Results for the 2nd Quarter of 34th Business Period

(Fiscal Year Ending March 31, 2018)

TechMatrix Corporation
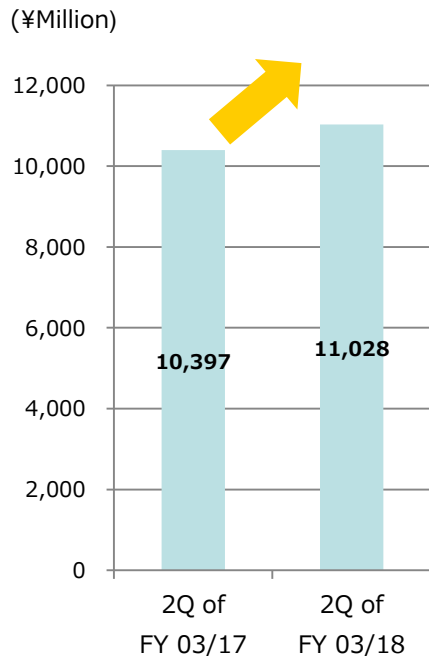**November 22, 2017**

2017.11.22b

Business Highlights for the 2nd Quarter of 34th Business Period (Consolidated)
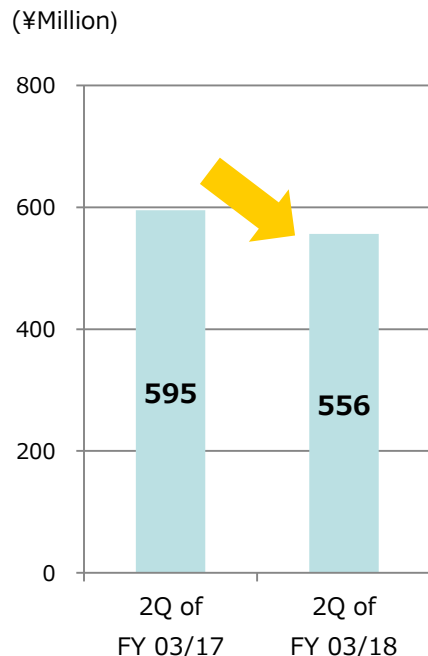
Business Highlights for the 2nd Quarter of 34th Business Period (Consolidated)

◆ **The highest consolidated net sales**
◆ **Operating income was decreased due to unprofitable projects in CRM and Internet Service filed and a business restructuring at CROSS HEAD.**
◆ **Ordinary income and Profit attributable to owners of the parent were increased due to gains from the investments partnership at CROSS HEAD.**

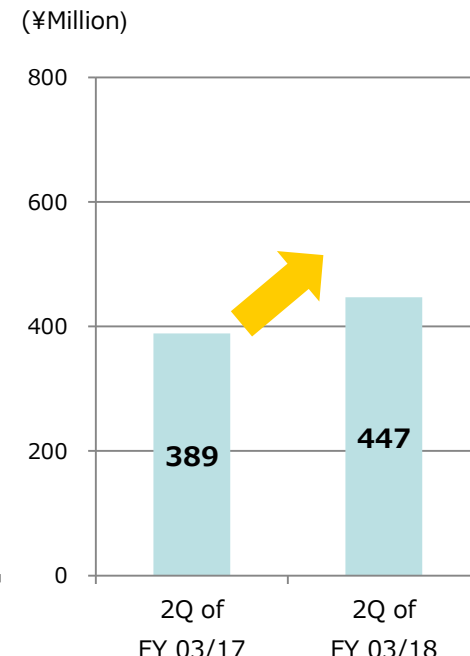| Net sales ¥11,028M Year on year up 6.1%	Operating income ¥556M Year on year down 6.5%	Ordinary income ¥697M Year on year up 14.6%	Profit attributable to owners of the parent ¥447M Year on year up 15.0%
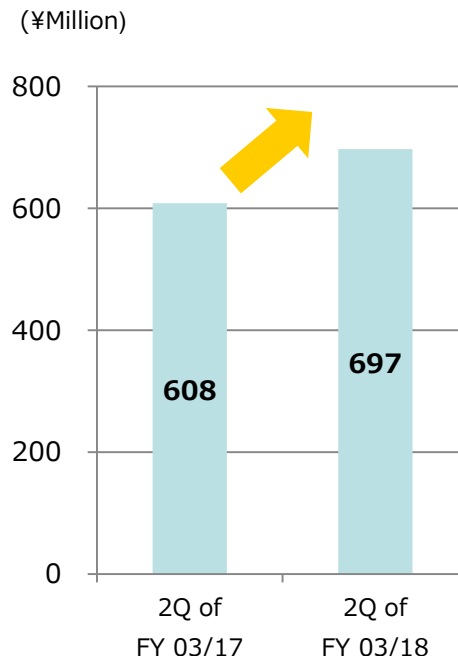
(¥Million)

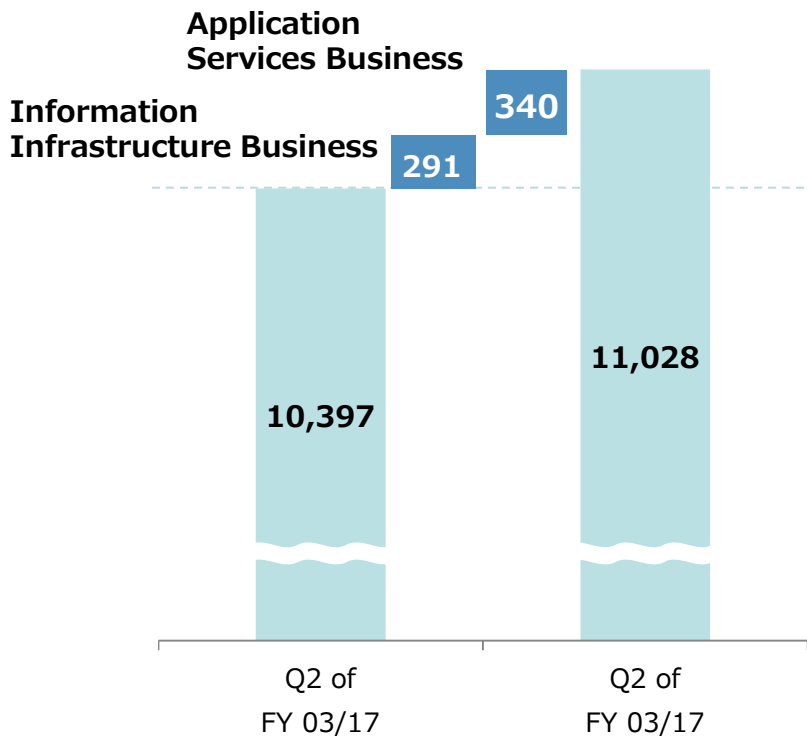|	2Q of FY 03/17	2Q of FY 03/18
Net sales	10,397	11,028
Operating income	595	556
Ordinary income	608	697
Profit attributable to owners of the parent	389	447

Business Highlights for the 2nd Quarter of 34th Business Period (Consolidated)

◆ **Information Infrastructure Business: Net sales was solid. Operating income was decreased due to business restructuring at CROSS HEAD.**

◆ **Application Services Business: Net sales and operating income was increased. Although businesses for Healthcare field and Software Quality Assurance field were solid, unprofitable projects in CRM and Internet Service field arose.**

Net sales (¥Million)

Application Services Business

Information Infrastructure Business

291

340

10,397

11,028

Q2 of FY 03/17

Q2 of FY 03/17

Operating income (¥Million)

Information Infrastructure Business

Application Services Business
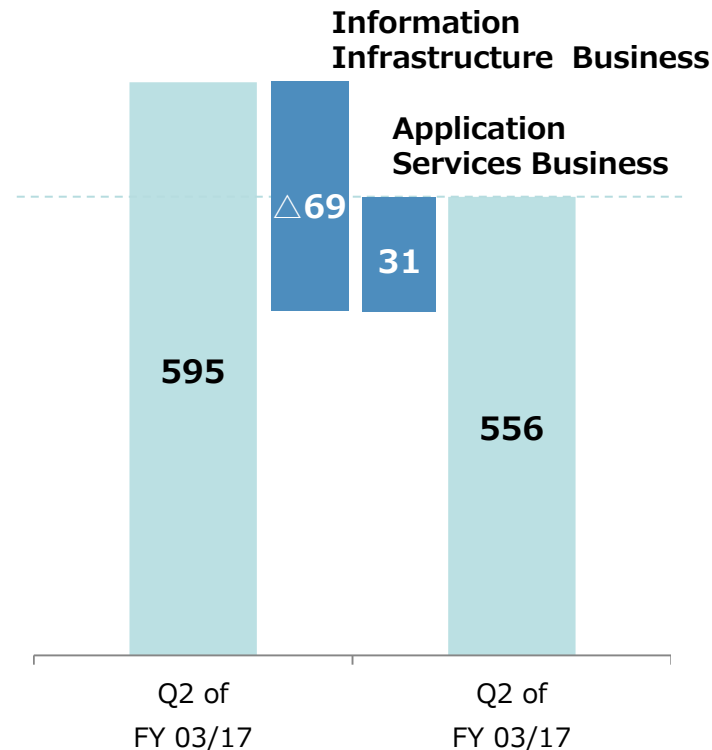
△69

31

595

556

Q2 of FY 03/17

Q2 of FY 03/17

Business Highlights for the 2nd Quarter of 34th Business Period (Consolidated)

Net sales

◆ Information Infrastructure Business	Year on year
Load balancers (BIG-IP, EDGE)	☀
Next-Generation Firewalls (PaloAlto, Traps)	☀
Antivirus / Intrusion prevention Appliances / Security Information and Event Management(SIEM) / Web security	🌤
Personal authentication systems / Forensic products / Storage products	☀☀
Security-related operation and monitoring services	☀☀
Business for governments and public agencies(Direct)	☀☀
Others	🌧
CROSS HEAD & Okinawa Cross Head	🌤
◆ Application Services Business	Year on year
Internet Service field (Including CASAREAL)	☁
Software Quality Assurance field	☀☀
Healthcare field (Including Ichigo)	☀☀
CRM field	🌤

☀☀ +10% and over	☀ +5% ~ +10%	🌤 within +5%	☁ within △10%	🌧 under △10%

Figures explaining growth of Healthcare field

720
September 30, 2017

The number of medical facilities using NOBORI

18,466,830
September 30, 2017

The number of patients who stored medical images in NOBORI

1,380
September 30, 2017

The number of teleradiologist using Ichigo service (platform of teleradiology)

