

OPERATIONAL REVIEW AND OUTLOOK

Technology Solutions

Services System Platforms

Fujitsu's Competitive Advantage

Fujitsu is supporting the use of information and communication technology (ICT) globally by leveraging to the full its extensive track record across different industries and countries and regions. Through enhancing our connected services we are contributing to customers' value creation and drive for innovation around the world.

Fujitsu's services business ranks top by market share in Japan and fifth globally. We provide services across a wide range of countries and regions, including Europe, the Americas, Asia, and Oceania. Outsourcing services are a key field for us, where through our worldwide network of about 120 datacenters centered in Japan and Europe, we offer cloud services such as IaaS, PaaS, and SaaS that make operation of customers' ICT systems easier and help to make their operations greener.

We also have an extensive track record in building large-scale and leading-edge systems in a broad spectrum of industries and fields, including manufacturing, distribution, finance, the public sector, communications, healthcare, and education. That record has been underpinned by wide-ranging system engineering resources with leading-edge technological skills to help customers use ICT across countries, regions, and languages. It spans national government-based systems through to those of corporate customers with global bases.

Through the use of not only conventional mission-critical systems but also big data, mobile, cloud, IoT, and other new digital technologies, we are enhancing our connected services and contributing to customers' value creation and business innovation.

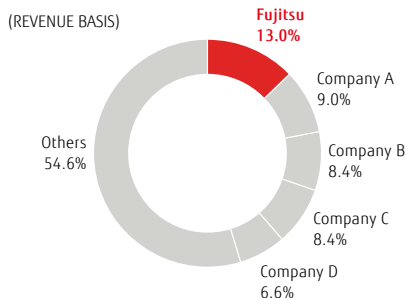
Market Trends and Opportunities

The IT services market is expected to grow globally amid an increasing focus on broadening business opportunities and efficiency through the use of ICT. In Japan, demand for system upgrading is expected to expand in tandem with the introduction of the My Number system.

Japan's IT services market is projected to grow at a CAGR of 1.9% for the period from 2015 to 2018. In the Japanese economy, the outlook for corporate earnings has been clouded by the appreciation of the yen. That, in turn, is expected to make companies cautious on capital investment. At the same time, a growing number of customers are looking to provide new services making use of accumulated data. There has, for example, been swelling demand for building new industry-specific systems, such as those related to FinTech in the financial field and, in the retail sector, omni-channel retailing (a multichannel approach to sales spanning shopping online through to shopping at brick-and-mortar stores). In addition, the introduction of Japan's Social Security and Tax Number System, commonly known as the "My Number" system, has prompted moves by the national government, municipalities, and business enterprises to reshape their ICT infrastructure. The use of the My Number system is expected to expand. In line with these developments, IT investment in Japan is expected to continue to grow.

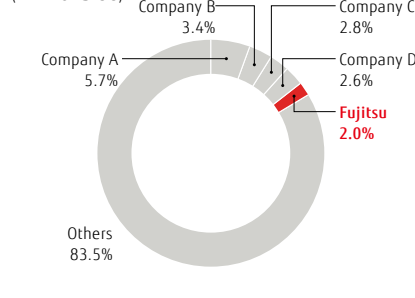
The global IT services market is projected to grow at a CAGR of 2.6% from 2015 to 2018, with growth in Asia leading the way. Although the outlook for markets particularly in Europe is unclear owing partly to the decision by the UK to leave the EU, the use of ICT focused particularly on cost cutting is expected to move ahead. Economic growth is projected to continue centering on emerging markets. Against this economic backdrop, IT investment is expected to edge upward in every region.

IT SERVICES MARKET SHARE IN JAPAN IN 2015



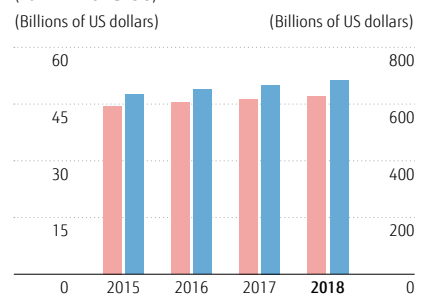
Source: Gartner, "Market Share: IT Services 2015," April 6, 2016
* Chart created by Fujitsu based on Gartner data.

GLOBAL IT SERVICES MARKET SHARE IN 2015



Source: Gartner, "Market Share: IT Services 2015," April 6, 2016
* Chart created by Fujitsu based on Gartner data.

