



Pursuing Growth as a Global Brand on Our Way to Becoming a Global IT Innovator

Having delivered the targets set out under our previous Medium-Term Management Plan, and reached the Global 1st Stage, we are now establishing ourselves as a global brand and moving boldly forward to become a Global IT Innovator.

Toshio Iwamoto

President and Chief Executive Officer

▶ Becoming a Global IT Innovator through a Path of “Discontinuous Innovation”

IT advances at a mind-boggling pace, fueled by three key technologies: CPUs, data storage, and networks. The exponential growth of these technologies has caused a paradigm shift that is nothing short of “discontinuous innovation.” The NTT DATA Group has always pursued discontinuous innovation.

In 1988, the year in which we split from NTT and became independent, we had net sales of slightly more than ¥220 billion, and depended mostly on Japanese domestic business. In the fiscal year ended March 31, 2016, net sales exceeded ¥1.6 trillion. Our overseas sales ratio has reached roughly 30%, and our operations now span 185 cities across 45 countries and regions around the globe. Rather than being content with past growth trajectories, I attribute this expansion to our tireless efforts to transform ourselves in our pursuit of discontinuous innovation.

Our turning point came in the early 2000s. At the time, candid discussions about NTT DATA’s future were taking place internally.

Given Japan’s demographic challenges of a population decline and an aging society combined with a falling birthrate, there was no doubt that the domestic IT market would shrink. Also, room for further growth was limited in the domestic financial and public sectors, where we already held a top market share. IT markets outside Japan, on the other hand, were projected to grow substantially. We felt a sense of crisis, as we could not expect sustainable growth with our domestic business alone, so we resolved to quickly globalize.

Our vision of becoming a Global IT Innovator is built on leveraging leading-edge technologies to transform IT, helping clients to transform business models while also transforming ourselves. We will continue to take actions based on this thinking.

Group Vision and Values

Group Vision

Indicates where NTT DATA aims to be in 10 years

Global IT Innovator

We realize the dreams of our clients around the world through long-term relationships.

We develop evolving ecosystems with our clients through leading-edge technologies.

We enhance our creativity by respecting diversity.

Values

Expresses what is most important for the realization of our Group Vision

Clients First

Foresight

Teamwork

Becoming a Company that Can Provide Diverse IT Services Worldwide

NTT DATA started to globalize itself because leading Japanese companies in the manufacturing and other sectors already had operations overseas and needed support worldwide—not just in Japan. We, on the other hand, could not serve such clients at that time as we had few overseas operations except for some offshore development centers in China and other locations. Therefore, we needed to expand our geographic coverage, with a focus on M&A activities first. We decided to choose target companies based on three criteria: an excellent customer base, the ability to generate synergies and contribute to the Group's profitability, and affinity in terms of corporate culture.

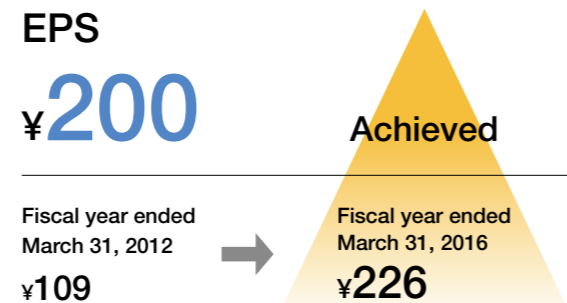
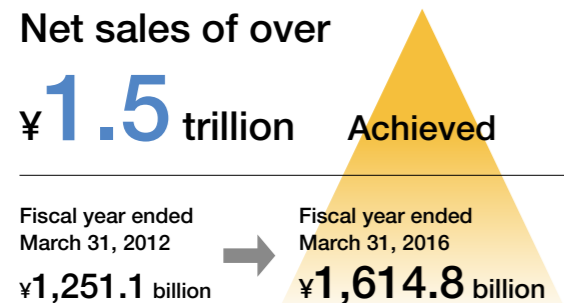
Starting with the 2005 acquisition of U.S. system integrator The Revere Group, we acquired itelligence in 2008, a company that had strong SAP capabilities, and also welcomed into our Group Cirquent, an IT subsidiary of the BMW Group, thereby laying the groundwork for us to provide services in Europe and the United States. In 2010, we completed our acquisition of Intelligroup, a U.S. company that had a lineup of ERP tools and vertical-specific solutions. We also invested approximately ¥100 billion in purchasing IT services firm Keane. We have continued with our M&A strategy to increase our global coverage and build up our customer base. As a result, our overseas operations

generated ¥200 billion in the fiscal year ended March 31, 2012, exceeding our initial figure by more than 20 times, while the number of Group companies outside Japan increased to 138.

