Summary Translation of Question & Answer Session at
FY 2019 ESG Briefing

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Presenters: Atsushi Abe, Independent Director and Chairman of the Board of Directors
Kyoko Mizuguchi, Corporate Executive Officer

<u>Questioner A</u>
Q1: *My impression is that, until now, the selection of Fujitsu's CEO has been done at random, and that future sustainability has not been guaranteed. Could you explain to what degree your current CEO nomination program is objective, and how strategically it makes its decisions?*

A1 (Mizuguchi): The current CEO nomination program is formulated through succession plans which are based on the direction the company is heading, as discussed by the Board of Directors. Actual candidates are then chosen with an eye toward enacting those succession plans, who are then interviewed by outside consultants and by the board. What is actually discussed in those interviews is, for example, both the direction the company ought to be heading in, and approaches to take toward that end. The candidates are asked to fill a single sheet of A4 paper, and give a presentation based on that. This changes depending on the year, but generally those who have already become executives are asked to undertake these interviews, as we work to ensure that the members of the board are continually conscious of a pipeline of future CEOs.

(Abe): You mentioned that sustainability is not being guaranteed, and I think that may be a reaction to the fact that President Tokita, our current president, has a system engineering background, while President Tanaka came out of sales, making predictions difficult and selections surprising. As Ms. Mizuguchi said, however, when President Tokita was selected, we had four candidates as part of our succession plans, and he was chosen from among them. This was based on the aggregation of both outside consultant evaluations and internal evaluations, with the Executive Nomination Committee receiving reports on these evaluations from the perspective of who is best suited for the direction we will be heading. In Japanese companies, it is often the case that the current president appoints the next president, but the problem with that is that the new president is unable to be critical of the line taken by the previous president. Particularly in this rapidly changing IT industry of ours, we do not feel that kind of transition is beneficial to us, so I think it is important for us to have succession plans with some objectivity.

Q2: *The heads of the Executive Nomination and Compensation Committees are independent directors, and meetings of the board are conducted by an independent director, so I think it would be perfectly fine for independent directors to make up a majority of the members of the board, but what are your future plans in this area? In addition, if the number of seats on the board for senior management within the company is reduced, that might significantly dampen ambitions, but if you have any thoughts about internal changes to things like incentives or ways of creating awareness that might reduce the impact of these changes, could you please share them?*

A2 (Abe): First, to touch on your first point, we think it is possible that we might head in the direction of having independent directors form a majority of the board in the end, and so we are considering the appropriate timing to take such an approach, considering both the Board of Directors as a whole and the executive officers. As to your second point, I think it is the case that becoming an executive, or a member of a board of directors, has been seen as the ultimate success in the life of a Japanese white-collar worker. With the evolution of corporate governance, and society demanding that boards of directors actually supervise the companies they are responsible for, I think it may be a natural and unavoidable trend for independent directors to form the majority of a board. As part of that, if that means that the incentives on the executive side would be reduced, that would be a significant problem, but in the case of our company, there is a significant difference in compensation between executives and independent directors, with executive compensation secured by setting plans, executing them, and producing results. Even in the Board of Directors, in Japan compensation for any individual over 100 million yen must be disclosed, so there have been cases where compensation has been held slightly below that amount due to hesitation over disclosure, but I think that if the company is truly functional, then from a shareholder or stakeholder perspective, paying appropriate compensation may not be worth worrying about. Currently, in our company, in addition to cash compensation, we have also added stock performance-based compensation as a long term incentive, based on performance trends over three years. The stock-based portion of compensation is relatively small, so the board is discussing whether it should be increased, but if the results are actually achieved, executives will receive appropriate compensation. In short, the incentives to become an executive within the company, and be promoted on that side to president or senior executive vice president, at least in terms of compensation, are better than ever before, creating a system wherein executives can earn significant amounts. Of course, I think money is not the only incentive, but I think it is still a definite plus. I believe that if we can properly create that sort of system, motivation may not fall at all.

