

Corporate Governance

We continue our efforts to further improve the transparency and supervisory function of management for stronger corporate governance in order to realize our corporate philosophy.

Basic Policies

In strengthening our corporate governance, our basic policies are to protect shareholder rights and ensure their equal treatment, cooperate appropriately with

non-shareholder stakeholders, ensure proper information disclosure and transparency, execute the duties of the Board of Directors, and engage in dialogue with shareholders.

Corporate Governance Framework

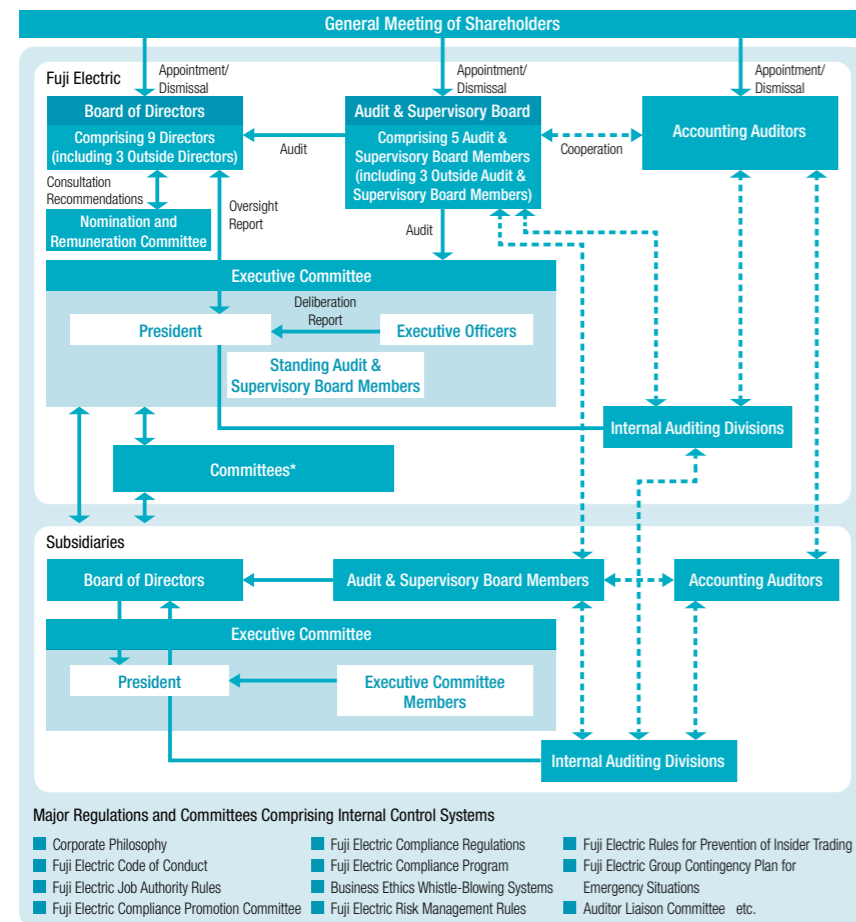
Fuji Electric's corporate governance framework consists of the Board of Directors, which performs the functions of management supervision and making important decisions, and the Audit & Supervisory Board, which is in charge of the management audit function. As a company employing the corporate auditor system, Fuji Electric's Audit & Supervisory Board suitably undertakes audits of the Company's Directors and Executive Officers and guarantees objectivity and neutrality.

The Company actively appoints Outside Officers that satisfy the requirements for Independent Directors / Audit & Supervisory Board Members, endeavors to strengthen management supervisory and auditing functions, and has established the Nomination and Remuneration Committee

comprising a majority of Outside Officers as an advisory body to the Board of Directors.

Also, in order to clarify the roles of management and execution, we have introduced an executive officer system in an effort to clearly define the responsibilities of each business and streamline business execution. We are endeavoring to build an effective corporate governance framework with the use of the Executive Committee, which discusses and reports on important matters related to management as an advisory body to the President and Chairman of the Board of Directors, as well as other committees tasked with planning and promoting key business strategy issues and key external issues, such as legal compliance.

Corporate Governance Framework



- * Committees**
- Key issues for Fuji Electric from an SDGs perspective**
 - SDGs Promotion Committee
- Legal compliance and other key external issues**
 - Fuji Electric Compliance Promotion Committee
 - Health & Safety Promotion Committee
- Key business strategy issues**
 - Skills Development Committee
 - Production Technology Committee
 - Technology Development Committee
 - International Standardization Committee

Nomination and Remuneration Committee

Fuji Electric has established the Nomination and Remuneration Committee as the advisory body for the Board of Directors in order to enhance the Company's corporate governance by reinforcing the fairness, transparency, and objectivity of procedures concerning the nomination of and remuneration for Directors and Audit & Supervisory Board Members.

The committee comprises at least three Directors as members, the majority of which are elected from among the Company's Outside Directors. The chairman is elected from among the Outside Directors that sit on the committee as members.

