

Q&A at Small Group Meetings Between the President and Sell-Side Analysts

July 2 and 3, 2013

*NESIC: NEC Networks & System Integration Corporation

QAC: Q&C Corporation

DAS: Daiich Ad System Co., Ltd.

The Company's businesses overall

Q: NESIC has a wide range of business fields. What sort of company do you aim to become? What is your most distinctive feature?

A: Our most distinctive feature is that we have capabilities both in ICT (information and communications technology) systems integration and in construction work. CTC, among other companies, engages in ICT systems integration, and Kyowa Exeo, among others, builds communications infrastructure. However, we have capabilities in both fields, and that is our unique strength.

EmpoweredOffice, an office innovation solution, is an example of what we can do because we are a systems integrator that can carry out construction work. In addition to powerful ICT, we can provide all factors of an office, including office equipment that we have designed on our own, electrical work, facility installation, and space design. Our business involves increasing consultation over how offices should be like.

We see ourselves as an ICT general contractor. We do not have a specific target having a business model similar to ours.

Q: Is it possible that any systems integrators will copy your business model and will engage in installation and construction? Will any construction companies possibly engage in ICT systems integration?

A: If you try to start the construction business, you need to prepare training facilities and human resources. Systems integrators can install servers, but it would be difficult for them to construct large-scale civil engineering facilities, such as steel towers for base stations. I would imagine that communications infrastructure construction companies are interested in ICT systems integration. However, I believe that we have a great advantage in this field: technologies accumulated in cooperation with NEC over 60 years since our founding.

Q: Why was NESIC, a communications infrastructure builder, able to expand into the ICT systems integration business?

A: We have been able to change our businesses, responding to shifts in the business environment. As communications infrastructure construction declined overseas, we focused on the PBX (private branch exchange) for companies. We then expanded our businesses, seizing opportunities as the Internet protocol and mobile phones became common.

Q: Your medium-term plan says that as sales in existing businesses are declining, you will develop new business fields. I believe that you need to change the skills of a large number of human resources. Have you already started to do this?

A: Sales will not decline in all existing businesses. We will allocate our resources to fields that are expected to grow, including the integration of fire-fighting and disaster prevention systems and EmpoweredOffice. We do not therefore need a completely new kind of worker. We have already started to shift resources to business areas that are expected to grow. The building of infrastructure, including fire-fighting and disaster prevention systems and mobile communications base stations, in particular is growing. We have changed our organizational structure in April to allocate our nationwide resources for construction flexibly in line with demand for projects.

Q: How have you secured resources for acquiring customers for new service businesses?

A: To develop new service businesses, we have made QAC and DAS our Group companies. We will provide QAC's high value-added services for customers of DAS, primarily through mail-order companies.

Q: Do you think that your resources are insufficient in some fields? Would you like to take on the resources of NEC Group companies?

A: Our basic policy is to consider taking in external resources in business fields in accordance with our strategy. We will make decisions based on whether external resources will give us strategic advantages or not. We will apply this criterion both to NEC Group companies and to other companies.

Q: NESIC is not very good at developing application software. Are you considering acquiring or merging with companies that excel at application software development?

A: We are satisfied cooperating with NEC Group companies in the field of applications. So I do not feel that we need to take in external resources.

Q: You are bolstering your contact center services. Are you considering shifting your focus to services for consumers?

A: In principle, we engage in B2B transactions (with companies and public offices), and that will not change. We are enhancing operations that are necessary to bolster our B2B business, or building a system for our corporate customers to provide services for their customers at low costs. We are not enhancing operations directly targeting general consumers.

Businesses for enterprises (EmpoweredOffice, contact centers)

Q: After making QAC a consolidated subsidiary, you seem to expect three types of synergy. In what order do you expect synergies to emerge? I imagine that the integration of contact center service infrastructures will have a great effect but that you need to choose functions to discard, and that will take time. What are your views?

A: First, we expect to expand our high value-added contact center services. We have already started to use QAC's resources for its relationship marketing business (sales promotion planning and consultation for corporate customers based on data analysis) to expand operations for good DAS customers of the mail-order industry.

Next, we expect to provide new services. We will add QAC's onsite technical support capabilities to our service menu and will provide new services for our corporate customers and their end users.

The integration of contact center service infrastructure is the integration of equipment, and as you have just said, we expect it will take some time. We plan to execute the integration for more than a year.

Q: Could you tell us the size of the contact center market and the customer segments that you are targeting? Do you think that customers' needs have shifted to consultation?

A: We think that the contact center market is worth several trillion yen. Of this market, we think that building infrastructure accounts for several hundred billion yen and remains level or is declining. Customer needs is shifting to service businesses. Conventional telephone reception services remain steady, and high value-added services, including consulting and sales promotion planning, are growing. For example, QAC analyzes participants in corporate customers' free campaigns and proposes how to win contracts. Specific skills are required to carry out analyses and make proposals, and

QAC has human resources that have those skills. Some expertise is required to get people to answer questions comfortably and to understand customers' needs.

