

# Management's Discussion and Analysis

## Overview

In fiscal 2013, the year ended March 31, 2014, the operating environment for Fuji Electric saw a gradual recovery in the domestic market spurred on by the government's fiscal policies and the Bank of Japan's monetary policies. In particular, areas related to renewable energy and energy saving performed solidly. Overseas, overall activity was weak, but there was a recovery trend supported by the gradual recovery of major developed nations, such as the United States and those nations in Europe. In particular, conditions in the power electronics and semiconductors areas were strong.

In this environment, the Company pushed forward with initiatives under its management policies of "expand energy related businesses" and "globalize." At the same time, having positioned the fiscal year under review as the first year for aggressive management, we 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.

## Financial Performance

### Net Sales

In fiscal 2013, net sales increased 1.9% year on year, to ¥759,911 million. Domestic net sales were up 2.6% year on year, to ¥582,223 million. Meanwhile, overseas net sales were down 0.4% year on year, to ¥177,688 million.

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

Cost of sales decreased 1.3% year on year, to ¥579,856 million. Cost of sales as a percentage of net sales decreased 2.5 percentage points, to 76.3%.

Selling, general and administrative expenses increased 7.8% year on year, to ¥146,919 million. Selling, general and administrative expenses as a percentage of net sales increased 1.0 percentage points, to 19.3%.

Operating income improved ¥11,144 million year on year, to ¥33,136 million. This was due to the benefits of thorough cost reduction measures as well as structural improvements.

### Non-Operating Income (Expenses) and Ordinary Income

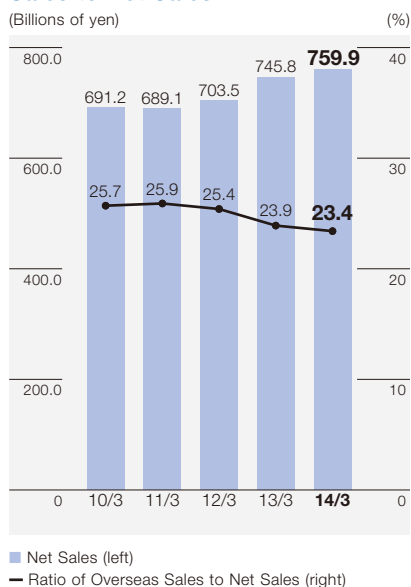
Non-operating income (net) was ¥3,595 million, a decline of ¥127 million compared to the non-operating income (net) of ¥3,722 million in the previous fiscal year. The decline was mainly due to a ¥1,409 million decrease in interest and dividend income from the previous fiscal year, which was partially offset by a ¥874 million decrease in interest expense and a ¥326 million increase in foreign exchange gains.

As a result, ordinary income was ¥36,731 million, an improvement of ¥11,017 million from the previous fiscal year.

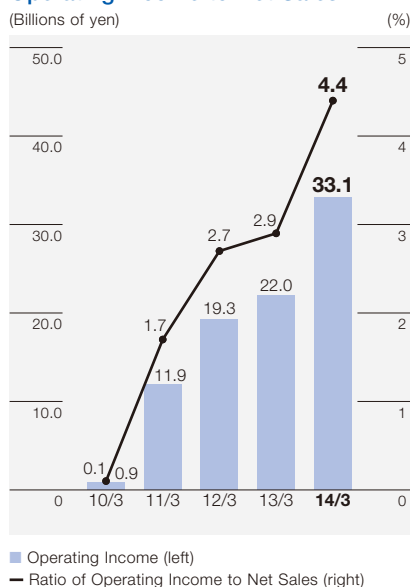
### Extraordinary Income (Loss), Income Before Income Taxes and Minority Interests

Extraordinary income was ¥913 million due to gain on sales of noncurrent assets and gain on sales of investment securities. Extraordinary income decreased ¥132 million year on year, mainly due to a decline in gain on sales of investment securities.

