

# ANNUAL REPORT 2008

## Financial Review

For the Year Ended March 31, 2008



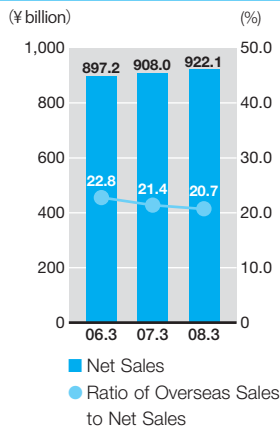
# Contents

- 1** Consolidated Seven-year Summary
- 2** Consolidated Financial Review
- 10** Consolidated Balance Sheets
- 12** Consolidated Statements of Income
- 13** Consolidated Statements of Changes in Net Assets
- 14** Consolidated Statements of Cash Flows
- 15** Notes to the Consolidated Financial Statements
- 30** Report of Independent Auditors
- 31** Corporate Overview/Investor Information

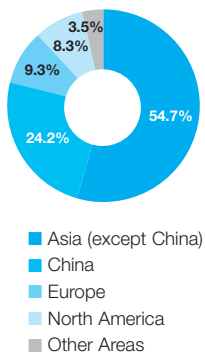


# Consolidated Financial Review

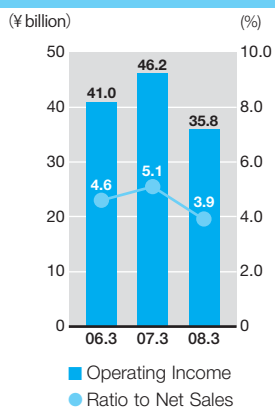
## Net Sales, Ratio of Overseas Sales to Net Sales



## Ratio of Overseas Sales by Region to Total Overseas Sales



## Operating Income, Ratio to Net Sales



## Operating Results

### Net Sales

In fiscal 2007, the year ended March 31, 2008, consolidated net sales rose 1.6% year on year to ¥922,172 million. By business group, sales increased for Energy & Electric Systems owing to a favorable business environment and fortified operations in its core business fields. Sales declined for ED&C·Drive Systems as demand remained strong for control and drive systems but the slowing domestic market led to declining sales of ED&C components. Electronic Devices sales improved only slightly year on year as aggressive capital investment led to rising sales to semiconductor manufacturers while sales in the magnetic disk field declined more than originally anticipated. Retail Systems sales increased on demand for cigarette vending machines with built-in age verifiers and growing sales of currency handling systems.

Overseas sales declined 1.8% year on year to ¥190,709 million, with the ratio of overseas sales falling 0.7 percentage points from a year earlier to 20.7%. Primary factors in the decline were a decline in large-scale orders in Asia (except for China) for Energy & Electric Systems and sluggish sales for Electronic Devices. By region, Asia (except for China) accounted for 54.7% of overseas sales, China 24.2%, Europe 9.3% and North America 8.3%.

### Cost of Sales, SG&A Expenses, and Operating Income

Cost of sales amounted to ¥730,897 million, up 3.1% from the previous fiscal year. Steep rises in prices for raw materials and increased depreciation expenses were chief factors that worked to expand the cost of sales ratio by 1.2 percentage points from 78.1% a year earlier to 79.3% and reduce the gross profit margin by 4.0%.

Selling, general and administrative (SG&A) expenses increased 1.6% year on year to ¥155,392 million. SG&A expenses represented 16.8% of net sales, equal to the previous year's level.

As a result, operating income declined 22.3% year on year to ¥35,883 million. By group, operating income increased in Energy & Electric Systems and Retail Systems and decreased for ED&C·Drive Systems and Electronic Devices.

### Non-operating Income (Expenses) and Ordinary Income

Non-operating income (expenses) decreased ¥2,628 million from net income of ¥2,554 million in the previous year to an expense of ¥75 million for the fiscal year under review. Non-operating income was strongly impacted by the change from a gain to a loss on foreign currency translation adjustments and higher interest expenses.

As a result, ordinary income declined 26.6% year on year to ¥35,808 million.

### Extraordinary Income and Loss, and Net Income

The Fuji Electric Group posted extraordinary income of ¥2,336 million mainly due to recording gains on sales of property, plant and equipment and on investment securities. This represented a year-on-year decline of ¥503 million.

Extraordinary losses of ¥7,626 million mainly consisted of losses on sales of property, plant and equipment, devaluation of investment securities, and special termination benefits. This represented a decline of ¥3,500 million from a year earlier, stemming mainly from the recording in the previous fiscal year of special repair expense and loss on disposal of inventories.

As a result of the above, income before income taxes and minority interests decreased 24.6% to ¥30,518 million. Net income, after deducting income taxes of ¥13,206 million and minority

interests in net income of consolidated subsidiaries of ¥520 million, declined 27.4% year on year to ¥16,792 million.

For details on net sales and operating income by group, please refer to the Segment Overview section (pages 15-37 of Operational Review).

### Plant and Equipment Investment

In the middle year of its medium-term management plan covering fiscal 2006 through fiscal 2008, the Fuji Electric Group continued with its more selective and focused business strategy while promoting and accelerating proactive investment in specialty fields. During fiscal 2007, plant and equipment investment amounted to ¥75,260 million, including lease acquisitions of ¥37,588 million, with the majority of investment in Electronic Devices. By group, plant and equipment investment totaled ¥3,870 million in Energy & Electric Systems, ¥4,467 million in ED&C-Drive Systems, ¥61,622 million in Electronic Devices, ¥3,453 million in Retail Systems, ¥1,558 million in Others and ¥289 million in shared Group investment.

The major components of plant and equipment investment included the following.