IT SERVICES MARKET FORECAST (JAPAN/GLOBAL)



Source: IDC Worldwide Black Book 2016, Version 3, Nov. 2016

Issues

As the IT services market gains momentum, it has become increasingly essential we reinforce our solutions management and enhance the competitiveness of our products and services. We are looking quickly to shift our business focus from products to services as we strive to improve profit margins globally.

With services, we see growing risks of a shortage of system engineers to meet the needs of a lively domestic market. In order to preempt this, we aim to make more efficient use of our system engineer resources while also making greater use of offshoring and enhancing the efficiency of system development and construction processes themselves. We are also strengthening our staff training with a focus on management capabilities in order to prevent unprofitable projects from the outset. With cloud services, expansion of the market has led to intensifying competition with other companies, necessitating the development and launch of even more competitive products and services. In the overseas business, we need to further shift our emphasis from products to services and rapidly improve profit margins. Priorities common to operations in both Japan and overseas are to quickly establish the next-generation services business model that will supersede the existing one and to achieve strong growth.

Initiatives Going Forward

We aim to promote business centering on the “FUJITSU Digital Business Platform MetaArc” and to expand into new business sectors in Japan and overseas. From an ICT perspective, we aim to support customers’ efforts to innovate and expand globally.

We actively aim to propose not only conventional system construction but also the use of new systems to tap into strong IT investment momentum in Japan. In particular, we are focusing on expanding business centering on MetaArc. We will combine the core Systems of Record (SoR), a key Fujitsu strength, with the new Systems of Engagement (SoE) group of services that utilize IoT devices in order to promote businesses that leverage fully the Company’s knowledge and experience to provide connected services and support customers’ innovation.

In Japan, the expansion of cloud services is expected to lead to the uptake of ICT in industry sectors and categories where it had not previously penetrated. Fujitsu will optimize system maintenance and operation costs while supporting new value creation through the provision of its Next Generation Cloud System.

Outside Japan, we are working under Fujitsu’s global matrix organization to shift our emphasis from businesses centered on products to service businesses. Based on a common platform of services in Japan and overseas, we offer ICT support to customers with bases overseas as well as to those expanding globally by broadening operations from Japan into other markets.



Reformation of Tokyo Stock Exchange’s ‘arrowhead’ stock dealing system



Joint trial with Ha Nam Province in Vietnam on agricultural business that utilizes ICT



Transforming customer experience and minimizing fraud with a new ticketing platform of Comboios de Portugal

Services **System Platforms**

Competitive Advantage

Fujitsu supplies an extensive lineup of system products centering on servers around the world, ranking top in server market share in Japan and eighth globally. In optical transmission systems, the Company has large market shares in Japan and overseas underpinned by its advanced technologies and highly regarded support capabilities.

System Products

The system products business centers on servers, where Fujitsu boasts top share in the Japanese market. Globally, we provide a broad product lineup to meet diverse customer needs, including advanced and highly reliable mainframes and UNIX servers that support the mission-critical systems of corporations. These servers are equipped with proprietary CPUs—Fujitsu is one of the few global ICT companies with the technology to manufacture its own processor chips. We also provide x86 servers to support cloud computing and storage system able to hold huge—and ever-increasing—amounts of data.

Network Products

With network products, Fujitsu holds high market shares in optical transmission systems and mobile-phone base stations used by mobile communications carriers in Japan, backed by its advanced technology and support capabilities. We have also maintained a large market share in the highly competitive North American market for optical transmission systems, where we have benefited from our highly regarded technological capabilities and lengthy track record. We have also taken the lead over other companies in offering solutions that meet new customer needs accompanying the move toward network virtualization as typified by software-defined networking (SDN) and network function virtualization (NFV).

Market Trends and Opportunities

The global server market is expected to grow supported by market expansion in emerging economies and increasing datacenter demand. In the optical transmission market, we expect to see increased investment in network virtualization and softwarization.

System Products

The server market in Japan is projected to contract at a CAGR of -7.4% in the period from 2015 to 2018. Demand is expected to slow as growth in the x86 server market turns negative in conjunction with the spread of cloud computing and as the high-end server market sees fewer large-scale business deals.

