Questioner 1

Q1

I would like to ask you about robust domestic businesses.

New orders received in the Financial segment in the first quarter increased compared to the previous fiscal year as you won projects for banks. Did you win considerably large-scale projects? Also, please tell us when you will complete them.

A1

New orders received in the Financial segment increased, not because we won specific projects for individual customers, but mainly because multiple customers extended plan-based services contracts with us. Since the customers extended the planning type services contracts we had already provided, the concept of completion period does not fit.

Q2

In the first quarter, operating income in the Public & Social Infrastructure segment increased. I suppose you have various projects. Do you think this increased profit trend will continue from this fiscal year to the next? Tell us about your outlook.

A2

A big trend in the business environment of the Public & Social Infrastructure segment is that customers are trying to reduce costs. In such a situation, we expanded our business to diverse fields last few years, and won new orders in new fields, which helps us to maintain new orders received and net sales.

Therefore, in our view, the trend will remain flat.

Q3

In the EMEA & LATAM segment, you were especially strong in Europe. Could you be more specific about your robust business by country, such as Germany, Spain, or Italy?

A3

Region-wise, we had relatively good business in South Europe. We tend to steadily receive new orders from large companies, rather than the small-to-medium ones.

Q4

You said that the scale of pipelines in the North America segment was expanding. Could you tell us what kind of project increased?

A4

Regarding the pipelines, we have multiple relatively large-scale projects worth billions and tens of billions of yen. The scale of the pipelines is certainly expanding from the comparable period a year earlier. If we can win these projects, we will be able to recover new orders received steadily.

Q5

Profits in the first quarter mostly derived from domestic businesses. If overseas businesses, especially those in the North America segment improve, the earnings growth rate will rise. When do you expect to actually receive orders for the pipelines and see the performance in the North America segment improve?

A5

In the North America segment, both net sales and profits dropped from the previous fiscal year. Compared to our initial estimate, some units overperformed while others underperformed. Having said this, however, on the whole, the situation was as expected.

We expect our business to begin to improve in the second or third quarter.

Q6

In the previous fiscal year, you spent about 4 to 5 billion yen in each quarter on PMI and restructuring expenses. In this fiscal year, the PMI was completed in the first quarter. As a result, there will be no PMI and restructuring expenses in the second quarter onwards. Am I correct then in understanding that this will become a factor for an increase in profit of about 4 to 5 billion yen in each quarter from the previous fiscal year?

A6

We almost completed the PMI in the first quarter although we may do some restructuring as employees engaged in system integration in the PMI will return to the business unit. We anticipate such restructuring expenses in the second quarter onwards. On the other hand, we expect almost no spending on PMI expenses in the second quarter onwards.

Q7

As you completed the PMI ahead of schedule, spending on PMI and restructuring expenses will be below 2 billion yen in the second quarter and none in the third quarter onwards. Am I correct in saying this?

A7

Let me explain the breakdown of PMI and restructuring expenses. In the first quarter, we actually spent 2.4 billion yen on the PMI. In the second quarter onwards, we expect 0.1 to 0.2 billion yen for attorney's fees; in other words, we have almost completed spending on it.

We spent 0.5 billion yen on restructuring in the first quarter. When combining it with 2.4 billion yen PMI expenses, we actually spent 2.9 billion yen in total on PMI and restructuring in the first quarter.

The current full-year forecast already incorporates 5.5 billion yen spending on PMI and restructuring expenses. As for the remaining expenses of 2.6 billion yen, we will determine how much we will spend, including the restructuring expenses of the employees engaged in PMI as we mentioned earlier, depending on our business outlook.

Questioner 2

Q1

New orders received in the North America segment dropped from the previous fiscal year in the first quarter, mainly because multiple projects were delayed into the second quarter onwards. Could you list factors for decreased new orders received, such as temporary factors like delayed projects, decline due to the trend thus far, or foreign exchange impact?

A1

As for the new orders received in the North America segment, at the IR Presentation Meeting for the Fiscal Year Ended March 31, 2018, we explained that we failed to achieve about 140 billion yen in comparison with the previous full-year forecast, and that a tough situation would continue in the first half of this fiscal year. The first quarter saw about 20 billion yen decrease from the previous fiscal year. In actual fact, this was below our estimate. The major factor for this was that four large-scale projects were delayed into the second quarter onwards. Whether we can receive them without fail is the pivot around which we can improve our performance. We have multiple large-scale projects, as pipeline to which we pay attention. Foreign exchange had a 1.6 billion yen negative impact, compared to the previous fiscal year, as described on page 6 of the Company Presentation.

