

**Consolidated Financial Report for the First Half
of the Fiscal Year ending March 31, 2007
(April 1, 2006 - September 30, 2006)**

Summary of Consolidated Financial Results

1. Summary of consolidated statements of income

	Millions of yen		Change(%) (A) / (B)	Millions of yen	Millions of U.S. dollars
	1H FY2006 (A)	1H FY2005 (B)		Full year FY2005	1H FY2006
Net sales	400,964	369,328	108.6%	897,277	3,427
Operating income	6,772	3,331	203.3%	41,012	58
Ordinary income	7,644	3,719	205.5%	41,831	65
Net income	3,659	-744	-	18,603	31
	Yen			Yen	U.S. dollars
Net income per share	5.12	-1.04	-	25.70	0.04

2. Summary of consolidated financial position

	Millions of yen			Millions of U.S. dollars
	9/30/2006	9/30/2005	3/31/2006	9/30/2006
Total assets	952,926	899,572	990,054	8,145
Net assets	267,130	218,895	275,072	2,283
Shareholders' equity ratio (%)	27.0%	24.3%	27.8%	-
	Yen			U.S. dollars
Net Assets per share	360.33	306.09	384.38	3.08

3. Summary of consolidated statements of cash flows

	Millions of yen			Millions of U.S. dollars
	1H FY2006 (A)	1H FY2005 (B)	Full year FY2005	1H FY2006
Net cash provided by (used in) operating activities	-1,665	17,560	60,200	-14
Net cash provided by (used in) investing activities	-10,627	2,312	-6,597	-91
Net cash provided by (used in) financing activities	9,022	-18,991	-49,470	77
Cash and cash equivalents at end of period	18,485	17,866	21,413	158

Note: 1) U.S. dollar amounts in this financial report are translated, for convenience only, at the rate of ¥117=U.S.\$1.
2) The company has 67 consolidated subsidiaries and 2 equity-method affiliates.

4. Forecast of consolidated earnings for FY2006 (April 1, 2006 - March 31, 2007)

	<u>Millions of yen</u>
Net sales	920,000
Operating income	47,000
Ordinary income	47,000
Net income	22,500
	<u>Yen</u>
Net income per share	31.47

< 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
	9/30/2006(A)	3/31/2006(B)	(A) - (B)	9/30/2006
Assets				
Current assets:				
Cash and time deposits	18,597	21,527	-2,930	159
Trade receivables	208,645	240,599	-31,954	1,783
Inventories	159,220	137,442	21,778	1,361
Other current assets	47,749	42,481	5,268	408
Total current assets	434,212	442,049	-7,837	3,711
Long-term assets:				
Tangible fixed assets	151,596	150,350	1,246	1,296
Intangible fixed assets	8,459	8,351	108	72
Investments and other assets	358,403	389,302	-30,899	3,063
Total long-term assets	518,459	548,004	-29,545	4,431
Deferred assets	254	-	254	2
Total assets	952,926	990,054	-37,128	8,145
Liabilities				
Current liabilities:				
Trade payables	167,274	181,082	-13,808	1,430
Short-term debt	77,102	64,645	12,457	659
Other current liabilities	192,992	244,568	-51,576	1,650
Total current liabilities	437,368	490,297	-52,929	3,738
Long-term liabilities:				
Bonds	130,000	80,000	50,000	1,111
Long-term debt	37,193	42,700	-5,507	318
Other long-term liabilities	81,234	92,167	-10,933	694
Total long-term liabilities	248,428	214,867	33,561	2,123
Total liabilities	685,796	705,164	-19,368	5,862
Net Assets				
Shareholders' equity:				
Common stock	47,586	-	-	407
Capital surplus	46,714	-	-	399
Retained earnings	88,953	-	-	760
Treasury stock at cost	-6,934	-	-	-59
Total shareholders' equity	176,319	-	-	1,507
Valuation and translation adjustments:				
Unrealized gain on other securities, net of taxes	81,806	-	-	699
Deferred gain on Hedges	-56	-	-	-0
Foreign currency translation adjustments	-449	-	-	-4
Total valuation and translation adjustments	81,301	-	-	695
Minority interests in consolidated subsidiaries	9,508	-	-	81
Total net assets	267,130	-	-	2,283
Total liabilities and net assets	952,926	-	-	8,145
Minority interests in consolidated subsidiaries	-	9,817	-	-
Shareholders' equity:				
Common stock	-	47,586	-	-
Capital surplus	-	46,713	-	-
Retained earnings	-	88,175	-	-
Unrealized gain on other securities, net taxes	-	100,029	-	-
Foreign currency translation adjustments	-	-544	-	-
Treasury stock at cost	-	-6,887	-	-
Total shareholders' equity	-	275,072	-	-
Total liabilities, minority interests and shareholders' equity	-	990,054	-	-
Interest-bearing debt	287,295	275,046	-	2,456

Consolidated Statements of Operations

	Millions of yen		Change(%) (A) / (B)	Millions of yen	Millions of U.S. dollars
	1H FY2006 (A)	1H FY2005 (B)		Full year FY2005	1H FY2006
Net sales	400,964	369,328	108.6%	897,277	3,427
Cost of sales	319,179	290,110	110.0%	702,006	2,728
Gross profit	81,784	79,217	103.2%	195,270	699
Selling, general and administrative expenses	75,012	75,885	98.8%	154,258	641
Operating income	6,772	3,331	203.3%	41,012	58
Non-operating income	3,413	3,602	94.8%	6,447	29
Interest and dividends income	1,896	1,646		2,849	16
Other	1,516	1,955		3,598	13
Non-operating expenses	2,540	3,214	79.0%	5,629	22
Interest expense	1,689	1,465		2,987	14
Other	851	1,749		2,642	7
Ordinary income	7,644	3,719	205.5%	41,831	65
Extraordinary income	714	1,588		4,380	6
Extraordinary loss	3,014	4,739		12,048	26
Income before income taxes	5,344	567	942.5%	34,163	46
Income taxes and business tax	3,120	2,973		13,264	27
Deferred income taxes	-1,308	-1,452		1,986	-11
Minority interests in net income of consolidated subsidiaries	-126	-209		308	-1
Net income (loss)	3,659	-744	-	18,603	31

