



President's Message

We will make maximum use of our strengths for continuous growth

Review of Fiscal 2015 Medium-Term Management Plan

Operating Margin, Net Income at Record Levels

Since the 2008 global financial crisis, Fuji Electric has worked to innovate its business structure to be able to generate profit even when sales do not grow. In recognition of the level of progress made by fiscal 2013, we designated that year as the "first year for aggressive management" and formulated a Medium-Term Management Plan covering the period through fiscal 2015, with numerical final-year targets of ¥850.0 billion of net sales and operating income of ¥45.0 billion, and worked to establish a foundation for growth and bolster profitability.

In fiscal 2015, the final year under the plan, records for operating margin and profit attributable to owners of parent were registered. Compared with fiscal 2012, net sales increased ¥67.8 billion, operating income rose ¥23.0 billion, and net income increased ¥4.2 billion, with operating income more than double the fiscal 2012 level. Although net sales were short of the FY2015 Medium-Term Management Plan target because of a weaker market environment, the plan for operating income was achieved as a result of Companywide efforts to strengthen the profit structure.

Building a Base for Overseas Business Expansion

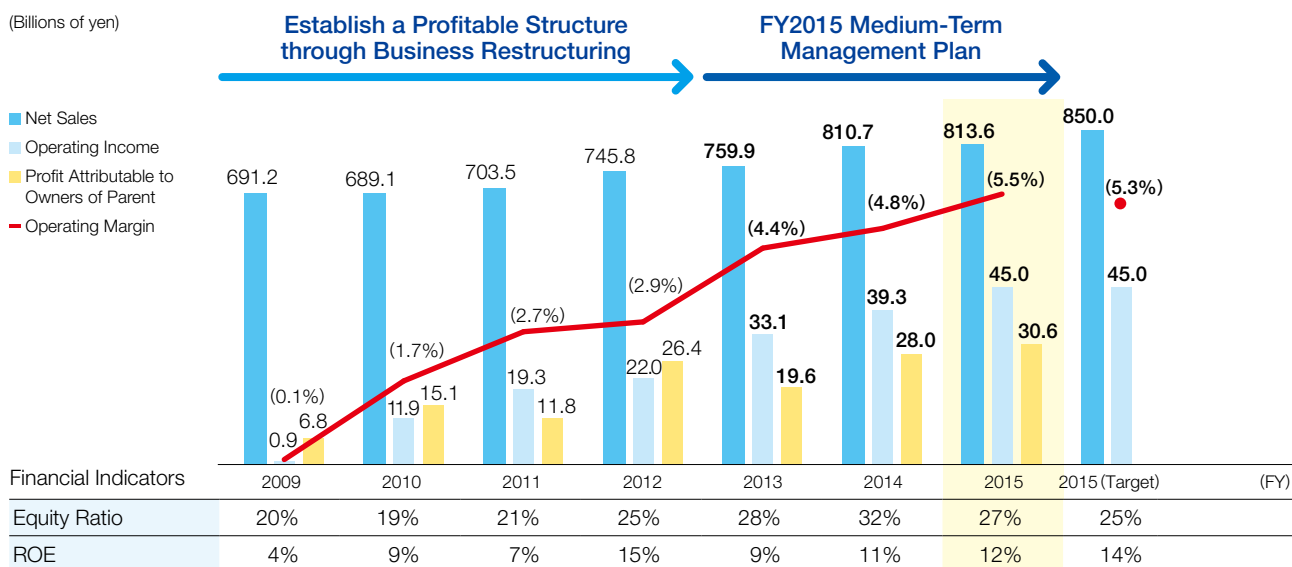
To establish a foundation for growth, we are first raising our target for the overseas portion of net sales to 30%, as we concentrate on building an overseas business foundation. Focusing on Asia, a market that is expected to grow, and the Americas, where the market is already large, we are establishing production bases and carrying out mergers and acquisitions (M&A) to build a foundation for future business growth.

Bolstering Profitability through Pro-7 Activities and by Promoting Local Production and Local Consumption

To bolster profitability, under the common slogan of "Benchmarking Against Fuji Electric in the Past," all employees reviewed the way the Group does business from ground up, continuously implemented Pro-7 Activities that aim to enhance work quality, and implemented thorough cost reductions through centralized Group purchasing, global procurement, moving operations in-house, and expense reductions through improved operational efficiency. In addition, by promoting local production and local consumption, we have been able to reduce foreign exchange risk by decreasing the negative impact of exchange rate movements.

