

MESSAGE FROM A SENIOR EXECUTIVE VICE PRESIDENT



As a company that leads customers' digitization through the use of advanced digital technologies, we will leverage superior integration capabilities to co-create value with customers and sustain growth.

Norihiko Taniguchi
 Representative Director
 Corporate Executive Officer
 SEVP, Head of Business Lines
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Senior executive vice president Norihiko Taniguchi at FUJITSU Knowledge Integration Base PLY

The Fujitsu Group's Advantages in Digital Businesses

In digital businesses, one of the Fujitsu Group's advantages is the insight we bring to customers' businesses and operations, accumulated as Japan's leading ICT service provider. Competence with regard to such leading-edge ICT as AI and cloud is, of course, a necessary condition, but that in itself is insufficient. What is critical to have is the conceptual ability to link ICT with customers' business strategies so as to advance true digital evolution that creates customers' future businesses. The expertise that we have garnered in customers' businesses and operations is an essential component of this conceptual ability.

In addition to this, the Group includes Fujitsu Laboratories, a research center that conducts basic research on ICT, with a long track record of developing hardware, middleware, software, and solutions from zero. As well as being critical for remaining at the forefront of digital technologies, these accumulated technological capabilities are an advantage when we need to adapt research results or technologies into forms that are useful to customers.

Reorganization Aimed at Expansion of Digital Businesses

With a view to establishing competitive superiority in digital businesses, the Group needs to take maximum advantage of its integration capabilities, which comprise accumulated expertise and digital technologies. With this in mind, we are currently strengthening organizations and personnel skills

and transforming our business model. In other words, we are pursuing "growth strategy transformation."

As part of growth strategy transformation efforts, the Group has taken a series of reorganization measures over the past year. In November 2016, the Group merged three major domestic systems engineering subsidiaries with its headquarters. This brought together 14,000 systems engineers who provide customers with services at the leading-edge of digital businesses. In January 2017, within the Global Services Integration Business we established the Digital Transformation Business Group, which specializes in helping customers digitize their operations. Then in April, we launched the Global Cyber Security Business, which oversees the cyber security field for the entire Group.

Transformation within the Group and Reinforcement of Integration Capabilities

Reorganization is only the beginning of growth strategy transformation. To further heighten our conceptual ability to link ICT with customers' business strategies, we are elevating collaboration among in-house divisions beyond previous levels and strengthening our integration capabilities. The key to the success of these initiatives is the above-mentioned Digital Transformation Business Group and its "digital innovators."

The role of digital innovators is to work with customers in considering issues and using digital technologies to co-create innovations. To advance digital innovation, digital innovators draw on a range of resources inside and outside the Group. Specifically, they form teams that include systems engineers

well versed in customers' operations; receive support from cyber security specialists, who have become more mobile with the establishment of the Global Cyber Security Business; utilize the results of research and development; and collaborate with external partners as required.

Attitudes to digital businesses have changed dramatically in the past couple of years not only among digital innovators but also among systems engineers and other Group employees. I believe this change reflects a growing realization among all Group employees that sustaining growth and becoming a corporate group with the ability to co-create value with customers and lead their digitization efforts through the use of advanced digital technologies are one and the same thing. The greatest testament to this change is the tangible intensification of open innovation activity—essential for digital businesses—at various sites. One such site is FUJITSU Knowledge Integration Base PLY,* established for the advancement of co-creation.

* A base established at Fujitsu Solution Square in Ota-ku, Tokyo, that regularly holds "ideathons" and "hackathons" with the aim of creating new ideas and software.

