

Financial performance

Analysis of Financial performance

Financial Performance for Fiscal 2006 (ending March 31, 2007)

A nationwide trend of reduced investment in public works, the high cost of raw materials, and a stock adjustment of intermediate goods for the IT industry all negatively affected the business environment of the Fuji Electric Group over the course of the current fiscal term. Despite this however, the business environment was favorable thanks to strong growth in the Asian economy, particularly in China, coupled with an increase in private corporate investment within Japan.

In this climate, while vigorously channeling its management resources into growth areas, the Group has embarked upon measures to strengthen cost competitiveness. As a result the consolidated business performance for the year were as follows.

Net sales increased in the segments of Energy & Electric Systems, which included a large-scale electric generation plant; ED&C Drive Systems, which expanded both domestically and overseas on account of the high demand from private enterprise capital private investment; and Electronic Devices, which expanded in the areas of semiconductors and disk storage devices. Net sales were not as strong in the Retail Systems segment however, as demand for vending machines and coin/bill validators was lower than the previous year.

Although the high prices of materials impacted profits, dynamic strategies to increase orders led to increase in net sales and the introduction of reforms to business methods successfully reduced costs. Through this, and through relocating our human resources to best suit the changes to the business structure, we achieved vastly improved operating income, ordinary income and net income compared with the previous year and bettered all previous record revenue highs. As a result the Group obtained an operating margin (operating income divided by net sales) of 5.1% and thus achieve the target (no less than 5%) set for this fiscal year.

By segment, profit increased in Energy & Electric Systems, ED&C Drive Systems, and Electronic Devices, but decreased in Retail Systems.

As a result, the operating results of the Fuji Electric Group for fiscal 2006 were as follows:

Fiscal 2006 (April 1, 2006 to March 31, 2007)

Net sales	¥908.0 billion	(Up 1.2% YoY)
Operating income	¥46.2 billion	(Up 12.7% YoY)
Ordinary income	¥48.7 billion	(Up 16.6% YoY)
Net income	¥23.1 billion	(Up 24.4% YoY)
Net income per share (¥)	¥32.37	(Up 6.67 duplicate YoY)

Segment Information

Energy and Electric Systems Group

The Energy & Electric Systems Group posted sales of ¥401.8 billion, an increase of 0.9% year on year. Operating income rose by 73.1%, year on year, to ¥12,161 million.

In light of the favorable business climate both in Japan and overseas, the segment focused on the expanding areas of private-industry and overseas businesses while also making concerted efforts to further strengthen management quality by structurally reforming business operations.

Specifically, as a response to the ongoing reduction in investments by the public sector in Japan, the segment structurally reformed the businesses aimed at the private sector by personnel relocating and reassessing operational systems to gain a more strategic positioning

in this area. Also, the segment carried out such reforms R&D businesses as readying a system to make strong components and establishing a mass-production plant for thin-film amorphous solar cells in Kumamoto Prefecture, which is now in operation.

Sales in the e-solutions field rose year on year due to better performance in radiation management systems for electric power companies and systematic electric power distribution systems. Operating income grew due to an increased emphasis on achieving profitability in information systems.

Environmental systems posted lower sales due to less orders for water treatment systems, which was a result of the shrinking public-sector investment in Japan.

Sales Industrial plants field increased considerably, driven by the solid private spending in Japan, with strong sales of electrical facilities and equipment to general private industry demand, particularly in the steel and chemical industries. Favorable profits were also achieved through cost reduction initiatives.

The booming energy demand overseas, particularly Asia, solid performance in respect to geothermal power generation facilities for the overseas market and a large order for a thermal power generation facility for IPPs (independent power providers) in Japan all contributed to a huge leap in sales and a positive turnaround in profit for the electric power systems business.

Both sales and operating income of the plant facility construction business increased year on year due to large construction projects for the electric power industry and general private industry.

ED&C • Drive Systems Group

Sales in the ED&C • Drive Systems Group increased 6.2% year on year to ¥193.9 billion, and operating income rose 46.7% from the previous fiscal year to ¥115.93 million.

