Management's Discussion and Analysis

Overview

During fiscal 2017, the year ended March 31, 2018, a gentle overseas recovery trend was seen in the Company's operating environment supported by strong demand for machine tools and robots, which was driven by increased production facility automation and labor-saving needs in China and other countries.

In Japan, there was a modest recovery trend due to the strong demand resulted from increases in replacements of aged equipment and investments in automation and labor saving.

In this environment, we moved ahead with the FY2018 Medium-Term Management Plan, Renovation 2018. In accordance with the plan's basic policy of "further renovation of Fuji Electric," we are implementing the growth strategies of strengthening the power electronics systems business, further enhancing manufacturing capabilities, and pursuing improved profitability by re-energizing the Pro-7 Activities that involve reviewing all costs associated with business activities.

Financial Performance

Net Sales

Net sales in fiscal 2017 increased by 6.6% year on year, to ¥893,451 million, as a result of strong demand.

Sales in all business segments increased year on year, particularly in the Power Electronics Systems—Industry Solutions, Electronic Devices, and Food and Beverage Distribution segments. Domestic sales increased by 6.6%, to ¥674,744 million. Overseas sales increased by 6.7%, to ¥218,707 million.

The ratio of overseas sales was 24.5%, approximately the same level as the previous fiscal year.

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

The cost of sales increased by 6.0% year on year, to ¥661,824 million, and the ratio of cost of sales to net sales decreased by 0.5 percentage point, to 74.1%.

Selling, general and administrative expenses increased by 4.1% year on year, to ¥175,665 million. The ratio of selling, general and administrative expenses to net sales decreased by 0.5 percentage point, to 19.7%.

Operating income increased by ¥11,253 million year on year, to a record high of ¥55,962 million, due to higher net sales and production volumes as well as the benefits of cost reductions. The operating margin was increased by 0.9 percentage point, to 6.3% year on year.

Non-Operating Income (Expenses) and Ordinary Income

Non-operating income (net) was ¥85 million, a ¥1,502 million decrease from ¥1,587 million in the previous fiscal year. This decrease was mainly due to a ¥1,761 million increase in foreign exchange losses and a ¥242 million decrease in dividends income, which counteracted the benefits of a ¥514 million decrease in interest expense.

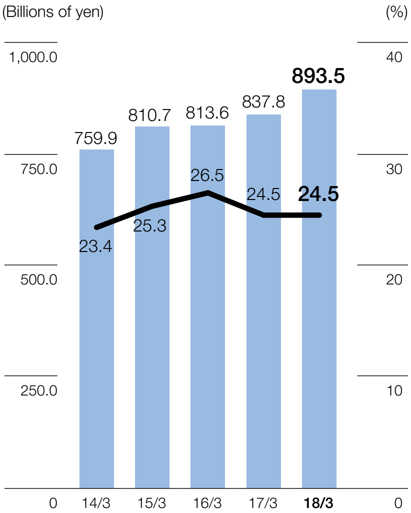
As a result, ordinary income grew ¥9,751 million year on year, reaching a new record high of ¥56,047 million.

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

Extraordinary income totaled ¥1,900 million and included a gain on sales of noncurrent assets and a gain on sales of investment securities. This represented a ¥17,915 million year-on-year decrease primarily due to a reduction in gain on sales of investment securities.

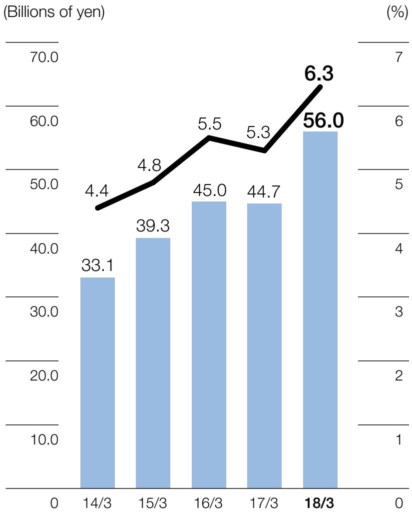
Extraordinary loss totaled ¥1,142 million and included a loss on disposal of noncurrent assets and a loss on devaluation of investment securities. This represented a ¥1,026 million year-on-year decrease due to the impairment loss recorded in the previous fiscal year.

