Condensed Transcript of Q&A Session Regarding Consolidated Financial Results
Presentation for the Nine-Month Period Ended December 31, 2017

Date: January 30, 2018 (Tues) 10:00–11:00

General
Q. How did performance by segment compare with internal forecasts in the third quarter?

A.
・ Net sales and operating income were more or less in line with forecasts in the Power Electronics Systems—Energy Solutions segment.

・ In the Power Electronics Systems—Industry Solutions segment, the factory automation, process automation, and environmental and social solutions businesses had a combined effect of increasing net sales by less than ¥4.0 billion in comparison to forecasts while the IT solutions business pushed net sales up by an additional ¥3.0 billion. Segment operating income was around ¥1.0 billion higher than forecast.

・ In the Power and New Energy segment, net sales was almost ¥1.0 billion lower than projected and operating income fell slightly below the forecast.

・ The Electronic Devices segment posted net sales that were approximately ¥7.0 billion higher than forecast and operating income climbed roughly ¥1.5 billion above the projected level.

・ Net sales were almost ¥3.0 billion higher than forecast in the Food and Beverage Distribution segment and operating income exceeded forecasts by less than ¥1.0 billion.

Q. With the exception of the Power and New Energy segment, all segments saw improvements in third-quarter operating margins. I suspect that cost reductions were a factor behind these improvements. To what extend did costs decline?

A.
・ We cannot put forth an exact figure for cost reduction amounts. However, I can say that the third-quarter operating margin was almost 1 percentage point higher than forecast due to reductions of between ¥1.0 billion and ¥2.0 billion in expenses.

Q. I understand that Fuji Electric is incredibly busy at the moment. Looking at the Company as a whole, are they any products for which delivery periods are becoming longer than normal? Also, have there been any disruptions to production due to delays in procuring parts?
A.
  * We are facing no issues procuring materials such as copper and iron. Conversely, the price of silicon wafers is soaring due to a tight supply and demand balance. Luckily, the Company has concluded long-term supply contracts for wafers, and we have thus been able to avoid any issues with procuring these articles. Looking ahead, we will continue to take steps to ensure sufficient procurement capabilities, including examining new suppliers.

  * In the power electronics systems business, we have not yet had any delivery delays that have inconvenienced customers. Production of industrial motors, inverters, and servos is proceeding at full capacity at all factories.

  * Similarly, we have not had any issues with delayed deliveries of power semiconductors, although the supply and demand balance for silicon wafers was tight.

**Power Electronics Systems**

Q. At the financial results briefing for the six-month period ended September 30, 2017, it was stated that power electronics system orders are rising centered on transmission and distribution systems. How have order trends been since this announcement and what trends do you expect to see leading up to the fiscal year ending March 31, 2019?

A.
  * Under the new organizational structure, we have moved ahead with reforms to sales and operating systems to better enable us to provide customers with comprehensive proposals that encompass entire factories or facilities and incorporate substation equipment, uninterruptible power systems, electricity supply stabilization solutions, and other offerings. The favorable trend in orders has continued since the announcement of six-month financial results.

  * In the fiscal year ending March 31, 2018, overall power electronics system orders are expected to increase by around ¥25.0 billion year on year. This increase will be driven by orders for transmission and distribution systems and ED&C components in the Power Electronics Systems—Energy Solutions segment and from all areas of the Power Electronics Systems—Industry Solutions segment.

Q. I understand that strong performance is continuing in the Power Electronics Systems—Industry Solutions segment, largely thanks to the factory automation and process automation businesses. However, third-quarter performance does not appear to be as impressive as second-quarter performance. This is probably due in some part to seasonal factors and sales mix differences. What trends are being seen in the operating environments for the factory automation and process automation businesses and what is the likelihood of this strong performance continuing through the fiscal year ending March 31, 2019?

A.
  * The factory automation business is enjoying incredibly strong performance for its inverters, servos, and other products. In addition, we have been seeing impressive growth in sales of
factory automation systems combining equipment such as servos, human machine interfaces, and controllers, and we expect this favorable trend to continue in the fiscal year ending March 31, 2019.

- Certain orders in the process automation business were recorded ahead of schedule in the second quarter, which is a reason why third-quarter sales may appear somewhat low. Nonetheless, this business posted massive year-on-year increases in both sales and income. Looking ahead, we anticipate that sales will grow centered on Asia, where we have conducted M&A activities in countries such as India and Vietnam. We have also seen successful in building an order track record.

Q. It was mentioned that inverter orders in the third quarter were 16% higher than in the second quarter. Could you please detail the industries in which this order growth was seen and whether it was the domestic market or overseas markets that contributed most to this growth? Also, what is your outlook for order trends by industry and market in the fourth quarter?

A.

- Nine-month inverter orders grew by about 10% year on year both in the domestic market and in overseas markets including China, with solid orders being received for drive system and other applications. In addition, the Power Electronics Systems—Industry Solutions segment witnessed an impressive year-on-year increase of 40% in nine-month orders from China largely attributable to massive growth in orders for servos and other factory automation components in this country.

