

## **Consolidated Business Results for the Third Quarter of Fiscal 2004, Ending March 31, 2005**

### **Results of Operations**

The operating environment in the third quarter ended December 31, 2004 was generally positive for the Fuji Electric Group on the back of a moderate increase in private-sector capital investment in Japan. However, there were signs of a downturn in some industries, including the all-important manufacturers of digital consumer devices, which reduced output.

During the third quarter of fiscal 2004, consolidated net sales of the Group rose 1.9 % from a year earlier to ¥173,524 million. Three business groups, ED&C Drive Systems, Electronic Devices and Retail Systems, all reported year-on-year increases in sales. In ED&C Drive Systems, sales were strong in both ED&C components and control and drive systems. In Electronic Devices, higher sales of semiconductors and storage devices (magnetic disks) compensated for a decrease in image devices. In Retail Systems, large orders of cigarette vending machines and the issue of new design bills in November 2004 helped to significantly boost sales in vending machines and currency handling systems. In Energy & Electric Systems, however, sales fell below the level achieved a year earlier due to a decrease in large orders from the electric power systems business field. In the Others Group, there was drop in sales attributable to the conversion of Fuji Logistics Co., Ltd. to an equity-method affiliate.

On the profit front, Fuji Electric posted an operating loss of ¥4,594 million, ¥3,945 million less than a year earlier, an ordinary loss of ¥4,903 million, an improvement of ¥4,225 million, and a net loss of ¥2,512 million, ¥3,001 million less than a year earlier. These substantial improvements were attributable to higher sales, supported by initiatives at operating companies to pare back costs and reduce operating expenses.

Looking at operating profitability by business group, in Energy & Electric Systems, the operating loss overall narrowed as profitability in e-solutions improved substantially thanks to the benefits of realignment in the information systems business. However, profitability in electric power systems deteriorated due to an absence of large orders for power generation equipment. In ED&C Drive Systems, both ED&C components and control and drive systems boosted operating income on the back of higher sales, efforts to pare back costs and operating expenses, and profit-focused marketing activities. The Retail Systems Group reported a significant improvement overall. The vending machines, food service equipment and currency handling systems field returned to profitability due to the positive effect of reductions in costs and operating expenses, in addition to a substantial jump in sales as mentioned above. While in cold-chain equipment, operating profitability worsened due to intensified market competition. In Electronic Devices, operating income fell due to price declines and increases in fixed costs in the semiconductor field, higher costs involved in bringing glass substrate magnetic disk production on stream and the effect of the appreciating yen in storage devices, and price declines in the European market for imaging devices.

Turning to cumulative figures for the first nine months fiscal 2004, four business groups reported a year-on-year increase in sales, against weaker sales posted by the Others Group. On a consolidated basis, the

Company's net sales rose by 3.8 % year on year to ¥537,764 million. On the profit front, the company posted an operating loss of ¥10,568 million, ¥6,011 million less than a year earlier. This improvement was attributable to substantial increases in operating income in ED&C Drive Systems and Retail Systems and a narrowing of the operating loss in Energy & Electric Systems, despite declines in operating income in Electronic Devices and the Others Group. For the first nine months of fiscal 2004, the Company also reported an ordinary loss of ¥12,657 million, an improvement of ¥5,903 million, and a net loss of ¥7,723 million, ¥5,998 million less than a year earlier.

## **Segment Information**

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

The Energy & Electric Systems Group posted third-quarter net sales of ¥56,061 million, a decrease of 9.3 % year on year, while the operating loss improved by ¥1,090 million, to ¥7,941 million.

Looking at results by business field, although large-scale orders for radiation monitoring systems and other positive factors contributed to a sales increase in e-solutions, there was a decline in major orders for information systems, resulting in lower sales than the previous year. The operating loss in this field, on the other hand, markedly improved, supported by the introduction of project management systems and measures to pare back costs.

