Thank you for coming today to attend Fujitsu’s Management Direction Briefing.

Six months have passed since I was nominated to become president, and three months have passed since the Annual Shareholders’ Meeting where I officially became president. Internally we have given much consideration as to what kind of company Fujitsu ought to become and although there are some details which I still need to elaborate on, today I would like to present to you this Management Direction.
Our view is that, as a technology company, Fujitsu’s mission is to promote the wellbeing of as many people as possible through technology.

Fujitsu has a world-leading customer base, and I am confident that, through co-creation with partners to produce the value demanded by society, we can contribute to resolving various issues facing society.

For that purpose, by changing Fujitsu from an IT company to a digital transformation company, I would like us to bring about a virtuous circle that positively impacts the environment, society, and our customers’ business.

Fujitsu is an IT company that was established over 80 years ago. Up until now, we have delivered a wide variety of products and services. Now, more than ever, not just our customers - but society on the whole, is pursuing change. Fujitsu itself, as a company that can deliver that kind of value, is redefining itself as a digital transformation company.
This is our forecast of the global IT market derived from several research companies’ data.

It has long been said, but the existing market for system integration services, including traditional on-premises systems and mission-critical systems, is on a downward trend.

On the other hand, spending on modernization to replace legacy systems and raise further efficiencies is predicted to solidly increase.

Moreover, spending on new digital transformation areas, including data utilization, AI, and IoT, is expected to rapidly expand.

Given this market environment, as well, we believe that shifting to become a digital transformation company is of paramount importance to us.
With this market forecast in mind, the question that we have had to ask ourselves is; in what areas should Fujitsu focus on? Our answer is that Fujitsu will be concentrating its resources and aggressively expanding its digital transformation business.

We will additionally emphasize “modernization”, including activities like migration to the cloud that represent an essential step in realizing digital transformation.

We call the combination of these two areas “digital,” and this is the area we want to grow.

Digital is an area that has much potential to deliver high added-value to society and our customers’ business and in turn, this will enable Fujitsu to contribute to the expansion of its future profits.

At the same time, conventional IT remains an area in which Fujitsu has extraordinary strengths. We enjoy a very robust customer base in this space, particularly in the IT services market in Japan. While the overall market is on a declining trend, if we can expand our share, we think we can maintain our existing level of business. We want to sustain our performance in this area, steadily building on it as a kind of cash cow, to secure further profits.

In other areas of business, as well, we plan to implement measures to strengthen our earnings.
First I would like to talk about how we will expand the new area of business as exemplified by digital transformation business.
While many companies are pursuing similar opportunities in digital transformation, Fujitsu will aim for a digital transformation business that fully leverages its unique strengths.

Fujitsu’s biggest strengths lie with its technology and the expertise it has accumulated in each field of business and each industry in support of its customer base.

Nevertheless, we acknowledge that Fujitsu has also had weaknesses.

Fujitsu must strive even harder to convert its technologies into value for its customers and society. At times it has also proven a struggle to leverage, in a cross-organizational way, our business and industry expertise. I believe that achieving this will further strengthen our position.

Admittedly, because we have been able to generate stable earnings from our conventional business, it has been difficult for us to change our mindset.

We will decisively address these issues, leverage our strengths, and pursue digital transformation business that delivers the value needed by our customers and society.
We have already started these initiatives. We have just gotten started, so it does not yet represent a major share of our business, but I would like to introduce a few examples that are emblematic of what we want to do.

First, we have initiatives to convert our revolutionary technologies into value. Our Digital Annealer has an incredible ability to select the optimal solution among many combinations. We believe it can be used to optimize logistics, which is a common issue throughout the world, and we have actually performed a field trial that demonstrates how we can optimize deliveries for post offices. It can also be used to optimize investment portfolios, and we recently were able to receive confirmation of its effectiveness in portfolio optimization from Commerzbank in Germany.

Second, we are creating cross-industry value. In the field of mobility, we offer our Mobility Platform, which enables utilization services for big data on mobility for a variety of industries, including the insurance industry and leasing industry, in addition to the automobile industry. To build this platform, we are partnering with Autonomic of the US, a subsidiary of Ford that provides a platform for mobility services and are putting much effort into this industry. In addition, on the technology front, we are providing forecasting technologies that use Fujitsu’s proprietary high-dimensional statistical analysis and other tools to contribute to the acceleration of digital transformation.

