

**Consolidated Financial Report for the fiscal year ended March 31, 2002**  
**(April 1, 2001 - March 31, 2002)**

**Summary of Consolidated Financial Results**

**1. Summary of consolidated statements of income**

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2001(A)	FY2000(B)		FY2001
	[ 3/2002 ]	[ 3/2001 ]	[ 3/2002 ]	
Net sales	839,135	891,086	94.2%	6,297
Operating income	7,489	25,007	29.9%	56
Ordinary income	5,791	22,522	25.7%	43
Net income	3,217	9,711	-	24
	Yen			U.S.dollars
Net income per share	4.50	13.58	-	0.03

**2. Summary of consolidated financial position**

	Millions of yen		Millions of U.S.dollars
	3/31/2002	3/31/2001	3/31/2002
	Total assets	1,104,871	964,211
Shareholders' equity	248,049	161,707	1,862
Shareholders' equity ratio (%)	22.5%	16.8%	-
	Yen		U.S.dollars
Shareholders' equity per share	346.91	226.13	2.60

**3. Summary of consolidated statements of cash flows**

	Millions of yen		Millions of U.S.dollars
	FY2001(A)	FY2000(B)	FY2001
	[ 3/2002 ]	[ 3/2001 ]	[ 3/2002 ]
Cash flows from operating activities	9,730	30,219	73
Cash flows from investing activities	33,419	21,513	251
Cash flows from financing activities	9,652	6,972	72
Cash and cash equivalents at end of year	38,109	51,760	286

Note: 1) U.S.dollar amounts in this financial report are translated, for convenience only, at the rate of ¥133.25=U.S.\$1  
2) The company has 60 consolidated subsidiaries.

#### 4. Forecast of consolidated earnings for the fiscal year ending March 31, 2003

(April 1, 2002 - March 31, 2003)

	Millions of yen	
	1st half	Full year
Net sales	370,000	870,000
Ordinary income	13,500	160,000
Net income	8,000	80,000
		Yen
Net income per share		11.19

#### < Cautionary Statements With Respect to Forward-Looking Statements >

Statements made in this financial report with respect to Fuji Electric's future performance are forward-looking statements based on management's assumptions and beliefs in light of the information currently available to it. Accordingly, actual results could differ from those contained in any forward-looking statements. Potential risks and uncertainties include :

- Sudden changes in general economic conditions in Fuji Electric's markets and changes in its operating environment such as those resulting from changes in trade regulations
- Exchange rate, particularly between the yen and the U.S.dollar and Asian and European currencies
- The ability of Fuji Electric and its subsidiaries to develop and introduce products that incorporate new technology in a timely manner and to manufacture them in a cost-effective way
- The rapid pace of technological innovation, especially in the field of electronics
- Sudden changes in the supply and demand balance in the markets Fuji Electric serves
- Problems involving the intellectual property of Fuji Electric and other companies
- Stock market conditions in Japan

## Consolidated Statements of Income

	Millions of yen		Change (A)/(B)	Millions of U.S.dollars
	FY2001(A) [ 3/2002 ]	FY2000(B) [ 3/2001 ]		FY2001 [ 3/2002 ]
<b>Net sales</b>	839,135	891,086	94%	6,297
<b>Cost of sales</b>	677,032	709,480	95%	5,081
<b>Gross profit</b>	162,102	181,605	89%	1,217
<b>Selling, general and administrative expenses</b>	154,613	156,597	99%	1,160
<b>Operating income</b>	7,489	25,007	30%	56
<b>Non-operating income</b>	7,288	7,739	94%	55
Interest and dividends received	3,493	4,347	80%	26
Other	3,795	3,392	112%	28
<b>Non-operating expenses</b>	8,987	10,224	88%	67
Interest expense	5,007	5,887	85%	38
Other	3,979	4,336	92%	30
<b>Ordinary income</b>	5,791	22,522	26%	43
<b>Extraordinary income</b>	45,443	120,366	38%	341
<b>Extraordinary loss</b>	51,003	121,570	42%	383
<b>Income before income taxes</b>	231	21,319	1%	2
<b>Income taxes and business tax</b>	3,457	12,098		26
<b>Deferred income taxes</b>	983	1,390		7
<b>Minority interests in net income of consolidated subsidiaries</b>	992	900		7
<b>Net income</b>	3,217	9,711	-	24

