

# Review of Operations—

## Fiscal 2013 Performance and Priority Measures for Fiscal 2014

In the fiscal year ended March 31, 2014, Fuji Electric's operating environment saw strong demand in areas related to renewable energy and energy saving in the domestic market and power electronics and semiconductors in the overseas market. In response to these conditions, Fuji Electric established foundations for growth to facilitate future business expansion and promoted business management with a strong focus on earnings in order to further strengthen profitability. Net sales rose ¥14.1 billion year on year to ¥759.9 billion. Operating income improved ¥11.1 billion year on year to ¥33.1 billion. This reflected improved profitability stemming from the rigorous reduction of costs and expenses as well as a significant contribution from the vending machine business and the power semiconductors and drive businesses, which underwent business restructuring during fiscal 2012.

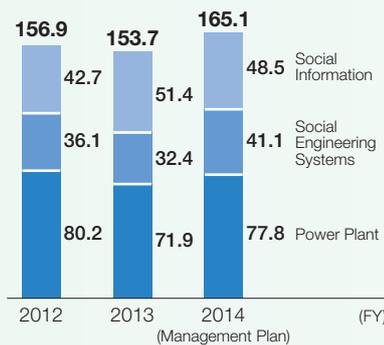
Positioning fiscal 2014 as a year of aggressive management expansion, we will work to further enhance profitability, while at the same time moving forward with efforts to expand the Industrial Infrastructure and Power Electronics businesses and reinforce our base of overseas operations.

Our plan for fiscal 2014 is to achieve net sales of ¥780.0 billion, up ¥20.1 billion year on year, and operating income of ¥38.0 billion, up ¥4.9 billion year on year.

### Power and Social Infrastructure

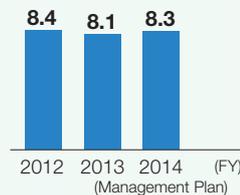
#### Net Sales

(Billions of yen)



#### Operating Income

(Billions of yen)



#### Fiscal 2013 Performance

Sales in the power plant business were down year on year due to a fall back from large-scale orders for thermal power generation facilities recorded in the previous fiscal year, which offset rises in orders for hydropower generation facilities and solar power generation systems.

Sales in the social engineering systems business were down due to lower demand for watt-hour meters ahead of the switch to smart meters.

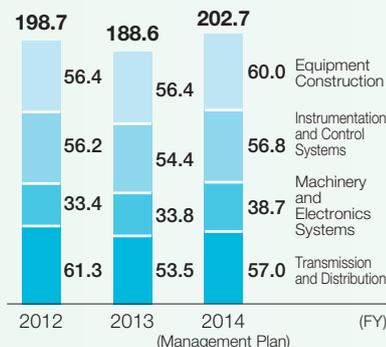
Sales in the social information business were up following a rise in large-scale orders and a demand rush in light of the upcoming end of support for Windows XP™.

Overall, the segment saw operating income worsen as lower net sales counteracted cost reductions.

### Industrial Infrastructure

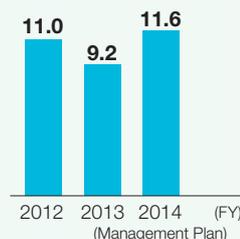
#### Net Sales

(Billions of yen)



#### Operating Income

(Billions of yen)



#### Fiscal 2013 Performance

Sales in the transmission and distribution business were down year on year, reflecting the absence of the previous fiscal year's large-scale overseas orders.

Sales in the machinery and electronics systems business increased due to a rise in orders for energy-saving equipment from Japanese manufacturers.

Sales in the instrumentation and control systems business were down as a result of lower demand for radiation measurement equipment.

Sales in the equipment construction business were relatively unchanged from the previous fiscal year.

In the business segment overall, operating income worsened year on year because lower net sales counteracted cost reductions.

