

**Condensed Transcript of Q&A Session Regarding Business Strategy Meeting  
for the Fiscal Year Ending March 31, 2019**

Date: May 31, 2018 (Thurs) 14:30–17:30

**Power Electronics Systems**

Q. I understand that Fuji Electric is working to expand its systems operations. What is the goal of this undertaking? At the same time, the Company is looking to grow systems operations overseas. How is progress on this front?

A.

- After sales services are a major earnings pillar for our plant systems operations, and we intend to steadily incorporate large-scale plant system orders and to grow overall earnings, including after sales services, going forward. In this undertaking, it will be important to expand our operations while taking advantage of the benefits that the Internet of Things (IoT) and other technologies boast for customers.
- As for our overseas initiatives, in the fiscal year ended March 31, 2018, we acquired eight steel plant orders in India. We aim to grow overseas operations to the scale of several billion yen going forward.

Q. What are the reasons behind Fuji Electric's newfound capacity to acquire comprehensive factory electrical equipment orders?

A.

- This newfound ability was a result of the consolidation of the organizations that deal in substation equipment, energy management systems, and energy-saving and other factory equipment, which had previously been operating independently. We also reorganized our sales systems to reflect the new organizational structure. This situation has given rise to a virtuous cycle in which instances of divisions receiving orders not just for their own products but also for peripheral equipment have led to subsequent orders, thereby accelerating the acquisition of comprehensive factory electrical equipment orders.

Q. In the IoT field, other companies are forming consortiums, and there is a trend toward the development of platforms in this area. Does Fuji Electric intend to collaborate with other companies, or will it be operating alone in this field?

A.

- Our IoT initiatives primarily take two forms. When it comes to batch orders for plant equipment, we will primarily be working together with customers. However, Fuji Electric faces difficulties in utilizing the big data necessary for providing IoT services related to ship scrubbers and other services alone. Accordingly, we plan to collaborate with domestic and overseas IT companies and manufacturers in this area.

Q. Is there any room to improve profitability with regard to manufacturing?

A.

- We have been making progress in reducing costs in relation to systems. For example, the switchgears and controlgears we previously utilized subcontractors to manufacture are increasingly being produced in-house at the Kobe Factory, enabling us to perform procedures ranging from sheet metal processing, welding, and coating to assembly and testing in an integrated manner. The result has been massive a decrease in direct costs, and we have thus been able to boost the cost competitiveness of our systems. Moreover, the shift to in-house production has allowed us to move ahead with standardization of designs. Going forward, coordination will be pursued with sales divisions to promote standardization in engineering and systems design, an area where issues have been faced in the past. We aim to improve profitability by offering bundles that combine engineering services and software, a step beyond our previous offering of uniform-specification products.

Q. I understand that Fuji Electric will be growing operations in overseas markets with an eye to the fiscal year ending March 31, 2024. What is your outlook for the operations in the domestic market? Given the targets of net sales of ¥600.0 billion and a ratio of overseas sales of 30% in the fiscal year ending March 31, 2024, should one assume that sales in the domestic market are projected to remain around the same level?

A.

- The outlook for the period after the Olympic and Paralympic Games Tokyo 2020 is unclear, but there are those who expect that demand will not decrease to any significant degree. Against this backdrop, Fuji Electric will seek to expand its operations pertaining to factory automation systems, differentiated SiC-equipped railroad products, and plant after sales services in the domestic market. In the fiscal year ending March 31, 2019, we will be establishing integrated field engineering and customer engineering organizations as we continue efforts to acquire comprehensive factory [electrical] equipment orders that include after sales services. In this manner, we hope to pave the way for growth after the 2020 Tokyo Olympics.
- We will be examining potential targets for the fiscal year ending March 31, 2024, going forward.

Q. What trends are currently being seen with regard to net sales and operating income from inverters and servos? Also, what will be your sale targets leading up to the fiscal year ending March 31, 2024?

A.

- The operating margin for inverters and factory automation components including servos has risen to nearly 10% as a result of the benefits of design standardization and production automation.
- As for future targets, we expect growth of less than 10% in domestic and overseas sales of inverters while sales of servos and other factory automation components are anticipated to grow to a much greater extent. We project that sales of factory automation components will exceed sales of inverters in the fiscal year ending March 31, 2024.