Net Sales / Ratio of Overseas Sales to Net Sales



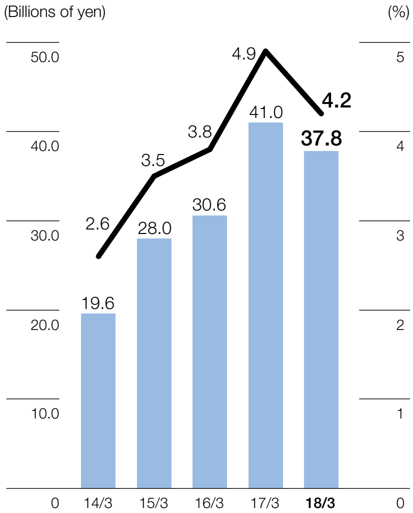
■ Net Sales (left)
— Ratio of Overseas Sales to Net Sales (right)

Operating Income / Ratio of Operating Income to Net Sales



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

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



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

Net Income

Income before income taxes decreased by ¥7,138 million year on year, to ¥56,805 million. After subtracting ¥14,804 million in income taxes (the net of income taxes-current and income taxes-deferred) and ¥4,238 million in net income attributable to non-controlling interests, net income attributable to owners of parent decreased by ¥3,215 million from the previous fiscal year, to ¥37,763 million.

Results by Business Segment

Power Electronics Systems—Energy Solutions

Net sales: ¥224,100 million (an increase of 2.4% year on year)
Operating income: ¥14,662 million (an increase of ¥937 million year on year)

Net sales and operating income increased year on year. Solid performance in the ED&C components business supported by increased machine tool demand outweighed the impacts of weak demand in the energy management business and the power supply systems business.

- In the energy management business, net sales decreased year on year primarily due to a decrease in smart meter sales volumes while operating results were relatively unchanged from the previous fiscal year due to the benefits of cost reduction efforts.
- In the transmission and distribution systems business, net sales increased year on year due to contributions from large-scale power and industrial field orders from overseas. However, operating results worsened year on year as a result of an unfavorable sales mix.
- In the power supply systems business, net sales decreased year on year due to weak demand for power conditioning systems used for solar power generation systems. Operating results improved year on year due to the benefits of cost reduction efforts.
- In the ED&C components business, net sales and operating results improved year on year as a result of strong demand from machinery manufacturers, including manufacturers of machine tools, and overseas semiconductor manufacturers.

Orders received in fiscal 2017 (Power Electronics Systems—Energy Solutions segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥137.3 billion.

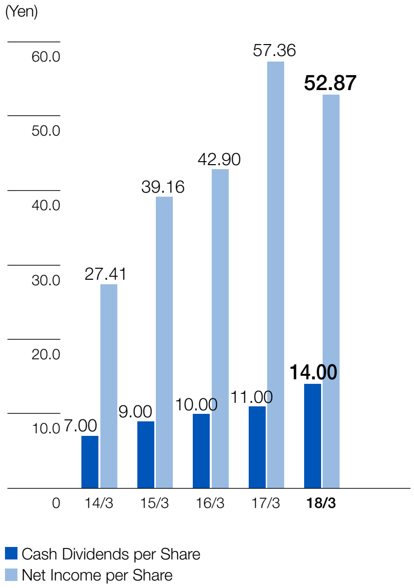
Power Electronics Systems—Industry Solutions

Net sales: ¥315,863 million (an increase of 10.4% year on year)
Operating income: ¥18,273 million (an increase of ¥4,324 million year on year)

