

What's NESIC?

February 25, 2016

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CFO & Associate Senior Vice President

NEC Networks & System Integration Corporation

(TSE 1973 / NESIC)

Good afternoon! I'm Tokuo Yamamoto, CFO of NEC Networks & System Integration Corporation, which we call NESIC. Thank you for joining us today for this briefing.

Agenda

- **What's NESIC?**
- **NESIC's Business Model**
- **Opportunities for the Next Growth**

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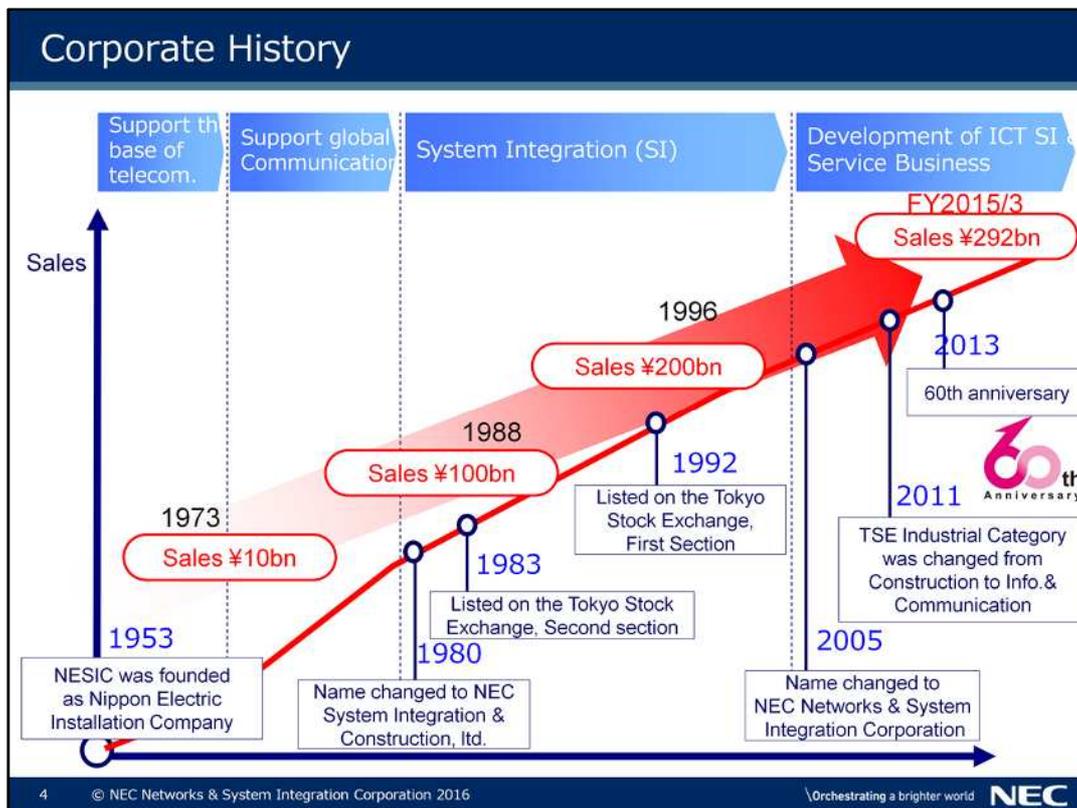
Here is our agenda.

First, I will provide a summary of our company, then talk about our business model, and our opportunities for the next growth.

■ What's NESIC?

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What's NESIC?



This chart shows our history.

NESIC was born as a telecom engineering company about 60 years ago.

According to the development of technologies, our business have been gradually expanded into systems integration and related services such as system operation and outsourcing services. As a listed company we have over 30 years history, and according to the expansion of our business our industrial category was changed from construction to information & communication 5 years ago.

Support the Base of Telecommunications(1953-)

Construction of domestic broadcasting and telecommunications infrastructure



Installation of Japanese first television broadcasting equipment



The world's first automated broadcasting equipment for NHK



Telephone switchboard

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I will explain the history of NESIC in a little more detail. 1953, our birth year, was the year when NHK started Japan's first television broadcasts, and current KDDI was established. In other words, NESIC was born at the dawn of communication in Japan. We started out developing Japan's broadcast and telecom infrastructure, such as the installation of television broadcasting equipment and the installation of telephone switchboards, as shown in the pictures.

Construction of telecommunications infrastructure around the world



Satellite broadcasting on Mt. Everest



Oil plant telecom system in the Middle East



Construction of network for an offshore oil field plant



Construction of satellite telecom system in Switzerland



Construction of satellite telecommunications system in Iran

In sixties, our business expanded to the worldwide telecom infrastructure.

