Q: Please tell us about the management direction you announced at the end of October.

A: In the recent management direction announcement, I talked about three initiatives we must pursue to transform our business model for sustainable growth. The first is to shift the structure of our business to focus on “connected services.” The second is to pursue the potential for digital innovation made possible by ICT. And the third is to deliver these services and innovative approaches to global markets.

Let me explain the first of these, the transformation of our business model. We are concentrating our management resources in Technology Solutions to provide “connected services,” which is a business model we pursue. With “connected services,” through the expertise we have accumulated in solutions, systems integration, and infrastructure services, along with the cloud and a rich portfolio of software, including middleware, as well as by controlling through software the functionality of core hardware, such as servers, storage, and networks, we seek to provide customers with highly integrated and refined one-stop services. By combining software and hardware technologies to underpin services, we enable the creation of new value for the digital society, where everything is connected.

For the businesses outside of our Technology Solutions segment, including our Ubiquitous Solutions businesses and LSI business, we will position them as “devices” and grow them as strong, independent businesses.

As part of the effort to build them into strong, independent businesses, we will make our PC and mobile phone businesses into wholly owned group companies for the purpose of enhancing their ability to grow. By eliminating the framework of dependence through separation of commodity business areas from the parent company, we seek to speed their management decision-making and solidify their profitability and growth prospects as subsidiaries that operate as independent businesses.

To strengthen the fundamentals of our business in the EMEIA region, we will close our product development facility in Germany and consolidate our development organization. We will also integrate our service delivery organization and pursue efficiencies in shared administrative functions to improve the profitability of our business outside of Japan, which has long been an issue.

For system engineering services, we will standardize the knowledge and specialized expertise we have accumulated and implement it on MetaArc, our digital business platform. In addition to the knowledge of system engineers, the core technologies of the business units will also be shared through MetaArc in order to deliver high value-added solutions.
Our second transformation entails digital innovation. With the evolution of the Internet of Things, new business realms will emerge. In addition to fields of healthcare and agriculture, where we already have initiatives, we will deploy specialist sales teams and system engineers in such new fields as self-driving vehicles, fintech, and digital marketing in order to deepen our relationships with customers. We are accelerating initiatives in these new fields, and we currently have over 300 pilot projects underway to increase our knowledge and technologies in new areas. We will provide high value-added services that are generated from these pilot projects.

Our third transformation entails strengthening our global presence. It is expected that the Asia region, in particular, will experience strong growth. As region head until last year, I have seen how dynamic the region is. To leverage the strong delivery and sale capabilities we have in Japan, we changed our regional structure to create One Asia.

In addition, to further enhance the global delivery organization we launched last year, we will increase our offshore workforce from its current level of 5,000 to 18,000 employees, and make it so that each region has flexibility in utilizing these resources. We will also promote the sharing of expertise in order to enhance our global proposal capabilities.

In addition to these three transformations, we will also transform our cost structure. By thoroughly utilizing offshoring capabilities and migrating all internal systems to the cloud, we seek to reduce total costs by over 100 billion yen from throughout the Company.

Through these initiatives, we seek to achieve the following financial targets: an operating profit margin of at least 10%, free cash flow of at least 150 billion yen, an owners’ equity ratio of 40% or more, and a ratio of sales outside Japan of 50% or more. Every year we will report our progress in reaching these targets. We will take a detailed look at our progress every year and make adjustments as necessary. That is how we will change Fujitsu’s fundamentals and make further progress towards growth.

**Q:** You have described what you aim to achieve with your business model transformations, but if you concentrate management resources in Technology Solutions, how are you positioning the businesses other than Technology Solutions, both now and in the future?

**A:** The shift we seek to make toward “connected services” is a significant turning point in Fujitsu’s long history.

Fujitsu has undergone two important turning points in the past. The first was a shift from telecommunications to computing. The second was the shift from a hardware business focused on mainframes to the solutions business. Now we are shifting from solutions to services.

Up until now, vertical integration was a strength of Fujitsu. Now we are reevaluating hardware areas that have become commoditized or businesses for which there are few synergies with Technology Solutions.
We have already exited some areas of Device Solutions. For other businesses outside of Technology Solutions, while examining potential synergies with Technology Solutions, we will explore all alternatives.

**Q:** What are your objectives in making your PC and mobile phone businesses as wholly owned group companies, and when will this occur?

