



Results of Operations for the First Half of FY2017

August 8, 2017
FUJI SOFT INCORPORATED



Contents

Results of Operations for the First Half of the Fiscal Year Ending December 2017

- P2. Consolidated Financial Highlights
- P4. Sales/Operating Income by Major Companies of the Group
- P5. Consolidated Sales/Operating by Segment
- P6. Consolidated Income Statement
- P7. Consolidated Balance Sheet
- P8. Consolidated Cash Flow Statement
- P9. Orders and Order Backlogs for the Consolidated SI Business
- P10. Business Trends in the First Half



Consolidated Financial Highlights-1 (H1 Results)

Net sales rose due to the strong performance in System Construction.

- ◇ Consolidated net sales rose 10.1% year on year, to 90,111 million yen, thanks to the strong performance in System Construction, especially machine control system construction and auto-related system construction as well as distribution and services.

Operating income rose due to the rise in sales

- ◇ Operating income rose 3.5% year on year, to 4,186 million yen, reflecting the rise in sales, despite the continued upfront investment in the development of the personnel structure and R&D.
- ◇ Ordinary income increased 7.9% year on year, to 4,404 million yen, due to a rise in the share of profit of entities accounted for using the equity method.
- ◇ Profit attributable to owners of parent increased 21.4% year on year, to 2,557 million yen, due to gain on the sale of investment securities.

(Million yen)

	FY2016 H1	FY2017 H1	YoY change	YoY change	FY2017	
	Results	Results	(Amount)	(%)	H1 plan	Comparison with the plan
Net sales	81,849	90,111	+8,262	110.1%	83,800	107.5%
Operating income	4,046	4,186	+139	103.5%	3,800	110.2%
Operating income margin	4.9%	4.6%			4.5%	
Ordinary income	4,080	4,404	+323	107.9%	3,900	112.9%
Ordinary income margin	5.0%	4.9%			4.7%	
Profit attributable to owners of parent	2,106	2,557	+451	121.4%	2,100	121.8%
Profit margin attributable to owners of parent	2.6%	2.8%			2.5%	



Consolidated Financial Highlights-2 (Q2 Results)

Net sales rose 4,694 million yen year on year.

Cost of sales increased 11.9% year on year.

- ◇ Cost of sales increased 11.9% year on year, mainly due to active efforts to secure orders in response to the increase in demand and an increase in sales license sales.

SG&A expenses increased 11.2% year on year.

- ◇ SG&A expenses increased 11.2% to 8,669 million yen due to an increase in costs for upfront investment such as the establishment/improvement of the production/sales systems and research and development and an increase in sales promotion costs due to an increase in demand exceeding the estimates and sales expansion.

Operating income rose 124 million yen year on year.

	FY2017 Q1 results	YoY change (Amount)	YoY change (%)	FY2017 Q2 results	YoY change (Amount)	YoY change (%)
(Million yen)						
Net sales	44,829	+3,568	108.6%	45,282	+4,694	111.6%
Cost of sales	34,814	+3,038	109.6%	34,702	+3,695	111.9%
Cost of sales margin	77.7%			76.6%		
Ordinary income	10,015	+529	105.6%	10,579	+998	110.4%
SG&A expenses	7,738	+514	107.1%	8,669	+874	111.2%
Operating income	2,276	+15	100.7%	1,909	+124	107.0%
Operating income margin	5.1%			4.2%		



Sales/Operating Income by Major Companies of the Group

(Million yen)

	FY2017	Net sales	Operating income	
FUJI SOFT INCORPORATED	H1 results	55,276	2,189	Sales rose, reflecting strong performances in the development of embedded/operation software and license sales. Operating income decreased, mainly due to an increase in costs for upfront investment such as the establishment/improvement of the production/sales systems and research and development and an increase in sales promotion costs for prior response to an increase in demand and sales expansion as well as higher business tax due to tax system reform.
	YoY change (amount)	+5,331	-135	
	YoY change (%)	110.7%	94.2%	
CYBERNET SYSTEMS Co., Ltd.	H1 results	9,421	881	Sales increased, despite the absence of a large project overseas, thanks to the strong performances of the mainstay multiphysics analysis tool in Japan and the optimal design support tool as well as the client management tool plus solid sales of other development subsidiaries and sales subsidiaries. Operating income fell below the level of the previous year, reflecting the absence of a large project recorded in the previous fiscal year.
	YoY change (amount)	+462	-25	
	YoY change (%)	105.2%	97.2%	
CYBER COM Co., Ltd.	H1 results	5,202	170	Sales rose thanks to strong performances due to the expansion of the development of control software, the continued development of operation software and the recovery of the development of telecommunication software. Operating income increased due to higher sales despite an increase in expenses due to the head office relocation.
	YoY change (amount)	+516	+36	
	YoY change (%)	111.0%	127.2%	
VINX CORP.	H1 results	13,543	564	Sales rose mainly due to the further successful cultivation of existing customers. Operating income increased due to the increased sales and improvement in the productivity of development, despite an increase in SG&A expenses due to the strengthening of investments, etc.
	YoY change (amount)	+477	+26	
	YoY change (%)	103.7%	105.0%	
FUJI SOFT SERVICE BUREAU INCORPORATED	H1 results	4,942	233	Sales increased because sales remained firm in projects for public offices and local governments in the call center services and BPO services fields. Operating income rose much higher than that of the previous year due to higher sales despite advance expenses related to orders for large new projects and an increase in SG&A expenses arising from the strengthening of the personnel structures.
	YoY change (amount)	+1,008	+153	
	YoY change (%)	125.6%	289.7%	

* The fiscal year end is March at CYBER COM, VINX, and FUJI SOFT SERVICE BUREAU. Their results from January to June, 2017 are stated in the FY2017 H1 results column.



