



Results of Operations for the First Half of FY2016

August 9, 2016
FUJI SOFT INCORPORATED



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Results of Operations for the First Half of the Fiscal Year Ending December 2016

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Consolidated Financial Highlights-1 (H1 Results)

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

- ◇ Consolidated net sales rose 4.7% year on year, to 81,849 million yen, thanks to a strong performance in System Construction, especially machine control system construction.

Operating income rose due to the rise in sales and an improvement in the cost ratio.

- ◇ Operating income rose 16.5% year on year, to 4,046 million yen, reflecting the rise in sales and an improvement in the cost ratio due to a decrease in unprofitable projects.
- ◇ Ordinary income increased 6.3% year on year, to 4,080 million yen.
- ◇ Profit attributable to owners of parent climbed 10.0% year on year, to 2,106 million yen.

	FY2015 H1 Results	FY2016 H1 Results	YoY change (Amount)	YoY change (%)	FY2016 H1 plan	(Million yen) Comparison with the plan
Net sales	78,139	81,849	+3,709	104.7%	80,000	102.3%
Operating income	3,473	4,046	+573	116.5%	3,500	115.6%
Operating income margin	4.4%	4.9%			4.4%	
Ordinary income	3,840	4,080	+240	106.3%	3,600	113.4%
Ordinary income margin	4.9%	5.0%			4.5%	
Profit attributable to owners of parent	1,914	2,106	+192	110.0%	2,050	102.8%
Profit margin attributable to owners of parent	2.5%	2.6%			2.6%	

Consolidated Financial Highlights-2 (Q2 Results)

Net sales rose 4.1% year on year.

The cost of sales margin improved 1.0% year on year.

◇ The cost to sales ratio improved 1.0% year on year, to 76.4%, reflecting a decrease in unprofitable projects and the contribution of an improvement in human resources to results.

SG&A expenses rose 326 million yen from a year ago.

◇ SG&A expenses rose 326 million yen from a year ago, to 7,795 million yen, due to an increase in personnel expenses and recruitment costs associated with the implementation of a human resources improvement plan.

Operating income climbed 31.8% year on year.

	FY2016 Q1 results	YoY change (Amount)	YoY change (%)	FY2016 Q2 results	YoY change (Amount)	YoY change (%)
Net sales	41,261	+2,128	105.4%	40,588	+1,581	104.1%
Cost of sales	31,775	+1,552	105.1%	31,007	+823	102.7%
Cost of sales margin	77.0%	-0.2%		76.4%	-1.0%	
Ordinary income	9,485	+575	106.5%	9,580	+757	108.6%
SG&A expenses	7,223	+433	106.4%	7,795	+326	104.4%
Operating income	2,261	+142	106.7%	1,784	+431	131.8%
Operating income margin	5.5%	+0.1%		4.4%	+0.9%	



Sales/Operating Income by Major Companies of the Group

(Million yen)

	FY2016	Net sales	Operating income	
FUJI SOFT INCORPORATED	H1 results	49,944	2,324	Sales rose, reflecting strong performance particularly in machine control system construction and system construction in the financial sector. Operating income increased due to the increase in sales and an improvement in the cost ratio associated with an increase in high value-added development, despite an increase in SG&A expenses due to upfront investment in human resources and research and development.
	YoY change (amount)	+3,367	+205	
	YoY change (%)	107.2%	109.7%	
CYBERNET SYSTEMS Co., Ltd.	H1 results	8,958	907	Sales increased due to strong performance in the optical design field, model-based development engineering service, and security solutions, as well as strong sales by development and sales subsidiaries overseas. Operating income rose as the increase in sales offset an increase in personnel expenses due to the hiring of more new employees.
	YoY change (amount)	+580	+278	
	YoY change (%)	106.9%	144.4%	
CYBER COM Co., Ltd.	H1 results	4,685	134	Sales rose thanks to strong performances in the development of control software and operation software. Operating income declined mainly due to an increase in upfront investment for the hiring and education of engineers and a rise in retirement benefit expenses.
	YoY change (amount)	+492	-35	
	YoY change (%)	111.7%	79.1%	
VINX CORP.	H1 results	13,065	537	Sales declined following a fall in sales from major customers due to their review of IT investment, which more than offset the expansion of overseas operations and new transactions. Operating income fell along with the decline in sales.
	YoY change (amount)	-1,758	-179	
	YoY change (%)	88.1%	75.0%	
FUJI SOFT SERVICE BUREAU INCORPORATED	H1 results	3,933	80	Sales climbed, reflecting strong sales of call center services to public offices and projects for local governments that were won by bidding. Operating income rose due to cost cutting in the BPO service, despite an increase in SG&A expenses associated with listing.
	YoY change (amount)	+106	+84	
	YoY change (%)	102.8%	-	

* The fiscal year end is March at CYBER COM, VINX, and FUJI SOFT SERVICE BUREAU. Their results from January to June, 2016 are stated in the FY2016 H1 results column.