Consolidated Statements of Shareholders' Equity

	Millions of yen				
	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' Equity
BALANCE AT MARCH 31, 2006	47,586	46,713	88,175	-6,887	175,587
Net income			3,659		3,659
Appropriations					
Cash dividends			-2,860		-2,860
Bonuses to directors			-207		-207
Purchase and sale of treasury stock		1		-46	-44
Retained earnings of consolidated subsidiaries previously not consolidated at beginning of year			131		131
Change from merger of consolidated and unconsolidated subsidiaries			54		54
Net increase / decrease during the term under review except in Shareholders' Equity					
Total increase / decrease during the term under review	-	1	777	-46	732
BALANCE AT SEPTEMBER 30, 2006	47,586	46,714	88,953	-6,934	176,319

	Millions of yen				
	Valuation and translation adjustments				Minority interests in consolidated subsidiaries
	Unrealized gain on other securities, net of taxes	Deferred gain on Hedges	Foreign currency translation adjustments	Total valuation and translation adjustments	
BALANCE AT MARCH 31, 2006	100,029	-	-544	99,485	9,817
Net income					
Appropriations					
Cash dividends					
Bonuses to directors					
Purchase and sale of treasury stock					
Retained earnings of consolidated subsidiaries previously not consolidated at beginning of year					
Change from merger of consolidated and unconsolidated subsidiaries					
Net increase / decrease during the term under review except in Shareholders' Equity	-18,222	-56	95	-18,184	-308
Total increase / decrease during the term under review	-18,222	-56	95	-18,184	-308
BALANCE AT SEPTEMBER 30, 2006	81,806	-56	-449	81,301	9,508

Consolidated Statements of Cash Flows

	Millions of yen			Millions of U.S. dollars
	1H FY2006 (A)	1H FY2005 (B)	Full year FY2005	1H FY2006
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	5,344	567	34,163	46
Depreciation and amortization	8,085	7,241	15,721	69
Interest and dividend income	-1,896	-1,646	-2,849	-16
Interest expense	1,689	1,465	2,987	14
Change in operating assets and liabilities:				
Trade receivables	32,268	50,771	2,205	276
Inventories	-21,859	-29,275	-409	-187
Trade payables	-14,017	-34,484	4,643	-120
Advances from customers	10,927	22,234	-2,374	93
Other, net	-12,873	3,051	12,537	-110
Cash generated from operations	7,668	19,924	66,623	66
Interest and dividends received	1,912	1,639	2,873	16
Interest paid	-1,622	-1,454	-3,011	-14
Income taxes paid	-9,624	-2,549	-6,285	-82
Net cash provided by (used in) operating activities	-1,665	17,560	60,200	-14
Cash flows from investing activities:				
Payments for purchase of fixed assets and marketable and investment securities	-12,627	-6,843	-20,528	-108
Proceeds from sales of fixed assets and marketable and investment securities	880	8,122	14,202	8
Other, net	1,119	1,033	-272	10
Net cash provided by (used in) investing activities	-10,627	2,312	-6,597	-91
Free cash flows (+)	-12,292	19,872	53,603	-105
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings, net	225	-5,250	-7,946	2
Increase (decrease) in commercial paper, net	-44,700	-8,000	-29,300	-382
Proceeds from long-term debt and bonds	78,852	1,500	1,304	674
Repayment of long-term debt and redemption of bonds	-22,406	-5,333	-9,143	-192
Other, net	-2,948	-1,907	-4,384	-25
Net cash provided by (used in) financing activities	9,022	-18,991	-49,470	77
Effect of exchange rate changes on cash and cash equivalents	180	295	591	2
Net increase (decrease) in cash and cash equivalents (+ + +)	-3,090	1,176	4,724	-26
Cash and cash equivalents at beginning of period	21,413	16,215	16,215	183
Increase in cash and cash equivalents resulting from changes of consolidated subsidiaries	161	474	474	1
Cash and cash equivalents at end of period	18,485	17,866	21,413	158

Consolidated Segment Information

1. Net sales by business segment

	Millions of yen			Millions of U.S. dollars
	1H FY2006	1H FY2005	Change(%)	1H FY2006
	(A)	(B)	(A) / (B)	
Energy & Electric Systems	149,037	129,384	115.2%	1,274
ED&C·Drive Systems	94,676	83,806	113.0%	809
Electronic Devices	91,855	75,952	120.9%	785
Retail Systems	74,383	87,666	84.8%	636
Others	25,253	24,986	101.1%	216
Subtotal	435,206	401,796	108.3%	3,720
Elimination	-34,242	-32,468	-	-293
Total	400,964	369,328	108.6%	3,427