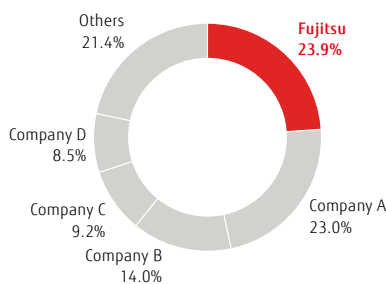
Globally, the server market is forecast to expand at a CAGR of 3.9% from 2015 to 2018 supported by growth in demand for volume-zone servers owing to market expansion in emerging economies and increasing datacenter demand.

Network Products

Capital expenditure in the optical transmission market has been declining in and outside of Japan as mobile communications carriers shift the focus of their investment from infrastructure to enhancing services. Recently, there has been an increasingly marked trend toward the adoption of disaggregation, whereby a server separates components and resources into subsystems rather than all functions being included within one piece of hardware.

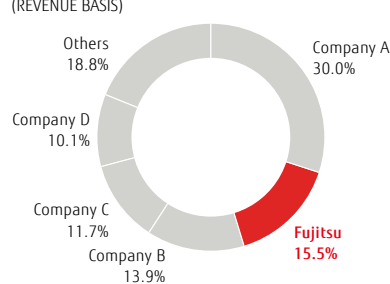
In addition, with accelerated moves toward network virtualization and softwarization, investment in 100 Gbps optical transmission, and the integration of optical transmission and packet processing, we expect investment to continue to expand over the medium term, though only slight growth is projected for the market as a whole.

SERVER MARKET SHARE IN JAPAN IN 2015
(REVENUE BASIS)



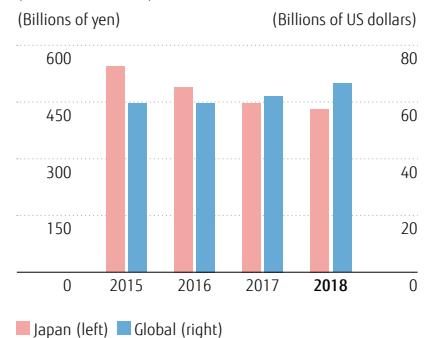
Source: IDC Japan, "Japan Quarterly Server Tracker CY16Q2," September 16, 2016

OPTICAL FIBER NETWORKING MARKET SHARE FOR NORTH AMERICA IN 2015
(REVENUE BASIS)



Source: Ovum, "Market Share Spreadsheet & Analysis 2Q16 Global ON," August 2016

SERVER MARKET FORECAST (JAPAN/GLOBAL)
(TOTAL VALUE BASIS)



Sources: IDC Japan, "Japan Quarterly Server Tracker—Forecast," September 23, 2016, for Japan; IDC, "Worldwide Quarterly Server Forecast, 2016Q2," for global data

Issues

We need to raise business efficiency and competitiveness in response to the advance of commoditization and the contraction of the server market in Japan. In network systems, we need to quickly shift our emphasis to next-generation businesses applying virtualization technology.

System Products

In the server business, the market particularly for low-end models has become increasingly commoditized and price competition has been intensifying. In Japan, the market itself has been contracting accompanying the growing use of cloud-based systems and moves toward server concentration. We must seek to boost competitiveness and raise market share by cutting costs and increasing efficiency even as we maintain product quality.

Network Products

Customers in Japan and overseas have continued to rein in capital expenditure, continuing the trend seen in the previous fiscal year. In the network industry, there has also been an ongoing shift from hardware-based to software-based control. In response, we need to quickly transform our business from a hardware-centric focus to one providing next-generation network systems sought by customers that use virtualization technologies and software control such as SDN and NFV. In doing so, we need to push forward with leading-edge and cost-efficient technology development.

Initiatives Going Forward

We intend to contribute to the realization of the IoT through infrastructure using MetaArc and in-house products. We aim to accelerate business model transformation globally, develop solutions adapted to network virtualization technologies, and step up the shift toward services.

System Products

Servers, storage, and software products provide a vital platform for realizing the IoT. We are supporting infrastructure platforms by providing highly reliable, high-performance services using in-house products incorporated within our MetaArc.

Network Products

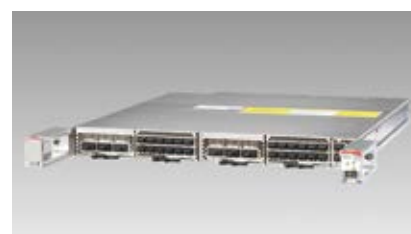
While further reinforcing the development of solutions tailored to the use of SDN and NFV network virtualization technologies, we are shifting our focus toward services and accelerating business model transformation both in Japan and overseas. We also aim to expand business meeting needs associated with growing traffic volume between mobile communications carriers' networks and datacenters mainly through our new 1FINITY optical transmission system, which uses disaggregation architecture. In the mobile system field, we are stepping up 5G technology development and standardization.



