Management's Discussion and Analysis

Overview

During fiscal 2016, the year ended March 31, 2017, an overall trend toward modest recovery was witnessed overseas driven by principal developed countries, including the United States and European countries, despite some uncertainties over economic slowdown in Asia, most apparent in China, and government policy in Europe and the United States. In the domestic economy, the general trend was also moderate despite the rapid foreign exchange rate fluctuations seen over a short time period resulting from the growing sense of uncertainty over the overseas economy.

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 systems, industrial infrastructure, and power electronics businesses; expanding overseas operations; and creating high-value-added products while also improving profitability.

Financial Performance

Net Sales

Net sales for fiscal 2016 rose 3.0% year on year, to ¥837,765 million. Domestic net sales grew 5.8%, to ¥632,723 million, while overseas net sales decreased 5.0%, to ¥205,042 million.

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

The cost of sales increased 3.5% year on year, to ¥624,371 million, and the ratio of cost of sales to net sales rose 0.4 percentage point, to 74.5%.

Selling, general and administrative expenses increased 2.0%, to ¥168,685 million. The ratio of selling, general and administrative expenses to net sales declined 0.2 percentage point, to 20.1%.

Operating income decreased ¥297 million year on year, to ¥44,709 million, as the impacts of new investments in power electronics and foreign exchange rate fluctuations outweighed the benefits of cost reduction efforts.

Non-Operating Income (Expenses) and Ordinary Income

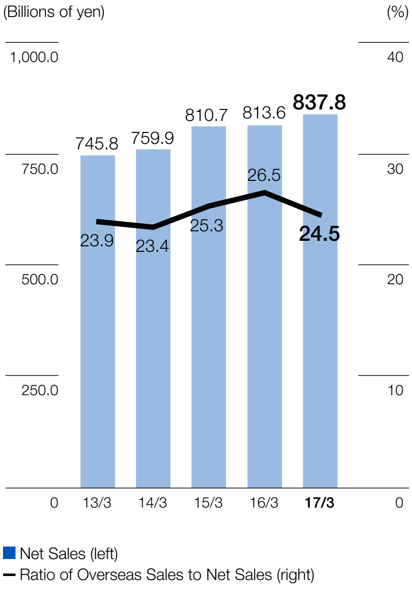
Non-operating income (net) was ¥1,587 million, a ¥979 million increase from a ¥608 million recorded in the previous fiscal year. This included a ¥378 million decrease in dividend income, which was counteracted by a ¥541 million decrease in foreign exchange losses and a ¥163 million increase in interest income.

As a result, ordinary income grew ¥682 million year on year, to ¥46,296 million.

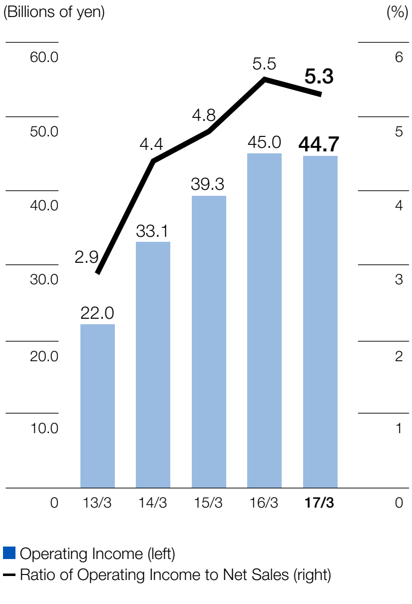
Extraordinary Income (Loss), Income Before Income Taxes and Non-controlling Interests

Extraordinary income totaled ¥19,814 million, and included a gain on sales of noncurrent assets, a gain on sales of investment securities, and a gain on insurance adjustment. This represented a ¥16,474 million year-on-year increase primarily due to the gain on sales of investment securities.

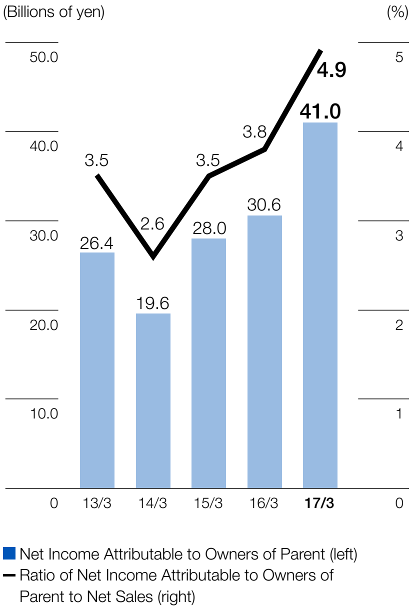
Net Sales / Ratio of Overseas Sales to Net Sales



Operating Income / Ratio of Operating Income to Net Sales



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



Extraordinary loss totaled ¥2,168 million, and included a loss on disposal of noncurrent assets, a loss on valuation of investment securities, and an impairment loss. This represented a ¥220 million year-on-year decrease due in part to the absence of the settlement package and the loss on liquidation of subsidiaries recorded in the previous fiscal year.