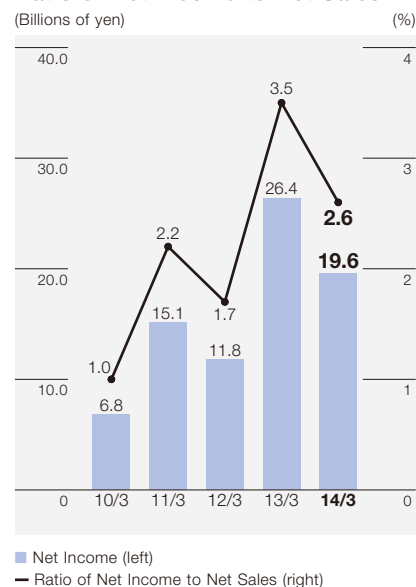
### Net Sales / Ratio of Overseas Sales to Net Sales



### Operating Income / Ratio of Operating Income to Net Sales



### Net Income / Ratio of Net Income to Net Sales



Extraordinary loss was ¥3,907 million, reflecting loss on disposal of noncurrent assets, loss on devaluation of investment securities, impairment loss, settlement package and other items. Extraordinary loss decreased ¥6,234 million year on year, mainly due to a decline in impairment loss from the previous fiscal year.

As a result, income before income taxes and minority interests increased ¥17,120 million year on year to ¥33,737 million.

### Net Income

Net income was ¥19,582 million, after deducting ¥11,983 million for income taxes and ¥2,172 million for minority interests from income before income taxes and minority interests. The net income result decreased by ¥6,786 million year on year, mainly because the Company recorded a reversal of deferred tax assets of ¥11,427 million in the previous fiscal year.

## Results by Business Segment

### Power and Social Infrastructure

Net sales decreased 2% year on year to ¥153,653 million, and operating income worsened ¥283 million year on year to ¥8,138 million.

In fiscal 2013, orders received (Power and Social Infrastructure segment of Fuji Electric Co., Ltd., non-consolidated-basis) was ¥131,300 million.

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

social information business, sales were up following a rise in large-scale orders and a demand rush in light of the end of support for Windows XPTM. Overall, the segment saw a worsening in operating results because lower net sales counteracted cost reductions.

### Industrial Infrastructure

Net sales decreased 5% year on year, to ¥188,648 million, and operating income worsened ¥1,817 million year on year, to ¥9,209 million.

In fiscal 2013, orders received (Industrial Infrastructure segment of Fuji Electric Co., Ltd. non-consolidated-basis) was ¥122,200 million.

In the transmission and distribution business, sales were down year on year, reflecting the absence of the previous fiscal year's large overseas orders. In machinery and electronics systems, sales increased due to a rise in orders for energy-saving equipment from Japanese manufacturers. In the instrumentation and control systems business, sales were down as a result of lower demand for radiation measurement equipment. In the equipment construction business, sales were relatively unchanged from the previous fiscal year. In the business segment overall, operating results worsened year on year because lower sales counteracted cost reductions.

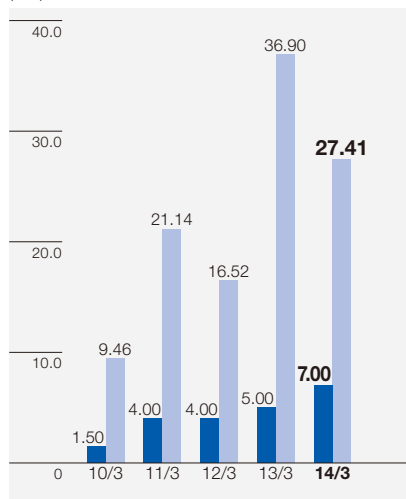
### Power Electronics

Net sales increased 12% year on year, to ¥165,523 million, and operating income improved ¥4,199 million year on year, to ¥5,435 million.

In fiscal 2013, orders received (sum of Power Electronics segment of Fuji Electric Co., Ltd. and Fuji Electric FA Components & Systems Co., Ltd., non-consolidated-basis) were ¥133,300 million.

