

ROUNDTABLE DISCUSSION AMONG EXTERNAL DIRECTORS

Further Enhancement of Fujitsu's Corporate Governance



Atsushi Abe
Managing Partner
Sangyo Sosei Advisory Inc.

Chiaki Mukai
Vice President
Tokyo University of Science

Miyako Suda
Special Advisor
The Canon Institute for Global Studies

Jun Yokota
Special Advisor to the Chairman
KEIDANREN

In last year's roundtable discussion, we had the external directors discuss the framework of the Company's corporate governance, addressing such topics as the composition of the Board of Directors, the current state of Board meetings, and the functions of the Independent Officers Council. This year, the discussion delved a bit deeper, with the external directors offering their opinions from an oversight-based perspective on such matters as medium- to long-term strategies, the progress of Fujitsu's business model transformation, workstyle innovation, the response to the sustainable development goals (SDGs), and the expectations they have of President Tanaka.

— Could you please comment on the changes you have seen in the Board of Directors over the past few years?

Atsushi Abe: I was appointed as an external director in June 2015. At that time, discussions on the Management Direction were held only by the executive directors, and the results of those discussions were reported at Board of Directors' meetings after a conclusion had been reached. I saw this as an issue as the external directors were not able to sufficiently participate in the decision-making process for medium- to long-term strategies. However, the Company established the Independent Officers Council in July 2015, which meets about once every two months. Around two to three hours of these meetings are devoted to having the executive directors and officers provide explanations to the external directors on various topics, including the Management Direction, and during this time I had the opportunity to voice my opinion on such matters. In addition, at the Board of Directors' meetings, we now hold discussions

on strategies before they are formulated, starting from the planning stage. I am therefore truly impressed with the kind of changes that have occurred over the past few years.

Jun Yokota: I feel the same way. Now that we are able to thoroughly participate in discussions, there seems to be a shared sense of ownership between the external directors and internal officers regarding the Management Direction. I believe that this accomplishment results directly from the fact that a wide variety of information is provided to us at meetings of the Independent Officers Council. By continuing to receive a great deal of input at these meetings, I hope to contribute further to the discussions held at Board of Directors' meetings.

Chiaki Mukai: Previously, discussions at the Board of Directors' meetings leaned heavily toward reporting the status of business execution. Recently, however, I too feel that the content of the discussions held at Board meetings has changed significantly.

While you would assume that the executive directors would only like to report positive aspects of the Company to external members such as ourselves, the executive side has recently opened up to us about the various concerns and issues they have, including those related to medium- to long-term strategies. This development has given me the sense that the Board of Directors has adopted a new mentality, one that demonstrates the external directors and executive directors are heading for the same destination—almost like passengers aboard the same ship. While a clear line is drawn between the roles of execution and oversight, we both share the same ultimate goal of wanting Fujitsu to become an even stronger company.

Miyako Suda: I am impressed by the fact that the content of discussions pertaining to medium- to long-term strategies has become much more specific. For example, when viewing presentation materials on the Management Direction that are geared toward external audiences, President Tanaka provides us with an explanation on the areas that the Company views to be particularly important as well as on the background against which the presentation materials were created. These explanations have helped me better digest the content of such materials. I am also pleased with the fact that we are provided with explanations on the visual aspects of these materials as well, such as the reasons behind the colors that are used. Through the process of having external directors involved in discussions at Board meetings, I feel that the direction in which Fujitsu is aiming can be better conveyed to an outside audience.

Abe: Within the Management Direction, the Company has clearly depicted its stance on concentrating investments in "Connected Services" and using these services to compete on a global scale. As a result, the Company has already received a certain amount of praise from its shareholders and other investors, including positive feedback on its KPIs. However, there is still a need to flesh out the specifics of each policy and present them in a way that can be better understood from an objective perspective. This would encourage shareholders and other investors to offer even more support for Fujitsu's strategies and give them confidence that the Company can realize sustainable growth going forward.

—What kind of improvements does Fujitsu need to make in order to complete its business model transformation?

Suda: One KPI adopted under the Management Direction is to achieve an over 50% ratio of sales outside Japan. I believe the key to attaining this KPI is strengthening the Company's governance on a global level. At the moment, I feel there is still room for improvement in terms of formulating rules related to determining authority and establishing supervision systems, in addition to putting these rules into practice. As directors of the Company, I feel we need to place more emphasis on not

only enhancing the governance of overseas subsidiaries but also on encouraging governance-related collaboration between these subsidiaries and the Corporate Headquarters.