In Energy & Electric Systems, the Group commenced operations of a production line for solar cells at the Kumamoto Plant run by Fuji Electric Systems Co., Ltd., and introduced development equipment to further accelerate the throughput of its silicon film deposition processes and to improve power generation efficiency of the solar cells. Upgrades at the Azumino Plant included an update of a large-scale transfer press machine for watt-hour meter parts processing.

In ED&C-Drive Systems, the Group invested in facility expansion at the Otawara Plant of Fuji Electric FA Components & Systems Co., Ltd., to enhance production capacity for low-voltage circuit breakers in anticipation of expanding sales worldwide. In addition, the Group integrated the inverter division to the Suzuka complex with the aim of expanding production capacity and further enhancing the reliability prediction and verification technologies.

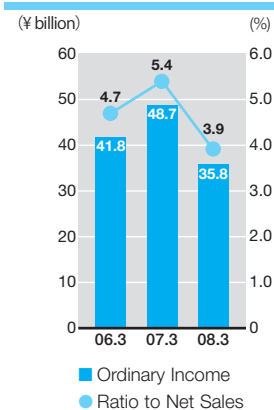
In Electronic Devices, the Group established Fuji Electric Semiconductor (Malaysia) Sdn. Bhd., to be the hub of its overseas industrial-use insulated gate bipolar transistor (IGBT) modules, and set up integrated operations for the manufacture of semiconductors and module assembly. In discrete track media, the Group expanded the existing production facilities and constructed a second production facility in preparation for further raising production capacity at Fuji Electric Philippines, Inc. In the disk media field, the Group carried out retooling of production equipment for aluminum and glass substrate disks to cope with the switch to the perpendicular recording method at the Matsumoto and Yamanashi plants operated by Fuji Electric Device Technology Co., Ltd. and at Fuji Electric (Malaysia) Sdn. Bhd. These steps were taken to maintain pace with the demand growth in the HDD market, which continues to see growth in both computer and consumer electronics applications.

In Retail Systems, the Group completed construction of a new development and testing facility at the Mie Plant Group and upgraded operations to strengthen development capabilities, improve product quality, and shorten lead times for vending machines, display cases, and other units. At the Saitama Plant, the Group implemented measures to improve manufacturing efficiency and installed a new short production line to add production versatility for small-lot production and specialty units, such as cup-container vending machines.

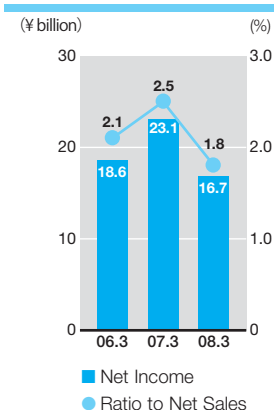
In research and development, the Group installed new laser etching equipment, which is the core technology in refining processing, to improve the efficiency of R&D of new devices.

Depreciation and amortization expenses in the fiscal year under review amounted to ¥21,528 million. Lease expense for production equipment totaled ¥31,234 million.

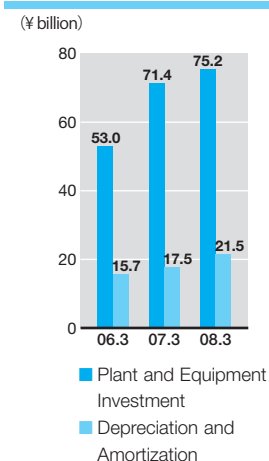
### Ordinary Income, Ratio to Net Sales



### Net Income, Ratio to Net Sales



### Plant and Equipment Investment, Depreciation and Amortization



## R&D Expenditures

The Fuji Electric Group has invested in development of core products that are strategically essential to its fundamental business and enhance the technology development and basic research that accelerates the process of bringing distinctive new products to market and strengthens its core technologies.

R&D is conducted by the Group's dedicated R&D company Fuji Electric Advanced Technology Co., Ltd. in tandem with the R&D divisions of each Group company, including factories. Collaboration in Group R&D activities strengthens the links between the network of companies and enables the Group to maximize its corporate value.

R&D expenditures in fiscal 2007 amounted to ¥31,260 million, representing 3.4% of net sales. By group, expenditures totaled ¥10,622 million in Energy & Electric Systems, ¥4,282 million in ED&C Drive Systems, ¥12,576 million in Electronic Devices, ¥3,733 million in Retail Systems and ¥45 million in Others.

Major R&D projects included the following.

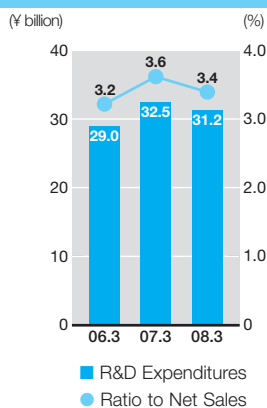
In Energy & Electric Systems, the Group focused its R&D in power electronics on developing new products under the theme of "compact and energy saving" and introduced the non-insulated uninterruptible power supply (UPS) 7000 D series, which can be brought into parallel running, and the voltage drop/dip compensator 800H series with efficiency of 99.7%. The Group also developed several high-performance, high-quality devices for overseas markets, including medium-voltage (10 kV rated) inverters and the S-Former Mini medium-capacity transformer-rectifier unit for soda electrolysis. In measuring equipment, the Group focused on developing high-performance devices and brought to market a non-interference temperature control module for controlling a group of multiple temperature controlling points for applications requiring high-precision temperature control, such as semiconductor manufacturing equipment.

In ED&C Drive Systems, R&D in control and drive systems further enhanced the control function and capacity of the FRENIC-MEGA Series of general-purpose inverters with industry-leading control performance. R&D in ED&C components produced the G-Twin Series of global MCCBs and ELCBs (wiring and earth leakage circuit breakers), a single unit that is environmentally friendly and meets all new standards around the world, including full compliance with the European Union's Restriction of Hazardous Substances (RoHS) Directive.

