

To Our Shareholders

The **110**th Fiscal Year
Business Report

April 1, 2018 ▶ March 31, 2019

AICHI ELECTRIC CO., LTD.

Stock Exchange Code: 6623





We are pleased to extend our greetings to our shareholders in presenting our 110th annual report for the fiscal year ended March 31, 2019.

Overview of business

During the period under review the Japanese economy gradually improved against the background of steady corporate earnings and better employment conditions. Looking overseas, while the global economy has been improving, a gradual slowdown has become apparent under the shadow of the US-China trade friction.

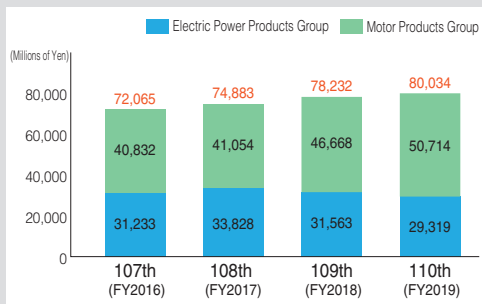
In regards to the business conditions of our group, the Motor Products Group enjoyed a healthy market for air conditioners and electronics components that resulted in increasing demand for hermetic motors and printed wiring boards. In the Electric Power Products Group, electric power companies, who are our main customers, suffered from intensifying competition fueled by the electricity

deregulation, and therefore further streamlined management efficiency.

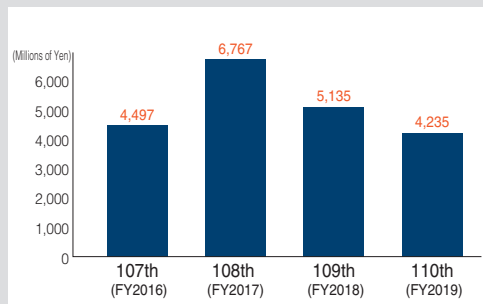
Under such circumstances, our Group has exerted itself to achieve the management targets (net sales of 80,000 million yen, ordinary income of 4,500 million yen, and an ROA of 5.5%) for the final fiscal year of our 2018 medium-term management plan “Create the future with reliable technology.” Together with this, the Group has strived to further expand our businesses and products and reinforce our sustainable growth base. The Electric Power Products Group has been moving forward with the development of sophisticated power distribution products and other new products, while focusing on sales promotions of “TOP RUNNER” low loss transformers and biogas power generation systems. The Motor Products Group has worked to ramp up production capacity of hermetic motors and printed wiring boards, while also promoting initiatives such as new customer acquisition for our motors and actuators.

As a result, compared with the previous year, net sales increased by 2.3% to 80,034 million yen thanks to a better performance in the Motor Products Group, but income

Net sales 80,000 million yen



Operating income 4,200 million yen



decreased because of a worse cost-to-sales ratio in the Motor Products Groups and lower sales in the Electric Power Products Group. Compared with the previous year, operating income was 4,235 million yen (a decrease of 17.5%) and ordinary income was 4,852 million yen (a decrease of 4.4%), while net income attributable to owners of parent was 3,109 million yen (a decrease of 7.2%).

Dividend

Our final dividend was 45 yen per share. Combined with the interim dividend, the total dividend was 90 yen per share.

Future prospects

In regards to the future, the Electric Power Products Group is expected to see further progress in streamlining and prolonging the life of equipment against the background of the curtailment of wheeling charges in electric power companies, who are our key customers, as well as the termination of special demand for PCBs. The Motor Products Group projects stronger demand for on-vehicle motors, but its concern is that more customers might opt for in-house production. As such, the cir-

cumstances surrounding our Group are showing increasingly severe change.

In order to quickly respond to these changing circumstances, we have formulated a new 2023 medium-term management plan "Create the future with reliable technology - Innovation and Challenge -" that spans five years from April 2019 to March 2024. The new plan sets out four basic policies: "developing new products and new businesses," "enhancing the competitiveness of existing businesses," "expanding overseas businesses," and "strengthening our management base." In accordance with these policies, we will aim for continued growth through steady implementation of key initiatives.

