

Questioner 1

Q1

The Financial Segment's consolidated net sales to clients outside the NTT DATA Group (Page 24 of the Company Presentation for the Third Quarter of Fiscal Year Ending March 31, 2019) decreased by about 7% in the third quarter (three months). Is this because there were less sales for services for banks compared to the previous fiscal year? The North America Segment's net sales to clients outside the NTT DATA Group declined by about 2% in the third quarter (three months), too. You said that the pipelines of new orders had expanded. Please show us your forecast on when you expect to see sales growth.

A1

We understand that the business environment for financial institutions, key clients of the Financial Segment, is still severe. However, we have closed contracts for relatively long terms, for example, a contract that is renewed once every several years. The reason for the minor decrease in net sales in the third quarter (three months) is that we renewed a large-scale contract with a bank in the previous fiscal year. As the decrease was in line with our forecast, we do not think that a change in the business environment resulted in the sales decline.

Concerning the North America Segment, while the state of decreased new orders received has not recovered yet, it has received new orders steadily. Given the relatively large-scale new orders received in the second and third quarters in the previous fiscal year, we consider that the decrease has bottomed out, at least. As the decrease of net sales has slowed down compared to that of new orders received, we expect that it will head toward recovery sooner or later.

Q2

I would like to ask a question about operating income. In the third quarter (three months), the North America Segment saw a decline in net sales and an increase in operating income. In contrast, the EMEA & LATAM Segment saw an increase in net sales and a decline in operating income. Please show us the reasons for the difference in the trends of net sales and operating income between these two segments. Especially, I would like to know about the North America Segment's operating income excluding PMI and restructuring costs and the effects of cost reduction and about the temporary factors that affected the EMEA & LATAM Segment's

performance.

A2

Due to the decrease of PMI and restructuring costs, the North America Segment experienced a year-on-year increase in operating income of 9.1 billion yen for the third quarter and 5.5 billion yen for the third quarter (three months). Without the impact of increase due to the decrease of these costs, the segment saw decreases in operating income both for nine months and for three months due mainly to less net sales. On the other hand, the effects of cost improvement have emerged gradually since the second quarter, which offsets the operating income decrease due to less net sales. We expect that the actual value of operating income, after PMI and restructuring costs with the effects of cost improvement, will improve.

I will refrain from telling you details of the temporary factors of the EMEA & LATAM Segment in order to avoid disclosing information on individual projects. However, I can tell you that this was a project that required special treatment given the relationship with the client, and we posted a one-time cost of as much as 1.0 billion yen in the third quarter. As this project was completed, there is no possibility that we will post additional costs. Without the impact of this project, the trend in operating income has remained unchanged from the first and second quarters. While we expect to see an increase in operating income due to the tendency of the fourth quarter (three months) when operating income usually grows, it is still difficult for the segment to achieve the full-year forecast. Although the EMEA & LATAM Segment has made active investments in human resources and others to grow new orders received and net sales given the opportunities that have significantly increased, the segment will focus on the improvement in profit margins that will become a prioritized theme of the next mid-term management plan in the next fiscal year and onward.

Questioner 2

Q1

Please explain the conditions of each client industry of the North America Segment.

A1

In terms of net sales in the recent three months, the business for the public and manufacturing industries was solid, and the business for healthcare and financial industries, which is larger in volume, was slightly below expectations.

Concerning the forecast of new orders received, the North America Segment manages potential projects for which it will be able to win a contract as a pipeline and deals with multiple potential projects with relatively long term of contract. However, each client has different circumstance. For example, there was a case in which a client delayed the decision-making so as to be careful in closing a contract for a long-term, large-scale project, and a case in which a client changed the scope of a project during negotiation. We try to take appropriate measures to meet their individual circumstances.

We are confident in the quality of the pipeline. As shown on page 18 of the Company Presentation for the Third Quarter of Fiscal Year Ending March 31, 2019, we have made an achievement such as winning a contract for a new large-scale project with Grupo Bimbo, a food manufacturing company operating all over the world especially in North and Middle America. For this project, we utilize the self-heal tool (a tool which automatically detects and fixes problems or faults of commonly used applications and systems), a new technology that was developed as a result of the innovation investments we have made since the previous fiscal year.

Thus, the North America Segment is in a difficult situation to achieve the full-year forecast of new orders received and net sales, but we feel confident in the future performance against forecast and will continue to make steady efforts.

Questioner 3

Q1

Concerning a large-scale unprofitable project that required an additional provision in the third quarter, you said that it was unlikely that you would provide a large amount of reserve in the future again. Please tell me what the reserve was provided for and why you think that the possibility of an additional provision is low.

A1

For the project, we set up a countermeasures headquarters that is directly controlled by the President and CEO in October 2018. We developed a structure where the Senior Executive Vice President appointed as the chief checks the project status on a weekly basis, and necessary support from engineering departments is provided promptly for the project team in order to implement appropriate company-wide measures. As a result, we have made progress in understanding the overall status of the project, identified the tendency of the occurrence of bugs in the past, and rationally calculated the man-hours required for bug analysis and fix based on previous cases. In the third quarter, we provided a reserve for all losses we can estimate rationally at the present moment, including potential losses from a service that will start in the next fiscal year. Of course, we cannot say that there is no possibility of additional provision, but we believe that it is unlikely for us to provide a large-scale reserve additionally in the future.