2. Operating income by business segment

	Millions of yen			Millions of U.S. dollars
	1H FY2006	1H FY2005	Change(%)	1H FY2006
	(A)	(B)	(A) / (B)	
Energy & Electric Systems	-8,664	-12,609	-	-74
ED&C·Drive Systems	4,809	3,255	147.7%	41
Electronic Devices	9,388	6,602	142.2%	80
Retail Systems	859	5,362	16.0%	7
Others	952	953	99.9%	8
Subtotal	7,345	3,564	206.1%	63
Elimination/Corporate	-573	-232	-	-5
Total	6,772	3,331	203.3%	58

Consolidated Geographic Segment information

1. Net sales

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>	
	<i>1H FY2006</i>	<i>1H FY2006</i>	<i>1H FY2006</i>	<i>1H FY2006</i>
Japan	393,866	3,366	3,479	30
North America	3,782	32	204	2
Europe	6,670	57	221	2
Asia (except for China)	20,539	176	1,717	15
China	22,561	193	1,118	10
Subtotal	447,420	3,824	6,741	58
Elimination/Corporate	-46,456	-397	30	0
Total	400,964	3,427	6,772	58

2. Operating income

	<i>Millions of yen</i>		<i>Millions of U.S. dollars</i>	
	<i>1H FY2006</i>	<i>1H FY2006</i>	<i>1H FY2006</i>	<i>1H FY2006</i>
Japan	393,866	3,366	3,479	30
North America	3,782	32	204	2
Europe	6,670	57	221	2
Asia (except for China)	20,539	176	1,717	15
China	22,561	193	1,118	10
Subtotal	447,420	3,824	6,741	58
Elimination/Corporate	-46,456	-397	30	0
Total	400,964	3,427	6,772	58

Note: For the six months ended September 30, 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.

3. Net overseas sales

	<i>Millions of yen</i>		<i>Change(%)</i>	<i>Millions of U.S. dollars</i>
	<i>1H FY2006 (A)</i>	<i>1H FY2005 (B)</i>		
North America	6,466	8,178	79.1%	55
Europe	7,594	7,632	99.5%	65
Asia	77,886	55,373	140.7%	666
Asia (except for China)	57,272	-	-	-
China	20,614	-	-	-
Other	3,860	3,964	97.4%	33
Total	95,808	75,148	127.5%	819

< Ratio to net sales >

North America	1.6%	2.2%
Europe	1.9%	2.1%
Asia	19.4%	15.0%
Asia (except for China)	14.3%	-
China	5.1%	-
Other	1.0%	1.1%
Total	23.9%	20.3%

Consolidated Statements of Operations [2QFY2006]

	Millions of yen		Change(%) (A) / (B)	Millions of U.S. dollars
	2Q FY2006 (A)	2Q FY2005 (B)		2Q FY2006
Net sales	211,471	201,697	104.8%	1,807
Cost of sales	165,573	158,786	104.3%	1,415
Gross profit	45,897	42,911	107.0%	392
Selling, general and administrative expenses	36,773	38,438	95.7%	314
Operating income	9,123	4,472	204.0%	78
Non-operating income	1,366	1,527	89.5%	12
Interest and dividends income	180	178		2
Other	1,185	1,349		10
Non-operating expenses	1,283	1,660	77.3%	11
Interest expense	930	793		8
Other	352	866		3
Ordinary income	9,206	4,340	212.1%	79
Extraordinary income	207	1,297		2
Extraordinary loss	2,279	2,731		19
Income before income taxes	7,134	2,906	245.5%	61
Income taxes	2,857	2,360		24
Minority interests in net income of consolidated subsidiaries	195	243		2
Net income	4,081	302	1,351.3%	35

Consolidated Segment Information [2QFY2006]

1. Net sales by business segment

	Millions of yen		Change(%) (A) / (B)	Millions of U.S. dollars
	2Q FY2006	2Q FY2005		2Q FY2006
	(A)	(B)		
Energy & Electric Systems	82,404	82,518	99.9%	704
ED&C Drive Systems	49,578	44,788	110.7%	424
Electronic Devices	45,958	39,478	116.4%	393
Retail Systems	38,480	39,565	97.3%	329
Others	14,915	14,816	100.7%	127
Subtotal	231,337	221,166	104.6%	1,977
Elimination	-19,865	-19,469	-	-170
Total	211,471	201,697	104.8%	1,807

2. Operating income by business segment

	Millions of yen		Change(%) (A) / (B)	Millions of U.S. dollars
	2Q FY2006	2Q FY2005		2Q FY2006
	(A)	(B)		
Energy & Electric Systems	-54	-2,855	-	-0
ED&C Drive Systems	2,789	2,083	133.9%	24
Electronic Devices	6,618	4,895	135.2%	57
Retail Systems	-517	-100	-	-4
Others	721	738	97.7%	6
Subtotal	9,557	4,762	200.7%	82
Elimination/Corporate	-432	-289	-	-4
Total	9,124	4,472	204.0%	78

Supplemental Consolidated Financial Materials for FY2006 Half-Year
(April 1, 2006 - September 30, 2006)

1. Financial summary

	Billions of yen							
	1H FY2006		FY2006[Forecast]		1H FY2005		FY2005	
	change(%)		change(%)		change(%)		change(%)	
Net sales	400.9	108.6%	920.0	102.5%	369.3	101.4%	897.2	106.3%
Operating income	6.7	203.3%	47.0	114.6%	3.3	-	41.0	152.9%
Ordinary income	7.6	205.5%	47.0	112.4%	3.7	-	41.8	188.2%
Net income	3.6	-	22.5	120.9%	-0.7	-	18.6	238.6%

2. Number of consolidated subsidiaries

	1H FY2006	FY2006[Forecast]	1H FY2005	FY2005
Number of consolidated subsidiaries	67	66	66	67
Number of equity-method affiliates	2	2	2	2

