Financial Performance

(1) Qualitative Information regarding Consolidated Results of Operations

In the nine-month period ended December 31, 2016, an overall trend toward modest recovery was seen overseas driven by principal developed countries, including the United States and European countries. However, the outlook grew increasingly opaque due to factors such as the risk of economic downturn in Asia, most apparent in China, and uncertainty regarding government policy in Europe and the United States. In the domestic economy, the general trend was that of gentle recovery, despite the sluggish conditions seen in certain sectors as the strong yen proceeded to depreciated.

In this environment, we unveiled the FY2018 Medium-Term Management Plan, Renovation 2018. Acting in accordance with the plan's basic policy of "further renovation of Fuji Electric," we are implementing growth strategies including reforming operating processes in social engineering system, industrial infrastructure, and power electronics businesses; expanding overseas operations; and creating high-value-added products while also improving profitability.

During the nine-month period ended December 31, 2016, although operations felt the impacts of foreign exchange rate fluctuations, we advanced the various measures of our growth strategies, and demand grew. As a result, net sales increased ¥19.2 billion year on year, to ¥555.3 billion. By business segment, Power and Social Infrastructure and Industrial Infrastructure saw increased net sales, while Power Electronics, Electronic Devices, Food and Beverage Distribution, and Others saw net sales decline. Operating income decreased ¥0.8 billion year on year, to ¥10.7 billion, and ordinary income declined ¥1.5 billion, to ¥11.0 billion, as the impacts of foreign exchange rate fluctuations outweighed the benefits of cost reduction efforts. At the same time, profit attributable to owners of parent was down ¥3.3 billion, to ¥4.9 billion.

Furthermore, during the third quarter, consolidated net sales increased ¥22.0 billion year on year, to ¥203.7 billion, as a result of sales growth seen in all business segments except the Others segment. Despite the impacts of unfavorable foreign exchange rate fluctuations, operating income was up ¥0.2 billion, to ¥4.8 billion, following a rise in demand.

Consolidated results of operations for the nine-month period were as follows.

(¥ billion)

	Nine-month period ended December 31, 2015	Nine-month period ended December 31, 2016	Change
Net sales	536.1	555.3	19.2
Operating income	11.5	10.7	(0.8)
Ordinary income	12.5	11.0	(1.5)
Profit (loss) attributable to owners of parent	8.2	4.9	(3.3)

Results by Segment

[Power and Social Infrastructure]
YoY: Net sales increased 9%, operating income increased ¥0.8 billion

Net sales increased 9% year on year, to ¥116.2 billion, and operating income increased ¥0.8 billion year on year, to ¥3.4 billion.

In the power plant business, net sales were down and operating results worsened year on year as the increase in orders for large-scale hydraulic power generation facilities was outweighed by the decrease in orders for solar power generation systems. In the social engineering systems business, net sales were up and operating results improved year on year due to higher sales of smart meters. In the social information business, net sales were up and operating results improved year on year following a rise in large-scale orders from the public sector and higher sales in the academic sector.

[Industrial Infrastructure]
YoY: Net sales increased 19%, operating income recorded

Net sales increased 19% year on year, to ¥126.5 billion, and operating income of ¥0.6 billion was recorded, compared with operating loss of ¥4.3 billion in the nine-month period ended December 31, 2015.

In the transmission and distribution business, net sales were up and operating results improved year on year due to contributions from large-scale orders from domestic industries. In the industrial plant business, net sales were up and operating results improved year on year as a result of strong energy saving and replacement demand in Japan as well as increased sales in new solutions businesses targeting data centers in Japan and overseas. In the industrial and instrumentation equipment business, net sales were up and operating results improved year on year due to the robust replacement demand seen in Japan. The equipment construction business saw a year-on-year increase in net sales and improved operating results following contributions from large-scale domestic orders for installation of electrical equipment.

[Power Electronics]
YoY: Net sales decreased 3%, operating income decreased ¥2.3 billion

Net sales decreased 3% year on year, to ¥145.4 billion, and operating income decreased ¥2.3 billion year on year, to ¥2.0 billion.

In the drive business, nets sales decreased year on year due to a decline in large-scale overseas orders for electrical equipment for railcars and the impacts of unfavorable foreign exchange rates, and operating results worsened as a result of the lower sales as well as increased upfront investment and R&D expenditures at overseas bases. In the power supply business, net sales were down year on year as the decline in demand for power conditioning sub-systems for megasolar power generation systems and the impacts of unfavorable foreign exchange rates offset the strong performance of switchgear and controlgear operations overseas. Regardless, operating results were relatively unchanged year on year due to the benefits of cost reduction efforts. In the ED&C components business, nets sales decreased and operating results worsened year on year, despite the benefits of cost reduction efforts, following reduced demand from machine tools and other machinery manufacturers and the impacts of unfavorable foreign exchange rates.

[Electronic Devices]
YoY: Net sales decreased 3%, operating income decreased ¥1.6 billion

Net sales decreased 3% year on year, to ¥91.5 billion, and operating income decreased ¥1.6 billion year on year, to ¥5.8 billion.

In the semiconductors business, net sales increased year on year due to the continuation of firm performance in the automotive field and the recovery of demand in the industrial and power supply application fields, while operating results worsened as a result of the impacts of unfavorable foreign exchange rates. In the magnetic disks business, net sales were down and operating results worsened year on year because of the declines in demand following deteriorating market conditions and the impacts of unfavorable foreign exchange rates.