Consolidated Sales/Operating Income by Segment

(Million yen)

	FY2016 Net sales H1 results	Component ratio	YoY change (Amount)	YoY change (%)	FY2016 Operating income		YoY change (Amount)	YoY change (%)
					H1 results	Operating income margin		
Consolidated total	81,849	100.0%	+3,709	104.7%	4,046	4.9%	+573	116.5%
SI Business	76,238	93.1%	+3,365	104.6%	3,476	4.6%	+321	110.2%
System Construction	44,026	53.8%	+2,085	105.0%				
Embedded/Control Software	22,872	27.9%	+2,817	114.0%				
Operation Software	21,153	25.8%	-731	96.7%				
Products and Services	32,211	39.4%	+1,279	104.1%				
Products and Services	23,790	29.1%	+1,750	107.9%				
Outsourcing	8,421	10.3%	-471	94.7%				
Facility Business	1,359	1.7%	+203	117.6%	483	35.5%	+150	145.4%
Other Businesses	4,251	5.2%	+141	103.4%	86	2.0%	+100	-(*)

*Operating income in Other Businesses in the previous fiscal year: - 14 million yen

Highlights of Sales by Segment

• Embedded/Control Software

Sales increased 14.0% year on year, with brisk sales of machine control systems in areas such as automobile-related projects and factory automation, as well as systems at electric power companies and in the aerospace sector, offsetting declines in the mobile and telecommunication control businesses.

• Operation Software

Sales declined 3.3% year on year due to a decline in the distribution sector and other sectors, despite strong sales in the financial field.

• Products and Services

Sales rose 7.9% year on year, reflecting strong sales of in-house products, including data communication terminals, and of cloud and virtualization services, despite a fall in part of the licensing business in reaction to large-scale projects in the previous fiscal year.

• Outsourcing

Sales fell 5.3% year on year, mainly due to a decline in transactions in the distribution sector.



Consolidated Income Statement

		(Million yen)				
FY2015 H1 Results		FY2016 H1 Results	YoY change (Amount)	YoY change (%)	FY2016 H1 Plan	Comparison with the plan
Net sales	78,139	81,849	+3,709	104.7%	80,000	102.3%
Cost of sales	60,407	62,783	+2,376	103.9%	—	—
Cost of sales margin	77.3%	76.7%	-0.6	(1)	—	—
Gross profit	17,732	19,066	+1,333	107.5%	—	—
Gross profit margin	22.7%	23.3%	+0.6	—	—	—
SG&A expenses	14,258	15,019	+760	(2)	105.3%	—
SG&A expense ratio	18.2%	18.4%	+0.1	—	—	—
Operating income	3,473	4,046	+573	116.5%	3,500	115.6%
Operating income margin	4.4%	4.9%	+0.5	—	4.4%	—
Non-operating income	237	218	-19	92.0%	—	—
Non-operating expenses	110	225	+115	205.3%	—	—
Share of (profit) loss of entities accounted for using equity method	239	41	-198	(3)	17.3%	—
Ordinary income	3,840	4,080	+240	106.3%	3,600	113.4%
Ordinary income margin	4.9%	5.0%	+0.1	—	4.5%	—
Extraordinary income	—	14	+14	—	—	—
Extraordinary losses	369	143	-226	38.7%	—	—
Income before income taxes	3,470	3,952	+481	113.9%	—	—
Total income taxes	1,223	1,449	+226	(4)	118.5%	—
Net income	2,247	2,502	+255	111.4%	—	—
Profit attributable to non-controlling interests	333	396	+62	118.9%	—	—
Profit attributable to owners of parent	1,914	2,106	+192	110.0%	2,050	102.8%
Profit margin attributable to owners of parent	2.5%	2.6%	+0.1	—	2.6%	—

Points of Income Statement

[\(1\) Cost of sales margin \(-0.6%\)](#)

Decrease in unprofitable projects and the effect of the enhancement of human resources

