

Management's Discussion and Analysis

Overview

In fiscal 2022, which we identified as an important year for achieving the Medium-Term Management Plan "Reiwa Prosperity 2023" (net sales of ¥1 trillion and an operating margin of 8.0% or higher in fiscal 2023), Fuji Electric pursued the following three strategies: promote growth strategies centered on the power electronics systems and power semiconductors; further improve profitability by augmenting our global manufacturing capabilities; and continuously reinforce our operating foundation focused on ESG (environment, human resources, and governance).

In fiscal 2022, the market environment surrounding the Company was characterized by continued strong capital investment in manufacturing, data centers, and other facilities due to the continued increase in demand for electrified vehicles (xEV), energy saving, and digital infrastructure amidst global carbon neutrality initiatives and the acceleration of digitalization. In China, on the other hand, capital investment remained sluggish due to the impact of COVID-19 and other factors. In addition, the outlook for the global supply chain continued to be uncertain due to factors such as soaring energy and raw material prices, material shortages, and rapid exchange rate fluctuations.

Financial Performance

Net Sales

Net sales in fiscal 2022 increased by 10.9%, to ¥1,009,447 million.

In all of the segments, Power Electronics Energy, Power Electronics Industry, Semiconductors, Power Generation segments, and Food and Beverage Distribution segments, net sales increased. Domestic sales increased by 9.4%, to ¥717,390 million. Overseas sales increased by 14.8%, to ¥292,057 million.

The ratio of overseas sales increased by 1.0 percentage points, to 28.9%.

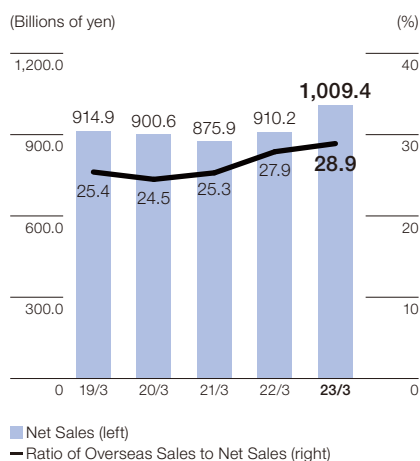
Cost of Sales, Selling, General and Administrative Expenses and Operating Profit

Cost of sales increased by 11.4 percentage points, to ¥732,529 million. The ratio of cost of sales to net sales increased by 0.3 percentage points, to 72.6%.

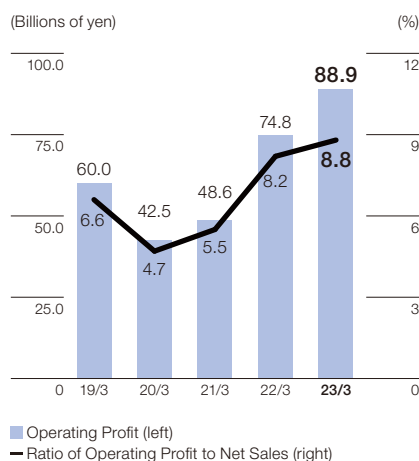
Selling, general and administrative expenses increased by 5.9%, to ¥188,036 million. The ratio of selling, general and administrative expenses to net sales decreased by 0.9 percentage point, to 18.6%.

Operating profit increased by ¥14,047 million, to ¥88,882 million, primarily due to higher sales and production volumes, increase in product sales price, strengthening cost reduction and impact from foreign exchange rate fluctuations, while being affected by soaring material prices and power cost. The operating margin increased by 0.6 percentage points, to 8.8%.