PRIMERGY CX2550 M2 2-way multi-node x86 server



FUJITSU Storage ETERNUS DX8000 S3 series disk storage system



FUJITSU Network 1FINITY series

Ubiquitous Solutions

Ubiquitous Solutions Business: Structural Reforms

Fujitsu has established its PC and mobile phone businesses as wholly owned subsidiaries. We also plan to change the capital structure of Fujitsu TEN, at the core of our mobile-wear business, and remove it from the scope of Fujitsu Group consolidation.

With effect from February 1, 2016, Fujitsu transferred its notebook PC and desktop PC businesses to the newly established Fujitsu Client Computing Limited and transferred the mobile phone business to the newly established Fujitsu Connected Technologies Limited through company splits.

With the ongoing commoditization of ubiquitous products, mainly of PCs and smartphones, it has become increasingly difficult to achieve differentiation, and competition with emerging global vendors has intensified. In response, Fujitsu decided to restructure these operations in order to clarify management accountability, to enable swift management decisions, and to pursue comprehensive efficiency by creating independent companies for the PC and the mobile phone businesses, and to establish an integrated structure covering all aspects of research, development, design, manufacturing, sales, planning, and after-sales services.

On September 9, 2016, DENSO CORPORATION, Toyota Motor Corporation, and Fujitsu announced a basic agreement to change the capital structure of Fujitsu TEN, in which Fujitsu currently has an equity stake of 55%. A final agreement is due to be signed before the end of the fiscal year ending March 31, 2017.

On October 27, 2016, Fujitsu, Fujitsu Client Computing, and Lenovo Group Limited announced that they have begun exploring a strategic cooperation in the realm of research, development, design, and manufacturing of PCs in the global market. The two companies will continue to work together with a view to creating a successful model to compete in a dynamic global marketplace.

Market Trends and Opportunities

Global markets for smartphones and tablets are expected to grow in scale, while markets for PCs are seen contracting in both Japan and overseas. Markets for car navigation systems are projected to grow with the expansion of markets in emerging economies.

The market for smartphones, tablets, and PCs combined is projected to see a CAGR of -2.0% in Japan and of 1.5% globally.

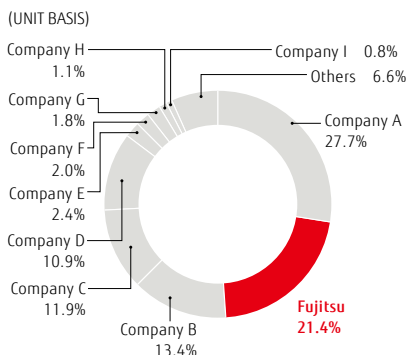
With PCs, markets are expected to contract both in Japan and globally against a backdrop of demand in industrialized countries turning down off a peak and economic slowing in emerging markets.

With tablets, the shift to smartphones with large screens has been siphoning off demand. In Japan, however, demand is expected to continue to expand supported by the Japanese government's "Vision for ICT in Education" initiative.

With smartphones, market growth is expected to continue underpinned by the transition from feature phones to smartphones.

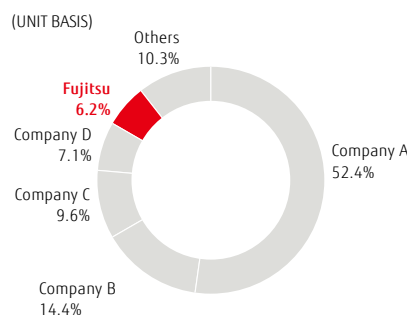
Global demand for car navigation systems, meanwhile, is forecast to continue to grow against a backdrop of expansion in emerging markets.

PC MARKET SHARE IN JAPAN IN 2015



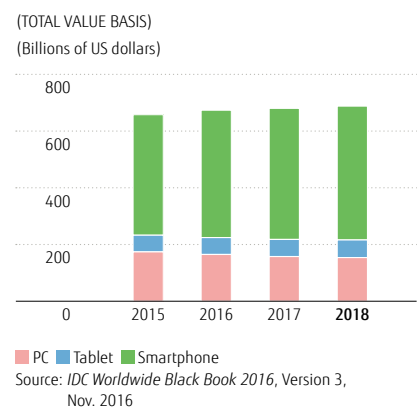
Source: Gartner, "Market Share: Final PCs, Ultramobiles and Mobile Phones, All Countries, 3Q16," November 14, 2016
* Chart created by Fujitsu based on Gartner data.