Net Income

Income before income taxes grew ¥17,377 million year on year, to ¥63,943 million. After subtracting ¥18,924 million in income taxes (the net of income taxes-current and income taxes-deferred) and ¥4,041 million in net income attributable to non-controlling interests, net income attributable to owners of parent increased ¥10,334 million from the previous fiscal year, to ¥40,978 million.

Results by Business Segment

Power and Social Infrastructure

Net sales increased 11% year on year, to ¥194,795 million, and operating income rose ¥2,187 million, to ¥11,923 million.

Orders received in fiscal 2016 (Power and Social Infrastructure segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥101.1 billion.

In the power plant business, net sales were up and operating results improved year on year due to an increase in large-scale orders for hydraulic power generation facilities. In the social engineering systems business, net sales were up and operating results improved as a result of 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 an increase in projects in the academic sector.

Industrial Infrastructure

Net sales rose 5% year on year, to ¥209,117 million, and operating income increased ¥3.4 billion, to ¥14,572 million.

Orders in fiscal 2016 (Industrial Infrastructure segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥158.7 billion.

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 as a result of strong demand for energy saving and facility replacement in Japan as well as increased sales in new solutions businesses targeting data centers. In the industrial and instrumentation equipment business, net sales were up and operating results improved due to the robust replacement demand in Japan. In the equipment construction business, net sales were relatively unchanged year on year while operating results improved due to the benefits of cost reduction efforts.

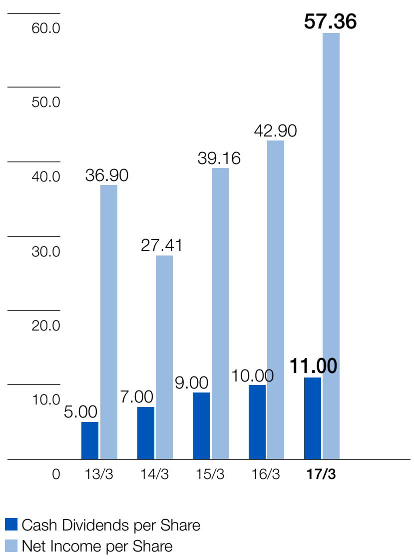
Power Electronics

Net sales decreased 1% year on year, to ¥205,855 million, and operating income was down ¥791 million, to ¥8,640 billion.

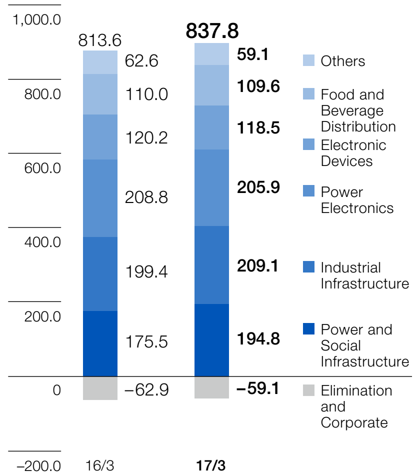
Orders in fiscal 2016 (Power Electronics segment of Fuji Electric Co., Ltd., and Fuji Electric FA Components & Systems Co., Ltd., non-consolidated-basis) totaled ¥152.7 billion.

In the drive business, net sales increased year on year as the strong performance of inverters and servos counteracted the impacts of unfavorable foreign exchange rates and a decline in large-scale overseas orders for electrical equipment for rail-cars. However, operating results worsened as a result of new investments in overseas production bases. In the power supply business, net sales were down due to weak demand for power conditioning sub-systems for mega-solar power generation

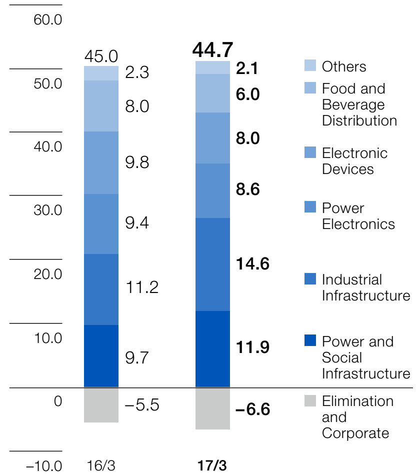
Cash Dividends per Share / Net Income per Share



Net Sales by Segment



Operating Income (Loss) by Segment



systems and the impacts of unfavorable foreign exchange rates. Regardless, operating results improved due to the benefits of cost reduction efforts. In the ED&C components business, net sales decreased and operating results worsened following weak demand from machine tool and other machinery manufacturers as well as from distribution board manufacturers.

