Management's Discussion and Analysis

Overview

During fiscal 2015, the year ended March 31, 2016, although the operating environment for Fuji Electric showed an underlying tone of recovery in the major markets of the United States and Europe, a sense of slowing economies in China and other Asian countries became stronger. In Japan, with an increasingly unclear outlook for overseas markets there was weakness in some areas through the second half of the year, but an overall trend of gradual recovery continued.

Against this backdrop, and as per our basic policies for fiscal 2015 of "completing the FY2015 Medium-Term Management Plan" and "advancing growth strategies in preparation for the next medium-term management plan," we worked to expand the businesses in the Power and Social Infrastructure, Industrial Infrastructure, and Power Electronics segments, and the overseas operations, while at the same time further enhancing our earnings strength.

Financial Performance

Net Sales

Net sales for fiscal 2015 rose 0.4% from the previous fiscal year, to ¥813,550 million. Domestic net sales declined 1.3%, to ¥597,757 million, while overseas net sales grew 5.3%, to ¥215,792 million.

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

The cost of sales declined 1.0% from the previous fiscal year, to ¥603,236 million, and the cost of sales to net sales ratio decreased 1.1 percentage points, to 74.1%.

Selling, general and administrative expenses increased 2.1%, to ¥165,308 million. Selling, general and administrative expenses as a percentage of net sales rose 0.3 percentage point, to 20.3%.

Operating income grew ¥5,690 million from the previous fiscal year, to ¥45,006 million, on cost reductions and other improvements in the cost structure.

Non-Operating Income (Expenses) and Ordinary Income

Non-operating income (net) was ¥608 million, a ¥3,215 billion decline from the ¥3,823 million recorded in the previous fiscal year. This included a ¥495 million increase in dividend income and a ¥415 million decrease in interest expenses, but also a turnaround to a net ¥860 million of foreign exchange losses from the previous fiscal year net ¥3,666 million of foreign exchange income.

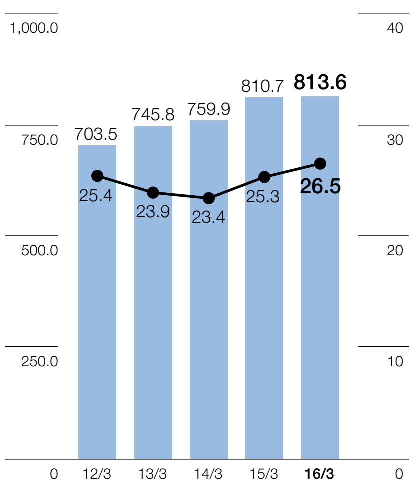
As a result, ordinary income grew ¥2,475 million from the previous fiscal year, to ¥45,614 million.

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

Extraordinary income totaled ¥3,340 million, and included a gain on sales of noncurrent assets and gain on sales of investment securities. This represented a ¥4,363 million decrease from the previous fiscal year, in the absence of the gain on change in equity recorded in the previous fiscal year.

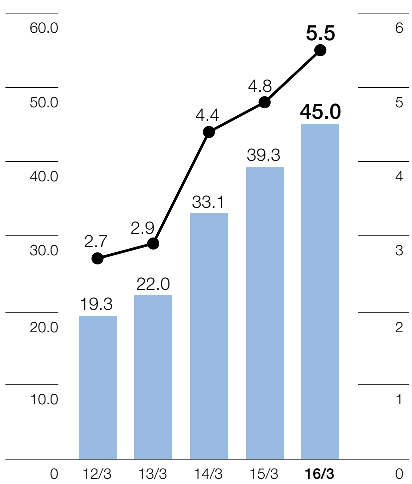
Extraordinary loss totaled ¥2,387 million, and included a loss on disposal of noncurrent assets, a loss on devaluation of investment securities, an impairment loss, a settlement package, and a loss on liquidation of subsidiaries. This was ¥2,736 million lower than in the previous fiscal year, mainly from a reduction in the impairment loss recorded.

