

# Feature: Transition to a Pure Holding Company Structure

## Background and Objectives

In April 1999, Fuji Electric introduced an executive officer system and in-house company system comprising four companies: Energy & Electric Systems, ED&C•Drive Systems, Electronics and Retail Support Equipment & Systems. These moves gave each diverse business segment more freedom of movement to tailor their operational activities to the specific conditions of their markets, thereby helping to speed up and improve the efficiency of the entire Group's operations. However, in a climate of increasing globalization and growing deflationary pressure, conditions in our operating environment have become even more challenging than we anticipated.

Consequently, in order to achieve sustainable growth and rebuild earnings capabilities, we realized that Fuji Electric had to become a business grouping comprising the "industry's strongest specialists," by leveraging strengths in core businesses where we enjoy competitive advantages. The transition to a pure holding company system, to be carried out through corporate demerger on October 1, 2003, was seen as the best means to marshal management resources and realize this goal. The primary objectives of the transition are as follows:

### (1) Realization of autonomous management

As the present in-house companies will be incorporated as independent entities, they will develop autonomous management systems. Each operating company will position itself in close proximity to its customers, so as to better assess customer needs and maximize customer satisfaction by providing the highest caliber of products and services. This will allow the introduction of fast, flexible business management systems tailored to the characteristics of each operating environment and capable of rapidly responding to change.

### (2) Optimization of business portfolio

The transition to a pure holding company structure provides the perfect opportunity for maximizing the Group's corporate value and enhancing capital utilization efficiency. A thorough evaluation of each operating company's business results will speed up business selection and focus and result in a well-balanced business portfolio with greater potential for growth and profitability.

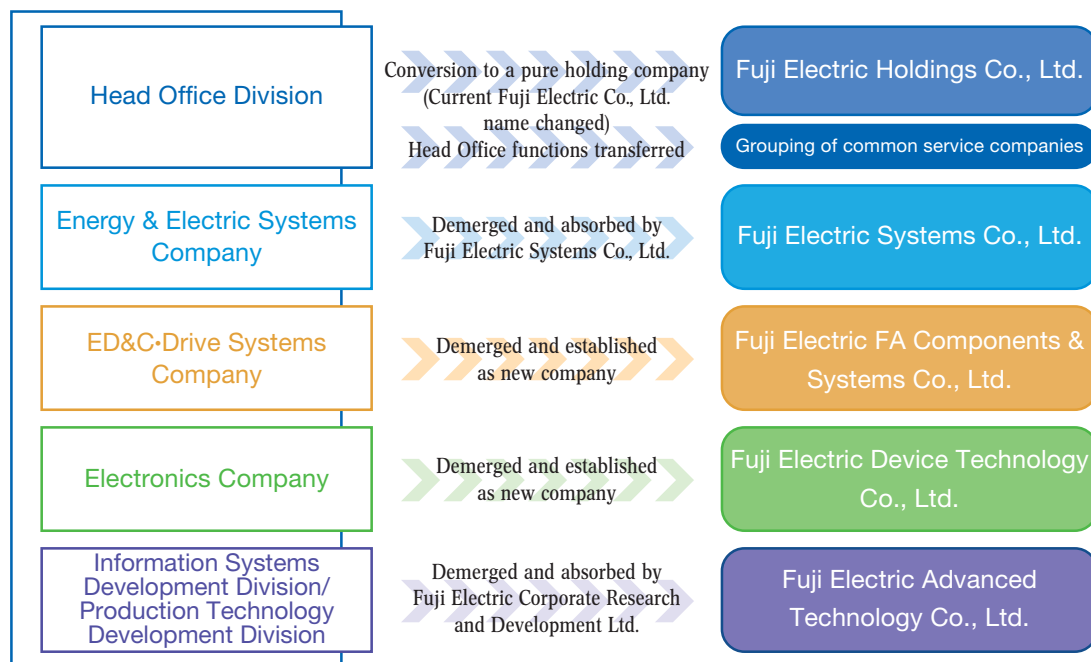
### (3) Optimal working conditions in all areas of operation

In the past, Fuji Electric personnel policies have tended to be rigid. These policies will be reviewed to create a more flexible system that better reflects the characteristics and contributions of each business in the Fuji Electric portfolio. This is imperative if we are to come out winners in markets where the Group operates.

## Group organization after transition

1. After Fuji Electric Co., Ltd. has demerged its businesses, the Group will shift to a holding company structure. The new independent operating companies will function under the renamed Fuji Electric Holdings Co., Ltd., which will act as the strategic headquarters with its main focus on formulating Group strategy.
2. The reorganized group will have four core operating companies, three of which will begin operations on October 1, 2003: Fuji Electric Systems Co., Ltd. (Energy & Electric Systems); Fuji Electric FA Components & Systems Co., Ltd. (ED&C•Drive Systems); and Fuji Electric Device Technology Co., Ltd. (Electronics). The fourth operating company, Fuji Electric Retail Systems Co., Ltd., began operations on April 1, 2003 after taking over the Group's retail support equipment and systems business. Fuji Electric believes this new management system will be characterized by increased autonomy and greater speed.

