

**Consolidated Financial Report for the First Half  
of the Fiscal Year ending March 31, 2003  
(April 1, 2002 - September 30, 2002)**

**Summary of Consolidated Financial Results**

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

	Millions of yen			Change(%) (A)/(B)	Millions of yen	Millions of U.S.dollars
	1st half	1st half	Full year		1st half	
	FY2002 (A)	FY2001 (B)				FY2001
Net sales	359,695	362,832	99.1%	839,135	2,934	
Operating income	9,663	11,800	-	7,489	79	
Ordinary income	11,900	12,627	-	5,791	97	
Net income	12,296	9,971	-	3,217	100	
	Yen			Yen	U.S.dollars	
Net income per share	17.22	13.94	-	4.50	0.14	

**2. Summary of consolidated financial position**

	Millions of yen			Millions of U.S.dollars
	9/30/2002	9/30/2001	3/31/2002	9/30/2002
	Total assets	940,530	1,074,537	1,104,871
Shareholders' equity	167,010	246,442	248,049	1,362
Shareholders' equity ratio (%)	17.8%	22.9%	22.5%	-
	Yen			U.S.dollars
Shareholders' equity per share	235.02	344.64	346.91	1.92

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

	Millions of yen			Millions of U.S.dollars
	1st half	1st half	Full year	1st half
	FY2002	FY2001	FY2001	FY2002
Cash flows from operating activities	22,194	23,305	9,730	181
Cash flows from investing activities	11,807	28,630	33,419	96
Cash flows from financing activities	32,949	7,464	9,652	269
Cash and cash equivalents at end of year	16,088	38,919	38,109	131

Note: 1) U.S.dollar amounts in this financial report are translated, for convenience only, at the rate of ¥122.60=U.S.\$1.  
2) The company has 60 consolidated subsidiaries.

#### 4. Forecast of consolidated earnings for FY2002 (April 1, 2002 - March 31, 2003)

	<u>Millions of yen</u>
Net sales	840,000
Ordinary income	13,000
Net income	3,000
	<u>Yen</u>
Net income per share	4.20

#### < 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 yen	Millions of U.S.dollars
	1st half FY2002 (A)	1st half FY2001 (B)		Full year FY2001	1st half FY2002
<b>Net sales</b>	359,695	362,832	99.1%	839,135	2,934
<b>Cost of sales</b>	293,606	295,623	99.3%	677,032	2,395
<b>Gross profit</b>	66,089	67,209	98.3%	162,102	539
<b>Selling, general and administrative expenses</b>	75,752	79,009	95.9%	154,613	618
<b>Operating income</b>	9,663	11,800	-	7,489	79
<b>Non-operating income</b>	2,694	3,952	68.2%	7,288	22
Interest and dividends income	1,322	2,247		3,493	11
Other	1,372	1,704		3,795	11
<b>Non-operating expenses</b>	4,931	4,779	103.2%	8,987	40
Interest expense	2,183	2,610		5,007	18
Other	2,748	2,169		3,979	22
<b>Ordinary income</b>	11,900	12,627	-	5,791	97
<b>Extraordinary income</b>	13,482	13,900		45,443	110
<b>Extraordinary loss</b>	23,463	14,937		51,003	191
<b>Income before income taxes</b>	21,881	13,664	-	231	178
<b>Income taxes and business tax</b>	1,830	1,375		3,457	15
<b>Deferred income taxes</b>	11,112	4,475		983	91
<b>Minority interests in net income of consolidated subsidiaries</b>	302	593		992	2
<b>Net income</b>	12,296	9,971	-	3,217	100

