



## Establish Foundations for Sustainable Growth

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President and Chairman of the Board of Directors

### Fuji Electric's Reason for Existence in Society

First of all, I express my heartfelt sympathy to those afflicted by the COVID-19 pandemic. I would also like to specially acknowledge the healthcare professionals and everyone else working so hard to keep us safe.

The business environment that envelops the Company has grown increasingly complex of late and the world faces a whole host of uncertainties stemming from not only climate change, urbanization, and demographic changes driven by aging populations, but also geopolitical risks such as trade disputes, and the impacts caused by COVID-19. Above all, the global reach of the pandemic has brought the international movement of people and goods to a standstill, disrupted supply chains, and affected societies and economies on an unprecedented scale.

Central to our management policy is the notion of contributing to the achievement of a sustainable society through our energy and environment businesses, which reflects Fuji Electric's corporate philosophy of "contribute to prosperity," "encourage creativity," and "seek harmony with the environment." This is certainly in line with the international community's aspirations for integrated improvements in economies, societies, and the environment, and also represents a universal vision even in a post-coronavirus world or in an age in which we will be forced to coexist with COVID-19. Fuji Electric will promote the SDGs in all of its business activities, work on finding solutions to global warming and other social and environmental issues with a special focus on supply chains, and contribute to the creation of a responsible and sustainable society.

### FY2019 Sales and Income Down, but Still Investing in Future Growth

In fiscal 2019 we kicked off our Medium-Term Management Plan—Reiwa Prosperity 2023—which calls for net sales of ¥1.0 trillion and an operating margin of 8% or more by fiscal 2023, the final year of the plan. The plan incorporates our aim to achieve prosperity with society through our energy and environment businesses. We have also positioned the power electronics systems and power semiconductor businesses as growth drivers through fiscal 2023.

Looking at fiscal 2019 consolidated results, both sales and income declined sharply owing mainly to the lingering impact of US-China trade friction since last year, as well as the effects of travel restrictions and temporary factory closures in response to the spread of the COVID-19 pandemic. Net sales decreased ¥14.3 billion year on year to ¥900.6 billion, operating income fell ¥17.5 billion to ¥42.5 billion, and net income attributable to owners of parent shrank ¥11.5 billion to ¥28.8 billion. However, despite the tough operating environment, we continued to invest in future growth; in our focus region of Southeast Asia, we laid the foundations for business growth by erecting a third building at our factory in Thailand for manufacturing switchgear and control gear systems, while in India we acquired a leading power supply manufacturer. We also invested in the expansion of production

capacity for power semiconductors for electrified vehicles (xEVs). As was the case previous year, we decided to pay a dividend of ¥80 to shareholders and the same level of bonuses to employees. The decision to keep shareholder returns and employee bonuses unchanged owes to nothing more nor less than stronger profitability and steady improvements in our financial position ever since operating income slipped into the red in the aftermath of the global financial crisis. This has been achieved mainly thanks to business restructuring, including the abolishment of the holding company system and integration of business management, clarification of business domains, and the realignment of production bases, as well as a strict adherence to local production for local consumption, the strengthening of manufacturing capabilities, and a change in mindset among employees. What is disappointing, however, is the occurrence of some product defects. Product quality is the basic premise for earning the trust and confidence of our customers and we will adopt thorough measures to prevent the recurrence of such issues.

#### FY2023 Medium-Term Management Plan Key Issues

| Establish Foundations for Sustainable Growth  |   |
|---|---|
| Promote Growth Strategies   | Further Improve Profitability   |
| <ul style="list-style-type: none"> <li>Concentrate resources on growth fields (power electronics systems and power semiconductors)</li> <li>Expand overseas businesses</li> </ul> | <ul style="list-style-type: none"> <li>Augment global manufacturing capabilities</li> </ul> |
| Ongoing Reinforcement of Operating Foundations  |   |
| Environment   | Human Resources   |
| Governance  |   |
| Evolution of Companywide Pro-7 Activities   |   |

| (Billions of yen)                           | FY2018 Results | FY2019 Results | FY2023 Medium-Term Management Plan (Target) |
|---|----------------|----------------|---|
| Net Sales                                   | 914.9          | 900.6          | 1,000.0                                     |
| Operating Income                            | 60.0           | 42.5           | 80.0  |
| Operating Margin                            | 6.6%           | 4.7%           | 8.0%  |
| Net Income Attributable to Owners of Parent | 40.3           | 28.8           | 55.0  |

#### Financial Indicators

|                           | FY2018    | FY2019    | FY2023 Target |
|---------------------------|-----------|-----------|---------------|
| Net Debt-to-Equity Ratio* | 0.4 times | 0.4 times | 0.1 times     |
| Equity Ratio              | 37%       | 37%       | 50%           |
| ROA (Return on Assets)    | 4%        | 3%        | 5%            |
| ROE (Return on Equity)    | 12%       | 8%        | 11%           |
| Dividend Payout Ratio     | 28%       | 40%       | 30%           |