Food companies are among our target customers. We believe that analyzing customer characteristics has a significant effect on the marketing of health food products. In this respect we believe that having made DAS a QAC group company has significance.

Q: Won't mail-order marketing compete with online sales?

A: They may overlap. However, while online sales are basically one-way transactions, active approaches to end users are the key factor in our marketing. We believe that we will do what online sales cannot. Our service will be similar to the analysis of customers' needs using big data.

Q: How confident are you about the expansion of EmpoweredOffice to regional areas? Do you have difficulty when you sell EmpoweredOffice to local governments?

A: That depends on local governments' budgets, but we have not had any special difficulties. A number of local governments are trying to change the way they work. We will introduce EmpoweredOffice to local governments for a purpose that differs from creating an office for white-collar workers; that is, to enable local governments to provide services for their residents efficiently.

Q: EmpoweredOffice has different solutions for different customers. Doesn't that take too much effort, resulting in lower margins?

A: No. EmpoweredOffice is a project using our unique strength. For example, you will face fierce price competition if you sell only office equipment, ICT machinery, or LAN installation. However, an EmpoweredOffice starts from consultation and involves all factors related to the office. We are therefore unlikely to be involved in price competition.

Businesses for carriers

Q: What increase in the number of employees have you had with the transfer of the base station business from NEC Mobiling?

A: Around 150 employees have been added. Around 500 people have been added, including employees of business partners, but this number can be adjusted depending on the amount of work.

Q: I have heard that the scale of construction work for LTE is small because no steel towers need to be built. Given this, I have heard that carriers will reduce investments. Will the base station business grow? Are you aiming to expand market share?

A: As you have just said, some equipment and facilities of existing base stations can be used for LTE, and construction cost per base station will fall. However, we expect that the number of base stations will increase. We will cut costs primarily through the standardization of construction work. In the base station business that we acquired from NEC Mobiling, we can take advantage of its strengths in systems integration, including maintenance services and the design of the distribution of base stations (designing base stations and their locations, taking data traffic and geographical conditions into consideration). In this business, base stations need to be adjusted in response to changes in the environment, including the construction of new buildings, and we expect firm demand. We will seek to expand market share, focusing on regions where we have not been strong, taking advantage of our strength, that is, our ability to provide all base station services ranging from systems integration to construction and maintenance. We provide not only services related to base stations but also services related to carriers' entire networks. In particular, we focus on technical outsourcing, from acceptance inspections of equipment from multiple vendors, including overseas vendors, to logistics, adjustments of equipment, and maintenance services. We expect that carriers may curb capital expenditures related to equipment but will be unlikely to reduce investment in those kinds of operations and services.

Q: What are overseas vendors? Do they include Cisco?

A: We are dealing with major vendors in Europe related to network systems.

Q: Who are your competitors in technical outsourcing?

A: There will be no real competitors. Systems integrators dealing with networks are competitors, but we do not think that they have a nationwide operational base to provide comprehensive services like we do. We do not think that communications infrastructure construction companies excel at systems integration, including configuration.

Q: How have you established a nationwide system for providing comprehensive services using overseas vendors?

A: We are using systems that we have developed for 60 years, that is, a system that we have built for carriers, using primarily NEC products, and a service system that we have built for companies nationwide.

Businesses for public offices

Q: How do you think the government's public investment is changing under the Abe administration?

A: I feel that the government has been emphasizing investments in fields associated with security and safety since the Great East Japan Earthquake. As a result, of our projects, schedules for fire-fighting and disaster prevention systems have been moved up. We expect that the peak will come sooner than expected, in the fiscal year ending March 31, 2015 rather than the fiscal year ending March 31, 2016. Power saving and energy saving are also emphasized. There is demand for systems integration for photovoltaic generation.

Q: I imagine that you may have problems in resources for fire-fighting system projects. Could you describe the situation?

A: Our resources are tight. We have changed our organization so that we can flexibly respond to customers' needs. However, there are a very large number of projects to execute.

Q: Associated with radio for fire-fighting (and emergency) systems, will there be medical treatment of patients being transported by an ambulance? And separately, will there be business opportunities related to measures against old buildings and roads?

A: Medical treatment of patients in an ambulance (by ambulance officers) is not permitted. However, with digitization, clear images of patients (in addition to vital data such as pulse rates) will be able to be sent to hospitals. Visual information, including complexions, is said to be very important for treatment. We believe that radio transmission will help improve treatment. With regard to aging infrastructure, deterioration diagnosis is a subject that we are considering. For example, we are considering monitoring signs of failure by analyzing vast amounts of data collected through sensors, using algorithms. NEC has been developing deterioration diagnosis technologies ahead of the competition. We will develop these technologies in collaboration with NEC.

*This document summarizes questions and answers at meetings held on July 2 and July 3. The order of the questions has been changed for clarity.