## Overview of Pure Holding Company and Demergers (Scheduled for October 1, 2003)



\*On April 1, 2003, the Retail Support Equipment & Systems Company was demerged and absorbed by Fuji Electric Retail Systems Co., Ltd.

- The information systems development division and the production technology development division are to be consolidated and placed under the control of Fuji Electric Corporate Research and Development Ltd. The strengthened research institute will focus on basic technological research and the development of common core technologies. It will also be given enhanced functions to act as an incubator for new businesses. The research institute will be renamed Fuji Electric Advanced Technology Co., Ltd.
- The functions of the corporate administration division will be transferred to selected service firms within the Group, which will become responsible for providing services required by the holding company and Group operating companies.

## Group management role and functions

- The role of the holding company is to maximize corporate value and optimize the group as a whole by performing the following functions:
  - Developing strategies for group optimization
  - Optimal distribution of group resources
  - Corporate R&D/R&D planning and management/commercialization of new technologies
  - Monitoring management within the group
  - Nurturing and building the group brand
- The role of the operating companies is to maximize business value and increase sales (growth) and maximize profits (profitability). The operating companies will have considerable decision-making authority within the framework of their businesses, backed up by capital resources provided by the holding company. They will also be responsible for business performance, including attaining cash flows targets.

## Group management structure (corporate governance)

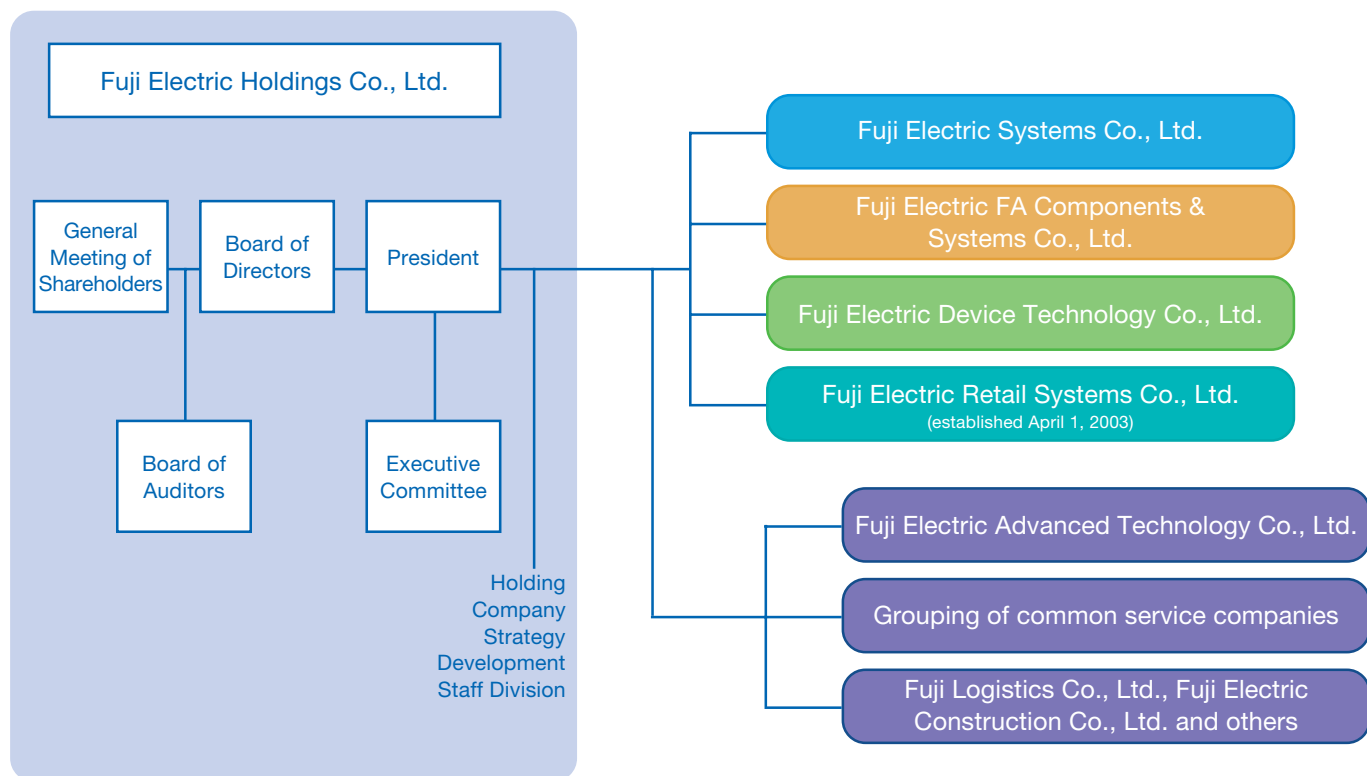
### (1) Basic concept

After the adoption of a pure holding company structure, the group will switch to a new management system in which management supervision and execution functions will be clearly separated to better define responsibility and authority. This will strengthen the group management system, speed up decision-making and encourage a sense of greater individual responsibility.

