

(1) Group Position

The business operations of the Fuji Electric Group are focused on the development, manufacture and sale of products and the provision of services across a wide range of fields in five business segments: Energy and Electric Systems, Electric Distribution & Control (ED&C) - Drive Systems, Electronics, Retail Support Equipment & Systems and Others.

The Fuji Electric Group has consolidated subsidiaries operating in all these segments: 12 in Energy and Electric Systems, 10 in ED&C - Drive Systems, 14 in Electronics, 5 in Retail Support Equipment & Systems and 7 in Others. Each segment in turn operates consolidated subsidiaries, primarily sales subsidiaries, totaling 10 companies. The Fuji Electric Group therefore consists of 58 consolidated subsidiaries.

Fuji Electric Construction Co., Ltd. and Fuji Logistics Co., Ltd. are both listed on the Second Section of the Tokyo Stock Exchange (TSE). The listing of Fuji Denki Reiki Co., Ltd. on the First Section of the TSE was discontinued on December 25, 2002, and the company was converted into a wholly owned subsidiary of Fuji Electric Co., Ltd on January 1, 2003 through an exchange of shares. Furthermore, on April 1, 2003, this company was merged with a division of the existing Fuji Electric Retail Support Equipment & Systems Company and the previously integrated Fukiage Fuji Vending Machine Co., Ltd. The resulting company was renamed Fuji Electric Retail Systems Co., Ltd. The diagram below shows the relationship of Fuji Electric consolidated subsidiaries with their respective business segments and operating fields.

(2) 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.

Medium- to Long-Term Corporate Strategies, Issues to be Addressed, Fundamental Policy on Corporate Governance

In June 2000, the Fuji Electric Group formulated its medium-term management vision, the **“S21 Plan,”** detailing the Group's direction for the 21st century. This management vision comprises a number of initiatives, outlined below, aimed at establishing a holding company system as the Group's new management system.

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.

In areas where the Group is already strong—power semiconductor devices and other power electronic products, low-voltage circuit breakers, systems construction, 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.

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.

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.

As part of efforts to strengthen Group management, the Group Management Committee, comprising senior management of Fuji Electric Co., Ltd. and 13 major consolidated subsidiaries, is conducting continuous discussions on the future management direction of the Group.

Underpinned by a new Group Brand launched in July 2002, Fuji Electric is seeking to strengthen the centripetal (cohesive) force of the entire Group and enhance the visibility of the Fuji Group brand image.

In the area of compliance, society is putting greater pressure on companies to carry out their business activities in as ethical manner as possible. In response, Fuji Electric has established a Compliance Promotion Committee to ensure all relevant laws and social standards are strictly adhered to.

Against a background of further globalization and intensifying deflation, the Group's operating environment is becoming more challenging. As a result, a rapid shift to the new management system is imperative if the Group is to achieve sustainable growth and accelerate the rebuilding of its earnings structure. Meanwhile, other trends and developments in the market, such as the growing emphasis on consolidated management, the Company Division Law and the consolidated tax system, are all leading to the creation of a legal infrastructure and support framework that makes the transition to a holding company system more viable.

Against this background, intensive preparations are now under way to

make the transition to a **“Pure Holding Company System”** on October 1, 2003, in order to realize a Group comprising the **“Industry’s Strongest Specialists”** and create a more cohesive organization. After the transition to the pure holding company system, Fuji Electric will make an announcement after a decision has been reached regarding its management strategy and policy on corporate governance, and the organizational structure of the holding company and its related operating companies.

(3) Results of Operations and Financial Review

Fiscal 2002 Consolidated Business Results

In the fiscal year ended March 31, 2003, Japan’s exports strengthened and certain industrial sectors started to show signs of a pick up in activity. However, moving into the latter half of the year, the exports that had been driving a turnaround in the economy began to stagnate, and this combined with falls in the stock market and intensifying deflation to stop any real recovery from appearing.

The electronics sector continued to face a particularly severe operating environment as private-sector capital investment languished and consumer spending remained anemic. This was compounded by accelerating structural changes in the Japanese economy such as the relocation of production overseas and cutbacks in public works projects.

