

Management's Discussion and Analysis

Overview

We achieved the targets outlined in our Medium-Term Management Plan ending in fiscal 2023, "Reiwa Prosperity 2023," a year ahead of schedule in fiscal 2022. These targets included net sales of ¥1 trillion and an operating margin of 8.0% or higher. Fiscal 2023 was a significant year as it marked our 100th anniversary. We focused on further growth, advancing our core strategies in the power electronics and power semiconductor businesses, in order to promote our growth strategies. To further improve profitability, we aimed to enhance our manufacturing capabilities on a global scale. As part of our efforts toward the ongoing reinforcement of our operating foundations, we focused on promoting ESG (environmental, social, and governance) principles, as well as aiming to enhance our adaptability to changes in the external environment and to pursue further increases in sales and profits.

In fiscal 2023, the market environment surrounding the Company was characterized by strong capital investment in manufacturing and data centers. This was driven by a rising demand for the electrification of automobiles, energy savings, and digital infrastructure, fueled by broader capital investments in decarbonization and digitalization. Conversely, demand in fields like machine tools remained weak, influenced by the ongoing economic slowdown in China.

Financial Performance

Net Sales

Net sales in fiscal 2023 increased by 9.3%, to ¥1,103,214 million.

In all of the segments, Energy, Industry, Semiconductors, and Food and Beverage Distribution segments, net sales increased. Domestic sales increased by 7.4%, to ¥770,790 million. Overseas sales increased by 13.8%, to ¥332,423 million.

The ratio of overseas sales increased by 1.2 percentage points, to 30.1%.

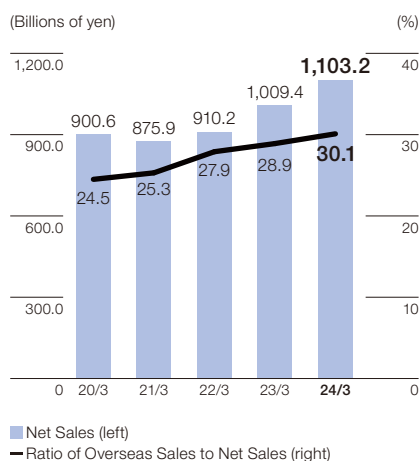
Cost of Sales, Selling, General and Administrative Expenses and Operating Profit

Cost of sales increased by 9.2 percentage points, to ¥799,925 million. The ratio of cost of sales to net sales decreased by 0.1 percentage points, to 72.5%.

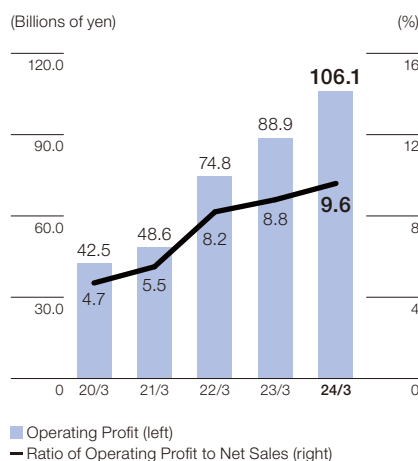
Selling, general and administrative expenses increased by 4.9%, to ¥197,223 million. The ratio of selling, general and administrative expenses to net sales decreased by 0.7 percentage point, to 17.9%.

Operating profit increased by ¥17,184 million, to ¥106,066 million, primarily due to higher sales and production volumes, increase in product sales price, strengthening cost reduction and impact from foreign exchange rate fluctuations, while being affected by soaring material prices, power cost and increasing the expenses due to expansion of the production capacity. The operating margin increased by 0.8 percentage points, to 9.6%.

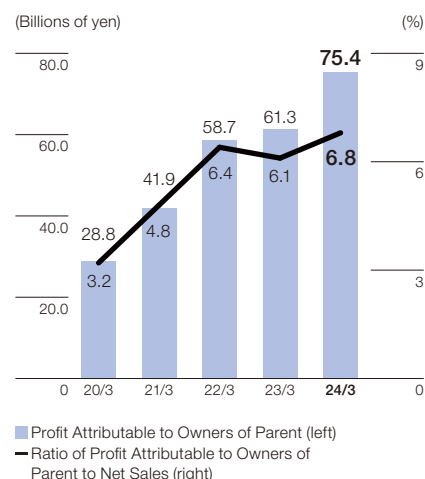
Net Sales / Ratio of Overseas Sales to Net Sales



Operating Profit / Ratio of Operating Profit to Net Sales



Profit Attributable to Owners of Parent / Ratio of Profit Attributable to Owners of Parent to Net Sales



Non-Operating Income (Expenses) and Ordinary Profit

Non-operating income (net) was ¥1,756 million, a ¥2,826 million increase from ¥1,071 million of non-operating expenses in the previous fiscal year. This increase was primarily due to a ¥2,419 million foreign exchange gain, which ¥1,148 million foreign exchange loss turned into, while recording loss on guarantees by ¥660 million. As a result, ordinary profit increased by ¥20,011 million, to ¥107,822 million.

