

Financial Performance

1. Analysis of Business Results

(1) Financial Performance for Fiscal 2009 (April 1, 2009 – March 31, 2010)

In fiscal 2009, ended March 31, 2010, although economic stimulus measures taken by Japan and other countries in response to a worldwide deterioration in the business climate—stemming from a financial crisis in the second half of 2008—resulted in a modest economic recovery centered on Asian markets, the Fuji Electric Group faced extremely tough economic conditions throughout the year.

Amid those conditions, the Group prepared a medium-term management plan covering fiscal 2009 through fiscal 2011. That plan positions fiscal 2009 as a year for making the “finishing touches to restructuring.” Specifically, in order to rebuild its earnings base, the Group is lowering break-even points in all businesses. At the same time, aiming for future growth, the Group is strengthening solutions businesses based on the field of “energy and the environment.”

Consolidated business results for fiscal 2009 were as follows.

Net sales decreased ¥75.4 billion year on year, to ¥691.2 billion. By segment, the Energy & Electric Systems Group saw a year-on-year decline in sales as a rapid decrease in demand for component products due to deteriorating market conditions counteracted solid plant-related sales, primarily from large overseas projects. In the Electronic Devices Group, although demand picked up from the second half, full-year sales declined year on year due to the effect of the worldwide deterioration in the business climate. In the Retail Systems Group, sales were down year on year as a result of lower demand for vending machines.

In earnings, the Group posted operating income of ¥0.9 billion, a significant ¥19.8 billion improvement compared with the previous fiscal year. That improvement was attributable to a reduction in total expenses and a lower break-even point due to business restructuring—which the Group began from the second half of the previous fiscal year—and higher sales in the Electronic Devices Group reflecting a recovery in market conditions.

Ordinary loss was ¥0.5 billion, a significant ¥20.2 billion improvement compared with the previous fiscal year.

Further, although the Group recognized business restructuring costs in extraordinary loss, it recognized deferred tax assets in accordance with an expected increase in taxable income for the following period. As a result, the Group recorded net income of ¥6.8 billion, a significant ¥80.1 billion improvement compared with the previous fiscal year.

Operating results for fiscal 2009 were as follows.

(¥ billion)

	Fiscal 2008	Fiscal 2009	Change
Net sales	766.6	691.2	-75.4
Operating income/loss	-18.9	0.9	19.8
Ordinary income/loss	-20.8	-0.5	20.2
Net income/loss	-73.3	6.8	80.1

(2) Results by Segment

[Energy & Electric Systems Group]

YoY: Net sales declined 9.7%, operating results improved 22.4%

This segment saw net sales decline 9.7% year on year, to ¥442.9 billion, while operating results improved 22.4% year on year, resulting in operating income of ¥13.1 billion.

In the drive business, sales and operating results decreased year on year because a deterioration in market conditions counteracted a trend toward recovery in order volumes in the second half of fiscal 2009, centered on China, for such component products as general-purpose inverters and small motors.

In the automation business, sales decreased year on year due to lower order volumes for such component products as measuring instruments. However, operating results increased slightly year on year thanks to cost reductions.

In the industrial plant engineering business, sales declined year on year despite orders for major projects, such as large-scale rectifier facilities overseas. Operating results were up year on year because of cost reductions.

In the electric power systems business, sales declined year on year as a result of a decrease in orders for thermal power equipment for large overseas projects. However, operating results were up year on year due to cost reductions.

In the plant facility construction business, sales and operating results increased year on year due to the merger of two consolidated subsidiaries and Furukawa Engineering Construction Inc.

In the ED&C components business, sales and operating results decreased year on year due to a deterioration in market conditions in Japan and overseas, which offset a pickup in demand from machinery manufacturers and a recovery in demand in Asia from the fourth quarter.

[Electronic Devices Group]

YoY: Net sales declined 8.0%, operating results improved ¥19.9 billion

In this segment, net sales declined 8.0%, to ¥130.3 billion, while operating results improved ¥19.9 billion, resulting in operating loss of ¥11.1 billion.

In the semiconductor business, worldwide economic deterioration during the year cancelled the effect of a recovery in demand related to PCs and flat-screen televisions centered on Asian markets, higher demand for environmentally friendly vehicles, and a rapid recovery in industrial-sector demand for semiconductors from the third quarter. As a result, sales were down year on year. However, in operating results the deficit decreased thanks to a lower break-even point resulting from business restructuring.

