

Summary Translation of Question & Answer Session at Briefing for Media on the Nomination of a New President

Date: March 28, 2019
Location: Fujitsu Headquarters, Tokyo
Presenters: Tatsuya Tanaka, President and Representative Director
Takahito Tokita, Corporate Executive Officer and SEVP

Questioner A

Q1: What area do you think is the biggest issue facing Fujitsu and that you would like to see the new president change?

A1 (Tanaka): Fujitsu has become a very large organization, and there are a variety of technologies and a lot of experience in the organization, but it is still not in an integrated form for customer value. We need to take what we have and create a form for integrated delivery to customers. I think that will lead to growth, and this is also where I have great expectations for the new president. He is a very powerful person, so we believe he will do it. Another area is our business outside Japan. For many years we have worked to expand our business outside Japan, but we need to expand Fujitsu's presence outside of Japan, including by addressing the issue of integrating our capabilities I just mentioned. Until very recently Tokita was in London, and because he has front-line experience outside of Japan, I personally have high expectations in this regard.

Q2: Upon becoming president, what aspect of Fujitsu would you like to change? Also, in light of your experience in London, please tell us about Fujitsu's future strategy outside of Japan.

A2 (Tokita): Although Fujitsu has many talented employees, as well as many outstanding technologies and ideas, it is becoming difficult to integrate them, bring together our insights, and create a picture of the next phase of our future. On the one hand, because we have put customers first for many years, we have close relationships with them, but this may have made us less adept at presenting customers with ideas and delivering new value to them with the next technologies on the horizon. While expanding each of our strengths, I would like to create management mechanisms that enable us to coordinate across these areas.

As for our business outside Japan, we cannot say that it is in good shape now. From eight locations outside Japan, we have the capability to deliver services to all the regions, but I did not feel that we were effectively using it, even though I was the one directing it. The eight locations cover all regions while coordinating among themselves, and through the mechanism of leveraging the insights of local employees to create services, I would like to create an organization that is capable of adding new value and delivering it to customers.

Q3: Are you thinking of creating a new organization with a global cross-regional structure?

A3 (Tokita): For the past several years, we have used a global matrix structure for the overall management of the company. In this global matrix organization, among delivery units or business units, the only unit that cuts across all regions is the Global Delivery Group. I would

like to switch to a mechanism that would enable the capabilities of the Global Delivery Group to be deployed in closer proximity to customers. If the traditional offshore development model was based on the relationship between the customer placing the order and the developers receiving the order, in our case I would like the Global Delivery Group to be a cross-cutting organization that can work close to the point of contact with the customer.

With that as the core, I would like to create an atmosphere in which a variety of business units can work in the same way in order to roll out expertise.

Questioner B

Q1: In the medium-term plan you announced last fall, you have a target of achieving an operating profit margin of 10% in fiscal 2022, but you haven't yet reached that level, and I think the circumstances are fairly severe. What are the reasons why there have been delays in achieving that target? Also, please tell us your biggest regrets, if you have any.

A1 (Tanaka): In last October's Management Direction Progress Review, we newly disclosed a target of 10% for Technology Solutions. Our basic stance is that the operating profit margin is determined by the value a company is able to deliver to its customers, and that is where value is revealed. While we have been adamant about an operating profit margin of 10%, we were not able to integrate our talent, experience, technologies, and resources in a way that we could effectively compete in global markets. We charted a course, with a clear-expressed core focused on Technology Solutions, and we followed up with our actions in executing this plan, but my feeling is that we were unable to reach that extra step.

Q2: Since the second half of last year, you have implemented major initiatives with respect to transforming your business structure, and I think you could have waited to see the results of these initiatives, so why did you choose this time to make the decision on your successor?

A2 (Tanaka): It is true that part of me wants to continue as president. The pace of change, however, is incredibly fast. Since I became president, unforeseen competitors have become extraordinarily strong, and startups are now becoming able to deliver value to their customers. In light of these changes, while my medium-term plan extends four years into the future to fiscal 2022, rather than have me stay on and possibly not be able to see it through to the end, I thought it better to take a bolder step and have a new executive team inherit this plan, formulate strategies for implementing it, and then immediately have these new members take accountability for executing it. From that perspective, the time was right, so I consulted with the Nomination Committee, and that is why we announced it today. I am satisfied that this was the right course of action.