At that stage, we needed to eliminate geographical overlaps in the diverse bases we had acquired to enhance further synergies. To that end, in the fiscal year ended March 31, 2013, we reorganized and consolidated our overseas Group companies, unifying brands under the NTT DATA brand in order to create brand recognition and made our foray into the global market.

We launched our "One NTT DATA" structure under our previous Medium-Term Management Plan, the four-year plan covering the period up to the fiscal year ended March 31, 2016. This plan set out numerical targets of at least ¥1.5 trillion in net sales, earnings per share (EPS) of ¥200, and an overseas sales ratio of 25% based on a policy to transform ourselves from the largest system integration-oriented corporation in Japan to a company capable of efficiently providing diverse IT services worldwide. To achieve these goals, we concentrated on three focus areas: expansion of new fields and the reinforcement of product competitiveness through a game-changing approach and strategic R&D; expansion, enhancement, and reinforcement of global business; and the pursuit of overall optimization.

Targets Set Under the Previous Medium-Term Management Plan Achieved



Expansion into New Business Fields and the Reinforcement of Product Competitiveness through a Game-Changing Approach and Strategic R&D

Sometimes when you encounter difficulties breaking into a market, you can carry those negative perceptions forward. However, as time passes and conditions change, you are able to look at the market afresh and find a path to enter new business fields. We call this a "game-changing approach." Based on this philosophy, we focused on increasing our share in existing markets and accessing new fields. A particular area of focus was an enterprise sector in which our share remains small but in which we can expect significant growth.

Our game-changing initiatives started to yield visible results. During the period of our previous Medium-Term Management Plan, we achieved a 1.6-fold increase of the number of clients with annual sales of ¥10 billion and over, steadily expanding our customer base. In the enterprise sector, in particular, we succeeded in entering new markets by taking advantage of deregulation and technological advances. Examples include winning

a project to manage operations of smart meters by identifying opportunities just as the electricity retail market was deregulated. Another example was the launch of "omni7," an e-commerce (EC) site integrating various channels for the Seven & i Group.

In strategic R&D, we continue to invest in technologies to automate software development in order to improve delivery time, quality, and cost. The TERASOLUNA Suite, a set of our automated software development tools, has enabled the seamless automation of processes from a phase before defining requirements through to designing, coding, and testing phases. We set an internal rule to use this suite for all applicable projects in Japan from the fiscal year ended March 31, 2016, allowing us to reduce time to deliver, while assuring quality. Going forward, we will continuously promote this to innovate how we work in the IT services sector, as this is considered a labor-intensive industry.

Global Business Expansion through "One NTT DATA"

Even after introducing the One NTT DATA framework, the NTT DATA Group continued to further expand its geographic coverage through proactive M&As. Through the 2013 acquisition of the everis Group, we established a business foundation in Spain and Central and South America. The acquisition in 2015 of the Carlisle & Gallagher Consulting Group, which has strength in upstream consulting to financial institutions, greatly augmented our capabilities in North America.

This growth in global coverage led to a steady increase in orders. Our impressive track record with projects for the National Diet Library in Japan and advanced technologies such as our digital archive service AMLAD* (Advanced Museum Library Archives Deposit) were highly valued, and contributed to us winning an order to digitally archive the Vatican Apostolic Library in 2014. This was followed by a win of the digital archive project for Spain's National Heritage, which is a state institution

responsible for conserving the legacy of the Spanish Crown, creating a virtuous circle of a successful order leading to another.

In 2015, we were selected by a global automobile manufacturer and concluded a multi-year contract to operate and maintain an ERP system that consolidates ordering and stock management, while undertaking the development of additional systems as a strategic business partner. The deciding factor in winning this project was our ability to secure SAP professionals for multiple IT support locations across the globe deployed by the client. In other words, a broader geographic coverage contributed to winning this project. Every example of this sort was a result of the One NTT DATA framework, enabling us to beat out a lot of eminent global IT players and win clients that we had not even been given a chance to present to before.

* AMLAD is currently offered only in Japan.