Extraordinary Income (Loss), Profit before Income Taxes and Non-Controlling Interests

Extraordinary income was ¥8,554 million, included gain on sales of noncurrent assets and gain on sales of investment securities. This represented a ¥2,599 million decrease due to a decrease in gain on sales of investment securities.

Extraordinary loss was ¥2,344 million, included loss on disposal of noncurrent assets, loss on devaluation of investment securities and loss on sales of investment securities. This represented a ¥874 million decrease due to a decrease in loss on devaluation of investment securities and provision for loss on liquidation of subsidiaries and associates in previous fiscal year while an increase in loss on disposal of noncurrent assets.

Profit

Profit before income taxes increased by ¥18,286 million, to ¥114,032 million. After deducting ¥31,961 million of income taxes (the net of income taxes-current and income taxes-deferred) and ¥6,718 million of profit attributable to non-controlling interests, profit attributable to owners of parent increased by ¥14,005 million, to ¥75,353 million.

Results by Business Segment

Energy

Net sales: ¥342,760 million (an increase of 2.8%)

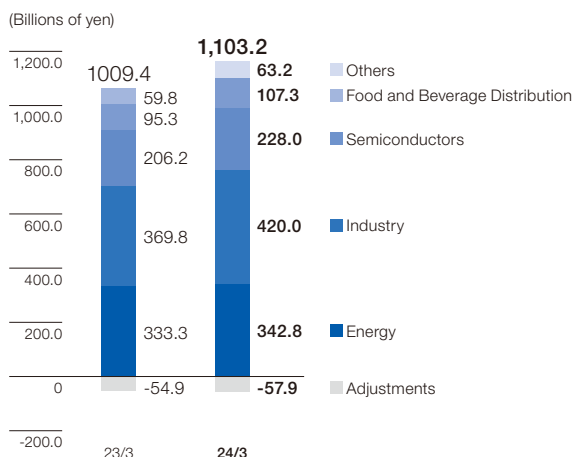
Operating profit: ¥30,146 million (an increase of ¥1,585 million)

Net sales and operating profit increased primarily due to large-scale orders for energy management and higher demand for the facility / power source system business while lower demand for power generation and ED&C.

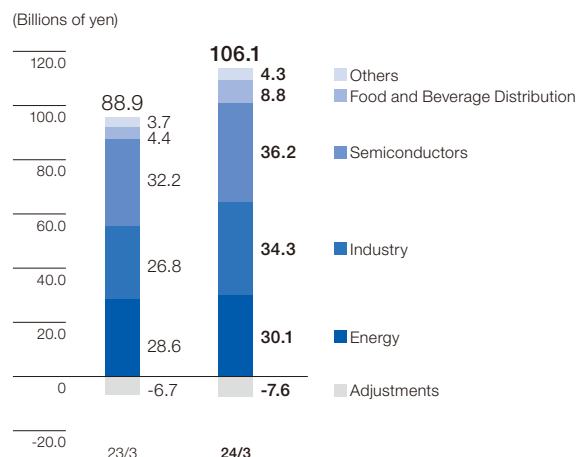
- In the power generation business, net sales and operating profit decreased primarily due to large-scale orders for renewable energy in the previous fiscal year.
- In the energy management business, net sales and operating profit increased primarily due to large-scale orders for industrial substation and power source while a decrease of large-scale orders for solar power.
- In the facility / power source system business, net sales and operating profit increased due to higher demand for data centers and semiconductor manufacturers.
- In the ED&C components business, net sales and operating profit decreased due to lower demand from machine set manufacturers and semiconductor manufacturers.

Orders received in fiscal 2023 (Energy segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥232 billion.