## Consolidated Balance Sheets

	Millions of yen		Change (A)-(B)	Millions of U.S.dollars
	9/30/2002 (A)	3/31/2002 (B)		9/30/2002
<b>Assets</b>				
<b>Current assets:</b>				
Cash and time deposits	16,747	38,543	21,796	137
Notes and accounts receivable, trade	206,317	277,156	70,839	1,683
Marketable securities	5,849	1,952	3,897	48
Inventories	171,931	145,453	26,478	1,402
Other current assets	57,933	48,875	9,058	473
<b>Total current assets</b>	<u>458,779</u>	<u>511,981</u>	53,202	<u>3,742</u>
<b>Long-term assets:</b>				
Tangible fixed assets	205,263	204,765	498	1,674
Intangible fixed assets	10,659	6,984	3,675	87
Investments and other assets	265,622	380,998	115,376	2,167
<b>Total long-term assets</b>	<u>481,545</u>	<u>592,749</u>	111,204	<u>3,928</u>
<b>Deferred assets</b>	204	140	64	2
<b>Total assets</b>	<u>940,530</u>	<u>1,104,871</u>	164,341	<u>7,672</u>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Notes and accounts payable, trade	132,099	170,837	38,738	1,077
Short-term loans	178,273	182,965	4,692	1,454
Other current liabilities	259,923	259,828	95	2,120
<b>Total current liabilities</b>	<u>570,296</u>	<u>613,631</u>	43,335	<u>4,652</u>
<b>Long-term liabilities</b>	170,969	211,141	40,172	1,395
<b>Total liabilities</b>	<u>741,265</u>	<u>824,773</u>	83,508	<u>6,046</u>
<b>Minority interests in consolidated subsidiaries</b>	32,254	32,048	206	263
<b>Shareholders' equity:</b>				
Common stock, ¥50 par value	47,586	47,586	0	388
Capital surplus	38,397	38,397	0	313
Retained earnings	54,846	68,189	13,343	447
Unrealized gain on other securities, net of taxes	29,573	95,493	65,920	241
Foreign currency transaction adjustment	2,127	1,604	523	17
Less shares of common stock held by the Company	1,266	12	1,254	10
<b>Total shareholders' equity</b>	<u>167,010</u>	<u>248,049</u>	81,039	<u>1,362</u>
<b>Total liabilities, minority interests and shareholders' equity</b>	<u>940,530</u>	<u>1,104,871</u>	164,341	<u>7,672</u>
<b>Debt</b>	<u>450,854</u>	<u>460,121</u>	9,267	<u>3,677</u>

## Consolidated Statements of Cash Flows

	Millions of yen			Millions of U.S.dollars
	1st half FY2002	1st half FY2001	Full year FY2001	1st half FY2002
<b>Cash flows from operating activities:</b>				
Net (income) loss before income taxes	21,881	13,664	231	178
Depreciation and amortization	14,283	14,127	29,826	117
Interest and dividends income	1,322	2,247	3,493	11
Interest expense	2,183	2,610	5,007	18
(Increase) decrease in trade receivables	85,832	103,898	47,986	700
(Increase) decrease in inventories	14,815	25,685	12,257	121
Increase (decrease) in trade payables	46,899	42,552	24,028	383
Increase (decrease) in advances received	15,960	14,555	468	130
Other, net	8,272	17,508	44,395	67
Subtotal	25,069	33,531	22,922	204
Interest and dividends received	1,340	2,297	3,599	11
Interest paid	2,190	2,772	5,274	18
Income taxes paid	2,024	9,750	11,516	17
Net cash provided by operating activities	22,194	23,305	9,730	181
<b>Cash flows from investing activities:</b>				
Purchase of fixed assets and marketable and investment securities	13,406	27,332	89,238	109
Proceeds from sale of fixed assets and marketable and investment securities	3,551	2,471	60,268	29
Other, net	1,952	3,769	4,450	16
Net cash provided by investing activities	11,807	28,630	33,419	96
Free cash flows ( + )	10,386	5,324	23,688	85
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term borrowings, net	24,794	14,878	22,529	202
Increase (decrease) in commercial paper, net	6,000	19,000	45,000	49
Proceeds from long-term debt	27,400	20,450	47,550	223
Repayments of long-term debt and redemption of bonds	26,059	27,322	53,595	213
Other, net	3,495	4,713	6,772	29
Net cash provided by financing activities	32,949	7,464	9,652	269
<b>Effect of exchange rate changes on cash and cash equivalents</b>	320	82	355	3
<b>Net increase (decrease) in cash and cash equivalents</b>	22,882	12,870	13,681	187
<b>Cash and cash equivalents at beginning of year</b>	38,109	51,760	51,760	311
<b>Increase in cash and cash equivalents resulting from the increase of consolidated subsidiaries.</b>	862	30	30	7.0
<b>Cash and cash equivalents at end of year</b>	16,088	38,919	38,109	131

\* ( ) indicates a decrease of cash and cash equivalents.

