

# Risk Management

Fuji Electric is strengthening its risk management to maximize corporate value and minimize the potential impact of risks.

## Basic Policies

Based on the Fuji Electric Risk Management Rules, the Company manages risk in a coordinated, systematic manner. We practice appropriate management and counter various risks that could affect the Company's management

in order to prevent risks from materializing (crisis situations), thereby minimizing the impact on management in the event that risks materialize.

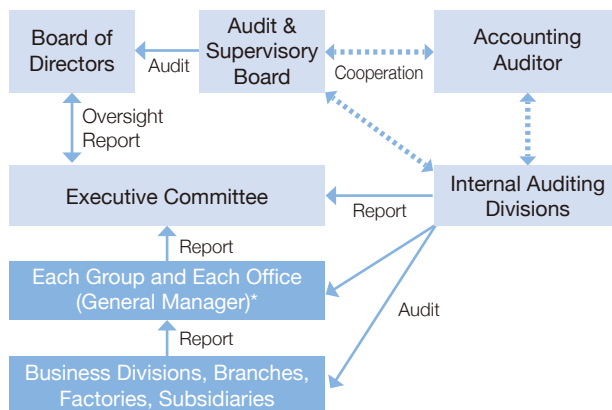
## Risk Management System and Process

### Risk management system

Fuji Electric's business divisions and affiliated companies are responsible for managing risk related to their business activities as a part of their business duty, developing appropriate risk management systems, and implementing risk countermeasures.

Additionally, significant risks, such as those related to business plans and large-scale investments, are reported at the Executive Committee as appropriate to facilitate the sharing of information.

The internal auditing divisions conduct regular audits to confirm whether or not risk management is being properly performed at each business division and affiliated company.



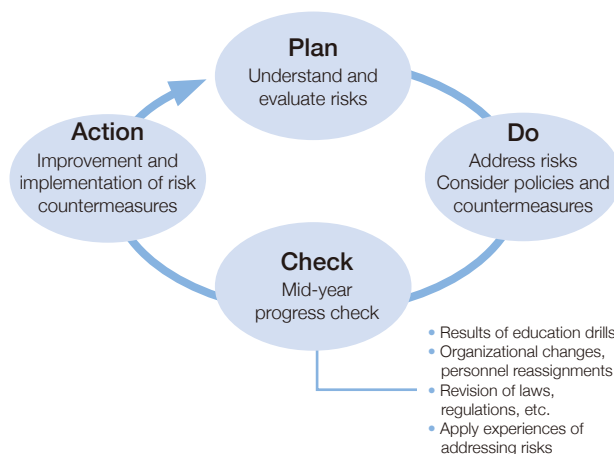
\* Please refer to page 42.

### Risk management process

When annual budgets are formulated, business divisions and affiliated companies understand and evaluate risks related to their business activities. Policies and countermeasures in response to risks (aversion, mitigation, relocation, retention, and so forth) are considered based on their impact on management and frequency of occurrence, and each division and affiliated company appoints a person in charge of policy and countermeasure execution.

We also conduct mid-year progress checks at the end of the second quarter of each fiscal year to improve and effectively implement risk countermeasures.

### Annual Risk Management Process



## Major Risks

Fuji Electric prepares Risk Management Sheets for each business division and affiliated company to help them address risks.

Currently, the major risks that may affect Fuji Electric's business performance and financial position are described below.