Net Sales by Segment



Operating Profit (Loss) by Segment



Industry

Net sales: ¥419,911 million (an increase of 13.5%)

Operating profit: ¥34,264 million (an increase of ¥7,508 million)

Net sales and operating profit increased primarily due to higher demand in the automation business, the social solutions business and the equipment construction business.

- In the factory automation business net sales and operating profit increased primarily due to an increase in production of the components.
- In the social solutions business, net sales and operating profit increased primarily due to higher demand for the nuclear power-related equipment business and radiation instruments business.
- In the equipment construction business, net sales and operating profit increased primarily due to large-scale orders for air conditioning equipment construction.
- In the IT solutions business, net sales increased due to large-scale orders. However, operating profit was the same level as the previous fiscal year due to less favorable sales mix.

Orders received in fiscal 2023 (Industry segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥197.6 billion.

Semiconductors

Net sales: ¥228,037 million (an increase of 10.6%)

operating profit: ¥36,164 million (an increase of ¥3,978 million)

- In the semiconductors business, net sales increased primarily due to higher demand for power semiconductors for electric

vehicles (xEV) while sales and production decreased due to the impact of procurement in the fourth quarter of fiscal 2023. Operating profit increased due to sales increased, while increasing the costs related to the expansion of production capacity for power semiconductor and being affected by soaring material prices and power cost.

Orders received in fiscal 2023 (Semiconductors segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥187.3 billion.

Food and Beverage Distribution

Net sales: ¥107,287 million (an increase of 12.6%)

Operating profit: ¥8,803 million (an increase of ¥4,453 million)

- In the vending machine business, net sales and operating profit increased primarily due to higher demand in domestic market and cost reduction.
- In the store distribution business, net sales and operating profit increased due to higher demand for renovation of store equipment for convenience stores and large-scale orders for counter fixtures.

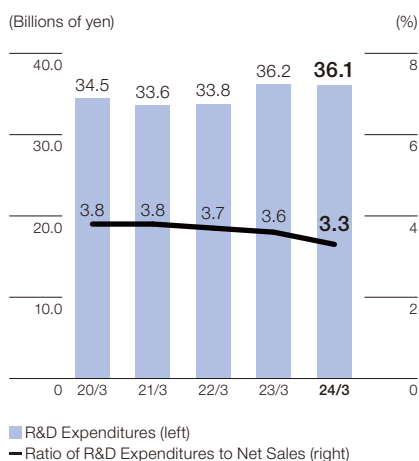
Orders received in fiscal 2023 (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥101.9 billion.

Others

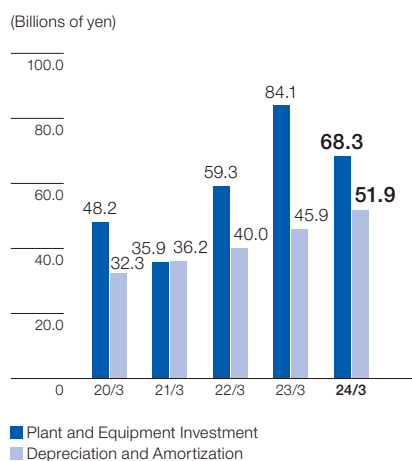
Net sales: ¥63,154 million (an increase of 5.6%)

Operating profit: ¥4,311 million (an increase of ¥562 million)

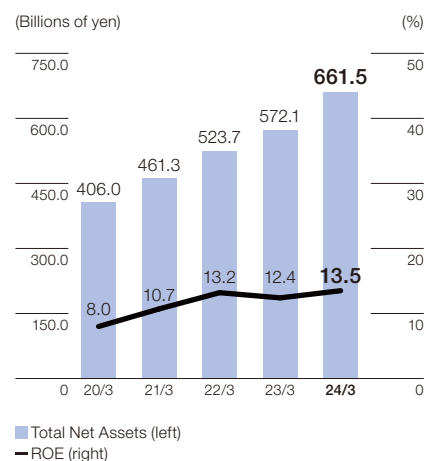
R&D Expenditures / Ratio of R&D Expenditures to Net Sales



Plant and Equipment Investment / Depreciation and Amortization



Total Net Assets / ROE



R&D Investment and Plant and Equipment Investment

R&D

Fuji Electric is engaged in many advanced systems such as creations of energy, stable supplies of energy, energy conservation, automation, and electrification of mobility by utilizing core technologies such as power semiconductors, power electronics, measuring and control, and cooling.

The Company's R&D expenditures in fiscal 2023 totaled ¥36,059 million.

