

Management's Discussion and Analysis

Overview

In fiscal 2019, we launched a five-year Medium-Term Management Plan called "Reiwa Prosperity 2023." The final year of the plan is fiscal 2023, when we will celebrate the 100th anniversary of our founding. Under the plan, we are promoting various growth strategies. These include focusing resources on growth fields—namely, power electronics systems and power semiconductors—while expanding our overseas business.

In fiscal 2020, the operating environment remained challenging, with continued investment restraint in Japan and overseas due to the global spread of COVID-19. Under these circumstances, economic activity in China resumed quickly in the first half of the year, and there were signs of a recovery in capital investment in the manufacturing sector. In the second half of the year, meanwhile, domestic demand for machine tools increased, and demand for semiconductors in Japan and overseas jumped significantly, bolstered by the electrification of automobiles and the growing popularity of renewable energy.

Financial Performance

Net Sales

Net sales in fiscal 2020 decreased by 2.7%, to ¥875,927 million.

In the Power Electronics Systems Industry and Electric Devices segments, net sales increased. However, in the Power Electronics Systems Energy, Food and Beverage Distribution and Power Generation segments, net sales decreased. Domestic sales decreased by 3.8%, to ¥654,020 million. Overseas sales increased by 0.5%, to ¥221,907 million.

The ratio of overseas sales increased by 0.8 percentage points, to 25.3%.

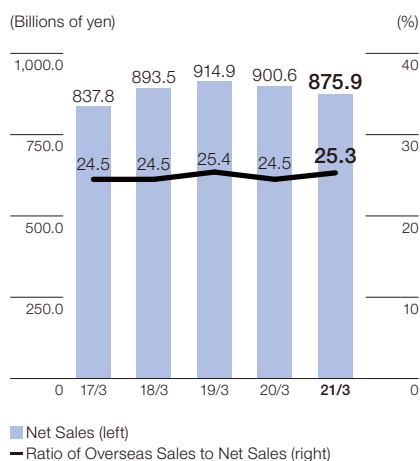
Cost of Sales, Selling, General and Administrative Expenses and Operating Income

The cost of sales decreased by 3.7 percentage points, to ¥654,661 million. The ratio of cost of sales to net sales decreased by 0.8 percentage points, to 74.7%.

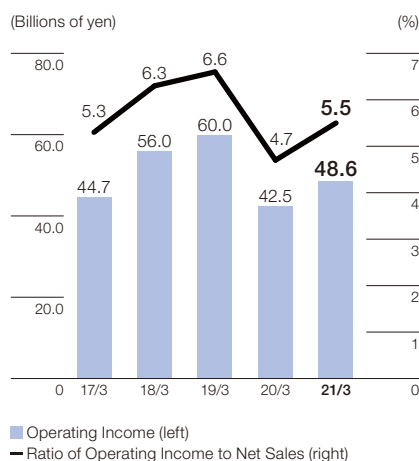
Selling, general and administrative expenses decreased by 3.0%, to ¥172,670 million. The ratio of selling, general and administrative expenses to net sales decreased by 0.1 percentage point, to 19.7%.

Operating income increased by ¥6,080 million, to ¥48,595 million, primarily due to cost and fixed expenses reduction, despite a decrease in net sales. The operating margin increased by 0.8 percentage points, to 5.5%.

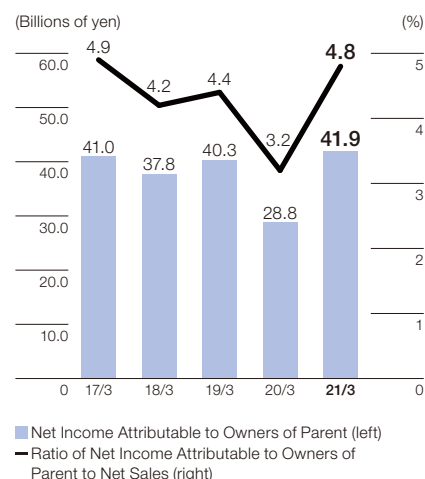
**Net Sales /
Ratio of Overseas Sales to Net Sales**



**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



Non-Operating Income (Expenses) and Ordinary Income

Non-operating income (net) was ¥1,806 million, a ¥192 million decrease from ¥1,998 million in the previous fiscal year. This decrease was primarily due to an increase in provision of allowance for doubtful accounts for subsidiaries and affiliates by ¥454 million and a ¥442 million of provision of allowance for doubtful accounts for investment loss for subsidiaries and associates, partially offset by a decrease in foreign exchange loss of ¥947 million. As a result, ordinary income increased by ¥5,888 million, to ¥50,401 million.

