

**Consolidated Financial Report for the First Half
of the Fiscal Year ending March 31, 2004
(April 1, 2003 - September 30, 2003)**

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	
	FY2003 (A)	FY2002 (B)				FY2002
Net sales	347,975	359,695	96.7%	832,414	3,128	
Operating income	8,039	9,663	-	12,909	72	
Ordinary income	9,432	11,900	-	8,984	85	
Net income	8,208	12,296	-	3,911	74	
	Yen			Yen	U.S.dollars	
Net income per share	11.47	17.22	-	5.28	0.10	

2. Summary of consolidated financial position

	Millions of yen			Millions of U.S.dollars
	9/30/2003	9/30/2002	3/31/2003	9/30/2003
	Total assets	878,994	940,530	921,121
Shareholders' equity	175,345	167,010	161,188	1,576
Shareholders' equity ratio (%)	19.9%	17.8%	17.5%	-
	Yen			U.S.dollars
Shareholders' equity per share	245.07	235.02	225.06	2.20

3. Summary of consolidated statements of cash flows

	Millions of yen			Millions of U.S.dollars
	1st half	1st half	Full year	1st half
	FY2003	FY2002	FY2002	FY2003
Cash flows from operating activities	9,556	22,194	38,576	86
Cash flows from investing activities	19,779	11,807	14,454	178
Cash flows from financing activities	35,017	32,949	47,832	315
Cash and cash equivalents at end of year	9,214	16,088	15,038	83

Note: 1) U.S.dollar amounts in this financial report are translated, for convenience only, at the rate of ¥111.25=U.S.\$1.
2) The company has 57 consolidated subsidiaries.

4. Forecast of consolidated earnings for FY2003 (April 1, 2003 - March 31, 2004)

	<u>Millions of yen</u>
Net sales	865,000
Operating income	18,000
Ordinary income	16,000
Net income	6,000
	<u>Yen</u>
Net income per share	8.19

< 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 yen	Millions of U.S.dollars
	1st half FY2003 (A)	1st half FY2002 (B)		Full year FY2002	1st half FY2003
Net sales	347,975	359,695	96.7%	832,414	3,128
Cost of sales	284,602	293,606	96.9%	666,604	2,558
Gross profit	63,373	66,089	95.9%	165,810	570
Selling, general and administrative expenses	71,413	75,752	94.3%	152,900	642
Operating income	8,039	9,663	-	12,909	72
Non-operating income	3,027	2,694	112.4%	5,473	27
Interest and dividends income	973	1,322		2,009	9
Other	2,054	1,372		3,464	18
Non-operating expenses	4,420	4,931	89.6%	9,398	40
Interest expense	1,790	2,183		4,173	16
Other	2,630	2,748		5,225	24
Ordinary income	9,432	11,900	-	8,984	85
Extraordinary income	14,743	13,482		54,628	133
Extraordinary loss	17,316	23,463		56,537	156
Income before income taxes	12,005	21,881	-	7,074	108
Income taxes and business tax	1,169	1,830		4,166	11
Deferred income taxes	4,555	11,112		1,094	41
Minority interests in net income of consolidated subsidiaries	411	302		92	4
Net income	8,208	12,296	-	3,911	74

