Summary of Q&A at Announcement of Operating Results for the First Half of the Fiscal Year ending March 31, 2018

Date/Time: November1 (Thursday) 14:00-14:50

Attendee: President Kikuchi, Executive Vice President Matsushima, Senior Managing Executive Officer Okubo

Q: Concerning the Telecommunications segment, its sales were up but profits were down in Q2 (July to September). What was the factor behind this? Was it only a temporary factor?

A: There weren't any unprofitable projects in particular, but profits from some customers declined from the previous fiscal year. The decline was offset in revenue, but it wasn't fully offset in profits. We are not sure whether this will continue.

Q: Regarding orders received in Q2, they decreased from the previous fiscal year in the Finance business and the Telecommunications business. Was this just as planned?

A: In Q2 of the previous fiscal year, there were mainly two large-scale projects: one for banks in the Finance business and the other for medical institutions in our overseas subsidiary. In addition to these, there were several one-off projects, and given that, we don't consider that the orders received in the current Q2 were low.

Q: To achieve 455 billion yen in the full-year earnings forecast for orders received, I think it is necessary to increase orders by about 12% in the second half. Could you tell me about the outlook for each segment? I also want to know whether there is any risk.

A: As for the second half, Distribution & EP grew in the mid-single-digit percentage range in terms of both orders received and sales. In Telecommunications, orders received achieved nearly double-digit growth, and sales remained unchanged. In Regional & Social Infrastructure, some bidding projects are scheduled for multiple public bodies, which we expect will lead to a double-digit increase in orders received. The same goes for sales. Finance is expected to have more operation and other projects, so it will achieve double-digit growth in both orders received and sales.

Q: You said that orders received in Telecommunications achieved almost double-digit growth. Does this mean that prosperous projects in Q1 will continue into Q2?

A: The foremost point will be 5G. In the second half, one of the telecommunications carriers will have a project of a certain scale. If we are able to receive this order, our orders will go up, but if not, it may impact our sales in the next period and onward.

Q: According to the financial results of one carrier, its capital spending will come to 1 trillion yen in 5 years' time. It said that its capital spending will increase toward March 2024. Expectations for CTC's 5G business are growing, but how do you expect CTC's earnings to progress in the next 3 to 5 years?

A: Another carrier also announced a plan to invest 1 trillion yen in facilities in the next 5 years. We don't think that the breakdown of their investment has been determined. With regard to the shift to 5G, we are not sure whether it will progress as expected, even if we win an order, because companies differ in terms of speed and the system will also be transformed significantly. In addition, since the emphasis is placed on software, the difficulty levels of operation and maintenance will increase. As for the extent to which this change will impact on our earnings compared with at the time of 3G or 4G, we have not yet undertaken a future analysis of a couple of years, but at this point we don't expect the segment's earnings to fall.

To explain more about 5G, some standards have just been provided from 3GPP. We think we need to upgrade the images and videos first. If they are upgraded, traffic will increase and the backbone network will need further equipment enhancement. It will decrease the unit price of equipment but require software expansion and NFV technology, where we expect that CTC's business opportunities will increase. We are currently working with some telecommunications carriers to enhance our technical capabilities, and specific projects have begun coming up.

Q: I heard about moving up the 5G service, but will that affect the orders to be received?
A: It has already moved, but we don't think it is that easy. We think that we will aim toward 2020 so that there won't be a big move in 2019.

Q: I think that CTC has been actively changing its sales structure through measures like shuffling the directors in charge of Telecommunications and Distribution & Enterprise. Are there any changes being made to products? When the telecommunications carrier builds a 5G infrastructure and a company starts selling IoT, I think the resource shuffling in response to technological changes, like CTC does, will begin to have meaning. Am I correct?
A: Compared with a few years ago, development system integrators in particular were completely different from the way they are now, and agile development and other new technologies have been growing significantly. They started with some manufacturers and have now been introduced into banks and trading companies.
In addition, we set a theme every year: we focused on the cloud last year and are focusing on AI, among other technologies, this year. Customers' consciousness is also changing, so we need to see sales ahead of it. We made the skills of internal SE resources visible and are working to use them flexibly beyond the organization.
The mainstream of 5G is mobile broadband, and improving the quality of video, audio, etc. is at the core of up to Release 15 of 3GPP. Release 16 is scheduled to be released by 2020, for which ultralow delay or ultrafast speed will be the key point. Accordingly, along with the development of 5G, the way of working with each industry changes gradually, where we think our organizational strength will exert more effects. The number of IoT implementation projects is increasing, and if it increases further, the sales of application layers will go up and we expect an increase in opportunities in which we can participate actively.

Q: As for the virtualization of the communications network, where does CTC have competitive

strength?

A: Our strengths are our knowledge about products, mainly that in the U.S., and our cutting-edge technologies, particularly for the construction of mobile core networks, as well as our nationwide support for them.

CTC has worked with U.S. companies on 4G and has gained knowledge of core network technology and implementation work. Going forward, when software operation becomes "autonomous," we believe that our knowledge about how to implement and assemble and how to design in order to show autonomy will be utilized.

Q: Do you carry out business with the company planning to enter the mobile carrier business?
A: There are no business discussions being held about mobile networks at present.

End