

President's Message

Start of FY2023 Medium-Term Management Plan—Reiwa Prosperity 2023 Pursuit of Sustainable Growth in Energy and Environment Businesses



Through Putting our Corporate Philosophy and Management Policies into Practice, We are Contributing to the Creation of Sustainable Societies

Global society is currently engaged in a movement to achieve economic growth while simultaneously addressing social and environmental issues. This movement can be seen in the United Nations Sustainable Development Goals, a set of international goals for realizing a sustainable society, and the Paris Agreement, an international framework for combating global warming. Companies, too, are expected to take part in proactive efforts toward these goals as responsible members of society. Acting in accordance with Fuji Electric's corporate philosophy of "contribute to prosperity," "encourage creativity," and "seek harmony with the environment," the Company bases its management policies on contributing to the creation of sustainable societies through its energy and environment businesses. This direction indicated by Fuji Electric's corporate philosophy is compatible with enhancing the three areas of society, economy, and environment.

Going forward, we will continue to sincerely put our corporate philosophy and management policies into practice while further refining our energy and environment technology. By working together with our customers and business partners to solve social and environmental issues and create customer value, we will contribute to the creation of responsible and sustainable societies.



Record-Breaking Operating Income Posted for Second Consecutive Year and All Targets of FY2018 Medium-Term Management Plan Achieved

In fiscal 2018, the final year of the FY2018 Medium-Term Management Plan, Renovation 2018, which adopted "further renovation of Fuji Electric" as its basic policy, we implemented growth strategies and pursued improved profitability.

In fiscal 2018, net sales increased to ¥914.9 billion and operating income rose to ¥60.0 billion, as we recorded year-on-year increases in revenue and earnings, and record-high income for the second consecutive year. These results were driven by robust demand for investment in equipment in Japan, despite a trend toward investment restraint in the Chinese market in the second half of the fiscal year due to the trade friction between the United States and China. Furthermore, the successful achievement of all the management targets of the FY2018 Medium-Term Management Plan, including the financial targets, instilled great confidence into employees.

(Billions of yen)	FY2017 Results	FY2018 Medium-Term Management Plan (Target)	FY2018 Results
Net Sales	893.5	900.0	914.9
Operating Income	56.0	54.0	60.0
Operating Margin	6.3%	6.0%	6.6%
Net Income Attributable to Owners of Parent	37.8	34.0	40.3

Financial Indicators

Net Debt-to-Equity Ratio*	0.4 times	0.7 times	0.4 times
Equity Ratio	36%	32%	37%
ROA	4%	4%	4%
ROE	12%	12%	12%

*Net interest-bearing debt / Shareholders' equity

Review of Fiscal 2010 to Fiscal 2018

Business Restructuring, Growth Strategies, and Further Renovation

Looking back on the 10 years since fiscal 2009, we have worked hard to boost profitability through a number of initiatives. These initiatives include realizing innovation of our business structure in the immediate aftermath of the global financial crisis, abolishing the holding company system, and restructuring our organization with the aim of integrating business management. At the same time, we reduced the number of executive officers from 53 to 18 to create an executive system that would facilitate the speed of decision making. From 2013, when we had made good progress toward strengthening our foundations, we looked to the future by promoting growth strategies, such as conducting proactive investments including M&A, as we continued to achieve increases in revenue and earnings. Moreover, as a result of improved business performance, we were able to increase dividend payments to shareholders almost every year and properly reward employees with bonuses.

Since assuming the office of president of Fuji Electric, I have consistently emphasized the expansion of our energy and environment businesses, globalization, and teamwork, in accordance with our management policies. In addition, I have also emphasized augmenting our manufacturing capabilities—our starting point as a manufacturer and the source of our earnings. With "benchmarks are the way of the old Fuji Electric" as our motto, we have worked to create a culture that is conducive to thinking about how we can achieve our goals, without being tied to conventional methods or thinking.

We clarified energy and the environment as Fuji Electric's business domains by integrating and reorganizing the three business segments of Industrial Infrastructure, Social Infrastructure, and Power Electronics, to establish the power electronics systems business in 2017. We made this change in order to pursue synergies in related businesses, with a focus on power electronics technologies, an area of strength for the Company.

