

Q&A at 12th CLSA Japan Forum

February 27, 2015

NEC Networks & System Integration Corporation

(TSE: 1973 / NESIC)

Date & Time: February 27, 2015 (Tuesday) 9.00-10.00

Q: When will business associated with the Tokyo Olympics contribute to your results?

In what fields does business look promising? What companies will be your competitors in those fields?

A: Business in fields related to safety and security for the Olympics looks promising. The enhancement of networks and multilingual services are also promising.

As we are involved in a variety of fields associated with the Olympics, our business associated with the Olympics is not expected to make a significant contribution in any particular year. Contributions will emerge each year up to 2020.

Our competitors will include electronics vendors, SIers, and builders of network infrastructure. Our advantage is that we can provide infrastructure and all related services.

Q: Capex at telecom carriers is expected to decline. Public investment appears to be peaking out. Given these negative factors, how much confidence do you have about growth next fiscal year? Will the Japan Fair Trade Commission's investigations have adverse effects on your firefighting system business?

A: The Japan Fair Trade Commission has not investigated us, and we do not think that its investigations will have any particular effect on us.

As you have just pointed out, we need to estimate performance in the next fiscal year cautiously, considering the effect of the peaking out of the firefighting system business and a decline in capex at telecom carriers. It is difficult to achieve substantial growth, but we are considering how to achieve the targets for the final fiscal year of our mid-term business plan.

Q: Net cash has increased. How will you use your cash and deposits?

A: We will use cash and deposits for growth, mainly for M&A and the building of a service infrastructure necessary for solutions. We will consider investment in in-house systems, including ERP. While considering the status of M&A and capex, we will strive to distribute stable dividends and to increase shareholder returns to meet our shareholders' higher expectations.

Q: How far do you think you will be able to improve profitability? I'm assuming that a change in your sales mix will affect your profitability. What is the key to improvement in profitability?

A: Specific targets for the next mid-term business plan following the existing mid-term business plan are currently under discussion. Speaking of our sales mix, we are struggling to increase sales to telecom carriers, while sales to other enterprises are increasing. To improve profitability, it is important to improve profitability in our business with other enterprises, where sales account for increasing percentages.

Q: Is hiring getting more difficult due to the lack of human resources? Are you considering hiring engineers from abroad?

A: We are not affected by the lack of human resources. However, considering the lack of human resources for the future, we recognize that hiring human resources is an important business challenge. We emphasize technology. We will hire a certain number or more of employees every year and will hand down our technology to them. We need to consider securing human resources through M&A. In association with that, we may consider using human resources from abroad.

Q: Although telecom carriers' capex is declining, communications traffic is on an upward trend. I do not think that their facilities are sufficient. In this environment, do you expect that carriers' capex will improve? In what fields do you expect investment to increase?

A: Currently, carriers' investments are associated with 4G technology. In the future, there will be investments associated with new technologies, including 5G. However, investment in base stations for those technologies do not involve investment in the construction of new steel towers as 3G investment did. The main investments are now investments in the modifications of existing base stations, and we do not expect large amounts of capex like capex for 3G base stations. We think that our business opportunities lie in strengthening core networks associated with increasing traffic.

Q: What is your policy on M&A for the future? What are the two acquired companies' contributions to earnings like?

A: NEC Magnus Communications contributed to earnings this fiscal year, but Q&A Corporation (QAC) still needs improvement. The entire NESIC Group will take steps to improve QAC's earnings.

We have no specific M&A plans to discuss now. For M&A, timing is important. We will actively consider M&A if there are any good opportunities in line with our strategy.

End.