

## Summary of Q&A at Conference Call on Operating Results for Q3 of FY2018

**Date/Time: February 1, 2019 (Friday) 14:00-14:30**

**Attendee: Director & Executive Vice President CFO Matsushima**

**Q: Orders received by the Telecommunications segment in Q3 (October to December) appear very strong. Are these the 5G-related project which you said might emerge in dribs and drabs of several billion yen in Q3 or Q4 in the first-half results briefing?**

**A:** CTC has dealings with three carriers and in Q3 (October to December) large orders were received from each of these. One was a 5G-related project as you said, the second was a project for a network to cope with disasters. The 5G-related project has come in sporadic orders.

**Q: Did the sporadic orders for the 5G-related project end in Q3? Can demand still be expected in Q4 and next year?**

**A:** It is our understanding that projects will continue to emerge gradually in the future. If so, we expect that, if anything, there will be more orders next fiscal year than in Q4.

**Q: I get the impression that inquiries about 5G-related projects are slightly premature?**

**A:** The first 5G networks in Japan will tend to be based on non-standalone works networks supported by existing 4G/LTE infrastructure. In light of this, it is not strange that projects are emerging at this point in time. I do not think that CTC is jumping the gun.

**Q: I imagine that CTC's current position will work in its favor when it comes to 5G-related projects, right?**

**A:** When standalone networks take off, this will change things again. However, for the two or three years until then, I do not expect there to be any change in the general trend.

**Q: Regarding 5G-related projects in Q3 (October to December), approximately what percentage of the projects CTC was able to access did CTC actually win?**

**A:** At a guess, I would say we won around 70-80%.

**Q: Orders received in Q3 (October to December) appear very strong. Were any of these moved up from Q4? What is the orders received forecast for Q4?**

**A:** Some of the projects were moved up from Q4 but none of the moved-up projects had a major impact. Orders received in Q4 have generally been in the ¥140 billion to ¥150 billion range and at the moment I think orders received in Q4 of this fiscal year might also reach a similar level. Besides the general level of orders received in Q4, close monitoring is needed to determine what proportion of these orders will be translated into sales in Q4.

**Q: What, in your view, is the probability of achieving the full-year plan for operating income? The order backlog has increased but Q4 sales would presumably need to increase significantly.**

**A:** If we subtract actual operating income at the end of Q3 from the full-year plan, we would have to generate operating income of around ¥17 billion in Q4. In our view, and compared with average Q4 figures, this is quite a hurdle. The order backlog at the end of Q3 stood at ¥251.2 billion and around 40% of this will be recorded as sales in Q4, which is about the same or slightly better than usual. However, as mentioned in the previous question, there is still uncertainty about the proportion of orders received in Q4 that will be translated into sales in Q4 and we, therefore, intend to stay on our toes and strive to achieve the plan.

**Q: Do you think that fewer Chinese products in Japan and moves by ITOCHU to expand the data center business in China represent business opportunities for CTC?**

**A:** Regarding Chinese products, inquiries received so far have been mostly from the educational sector and these may weaken slightly in the short term. However, new business could also emerge in the future, with carriers and other customers replacing Chinese products, for example.

I believe that, because of its data center expertise, CTC would be able to support ITOCHU in any data center business it undertakes in China but nothing specific has been mentioned so far.

**Q: This fiscal year, CTC appears to have fewer unprofitable projects. Am I right in thinking that unprofitable projects, including the upfront investment project that occurred in the Telecommunications segment last fiscal year, are now under control?**

**A:** Looking at the first nine months of this fiscal year (April to December), unprofitable projects, which amounted to ¥1.7 billion last fiscal year, have been reduced to ¥0.2 billion. We held a project assessment meeting every month and as yet there have been no major unprofitable projects like the one last year and we expect to be able to continue keeping unprofitable projects under control in Q4.

End