NEC Networks & System Integration Corporation
(TSE 1973 / NESIC)
- Gear for Growth -

February 26, 2014
Tokuo Yamamoto,
Chief Financial Officer and Associate Senior Vice President
NEC Networks & System Integration Corporation

My name is Tokuo Yamamoto, CFO of NEC Networks & System Integration Corporation, which we call NESIC.

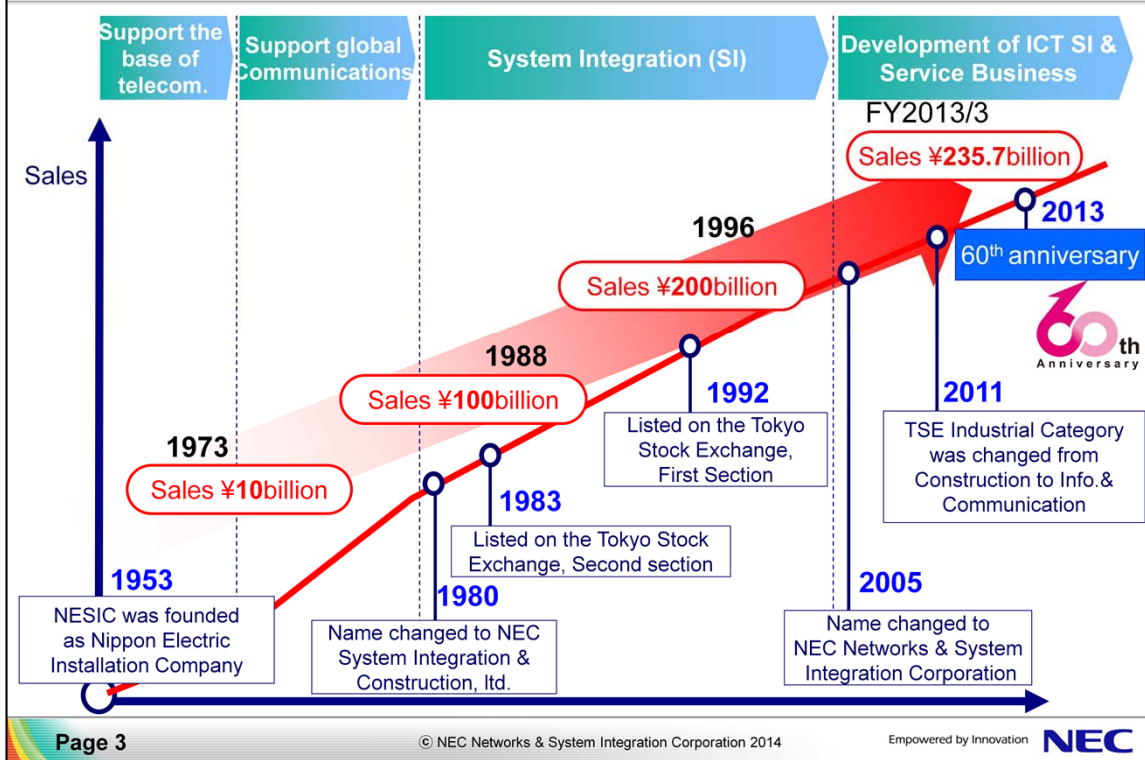Thank you for joining us today for this briefing.

Here is our agenda, today.

I will provide a summary of our company first, then talk about the gear for growth.

I. What's NESIC ?

- History
- Business Model
- Financial Performance

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What's NESIC?

Corporate History

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This chart shows our history.

NESIC was born as a telecom engineering company 60 years ago.

According to technologies, our business have been gradually expanded into systems integration and related services such as system operation and outsourcing services.

Corporate History

Support the base of telecom. (1953-)

Construction of domestic broadcasting and telecom infrastructure

Support global Communications (1960s-1980s)

Construction of telecom infrastructure around the world

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I will explain the history of NESIC in a little more detail.

1953, the year of our foundation, was the year when NHK started Japan's first regular television broadcasts, and Kokusai Denshin Denwa ,current KDDI was established.

In other words, NESIC was born at the dawn of communication in Japan.

We started out developing Japan's broadcast and telecommunications infrastructure, with the installation of television broadcasting equipment and the installation of telephone switchboards, as shown in the photos.

In sixties, our business expanded to the telecommunications infrastructure not only in Japan but around the world.

We have installed telecommunication equipment on Mt. Everest and have contributed to live TV coverage via satellite communications from the top of Mt. Everest.

Corporate History

System Integration (SI) (1990s-present)

Expansion corresponding to diversified communication way including mobile-phones and the Internet

And Today...

SI and operation of various social infra.
Work style reform integrating office design &ICT.

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Alongside the dramatic development of telecommunications technology in the 1990s,

we also contributed to the start-up of new telecommunications services, including mobile phones and the Internet, and also expanded system integration business for office communication network.

We can say that it is the era when we became a system integrator

And today....., we have also been involved in the construction of social infrastructure, including the installation of digital terrestrial broadcasting equipment on Tokyo Skytree and the development of a submarine seismometer system.

Moreover, our stage has spread as far as space.

We have been involved in the operation and control of the *Hayabusa* asteroid explorer, which caused a stir in 2010, and numerous other satellites.

Incidentally, it was one of our staff members who rediscovered the

Hayabusa when its whereabouts were unknown.

