

## MESSAGE TO SHAREHOLDERS AND OTHER INVESTORS

To acquire the competitiveness essential for developing our businesses globally and achieve sustainable growth into the future, we will continue to advance business model transformation.

Through its Management Direction focused on business model transformation, the Fujitsu Group is implementing rigorous structural reforms that are substantively improving the Group. In conjunction with these efforts, we will establish a unique growth model with integration at its core. "Integration" means connecting our strengths, which are digital technologies and in-depth knowledge of customers' industries.

We will establish a virtuous cycle that enhances growth and corporate value. Based on digital technologies, we will focus on turning information and communication technology (ICT) into services. These efforts will then enable co-creation with customers that leads to innovation. Such innovation will, in turn, trigger the formation of new businesses and value. Completing the cycle, new businesses and value will generate further co-creation opportunities.

### Tatsuya Tanaka

Representative Director and President



### Progress of Business Model Transformation and Our Next Steps

We will continue to base management policy on two types of transformation: "business structure transformation" and "growth strategy transformation." We refer to this policy as the pursuit of "Connected Services." In other words, with digital technology as a base, we aim to focus investment on turning ICT into services and grow the Technology Solutions business globally. Having established the Ubiquitous Solutions and Device Solutions businesses as wholly owned subsidiaries, we will increase their independence and consider various measures to increase competitiveness.

Connected Services will be our growth driver going forward. Accordingly, we will grow with customers by using in-house specialized capabilities to engage closely with their business strategies and to offer new value. Specifically, we will combine digital technologies with our in-depth knowledge of each customer's industry and operations. Our focus on Connected Services has led customers to commission us for the provision of one-stop solutions covering initial consulting through to final delivery. The success of such projects has made us even more confident that we can improve profitability.

However, we have only completed 20% to 30% of the business model transformation. The immediate reason why progress has been slower than we initially expected is that it has taken time to build a consensus with a third party outside the Group.

A more fundamental reason for the delay is my firm adherence to a policy of avoiding easy compromises and avoiding making structural reforms an end in themselves. This stance is based on the view that maximizing corporate value is the real goal of structural reforms. I view stepping up the pace of implementation as one of my major tasks going forward.

Meanwhile, as we make progress with specific measures aimed at realizing our Management Direction and receive orders for new projects, a growth model unique to the Fujitsu Group is becoming clear and tangible. This model is based on consulting and integration initiatives in which we co-create new value with customers. Such initiatives are comprehensive, including the initial stage of identifying customer needs through to the establishment of a digital transformation concept that incorporates the latest technologies into their businesses and the realization of this concept.

In co-creation initiatives in the digital field, superior integration capabilities underpin the Fujitsu Group's unique solutions. We have always had a great deal of confidence in our technological capabilities because we were originally an industrial electronics manufacturer. Moreover, the Group includes Fujitsu Laboratories, which carries out cutting-edge ICT research. We realize competitive strength by combining this competence with a deep understanding of each customer and the industries to which they belong. Such insights are based on our leading share of Japan's system integration market for many years.

