



# Financial Results for the Fiscal Year Ended March 2013

May 9, 2013

Masao Wada, President

NEC Networks & System Integration Corporation

(TSE: 1973, NESIC)



# Agenda

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- I. FY 2013/3 Financial Results
- II. FY 2014/3 Forecasts
- III. Mid-Range Business Plan

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# I. FY 2013/3 Financial Results

# FY2013/3 Summary

## Big jump in both sales and profit

### ● Achieved record profits

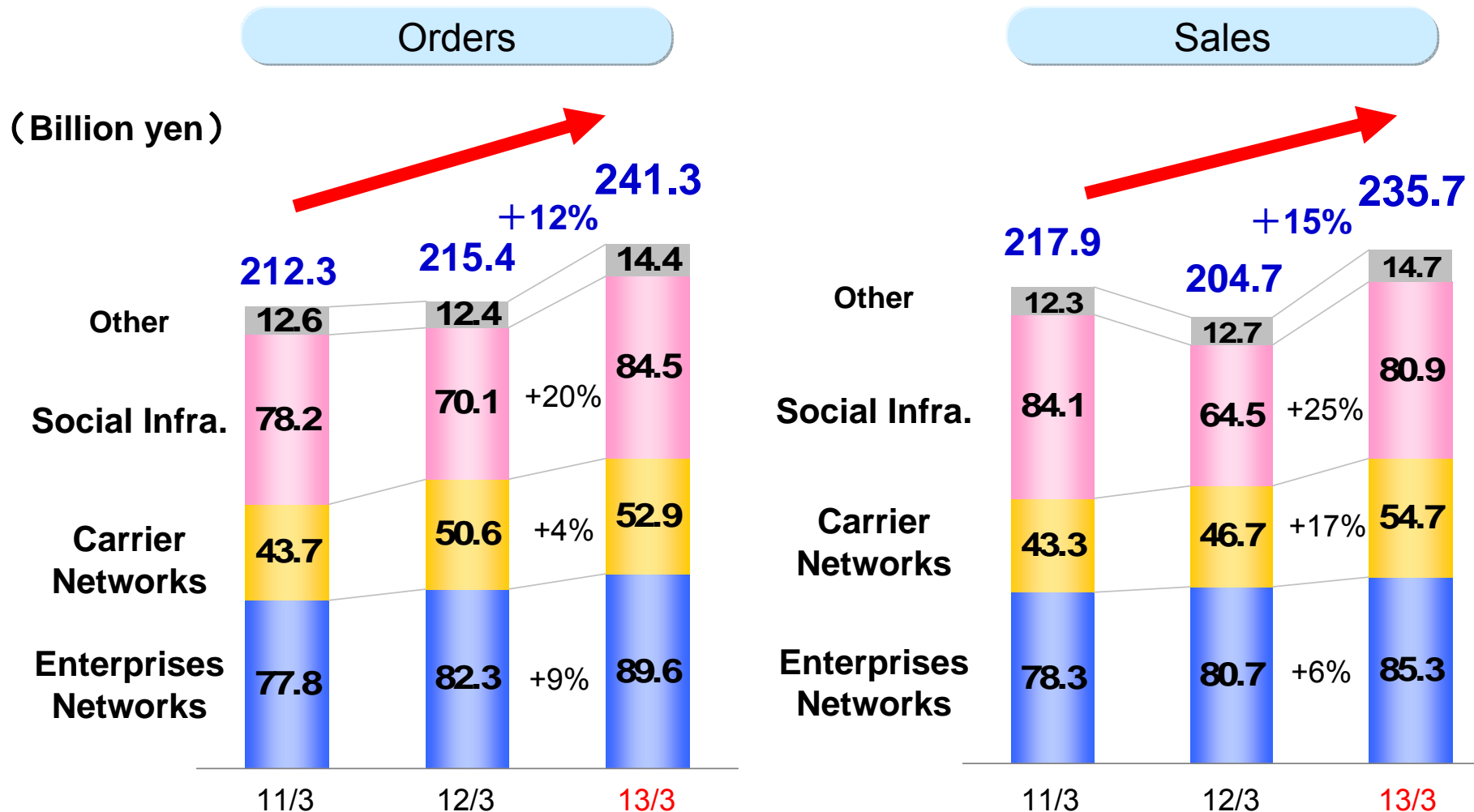
( Billion yen )

	FY2012/3 Results	FY2013/3 Results	YoY	Forecast ( Jan. 31 )	Diff. from forecast	[Reference] FY2011/3 Results
Orders Received	215.4	241.3	+ 12%	-	-	212.3
Sales	204.7	235.7	+ 15%	230.0	+ 5.7	217.9
Operating income	9.7	12.5	+ 2.7	11.5	+ 1.0	10.8
(to sales)	(4.8%)	(5.3%)	+ 0.5pt	(5.0%)	+ 0.3pt	(5.0%)
Net income	※ 4.6	7.5	+ 2.9	6.8	+ 0.7	4.7
(to sales)	(2.2%)	(3.2%)	+ 1.0pt	(3.0%)	+ 0.2pt	(2.2%)
ROE	5.9%	9.0%	+ 3.1pt			6.3%
Free Cash Flows	16.1	- 4.7	- 20.8			- 3.5

\* Including the ¥1.1 billion impact from the reversal of DTA corresponding to amendments to the taxation system

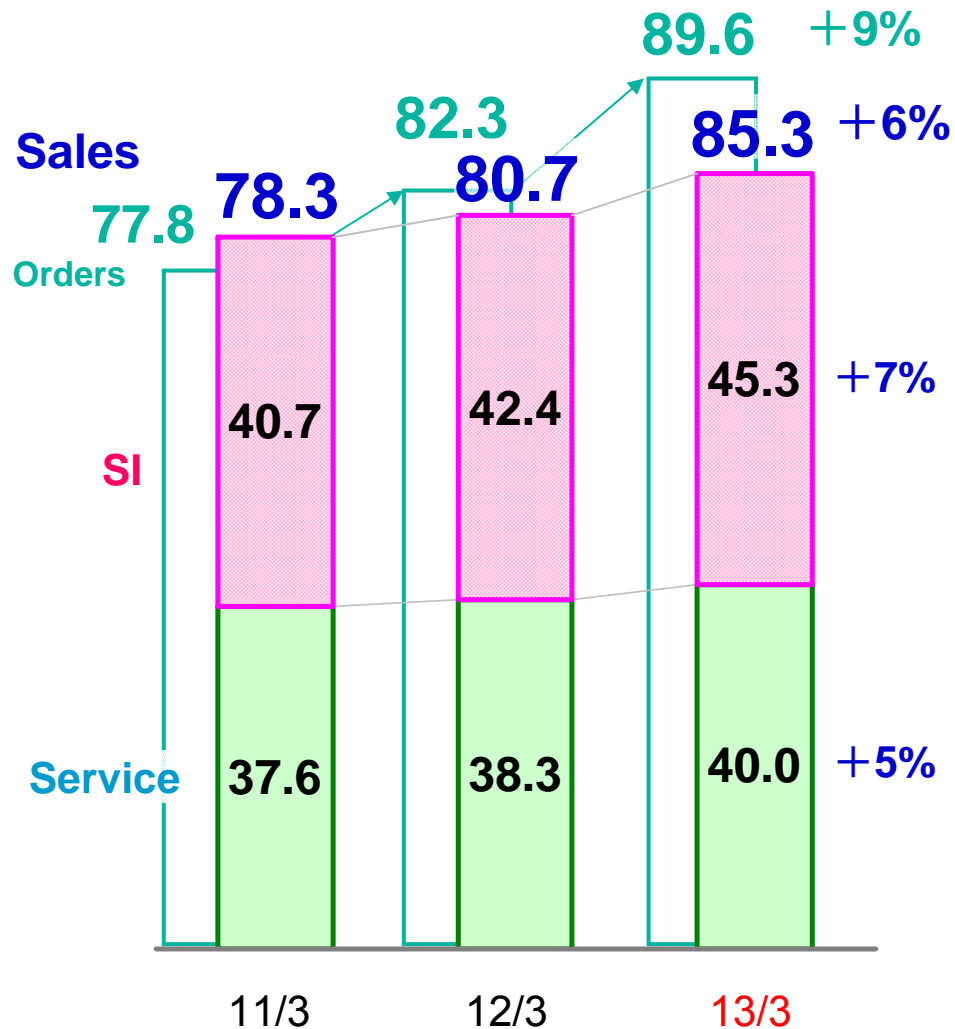
# FY2013/3 Orders Received/Sales by Segment

Both sales and orders increased in all segments.



# FY2013/3 Enterprises Networks Business

(Billion yen)



