

*NESIC: NEC Networks & System Integration Corporation

«**Service Business**»

Q: With respect to EmpoweredOffice (EO) business, what kind of cost reductions resulted from the adoption of EO by NESIC itself.

A: At the time of head office relocation in 2010, we adopted EO company-wide. Adoption of EO had the effect of reducing floor area by 40%, due to a reduction in document storage space and other measures, reducing power consumption by 50%, and reducing paper usage by 60%, and our customers also took an interest in such results.

Q: With respect to EO business, are there any other companies offering similar solutions?

A: For example, a number of systems integrators have also begun mentioning workstyle reform, etc. recently, but we are very different in the sense that we have been proposing and implementing EO ahead of our competitors since 2007 and that we are able to provide total solutions which also include space design and office facilities. Office furniture makers also compete with us sometimes but since they do not have the information and communication technology (ICT) themselves, they sometimes collaborate with us as partner companies.

Q: I understand that EO is a business in which NESIC can utilize its strengths, but is it also highly profitable?

A: Projects where customers leave everything to us through our consulting services are more profitable than ordinary projects because there is no price competition.

Q: I believe the plan was to expand EO to corporations outside the Tokyo metropolitan area. How is this going?

A: Rollout to major metropolitan areas such as Kansai and Chubu is making progress, but we have not had much success in other regions. Projects tend to take shape more easily if customers are companies of a certain size.

Q: You say that there are needs for diversification of work styles for women and senior employees. Have any specific requests, etc. already been made by customers?

A: As Japan aims to become a society in which women can play an active role, telework is an area of interest for both government and private enterprises. In fact, the results of the questionnaire survey of customers who came to our private fair also indicate strong

interest in telework, and increasingly we propose solutions that combine ICT and personnel system reform to our customers.

Q: What reaction have you had since the launch of the MVNO service in October last year?

A: This has already led to as many as 60 proof-of-concept demonstrations and some large orders are close to being finalized. This is not the kind of business in which widespread take-up happens all at once, but we have the impression that needs are becoming evident and we intend to expand the business whilst conducting the demonstrations.

Q: The strength of NESIC's MVNO service appears to lie in the availability of various access charges according to user needs. Is it not possible that some of your competitors will start to offer similar charges?

A: Speed is important and we were quicker off the mark than our competitors. There are some companies that are offering line services for IoT, but our big strength is that we are able to provide not just the line but a total service including everything from the installation of equipment to SI, maintenance and operation.

In this sector, it is important to team up with many partners, and our ability to cover every aspect right down to evaluation of the line connection with partners is a feature only we can offer.

« Infrastructure Business »

Q: You mention broadcasting and CATV, disaster prevention, and railways and roads as areas of focus under the current Medium-Term Plan. Give details of the intended timeline for the expansion of each of these businesses.

A: Regarding broadcasting, the type of demand we expect under the current Medium-Term Plan is replacement demand for studio equipment supplied when digital terrestrial broadcasting was launched. Last year and the year before last, the replacement of studio equipment of Tokyo's key stations began and the replacement of local broadcast stations will take place over the next two to three years. This is demand that will continue over the period of the Medium-Term Plan.

In the CATV area, we expect demand in response to 4K, which is the next generation of TV resolution, and we plan to convert CATV networks to fiber optics to enable the transmission of large-volume 4K data. Last year, 4K broadcasting on BS channels began and services will gradually become more widespread in the future and we believe, therefore, that demand will grow in the run up to the Tokyo 2020 Games. Since half of all CATV operators are customers with which we have dealings, we intend to use this customer base to win orders.

Regarding radio communications for disaster prevention, Japan has around 1,800 municipalities, but 20% of these have no radio communications for disaster prevention and around 60% of those that do have use analog communication systems and we plan to target these. Unlike the digitalization of fire-fighting radio, there is no set deadline for digitalization, but disaster prevention measures are an important theme and are allocated a budget of between 20 billion yen and 30 billion yen in some form or other every year, making this a stable business. In addition to such disaster prevention at a municipal level, there is also disaster prevention at a prefectural level, and the time for system replacement has come. Since this is an area in which we can also make use of the NEC Group's large market share, we intend to make use of this to expand the business. As for the expressway network, there is a stable budget of around 30 billion yen for monitoring, etc. but, with the construction of new expressways such as the Shin-Tōmei Expressway and the Shin-Meishin Expressway, the market is expanding. Our main target in the railway sector is train radio. Inter-connected through services are increasing but whereas two radio sets are required in the case of analog radio, one radio set is enough in the case of digital radio, and replacement demand will start to emerge.

«Global Business»

Q: You mention railway and airport projects as targets for outbound business. How do you aim to win orders?

A: We already have a proven track record in various countries, and we aim to make use of Japan's ODA, etc. to win orders. We will be responsible for networks as part of a Japanese union.

Q: What are your reasons for focusing on Thailand and Myanmar in your outbound business? And roughly what are their shares of total outbound business?

A: We have been doing business in Thailand for 25 years, and have a business base, with good relations with customers. Furthermore, Thailand is seeing a shift in demand away from 3G networks towards LTE networks and associated optical fiber networks. Myanmar, too, is a rapidly growing country, but it still lacks social infrastructure and various business opportunities can be expected. Together, Thailand and Myanmar account of around 1/3 of our outbound business and they are expected to maintain a similar share in the medium term.

Q: Conditions in the telecom carrier business remain difficult. Do you ever allocate telecom carrier business staff to global business?