### Progress of Business Model Transformation Measures

	Basic strategy	Progress
<b>Technology Solutions</b>	Focus investment on Connected Services and realize global growth	<ul style="list-style-type: none"> <li>In November 2016, the Group conducted absorption-type mergers of its three major systems engineering subsidiaries in Japan—Fujitsu Systems East Limited, Fujitsu Systems West Limited, and Fujitsu Mission Critical Systems Limited—and consolidated them under the management of the Global Services Integration Business, which leads the provision of Connected Services.</li> <li>In January 2017, the Group established the Digital Business Group in the Global Services Integration Business and consolidated in-house resources related to AI and IoT.</li> <li>The Group merged a business focused on cloud services for corporate customers with the Technology Solutions business. Previously the business providing cloud services for corporate customers was part of listed subsidiary NIFTY Corporation, which conducted three businesses: the ISP Business, Web Service Business, and Cloud Business. In April 2017, the Fujitsu Group transferred its entire shareholding in NIFTY's former consumer business, which conducts the ISP Business, to Nojima Corporation.</li> </ul>
<b>Ubiquitous Solutions and Device Solutions</b>	Consider various measures to enhance competitiveness of each business	<p><b>Ubiquitous Solutions</b></p> <ul style="list-style-type: none"> <li>In April 2017, the Group decided to transfer some of its stake in car electronics manufacturing subsidiary Fujitsu TEN Limited to DENSO CORPORATION.</li> <li>The Group is seeking to establish strategic cooperation in the PC field with Lenovo Group Limited through the continuation of negotiations aimed at maximizing synergy benefits for both companies.</li> </ul> <p><b>Device Solutions</b></p> <ul style="list-style-type: none"> <li>The Group used the firm demand in the semiconductor market as an opportunity to strengthen competitiveness.</li> </ul>

## Business Results and Returns to Shareholders

In fiscal 2016, the year ended March 31, 2017, revenue decreased 4.8% year on year, to ¥4,509.6 billion; operating profit increased 6.8% year on year, to ¥128.8 billion; and profit attributable to owners of the parent rose 2.0% year on year, to ¥88.4 billion. Revenue, operating profit, and profit attributable to owners of the parent all surpassed targets. In particular, despite recognizing a ¥3.1 billion year-on-year rise in business model transformation expenses, the Group realized higher-than-expected growth in operating profit. As a result, the operating profit margin edged up 0.4 of a percentage point, to 2.9%.

In fiscal 2017, the year ending March 31, 2018, we are targeting revenue of ¥4,100 billion, which is essentially unchanged year on year if the absence of Fujitsu TEN Limited is taken into account. In addition, we anticipate year-on-year increases of 57.5% in operating profit, to ¥185 billion, and 63.9% in profit attributable to owners of the parent, to ¥145 billion. These year-on-year earnings targets also take into account discontinuation of the business of Fujitsu TEN. On April 28, 2017, the Group decided to sell shares of the company. We project a steep increase in operating profit as business model transformation expenses, which were ¥42.0 billion in fiscal 2016, are unlikely to affect earnings. The reason for this is that we expect costs to be lower in fiscal 2017 than in the previous two fiscal years, when we incurred upfront costs. In addition, we expect business model

transformation expenses to be offset by the positive effect on earnings of the sale of the consumer company NIFTY Corporation as part of transformation efforts. Consequently, we expect to achieve an operating profit margin of 4.5%. Thus, we have come within reach of realizing an operating profit margin in the 5% zone in fiscal 2017, which we established as a milestone in our Management Direction.

As for returns to shareholders, our existing policy of paying stable dividends while enhancing corporate value over the medium to long term has not changed. Naturally, using cash to pay dividends to shareholders is a high priority. In fact, based on a forecast of higher earnings, we plan to increase full-year dividends from ¥9.00 to ¥11.00 in fiscal 2017. Also, if business model transformation grows businesses and increases free cash flows, we will actively consider further increases in returns to shareholders.

However, I believe that increasing dividends and acquiring treasury stock are a means of returning profits to shareholders and should not become ends in themselves. A corporate manager should focus on enhancing business results by providing high-value, competitive services and earning the endorsement and trust of customers. The rewards for such efforts are a favorable reputation in the market and a rising share price. Accordingly, we will continue to repay the trust of shareholders and other investors by growing businesses.

## Global Trends, Market Trends, and Business Strategies

Fiscal 2016 was a year in which a variety of geopolitical risks garnered attention. Given that a priority we have is to grow our digital businesses globally, we of course have to constantly monitor developments overseas. Issues that currently require a close watch include the process of the United Kingdom's withdrawal from the European Union and other trends in Europe, political trends in the United States with respect to such areas as interest rate and exchange rate policies, as well as China's economic climate and its effect on Asia's economy. However, I think that being overly anxious about geopolitical risks can impact companies negatively. Without a doubt, the digital businesses will overcome short-term fluctuations in geopolitical risks and expand over the medium to long term. At present, competition that transcends the boundaries of the traditional ICT industry is focused on establishing dominance in the digital businesses area. In these conditions, becoming paralyzed by a fear of risks would result in the loss of extremely large business opportunities.

