

Q&A in the small group meetings regarding the Medium-Term Management Plan (Medium-Term Plan)

Date: May 31 and June 11, 2019

«Digital Solutions Business»

Q : How do you enhance the added value of the business to the degree of providing consulting-oriented solutions from offering places and tools in order to respond to demand associated with work-style innovation?

A : To address demand related to work-style innovation, we think it is necessary to revisit the requirements that we should focus on, taking the situation of the time into consideration. From this perspective, it is important that we put such innovation into practice internally. With this in mind, we will work on establishing new work-styles for ourselves on a full-scale basis while also keeping an eye on any requirements that may arise in the future. We will review the process of our operations, and by practicing them, we will demonstrate work-styles that produce the expected effects in terms of business performance, which we consider important. Our stance is to propose solutions that we find successful through internal practice. In doing so, we may experience failures, however they will be used as hints for future solutions. When we undertook the initial work-style innovation after moving to the current head office, we shared what we achieved in terms of reductions in the amount of paper and electricity used with our customers. In the new business model, we will continue analyzing the operations that we will undertake in the future, and we will establish and promote achievement metrics that customers can easily understand.

Q : You have said that you intend to increase sales from consulting services. Have you ever offered any such services?

A : We have been offering solutions related to work-style innovation for more than 10 years, since 2007, and we have been undertaking consulting services while doing so. However, the services that we have been offering are aimed at achieving office efficiency improvements. Going forward, we will enhance the consulting services that help transform businesses and increase competitiveness based on new technologies.

Q : What is the current status of the resources that are required for making the business model more consulting-oriented, as well as the measures for enhancement?

A : We do not intend to engage in business consulting. Rather, we will strengthen our consulting services as they pertain to systems. To do so, we need to enhance the capabilities of our salespeople to ensure that they can undertake sales engineering and offer consulting services. We will also strengthen our human resources through collaborations with external parties. In addition, in order to develop our engineers and increase their numbers, we created the Business Design Operations Unit in April, which will be utilized to increase the

number of specialists that are able to offer consulting services from approximately 20 at present to around 60.

Q : What is the cloud concept that NESIC aims to establish? Do you intend to offer specific applications rather than providing data center services?

A : With the importance of products expected to diminish as they are incorporated in the cloud scheme, we will provide solutions by integrating a range of cloud services. Today, users have difficulties using cloud solutions if different cloud services, which are all excellent, are not linked to each other. We will therefore offer services that link them through our platforms, while at the same time working to create environments that facilitate such linkages. As long as they use our platforms, they will be provided with services continuously.

Q : In the Digital Solutions business, sales from hotels have been increasing significantly in the past few years. Is there any risk that the decrease in reaction to such increases will offset sales growth in other businesses after the Olympics?

A : We do not expect that sales from hotels, which had been growing at a significant pace until last year, will maintain this trend going forward. Having said that, hotel needs are expected to remain steady in response to inbound demand. Furthermore, there are other industries such as education for which we will be able to increase sales even if sales from hotels are sluggish. With the business repositioned as a unit in a large operation unit, we will be able to utilize our engineers more effectively.

«Network Infrastructures Business»

Q : What do you expect to result in increased sales of the Network Infrastructures business over the Medium-Term Plan period?

A : We expect that the joint venture (KNSI) that we established with KDDI last year will make a significant contribution to the business results. In addition, we aim to achieve our plans by increasing sales with respect to the so-called migration that secures traffic in the core networks for the full-fledged deployment of 5G-based services, as well as other businesses related to ocean, broadcasting/cable TV services, etc.

Q : In what order do you expect business opportunities to be created in conjunction with 5G?

A : First of all, we expect that demand will be created for upgrades. There will be the so-called migration demand. Similarly, submarine communications will require dealing with traffic increases and vacating frequency ranges for the 5G service. New plans are being discussed one after another for businesses with respect to 5G and the utilization thereof. Although matters are still not clear in terms of timing, we are looking forward to these new opportunities because we have the capability to deal with a wide range of work including design, construction and services. Our stance is to deal with migration first while also making preparations for the full-fledged introduction of the technology thereafter.

Q : With respect to 5G, are there any differences from the assumptions in the Medium-term Plan that are becoming apparent in terms of the assessment of market conditions such as the timing of deployment and speed in the progress thereof?

