Management's Discussion and Analysis

Overview

In fiscal 2010, ended March 31, 2011, expanding markets in Asia, centered on China, counteracted further appreciation of the yen. As a result, demand trends in Japan's market and overseas markets progressed toward recovery.

Amid these conditions, based on its management strategy Fuji Electric focused efforts on three areas: "Expand Fuji Electric from Japan to the world," "Concentrate efforts on business in the field of energy and environment," and "activating human resources." At the same time, the Company moved forward with business restructuring aimed at strengthening the management positions of the Magnetic Disks segment and the Vending Machines segment in response to changes in market size.

However, as a result of the Great East Japan Earthquake on March 11, 2011, the Company recorded extraordinary loss arising from the negative effect on net sales of postponing projects that had been due for recognition in sales and the suspension of plant operations due to difficulties in procuring components and materials and scheduled power outages.

Financial Performance

Net Sales

In fiscal 2010, net sales edged down 0.3% year on year, to ¥689,065 million. Domestic net sales declined 0.5% year on year, to ¥510,843 million. Meanwhile, overseas net sales were up 0.3% year on year, to ¥178,221 million.

Cost of Sales, Selling, General and Administrative Expenses, Operating Income

Cost of sales decreased 4.5% year on year, to ¥543,557 million. Cost of sales as a percentage of net sales declined 3.4 percentage points, to 78.9%.

Selling, general and administrative expenses rose 10.1% year on year, to ¥133,590 million. Selling, general and administrative expenses as a percentage of net sales were up 1.8 percentage points, to 19.4%.

Operating income was ¥11,917 million, a substantial improvement of ¥10,993 million from the previous fiscal year. This was attributable to the higher net sales of the Semiconductors and ED&C Components segments and the benefits of the previous fiscal year's business restructuring, which absorbed deterioration in currency exchange rates due to yen appreciation.

Non-operating Expenses and Ordinary Income (Loss)

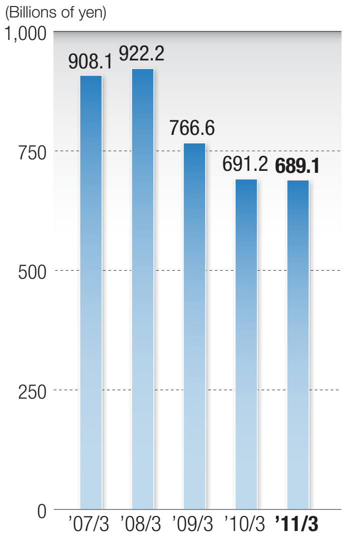
Non-operating expenses (net) were ¥4,691 million, up ¥3,228 million from the previous fiscal year's ¥1,463 million. This reflected foreign exchange losses of ¥4,390 million (compared with the previous fiscal year's foreign exchange gains), which counteracted a ¥1,408 million year-on-year decrease in interest expense.

As a result, ordinary income was ¥7,225 million, an improvement of ¥7,762 million compared with the previous fiscal year's ordinary loss.

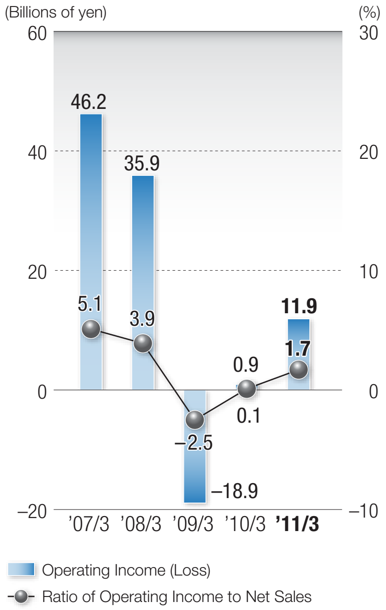
Extraordinary Income (Loss), Income (Loss) Before Income Taxes and Minority Interests

Extraordinary income was ¥31,531 million, due to gain on sales of noncurrent assets, gain on sales of investment securities, and gain on sales of subsidiaries' stocks. This increase in extraordinary income of ¥21,290 million from the previous fiscal year was mainly attributable a significant rise in gain on sales of investment securities.

Net Sales



Operating Income (Loss) /
Ratio of Operating Income to Net Sales



Extraordinary loss was ¥12,310 million, reflecting loss on disposal of noncurrent assets, loss on devaluation of investment securities, loss on adjustment for changes of accounting standard for asset retirement obligations, office/factory integration cost, and impairment loss. Moreover, extraordinary loss was ¥5,820 million lower than in the previous fiscal year due to the absence of the business restructuring costs recognized for the previous fiscal year.