Although the buoyancy of the digital businesses area is a global phenomenon, the opportunities that we should seize are different in each market. In the Japanese market, which is our earnings base, we believe overall conditions are likely to remain favorable in the near term. Corporate operating divisions are driving an acceleration of digitization. In industries where competition is particularly fierce, previously cautious customers have become proactive about digitization. Testament to this change was the unprecedentedly large numbers of people from corporations' sales, marketing, and planning divisions who visited the annual Fujitsu Forum held in Tokyo in May 2017. While harnessing this momentum, under the "One Asia" framework

we will step up the pace of the introduction to Asia of know-how accumulated in Japan with respect to sales and service delivery.

In Europe, the Middle East, India, and Africa (EMEIA), we will increase the efficiency of the product business even further and build alliances. For example, in March 2017 the Fujitsu Group launched a project to support digital innovation in France, which is based on a collaboration with the French government. Over five years, we plan to invest more than €50 million (about ¥6 billion) in the project. Through initiatives such as this, we will develop alliances with companies, research institutions, and start-ups that are on the cutting-edge of technological advances and expand the digital businesses.

Since we restructured our management system in 2016, as well as leading EMEIA, corporate senior executive vice president Duncan Tait has been leading transformation efforts in the Americas. In the region, customers' appetite for utilization of the digital businesses is very strong. Further, we have seen an increase in business discussions that are focused on the imminent arrival of practical applications for next-generation networks. In this way, our sales activities are staying a step ahead of market expansion.

In Oceania, we will provide even higher-quality services and establish a leading position in the region. In Australia, we have already decided to expand and improve our datacenters, to strengthen competitiveness.

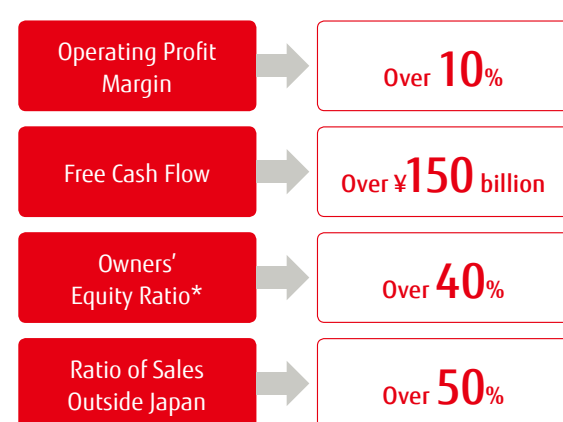
We will accelerate expansion of the digital businesses by sharing know-how globally. To facilitate this, we are considering the establishment of common performance indicators that will enable Groupwide comparison and examination of successful examples of sales activities and delivery from each region.

## Fiscal 2016 Results and Fiscal 2017 Full-Year Consolidated Forecast (As of August 31, 2017)

	Fiscal 2016 Results	Fiscal 2017 Forecast	YoY Change	YoY Change (%)
Revenue	4,132.9	4,100.0	-32.9	-0.8
Business model transformation expenses	42.0	—	-42.0	—
Operating profit	117.4	185.0	67.5	57.5
Profit attributable to owners of the parent	88.4	145.0	56.5	63.9