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

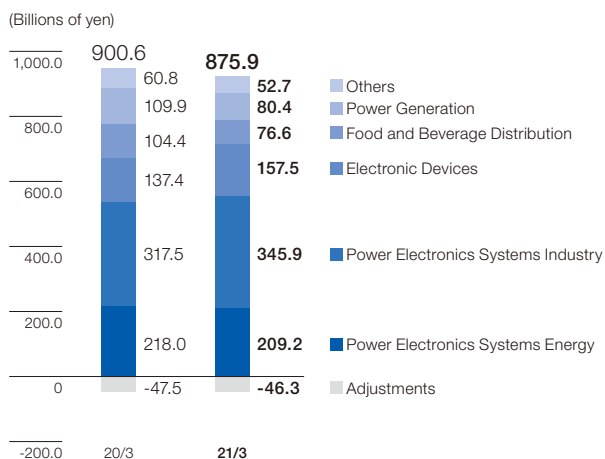
Extraordinary income was ¥41,145 million, included gain on sales of noncurrent assets and gain on sales of investment securities. This represented a ¥38,374 increase due to an increase in gain on sales of investment securities.

Extraordinary loss was ¥28,262 million, included loss on disposal of noncurrent assets, loss on devaluation of investment securities, impairment loss and cost of corrective measures for product defects. This represented a ¥24,839 million increase due to impairment loss and cost of corrective measures for product defects, partially offset by a decrease in loss on disposal of noncurrent assets and loss on devaluation of investment securities.

Net Income

Income before income taxes increased by ¥19,424 million, to ¥63,284 million. After subtracting ¥17,941 million of income taxes (the net of income taxes-current and income taxes-deferred) and ¥3,417 million of net income attributable to non-controlling interests, net income attributable to owners of parent increased by ¥13,133 million, to ¥41,926 million.

Net Sales by Segment



Results by Business Segment

Power Electronics Systems Energy

Net sales: ¥209,229 million (a decrease of 4.0%)

Operating income: ¥14,018 million (an increase of ¥1,696 million)

Although net sales in all of the business units decreased, operating income increased as a result of cost reduction.

- In the energy management business, net sales decreased primarily due to large-scale orders for industrial power supplies in the previous fiscal year and lower demand for smart meters. However, operating income increased as a result of cost reduction.
- In the facility / power source system business, net sales decreased primarily due to large-scale orders for switchboards. However, the operating income increased as a result of cost reduction.
- In the ED&C components business, net sales and operating income decreased primarily due to lower demand in the first half year, while demand from machine set manufacturers was recovering in the second half year.

Orders received in fiscal 2020 (Power Electronics Systems Energy segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥112.1 billion.

Power Electronics Systems—Industry Solutions

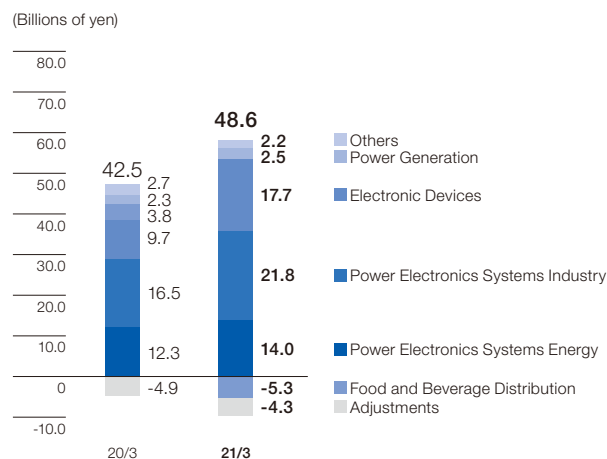
Net sales: ¥345,884 million (an increase of 8.9%)

Operating income: ¥21,781 million (an increase of ¥5,234 million)

Net sales and operating income increased primarily due to higher demand in the IT solutions business, the factory automation business and the social solutions business, partially offset by a decrease in net sales in the equipment construction business due to suspensions of investment by customers.

