

May 10, 2016

NEC Networks & System Integration Corporation

Date: Tuesday, May 10, 2016

*The current fiscal year : the fiscal year ending March 31, 2017

The previous fiscal year: the fiscal year ended March 31, 2016

Questioner A

Q: The profit improvement measures in the Carrier Networks business began to produce results in the 4Q of the previous fiscal year. What specific measures have you taken, and where do you think there is room for improvement in this fiscal year?

A: The specific profit improvement measures in the Carrier Networks business include reducing personnel costs for outsourcing by doing things in-house and improving efficiency by reorganizing the maintenance system to convert the conventional system for each carrier into a system for each function. Because these measures produced results in the 4Q of the previous fiscal year, we expect further improvement this fiscal year.

Q: Looking at the Social Infrastructure business, the fire-fighting network has already peaked out for the digitalization deadline of May 2016, and broadcasting and CATV have been mentioned as the next areas of focus. As for these new areas, are there any deadline or specific investment schedules during the years of the medium-term management plan (New Medium-term Plan), similar to the fire-fighting network?

A: There aren't any clear milestone set by the government as for the digitalization of the fire-fighting network. For example, in the area of broadcasting, demand from local broadcasting stations to upgrade their broadcast facilities will emerge this fiscal year and in the next fiscal year. In the area of CATV, full-scale 4K broadcasting is set to start, but nearly half of the broadcasters are still using metal lines. Therefore, we believe that the upcoming Olympics will help to gradually generate demand to replace metal lines with optical fiber lines corresponding to 4K delivery.

Q: It appears that you are planning to make efforts for new businesses or upfront investments to help expand the top line under the New Medium-term Plan. However, these efforts may lower the profit ratio. What is your medium-term view of the profit ratio?

A: We are not satisfied with the current profit ratio level, and will work to further raise the ratio to at least 5.5%, which is the targeted operating profit margin for the final year of the New Medium-term Plan. To achieve this target, we will aggressively reduce outsourcing costs and material costs, and standardize the operation process. In addition, although some of our projects failed, we will formulate a system for eliminating these kinds of failures and improve the profit ratio.

Q: Will you press ahead with cost reductions based on the understanding that the business environment for the Carrier Networks business will not improve?

A: That's right. We will continue our Carrier Networks business, assuming that the business environment to remain tough.

Questioner B

Q: What is the reason for the difference in the sales figures for the EmpoweredOffice (EO) business in the Old New Medium-term Plan on page 20 and the figures for the New Medium-term Plan on page 29?

A: In the New Medium-term Plan, we have redefined the EO business as an area that we need expand during the plan period. We redefined and precisely calculated the services for office innovation as the EO business. These services include consulting for office relocation and layout design, and office tools for innovation in the way people work, such as the Smooth series. On the other hand, the conventional sales from EO are from broadly defined services for innovation in the way people work, and include sales related to the contact center business.

Q: Is EO profitable?

A: We are focusing on projects that start with consulting because we are better able to increase the profit ratio of these projects. It is important that we speak directly with management and make proposals, and because many of the visitors who come to see how we implement EO are from management, we use these instances as opportunities to work on them.

Questioner C

Q: Page 26 of the presentation materials state that you plan to increase sales in your areas of focus, while you plan to lose sales in the base businesses. Would you provide us with more detail about the businesses in which you plan to lose sales?

A: One business is the fire-fighter network business. Because the deadline for digitalization of wireless radio communication is May of this year, we expect sales to decline by about 15 billion over the course of this fiscal year. We also expect sales in the carrier business to decline further. In addition, we expect to see conventional sales-type businesses change into businesses that offer services, and this will result in a loss of sales.

Q: In regards to the Carrier Networks business, you said that sales will continue to decline in the new fiscal year. What is your forecast for the next three years?

A: The Carrier Networks business consists mainly of three parts: base station installation work, the SI of core networks, and maintenance. Of these three, we believe that once again there will be no increase in investment in base station installation work. Currently, cell-phone reception has already improved, and if we use the next-generation technology 5G, there will be no need to install towers. Therefore, even if we have orders, the unit price will decline substantially. On the other hand, we believe that enhancing the core network is necessary due to an increase of network traffic, although the volume is not as large as that for base stations in the past. Maintenance is an area that we need to continue, but we expect price negotiations to be extremely tough. Therefore, we do not expect to see any improvement in the business environment for the Carrier Networks business over the next three years.

Q: There seem to be many business opportunities for inbound business for people from other countries who will come to Japan for the Olympics or other reasons. Would you explain how these opportunities are different from those in the past, or what you particularly expect?

A: Japan expects to welcome as many as 40 million visitors from abroad, so we need to change the current way we do business. Recently, a new bus terminal was built in Shinjuku and the information boards were designed in a totally different way, taking into account the needs of people from other countries. We think that multilingual services like this are the key to inbound business, and we intend to focus on them as a common basis for providing services.

In addition, the situation has already become tight for accommodation facilities, and we are now seeing a trend towards building new hotels and expanding existing facilities. We provided a variety of solutions for hotels such as PBX, which has the largest share in Japan. We have been receiving an active stream of orders,

including those for the enhancement of existing facilities and introduction of new facilities, and we intend to focus on these further. We will make efforts to obtain contracts for call centers in which we use our multilingual service.

Questioner D

Q: You forecast an ordinary income decrease in the earnings forecast for the fiscal year, but expect an increase in net profit (profit attributable to owners of parent). Why is that?

A: In the previous fiscal year, net profit was affected by temporary factors such as the extraordinary loss related to the reorganization of subsidiaries and reversal of deferred tax assets. However, we do not expect these special factors during this fiscal year.

Q: In the previous year, the dividend increased by 6 yen despite the decline in net profit. You plan to increase the dividend by 2 yen even with the increase in profit for this fiscal year. How do you determine the dividend?

A: We have basically followed a stable dividend policy over the years, but this year we also have taken into consideration DOE (dividend on equity ratio). We predict that DOE will be similar to the 3.8% in the previous fiscal year.

Q: Would you explain what you mean in saying this fiscal year is for laying the foundation for regrowth?

A: The decline in earnings in the previous fiscal year was due to the lack of speed in responding to the rapid changes in the business environment for the Carrier Networks business. We therefore need to strengthen our foundation for improving the speed of our response, and intend focus on reinforcing our business foundation for future growth, such as by improving the efficiency of outsourcing costs and standardizing work processes. In addition, we will invest in the next stage of growth.

Q: You forecast a decrease in sales and an increase in profit in the Carrier Networks business for this fiscal year. Why is that? In addition, while you forecast an increase in profit in the Carrier Networks business, which faces difficult circumstances, you forecast a decrease in operating profit for the entire company. Could you please explain why?

A: For the Carrier Networks business, the measures we took for improvement in the previous fiscal year began to produce results in the 4Q, so we factored them in. However, in the Social Infrastructure business, digitalization of radio for firefighter use will be completed and sales will decline substantially. That is the reason why we forecast a decrease in operating profit for the entire company.

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