

Q&A at Earnings Results Briefing for FY2013 (Summary)

Individual 1

Q1. I believe that new subsidiary Fontworks Inc. contributed more than 700 million yen to sales growth in the past fiscal year that ended in March 2014. In your forecast for the current fiscal year ending in March 2015, how much do you expect new subsidiary Cybertrust Japan Co., Ltd. to contribute to sales growth?

A1. Our consolidated forecast for the current fiscal year includes sales of about 1,500 million yen at Cybertrust Japan.

Q2. The SoftBank Group made the biggest contribution to sales growth in the past fiscal year. Two companies of this group in Japan have merged: eAccess Ltd. and WILLCOM, Inc. Are you receiving orders involving systems from Ymobile Corporation, the company created by this merger?

A2. Orders received of 6,200 million yen in the past fiscal year do not include any orders from this company. In the current fiscal year, we will submit proposals to Ymobile with the goal of receiving orders from this company.

Q3. Please explain your business relationship with Sprint Corporation (formerly Sprint Nextel Corporation), which is an overseas subsidiary of the SoftBank Group.

A3. We visited the United States in November 2013 to hold business discussions with Sprint. But we are not supplying any technologies to this company for a number of reasons, including the size of their system, regulatory constraints and commercial practices. Furthermore, the C&S business of SoftBank BB, which we have been supporting, has become independent and is now under the control of Brightstar Corp., another overseas subsidiary of the SoftBank Group. There are opportunities for us to offer many types of business systems in the distribution domain. We plan to utilize the know-how we have acquired in this field to submit proposals to these businesses.

Q4. You expected “transitioning businesses into services” to make a contribution to earnings in the past fiscal year that ended in March 2014. But it appears that there was a delay in the improvement in earnings because of substantial fixed costs. Will a benefit start to emerge in the second half of this fiscal year? Also, why is the improvement in earnings slower than expected?

A4. Three factors brought down the profit margin in the past fiscal year: (1) a decline in the marginal profit ratio; (2) higher outsourcing expenses; and (3) an increase in fixed costs due to the growth of our workforce.

The marginal profit ratio came down as sales of low margin hardware which run into billions of yen increased sharply from the third through the fourth quarter of the fiscal year.

Regarding outsourcing expenses and our workforce, we took steps to achieve a proper outsourcing ratio in our system integration business. Two years ago, we had 50 employees and used 100 people outside our company. Now we have 150 employees in this business and use 500 external workers.

In prior years, we recruited mainly engineers and project managers. This year, we have established the new positions of technical associate and service associate. We plan to increase the number of programmers, testers and customer service personnel. We believe these actions will lead to a higher marginal profit ratio and earnings as we lower the outsourcing ratio while continuing to increase sales.

Individual 2

Q1. Please explain the benefits of the Microsoft Solutions business for profitability and in other respects?

A1. The Microsoft Solutions business is very important for us in two ways. First is as a means of establishing new relationships with large enterprises. Second is as a means of deepening and expanding relationships with our current customers.

Persuading a company with a 10 or 20-year relationship with a system integrator to switch to us is not an easy task. Furthermore, convincing a company to switch is difficult without first gaining an understanding of the company's business operations. However, for a communication infrastructure alone, issues that must be solved are the same in any industry. We receive requests from companies that want to shift to a cloud service their communication infrastructures, including e-mail frameworks that were assembled and operated internally. To provide this service, we have started using Office365 so that we can improve a company's internal systems. This is the first stage.

Moreover, we can meet demands for linking and improving groupware, such as for bulletin boards and other internal portals and work flow systems. We can also meet needs for the transfer of internal systems to the cloud. Until two years ago, even we were using a groupware called Notes and had more than 500 separate databases. Many of our customers are still using Notes even though the support period has ended. We have developed our own work flow engine as a solution for companies that have started using SharePoint Online which does not independently support a Notes work flow engine. With this solution, we can serve customers that want to shift to Office365 and then transition to SharePoint. This is the second stage.

Now that software has advanced to this point, there will undoubtedly be new demands at companies for moving a large number of internal systems to the cloud. In fact, we are receiving many inquiries about this subject. This is the third stage.

Transitioning to the cloud is not the end. The strategic objective of the Microsoft Solutions business is to increase the number of customers by offering proposals to prospective customers. One example is hybrid proposals combining the cloud with on-premises elements. We will determine how many internal systems a company has, how they are linked and how the systems are supervised. We had many unprofitable projects two years ago. But we completed every one of them. By working diligently in this field for three consecutive years, we have earned a reputation for trust. For instance, Microsoft often tells their large customers to contact us for assistance.

Q2. Google Apps competes with Office365. How is Office365 superior to Google Apps and do you have any plans to offer your customers Google Apps, too?

A1. SoftBank Group member SoftBank Telecom performs extensive marketing activities for Google Apps and we handle Microsoft's Office365. By offering both services, the SoftBank Group can cover a broad spectrum of customer needs. We think this stance is good for the SoftBank Group. SoftBank Technology will focus on Microsoft Solutions.