[\(2\) SG&A expenses \(up 760 million yen\)](#)

Increase in personnel expenses and expenses for hiring and training due to the implementation of a human resources improvement plan

[\(3\) Share of \(Profit\) Loss of Entities Accounted for Using Equity Method \(down 198 million yen\)](#)

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

[\(4\) Extraordinary income \(down 226 million yen\)](#)

Declined due to a loss on the sale of shares of subsidiaries and associates posted in the previous fiscal year, although a loss on the sale of investment securities and an impairment loss on goodwill were posted by subsidiaries



Consolidated Balance Sheet

	End of FY2015	End of H1 of FY2016	Change (Amount)
Current assets	55,032	61,388	+6,355
Cash and deposits	12,784	18,293	+5,509 (1)
Notes and accounts receivable - trade	31,485	31,040	-445
Short-term investment securities	3,800	4,500	+699
Inventories	2,326	2,634	+308
Deferred tax assets	1,953	2,382	+428
Other	2,683	2,538	-145
Non-current assets	98,800	96,593	-2,206
Property, plant and equipment	67,013	66,608	-404
Intangible assets	6,273	5,778	-494
Investments and other assets	25,513	24,205	-1,307 (2)
Total assets	153,833	157,981	+4,148
Current liabilities	27,556	30,843	+3,287
Accounts payable - trade	7,625	8,626	+1,000 (3)
Short-term loans payable	3,967	5,110	+1,142 (1)
Commercial papers	-	-	-
Accrued expenses / provision for bonuses	5,820	6,890	+1,069
Income taxes payable	1,210	1,804	+594
Provision for loss on construction contracts	107	69	-37
Other	8,825	8,342	-482
Non-current liabilities	22,197	22,011	-186
Long-term loans payable	11,242	11,659	+416 (1)
Other	10,955	10,351	-603
Total liabilities	49,754	52,854	+3,100
Total net assets	104,078	105,126	+1,047
Total liabilities and net assets	153,833	157,981	+4,148

(Million yen)

Points of the Balance Sheet

[\(1\) Cash and deposits](#) (up 5,509 million yen)

[Short-term loans payable](#) (up 1,142 million yen)

[Long-term loans payable](#) (up 416 million yen)

Increase in sales and seasonal increases in financing

[\(2\) Investments and other assets](#) (down 1,307 million yen)

Decrease in the market value of investment securities

[\(3\) Accounts payable - trade](#) (up 1,000 million yen)

Increase in purchases in the SI Business



Consolidated Cash Flow Statement

(Million yen)

	FY2015 H1 results	FY2016 H1 results	YoY change (Amount)
Cash flows from operating activities	2,954	6,911	+3,956
Cash flows from investing activities	-355	-2,249	-1,894
Cash flows from financing activities	-3,151	2,111	+5,263
Effect of exchange rate change on cash and cash equivalents	47	-257	
Net increase (decrease) in cash and cash equivalents	-505	6,516	
Cash and cash equivalents at beginning of period	16,135	15,688	
Cash and cash equivalents at end of period	15,630	22,204	

Highlights of Cash Flows

• Cash flows from operating activities

Net cash provided by operating activities stood at 6,911 million yen, chiefly due to a rise in net income resulting from an increase in revenue. In FY2015, net cash provided by operating activities was only 2,954 million yen due to an increase in expenses, including an increase in income taxes associated with the change of the fiscal year end.

• Cash flows from investing activities

Net cash used in investing activities came to 2,249 million yen, chiefly reflecting expenditure for the acquisition of fixed assets including the Company's own products (software). In FY2015, net cash used in investing activities was only 355 million yen, mainly due to proceeds from sales of investment securities.

• Cash flows from financing activities

Net cash provided by financing activities was 2,111 million yen, mainly due to loans and proceeds from sales of shares of subsidiaries. In FY2015, net cash of 3,151 million yen was used, mainly due to the scheduled repayment of borrowings.



Orders and Order Backlogs for the Consolidated SI Business

(Million yen)

	FY2016 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	30,688	106.8%	78,045	105.4%	76,238	104.6%	32,495	108.5%
System Construction	20,683	105.8%	45,240	106.6%	44,026	105.0%	21,896	109.3%
Embedded/Control Software	8,987	108.3%	23,736	119.9%	22,872	114.0%	9,851	122.5%
Operation Software	11,695	104.0%	21,503	95.0%	21,153	96.7%	12,045	100.4%
Products and Services	10,005	108.9%	32,805	103.7%	32,211	104.1%	10,598	107.1%
Products and Services	7,843	120.7%	24,319	105.4%	23,790	107.9%	8,372	111.2%
Outsourcing	2,161	80.2%	8,485	99.1%	8,421	94.7%	2,225	94.0%

Highlights of Orders and Order Backlogs

• Highlights in System Construction

- Embedded/Control Software

The order backlog at the end of the term increased 22.5% year on year due to strong orders in the machine control business in areas such as automobiles and factory automation.