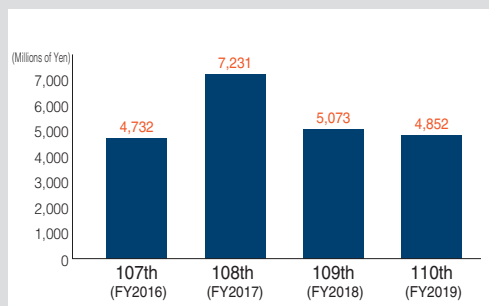
As part of our efforts to strengthen group management, on April 1, 2020, the Company will absorb and merge with a wholly-owned subsidiary AICHI ELEC CO., a hermetic motors maker.

We appreciate your continued understanding and support.

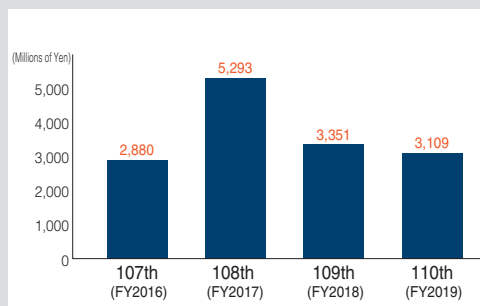
June 2019

Toru Satoh
President

Ordinary income 4,800 million yen



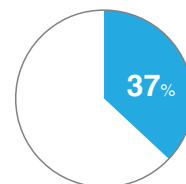
Net income attributable to owners of parent 3,100 million yen



Electric Power Products Group

Net sales 29,300 million yen

Sales breakdown



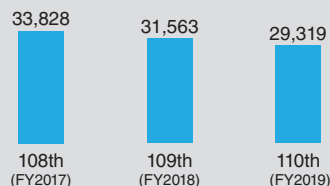
Business description

This Group supports electric power infrastructure through overseas substation construction and the design and manufacture of electrical equipment, such as different types of electric power transformers, electric power protection and control devices, and equipment related to renewable energy.

Overview of FY2019

Both sales and income decreased owing to lower sales of step voltage regulators for power distribution lines and pole-mounted transformers, although "TOP RUNNER" low loss transformers yielded higher sales. Compared with the previous year, net sales were 29,319 million yen (a decrease of 7.1%) and segment income was 4,114 million yen (a decrease of 18.7%).

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 protection
and control devices



Power conditioners



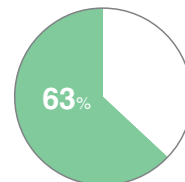
Installation of substations

■ Motor Products Group Net sales 50,700 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.

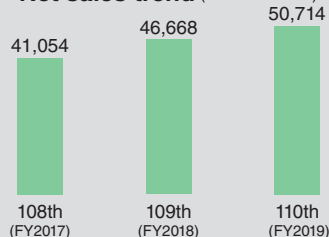
Sales breakdown



Overview of FY2019

Net sales increased thanks to favorable performances of hermetic motors and printed wiring boards, but income fell slightly short of the last fiscal year, affected by climbing raw material prices and changes in the sales distribution. Compared with the previous year, net sales were 50,714 million yen (an increase of 8.7%) and segment income was 1,664 million yen (a decrease of 3.5%).