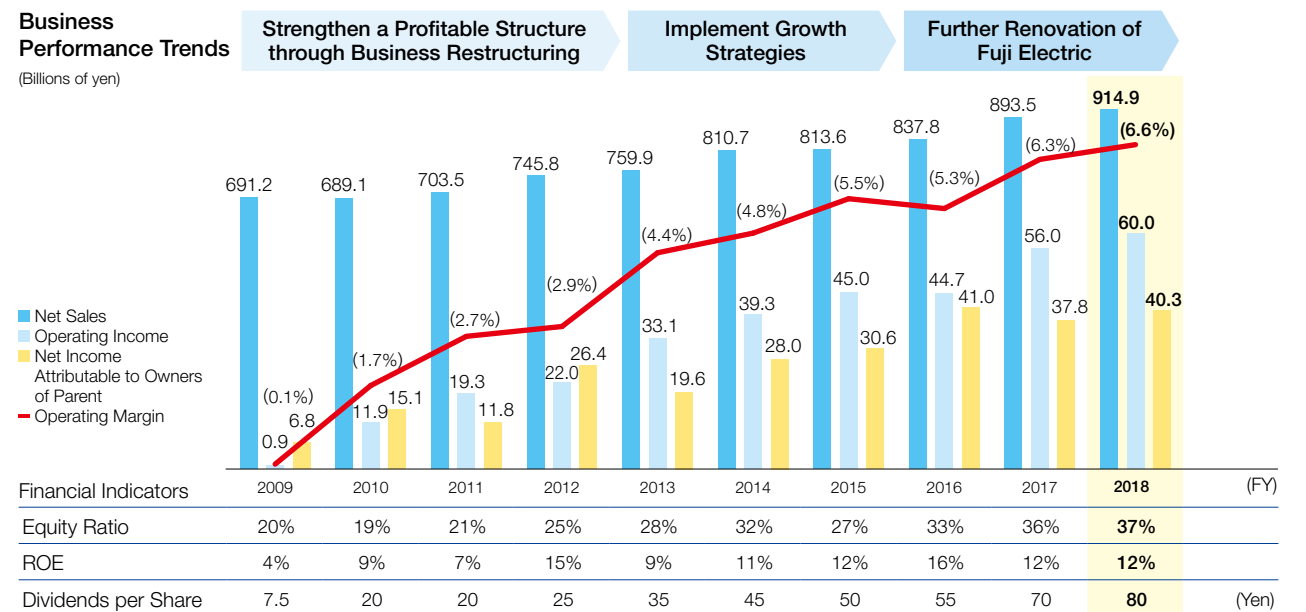
With the aim of strengthening cost-competitiveness and minimizing geopolitical risks, we expanded overseas production

bases and promoted global procurement in order to expand our overseas operations. We thoroughly pursued local production and local consumption. We had previously over-emphasized the importance of our production bases in China but we established a system in which products to be sold in China are made in China, and products to be sold in Asia are made in Asia, thereby promoting the expansion of overseas production bases and global procurement. In addition, we proactively conducted M&A activities and collaboration with the aim of capturing human resources and sales channels, establishing the companies as development and engineering bases centered on China and other parts of Asia.

To enable Fuji Electric to unite and maximize its strengths, I believe that it will be vital to transcend organizational and national boundaries while enhancing the capabilities of individuals. An example of that is the Companywide Pro-7 Activities that we started in 2012 with a view to improving profitability. These activities, in which employees review the way they work from the ground up by forming teams and setting tasks and targets, are designed to improve work quality and efficiency. The greatest achievement of these activities is their permeation to all corners of frontline operations, changing the awareness of employees. The accumulation of these steady efforts has raised the level of profit improvements.

At the same time, we have made great efforts to augment our manufacturing capabilities in order to strengthen our factories, which is the source of our profits. In addition to training engineers and technicians, we have promoted the visualization of costs for each product and business. By pursuing in-house manufacturing, automation, and standardization with the goal of achieving cost reductions and enhancing productivity, we have successfully revamped our production technology capabilities. We have also recently embarked upon the automation of quality control documentation, thereby heightening their reliability.