- In the factory automation business, net sales and operating income increased primarily due to higher demand for FA components in China, while lower demand in the domestic market.

Operating Income (Loss) by Segment



- In the social solutions business, net sales and operating income increased due to higher demand for the scrubber systems and the electrical products for transport systems.
- In the equipment construction business, net sales decreased due to suspensions of investment by costumers and large-scale orders for electricity equipment constructions in the previous fiscal year. However, operating insomes increased due to cost reduction.
- In the IT solutions business, net sales and operating income increased due to large-scale orders for the GIGA (global and innovation gateway for all) school plan in the academic sector.

Orders received in fiscal 2020 (Power Electronics Systems Industry segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥137.7 billion.

Note: From the third quarter of the current fiscal year, the Scrubber system business was transferred from the factory automation business to the social solutions business and the figures were changed after the transfer of the figures in the previous fiscal year.

Electronic Devices

Net sales: ¥157,484 million (an increase of 14.6%)

Operating income: ¥17,652 million (an increase of ¥7,934 million)

- In the electronic devices business, net sales and operating income increased, primarily due to higher demand for new energy markets and factory automation, while increasing in expenses for investment relating to power semiconductor production capacity enhancement for electric vehicles (xEV).

Food and Beverage Distribution

Net sales: ¥76,556 million (a decrease of 26.7%)

Operating loss: ¥5,280 million (a decrease of ¥9,122 million)

Net sales and operating income decreased due to sharply fallen demand caused by restraints of investment and suspensions of delivery by costumers, which were attributable to the continuous effect of the COVID-19.

- In the vending machine business, net sales and operating income decreased primarily due to restraints of investment by domestic beverage manufacturers and lower demand in China and Asia.
- In the store distribution business, net sales and operating income decreased primarily due to lower demand for store equipment for convenience stores and suspensions of delivery.

Orders received in fiscal 2020 (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥69.8 billion.

Power Generation

Net sales: ¥80,352 million (a decrease of 26.9%)

Operating income: ¥2,517 million (an increase of ¥219 million)

- In the power generation plant field, net sales decreased primarily due to large-scale orders for thermal power generation and renewable energy. However, operating income increased as a result of the favorable sales mix, despite the fact the COVID-19 caused extensions of construction and the cost increased.

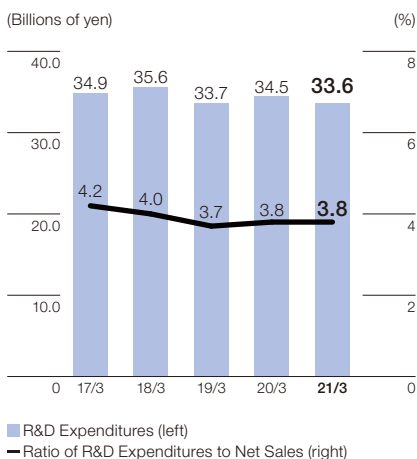
Orders received in fiscal 2020 (Power Generation segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥80.6 billion.

Others

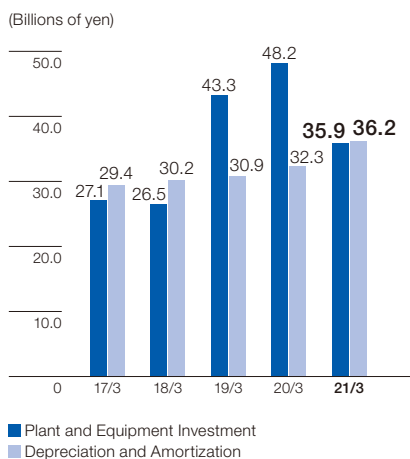
Net sales: ¥52,695 million (a decrease of 13.4%)

Operating income: ¥2,215 million (a decrease of ¥482 million)

