

## Consolidated Financial Review

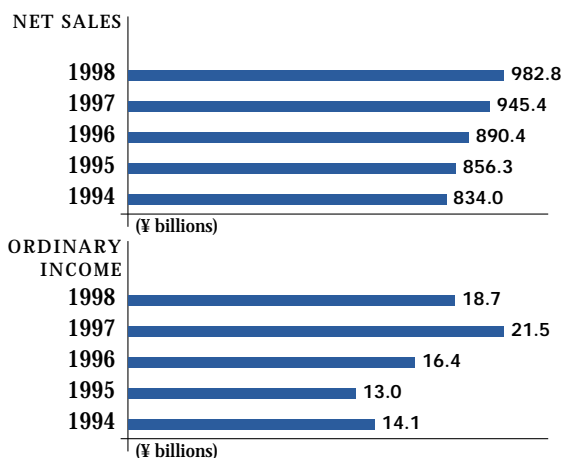
The consolidated financial statements of Fuji Electric Co., Ltd. for the fiscal year ended March 31, 1998, include the accounts of 44 subsidiaries, the same number as in the previous fiscal year. However, Fuji Facom Corp. and Fuji Electric Techno Engineering Co., Ltd. changed their corporate names to FFC Limited and Fuji Electric Engineering Co., Ltd., respectively.

### Net Sales

Consolidated net sales rose 4.0% to ¥982,763 million. On a parent company basis, net sales increased 3.2% to ¥615,662 million, and this was the main contributing factor to consolidated net sales growth.

In the domestic market, sales were adversely affected by falling capital investment in the electric power and manufacturing sectors amid an increasingly recessionary tone of the economy. In the overseas market, however, the weak yen resulted in favorable foreign exchange levels to support exports. Thus consolidated overseas sales grew 7.2% compared with the previous term.

By product group, net sales of Electrical Equipment advanced 4.9% to ¥369,015 million, accounting for 37.5% of total net sales. Net sales of Control/Information Systems and Electronic Devices group rose 4.7% to ¥302,643 million, equivalent to 30.8% of total net sales. In Consumer-Related and Other Products, net sales increased 2.2% to ¥311,105 million, which represented 31.7% of total net sales.



### Net Income

Increased sales, Group-wide total cost reduction efforts, beneficial foreign exchange levels caused by the weak yen and a favorable turnaround in the financial balance worked positively on profit growth. However, these positive factors were offset by falling prices in severe market conditions and a rise in fixed costs. As a result, net income fell 8.6% to ¥7,487 million.

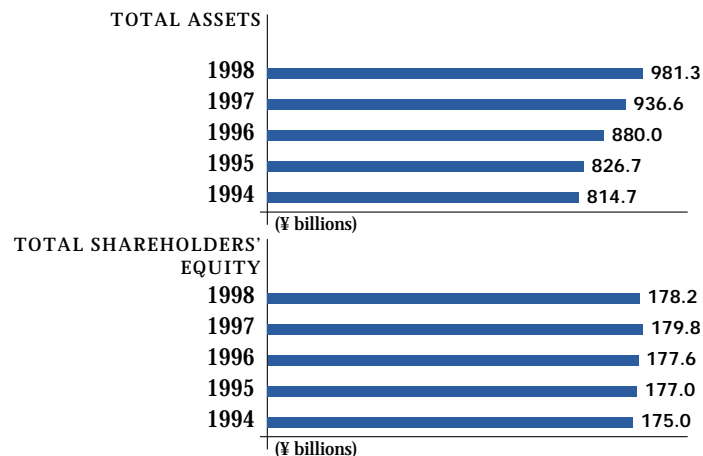
Net income per share edged down ¥0.98 to ¥10.47.

Operating income, which reflects the results of our main operating activities, dropped 8.8% to ¥23,363 million, and the operating income margin declined from 2.7% in the previous term to 2.4%.

Ordinary income decreased 12.9% to ¥18,707 million. The ordinary income margin also deteriorated from 2.3% in the previous fiscal year to 1.9%.

### Financial Position

Total assets at the end of the fiscal year amounted to ¥981,332 million, a rise of 4.8% from the previous term's level of ¥936,552 million. Owing to the increase in total assets, the shareholders' equity ratio declined 1.0 percentage point, from 19.2% to 18.2%.



