

To Our Shareholders



Business Report

April 1, 2017 ▶ March 31, 2018

AICHI ELECTRIC CO., LTD.

Stock Exchange Code: 6623

To Our Shareholders



We are pleased to extend our greetings to our shareholders in presenting our 109th annual report for the fiscal year ended March 31, 2018.

Overview of business

During the period under review the Japanese economy maintained moderate recovery, with an increase in capital investment and improvement in the employment and income environment, supported by solid corporate earnings. However, uncertainty continued, due in part to political uncertainties and heightened geopolitical risk overseas.

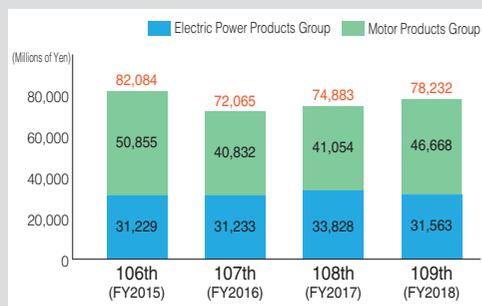
Regarding the business of our group, the Electric Power Products Group faced increasingly severe price competition in private sector transformers, though demand for products for electric power companies, our main customers, remained solid. In the Motor Products Group, demand for hermetic motors and printed wiring boards grew against a background of

recovery in the manufacturing industry in China and other factors.

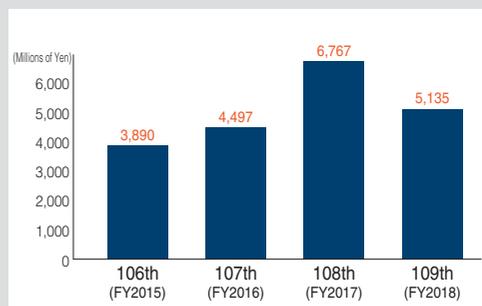
Under these circumstances, we carried out measures to expand our businesses and products as well as to reinforce the management base in this fiscal year, the 75th anniversary of our founding, under the 2018 medium-term management plan “Create the future with reliable technology.” In measures to expand businesses and product ranges, we focused on expanding sales of sophisticated power distribution products and on-vehicle motors, and developed new products including linear actuators and biogas power generation systems. Likewise, in October 2017, the Company fully absorbed sales subsidiary Aiden Shoji Co., Ltd. and reviewed the marketing system for private sector products. In initiatives to strengthen business base, we took steps to strengthen cost management on a consolidated basis and to improve training for different generations of employees, and streamline document management systems for proprietary technology.

As a result, with regard to the consolidated performance, both sales and income decreased in the Electrical Power Products

Net sales 78,232 million yen



Operating income 5,135 million yen



Group despite the strong performance of the Motor Products Group. Compared with the previous year, net sales were 78,232 million yen (an increase of 4.5%), operating income was 5,135 million yen (a decrease of 24.1%), and ordinary income was 5,073 million yen (a decrease of 29.8%), while net income attributable to owners of parent was 3,351 million yen (a decrease of 36.7%).

Dividend

Our final dividend was 45 yen per share. Combined with the interim dividend, the total dividend was 85 yen per share.

Future prospects

Regarding the future business environment, it is foreseen in the Electric Power Products Group that the capital investment of electric power companies will be suppressed along with the progress of the electric power system reform. In the Motor Products Group, we expect growth in demand for on-vehicle motors in line with the spread of next-generation automobiles, but there are concerns of a decline in orders due to intensified competition within the sector and an

increasing tendency at customer companies to bring manufacturing in-house.

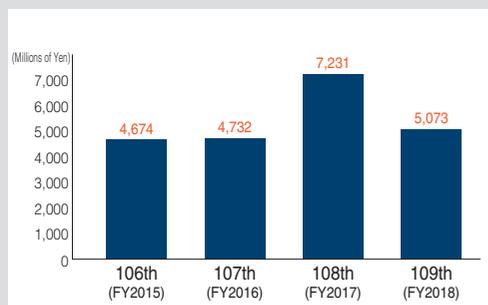
To respond to the expected changes in the business environment, our Group will steadily promote our product category strategy and our management base reinforcement strategy based on the 2018 medium-term management plan "Create the future with reliable technology," and uphold and expand businesses.

