

We aim to achieve further growth centered on power electronics operations.



On behalf of Fuji Electric, I would like to express our sincere gratitude to our stakeholders for their continued support and commitment to the Company.

At Fuji Electric, our corporate philosophy represents our pledge as responsible corporate citizens in a global society to strengthen our trusting relationships with stakeholders and fulfill our mission with sincerity. Based on this philosophy, we pursue a management policy stating that, through our innovation in energy and environment technology, we are contributing to the creation of responsible and sustainable societies.

Today, energy and environmental issues have become pressing matters which need to be addressed on a global scale.

Recognizing this fact, we strive to achieve both economic growth and a reduced environmental footprint by utilizing the energy and environment technologies we have cultivated over the more than 90 years since our founding, and to contribute to society through our manufacturing capabilities that draw on these technologies. At the same time, the Company is managed with consideration of the effects of all of its business activities on society and the environment.

Review of Fiscal 2016

Moving Forward with Further Renovation of Fuji Electric

In April 2016, Fuji Electric unveiled its FY2018 Medium-Term Management Plan, Renovation 2018, which targets net sales of ¥900.0 billion and an operating margin of more than 6% in fiscal 2018. The previous medium-term management plan ended with some issues left unresolved, namely a failure to grow sales in line with targets and a need to boost the profitability of power electronics operations. The new plan thus positions its three years as a time for “renovation,” during which we will patch the holes in the “innovation” pursued under the previous plan. We have been moving forward with the further renovation of Fuji Electric, positioning efforts to advance growth strategies and bolster profitability as core measures.

Priority Measures of FY2018 Medium-Term Management Plan

Implement growth strategies

- Reform operating processes in social infrastructure, industrial infrastructure, and power electronics businesses
- Continue expansion of overseas operations through additional M&As
- Create high-value-added products that meet customer demand

Improve Profitability

- Boost profitability of power electronics operations
- Re-energize “Pro-7 Activities”

Breaking Records for Net Income Attributable to Owners of Parent

In fiscal 2016, the first year of the new plan, net sales rose ¥24.2 billion year on year, to ¥837.8 billion, but operating income decreased ¥0.3 billion, to ¥44.7 billion. Net income attributable to owners of parent, meanwhile, increased by ¥10.3 billion, breaking previous records at ¥41.0 billion as a result of the recording of gain on sales of investment securities. We also saw massive improvements in financial indicators with an equity ratio of 33% and return on equity of 16%.

(Billions of yen)	FY2015 Result	FY2016 Result
Net Sales	813.6	837.8
Operating Income	45.0	44.7
Operating Margin	5.5%	5.3%
Net Income Attributable to Owners of Parent	30.6	41.0
Net Debt-Equity Ratio		
Equity Ratio	27%	33%
ROE	12%	16%

In addition, Fuji Electric decided to sell a portion of its holding in FUJITSU LIMITED in order to further stabilize its financial position. The alliance formed through this cross holding has been important to ensuring consistently effective operation of the Company in the past. Today, however, both parties have come to focus on different business fields, leading us to reconsider the necessity of this tie-up from the perspectives of capital efficiency and shareholder value. It was deemed possible to alter this relationship based on the operating environments and market climates of both FUJITSU and Fuji Electric, and a portion of the holding was sold accordingly. The capital generated through this sale will be directed toward mergers and acquisitions and other measures for expanding overseas operations.

Establishing a Foundation for Growth through Steadfast Efforts

If Fuji Electric is to continue growing into the future, it will be crucial for us to expand overseas operations while also reinforcing operations in Japan. In deciding our approach to this undertaking, we first chose to analyze the Company's technological, manufacturing, and sales capabilities to determine what we were lacking and in what areas we needed improvement. A series of discussions was held among members selected from our employee base as well as among executive officers. Based on these discussions, we began preparations to renovate our operations

by consolidating and rearranging the organizations of our social engineering systems, industrial infrastructure, and power electronics businesses.

At the same time, we continued to capitalize on the benefits of mergers and acquisitions conducted to date. For example, the expertise of our thermal power generation plant after-sales companies is now being applied outside of North America. In addition, we have made progress in the localization of the engineering and manufacturing functions of the industrial infrastructure and power electronics businesses in Asia.

Also, we commenced operation of an inverter assembly factory in India while starting construction of our second factory in Dalian in order to double our vending machine production capacity in China. In this manner, we have been carrying out upfront investments for increasing local production and local consumption.

Steps were also taken to bolster profitability through means such as promoting in-house production, automation, and standardization at factories to reduce costs. In our power electronics operations specifically, we sought to boost profitability by reorganizing the Suzuka Factory and Kobe Factory, our global mother factories. At the Suzuka Factory, we pursued increased productivity in manufacturing mass-production models of components and other products. At the Kobe Factory, we installed a system allowing for all steps of manufacturing systems products to be conducted within the factory.