As of March 31, 2024, the number of our industrial property rights registered in Japan and overseas was 13,268.

Plant and Equipment Investment

In fiscal 2023, in order to increase sales, we invested a total of ¥68,311 billion in efforts to expand production capacity and accelerate the development of new products, including testing equipment and investments in environmental measures. The major investments were as follows.

In the semiconductors business, in response to the growing demand for electrified vehicles and renewable energy, we continued major investments in enhancing the production capacity for power semiconductor Si chips at Fuji Electric (Malaysia) Sdn. Bhd., and also made investments at sites in Japan and overseas to increase the production capacity of IGBT modules, primarily for automotive applications. Additionally, we made investments to increase the capacity for power semiconductor SiC chip production within Japan.

In the energy field, aiming for environmentally friendly product development, we invested in large-capacity short-circuit testing equipment at the Chiba Factory to expedite the development of substation equipment. At the Fukiage Factory, we introduced production equipment for our new product, SC-NEXT, a compact and energy-efficient magnetic switch.

As part of our environmental investments aimed at reducing greenhouse gas emissions, we introduced solar power generation facilities at Fuji Electric Philippines, Inc., and updated the cogeneration system at our Matsumoto Factory. Furthermore, we are advancing our initiatives to achieve our Environmental Vision 2050 through updates to facilities using abatement apparatuses and energy-saving equipment.

Financial Position

Total Assets

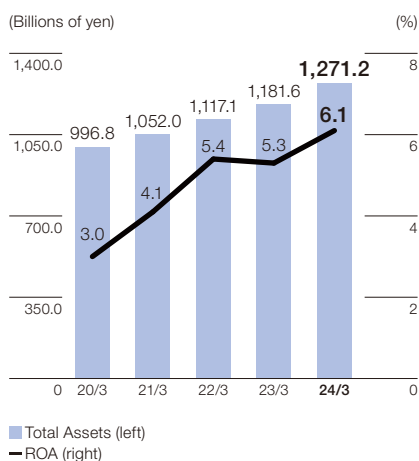
As of March 31, 2024, total assets was ¥1,271,174 million, an increase of ¥89,622 million.

Current Assets and Current Liabilities

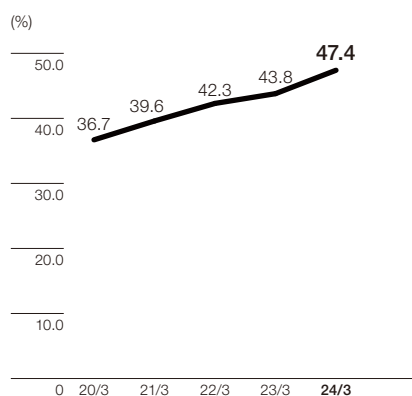
Total current assets was ¥763,072 million, an increase of ¥49,519 million. This increase was primarily due to an increase of ¥20,910 million in accounts receivable-trade, ¥19,599 million in contract assets, ¥27,444 million in inventories.

Total current liabilities was ¥475,342 million, an increase of ¥28,516 million. This increase was primarily due to an increase of ¥38,660 million in short-term debt.

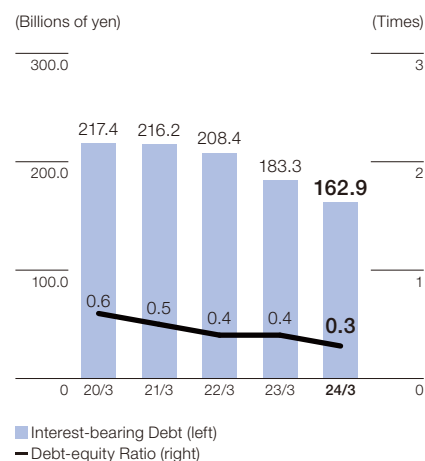
Total Assets / ROA



Equity Ratio



Interest-bearing Debt / Debt-equity Ratio



Noncurrent Assets

Total noncurrent assets was ¥508,064 million, an increase of ¥40,118 million. Net property, plant and equipment was ¥311,456 million, an increase of ¥27,544 million. Total investments and other assets was ¥196,646 million, an increase of ¥12,559 million. This increase was primarily due to an increase of ¥9,967 million in investment securities mainly due to increase in valuation difference on available-for-sale securities.

Long-term Liabilities

Total long-term liabilities was ¥134,360 million, a decrease of ¥28,298 million. This decrease was primarily due to a decrease of ¥13,500 million in long-term debt and ¥18,184 million in lease obligations.