Third, we are creating new revenue models. With ticket sales systems for professional baseball, we are promoting a business with the Hokkaido Nippon-Ham Fighters that seeks to increase box office revenues by improving the user experience. We will implement a revenue sharing model, and we would like it to lead to the creation of new revenue models for Fujitsu.
To create a full-fledged digital transformation business, around next January we plan to establish a consulting company focused on digital transformation.

The new company will not be positioned as a division of Fujitsu. Instead, as an independent consulting company, we seek for it to become a highly competitive group of professionals.

Through a variety of openings, including strategic consulting, industry-specific consulting, solutions consulting, and technology consulting, it will be a company that supports our customers’ digital transformation though proposing and planning, providing one-stop delivery of technology implementations using optimal services and products from Fujitsu or outside vendors.

The initial target areas will be financial services, manufacturing, and retailing and distribution, where progress is being made in digital transformation. We will actively present proposals to customers, including those for whom our previous approaches were not sufficient.

In addition to selecting many salespeople and system engineers to become consultants, we will also hire highly-skilled consultants from outside Fujitsu.

We will start with a little over 500 consultants, and plan to expand to 2,000 consultants by fiscal 2022.

The new company will aim to expand as an independent business, but we expect there to be some ripple effects on Fujitsu’s business as well, and on a consolidated basis we seek to generate 300 billion yen of digital transformation business.
Technology is essential for implementing digital transformations. For the technologies supporting our digital transformation business, we will concentrate resources in 7 key technology fields.

On top of that, in each area we will seek to further bolster Fujitsu’s unique strengths.

In computing, to contribute to resolving issues facing society, we will continue to work on the development and practical implementation of cutting-edge technologies, such as the Digital Annealer and supercomputers.

In AI, we will further focus on explainable AI to promote the use of these technologies in actual business.

In 5G, an area we have great expectations for, we will promote the creation of new business models that transcend business and industry boundaries in combination with other digital technologies.

In the field of security, in addition to cyber-defense, specialists will provide security by design, in which countermeasures are built in advance in accordance with the level of risk associated with the data being handled.

In the cloud field, we will promote the migration of existing mission-critical systems to the cloud and accelerate digital transformations with multi-cloud and hybrid cloud environments. In particular, we will emphasize operational services for multi-cloud environments.

In the field of data management, we will provide technologies using the blockchain, such as Virtuora-DX, which enable goal-oriented business through the use of AI and guarantee the reliability of data.

In addition, we will concentrate our resources into the development of technologies such as Dracena, which enables additions and revisions to large volumes of IoT data without having to stop processing the data.
In addition to enhancing our technologies, to enable the generation of business opportunities and the powerful promotion of new businesses, over the next five years we will invest 500 billion yen.

As major initiatives, we will make priority investments in cutting-edge technologies, such as supercomputers, as well as technologies that support the growth of the digital transformation business, such as AI, 5G, and digital platforms and solutions.

To create new businesses, we will additionally make aggressive corporate venture capital investments and invest in start-ups.

We will also continue to consider our options regarding acquisitions to promote, with a sense of urgency, the nurturing and expansion of new businesses.

At the same time, for Fujitsu’s own change to become a digital transformation company, we will upgrade internal processes and infrastructure to implement reforms to Fujitsu.
I will now talk about the competitiveness of each of our existing businesses.
I would like to talk about increasing the profitability of our services business.

Our existing services business has a very robust customer base, particularly in Japan, and we plan to further increase our share of the market. On top of that, by making progress on cost reductions, we believe we can maximize profits.

Based on our wealth of knowledge and experience about our customers’ systems and operations, we will accelerate their modernization with highly reliable services to fully meet the expectations of our customers.

We will simultaneously use our Global Delivery Centers (GDC), located across 8 different countries, as a strategic global resource pool to expand offshoring and promote greater efficiencies in development costs and enhanced competitiveness in our system integration services business in Japan. We will expand the scope of work we undertake for customers, which has been centered on application development, to encompass the entire life cycle of a system, including the design phase and operations phase. We will promote the use of templates and automation in development and operations work to raise productivity.

For the entire Services business, to deliver quality assurance for front-line operations, we have created an organization that integrates quality assurance functions that were scattered within Fujitsu. By considering project negotiation risks and project risks from the start, we will enable sound project management and project promotion, and thereby secure stable profit margins in our system integration business, as well.