Net Sales / Ratio of Overseas Sales to Net Sales



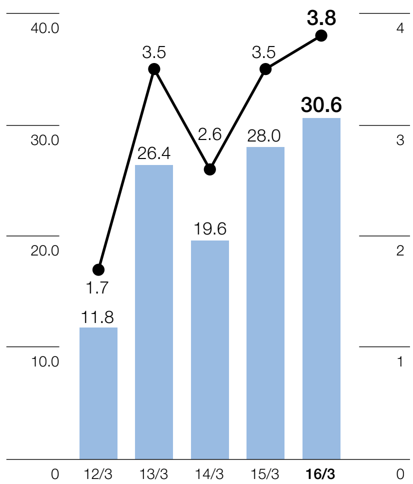
■ Net Sales (left)
— Ratio of Overseas Sales to Net Sales (right)

Operating Income / Ratio of Operating Income to Net Sales



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

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



■ Profit Attributable to Owners of Parent (left)
— Ratio of Profit Attributable to Owners of Parent to Net Sales (right)

Net Income

Income before income taxes grew ¥847 million from the previous fiscal year, to ¥46,566 million. After subtracting ¥12,698 of income taxes and ¥3,224 of profit attributable to non-controlling interests, profit attributable to owners of parent increased ¥2,666 million from the previous fiscal year, to ¥30,644 million.

Results by Business Segment

Power and Social Infrastructure

Net sales rose 4% from the previous fiscal year, to ¥175,488 million, and operating income grew ¥1,950 million, to ¥9,736 million.

Orders received in fiscal 2015 (Power and Social Infrastructure segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥129.8 billion.

Sales at the power plant business rose from the previous fiscal year, on increased orders for thermal, geothermal, and hydropower generation facilities, and despite a decrease in orders for solar power generation systems. Sales rose at the social engineering systems business, mainly from increased sales of smart meters. Sales at the social information business were roughly flat with the previous fiscal year. The increase in overall operating income for the segment was the result of higher sales and progress in cost reductions.

Industrial Infrastructure

Net sales increased 6% from the previous fiscal year, to ¥201,959 million, and operating income grew ¥1,824 million, to ¥12,966 million.

Orders for the fiscal year (Industrial Infrastructure segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥151.3 billion.

Sales at the transmission and distribution business rose with a contribution from large-scale overseas orders. The industrial plant business recorded sales growth on strong demand for energy conservation and replacement demand, as well as an increase in data center orders, in Japan. Despite a decline in demand from the slowing of the Chinese market, sales at the industrial and instrumentation equipment business rose on strong domestic demand. At the equipment construction business, sales grew on increased construction of electric power facilities and air-conditioning facilities. Higher sales and progress in cost reductions drove the increase in overall operating income for the segment.

Power Electronics

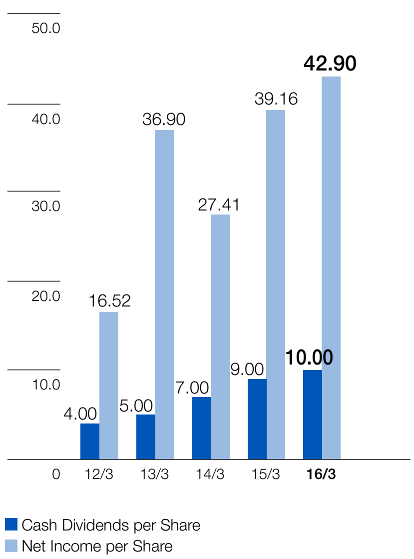
Net sales rose 1% from the previous fiscal year, to ¥202,972 million, and operating income grew ¥174 million, to ¥7,755 million.

Orders for the fiscal year (Power Electronics segment of Fuji Electric Co., Ltd., and Fuji Electric FA Components & Systems Co., Ltd., non-consolidated-basis) totaled ¥154.0 billion.

