Management's Discussion and Analysis

Overview

In fiscal 2012, ended March 31, 2013, the operating environment for Fuji Electric proved to be difficult for its power electronics and semiconductor operations overseas due to market stagnation that stemmed from the sovereign debt crisis in Europe and the delayed recovery in demand, which was particularly prominent in China. Domestically, economic conditions started to decelerate in the summer as a result of sluggish conditions in the global economy. However, government measures implemented at the end of 2012 brought hope for economic recovery, and we are gradually seeing signs of a positive turn in conditions.

In this environment, the Company pushed forward with initiatives for advancing its management policy of "expand energy-related businesses." At the same time, we worked to reinforce management foundations by strengthening manufacturing capabilities and increasing earning power through rigorous cost reduction, improving cash flows by rigorously reducing inventories, and building sales and manufacturing bases for expanding business overseas.

Financial Performance

Net Sales

In fiscal 2012, net sales increased 6.0% year on year, to ¥745,781 million. Domestic net sales were up 8.0% year on year, to ¥567,314 million. Meanwhile, overseas net sales were ¥178,466 million, largely unchanged from the previous fiscal year.

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

Cost of sales increased 7.5% year on year, to ¥587,458 million. Cost of sales as a percentage of net sales increased 1.1 percentage points, to 78.8%.

Selling, general and administrative expenses decreased 0.9% year on year, to ¥136,331 million. Selling, general and administrative expenses as a percentage of net sales decreased 1.3 percentage points, to 18.3%.

Operating income improved ¥2,740 million year on year, to ¥21,992 million. This was because the benefits of thorough cost reduction measures as well as the business restructuring initiatives implemented in the previous fiscal year outweighed the impacts of intensified cost competition.

Non-Operating Income (Expenses) and Ordinary Income

Non-operating income (net) was ¥3,722 million, an improvement of ¥4,420 million compared to the non-operating expenses (net) of ¥698 million in the previous fiscal year. This improvement was mainly due to a recording of ¥1,446 million in foreign exchange gains compared to foreign exchange losses of ¥1,026 million recorded in the previous fiscal year, and a ¥1,208 million decrease in interest expense.

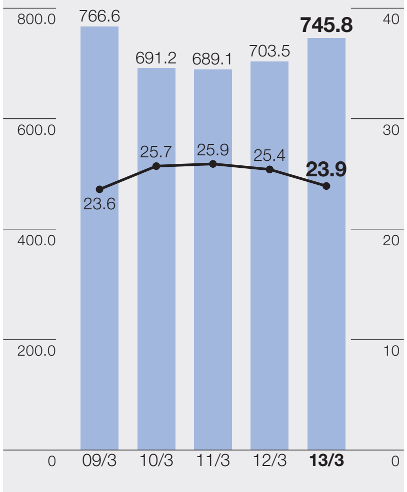
As a result, ordinary income was ¥25,714 million, an improvement of ¥7,160 million from the previous fiscal year.

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

Extraordinary income was ¥1,044 million due to gain on sales of noncurrent assets, gain on sales of investment securities and insurance income. Extraordinary income decreased ¥1,327 million year on year, mainly due to a decline in gain on sales of noncurrent assets.

Net Sales / Ratio of Overseas Sales to Net Sales

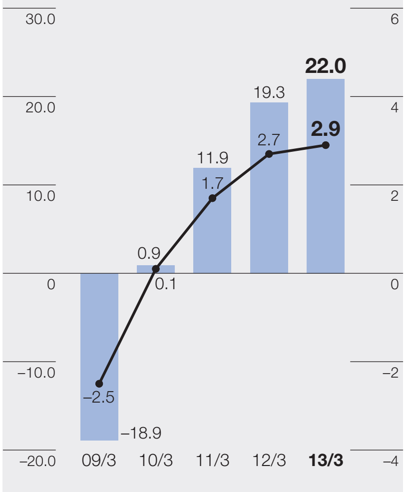
(Billions of yen) (%)



■ Net Sales (left)
— Ratio of Overseas Sales to Net Sales (right)