Questioner C

Q1: President Tanaka, earlier you described Mr. Tokita as a very powerful leader, but are there any specific instances of his leadership that you can share with us?

A1 (Tanaka): Tokita has been responsible for very large scale projects. Projects in the financial services industry can be especially severe, extending over several years, with many ups and downs. He managed these projects from start to finish, never shaken by difficulties, holding to

his own vision, and I have seen him inspire his subordinates to achieve his vision. When also considering the issues facing Fujitsu, I think he is an exceptional choice for the job as he can inspire a lot of talented employees to follow his lead and achieve a transformation of Fujitsu. That is the strength I sense in him as an individual.

Q2: Likewise, Mr. Tokita, are there any particular incidents that left a big impression on you?

A2 (Tokita): For a long period of time I was a systems engineer on the front lines, starting in the mainframe era and extending through UNIX servers, the shift to open-standard systems, and the internet era. At that time I was in charge of life insurance companies, and they were equipping their salesforces with IT at a time when they were dynamically changing their business model. At that time, we systems engineers did not have the ability on our own to change business models, so what was most important was the power of integration—to bring together a variety of capabilities in such areas as hardware, software, and networks. The systems for the sales offices of the life insurance companies were nationwide, making them very large. That I was able to work in such a dynamic area is one episode that left a lasting impression on me.

Questioner D

Q1: I would like to ask Mr. Tokita when, where, and under what circumstances he learned of this succession plan, and what he felt at that time.

A1 (Tokita): I will refrain from speaking about the timing, but I heard it from Kazuto Kojima, who chairs the Nomination Committee, in a meeting also attended by Chairman Yamamoto.

Q2: What was your reaction?

A2 (Tokita): Of course I was surprised, but I was also very honored, and I told them that I wanted to work to meet their expectations.

Q3: Mr. Tokita, what most stands out in your experience is your work on large-scale projects in the financial services industry. From Fujitsu's position and the position of supporting digital transformations, rather than implementing large-scale projects, I think that your business model itself will change in the form of helping customers on various upgrades and innovations. In these circumstances, what are your aspirations in terms of how you will make use of your work experience up until now?

A3 (Tokita): As for large-scale systems, especially the highly centralized systems of the megabanks, in today's digital era the structural implications of the systems themselves are changing. I see that in a variety of customers in the financial services industry. I think that, from now on, everyone needs to be taking a cross-industry approach. In payment platforms, the field of financial services is an industry that is working with a variety of other industries, so I would like to make use of that aspect of my experience when I worked with financial services companies. From my first-hand experience, I am confident that I can convey this message to Fujitsu employees.

Questioner E

***Q1:** I would like to ask a question of the new President Tokita. Previously you thought all you had to keep an eye on was IBM, but now you have companies like the GAF A companies. In these circumstances, what will you use as your strengths in order to raise Fujitsu's presence as a company on the global stage?*

A1 (Tokita): Fujitsu's global business up to now, or even as of right now, has placed a greater relative importance on hardware and products. Services from our global delivery centers are also focused on managed infrastructure services. These are areas where cost competitiveness is extremely severe. What will be essential in the coming digital era will be knowledge of customer industries, and the knowhow necessary to transform their business models and business processes. Going forward, with regard to our global business, I would like to reduce the relative importance of the hardware business, while creating internal organizational mechanisms to enable us to expand around the world the knowhow we have cultivated in Japan with regard to the services business. There is still a clear distinction within the company between Japan and the rest of the world. I think the question of how to act with unity across this divide is extremely important.

Questioner F

***Q1:** I think that, over the last few years, Fujitsu's selection and concentration of business has proceeded to a certain point, but will you be pushing that even further in the future? Could you give us a sense of how fast you intend to move, and in what directions? Also, could you likewise tell us about what sorts of measures you are considering with regard to personnel in those circumstances?*

A1 (Tokita): Fujitsu has made significant changes to its business structure in the transformation process. Those changes were based on the changing times, on competitive relationships, and on customer needs, and I think that going forward, we will continue to make transformations when necessary while considering those sorts of changes. As part of that, I think we may also need to touch on personnel, but at this moment it is not under consideration.