Not only integration of ICT systems for offices, we also focus on the work style innovation solution business, including procedures and office design to enhance the productivity of employees.
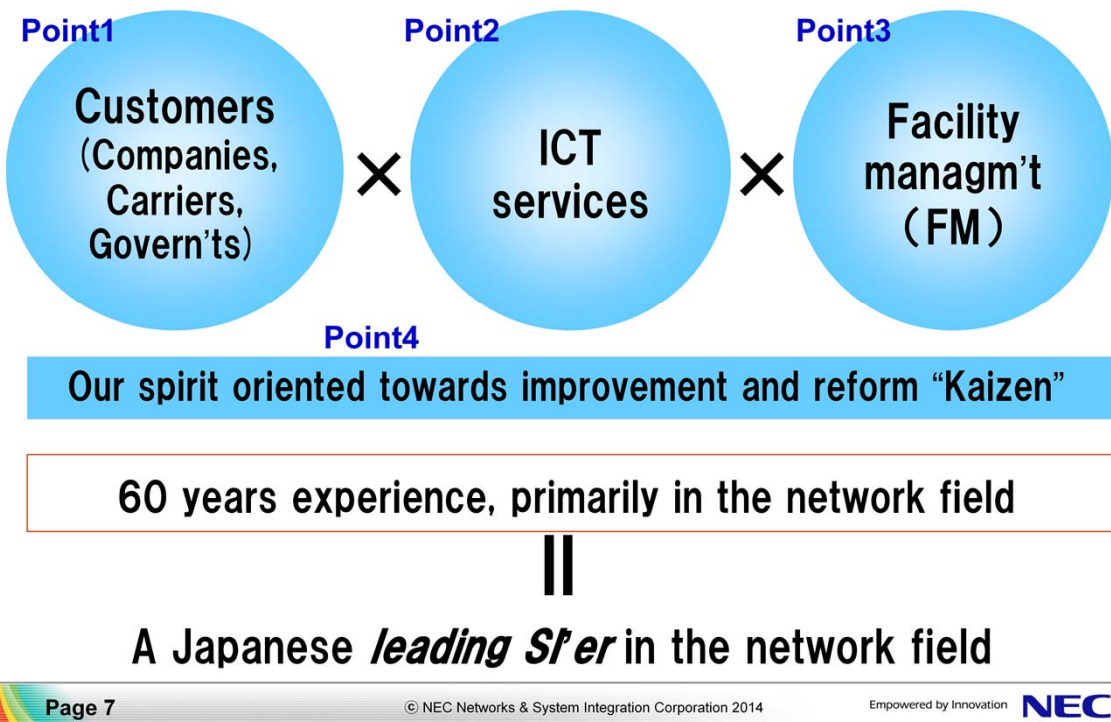
What is NEC Networks & System Integration?

We are a company that supports
all kinds of communications, ranging from
space and submarine communications to
communications in everyday life and corporate activities.

Corporate message

Re-designing your Communication

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It is, therefore, fair to say that NESIC is a company which has achieved growth by continually supporting all kinds of communications across a wide range of fields.

NESIC Business Model

Point1 — Customers (Companies, Carriers, Govern'ts) × Point2 — ICT services × Point3 — Facility managm't (FM)

Point4 — Our spirit oriented towards improvement and reform "Kaizen"

60 years experience, primarily in the network field
||
A Japanese *leading SI'er* in the network field

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Our business model has 4 points:

(1) We do business for various customers, private companies, telecom carriers and governments.

(2) We can provide them variety of services related to ICT, such as consulting, system integrations, maintenance operation, and outsourcing services, utilizing our strong service & support bases.

(3) We also have total facility management knowhow through telecom construction experience, including office facilities and design.

(4) In addition, we have spirit oriented towards "Kaizen"

We are proud of leading position in the Japanese network market by the trust, earned through our experience and know-how accumulated for sixty years.
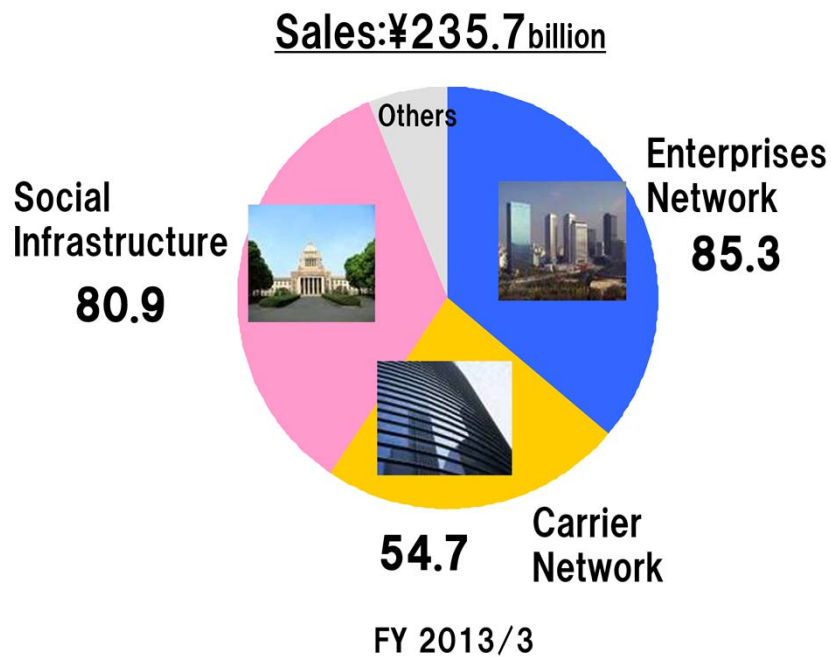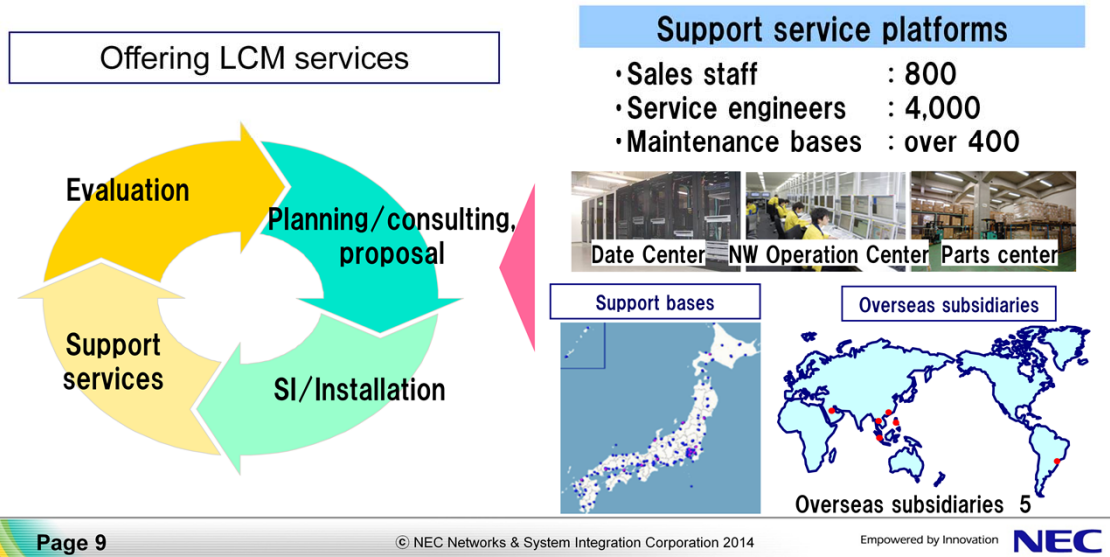
Our sales are well balanced by these 3 segments, as a results of our broad customer base.