\*1 Net interest-bearing debt / Shareholders' equity  
\*2 Assumed exchange rates for fiscal 2023: ¥105 to the U.S. dollar; ¥123 to the Euro; ¥16 to the RMB

### FY2020: Establishing New Foundations toward Our Medium-Term Management Plan Targets

Even though we faced difficulties in the first fiscal year of the Medium-Term Management Plan, at this juncture I do not intend to revise our fiscal 2023 management targets of ¥1.0 trillion in net sales and operating margin of at least 8%. This is because I firmly believe that our energy and environment businesses possess the technology and products that will be sought after globally in the medium to long term. As demand grows for clean energy, stable energy supply, and energy conservation for the purpose of realizing a low-carbon society, more business opportunities are emerging through which we can harness our strengths in power semiconductor technology and power electronics technology. Given the problems surrounding labor shortages in Japan, and now measures aimed at stopping

the spread of COVID-19 infections, we expect to see greater demand up ahead for labor savings through automation, remote monitoring, and non-contact services.

This fiscal year is positioned as the year to establish new foundations geared toward achieving the targets in the FY2023 Medium-Term Management Plan. We will devote managerial resources to the core growth areas of power electronics systems and power semiconductors, and also continue to work on strengthening our manufacturing capabilities with the goal of further boosting profitability.

Our financial policy for the time being is to secure plenty of liquidity on hand in preparation for emergency situations. Over the medium term, we will allocate the cash to growth investments

aimed at business expansion, while for shareholder returns we will continue to emphasize stable and continuous dividend payments. As for capital efficiency, in addition to boosting profits and reducing working capital, we will continue to take steps toward the qualitative improvement of ROE with a view to effectively utilizing cross-shareholdings.

Due to the impact of COVID-19, it is currently very difficult to predict future trend in capital investment and production by our customers, so we have decided to postpone our fiscal 2020 earnings forecasts for now. That said, we will make preparations to announce our full-year forecasts when we disclose interim results.

### Aggressively investing in power semiconductors for xEVs

Leveraging our world-class technological know-how and reliability, we will continue to make aggressive investments in the power semiconductors business in light of the growth opportunities in the ongoing shift to electrified vehicles and the expanding uptake of renewable energy. In particular, as we expect to see stronger demand for electrified vehicles over the medium to long term as countries around the world enforce more stringent environmental regulations, and considering that our reverse-conducting IGBT (RC-IGBT) has been favorably received by customers for being smaller and more reliable than competitor products, we will look to ramp up our production capacity all the while gauging xEV market trends and keeping a close eye on the diversification of investment risks.

### Business expansion of Power Electronics Systems outside Japan

In the power electronics systems business, which boasts a client base spanning a broad range of industries, we are working to strengthen the systems business by combining competitive components with engineering services, optimal control technologies, and IoT. The key lies in how we can expand this

business in markets outside Japan where there is strong growth potential. Infrastructure development for business expansion has steadily emerged in India and Southeast Asia, where demand for stable power supply and energy savings is expected to increase as social and industrial infrastructure comes onstream. Having realigned and expanded our manufacturing, sales, and service centers in India, and reinforced our manufacturing and engineering structure for plant systems in Southeast Asia, we will make every effort to globally expand the systems business in the future.

### Digital transformation of manufacturing; human resource development aimed at greater autonomy of production bases outside Japan

Since taking office as President, I have continued to stress the importance of manufacturing capabilities—our origins as a manufacturer and the source of profits. I have consistently communicated this matter to employees and taken steps to bolster our capabilities. Alongside in-house manufacturing and standardization that we have pursued thus far, we have managed to improve productivity by automating tasks that require a high level of skill, hard work, and testing and inspection processes. Furthermore, with the goal of achieving groundbreaking productivity enhancements, we are addressing the digital transformation of manufacturing using IoT and promoting cooperation between processes and between production sites by visualizing and sharing information on designs, purchasing, manufacturing, and testing. We will also spare no efforts in improving the quality of development and testing by digitizing our quality records.

As we expand our overseas operations over the medium to long term, we will further drive home our policy of local production for local consumption and help boost the autonomy and competitiveness of our overseas production bases by transferring Japan's manufacturing capabilities and technologies and continuously nurturing local leaders.