# Consolidated Balance Sheets

Fuji Electric Co., Ltd. and consolidated subsidiaries

Thousands of  
U.S. dollars  
(Note 3)

As of March 31, 1998 and 1997

	Millions of yen		1998
	1998	1997	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and time deposits	¥ 43,593	¥ 30,650	\$ 330,250
Marketable securities (Notes 2 and 5)	109,276	111,641	827,849
Trade receivables:			
Notes and accounts	296,406	281,846	2,245,500
Unconsolidated subsidiaries and affiliates	20,658	20,613	156,500
Allowance for doubtful receivables	(3,716)	(3,567)	(28,152)
Inventories (Notes 2 and 4)	185,526	198,260	1,405,500
Advance payments to suppliers	2,338	2,524	17,712
Other current assets (Note 9)	37,794	34,959	286,318
<b>TOTAL CURRENT ASSETS</b>	<b>691,875</b>	<b>676,926</b>	<b>5,241,477</b>
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST (Notes 2 and 5):</b>			
Land	24,323	23,925	184,265
Buildings and structures	155,565	144,722	1,178,523
Machinery and equipment	299,657	285,828	2,270,128
Construction in progress	17,955	10,894	136,023
	497,500	465,369	3,768,939
Less accumulated depreciation	(289,989)	(273,480)	(2,196,886)
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>207,511</b>	<b>191,889</b>	<b>1,572,053</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 2 and 5):			
Unconsolidated subsidiaries and affiliates	24,549	18,349	185,977
Other	23,898	18,935	181,045
Long-term loans receivable	1,611	1,397	12,204
Other investments and other assets (Note 9)	33,885	30,632	256,705
Allowance for losses on overseas investments	(539)	(539)	(4,083)
Allowance for doubtful receivables	(1,458)	(1,037)	(11,045)
<b>TOTAL INVESTMENTS AND OTHER ASSETS</b>	<b>81,946</b>	<b>67,737</b>	<b>620,803</b>
	<b>¥ 981,332</b>	<b>¥ 936,552</b>	<b>\$ 7,434,333</b>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

Thousands of  
U.S. dollars  
(Note 3)

Millions of yen

	1998	1997	1998
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans	¥182,208	¥143,502	\$1,380,364
Current portion of long-term debt (Note 5)	3,142	39,214	23,803
Trade payables:			
Notes and accounts	204,688	210,268	1,550,667
Unconsolidated subsidiaries and affiliates	22,252	20,741	168,576
Advances from customers	51,793	70,573	392,371
Accrued income taxes (Notes 2 and 9)	9,855	11,085	74,659
Accrued expenses	16,143	22,029	122,295
Other current liabilities	59,330	84,053	449,469
<b>TOTAL CURRENT LIABILITIES</b>	<b>549,411</b>	<b>601,465</b>	<b>4,162,204</b>
LONG-TERM DEBT (Note 5)	190,457	98,623	1,442,856
LIABILITY FOR SEVERANCE PAYMENTS (Note 2)	23,846	22,877	180,652
OTHER LONG-TERM LIABILITIES	6,030	2,308	45,682
MINORITY INTERESTS	33,347	31,445	252,629
<b>CONTINGENT LIABILITIES (Note 10)</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock, ¥50 par value:			
Authorized—1,600,000,000 shares			
Issued—715,080,369 shares as of March 31, 1998	47,586	—	360,500
715,080,369 shares as of March 31, 1997	—	47,586	—
Capital surplus	38,397	38,397	290,886
Legal reserve (Note 6)	12,027	11,333	91,114
Retained earnings (Note 7)	80,232	82,519	607,818
	178,242	179,835	1,350,318
Less shares of common stock held by the Company	(1)	(1)	(8)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>178,241</b>	<b>179,834</b>	<b>1,350,310</b>
	<b>¥981,332</b>	<b>¥936,552</b>	<b>\$7,434,333</b>

# Consolidated Statements of Income

Fuji Electric Co., Ltd. and consolidated subsidiaries

Thousands of  
U.S. dollars  
(Note 3)

