

**Consolidated Financial Report for the fiscal year ended March 31, 2006**  
**(April 1, 2005 - March 31, 2006)**

**Summary of Consolidated Financial Results**

**1. Summary of consolidated statements of income**

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005(A) [3/2006]	FY2004(B) [3/2005]		FY2005 [3/2006]
Net sales	897,277	844,200	106.3%	7,638
Operating income	41,012	26,818	152.9%	349
Ordinary income	41,831	22,222	188.2%	356
Net income	18,603	7,797	238.6%	158
	Yen			U.S.dollars
Net income per share	25.70	10.69	-	0.22

**2. Summary of consolidated financial position**

	Millions of yen		Millions of U.S.dollars
	3/31/2006	3/31/2005	3/31/2006
Total assets	990,054	882,412	8,428
Shareholders' equity	275,072	195,741	2,342
Shareholders' equity ratio (%)	27.8%	22.2%	-
	Yen		U.S.dollars
Shareholders' equity per share	384.38	273.47	3.27

**3. Summary of consolidated statements of cash flows**

	Millions of yen		Millions of U.S.dollars
	FY2005(A) [3/2006]	FY2004(B) [3/2005]	FY2005 [3/2006]
Cash flows from operating activities	60,200	42,274	512
Cash flows from investing activities	-6,597	-3,794	-56
Cash flows from financing activities	-49,470	-49,741	-421
Cash and cash equivalents at end of year	21,413	16,215	182

Note: 1) U.S.dollar amounts in this financial report are translated, for convenience only, at the rate of ¥117.47=U.S.\$1  
2) The company has 67 consolidated subsidiaries and 2 equity-method affiliate.

**4. Forecast of consolidated earnings for the fiscal year ending March 31, 2007**  
(April 1, 2006 - March 31, 2007)

	Millions of yen	
	1st half	Full year
Net sales	393,000	910,000
Operating income	3,500	43,500
Ordinary income	3,500	42,000
Net income	0	20,000
		Yen
Net income per share		27.97

< Cautionary Statements With Respect to Forward-Looking Statements >

Statements made in this financial report with respect to Fuji Electric's future performance are forward-looking statements based on management's assumptions and beliefs in light of the information currently available to it. Accordingly, actual results could differ from those contained in any forward-looking statements. Potential risks and uncertainties include :

- Sudden changes in general economic conditions in Fuji Electric's markets and changes in its operating environment such as those resulting from changes in trade regulations
- Exchange rate, particularly between the yen and the U.S.dollar and Asian and European currencies
- The ability of Fuji Electric and its subsidiaries to develop and introduce products that incorporate new technology in a timely manner and to manufacture them in a cost-effective way
- The rapid pace of technological innovation, especially in the field of electronics
- Sudden changes in the supply and demand balance in the markets Fuji Electric serves
- Problems involving the intellectual property of Fuji Electric and other companies
- Stock market conditions in Japan

## Consolidated Balance Sheets

	Millions of yen		Change	Millions of U.S.dollars
	3/31/2006(A)	3/31/2005(B)	(A)-(B)	3/31/2006
<b>Assets</b>				
<b>Current assets:</b>				
Cash and time deposits	21,527	16,338	5,189	183
Notes and accounts receivable, trade	240,599	241,820	-1,221	2,048
Inventories	137,442	135,076	2,366	1,170
Other current assets	42,481	44,414	-1,933	362
<b>Total current assets</b>	<u>442,049</u>	<u>437,649</u>	4,400	<u>3,763</u>
<b>Long-term assets:</b>				
Tangible fixed assets	150,350	150,903	-553	1,280
Intangible fixed assets	8,351	7,803	548	71
Investments and other assets	389,302	285,983	103,319	3,314
<b>Total long-term assets</b>	<u>548,004</u>	<u>444,690</u>	103,314	<u>4,665</u>
<b>Deferred assets</b>	-	72	-72	-
<b>Total assets</b>	<u><u>990,054</u></u>	<u><u>882,412</u></u>	107,642	<u><u>8,428</u></u>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Notes and accounts payable, trade	181,082	176,575	4,507	1,542
Short-term loans	64,645	74,343	-9,698	550
Other current liabilities	244,568	217,093	27,475	2,082
<b>Total current liabilities</b>	<u>490,297</u>	<u>468,012</u>	22,285	<u>4,174</u>
<b>Long-term liabilities</b>				
Bonds	80,000	120,000	-40,000	681
Long-term loans	42,700	47,090	-4,390	363
Other long-term liabilities	92,167	43,482	48,685	785
<b>Total long-term liabilities</b>	<u>214,867</u>	<u>210,572</u>	4,295	<u>1,829</u>
<b>Total liabilities</b>	<u>705,164</u>	<u>678,584</u>	26,580	<u>6,003</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>9,817</u>	<u>8,086</u>	1,731	<u>84</u>
<b>Shareholders' equity:</b>				
Common stock	47,586	47,586	-	405
Capital surplus	46,713	46,711	1	398
Consolidated retained earnings	88,175	74,575	13,600	751
Unrealized gain on other securities	100,029	36,957	63,072	852
Foreign currency transaction adjustment	-544	-3,292	2,748	-5
Less shares of common stock held by the Company	-6,887	-6,797	-90	-59
<b>Total shareholders' equity</b>	<u>275,072</u>	<u>195,741</u>	79,331	<u>2,342</u>
<b>Total liabilities, minority interests and shareholders' equity</b>	<u><u>990,054</u></u>	<u><u>882,412</u></u>	107,642	<u><u>8,428</u></u>
<b>Debt</b>	<u>275,046</u>	<u>318,433</u>	-43,387	<u>2,341</u>