3. Net income per share

	Yen			
	1H FY2006	FY2006[Forecast]	1H FY2005	FY2005
Net income per share	5.12	31.47	-1.04	25.70

4. Sales exchange rate (US\$)

	Yen			
	1H FY2006	FY2006[Forecast]	1H FY2005	FY2005
Sales exchange rate	115.38	115.19	109.48	113.31

5. Net sales by business segment

	Billions of yen							
	1H FY2006		FY2006[Forecast]		1H FY2005		FY2005	
	change(%)		change(%)		change(%)		change(%)	
Energy & Electric Systems	149.0	115.2%	400.0	100.5%	129.3	96.6%	398.1	106.2%
ED&C·Drive Systems	94.6	113.0%	190.0	104.1%	83.8	94.5%	182.5	102.4%
Electronic Devices	91.8	120.9%	193.0	111.3%	75.9	107.6%	173.4	121.1%
Retail Systems	74.3	84.8%	161.0	99.3%	87.6	106.8%	162.1	96.5%
Others	25.2	101.1%	55.0	105.4%	24.9	126.7%	52.2	114.1%
Subtotal	435.2	108.3%	999.0	103.1%	401.7	101.7%	968.5	106.4%
Elimination	-34.2	-	-79.0	-	-32.4	-	-71.2	-
Total net sales	400.9	108.6%	920.0	102.5%	369.3	101.4%	897.2	106.3%

Note : Net sales include inter-segment transactions.

6. Operating income by business segment

	Billions of yen							
	1H FY2006		FY2006[Forecast]		1H FY2005		FY2005	
	change(%)		change(%)		change(%)		change(%)	
Energy & Electric Systems	-8.6	-	11.0	156.6%	-12.6	-	7.0	219.2%
ED&C·Drive Systems	4.8	147.7%	10.5	132.9%	3.2	111.1%	7.9	118.8%
Electronic Devices	9.3	142.2%	21.0	115.4%	6.6	127.5%	18.1	191.6%
Retail Systems	0.8	16.0%	4.0	68.1%	5.3	187.8%	5.8	78.8%
Others	0.9	99.9%	2.0	93.6%	0.9	150.6%	2.1	123.2%
Subtotal	7.3	206.1%	48.5	117.9%	3.5	-	41.1	144.1%
Elimination/Corporate	-0.5	-	-1.5	-	-0.2	-	-0.1	-
Total operating income	6.7	203.3%	47.0	114.6%	3.3	-	41.0	152.9%

7. R&D expenditures

	Billions of yen							
	1H FY2006		FY2006[Forecast]		1H FY2005		FY2005	
	change(%)		change(%)		change(%)		change(%)	
Energy & Electric Systems	4.2	100.4%	10.1	108.4%	4.2	94.4%	9.3	101.6%
ED&C·Drive Systems	1.9	108.0%	4.1	110.8%	1.8	93.4%	3.7	101.2%
Electronic Devices	6.8	121.3%	14.5	129.2%	5.6	122.1%	11.2	128.6%
Retail Systems	1.8	106.9%	4.3	116.0%	1.7	102.9%	3.7	98.6%
Others	0.0	-	0.0	-	0.0	-	0.0	-
Corporate (basic research)	0.0	-	0.0	-	0.4	51.5%	0.8	51.5%
Total	14.9	107.7%	33.2	114.5%	13.9	102.0%	29.0	106.6%
Ratio to net sales (%)	3.7%	-	3.6%	-	3.8%	-	3.2%	-

8. Plant and equipment investment (including leases)

	Billions of yen							
	1H FY2006		FY2006[Forecast]		1H FY2005		FY2005	
	change(%)		change(%)		change(%)		change(%)	
Energy & Electric Systems	2.4	142.0%	9.2	246.6%	1.7	124.4%	3.7	100.6%
ED&C·Drive Systems	2.6	137.9%	7.0	172.6%	1.9	131.0%	4.0	97.5%
Electronic Devices	10.2	88.6%	60.0	152.9%	11.6	91.3%	39.2	171.5%
Retail Systems	2.1	169.8%	5.6	142.7%	1.2	143.5%	3.9	120.0%
Others	0.7	131.3%	2.6	151.2%	0.5	83.2%	1.7	131.3%
Corporate	0.0	-	0.2	-	0.2	-	0.2	-
Total	18.3	106.0%	84.9	160.1%	17.3	100.1%	53.0	148.8%
Leases	10.6	108.2%	46.0	156.3%	9.8	89.9%	29.4	130.2%

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

9. Depreciation, Leases paid

	Billions of yen							
	1H FY2006		FY2006[Forecast]		1H FY2005		FY2005	
	change(%)		change(%)		change(%)		change(%)	
Energy & Electric Systems	2.6	102.1%	5.6	105.8%	2.6	112.9%	5.3	111.6%
ED&C·Drive Systems	2.1	100.5%	4.5	104.7%	2.1	99.1%	4.3	104.6%
Electronic Devices	11.0	140.8%	23.9	135.0%	7.8	99.1%	17.7	103.5%
Retail Systems	1.8	101.6%	3.8	106.5%	1.7	98.2%	3.5	98.8%
Others	1.0	106.7%	2.3	110.8%	1.0	95.3%	2.0	93.8%
Corporate	0.0	-	0.1	-	0.1	-	0.2	-
Total	18.8	121.5%	40.5	121.4%	15.5	100.6%	33.4	103.3%
(Leases paid)	12.0	126.2%	25.8	127.7%	(9.5)	110.2%	(20.2)	112.2%