In this challenging environment, the Fuji Electric Group remained focused on the objective laid out in the company’s medium-term management vision to enhance corporate-value-oriented management. More specifically, this included the transfer of the transformer business to a joint venture, the restructuring of the vending machine business, the establishment of a new printed circuit board (PCB) company and other moves, as Fuji Electric sought to drive forward its corporate restructuring program designed to realize a group comprising the **“Industry’s Strongest Specialists”** in both manufacturing and sales. Additionally, the Group took steps to reduce the time it takes to launch new products and worked hard to enhance its cost competitiveness as part of its active operational stance during the year under review.

However, these steps failed to offset the significant effects of sluggish

demand, resulting in a 0.8% dip in net sales to ¥832,414 million. Although Fuji Electric was faced with both falling sales and product prices, the company succeeded in paring fixed assets and improving its cost base through corporate restructuring, leading to a 72.4% jump in operating income to ¥12,909 million and a 55.1% rise in ordinary income to ¥8,984 million. Net income also saw a substantial turnaround to ¥3,911 million, reversing the previous year's net loss by ¥7,128 million.

Segment Information

Energy and Electric Systems Group

In environmental systems, the group was hit hard by cutbacks in public works projects, particularly by local governments in water treatment and management systems, resulting in lower year-on-year sales.

Information systems achieved success with a number of products, including a document management system, the core building block for e-government and local government IT systems, as well as an information network system for local governments that links offices, schools, libraries and other facilities through a high-speed network. However, this failed to offset weaker orders from the manufacturing and logistics industries for information management systems, resulting in lower sales than in the previous year.

Despite the delivery of large-scale orders for hydroelectric power plant equipment that employed the world's first vertical bulb water turbine, and electric devices and radiation management equipment for nuclear power plants, electric power systems could not escape the effect of the shrinking domestic and North American markets. Consequently, sales fell below the previous year's level.

In industrial and transportation systems, transportation systems won orders for electronic equipment for use in subway rolling stock in overseas markets, and completed major orders for railway transformer facilities. However, industrial and measuring systems felt the substantial impact of weak private-sector investment in Japan, dragging down overall sales in this segment.

Due to falling sales in the above segments, sales at subsidiaries responsible for all types of facility construction, air conditioning, water supply and drainage, and sanitary equipment installation, recorded a steep fall.

As a result of the above, net sales in Energy and Electric Systems declined 7.3% to ¥383,382 million, while operating income deteriorated by ¥3,415 million to an operating loss of ¥180 million.

In other developments, in October 2002, Fuji Electric transferred operations related to the research and development, manufacture and inspection of transformers, as well as certain sales functions, to Japan AE Power Systems Corporation, a joint venture with Hitachi, Ltd. and Meidensha Corporation. In the past year, Japan AE Power Systems Corporation has worked to upgrade its sales framework, enhance product development by integrating components and streamlining production processes, and improve returns on capital investment, as well as combining the respective strengths of all three parent companies in efforts to improve the competitiveness of its product lineup.

ED&C - Drive Systems Group

In power supplies and ED&C, a whole host of new products were launched including small- and medium-capacity electromagnetic contactors, the SC-E Series of thermal relays, and a new generation of command switches. Sales of appliances to China and other Asian markets were particularly strong. In the latter half of the year in the domestic market, there were some signs of a recovery in demand for semiconductor manufacturing equipment, injection molding machines and other equipment, but this was outweighed by weak demand for the segment's core products such as machine tools and distribution equipment. Sales of power supply components were also down due to sluggish IT-related investment. As a result, sales in power supplies and ED&C were generally on a par with the previous year.

In drive systems, Fuji Electric launched a number of new products, including the FRENIC-Mini Series of general-purpose micro inverters and the UG30 Series of programmable operational display (POD) devices. The company also extended its focus from the traditional marketing of stand-alone standard products to embrace small and medium-sized systems

integrating programmable controllers, servomotors and inverters. Due to rapidly rising demand in the Asian market for these products, and particularly China, sales in this field grew year on year.