## Consolidated Statements of Income

	Millions of yen		Change (A)/(B)	Millions of U.S.dollars
	FY2005(A) [3/2006]	FY2004(B) [3/2005]		FY2005 [3/2006]
<b>Net sales</b>	897,277	844,200	106.3%	7,638
<b>Cost of sales</b>	702,006	665,773	105.4%	5,976
<b>Gross profit</b>	195,270	178,426	109.4%	1,662
<b>Selling, general and administrative expenses</b>	154,258	151,608	101.7%	1,313
<b>Operating income</b>	41,012	26,818	152.9%	349
<b>Non-operating income</b>	6,447	5,470	117.9%	55
Interest and dividends received	2,849	2,379		24
Other	3,598	3,091		31
<b>Non-operating expenses</b>	5,629	10,066	55.9%	48
Interest expense	2,987	3,049		25
Other	2,642	7,016		22
<b>Ordinary income</b>	41,831	22,222	188.2%	356
<b>Extraordinary income</b>	4,380	10,331		37
<b>Extraordinary loss</b>	12,048	16,299		103
<b>Income before income taxes</b>	34,163	16,254	210.2%	291
<b>Income taxes and business tax</b>	13,264	4,331		113
<b>Deferred income taxes</b>	1,986	4,367		17
<b>Minority interests in net income of consolidated subsidiaries</b>	308	-242		3
<b>Net income</b>	18,603	7,797	238.6%	158

## Consolidated Statements of Cash Flows

	Millions of yen		Change (A)/(B)	Millions of U.S.dollars
	FY2005(A) [3/2006]	FY2004(B) [3/2005]		FY2005 [3/2006]
<b>Cash flows from operating activities:</b>				
Net income before income taxes	34,163	16,254	17,909	291
Depreciation and amortization	15,721	16,545	-824	134
Interest and dividends income	-2,849	-2,379	-470	-24
Interest expense	2,987	3,049	-62	25
Decrease (increase) in trade receivables	2,205	11,762	-9,557	19
Decrease (increase) in inventories	-409	-8,491	8,082	-3
Increase (decrease) in trade payables	4,643	-5,445	10,088	40
Increase (decrease) in advances received	-2,374	-788	-1,586	-20
Other, net	12,537	20,627	-8,090	107
Subtotal	66,623	51,135	15,488	567
Interest and dividends received	2,873	2,354	519	24
Interest paid	-3,011	-3,047	36	-26
Income taxes paid	-6,285	-8,168	1,883	-54
Net cash provided by operating activities	60,200	42,274	17,926	512
<b>Cash flows from investing activities:</b>				
Purchase of fixed assets and marketable and investment securities	-20,528	-18,766	-1,762	-175
Proceeds from sale of fixed assets and marketable and investment securities	14,202	15,412	-1,210	121
Other, net	-272	-440	168	-2
Net cash provided by investing activities	-6,597	-3,794	-2,803	-56
Free cash flows ( + )	53,603	38,479	15,124	456
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term borrowings, net	-7,946	-22,281	14,335	-68
Increase (decrease) in commercial paper, net	-29,300	-17,300	-12,000	-249
Proceeds from long-term debt	1,304	9,462	-8,158	11
Repayments of long-term debt and redemption of bonds	-9,143	-15,845	6,702	-78
Other, net	-4,384	-3,777	-607	-37
Net cash provided by financing activities	-49,470	-49,741	271	-421
<b>Effect of exchange rate changes on cash and cash equivalents</b>	591	205	386	5
<b>Net increase (decrease) in cash and cash equivalents</b>	4,724	-11,056	15,780	40
<b>Cash and cash equivalents at beginning of year</b>	16,215	27,240	-11,025	138
<b>Increase in cash and cash equivalents resulting from changes of consolidated subsidiaries</b>	474	30	444	4
<b>Cash and cash equivalents at end of year</b>	21,413	16,215	5,198	182

## Consolidated Business Segment Information

### 1. Net sales by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005(A) [3/2006]	FY2004(B) [3/2005]		FY2005 [3/2006]
Energy & Electric Systems	398,197	374,794	106.2%	3,390
ED&C·Drive Systems	182,511	178,293	102.4%	1,554
Electronic Devices	173,402	143,236	121.1%	1,476
Retail Systems	162,195	168,112	96.5%	1,381
Others	52,200	45,756	114.1%	444
Subtotal	968,508	910,193	106.4%	8,245
Elimination	-71,231	-65,993	-	-606
<b>Total</b>	<b>897,277</b>	<b>844,200</b>	<b>106.3%</b>	<b>7,638</b>

### 2. Operating income by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005(A) [3/2006]	FY2004(B) [3/2005]		FY2005 [3/2006]
Energy & Electric Systems	7,024	3,204	219.2%	60
ED&C·Drive Systems	7,903	6,652	118.8%	67
Electronic Devices	18,195	9,498	191.6%	155
Retail Systems	5,873	7,449	78.8%	50
Others	2,136	1,734	123.2%	18
Subtotal	41,133	28,541	144.1%	350
Elimination/Corporate	-120	-1,722	-	-1
<b>Total</b>	<b>41,012</b>	<b>26,818</b>	<b>152.9%</b>	<b>349</b>

### 3. Assets by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005(A)	FY2004(B)		FY2005
	[3/2006]	[3/2005]	[3/2006]	
Energy & Electric Systems	318,713	307,428	103.7%	2,713
ED&C·Drive Systems	131,381	131,665	99.8%	1,118
Electronic Devices	149,568	128,497	116.4%	1,273
Retail Systems	92,355	106,191	87.0%	786
Others	44,664	48,800	91.5%	380
Subtotal	736,683	722,582	102.0%	6,271
Elimination/Corporate	253,371	159,830	-	2,157
<b>Total</b>	<b>990,054</b>	<b>882,412</b>	<b>112.2%</b>	<b>8,428</b>

### 4. Depreciation and amortization by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005(A)	FY2004(B)		FY2005
	[3/2006]	[3/2005]	[3/2006]	
Energy & Electric Systems	4,632	4,428	104.6%	39
ED&C·Drive Systems	1,797	1,933	93.0%	15
Electronic Devices	6,707	7,633	87.9%	57
Retail Systems	1,337	1,271	105.2%	11
Others	918	839	109.4%	8
Subtotal	15,393	16,107	95.6%	131
Elimination/Corporate	327	438	-	3
<b>Total</b>	<b>15,721</b>	<b>16,545</b>	<b>95.0%</b>	<b>134</b>