## Consolidated Balance Sheets

	Millions of yen		Change (A)-(B)	Millions of
	<u>3/31/2002(A)</u>	<u>3/31/2001(B)</u>		<i>U.S.dollars</i> <u>3/31/2002</u>
<b>Assets</b>				
<b>Current assets:</b>				
Cash and time deposits	38,543	45,074	6,531	289
Notes and accounts receivable, trade	277,156	322,873	45,717	2,080
Marketable securities	1,952	7,870	5,918	15
Inventories	145,453	159,270	13,817	1,092
Other current assets	48,875	36,938	11,937	367
<b>Total current assets</b>	<u>511,981</u>	<u>572,026</u>	60,045	<u>3,842</u>
<b>Long-term assets:</b>				
Tangible fixed assets	204,765	212,957	8,192	1,537
Intangible fixed assets	6,984	6,515	469	52
Investments and other assets	380,998	172,711	208,287	2,859
<b>Total long-term assets</b>	<u>592,749</u>	<u>392,184</u>	200,565	<u>4,448</u>
<b>Deferred assets</b>	<u>140</u>	<u>-</u>	140	<u>1</u>
<b>Total assets</b>	<u><u>1,104,871</u></u>	<u><u>964,211</u></u>	140,660	<u><u>8,292</u></u>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Notes and accounts payable, trade	170,837	190,773	19,936	1,282
Short-term loans	182,965	210,193	27,228	1,373
Other current liabilities	259,828	227,848	31,980	1,950
<b>Total current liabilities</b>	<u>613,631</u>	<u>628,815</u>	15,184	<u>4,605</u>
<b>Long-term liabilities</b>	<u>211,141</u>	<u>139,925</u>	71,216	<u>1,585</u>
<b>Total liabilities</b>	<u>824,773</u>	<u>768,741</u>	56,032	<u>6,190</u>
<b>Minority interests in consolidated subsidiaries</b>	<u>32,048</u>	<u>33,762</u>	1,714	<u>241</u>
<b>Shareholders' equity:</b>				
Common stock, ¥50 par value	47,586	47,586	0	357
Capital surplus	38,397	38,397	0	288
Consolidated retained earnings	68,189	77,616	9,427	512
Unrealized gain on other securities	95,493	155	95,338	717
Foreign currency transaction adjustment	1,604	2,048	444	12
Less shares of common stock held by the Company	12	-	12	0
<b>Total shareholders' equity</b>	<u>248,049</u>	<u>161,707</u>	86,342	<u>1,862</u>
<b>Total liabilities, minority interests and shareholders' equity</b>	<u><u>1,104,871</u></u>	<u><u>964,211</u></u>	140,660	<u><u>8,292</u></u>

## Consolidated Statements of Cash Flows

	Millions of yen <u>FY2001(A)</u> <u>[ 3/2002 ]</u>	Millions of yen <u>FY2000(B)</u> <u>[ 3/2001 ]</u>	Change (A)-(B)	<i>Millions of U.S.dollars</i> <u>FY2001</u> <u>[ 3/2002 ]</u>
<b>Cash flows from operating activities:</b>				
Net income (loss) before income taxes	231	21,319	21,088	2
Depreciation and amortization	29,826	32,608	2,782	224
Interest and dividends income	3,493	4,347	854	26
Interest expense	5,007	5,887	880	38
(Increase) decrease in trade receivables	47,986	32,821	80,807	360
(Increase) decrease in inventories	12,257	10,932	23,189	92
Increase (decrease) in trade payables	24,028	15,890	39,918	180
Increase (decrease) in advances received	468	1,161	1,629	4
Other, net	44,395	7,668	52,063	333
Subtotal	<u>22,922</u>	<u>36,434</u>	13,512	<u>172</u>
Interest and dividends received	3,599	4,290	691	27
Interest paid	5,274	5,947	673	40
Income taxes paid	11,516	4,557	6,959	86
Net cash provided by operating activities	<u>9,730</u>	<u>30,219</u>	20,489	<u>73</u>
<b>Cash flows from investing activities:</b>				
Purchase of fixed assets and marketable and investment securities	89,238	43,929	45,309	670
Proceeds from sale of fixed assets and marketable and investment securities	60,268	22,931	37,337	452
Other, net	4,450	515	3,935	33
Net cash provided by investing activities	<u>33,419</u>	<u>21,513</u>	11,906	<u>251</u>
Free cash flows ( + )	<u>23,688</u>	<u>8,705</u>	32,393	<u>178</u>
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term borrowings, net	22,529	13,396	35,925	169
Increase (decrease) in commercial paper, net	45,000	1,000	46,000	338
Proceeds from long-term debt	47,550	10,703	36,847	357
Repayments of long-term debt and redemption of bonds	53,595	29,646	23,949	402
Other, net	6,772	426	6,346	51
Net cash provided by financing activities	<u>9,652</u>	<u>6,972</u>	16,624	<u>72</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>355</u>	<u>586</u>	231	<u>3</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>13,681</u>	<u>2,319</u>	16,000	<u>103</u>
<b>Cash and cash equivalents at beginning of year</b>	<u>51,760</u>	<u>49,440</u>	2,320	<u>388</u>
<b>Increase in cash and cash equivalents resulting from the merger of a consolidated subsidiary with a non-consolidated subsidiary</b>	<u>30</u>	<u>-</u>	30	<u>0</u>
<b>Cash and cash equivalents at end of year</b>	<u>38,109</u>	<u>51,760</u>	13,651	<u>286</u>

## Consolidated Segment Information

### 1. Net sales by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2001(A)	FY2000(B)		FY2001
	[ 3/2002 ]	[ 3/2001 ]	[ 3/2002 ]	
Energy & Electric Systems	413,554	413,553	100.0%	3,104
ED&C • Drive Systems	159,120	196,519	81.0%	1,194
Electronics	128,425	137,942	93.1%	964
Retail Support Equipment & Systems	129,588	143,038	90.6%	973
Others	75,206	78,399	95.9%	564
Subtotal	905,896	969,453	93.4%	6,798
Elimination	66,761	78,367	-	501
<b>Total</b>	<b>839,135</b>	<b>891,086</b>	<b>94.2%</b>	<b>6,297</b>