### Cash Dividends per Share / Net Income per Share

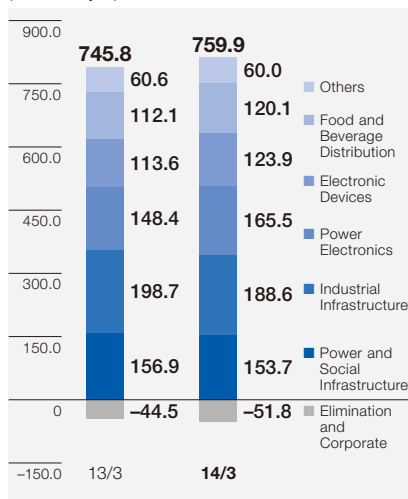
(Yen)



■ Cash Dividends per Share  
■ Net Income per Share

### Net Sales by Segment\*

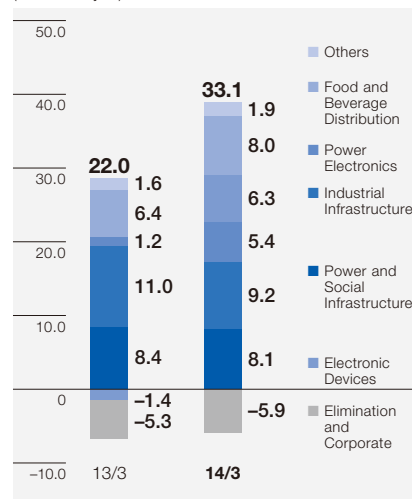
(Billions of yen)



\* Based on figures prior to reflecting the change in subsegments that took effect from April 1, 2014

### Operating Income (Loss) by Segment\*

(Billions of yen)



\* Based on figures prior to reflecting the change in subsegments that took effect from April 1, 2014

In the drive business, sales increased year on year following higher demand for inverters and servos in Japan and overseas and the sales contributions from large overseas orders for electric equipment for railcars. Likewise, operating results also showed a year-on-year improvement due to the higher sales and the benefits of the business restructuring conducted in the previous fiscal year. As for the power supply business, sales and operating results improved year on year as a result of increased demand for power conditioners for mega solar facilities and power supply equipment for data centers and other products. In the ED&C components business, sales and operating results improved year on year due to increased demand in the renewable energy field and recovery in domestic demand in the machine tool and semiconductor fields.

### Electronic Devices

Net sales increased 9% year on year, to ¥123,851 million, while operating income of ¥6,302 million was recorded after an improvement of ¥7,718 million from an operating loss in the previous year.

In fiscal 2013, orders received (sum of Electronic Devices segment of Fuji Electric Co., Ltd. and Fuji Electric (Malaysia) Sdn. Bhd., non-consolidated-basis) were ¥104,500 million.

In the semiconductors business, sales were up year on year due to strong demand in the automotive electronics business, which continued from the previous fiscal year, as well as a recovery in demand for inverters, servos, and other industrial machinery in the industrial business. 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 results. In the magnetic disks business, net sales declined and operating results deteriorated due to lower demand from customers.

### Food and Beverage Distribution

Net sales increased 7% year on year, to ¥120,056 million, and operating income improved ¥1,624 million year on year, to ¥8,047 million.

In fiscal 2013, orders received (Food and Beverage Distribution segment of Fuji Electric Co., Ltd., non-consolidated basis) was ¥116,200 million.

In the vending machine business, sales were up year on year as a result of steady replacement demand for energy-saving, environmentally friendly vending machines, and demand for coffee machines for convenience stores. Operating results improved following higher revenues and lower costs. The store distribution business recorded a year-on-year increase in sales due to higher orders for construction and renovation of convenience stores and other stores, but operating results deteriorated as a result of the impacts of higher upfront investments for the expansion of new businesses.