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

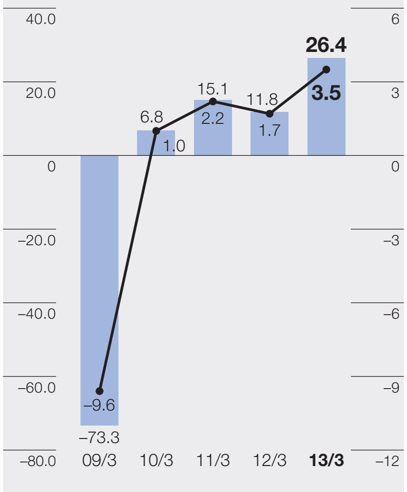
(Billions of yen) (%)



■ Operating Income (Loss) (left)
— Ratio of Operating Income (Loss) to Net Sales (right)

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

(Billions of yen) (%)



■ Net Income (Loss) (left)
— Ratio of Net Income (Loss) to Net Sales (right)

Extraordinary loss was ¥10,140 million, reflecting loss on disposal of noncurrent assets, loss on devaluation of investment securities, impairment loss, loss on liquidation of subsidiaries, settlement package and other items. Extraordinary loss decreased ¥5,437 million year on year, mainly due to the absence of a loss on disappearance of pension assets recorded in the previous fiscal year.

As a result, income before income taxes and minority interests increased ¥11,269 million year on year to ¥16,617 million.

Net Income

Starting with income before income taxes and minority interests, the addition of reimbursement of tax expenses of ¥11,427 million, mainly arising from the recording of deferred tax assets, and the subtraction of minority interests in net income of consolidated subsidiaries of ¥1,676 million resulted in net income of ¥26,368 million. This represented a ¥14,567 million year-on-year increase in net income compared to the previous fiscal year, when tax expenses of ¥7,897 million, due principally to the reversal of deferred tax assets, and minority interests in net income of consolidated subsidiaries of ¥1,444 million were subtracted from income before income taxes and minority interests.

Results by Business Segment

Power and Social Infrastructure

Net sales rose 27% year on year, to ¥198,860 million, and operating income worsened ¥388 million year on year, to ¥11,631 million.

In fiscal 2012, orders received (Power and Social Infrastructure segment of Fuji Electric Co., Ltd., non-consolidated-basis) was ¥122,200 million. Sales in the power generation business were up year on year due to large-scale orders for thermal power plants, but operating results worsened due to the heavy impact of intensified cost competition. In the social infrastructure business, the energy distribution business drove year-on-year improvements in net sales and operating results as demand for solar power generation systems rose following the launch of the feed-in tariff scheme for renewable energy.

Industrial Infrastructure

Net sales rose 5% year on year, to ¥115,629 million, and operating income improved ¥657 million year on year, to ¥5,042 million.

In fiscal 2012, orders received (Industrial Infrastructure segment of Fuji Electric Co., Ltd. non-consolidated-basis) was ¥89,200 million.

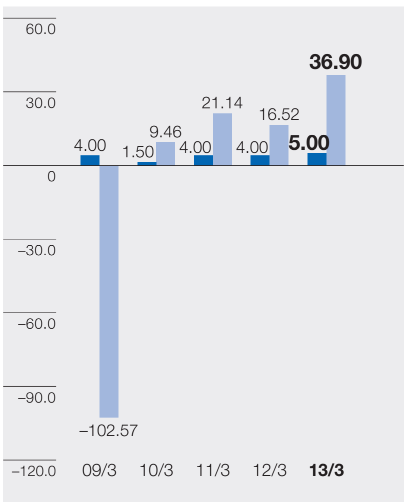
In the industrial plant business, sales increased year on year due to relatively firm replacement demand in Japan. Sales also increased in the facilities business, which benefited from domestic replacement demand and revenues from large-scale projects overseas. While operating results in both businesses were impacted by intensified cost competition, these impacts were outweighed by the benefits of the higher sales and lower costs, and overall operating results improved year on year for this business segment accordingly.

Power Electronics

Net sales decreased 6% year on year, to ¥141,649 million, and operating income worsened ¥1,177 million year on year, to ¥2,601 million.