In the magnetic disk business, amid favorable conditions in the HDD market, from the third quarter the Company posted steady sales of mainstay 500 GB 3.5-inch aluminum media and 160 GB, 250 GB 2.5-inch glass substrate disks. Further, shipments of a new addition to the product lineup, 2.5-inch aluminum media, grew. Sales remained at the same level year on year because falling prices and yen appreciation offset higher unit sales. In operating results, the deficit decreased as a result of cost reductions. Moreover, this business achieved profitability in fourth quarter.

In the photoconductor business, sales remained at the same level year on year as falling product prices and yen appreciation counteracted higher sales volumes. Operating results increased year on year due to the advancement of rationalization and cost reductions.

[Retail Systems Group]

YoY: Net sales declined 14.9%, operating results deteriorated ¥0.6 billion

This segment recorded a 14.9% year-on-year decline in net sales, to ¥116.0 billion, and operating results deteriorated ¥0.6 billion year on year, resulting in operating loss of ¥1.1 billion.

In the vending machine and food equipment business, efforts to increase sales, primarily of environmentally friendly vending machines, did not compensate for beverage and food product manufacturers' curbing of investment in vending machines. As a result, sales were down significantly year on year. The decrease in sales and the work adjustments accompanying lower order volumes resulted in a year-on-year decrease in operating results.

In the currency-handling equipment business, a decrease in orders for major projects related to automated change dispensers and electronic money-related equipment resulted in a year-on-year decrease in sales. However, operating results increased year on year due to reductions of cost and fixed cost.

In the cold-chain equipment business, efforts to provide comprehensive solutions for environmentally friendly stores based on energy-saving technology were unable to counteract a decrease in new store openings and an accompanying intensification of price competition. As a result, sales and operating results declined year on year.

[Others]

YoY: Net sales declined 20.1%, operating results declined 14.7%

This segment saw decreases of 20.1% in net sales, to ¥39.1 billion, and 14.7% in operating results, to ¥2.4 billion.

(3) Outlook for Fiscal 2010

The Fuji Electric Group's medium-term management plan sets out as targets for fiscal 2011 net sales of ¥750 billion, an operating income margin of 5.0%, and overseas sales accounting for 40% of net sales. Under that plan, aiming to become a consistently high-earning business group centered on power electronics, the Group's basic management policies are to (1) "concentrate efforts on business in the field of "energy and the environment," (2) "develop solutions business with emphasis on technology," and (3) "develop business centered on Chinese / Asian market."

The Group views fiscal 2010—ending March 31, 2011, and the middle year of the medium-term management plan begun from fiscal 2009—as a year for building a base for sustained growth. Accordingly, the Group will concentrate allocation of management resources on the field of "energy and the environment" as a priority area with a view to future growth. At the same time, in the products field the Group will secure stable earnings while limiting investment.

Consolidated business results forecasts for fiscal 2010 are as shown below. Further, forecasts assume foreign exchange rates of US\$1=90 yen and €1=115 yen.

Consolidated Forecasts

(¥ billion)

	Fiscal 2009 (Actual)	Fiscal 2010 (Forecast)	YoY Change
Net sales	691.2	720.0	28.8
Operating income	0.9	16.0	15.1
Ordinary income/loss	-0.5	13.5	14.0
Net income/loss	6.8	26.0	19.2

Forecasts by Segment

(¥ billion)

	Fiscal 2010 (Forecast)	
	Net Sales	Operating Income
Energy Solutions	73.0	1.0
Environmental Solutions	290.0	8.0
Semiconductors	83.0	5.0
Vending Machines	86.0	2.0
ED&C Components	50.0	0
Magnetic Disks	60.0	2.0
Others such as Plant Facility Construction	126.0	2.0
Elimination and Corporate	-48.0	-4.0
Total	720.0	16.0

From fiscal 2010, the Group revised its segments in order to advance optimal business management in the field of “energy and the environment.”

In the Energy Solutions segment, in response to growing energy demand centered on emerging nations and calls for the construction of a low-carbon society, the Group will concentrate efforts on the “Green Energy Solutions” and “Grid Solutions” subsegments and work to reduce the environmental burden of energy and achieve stable electric power supplies. In the “Green Energy Solutions” subsegment, the Group will strive to expand its geothermal power generation business, which has a leading global market share. In the “Grid Solutions” subsegment, the Group will expand the development of smart grids business based on key technologies for photovoltaic power generation, electric power stabilization, and optimal energy operations.