In Electronic Devices, R&D in power semiconductors led to the marketing of the 1200V New Dual modules meeting needs for higher efficiency, smaller, lower cost, and improved noise reduction units in power electronics. In magnetic recording media, the Group was among the first in the industry to respond to market demand for capacity expansion and initiate mass production of perpendicular recording media. In 3.5-inch aluminum media, the Group successfully compressed three 334 GB disks to produce a single disk with 1 TB capacity. This allowed the Group to widen the applications for digital consumer electronics and increase shipment volumes.

In Retail Systems, R&D in vending machines resulted in the development of a series of can vending machines with extremely low global warming potential achieved by using a safe carbon

R&D Expenditures,  
Ratio to Net Sales



dioxide (CO<sub>2</sub>) refrigerant in the cooling system and featuring energy efficient heat-pump technology. In addition, the Group introduced the Super Multi Mini unit providing refrigeration and freezer functions. In cold-chain equipment, the Group continued to develop the ECOMAX R series of showcases making them more energy efficient and environmentally friendly, safe and secure, and enhancing their product display effectiveness.

In the new business and basic technology field, the Group modified its phosphoric acid fuel cell power generation systems to make them into compliance with the revised Fire Service Law of Japan adopted in April 2006. The Group will expand sales of the modified models that can serve as emergency power sources in case of disaster.

In full-color organic light emitting displays, the Group developed a full-function panel that meets requirements for mobile devices by using an active matrix drive system with color conversion material (CCM) technology.

To increase the speed and efficiency of its product development and design operations, the Group is working to build technology platforms for electronics and other technologies that will be systematically implemented across the Group.

## Financial Position

Total assets as of March 31, 2008, stood at ¥1,035,951 million, an increase of ¥11,119 million from the end of the previous fiscal year.

Current assets totaled ¥531,273 million, an increase of ¥47,872 million from a year earlier. The increase was mainly attributable to increases of ¥27,461 million in trade receivables and ¥17,022 million in inventories.

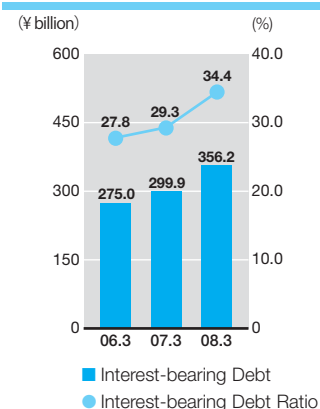
Net property, plant and equipment increased ¥13,711 million from a year earlier to ¥183,268 million. The increase was mainly due to aggressive capital investment centered on the Electronic Devices Group. Total investments and other assets declined ¥50,464 million to ¥321,410 million, which largely reflected a corresponding decline in the market value of other investment securities from the previous fiscal year.

Total liabilities were ¥772,696 million, a ¥32,417 million increase from one year before. This was attributable to a ¥20,325 million decrease in deferred income taxes due mainly to a corresponding decline in the market value of other investment securities and a ¥10,675 million decrease in trade payables, which were outweighed by increases of ¥37,500 million in commercial paper and of ¥20,000 million in corporate bonds.

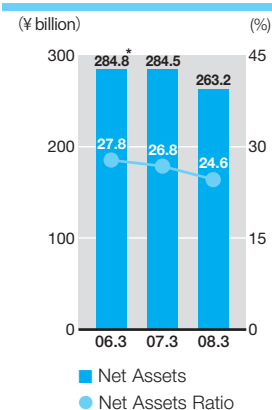
The balance of consolidated interest-bearing debt at the end of fiscal 2007 was ¥356,226 million, an increase of ¥56,318 million from a year earlier. The ratio of this balance to total assets was 34.4%, up 5.1 percentage points from the previous fiscal year.

Total net assets at March 31, 2008, were ¥263,255 million, a decrease of ¥21,298 million from the previous year end. The decline was mainly due to a ¥30,530 million decrease in unrealized gain on other securities, net of taxes, which outweighed an ¥11,519 million increase in retained earnings. As a result, the net assets ratio fell 2.2 percentage points from the end of the previous fiscal year to 24.6%.

### Interest-bearing Debt, Interest-bearing Debt Ratio



### Net Assets, Net Assets Ratio



\* The figure for FY3/06 has been adjusted based on the calculation of total shareholders' equity used until the previous fiscal year.

## Cash Flows

In fiscal 2007, free cash flow (the sum of operating and investing cash flows) on a consolidated basis amounted to a negative ¥49,889 million, representing a deterioration of ¥28,213 million compared to the negative free cash flow of ¥21,676 million in the previous fiscal year.

### Cash Flow From Operating Activities

Operating activities used net cash and cash equivalents (cash) of ¥13,195 million, compared to cash provided in the previous fiscal year of ¥12,764 million. This represented a deterioration of ¥25,959 million from the previous fiscal year. Cash was mainly provided by income before income taxes and minority interests, while trade receivables and inventories rose.

### Cash Flow From Investing Activities

Investing activities used net cash of ¥36,694 million, compared to net cash used in the previous fiscal year of ¥34,440 million. Cash was mainly used for aggressive capital investment centered on the Electronic Devices Group.

This represented a deterioration of ¥2,254 million from the previous fiscal year.

### Cash Flow From Financing Activities

Financing activities provided net cash of ¥54,211 million, compared to net cash of ¥18,756 million provided in the previous fiscal year. This mainly reflected an increase in corporate bonds and commercial paper.

As a result of the above, cash and cash equivalents on a consolidated basis at March 31, 2008, amounted to ¥22,092 million, ¥2,957 million more than a year earlier.

## Risk Factors

The Fuji Electric Group works to mitigate business risk and other risks in a systematic and methodical manner. However, there are various risks, such as those listed below, which could have a negative impact on the operating results and financial position of the Fuji Electric Group. As of March 31, 2008, the following factors were judged to have a potential future impact on the operations of the Fuji Electric Group.