Consolidated Balance Sheets

	Millions of yen		Change (A)-(B)	Millions of U.S.dollars
	9/30/2003 (A)	3/31/2003 (B)		9/30/2003
Assets				
Current assets:				
Cash and time deposits	9,605	15,664	6,059	86
Notes and accounts receivable, trade	193,784	250,447	56,663	1,742
Marketable securities	338	460	122	3
Inventories	168,457	152,427	16,030	1,514
Other current assets	49,342	54,222	4,880	444
Total current assets	421,528	473,222	51,694	3,789
Long-term assets:				
Tangible fixed assets	163,000	190,221	27,221	1,465
Intangible fixed assets	7,656	7,684	28	69
Investments and other assets	286,560	249,763	36,797	2,576
Total long-term assets	457,217	447,668	9,549	4,110
Deferred assets	249	230	19	2
Total assets	878,994	921,121	42,127	7,901
Liabilities and shareholders' equity				
Current liabilities:				
Notes and accounts payable, trade	131,412	168,629	37,217	1,181
Short-term loans	164,844	158,633	6,211	1,482
Other current liabilities	213,561	261,295	47,734	1,920
Total current liabilities	509,818	588,558	78,740	4,583
Long-term liabilities	180,001	156,919	23,082	1,618
Total liabilities	689,819	745,477	55,658	6,201
Minority interests in consolidated subsidiaries	13,829	14,455	626	124
Shareholders' equity:				
Common stock, ¥50 par value	47,586	47,586	-	428
Capital surplus	46,694	46,694	0	420
Retained earnings	59,135	69,275	10,140	532
Unrealized gain on other securities, net of taxes	31,655	6,922	24,733	285
Foreign currency transaction adjustment	3,021	2,603	418	27
Less shares of common stock held by the Company	6,705	6,687	18	60
Total shareholders' equity	175,345	161,188	14,157	1,576
Total liabilities, minority interests and shareholders' equity	878,994	921,121	42,127	7,901
Debt	405,243	438,865	33,622	3,643

Consolidated Statements of Cash Flows

	Millions of yen			Millions of U.S.dollars
	1st half FY2003	1st half FY2002	Full year FY2002	1st half FY2003
Cash flows from operating activities:				
Net income (loss) before income taxes	12,005	21,881	7,074	108
Depreciation and amortization	8,829	14,283	27,202	79
Interest and dividends income	973	1,322	2,009	9
Interest expense	1,790	2,183	4,173	16
(Increase) decrease in trade receivables	55,858	85,832	40,472	502
(Increase) decrease in inventories	16,388	14,815	1,932	147
Increase (decrease) in trade payables	36,520	46,899	10,311	328
Increase (decrease) in advances received	15,780	15,960	422	142
Other, net	3,036	8,272	23,837	27
Subtotal	13,335	25,069	44,276	120
Interest and dividends received	1,023	1,340	1,983	9
Interest paid	1,809	2,190	4,244	16
Income taxes paid	2,993	2,024	3,438	27
Net cash provided by operating activities	9,556	22,194	38,576	86
Cash flows from investing activities:				
Purchase of fixed assets and marketable and investment securities	5,778	13,406	28,986	52
Proceeds from sale of fixed assets and marketable and investment securities	24,654	3,551	16,291	222
Other, net	903	1,952	1,759	8
Net cash provided by investing activities	19,779	11,807	14,454	178
Free cash flows (+)	29,335	10,386	24,122	264
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings, net	6,420	24,794	40,384	58
Increase (decrease) in commercial paper, net	33,500	6,000	500	301
Proceeds from long-term debt	33,370	27,400	56,100	300
Repayments of long-term debt and redemption of bonds	39,258	26,059	52,098	353
Other, net	2,050	3,495	10,949	18
Net cash provided by financing activities	35,017	32,949	47,832	315
Effect of exchange rate changes on cash and cash equivalents	141	320	213	1
Net increase (decrease) in cash and cash equivalents	5,823	22,882	23,923	52
Cash and cash equivalents at beginning of year	15,038	38,109	38,109	135
Increase in cash and cash equivalents resulting from the increase of consolidated subsidiaries.	-	862	852	-
Cash and cash equivalents at end of year	9,214	16,088	15,038	83

* () 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(%)	1st half
	FY2003 (A)	FY2002 (B)	(A)/(B)	FY2003
Energy & Electric Systems	124,025	139,615	88.8%	1,115
ED&C • Drive Systems	77,939	73,109	106.6%	701
Electronics	62,030	59,860	103.6%	558
Retail Support Equipment & Systems	77,360	81,022	95.5%	695
Others	31,552	34,086	92.6%	284
Subtotal	372,908	387,694	96.2%	3,352
Elimination	24,932	27,998	-	224
Total	347,975	359,695	96.7%	3,128