As a result, income before income taxes and minority interests was ¥26,447 million, a significant improvement of ¥34,874 million compared with the previous fiscal year's loss before income taxes and minority interests.

Net Income

Net income—after deducting tax expenses of ¥10,202 million, mainly arising from the reversal of deferred tax assets, and minority interests in net income of consolidated subsidiaries of ¥1,141 million from income before income taxes and minority interests—was ¥15,104 million. This represented an ¥8,347 million year-on-year improvement in net income compared to the previous fiscal year's net income, which resulted from reflecting a reversal of tax expenses of ¥13,378 million and minority interests in net loss of consolidated subsidiaries of ¥1,806 million in loss before income taxes and minority interests.

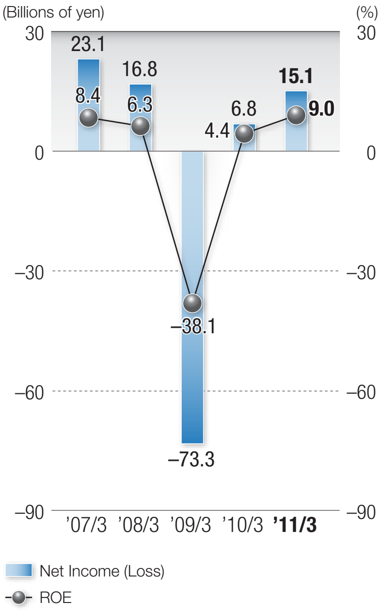
Results by Business Segment

Energy Solutions

Net sales declined 9.1% year on year, to ¥72,907 million, while operating results deteriorated ¥3,611 million year on year, to ¥3,027 million.

Net sales declined year on year due to a significant decrease in orders resulting from the delay or suspension of new projects in the previous fiscal year. Operating results declined year on year because efforts to reduce material costs and other expenses were unable to compensate for lower net sales.

Net Income (Loss) / ROE



Environmental Solutions

Net sales were down 3.7% year on year, to ¥278,271 million, while operating results deteriorated ¥3,796 million year on year, to ¥6,292 million.

In the Industrial Solutions subsegment, orders increased year on year due to a recovery in market conditions. However, the between-season timing of large orders caused net sales to fall year on year. Operating results declined year on year because efforts to reduce material costs and other expenses did not compensate for the effect of foreign exchange rates and lower net sales.

In the Social Solutions subsegment, the benefit of an acquisition in the power supply business did not offset a decline in large orders. As a result, net sales decreased year on year. Operating results were down year on year due to the decrease in net sales and fiercer price competition.

In the Transportation Solutions subsegment, centered on inverter-based systems, the domestic market saw steady trends in the pump and air conditioning markets. In overseas markets, capital investment in Asia's market, centered on China, drove performance, and net sales and operating results were up year on year.

Semiconductors

Net sales rose 21.0% year on year, to ¥85,620 million, while operating results improved ¥9,702 million year on year, to ¥5,953 million, moving into the black.

In power supplies, demand decreased year on year due to a slowdown, centered on China, from the summer onwards and the effect of currency exchange rates. In industrial products, demand was up significantly year on year due to a recovery in the inverters market, expansion of China's market, and expansion of photovoltaic power, wind power, and other new energy. In automotive electronics, demand rose year on year as growth in Europe and Asia absorbed the effect of the ending of subsidies for eco cars in Japan. As a result, net sales increased significantly year on year. Operating results improved substantially year on year because of higher earnings accompanying an increase in net sales and the benefits of the business restructuring in the previous fiscal year.

In photoconductive drums, although sales volume increased, the Company faced declining product prices and the effects of currency exchange rates. As a result, net sales and operating results were down slightly year on year.

ED&C Components

Net sales rose 45.7% year on year, to ¥65,451 million, while operating results improved ¥7,612 million year on year, to ¥2,864 million, moving into the black.

In the Japan's market, demand for machine tools from equipment manufacturers grew significantly, including demand from Asia centered on China. Overseas markets saw a significant increase in demand from Asian markets, centered on China, which continues to grow vigorously. As a result, net sales increased significantly year on year. Operating results improved substantially year on year because of higher earnings accompanying an increase in net sales and the benefits of business restructuring in the previous fiscal year.