Net Assets

As of March 31, 2024, net assets was ¥661,472 million, an increase of ¥89,404 million. This increase was primarily due to an increase of ¥58,213 million in retained earnings and ¥15,551 million in foreign currency translation adjustments. As a result, the equity ratio was 47.4%, an increase of 3.6 percentage points.

Debt

As of March 31, 2024, interest-bearing debt was ¥162,906 million, a decrease of ¥20,367 million. The ratio of interest-bearing debt to total assets was 12.8%, a decrease of 2.7 percentage-points.

Cash Flow

Consolidated free cash flow (net cash provided by (used in) operating activities + net cash provided by (used in) investing activities) was a positive ¥22,440 million, a ¥44,225 million decrease from the previous fiscal year's positive free cash flow of ¥66,665 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥84,858 million, compared with ¥116,163 million in the previous fiscal year. Major factors of the cash decrease included an increase in trade receivables, contract assets and inventories. Major factors of the cash increase included profit before income taxes. Cash flows from operating activities decreased by ¥31,305 million.

Cash Flows from Investing Activities

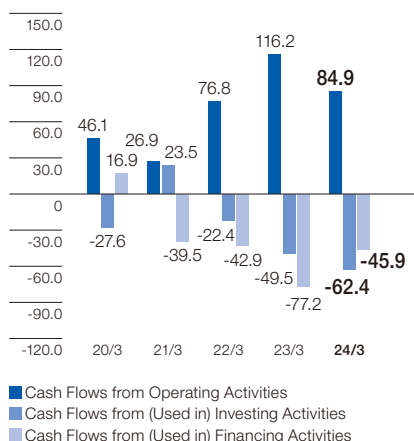
Net cash used in investing activities was ¥62,418 million, compared with net cash used by investing activities of ¥49,498 million in the previous fiscal year. This was primarily due to purchases of property, plant and equipment offset by sales of investment securities. Net cash used in investing activities increased by ¥12,920 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥45,868 million, compared with net cash used in financing activities of ¥77,192 million in the previous fiscal year. This was primarily due to repayments of long-term loans payable and repayments of lease obligations partially offset by net decrease in short-term loans payable. Net cash used in financing activities decreased by ¥31,324 million.

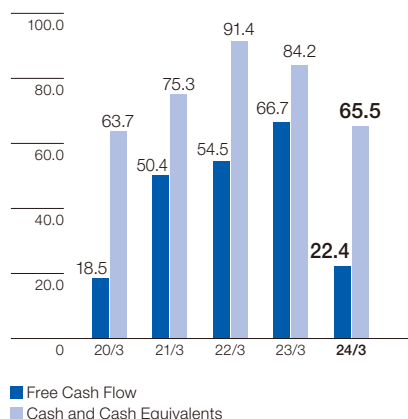
Cash Flows

(Billions of yen)



Free Cash Flow / Cash and Cash Equivalents

(Billions of yen)



Risk Factors

Fuji Electric manages business and other risks in a coordinated, systematic manner and takes appropriate measures to minimize the impact of such risks. The following factors were judged to have a potential future effect on Fuji Electric's business performance and financial position. Any forward-looking statements in the following are based on the judgment of management as of the date of submitting the securities report (June 25, 2024).

(1) Management Strategies, Business Strategies, and Operating Environment

Fuji Electric works to swiftly concentrate management resources on businesses earmarked for growth while making capital and R&D investments aimed at expanding and developing its businesses. With respect to semiconductor-related capital investments, which require large amounts of money, we make decisions based on negotiations with customers regarding physical quantities and pricing. Regarding R&D investments, we emphasize consistency with our business strategies and contribution to our businesses. Based on our roadmap, we pursue R&D on fundamental and advanced technologies that support Fuji Electric's future. Here, the management engages in regular deliberations about key development themes and constantly reviews the roadmap according to market changes. However, the semiconductor field is characterized by short product cycles, major fluctuations in product supply/demand levels, and intense competition. In some cases, therefore, we may be unable to recover our investment, which may affect its business performance and financial position.