Questioner B

Q1: *Your previous presidents, Mr. Yamamoto and Mr. Tanaka, are still members of the Board of Directors. How have they been received? How would you dispel concerns that they may be still influencing the current president?*

A1 (Mizuguchi): With regard to dispelling concerns, as almost half of the Board of Directors consists of independent directors, discussions also center on the statements of those independent directors. Non-executive directors, including the former presidents, are mostly listening to those discussions and giving their franks opinions about whether they agree or disagree. This has created an atmosphere of listening to the objective opinions of independent directors.

(Abe): I think your point is that having two previous presidents on the Board of Directors gives a rather strange feeling, and I think that is correct. I understand that when the current executive structure was being discussed in the Executive Nomination Committee, this was an issue that was raised. The conclusion that the Executive Nomination Committee reached was, first, that Mr. Yamamoto was also serving on the boards of other companies, and in my personal opinion, even when he was Chairman of the Board of Directors before I was appointed, he conducted business in an extremely independent and objective way. Depending on time and place, he would give objective opinions even of departments that he had previously been head of, guiding the conclusions of the board. As he has gained experience outside the company, the conclusion was that he is fulfilling his obligations as director from a very objective perspective.

Another point is that there is an idea that one of the non-executive directors must be someone with experience at Fujitsu. Independent directors get a lot of information from Independent Director Meetings and from the young staff members who are responsible for each director, but that does not mean we understand absolutely everything, so I think it is extremely effective to have one non-executive director who has deep experience at Fujitsu. To sum up, Mr. Yamamoto takes a very independent position, so I think he is sufficiently fulfilling his role as a non-executive director. With regard to Mr. Tanaka, he is helping us by demonstrating his insight from the position of a former president as a non-executive director. I have heard that this is the conclusion that Executive Nomination Committee reached after its discussions, and I personally am satisfied with that decision.

***Q2:** How would you evaluate Mr. Tokita's management? If possible, could you compare it to the Mr. Tanaka's management?*

A2 (Abe): We had worked out a direction and a certain method for our efforts to transform our business structure and our growth strategy. We made no changes to our plan for transforming the business structure, so I think I can say that we had made a major play. Building on that, as we turned the ship in a new direction, President Tanaka himself, as he was at the time, said that we would probably need to spend another five years on the effort, and that it might be best to hand the reigns over to a new executive structure. The Board of Directors also felt that, as we moved ahead with the transformation of our growth strategy, we would need someone with energy, someone who could handle the next five years, and someone who would not be afraid of change as the next president, and the Executive Nomination Committee discussed this as a requirement. Since the appointment of President Tokita, he has showcased his way of thinking for us in a wide range of situations, particularly in securing experienced talent from outside as we become a digital transformation company, and in establishing a company independent from Fujitsu. He is taking active steps to change things, including announcing that he would disclose our capital allocation strategy for the next five years when we announce our financial results for this fiscal year, so I feel that he is meeting our expectations that he would not be afraid of change as president. I would also like to offer the Board of Directors' full support for this management direction.

Questioner C

Q1: *On page eight of your slides, you explained that you had a 'monitoring list', but what sort of issues would be considered important enough to be monitored? I do not mean that I would like you to share individual, specific issues, but could you share, as much as possible, what sort of characteristics or requirements you have for what is monitored?*

A1 (Mizuguchi): Our company includes a wide variety of business units, and the nature of our Group companies also varies widely. For example, as we shift our focus to Technology Solutions, there are often discussions on high level topics, such as how to utilize our actual product businesses within Technology Solutions. Specifically, the overall direction is to gradually exit the non-core businesses that our Group companies are engaged in, so we often have meetings to explain the status of individual efforts to move toward an exit. Or in the case of our Network Products business, topics include a shift from a hardware business to a software business, or the direction for a major network products-focused subsidiary outside Japan. The way we use the monitoring list is that, for major topics, such as how to handle those items, individual questions and issues are added to a list, with suggestions from the secretariat and Mr. Abe, in his role leading discussions within the board, and then the business units offer explanations centered on the fields the board would like them to focus on, based on the prepared list.