Electronic Devices

Net sales declined 1% year on year, to ¥118,462 million, and operating income was down ¥1,749 million year on year, to ¥8,030 million.

Orders in fiscal 2016 (Electronic Devices segment of Fuji Electric Co., Ltd., and Fuji Electric (Malaysia) Sdn. Bhd., non-consolidated-basis) totaled ¥97.7 billion.

In the semiconductors business, net sales increased and operating results improved year on year, despite the unfavorable impacts of foreign exchange fluctuations, due to the recovery of demand in the industrial and power supply application fields as well as the continuation of strong performance in the automotive field. In the magnetic disks business, net sales were down and operating results worsened because of the weak demand following deteriorating market conditions.

Food and Beverage Distribution

Net sales declined slightly year on year, to ¥109,557 million, and operating income decreased ¥1,998 million year on year, to ¥6,029 million.

Orders in fiscal 2016 (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥99.8 billion.

In the vending machine business, net sales decreased and operating results worsened year on year. Demand was down in the Japanese market due to industry reorganizations and limited investment among domestic beverage manufacturers. In addition, performance in the Chinese market was negatively impacted by the revision of installation plans, which offset the benefits of our progress in acquiring new customers. In the store distribution business, net sales increased due to strong demand for store equipment and automatic change dispensers for convenience stores, but operating results worsened as a result of unfavorable sales mix.

Others

Net sales fell 6% year on year, to ¥59,100 million, and operating income was down ¥271 million year on year, to ¥2,066 million.

Note: As a result of organizational changes, the businesses included under the Industrial Infrastructure, Power Electronics, Electronic Devices, and Food and Beverage Distribution segments changed effective from fiscal 2016. Figures for each segment from the previous fiscal year was restated to conform to the new classifications.

R&D Investment and Plant and Equipment Investment

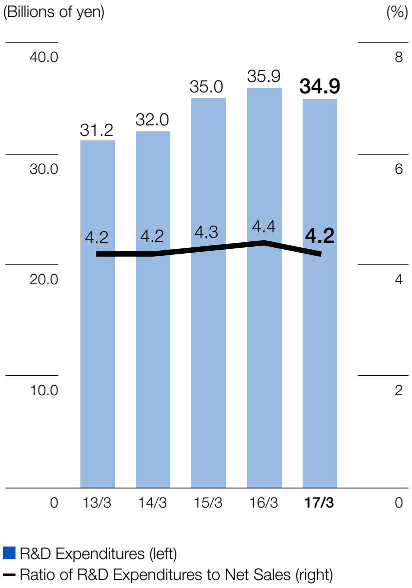
R&D

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 seek to generate Companywide synergies and promote globalization while also engaging in open innovation with universities, research institutions, and other companies.

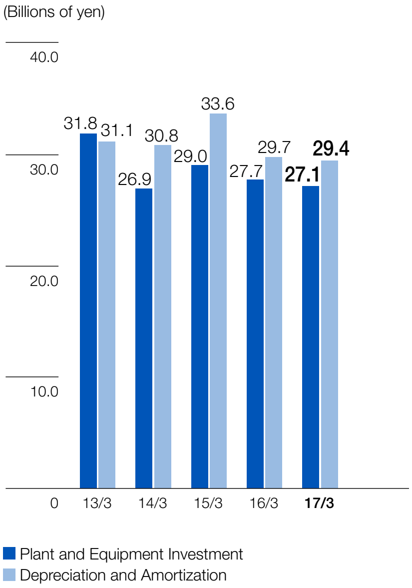
The Company's research and development costs in fiscal 2016 totaled ¥34,910 million.

As of March 31, 2017, the number of industrial property rights which were registered domestic and overseas and held by Fuji Electric stood at 11,480.

