

## Q&A at 14th CLSA Japan Forum

NEC Networks & System Integration Corporation  
(TSE: 1973 / NESIC)

Date & Time: February 23, 2017 (Thursday) 13.00~14.00

Q: In the current business environment in Japan, productivity has slowed and it is expected that investment demands related to ICT and social infrastructure may be somewhat bearish on the part of customers. Could you elaborate on your assumptions with respect to the business environment used as a basis for your Medium-Term Business Plan?

A: We anticipate that capital expenditures among telecom carriers will remain weak during the period defined by our Medium-Term Business Plan. Meanwhile, we are enjoying healthy business with respect to ICT investment that is underway among corporate customers, with significant business opportunities expected in the field of social infrastructure. When it comes to services addressing Japan's productivity issues, we promote EmpoweredOffice Business with the aim of enhancing productivity by facilitating a shift in conventional work styles. We take this as a significant business opportunity in view of the government initiatives that are currently underway with the aim of transforming working styles in Japan.

In the area of social infrastructure business, we expect that investment demand for disaster prevention systems will remain strong among customers in view of Japan as a country being hit frequently by natural disasters. Investment demand related to broadcasting systems and cable TV networks will continue to grow toward the Tokyo Olympics in 2020. Moreover, we are currently enjoying strong demand for business related to hotel operators seeking to accommodate the various demands of inbound tourists. We aim to achieve business growth by focusing on these areas, which will continue to see active investments by business operators.

Q: What is your approach to 5G, the next-generation mobile communications system? What is your future outlook regarding the new system?

A: We will take active steps toward the 5th generation wireless system, but it will not create as much demand as in the case with 3G or LTE for our installation services related to mobile base stations because a shift to the 5G technology will primarily involve building additional/replacement modules for the existing antenna towers or stations. With the introduction of new technologies, it is expected that there will be more extensive areas of applications and services, leading to a surge in traffic and

the enhancement of core network capabilities.

Q: The Company has achieved a significant recovery in its operating margin over the past ten years. The current Medium-Term Business Plan, however, expects only 5.5% as an operating margin for the period covered, which does not suggest a significant improvement over the preceding years. What could be the reason for this? Do you expect a further improvement in the operating margin in the coming years?

A: The significant improvement in the operating margin over the past ten years was largely attributable to a series of operational efforts such as improvement of building and procurement methods and streamlining service stations providing maintenance services. In the Medium-Term Business Plan, we anticipate that it will not be feasible to achieve a profitability improvement comparable to the one actually achieved in recent years because the business for telecom carriers, which has previously enjoyed relatively high profitability with fewer competitors, is expected to lose momentum, and price competition will become even more fierce in the business areas related to enterprises networks and social infrastructure, both of which are positioned as key drivers for the future growth of the Company.

In the Medium-Term Business Plan, it will be of significant importance for us to achieve a substantial recovery in the operating margin back to a level close to the historical record high by remaining focused on the operational efforts seeking to offset the challenges mentioned earlier.

Q: It appears that your cash position has increased. What would an appropriate cash position be for you at the moment?

A: We believe that it is necessary for us to maintain working capital totaling at least 20-30 billion yen, or one month's sales, just in case. We will use other cash resources for investing in business growth areas or M&A opportunities. We will remain active in executing investment decisions for any M&A opportunities that will lead to future growth for the Company.

Q: As a measure to reward your company's stockholders, you seem to place greater emphasis on paying dividends than on reacquiring treasury stock. What is the reason behind that strategy?

A: The Company considers it important to reward its long-term shareholders in a stable manner, seeking to achieve consistent shareholder returns regardless of changes in profit. In our opinion, repurchasing treasury stock is just a temporary measure to reward shareholders who own equity shares of the company at the time of the repurchase. Accordingly, we believe that it is more important to reward our

shareholders with stable dividends, regardless of temporary fluctuations in business results.

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