Net sales trend (Millions of Yen)



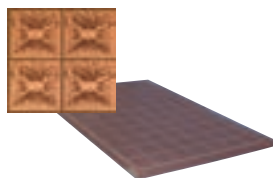
Main products



Linear actuators, controllers and handsets



Hermetic motors



Printed wiring boards



Shutter operators



Boilers



Powder processing & drying equipment



Fans and controllers for cattle farms

Consolidated Balance Sheets

(Millions of Yen)

Assets	FY2019	FY2018	Liabilities and Net Assets	FY2019	FY2018
	(As of March 31, 2019)	(As of March 31, 2018)		(As of March 31, 2019)	(As of March 31, 2018)
Current assets	64,885	63,799	Liabilities		
Non-current assets	25,270	24,871	Current liabilities	28,518	27,741
Property, plant and equipment	15,241	15,431	Non-current liabilities	7,962	9,552
Intangible assets	182	165	Total liabilities	36,481	37,294
Investments and other assets	9,847	9,274	Net assets		
			Shareholders' equity	50,556	48,437
			Accumulated other comprehensive income	1,687	2,341
			Non-controlling interests	1,430	598
			Total net assets	53,674	51,377
Total assets	90,156	88,671	Total liabilities and net assets	90,156	88,671

Consolidated Statements of Income

(Millions of Yen)

	FY2019	FY2018
	(From April 1, 2018 to March 31, 2019)	(From April 1, 2017 to March 31, 2018)
Net sales	80,034	78,232
Cost of sales	68,706	65,434
Gross profit	11,327	12,798
Selling, general and administrative expenses	7,091	7,662
Operating income	4,235	5,135
Non-operating income	819	500
Non-operating expenses	203	563
Ordinary income	4,852	5,073
Extraordinary income	19	20
Extraordinary losses	325	321
Net Income before income taxes	4,546	4,772
Income taxes-current	1,149	1,464
Income taxes-deferred	246	(59)
Net income	3,149	3,367
Net income attributable to non-controlling interests	39	15
Net income attributable to owners of parent	3,109	3,351

Non-Consolidated Balance Sheets

(Millions of Yen)

Assets	FY2019	FY2018	Liabilities and Net Assets	FY2019	FY2018
	(As of March 31, 2019)	(As of March 31, 2018)		(As of March 31, 2019)	(As of March 31, 2018)
Current assets	30,975	33,933	Liabilities		
Non-current assets	23,290	20,478	Current liabilities	12,356	12,436
Property, plant and equipment	7,221	7,490	Non-current liabilities	2,440	3,342
Intangible assets	48	36	Total liabilities	14,797	15,778
Investments and other assets	16,020	12,951	Net assets		
			Shareholders' equity	38,377	37,380
			Valuation and translation adjustments	1,090	1,252
Total assets	54,265	54,411	Total net assets	39,467	38,632
			Total liabilities and net assets	54,265	54,411

Non-Consolidated Statements of Income

(Millions of Yen)

	FY2019	FY2018
	(From April 1, 2018 to March 31, 2019)	(From April 1, 2017 to March 31, 2018)
Net sales	34,964	37,453
Cost of sales	28,564	30,184
Gross profit	6,399	7,269
Selling, general and administrative expenses	3,912	3,763
Operating income	2,487	3,506
Non-operating income	582	509
Non-operating expenses	64	81
Ordinary income	3,005	3,933
Extraordinary income	18	508
Extraordinary losses	317	150
Income before income taxes	2,706	4,291
Income taxes-current	818	1,121
Income taxes-deferred	36	15
Net income	1,851	3,154

Management

Inauguration of 2023 medium-term management plan - Create the future with reliable technology - Innovation and Challenge

We have formulated a new 2023 medium-term management plan that spans five years from FY2020 to FY2024, which commenced in April 2019.

We will aim to achieve consolidated net sales of 100,000 million yen, consolidated ordinary income of 6,000 million yen and an ROA of 6.0% or more by FY2024 through our basic policies of “developing new products and new businesses,” “enhancing the competitiveness of existing businesses,” “expanding overseas businesses,” and “strengthening our management base.”

⚡ AICHI ELECTRIC CO., LTD.

