



MANAGEMENT DIRECTION —TOWARD FUJITSU'S GROWTH

The Fujitsu Group aims to grow as a digital transformation (DX) company that makes full use of digital technologies and data to transform innovative services and business processes.

Our goal is to bring happiness to people through DX by collaborating with our partners, including customers, and co-creating value for society.

Market Overview

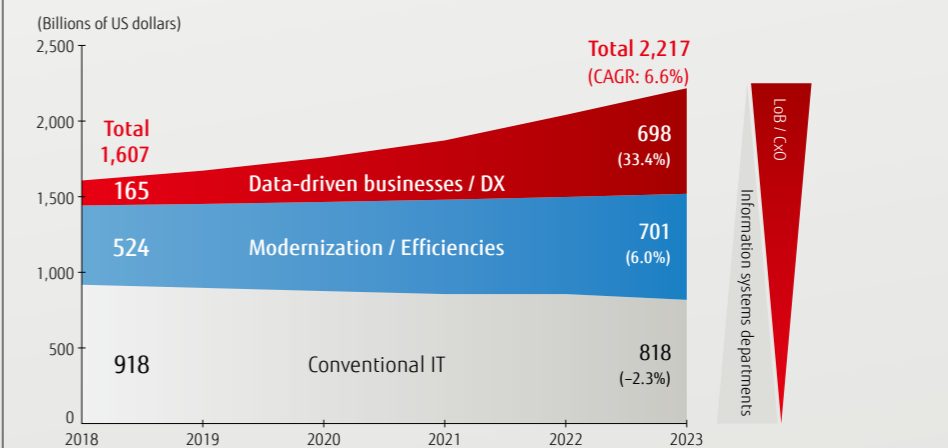
In the global corporate IT market, information systems consisting of servers, software, and other components operated by companies have recently been dubbed legacy systems or conventional IT systems, with the market for these systems being on a downward trend. In place of such systems, cloud computing—on an on-demand basis—utilizes server functions, applications, and other features in lieu of on-premises hardware or unique systems, and is becoming more prevalent. Accordingly, we anticipate that, as part of so-called modernization efforts, spending on cloud-based servers to replace conventional IT systems will steadily increase.

In addition, we expect the DX business to continue to grow rapidly going forward. The DX business aims to create new businesses that leverage the massive amount of data accumulated through business activities, and to transform operations that make full use of digital technologies such as artificial intelligence (AI). The objective of DX differs significantly from conventional IT systems, which were intended to collect and manage wide-ranging internal information and appropriately utilize it.

In keeping with this differing objective, while the information systems department of a given company is generally responsible for investment with regard to conventional IT systems, for the DX business, the operating division—the line of business—and management are often involved in decision making concerning investment.

Trends in the corporate IT market (worldwide)

- ▶ Market for conventional IT (information systems departments) is shrinking year by year (CAGR -2.3%).
- ▶ Modernization (CAGR 6.0%) and data-driven businesses/DX (CAGR 33.4%) markets are growing rapidly.



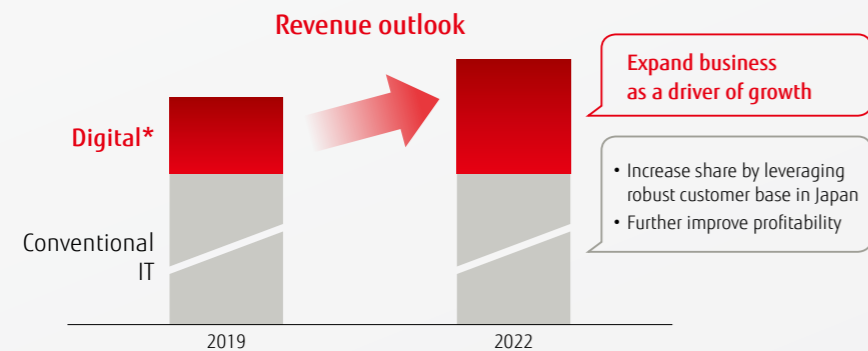
Source: Estimates by Fujitsu based on data from various research companies

Core Policy

Fujitsu has positioned the digital field—which includes modernization aimed at DX, the analysis and visualization of data, and more efficient systems operation—as its driver of growth and will capture the growth of the market to expand its business. As demonstrated by companies such as Uber, Airbnb, Netflix, Amazon, and Facebook, the leveraging of digital technologies leads to the offering of new services and acquires users on a global scale, thereby creating significant growth opportunities. We will pursue such growth opportunities to create high added value unique to the digital field, which will in turn lead to future profit growth.

