

November 8, 2016

SUMMARY OF THE Q&A SESSION
AT THE IR MEETING FOR THE 2ND QUARTER ENDED SEPTEMBER 30, 2016

MEITEC CORPORATION

1. Date: November 8, 2016, 16:00–16:50
2. Place: 10th Floor, Marunouchi Conference Square M+
3. Q&A:
 - Q. It seems that some areas of manufacturing industry are struggling, but are you seeing any impact from that?
 - A. At this point we do not yet know the concrete impact on the Company, but we make efforts to understand the HR and technology strategies of each manufacturing company and we are always prepared to shift to growth sectors through the strategic rotation and the like, so we do not perceive there to be a problem.

 - Q. With regard to Meitec's performance in the first half, why did SG&A expenses come in significantly below the initial forecast?
 - A. New graduates recruitment came in lower than planned, so should we interpret this as meaning that you have been unable to use your hiring costs?
 - Q. This reflected a drop in hiring costs because we missed our hiring target, and also a change in the timing of system costs that were scheduled to be posted in the first half to the second half.
 - A. This reflected a drop in hiring costs because we missed our hiring target, and also a change in the timing of system costs that were scheduled to be posted in the first half to the second half.

 - Q. Although Meitec Fielders' net sales in the first half were ¥400 million higher than initial forecast, operating income was about ¥80 million. What was the reason for that?
 - A. Primarily due to performance-linked compensation for employees (bonuses), the cost of sales was higher than the initial forecast.

 - Q. You gave an explanation regarding the forecast increase in the average rate in the second half for Meitec, but do you mean that the average rate will rise more than anticipated due to strategic rotation? Also, I think you implement strategic rotation every year; when can we expect to see the impact and the results of these actions?
 - A. We are working on initiatives to provide value to clients in high-end areas to obtain an appropriate rate, but because we are pushing ahead and accelerating strategic rotation, it is having an effect on rates. In addition, in order to match the engineers' skill sets with market needs so that we can respond to the changing environment and to technological innovation, we are further purposefully assigning engineers than before to areas and business phases with high market value, and we do expect this to bear fruit going forward.

Q. It looks as if new orders have been declining recently. Is this because you have been selecting higher quality business and, if so, is this something that we do not need to worry too much about?

A. Overall, if the number of monthly new orders exceeds 350, then we consider business to be firm. Over the past two years our marketing activities have been selective in terms of the content of the business, and it all comes down to the quality times the volume (the number of orders), but it has not declined compared to the previous year.

Q. With regard to strategy for the business dedicated to the Kyushu area, is this aimed mostly at the high-end or the mid-range?

Also, what has the client reaction been since the start of operations?

A. We are conducting this through Meitec Fielders, which is mid-range.

We are recruiting engineers for the business as full-time employees in this specific region, but in terms of their engineering abilities and potential, they are no different to our existing employees.

As for the reaction from clients, demand in Kyushu spans a wide range from automobiles to semiconductors and industrial machinery, so we have received a certain amount of understanding and a favorable response for our decision to launch business specialized in the Kyushu region. We feel that there is potential.

Q. What was the reason for the downward revision of the turnover ratio at Meitec Fielders?

Also, what is the background to your expectation of being able to reduce the turnover ratio?

A. It is the result of reflecting the trend in performance in the first half.

We consider how to build a sense of satisfaction and reassurance for the engineers with regard to work at the company, and benchmark Meitec's system, while at the same time utilizing a system that covers career formation and job satisfaction, evaluation and remuneration. When these factors all move together and result in an environment that enables career enhancement for the engineers themselves, it leads to a reduction of the turnover ratio.

Q. It seems that as the number of engineers has increased the recruitment rate has fallen. Will this not make it more difficult to expand sales in future?

How does this point affect your thinking as you focus on the next Mid-term Management Plan?

A. In terms of recruitment activities, because we have plenty of applicants for both new graduates and mid-career positions, looked at in the short term we could probably hire. However, when you consider whether we can continue to perform, or whether we can continue to respond to client needs, over the medium to long term, our view is that it is important to pay attention to the "state of continuing growth." Accordingly, from the quality perspective we do not plan to change our hiring standards, and we will hold fast to these going forward.

Still, we are aware of the increase in recruitment risk, so rather than just one of the three factors of utilization ratio, number of employees and rates, we plan to increase all of them.