Cash Dividends per Share / Net Income (Loss) per Share

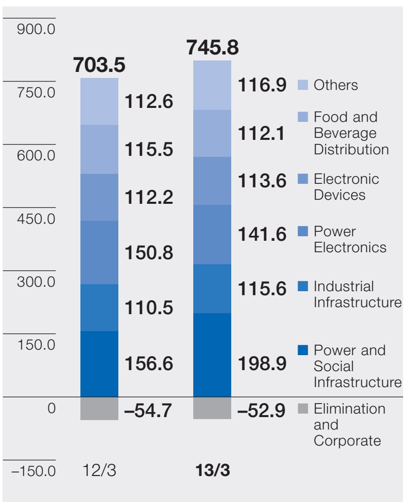
(Yen)



■ Cash Dividends per Share
■ Net Income (Loss) per Share

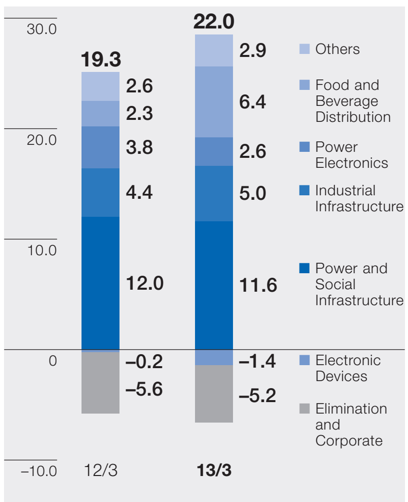
Net Sales by Segment*

(Billions of yen)



Operating Income (Loss) by Segment*

(Billions of yen)



* Based on figures prior to reflecting the change in subsegments that took effect from April 1, 2013

In fiscal 2012, orders received (sum of Power Electronics segment of Fuji Electric Co., Ltd. and Fuji Electric FA Components & Systems Co., Ltd., non-consolidated-basis) were ¥112,000 million.

In the drive business, sales decreased year on year following sluggish demand in China and other overseas markets. However, the benefits of lower costs and general expenses resulted in improvements in operating results. In the power supply business, sales and operating results worsened due to decreased demand for power supplies for the manufacturing industry and for use in IT equipment. Meanwhile, lower demand from machinery manufacturers in the Japanese market led to the deterioration of sales and operating results in the ED&C components business.

Electronic Devices

Net sales increased 1% year on year, to ¥113,591 million, and operating loss worsened ¥1,209 million year on year, to ¥1,416 million.

In fiscal 2012, orders received (total of Electronic Devices segment of Fuji Electric Co., Ltd. and Fuji Electric (Malaysia) Sdn. Bhd., non-consolidated-basis) were ¥91,600 million.

In the semiconductor business, demand in the automotive electronics business was relatively firm, while demand in the industrial and power supply application businesses was down. As a result, both sales and operating results worsened. In the magnetic disk business, sales increased year on year following the depreciation of the Japanese yen and operating results improved due to benefits of the business restructuring initiatives implemented in the previous fiscal year.

Food and Beverage Distribution

Net sales decreased 3% year on year, to ¥112,086 million, and operating income improved ¥4,161 million year on year, to ¥6,423 million.

In fiscal 2012, orders received (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated-basis) was ¥71,000 million.

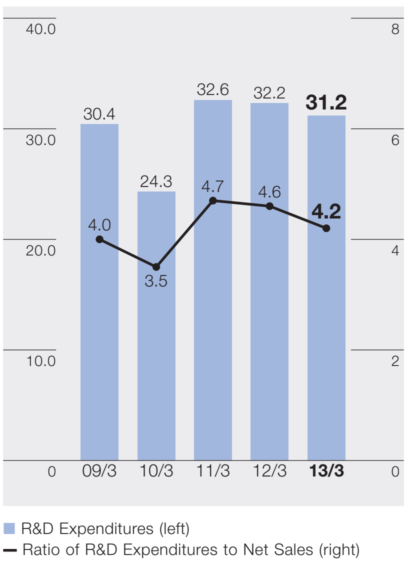
In the vending machine business, there was strong replacement demand for energy-saving environmentally friendly vending machines, and demand for coffee machines for convenience stores as a newly launched product. However, sales declined year on year after sales of the food and beverage items sold in vending machines were stopped. In the store distribution business, sales rose as a result of automatic change dispenser replacement demand as well as increased orders for freezing, refrigerating, and energy-saving facilities for convenience stores and other establishments. Operating income improved for the overall segment due to the benefits from the business restructuring initiatives implemented in the previous fiscal year as well as cost reductions and the introduction of new products.