Progress of the number of medical facilities using NOBORI

(facility)

target 850

actual result 650

450

300

150

50

2Q of FY 03/18: The number of new bookings is about 70

FY03/2013 FY03/2014 FY03/2015 FY03/2016 FY03/2017 FY03/2018

Business Highlights for the 2nd Quarter of 34th Business Period (Consolidated)
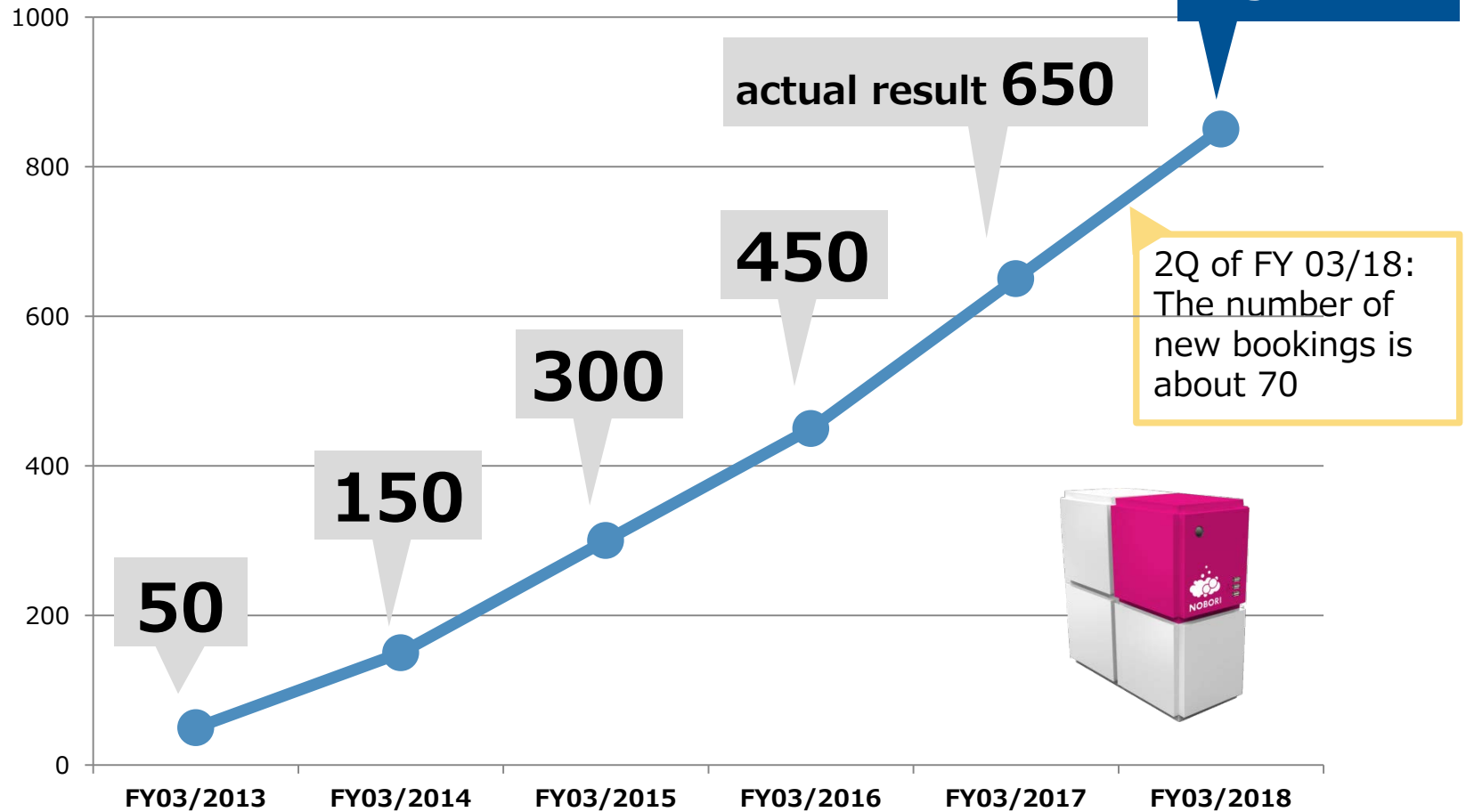
Recent developments in cyber security

- Security cloud for Local government
- Resilience and sanitization for security (The social security and tax number system、LGWAN、Internet)
- National center of Incident readiness and Strategy for Cybersecurity (NISC)
- Teleworking

March 2015
MIC:
Guideline for information security policy of Local government (revision)

March 2016
METI:
Information Security Management Standards (revision)

July 2016
METI:
IoT security guideline

October 2016
Basic Law for Cyber Security (revision)

December 2016
METI:
Cyber security Management Guidelines (revision)

October 2017
MEXT:
Guideline for information security policy for Educational institutions
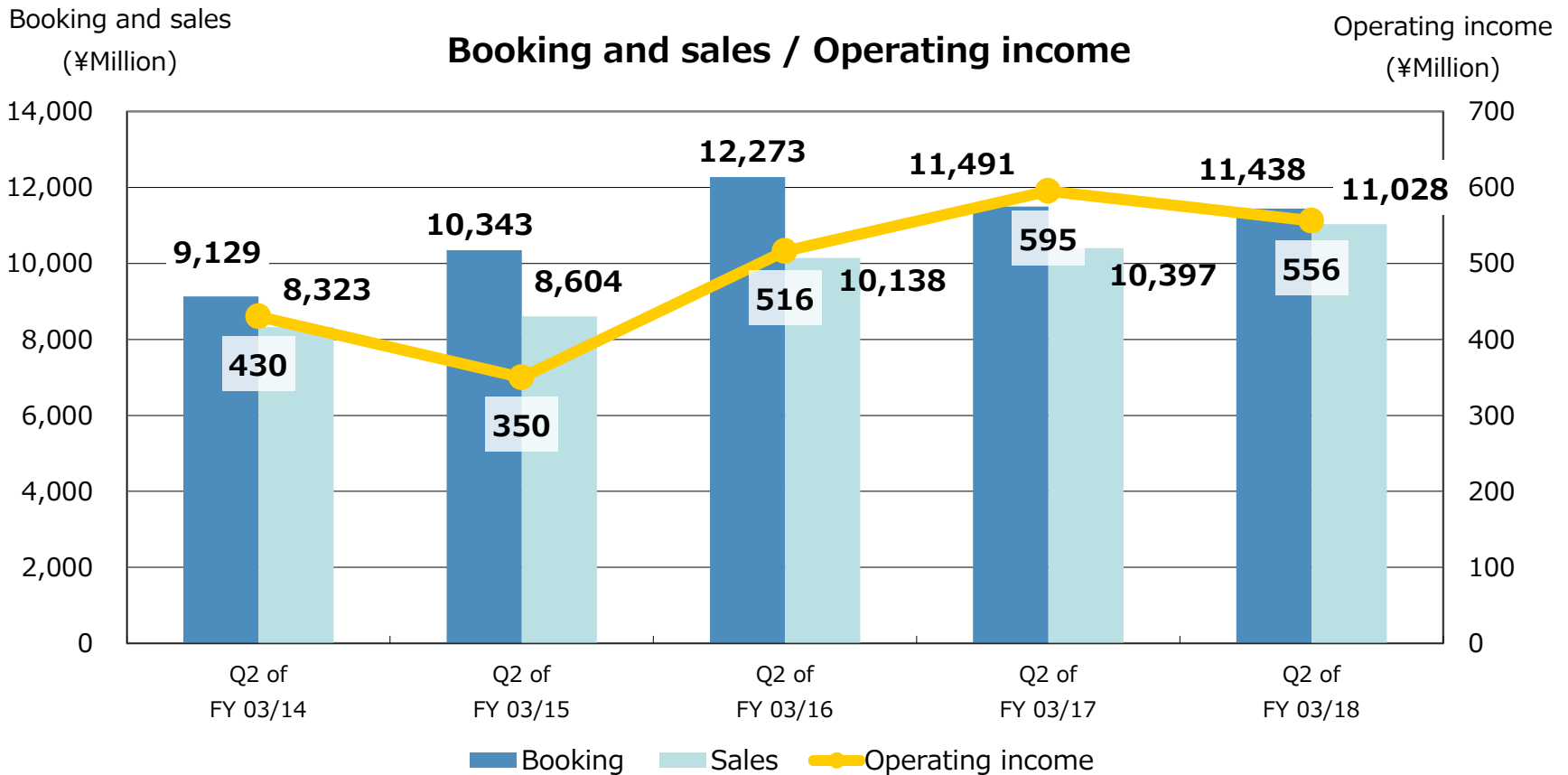
DDoS attacks

Ransomware

Targeted mails

Phishing

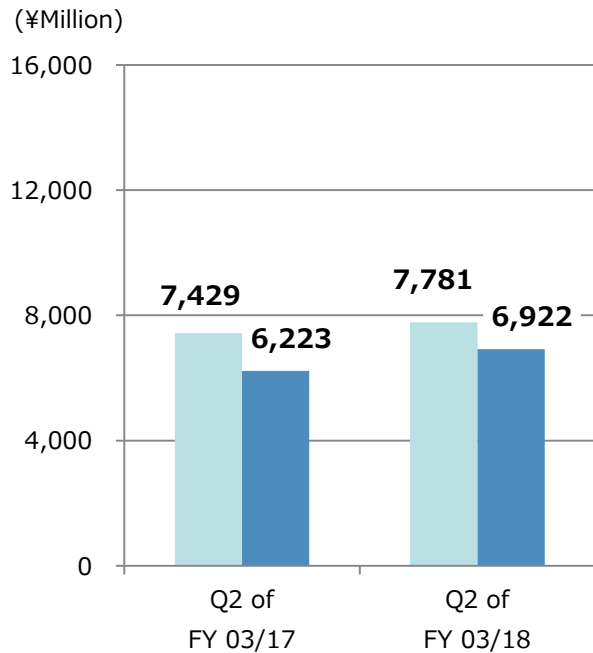# Business Highlights for the 2nd Quarter of 34th Business Period (Consolidated)

◆ **The amount of bookings is steady, compared with the previous year by booking the large-scale projects.**

◆ **Net sales was increased due to steadily increasing stock type business and expanding security-related businesses.**

◆ **Operating income was decreased due to unprofitable projects in CRM and Internet Service filed and business restructuring at CROSS HEAD.**

Booking and sales (¥Million)

Operating income (¥Million)