Consolidated Sales/Operating Income by Segment

(Million yen)

	FY2017 Net sales	Component ratio	YoY change (Amount)	YoY change (%)	FY2017 Operating income		YoY change (Amount)	YoY change (%)
	H1 results				H1 results	Operating income margin		
Consolidated total	90,111	100.0%	+8,262	110.1%	4,186	4.6%	+139	103.5%
SI Business	83,334	92.5%	+7,095	109.3%	3,346	4.0%	-130	96.2%
System Construction	49,077	54.5%	+5,050	111.5%	1,742	3.6%	-352	83.2%
Embedded/Control Software	25,614	28.4%	+2,741	112.0%	1,051	4.1%	-231	82.0%
Operation Software	23,463	26.0%	+2,309	110.9%	690	2.9%	-121	85.1%
Products and Services	34,256	38.0%	+2,045	106.3%	1,604	4.7%	+221	116.0%
Products and Services	26,665	29.6%	+2,875	112.1%	1,386	5.2%	+413	142.5%
Outsourcing	7,591	8.4%	-830	90.1%	218	2.9%	-191	53.2%
Facility Business	1,364	1.5%	+4	100.4%	550	40.4%	+67	114.0%
Other Businesses	5,413	6.0%	+1,161	127.3%	288	5.3%	+202	335.3%

Highlights of Sales by Segment

• Embedded/Control Software

Sales increased 12.0% year on year due to brisk sales of machine control systems in areas such as auto-related and factory automation projects and home appliances (AV equipment) as well as systems in the aerospace sector. Operating income fell, affected by upfront investment for the establishment/improvement of the production/sales systems and the increase of the production bases.

• Operation Software

Sales increased 10.9% year on year, far exceeding the year-ago level, driven by sales to the distribution and services sectors. Operating income fell due to upfront investment for the establishment/investment of the production/sales systems and the increase of the production bases.

• Products and Services

Sales increased 12.1% year on year, mainly because license sales, PALRO and robot development business sales substantially exceeded the year-ago level. Operating income rose substantially due to higher sales.

• Outsourcing

Sales fell 9.9% year on year, mainly due to a decline in transactions in the distribution sectors. Operating income fell due to higher expenses related to data center renovation.



Consolidated Income Statement

(Million yen)

	FY2016 H1 Results	FY2017 H1 Results	YoY change Amount)	YoY change (%)	FY2017 H1 Plan	Comparison with the plan
Net sales	81,849	90,111	+8,262	110.1%	83,800	107.5%
Cost of sales	62,783	69,517	+6,733	110.7%	—	—
Cost of sales margin	76.7%	77.1%	(1)			
Gross profit	19,066	20,594	+1,528	108.0%	—	—
Gross profit margin	23.3%	22.9%				
SG&A expenses	15,019	16,408	+1,388 (2)	109.2%	—	—
SG&A expense ratio	18.4%	18.2%				
Operating income	4,046	4,186	+139	103.5%	3,800	110.2%
Operating income margin	4.9%	4.6%			4.5%	
Non-operating income	218	215	-3	98.3%	—	—
Non-operating expenses	225	154	-71	68.4%	—	—
Share of (profit) loss of entities accounted for using equity method	41	157	+115 (3)	380.0%	—	—
Ordinary income	4,080	4,404	+323	107.9%	3,900	112.9%
Ordinary income margin	5.0%	4.9%			4.7%	
Extraordinary income	14	313	+299 (4)	—	—	—
Extraordinary losses	143	114	-28	80.1%	—	—
Income before income taxes	3,952	4,603	+650	116.5%	—	—
Total income taxes	1,449	1,442	-7	99.5%	—	—
Net income	2,502	3,161	+658	126.3%	—	—
Profit attributable to non-controlling interests	396	603	+207	152.3%	—	—
Profit attributable to owners of parent	2,106	2,557	+451	121.4%	2,100	121.8%
Profit margin attributable to owners of parent	2.6%	2.8%			2.5%	

Points of Income Statement

(1) Cost of sales margin (77.1%)

Reflected the absence of large, highly profitable projects recorded in the previous fiscal year, and an increase in license sales.

(2) SG&A expenses (up 1,388 million yen)

Reflected an increase in costs for upfront investment such as the establishment/improvement of the production/sales systems and research and development and an increase in costs for sales promotion due to sales expansion as well as higher business tax due to tax system reform.