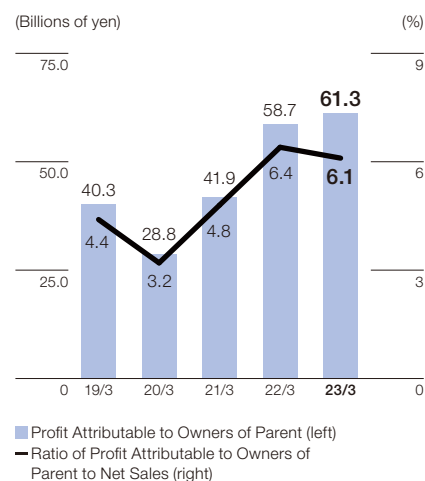
**Net Sales /
Ratio of Overseas Sales to Net Sales**



**Operating Profit /
Ratio of Operating Profit to Net Sales**



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



Non-Operating Income (Expenses) and Ordinary Profit

Non-operating expenses (net) was ¥1,070 million, a ¥5,532 million increase from ¥4,462 million of non-operating income in the previous fiscal year. This increase was primarily due to a ¥1,148 million foreign exchange loss, which ¥1,288 million foreign exchange gain turned into, and an increase in business conversion expenses by ¥1,599 million. As a result, ordinary profit increased by ¥8,514 million, to ¥87,811 million.

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

Extraordinary income was ¥11,153 million, included gain on sales of noncurrent assets and gain on sales of investment securities. This represented a ¥616 million increase due to an increase in gain on sales of noncurrent assets.

Extraordinary loss was ¥3,218 million, included loss on disposal of noncurrent assets, loss on devaluation of investment securities, loss on sales of investment securities, and provision for loss on liquidation of subsidiaries and associates. This represented a ¥1,871 million increase due to an increase in loss on devaluation of investment securities and provision for loss on liquidation of subsidiaries and associates.

Profit

Profit before income taxes increased by ¥7,259 million, to ¥95,746 million. After deducting ¥27,112 million of income taxes (the net of income taxes-current and income taxes-deferred) and ¥7,286 million of profit attributable to non-controlling interests, profit attributable to owners of parent increased by ¥2,688 million, to ¥61,348 million.

Results by Business Segment

Power Electronics Energy

Net sales: ¥264,078 million (an increase of 14.3%)

Operating profit: ¥26,884 million (an increase of ¥5,667 million)

Net sales and operating profit increased primarily due to higher demand for the facility / power source system business and the ED&C components business.

- In the energy management business, net sales and operating profit decreased primarily due to large-scale orders for industrial substation in the previous fiscal year.
- In the facility / power source system business, net sales and operating profit increased due to higher demand for data centers in domestic and overseas and semiconductor manufacturers.
- In the ED&C components business, net sales and operating profit increased due to demand from domestic machine set manufacturers and semiconductor manufacturers.

Orders received in fiscal 2022 (Power Electronics Energy segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥156.8 billion.

Power Electronics Industry

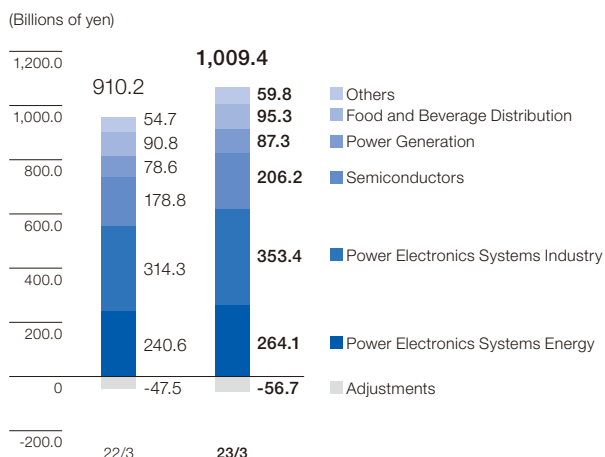
Net sales: ¥353,449 million (an increase of 9.0%)

Operating profit: ¥24,882 million (an increase of ¥1,059 million)

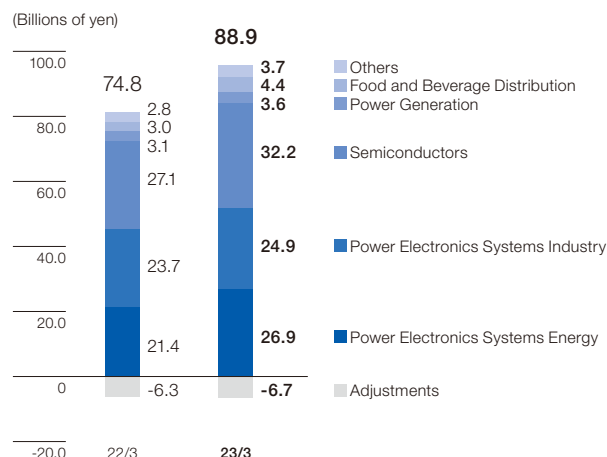
Net sales increased primarily due to higher demand in the automation business and the IT solutions business. Operating profit increased primarily due to higher demand for IT solution business, while soaring material prices and difficulty in procuring materials.