2023 Medium-Term Management Plan

Create the Future with Reliable Technology
Innovation and Challenge

How we want to be

An electronics manufacturer that continues to grow by creating products and services for the future with reliable technology

Basic Policies

<div style="background-color: #90c060; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Developing new products and new businesses</div> <ul style="list-style-type: none"> • Create new products by advancing and integrating proprietary technologies • Develop advanced automation products and expand the segment • Create new products and new businesses by restructuring the R&D system • Tap into new businesses and new markets by collaborating with group companies and external organizations 	<div style="background-color: #ffc000; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Expand overseas businesses</div> <ul style="list-style-type: none"> • Proactively develop overseas businesses in areas such as Asia and Africa • Promote overseas production and overseas procurement
<div style="background-color: #00a090; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Enhancing the competitiveness of existing businesses</div> <ul style="list-style-type: none"> • Improve productivity and realize lower costs and shorter delivery terms by factory reforms • Improve quality by transforming design, manufacturing and inspection system 	<div style="background-color: #e06060; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Strengthening our management base</div> <ul style="list-style-type: none"> • Change from personal skills and technology to organizational skills and technology • Promote activities for fundamental changes in quality • Provide an environment that secures and trains human resources and that allows them to work to the fullest • Strengthen compliance and group management

Numerical targets

	<p>Consolidated net sales 100,000 million yen</p>	<p>Consolidated ordinary income 6,000 million yen</p>	<p>ROA* 6.0% or more</p>
<p>▶ FY2024 targets</p>			
<p>▶ Profit sharing</p>	<p>The basic policy is to have stable dividends with a target payout ratio ranging between 25 and 40%.</p>		

AICHI ELECTRIC GROUP

* ROA (return on assets) = Ordinary income / Total assets

Electric Power Products

Delivery of palm oil on-load tap changing transformers

In recent years, greater awareness of global warming prevention and environmental impact reduction has drawn people's attention to the use of palm oil instead of mineral oil as an insulating oil for transformers, a shift from a fossil fuel to a vegetable oil. We have already developed, and are selling, palm oil transformers. Utilizing this technology for on-load tap-changers, we have developed a palm oil on-load tap changing transformer, and delivered it to Tohoku Electric Power Co., Inc.

The advantages of this product are the following:

- The use of palm oil, which has good biodegradability, as an insulating oil means that in the unlikely event of an oil leakage, the oil is easily broken down into water and carbon dioxide by microorganisms with no soil contamination.
- Palm oil produces the carbon neutral effect, which expectedly reduces CO₂ emissions.
- Except for the seal (the gasket), the palm oil on-load tap changing transformer is composed of the same materials and structure as our existing product, minimizing the price increase.
- We have adopted our proprietary vacuum valve (1 valve) type on-load tap-changer with reasonable maintenance cost.

We will utilize the results and strive to proactively expand the product's sales to electric power companies and other industries.



Electric Power Products

Development of next generation step voltage regulator (Next generation SVR)

Recent years have seen a problem of reverse current flow (RCF) caused by connection of distributed generators like solar power. As a means of addressing this problem, we developed a next generation step voltage regulator (next generation SVR) that handles RCF using a function of detecting the substation side.

Equipped with the substation side detecting function, the next generation SVR distinguishes the substation side from the load side, regardless of the direction of the current flow. In this way, the SVR helps control voltage appropriately.

Furthermore, we reduced the weight and eccentric loading of the entire mechanism. This allowed us to mount the SVR on one electric pole, rather than two as had previously been required. The reduction also enabled SVRs' installation in urban areas that have limited land availability.

Moreover, the control and communication units are independent from the main mechanism for easier maintenance.

Last but not least, we added remote measurement and control functions to gain information on voltage and current of distribution lines remotely and change set points in real time.

Accordingly, this product made it possible to control the voltage of the entire distribution lines at suitable control values. Going forward, we will push forward with promotional activities focusing mainly on electric power companies.