Booking and sales / Operating income

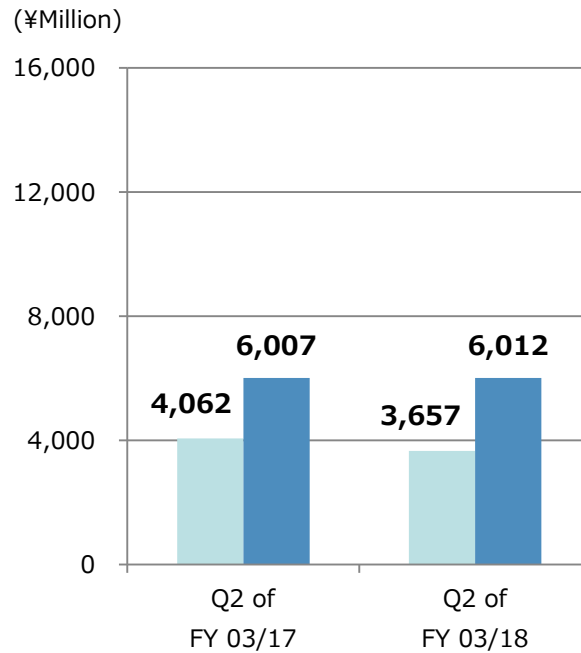|	Q2 of FY 03/14	Q2 of FY 03/15	Q2 of FY 03/16	Q2 of FY 03/17	Q2 of FY 03/18
Booking	9,129	10,343	12,273	11,491	11,438
Sales	8,323	8,604	10,138	10,397	11,028
Operating income	430	350	516	595	556

■ Booking   ■ Sales   ━ Operating income

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Business Highlights for the 2nd Quarter of 34th Business Period (Consolidated)

◆ **Information Infrastructure Business: Businesses for Storage and Load balancers were in good shape. Bookings exceeded the previous year's result due to the existence of large-scale projects (4.7%UP). Backlog has increased (11.2%UP).**

◆ **Application Services Business: Bookings was lower than the previous year's result (10.0%DOWN). Backlog increased by progress of cloud businesses (0.1%UP).**

Information Infrastructure Business
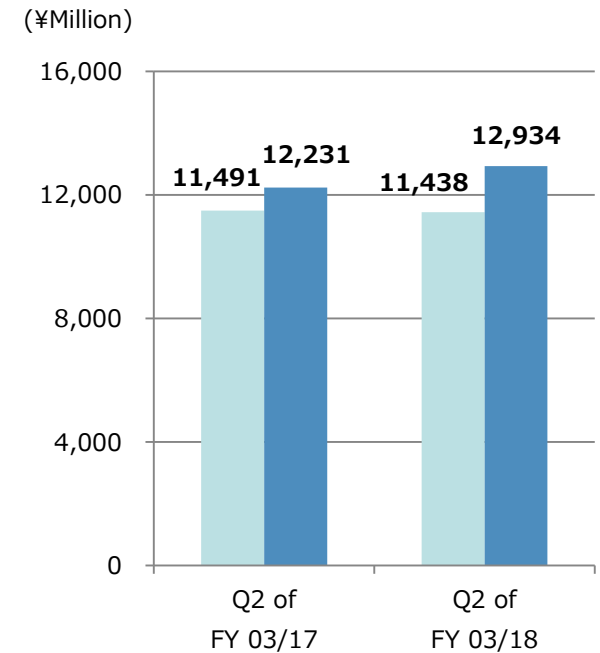
(¥Million)

	Q2 of FY 03/17		Q2 of FY 03/18	
Booking	7,429		7,781	
Backlog		6,223		6,922

Application Services Business

(¥Million)

	Q2 of FY 03/17		Q2 of FY 03/18	
Booking	4,062		3,657	
Backlog		6,007		6,012

total

(¥Million)

	Q2 of FY 03/17		Q2 of FY 03/18	
Booking	11,491		11,438	
Backlog		12,231		12,934

■ Booking ■ Backlog

◆ **Stock type sales (Recurring revenue) ratio (non-consolidated)**

Information Infrastructure Business

(¥Million)

Stock ratio values: 44.8%, 43.0%, 43.7%, 40.2%, 37.7%, 37.9%, 39.6%

Non-stock values: 3,470, 3,857, 3,874, 4,777, 6,065, 6,468, 3,188

Stock values: 2,812, 2,909, 3,003, 3,216, 3,669, 3,950, 2,088

X-axis: FY 03/12, FY 03/13, FY 03/14, FY 03/15, FY 03/16, FY 03/17, Q2 of FY 03/18

Legend: Stock, Non-stock, Stock ration

Application Services Business

(¥Million)

Stock ratio values: 31.4%, 33.3%, 38.8%, 41.8%, 43.9%, 45.8%, 54.1%

Non-stock values: 3,528, 3,805, 3,490, 3,478, 3,726, 3,660, 1,523

Stock values: 1,612, 1,903, 2,212, 2,501, 2,911, 3,090, 1,793

X-axis: FY 03/12, FY 03/13, FY 03/14, FY 03/15, FY 03/16, FY 03/17, Q2 of FY 03/18

Legend: Stock, Non-stock, Stock ration

＊Information Infrastructure Business: Stock ratio was healthy
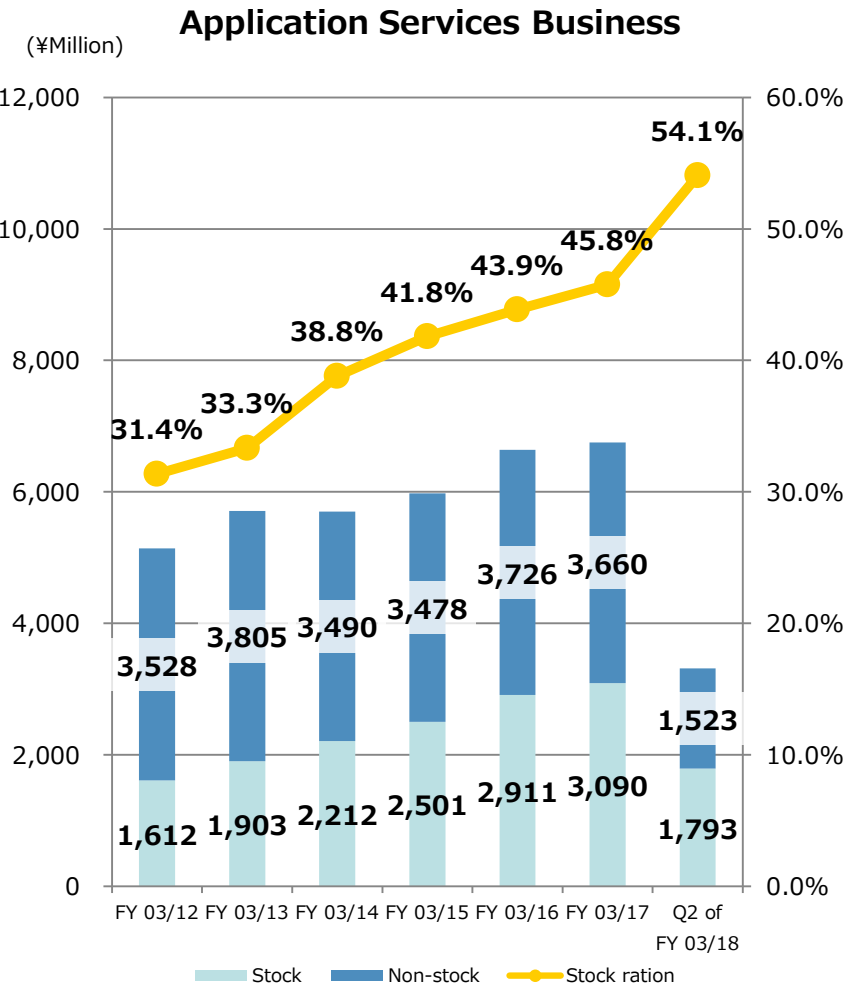
＊Application Services Business: Stock ratio went up due to the growth of cloud businesses

Business Highlights for the 2nd Quarter of 34th Business Period (Consolidated)

Balance sheet

(¥Million)

	FY 03/17	Q2 of FY 03/18
Current assets	**13,343**	**13,416**
Cash and deposits	5,458	5,083
Notes and accounts receivable-trade	3,991	4,135
Other	3,893	4,198
Noncurrent assets	**3,937**	**3,944**
Property, plant and equipment	1,205	1,147
Goodwill	126	74
Other	1,085	1,247
Investments and other assets	1,519	1,475
Total assets	**17,280**	**17,360**

	FY 03/17	Q2 of FY 03/18
Current liabilities	**8,886**	**8,935**
Accounts payable-trade	1,081	1,005
Short-term loans payable	450	450
Current portion of long-term loans payable	300	300
Other	7,055	7,180
Noncurrent liabilities	**3,540**	**3,337**
Long-term loans payable	1,750	1,600
Other	1,790	1,737
Total liabilities	**12,427**	**12,273**
Shareholders' equity	4,849	5,038
Total accumulated other comprehensive income	△36	△9
Total net assets	**4,853**	**5,087**
Total liabilities and net assets	**17,280**	**17,360**

＊Equity ratio
FY 03/17 : 27.9%   Q2 of FY 03/18 : 29.0%

Progress of the Medium-Term Management Plan "TMX 3.0"

Progress of the Medium-Term Management Plan "TMX 3.0"

Key principle

Continuing transformation to **"Next-Gen. IT Service Creator"**, **"Next-Gen. IT Service Provider"** through a breakaway from conventional labor-intensive contract business.

