

Financial Performance

1. Analysis of Business Results

(1) Financial Performance for Fiscal 2008 (April 1, 2008 – March 31, 2009)

The Fuji Electric Group's operating environment during fiscal 2008 showed strength during the first half in steel and other domestic private-sector demand areas that represent the Group's strengths, but from the beginning of the second half the environment became drastically more challenging as the global economy deteriorated from the increasingly severe financial crisis that began in the United States.

Against this backdrop, the Group took emergency measures to secure cash flow in the face of a weakening economic environment and a rapid decline in volumes of goods handled, while at the same time accelerating restructuring to rebuild the earnings base.

Consolidated results for the year were as follows:

Net sales were ¥766.6 billion, for a ¥155.5 billion decline from the previous fiscal year. By segment, the Energy & Electric Systems Group had solid plant-related sales, primarily from large overseas projects, but overall sales were lower because of revisions of the scope of the water environment and information systems businesses, and from a sharp decline in sales of component products as a result of the deterioration in the market environment from the second half. Sales also declined at the Electronic Devices Group, as the weaker market led to lower demand from reduced capital investment and customers' inventory adjustments, and prices fell as well. The Retail Sales Group recorded lower sales as well, on the end of demand for upgrading cigarette vending machines with age identification equipment and from the second half, a decline in vending machine demand.

Operating income declined by ¥54.7 billion, resulting in a ¥18.8 billion operating loss. In addition to lower sales from sharply weaker markets at the Energy & Electric Systems Group and the Electronic Devices Group, the yen's appreciation was also a factor behind the large decline. Ordinary income also fell to a loss of ¥20.7 billion, with non-operating expenses including foreign exchange losses from the yen's appreciation leading to the ¥56.5 billion decline. In addition to extraordinary losses including business restructuring costs, reversals of deferred tax assets under income tax adjustments resulted in a large ¥90.0 billion decline in net income, to a loss of ¥73.3 billion.

Operating results for fiscal 2008 were as follows:

	(¥ billion)		
	Fiscal 2007	Fiscal 2008	Change
Net sales	922.1	766.6	-155.5
Operating income/loss	35.8	-18.8	-54.7
Ordinary income/loss	35.8	-20.7	-56.5
Net income/loss	16.7	-73.3	-90.0

(2) Results by Segment

Energy & Electric Systems Group

YoY change: Net sales declined 16.6%; Operating income declined 55.1%

By merging the previous ED&C•Drive Systems Group into the Energy & Electric Systems Group, this segment has newly positioned the areas of drives and automation as the Group's core business driver. Along with strengthening the business portfolio, this is intended to bolster development capabilities in the areas of water environments and electric distribution and control (ED&C) equipment, and expand the business with a view toward global growth through measures including the establishment of a joint venture.

Net sales declined by 16.6% from the previous year to ¥490.3 billion, and operating income was 55.1% lower at ¥10.7 billion.

The drive business experienced lower demand for inverters and other component products, and both net sales and operating income declined as a result.

The automation business also recorded lower sales and operating income. Although large projects for electric power companies like radiation management systems were on track, the declines reflected the sale of the information systems business.

The industrial plant engineering business had solid results from major projects like large-scale rectifiers overseas and clean room facilities for LCD plants, but with the removal of the water environment company from the scope of consolidation, both net sales and operating income declined.

Net sales and operating income at the electric power systems business both rose from the previous year on large overseas projects for geothermal power generation equipment.

The plant facility construction division had lower sales and operating income, as business slowed because of the weaker economy.

The ED&C equipment business experienced a large drop in demand from machinery manufacturers, its main customer group, from a sharp decline in production in the domestic and overseas manufacturing industries, and both net sales and operating income declined as a result.

Electronic Device Group

YoY change: Net sales declined 23.4%; Operating income declined ¥39.1bn to a loss of ¥31.0bn

This segment is particularly impacted by drastic changes in its market environment, compounded by the rapid pace of technological innovation.

During fiscal 2008, the semiconductor business introduced new products for automotive applications, developed and organized large-capacity modules to change the product portfolios in wind power generation and railway-use products, strengthened the sales network to expand overseas businesses, and commenced mass production at overseas facilities. The magnetic disk business was engaged in full-scale production of 2.5-inch glass media (250GB/disc) and 3.5-inch aluminum media (500GB/disc). The entire division also began

restructuring to reorganize manufacturing centers and reduce fixed costs.

Net sales declined by 23.4% to ¥141.6 billion, and operating income fell by ¥39.1 billion to a ¥31.0 billion loss.

The semiconductor business had significantly lower sales as demand declined from reduced capital investment and customers adjusted inventories and production. Operating income also fell by a wide margin, as reduced production from lower demand was compounded by falling prices and the yen's appreciation.

