

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 2021, the market environment surrounding the Company benefited from the trends of global initiatives toward decarbonization and the recovery of economic activity. Demand for machine tool-related products remained high as plant and equipment investment in the manufacturing sector continued to pick up, and growth in the electrification of automobiles and the need for energy saving led to significant expansion in demand. On the other hand, the future outlook remained uncertain as the global supply chain suffered mainly from soaring material prices and material shortages due to the impact of the COVID-19 pandemic and changes in the international political situation.

Financial Performance

Net Sales

Net sales in fiscal 2021 increased by 3.9%, to ¥910,226 million.

In the Power Electronics Energy, Semiconductors, and Food and Beverage Distribution segments, net sales increased. However, in the Power Electronics Industry and Power Generation segments, net sales decreased. Domestic sales increased by 0.3%, to ¥655,821 million. Overseas sales increased by 14.6%, to ¥254,405 million.

The ratio of overseas sales increased by 2.6 percentage points, to 27.9%.

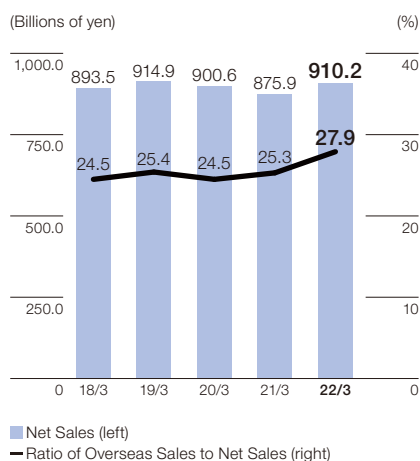
Cost of Sales, Selling, General and Administrative Expenses and Operating Income

Cost of sales increased by 0.5 percentage points, to ¥657,790 million. The ratio of cost of sales to net sales decreased by 2.4 percentage points, to 72.3%.

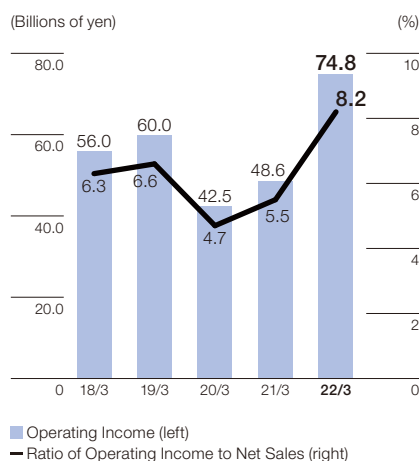
Selling, general and administrative expenses increased by 2.9%, to ¥177,601 million. The ratio of selling, general and administrative expenses to net sales decreased by 0.2 percentage point, to 19.5%.

Operating income increased by ¥26,240 million, to ¥74,835 million, primarily due to higher sales and production volumes, increase in product sales price, and strengthening the constitution of factories mainly by cost reduction, while being affected by soaring material prices. The operating margin increased by 2.7 percentage points, to 8.2%.

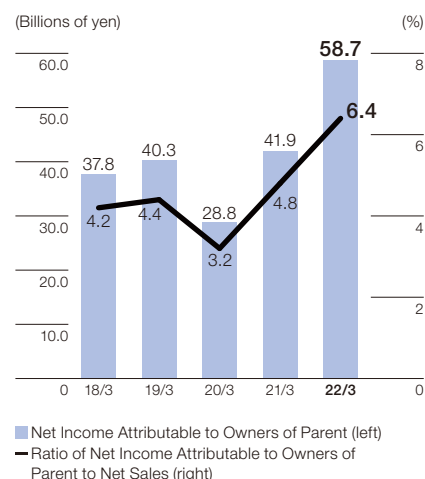
**Net Sales /
Ratio of Overseas Sales to Net Sales**



**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 ¥4,462 million, a ¥2,656 million increase from ¥1,806 million in the previous fiscal year. This increase was primarily due to a ¥1,288 million foreign exchange gain, which ¥379 million foreign exchange loss turned into, and a decrease in provision of allowance for doubtful accounts for investment loss for subsidiaries and affiliates by ¥442 million. As a result, ordinary income increased by ¥28,896 million, to ¥79,297 million.

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

Extraordinary income was ¥10,537 million, included gain on sales of noncurrent assets and gain on sales of investment securities. This represented a ¥30,607 million decrease due to a decrease in gain on sales of investment securities.

Extraordinary loss was ¥1,349 million, included loss on disposal of noncurrent assets, loss on devaluation of investment securities, factory integration expenses, and loss on withdrawal from business. This represented a ¥26,913 million decrease due to cost of corrective measures for product defects and impairment loss in the previous fiscal year.