Risk Item	Risk Details	Initiatives to Address Major Risks
<b>Management Strategies</b> <b>Business Strategies</b> <b>Business Environment</b>	<ul style="list-style-type: none"> <li>Fuji Electric concentrates management resources on businesses earmarked for growth while making appropriate plant and equipment and R&amp;D investments. However, the semiconductor field requires large amounts of money and is characterized by short product cycles, major fluctuations in product supply and demand levels, and intense competition. In some cases, therefore, there is a risk that we may be unable to recover our investment.</li> <li>There is a risk that stricter enforcement of the Paris Agreement and other environmental regulations, as well as assessments by ESG evaluation institutions, may lead to stronger criticism of Fuji Electric's coal-fired power generation business and affecting the reputation of Fuji Electric itself.</li> </ul>	<ul style="list-style-type: none"> <li>For semiconductor-related plant and equipment investments, we make decisions based on negotiations with customers regarding physical quantities and pricing.</li> <li>For R&amp;D investments, we emphasize consistency with our business strategies and contribution to our businesses. Based on our roadmap, we pursue R&amp;D on fundamental and advanced technologies that support Fuji Electric's future. Here, management engages in regular deliberations about key development themes and constantly reviews the roadmap according to market changes.</li> <li>Fuji Electric considers protection of the global environment to be an important management priority and announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In addition, we created our Environmental Vision 2050. In these and other ways, we continuously convey our commitment to realizing a sustainable society through our energy and environment businesses.</li> </ul>
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>An unprecedented event may lead to deficiencies in our internal control and audit functions, resulting in the risk of corporate governance breakdown and consequent business disruption.</li> </ul>	<ul style="list-style-type: none"> <li>We are working to strengthen corporate governance by improving management transparency and auditing functions during normal times.</li> </ul>
<b>Business Reorganizations, Alliances, and Withdrawals</b>	<ul style="list-style-type: none"> <li>We actively engage in collaborations with third parties in order to strengthen our competitiveness. Due to differences in systems and cultures, however, there is a risk that we may be unable to achieve the desired outcomes of such collaborations.</li> </ul>	<ul style="list-style-type: none"> <li>We share our corporate philosophy, management policies, code of conduct, business plans, business strategies, and so on to facilitate integration of our business strategies, technologies, products, and personnel. Through the Executive Committee and other meetings, we strive to maintain close communication with partners and build good relationships with them.</li> </ul>
<b>Orders, Marketing, and Sales Promotion</b>	<ul style="list-style-type: none"> <li>In our overseas business, we face the risk of deteriorating market conditions in each country—including private plant and equipment investments and public expenditures—as well as sudden changes in supply and demand of products, intensifying competition, and the resultant significant falls in prices.</li> <li>After receipt of orders for large-scale plant projects, any number of events including unanticipated specification changes, process delays, and natural disasters could lead to risk of deterioration in profitability.</li> </ul>	<ul style="list-style-type: none"> <li>We have sales offices in various world markets to better understand customer trends and centrally manage the information we collect for analysis and consider countermeasures and otherwise strive not to miss business opportunities. We also work to reduce costs and expenses in order to minimize the impact of Japanese and overseas market trends on our business performance.</li> <li>In every large-scale plant project, we work to secure appropriate profits by improving the accuracy of our quotations at the time of order receipt and strengthening project management afterwards.</li> </ul>
<b>Development and Design Engineering</b>	<ul style="list-style-type: none"> <li>Due to rapid technological advances, there is a risk that we may lose our advantage over other companies, and product development may not proceed as planned, making it impossible to launch a new product at the right time.</li> </ul>	<ul style="list-style-type: none"> <li>We have established an R&amp;D system to accelerate research and development, and we constantly monitor market and customer needs and the latest technological trends. At the same time, we conduct R&amp;D aimed at creating competitive components and systems, centered on power electronics and power semiconductor technologies, while also focusing on R&amp;D to develop solutions that generate customer value through combinations of fundamental technologies.</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>Depreciation of the yen may lead to rising raw material and component prices, while sharp increases in demand in emerging countries may cause circumstances to change, resulting in a tighter supply and demand balance for raw materials and components and the risk of significant increases in their prices.</li> </ul>	<ul style="list-style-type: none"> <li>We deploy various means, including product swaps, to reduce the risk of rising raw material prices.</li> </ul>

