KUNIHIKO SAWA
President and Chief Executive Officer

RESULTS

In the fiscal year ended March 31, 1999, Fuji Electric, on a consolidated basis, recorded net sales of ¥852,060 million, which was 13.3% below the previous term, an ordinary loss of ¥6,044 million and a net loss of ¥17,388 million.

During the fiscal year under review, the Japanese economy was characterized by a downturn in private-sector capital investment and consumer spending, and a worsening export environment as a result of economic turmoil in Asia and other factors. Consequently, an operating environment of unprecedented severity continued. In response, Fuji Electric and its Group companies accelerated new product development, carried out thorough cost-reduction measures and made further efforts in slashing both fixed and variable costs. Further, we took resolute action to reform our business structure, improving our ability to respond effectively to rapid change in the operating environment. Nevertheless, due to the unexpected deterioration in private-sector capital investment and consumer spending, a delay in expected benefits from public investment and sluggish overseas markets, including Asia, we regret to report large sales declines and losses for the term.

PERFORMANCE BY PRODUCT GROUP (CONSOLIDATED BASIS)

In the Electrical Equipment group, net sales declined by 22.3% against the previous term to ¥286,890 million, with an operating loss of ¥12,455 million. In sales to the electric power industry, amid few large-scale projects, we delivered thermal power generation equipment to a customer in India and the first geothermal power plant to Japan's outlying islands. However, sales declined sharply compared with the previous term as a result of restrained capital investment at electric power companies in Japan. In the industrial systems area, we completed large-scale electrical engineering and air-conditioning projects for buildings related to urban redevelopment. Sales in this area, however, declined as a result of weak capital investment in the private sector. The electric distribution & control (ED&C) and drive systems area also recorded much lower sales against the previous term amid further intensification of price competition and the downturn in demand in domestic and Asian markets, despite the release of such new products as programmable logic controllers (PLCs), inverters and servo systems, and strong efforts to expand sales.

In the Control/Information Systems and Electronic Devices group, net sales declined by 11.8% compared with the previous term to ¥266,865 million, with an operating loss of ¥982 million. In the plant control systems area, we recorded favorable performance in equipment and systems for water and sewage treatment plants, although declining demand in the private sector led to overall declines in the area. The information equipment area recorded substantially lower sales, owing primarily to a sharp fall in the market price of mainline magnetic disks and inventory adjustments in hard disk drives (HDDs), as well as weak demand and lower export prices of photoconductive drums. In the electronic devices area, sales of power modules were weak as a result of depressed demand for machine tools and inverters. Discrete devices also recorded declines against the previous term, owing to worsening market conditions for personal computers (PCs) and audio-visual equipment. In integrated circuits (ICs), however, we recorded favorable performance in products for autofocus cameras and plasma displays, maintaining sales at the previous term's level.

In the Consumer-Related and Other Products group, net sales declined by 4.1% against the previous term to ¥298,304 million, with operating income of ¥9,310 million. Although mainline vending machines increased in volume, sales declined slightly as a result of lower market prices. Sales of freezing and refrigerated showcases were also lower amid restrained overall investment in the retail sector. On the other hand, beverage dispensers recorded solid sales growth. Sales of coin mechanisms and bill validators were also favorable owing to increased demand for cigarette vending machines, and sales of currency systems grew as a result of beginning overseas shipments of units for ATMs.

CAPITAL INVESTMENT AND R&D

On a consolidated basis, capital investment, including leases, totaled ¥48,319 million, or 5.7% of net sales. Major projects included the construction of manufacturing processes for high-density magnetic disks, and the expansion of precision processing capacity for power devices. We also made aggressive rationalization and labor-saving investments at manufacturing facilities. Measures included the beginning of construction on a new factory building for the integrated production of large-scale thermal power generating equipment.

Overseas, we continued to expand our network of production and sales bases during the fiscal year, especially for ED&C and drive systems. As forward-looking strategic investments, in China we established Fuji GE Drives (Wuxi) Co., Ltd. in June 1998, a joint venture to manufacture general-purpose inverters with General Electric Company (GE) of the United States and local partner Shanghai Guangdian Electrical Group, and in Europe we strengthened our marketing bases.

In R&D activities, we carried out the development of innovative new products, next-generation products and basic technologies in line with our operating strategies. In addition to technological innovation related to electric

power and industrial equipment, R&D efforts are focused on the following areas: data communications technologies—the foundation for the solution business and retail equipment and systems, areas we expect to become new pillars of our operations; energy saving-related technologies to reduce environmental impact; and information equipment components and electronic devices, including magnetic disks, a category marked by dramatic technological progress. Further, we remain committed to such promising new energy sources as fuel cells and photovoltaic cells.

As part of our environmental efforts, we received ISO 14001 certification for our environmental management system (EMS) at two domestic factories during the term. We have now received ISO 14001 for all 10 of our domestic factories.