Business strategy

✓ **Strategic and accelerated promotion of cloud-related businesses**

✓ **Pursuit of security and safety**

Operation strategy

- Cost reduction for high profitability
- Closer ties with partners
- Direct sales & government and other public agencies
- Strengthen workforce by promotion of diversity
- Strengthen company's brand as corporate group

Shareholder returns

▶ Key principle : dividend payout ratio is more than 20% at the end of fiscal year

▶ Emphasize an increase in dividends based on profit level

▶ Improve the shareholder special benefit plan

Progress of the Medium-Term Management Plan "TMX 3.0"

Continuing transformation to "Next-Gen. IT Service Creator", "Next-Gen. IT Service Provider"

(¥Million)
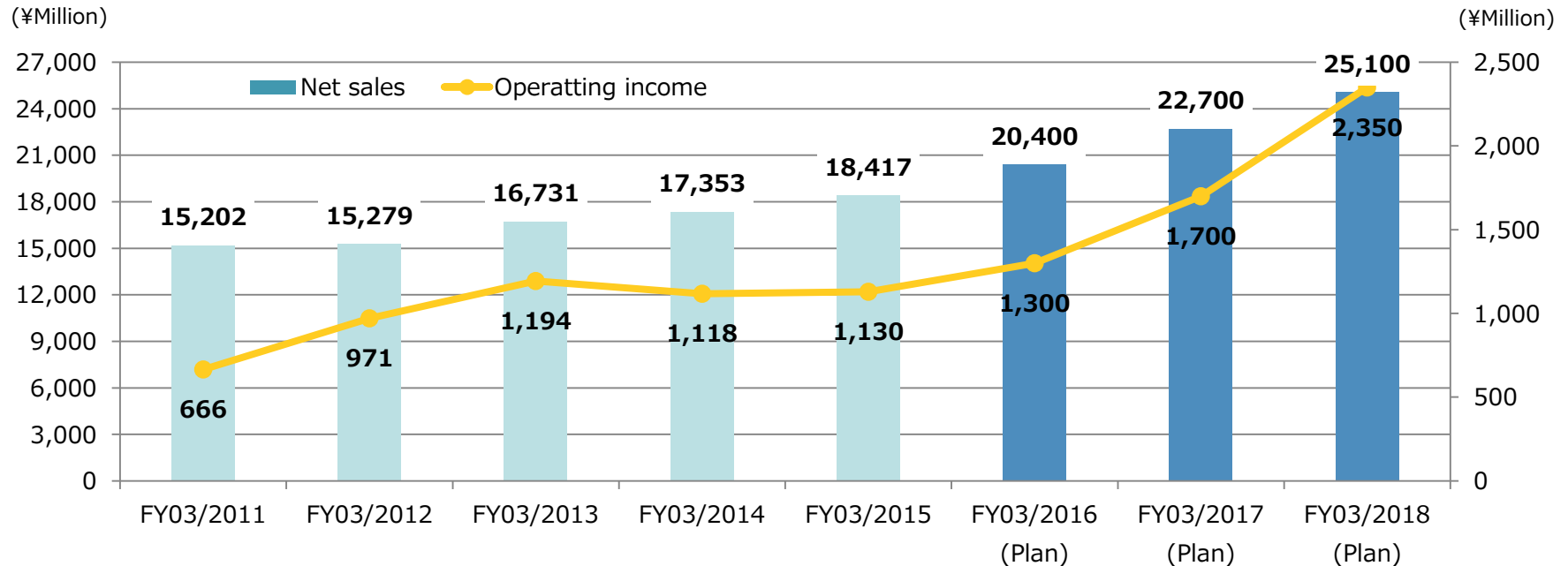
10%	**To ¥30Billion**	**50%**	**10%**
Growth rate of net sales	Business scale may reach ¥25B-30B through M&A and expanded Biz in overseas markets	Stock type sales ratio (Cloud, maintenance, operation and monitoring services)	Challenge to operating income margin of 10%

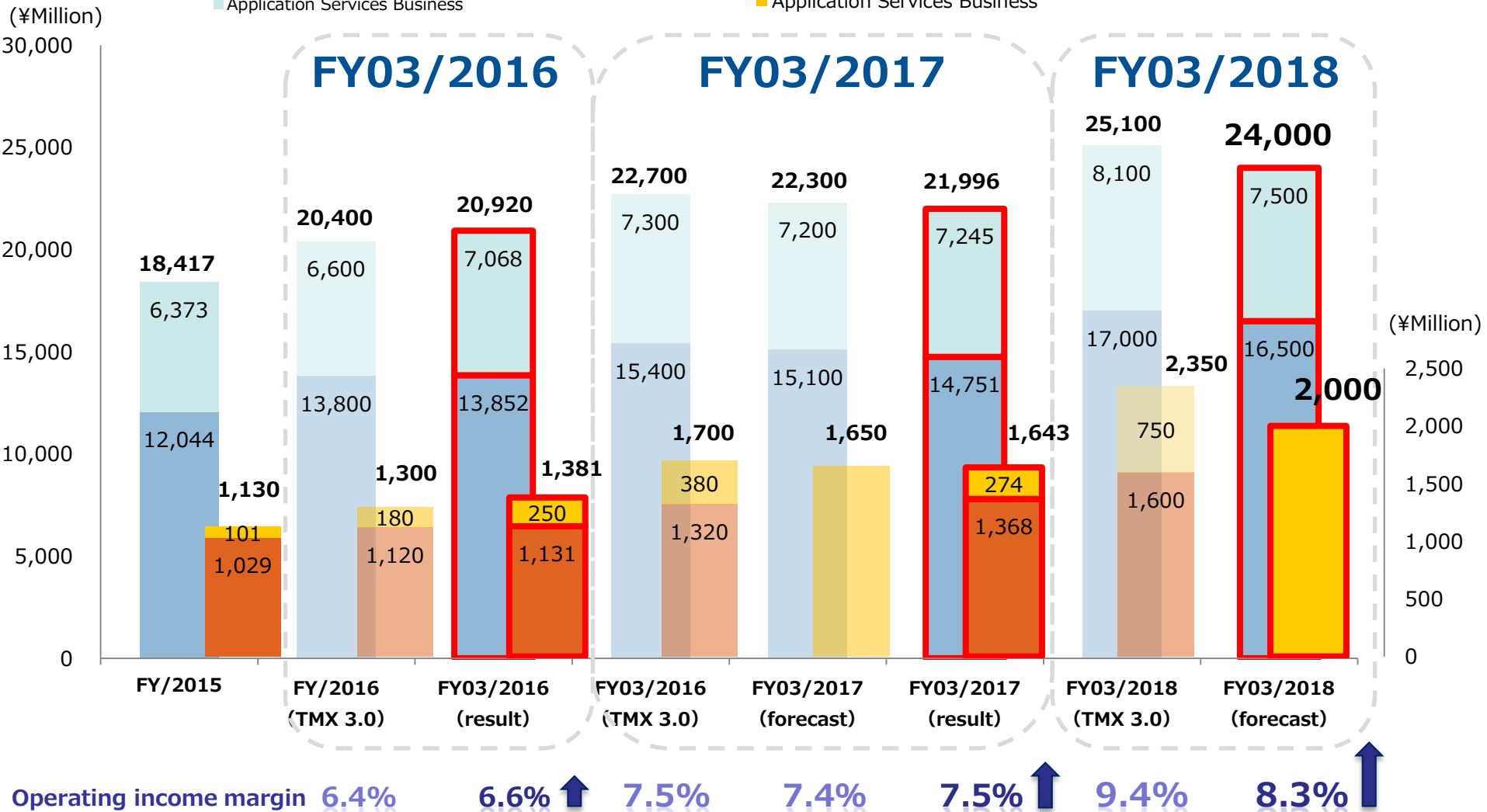# Progress of the Medium-Term Management Plan "TMX 3.0"

Progress of the Medium-Term Management Plan "TMX 3.0"

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◆ **Net sales went on almost as planned.**
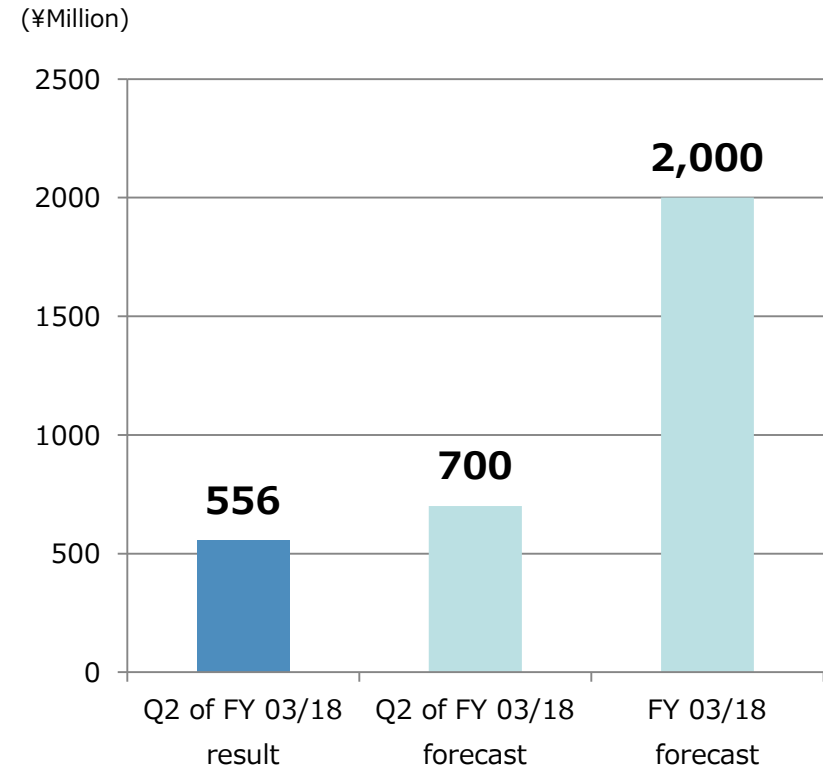◆ **Operating Income was less than originally planned. The forecast for FY 03/2018 full business year still remains unchanged because booking and backlog were in good shape.**

Net Sales(Consolidated)

(¥Million)

	Q2 of FY 03/18 result	Q2 of FY 03/18 forecast	FY 03/18 forecast
	11,028	11,200	24,000
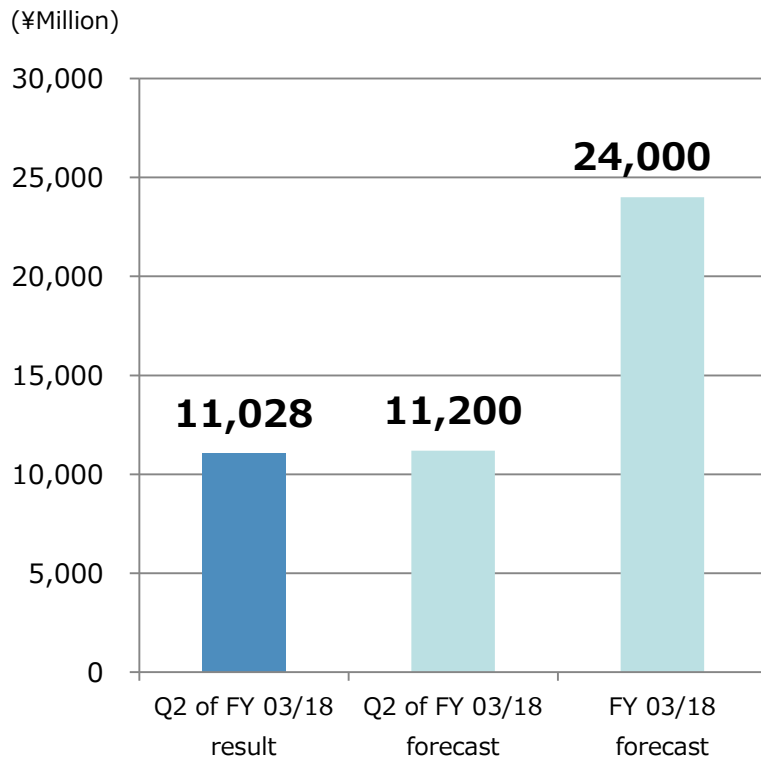
Operating Income(Consolidated)