As a result of the above, net sales in ED&C - Drive Systems rose 0.5% to ¥159,947 million, and operating income improved ¥4,555 million to ¥1,195 million.

In another development in this group in August 2002, 3 appointed Fuji Electric sales companies covering the Kinki, Chugoku and Shikoku regions, were merged into a new company, Fuji Electric West Japan Co., Ltd. Concerted steps are currently being taken to further rationalize the organization of the company by integrating operating centers and logistics systems.

Electronics Group

In electronic devices, sales of power module products in the power semiconductor field were strong, owing to rapidly growing demand for industrial applications, primarily general-purpose inverters and industrial robots. And despite falling demand for discrete devices in information and visual equipment in the second half of the year, sales of these devices exceeded last year's level, buoyed by healthy domestic and overseas demand for discrete devices in automotive electronics. In IC products, Fuji Electric achieved record orders and sales of power supply ICs on the back of a significant increase in demand for components for digital cameras. These strong performances combined with healthy sales of hybrid devices for automotive applications and pressure sensors to lift sales in this segment above last year's level. The year under review also saw the completion of a new clean room in November 2002 at the Matsumoto factory, allowing the mass production of 8" wafers to commence.

In information devices, sales of magnetic disks improved in the latter half of the year, but could not offset the damage already done in the first half due to sluggish demand in the personal computer and server markets. Sales consequently fell year on year. Despite declining sales of selenium photoconductive drums, sales of photoconductive drums as a whole were up slightly on last year due to increases in sales volumes of Organic Photo Conductors (OPCs) for copiers and printers, and rising sales of cartridges

and other components used in photoconductive peripheral devices.

As a result of the above, net sales in Electronics fell 3.0% to ¥124,575 million, while operating income surged 60.4% to ¥7,217 million.

Retail Support Equipment & Systems Group

In vending machines, Fuji Electric continued to face a very challenging operating environment as curbs on investment eroded overall demand for core vending machine products and competition based on price intensified. In this climate, the company sought to further strengthen its business base as the leading company in the industry by working to fully integrate the recent acquisition of Sanyo Electric Vending Machine Co., Ltd. into the group structure as the renamed Fukiage Fuji Vending Co., Ltd. This acquisition meant that both sales and shipments of vending machine units were substantially higher than the previous period. Meanwhile, sales of drink dispensers were down on last year due to weakening demand for beer dispensers. And on the back of an increase in new store construction and refurbishment in the supermarket industry, sales of open freezing and refrigerated showcases recorded a marked improvement on the previous period.

In coin and currency mechanisms, although sales of change dispensers for gasoline stands were healthy and contracts for non-contact IC card equipment for use in next generation vending machine products were completed, this failed to offset a large decline in demand for amusement equipment, resulting in an overall year-on-year decline in sales.

As a result of the above, net sales grew 19.2% to ¥154,435 million, mainly due to the impact of the integration of Fukiage Fuji Vending, while operating income increased 3.8% to ¥2,597 million.

After converting Fuji Denki Reiki into a wholly owned subsidiary on January 1, 2003 through an exchange of shares, the company was merged with an existing division of the Fuji Electric Retail Support Equipment & Systems Company and the previously integrated Fukiage Fuji Vending in April 2003. The resulting company was renamed Fuji Electric Retail Systems, beginning operations as the leading industry specialist focused on vending machine products, and guided by the principle of creating

innovative business environments.

Others

Net sales grew 1.2% to ¥76,137 million and operating income jumped 303.5% to ¥2,086 million, due to success by the logistics services subsidiary, Fuji Logistics Co., Ltd., in winning new business and other factors.

Nonconsolidated results

Nonconsolidated net sales declined 3.7% to ¥451,780 million in the year ended March 31, 2003. In the Energy and Electric Systems group, sales fell year on year as environmental and information systems and electric power systems failed to better last year's results and sales of industrial systems lagged. In the ED&C - Drive Systems group, sales fell as a result of the transfer in April 2002 of marketing and sales functions for low-voltage motors to Fuji Electric Motors Co., Ltd. In the Electronics group, sales of electronic devices were strong, helping to lift group sales year on year. In the Retail Support Equipment & Systems group, the integration of vending machine companies lifted sales above the level in the previous period.