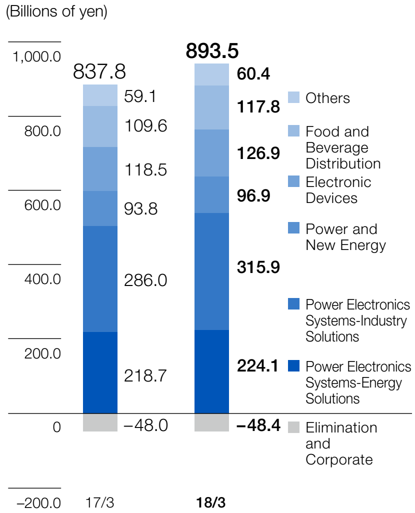
Net sales and operating income increased year on year. Performance was driven by the factory automation business, which benefited from strong demand for the automation of production facilities in Japan and China, and the process automation business, which benefited from strong replacement demand in the Japanese market, as well as the IT solutions business.

- In the factory automation business, net sales and operating results improved year on year due to strong conditions in the Japanese and Chinese markets for inverters and factory automation components.
- In the process automation business, net sales and operating results improved year on year because of the strong replacement demand in the Japanese market.
- In the environmental and social solutions business, net sales and operating results improved year on year as a result of strong demand for electrical equipment for railcars mainly in Asian countries.
- In the equipment construction business, net sales increased year on year due to strong performance in air-conditioning equipment and electricity and information distribution operations. Operating results, however, worsened year on year as a result of an unfavorable sales mix.

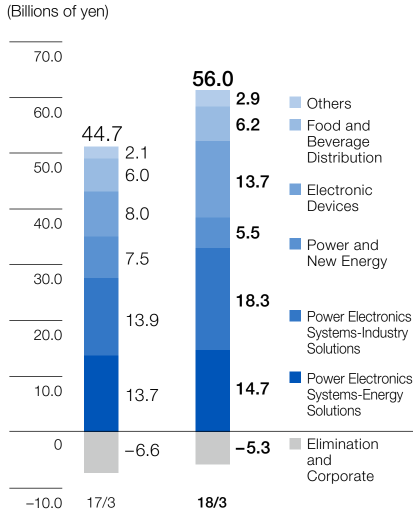
Cash Dividends per Share / Net Income per Share



Net Sales by Segment



Operating Income (Loss) by Segment



• In the IT solutions business, net sales and operating results improved year on year due to increases in orders from the academic sector and large-scale orders from the public sector.

Orders received in fiscal 2017 (Power Electronics Systems—Industry Solutions segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥161.3 billion.

Power and New Energy

Net sales: ¥96,879 million (an increase of 3.2% year on year)
Operating income: ¥5,521 million (a decrease of ¥1,958 million year on year)

• Net sales increased year on year because the benefits of large-scale orders for thermal power generation systems counteracted the impacts of the decreases in large-scale orders for hydro power generation systems and solar power generation systems. However, operating income decreased year on year as a result of an unfavorable sales mix.

Orders received in fiscal 2017 (Power and New Energy segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥88.7 billion.

Electronic Devices

Net sales: ¥126,871 million (an increase of 7.1% year on year)
Operating income: ¥13,699 million (an increase of ¥5,669 million year on year)

• In the electronic devices business, net sales and operating income improved year on year as a result of solid demand from the automotive field coupled with the increased demand for power semiconductors from the industrial field, which was a result of an increase in needs for automation, labor saving, and energy saving in the Chinese and Japanese markets.

Orders received in fiscal 2017 (Electronic Devices segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥93.9 billion.

Food and Beverage Distribution

Net sales: ¥117,753 million (an increase of 7.5% year on year)
Operating income: ¥6,234 million (an increase of ¥205 million year on year)

• In the vending machine business, although the revision of customers' plans caused performance in the Chinese market to remain around the same level as in the previous fiscal year, overall net sales and operating results improved year on year due to strong demand from customers in the Japanese market.
• In the store distribution business, net sales increased year on year due to strong demand for store equipment for use in convenience stores. However, operating results worsened year on year as a result of an unfavorable sales mix.