## Consolidated Segment Information

### 1. Net sales by business segment

	Millions of yen			Millions of U.S.dollars
	1st half	1st half	Change(%) (A)/(B)	1st half
	FY2002 (A)	FY2001 (B)		FY2002
Energy & Electric Systems	139,615	143,275	97.4%	1,139
ED&C • Drive Systems	73,109	79,905	91.5%	596
Electronics	59,860	65,246	91.7%	488
Retail Support Equipment & Systems	81,022	68,932	117.5%	661
Others	34,086	33,336	102.2%	278
Subtotal	387,694	390,695	99.2%	3,162
Elimination	27,998	27,862	-	228
<b>Total</b>	<b>359,695</b>	<b>362,832</b>	<b>99.1%</b>	<b>2,934</b>

### 2. Operating income by business segment

	Millions of yen			Millions of U.S.dollars
	1st half	1st half	Change(%) (A)/(B)	1st half
	FY2002 (A)	FY2001 (B)		FY2002
Energy & Electric Systems	14,427	13,554	-	118
ED&C • Drive Systems	1,783	1,962	-	15
Electronics	4,414	1,655	266.7%	36
Retail Support Equipment & Systems	1,522	1,853	82.1%	12
Others	655	231	283.5%	5
Subtotal	9,618	11,777	-	78
Elimination	44	22	-	0.4
<b>Total</b>	<b>9,663</b>	<b>11,800</b>	<b>-</b>	<b>79</b>

### 3. Net overseas sales

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	1st half FY2002 (A)	1st half FY2001 (B)		1st half FY2002
North America	16,063	8,086	198.7%	131
Europe	5,814	5,875	99.0%	47
Asia	29,965	32,742	91.5%	244
Other	6,384	2,070	308.4%	52
<b>Total</b>	<b>58,228</b>	<b>48,775</b>	<b>119.4%</b>	<b>475</b>
 < Ratio to net sales >				
North America	4.5%	2.2%		
Europe	1.6%	1.6%		
Asia	8.3%	9.0%		
Other	1.8%	0.6%		
<b>Total</b>	<b>16.2%</b>	<b>13.4%</b>		

**Supplemental Consolidated Financial Materials for FY2002 Half-Year**  
(April 1, 2002 - September 30, 2002)

**1. Financial summary**

	Billions of yen			
	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Net sales	359.6	840.0	362.8	839.1
Operating income	9.6	18.0	11.8	7.4
Ordinary income	11.9	13.0	12.6	5.7
Net income	12.2	3.0	9.9	3.2

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

	Times			
	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Net sales	1.87	1.87	1.91	1.79
Net income	-	0.75	-	-

**3. Number of consolidated subsidiaries**

	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Number of consolidated subsidiaries	60	58	61	60

**4. Net income per share**

	Yen			
	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Net income per share	17.22	4.20	13.94	4.50

**5. Net sales by business segment**

	Billions of yen			
	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Energy & Electric Systems	139.6	390.0	143.2	413.5
ED&C · Drive Systems	73.1	165.0	79.9	159.1
Electronics	59.8	125.0	65.2	128.4
Retail Support Equipment & Systems	81.0	155.0	68.9	129.5
Others	34.0	75.0	33.3	75.2
Subtotal	387.6	910.0	390.6	905.8
Elimination	27.9	70.0	27.8	66.7
<b>Total</b>	<b>359.6</b>	<b>840.0</b>	<b>362.8</b>	<b>839.1</b>

Note : Net sales include inter-segment transactions.

**6. Operating income by business segment**

	Billions of yen			
	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Energy & Electric Systems	14.4	4.5	13.5	3.2
ED&C · Drive Systems	1.7	2.0	1.9	3.2
Electronics	4.4	8.5	1.6	4.5
Retail Support Equipment & Systems	1.5	1.5	1.8	2.5
Others	0.6	1.5	0.2	0.5
<b>Total</b>	<b>9.6</b>	<b>18.0</b>	<b>11.8</b>	<b>7.4</b>

## 7. R&D expenditures

	Billions of yen			
	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Energy & Electric Systems	4.5	9.2	4.4	10.3
ED&C • Drive Systems	1.7	3.1	1.6	3.5
Electronics	3.6	7.5	3.8	7.5
Retail Support Equipment & Systems	1.4	2.8	1.2	3.0
Others	0.0	0.0	0.0	0.0
Corporate (basic research)	1.1	4.7	1.6	3.5
<b>Total</b>	<b>12.5</b>	<b>27.6</b>	<b>12.8</b>	<b>28.0</b>
Ratio to net sales (%)	3.5%	3.3%	3.5%	3.3%