Yokota: If Fujitsu truly wishes to grow its sales outside Japan, it has to bolster its overseas operations. Accordingly, there is a need for pursuing uniform initiatives across the entire Fujitsu Group.

Abe: The Company's global matrix organization combines regional lines with business lines. While this organization offers many advantages, it tends to become ambiguous in terms of who should be in charge of formulating strategies, who should be investing capital, and who should be responsible for strategy execution. If the Company aims to have a ratio of sales outside Japan of over 50%, it must first make clear the scope of responsibility for management personnel of each regional and business line so that they can recognize their respective obligations and carry out their duties accordingly.

Mukai: When competing in the global ICT market, it is crucial to recognize the importance of speed. However, with 155,000 employees and an 80-year-old corporate culture, the pace of Fujitsu's actions is not that fast. Changes in the business environment for ICT services occur rapidly, and I feel that operating with a sense of urgency is more important than the business of manufacturing hardware, such as PCs, itself. As such, I intend to monitor the Company's decision-making process from the perspective of speed going forward.

Yokota: I believe that the executive directors and officers are aware of the issues the Company faces in terms of speed. I believe it is necessary to identify areas where the Company can accelerate the pace of its actions on its own initiative and areas where it is difficult to control the pace of operations due to the circumstances of the various parties involved in the Company's business. Two years have passed since the Management Direction was announced, and now is the time for the Company to follow through on the actions it declared it would execute. The Company must give consideration to areas where an overly cautious approach can lead to missed opportunities and conduct the decision-making process accordingly.

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Chiaki Mukai

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Atsushi Abe

Suda: Within public economics, which is my field of specialty, attention is currently being paid in particular to the decision-making process. Fujitsu's corporate culture is one where, when an issue is recognized, improvements are made one after another. As such, from a perspective based on public economics, I will make active efforts to raise awareness on the importance of the decision-making process and consistently question the way the Company goes about that process. In particular, I will keep a close eye on how Fujitsu eliminates time-wasting aspects of the decision-making process and make sure that the Company is giving proper respect to on-site operations and minority opinions rather than being completely devoted to a top-down approach.

Abe: With the evolution of ICT going forward, Fujitsu will inevitably be faced with disruptive changes within its business environment. It is therefore necessary to incorporate concepts and ideas that go far beyond conventional ways of thinking. Discussions between internal members only will unavoidably lean toward past successes and stay within the limited context of the Company's conventional culture. With this in mind, it is extremely important for us as external directors, with different backgrounds, to make proposals, offer input, and introduce themes for discussion that transcend Fujitsu's conventional way of thinking. As it is the duty of the executive directors to consider measures for improvement, we will maintain a high awareness of our role as external directors to provide oversight and advice as we strive to stimulate discussions while maintaining an appropriate distance from the executive side.

—In February 2017, a Board of Directors' meeting was held in Silicon Valley. What kind of useful experience did you gain from this meeting that will benefit you in fulfilling your role as an external director going forward?

Suda: After talking with local Fujitsu Group employees, I gained a sense of how they engage in their work with a high level of motivation. Having these conversations was a very beneficial experience for me. When discussing management strategy at Board of Directors' meetings, it helps to be able to picture the local staff that will actually be executing such strategies. I also thought our visit to the Fujitsu Sunnyvale Campus was an extremely valuable experience, as we were able to observe how Fujitsu operates overseas.

Mukai: For me, the visit to Silicon Valley reinforced the sense of urgency we need to have in terms of acquiring talent. While the lifetime employment system still remains as part of Japan's work culture, overseas ICT companies actively hire employees from other companies, and the more talented employees tend to change companies with the aim of further advancing their careers. Based on this trend, I now understand the importance of preventing superior talent from leaving the Company as well as attracting outstanding international talent.

Yokota: The atmosphere of Silicon Valley gave me a sense of the “disruptive changes” that Mr. Abe just mentioned. By sending not only Company officers but also employees overseas to experience a workflow that is different from that of Japan, I hope that Fujitsu can cultivate a corporate spirit that encourages unprecedented innovation.

—How do you evaluate Fujitsu's efforts toward workstyle innovation?

Suda: Fujitsu has been pursuing efforts in workstyle innovation, including the introduction of the Telework System in April 2017. If the Company is able to create working environments that allow employees to feel fulfilled in their work through efforts such as these, then I believe it will be able to attract superior talent going forward. As operational efficiency increases when motivation levels are high, workstyle innovation efforts need to be more than just a formality and must actually establish positive working environments as quickly as possible. If Fujitsu, as an ICT company, can use technology to successfully achieve workstyle innovation, I believe that such success can become an operational strength as well.