- Operation Software

The order backlog at the end of the term remained roughly flat from a year ago, up 0.4% year on year, reflecting strong orders in the financial sector and a decline in the distribution industry, among other industries.

• Highlights in Products and Services

- Products and Services

The order backlog at the end of the term rose 11.2% year on year due to the high order backlog at the beginning of the term, resulting from strong orders in the license business and an increase in orders for data communication terminals.

- Outsourcing

The order backlog at the end of the term declined 6.0% year on year due to the order backlog at the beginning of the term being lower than the year-ago level due to a decline in transactions in the distribution industry, despite only a slight decrease in orders.



Business Trends in the First Half

Growth Strategy (Reference: Results of Operations for FY2015)

Commissioned Development

- Hiring human resources proactively and enhancing systems
- Enhancement of technological fields with high needs
(Automobiles including AUTOSAR, FA, financial sector, internet business, and others)

Developing human resources quickly with training systems and superior site environment

- ★ Establishing a strong system within a few years
Promotion and rotation

Products and Services

- ★ **Promoting the Company's own products**
- ★ **Promoting products from the alliance**
Cloud and advanced technological fields
(MS, Amazon, SFDC, Google, Concur, virtualization, Win10, and others)

Increasing added value by offering competitive products and services in advanced fields and promoting related engineering services

Global business

Development of the theme of long-term investment (regenerative medicine) into business

To be expanded mainly into Southeast Asia

Carrying out sponsor-initiated clinical trials
License to manufacture specific processed cells

Strengthening cooperation within the Group

Improving business performance steadily based on Commissioned Development and continuing strategic investments (sowing seeds)

Sowing seeds for growth (upfront investment)

Hiring of human resources and investment in training

Investments in research and development and product investment in promotional activities

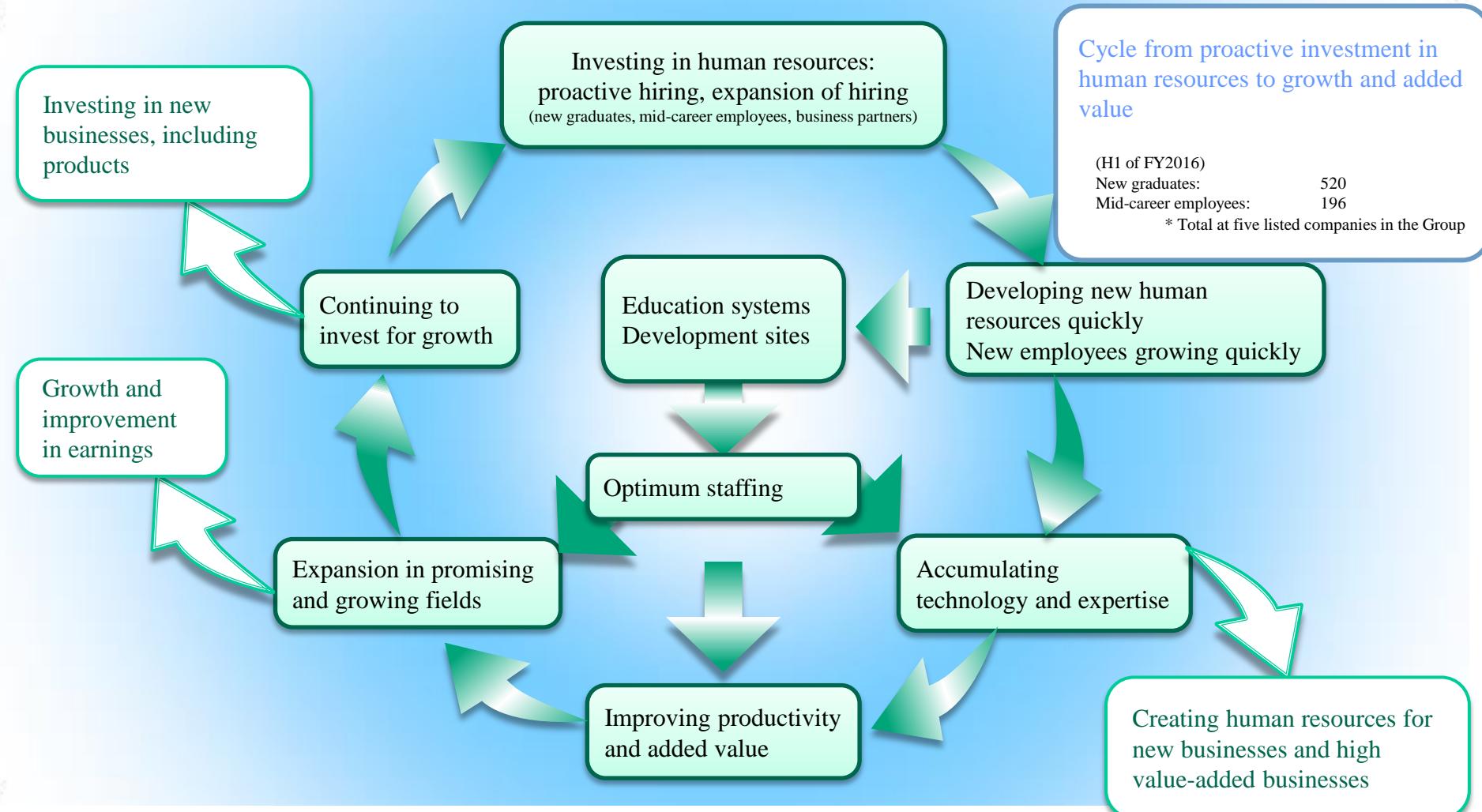
Overseas expansion (people, goods, and money)