By and large, the result of net sales and operating income in the first quarter were almost as we expected.

Q2

The impact of the four large-scale projects delayed into the second quarter onwards was about 20 billion yen. If you had received these orders, the new orders received in the first quarter would have made progress as planned. Am I correct?

A2

That is correct.

Q3

If you had received the orders for the four large-scale projects, you say you would have progressed as expected. Can I take this as a good sign of change from the severe phase in the new orders received trend in the North America segment?

A3

I decline to comment on individual projects. To begin with a good aspect, there are cases for example in which business volume in system upgrade projects for customers of the former Dell Services grew as application capabilities of the former NTT DATA Inc., which used to be in charge of the North America segment, were added. Likewise, we can now provide a wider range of services within our capabilities to customers of the former NTT Data Inc. As a result, business volume increased in system upgrade projects.

On the other hand, it is a fact that we failed to receive some orders.

At present, there are both good and bad aspects. We will have to see how the order-receiving trend will change, and we would like to pay close attention.

Q4

Since you have completed the PMI in the North America segment, you have firmly established the sales structure. Am I correct in supposing that you can focus on winning projects from now on?

A4

We put considerable energy into the PMI, because in the North America segment, completing the system integration as soon as possible was the most important factor for suppressing costs. As it turned out, we steadily completed the PMI, and we can now focus on receiving orders, including top management. This is very good indeed.

On the other hand, our customers' CIOs and CTOs have changed their philosophy from the conventional cost reduction in the system unit to aggressive IT. In line

with this, they often prefer in-sourcing to outsourcing. I feel that the extent to which this impact appears as a downward trend is a point.
In such a situation, we are reinforcing our sales force. We will pay close attention to whether we can improve our figures in the second half as we expected at the beginning of the fiscal year.

Q5
Do you think profits in the North America segment will improve as net sales recover? Please tell us about your outlook.

A5
Recently, customers tend to invest in the so-called aggressive IT field and reduce costs in the conventional legacy area by making vendors compete with one another. This trend remains unchanged. There is no doubt that if we continue to depend on business in the legacy field, our profit ratio will tend to decline. It is important how we can focus on business with a high profit ratio, including recruitment. We have done various M&As. How much new orders received by their synergy effects contributes to profit is also important.

Questioner 3

Q1

The new orders received in the EMEA & LATAM segment recorded a 27% increase in the first quarter whereas the full-year forecast increased 16% from the previous fiscal year, which is very good. What caused this?

A1

In the EMEA & LATAM segment, we spent a lot of costs to respond to expanding business since previous fiscal year, so we made a considerably aggressive forecast for new orders received and net sales in this fiscal year. In light of this aggressive forecast, our performance in the first quarter progressed almost as much as we expected, rather than largely above our estimate.

Q2

Could you provide more information on new orders received in the EMEA & LATAM segment? For example, status by country or what kind of project contributed to the increase in new orders received.

A2

The status by country is largely steady in both Europe and LATAM.
In Europe, our business in South Europe was strong. While businesses in some countries like Germany were slightly below our expectation, they were largely steady in each region.
In South America, if anything, we struggle a little as there is a political problem in Brazil. However, we are not so much concerned about it. We need to look at geopolitical risk, so we will continue to keep an eye on the region.

Q3

Net sales in the EMEA & LATAM segment in the first quarter increased by 17.2 billion yen from the previous fiscal year while operating income remained relatively flat as an increase of 1 billion yen. Please tell us why profit contribution is low, given a rise in revenue.

A3

There are multiple factors. One of them is that in LATAM, which is a region with an extremely high market growth rate, we focus on the growth in net sales more than profit.

Another factor is NTT DATA EMEA's profitability. This company significantly struggled a few years ago. Currently, it is on the track to recovery although it has not reached the point where it can gain high profitability.

Questioner 4

Q1

Could you provide additional information about differences between JGAAP and IFRS?

I recognized that the IFRS removed the impact of unification of accounting period in the first quarter of the previous fiscal year, which JGAAP included. According to adjustment to net sales on page 16 of the Financial Results, there is an additional difference of some 9.6 billion yen in "Difference in recognition and measurement." The difference appears to be big in the Public & Social Infrastructure segment. Could you elaborate on this?

A1

Net sales differed as we applied the cost recovery method, which however had no impact on profit.

As we explained in the Company Presentation for the Fiscal Year Ended March 31, 2018, two factors, i.e. the non-amortization of goodwill and reclassifications largely influenced the difference in profit.