Going forward, we aim to raise the standards of sophistication and functionality of our established product lines, drawing on the comprehensive technological capabilities of the Group. This will enable us to continue growing as an electrical equipment manufacturer, hand-in-hand with the customer, responding to customer expectations and earning their trust with reliable technologies, by providing new products and services that serve evolving community and daily needs. We appreciate your continued understanding and support.

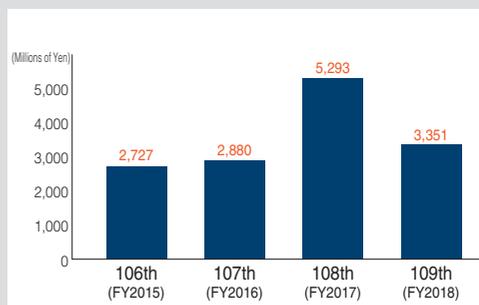
June 2018

Toru Satoh
President

Ordinary income 5,073 million yen



Net income attributable to owners of parent 3,351 million yen



Performance at each Group

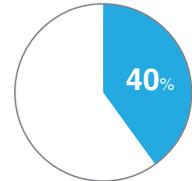
Electric Power Products Group

Net sales 31,563 million yen

Business description

This Group supports electric power infrastructure through development and manufacture of large, medium-sized and small transformers from pole-mounted transformers, to ultrahigh-voltage transformers and of control equipment for electric power regulation devices, as well as through various plant construction for solar power generation systems and power generation facilities.

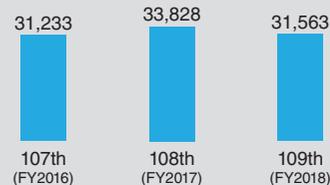
Sales breakdown



Overview of FY2018

In the Electric Power Products Group, small transformers and overseas plant construction showed favorable performance, but control equipment and medium-sized and large transformers, which sold well in the previous fiscal year, were greatly impacted by a fall in sales, and both sales and income for the overall business decreased. Compared with the previous year, net sales were 31,563 million yen (a decrease of 6.7%) and segment income (operating income) was 5,062 million yen (a decrease of 27.0%).

Net sales trend (Millions of Yen)



Main products



Pole-mounted transformers



"TOP RUNNER"
low loss transformers



Step voltage regulators
(SVR)



On-load tap-changing
transformers (LRT)



Digital-type monitoring
and control devices



Power conditioners



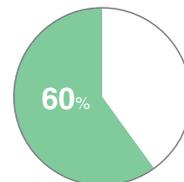
Installation of substations

■ Motor Products Group Net sales 46,668 million yen

Business description

This Group supplies products that facilitate daily living, including linear actuators, controllers and handsets for electric beds, various small motors including hermetic motors for air conditioners, printed wiring boards and shutter operators.

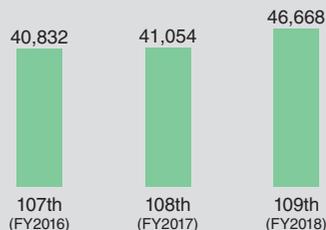
Sales breakdown



Overview of FY2018

In the Motor Products Group, sales of nursing care equipment declined, but hermetic motors and printed wiring boards continued their favorable performance from the second half of the previous fiscal year. As a result, compared with the previous year, net sales were 46,668 million yen (an increase of 13.7%) and segment income (operating income) was 1,723 million yen (an increase of 19.3%).

