

Condensed Transcript of Q&A Session Regarding Financial Results Presentation
for the Six-Month Period Ended September 30, 2018

Date: October 26, 2018 (Friday) 10:00–11:00

General

Q. How has the trade friction between the United States and China impacted Fuji Electric?

A.

- Fuji Electric promotes local production and consumption. Accordingly, there are almost no cases of products be exported from China to the United States or from the United States to China, meaning that the trade friction will not have a direct impact on our operations. However, we may suffer indirect impacts stemming from changes in the behavior of customers, which is a factor that will need to be monitored going forward.

Q. Can we anticipate that Fuji Electric will achieve growth in sales and income in the fiscal year ending March 31, 2020?

A.

- There is concern for the potential impacts of the trade friction between the United States and China, but we stand committed to moving forward with the initiatives we have planned leading up to the fiscal year ending March 31, 2024, as we pursue sales and income growth in the fiscal year ending March 31, 2020.

Q. What growth investment policies will be incorporated into the next medium-term management plan?

A.

- Under the next medium-term management plan, our basic policy will be to invest in the expansion of businesses in which Fuji Electric boasts strength, such as power semiconductors and power electronics systems. We are examining the possibility of instituting a four-digit increase in the amount of investment in power semiconductors in light of the growing demand for electric vehicles.

Q. The number of employees is exceeding first-half and full-year forecasts as well as the previous fiscal year's level. To what extent does the Company plan to increase employee numbers leading up to the next medium-term management plan?

A.

- We intend to recruit the staff necessary to increase net sales by ¥100.0 billion leading up to the fiscal year ending March 31, 2024. To accomplish this goal, it will be particularly important to augment our staff in the power electronics systems and power semiconductor businesses. We are still in the process of determining the exact figures that will be targeted under the next medium-term management plan, but we look to step up hiring of overseas employees and of engineers in Japan.

Q. Why is operating income projected to fall ¥3.0 billion short of the forecast in the second half of the fiscal year ending March 31, 2019?

A.

- This outlook accounts for the fact that certain power electronics systems sales were recorded ahead of schedule as well as for the risk of a downturn in conditions in the Chinese market. Half of the projected impact on results is attributable to the ahead-of-schedule recording of projects while the other half is associated with the Chinese market downturn risk.

Power Electronics Systems

Q. How are conditions pertaining to capital investment demand for the entire industry and what is the outlook for this demand going forward?

A.

- Year-on-year increases in orders for steel and cement plants are being seen due to demand for replacements of aged equipment that was delivered in the 1970s and 1980s. We are also receiving a higher level of comprehensive orders for electrical equipment, including substation equipment and power distribution equipment, for data centers and semiconductor factories. As for overseas orders for large-capacity rectifiers, the fiscal year ending March 31, 2019, is a between-demand period, and we are therefore focusing efforts to receive orders for new equipment.

Q. Why were large-scale orders for power supply and facility systems recorded ahead of schedule?

A.

- The strong performance for power supply and facility systems is a product of increased comprehensive factory electrical equipment orders related to new semiconductor factories and data centers. Orders scheduled to be recorded in the second half of the fiscal year were recorded in the six-month period ended September 30, 2018, as a result of our efforts to respond to the needs of customers requesting that projects be completed earlier. We anticipate that similar projects will emerge during the second half of the fiscal year, and we are committed to responding effectively to these needs.

Q. How are conditions in the factory automation business and what is your outlook for this business?

A.

- In Japan, orders for servo systems and programmable logic controllers were up year on year. There is some concern regarding the performance of servo systems in the Chinese market. However, Fuji Electric's servo systems enjoy high levels of demand within the Chinese market, and we therefore believe that conditions have not deteriorated to any significant degree. We hope to compensate for any deterioration through the introduction of new products.

Q. How were inverter orders in the six-month period ended September 30, 2018, and what is your outlook for orders in the second half of the fiscal year?

A.

- Inverter orders increased by between 5% and 6% in the six-month period ended September 30, 2018. Although orders were brisk in the domestic market, the level of orders in the Chinese market was relatively unchanged year on year.
- In the second half of the fiscal year, we anticipate strong performance in the domestic market given the increased replacement demand for medium-capacity inverters. The Chinese market, meanwhile, will likely experience sluggish demand, resulting in a drop in inverter orders of a few percent. Nonetheless, total inverter orders in the Chinese market are expected to be relatively unchanged year on year due to the substantial growth in orders for medium-voltage inverters.

Q. How are inventories of low-voltage inverters?

A.

- Inventories of low-voltage inverters decreased by a few hundred million yen, and we are currently stepping up production of these items at domestic factories.

Q. What trends are being seen in orders of SOx scrubbers and what is your forecast for full-year sales in the fiscal year ending March 31, 2019?

A.

- On a full-year basis, we had originally targeted orders of 40 SOx scrubber sets in the fiscal year ending March 31, 2019. However, we are currently engaged in a number of negotiations regarding these products, and we have already received orders for 30 sets. Combined with the orders received in the fiscal year ended March 31, 2018, we now expect that orders will total 50 sets by March 31, 2019.
- While the scrubber units for these orders have been shipped, we still have yet to install the control equipment and gas analyzers required for these systems. Accordingly, no sales associated with these orders will be recorded in the fiscal year ending March 31, 2019. The sales will, however, be accounted for at the factory level.

Q. How are trends in orders of ED&C components?

A.

- Thanks to favorable trends, orders for ED&C components for machine tools and power distribution equipment rose in the six-month period ended September 30, 2018. In the second half of the fiscal year, we expect to be able to compensate for the projected downturn in demand for components for machine tools by capitalizing on the robust demand for components for power distribution equipment, thereby achieving orders of a level that is in line with our initial forecasts.