Electric Power Products

Development of 3rd-generation digital-type protective and control panel for distributing substation (D-distribution panel)

Installed in distributing substations of power companies, a digital-type protective and control panel for distributing substation (D-distribution panel) protects, monitors, and controls distribution equipment.

After more than ten years since its launch, the 2nd-generation D-distribution panel has been met with a growing number of requests from customers, such as response to solar power and other distributed generators, relay set points and other remote control functions, and smaller, space-saving panels.

In response to these requests, we teamed up with Chubu Electric Power Co., Inc. to develop a 3rd-generation D-distribution panel. Chubu Electric Power received the product in December 2018, and commenced its operation.



Electric Power Products

Completion of construction work for new substation in the Republic of Mozambique

Construction of a Namialo Substation began in September 2016 in Namialo, Nampula Province, which is located in the north of the Republic of Mozambique, and was completed in January 2019.

In this Official Development Assistance (ODA) project, the Company designed and manufactured transformers and other equipment, procured construction materials, constructed the substation on-site, and carried out commissioning. Furthermore, we installed a supervisory control and data acquisition system (SCADA system (*)) into the newly constructed Namialo Substation and two other pre-existing substations (Nampula Central Substation and Nampula 220 Substation) in Nampula Province. The installation enabled the Nampula Central Substation to supervise and control the Nampula 220 Substation and Namialo Substation remotely.

We were faced with flooding during construction and struggled to secure the construction schedule in such a severe natural environment. It was a relief that we safely completed the substation.

In the future as well, we will actively help African countries, Southeast Asian countries, island countries, and other countries and regions with electrical power infrastructure.

(* SCADA system: Abbreviation of Supervisory Control And Data Acquisition system.



Completed Namialo Substation

Motor Products Group

Increasing production capacity of nursing bed actuators

In order to ramp up production capacity to manufacture nursing bed actuators, we introduced production line automation equipment, which commenced operation in March 2019.

Newly introduced were a grease applicator and an actuators conveyor. The grease applicator automatically assembles components and applies grease to them, a process previously done manually. The actuators conveyor automatically conveys assembled actuators and places them into inspection equipment.

With the introduction of the equipment, our goal is to shorten man-hours and increase production capacity by 25%.

We will work on further improvements in order to reinforce our actuator production capacity.



Actuators conveyor

Outline of the Company and Status of Shares

Corporate Data (As of March 31, 2019)

AICHI ELECTRIC CO., LTD.

Established: May 27, 1942

Capital: ¥4,053 million

Number of Employees: 840 (Consolidated: 2,370)

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 27, 2019)

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

Status of Shares (As of March 31, 2019)

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

Total number of shares issued 9,500,000 shares

Number of shareholders 3,234 persons

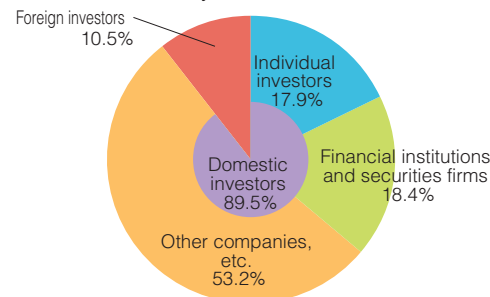
Major shareholders (top ten shareholders)

	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
MUFG Bank, Ltd.	446	4.7
BBH FOR FIDELITY LOW – PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	323	3.4
Japan Trustee Services Bank, Ltd. (trust account 4)	303	3.1
Kawaguchi Kosan Co., Ltd.	200	2.1
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	192	2.0
HIKARI TSUSHIN, INC.	186	1.9
Meiji Yasuda Life Insurance Company	175	1.8

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

Note 2 The treasury shares (4,065 shares) were excluded in the calculation of the shareholding ratio.

Distribution of shares by shareholder



Shareholder Data

Business Year April 1 to March 31 of the following year

Ordinary 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 city.

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 - Innovation and Challenge -

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

AICHI ELECTRIC CO., LTD.