	Net Sales				Operating Income / Loss			
	(Billions of yen)				(Billions of yen)			
	Fiscal 2012	Fiscal 2013	Fiscal 2014 (Management Plan*)	Fiscal 2013-14 Increase / Decrease	Fiscal 2012	Fiscal 2013	Fiscal 2014 (Management Plan*)	Fiscal 2013-14 Increase / Decrease
Power and Social Infrastructure	156.9	153.7	165.1	+11.5	8.4	8.1	8.3	+0.2
Industrial Infrastructure	198.7	188.6	202.7	+14.1	11.0	9.2	11.6	+2.3
Power Electronics	148.4	165.5	179.7	+14.2	1.2	5.4	8.3	+2.9
Electronic Devices	113.6	123.9	118.4	-5.4	-1.4	6.3	7.6	+1.3
Food and Beverage Distribution	112.1	120.1	118.6	-1.5	6.4	8.0	7.1	-0.9
Others	60.6	60.0	57.1	-2.9	1.6	1.9	1.7	-0.2
Elimination and Corporate	-44.5	-51.8	-61.6	-9.8	-5.3	-5.9	-6.6	-0.7
<b>Total</b>	<b>745.8</b>	<b>759.9</b>	<b>780.0</b>	<b>+20.1</b>	<b>22.0</b>	<b>33.1</b>	<b>38.0</b>	<b>+4.9</b>

\* As of April 24, 2014

### Priority Measures for Fiscal 2014

#### Continue Capturing Orders for Solar Power Generation Systems and Expand Orders of Thermal / Geothermal Power Generation Facilities and Smart Meters

In the power plant business, we will work to continue capturing orders for solar power generation systems in line with anticipated strong demand in Japan. We will also strengthen our efforts to increase orders for thermal and geothermal power generation facilities, mainly in Asia and the domestic market where demand is expected to grow. In other initiatives, we will aim to grow orders for fuel cells.

In the social engineering systems business, we will bolster our production capacity for smart meters and take steps to reduce costs and increase orders. We will also advance initiatives aiming to commercialize smart communities.



Construction of mega solar power generation is increasing, spurred by the feed-in tariff scheme for renewable energy, resulting in higher orders for solar power generation systems.

### Priority Measures for Fiscal 2014

#### Capture Energy-Saving and Replacement Demands and Strengthen Business in Asia

In the transmission and distribution business, we will bolster our manufacturing structure centered on Fuji Tusco Co., Ltd. and the new factory in Thailand, while working to strengthen local engineering systems as we work to expand our business in Asia.

In the machinery and electronics systems business, we will focus on the automotive and Internet data center (IDC) businesses where investment is expected, while making efforts to capture replacement demand in the steel field, in which we have a strong replacement track record.

In the instrumentation and control systems business, we will step up product development and launch, while strengthening our efforts to capture replacement demand and expand overseas business.

In the equipment construction business, we will work to enlarge our presence in the creation energy field, centered on solar power generation systems, and grow our overseas business.



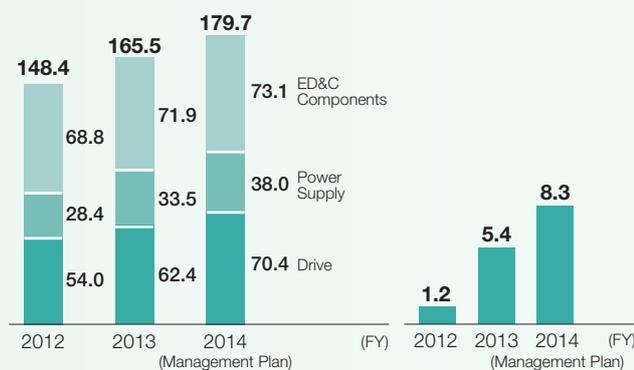
In October 2013, we launched Fuji Tusco Co., Ltd. with capital participation from a leading Thai transformer manufacturer.