- In the factory automation business net sales and operating profit increased, while effect of the COVID-19 in China, primarily due to higher demand in other area and impact from foreign exchange rate fluctuations.

Net Sales by Segment



Operating Profit (Loss) by Segment



- In the social solutions business, net sales and operating profit decreased primarily due to lower demand for vessel and railcar.
- In the equipment construction business, net sales and operating profit increased primarily due to higher demand for electricity equipment constructions.
- In the IT solutions business, net sales and operating profit increased due to higher demand for the academic sector and the public sector.

Orders received in fiscal 2022 (Power Electronics Industry segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥186.2 billion.

Semiconductors

Net sales: ¥206,228 million (an increase of 15.3%)
Operating profit: ¥32,186 million (an increase of ¥5,050 million)

- In the semiconductors business, net sales increased primarily due to higher demand for power semiconductors for electric vehicles (xEV) and industrial fields and impact from foreign exchange rate fluctuations, while withdrawing from the magnetic disks business. Operating profit increased due to maintaining high operations, while increasing the costs related to the strengthen in production capacity for power semiconductor and being affected by soaring material prices and power cost.

Orders received in fiscal 2022 (Semiconductors segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥174.1 billion.

Power Generation

Net sales: ¥87,336 million (an increase of 11.2%)
Operating profit: ¥3,550 million (an increase of ¥426 million)

- In the power generation plant business, net sales and operating profit increased primarily due to large-scale orders for renewable energy and the favorable sales mix.

Orders received in fiscal 2022 (Power Generation segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥73 billion.

Food and Beverage Distribution

Net sales: ¥95,257 million (an increase of 4.9%)
Operating profit: ¥4,350 million (an increase of ¥1,343 million)

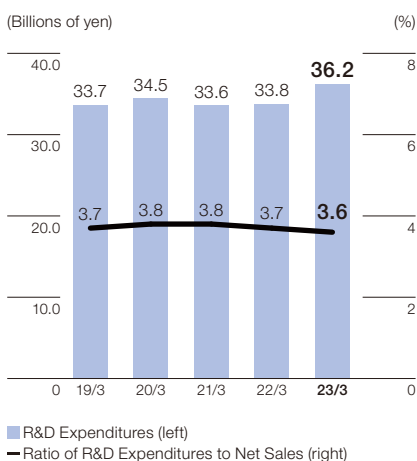
- In the vending machine business, net sales and operating profit increased primarily due to higher demand in domestic market and cost reduction, while there were impact from provision of allowance for doubtful accounts for Chinese subsidiaries.
- In the store distribution business, net sales decreased due to large-scale orders for currency handling equipment in the previous fiscal year. However, operating profit increased primarily due to cost reduction.

Orders received in fiscal 2022 (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥89.7 billion.

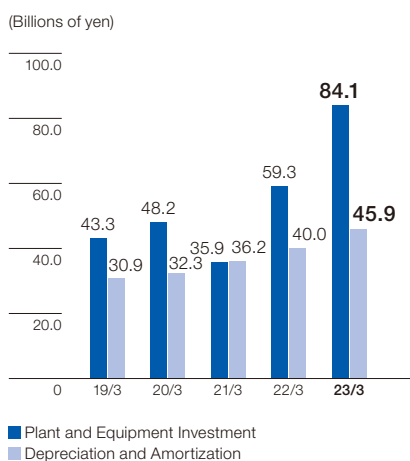
Others

Net sales: ¥59,791 million (an increase of 9.3%)
Operating profit: ¥3,752 million (an increase of ¥913 million)