▶ All Targets Set Out under the Previous Medium-Term Management Plan Achieved, Yet Challenges Remain

In addition to the “Expansion of New Fields and Reinforcement of Product Competitiveness” and “Expansion, Enhancement, and Reinforcement of Global Business,” we addressed the third focus area, “Pursuit of Overall Optimization,” through the standardization and consolidation of Group back-office functions. This effort succeeded in reducing administrative costs by ¥10 billion compared with the fiscal year ended March 31, 2012. As a result of our steady efforts in these focus areas, we increased our performance against all measures including new orders received, net sales, and profit figures for the fiscal year ended March 31, 2016, the final year of the previous plan, and achieved our targets of net sales of over ¥1.5 trillion and EPS of ¥200. Net sales exceeded ¥1.6 trillion, marking growth for the 27th consecutive year since we became independent, and our overseas sales ratio rose to 32.2% (overseas sales of ¥519.6 billion) with EPS reaching ¥226.

Nonetheless, certain issues remained. One issue was unprofitable projects. In the fiscal year ended March 31, 2014, the impact of unprofitable projects on operating income exceeded ¥30 billion. To prevent unprofitable projects, we established the Project Review Committee, which reports directly to the

president and screens projects worth ¥2 billion or more involving new clients, technologies, or business sectors. The Committee functioned effectively, but unprofitable projects still totaled more than ¥15 billion in each of the fiscal years ended March 31, 2015 and 2016. Given this situation, we will work harder to reduce unprofitable projects by broadening screening criteria.

Another important management issue is to increase the profitability of our global business. During the fiscal year ended March 31, 2016, operating margin before the amortization of goodwill remained at 2.4% in the Global Segment, lower than that of our domestic business. Market structures and business models differ from one to another, so while some countries are capable of securing profitability on par with that of Japan, others will find it difficult to do so. However, as a whole, I believe we need to raise our operating margin before the amortization of goodwill to at least 5%. The key to achieving this is to focus on raising our brand recognition.



▶ Enhancing Our Local Presence

To some extent, we have achieved an increased geographic coverage to provide services, but in reality our sales ranking remains low in many countries. We are within the top 10 in Spain, Italy, and Germany, but we are ranked 40th in the United States—whose IT services market is four times the size of Japan’s—illustrating that brand recognition of the NTT DATA Group is still low.

Going forward, we will look to increase our business by serving multinational companies, as represented by those listed in the Fortune Global 500. We will make efforts to be recognized by these companies as their business partner and win more large-size, high-value-added projects in order to bolster the profitability of our overseas business. We need to become one of the top 10 in sales in each market, so that we will be recognized by the world’s top CEOs, CIOs, and CTOs. Accordingly, in addition to organic growth in individual regions, I believe we will need to continue a certain level of M&A activity in North America and Europe.

Increasing the Company’s brand recognition means more than just being “known.” Our brand starts to be noticed only when clients see our services as being of value. IT services markets differ significantly by country and region. In Japan, for example, a client tends to procure some 70–80% of IT engineers from IT services providers, while around 70–80% of IT engineers are internal, client-side people in the United States. For this reason, the whole comprehensive services from upstream to maintenance are commonly provided by IT vendors in Japan, whereas in the United States IT vendors tend to provide only some portion of services in the form of, for example, IT outsourcing or BPO. As you can see, the things clients value are completely different, suggesting that simply applying best practices in Japan does not lead to success elsewhere. We will need to build an optimal business model to win more customer loyalty in each country by harnessing synergies generated across our resources around the globe and enhancing our capability to provide services.

▶ New Medium-Term Management Plan: Toward the Global 2nd Stage

Having reached the Global 1st Stage, we will now move on to the Global 2nd Stage of building our global brand. Based on the issues I mentioned earlier, strengthening our local presence plays a core part of our strategy. We have named this strategy “NTT DATA: ASCEND—Rise and grow our global brand.” As it suggests, it is our intention to increase our brand value and transform NTT DATA into a global brand in order to drive further growth.

Our first core strategy is to take a game-changing approach. Capitalizing on dramatic changes happening in the global market, we will roll out this approach outside Japan, despite its focus to date being mainly on the domestic market. As to the existing markets, we aim to build the best business model suitable for each market based on three dimensions: “countries / areas,” “business domains/sectors,” and “solutions.”