(¥Million)

	Q2 of FY 03/18 result	Q2 of FY 03/18 forecast	FY 03/18 forecast
	556	700	2,000

Progress of the Medium-Term Management Plan "TMX 3.0"

◆ Core business strategy

Item	Valuation	Description
Strategic and accelerated promotion of cloud-related businesses		
Profit contribution by the cloud business (Realize profitability of the healthcare cloud business)	◎	·Positive turnaround of healthcare cloud ·Strengthen sales for"RAKURAKU-Item Manager" ·FastCloud (CRM) in good shape ·Techma Cloud (o365 traffic control) in good shape
Turn our cloud service into a platform (diversification)	◎	·"NOBORI-PAL" (expanded the services) ·ICHIGO LLC concluded business alliance with SoftBank Corp in the pathology sector
Establish cloud business in overseas (Asian) market (At first, the success of the joint venture in China)	△	·Healthcare field: Established joint venture company in China. Alliance with Peking University in the pathology sector ·CRM field: Alliance with Transcosmos (Thailand) in ASEAN market was progressed
Quality improvement for cloud operation (Exponential improvement of operational skills)	○	·Driven by PMO section, stabilized operation, continuing facility investment
Strategic application of virtualization technologies (Cloud first)	○	·Hyper converged solution "VCE VxRail" ·Okinawa Cross Head Co., Ltd.: nas2cloud Plus ·CROSS HEAD : Train many engineers for AWS
Analysis of Big data gathered by the cloud (Secondary use of the data)	○	·Pharmacy BI, Development of Budget management field

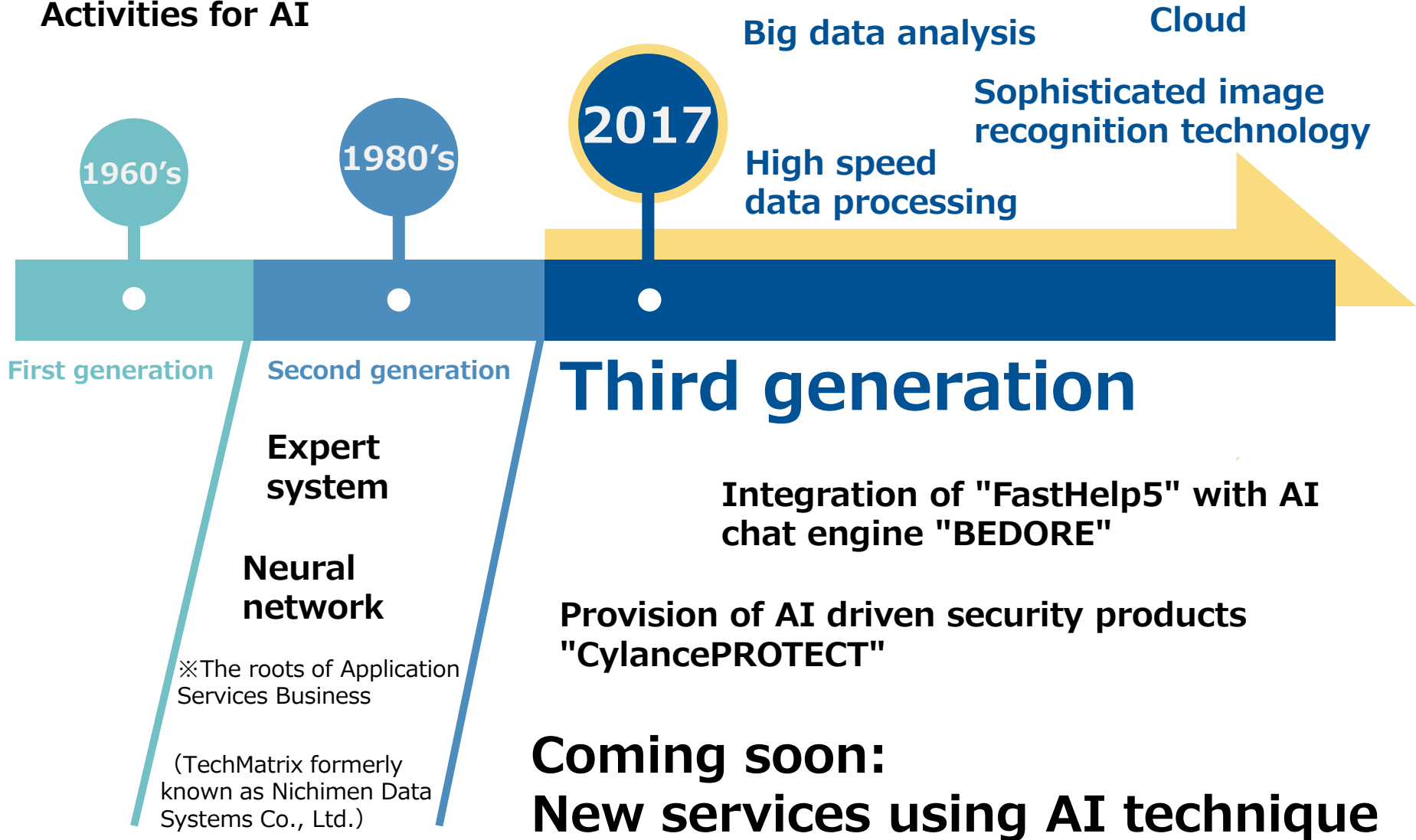# Progress of the Medium-Term Management Plan "TMX 3.0"

◆ **Core business strategy**

Item	Valuation	Description
Pursuit of security and safety		
Enhancement of defenses against cyber-attacks and provide as one-stop service	◎	・Votiro Auto Mail Link with matriXgate、Menlo Security Isolation Platform
Design, construction, maintenance, operation and monitoring services Realize value chain of automatization	◎	・Expanded product sales and the maintenance, operation and monitoring services ・NOC/SOC (∵TRINITY)
Realize functional safety of embedded software for IoT (Internet of Things)	○	・Software Quality Assurance field : Booking is steady ・Lychee Redmine
Contribute to safety and security within Internet-based society (accumulation of knowledge as a professional group in the Technology for Information Security and Software Quality Assurance field)	○	・Service virtualization and API testing by SOAtest/Virtualize of Parasoft (IoT filed including automotive)

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◆ Operation strategy

Item	Valuation	Description
Operation strategy		
Cost reduction for high profitability		
‣ Promote the active utilization of offshore development	◎	·Offshore development in Vietnamese and China was progressed
‣ Improve operation efficiency by integrating the office space of Head Office	◎	·Additional relocation of offices ·Deployment of a new ERP system
‣ Transform business model without monotonic increase of human resources	◎	·Stock ratio increased
Closer ties with partners	○	·CRM field : Intercom ·Information Infrastructure field : JB Service, JPIX ·Internet Service field : MakeShop
Strengthen direct sales. Penetrate deeply into the market for the government and other public agencies	◎	·Automatic data exchange tool for Secure Data Sanitization "Votiro Auto Suite" for local governments, Financial institutions and Educational institutions
Strengthen workforce by promotion of diversity	○	·Growing diversity on hiring of new graduates
Strengthen company's brand as a corporate group	○	·Strengthen IR

Progress of the Medium-Term Management Plan "TMX 3.0"

Activities for AI

Big data analysis

Cloud

2017

Sophisticated image recognition technology

1960's

1980's

High speed data processing

First generation

Second generation

Third generation

Expert system

Neural network

※The roots of Application Services Business

（TechMatrix formerly known as Nichimen Data Systems Co., Ltd.）

Integration of "FastHelp5" with AI chat engine "BEDORE"

Provision of AI driven security products "CylancePROTECT"

Coming soon:
New services using AI technique

Topics of Business activities

Topics of Business activities

| Date	Contents
April	CROSS HEAD, commenced the provision of the construction service for virtual edition of Palo Alto's next generation firewall
	Concluded a distributorship agreement for "LINE Customer Connect" with LINE
	CROSS HEAD, commenced the provision of the vulnerability assessment service for enterprise systems
	Commenced the provision of "Lychee Redmine" for project management
	Commenced the provision of "Votiro Auto Mail Link with matriXgate" as an automatic Sanitization Tool for files attached to e-mails
May	Commenced the provision of "Parasoft SOAtest/Virtualize" to improve efficiency for API development
	Commenced the provision of "Jtest 10.3.1" for Java testing
	Okinawa Cross Head Co, Ltd. concluded a business alliance agreement with JB Service Corporation
	CROSS HEAD, released the demonstration of "Kaigishitu-navi" at their head office
Jun	CROSS HEAD, awarded the prize of Radar Partner of the Year from F-Secure
	CROSS HEAD, expanded sales of security products for local governments

Topics of Business activities

Date	Contents
July	Okinawa Cross Head Co, Ltd. concluded a business alliance agreement with JPIX for commencing the provision of "IX service"
	CROSS HEAD, commenced the provision of the IT course at the Yozemi license school
	Concluded a business alliance agreement with Intercom, Inc. to provide the integrated solution between FastHelp and My Talk for contact centers
	Okinawa Cross Head Co, Ltd. was named as the first "splashtop's exclusive technical support provider" in the world
	Held the "TechMatrix group Family Day"
August	Commenced the provision of Web Isolation platform "Menlo Security Isolation Platform on-premise version"
	Commenced the provision of the new security monitoring services "TRINITY" for AWS in cloud environment
	Commenced the provision of the new service for o365 traffic control using Techma cloud and Palo Alto
September	Commenced the provision of "FastAnswer2"
	CROSS HEAD, received Japan's first certification for Integration Partner of F5

Topics of Business activities

Date	Contents
October	Commenced the provision of the new academic literature search system "FastAnswer Pe" for pharmaceutical companies
	CROSS HEAD, commenced the provision of the security solution "Ekran System" for preventing internal frauds
	Commenced the provision of "C++test 10.3.2" and "Parasoft DTP 5.3.2" for software development
	Commenced the provision of the new citizen engagement system "FastHelp Ce" for local governments
	Okinawa Cross Head Co, Ltd. commenced the provision of the backup solution for small and medium sized companies with Hewlett-Packard Japan, Ltd.
	Commenced the provision of the one-stop solution for "McAfee SIEM" from installation to monitoring service
	Started teleworking for all employees
	CROSS HEAD, commenced the provision of the process automation solution using RPA tool "ROBOWARE"
	Commenced the provision of "Raku-Raku data converter for Wowma!" for EC businesses
November	Our "Fast Series" customers received "2017 CRM Best Practice award" : SBI SECURITIES Co.,Ltd., TOKYU COMMUNITY CORP., Broadleaf Co., Ltd. and Rakuten Direct, Inc.