*Note: Leases paid for plant and equipment investment

10. Number of employees

	1H FY2006	FY2006[Forecast]	1H FY2005	FY2005
Energy & Electric Systems	10,111	9,905	10,293	10,201
ED&C·Drive Systems	5,181	5,243	4,962	5,090
Electronic Devices	5,555	5,751	4,977	5,199
Retail Systems	3,004	2,987	3,021	3,015
Others	1,844	1,868	1,774	1,770
Corporate	142	144	128	133
Total	25,837	25,898	25,155	25,408

(1)Results of Operations and Financial Review

Overview of Fiscal 2006 Interim Period, Ended September 30, 2006

Consolidated Business Results

Although the Fuji Electric Group faced a number of negative factors in the first six months of fiscal 2006, such as surging raw material prices, the overall operating environment remained favorable. This reflected continued economic recovery in Japan, supported by strong private-sector demand, moderate expansion in the U.S. economy, and strong economic growth in China and other parts of Asia.

Against this backdrop, the Fuji Electric Group's consolidated operating results were as follows:

Compared to the same period a year earlier, sales rose in the following Groups: Energy & Electric Systems, on the strength of large orders for electric power plants; ED&C · Drive Systems, due to higher sales both at home and overseas on the back of strong private-sector capital investment; and Electronic Devices, supported by significantly higher sales in both semiconductors and storage devices. However sales fell year-on-year in Retail Systems, as unseasonable weather and demand created by the introduction of redesigned bank notes in Japan ran its course, dragging sales of vending machines and coin mechanisms lower.

Despite escalating raw material prices, Fuji Electric doubled both operating income and ordinary income in the first half. This marked improvement in profitability was mainly due to higher sales resulting from measures to increase orders, efforts to reduce costs through Group-wide business process reengineering (BPR) and strategic reallocations of human resources in response to a changing business portfolio. The Company also posted a significant improvement in net income, reversing the net loss of the previous interim period. In the first half, the Energy & Electric Systems, ED&C · Drive Systems and the Electronic Devices groups all showed substantial improvement. Only the Retail Systems Group reported a decline in earnings, primarily due to lower sales.

Consolidated operating results for the interim period were as follows:

Net sales: ¥400,964 million (108.6% year-on-year)
Operating income: ¥6,772 million (203.3% year-on-year)
Ordinary income: ¥7,644 (205.5% year-on-year)
Net income: ¥3,659 million (Loss of ¥744 million in previous interim period)

Note:

Changes in the scope of consolidation in the interim period

New: 2; Excluded: 2

As of September 30, 2006, the Fuji Electric Group included 67 consolidated subsidiaries.

Dividends

In light of the above interim operating results, as well as forecasts for the full year explained on page 6, the Company has decided to pay an interim dividend per share of ¥4.00.

The year-end dividend is yet to be determined.

Segment Information

Energy & 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 Plant Engineering

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

Net sales increased 15.2% year-on-year to ¥149,037 million, while the operating loss improved by ¥3,945 million to ¥8,664 million.

In this segment, sales and earnings, particularly for the industrial plant business, are heavily concentrated in the second half. However, efforts to strengthen the operating structure through business restructuring and total cost reduction initiatives, including paring back management expenses, paid off with an improvement in profitability.

More specifically, the group concentrated on the private sector and overseas markets, both potential growth areas, while at the same time working to integrate marketing, technology and service structures. Alongside these initiatives, the group maintained its focus on research and development and improving manufacturing quality as part of continuing efforts to achieve an R&D-driven Energy & Electric Systems Group.

In the e-solutions field, the group won new orders for radiation monitoring systems and other products. However, sales overall were on a par with the previous year due to greater operational selectivity and focus in information systems. The priority was given to operating profitability, and this improved.

Environmental systems posted a year-on-year decrease in sales, due to a decline in the number of large projects. However, operating profitability improved, reflecting positive benefits from measures to reduce costs.

In industrial plant engineering, sales were higher on the back of new orders for electrical equipment to the steel, chemical and other basic materials sectors. Operating profitability improved reflecting higher sales and successful efforts to reduce management costs.

Sales in electric power systems were significantly higher compared to the same period a year earlier as the group booked sales related to a large thermal power plant for an independent power producer (IPP) in Japan. Operating profitability improved, thanks to measures to reduce costs.

Sales in plant facility construction rose compared to a year earlier, mainly due to large private-sector orders. Operating profitability also improved.

ED&C • Drive Systems

(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/high-voltage fuses, gas detectors, energy management equipment

Control & Drive Systems

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

Net sales increased 13.0% year-on-year to ¥94,676 million, while operating income rose 47.7% to ¥4,809 million.

In the domestic market, where private-sector capital investment was strong, the group concentrated on marketing to buoyant sectors while at the same time expanding sales in the energy conservation and environmental fields. Overseas, steps were taken to expand sales of global products in the expanding Chinese market and other regions. The Group also focused on boosting profitability by reducing total costs through activities to eliminate inefficient practices.

In ED&C components, the Group concentrated on machine tool manufacturers and other buoyant sectors in the domestic market. Sales were higher for core products such as magnetic contactors and low-voltage circuit breakers, as well as power generation monitoring equipment. In overseas markets, sales increased as the group expanded its lineup of global products. As a result, ED&C components posted a year-on-year increase in sales. Despite escalating raw material prices, operating income was higher compared to the same period a year earlier, as higher costs were offset by the increase in sales and total cost reductions.

