Management's Discussion and Analysis

Overview

In fiscal 2014, the year ended March 31, 2015, the operating environment for Fuji Electric saw a modest recovery trend in the domestic economy. While there was a fallback from the demand rush that preceded the April 2014 consumption tax hike, this was offset by positive factors including the recovery of corporate performance. Overseas, activity was weak in certain markets, but the overall trend was that of gradual improvement supported by the recovery of the United States and other major developed nations.

In response to these conditions, Fuji Electric concentrated on advancing the management policies of expanding energy-related businesses and globalizing operations. At the same time, we positioned the fiscal year under review as a year for aggressive management expansion, in a step forward from the previous fiscal year, which was designated as the first year for aggressive management. As such, we worked to boost profitability focused on businesses in the Industrial Infrastructure and Power Electronics segments while strengthening overseas operations.

Financial Performance

Net Sales

In fiscal 2014, net sales increased 6.7% year on year, to ¥810,678 million. Domestic net sales were up 4.0% year on year, to ¥605,763 million. Meanwhile, overseas net sales were up 15.3% year on year, to ¥204,915 million.

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

Cost of sales increased 5.1% year on year, to ¥609,376 million. The cost of sales to net sales ratio decreased 1.1 percentage points to 75.2%.

Selling, general and administrative expenses increased 10.3% year on year, to ¥161,986 million. Selling, general and administrative expenses as a percentage of net sales increased 0.7 percentage points to 20.0%.

Operating income improved ¥6,180 million year on year, to ¥39,316 million. This was due to higher net sales and the effects of structural improvements, such as cost reduction measures.

Non-Operating Income (Expenses) and Ordinary Income

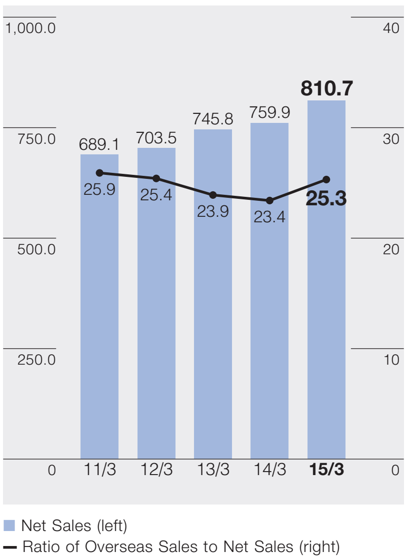
Non-operating income (net) was ¥3,823 million, an increase of ¥228 million compared to the non-operating income (net) of ¥3,595 million in the previous fiscal year. The increase was mainly due to a ¥1,055 million increase in interest and dividend income and a ¥1,894 million increase in foreign exchanges gains from the previous fiscal year, which were partially offset by a ¥1,317 million decrease in equity in earnings of affiliates.

As a result, ordinary income was ¥43,139 million, an improvement of ¥6,408 million from the previous fiscal year.

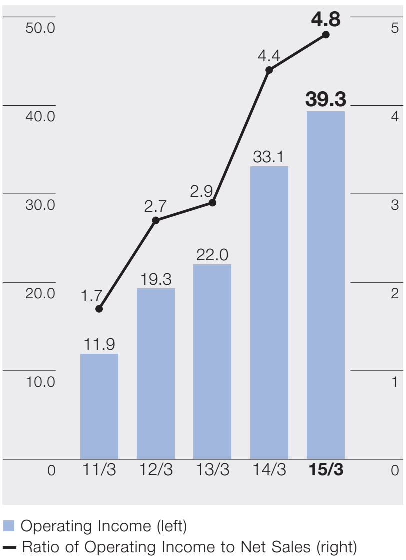
Extraordinary Income (Loss), Income Before Income Taxes and Minority Interests

Extraordinary income was ¥7,703 million due to recording gain on sales of noncurrent assets, gain on sales of investment securities, and gain on change in equity. Extraordinary income increased ¥6,790 million year on year, mainly due to recording of gain on change in equity.