Meanwhile, we will further step up our efforts to innovate production technologies and spark new ideas and technologies. We will continue to aggressively invest in automated software development to innovate production technologies. At the same time, we will apply these technologies more widely to our projects to differentiate ourselves by improving productivity, delivery time, and costs. Furthermore, we will promote automated technologies not only in Japan but also in the global market. We will also accelerate creating new markets from a global perspective by leveraging emerging technology trends such as virtual reality (VR), the Internet of Things (IoT), artificial intelligence (AI), and robotics. For creative ideas coming from clients, who are the

experts of their businesses, we will share leading-edge technologies around the world in order to co-create new mechanisms and businesses. This “co-creation” is the very reason why we publish NTT DATA Technology Foresight, in which we are able to share the emerging societal and IT trends that we anticipate in the near future. Through such initiatives, we aspire to continually create new markets.

While focusing on growth, we will stay mindful about the AA rating given by credit rating institutions, as we expect to close a large-scale overseas deal in the future, and make efforts to ensure sound financial ground by controlling our debt-to-equity (D/E) ratio.

diversity is the wellspring of innovation. By sharing these three values among our employees across the globe, we will work together throughout the Group to achieve corporate transformation.

We are living in an era in which no business can survive unless it cares for society and the environment. Ever since the

foundation of NTT DATA, we have made progress by instilling the corporate philosophy in our management strategies as well as embedding it in every business activity, with a sense that the Company works for the public benefit.

Sustained Development Ingrained in Our Corporate Philosophy

The IT industry has often been described as a highly uncertain market with a rapid rate of technological innovation, and now IT is driving innovation in every business domain and sector. This implies that not only the IT services market but other industries also face a competitive landscape with a high degree of uncertainty, making it hard to predict what the market will look like even in a few years' time.

As we pursue our path into this unpredictable future, our corporate philosophy serves as a clear and universal guideline for us to achieve sustainable development with clients.

For example, around 30 years ago we began providing the “CAFIS” service. This service offered greater benefits for society by integrating the individual credit card readers that had been required for settling payment with each card-issuing company into a single unit. We have used IT to create a number of other infrastructures that were required in society as well, such as “Integrated ATM,” which inter-connects ATMs and enables the use of cash cards at other banks, and the “ANSER” automation service for financial institutions. These developments have been essential to realizing our Mission Statement, that “NTT DATA uses information technology to create new paradigms and

values, which help contribute to a more affluent and harmonious society.” Inherent in the phrase “help contribute to a more affluent and harmonious society” is our basic stance that we will not use our technologies for work that disturbs the harmony of society. No matter how much society changes, our responsibility is to create what makes the world a better place in each era using the leading-edge technologies of the day. Therein lies the path to continuous corporate development.

To help our employees internalize this corporate philosophy—along with our Group Vision as a Global IT Innovator—in 2013 we defined “One Way” as our underlying philosophy. It identifies the core values that we live by to fulfill our Group Vision. The first value, “Clients First,” aims to create innovation through collaboration by building long-term relationships with our clients. The second value is “Foresight,” meaning that amid dramatic technological innovation we always keep our eyes firmly on the technologies of the future and anticipate how we should help clients shape business models to adapt to this changing business environment. “Teamwork” describes our belief that when every employee achieves individual aspiration, it will lead to a collective force for NTT DATA's development. We are also convinced that

Taking On the Challenge of “Discontinuous Innovation” Anew

In IT, innovation is relentless. Its exponential growth has made “digital” a byword of the times, but “digital” and “analog” are not antonyms. Digital is the fusion of SMACS (social, mobile, big data analytics, cloud, and security) and IoT. We are in an age where all manner of devices are equipped with network functionality and move autonomously, and where business model transformation is breaking down boundaries in a variety of industries. The emergence of Fintech is a perfect example.

Major paradigm shifts such as these create a host of opportunities in the IT business, but could also stop growth for players that might be swallowed up by dramatic change.

Going forward, every industry is likely to undergo significant structural change. In the process, the value people expect from

IT will continue to transition from what it used to be. The recent trend of growing preemptive IT spending “to transform business and create new business models” is one such signal.

In this digital age, innovation cannot happen without the power of IT. Creating new business models for clients does mean that we build applications that enable such models.

The NTT DATA Group has the competencies to create applications and business models for clients. By leveraging this strength, we will differentiate ourselves from our competitors throughout the world, taking on the challenge of a new type of “discontinuous innovation.”