### (1) Risks related to changes in the operating environment

- (a) Material and component prices in international markets have been rising due to rapidly increasing demand for raw materials associated with economic expansion in the BRIC countries, particularly in China, and protracted geopolitical instability related to conditions in the Middle East. Operating results could be negatively affected in the event the Group is unable to adequately respond to further increases in raw material and component prices.
- (b) The Fuji Electric Group's sales are affected by domestic economic trends, including private and public sector investment. The performance of the Electronic Devices business is closely correlated to market conditions in the electronics industry. Consequently, the Group's operating results could be affected in the event of sudden changes in the supply-demand balance or intensified competition resulting in sharp declines in prices in the electronics industry.

- (c) The Fuji Electric Group is seeking to expand its overseas presence, with a particular focus on the Chinese market. Specifically, the Group is actively working to increase sales of control and drive systems, semiconductors, magnetic disks and other products in China. Consequently, the Group's operating results could be affected in the event of deterioration in the Chinese economy or unexpected changes to economic policy.
- (d) Based on an established set of management criteria, the Fuji Electric Group systematically employs forward-exchange contracts to minimize the risk of exchange rate fluctuations on its operating results. However, the forward-exchange contract policy is not capable of entirely mitigating exchange-rate risk. Consequently, fluctuations in exchange rates, primarily between the yen and the U.S. dollar, may have a negative impact on the operating results and financial position of the Group.
- (e) The Fuji Electric Group's interest-bearing debt totaled ¥356.2 billion as of March 31, 2008. A higher-than-anticipated increase in interest rates may lead to a significant additional interest payment burden, which could have an impact on the operating results of the Group.

## **(2) Risks related to product quality**

The Fuji Electric Group has put in place a quality assurance system designed to ensure the highest level of quality for all products it manufactures and sells. Although the Group has taken precautions in the form of insurance to provide compensation for product liability claims, in the event that major defects are found in any Fuji Electric Group products due to unforeseen factors, this may have a negative impact on the Group's operating results and financial position.

## **(3) Risks related to investments**

The Fuji Electric Group concentrates its management resources on quickly identifying potential business growth areas and conducts investment in facilities and R&D with the objective of expanding and developing Group business. The large-scale investment necessary and short product cycles in the magnetic disk and semiconductor fields, in particular, as well as shifts in product demand and intensifying competition increase the possibility that the Group may not be able to recoup its investments. Such events could have a negative impact on the Group's operating results.

## **(4) Risks related to technology development**

The Fuji Electric Group makes a concerted effort to develop technology that matches the needs of the market. However, there is a possibility that competing companies will gain an advantage through faster development, or that the Group will be unable to bring products to market in a timely manner should development not progress according to plan. Such events could have a negative impact on the Group's operating results.

## **(5) Risks related to overseas business activities**

The Fuji Electric Group is seeking to expand its overseas presence, with a particular focus on Asia, including China. Consequently, the Group is exposed to the following risks, which may have a negative impact on the Group's operating results and financial position:

- Unforeseen changes in laws and regulations and tax systems that may have a detrimental effect on the Group
- Disadvantages arising from political conditions
- Social turmoil related to terrorist incidents, war and other events.

**(6) Risks related to intellectual property**

The Fuji Electric Group effectively manages its intellectual property rights and develops new products and technologies in a manner that does not infringe on third-party patent rights. However, since the pace of technological innovation is accelerating and the Group's operations are becoming more global, the possibility of disputes over intellectual property rights is increasing. A dispute of this nature may have a negative impact on the Group's operating results and financial position.

**(7) Risks related to business alliances**

The Fuji Electric Group actively collaborates with third-party entities in mergers, tie-ups and other forms of alliances with the objective of enhancing competitiveness in each of its fields of business. Cooperative relations are essential to the success of such collaborations. However, differences in business systems, corporate cultures, or other aspects may impede the smooth integration of business strategies, technologies, products, personnel, or other elements necessary for a successful collaboration. Such circumstances may have a negative impact on the Group's operating results.

**(8) Risks related to human resources**

The business activities of the Fuji Electric Group depend heavily on its human resources. Retaining and training superior personnel in such fields as technology, production, sales and administration is essential to the growth of the Group. Should the Group be unable to retain and/or train such necessary human resources, this could have a negative impact on the Group's operating results.

**(9) Risks related to leak of personal information**

As a part of its business activities, the Fuji Electric Group handles personal information about numerous individuals, including customers, suppliers and employees. The Fuji Electric Group has formulated and strictly enforces thorough internal regulations regarding the gathering, use and management of personal information. However, the Group cannot entirely rule out the possibility that such information may be leaked due to unforeseen circumstances. Any leak of this kind could damage trust in the Fuji Electric Group and have a negative impact on the Group's operating results.

**(10) Risks related to major natural disasters**

The Fuji Electric Group has a network of bases throughout the world. In the event of a major natural disaster, production facilities may be damaged, operations at manufacturing facilities may be halted, shipments of products may be delayed, and other problems may occur. These events could have a negative impact on the operating results and financial position of the Group.

**(11) Risks related to soil contamination**

Based on the international standard for environmental protection systems, the Group works to prevent, measure and monitor soil contamination at its operating sites. Prior to selling any land, the Group carries out soil surveys and takes other appropriate steps in accordance with relevant laws and regulations. However, as a result of these measurements and surveys, the Group may incur costs for soil remediation measures, which could have a negative impact on the operating results of the Group.