Others

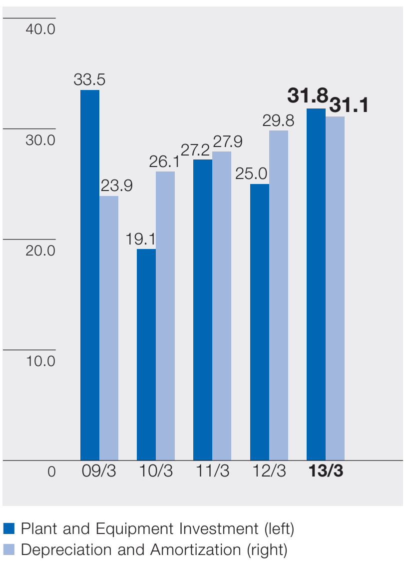
Net sales rose 4% year on year, to ¥116,892 million, and operating income improved ¥241 million year on year, to ¥2,880 million.

(Note) The classification of reportable segments has been changed from fiscal 2012. Therefore, year-on-year comparisons in each segment were calculated by restating the previous fiscal year's figures under the new segment classification.

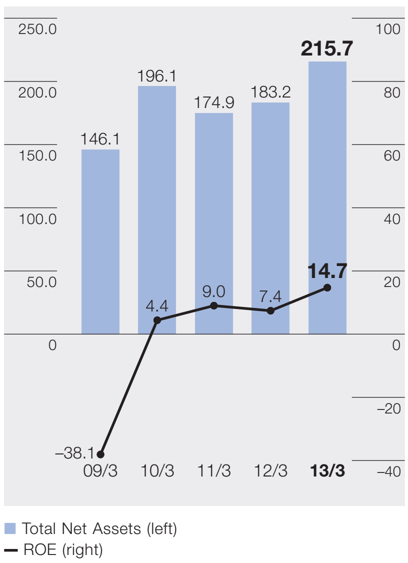
R&D Expenditures / Ratio of R&D Expenditures to Net Sales



Plant and Equipment Investment / Depreciation and Amortization



Total Net Assets / ROE



R&D Investment and Plant and Equipment Investment

R&D Expenditures

Fuji Electric's R&D is focused on developing products that lead to a responsible and sustainable society through the pursuit of cutting-edge energy technologies. The Company has also been advancing the globalization of its R&D functions, and is stepping up open innovation initiatives with universities, research institutes, and other companies.

For fiscal 2012, Fuji Electric's total R&D expenditures amounted to ¥31,160 million. R&D results and expenditures by segment are as follows.

The number of industrial property rights held by Fuji Electric in Japan and overseas was 9,514 as of March 31, 2013.

Capital Expenditure

In fiscal 2012, the Company's capital expenditure, including leases, totaled ¥31,771 million, resulting from strategic investment focused on the field of "energy and environment."

Key investments were as follows.

In the Power Electronics segment, we purchased a site in Thailand and began construction of a new factory, aiming to expand sales overseas, mainly in Asia. We also invested in production facilities for inverters for China and the rest of Asia, at Wuxi Fuji Electric FA Co., Ltd. and in production facilities for global PCS for mega solar power generation in Japan.

In the Electronic Devices segment, to reinforce production capacity of power semiconductors, which are used in new energy-related products and eco-friendly products, we invested in facilities for front-end processing mainly in the Yamanashi area. We also established a production base for back-end processing in Shenzhen, China, in order to realize local production for local consumption in China and the rest of Asia.

In the ED&C components segment, we invested in production facilities for miniature molded-case circuit breakers and miniature thermal relays, aiming to help expand sales for the business. To meet reconstruction demand following the Great East Japan Earthquake, we also invested in production facilities for high-voltage breakers to enhance production capacity.

In the Food and Beverage Distribution segment, we invested in molding equipment for developing new vending machine models and in streamlining of facilities in the Mie area.

All of these investments were funded mainly using the Company's own funds.