Vending Machines

Net sales declined 6.1% year on year, to ¥85,776 million, while operating results improved ¥1,156 million year on year, to ¥398 million, moving into the black.

Net sales declined year on year because a temporary increase in sales volume resulting from unusually warm summer weather did not absorb continuing curbed investment among beverage and food product manufacturers that reflects continued sluggish consumption. Operating results were down year on year as declining prices, lower sales volume, and the effect of the earthquake counteracted cost reduction and reduction in fixed cost.

In currency handling systems, net sales and operating results improved year on year due to an increase in the installation of automatic change dispensers by retail companies, centered on chain stores, and reduction in fixed cost.

Magnetic Disks

Net sales declined 9.2% year on year, to ¥40,359 million, while operating results improved ¥2,218 million year on year, to operating loss of ¥5,224 million.

The HDD market was slightly above the level of the previous fiscal year. The segment shipped mainstay products: 500GB and 667GB 3.5-inch aluminum media and the 320GB 2.5-inch aluminum/glass media. However, this did not offset the effect of currency exchange rates and suspension of operations due to scheduled power outages following the Great East Japan Earthquake. As a result, net sales declined year on year. Although improving year on year thanks to the benefits of restructuring that reduced overall expenses and reduced cost, operating results remained in the red.

Others

Net sales declined 2.9% year on year, to ¥115,955 million, while operating results deteriorated ¥1,083 million year on year, to ¥2,053 million.

Plant and Equipment Investment and R&D Investment

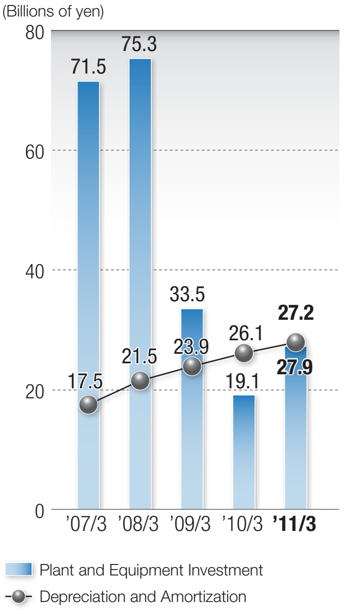
Capital Expenditure

In fiscal 2010, the Company's capital expenditure, including leases, totaled ¥27,200 million, resulting from strategic investment focused on the field of "energy and environment."

In the Environmental Solutions segment, in order to develop and expand overseas manufacturing bases the Company transferred production equipment for electric motors from the Suzuka site of Fuji Electric Systems Co., Ltd., to a manufacturing base in China and extended the scope of production to include medium-capacity systems.

Plant and Equipment Investment / Depreciation and Amortization

(Billions of yen)



In the Semiconductors segment, targeting the expanding market for power semiconductor devices, the Company developed and expanded the industrial insulated gate bipolar transistor (IGBT) module assembly facilities of Fuji Electric Semiconductor (Malaysia) Sdn. Bhd. Also, in response to the growth in environment-friendly vehicles, the Company invested to increase production of vehicle mounted semiconductors and sensors. In the Research and Development Group, the Company introduced equipment for the development of SiC devices, which are next-generation power devices.

In the ED&C Components segment, the Company developed compact magnetic contactors tailored to meet the needs of China's market, which promises significant growth. And, the Company invested in production equipment for Fuji Electric (Changshu) Co., Ltd.

In the Magnetic Disks segment, in response to the increasing capacities of HDDs, the Company advanced overseas production by increasing production equipment for aluminum media at Fuji Electric (Malaysia) Sdn. Bhd.

In the Vending Machines segment, the Company rationalized facilities by constructing a new manufacturing building at the Mie Plant of Fuji Electric Retail Systems Co., Ltd. Further, the Company invested in molds and other production equipment for energy-saving vending machines.

R&D Expenditures

With the field of "energy and environment" and "smart communities" as key themes, Fuji Electric's R&D concentrated on developing components and solutions that will contribute to the creation of a sustainable society. In addition, the Company advanced the globalization of its R&D by conducting R&D in China, the United States, and Europe. Also, Fuji Electric is stepping up open innovation initiatives with universities, research institutes, and other companies.

For fiscal 2010, Fuji Electric's total R&D expenditures amounted to ¥32,568 million.

Financial Position

Total Assets

Total assets stood at ¥805,797 million, as of March 31, 2011, down ¥103,141 million from the previous fiscal year-end.

