

Summary Translation of Q&A Session at Briefing for Analysts to Introduce Nominee for President

Date: April 26, 2019
Location: Fujitsu Headquarters, Tokyo
Presenters: Tanaka Tatsuya, President & Representative Director
Takahito Tokita, Corporate Executive Officer and SEVP

Questioner A

Q1: I understand, Mr. Tokita, that you come out of the financial side of system engineering, and that under the new management structure, two of the three new members of the Board also have a system engineering background. Should we understand this to mean that your main focus will shift to solutions services?

A1 (Tokita): As you said, two of the three new Representative Directors have a background in system engineering, but that does not mean that our central focus will be on our solutions business. For some time, Fujitsu has had a strategy of becoming a services-oriented company, and I will be taking up that strategy as-is and moving forward with it, so I think it is obvious where our focus will be.

Q2: Has there been any change in your goal of achieving revenue of 3 trillion yen and an operating profit margin of 10% in Technology Solutions by fiscal 2022? I have previously heard that the 10% margin breaks down as a 13% margin in Japan and a 7% margin outside Japan, and if that is still the case, what sort of profit margins are you assuming for Services and Platforms?

A2 (Tokita): With regard to the goal of a 10% operating profit margin for Technology Solutions, I would like to continue working hard to meet that goal. It is correct to say that with respect to the breakdown of that operating profit margin between Japan and the rest of the world, we are putting greater relative importance on Japan. In addition, I cannot say how much of that will come from Services and how much from System Platforms, but my current goal is to put greater relative weight on Services.

Q3: I think that the market has become even more severe for System Platforms. As you lean toward Services, how are you planning to deal with the competitive environment regarding your platform business?

A3 (Tokita): I think that, given the premise that Fujitsu will become a services-oriented company, the technology Fujitsu has, which will form the basis of our services, is extremely important. I would like to actively allocate resources to technology that will contribute to boosting the momentum of our services, and so I would like to also allocate resources to System Platforms, which can deliver value to customers alongside Services.

Questioner B

Q1: I think that operating profit margin for your services business in Japan is still stuck in the mid-single digits, because they are covering expenses at headquarters. At the same time, other

companies in the same industry have profit margins in the double digits, so this feels very low compared to them, but could you tell us if you have any ideas of what you could do to raise the profit margin of Fujitsu's services business?

A1 (Tokita): I would like us to properly discuss this within the company in the near future, but for some time, Fujitsu has been operating services businesses that support an extremely large number of customers, and while there are some businesses that produce significant profits, there are also some that do not. It is true that, while people have been pointing out the importance of selection and concentration with regard to segments for some time, even within the company, this concentration and selection has not progressed. For future growth, I would like us to grow by keeping a close eye on segments that the market have high expectations for, and concentrating our resources accordingly. If we do that, I think our profit margin will naturally increase.

Questioner C

Q1: My question is for President Tanaka. As you have led from the front over these years, could you give us some examples of things you had difficulty with, things that were harder than you expected, and on the other hand, things that went better than expected?

A1 (Tanaka): When I was appointed in 2015 and I looked at our overall business areas, from the beginning I decided we ought to concentrate on Technology Solutions, and I decided that we would compete on a global level. With regard to concentrating on Technology Solutions, I think there have been a variety of views on issues such as our sense of speed, but I do think that we were able to achieve this to some degree, while taking a variety of factors into consideration. I think I was able to create a path, and get everyone into the mindset that we are focusing on Technology Solutions and shifting to services. There is still a way to go with digital transformation, but I see the fact that I was able to strengthen our business in Japan as an achievement. On the other hand, I wanted to make improving our business outside Japan a goal for my tenure. We tried a variety of approaches, but nothing we did was able to significantly change the ratio between Services and System Platforms. While our services business had a variety of customers, I think I have left behind an issue in terms of getting the brand of Fujitsu services to penetrate very broadly. I hope that the new management will take up this issue on my behalf, and I am currently speaking with the members of the new management team about this. On top of that, as we grow our services going forward, we need to get involved further upstream, and further strengthen our areas of expertise. That is also something that will be left to the new management.

Q2: In the stock market, there has been a question for about ten years about why Fujitsu has not been able to improve its businesses outside Japan. Every time top management has changed, the management says, "this is a problem, we will fix it," but you have not ever been able to improve things. Despite taking all sorts of measures, there has been no improvement. Where do you think the real heart of the issue lies?

