

## Financial Performance

\* Figures for year-on-year changes are provided for reference.

### 1. Qualitative Information Regarding Consolidated Results

In the first three quarters of fiscal 2008, the nine-month period from April 1 to December 31, 2008, the business environment for Fuji Electric Group showed strong domestic private-sector demand for steel and other products that represent the Fuji Electric Group's strengths during the first half of the period; however, as the financial crisis that began in the U.S. deepened and led to global economic weakness, the Group has faced a challenging business environment from the third quarter (September 1 to December 31, 2008).

Against this backdrop, consolidated results for the first three quarters (nine months) of fiscal 2008 were as follows.

Net sales declined ¥61.8 billion year-on-year, to ¥540.3 billion. By business segment, the Energy & Electric Systems Group recorded increased sales due to strong-performing industries in the private sector, but overall sales were lower year-on-year on a rapid decline in components product volumes from the weaker market environment, especially in the third quarter, combined with revisions of the scope of the water environment and information systems businesses. Sales were significantly lower year-on-year at the Electronic Devices Group from the effects of deteriorating market conditions, including declines in demand from reduced capital investment and customers' inventory adjustments from the third quarter. The Retail Systems Group also recorded lower sales as demand related to equipping cigarette vending machines with age-identification equipment ended.

Operating income weakened considerably, with the operating loss widening ¥16.2 billion to ¥16.8 billion. From the third quarter, demand at Energy & Electric Systems and Electronic Devices groups declined on a rapid deterioration in market conditions, and the yen's appreciation.

Ordinary income fell ¥22.6 billion to a loss of ¥20.9 billion from a year-earlier profit of ¥1.6 billion, on equity-method losses and a larger foreign exchange valuation loss caused by the stronger yen recorded as non-operating losses.

Extraordinary losses included expenses for restructuring to strengthen the Group's earnings structure. In addition, with the decline in taxable income for the consolidated taxation group, which includes Fuji Electric Holdings, the likelihood of recovery of deferred tax assets was reviewed and deferred tax assets were drawn down under income taxes. As a result, the net loss widened significantly by ¥49.4 billion, to ¥50.0 billion.

Operating results of Fuji Electric Holdings Co., Ltd. for the first three quarters of fiscal 2008 were as follows.

**Summary of 3Q Results (9 month period)**

	(¥ billion)		
	3Q Fiscal 2007	3Q Fiscal 2008	Change
Net sales	602.2	540.3	-61.8
Operating income/loss	-0.5	-16.8	-16.2
Ordinary income/loss	1.6	-20.9	-22.6
Net income/loss	-0.5	-50.0	-49.4

**Results by Segment**

**[ Energy & Electric Systems Group ]**

*YoY change: sales declined 9.0%; operating loss improved ¥0.3bn*

Although plant product sales were solid despite weakening markets, net sales in this segment declined 9.0% year-on-year to ¥321.4 billion on sluggish demand for component products and following a revision of the scope of the business. Due to such factors as the revision of the business scope, the operating loss narrowed ¥353 million, to ¥3,141 million.

The segment's sales and profit, especially in the plant business, are affected by seasonal demand concentrated in the fourth quarter.

Sales and operating income at the drives business were lower year-on-year because of the decline in demand for inverters and component products triggered by the rapid market deterioration from the third quarter.

Although large projects for customers including electric power companies were strong, the automation business recorded lower sales and a wider operating loss as a result of a revision of the scope of the business.

Large projects including substation equipment were solid, but overall sales at the industrial plant engineering business were lower as a result of the revision of the scope of the business. On the other hand, operating loss improved from the year-earlier period.

Both sales and operating income at the electric power systems business rose year-on-year on large overseas projects for thermal power equipment.

Sales were down and operating income widened year-on-year at the plant facility construction business.

The ED&C components business recorded lower sales and an operating loss year-on-year as the demand from machinery and switchboard manufacturers declined as a result of the manufacturing industry both in Japan and overseas greatly reduced production and their holding back on capital investment.

**[ Electronic Device Group ]**

*YoY change: sales declined 13.1%; operating income declined ¥17.0bn*

Net sales in this segment declined 13.1% year-on-year to ¥119.1 billion, and operating income fell

¥17,048 million to a ¥13,679 million loss.

The semiconductor business recorded significantly lower sales and a wide operating loss year-on-year as reduced capital investment from the third quarter depressed demand, customers' reduced inventories and production, automakers lowered production, and increased depreciation and other expenses incurred for facility enhancement.

