

Summary of Q&A at Conference Call on Operating Results for Q1 of FY2021

Date/Time: August 3, 2021 (Tuesday) 2:00 p.m. - 2: 45 p.m.

Presenter: Mamoru Seki, Managing Executive Officer, Officer in charge of Corporate Administration Group and CFO

Q: An 18% year-on-year increase in orders in Q1 reflects good progress. How do you evaluate it in the context of the full-year plan?

Is the progress within the range of what was expected?

A: Good progress was made in Q1. Given the poor results in the previous year, however, it is too early to evaluate it in the context of the full-year plan.

Q: Which business groups recorded an increase in orders received over what was projected in the full-year plan? What were the key factors for this? Do you expect it to continue?

A: There was a recovery in the orders in the Enterprise Group, reflecting the group's efforts to submit proposals to a broad range of customers. In the Telecommunication Group, orders received for 5G-related projects continued to be strong. In the Regional & Social Infrastructure Group, orders for projects for public offices and municipalities grew. We expect that the trend will continue in these three groups.

With respect to Others, including our overseas operating companies, orders from financial and governmental institutions increased in Malaysia, despite the ongoing COVID-19 pandemic.

Q: What are the reasons for and background behind the improved gross profit margin? Do you expect that it will continue to improve?

A: Efforts were made to ensure that top-down initiatives to improve profitability were implemented on the front lines. The improvement reflects these efforts, which are ongoing. On a by-business-model basis, there were improvements in services and finished products. We do not see any factors that were only temporarily contributing to the improvement, so we expect that this trend will continue going forward. There were a small number of unprofitable projects in the development business, but this is within the scope of expectations.

Q: In contrast with the concerns about 4G-related projects peaking, there was a surprising number of orders received by the Telecommunication Group in Q1 which exceeded expectations significantly.

Do you expect this to continue in Q2 and beyond? How much sales do you expect to post in fiscal 2021 from order backlogs?

A: Orders for 5G-related projects came to approximately 12 billion yen in Q1. They increased from the level of the previous year. We have not had any indications that the number of 5G-related projects will slow down. In addition to 5G-related projects, we are anticipating orders for a range of business areas, including 4G, relating to the expansion of infrastructure, networks used for both 4G and 5G simultaneously (IP core networks, etc.), service

platforms, information system projects, internal networks, and multi-access edge computing. Regarding order backlogs recorded in Q1, we expect that approximately 30% will be posted in the first half and nearly 40% in the second half of fiscal 2021. We will continue to watch the status of semiconductor shortages, which is a matter of concern, and take necessary measures while also maintaining our relationships with our suppliers.

Q: What percentage of 5G projects are SA projects? Are there any updates on the progress of the RAN projects?

A: SA projects are slightly less than 50% of 5G-related projects (12 billion yen). We received the first orders for RAN projects in Q3 of the previous year. We also received orders in Q1 of the current year, but the amount was small.

Q: We heard that the Distribution Group was working on large-scale projects. Given the decrease in revenue in Q1, am I correct in understanding that no action has been taken yet?

A: We are in the process of discussing the replacement of core systems with customers, including customers within the ITOCHU Group. These discussions include the facilitation of DX, as well as matters related to schedules and costs. We will ensure these discussions result in orders.

Q: Is it correct to assume that your response does not imply that you have failed to receive orders for projects?

A : Yes, that is correct.

Q: Are there any updates on the status of the convenience store-related project?

A. The project involves a wide range of factors, so the discussions are looking at the project from many angles, including how it should be undertaken and the potential timelines. We expect to receive partial orders, instead of comprehensive orders, for large projects like this.

Q: Looking at performance by segment, it appears that the profitability of IT Services improved. What are the contributing factors?

A: In the IT Services segment, profits increased, reflecting rises in the number of system construction and maintenance projects handled by CTC Technology Corporation, a group company that undertakes maintenance services on a contract basis.

Q: You said that the number of projects handled by overseas operating companies increased in Q1. Do you expect it to continue in Q2 and beyond?

A: An increase in the number of projects related to local financial institutions and the government in Malaysia contributed to orders received in Q1. Since the ASEAN region is expected to continue to grow, going forward, we will watch the IT investment trends of the governments of the individual countries. Regarding Indonesia, however, all of our local expatriates have left the country due to the significant COVID-19 situation there. As the COVID-19 pandemic continues to be serious, the situation is still uncertain.