

Q&A at IR Briefing for Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2013 (FY2012)

October 30, 2012

NEC Networks & System Integration Corporation

Date & Time: October 30, 2012 (Tuesday) 10.30~11.35

- Question

→ Answer provided by the Company

(\*Current fiscal year: Fiscal year ending March 31, 2013

Previous fiscal year: Fiscal year ended March 31, 2012)

Questioner A

- First-half financial results were strong, with orders, sales and profits exceeding the initial projections and results for the previous fiscal year in all indicators, but, this time, the results forecasts for the year ending March 31, 2013 remain unchanged. In view of conditions during the first half, there appears to be room for a better performance than expected. What is your honest opinion?
  - Regarding the results forecasts for the year ending March 31, 2013, during the first half, certain projects were moved up from the second half, and given the increased risk of macroeconomic deterioration, we believe we are not in a position to be optimistic. Therefore, our forecasts remain unchanged at the present time, but we do intend to work so that we can improve on the forecasts.
- What are you feelings about the effect and strengths and weaknesses of each segment when it comes to achieving the results forecasts for the year ending March 31, 2013? In Social Infrastructure business, you have now increased your estimate of the scale of investment in fire fighting systems from ¥300 billion to ¥350 billion. Please explain the reason for this.
  - We need to watch Enterprise Networks business carefully as, given factors such as the impact of last year's integration demand from the finance industry, recent orders show slow growth, and we hear that the operating environment in the manufacturing industry is becoming severe due to the impact of China risk among other factors. Turning to carrier business, we believe there still will be more investments either in strengthening core networks (included in Carrier

Networks business) or in base station construction (included in Social Infrastructure business). In the Social Infrastructure business, a deadline for the switch to digitalized fire-fighting systems has been set and the Great East Japan Earthquake has increased awareness of national disaster prevention and the strengthening of fire-fighting and disaster-prevention systems is being expedited as part of this. Against this background, we also revised the size of the market.

- Recently, a certain carrier is often involved in M&A deals. How do you think this might impact on the Company?
- In our view, there will be no immediate impact on the Company, but we hope that there will also be opportunities of some kind for us in the medium and long term.

#### Questioner B

- Page 23 of the presentation materials shows potential growth areas for the Social Infrastructure business. I believe the Social Infrastructure business used to be a business which focused more on costs and profit than on growth. Has the policy been changed?
- Our stance towards the Social Infrastructure business has not changed. Digitalized fire-fighting and disaster systems (positioned as a growth area) is an emerging business area we are working on with NEC, but the reallocation of frequencies is stimulating the market and we have winning products and intend to grasp market opportunities.
  
- Regarding the graph showing the market for fire-fighting systems on p11 of the presentation materials, the graph shown before (materials for the first quarter briefing) was a graph peaking in FY2013 - FY2014, but the graph used this time appears to peak in FY2014 - FY2015. What is this based on?
- Market data is based on assumptions made by the Company, but the graph used before is based on orders and the material used this time is based on delivery. Since analog communication will be terminated in 2016, investment will be accelerated ahead of this. Therefore, based on orders, FY2013 - FY2014 is the peak but the time when these orders are delivered and recorded as sales is slightly later, making FY2014 - FY2015 the peak.
  
- When examining the medium-term plan, do you intend to increase the actual amount of profit or do you aim to increase the profit margin? Which is it?
- We aim to expand profit both in terms of the actual amount and the profit margin. Our profit margin is still not high enough compared to our competitors, and we believe it is necessary to achieve a profit margin on a par with that of our

competitors, at least. We also intend to increase the amount of profit by achieving sales growth.

#### Questioner C

- What kind of business is submarine seismometer system business on p8 of the presentation materials? What should we expect looking forward to next fiscal year?  
→ The business involves laying submarine cables with built-in seismometers on the Pacific Coast and when the system senses an earthquake, this is communicated to relevant agencies immediately. Given the accelerating trend for disaster prevention following the Great East Japan Earthquake, a system for a Tonankai Earthquake is also being prepared for installation.  
Japan is a country that often experiences earthquakes, and investment in such countermeasures is expected to continue.