2. Operating income by business segment

	Millions of yen			Millions of U.S.dollars
	1st half	1st half	Change(%)	1st half
	FY2003 (A)	FY2002 (B)	(A)/(B)	FY2003
Energy & Electric Systems	15,975	14,427	-	144
ED&C • Drive Systems	63	1,783	-	1
Electronics	5,120	4,414	116.0%	46
Retail Support Equipment & Systems	1,922	1,522	126.3%	17
Others	974	655	148.7%	9
Subtotal	8,019	9,618	-	72
Elimination	19	44	-	0.2
Total	8,039	9,663	-	72

3. Net overseas sales

	Millions of yen		Change(%) (A)/(B)	Millions of U.S.dollars
	1st half FY2003 (A)	1st half FY2002 (B)		1st half FY2003
North America	9,580	16,063	59.6%	86
Europe	6,146	5,814	105.7%	55
Asia	41,614	29,965	138.9%	374
Other	2,918	6,384	45.7%	26
Total	60,260	58,228	103.5%	542
 < Ratio to net sales >				
North America	2.8%	4.5%		
Europe	1.8%	1.6%		
Asia	12.0%	8.3%		
Other	0.8%	1.8%		
Total	17.3%	16.2%		

Supplemental Consolidated Financial Materials for FY2003 Half-Year
(April 1, 2003 - September 30, 2003)

1. Financial summary

	Billions of yen			
	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
Net sales	347.9	865.0	359.6	832.4
Operating income	8.0	18.0	9.6	12.9
Ordinary income	9.4	16.0	11.9	8.9
Net income	8.2	6.0	12.2	3.9

2. Number of consolidated subsidiaries

	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
Number of consolidated subsidiaries	57	59	60	58

3. Net income per share

	Yen			
	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
Net income per share	11.47	8.19	17.22	5.28

4. Net sales by business segment

	Billions of yen			
	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
Energy & Electric Systems	124.0	400.0	139.6	383.3
ED&C · Drive Systems	77.9	170.0	73.1	159.9
Electronics	62.0	130.0	59.8	124.5
Retail Support Equipment & Systems	77.3	155.0	81.0	154.4
Others	31.5	75.0	34.0	76.1
Subtotal	372.9	930.0	387.6	898.4
Elimination	24.9	65.0	27.9	66.0
Total net sales	347.9	865.0	359.6	832.4

Note : Net sales include inter-segment transactions.

5. Operating income by business segment

	Billions of yen			
	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
Energy & Electric Systems	15.9	2.5	14.4	0.1
ED&C · Drive Systems	0.0	2.0	1.7	1.1
Electronics	5.1	9.0	4.4	7.2
Retail Support Equipment & Systems	1.9	2.5	1.5	2.5
Others	0.9	2.0	0.6	2.0
Subtotal	8.0	18.0	9.6	12.9
Elimination/Corporate	0.0	0.0	0.0	0.0
Total operating income	8.0	18.0	9.6	12.9

6. R&D expenditures

	Billions of yen			
	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
Energy & Electric Systems	4.4	10.9	4.5	9.0
ED&C • Drive Systems	2.1	4.5	1.7	2.8
Electronics	3.6	7.9	3.6	7.7
Retail Support Equipment & Systems	1.8	4.0	1.4	2.6
Others	0.0	0.0	0.0	0.0
Corporate (basic research)	1.1	1.1	1.1	4.4
Total	13.2	28.7	12.5	26.7
Ratio to net sales (%)	3.8%	3.3%	3.5%	3.2%

7. Plant and equipment investment (including leases)

	Billions of yen			
	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
Energy & Electric Systems	3.4	6.5	2.1	4.2
ED&C • Drive Systems	2.1	5.1	1.6	4.4
Electronics	5.9	14.9	3.8	17.8
Retail Support Equipment & Systems	0.7	3.0	1.5	5.5
Others	0.7	2.0	0.5	1.1
Corporate	0.0	0.0	0.0	0.0
Total	13.0	31.8	9.8	33.2
(Leases)	(8.0)	(17.4)	(4.1)	(18.5)

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

8. Depreciation

	Billions of yen			
	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
Depreciation	7.7	16.0	13.0	25.5

