

Q&A at 10th CLSA Japan Forum

February 26, 2013

NEC Networks & System Integration Corporation

(TSE: 1973 / NESIC)

Date & Time: February 26, 2013 (Tuesday) 16.00~17.00

Q: Please explain about the purchase price and the scale of sales and profits for the integration of the base station business (business transfer from NEC Mobiling, Ltd.) announced on February 13, 2013.

A: Net sales for the current period are estimated at a little over 6 billion yen and operating income is estimated at about 0.4 billion yen. The purchase price is 2.2 billion yen.

Q: It seems that the purchase price is low, but what advantages does your company see in the integration?

A: Our company has strength in the construction of base stations. In contrast, NEC Mobiling has strength in area surveys/design and maintenance services for the business related to base stations. Accordingly, the base station business will be supplemented, leading to a stronger seamless value chain. In addition to the advantage above, improved SG&A efficiency and other improvements will bring about synergies. Moreover, we will have connections with NTT DOCOMO, which was not a direct customer of our company.

Q: In comparison with other systems integrators, it seems that profit margins are low. Why does your company consider it is?

A: Our company operates an infrastructure construction business with relatively low profitability, but which is one factor that differentiates our company from its competitors. On the other hand, other systems integrators have product sales businesses with high margins, which accounts for a large share of their sales. Thus, it can be said that the business structures are different. In addition, our company is still in the process of improving profitability and is making further efforts in this regard. Moreover, we are in a phase of investing in growth, which also affects profitability.

Q: Will your company improve its profits through cost cutting or through changes in the sales mix?

A: We are considering both cost cutting and change in the sales mix. We will expand the high-margin service business as well as continue to cut costs. For these purposes, we have stepped up our investment for growth, such as beefing up sales personnel and launching new businesses, and these efforts will produce results.

Q: Will your company look for future growth through its overseas business?

A: In our overseas operations, we expanded jointly with NEC in the telecommunications infrastructure construction business, but we are currently downsizing this business, so that it is not significant. Although we are not considering worldwide expansion, we have earned the trust of customers in Saudi Arabia, Brazil and other areas where our affiliates are located. We will steadily provide services in those areas. In addition, we will strengthen the overseas support we provide Japanese customers in Asia and China. We have the ability to properly understand customer needs, and will use this ability to provide support for the overseas expansion of our customers.

Q: Please explain the cloud business of NESIC in concrete terms.

A: Our cloud business specializes in common platform services using the advantages of the network business, such as thin client and e-mail systems, rather than the field of applications by industry.

Q: What degree of profitability does the fire-fighting system business have?

A: Fire-fighting system business is done through bidding and thus the profitability is not especially high. However, we are fully aware of what our (approximately 800) customers do and what they need. By harnessing this knowledge, we can achieve a certain degree of profitability.

Q: What is your position on future mergers and acquisitions.

A: Our company will create new services with technological excellence, particularly by using our unique business platforms. Therefore, we will consider a merger or acquisition when it contributes to the creation of a new service. Regarding the scale of a company that we will acquire, we consider cash flow to be one of the standards.

Q: What percentage of total sales are those related to NEC?

A: Currently, sales to and through the NEC Group account for a little over 40% of total sales. However, the ratio has been gradually decreasing.

Q: Why is the ratio of independent businesses of your company high?

A: Our company operates with its own sales units. Since our founding 60 years ago, our individual employees have created new businesses with a spirit of independence.

Q: Are there any fields that you see as promising following the change in government?

A: We expect the increase in public investment to have a direct effect. The new government has not decided on the specifics yet, but we are closely monitoring the situation.

End.