Orders received in fiscal 2017 (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥105.5 billion.

Others

Net sales: ¥60,406 million (an increase of 2.2% year on year)
Operating income: ¥2,861 million (an increase of ¥795 million year on year)

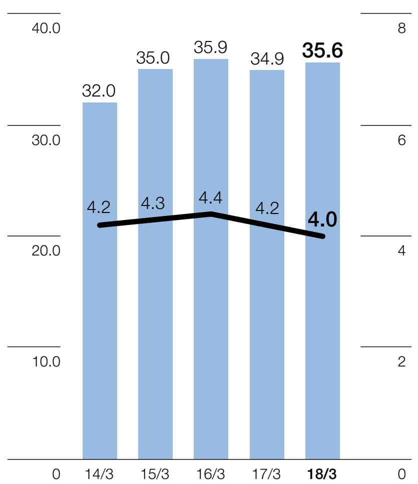
R&D Investment and Plant and Equipment Investment

R&D

Fuji Electric is focused on research and development activities for creating competitive components and systems centered on power semiconductor technologies and power electronics technologies and activities for developing solutions that produce value for customers by combining fundamental technologies.

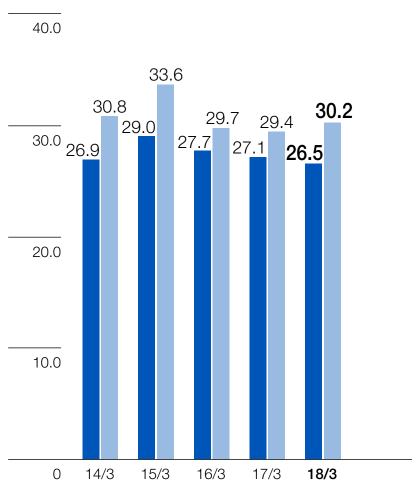
The Company has reorganized its R&D structure to accelerate R&D activities. Product development functions are delegated to the respective business groups while the corporate R&D group handles technology marketing, advanced research, and basic research.

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



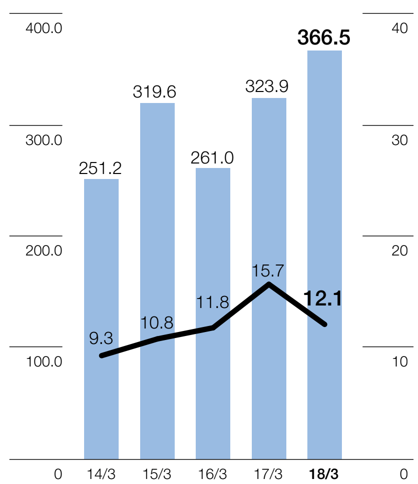
■ R&D Expenditures (left)
— Ratio of R&D Expenditures to Net Sales (right)

Plant and Equipment Investment / Depreciation and Amortization



■ Plant and Equipment Investment
■ Depreciation and Amortization

Total Net Assets / ROE



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

The Company's R&D expenditures in fiscal 2017 totaled ¥35,620 million.

As of March 31, 2018, the number of industrial property rights which were registered in Japan and overseas and held by Fuji Electric stood at 12,134.

Plant and Equipment Investment

Plant and equipment investment, including leases, amounted to ¥26.5 billion in fiscal 2017. These expenditures were directed toward new product startups, new development investments, and production capacity expansions.

Major investments were as follows.

The Power Electronics Systems—Energy Solutions segment conducted investments for purposes that included production capacity increases for boosting product competitiveness in the transmission and distribution systems business and automation of testing processes in the power supply systems business. In the ED&C components business, meanwhile, we invested in new earth-leakage circuit breaker and magnetic switch product lines that contribute to labor savings.

In the Power Electronics Systems—Industry Solutions segment, investments were directed toward energy-saving factory equipment.

In the Power and New Energy segment, the Company conducted investments for upgrading machining equipment as part of its measures for rationalizing in-house production.