Point!

Control o365 traffic with Next-generation firewalls of Palo Alto using our cloud service "Techma cloud o365 solution for Palo Alto"
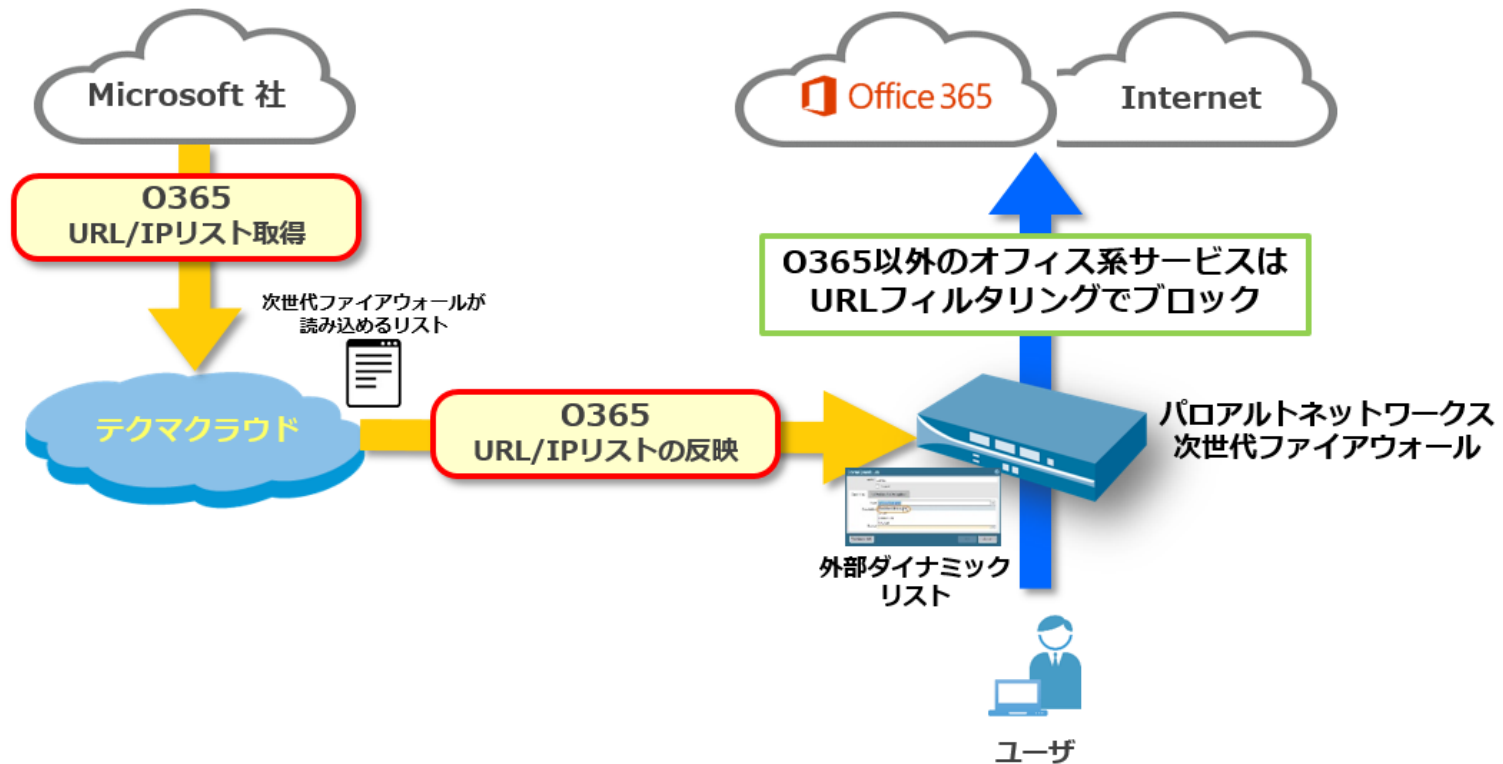
Point!

FastAnswerPe

"FastAnswer Pe" is the new academic literature search system for pharmaceutical companies.

FastHelpce

"FastHelp Ce" is the new citizen engagement system for local governments.

"Next 30 Years Project" for future Techmatrix

Point! We celebrated the 30th anniversary since our foundation.
We started a project consisting of diverse employees regardless of his/her profession, division, gender and generation.
The menbers discuss and formurate many ideas and plans for Next Gen. Techmatrix on their own initiative.

●**"TechMatrix group Family Day"**
The second "TechMatrix group Family Day" on July 28.
About 50 families participated in the event at the head office.

●**Started teleworking in October**

Expect decline of turnover due to childcare, nursing care or others.
Improve operational efficiency by embracing work-life balance and a change of work-style.

"For Next Gen. Techmatrix"

Business Models

Healthcare field

Point! Turn NOBORI into a platform (diversification).
Increased a number of services from NOBORI-PAL partners.

Advanced Media, Inc. : Speech-recognition service for medical doctors 『AmiVoice CLx®』

Techmatrix : Examination reservation service 『TONARI』

Techmatrix : Remote image viewing in an emergency 『TSUNAGU』

Intrasense SA : 3D medical imaging workstation 『myrian®』

NOBORI PAL

NOBORI-PAL :
"Gather useful services into the Cloud"
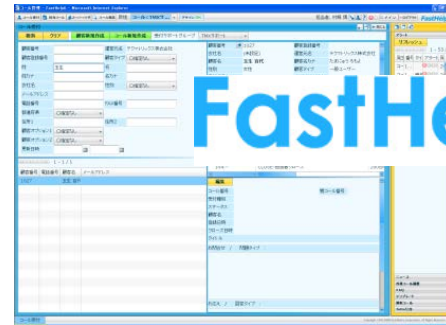to provide various applications for NOBORI users.

NOBORI
Medical information platform

CRM field

Point! Enhancing the competitiveness of customers' businesses by CRM system.

FastHelp5

Cloud

・**Contacts about products**

・**Contacts after purchase**

?

Multi-channel

FAX

電話

LINE

E-Mail

WEB
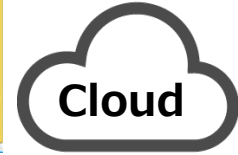
Integrating the purchase histories and the past Q&A

Quick search !

Quick response to the customers' inquiries

Improvement of customer satisfaction !

Network & Security field

Point! One-stop solution from Techmatrix.

Customer

**Techmatrix SOC
"Security Operation Center"**

Monitoring Center

- Manned monitoring 24/365
- Multitier(operation/analysis)
- Professional service
- Biometric identification

Security monitoring service

Defense solutions

24/365
Security Monitoring
Network Monitoring
First level support

Alart
Warning
No problem

Operation team

Analyst team

Knowledge base operation

NOC   SOC

TRINITY

paloalto NETWORKS®

McAfee™
Together is power.

One-stop solution
One-stop solution for system design, construction, maintenance, operation and monitoring services.

Professional service with expert knowledges
Techmatrix provides security monitoring services based on its in-depth knowledge on the products it delivers, although other security vendors provide basic services for a wide variety of products.

Software Quality Assurance field

Point! Every internet-connected device can be a target for cyber-attacks in the IoT era.

INTERNET OF THINGS
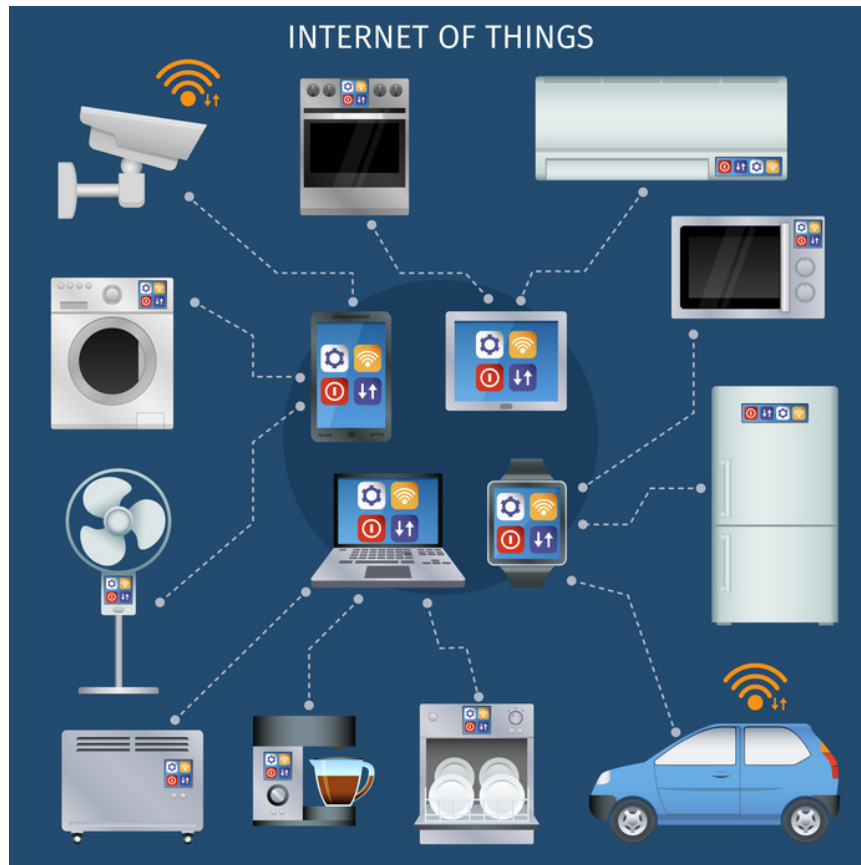
▶ Solution for test, systems design and version control system

▶ Integration of infrastructure, training and operation support for development process

▶ Support for substantive improvement of software quality and productivity enhancement

