

## Financial performance

### 1. Qualitative Information Regarding Consolidated Results

In the first quarter of fiscal 2008, the three-month period from April 1 to June 30, 2008, the business environment for the Fuji Electric Holdings Group was marked by strong domestic private-sector demand in such fields as steel and chemicals, and high growth in China and other Asian economies, as well as in developing countries. At the same time, however, the slowdown in the U.S. economy, rising prices for oil and materials, and concerns over inflation centered on developing countries led to a deterioration of the economic climate, heightening a sense of slowdown in domestic production and private-sector capital investment.

Against this backdrop, having entered the final fiscal year of the medium-term management plan launched in fiscal 2006, the Fuji Electric Holdings Group is working to strengthen its business portfolio and make other improvements to the business structure in order to generate new growth. As part of this reform program, we established a joint venture with another company in the water environment business, while we dissolved a joint venture in the information systems business. We also reclassified our business segments, merging the ED&C • Drive Systems Group into the Energy & Electric Systems Group. This restructuring has enabled us to fundamentally strengthen the drives business and the automation business to make them the new business drivers for the Group, while also moving steadily forward with reform of our core businesses. As a result, consolidated results for the first quarter of fiscal 2008 were as follows.

Net sales were down from the same period of the previous fiscal year. By segment, the Energy & Electric Systems Group expanded sales to strong-performing industries in the private sector, but revenue was down year on year due to the removal from the scope of consolidation of subsidiaries in the water environment and information systems businesses. In the Electronic Devices Group, sales were down considerably due to a falloff in shipment volume of industrial semiconductor products, stemming from inventory adjustments among major customers that became evident from the previous quarter and have continued, as well as from model changes for certain products in the magnetic disk field. In the Retail Systems Group, sales declined as demand for renovation of existing tobacco vending machines to incorporate age-identification equipment ended.

In terms of profitability, performance declined as a result of the sales falloff centered on the Electronic Devices Group, a decline in product prices, the impact of yen appreciation, and rising costs for raw materials, along with a revision to valuation standards for inventory assets following a change in accounting standards. Fuji Electric Holdings Co. Ltd. also recorded business restructuring costs and other expenses as extraordinary losses. As a result, the operating loss, ordinary loss and net loss all widened from the same period of the previous fiscal year.

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

#### Summary of 1Q Results

(¥ billion)

	FY2007	FY2008	YoY Change
Net sales	182.9	171.5	93.8%
Operating income/loss	-3.0	-5.6	-
Ordinary income/loss	-1.8	-4.9	-
Net income/loss	-0.4	-6.6	-

## Results by Segment

### **[Energy & Electric Systems Group]**

*YoY change: sales declined 4.5%; operating loss: improved ¥3.7bn*

Net sales in this segment declined 4.5% from the same period of the previous fiscal year to ¥93.3 billion. Although results in the industrial plant engineering business were positive, revenue declined as a result of the exclusion from the scope of consolidation of subsidiaries in the water environment and information systems businesses. The operating loss was impacted by revision of the valuation standards for inventory assets, but narrowed due to the real increase in sales (excluding the impact from the change in consolidation) and the fact that the two excluded subsidiaries had tended to make a profit during the second half of the year. The operating loss decreased by ¥3,785 million as a result, with the segment posting an operating loss of ¥2,741 million.

In this segment, sales and earnings are impacted by seasonal demand concentrated in the fourth quarter of the fiscal year, particularly in the plant-related business.

In the drives business, despite declines in demand for general-purpose inverters in Japan, sales remained on a par with the previous fiscal year due to strong sales overseas. Operating income rose year on year as a result of improved productivity in the manufacturing division and other factors.

In the automation business, sales were down year on year despite an increase in large projects for government clients and power companies, due to the removal of an information systems subsidiary from the scope of consolidation. Operating loss, however, declined as a result of the real sales increase excluding the impact of the eliminated company.

In the industrial plant engineering business, sales rose year on year due to a large project involving clean room facilities, and an increase in projects for railway operators. Operating loss was also down with the boost in sales.