OUTLOOK

We expect a domestic economic upturn to be supported by the widening effects of the large-scale government stimulus package, monetary easing and the infusion of public funds into the financial sector. However, a self-sustaining rebound will take further time owing to numerous negative factors. Private-sector capital investment continues to be restrained by excess capacity; consumer spending remains stagnant amid growing employment insecurity; and market conditions overseas are still adversely affected by a trend toward a strengthening yen in the currency markets and economic weakness in Asia. Consequently, challenging business conditions are likely to continue.

To build a solid position as an attractive corporation able to meet the expectations of the 21st century, the Fuji Electric Group will further accelerate the reform of its business structure, including measures aimed at eliminating unprofitable product categories, while streamlining our organization with the aim of creating an appropriate management balance. Moreover, as part of our reform of management systems and organizational structure, we will create rapid decision-making capabilities able to respond to market change. These efforts are led by our new Internal Company and Executive Officer Systems.

BUSINESS RESTRUCTURING

In October 1998, Fuji Electric established the Business Restructuring Office, which is now working effectively to promote an early profit recovery and create a sound operating base for the future at the parent and Group companies. To bolster our earnings structure, we have identified the following five strategies as urgent, high-priority issues, and focused measures are underway for their speedy realization.

STRATEGY 1—STREAMLINING

We will streamline operations in line with the expected scale of business in the immediate future. Workforce reductions are targeted at 10% (3,200 employees) Group-wide by the fiscal year ending March 31, 2000, and efforts are underway to achieve appropriate reductions in labor expenses, including benefits and related costs.

STRATEGY 2—INNOVATE PLANT-RELATED BUSINESSES

In our plant-related businesses, we are accelerating the shift of focus away from our traditional plant businesses of electrical equipment and instrumentation toward the solution business, which begins with information control based on information technology (IT). We will enhance marketing strength tailored to the new demand structure by transferring human resources from private-sector areas to those targeting the public sector.

STRATEGY 3—RESPOND TO CHANGES IN THE MARKET ENVIRONMENT

For business areas experiencing rapid changes in their operating environments, we are promoting response measures carefully designed for each area. On July 1, 1999, we spun off industrial-use motors and photoconductive drums to separate companies. Industrial-use motors face an extremely challenging operating environment due to a contracting market caused by stagnant capital investment and intensifying competition. To respond, we consolidated two bases for development and manufacturing into a single base, strengthening development and rationalizing production while clarifying responsibilities and creating a more flexible organization. For photoconductive drums, we are creating compact operations consistent with business prospects.

STRATEGY 4—RAISE GROUP MANAGEMENT EFFICIENCY

To raise Group management efficiency, we will restructure or liquidate subsidiaries with the aim of enhancing Group-wide operating efficiency and boosting capital efficiency.

STRATEGY 5—STRENGTHENING FINANCIAL STRUCTURE

Fuji Electric aims to slash interest-bearing debt ¥40 billion by March 31, 2000 from March 31, 1999 levels, mainly through substantial cuts in inventories, and build a management structure emphasizing free cash flow generation.

MANAGEMENT SYSTEM RESTRUCTURING

Fuji Electric early on introduced a division and divisional headquarter system aimed at transferring management authority to each division and clarifying responsibilities and earnings management. However, differences in the business speed and operational style demanded by the distinct markets of each operational area has become increasingly pronounced in recent years. On April 1, 1999, recognizing that our divisional headquarter system was no longer able to keep up with the rapid change of today, we decided to introduce our Internal Company System, and on June 29, an Executive Officer system.

In the Internal Company System, operations are carried out by four highly autonomous internal companies: Energy & Electric Systems, ED&C • Drive Systems, Electronics, and Retail Support Equipment & Systems. This structure reflects differences in markets, customers, required technologies, business cultures, and appropriate competitors to serve as benchmarks for each business group.

While efficiently implementing the Internal Company System, we have strengthened corporate governance through the introduction of the Executive Officer System. Concretely, we have optimized the number of members on the Board of Directors responsible for corporate decision-making and management of the entire Company. Deliberations are now able to give greater consideration to medium- and long-term corporate strategy and important Company-wide issues.

Executive Officers concentrate on executing their divisional operations and duties based on policies determined by the Board and authority delegated by the President.

Through these steps aimed at reforming the earnings structure, the Fuji Electric Group will bolster its overall strength with the aim of achieving an early earnings recovery and building a sound management base for the future.

Regarding the Year 2000 problem, we recognize the importance of this issue to our operations and have established an executive committee to deal with it. We are making strong efforts to ensure readiness and to prevent Year 2000 related problems in our products and in-house manufacturing and information systems from disrupting operations.

We thank our shareholders for their support and ask for their continued cooperation as we position Fuji Electric for sound and profitable business expansion.

Kunihiko Sawa

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