Nomination and Remuneration Committee (Fiscal 2020)

The Committee Chairman	Outside Director	Toshihito Tamba
Committee Members	Outside Directors	Naoomi Tachikawa, Yoshitsugu Hayashi
	Standing Directors	Michihiro Kitazawa, Kenzo Sugai

Matters for Consultation

- (1) Policy on the composition of the Board of Directors
- (2) Policies and criteria regarding the appointment or dismissal of Directors, the President and Chairman of the Board of Directors, and Audit & Supervisory Board Members
- (3) Appointment or dismissal of Directors, the President and Chairman of the Board of Directors, and Audit & Supervisory Board Members
- (4) Matters regarding the formulation and implementation of a succession plan for the President and Chairman of the Board of Directors
- (5) Policies and criteria regarding the remuneration of Directors and Audit & Supervisory Board Members
- (6) Details of remuneration for Directors and Audit & Supervisory Board Members

In fiscal 2020, the Nomination and Remuneration Committee convened on two occasions to deliberate the matters and reported the results to the Board of Directors.

Appointment of Directors and Audit & Supervisory Board Members

Fuji Electric's policy on nominating candidates for Directors and Audit & Supervisory Board Members is to decide on candidates by taking into account such factors as the overall balance of qualifications and experience on the Board of Directors, and other viewpoints such as diversity.

Persons with the qualifications, experience, and other attributes required to execute the Company's management policies are appointed as Standing Directors. In addition to the officers who supervise sales, manufacturing, management, and the power electronics systems business as our core business, we have appointed the officer responsible for our technology development division as Standing Director.

Persons equipped with the insight and experience required to make multilateral business decisions who also have an understanding of Fuji Electric's management are

appointed as Outside Directors. For instance, managers of listed companies or experts in academic fields closely related to Fuji Electric's business domains. Each Director's term of office is one year so that we maintain the management framework capable of making clear the responsibilities of management in each fiscal year and of responding quickly to changes in the business environment.

Persons familiar with the Company's operations in general who also possess expert knowledge and experience are appointed as Standing Audit & Supervisory Board Members.

Persons equipped with the expert knowledge and experience required to undertake audits who also have an understanding of Fuji Electric's management are appointed as Outside Audit & Supervisory Board Members. For instance, corporate managers, persons with experience as a standing auditor of a listed company, or legal experts.

Independence Criteria for Outside Officers

Fuji Electric judges the applicable candidate to be fully independent from the Company when he/she does not fall under any of the conditions listed below, in addition to the criteria for independence stipulated by domestic financial exchanges, including the Tokyo Stock Exchange.

- (1) Major shareholder
A major shareholder of the Company (who owns 10% or more of the voting rights) or its executor of business.
- (2) Major business partner
A business partner (consultants such as lawyers, certified public accountants, and tax accountants, as well as consulting firms such as law firms, audit firms, and tax firms) or a person executing its business whose transactions with the Company exceed 2% of the annual consolidated net sales of the Company or the other entity in the past three fiscal years.

- (3) Major lender, etc.
A financial institution, other major creditor, or a person executing the business of these institutions that is indispensable for the Company's funding and on which the Company depends to the extent that it is irreplaceable.
- (4) Accounting Auditor
A certified public accountant who belongs to an auditing firm that serves as the Accounting Auditor of the Company or employee, etc. of such auditing firm.
- (5) Donee
A person executing the business of an organization which receives a donation exceeding 10 million yen per year that is greater than 2% of its annual income from the Company for the past three fiscal years.

List of Officers (As of September 1, 2021)

Directors

 Michihiro Kitazawa Chairman of the Board of Directors President and Chairman of the Board of Directors President General Management	 Junichi Arai Director Senior Managing Executive Officer Corporate General Manager, Corporate Management Planning Headquarters General Manager, Export Administration Office In charge of compliance management and crisis management
 Kenzo Sugai Elected Corporate Director Nominations and Remuneration Committee member Executive Vice President Assistant to the President	 Shiro Kondo Director Managing Executive Officer Corporate General Manager, Corporate R&D Headquarters
 Toshihito Tamba Outside Director Nominations and Remuneration Committee chairman Director, Tokyo Century Corporation	Audit & Supervisory Board Members
 Naomichi Tachikawa Outside Director Nominations and Remuneration Committee member	
 Yoshitsugu Hayashi Outside Director Nominations and Remuneration Committee member Distinguished Professor and Director, Center for Sustainable Development and Global Smart Cities, Chubu University	 Junichi Matsumoto Standing Audit & Supervisory Board Member
 Michio Abe Director Senior Managing Executive Officer Corporate General Manager, Production & Procurement Group In charge of Power Generation Business	 Tetsuo Hiramatsu Outside Audit & Supervisory Board Member President & Representative Director, Chuo-Nittochi Group Co., Ltd. President & Representative Director, Chuo-Nittochi Co., Ltd.
 Masatsugu Tomotaka Director Senior Managing Executive Officer In charge of Power Electronics Sales, Power Electronics Energy Business and Industry Business	 Hirohiko Takaoka Outside Audit & Supervisory Board Member
	 Yuko Katsuta Outside Audit & Supervisory Board Member Partner, ITN Partners