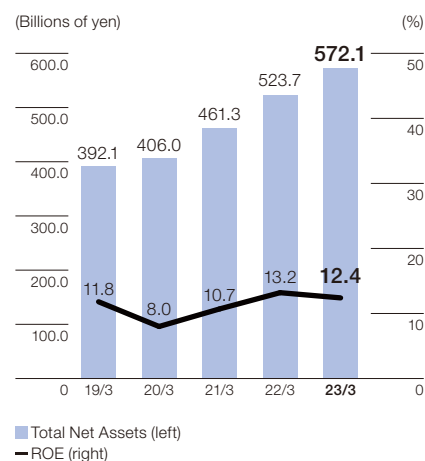
R&D Expenditures / Ratio of R&D Expenditures to Net Sales



Plant and Equipment Investment / Depreciation and Amortization



Total Net Assets / ROE



R&D Investment and Plant and Equipment Investment

R&D

Fuji Electric is engaged in many advanced systems such as creations of energy, stable supplies, automation, and electrification of mobility by utilizing core technologies such as power semiconductors, power electronics, measuring and control, and cooling.

The Company's R&D expenditures in fiscal 2022 totaled ¥36,216 million.

As of March 31, 2023, the number of our industrial property rights registered in Japan and overseas was 13,178.

Plant and Equipment Investment

In fiscal 2022, we made capital investments totaling ¥84,147 million, including leases, to increase the production capacity of semiconductors and to increase revenues in power electronics systems. Major investments were as follows.

In the semiconductors business, in response to the growing demand for electrified vehicles and renewable energy, we made a major investment in Fuji Electric (Malaysia) Sdn. Bhd. to increase production capacity for power semiconductor chips, as well as investments at sites in Japan and overseas to increase IGBT module production capacity.

In the power electronics systems business, with the aim of expanding into the global market, we installed new production facilities for platform-designed* inverters at the Suzuka Factory and Fuji Electric India Private Ltd. Furthermore, Fuji Electric India Private Ltd. is establishing a production system for uninterruptible power supplies (UPS) for data centers and power conditioners for solar power generation systems that meet the needs of local customers in an effort to improve product competitiveness and expand earnings.

As an environmental investment to reduce greenhouse gas emissions, we added a cogeneration system to our Yamanashi Factory. We also developed production equipment to reduce insulation gas, which has a high global warming potential, introduced abatement devices, and adopted energy-saving equipment. We are promoting efforts to achieve the Environmental Vision 2050 by upgrading facilities.

*Platform design: A design that standardizes major components for the purpose of shortening the development period and reducing procurement and production costs.

Financial Position

Total Assets

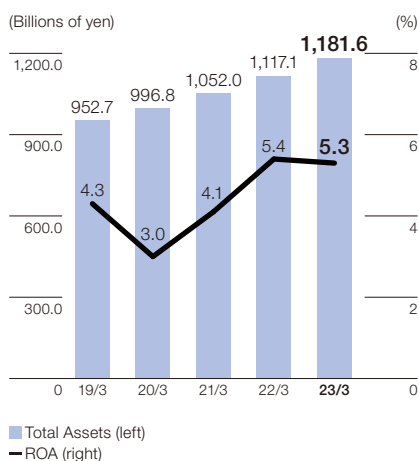
As of March 31, 2023, total assets was ¥1,181,552 million, an increase of ¥64,440 million.

Current Assets and Current Liabilities

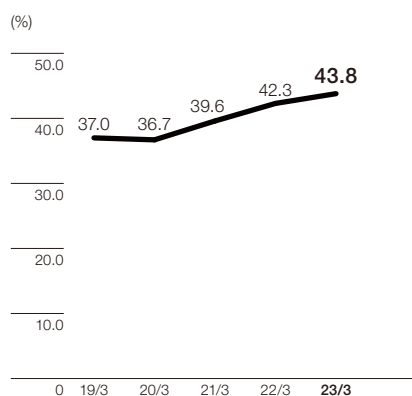
Total current assets was ¥713,553 million, an increase of ¥31,572 million. This increase was primarily due to an increase of ¥18,731 million in accounts receivable-trade, ¥11,935 million in contract assets, ¥28,396 million in inventories.

Total current liabilities was ¥446,826 million, an increase of ¥59,857 million. This increase was primarily due to an increase of ¥29,844 million in trade payables, ¥15,000 million in current portion of long-term borrowings and ¥10,006 million in contract liabilities.