**Slightly higher investment in research than current level
-> Investment for business development**



Situation of Commissioned Development (Strengthening Human Resources for Growth)

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





Situation of Commissioned Development (Automotive Software)

Responding to strongly growing needs for commissioned development and promoting diversification and sophistication of automotive software business

From 2016: The use of electronic technologies in automobiles will accelerate; software development will continue to expand.

Market

- Investment in element technologies of autonomous driving, including sensing, will increase.
- Demand for software development will increase sharply.

The Company

- Will develop human resources that will support double-digit growth in sales.
- Will decentralize production bases.
- Will enhance the core base in Nagoya.

From 2018: Many core technologies for autonomous driving will be generated and will disappear.

Market

- Standardization of the core technologies will make progress primarily in Europe and the United States.
- The use of software platforms will become commonplace in both the control field and the information field.

The Company

- Will develop the SI business for an AUTOSAR software platform in earnest (collaboration with APTJ).

From 2020: The age of autonomous driving will start. New service providers will emerge.

Market

- The autonomous driving system will reach Level 3-4 (*), and new values of automobiles will be recognized.

The Company

- Will develop business based on expertise in automotive software, cloud computing, IoT, and AI in response to needs for new system development.

(*) Levels of autonomous driving systems

Level 3: The system will be responsible for acceleration, steering, and control. The driver will be involved only in an emergency.

Level 4: The system will be responsible for acceleration, steering, and control. The driver will not be involved at all.



Trends in Products and Services

The Company's own products

Expanding the added value and sales of each product for their markets

Products from collaboration

Characteristics
Robot technology, AI, mobile equipment, mobile communications, auto-related expertise, HW device, industry know-how

moreNOTE + SYNCNEL

Mirai School Station

FSDTV

FSmobile

PALRO

FSI Gateway

Automotive DVR

Auto-related products, AI products, security, and more...

Characteristics
Wide-ranging engineering support capabilities Customer-oriented products from a neutral position

MS Azure

AWS

Salesforce

Google

Concur

VMware

Licenses

Cyber-Smart CTI, IP-PBX

Symantec

Terminal servers

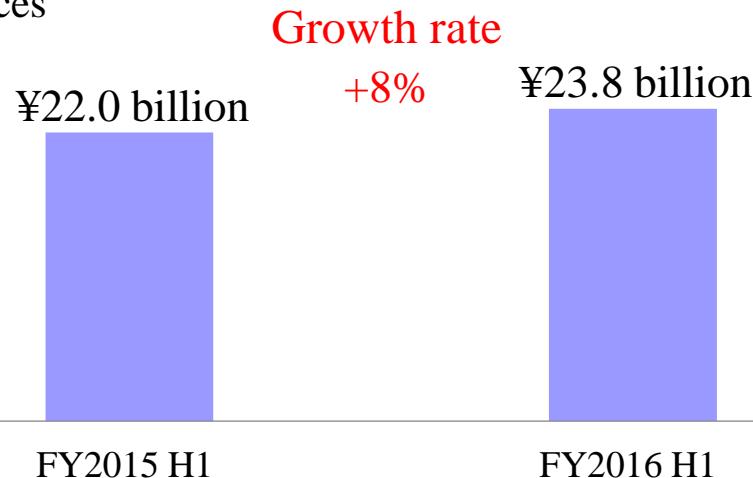
And more...

