

January 28, 2021
Fuji Electric Co., Ltd.

**Condensed Transcript of Q&A Session Regarding Financial Results Presentation
for the Nine-Month Period Ended December 31, 2020**

Date: January 28, 2021 (Thursday) 16:45–17:53

The Q&A session took place after an explanation of the expenses incurred for responding to defects in certain power semiconductor products that highlighted the following points.

- Cost of corrective measures for product defects of ¥16.7 billion was recorded under extraordinary loss on the financial statements for the nine-month period ended December 31, 2020. This amount accounts for an increase that is near the same as the amount of ¥8.4 billion that is arrived at by deducting the provision of ¥1.9 billion recorded in the previous fiscal year from the loss of ¥10.3 billion announced on November 30, 2020.
- After technically verifying all customer equipment into which the defective products were incorporated, provisions were recorded for these expenses based on agreements reached about the expenses that Fuji Electric will assume to address the defective products as well as reasonable, auditor-verified estimates with regard to those customers with which agreements have not been reached.
- The risks of additional losses that may be incurred in the fourth quarter of the fiscal year ending March 31, 2021, or beyond that can be estimated at this point in time have been incorporated into performance forecasts. However, losses have not yet been finalized, and figures do not yet account for potential claims to be submitted to insurance companies and other involved parties.
- Timely disclosure will be conducted should an unexpected event with the potential to significantly impact management occur in the future.

General

Q. Has there been any change to the full-year forecast for orders in the fiscal year ending March 31, 2021 (stated as ¥900.0 billion during the Q&A session for the six-month period ended September 30, 2020)?

A.

- There has been no change to our forecast for orders of nearly ¥900.0 billion on a full-year basis, though there is some disparity in progress by segment.

Q. What is the full-year forecast for income before income taxes?

A.

- Our full-year forecast for income before income taxes is just above ¥50.0 billion.

Q. What business opportunities are seen in relation to Fuji Electric's green growth strategies?

A.

- Fuji Electric offers a wide range of products that help combat global warming, and we see significant business opportunities with this regard.
- Specific ways in which we plan to help combat global warming including spreading use of renewable energy, including the geothermal, solar, and wind power generation systems in which Fuji Electric specializes; promoting electrified vehicles (xEVs) through the application of power semiconductors, which are key devices for energy

conservation; and growing system businesses based on power electronics technologies.

Power Electronics Systems

Q. What were the reasons behind the third-quarter improvement in performance in the Power Electronics Systems Energy segment and the Power Electronics Systems Industry segment?

A.

- Sales and income in the Power Electronics Systems Energy segment rose centered on systems. Performance was relatively unchanged year-on-year in the ED&C components business.
- In the Power Electronics Systems Industry segment, the IT solutions business made significant contributions to performance. Component performance was in line with the previous fiscal year but up in comparison to the second quarter.

Q. ED&C component orders appear to be recovering. Is this recovery faster than initially projected? What is the outlook for these orders going forward?

A.

- Metrics pertaining to machine tools bottomed out in May 2020 and have been recovering since. The recovery of ED&C components has been behind that of machine tools. However, ED&C component orders have been higher than projected since October 2020, and we suspect that this recovery trend will continue. Regardless, we must carefully monitor these trends going forward as they are shaped by factors such as Japan's state of emergency declarations.

Electronic Devices

Q. How are the power semiconductor defects impacting orders?

A.

- There has been no impact on orders at this point in time.

Q. How are power semiconductor demand trends by field?

A.

- Demand for power semiconductors for xEVs is incredible strong. We are also seeing upward trends in demand for industrial IGBTs for use for machine tool and new energy applications in Japan and China. In addition, demand for industrial discrete semiconductors is rising.

Q. Have there been any increases in demand stemming from rises in customer inventories?

A.

- We have been basing our efforts on customer inventory levels, and I can say that inventories at customers and at Fuji Electric are at appropriate levels. It is not the case that sales are rising as a result of efforts to safely amass inventories.

Q. Automobile manufacturers have been forced to lower production levels in response to semiconductor shortages. Is this situation problematic for Fuji Electric?

A.

- It depends on the extent to which automobile production is reduced. A large portion

of Fuji Electric's sales are for xEV applications, an area in which demand is strong. Accordingly, a slight decrease in automobile production will not have a significant impact on our performance.

Q. Why are fourth-quarter semiconductor sales projected to decrease in comparison to third-quarter sales?

A.

- The projected decrease in sales will be a result of foreign exchange influences. If these foreign exchange influences are excluded, fourth-quarter sales will be in line with third-quarter sales. Furthermore, it is common for sales to drop in February as a result of the Chinese New Year. If not for these factors, fourth-quarter semiconductor sales would likely increase.

