Fujitsu's Corporate Governance from the Perspective of an Independent Director

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Fujitsu Limited
Independent Director
Chairman of the Board of Directors
Atsushi Abe

Background and Board Experience

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- Consistently engaged in business development, investment banking and principal investment for TMT sector
  - ✓ Trading Company: MITSUI & CO.
  - ✓ Investment Banks: Alex. Brown (Deutsche Bank), Sangyo Sosei Advisory
  - ✓ Investment Fund (PE): JP Morgan Partners Asia (CCMP Capital Asia)
- Non-Japanese companies experience
  - ✓ Work outside Japan – 13 years (of which 11 based in Silicon Valley)
  - ✓ Experience with non-Japanese companies – 17 years
- Experience as an external director
  - ✓ Edwards (May 2007 – Oct. 2009) – Non-Listed
  - ✓ On Semiconductor (Feb. 2011 – Present) – Listed on Nasdaq
    - Audit Committee, Member (2015～ Present)
    - Science & Technology Committee, Member (2019～ Present)
    - Integration Oversight Committee, Chairman (～2019)
    - Compensation Committee, Member (～2016)
  - ✓ Fujitsu (June 2015 – Present) – Listed on TSE1

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My name is Atsushi Abe, I'm an Independent Director at Fujitsu and have been Chairman of the Board of Directors since June of last year (2019). I spoke at an ESG briefing here back in 2017, three years ago, but I believe there are some new participants to this briefing this time around, so let me start by going over my background.

I have been consistently engaged in new business development, investment banking and principal investment in the TMT (Technology, Media and Telecom) field. Specifically, I first joined Mitsui & Co., a trading company, and later moved to an investment bank called Alex. Brown in the US. Ten years ago, I founded my own company called Sangyo Sosei Advisory. Regarding principal investment business, I have experience working for Private Equity Fund with JPMorgan Partners that later became independent and changed its name to CCMP Capital.

Overall, I worked overseas for 13 years, mainly in Silicon Valley. I have worked for foreign owned companies for a total 17 years, and have experienced working inside a very wide variety of companies.

As an independent director, I have a cumulative total of about 16 years of experience. The first was for a company called Edwards that was acquired and wholly owned by CCMP Capital. This company is the world's number one manufacturer of vacuum pumps used to manufacture semiconductors and flat panel displays. The fund owned 100% of the company and naturally, the majority of the directors were appointed by the fund. Naturally, the board controlled the company and made most of the decisions which is quite different from how the board operates for publicly listed companies.

Regarding listed companies, I have been on the board of On Semiconductor in the US, formerly a semiconductor division of Motorola that was acquired by TPG and later listed on Nasdaq. I have been on the board for nine years since 2011.

I was also appointed as a director at Fujitsu at the Annual Shareholders' Meeting in June 2015 and have been serving for more than four and a half years here. That's a basic overview of my background.

Fujitsu's Corporate Governance from the Perspective of an External Director

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- One of the most progressive corporate governance companies in Japan
- Progressiveness spurred from within, not by external pressure
- The executive management supports progressive initiatives formulated by the corporate governance group of the legal department
- Shares the need and value of independence, objectivity and diversity
- Independent directors chair nominating and compensation committees (since fiscal 2019)
- Independent director chairs the board of directors
- Company's proposals for the Annual Shareholders' Meeting in June 2020
  - ✓ Executive to non-executive ratio 3 : 7
  - ✓ Independent director ratio 5 : 5
  - ✓ Female to male ratio 2 : 8
  - ✓ Non-Japanese to Japanese ratio 1 : 9

Regarding Fujitsu's corporate governance from the standpoint of an independent officer, I feel that among the listed companies in Japan, Fujitsu have implemented a fairly modernized and advanced corporate governance.

For many companies, after having been involved in various scandals and accounting fraud, they have had to try and resolve their issues by modernizing corporate governance though increasing the number of independent directors or independent officers, or even in some cases receive appointment requests from activist investors. Fujitsu, on the other hand, at least since I have been here, has – from the perspective of its secretariat, executives, and independent officers – a shared set of values regarding independence, objectivity and diversity of how a board of directors should be and function organically, together. The legal department in particular has led the initiative to advance Fujitsu's corporate governance to where it stands today.