Transformer

## Power Electronics

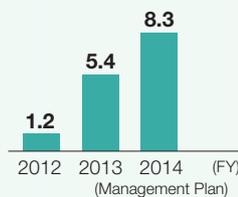
### Net Sales

(Billions of yen)



### Operating Income

(Billions of yen)



### Fiscal 2013 Performance

In the drive business, net sales improved year on year thanks to higher demand for inverters and servo systems in Japan and overseas and the sales contributions from large overseas orders for electric equipment for railcars. Likewise, operating income also showed a year-on-year improvement due to higher sales and the benefits of the business restructuring conducted in the previous fiscal year.

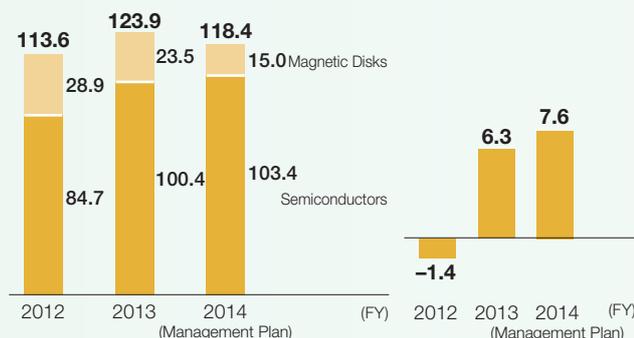
In the power supply business, net sales and operating income improved year on year as a result of increased demand for power conditioners for mega solar power generation and power supply equipment for data centers and other products.

In the ED&C components business, net sales and operating income improved year on year due to increased demand in the renewable energy field and recovery in domestic demand in the machine tools and semiconductor field.

## Electronic Devices

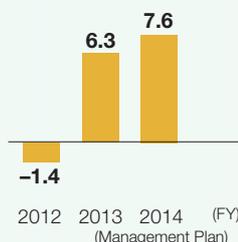
### Net Sales

(Billions of yen)



### Operating Income

(Billions of yen)



### Fiscal 2013 Performance

In the semiconductors business, net sales were up year on year due to strong demand in the automotive field, which continued from the previous fiscal year, as well as a recovery in demand for inverters, servo systems, and other industrial machinery in the industrial field. As a result of higher earnings and the benefits of the business restructuring conducted in relation to power semiconductors in the previous fiscal year, the business was able to realize substantially improved operating income.

In the magnetic disks business, net sales and operating income declined due to lower demand from customers.

## Food and Beverage Distribution

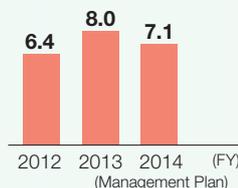
### Net Sales

(Billions of yen)



### Operating Income

(Billions of yen)



### Fiscal 2013 Performance

In the vending machines business, net sales were up year on year as a result of steady replacement demand for energy-saving, environmentally friendly vending machines coupled with solid demand for coffee machines for convenience stores. Operating income improved following higher revenues and lower costs.

The store distribution business recorded a year-on-year increase in net sales due to higher orders for construction and renovation, mainly of convenience stores, but operating income deteriorated as a result of the impacts of higher upfront investments for the expansion of new businesses.

### Priority Measures for Fiscal 2014

#### Business Expansion Centered on New Product Launches and the New Factory in Thailand

In the drive and power supply businesses, we will accelerate development and market launch for the global markets in mainstay products, including inverters, uninterruptible power supply systems (UPSs), and power conditioners. At the same time, we will enhance price competitiveness by expanding production at the new factory in Thailand. Furthermore, the business in China will be expanded through the joint-venture companies created between Shanghai Electric Group Co., Ltd. and the Company.

In the ED&C components business, we will concentrate on the new energy field in Japan while striving to enhance product line-ups in Asia and China.



In December 2013, the new factory in Thailand started production of inverters, UPSs, and other products as the Company's core production base for products for Asia, Europe, and the U.S.



In February 2014, the Company established a joint venture for sales and production of medium-voltage inverters with Shanghai Electric Group Co., Ltd., which has a powerful sales network in China.