(3) Share of (Profit) Loss of Entities Accounted for Using Equity Method (up 115 million yen)

Improvement in the share of profit of entities accounted for using the equity method, which is related to Ace Securities

(4) Extraordinary income (up 299 million yen)

Increase in gain on sale of investment securities



Consolidated Balance Sheet

(Million yen)

	End of FY2016	End of H1 of FY2017	Change (Amount)
Current assets	67,350	69,187	+1,836
Cash and deposits	19,134	20,982	+1,847 (1)
Notes and accounts receivable - trade	36,727	35,366	-1,361 (1)
Short-term investment securities	4,500	5,200	+700
Inventories	2,577	2,668	+91
Deferred tax assets	2,254	2,486	+231
Other	2,156	2,483	+327
Non-current assets	96,513	97,761	+1,248
Property, plant and equipment	65,796	65,658	-138
Intangible assets	5,949	6,234	+284
Investments and other assets	24,766	25,868	+1,102 (2)
Total assets	163,863	166,949	+3,085
Current liabilities	37,461	38,886	+1,425
Accounts and notes payable - trade	9,444	10,225	+780
Short-term loans payable	9,410	10,772	+1,362 (3)
Accrued expenses / provision for bonuses	6,826	7,753	+927
Income taxes payable	2,153	1,446	-706
Provision for loss on construction contracts	267	101	-166
Other	9,358	8,586	-771
Non-current liabilities	17,400	15,790	-1,610
Long-term loans payable	6,723	4,278	-2,445 (3)
Other	10,676	11,512	+835
Total liabilities	54,861	54,677	-184
Total net assets	109,001	112,272	+3,270
Total liabilities and net assets	163,863	166,949	+3,085

Points of the Balance Sheet

(1) [Cash and deposits](#) (up 1,847 million yen)

[Notes and accounts receivable - trade](#) (down 1,361 million yen)

Increase in cash and deposits due to increased sales and progress in the recovery of notes and accounts receivable - trade

(2) [Investments and other assets](#) (up 1,102 million yen)

Reflected fluctuations in the price of investment securities and upfront investment in the growth field

(3) [Short-term loans payable](#) (up 1,362 million yen) *Including current portion of long-term loans payable

[Long-term loans payable](#) (down 2,445 million yen)

Fell due to scheduled repayments.



Consolidated Cash Flow Statement

(Million yen)

	FY2016 H1 results	FY2017 H1 results	YoY change (Amount)
Cash flows from operating activities	6,911	6,200	-710
Cash flows from investing activities	-2,249	-2,257	-7
Cash flows from financing activities	2,111	-1,356	-3,468
Effect of exchange rate change on cash and cash equivalents	-257	27	
Net increase (decrease) in cash and cash equivalents	6,516	2,614	
Cash and cash equivalents at beginning of period	15,688	21,790	
Increase in cash and cash equivalents from newly consolidated subsidiary	22,204	24,404	

Highlights of Cash Flows

- Cash flows from operating activities

Net cash provided by operating activities stood at 6,200 million yen, with a year-on-year decrease of 710 million yen due to an increase in the payment of income tax.

- Cash flows from investing activities

Net cash used in investing activities came to 2,257 million yen, reflecting investment in the Company's own products (software) and equipment as well as the proceeds from sales of shares.

- Cash flows from financing activities

Net cash used in financing activities was 1,356 million yen, mainly due to loan repayments. This compares to net cash provided by financing activities of 2,111 million the previous fiscal year, chiefly reflecting loans and the proceeds from sales of shares of subsidiaries.



Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	FY2017 H1 results							
	Order backlog at beginning of term	YoY change (%)	Orders	YoY change (%)	Net sales	YoY change (%)	Order backlog at end of term	YoY change (%)
SI Business Total	34,976	114.0%	84,969	108.9%	83,334	109.3%	36,611	112.7%
System Construction	23,803	115.1%	50,306	111.2%	49,077	111.5%	25,033	114.3%
Embedded/Control Software	9,981	111.1%	26,261	110.6%	25,614	112.0%	10,628	107.9%
Operation Software	13,822	118.2%	24,044	111.8%	23,463	110.9%	14,404	119.6%
Products and Services	11,172	111.7%	34,662	105.7%	34,256	106.3%	11,578	109.2%
Products and Services	8,168	104.1%	27,245	112.0%	26,665	112.1%	8,747	104.5%
Outsourcing	3,004	139.0%	7,417	87.4%	7,591	90.1%	2,830	127.2%

Highlights of Orders and Order Backlogs

•Highlights in System Construction

- Embedded/Control Software

The order backlog at the end of the term increased 7.9% year on year due to strong orders in the machine control business in areas such as factory automation, automobiles and social infrastructure.

- Operation Software

The order backlog at the end of the term increased 19.6% year on year due to strong orders from the distribution and services sectors as well as in the financial sector, and remaining orders for large projects from public offices in the previous fiscal year.

•Highlights in Products and Services

- Products and Services

The order backlog at the end of the term increased 4.5% year on year, reflecting strong license sales.

- Outsourcing

The order backlog at the end of the term increased 27.2% year on year, as remaining orders received for large projects for public offices in the previous fiscal year offset a decline in orders for the distribution and services sectors.