At the same time, we will follow a policy of maintaining our existing level of business in the conventional IT field in order to secure profits. We have built a strong position in Japan and enjoy the leading market share in such sectors as industry and logistics. As we possess expertise in developing (integrating) conventional IT systems centered on large-scale systems, or mission-critical systems, which are related to companies' principal areas of business, we are highly regarded as an IT vendor providing operation services. Moreover, the market for conventional IT systems has been performing steadily of late and the conventional IT field is sure to be the core pillar of the Group's earnings base for the foreseeable future. We will continue leveraging the strengths and customer base we have garnered to steadily strengthen profitability, even though this market is shrinking.

Expand digital offerings, including DX, and raise profitability of conventional IT, based on robust business foundation



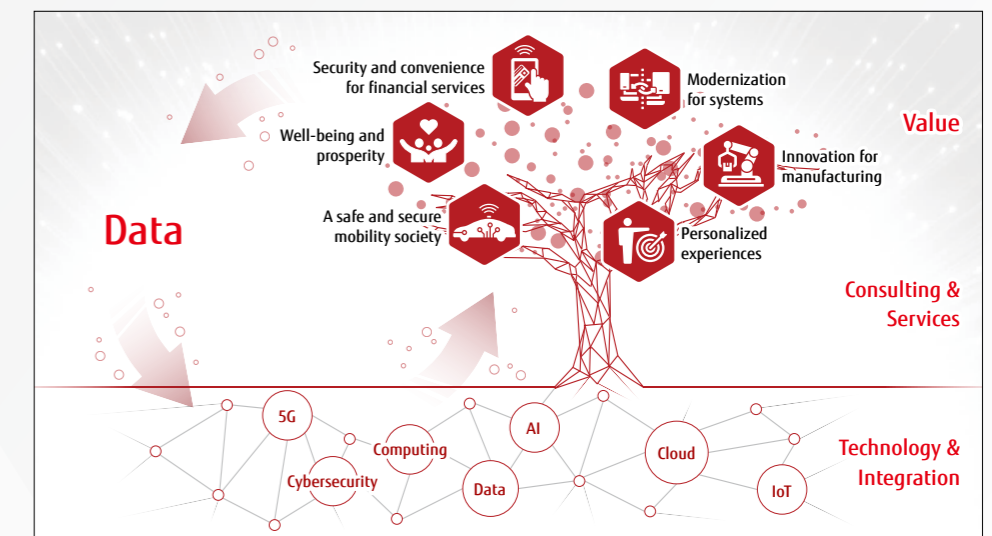
* In addition to DX, includes modernization, visualization, and streamlining activities that support DX

The Anticipated DX Business

With growing interest in the potential of DX, competition is intensifying among IT vendors including the Fujitsu Group as well as manufacturers with industrial technology, financial institutions, and venture companies, as they all enter the DX-related services market. Under such circumstances, we will aim for a DX business that leverages Fujitsu's unique characteristics and strengths.

Our competitive edge lies in the technological prowess we have cultivated since launching the computer business in the 1950s in addition to the expertise we have accumulated in various business fields and industries with support from our robust customer base. In order to develop an IT system in line with a customer's operations, it is necessary to understand the nature of the customer's business. For example, in the case of a food manufacturer, it would be necessary to understand the lifecycle of its products, its systems for inventory management, delivery methods, and sales methods. Through long-term relationships with our customers, we have accumulated insight unattainable overnight, and we have leveraged our wealth of expertise to develop our industry-specific solutions.

We will continue to create value for customers and society through the DX business by leveraging such insight on a cross-industry basis. Transcending industry and operational boundaries, we will integrate our expertise with the expansive range of technologies required in the digital field.



A New Company to Drive the DX Business

A new company, to be launched in April 2020, will be the driving force behind the establishment of a full-fledged DX business in the Fujitsu Group. The new company will offer one-stop services including management and business strategies for promoting digital transformation and strategic planning support for facilitating operational transformation, based on the perspective of customer experience, the supply chain, and other areas. The services also include business operation assessment, as well as the construction of IT systems that make full use of the latest technologies such as AI.