Current Assets and Current Liabilities

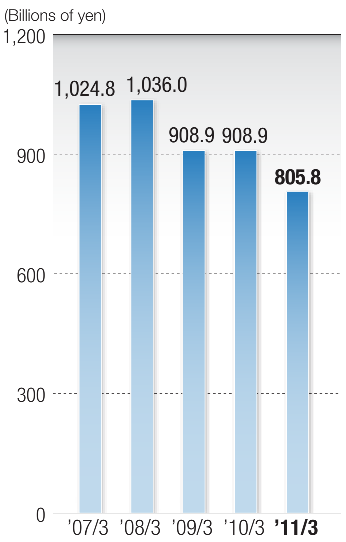
Total current assets amounted to ¥443,024 million as of March 31, 2011, up ¥27,351 million from the previous fiscal year-end. This was attributable to a ¥44,539 million increase in cash and cash equivalents—mainly in order to secure liquidity in hand for bond redemption—and a ¥16,000 million rise in inventories, which offset a ¥25,757 million decrease in notes and accounts receivable-trade from the previous fiscal year-end.

Total current liabilities stood at ¥404,898 million, up ¥23,914 million from the previous fiscal year-end. This stemmed from an increase in the current portion of bonds from ¥10,000 million at the previous fiscal year-end to ¥40,000 million as of March 31, 2011, and a ¥10,532 million rise in advances received, which counteracted a ¥18,000 million decline in commercial paper from the previous fiscal year-end.

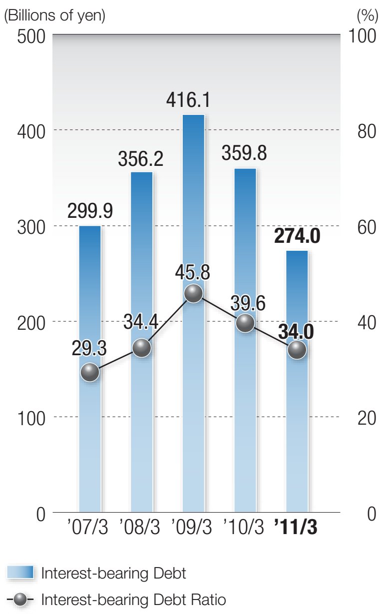
Noncurrent Assets

Total noncurrent assets stood at ¥362,662 million, a decrease of ¥130,386 million from the previous fiscal year-end. Included in this amount, net property, plant and equipment and intangible assets totaled ¥176,077 million, a decline of ¥10,718 million from the previous fiscal year-end. Further, total investments and other assets amounted to ¥186,584 million, down ¥119,667 million from the previous fiscal year-end. This was mainly due to the sale of investment securities.

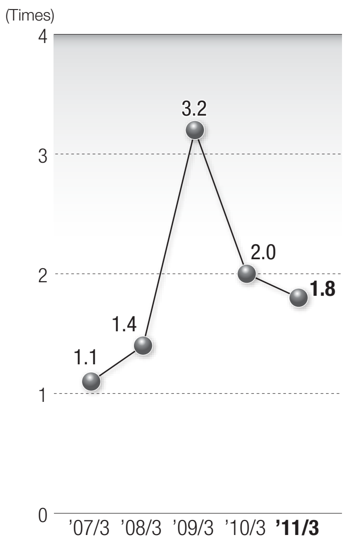
Total Assets



Interest-bearing Debt / Interest-bearing Debt Ratio



Debt-equity Ratio



Noncurrent Liabilities

Total noncurrent liabilities were ¥225,963 million, a decline of ¥105,857 million from the previous fiscal year-end. This reflected decreases of ¥51,522 million in long-term debt and ¥40,000 million in bonds payable from the previous fiscal year-end and a ¥21,786 million decrease in deferred tax liabilities, which principally resulted from a decline in the market value of investment securities accompanying the sale of investment securities.

Net Assets

Total net assets as of March 31, 2011, were ¥174,935 million, down ¥21,198 million from the previous fiscal year-end. This was mainly because a ¥33,090 million decrease in unrealized gain on other securities counteracted a ¥12,368 million rise in retained earnings from the previous fiscal year-end. As a result, the total net assets ratio was 19.3%, a decline of 0.4 percentage points from the previous fiscal year-end.

Debt

Interest-bearing debt as of March 31, 2011, was ¥274,019 million, down ¥85,771 million from the previous fiscal year-end. The ratio of interest-bearing debt to total assets was 34.0%, a decrease of 5.6 percentage points from the previous fiscal year-end.