Years ended March 31, 1998 and 1997	Millions of yen		1998
	1998	1997	
NET SALES (Note 2)	¥982,763	¥945,382	\$7,445,174
COST OF SALES	773,839	733,691	5,862,417
GROSS PROFIT	208,924	211,691	1,582,757
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	185,561	186,075	1,405,765
OPERATING INCOME	23,363	25,616	176,992
NON-OPERATING INCOME (EXPENSES):			
Interest and dividends received	5,304	5,148	40,182
Interest expense	(6,587)	(7,674)	(49,902)
Other, net	(3,373)	(1,610)	(25,553)
	(4,656)	(4,136)	(35,273)
ORDINARY INCOME	18,707	21,480	141,719
EXTRAORDINARY INCOME (LOSS), NET (Note 8)	55	(40)	417
INCOME BEFORE INCOME TAXES	18,762	21,440	142,136
INCOME TAXES (Notes 2 and 9)	9,999	11,907	75,750
	8,763	9,533	66,386
MINORITY INTERESTS IN NET INCOME OF CONSOLIDATED SUBSIDIARIES	(1,276)	(1,344)	(9,666)
NET INCOME	¥ 7,487	¥ 8,189	\$ 56,720
		Yen	U.S. dollars (Note 3)
PER SHARE AMOUNTS:			
Net income (Note 2)	¥10.47	¥11.45	\$0.079

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

Fuji Electric Co., Ltd. and consolidated subsidiaries

Years ended March 31, 1998 and 1997	Thousands Number of shares of common stock	Millions of yen			
		Common stock	Capital surplus	Legal reserve (Note 6)	Retained earnings (Note 7)
BALANCE AT MARCH 31, 1996	715,080	¥ 47,586	¥ 38,397	¥10,644	¥ 80,941
Net income for the year	—	—	—	—	8,189
Increase resulting from increase of consolidated subsidiaries	—	—	—	—	10
Cash dividends paid	—	—	—	—	(5,720)
Transfer to legal reserve	—	—	—	689	(689)
Bonuses to directors	—	—	—	—	(212)
BALANCE AT MARCH 31, 1997	715,080	¥ 47,586	¥ 38,397	¥11,333	¥ 82,519
Net income for the year	—	—	—	—	7,487
Cash dividends paid	—	—	—	—	(5,720)
Transfer to legal reserve	—	—	—	694	(694)
Bonuses to directors	—	—	—	—	(248)
Decrease resulting from the change of its method of accounting for income taxes (Note 2)	—	—	—	—	(3,112)
BALANCE AT MARCH 31, 1998	<u>715,080</u>	<u>¥ 47,586</u>	<u>¥ 38,397</u>	<u>¥12,027</u>	<u>¥ 80,232</u>
		<i>Thousands of U.S. dollars (Note 3)</i>			
BALANCE AT MARCH 31, 1997		\$360,500	\$290,886	\$85,856	\$625,144
Net income for the year		—	—	—	56,720
Cash dividends paid		—	—	—	(43,333)
Transfer to legal reserve		—	—	5,258	(5,258)
Bonuses to directors		—	—	—	(1,879)
Decrease resulting from the change of its method of accounting for income taxes (Note 2)		—	—	—	(23,576)
BALANCE AT MARCH 31, 1998		<u>\$360,500</u>	<u>\$290,886</u>	<u>\$91,114</u>	<u>\$607,818</u>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

# Notes to the Consolidated Financial Statements

Fuji Electric Co., Ltd. and consolidated subsidiaries

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan and from the consolidated financial statements filed with the Minister of Finance in Japan. In preparing these statements, certain reclassifications and rearrangements have been made to the consolidated financial statements prepared domestically in Japan in order to present these statements in a form that is more familiar to readers outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles and practices generally accepted in Japan.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its significant majority-owned subsidiaries (the “Companies”). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company’s remaining subsidiaries whose net and gross assets and net sales are not significant in the aggregate in relation to the comparable figures in the consolidated financial statements, have not been consolidated. Investments in unconsolidated subsidiaries and affiliates are not accounted for by the equity method. The excess of the Company’s investments in consolidated subsidiaries over its equity in the net assets at the date of acquisition was not material and has been fully amortized.

### b. Foreign currency translation

Current receivables and payables denominated in foreign currencies are translated into Japanese yen at exchange rates in effect at the respective balance-sheet dates. All other accounts denominated in foreign currencies are translated into Japanese yen at historical exchange rates. The resulting exchange losses and gains are charged or credited to income.

### c. Inventories

Raw materials are stated at cost determined by the most recent purchase price method. Finished goods and work in process are stated at actual cost determined by accumulated production cost for contract items and average cost for regular production items, except that finished goods of certain consolidated subsidiaries are priced by the most recent purchase price method. In accordance with accounting practices generally accepted in the heavy electric industry, inventories include items with a manufacturing period exceeding one year.

### d. Marketable securities and investment securities

Marketable securities and investment securities are stated generally at cost determined by the moving average method.

### e. Depreciation

Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets.