### 5. Capital expenditure by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005(A)	FY2004(B)		FY2005
	[3/2006]	[3/2005]	[3/2006]	
Energy & Electric Systems	4,206	3,767	111.7%	36
ED&C·Drive Systems	2,188	1,813	120.7%	19
Electronic Devices	17,342	7,950	218.1%	148
Retail Systems	2,028	1,200	169.0%	17
Others	824	542	152.0%	7
Subtotal	26,590	15,275	174.1%	226
Elimination/Corporate	216	539	-	2
<b>Total</b>	<b>26,806</b>	<b>15,814</b>	<b>169.5%</b>	<b>228</b>

## Consolidated Geographic Segment information

### 1. Net sales

	Millions of yen	Millions of U.S.dollars	Millions of yen	Millions of U.S.dollars
	<b>FY2005(A)</b> [3/2006]	<i>FY2005</i> [3/2006]	<b>FY2005(A)</b> [3/2006]	<i>FY2005</i> [3/2006]
Japan	879,548	7,487	36,107	307
North America	9,496	81	239	2
Europe	14,766	126	259	2
Asia (except for China)	35,139	299	2,176	19
China	43,416	370	1,735	15
Subtotal	982,367	8,363	40,518	345
Elimination/Corporate	-85,089	-724	494	4
<b>Total</b>	<b>897,277</b>	<b>7,638</b>	<b>41,012</b>	<b>349</b>

### 2. Operating income

### 3. Assets

	Millions of yen	Millions of U.S.dollars
	<b>FY2005(A)</b> [3/2006]	<i>FY2005</i> [3/2006]
Japan	703,755	5,991
North America	4,304	37
Europe	5,904	50
Asia (except for China)	25,143	214
China	25,939	221
Subtotal	765,048	6,513
Elimination/Corporate	225,006	1,915
<b>Total</b>	<b>990,054</b>	<b>8,428</b>

Note: For the year ended March 31, 2005, sales from operations in Japan represented more than 90% of consolidated net sales. As a result, geographic information is not required to be disclosed in accordance with accounting principles generally accepted in Japan.

## Net overseas sales

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005(A) [3/2006]	FY2004(B) [3/2005]		FY2005 [3/2006]
North America	17,643	14,735	119.7%	150
Europe	19,721	12,843	153.6%	168
Asia	157,204	101,906	154.3%	1,338
Asia (except for China)	125,998	-	-	-
China	31,216	-	-	-
Other	9,577	13,054	73.4%	82
<b>Total</b>	<b>204,148</b>	<b>142,540</b>	<b>143.2%</b>	<b>1,738</b>

### < Ratio to net sales >

North America	2.0%	1.7%
Europe	2.2%	1.5%
Asia	17.5%	12.1%
Asia (except for China)	14.0%	-
China	3.5%	-
Other	1.1%	1.5%
<b>Total</b>	<b>22.8%</b>	<b>16.9%</b>

## Consolidated Statements of Income for 4Q FY2005

	Millions of yen		Change	<i>Millions of U.S.dollars</i>
	<b>FY2005 4Q</b> (A)	FY2004 4Q (B)	(A)/(B)	<b>FY2005 4Q</b> (A)
<b>Net sales</b>	338,844	306,435	110.6%	2,885
<b>Cost of sales</b>	262,354	231,173	113.5%	2,233
<b>Gross profit</b>	76,490	75,262	101.6%	651
<b>Selling, general and administrative expenses</b>	40,870	37,875	107.9%	348
<b>Operating income</b>	35,619	37,386	95.3%	303
<b>Non-operating income</b>	1,370	1,432	95.7%	12
Interest and dividends received	287	318		2
Other	1,083	1,113		9
<b>Non-operating expenses</b>	1,326	3,939	33.7%	11
Interest expense	834	791		7
Other	491	3,148		4
<b>Ordinary income</b>	35,664	34,880	102.2%	304
<b>Extraordinary income</b>	513	3,567		4
<b>Extraordinary loss</b>	7,022	8,218		60
<b>Income before income taxes</b>	29,154	30,228	96.4%	248
<b>Income taxes and business tax</b>	12,499	14,110		106
<b>Minority interests in net income of consolidated subsidiaries</b>	705	597		6
<b>Net income</b>	15,949	15,520	102.8%	136

## Consolidated Segment Information for 4Q FY2005

### 1. Net sales by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005 4Q (A)	FY2004 4Q (B)		FY2005 4Q (A)
Energy & Electric Systems	200,001	184,851	108.2%	1,703
ED&C·Drive Systems	53,338	46,462	114.8%	454
Electronic Devices	54,570	36,314	150.3%	465
Retail Systems	38,222	44,891	85.1%	325
Others	17,213	17,193	100.1%	147
Subtotal	363,346	329,712	110.2%	3,093
Elimination	-24,501	-23,276	-	-209
<b>Total</b>	<b>338,844</b>	<b>306,435</b>	<b>110.6%</b>	<b>2,885</b>

### 2. Operating income by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2005 4Q (A)	FY2004 4Q (B)		FY2005 4Q (A)
Energy & Electric Systems	24,024	27,582	87.1%	205
ED&C·Drive Systems	2,902	2,001	145.0%	25
Electronic Devices	7,540	3,287	229.4%	64
Retail Systems	1,011	3,876	26.1%	9
Others	906	1,032	87.8%	8
Subtotal	36,386	37,780	96.3%	310
Elimination/Corporate	-766	-393	-	-7
<b>Total</b>	<b>35,619</b>	<b>37,386</b>	<b>95.3%</b>	<b>303</b>

**Supplemental Consolidated Financial Materials for FY2005**  
**(April 1, 2005 - March 31, 2006)**

**1. Financial summary**

	Billions of yen					
	FY2004		FY2005 [3/2006]		FY2006 Forecast	
	change(%)		change(%)		change(%)	
Net sales	844.2	98.6%	897.2	106.3%	910.0	101.4%
Operating income	26.8	153.7%	41.0	152.9%	43.5	106.1%
Ordinary income	22.2	159.5%	41.8	188.2%	42.0	100.4%
Net income	7.7	141.3%	18.6	238.6%	20.0	107.5%

**2. Number of consolidated subsidiaries**

	FY2004	FY2005 [3/2006]	FY2006 Forecast
Number of consolidated subsidiaries	61	67	67
Number of equity-method affiliates	2	2	2

**3. Net income per share**

	Yen		
	FY2004	FY2005 [3/2006]	FY2006 Forecast
Net income per share	10.69	25.70	27.97