In the electric power systems business, net sales were down following a decline in large thermal power plant projects, but operating income was up on improved profitability.

In the plant facility construction business, sales declined due to a drop in the number of projects, but operating loss decreased due to ongoing efforts to reduce costs.

In the ED&C components business, the business environment became harsh as demand from major clients such as machinery and switchboard manufacturers fell below the same period of the previous fiscal year. Both sales and operating income were down year on year despite efforts to focus on winning orders from switchboard manufacturers and other measures.

### **[Electronic Device Group]**

*YoY change: sales declined 9.5%; operating income: declined ¥6.6bn*

Net sales in this segment declined 9.5% from the same period of the previous fiscal year to ¥41.3 billion, with operating income declining ¥6,624 million, resulting in a ¥4,313 million operating loss. Although sales centered on LCD televisions and laptop computers rose steadily in the strong-performing consumer electronics field, performance was down as a result of a decline in

sales volumes of plasma televisions, falling product prices, the appreciation of the yen and inventory adjustments, along with revision of evaluation standards for inventory assets.

In the semiconductor business, sales of chips for automotive applications rose, centered on hybrid vehicles, but overall sales were down from the same period of the previous fiscal year due to sluggish orders for plasma television driver ICs, along with inventory adjustments for IGBT modules for industrial use among major customers, which became evident from the previous quarter and have continued. Operating income turned to an operating loss compared to the same period of the previous fiscal year as a result of falling prices for power supplies for information devices, the impact of the higher yen, and other factors.

In the magnetic disk business, sales declined year on year due to a falloff in shipment volume stemming from design specification and model changes, along with production and inventory adjustments by certain customers. Operating income deteriorated significantly to an operating loss compared to the same quarter a year earlier as we were unable to achieve production and shipment volume sufficient to offset the increase in depreciation expenses, along with the impact from the appreciation of the yen and other factors.

In the imaging devices business, sales volume was up, but net sales and operating income declined from the previous fiscal year as a result of falling product prices and the appreciation of the yen.

**[Retail Systems Group]**

***YoY change: sales declined 9.1%; operating income: declined 13.6%***

Net sales in this segment declined 9.1% from the same period of the previous fiscal year to ¥37.3 billion, with operating income down 13.6% to ¥1,067 million.

In the vending machine and food service equipment business, customers continued to curtail investment in drinks machines and, despite growing demand for environmentally friendly equipment and efforts to promote sales of vending machines with high-value-added functions, sales were down year on year due to the ending of demand for renovation of tobacco vending machines to incorporate age-identification equipment. Operating income was on par with a year earlier due to restructuring implemented during the previous year.

In the currency handling systems business, sales were down year on year due to a decline in large projects for electronic money-related devices, despite strong sales of automatic change dispensers. Operating loss, however, declined as a result of an increase in profitability.

In the cold-chain equipment business, sales were down and operating income deteriorated to an operating loss compared to the same period of the previous fiscal year amid a difficult business climate in the food retail industry. Despite more targeted sales efforts and other ongoing reforms emphasizing earnings, results were down mainly due to a falloff in sales to convenience stores.

**[Others]**

***YoY change: sales rose 4.1%, operating income: rose 61.3%***

Net sales in this overall segment rose 4.1% year on year to ¥10.3 billion, with operating income up 61.3% to ¥429 million.

## 2. Qualitative Information Regarding Consolidated Financial Position

	(¥ billion, times)				
	March 31, 2007	Breakdown (%)	June 30, 2008	Breakdown (%)	YoY Change
Total assets	1,035.9	100.0	1,010.6	100.0	-25.2
Interest-bearing debt	356.2	34.4	335.0	33.2	-21.1
Shareholder's equity <sup>*1</sup>	254.4	24.6	265.0	26.2	10.5
Debt-equity ratio <sup>*2</sup>	1.4		1.3		-0.1

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

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

Total assets as of June 30, 2008 amounted to ¥1,010.6 billion, a decline of ¥25.2 billion from March 31, 2008, the end of the previous fiscal year. Current assets declined ¥57.3 billion due to a considerable decrease in trade receivables that outweighed an increase in inventories. Long-term assets rose ¥32.0 billion, mainly due to the acquisition of property, plant and equipment stemming from proactive capital investment concentrated in the Electronic Devices Group, and an increase in the market value of other marketable securities.

