

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 21st 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