Risk Item	Risk Details	Initiatives to Address Major Risks
<b>Production &amp; Manufacturing</b> <b>Shipping &amp; Distribution</b> <b>Installation &amp; Delivery Services</b>	<ul style="list-style-type: none"> <li>An unprecedented event could result in increased/decreased demand and other changes in physical quantity flows, leading to the risk of delayed responses and inventory shortages/surpluses.</li> <li>An unprecedented event could result in restrictions on human and commodity movements and disruptions to our distribution network. This could prevent our supply chain from functioning and lead to risk of delays in deliveries.</li> </ul>	<ul style="list-style-type: none"> <li>We keep track of the latest physical quantity flows by sharing information between our sales and business departments at the Executive Committee. We have also built an optimal production management system that can respond to changes in physical quantity flows by improving productivity and promoting local production for local consumption.</li> <li>Through reforms of our supply chain, we work to promote "completely localized" manufacturing via local production for local consumption while also emphasizing global procurement.</li> </ul>
<b>Quality Assurance</b>	<ul style="list-style-type: none"> <li>There is a risk that an unprecedented event could cause quality-related problems to arise.</li> <li>In addition, we have received reports of a defect in some of our power semiconductors used in specific fields. We are currently examining the degree of potential risk and will make appropriate disclosures if we identify any significant impact on our business performance and financial position.</li> </ul>	<ul style="list-style-type: none"> <li>We have established a quality control system for the products we manufacture and sell, and we strive to ensure high quality standards while making appropriate insurance arrangements.</li> </ul>
<b>Human Resources and Labor</b>	<ul style="list-style-type: none"> <li>There is a risk that we may be unable to attract and train the human resources required for Fuji Electric's business activities.</li> </ul>	<ul style="list-style-type: none"> <li>We focus on cultivating professional human resources who will help strengthen our global competitiveness. We also actively conduct employee education and training and are expanding mid-career recruitment and other measures to attract exceptional human resources.</li> </ul>
<b>Finance and Accounting</b>	<ul style="list-style-type: none"> <li>There is a risk that an unexpected increase in interest rates could raise the interest rate burden on our interest-bearing debt.</li> <li>There is a risk that restrictions on economic activities and economic downturn could cause business partners' cash flows to deteriorate and prevent us from recovering debts.</li> </ul>	<ul style="list-style-type: none"> <li>To minimize fund-raising costs, we constantly examine the optimal mix of corporate bonds, commercial paper, and short-term and long-term borrowings, in order to ensure flexible and stable financing arrangements.</li> <li>We work to strengthen credit management, including by monitoring long-overdue receivables and the financial status of business partners, in order to enhance our collection of trade receivables.</li> </ul>
<b>Legal Affairs and Ethics</b>	<ul style="list-style-type: none"> <li>Fuji Electric's social credibility, business performance, and financial position could be affected if violations of laws and regulations occur.</li> <li>There is a risk that lawsuits and other legal proceedings could result in orders to pay unexpectedly large amounts of damages.</li> <li>Due to the speed of technological innovation and the global expansion of our business activities, there is a risk of intellectual property disputes arising.</li> </ul>	<ul style="list-style-type: none"> <li>The Fuji Electric Compliance Promotion Committee spearheads efforts to ensure rigorous compliance with laws and regulations. We also have a compliance program that clearly identifies roles and responsibilities covering each aspect of legal regulations—namely, internal rules, monitoring, auditing, and education—and our compliance structure that includes whistle-blowing systems.</li> <li>In preparation for lawsuits and other legal disputes, we have formed an appropriate task force aimed at building a system to ensure that necessary procedures (fact-finding investigations, corrective actions, recurrence prevention measures, internal punishments, and disclosures) are conducted promptly.</li> <li>We strive to effectively protect intellectual property rights and develop products and technologies respecting the rights of other companies.</li> </ul>
<b>Political and Socioeconomic Trends</b>	<ul style="list-style-type: none"> <li>There is a risk of changes in exchange rates, especially the yen against the U.S. dollar.</li> <li>Any of the following events in foreign countries may have an impact on our business performance and financial position: <ul style="list-style-type: none"> <li>Unexpected enactment of laws/regulations and changes in tax systems with adverse effects</li> <li>Disadvantageous political situations</li> <li>Social turmoil due to social upheaval, terrorism, war, and the like</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>We engage in currency exchange contracts, based on certain criteria, to minimize the impact of the risk of foreign exchange fluctuations on our business performance.</li> <li>We always closely monitor the latest information on geopolitical risks, and we are diversifying our production and sales bases in preparation for unexpected risks.</li> </ul>