**4. Sales exchange rate(US\$)**

	Yen		
	FY2004	FY2005 [3/2006]	FY2006 Forecast
Sales exchange rate	107.55	113.31	112.50

**5. Net sales by business segment**

	Billions of yen					
	FY2004		FY2005 [3/2006]		FY2006 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	374.7	93.0%	398.1	106.2%	387.0	97.2%
ED&C·Drive Systems	178.2	106.1%	182.5	102.4%	183.0	100.3%
Electronic Devices	143.2	110.5%	173.4	121.1%	193.0	111.3%
Retail Systems	168.1	111.5%	162.1	96.5%	165.0	101.7%
Others	45.7	60.4%	52.2	114.1%	54.0	103.4%
Subtotal	910.1	98.1%	968.5	106.4%	982.0	101.4%
Elimination	-65.9	-	-71.2	-	-72.0	-
<b>Total</b>	<b>844.2</b>	<b>98.6%</b>	<b>897.2</b>	<b>106.3%</b>	<b>910.0</b>	<b>101.4%</b>

Note : Net sales include inter-segment transactions.

**6. Operating income by business segment**

	Billions of yen					
	FY2004		FY2005 [3/2006]		FY2006 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	3.2	640.8%	7.0	219.2%	9.0	128.1%
ED&C·Drive Systems	6.6	279.7%	7.9	118.8%	9.0	113.9%
Electronic Devices	9.4	97.1%	18.1	191.6%	20.5	112.7%
Retail Systems	7.4	358.6%	5.8	78.8%	4.5	76.6%
Others	1.7	74.5%	2.1	123.2%	2.0	93.6%
Subtotal	28.5	167.2%	41.1	144.1%	45.0	109.4%
Elimination/Corporate	-1.7	-	-0.1	-	-1.5	-
<b>Total</b>	<b>26.8</b>	<b>153.7%</b>	<b>41.0</b>	<b>152.9%</b>	<b>43.5</b>	<b>106.1%</b>

## 7. R&D expenditures

	Billions of yen					
	FY2004		FY2005 [3/2006]		FY2006 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	9.1	88.7%	9.3	101.6%	9.9	106.3%
ED&C·Drive Systems	3.7	82.9%	3.7	101.2%	4.1	109.4%
Electronic Devices	8.7	110.8%	11.2	128.6%	14.8	131.6%
Retail Systems	3.7	81.6%	3.7	98.6%	3.3	89.8%
Others	0.0	-	0.0	-	0.0	-
Corporate (basic research)	1.7	154.7%	0.8	51.5%	0.0	-
<b>Total</b>	<b>27.2</b>	<b>95.3%</b>	<b>29.0</b>	<b>106.6%</b>	<b>32.2</b>	<b>111.2%</b>
Ratio to net sales (%)	3.2%	-	3.2%	-	3.5%	-

## 8. Plant and equipment investment (including leases)

	Billions of yen					
	FY2004		FY2005 [3/2006]		FY2006 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	3.7	79.4%	3.7	100.6%	9.4	249.6%
ED&C·Drive Systems	4.1	103.6%	4.0	97.5%	7.8	193.4%
Electronic Devices	22.9	163.1%	39.2	171.5%	44.9	114.5%
Retail Systems	3.3	122.1%	3.9	120.0%	5.7	144.1%
Others	1.3	93.1%	1.7	131.3%	2.5	144.8%
Corporate	0.1	-	0.2	-	0.2	-
<b>Total</b>	<b>35.6</b>	<b>132.2%</b>	<b>53.0</b>	<b>148.8%</b>	<b>70.8</b>	<b>133.4%</b>
(Leases)	22.6	148.5%	29.4	130.2%	41.0	139.5%

Note: Leases are included in total plant and equipment investment.

## 9. Depreciation and leases expense

	Billions of yen					
	FY2004		FY2005 [3/2006]		FY2006 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	4.8	-	5.3	111.6%	5.6	104.8%
ED&C·Drive Systems	4.1	-	4.3	104.6%	4.8	109.8%
Electronic Devices	17.1	-	17.7	103.5%	25.2	142.3%
Retail Systems	3.6	-	3.5	98.8%	4.0	112.1%
Others	2.2	-	2.0	93.8%	2.2	107.3%
Corporate	0.3	-	0.2	-	0.2	-
<b>Total</b>	<b>32.3</b>	<b>110.9%</b>	<b>33.4</b>	<b>103.3%</b>	<b>42.1</b>	<b>126.3%</b>
(Leases expense)	18.0	131.4%	20.2	112.2%	26.8	132.6%

\*Note: Leases paid for plant and equipment investment

## 10. Number of employees by business segment

	FY2004	FY2005 [3/2006]	FY2006 Forecast
Energy & Electric Systems	10,175	10,201	10,041
ED&C·Drive Systems	4,968	5,090	5,405
Electronic Devices	4,689	5,199	5,667
Retail Systems	2,977	3,015	2,993
Others	1,659	1,770	1,868
Corporate	129	133	138
<b>Total</b>	<b>24,597</b>	<b>25,408</b>	<b>26,112</b>

## **Financial Review (April 1, 2005 - March 31, 2006)**

### **Management Policies**

#### **Fundamental Management Policy**

The Fuji Electric Group aims to become a corporate group with a high group value in society that achieves a balance between its economic, environmental and social responsibilities. To fulfill this mission, we will strive to achieve sustainable growth and an increase in profitability, deliver technologies and products that contribute to environmental protection, and benefit society through our corporate activities.

#### **Basic Policy Regarding Distribution of Earnings**

As the holding company of Fuji Electric Group, we promote a basic policy on distribution of earnings that ensures the sustained and stable return of profits to shareholders, while at the same time giving due consideration to consolidated performance and the operating environment. Internal reserves are used mainly for strategic research and development, capital investment, investments and loans and overseas expansion, from the standpoint of supporting new growth.

The Company positions stock repurchases as an option for returning profits to shareholders, and will execute such repurchases flexibly with due consideration for such factors as the operating environment and cash flows.