*f. Liability for severance payments and pension plans*

Employees who terminate their services with the Companies are, under most circumstances, entitled to lump-sum severance payments determined by reference to their current basic rate of pay and length of service. The Companies generally provide for this liability to the extent of 40% of the amount (equal to the maximum amount permitted under Japanese income tax regulations) which would be required to be paid if all employees voluntarily terminated their services at the balance-sheet date. In addition to lump-sum severance payments, the Companies generally operate pension plans to supplement the public welfare pension plan. Payments to such pension funds, including amortization of past service costs, are charged to income when made.

*g. Research and development costs*

Research and development costs are charged to income as incurred.

*h. Revenue recognition*

Sales of products are generally recognized in the accounts as delivery is made. Sales of installation products are recognized in the accounts when installation is completed.

*i. Income taxes*

Income taxes are provided for amounts currently payable for each year.

For the year ended March 31, 1998, the Company has recognized deferred income taxes related to all of the differences between tax and financial recognition of income and expenses.

*j. Net income per share*

Net income per share is computed based on the weighted average number of shares outstanding during the respective years.

**3. U.S. DOLLAR AMOUNTS**

The U.S. dollar amounts included herein are solely for the convenience of the reader outside Japan and have been translated from the Japanese yen amounts at the rate of ¥132.00=U.S.\$1, the approximate exchange rate on March 31, 1998.

**4. INVENTORIES**

Inventories at March 31 comprised the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Finished goods	<b>¥101,653</b>	¥109,622	<b>\$ 770,098</b>
Work in process	<b>69,809</b>	74,299	<b>528,856</b>
Raw materials	<b>14,064</b>	14,339	<b>106,546</b>
	<b>¥185,526</b>	<b>¥198,260</b>	<b>\$1,405,500</b>

## 5. LONG-TERM DEBT

Long-term debt at March 31 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Loans, principally from banks and insurance companies	¥ 33,599	¥ 27,837	\$ 254,539
6.1% ¥ bonds due 1997	—	30,000	—
2.5% ¥ bonds due 2000	20,000	20,000	151,515
2.7% ¥ bonds due 2000	20,000	20,000	151,515
2.95% ¥ bonds due 2001	20,000	20,000	151,515
2.0% ¥ bonds due 2002	20,000	20,000	151,515
2.05% ¥ bonds due 2002	20,000	—	151,515
2.15% ¥ bonds due 2003	20,000	—	151,515
2.25% ¥ bonds due 2003	20,000	—	151,515
2.35% ¥ bonds due 2004	20,000	—	151,515
	<b>193,599</b>	<b>137,837</b>	<b>1,466,659</b>
Less: Portion due within one year	<b>3,142</b>	<b>39,214</b>	<b>23,803</b>
	<b>¥190,457</b>	<b>¥ 98,623</b>	<b>\$1,442,856</b>

The amounts of assets pledged as collateral for long-term debt were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Marketable securities and investment securities	¥ 4,287	¥ 4,694	\$ 32,477
Property, plant and equipment	11,260	11,497	85,303
	<b>¥15,547</b>	<b>¥16,191</b>	<b>\$117,780</b>

## 6. LEGAL RESERVE

The Commercial Code of Japan provides that an amount equal to at least 10% of cash dividends and bonuses to directors paid be appropriated as a legal reserve until such reserve equals 25% of common stock. This reserve may be used to reduce a deficit or may be transferred to common stock, but is not available for distribution as dividends. The legal reserve includes a proportionate share of the changes in the legal reserves of consolidated subsidiaries since their respective dates of acquisition.

## 7. RETAINED EARNINGS AND DIVIDENDS

Annual appropriation of retained earnings is recorded in the financial year when approved by the shareholders' meeting. Interim dividends and the related appropriation of retained earnings are recorded when declared by the Board of Directors. On June 26, 1998, the shareholders of the Company authorized (1) payment of a cash dividend to shareholders of record on March 31, 1998 at the rate of ¥4.00 (\$0.03) per share, or a total of ¥2,860 million (\$21,667 thousand), and (2) a transfer from retained earnings to the legal reserve of ¥298 million (\$2,258 thousand).

#### 8. EXTRAORDINARY INCOME (LOSS), NET

Extraordinary income (loss), net comprised the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Gain on sales of investment securities in subsidiaries and affiliates	¥ —	¥ 516	\$ —
Gain on sales of property, plant and equipment	5,193	1,779	39,341
Loss on disposal of property, plant and equipment	(—)	(1,754)	(—)
Loss on liquidation of subsidiaries	(4,885)	(—)	(37,007)
Other, net	(253)	(581)	(1,917)
	<u>¥ 55</u>	<u>¥ (40)</u>	<u>\$ 417</u>

#### 9. INCOME TAXES

The Companies are subject to corporate income tax, prefectural and municipal inhabitant taxes and enterprise tax, based on income. Enterprise tax was included in selling, general and administrative expenses in accordance with accounting principles and practices generally accepted in Japan.