Moreover, as a way to strengthen technological development capabilities, we are bolstering cooperation among developers while increasing speed and efficiency by constructing development wings at each of the three power electronics systems and electronic devices global mother factories in Japan, in order to gather together researchers and engineers.



Note: Dividends were calculated making reference to the share consolidation of October 1, 2018.

FY2023 Medium-Term Management Plan "Reiwa Prosperity 2023"

Establishing Foundations for Sustainable Growth

In fiscal 2019, the start of the Reiwa era in Japan, we launched a new five-year Medium-Term Management Plan. The plan has fiscal 2023 as its final year—the 100th anniversary of Fuji Electric's founding. "Reiwa Prosperity 2023" articulates our aim to prosper with society by 2023 through our energy and environment businesses.

The five years toward fiscal 2023 are a time for strengthening our foundations as a company that realizes ongoing growth. With a focus on implementing growth strategies and further improving profitability, we will also enhance management quality from a long-term perspective by addressing the management base that supports our operations on a global scale, regarding such matters as the environment, human resources, and corporate governance.

Target Net Sales of ¥1 Trillion and Operating Margin of 8.0% or more for Fiscal 2023

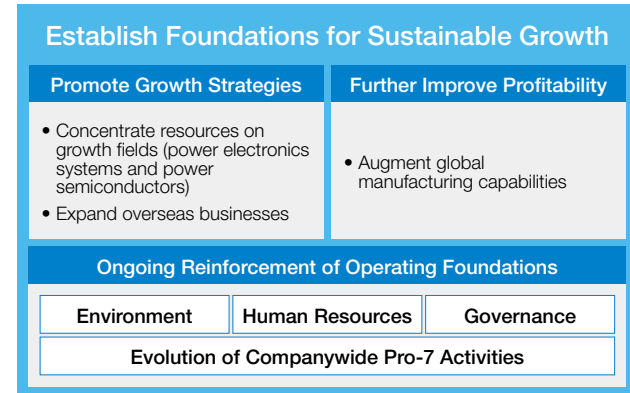
Among the management targets for fiscal 2023, net sales of ¥1 trillion and an operating margin of 8.0% or more are the ones on which we place the most importance. In regard to financial indicators, we have adopted targets that emphasize balancing growth potential, profitability, and efficiency with financial soundness. Those targets have a net debt-to-equity ratio of 0.1 times, an equity ratio of 50.0%, and ROE of 11.0%. In terms of capital efficiency, we will achieve qualitative improvement of ROE by enhancing profits and reducing working capital. We have positioned the next five years as a stage for conducting proactive investments in pursuit of business expansion. Nevertheless, we aim to achieve a dividend payout ratio of 30% as soon as possible for shareholder returns while maintaining sufficient funds for growth investments such as capital investment, research and development, and human resource investment. Furthermore, we recognize that it is debatable whether an equity ratio of 50% is an appropriate level and we will continue to consider that and other points, including utilization of growth investments and our policy on cross-shareholdings, as we pursue further enhancement of capital efficiency.

FY2023 Management Targets

(Billions of yen)	FY2018 Results	FY2023 Medium-Term Management Plan (Target)	FY2018-FY2023 Change
Net Sales	914.9	1,000.0	+85.1
Operating Income	60.0	80.0	+20.0
Operating Margin	6.6%	8.0%	+1.4pt
Net Income Attributable to Owners of Parent	40.3	55.0	+14.7
Financial Indicators			
Net Debt-to-Equity Ratio	0.4 times	0.1 times	-0.3
Equity Ratio	37%	50%	+13pt
ROA	4%	5%	+1pt
ROE	12%	11%	-1pt
Payout Ratio	28%	30%	+2pt

Note: Assumed exchange rates for fiscal 2023: ¥105 to the U.S. dollar; ¥123 to the Euro; ¥16 to the RMB

