

# Fujitsu's Corporate Governance

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Fujitsu Limited

Kyoko Mizuguchi, Corporate Executive Officer

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This is Kyoko Mizuguchi.

Today, I would like to talk about our corporate governance.

# **FUJITSU'S BASIC APPROACH TO CORPORATE GOVERNANCE**

First, I will explain the basic concept of our corporate governance.

### ■ Valuing the Interests of Stakeholders

#### Corporate Vision (FUJITSU Way)

Through our constant pursuit of innovation, the Fujitsu Group aims to contribute to the creation of a networked society that is rewarding and secure, bringing about a prosperous future that fulfills the dreams of people throughout the world.

*"We believe that aiming to be a company that responds to the trust of customers and business partners, a company for which employees engage in activities vibrantly and proudly so that it contributes to society, and not a company that merely pursues short-term profits, will lead to medium- to long-term growth and an increase in corporate value, and thus enable us to justify the trust of the shareholders who support us. It is our mission to manage the company in this way." (Corporate Governance Policy)*

#### Corporate Governance:

An indispensable mechanism for the management to accomplish the mission

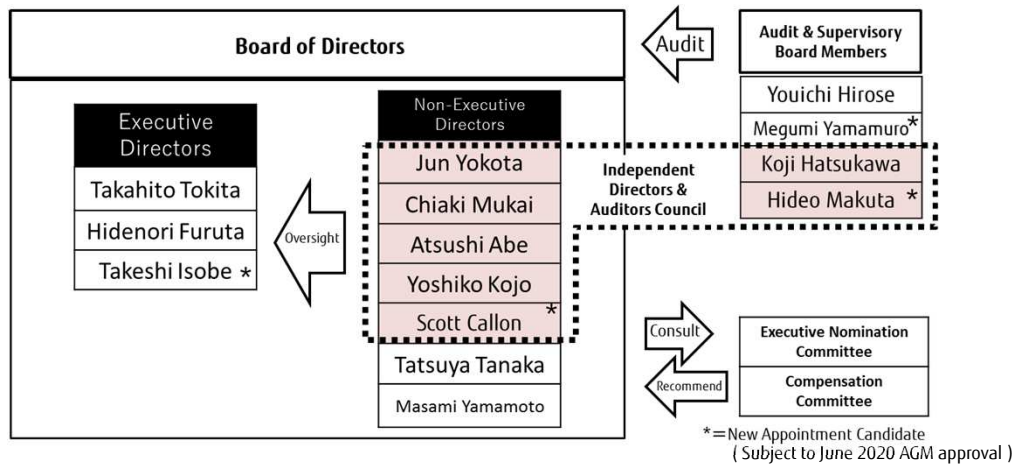
In December 2015, we established and announced our Corporate Governance Policy.

Please look at the box in the middle. At the top of our Corporate Governance Policy, it states "management that respects the interests of all stakeholders will lead to an increase in corporate value and shareholder value over the medium to long term." Management's mission is to lead in a manner that contributes to society, and for them to be conscious of SDGs (Sustainable Development Goals).

As described below, we regard corporate governance as an indispensable infrastructure for the fulfillment of management's mission.

# Basic Approach to Corporate Governance

- Emphasis: Non-executive directors provide advice from diverse perspective and oversee management execution by executive directors
- Complementing the Board of Directors
  - **Audit & Supervisory Board** members, who are appointed as independent agents, provide audits and oversight from outside the Board of Directors
  - Voluntary establishment of **the Executive Nomination Committee and Compensation Committee**
  - **Independent Directors & Auditors Council**



This figure shows the post- Annual Shareholders’ Meeting formation scheduled to be held in June this year.

The characteristics of the Board of Directors is that directors are divided into two, executive and non-executive, with their respective roles made clear. From the non-executive directors we have ‘supervision’ and ‘advice from a variety of viewpoints’ which we believe enhances governance.

To ensure this, the number of non-executive directors is equal to or greater than the number of executive ones. Under the new structure, the number of independent outside directors will increase from four to five.

Furthermore, we have established the following three mechanisms to make this more effective.

- (1) Audit and supervision by independent auditors
- (2) Voluntary nomination committee and compensation committee mainly composed of non-executive directors
- (3) Independent Directors & Auditors Council to provide information to external directors

I will explain more about the Nomination Committee, the Compensation Committee, and the Independent Directors & Auditors Council later.

# APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Next, I will explain the appointment of the non-executive directors.

The company considers the following three points when appointing non-executive directors.