In control and drive systems, domestic sales of machinery manufacturers, including makers of printing equipment, fans, pumps and other makers, were robust, while sales of mainstay products such as inverters, servomotor systems and programmable controllers increased. Overseas, sales of major products, such as inverters, were also favorable, particularly in China. As a result, both sales and operating income were higher compared to the same period a year earlier.

Electronic Devices Group

(Main Businesses)

Semiconductors

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

Magnetic Disks

Aluminum and glass magnetic disks, aluminum substrates

Imaging Devices

Photoconductive drums, peripheral imaging devices

Net sales increased 20.9% year-on-year to ¥91,855 million, while operating income rose 42.2% to ¥9,388 million.

The group focused on key strategies such as raising the ratio of new products in the semiconductor field, increasing output of magnetic disks and shifting production of imaging devices to China. These measures were aimed at creating a high-growth, high-earnings operating structure against the backdrop of expanding electronic device markets.

In semiconductor devices, IT and power supply products performed well due to increased demand

for high-voltage driver ICs for plasma display panels (PDPs) and multi-chip devices used in power supplies for flat-screen TVs. In the industrial sector, sales of mainstay IGBT modules rose, led by demand in the Chinese and European markets. In automotive-related products, volume production of IGBT modules for hybrid cars got under way and sales of high-performance MOSFETs were strong. As a result, sales of semiconductor devices grew year on year. Operating income also rose, despite higher raw material prices.

In magnetic disks, demand for hard disk drives (HDDs) strengthened reflecting expanding applications in digital consumer electronics and an increasing demand for higher storage capacity. The group responded by increasing production of glass substrate disks. In parallel, the group began volume production and sales of glass substrate disks incorporating perpendicular magnetic recording technology, which helps to vastly increase HDD capacity and performance. As a result, both sales and operating income were significantly higher than in the same period a year earlier.

In imaging devices, we completed the consolidation of manufacturing facilities at Shenzhen in China. Production lines transferred to the Shenzhen facility started operating in September 2006. Despite lower prices in the U.S. and European markets, sales and operating income saw year-on-year gains, thanks to higher sales to finished product manufacturers.

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

Net sales declined 15.2% year-on-year to ¥74,383 million, while operating income declined 84.0% to ¥859 million.

Retail Systems' basic policy is to strengthen earnings power and expand the business in potential growth areas. During the period under review, the group worked to enhance the profitability of its vending machines and cold chain equipment, while at the same time increasing sales of cold chain equipment, currency handling systems and food service equipment.

In vending machines, food service equipment and currency handling systems, the market was weak overall as unseasonable weather slowed demand for can and cup vending machines. Sales of cigarette vending machines were sluggish as demand related to large projects returned to more normal levels and the launch of cigarette vending machines with age identification features was delayed. In currency handling systems, sales of bill validators declined as demand spurred by the introduction of redesigned yen bills ran its course. As a result, sales and operating income for vending machines, food service equipment and currency handling systems were both significantly lower.

In cold-chain equipment, although the market as a whole saw only marginal growth, sales to the supermarket sector were higher, reflecting concerted efforts to win orders from new customers. Overall demand from the convenience store sector was lower, but the group's sales to this sector increased thanks to collaborations with trading firms and companies in other sectors, in conjunction with steps to extend operational reach. In store construction, the group concentrated on boosting

sales of modularized store construction systems. As a result, sales and operating income were higher than the previous fiscal year.

Others

(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, intellectual property services

Net sales increased 1.1% to ¥25,253 million, while operating income was flat at ¥952 million.

Fuji Life Corporation, as a part of the Fuji Electric Group's efforts to contribute to local society, strengthened its welfare and nursing care services through Fuji Life Carenet, a subsidiary. In the first half, the company added "power rehabilitation" facilities to its day-care facilities in Matsumoto City in Nagano Prefecture, thus making a full-fledged entry into the preventive healthcare business.

As the Group's core financial services provider, Fuji Electric Finance and Accounting Support Co., Ltd. seeks to raise the efficiency of cash management. In cash management systems (CMS), the company introduced an agency scheme for collecting accounts receivable. These and other initiatives were aimed at building a centralized CMS system for the entire Group.

Fuji Electric Information Service Co., Ltd. worked to reinforce personal information protection systems and obtained privacy mark certification in September 2006. Through these and other measures the company not only bolstered the Group's internal control systems but also opened up new business possibilities.

Fuji Brain Trust Co., Ltd., a shared services provider, reorganized and consolidated the Group's accounting and education/training systems to enhance the effective utilization and efficiency of the Group's human resources.

Financial Position

Free cash flow (free cash flow = net cash provided by operating activities + net cash provided by investing activities) was a negative ¥12.2 billion on a consolidated basis, compared with a positive free cash flow of ¥19.8 million in the previous interim period, a decline of ¥32.1 billion.

Cash flows from operating activities

Net cash used in operating activities was ¥1.6 billion, compared to net cash provided by operating activities of ¥17.5 billion in the same period a year earlier. Cash inflows chiefly came from an increase in internal funds from income before income taxes and minority interests. This was offset by an increase in inventories in preparation for sales in the second half of the year. Cash flow from operating activities deteriorated ¥19.2 billion compared to the first half of the previous fiscal year.

Cash flows from investing activities

Net cash used in investing activities was ¥10.6 billion, compared to cash inflow of ¥2.3 billion in the previous interim period. This was mainly attributable to capital investment in the Electronic Devices Group. Cash flow from investing activities deteriorated ¥12.9 billion compared to the first half of the previous fiscal year.

Cash flows from financing activities

Net cash provided by financing activities was ¥9.0 billion, compared to ¥18.9 billion used in the

previous interim period. This was mainly due to a net increase in long-term debt and to issues of corporate bonds in preparation for capital investment.

