

Q&A at 13th CLSA Japan Forum

February 25, 2016

NEC Networks & System Integration Corporation

(TSE: 1973 / NESIC)

Date & Time: February 25, 2016 (Thursday) 15.00~16.00

Q: What is the ratio of your overseas sales? Which segment has a high ratio?

A: Our overseas sales ratio is 5%. The businesses of our overseas subsidiaries are consolidated with the social infrastructure segment. As such, their sales are mostly accounted for by this segment.

Q: In this fiscal year, we are seeing significant declines in investment by telecom carriers. What is the background to this trend? How do you assess the impact that the introduction of new technologies (5G, etc.) may have on NESIC?

A: Telecom carriers have already made improvements in terms of connectivity. They seem to be curtailing investment because connectivity is no longer a factor from the perspective of competition.

Given this situation, we think that the next opportunity for investment will be when they introduce 5G. That being said, as far as base stations are concerned, what they will work on is expected to be centered on the additional installation or replacement of modules at existing steel towers or switching stations. We therefore do not think there will be installation work, an area of our operations, on a large scale. New uses and services will be created due to the introduction of new technologies, which will increase traffic sharply. We expect that there will then be demand for the reinforcement of core networks as a result.

Q: The My Number System has started to be implemented in Japan. Do you see any significant business opportunities pertaining to the My Number System?

A: Since we focus on network businesses, we will not benefit directly from investments related to My Number. Even so, we expect that there will be indirect benefits.

Q: What strategy will you take to expand the EO going forward?

A: The EO does not provide ICT alone for application in offices, but it is an ICT solution incorporating facilities such as office design in response to customers' needs. Looking ahead, it is expected that customers' needs will be diversified, reflecting changes in the way they work, such as teleworking in addition to working in offices. We will seek to expand business by addressing these needs.

Q: Please tell us about your overseas strategy.

A: NESIC currently has five overseas local subsidiaries, dealing with good customers in their respective localities. Our policy is not to expand into new areas or countries where we don't have any presence, but to move forward with businesses, mainly through overseas local subsidiaries, building on their knowhow of local businesses and connections with local customers.

Q: How do you control research and development costs? Do you have any targets in terms of the scale of research and development costs?

A: We do not treat research and development costs independently, but manage them within the total framework of SG&A expenses, with a target of 10% or less of sales for the time being. We have not spent much on research and development so far. However, we consider it necessary to spend strategically to launch new businesses going forward. From this perspective, we are putting money into new businesses that we have launched in the MVNO/IoT area, among other businesses.

Q: Please tell us about the SmoothSpace in detail.

A: The SmoothSpace is a solution based on the technologies of video conference systems and projection mapping for the purpose of showing spaces located separately, such as branch offices and stores, as if they were annexed to each other. It aims to enhance productivity and creativity through communication such as daily communication similar to that undertaken in the same office, or communication while sharing the atmosphere of a place, rather than theme-focused discussions by means of conventional video conferences.

End.