Point 2: Infrastructure for Extensive ICT Services

We are able to provide ICT services as a management cycle, from consulting, integration, maintenance and outsourcing services.
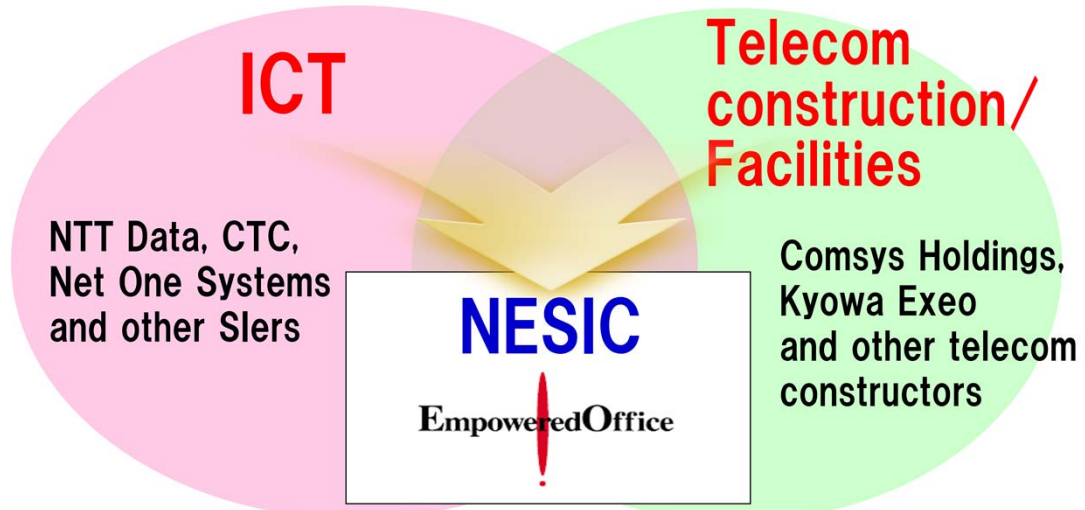
To support our business model, we have more than 400 service and support bases and 4000 engineers working nation-wide.

As a result, for an example, we can send support staff and necessary parts to our customers in 2 hours wherever they are in Japan.

The clear differentiation compared to other system integrators, lies in our know-how and installation capabilities for office, electrical and other facilities.
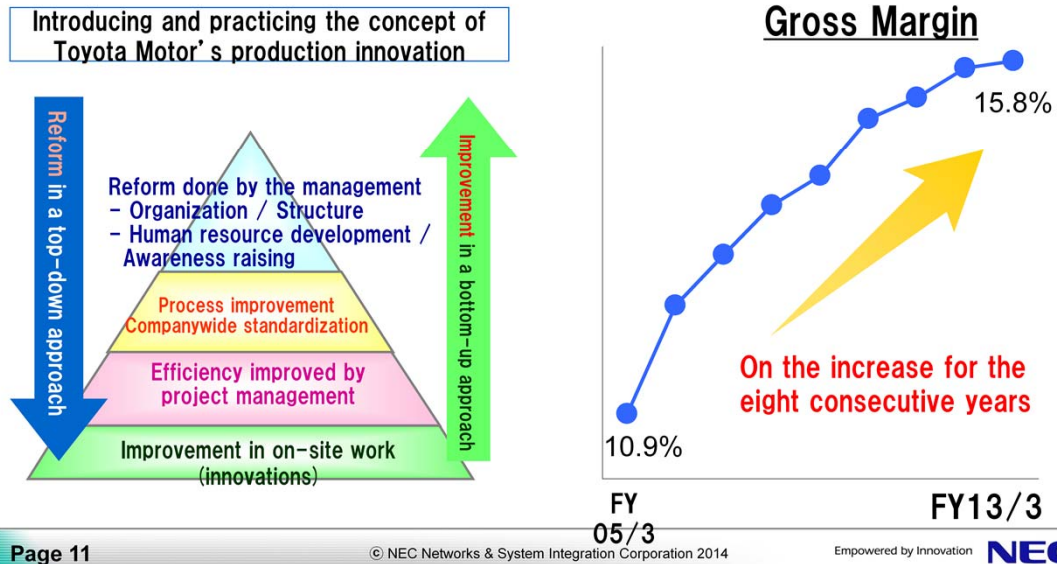
These skills have been built through our infrastructure construction business, leading to the creation of new business.

One of such examples is our solution named EmpoweredOffice, which improves total office productivity by combining ICT with office design, supplies and other facilities.

I will explain this in detail shortly.

Point 4: Spirit towards Improvement and Reform "Kaizen"

Profitability improvement by applying "Kaizen" spirit to whole company including sales person, SEs and administrative Staff

Introducing and practicing the concept of Toyota Motor's production innovation

Reform in a top-down approach

Improvement in a bottom-up approach

Reform done by the management
– Organization / Structure
– Human resource development / Awareness raising

Process improvement Companywide standardization

Efficiency improved by project management

Improvement in on-site work (innovations)

Gross Margin

15.8%

10.9%

On the increase for the eight consecutive years

FY 05/3

FY13/3

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All employees conduct exhaustive "Kaizen" activities in all areas from the construction work to sales activities and administrative staffs, and this awareness has become part of our DNA.

This spirit has fruited in eight consecutive years of improvement in profitability.

Position in the ICT Service Industry

Holding a top-class position in networking in Japan

- Competitors engage mainly in product sales and software and systems development.

