

Independent Auditor's Report



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Independent Auditor's Report

The Board of Directors
Fuji Electric Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Fuji Electric Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of construction revenue based on the percentage-of-completion method	
Description of Key Audit Matter	Auditor's Response
<p>As described in Note 2. s. "Accounting Standard for Disclosure of Accounting Estimates" (1. Recognition of construction revenue based on the percentage-of-completion method), in recording construction revenue mainly in the power electronics systems segments and the power generation segment, the Fuji Electric Group applies the percentage-of-completion method for the portion of work completed up to the end of the current period for construction contracts for which completion is deemed to be certain (the cost-to-cost method is used in estimating progress toward completion). Of construction contracts for which the percentage-of-completion method is applied, construction revenue from incomplete or undelivered construction contracts recorded as of the end of the fiscal year ended March 31, 2021 was 66,897 million yen, accounting for 7% of total net sales of 875,927 million yen recorded for the fiscal year ended March 31, 2021.</p> <p>Revenue for which the percentage-of-completion method is applied is measured based on progress toward completion of construction, and progress toward completion is determined based on the ratio of costs incurred up to the end of the current period to the estimate of the total cost of construction.</p> <p>Construction contracts are highly individual in nature and carried out in accordance with fundamental specifications and work details instructed by customers. Accordingly, estimates of the total cost of construction involve certain assumptions and determinations that are based on specialized knowledge of and experience in construction, and are subject to uncertainty.</p> <p>Further, given that construction is</p>	<p>We mainly performed the following audit procedures to evaluate the validity of estimates of the total cost of construction in cases where the percentage-of-completion method was applied.</p> <p>(1) Evaluation of internal controls We evaluated the design and operating effectiveness of the following internal controls relating to estimates of the total cost of construction.</p> <ul style="list-style-type: none"> • Controls to ensure reliability by requiring that a breakdown of execution budget (a budget prepared and approved for managing project costs) on which estimates of the total cost of construction are based is prepared by responsible personnel with specialized knowledge and approved by managers • A system to confirm that each of the elements of the total cost of construction are accumulated and calculated in detail based on objective prices such as third party quotations and internally approved standard unit prices • A system for revising estimates of the total cost of construction in a timely manner in accordance with factors such as construction progress and the amounts of costs actually incurred, or changes in specifications instructed by customers • A system for the effective and timely monitoring under the cost management department, which is responsible for the reliability of estimates of the total cost of construction, to the estimation of the total cost of construction <p>(2) Evaluation of the adequacy of estimates of the total cost of construction We identified construction contracts involving a relatively high degree of uncertainty over the estimate of the total cost of construction in light of factors such as construction contract amount, profit (loss) on construction, project details, and construction</p>

generally long-term in nature, construction contracts may potentially be modified and there may be fluctuations in material, labor, and other such costs while construction is still in progress, thus making timely and appropriate revisions of the total cost of construction is complex.

Based on the above, we consider estimates of the total cost of construction made in calculating construction revenue and progress toward completion of construction to be of particular significance in the current period and, accordingly, we have determined that this is a key audit matter.

progress, and performed the following procedures.

- We reconciled estimates of the total cost of construction to breakdowns of execution budget on which calculations of such estimates are based, and evaluated whether total cost of construction is consistent with construction contract deliverables and calculated by accumulating each of the elements of the total cost, and whether breakdowns of finishing costs are free from reconciling items with abnormal amounts included in response to future uncertainty.
- For construction contracts for which changes in the total cost of construction from the end of the previous fiscal year were above a certain threshold, we evaluated whether the details of such changes are consistent with the current status of construction by making inquiries of project managers and reconciling changes to work schedules and quotations from suppliers.
- We made inquiries of project managers about changes in construction contracts, construction progress, and determinations of whether changes need to be made to the total cost of construction, and evaluated the reasonableness of their responses with reference to work schedules and amounts of expenses incurred.
- We inspected construction sites and evaluated whether construction progress is consistent with estimates of the total cost of construction and progress toward completion of construction.
- We evaluated the process for estimating total cost of construction by comparing estimates of the total cost of construction as of the end of the previous fiscal year with the re-estimated amounts or outcomes of such estimates.

Provision for product warranties for costs of corrective measures in response to defects in certain power semiconductors for certain customers

Description of Key Audit Matter	Auditor's Response
<p>Provision for product warranties of 15,698 million yen was recorded in the consolidated balance sheet of Fuji Electric Co., Ltd. for the fiscal year ended March 31, 2021 and, as described in Note 2. s. "Accounting Standard for Disclosure of Accounting Estimates" (2. Provision for product warranties for costs of corrective measures in response to defects in certain power semiconductors for certain customers), this amount includes a provision for product warranties of 15,476 million yen for costs of corrective measures in response to defects in certain power semiconductors for certain customers (hereinafter, the "provision for product warranties for costs of corrective measures in response to defects").</p> <p>The provision for product warranties for costs of corrective measures in response to defects was calculated by assuming a scope of incidence of the defect based on factors such as the application by customers of equipment in which the products were incorporated and the usage conditions of such equipment, in consideration of reports of defects in products stemming from procured parts inside of the products and arising in certain environments in which the products were used.</p> <p>Considering that there is a wide variety of environments in which the products were used, the scope of incidence of the defect, which is assumed based on the application by customers of equipment in which the products were incorporated and the usage conditions of such equipment, involves uncertainty since it requires management to make judgments.</p> <p>Based on the above, we consider that the estimate of the scope of incidence of the defect that was assumed based on the application by customers of equipment in</p>	<p>We mainly performed the following audit procedures to evaluate the validity of the estimate of the provision for product warranties for costs of corrective measures in response to defects.</p> <p>(1) Evaluation of internal controls</p> <p>We evaluated the design and operating effectiveness of the following internal controls relating to the estimate of the provision for product warranties for costs of corrective measures in response to defects.</p> <ul style="list-style-type: none"> • Controls to ensure the reliability of data accumulation tables for estimates of the scope of incidence of defects, assumed based on the application by customers of equipment in which the products were incorporated and the usage conditions of such equipment, by requiring that such tables are prepared by responsible personnel with specialized knowledge and approved by managers • A system for obtaining information necessary for estimating the scope of incidence of defects, assumed based on the application by customers of equipment in which the products were incorporated and the usage conditions of such equipment <p>(2) Evaluation of the adequacy of the estimate of the provision for product warranties for costs of corrective measures in response to defects</p> <p>We performed the following procedures related to the estimate of the provision for product warranties for costs of corrective measures in response to defects.</p> <ul style="list-style-type: none"> • We discussed with management the method used to estimate the scope of incidence of the defect, assumed based on the application by customers of equipment in which the products were incorporated and the usage conditions of such equipment, and evaluated whether these assumptions are consistent with the response to customers.

<p>which the products were incorporated and the usage conditions of such equipment and used in recording the provision for product warranties for costs of corrective measures in response to defects is of particular significance for the fiscal year ended March 31, 2021 and, accordingly, we have determined that this is a key audit matter.</p>	<ul style="list-style-type: none"> • We evaluated the consistency between information serving as the basis for the estimate, including the application by customers of equipment in which the products were incorporated and the usage conditions of such equipment, and information obtained by the responsible business department and available external data. • We evaluated the process for estimating the provision for product warranties by comparing the estimate of costs of corrective measures in response to defects to the re-estimated amount of the costs or the actual amount.
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Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.



- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.




Ernst & Young ShinNihon LLC
Tokyo, Japan

June 25, 2021

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