Business Performance Trends

(Billions of yen)



FY2018 Medium-Term Management Plan

Further Renovation of Fuji Electric

Renovation 2018

Seeking Further Renovation of Fuji Electric

Net sales—the main issue addressed under the previous Medium-Term Management Plan—have not grown as planned. There are a variety of reasons, which could include that we have lagged in developing new markets and new customers, and we may not have developed products that customers actually wanted to buy. Expense and cost reductions can only achieve limited profit growth going forward, so sales growth will be the key. Therefore, the FY2018 Medium-Term Management Plan builds on the “innovation” that has been pursued to date, adding “**Renovation**” to correct the areas where the Company’s management and business activities have been insufficient, positioning the next three years as a period of “Further Renovation of Fuji Electric.”

In terms of the business environment, over the next three years in Japan we expect increased investment in high-efficiency power generation and renewable energies against a backdrop of the deregulation of the electric power sector. Also, we expect a pickup in social and industrial infrastructure to replace aging facility and in preparation for the Tokyo 2020 Olympic and Paralympic Games, and an increase in services using the Internet of Things (IoT) for safety, security, and energy conservation. Overseas, we see investment for social infrastructure growing in emerging markets in light of rising demand for energy, as well as increased investment related to the environment and for industrial infrastructure as production facility becomes more automated and efficient.

We regard these developments as increasing business opportunities for Fuji Electric, both in Japan and overseas. In addition to reaping the benefits of the strengthening of the management foundation achieved over the previous three years, we will continue to advance growth strategies and bolster profitability toward the next set of goals.

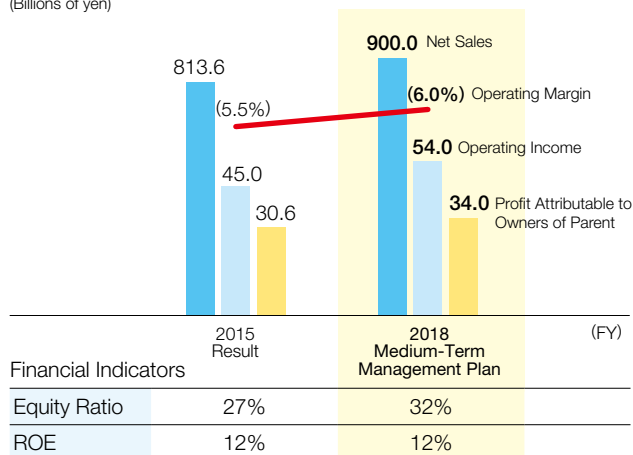
FY2018 Net Sales of ¥900.0 Billion Aiming for Operating Margin of More Than 6%

The FY2018 Medium-Term Management Plan targets net sales of ¥900.0 billion, with operating income of ¥54.0 billion, and profit attributable to owners of parent of ¥34.0 billion. Despite an uncertain outlook for the global economy and the adverse effect from the yen’s appreciation, we are aiming for an operating margin of more than 6%.

We also plan to maintain the equity ratio at 32%, and with profit growth, ROE of 12%. Our policy of bolstering profitability to improve our financial position, while using the cash generated by corporate activities to invest for medium-to-long-term business growth, and providing returns to shareholders in line with profit growth, is unchanged.

Management Target

(Billions of yen)





Priority Measures

[Implement growth strategies]

- Reform operating processes in social engineering systems, 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]

- Re-energize “Pro-7 Activities”

Aiming for Business Expansion Based on Three Growth Strategies

We believe Fuji Electric’s further development requires three steps.

First, we need to review our structure to utilize our strengths. We have a strong track record with customers in power electronics, and we will enhance these components and expand the business by using combinations of these strong components to provide systems to customers. With developments in IoT and other manufacturing reforms and growing demand for energy, today we need to provide stable supplies of energy in harmony with the environment. We are building a structure that focuses on two areas: automation, labor savings, and energy conservation with drive control systems as the core product, and stable supplies of electricity with power supplies as the core product. Specifically, we are innovating operations in the industrial infrastructure and power electronics businesses, and also through the electric power distribution being carried out by the social engineering systems business.