As for the personnel, we will select members of the Fujitsu Research Institute (FRI) as well as salespeople and system engineers (SEs) from the Group, who have sufficient knowledge and proven track records, to work as consultants. We will also transfer engineers such as specialists in middleware and software development, data analysis, and AI, to commence operations with a workforce that can provide flexible services, not only consulting at the upstream stage but also at technology implementation downstream. We intend to strengthen the new company's human resource structure going forward by dispatching staff from within the Fujitsu Group, developing talent, and proactively hiring consultants and other staff from outside the Group.

By making the new company an autonomous entity rather than a division of Fujitsu, it will provide optimal services and products for customers independently as well as through alliances with external partners. Moreover, although we will initially offer services to the manufacturing, distribution, and financial services industries, where progress is being made in DX, we will eventually approach industries and departments of existing customers with which Fujitsu has had little interaction to date.

The Fujitsu Group aims to increase consolidated revenue in the digital field to ¥1.3 trillion in the fiscal year ending March 31, 2023, through such measures as the expansion of the new DX company.

Expand business beyond the boundaries of the Fujitsu Group

Launch planned for April 2020



Izumi Nagahori

Corporate Executive Officer
Executive Vice President, Head of Digital Software & Solution Business Group
Technology Solutions Business

Transforming Corporate Calling through Digital Business

Contribution to Our Customers' Businesses Is a Prerequisite

The goal of the new company is to undertake services other than those related to the construction of IT systems that were not considered by conventional IT vendors, including the Fujitsu Group. Put simply, I believe it is a task akin to changing a company's calling. It is an endeavor to innovate ways of doing business by leveraging digital technologies, such as improving decision-making efficiency based on vast amounts of data and creating new services that utilize connections with users.

As an IT vendor, the Fujitsu Group is involved in a business that constructs IT systems within parameters defined by customer requirements and receives compensation according to the amount of labor required to complete the work. However, in the digital business, the goal is not to build IT systems but to contribute directly to the business of customers. In assessing remuneration for the rendered services, the basic question should be: "What kind of value did we create?"

In order to utilize its presence in the digital field and expand its network of external co-creation partners, the goal of the new company will be to undertake three or four symbolic projects at an early stage after its launch. Since the digital field will drive the transformation of the Fujitsu Group, we would like to pursue sales volumes, considering the ripple effects of projects.

Focusing on the Quality of Talent

Changing a corporate calling requires participation in the most upstream process of a series of corporate activities in which management direction and business strategies are considered. Therefore, the new company must accrue outstanding talent who not only possess knowledge of digital technologies but can also understand management issues from a strategic perspective and offer advice and present proposals, while foreseeing what innovations customers will truly need and what kind of value these innovations will create. The policy of the new company will be to focus on quality rather than increasing personnel numbers, assembling exceptional talent from inside and outside the Group.

The reforms of the human resources system initiated across the entire Fujitsu Group are consistent with the policy of the new company. I hope that talent with a strong desire to realize innovation and create new value, as well as the ability to pursue that desire, will form the workforce in the new company. We will recruit talent from inside and outside the Group with expertise as well as track records in consulting and digital technologies based on a new compensation plan focused on highly talented professional employees.

As the Fujitsu Group must transform into a digital company, I hope that all Group employees will follow the initiatives being pursued by the new company and be inspired to create the types of new technologies and services that will be adopted by the new company. The enthusiasm of such employees will generate the energy to promote Groupwide change, thereby changing the calling of Fujitsu itself.

Digital Technologies Supporting DX

We will concentrate resources on digital technologies that help promote DX and further bolster them. To provide services that deliver value to customers and society, we will leverage our unique strengths accumulated through the development and implementation of cutting-edge technologies in the following seven key technology fields.

Concentrating resources in seven key technology fields



Strengthening Each Business in the Market

Services

Regarding our existing services business, we will maintain and strengthen our robust customer base, particularly in Japan, to further expand our market share. At the same time, we will maximize profits by reducing costs. In this field, we will achieve an increase in profits of over ¥70 billion on a cumulative basis by the fiscal year ending March 31, 2023.

The first measure will be to grow our top line by capturing steady demand in Japan. We will aim to expand our share of the services market in Japan by leveraging our wealth of knowledge of our customers' existing IT systems and operations to support modernization centering on the migration to the cloud environment of on-site systems with highly reliable services.