A : With changes such as the introduction of local 5G taking place since the start of this year, we are beginning to feel that we need to rebuild organizational structures as soon as possible to ensure that we are prepared for 5G as a whole. Although the actual timing of the launch is not totally clear, our stance is to work on the preparations so that we can implement measures promptly when demand starts to pick up in the market, taking into consideration an increase in the number of applications in the future and the migration-related demand that is expected to exist for the time being. If nothing else, we expect demand to grow faster than anticipated once it begins to pick up.

Having said that, as far as 5G is concerned, it is only sales from migration that are reflected in the Medium-Term Plan, which is focused on strengthening the existing businesses in preparation for the introduction of this new standard.

Q : Is there any guarantee for the tasks that will be undertaken at KNSI? Are sufficient human resources secured despite the recent shortage of manpower?

A : Naturally, not all tasks are guaranteed. We share an aspiration for the creation of the joint venture, based on which we will make the expected achievements and expand the business. KNSI has not secured all the human resources that will be necessary for future projects, although progress is being made as planned.

Q : I hear that constructing base stations is an unprofitable business. What are your thoughts?

A : There was such a case previously, but the situation has been changing. What matters most with regard to the base station business is how the operation rate should be increased under significantly fluctuating demand conditions. One of the advantages of operating joint ventures is that the progress of investments is relatively visible at an early stage. We will prepare plans based on this progress.

By the way, while 5G base stations are becoming smaller and smaller, a certain number need to be secured. Accordingly, construction should be implemented in a manner that reflects this reality.

Q : Is it possible to use LPWA (ELTRES), a standard that you are promoting together with Sony Network Communications and ORIX, for 5G?

A : LPWA is different from 5G. ELTRES, which provides small data at an extremely low cost, is particularly excellent in terms of its coverage, power consumption, and support for devices that move at high speed. We believe that it is possible to use it for totally different applications than those served by 5G.

Q : Which markets will be targeted with the deployment of ELTRES?

A : A variety of applications is possible, including the monitoring of social infrastructure, use in factories and use inside moving things such as vessels. For example, rental items can be managed easily if they incorporate the standard. We expect that business opportunities will be created in systems integration associated with the technology.

Q : Please elaborate on the ocean business.

A : There is demand for the undersea communications network in response to an increase in traffic. We offer services such as route design and on-site management as they pertain to installation work. In addition, we undertake operations such as the establishment of earthquake observation systems that utilize submarine cable networks. As a result, by leveraging the expertise we have developed through this experience, we may be able to engage in tasks such as submarine resources observation businesses. As a matter of fact, we are a participating member of a development project being undertaken jointly with Scotland.

Q: There is almost no reference to the social infrastructure businesses in the new Medium-Term Plan. Which area are you keeping an eye on?

A : In the social infrastructure business, we have been focusing on areas such as broadcasting/cable TV and disaster prevention, and this stance basically remains unchanged. We have, however, implemented a restructure and merged the business with the carrier business to ensure that proposals can be made from a broader perspective. For example, we will make proposals on solutions that include technologies such as IoT, and in the future, those using 5G.

«Engineering & Support Services (ESS) Business»

Q : It appears that mega solar projects play an important role at this point in terms of sales in the ESS business. With sales from mega solar projects expected to decline, however, there is concern that you have no option but to win orders in other projects to maintain the sales targets in the Medium-Term Plan, even if their risk levels are high. What are your thoughts?

A : We wish to develop new energy businesses. That said, we are not projecting any increase in sales, factoring in an expected decrease in mega solar project sales. As far as the ESS business is concerned, as the solid sales indicate, we believe that it is being operated on strong business foundations, despite maintenance services facing tough business conditions.

Q : Do you intend to keep up the efforts of expanding sales from overseas businesses going forward?

A : We wish to drive growth on a long-term basis. For now, however, our thinking is that we don't have sufficient resources or appropriate organizational systems. We have positioned the next three years as a period during which organizational systems should be reestablished. With overseas businesses mainly focused on construction work, we included them in the ESS

business organizationally, and will develop resources while at the same time carrying out projects for which we have received orders.

《Search for New Technologies》

Q : You have said that you will adopt new technologies in partnership with startups. What technologies are you looking for? Are you focused on those related to work-style innovation?