Power and New Energy

Q. How is progress in the large-scale projects that are currently underway?

A.

- The Moka power plant project for Kobe Steel, Ltd., is slightly behind schedule, but is more or less progressing as planned.
- The Kobe Works project for Kobe Steel is moving ahead on schedule as we monitor customer trends.

Electronic Devices

Q. What are your full-year forecasts for sales of semiconductors and magnetic disks?

A.

- On a full-year basis, we project sales of ¥113.2 billion for semiconductors and ¥26.8 billion for magnetic disks.

Q. Why did the operating margin for the Electronic Devices segment decline from the level of around 13% seen in the first quarter to roughly 10% in the second quarter?

A.

- When compared to the first quarter, the second quarter saw higher depreciation and amortization and R&D expenditures as well as production preparation expenses for addressing increased magnetic disk sales volumes.

Q. Has there been any change to the Company's outlook that the current operating margin in the Electronic Devices segment can be maintained even if capital investments are increased?

A.

- There has been no change to this outlook, and we aim to secure an operating margin of 10% or more.

Q. Why has the full-year forecast for capital investments in the Electronic Devices segment increased from the initial forecast?

A.

- Investments in boosting production capacity of 8-inch wafers centered on the Yamanashi Factory are progressing as scheduled. We are also planning to conduct capital investments in the area of a few hundred million yen to address increases in magnetic disk demand.

Q. How were power semiconductor orders in the second quarter and in the six-month period ended September 30, 2018? Also, what is your second-half outlook for these orders?

A.

- Although power semiconductor orders were strong in the first quarter, second-quarter orders decreased by around 10% year on year. Roughly half of this decrease can be attributed to upfront orders recorded in the previous fiscal year. In addition, we have recently been feeling the impacts of a downturn in orders for power semiconductors centered on those for machine tools. As a result, power semiconductor orders in the six-month period ended September 30, 2018, were a few percent lower than in the previous equivalent period.
- We forecast that second-half orders will also decrease by a few percent.

Q. How are conditions for power semiconductors by application and by product?

A.

- By application, we are seeing strong performance in power semiconductors for automotive applications. Orders for these products were up in the six-month period ended September 30, 2018, and we are also anticipating an increase in the second half of the fiscal year. As for industrial applications, demand for IGBTs for machine tools and industrial machinery is down.
- By product, MOSFETs do not account for a particularly high portion of sales, and changes in the sales of these products will not have a significant impact on overall performance. Also, sales of power semiconductors for use in air conditioners in China increased year on year, and we are catering to these sales by depleting surplus inventories.

Q. How are power semiconductor inventories?

A.

- Inventories are at the level planned and distribution inventories are within the expectable range.

Q. What are the operation rates of semiconductor production facilities?

A.

- In the six-month period ended September 30, 2018, production facilities for 6-inch and 8-inch wafers were operating at almost full capacity. This level of operation is expected to continue through the second half of the fiscal.

Q. How are conditions pertaining to wafer procurement?

A.

- The difficulty in procuring wafers has been alleviated, and we are taking steps to secure supplies in the fiscal year ending March 31, 2020, and beyond through long-term contracts.

Q. An increase in the price of power semiconductors had been anticipated. What actually occurred with this regard?

A.

- Compared to memory and other components, power semiconductors are relatively resilient to price fluctuations stemming from changes in sales volumes. Our basic policy with this regard is to refrain from lowering prices. The desire among customers to avoid price increases is the same as in any industry, but we are being forced to request that certain customers accept price increases.

Q. I understand that Fuji Electric plans to begin supplying customers with fourth-generation direct liquid-cooling power modules for automotive applications midway through the fiscal year ending March 31, 2020. How is progress toward this goal?

A. Progress is as planned, and we intend to begin mass production of these modules in the fiscal year ending March 31, 2020. Meanwhile, we will continue efforts to have our proposed specifications accepted by customers in order to expand our customer base.

Q. How many aluminum substrate and glass substrate magnetic disks were sold in the six-month period ended September 30, 2018, and what is your full-year forecast for sales of these items?

A.

- In the six-month period ended September 30, 2018, aluminum substrates accounted for nearly 60% of all magnetic disks sold while more than 40% came from glass substrates. This ratio is expected to be more or less the same on a full-year basis.
- The combined sales of aluminum and glass substrate disks was nearly 30 million disks in the six-month period ended September 30, 2018, and sales of roughly 60 million disks are expected on a full-year basis.

Q. What is the operating margin for magnetic disks?

A.

- We are targeting a full-year operating margin of over 11% for the Electronic Devices segment overall, and we aim to achieve a similar margin for magnetic disks. The operating margin for magnetic disks was just above 11% in the six-month period ended September 30, 2018.

Q. I understand that demand for products for data centers is fluctuating. Do customers project that the favorable performance seen for magnetic disks in the six-month period ended September 30, 2018, will continue through the second half of the fiscal year?

A.

- Customers do indeed expect that the current favorable performance will continue in the second half of the fiscal year.

Food and Beverage Distribution

Q. On a full-year basis, how many vending machines do you expect to ship in China?

A.

- In the fiscal year ended March 31, 2018, 21,000 units were shipped, and we currently expect to ship just over 30,000 units in the fiscal year ending March 31, 2019, a slight decrease from our initial expectation of around 35,000 units. The range of vending machines used in China is diversifying to include can, PET, and food vending machines, and progress in installation plans varies by customer.