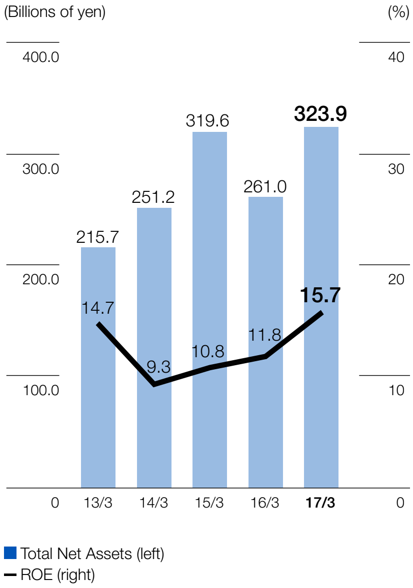
R&D Expenditures / Ratio of R&D Expenditures to Net Sales



Plant and Equipment Investment / Depreciation and Amortization



Total Net Assets / ROE



Plant and Equipment Investment

Plant and equipment investment, including leases, amounted to ¥27.1 billion in fiscal 2016. These investments were carried out in accordance with our policies, expanding production capacity to promote local design, production, and consumption, enabling mass-production of next-generation power semiconductors, and bolstering facilities at mother factories for new power electronics products.

Major investments were as follows.

The Power and Social Infrastructure segment invested in increased production of smart meters and in portable machining equipment for providing on-site repair services at thermal power plants.

The Industrial Infrastructure and Power Electronics segments invested in the Power Electronics Technical Center at the Suzuka Factory, which itself was a move to accelerate development of new products by consolidating development and design divisions. In addition, investments were made to reorganize the line of products manufactured at the Suzuka Factory and the Kobe Factory and rationalize the in-house production systems at these factories in order to enhance their capacity as mother factories and contribute to increased product competitiveness. We also invested in new production facilities for IoT-compatible earth-leakage circuit breakers in the ED&C components business.

The Electronic Devices segment invested in mass-production of next-generation IGBT chips at the Yamanashi Factory and in front-end semiconductor processing equipment to expand the range of business continuity plan-compatible products manufactured at Fuji Electric Tsugaru Semiconductor Co., Ltd. Back-end processing investments were conducted in increasing production of intelligent power modules (semiconductors element used in power generation) in Japan and overseas.

The Food and Beverage Distribution segment invested in dies for producing new vending machines in Japan, while overseas investments were used to start construction of the new Dalian factory, which is meant to help the Company expand its vending machine operations in China.

Financial Position

Total Assets

Total assets as of March 31, 2017, stood at ¥886,663 million, an increase of ¥41,285 million from the end of the previous fiscal year.

Current Assets and Current Liabilities

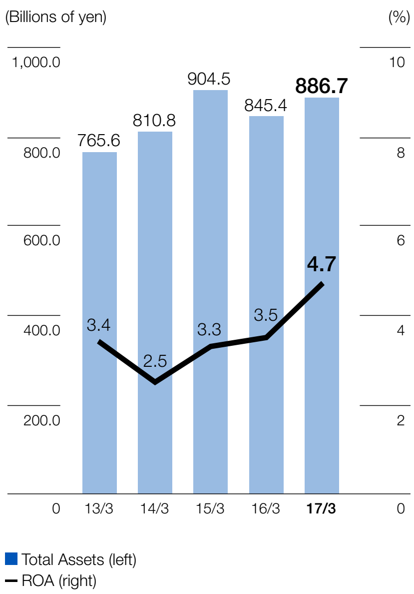
Total current assets increased ¥18,538 million from the end of the previous fiscal year, to ¥512,470 million. The increases of ¥11,298 million in trade receivables and ¥11,048 million in cash and cash equivalents counteracted the decline of ¥2,727 million in inventories.

Total current liabilities stood at ¥412,404 million on March 31, 2017, down ¥5,415 million from a year earlier. The increases of ¥24,661 million in income taxes payable were offset by a decrease of ¥22,835 million in short-term debt and ¥6,451 million in current portion of long-term debt.

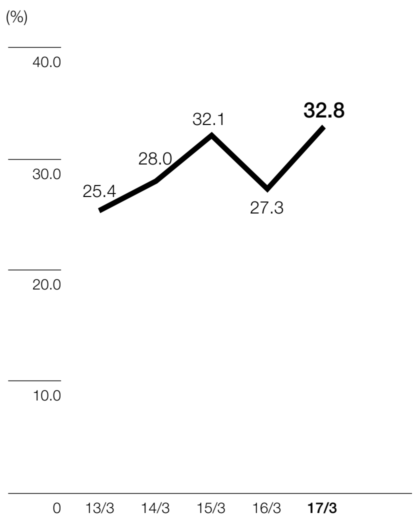
Noncurrent Assets

Total noncurrent assets on March 31, 2017, was ¥374,193 million, up ¥22,747 million from a year earlier. The combined total of net property, plant and equipment and intangible assets were ¥173,517 million, down ¥2,959 million. Total investments and other assets amounted to ¥200,676 million, up ¥25,706 million. This outcome was largely a result of a ¥20,829 million increase in net defined benefit asset.

