

Q&A at IR Briefing for Financial Results for the Fiscal Year Ended March 31, 2015  
(FY2014)

May 8, 2015

NEC Networks & System Integration Corporation

Date and Time: Friday, May 8, 2015 from 10:30-11:30

(The current fiscal year refers to the fiscal year ending March 31, 2016 and the preceding fiscal year refers to the fiscal year ended March 31, 2015.)

Questioner A

Q: With respect to the stance on the reduction of expenses, the promotion of streamlining expenses, including SG&A, appeared to have contributed to an improvement in profits. I thought that your stance was previously to bolster sales using expenses, and I wonder if your stance has changed.

A: There have been no major changes in our stance, and we have consistently taken measures in these two aspects, with external efforts to expand sales and internal efforts to streamline expenses (reducing cost of sales and SG&A). Our stance, increasing profits by expanding the top line, has not changed, but we believe that, in the same way as the Carrier Networks business did in the preceding fiscal year, it is necessary to aggressively promote the streamlining of expenses in a business environment where sales are stagnant. We think that the increase in profits in the preceding fiscal year certainly reflected the effects of both sales expansion and the streamlining of expenses.

Q: I understand that, in the same manner as the preceding fiscal year, you are expecting to post extraordinary losses in the current fiscal year again. I believe that they are transient losses, but can you explain what kind of expenses they are?

A: We absorbed and integrated subsidiaries in February and April this year. Temporary expenses related to these events will be incurred. The main items of the expenses are items related to retirement benefits, and this is merely a matter of the timing of the incurrence, because we are only recognizing unrecognized liabilities that would eventually need to be recognized at the time of absorption and integration. The expenses were incurred during the preceding fiscal year and will be separately incurred in the current fiscal year and they are still transient expenses. We expect to record extraordinary losses of approximately 1.5 billion yen for the new fiscal year.

Q: The stewardship code and the corporate governance code have been announced and are drawing increasing attention. I understand that the Company is increasing dividend payments and has maintained a high ROE, but is the Company going to make any changes in response to the development described above?

A: Our stance, aiming to bolster profits and increase shareholder returns, remains unchanged. Having said that, based on the understanding that awareness in the capital market is rising, we would like to further enhance transparency and we plan to examine methods for shareholder returns and other issues.

Questioner B

Q: You have achieved, ahead of schedule, the goals for net sales, operating income and operating margin that were set in the current medium-term business plan, so now what are your ideas about the goals for the next medium-term business plan? I believe that specific plans are currently under review, so please explain changes from the previous plan, the priority of goals and other ideas.

A: We are currently examining the next medium-term business plan as a three-year plan starting from the fiscal year ending March 2017, and there will be no changes in our stance of focusing on both aspects, the top line and profits, or our policies for the priority businesses, strengthening the service business and expanding the infrastructure business. However, the market situation is changing. In the period of the current medium-term business plan, demand for the digitization of fire-fighting radios and mobile communications base stations strengthened. Now, what kind of changes will take place in the market over the period of the new medium-term business plan? We are discussing this now. Regarding the issue of changes, the overseas market is one of the markets in which changes will take place in the future. In response, we have opened an office in Myanmar, one such market, and started to take the necessary measures. Another area where changes will take place is public investments in Japan, and we will pursue initiatives in this area in line with the government's key investment categories. Moreover, in the network area, we expect that SDN, a new technology, will become popular, primarily in the private sector. We would also like to focus on the MVNOs that are expected to become active, centered on M2M.

Q: Am I right in my understanding that the overseas business once had difficulties generating profit, but it is now profitable in the same manner as the domestic business?

A: We are developing our overseas business based on the stance of obtaining the market first and then improving profitability. As a result, even though the overseas business still has not matched the profitability of the domestic business, it is generating steady profits.

Q: Please elaborate on the future outlook of capital spending in Japan. It appears that telecommunications carriers will continue to restrain capital spending in the future, and the scale of investments by private companies varies by region.

A: Overall, capital spending by telecommunications carriers has been declining and we believe that it will remain severe in the future. In particular, investments in mobile communications base stations are likely to continue to be restrained in the future, because the area coverage rate has already reached a necessary and sufficient level. We think that it will still take some time before investments start recovering on the back of the introduction of new technologies, including LTE-AD and 5G, and, until then, carriers are likely to only make the minimum investments necessary. In this environment, the kinds of investments have been changing. For example, investments in indoor base stations that are installed mainly in buildings to deal with non-receptive areas are expected to continue to increase in the future. Looking at the situation of orders received by the Company, it has been improving in almost every industry, indicating a sufficient recovery in investments by private companies centered in major companies, and we believe that this will continue in the future.

Q: The fire-fighting system business has peaked out, so what kind of themes do you think will emerge for the next growth?

A: The fire-fighting system business consists of two sectors, the radio system and the command system, and the sector that has peaked is the one related to the radio system. On the other hand, under the themes of area expansion and collaboration, we believe that the command sector business will remain at a certain level in the future. In businesses other than the fire-fighting system business, we have high expectations for the themes of national resilience, disaster prevention and disaster mitigation in businesses related to public spending. For example, because there are certain local governments that have not yet introduced a disaster prevention radio system, the market for this system is likely to remain active in the future. Moreover, looking at the slightly distant future, the broadcasting sector has the investment theme of 4K and 8K services, and this makes the sector a market with business opportunities. 4K and 8K are still at the experimental stage, but when they find widespread application in the future, it will be necessary to use a CATV network because large-volume data cannot be transmitted through the current radio network.

This is a field in which the Company excels.

We also expect demand related to the Tokyo Olympic Games. In the infrastructure sector, WiFi and other networks will need to be developed in facilities such as stadiums, public facilities and hotels. Moreover, in the service sector, multi-language services that will be necessary in places that many foreigners will visit, including tourist spots and hotels, are expected to grow in the future.