

## **FY2006 First-Quarter Consolidated Financial Results**

### **[Operating Results]**

In the first quarter of fiscal 2006, the three-month period from April 1 to June 30, 2006, the Group's operating environment was generally strong despite the negative impact of surging prices for raw materials. The main factors supporting this strength included sustained economic recovery in Japan on the back of domestic private-sector demand fueled chiefly by capital investment, and growth in the global economy centered on the U.S. and Asia.

In this climate, the Fuji Electric Group posted an increase in consolidated net sales of 13.0%, to ¥189,492 million. Although sales in Retail Systems fell markedly from a year earlier, reflecting falling demand overall in the vending machine industry and a drop off from a surge in demand following the introduction of new Japanese bank notes, Energy & Electric Systems, ED&C • Drive Systems and Electronic Devices all reported higher sales compared to the same period a year earlier.

Despite winning more business from private-sector customers and achieving cost reductions through Group-wide manufacturing innovation activities, the drop in sales in Retail Systems resulted in a first quarter operating loss of ¥2,352 million, a deterioration of ¥1,212 million compared to a year earlier, and an ordinary loss of ¥1,561 million, an increase of ¥941 million. Due to lower extraordinary losses, the net loss improved ¥625 million, to ¥422 million.

### **[Performance by Business Segment]**

#### **Energy & Electric Systems**

This segment reported an operating loss of ¥8,610 million, an improvement of ¥1,144 million year on year, on net sales of ¥66,633 million, up 42.2%.

In the e-solutions field, the segment won some orders for document management systems from local governments, but this was outweighed by a drop in major orders for information management systems, resulting in lower sales year on year and deterioration in operating profitability.

Sales in the environmental systems field rose on the back of large orders for water

treatment systems, while operating profitability improved due to efforts to cut operating expenses and other costs.

In industrial systems, against the backdrop of a steady recovery in domestic private-sector investment, there was a firm performance overall by clean room facilities and electrical facilities for the materials sector, leading to a significant increase in sales compared to a year earlier. This increase in sales, as well as efforts to cut costs, supported an improvement in operating profitability.

Electric power systems recorded a significant increase in sales thanks to major orders from domestic independent power producers (IPPs) for thermal power generation equipment. However, operating profitability deteriorated mainly due to additional costs incurred on an overseas project.

Sales in the plant facility construction business grew year on year due to an increase in large orders from the private sector. Operating profitability also improved.

### **ED&C • Drive Systems**

This segment posted an increase in operating income of 72.4%, to ¥2,019 million, on net sales of ¥45,098 million, an increase of 15.6% year on year.

In electric distribution & control (ED&C) components in Japan, the segment focused on boosting sales to the machine tools sector and other industries that continue to perform well, resulting in higher sales of core products such as magnetic contactors and low-voltage circuit breakers, as well as energy monitoring systems. Sales also grew in overseas markets, reflecting efforts to supply core products that meet global standards. As a result, overall sales in ED&C components increased compared to the same period a year earlier. Operating income also rose as the higher sales and efforts to reduce total costs, including operating expenses, outweighed the negative impact of surging raw material prices.

In control & drive systems, sales in Japan grew on the back of increased sales of inverters, servomotor systems, programmable logic controllers and programmable operation displays as key customers in pump-related, printing equipment, textile machinery and other fields performed strongly. Sales of core products were also buoyant overseas, centered on demand from crane manufacturers in China. As result,

overall sales and operating income in control & drive systems both rose compared to the first quarter of fiscal 2005.

### **Electronic Devices**

This segment posted an increase in operating income of 62.3%, to ¥2,769 million, on net sales of ¥45,896 million, up 25.8% year on year.

In semiconductors, the segment boosted sales of electronic automotive components such as high-performance MOSFETs and automotive IGBT modules. Research and development efforts were targeted at creating products for hybrid vehicles, a promising area of growth. Sales of semiconductors to customers in the industrial sector were firm, mainly centered on machine tool-related products and IGBTs for general-purpose inverters. In the IT and power supply field, sales of core products such as high-voltage ICs used in plasma displays and MOSFETs rose due to an increase in production capacity. As a result, overall sales of semiconductors rose, but operating profitability deteriorated due to increased research and development costs related to the start of work on new products and the higher cost of capital.

In storage devices, sales and operating income both rose substantially compared to a year earlier. This reflected the segment's increased production capacity in an environment of rising demand for hard disk drives (HDDs). Volume production of 2.5-inch glass disks employing perpendicular magnetic recording technology also got under way to meet demand for large-capacity HDDs.

In imaging devices, sales increased year on year as strong demand for organic photoconductive drums (OPC) from assembly manufacturers outweighed lower sales of selenium products for older printer models. Operating income was level with the same period a year earlier.

