

# A Message From the President

## Performance Recovers in Fiscal 2004

Despite some cause for concern in the second half of the year, our operating environment in fiscal 2004 was generally firm, centered on a recovery in domestic private-sector demand.

In this environment, Fuji Electric achieved a marked improvement in profitability, thanks mainly to the ED&C-Drive Systems and Retail Systems segments, as an increase in sales volume was complemented by lower costs and management expenses stemming from structural business reforms and Group-wide manufacturing innovation activities. Three of our business segments—ED&C-Drive Systems, Electronic Devices and Retail Systems—posted higher sales year on year. Net sales, however, were marginally lower, mainly because of a decline in major orders in Energy & Electric Systems due to curbs on public-sector spending and investments by electricity utilities.

As a result, on a consolidated basis, we recorded substantial increases in both operating income and net income compared to fiscal 2003, despite a slight drop in net sales. Operating income

rose 53.7% to ¥26.8 billion (US\$250 million) and net income increased 41.3% to ¥7.7 billion (US\$72 million), on net sales of ¥844.2 billion (US\$7,889 million), down 1.4% from a year earlier. For the year, we decided to pay a year-end dividend of ¥2.50 per share. Combined with the interim dividend paid in December 2004, the annual dividend for fiscal 2004 totaled ¥5.00 per share.

Fiscal 2004 was the first full year of operations since adopting the pure holding company system in October 2003, and the second year of our three-year medium-term management plan. In line with this plan, we implemented strategies and initiatives designed to boost our profitability and competitiveness by drawing on the combined strengths of the Fuji Electric Group.

Just over 18 months have passed since we introduced the holding company system. But in this relatively short period of time, we have made real progress in radically changing the corporate culture of the entire Fuji Electric Group, focusing everybody on one overriding and shared goal—to create a business group comprising the industry's strongest specialists. By spinning off our business divisions as independent operating companies, every one of our senior managers and employees knows that they have to stand on their own two feet to make sure their companies stay competitive. The substantial improvement in earnings over the past three years also highlights the progress we have made with the medium-term management plan to date.

## Initiatives to Achieve Our Medium-term Management Plan Goals

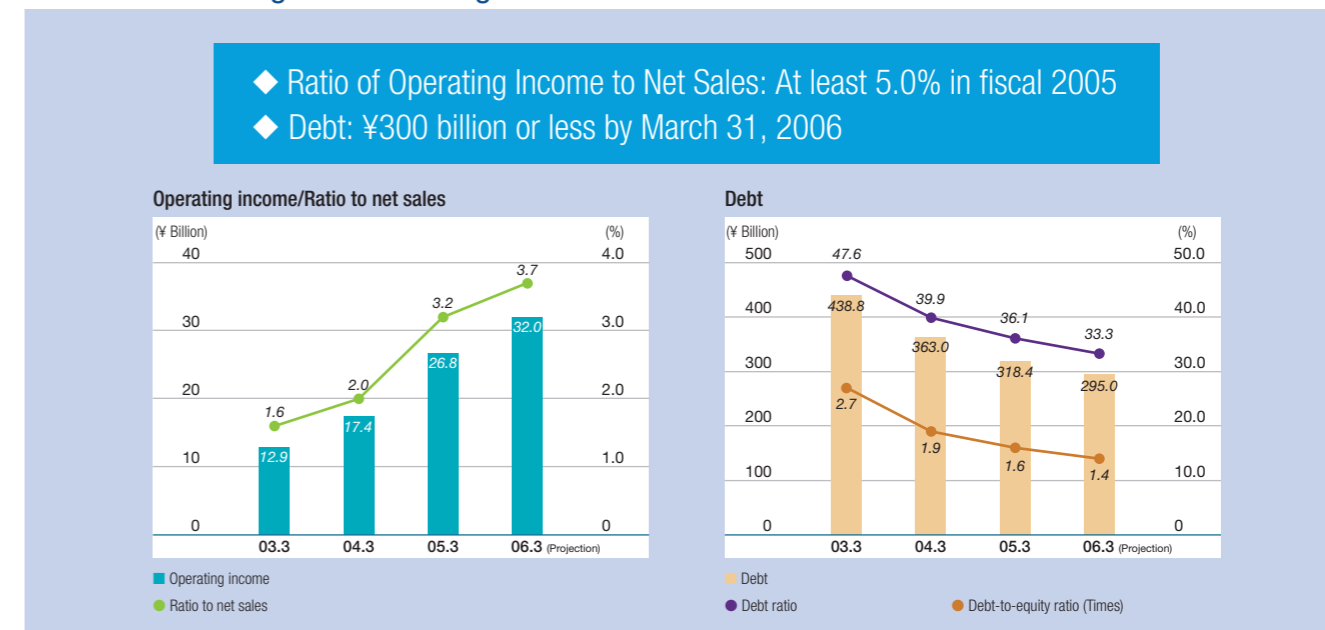
Our medium-term management plan set targets of a ratio of operating income to net sales of at least 5.0% and a reduction in debt to no more than ¥300 billion in fiscal 2005, the last year of the plan. In the year under review, the ratio of operating income to net sales was 3.2% after the Company posted operating income of ¥26.8 billion, while debt totaled ¥318.4 billion. In fiscal 2005, we are unfortunately only projecting a ratio of operating income to net sales of 3.7%, based on estimated operating income of ¥32.0 billion. However, we anticipate that debt will fall below our target to ¥295.0 billion.