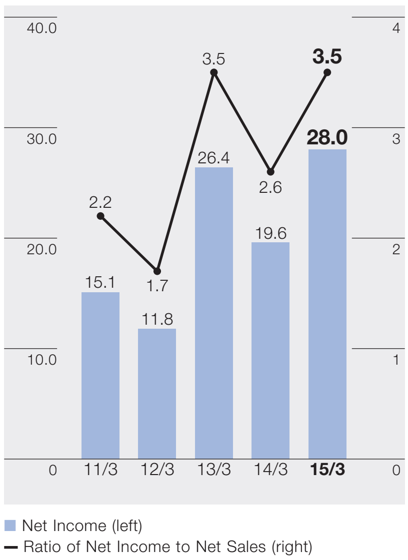
Net Sales / Ratio of Overseas Sales to Net Sales



Operating Income / Ratio of Operating Income to Net Sales



Net Income / Ratio of Net Income to Net Sales



Extraordinary loss was ¥5,123 million, reflecting loss on disposal of noncurrent assets, loss on devaluation of investment securities, impairment loss, settlement packages and other items. Extraordinary loss increased ¥1,216 million year on year, mainly due to an increase in impairment loss from the previous fiscal year.

As a result, income before income taxes and minority interests increased ¥11,982 million year on year to ¥45,719 million.

Net Income

Net income was ¥27,978 million, after deducting ¥14,919 million for income taxes and ¥2,822 million for minority interests from income before income taxes and minority interests. The net income result increased by ¥8,396 million year on year.

Results by Business Segment

Power and Social Infrastructure

Net sales increased 15% year on year to ¥175,213 million, and operating income improved ¥607 million year on year to ¥8,266 million.

In fiscal 2014, orders received (Power and Social Infrastructure segment of Fuji Electric Co., Ltd., non-consolidated-basis) were ¥214,000 million.

In the power plant business, sales were up year on year due to a rise in orders for solar power generation systems, which offset the decline in large-scale orders for hydropower generation facilities. In the social engineering systems business, sales were up due to higher sales centered on power systems and other items in the power grid field as well as smart meters. In the social information business, sales increased as a result of the rise in activities targeting small- to medium-scale orders. Overall, the segment saw improved operating results due to higher net sales.

Industrial Infrastructure

Net sales increased 4% year on year, to ¥198,035 million, and operating income improved ¥1,799 million year on year, to ¥11,423 million.

In fiscal 2014, orders received (Industrial Infrastructure segment of Fuji Electric Co., Ltd. non-consolidated-basis) were ¥125,800 million.

In the transmission and distribution business, sales were up year on year, reflecting a rise in large-scale orders in Japan. In the industrial plant business, sales increased following strong domestic replacement demand. In the industrial and instrumentation equipment business, sales were relatively unchanged year on year. In the equipment construction business, sales increased due to a rise in orders for air-conditioning facility construction and solar power generation system construction. The segment's overall operating results improved year on year due to the higher net sales and the benefits of cost reduction efforts.

Power Electronics

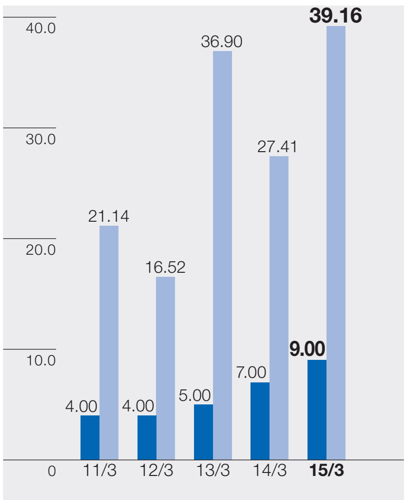
Net sales increased 5% year on year, to ¥184,110 million, and operating income improved ¥1,491 million year on year, to ¥6,822 million.

In fiscal 2014, orders received (sum of Power Electronics segment of Fuji Electric Co., Ltd. and Fuji Electric FA Components & Systems Co., Ltd., non-consolidated-basis) were ¥149,200 million.