### Priority Measures for Fiscal 2014

#### Launch New Power Semiconductor Products and Accelerate Development of the Next-Generation of Semiconductors

In the semiconductors business, we will pursue higher sales by launching new products and strengthening local design through design centers established in the previous fiscal year in China, Taiwan, and Europe. We will also promote cost reduction activities by expanding back-end processing overseas. Furthermore, we will also accelerate the development of next-generation power semiconductors to further future business expansion.



In China (Shenzhen), the Company is expanding its production system for industrial power semiconductor products for the Chinese market.



In October 2013, a new production line established at the Matsumoto Factory started production of SiC power semiconductors.

### Priority Measures for Fiscal 2014

#### Strengthen Business into Growth Fields such as Overseas and Store Distribution

In the vending machines business, we will grow the business by capturing domestic renewal demand for energy-saving, environmentally friendly vending machines. In addition, we will expand the business in China and other Asian markets where demand is expected to grow by increasing production in China, starting production in the new factory in Thailand, and establishing local sales companies among other initiatives.

In the store distribution business, we will work to grow demand for store equipment, mainly for convenience stores, and expand new businesses. We will also promote the distribution systems business by making use of refrigeration technologies, including the mobile cold storage container D-BOX, and business targeting crop production facilities.



Sales of the newly launched energy-saving, environmentally friendly vending machines and coffee machines for convenience stores have risen due to strong response from customers.

# Review of Operations — Overseas Operations

## Fiscal 2013 Performance

In the market environment surrounding the Company, overseas markets showed weak activity overall, but there was a recovery trend supported by the gradual recovery of major developed nations, such as the U.S. and nations in Europe.

Against this backdrop, sales of power semiconductors and power electronics increased on rising demand in China, Europe, and the Americas. In Asia, meanwhile, sales declined on a decrease in large-scale orders for power generation facilities and transformer equipment, and a decline in demand for magnetic disks.

In fiscal 2013, we worked to establish our base in Asia and China. Specifically, in Asia we built a new factory in Thailand, and made a capital investment in a Thai transformer manufacturer (Tusco Trafo Co., Ltd.). We also established sales bases in South Korea and Vietnam, and representative offices in Myanmar and Cambodia. In China, we established joint ventures in the area of medium-voltage inverters with state-owned Shanghai Electric Group Co., Ltd., and built a new factory building for power semiconductor back-end processing at Fuji Electric (Shenzhen) Co., Ltd.

## Priority Measures for Fiscal 2014

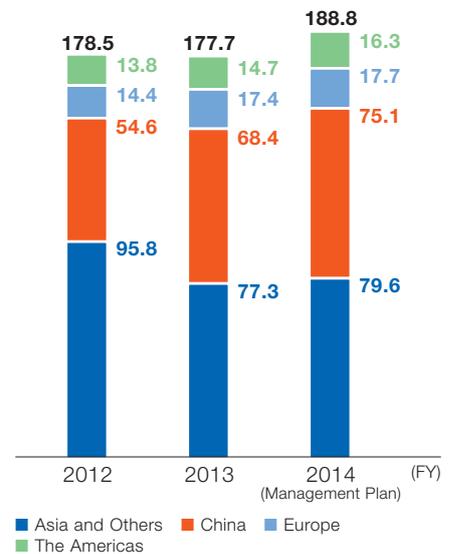
### Enhance Sales Mainly in Asia and China

In fiscal 2014, we will steadily bring our initiatives from fiscal 2013 to fruition, and reinforce the base of our overseas operations through establishing vending machine sales and marketing subsidiaries in China and Asia and making progress on new M&As.

In Asia, we will expand sales in Power and Social Infrastructure, Industrial Infrastructure, and Power Electronics. In China, we will increase our sales of vending machines, as well as Power Electronics and power semiconductors, for which continuing strong demand is expected.