Improve quality of embedded software Comply with functional safety standards

Point! Provision of cloud services based on open-source software
Analysis for big data accumulated on the cloud
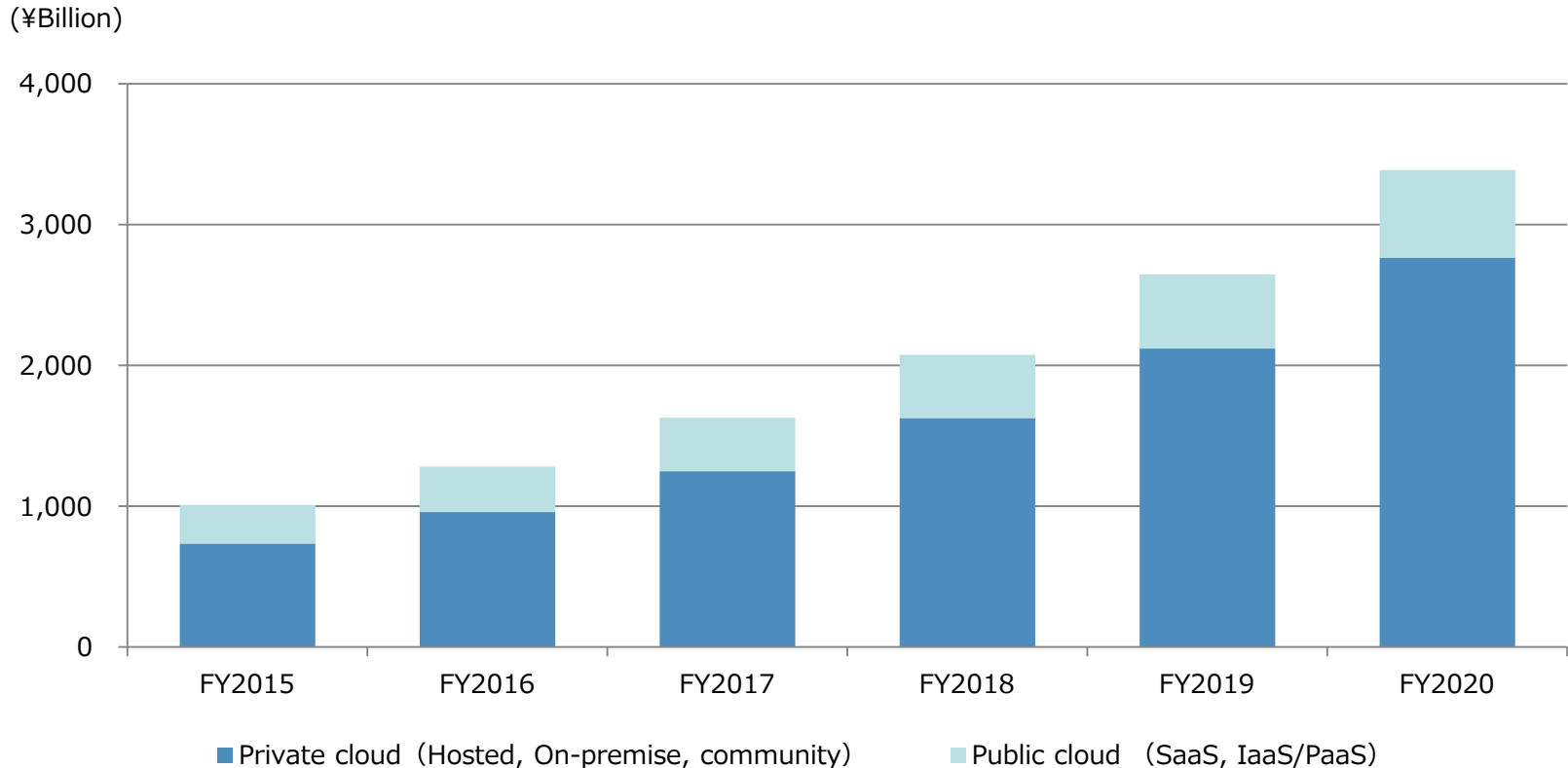Provision of risk management systems based-on financial engineering

Analysis

EC, Smart phone

Big data

Market Conditions for our business

TechMatrix

<Cloud business market size actual/forecast (Japan)>

(¥Billion)

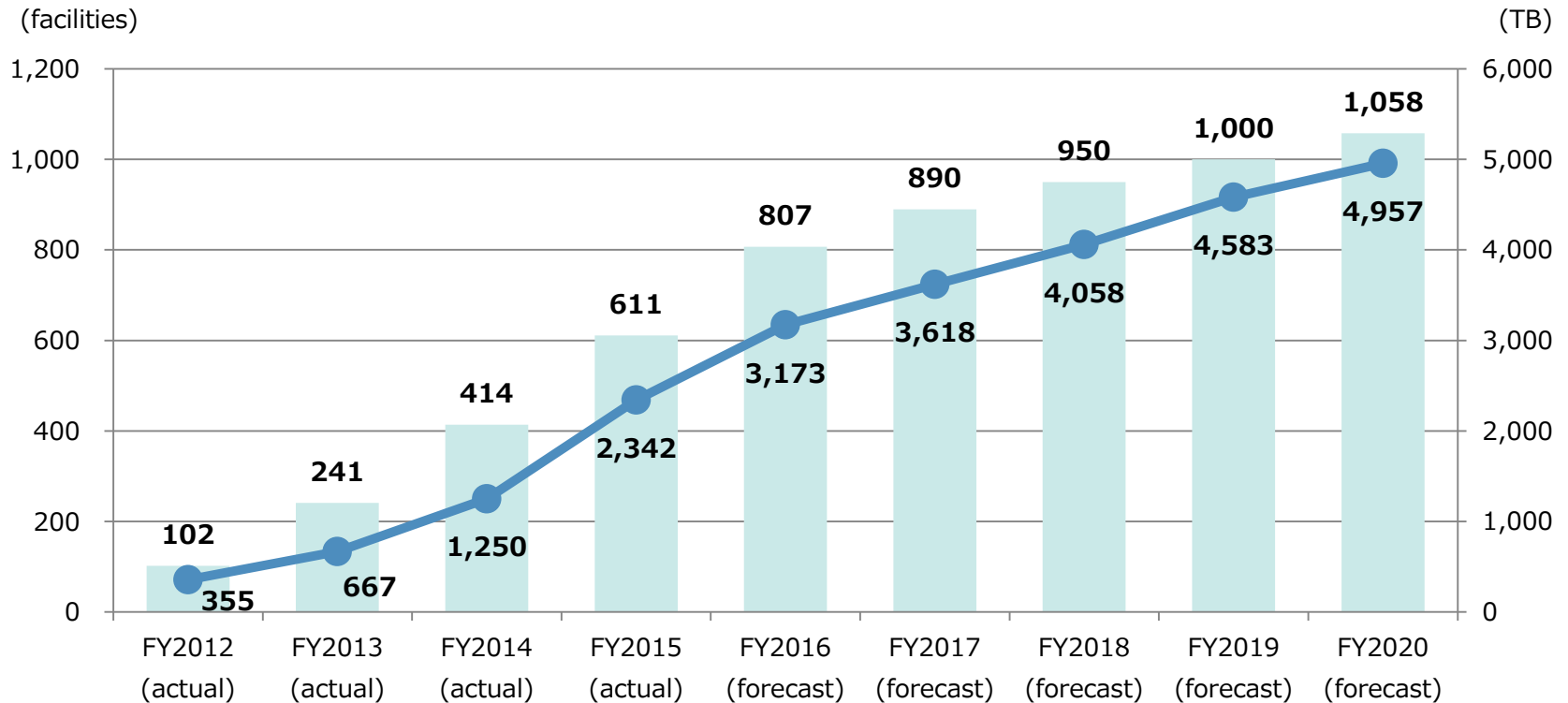■ Private cloud（Hosted, On-premise, community） ■ Public cloud （SaaS, IaaS/PaaS）

◆**Domestic cloud market size was ¥1,010.8 billion (33.7% up year on year) and it expand to ¥3,388.2 billion in FY2020.**

＊Reference：Cloud business market report 2016(13,Dec,2016) by MM Research Institute

\<Cloud PACS market size estimate (Japan)\>

(facilities) / (TB)

- FY2012 (actual): 102 / 355
- FY2013 (actual): 241 / 667
- FY2014 (actual): 414 / 1,250
- FY2015 (actual): 611 / 2,342
- FY2016 (forecast): 807 / 3,173
- FY2017 (forecast): 890 / 3,618
- FY2018 (forecast): 950 / 4,058
- FY2019 (forecast): 1,000 / 4,583
- FY2020 (forecast): 1,058 / 4,957

*Estimate as of Jan, 2017   Number of contracted facilities   Estimated capacity

◆**Number of contracted facilities using cloud was 807 as of the end of FY2016 in Japan.**
◆**Techmatrix has successfully contracted with about 650(accumulated) as of the end of FY2016.**

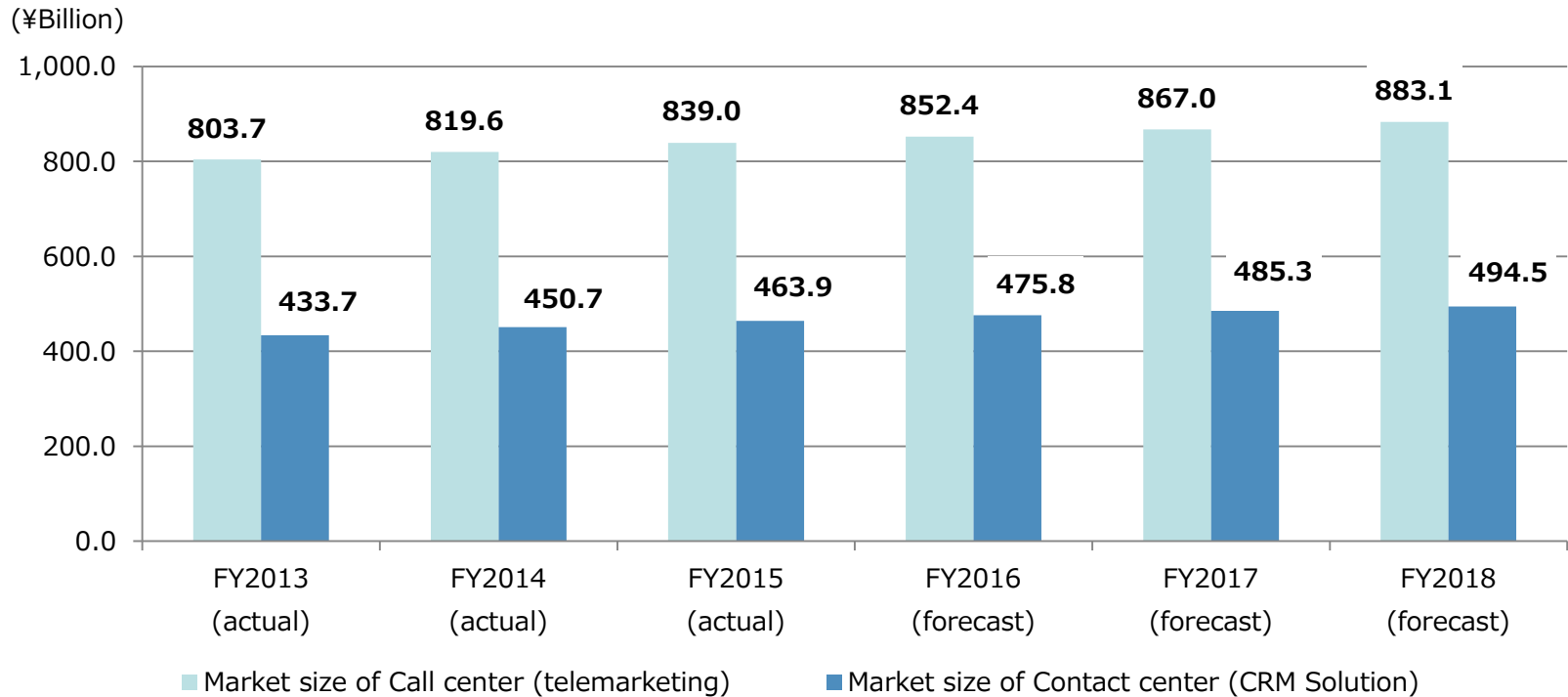＊Reference：Medical Imaging Systems and PACS Markets 2016(Jan, 2017) by Yano Research Institute