Business Trends in the First Half



Points for FY2017 (Reference: Results of Operations for FY2016)

-FY2014: Recovery from the global financial crisis

- In addition to the existing initiatives “JPPGG,” C (cloud) R (robot) M (mobile) business to be promoted as the field to focus on

J: Strengthening of the foundations of the contract business
 P: Promotion of becoming a prime vendor
 P: Promotion of productization
 G: Promotion of globalization
 G: Bolstering the group capabilities

FY2015 to FY2016: Initiatives to strengthen human resources

- Recruitment and training of a large quantity of human resources to secure useful human assets early and establishment of the curriculum to strengthen human resources
- Continual efforts to promote productization, bolster the group capabilities and proceed with globalization

<Management environment>

- Further development of ICT
- Shortfall of human resources
- Labor issues
(Reduction of overtime work, work style reform)

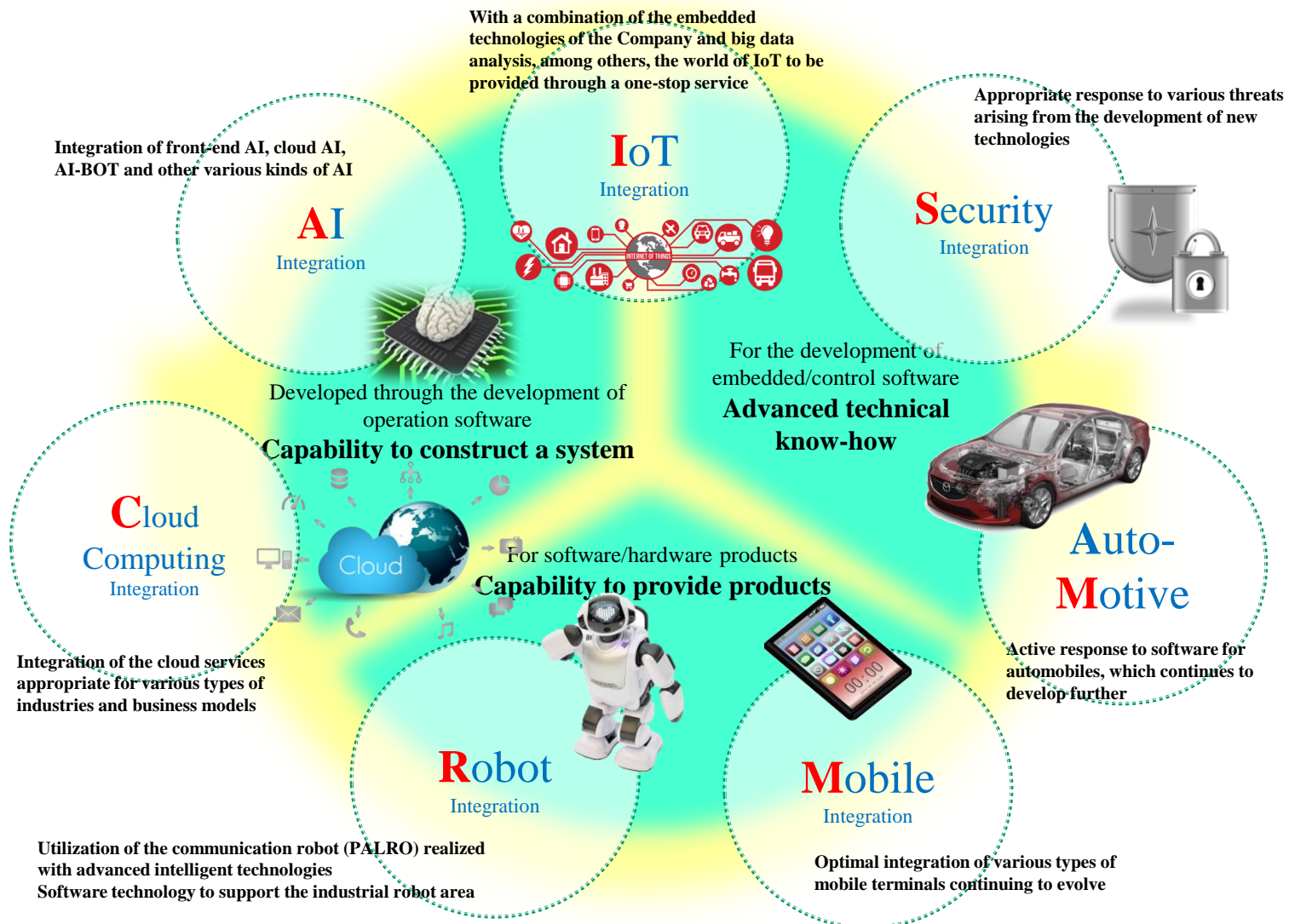
Creation of foundation for growth and added value increase

FY2017 Points in Management

- ◎ Resolute efforts for new technology: AIS-CRM
- ◎ Promotion of the high added value system integration business
- ◎ Strengthening of human resources and steady growth of the contract and development business
- ◎ Active promotion of the product business
- ◎ Growth of the entire group and active global business expansion