Net sales trend (Millions of Yen)



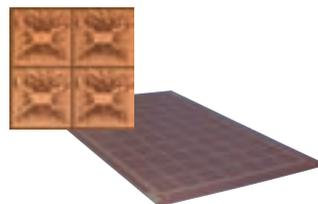
Main products



Linear actuators, controllers and handsets



Hermetic motors



Printed wiring boards



Shutter operators



Powder processing & drying equipment



Fans and controllers for cattle farms

Consolidated Balance Sheets

(Millions of Yen)

Assets	FY2018	FY2017	Liabilities and Net Assets	FY2018	FY2017
	(As of March 31, 2018)	(As of March 31, 2017)		(As of March 31, 2018)	(As of March 31, 2017)
Current assets	64,400	61,927	Liabilities		
Non-current assets	24,294	24,800	Current liabilities	27,741	26,148
Property, plant and equipment	15,431	16,012	Non-current liabilities	9,575	12,095
Intangible assets	165	174	Total liabilities	37,317	38,243
Investments and other assets	8,697	8,613	Net assets		
			Shareholders' equity	48,437	46,074
			Accumulated other comprehensive income	2,341	1,830
			Non-controlling interests	598	579
			Total net assets	51,377	48,484
Total assets	88,694	86,728	Total liabilities and net assets	88,694	86,728

Consolidated Statements of Income

(Millions of Yen)

	FY2018	FY2017
	(From April 1, 2017 to March 31, 2018)	(From April 1, 2016 to March 31, 2017)
Net sales	78,232	74,883
Cost of sales	65,434	60,921
Gross profit	12,798	13,961
Selling, general and administrative expenses	7,662	7,193
Operating income	5,135	6,767
Non-operating income	500	796
Non-operating expenses	563	332
Ordinary income	5,073	7,231
Extraordinary income	20	6
Extraordinary losses	321	51
Income before income taxes	4,772	7,186
Income taxes-current	1,464	2,362
Income taxes-deferred	(59)	(542)
Net income	3,367	5,365
Net income attributable to non-controlling interests	15	71
Net income attributable to owners of parent	3,351	5,293

Non-Consolidated Balance Sheets

(Millions of Yen)

Assets	FY2018 (As of March 31, 2018)	FY2017 (As of March 31, 2017)	Liabilities and Net Assets	FY2018 (As of March 31, 2018)	FY2017 (As of March 31, 2017)
Current assets	34,334	33,631	Liabilities		
Non-current assets	20,076	20,045	Current liabilities	12,436	13,198
Property, plant and equipment	7,490	7,473	Non-current liabilities	3,342	4,295
Intangible assets	36	18	Total liabilities	15,778	17,494
Investments and other assets	12,549	12,553	Net assets		
			Shareholders' equity	37,380	35,128
			Valuation and translation adjustments	1,252	1,054
Total assets	54,411	53,677	Total net assets	38,632	36,182
			Total liabilities and net assets	54,411	53,677

Non-Consolidated Statements of Income

(Millions of Yen)

	FY2018 (From April 1, 2017 to March 31, 2018)	FY2017 (From April 1, 2016 to March 31, 2017)
Net sales	37,453	39,266
Cost of sales	30,184	30,458
Gross profit	7,269	8,808
Selling, general and administrative expenses	3,763	3,375
Operating income	3,506	5,432
Non-operating income	509	404
Non-operating expenses	81	119
Ordinary income	3,933	5,717
Extraordinary income	508	0
Extraordinary losses	150	39
Income before income taxes	4,291	5,678
Income taxes-current	1,121	2,042
Income taxes-deferred	15	(402)
Net income	3,154	4,038

Electric Power Products

Development of Aichi Advanced Static Synchronous Compensator (A²-STATCOM*) for high-voltage distribution systems

In recent years, voltage fluctuation in power distribution lines has worsened in line with the spread of renewable energy. The Company offers a lineup of various types of voltage adjustment equipment for suppressing and regulating voltage fluctuation.

Our STATCOM systems have been highly praised by customers for their ability to effectively regulate repeated high-speed voltage fluctuation in power distribution lines.

The A²-STATCOM system which was developed this time further evolved the high-speed regulatory capabilities of conventional systems, and improved voltage fluctuation suppression performance. It is also among the most compact such systems available in Japan, requiring approximately 20% less installation space and being approximately 25% lighter than conventional products. We have also reduced electric power loss from inverters by approximately 50%, by using silicon carbide semiconductors. This enables a simplification of heat dissipation mechanisms, realizing specifications for installation also in environments vulnerable to salt damage.