Q. What is Fuji Electric's full-year forecast for semiconductor sales in the fiscal year ending March 31, 2021?

A.

- In the fiscal year ending March 31, 2021, semiconductor sales are forecast to rise by nearly 20% year on year.

Q. Fuji Electric's medium-term management plan targets semiconductor sales of ¥175.0 billion in the fiscal year ending March 31, 2024. Has there been any change to this outlook based on current conditions?

A.

- Given the strong demand for semiconductors for xEV applications, it is incredibly likely that actual sales will exceed this target.

Q. Why did the profitability of the Electronic Devices segment improve in the third quarter when compared to the second quarter?

A.

- The third-quarter improvement in profitability was a result of higher sales and production volumes.

Q. How was third-quarter performance in orders for power semiconductors for xEV applications, and what are the forecasts for these orders in the fourth quarter and in the fiscal year ending March 31, 2022?

A.

- Orders for power semiconductors for xEV applications were up roughly 100% year on year in the third quarter and increased by around 80% in the nine-month period ended December 31, 2020. We expect to see a year-on-year increase of more than 80% in the fourth quarter. The trend toward xEVs is accelerating in China and other countries, and this trend is anticipated to drive favorable increases in orders for power semiconductors for xEV applications in the fiscal year ending March 31, 2022, and beyond.

Q. How were operating rates for front-end power semiconductor production facilities in the third quarter, and what rates are projected in the fourth quarter?

A.

- Front-end production facilities for 8-inch wafers are operating at practically full capacity. Overall, these facilities were operated at over 85% capacity in the third quarter, and we project rates of more than 90% in the fourth quarter.
- In the fourth quarter, production capacity for 8-inch wafers is expected to increase by roughly 10% over the third quarter.

Q. Does Fuji Electric have enough production capacity to cater to the growing demand for automotive semiconductors?

A.

- We have completed investments in the Yamanashi Factory that will ensure the production capacity required for the fiscal year ending March 31, 2021, and we therefore believe that Fuji Electric has sufficient production capacity.

Q. Are there any plans to conduct additional capital investments going forward?

A.

- We intend to conduct capital investments in the Yamanashi Factory, the Matsumoto Factory, and other factories for the purpose of raising front-end production capacity in the second half of the fiscal year ending March 31, 2022.

Q. What type of investments are planned in regard to 300-mm power semiconductor wafers?

A.

- We are moving forward with the development of basic technologies pertaining to 300-mm power semiconductor wafers. Given the rising demand, we recognize that it will be necessary to invest in these wafers going forward, and we are currently in the process of determining the ideal timing for such investments.

Q. How much longer can Fuji Electric be expected to maintain its technological edge with regard to RC-IGBTs for xEV applications? Also, how is development of SiC devices for xEV applications progressing, and when will these products see a full-fledged rollout?

A.

- It is only a matter of time before competitors catch up with Fuji Electric in terms of RC-IGBT technologies. Nevertheless, we are committed to maintaining our technological edge through the development of next-generation products.
- SiC devices have the potential to see increased use centered on xEVs, and we are thus advancing development while communicating with automobile manufacturers. We expect to commence a full-fledge rollout of SiC devices in 2024 or 2025.

Q. There have been reports of companies raising the prices of power semiconductors. Will Fuji Electric institute such price hikes?

A.

- At the moment, we have not made any decisions to raise prices. Prices hikes are primarily being conducted by foundry-model contract production companies. Fuji Electric rarely uses such companies.

Food and Beverage Distribution

Q. What is the outlook for the vending machine business in the fourth quarter and when is demand expected to recover?

A.

- We had initially expected that sales would be up 20% year on year in the fourth quarter, as this period coincides with the start of the fiscal year for many beverage manufacturers, but we now project a 30% year-on-year decrease due to the impacts of Japan's state of emergency declarations.
- Demand is rising for contact-free vending machines and for operational streamlining methods powered by Internet of Things and artificial intelligence technologies. Accordingly, we expect a gradual recovery in demand to begin in April 2021.

Q. What is the outlook for the store distribution business in the fourth quarter and when is demand expected to recover?

A.

- The state of emergency declarations in Japan are expected to cause delays in store equipment and installation projects. Meanwhile, bids for convenience store equipment have been completed, and the related projects will be moving after the state of emergency declarations have been lifted.
- We believe that there are emerging needs for freshness-preserving showcases (food loss prevention solutions) and for showcase vending machines equipped with two-way communication functions (nighttime and satellite store operation solutions). We therefore intend to focus on such offerings.

Q. What steps will be taken to improve profits going forward?

A.

- The market is currently opaque. Accordingly, we are implementing reforms to ensure that Fuji Electric can turn a profit regardless of sales volumes. These reforms including revising personnel placements and capital investment plans, downsizing inventories, and reallocating management resources.