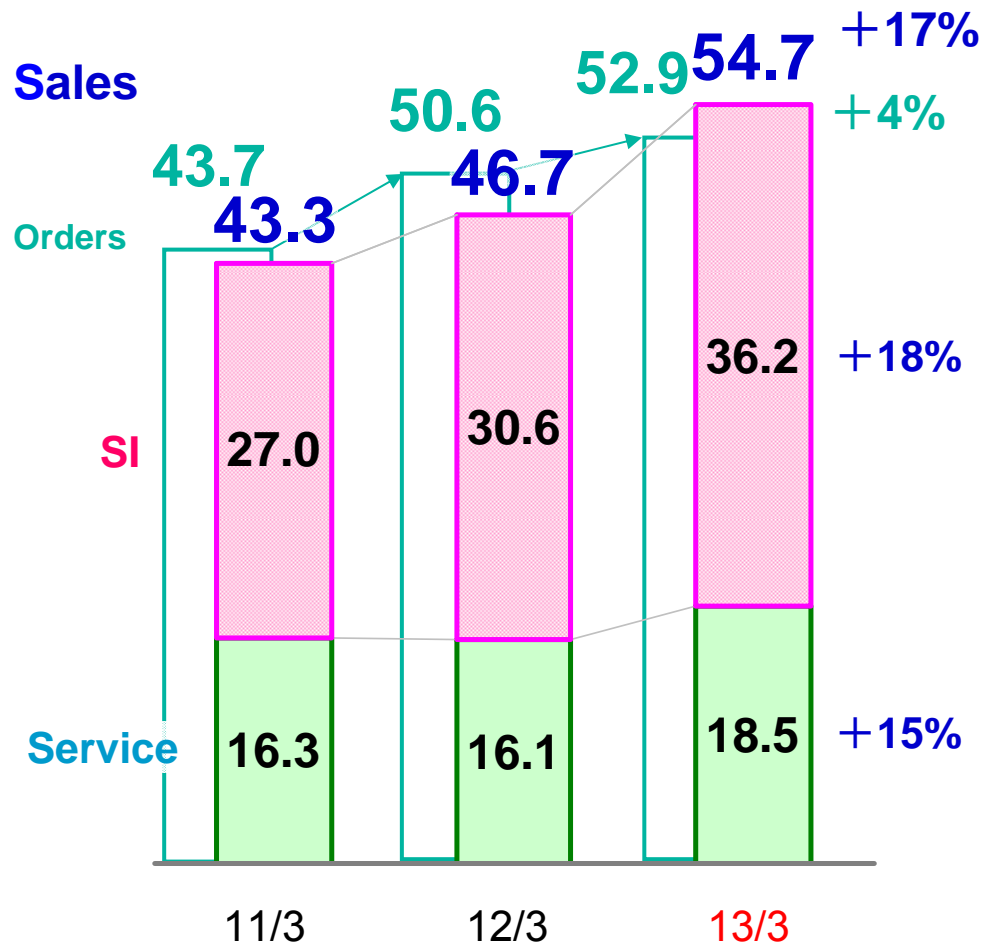
Moved onto a growth track by meeting management innovation demand and investing in growth

~Continued growth after Lehman shock (CAGR +4% after FY10/3)

- EmpowerdOffice served as a growth driver.
- Service grew following SI (+7% in 2H)
- Results in partnerships  
-> Contact center business field expanded (SI+BPO)

# FY2013/3 Carrier Networks Business

(Billion yen)



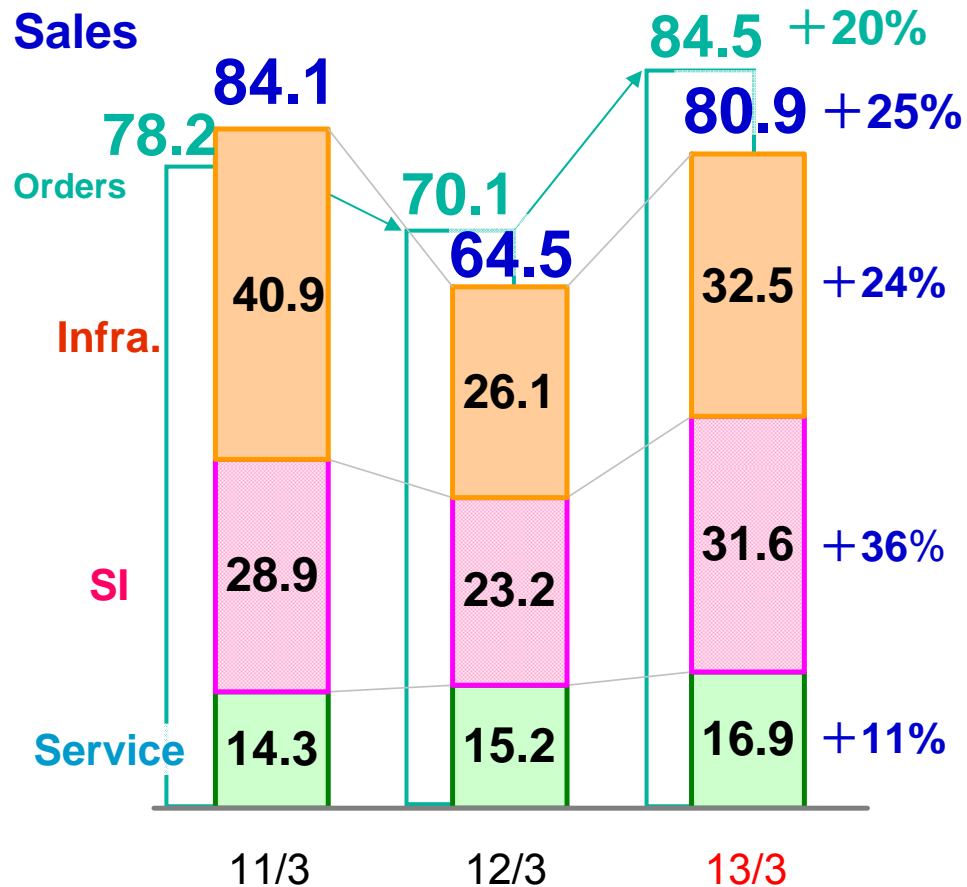
Both SI and service increased with business to relieve network congestion

- Expanded “technical outsourcing” business
  - Multi vendor SI
  - Configuration outsourcing services, etc.

Sales from the submarine seismometer system business accounted to ¥5 billion.

# FY2013/3 Social Infrastructure Business

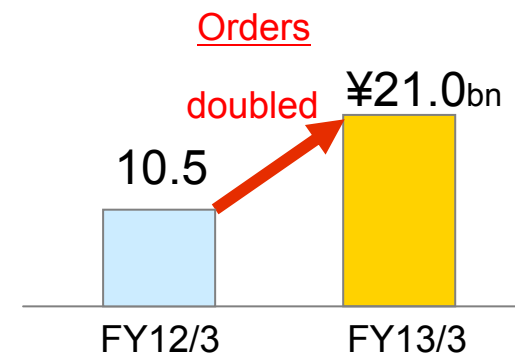
(Billion yen)



Orders and sales recovered, responding to infrastructure demand

## <Firefighting & disaster-prevention>

- Jumped with market increase



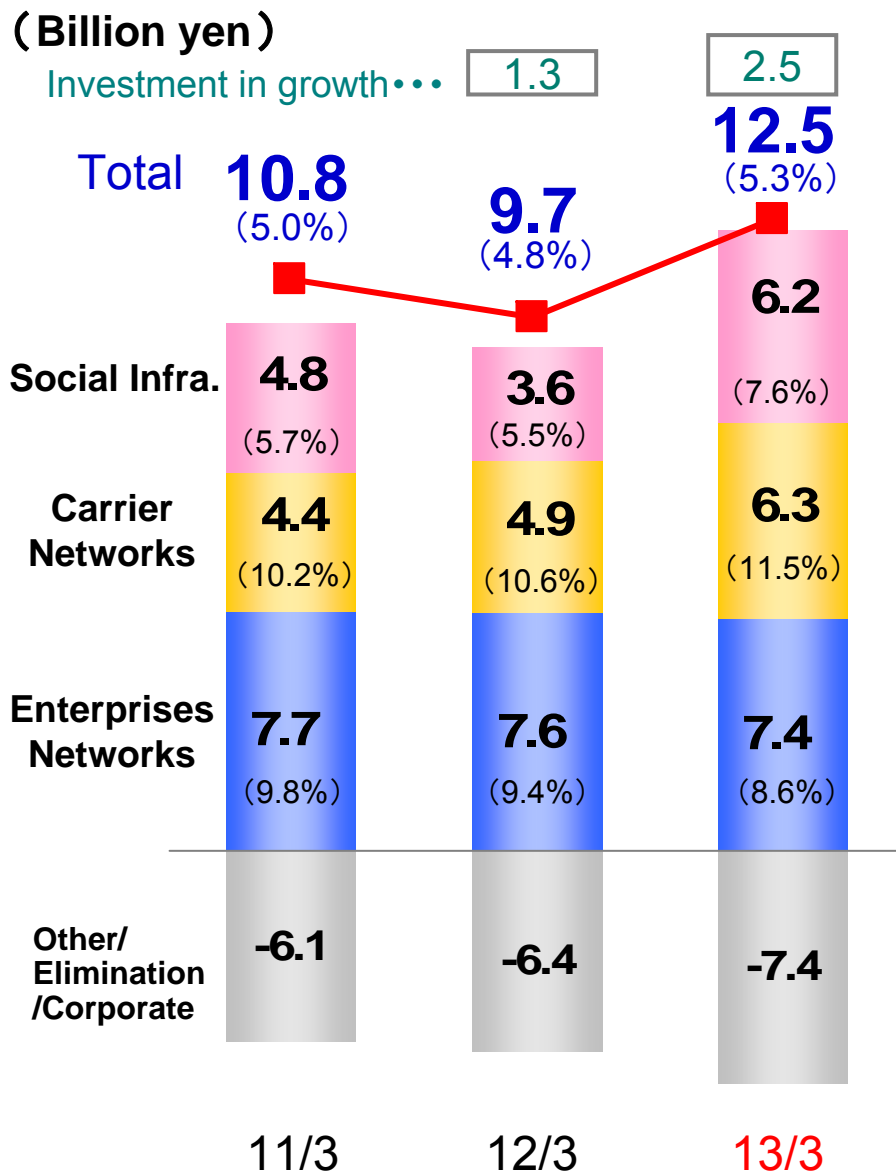
## <BTS installation>

- Expanded with new frequency demand

-Construction business for telecom carriers increased 30% both in sales and orders



# FY2013/3 Operating Income by Segment



■ Achieved record profit  
~ Margins also improved with streamlined operation despite increased investment in growth

● Social Infrastructure

- A significant rise in income, given higher sales and the effects of reforms undertaken since last FY

● Carrier Networks

- Increased operating income with sales growth and the progress of internal production

● Enterprises Networks

- Slightly lower operating income, reflecting an increase in investment in growth (¥0.6 billion), offsetting higher sales, a factor for higher income