9. Number of employees

	1st half FY2003	Full year forecast FY2003	1st half FY2002	Full year FY2002
	Energy & Electric Systems	10,461	10,619	10,564
ED&C • Drive Systems	4,998	5,132	5,543	5,435
Electronics	4,130	4,054	4,148	4,152
Retail Support Equipment & Systems	3,189	3,150	3,459	3,219
Others	1,971	2,151	2,123	2,067
Corporate	719	136	760	759
Total	25,468	25,242	26,597	25,822

(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: 14 in Energy and Electric Systems, 9 in ED&C • Drive Systems, 14 in Electronics, 4 in Retail Support Equipment & Systems and 6 in Others. Each segment in turn operates consolidated subsidiaries, primarily sales subsidiaries, totaling 10 companies. The Fuji Electric Group therefore consists of 57 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).

On April 1, 2003, the Fuji Electric Co., Ltd. in-house Retail Support Equipment & Support Systems Company was demerged and absorbed by 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

The Fuji Electric Group moved to a “**Pure Holding Company System**” on October 1, 2003, following the corporate demerger of all its businesses into independent operating companies. Moving forward, the Fuji Electric Group’s fundamental management policy is to deliver value to society, shareholders and other investors by promoting greater, more cohesive management of the Group as a whole to maximize the Group’s value under the new pure holding company system. In order to realize a Group comprising the “**Industry’s Strongest Specialists**,” each of the Fuji Electric Group’s operating companies will be committed to offering optimal, industry-leading services and components of the highest quality to society and customers.

1. Realization of Autonomous Management

As independent entities with truly autonomous management systems, each operating company will position itself in close proximity to its customers, so as to better assess customer needs and maximize **customer satisfaction by providing the highest caliber of products and services**. This will allow the introduction of fast, flexible business management systems tailored to the characteristics of each operating environment and capable of responding rapidly to change.

2. Optimization of Business Portfolio

From the perspective of maximizing the value of the Group and enhancing capital efficiency, the Fuji Electric Group is intent on creating a portfolio of businesses that balances growth and profitability. This will be achieved by accelerating the prioritization of resources into certain businesses based on a more rigorous review of the operating results of each operating company and business unit.

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.

Management Goals

The management indicators used by the Fuji Electric Group as targets are shown in the following table.

	FY2005 Targets	FY2002 Actual
Ratio of Operating Income to Net Sales	At least 5%	1.5%
Outstanding Debt	¥300.0 billion	¥438.9 billion

Medium- to Long-Term Corporate Strategies and Issues to Be Addressed

With deflationary pressures expected to characterize the continuation of severe business conditions in the Japanese economy, Fuji Electric is aware that it must quicken the pace of internal management reforms, rebuild earnings structures and strengthen the Group's financial base in order to achieve its profitability and growth targets. This will be integral to realizing the goal of becoming a Group comprising the "Industry's Strongest Specialists."

This rationale prompted the Fuji Electric Group to make the decision to move to a pure holding company system on October 1, 2003. Under this new management framework, the Fuji Electric Group has already begun implementing concrete strategies and measures as part of its medium-term management plan, which runs from April 1, 2002 to March 31, 2006, aimed at raising the Group's value.

1. Basic Stance

The strategies and measures are specifically designed to "**generate corporate value even in a deflationary environment**," by raising earnings and strengthening the Group's financial position. They are premised on a severe operating environment in which further economic weakness and structural reforms in industry are expected, due to increasing globalization and growing deflationary pressures.

- (1) Based on the assumption that the Japanese economy will only achieve zero growth over the next three years, the Fuji Electric Group's major imperative is to consistently improve earnings and deliver growth through strategies and measures designed to maintain the Company's competitiveness independently. This will be underlined by an awareness of the severe business environment and a sense of urgency in dealing with its attendant challenges.
- (2) An emphasis on creating higher added-value will be achieved by selectively channeling the Group's resources into core technologies and businesses. And business expansion will be achieved through a greater focus on the environment and IT, using technologies that incorporate a greater level of high added-value.
- (3) Centered on the promising high-growth Chinese market, the Fuji Electric Group is aiming to increase sales at overseas businesses by launching products founded on technologies where the Fuji Electric Group has a competitive edge, and in product and business fields that are mature in the domestic market context.
- (4) Incorporate the following plans/strategies into a medium-term plan: a strategic technology development plan aimed at boosting sales through the creation of new businesses and products; an expansion plan for overseas businesses, centered on a strategy for China; an innovative cost-reduction plan to pare back costs in a deflationary environment; a debt-reduction plan; a review of personnel and remuneration systems; and measures to realize an optimum mix of Group businesses comprising the "Industry's Strongest Specialists."