The magnetic disk business recorded a large decline in sales on weak HDD demand from the second half. With lower sales and production, price drops, increased depreciation expenses, and a stronger yen, operating income also fell by a wide margin. The photoconductor business recorded growth in sales volume, but with price declines and a stronger yen sales and operating income both fell from the previous year.

Retail Systems Group

YoY change: Net sales declined 14.0%; Operating income declined ¥3.1bn to a loss of ¥0.4bn

The segment worked to raise earnings from vending machines and cold-chain equipment with the aim of “strengthening profitability” and “expanding operations in growth areas,” and also to expand the currency-handling equipment business, which consists primarily of automated change dispensers and electronic money equipment.

Net sales declined 14.0% from the previous year to ¥136.4 billion, and operating income was ¥3.1 billion lower, falling to a ¥0.4 billion operating loss.

The vending machine and food equipment business saw solid demand for environmentally friendly food and beverage vending machines, but with the end of demand for upgrading cigarette vending machines with age identification equipment and a sharp market deterioration from the second half, sales declined. Operating income also fell, reflecting lower sales as well as higher prices for steel materials.

Although orders for automated change dispensers remained strong at the currency-handling equipment business, the weaker market and restrained investment resulted in lower sales. On the other hand, operating income improved on progress in reducing SG&A expenses and other cost-cutting efforts.

The cold-chain equipment business was affected by the weak market in the food retailing industry, and sales declined. The business turned to profitability at the operating income level, however, on measures to strengthen the business through higher efficiency from thorough project management and enhanced engineering capabilities, and fixed cost reductions.

Others

YoY Change: Net sales declined 5.4%; Operating income rose 13.2%

Sales declined 5.4% from the previous year, to ¥48.8 billion, but operating income rose 13.2% to ¥2.7 billion.

(3) Outlook for Fiscal 2009

In terms of the economic environment in which the Group operates, although we expect large-scale economic measures by the world's major nations to prop up their economies, we see global economic cooling as likely to continue for some time. With regard to Japan's economy, we see exports and production continuing to decline in the face of weak economies overseas, and although we are forecasting a full-fledged recovery from fiscal 2010, we view the timing of a recovery as highly uncertain.

Against this backdrop, the Group has positioned fiscal 2009 as a year for completion of business restructuring to restore profitability in fiscal 2010. Major initiatives include rebuilding the earnings base and lowering the breakeven levels at several businesses, while at the same time moving toward an optimal business implementation structure for future growth, and strengthening solutions businesses with a focus on Energy and the Environment fields."

Our consolidated results forecasts for fiscal 2009 are shown below. These forecasts are based on foreign exchange rate assumptions of ¥90/USD and ¥115/euro.

Consolidated Forecasts

(¥ billion)

	Fiscal 2008 (Actual)	Fiscal 2009 (Forecast)	YoY Change
Net sales	766.6	690.0	-76.6
Operating income	-18.8	-12.0	6.8
Ordinary income	-20.7	-17.0	3.7
Net income	-73.3	-17.0	56.3

Forecasts by Segment

(¥ billion)

	Net Sales			Operating Income		
	Fiscal 2008 (Actual)	Fiscal 2009 (Forecast)	YoY Change	Fiscal 2008 (Actual)	Fiscal 2009 (Forecast)	YoY Change
Energy & Electric Systems	490.3	440.0	-50.3	10.7	9.0	-1.7
Electronic Devices	141.6	118.0	-23.6	-31.0	19.5	11.5
Retail Systems	136.4	129.0	-7.4	-0.4	1.0	1.4
Others	48.8	43.0	-5.8	2.7	1.5	-1.2
Elimination and Corporate	-50.6	-40.0	10.6	-0.8	-4.0	-3.2
Total	766.6	690.0	-76.6	-18.8	-12.0	6.8

At the Energy & Electric Systems Group, plant products are seen remaining relatively strong on large plant projects including geothermal power generation facilities overseas, but we expect the drop in demand for component products to continue. Therefore, along with accelerating business restructuring, we intend to focus resources on the Energy and Environment businesses and expand the solutions business that contributes to energy savings., targeting green iDCs and vehicles.

The Electronic Device Group will work to reduce costs and lower breakeven levels by reorganizing production centers and shifting production overseas. In addition, various initiatives will be carried out to rebuild the businesses earnings structure with a major shift in the product portfolio to the Energy and Environment businesses.

We expect the market environment to remain difficult for the Retail Systems Group. Therefore, the vending machine and food equipment business will emphasize further energy savings by expanding the lineup of vending machines with heat-pump functionality and strengthening initiatives to move toward a low-carbon society. The currency-handling equipment business will target sales growth while at the same time aiming to maintain earnings by building a structure that can respond to a drastically changing operating environment. The cold-chain equipment business will endeavor to secure orders through highly localized marketing activities, while also aiming to increase earnings strength by further raising productivity and pursuing the development of energy-saving equipment.