Q. What are some of the characteristics of Fuji Electric's servos?

A.

- The new ALPHA7 series servo systems launched in 2017, has been adopted for use in machine tools and high-precision processing equipment, and sales of these systems have begun to grow centered on China. Overseas, the sales, as well as the recognition, of our servos is higher than in the domestic market. We are stepping up sales activities promoting our servos for use for machine tool applications in the domestic market with the aim of closing this gap.

Q. With regard to ship scrubbers, could you please provide information on Fuji Electric's strengths, initiatives, production capacity, sales, and market share?

A.

- A major strength of Fuji Electric's ship scrubbers is that we provide these products as complete systems as we possess peripheral equipment, which includes water quality meters, gas analyzers that allow for real-time monitoring, and control equipment.
- We are engaged in several business negotiations with regard to these products in light of the SOx regulations to be instituted in January 2020. Shipments of such products will begin in the fiscal year ending March 31, 2019, and our efforts over the next one or two years will be focused on new ships. I cannot comment on sales or market share targets at this point in time. However, I can say that we will be examining the possibility of refining development, manufacturing, and service systems while also collaborating with other companies with an eye to addressing overseas demand.

Q. What trends are being seen in the domestic and overseas process automation markets? Is it safe to assume that growth in the Asian market will not be exceptional strong?

A.

- Capital investment by domestic steel plants is showing a downturn in comparison to the fiscal year ending March 31, 2018, but we remain committed to capturing replacement demand. Overseas, we expect robust growth of 7.6% in the steel plant market of India, and steel plants in India are thus a focus area at the moment. Looking at Asia, excluding India and China, we are seeing a rise in steel demand, primarily for infrastructure applications.
- In the steel industry, focus has begun to shift from heavy-duty plants to industrial electric heating furnaces. We therefore plan to develop global products and provide these throughout China and other parts of Asia.
- Meanwhile, cement plant demand is expected to rise in Vietnam and India.

Q. What are your strategies regarding SiC-equipped products? How has progress been in initiatives related to SiC-equipped products for railroad applications?

A.

- We are supplying samples of Fuji Electric products featuring top-level technologies and quality for use in the Company's power electronics. In the fiscal year ending March 31, 2019, we intend to introduce all-SiC inverters for railroad applications. SiC devices will constitute our first step in addressing demands for lighter and more energy-efficient railroad products.

### **Power and New Energy**

Q. What are your strategies for after sales businesses?

A.

- We aim to increase the ratio of currently installed Fuji Electric products that are covered by after sales service contracts. In addition, we began establishing the foundations for the development of after sales businesses overseas during the fiscal year ended March 31, 2018, and we plan to reap the results of these efforts in the fiscal year ending March 31, 2019.

Q. What ratio of currently installed Fuji Electric products are covered by after sales service contracts at the moment?

A.

- Approximately 70% of products currently installed overseas are covered by after sales service contracts at this point in time, but we aim to increase this level to nearly 90% going forward.

Q. There have been significant changes to Fuji Electric's business structure, and the Company has been strengthening its after sales businesses. Given these developments, how will resources be reallocated within the Company?

A.

- We are gradually shifting staff in sales, technology, and factory divisions from teams focused on new construction projects to after sales service teams. However, we have not changed the total number of employees as part of this shift.

Q. What business models are employed for thermal and geothermal power operations overseas?

A.

- Our basic focus in thermal power operations will be to supply companies engaged in engineering, procurement, and construction (EPC) projects with turbines and other equipment, rather than taking part in such projects ourselves. We will primarily direct these efforts toward medium-capacity generation plants, which represent a strength for the Company. We will, however, involve ourselves in EPC projects for geothermal power generation plants, but we will take steps to mitigate risks through collaboration with local partners.

Q. Could you please explain the scope and profitability of Fuji Electric's wind power operations?

A.

- Although we will conduct sales of power conditioning sub-systems and control equipment on a

standalone basis, our basic approach will be to take part in EPC projects.

