

Interview With Auditors

Corporate governance is increasingly important for companies like Fujitsu which are pursuing global business expansion to enhance corporate value. This interview with the company's outside auditors, Megumi Yamamuro and Hiroshi Mitani, provides insights into the inner workings of corporate governance at Fujitsu.



Megumi Yamamuro

Professor, University of Tokyo Graduate Schools for Law and Politics



Hiroshi Mitani

Special Counsel, TMI Associates

Q.1 What do you feel is expected of you in your role as an outside auditor?

Yamamuro: Independence and objectivity are considered important for outside auditors. In a large corporation like Fujitsu, it's difficult to understand all of the individual businesses, so it's important for me to recognize the ways in which I can contribute as a lawyer, and serve in areas where I can be the most useful.

Mitani: Considering the business and scale of Fujitsu, the impact it has on society is significant. As such, management has to always bear in mind the social responsibilities of a corporation in its administration of the company. It is important that outside auditors view Fujitsu's management not merely as a corporation, but with awareness of the views of society. I think that is what's most expected of me. I believe my role is to draw on my experience, and while remaining attentive to the views of society, render judgments on a variety of events and issues, focusing mainly on the state of corporate governance and compliance.

Q.2 What are your thoughts on Fujitsu's governance structure from the perspective of an outside auditor?

Yamamuro: When I'm attending meetings of the Board of Directors, I often consider the varied backgrounds of the directors and auditors. For example, Ikujiro Nonaka* makes pointed statements befitting a business professor. A variety of perspectives are also offered by the other directors, including those who have managed companies, worked in financial institutions, or been a prefectural governor. I think the structure functions well overall.

* Retired as of June 21, 2010

Mitani: There are two main characteristics of Fujitsu's Board of Directors. The first is that the posts of CEO and Chairman of the Board are separate. The second is that four of the 10 directors are outside directors with high degrees of independence (N.B. three outside directors as defined by Company Law). The board of directors should combine the functions of both management oversight and coordination for business execution divisions, and I think that in the case of Fujitsu, management oversight is extremely solid. The outside directors are proactive about expressing their views from the perspective of management oversight during Board meetings. There is also lively discussion on issues of coordination with business

execution divisions, including advice regarding management and how to improve effectiveness.

In October 2009, Fujitsu established an Executive Nomination Committee and a Compensation Committee, and its new management execution structure now has many younger members. I feel that the smooth functioning of these committees will be extremely important in terms of corporate governance.

Q.3 What issues do you think need to be addressed going forward?

Mitani: I think that more discussion is needed on which issues will be taken up by the Board of Directors, instead of waiting for issues to be brought up. For example, the Board needs to have a common understanding of the strategic targets, and the medium- and long-term goals of the business execution teams. There are topics, like the strategic targets, which the Board can take up more actively for discussion. The Board of Directors must fully understand and discuss the balance in the strategic targets and the measures taken to achieve them. In this sense, I feel it would be good for the Board to express a little more commitment to the strategic targets of the business execution teams. It's particularly necessary for the Board to provide clear commitment in cases where specific target figures are announced, which could be considered an external pledge.

Yamamuro: The sheer size of the company causes many concerns. For example, it's often difficult to discern how individual M&A proposals will fit with overall business strategies.



The smooth functioning of the Executive Nomination Committee and Compensation Committee will be extremely important for corporate governance going forward.

—Hiroshi Mitani

Q.4 What do you think of the support structure for auditing operations?

Yamamuro: I think the support structure is sufficient. However, since Fujitsu's business is weighted heavily toward business to business, and covers a wide range of categories, I would like Fujitsu to provide more opportunities for those of us outside the company to gain a deeper understanding of the business.

Mitani: We receive detailed reports from the standing auditors on Fujitsu's Board of Auditors, so I think the structure is sufficient to allow us to obtain any information necessary. The

company's intranet, called ProjectWeb, is also extremely useful, as it allows us to review documents related to the Board of Directors. I plan to offer more advice on how to enhance the structure further.

Q.5 From the perspective of an outside auditor, how do you think the Board of Directors performed regarding the resignation of the former president, Kuniaki Nozoe?

Mitani: I consider this to be an issue of risk management. Risk management is important in a wide variety of situations, and this was a case of risk management involving the most important aspects of corporate governance at Fujitsu. Nozoe's actions in maintaining a business relationship with a certain business group, despite warnings from advisors to sever his relationship because it was in conflict with the Fujitsu Way, constituted an extremely large risk in terms of corporate governance. In this sense, it is clear that the actions of Nozoe were not those that should be taken by the president, who must be the highest embodiment of the Fujitsu Way. Asking for his resignation as a preventative measure before the risk became evident was an extremely difficult decision, and the directors and auditors at that time, while agonizing over the decision, made the difficult call. In a way, I think that this case demonstrates the exceptionally good functioning of Fujitsu's corporate governance and risk management structure. The fundamental issue in this case was the utter lack of awareness of risk on the part of the president. The outside directors and auditors were kept well informed in the course of dealing with the issue, and I sincerely hope that the public understands that the decision was made in consideration of everyone's opinion, and that process produced the resulting resignation.

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Yamamuro: Looking back on the events since the president's resignation on September 25, 2009, there were some things that could have been handled better in terms of the processes employed, but I think the decision was correct. I gave the issue much thought as an outside auditor, and after careful consideration agreed with the majority of directors to seek the president's resignation. The result was not due to a lack of governance, but rather the proper functioning of governance. There were some media reports that the decision was made by specific internal directors, but these reports were completely false. Since the time I served as a judge, I have performed my duties with conviction. In this case, too, I acted according to my own beliefs, and with independence as an outside auditor.

The resignation of the former president was the result of properly functioning governance, and of my acting with the independence expected of me as an outside auditor.

—Megumi Yamamuro

today. Fujitsu is the leading ICT company in Japan, and as one of the companies providing support for vital social infrastructure around the world, it has a heavy responsibility. I, too, have great expectations for Fujitsu as one of the few global ICT companies able to bear that responsibility.

Mitani: During the five years I served as a member of Japan's Fair Trade Commission, I was deeply impressed by the way that Fujitsu maintained an independent and unrestrained posture without yielding an inch to competitors around the world. I

thought at the time that this was an extremely exceptional corporate approach. The opening line of the Fujitsu Way states "Through our constant pursuit of innovation..." This phrase truly reflects the strong DNA of Fujitsu, as represented by the bold decision in the 1960s to shift to the computer business, which led to the Fujitsu of today. This "constant pursuit of innovation," along with my own impression of an independent and unrestrained spirit, is the image of Fujitsu I have firmly fixed in my mind. I hope the company will continue to keep these two aspects in mind in the future.

Q.6 Finally, what message do you have regarding your expectations for Fujitsu going forward?

Yamamuro: I first became acquainted with Fujitsu around 1986 or 1987, as a personal user of the OASYS Japanese word processor. Public expectations for ICT were rising at that time, and I feel that those expectations have risen even further

Hiroshi Mitani

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