Road to Higher Profitability

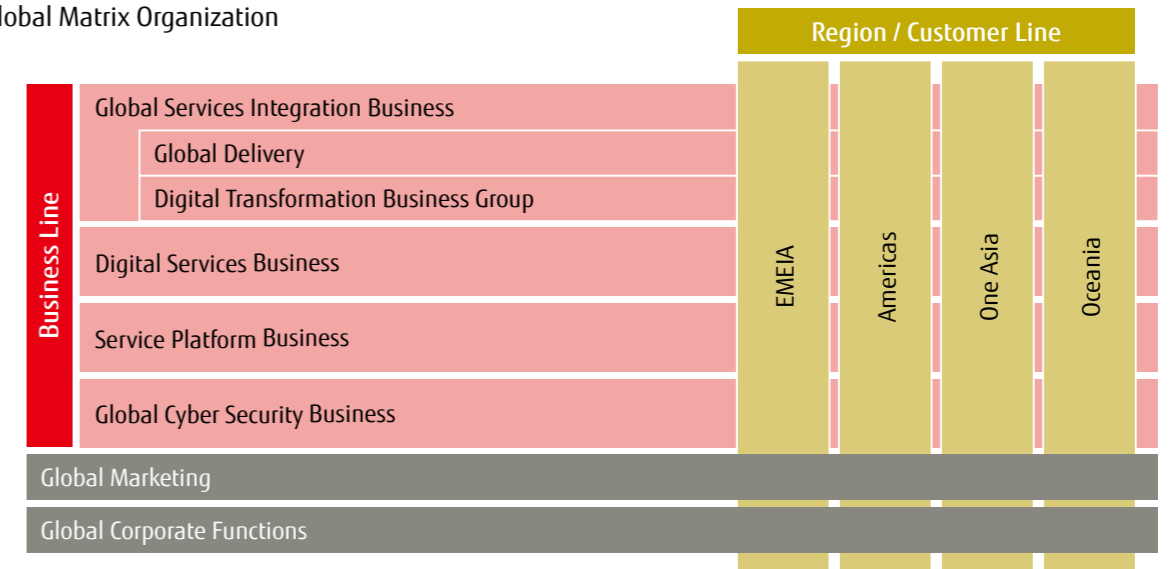
Digital businesses help increase profitability by creating more business opportunities. This is due to the fact that digital businesses cannot exist without data to underpin them or without systems to store, manage, and analyze this data, which means

that expanding digital businesses leads directly to more business opportunities related to the system development, construction, and operation field. In this field, the Fujitsu Group has an absolute advantage in terms of experience, technologies, and competitiveness, which are necessary to secure profitability. Therefore, as we establish a new business model, we will be able to increase profitability steadily.

The biggest hurdle to increasing profitability is overseas businesses. In fiscal 2016, focusing on Europe, we converted employees' skill sets. At this juncture, the benefits of this conversion are difficult to see because lower earnings are offsetting cost reductions that are resulting from the conversion. However, we envision raising profitability by leveraging employees' skill sets to provide more business application services, which are based on digital technologies.

Aiming to realize the above scenario in about two years, we are strengthening support for frontline operations that are tasked with engaging customers and expanding digital businesses in each region. Specifically, we are increasing the personnel and capabilities of Global Delivery Centers to reinforce them as hubs of digital technology know-how and best practices. Also, we will deepen external partnerships and continue enhancing solutions provision capabilities that are essential for the expansion of business application services.

Global Matrix Organization



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While changing our profit structure and strengthening "earning power" through business model transformation, we will manage organizations rigorously to sustain the momentum of transformation efforts and pass on outstanding assets and businesses to the next generation.

Profit Structure after Business Model Transformation

Through business model transformation, the Fujitsu Group aims to establish competitiveness that will underpin it in the generation 30 years from now. The first step in this process is to strengthen earning power. Our average operating profit margin was only 2.7% in the 10 years through fiscal 2015, when we launched the Management Direction that is driving business model transformation. If we do not increase our earning power, we will be unable to heighten corporate value in the current competitive environment. Consequently, we are tackling transformation with a sense of urgency.

The current competitive environment has a character that is clearly different from that of the past. Competition for supremacy in the digital business field extends beyond IBM, Microsoft, and other traditional ICT companies. Competitors include over-the-top (OTT) service providers that offer various types of service mainly via the Internet, such as Amazon, Google, and Facebook; service providers that specialize in consulting and delivery, with Accenture being a well-known example; and telecom carriers in Japan and overseas that are extending their business areas into the services field. Against this backdrop, it is logical to reexamine our advantages and implement rigorous selection and concentration accordingly.

Through the selection and concentration of its business portfolio that is accompanying business structure transformation, the Group is selling noncore businesses or establishing them as wholly owned subsidiaries. In conjunction with these efforts, we are pursuing growth strategy transformation,

which is heightening the specialization and delivery capabilities of core businesses while transforming their cost structures. As a result of the above measures, major changes are underway in the Group's profit structure. Going forward, we will increase the autonomy of the Ubiquitous Solutions and Device Solutions businesses. Meanwhile, we will establish digital services as a growth driver in and outside Japan during the period in which conventional services—such as the construction and renewal of large-scale systems and the integration of software—are able to continue generating a steady level of earnings.

Benefits of Business Model Transformation

From fiscal 2017, we will transition from a phase of transformation implementation to a "cruising" phase, and we expect the benefits of business model transformation to manifest as improvements in terms of the three below types of numerical measures.

First, we aim to establish a profit structure that continually generates operating profit of at least ¥200 billion. Utilization of Global Delivery Centers and other rigorous measures to reduce fixed costs are steadily building a profit structure that can consistently generate operating profit above ¥200 billion regardless of short-term economic trends such as market fluctuations.