2. Outline of Plans and Strategies

- (1) Grow sales through the creation of new businesses and products, based on stronger R&D technology capabilities.
 - 1) Place emphasis on R&D for the creation of new businesses and products, increasing annual R&D expenses to **¥30 billion a year for a total of ¥90 billion over the next 3 years**. Focus resources on three categories—core products; products to be overhauled and improved; and products in incubation and new business areas—with a particular focus on **core products so as to achieve an approximate ¥100 billion increase in sales** from this category.
 - 2) Reshape the business portfolio by accelerating and expediting the withdrawal from and sale of unprofitable/non-core businesses where there is no expectation of profits or future growth.
- (2) Expand overseas business by building a stronger presence in China
 - 1) Aggressively expand business in Asia outside Japan, particularly China, to increase overseas sales as a share of consolidated net sales to **20% by fiscal 2005**, compared with 14% in fiscal 2002. Expand business in overseas markets by actively making use of overseas bases.
 - 2) Target the Chinese market, where annual economic growth is currently running at about 7%, to

boost sales in the country from ¥15 billion in fiscal 2002 to **¥47 billion by fiscal 2005**.

(3) **Initiate radical cost-structure reforms**

Go all out to generate more cost savings through a fundamental review of materials purchasing, further reductions in logistics costs, reorganization of manufacturing operations and reconstruction of a Group manufacturing system. Raise cost competitiveness by paring back core costs by **at least ¥90 billion** over 3 years (**Approximately 10%** of projected fiscal 2005 net sales).

(4) **Strengthen the financial base primarily by reducing debt**

Streamline the balance sheet through more efficient capital management such as scaling back inventories, cutting accounts receivable and reducing fixed assets; improve earnings; and review businesses to strengthen the financial base of the Group. Reduce interest-bearing debt to **¥300 billion by the end of fiscal 2005**.

(5) **Review personnel, remuneration and retirement and pension structures**

Under the pure holding company structure, revise personnel and remuneration systems so as to create flexible working conditions that take into account the characteristics and results of each Group business. Also modernize retirement and pension structures to respond to the changes ahead.

(6) **Create the optimal mix of businesses to realize a Group comprising the “Industry’s Strongest Specialists.”**

The Fuji Electric Group recognizes that a major goal of the pure holding company structure is to increase corporate value by rapidly restructuring. This restructuring will create an optimal portfolio mix balanced on growth and profitability, with each operating company becoming the “Industry’s Strongest Specialist” in its respective field. With this in mind, the Fuji Electric Group will promote the following initiatives:

- 1) Examine the viability of each business by assessing its respective strengths. Resources will be channeled into core businesses, while the alliance, withdrawal or disposal process will be accelerated for businesses that are not expected to grow independently.
- 2) Under the pure holding company structure, put in place a framework designed to promote the selection and concentration of resources, with each operating company using risk-return profiles to ensure proper business management. Aim to build an optimum portfolio mix balanced on growth and profitability by increasing the use of corporate value-oriented performance indicators (return on investment (ROI) and Fuji-electric Economic Profit (FEP)). This will allow the Company to improve its assessment of investment returns and profitability and ensure the cost of capital is commensurate with risk.

Measures to Establish a Management Framework (Improving Corporate Governance)

1. Basic Concept

Under the pure holding company system, the Group will switch to a new management system in which management supervision and execution functions will be clearly separated to better define responsibility and authority. This will strengthen the Group management system, speed up decision-making and encourage a sense of greater individual responsibility.