(Billions of Yen)

		FY2012 Sales	YoY	Network ※ Business
1	NTT data	1,301.9	4.1%	109.0
2	Canon Marketing Japan	681.2	7.7%	-
3	OTSUKA	515.8	7.9%	79.9
4	NRI	363.9	8.4%	-
5	IT Holdings	337.8	3.2%	23.0
6	CTC	322.5	8.3%	106.0
7	SCSK	278.6	39.1%	49.1
8	Nihon Unisys	269.2	5.5%	-
9	NESIC	235.7	15.1%	154.7
10	NEC Fielding	185.9	1.3%	41.2
11	NS Solutions	172.0	6.4%	12.7
12	Transcosmos	166.3	3.2%	-
13	Net One Systems	154.9	-1.7%	132.9

※ Source : The Company based on "Study of New Business Strategies by SI/NI Vendors of Japan 2013" from Fuji Chimera Research Institute

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By demonstrating the features and strengths explained so far, NESIC holds the position of a top-class systems integrator in networking in Japan's ICT services industry.
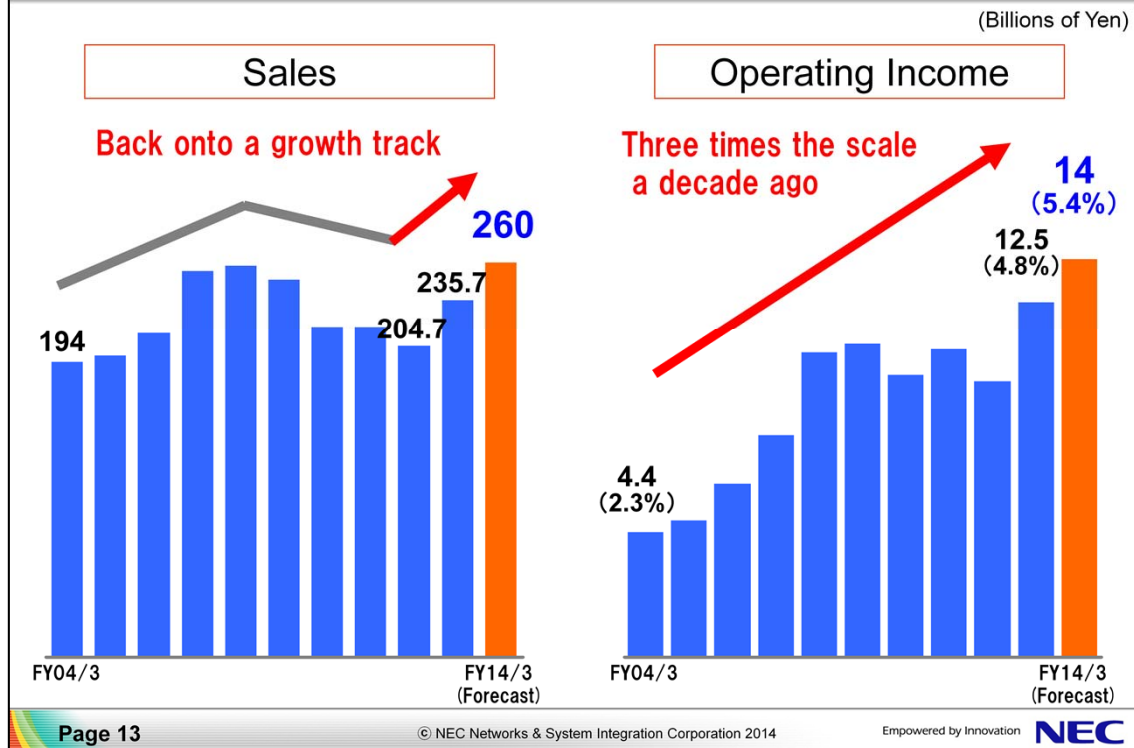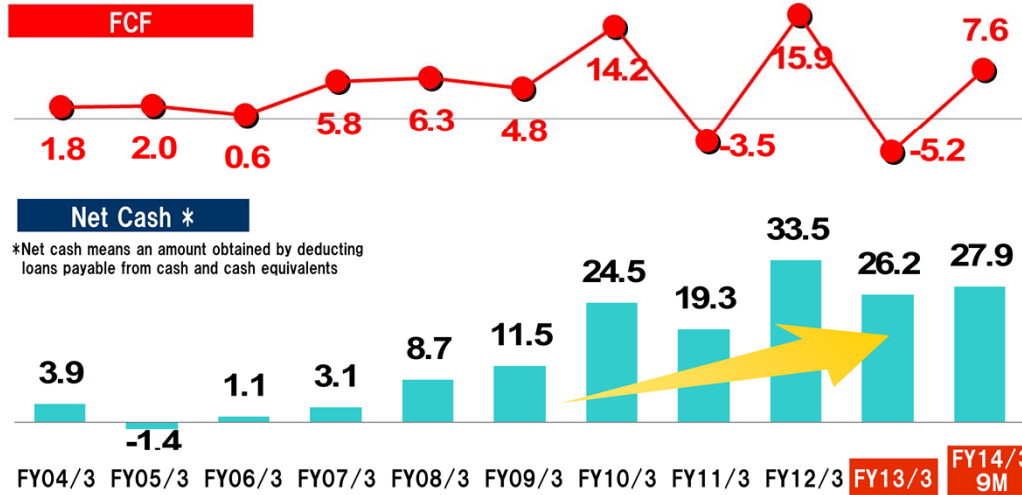
Next, I explain our financial performance.

For past 10 years, we have been improved our profitability.

On the other hand, top-line growth has stagnated, we are now just returned to a growth track.

Through increased profitability, we have built solid financial strength and we are ready to use it for growth.

II. Gear for Growth !

Next, I will explain how we gear for growth.

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Business Opportunities Summary

Enterprises

▌ **Matured domestic market & globalization**
→Needs to further efficiency & office innovation by ICT+α.

Telecom Carriers

▌ **Network traffic jam by "smart-phones" penetration**
→Investment to enforce network
→Procuring from global vendors.

Governments

▌ **Needs for the disaster prevention（DP）after "3.11"**

▌ **Preparation for the Olympic 2020 in Tokyo**

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First, our business opportunities,

Enterprise segment is matured in domestic market and in the middle of globalization.

They need pursue further efficiency and cost cuts by office innovation by ICT and other elements such as office design.

Telecom carriers need to enforce network and costs efficiency corresponding to traffic increase.

Procurement from global vendors is one of ways for cost reduction.