In the drive business, sales and operating results improved year on year following a rise in demand for mainstay inverters and

Cash Dividends per Share / Net Income per Share

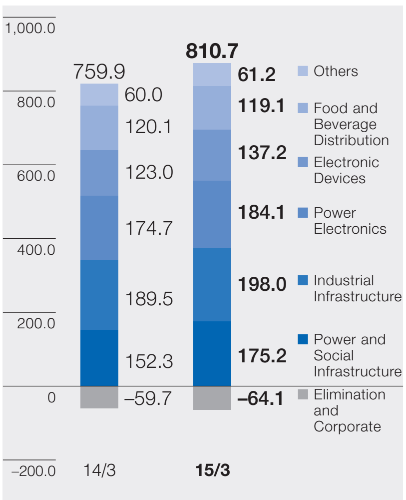
(Yen)



■ Cash Dividends per Share
■ Net Income per Share

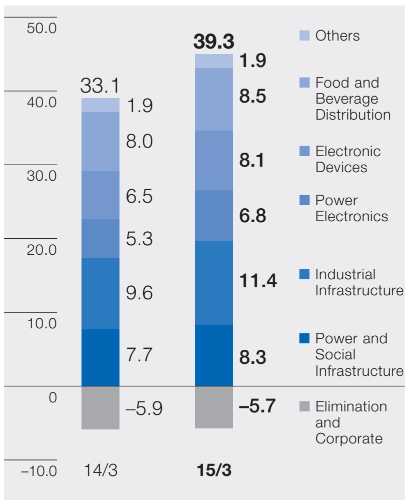
Net Sales by Segment*

(Billions of yen)



Operating Income (Loss) by Segment*

(Billions of yen)



* Based on figures reflecting the change in subsegments that took effect from April 1, 2014

servos. In the power supply business, sales and operating results were up year on year as a result of increased overseas demand for power supply equipment coupled with the robust demand for power conditioning sub-systems for mega solar facilities in Japan. In the ED&C components business, sales and operating results improved year on year due to strong demand for machine tools and solar power generation-related equipment.

Electronic Devices

Net sales increased 11% year on year, to ¥137,189 million, and operating income improved ¥1,599 million year on year, to ¥8,071 million.

In fiscal 2014, orders received (sum of Electronic Devices segment of Fuji Electric Co., Ltd. and Fuji Electric (Malaysia) Sdn. Bhd., non-consolidated-basis) were ¥107,500 million.

In the semiconductors business, sales were up year on year due to strong demand for inverters, servos, and other industrial machinery in the industrial business and recovered demand for products for telecommunications equipment in the power supply application business. These factors outweighed a decrease in demand in the automotive electronics business following the consumption tax hike in Japan. Operating results improved due to higher sales and the benefits of cost reduction efforts. In the magnetic disks business, sales increased, but operating results were unchanged year on year due to the negative impacts of changes in prices and the ratios of sales for specific models.

Food and Beverage Distribution

Net sales decreased 1% year on year, to ¥119,113 million, and operating income improved ¥480 million year on year, to ¥8,527 million.

In fiscal 2014, orders received (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated basis) were ¥110,800 million.

In the vending machines business, sales decreased year on year as sales increases in overseas markets focusing on China were offset by the impacts of detracting factors in the domestic market, namely the unseasonable weather, the decrease in vending machine demand following the consumption tax hike, and the fact that demand for convenience store coffee machines returned to normal levels. In the store distribution business, sales were down year on year as customer demand for automatic change dispensers declined, counteracting the benefits of higher sales of freezing and refrigerating facilities for convenience stores, refrigeration facilities for the distribution sector, and equipment and systems for plant factories. Despite the decrease in net sales, the segment's overall operating results improved year on year due to the benefits of cost reduction efforts.

Others

Net sales increased 2% year on year, to ¥61,208 million, and operating income was ¥1,884 million, relatively unchanged from the previous fiscal year.