## Sales Outside Japan

(Billions of yen)



## Initiatives in Asia

### New Factory in Thailand to Serve as a Core Production Base for Asia

In December 2013, we completed construction of a new factory in Thailand (Fuji Electric Manufacturing (Thailand) Co., Ltd.) and commenced production of inverters, uninterruptible power supply systems, and other items.

The new factory in Thailand is positioned to serve as our core production site for products for Asia, Europe, and the U.S. Looking ahead, we plan to grow the business even further by extending the scope of production items such as vending machines and gas insulated switchgears.



Fuji Electric Manufacturing (Thailand) Co., Ltd.



Uninterruptible power supply system

### Capital Investment in Thai Transformer Manufacturer

In October 2013, we made a capital investment in Tusco Trafo Co., Ltd. (hereinafter referred to as Tusco) and established Fuji Tusco Co., Ltd.

Tusco is a leading local transformer manufacturer with a good track record in supplying transformers to many governmental electric power distribution companies and private companies in Thailand, as well as in sales covering a wide area including Southeast Asia and Africa. We plan to make use of Tusco's resources to boost our product lineup and expand our sales and service networks.

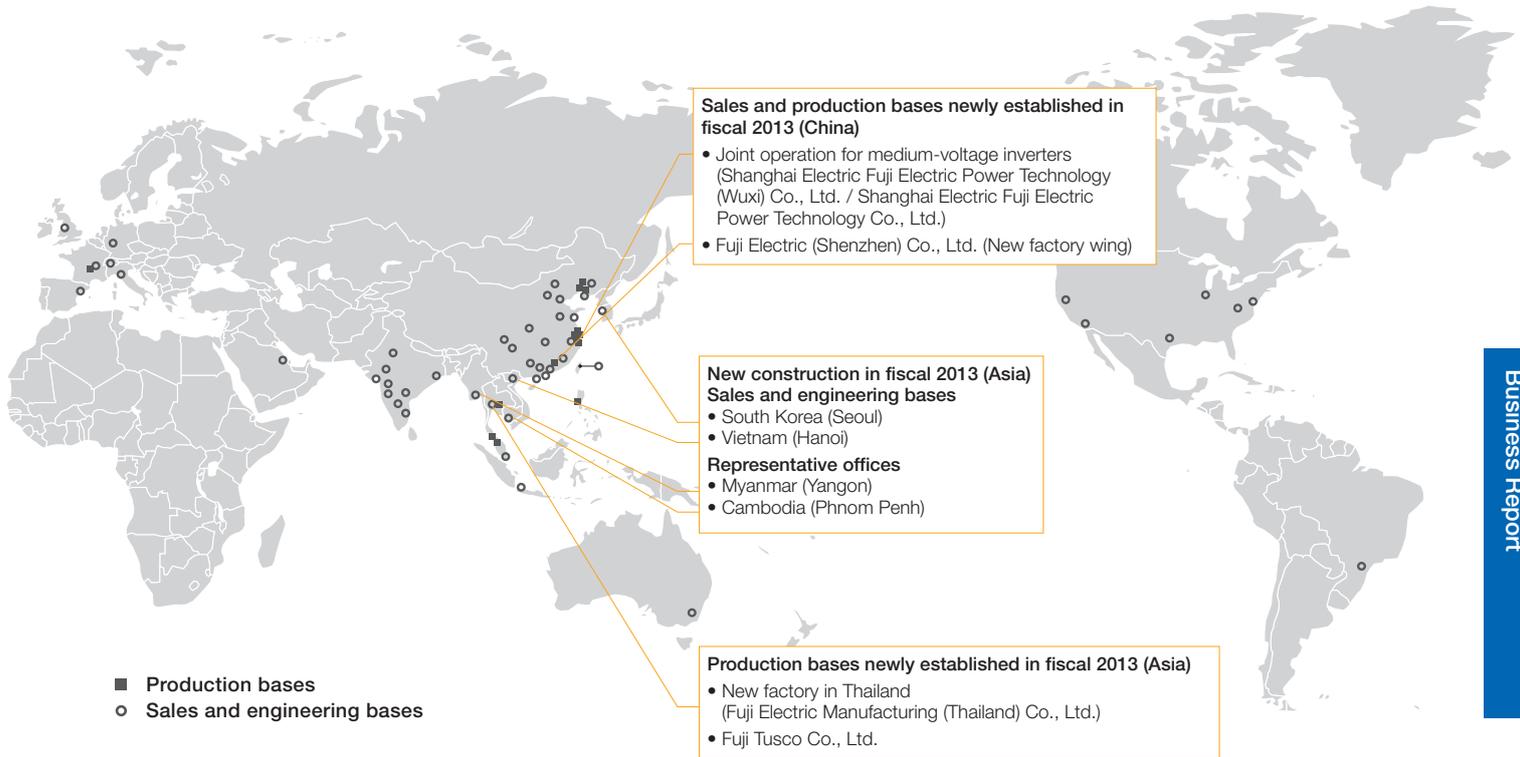
#### New Company Information

New company name	Fuji Tusco Co., Ltd.
Business areas	Manufacture, sales, maintenance, and services for transformers, power distribution boards, and others
Date of capital investment	October 2013
Equity stake	67.7%



Transformer