In combination with other measures, we plan to achieve over 70 billion yen in higher profits, compared with the current fiscal year, per year on a cumulative basis by fiscal 2022.
Within System Products, the latest news is that we have completed development for Fugaku, and initiated the manufacturing phase. We expect that this system will be able to contribute to the resolution of societal and scientific issues.

Utilizing technologies developed for this project, in the second half of the year we will begin global sales of the PRIMEHPC FX1000 supercomputer, as well as the FX700 entry level model, expanding broadly.

Through these products, we will not only promote cutting-edge research and resolve societal issues, including through the development of new drugs and the creation of a safer society through disaster prevention and mitigation, but also strengthen the corporate competitiveness of our customers, making our supercomputers available to a wide range of customers across a variety of industries.
Next, I would like to talk about our network business. We view the full-fledged rollout of 5G networks as a significant business opportunity.

First, with regards to carrier-based 5G networks, Fujitsu is taking the lead in initiatives aimed at promoting the expansion of 5G networks.

In July, we began delivery of both base station control equipment and wireless equipment to NTT DOCOMO. We have broken out of the phase in which investments have taken the lead.

In terms of wireless access networks, we have improved the efficiency of development through a strategic partnership with Ericsson, and are now ready to rapidly deploy products that suit various market characteristics.

For the photonics business, which is the backbone supporting 5G, we are concentrating investments in optical high speed technology, which is one of our strengths.

In order to strengthen our efforts in the field of software and services, we are working to improve our capabilities in network virtualization, edge computing, and operations automation.

Moreover, we believe that by applying 5G technology to a variety of industrial fields, such as smart factories, remote medical care, and autonomous driving, we will accelerate the digital transformations of our customers.

For this reason, we have begun making proposals for local 5G projects, while also strengthening internal coordination.

We will utilize the technology and talent we have cultivated in our telecom carrier business over many years in enterprise-focused network consulting.
I would like to explain a bit about our business outside Japan.

In the EMEIA region, which is the part of our business outside Japan with the largest revenue, we will continue to implement policies aimed at shifting to a services-focused business model.

As we explained last year, we are conducting structural reforms in the EMEIA region to put the business on a path to growth.

We have reached an agreement with the workers’ representatives for the Augsburg plant in Germany to end production in September 2020, and we are proceeding with the steps in that process.

In addition, in order to concentrate management resources in areas that have strong customer bases, our plan is to switch product sales to channel partners in roughly half the countries in the region and reorganize our local subsidiaries.

At the same time, for Europe specifically, we are splitting the area into two regions, Northern & Western Europe as well as Central & Eastern Europe, stationing executives in each region who can flexibly develop our businesses there.

We will also strengthen coordination with the GDCs, continuing to strengthen service delivery with globally unified offerings. As part of this initiative, we have combined the Delivery Group of Northern & Western Europe with the GDCs and its management. We will expand this initiative across all regions.

Beyond that, we are continuing our current efforts to transform our business structure without interruption.
I would now like to touch on the internal changes necessary to continue these efforts.
In order to become a trusted digital transformation partner for our customers, Fujitsu itself must also change.

I have taken the title of Chief Digital Transformation Officer, and am leading from the front on this internal transformation.

There are two main points I would like to make.

First, Fujitsu must become a group of professionals with a wealth of diversity, changing into a company that can generate and deliver creative ideas.

The other point is that, by taking the lead in implementing our own digital transformation, the experience and know-how from that process can be offered to customers.

In terms of implementing more flexible ways of working, the use of telework and flextime has become fairly well established. In addition to improving productivity, this has the effect of enabling employees with a variety of family circumstances to also be more active than previously. Transforming our ways of working is itself a form of digital transformation. Going forward, I also hope to push ahead with initiatives to make our offices into more creative spaces.

On the training front, we are fundamentally rethinking our existing internal training, and are currently taking stock of where we are.

We will also reform internal processes and systems that are inefficient.

We are trying to make major changes to our internal culture, and part of that is the introduction of a casual dress code. We are also strengthening our efforts to convey information from top management to employees around the world, promoting a shared conception of these internal transformations and mature the company’s internal culture.
In addition, in order to make more mobile use of our approximately 130,000 employees around the world, we are changing our human resource management.

We are shifting to a position-based human resource management. Individual duties and roles will each be defined, and we will change to a system in which employees will be paid compensation corresponding to the market value of those roles and duties.

