# "The Integration of Fujitsu Siemens Computers and Transformation of Fujitsu"
## Question and Answer Session

Date/Time:      15:00-16:15, March 30, 2009
Location:       Sankei Plaza, Tokyo
Presenters:    Kuniaki Nozoe (president), Tatsuo Tomita (corporate senior executive vice president), Richard Christou (corporate first senior vice president), Makoto Matsubara (corporate senior vice president)

**Questioner A:**
You've explained that you're planning to strengthen your x86 server line, so is there really a need to continue the PRIMEQUEST (mission-critical IA server) and SPARC Enterprise (UNIX server) product lines? In the context of the possibility that IBM may acquire Sun Microsystems, please tell us your thoughts on realigning your server lineup.
**Answer: Mr. Nozoe**
I explained today that the IA server will be critical to the globalization of Fujitsu, but that doesn't mean that PRIMEQUEST and other server products are no longer needed. In Japan, in particular, the UNIX customer base is large, and as a customer-centric company, Fujitsu has made a commitment to protecting customers' investments in these platforms and their application assets. Fujitsu will continue to sell these lineups. Just because we strengthen one server product line doesn't mean we will end another. But of course when we approach the global market, we may focus on only certain platforms, and then expand the number of models of certain global products.
**Answer: Mr. Tomita**
Fujitsu has a wide server lineup. The PRIMEQUEST and SPARC Enterprise are being used by clients who used mainframes in the past. There are areas of the market that SHV (Standard High Volume) products like the IA server can't serve, and that's why Fujitsu offers mission-critical products as well. We're taking a long-term view with the IA server business, and we will develop our server business so that the PRIMEQEST and PRIMERGY products complement each other. The PRIMERGY cannot replace the PRIMEQUEST right now, and both are needed for the time being. UNIX customers place great value on their investments and assets, and they won't easily migrate to IA servers. That's why we need to continue to offer the SPARC Enterprise.

**Questioner B:**
How many employees will you keep in server production in Augsburg (Fujitsu Siemens Computers's server plant)?
**Answer: Mr. Christou**
I can't tell you the exact number, but the Augsburg factory is an important asset for Fujitsu. We have no intention of shutting down the factory and production will continue there.

**Questioner C:**
You said that your IA server goal for Japan is to jump to No. 1 with a market share of 30% by 2010, and that one of your strategies is to offer competitively priced products. Does this mean that you will discount your IA server prices?
**Answer: Mr. Nozoe**
We won't be able to meet the sales target of 200,000 IA servers in Japan using the same sales methods we've been using. We have to study the market further and continue to make reforms to the internal sales structure.
In selling product to large clients, we have to develop better methods of selling servers as part of our solutions business. We're also enhancing our strategy to sell product to medium- and smaller-sized customers, and asking ourselves if it really makes sense to sell directly to smaller customers. We have to solve these sales structure issues to meet the new target.
As far as our channel sales go, the incentives we have in place right now will not be enough. Price competition tends to intensify as a market becomes more competitive, but we're trying to avoid competing on price. A company has to earn a certain profit margin, even on low-priced products. Fujitsu will enhance its incentive structure in order to drive channel sales. We're listening to our channel partners and their needs to make our offerings more attractive to them. We can do more than offer just price incentives to improve our channel sales. We have conducted market research in Japan to determine exactly what we can offer to make our products more competitive.
**Answer: Mr. Matsubara**

Fujitsu Siemens Computers has a lot of experience and know-how in volume channel sales, and we can apply that know-how here in Japan. Altogether, the sales networks of our channel partners in Japan include some 7,500 salespeople. We plan to announce a detailed channel partner strategy in April with new ways to motivate our partners in Japan. And the entire sales structure in Japan will be reformed in April, with a division focused on platform product sales and another division focused on providing support to our sales partners. There are many sales routes in Japan. We've defined five major routes and will have a plan in April to expand sales through those routes. The entire sales force in Japan will be focused on meeting the sales goals.

**Questioner D:**
Recently, the amount of hardware sales as a portion of systems integration projects has dropped to 10-20%, while the solutions portion has increased. As other companies shift more towards solutions, what is your strategy?
**Answer: Mr. Nozoe**
Our basic strategy is to expand our business globally through both strong products and services. We believe that we need strong products to deliver our services. One research company has found that 60-70% of IA server installations are for file or mail servers. The results suggest that the growth of the IA server will continue to be strong globally. While the overall IT market is growing just 2% a year, the IA server market alone is showing much better growth. Profitability can be improved by adding value-added services to the server products.

