

# A Message From the President

During fiscal 2003, ended March 31, 2004, there were signs of recovery in the Japanese economy as exports grew on the back of economic expansion overseas, particularly in the U.S. and China, and capital investment increased centered on the private sector. However, the recovery was patchy and limited to the IT and digital consumer electronics fields, while public-sector capital investment and investment by electric utilities remained weak.

Against this backdrop, we moved to a pure holding company system on October 1, 2003, demerging all our operating divisions and changing the company name to Fuji Electric Holdings Co., Ltd. Underpinned by this new management system, we have put in place an operating base designed to create a business group comprising the industry's strongest specialists. This new system will enable us to achieve sustainable growth even in a challenging operating environment, and reinforce our earnings capabilities.

In the year under review, we posted a 35.2% increase in operating income to ¥17.4 billion (U.S.\$166 million) and a 55.0% rise in ordinary income to ¥13.9 billion (U.S.\$132 million), on net sales of ¥856.1 billion (U.S.\$8,154 million), 2.9% higher than fiscal 2002. Together with an increase in net income of 41.1% to ¥5.5 billion (U.S.\$52 million), we achieved year on year improvements in all these key indicators in fiscal 2003.

One key development during the year was the formation of an operational and capital alliance with Fuji Logistics Co., Ltd. and TOYOTA INDUSTRIES CORPORATION in the logistics solutions business in March 2004. This involved the sale of part of our holding in Fuji Logistics to TOYOTA INDUSTRIES, totaling 6,491 thousand shares and representing 26.8% of voting rights.

The Japanese economy is forecast to post a gentle recovery in fiscal 2004, ending March 31, 2005. However, we cannot afford to be too optimistic as there are still many areas for concern, including curbs on public-sector capital investment and exchange rate fluctuations. In this environment, in order to reach our goal of enhancing Fuji Electric's profitability and growth potential through the creation of a business grouping comprising the industry's strongest specialists, we will focus on three areas: further accelerate the pace of internal management reform, reshape the earnings structure, and enhance the Group's financial position.

Under the holding company system, the common aim of Fuji Electric Holdings and its operating companies is to maximize the corporate value of the Fuji Electric Group. To achieve this goal, Fuji Electric Holdings will act as the "group investor," working to optimize Group performance by focusing on business growth potential and earnings capabilities. Meanwhile, each operating company will carry out agile and flexible operations, carefully selecting and channeling investment into areas that play to the specific characteristics of their business. Based on this approach, in fiscal 2004 we are targeting operating income of ¥21 billion and net income of ¥8 billion, on net sales of ¥840 billion.

Guided by our medium-term management plan announced in August 2003, we will strive to meet the expectations of all our shareholders and other investors, aiming to be a company that has a vital role to play by making a meaningful contribution to our customers' businesses and society.

In closing, I must report that an explosion occurred at a refuse-derived fuel (RDF) incineration and power generation facility in Mie Prefecture in August 2003. The facility was constructed by the Fuji Electric Group and operated and maintained under contract to the owner, the Mie Prefecture Public Utilities Agency. This extremely regrettable incident resulted in two fatalities and a number of injured personnel. Since the accident, we have worked closely with the owner and all other related parties to formulate a range of new safety measures, including steps to prevent any reoccurrence. After completing repairs and receiving verification from the owner, we handed back the facility to the Mie Prefecture Public Utilities Agency in March 2004. Taking our social responsibility as a company seriously, we took voluntary internal action in April 1, 2004 related to the incident.

I would like to express our deepest regret for the loss of the two firefighters who died fighting the fire at the facility, and extend our condolences and apologies to their families, those who were injured, members of the local community and other parties affected by the accident. Going forward, we will do our utmost to ensure an incident of this nature never occurs again, based on a thorough reappraisal of safety management at the facility and a strengthening of our groupwide risk management framework.

We look forward to your continued support in the year ahead.

*Kunihiko Sawa*

Kunihiko Sawa  
President and Representative Director