2. New Management System

(1) **Management system at the holding company**

- 1) The core concept of corporate governance in a holding company structure is the separation of the business supervision and execution functions. Therefore, the holding company’s new form of corporate governance will be based on the Board of Statutory Auditors System.
- 2) As is applied in Japanese companies who employ the “Company with Committees” System, the term of directors is one year and the number of outside directors has been increased from two previously to three, thereby strengthening supervisory functions.
- 3) The chairman of the holding company will preside over the board of directors and the number of directors will be kept to a minimum.
- 4) In order to ensure clear separation of the respective responsibilities and authority of the holding company and the operating companies, directors of the holding company will be barred from holding directorships of Group operating companies. In order to ensure that the holding company is able to adequately monitor Group operating companies, the corporate auditors of the holding company will also serve as part-time auditors of Group operating companies.
- 5) An executive committee will be established to advise the chief executive officer of the holding company on important management issues, including management strategy and management policies for the entire Group, strategies for maximizing Group synergies, and initiatives to foster Group cooperation. The executive committee will comprise internal directors of the holding company, presidents of operating companies, and the general manager of the strategy development

division at the holding company.

(2) Management of operating companies

- 1) The term of office for directors of operating companies will be one year, the same as at the holding company.
- 2) The president or chairman of each operating company shall chair its board of directors and the number of directors will be kept to a minimum.
- 3) In order to ensure complete transparency in terms of the respective responsibilities of the holding company and operating companies, directors of operating companies will be barred from sitting on the board of the holding company.

(3) Basic stance toward compliance

With society putting greater pressure on companies to carry out their business activities in as ethical manner as possible, the Fuji Electric Group is committed to ensuring that all relevant laws and social standards are strictly adhered to through its board of directors, executive committee, Compliance Promotion Committee and other relevant bodies, from the perspectives of risk management and internal control.

(3) Results of Operations and Financial Review

Consolidated Business Results for the First Half of Fiscal 2003

On the whole, Japan's economy remained flat during the early part of the first half of the year, ended September 30, 2003, amid lingering uncertainty due to the situation in Iraq, the outbreak of severe acute respiratory syndrome (SARS), and other negative factors. In contrast, the latter part of the period saw a favorable upturn in capital expenditures and exports, as the economy appeared to show signs of bottoming out and move onto a recovery track.

In this climate, the Fuji Electric Group achieved a mixed performance in net sales. Robust growth in the ED&C•Drive Systems Group, specifically for inverters in the control and drive components field, paralleled healthy sales growth in magnetic disks by the Electronics Group following the full-scale launch of 80GB disks. As a result, both groups were able to increase net sales year on year. In contrast, sales were lower in the Energy & Electric Systems Group and the Retail Support Equipment & Systems Group. Declining sales in the former were attributed to a lackluster performance from electric power systems, environmental and information systems and facility construction. Sales in the latter, meanwhile, were hampered by stagnant performance in the vending machine sector due to increasingly fierce competition and falling unit prices.

As a result of the above, net sales declined 3.3% to ¥347.9 billion.

On the earnings side, Fuji Electric posted an operating loss of ¥8,039 million, a year-on-year improvement of ¥1,624 million. Other earnings items posted similar gains, with the ordinary loss improving ¥2,468 million to ¥9,432 million, and the net loss for the six-month period under review improving ¥4,088 million to ¥8,208 million. These results are attributable to several factors, among them the benefits of operational rationalization and a marked improvement in earnings generated by the ED&C•Drive Systems Group owing to higher sales in the control and drive components field. Other factors included success by the Electronics Group in sharply stemming losses from magnetic disks, and improved performance by the Retail Support Equipment & Systems Group, which used effective cost-cutting measures to offset an overall decline in sales volume.

In a typical year, the Fuji Electric Group generally has modest expectations for first-half net sales, particularly from the Energy & Electric Systems Group, which oversees the industrial plant and facility business. In terms of earnings, Fuji Electric initially accepts that the posting of first-half losses may be inevitable, given the current business climate. That said, while net sales in the first half of the fiscal year were lower compared with the same period a year earlier, Fuji Electric successfully reduced its operating losses by a wide margin.

Segment Information

<Energy and Electric Systems Group>

In electric power systems, despite the delivery of substantial orders for radiation monitoring equipment and other facilities for nuclear power plants, curbs on capital spending at electric power companies in Japan and a decline in large-scale orders in the thermal power generation business resulted in lower sales in this field and a wider operating loss.