### 2. Operating income by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2001(A)	FY2000(B)		FY2001
	[ 3/2002 ]	[ 3/2001 ]	[ 3/2002 ]	
Energy & Electric Systems	3,235	7,509	43.1%	24
ED&C • Drive Systems	3,360	5,339	-	25
Electronics	4,500	5,939	75.8%	34
Retail Support Equipment & Systems	2,501	3,776	66.2%	19
Others	517	2,428	21.3%	4
Subtotal	7,395	24,992	29.6%	55
Elimination/Corporate	93	14	-	0.7
<b>Total</b>	<b>7,489</b>	<b>25,007</b>	<b>29.9%</b>	<b>56</b>

### 3. Assets by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2001(A)	FY2000(B)		FY2001
	[ 3/2002 ]	[ 3/2001 ]	[ 3/2002 ]	
Energy & Electric Systems	369,110	381,451	96.8%	2,770
ED&C • Drive Systems	133,559	153,090	87.2%	1,002
Electronics	142,499	148,366	96.0%	1,069
Retail Support Equipment & Systems	101,278	113,877	88.9%	760
Others	75,272	74,776	100.7%	565
Subtotal	821,720	871,562	94.3%	6,167
Elimination/Corporate	283,150	92,649	-	2,125
<b>Total</b>	<b>1,104,871</b>	<b>964,211</b>	<b>114.6%</b>	<b>8,292</b>

### 4. Depreciation and amortization by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2001(A)	FY2000(B)		FY2001
	[ 3/2002 ]	[ 3/2001 ]	[ 3/2002 ]	
Energy & Electric Systems	7,043	7,307	96.4%	53
ED&C • Drive Systems	4,772	5,041	94.7%	36
Electronics	13,743	15,034	91.4%	103
Retail Support Equipment & Systems	2,420	3,375	71.7%	18
Others	1,752	1,751	100.1%	13
Subtotal	29,732	32,510	91.5%	223
Elimination/Corporate	93	98	-	1
<b>Total</b>	<b>29,826</b>	<b>32,608</b>	<b>91.5%</b>	<b>224</b>

### 5. Capital expenditure by business segment

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2001(A)	FY2000(B)		FY2001
	[ 3/2002 ]	[ 3/2001 ]	[ 3/2002 ]	
Energy & Electric Systems	5,856	6,604	88.7%	44
ED&C • Drive Systems	4,971	4,006	124.1%	37
Electronics	11,005	8,050	136.7%	83
Retail Support Equipment & Systems	3,384	5,642	60.0%	25
Others	1,499	1,656	90.5%	11
Subtotal	26,716	25,961	102.9%	200
Elimination/Corporate	19	41	-	0
<b>Total</b>	<b>26,735</b>	<b>26,002</b>	<b>102.8%</b>	<b>201</b>

## 6. Net overseas sales

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	FY2001(A) [ 3/2002 ]	FY2000(B) [ 3/2001 ]		FY2001 [ 3/2002 ]
North America	16,096	17,912	89.9%	121
Europe	11,977	10,788	111.0%	90
Asia	73,471	85,248	86.2%	551
Other	8,895	3,605	246.7%	67
<b>Total</b>	<b>110,440</b>	<b>117,555</b>	<b>93.9%</b>	<b>829</b>

### < Ratio to net sales >

North America	1.9%	2.0%
Europe	1.4%	1.2%
Asia	8.8%	9.6%
Other	1.1%	0.4%
<b>Total</b>	<b>13.2%</b>	<b>13.2%</b>

**Supplemental Consolidated Financial Materials for FY2001**  
**(April 1, 2001 - March 31, 2002)**

**1. Financial summary**

	Billions of yen					
	FY2000		FY2001 [ 3/2002 ]		FY2002 Forecast	
	change(%)		change(%)		change(%)	
Net sales	891.0	104.6%	839.1	94.2%	870.0	103.7%
Operating income	25.0	603.6%	7.4	29.9%	21.0	280.4%
Ordinary income	22.5	-	5.7	25.7%	16.0	276.3%
Net income	9.7	-	3.2	-	8.0	-

**2. Ratio of consolidated to non-consolidated**

	Times		
	FY2000	FY2001 [ 3/2002 ]	FY2002 Forecast
	Net sales	1.75	1.79
Net income	1.00	-	1.60

**3. Number of consolidated subsidiaries**

	FY2000	FY2001 [ 3/2002 ]	FY2002 Forecast
Number of consolidated subsidiaries	63	60	62

