

**Summary of Q&A at Announcement of Operating Results for the Fiscal Year Ended March 31, 2021**

Date/Time: April 28, 2021 (Wednesday) 2:00 p.m. - 3: 15 p.m.

**Presenters: Ichiro Tsuge, President & CEO;**

**Tadataka Okubo, Senior Managing Executive Officer, CTO, Director**

**Mamoru Seki, Managing Executive Officer, CFO**

**Q: The gross profit margin in Q4 (January to March) FY2020 was historically high. Why was that? Your FY2021 gross profit margin projection is also similarly high. How do you plan to manage this?**

A: The high gross profit margin reflects the results of business activities conscious of profit margins and revenue from projects with high profit margins including product sales. Take tender bids, for example, there were multiple bids which led to business due to recognition of our technical expertise.

As for our gross profit margin projection for FY2021, we expect to see a slight improvement from FY2020. We will focus on the reduction of unprofitable projects and improvement of engineering skills which ties in with the "Upgrade" basic policy in our new Medium-term Management Plan.

For reduction of unprofitable projects, we will put the organization which manages development projects groupwide under the control of the CTO and shift to a structure that allows us to quickly grasp what is happening on the ground, share information and made decisions.

**Q: Orders received by the Enterprise Group in Q4 (January to March) FY2020 showed strong growth. Why was that? Is there now a stronger sense of recovery overall? What is the outlook for the future?**

A: The Enterprise Group was particularly hard hit by COVID-19 and struggled in the first half and full-year revenue was down year on year. Even under such conditions, we made approaches to customers we had previously not managed to cultivate and succeeded in building up orders received. We have yet to reach the stage where we are starting to make new inroads generally but we get the impression that, with the exception of some customers who have been impacted long term, things are starting to settle down.

**Q: What were the factors behind the increases in orders received and order backlog of the Distribution, Telecommunication, and Regional & Social Infrastructure Groups in Q4 (January to March) FY2020? Also, what is the situation regarding orders for convenience stores?**

A: Growth in orders for telecommunications carriers was especially strong. Orders for convenience stores are expected to continue increasing in FY2021.

**Q: Orders received for 5G-related projects in Q4 (January-March) were down from Q3 (October-December). Was this a problem of timing and is there no need to worry about it?**

A: That is correct. There is no need to worry about it.

**Q: What is the future outlook for business with telecommunication carriers?**

A: Our understanding is that the Telecommunication Group's network business for telecommunications carriers will increase overall, with gradual decline in 4G-related business offset by growth in 5G-related business. We also think that growth in demand driven by traffic-linked communication can be expected.

**Q: What were actual orders received for 5G-related projects and what is the FY2021 outlook for 5G-related projects? What is the situation in the RAN domain?**

A: 5G-related projects were brisk and orders received on a full-year basis amounted to 55.0 billion yen. Standalone projects accounted for over 50% of all 5G-related projects in Q4 (January-March) and 35% on a full-year basis. In the RAN domain, we received an order in Q4 (January-March) as a follow-on from the construction of a shared platform using OpenRAN compliant general purpose hardware ordered in Q3 (October-December). We will continue focusing on this domain.

**Q: What is a reasonable assumption for the size of the RAN domain in the future?**

A: It is still too soon to say, but we are making steady progress.

**Q: A telecommunications carrier and manufacturer have announced an alliance with an eye to toward the Beyond 5G era. Is this bad news for CTC? Or good news?**

A : It is not especially bad news. The telecommunications carrier in question is also collaborating with other manufacturers in preparation for the Beyond-5G era. We also intend to take action as well where possible.

**Q: What is the weight of the pure cloud business within the cloud and IT outsourcing business?**

A: Just under 30%.

**Q: Will the "negative factors arising from business scheme changes" in terms of operation continue to have a negative impact next fiscal year?**

A: No

**Q: How much did unprofitable development projects amounts to in Q4 (January-March) FY2020? In which business groups did they occur?**

A: Approximately 1 billion yen. They arose mainly in the Distribution Group.

**Q: Was the rise in the ratio of unprofitable projects attributable to a higher number of difficult projects due to growing DX demand? How do you expect the ratio of unprofitable projects to**

**change from next fiscal year?**

A: There is more than one reason projects were unprofitable. These include technical difficulty, misjudgment of the manhours involved and poor communication with customers. It is important to make up for lost ground soon and to follow through quickly. We will make sure we do this and lower the ratio of unprofitable projects in the future. On the other hand, there is also the knowledge gained from taking on the challenge of difficult projects. We will weigh up the risks and benefits when taking on projects.

**Q: Give details of the IT liability insurance included in "Other income" of "Other income and expenses"? Am I right in thinking this is as a temporary factor?**

A: I am unable to give any details about the project but, yes, it is a temporary factor.

**Q: You project that other income and expenses will increase considerably. Are there any special factors?**

A: The increase is mainly personnel expenses. The forecast also factors in costs related to office relocation.

**Q: Roughly how much will office relocation cost next fiscal year? Also, what other matters should be taken into consideration when thinking about costs next fiscal year?**

A: We assume that office relocation costs will be up by more than one billion yen. We do not expect any other major expenditures besides this. If the COVID-19 pandemic is brought under control and business trips become possible, costs will rise but there will be no sharp increase.

**Q: Does the target of "Net profit attributable to CTC's shareholders: ¥40 billion" under the Medium-term Management Plan take M&A into consideration?**

**Also, give a breakdown of revenue and profit items and your outlook for each business group.**

A: The target is based on organic growth only and does not include M&A. The revenue target is around 580 billion yen. Target 3 year CAGR for each segment is as follows: high single-digit growth in the Enterprise Group; growth of around 10% in the Distribution Group; mid-single-digit growth in the Telecommunication Group; high single-digit growth in the Regional & Social Infrastructure Group; and mid-single-digit growth in the Financial Services Group.

**Q: What is your outlook for demand over the Medium-term Management Plan period? For instance, what will drive growth in 5G-related business: "building" or "using"?**

A: The "building" business has yet to take off. We will steadily win business.

As for the "using" business, there are certain aspects that cannot be determined by CTC and that depend on how widespread 5G becomes. If 5G becomes widespread and traffic increases

dramatically, this will also translate into "building" business. We suspect that this cycle may not get into full swing until the final fiscal year of the Medium-term Management Plan. Once 5G is established and DX-related business, which is the "using" business, starts to emerge, Groups such as the Enterprise Group will see an increase in projects and 5G-related demand will grow groupwide. We are extremely optimistic.

**Q: The Medium-term Management Plan mentions "Strengthening of XaaS business", but it seems to me that the growth rate of cloud and IT outsourcing business, which was adopted as a target under the previous Medium-term Management Plan, was not that high. Why was that? And how can you aim for further growth in the future?**

A: The cloud business is growing steadily but overall growth appears modest due to decline stemming mainly from business scheme changes in the area of operation. The cloud and XaaS business are areas with growth potential that we will continue to focus on.

**Q: How difficult will it be to achieve the operating income target of 10% under the Medium-term Management Plan?**

A: In our view, it is an achievable target, although we do not think it is easy to achieve because upfront expenses will be required to secure skilled engineers and suchlike.