- When judging profitability, we will not look only at new projects. Rather, we will focus on increasing total profits, including after sales services.

### **Electronic Devices**

Q. Is there any risk of profit margins declining in the future due to rising material prices?

A.

- The rise in material prices stopped during the fiscal year ended March 31, 2018, and there are no signs of further increases at the moment. We cannot deny the possibility that prices may rise again in the future, but we feel that we have sufficiently limited the risks to earnings from price increases by concluding long-term contracts with suppliers.

Q. How long will production being able to continue through the capital investments approved in the fiscal year ended March 31, 2018? What will be the level of capital investment going forward?

A.

- We expect that production will be able to continue up until the first half of 2020 with the equipment purchased through the ¥20.0 billion worth of capital investments approved in the fiscal year ended March 31, 2018. However, given the rise in demand for automotive products, we may need to consider the possibility of additional capital investments of the same scale as those to be carried out in the fiscal year ending March 31, 2019.

Q. What is Fuji Electric's current front-end production capacity? Also, how will this capacity be increased leading up to 2020?

A.

- Translated to 6-inch wafers, our current production capacity is approximately 170,000 wafers a month, over 15% of which is used for 8-inch wafers. By 2020, we aim to double the portion of this capacity used for 8-inch wafers to approximately 30%.

Q. At last year's business strategy meeting, it was stated that Fuji Electric planned to double sales of power semiconductors for automotive applications by the fiscal year ending March 31, 2024. Am I correct in assuming that the ahead-of-schedule accomplishment of the target of having 40% of sales come from automotive products means that this doubling of automotive product sales will also be achieved ahead of schedule? What factors will contribute to the accelerated accomplishment of these goals?

A.

- You are correct in that assumption. These goals are expected to be accomplished ahead of schedule as a result of the increase in automobile production volumes that began in the fiscal year ended March 31, 2018, following the global shift toward electric vehicles that originated from the United Kingdom and France.

Q. What are the Company's sales strategies for SiC devices? When do you expect such devices to start being employed in automobiles?

A.

- We plan to promote sales of SiC devices in fields that can take advantage of the characteristics of these devices, namely their ability to operate at high frequencies and under high temperatures.
- Our automotive SiC devices have already been employed in automobiles on an experimental basis. We expect full-fledged expansion of adoption to begin around 2025.

Q. What were the reasons behind the increase in the Company's share for air conditioner intelligent power modules?

A.

- We worked to have our proposed specifications accepted by air conditioner manufacturers in the Chinese market, where the adoption of inverters is expected to continue to spread going forward. These efforts resulted in the expansion of our market share.
- In addition to our existing customers, we have also seen an increase in new customers, enabling us to disburse risks originating from customers.

#### **Food and Beverage Distribution**

Q. Compared to other segments, the profitability of the Food and Beverage Distribution segment seems low. Is there room to improve profitability in this segment? What type of schedule do you anticipate for such profitability improvements?

A.

- We aim to achieve an operating margin of 7% in the Food and Beverage Distribution segment by the fiscal year ending March 31, 2020. We believe that profitability can be improved by promoting in-house production, incorporating demand for non-conventional showcases that address labor-saving needs, and growing vending machine operations in China and Southeast Asia.

Q. What specific measures will you be taking in promoting in-house production with regard to vending machine and store distribution subsegments?

A.

- Our measures will include carrying out vending machine repair service initiatives, boosting adoption of Fuji Electric products when receiving store equipment orders, and increasing the amount of in-store installation work performed in-house.

Q. What is the likelihood that Fuji Electric will accomplish its target of 35,000 vending machines shipped in China in the fiscal year ending March 31, 2019? Also, what is your outlook for the fiscal year ending March 31, 2020, and beyond?

A.

- The spread of cashless payments has reduced the need to collect cash, making it easier to operate vending machines.
- Since the fiscal year ended March 31, 2018, we have been witnessing a rise in demand for a diverse range of vending machines other than can and PET bottle vending machines, such as food product and cup vending machines. Customer numbers have also been increasing. For these reasons, we expect to be able to achieve our target in the fiscal year ending March 31, 2019.