● Other/Elimination

- Costs related to M&A and process reform for growth increased

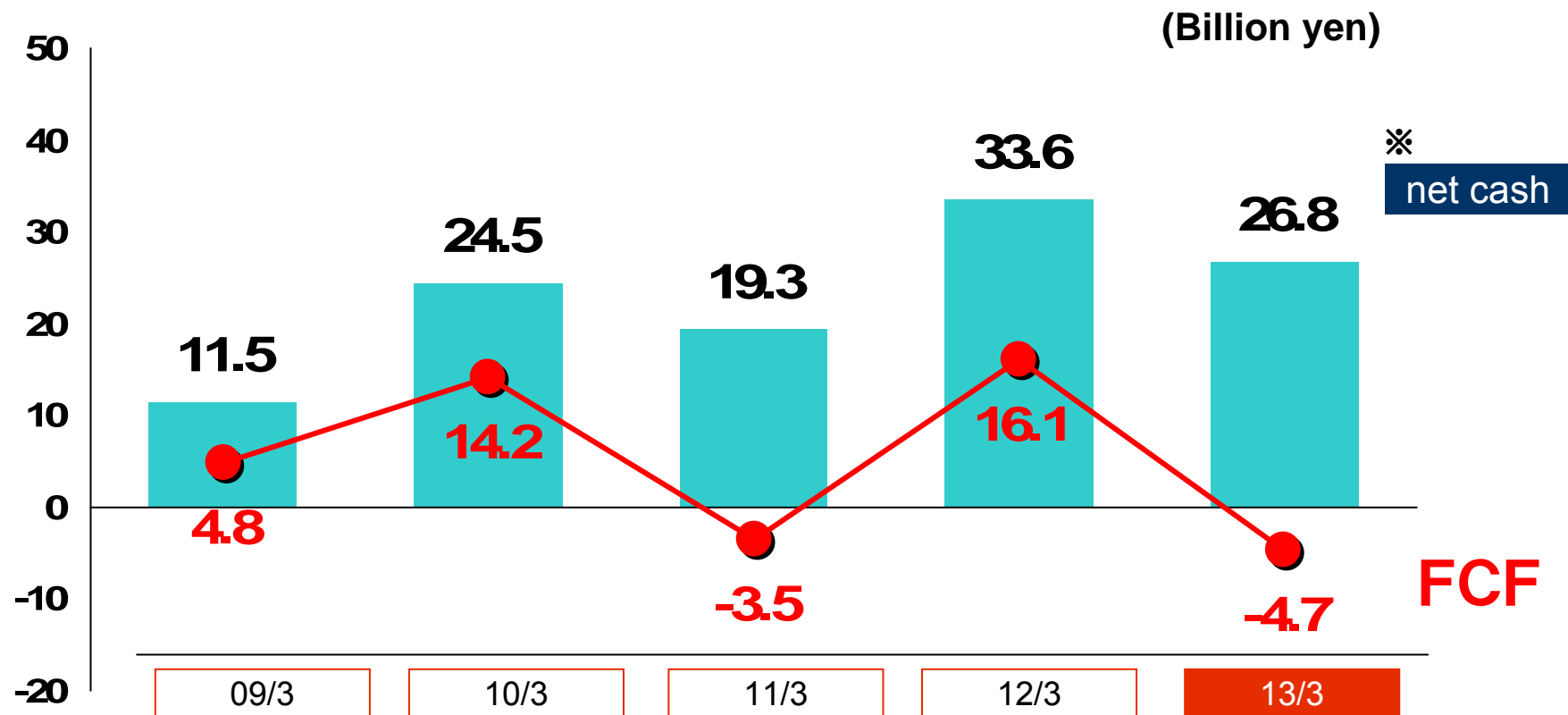
# FY2013/3 Balance Sheet

Temporarily increased A/R given increase in number of large projects (Billion yen)

		End of 13/3	End of 12/3	Diff.
	Cash and cash equivalents	30.9	37.6	-6.7
	Notes and accounts receivable	93.0	73.2	19.8
	Inventories	10.4	8.0	2.3
	other	8.1	6.4	1.7
	<b>Current Assets</b>	<b>142.5</b>	<b>125.2</b>	<b>17.3</b>
<b>Noncurrent Assets</b>		<b>25.8</b>	<b>24.5</b>	<b>1.3</b>
<b>Assets</b>		<b>168.3</b>	<b>149.7</b>	<b>18.6</b>
	Notes and accounts payable	36.4	30.3	6.1
	Loans	4.1	4.0	0.1
	Other	41.0	34.7	6.3
	<b>Liabilities</b>	<b>81.5</b>	<b>69.1</b>	<b>12.4</b>
	Shareholders' equity	86.5	80.7	5.8
	Valuation and translation adjustments	-0.5	-0.6	0.2
	Minority interests	0.7	0.6	0.1
<b>Net Assets</b>		<b>86.8</b>	<b>80.7</b>	<b>6.1</b>
<b>Liabilities &amp; Net Assets</b>		<b>168.3</b>	<b>149.7</b>	<b>18.6</b>
<b>Owner's Equity Ratio</b>		<b>51.2%</b>	<b>53.5%</b>	<b>-2.3pt</b>

# FY2013/3 Cash Flows

Maintained a sound financial position for growth, although cash flows were temporarily negative due to timing of cash collection for large projects



※net cash=cash and cash equivalents – interest bearing debt

## Scaled-up for brand penetration

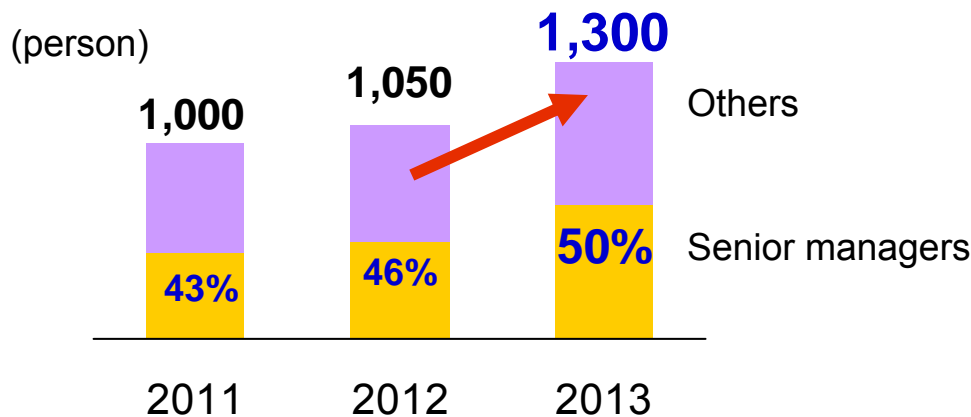
- Presented our new initiatives to add value for customers, our 60-year challenge and our new corporate message
- Regional fairs will follow Tokyo for a nationwide presence



Re-designing your Communication

### Number of visitors

Particular increase in number of senior managers with focus on management innovation demand



### TV conference with “Himawari House”

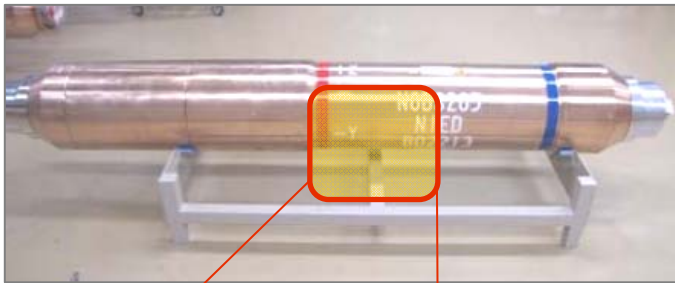
Connected with co-working space we offered in the wake of the earthquake disaster, to show clear communication technology and status of the region



# Topics 2: Submarine Seismometer System

Observation system for earthquakes & tsunamis  
based on a submarine cable communication network

● Japan trench seismometer



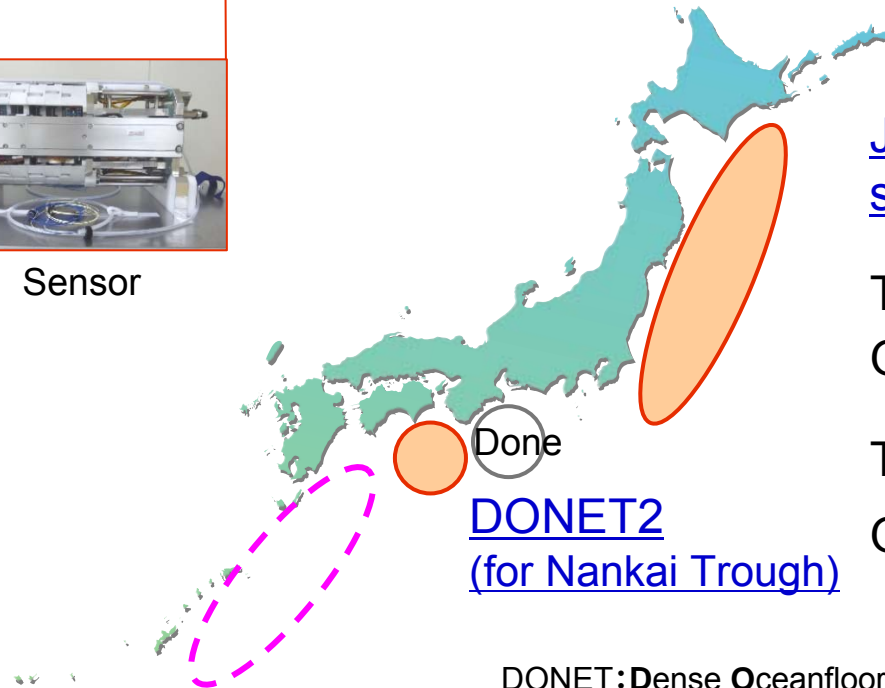
● Land station system



● DONET2 seismometer



Sensor



## Japan trench submarine seismometer network

Total length approx. 5,300km

Observation sites approx. 150

Total length approx. 500km

Observation sites approx. 30

## DONET2 (for Nankai Trough)

DONET: **D**ense **O**ceanfloor **N**etwork system for **E**arthquakes and **T**sunamis



# Topics 3: CSR Activities

Held “Antarctic Club” classes at elementary schools near head office and in the region affected by the earthquake disaster, using the experiences of NESIC employees joined wintering teams since 1987

Operation/maintenance of network system at Antarctica over 26 years



Children enjoyed classes with real Antarctic ice, Antarctic clothes, etc. In the region affected by the earthquake, an ex-member from the region encouraged the juniors to achieve their dreams.