## Production Bases and Sales and Engineering Network (As of March 31, 2014)



### Major Initiatives in China

#### Established Joint Venture for Medium-Voltage Inverters with Shanghai Electric, China's Largest Medium-Voltage Motor Manufacturer

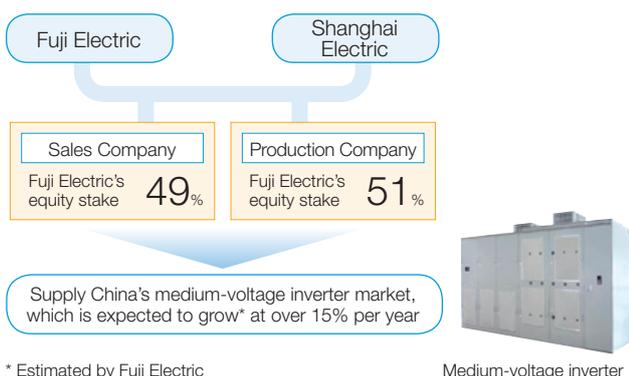
In February 2014, we established two joint ventures with China's state-owned Shanghai Electric Group Co., Ltd. (hereinafter referred to as Shanghai Electric) to carry out sales and production of medium-voltage inverters in China.

Shanghai Electric is a leading industrial electrical equipment manufacturer that has a nationwide sales network and the highest market share in China for medium-voltage motors, which are an application for medium-voltage inverters. We aim to grow our business in China by capturing synergies between Fuji Electric's power electronics and control technologies and Shanghai Electric's machine technologies and sales capabilities based on its strong brand.

#### Strengthened Production Capacity for Power Semiconductor Back-End Processing Capability (New Factory Building)

In June 2013, the construction of new factory building for back-end processing production line was completed at Fuji Electric (Shenzhen) Co., Ltd. in order to strengthen production capacity for power semiconductors.

At the same time, we established design centers to swiftly develop products specified to local requirements in order to bolster our local design structure. By strengthening an integrated structure covering everything from development to sales, we will promote local production for local consumption and ultimately increase our sales in China.



\* Estimated by Fuji Electric



Fuji Electric (Shenzhen) Co., Ltd.