A: We have already shifted some staff to global business. However, to increase profitability,

it is important to pursue localization and to use mainly local human resources to conduct business. In fact, this is also the kind of system that is in place in Thailand. At the new company established in Myanmar, we have two Japanese staff and the rest are locally employed staff. Some of our joint venture partners operate schools, facilitating the utilization of local talent.

Q: Do you intend to utilize human resources from Myanmar in Japan as well?

A: We intend to make use of talented human resources from Myanmar in other countries besides Myanmar, and expect to be able to utilize them in our domestic business as well in the medium term.

Q: You say with respect to inbound business that there are also business opportunities at the airports where foreign tourists arrive in Japan. Are you involved in air traffic control systems?

A: We provide flight information and security systems, not air traffic control systems. There is also a system called VDGS(Visual Docking Guidance System) which guides aircraft to the gate after they land and we have a 100% share of this market in Japan.

Q: Regarding ATM for foreign tourists, what kind of system do you supply?

A: The system that we supply is not the ATM itself but the multilingual helpdesk service provided when foreigners use the ATM. A multilingual service is used for the safety and security of foreigners, even in the case of 119 emergency calls.

Q: Is the multilingual service based in Japan? With online English conversation classes, etc. services are provided cheaply by putting calls through to India and the Philippines. Do you intend to establish a base overseas?

A: NESIC's multilingual service also supports areas that are a matter of life and death such as 119 emergency calls. Consequently, members we assign to this service have acquired the Japanese-Language Proficiency Test Level 1 so that they are able to speak correct Japanese without misunderstanding and have also mastered other relevant skills such as first aid and technical training.

《Growth investments》

Q: You say that investment will be 20 billion yen over 3 years. What kind of areas will you invest in specifically? Give examples.

A: For example, we will make investment to further strengthen EO. We intend to constantly adopt new technologies and new equipment to keep our customers interested and also intend to invest in areas such as the development of the telework environment. The MVNO service has only just been launched but further investment is necessary and we

also want to invest in innovation of the backbone system to improve efficiency, among other areas.

Q: What kind of investment will you make in relation to telework?

A: We need to invest in proof-of-concept demonstrations, etc., and with respect to telework, we began conducting an internal demonstration two years ago. One of the issues Japanese companies face when introducing telework is how to maintain team work. Since members are not performing their duties in the same space, this tends to create a sense of isolation and measures to prevent this are required. Monitoring working hours is also important and we are drawing on the results of the demonstration to develop an attendance management system for telework. It is also important to ensure security, and we will propose solutions to these kind of problems via proof-of-concept demonstrations.

Q: Under the previous Medium-Term Plan, there were three M&A transactions which contributed to sales growth. The current Medium-Term Plan does not appear to factor in M&A. Do you aim to achieve the targets organically?

A: Also with the previous Medium-Term Plan, initially M&A were not a part of the plan but it turned out that there were deals which were in line with the growth strategies and we implemented three M&A transactions. Since M&A transactions also involve a counterparty, they are in some respects difficult to incorporate into the Medium-Term Plan. If any good M&A deals that are in line with strategies come along, we intend to pursue them.

«Improvement of profitability»

Q: Basement business will decrease and your plan is to expand the businesses that are areas of focus. How will this change in business mix affect planned improvement in the profit margin?

A: Generally speaking, growth in service-type businesses leads to improvement in the profit margin. However, in the infrastructure sector, price competition is intensifying. Accordingly, efforts to improve cost in each project are important and this will underpin improvement in profitability.

Q: I believe the sales-cost ratio is already fairly high. How much more do you intend to keep aiming for improvement?

A: We are committed to continual improvement. Over the period of the Medium-Term Plan, we are aiming for improvement of 0.5% in the operating margin. We also intend to improve SG&A efficiency but since investment in growth is also necessary, we consider improvement in the cost ratio to be more important.

Q: Due to sudden deterioration in the environment of business with telecom carriers, in the

fiscal year ended March 31, 2016, profitability in the carrier networks segment deteriorated significantly. You say that, over the period of the medium-term management plan, we still cannot expect anything of business with telecom carriers. If net sales were to deteriorate further, surely action in terms of cost could still be taken?

A: We are streamlining business with telecom carriers and the results of these efforts became apparent in the fourth quarter of the fiscal year ended March 31, 2016. I believe we have at last put in place a structure that allows us to respond to capital investment trends among telecom carriers and in the future we will control costs depending on investment trends.

« Other »

Q: You say that the new Medium-Term Plan assumes that business with telecom carriers will not recover. Are you assuming that 5G technology will not be launched yet?

A: Even if 5G technology is launched, since in the case of base stations, the average spend per installation is still low, we do not have high expectations. However, with respect to services that use 5G networks such as IoT, we expect that business opportunities will expand.

Q: NESIC's dividend yield is attractive. Explain your dividend policy for the future.

A: Our basic policy is to maintain stable dividends and we also take DOE into consideration. We intend to increase profitability in order to be able to stably increase returns to medium- and long-term shareholders.

Q: I believe that there are areas in which you operate in collaboration with NEC and areas in which you operate independently. During the period of the new Medium-Term Plan, will there be any change in the sense of distance between NESIC and NEC?

A: We do not anticipate any major change. The Medium-Term Plan was formulated based on our own strategies but in areas where we can make use of NEC's strengths such as the broadcasting sector, we will collaborate with NEC.

This document summarizes questions and answers at meetings with sell-side analysts held on May 27 and May 31. The questions have been changed in terms of the order and overlaps to make them easier to understand.