Four-Business Group Structure Launched in Fiscal 2017

Establishing the Power Electronics Systems Business Group

— Expanding Overseas Operations with Competitive Components and Systems

April 2017 saw the birth of the Power Electronics Systems Business Group. This new group accounts for roughly 60% of the Company's total net sales and thus embodies the comprehensive strength of Fuji Electric. Through this business group, we plan to reinforce our customer-oriented solutions business that combines components and systems. Looking ahead, we will provide a brand of solutions unique to Fuji Electric that combines our strengths to resolve the issues faced by customers. These strengths include power electronics equipment, measuring instruments, and control systems with power semiconductors at their core; engineering and after-sales services nurtured at customer facilities; and manufacturing and energy-saving expertise perfected at Fuji Electric's 38 factories in Japan and overseas. We will not just cater to customers in Japan; we will also seek to expand our systems operations in Asian and other overseas markets in which we can expect growth in industrial and social infrastructure demand.

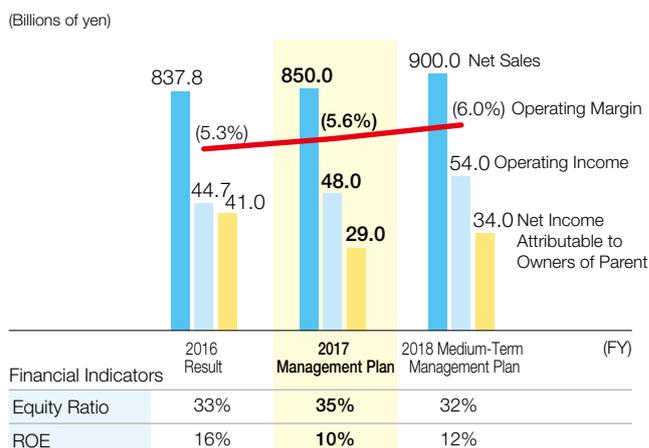
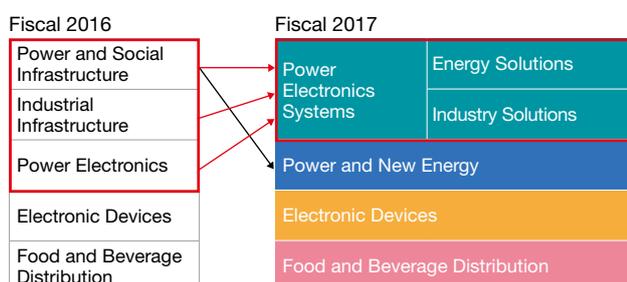
Also new is the Power and New Energy Business Group. In this business group, sales organizations have been merged with operating organizations, as was done previously in the

existing Electronic Devices Business Group and Food and Beverage Distribution Business Group.

Targeting Record Highs for Operating Income and Operating Margin

In fiscal 2017, the second year of the three-year FY2018 Medium-Term Management Plan, we will target net sales of ¥850.0 billion together with record highs for operating income and operating margin of ¥48.0 billion and 5.6%, respectively.

Fuji Electric is working to bolster profitability even as it increases shareholders' equity by targeting an equity ratio of 35% together with return on equity of 10%. The cash flows generated through our business will be used to conduct proactive growth investment for expanding operations from a medium-to-long-term perspective. In regard to shareholder returns, it is our policy to issue stable, continuous dividend payments in line with income growth. We plan to enhance returns in the near future by aiming for a dividend payout ratio of approximately 30%.



Accelerating Creation of High-Value-Added Products and Augmenting Manufacturing Capabilities

Fuji Electric is shifting toward a development framework that entails technology marketing, advanced research, and basic research being conducted by the Corporate R&D Headquarters while the business groups are responsible for the development of products for their respective businesses. Within this new framework, our development ventures are focusing on starting up businesses utilizing the Internet of Things, or IoT, developing platforms, and realizing practical application of next-generation SiC power semiconductor modules. Simultaneously, we are enhancing our network of R&D bases to accelerate the creation of high-value-added products that win customer favor. In fiscal 2015, we built an R&D center in the Matsumoto Factory as well as a building at the Tokyo Factory for conducting corporate R&D and measurement and control equipment R&D activities. Furthermore, we completed the Power Electronics Technical Center at the Suzuka Factory in fiscal 2016 and then assembled a team of power electronics researchers and engineers at this center.

Meanwhile, we sought to augment our manufacturing capabilities. Adopting a local production and consumption perspective, we reinforced capabilities at our global mother factories in Japan while coordinating with overseas production sites, such as those in China and other parts of Asia, in our ongoing drive to improve value and productivity through in-house production and automation. Also, at our Mie Factory and Otawara Factory, we are developing new manufacturing technologies aimed at reducing the costs associated with IoT. Our efforts to utilize IoT to automate and protect facilities and realize autonomous production will be extended to other bases going forward. In addition, the second vending machine factory being constructed in Dalian, China, will be equipped with production technologies and state-of-the-art automation equipment from the Mie Factory. Combined with the existing first Dalian factory, this new factory will help double our production capacity in China, to 100,000 units per year, thereby contributing to the expansion of our operations in this country.