**4. Net income per share**

	Yen		
	FY2000	FY2001 [ 3/2002 ]	FY2002 Forecast
	Net income per share	13.58	4.50

**5. Net sales by business segment**

	Billions of yen					
	FY2000		FY2001 [ 3/2002 ]		FY2002 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	413.5	108.4%	413.5	100.0%	400.0	96.7%
ED&C · Drive Systems	196.5	125.9%	159.1	81.0%	170.0	106.8%
Electronics	137.9	118.4%	128.4	93.1%	130.0	101.2%
Retail Support Equipment & Systems	143.0	102.0%	129.5	90.6%	165.0	127.3%
Others	78.3	61.2%	75.2	95.6%	75.0	99.7%
Subtotal	969.4	105.1%	905.8	93.4%	940.0	103.8%
Elimination	78.3	-	66.7	-	70.0	-
<b>Total</b>	<b>891.0</b>	<b>104.6%</b>	<b>839.1</b>	<b>94.2%</b>	<b>870.0</b>	<b>103.7%</b>

Note : Net sales include inter-segment transactions.

**6. Operating income by business segment**

	Billions of yen					
	FY2000		FY2001 [ 3/2002 ]		FY2002 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	7.5	122.8%	3.2	43.1%	7.0	216.4%
ED&C · Drive Systems	5.3	-	3.3	-	3.5	-
Electronics	5.9	-	4.5	75.8%	8.0	177.8%
Retail Support Equipment & Systems	3.7	60.5%	2.5	66.2%	1.0	40.0%
Others	2.4	120.7%	0.5	21.3%	1.5	290.1%
<b>Total</b>	<b>25.0</b>	<b>603.6%</b>	<b>7.4</b>	<b>29.9%</b>	<b>21.0</b>	<b>280.4%</b>

## 7. R&D expenditures

	Billions of yen					
	FY2000		FY2001 [ 3/2002 ]		FY2002 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	9.8	83.9%	10.3	105.6%	9.0	86.9%
ED&C · Drive Systems	2.9	105.4%	3.5	121.0%	2.1	60.0%
Electronics	7.9	112.6%	7.5	94.5%	8.1	108.1%
Retail Support Equipment & Systems	2.6	97.5%	3.0	112.7%	3.4	113.1%
Others	0.0	-	0.0	-	0.0	-
Corporate (basic research)	3.5	91.3%	3.5	99.4%	4.6	133.0%
<b>Total</b>	<b>27.0</b>	<b>95.6%</b>	<b>28.0</b>	<b>103.9%</b>	<b>27.4</b>	<b>97.8%</b>
Ratio to net sales (%)	3.0%	-	3.3%	-	3.2%	-

## 8. Plant and equipment investment (including leases)

	Billions of yen					
	FY2000		FY2001 [ 3/2002 ]		FY2002 Forecast	
	change(%)		change(%)		change(%)	
Energy & Electric Systems	7.6	74.7%	6.8	90.3%	4.9	72.3%
ED&C · Drive Systems	5.2	83.1%	5.5	104.5%	5.6	103.1%
Electronics	13.4	127.1%	14.0	104.3%	11.7	83.7%
Retail Support Equipment & Systems	6.2	211.2%	7.2	114.8%	4.4	61.5%
Others	1.5	27.6%	1.4	91.8%	1.3	90.0%
Corporate	0.0	-	0.0	-	0.0	-
<b>Total</b>	<b>34.2</b>	<b>95.5%</b>	<b>35.1</b>	<b>102.6%</b>	<b>28.1</b>	<b>80.2%</b>
(Leases)	(10.5)	215.1%	(10.2)	97.6%	(9.4)	92.3%

Note: Plant and equipment investment is the total of investment in tangible fixed assets and acquisition amounts for lease contracts.

## 9. Depreciation

	Billions of yen					
	FY2000		FY2001 [ 3/2002 ]		FY2002 Forecast	
	change(%)		change(%)		change(%)	
Depreciation	31.0	90.4%	28.4	91.6%	28.7	100.9%

Note: Depreciation expense does not include amortization of intangible assets.

## 10. Number of employees by business segment

	FY2000	FY2001 [ 3/2002 ]	FY2002 Forecast
Energy & Electric Systems	10,536	9,522	10,276
ED&C · Drive Systems	6,019	5,263	5,543
Electronics	4,676	4,190	4,243
Retail Support Equipment & Systems	2,781	2,628	3,417
Others	2,152	2,116	2,164
Corporate	939	786	741
<b>Total</b>	<b>27,103</b>	<b>24,505</b>	<b>26,384</b>

**Financial Review for the fiscal year ended March 31, 2002  
(April 1, 2001 – March 31, 2002)**

**(1) Management Policies**

***Fundamental Management Policy***

Fuji Electric Group's fundamental management policy is **to deliver the highest satisfaction to customers** by working together with them to create value-added products and services in the B2B marketplace. In doing so, the Group seeks to expand its business and thereby contribute to the well being of society and its stakeholders. With the goal of becoming the **“Most Valuable Service Provider”** in businesses that support development of social infrastructure, the industrial sector and logistics, the Group offers optimal services tailored to the needs of society and its customers. The Group also assures the highest quality of components for customers' products as it strives to be the **“Most Valuable Components Provider.”**

***Basic Policy on Profit Sharing***

Fuji Electric Group's basic policy toward redistribution of profits is to ensure stable dividends for shareholders, while effectively using reserves to conduct strategic research and development, to make capital expenditures and investments, and to promote overseas operations, all of which will lead to renewed growth.