Executive Officers

Position	Name	Division
President and Chairman of the Board of Directors	Michihiro Kitazawa	General Management
Executive Vice President and Elected Corporate Director	Kenzo Sugai	Assistant to the President
Senior Managing Executive Officer	Michio Abe	Corporate General Manager, Production & Procurement Group, In charge of Power Generation Business
Senior Managing Executive Officer	Masatsugu Tomotaka	In charge of Power Electronics Sales, Power Electronics Energy Business and Industry Business
Senior Managing Executive Officer	Junichi Arai	Corporate General Manager, Corporate Management Planning Headquarters; General Manager, Export Administration Office; In charge of compliance management and crisis management
Managing Executive Officer	Toru Housen	Corporate General Manager, Semiconductors Business Group
Managing Executive Officer	Takeshi Kadoshima	General Manager, Human Resources and General Affairs Office
Managing Executive Officer	Shiro Kondo	Corporate General Manager, Corporate R&D Headquarters
Managing Executive Officer	Masashi Kawano	Corporate General Manager, Power Electronics Energy Business Group
Managing Executive Officer	Hiroshi Tetsutani	Corporate General Manager, Power Electronics Industry Business Group
Executive Officer	Kenji Goto	Deputy Corporate General Manager, Power Electronics Energy Business Group
Executive Officer	Masahiro Morimoto	President and Representative Director, Fuji Electric FA Components & Systems Co., Ltd.
Executive Officer	Tadao Horie	Corporate General Manager, Power Generation Business Group
Executive Officer	Yoshitada Miyoshi	General Manager, President's Office; In charge of SDGs Promotion; In charge of Public Relations and Investor Relations
Executive Officer	Masato Miyake	General Manager, Legal Office, Corporate Management Planning Headquarters
Executive Officer	Keiichi Asano	Corporate General Manager, Food and Beverage Distribution Business Group
Executive Officer	Takashi Obinata	Deputy Corporate General Manager, Production & Procurement Group; General Manager, Production Technology Center
Executive Officer	Hiroshi Ishii	Corporate General Manager, Power Electronics Sales Group

Activities of Outside Officers in Fiscal 2020

To strengthen our management supervisory and auditing functions, and to ensure the validity and appropriateness of our important decisions, the Officers play the proper roles as stated below.

Outside Directors

Name	Status of Attendance at Board of Directors Meetings Status of Attendance at Nomination and Remuneration Committee (Meetings Attended/Meetings Held)	Main Activities
Toshihito Tamba	13/13 2/2	Board of Directors Mr. Tamba offered opinions as necessary on all areas of Fuji Electric's management, including on the following matters, based on his professional standpoint and considerable insight as a manager of listed companies. • Formulation of a business plan taking into account changes in the market environment • Appropriate ways to carry out IR activities Nominations and Remuneration Committee Mr. Tamba led the supervisory function in appointment of candidates for Directors and Audit & Supervisory Board Members and the process of determining remunerations for Directors and Audit & Supervisory Board Members from an objective and neutral standpoint.
Naomichi Tachikawa	13/13 2/2	Board of Directors Mr. Tachikawa offered opinions as necessary on all areas of Fuji Electric's management, including on the following matters, based on his professional standpoint and considerable insight as a manager of listed companies. • Managing the progress of management plans • Managing the progress of large-scale orders Nominations and Remuneration Committee Mr. Tachikawa carried out the supervisory function in appointment of candidates for Directors and Audit & Supervisory Board Members and the process of determining remunerations for Directors and Audit & Supervisory Board Members from an objective and neutral standpoint.
Yoshitsugu Hayashi	13/13 2/2	Board of Directors Mr. Hayashi offered opinions as necessary on all areas of Fuji Electric's management, including on the following matters, based on his professional standpoint and considerable insight about environmental engineering, a field that is closely related to the Company's management policies. • Initiatives aimed at reducing Fuji Electric's environmental footprint • Appropriate ways to carry out research and development Nominations and Remuneration Committee Mr. Hayashi carried out the supervisory function in appointment of candidates for Directors and Audit & Supervisory Board Members and the process of determining remunerations for Directors and Audit & Supervisory Board Members from an objective and neutral standpoint.

Outside Audit & Supervisory Board Members

Name	Status of Attendance at Board of Directors Meetings Status of Attendance at Audit & Supervisory Board Meetings (Meetings Attended/Meetings Held)	Main Activities
Tetsuo Hiramatsu	13/13 7/7	Mr. Hiramatsu confirmed and offered opinions as necessary at meetings of the Board of Directors concerning agenda items and the status of Fuji Electric's business activities based on his extensive experience and considerable insight as a manager at financial institutions. At meetings of the Audit & Supervisory Board, he confirmed and offered opinions on the legal compliance of the overall business activities of Fuji Electric.
Hirohiko Takaoka	9/9* 5/5*	Mr. Takaoka confirmed and offered opinions as necessary at meetings of the Board of Directors concerning agenda items and the status of Fuji Electric's business activities based on his extensive experience and considerable insight as an experienced Full-time Audit & Supervisory Board Member, etc. of listed companies. At meetings of the Audit & Supervisory Board, he confirmed and offered opinions on the legal compliance of the overall business activities of Fuji Electric.
Yuko Katsuta	9/9* 5/5*	Ms. Katsuta confirmed and offered opinions as necessary at meetings of the Board of Directors concerning agenda items and the status of Fuji Electric's business activities based on her expert knowledge as an attorney. At meetings of the Audit & Supervisory Board, she confirmed and offered opinions on the legal compliance of the overall business activities of Fuji Electric.

* Since Mr. Hirohiko Takaoka and Ms. Yuko Katsuta newly assumed the office of Auditor at the conclusion of the 144th Ordinary General Meeting of Shareholders held on August 6, 2020, the above status on attendance at the Board of Directors and the Audit & Supervisory Board meetings refers to those meetings held after their assumption.

