

Q&A at IR Briefing for Financial Results for the First Half of the Fiscal Year Ending
March 31, 2014

October 31, 2013

NEC Networks & System Integration Corporation

Date and Time: Thursday, October 31, 2013 from 10.30 -11.30

Questioner A

Q: The results of the Social Infrastructure business for the first half grew strongly.

Apart from fire-fighting and disaster-prevention systems and work related to mobile communications base stations, which specific business sectors have grown?

A: Firstly, orders for the business related to satellite communications increased due to its characteristics as a communications network that is resilient in a disaster. In the first half, we received orders for large-scale projects such as in-vehicle satellite communications systems and satellite communications earth stations for local governments.

Secondly, the overseas infrastructure business showed strong results. In the first half, based on the positive evaluation of our technologies and the long established relationship of trust, we received orders to establish a 3G communications network from AIS, the largest telecommunications carrier in Thailand. We are holding discussions on a variety of measures to further expand the business, including the pursuit of business opportunities in a region in which orders are expected to be taken by our competitors.

Q: Will the business of the fire-fighting and disaster-prevention system business peak out in the next fiscal year? Even if that happens, I believe that the currently buoyant overall infrastructure business will make up for such an adverse development. How do you view this point?

A: The fire-fighting and disaster-prevention system business in question can still expect to maintain large-scale operations in the next fiscal year as projects for developing facilities to respond to the termination of analog radio transmission in a fire-fighting network in May 2016 are progressing. Moreover, as the questioner pointed out, the overall public infrastructure business is operating strongly, and the Company excels in ICT infrastructure, including satellite communications, under the theme of safety and security. Programs that are expected to provide us with business opportunities are, specifically, projects related to the establishment of a disaster resilient country and disaster prevention measures related to the Nankai Trough earthquake.

Q: With respect to the business related to telecommunications carriers, work for

platinum band base stations appears to be peaking out in the second half, and if the effects of taking over certain operations from the former NEC Mobiling, Ltd. (now MX Mobiling Co., Ltd.) are excluded, the business appears to have faced somewhat difficult conditions. Was the business experiencing these conditions because business volumes declined or because unit prices declined while business volumes did not fall?

A: In the mobile communications base stations business, the number of LTE base stations is likely to increase in the future. Because they are smaller than the existing types, the unit price is set to decline. As telecommunications carriers have different strategies, such as a strategy of balancing investments with overseas business, we think that their overall capital investments are unlikely to reach the extremely robust level achieved in the previous fiscal year.

Q: With respect to the contribution to earnings from NEC Magnus Communications, Ltd. (“NEC Magnus”), it is considered that as NEC Magnus will be included in the consolidated subsidiaries in the second half of the current fiscal year, it will also be a factor for higher sales in the first half of the next fiscal year, enabling the Company to achieve the medium-term target in May. However, I also think that if the profitability is low, it will be difficult for the Company to achieve the medium-term profit target. What kind of initiatives are you considering taking to improve the profit rate?

A: The businesses of NEC Magnus comprise the three main businesses: the CATV business, the corporate network business and the development and manufacture of its own unique products. With respect to manufacturing, it imports products that are outsourced to overseas manufacturers. As a result, NEC Magnus has been negatively affected by the recent weak yen, and we believe that it will not be able to make a significant contribution to our profits in the current and next fiscal years. However, we are planning to improve its profitability by making internal efforts, including cost cutting, in the future, as well as by bolstering sales through the use of our sales capabilities and the promotion of cross sales to the customers of the two companies, including CATV operators.

Questioner B

Q: There are several consolidated subsidiaries that will begin to make a contribution to the Company’s results from the current fiscal year as a result of M&As. Can you tell me, by company, the impact on sales, the scale of operations on an annual basis, the relationship with the forecasts made at the beginning of the term and the contribution to profits? Moreover, when do you think that the synergy effects from these companies will start to become visible?

A: The SI and service business related to mobile communications base stations that were succeeded from the former NEC Mobiling, Ltd. began to contribute to our results from the first quarter with the impact of net sales of approximately ¥3 billion for the first half and ¥6 billion for the full year. These figures have been included in the forecasts made at the beginning of the term.