In the Environmental Solutions segment, the Group will exploit power electronics technology and engineering technology it has accumulated and, taking “energy saving” as an overriding theme, focus efforts on developing businesses in the global market in the “Industrial Solutions,” “Transportation Solutions,” and “Social Solutions” subsegments. In the “Industrial Solutions” subsegment, aiming to reduce CO₂ related to factories, the Group will develop energy-saving businesses in China and other Asian markets. In the “Transportation Solutions” subsegment, the Group intends to concentrate on expanding operations for power electronic equipment for environmentally friendly vehicles and railway-related businesses. In the “Social Solutions” subsegment, the Group will develop energy-saving businesses, targeting buildings, stores, and IDCs (Internet data centers) in Asia.

In the Semiconductors segment, amid continuing favorable demand, the Group will begin production of wafers at overseas bases and work to increase production capacity. At the same time, the Group intends to increase high-capacity power semiconductors in the field of “energy and the environment.” Also, primarily in emerging markets and the North America market, the Group will work to increase sales by bringing to market products for environmentally friendly vehicles and contributing to energy saving for electronic devices, mainly through low-standby-power-consumption products.

In the Vending Machines segment, facing market conditions that are likely to remain tough, the Group will decisively reduce expenses with a focus on fixed cost and shortening production lead times in order to build a business organization that can readily adapt to changing conditions. In addition, through further roll out of energy-saving technology for mainstay drink vending machines, the Group intends to promote the spread of environmentally friendly vending machines. At the same time, the Group will move forward with the development of stock-type business.

In the ED&C Components segment, the Group will further strengthen its earnings base, achieve operating income, and build a base that will enable sustained growth. In Japan’s market, the Group will introduce differentiated products and increase sales in the power distribution market. In overseas markets, in Asian markets centered on China the Group will enter the power distribution market and endeavor to increase sales to Japanese investment projects and machinery manufacturers.

In the Magnetic Disks segment, amid an HDD market likely to grow at an annual rate of 10% or higher, the Group will ship existing mainstay products and cater to market demand for products with higher capacities. At the same time, targeting operating income for the full fiscal year, the Group will continue measures to rationalize production by restructuring supply chains and to lower the break-even point by reducing costs.

2. Analysis of Financial Position

(¥ billion)

	March 31, 2009	Breakdown (%)	March 31, 2010	Breakdown (%)	Change
Total assets	908.9	100.0	908.9	100.0	-0
Interest-bearing debt	416.1	45.8	359.8	39.6	-56.3
Shareholder's equity* ¹	130.3	14.3	178.9	19.7	+48.5
Debt-equity ratio* ² (times)	3.2		2.0		-1.2

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

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

Total assets at the end of fiscal 2009 stood at ¥908.9 billion, approximately the same as at the end of the previous fiscal year. Total current assets decreased ¥48.0 billion principally because lower cash and deposits and inventories offset an increase in notes and accounts receivable-trade. Total noncurrent assets were up ¥48.2 billion thanks to a higher valuation difference on available-for-sale securities, counteracting a decline in total property, plant and equipment.

Interest-bearing debt at fiscal year-end amounted to ¥359.8 billion, down ¥56.3 billion from the previous fiscal year-end, which was primarily attributable to decreases in short-term loans payable and commercial papers and redemption of bonds. Further, net interest-bearing debt—interest-bearing debt net of cash and cash equivalents—declining ¥8.2 billion from the previous fiscal year-end, amounted to ¥322.5 billion at fiscal year-end.

Net assets at fiscal year-end stood at ¥196.1 billion, an increase of ¥50.0 billion from the previous fiscal year-end, which was mainly due to an increase in valuation difference on available-for-sale securities. In addition, shareholders' equity—net assets net of minority interests—was up ¥48.5 billion from the previous fiscal year-end, standing at ¥178.9 billion at fiscal year-end. The debt-to-equity ratio declined 1.2 percentage points from the previous fiscal year-end, to 2.0 times. Also, the net debt-to-equity ratio (net interest-bearing debt ÷ shareholders' equity) edged down 0.7percentage points from 2008 previous fiscal year-end, to 1.8 times.

(¥ billion)

	Fiscal 2008	Fiscal 2009	Change
Cash flow from operating activities	23.1	11.9	-11.2
Cash flow from investing activities	-12.3	-0.5	11.8
Free cash flow	10.8	11.4	0.6
Cash flow from financing activities	53.8	-62.6	-116.3
Cash and cash equivalents	85.4	37.3	-48.1

In fiscal 2009, consolidated free cash flow (net cash provided by operating activities + net cash provided by investment activities) was ¥11.4 billion, an improvement of ¥0.6 billion compared with free cash flow of ¥10.8 billion in the previous fiscal year.