In the domestic market, attention was focused on not only intensifying sales activities in the industries with good prospects to take full advantage off booming private sector capital investment, but also on expanding operations in the fields of energy conservation and the environment. In the overseas market, the segment placed a strong sales emphasis on those products suited to the global market as we stepped up sales and strengthened production systems in Asia, particularly China. Overall cost reduction was also obtained through profitability enhancement activities such as reducing waste and redundancy and decommissioning certain machine models.

In the field of electric distribution and control (ED&C) components, concerted sales efforts directed at the favorable main customer layer such as in the area of fabrication and machinery led to higher sales in energy management equipment and such main products as magnetic contactors and low-voltage fuses. Sales were also strong in the overseas market in Asia, particularly China as sales expansion efforts continued to be focused on products built to overseas ratings standards. As a result, sales for the field rose year on year and operating income also increased year on year as the rise in sales and the overall cost reductions outweighed the detrimental influence of the high price of raw materials.

In control and drive systems, we launched new products to expand our lineup of inverters and servomotor systems. In Japan, sales of such products as inverters increased as we focused on promoting new products for the automobile industry and makers of such machinery as cranes and pumps. Overseas, sales jump markedly as the main product lineup was in high demand, particularly those oriented for the Chinese market. As a result, both sales and operating income rose considerably year on year.

Electronic Devices

Net sales in electronic devices rose 5.2% year on year to ¥182.3 billion, while operating income rose 5.6% year on year to ¥19,222 million.

The definitive business characteristics of the segment are rapid advancements in technology and remarkable changes in market environments. The focus in the year was on the

establishment of profitable systems that encourage high growth as outlined in the mid-term plan. The resulting world-wide business expansion and the customer intensive one-to-one sales push translated to an expansion in sales. Also, in addition to an energetic drive to improve the production performance of IGBT modules and storage devices, the segment strove for advancements in technological development and for a sustainable reduction in production costs.

In semiconductor devices, active investment to increase the production of IGBT modules to meet the exploding demand for this mainstay product for the manufacturing industry market resulted in expanded sales. With respect to products for the information equipment power supply market, there was high growth centering on the mainstay products of driver ICs for plasma TVs, and multi-chip power devices. Improvements made to the production system strengthened the assembling capacity for discrete products and multi-chip power devices for power supplies. We also achieved a growth in sales for such automobile electrical components as MOSFET and IGBT modules. As a result, both sales and operating income increased year on year.

In storage devices, the large growth of the HDD (Hard Disk Drives) market can be attributed to our expanded capacity for producing aluminum substrates and glass substrates and our switchover to facilities that are compatible with perpendicular magnetic recording methods. In the 2.5 inch glass magnetic disk range, we started mass production in June 2006 of 80GB vertical-direction magnetic storage disks. As a result, sales and operating income both rose year on year.

Sales in imaging devices also performed well because of an increase in sales to large-order customers. An intensive production facilities for imaging devices at Fuji Electric (Shenzhen) Co., Ltd. has been in full operation since September 2006. It provides a production system with excellent efficiency and cost competitiveness. As a result, operating income rose year on year, but sales decreased year on year because of changes to the dates of the fiscal terms of overseas subsidiaries.

Retail Systems Group

Retail Systems posted a decline in sales of 5.9% year on year to ¥152.5 billion, while operating income fell 57.3% to ¥2,507 million.

The group has been vigorously developing new types of change dispensers for the distribution market and developing and improving equipment for e-money as these machines are growing increasingly prevalent. In the cold-chain equipment field, we have been engaged in initiatives to increase profitability to best take advantage of the increasing sales we are obtaining from energetic sales activities and business field expansion. Are also working on modification techniques to equip existing cigarette vending machines with age verification functions.