**A:** The objectives are to speed decision-making and raise profitability in order to build stronger organizations. By making them into independent subsidiaries, we hope to free them up in terms of their thinking and initiatives.

At the same time, we will hold them more strictly accountable for managing their own profits and losses as if they are independent companies rather than business units. As for the timing, we are seeking to complete the establishment of the subsidiaries this fiscal year.

**Q:** What is your plan after spinning off the PC and mobile phone businesses? For example, are you planning to exit these businesses?

**A:** At this point in time, nothing has been decided. We are undertaking initiative designed to strengthen our businesses in PCs and mobile phones. As we go through this process, there is a possibility that a variety of options will open up to us.

**Q:** In transforming your business in the EMEIA region, you mentioned that you will close an R&D center and pursue additional efficiencies, but will those measures be sufficient?

**A:** We are positioning Europe as one of our core regions, and we understand that ongoing reforms will be necessary. We consider this the start of initiatives to bolster global delivery centers and focus on the services business.

**Q:** My understanding is that you are positioning digital innovation as an area of future growth, but what are your thoughts about the timeframe for turning this into a real business?

**A:** We have conducted very intense internal discussions about initiatives in future growth areas. With respect to field trials, in many cases the initiative came from our customers. Many of these have just started, and our business approach is that we would like to turn them into real businesses as quickly as possible. For those whose future growth prospects or profitability prospects are poor, however, we have no intention of turning them into businesses, and we plan to approach those assessments very prudently.

We think that this year and next year will be very important, and we will be proceeding with our assessments. We would like to be able to launch new businesses while we are making profits from existing businesses.

**Q:** In addition to such areas as IoT and big data, other emerging areas are expected to become very significant, such as Artificial Intelligence (AI) and Software Defined Networking (SDN). What is Fujitsu’s thinking regarding these areas?
A: We think such areas as IoT, big data, AI, and SDN are all future core technologies in which, as an ICT vendor, we must maintain an edge. In doing so, what is particularly important is not just the technology but, rather, the ability to deliver it in a way that has value to our customers. In each of these areas, Fujitsu Laboratories, our business units, and group companies are working together on development and commercialization. We will incorporate them into MetaArc, and our system engineers will integrate them and deliver them in ways that add value. By leveraging these technologies, we will create what we call the Human Centric Intelligent Society.

For example, in the area of SDN, we think Fujitsu is ahead of its competitors, particularly in the telecom carrier side of the business.

We have been providing SDN-related products and services since fiscal 2013, and some telecom carriers are using these. Our strengths are in enabling these to coexist with legacy systems, using our migration capabilities. We are committed to accelerating our initiatives in this area as a core technology in “connected services.”

In AI, in November we announced our Zinrai brand of AI technologies. AI is a technology that will continue to advance, and we think we are particularly ahead of our competitors in the area of multimedia processing. In the coming IoT era, to accumulate large volumes of data and convert it into something valuable, we are pursuing research to raise our technological capabilities in such areas as the ability to analyze overlapping data.

Q: You mentioned that you are bringing together your sales organizations for Asia and Japan. Please tell us about the background that led up to that decision and what your future objectives are. What will be the core of your plans to expand business, and what kind of timeframe do you have in mind?

A: Until last year, I had a first-hand perspective on Asia as region's head. While I was in that position, I built sales teams based on the particular characteristics of each country and streamlined the regional headquarters functions. I also actively called on customers, and I came to the following realization. In Asia, it is the big conglomerates that drive business. They have very high expectations for Japanese experience, technology, and expertise. I felt that, if we clearly articulate Fujitsu’s experience, technological capabilities, and expertise, we can certainly continue to expand our business in Asia. Because the capabilities of each of our locations in Asia are still limited, I thought of powerfully combining them with our resources in Japan for a unified company effort to expand our business. The first two years of this initiative will be especially important.

Q: I think Fujitsu has been struggling for a long time to improve the profitability of its business outside of Japan. What is your understanding of what the problems are, and how do you plan to address them?

A: Improving the profits of our business outside of Japan is an important issue, and one of the main factors behind this is that our business is focused on hardware. As I mentioned, we will
accelerate the shift toward services. We are also reinforcing our capabilities in Asia. In addition, by enhancing our global delivery organization, we will improve our profitability.

We have also been trying various measures to improve our business in the Americas region, but we still have a long way to go in improving our profitability there. In addition to using our global delivery organization to improve our business in the Americas region, we also plan to implement measures to expand our business.