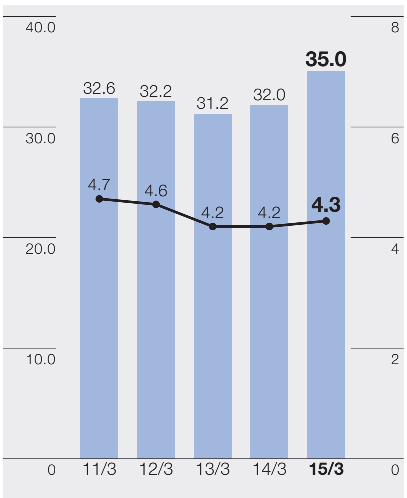
R&D Investment and Plant and Equipment Investment

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

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

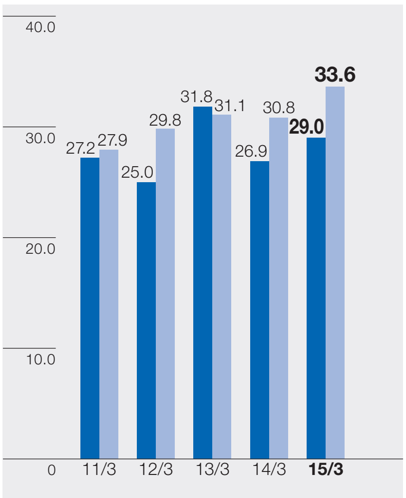
(Billions of yen) (%)



■ R&D Expenditures (left)
— Ratio of R&D Expenditures to Net Sales (right)

Plant and Equipment Investment / Depreciation and Amortization

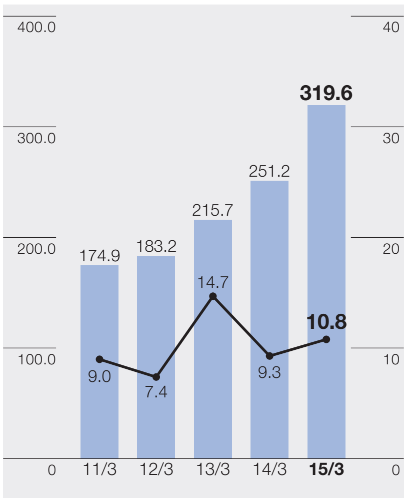
(Billions of yen)



■ Plant and Equipment Investment (left)
■ Depreciation and Amortization (right)

Total Net Assets / ROE

(Billions of yen) (%)



■ Total Net Assets (left)
— ROE (right)

been realizing companywide synergies and advancing the globalization of its R&D functions, as well as stepping up open innovation initiatives with universities, research institutes, and other companies.

For fiscal 2014, Fuji Electric's total R&D expenditures amounted to ¥35,023 million.

The number of industrial property rights held by Fuji Electric in Japan and overseas was 10,838 as of March 31, 2015.

Capital Expenditure

In fiscal 2014, the Company's capital expenditure, including leases, totaled ¥29,000 million. We bolstered investment in the Power Electronics and Industrial Infrastructure segments to strengthen their bases in Asia.

We also conducted intensive capital expenditure for mass production and development of new products, aiming to expand sales.

Key investments were as follows.

We commenced construction work on a core R&D center at our Tokyo Factory in order to bolster development of electrical and thermal energy solutions.

In the Power and Social Infrastructure segment, we invested in the construction of new assembly lines and test lines for mass production of smart meters.

In the Industrial Infrastructure segment, we invested in high power testing facilities at our Chiba Factory to accelerate development of electrical switchgears. Moreover, at Fuji Electric Manufacturing (Thailand) Co., Ltd. (FMT) we invested in production facilities for electrical switchgear.

In the Power Electronics segment, we invested in testing facilities at FMT for equipment such as uninterruptible power systems. In addition, we invested in an automated assembly line at our Suzuka Factory for mass production of a new model of inverter. In the ED&C components business, we established a new development center to bolster our development capabilities, and made additional investments in evaluation facilities.

In the Electronic Devices segment, we commenced construction of a development center at the Matsumoto Factory to accelerate development of new power semiconductor technologies and products, as well as new production technologies. Furthermore, we invested in development facilities for next-generation IGBTs, and made investments in our assembly processes to bolster production of pressure sensors as well as to expand the variety of industrial IGBTs produced.

Financial Position

Total Assets

Total assets as of March 31, 2015 stood at ¥904,522 million, an increase of ¥93,748 million from the previous fiscal year-end.

