

Summary of Q&A in Conference Call on Operating Results for the Fiscal Year Ended March 31, 2020

Date/Time: April 30, 2020 (Thursday) 2:00 p.m. – 3:05 p.m.

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

Q: Regarding your method of calculating the forecast for the operating results for FY2020, revenue and net profit are the same as for the final year of the Medium-Term Management Plan. Is this a result of your calculations after factoring in the effects of the novel coronavirus even if they are uncertain, or did you forecast these numbers by prioritizing the achievement of the Medium-Term Management Plan?

A: The latter is correct. We calculated the forecast once in February, but a revision became necessary due to the effects of the novel coronavirus. However, because the effects of the coronavirus are uncertain, we are unable to make a detailed analysis. In consideration of these facts, we have set the achievement of the Medium-Term Management Plan as our forecast for operating results. Nonetheless, there are some parts in which we have included our thoughts. In our operating results forecast, we have improved profit ratio, such as the gross profit margin and the operating income ratio, and we think it is important to make efforts by sticking to profit ratio as an entire Group, even if there will be changes in the top and bottom line.

Q: Regarding your views on operating results forecasts in and after FY2020, you said that negative effects would be large in FY2020. However, given that infrastructure demand will be created in a relatively short period, negative effects will be small, is that correct? Do you view the procurement risk and problems on the supply side conservatively?

A: We will digest order backlogs in April and May, but operations for large projects have begun to fall behind schedule due to the effects of the novel coronavirus. On the one hand, teleworking systems and the enhancement of infrastructure due to an increase in network traffic have become urgent issues with customers and we will respond accordingly. However, even for hardware, there are challenges since it will take a decent amount of time to deliver hardware given the installment and construction. Currently, our employees are able to manage the situation by working from home. We think that if the effects of the novel coronavirus have calmed down in the future, our business performance will pick up in the second half. However, because there is a possibility that we will face a harsh situation in Q2, given that sales activities will slow down in Q1, we will consider how to respond in such a situation. Correspondingly, as a reaction for these situations, it seems that operation will become fairly high after Q3.

Q: What is your outlook for the status of your sales activities and orders in Q1 FY2020?

A: Order activities are slow due to the impact of teleworking and other factors, and we do not expect that orders will increase significantly. We think this will impact revenue in Q2. However, we are not as concerned about revenue in Q1, because there are order backlogs at the end of FY2019.

Q: If the effects of the novel coronavirus are prolonged, how will you reduce costs? Can we assume that your forecast for dividends in FY2020 will be maintained?

A: Regarding the novel coronavirus, there is concern about a second and third wave, and we are considering cost reduction as a matter of course. First of all, because performance-linked salary makes up a large percentage in CTC's salary system, this will become a buffer. We have also begun discussing what to do about the office. Because we have currently set the rule that all employees will telework, only about 8% of employees come to the office, and our business works well without using an office. We will continue to examine what to do about the office after determining the impact of teleworking on our performance by looking at operating results in Q1. Regarding dispatched workers, it is not a question of simply releasing them, and we are keeping them by paying a certain amount in preparation for a time when projects will be reopened. However, given the slowdown in our operations, we think there are some factors for achieving cost savings to some extent. We increased dividends even in FY2013, when the operating results were weaker than expected due to the depreciation of the yen, and we will also aim to increase dividends this time for the 12th consecutive fiscal year.

Q: What is your outlook for orders and revenue by business group?

A: Orders will remain flat in Enterprise, grow by about 10% in Distribution, achieve low single-digit percentage growth in Telecommunications, achieve mid-single-digit percentage growth in Regional & Social Infrastructure, experience a mid-single-digit percentage decline in Financial Services and achieve mid-single-digit percentage growth in Others.

Revenue will achieve low single-digit percentage growth in Enterprise, mid-single-digit percentage growth in Distribution, low single-digit percentage growth in Telecommunications, low single-digit percentage growth in Regional & Social Infrastructure, low single-digit percentage growth in Financial Services and mid-single-digit percentage growth in Others.

Q: The Telecommunications Group received a large amount of orders in the same period as the previous fiscal year, which increased further in Q4. You mentioned that infrastructure projects increased. Please provide more details.

A: Orders were at a high level, increasing about 5.0 billion yen. Orders for 5G-related projects were as follows:

- Total for FY2018: Approx. 11.0 billion yen (Q3: Approx. 9.0 billion yen, Q4: Approx. 2.0 billion yen),
- Total for FY2019: Approx. 18.5 billion yen (first three quarters: Approx. 15.0 billion yen, Q4: Approx. 4.0 billion yen).