### Others

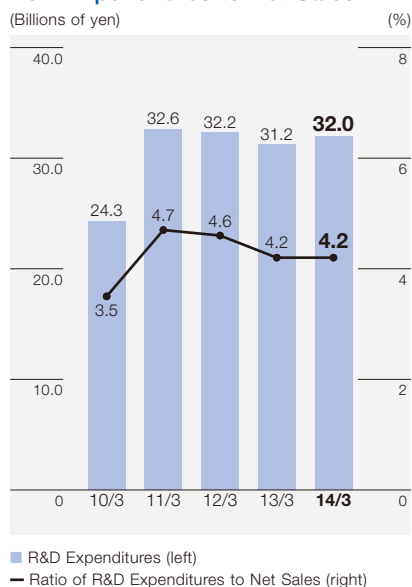
Net sales declined 1% year on year, to ¥60,001 million, and operating income improved ¥285 million year on year, to ¥1,919 million.

## R&D Investment and Plant and Equipment Investment

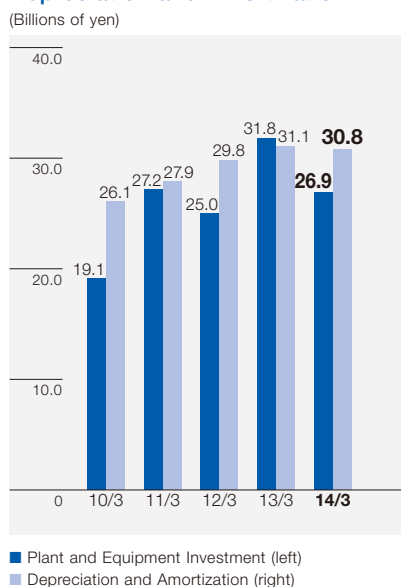
### R&D Expenditures

Fuji Electric's R&D is focused on developing products that lead to a responsible and sustainable society through the pursuit of cutting-edge energy technologies. The Company has also been realizing companywide synergies and advancing the globalization of its R&D functions, as well as stepping up open innovation initiatives with universities, research institutes, and other companies.

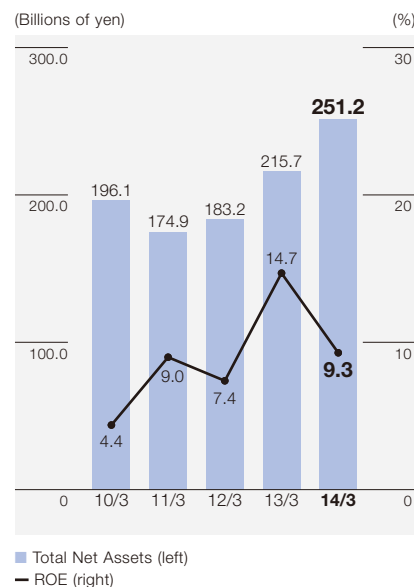
### R&D Expenditures / Ratio of R&D Expenditures to Net Sales



### Plant and Equipment Investment / Depreciation and Amortization



### Total Net Assets / ROE



For fiscal 2013, Fuji Electric's total R&D expenditures amounted to ¥32,029 million. R&D results and expenditures by segment are as follows.

The number of industrial property rights held by Fuji Electric in Japan and overseas was 10,426 as of March 31, 2014.

### Capital Expenditure

In fiscal 2013, the Company's capital expenditure, including leases, totaled ¥26,916 million. We bolstered investment in the Power Electronics and Industrial Infrastructure segments, where we expect future sales growth.

Key investments were as follows.

In the Power Electronics segment, we constructed a new factory in Thailand for expanding global sales, mainly in Asia, and invested in production facilities for the local production of inverters, uninterruptible power supply systems, and other equipment. In the ED&C components business, we invested in production facilities for new products to be sold in China and other Asian markets.

In the Industrial Infrastructure segment, we invested in the replacement of production facilities for switchgears in the transmission and distribution business. In the instrumentation and control systems business, we invested in areas mainly for streamlining high-density assembling lines.