SMARTPHONE MARKET SHARE IN JAPAN IN 2015



Source: IDC Japan, "Japan Quarterly Mobile Device Tracker 2016Q3"

GLOBAL PC, TABLET, AND SMARTPHONE MARKET FORECAST



Issues

In the PC business, our business operations need to focus on profitability. With smartphones and mobilewear, we must take the lead in bringing to market competitive products and not let slip new opportunities presented by the emergence of new businesses and technologies.

With PCs, global price competition and contracting markets are making it essential for an independent company to undertake business with a focus on margins while making sustained efforts to cut costs. With mobile phones, established markets have been sluggish and demand for smartphones has slowed but the market for Mobile Virtual Network Operator (MVNO) devices featuring inexpensive rates has been growing rapidly. In that market, we need to develop appealing new products and ensure their timely supply. With mobilewear, the auto industry is developing new technologies such as automatic driving support systems, and we must respond by developing efficient, highly reliable software.

Initiatives Going Forward

In the PC business, we are aiming to raise margins by shifting our focus to high-value-added products. In the mobile phone business, we are looking to expand market share with mobilewear by unearthing opportunities in both established and new businesses.

With PCs, we are working to raise profitability by shifting toward high-value-added products through differentiating ourselves from other companies in such areas as security-related products and customized products, which are particular Fujitsu strengths. We are looking to reinforce our tablet business by broadening our product lineup. With mobile phones, we are striving to expand market share on the twin engines of the established smartphone business and new-market businesses, including MVNO and corporate-use devices.

The automotive industry is expected to see dramatic change particularly in such areas as the growing use of information led by the increasing spread of networks. Fujitsu, having businesses in both communications/ICT and automotive control fields, will leverage this chance, using business and product transformation to connect people, vehicles, and communities. This, in turn, will contribute to realizing a comfortable, mobile, and connected society.



ESPRIMO FH90/A3, a large-screen desktop offering outstanding sound and image quality



arrows NX F-01J, a smartphone produced for Docomo



ECLIPSE AVN-SZX05i, car navigation system

Device Solutions

Fujitsu's Initiatives

Fujitsu's Device Solutions business comprises the LSI device business and the electronic components business.

In the LSI device business, the Fujitsu Semiconductor Group has three core operations: (1) system memory businesses centering on ferroelectric random access memory (FRAM), which has the low-voltage, high-speed read/write endurance and low power consumption characteristics ideally suited to an energy-conserving society; (2) wafer foundry services, the first in the world to use ultra-low-power Deeply Depleted Channel (DDC) transistor and gallium nitride (GaN) mass production technologies; and (3) LSI device sales in which solutions and a vast array of electronic device products produced by the Fujitsu Group and other manufacturers in Japan and overseas are supplied to customers not only in Japan but also across the Americas, Europe, and Asia.

In the electronic components business, we anticipate strong growth in demand for high-performance semiconductors in IoT-related and other markets. Publicly listed consolidated subsidiaries in the Fujitsu Group, namely Shinko Electric Industries, are leading our efforts to bolster marketing and development capabilities and broaden our technological reach as we seek to commercialize new products and tap into that demand.

Fiscal 2015 Business Results and Outlook

In fiscal 2015, revenue in the Device Solutions segment rose by 1.4% year on year to ¥603.9 billion. Despite the impact of transferring the system LSI device design and development business to an affiliated company and weak demand for smartphones and PC applications, yen-denominated sales of both LSI devices and electronic components rose, supported by yen depreciation against the US dollar particularly in the first half of the fiscal year. Operating profit declined ¥6.5 billion year on year to ¥30.3 billion, reflecting partly the transfer of the system LSI device design and development business to an affiliated company.

Looking ahead, we expect a harsh operating environment for both the LSI device business and the electronic components business against a backdrop of slowing global economic growth, markets that have hit a peak for such core applications as smartphones and PCs, and the negative impact of yen appreciation. In these challenging conditions, we are working to dramatically improve customer performance and competitiveness in their product markets by delivering to those customers even higher-quality products and services.