***Policy on Reducing the Minimum Trading Unit***

A revision to the Japanese Commercial Code in October 2001 has made it easier for public firms to reduce the size of their minimum trading units. The Fuji Electric Group is taking a cautious wait-and-see stance on this issue and will implement necessary changes depending on market needs, as the Group believes that at present its stock is sufficiently liquid and reducing the size of the trading unit will require a high one-time adjustment cost.

***Performance Targets***

Fuji Electric Group is currently focused on achieving the management targets in its medium-term management vision—consolidated ordinary income of ¥60 billion on consolidated net sales of ¥1.2 trillion, and an ROE of 15% (prior to the introduction of market value accounting), by the fiscal

year ending March 31, 2006.

The Group is presently implementing several initiatives to bring down the Group's interest-bearing debt to ¥350 billion by March 31, 2006 by enhancing cash flow management.

### ***Medium- to Long-Term Corporate Strategies***

In June 2000, the Fuji Electric Group formulated its medium-term management vision, the "S21 Plan," detailing the Group's direction for the 21<sup>st</sup> century.

The plan, currently in progress, comprises the following corporate strategies.

- (1) The Fuji Electric Group consists of four internal companies operating in four business sectors and a group of affiliates conducting businesses in other areas. The Group's basic strategy is to increase corporate value as a whole by maximizing the value of business in each of these five business sectors.
- (2) In areas where the Group is already strong—power semiconductor devices and other power electronic products, low-voltage circuit breakers, systems building, primarily water treatment systems, and vending machines, the Group is working to meet customers' increasingly demanding requirements in respect to the environment, the application of information technologies (IT), and improved services. The Group will also reinforce its revenue base through reform of its product development, manufacturing and marketing processes.
- (3) In new areas that provide opportunity for expansion, such as the environment, IT, services and components, the Group is creating an integrated strategy that cuts across internal companies, and concentrates Group resources for stronger growth.
- (4) The Group will determine the future orientation of its business by realigning its operations in both strategic growth areas and mature fields into 24 units, and implement the Balanced Scoreboard evaluation of business viability for each unit's strategies and plans.

### ***Management Issues***

To achieve the goals of the "S21 Plan," the Fuji Electric Group is promoting seven key initiatives under the "Seven-Challenge Program."

#### **(1) Environmental business**

The Fuji Electric Group has a proven track record in water treatment systems and energy-saving equipment such as inverters. With these products forming core business operations in its environment-related

businesses, the Group provides solutions and products based on entirely new concepts, including waste treatment facilities, industrial waste management, information services and refuse-derived fuel (RDF) power generation and can collection systems. Embarking on these businesses, the Group is working to establish Fuji Electric as the recognized brand name in the manufacture of environmental equipment and systems.

## **(2) Information systems**

The Group is strengthening its operations in information solutions. In addition to its solutions for the machining and assembly, food, pharmaceutical, logistics and retail sectors, the Group is also targeting demand from the public service sector, including e-government, regional information infrastructure, and intelligent transport systems (ITS). Meanwhile, the Group is expanding its line-up of retail equipment solutions and other products, based on its strengths in vending machines. These information solution systems draw on the Group's unique strengths and are boosting recognition of the Fuji Electric brand in the information systems market.

## **(3) Services business**

Centered on subsidiary Fuji Electric Systems Co., Ltd., which is developing its business activities around life cycle solutions service, the Group is expanding its integrated services business, which embraces consulting, outsourcing and other innovative services in such areas as IT, energy conservation and the environment.

## **(4) Components**

The Fuji Electric Group is drawing on its impressive array of technologies and extensive know-how in power electronics and low-voltage circuit breakers to drive forward both its differentiation strategy, which includes the active search for alliance partners, and its global strategy. At the same time, the Group is reducing costs across the board and improving product quality with a view to becoming the **“Most Valuable Component Provider”** in its targeted fields.

## **(5) Reinforce the internal company system and strengthen corporate governance**

### **(6) Strengthen the Group's balance sheet**

### **(7) Establish new personnel and training systems**

## ***Initiatives to Reform the Management Structure***

Fuji Electric Group introduced an internal company system and executive

officer system in 1999, moves intended to create a highly responsive management structure. Each internal company formulates and executes optimal business strategies directed at positioning it as a leading contender on the global stage.

The Group is now focusing on reinforcing the internal company system and strengthening corporate governance. The aim is to achieve the optimal balance between the Group's centripetal force, focused on its management vision, and the centrifugal forces of business growth and new market development in the internal companies and their related businesses.

To reinforce the internal company system, the Group is giving companies greater independent jurisdiction over their operations to enhance management autonomy. Each is pursuing its business as an independent entity seeking to become "the most powerful companies as specialist among competitors" in its industry.

The Group intends to convert Fuji Electric Co., Ltd., the parent company, into a holding company to strengthen corporate governance, while working to enhance Group management based on its management vision. The Group Management Committee, comprising senior management of Fuji Electric Co., Ltd. and 12 major consolidated subsidiaries, is conducting continuous discussions on the future management direction of the Group.