Orders could have increased slightly, but there were cases in which we were unable to supply

products due to the effects of the novel coronavirus (a decrease of approx. 5.0 billion yen), while there were cases in which CTC received orders instead, because other companies were unable to deliver products (an increase of approx. 1.0 billion yen), netted a decrease of about 4.0 billion yen.

As a result, we can say that orders received by the Telecommunications Business Group in Q4 were strong.

Q: What is your view on the Telecommunications Group in FY2020? While investments in 5G, including investments of carriers in base stations, may be delayed, do you anticipate that the infrastructure will continue to be enhanced due to an increase in the traffic of existing networks?

A: Regarding 5G, there may be a delay in the development of base stations. Therefore, there is a possibility that our business domains will also slow down to a certain extent. However, taking into account demand for the enhancement of existing networks and other factors, we think that the Telecommunications Group will be all right in the current fiscal year.

Q: In the Telecommunications Group, will you be able to acquire the 5.0 billion yen project in the current fiscal year, which has been delayed due to the novel coronavirus?

A: We expect to acquire a 5.0 billion yen project in the current fiscal year.

Q: You said that orders received by the Telecommunications Group in FY2020 would achieve low single-digit percentage growth, but what is your outlook for growth in the first half and the second half? In addition, what are the impacts of the postponement of the Tokyo 2020 Olympics due to the novel coronavirus and the situation of delayed delivery of equipment?

A: We expect that orders will be poor in the first half but recover in the second half, and we anticipate that the order growth will be in the low single-digit percentage range in the full year.

Revenue will follow the same trend. Regarding the delay in the delivery of equipment, there was a problem in the supply chain in March, but we expect that it will gradually be resolved.

Q: Do you anticipate any large project for convenience stores in the Distribution Business Group in the current fiscal year?

A: Talks are ongoing, but it is difficult to determine the sense of speed and timing in the current situation, because it is a large project.

Q: You discussed the changes in business model, but I wonder if the IT investments of companies will also change, triggered by the novel coronavirus. If that is the case, what will act as the growth driver?

A: As we are currently compiling our vision for the business model, we cannot say for sure, but we will first present what we can visualize, such as teleworking, in the short term. In addition, we think that from the second half to the next fiscal year, people will probably feel that for the automatization of backbone systems of large companies in Japan, which are largely outdated, investments will be necessary in areas such as the system of using seals or an app that is able to use inter-process

communication captures that essence, instead of process flow that simply connects processes. Technologies, such as e-signatures and blockchain, will be used in these areas, and we think that the time has finally come when the necessity of what we have been progressing in the world so far finally makes good sense. Therefore, we expect an increase in areas where we can play an active role.

Q: Will CTC also make such new technologies and solutions? What is the timeline?

A: We have switched to a new version of SAP in the company and this has just begun moving stably. Because we are also facing similar problems in the company, such as how to introduce the automatization of job sites in the front end and how to increase the reliability of its operation at the same time, we would like to expand what we have practiced and tested in the company to customers. In terms of the timeline, we think that such a development will progress in the next fiscal year because many companies are having difficulties due to the coronavirus in the current fiscal year.

Q: What is the content of the impairment of 1.0 billion yen? How much is the remaining goodwill?

A: This time, the impairment was made at an overseas operating company in Asia. One billion yen was the impact on profit before taxes, and the impact on net profit attributable to CTC's shareholders was 700 million yen, because CTC's equity in the operating company is 70%. While a flexible response was allowed for impairment because of the effects of the novel coronavirus, we made the decision strictly. The operating company made a profit, but it did not reach the initially planned level, because of a risk of market shrinkage in the country following the impact of the U.S.-China trade friction. As a result of calculating the future value based on this, 60 to 70% of the overall amount of goodwill was recorded as impairment. As for CTC on the whole, goodwill of about 7.0 billion yen remains on an holding equity basis, because we acquired two companies in Indonesia in the previous fiscal year. Currently, there is no sign of impairment in other operating companies.

Q: How much is revenue related to teleworking?

A: We have yet to calculate revenue related to teleworking, which is difficult because the scope is too large if we include video conferencing such as Zoom, software and hardware related to teleworking as well as the expansion of Wi-Fi.

Q: Describe the next president.

A: He probably resembles me (Kikuchi). He also has a high level of fundamental knowledge about IT. In addition, he has made achievements as president of BELLSYSTEM24. I know him very well because he originally worked with me.