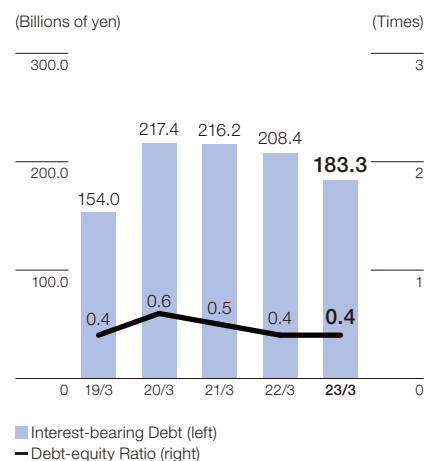
Total Assets / ROA



Equity Ratio



Interest-bearing Debt / Debt-equity Ratio



Noncurrent Assets

Total noncurrent assets was ¥467,999 million, an increase of ¥32,868 million. Net property, plant and equipment was ¥283,912 million, an increase of ¥50,237 million. Total investments and other assets was ¥184,087 million, a decrease of ¥17,369 million. This decrease was primarily due to a decrease of ¥17,856 million in investment securities mainly due to sales and decrease in valuation difference on available-for-sale securities.

Long-term Liabilities

Total long-term liabilities was ¥162,658 million, a decrease of ¥43,756 million. This decrease was primarily due to a decrease of ¥52,676 million in long-term debt.

Net Assets

As of March 31, 2023, net assets was ¥572,068 million, an increase of ¥48,339 million. This increase was primarily due to an increase of ¥45,637 million in retained earnings. As a result, the equity ratio was 43.8%, an increase of 1.5 percentage points.

Debt

As of March 31, 2023, interest-bearing debt was ¥183,273 million, a decrease of ¥25,118 million. The ratio of interest-bearing debt to total assets was 15.5%, a decrease of 3.2 percentage-points.

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 ¥66,665 million, a ¥12,207 million increase from the previous fiscal year's positive free cash flow of ¥54,458 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥116,163 million, compared with ¥76,809 million in the previous fiscal year. Major factors of cash decrease included an increase in trade receivables, contract assets and inventories. Major factors of the cash increase included profit before income taxes and an increase in trade payables. Cash flows from operating activities increased by ¥39,354 million.

Cash Flows from Investing Activities

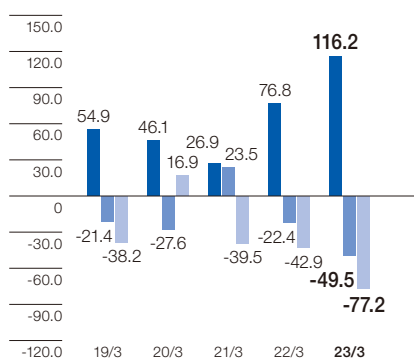
Net cash used in investing activities was ¥49,498 million, compared with net cash used by investing activities of ¥22,350 million in the previous fiscal year. This was primarily due to purchases of property, plant and equipment offset by sales of investment securities. Net cash used in investing activities increased by ¥27,148 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥77,192 million, compared with net cash used in financing activities of ¥42,894 million in the previous fiscal year. This was primarily due to repayments of long-term loans payable and repayments of lease obligations. Net cash used in financing activities increased by ¥34,298 million.

Cash Flows

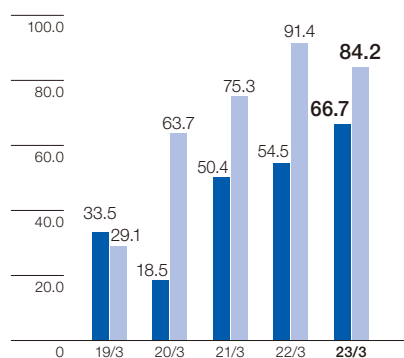
(Billions of yen)



■ 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 27, 2023).

(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 climate change risk analysis from a long-term perspective. 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 infectious diseases in many countries has led to 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 these restrictions are 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 collects 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 the power electronics field and the power generation field, etc. 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 in our products to arise and spread, which may affect 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.