At Fujitsu, the role and responsibility of independent directors have been gradually extended. Last year, independent directors have been appointed to chair both the nomination committee and the compensation committee. Fujitsu's corporate governance rules mandate the members of the compensation committee and the nomination committee to be comprised of at least one independent director with majority being non-executive directors. Actually, at Fujitsu today, three out of four are independent directors for each of the committees with the remainder filled by a non-executive director. In addition, I, an independent officer, became Chairman of the Board of Directors last June. If the company's proposal to this year's Annual Shareholders' Meeting is approved, the ratio of executive to non-executive directors will be three to seven, and half of the 10 directors will be independent directors with women constituting 20% and non-Japanese constituting 10%.

Corporate Governance in the US

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- Requirements for listing
  - ✓ Majority of the board must be independent directors
  - ✓ Nominating committee, compensation committee, and audit committee must be established
- For most companies…
  - ✓ Two executive directors: CEO and CFO
  - ✓ Quarterly board meetings (vs. monthly in Japan)
- Companies seek to appoint independent board members with diverse backgrounds and experiences relevant to their businesses. Most directors have extensive business experiences and rare to see lawyers, accountants and ex-police or government officers appointed to the board.
- Majority of companies separate CEO and Chairman of the Board roles（companies with CEO/COB separation became majority in 2017 at S&P500 companies and is an increasing trend）
- Executive compensation amounts and detailed reasons for those amounts are required to be disclosed.
- The CEO and CFO are held personally accountable for the accuracy of the results and disclosures (SOX).
- At shareholder meetings, most shareholders vote on the agenda by proxy with few physically participating.
- Although the current president is asked for their opinion on the next candidate president, they do not command the nomination of the next president as in Japan.

Having served on the board of an US listed company for quite some time, I would like to talk about corporate governance practice in the US highlight some differences with that of Japan. In the United States, listing requirements necessitate that a majority of the board of directors be independent. Establishment of a nominating committee, a compensation committee and an audit committee are required. In many companies, the majority of directors are independent typically with two directors, the CEO and CFO, representing the executive side at the board.

Also, while most of the Japanese listed companies hold board meetings every month, most American companies have board meetings on a quarterly basis. They assign certain key themes for each board meeting, for example, strategy review for the first quarter, and operational and annual plan review for the second quarter. Such approach allows in-depth and thorough discussions on key and important aspects of businesses.

Companies seek diversity and relevance in the background and experience for independent directors so that companies can rely and seek valuable advice. For example, because On Semiconductor targets the automotive market, independent directors include former CTO of Ford, a former semiconductor company CTO, a corporate governance expert, an ex-government official, etc., and so by having people with a wide variety of experience we are able to have lively and engaged discussions at the board meetings.

Also, more and more companies have separated the position held by the chairman of the board from the post held by the president of the company. In 2017, more than 50%

of the S&P500 had this separation and this is an increasing trend.

Compensation in the US is high, but it has a fairly detailed disclosure requirement. The financial results and disclosures require personal signatures of the president and CFO under the Sarbanes-Oxley Act which would hold them personally liable for misrepresentations.

The shareholders' meeting is quite different from the shareholders' meeting in Japan. Since the majority of votes comes in the form of proxy and outcome is determined not by the shareholders attending, many investors choose not to attend the shareholders' meeting. In the case of Japan, I often have the impression that former and current employees make up much of the attendees and use it as an opportunity to say what they want and let off some steam, and so there is not much meaningful discussion. I think that this area needs to be improved as it is a problem for Japan as a whole.

Lastly, at many Japanese companies, the current president holds the role of appointing the successor, the next president. In the US the current president may be asked of his/her opinion, but the next president will be decided mainly by the nomination committee. In other words, it assures that new management won ‘t be held back by being influenced by the former president.

General Development of Board of Directors, and the Situation at Fujitsu

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- Phase 1:
  - ✓ Two independent directors (to comply with Corporate Governance Code)
  - ✓ Monthly business report and approval of matters that requires board resolutions (by Company Law or internal code) are the main agenda items
  - ✓ Explanations are given to independent directors in advance, and the board of directors basically approves decisions made by the executive management with few questions asked
- Phase 2:
  - ✓ Focus of the meetings are discussions on business performance, board resolutions, and growth strategy
  - ✓ Executive management prepare decent materials
  - ✓ Independent directors actively ask questions to the executive managment and based on explanations most proposals are approved.
  - ✓ Most items are ticked on the corporate governance code checklist
- Phase 3:
  - ✓ Wide-ranging and interactive discussions on important issues for the future of the company, such as management strategy, capital policy, HR policy, KPI management, risk management, and disclosure, in addition to business performance and board resolutions
  - ✓ Discussions are not open-ended, but action plans for specific topics are committed by the executive management with target dates
  - ✓ A reasonable sense of distance and tension should be maintained between independent directors (including non-executive directors) and executive management to ensure objectivity

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Regarding the development and progression of the board of directors, this is my own personal definition, but I think there are three stages how boards evolve.