(*) A²-STATCOM: An abbreviation for "Aichi Advanced Static Synchronous Compensator"

Electric Power Products

Development of extra high voltage monitoring and regulating system for primary substations

This system is installed at substations for monitoring and regulating substation equipment and bus bars, as well as power transmission lines.

We have added special monitoring and regulating functionality to conventional secondary substations, and have created a new lineup of systems for primary substations. The principal features of the system are as follows.

- Offers an increased number of monitoring and regulating applications tailored to facility scale in primary substations.
- Adds a function that measures the frequency of bus bars.

The first shipments of this system were in December 2017, to Chubu Electric Power Co., Inc. Commercial operation is scheduled to begin in September 2018.



Development of secondary station regulatory system for automation of power distribution (6G secondary station)

Conventional secondary station regulatory systems for automated power distribution (5G secondary stations) control startup and shutdown and monitor voltage/current status in automatic switching equipment installed on transmission lines of power companies. They carry out remote monitoring and regulation of power distribution grids in combination with master station systems installed at business premises.

In the newly developed 6G secondary stations*1 telecommunications functionality using optical IP*2 is added to the conventional secondary stations. Using such high-speed optical telecommunications, it is possible to instantly convey information to the master station system regarding changes in the status of distribution line systems, making it possible to quickly appraise system status and isolate individual failure locations. Also included is a function that remotely updates software at secondary stations from the master system and collates an operational log. This update function facilitates addition of functions such as measurement of voltage flicker and momentary voltage fluctuation.

This system is currently in operation on a trial basis at Chubu Electric Power Co., Inc., with full adoption scheduled to begin in the second half of this fiscal year.

(*1) 6G: 6th generation

(*2) IP: Internet protocol



6th generation secondary station (Left: Side view; Right: Bottom view)

Electric Power Products

Republic of Uganda Construction of substation

The Queensway Substation construction works that began in September 2015 in Kampala, Republic of Uganda, were completed in October 2017.

This was an Official Development Assistance project. The Company was responsible for design, manufacture and procurement of construction materials for the transformers and other facilities, as well for electrical works and adjustment trials on site. Since the specifications called for a direct connection of the transformers with gas-insulated switchgears, it was necessary to minimize errors in installation positioning. The works were completed without a hitch, supported by the know-how built up by the Company over the years.

Going forward, we plan to further contribute to the development of electric power infrastructure in developing countries.



Queensway Substation at completion

Motor Products Group

Development of large capacity (12 kW) inverter module

Inverter modules are electronic devices for regulating the operation of air conditioner compressor motors. In 2011, the Company developed a medium-capacity (7.5 kW or less) model for the Chinese market. Subsequently, we expanded this market to include India and Japan.

We have now developed a large capacity (12 kW) model to expand the lineup. We have minimized the size of the module through adoption of large-current printed wiring board and high-density mounting of electronic components. After enhancing protective measures, we have also made performance improvements enabling use even in overseas regions where voltages are unstable.

The product has been marketed to air conditioner manufacturers in India since January 2018.

We plan to continue to develop new products in years ahead.



Outline of the Company and Status of Shares

Corporate Data (As of March 31, 2018)

AICHI ELECTRIC CO., LTD.