Although Fuji Electric has significantly improved its performance over the last three years, we have to further boost the ratio of operating income to net sales if we want to stay competitive in the 21st

century. So in fiscal 2005, we must significantly over-perform in relation to our forecasts for the year in order to go some way to closing the gap with our medium-term management plan target of 5.0%. It may take longer than we originally thought, but we must do our utmost to reach this goal as soon as possible.

In an operating environment forecast to be challenging, our medium-term management plan is designed to accelerate management reform, restructure the profit structure of our businesses and strengthen our financial position. The ultimate objective is to create a corporate group capable of generating enterprise value even in a deflationary environment. We have been implementing six shared initiatives to achieve this goal. Below, we examine how these initiatives are progressing and outline our approach for fiscal 2005.

### Medium-term Management Plan Targets



Notes: 1. Projected results for fiscal 2005 (ending March 31, 2006) are based on the Company's forecasts of April 27, 2005.  
2. Please refer to the contents page for the Company's cautionary statement with respect to forward-looking statements.

### 1. Grow sales through the creation of new businesses and products, based on stronger R&D capabilities

This is one of the growth strategies in the medium-term management plan. Each operating company has clearly identified its core product categories and aligned technology development with its business and product strategies. Based on this approach, operating companies have been working to boost sales with the roll out of

new products.

In fiscal 2005, we expect to boost sales and earnings with the launch of new products such as automotive power devices, magnetic disks and general-purpose inverters. Going forward, we plan to develop new products that take customer business cycles into



account right from the design and development stage, further reinforce existing businesses that are performing well, and reinforce measures designed to boost earnings.

Meanwhile, we are seeing steady results from our focus on new core businesses, specifically, amorphous silicon solar cells incorporating film substrates, organic light-emitting displays (OLEDs) and polymer electrolyte fuel cells (PEFCs). In solar cells, we are moving

to the business-launch stage with actions centered on Fuji Electric Systems Co., Ltd, while in OLEDs, we are now developing volume production technologies. In PEFCs, we are working toward a launch date of sometime in fiscal 2008 by focusing on the development of pre-volume production models that significantly lower costs. Going forward, we will accelerate the development of new technologies to rapidly bring them to market.

## 2. Drive forward the China business strategy

For the Fuji Electric Group, China is a vital market to support business expansion. Building a stronger presence in China is thus one of the key pillars of our medium-term management plan. Currently, sales in China are approximately ¥33.0 billion and growing at an annual rate of about 22%.

