

1. Results of Operations

(1) Analysis of Business Results

Business Results for Fiscal 2007 Interim Period, Ended September 30, 2007

The Fuji Electric Group's overall operating environment remained favorable during the first six months of fiscal 2007 despite a number of negative factors, such as surging raw material prices and the slowdown in the US economy. The good business conditions were fueled by growth in the EU, and Asian economies led by China, as well as expansion in private-sector capital investment in Japan.

Against this backdrop, the Fuji Electric Group actively channeled management resources into growth fields and strove to bolster its cost competitiveness through Group-wide business process reengineering (BPR) and other means. Despite these measures, however, both sales and income fell below last year's levels. This was largely due to deteriorating results in the magnetic disks business of the Electronic Devices Group, as described in the revised financial results forecast announced on September 28, 2007.

Sales in the Energy & Electric Systems Group remained strong on the back of brisk private-sector capital investment, although the large orders for electric power plants in the previous year's interim period meant sales were higher than in the period under review. In the ED&C · Drive Systems Group, control and drive systems achieved strong sales, but sales in ED&C components were lower than a year earlier, reflecting a faltering domestic market. In the Electronic Devices Group, semiconductors performed well, particularly in the industrial sector. However, sales of magnetic disks were substantially lower than in the previous year due to a decline in sales to key customers and the impact of realignment within the industry. In the Retail Systems Group, sales exceeded the previous year's level. This was a result of harnessing the demand for modification of existing cigarette vending machines to incorporate age identification features, as well as higher sales of electronic settlement systems.

On the earnings front, operating income, ordinary income and net income were all lower than a year earlier. The main factors contributing to these results were escalating raw material prices, changes to the depreciation method accompanying tax law revision, and the effect of a large drop in sales in the high-margin Electronic Devices Group. These factors outweighed such benefits as cost reductions through Group-wide BPR and an improved gross margin rate.

In the first half, the Energy & Electric Systems Group and the Retail Systems Group reported higher earnings, while the ED&C · Drive Systems Group and the Electronic Devices Group reported a decline in earnings as a result of lower sales.

Consolidated operating results for the interim periods in fiscal 2006 and fiscal 2007 were as follows:

	(¥ billions)		
	1H FY2006	1H FY2007	YoY change (%)
Net sales	400.9	399.6	-0.3
Operating income	6.7	0.5	-92.1
Ordinary income	7.6	1.4	-80.9
Net income (loss)	3.6	-0.9	-

Figures in parentheses denote the ratio of operating income to net sales.

Note: Changes in consolidated subsidiaries in the interim period

New: 2; Excluded: 2

As of September 30, 2007, the Fuji Electric Group included 67 consolidated subsidiaries.

Segment Information

[Energy & Electric Systems Group]

YoY change: Sales down 0.7%; operating loss reduced by ¥1,082 million

Sales decreased 0.7% year on year to ¥147.9 billion, while the operating loss declined by ¥1,082 million to ¥7,582 million.

The Energy & Electric Systems Group is restructuring its businesses, most notably by channeling management resources into operations targeting the private-sector market. At the same time, the group is improving its organizational structure and increasing the number of operating bases in China in a bid to expand its overseas operations.

In this segment, sales and earnings, particularly for the industrial plant engineering business, are heavily concentrated in the fourth quarter of the fiscal year.

In the automation & solutions business, sales exceeded the previous year's level on the back of some large information system projects. Meanwhile, operating income declined year on year, primarily due to increased investment in the solar cell business.

In environmental systems, an increase in large water treatment projects lifted sales. Operating income also improved significantly, as a result of successful cost-curtailement efforts.

Sales in electrical machinery engineering rose substantially compared to a year earlier due to increased orders for electrical equipment from the private sector, including the steel and chemical industries. Operating income also increased. Robust growth in orders continued, centering on the key electric and electronic industries in addition to the steel and chemical industries.

Sales in electric power systems dropped sharply year on year due to a reduction in large thermal power plant projects. Operating income remained on a par with the previous fiscal year as a result of improved profitability. The number of orders increased steadily thanks to orders for geothermal power plants and other electric power systems, reflecting heightened demand for electrical power, especially in Asia.

In the plant facility construction business, sales were lower due to a reduction in large orders. Nonetheless, operating income was up thanks to an improvement in the gross margin rate on small and medium-sized projects, among other factors.

[ED&C • Drive Systems Group]

YoY change: Sales down 1.1%; operating income down 8.1%

Sales decreased 1.1% year on year to ¥93.6 billion, while operating income decreased by 8.1% to ¥4,420 million.