Established: May 27, 1942

Capital: ¥4,053 million

Number of Employees: 852 (Consolidated: 2,397)

Head Office: 1, Aichi-cho, Kasugai city, Aichi pref.,
486-8666, JAPAN

Phone: +81-568-31-1111

Board of Directors and Auditors (As of June 28, 2018)

President	Toru Satoh
Managing Director	Teruo Ono
Director	Katsumi Nonomura
Director	Toshiyuki Miyakawa
Director	Kazuo Kobayashi
Director	Naoji Yamashita
Director	Hisashi Tajima
Director	Junichi Takahashi
Director	Masaki Kakahara
Director	Shinobu Kato
Director (Outside)	Nozomu Amano
Director (Outside)	Hitoshi Okubo
Auditor	Hideki Hosoe
Auditor (Outside)	Kazuhiro Matsubara
Auditor (Outside)	Masatoshi Hori

Status of Shares (As of March 31, 2018)

Total number of shares authorized to be issued 23,912,200 shares

Total number of shares issued 9,500,000 shares

Number of shareholders 3,150 persons

Major shareholders (top ten shareholders)

	Number of shares (thousand shares)	Shareholding ratio (%)
Chubu Electric Power Co., Inc.	2,326	24.5
TSUCHIYA CORPORATION	1,000	10.5
Furukawa Electric Co., Ltd.	807	8.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	446	4.7
BBH FOR FIDELITY LOW – PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	313	3.2
Japan Trustee Services Bank, Ltd. (trust account 4)	303	3.1
Kawaguchi Kosan Co., Ltd.	200	2.1
Meiji Yasuda Life Insurance Company	175	1.8
Sumitomo Mitsui Banking Corporation	175	1.8
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	175	1.8

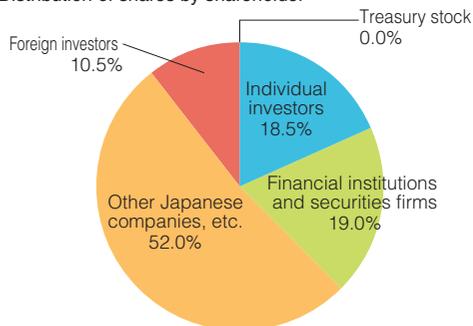
Note 1 Numbers of shares are rounded down to the nearest thousand shares.

Note 2 The treasury shares (4,008 shares) were excluded in the calculation of the shareholding ratio.

Note 3 As of April 14, 2017, 150,412 shares of treasury stock were retired following a resolution of the Board of Directors at a meeting held March 29, 2017. The total number of issued shares has accordingly fallen by 150,412.

Note 4 The trade name of The Bank of Tokyo-Mitsubishi UFJ, Ltd. has changed to MUFG Bank, Ltd. as of April 1, 2018.

Distribution of shares by shareholder



Shareholder Data

Business Year April 1 to March 31 of the following year

General Meeting of Shareholders June

Reference Date Ordinary general meeting of shareholders
March 31
Year-end dividend March 31
Interim dividend September 30

Stock Transfer Agent and Account Management Institution for Special Accounts Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku, Tokyo, JAPAN

Handling Office Stock Transfer Agency Business Planning Department,
Sumitomo Mitsui Trust Bank, Limited
3-15-33, Sakae, Naka-ku, Nagoya, JAPAN

Reference Stock Transfer Agency Business Planning Department,
Sumitomo Mitsui Trust Bank, Limited
2-8-4, Izumi, Suginami-ku, Tokyo
168-0063, JAPAN
Telephone: 0120-782-031 (toll-free)

Public Notices Public notices shall be made electronically.
Public notice URL:
<http://www.aichidenki.jp>
If electronic notice is impossible due to accidents or other unavoidable circumstances, the notice shall be posted in the Chunichi Shimbun which is published in Nagoya-shi.

Information regarding the share buyback and additional purchase program for fractional shares less than one unit (shares less than 100 shares)

Frameworks are in place to ask the Company to buy back or request additional purchases of fractional shares less than one unit. If you are interested, please contact the following.

Contacts for various procedures

(Changes in name or address, buyback and additional purchase of fractional shares less than one unit)

For shareholders who have an account with a securities company

→ Please contact your securities company.

For shareholders who do not have an account with a securities company

→ Please contact Sumitomo Mitsui Trust Bank, Limited.

Concerning outstanding dividend payments

Please contact Sumitomo Mitsui Trust Bank, Limited.

Create the future with reliable technology

A valuable company that creates good products,
develops good human resources, and establishes good relationship

AICHI ELECTRIC CO., LTD.