Re-energizing Pro-7 Activities

Fuji Electric's Pro-7 Activities entail all employees at the Group reviewing the way they work from the ground up in order to improve work quality and efficiency and thereby bolster profitability. These activities were kicked off in fiscal 2012 and have been ongoing for the past five years. As a result, the principles of the Pro-7 Activities have become entrenched within the Company, firmly rooting a new awareness of costs and work quality in the minds of all employees. In fiscal 2017, we will respond to the call for workstyle reforms by once again getting back to the basics of our work, reviewing how we work, prepare materials, and conduct meetings. I am confident that these efforts will be valuable to the Company and to all of its employees. We will also seek to re-energize the Pro-7 Activities by stepping up initiatives at overseas bases.



Addressing ESG Issues to Achieve Sustainable Growth

At the core of Fuji Electric's corporate philosophy is the importance of building trusting relationships with stakeholders and becoming a company that is sensitive toward both people and the environment as a responsible member of society. Exercising this philosophy is how Fuji Electric fulfills its corporate social responsibilities. Moreover, the Company participates in the United Nations Global Compact, and it has incorporated the Compact's Ten Principles, which pertain to the four areas of human rights, labor, environment, and anti-corruption, into its Code of Conduct to adhere to these principles. Through our involvement in the Global Compact, we will seek to fulfill our social responsibilities on a global scale. We are also endeavoring to contribute to the accomplishment of the 17 Sustainable Development Goals contained in *Transforming our world: the 2030 Agenda for Sustainable Development*, which was adopted at a United Nations summit held in September 2015. We are approaching this goal from the perspective of environmental, social, and governance, or ESG, issues.

Contributing to Environmental Preservation by Supplying Products and Technologies

Global warming and other environment issues are pressing matters that could materially impact the future of humanity. Based on this realization, we have formulated Environmental Vision 2020, which is centered on the three specified material issues of stopping global warming, creating a recycling-oriented society, and meeting our corporate social responsibilities. Guided by this vision, we will strive to contribute to environmental preservation by supplying products and technologies that utilize the energy and environment technologies in which Fuji Electric specializes while at the same time working to reduce the environmental footprint of our own production activities. These goals will be pursued through a concerted Group effort that includes overseas subsidiaries.

Cultivating Diverse Human Resources and Developing a Supportive Workplace Environment

If Fuji Electric is to continue growing on a global scale, it will be vital for the Company to be able to combine the capabilities of a diverse range of human resources in order to maximize its strengths as a team. We are thus systematically accelerating the development of future leaders and globally competent human resources with a view to 10 and 20 years down the line. We are also advancing a planned expansion of the number of female managers by redoubling career development support for female employees so that such employees can feel motivated and empowered in their work. These efforts have led to Fuji Electric's inclusion in the Nadeshiko Brand selection of companies that display excellence in empowering their female employees for two consecutive years. At the same time, effort is being devoted to developing a more accommodating workplace environment in order to support employees in achieving a good work-life balance. It can be anticipated that the number of employees needing to care for children or other family members will rise going forward. Fuji Electric is enhancing the support available for such employees by introducing Flexible Location working systems that enable employees to work in satellite or home offices.

Implementing Rigorous Groupwide Governance

Corporate governance is growing ever more important. Fuji Electric is strengthening its corporate governance by increasing management transparency and enhancing the oversight function at both the Company and its subsidiaries. Furthermore, the Company is appropriately addressing the requirements of Japan's Corporate Governance Code while practicing proactive engagement with shareholders and other investors.

Being "Enthusiastic, Ambitious, and Sensitive" to Realize Continuous, Global Growth

In fiscal 2023, Fuji Electric will celebrate its centennial anniversary. We aim to achieve net sales of ¥1 trillion and an operating margin of 7% leading up to this momentous occasion.

Fuji Electric's corporate philosophy contains the slogan of "enthusiastic, ambitious, and sensitive." I find myself discussing this slogan with employees on various occasions. In this slogan, "enthusiasm" means the desire to contribute to society by creating new technologies and products. "Ambition" means setting lofty goals and working to achieve them no matter what challenges may be faced. "Sensitive" means valuing customers, allies, and employees as well as the families that support each of these individuals. This slogan truly represents Fuji Electric's corporate DNA.

Our goal is to ensure our prosperity as a company, returns to our shareholders, and the happiness of our employees and their families, while contributing to the achievement of a sustainable society. In closing, we would like to ask for the continued support of all our stakeholders.

July 2017

Michihiro Kitazawa

President and Representative Director