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## II. Forecasts for FY2014/3

# FY2014/3 Full-Year Forecasts

Steadily continue increase in sales and profits

(Billion yen)

	FY2013/3 Results	FY2014/3 Forecast	YoY
<b>Sales</b>	<b>235.7</b>	<b>240.0</b>	<b>+ 2%</b>
<b>Operating income</b> (to sales)	<b>12.5</b> <b>(5.3%)</b>	<b>13.0</b> <b>(5.4%)</b>	<b>+ 0.5</b> <b>+ 0.1pt</b>
<b>Net income</b> (to sales)	<b>7.5</b> <b>(3.2%)</b>	<b>7.8</b> <b>(3.3%)</b>	<b>+ 0.3</b> <b>+ 0.1pt</b>

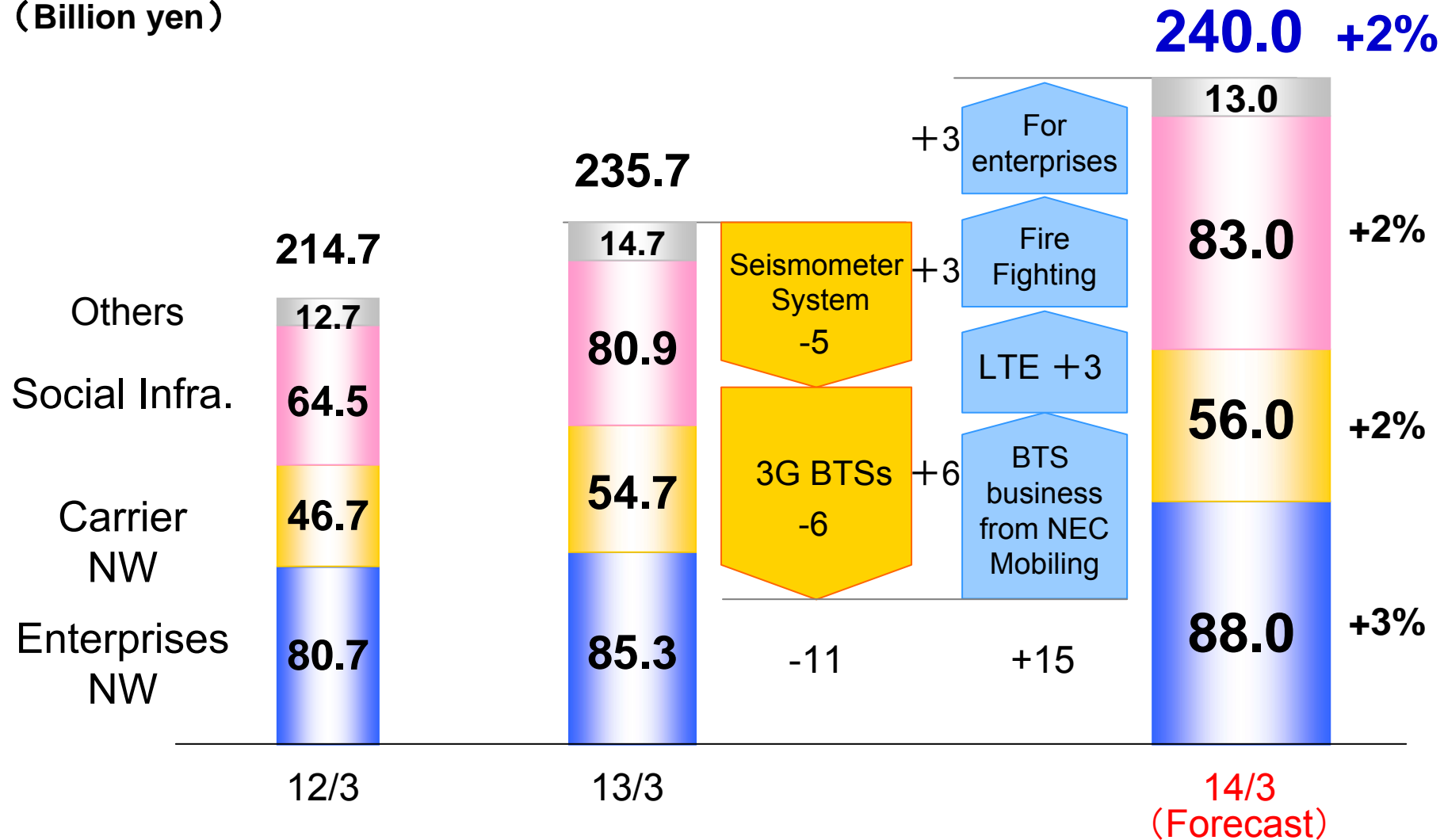
\*Forecasts as of April 26, 2013



# FY2014/3 Full-Year Forecasts (Sales by Segment)

(\*Forecasts as of April 26, 2013)

(Billion yen)



# FY 14/3 Basic Policy

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## Enterprise Networks

- To expand the services business leveraging investment in growth
- To expand synergies with partners  
(Moshimoshi Hotline, Q&A Corporation, Daiichi Ad System)

## Carrier Networks

- To actively acquire continued opportunities from telecom carriers' investments to improve communication traffic  
~ Deriving synergies from BTS integration at an early stage  
(Acquisition of mobile BTS business from NEC Mobiling)

## Social Infrastructure

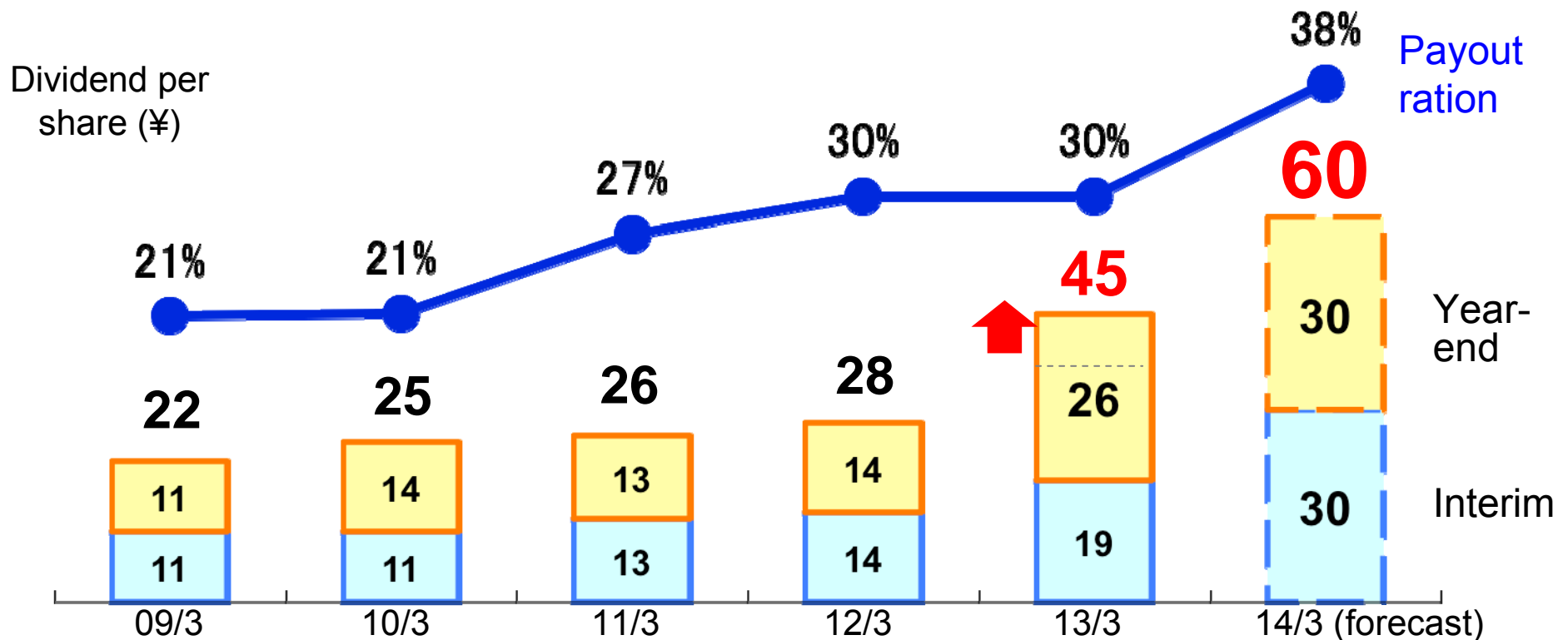
- To ensure execution of the fire-fighting systems business and installation of LTE BTSs

# Dividend Plan

(\*Forecasts as of May 9, 2013)

## Increasing dividends in step with improvements in profitability

- FY13/3: Increased ¥7 as profit outperformed the target.  
(Year-end dividends: ¥19 -> ¥26 per share)
- FY14/3: Plan dividends of ¥60 per share, reflecting gratitude at 60<sup>th</sup> anniversary



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## III. Mid-Range Business Plan

# Environment surrounding NESIC

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The business environment is improving for now with monetary easing and economic stimulus, among other factors. The impact of the consumption tax hike starting in FY2014 will need to be watched closely.

## ●Enterprises Networks

- While existing types of ICT infrastructure building and hardware maintenance are trending downwards, value-added services areas, which utilize the Internet, etc., are expanding.

## ●Carrier Networks

- Investment will shift from BTS to mobile services in the medium term, although present BTS investment is stable.

## ●Social Infrastructure

- FY2013, FY2014 will remain firm due to the government's supplementary budget.

While a sense of uncertainty exists thereafter, expectations exist on trends in the government's new IT strategy.