#### **Basic Policy Regarding Reduction of Trading Unit**

The Company recognizes the importance of attracting a diverse range of investors, including individual investors, and that reducing the size of the minimum trading unit is an effective means for achieving that purpose. However, after a comprehensive review of relevant factors, including the current stock price level and liquidity, in addition to the costs involved, the Company has concluded that it is not appropriate to reduce the size of the trading unit at this time. The Company will continue to review the appropriate size of the trading unit in order to ensure a suitable response to the changing needs of the stock market.

#### **Medium-term Management Targets**

The Company's Medium-term Management Plan, running from fiscal 2003 through fiscal 2005, aimed to raise the operating income margin to 5% or higher and reduce debt to no more than ¥300 billion, in line with the goal of enhancing Fuji Electric's operating base. We made steady strides toward these goals, and although the operating income margin was marginally short of our 5% target it rose markedly from 1.6% in fiscal 2002 to 4.6% in fiscal 2005. The Group's achievement in reducing debt exceeded the target, with debt falling from ¥438.8 billion at the end of fiscal 2002 to ¥275.0 billion at the end of fiscal 2005.

To build on the achievements of this first plan, the Company has formulated a new three-year Medium-term Management Plan covering the fiscal 2006 to fiscal 2008 period. The goal of the plan is to bring about business expansion and development for further leap forward, creating a business group comprising the fore most specialists in respective industries they operate.

The operating environment for the Fuji Electric Group will be challenging. We expect competition to intensify as reforms to push the economy toward free market principles coincide with globalization, a falling birthrate and aging population in Japan, a greater emphasis on environmental protection and energy conservation, and a demand shift from the public to the private sector. This will lead to even greater disparity in growth by industry, customer and region.

Meanwhile, we expect Japan's economy to grow at an annualized rate of 2% over the next three years, primarily driven by the private sector. China is also expected to continue experiencing high growth rates. In response to this challenging environment, the Fuji Electric Group will focus on actively expanding growth businesses where further earnings are expected, while at the same time channeling management resources to the areas where we have a strong position and can further bolster our competitive edge. Through expansion and enhanced profitability we hope to achieve the final-year targets in our new Medium-term Business Plan: sales of more than ¥1 trillion, an operating income margin of 7% or more and a D/E ratio of 1.0 times or lower.

#### **Management Targets for FY2008**

<b>Item</b>	<b>FY2008 target</b>	<b>FY2005 results</b>
Net sales	¥1 trillion or more	¥897.2 billion
Operating margin	7% or higher	4.6%
D/E ratio* (times)	1.0 or lower	1.0

*\*Ratio of interest-bearing debt to shareholder's equity*

#### **Medium-term Management Strategies and Issues to be Addressed**

The Company's medium-term management strategies and the issues that need to be addressed to meet the above management targets are as follows:

- (1) The Company will enhance management efficiency and speed-up a decision-making process, as a dynamic and flexible corporate group that leverages characteristics of the pure holding company structure. We will combine this with a policy of channeling management resources to areas where we have a strong position under the selective focus strategy. This will underpin efforts to become the foremost specialists in respective segment we operate, and to expand and build up our business and achieve a business portfolio balanced on profitability and growth.
- (2) We will aggressively invest in R&D and step up capital expenditure in product areas where we want to further expand or to reinforce competitiveness for further growth. This will help us to capture the leading industry position in core technologies and increase the number of products with high market shares, growth rates and margins. While we intend to maintain high levels of capital investment and R&D spending, we will also thoroughly manage business risk associated with business development.
- (3) We plan to boost overseas sales and earnings by introducing new products, developed with technologies where we already have expertise, into overseas markets, particularly growth areas such as Asia, including China.
- (4) As a part of our efforts to streamline the Group's business processes, the business process reengineering now being implemented at manufacturing sites will be extended to sales and administrative departments, thereby further strengthening our cost competitiveness.
- (5) We will develop a diverse workforce and enhance the Group's personnel resources so that we can adequately respond to vital changes in labor market. This goal will be achieved through the following basic strategies: strengthen and pass on our core competencies, develop qualified human resources capable of competing on the global stage, and build up a personnel management system suitable for diversified workforce.

#### **Matters Concerning Parent Company**

Not applicable.

## **Results of Operations and Financial Review**

### **Overview of Fiscal 2005, ended March 31, 2006**

#### **Consolidated Business Results**

The Fuji Electric Group's operating environment was generally favorable, underpinned by strong economic growth centered on Asia, including China, and economic recovery in Japan on the back of private sector demand. This was despite certain negative factors such as escalating prices for raw materials.

In this climate, the Fuji Electric Group's consolidated business performance was as follows:

Segment sales in the Energy & Electric Systems, ED&C · Drive Systems and Electronic Devices groups increased, but sales in Retail Systems declined from the previous year as demand for vending machines and coin/bill validators spurred by the introduction of new currency notes ran its course.

Operating income, ordinary income and net income saw significant gains compared to the previous fiscal year, benefiting from rising sales and Groupwide efforts to lower costs. In particular, Fuji Electric posted an all-time high in ordinary income. Segment income in the Energy & Electric Systems, ED&C · Drive Systems, and Electronic Devices groups increased, but the Retail Systems Group saw a decline from the previous year on lower sales.

As a result, consolidated operating results for fiscal 2005 were as follows:

Net sales	¥897.2 billion	(Up 6.3% YoY)
Operating income	¥41.0 billion	(Up 52.9% YoY)
Ordinary income	¥41.8 billion	(Up 88.2% YoY)
Net income	¥18.6 billion	(Up 138.6% YoY)

*Companies newly included in the scope of consolidation from the current fiscal year: 7*

*Companies excluded from the scope of consolidation from the current fiscal year: 1*

*Consolidated financial results include the accounts of 67 consolidated subsidiaries (as of March 31, 2006)*

#### **Appropriation of Earnings**

The Board of Directors approved a resolution to increase the year-end dividend per common share by ¥1.50 compared to the previous fiscal year, raising it to ¥4 per share. The proposal will be submitted to the General Meeting of Shareholders scheduled for the end of June.

Including the ¥3 interim dividend, this will bring the annual dividend to ¥7 per common share.