Abe: I could not agree more. Offering a worker-friendly environment to our employees clearly results in increased efficiency, and this is why efforts in workstyle innovation are so important. As Fujitsu aims to be the world's leading ICT company, it must draw on ICT to flexibly resolve issues in workstyle innovation, thereby establishing a clear edge over other companies to maintain a leading position in this regard.

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Mukai: Japan's population continues to decline. Amid such circumstances, it is important for Fujitsu to consider the perspective of how much ICT can contribute to reducing the need for manpower. Giving consideration to workstyle innovation within its medium- to long-term strategies, Fujitsu needs to identify the areas in which it can contribute the most as an ICT company. This in turn will help the Company steadily enhance the competitiveness of its businesses.

—As SDGs garner more attention, corporations are being called upon to resolve social issues. What kind of initiatives do you think Fujitsu should pursue in this regard?

Suda: To realize sustainable growth as a company, Fujitsu needs to recognize the necessity of achieving sustainable development for the planet and strategically promote initiatives based on this recognition. Fujitsu is currently engaging in various measures related to resolving social issues, and I think it is necessary for the Company to leverage such measures within its businesses to enhance its corporate value. Naturally, the Company should make sure that the efforts it is pursuing appeal to investors. In terms of issues that are attracting international attention, such as the use of ICT to rectify global disparities, I believe that there are many things that Fujitsu can accomplish.

Yokota: As the SDGs continue to garner attention, we are likely approaching a time in which some companies are weeded out due to the progression of regulations and laws that impact business. With its technologies, products, and services, Fujitsu possesses a broad range of tools that can be utilized to resolve social issues. Accordingly, I think the Company should capitalize on this current trend to pursue new business opportunities. In regard to the efforts that Fujitsu is pursuing at the moment, the Company is working to reduce the environmental burden of its business activities under the “Zero CO₂ Emission” initiative, positioning this initiative as one of the pillars of its medium- to long-term environmental vision. I believe this move bears a great deal of significance.

Mukai: The SDGs have provided us with an internationally shared method to measure the activities of a corporation, and I feel that they can be used to effectively showcase to the world the results of the Company's independent efforts to resolve social issues thus far. On a side note, in light of the 17 goals and 169 targets of the SDGs, there have been comprehensive examinations for how space development, my area of expertise, can contribute to society, and focus fields are being established accordingly. In a similar manner, I believe Fujitsu should ascertain the areas in which it can make strategic efforts and draw on the SDGs to attract the support of society at large and investors.

Abe: When it comes to Fujitsu's efforts to resolve social issues through its core business, I believe it is also important to give

strategic considerations regarding the best way to communicate the results of these efforts. Fujitsu is making a great deal of social contributions through its core business, such as reducing the environmental burden of its client companies through the provision of ICT systems. Despite this, the outside recognition of Fujitsu is relatively low. For example, using simple yet symbolic language, U.S.-based Apple Inc. has showcased to investors the fact that it achieved a 96% utilization rate of renewable energy within its facilities, thereby making a lasting impression. If Fujitsu can convey similar accomplishments in a highly impactful manner such as this, then it should be able to boost its reputation and increase its sales.

—We are approaching the third year of Tatsuya Tanaka's tenure as president. What kind of expectations do you have of President Tanaka going forward?

Abe: I hope that President Tanaka remains committed to steadily promoting efforts in accordance with the Management Direction and accomplishes the targets the Company has set for itself. As an external director, I will constantly question the Company as to whether its policies and actions are appropriate for realizing the Management Direction, and I also hope to contribute to discussions by the Board of Directors that look at things from new perspectives.

Mukai: I want President Tanaka to pursue initiatives that only he himself can spearhead. For example, I have heard that President Tanaka was active in the film department during his university days. Perhaps he could draw on this experience to promote efforts that use ICT to contribute to artistic fields.

Suda: In regard to management targets, rather than being dead set on accomplishing the previously established targets, I hope that President Tanaka maintains a degree of flexibility in revising targets to ensure they are the most appropriate for enhancing overall corporate value.

Yokota: Until now, I feel Fujitsu has been in a stage of preparing to make the next big leap. Going forward, the Company will enter into a phase of reward and will benefit from its efforts to date. Accordingly, I will offer my assistance as an external director so that Fujitsu can grow its business in this phase with a sense of urgency.

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