OPERATING ENVIRONMENT

During the fiscal year ended March 31, 1995, the Japanese economy showed signs of recovery as income tax cuts and an especially hot summer led to increased personal consumption. However, a full-scale recovery was delayed by the effects of the Kobe Earthquake and appreciation of the yen to record-high levels. Electronic equipment manufacturers faced a challenging business environment due to weak domestic capital investment and worsened export conditions. This resulted in a hollowing out of industry as production was shifted overseas.

RESULTS

Fuji Electric Co., Ltd. responded to this environment with companywide streamlining measures. To strengthen our earnings base, we reorganized operations, improved both domestic and overseas sales and production functions and worked hard to secure orders and sales. The economic slowdown, however, continued to have a large impact on results and nonconsolidated net sales declined 3.6% to ¥561,266 million. Nonconsolidated operating income, on the other hand, increased 20.5% to ¥8,031 million, reflecting the success of intensive rationalization. Nonconsolidated ordinary income declined 6.5% to ¥5,187 million and net income fell 6.9% to ¥2,505 million.

On a consolidated basis, net sales grew 2.7% to ¥856,305 million; operating income rose 15.3% to ¥18,214 million; ordinary income decreased 8.3% to ¥12,962 million; and net income grew 4.8% to ¥3,820 million.

Although our Kobe Factory was damaged during the Kobe Earthquake, we were able to resume operations almost immediately.

PERFORMANCE BY PRODUCT GROUP (NONCONSOLIDATED BASIS)

Orders for Electrical Equipment decreased by 5.4% to ¥272,717 million, while sales fell 12.2% to ¥251,205 million. Large-scale overseas orders were received for energy equipment, electrical machinery and electric power distribution systems. There was growing demand for electric distribution, control and drive systems, such as general-purpose programmable controllers and electrical distribution and control equipment, reflecting the recovery in demand of machinery-related industries. Demand also grew for general-purpose inverters and motors due to a resurgence in the distribution equipment and machine tool industries and brisk demand from air conditioner and heat pump makers resulting from the hot summer. Despite these signs of strength, the effects of weak private-sector capital investment resulted in sales and orders dropping below last term's levels.

Orders for Control/Information Systems and Electronic Devices increased by 0.8% to ¥228,635 million, while sales increased 5.7% to ¥226,976 million. The sharp rise of the yen dampened results for instrumentation and FA (factory automation) systems and information systems equipment and components. However, social infrastructure systems, such as sewage, waterworks and power transmission and distribution control systems, maintained strength. In recent years, the Company has emphasized these areas. Sales of electronic devices were also above last fiscal year's levels, benefiting from robust overseas markets and a recovery in domestic industrial machinery shipments.

Orders received for Consumer-related and Other Products grew 2.9% to ¥83,297 million. Sales were ¥83,084 million, a 1.9% increase. Although sales of vending machines, the pillar of this group, declined in a weak business environment, overall results improved with strong demand for large freezing and refrigerated showcases because of brisk capital investment by the convenience store industry.

CAPITAL INVESTMENT AND R&D

Nonconsolidated capital investment of ¥21,582 million (including capital leases) focused primarily on production capacity increases for strategic products and rationalizing our operational base. The production capacity of electronic devices, including high-voltage silicon diodes and power devices, was increased at our Matsumoto Factory.

Overseas, the production capacity of organic photoconductive drums was increased substantially at Hong Kong Fujidenki Co., Ltd. In the People's Republic of China, we established Fuchunjiang Fuji Electric Co., Ltd. in Zhejiang Province, the first Sino-Japanese heavy machinery manufacturing joint venture to cover all aspects of hydroelectric power generation, from booking orders to maintenance. This follows the establishment of Fuji Electric Dalian Co., Ltd. in Dalian, which began production in December 1994.

In addition to factory rationalization investment for all

Yoshihiko Nakazato,
President and Representative Director

product categories, the Company also began full-scale operation of a new computerized management system called Action—standing for Advanced Customer-oriented Through-system using an Intelligent Order-processing Network—which is able to track products from order to shipment. We also installed intracompany electronic mail to improve overall business efficiency.

Fuji Electric made strategic investments in R&D to strengthen earnings power and boost future growth. The Company is expanding basic and core technology while accelerating the development of next-generation and strategic products that meet market demands.

Finally, our Fukiage Factory became our tenth factory to receive ISO 9001 international certification for quality management.

OUTLOOK

Although the domestic economy appears to be moving toward a gradual recovery, difficult business conditions are expected to prevail due to severe price competition, the continued hollowing out of domestic industry and the rapid appreciation of the yen to post-war highs. As part of our efforts to bring about an early return to earnings growth, management is emphasizing a two-tiered approach: expanding sales and orders, while reducing total costs.

With Speed as our key word, we have adopted the following guidelines:

TO EXPAND SALES AND ORDERS:

- Accelerate the development and introduction of competitive new products that meet market expectations
- Bolster marketing in areas with growth potential, such as social infrastructure
- Implement a Fuji Electric Group-wide push to obtain orders for plant-related products.

TO REDUCE TOTAL COSTS:

- Scale back unprofitable areas of operations to improve our business structure
- Accelerate cost-cutting programs for strategic products
- Reduce fixed costs and boost productivity by streamlining administrative and other business functions.

Following the guidelines outlined above, we are accelerating efforts to expand overseas procurement and to strengthen existing overseas production and marketing bases, as well as to establish new ones. And we aim to improve our international competitiveness, bolster our business foundation and pave the way for earnings growth.

Takeshi Nakao retired from the office of Chairman and Representative Director, where he had served with distinction. He will continue to serve Fuji Electric as an advisor.

We thank our shareholders for their support and ask for their understanding as we position Fuji Electric to enhance shareholder value by improving operating results.

Y. Nakazato

Yoshihiko Nakazato
President and Representative Director