2. Analysis of Financial Position

(¥ billion)

	March 31, 2008	Breakdown (%)	March 31, 2009	Breakdown (%)	Change
Total assets	1,035.9	100.0	908.9	100.0	-127.0
Interest-bearing debt	356.2	34.4	416.0	45.8	+59.8
Shareholder's equity ^{*1}	254.4	24.6	130.3	14.3	-124.0
Debt-equity ratio ^{*2} (times)	1.4		3.2		+1.8

*1 Shareholders' equity = Total net assets - Minority interests

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

Total assets as of March 31, 2009, stood at ¥908.9 billion, which was ¥127.0 billion less than at the end of the previous fiscal year. Current assets declined by ¥67.5 billion, primarily because of declines in trade receivables and inventories that more than offset an increase in cash and deposits from fund procurement. Although tangible fixed assets grew from capital investment, primarily at the Electronic Device Group, a decline in market values of other securities resulted in a ¥59.3 billion decline in long-term assets.

Interest-bearing debt, consisting primarily of borrowings, grew by ¥59.8 billion to ¥416.0 billion as of the fiscal year end. Net financial obligations, excluding cash and cash equivalents, declined by ¥3.4 billion to ¥330.7 billion.

Net assets declined by ¥117.1 billion, totaling ¥146.1 billion as of fiscal year end, on declines in retained earnings and the valuation difference on other marketable securities. Shareholders' equity (total net assets less minority interests) declined ¥124.0 billion to ¥130.3 billion. The debt-equity ratio rose by 1.8 points to 3.2 times from 1.4 times at the previous fiscal year end. The net debt-equity ratio (net financial obligations / shareholders' equity) rose by 1.2 point to 2.5 times.

(¥ billion)

	Fiscal 2007	Fiscal 2008	YoY Change
Cash flow from operating activities	-13.1	23.1	36.2
Cash flow from investing activities	-36.6	-12.2	24.4
Free cash flow	-49.8	10.8	60.7
Cash flow from financing activities	54.2	53.7	-0.4
Cash and cash equivalents	22.0	85.3	63.2

Consolidated free cash flow (cash flow from operating activities + cash flow from investing activities) was positive in the amount of ¥10.8 billion, for a ¥60.7 billion improvement from the previous year's outflow of ¥49.8 billion.

Cash flow from operating activities

Operating activities generated net cash in the amount of ¥23.1 billion, compared with the previous year's ¥13.1 billion net outflow. This ¥36.2 billion improvement came primarily from accelerated collections of trade receivables and inventory reductions, which more than offset the recording of a net loss before income taxes and minority interests and a decrease in trade payables.

Cash flow from investing activities

Investing activities used cash in the amount of ¥12.2 billion, compared with the previous year's ¥36.6 billion net outflow. This ¥24.4 billion improvement came mainly from growth in tangible fixed assets, primarily at the Electronic Device Group.

Cash flow from financing activities

Financing activities generated cash in the amount of ¥53.7 billion, compared with the previous year's ¥54.2 billion net inflow. This reflected increased borrowings for the purpose of securing cash and deposits on hand. As a result, cash and cash equivalents as of the fiscal year end stood at ¥85.3 billion on a consolidated basis, marking an increase of ¥63.2 billion from the end of the previous fiscal year.

3. Basic Policy Regarding Distribution of Earnings; Dividends for Fiscal 2008 and 2009

The Fuji Electric Group's basic policy in its business activities is to provide products, services and solutions, focusing on "quality manufacturing," "original technologies," and "honest, open and hardworking attitude" to achieve maximum efficiency with minimum resources in the area of electrical energy and related fields. This is intended to contribute to the development of a recycling-based society and to the long-term development of the company based on the concept of "energy and environment," and to raise corporate value.

We intend to return profit gained through these business activities to shareholders, while at the same time maintaining adequate consolidated shareholders' equity to secure internal reserves for research and development, capital spending, and other investments to increase corporate value over the medium to long term.

The amount of dividends to be paid from retained earnings is determined in light of the above business cycle, and it is the Company's intention to pay a stable and continuous dividend that comprehensively takes into

consideration consolidated results for the corresponding fiscal year, R&D and capital investment plans for future growth, and the operating environment.

The acquisition of treasury stock is also used as a flexible mechanism to supplement dividends when warranted by the cash flow position.

The first half of fiscal 2008 saw a large decline in operating income, mainly at the Electronic Device Group, from price drops and the yen's appreciation, but based on retained earnings carried over, the Company paid an interim dividend of ¥4.0 per share.