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

	Billions of yen			
	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Energy & Electric Systems	2.1	5.0	2.3	6.8
ED&C • Drive Systems	1.6	5.6	2.3	5.5
Electronics	3.8	21.3	7.3	14.0
Retail Support Equipment & Systems	1.5	6.3	2.9	7.2
Others	0.5	1.6	0.8	1.4
Corporate	0.0	0.0	0.0	0.0
<b>Total</b>	<b>9.8</b>	<b>39.9</b>	<b>15.7</b>	<b>35.1</b>
(Leases)	(4.1)	(21.2)	(4.6)	(10.2)

Note: Leases are included in total plant and equipment investment.

## 9. Depreciation

	Billions of yen			
	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
Depreciation	13.0	27.2	13.4	28.4

## 10. Number of employees

	1st half FY2002	Full year forecast FY2002	1st half FY2001	Full year FY2001
	Energy & Electric Systems	10,564	10,313	10,686
ED&C • Drive Systems	5,543	5,534	6,109	5,263
Electronics	4,148	4,254	4,639	4,190
Retail Support Equipment & Systems	3,459	3,289	2,474	2,628
Others	2,123	2,111	2,131	2,116
Corporate	760	772	846	786
<b>Total</b>	<b>26,597</b>	<b>26,273</b>	<b>26,885</b>	<b>24,505</b>

## **Financial Review for FY2002 Half-Year (April 1, 2002 – September 30, 2002)**

### **(1) Management Policies**

#### **Fundamental Management Policy**

The 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**

The Fuji Electric Group's basic policy toward redistribution of profit to shareholders is to assure stable dividends while building sufficient 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**

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

#### **Performance Targets**

The Fuji Electric Group is currently focused on achieving the management targets of its medium-term management vision, which sees 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, to confidently lead the Group into the 21<sup>st</sup> century.

Currently in progress, the plan 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 the five business segments.
- (2) In businesses in which the company has achieved prominence in the industry, including power semiconductor devices and other power electronic products, low-voltage circuit breakers, systems business primarily for water treatment, and vending machines, the Group will concentrate on reinforcing its revenue base by further innovating product development, manufacturing and marketing systems to meet customers increasingly stringent requirements in respect of environmental issues, application of IT technologies and more systemic services.
- (3) In the environment, information technology, services and components that may provide the Group with new opportunities for growth, the Group plans to put together strategies across internal companies that will expand our presence in these areas, and will also concentrate the resources of the group as a whole on areas with growth potential.
- (4) The Group is determining the future orientation of its business by realigning its operations in both strategic growth areas and mature fields into 24 units, introducing two new business performance indicators of ROI and Fuji-electric Economic Profit (FEP), the latter to better reflect the cost of shareholders' equity, and using the Balanced Scorecard method to define the most appropriate business strategy for each business 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 and sewage treatment plants 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 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, primarily for machining and assembly, food, pharmaceutical and logistics sectors, and for the public service sector, including e-government, regional information infrastructure and intelligent transport systems (ITS) while expanding its line-up of vending machine solutions and other products. These information solution systems draw on the Group's unique strengths and are boosting Fuji Electric's reputation in the information systems market.

### **(3) Services Business**

Group subsidiary Fuji Electric Systems Co., Ltd. is developing its business activities around life-cycle-solutions services. The company plays the central role in Fuji Electric Group's efforts to expand its comprehensive 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 boasts an impressive array of technologies and extensive know-how in power electronics and low-voltage circuit breakers. Drawing on these technologies and know-how, the Group is promoting global strategies, including proactive alliances, to differentiate itself from the competition. At the same time, the Group is comprehensively reducing costs and improving product quality with a view to becoming the **“Most Valuable Component Provider”** in these specialized 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 flexible management structure. Each internal company formulates and executes 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 forces centering on its management vision and the centrifugal forces of business growth and new market development promoted by the internal companies and their related businesses.

The Group is reinforcing the internal company system by giving the internal companies greater independence over their operations and so enhance management autonomy. Each internal company pursues its business as an independent entity with the goal of becoming "the most powerful specialist company in the industry" in which it operates.