Last, regarding governments need for the disaster prevention.

we also expect demands for infrastructure enhancement toward Olympic 2020 in Tokyo.

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Direction for Business Towards Growth
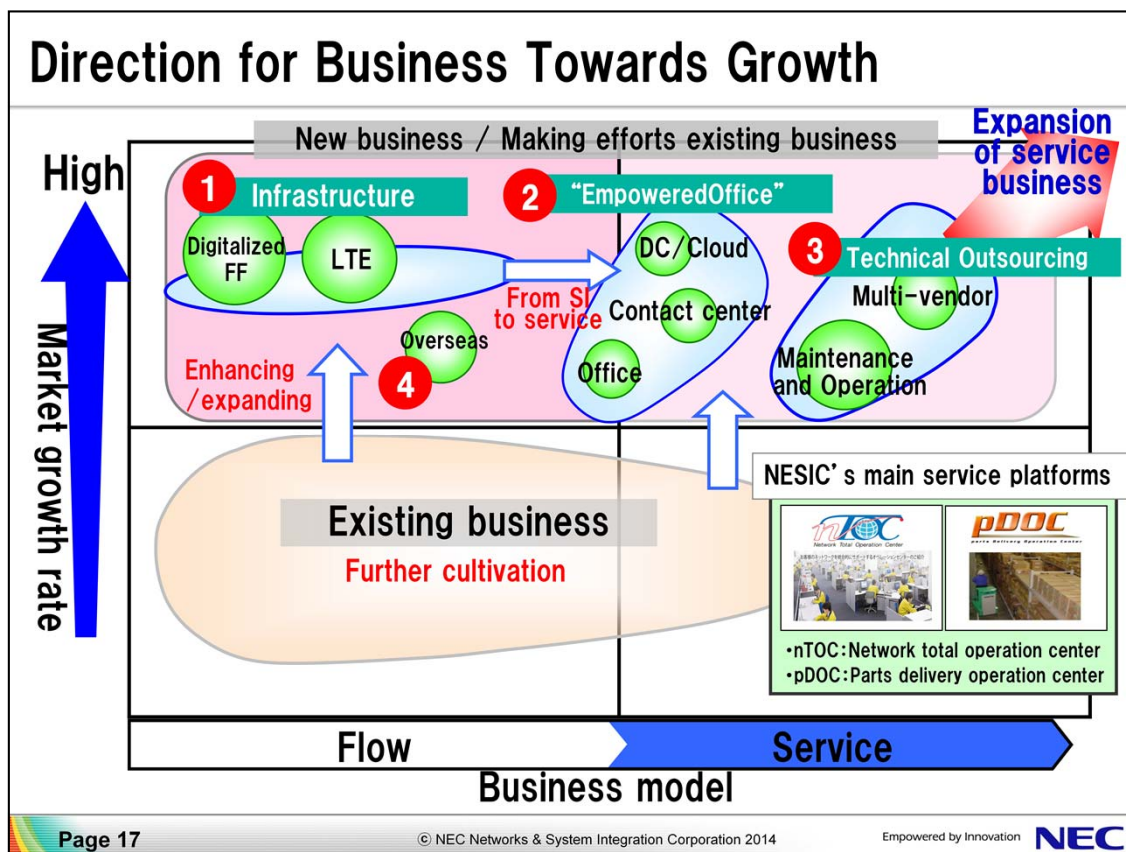
This chart shows key growth areas.

First, for the infrastructure business, we will focus on areas with medium-term growth potential, such as the digitalization of fire-fighting systems and LTE.

In addition, we believe that we must expand new service businesses with an eye to the future.

Enforcing our service platforms we will expand new ICT services integrating with BPO services not only for companies but also for telecom carriers and governments.

* Base transceiver station (BTS)
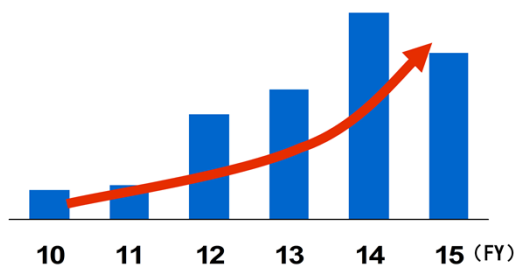
First, Infrastructure business.

In the fire-fighting network business we have big market.

It is a comprehensive network system to rapidly and appropriately arrange ambulance crews or firefighters and related vehicles for the site responding to fire or emergency calls.

 Investment in this network has accelerated because of the end of analogue and demand to integrate fire headquarters to expand the service area preparing wide-area disaster.

Actual fire-fighting system related sales for the current year will further increase from the previous year as a result of the active market and our strong offering.

2- "EmpoweredOffice"

(Billions of Yen)

EmpoweredOffice Sales

53 → 59

9M: 30 (FY13/3) +27% → 38 (FY14/3 Forecast)

▌Office innovation concept

● Proposal of innovated Working-style

・ICT + Facility management(FM) + Consultation

・To improve productivity, cost-efficiency, environmental responsiveness

| "Empower" | "Economy" | "Ecology" |

・Expanding to local & public markets

● From SI to providing services
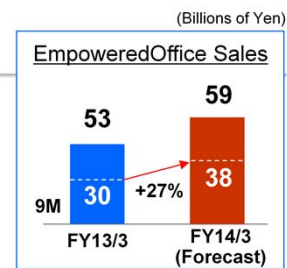
・Cloud and BPO services

photo : Tomoyuki Kawabata

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Next, "EmpoweredOffice".

White workers productivity is a critical issue for Japanese senior management to survive in matured market condition.

To enhance office productivity, we combine the strength of ICT and our facilities managements.

And we provide the following 3E solutions to enhance the corporate value of our customers: Empowering creativity of each worker, and realizing an Economical and Ecological work style.

We have implemented the solution for ourselves.

That was effective in reducing floor space by 40%, and the power consumption by half, as well as in speeding up management and information sharing, among other benefits.

We have invited customers, especially senior management, to discover the effectiveness for themselves by watching around our offices. As a result, the EmpoweredOffice brand has gradually been penetrating to our customers.

We are now trying to expand this solution to local companies and local governments.