[Food and Beverage Distribution]
YoY: Net sales decreased 4%, operating income decreased ¥2.2 billion

Net sales decreased 4% year on year, to ¥73.8 billion, and operating income decreased ¥2.2 billion year on year, to ¥1.7 billion.

In the vending machine business, net sales decreased and operating results worsened year on year because of the impacts of the decline in demand stemming from industry reorganizations in the domestic market as well as the delayed start of anticipated growth in the Chinese market. In the store distribution business, net sales increased year on year due to a rise in demand for convenience store equipment, but operating results worsened year on year as a result of a less favorable sales mix.

[Others]
YoY: Net sales decreased 8%, operating income decreased ¥0.3 billion

Net sales decreased 8% year on year, to ¥43.3 billion, and operating income decreased ¥0.3 billion year on year, to ¥1.5 billion.

(2) Quantitative Information regarding Consolidated Financial Position

(¥ billion)

	March 31, 2016	Breakdown (%)	December 31, 2016	Breakdown (%)	Change
Total assets	845.4	100.0	878.1	100.0	32.7
Interest-bearing debt	184.7	21.9	211.3	24.1	26.6
Shareholder's equity*1	230.4	27.3	251.7	28.7	21.3
Debt-equity ratio*2 (time)	0.8		0.8		0.0

*1 Shareholders' equity = Total net assets — Non-controlling interests
*2 Debt-equity ratio = Interest-bearing debt/ Shareholders' equity

Total assets on December 31, 2016, stood at ¥878.1 billion, an increase of ¥32.7 billion from the end of the previous fiscal year-end. Total current assets decreased ¥3.4 billion, as the decline in notes and accounts receivable-trade counteracted the rise in inventories. Total noncurrent assets were up ¥36.1 billion, due to an increase stemming from valuation difference on available-for-sale securities.

Interest-bearing debt as of December 31, 2016, amounted to ¥211.3 billion, up ¥26.6 billion from the previous fiscal year-end. Further, net interest-bearing debt—interest-bearing debt net of cash and cash equivalents—increased ¥24.7 billion from the previous fiscal year-end, amounting to ¥178.6 billion on December 31, 2016.

Net assets on December 31, 2016, stood at ¥283.0 billion, up ¥22.0 billion from the previous fiscal year-end due to an increase in valuation difference on available-for-sale securities. In addition, shareholders' equity—total net assets net of non-controlling interests—was up ¥21.3 billion from the previous fiscal year-end, standing at ¥251.7 billion on December 31, 2016. The debt-to-equity ratio (interest-bearing debt ÷ shareholders' equity) was 0.8 times, the same as at the previous fiscal year-end. Also, the net debt-to-equity ratio (net interest-bearing debt ÷ shareholders' equity) was unchanged from the previous fiscal year-end at 0.7 times.

(3) Qualitative Information regarding Consolidated Forecasts and Forecast Information

In light of the business result trends seen in the nine-month period ended December 31, 2016, Fuji Electric has chosen not to revise the consolidated forecast for business results for the fiscal year ending March 31, 2017, that was announced together with financial results for the six-month period ended September 30, 2016, on October 27, 2016. This decision was made despite the following disparity between the performance and forecasts for individual segments.

The forecast for the fiscal year ending March 31, 2017, assumes exchange rates of US$1 = ¥100 and € 1 = ¥110 for the period from January 1, 2017, onward.

(Consolidated Forecasts for the Fiscal Year Ending March 31, 2017) (¥ billion)

	Previous announcement	Revised announcement	Change
Net sales	820.0	820.0	0.0
Operating income	45.0	45.0	0.0
Ordinary income	43.0	43.0	0.0
Profit attributable to owners of parent	27.0	27.0	0.0

(Reference: Consolidated Forecasts for the Fiscal Year Ending March 31, 2017, by Segment)

(¥billion)

	Net sales			Operating income (loss)		
	Previous announcement	Revised announcement	Change	Previous announcement	Revised announcement	Change
Power and Social Infrastructure	183.5	183.5	0.0	11.1	11.1	0.0
Industrial Infrastructure	218.0	218.0	0.0	15.1	15.1	0.0
Power Electronics	204.1	204.1	0.0	8.9	8.9	0.0
Electronic Devices	111.0	111.6	0.6	5.9	6.6	0.8
Food and Beverage Distribution	112.9	110.2	(2.7)	8.0	7.0	(1.0)
Others	57.6	58.5	0.9	2.2	2.3	0.1
Elimination and Corporate	(67.2)	(65.9)	1.3	(6.1)	(6.0)	0.1
Total	820.0	820.0	0.0	45.0	45.0	0.0

Net sales are expected to fall below the previously released forecasts in the Food and Beverage Distribution segment due to the adverse impacts on the vending machine business of the decline in demand stemming from industry reorganizations in the domestic market as well as the delayed start of anticipated growth in the Chinese market. Meanwhile, net sales are anticipated to exceed these forecasts in the Electronic Devices and Others segments following higher demand. As a result, consolidated net sales are projected to be in line with the previously released forecasts.

Meanwhile, the decreased net sales in the Food and Beverage Distribution segment will lead this segment's operating income to be lower than expected. However, operating income in the Electronic Devices and Others segments will be higher than anticipated due to the benefits of increased net sales and reduced costs. As a result, consolidated operating income is projected to be in line with the previously released forecasts.

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