In the Power and Social Infrastructure segment, we invested in the construction of new assembly lines and test lines for mass production of smart meters. In the power generation business, we invested in the replacement of machine work facilities.

In the Electronic Devices segment, we invested in production facilities for 6-inch SiC mass production lines. We also invested in the construction of a building and production facilities for expanding production of semiconductors in Shenzhen, China in addition to investment for increasing production for in-vehicle IGBT.

In the Food and Beverage Distribution segment, we invested in development of new models of vending machines and streamlining of the existing vending machines. In Dalian, China, we invested in strengthening production capabilities in response to market expansion.

All of these investments were funded mainly using the Company's own funds.

## Financial Position

### Total Assets

Total assets at the end of the fiscal year stood at ¥810,774 million, an increase of ¥45,211 million from the end of the previous fiscal year.

### Current Assets and Current Liabilities

Total current assets amounted to ¥429,338 million as of March 31, 2014, up ¥4,632 million from the previous fiscal year-end. This was attributable to an increase from the previous fiscal year-end of ¥13,721 million in inventories, which outweighed a decrease of ¥6,276 million in cash and cash equivalents.

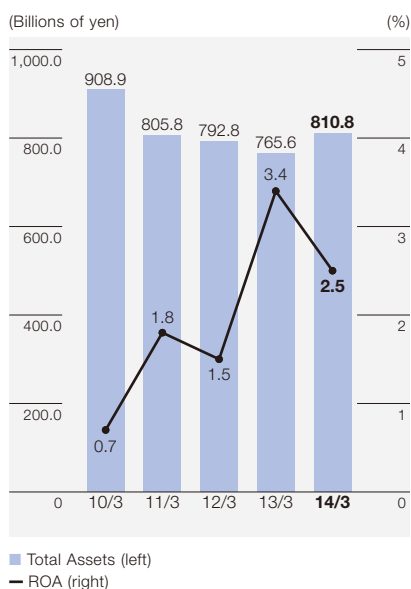
Total current liabilities stood at ¥359,457 million, down ¥21,009 million from the previous fiscal year-end. This stemmed from a decrease of ¥28,000 million in commercial paper and a decrease of ¥10,000 million in current portion of long-term debt, which outweighed an increase of ¥13,818 million in short-term debt.

### Noncurrent Assets

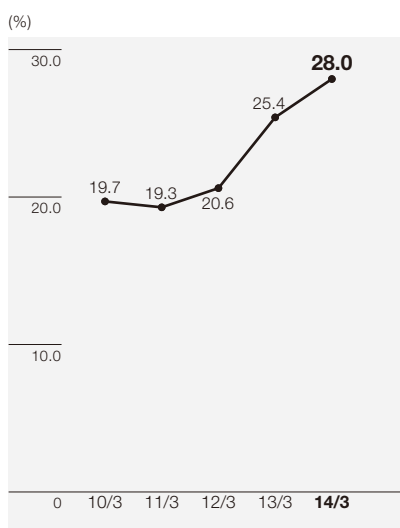
Net property, plant and equipment stood at ¥172,619 million, an increase of ¥4,177 million from the previous fiscal year-end.

Further, total investments and other assets amounted to ¥208,817 million, up ¥36,402 million from the previous fiscal

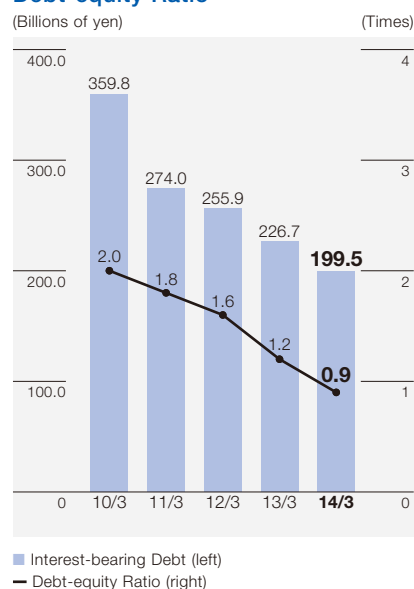
### Total Assets / ROA



### Total Net Assets Ratio



### Interest-bearing Debt / Debt-equity Ratio



year-end. This was attributable to an increase of ¥29,403 million in investment securities, owing to factors such as the rise in the value of available-for-sale securities following differences in mark-to-market valuation.