As described in Note 2 (i), in the year ended March 31, 1998, the Company changed its method of accounting for income taxes. This change in accounting increased net income for the year ended March 31, 1998 by ¥1,166 million (\$8,833 thousand).

Deferred income taxes at March 31, were reflected in the accompanying consolidated balance sheets under the following captions:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Other current assets	¥7,003	¥5,592	\$53,053
Other investments and other assets	3,785	2,704	28,674
Other current liabilities	444	—	3,364
Other long-term liabilities	4,022	—	30,470

#### 10. CONTINGENT LIABILITIES

Contingent liabilities at March 31 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Notes discounted and endorsed	¥ 8,801	¥16,204	\$ 66,674
Guarantees	27,512	26,605	208,424

## 11. SEGMENT INFORMATION

The Company's primary business activities include (1) Electrical Equipment, (2) Control/Information Systems and Electronic Devices and (3) Consumer-Related and Other Products. A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 1998 and 1997 is as follows:

1998	Millions of yen				
	Electrical Equipment	Control/Information Systems and Electronic Devices	Consumer-Related and Other Products	Elimination and Corporate	Consolidated
Net sales					
Outside customers	¥369,015	¥302,643	¥311,105	¥ —	¥982,763
Intra-group sales and transfers	—	—	—	(—)	—
Total	369,015	302,643	311,105	—	982,763
Costs and expenses	366,771	290,948	301,681	(—)	959,400
Operating income	¥ 2,244	¥ 11,695	¥ 9,424	¥ (—)	¥ 23,363
Total assets	¥310,652	¥317,520	¥234,843	¥118,317	¥981,332
Depreciation and amortization	¥ 7,047	¥ 21,017	¥ 3,654	¥ 115	¥ 31,833
Capital expenditures	¥ 9,311	¥ 31,257	¥ 8,567	¥ 10	¥ 49,145
1997					
Net sales					
Outside customers	¥351,834	¥289,027	¥304,521	¥ —	¥945,382
Intra-group sales and transfers	—	—	—	(—)	—
Total	351,834	289,027	304,521	—	945,382
Costs and expenses	346,720	278,199	294,847	(—)	919,766
Operating income	¥ 5,114	¥ 10,828	¥ 9,674	¥ (—)	¥ 25,616
Total assets	¥308,228	¥305,700	¥214,608	¥108,016	¥936,552
Depreciation and amortization	¥ 7,802	¥ 16,635	¥ 3,955	¥ 97	¥ 28,489
Capital expenditures	¥ 8,805	¥ 37,833	¥ 7,560	¥ 601	¥ 54,799
1998	Thousands of U.S. dollars				
	Electrical Equipment	Control/Information Systems and Electronic Devices	Consumer-Related and Other Products	Elimination and Corporate	Consolidated
Net sales					
Outside customers	\$2,795,568	\$2,292,750	\$2,356,856	\$ —	\$7,445,174
Intra-group sales and transfers	—	—	—	(—)	—
Total	2,795,568	2,292,750	2,356,856	—	7,445,174
Costs and expenses	2,778,568	2,204,152	2,285,462	(—)	7,268,182
Operating income	\$ 17,000	\$ 88,598	\$ 71,394	\$ (—)	\$ 176,992
Total assets	\$2,353,424	\$2,405,455	\$1,779,113	\$896,341	\$7,434,333
Depreciation and amortization	\$ 53,386	\$ 159,220	\$ 27,682	\$ 871	\$ 241,159
Capital expenditures	\$ 70,538	\$ 236,795	\$ 64,902	\$ 76	\$ 372,311

The overseas sales of the Company and consolidated subsidiaries for the years ended March 31, 1998 and 1997 were ¥145,264 million (\$1,100,485 thousand) and ¥135,491 million and accounted for 14.8% and 14.3% of consolidated net sales, respectively.

# Report of Independent Certified Public Accountants

## Showa Ota & Co.

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A MEMBER OF ERNST & YOUNG INTERNATIONAL

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To the Board of Directors  
Fuji Electric Co., Ltd.