The drive business recorded lower sales, reflecting a decline in demand associated with the slowdown of the Chinese market. Despite this sales decline, operating income was maintained at the previous fiscal year's level through cost reductions. Sales rose at the power supply business, reflecting higher sales of domestic power supply equipment combined with the addition of Fuji SMBE Pte. Ltd. to the scope of consolidation. Higher sales led to an increase in operating income. Sales declined at the ED&C components business, on a decline in demand from domestic machinery equipment manufacturers and lower overseas demand. Despite this decline in sales, operating income rose from the previous fiscal year on progress made in cost reductions.

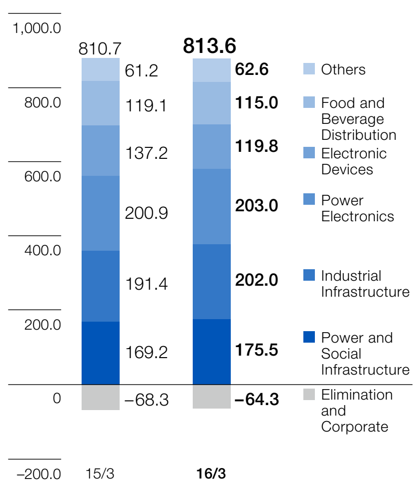
Cash Dividends per Share / Net Income per Share

(Yen)



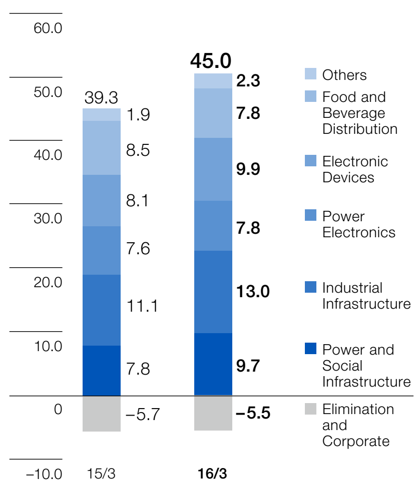
Net Sales by Segment*

(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

Electronic Devices

Net sales declined 13% from the previous fiscal year, to ¥119,846 million, while operating income grew ¥1,792 million, to ¥9,863 million.

Orders (Electronic Devices segment of Fuji Electric Co., Ltd., and Fuji Electric (Malaysia) Sdn. Bhd., non-consolidated-basis) totaled ¥96.0 billion.

Both sales and operating income declined at the semiconductor business. This reflected lower demand from the slowdown in China in the industrial field and the power supply application field, a decline in demand from major domestic customers in the industrial field, especially for machine tools, and lower sales of vehicles equipped with the Company's products in the automotive field. At the magnetic disks business, sales declined as a result of changes in the product mix. Operating income rose, however, with fixed cost reductions more than offsetting the sales decline.

Food and Beverage Distribution

Net sales declined 3% from the previous fiscal year, to ¥114,987 million, with a ¥702 million decrease in operating income, to ¥7,825 million.

Orders (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥105.1 billion.

At the vending machine business, although results in China rose in line with the growth of the market, sales and operating income both declined on lower demand from domestic beverage manufacturers as they held back on investment. Sales and operating income both rose at the store distribution business, on increased sales of freezing and refrigerating facilities for convenience stores.

Others

Net sales increased 2%, to ¥62,587 million, and operating income grew ¥452 million, to ¥2,336 million.

Note: As a result of organizational changes, the businesses included under the Power and Social Infrastructure, Industril;al Infrastructure, and Power Electronics segments have changed. Figures for the previous fiscal year at each segment have been adjusted to conform to the new classifications.

R&D Investment and Plant and Equipment Investment

R&D

Fuji Electric's research and development pursues cutting-edge energy technologies to create products that contribute to the realization of a sustainable society that is safe and secure. Our research and development also pursues Companywide synergies and globalization, along with open innovation with universities, research institutions, and other companies.