Net Income

Income before income taxes increased by ¥25,203 million, to ¥88,487 million. After deducting ¥23,931 million of income taxes (the net of income taxes-current and income taxes-deferred) and ¥5,896 million of net income attributable to non-controlling interests, net income attributable to owners of parent increased by ¥16,734 million, to ¥58,660 million.

Results by Business Segment

Power Electronics Energy

Net sales: ¥240,559 million (an increase of 15.0%)

Operating income: ¥21,365 million (an increase of ¥7,347 million)

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

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

Orders received in fiscal 2021 (Power Electronics Energy segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥137.5 billion.

Power Electronics Industry

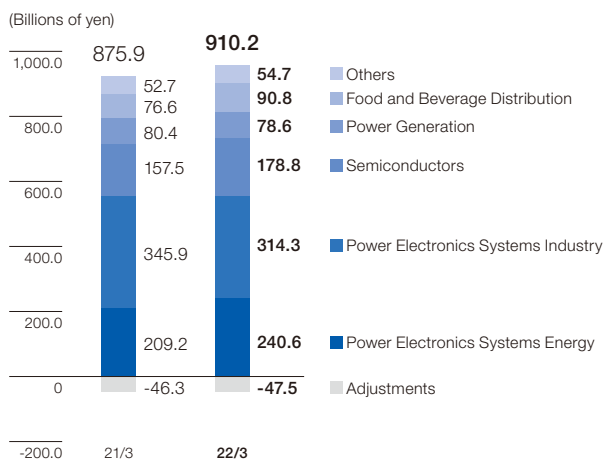
Net sales: ¥314,310 million (a decrease of 9.1%)

Operating income: ¥23,676 million (an increase of ¥1,895 million)

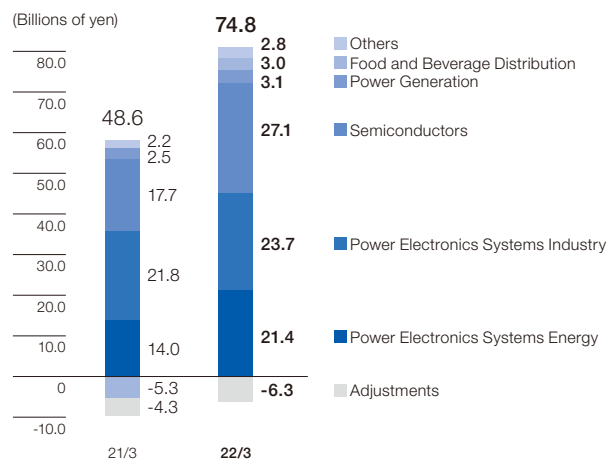
Net sales decreased primarily due to large-scale orders in the IT solutions business in the previous fiscal year, while higher demand for factory automation business. However, operating income increased primarily due to higher demand for factory automation business, changing designs and alternative materials as a countermeasure for difficulty in procuring materials, and cost reduction.

- In the factory automation business, net sales and operating income increased primarily due to higher demand for low-voltage inverters and FA components.

Net Sales by Segment



Operating Income (Loss) by Segment



- In the social solutions business, net sales decreased primarily due to lower demand for the scrubber systems, while there was higher demand for the large-scale electrical products for transport systems. However, operating income increased primarily due to the favorable sales mix.
- In the equipment construction business, net sales and operating income increased primarily due to higher demand for electricity and air-conditioning equipment constructions.
- In the IT solutions business, net sales and operating income decreased due to large-scale orders for the academic sector and the public sector in the previous fiscal year.

Orders received in fiscal 2021 (Power Electronics Industry segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥166.6 billion.

Semiconductors

Net sales: ¥178,807 million (an increase of 13.5%)
Operating income: ¥27,136 million (an increase of ¥9,484 million)

- In the semiconductors business, net sales increased primarily due to the acceleration of the increase in production capacity in response to higher demand for power semiconductors for electric vehicles (xEV) and industrial fields, while withdrawing from the magnetic disks business. As a result, although costs related to the increase in production capacity for power semiconductor and research and development increased, operating income increased due to maintaining high operations.

Orders received in fiscal 2021 (Semiconductors segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥151.9 billion.

Power Generation

Net sales: ¥78,563 million (a decrease of 2.2%)
Operating income: ¥3,124 million (an increase of ¥607 million)

- In the power generation plant business, net sales decreased primarily due to large-scale orders for renewable energy in the previous fiscal year. However, operating income increased due to the favorable sales mix and cost reduction.

Orders received in fiscal 2021 (Power Generation segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥81.8 billion.