3- Technical Outsourcing

■ Services for Overseas Vendors

Support customers without domestic service network or SI resources, by NESIC's advanced technical services/platforms
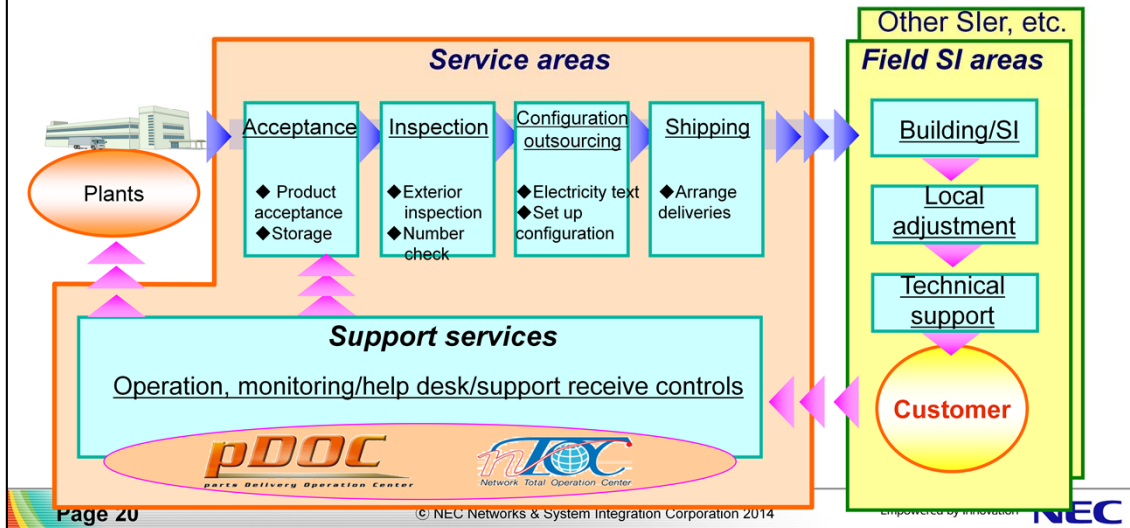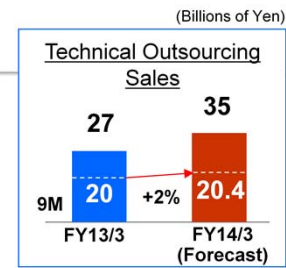
Technical outsourcing is a gear for growth of Carrier Network business.

We have accumulated world-class technologies as a member of the NEC Group.

In other words, through the experience for years, we have already established a quality service system and service infrastructure to meet telecom carriers' demand.

By using these platform, we are focusing our efforts on providing total services for global vendors.

These services include product acceptance inspections, equipment adjustments/customization, and support service after installation.

These services help carriers to achieve efficient total cost of ownership (TCO)..

In addition, we will expand overseas business.

We recently acquired a 3G network-related optical cable installation project for AIS, a leading Thai carrier.

Orders received in this first three quarters were around ¥3.3 billion.

As this is a project where the total cable length will ultimately reach 26,000km, we are targeting further growth in orders including penetrating areas where competitors have a presence.

In addition to AIS, we have another good customer, ALAMCO in Saudi Arabia for oil plant networks, and Japanese ODA related business is another growth opportunity.
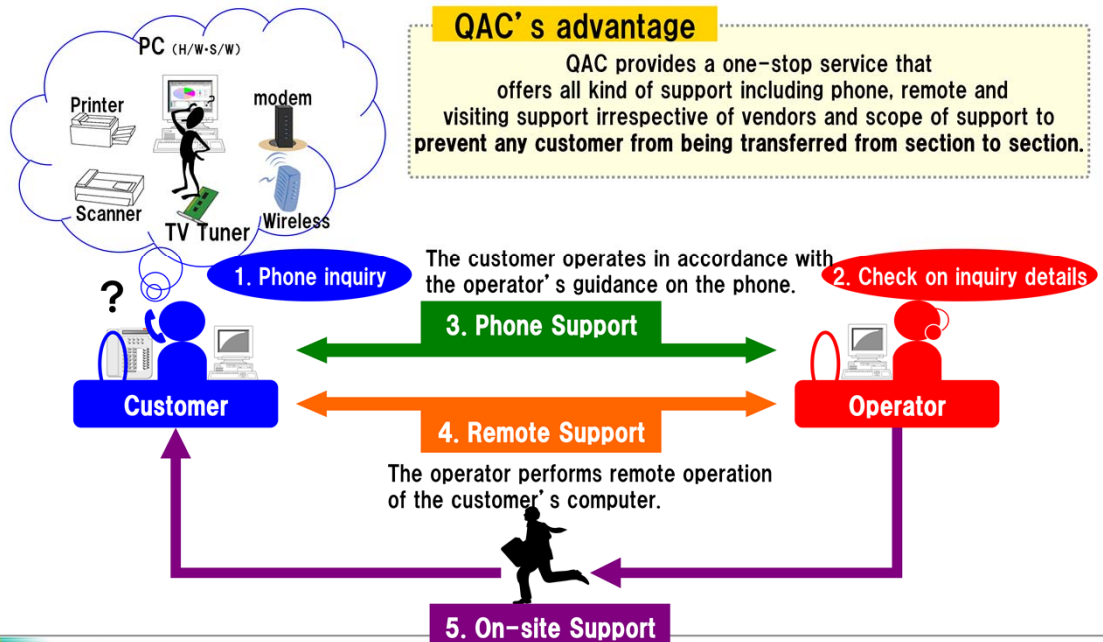
Direction for Business Towards Growth
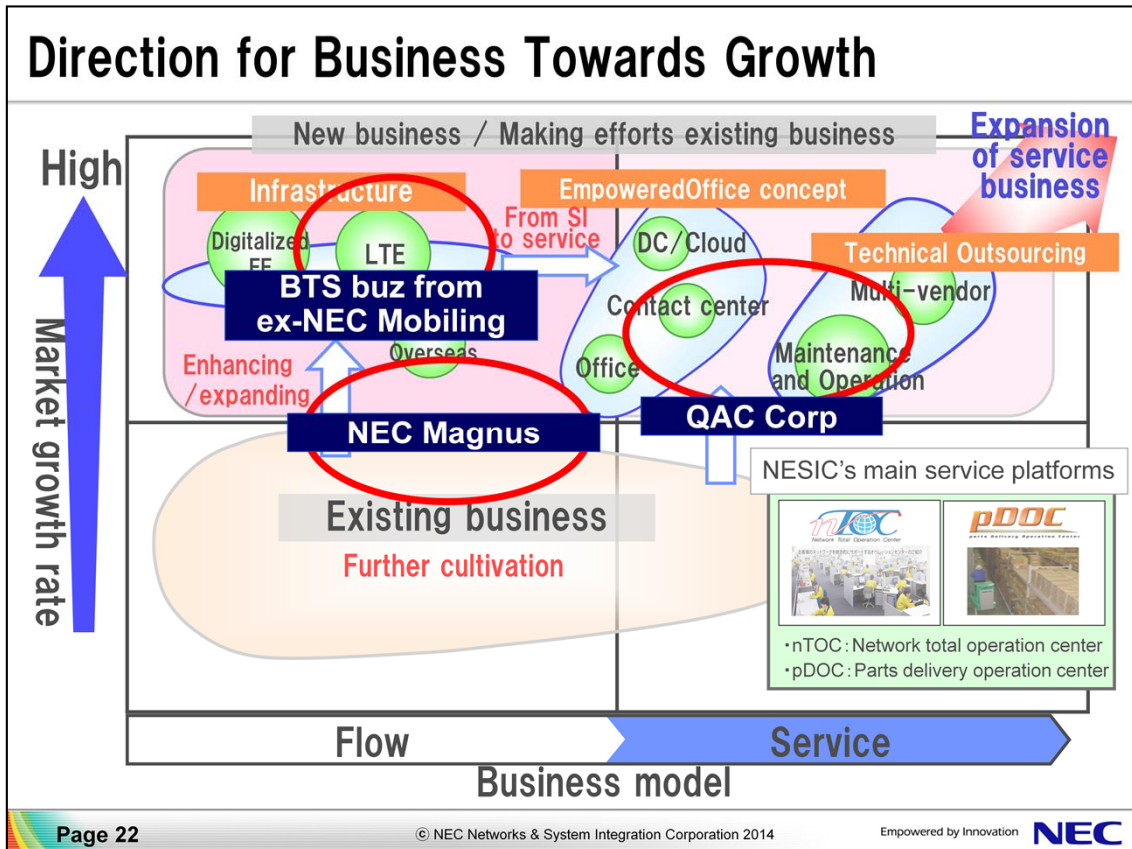
We have also been promoting an M&A strategy using its strong financing base to accelerate medium- and long-term growth.