Despite declining sales and product prices, measures to pare back fixed assets and improve the company's cost base paid off with a 33.5% increase in operating income to ¥8,149 million. Ordinary income rose 4.6% to ¥6,587 million and net income increased 2.7% to ¥3,750 million.

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. Together with the interim dividend of ¥2.50 per share, the company therefore plans to pay a full-year dividend of ¥5.00 per share.

Financial Position

Cash and cash equivalents (hereafter "funds") as of March 31, 2003 stood at ¥15,038 million, a decrease of ¥23,071 million on the previous year-end. Although there was a ¥24,122 million free cash flow surplus (free cash flow = net cash provided by operating activities + net cash provided by investing activities), cash was used for the reduction of interest-bearing

debt and other activities.

Net cash provided by operating activities was ¥38,576 million, primarily a result of efforts to recover trade receivables and the add back of depreciation expenses and income before income taxes.

Net cash used by investing activities was ¥14,454 million, compared with ¥33,419 million in the previous period, representing focused investment in property, plant and equipment.

Net cash used in financing activities was ¥47,832 million, chiefly the result of reductions in short-term debt and the acquisition of treasury stock.

Consolidated Cash Flow Indicators

	Years ended March 31		
	2001	2002	2003
Shareholders' equity ratio (%)	16.8	22.5	17.5
Shareholders' equity ratio (%) (fair market value)	23.1	19.2	15.8
Amortization (years)	14.7	47.3	11.4
Interest coverage ratio (%)	5.1	1.8	9.1

Notes:

Shareholders' equity ratio: Shareholders' equity/total assets

Shareholders' equity ratio (fair market value): Market capitalization/total assets

Amortization: Interest-bearing debt/operating cash flow

Interest coverage ratio: Operating cash flow/interest payments

- 1. All indicators are calculated using consolidated financial data.*
- 2. Market capitalization is calculated by multiplying the year-end share price by the number of shares issued and outstanding at year-end (excluding treasury stock).*
- 3. Operating cash flow refers to Cash Flows From Operating Activities as shown in the Consolidated Statements of Cash Flows. Interest-bearing debt is the entire portion of debt recorded in the Consolidated Balance Sheets on which interest is paid. Interest payments refer to Interest Paid as shown in the Consolidated Statements of Cash Flows.*

Outlook for the Fiscal Year Ending March 31, 2004

With continuing curbs on investment in public works projects and no sign of any real recovery in private-sector capital investment, there is every indication that consumption may deteriorate further, preventing any rebound in demand. Consequently, the Fuji Electric Group expects its operating environment to remain challenging in the year ahead.

In this climate, to achieve sustainable growth and accelerate the rebuilding of its earnings structure, key issues for the Fuji Electric Group will be creating new businesses and developing new products to drive sales expansion, reengineering the company's cost structure and strengthening its financial base, and realizing an optimum mix of Group businesses. Accelerating the transition to the new management system will also be necessary. With this in mind, Fuji Electric has taken the decision to make the transition to a **"Pure Holding Company System"** on October 1, 2003, in order to realize a group comprising the **"Industry's Strongest Specialists,"** and establish a more cohesive organization. Underpinned by the introduction of the pure holding company system, Fuji Electric will endeavor to lead the Group to a new stage of growth in an operating environment increasingly characterized by fundamental and rapid change.

As part of moves to strengthen group-management, Fuji Electric applied for approval in December 2002 to begin the application of a consolidated tax system from the fiscal year ending March 31, 2004.

Due to the scheduled transition to the pure holding company system, the company has decided not to present a nonconsolidated earnings forecast, as of the date of this release, due to the difficulties involved in making this projection. The transition to the new management system will have no impact on consolidated earnings.

Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2004

Item	¥ billions	% YoY change
Net sales	865	3.9
Operating income	18	39.4
Ordinary income	16	78.1
Net income	6	53.4

Note: The above forecasts are based on an exchange rate of ¥118/\$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