We have examined the consolidated balance sheets of Fuji Electric Co., Ltd. and consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income and shareholders' equity for the years then ended, expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Fuji Electric Co., Ltd. and consolidated subsidiaries at March 31, 1998 and 1997, and the results of their operations for the years then ended, in conformity with accounting principles generally accepted in Japan applied on a consistent basis except for the change, with which we concur, in the method of accounting for income taxes as described in Note 2 to the consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 1998, are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

*Showa Ota & Co.*

Tokyo, Japan  
June 26, 1998

# Non-Consolidated Balance Sheets

Fuji Electric Co., Ltd.

Thousands of  
U.S. dollars  
(Note 3)

As of March 31, 1998 and 1997

	Millions of yen		1998
	1998	1997	
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and time deposits	¥ 22,508	¥ 13,978	\$ 170,515
Marketable securities, at cost (Notes 2 and 6)	91,049	88,329	689,765
Trade receivables:			
Notes and accounts	105,378	102,824	798,318
Subsidiaries and affiliates	51,131	56,048	387,356
Allowance for doubtful receivables	(1,849)	(1,908)	(14,007)
Inventories (Notes 2 and 4)	133,048	145,011	1,007,939
Advance payments to suppliers	8,406	8,043	63,682
Other current assets	21,165	39,374	160,341
<b>TOTAL CURRENT ASSETS</b>	<b>430,836</b>	<b>451,699</b>	<b>3,263,909</b>
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST (Notes 2, 5 and 6):</b>			
Land	16,339	16,085	123,780
Buildings and structures	112,283	105,443	850,629
Machinery and equipment	268,735	254,609	2,035,871
Construction in progress	9,744	4,245	73,818
	407,101	380,382	3,084,098
Less accumulated depreciation	(251,453)	(236,290)	(1,904,947)
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>155,648</b>	<b>144,092</b>	<b>1,179,151</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 2 and 6):			
Subsidiaries and affiliates	44,719	38,027	338,780
Other	14,966	15,132	113,379
Long-term loans receivable	599	675	4,538
Other investments and other assets	11,087	10,785	83,993
Allowance for losses on overseas investments	(539)	(539)	(4,083)
Allowance for doubtful receivables	(5)	(6)	(38)
<b>TOTAL INVESTMENTS AND OTHER ASSETS</b>	<b>70,827</b>	<b>64,074</b>	<b>536,569</b>
	<b>¥ 657,311</b>	<b>¥ 659,865</b>	<b>\$4,979,629</b>

The accompanying Notes to the Non-Consolidated Financial Statements are an integral part of these statements.

Thousands of  
U.S. dollars  
(Note 3)

	<i>Millions of yen</i>		<i>1998</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 6)	¥ 43,680	¥ 44,825	\$ 330,909
Current portion of long-term debt (Note 6)	1,093	31,969	8,280
Trade payables:			
Notes and accounts	66,811	87,464	506,144
Subsidiaries and affiliates	110,553	96,302	837,523
Advances from customers	46,258	62,002	350,439
Accrued income taxes (Notes 2 and 10)	5,782	5,059	43,803
Accrued expenses	24,670	27,732	186,894
Employees' savings deposits	—	12,787	—
Other current liabilities	37,093	52,731	281,008
<b>TOTAL CURRENT LIABILITIES</b>	<b>335,940</b>	<b>420,871</b>	<b>2,545,000</b>
LONG-TERM DEBT (Note 6)	166,905	85,695	1,264,432
LIABILITY FOR SEVERANCE PAYMENTS (Note 2)	16,879	15,828	127,871
CONTINGENT LIABILITIES (Note 11)			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock, ¥50 par value:			
Authorized—1,600,000,000 shares			
Issued—715,080,369 shares as of March 31, 1998	47,586	—	360,500
715,080,369 shares as of March 31, 1997	—	47,586	—
Capital surplus	38,397	38,397	290,886
Legal reserve (Note 7)	10,779	10,195	81,659
Retained earnings (Note 8)	40,825	41,293	309,281
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>137,587</b>	<b>137,471</b>	<b>1,042,326</b>
	<b>¥657,311</b>	<b>¥659,865</b>	<b>\$4,979,629</b>



## Non-Consolidated Statements of Shareholders' Equity

Fuji Electric Co., Ltd.