As a result, cash and cash equivalents as of September 30, 2006 declined ¥2.9 billion from the previous fiscal year-end, to ¥18.4 billion.

Outlook for the Fiscal Year Ending March 31, 2007

Although the potential negative impact from a possible slowdown in the U.S. economy remains a cause of concern, Japan's economic recovery is expected to continue underpinned by private-sector demand against a backdrop of strong growth in Asia, and China in particular.

In this environment, the Fuji Electric Group will strive to take full advantage of the favorable operating environment in the current fiscal year, the first year of its current Medium-term Business Plan, by implementing aggressive strategic business plans while at the same time taking steps to cope with high raw material prices and actively promoting Group-wide BPR to improve business performance.

Fuji Electric has raised its full-year earnings forecasts announced on April 27, 2006 in light of improvement in interim operating results. Details are as follows.

The forecasts assume an exchange rate for the second half of the fiscal year of ¥115/US\$.

Consolidated Business Forecast for FY2006

	FY06 Initial Plan (27 April)		FY06 Forecast (30 Oct.)		Change	(¥billions) FY05 Results
Net sales	910.0		920.0		+ 10.0	897.2
Operating income	(4.8%)	43.5	(5.1%)	47.0	+ 3.5	(4.6%) 41.0
Ordinary income	42.0		47.0		+ 5.0	41.8
Net income	20.0		22.5		+ 2.5	18.6

(Ratio of operating income to net sales)

Segment Information

Consolidated net sales by segment for FY2006 [forecast]

	FY06 Initial Plan (27 April)		FY06 Forecast (30 Oct.)		Change	(¥billions) FY05 Results
Energy & Electric Systems	387.0		400.0		+13.0	398.1
ED&C · Drive Systems	183.0		190.0		+7.0	182.5
Electronic Devices	193.0		193.0		0	173.4
Retail Systems	165.0		161.0		-4.0	162.1
Others	54.0		55.0		+1.0	52.2
Eliminations	-72.0		-79.0		-7.0	-71.2
Total	910.0		920.0		+10.0	897.2

Consolidated operating income by segment for FY2005 [forecast]

	FY06 Initial Plan (27 April)		FY06 Forecast (30 Oct.)		Change	(¥billions) FY05 Results
Energy & Electric Systems	9.0		11.0		+2.0	7.0
ED&C · Drive Systems	9.0		10.5		+1.5	7.9
Electronic Devices	20.5		21.0		+0.5	18.1
Retail Systems	4.5		4.0		-0.5	5.8
Others	2.0		2.0		0	2.1
Eliminations/Corporate	-1.5		-1.5		0	-0.1
Total	43.5		47.0		+3.5	41.0

Energy & Electric Systems Group

In the second half of fiscal 2006, the Energy & Electric Systems Group expects to see continued strong sales, led by demand for electrical equipment for general industrial machinery. The group plans to concentrate management resources on these growth areas and its core business operations with the aim of raising profitability. With its new solar cell manufacturing facility scheduled to come on stream in the second half, the group will strive to quickly put in place a volume production system and expand the scope of this business.

ED&C · Drive Systems Group

The group plans to reorganize its marketing system and focus on cultivating new customers. In Japan, the primary focus will be on introducing new products and stepping up sales to currently buoyant sectors, while at the same time stepping up sales proposals for system products. Overseas, the objective will be to expand sales of global products. The group will also strive to further boost profitability by continuing to eliminate wasteful practices, thus bringing down total costs.

Electronic Devices Group

In semiconductor devices, the group will work to boost production and launch new devices in IGBT modules for industrial applications, where demand remains strong, IGBT modules for automotive components, an expanding market, high-voltage PDP ICs for IT and power supplies, and MOSFETs for flat-panel display power supplies.

Competition is expected to intensify in magnetic disks. In response, the group will work aggressively to develop new devices and increase orders. The group plans to expand business by building product development and manufacturing systems to meet market needs.

In imaging devices, the group will concentrate on getting volume production at its Shenzhen facility on track while working to increase orders.

Retail Systems Group

In vending machines, the group will work on making CO₂ the industry's standard refrigerant. The group plans to capture a greater market share by introducing new models – products designed to make social contributions, such as vending machines with message boards and models designed to dispense products even in the event of natural disasters. In currency handling systems, the group will concentrate on equipment for contactless IC cards.

In cold-chain equipment, Retail Systems will work to increase sales by winning orders from major supermarket chains and for new format stores in the convenience store sector.

Dividends

Decision on the year-end dividend applicable to fiscal 2006 is pending.

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 September 30, 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 ¥287.2 billion as of September 30, 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.

(9) Risks related to compliance

The Fuji Electric Group conducts its business activities in a wide range of fields in regions worldwide

and is subject to the laws and regulations of the countries where it operates. Although the Group has put in place appropriate internal control systems and practices through compliance, there is still the possibility that legal violations or other similar incidents may occur in the future, which could have a negative impact on the reputation and operating results of the Fuji Electric Group.

(10) Risks related to lawsuits and other legal procedures

In the course of its business activities, the Fuji Electric Group may be subject to lawsuits and other legal procedures that could result in unforeseen orders to pay significant financial damages. Depending on the nature of the orders, this could have a negative impact on the operating results of the Fuji Electric Group.