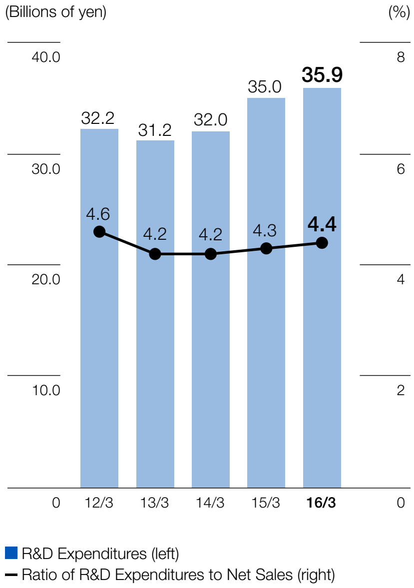
The Company's research and development expenditures for fiscal 2015 totaled ¥35,949 million. Expenditures by segment, and the results of that research and development, are outlined below.

As of March 31, 2016, the number of industrial property rights held by Fuji Electric in Japan and overseas stood at 11,026.

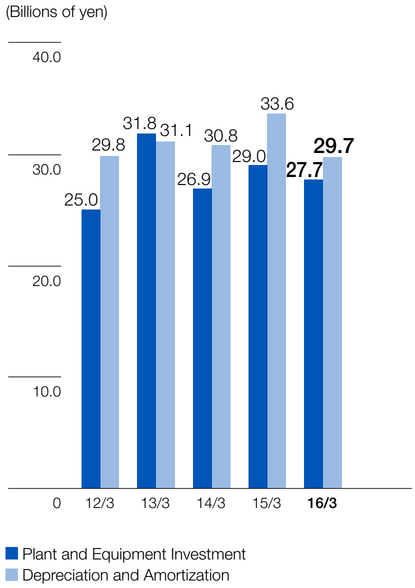
Capital Expenditure

Capital expenditure for the fiscal year, including leases, totaled ¥27.7 billion. This included investment for new products and streamlining at the Power Electronics and Electronic Devices segments.

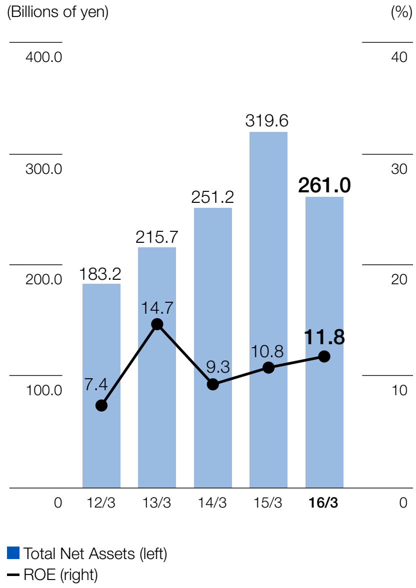
R&D Expenditures / Ratio of R&D Expenditures to Net Sales



Plant and Equipment Investment / Depreciation and Amortization



Total Net Assets / ROE



To strengthen our development of new products and technologies, construction of research and development centers at the Tokyo Factory (Companywide research) and Matsumoto Factory (power semiconductors) has been completed, and construction of a power electronics technical center has begun at the Suzuka Factory.

Major investments were as follows:

At the Power and Social Infrastructure segment, investments were made for new smart meter products and for the streamlining of automated production lines. The power generation business invested to upgrade and replace machine processing facilities.

Investments at the Industrial Infrastructure and Power Electronics segments expanded production lines to increase the cost competitiveness of Fuji Electric Manufacturing (Thailand) Co., Ltd. We invested in automated assembly lines at the Suzuka Factory to bring production of small motors back to Japan. We also invested in production facilities for new products at the ED&C components business.

At the Electronic Devices segment, we invested in semiconductor front-end processing equipment to expand the product lineup at the Tsugaru Factory. Investments were also made to increase IPM (intelligent power modules, a semiconductor element used in power generation) production at Fuji Electric Philippines, Inc.