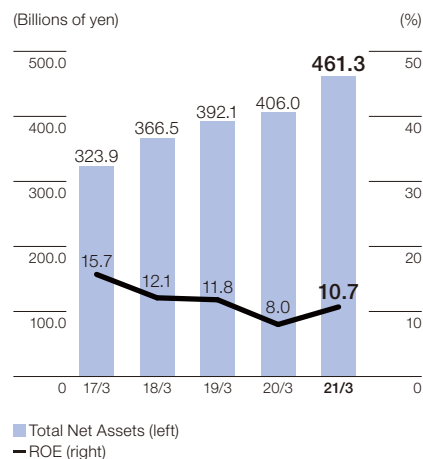
R&D Expenditures / Ratio of R&D Expenditures to Net Sales



Plant and Equipment Investment / Depreciation and Amortization



Total Net Assets / ROE



R&D Investment and Plant and Equipment Investment

R&D

We focus on research and development activities that create solutions producing value for customers by utilizing the synergies of power electronics technology and power semiconductor technology as well as combined elemental technologies.

We improve our real technology, deepen the latest digital technology and accelerate to expand an application of analytics and AI. In addition, we contribute to creations of clean energy, stable supplies, automations to the consumer side and energy and cost savings.

The Company's R&D expenditures in fiscal 2020 totaled ¥33,562 million.

As of March 31, 2021, the number of our industrial property rights registered in Japan and overseas was 13,398.

Plant and Equipment Investment

In fiscal 2020, we made investments totaling ¥35,890 million, including plant and equipment investment and leases, mainly to increase the production capacity of electronic devices and to strengthen the product competitiveness of power electronics systems. Major investments were as follows.

In the Electronic Devices segment, we continued making large-scale investments in the Yamanashi Factory, as we did in the previous year, aimed at increasing production capacity of power semiconductor chips, mainly for automobiles. In back-end processes, we made investments to increase production of pressure sensors for vehicles, air-conditioning IPMs, and high-capacity IGBT modules used in power conversion equipment for power generation of renewable energy, in Japan and overseas.

In the Power Electronics Systems segment, we completed construction of an engineering center at the Chiba Factory to strengthen our energy-related products. To accelerate product development of high-capacity UPSs for data centers, we introduced high-capacity testing equipment at the Tokyo Factory. In addition, we started construction of a plant system building at the Tokyo Factory aimed at establishing an integrated production system to expand sales of the switchgear and control-gear system.

Financial Position

Total Assets

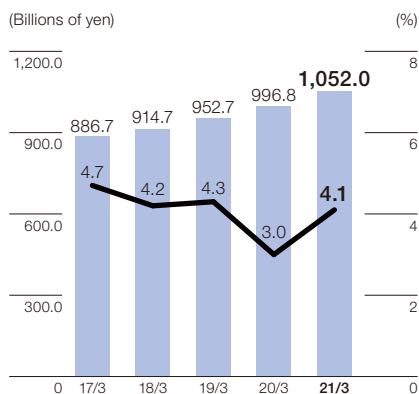
As of March 31, 2021, total assets was ¥1,051,952 million, an increase ¥55,125 million from the the previous fiscal year-end.

Current Assets and Current Liabilities

Total current assets increased by ¥33,515 million from the previous fiscal year-end, to ¥629,207 million. This increase was primarily due to an increase of ¥11,586 million in cash and cash equivalents and ¥25,140 million in trade receivables, partially offset by a decrease of ¥4,923 million in inventories.

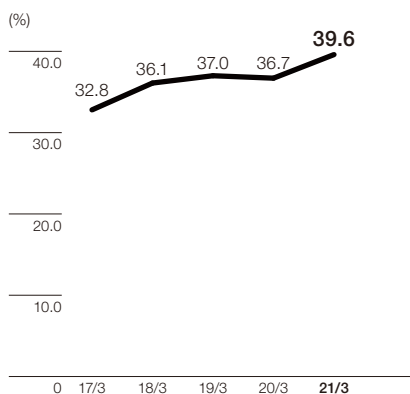
Total current liabilities decreased by ¥66,744 million from the previous fiscal year-end, to ¥356,416 million. This decrease was primarily due to a decrease of ¥12,654 million in trade payables, ¥53,170 million in short-term debt and ¥12,929 million in current portion of long-term debt, partially offset by an increase of ¥15,479 million in provision for product warranties.

