# Questions and Answers in the Briefing on Full-Year Financial Results for the Fiscal Year Ended March 31, 2013 (FY 2012)

NEC Networks & System Integration Corporation

Date and Time: Friday, May 9, 2013 at 10:00-11:00

(* The current fiscal year refers to the fiscal year ending March 31, 2014 and the preceding fiscal year to the fiscal year ended March 31, 2013.)

Questioner A

Q: In accordance with the medium-term goal of attaining an operating margin of 6% or more, what business are you planning to step up and what business do you think has the potential for substantial profit increases?

A: For each of the strategic businesses, we will aim to attain an increase in the profit margin of more than 1%. At the moment, the technical outsourcing business has the highest profit margin among these businesses. In contrast, the infrastructure business has a relatively poor margin given that projects in the public sector are allocated through a bidding process, but we believe that we can increase the margin through cost cutting even in this business area.

Q: I see that sales of the fire-fighting systems are to accelerate towards the completion of the digital shift in 2016. Could you tell us the circumstances surrounding orders and measures for increasing competitiveness for the current fiscal year?

A: It is true that we are receiving orders for fire-fighting systems earlier than expected. The peak seems to have moved forward. Therefore, orders are brisk for the current fiscal year. With respect to competition, we regard the track record, product appeal, cost competitiveness and resources as important, as no new player is expected to join the race. As for our track record, we have a solid base explained in the presentation and NEC products have a strong competitive edge. Cost-cutting efforts are being made by NEC and on our part as well. In April, we changed our organization so that we could dynamically deploy workers on a nationwide scale. We will thus step up our deployment of resources.

Questioner B

Q: As medium-term numerical goals, you have presented targets for net sales, operating margin and operating income. Which management indicator among them do you consider the most important?

A: Net sales growth and increase in profit margin are both important. As a president, I will aim to achieve both. If I were to name one indicator that I think is the most important, it is the operating margin. In comparison with our rival system integrators, our margin is still poor and we think that it is important to correct that gap. To do this, we are taking steps to cut costs.

Q: According to your outlook, net sales will grow 2% for the current fiscal year. This forecast sounds a little too conservative. Could you tell us what is behind your outlook? In the Carrier Networks segment, sales may not rise but Enterprises Networks orders jumped for the preceding fiscal year. With respect to the Social Infrastructure segment, a supplementary budget may produce some impact on businesses other than that of fire-fighting systems.

A: Our sales plan for the current fiscal year reflects the possibility of a decline in some domains that enjoyed a major increase in the preceding fiscal year, such as submarine seismometer systems and the construction of 3G base stations, mainly for new frequency bands. We foresee that the supplementary budget will include some spending related to our businesses that are worth around 300 billion yen, and we will take positive action. However, a large portion of this results from front-loading from the regular budget and rearrangements. A net increase arising from the supplementary budget will not be so significant.

Q: For the fiscal year ending March 31, 2014, you have set a dividend level at 60 yen per share in consideration of the 60th anniversary. What is your attitude towards future dividend payments? Do you have any rule on the payout ratio or others?

A: We have made no decision on dividends and payout ratios for the next and subsequent fiscal years. With our basic stance of putting emphasis on the distribution of returns to shareholders, we are fully aware of shareholders' expectations. We manage our business with this awareness.

Questioner C

Q: On April 26, NEC announced its medium-term management plan, which suggests that it will focus its energy on the social solutions business. What should we understand about the relationship between the medium-term strategy pursued by NEC Networks & System Integration and NEC's medium-term management plan?

A: As a member of the NEC Group, we will execute our business with an awareness of its principal policy. For instance, the infrastructure business is in a priority area for the NEC Group. We will also make intensive efforts in this business.

On the other hand, we are characterized in that we have our own customer base and assets as an independent listed company. By taking advantage of these strengths, we will step up our efforts in our own service businesses, including EmpoweredOffice and technical outsourcing.

Questioner D

Q: You have explained that you have made no payout commitment. According to the business conditions of NEC Networks & System Integration, there are minor credit needs for capital investment and mergers and acquisitions. I think you should essentially pay more dividends. What do you think about the use of cash flows? Do you have any need for increasing working capital in the future?

A: Although our capital investment is not huge, we still spend around 3 billion yen on reinforcing our business infrastructure. We are planning to invest nearly 5 billion yen each fiscal year during the period of the medium-term plan. We will appropriate a large portion of the remaining cash flows to dividend payments to shareholders while allocating some portion to retained earnings.

We have a dividend forecast for the current fiscal year at 60 yen per share. It is not a commemorative dividend for our $60^{th}$ anniversary. We will pay this amount in the form of a regular dividend.

Q: Your forecast results look flat, excluding the impact of the acquisition of a division from NEC Mobiling. Will they be affected by the consumption tax increase and by the labor shortage that is much talked about in the construction industry these days?

A: We anticipate at the moment that the consumption tax increase will have a minor impact. On the other hand, the labor shortage is emerging as an issue in certain businesses with strong demand, such as the fire-fighting systems business and the mobile business. We executed an organization change in April this year so that we could respond flexibly to the shortage of resources by dynamically deploying our engineers nationwide.

As for the impact of soaring recruitment and labor costs, we understand that unit costs are on the rise due to the shortage of construction workers in the Tohoku region generally, which was hit by the Great East Japan Earthquake.

Q： Could you explain future sales in the base station-related business and the business of fire-fighting and disaster prevention systems forecast in your medium-term plan? Will they gradually rise towards the fiscal year ending March 31, 2016? Or will they peak in the fiscal year ending March 31, 2015?

A： For the preceding fiscal year, sales relating to mobile base stations stood at nearly 12 billion yen. We will strive to boost this figure to slightly less than 20 billion yen, inclusive of the effect of the business transfer from NEC Mobiling, in the fiscal year ending March 31, 2016.

We anticipate that sales of fire-fighting and disaster prevention systems will peak in the fiscal year ending March 31, 2015, given that the deadline of the shift to digital fire and emergency radio is set for May 2016.

Question E

Q： How much contribution will the business transferred from NEC Mobiling make to profit for the current fiscal year? Could you also tell us about amortization of goodwill?

A： Goodwill amounts to 1.7 billion yen. It will be amortized in 10 years. Including this, it will help boost our income by around 0.2 billion yen.

Q： Does your overseas business make losses at the moment? What do you think about future goals?

A： At present, it is slightly profitable. For the medium-term future, we will strive to bring its profit margin closer to 5%.

Questioner F

Q： According to the sales forecast by segment for the fiscal year ending March 31, 2014 on page 16 of the presentation material, sales for 3G base stations will drop by 6.0 billion yen. On page 29, telecommunication carriers’ investments in base stations will remain almost unchanged. How should we interpret these figures?

A：The decline in sales relating to 3G base stations is largely explained by a reaction following the major shift to cover the new frequency band seen in the preceding fiscal year. This move is continuing somewhat in the current fiscal year, such as an investment for the second step. In addition, LTE is on the rise. We do not expect the base station business to experience a major drop, even if we take the business transfer from NEC Mobiling out of consideration. We believe that investments to improve connectivity will be given high priority.