Cash Flows

In fiscal 2010, consolidated free cash flow (net cash provided by operating activities + net cash provided by investment activities) was ¥138,094 million, an improvement of ¥126,699 million compared with free cash flow of ¥11,395 million in the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥53,853 million, compared with ¥11,923 million for the previous fiscal year. This was mainly due to stepped-up efforts to collect notes and accounts receivable-trade and advances.

This was an improvement of ¥41,930 million year on year.

Cash Flows from Investing Activities

Net cash provided by investment activities was ¥84,241 million, compared with net cash used in investment activities of ¥528 million in the previous fiscal year. This was primarily related to sales of investment securities.

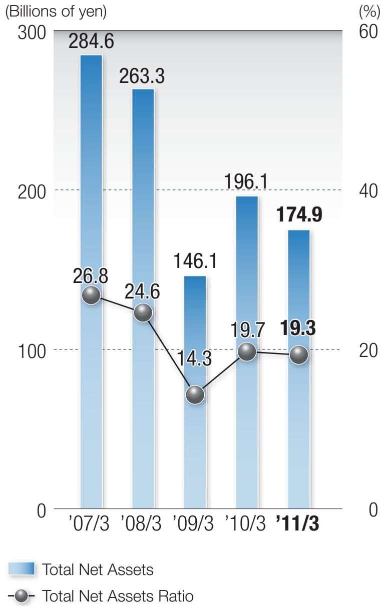
This represented an ¥84,769 million improvement from the same period of the previous fiscal year.

Cash Flows from Financing Activities

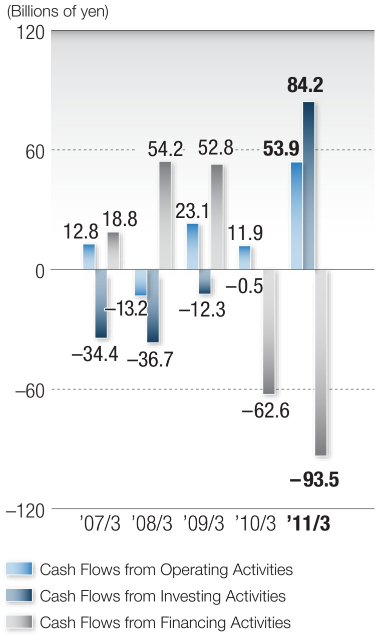
Net cash used in financing activities was ¥93,468 million, compared with net cash used in financing activities of ¥62,578 million in the previous fiscal year. This was principally due to decreases in loans payable and commercial papers.

As a result, consolidated cash and cash equivalents at fiscal year-end amounted to ¥81,796 million, up ¥44,513 million, or 119.4%, from the previous fiscal year-end.

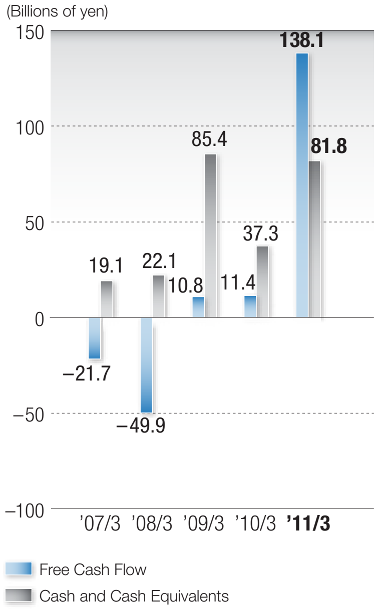
Total Net Assets / Total Net Assets Ratio



Cash Flows



Free Cash Flow / Cash and Cash Equivalents



Risk Factors

Fuji Electric 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 effect on the operating results and financial position of Fuji Electric.

As of March 31, 2011, the following factors were judged to have a potential future effect on the operations of the Fuji Electric.

(1) Risks Related to Changes in the Operating Environment

(a) Raw material and component prices are rising due to upwardly trending commodity markets and nonferrous metal prices worldwide. These trends reflect the expansion of Asia's market—particularly in China, which is generating very strong demand for raw materials and thereby tightening supply and demand for them—and protracted geopolitical instability in the Middle East. Fuji Electric hedges risk of raw material price hikes through commodity swap transactions. However, a significant increase in raw material and component prices could affect Fuji Electric's operating results.