In fiscal 2019, this is being initially implemented for those at the rank of department head and above, and we are proceeding with system design such that this can be successively rolled out to more positions in fiscal 2020 and beyond.

We have also set a goal of implementing a new compensation plan focused on highly talented professionals employees in fiscal 2019. This will make it possible to set compensation individually, primarily for employees in digital fields such as AI and security, in response to the degree of an individual’s expertise and his or her market value.

The goal of this is to create a structure that can manage talent from a global perspective.

With regard to the recruitment of new graduates, we have begun year-round recruitment this year. We previously had a deadline for applications for recruitment around August, but going forward, we will accept applications throughout the year. For April and May of next year specifically, however, we will only be accepting applications, and not conducting recruitment, in accordance with the government’s policy on recruitment activities.

In addition to creating an environment in which applicants can search for jobs more freely, of their own volition, this will also lead to increased opportunities to secure more diverse talent for our company as well.
I would now like to talk about our management targets.
First I would like to talk about sustainable growth and higher profitability.

Here we indicate the performance level for our Technology Solutions segment while adding in expenses from Other/Elimination and Corporate.

We seek to achieve revenue growth of 12% per year in the digital realm. For Technology Solutions overall, we seek to achieve sustainable growth of 3% per year.

Accordingly, we have set targets for fiscal 2022 of 3.5 trillion yen in revenue and an operating profit margin of 10%.

By steadily executing the measures I have been explaining, we seek to achieve these targets.
Next I would like to talk about cash flow.

Through our initiatives to achieve higher profitability and sustainable growth, we will generate stable cash flow. We seek to generate free cash flow of at least 150 billion yen each fiscal year.

Based on this, while investing in growth and producing shareholder returns, we will ensure that Fujitsu’s financial fundamentals are sound.

First, in terms of investing in growth, we will make proactive investments in employee training and our internal digital transformation implementation to transition to a digital transformation company.

Next, while paying stable dividends, we will produce higher shareholder returns in accordance with our growth level. We will also flexibly implement stock buybacks.

In terms of sound financial fundamentals, we will maintain a strong shareholders’ equity ratio and an adequate level of liquidity as is appropriate for a company supporting social infrastructure.

In addition, we will strengthen our dialogue with outside stakeholders and continue to promote responsive investor relations.
Next I would like to talk about non-financial initiatives.

The Sustainable Development Goals represent an important initiative for the sustainable development of human society, and Fujitsu is also positioning the goal at the center of its management approach.

As a responsible corporation, up until now Fujitsu has promoted activities that addressed various issues for different regions around the world. From now on, we will organize our activities around globally integrated issues.

In each of the following areas of human rights, diversity and inclusion, wellbeing, which aims for a healthy mind and body, the environment, ethical conduct and compliance, and community, we will initiate activities to achieve set targets, and, together with initiatives to resolve issues facing society, seek to achieve globally sustainable growth.

In each of these areas, we will set Key Performance Indicators to serve as non-financial indicators to guide the management of Fujitsu.
As I said at the outset, Fujitsu is seeking to become a company that contributes to resolving issues facing society.

We want to implement Fujitsu’s own transformation, and use the insights gained from that process to play a useful role in transforming society, companies, and people’s lives. Our view is that, by contributing to our customers and society, we can also achieve sustainable growth for Fujitsu.

Today I talked about some of the specific initiatives we are pursuing. We will continue to move forward both on Fujitsu’s own transformation and in making contributions to our customers and society.

We will continue to seek to be a company that is essential to our customers and society, where employees are excited to work, and stakeholders are sufficiently rewarded.

I would like to ask for your continued understanding and support of Fujitsu.
Cautionary Statement

These materials may contain forward-looking statements that are based on management’s current information, views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results may differ materially from those projected or implied in the forward-looking statements due to, without limitation, the following factors listed below:

• General economic and market conditions in key markets (particularly in Japan, Europe, North America, and Asia, including China)
• Fluctuations in exchange rates or interest rates
• Fluctuations in capital markets
• Intensifying price competition
• Changes in market positioning due to competition in R&D
• Changes in the environment for the procurement of parts and components
• Changes in competitive relationships relating to collaborations, alliances and technical provisions
• Risks related to public regulations, public policy and tax matters
• Risks related to product or services defects
• Potential emergence of unprofitable projects
• Risks related to R&D investments, capital expenditures, business acquisitions, business restructuring, etc.
• Risks related to natural disasters and unforeseen events
• Changes in accounting policies