In December 2005, an employee of Fuji Electric Systems Co., Ltd. received a summary order from the Tokyo Summary Court in connection with bid rigging on the New Tokyo International Airport Authority's electrical installation projects in fiscal 2003. Fuji Electric Systems was subsequently ordered to suspend sales for a 30-day period pursuant to the provisions of the Construction Industry Law.

The Fuji Electric Group takes the above rulings seriously and has implemented concrete measures in order to prevent recurrence. In addition to reprimanding the executive concerned, the Group and has taken measures to ensure strict Groupwide compliance based on the Fuji Electric Group Compliance Program, revamped compliance training, reviewed marketing processes, started the periodic rotation of employees in the marketing division, and strengthened internal control systems.

## Segment Information

### Energy and Electric Systems Group

《Main Businesses》

#### **e-Solutions**

Information systems, radiation monitoring systems, industrial instruments, energy solutions

#### **Environmental systems**

Water treatment and water environment systems, waste treatment and recycling systems

#### **Industrial and transportation systems**

Power electronics, instrumentation plant systems, electrical machinery equipment for facilities, clean room facilities, transportation equipment and systems, power supply equipment

#### **Electric power systems**

Thermal power plant equipment, hydroelectric power plant equipment, nuclear power-related equipment

#### **Plant facility construction business**

Electrical equipment, air-conditioning, water supply and drainage installation work

The Energy & Electric Systems Group posted sales of ¥398.1 billion, an increase of 6.2% year on year. Operating income rose ¥3,820 million to ¥7,024 million.

These results reflect the segment's success in lifting sales and earnings by strengthening its operating framework through structural reforms and channeling resources into strategic areas.

Specifically, the group focused on paring back total costs by implementing cost reduction initiatives across group operations, reviewing unprofitable product lines, and implementing a campaign to "eliminate waste," thus strengthening competitiveness. The group also commenced construction of a new manufacturing plant in Kumamoto in preparation for full-fledged entry into the solar cell business as a priority area. In addition to these initiatives, the group restructured operations in measuring instrumentation plant systems and electric power systems.

Overseas, business expansion in China was the highest priority. We established a manufacturing and marketing subsidiary in China in response to rising demand for induction furnaces, reflecting dramatic growth in automobile production in the country. The group also put in place an organizational structure to expand its plant business, creating a framework for accelerating R&D through partnership between industry, academia and research institutions. As a part of this initiative, the group signed an agreement to set up a research and development center with Zhejiang University, already a partner of the group.

Sales in the e-solutions field declined year on year due to a drop in large orders and greater focus on profitability in selecting new projects. Operating income grew despite lower sales due to an increased emphasis on achieving profitability.

Environmental systems posted higher sales thanks to a rise in large orders for water treatment systems. Operating profitability also improved significantly, reflecting the benefits of reductions in costs and selling, general and administrative (SG&A) expenses.

Sales in the industrial and transportation systems field increased considerably, driven by strong orders for industrial systems amid a recovery in private sector capital spending, and success in winning large orders for clean room facilities and electrical equipment from the basic materials industry. Operating income was largely unchanged from the previous fiscal year as gains in profitability on orders from the manufacturing sector were largely negated by lower margins on certain transportation system orders.

Plants operated by the electric power systems business were running at high capacity against the backdrop of a buoyant power generation facility market, centered on China and other parts of Asia. In the period under review, the business won overseas orders for thermal power generation facilities, helping to drive sales up year on year. However, operating profitability deteriorated due to the impact of escalating prices of materials and higher maintenance service costs.

In the plant facility construction business, sales declined compared to the previous fiscal year mainly due to a drop in large orders. However, operating profitability improved due to reductions in operating expenses and rigorous project management.

## **ED&C · Drive Systems Group**

《Main Businesses》

### **Electric distribution & control (ED&C) components**

Magnetic contactors, manual motor starters, operation indicators, molded-case circuit breakers, earth-leakage circuit breakers, high-voltage vacuum circuit breakers, low-voltage/high-voltage fuses, gas detectors, energy management equipment

### **Control & drive systems**

General-purpose inverters, servomotor systems, motors, programmable logic controllers, programmable operation displays

Sales in the ED&C · Drive Systems group increased 2.4% year on year to ¥182.5 billion, and operating income rose 18.8% from the previous fiscal year to ¥7,903 million.

In the domestic market, machine tool manufacturers, the group's main customer segment, continued to perform strongly on the back of rising capital investment. In response, we stepped up marketing activities and expanded operations in the energy conservation and environmental fields.

The group also worked to boost profitability and reinforce its operating framework through total cost reduction initiatives that included manufacturing innovation activities. Efforts were also made to eliminate waste.

In ED&C components, we worked to stimulate demand in major customer sectors and cultivate new customers, while aiming to boost sales by encouraging customers to switch to core strategic products and new products. Overseas, we actively expanded our business by strengthening the lineup of products for the global market and upgrading our marketing network in China.

As a result, sales of mainstay products such as magnetic contactors and low-voltage circuit breakers were higher. However, ED&C component sales overall were flat, reflecting the transfer of the power supply systems business to the Energy & Electric Systems Group and other factors. Operating income increased as efforts to pare back total costs, including management expenses, bore fruit.

In control and drive systems, we launched new products to expand our lineup of inverters and servomotor systems. In programmable controllers, in addition to launching new products, we focused on offering complete systems that incorporate servomotor systems. In Japan, sales of inverters and programmable operation displays increased as we focused on promoting new products for the automobile and machine tool sectors, which are currently performing strongly.

Overseas sales declined as strong sales in Europe, the U.S. and Southeast Asia could not compensate for weaker sales in China.

As a result, sales and operating income in control & drive systems were higher than in the previous year.

## Electronic Devices

《Main Businesses》

### **Semiconductors**

Power supply ICs, insulated gate bipolar transistor (IGBT) modules, power discrete devices, hybrid devices, pressure sensors

### **Storage devices**

Aluminum and glass magnetic disks, aluminum substrates

### **Imaging devices**

Photoconductive drums, peripheral imaging devices

Net sales in electronic devices rose 21.1% to ¥173.4 billion, while operating income increased by ¥8,697 million to ¥18,195 million.

Securing growth and profitability is a challenge in Electronic Devices since the group's business is characterized by the rapid pace of technological innovation and significant fluctuations in the market cycle.