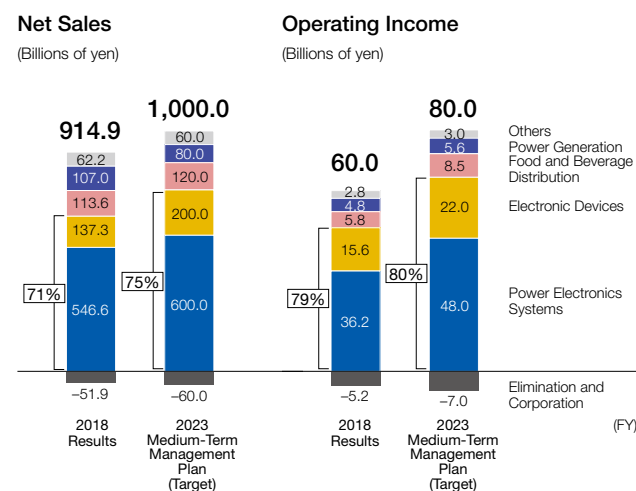
FY2023 Medium-Term Management Plan Key Issues



Growth Centered on Power Electronics Systems and Electronic Devices and Emphasis on Profits in Power Generation and Food and Beverage Distribution

As the need for improved energy efficiency and energy conservation in the industrial world increases toward the pursuit of the realization of a low-carbon society, we are seeing an expansion in business opportunities that allow Fuji Electric to leverage its strengths in power electronics technology and power semiconductor technology. Responding proactively to this favorable market situation, we will target expanding sales from Power Electronics Systems and Electronic Devices so that they account for about 80% of total consolidated sales and profits.

A major strength of Fuji Electric's power electronics systems business is that it is a one-stop shop for addressing various issues faced by customers. As the leading manufacturer of power semiconductors, we have an advantage over others. We develop competitive component products equipped with power semiconductors that address a variety of issues, from energy stabilization and optimization to factory energy conservation and automation through systems with added engineering, service, and IoT technologies. With the strength of our power electronics systems business, we will leverage the expertise we have cultivated in Japan to expand operations centered on energy management, power supply and facility systems, and automation systems.



Note: Ratios for Power Electronics Systems and Electronic Devices are calculated based on amounts before elimination and adjustment of inter-segment transactions

Recognizing the proliferation of electrified vehicles (xEVs) and the spread of renewable energy as growth opportunities, we will grow the Electronic Devices segment through our power semiconductors, for which Fuji Electric possesses world-leading technologies.

Meanwhile, we will seek profitability for the Power Generation and Food and Beverage Distribution segments by promoting business portfolio reform through business selection and concentration, rather than pursuing sales expansion. In Power Generation, where the global movement to phase out coal-fired thermal power is picking up speed, we will shift to the field of renewable energies and distributed power supply such as geothermal power generation, in which we have a leading market share around the world, while bolstering after-sales businesses. In Food and Beverage Distribution, we will expand both our vending machine business in China and Southeast Asia and our systems business that facilitates the efficiency of vending machine operations and labor and power-saving at stores.

Concentrating Management Resources on Power Electronics Systems and Power Semiconductors

In order to reinforce strong businesses and expand operations, we will concentrate management resources on power electronics systems and power semiconductors, allocating 90% of plant and equipment investment and 80% of research and development (R&D) expenditures to the two businesses.

Although the amount of plant and equipment investment in power semiconductors of ¥120.0 billion accounts for about half of total plant and equipment investment, in regard to the automotive field in particular, we will steadily increase investment to strengthen production capacity while carefully assessing market trends and controlling risk. As for R&D, we will focus on developing new products aimed at increasing sales in the automotive field as well as continuing to focus efforts on the development of next-generation SiC power semiconductor modules in pursuit of future sales expansion.

We have made progress in power electronics systems with respect to the development of global products as well as the standardization and bundling of systems. In addition, our partnership strategy in China and the rest of Asia has become clear as a result of collaborations and M&A activities, and we will expand the systems business overseas on a full-scale basis over the next five years. At Fuji Electric Manufacturing (Thailand) Co., Ltd., which will serve as a core production site in Asia, we have established switchgear and controlgear

system factories. By coordinating manufacturing, engineering, and services with sales bases in Asian countries, we will achieve business expansion. Moreover, as new products and new businesses result from Fuji Electric's proprietary technology, we will focus efforts on expanding sales of SiC-equipped power electronics products for railroad applications and systems for ships.