In environmental systems, despite a backdrop of sustained difficult market conditions typified by curbs on public-sector spending, sales and operating income were slightly higher than the previous year's level thanks to a number of major orders for advanced water supply purification systems for water purification plants.

In industrial and transportation systems, sales rose from a year earlier in an environment of rising private-sector capital investment. Sales were boosted by more orders from international customers for transformer rectifier units and electrical equipment used in cleanrooms. However, operating profitability was on a par with the previous year.

In electric power systems, sales were markedly down compared to a year earlier, while the operating loss widened considerably due to fewer large overseas orders for steam turbine power generation equipment, nuclear power plants and other related facilities.

In the group's plant facility construction business, sales were significantly higher year on year backed by an increase in small and medium-size orders. Operating profitability, however, was on a par with the previous year as competition intensified in the market.

During the first nine months of fiscal 2004, Energy & Electric Systems reported net sales of ¥189,942 million, an increase of 2.2 % year on year, supported by higher sales in the industrial and transportation systems and plant facility construction businesses. This increase came despite lower sales in e-solutions and

environmental systems, and a particularly large year-on-year drop in sales of electric power systems. The operating loss narrowed by ¥629 million year on year, to ¥24,377 million, due to a substantial improvement in operating profitability in e-solutions that outweighed wider operating losses in environmental systems, electric power systems, and plant facility construction business.

### ***ED&C Drive Systems Group***

The ED&C Drive Systems Group reported an increase in third-quarter net sales of 4.2 %, to ¥43,161 million, and operating income increased 23.6-fold, to ¥1,721 million, compared to ¥73 million reported in the previous year.

In electric distribution and control (ED&C) components, sales of mainstay products such as magnetic contactors and circuit breakers grew on the back of strong demand from the machine industry, particularly machine tool makers. The group also actively worked to develop its energy monitoring systems. Initiatives included the launch of new circuit breakers with voltage measurement displays and the combination of these circuit breakers with energy monitoring units and other products to create a new lineup. These steps helped to boost sales in this segment from a year earlier, and together with measures to reduce costs such as operating and back-office expenses, resulted in a significant improvement of operating profitability.

In control and drive systems, there was lower demand from makers of semiconductor and liquid crystal display (LCD) manufacturing equipment in Japan. While fiscal belt-tightening measures in China had an impact on investment by players in the market, domestic demand from major industries including automakers and machinery manufacturers remained strong. Against this backdrop, the group rolled out aggressive sales strategies targeting growing business fields in the private sector, and expanded local production of inverters in Wuxi, China. As a result, both sales and operating income in the control and drive systems field were up on the same period a year earlier.

In the first nine months of fiscal 2004, sales and profits grew in both ED&C components and control and drive systems: Sales rose by 10.4 % year-on-year, to ¥131,831 million, and operating profitability increased to ¥4,651 million from ¥10 million during the same period a year earlier.

### ***Electronic Devices***

Net sales in Electronic Devices rose 7.8 % year on year, to ¥36,303 million, and operating income declined by 58.7 %, to ¥1,034 million, compared to ¥2,503 million posted in the previous year.

Sales in the semiconductor field increased, although customers reduced inventories and orders for power modules, influencing production of chips for industrial applications. In automotive applications, sustained robust auto sales in Japan and overseas supported a rise in sales, centered on automotive MOSFET devices. In semiconductors for IT and power supply equipment, sales were weaker due to declining demand for ICs for plasma display panels (PDPs), MOSFETs, and other products for digital consumer devices, as customers reduced production. Overall, sales were up year on year, although operating income dropped due to falling

prices as market competition intensified and fixed costs rose, particularly capital costs and R&D spending.