- What kind of projects are the large projects mentioned on p10?  
→ In the current fiscal year, projects include mobile base stations and fire-fighting and disaster prevention, but besides these, in Social Infrastructure business, there are also large infrastructure projects such as traffic-related ETC, and broadcasting studio facilities and transmitters.

- On p23, you mention Japanese originated corporations (JOC) as a strategic area. Could you please elaborate on your approach to overseas expansion?  
→ We currently have overseas subsidiaries in Brazil, China, Thailand, the Philippines and Saudi Arabia, and the region in which we are targeting JOCs is the China/Asia region, such as China and Thailand. Around 30% of our customers are also advancing into such overseas markets and some have also asked for our cooperation. We intend to use our overseas subsidiaries as well as the overseas subsidiaries of our parent company NEC to expand JOC business in China/Asia.

In the meantime, we also have business with local customers such as our pre-existing business with carriers in Thailand and Brazil and business with a major oil company in Saudi Arabia, and in this business also, we intend to further develop the relationship of trust with our customers.

#### Questioner D

- In the Social Infrastructure business, sales of ¥40 billion are projected in the second half. In your view, what contribution will fire-fighting and disaster prevention systems make? And how will this compare year on year?  
→ Second-half fire-fighting and disaster prevention systems sales are expected to be

just over ¥10 billion. This represents an increase of around ¥3 billion year on year, but orders doubled in the first half as well, and we believe this forecast is achievable.

- Regarding the size of the market for fire-fighting systems, according to p11 of the presentation materials, the market size is expected to reach around ¥350 billion. How does this break down? What is the Company's potential share of this market for fire-fighting systems?
  - There are two trends in fire-fighting systems: wide area management and digitalization. Wide area management denotes the wide area reorganization of several hundred fire stations nationwide in the manner of local government integration, and the business opportunity for the NEC Group is that command systems will become more large-scale. In addition, there is the trend for digital wireless communication systems for emergency use, and it is difficult to accurately separate the size of these two markets, but we believe that the wireless market is bigger because the switch from analog to digital has to be completed within a fixed period of time, by 2016. In our opinion, we have the opportunity of being involved in around 20% of a market with a value of around ¥350 billion.
- How profitable is the fire-fighting systems business? I imagine newcomers to the market are also unlikely as the business meets special demand in a sense and, in my view, it is perhaps a business with a sense of urgency to complete by the deadline.
  - Fire-fighting systems business is a public business, in other words, business acquired through tender offer, and because of its nature, high profit margins cannot be expected. However, we have a strong market position as part of the NEC Group and strong products compatible with both analog and digital in one unit. In other words, given the nature of the business of tendering for contracts, we will endeavor to increase profit margins by harnessing our customer base and product strength.

#### Questioner E

- Competitor Fujitsu is also advertising the fact that it has a large share of the market for fire-fighting systems. Do you intend to maintain your large share or increase your share further?
  - This business is a business we are working with the NEC Group, and the NEC Group intends to increase its current large share further.
- Can you tell us, President Wada, what you intend to maintain and what you intend to

change from the former President?

- I think Former President Yamamoto strengthened profitability and made the financial position very strong. Inheriting this legacy, I aim to achieve top-line growth, as sales are currently slow, and to increase profit through this, while at the same time actively making growth investments. We are aiming for expansion of service business, and this approach is exactly the same as before.
  
- What is your approach to dividends? Is there a possibility of a dividend increase to celebrate the Company's 60<sup>th</sup> anniversary next year?
- Management's basic approach is to value its shareholders. On the other hand, investment to speed up slow growth is also important and we will balance these two factors when considering dividends. As for future dividends, in my view, we have not yet reached the stage where we can say any more than this basic policy.