**(12) Risks related to retirement benefit liabilities**

The Fuji Electric Group has a lump-sum payment plan and a corporate pension plan for its employees when they retire. Retirement benefit costs and liabilities are calculated on the assumption that they are accepted as reasonable on the basis of actuarial calculations. Fuji Electric and certain domestic consolidated subsidiaries have also entrusted listed marketable securities to employee retirement benefit trusts. Consequently, changes in the discount rate, the expected rate of return on pension assets and stock prices that are used as the basis of computing pension benefit obligations, differences between these expectations and actual performance, changes in the prices of entrusted listed marketable securities and other items, could have a negative impact on the operating results and financial position of the Fuji Electric Group.

**(13) Risks related to compliance**

The Fuji Electric Group conducts business in a variety of fields and regions throughout the world, and as such is subject to the laws and regulations of numerous countries. The Group has put in place an appropriate internal control system to ensure compliance, but the possibility of legal violations cannot be discounted entirely. Should such a violation occur, this could have a negative impact on the Group's social credibility and/or operating results.

**(14) Risks related to lawsuits and other legal proceedings**

The Fuji Electric Group, in the course of its business, could become the subject of a lawsuit or other legal proceeding, and may unexpectedly become liable for the payment of large amounts of compensation. Depending on the content of such a decision, this could have a negative impact on the Group's operating results.

# Consolidated Balance Sheets

As of March 31, 2008, 2007 and 2006	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents (Note 2) .....	¥ 22,092	¥ 19,135	¥ 21,413	\$ 220,928
Short-term investments (Notes 2, 4 and 6) .....	112	112	113	1,123
Trade receivables .....	286,568	259,107	240,599	2,865,682
Allowance for doubtful accounts (Note 2) .....	(313)	(1,201)	(1,311)	(3,139)
Inventories (Notes 2 and 5) .....	166,738	149,716	137,442	1,667,387
Deferred income taxes (Notes 2 and 12) .....	15,387	18,454	17,156	153,877
Other current assets .....	40,689	38,078	26,637	406,879
<b>TOTAL CURRENT ASSETS</b> .....	<b>531,273</b>	<b>483,401</b>	<b>442,049</b>	<b>5,312,737</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 6):</b>				
Land .....	34,608	35,534	35,772	346,084
Buildings and structures .....	202,457	191,984	189,617	2,024,575
Machinery and equipment .....	186,007	162,875	162,945	1,860,071
Construction in progress .....	10,511	20,467	2,220	105,110
	433,583	410,860	390,554	4,335,840
Less accumulated depreciation .....	(250,315)	(241,303)	(240,204)	(2,503,156)
<b>NET PROPERTY, PLANT AND EQUIPMENT</b> .....	<b>183,268</b>	<b>169,557</b>	<b>150,350</b>	<b>1,832,684</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>				
Investment securities (Notes 2, 4 and 6):				
Unconsolidated subsidiaries and affiliates .....	22,436	22,211	24,454	224,364
Other .....	223,432	278,704	297,123	2,234,321
Long-term loans receivable .....	1,949	1,762	2,464	19,500
Deferred income taxes (Notes 2 and 12) .....	5,743	5,686	4,718	57,438
Other investments and other assets .....	68,752	64,462	70,081	687,500
Allowance for doubtful accounts (Note 2) .....	(902)	(951)	(1,185)	(9,028)
<b>TOTAL INVESTMENTS AND OTHER ASSETS</b> .....	<b>321,410</b>	<b>371,874</b>	<b>397,655</b>	<b>3,214,095</b>
	¥1,035,951	¥1,024,832	¥990,054	\$10,359,516

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Short-term debt (Note 7) .....	¥ 132,995	¥ 89,393	¥106,975	\$ 1,329,955
Current portion of long-term debt (Note 7) .....	48,437	63,134	45,370	484,371
Trade payables .....	186,686	197,361	181,082	1,866,867
Advances from customers .....	41,286	26,766	30,693	412,866
Accrued income taxes (Notes 2 and 12) .....	4,616	9,366	9,645	46,162
Other current liabilities .....	118,512	122,235	116,532	1,185,106
<b>TOTAL CURRENT LIABILITIES</b> .....	<b>532,532</b>	<b>508,255</b>	<b>490,297</b>	<b>5,325,327</b>
<b>LONG-TERM DEBT</b> (Note 7) .....	<b>174,793</b>	<b>147,380</b>	<b>122,701</b>	<b>1,747,938</b>
<b>LIABILITY FOR SEVERANCE PAYMENTS</b> (Notes 2 and 8) .....	<b>13,262</b>	<b>12,151</b>	<b>10,330</b>	<b>132,627</b>
<b>RESERVE FOR DIRECTORS'</b>				
<b>RETIREMENT BENEFITS</b> (Note 2) .....	<b>863</b>	<b>1,032</b>	<b>1,168</b>	<b>8,640</b>
<b>DEFERRED INCOME TAXES</b> (Notes 2 and 12) .....	<b>47,716</b>	<b>68,041</b>	<b>75,692</b>	<b>477,162</b>
<b>OTHER LONG-TERM LIABILITIES</b> .....	<b>3,530</b>	<b>3,420</b>	<b>4,977</b>	<b>35,270</b>
<b>TOTAL LIABILITIES</b> .....	<b>772,696</b>	<b>740,279</b>	<b>705,165</b>	<b>7,726,964</b>
<b>CONTINGENT LIABILITIES</b> (Note 13):				
<b>NET ASSETS</b> (Notes 2):				
<b>SHAREHOLDERS' EQUITY:</b>				
Common stock:				
Authorized— 1,600,000,000 shares				
Issued— 746,484,957 shares as of March 31, 2008 .....	47,586	—	—	475,861
746,484,957 shares as of March 31, 2007 .....	—	47,586	—	—
746,484,957 shares as of March 31, 2006 .....	—	—	47,586	—
Capital surplus .....	46,734	46,717	46,713	467,348
Retained earnings .....	116,478	104,959	88,175	1,164,787
Treasury stock at cost :				
31,743,998 shares as of March 31, 2008 .....	(7,072)	—	—	(70,723)
31,601,376 shares as of March 31, 2007 .....	—	(6,985)	—	—
31,447,349 shares as of March 31, 2006 .....	—	—	(6,887)	—
<b>TOTAL SHAREHOLDERS' EQUITY</b> .....	<b>203,726</b>	<b>192,277</b>	<b>175,587</b>	<b>2,037,273</b>
<b>VALUATION AND TRANSLATION ADJUSTMENTS:</b>				
Unrealized gain on other securities, net of taxes .....	52,032	82,563	100,029	520,326
Deferred gain on hedging instruments .....	820	30	—	8,203
Foreign currency translation adjustments .....	(2,144)	22	(544)	(21,459)
<b>TOTAL VALUATION AND TRANSLATION ADJUSTMENTS</b> .....	<b>50,708</b>	<b>82,615</b>	<b>99,485</b>	<b>507,070</b>
<b>MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES</b> ....	<b>8,821</b>	<b>9,661</b>	<b>9,817</b>	<b>88,209</b>
<b>TOTAL NET ASSETS</b> .....	<b>263,255</b>	<b>284,553</b>	<b>284,889</b>	<b>2,632,552</b>
	<b>¥1,035,951</b>	<b>¥1,024,832</b>	<b>¥990,054</b>	<b>\$10,359,516</b>