- (1) Choose a well-balanced selection of attributes and areas of expertise
- (2) Ensure diversity such as gender and global experience
- (3) In order to compensate for any lack of internal information that independent directors may have, one or more of the independent directors must originally have been internal employees.

## Current Non-Executive Directors



### 【Independent Directors】



Jun Yokota



Chiaki Mukai



Atsushi Abe



Yoshiko Kojo



Scott Callon

\*Subject to June 2020 Annual Shareholders' Meeting approval

### 【Non-Executive Directors from within Fujitsu】



Tatsuya Tanaka



Masami Yamamoto

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The following are to be non-executive directors after the Annual Shareholders' Meeting who have been selected based on such criteria.

Jun Yokota: Formerly worked at the Ministry of Foreign Affairs and has served as an ambassador in several countries.

Chiaki Mukai: Active in various areas such as JAXA, Tokyo University of Science, and a committee at the United Nations.

Atsushi Abe: Deep insight into M&A and investment in the IT industry.

Yoshiko Kojo: International relations academic. Has deep insight into SDGs initiatives.

Scott Callon: Institutional investor.

Tatsuya Tanaka and Masami Yamamoto: Both have experience being President of the company and we believe that having a non-executive who is familiar with internal circumstances on the supervisory side is important to the effectiveness of supervision.

Each incumbent director has contributed greatly to revitalizing board discussions with a world-wide perspective and sharp insight into the nature of things.

# **INITIATIVES TO ENABLE NON-EXECUTIVE DIRECTORS TO FUNCTION EFFECTIVELY**

INITIATIVES TO MAINTAIN AND IMPROVE THE EFFECTIVENESS OF  
THE BOARD OF DIRECTORS

Next, I will explain our efforts to ensure the effective functioning of our non-executive directors.

## Appointment of Atsushi Abe as Chairman of the Board



- Since June 2019, Atsushi Abe, an Independent Director, has been Chairman of the Board of Directors
- Aims
  - As explained below, the objective is to enhance Fujitsu's corporate governance
  - Strengthen management oversight function
  - Further promotion of the transparency and objectiveness of the discussions

*"I am aware that I was appointed as chairman of the Board **to help put the Company on a growth trajectory under the new management team.** As chairman, I will change the way of reporting and strive to increase the time for discussion while linking each meeting of the Board to a meaningful action, such as deciding on the next relevant measure or reaching a conclusion to ongoing deliberations. Now that the direction of our management policy has been clearly determined, we will make a concerted effort in pursuit of that goal." (Atsushi Abe)  
(Excerpt from Fujitsu Group Integrated Report 2019)*

One of the major topics this year is that Mr. Abe, who is an independent director, has been appointed as Chairman of the Board of Directors.

Based on his many years of experience in investment banking, etc., Mr. Abe has contributed to stimulating discussions at the Board of Directors through management supervision and advice from the perspective of shareholders and investors.

The purpose of the Chairman, as described here, is to strengthen management supervision and ensure transparency and objectivity. At a feedback session held with members of the Board of Directors conducted half a year after his appointment as Chairman, Mr. Abe received high praise, particularly from the Independent directors, for his selection of agenda items and following up of topics discussed at the Board of Directors meetings.

Here is an excerpt from Mr. Abe's remarks from our integrated report. He wants to see the company grow under the new management structure and be a part of this.



## Facilitating the Provision of Information



- Close collaboration with Board Chairman Abe
  - Inform all items listed on agenda of Executive Management Committee held by the business execution side
- Create a monitoring list for ongoing important projects
  - Report on the progress of each project at monthly meetings of the Board of Directors
- Independent Directors & Auditors Council (members consist of the 7 Independent Directors & Audit & Supervisory Board Members)
  - FY 2019: 9 meetings (planned)
  - Examples of topics discussed: management direction, business of important subsidiaries
  - Since these meetings began in 2015, expect there to be 34 meetings held
- Support Office for Independent Directors & Auditors Council
  - For each member, junior employee is assigned as a support member
  - Designed to enable members to receive information without going through management on the business execution side

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The problem of ‘information asymmetry’ is often highlighted as an obstacle to outside directors in fulfilling their role effectively. The company has established the following information provisions and mechanisms so that independent officers can access necessary information as much as possible.

First and foremost, the most important thing is close cooperation with Mr. Abe, the Chairman of the Board. In the company, both the secretariat of the Board of Directors and the secretariat of the Management Council which is the meeting body of the executive side, are part of my legal department, and so information from the executive side can be input in a detailed and timely manner. I think Mr. Abe will talk about this later but the Chairman and the secretariat deliberate very carefully over the preparations for the Board of Directors meeting and select the agenda.