In terms of strengthening corporate governance, Fuji Electric Co., Ltd., the parent company, plans to convert itself into a holding company and is working to enhance Group management through its management vision. To this end, Fuji Electric Co., Ltd. has arranged the following:

(1)

The Group Management Committee, comprising senior management of Fuji Electric Co., Ltd. and 12 major consolidated subsidiaries, meets to discuss the future management of the Group and other important issues.

(2)

The Group Brand "Fe e-Front runners" was established in July 2002. With this new Group Brand acting as a unifying force, Fuji Electric Co., Ltd. will bolster the centripetal forces of the entire Group and strengthen its brand image.

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

### **Overview of Period Under Review**

During the first half of the current fiscal year, exports turned upward, inventories continued to fall and signs of an end to the decline in industrial output began to appear. Nevertheless, Japan's economy remained lackluster due to the severe impact of weak domestic demand.

In the electrical machinery industry, there were hopeful trends in the semiconductor and information appliance categories. However, domestic capital expenditures remained weak as the operating environment became even more challenging. Companies continued to face the need for business restructuring in order to survive.

The Fuji Electric Group continued to implement its S21 Plan, a medium-term management vision, with the aim of operating in a manner that places priority on increasing corporate value. The company took steps to become an organization made up of specialized business units that are the most powerful competitors in their respective markets in everything from manufacturing through sales. This drive covers the transformer, vending machine and all other businesses. Sweeping business restructuring actions were enacted to accomplish this goal. At the same time, other measures targeted the development of new products, cost cutting, increasing orders and sales, and boosting profitability.

### **Consolidated Operating Results**

In Energy & Electric Systems, there was a solid year-on-year increase in sales in the generator and transformer fields. However, sales were much lower in environmental systems, which was severely impacted by cutbacks in public-works expenditures, and in information systems, as private-sector capital spending remained weak. In industrial and transportation systems, sales were about the same as one year earlier despite the weakness in private-sector capital expenditures in Japan. The overall result was a year-on-year decline in total Electrical Systems sales. In ED&C Drive Systems, sales of inverters in China increased, but total sales fell sharply because the economic slowdown in Japan led to lower sales of equipment and components. In Electronics, sales of electronic devices rose due to strong performances by power semiconductors and ICs. However, a delay in the recovery of the hard disk drive (HDD) market caused a steep drop in sales of magnetic disks in the information devices field. The result was a decline in

total sales. In Retail Support Equipment & Systems, all shares of SANYO Electric Vending Machine Company were acquired. This company was renamed Fukiage Fuji Vending Machine Co., Ltd. and integrated into the Fuji Electric Group. The addition of this company produced a big increase in sales relative to the first half of the previous fiscal year.

Due to the above factors, total consolidated net sales for the first half of the fiscal year recorded a year-on-year decrease of 0.9% to ¥359,695 million.

Regarding earnings, cost reduction initiatives, mainly in Electronics, had a positive effect. However, the company posted an extraordinary loss on devaluation of investment securities. There was an operating loss of ¥9,663 million, ¥2,137 million less than one year earlier, an ordinary loss of ¥11,900 million, an improvement of ¥727 million, and a net loss of ¥12,296 million, ¥2,325 million more than the net loss one year earlier.

## **Results by Business Segment**

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

In environmental systems, sales were lower as demand for water purification and sewage treatment facilities was held back by reductions in public-works expenditures, primarily by local governments.

In information systems, sales were lower as slumping private-sector capital expenditures brought down demand for FA and logistics systems and other key products.

In electric power systems, sales were up significantly. There were a number of large-scale deliveries of transformers to Japanese utilities and steam turbines to overseas customers. Another highlight was the delivery of the world's first hydroelectric generator incorporating a vertical shaft bulb turbine. There were also a number of deliveries of electrical equipment and radiation management equipment for nuclear power facilities.

In industrial and transportation systems, there was a small decline in sales. Transportation systems performed relatively well as there were several sizable deliveries of railway transformer facilities. Offsetting this growth was weakness in industrial and measuring systems due to weak private-sector capital expenditures in Japan.

Due to the above factors, total Energy & Electric Systems sales declined

2.6% to ¥139,615 million and the operating loss increased ¥873 million to ¥14,427 million.