Expanding Sales Outside Japan and Augmenting Manufacturing Capabilities Globally

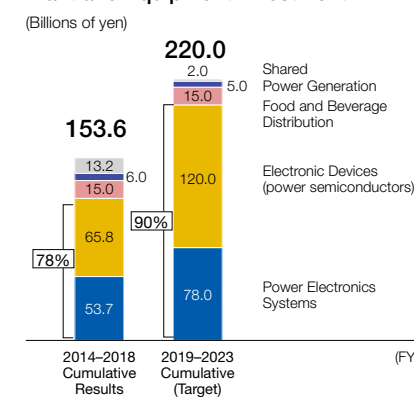
With a focus on Southeast Asia, India, and China as key regions with high growth potential due to energy conservation and automation investments in industrial and social infrastructure and the proliferation of electric vehicles (EVs), we will increase the ratio of sales outside Japan to total net sales from 25% to 35%.

We will increase sales in Asia, the region with the biggest sales volume, centered on power electronics systems. Meanwhile, power semiconductors for EVs will be the driver of growth in China and Europe.

In parallel with expanding operations overseas, we will redouble efforts to promote local production and local consumption while augmenting global manufacturing capabilities in order to increase profits. By transferring the production technology capabilities cultivated at regional mother factories in Thailand and China to related factories overseas, we will promote their autonomy. Human resource development will be vital to these initiatives. At Fuji Electric Manufacturing (Thailand) Co., Ltd., which we have positioned as an Asian regional mother factory, local staff played a central role in providing guidance to factories in India and France in starting a low-voltage inverter production line. In such ways, the coordination among overseas bases is growing. We will step up the cultivation of local leaders to further accelerate the autonomy of overseas production bases.

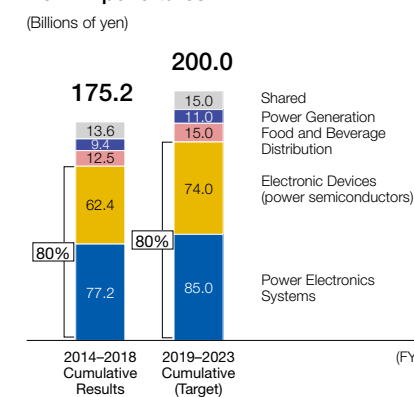
Moreover, in addition to the in-house manufacturing, automation, and standardization that we have pursued to date, we will also promote manufacturing innovations that leverage IoT technologies in order to augment manufacturing capabilities globally. We will build a platform with information on designs, purchasing, production, and testing from every overseas production base to facilitate the advancement of coordination through the visualization and sharing of information, and link that to shortening lead times, reducing the amount of work in progress, and improving cash flow.

Plant and Equipment Investment

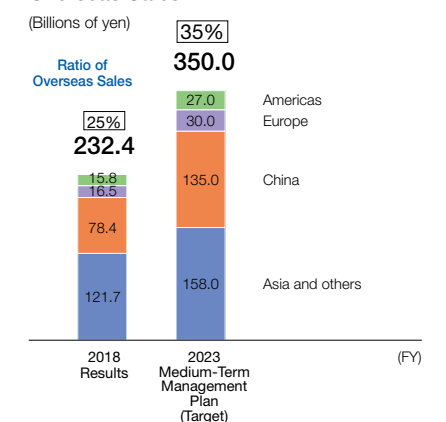


Note: Figures for R&D expenditures are allocated by research theme and therefore differ from those in the consolidated financial report

R&D Expenditures



Overseas Sales



Ongoing Reinforcement of Operating Foundations

Fuji Electric is reinforcing its operating foundations toward the enhancement of corporate value over the long term, including initiatives for environmental preservation, human resource development, and corporate governance. Moreover, the Company revised its Code of Conduct, which sets forth guidelines for the conduct of employees, to incorporate the concepts of the United Nations Global Compact and Sustainable Development Goals. I believe that awareness among employees, including Group employees overseas, is an important issue.

Strengthening Human Resources

Amid a falling birthrate and an aging society in Japan, Fuji Electric is faced with management issues such as the aging of its labor force, globalization, and changes in its business structure. Against this backdrop, it is becoming increasingly important to strengthen human resources, which are the source of a company's competitiveness. In this environment, the handing down of skills from generation to generation has been a perennial issue. About 100 employees aged 65 or over are currently engaged in the instruction and development of young employees and it is necessary to treat highly skilled employees appropriately. In addition, we will develop a system to ensure that employees aged 60 or over with excellent track records, not just engineers, receive treatment that is matched to the value of their work.