- Sales of conveyance systems, printing systems, and other machinery have been favorable in China, and we are currently upping our production capacity in response to this trend.

- In the third quarter, there was no change in the upward trend in the sales of inverters and factory automation components. However, as it was around the third quarter of the previous fiscal year when sales of various products, particularly servos, began growing in China, the growth rate for third-quarter orders in this country was slightly lower than the rate for nine-month orders. The growth rate for third-quarter orders was up on a year on year basis regardless.

- We expect fourth-quarter orders to remain strong, particularly from China.

**Power and New Energy**

Q. In regard to the Power and New Energy segment, coal-fired thermal is facing an increasingly more challenging environment on a global basis. The reason for the downward revision to forecast for the net sales in this segment in the fiscal year ending March 31, 2018, was stated to be delays in orders. Will Fuji Electric face any issues going forward given its focus on medium-capacity generation systems? Also, what is your outlook for this market in future?
A.

・The global market for large-capacity power generation systems is expected to shrink. Growth cannot be anticipated in the market for small and medium-capacity systems as well, and the Company plans to primarily develop its operations with a focus on emerging countries for the time being.

・We anticipate that orders in the fiscal year ending March 31, 2019, will be relatively unchanged year on year or will grow slightly. In terms of operation services, we have received large-capacity orders, and we therefore do not foresee any significant issues in the fiscal year ending March 31, 2019, or in the fiscal year ending March 31, 2020.

**Electronic Devices**

Q. Third-quarter power semiconductor orders were stated to be 2% lower than in the second quarter. In what industries are power semiconductor orders growing and was it the domestic market or overseas markets that contributed most to this growth? Also, what is your outlook for order trends by industry and market in the fourth quarter?

A. Power semiconductor orders are influenced by seasonal factors. As a result, orders tend to peak in the second quarter, with third-quarter orders being slightly lower than second-quarter orders. Currently, we expect a strong trend in orders that will result in favorable performance continuing through the fourth quarter.

Q. Power semiconductor orders grew 10% year on year in the third quarter. What was this growth rate when the effects of foreign exchange influences are excluded?

A.

・Power semiconductor orders grew by approximately 20% year on year in the third quarter when the effects of foreign exchange influences are excluded.

Q. In the third quarter, semiconductor sales amounted to ¥27.9 billion. Why was sales growth so low in comparison to the ¥27.3 billion recorded in the third quarter of the previous fiscal year?

A.

・Foreign exchange influences had an adverse impact on third-quarter sales to extent of ¥2.0 billion. When this impact is excluded, sales showed an incredibly large increase.

Q. Based on full-year forecasts, the performance projected for the Electronic Devices segment in the fourth quarter seems low. To what extent will net sales and operating income be impacted by foreign exchange influences?

A.

・When excluding the impacts of foreign exchange influences, fourth-quarter net sales are expected to be in line with forecasts. Fourth-quarter operating income is anticipated to be around ¥2.0 billion when accounting for the negative impacts of foreign exchange influences, which will be in the area of a few hundred million yen.
Q. What are your full-year forecasts for net sales and operating income for the semiconductor and magnetic disks businesses and what was third-quarter operating income in these businesses?

A.
- The full-year forecasts for net sales and operating income in the semiconductor business are approximately ¥105.0 billion and roughly ¥10.0 billion, respectively, and third-quarter operating income was around ¥3.0 billion.

- In the magnetic disks business, full-year net sales are forecast to reach approximately ¥17.0 billion while operating income is expected to be about ¥1.0 billion. Third-quarter operating income was less than ¥1.0 billion.

Q. Will the current trends in demand for power semiconductors for industrial machinery continue through the fiscal year ending March 31, 2019, and beyond?

A.
- Demand is currently exceptionally strong for machine tools and robots, and we anticipate that this trend will continue in the fiscal year ending March 31, 2019.

Q. If one were to, say, multiply the figure of approximately ¥4.0 billion for third-quarter operating income in the Electronic Devices segment by four, would this yield a viable estimate for the full-year forecast for the fiscal year ending March 31, 2019? Also, is it safe to assume that this segment’s operating margin will remain around the level of over 10% seen in the third quarter during the fiscal year ending March 31, 2019?

A.
- Fourth-quarter sales tend to decline due to various factors, including seasonal factors in China related to the Chinese New Year. Accordingly, simply multiplying third-quarter operating income by four will not yield a viable forecast; it will be necessary to subtract a bit from this amount.

- The full-year forecast for the operating margin in the fiscal year ending March 31, 2018, is more than 10%. We will target an even higher figure in the fiscal year ending March 31, 2019.

Q. I understand that capital investment in power semiconductors is shifting from six-inch wafers to eight-inch wafers. What is Fuji Electric’s current production capacity? At the financial results briefing for the six-month period ended September 30, 2017, President Kitazawa spoke of capital investment that would be conducted ahead of schedule. What are your policies regarding future capital investment?