The Food and Beverage Distribution segment made investments for the automation of domestic assembly lines and to increase vending machine production in China to meet the growth of the beverage market.

Financial Position

Total Assets

Total assets as of March 31, 2016, stood at ¥845,378 million, a decrease of ¥59,144 million from the previous fiscal year-end.

Current Assets and Current Liabilities

Current assets increased ¥30,963 million from the end of the previous fiscal year, to ¥493,932 million. This included a ¥20,747 million increase in trade receivables and a ¥7,525 million increase in inventories.

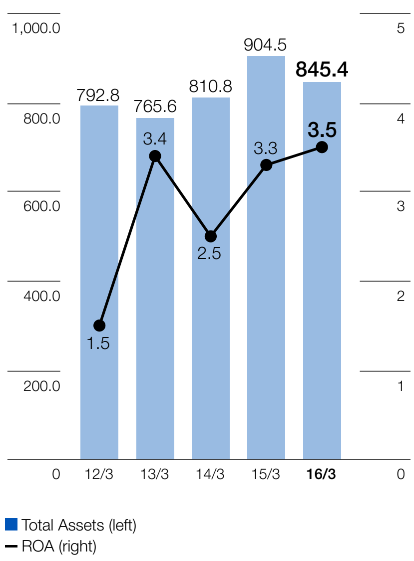
Current liabilities increased ¥13,071 million, to ¥417,819 million. Although short-term debt decreased ¥7,763 million, increases of ¥9,768 million in trade payables, ¥1,962 million in the current portion of long-term debt, and ¥1,944 million in advances received resulted in an overall increase.

Noncurrent Assets

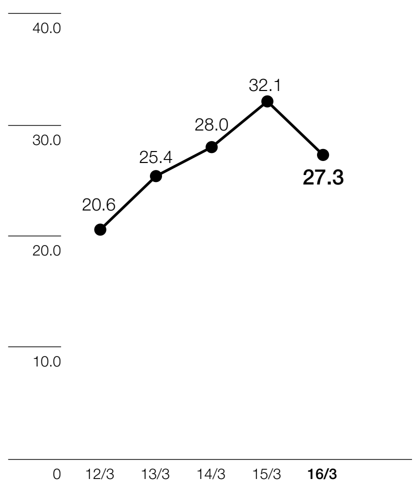
Net property, plant and equipment stood at ¥176,476 million, an increase of ¥1,523 million from the previous fiscal year-end.

Further, total investments and other assets amounted to ¥174,970 million, down ¥91,630 million from the previous fiscal year-end. This was attributable to a decrease of ¥70,128 million in investment securities, owing to factors such as the decline in the value of available-for-sale securities following differences in mark-to-market valuation.

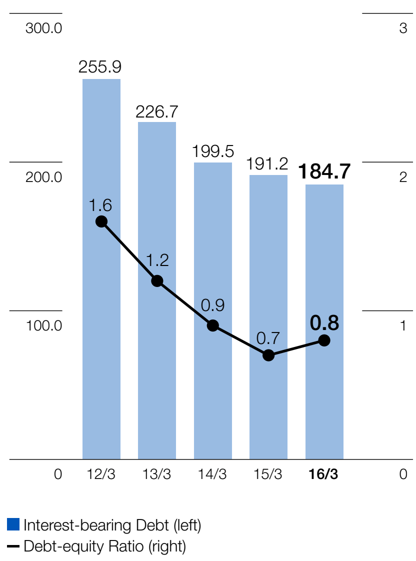
Total Assets / ROA



Equity Ratio



Interest-bearing Debt / Debt-equity Ratio



Long-Term Liabilities

Total long-term liabilities were ¥166,579 million, a decrease of ¥13,559 million from the previous fiscal year-end. This reflected decreases from the previous fiscal year-end of ¥31,779 million in deferred tax liabilities, while net defined benefit liability increased by ¥18,211 million.