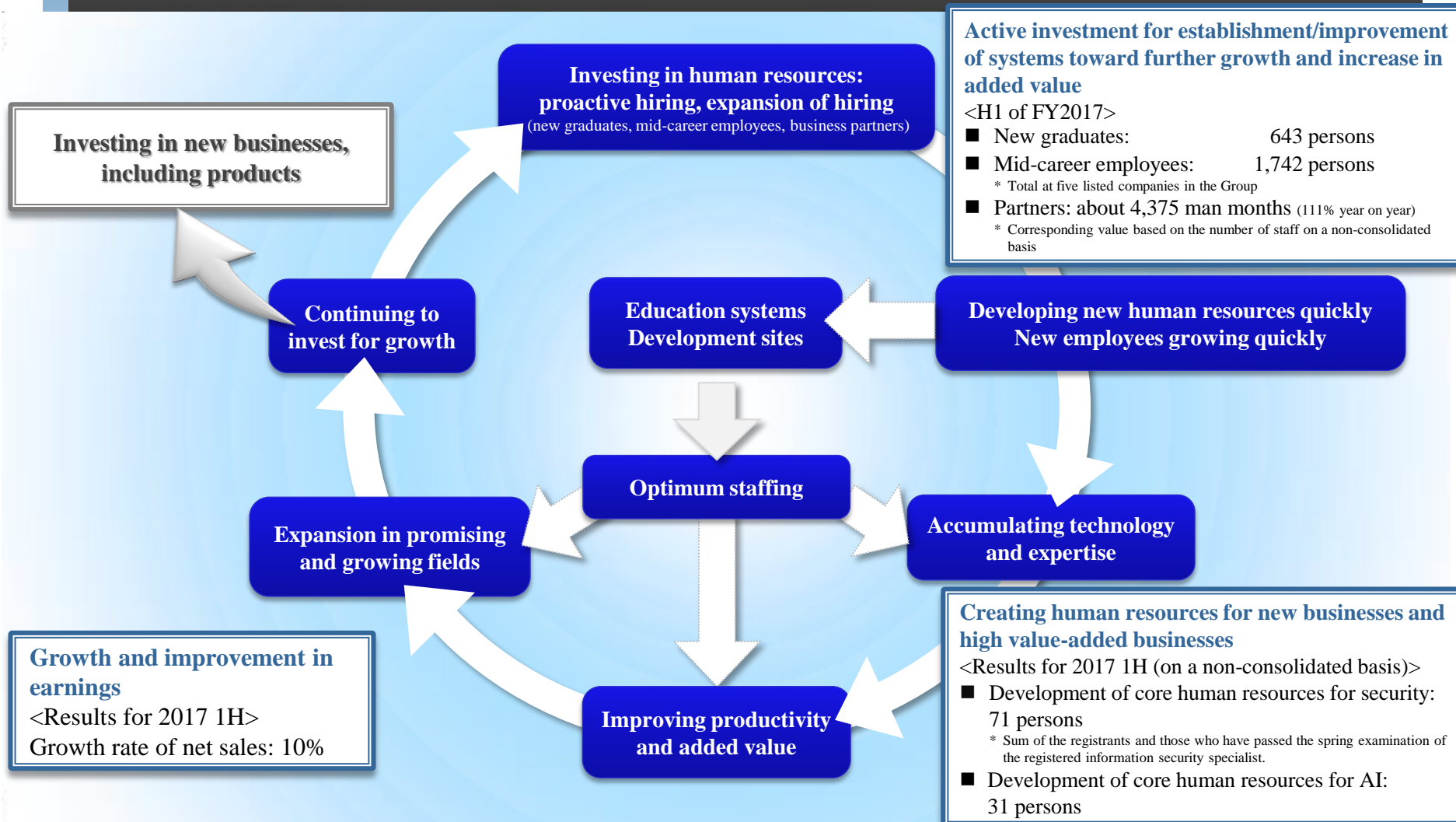
AIS-CRM (Challenge of New Technology: Aim to Increase Added Value)





Strengthening of Human Resources and Contract and Development Business

Expanding the cycle for business expansion through the strengthening of human resources





State of Automotive Software Business

Acquisition of new automotive software technologies and response to market needs

Outlook for market trends

2017-

- Sharply increasing trend toward automatic operation such as motorization, operation support and connectivity
- Sharp increase in demand for software development and utilization of technologies of different fields against new risk

2020-

- Further advancement in use of software platform both in the control area and in the information area
- AI and security technologies become more important underlying technologies

2022-

- Start of the practical application of the automatic operation system and recognition of new value in automobiles
- Automobiles in alignment with the entire social infrastructure

Initiatives of Fuji Soft

- **Reinforcement of the personnel structure for development to meet the explosively increasing needs for software development**
- **Advancement of the development process toward increased productivity and advancement of the development of professional engineers**

- FY2017: 1,160 persons (FY2016: 1,000 persons)
- Establishment of the professional organization for AutomotiveSPICE (*) assessment
 - * Industry-wide standard framework for the process of the development of automotive software
- Increase in the floor area of the bases in Nagoya, Gunma (Ota), Osaka and Fukuoka
- Expansion of joint development with APTJ

- **Conduct of the AUTOSAR(APTJ) business on a full scale**
- **Investment in the AI and security fields and reinforcement of professional engineers**