In the vending machines, food service equipment and currency handling system field, sales of the field's mainstay products, beverage dispensers were sluggish for reasons such as irregular weather patterns. In addition to this, although shipments of cigarette vending machines with age verification functions functionality have started, sales for cigarette vending machines were slow because of a decline in the number of equipment purchased by customers. With respect to currency handling systems, contactless IC cards are now on the market but the demand that accompanied the introduction of new bank notes has ended and there has also been a fall in demand for leisure equipment. As a result, sales and operating income for the segment both considerably dropped year on year.

In the cold-chain equipment field, energetic sales activities using proposal-based sales, expansion of business areas, and collaboration with merchants and companies in other industries all contributed to growth in this field. Meanwhile, in store materials and interior fittings, we have expanded our selection of modularized store construction systems. Sales continued to increase strongly because of new orders from a major convenience chain. As a

result of the above, segment sales and operating income were higher than the previous-year level but operating income fell due to an increase in expenses, mainly for sales promotion initiatives.

Others Group

Net sales increased 25.5% year on year to ¥65.5 billion—strongly influenced by the consolidation of a company that manufactures and sells printed circuit boards—and operating income declined 1.5% year on year to ¥2,105 million.

Forecasts for Fiscal 2007 (ending March 31, 2008)

For its medium-term management plan ending in fiscal 2008, the Group has set targets of net sales of over ¥1 trillion, a ratio of operating income to net sales of 7% or more, and a debt-equity ratio of 1.0 times or less. During fiscal 2007, the second year of this three-year plan launched in fiscal 2006, the Group will rapidly channel resources into growth businesses and work to strengthen earnings capacity in an effort to further improve business results.

Consolidated forecasts for fiscal 2007 are as follows. These forecasts are based on a U.S.\$/¥ exchange rate of ¥115 for the first half of the fiscal year, and ¥110 for the second half.

Consolidated Business Forecasts

(¥ Billion)

	Fiscal 2006 (Actual)	Fiscal 2007 (Forecast)	YoY Change (%)
Net sales	908.0	960.0	5.7
Operating income	46.2	47.5	2.8
Ordinary income	48.7	46.0	-5.7
Net income	23.1	24.5	5.9

Forecasts by Segment

(¥ Billion)

	Net Sales			Operating Income		
	Fiscal 2006 (Actual)	Fiscal 2007 (Forecast)	YoY Change (%)	Fiscal 2006 (Actual)	Fiscal 2007 (Forecast)	YoY Change (%)
Energy & Electric Systems	401.8	400.0	-0.5	12.1	9.5	-21.9
ED&C · Drive Systems	193.9	200.0	3.1	11.5	12.0	3.5
Electronic Devices	182.3	215.0	17.9	19.2	22.0	14.5
Retail Systems	152.5	165.0	8.1	2.5	4.5	79.5
Others	65.5	62.0	-5.4	2.1	2.0	-5.0
Elimination and Corporate	(88.1)	(82.0)	–	(1.3)	(2.5)	–
Total	908.0	960.0	5.7	46.2	47.5	2.8

In the Energy & Electric Systems Group, the Fuji Electric Group will achieve growth by strengthening its ability to capture private-sector demand, expanding the components business, and adopting a more global business stance.

To strengthen its ability to capture private-sector demand, the Group will invest business resources in target key fields to expand sales.

In the components business, the Group will accelerate volume production of film-type amorphous solar cells to expand the business.

To adopt a more global business stance, the Group will upgrade its sales and manufacturing facilities to grow its business in China, and step up sales expansion efforts in other areas of Asia and in Europe.

On April 1, 2007, the water environment business in the environmental systems field was spun off from the Group. The aim with this move is to realize more flexibility in business operations in the face of a changing market environment. As announced on February 22, 2007, the Fuji Electric Group has begun discussions with NGK Insulators, Ltd. regarding a possible integration of the two companies' water environment businesses.

In the ED&C • Drive Systems Group, in the Japanese market the Fuji Electric Group will increase sales by reinforcing its ability to attract new customers, particularly in strongly performing industries, expanding orders for system-based orders, developing projects on a sector-by-sector basis, and introducing new core products. In overseas markets, the Group will expand sales of new products with global applications and strengthen its sales structure, as well as proactively pursue business alliances with other companies.