## **(2) Results of Operations and Financial Review**

### ***Overview***

In the fiscal year ended March 2002, Japan's industrial production and exports fell as downturns in the U.S. and other overseas economies led to a global slowdown. This combined with declining domestic private-sector capital expenditures and sluggish personal consumption to add to concerns on further economic recession in Japan.

Corporate profits plunged in the electronics sector as demand fell sharply, particularly in IT-related product segments. The result was an extremely severe operating environment where businesses were forced to implement painful management reforms to assure their survival, which ranged from business restructuring to divestiture.

Seeking opportunities even in this challenging environment, the Fuji Electric Group focused on expanding its environmental and information systems, services and components businesses—strategic growth areas in the Group's medium-term management vision, the "S21 Plan." At the same

time, the Group implemented a series of initiatives to accelerate reforms in mature business fields. The Group also worked to achieve targeted orders and sales, and boost profitability through new product development, cost reductions, a thorough review of its production system, restructuring of Group companies, and staff cutbacks which

reflect reduced shipment volumes.

To enhance corporate-value-oriented management, the Group's businesses were divided into 24 units and return on investment (ROI) was introduced as an important performance indicator (FEP\*) that better reflects the cost of capital. As a move to determine the future orientation of its businesses, the Group also introduced the Balanced Scoreboard evaluation method to evaluate business viability on the basis of each unit's strategies and plans. These steps ensured that the management focus was fixed on capital efficiency. \*FEP=Fuji-electric Economic Profit

### ***Fiscal 2002 Consolidated Business Results***

In Energy & Electric Systems, sales of environmental and information systems, electric power systems and transformers surpassed the levels achieved in the previous fiscal year, but they were noticeably lower in industrial systems, reflecting a marked drop in private-sector capital expenditures. Overall, sales were largely unchanged from the previous fiscal year. ED&C Drive Systems recorded sharply lower sales due to deteriorating market conditions at home and abroad. In Electronics, shipments of electronic devices such as power semiconductors and ICs were sharply down, due to deteriorating market conditions. Higher sales of photoconductive drums for copiers and printers could not offset this drop, resulting in lower total sales. In Retail Support Equipment and Systems, shipment volumes of vending machines, open freezing and refrigerated shows cases showed a marked fall, affected by a considerable weakening of demand compared to the previous fiscal year. As a result of the above, net sales declined 5.8% year on year to ¥839,135 million.

Lower shipment volumes combined with price erosion affected operating income, which fell 70.1% to ¥7,489 million. Ordinary income was down 74.3% to ¥5,791 million. There was a net loss of ¥3,217 million, a fall of ¥12,928 million from the previous fiscal year.

### ***Segment Information***

#### **Energy & Electric Systems Group**

In environmental systems, the group completed a succession of large

contracts, including the installation of electrical facilities at pollution treatment centers and the replacement of monitoring systems at sewerage treatment facilities. In information systems, results were buoyed by delivery of large-scale automated warehousing systems. Overall sales in environmental and information systems increased year-on-year.

In electric power systems, sales rose sharply due to a series of deliveries of large thermal power generation systems to domestic thermal electric power plants, and of thermal power facilities to Independent Power Producers (IPPS). Combined with favorable sales of transformers, overall sales of electric power systems were higher than previous fiscal year.

In industrial systems, sales of electrical and transportation systems were healthy as the group completed major contracts for transformer systems for railways and electrical equipment for rolling stock. However, lackluster capital investment by the private sector led to a marked drop in year-on-year sales of industrial and measuring systems. As a result, aggregate sales in industrial systems were sharply lower.

The overall result of these market moves was that sales in the Energy & Electric Systems group stood at ¥413,554 million, largely unchanged from the previous fiscal year, but operating income plunged 56.9% to ¥3,235 million.

In other developments, in July 2001, Fuji Electric teamed up with Hitachi Ltd. and Meidensha Corporation to establish Japan AE Power Systems Corporation, a joint venture that develops, designs and manufactures electric power transmission and distribution equipment. In the same month, Fuji Electric Systems Co., Ltd. was established. This move was designed to aim the expansion of the service line-up, and the restructuring of the industrial plant systems and measuring systems businesses by integrating Fuji Electric Group's operations from marketing to after-sales service in these sectors.

### **ED&C• Drive Systems Group**

In power supplies and Electric Distribution & Control (ED&C), the group aggressively sought new customers by launching a range of new products, including the “@-TWIN Series,” a range of circuit breakers and earth-leakage circuit breakers, the “660 Series” of UPS (Uninterruptible Power Supply) control software and high-intensity command switches. In drive systems, the group launched “FALDIC- ,” a new servo system. In a change of strategy, the group extended its focus from the traditional

marketing of stand-alone standard products to embrace small- and medium-size systems integrating programmable controllers, servomotors and inverters. These efforts were unable, however, to offset the significant effects of lower domestic and overseas demand for the group's core products, such as electrical components and semiconductor production equipment and components for machine tools. The result was seen in sharply lower sales.