Fuji Electric is contributing to realize a sustainable society through our energy and environment related businesses, considering protection of the global environment to be an important management priority. Also, we promote our Environmental Vision 2050, which aims to realize a low-carbon society, recycling-oriented society, and a society in harmony with nature, across the supply chain. Further, we announced its support for the recommendations of the TCFD, Task Force on Climate-related Financial Disclosures, and conduct climate change risk analysis from a long-term perspective. However, stricter enforcement of the Paris Agreement and other environmental regulations, as well as assessments by ESG evaluation institutions may lead to stronger criticism of part of Fuji Electric's operations (coal-fired power generation business), which may affect its business performance and financial position.

Fuji Electric has business bases around the world and provides products and services to markets and customers in multiple regions. The spread of infectious diseases in many countries has led to restrictions on economic activities. These have had various effects on Fuji Electric's business activities, including restrictions on sales activities, factory operation suspensions, and limitations on construction site visits.

If these restrictions are tightened, it could increase the impact on Fuji Electric's business activities, which may affect its business performance and financial position.

(2) Corporate Governance

Fuji Electric is working to strengthen its corporate governance by improving management transparency and auditing functions during normal times. However, an unprecedented event may lead to deficiencies in our internal control and audit functions, resulting in corporate governance breakdown and business disruption, etc., which may affect our business performance and financial position.

(3) Business Reorganizations, Alliances, and Withdrawals

Fuji Electric actively engages in M&As, joint ventures, business alliances, and the like with third parties in order to strengthen its competitiveness in each business field. As part of these activities, we share our corporate philosophy, management policy, code of conduct, business plans, business strategies, and so on to facilitate integration of our business strategies, technologies, products, and human resources. Through management meetings and other forums, we strive to maintain close communication with partners and build good relationships with them. Due to differences in systems and cultures, however, we may be unable to achieve the desired outcomes, which may affect our business performance and financial position.

(4) Orders, Marketing, and Sales Promotion

Fuji Electric is developing operations actively in overseas markets, focusing particularly on expanding sales in China and other Asian markets. We have sales offices in various markets to better understand customer trends and centrally manage the information we collect for analysis and consideration and otherwise strive not to miss business opportunities. We also work to reduce costs and expenses in order to minimize the impact of domestic and overseas trends on our business performance. However, any number of events may affect our business performance and financial position. These include deteriorating market conditions in each country—including private capital investments and public expenditures—as well as sudden changes in supply and demand of products, intensifying competition, and the resultant significant falls in prices.

Fuji Electric receives orders for large-scale plant projects in the energy field and the industry field, etc. In order to secure appropriate profits in each project, we work to improve the accuracy of our quotations at the time of order receipt and strengthen project management afterwards. After receipt of orders, however, any number of events may affect our business performance and financial position. These include unanticipated specification changes, process delays, and profitability declines due to natural disasters and the like.

(5) Development and Design Engineering

Fuji Electric has established an R&D system to accelerate research and development and constantly monitors market, customer needs and the latest technological trends. At the same time, we conduct R&D aimed at creating strong components and systems, focused on power electronics and power semiconductor technologies, and R&D to develop solutions that generate customer value through combinations of elemental technologies.

Due to rapid technological advances, however, we may lose our advantage over other companies, and product development may not proceed as planned, making it impossible to launch new product at the right time. Any of these events may affect our business performance and financial position.

(6) Procurement

Fuji Electric deploys various means, including product swaps, to reduce the risk of rising raw material prices. However, 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 and significant increases in their prices. Any of these events may affect our business performance and financial position.

(7) Production, Manufacturing, Shipping, Logistics, Installation, Delivery, and Service

Fuji Electric always keeps track of the latest physical quantity flows by sharing information between its sales and business departments at management meetings and other forums. We have also built an optimal production management system that can respond to changes in physical quantity flows by such as improving productivity and promoting local production for local consumption. However, an unprecedented event could result in increased/decreased demand and other changes in physical quantity flows, leading to delayed responses and inventory shortages/surpluses, which may affect our business performance and financial position.

Through reforms of its supply chain, Fuji Electric works to promote “completely localized” manufacturing through local production for local consumption while also emphasizing global procurement. However, an unprecedented event could result in restrictions on human and commodity movements and disruptions to our distribution network. This could prevent our supply chain from functioning and cause delays in deliveries, which may affect our business performance and financial position.

(8) Quality Assurance

Fuji Electric has established a quality control system for the products it manufactures and sells and strives to ensure high quality standards. Although we have made the necessary insurance arrangements, an unprecedented event could cause quality-related problems in our products to arise and spread, which may affect our business performance and financial position.

