

Interview with the President and COO



Providing Customers the Best Possible Solutions in the Energy and Environment Fields to Achieve a Decarbonized Society

Q1 One year has passed since your appointment as President and COO. What have you achieved so far?

Net sales target of ¥1 trillion in FY2023 Medium-Term Management Plan achieved ahead of schedule

After assuming the role of President and COO in April 2022, I said what I would need to do as the person responsible for business execution was to achieve the targets (net sales of ¥1 trillion and operating profit ratio of at least 8%) of the Medium-Term Management Plan that ends in fiscal 2023 and formulate and execute the next growth strategies over the course of two years. Of these tasks, I consider the attainment of the Medium-Term Management Plan target of ¥1 trillion in net sales in fiscal 2022, one year ahead of schedule, to be one of my achievements in the past one year.

As the environment in which we do business is constantly changing, in order to fully implement the strategies outlined in the Medium-Term Management Plan, I have continued to impart to employees the importance of enhancing their adaptability to both near-term and longer-term changes when I visit our factories and area operations in Japan, and also our overseas sites. With numerous unforeseen events occurring worldwide and the shift towards new values over the medium-to-long term, I have encouraged each and every employee to be more receptive to information and changes, and share

their observations and thoughts. I have also urged everyone to come together as a team to follow through with the decisions they make.

We have seen various changes in the past year and I feel that our near-term responses were more or less effective. For example, we captured demand firmly by earnestly addressing customer needs, such as greater demand for power semiconductors for the electrification of vehicles, growth in data centers driven by digitalization, and the short lead-times on ED&C components for machine tools. In addition, in response to the harsh environment brought about by mainly soaring material prices and difficulties in procuring components, we have not only strengthened ongoing efforts to promote multi-sourcing of components, but we have also

made design changes to alternative materials across multiple divisions. Furthermore, we took steps to raise the selling prices of our products to align with their high added value. Moreover, due to the nature of our business, sales and profits tend to be heavily weighted towards the fourth quarter, especially in March. Nonetheless, we have been more diligent than ever in anticipating future risks and responding as soon as possible to any deviations from our plans.

Owing to the efforts of every employee in adapting flexibly to the ever-changing environment and working together as a team without giving up, we could achieve our long-held goal of ¥1 trillion in net sales. We also managed to post record-high net sales, operating profit, operating profit ratio, and profit.

Q2 Having achieved the targets of FY2023 Medium-Term Management Plan ahead of schedule, what will be the management challenges for fiscal 2023?

Setting the stage in fiscal 2023 for the next Medium-Term Management Plan

Our two missions basically remain the same, but since we have achieved the current Medium-Term Management Plan targets ahead of schedule, in fiscal 2023 we will turn our attention to emphasizing profit in our management approach. We have therefore set ourselves the must-reach targets of an operating profit ratio of 9% or higher and profit of ¥62.5 billion. Over the past decade or so we have employed various means to thoroughly improve operating profit by reviewing all kinds of operational processes, such as strengthening our manufacturing capabilities and other management reforms and launching the companywide Pro-7 activities. In other words, targeting even higher profit from this point is not so easy and we are fully aware that the challenges that lay ahead are quite daunting. Also, from this fiscal year we intend to start emphasizing profit alongside operating profit and we will be stricter about inventory controls and project management, including pre-order screening for system projects, in an effort to prevent unnecessary costs. There are four key points as we transition to the next Medium-Term Management Plan.

The first is enhancing the earnings power of the Power Electronics Industry segment. We will look to further enhance our approach to local design, local production and local consumption in order to strengthen our business structure for low-voltage inverters and other components. We will also endeavor to improve productivity through parts standardization.

The second key point is further improving profitability in the Power Generation and Food and Beverage Distribution segments. In the Power Generation segment, we will continue to work on transforming our portfolio with an

emphasis on profitability, primarily by focusing on the renewable energy business, which is experiencing growth in demand on the back of decarbonization, and strengthening after-sales businesses to improve the reliability and capacity utilization rate of facilities. In the Food and Beverage Distribution segment, we will continue to propose high value-added products, such as vending machines and eco-friendly showcases for convenience stores, both of which offer energy saving and operational improvements. We will also reorganize manufacturing systems to match business scale and strengthen our business structure.