(Abe): I will refrain from giving specific examples of issues on the list, but we focus on issues that will have a major impact on the future of the company, as well as on future moves the company will make, including issues relating to transforming our business structure as well as issues related to how we will expand in the future. We also do not simply listen to the reports, but rather have those making the reports explain where things will stand in six months, and in cases when the executives are proposing to do something by a certain time, we have them report at specific times so that we can ensure that what they propose will actually be implemented. This allows everyone to recognize the importance of an issue by giving them a sense of urgency with a guarantee that there will always be follow-up. We make this monitoring list so as to ensure that things are not accidentally dropped, or that we are not surprised when something we were told about one year has become something completely different the next year, making a practice of receiving reports at different intervals for the different issues.

Q2: *In comparing corporate governance in the US, there are many cases in which US companies look for people who can contribute business management knowledge when considering the backgrounds of potential independent directors. In Fujitsu's case, the only independent director with a background in business management is Mr. Abe. What do you think about that? Will new experienced businesspeople participate on the board in the future? In addition, what changes are you expecting with the participation of Scott Callon as a new director?*

A2 (Abe): First, as you point out, it is true that there are few independent directors with a background in business, and that is an issue we are considering. We are actively meeting with investors and soliciting feedback in a variety of areas, and we often receive comments about how we do not have former business executives or company presidents among our independent directors. So you might ask, when we recently expanded the number of independent directors from four to five, why did we not bring in someone with business executive experience. One reason is because when we think of management, we need to think of management of the entire company, and management involves a combination of various factors, including marketing, technology development, launching new businesses, financial management, and market expertise. When I have met with investors, many times I have been asked if opinions from the perspective of the market are being reflected in meetings of the Board of Directors. I always try to give my feedback at meetings of the Board of Directors, but we thought it would be very valuable to have market participants address the board and give direct feedback. We sought out the opinions of a variety of people, and, as a result, over 90% of them agreed, saying that they thought it was a wonderful idea. That was the background behind our decision to ask Scott Callon to join the board. I think there is a lot of value in asking business executives to join the board, and we will continue to consider it, but we want to avoid situations in which we ask executives to join the board who were unable to achieve a transformation of their own companies. There would be no point to it. If someone who was unable to execute a transformation joined the board and suddenly started telling us how we should change Fujitsu, that would not be feedback based upon personal experience. I would like our Executive Nomination Committee to search for candidates who can provide us with feedback based on their personal experience, and I would like us to consider getting them to join.

Questioner D

Q1: *A considerable portion of the medium-term plans of Japanese companies consists of their 'dreams', and I feel they are not achievable. US companies present targets that can feasibly be achieved, and I feel the strength of their commitment to executing their strategies. I am not saying that US companies are always perfect, but Mr. Abe, based on your wealth of experience, in what areas would you say that Fujitsu or other Japanese companies have been inadequate?*

A1 (Abe): Since becoming a director in 2015, there is one message that I have been repeating over and over, and that is that the strategy is weak, or there is no strategy. The way that many Japanese companies formulate their management direction presentations is to first ask each of their business units for 3- or 5-year management plans, add them all together, throw in a bunch of buzzwords, such as "AI," "security", and "data," and then put things associated with them on PowerPoint slides. That is in no way a strategy. A real strategy is based on scenarios that have a certain probability of occurring, in which specific markets are identified, the size of those markets is specified, you explain how your company will differentiate itself in attacking those markets, and you lay out a road map explaining what actions you will take. Only when you have a plan for achieving those goals do you have a strategy, in my view.

Since 2015, when Fujitsu was debating what its strategy should be, it created opportunities for independent directors to weigh in on those discussions. The strategic direction was finally determined, and President Tokita and his team are now fleshing out the plans, determining what they want to do in each specific market. We will soon focus on capital allocation, determining how much money we will spend and in which specific markets we will spend the money.

Just as your question stated, Japanese companies are very weak when it comes to strategy. They put together pictures to illustrate their explanations, but there is not much substance to them, or they have not been able to put together a full-fledged roadmap.