Sales at the magnetic disk business were slightly higher year-on-year on increased sales to large-order customers during the first half, but operating loss widened significantly as sales and production of hard disk drives declined on weak demand, depreciation and other expenses increased, and the yen appreciated.

The imaging devices business saw an increase in sales volume, but with price drops and the yen's appreciation, both sales and operating income declined.

### **[ Retail Systems Group ]**

***YoY change: sales declined 12.7%; operating loss remained on a par with the previous year***

Net sales in this segment came to ¥101.6 billion, a 12.7% year-on-year decline, and the operating loss widened by ¥65 million to ¥587 million.

The vending machine and food service equipment business experienced strong demand for environmentally-friendly models, but with demand for the renovation of cigarette vending machines with age-identification equipment coming to an end, both sales and operating income were lower year-on-year.

The currency handling systems business had continued strong demand for automatic change dispensers, but sales were down on a decline in large projects for electronic money-related devices. Operating loss declined, however, on reduced SGA expenses and cost-cutting initiatives.

Affected by the weak food retail market, sales at the cold-chain equipment business declined from the year-earlier level, but operating loss declined on reduced SGA expenses and cost-cutting initiatives.

### **[ Others ]**

***YoY change: sales declined 0.5%; operating income rose ¥0.2bn***

Net sales in this overall segment declined 0.5% year-on-year to ¥33.3 billion, but operating income rose ¥284 million to ¥1,550 million.

## Quantitative Information Regarding Consolidated Financial Position

(¥ billion)

	March 31, 2008	Breakdown (%)	December 31, 2008	Breakdown (%)	Change
Total assets	1,035.9	100.0	934.1	100.0	-101.7
Interest-bearing debt	356.2	34.4	406.1	43.5	+49.9
Shareholder's equity <sup>*1</sup>	254.4	24.6	154.7	16.6	-99.7
Debt-equity ratio <sup>*2</sup> (times)	1.4		2.6		+1.2

\*1 Shareholders' equity = Total net assets — Minority interests

\*2 D/E ratio = Interest-bearing debt/ Shareholders' equity

Total assets as of December 31, 2008, stood at ¥934.1 billion, which was ¥101.7 billion lower than at the end of the previous fiscal year. Current assets declined ¥45.4 billion as a large reduction in trade receivables more than offset an increase in inventories. Long-term assets declined ¥56.3 billion on a decline in the market value of other marketable securities.

The balance of interest-bearing debt grew ¥49.9 billion from the previous fiscal year end to ¥406.1 billion at the end of the third quarter.

Net assets were ¥92.6 billion lower than at the previous fiscal year end, totaling ¥170.6 billion at the end of the third quarter, due mainly to a decline in retained earnings and the valuation difference on other marketable securities. Shareholders' equity (total net assets less minority interests) declined ¥99.7 billion to ¥154.7 billion. The debt-equity ratio rose 1.2 points to a multiple of 2.6.

(¥ billion)

	3Q FY2007	3Q FY2008	YoY Change
Cash flow from operating activities	-28.0	-8.5	19.5
Cash flow from investing activities	-24.0	-13.9	10.0
Free cash flow	-52.0	-22.4	29.6
Cash flow from financing activities	51.7	47.3	-4.3
Cash and cash equivalents	18.6	44.7	26.1

The consolidated free cash flow (the sum of operating and investing cash flows) was negative ¥22.4 billion, compared with a year-earlier ¥52.0 billion net outflow for an improvement of ¥29.6 billion.

### Cash flow from operating activities

Net cash used in operating activities amounted to ¥8.5 billion, compared with a year-earlier ¥28.0 billion net outflow. The ¥19.5 billion improvement reflected efforts to promote the collection of trade receivables and advances from customers that more than offset inventory increases and the recording of a net loss before income taxes and minority interests.

### Cash flow from investing activities

Net cash used in investing activities totaled ¥13.9 billion, compared with a year-earlier ¥24.0 billion net outflow for a ¥10.0 billion improvement. The main item was capital investment, primarily at the Electronic Devices Group.

## **Cash flow from financing activities**

Net cash provided by financing activities totaled ¥47.3 billion, compared with a year-earlier ¥51.7 billion net inflow. This was mainly due to an increase in short-term borrowings.

As a result, cash and cash equivalents at the end of the quarter totaled ¥44.7 billion on a consolidated basis, marking a ¥22.6 billion increase from the end of fiscal 2007.

## **2. Qualitative Information Regarding Consolidated Forecasts**

Fuji Electric Holdings has revised its consolidated results forecast for the fiscal 2008 full-year period announced on October 30, 2008, based on the Group's consolidated results in the first three quarters.