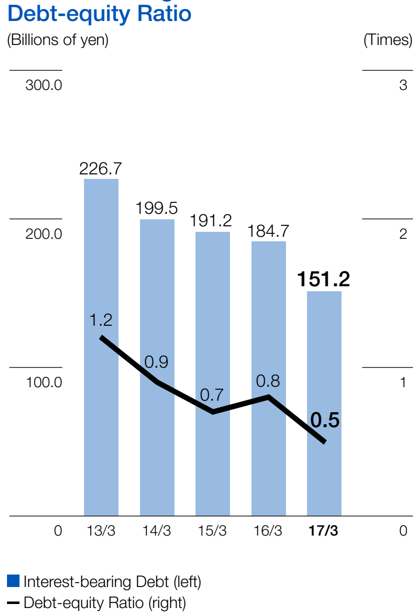
Total Assets / ROA



Equity Ratio



Interest-bearing Debt / Debt-equity Ratio



Long-Term Liabilities

Total long-term liabilities decreased ¥16,183 million from the previous fiscal year-end, to ¥150,396 million. This reflected decreases from the previous fiscal year-end of ¥9,846 million in net defined benefit liability, and ¥4,241 in long-term debt.

Net Assets

Net assets as of March 31, 2017, totaled ¥323,863 million, up ¥62,883 million from the previous fiscal year-end. This rise was attributable to an increase of ¥34,178 million in retained earnings combined with upward adjustments of ¥18,591 million from remeasurements of defined benefit plans and ¥12,497 million from valuation difference on available-for-sale securities. As a result, the equity ratio stood at 32.8%, up 5.5 percentage points from the previous fiscal year-end.

Debt

Interest-bearing debt as of the fiscal year-end totaled ¥151,216 million, a decrease of ¥33,528 million from the end of the previous fiscal year. The ratio of interest-bearing debt to total assets was 17.1%, representing a 4.8 percentage-point improvement from the previous fiscal year-end.

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 ¥67,934 million, marking a ¥38,894 million increase from the previous fiscal year's positive free cash flow of ¥29,040 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥58,185 million, compared with ¥48,450 million in the previous fiscal year. Major factors increasing cash included the recording of income before income taxes and an increase in trade payables. Major factors decreasing cash included an increase in trade receivables.

This was an improvement of ¥9,735 million year on year.

Cash Flows from Investing Activities

Net cash provided by investing activities was ¥9,748 million, compared with net cash used in investing activities of ¥19,410 million in the previous fiscal year. This was primarily a result of gain on sales of investment securities.

This was an improvement of ¥29,158 million year on year.

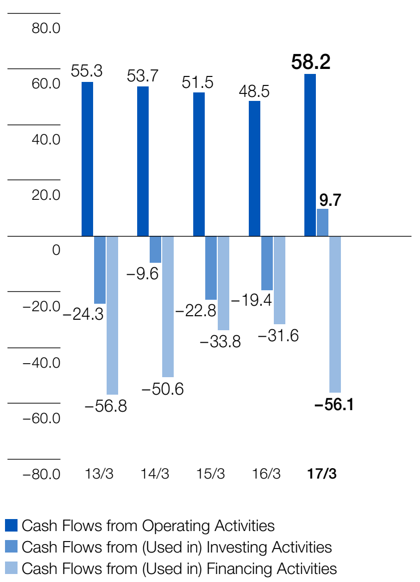
Cash Flows from Financing Activities

Net cash used in financing activities was ¥56,082 million, compared with ¥31,567 million in the previous fiscal year. This was principally due to a decrease in commercial papers and the repayment of lease obligations.

As a result, consolidated cash and cash equivalents on March 31, 2017, amounted to ¥41,886 million, up ¥11,048 million from the previous fiscal year-end.

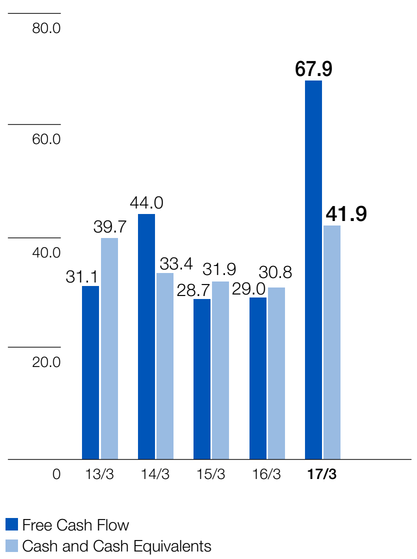
Cash Flows

(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, 2017, 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 ¥151,216 million as of March 31, 2017. 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.