Next, the Board of Directors picks up important matters that need to be monitored continuously and prepares a monitoring list to report the status every month.

In addition, the company established the Independent Directors & Auditors Council in fiscal 2015 to share information and form opinions between Independent Directors & Auditors, namely the Independent Outside Directors and the Independent Outside Audit and Supervisory Board Members. The

Independent Directors & Auditors Council is a free-discussion forum which does not issue resolutions or decisions.

The Independent Directors & Auditors Council covers a wide range of topics, including introductions of important businesses and subsidiaries, and input into the prerequisite knowledge of topics to be discussed at the Board of Directors meetings. This has been highly praised by the independent officers as it has enabled increased understanding of the company.

In addition, the Company has established an Independent Directors & Auditors Council Support Division. This is a support team for independent officers, who assign young employees to each Independent Director & Auditor as support members to provide information, so there are no taboos over the provision of information.

## Voluntary Executive Nomination Committee and Compensation Committee



### ■ Composition in fiscal 2019

- Executive Nomination Committee: Jun Yokota (Chair), Chiaki Mukai, Yoshiko Kojo, Tatsuya Tanaka
- Compensation Committee: Chiaki Mukai (Chair), Jun Yokota, Yoshiko Kojo, Tatsuya Tanaka

\*In particular, for the Executive Nomination Committee, 1) a considerable amount of time is spent on discussions; 2) in addition to obtaining advice from outside consultants, the committee interviews candidates for Director and Audit & Supervisory Board Member; and 3) the committee gives a detailed explanation of the reasons and process for selecting candidates in proposals to the Board of Directors.

### Corporate Governance Policy (Excerpt)

#### 2. Corporate Governance Structure

##### (7) Procedures and policy of Directors and Auditors nomination/dismissal

*"b. To secure personnel as would-be Directors and Auditors who have a competency for taking lead role toward continuous increase of the corporate value, the Executive Nomination Committee is responsible for recommending Directors and Auditors candidates as an initial idea along with reasons, those recommended candidates are evaluated to have an understanding on the environment surrounding the present company and possible changes in the future..."*

##### (8) Procedures and policy of determining Directors and Auditors compensation

*"b. Considering the incentive perspective from which the compensation for securing competent personnel is viewed and stimulating the effort toward continuous increase in the corporate value, the Compensation Committee is responsible for recommending the level of base compensation as well as the calculation method for performance-based compensation..."*

Next, I would like to introduce the mechanism of advice and supervision on the nomination and remuneration of officers by Independent Directors.

As described in the Corporate Governance Basic Policy, the Company has voluntarily established a Nomination Committee and a Compensation Committee, taking advantage of the strengths of its Audit & Supervisory Board. Members are composed mainly of independent outside directors. These are advisory bodies.

The committees are not a formality, and the Nomination Committee, in particular, has had a number of substantive discussions before deciding on a candidate for officers, and has conducted external consultation evaluations and interviews with members. During the changing of the president too, the candidates were selected through a number of substantive discussions, including interviews held by all of the then members of the committee with several candidates who were put forward by the executive side. The Nomination Committee details the reasons for the appointment and the process in submitting a report to the Board of Directors.

## Board of Director and Chairman Evaluation



- Evaluation of the performance of Board Meetings (May 2019)  
Points for further improvement in the operation of the Meeting were discussed.
- Evaluation of the Board Chairman (December 2019)  
A survey was conducted on points for improvement in the Chairman and his management of the Meeting. Feedback was provided to Board Chairman Abe after anonymized.
- Positive Points  
Improved follow-up on "homework" items; Chairman runs meetings with good and tense atmosphere.
- Issues Uncovered  
The person explaining proposed resolutions needs to stay more on point  
→ More time should be allocated for discussing each proposed resolution.

Corporate Governance Policy (Excerpt)

2. Corporate Governance Structure

(3) Conducting the Board of Directors Meeting

*"d. The Board of Directors analyses and evaluates the performance of the Board of Directors Meeting every year to maintain its effectiveness and further enhance its performance as well as disclose the summary result."*

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In addition to the initiatives introduced so far, in order to further improve our corporate governance, our basic policy states that the Board of Directors should be evaluated every year, and has been implemented five times so far. This year, discussions were held mainly by independent officers from the viewpoint of whether there would be any points to be improved with Mr. Abe becoming chairman.