\<Type of PACS Cloud>

Cloud type	Brief summary	Feature	Configuration image	"NOBORI"
TYPE 1	Store both short term and long term data in a in-house server + data center (dual storage for all data)	Data back up by data center Additional cost		–
TYPE 2	Store short term data in a in-house server + long term data in data center	High frequency use data in hospital Additional cost		–
TYPE 3	All data in data center without in-house server (only cash in NOBORI appliance)	No additional cost and lower price range		◎

◆**Techmatrix is ahead in the healthcare cloud business with "NOBORI" which is installable at a low price and in short term.**

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\<CRM software market size (Japan)\>

(¥Billion)

Bar chart showing CRM software market size (Japan):

|	FY2013 (actual)	FY2014 (actual)	FY2015 (actual)	FY2016 (forecast)	FY2017 (forecast)	FY2018 (forecast)
Market size of Call center (telemarketing)	803.7	819.6	839.0	852.4	867.0	883.1
Market size of Contact center (CRM Solution)	433.7	450.7	463.9	475.8	485.3	494.5

*Service provider's sales. Estimate as of Nov, 2016

◆**Market size of Call center (telemarketing) is forecasted to grow at average rate of 1.9% each year form FY2013 to FY2018 and to ¥883.1 billion as of FY2018.**
◆**Market size of Contact center (CRM Solution) is forecasted to grow at average rate of 2.7% each year form FY2013 to FY2018 and to ¥494.5 billion as of FY2018.**

＊Reference：Call Center (Telemarketing)/Contact Center/CRM Solution Market in Japan: Key Research Findings 2016 by Yano Research Institute

\<EC(B2C) market size actual/forecast (Japan)\>
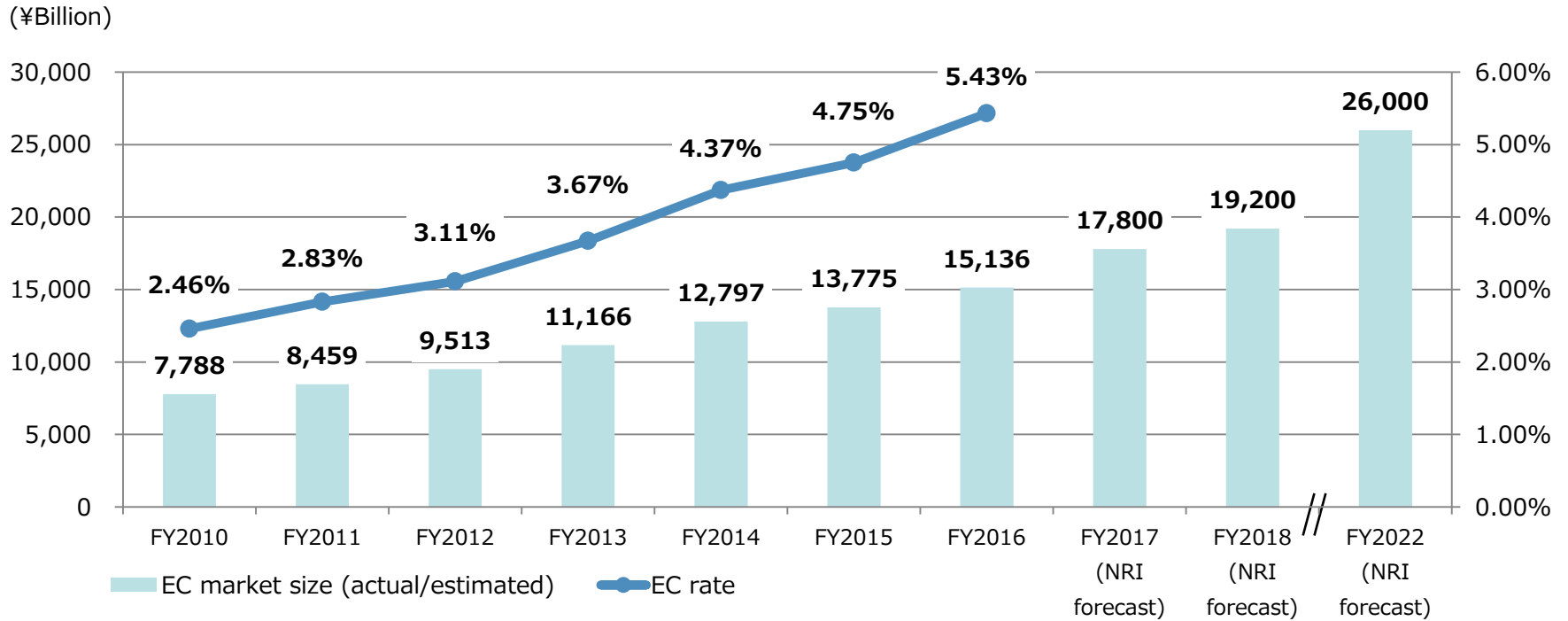
(¥Billion)

(～2016 : Ministry of Economy, Trade and Industry,
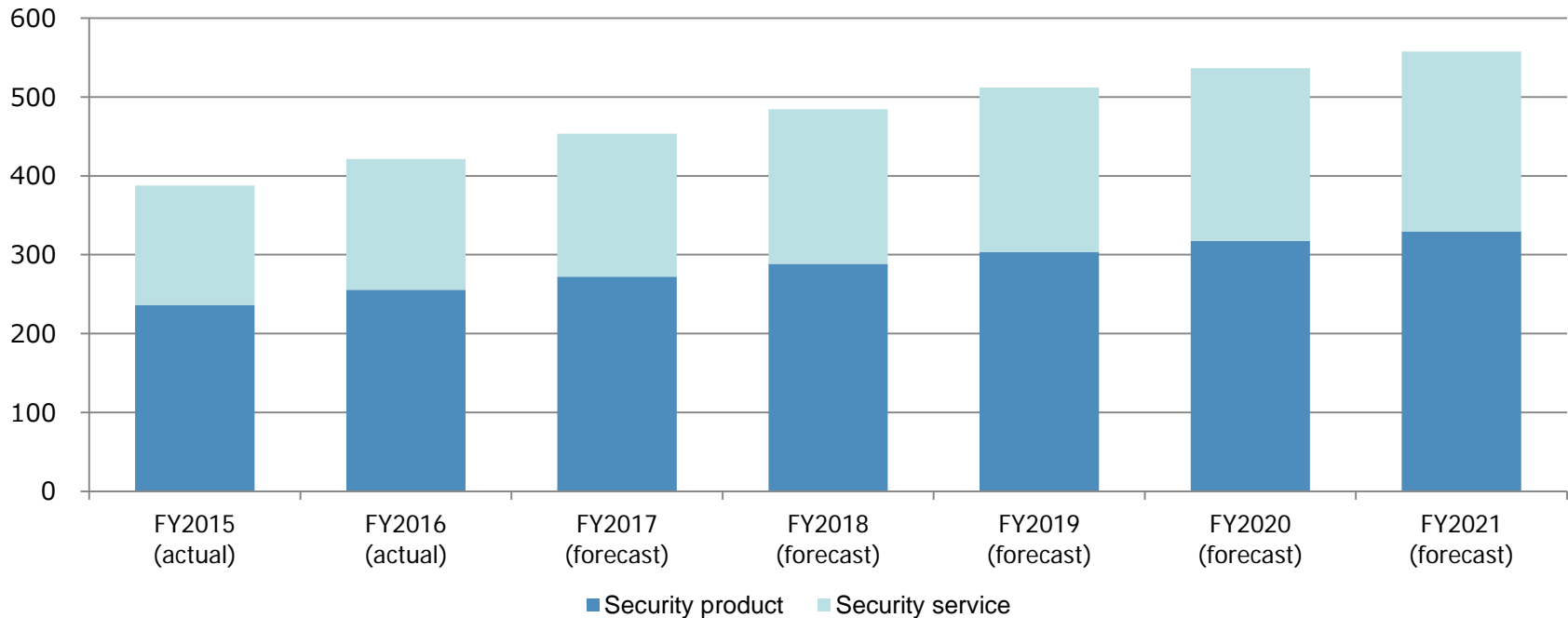2017～ : Based on Nomura Research Institute)

◆**Market size related to EC was 9.9% up in 2016 year on year. Increased EC rate to 5.43% in 2016.**
◆**Market size will be 26,000 billion in 2022. (NRI)**

＊Reference: "The E-Commerce Market Survey" by Ministry of Economy, Trade and Industry,
"IT market trend survey to 2022" by Nomura Research Institute

<Network & Security market size (Japan)>

(¥Billion)

Chart showing Network & Security market size (Japan) with stacked bars for Security product and Security service:

Fiscal Year	
FY2015 (actual)	~388
FY2016 (actual)	~421
FY2017 (forecast)	~453
FY2018 (forecast)	~484
FY2019 (forecast)	~511
FY2020 (forecast)	~537
FY2021 (forecast)	~557

Legend: ■ Security product ■ Security service

◆**Forecasted Networks Security business market in Japan expanding from ¥421.2 billion in FY2016 to ¥557.4 billion in FY2021.**
◆**High growth rate on average at 5.8% has been forecasted.**

＊Reference：Network Security business report 2017 by Fuji Chimera Research Institute

QUESTION

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MEMO