Financial Position

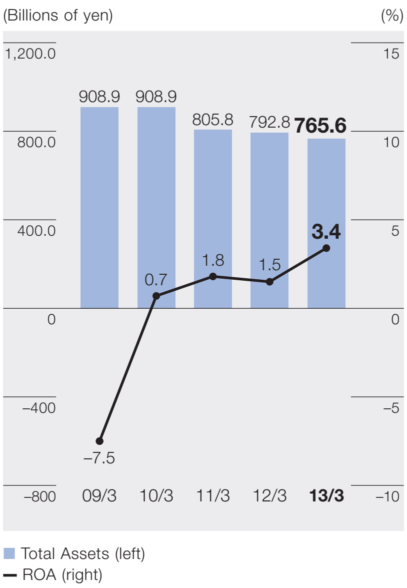
Total Assets

Total assets at the end of the fiscal year stood at ¥765,563 million, a decrease of ¥27,285 million from the end of the previous fiscal year.

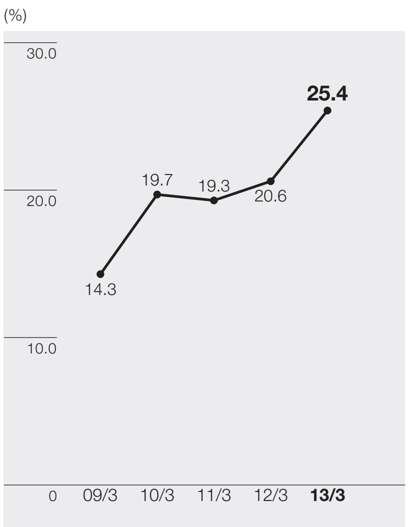
Current Assets and Current Liabilities

Total current assets amounted to ¥424,706 million as of March 31, 2013, down ¥28,491 million from the previous fiscal year-end. This was attributable to decreases from the previous fiscal year-end of ¥24,573 million in cash and cash equivalents and ¥25,592 million in inventories, which outweighed an increase of ¥17,175 million in trade receivables.

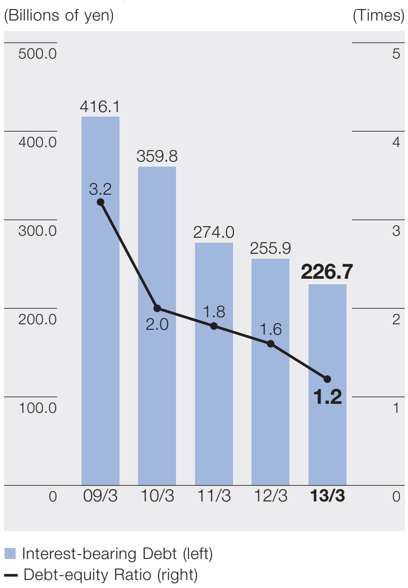
Total Assets / ROA



Total Net Assets Ratio



Interest-bearing Debt / Debt-equity Ratio



Total current liabilities stood at ¥380,466 million, down ¥85,348 million from the previous fiscal year-end. This stemmed principally from a decrease of ¥96,459 million in current portion of long-term debt, which outweighed an increase of ¥18,990 million in short-term debt.

Noncurrent Assets

Net property, plant and equipment stood at ¥168,442 million, an increase of ¥10,003 million from the previous fiscal year-end. Further, total investments and other assets amounted to ¥172,415 million, down ¥8,797 million from the previous fiscal year-end. This was attributable to a decrease of ¥6,127 million in investment securities.

Long-term Liabilities

Total long-term liabilities were ¥169,425 million, an increase of ¥25,608 million from the previous fiscal year-end. This reflected an increase of ¥48,321 million in long-term debt, which outweighed a decrease of ¥19,188 million in deferred tax liabilities.

Net Assets

Total net assets as of March 31, 2013, were ¥215,672 million, up ¥32,455 million from the previous fiscal year-end. This was mainly due to an increase of ¥24,182 million in retained earnings from the previous fiscal year-end. As a result, the total net assets ratio was 25.4%, an increase of 4.8 percentage points from the previous fiscal year-end.

Debt

Interest-bearing debt as of March 31, 2013, was ¥226,717 million, down ¥29,148 million from the previous fiscal year-end. The ratio of interest-bearing debt to total assets was 29.6%, a decrease of 2.7 percentage points from the previous fiscal year-end.