In storage devices, total industry shipments of hard disks (HDD) rose by 15 % in the third quarter of fiscal 2004, compared to the same period in the previous year. Against the backdrop of this sustained robust market, the group ramped up output at its production facilities to full capacity, centered on the mainstay 3.5-inch aluminum substrate magnetic disk. This led to record HDD production and shipments on a quarterly basis. In addition, there was a steady increase in shipments of glass substrate disks, which the group began producing in September 2004. Consequently, sales in this field were substantially up on a year earlier. On the other hand, operating income declined slightly from a year ago due to the appreciating yen and an increase in start-up costs for the production of glass substrate disks.

In imaging devices, sales of organic photoconductive drums (OPCs), a mainstay product used in photocopiers and printers, grew in the Chinese market. This was attributable to higher demand for machines fitted with OPCs due to the launch of integrated products and the shift to color functionality. In Europe, however, intensified competition and continuing price declines led to a drop off in sales, making a significant impact on this field's business results. Consequently, sales were down on a year earlier, and operating profitability worsened, moving back into the red.

During the first nine months of fiscal 2004, sales rose by 11.7% year on year, to ¥106,992 million, supported by growth in semiconductors and storage devices, despite lower sales in imaging devices compared to the same period a year earlier. However, operating income decreased by 18.5% year on year, to ¥6,211 million, compared to ¥7,624 million posted in the previous year, as improvements in storage devices could not offset a deterioration in the profitability of semiconductors and imaging devices.

### ***Retail Systems***

Retail Systems reported an increase in third-quarter sales of 24.0%, to ¥41,154 million, while operating income improved by ¥2,293 million, to ¥717 million.

In the vending machines, food service equipment and currency handling systems field, sales were markedly up. This was due to stronger demand for updated and redesigned vending machines to coincide with the launch of newly designed bills in November 2004, as well as large-scale orders for cigarette vending machines. In currency handling systems, there was also rising demand for bill validators compatible with the new bills as well as coin and bill handling systems used in amusement equipment. In response to this increased demand, the group made a concerted effort to ramp up production capacity and secure materials. This helped to lift total sales in the vending machines, food service equipment and currency handling systems field above the previous year's level. Supported by higher sales, together with reductions in costs and operating expenses, operating income significantly improved, returning this field to profitability at a time in the year when profits are usually hit by seasonal factors.

In cold-chain equipment, although sales of Ecolo Unit, a new unitized store system, and after-services grew,

sales of freezers and chilled showcases were down, due to curbs on investment by supermarket operators and a falloff in demand from convenience stores for refurbishments. This led to an overall decline in cold-chain equipment sales compared to a year earlier. Operating income in this segment deteriorated, due to an increase in operating expenses related to strategies for expanding sales in the future.

In the first nine months of fiscal 2004, business performance in the vending machines, food service equipment and currency handling systems field remained robust. Consequently, sales in this field increased by 11.5% year on year, to ¥123,221 million, and operating income improved markedly, increasing 10.3-fold, to ¥3,572 million, compared to ¥346 million posted for the same period a year ago.

### ***Others***

Sales in this segment fell substantially, declining 41.4% year on year, to ¥8,846 million, as Fuji Logistics became an equity-method affiliate at the end of the previous fiscal year. The segment posted an operating loss of ¥68 million, an improvement of ¥173 million.

In the first nine months of fiscal 2004, sales dropped by 38.8% year on year, to ¥28,563 million, and operating income declined 19.2%, to ¥702 million, compared to ¥869 million reported a year ago.

### **Financial Position**

As of December 31, 2004, the total assets of the Fuji Electric Group stood at ¥891,830 million, ¥40,818 million higher than at September 30, 2004.

In assets, although trade receivables decreased, inventories increased by ¥24,978 million, chiefly in preparation for higher sales of plant related products at the end of March 2005, resulting in a rise in current assets of ¥28,679 million. Investments and other assets rose by ¥14,693 million, mainly due to higher unrealized gains on other securities, helping to increase total long-term assets by ¥12,178 million.

On the other side of the balance sheet, total liabilities rose by ¥36,335 million due to increases in advances from customers, debt and the impact of higher unrealized gains on other securities. As a result, total liabilities rose by ¥36,335 million.