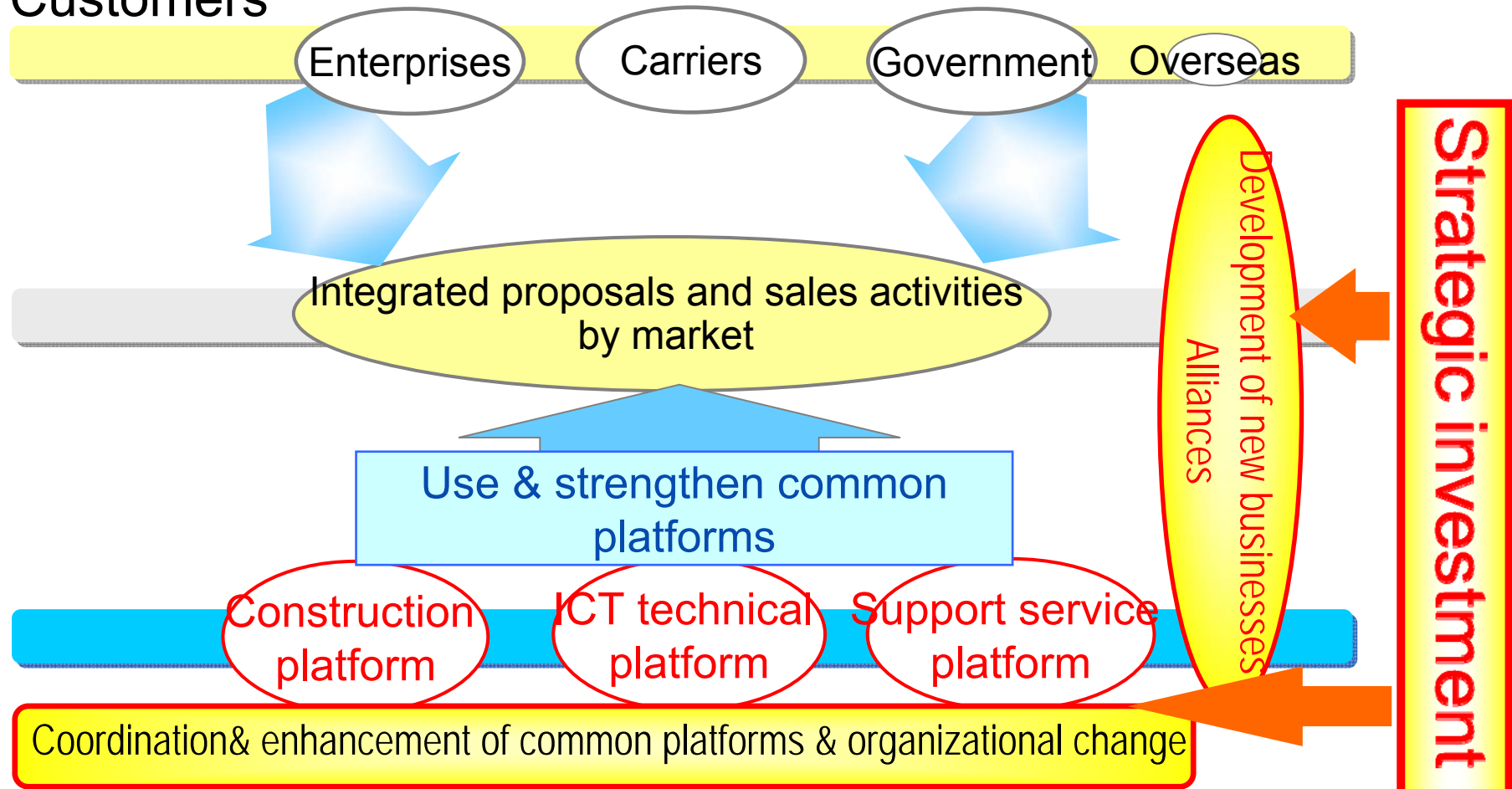


**Need to focus on strategic areas in new and existing businesses**

# Mid-Range Business Policy

- Expand new businesses, services business that outstrip the declines in existing businesses
- Strengthen common platforms that support businesses

## Customers



# Mid-Term Business Target <FY2016/3> (\*Targets are as of May 9, 2013)

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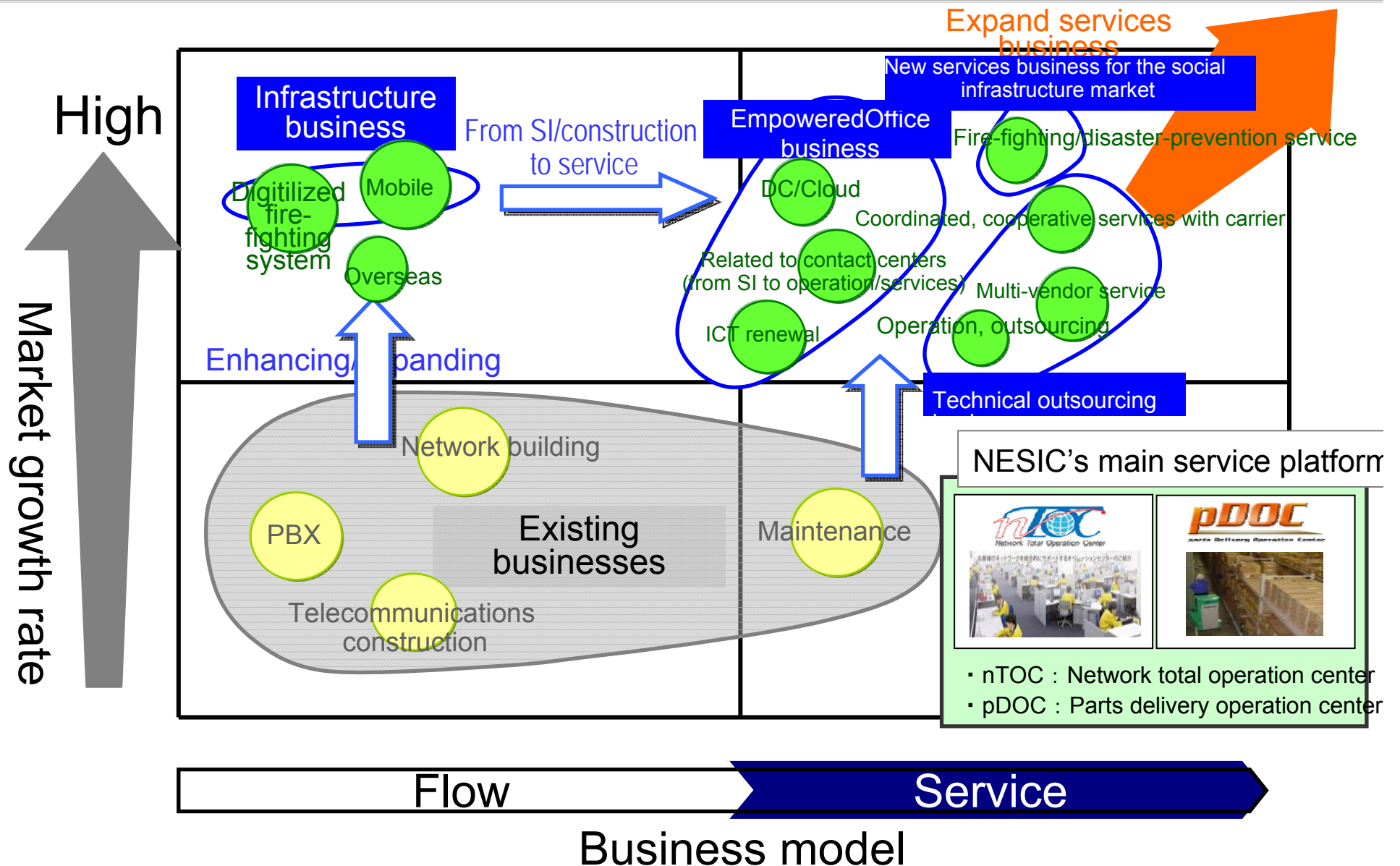
■ Improve both of top-line and bottom-line while making a structural change to the services business

- Sales over ¥260 billion
- Operating margin over 6%
- ROE over 10%



Improve shareholder value as a listed company

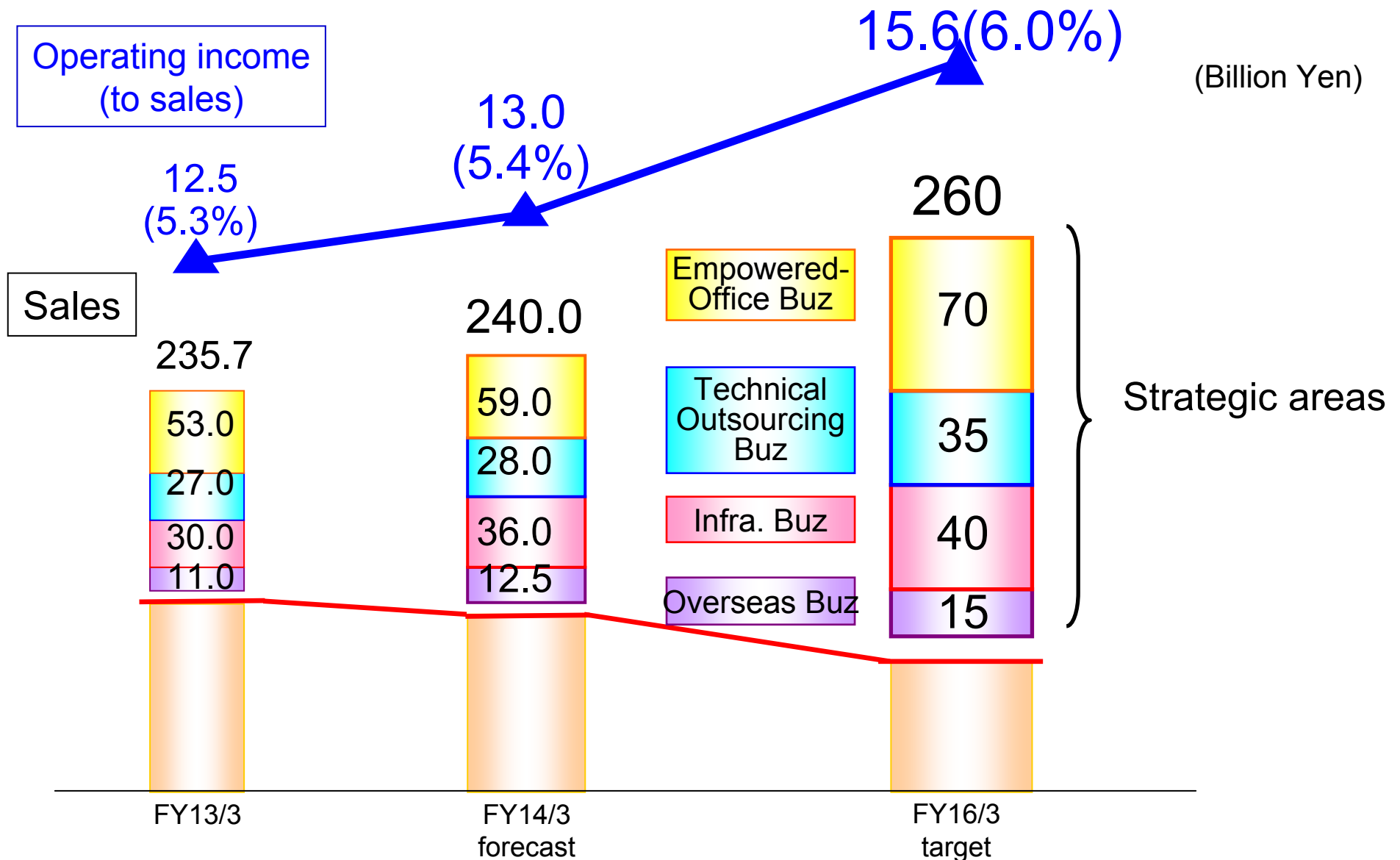
# Focus Business Domains (Strategic Map)