Total Assets / ROA

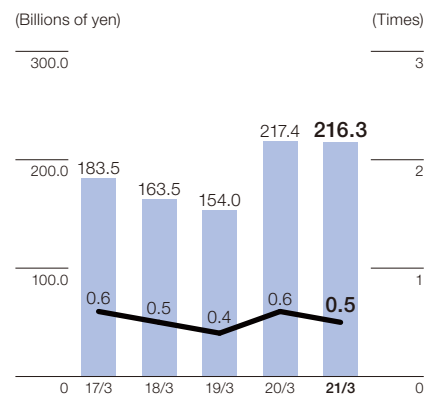


■ Total Assets (left)
— ROA (right)

Equity Ratio



Interest-bearing Debt / Debt-equity Ratio



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

Noncurrent Assets

Total noncurrent assets increased by ¥21,610 million from the previous fiscal year-end, to ¥422,745 million. Net property, plant and equipment was ¥209,758 million, an increase of ¥7,866 million. Total investments and other assets was ¥212,987 million, an increase of ¥13,744 million year-on-year. This increase was primarily due to a ¥7,993 million increase in investment securities corresponding to an increase in valuation difference on available-for-sale securities and a ¥5,960 million increase in net defined benefit asset.

Long-term Liabilities

Total long-term liabilities increased by ¥66,617 million from the previous fiscal year-end, to ¥234,282 million. This increase was primarily due to an increase in long-term debt by ¥58,082 million.

Net Assets

As of March 31, 2021, net assets was ¥461,254 million, an increase of ¥52,252 million from the previous fiscal year-end. This increase was primarily due to an increase of ¥30,467 million in retained earnings and ¥11,155 million in valuation difference on available-for-sale securities. As a result, the equity ratio was 39.6%, an increase of 2.9 percentage points.

Debt

As of March 31, 2021, interest-bearing debt was ¥216,205 million, a decrease of ¥1,159 million. The ratio of interest-bearing debt to total assets was 20.6%, representing a 1.2 percentage-points increase 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 ¥50,408 million, a ¥31,942 million increase from the previous fiscal year's positive free cash flow of ¥18,466 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥26,931 million, compared with ¥46,087 million in the previous fiscal year. Major factors of cash decrease included payment of income taxes, an increase in trade receivables and a decrease in trade payable. Major factors of cash increase included income before income taxes and a decrease in inventories. Cash flows from operating activities decreased by ¥19,156 million.

Cash Flows from Investing Activities

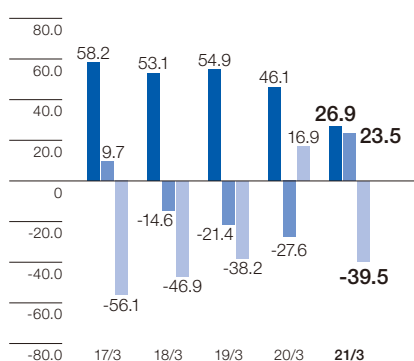
Net cash provided by investing activities was ¥23,477 million, compared with net cash used in investing activities of ¥27,621 million in the previous fiscal year. This was primarily due to proceeds from sales of investment securities, while purchasing of property, plant and equipment. Net cash provided by investing activities increased by ¥51,098 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥39,518 million, compared with net cash provided in financing activities of ¥16,918 million in the previous fiscal year. This was primarily due to a decrease in short-term loans payable and repayments of lease obligations, while increasing proceeds from long-term loans payable. Net cash used in financing activities increased by ¥56,436 million.

Cash Flows

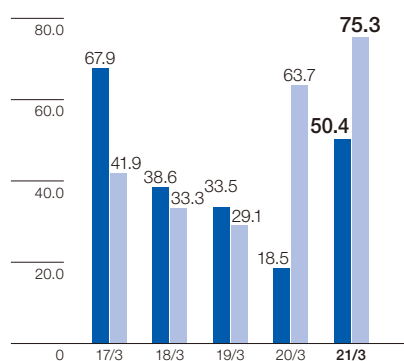
(Billions of yen)



■ 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 manages business and other risks in a coordinated, systematic manner and takes appropriate measures to minimize the impact of such risks. The following factors were judged to have a potential future effect on Fuji Electric's business performance and financial position. Any forward-looking statements in the following are based on the judgment of management as of the date of submitting the securities report (June 25, 2021).