Expenditures in the Electronic Devices segment included new investments related to development equipment for SiC devices, newly developed products, and new technologies. In addition, we invested in mass-production of power semiconductor chips at the Matsumoto Factory and the Yamanashi Factory and also made business continuity plan-related capital expenditures at Fuji Electric Tsugaru Semiconductor Co., Ltd.

In back-end processes, capital expenditures for production equipment to increase production of intelligent power modules were conducted at domestic and overseas bases.

As for the Food and Beverage Distribution segment, investments were conducted in the rationalization of in-house production of new vending machine models and in convenience store equipment testing facilities for the purpose of increasing sales in the store distribution business. As for overseas, we completed the first phase of construction at the second Dalian factory, a project that is intended to expand our vending machine operations in China.

Financial Position

Total Assets

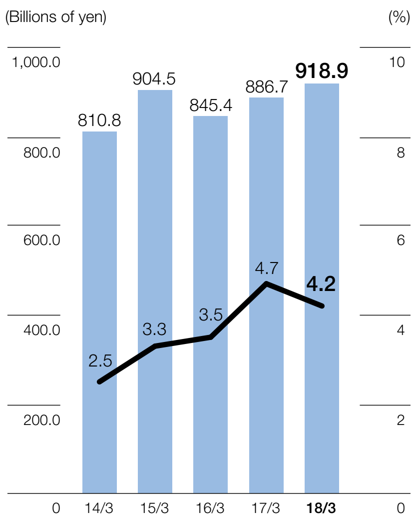
Total assets on March 31, 2018, stood at ¥918,859 million, an increase of ¥32,196 million from the end of the previous fiscal year.

Current Assets and Current Liabilities

Total current assets increased by ¥23,764 million from the previous fiscal year-end, to ¥536,234 million. This increase is mainly due to increases of ¥17,408 million in trade receivables and ¥7,345 million in inventories, which were partially offset by the ¥8,557 million decrease in cash and cash equivalents.

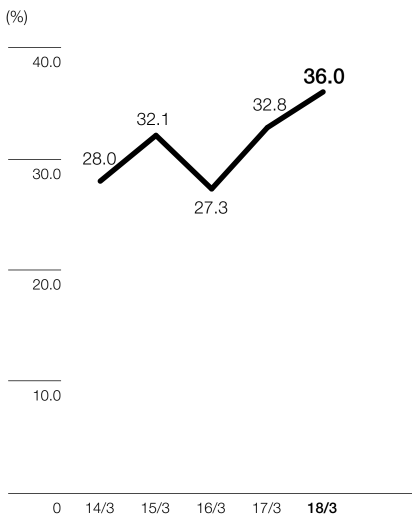
Total current liabilities stood at ¥405,236 million on March 31, 2018, a decrease of ¥7,168 million year on year. This decrease is mainly because the increase of ¥18,670 million in trade payables was offset by decreases of ¥4,484 million in short-term debt, ¥8,659 million in current portion of long-term debt, and ¥22,758 million in income taxes payable.

Total Assets / ROA

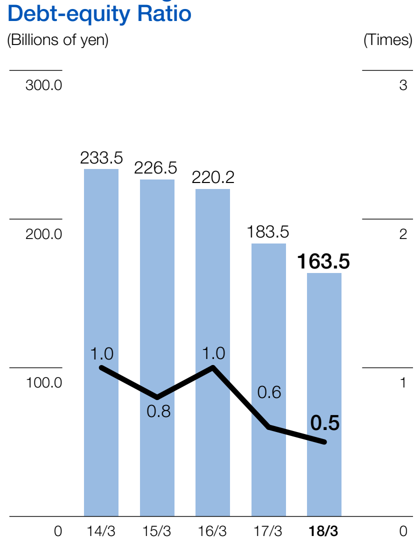


■ Total Assets (left)
— ROA (right)

Equity Ratio



Interest-bearing Debt / Debt-equity Ratio



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

Noncurrent Assets

Total noncurrent assets increased by ¥8,432 million year on year, to ¥382,625 million on March 31, 2018. The combined total of net property, plant and equipment and intangible assets were ¥193,931 million, a decrease of ¥114 million year on year. Total investments and other assets amounted to ¥188,556 million, an increase of ¥8,547 million year on year. This increase is mainly due to a ¥8,329 million increase in investment securities attributable to valuation difference on available-for-sale securities.