Remuneration for Directors and Audit & Supervisory Board Members

Process of determining remuneration

Consulted by the Board of Directors, the Nomination and Remuneration Committee discusses policies and criteria concerning remuneration as well as the details of remuneration. The Board of Directors resolves on the policy for the final decisions respecting the details of the committee's report that the Board of Directors has received from the Committee.

The actual decision on individual remuneration amounts is left to the discretion of President and Chairman of the Board of Directors, but within the limit resolved at the General Meeting of Shareholders and with reference to the details of the committee's report.

Classification-Based Remuneration System

Classification	Remuneration System
Standing Directors	<p>The amount of performance-linked remuneration for Standing Directors is based on the payment level that pushes up the proportion of performance-linked remuneration when there is a rise in the consolidated ratio of operating income to net sales, which is set as a critical target in the medium-term management plan. The previous year's consolidated performance (e.g., net sales, operating income, net income, and dividends) is taken into account to make the final decision. The consolidated ratio of operating income to net sales for fiscal 2020 was 5.5%, and performance-linked remuneration accounted for about 35% of the remuneration.</p> <p>Base Remuneration Base remuneration is a predetermined amount that is paid monthly at a certain time to executives according to their position. A portion of the base remuneration is contributed to the director shareholding association to share the economic interests of shareholders and as an incentive to make management aware of share value.</p> <p>Performance-Linked Remuneration Performance-linked remuneration is paid annually at a certain time only in instances in which dividends are paid to all shareholders from retained earnings. The total amount of executive performance remuneration shall be within 1.0% of consolidated net income for the fiscal year prior to the date of payment in order to make the link with consolidated results for each fiscal year more clearly.</p>
Standing Audit & Supervisory Board Members Outside Directors and Outside Audit & Supervisory Board Members	A predetermined amount is paid monthly at a certain time to executives according to their position as base remuneration. Stocks in the Company may be acquired at their own discretion.

Remuneration by Classification (Fiscal 2020)

Classification	Total Remuneration (Millions of Yen)	Remuneration by Type (Millions of Yen)		Number of Recipients
		Base Remuneration	Performance-Linked Remuneration	
Standing Directors	384	243	140	5
Standing Audit & Supervisory Board Members	58	58	—	2
Outside Directors and Outside Audit & Supervisory Board Members	51	51	—	8

Amount of Contributions to Director Shareholding Association and Shares of the Company Acquired (Fiscal 2020)

Classification	Amount of Contributions to the Director Shareholding Association (Millions of Yen)	Shares of the Company Acquired (Hundreds of Shares)
Directors	20	60
Audit & Supervisory Board Members	4	12

Training Policy for Directors and Audit & Supervisory Board Members

Before taking office, Standing Officers undergo compliance training, which also encompasses legal and taxation matters. They are also provided opportunities after taking office to acquire necessary knowledge on an ongoing basis.

Before taking office, Outside Officers are briefed on the state of the Company and the roles they are expected to perform. After taking office, they have the chance to deepen their understanding of the Company's business by attending internal technology presentations and inspecting production sites.



Mr. Takaoka and Ms. Katsuta, Outside Audit & Supervisory Board Members, visiting the Kawasaki Factory

Policy regarding decisions on remuneration

We have established a remuneration system and remuneration levels that are deemed appropriate for their respective duties and in accordance with shareholder mandates, giving due consideration to the aims of securing and maintaining competent personnel and providing incentives for the improvement of business performance.

We routinely verify that the system and levels are appropriate or whether they need reviewing in light of changes in the operating environment or objective external data.

Evaluation of Effectiveness of the Board of Directors

We conduct the evaluation of the effectiveness of the Board of Directors with the use of a third-party survey in order to verify whether the Board of Directors is properly fulfilling its expected roles and functions and to facilitate further improvements thereof. The results of the survey are reported to the Board of Directors, and issues that require improvement going forward are shared with everyone.

The issues that have been shared based on the results of this effectiveness evaluation are addressed in turn according to a schedule clearly defined for each, so that we continue working to enhance the functions of the Board of Directors.

Opinions, Issues Raised, and Actions as a Result of the 2019 Effectiveness Evaluation of the Board of Directors

Opinions and Issues Raised	Major Initiatives in Fiscal 2020
Further discussion of the medium- to long-term issues (e.g., medium-term management plan, ESG)	Discussed the following subjects: • Each segment's business plans and strategies • Research and development strategies
Report on dialogue with institutional investors	Reported the status of IR activities, opinions and requests from analysts and institutional investors

Scope of evaluation	Fiscal 2020 Board of Directors (13 meetings in total)
Subjects	All Directors and Audit & Supervisory Board Members (13 people in total)
Evaluation method	Anonymous survey conducted by a third party
Evaluation period	January to February 2021
Main question categories	(1) Board of Directors make-up, administration, discussions, and monitoring functions (2) Support structure and training for Directors and Audit & Supervisory Board Members (3) Dialogue with shareholders (4) Initiatives implemented by Directors and Audit & Supervisory Board Members themselves
Evaluation process	(1) Subjects answer a survey conducted by a third party (2) The third party identifies issues based on a results report and advice (3) Board of Directors analyzes, discusses, and assesses the findings
Summary of evaluation results	Every part of what the Board of Directors does, which includes discussions as well as support for Directors and Audit & Supervisory Board Members, earned mostly positive assessments, thereby assuring the overall effectiveness of the Board of Directors.
Issues to address	In light of the opinions in the survey calling for more in-depth discussions about further improvements in the administration of the Board of Directors and the medium- to long-term issues, it was recognized that challenges lie ahead in order to further improve the Board's functions and invigorate discussions.