A2 (Tokita): I think it is certainly true that when it comes to our business outside Japan, Fujitsu has tried all sorts of methods to improve things. While I was only stationed outside Japan for two years, what I saw for myself when I was there was that we had devoted ourselves to products and hardware maintenance, and although that was becoming a significant liability due to changes in

the environment, we were not able to push back against that and build new businesses, as we were always on the back foot, reacting too slowly to everything. Recently, we have been desperately trying to change our structure, but the most important element really is people. We have not been able to develop personnel resources outside Japan to support a services business over the long term. Not only is there a high level of fluidity in human resources outside Japan, as I am sure you are all aware, the methods of developing personnel are also different from Japan, and we have not been able to firmly establish either the capabilities necessary to meet the demands of our customers in industry, at the least, or our capability to maintain our services business over the long term. I think that, more than developing personnel, it was due to the weakness of our systems for establishing these capabilities at an organizational level. I have led the Global Delivery Group for the past two years, but when it comes to competing outside Japan, I think we are still falling behind in terms of onshore and offshore resources in our resource allocation. We also do not have clarity when it comes to what services we should be providing onshore, and what we should be doing offshore. We have a lot of personnel problems here, and as mentioned in a previous question, this is something that will take time, but these shifts and replacements in on- and off-shoring must be done more quickly. For this reason, it is essential to secure the understanding of customers and the market. I think that this is not something we can leave to our employees outside Japan – there is also a role for headquarters.

Q3: Please tell us about your plans for strengthening system integration in Japan.

A3 (Tokita): While I think the details and the actual implementation are something that needs to be filled out going forward, the main thrust will be in making our strengths more conspicuous. In particular, everyone is talking about digital right now, but even though Fujitsu also has good resources, personnel, and technology assets, we have not concentrated them into strong fields. We will concentrate Fujitsu's resources in the digital field in particular, and build on top of the existing business we have persevered up to now. In addition to that, we would also like to show our strengths to new customers who have not seen them for themselves, or whose recognition of those strengths is low, capturing new business.

Questioner D

Q1: I am personally not at all confident that your service business in Japan is secure. I think you are highly reliant on the finance industry, but thinking about the various circumstances of banks and brokerages, it is difficult to see where long-term growth in the IT investment budgets in the finance industry will come from. I would like to ask your opinion on this point. What is the correct way for Fujitsu to face this issue?

A1 (Tokita): There are places where I agree with your feeling that our business in Japan is not secure. It is the State Infrastructure and Finance Business Group, where I come from, handling areas including finance, societal infrastructure, and the public sector, that has supported volume in Fujitsu's business in Japan. As you know, many financial institutions are in the middle of restructuring, and many of them are trying to go it alone in digital, so there are circumstances where they will not necessarily call on Fujitsu. For our current client base, we will secure business by properly delivering quality and trust, and then building good proposals on top of that, showing them our new capabilities. By having Fujitsu Limited taking care of business in major cities in Japan and rebuilding a formation of Group companies to take care of regional

business in Japan – along with support from Fujitsu Limited, we will create a structure that can reach all sorts of segments within Japan.

Q2: If you stick to your current policies with regard to transforming your business portfolio, I think that the stock market is not assessing that you have made very significant changes. Even thinking about your business outside Japan, I think it may be necessary to have a greater sense of acceleration, but what are your thoughts? Can you please tell us your way of thinking about when you will be able to speed things up, if you decide to do so, and whether you need to look into that more?

A2 (Tokita): There has been no change to my plan to continue with our current management strategy, but I think there are parts of our portfolio we need to maintain and parts that we need to change. Now more than ever, I am thinking about where we need to begin, but at the very least, we need to speedily revamp things, though I do not know if this phrasing is appropriate. Taking into account your point that our business in Japan is also not necessarily secure, I think we ought to not maintain a structure with profits from business in Japan supporting our business outside Japan for much longer.

Questioner E

Q1: You announced that in fiscal 2018 you would shift nearly 2,000 employees from indirect or support positions to direct, front-line business positions, but on what kind of time horizon do you expect to see results in terms of transforming your services business?

A1 (Tokita): We feel the utmost respect and gratitude for the employees who, with their individual strengths, shifted from administrative or support positions within Fujitsu into direct business areas, such as sales and systems engineering, in our resource shift. While we have high expectations that they will quickly produce results, it takes an adequate period of time to cultivate new abilities. Doing everything only through Fujitsu's own training programs and our own resources would be far too slow for what the market and our customers demand. To raise the capabilities of our resources, we hope to accelerate our internal training programs, but I also want us to use the talents of people outside of Fujitsu or even have people outside of the company join Fujitsu. For that reason, as well, we need for Fujitsu to be viewed as an attractive company by people outside of Fujitsu.

Questioner F

Q1: In your current med-term plan, it seems that there are many things that are only half completed. You have not yet completed your structural reforms in Europe, and you have not yet closed your factory there. Your network products business in the US is losing money. Your services business outside of Japan is also not performing well. You have talked for some time about selling your non-services businesses, but several of them remain, including FDK, Shinko Electric, and Fujitsu General. What are your thoughts on the restructuring of these areas?

A1 (Tokita): Of course we would like to thoroughly complete all of the items we have listed to address on our action plan. As for the sequence, although there are some areas about which we would like to further consider, we feel that making steady progress in executing these plans will lead us to grow as the services-oriented company we have envisioned for Fujitsu.