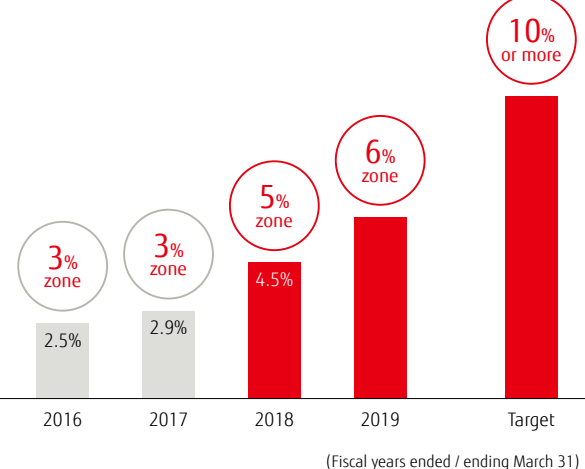
Note: On April 28, 2017, Fujitsu decided to sell its shares in Fujitsu TEN (Ubiquitous Solutions), and therefore revenue and operating profit for this company are not included in the forecast for fiscal 2017. For purposes of comparison, numbers shown for fiscal 2016 (actual results) also omit Fujitsu TEN's results.

### Consolidated Financial Targets



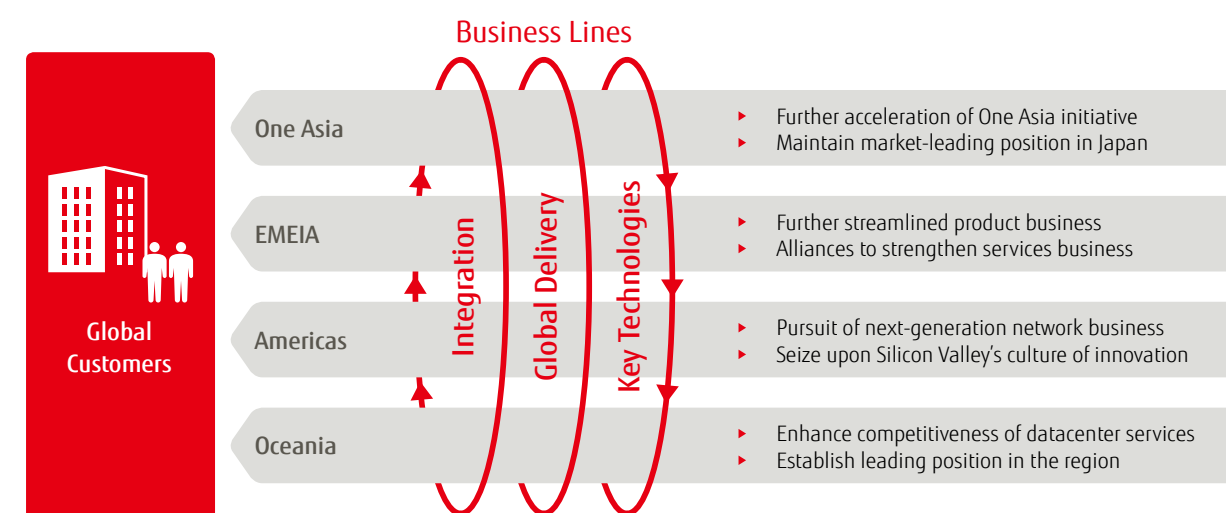
\* Owners' equity ratio: Ratio of equity attributable to owners of the parent

### Consolidated Operating Profit Margin



## Strengthen Our Foundation for Global Growth

Implement region-specific strategies in liaison with business lines





## Fujitsu's Role in Society

We fulfill our corporate social responsibility (CSR) by implementing the Fujitsu Way, and, as such, CSR is a fundamental component of our business management. If a company operates a business with genuine value, this will naturally benefit society. Conversely, if a business does not have value to offer customers or, by extension, to offer society, the business will not earn the support of the market and cannot continue. Ideally, companies should fulfill CSR by interlocking business profitability with social value. In my view, such paradigms contribute most to corporate value and society.

Based on this philosophy, Fujitsu unreservedly endorses the sustainable development goals (SDGs) of the United Nations. With the power to bring happiness and help realize a sustainable society, ICT speaks to all 17 of the SDGs. Therefore, in fields where effective use of ICT can have a major impact, we want to increase our contribution to the achievement of the SDGs.