(9) Human Resources and Labor

The business activities of Fuji Electric depend heavily on its human resources. To attract and develop excellent human resources in various fields—such as technology, production, sales, and business management—we focus on cultivating professional human resources who will help strengthen our global competitiveness. We also actively conduct employee education and training and are expanding mid-career recruitment and other measures to attract exceptional human resources. However, failure to attract and develop such important human resources may have an impact on our business performance and financial position.

(10) Finance and Accounting

Seeking to minimize fund-raising costs, Fuji Electric constantly examines the optimal mix of corporate bonds, commercial paper, and short-term and long-term borrowings, in order to ensure flexible and stable financing arrangements. However, an unexpected increase in interest rates could raise the interest rate burden on our interest-bearing debt, which may have an impact on our business performance and financial position.

Fuji Electric works to strengthen credit management, including by monitoring long-overdue receivables and the financial status of business partners, in order to enhance its collection of trade receivables. However, restrictions on economic activities and economic downturn could cause business partners' cash flows to deteriorate and prevent us from recovering debts, which may have an impact on our business performance and financial position.

(11) Legal and Ethical

Fuji Electric engages in business in various fields and regions, and as such is subject to the laws and regulations of each country. The Fuji Electric Compliance Promotion Committee, chaired by our representative director, spearheads efforts to ensure rigorous compliance with laws and regulations. We also have a compliance program that clearly identifies roles and responsibilities covering each aspect of legal regulations—namely, internal rules, monitoring, auditing, and education—and our compliance structure also includes a whistleblowing system. However, any occurrence of legal violations and the like may have an impact on our business performance and financial position.

In preparation for lawsuits and other legal disputes, Fuji Electric has formed a task force aimed at building a system to ensure that necessary procedures (fact investigation, corrective action, recurrence prevention, internal write-down, and disclosure) and are conducted promptly. However, we may be ordered to pay unexpectedly large amounts of damages, which, depending on the nature of the decision, may have an impact on our business performance and financial position.

Fuji Electric strives to effectively protect intellectual property rights and develop products and technologies that respect the rights of other companies. Due to the speed of technological innovation and the global expansion of our business activities, however, intellectual property disputes could arise, which may have an impact on our business performance and financial position.

(12) Political and Socioeconomic Trends

Fuji Electric engages in currency exchange contracts, based on certain criteria, to minimize the impact of foreign exchange fluctuations. However, any changes in exchange rates, primarily between the yen and the U.S. dollar, may have an impact on our business performance and financial position.

Fuji Electric develops its business in many overseas markets, mainly in China and other Asian markets, and always closely monitors the latest information on geopolitical risks. We are also diversifying our production and sales bases in preparation for unexpected risks.

However, any of the following events may have an impact on our business performance and financial position:

- Unexpected enactment of laws/regulations and changes in tax systems with adverse effects
- Disadvantageous political situations
- Social turmoil due to social upheaval, terrorism, war, and the like

(13) Trends of Shareholder and Other Investors

Fuji Electric attaches great importance to disclosure of financial information, active disclosure of non-financial information, and communication with shareholders and institutional investors. We also strive to foster understanding of our management through sincere and accurate disclosure of information according to our Disclosure Policy. However, the intentions of stockholders and other investors may differ from those of the Company's management, which could result in a vote against the election of directors. Also, a shareholder proposal against management could cause disruption of our operations. These and other events may have an impact on our business performance and financial position.

(14) Natural Disasters and Accidents

Fuji Electric has business bases all over the world and is committed to fulfilling its responsibilities to customers and society by continuously supplying products and services in the event of disaster or accident. To this end, we established a dedicated crisis management team to spearhead fire and disaster prevention efforts, formulation of a business continuity plan (BCP), and adoption of necessary insurance arrangements in order to "strengthen our business continuity capability."

However, any number of events may have an impact on our business performance and financial position. These include large-scale disasters or accidents at/near our business sites, which could cause damage of production equipment, interruption of operations, and delays in product shipments.

(15) External Attacks

To address increasingly diversified and sophisticated cyber-security threats, Fuji Electric established a countermeasure system and a security response organization (CSIRT/SOC) to monitor and suppress any attacks. We are also continuously strengthening our response capabilities—in such areas as defense, detection system reinforcement, and cyber training—to prepare for the emergence of new threats. However, any number of events may have an impact on our business performance and financial position. These include system malfunction and information leakage due to external attacks (such as cyber-terrorism), resulting in loss of social trust.