Due to the above, total sales in this group declined 19.0% to ¥159,120 million, while operating income declined by ¥8,699 million, resulting in an operating loss of ¥3,360 million.

The group took a number of steps to restructure its operations. These included a complete review of the production systems at the Fukiage and Otawara factories and the consolidation of development and manufacturing functions of power electronics systems, including power systems and high-voltage inverters, at the Kobe factory. In April, the group decided to merge its small to medium-scale motor manufacturing subsidiaries Fuji Electric Motor Co., Ltd., and Fuji Denki Seiki Co., Ltd. and transfer the marketing functions for these products from Fuji Electric Co., Ltd. The newly formed entity, Fuji Electric Motors Co., Ltd., will take over all the functions, from manufacturing to marketing of small to medium-scale motors. This has created a structure that integrates the groups' strengths in electric motors. In November 2001, the group established Fuji Electric (Changshu) Co., Ltd., a three-way joint venture to manufacture switchgear equipment that brought together, a major low-voltage equipment manufacturer in China, a Japanese trading firm, and Fuji Electric Co., Ltd.

## **Electronics**

In the electronic devices field, sales of discrete devices, including power semiconductors for video game machines, MOSFET (metal-oxide-semiconductor [MOS] field effect transistor [FET]) for personal computers, and high-voltage diodes, began to recover in the second half of the year. However, demand for power modules continued to be weak due primarily to cutbacks in capital investment by the private sector. These factors resulted in sharply lower sales year on year. The demand for ICs, led by products for game machines, personal computers and digital cameras, revived in the second half of the year, with the introduction of new products translating into record orders and sales of power supply ICs. While growth was seen in hybrid devices for automotive applications and pressure sensors, deteriorating market conditions triggered slower demand and lower sales of general-purpose ICs such as auto-focus

ICs and LCD ICs. The Fuji Electric Group is committed to continuing quality enhancement as evidenced by the acquisition of QS-9000 certification, an international quality standard established by the Automotive Industry Action Group (AIAG).

In information devices, the market for magnetic disks is contracting, affected by slowing shipments of personal computers and vast improvements in recording densities. These improvements have lowered the number of disks used in a single hard disk drive. New products, such as a 40GB, 3.5-inch magnetic disk—the first in the industry—and new customers for aluminum substrates, helped to maintain sales of information devices at 2001 levels.

Sales of photoconductive drums climbed on the whole, despite a downturn in sales of selenium photoconductive drums in a contracting market. The sales increase was primarily the result of substantial growth in Organic Photo Conductors (OPCs) for copiers and printers.

As a result, the group recorded sales of ¥128,425 million, down 6.9% from the previous fiscal year, and operating income of ¥4,500 million, a year-on-year decline of 24.2%.

Efficiencies in the manufacturing of magnetic media were found by reorganizing manufacturing processes, originally separately located at three facilities—Matsumoto, Yamanashi and Malaysia. Substrate processing was consolidated and concentrated at the Yamanashi and Malaysian factories and media processing at the Matsumoto and Malaysian factories. For production increase of power ICs and plasma display ICs, key growth areas in the IC field, a clean room for processing 8” wafers was established at the Matsumoto factory. Wafer processing capacity for MOSFET and Insulated Gate Bipolar Transistor (IGBT) was also increased at Matsumoto, while R&D capabilities and production facilities were also added to cope with advances in magnetic media and production equipment.

### **Retail Support Equipment & Systems Group**

In vending machines, market conditions continued to deteriorate sharply. This was due to a cyclical slowdown in demand, investment cutbacks and declining prices, combined with intensifying competition among vending machine manufacturers. Despite the challenging operating environment, sales of dairy beverage vending machines were higher as this group expanded its product range. The group also recorded promising sales of new cup vending machines that include a coffee straining function for

espresso. In its mainstay product—can vending machines—the group introduced new models, installing a mechanism that makes it easier to replenish cans in vending machines. However, these new models failed to offset the impact of a general slump in demand for vending machines, and overall sales of these products declined year-on-year. On a brighter note, cold drink dispensers were strong performers, with sales beating previous year levels. Lower year-on-year sales of open freezing and refrigerated showcases were the result of markedly lower demand from the supermarket industry. This was due in large part to a slowdown in new store openings following enactment of the Large-Scale Retail Stores Location Law.

In coin and currency mechanisms, sales of coin mechanisms and bill validators fell as demand associated with the introduction of the new ¥500 coin last year ran its course. An expanding amusement equipment market and deliveries of change dispensers for ticket vendors drove growth in bill validators, which recorded year-on-year gains.

As a result of the above, this group's sales declined 9.4% to ¥129,588 million. Operating income was ¥2,501 million, down 33.8%.

In April 2002, the Company acquired all outstanding shares of a Sanyo Electric Co., Ltd. subsidiary, Sanyo Electric Vending Machine Co., Ltd. (capitalized at ¥6,350 million). The company was renamed Fukiage Fuji Vending Machine Co., Ltd., and incorporated into the Fuji Electric Group. In August 2001, Fuji Electric concentrated vending machine production in its Mie factory to raise R&D and manufacturing efficiency. Previously, production had been divided between the Mie factory and manufacturing subsidiary Fuji Denki Reiki Seizo Co., Ltd.