In environmental systems, the group delivered electrical equipment for clean room facilities and water treatment systems, although intensifying market competition hindered growth. In information systems, efforts to expand sales of a document management system, the core building block for e-government and

local government IT systems, failed to cover a decline in orders for information management systems from the manufacturing industry. The overall result was lower sales in environmental and information systems than in the previous year and a larger operating loss.

In industrial systems, the industrial plant and facility business posted a year-on-year increase in orders for support services such as facility protection and integrity. However, a decrease in sales of transportation system-related equipment, a strong performer in the previous year, held back overall industrial and transportation system sales year on year. On a more positive note, the operating loss was reduced somewhat, thanks to valiant efforts to rationalize operations.

In facility construction, sales were lower year on year against a backdrop of weak domestic demand, although benefits from efforts to rationalize operations helped reduce the operating loss in this field.

As a result of the above, net sales in Energy and Electric Systems declined 11.2% to ¥124.0 billion, while the operating loss worsened by ¥1,548 million to ¥15,975 million.

<ED&C•Drive Systems Group>

In ED&C components, there was an increase in sales of mainstay products such as magnetic contactors and circuit breakers to China and other Asian markets. In the domestic market, there were some signs of a recovery in demand from machine manufacturers, primarily centered on machine tools. This, however, was canceled out by a delayed recovery in demand from distribution equipment makers—one of the group's core customers—and the impact of an unseasonably cool summer, dragging domestic sales lower compared with the same period a year earlier. Meanwhile, UPS (Uninterruptible Power Supply) equipment continued to face a tough business climate, as weak capital investments in the core IT market held sales of mainstay Mini UPS products for servers to roughly the same level as the previous year. The net result was that while sales in the ED&C components field declined, the operating loss did not deteriorate any further.

In control & drive systems, amid recovering demand among machine-tool makers and semiconductor manufacturing equipment makers, the company achieved growth by extending its business domain to embrace small and medium-sized systems integrating programmable controllers, servomotors and inverters. Combined with the continuation of robust exports to China and other parts of Asia, sales in this field rose substantially compared with the previous year. There was also a significant improvement in operating income, reversing the operating loss in the same period in the previous year.

As a result of the above, net sales in ED&C•Drive Systems rose 6.6% to ¥77.9 billion, and the operating loss improved ¥1,720 million to ¥63 million.

<Electronics Group>

In power semiconductors, sales of power module products were strong owing to rapidly growing demand for industrial applications, primarily general-purpose inverters and industrial robots. However, in discrete devices, despite brisk demand for flat-panel televisions, a substantial decline in demand for other consumer electronics products held sales in the power semiconductor field to roughly the same level as a year earlier. In contrast, effective cost-cutting measures lifted operating income in this field higher for the same period.

In IC products, Fuji Electric achieved sales growth centered largely on power supply ICs for digital cameras, high-voltage ICs for plasma displays, and new hybrid devices for automotive applications. However, the impact of weak demand for power supply ICs for game consoles and personal computers left sales essentially unchanged from the same period in the previous year. Operating income was lower due to an increase in capital expenditure related to bringing a new clean room for the mass production of 8" wafers on stream.

In magnetic disks, the full-scale launch of 80GB disks and a rebound in market conditions from the second quarter onward complemented robust sales of aluminum circuit boards to external customers, lifting sales significantly higher and reducing the operating loss by a wide margin.

Despite rising domestic sales of organic photoconductive drums (OPCs) for copiers and printers, as well as to China and other Asian markets, sales in photoconductive drums were down slightly from last year. The modest decline was primarily due to lower unit prices in the North American and European markets. Despite the drop in sales, this field posted a slight year-on-year rise in operating income.

As a result of the above, net sales in the Electronics Group rose 3.6% to ¥62.0 billion, while operating income rose 16.0% to ¥5,120 million.