During the year under review, the group used ongoing technology development programs to boost the new product ratio, and continued to reduce costs through manufacturing technology innovation, global business expansion and efforts to boost the scale of overseas sales.

In semiconductor devices, demand for automotive-related products was strong, supporting higher sales in particular of metal oxide semiconductor field effect transistor (MOSFET) devices and pressure sensors. In industrial power electronics, the effect of protracted inventory rundowns affected sales up to the end of 2005, but orders rebounded in early 2006 after we launched new IGBT modules (U4 Series) worldwide. In IT power supplies, we boosted output of high-voltage ICs for plasma display panels (PDPs) and launched a multi-chip device (M-Power) for flat panel TV power supplies, helping to drive sales higher.

As a result, semiconductor sales were higher compared with the previous fiscal year. However, operating income fell, reflecting falling market prices and higher capital costs.

In storage devices, our goal was to outpace the strong growth in demand for hard disk drives (HDDs) in the market. Toward that end, we took a number of steps to significantly boost output, including adding capacity at our glass substrate plant in Japan and aluminum substrate plant in Malaysia. To supplement our mainstay 80GB product in our lineup of 3.5-inch aluminum magnetic disks, we began volume production of a 120GB version. We also launched initiatives to boost profitability. As a result, sales and operating income rose sharply year on year.

In imaging devices, we built volume production facilities in Shenzhen in China to consolidate production and enhance cost competitiveness. In addition, we expanded the lineup of our module-related products and succeeded in winning large orders for printer OPCs. As a result, imaging device sales and operating income increased over the previous fiscal year.

Fuji Electric Storage Device Co., Ltd. and Fuji Electric Imaging Device Co., Ltd. merged and were absorbed by Fuji Electric Device Technology Co., Ltd. on April 1, 2006 in order to unify the business operations of the two companies.

## Retail Systems Group

《Main Businesses》

### **Vending machines, food service equipment and currency handling systems**

Vending machines, beverage dispensers, tea servers, coin mechanisms and bill validators, automatic change dispensers, contactless IC card systems

### **Cold-chain equipment**

Freezing and refrigerated showcases, energy-saving systems for retail premises, modularized store construction systems

Retail Systems posted a decline in sales of 3.5% year on year to ¥162.1 billion, while operating income fell 21.2% to ¥5,873 million.

The group's operating environment was severe during the year under review, as special procurement demand related to the issue of new bank notes and large-scale orders for cigarette vending machines tailed off.

The priority issue in Retail Systems was to expand sales by accurately responding to changes in the market, such as by boosting sales of contactless IC card systems, which are seeing explosive growth in demand, and of cold-chain equipment, by responding to changes brought about by the reorganization of major retail chains and the entry of rivals from other industries.

The group also concentrated on improving profitability by promoting manufacturing innovation and streamlining operations.

In vending machines, food service equipment and currency handling systems, total sales rose on the back of strong sales of mainstay can vending machines, driven by demand recovery and the introduction of the New F Series, featuring improvements in energy efficiency, safety and security, and usability.

Sales of tobacco vending machines declined sharply as large-scale orders shrank in the second half on buying restraint. This reflected decisions by customers to delay purchases prior to the launch of new models capable of verifying user age.

Sales of currency handling systems rose sharply, helped by the introduction of contactless IC card models. Demand resulting from the introduction of new bank notes ran its course in the first half, leading to a steep fall in sales of bill validators, coin mechanisms and leisure equipment.

As a result, sales and operating income in vending machines, food service equipment and currency handling systems dropped overall.

In cold chain equipment, the group posted marginally lower sales. In the supermarket sector, although there was a recovery in demand from the latter part of the third quarter, sales fell compared to the previous year as price competition intensified. In the convenience store sector, new store openings were slightly higher as major convenience store chains opened new stores and new players entered the market from other industries. In addition, batch orders for new format stores and a strategy of marketing alliances with trading companies, also contributed to an increase in sales to the convenience store sector.

Meanwhile, in store materials and interior fittings, a large order from new customers supported significantly higher sales of modularized store construction systems.

As a result of the above, group sales were higher than the previous-year level but operating income fell due to an increase in expenses, mainly for sales promotion initiatives.

## Others Group

### 《Main Businesses》

Real estate operations, insurance agency services, travel agency services, financial services, printing and information-related services, research and development, personnel and administration, staffing services

Net sales increased 14.1% to ¥52.2 billion, and operating income jumped 23.2% to ¥2,136 million. This mainly reflected the consolidation of a company providing shared personnel, administration and staffing services to the Group.

Fuji Life Corp. sought to improve the health of its asset portfolio by promoting more effective utilization of its real estate assets, through divestiture of idle land and underused properties, such as dormitories for single employees and company housing. The company also worked to reduce interest-bearing debt.

The Group's core financial service provider, Fuji Electric Finance and Accounting Support Co., Ltd., implemented initiatives aimed at raising the efficiency of funding operations throughout the group, working toward its goal of reducing the balance of monetary liabilities to less than ¥300 billion by the end of fiscal 2005, the goal for the final year of the previous Medium-term Management Plan.

Fuji Electric Information Service Co., Ltd. began development of a new backbone system for Fuji Electric Group firms as they shifted from legacy systems to open systems and rebuilt their IT infrastructure.

Fuji Brain Trust Co., Ltd. concentrated on responding to diverse human resource needs from the group and external customers by promoting its staffing and recruitment business. The company also actively promoted its temp-to-perm placement service. (The system gives prospective employees an opportunity to be hired directly by client companies after the temporary employment period expires, provided agreement is reached between the individual and the companies to which they are assigned.) Fuji Brain Trust also added new customers to its payroll accounting service.

On April 1, 2006, the finance division of Fuji Electric Finance and Accounting Support and the functions of Fuji Electric Human Resources Development Center Co., Ltd. were integrated into Fuji Brain Trust in order to ensure more efficient management and develop human resources for the administration division.

### **Financial Position**

In fiscal 2005, free cash flow, the sum of operating and investing cash flows, totaled ¥53.6 billion, an increase of ¥15.1 billion compared to free cash flow of ¥38.4 billion in the previous fiscal year.