Internal Control System

With the aim of complying with laws and regulations, managing the risk of loss, and securing the efficiency of the execution of duties, the Fuji Electric Board of Directors has determined basic policies concerning the establishment of an internal control system as stipulated in the Companies Act of Japan, and the Company discloses those policies. Fuji Electric discloses information on the implementation of its internal control system, thereby taking steps to respond promptly and accurately to the demands placed upon the Company by society.

Main systems based on the internal control system

► Compliance system

(Please refer to page 41 for details.)

Based on systems for ensuring that Directors and employees perform their duties in a manner that is compliant with laws

and the articles of incorporation, Fuji Electric has established and promotes a compliance system in order to secure the transparency and soundness of business execution.

► Risk management system

(Please refer to page 43 for details.)

Based on regulations and other systems pertaining to managing the risk of loss, Fuji Electric has developed an appropriate risk management system in order to manage business risks in a coordinated, systematic manner. In regard to specific cross-sectional risks, the Company determines departments to put in charge of each risk, thereby establishing a risk management system.

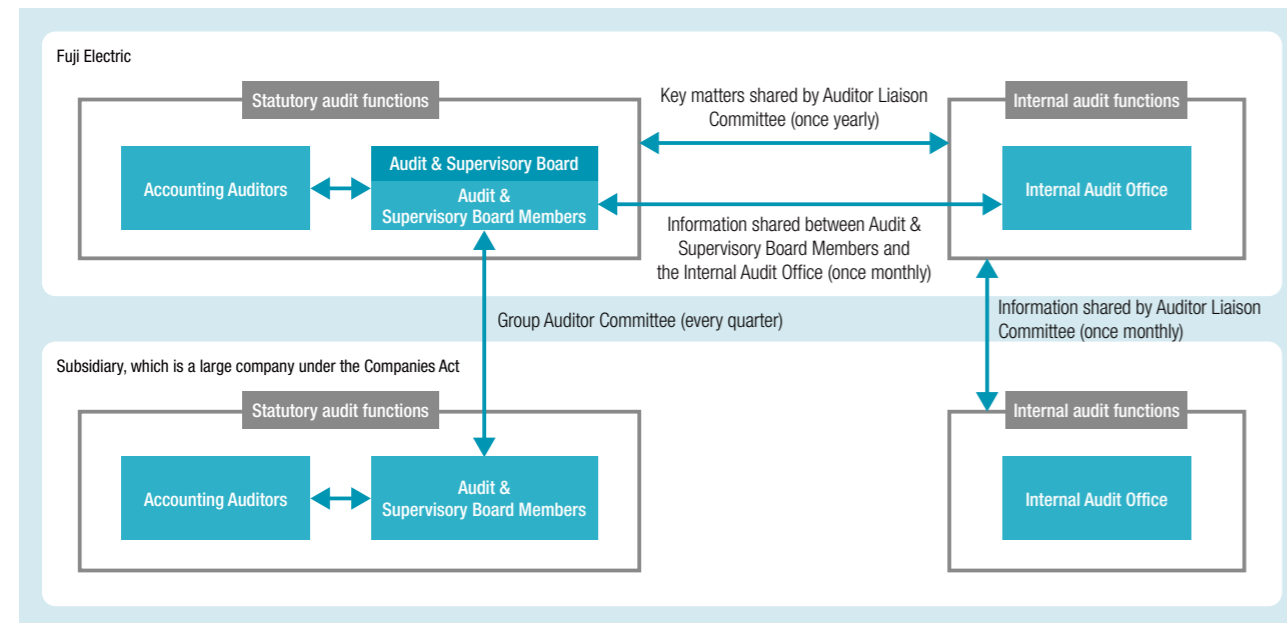
Audit & Supervisory Board Members and Internal Audits

Strengthening collaboration between audit functions

We ensure the effectiveness of Fuji Electric's audit functions by reinforcing collaboration between statutory audit functions (Audit & Supervisory Board Members, Accounting Auditors)

and internal audit functions (Internal Audit Office). We will continue to strengthen this collaboration going forward, with a particular focus on project management for large-scale projects, compliance audits, and audits at overseas subsidiaries.

Main Initiatives for Strengthening Collaboration



Audits by the Audit & Supervisory Board Members

Audit & Supervisory Board Members conduct audits in accordance with the audit policies and duties assigned and in compliance with the standards for audits established by the Audit & Supervisory Board. They report the details and results of their audits to the Audit & Supervisory Board.

In fiscal 2020, the Audit & Supervisory Board convened seven times in total. Every meeting was attended by all of the Company's Audit & Supervisory Board Members. During the meetings, the Audit & Supervisory Board mainly reviewed audit policies and plans, the appropriateness of auditing methods and results of the Accounting Auditors, and undertook an assessment of the Accounting Auditors. It also reported on and reviewed important matters that the Standing Audit &

Supervisory Board Members communicated to the Outside Audit & Supervisory Board Members.