Firstly, companies try to comply with the Corporate Governance Code and appoint two independent directors to comply. However, agenda at the board of director meetings comprises mainly of monthly reports and board resolutions required by law or company rules, but without much discussion. Companies will always provide a prior explanation and so there are few questions at the board of director meetings and, fundamentally speaking, directors generally follow whatever the decisions of the executive management.

As this progresses slightly, board agenda includes added topics such as corporate strategy in addition to topics around business performance and board resolutions. Independent directors become active and more involved by asking questions but generally accepts the explanations by executive management and rarely are the decisions or directions by the executive management modified or reversed. While the board is yet to be fully functional, companies claim in the public disclosure documents that they are in full compliance with the Corporate Governance Code requirements. However, in essence, boxes to the corporate governance code are simply being checked and so it’s just an *image* of compliance that is being given.

At fully functional boards, independent directors get involved in deep and thorough discussion with the executive management on critical and important issues which sometimes may result in modifying or reversing the decisions proposed by the executive management. Executive management are open to criticism and will listen. Going against the executive management is not necessarily the value or the role of independent directors but being able to have a healthy discussion based on objective views and being able to derive logical decisions from stake holders perspective is a key element to becoming a functional board. I feel that Fujitsu finally is entering this third phase.

My Aspirations and Expectations as Chairman of the Board of Directors

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- Full support for President Tokita's executive team and management direction
- Promotion and support of discussions on specific business strategies and measures in line with management direction
- Accelerate the shift from "business structure transformation" to growth strategy centered on "transformation towards becoming a DX company"
- Introduce disclosure that enables shareholders and the market to understand the progress and potential of our growth strategy, and revise KPIs accordingly
- Cultivating a culture that does not lead to problems typically associated with very large corporations (positively encourage agility, focus, open innovation, diversity and different cultures)
- Introducing new perspectives and ways of thinking that are not tied to corporate culture evolved on Fujitsu's legacy business success
- Thorough follow-up on approved projects
- Ensuring the effectiveness of directors and the board of directors
  - ✓ Assessment of the effectiveness of the board of directors, as well as the introduction of directors' individual performance evaluation, training, and self-improvement requirements
- Ensuring further independence, objectivity and diversity
  - ✓ Diversification of backgrounds of independent directors
  - ✓ Appointment of additional independent directors at the right time
- Use Fujitsu's evolution of ESG as a model case for increasing corporate value

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Finally, I wrote down my aspirations and expectations as chairman of the board on this slide with many points being about what I want to do regarding the future of Fujitsu, but since time is limited, I will just talk about the last three points.

How can we ensure the effectiveness of directors and the board of directors? Since the directors also receive reasonable compensation and participate in the board of directors as professionals, I think it is very important for each to function effectively. The company actually evaluates the effectiveness of the board meetings and shares those results with the board. The next step is, for example in the US, the directors are expected to invest their time to enrich their knowledge as directors by studying for themselves and those directors are required to disclose what efforts they have made. For Japan, I think this would mean to not only come to the board meeting to just speak and read materials, but also to study and improve their level of understanding by looking into trends of corporate governance and how boards should operate and function, to learn about the industry in general, etc. I think this would lead to improvement. We at Fujitsu have decided to provide a self-learning program to each director. Ultimately, I think that it is important for each director to receive a performance evaluation as a director and receive feedback to recognize where their strengths and weaknesses lie.

Finally, the ratio of independent directors on the board has reached 50%, but at the right time, I would like to see the number of independent directors become the majority.

Finally, ESG has become much talked about, as has the importance of corporate governance but if this does not ultimately equate to an increase of corporate value and just becomes a set rules that does not lead to an improvement in corporate value then corporate governance itself it will be looked down upon and scrutinized so myself and the entire board very much hope that Fujitsu will be looked at as a model case of how the progression of corporate governance can lead to an increase in corporate value.

Thank you very much for your time.

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