Recently, we have executed three M&A deals for the purpose of strengthening our priority areas, as shown in the figure.

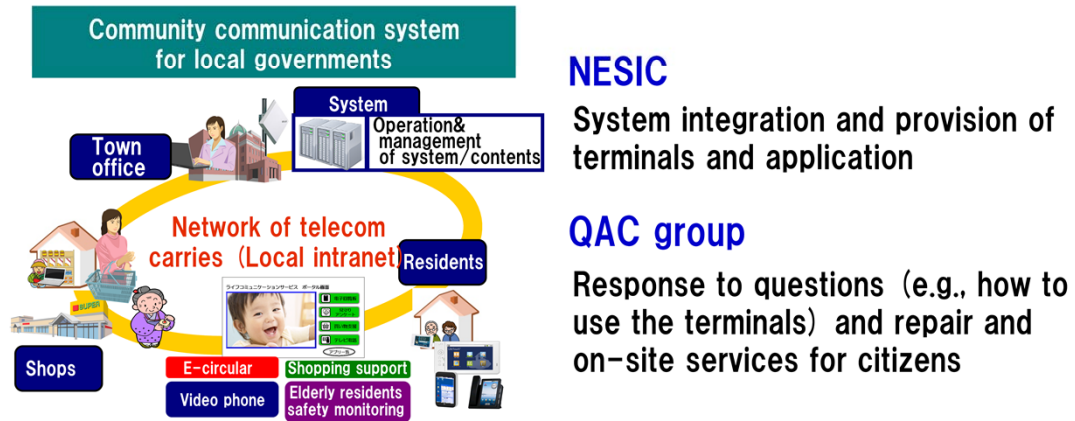I would like to introduce QAC Corporation to you as one example.

Q&A Corporation is a contact center operator, but its main feature is that it can offer all kinds of technical support, from responding to technical inquiries to consumers concerning ICT for products, broadband environments, etc. to onsite support through home visits.

M&A Strategy Accelerates Growth

New services utilizing the technical support capability of QAC

- New services combined with ICT solution of NESIC
  (B2B => B2B2C)

<Services Image>

Community communication system for local governments

System
Operation& management of system/contents

Town office

Network of telecom carries (Local intranet)

Residents

Shops

E-circular

Video phone

Shopping support

Elderly residents safety monitoring

NESIC
System integration and provision of terminals and application

QAC group
Response to questions (e.g., how to use the terminals) and repair and on-site services for citizens

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NESIC provides BtoB, ICT business in relation to a wide range of customer groups, as explained earlier.

Meanwhile, QAC's excels in BtoBtoC and BtoC support services for ICT-related products, as mentioned just now.

Through its alliance with QAC, we are now able to provide not only its previous ICT systems and services but also new all-in-one services including meticulous technical support services to its customers' users.

We will also be able to achieve considerable improvement in efficiency through integration and sharing of the contact center infrastructure of both companies.