# Mid-Term Business Target

(\*Targets are as of May 9, 2013)



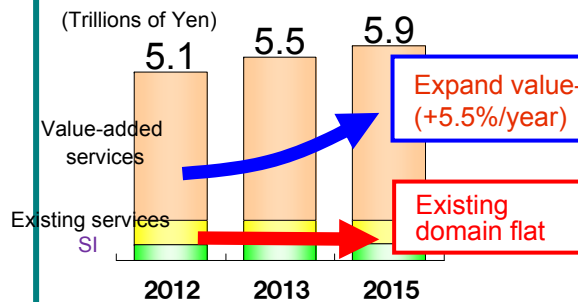
# EmpoweredOffice Business

(\*Targets are as of May 9, 2013)

## Environment

- Services area expanding

- Contact center related market (Fuji Research etc.)



## Sales target (FY13/3→16/3)

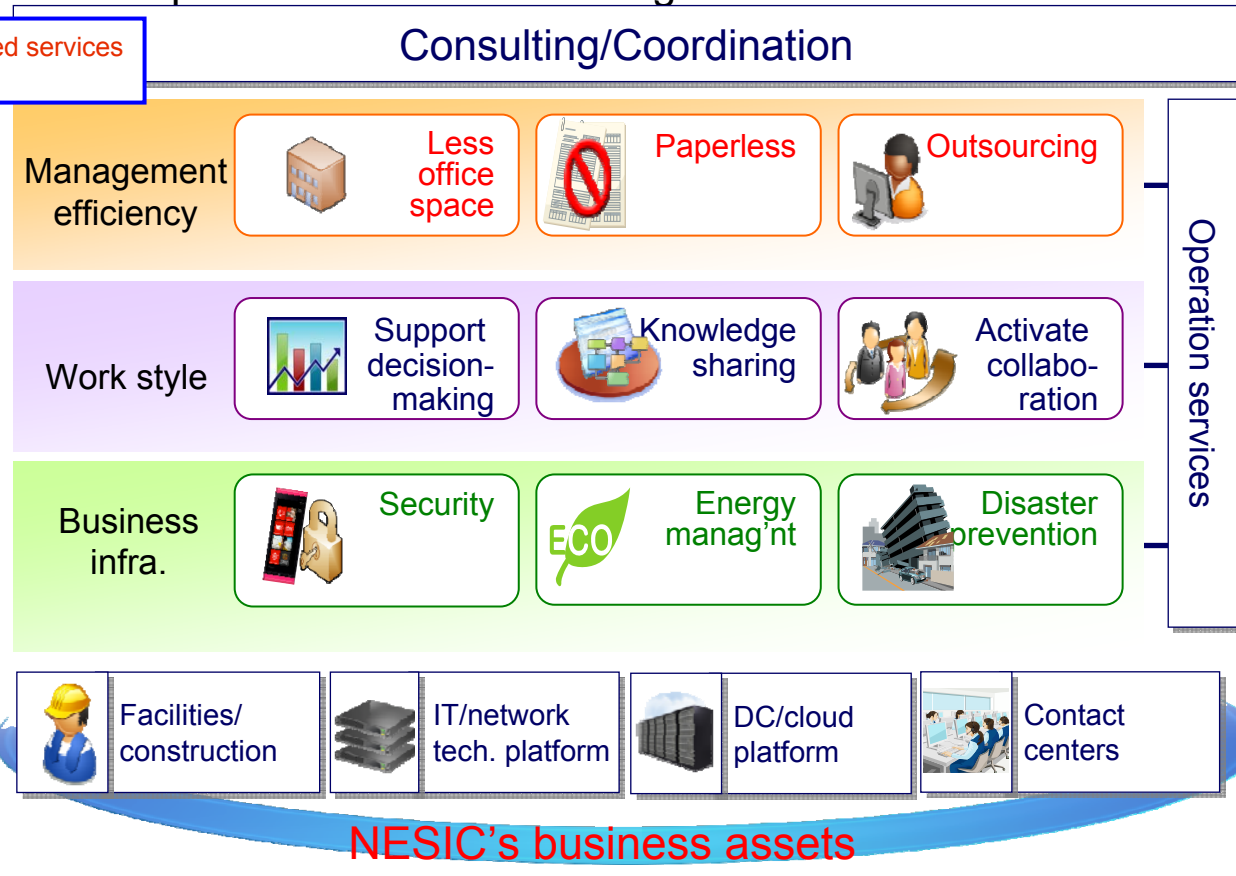
¥53 bn → 70 bn

## Strategy

- Market expansion
  - Regional/public/overseas
  - New market with developers, etc.
- Services business
  - Coordination of buz PFs
  - Value-added services with QAC, etc.

## Initiatives

- Strengthen competitiveness by coordinating & reinforcing common business platform(PF)s
  - Total services by utilizing construction, ICT, service platforms to responds customers' challenges



# EO for New Markets

## Promote local governments/hospitals/public/global

### Promoting our own EO practice



Slim office



Paperless



Conference reform



Shared space reform



Head office

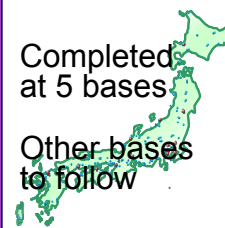


Activate communication

Number of visitors to see our practice became over 10,000 with prestigious office award

Horizontal promotion of reforms  
Create new markets/businesses

Domestic bases: introducing EO from 2H 13/3



Overseas bases: start from FY 14/3

-  NESIC Guangzhou
-  NESIC Thailand
-  Singapore office

### EO in new market

#### Kitasato Institute Hospital



Cases of introduction at municipal offices, regional offices of major corporations on the rise

# Technical Outsourcing Business

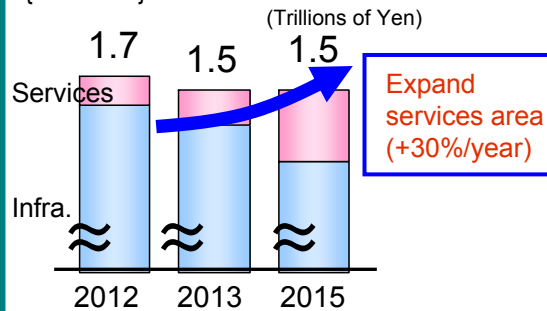
(\*Targets are as of May 9, 2013)

## Environment

- Expand investment in traffic improvement & services
- Accelerate a multi-vendor system