Cash flow from operating activities

Net cash provided by operating activities was ¥11.9 billion, compared with ¥23.1 billion for the previous fiscal year. That was mainly associated with an increase in notes and accounts receivable-trade and a decrease in notes and accounts payable-trade, which offset lower inventories.

This was a deterioration of ¥11.2 billion year on year.

Cash flow from investment activities

Net cash provided by investment activities was ¥0.5 billion, compared with net cash used in investment activities of ¥12.3 billion in the previous fiscal year. That was primarily related to proceeds from sales of property, plant and equipment.

This was an improvement of ¥11.8 billion year on year.

Cash flow from financing activities

Net cash used in financing activities was ¥62.6 billion, compared with net cash provided by financing activities of ¥53.8 billion in the previous fiscal year. That was principally due to decreases in short-term loans payable and commercial papers and redemption of bonds.

As a result, consolidated cash and cash equivalents at fiscal year-end amounted to ¥37.3 billion, down ¥48.1 billion from the previous fiscal year-end.

3. Basic Policy Regarding Distribution of Earnings; Dividends for Fiscal 2009 and Fiscal 2010

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.

In light of comprehensive consideration of the achievement of net income one year ahead of the initial target, the outlook for consolidated business results for the current fiscal year, and the Group's financial position, the Group plans to pay a dividend of ¥1.50 per share for fiscal 2009.

The dividend to be paid for fiscal 2010 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

Looking at future market trends for the Fuji Electric Group, it will likely see development of environment-friendly infrastructure for railways and water environments in emerging nations, such as China and other Asian countries, as well as burgeoning demand due to the promotion of renewable energy introduction centered on North America and Europe.

In response to those trends, the Fuji Electric Group is ahead of competitors in tackling initiatives for power electronics technologies—which play a key role in unlocking the potential of electricity and realizing energy-saving electronic devices—and has an extensive lineup of products and technologies.

In order to exploit those strengths of the Fuji Electric Group in the field of “energy and the environment,” which promises growth, the Group has prepared a medium-term management plan that covers the period through fiscal 2011 and calls for net sales of ¥750 billion, an operating income margin of 5.0%, and overseas sales accounting for 40% of net sales. The Group's medium-term management strategies are to (1) concentrate efforts on business in the field of “energy and the environment,” (2) develop solutions business with an emphasis on technology, and (3) develop business centered on the Chinese / Asian market. Through those strategies, we aim to become a consistently high-earning business group centered on power electronics.

(1) Toward concentrating efforts on business in the field of “energy and the environment / strengthening solutions business

In accordance with strategic measures to concentrate efforts on business in the field of “energy and the environment and strengthen solutions business, the Group changed its business management units from April 2010.

(Previous)

Segment	Subsegment
Energy & Electric Systems	Drives
	Automation
	Industrial Plant Engineering
	Electric Power Systems
	Plant Facility Construction
	ED&C Components
Electronic Devices	Semiconductors
	Magnetic Disks
	Photoconductive Drums
Retail Systems	Vending Machines and Food Service Equipment
	Currency Handling Systems
	Cold-chain Equipment
Others	

(From April 2010)

Segment	Subsegment
Energy Solutions	Green Energy Solutions
	Grid Solutions
Environmental Solutions	Industrial Solutions
	Transportation Solutions
	Social Solutions
Semiconductors	
Vending Machines	
ED&C Components	
Magnetic Disks	
Others such as Plant Facility Construction	

(2) Toward expanding global business strengthening

(a) Building a global business management system

On April 1, 2010, the Group established overseas area headquarters in China, Asia, North America, and Europe as well as a global strategy headquarters with overall control of the overseas area headquarters. In their respective areas of the world, overseas area headquarters will develop proposals for strategies optimally suited to local markets and develop proposals for global partner strategies. At the same time, they will rapidly advance measures to deploy personnel and start up bases.

(b) Concentrating efforts on global operational development centered on China / Asia

The Group has positioned the China / Asia region—the largest growth market—as its highest-priority area. As well as priority deployment of personnel, the Group will seek to reap benefits early by starting up such local systems as research and development bases and systems for development / sales / engineering.

(c) Activating personnel

In order to achieve the medium-term management plan, each employee must tackle tasks with real perseverance and an appetite for challenges. Aiming to create vitality throughout the Group and harness it as the driving force for reform, the Group will move forward with such initiatives as implementing a self-declaration “work I want to do” system for all employees, expanding its internal recruitment system, and strengthening the development of global personnel.