

A Message from the President

At a meeting of the Board of Directors following the general meeting of shareholders on June 26, 1998, I was appointed president of Fuji Electric Co., Ltd. As the new president, I intend to continue implementing management reform. Further, I will promote the following goals. One is developing strong marketing abilities to meet potential customer needs with quality technological capabilities that respond to market requirements. The second goal is receiving positive recognition from our customers and society, and being a company in which our shareholders and employees can be proud.

OPERATING ENVIRONMENT

In the fiscal year ended March 31, 1998, economic conditions in Japan took on an increasingly recessionary tone. Despite export growth supported by the weak yen and robust economic conditions in the United States, sluggish consumer spending and concerns over the financial system adversely affected the Japanese economy. Moreover, production and employment adjustments became increasingly evident in Japan as a result of a slump in domestic demand. In the electronic equipment industry, the operating environment remained harsh owing to several factors. Previously strong demand for information and telecommunications equipment declined, especially for individual use, and profitability deteriorated owing to a sharp fall in semiconductor prices and sales. As a result, companies were forced to cut back production and reorganize their domestic and overseas manufacturing bases.

RESULTS

Amid such challenging conditions, Fuji Electric and its Group companies initiated further cost reduction measures and accelerated new product development. In addition, we strove to make more effective use of management resources, to expand orders and sales, and to enhance earning power.

As a result, consolidated net sales rose 4.0% from the previous term to ¥982,763 million. Consolidated ordinary income, however, fell 12.9% to ¥18,707 million, and consolidated net income slipped 8.6% to ¥7,487 million. Accordingly, return on equity decreased from 4.6% in the previous term to 4.2%.

PERFORMANCE BY PRODUCT GROUP (CONSOLIDATED BASIS)

In the Electrical Equipment group, we received orders in the energy area for both domestic and overseas projects, including a geothermal power plant and pumped-storage hydro power equipment. However, owing to the impact of restrained capital investment Japan's electric power sector, orders in the energy area were below the previous term. Sales in this area included such notable projects as the completion of the High Temperature Engineering Test Reactor (HTTR) in Japan and the delivery of hydro power generation equipment to customers in Pakistan and China. In the electrical equipment and machinery area, orders declined owing to weak private-sector capital investment and a drop in exports amid the currency turmoil in Asia in the second half of the term. Sales also declined due in part to a decrease in large-scale overseas projects. In the electric distribution & control (ED&C) and drive systems area, the effects of the economic slowdown became increasingly apparent in the second half of the term, adversely affecting demand, especially for control and electric distribution systems and inverters. On the other hand, Fuji Electric stepped up marketing



Kunihiko Sawa, President and Representative Director

activities, and the weak yen supported strong overseas sales, led by inverters. Overall, consolidated net sales for this product group climbed 4.9% to ¥369,015 million, but operating income fell 56.1% to ¥2,243 million.

In the Control/Information Systems and Electronic Devices group, favorable performance was supported in the plant control systems area by several large-scale orders for water treatment equipment and systems, including advanced water purification plants and monitoring and control equipment, despite curbs on public-sector investment. Orders for social infrastructure systems remained in line with the previous term because of a decline in orders for road-related works. Despite robust orders for garbage treatment facilities, the measuring control systems area was stagnant, and orders for power systems declined from the previous term. In contrast, sales in the social infrastructure systems area continued at the previous year's level, supported by the delivery of electrostatic precipitator equipment for road tunnels and remote road-monitoring equipment. In the information equipment area, we expanded and strengthened production lines for magnetic disks to meet market requirements for higher density and capacity, and introduced next-generation products. As a result, sales increased despite sluggish market conditions in the second half of the term. Sales of photoconductive drums grew firmly, supported by higher exports of organic photoconductive drums arising from the introduction of new products. In the electronic devices area, sales of power modules surged owing to increases in insulated gate bipolar transistor (IGBT) modules. Sales of discrete devices, however, remained flat because of deteriorating market conditions for personal computers (PCs) and peripheral equipment. In addition, integrated circuit (IC) product sales grew only slightly due to lackluster demand in the second half of the term. Consequently, consolidated net sales for the product group grew 4.7% to ¥302,643 million, and operating income rose 8.0% to ¥11,694 million.