The second step is to expand our overseas business. We will achieve results from the M&A we have conducted to date and carry out new M&A that bring the scale of our business to the next level. In Asia, we have set up the APAC Regional Corporate Strategy Office, in Singapore, which is responsible for ASEAN countries, to optimize and expedite our businesses in the region. Managing both the industrial infrastructure and power electronics businesses together, functions from marketing and sales to engineering are integrated, with the aim of growing the business by maximizing our strengths and differentiating ourselves from other companies.

The third step is to create high-value-added products that meet customer demand. Traditionally, we have primarily developed products that were merely replacements for previous products. The contribution to profits from replacement products is limited. We need to return to our roots as a manufacturer and focus on developing and creating products that customers need and want. This means developing businesses that will support the Company in five to 10 years.

Re-energizing Pro-7 Activities and Further Enhancing the Earnings Strength of Power Electronics

We are working to further enhance our earnings strength. The Pro-7 program of activities to improve earnings strength on a Companywide basis was launched in fiscal 2012 and has been in place for four years. We will continue to develop these activities across the entire Company and work to re-energize them with the aim of further enhancing work quality. To date, we have emphasized “visualization” to clarify the earnings structure of individual businesses and implemented measures to reduce fixed costs and other expenses, which has led to improved profitability. Going forward, we will work to enhance our earnings strength further by focusing on improving profitability in power electronics. We have already begun to strengthen manufacturing capabilities at our mother factories in Suzuka and Kobe. In addition to further cost reductions by bringing work in-house and through standardization, we plan to build a technical center at the Suzuka Factory this summer to consolidate our product development teams to increase development efficiency and quickly bring to market products that customers want.

Focusing on Overseas Capital Investment and Development of High-Value-Added Products

Capital investment will go primarily to overseas production bases and the strengthening of our manufacturing capabilities utilizing the IoT.

With regard to research and development, we will accelerate our development of SiC devices and modules, which are next-generation power semiconductors, toward the development of competitive, high-value-added products focusing on electronic devices and power electronics, and use these devices and modules to develop SiC-equipped power electronics equipment. Looking further into the future, upfront investment will emphasize the development of modules for automobiles and railway rolling stock.

Developing Global Human Resources and Encouraging Women to Play Active Roles

Human resources are the driving force behind all of these initiatives. Fuji Electric's corporate slogan is "to be enthusiastic, ambitious, and sensitive." "Enthusiasm" means the creative enthusiasm to create new things. "Ambition" means setting high goals and working hard to achieve them. "Sensitive" means being a spiritually rich person who appreciates small things and shares the joys of customers as their own. This slogan can be regarded as Fuji Electric's DNA, and placing importance on these traits also puts an emphasis on developing human resources who can perform at the global level and encouraging women to play active roles.

In terms of global human resource development, we carry out regular training programs for employees at various levels. In addition, to grow as the Company of the future, it is essential to have female employees play a more active role, and we aim to increase the number of female officers to 300 by fiscal 2020, from the current 172.

In addition, as Japan's birthrate declines and society ages, we will work to create a corporate environment that can accommodate flexible working styles, including enabling employees to balance work and nursing care for family members, to support a diverse range of employee lifestyles.

Promoting Corporate Social Responsibility (CSR) and Striving for Further Enhancement of Corporate Value

Fuji Electric's concept of CSR is to contribute to society through business activities using energy and environment technologies, while at the same time taking into consideration the effect of all of its corporate activities on society and the environment.

To promote CSR on a global basis, we are a member of the United Nations Global Compact (GC), and its 10 principles, covering the four fields of human rights, labor, the environment, and the prevention of corruption, are reflected in the Fuji Electric Code of Conduct, which directly impacts our daily activities and corporate actions.

Corporate governance has recently become increasingly important. Fuji Electric complies with Japan's Corporate Governance Code, and it will continue to strive to increase management transparency and soundness, and to enhance corporate value even further.

For Continuous Growth

Fuji Electric aims to grow continuously on a global basis. Under the FY2018 Medium-Term Management Plan, we are renovating our existing business model and building a foundation for solid growth, which will lead to expansion from fiscal 2019. We hope to create the Company that will achieve net sales of ¥1 trillion with a 7% operating margin by fiscal 2023, the 100th anniversary of our founding.

Our goal is to ensure our prosperity as a company, returns to our shareholders, and the happiness of our employees, 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 2016

Michihiro Kitazawa
President and Representative Director