Domestically, the group pursued sales expansion in buoyant sectors such as machine tools within a growing market supported by private-sector capital investment. Overseas, steps were taken to expand sales of global products particularly in the Chinese market, which continues to exhibit a high growth rate. At the same time, the group established a sales network for inverters in the US and created a new sales base in India.

In ED&C components, sales declined year on year, reflecting a lackluster domestic market. Operating income was also lower as a result of higher raw material prices and fixed costs.

In control and drive systems, both sales and operating income exceeded previous year levels. Despite the effects of manufacturing bottlenecks in areas such as parts procurement, efforts to expand sales of products such as semiconductors and cranes to major growth customers played a key role in achieving this result. There were steady gains in the number of orders received both in Japan and overseas.

[Electronic Devices Group]

YoY change: Sales down 5.5%; operating income down 72.4%

Group sales were down 5.5% to ¥86.7 billion, and operating income fell 72.4% to ¥2,589 million.

Whilst both sales and operating income grew year on year in the group's semiconductors and imaging devices businesses, this growth was not sufficient to make up for the declines in the magnetic disks business.

In semiconductors, the higher sales and operating income were primarily due to the benefits of aggressive investments to increase production of IGBT modules for industrial use, which continue to enjoy a demand boom. This outweighed the effects of a slump in orders for driver ICs and similar products as a result of an underperforming plasma television market.

In magnetic disks, sales and operating income were substantially lower year on year. Whilst shipments of glass substrate disks increased on account of early conversion to perpendicular magnetic recording technology and measures to expand production, aluminum substrate disks suffered from a decline in sales to major customers and the effects of industry realignment. Meanwhile, the group commenced volume production of two new products: a 2.5-inch 160GB glass substrate disk that offers the world's largest capacity based on perpendicular magnetic recording technology, and a 3.5-inch 334GB aluminum substrate disk.

Imaging devices recorded robust sales to major customers of new organic photoconductive drum (OPC) models for black-and-white and color printers, resulting in year-on-year gains in both sales and operating income.

[Retail Systems Group]

YoY change: Sales up 7.9%; operating income up 10.6%

Sales rose 7.9% to ¥80.2 billion, while operating income was up 10.6% to ¥950 million.

Retail Systems has set itself the goals of strengthening earnings power and expanding business in potential growth areas. During the period under review, the group reformed its business structure, primarily to enhance earnings power in vending machines, while at the same time increasing sales of cold chain equipment and currency handling systems, particularly electronic settlement systems.

Both sales and operating income in vending machines, food service equipment and currency handling systems were higher than in the previous year. Market demand for mainstay beverage vending machines was sluggish due to curbs on investment by major customers, but cigarette vending machines with age identification features performed well. In addition, the process of incorporating age identification features into existing cigarette vending machines got fully under way, and helped make sales of vending machines as a whole higher than a year earlier. Meanwhile, sales were up year on year in currency handling systems, thanks to large orders for electronic settlement systems and strong sales of change dispensers.

In cold-chain equipment, sales were up year on year despite contraction of the market as a whole. The sales increase reflected the addition of new customers and new orders, including refurbishment-related orders for major chain stores, as well as orders to supply equipment for expressway parking and service areas, and for new locations such as schools and railway stations.

[Others]

YoY change: Sales up 18.8%; operating income up 9.0%

Sales increased 18.8% to ¥29.9 billion, and operating income increased 9.0% to ¥1,038 million, due primarily to the consolidation of a printing plate manufacturing and sales company.

Outlook for the Fiscal Year Ending March 31, 2008

The fiscal year ending March 31, 2008 (fiscal 2007) is the middle year of the Fuji Electric Group's mid-term management plan, launched in the previous fiscal year. During fiscal 2007, Fuji Electric is striving to further improve its performance by moving swiftly to channel management resources into growth businesses and by improving earnings power.

Consolidated business forecasts for the fiscal year ending March 31, 2008 are as follows.

The forecasts assume an exchange rate for the second half of the fiscal year of ¥110/US\$.