Cash Flows

In fiscal 2012, consolidated free cash flow (cash flows from operating activities + cash flows from investing activities) was a positive ¥31,055 million, an improvement of ¥16,231 million compared with ¥14,825 million in the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥55,342 million, compared with ¥28,314 million for the previous fiscal year. This was mainly due to a decrease in inventories. This was an improvement of ¥27,028 million year on year.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥24,286 million, compared with ¥13,489 million in the previous fiscal year. This was primarily related to purchase of property, plant and equipment and purchase of investments in subsidiaries. Year on year, this was an increase in cash used of ¥10,797 million.

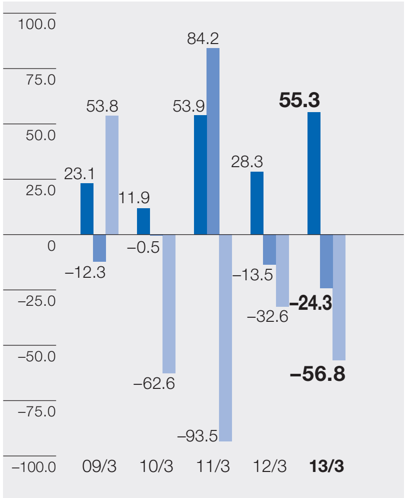
Cash Flows from Financing Activities

Net cash used in financing activities was ¥56,827 million, compared with ¥32,593 million in the previous fiscal year. This was principally due to an increase in repayment of long-term loans payable accompanying the redemption of bonds.

As a result, consolidated cash and cash equivalents at fiscal year-end amounted to ¥39,688 million, down ¥24,573 million, or 38.2%, from the previous fiscal year-end.

Cash Flows

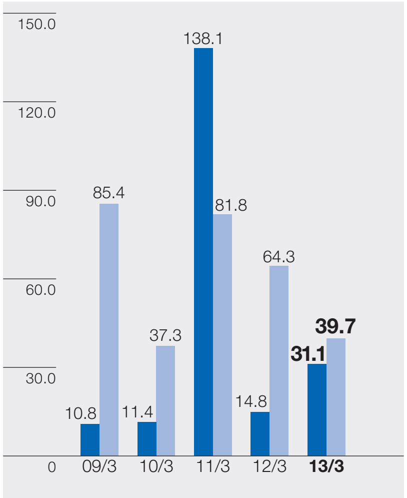
(Billions of yen)



■ Cash Flows from Operating Activities
■ Cash Flows from Investing Activities
■ Cash Flows from Financing Activities

Free Cash Flow / Cash and Cash Equivalents

(Billions of yen)



■ 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, 2013, the following factors were judged to have a potential future effect on the operations of Fuji Electric.

(1) Risks Related to Changes in the Operating Environment

(a) In addition to increasing raw material and components prices against the background of a weak yen, such changes as the drastically increasing demand in emerging nations may result in tightened supply and demand as regards materials and raw materials. Consequently, although Fuji Electric strives to lessen the risk of rising raw material prices through commodity swap transactions, significant increases in these prices could have a negative effect on the operating results of Fuji Electric.

(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, Fuji Electric 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 ¥226,717 million as of March 31, 2013. 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.

(e) Trends in the financial markets or deterioration in Fuji Electric's financial indicators could impact on Fuji Electric's fund procurement or interest payments, for example by prompting early repayment due to infringement on financial covenants relating to certain loans. Such an event could affect Fuji Electric's operating results and financial position.

(2) Risks Related to Product Quality

Fuji Electric 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 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

Fuji Electric 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 the Company's business. The large-scale investment necessary and short product cycles in the magnetic disks and semiconductors fields, 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

Fuji Electric 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

Fuji Electric 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

Fuji Electric 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

Fuji Electric 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 Fuji Electric 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, Fuji Electric handles personal information about numerous individuals, including customers, suppliers, and employees. Fuji Electric 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 Fuji Electric 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.

(11) Risks Related to Soil Contamination

Based on the international standards 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

Fuji Electric 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 Fuji Electric.

(13) Risks Related to Compliance

Fuji Electric 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

Fuji Electric, 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.