The balance of interest-bearing debt decreased ¥21.1 billion from the end of the previous fiscal year to ¥335.0 billion, due mainly to ongoing efforts to collect trade receivables.

Net assets at the end of the first quarter amounted to ¥271.4 billion, up ¥8.2 billion from the end of the previous fiscal year, due mainly to a reduction in retained earnings and an increase in the valuation difference on other marketable securities. Shareholders' equity (total net assets less minority interests) increased ¥10.5 billion from the end of the previous fiscal year, to ¥265.0 billion. The debt-equity ratio declined by 0.1 to 1.3 times.

### Cash Flows

	(¥ billion)		
	1Q FY2007	1Q FY2008	YoY Change (%)
Cash flow from operating activities	-8.8	21.6	30.5
Cash flow from investing activities	-9.1	-2.2	6.8
Free cash flow	-17.9	19.3	37.3
Cash flow from financing activities	22.7	-26.8	-49.5
Cash and cash equivalents	24.2	15.4	-8.8

Free cash flow (the sum of operating and investing cash flows) was a positive ¥19.3 billion on a consolidated basis for the quarter under review (compared to a negative ¥17.9 billion for the same period of the previous fiscal year), a year-on-year improvement of ¥37.3 billion.

### Cash flow from operating activities

Net cash provided by operating activities amounted to ¥21.6 billion, compared with net cash used of ¥8.8 billion during the same period of the previous fiscal year. This constituted a year-on-year improvement of ¥30.5 billion, and was due mainly to efforts to promote collection of trade receivables and advances from customers, which offset the recording of a net loss before income taxes and minority interests, and an increase in inventories.

### Cash flow from investing activities

Net cash used in investing activities totaled ¥2.2 billion, compared with net cash used of ¥9.1 billion in the same period of the previous fiscal year. This constituted a year-on-year reduction in cash outflow of ¥6.8 billion, with the cash used primarily for capital investment centered on the Electronic Devices Group.

### Cash flow from financing activities

Net cash used in financing activities totaled ¥26.8 billion, compared with net cash provided of ¥22.7 billion during the same period of the previous fiscal year. This was due mainly to a decrease in commercial paper.

As a result, cash and cash equivalents on a consolidated basis at June 30, 2008, amounted to ¥15.4 billion, a decrease of ¥6.6 billion from March 31, 2008, the end of the previous fiscal year.

## 3. Qualitative Information Regarding Consolidated Forecasts

In light of first quarter results, Fuji Electric Holdings has revised its consolidated forecasts for the fiscal 2008 interim and full-year periods from those published with the earnings announcement on April 24, 2008. For more information see “Announcement of Revised Earnings Forecast” dated July 29, 2008.

The assumed U.S. dollar/yen exchange rate is ¥100/US\$1 for the first half of the fiscal year, and ¥95/US\$1 for the second half.

### Consolidated Forecasts for Interim Fiscal 2007 (¥ billion)

	Initial forecast	Revised forecast	Change
Net sales	400.0	384.0	-4.0
Operating income/loss	0.5	-7.5	-
Ordinary income/loss	0.5	-8.0	-
Net income/loss	-7.0	-11.5	-

### Consolidated Forecasts for Fiscal 2007 (¥ billion)

	Initial forecast	Revised forecast	Change
Net sales	925.0	890.0	-3.8
Operating income	42.0	22.5	-46.4
Ordinary income	42.0	22.5	-46.4
Net income	20.0	8.0	-60.0

## 4. Other Items

- (1) Changes in significant subsidiaries during the period under review (movement of particular subsidiaries following changes in the scope of consolidation)  
None
- (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 quarter. 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).

(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 quarter 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, operating loss and ordinary loss have each increased by ¥1,293 million, with the net loss before income taxes and minority interests increased by ¥2,929 million.

(c) From the quarter 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. The impact of this change is minimal.

(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 quarter 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.