Questioner G

***Q1:** It has been some time since Fujitsu has had a president who came from system engineering. Could you tell us the significance of that?*

A1 (Tokita): In my introduction, I said that I had always been a part of the SI/Solutions Unit. The unit's name when I joined the company was the Systems Unit, but it has changed any number of times over the years. I think that the reason the System Engineering Unit changed its name was because the business itself is changing, and the requirements of our customers that are its foundation are changing. If we ask what is needed most now in the digital era, I do not think we meet our customers' needs with just our own products and services. I think this is an era that calls for integration, not just internally or in our relationships with customers, but also in the sense of working together with a variety of service vendors. I personally think that one of the reasons I was nominated was in light of these expectations.

Q2: You have said that you would like to compete globally in places where you are strong, but I think there are various potential methods of approaching this so do you have a vision of how Fujitsu will compete globally with the strength of system engineering?

A2 (Tokita): As I said earlier, it is a fact that, as of right now, if you add the element of system engineering, there is a significant gap between Japan and the rest of the world. While we have previously been working on service desks and offshore development, we would like to change that behavior so that the personnel involved in application development for various industries can go and work in spaces that are connected with customers. I am not saying they will be able to immediately work like the Japanese field system engineers we have cultivated for thirty or forty years, but I think we can aim for that sort of structure. As part of that, I would like to aim for a structure where we can produce the sort of essential personnel who have extremely high programming productivity or who have an extremely high level of industry and process knowledge and can handle consultant-type activities, not just in Japan, but around the world.

Questioner H

Q1: I believe that this presidential succession is due to the fact that you were able to achieve a certain level of workforce reduction as part of your effort to transform your business structure, but is that the case?

A1 (Tanaka): There is no connection between the resource shift and my stepping down as president. The question of at what stage I would step down has been something I have been considering since I first became president. I thought that it must also be at the appropriate time, and I judged that this timing might be ideal.

Q2: You spoke about how putting the customer first made you unable to lead your customers, and how that may have been an issue for you, and I think this is a significant issue, not just for Fujitsu but for all Japanese electronics manufacturers. Could you please share with us any policies to overcome this issue, or any ideas you have for changes that might lead to you being able to lead your customers?

A2 (Tokita): If we narrow the scope of the question to just the Japanese market, there is a part of the SI business that is overly cautious, prioritizing risk hedging and limiting losses too highly. While there are of course many system engineers who are not like that, if some of them create that sort of trend, that may become an obstacle to creating the mentality of actively leading customers. Another element has been our preference for everything in-house, sometimes insisting on the mainframe, middleware, and OS all being Fujitsu-made. Looking at the situation now, we simply cannot have everything be in-house, and if we consider the problem of speed, I think we have no choice but to use outside strengths. I think that the change to the mentality of using outside products as well will propagate out from me to the rest of the company.

Questioner I

Q1: President Tanaka, in your initial explanation, you said that you will work to see out the completion of the business transformation after becoming chairman, but when you say completion, what are you leaving undone, and how will you finish it? Are you speaking in terms of work outside Japan, or of the company's structure within Japan?

A1 (Tanaka): I have taken a variety of measures, but I do not think that we have yet allocated the right people and resources in the right places within our large organization. This is something that will continue to change more and more with the times, but we need to make these changes, this process of becoming slightly more integrated and changing people's roles in the company, part of moving the company, including Group companies, into a more optimal structure. When I become chairman I will be separated from the execution of policy, but I would like to utilize my experience in sales and in Asia to provide good advice, and I hope to offer my support to the new president.

Questioner J

Q1: When you collaborate with other companies, how do you provide added value? Also, as cloud vendors are entering the Japanese market, how will your systems engineers gain the skills they will need to be ready for the cloud era?

A1 (Tokita): I think that there are many views on how to compete in the cloud era, but I think this is not an era in which you can do business with just a platform by itself, or even an era where you can compete with just some certain types of applications, services, and products on a platform on their own. I think that this is where the process of creating new value with the power of integration, where Fujitsu is strongest, is necessary, in the form of integrating services, platforms, and the applications that support them. With regard to personnel, I think that is an extremely difficult issue. I think it goes without saying that if we say we are aiming to grow as a services-oriented company, the most important issue for us is recruiting the right personnel, developing them, and training them. I think that we need to put even more effort, not just in Japan, into recruiting personnel who can master knowledge of outside capabilities, in particular technology from outside Japan, as soon as possible, and for that reason, we must also put more effort into global training, including language studies.