In shareholders' equity, although retained earnings decreased by ¥4,310 million, unrealized gain on other securities, net of taxes, increased by ¥9,580 million. Total shareholders' equity, consequently, rose by ¥4,683 million, to ¥181,582 million as of December 31, 2004. However, due to the increase in total assets, the shareholders' equity ratio decreased 0.4 of a percentage point to 20.4%, compared to September 30, 2004.

In the quarter under review, the Company generated positive free cash flow of ¥2,554 million, against negative free cash flow of ¥4,004 million a year earlier.

## Full-Year Consolidated Forecasts for Fiscal 2004, Ending March 31, 2005

In Electronic Devices, sales in semiconductors are expected to deteriorate due to production cutbacks in digital consumer devices and other related products, as well as due to reduced demand for chips used in industrial applications as customers run down inventories. Sales in this group are therefore anticipated to fall short of the earlier forecast announced on October 28, 2004. In Energy and Electric Systems, sales in e-solution and environmental systems are expected to decrease, while sales are also forecasted to drop in ED&C • Drive Systems, affected by slow sales of semiconductors and LCD manufacturing equipment, as well as China's tighter fiscal policies. Consequently, the Company now expects sales in both groups to fall short of earlier forecasts. In Retail systems however, sales are expected to exceed the previous projection, as sales performances of vending machines and currency handling systems remain robust. This strength will be supported by large-scale orders for cigarette vending machines and front-loaded demand for new bill validators and other machine upgrades related to the issue of new bills. As a result of the above, the Company is now projecting consolidated net sales ¥5.0 billion lower than previous forecasts.

On the profit front, ED&C • Drive Systems and Electronic Devices are both expected to post full-year operating income below forecasts announced in October 2004, due to lower sales. However, Retail Systems is projecting operating income ahead of previous forecasts on the back of higher sales. The Company's consolidated operating income forecast remains unchanged.

These forecasts assume an exchange rate in the fourth quarter of the 2004 fiscal year of ¥102 to the U.S. dollar. (previously, ¥105/US\$)

### Fiscal 2004 Forecasts

	FY2004 Forecasts			(¥ billions)
	Initial	Revised	Change	FY2003 Actual
Net Sales	845.0	840.0	-5.0	856.1
Operating Income	25.5	25.5	0	17.4
Ordinary Income	20.5	20.5	0	13.9
Net Income	8.0	8.0	0	5.5

### Consolidated Net Sales by Segment

	FY2004 Forecasts			(¥ billions)
	Initial	Revised	Actual	FY2003 Actual
Energy & Electric Systems	380.0	378.0	-2.0	403.1
ED&C • Drive Systems	178.0	176.0	-2.0	168.0
Electronic Devices	146.0	142.0	-4.0	129.6
Retail Systems	158.0	165.0	+ 7.0	150.7
Others	45.0	45.0	0.0	75.7
Eliminations	-62.0	-66.0	-4.0	-71.1
Total	845.0	840.0	-0.5	856.1

**Consolidated Operating Income by Segment**

(¥ billions)

	FY2004 Forecasts			FY2003
	Initial	Revised	Actual	Actual
Energy & Electric Systems	3.5	3.5	0.0	0.5
ED&C • Drive Systems	7.7	7.0	-0.7	2.3
Electronic Devices	11.6	9.0	-2.6	9.7
Retail Systems	3.3	6.0	+ 2.7	2.0
Others	1.5	1.5	0.0	2.3
Eliminations/Corporate	-2.1	-1.5	+ 0.6	0.3
Total	25.5	25.5	0.0	17.4

Note) The above forecasts may differ materially from actual results due to sudden changes in the supply and demand balance in the markets the group serves, changes in the exchange rate between the yen and other currencies, particularly the U.S. dollar, and fluctuations in Japanese stock markets.