In July 2001, Fuji Electric established Japan AE Power Systems Corporation together with Hitachi, Ltd. and Meidensha Corporation. On October 1, 2002, Fuji Electric transferred the research, development, manufacture, inspection and certain sales activities involving substation systems to this company by separation of the related units. This transfer is aimed at establishing a consistently profitable operating structure for the substation business, as well as at capturing the leading position in this market as a supplier of products that earn the trust of customers.

### *ED&C Drive Systems*

The company conducted aggressive programs to expand sales of magnetic contactors, operation indicators and other major products. Efforts included developing ties with new customers and launching a number of new products, including small- and medium-sized magnetic contactors and thermal relays (the SC-E series). However, sales declined due to lower demand in the key machine tool and industrial machinery sectors. Falling IT-related investments caused sales of power-supply devices such as uninterruptible power supplies (UPS) to fall as well.

In drive systems, a number of new products were introduced, notably the FRENIC-Mini series of general-purpose inverters and the UG30 series of programmable operation displays, with the aim of increasing sales. The company also concentrated on capturing orders for small and mid-sized systems that combine programmable controllers, servomotors, inverters and other devices. Results were favorable outside Japan, especially in China and Southeast Asia. Weakness in Japan, however, caused sales to fall considerably.

Due to the above factors, total segment sales declined 8.5% to ¥73,109 million and there was an operating loss of ¥1,783 million, ¥179 million less than one year earlier.

In August 2002, three sales agents serving western Japan were combined to create West Japan Fuji Electric Co., Ltd. This was one of several steps taken to build a sales structure that is more closely aligned with customers' needs amid today's extremely difficult market conditions.

### ***Electronics***

In the field of electronic devices, sales for power semiconductors recorded a year-on-year increase. Power module products posted higher sales for use in such industrial applications as injection molding equipment, robots, and general-purpose inverters. There was a downturn in discrete devices beginning in the fiscal year's second quarter, chiefly in products for users in Taiwan and China. However, sales were generally solid due to strong demand in the first quarter from information and imaging devices such as PCs and televisions, and a growth in exports to North America where there was a strong demand for electronic devices used in automotive electronics. Sales of ICs were strong too, backed by demand for power supply ICs for mobile devices, digital cameras and game products as manufacturers introduced new models offering lower power consumption and more compact sizes. Composite devices and pressure sensors for automotive applications also posted higher sales.

In information devices, the PC and server markets remained soft in the second quarter despite hopes for a rebound. This pushed back the recovery in the hard disk drive (HDD) market, causing magnetic disk sales to fall well below the previous year's level.

In photoconductive products, there was a decline in sales of selenium photoconductive drums, but total sales in this field were unchanged because of growth in sales of organic photoconductive (OPC) drums for copiers and printers and sales of peripheral devices such as cartridges.

Due to these factors, total Electronics sales declined 8.3% to ¥59,860 million and operating income rose ¥2,759 million to ¥4,414 million.

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

In vending machines and other equipment, demand for vending machines shrank as buyers cut back on new investments. The market was also buffeted by falling prices due to competitive forces. The result was an increasingly difficult operating environment. In response, Fuji Electric in April 2002 purchased all outstanding shares of SANYO Electric Vending Machine Company, renaming it Fukiage Fuji Vending Machine Co., Ltd. This move, aimed at establishing an even more powerful market position, produced sharp increases in unit volume and monetary sales. The larger operating base also expanded the product line-up, including the Shell-D models of attractive and rugged vending machines for selling canned beverages.

To take full advantage of the integration of this company into Fuji Electric's vending machine operations, production activities at the Mie Factory and Fukiage Fuji Vending Machine were realigned so as to bolster development and manufacturing capabilities. In freezing and refrigerated showcases, sales rose due to higher orders from convenience store operators.

In coin & currency systems, the company began delivering vending machines that accept contact-free IC cards. Favorable results here and in certain other product categories kept sales level with the previous year.

Due to the above factors, and including the larger scale of the vending machine business, total sales rose 17.5% to ¥81,022 million and operating income was down ¥331 million to ¥1,522 million.

In this group, the company continues to place priority on achieving greater efficiency in all aspects of operations. As part of this drive, Fuji Denki Reiki Co., Ltd. will become a wholly owned subsidiary in January 2003 through an exchange of stock. The operations of this company are then to be absorbed by Fuji Electric in April 2003, a move that will integrate the manufacturing and sales activities that are currently divided between Fuji Electric and this subsidiary.