The results of Q&A Corporation (QAC), which became a consolidated subsidiary in June, began to be consolidated from the second quarter with the impact of a business scale of approximately ¥3 billion for the first half and approximately ¥10 billion for the full year. Because the consolidation was completed earlier than anticipated at the beginning of the term, net sales increased by ¥2 ~ ¥3 billion compared with the forecasts.

NEC Magnus, which is to be consolidated in October, is expected to add sales of billions of yen in the second half of the current fiscal year. Full-year sales for the next fiscal year will be double those for the current fiscal year. These factors have not been included at all in the plan made at the beginning of the term.

As for contribution to profits, the business related to base stations makes several hundred million yen. However, both QAC and NEC Magnus are making almost no profit contribution at present because the two companies were integrated just recently. We will improve this situation through synergy in the future. For instance, NEC Magnus will review the production map, strive to streamline the efficiency of staff members across the Group and take other initiatives. It is our policy to expand the sales of NEC Magnus by using our sales capabilities for some time, and we are planning to make the effects of these initiatives visible from around the second half of the next fiscal year.

Q: Which business will be expected to grow in the future as a result of the effects of Abenomics? Moreover, I think that with an improvement in business confidence, we can also expect capital spending in the businesses related to private demand in the future. In this respect, which business sectors do you expect to perform strongly?

A: First of all, it will be the public investment sector. Because Japan experiences more natural disasters than other countries in the world, it is important to take measures to respond to such situations. We believe that the businesses related to safety and security will continue to attract investments in the future. The digitization and the widening of the service areas of fire-fighting systems is one example of such a business.

In the businesses related to private demand, the number of inquiries from the financial industry has been rising, presumably due to the effects of monetary easing. However, overall private demand, including that of the manufacturing industry, is yet to improve in the future.

Questioner C

Q: Tokyo has been selected as the host city for the 2020 Olympic Games. Which businesses do you expect to grow based on this development?

A: The Olympics will take place in 2020, and as they are still a long way off, we have not yet seen any specific projects. The estimates of the total investment amount also still vary at this stage.

Keeping that in mind, the strengthening of the communications infrastructure is one business that we can expect to expand. For example, by around 2020, we anticipate that spectators in a stadium may use smartphones to listen to comments on the sport while they are watching the competitions. To provide such services, the network needs to be improved so that it becomes large enough to be able to accommodate increased network traffic. Moreover, to be compatible with the 4K and 8K high image quality as anticipated, television broadcasting needs to be supported by an improved broadcasting infrastructure. In addition, if roads and other transportation networks are developed, the related communication networks will also be required to be strengthened.

Another business is services related to foreign visitors. At present, the scale of multiple language contact centers is still small, but we believe that such services will grow in the future. We also expect that demand to strengthen WiFi and other services will grow in hotels and other facilities in an attempt to improve their services for foreign visitors.

Questioner D

Q: Orders jumped in the first half. How are you looking in terms of orders for the second half? With respect to companies, those in the industries such as the financial and real estate industries appear to be providing business opportunities. What do you think about this movement?

A: We expect that public offices will remain active in infrastructure investments.

However, because they involve a number of tender projects, and due to other factors, we believe that orders will not increase as much as they did in the first half.

Orders from telecommunications carriers are expected to be generally unfavorable because their capital spending is somewhat uncertain.

With respect to companies, the recovery of the economy has not yet reached a full-scale recovery in ICT investments. As the questioner pointed out, financial institutions are performing strongly and real estate operators are also making good progress, and there are cases in which this positive development has resulted in a pick-up of demand for the relocation of offices. However, we believe that overall corporate activities are yet to improve in the future.

Q: What is the progress in the business related to NTT?

A: We hardly handle any businesses related to base stations for NTT DOCOMO, and the main business related to the NTT Group is hardware maintenance services. NEC Magnus, which became a subsidiary in October, carries out operations including the provision of products to the NTT Group. We are planning to expand the business by using this business channel.