I was in charge of the services business in 2003, and what I thought at the time was that it is risky to have a services business that is dependent on hardware sales. So we aimed to develop a services business that is not reliant on hardware. I thought it was important that Fujitsu could offer solutions built on other companies' hardware. But I came to realize that we need a vehicle for services in order to fully exploit our experience and application capabilities. We'll pursue the products business through two major initiatives: one will be the industrialization of infrastructure services, and the other will be through solution templates built around six major usage scenarios based on our SE experience. It's like catalog shopping because customers can easily choose a specific template offering. Our strategy is to add solutions to our product offerings.

It's also important to point out that we have more products than just servers, including storage systems, networking equipment, and PC clients. We sell not only services with our servers, but also other types of related hardware. This is a strategy that we can deploy globally.

In addition, in Japan we've begun a Field Innovation program that has also spread to the UK under a similar program called "Lean Services." Under these programs, we see platforms as the delivery vehicle for value-added services and strong solutions.
**Answer: Mr. Christou**
We don't see price competition as the best way to compete in the IA server market. It's important to offer more than just the server by providing complete solutions that include storage, middleware, and services. Our customers will be satisfied when they look at the Total Cost of Ownership of the products and services we offer. For the 500,000 units IA server sales target, most of these will be sold as part of a solution. That's very important for us. Some customers in China, Europe and the United States that have large IT departments will purchase only equipment to build their own solutions, and price competition will be a problem. But other customers want solutions comprising highly reliable hardware, software and services. Our strategy is to provide what customers really need. We don't just look at price incentives when selling servers, but will emphasize solutions.

**Questioner E:**
Assuming that IBM does purchase Sun Microsystems, what would be the impact on Fujitsu and your UNIX server business?
**Answer: Mr. Nozoe**
It would depend on the details of the acquisition. As a customer-centric company, Fujitsu would engage in negotiations that would ensure that our customers' investments and assets were protected to the maximum extent possible. I don't know about the details of the negotiations between IBM and Sun Microsystems and how they will end, but I can't imagine the conclusion being a business relationship that veered from what was best for the customer. These companies have to be thinking about creating benefit for the customers and the market. Fujitsu will protect customers using UNIX systems. What I'm saying is all hypothetical, assuming that the acquisition really happens, but if it does, we will respond in a way that is consistent with our customer-centric management.

**Questioner F-1:**

When do you expect profits to be generated from the integration of FSC?
**Answer: Mr. Nozoe**
We're doing everything we can to generate profits from the first year.
**Answer: Mr. Christou**
We plan to generate profits from the integration from the first year. Of course, under the current economic climate, we can't guarantee that, but we have planned for it to be profitable from the first year.

**Questioner F-2:**
Cisco is also entering the server market and the importance of servers appears to be growing under the cloud computing model and datacenter trends. What were the reasons why Fujitsu decided to strengthen its platform products?
**Answer: Mr. Nozoe**
I don't know exactly what Cisco is planning, but we share the belief that in the cloud computing era, the importance of servers and products will grow.
**Answer: Mr. Christou**
I believe the server market will continue to grow, as will the storage market. Cloud computing is another name for dynamic datacenters, and these datacenters require a large number of servers. The objective for us is to have the datacenter customers use Fujitsu servers. I don't know exactly what Cisco's plans are, but generally speaking, this is positive rather than negative for the server market and for Fujitsu.

**Questioner G:**
Many IT hardware manufacturers, including Fujitsu, have started to shift towards solutions and services. But if you look at what they're offering, what they do doesn't seem to have changed in the last 10 years. Fujitsu says it's changing its "product business" into "integrated systems," but does it mean that change has not taken place at all?
**Answer: Mr. Nozoe**
Fujitsu is changing, but in some ways we haven't kept pace with changes in the market. There was a shift from mainframes to open systems, and the networking market shifted to the Internet. During these changes, Fujitsu did not adequately reallocate its resources to meet the demands of the new eras.
But we have successfully supported our major customers in protecting their IT investments and assets from the mainframe era. And we've been able to consistently generate profits from product-related services that we sell in relation to mainframes and other platform products in and outside Japan. This has been a steady and reliable source of income. Even though in some cases we weren't able to rapidly reorganize to meet the needs of a new era, these products and services provided a stable income to support ten of thousands of employees. It's also true that Fujitsu felt a sense of great urgency in our need to transform our company in order to support customers in the open systems era.
At the start of the open systems era, we suffered major losses in 2001 and 2002, but from 2003 onward, we've been able to generate gradually higher profits by focusing on software and services. The issue for us is how we will grow further in the open systems era. We'll need to transform ourselves a couple of more times in order to sustain our growth.