Synergies and new added value from the strengths of different products



Trends in Products and Services (H1 Results)

Sales in Products and Services

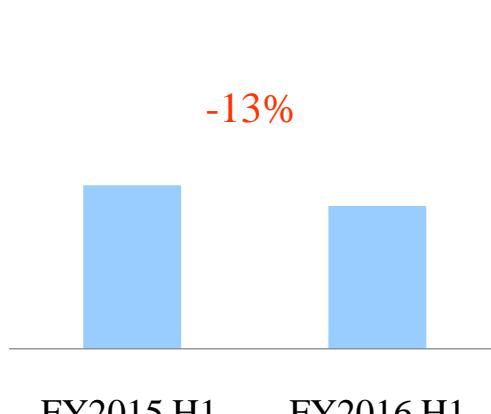


Breakdown of sales in Products and Services

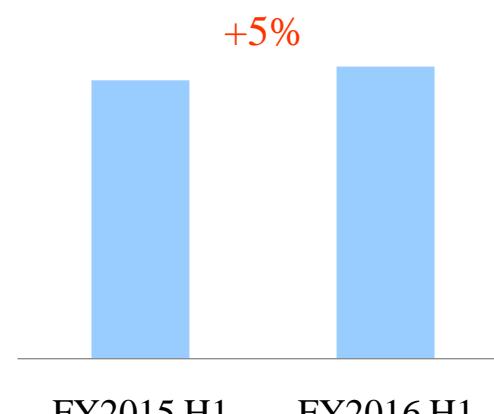
Sales of FUJI SOFT products



Sales in the licensing business



Product sales etc.





Trends in Products and Services (Priority Products)

palro®



moreNOTE®



みらいスクールステーション®



Current situation

Number of facilities and financial institutions that have introduced PALRO

380 (cumulative total)

Future initiative

Will continue to promote the use of PALRO and improve its convenience by participating in the government and local authorities' nursing-care robot introduction projects and demonstration experiments.

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

1,200 (cumulative total)

* Including companies that have introduced SYNCNEL

Will improve the convenience of the product for existing customers and expand its functions by combining it with the SYNCNEL service, which was acquired in February.

Number of schools that have introduced Mirai School Station

600 (cumulative total)

Will promote proposals of the use of ICT in line with the policy for ICT utilization in education.



Trends in Products and Services (IoT)

Starting to provide an IoT platform using AWS

May 2016

We started to provide an IoT platform using AWS (Amazon Web Services), which makes the introduction of the IoT possible at a low cost within a short time.

We can gather, analyze, and display large quantities of IoT data, while reducing the communication load, by combining AWS and the FSI Gateway, the Company's own gateway equipment, and processing data from sensors ahead of Internet communication.



Gathering, analyzing, and displaying data

Participating in the Salesforce1 IoT Jumpstart Program

May 2016

We participated in the Salesforce1 IoT Jumpstart Program of salesforce.com, Inc.

We provide IoT solutions using the Company's strengths: capability to develop embedded systems, technology for and experience in a variety of business systems, and a wealth of experience in development related to the Salesforce1 platform.

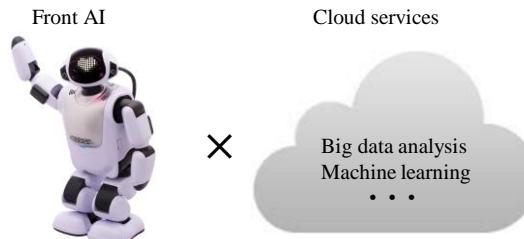
Technology to develop systems,
including PALRO



Customer management, purchasing management,
store visit history

Creating new communication styles by combining front AI and cloud services

We are promoting research and development to create new communication styles and provide high value-added services by combining the communication robot PALRO as the front AI and cutting-edge cloud services, including big data analysis and machine learning.





Advanced BYOD company



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