#### **Cash flows from operating activities**

Operating activities provided net cash of ¥60.2 billion. This represented an increase of ¥17.9 billion from ¥42.2 billion in the previous fiscal year. The principal source of cash was income before income taxes and minority interests, which improved compared to a year earlier.

#### **Cash flows from investing activities**

Investing activities used net cash of ¥6.5 billion, ¥2.8 billion more than the ¥3.7 billion used in the previous fiscal year. This was mainly due to capital investment centered on the Electronic Devices Group.

### Cash flows from financing activities

Financing activities used net cash of ¥49.4 billion, compared with ¥49.7 billion in the previous fiscal year. This mainly reflected a reduction in commercial paper, short and long-term debt.

As a result, cash and cash equivalents at March 31, 2006 amounted to ¥21.4 billion, ¥5.1 billion more than a year earlier.

### Operating Forecasts for Fiscal 2006, Ending March 2007

We expect Japan's economy to continue moving away from deflationary conditions and maintain a gradual recovery led by domestic demand, overcoming concerns over higher interest rates, a slowdown in the U.S. economy and appreciation of the yen. The global economy on the whole will continue to expand, with China, a key market for the Fuji Electric Group, posting continued strong growth despite some uncertainties.

In this environment, the Fuji Electric Group will work to boost performance by strategically channeling resources into core products and businesses, expanding the range of products with high market shares, growth rates and margins, and reinforcing cost competitiveness.

Consolidated forecasts for fiscal 2006 are shown below.

Forecasts assume an exchange rate ¥115/US\$ for the first half and ¥110/US\$ for the second half.

### Consolidated Operating Forecasts

(Billions of yen)

	FY ended March 2006 (Results)	FY ending March 2007 (Forecast)	YoY change (%)
Net sales	897.2	910.0	+1.4
Operating income	41.0	43.5	+6.1
Ordinary income	41.8	42.0	+0.4
Net income	18.6	20.0	+7.5

### Forecasts by Segment

(Billions of yen)

	Net sales			Operating income		
	FY ended March 2006 (Results)	FY ending March 2007 (Forecast)	YoY change (%)	FY ended March 2006 (Results)	FY ending March 2007 (Forecast)	YoY change (%)
Energy & Electric Systems	398.1	387.0	-2.8	7.0	9.0	+28.1
ED&C · Drive Systems	182.5	183.0	+0.3	7.9	9.0	+13.9
Electronic Devices	173.4	193.0	+11.3	18.1	20.5	+12.7
Retail Systems	162.1	165.0	+1.7	5.8	4.5	-23.4
Other	52.2	54.0	+3.4	2.1	2.0	-6.4
Eliminations and corporate	-71.2	-72.0	-	-0.1	-1.5	-
Total	897.2	910.0	+1.4	41.0	43.5	+6.1

In Energy & Electric Systems, we expect private-sector capital expenditure to remain strong, while public-sector investment and investment by domestic electric power companies is likely to continue to decline. Anticipating changes in the operating environment, we plan to increase our emphasis on the private sector, and continue to restructure the business in order to build a stronger operating base.

Aiming to transform the group into an R&D-oriented organization, we will raise the new product ratio and put the solar cell business onto a firm footing as soon as possible. As a part of efforts to expand our business in China, we are expanding the activities of the induction furnace manufacturing and marketing subsidiary in China and the R&D center set up with Zhejiang University.

In ED&C · Drive Systems, we will concentrate on strengthening our position and securing leadership in products where we have competitive advantages and large market shares in Japan and other Asian countries. We will also boost sales of growth products through the introduction of new products.

In Japan, enhancing sales and earnings through the introduction of new products will be the priority concern, and we will also step up marketing to expanding industrial sectors and promote system-based products. Overseas, we will strengthen our marketing network in China and other parts of Asia and roll out global products to boost sales.

In Electronic Devices, we will develop a framework to accelerate growth and increase profitability. In semiconductors, we plan to expand business by raising output of high-voltage ICs for plasma displays, IGBTs for inverters and high-performance MOSFETs for automotive applications—all areas with continuing growth potential. In automotive electronics and IT power supplies, we will launch new products to expand sales.

In storage devices, we plan to substantially increase the output of aluminum and glass substrate disks to meet explosive demand growth, and rapidly begin volume production of products incorporating perpendicular magnetic recording technology.

In imaging devices, the group will work on getting volume production up and running at its production facility in Shenzhen, China while at the same time focusing on winning more orders.

In Retail Systems, we will increase R&D investment and actively shift personnel to key areas, thereby boosting sales in potential growth areas such as cold chain equipment, currency handling systems and food service equipment.

In vending machines, we will streamline operations centered on can vending machines and raise cost competitiveness. We will also introduce tobacco vending machines that can verify customer age, and promote sales of environmentally friendly vending machines that use CO<sub>2</sub> refrigerant instead of fluorocarbons (non-fluorocarbon models), and vending machines that can continue operating during a power failure resulting from a natural disaster. As a leading vending machine firm, we plan to boost sales by responding to these social needs.

### **Appropriation of earnings**

At the current time, no decision has been taken on dividends for the next fiscal year.

### **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, 2006, 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 public and private 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 magnetic contractors, control and drive systems, semiconductors 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) Fuji Electric Group's interest-bearing liabilities totaled ¥275 billion as of March 31, 2006. 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.

(f) The Fuji Electric Group holds shares in and invests in many companies as a means of forging strategic alliances. Consequently, the operating results and financial position of the Group may be affected by deterioration in the financial health of the companies in which Fuji Electric invests or by fluctuations in stock markets.

### **(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 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.

#### **(4) 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.

#### **(5) 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 Fuji Electric and have a negative impact on the Group's operating results.

#### **(6) 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.

#### **(7) 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.

#### **(8) 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.

#### ***Forward-looking Statements***

*Statements and figures with respect to Fuji Electric Holdings' future performance and outlook are based on management's assumptions and beliefs in light of information available to management at the time this document was released. As such, these assumptions and beliefs involve risks and uncertainties. Accordingly, actual results could differ from those contained in any forward-looking statement due to changes in business management and/or changes in domestic and overseas market conditions. Fuji Electric Holdings makes no guarantees as to the accuracy of these statements, and these statements should not be regarded as promises regarding future performance.*