### Mobile carriers capex

{Estimates}



## Sales target (13/3→16/3)

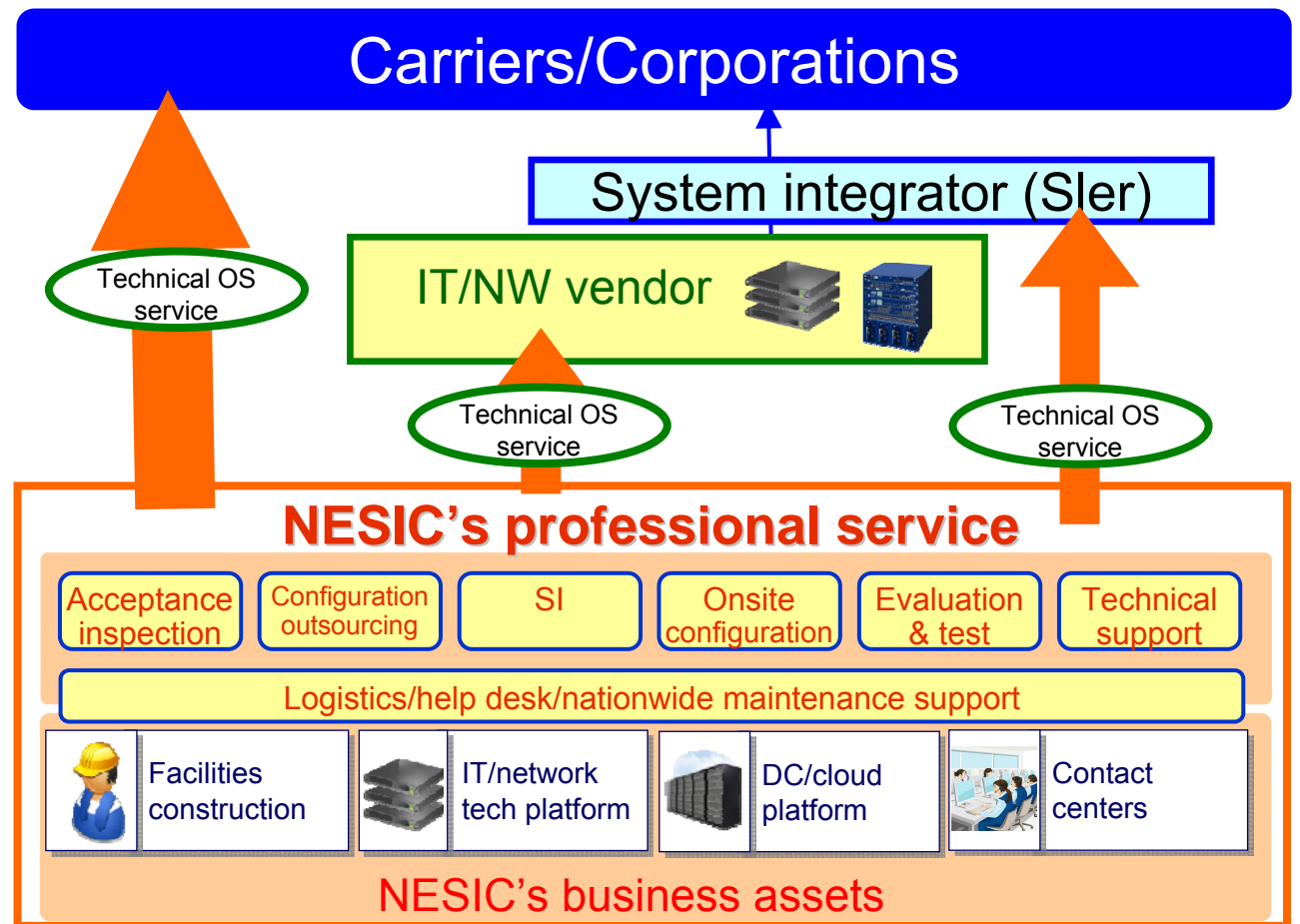
¥27 bn → 35 bn

## Strategy

- Position-up in carriers market
- Cultivate services & enterprises market

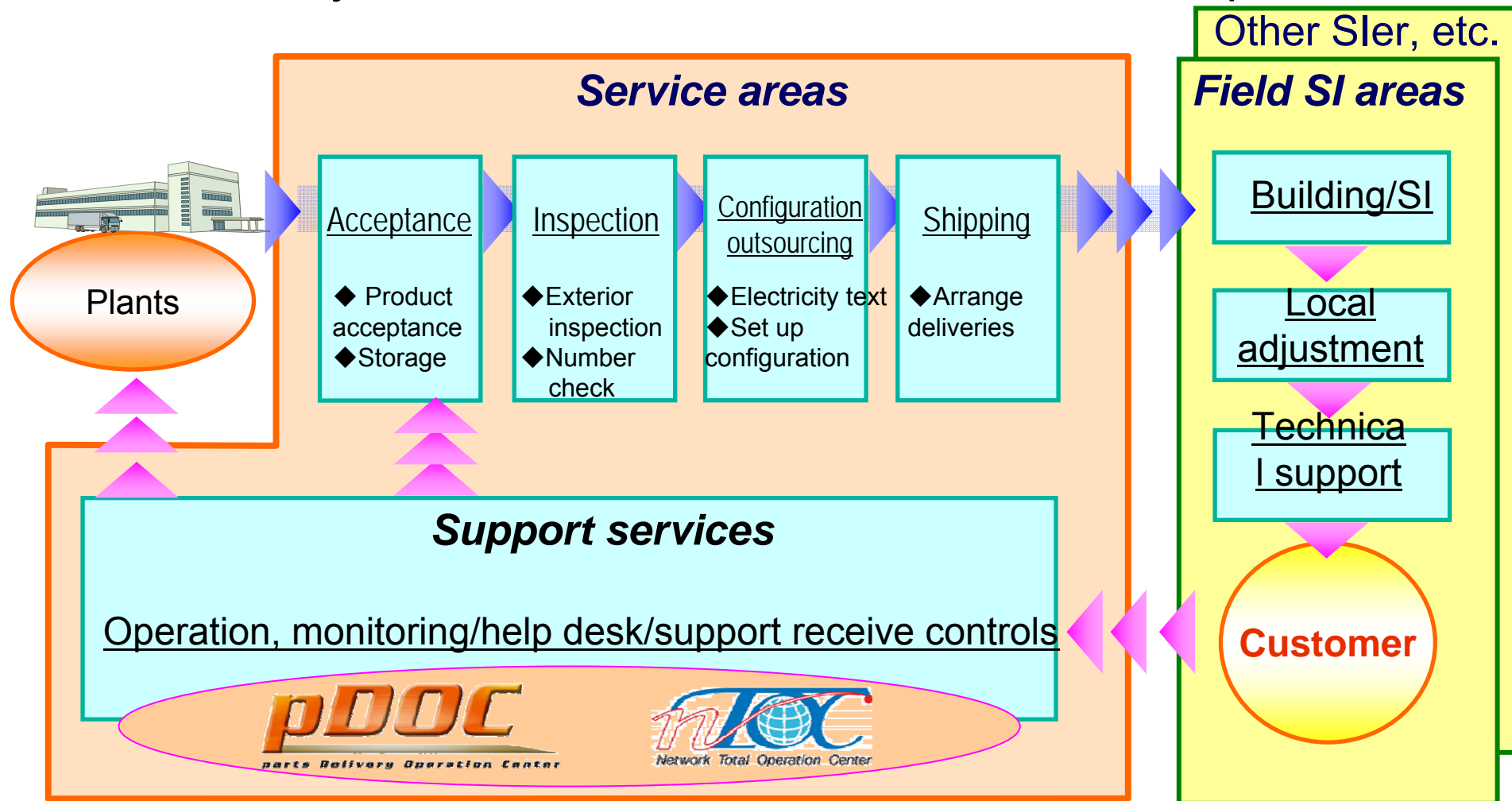
## Initiatives

- Business development through horizontal expansion of expertise & platforms for various outsourcing services for the NEC Group and telecom carriers



# Services for Overseas Vendors

Support customers without domestic service network or SI resources, by NESIC's advanced technical services/platforms



# Infrastructure Business

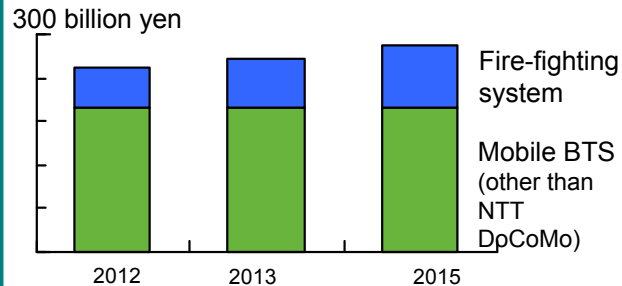
(\*Targets are as of May 9, 2013)

## Environment

- Solid investment in mobile BTS, digitalization of fire-fighting system

### ■ Mobile BTS, fire-fighting sys. market

[Our company estimates]



## Sales target (13/3→16/3)

¥30 bn → 40 bn

## Strategy

### <Mobile BTS>

- Business area & share expansion
- Cost reform amid declining unit prices

### <Fire-fighting/disaster-prevention>

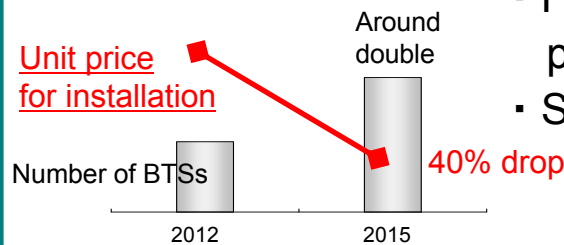
- Share expansion

## Initiatives

### <Mobile BTS business>

- Strengthen business structure
  - Competitiveness by optimized proposals as a whole showing synergy acquired NEC Mobiling's BTS business

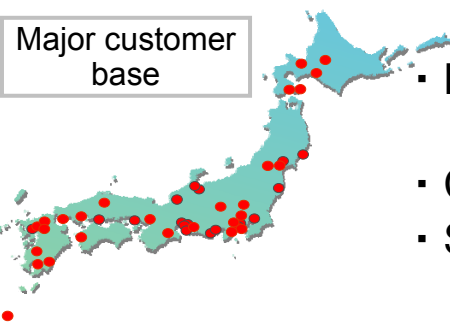
- Secure profitability by promoting cost reform



- Promote internalization, process reform/standardization
- Strengthen PJ management

### <Fire-fighting/disaster-prevention business>

- Initiatives for share expansion



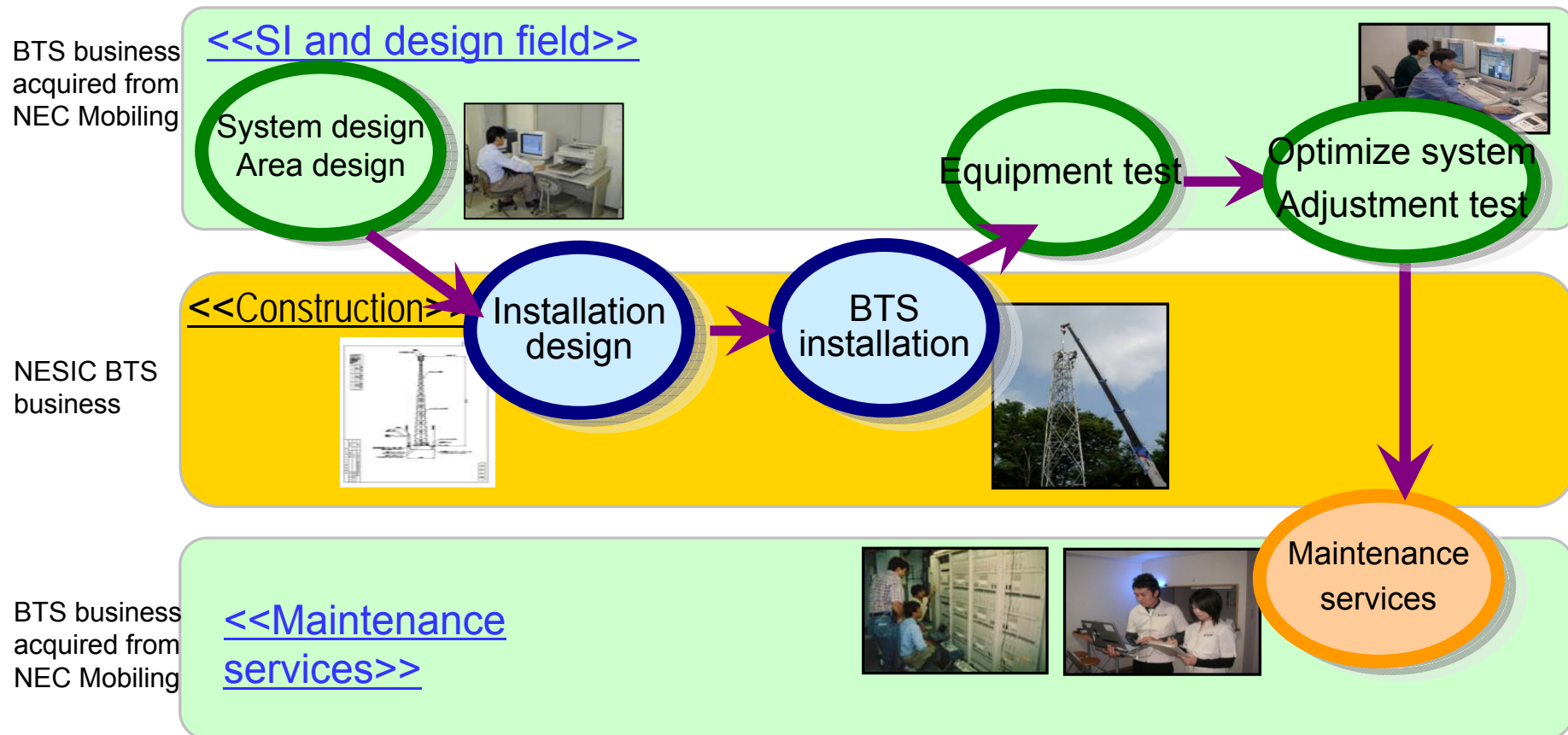
- Differentiated proposals utilizing rich record of projects execution
- Coordination with the NEC Group
- Securely execute projects by rebuilding structure