From the beginning of the second half, however, the financial crisis that began in the United States rapidly intensified, leading to a global rapid slowdown in demand, and the Company was forced to record a consolidated net loss of ¥62.5 billion for the six-month period. Consolidated shareholders' equity also fell significantly, by ¥65.4 billion from the end of the first half to ¥122.0 billion as of the fiscal year end.

In light of this situation, the Company is giving the highest priority to quickly rebuilding consolidated shareholders' equity, and regrets to inform shareholders that it does not intend to pay a year-end dividend. As a result, the full-year dividend for fiscal 2008 is scheduled to be the interim dividend of ¥4.0 only. The dividend to be paid for fiscal 2009 has not yet been determined.

Management Policies

1. Fundamental Management Policy

The Fuji Electric Group seeks to benefit society through its corporate activities, continuously growing and raising earnings strength by providing technologies and services that contribute to environmental protection, with the aim of being a corporate group with high social worth that balances "economy," "environment," and "society."

2. Medium- to Long-Term Management Strategies and Targets, and Issues facing the Company

The greatest issue facing the Group is to build on the emergency measures implemented to address drastic market changes during fiscal 2008, to achieve a cost structure that is able to maintain continuous profits even during periods of weak demand. At the same time, medium- to long-term growth requires the building of an optimal business portfolio that anticipates future market trends.

Therefore, we have designated fiscal 2009 as the "Year for Completion of Business Restructuring," and for carrying out initiatives to restore profitability in fiscal 2010.

We are also implementing management reforms to overcome the current difficult market environment while also fostering the creation of a "New Fuji Electric" focused on "Energy and the Environment," thereby adding comprehensive strength to our operating base as a company that continues to evolve with society.

(1) Rebuilding the earnings base

During fiscal 2008, the Company implemented emergency measures to address a sharp drop in demand. These included “total cost reductions,” and “inventory reductions” through temporary factory stoppages and adjustments to operations. At the same time, we began a “business restructuring” to thoroughly realign business activities.

This will involve the recording of one-time expenses, concentrated in fiscal 2008 and 2009, and we intend to complete these measures and lower breakeven levels during fiscal 2009.

(2) Overhaul the business portfolio

In addition to reinforcing the earnings base, we are at the same time overhauling our business portfolio so that it is aligned with market trends for medium- to long-term growth.

The issues of “energy and the environment” are important matters for all mankind, and at the same time, we foresee huge (green) markets being created going forward in conjunction with a “green new deal” and other economic measures being taken by various countries around the world.

Since its establishment, the Fuji Electric Group has built up expertise and a track record as a “manufacturer that pursues products and technologies that provide maximum efficiency while consuming a minimum of resources and energy.” We therefore see these new markets as holding tremendous potential.

Our goal is to overhaul the business portfolio for growth focusing on “Energy and the Environment.”

(3) Overhaul the style of management

(a) Organizational changes to overhaul the business portfolio and rebuild unprofitable businesses

Specifically, we are working to strengthen the “Energy and the Environment” businesses by integrating the semiconductor business, which to date has focused on stand-alone products with the aim of being “the foremost specialist in the industry,” into the Energy & Electric Systems Group (Fuji Electric Systems Co., Ltd.).

Going forward, the Group will handle a variety of systems and equipment like power supply and solar battery systems for green markets where growth is expected, including “green iDCs” to reduce the power consumption and environmental impact of data centers, and next-generation “smart grid” electrical power networks.

The Group’s semiconductors emphasize high-efficiency, low-loss electrical power conversion, and this integration is intended to expand and strengthen the “Energy and the Environment” businesses by further enhancing the high efficiency and low energy use of the components and systems into which they are installed.

Rebuilding the magnetic disk business is the Group’s top management priority, and a specialized company structure that is aligned with the special features of the business, namely “drastic changes in the market environment and a rapid pace of technological innovation,” is being created.

Furthermore, as an extra measure in this restructuring, the holding company will directly participate in operational execution, with the holding company president (Group CEO) serving concurrently as the president of the specialized company. Having this authority will facilitate swift, strategic, and far-reaching decision making from an overall Group perspective.

(b) Organizational changes for management that is market-oriented and emphasizes R&D

The manufacturing industry's operating environment suggests that product cycles are set to become even shorter as a result of increased commoditization.

The Group will therefore merge its five wholly-owned domestic sales companies into Fuji Electric Systems Co., Ltd., to provide one-stop solutions that package components and systems in tune with the needs and issues of individual customers, while at the same time developing sophisticated solution-based marketing that encompasses both service and engineering functions.

We will also reduce divergence between markets and management by building a supply chain that keeps all business activities – including marketing, production, procurement, and development – consistent with market changes.

We will also merge research and development companies into the holding company. Along with increasing the cohesiveness of Group management by concentrating R&D and new business creation functions at the holding company, this will align technological strategies with Group management strategies and expedite the process from research to commercialization.