Second, we aim to achieve the consolidated performance targets for operating profit margin, free cash flow, and owners' equity ratio that are set out in the Management Direction. Given progress relative to various operational benchmarks, I feel that we can advance close to targeted levels for all three of these indicators in fiscal 2018.

The third numerical measure is the percentage of sales outside Japan, which we aim to increase on a consolidated basis in accordance with the Management Direction. As a result of restructuring noncore businesses, the percentage of sales outside Japan in fiscal 2016 was 36.5%, down from approximately 40% before the beginning of business model transformation. Going forward, we will grow service businesses, which have been performing briskly thanks to changes in the regional management system, and raise the percentage of sales outside Japan to 50% while maintaining and increasing earnings levels in Japan.

Cash Allocation and Shareholder Returns

In fiscal 2016, free cash flow surpassed ¥100 billion for the first time in six fiscal years, reaching ¥104.8 billion. Furthermore, free cash flow of ¥120 billion is projected in fiscal 2017. In fiscal 2015 and fiscal 2016, respectively, the Group recognized business model transformation expenses of more than ¥40 billion. In fiscal 2017, however, we expect gains on sales of businesses in the period through March 2018 to offset business model transformation expenses.

As for cash allocation, investment for growth will remain a high priority. We have earmarked cash for investment in businesses, including investment in M&As aimed at expanding digital businesses, and for securing talented personnel and developing technologies. In addition, the introduction of an incentive scheme based on stock options is under consideration for personnel who will lead businesses that use AI and IoT for digital innovation and other future businesses.

With respect to shareholder returns, in fiscal 2016 we raised

our initial target, increasing annual dividends from ¥8 to ¥9 per share. From fiscal 2017, while giving priority to dividends and in light of share price trends and the timing of business divestitures and M&As, we will consider measures to further increase shareholder returns.

Organizational Management for Growth

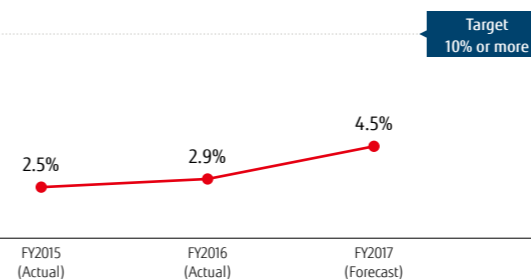
As the vice president in charge of global corporate management, I believe that establishing in-house rules is an effective method of creating corporate value. Here, I am referring to rules that break through obstacles to global growth and unify and align transformation efforts toward a common purpose. For example, one idea is to advance globalization from within the organization by creating a system that ensures all Fujitsu Group employees in Japan experience working abroad.

Establishing appropriate rules is essential to avoid "organizational slackening," which is the greatest risk going forward. While strengthening structural profitability so that we can post earnings constantly, I will remain vigilant for any signs of a lessening of our sense of urgency and determination with regard to transformation. The Group's corporate divisions will manage organizations effectively to maintain and increase the momentum of transformation efforts.

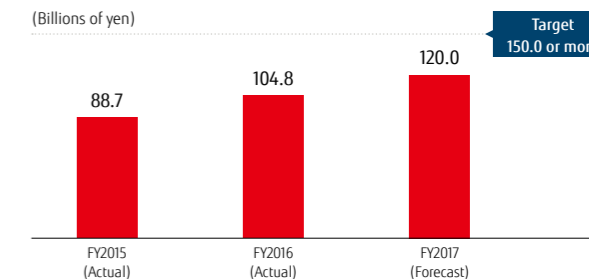
I view the senior management team as the bearer of the Fujitsu Group's corporate DNA. As such, we are committed to exhaustively implementing appropriate actions to ensure that we pass on to the next generation outstanding assets and businesses as well as an organization that creates corporate value continually.

Fiscal 2015–2016 Financial Results and Fiscal 2017 Forecast

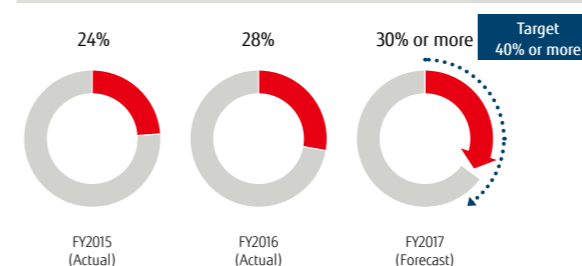
Operating Profit Margin



Free Cash Flow



Owners' Equity Ratio



Percentage of Sales Outside Japan