- **SI vendors of the automatic operation society**

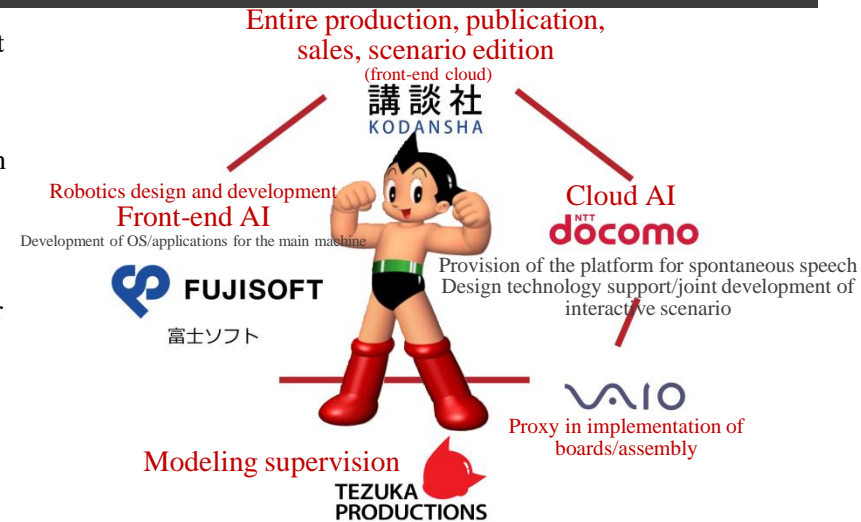
Robot/AI/Mobile

Utilization of technology for the communication robot PALRO (front-end AI)

Supply of the technology for the Company's own product, the communication robot PALRO, to the "ATOM project produced by Kodansha Ltd.

Design and development of robotics of the main machine of ATOM, the artificial intelligence to be installed and various applications. Together with this, construction of the system for "ATOM garden," the support site for links between ATOM and users.

Promotion of initiatives for business diversification such as utilization of the technology cultivated through the development of PALRO as the "front-end AI" for face/voice recognition in the network society, which will develop further, and the ODM business related to robotics.



Utilization of technology for smart devices

By utilizing the software development technologies for smart devices in which the Company has strengths, development of the software to operate on the tablet terminal that uses Android for the learning services provided by Benesse Corporation, "shinkenzemi shougakukouza challenge ® touch" and "shinkenzemi chugakukouza hybrid style"

By implementing the applications for education on the tablet terminal that runs on Android, realization of strict memory management securing high-level security and the same operation experience as that for the dedicated terminal

Promotion of proposal to a wide range of industries and business models for products with high price competitiveness that use the tablet terminal that runs on Android by securing the same security and operation experience as those for the dedicated terminal



IoT/Cloud/Security

Promotion of the industrial robot SI business

Promotion of the SI business related to industrial robots by utilizing the experience of system development in the factory automation area

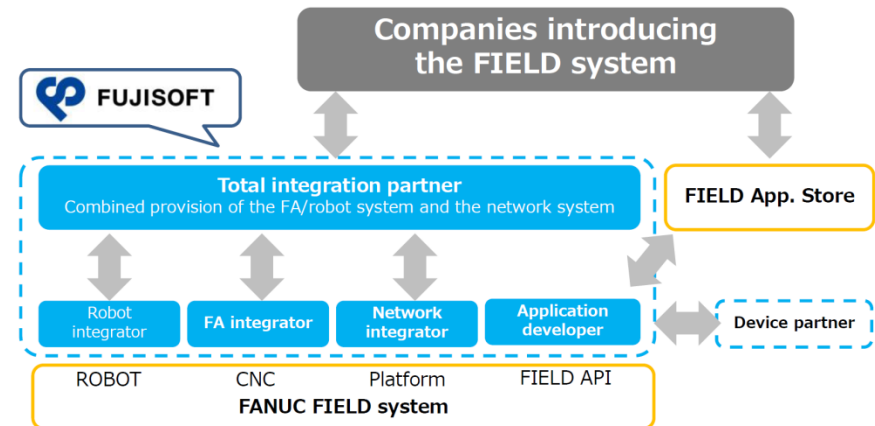
Provision of support service for the use of robots mainly in the manufacturing industry from the planning of the optimal system to design and implementation

In the said field, multiple advanced platforms utilizing IoT are scheduled to be put into practical use. The Company will also proceed actively with participation in it.

(The figure on the right shows the contents of the services that the Company will provide in relation to the FIELD system (*) that FANUC Corporation is developing.)

* FIELD system (FANUC Intelligent Edge Link & Drive)

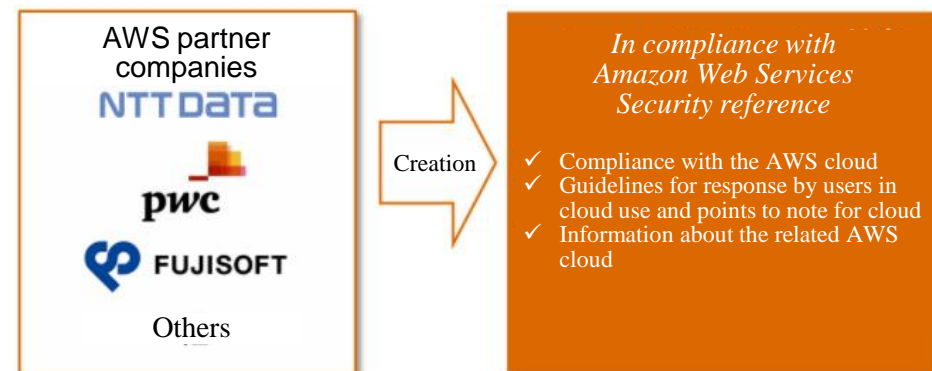
The platform for IoT intended to be used at the production site. By installing the application using the artificial intelligence from the network, advanced automation can be realized.