Q2

I would like to ask questions about the next mid-term management plan which starts in the next fiscal year. How many years are covered in the plan? How will you improve profitability in Japan and overseas? I hope to see a forecast that you will achieve a year-on-year increase in operating income without the impacts of unprofitable projects from the first year of the next mid-term management plan.

A2

It is difficult for us to show you the details of the next mid-term management plan because we are still working on it. I think that three years or so will be covered by the plan.

Concerning the general direction, as the next year will be the first year of the next mid-term

management plan, we will probably present a plan focusing on business three years later, although short-term improvement of profitability is of course essential. Given the recent technological trend, we have to make necessary investments in anticipation of returns three years later. As most part of the global business is currently performed by each office separately, we think that one of our priorities is to develop a global synergy. Regardless of the inclusion in the next mid-term management plan, we will take the large-scale project that became unprofitable in the third quarter seriously and implement necessary measures.

I will talk about the details of the next mid-term management strategy in May when we make the announcement.

Questioner 4

Q1

In the fiscal year ending March 31, 2019, for unprofitable projects, you recorded a company-wide loss of 15.5 billion yen for the third quarter and 8.1 billion yen for the third quarter (three months). I understand that the Public & Social Infrastructure Segment caused the most part of the loss of 8.1 billion yen. Is my understanding correct?

A1

The most part of the loss was caused by one public project. The Public & Social Infrastructure Segment recorded a loss of 13.5 billion yen for unprofitable projects including the public project from the beginning of the fiscal year. We have provided a reserve for all potential losses we can rationally estimate at the present moment including those in the next fiscal year.

Q2

Concerning the North America Segment, please give us an update on the four large-scale projects for which you said the receipt of orders would be postponed during the earnings conference for the first quarter.

A2

Out of the four large-scale projects we explained during the earnings conference for the first quarter, we won a contract for one project during the second quarter and are having negotiations with clients for the other three projects. This is because of the clients' individual circumstances, as I explained before, for example, a negotiation with a client for a long-term contract was prolonged beyond our expectations; another client reviewed the scope because a new person responsible for systems was appointed and closed a short-term temporary contract. However, we have not failed to receive any orders yet. While we continue negotiations with the clients due to their circumstances, we are making efforts to win the contracts.

Questioner 5

Q1

Please tell me how you have changed your forecast of the unprofitable project for which you provided an additional reserve in the third quarter since the earnings conference for the second quarter. Also, I would like to know if the timing of starting operation of the system would be postponed overall.

A1

I would like to refrain from telling you about the details of changes in order to avoid giving specific information on the project. This project will include sequential releases and going live of systems. We are negotiating with the client for a contract for the fiscal year ending March 2021, and it is too early for us to consider posting a loss from the project. The release timings of some systems have been changed, but I would like to refrain from showing you the details.

Q2

You posted a temporary cost as much as 1.0 billion yen for the EMEA & LATAM Segment. Is this included in the accumulated amount of 15.5 billion yen of the whole company's loss from unprofitable projects? I think that you saw an increase in net sales and a decrease in operating income in the third quarter (three months) without the temporary cost by as much as 1.0 billion yen. Please show me the reason for it, for example, an increase in promotion costs. I would also like to know the reason why you posted increased net sales and decreased operating income in the third quarter after you recorded increased net sales and increased operating income in the second quarter.

A2

We posted the temporary cost for a different reason from the one for the loss of 15.5 billion yen. This was caused by a special treatment required for a project.

We recorded a year-on-year increase in operating income by 1.4 billion yen for the second quarter for EMEA & LATAM Segment. The operating income we posted for the third quarter (three months) was as high as that of the previous fiscal year without the impact of the decreased operating income caused by the project. Thus, we do not think that profitability has

changed significantly without the temporary impact. As our forecast of operating income set at the beginning of the fiscal year was slightly optimistic, we are in a difficult situation to achieve it. However, we expect net sales and operating income increases and believe that we have been able to maintain the trend toward improvement from the previous year.

Q3

In the North America Segment, the improvement of the pipeline has not led to new orders received, in my view. Do you think that the environment for new orders and the market environment in the whole industry have deteriorated? In addition, I have seen collaborations between competitors to enhance DX (digital transformation) business, for example, Accenture and Microsoft, your competitors, announced a partnership. What do you think about your initiatives in the future including a partnership with other companies?

A3

I don't think that the market has deteriorated particularly.

We are very open to partnership, prepared for collaboration with any vendor, start-up, and other companies and actually working on it. On the other hand, we are aware that our effort toward global collaboration within the NTT DATA Group is not sufficient and consider strengthening the effort.

Questioner 6

Q1

Concerning unprofitable projects, please show me how much accounts for the loss of this fiscal year and that of the next fiscal year in the total loss of 8.1 billion yen you recorded for the third quarter (three months), respectively.

A1

For unprofitable projects recorded in this fiscal year, we have provided a reserve for all potential losses we can rationally estimate at the present moment including a loss from a service to be launched in the next fiscal year. Given the remaining months of this fiscal year, you can consider that most of the reserve was provided for potential losses in the next fiscal year.