Risk Item	Risk Details	Initiatives to Address Major Risks
<b>Trends of Shareholders and Other Investors</b>	<ul style="list-style-type: none"> <li>There is a risk that the intentions of stockholders and other investors may differ from those of the Company's management, which could result in a vote against the election of officers. There is also a risk that a shareholder proposal against management could cause disruption of our operations.</li> </ul>	<ul style="list-style-type: none"> <li>We attach great importance to disclosure of financial information, active disclosure of non-financial information, and communication with shareholders and institutional investors. We also strive to foster understanding of our management through sincere and accurate disclosure of information according to our Disclosure Policy.</li> </ul>
<b>Natural Disasters and Accidents</b>	<ul style="list-style-type: none"> <li>There is a risk that certain events, such as large-scale disasters or accidents at our business sites, could cause damage of production equipment, interruption of operations, and delays in product shipments.</li> </ul>	<ul style="list-style-type: none"> <li>We are committed to fulfilling our responsibilities to customers and society by continuously supplying products and services in the event of disaster or accident. To this end, we established a dedicated crisis management team to spearhead fire safety and disaster-preparedness initiatives, formulate a business continuity plan (BCP), and adopt necessary insurance arrangements in order to "strengthen our business continuity capabilities."</li> </ul>
<b>External Attacks</b>	<ul style="list-style-type: none"> <li>There is a risk that certain events, including system malfunction and information leakage due to external attacks (such as cyber-terrorism), could result in loss of social trust.</li> </ul>	<ul style="list-style-type: none"> <li>To address increasingly diversified and sophisticated cyber-security threats, we have established a computer security incident response team and a security operation center (CSIRT/SOC), through which we monitor and control any attacks. We also take ongoing steps to respond more effectively to the continuous emergence of new threats. For example, we are stepping up defense, reinforcing our detection systems, and providing cyber training.</li> </ul>
<b>Individual Event (Impact of COVID-19)</b>	<ul style="list-style-type: none"> <li>There is a risk that COVID-19 infections may occur in the workplace (of the Company, customer, or business partner), which could force us to suspend production, sales, and various other business activities.</li> </ul>	<ul style="list-style-type: none"> <li>We have established the "Contingency Plan" to implement in times of emergency resulting from various risks that may affect our operations. Based on this Plan, we set up the "New Coronavirus Infection Prevention and Business Continuity Promotion Countermeasures Headquarters," chaired by the president, to address the COVID-19 pandemic. The stated policy of the new entity is to "take prompt and appropriate measures with top priority on respecting human life, preventing the spread of infections, and minimizing damage." Under this policy, we are gathering and collating information related to COVID-19 and taking measures to prevent the spread of infections (for example, enforcing rules, such as disinfecting hands and fingers; avoiding confined spaces, large gatherings, and close interactions; and adopting teleworking and staggered work hours), while also emphasizing business continuity.</li> </ul>

\* For more details on our risk management system, please refer to our 144th Annual Securities Report.

## Close Up!

### Responding to COVID-19

To deal with the COVID-19 crisis, we set up a response headquarters, headed by President Kitazawa, based on the Fuji Electric Risk Management Rules. The mission of the new entity is to simultaneously "prevent employee infections and the spread thereof" and "promote business continuity." It collects and collates internal and external information related to COVID-19, determines measures to prevent infections and procedures to prevent the spread of the disease if an employee gets infected, and rigorously implements disease-prevention measures at Group companies in Japan and overseas.

Employee infections have been confirmed at some of

our bases in Japan and overseas. To minimize infections and fulfill our social responsibilities, we are rigorously implementing infection prevention measures targeting all employees to ensure safety and security of themselves and their families. We are also increasing work flexibility by expanding teleworking and other systems. We remain committed to achieving business continuity while preventing the spread of infections.