<Retail Support Equipment & Systems Group>

In the mainstay vending machine field, Fuji Electric launched new products and took other steps to expand sales amid an emergent recovery in the industry. Intensifying market competition and falling unit prices, however, dragged sales lower year on year. In coin & currency mechanisms, although sales were

lower for coin mechanisms and bill validators for vending machines, as well as for currency handling systems for amusement equipment, large-scale orders for automatic change dispensers from supermarkets and growth in non-contact IC card equipment lifted sales higher than the previous year. Despite lower sales overall in vending machines, foodservice equipment, and coin & currency mechanisms, operating income in this field rose on the back of effective cost-cutting measures and lower expenses.

In the cold-chain business, in spite of higher sales of freezing and refrigerated showcases to supermarkets, declining sales to convenience stores led to only modest increases in top- and bottom-line performance in this field.

As a result of the above, net sales in the Retail Support Equipment & Systems Group fell 4.5% to ¥77.3 billion, while operating income increased 26.3% to ¥1,922 million.

<Others>

Net sales declined 7.4% to ¥31.5 billion, mainly due to the transfer of companies to different segments in the Fuji Electric Group. Operating income surged 48.7% to ¥974 million, the result of improved profitability in the logistics service business.

Non-consolidated results

Non-consolidated net sales declined 31.4% year on year to ¥131.9 billion. This was largely due to a substantial drop in sales following the demerger of the in-house Retail Support Equipment & Systems Company and its subsequent integration into Fuji Electric Retail Systems Co., Ltd. on April 1, 2003.

On the earnings side, the demerger of the Fuji Electric Retail Support Equipment & Systems Company, coupled with a worsening business environment for Energy & Electric Systems, led to a ¥2,570 million deterioration in the operating loss to ¥4,966 million. The Company posted an ordinary loss of ¥5,691 million, representing a deterioration of ¥2,211 million year on year, while the net loss for the period increased ¥357 million to ¥4,589 million.

Dividends

Despite a severely challenging business environment, Fuji Electric has decided to pay an interim dividend of ¥2.50 per share in due consideration of projected performance for the full year.

Financial Position

Positive free cash flow (free cash flow = net cash provided by operating activities + net cash provided by investing activities) was ¥29.3 billion on a consolidated basis, against a positive free cash flow of ¥10.3 billion in the same period in the previous year.

<Cash flows from operating activities>

Net cash provided by operating activities was ¥9.5 billion, as increases in trade receivables and advances from customers offset an interim loss before income taxes and minority interests of ¥12.0 billion.

<Cash flows from investing activities>

Net cash provided by investing activities was ¥19.7 billion. This was mainly attributed to proceeds from the sale of property, plant and equipment in line with an ongoing shift from facility ownership to leaseback agreements.

<Cash flows from financing activities>

Net cash used in financing activities was ¥35.0 billion, chiefly the result of a reduction in commercial paper.

As a result, cash and cash equivalents as of September 30, 2003 declined ¥5.8 billion from the previous year-end to ¥9.2 billion.

Consolidated Cash Flow Indicators

	As of Sept. 30, 2001	As of Sept. 30, 2002	As of Sept. 30, 2003	As of Mar. 31, 2003
Shareholders' equity ratio (%)	22.9	17.8	19.9	17.5
Shareholders' equity ratio (%) (fair market value)	21.7	21.4	20.2	15.8
Amortization (years)	18.8	20.3	42.4	11.4
Interest coverage ratio (%)	8.4	10.1	5.3	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.

4. Interim operating cash flow is used to calculate amortization for the interim period.

Outlook for the Fiscal Year Ending March 31, 2004

Although results in the first half of the fiscal year were slightly better than initial forecasts, the Company is factoring in yen exchange rate fluctuations in the second half of the year. Consequently, Fuji Electric does not intend to make any changes to its earlier full-year earnings forecasts announced on April 24, 2003.

The average yen/U.S. dollar exchange rate will be the most crucial factor impacting on results in the second half of the year. The Company had been projecting an average exchange rate of ¥118 to the U.S. dollar for the year ending March 31, 2003, however, Fuji Electric now expects the yen to strengthen to ¥110 against the U.S. dollar during the latter part of the year.

Due to the transition to a pure holding company system on October 1, 2003, the Company has decided not to present a non-consolidated earnings forecast.

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

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