In terms of profitability, the Group will work to further strengthen its management structure, and accelerate efforts to lower overall costs.

In the Electronic Devices Group, in the semiconductor field the Fuji Electric Group will further boost production capacity, as well as pursue sales of general-purpose products for information device power supplies, expand sales in the mobile handset field, and increase sales of mainstay products, focusing on IGBT modules for industrial and automotive electronics applications.

In the disk media field, the Group will increase sales by accelerating efforts to design perpendicular media products for customer specifications, acquiring new customers, and enhancing production capacity at Fuji Electric (Malaysia) Sdn. Bhd.

In the imaging devices field, the Group will maximize the competitive advantages of Fuji Electric (Shenzhen) Co., Ltd., as well as enhance material and product commercialization technologies.

In the Retail Systems Group, in the vending machine business, which is facing a challenging business environment at present, the Fuji Electric Group will streamline the business to create a more efficient operating structure that will secure earnings in both manufacturing and sales operations, improve the profitability of drink vending machines, work to meet demand for cigarette vending machines that can check the purchaser's age, and produce and launch vending machines that contribute to society, such as models with special features for natural disasters. In growth fields, the Group will continue aggressively investing in new product development. Other steps will include expanding sales of electronic money terminals and automatic change dispensers in the currency handling systems business, and cooperating with partner corporations to acquire new customers and win renovation contracts in the cold-chain equipment business.

Analysis of Financial Position

(¥ Billion, times)

	Fiscal 2005 (Year-end March 31, 2006)	Breakdown (%)	Fiscal 2006 (Year-end March 31, 2007)	Breakdown (%)	YoY Change
Total assets	990.0	100.0	1,024.8	100.0	34.7
Interest-bearing debt	275.0	27.8	299.9	29.3	24.8
Shareholder's equity	275.0	27.8	274.8	26.8	-0.1
Debt-equity ratio	1.0		1.1		0.1

Notes:

1. Shareholders' equity = Total net assets – Minority interests
2. Debt-equity ratio = Interest-bearing debt / Shareholders' equity

Total assets as of March 31, 2007, stood at ¥1,024.8 billion, ¥34.7 billion more than a year earlier.

This was mainly attributable to increases in trade receivables and inventories, along with property, plant and equipment in line with proactive capital investment.

The balance of interest-bearing debt increased by ¥24.8 billion from the end of the previous fiscal year to ¥299.9 billion at the end of the year under review, due primarily to the issue of corporate bonds to finance future capital investment.

Total net assets, despite an increase in retained earnings, declined by ¥0.3 billion to ¥284.5 billion due to a decrease in unrealized gain on other securities. (Note: The year-end figures used for comparison are total shareholders' equity plus minority interests.) Shareholders' equity, total net assets less minority interests, declined ¥0.1 billion from the end of the previous fiscal year to ¥274.8 billion. The debt-equity ratio rose 0.1 of a percentage point to 1.1 times at the fiscal year-end.

Cash Flows

(¥ Billion)

	Fiscal 2005	Fiscal 2006	YoY Change(%)
Cash flow from operating activities	60.2	12.7	-47.4
Cash flow from investing activities	(6.5)	(34.4)	-27.8
Free cash flow	53.6	(21.6)	-75.2
Cash flow from financing activities	(49.4)	18.7	68.2
Cash and cash equivalents	21.4	19.1	-2.2

In fiscal 2006, free cash flow (the sum of operating and investing cash flows) on a consolidated basis amounted to a negative ¥21.6 billion, compared to positive free cash flow of ¥53.6 billion in the previous fiscal year and representing a deterioration of ¥75.2 billion. This was due mainly to the impact of the fiscal year-end falling on a holiday, and proactive investment in growth fields.

Cash Flow From Operating Activities

Operating activities provided net cash and cash equivalents (cash) of ¥12.7 billion, compared to net cash provided in the previous fiscal year of ¥60.2 billion. Cash was mainly provided by income before income taxes and minority interests.