### Long-term Liabilities

Total long-term liabilities were ¥200,092 million, an increase of ¥30,667 million from the previous fiscal year-end. This reflected the recording of net defined retirement liability of ¥34,236 million at the end of the fiscal year under review, and increases of ¥20,000 million in corporate bonds and ¥10,285 million in deferred tax liabilities, which outweighed a decrease of ¥23,031 million in long-term debt and the recording of provision for retirement benefits of ¥11,681 million at the previous fiscal year-end.

### Net Assets

Total net assets as of March 31, 2014, were ¥251,225 million, up ¥35,552 million from the previous fiscal year-end. This rise was mainly due to the increases in valuation difference on available-for-sale securities of ¥24,385 million and in retained earnings of ¥15,011 million from the previous fiscal year-end, despite decreases due to the posting of remeasurements of defined benefit plans of ¥10,614 million at the end of the fiscal year under review. As a result, the total net assets ratio was 28.0%, an increase of 2.6 percentage points from the previous fiscal year-end.

### Debt

Interest-bearing debt as of March 31, 2014, was ¥199,504 million, down ¥27,212 million from the previous fiscal year-end. The ratio of interest-bearing debt to total assets was 24.6%, a decrease of 5.0 percentage points from the previous fiscal year-end.

## Cash Flows

In fiscal 2013, consolidated free cash flow (cash flows from operating activities + cash flows from investing activities) was a positive ¥44,002 million, an improvement of ¥12,947 million compared with ¥31,055 million in the previous fiscal year.

### Cash Flows from Operating Activities

Net cash provided by operating activities was ¥53,651 million, compared with ¥55,342 million for the previous fiscal year. This was due to the recording of income before income taxes and an increase in trade payables, which outweighed an increase in inventories. This was a deterioration of ¥1,691 million year on year.

### Cash Flows from Investing Activities

Net cash used in investing activities was ¥9,649 million, compared with ¥24,286 million in the previous fiscal year. This was primarily related to purchase of property, plant and equipment.

Year on year, this was a decrease in cash used of ¥14,637 million.

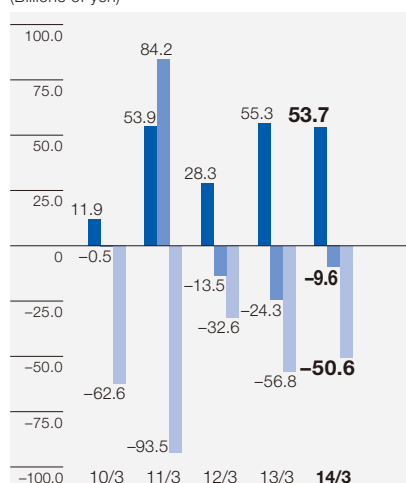
### Cash Flows from Financing Activities

Net cash used in financing activities was ¥50,570 million, compared with ¥56,827 million in the previous fiscal year. This was principally due to a decrease in commercial paper.

As a result, consolidated cash and cash equivalents at fiscal year-end amounted to ¥33,412 million, down ¥6,276 million, or 15.8%, from the previous fiscal year-end.