Main tasks

- Attending and offering opinions at meetings of the Board of Directors, the Executive Committee, the Compliance Promotion Committee, and other important committees
- Reviewing documents pertaining to important resolutions
- Receiving explanations on the status of operational execution from Directors and internal auditing divisions
- Investigating the status of operations and assets at Fuji Electric, consolidated subsidiaries in Japan and overseas, and companies undertaking M&As (done remotely as necessary)

Internal audits

Every second year, the internal auditing divisions as bodies directly under the President perform the following audits on Fuji Electric's business divisions and subsidiaries in accordance with internal auditing standards and annual audit plans.

A total of 34 bases were audited in fiscal 2020, and many of the audits were done remotely, particularly those of overseas bases. No risks or inadequacies with the potential to seriously affect management were discovered.

Type of Audit	Main Tasks
Organizational management	Evaluating the appropriateness of management and administration (development of regulations, approval procedures, performance management, etc.)
Risk management	Evaluating the effectiveness of risk management systems and risk response
Compliance	Checking for compliance with laws and regulations based on the Fuji Electric Compliance Program and confirming legal compliance
Business execution	Evaluating the appropriateness, efficiency, and effectiveness of business execution (booking of sales and purchases, investments, cash flow, etc.)
Accounting	Evaluating the appropriateness of cost accounting and the soundness of assets and liabilities

Policy on Cross-Shareholding

Fuji Electric holds listed shares as a matter of policy in order to maintain and strengthen relations with its investee companies. We will sell these cross-shareholdings when the rationality of holding them is not recognized, and even if certain rationality is recognized, we will reduce them while paying attention to the impact on management and business. In fiscal 2020, we sold multiple listed stocks we held (as of March 31, 2021, we hold 74 listed stocks).

The Board of Directors periodically evaluates the rationality of shareholding in light of whether it is necessary to maintain and strengthen relations with the investee companies and of

the comparison of capital cost and return. The details of the review are disclosed.

The voting rights that come with cross-shareholding are exercised after considering all relevant factors, including whether the proposed action will help the issuing company to establish an appropriate corporate governance framework and to increase its medium- to long-term corporate value, and what impact the action will have on Fuji Electric. We also have dialogue regarding the details of the proposal, among others, with the issuing company as necessary.

Dialogue with Shareholders and Investors

Basic policies

We disclose information in accordance with various laws and regulations. Even if we are not required to do so by law, we also strive to disclose corporate information thought to have a significant impact on investment decisions in a timely, fair, and equitable manner, so that we might earn the trust of our shareholders and investors and ensure they have a proper understanding of the Company.

Major initiatives in fiscal 2020

We had to defer the public disclosure of the full-year financial results for fiscal 2019 and the management plan for fiscal 2020 due to the COVID-19 pandemic. Given this situation, we handled more media coverage on conference calls or online, provided more elaborate information than ever to disclose at the IR briefings, and published more detailed IR information on our website in order to ensure that our shareholders and investors have a clearer understanding of our business environment and business strategies.

Furthermore, we held an "ESG Small Meeting" for a discussion that focused on subjects of interest to ESG investors in order to enhance our action toward growing ESG investments.

Timely disclosure (examples)

- Notice of Postponement of Announcement of Financial Results for Fiscal Year Ended March 31, 2020 (April 2020)
- Losses Caused Due to Semiconductor Product Defect (November 2020)
- Announcement Concerning the Sale of Investment Securities (January 2021)
- Announcement Concerning the Result of the Sale of Investment Securities (March 2021)

Explanatory forums for analysts and institutional investors

- Financial results presentations (May, July, and October 2020; January 2021)
- Management plan presentations (October 2020)
- Business strategy presentations (October 2020)
- ESG Small Meeting (February 2021)

Opinions of analysts and institutional investors

We actively engage in dialogue with analysts and institutional investors, and the information shared at briefings and the principal feedback and requests we receive during private meetings are shared with the executive officers and Board of Directors, so that we discuss them as management issues. The main opinions and requests received from analysts and institutional investors in fiscal 2020 are as follows.

Main opinions and requests

► General management and business

- Publication of more information about business opportunities and growth strategies to achieve decarbonization
- Promotion of further growth investing in power semiconductors
- Promotion of measures to improve the profitability of the ED&C components and factory automation businesses
- More rigorous risk management for power generation projects

► ESG

- Review of the environmental protection policy to achieve decarbonization
- Disclosure of information related to the TCFD recommendations under discussion
- Promotion of more women to directors and managers
- Further reduction in cross-shareholding

Audit & Supervisory Board Initiatives to Help Improve the Effectiveness of Corporate Governance

Having the institutional design of a listed company, Fuji Electric has chosen to adopt the format of a company employing the corporate auditor system. This has various advantages. For example, the effectiveness of audits can be ensured by on-site audits by Standing Audit & Supervisory Board Members. Also, auditor independence is ensured. With this format, moreover, we can expect audits of substantial validity based on proper management decision-making principles while eliminating potential risks associated with self-audits. This round-table discussion among Audit & Supervisory Board Members took up the current status of that Board's efforts to further improve the effectiveness of corporate governance under this institutional design, as well as challenges being faced.