Long-term Liabilities

Total long-term liabilities decreased by ¥3,319 million from the previous fiscal year-end, to ¥147,077 million. Deferred tax liabilities and lease obligations increased by ¥3,158 million and ¥2,081 million, respectively, but these increases were offset by a ¥9,773 million decrease in long-term debt.

Net Assets

Net assets as of March 31, 2018, totaled ¥366,546 million, an increase of ¥42,683 million from the previous fiscal year-end. This increase was attributable to an increase of ¥29,228 million in retained earnings combined with upward adjustments of ¥4,914 million from valuation difference on available-for-sale securities and ¥2,234 million from remeasurements of defined benefit plans. As a result, the equity ratio stood at 36.0%, an increase of 3.1 percentage points year on year.

Debt

Interest-bearing debt as of the fiscal year-end totaled ¥163,507 million, a decrease of ¥19,958 million year on year. The ratio of interest-bearing debt to total assets was 17.8%, representing a 2.9 percentage-point decrease 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 ¥38,596 million, a ¥29,338 million decrease from the previous fiscal year's positive free cash flow of ¥67,934 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥53,146 million, compared with ¥58,185 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 income taxes paid and an increase in trade receivables.

This was a decrease of ¥5,039 million year on year.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥14,550 million, compared with net cash provided by investing activities of ¥9,748 million, in the previous fiscal year. This was primarily a result of the purchase of property, plant and equipment.

In fiscal 2017, investing activities resulted in a net outflow while investing activities in fiscal 2016 resulted in a net inflow. When the amounts of this net outflow and this net inflow are added together, the total is ¥24,298 million.

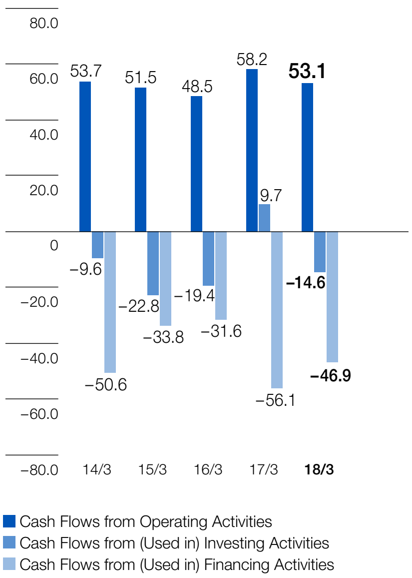
Cash Flows from Financing Activities

Net cash used in financing activities was ¥46,887 million, compared with ¥56,082 million in the previous fiscal year. This was principally due to the repayment of long-term loans payable and the repayment of lease obligations.

This was a decrease of ¥9,195 million year on year.

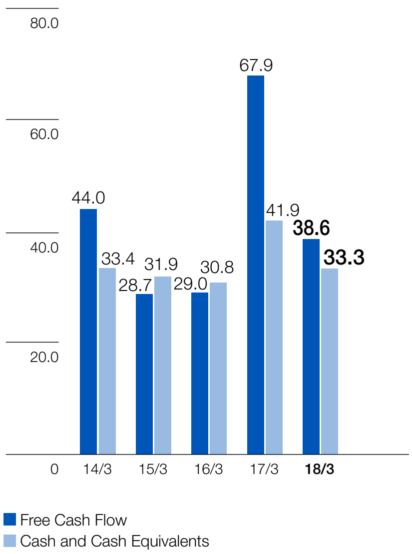
Cash Flows

(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, 2018, 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 ¥163,507 million as of March 31, 2018. 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 semiconductors and magnetic disks 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.