### **Others**

Group operating income declined 78.7% year-on-year to ¥517 million, as sales slipped 4.1% year on year to ¥75,206 million. This was largely due to the sluggish performance of the logistics services subsidiary, which was affected by declining demand from information and telecommunications and engineering machine tool segments.

### ***Nonconsolidated results***

Nonconsolidated net sales in the fiscal year ended March 31, 2002 fell 7.9% year-on-year to ¥469,338 million. In the Energy & Electric Systems group, although favorable sales were recorded by environmental and information systems and electric power systems, group sales were lower than in the previous fiscal year, due in part to the transfer of the industrial

and measuring systems business to Fuji Electric Systems Co., Ltd. Affected by weak domestic and overseas markets, sales in the ED&C Drive Systems group, Electronics group and the Retail Support Equipment & Systems group also failed to reach the level of the previous fiscal year.

Operating income was down 59.9% against the previous fiscal year, to ¥6,104 million, and ordinary income fell 61.0% to ¥6,297 million. Net income declined 62.7% to ¥3,651 million. These falls were due largely to price erosion, reflecting heightened competition in the market and lower components-related shipments.

Fuji Electric also recognized an actuarial loss of ¥89,500 million in accounting for retirement benefits. The loss primarily arose from deteriorating investment returns on pension assets, and will be amortized over a five-year period commencing in the fiscal year ending March 2002. Consequently, amortization expenses of ¥17,909 million were booked under extraordinary losses in 2002. This was offset by a gain on the establishment of an employee retirement benefit trust, recorded under extraordinary income.

### ***Dividends***

In due consideration of the current operating environment, Fuji Electric has decided to pay a ¥2.50 year-end dividend per share, subject to approval at the annual general meeting of shareholders, scheduled for the end of June.

### ***Financial Position***

Cash and cash equivalents as of March 31, 2002 stood at ¥38,109 million, down ¥13,681 million from March 31, 2001. Although net cash from operating activities increased ¥9,730 million, net cash used in investing activities totaled ¥33,419 million. Furthermore, growth in net cash provided by financing activities slowed to ¥9,652 million.

The increase in net cash provided by operating activities was chiefly the result of progress in recovering trade receivables and cutbacks in inventories. The net cash used in investing activities represents investments in property, plant and equipment, and in overseas production and sales bases. The net cash provided by financing activities is primarily attributed to an increase in commercial paper. Redemption of ¥40,000 million in corporate bonds was financed through the issue of an equivalent amount of corporate bonds.

### ***Outlook for Fiscal Year Ending March 31, 2003***

The global economy, led by the U.S., is likely to head toward recovery after a period of consolidation. On the domestic front, some sectors of the manufacturing industry seem to be bottoming out. Nevertheless, there is no knowing whether recovery will materialize, since there has been no arrest in the continuing precipitous decline in capital investment and personal consumption remains mired in weakness.

Even in this challenging environment, the Group is committed to pursuing aggressive business policies while simultaneously working to achieve the goals of its medium-term business vision, the “S21 Plan.” The Group will focus on expanding operations in its four targeted areas—the environmental business, information systems, services and components—while strengthening mature businesses through restructuring and alliances. These initiatives are directed at swiftly restoring growth and strengthening the company’s financial foundations by focusing on management strategies geared to raising corporate value and leveraging the Group’s management resources.

### **Forecast of consolidated earnings for the fiscal year ending March 31, 2003**

<b>Item</b>	<b>¥ millions</b>	<b>% YoY change</b>
Net sales	870,000	3.7
Operating income	21,000	180.4
Ordinary income	16,000	176.3
Net income	8,000	Up ¥11,217mn YoY

### **Forecast of nonconsolidated earnings for the fiscal year ending March 31, 2003**

<b>Item</b>	<b>¥ millions</b>	<b>% YoY change</b>
Orders received	470,000	8.7
Net sales	470,000	0.1
Operating income	10,500	72.0
Ordinary income	9,500	50.9
Net income	5,000	36.9

*Note: The above forecasts are based on an exchange rate of ¥125/\$1US*

### ***Dividends***

The decision on dividends is currently pending.

### ***Cautionary Statements With Respect to Forward-Looking Statements***

Statements made in this financial report with respect to the Group’s future

performance are forward-looking statements based on management's assumptions and beliefs in light of the information currently available. Accordingly, actual results could differ from those contained in any forward-looking statements. Potential risks and uncertainties include:

- Sudden changes in the general economic conditions of the Group's principal markets and changes in its operating environment, such as those resulting from changes in trade regulations
- Changes in the exchange rate, particularly between the yen and the U.S. dollar and Asian and European currencies
- The ability of Fuji Electric and its subsidiaries to develop and introduce products that incorporate new technology in a timely manner and to manufacture them in a cost-effective way
- The rapid pace of technological innovation, especially in the field of electronics
- Sudden changes in the supply and demand balance in the markets the Group serves
- Problems involving intellectual property of Fuji Electric and other companies
- Fluctuations in Japanese stock markets