board of Directors resolved that FES transfer all stocks of FFC Ltd. ("FFC") to Fujitsu Ltd. ("Fujitsu"), and among businesses of FFC, a consolidated subsidiary of the Company, and FFC Systems Ltd. ("FFC Systems"), a consolidated subsidiary of the Company, FES took over the business related to FES at its Meeting held on May 22, 2008. FFC was a joint venture of Fujitsu and FES, FFC Systems is a wholly owned subsidiary of FFC. On June 1, 2008, the actual transfer of stock and transfer of business was completed, based on the contract concluded between the companies concerned on May 28, 2008.