In regard to female empowerment, we will continue to proactively hire female employees while pursuing planned career development and cultivation in order to increase the number of female employees in supervisory positions.

Today, the issue warranting the most attention is the line management of middle managers, who are the core of every team. This issue was brought to the fore in the employee awareness surveys that we continuously conduct. We will step up our efforts to an even greater extent than before to cultivate middle managers while improving their amount of experience through planned rotation, thereby developing the human resources who will lead the Fuji Electric of tomorrow.

Enhancing the Transparency of Management Through Reinforcement of Global Compliance

Fuji Electric established a voluntary Nomination and Remuneration Committee composed of a majority of Outside Directors and with an Outside Director as its chairman. The committee began its activities in July 2019. Although we have long been appointing Outside Officers to strengthen the management supervisory function and auditing function, we will further enhance management transparency through the Nomination and Remuneration Committee going forward. Moreover, as a result of the expansion of overseas businesses, we will conduct thorough compliance reinforcement at overseas subsidiaries while, in terms of risk management, we will strengthen business continuity capabilities and information security countermeasures.

Contributing to the Environment through Our Business Activities

In June 2019, we created the Environmental Vision 2050, which aims to make contributions to the supply chain for the realization of a low-carbon society, recycling-oriented society, and society in harmony with nature. As specific targets for achieving a low-carbon society, we have adopted quantitative targets for fiscal 2030, such as reducing greenhouse gas emissions during production by 31% and reducing CO₂ emissions by 50 million tons annually through our products.

Fuji Electric's strength is that it is able to contribute to society through its energy and environment businesses. Going forward, we will contribute to efforts to combat global warming together with our customers and business partners.

Fuji Electric Environmental Vision 2050

We aim to achieve a "Low-Carbon Society," "Recycling-Oriented Society," and "Society in Harmony with Nature" by expanding use of Fuji Electric's innovative clean energy technology and energy-saving products.

Realize a Low-Carbon Society

Target a reduction of 80% or more in greenhouse gas emissions across the supply chain

Realize a Recycling-Oriented Society

Promote green supply chains and 3R* activities to reduce environmental impact to zero

Realize a Society in Harmony with Nature

Aim for zero influence on the ecosystem by corporate activities contributing to biodiversity

*Reduce, Reuse, Recycle

Toward Sustainable Growth



Develop Pro-7 Activities and Pursue Prosperity

When we launched the Companywide Pro-7 Activities, our goal was to contribute directly to profits by lowering costs and improving profit margins. However, the goal is now work itself. We practice self-monitoring and review every aspect of our work from the ground up and promote the Activities through the three pillars of enhancing work efficiency and quality, and workstyle reforms designed to improve productivity. Ultimately, what we are targeting through Pro-7 Activities is prosperity as a company, returns to shareholders, and the happiness of employees. We will pursue prosperity for the customers who support and trust us, the shareholders who back us, and our employees and their families.

Realizing "Enthusiastic, Ambitious and Sensitive" Employees

Since I believe that it is important to contribute to society through work and take ownership of one's own growth, I directly convey the slogan adopted in our corporate philosophy—"to be enthusiastic, ambitious and sensitive"—to employees at production and sales bases in Japan and overseas. In this slogan, "enthusiasm" means the desire to contribute to society by creating new technologies and products. "Ambition" means setting lofty goals and working to achieve them with a strong spirit, no matter what challenges may be faced. "Sensitive" means valuing customers, allies, and the families that support us. This sensitivity truly represents Fuji Electric's corporate DNA. By having all employees sharing the values of our management slogan engage in Pro-7 Activities, I firmly believe that the Company's management base will work as a team and grow even stronger.

Fuji Electric will continue to put its management slogan into practice, utilize the comprehensive strength of teams of diverse, individual employees, and contribute to the creation of sustainable societies through our energy and environment businesses. In closing, we would like to ask for the continued support of all our stakeholders.

July 2019

Michihiro Kitazawa

President and Chairman of the Board of Directors

Establishment of Foundation for Sustainable Growth through Companywide Pro-7 Activities