Q2: *In what areas do you think we will begin to see changes at Fujitsu?*

A2 (Abe): I think we can see changes in a variety of areas, and I feel I would like to begin to see further changes. As we stated before, the newly-established Ridgelinez is a wholly-owned subsidiary of Fujitsu, but it will be run independently at arm's length, and Fujitsu has brought in a number of outside people to serve in senior positions. As President Tokita has stated in his management direction, the human resources system will change to become position-based, in which compensation will be determined in accordance with the role one plays. The new system will first be implemented with management-level employees, and preparations are underway.

Disclosure policies and our key performance indicators are also under review. Even beyond our capital allocation strategy, there are discussions about whether we should establish management targets for the areas that contribute the most to Fujitsu's corporate value. Fujitsu has stated targets of an operating profit margin of 10% and an owners' equity ratio of 40%, but we are also thinking that it might be necessary to switch key performance indicators to management targets that are more closely tied to corporate value. I think you will see a steady stream of such changes. I think it is only a matter of time before the structure of the business is truly transformed, but there is one more thing that needs to take place, and that is raising our business performance in growth areas. This is the most difficult objective to achieve, but without it, there is no future. So we need to follow the results closely, and I hope create a pattern of higher performance.

Questioner E

Q1: *I think that sometimes figures from managerial accounting differ from publicly announced figures making it difficult to understand. What are your opinions on this?*

A1 (Abe): I think there is much truth in what you have pointed out. I often hear such comments when I meet with investors and analysts. I myself have pointed it out in meetings of the Board of Directors. For example, company-wide expenses are high, but the specifics are not disclosed. Fujitsu says expenses will be reduced, but I often hear from outsiders that, if the specifics are not disclosed, even if we are told that expenses will be reduced, it is difficult to understand what is going on. It is just as you said. This is an issue we are discussing at meetings of the Board of Directors, and we are pushing to consider improvements to this practice. It may not suddenly result in changing practices regarding all figures, but as you point out, there is a lack of transparency with this practice, and I would like this practice to change.

Questioner F

Q1: *From the perspective of governance, please tell us your policy guidance with respect to which businesses Fujitsu will continue to operate. I would like you to respond in terms of core versus non-core, the elimination of listed subsidiaries, and capital costs. In your infrastructure services business outside Japan and your Device Solutions business, I think your returns are consistently below your capital costs.*

A1 (Abe): You mentioned the terms "non-core" and "listed subsidiaries," but as we have said many times, the fundamental direction has been decided. Regarding the transformations to our business structure, what remains is just an issue of timing. As we have said before to investors and analysts, there are several perspectives to sales of businesses or exits, and we will either liquidate or sell at the most opportune time. When selling a listed subsidiary, there are multiple factors that go into the decision of whether to sell it immediately or to monitor the situation and look for the best time to sell. Fortunately, for our large listed subsidiaries, our returns exceed our cost of capital, so from the perspective of financial returns, keeping them on our balance sheet is not hurting our returns. Strategically, we are heading in the direction of digital business. Conceptually, those legacy assets will quickly be replaced by digital business assets, but if you go ahead and replace them before you have carefully planned how you will replace them, you simply end up with an inflow of cash with no place to spend it. If executives who lacked a growth strategy were faced with such a situation, they would have no choice but to return the cash to shareholders, so we are now working on a solid strategy. When we add so-called internally generated cash to the cash we receive when liquidating assets, how much will we have over the next five years, and in what areas will we invest it? We have also previously announced our thoughts about using any surplus to increase shareholder returns over a five-year, long-term period. Once these issues are decided, the timing of liquidations should become clear. Looking at Fujitsu from the outside, things may appear to be moving slowly, but we need to determine a solid direction. Then I would like us to formulate an exit strategy and roadmap, and steer our management execution in the right direction. If we do not generate returns on the cash we invest, our overall profits and capital efficiency will fall, so I would like you to give us sufficient time to formulate these plans. Once our plans have been formulated, I want us to move quickly to execution.