At the same time, we will increase our competitiveness in terms of providing services. We plan to expand the number of employees at our Global Delivery Centers (GDCs)—offshore development bases vital to bolstering our competitive edge—from 14,000 at the end of fiscal 2018 to 20,000 by the end of fiscal 2022. Through the strategic leveraging of GDCs, we will further reduce development costs in system construction (integration) projects in Japan, which we have been pursuing in recent times. Furthermore, by consolidating the Fujitsu Group's expertise, we will enhance GDCs as the center of excellence in our global business to provide added value, rather than simply utilizing them as low-cost development centers. In doing so, we will expand the scope of the work undertaken by GDCs, which has focused on application development to date, to encompass the entire lifecycle of an IT system, including the design and operation phases. In conjunction with this, we will overhaul the development and operations work that was traditionally assigned to system engineers, by promoting the use of templates and automation through the leveraging of AI and robotic process automation (RPA).^{*1} As a result, we will increase the productivity of our efforts.

Furthermore, with the aim of ensuring quality assurance throughout the entire services business, we have established an organization that integrates the quality governance functions that were scattered across Fujitsu. The new organization will consolidate expertise by industry and operations performed by different businesses within the Company, with the authority to manage quality, even on the front lines of service provision. Doing so will enable us to identify potential risks at an early stage, during negotiations with customers or soon after a project commences. By appropriately promoting the project, we can secure stable profit margins in our entire services business.

^{*1} Technology that automates business processes using software robots

System Products

From the standpoint of services that generate value unique to Fujitsu, system products play an important role as they constitute the infrastructure that underpins services. With all industries increasingly demanding data accumulated through the IoT to be analyzed at greater speed by AI as well as business processes to be adapted in real time, the technological capability to develop and provide cutting-edge computing power is one of the Fujitsu Group's major advantages.

We have now initiated the manufacturing phase for *Fugaku*, the high-performance computer (HPC) embodying our aforementioned advantage, following the conclusion of the development phase that started in 2014. Planning to make it available for use between 2021 and 2022, we are promoting steady system development and implementation. Moreover, we will also commence the offering of HPCs as commercial machines for utilization on a broad scale. We launched the sales of *PRIMEHPC FX1000*, a commercial HPC that leverages technology used in *Fugaku*, and of *FX700*, an entry-level version of *PRIMEHPC FX1000*, in November 2019 and plan to expand sales globally. We will help strengthen the corporate competitiveness of customers in a variety of industries, such as those involved in the development of new drugs and materials, by providing HPCs, the primary users of which were traditionally researchers.

Networks

The full-fledged rollout of fifth-generation mobile communications system (5G) networks will offer significant business opportunities for the network business. The Fujitsu Group has already completed the investment phase for base-station control equipment and wireless equipment, promptly commencing supply to telecommunications carriers in Japan. For wireless access networks, we are making progress with initiatives for swiftly bringing to market products that match improved efficiency of development and market characteristics, based on the strategic partnership we concluded with Ericsson in 2018. For the photonics business, the backbone of 5G, we are concentrating investments in optical high-speed technology, which is one of our strengths.

As the Fujitsu Group's business shifts to services, we will improve our capabilities in a variety of fields, including network virtualization, edge computing, and operations automation, and redouble our efforts in making proposals for local 5G^{*2} projects.

Our policy is to deepen coordination between different businesses within Fujitsu and utilize the technologies and talent we have cultivated in our telecommunications carrier business over many years in enterprise-focused network consulting services.

^{*2} 5G networks operated primarily by local governments and corporations in accordance with diverse regional or individual requirements

Business Outside of Japan

Prioritizing Europe, the region outside Japan with the largest sales volume, in our overseas business, we will gradually shift from a business centered on the sales, operation and maintenance of hardware to a services-focused business model.

In our business in Europe, which is engaging in structural reforms, we reached an agreement with the workers' representatives for the Augsburg site in Germany to end production in September 2020, and we are proceeding with that process. In order to concentrate management resources in regions where the Fujitsu Group has strong customer bases, such as Germany and the UK, we plan to hand over responsibility for product sales to channel partners in roughly half the countries in which we have operated to date, and we have now embarked on reorganizing local subsidiaries.

Moreover, we have split Europe into two regions, Northern & Western Europe (NWE) centered on the UK and Ireland, which has a robust services business, and Central & Eastern Europe (CEE), centered on Germany, where we are promoting a shift to services from a business focused on conventional hardware sales. We have stationed executives in these regions to flexibly develop our business there.

To ensure the delivery of services with globally unified content and quality, we will strengthen coordination between overseas businesses and GDCs. As one measure, we have combined the delivery group of NWE with the GDCs and their management. Under this new structure, we will raise the proportion of offshore deliveries and strengthen cost competitiveness. In the Americas, meanwhile, we are also enhancing collaboration with GDCs while using Europe as a reference point.