### **Retail Systems**

This segment recorded a decline in operating income of 74.8%, to ¥1,377 million, on net sales of ¥35,903 million, down 25.4% year on year.

In the vending machine, food equipment and currency handling system field, sales of mainstay can vending machines and cup-type vending machines dropped, tracking an industry-wide decline in demand for these products. Sales of cigarette vending

machines also fell due to a decline in the number of major orders secured. Reflecting a drop off from a surge in demand following the introduction of new Japanese bank notes, sales of currency handling systems decreased compared to a year earlier. As a result, sales and operating income in this field were both much lower year on year.

In cold-chain equipment, sales to supermarkets rose year on year thanks to active efforts to win new orders, despite largely flat growth in the market overall. In the convenience store sector, where industry-wide sales declined marginally, a number of major new orders and efforts to attract new customers paid off with a slight increase in sales. As a result, sales and operating income increased compared to the first quarter of fiscal 2005.

### **Others**

Sales in this segment increased 1.7% to ¥10,338 million, while operating income rose 7.9% to ¥231 million, reflecting steps to integrate functions in a shared services company to improve the training of back-office personnel and promote more efficient management.

### **[Financial Position]**

Total assets as of June 30, 2006 stood at ¥942.2 billion, a decrease of ¥47.8 billion compared to the end of fiscal 2005. In assets, notes and accounts receivable, trade decreased ¥34.9 billion, while inventories rose ¥12.0 billion in preparation for second-quarter sales. Investments and other assets declined ¥28.9 billion, mainly reflecting a drop in the amount of unrealized losses on investment securities.

In liabilities, notes and accounts payable, trade fell ¥20.7 billion, while debt increased ¥15.1 billion. As of June 30, 2006, the balance of the Group's debt stood at ¥290.2 billion.

Net assets at the end of the period totaled ¥263.8 billion, mainly reflecting a drop in consolidated retained earnings of ¥3.3 billion, and a decline in unrealized gain on other securities of ¥16.8 billion. Shareholders' equity, which is net assets less minority interests, was ¥254.4 billion. The shareholders' equity ratio declined 0.8 of a percentage point, to 27.0%.

Free cash flow in the first quarter was negative ¥16.4 billion, compared with positive ¥6.1 billion in the same period a year earlier.

## Consolidated Interim Forecasts for FY 2006

In light of recent business performance and other factors, the Company has revised its consolidated interim forecasts for the fiscal year ending March 31, 2006, announced together with results for fiscal 2005 on April 27, 2006. Details are as follows. For further information, please refer to the separate announcement of July 27, 2006, "Fuji Electric Revises FY2006 Interim Earnings Forecasts."

These forecasts assume an exchange rate of ¥114/\$1.00 for the second quarter of fiscal 2006.

### Consolidated interim forecasts for FY2006

(¥ billion)

|                  | Initial | Revised | Change |
|------------------|---------|---------|--------|
| Net Sales        | 393.0   | 400.0   | +7.0   |
| Operating Income | 3.5     | 4.5     | +1.0   |
| Ordinary Income  | 3.5     | 4.5     | +1.0   |
| Net Income       | 0       | 1.0     | +1.0   |

### Consolidated net sales and operating income by segment for 1H FY2006 [ forecast ]

(¥ billion)

|                           | Net Sales |         |        | Operating Income |         |        |
|---------------------------|-----------|---------|--------|------------------|---------|--------|
|                           | Initial   | Revised | Change | Initial          | Revised | Change |
| Energy & Electric Systems | 140.0     | 147.0   | +7.0   | -9.0             | -8.5    | +0.5   |
| ED&C • Drive Systems      | 89.0      | 92.0    | +3.0   | 3.5              | 4.0     | +0.5   |
| Electronic Devices        | 91.0      | 94.0    | +3.0   | 7.5              | 8.5     | +1.0   |
| Retail Systems            | 80.0      | 75.0    | -5.0   | 1.5              | 1.0     | -0.5   |
| Others                    | 25.5      | 25.5    | 0      | 0.5              | 0.5     | 0      |
| Eliminations/Corporate    | -32.5     | -33.5   | -1.0   | -0.5             | -1.0    | -0.5   |
| Total                     | 393.0     | 400.0   | +7.0   | 3.5              | 4.5     | +1.0   |

#### [Cautionary Statement]

*Investors are warned that actual results may differ from the above forecasts due to a range of factors, including, but not limited to, sudden changes in the supply-and-demand balance in the markets the Group serves, fluctuations in exchange rates, particularly between the yen and the U.S. dollar, and fluctuations in Japanese stock markets.*