The third point is expanding our overseas operations. Our businesses overseas are still in the development stage, so our initial goal is to achieve overseas net sales of more than ¥300 billion. Last fiscal year, we made some flexible changes to the priority of global product development in the power electronics business, which resulted in the timely market launch of some products, but it also gave rise to other challenges, such as a delayed market entry and slow sales growth of other products. Given that the business environment is changing at a dizzying pace, I believe it will be crucial that this fiscal year we keep an eye on future developments and improve the accuracy of our product development prioritization so that we can bring our global products to market as planned. On top of this, we will look to further reap the benefits of the M&As and partnerships we have hitherto forged in Asia and India. One example of such benefits is how Fuji SMBE in Singapore continues to tap fervent demand from data centers in the Asian market. We are gradually building a collaborative framework under which the local subsidiary takes the lead to gain an understanding

of what the customer requires and proposes system solutions, while Japan provides technical support as needed. At other locations in Asia too, we will need to switch to this kind of structure where the local entity takes the lead and Japan provides backup.

The fourth key point is boosting sales of new products. Internally, we previously aimed to increase new product sales in fiscal 2023 by 50% compared to fiscal 2018, but after reaching +40% in fiscal 2022, we now plan to raise the fiscal 2023 target to +70%. Up until now, the growing uptake of electric vehicles has driven stronger sales of new semiconductor products year after year. In fiscal 2023 our

plan is to boost sales in the power electronics business predominantly with low-voltage inverters that can be produced at lower cost with the use of the same production platform for multiple models, as well as uninterruptible power supply systems (UPS) for data centers that offer industry-leading capacity. We will aim to expand sales by having all development, design, manufacturing, and sales divisions collaborate on a concerted effort to accelerate the cycle of creating new products that meet customer needs.

By steadily implementing these initiatives, we hope to achieve the FY2023 Medium-Term Management Plan and set the stage for the next one.

Q3 What initiatives will you be implementing to achieve further growth from fiscal 2024 onwards?

Giving shape to the next Medium-Term Management Plan

We are currently discussing the next three-year Medium-Term Management Plan that will kick off in fiscal 2024. For the new plan, we will establish a 2030 vision (goal) for Fuji Electric and lay out our growth strategies with a backcasting approach from where Fuji Electric wants to be in 2030, which will also

align with a forecasting approach that starts from where we are now. In terms of our future direction, we will maintain the same policy of contributing to the creation of a responsible and sustainable society in the energy and environment fields, which we should say is nothing but the reason for our existence.

Targeting further growth by maximizing synergies between divisions

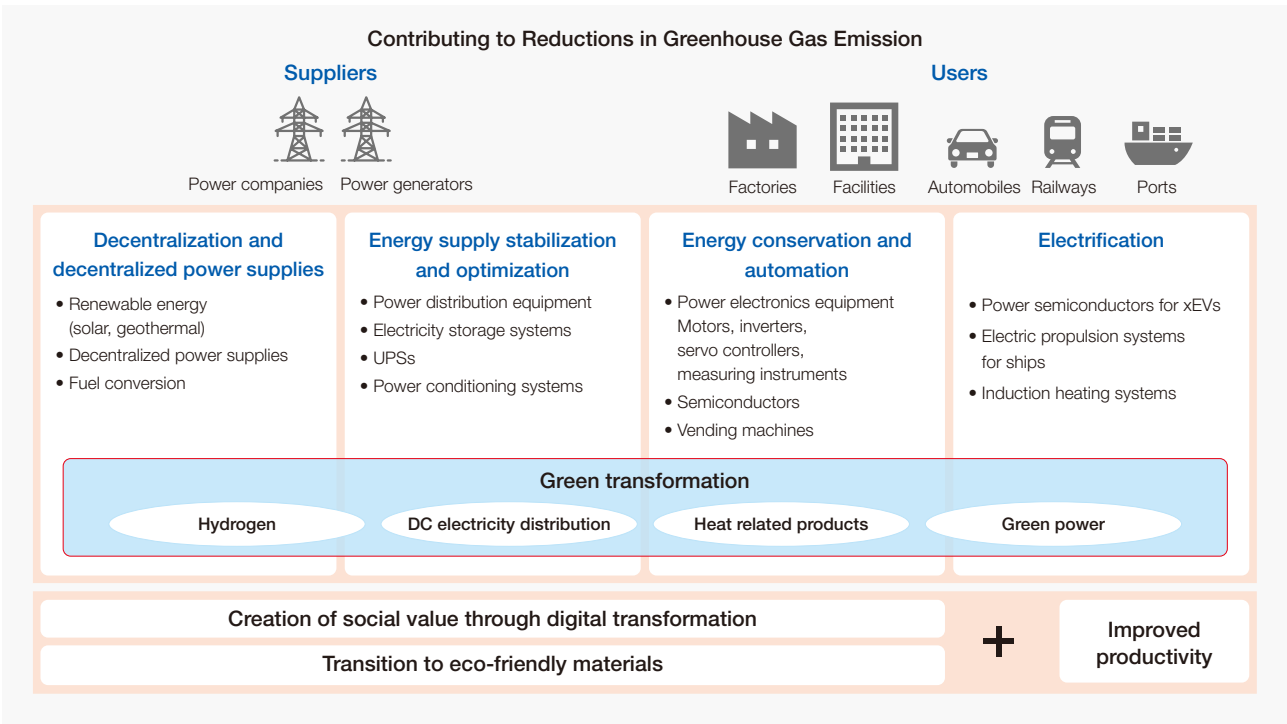
Digital transformation (DX) and green transformation (GX) initiatives are gathering momentum as solutions to challenges in society, along with the objective of realizing a decarbonized society by 2050. As more emphasis is placed on sustainability initiatives toward 2030, it is critical that we accurately understand the changing values of our customers and society and that we make sure no business opportunity is overlooked during this transitional period.