Consolidated Business Forecast

(¥ billions)

	FY06 results	FY07 forecasts	YoY change (%)
Net sales	908.0	960.0	+5.7
Operating income	46.2	36.5	-21.0
Ordinary income	48.7	34.0	-30.3
Net income	23.1	17.0	-26.5

Segment Forecasts

(¥ billions)

	Net Sales			Operating income		
	FY06 results	FY07 forecasts	change (%)	FY06 results	FY07 forecasts	change (%)
Energy & Electric Systems	401.8	420.0	+4.5	12.1	12.5	+2.8
ED&C · Drive Systems	193.9	197.0	+1.6	11.5	11.0	-5.1
Electronic Devices	182.3	200.0	+9.6	19.2	9.5	-50.6
Retail Systems	152.5	163.0	+6.8	2.5	3.5	+39.6
Others	65.5	64.0	-2.3	2.1	2.0	-5.0
Elimination and Corporate	-88.1	-84.0	-	-1.3	-2.0	-
Total	908.0	960.0	+5.7	46.2	36.5	-21.0

In the second half of the fiscal year ending March 31, 2008, robust private-sector capital investment is expected to continue in Japan. Against this backdrop, the Energy & Electric Systems Group will continue striving to increase orders and expand sales by reinforcing businesses targeting priority industries. In addition, the group will actively invest in R&D to further enhance its competitiveness, while focusing on business expansion in overseas markets—particularly in Asia, where economic growth is continuing. In industrial plant products, the aim will be to secure large orders that leverage the group's years of experience, while taking steps to expand sales of components. The group is currently receiving a large number of inquiries regarding solar cells in particular. In response to this interest, which is coming especially from Europe, the group intends to implement measures to expand the solar cell business, including ramping up production capacity.

In its ED&C components business, the ED&C · Drive Systems Group will endeavor to grow sales by bolstering its sales capabilities at specified distribution agents, and focusing on measures such as introducing new products, developing new markets and stepping up sales to currently buoyant sectors. In control & drive systems, the group will strive to resolve bottlenecks in production as soon as possible and to increase sales to key domestic and overseas customers demonstrating sustained growth.

The Electronic Devices Group will seek to expand shipment volumes in its semiconductor business by bringing forward investments to boost production capacity. This will enable the group to respond to strong orders for IGBT modules for industrial applications. At the same time, the group will step up sales to the Asian region by improving its sales and support network for devices for power supplies used in flat-screen TVs and PCs. In magnetic disks, the group will boost orders by developing new models based on customer specifications and respond to demand for higher storage capacity by accelerating the switch to perpendicular recording technology at its facilities. In parallel with these moves, the group will seek to improve productivity and curtail costs, thereby improving performance. In imaging devices, the group will work to develop new products based on customer specifications to boost orders.

In the Retail Systems Group, the vending machines, food service equipment and currency handling systems business is expected to continue facing challenging market conditions for mainstay vending machines. Nonetheless, the group will work to boost revenues by promoting sales of high-value-added vending machines offering such features as the capacity to dispense products even during power outages following a natural disaster, message boards and automated external defibrillators (AED). The group will also strive to increase sales of electronic settlement systems. In cold-chain equipment, efforts will continue to win new customers and strengthen marketing to existing customers. At the same time, the group will take action to increase orders by getting involved in store openings and renovations from the planning stages.

(2) Analysis of Financial Position

(¥ billions, time)

	9/30/2006	Breakdown (%)	9/30/2007	Breakdown (%)	Change
Total assets	952.9	100.0	1038.5	100.0	+856
Interest-bearing debt	287.2	30.1	336.6	32.4	+493
Net asset	257.6	27.0	273.9	26.4	+163
Debt-equity ratio	1.1		1.2		0.1

Net assets=Total net assets-Minority interests in consolidated subsidiaries

Debt-equity ratio: Interest-bearing debt/Net assets

Total assets as of September 30, 2007 were ¥1,038.5 billion, ¥85.6 billion higher than on September 30, 2006. Current assets increased by ¥54.0 billion, primarily as a result of higher trade receivables and inventories. Long-term assets increased by ¥31.4 billion, the main factors being the acquisition of tangible fixed assets resulting from aggressive capital investment focusing on the Electronic Devices Group, and an increase in other investment securities due to revaluation.

Interest-bearing debt increased by ¥49.3 billion to ¥336.6 billion as of September 30, 2007, largely due to the issuance of commercial paper.

Total net assets amounted to ¥283.1 billion on September 30, 2007, up ¥16.0 billion year on year. The main contributor was an increase in unrealized gain on other securities. Net assets, defined as total net assets minus minority interests in consolidated subsidiaries, were ¥16.3 billion higher than a year earlier at ¥273.9 billion. The debt-equity ratio was 0.1 of a point higher at 1.2 times.