## Cash Flows

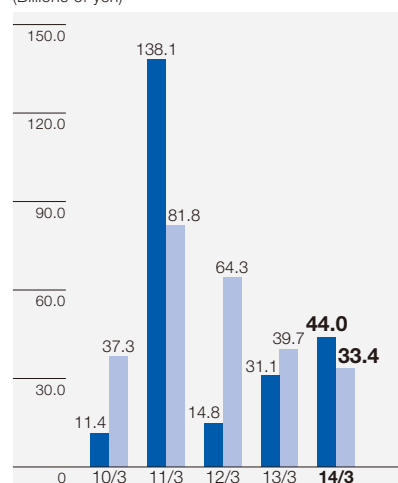
(Billions of yen)



■ Cash Flows from Operating Activities  
■ Cash Flows from Investing Activities  
■ Cash Flows from Financing Activities

## Free Cash Flow / Cash and Cash Equivalents

(Billions of yen)



■ Free Cash Flow  
■ Cash and Cash Equivalents

## Risk Factors

Fuji Electric takes appropriate measures to minimize the impact of business risks and other risks by managing them in a systematic and methodical manner. Currently, the main risks could have a negative effect on the operating results and financial position of Fuji Electric are as follows. These are the factors that the Company judged to have a potential future effect as of March 31, 2014.

### (1) Risks Related to Changes in the Operating Environment

- (a) 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. Consequently, although Fuji Electric strives to lessen the risk of rising raw material prices through commodity swap transactions and other measures, significant increases in these prices could have a negative effect on the Company's operating results.
- (b) Fuji Electric is developing operations actively in overseas markets, focusing particularly on expanding sales in China and other Asian markets. In addition, economic trends in Japan, such as private sector capital investment and public investment affect the Company significantly. In order to minimize the effect on operating results of overseas and domestic market trends, the Company is implementing overall cost and expense reductions. However, a deterioration of the business climate or a change of economic policy in China, a dramatic change in product supply and demand or intensified competition in the market, or a steep decrease in price levels as a result of such factors could have a negative effect on the Company's operating results.
- (c) Based on an established set of management criteria, Fuji Electric systematically employs forward-exchange contracts to minimize the risk of exchange rate fluctuations on its operating results. However, the forward-exchange contract policy is not capable of entirely mitigating exchange rate risk. Consequently, fluctuations in yen exchange rates, primarily against the U.S. dollar, could have a negative effect on the Company's operating results and financial position.
- (d) Fuji Electric's interest-bearing debt totaled ¥199,504 million as of March 31, 2014. A higher-than-anticipated increase in interest rates could lead to a significant additional interest payment burden, which could have a negative effect on the Company's operating results.
- (e) Trends in the financial markets or deterioration in Fuji Electric's financial indicators could impact on Fuji Electric's fund procurement or interest payments, for example by prompting early repayment due to infringement on financial covenants relating to certain loans. Such an event could have a negative effect on the Company's operating results and financial position.

### (2) Risks Related to Product Quality

Fuji Electric has put in place a quality assurance system designed to ensure the highest level of quality for all of the products that it manufactures and sells. Although the Company has taken precautions in the form of product liability insurance to provide compensation for product liability claims, in the event that major defects are found in any Fuji Electric products due to unforeseen factors, there could be a negative effect on the Company's operating results and financial position.

### (3) Risks Related to Investments

Fuji Electric concentrates its management resources on quickly identifying potential business growth areas and conducts investment in facilities and R&D with the objective of expanding and developing the Company's business. The large-scale investment necessary and short product cycles in the magnetic disks and semiconductors fields, in particular, as well as the rapid shifts in product demand and intensifying competition, increase the possibility that the Company might not be able to recoup its investments. Such events could thereby have a negative effect on the Company's operating results.

### (4) Risks Related to Technology Development

Fuji Electric makes a concerted effort to develop technology that matches the needs of the market. However, there is a possibility that competing companies will gain an advantage through faster development, or that the Company will be unable to bring products to market in a timely manner should development not progress according to plan. Such events could thereby have a negative effect on the Company's operating results.