An example of a field where ICT services promise to contribute to the achievement of the SDGs is agricultural productivity enhancement. We already provide customers and business

partners in Japan and overseas with the "Akisai" cloud service for the food and agricultural industries, which use data to help grow agricultural products efficiently. This is only one service from a diverse range of ICT services that positively affect society's sustainability worldwide. The Fujitsu Group's other services include AI that assists pharmaceutical development, visualization and analysis of statistical data on disasters that enables the preparation of disaster response plans, and aggregation and visualization of energy usage data that improves energy usage efficiency. By increasing global rollouts of such services, we will grow businesses and add impetus to efforts focused on realizing the SDGs.

In the sense that it encourages the Group to act globally, support for the SDGs places the Group on the same trajectory as business model transformation, which aims to realize competitiveness globally. Putting aside revenues, the Fujitsu Group remains centered on Japan in terms of earnings. However, we must approach innovation from a global perspective if we are to realize growth on a par with that of competitors in the market of the future and maintain superior innovation capabilities

going forward. Further, given that personnel are the source of innovation, the Fujitsu Group needs to attract personnel from around the world by heightening its presence and reputation as a global corporate group.

## Development of Greenfield Opportunities

The purpose of our business model transformation is to acquire the competitiveness essential for developing businesses globally and sustaining growth into the future. This means expanding into new "greenfields," or areas that are yet to be developed. Such greenfields are where our performance will have an important impact.

When we announced our Management Direction in October 2015, I emphasized an ambitious target—an operating profit margin of 10%. I did this because I wanted to show our willingness to realize breakthroughs on a scale that would be impossible to achieve simply through near-term improvements to existing approaches to business. Rather than focusing on increasing the application of existing methods, we have to think about employing completely new methods that will develop greenfield opportunities. Together with all employees, I want to consider how we can close the gap between our current position and the achievement of an operating profit margin of 10%.

As part of organizational transformation aimed at expanding the digital businesses, Fujitsu introduced an ICT-enabled teleworking system covering all 33,000 of its employees in April 2017. We have introduced this system based on the belief that nontraditional workstyles and personnel evaluation systems are conducive to the development of entirely novel ideas that realize breakthroughs. Flexible workstyles that allow employees to work at home, in satellite offices, during business trips, or while traveling will encourage creativity and innovation.

In-house deliberations focused on realizing business model transformation have advanced markedly in comparison with our discussions of two years ago. A vision has begun to spread throughout the Group of being able to create value by working with customers as partners at a different level than we have previously. As I mentioned earlier, the digital businesses have already received orders that are giving this vision concrete form. A rise in such orders will establish a virtuous cycle. As well as being able to show customers examples of successful projects, the sight of a new business taking shape will stimulate us and lead to further innovation. We want to build a structure that does not treat orders as isolated events but instead shares the keys to successful projects across regional boundaries. Moreover, we want this structure to promote healthy in-house competition and global rollouts. Fiscal 2017 will be a crucial period that tests how rapidly we can create such structures, which global corporate groups should include as a matter of course.

The emergence of a society that is unable to function without ICT will give rise to major opportunities for the Fujitsu Group. I am fully committed to establishing a growth model unique to the Fujitsu Group that will enable it to take such opportunities and expand greenfield initiatives. As the Fujitsu Group moves forward, please anticipate further growth.

## Contributing to the Achievement of SDGs through the Effective Use of ICT



The "Akisai" cloud service helps increase agricultural productivity by supporting the management of agricultural operations from production through to sales.



The "Environmental Management Dashboard" aggregates data on power usage volumes in real time and enables improvements in operational efficiency and reductions in CO<sub>2</sub>.



Our cloud-enabled digital medical record system "HOPE Cloud Chart" promotes the sharing of medical information and contributes to regions' realization of integrated medical treatment.

*Tatsuya Tanaka*

**Tatsuya Tanaka**  
 Representative Director and President