Our strength lies in having a mix of businesses and technologies to seamlessly address customer challenges, from the energy supply side (suppliers) to the demand side (users). While there are a myriad of growth opportunities through which we can capitalize on this advantage, we are intent on positioning our power electronics and power semiconductor businesses at the core of efforts to create social value in line with market changes in the energy and environment fields. The key to providing customers with the most optimal system and solution is to respond to their needs in a flexible manner across divisional boundaries.

In this context, in order to quickly capture the needs of customers, in April last year we established a special cross-divisional department within the Power Electronics Energy Business Group to coordinate discussions and negotiations about carbon neutrality projects throughout the Company. We have received more than 200 inquiries

regarding renewable energy in the power generation business and regarding grid storage battery systems and distributed grids in the power electronics business, and as such, our initiatives to address the immediate challenges of customers are beginning to get on the right track.

Meanwhile, the New Products Development Office that was set up within the Corporate R&D Headquarters in fiscal 2021 serves as the hub for projects with relatively long lead times, such as hydrogen fuel conversion, electrification on the consumer side, including thermal energy, and the regulation and optimization of electricity supply and demand. And our sales, business, and R&D divisions collaborate with each other to analyze market and customer trends and drive new product development. The challenge for us now is how best to align our medium- and long-term development themes with the Company's 2030 growth strategies and how to shape our business portfolio. I believe all of this will also get on the right track as the potential projects pass through the product planning review stage. Of course, it will be really important to keep growing our current businesses, and as market values shift, we will need to forecast how the positioning of our products will change and what new technologies and products will be needed. To capture that demand, we will roll out on-target measures and execute investments.



I want every employee to be able to grasp, and adapt to, changes in society and the market in the lead up to 2030 by leveraging two drivers of innovation, alongside the traditional approach of “adaptability to change.” The first driver is “Imagination” to envision what the year 2030 might look like, and the other is “Creativity” to think about how such a future could be created. I would like to see each employee paint a picture of the future and, in order to realize it, identify Fuji Electric's competitive advantages by engaging in discussions with not only other employees in the Company, but also with customers from various industries. These ideas will be fed into an action plan, and we will aim to create the future together as a team.

In addition to considering these business strategy perspectives, a strategy that connects all of the corporate divisions laterally is also very important if we are to further strengthen our operating foundations. In particular, I believe human resources to be extremely important. With the aim of setting in motion a virtuous cycle of employee happiness and the Company's sustainable growth, we are working with relevant divisions to explore mechanisms that contribute to job satisfaction of each employee and fully maximize the value of our human resources—the source of our competitive advantages. In terms of production

and procurement as well, approach to local design, local production, and local consumption has become more important and strengthening cooperation across divisions and regions will be indispensable to this. At the same time, we will promote DX in an effort to further boost productivity. Also, it is critical that we align our business strategy and goal setting with our environmental vision and further reinforce our risk responsiveness to bolster our resilience to cope with unexpected changes. I should also add that in order to align our strategies and tie them together, it is important that we set targets for management indicators that will contribute to improvement in corporate value from both financial and non-financial perspectives, in addition to establishing KPIs that can be shared with employees.

The year 2023 marks the culmination of Fuji Electric's century-long history. It is also the year in which we will earnestly contemplate the Company's future. We will thoroughly discuss our 2030 vision (where Fuji Electric wants to be in 2030) and our next three-year Medium-Term Management Plan and aspire to be a company that continues to achieve growth and is trusted by our customers, shareholders, business partners, community members, and all other stakeholders.

Shiro Kondo
President and COO

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