### (2) New management system

1. Management system at the new holding company
  - i. The core concept of corporate governance in a holding company structure is the separation of the business supervision and execution functions. Therefore, the holding company's new form of corporate governance will be based on the Board of Statutory Auditors System as currently used at Fuji Electric Co., Ltd.
  - ii. As is applied in Japanese companies who employ the "Company with Committees" System, which features a U.S. style corporate governance structure with three committees inside the board, the term of directors will be shortened from two years to one year and the number of outside directors will be increased from two to three.
  - iii. The chairman of the holding company will preside over the board of directors and the number of directors will be kept to a minimum.
  - iv. In order to ensure clear separation of the respective responsibilities and authority of the holding company and the operating companies, directors of the holding company will be barred from holding directorships of Group operating companies. In order to ensure that the holding company is able to adequately monitor Group operating companies, the corporate auditors of the holding company will also serve as part-time auditors of Group operating companies.
  - v. An executive committee will be established to advise the chief executive officer of the holding company on important management issues, including management strategy and management policies for the entire Group, strategies for maximizing group synergies, and initiatives to foster Group cooperation. The executive committee will comprise internal directors of the holding company, presidents of operating companies, and the general manager of the strategy development division at the holding company.
2. Management of operating companies
  - i. The term of office for directors of operating companies will be one year, the same as at the holding company.
  - ii. The president or chairman of each operating company shall chair its board of directors and the number of directors will be kept to a minimum.
  - iii. In order to ensure complete transparency in terms of the respective responsibilities of the holding company and operating companies, directors of operating companies will be barred from sitting on the board of the holding company.

## Group Management Structure Under the Pure Holding Company System (Scheduled for October 1, 2003)



## Overview of Operating Companies

Company Name	Fuji Electric Systems Co., Ltd.	Fuji Electric FA Components & Systems Co., Ltd.	Fuji Electric Device Technology Co., Ltd.	Fuji Electric Retail Systems Co., Ltd.
Head Office	6-17 Sanban-cho, Chiyoda-ku, Tokyo	1-11-2 Osaki, Shinagawa-ku, Tokyo	1-11-2 Osaki, Shinagawa-ku, Tokyo	6-15-12 Sotokanda, Chiyoda-ku, Tokyo
Capital	¥25 billion	¥10 billion	¥10 billion	¥9.7 billion
Representative	Haruo Ito, President	Shigeaki Hori, President	Akira Takai, President	Akira Yoshimasu, President
Sales (consolidated) [projection for FY2003]	¥390 billion	¥165 billion	¥135 billion	¥155 billion
Employees (consolidated) [projection for FY2003]	9,950	5,400	4,600 (including 300 employees at Fuji Electric (Shenzhen))	3,200
Location of Main Businesses	Sales Divisions: Head office, Kansai, Chubu and other locations  Manufacturing Divisions: Tokyo Systems Factory, Power Plant Equipment Factory, Kobe Systems Factory	Sales Divisions: Head office, Kansai, Chubu and other locations  Manufacturing Divisions: Fukiage Site, Otawara Site, Suzuka Site, Kobe Site	Sales Divisions: Head office, Kansai, Chubu and other locations  Manufacturing Divisions: Matsumoto Factory, Yamanashi Factory	Sales Divisions: Head office, Kansai, Chubu and other locations  Manufacturing Divisions: Mie Factory, Saitama Factory
Consolidated Subsidiaries (domestic and overseas)	12 domestic subsidiaries: FFC, Fuji IT, FFC Systems, Fuji Electric Power Engineering & Service, Fuji Gas Turbine Research Center, Fuji Electric Chiba Tech., Azumi Fuji, Tochigi Fuji, Ibaraki Fuji, Fuji Electric Instruments, Tottori Electric Manufacturing, Fuji Denki Sosetsu	13 domestic subsidiaries: Chichibu Fuji, Fuji Electric F-Tech, Fuji Electric Hi-Tech, Hakko Electronics, Fuji Electric Motor, Fuji Electric Technica, Fuji EIC, Nishinohon Fuji Electric, Chubu Fuji Electric, Kyushu Fuji Electric, Hokkaido Fuji Electric, Tohoku Fuji Electric, Hoei Denki  3 overseas subsidiaries: Fuji Electric Dalian, Fuji/GE Private, Fuji/GE Taiwan	6 domestic subsidiaries: Fuji Electric Storage Device, Fuji Electric Imaging Device, Hokuriku Fuji, Iiyama Fuji, Omachi Fuji, Fuji Denki Matsumoto Mechanics  9 overseas subsidiaries: Fuji Electric (Malaysia), Fuji Electric (Scotland), Fuji Electric Philippines, Fuji Electric Taiwan, Fuji Semiconductor, Fuji Electric Singapore Private, U.S. Fuji Electric, Hong Kong Fujidenki, Fuji Electric (Shenzhen) (consolidated subsidiary from FY2004)	3 domestic subsidiaries: Fuji Electric V&C Altec, Shinshu Fuji Electric, Hoei Plastics