Back-end processing production line

# Review of Operations —

## Capital Expenditures and R&D Expenditures

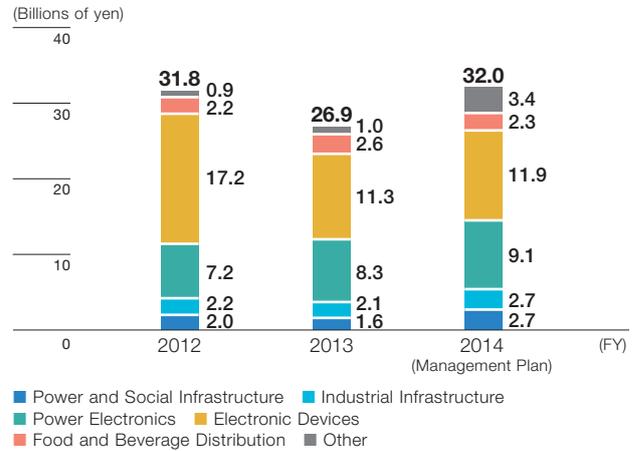
### Plant and Equipment Investment

#### Structural Organization of Bases in Asia and Enhancement of New Product Development and Production Capabilities

In fiscal 2013, we focused on the power electronics and industrial infrastructure fields, where sales growth was expected, building a new factory in Thailand to serve as a core production site for products for Asia, Europe, and the U.S., and introduced production facilities for products such as inverters and uninterruptible power supply systems. We also proceeded to automate our facilities for manufacturing smart meters to prepare for mass production. In addition, we established a 6-inch SiC mass production line for next-generation power semiconductor devices.

Looking ahead, at the new factory in Thailand we will expand the production capacity for power electronics. We will also expand our business areas to include fields such as industrial infrastructure and food and beverage distribution, and introduce production facilities for gas-insulated switchgear and vending machines. In doing so, we will strengthen it as a core production site. We will also respond to increasing orders for smart meters by accelerating investment in

#### Amount of Plant and Equipment Investment



automated facilities. Finally, we will introduce facilities to develop next-generation power semiconductors, and build new research and development buildings to enhance our development capabilities for creating new products.

### R&D Expenditures

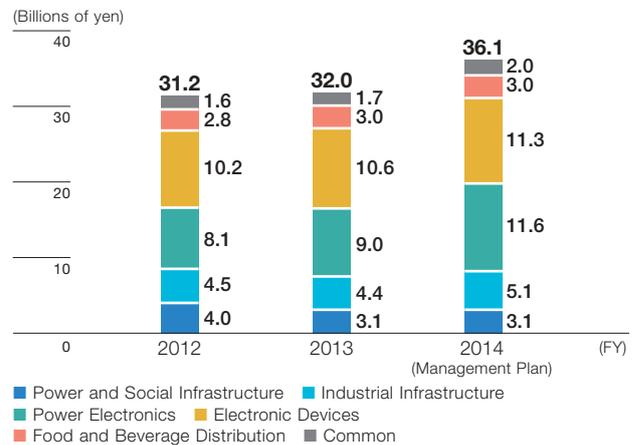
#### Strengthen Core Technologies in all Aspects and Accelerate Development of New Products

Fuji Electric is bolstering its core technologies, such as power semiconductors and power electronics, and developing distinctive components and systems. In addition, we are also working to develop new products that generate Company-wide synergies between thermal, machinery and, control systems.

In fiscal 2013, we continued our development of next generation power semiconductors by SiC (silicon carbide) that will reduce energy use in a wide range of industrial sectors. Moreover, to accelerate the development of power electronics equipment that applies these SiC power semiconductors, such as power conditioners and uninterruptible power supply systems, we concentrated our R&D expenditure on electronic devices and power electronics.

Looking ahead, Fuji Electric will work to expand its global operations by speeding up product development through open innovation with research institutions and universities, while also continuing to promote the product development in line with local needs. Specifically, we will promote initiatives such as our development of SiC power semiconductors with the National Institute of Advanced Industrial Science and Technology\* and the establishment of the Zhejiang University—Fuji Electric Cooperation Center in China. We will also continue construction of

#### R&D Expenditures



Note: Figures for research and development expenses are allocated by research theme and therefore differ from those in the Consolidated Financial Report.

research and development buildings in our three main sites in Japan (the Tokyo Factory, the Matsumoto Factory, and the Fukiage Factory) with the goal of enhancing our research and development structure.

\* An independent administrative institution