# Consolidated Statements of Changes in Net Assets

	Thousands	Millions of yen									
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain on other securities, net of taxes	Deferred gain on hedging instruments	Foreign currency translation adjustments	Treasury stock	Total	Minority interests in consolidated subsidiaries	Total Net assets
BALANCE AT MARCH 31, 2005 .....	746,484	¥ 47,586	¥ 46,711	¥ 74,575	¥ 36,957	¥ -	¥ (3,291)	¥ (6,797)	¥ 195,741	¥ 8,086	¥ 203,827
Net income for the year .....	-	-	-	18,603	-	-	-	-	18,603	-	18,603
Change from increase in consolidated subsidiaries previously not consolidated at the beginning of year .....	-	-	-	(94)	-	-	-	-	(94)	-	(94)
Decrease in retained earnings due to change in accounting standards of consolidated subsidiaries .....	-	-	-	(840)	-	-	-	-	(840)	-	(840)
Cash dividends .....	-	-	-	(3,933)	-	-	-	-	(3,933)	-	(3,933)
Bonuses to directors .....	-	-	-	(136)	-	-	-	-	(136)	-	(136)
Purchase of treasury stock, net of sales .....	-	-	2	-	-	-	-	(90)	(88)	-	(88)
Net Change in the year .....	-	-	-	-	63,072	-	2,747	-	65,819	1,731	67,550
BALANCE AT MARCH 31, 2006 .....	746,484	¥ 47,586	¥ 46,713	¥ 88,175	¥ 100,029	¥ -	¥ (544)	¥ (6,887)	¥ 275,072	¥ 9,817	¥ 284,889
Net income for the year .....	-	-	-	23,142	-	-	-	-	23,142	-	23,142
Change from increase in consolidated subsidiaries previously not consolidated at the beginning of year .....	-	-	-	(505)	-	-	-	-	(505)	-	(505)
Change from merger of consolidated and unconsolidated subsidiaries .....	-	-	-	73	-	-	-	-	73	-	73
Cash dividends .....	-	-	-	(5,719)	-	-	-	-	(5,719)	-	(5,719)
Bonuses to directors .....	-	-	-	(207)	-	-	-	-	(207)	-	(207)
Purchase of treasury stock, net of sales .....	-	-	4	-	-	-	-	(98)	(94)	-	(94)
Net Change in the year .....	-	-	-	-	(17,466)	30	566	-	(16,870)	(156)	(17,026)
BALANCE AT MARCH 31, 2007 .....	746,484	¥ 47,586	¥ 46,717	¥ 104,959	¥ 82,563	¥ 30	¥ 22	¥ (6,985)	¥ 274,892	¥ 9,661	¥ 284,553
Net income for the year .....	-	-	-	16,792	-	-	-	-	16,792	-	16,792
Change from increase in consolidated subsidiaries previously not consolidated at the beginning of year .....	-	-	-	358	-	-	-	-	358	-	358
Change from merger of consolidated and unconsolidated subsidiaries .....	-	-	-	87	-	-	-	-	87	-	87
Cash dividends .....	-	-	-	(5,718)	-	-	-	-	(5,718)	-	(5,718)
Purchase of treasury stock, net of sales .....	-	-	17	-	-	-	-	(87)	(70)	-	(70)
Net Change in the year .....	-	-	-	-	(30,531)	790	(2,166)	-	(31,907)	(840)	(32,747)
<b>BALANCE AT MARCH 31, 2008 .....</b>	<b>746,484</b>	<b>¥ 47,586</b>	<b>¥ 46,734</b>	<b>¥ 116,478</b>	<b>¥ 52,032</b>	<b>¥ 820</b>	<b>¥ (2,144)</b>	<b>¥ (7,072)</b>	<b>¥ 254,434</b>	<b>¥ 8,821</b>	<b>¥ 263,255</b>

Thousands of U.S. dollars (Note 3)