A.
- We are currently augmenting our front-end and back-end production capacity in response to growth in demand. At the moment, the Company’s front-end capacity equates to more than
160,000 six-inch wafers a month. By investing in capacity increases, we aim to boost our production capacity leading up to 2020.

- We estimate that around ¥50.0 billion worth of capital investments will be necessary going forward, and we have already finalized plans to conduct ¥20.0 billion of these investments. These investments will be carried out in the fiscal year ending March 31, 2019, in order to bolster the Company’s front-end production capacity.

Q. Fuji Electric has finalized plans to conduct ¥20.0 billion of the ¥50.0 billion in power semiconductor capital investments deemed necessary. When will this ¥20.0 billion worth of investments be conducted and what amount of investments will take place during the fiscal year ending March 31, 2018? Also, to what extent will production capacity change following the investments of ¥20.0 billion?

A. • In the fiscal year ending March 31, 2018, we plan to conduct more than ¥10.0 billion worth of investments. The aforementioned ¥20.0 billion in investments will most likely begin in the fiscal year ending March 31, 2019, and continue on into the following year.

• The investment of ¥20.0 billion is expected to double our eight-inch wafer production capacity.

Q. A newspaper article stated that Fuji Electric had finalized plans to conduct ¥20.0 billion of the ¥50.0 billion in power semiconductor capital investments deemed necessary and was looking to solicit contributions from partners for any additional investments. What policies will be adopted toward this undertaking?

A. • We estimate that around ¥50.0 billion worth of capital investments will be necessary leading up to 2020, and we have already finalized plans to conduct ¥20.0 billion of these investments. We will evaluate the need for additional investments based on market trends going forward. For further investments, we are considering the possibility of soliciting contributions from partners as one option for hedging risks. This is a matter that will be examined in more detail going forward.

Q. Recently, there has been a shortage in both six-inch and eight-inch wafers. Is there any risk of procurement costs increasing due to wafer manufacturers being unable to prioritize supplying Fuji Electric?

A. • We recognize the overall shortage in wafers. However, we have managed to secure the supply necessary through the fiscal year ending March 31, 2019, via long-term contracts. Looking ahead, we will continue to take steps to ensure sufficient wafer procurement capabilities in the fiscal year ending March 31, 2021, and beyond, including examining new suppliers.
Q. Has there been any change in the trends regarding inquiries about IGBT modules for electric vehicles in comparison to the second quarter?

A.  
- Inquiry trends have been favorable.

**Food and Beverage Distribution**

Q. Have vending machine operations in China gotten onto the growth track due to a bottoming out of demand? Has overall demand been increasing? In what fields is demand rising?

A.  
- A recovery trend began in the first half of the fiscal year ending March 31, 2018, and has continued on into the second half. One reason behind this trend is thought to be the benefits of efforts by a local subsidiary to support customers’ operations.

- We also acknowledge the growth of soft drink manufacturers. The needs of customers are diversifying, and we are seeing vending machine demand related to everything from plastic bottles to food items. This trend is contributing to an increase in customer numbers. Accordingly, we anticipate that market growth in the fiscal year ending March 31, 2019, will exceed that of the current fiscal year.

Q. I understand that vending machine orders are on the rise in China. What is your forecast for shipment volumes during the second half of the fiscal year?

A.  
- We project full-year shipment volumes of approximately 21,000 vending machines in China, with around 7,000 being shipped in the first half of the fiscal year and 14,000 being shipped in the second half. About 9,000 units were shipped during the third quarter and the remaining 5,000 are expected to be shipped in the fourth quarter.

Q. In the Food and Beverage Distribution segment, operating income rose ¥2.5 billion year on year during the third quarter. Was this performance affected by any orders scheduled for the fourth quarter being recorded in the third quarter?

A.  
- The year-on-year increase in operating income was a result of the solid performance of domestic vending machine operations as well as the accumulation of orders from convenience stores in the store distribution business during the third quarter. In addition, certain orders planned for the fourth quarter in Chinese vending machine operations were recorded ahead of schedule in the third quarter. Accordingly, a slight decline in income is expected in the fourth quarter.

Q. How do you expect fourth-quarter net sales to compare with third quarter sales in the vending machine business and in the store distribution business?
A.
・ In the fourth quarter, we expect a slight increase in net sales in the vending machine business and a small decrease in net sales in the store distribution business in comparison to the third quarter.

Q. In regard to the forecasts for full-year performance in the Food and Beverage Distribution segment in the fiscal year ending March 31, 2018, Fuji Electric stated that its reason for not changing the operating income forecast, despite an upward revision to the net sales forecast, was price competition. What products are expected to face a particularly difficult environment with this regard?

A.
・ In the fourth quarter, we project difficulty in regard to the operating income forecast for the store distribution business.