Strengthening Our Services Business with Global Delivery

A crucial component of the Fujitsu Global Delivery Group (GDG), the Global Delivery Centers (GDCs) are a carefully selected set of locations that house our expert delivery teams. With GDCs in eight countries around the world, we provide services to over 100 countries and regions, operate in over 40 languages, and help customers to achieve global success. To do this, we offer a wide range of services attuned to the challenges and aspirations of the modern global enterprise, including application and multi-cloud services, workforce and workspace management, enterprise cybersecurity, enterprise business application operations, customer relationship management, and service integration including service desk, service management and business process outsourcing (BPO). Our 14,000-strong team of skilled, highly motivated people helps us to deliver cost-effective, scalable, high-value services to customers, locally and globally, 24 hours a day, 365 days a year.

With the rise of digital transformation as a business imperative, delivery—in terms of quality, price, and speed—is the new competitive battleground. Fujitsu's GDCs, with their deeply entrenched agile approach, and network of market-leading strategic partners for critical areas of design, development, migration, and operation, are pivotal to strengthening Fujitsu's services business and increasing profitability.

One of the most tangible steps we are taking to augment our GDC capabilities is to add a further 6,000 talented

resources to the team, aiming for a total of 20,000. In parallel, with increasing the volume of delivery experts on our teams, we will unify the content and quality of the global offerings delivered from all GDCs. We will also ensure that the system development, industry, and operations expertise accumulated in Japan will be shared across all of the GDG and leveraged to benefit our customers.

By increasing the utilization of GDCs for IT development and management typically done in Japan, such as software development, profitability of business in Japan will increase, while creating greater local and global capacity to drive digital transformation initiatives for customers. GDCs also support Fujitsu's international business, providing services to all Fujitsu regions; and by modernizing and protecting core infrastructure services, our GDCs can accelerate the shift to services with higher added value through the strengthening of integration capabilities. With our single integrated delivery model and connected global capabilities, we provide high-quality, cost-competitive, and continually improving support to all Fujitsu regions, countries, and customers.

The GDG's real strength is in its people. Given the global, geographically spread nature of the GDG organization, it is the most diverse, dynamic, and vibrant area of Fujitsu. With people from all backgrounds, each of whom brings a different set of skills and experiences, our teams are uniquely capable of delivering huge value to our customers.



Contributing to Fujitsu's Globalization and Growth by "Bringing Delivery Centers to the Forefront"



Tim White
Corporate Executive Officer
Head of Global Delivery Group
Technology Solutions Business

Under the leadership of President Takahito Tokita, the Fujitsu Group will increasingly leverage the GDG and its global delivery capabilities to strengthen our services business and enhance profitability. I work extremely closely with the heads of the business groups within the Technology Solutions business to share and utilize the invaluable industry expertise and insights that each business group has accumulated in Japan; this also involves a regular exchange of ideas about how the GDCs can help each business group achieve their specific strategic goals and objectives.

With rapid commoditization of many traditional core infrastructure services, the GDG is finding new ways to provide value by upskilling in market-relevant technologies, such as application development, ERP* services, and cybersecurity. Simultaneously, our GDCs have embedded agile methodology into all elements of delivery, helping to more efficiently maintain and improve services to current customers. Adopting a "bringing delivery centers to the forefront" mindset, the teams are revolutionizing service delivery.

The GDG is currently, and will continue to be, a pivotal strategic enabler for Fujitsu. For example, GDCs throughout Asia, including India and the Philippines, contribute heavily

to the profitability improvements realized by our services business in Japan and across our international regions. At the same time, European GDCs, such as those in Portugal and Poland, underpin the local acceleration of the services for businesses in Europe.

Starting in Europe, the GDCs will support and standardize new services that provide huge customer value by leveraging their augmented capabilities. Coordinated with front-office customer functions in each country, this is the epitome of providing global value on a local basis. To configure services that leverage our capabilities, but in a way that helps customers on an individual basis, we will drastically increase our use of co-creation methodology to create solutions based on firsthand delivery experience.

By helping to increase the competitiveness of our services in all regions, especially our services business in Japan, and by honoring Fujitsu's engineering DNA—always striving for technical excellence—the GDG is a profit engine for Fujitsu, and the key to its global success.

* An approach that aims for efficient management activities by optimally deploying and allocating management resources such as personnel, material assets, funds, and information. In many cases, ERP entails business integration solutions as exemplified by SAP.