A : We are searching for them in a broad range of areas because we feel that superior technologies and services that can be used for operations are being created one after another based on new ways of thinking. Use is not limited to areas related to work-style innovation. On the other hand, we expect that the same technology can be used for a variety of applications including the automation of hotel services and the monitoring of factories.

Q : What is the extent of your investments in startups?

A : We invest several tens of million yen per project, which amounts to several hundreds of million yen in total to date. We aim to provide their technologies after nurturing them and making them more user-friendly.

Q : What scheme is established to adopt new technologies such as those developed by startups?

A : We are mainly searching for them in the United States, and we are in the process of establishing channels for searching. These currently include our own CVC and Sozo Ventures, which makes investments in relatively mature technologies developed by startups. In addition, we are increasing the number of our staff members stationed in such facilities. As the success of Zoom shows, we have made good progress in developing local channels. On the Japanese side, we have established the Business Design Operations Unit to improve our evaluation capabilities. The Operations Unit are staffed with external members.

Q : With respect to CVC's investment destination, what is the objective of investing in Ale, a shooting star-related company?

A : Progress is being made in the privatization of space businesses. We have been engaged in businesses related to the operations of space probes such as "Hayabusa" and space satellites. Accordingly, we have invested in the company to facilitate the privatization of such BPO businesses.

《Improvement of Profitability》

Q : Please elaborate on your intention to achieve profitability that equals the level of your industry.

A : The nature of our businesses is characterized by services offered by both of telecommunication construction companies and system integrators. Even so, we are aware that we are inferior to our competitors who engage in those businesses in terms of profitability. We will solve the relevant issues, achieve the targets in the Medium-Term plan to mark the first milestone, and seek to make further improvements.

Q : Your plan shows that profitability will improve in the respective businesses. What are the contributing factors?

A : Needless to say, we must raise our level of competitiveness. In addition, the improvement of efficiency is an important factor. By implementing an organizational realignment, we have consolidated internally dispersed resources to ensure that they are managed centrally from the perspective of total optimization, and that our efforts in terms of the development of multi-skilled operators are advanced. We are confident that the initiatives are effective because significant improvements have been witnessed through the consolidation of resources undertaken by our subsidiary. Another significant factor is the elimination of unprofitable projects that has been preventing the recovery of our business performance in recent years.

Q : I think that consolidating resources is the most difficult initiative because it may lead to disadvantages arising from large-scale operations. What are your thoughts?

A : We don't see it as such a difficult initiative. We achieved positive results in a companywide cross-departmental project that was carried out last year. The necessity of being aware of the issue of dispersed resources is suggested and shared by on-site staff members as well. For example, we can strengthen our position by consolidating businesses such as security and video-related businesses that we have been operating in different departments on a small scale.

«Other»

Q : It looks like the business environment will be favorable for the Medium-Term Plan period. Even so, are there any matters that you consider to be risk factors?

A : The economic conditions pose the greatest risk. Besides, there is the possibility of the technologies developed by startups ending in failure. We basically understand that not all of these technologies will be successful, and it is prohibitive to rely on calculated success ratios. Another risk factor is the occurrence of unprofitable projects. That said, with countermeasures working effectively so far, we will continue our efforts to prevent the occurrence of unprofitability in any new projects. In particular, we need to pay attention to overseas projects. Given the recoveries in orders received, we will work on such projects carefully to avoid any miscalculations.

Q : Please elaborate on your financial strategy. Which risk factors are driving you to accumulate your cash holdings, which appear to be high on a net amount basis?

A : In consideration of the impacts of large projects, we strive to reserve working capital of approximately 50 billion yen, which is almost equivalent to two months' sales. Excluding this amount, we don't have a large amount of cash and deposits that we can spend at our own discretion. In fact, as a result of revitalizing our growth investments, the amount of net cash has been declining slightly for the past two years.

Investments are important for future growth. We will therefore undertake borrowings if we need to make large investments.

Q : What are your thoughts about the collaboration with NEC over the next three years?

A : We intend to make the collaboration even closer. NEC's technologies for digital applications such as face recognition, not to mention 5G, are attractive and can be used easily thanks to the excellent relationship within the NEC group. In retrospect, we should have made greater efforts to utilize NEC's technologies effectively.

*This material is a summary of questions and answers exchanged between the Company and sell-side analysts at two meetings held separately on May 31 and June 11. To help readers gain a better understanding, the content has been edited by omitting overlapping questions and rearranging the order of the questions.