Results of Current FY（9 Months）for Growth

Double-digit growth in orders and sales across all major segments
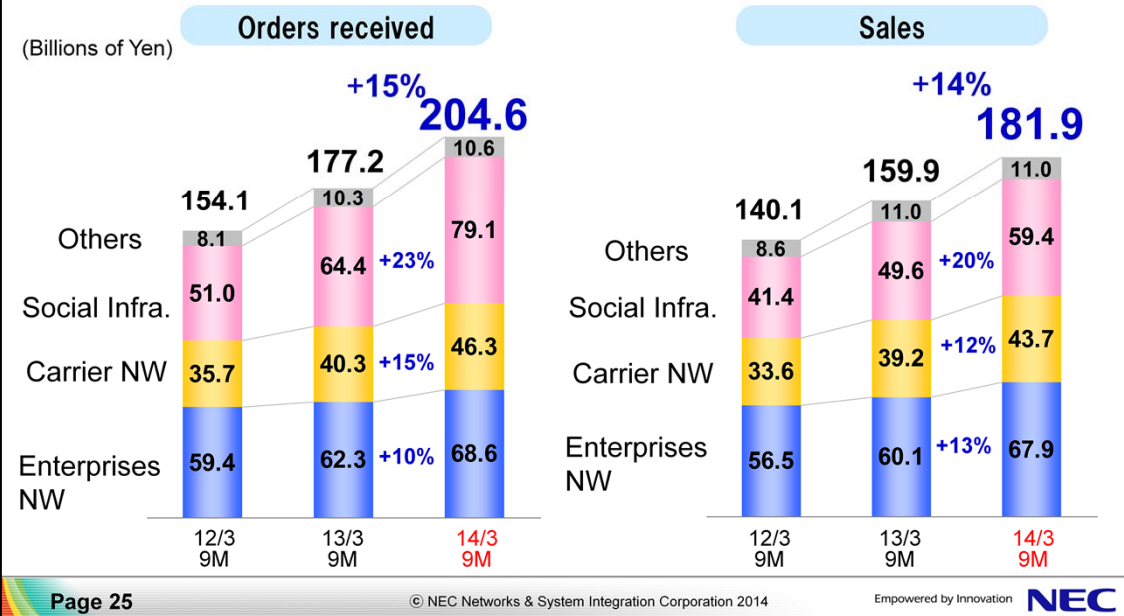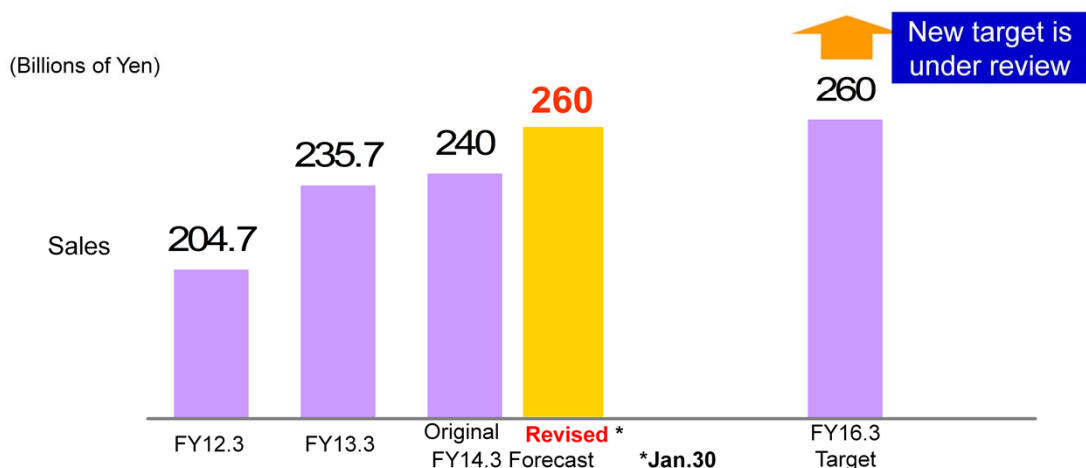
The charts show that actual results are going quite well along our growth strategy.

For the current fiscal year, the first three quarters results exceeded the year-ago levels by double digit percentage in all segments.

Mid-Term Business Target

We expect to achieve our mid-term sales target ahead of schedule, helped by a solid business environment and the impact of consolidating NEC Magnus Communications.

(Billions of Yen)

New target is under review

Sales

204.7 — FY12.3
235.7 — FY13.3
240 — Original FY14.3 Forecast
260 — Revised * *Jan.30
260 — FY16.3 Target

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Last May, we have set it the mid-term targets of net sales of ¥260 billion, operating margin of 6% and ROE of at least 10%.

We expect to achieve our net sales target ahead of schedule, helped by a solid business environment and the impact of M&A.

So we are currently examining a new target and plans to explain this at the time of the full-year financial results announcement.
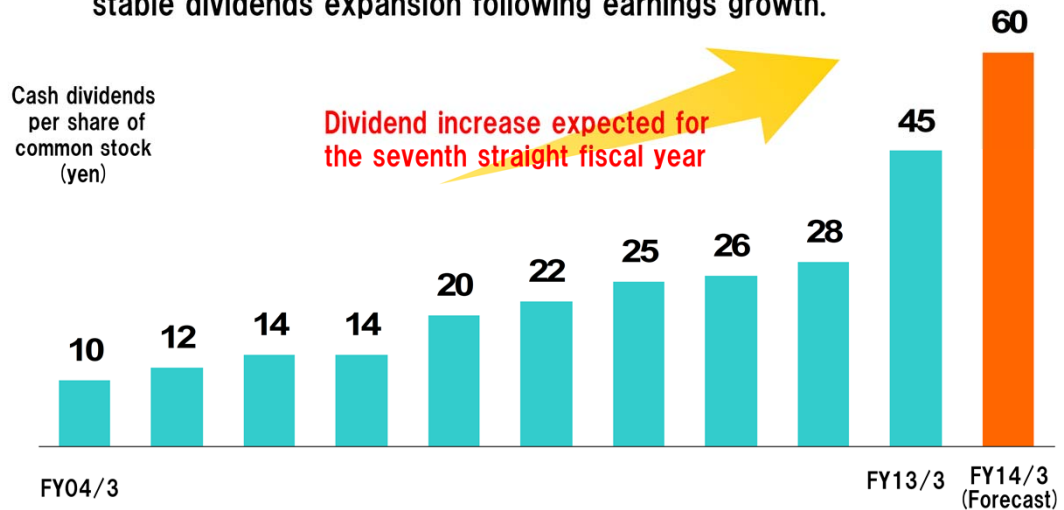
Expanding Shareholder Value

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Finally, I will explain our basic idea to expand shareholders value.

We have gradually increased dividends in step with our improved profitability, while focusing on stable dividends.

By balancing returns to shareholders with investment, we aim to generate an overall return that satisfies all shareholders.

Thank you for your attention.

Cautionary Statement

Forecasts of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.

Factors affecting results are not limited to the ones mentioned above.

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