Net Assets

Net assets as of March 31, 2016, totaled ¥260,980 million, a decrease of ¥58,656 million from the previous fiscal year-end. Although retained earnings increased ¥22,568 million, decreases of ¥39,274 in the valuation difference on available-for-sale securities and ¥34,986 million in remeasurements of defined benefit plans led to an overall decrease. As a result, the equity ratio stood at 27.3%, a 4.8 percentage-point decline from the previous fiscal year-end.

Debt

Interest-bearing debt as of the fiscal year-end totaled ¥184,744 million, a decrease of ¥6,481 million from the end of the previous fiscal year. The ratio of interest-bearing debt to total assets was 21.9%, a 0.8 percentage-point increase from the previous fiscal year-end.

Cash Flow

Consolidated free cash flow (cash flows from operating activities + cash flows from (used in) investing activities) for fiscal 2015 was a positive ¥29,040 million, marking a ¥331 million improvement from the previous fiscal year's positive free cash flow of ¥28,709 million.

Cash Flows from Operating Activities

Net cash and cash equivalents ("cash") provided by operating activities was ¥48,450 million, compared with ¥51,459 million provided in the previous fiscal year. Major components included increases in trade receivables and inventories, as well as the recording of income before income taxes and an increase in trade payables.

Net cash provided by operating activities was ¥3,009 million less than in the previous year.

Cash Flows from (Used in) Investing Activities

Investing activities used net cash in the amount of ¥19,410 million, compared with ¥22,750 used in the previous fiscal year. This was primarily for outlays for the purchase of property, plant and equipment.

Net cash used in investing activities decreased ¥3,340 million from the previous fiscal year.

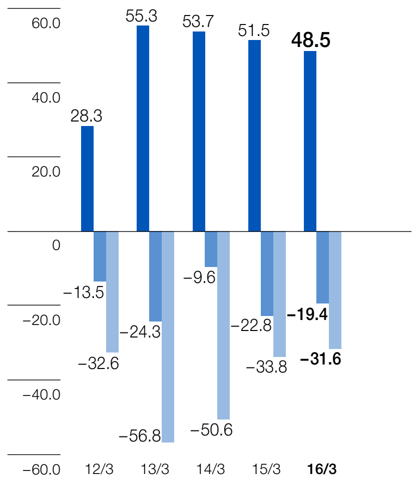
Cash Flows from (Used in) Financing Activities

Financing activities used net cash in the amount of ¥31,567 million, compared with ¥33,827 million used in the previous fiscal year. This was mainly the result of repayments of lease obligations and a net decrease in short-term loans payable.

As a result, consolidated cash and cash equivalents as of March 31, 2016, was ¥30,838 million, a ¥1,057 million (3.3%) decrease from the previous fiscal year-end.

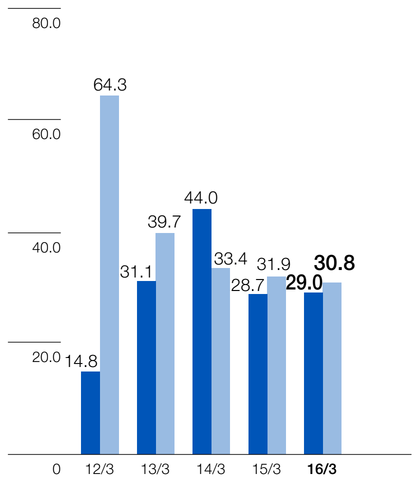
Cash Flows

(Billions of yen)



Free Cash Flow / Cash and Cash Equivalents

(Billions of yen)



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, 2016, 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 ¥184,744 million as of March 31, 2016. 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 standard for environmental protection systems, the Company works to prevent, measure, and monitor soil contamination at its operating sites. Prior to selling any land, the Company carries out soil surveys and takes other appropriate steps in accordance with relevant laws and regulations. However, as a result of these measurements and surveys, the Company may incur costs for soil remediation measures, which could have a negative effect on the operating results of the Company.

(12) Risks Related to Retirement Benefit Liabilities

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.