Operating Environment

During the fiscal year ended March 31, 1996, the moderate recovery of the Japanese economy slowed considerably in the first half of the term due to the rapid appreciation of the yen; capital investment in the private sector remained sluggish and a pessimistic outlook grew stronger. However, in the second half, the economy began to show signs of modest growth due to the correction of the yen and recovery in the equity markets. In the electronic equipment industry, a generally severe operating environment persisted despite brisk sales of semiconductors.

Results

In this environment, Fuji Electric Co., Ltd. and its consolidated subsidiaries (the Group) continued comprehensive streamlining measures while expanding their production network and operations overseas in line with ongoing globalization. At the same time, the Group accelerated the research and development of new technologies and new products that meet the needs of the market. As a result of our efforts to maintain sales and profits, despite the effects of sluggish demand and intensified price competition, consolidated net sales increased 4.0% to ¥890,413 million. Profitability improved sharply, reflecting Group-wide efforts to improve the earnings structure and our "total cost-control" initiative. Consolidated ordinary income rose 26.6% to ¥16,409 million and net income surged 53.7% to ¥5,870 million.

Performance by Product Group (Consolidated Basis)

Sales of the Electrical Equipment group increased on the strength of orders for large-scale power stations for geothermal electric power generation, especially in Southeast Asian markets. In the electrical equipment and machinery area, we received large-scale overseas orders for electrical machinery used in power transmission and distribution facilities and for aluminum electrolysis rectifiers. In domestic business, we received large-scale orders for power transmission and distribution equipment for railways. In the electric distribution & control (ED&C) and drive systems area, we recorded strong export sales of inverters to the European, North American and Asian markets. Motors for machine tools and fans and pumps also showed stable growth. Further, there was growing demand for control systems and power and distribution related systems due to the recovery of

demand for power and distribution equipment, in addition to sustained strong demand from machinery-related industries. As a result of these factors, this product group's sales rose 5.6% to ¥349,418 million and operating income advanced 100.9% to ¥5,474 million.

The Control/Information Systems and Electronic Devices group, in the plant control systems area, received orders for equipment for water supply and sewage treatment facilities and social infrastructure systems, such as advanced water treatment systems using ozone generators and ceiling mounted electrostatic precipitators for use in tunnel ventilation systems. In addition, we delivered a cogeneration system to a hospital. We strived to maintain small- and medium-scale orders for power systems and instrumentation systems. In the information equipment area, magnetic disks experienced strong growth against the background of brisk demand for hard disk drives due to the rapid growth of the personal computer market. In the electronic devices area, power devices and discrete devices recorded firm demand from Southeast Asia and the domestic machine tool industry, although market conditions weakened in the second half of the term, and full-term results were flat. Overall sales for this product group edged down 2.1% to ¥244,995 million; operating income increased 13.4% to ¥5,395 million.

Yoshihiko Nakazato
President and Representative Director

In the Consumer-related and Other Products group, efforts included the development of energy-efficient models of the group's mainline product, vending machines. However, sales were flat due

to accelerated price competition. Sales of freezing and refrigerated showcases increased significantly due to an increase in capital investment in the supermarket and convenience store industry and to the launch of new models. Also, sales of card systems increased sharply, centered on gate systems for leisure facilities and research institutes. As a result, this product group's sales rose 7.5% to ¥295,999 million, but operating income declined slightly, by 0.8%, to ¥10,647 million.

Capital Investment and R&D

Nonconsolidated capital investment (including capital leases) doubled from the previous fiscal year's level to ¥42,200 million, and was focused on rationalization and energy-saving investments tied to expanding production capacity for strategic products and strengthening our operations. Major projects included the beginning of construction of a new manufacturing facility at our Yamanashi Factory aimed at increasing production for next-generation magnetic disks. At the Matsumoto Factory, we expanded our production capacities for magnetic disks, high-voltage silicon diodes and power devices.

Overseas, we continued to expand our production and procurement bases. We have established several new production facilities: Fuji Electric France S.A. has begun production of measuring instruments; we intend to begin fabrication of discrete semiconductors at Fuji Electric Philippines, Inc. in the middle of the current fiscal year; and production of magnetic disks should begin at Fuji Electric (Malaysia) Sdn. Bhd. in October 1997.

In research and development, Fuji Electric strove to launch a large number of new products, developed with innovative technology as well as to expand basic and core technologies.

Regarding international certification of our environmental management systems, we have already received BS 7750 certification for our Suzuka Factory. We plan to obtain ISO 14001 certification for the Suzuka Factory in September 1996 and for our remaining nine factories in Japan by 1998.

Outlook

Although we expect the domestic economy to recover gradually, the outlook for our operating environment remains unclear, due to such factors as a slowdown in European and North American

markets and the uncertain direction of the foreign exchange markets. Brisk competition is causing prices to decline. Moreover, structural problems in the economy, such as instability in the domestic financial system due to nonperforming loans and a difficult labor market, remain unresolved.

With a focus on improving profitability, the Fuji Electric Group will accelerate measures to restructure its organization. Our two-tiered approach of expanding sales and operating income and reducing total costs will focus on the following policies:

To Expand Sales and Operating Income:

■ Focus management resources on areas with high growth potential and work to quickly realize results

■ Enter new markets through proposal-based marketing and increase market share through careful analysis and a keen understanding of customer needs.

To Reduce Total Costs:

■ Reduce variable costs in response to intensifying price competition with the backdrop of rapid technological change and low economic growth

■ Reduce fixed costs by enhancing our information systems to streamline administrative activities and cut administrative expenses.

In addition to the above measures, we are concentrating the comprehensive strengths of the Fuji Electric Group to expand overseas procurement, production and sales, and to enhance performance and bolster our business foundation to further strengthen our international competitiveness.

We thank our shareholders for their continued support and ask for their understanding and encouragement in the future.

Yoshihiko Nakazato,

President and Representative Director