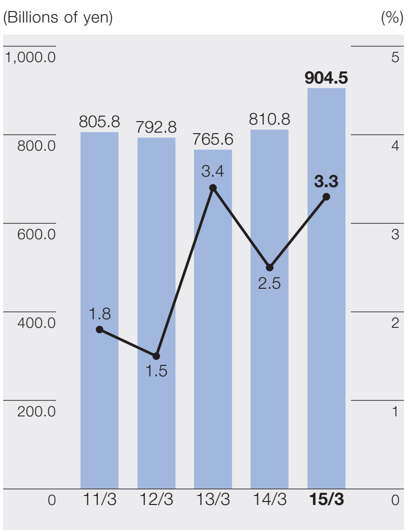
Current Assets and Current Liabilities

Total current assets amounted to ¥462,969 million as of March 31, 2015, up ¥33,631 million from the previous fiscal year-end. This was mainly due to increases from the previous fiscal year-end of ¥15,150 million in trade receivables and ¥16,171 million in inventories.

Total current liabilities stood at ¥404,748 million, up ¥45,291 million from the previous fiscal year-end.

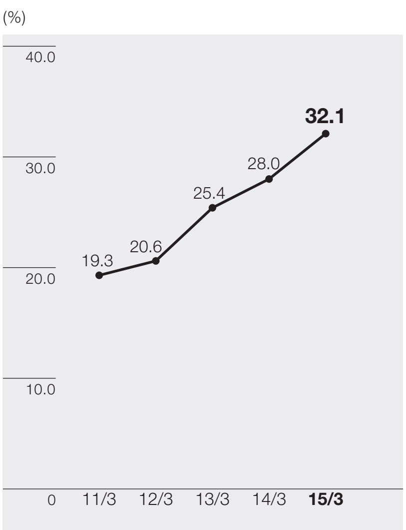
This was due to increases from the previous fiscal year-end of ¥19,000 million in commercial paper and ¥15,000 million in current portion of bonds.

Total Assets / ROA

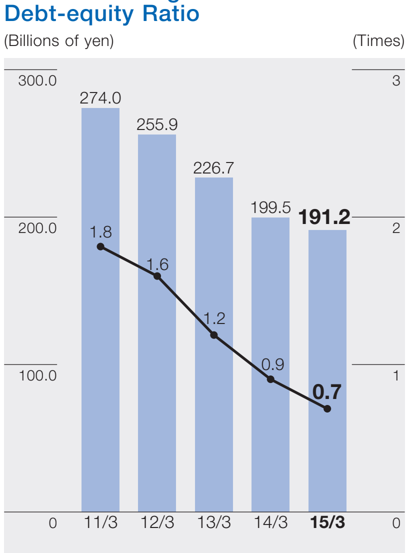


Total Assets (left)
ROA (right)

Equity Ratio



Interest-bearing Debt / Debt-equity Ratio



Interest-bearing Debt (left)
Debt-equity Ratio (right)

Noncurrent Assets

Net property, plant and equipment stood at ¥174,953 million, an increase of ¥2,334 million from the previous fiscal year-end.

Further, total investments and other assets amounted to ¥266,600 million, up ¥57,783 million from the previous fiscal year-end. This was attributable to an increase of ¥46,525 million in investment securities, owing to factors such as the rise in the value of available-for-sale securities following differences in mark-to-market valuation.

Long-term Liabilities

Total long-term liabilities were ¥180,138 million, a decrease of ¥19,954 million from the previous fiscal year-end. This reflected decreases from the previous fiscal year-end of ¥15,000 in bonds payable, and ¥18,963 in long-term loans payable, while deferred tax liabilities increased by ¥14,665 million.

Net Assets

Total net assets as of March 31, 2015, were ¥319,636 million, up ¥68,411 million from the previous fiscal year-end. This rise was mainly due to the increases in valuation difference on available-for-sale securities of ¥24,760 million and remeasurements of defined benefit plans of ¥24,279 million from the previous fiscal year-end. As a result, the equity ratio was 32.1%, an increase of 4.1 percentage points from the previous fiscal year-end.

Debt

Interest-bearing debt as of March 31, 2015, was ¥191,225 million, down ¥8,279 million from the previous fiscal year-end. The ratio of interest-bearing debt to total assets was 21.1%, a decrease of 3.5 percentage points from the previous fiscal year-end.

