Fujitsu’s Corporate Governance

March 23, 2017
Fujitsu Limited
Corporate Executive Officer
Mitsuya Yasui
Fujitsu’s Basic Approach to Corporate Governance
Basic Approach to Corporate Governance

Respect for 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 system necessary for managers to execute their missions
Basic Approach to Corporate Governance

- Emphasis: Non-executive directors provide advice from diverse viewpoints 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

Board of Directors

Executive Directors
- Tatsuya Tanaka
- Norihiko Taniguchi
- Hidehiro Tsukano
- Duncan Tait

Non-Executive Directors
- Miyako Suda
- Jun Yokota
- Chiaki Mukai
- Atsushi Abe
- Tatsuzumi Furukawa
- Masami Yamamoto

Audit & Supervisory Board Members
- Yoshiki Kondo
- Youichi Hirose
- Megumi Yamamuro
- Hiroshi Mitani
- Koji Hatsuoka

Independent Directors & Auditors Council

Executive Nomination Committee

Compensation Committee

As of the end of the June 2017 Annual Shareholder’s Meeting
Appointment of Non-Executive Directors
Introducing Current Non-Executive Directors

【Independent Directors】

Miyako Suda

Chiaki Mukai

Jun Yokota

Atsushi Abe

【Non-Executive Director from within Fujitsu】

Tatsuzumi Furukawa

The balance and diversity of the Board of Directors have improved. The Board that the Annual Shareholders’ Meeting appointed in June 2016 is comprised of five Executive Directors and five Non-Executive Directors. In addition, the Board has included two female members and a non-Japanese director since 2015. I think these changes in the makeup of the Board are contributing to the greater liveliness of discussions mentioned earlier. (Director Abe, Integrated Report 2016)
Topics Related to Governance

- Announced a reexamination of Fujitsu’s cross-shareholdings with Fuji Electric in February 2017
  ⇒ Ended longstanding practice of serving on each other’s Board of Directors
  • June 2015
    - Haruo Ito, former president of Fuji Electric, leaves Fujitsu’s Board of Directors
    - Fujitsu appoints Chiaki Mukai and Atsushi Abe as new Directors
  • June 2016
    - Hiroaki Kurokawa, former president of Fujitsu, leaves Fuji Electric’s Board of Directors

Eliminates potential concerns over insider trading concerns when selling each other’s shares

⇒ February 2017
  Decision to reexamine Fujitsu’s cross-shareholdings with Fuji Electric

- Shares will be sold once the proper environment is in place
Initiatives to Enable Non-Executive Directors to Function Effectively

INITIATIVES TO MAINTAIN AND IMPROVE THE EFFECTIVENESS OF THE BOARD OF DIRECTORS
Independent Directors & Auditors Council

Meetings Held (2-3 hours per meeting, open discussions, no resolutions)

- Fiscal 2015: 7 meetings
- Fiscal 2016: 6 meetings

Selected Topics of Discussion

- Management Direction
  
  (discussed in the Independent Directors & Auditors Council from an early stage)

  Management Direction announced October 29, 2015
  Management Direction announced October 27, 2016

  in both cases, the Independent Directors & Auditors Council met 3 times for discussions

- Corporate Governance Policy
- Talent development, operations of Fujitsu Laboratories and major subsidiaries

At the Independent Directors & Auditors Council, we are able to ask questions and state opinions from a variety of perspectives, and we can ask any question, no matter how basic. This is having a favorable effect on the Board of Directors. (Director Yokota, Integrated Report 2016)
Support System for Independent Directors & Auditors

- **Independent Directors & Auditors Council Support Office**
  - Assign a junior employee as a support member to each Independent Director and Auditors
  - A system that enables Independent Directors and Auditors to obtain information without going through management

- **Implement onsite visits and opportunities to exchange views directly with onsite personnel**
  - **In Japan**
    - Tatebayashi System Center, Numazu Plant, etc.
    - Major subsidiaries (PFU, Fujitsu FSAS, FUJITSU KYUSHU SYSTEMS LIMITED, etc.)
    - Fujitsu Forum, Fujitsu Laboratories Forum
  - **Outside Japan**
    - Hold Board of Directors Meetings outside Japan (Direct communication with local offices)
      Fiscal 2015: UK; fiscal 2016: US

One thing that particularly pleased me about the visit to London was listening to young employees talk about their pride in belonging to the Fujitsu Group. It was great to get a firsthand sense of the achievements in personnel development. (Director Mukai, Integrated Report 2016)
Executive Nomination Committee and Compensation Committee

Composition of the two committees in fiscal 2016

- Executive Director 1 person (Masami Yamamoto)
- Non-Executive Directors 3 people (Tatsuzumi Furukawa, Jun Yokota, Chiaki Mukai)

*The Executive Nomination Committee, in particular: 1) spent a significant amount of time holding multiple discussions; 2) decided on candidates for Director and Auditor positions through interviews by committee members as well as advice from outside consultants; and 3) gave a detailed explanation of the reasons for its nominations when reporting its findings to the Board of Directors.

Corporate Governance Policy (Excerpt)
2. Corporate Governance Structure
(7) Procedures and Policies for Nominating Directors and Auditors
b. The Executive Nomination Committee is responsible for securing personnel, capable of taking a leading role toward continuously increasing corporate value, to serve as Directors and Auditors, while taking into consideration the current environment facing the company and potential changes in the future, and presents its candidate proposals and the rationale behind its nominations. The committee is also responsible for discussing succession planning for the President and, when necessary, presenting its recommendations to the Board of Directors.