This represented a deterioration of ¥47.4 billion from the previous fiscal year.

Cash Flow From Investing Activities

Investing activities used net cash of ¥34.4 billion, compared to net cash used in the previous fiscal year of ¥6.5 billion. Cash was mainly used for strategic capital investment centered on the Electronic Devices Group.

This represented a deterioration of ¥27.8 billion from the previous fiscal year.

Cash Flow From Financing Activities

Financing activities provided net cash of ¥18.7 billion, compared to net cash used in the previous fiscal year of ¥49.4 billion. This mainly reflected increases in short-term borrowings and corporate bonds.

As a result of the above, cash and cash equivalents on a consolidated basis at March 31, 2007 amounted to ¥19.1 billion, ¥2.2 billion less than a year earlier.

Basic Policy Regarding Distribution of Earnings; Dividends for Fiscal 2006 and Dividend Forecast 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.

In terms of internal reserves, in accordance with the goals of the medium-term management plan ending in fiscal 2008, the Group will allocate ¥100 billion to R&D and ¥190 billion to capital investment over the plan's three years to further accelerate the program of business selection and concentration and make active investments in fields where Fuji Electric already has a competitive edge. Fuji Electric also effectively utilizes reserves to generate and increase the Group's corporate value through business process reengineering in Group operations, expansion of overseas businesses, and utilization of human resources.

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.

For the year under review, Fuji Electric plans to pay a year-end dividend of ¥4 per share (the formal decision regarding dividends will be made during a meeting of the Board of Directors to be held on May 24, 2007.) Consequently, combined with the interim dividend of ¥4 per share, Fuji Electric intends to pay a full-year dividend of ¥8 per share, an increase of ¥1 compared to the previous fiscal year.

Dividends for the next fiscal year are undetermined at the present time.

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 March 31, 2007, 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) The Fuji Electric Group's interest-bearing debt totaled ¥299.9 billion as of March 31, 2007. 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.

(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 technology development

The Fuji Electric Group makes a concerted effort to develop technology that matches the needs of the market. However, there is a possibility that competing companies will gain an advantage through faster development, or that the Group will be unable to bring products to market in a timely manner should development not progress according to plan. Such events could have a negative impact on the Group's operating results.

(4) 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.

(5) 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.

(6) Risks related to human resources

The business activities of the Fuji Electric Group depend heavily on its human resources. Retaining and training superior personnel in such fields as technology, production, sales and administration is essential to the growth of the Group. Should the Group be unable to retain and/or train such necessary human resources, this could have a negative impact on the Group's operating results.

(7) 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.

(8) 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.

(9) 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.

(10) 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.

(11) Risks related to compliance

The Fuji Electric Group conducts business in a variety of fields and regions throughout the world, and as such is subject to the laws and regulations of numerous countries. The Group has put in place an appropriate internal control system to ensure compliance, but the possibility of legal violations cannot be discounted entirely. Should such a violation occur, this could have a negative impact on the Group's social credibility and/or operating results.

(12) Risks related to lawsuits and other legal proceedings

The Fuji Electric Group, in the course of its business, could become the subject of a lawsuit or other legal proceeding, and may unexpectedly be liable for the payment of large amounts of compensation. Depending on the content of such a decision, this could have a negative impact on the Group's operating results.

On February 9, 2007, Fuji Electric Holdings Co., Ltd. and Fuji Electric Systems Co., Ltd. received notice from the European Commission of its decision (dated January 24, 2007) to impose a fine of 2.40 million euros for anti-competitive activities in the European market relating to gas-insulated switchgear. In addition, the Group's equity-method affiliate (30% equity investment) Japan AE Power Systems Corporation, together with Hitachi, Ltd., has been ordered to pay a fine of 1.35 million euros. After review of the decision, the Fuji Electric Group filed an appeal with the European Court of First Instance on April 19, 2007, on the basis that the facts stated in the decision are inconsistent with those recognized by the Group. The Group will be stating its argument at court.