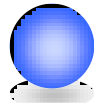


Joint provision of the security reference using the AWS cloud in compliance with the government's unified standards

Creation together with NTT DATA Corporation, PricewaterhouseCoopers Aarata LLC and other companies of the security reference in compliance with the government's unified standards established by the National Center of Incident Readiness and Strategy for Cybersecurity

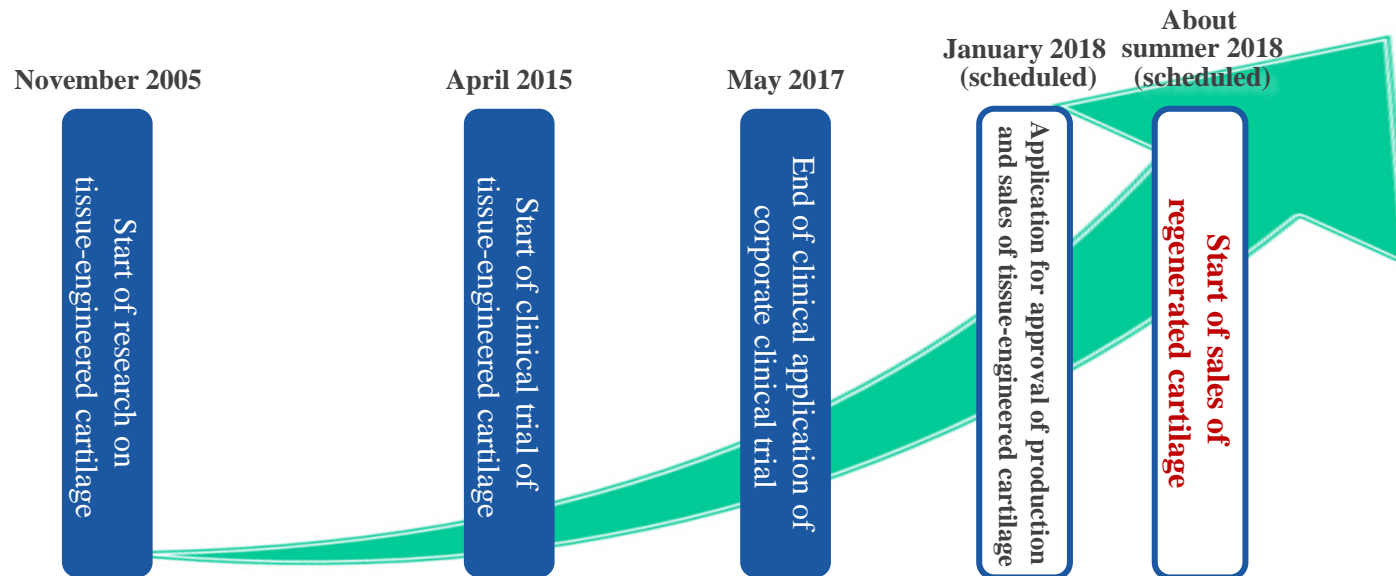
Support by each government agency for the use of safe and highly reliable systems





Others (regenerative medicine)

Completion of clinical application of corporate clinical trial of tissue-engineered cartilage - aim for early practical application



In November 2005, start of research and development of implant-type tissue-engineered cartilage using autologous cells (hereinafter, “tissue-engineered cartilage”)

With the aim of becoming the treatment method of first choice for patients suffering from a cleft lip and palate* to replace the existing treatment that involves physical and mental anguish upon early practical application, a corporate clinical trial commenced in April 2015 and transplant into the end patient was conducted in May 2017 (end of clinical application of corporate clinical trial).

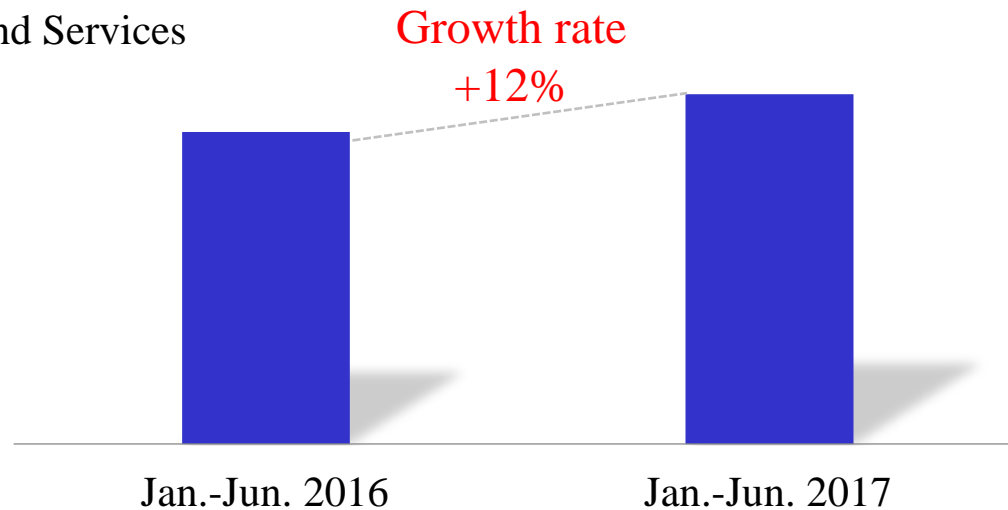
For the early practical application of treatment with tissue-engineered cartilage, sales are scheduled to commence during 2018 after application for the approval of production and sale in January 2018.