Forward-looking Statements

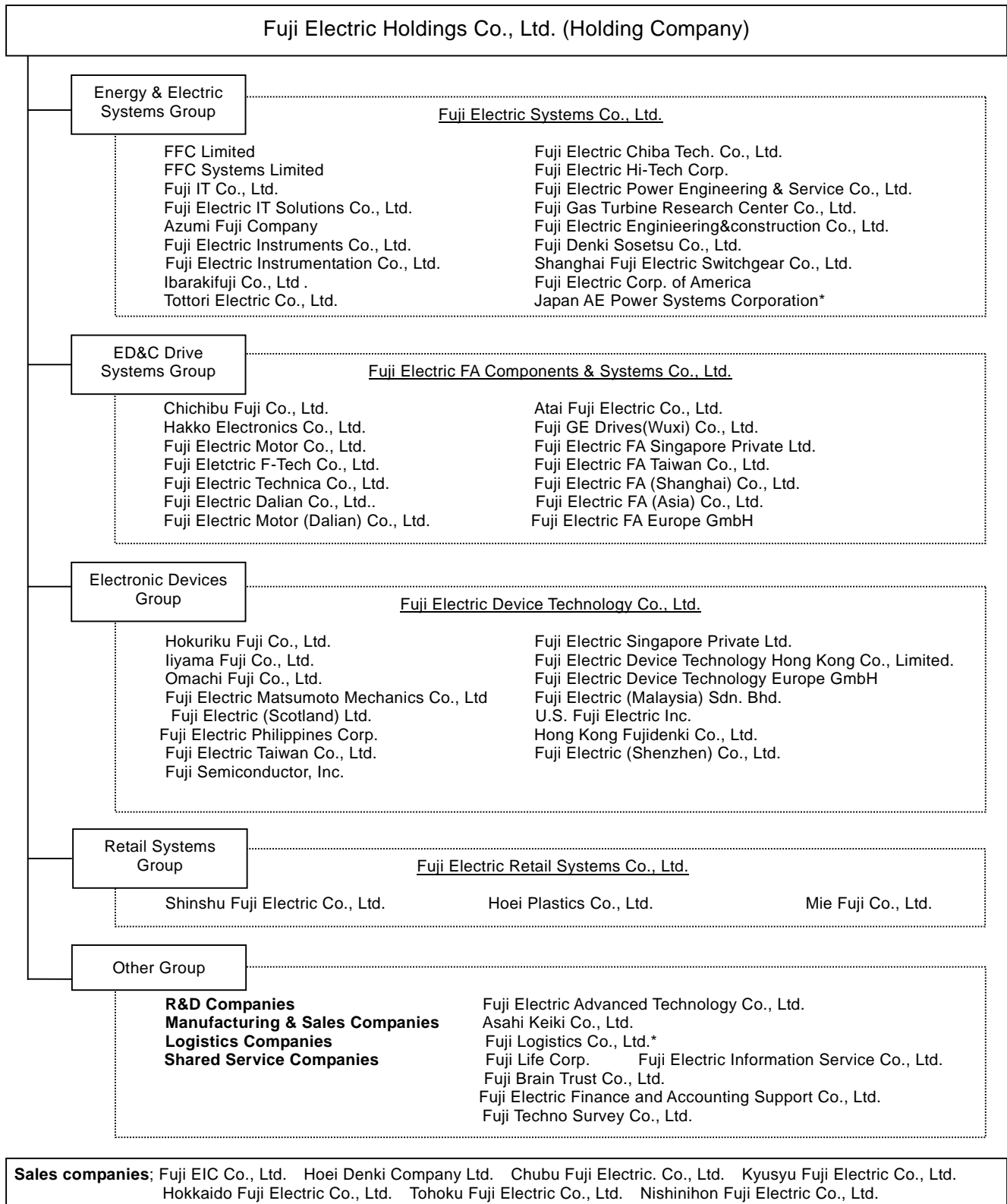
Statements and figures with respect to Fuji Electric Holdings' future performance and outlook are based on management's assumptions and beliefs in light of information available to management at the time this document was released. As such, these assumptions and beliefs involve risks and uncertainties. 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.

(2) Status of the Corporate Group

The operations of the Fuji Electric Group are divided into five business segments, Energy & Electric Systems, ED&C · Drive Systems, Electronic Devices, Retail Systems and Others, covering a wide range of business activities, including development, production, sales and service provision.

As of September 30, 2006, the Fuji Electric Group had 18 consolidated subsidiaries in Energy & Electric Systems, 15 in ED&C · Drive Systems, 16 in Electronic Devices, four in Retail Systems, and seven in the Others segment. There are also seven cross-segment sales companies, which bring the total number of consolidated subsidiaries to 67.

Notes: Companies marked with an asterisk are equity-method affiliates.



(3) 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 the 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, capital investment plans and the operating environment. Internal reserves, based on the objectives of our current medium-term management plan (fiscal 2006~2008), will actively be used to accelerate the Group's shift in operational focus to fields where it already has competitive advantages. Over the three years of the plan, we intend to spend ¥100 billion on R&D expenditures and ¥190 billion on capital investment. In addition, we will effectively use internal reserves to promote Group-wide business process reengineering (BPR), expand overseas operations, enhance personnel resources and take other steps to create and expand the Group's corporate value.

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

Japan's new Company Law came into force on May 1, 2006. In accordance with provisions in this law that call for more flexible dividend and capital structure policies, Fuji Electric has revised its Articles of Incorporation based on a resolution of the General Meeting of Shareholders on June 27, 2006 to allow for the distribution of retained earnings, the repurchase of stock and other steps to be taken through resolutions of the Board of Directors.

As per its existing approach, Fuji Electric plans to distribute dividends twice-yearly with record dates of March 31 and September 30.

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

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

Item	FY2008 target	FY2005 results
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.