Given the ongoing unpredictability of the pandemic, we will need to continue working together, united as a group.

We will disclose information on our efforts related to COVID-19 on our corporate website as appropriate.

## Strengthening Our Business Continuity Capabilities

In order to uphold its social responsibilities as a company, Fuji Electric aims to continue core operations even if natural disasters, accidents, and other unexpected events occur by providing a stable supply of high-performance, high-quality products and services required by its customers.

In addition to fire safety and disaster-preparedness initiatives, we have formulated a business continuity plan (BCP\*) at the head office, which acts as a command center during disasters, and at factories that house a large number of key management resources, as well as at branches that serve as contact points with customers.

We have also established Companywide BCPs for our procurement sections, which manage our supply chain, and for IT sections, which manage our information systems.

In fiscal 2019, we once again worked to strengthen our disaster response capabilities. For example, we conducted simulation training assuming a large-scale earthquake for business divisions, managers of each base, and business continuity promotion staff, and safety confirmation training for all employees. Going forward, we will continue enhancing our BCP to strengthen our business continuity capabilities.

\* Business continuity plan



Fuji Electric received Resilience certification under the program established by the Cabinet Secretariat's National Resilience Promotion Office in recognition of active efforts to ensure business continuity.

### Fire safety and disaster-preparedness initiatives

Based on the Disaster Prevention and Procedural Manual, all of Fuji Electric's bases have developed disaster-response systems and put in place comprehensive measures to ensure that structures and facilities are earthquake resistant. They also stockpile emergency goods, conduct regular drills, and take other preventive measures.

### Procurement BCP

By identifying, assessing, and addressing supply chain risks that could affect our business continuity, we aim to build a stable production system over the medium and long terms.

In fiscal 2019, we officially introduced our BCP system. This has enabled us to automatically identify primary business partners in Japan (more than 4,000 companies) who are located in areas prone to natural disasters, such as earthquakes and typhoons, and quickly grasp the potential impact of a disaster on their safety and production operations.

In fiscal 2020, we will conduct natural disaster risk diagnoses of business partners who produce important

parts and components based on their location, and assign them one of five risk rankings. We will then gradually adopt a multi-sourcing policy for procurement of highly important items. Due to the COVID-19 pandemic, meanwhile, we had time to grasp its impact on parts procurement in our supply chain, which has been expanding worldwide. Based on this, we started strengthening our BCP system in Japan. By inputting information on both primary and secondary business partners into our BCP system, we aim to speed up information gathering in times of emergency.

### IT risk reduction

In fiscal 2019, we added cyber attacks as a new risk to be addressed in our ongoing IT-BCM\* initiative, which is designed to help restart and restore information systems necessary for business and operation continuity within the required time in preparation for disasters and accidents.

To address increasingly diversified and sophisticated cyber security threats, we have established a computer security incident response team and a security operation center (CSIRT/SOC), through which we monitor and control any attacks.

We also take ongoing steps to respond more effectively to the continuous emergence of new threats. In addition to minimizing damage to information systems, for example, we are stepping up defenses to ensure early recovery, reinforcing our detection systems, and providing cyber training.

\* Business continuity management

### Implementation of security measures

To protect confidential and personal information properly, Fuji Electric has formulated and is implementing a policy and regulations related to information security with consideration for the laws of relevant countries. We have also established information management systems in each Group company and instituted various safety protocols, including operational site access and information access management systems. Meanwhile, we endeavor to prevent information leaks while maintaining and strengthening information security by instituting annual training programs for employees and conducting inspections and improvements through effective management and audits of workplaces.

Group companies that handle customers' confidential and personal information and require high-level information security management have acquired external certification. As of April 1, 2020, a total of five departments at three Group companies have acquired information security management system (ISMS) certification. In addition, Fuji Electric Co., Ltd. and four subsidiaries have acquired Privacy Mark certification.