At the end of last year, half a year after the inauguration of Mr. Abe becoming Chairman of the Board of Directors, a questionnaire was conducted on the chairman's points of improvement, requests and the operation of the Board of Directors, and anonymous feedback was given to Mr. Abe.

As a result of both evaluations, one point the officers have praised is improved follow-up on items they have been asked to read-up on and another was how the Chair carried things out with a sense of urgency.

On the other hand, one issue that has emerged that we need to continue to follow up-on is how to use the limited board time for discussions rather than for explaining bills.

# **FUTURE INITIATIVES**

Finally, I will explain our future initiatives.

## Improving the Internal Control Structure



### ■ Our Internal Control Structure

Connecting the executive and non-executive board members  
(important framework as a premise of 'Trust')

### ■ Offense : Management Efficiency

(1) Establishment and operation of the company's decision-making and delegation mechanism

(2) Focused efforts on group management issues

(3) Proactive proposal for optimal risk take / risk hedging

### ■ Defense : Risk management system & Compliance system

(1) New risks (cyber, data, infectious diseases, geopolitical risks, local laws and regulations)

(2) Response to new fraudulent methods and acquisition of new investigation methods

I have emphasized that the focus of corporate governance lies in overseeing and advisory by the non-executive side to the executive side.

Looking at the executive side, we have always thought that the internal control system on the executive side led by the President is important to link the non-executive to the executive, and have been implementing measures toward achieving that.

(The gist of our internal control system is to ensure that non-executive independent directors can rely on the information shared by the executive management led by the president, including their understandings of issues, proposals for measures, and management policies. It also ensures trust towards the execution of management policies by the executive management led by the president. The basis of trust in information and management's execution of management policies lies in the internal control system itself, and is composed of a progressive and a protective factor.)

I will give an example of our pursuit of 'Management efficiency' – a factor of trying to be progressive.

Our department is working to establish and operate a system for decision-making and delegation of authority in order to quickly and thoroughly spread the will and management policies of top management, which reflect advice from the Board of Directors, globally and group-wide.

Examples: Secretariat of the Board of Directors, Secretariat of the Management Council, operation and improvement of rules of global delegation of authority, clarification of responsibilities and authorities by establishing and operating rules of segregation of duties and authority, management delegation agreement with Group company president and group governance Initiatives

Through the “Business structure transformation” phase that has been taking place over the past several years, a system is being built to immediately and intensively tackle group management issues.

Based on new business forms (the new DX company, new HR system, direction of strategic investment promotion), I would like to proactively propose the optimal balance between progressive and protective, and the optimal balance between risk taking and risk hedging.

We will keep working on initiatives in a ‘risk management system and compliance system’ as a factor of protection.

Based on the belief that "management efficiency" will be based on trust first, through the development and operation of a risk management system and a compliance system, our division will try to foster a group culture in which we respond proactively to risks, are collectively open-minded, and intolerant of fraudulent activity.

## Diversity – from the Board to company-wide initiative

- From the beginning, we have been aware of a wide range of stakeholders

(Revising the Corporate Governance Policy calls for strengthening information disclosure to a wide range of stakeholders)

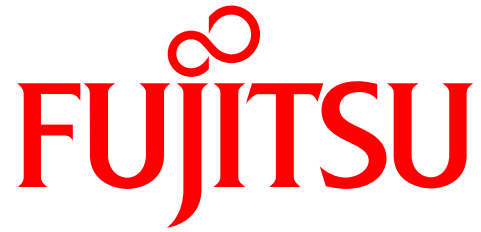
- Board member structure to activate discussions from various viewpoints

Utilizing the internal control system as a mechanism to turn the results of discussions into actual actions

I wish to extend the diversity of our board across the company. From its beginning, our corporate governance has evolved with a wide range of stakeholders in mind. The features were further promoted, and last year's revision of the Corporate Governance Policy called for greater disclosure of information to stakeholders. Furthermore, to ensure the satisfaction of a wide range of stakeholders by contributing to the resolution of social issues through the success of our business, we will first promote the diversity of board members, and look at the Group's business from a variety of perspectives in order to discuss pressing matters and which direction the company should move in. For example, the comments that we have received so far from Scott Callon are very encouraging in that it is based on trust in the value of Japanese companies as seen from outside-Japan. I would like advice from Mr. Callon to lead us to further transform the company.

In fact, the Board of Directors is currently the most diverse decision-making body within the Group. The company hopes to further diversity in the other decision-making forums within the Group that constitute the internal control system, in the same way as the Board of Directors.





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