Food and Beverage Distribution

Net sales: ¥90,783 million (an increase of 18.6%)
Operating income: ¥3,007 million (an increase of ¥8,287 million)

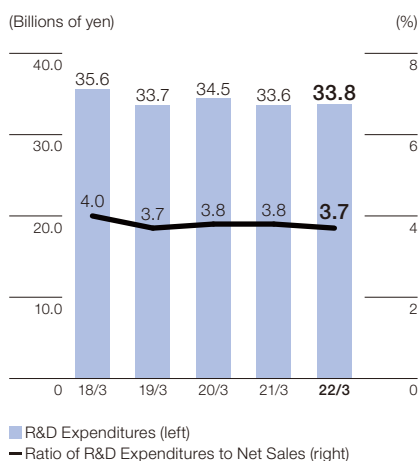
- In the vending machine business, net sales increased primarily due to higher demand in domestic and overseas market. In addition, operating income increased primarily due to an increase in sales and a reduction in fixed costs.
- In the store distribution business, net sales and operating income increased primarily due to higher demand for store equipment for convenience stores.

Orders received in fiscal 2021 (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated-basis) totaled ¥84.3 billion.

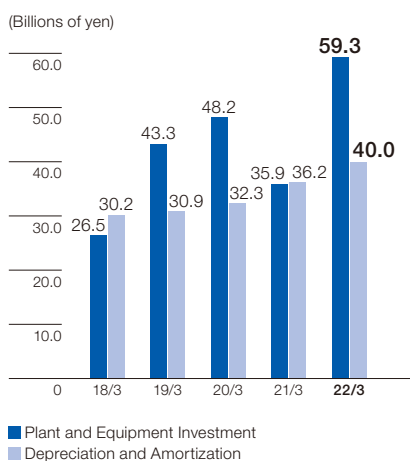
Others

Net sales: ¥54,711 million (an increase of 3.8%)
Operating income: ¥2,838 million (an increase of ¥623 million)

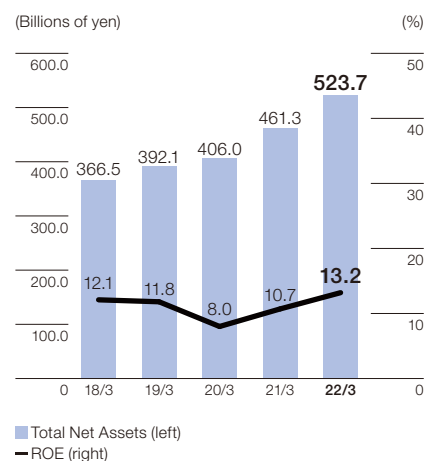
R&D Expenditures / Ratio of R&D Expenditures to Net Sales



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 2021 totaled ¥33,756 million.

As of March 31, 2022, the number of our industrial property rights registered in Japan and overseas was 13,353.

Plant and Equipment Investment

In fiscal 2021, we made capital investments totaling ¥59,320 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 electrification of automobiles and growing demand for renewable energy, we made a new large-scale investment in front-end processes at Fuji Electric Tsugaru Semiconductor Co., Ltd. to increase production capacity for power semiconductor chips. In back-end processes, we made investments to increase production of high-capacity IGBT modules in Japan and overseas.

In the Power Electronics Systems business in Japan, we completed construction of the plant system building at the Tokyo Factory to strengthen plant system development and production systems. In response to growing demand in the datacenter market, we made investments at the Kobe Factory to increase uninterruptible power system (UPS) testing capacity and to streamline operations. Overseas, we

consolidated the production functions of switch gears and molded transformers, which had been dispersed among multiple bases in Southeast Asia, at Fuji Electric Manufacturing (Thailand) Co., Ltd. and increased production capacity for inverters and measuring instruments at Fuji Electric India Private Ltd. We are expanding our systems business globally.

As part of our investments for environmental measures to reduce greenhouse gas emissions, we have installed LED lighting, high-efficiency air conditioning, and greenhouse gas removal equipment at our factories.

Financial Position

Total Assets

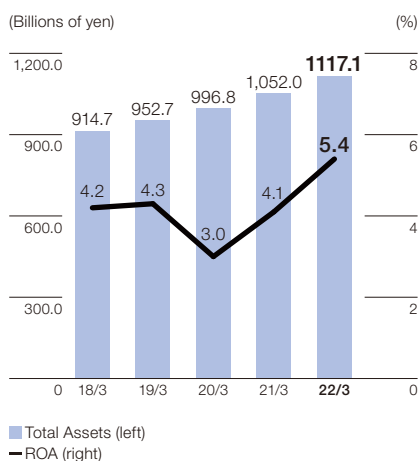
As of March 31, 2022, total assets was ¥1,117,112 million, an increase of ¥65,160 million.