Initially, our motivation for beginning operations in China was to manufacture products locally for export back to Japan. Now we are expanding our range of products specifically designed for the Chinese market. In the future, we plan to drive further growth by building even closer links to the market based on engineering and service operations. To achieve this, we must look at China as an independent market, not merely as an extension of our business in Japan. This will mean building a firmer presence on the ground. Core operating companies will work with our local sites to develop and implement business strategies, while corporate divisions will provide

enhanced support to the operational side of the business to strengthen the management base in the country. This thinking prompted us to establish a China Business Expansion Council in fiscal 2004. This council acts as a forum for representatives of core operating companies, local sites and corporate divisions to discuss issues and measures related to business growth in the Chinese market. This council will be instrumental in encouraging more cooperation across the Group and supporting effective and efficient business development.

There are a number of systemic and operational risks unique to the Chinese market. Nevertheless, we foresee major business opportunities in the country. I believe the sorts of initiatives we are taking will help us to make the most of these chances to drive further business expansion.

## 3. Promote manufacturing innovation by eliminating waste

In fiscal 2004, we rolled out measures to eliminate waste in our operations, centered on manufacturing divisions. These measures have helped us to save space and labor and reduce inventories. Although this led to a year-on-year reduction of 1.8 points in the cost of sales ratio, we have to further reduce the ratio of costs and selling, general and administrative (SG&A) expenses to sales if we want to attain our 5.0% ratio of operating income to net sales target.

Consequently, in fiscal 2005, to ensure these benefits are translated into lower operating costs and stronger cash flows—which

will feed directly into improved operating performance—we will draw on the expertise and efforts of the entire Group. We will also extend measures to eliminate waste to non-manufacturing divisions such as marketing and design and development. Collectively, actions taken by every single employee will help us to generate additional corporate value.

## 4. Strengthen the financial base by reducing debt to less than ¥300 billion

By using funds more efficiently across the entire Fuji Electric Group, we are striving to reduce debt to under ¥300 billion by March 31, 2006. In the year under review, we cut debt as planned, allowing us to forecast debt of ¥295.0 billion for March 2006. Steps to reinforce our financial base will include enhancing existing efforts to reduce

trade receivables and recover advances from customers, pare back inventories and sell idle real estate assets and investment securities. Together with additional structural reforms, this will help us to boost earnings and use funds more efficiently Group-wide.

## 5. Transform the personnel strategy

As part of its structural reforms, the Fuji Electric Group has streamlined its workforce. However, with major and ongoing changes in the recruiting and employment environment, we are aware that we have to transform our personnel strategy.

Japan's falling birthrate, mandatory retirement for many baby boomers in 2007 and other issues mean that Japan's workforce is forecast to decline. Against this backdrop, securing the necessary skilled people and ensuring the expertise of existing employees is passed on to future employees are extremely important issues for the future of the Group. As a manufacturing company, we need to reinforce initiatives in the two most fundamental areas: boosting technological capabilities and transferring skills to new employees.

In response, we will create a more diverse workforce and widen the options open to skilled people. Our aim is to create a company where women can play an active role, non-Japanese and older workers can offer their expertise and skills, and where the disabled, part-timers and temporary workers all play their part in a varied and diverse team.

One of our strategies is expansion in China. Consequently, we are recruiting more Chinese employees to manage the local workforce in the country. And to encourage more of our older workers to stay with Fuji Electric a bit longer, we introduced a retirement postponement system in fiscal 2001, giving salaried employees the choice of extending their careers in stages from the mandatory working age of 60 to a maximum of 65. Plans are on the table to upgrade this system.

We are also cultivating the next group of production technology engineers, individuals who play a key role at all our manufacturing sites. In fiscal 2003, we began bringing together young technicians from our plants to participate in one-year, on-the-job training programs designed to give them basic skills in industrial engineering and quality control, and increase understanding of product quality issues and waste elimination.

## 6. Optimize the business portfolio

In order to create an earnings structure capable of achieving a ratio of operating income to net sales of 5.0% or greater, we have to improve the balance of the entire Fuji Electric Group business portfolio. This will mean reinforcing organizational capabilities to execute business strategies formulated by each operating company.

We will also reinforce our operating structure by continuing with measures to optimize our business portfolio among operating companies to create a well-balanced mix of businesses in terms of both earnings and growth potential.