BALANCE AT MARCH 31, 2007 .....	\$475,861	\$467,171	\$1,049,597	\$ 825,631	\$ 303	\$ 211	\$(69,853)	\$2,748,921	\$96,611	\$2,845,532
Net income for the year .....	-	-	167,929	-	-	-	-	167,929	-	167,929
Change from increase in consolidated subsidiaries previously not consolidated at the beginning of year .....	-	-	3,583	-	-	-	-	3,583	-	3,583
Change from merger of consolidated and unconsolidated subsidiaries .....	-	-	866	-	-	-	-	866	-	866
Cash dividends .....	-	-	(57,188)	-	-	-	-	(57,188)	-	(57,188)
Purchase of treasury stock, net of sales .....	-	177	-	-	-	-	(870)	(693)	-	(693)
Net Change in the year .....	-	-	-	(305,305)	7,900	(21,670)	-	(319,075)	(8,402)	(327,477)
<b>BALANCE AT MARCH 31, 2008 .....</b>	<b>\$475,861</b>	<b>\$467,348</b>	<b>\$1,164,787</b>	<b>\$ 520,326</b>	<b>\$8,203</b>	<b>\$ 21,459</b>	<b>\$(70,723)</b>	<b>\$2,544,343</b>	<b>\$88,209</b>	<b>\$2,632,552</b>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

Years ended March 31, 2008, 2007 and 2006	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income before income taxes and minority interests .....	¥ 30,518	¥ 40,474	¥ 34,163	\$ 305,188
Depreciation and amortization .....	21,528	17,544	15,721	215,284
Increase (decrease) in allowance for doubtful receivables .....	(932)	(345)	477	(9,324)
Interest and dividend income .....	(4,043)	(3,709)	(2,849)	(40,431)
Interest expense .....	5,275	3,868	2,987	52,756
Exchange (gain) loss .....	(1,459)	(941)	(106)	(14,599)
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)	-	-
Loss on devaluation of investment securities .....	222	417	1,024	2,220
Extraordinary loss/other .....	2,318	2,509	4,960	23,190
Changes in operating assets and liabilities:				
Trade receivables .....	(30,740)	(19,967)	2,205	(307,405)
Inventories .....	(16,381)	(7,116)	(409)	(163,819)
Trade payables .....	(7,913)	15,367	4,643	(79,138)
Advances from customers .....	14,540	(3,937)	(2,374)	145,403
Other, net .....	(8,806)	(14,137)	10,561	(88,038)
Cash generated from operations .....	2,689	27,190	66,623	26,893
Interest and dividends received .....	4,006	3,704	2,873	40,065
Interest paid .....	(5,170)	(3,719)	(3,011)	(51,704)
Income taxes paid .....	(14,720)	(14,411)	(6,285)	(147,210)
Net cash provided by (used in) operating activities .....	(13,195)	12,764	60,200	(131,956)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Additions to property, plant and equipment .....	(35,129)	(33,010)	(19,380)	(351,292)
Proceeds from sales of property, plant and equipment .....	753	1,733	11,225	7,534
Payments for purchase of investment securities .....	(652)	(2,592)	(1,147)	(6,530)
Proceeds from sales of investment securities .....	3,809	2,796	2,977	38,095
Disbursements for long-term loans .....	(16,572)	(16,276)	(18,789)	(165,729)
Decrease in long-term loans .....	15,921	16,827	20,834	159,214
Other, net .....	(4,824)	(3,918)	(2,317)	(48,240)
Net cash used in investing activities .....	(36,694)	(34,440)	(6,597)	(366,948)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Decrease in short-term debt .....	44,188	(18,373)	(37,247)	441,880
Proceeds from long-term debt .....	17,643	20,408	1,304	176,440
Repayment of long-term debt .....	(61,470)	(47,154)	(9,143)	(614,701)
Proceeds from issuance of bonds .....	60,000	70,000	-	600,000
Proceeds from sale of treasury stock .....	42	5	3	421
Purchase of common stock in treasury .....	(111)	(99)	(92)	(1,114)
Cash dividends paid .....	(5,718)	(5,719)	(3,933)	(57,188)
Dividends paid to minorities .....	(73)	(42)	(362)	(735)
Other, net .....	(290)	(270)	-	(2,873)
Net cash provided by (used in) financing activities .....	54,211	18,756	(49,470)	542,130
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> .....				
	(1,427)	213	591	(14,278)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> ...	2,895	(2,707)	4,724	28,948
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b> .....	19,135	21,413	16,215	191,354
<b>CASH AND CASH EQUIVALENTS OF</b>				
<b>NEWLY CONSOLIDATED SUBSIDIARIES</b> .....	26	164	474	266
<b>INCREASE RESULTING FROM MERGER OF A CONSOLIDATED</b>				
<b>SUBSIDIARY WITH A NON-CONSOLIDATED SUBSIDIARY</b> .....	36	265	-	360
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> .....	¥ 22,092	¥ 19,135	¥ 21,413	\$ 220,928

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# 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.

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## 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
<b>2008</b>				
Marketable securities classified as other securities				
Equity securities .....	¥124,932	¥212,784	¥ 89,662	¥1,810
Debt securities .....	-	-	-	-
Others .....	-	-	-	-
	<b>¥124,932</b>	<b>¥212,784</b>	<b>¥ 89,662</b>	<b>¥1,810</b>
<b>2007</b>				
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
<b>2006</b>				
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
<b>2008</b>				
Marketable securities classified as other securities				
Equity securities .....	\$1,249,327	\$2,127,841	\$896,630	\$18,116
Debt securities .....	-	-	-	-
Others .....	-	-	-	-
	<b>\$1,249,327</b>	<b>\$2,127,841</b>	<b>\$896,630</b>	<b>\$18,116</b>

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
	<b>¥10,644</b>	¥13,539	¥14,241	<b>\$106,449</b>