Q2

As for adjustment to operating income on page 16 of the Financial Results, the reclassification of expenses equivalent to JGAAP extraordinary losses impacted "Reclassifications" by about minus 4.8 billion yen, and the non-amortization of goodwill by about 8.8 billion yen in "Difference in recognition and measurement." Am I correct in surmising this?

A2

By and large, yes.

Q3

The Financial Results also describe annual adjustments on page 18. The difference in net sales is significantly large in the first quarter and appears to decrease as we move towards the fourth quarter. How can you explain this?

A3

Removing the impact of unification of accounting period in JGAAP from the IFRS in the first quarter largely influenced the difference in net sales. This impact was all included in the first quarter, resulting in a significant adjustment in the same quarter.

When we compare the difference in operating income in the first quarter with the one in the annual results, positive adjustment turned negative and vice versa in the “Unification of Reporting Periods.” This was because in the previous fiscal year, we unified the accounting periods in the first quarter and the PPA amount was finalized in the second quarter. Along with this, we corrected PPA amortization in JGAAP. In so doing, we reported the total amount going back to the commencement of the consolidation of the former Dell Services including fiscal year 2016, in the second quarter of the previous fiscal year. This caused distortion in profit between the first quarter and the second. On the other hand, the IFRS corrected all this distortion from the first quarter, resulting in the reversal of positive and negative values.

We disclosed the IFRS performance in each quarter of the previous fiscal year for the first time on page 26 of the Company Presentation. The net sales and operating income reported in this material represent IFRS-based actual values. From now on we would like you to look at our performance based on these figures which will lead to its correct understanding.

Q4

Please tell us why the Public & Social Infrastructure segment resulted in increased sales and profits in the first quarter. Can I take it as a substantial rise or is it impacted by technical factors like accounting standards?

A4

The rise in net sales in the Public & Social Infrastructure segment was based on our corporate ability, not influenced by technical factors like accounting standards. However, special cases such as reporting all net sales from large-scale projects concentrated in the first quarter. This means that our net sales will not increase at this pace throughout the year, but that the progress is basically in accordance with our full-year forecast. Please consider this slightly greater growth in net sales and profits as a matter of timing in the first quarter.

Questioner 5

Q1

You said that the competition environment was rather harsh as impacted by in-sourcing, etc. at the Company Presentation for the Fiscal Year Ended March 31, 2018. Could you tell us a bit more about the current North American market environment, including your competitors?

A1

Most of the companies whose net sales are recently growing in the IT industry are consulting type firms. This is not just limited to North America. Investments in IT have shifted from conventional businesses to the digital field and competition with consulting firms that have acquired IT companies is increasing.

In the fields that focus on costs, such as legacy systems, we often compete with Indian companies. So, we need to deal with both sides.

We don’t see the in-sourcing trend changing. Since, however, not all customers can afford in-sourcing, the spread of this movement is rather limited.

Q2

As you mentioned, you completed the PMI ahead of schedule. Could you tell us how your specific strategy and organization will change in the second quarter onwards? I understand that you have established a structure that allows you to focus on your business, but I want to know under what strategy you are going to win projects.

A2

To strengthen the sales force, we have assigned a Chief Sales Officer (CSO) to steadily reinforce the structure.

We will meet our customers’ IT investment needs by ensuring that we invest in the state-of-the-art digital field. We will firmly promote a reinforced profit rate by reducing the costs of provision using for example IT outsourcing.

In addition, the Global Marketing Headquarters is making unique efforts. In July

2017 we newly created this headquarters to elicit global synergy and lead strategic investments. It substantially began to operate in the second half of the previous fiscal year. It has a clear focus in certain areas, where it not only entrusts operations to business companies, but it also makes investment at the initiative of the head office, leading to increased new orders received. This is our strategy.

We are beginning to see the effects of such investments as well as synergy among regions.

We believe that these effects will largely contribute to the recovery of new orders received and net sales in the North America segment.

Q3

My understanding is that performance in the North America segment will improve in the second quarter onwards. But the EBITA in the first quarter excluding PMI and restructuring expenses actually decreased slightly below 4 billion yen from the previous fiscal year. If you insist that this is within your expectation, I guess you will need to return to the black significantly in the second quarter onwards. When will you expect it?

A3

We cannot improve net sales and profit unless we improve new orders received. So, improving new orders received is our first priority. We expect new orders received to improve in the second quarter to the third. Profit improvement will come a bit later than that.

Q4

As you have completed the PMI, you are entering a new stage where you will improve your performance. Especially in North America, you need to raise a market share in the digital field. In so doing, you will need to change the way you conduct business, including M&A. Could you tell us your global strategy in the mid-to-long term, including M&A?