* Cleft lip and palate is a congenital disease involving a cleft in either the lip or palate (upper parts of the oral cavity) or both.



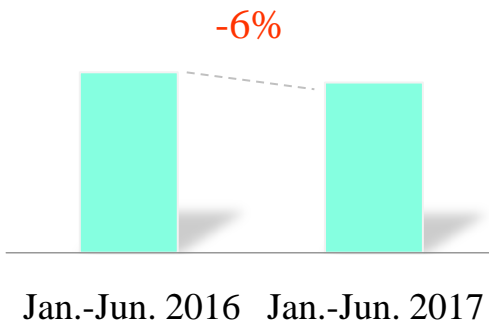
Trends in Products and Services (H1 Results)

Sales in Products and Services

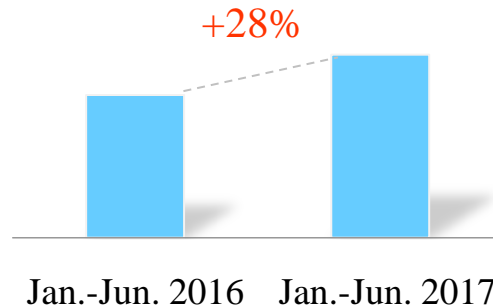


Breakdown of sales in Products and Services

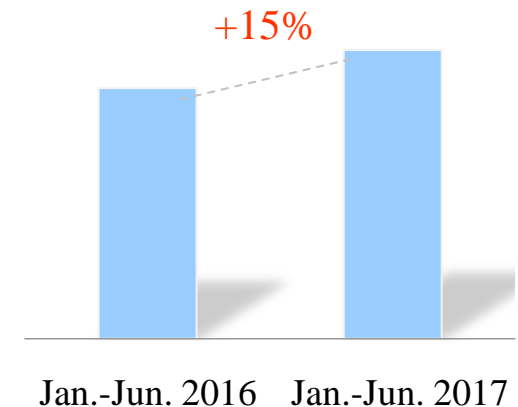
Sales of FUJI SOFT products



Sales in the licensing business



Product sales etc.

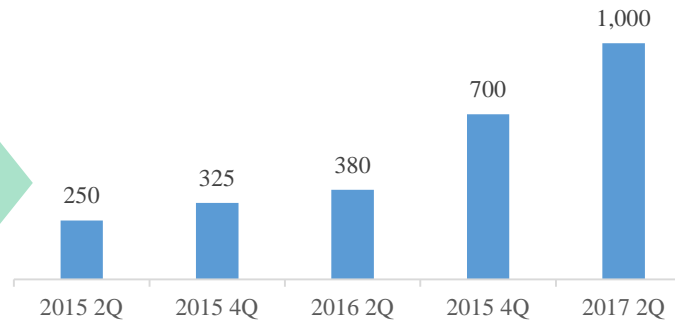


Trends in Products and Services (Priority Products)

palro



Change in the number of installations



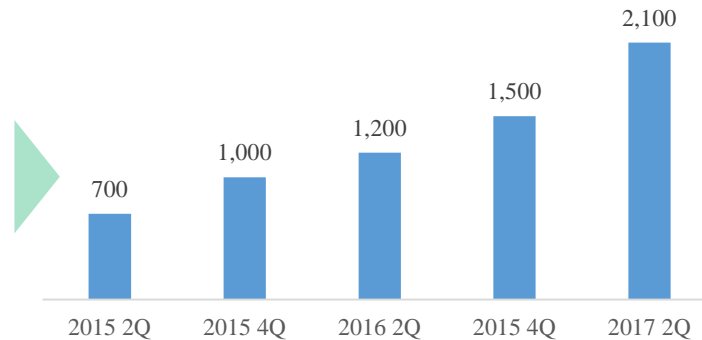
Current situation

Number of facilities and financial institutions that have introduced PALRO

Over 1,000 units (cumulative total)

(At the time of the announcement of the financial statements for the fiscal year ended December 31, 2016: over 700 units)

moreNOTE®



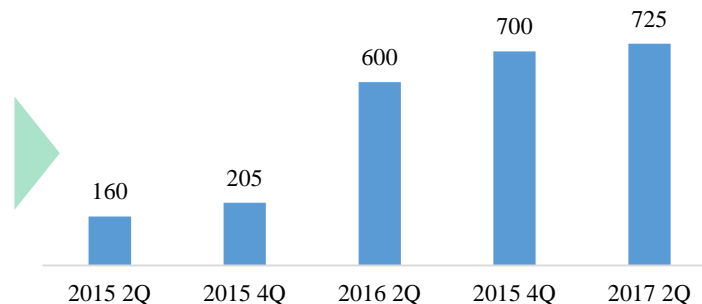
Number of companies that have introduced the file management and sharing service for mobile content

About 2,100 companies (cumulative total)

* Total number of companies that introduced moreNOTE and SYNCNEL

(At the time of the announcement of the financial statements for the fiscal year ended December 31, 2016: about 1,500 companies)

みらいスクールステーション®



Number of schools that have introduced Mirai School Station

725 (cumulative total)

(At the time of the announcement of the financial statements for the fiscal year ended December 31, 2016: about 700 schools)



Advanced BYOD company



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