Activities of Audit & Supervisory Board Members: Evaluations and Issues

Key points

- Emphasis on close cooperation between Audit & Supervisory Board Members, internal auditing divisions, and accounting auditor, as well as on-site audits by Standing Audit & Supervisory Board Members to ensure the effectiveness of audits
- Importance of sharing awareness of risk at the audit planning stage in order to further improve effectiveness
- Consideration of opportunities for Standing Audit & Supervisory Board Members to accompany outside members on on-site audits to further improve the latter's understanding of the Company's business

Okuno

To ensure the effectiveness of audits, we place importance on strengthening each audit function through so-called "three-way audits" based on cooperation between Audit & Supervisory Board Members, internal auditing divisions, and the accounting auditor, as well as through on-site audits. Please tell us your opinion about this.

Matsumoto

With regard to three-way audits, we, Standing Audit & Supervisory Board Members, receive reports on audit

results and exchange opinions with the internal auditing divisions at annual Audit & Supervisory Board, as well as at monthly liaison meetings. In addition, we collaborate with the accounting auditor, receiving detailed explanations and exchanging opinions at each juncture of making audit plans, quarterly reviews, and annual audit reports.

As for on-site audits, Standing Audit & Supervisory Board Members basically visit each division of the Company and consolidated subsidiaries in Japan every year, as well as overseas consolidated subsidiaries every year or two, depending on the position of the relevant

base. In fiscal 2020, we visited a total of 83 divisions and bases, including through remote audits. We also endeavor to share information by sending monthly activity reports to outside Audit & Supervisory Board Members regarding the general status of visiting audit, including the main points of the three-way audits.

Hiramatsu

We believe that the activities of our Audit & Supervisory Board Members are quite faithful to our auditing standards and other norms. We are also gradually improving the auditing environment to enhance the effectiveness of audits. In fiscal 2020, for example, one person who is independent from Directors has joined the staff to assist the Audit & Supervisory Board Members on a full-time basis.

Of the three-way audits, the internal auditing divisions are the most important partners for Audit & Supervisory Board Members, from my standpoint as an Outside Audit & Supervisory Board Member, rather than focus in details of individual cases, I try to view things from the perspective of whether they are useful to management. On the other hand, we expect the accounting auditor to simply give us a fair and strict opinions. To this end, we carefully monitor how well the accounting auditor, which does not have any compulsory investigative powers, makes decisions with our close cooperation. I also believe that the current frequency of visiting audit by Standing Audit & Supervisory Board Members is appropriate, and the results are reported to us as needed, which is very helpful.

As an Outside Audit & Supervisory Board Members, when I receive various reports I pay attention to the hidden side—estimating the size of the iceberg, so to speak. As for visiting audit during the COVID-19 pandemic, I would like to see further improvements with respect to compensating for areas that cannot be handled properly by online inspections in order to increase effectiveness of audits.

Takaoka

I have only been an outside member for one year, but as mentioned before, I believe that the three-way audits,

on-site audits, and information sharing—which are important for a company employing the corporate auditor system—are being conducted appropriately as prescribed.

As we expand our business, especially overseas, one of our future issues will be to strengthen cooperation at the audit planning stage, especially in the three-way audits, in order to increase the effectiveness of audits by Audit & Supervisory Board Members with a limited number of personnel. In other words, it will become more important for members to communicate their requests, such as about areas that should receive close scrutiny and other matters, based on our risk awareness, to their partners—internal auditing divisions and the accounting auditor—in advance.

Katsuta

It's been a year since I became an Outside Audit & Supervisory Board Member. While our company's business covers a wide range of fields, our standing members are really energetic in conducting numerous on-site audits, and they share the results with us on a monthly basis. I have the opportunity to hear from the internal auditing divisions and accounting auditor on a regular basis, and I believe we have managed to conduct well-balanced three-way audits utilizing new methods, such as self-audit tools and data analysis based on digital audits. In the future, we need to continue striving to improve the efficiency, accuracy, and effectiveness of our audits, while also referring to case studies of other companies.

In terms of understanding our company's business, I receive business strategy explanations by relevant executive officers at Board meetings and join factory inspections. I also read the monthly company magazine, which introduces the technical details of new products, activities at each business site, and initiatives related to the SDGs, and I find it very meaningful. In the future, it would be helpful to get more information about the activities of the Fuji Electric Group Auditor Committee. I'd also like the opportunity to witness on-site audits by standing members in order to deepen my understanding.

Key Audit Matters to Address Diversified Management Risks

Key points

- Growing importance of compliance of overseas subsidiaries as our business expands overseas
- Need to pay more attention to supply chain risk, quality risk, etc.

Okuno

In addition to introducing a key audit matters (KAM) system last year, our Compliance Promotion Committee, which is run by the executive divisions, cited "strengthening compliance activities at overseas subsidiaries" as a new key

issue in its medium-term compliance policy, and the Audit & Supervisory Board is monitoring this closely. With the diversification of management risks, the number of issues that the Board needs to follow is increasing. Please tell us about your current perceptions and comment on issues.

Matsumoto

To audit the risk management system, we check the operational status of the risk management sheet (risk management PDCA cycle) prepared by the executive divisions in accordance with internal regulations. As for compliance, through the Compliance Promotion Committee and other bodies, we audit the status of addressing and progress of compliance programs for each law, as well as the status of our internal reporting system. Compliance at overseas subsidiaries will become increasingly important as we expand our overseas operations.