(8) Procedures and Policies for Determining the Compensation of Directors and Auditors
b. To incentivize highly talented people to serve as Directors and Auditors, and while keeping in mind that the level of compensation should function as an effective incentive to drive continuous improvements in corporate value, the Compensation Committee is responsible for recommending to the Board of Directors the level of base compensation as well as the calculation method for performance-based compensation for Directors and Auditors.
Evaluation of the Board of Directors' Meetings

- Fiscal 2016
  - Board of Directors' Secretariat conducts open interviews, primarily with Independent Directors and Auditors. (For reference: in fiscal 2015, a survey format was used)

- Examples of points that have been raised by Independent Directors and Auditors
  - Accelerated the raising of strategic issues, including discussions in the Independent Directors & Auditors Council
  - Arranged informal discussion between President Tanaka and External Directors (June 2016)

- Discovered Issues
  - More time needs to be spent discussing the company’s medium- to long-term growth strategy
  - Run Board of Directors Meetings in a way that does not simply ratify decisions by management executives

Corporate Governance Policy (Excerpt)
2. Corporate Governance Structure
   (3) Conducting the Board of Directors Meeting
      d. The Board of Directors evaluates the performance of the Board of Directors every year to maintain its effectiveness and further enhance its performance, and a summary of its findings is disclosed.
Initiatives Going Forward
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Further strengthening the oversight function of the Board of Directors

Examples of oversight by the Board of Directors:

- Antitrust violations in deals with electric companies

  - Immediately after an onsite inspection by the Japan Fair Trade Commission, (1) a special internal investigation was launched by decision of the Board of Directors. (2) Based on the results of this investigation, application for leniency was filed for a similar violation uncovered (the full amount of the fine was waived).

  - The Board of Directors decided on reprimands for all executives involved, including the President and Chairman (involuntary forfeiture)

  - The Board of Directors monitors the direct activities of the President to prevent any reoccurrence (repeatedly sending direct messages to employees)
Initiatives Going Forward

- Further strengthening the oversight function of the Board of Directors
- Characteristic oversight structure:
  - Directly under the Board of Directors, a Risk Management and Compliance Committee has been established
  → The committee reports any risks identified directly to the Board of Directors
  - Coordination between External Directors, External Audit & Supervisory Board members, and Accounting auditors
  → Aiming to further strengthen the oversight function through synergies achieved from organic coordination between the inspection and supervision capabilities of governing bodies and other groups having a high degree of independence from the management execution side

Corporate Governance Policy (Excerpt)

Ⅷ. System of discovering and correcting misconduct
The company discovers misconduct, inadequacies, and problems through the mechanism described below, and properly addresses those problems:
IV. Independent Directors, Independent Audit & Supervisory Board Members and Accounting Auditors collaborate and communicate information with each other.
Initiatives Going Forward

Further strengthening the oversight function of the Board of Directors

➢ Help Non-Executive Directors to form their own opinions
  ⇒ Discussions at the Board of Directors Meetings that keep the management execution side vigilant
  • Ask Non-Executive Directors to serve for a certain length of time
  • To help them form their own opinions, use such occasions as the Independent Directors & Auditors Council
  • Based on the opinions they have formed, have Non-Executive Directors also propose agenda items for the Board of Directors’ Meetings

➢ Supervision by the Board of Directors keeping Group-wide management in mind
  • Supervision by Fujitsu Limited’s Board of Directors over important business execution matters of group companies
  • Thorough governance over group-wide internal controls through Fujitsu Limited’s Board of Directors
Working to achieve deep engagement in corporate governance

(FUJITSU GROUP Integrated Report 2016)
shaping tomorrow with you
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- Macro-economic environments and market trends in the principle geographic markets for Fujitsu’s services and products, which are Japan, EMEIA, the Americas, Asia, Oceania and elsewhere, particularly such conditions that may effect customers’ IT spending;
- Rapid technological change, fluctuations in customer demand and intensifying price competition in IT, telecommunications, and electronic device markets in which Fujitsu competes;
- Fujitsu’s ability to dispose of non-core businesses and related assets through strategic alliances and sales on commercially reasonable terms, and the impact of losses which may result from such transactions;
- Uncertainties as to Fujitsu’s access to, or protection for, certain intellectual property rights;
- Uncertainty as to the performance of Fujitsu’s strategic business partners;
- Declines in the market prices of Japanese and foreign equity securities held by Fujitsu which could cause Fujitsu to recognize significant losses in the value of its holdings and require Fujitsu to make significant additional contributions to its pension funds in order to make up shortfalls in minimum reserve requirements resulting from such declines;
- Poor operating results, inability to obtain financing on commercially reasonable terms, insolvency or bankruptcy of Fujitsu’s customers, or any such factor that could adversely impact or preclude these customers’ ability to timely pay accounts receivables owed to Fujitsu; and
- Fluctuations in rates of exchange for the yen and other currencies in which Fujitsu makes significant sales and profits or in which Fujitsu’s assets and liabilities are denominated, particularly between the yen and Euro, British pound and U.S. dollar.