Q: If we look back over Fujitsu's history, an operating profit margin of 10% is a very high target. Please tell us about the background to your decisions to set such a high target of 10%.

A: I have strong views about this target. In the past, Fujitsu has set high targets, and we have grown to meet those targets. In the shift in structure and fundamentals that we have in mind, I think we can quickly achieve an operating profit margin of 5-6%. That, however, is not our objective. To truly change our fundamentals to become a services company and be able to compete globally, I felt we needed a lofty target. We will need to think about what is necessary to achieve a margin of 10%, and we will accelerate such initiatives as expanding our cloud business and shifting to global offshoring development.

Q: Why have you not stated timelines for achieving your financial targets? Do you not have specific timelines in mind?

A: I am the one who formulated these targets, so I would like to achieve them during my term as president. That said, at Fujitsu the Executive Nomination Committee chooses the president, and because I do not know how long I will be able to serve as president, I have not stated a timeframe for achieving these targets.

Q: If you achieve an operating profit margin of 10%, your target for free cash flow of 150 billion yen appears to be a somewhat low target.

A: We have factored in the possibility of cash outflows from M&A activity, and have set that target somewhat conservatively.

Q: I recall that, up until now, you had set a target for the owners’ equity ratio of 30%. Please tell us the background to your decision to increase this target to 40%.

A: To expand our business while paying a stable dividend, I felt we needed to raise this target to a higher level. If we are able to achieve an operating profit margin of 10%, there is no question that our owners’ equity will be enhanced.

Q: What are your views on shareholder returns?

A: Of course it is a priority for me. I, too, am a shareholder. At the same time as we conserve ample internal reserves to raise owners’ equity ratio, we will also work to raise shareholder returns.
In terms of concrete figures, I am not in a position right now to make any promises, but as we achieve our targets, I also want to reward our shareholders.

**Q:** How should investors track your progress toward meeting these targets?

**A:** We are embarking on a big transformation and in this process the structure of the company and its fundamentals will change. I do not want to mislead anyone, so I will refrain from giving any specific figures, but at a regular time each year, probably in May or June, I would like to report on our progress to all of you.

**Q:** How much do you need to invest in your cost reduction initiatives? In addition, what timeframe do you have in mind for realizing these savings?

**A:** We will migrate 640 internal systems to the K5 cloud platform in MetaArc. We have already recorded the expenses for this. The results from this in the form of lower operational costs will be generated over time. We expect to achieve savings of 35 billion yen over five years. In addition, by expanding our use of offshoring, we will change our cost structure, but this will not require significant investments. We expect this change will also generate gradual results over time.

**Q:** What kind of internal process did you go through in deciding on these reforms? I think it is a very rational direction, but it took a long time for you to provide us with these answers. Is internal pressure the reason that you have not revealed your vision for the company?

**A:** I became president in June, and prior to that I had been in sales for a long time. We are undertaking these reforms because I felt they were necessary from the customer’s perspective. We have a lot of different technologies, and there are many different people involved with them. There were a lot of decisions to be made, but I felt we needed to pivot toward services, so I announced the management direction I have just outlined. I led our internal discussions and have been clear in sharing the results of those discussions internally. As you pointed out, I am aware that it took a long time, but I would like you to monitor our progress in changing our structure and fundamentals.

**Q:** Why have you not set a long-term target for ROE?

**A:** Our biggest issue is our earnings capacity, and our thinking is that setting earnings targets and meeting them is the best way of meeting the expectations of our shareholders.

**Q:** I got the impression that your management direction is not very complete. Are you thinking of implementing additional measures in the future?

**A:** We are considering a variety of options, but I am only talking about what has been decided at present.

**Q:** How do you view the medium- to long-term IT market in Japan? Are you worried that it will peak sometime next year from a cyclical perspective? Or will it continue on an expansionary
track until the Olympics in 2020? Also, the rate of corporate spending in Japan on IT as a percentage of sales seems low, but do you expect it to keep expanding over the long term until it doubles, as it has outside Japan?

A: There will be a peak out in some large scale financial projects as well as declines in capital spending of telecom carriers in Japan, but I think we will continue to see gradual growth as a whole. On the public side there are investments such as the national ID system, and there is also increased concern over security. I think that things will be fine going forward, as we prepare for the Olympics.