The most important aspect of compliance is education. For this reason, it is extremely important for executives and managers to repeatedly send out messages to employees so that every corner of the organization remains fully aware of the need to comply with laws and regulations.

Hiramatsu

Every time a major scandal occurs in Japanese companies, the legal authority of auditors is strengthened, and I believe that our “three lines of defense” form a solid control base when it comes to dealing with diversified risks. The first line of defense is day-to-day internal control by the front-line business execution divisions. The second line of defense is professional oversight by finance, legal, corporate management planning, and other appropriate internal control divisions. And the third line of defense is monitoring by the internal auditing divisions.

As an Outside Audit & Supervisory Board Member, whenever I hear reports of problems at other companies, I try to check frankly whether each line of defense is functioning properly, without preconceptions that it cannot happen at our company.

Takaoka

Given plans to expand our business globally in the future, I believe that strengthening compliance at our overseas subsidiaries will be a major priority. Overseas subsidiaries are more difficult to monitor than domestic ones, and

their legal systems and cultures are different from those in Japan. For subsidiaries in Southeast Asia, positioned as a focus region, perhaps it may be a good idea to create new systems and structures to strengthen the compliance monitoring function.

Among the various business risks, we are paying particular attention to supply chain risk. I understand that we are strengthening our assessments of suppliers, but a future challenge will be how to cover secondary and tertiary suppliers. In addition, the more core components you purchase from a single supplier, the higher the risk. I hear that we are working on multi-sourcing of purchased parts and materials in order to ensure stable procurement, and I hope we will forge ahead without omission.

As for information risk, I understand that various security measures have been taken to protect against cyber attacks, but I think we also need to pay attention to the risk of physical removal of information assets, especially at overseas subsidiaries.

Then there is quality risk, which is a major factor in our credibility as a manufacturer. In fiscal 2020, we posted a major loss due to the cost of corrective measures for product defects. I hope we will take all possible measures at the three lines of defense while being aware of the “tip of the iceberg” mentioned earlier.

Katsuta

Among the KAM items mentioned earlier, in fiscal 2020 we took a series of measures to appropriately address the problem with some of our power semiconductor products. In the process, I feel we have gained a certain level of understanding from our customers and shareholders.

In terms of compliance at overseas subsidiaries, I think the most likely place for fraud to occur is in the procurement process. Procurement fraud needs to be addressed in conjunction with the anti-corruption laws of each country, and extraterritorial application also should be considered.

Role of Outside Audit & Supervisory Board Members

Okuno

Finally, utilizing your expertise and experience from a neutral and objective standpoint as Outside Audit & Supervisory Board Members, please tell us how you would like to contribute to the Board and foster further improvements in the effectiveness of corporate governance.

Hiramatsu

Through my work experience at financial institutions, I have seen a great many companies, and as the current president of a company I have some understanding of the hardships faced by corporate managers. From those perspectives, I would like to offer opinions that will be useful in making management decisions. As an aid to

improving the effectiveness of corporate governance, I am reminded of the importance of audit reports by Audit & Supervisory Board Members. Failure to issue such reports in a prescribed manner can lead to a serious situation for the Company. I want to make sure that people in the Company do not forget this.

Takaoka

In addition to independence and expertise, Audit & Supervisory Board Members must also be ethical and say what they need to say to directors. However, extreme over-emphasis on risk and excessively conservative risk-taking are also problems. With this in mind, I hope to give advice on properly managing risk in a preventive manner. Personally, I have experiences of working in general affairs departments, being corporate management, and an auditor of companies. In the process, I've gained knowledge about corporate governance structure and risk management, and I hope to use this knowledge to fulfill my duties and meet the expectations of stakeholders.

Katsuta

The Audit & Supervisory Board is an independent body entrusted by shareholders, and its members are responsible for auditing the execution of duties by directors. In general, discussion topics tend to be brought up to the Board of Directors after they have been discussed and the policy has been formulated to a certain extent. In that sense, I try to ask questions and give opinions from the perspective of whether there is sufficient

information and materials to be considered in the decision-making process, and whether the existence of other options and associated risks have been fully discussed in light of their respective merits and demerits. I hope to contribute by confirming the validity of the decision-making process to ensure that the Board of Directors makes rational management decisions. Although there are still many aspects of our company's business that I do not fully understand, I would like to continue providing necessary advice by utilizing the knowledge and expertise I have gained through my experience as an in-house attorney and working in corporate legal affairs.

As for today's theme, “Helping Improve the Effectiveness of Governance,” I feel we still have some weaknesses in terms of diversity, including with respect to appointing women and foreign nationals as executives and managers. I understand that the Company is making various efforts to promote the advancement of women. Since this takes time to produce results, however, I think we should consider developing a medium- to long-term plan and disclosing it externally. I hope to contribute as an Outside Audit & Supervisory Board Member so our company can further meet the expectations of society.

Okuno

Thank you very much for your valuable comments and suggestions. Keeping in mind what you have pointed out, we would like to step up our activities as Audit & Supervisory Board Members and help further improve the effectiveness of corporate governance.



Measures to protect against COVID-19 were taken for the round-table discussion, and participants wore masks except when photographs were taken.