### (5) Risks Related to Overseas Business Activities

Fuji Electric is seeking to expand its overseas presence, with a particular focus on Asia, including China. Consequently, the Company is exposed to the following risks, which could have a negative effect on its operating results and financial position:

- Unforeseen changes in laws and regulations as well as tax systems that could have a detrimental effect on the Company
- Disadvantages arising from political conditions
- Social turmoil related to social unrest, terrorist incidents, war, and other events

### (6) Risks Related to Intellectual Property

Fuji Electric effectively manages its intellectual property rights and develops new products and technologies in a manner that does not infringe on third-party patent rights. However, since the pace of technological innovation is accelerating and the Company's operations are becoming more global, the possibility of disputes over intellectual property rights is increasing. A dispute of this nature could have a negative effect on the Company's operating results and financial position.



**(7) Risks Related to Business Alliances**

Fuji Electric actively collaborates with third-party entities in mergers, tie-ups, and other forms of alliances with the objective of enhancing competitiveness in each of its fields of business. Cooperative relations are essential to the success of such collaborations. However, differences in business systems, corporate cultures, or other aspects could impede the smooth integration of business strategies, technologies, products, personnel, or other elements necessary for a successful collaboration. Such circumstances could thereby have a negative effect on the Company's operating results.

**(8) Risks Related to Human Resources**

The business activities of Fuji Electric depend heavily on its human resources. Retaining and training superior personnel in such fields as technology, production, sales, and administration is essential to the growth of the Company. Should the Company be unable to retain and/or train such necessary human resources, there could be a negative effect on its operating results.

**(9) Risks Related to the Leakage of Personal Information**

As a part of its business activities, Fuji Electric handles personal information about numerous individuals, including customers, suppliers, and employees. Fuji Electric has formulated and strictly enforces thorough internal regulations regarding the gathering, use, and management of personal information. However, the Company cannot entirely rule out the possibility that such information could be leaked due to unforeseen circumstances. Any leak of this kind could damage trust in Fuji Electric and thereby have a negative effect on the Company's operating results.

**(10) Risks Related to Major Natural Disasters**

Fuji Electric has a network of bases throughout the world. In the event of a major natural disaster, production facilities could be damaged, operations at manufacturing facilities could be halted, shipments of products could be delayed, and other related problems could occur. These events could thereby have a negative effect on the Company's operating results and financial position.

**(11) Risks Related to Soil Contamination**

Based on the international standards for environmental protection systems, the Company works to prevent, measure, and monitor soil contamination at its operating sites. Prior to selling any land, the Company carries out soil surveys and takes other appropriate steps in accordance with relevant laws and regulations. However, as a result of these measurements and surveys, the Company may incur costs for soil remediation measures, which could have a negative effect on its operating results.

**(12) Risks Related to Retirement Benefit Liabilities**

Fuji Electric has a lump-sum payment plan and a corporate pension plan for its employees when they retire. The Company records retirement benefit costs and liabilities calculated on assumptions accepted as reasonable for actuarial calculations. Fuji Electric and certain domestic consolidated subsidiaries have also entrusted listed marketable securities to employee retirement benefit trusts. Consequently, when differences occur between the expected and actual values of the discount rate and the expected rate of return on pension assets, and when changes occur in the stock prices that are used as the basis of computing pension benefit obligations, differences between these expectations and actual performance, changes in the prices of entrusted listed marketable securities, and other items could have a negative effect on the Company's operating results and financial position.

**(13) Risks Related to Compliance**

Fuji Electric conducts business in a variety of fields and regions throughout the world, and as such is subject to the laws and regulations of numerous countries. The Company has put in place an appropriate internal control system to ensure compliance, but the possibility of legal violations cannot be discounted entirely. Should such a violation occur, this could have a negative effect on the Company's social credibility and/or operating results.

**(14) Risks Related to Lawsuits and Other Legal Proceedings**

Fuji Electric, in the course of its business, could become the subject of a lawsuit or other legal proceeding, and could as a result unexpectedly become liable for the payment of large amounts of compensation. Depending on the content of such a decision, this could have a negative effect on the Company's operating results.