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 .....	<b>¥ 53,230</b>	¥ 60,514	¥ 48,071	<b>\$ 532,309</b>
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 .....	<b>10,000</b>	10,000	10,000	<b>100,000</b>
1.08% Yen bonds due 2009 .....	<b>20,000</b>	20,000	20,000	<b>200,000</b>
1.14% Yen bonds due 2010 .....	<b>10,000</b>	10,000	10,000	<b>100,000</b>
1.78% Yen bonds due 2011 .....	<b>20,000</b>	20,000	-	<b>200,000</b>
1.56% Yen bonds due 2011 .....	<b>20,000</b>	20,000	-	<b>200,000</b>
1.48% Yen bonds due 2012 .....	<b>20,000</b>	-	-	<b>200,000</b>
1.62% Yen bonds due 2012 .....	<b>20,000</b>	-	-	<b>200,000</b>
1.34% Yen bonds due 2013 .....	<b>20,000</b>	-	-	<b>200,000</b>
Zero coupon convertible bonds with stock acquisition rights due 2016 .....	<b>30,000</b>	30,000	-	<b>300,000</b>
	<b>223,230</b>	210,514	168,071	<b>2,232,309</b>
Less: Portion due within one year .....	<b>48,437</b>	63,134	45,370	<b>484,371</b>
	<b>¥174,793</b>	¥147,380	¥122,701	<b>\$1,747,938</b>

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

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 .....	<b>¥ 9,983</b>	¥14,077	¥ 13,264	<b>\$ 99,838</b>
Deferred .....	<b>3,223</b>	2,269	1,987	<b>32,225</b>
	<b>¥ 13,206</b>	¥16,346	¥ 15,251	<b>\$132,063</b>

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

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 .....	<b>40.7%</b>	-	40.7%
Permanent difference resulting from expenses not deductible for income tax purposes .....	<b>6.9</b>	-	5.3
Valuation allowance .....	<b>6.1</b>	-	5.3
Tax credit .....	<b>(4.0)</b>	-	(6.0)
Permanent difference resulting from non-taxable income, including dividends received .....	<b>(2.3)</b>	-	(1.7)
Tax rates difference of the Consolidated Foreign Subsidiaries .....	<b>(2.1)</b>	-	-
Other .....	<b>(2.0)</b>	-	1.0
Effective income tax rate .....	<b>43.3%</b>	-	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							
<b>Year ended March 31, 2008</b>	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							
<b>Year ended March 31, 2007</b>	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

- a. 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.
- b. 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.

- c. 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.

# Report of Independent Auditors

**Certified Public Accountants**

Hibiya Kokusai Bldg.  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo 100-0011  
C.P.O. Box 1196, Tokyo 100-8641

Phone: 03 3503-1100

Fax: 03 3503-1197

The Board of Directors  
Fuji Electric Holdings Co., Ltd.

We have audited the accompanying consolidated balance sheets of Fuji Electric Holdings Co., Ltd. and consolidated subsidiaries as of March 31, 2008, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fuji Electric Holdings Co., Ltd. and consolidated subsidiaries at March 31, 2008, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2 to the consolidated financial statements, until March 31, 2007, directors' retirement benefits of the certain consolidated subsidiaries were expensed as incurred. Effective April, 2007, such 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.

As described in Note 17 to the consolidated financial statements, on April 1, 2008, Fuji Electric Water Environmental Systems Co., Ltd., a consolidated subsidiary of the Company, was merged into NGK Water Environment Systems, Ltd.

As described in Note 17 to the consolidated financial statements, 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 consolidated subsidiary of the Company, will be spin off and transfer to Fuji Electric Systems Co., Ltd. ("FES"), a consolidated subsidiary of the Company, on July 1, 2008, at its Meeting held on April 24, 2008.

As described in Note 17 to the consolidated financial statements, the Board of Directors resolved that FES transfer all stocks of FFC Ltd. ("FFC") to Fujitsu Ltd. ("Fujitsu"), and among businesses of FFC and FFC Systems Ltd. ("FFC Systems"), 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

June 24, 2008



# Corporate Overview (As of March 31, 2008)

## Company Name

FUJI ELECTRIC HOLDINGS CO., LTD.

## Established

August 29, 1923

## Head Office

1-1, Tanabe Shinden, Kawasaki-ku,  
Kawasaki-shi 210-9530, Japan

## Head Office Business Address

Gate City Ohsaki, East Tower, 11-2, Osaki 1-chome,  
Shinagawa-ku, Tokyo 141-0032, Japan

## Employees (Consolidated)

25,634

## Stock Code

6504

# Investor Information

## Enquiries

Fuji Electric Holdings Co., Ltd.

Investor Relations Section

Corporate Planning Office

Gate City Ohsaki, East Tower, 11-2, Osaki 1-chome,  
Shinagawa-ku, Tokyo 141-0032, Japan

Tel: +81-(03)-5435-7111

Fax: +81-(03)-5435-7486

IR Website: <http://www.fujielectric.co.jp/eng/ir/>

## Fiscal Year-end

March 31

## Ordinary General Meeting of Shareholders

June

## Shareholders' Meeting Record Date

March 31

## Year-end Dividend Payment Record Date

March 31

## Interim Dividend Payment Record Date

September 30

## Corporate Announcements

Fuji Electric Holdings makes corporate announcements electronically via its corporate website (<http://www.fujielectric.co.jp>). In the event that this is not possible, the Company will publish the information in the *Nihon Keizai Shimbun*.

## Administrator of Shareholders' Register

The Chuo Mitsui Trust and Banking Company, Limited  
33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan

## Agency's Administration Office

(Postal address and telephone enquiries)

The Chuo Mitsui Trust and Banking Company, Limited  
Stock Transfer Agency Dept.

8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063, Japan

Tel: +81-(0120)-78-2031

## Secondary Agents

Nationwide branches of the Chuo Mitsui Trust and  
Banking Company, Limited

Head office and nationwide branches of Japan  
Securities Agents, Ltd.

## Share Listings

Tokyo, Osaka, Nagoya and Fukuoka stock exchanges



This mark symbolizes the commitment of the Fuji Electric Group to environmental protection.