Please refer to the "Announcement of Revised Forecasts and Expected Dividend" announced on February 13, 2009, for details.

The revised forecasts are based on a foreign exchange rate assumption of ¥90/US dollar for the fourth quarter.

## **3. Other Items**

### **(1) Changes in significant subsidiaries associated with changes in the scope of consolidation during the period under review.**

During the third quarter, Schneider Electric Japan Co, Ltd., a Japanese 100% subsidiary of the Schneider Electric Industries Group, took over the electrical distribution and industrial control equipment and gas-related equipment businesses of the Company's 100% subsidiary Fuji Electric FA Components & Systems Co., Ltd. through an absorption-type corporate split effective October 1, 2008. The successor company became a new consolidated subsidiary of Fuji Electric Holdings, and is considered a specified subsidiary. Effective the same date, Fuji Electric FA Components & Systems changed its name to Fuji Electric Assets Management Co., Ltd., and Schneider Electric Japan changed its name to Fuji Electric FA Components & Systems.

### **(2) Adoption of simplified accounting methods or special accounting methods for the preparation of consolidated quarterly statements**

#### **(a) Simplified accounting methods**

Depreciation of property, plant and equipment is calculated on a pro-rata basis for the period based on expected amortization for the year according to the budget for the fiscal year.

#### **(b) Special accounting methods for the preparation of consolidated quarterly statements**

Tax expenses have been calculated by rationally estimating the effective tax rate after applying tax effect accounting to consolidated net income before taxes for the current fiscal year, and multiplying this estimated effective tax rate by net income before taxes for the three quarters. For certain consolidated subsidiaries where the estimated effective tax rate could not be used, tax expenses have been calculated using the statutory effective tax rate. Income taxes include the

value of deferred income taxes.

### **(3) Changes in accounting principles, methods or presentation related to the preparation of consolidated quarterly statements**

#### **Changes in accounting standards**

(a) From the fiscal year under review the Company has applied the *Accounting Standard for Quarterly Financial Reporting* (Accounting Standards Board of Japan Statement No. 12, March 14, 2007) and *Guidance on Accounting Standard for Quarterly Financial Reporting* (ASBJ Guidance No. 14, March 14, 2007). Also, the consolidated financial statements for the nine months ended December 31, 2008 were prepared in accordance with the *Regulations concerning the Terminology, Forms and Preparation Methods of the Quarterly Consolidated Financial Statements*.

(b) Inventories held for sale in the ordinary course of business have formerly been calculated primarily using the cost method based on the identified cost method or the gross average method. From the first quarter of the year under review the Company has applied the *Accounting Standard for Measurement of Inventories* (ASBJ Statement No. 9, July 5, 2006). Accordingly, such inventories are still calculated primarily using the cost method based on the identified cost method or the gross average method, but the value shown on the balance sheets is a rounding down of the book value based on decreased profitability.

As a result, the operating loss and ordinary loss of the first three quarters of fiscal 2008 have each increased by ¥3,515 million, with the net loss before income taxes and minority interests increased by ¥5,151 million.

(c) From the first quarter of the year under review the Company has applied the *Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements* (ASBJ PITF No. 18, May 17, 2006), and made the necessary revisions on its consolidated financial statements.

As a result, the ordinary loss and the net loss before income taxes and minority interests of the first three quarters of fiscal 2008 have each decreased by ¥2,634 million.

(d) Financial lease transactions other than ownership transfers have formerly been accounted for according to methods for lease transactions. However, as it is now possible to apply the *Accounting Standard for Lease Transactions* (ASBJ Statement No. 13, [ Business Accounting Council Committee No.1, June 17, 1993 ], revised March 30, 2007), and the *Guidance on Accounting Standard for Lease Transactions* (ASBJ Guidance No.16 [Japanese Institute of Certified Public Accountants, Accounting System Committee, January 18, 1994 ], revised March 30, 2007), to quarterly financial statements for fiscal years beginning on or after April 1, 2008. Accordingly, the Company has applied these accounting standards from the first quarter of the year under review, accounting for such assets as ordinary sale transactions. Depreciation of lease

assets related to financial lease transactions other than ownership transfers is calculated by the straight-line method, with the lease period equivalent to the serviceable life of the asset, with no residual value. The impact of this change is minimal.

Financial lease transactions other than ownership transfers where the lease commencement date is prior to the start of the fiscal year in which these standards are adopted will continue to be accounted for according to methods for lease transactions.