(b) Fuji Electric is developing operations actively in overseas markets, focusing particularly on expanding sales in China and other Asian markets. In addition, economic trends in Japan, such as private sector capital investment and public investment affect the Company significantly. In order to minimize the effect on operating results of overseas and domestic market trends, the Company is implementing overall cost and expense reductions. However, a deterioration of the business climate or a change of economic policy in China, a dramatic change in product supply and demand or intensified competition in the market, or a steep decrease in price levels as a result of such factors could affect Fuji Electric's operating results.

(c) 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, could have a negative effect on the operating results and financial position of the Company.

(d) Fuji Electric's interest-bearing debt totaled ¥274,019 million as of March 31, 2011. A higher-than-anticipated increase in interest rates could lead to a significant additional interest payment burden, which could have a negative effect on the operating results of the Company.

(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 of the products that it manufactures and sells. Although the Company has taken precautions in the form of product liability 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, there could be a negative effect on the Company's operating results and financial position.

(3) Risks Related to Investments

The Fuji Electric Group concentrates its management resources on quickly identifying potential business growth areas and conducts investment in facilities and R&D with the objective of expanding and developing Group business. The large-scale investment necessary and short product cycles in the Magnetic Disks and Semiconductors segments, in particular, as well as shifts in product demand and intensifying competition increase the possibility that the Company might not be able to recoup its investments. Such events could thereby have a negative effect on the Company's operating results.

(4) 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 Company will be unable to bring products to market in a timely manner should development not progress according to plan. Such events could thereby have a negative effect on the Company's operating results.

(5) 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 Company is exposed to the following risks, which could have a negative effect on the Company's operating results and financial position:

- Unforeseen changes in laws and regulations as well as tax systems that could have a detrimental effect on the Company
- Disadvantages arising from political conditions
- Social turmoil related to terrorist incidents, war, and other events

(6) 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 Company's operations are becoming more global, the possibility of disputes over intellectual property rights is increasing. A dispute of this nature could have a negative effect on the Company's operating results and financial position.

(7) Risks Related to Business Alliances

The Fuji Electric Group actively collaborates with third-party entities in mergers, tie-ups, and other forms of alliances with the objective of enhancing competitiveness in each of its fields of business. Cooperative relations are essential to the success of such collaborations. However, differences in business systems, corporate cultures, or other aspects could impede the smooth integration of business strategies, technologies, products, personnel, or other elements necessary for a successful collaboration. Such circumstances could thereby have a negative effect on the Company's operating results.

(8) 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 Company. Should the Company be unable to retain and/or train such necessary human resources, this could have a negative effect on the Company's operating results.

(9) Risks Related to the Leakage 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 Company cannot entirely rule out the possibility that such information could be leaked due to unforeseen circumstances. Any leak of this kind could damage trust in the Fuji Electric Group and thereby have a negative effect on the Company's operating results.

(10) Risks Related to Major Natural Disasters

Fuji Electric has a network of bases throughout the world. In the event of a major natural disaster, production facilities could be damaged, operations at manufacturing facilities could be halted, shipments of products could be delayed, and other related problems could occur. These events could thereby have a negative effect on the operating results and financial position of the Company.

In addition, in response to the Great East Japan Earthquake on March 11, 2011, the Company established an emergency task force led by its president and representative director, which investigated the level of damage that business partners and Fuji Electric companies had suffered and directed restoration efforts.

As for damage to Fuji Electric, although some production equipment and facilities of the Fukiage plant (Saitama Prefecture) and the Otawara plant (Tochigi Prefecture) of Fuji Electric FA Components & Systems Co., Ltd., suffered damage, all manufacturing bases had resumed operations by 24 March, 2011.

The Company is minimizing the effect of difficulties in procuring components and materials and scheduled power outages by changing the operation times of plants and diversifying procurement routes up to and including the upstream area of its supply chain. However, further future tightening of supply and demand for electricity during summer or prolonged difficulties in procuring components and materials could affect Fuji Electric's operating results and financial position.

(11) Risks Related to Soil Contamination

Based on the international standard for environmental protection systems, the Company works to prevent, measure, and monitor soil contamination at its operating sites. Prior to selling any land, the Company 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 Company may incur costs for soil remediation measures, which could have a negative effect on the operating results of the Company.

(12) 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 effect on the operating results and financial position of the Fuji Electric Group.

(13) 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 Company 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 effect on the Company's social credibility and/or operating results.

(14) 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 could as a result unexpectedly become liable for the payment of large amounts of compensation. Depending on the content of such a decision, this could have a negative effect on the Company's operating results.