Current Assets and Current Liabilities

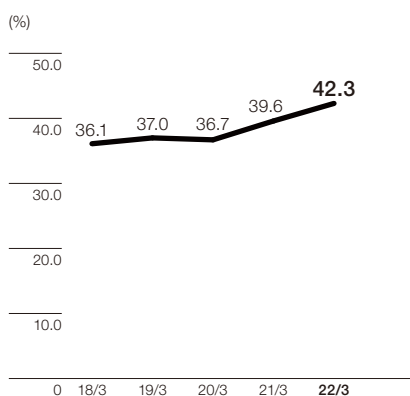
Total current assets was ¥681,981 million, an increase of ¥52,774 million. This increase was primarily due to an increase of ¥16,018 million in cash and cash equivalents and ¥37,697 million in notes receivable-trade, accounts receivable-trade, and contract assets.

Total current liabilities was ¥386,969 million, an increase of ¥30,553 million. This increase was primarily due to an increase of ¥26,151 million in current portion of long-term debt, partially offset by a decrease of 8,418 million in provision for product warranties.

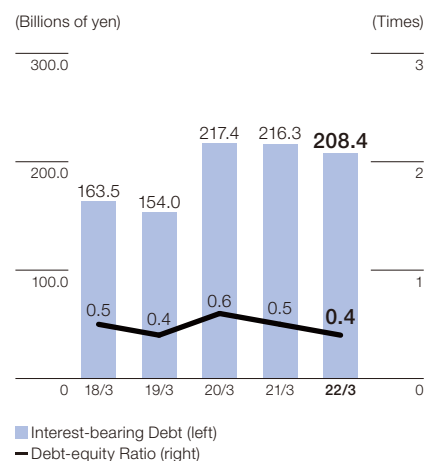
Total Assets / ROA



Equity Ratio



Interest-bearing Debt / Debt-equity Ratio



Noncurrent Assets

Total noncurrent assets was ¥435,131 million, an increase of ¥12,386 million. Net property, plant and equipment was ¥233,675 million, an increase of ¥23,917 million. Total investments and other assets was ¥201,456 million, a decrease of ¥11,531 million. This decrease was primarily due to a decrease of ¥9,966 million in investment securities mainly due to sales.

Long-term Liabilities

Total long-term liabilities was ¥206,414 million, a decrease of ¥27,868 million. This decrease was primarily due to a decrease of ¥30,410 million in long-term debt.

Net Assets

As of March 31, 2022, net assets was ¥523,729 million, an increase of ¥62,475 million. This increase was primarily due to an increase of ¥47,513 million in retained earnings and ¥12,628 million in foreign currency translation adjustments. As a result, the equity ratio was 42.3%, an increase of 2.7 percentage points.

Debt

As of March 31, 2022, interest-bearing debt was ¥208,391 million, a decrease of ¥7,814 million. The ratio of interest-bearing debt to total assets was 18.7%, a decrease of 1.9 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 ¥54,458 million, a ¥4,050 million increase from the previous fiscal year's positive free cash flow of ¥50,408 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥76,809 million, compared with ¥26,931 million in the previous fiscal year. Major factors of cash decrease included an increase in inventories and a decrease in trade payables. Major factors of the cash increase included income before income taxes and an increase in contract liabilities. Cash flows from operating activities increased by ¥49,878 million.

Cash Flows from Investing Activities

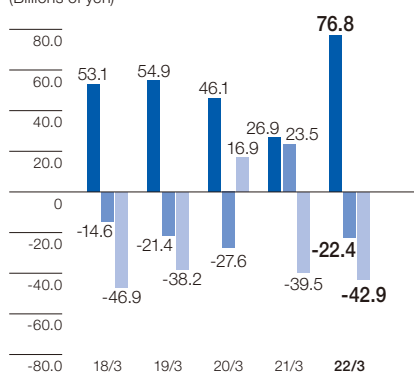
Net cash used in investing activities was ¥22,350 million, compared with net cash provided by investing activities of ¥23,477 million in the previous fiscal year. This was primarily due to purchases of property, plant and equipment offset by sales of investment securities. Net cash used in investing activities increased by ¥45,827 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥42,894 million, compared with net cash used in financing activities of ¥39,518 million in the previous fiscal year. This was primarily due to repayments of lease obligations and payments of cash dividends paid. Net cash used in financing activities increased by ¥3,376 million.

Cash Flows

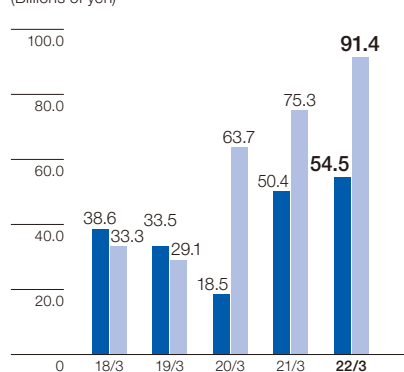
(Billions of yen)



■ 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 28, 2022).

(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 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 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.

(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 COO, 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.