### Advancing Fuji Electric Environmental Vision 2050

Being able to contribute to a reduction in CO<sub>2</sub> emissions in society through our mainstay energy and environment businesses is Fuji Electric's biggest strength. Business negotiations are also picking up thanks to an increase in enquiries from customers actively pushing ahead with global warming countermeasures. Guided by our Environmental Vision 2050, we aim to lower CO<sub>2</sub> emissions generated by production activities and in society overall with the use of certain products, and advocate the effective utilization of resources by reducing, reusing, and recycling products and materials. Across supply chains, we seek to realize a low-carbon and recycling-oriented society. Also, in June this year we expressed our support of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and we intend to further enhance our disclosure of information concerning the environment and bolster our ability to cope with climate change risks.

### Respecting human rights and promoting the activities of diverse human resources

Based on the thinking that people are the source of a company's competitiveness, "respect and value all people" is stated in our Corporate Code of Conduct and we promote respect for human rights and the active participation of diverse human resources. The issue of human rights in supply chains is also indispensable to our global business expansion. We endeavor to have our subsidiaries and business partners in Japan and overseas understand our policy on human rights, and we also undertake human rights due diligence.

In addition, empowering senior and female employees is growing increasingly important. We have put in place systems and support structures to facilitate this, so in terms of implementation, we will do everything we can going forward to ensure that our diverse pool of employees find their work meaningful. We intend to

engage in a style of management that lets employees in their 70s lead an active working life and guarantees that female employees in management positions can participate in decision making whilst balancing their work and life duties. Furthermore, the adoption of teleworking we started as a measure to stop the spread of COVID-19 has been well underway and we consider this development to be an opportunity through which we can promote a work-life balance backed by workstyle reforms geared toward employee safety, health, and greater productivity. At the same time, we run an employee awareness survey every year so that our Executive Officers, who also serve as General Managers, stay well informed of any issues and can implement measures accordingly from a Company-wide perspective in an effort to create more friendly workplace environments.

### Improving the effectiveness of governance so as to achieve sustainable growth

Management risks have continued to diversify in recent times and the pace of this change is accelerating. As such, the practice of risk management is growing increasingly important. More so than ever before, we must counteract management risks with a multifaceted approach and swift action. This is why we are taking steps to further strengthen our business continuity capabilities, including how we respond to large-scale disasters or the spread of an infectious disease. Also, in July last year we established a Nomination and Remuneration Committee. This Committee—comprising a majority of Outside Directors, one of which serves as Chairman—enhances transparency and objectivity surrounding mainly the appointment, dismissal, and the remuneration of Directors and Audit & Supervisory Board Members and strives to improve the effectiveness of corporate governance overall as we seek to achieve sustainable growth.

## Promoting the SDGs as a Company-Wide Activity

Undertaking activities that contribute to the achievement of the SDGs and sustainable growth overall is something we choose to do on a Company-wide basis. Thus, we seek to enhance long-term corporate value from two perspectives: creating business opportunities and minimizing management risks.

In April of this year we formed the SDGs Promotion Committee for the purpose of discussing, deciding, and evaluating the measures related to the promotion of the SDGs at a management level. The Committee will discuss key issues and evaluate measures from the perspective of the SDGs. For the near term, it will tackle initiatives concerning the environment, human rights, encouragement of employees' success, and workstyle reforms across the entire supply chain.

SDGs Promotion Structure



## Pursuing Prosperity by Being Enthusiastic, Ambitious, and Sensitive

In 2012, with the objective of improving profitability, we launched our Companywide Pro-7 Activities. The program aims to boost work efficiency and quality by having employees form teams and review the way they work from the ground up with the ultimate goal of achieving Prosperity (prosperity as a company, returns to shareholders, the happiness of employees). These activities have permeated all corners of frontline operations, including indirect departments, and changed employee mindsets. In fact, our Pro-7 Activities are now well entrenched in our business operations.

At the root of our employees' behavior and mindset is our corporate slogan: To be enthusiastic, ambitious and sensitive. By "enthusiastic," we mean the desire to contribute to society by creating new technologies and products; being "ambitious" means setting lofty goals and working hard to achieve them, no matter what the challenges; and being "sensitive" means we must be thankful for and care about our customers, colleagues, and

families. This sensitivity is the very DNA of Fuji Electric handed down over successive generations and is manifested in our unshakable values. I have continued to convey to employees in various settings my intention of attaching considerable importance to this DNA. I also believe that our operating foundation will be further strengthened by the evolution of Pro-7 Activities made by one team of all employees that share our corporate slogan.

Fuji Electric will celebrate its 100th anniversary in 2023. So that we remain a corporation capable of developing sustainably in the future, our team of diverse employees will leverage their comprehensive capabilities and further refine the Company's technological prowess in the fields of energy and the environment. In this way, we will continue to contribute to the creation of a responsible and sustainable society.

I look forward to the continued understanding and support of our shareholders, investors, and other stakeholders.