### ***Others***

Sales increased 2.2% to ¥34,086 million. Operating income increased ¥424 million to ¥655 million due to the successes of cost-cutting programs at logistics subsidiaries and other companies.

### **Non-Consolidated Operating Results**

In Energy & Electric Systems, there was a large increase in sales of generators and transformers, but sales were lower in the environmental systems, information systems, and industrial and transportation systems fields. The result was a decline in total sales. In ED&C Drive Systems, sales were much lower than one year earlier because of adverse market conditions in Japan and the April 2002 transfer of sales activities for low-voltage motors to Fuji Electric Motor Co., Ltd. In Electronics, sales of power semiconductors and ICs were strong in the electronic devices field. Offsetting this strength was a sharp drop in sales of magnetic disks in the information devices field because of weakness in the PC market. The result was a decline in total Electronics sales. In Retail Support Equipment &

Systems, the acquisition of SANYO Electric Vending Machine, now called Fukiage Fuji Vending Machine, produced a large increase in sales. Due to these factors, total non-consolidated sales were ¥192,398 million, 1.3% higher than one year earlier.

Regarding earnings, there was an operating loss of ¥2,396 million, ¥619 million more than the loss one year earlier. This was mainly attributable to a worsening in market conditions for Energy & Electric Systems and ED&C Drive Systems and an extraordinary loss on devaluation of investment securities. There was an ordinary loss of ¥3,480 million, ¥1,850 million more than one year earlier, and the net loss increased ¥3,458 million to ¥4,232 million.

### **Profit Sharing**

Although the company faced considerable difficulties during the first half of the current fiscal year, the interim dividend per share has been set at ¥2.50 due to the outlook for the full fiscal year and other considerations.

### **Financial Position**

On a consolidated basis, cash and cash equivalents declined ¥22,882 million during the first half of the fiscal year to ¥16,088 million as of September 30, 2002. Free cash flows, the sum of net operating and investing cash flows, totaled ¥10,386 million but cash was used to reduce interest-bearing debt and for other purposes.

### **Operating Activities**

Net cash provided by operating activities was ¥22,194 million. The loss before income taxes and minority interests was ¥21,881 million, but progress was made in the recovery of trade receivables and advances from customers paid.

### **Investing Activities**

Investing activities used net cash of ¥11,807 million, mainly the result of additions to property, plant and equipment.

### **Financing Activities**

Financing activities used net cash of ¥32,949 billion, mostly for the reduction of short-term borrowings and commercial paper.

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

The operating environment is expected to remain challenging during the remainder of the current fiscal year. Concerns exist about the direction of the U.S. and other overseas economies while Japan's economy continues to be restrained by falling stock prices, weak consumer spending and other negative trends.

In this environment, the Fuji Electric Group is determined to remain among the winners. To respond to structural changes in markets, the group will reinforce core technologies and speed up the introduction of new products that differentiate the company from competitors. Accompanying these actions will be a comprehensive cost containment program. The goal is to achieve a structure ideally suited to the characteristics of each business activity. Through this process, the company aims to quickly improve operating results and establish a sound base of operations.

### **Consolidated Forecast**

Net sales	¥840.0 billion (up 0.1%)
Operating income	¥18.0 billion (up 140.4%)
Ordinary income	¥13.0 billion (up 124.5%)
Net income	¥3.0 billion (improvement of ¥6.2 billion)

### **Non-Consolidated Forecast**

Orders	¥455.0 billion (up 5.2%)
Net sales	¥450.0 billion (down 4.1%)
Operating income	¥9.0 billion (up 47.4%)
Ordinary income	¥7.0 billion (up 11.2%)
Net income	¥4.0 billion (up 9.6%)

Note: Second-half estimates are based on an exchange rate of US\$1=¥115.

### **Outlook for Profit Sharing**

No decision has been made at this time regarding payment of a year-end dividend.

### **Forward-looking Statements**

The above projections represent assumptions and beliefs based on data currently available. Accordingly, actual results may differ materially from projections. 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
- Changes in exchange rates, 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 new 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
- Issues involving the intellectual property of Fuji Electric and other companies
- Movements in Japanese stock markets