Years ended March 31, 1998 and 1997	Thousands	Millions of yen			
	Number of shares of common stock	Common stock	Capital surplus	Legal reserve (Note 7)	Retained earnings (Note 8)
<b>BALANCE AT MARCH 31, 1996</b>	<b>715,080</b>	<b>¥ 47,586</b>	<b>¥ 38,397</b>	<b>¥ 9,613</b>	<b>¥ 42,161</b>
Net income for the year	—	—	—	—	5,524
Cash dividends paid	—	—	—	—	(5,720)
Transfer to legal reserve	—	—	—	582	(582)
Bonuses to directors	—	—	—	—	(90)
<b>BALANCE AT MARCH 31, 1997</b>	<b>715,080</b>	<b>¥ 47,586</b>	<b>¥ 38,397</b>	<b>¥10,195</b>	<b>¥ 41,293</b>
Net income for the year	—	—	—	—	5,946
Cash dividends paid	—	—	—	—	(5,720)
Transfer to legal reserve	—	—	—	584	(584)
Bonuses to directors	—	—	—	—	(110)
<b>BALANCE AT MARCH 31, 1998</b>	<b>715,080</b>	<b>¥ 47,586</b>	<b>¥ 38,397</b>	<b>¥10,779</b>	<b>¥ 40,825</b>
		<i>Thousands of U.S. dollars (Note 3)</i>			
<b>BALANCE AT MARCH 31, 1997</b>		<b>\$360,500</b>	<b>\$290,886</b>	<b>\$77,235</b>	<b>\$312,826</b>
Net income for the year		—	—	—	45,045
Cash dividends paid		—	—	—	(43,333)
Transfer to legal reserve		—	—	4,424	(4,424)
Bonuses to directors		—	—	—	(833)
<b>BALANCE AT MARCH 31, 1998</b>		<b>\$360,500</b>	<b>\$290,886</b>	<b>\$81,659</b>	<b>\$309,281</b>

The accompanying Notes to the Non-Consolidated Financial Statements are an integral part of these statements.

# Notes to the Non-Consolidated Financial Statements

Fuji Electric Co., Ltd.

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements have been prepared in accordance with the provisions set forth in the Commercial Code of Japan and in conformity with accounting principles and practices generally accepted in Japan. In preparing these statements, certain reclassifications and rearrangements have been made to the non-consolidated financial statements prepared domestically in Japan in order to present these statements in a form that is more familiar to readers outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles and practices generally accepted in Japan.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Foreign currency translation

Current receivables and payables denominated in foreign currencies are translated into Japanese yen at exchange rates in effect at the respective balance-sheet dates. All other accounts denominated in foreign currencies are translated into Japanese yen at historical exchange rates. The resulting exchange losses and gains are charged or credited to income.

### b. Inventories

Raw materials are stated at cost determined by the most recent purchase price method. Finished goods and work in process are stated at actual cost determined by accumulated production cost for contract items and average cost for regular production items. In accordance with accounting practices generally accepted in the heavy electric industry, inventories include items with a manufacturing period exceeding one year.

### c. Marketable securities and investment securities

Marketable securities and investment securities are stated at cost determined by the moving average method.

### d. Depreciation

Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the assets.

### e. Liability for severance payments and pension plan

Employees who terminate their services with the Company are, under most circumstances, entitled to lump-sum severance payments determined by reference to their current basic rate of pay and length of service. The Company generally provides for this liability to the extent of 40% of the amount (equal to the maximum amount permitted under Japanese income tax regulations) which would be required to be paid if all employees voluntarily terminated their services at the balance-sheet date. In addition to lump-sum severance payments, the Company operates a contributory pension plan to supplement the public welfare pension plan. Payments to the pension fund, including amortization of past service costs, are charged to income when made.

### f. Research and development costs

Research and development costs are charged to income as incurred.

### g. Revenue recognition

Sales of products are generally recognized in the accounts as delivery is made. Sales of installation products are recognized in the accounts when installation is completed.

### h. Income taxes

Income taxes are provided for amounts currently payable for each year. Deferred income taxes related to timing differences are not recognized.

### i. Net income per share

Net income per share is computed based on the weighted average number of shares outstanding during the respective years.

## 3. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts included herein are solely for the convenience of the reader outside Japan and have been translated from the Japanese yen amounts at the rate of ¥132.00=U.S.\$1, the approximate exchange rate on March 31, 1998.