	(¥ billions)		
	1H FY2006	1H FY2007	change
Cash flow from operating activities	-1.6	-17.7	-16.0
Cash flow from investing activities	-10.6	-11.7	-1.0
Free cash flow	-12.2	-29.4	-17.1
Cash flow from financing activities	9.0	34.0	+25.0
Cash and cash equivalents at beginning of interim period	21.4	19.1	-2.2
Cash and cash equivalents at end of interim period	18.4	23.5	+5.0

Free cash flow (cash flows from operating activities + cash flows from investing activities) was a negative ¥29.4 billion on a consolidated basis, ¥17.1 billion more than the negative free cash flow of ¥12.2 billion in the previous interim period.

[Cash flow from operating activities]

Net cash used in operating activities was ¥17.7 billion, ¥16.0 billion more than the net cash used of ¥1.6 billion in the same period a year earlier. While efforts were made to promote collection of trade receivables and advances from customers, this was offset by cash outflows that included an increase in inventories in preparation for sales in the second half of the year, and income taxes paid.

[Cash flow from investing activities]

Net cash used in investing activities was ¥11.7 billion, ¥1.0 billion more than the net cash used of ¥10.6 billion in the previous interim period. This was mainly attributable to aggressive capital investment, primarily in the Electronic Devices Group.

[Cash flow from financing activities]

Net cash provided by financing activities was ¥34.0 billion, compared to ¥9.0 billion provided in the previous interim period. This was mainly due to an increase in corporate bonds and commercial paper.

As a result, cash and cash equivalents on a consolidated basis as of September 30, 2007

increased ¥4.4 billion from the previous fiscal year-end, to ¥23.5 billion.

(3) Basic Policy Regarding Distribution of Earnings; Dividends for Fiscal 2007

The Fuji Electric Group's basic policy is to enhance shareholders' equity by increasing the earnings potential of the Group, through steps to strengthen the business foundation and secure retained earnings to support the research and development and capital investment necessary for future growth, while also returning profits to all shareholders.

In accordance with this policy, the Group strives to pay stable and continuous dividends while taking into account consolidated operating results for the fiscal year, plans for R&D and capital investment aimed at future growth, and the business environment.

The Group has positioned the acquisition of its own shares, in accordance with the business environment and its cash flow situation, as a flexible means of supplementing dividends.

In light of the interim operating results detailed above, as well as forecasts for the full year, Fuji Electric has decided to pay an interim dividend per share of ¥4.00.

The year-end dividend is yet to be determined.

2. Management Policy

(1) Basic management policy

(2) Target management indicators

(3) Medium- to long-term management strategy

There have been no significant changes with regard to the content disclosed in the financial report for the fiscal year ended March 31, 2007, announced on April 26, 2007.

The English-language overview of the financial report (announced on April 27, 2007) can be viewed at the following URLs:

Fuji Electric Holdings website:

<http://www.fujielectric.co.jp/eng/ir/index05.html>

Tokyo Stock Exchange website; listed company information search page:

<http://www.tse.or.jp/tseHpFront/HPLCDS0101E.do?method=init&callJorEFlg=1>

(4) Future challenges for Fuji Electric

Fuji Electric expects Japan's economy to continue to grow moderately. Although there are causes for concern, such as a slowdown in the U.S. economy that is expected to raise the value of the yen against the U.S. dollar, and soaring raw material prices, capital investment from the private sector is expected to continue increasing, as is domestic and overseas demand.

In the international economy, the continuation of a firm overall recovery is forecast due to factors such as a steady increase in investments directed at social overhead capital in Asia, particularly China.

In this business environment, the challenge for the Fuji Electric Group during fiscal 2007, the middle year of the mid-term management plan, is to strengthen its earnings base by firmly seizing growth opportunities, and build a foundation to achieve the final

year targets. In fiscal 2007, the Group will continue to concentrate on the following strategies.

Respond flexibly to market trends and actively focus management resources to maximize the potential of the most strongly performing Group operations. At the same time, vigorously develop overseas businesses, particularly in China and elsewhere in Asia, as these regions offer further growth potential.

Continue and expand efforts to reduce redundancy and waste in all segments, including the Operations and Management Group, by placing importance on the visibility and circulation of resources and information and striving to further strengthen cost competitiveness through Group-wide BPR ("Profit 7" activities).

Ensure thorough compliance by strengthening corporate risk management and building an appropriate and highly reliable internal control system based on the Financial Instruments and Exchange Law to respond sincerely to societal expectations of the Group.

The Group is committed to the above initiatives, and will contribute to the development of society through its corporate activities while striving to maximize corporate value.