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

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

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

Fuji Electric has business bases around the world and provides products and services to markets and customers in multiple regions. The spread of COVID-19 in many countries has led to emergency declarations, lockdowns, and other restrictions on economic activities. These have had various effects on Fuji Electric's business activities, including restrictions on sales activities, factory operation suspensions, and limitations on construction site visits. If restrictions are

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

(2) Corporate Governance

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

(3) Business Reorganizations, Alliances, and Withdrawals

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

(4) Orders, Marketing, and Sales Promotion

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

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

(5) Development and Design Engineering

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

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

(6) Procurement

Fuji Electric deploys various means, including product swaps, to reduce the risk of rising raw material prices. However, in addition to increasing raw material and components prices against the background of a weak yen, such changes as the drastically increasing demand in emerging nations may result in tightened supply and demand as regards materials and raw materials and significant increases in their prices. Any of these events may affect our business performance and financial position.

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

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

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

(8) Quality Assurance

Fuji Electric has established a quality control system for the products it manufactures and sells and strives to ensure high quality standards. Although we have made the necessary insurance arrangements, an unprecedented event could cause quality-related problems to arise, which may affect our business performance and financial position. In addition, regarding to the defect in some of our power semiconductors in specific fields, which was disclosed in FY2021 3Q Financial Results filed in Feb 12, 2021, we recorded JPY 25.7 billion costs of corrective measures for product defects as a extraordinary loss. The part of the costs was reasonably estimated based on factors such as the application by customers of equipment in which the products were incorporated and the usage conditions of such equipment. However, events occurring which are not considered in the estimation may incur additional costs. We will appropriately disclose the events when they have a material impact on our business performance and financial position.

(9) Human Resources and Labor

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

(10) Finance and Accounting

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

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

(11) Legal and Ethical

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

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

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

(12) Political and Socioeconomic Trends

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

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

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

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

(13) Trends of Shareholder and Other Investors

Fuji Electric attaches great importance to disclosure of financial information, active disclosure of non-financial information, and communication with shareholders and institutional investors. We also strive to foster understanding of our management through sincere and accurate disclosure of information according to our Disclosure Policy. However,

the intentions of stockholders and other investors may differ from those of the Company's management, which could result in a vote against the election of directors. Also, a shareholder proposal against management could cause disruption of our operations. These and other events may have an impact on our business performance and financial position.

(14) Natural Disasters and Accidents

Fuji Electric has business bases all over the world and is committed to fulfilling its responsibilities to customers and society by continuously supplying products and services in the event of disaster or accident. To this end, we established a dedicated crisis management team to spearhead fire and disaster prevention efforts, formulation of a business continuity plan (BCP), and adoption of necessary insurance arrangements in order to "strengthen our business continuity capability." However, any number of events may have an impact on our business performance and financial position. These include large-scale disasters or accidents at/near our business sites, which could cause damage of production equipment, interruption of operations, and delays in product shipments.

(15) External Attacks

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

(16) Individual Event (Impact of COVID-19)

Fuji Electric has established a set of "Contingency Plan" to implement in times of emergency resulting from various risks that may affect its operations. Based on these procedures, we set up the "New Coronavirus Infection Prevention and Business Continuity Promotion Countermeasures Headquarters," chaired by the president, to address the COVID-19 pandemic. The stated policy is to "take prompt and appropriate measures with top priority on respecting human life, preventing the spread of infections, and minimizing damage." Under this policy, we are collecting and aggregating information related to COVID-19 and taking measures to prevent the spread of infections (for example, enforcing rules, such as hand washing and hand sanitizing; avoiding confined spaces, large gatherings, and close interactions; and asking employees to work from home and staggered work hours), while also emphasizing business continuity. However, we may be forced to suspend various business activities, including production and sales, if infections occur in the workplace or among customers and business partners, which may have an impact on our business performance and financial position.