#### 4. INVENTORIES

Inventories at March 31 comprised the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Finished goods	¥ 73,032	¥ 77,680	\$ 553,273
Work in process	48,084	54,803	364,273
Raw materials	11,932	12,528	90,393
	<u>¥133,048</u>	<u>¥145,011</u>	<u>\$1,007,939</u>

#### 5. DEPRECIATION

Depreciation charges were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Depreciation charges	<u>¥27,361</u>	<u>¥23,333</u>	<u>\$207,280</u>

#### 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans are unsecured and represented by short-term notes issued by the Company to banks. Long-term debt at March 31 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Loans, principally from banks and insurance companies due 1998 to 2009 with interest rates from 1.90% to 6.90%:			
Secured	¥ 991	¥ 1,522	\$ 7,508
Unsecured	7,007	6,142	53,084
6.1% ¥ bonds due 1997	—	30,000	—
2.5% ¥ bonds due 2000	20,000	20,000	151,515
2.7% ¥ bonds due 2000	20,000	20,000	151,515
2.95% ¥ bonds due 2001	20,000	20,000	151,515
2.0% ¥ bonds due 2002	20,000	20,000	151,515
2.05% ¥ bonds due 2002	20,000	—	151,515
2.15% ¥ bonds due 2003	20,000	—	151,515
2.25% ¥ bonds due 2003	20,000	—	151,515
2.35% ¥ bonds due 2004	20,000	—	151,515
	<u>167,998</u>	<u>117,664</u>	<u>1,272,712</u>
Less: Portion due within one year	<u>1,093</u>	<u>31,969</u>	<u>8,280</u>
	<u>¥166,905</u>	<u>¥ 85,695</u>	<u>\$1,264,432</u>

The amounts of assets pledged as collateral for long-term debt were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Marketable securities and investment securities	¥ 4,134	¥ 4,140	\$31,318
Property, plant and equipment	7,584	7,577	57,455
	<u>¥11,718</u>	<u>¥11,717</u>	<u>\$88,773</u>

As of March 31, 1998, the aggregate annual maturities of long-term debt during the next five years are as follows:

<i>Year ending March 31</i>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
1999	¥ 1,093	\$ 8,280
2000	22,316	169,061
2001	21,245	160,947
2002	40,377	305,886
2003 and thereafter	82,967	628,538
	<u>¥167,998</u>	<u>\$1,272,712</u>

#### 7. LEGAL RESERVE

The Commercial Code of Japan provides that an amount equal to at least 10% of cash dividends and bonuses to directors paid be appropriated as a legal reserve until such reserve equals 25% of common stock. This reserve may be used to reduce a deficit or may be transferred to common stock, but is not available for distributions as dividends.

#### 8. RETAINED EARNINGS AND DIVIDENDS

Annual appropriation of retained earnings is recorded in the financial year when approved at the shareholders' meeting. Interim dividends and the related appropriation of retained earnings are recorded when declared by the Board of Directors. On June 26, 1998, the shareholders authorized (1) payment of a cash dividend to shareholders of record on March 31, 1998 at the rate of ¥4.00 (\$0.03) per share, or a total of ¥2,860 million (\$21,667 thousand), and (2) a transfer from retained earnings to the legal reserve of ¥298 million (\$2,258 thousand), (3) payment of bonuses to directors totaling ¥110 million (\$833 thousand).

#### 9. EXTRAORDINARY INCOME, NET

Extraordinary income, net comprised the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Gain on sales of investment securities in subsidiaries and affiliates	¥ 380	¥ 330	\$ 2,879
Gain on sales of property, plant and equipment	5,193	1,569	39,341
Loss on liquidation of subsidiaries	(4,885)	—	(37,008)
Loss on disposal of property, plant and equipment	—	(1,521)	—
	<u>¥ 688</u>	<u>¥ 378</u>	<u>\$ 5,212</u>

#### 10. INCOME TAXES

The Company is subject to corporate income tax, prefectural and municipal inhabitant taxes and enterprise tax, based on income. Enterprise tax was included in selling, general and administrative expenses in accordance with accounting principles and practices generally accepted in Japan.

#### 11. CONTINGENT LIABILITIES

Contingent liabilities at March 31 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>
Guarantees	<u>¥25,875</u>	<u>¥25,223</u>	<u>\$196,023</u>

# Report of Independent Certified Public Accountants

## Showa Ota & Co.

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A MEMBER OF ERNST & YOUNG INTERNATIONAL

**Certified Public Accountants**

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To the Board of Directors  
Fuji Electric Co., Ltd.

We have examined the non-consolidated balance sheets of Fuji Electric Co., Ltd. as of March 31, 1998 and 1997, and the related non-consolidated statements of income and shareholders' equity for the years then ended, expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned non-consolidated financial statements present fairly the financial position of Fuji Electric Co., Ltd. at March 31, 1998 and 1997 and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 1998, are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the non-consolidated financial statements.

*Showa Ota & Co.*

Tokyo, Japan  
June 26, 1998