Cash Flows

In fiscal 2014, consolidated free cash flow (cash flows from operating activities + cash flows from (used in) investing activities) was a positive ¥28,709 million, a deterioration of ¥15,293 million compared with ¥44,002 million in the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥51,459 million, compared with ¥53,651 million for the previous fiscal year. This was due to the recording of income before income taxes and an increase in advances received, which outweighed increases in inventories and trade receivables.

This was a deterioration of ¥2,192 million year on year.

Cash Flows from (Used in) Investing Activities

Net cash used in investing activities was ¥22,750 million, compared with ¥9,649 million in the previous fiscal year. This was primarily related to purchase of property, plant and equipment and purchase of investment securities.

Year on year, this was an increase in cash used of ¥13,101 million.

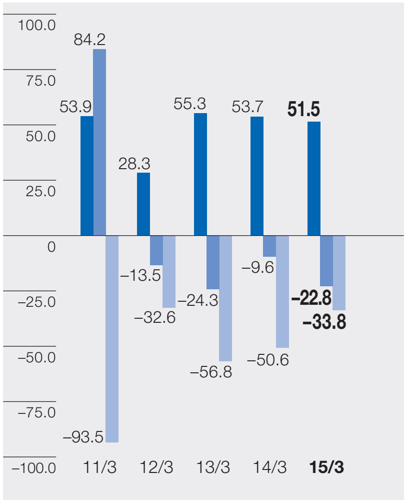
Cash Flows from (Used in) Financing Activities

Net cash used in financing activities was ¥33,827 million, compared with ¥50,570 million in the previous fiscal year. This was principally due to repayment of long-term loans payable.

As a result, consolidated cash and cash equivalents at fiscal year-end amounted to ¥31,895 million, down ¥1,517 million, or 4.5%, from the previous fiscal year-end.

Cash Flows

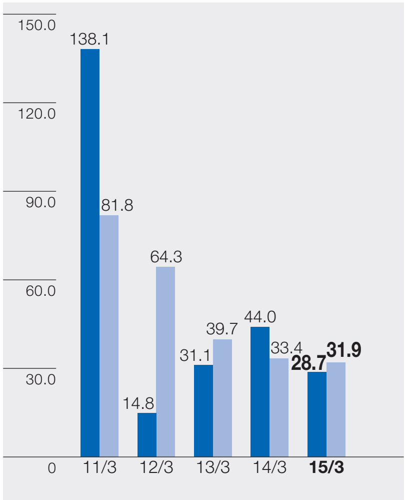
(Billions of yen)



■ Cash Flows from Operating Activities
■ Cash Flows from (Used in) Investing Activities
■ Cash Flows from (Used in) Financing Activities

Free Cash Flow / Cash and Cash Equivalents

(Billions of yen)



■ Free Cash Flow
■ Cash and Cash Equivalents

Risk Factors

Fuji Electric takes appropriate measures to minimize the impact of business risks and other risks by managing them in a systematic and methodical manner. Currently, the main risks that could have a negative effect on the operating results and financial position of Fuji Electric are as follows. These are the factors that the Company judged to have a potential future effect as of March 31, 2015.

(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 and other measures, significant increases in these prices could have a negative effect on the Company'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 have a negative effect on the Company'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 yen exchange rates, primarily against the U.S. dollar, could have a negative effect on the Company's operating results and financial position.

(d) Fuji Electric's interest-bearing debt totaled ¥191,225 million as of March 31, 2015. 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 Company's operating results.

(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 have a negative effect on the Company'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 the rapid shifts in product demand and intensifying competition, increase the possibility that the Company might not be able to recoup its investments. Such events could 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 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 its 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 social unrest, 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 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, there could be a negative effect on its 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 have a negative effect on the Company's operating results and financial position.

(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 its operating results.

(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. The Company records retirement benefit costs and liabilities calculated on assumptions accepted as reasonable for actuarial calculations. Fuji Electric and certain domestic consolidated subsidiaries have also entrusted listed marketable securities to employee retirement benefit trusts. Consequently, when differences occur between the expected and actual values of the discount rate and the expected rate of return on pension assets, and when changes occur in the 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 Company's operating results and financial position.

(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.