In the Consumer-Related and Other Products group, sales of mainline vending machines increased in volume due to firm replacement demand for beverage machines and sales promotions of cigarette machines to new customers, but advanced only slightly on a value basis owing to continued price declines. In beverage dispensers, models for mineral

water registered higher sales. Further, in lift gate systems for ski resorts, our new series of lift gate systems employing spread spectrum wireless data transmission recorded favorable performance. However, sales of freezing and refrigerated showcases declined due to a drop in capital investment in the supermarket industry, while coin mechanisms and bill validators also registered a drop in sales. As a result, the group's consolidated net sales increased 2.2% to ¥311,105 million, although operating income declined 2.6% to ¥9,424 million.

CAPITAL INVESTMENT AND R&D

The Company focused its capital investment on expanding production capacity in the fields of electronic devices and information equipment and on R&D facilities. On a consolidated basis, capital investment, including leases, totaled ¥54,446 million. Specifically, for magnetic disks, investment centered on constructing a development facility for next-generation technologies and a new production facility at the Matsumoto Factory. We also expanded production capacity at the Yamanashi Factory. In power devices, we reinforced production capabilities at the Matsumoto Factory. In addition, we made substantial investments in dies to enhance new product development and cost efficiency.

Overseas, we continued to expand our network of production, sales and procurement bases, and placed particular emphasis on augmenting our manufacturing and marketing bases in China, where market growth is projected. In April 1997, we established two joint venture companies: Shanghai Fuji Electric Switchgear Co., Ltd., as a base for vacuum circuit breakers and distribution panels; and Shanghai Fuji Electric Transformer Co., Ltd., as a base for molded transformers. In August, we set up another joint venture company, Shanghai General Fuji Refrigeration Equipment Co., Ltd., as a base for industrial-use freezing and refrigerated showcases. Additionally, we completed the construction of magnetic disk manufacturing facilities at Fuji Electric (Malaysia) Sdn. Bhd., which began full-scale operation after the close of the fiscal year.

In our R&D activities, we further accelerated technological innovation, worked to expand our basic and fundamental technologies and brought new products to market while emphasizing the satisfaction of customer needs.

We received International Organization for Standardization (ISO) 14001 certification for six domestic factories during the term. By June 1998, all of our domestic factories had obtained this certification for environmental management systems. We will continue efforts to acquire certification for our related domestic manufacturing facilities, Group companies and overseas factories.

OUTLOOK

Despite the expected benefits of the government's large economic stimulus package in the near future, domestic demand will continue to be dampened by stagnant private-sector capital investment and increasing weak consumer spending owing to economic uncertainty. At the same time, the adverse impact of economic turmoil in Asia will limit export growth. Consequently, we expect the economic climate in Japan to remain harsh, as market conditions worsen daily.

To prepare for the coming millenium and to prosper as a corporation held in high esteem by society, the Fuji Electric Group will accelerate measures to transform its business structure by selecting promising businesses and concentrating resources accordingly. To achieve our management priorities of expanding orders and reducing total costs, we will pursue the following policies:

TO EXPAND ORDERS:

- Concentrate resources on businesses in which the Company excels, with consideration to earnings and growth potential, and bolster competitiveness in markets based on product groups in which the Company holds a leading share; and establish a corporate group that provides distinctive products and services.
- Enhance the Group's comprehensive strengths by reinforcing independent profitability and strategic Group management, and expand business based on clearly defined core competencies in each area of operation.

TO REDUCE TOTAL COSTS:

- Enhance management productivity in every aspect of Group operations by reducing product costs and further improving administrative productivity through innovation in work processes.
- Develop a Group organization where global standards automatically serve as value criteria; further bolster the globalization of our business expansion in marketing, production and product development; and strive to internationalize our managerial and human resources.

Using these policies as a foundation and viewing the advancement of globalization and deregulation as business opportunities, the Fuji Electric Group will build up an aggressive marketing system, endeavor to establish a solid management base and further enhance corporate performance.

The fiscal year under review marked the final term of my predecessor, Mr. Yoshihiko Nakazato, who served with distinction as president for six years following his appointment in 1992. Although he has resigned from the position of president and representative director, he will continue to support the Company as a corporate adviser.

We thank our shareholders for their continuous support and look forward to their further backing in years ahead.



Kunihiko Sawa
President and Representative Director