

**Earnings Announcement
for the Fourth Quarter of the Fiscal Year Ended March 2018
and Mid-term Management Plan
held on May 9, 2018**

Principal Questions and Answers

(with certain details modified in an attempt to provide readers with a deeper understanding)

[Questioner A]

Q : Your new mid-term management plan states ¥320 billion net sales and an 8% operating margin for the fiscal year ending March 2021. I do not feel that the level of operating margin is wrongly placed in the picture. However, if I crunch your plan numbers, a 10% increase in operating income forecasted in the fiscal year ending March 2019 assumes that a significant increase in operating income should be earned in Year 2 and Year 3. May I know why you forecast no more than 10% for the Year 1 operating income?

A : We plan to increase mainly businesses of outsourcing and system services in the fiscal year ending March 2019. We forecast a 10% increase in operating income for the fiscal year when we expect an increase in R&D costs in the focal areas of our new mid-term management plan (ICT Growth Business, and Businesses Creating Business). We plan to continue investments in Year 1 and Year 2 in the Businesses Creating Business area where service concepts are to be transformed into actual services through POCs (proof-of-concepts) and verification experiments. We look forward to a fruitful final year when the services will be widely used in society.

Q : May I have a quantitative understanding of increase in R&D and other investment costs?

A : We plan a ¥1.0 billion increase in R&D costs in the fiscal year ending March 2019 compared with the previous fiscal year. Furthermore, we will increase investments in businesses to ¥4.0 billion, ¥5.0 billion and ¥6.0 billion over the next three years as indicated in our next mid-term management plan.

Q : We have seen that some of your small-and mid-sized rival companies have suffered from shortfalls in the workforce or lack of subcontractors. You have also experienced an attrition of the workforce due to retiring baby boomers. Do you have enough internal and external engineers?

A : We have been able to employ and maintain the workforce as planned. We will see the number (approx.7,700 people*) unchanged during the period of the mid-term management plan. We have made efforts to change from the man-month charging business of creating systems from scratch to the service-type business. We have begun to see some results. The service-type business enables us to maintain our businesses by reducing an operation rate of internal engineers and also without increasing subcontracting costs. In other words, it enables our engineers to take on challenges in the new business areas. We are not aware of any shortage in the workforce. However, we think that retaining highly skilled workforce will be critical for

us and other companies. We would like to retain our engineers by becoming an attractive company where they are capable of taking on new challenges.

(*except the employees at USOL Vietnam, our offshore subsidiary)

Q : May I ask about the current operation rate of engineers?

A : We intentionally controlled the operation rate of all engineers under the previous mid-term management plan. It was 93% in Year 1, 86% Year 2, and 83% Year 3. Our system services engineers could continue their business performance with time to spare. These individual engineers were able to keep a three hour block every week where they take on new business challenges and acquire various types of skills without performing their then-current duties. We will continue an approx. 86% operation rate for these engineers to implement their ideas in the real business world for the next three years as indicated in the new mid-term management plan.

Q : Your current operating margin level of 5% does not look good compared with other companies. Can we see positive impacts of your efforts including the foresight effort in the next three years?

A : There were periods when we suffered cost overruns of projects due to creating systems from scratch. However, we avoided unprofitable projects, which contributed to stabilizing our business performance in the past three years. Furthermore, we have conducted various POCs and verification experiments as part of our efforts to transform our businesses into the service-type businesses. We believe that these will enable our next growth.

[Questioner B]

Q : Your Outsourcing Business plan forecasts an increase in the net sales and gross profit in the fiscal year ending March 2019. Does it duly reflect your expectation of acquiring new customers in BankVision, an open core-banking system for financial institutions?

A : Our conventional type of outsourcing business exemplified by the BankVision business has remained in good shape. It is expected to impact well the entire performance of Outsourcing Business in the fiscal year ending March 2019 as it did in the previous fiscal year. Along with this, our service-type business and fee-for-service business will help to drive the Outsourcing Business net sales and gross profit in this fiscal year. On the other hand, possibilities of new customers in BankVision are not baked in our performance forecast for the fiscal year ending March 2019. We factored them out on the basis of our understanding that financial institutions have come to change their investment focus from renewals of their core-banking legacy systems to the areas of Fintech and front office solutions for branch offices. However, this does not keep us from continuing sales activities in order to receive new orders for BankVision solutions. We will conduct our sales efforts that should comply with the two timings, both: the timing of customers for renewing their core-banking systems; and our timing for releasing a new service scheme of operating BankVision on a public cloud.

Q : May I ask about 'Neobanks', one of your focal areas stated in your new mid-term management? Can you give me an image of how it drives your earnings? You have already provided an open core-banking system predicated on BankVision. Then, will your Neobanks business scheme enable you to provide a business hub where you connect partners to financial institutions and thus charge them for data use? Or, will your business partners be charged for their participation and use of your scheme? I would like to know how involved you intend to be.

A : The 'Neobanks' area will focus on services related to Fintech and a cashless economy. We provide an API service 'Resonatex', capable of directly connecting with core-banking system. The returns from the service are collected through a billing fee system where customers pay for their usage. Furthermore, transaction fees can be charged by enabling Banking as a Service through the use of the API service in a transformed value chain that connects local companies with financial services. An alternative would be developing a system service of reviewing a value chain.

For example, we provide Origami Pay with a Resonatex gateway that directly connects to banking accounts, and thus we charge them for usage per transaction volume. Furthermore, if we utilize the payment/settlement data in making proposals of revising value chains to retailers together with financial institutions, we can create an SI-type business.

Q : Descriptions in the new mid-term management plan read that your planned increase in net sales will be enabled in the focal areas. May I ask about your existing business areas?

A : We will see net sales from the traditional types of existing businesses remain unchanged at approx.¥260 billion in total. What should be noted is that our business models have significantly changed by following the previous mid-term management plan. We intentionally reduced man-hours per month business for the creation of systems from scratch where a large engineer workforce is required in order to satisfy requirements of customers. We have transformed our business models into implementation-type and service-type business models accordingly.

In the future, we will see an actual decrease in large-scale system development projects from scratch, partly due to cloud-computing impacts. Our foresight and preemptive actions well prepared us in advance.

Likewise, an obviously continuing decrease in mainframe business can only have extremely small impacts on us. We have already shrunk our mainframe business. In short, we have enabled service-type businesses through business transformation, and as a result, we keep the performances of our existing businesses as they are.

Our subsidiary UNIADDEX, Ltd. saw strong results from their ICT Infrastructure/Support Service. They perform businesses related to private cloud and businesses targeted at cloud-computing service providers. They are expected to see a continuing strength of demands for cloud-computing services in the fiscal year as well.

(Note)

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