

Q&A at IR Briefing for Financial Results for the First Half of Fiscal Year Ending March 31, 2015 (FY 2014)

NEC Networks & System Integration Corporation

Date and Time: Friday, October 31, 2014 from 13:00-14:00

Person A

Q: You said that the deadline for the digitization of fire-fighting systems was May 2016.

After that, how will businesses make up for the loss of orders?

A: First, let me provide some extra information about the current situation. Orders received for the systems peaked in the first half to meet the deadline for digitization in May 2016, as you pointed out, but large sales will continue also in the next fiscal year, as systems will be constructed up to the very last minute of the deadline. After that, a certain amount of orders will remain, as there will be some replacement demand, demand for systems in area expansion and maintenance services because fire-fighting systems come with command board systems, in addition to radio systems.

Another area where we can expect demand is disaster prevention. The government aims for national resilience as a theme, and information systems for disaster prevention are important in disaster-prone Japan. One of them is a disaster prevention administration radio system, but on a nationwide basis, many municipal governments have yet to introduce it. Although there is no time limit for digitization for disaster prevention systems, a gradual expansion is expected, driven by government support.

A little further in the future, we will see next-generation broadcasting such as 4K and 8K. A demonstrative experiment using satellite broadcasting is currently underway, and demand for optical fiber is expected, given the needs for redistributing next-generation broadcasting on cable TV. NEC Magnus Communications (NEC Magnus), which we made a subsidiary last year, will be able to take advantage of this trend, as it has a large customer base among local cable TV operators.

Further beyond that point, the degradation diagnosis of infrastructure using big data is another theme. We will focus on these areas, including sensors for landslide disasters, in cooperation with NEC.

There are many other themes including areas related to the 2020 Summer Olympics, and we will discuss specific plans in the next medium-term management plan.

Q: Please elaborate on measures to achieve an improvement in profit for NEC Magnus?

A: For profitability, we are promoting cost reduction in such a way as to reduce selling, general and administrative expenses. As a result of streamlining, NEC Magnus has improved its business structure so that it will make a profit even if the yen weakens, and the subsidiary contributed to profits in the first half under review. Another synergy is that NEC Magnus has many SEs related to contact centers, in addition to cable TV as I mentioned earlier. As we have had strength in infrastructure for contact centers for a long time, we will propose systems to customers as one with the SEs of NEC Magnus.

Person B

Q: In the Enterprises Networks business, please explain the reasons for operating income remaining flat, despite an increase in sales. Looking ahead, I think that sales will increase further, but what should I expect in terms of profitability?

A: In the Enterprises Networks business, some projects related to contact center systems, etc. had a higher cost for sales ratios than in the previous year, and this was made up for by higher sales in the first half. In the second half, such a situation will be eliminated, but, on the other hand, a competitive environment is never easy. We will make efforts to improve operating income.

Q: What are your prospects for orders and sales for the full year in the fire-fighting and disaster-prevention system business? You said that there would still be sales in the next fiscal year, but how much will they be?

A: We expect that orders and sales will amount to approximately 26 billion yen and 24 billion yen, respectively in the current fiscal year. Sales in the next fiscal year may fall 10% or so from the current fiscal year, but we expect that a high level will be maintained.

Person C

Q: You said that in the fire-fighting system business, fields such as the area expansion of command board systems and maintenance services will remain, in addition to the digitization of radio systems, which currently enjoys special demand. Would you elaborate on the future trends a little more specifically?

A: The area of fire-fighting command board systems is a field which the NEC Group as a whole has been working on for many years, and it is an assembled mass of ICT technologies such as IT systems, switching equipment and radio units. Technical innovations progress rapidly in the ICT area, and fire-fighting systems are renewed

to incorporate these innovations every 10 years or so. Therefore, demand continues to be promising. Also with respect to the area expansion of fire-fighting command board systems, integration and area expansion are expected to spread in the future in a similar fashion as municipality mergers. Since area expansion does not have a transition deadline, unlike the digitization of fire-fighting radio systems, the speed varies depending on municipalities. However, we believe that there will be a certain amount of demand over a long period of time. As just described, since there are still some areas in which we anticipate demand in the field of fire-fighting systems alone, we believe that the impact of the decline in the radio digitization business will be about a half of the current sales level.

Q: Selling, general and administrative expenses have been showing an upward trend in recent years. What level do you expect for the full year and the next fiscal year?

A: We also regard the increase in selling, general and administrative expenses as a challenge and are currently working to reduce them. Although the ratio of selling, general and administrative expenses to sales was on the 11% level in the previous fiscal year, we plan to reduce it to less than 10% in the future.

Q: Regarding demand related to the Olympics, in what domains do you think the Company will be able to capture demand?

A: Although we have an expectation for the Olympics-related projects, they are slow to take shape. One of the specific areas that offer hope is an area related to radio. By 2020, we imagine that people will watch sports using ICT devices such as smartphones. To that end, however, the current telecommunications infrastructure alone is not enough, and the application of WiFi will be necessary. Therefore, we believe that an infrastructure for that purpose will be developed going forward. WiFi is also essential to increasing convenience for foreign tourists, as there are many WiFi users among foreigners. In terms of business for foreigners, multi-language interpretation service is a promising field, and hotels, etc. are also an area where demand is expected. The capability to provide services in combination with terminals and systems is our distinctive strength. Another promising area is transportation systems. In preparation for the Olympics, railways and roads, including new routes, need to be developed. As networks are essential for transportation infrastructure, demand for such development is promising.