# Synergy in the BTS Business

Expanding sales & profitability by offering a full lineup of services to customers

	Research Design	Construction	Test	Maintenance service
After integration	○	○	○	○
Before integration	-	○	-	△

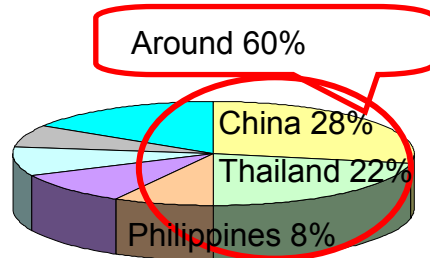


# JOC/Overseas Business

(\*Targets are as of May 9, 2013)

## Environment

- Around 30% of the 1500 subject companies have already gained ground overseas



## Sales target (13/3→16/3)

¥11 bn → 15 bn

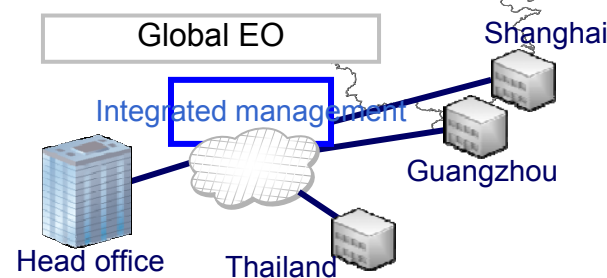
\*Aiming at 10% of sales over the medium to long term

## Strategy

- JOC business centered on China, Thailand and the Philippines
- Infra. business centered on Saudi Arabia, Thailand

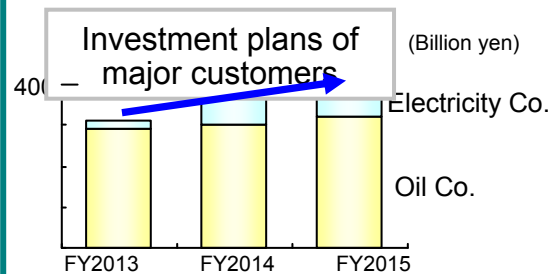
## Initiatives

- JOC business based on domestic customer base



- EO in overseas (global EO)
- Coordination with NEC Group

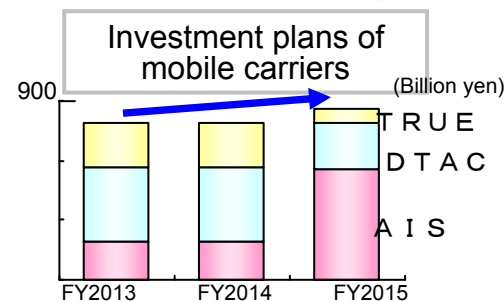
- Share expansion in the Saudi Arabia market



- Expand share in new areas, such as security, based on existing businesses

Share target in telecom engineering for the major oil company  
 13.3 40% ⇒ 16.3 60%

- Business expansion in the Thailand market



- Construction business centered on AIS, the No. 1 mobile carrier in Thailand ⇒ Further strengthen already solid relationships to expand AIS business to 2.5 times



# Infrastructure Business in Saudi Arabia

## <Project overview>

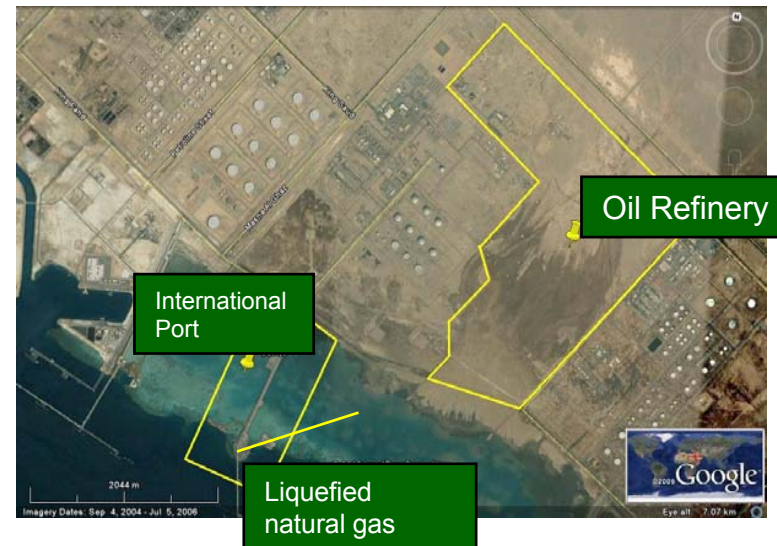
A full telecommunications facility for an export oil refinery plant

## <NESIC's work>

Survey, design, procurement, installations, tests and commissioning for security, telecommunication systems, data network, servers and supplementary facilities

## <Order amount>

Around 3 billion yen (2011-2014)

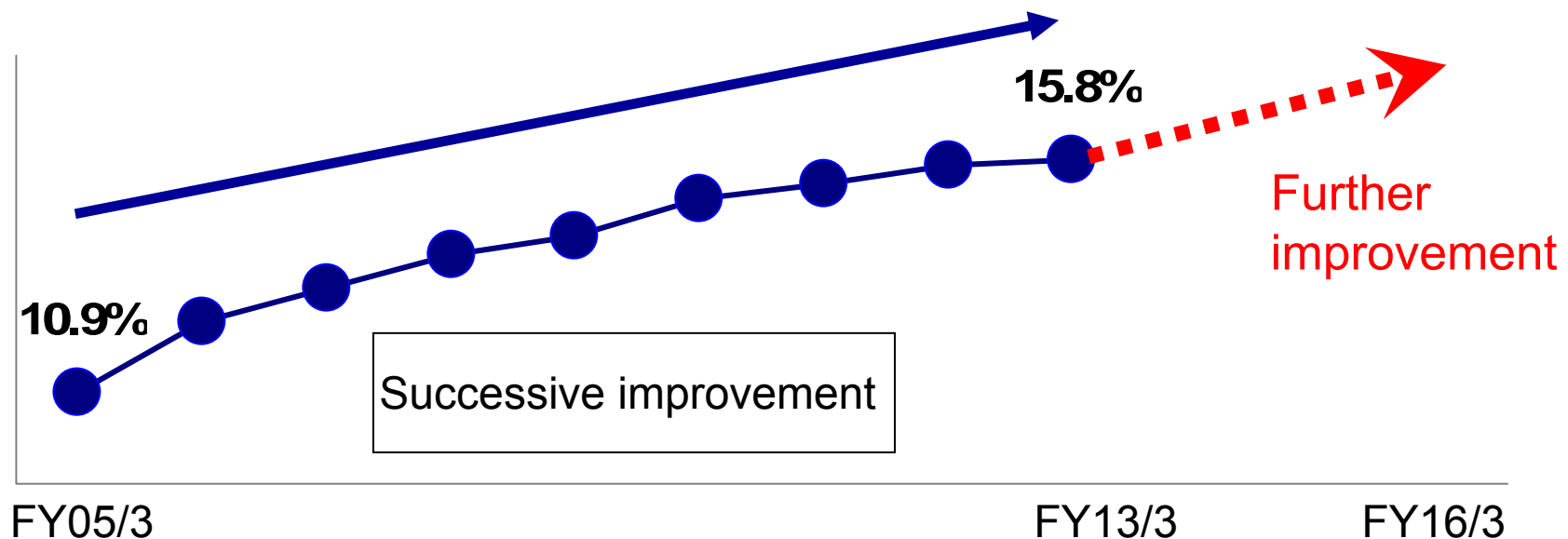


# Initiatives for Cost Competitiveness

- Process innovation
  - Eradication of failure cost by process standardization
- Shared efficient usage of business platforms
- Change of business structure from SI to services

Gross margin

Continuous management innovation



# 60<sup>th</sup> Anniversary in 2013

Achieving medium-term targets  
with the ultimate aim of becoming the  
leading system integrator

Business growth

Organizational  
growth

Human growth



Improving value for shareholders

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# Re-designing your Communication

NEC Networks & System Integration Corporation is committed to increasing customer value by redesigning future communications from the user's perspective.

**nesic**

Search



# Cautionary Statement

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Forecasts and targets of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.

Factors affecting results are not limited to the ones mentioned above.

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# NEC

NEC Networks & System Integration Corporation

<http://www.nesic.co.jp/english/ir/index.htm>