A4

As we have been explaining about the Global 3rd Stage, we are aiming at raising the overseas sales ratio by around 2025. We also need to win more higher-layer projects. We will naturally try to balance the investment amount and the value of an acquired company in doing M&A.

We have not changed our M&A policy. We will continue M&A if we come across good projects within our free cash flow. However, what is important in M&A is not to buy a company at too high a price.

Questioner 6

Q1

As you mentioned, a decrease in new orders received in the Public & Social Infrastructure segment in the first quarter was due mainly to less orders such as for large-scale projects compared to the previous fiscal year. Could you tell us how large the projects were in the previous fiscal year?

A1

We expect a 104 billion yen decrease from the previous fiscal year in the current full-year forecast. In the first quarter we had a decrease of 39.5 billion yen, which is pretty much in line with our full-year forecast.

Q2

Am I correct in saying that this fiscal year will see the effect of less orders such as for large-scale projects in the second quarter onwards?

A2

Less orders such as for large-scale projects mean that while we received a number of new orders in the previous fiscal year, in the current fiscal year, it was at a normal level. There are times we receive many new orders and there are times we don't. There will also be an increase or decrease in the future, if we look at them on an annual or quarterly basis.

We are not so pessimistic about the market environment of the Public & Social Infrastructure segment as our customers are expanding various digital investments. We are targeting a mid-term result at the level of the previous fiscal year or slightly above it.

Q3

For new orders received in the North America segment in the first quarter, you said four large-scale projects were delayed into the second quarter onwards. Could you tell us when you expect those orders to come in and how large they are?

A3

We expected to receive orders for four large-scale projects in the first quarter, which was however delayed into the second quarter onwards. The total of these four projects alone exceeds a 21.2 billion yen that is decline in new orders received in the North America segment of the first quarter, compared to the previous fiscal year.

The amount of pipelines increased by about 40% compared to a year earlier. Pipeline information includes project size and certainty of orders received. We have the impression that we have more projects with a higher certainty of orders received compared to last year. We will keep an eye on them in the second quarter onwards as they have not materialized as actual orders received.

Questioner 7

Q1

You say you have a good feeling about pipelines in the North America segment. What features do the projects have?

A1

The sectors of large-scale projects include healthcare and financial units. We have reinforced the healthcare unit by integrating the former Dell Services. Since the days of the former NTT DATA, Inc., we have been focusing on the financial unit. Service-wise, we have projects, including application and IT outsourcing fields, in which we are very strong.

Q2

The projects as pipelines in the healthcare and the financial units are less susceptible to big changes in the IT industry. Moreover, you can take advantage of your traditional strength. Are you at last turning to a positive growth at this timing?

A2

If we look at each project, for example, customers who have changed their CIOs have changed their trading stance with us or there is an in-sourcing movement. If we were to bring up trends, IT investment in digital field by customers is increasing. In the conventional business area, they continuously tend to reduce costs by means of vendor consolidation.

Q3

I want to ask about domestic business for manufacturers. To what extent have the effects of expanded consolidation of NTT DATA MHI Systems impacted the new orders received, net sales, and operating income in the first quarter?

A3

We began to consolidate NTT DATA MHI Systems in the second half of the previous fiscal year. Its business size is about 20 billion yen per annum. Its effects on the first quarter are slightly below 5 billion yen or a quarter of its size, which contributed to the YoY increase in new orders received and net sales. It has little impact on operating income as it was just launched.

In the accounting period (three months) of the second quarter, we expect a contribution of 5 billion yen YoY increase in both new orders received and net sales.

Q4

You have disclosed IFRS-based new orders received, net sales, and operating income on page 26 of the Company Presentation for the Fiscal Year Ended March 31, 2018. I want to know the gross profit (gross margin) in the second, the third, and the fourth quarter.

PMI and restructuring expenses under IFRS were 4.4 billion yen in the first quarter of the previous fiscal year. Could you tell us about the actual results in the second, the third, and the fourth quarter?

A4

We do not at present disclose IFRS-based gross profit in the second quarter onward of the previous fiscal year.

PMI and restructuring expenses under IFRS were 4.4 billion yen in the first quarter, 2.8 billion yen in the second, 5.9 billion yen in the third, and 5.8 billion yen in the fourth quarter of the previous fiscal year. The annual result amounted to 19 billion yen. In this fiscal year, they were 2.9 billion yen in the first quarter. We expect them to be 5.5 billion yen in our full-year forecast.