As shown in this slide, we have installed satellite earth station on Mt. Everest and have contributed to live TV coverage from the top of Mountain.

System Integration (SI) (1990s-)

Expansion corresponding to diversified communications way including mobile-phones and the Internet



Construction of base stations for mobile phones



Construction of intra-company voice communication network

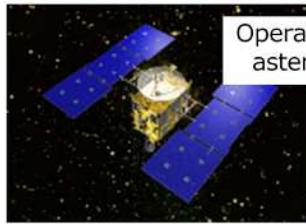
Alongside the dramatic development of telecom technology in the 1990s, we also contributed to the start-up of new telecom services, including mobile phones and the Internet, and also expanded system integration business for office communication network. We can say that it is the era when we became a system integrator.

And Today...

SI and operation of various social infrastructure



Installation of digital terrestrial broadcasting equipment on Tokyo Skytree



Operation and control of the *Hayabusa* asteroid explorer and other satellites



Submarine cables and Submarine seismometer system



*It is one of our staff members that discovered the *Hayabusa*.

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And today....., we have also been involved in the construction of social infrastructure, including the installation of digital terrestrial broadcasting equipment on Tokyo Skytree and the development of a submarine seismometer system.

Moreover, our stage has spread as far as space. We have been involved in the operation and control of numerous satellites. It was one of our staff members who RE-discovered the Hayabusa, that collected samples of asteroid Itokawa, first in the world, when it lost all its trace.

We are working for the operation of Hayabusa-second, too, but I hope we do not have an opportunity to re-discover it this time, (as it will not lose its way).

And Today...

Work style reform integrating office design and ICT

EmpoweredOffice



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For offices, not only integration of ICT systems, we also focus on the work style innovation solution, including office facilities and design to enhance the productivity of employees.

What is NESIC?

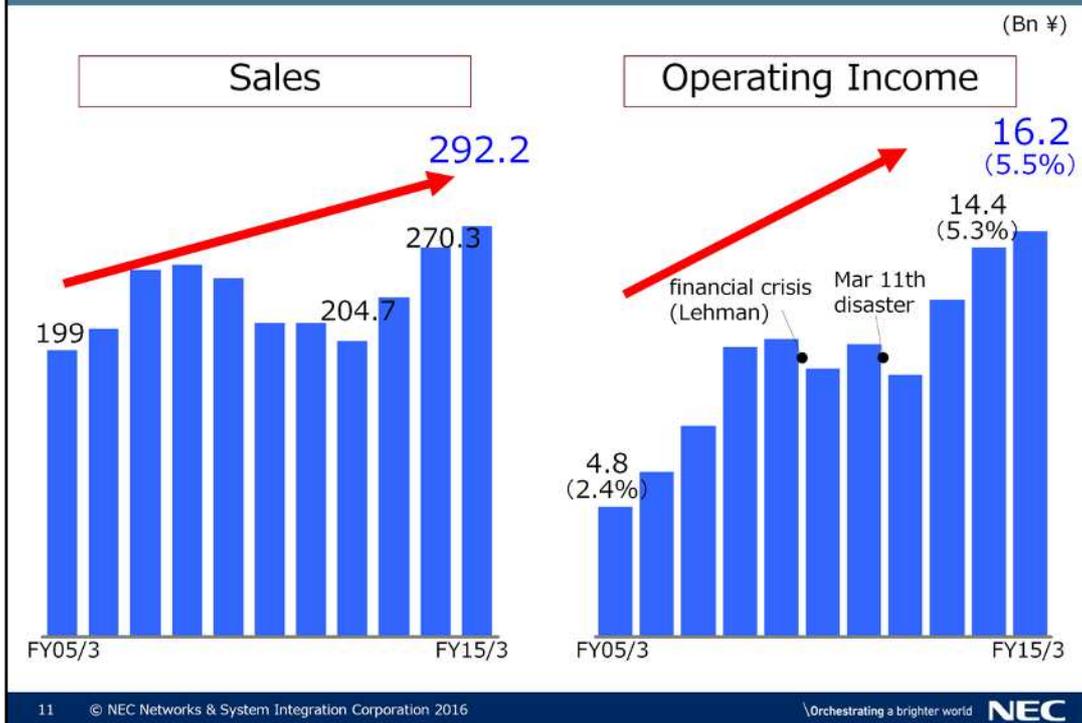
We are
a company that supports all kinds of communications,
ranging from space and submarine communications
to communications in everyday life
and corporate activities.

Corporate message

Re-designing your Communication

It is, therefore, fair to say that NESIC is a company which has been developed by continually supporting all kinds of communications across a wide range of fields.

10 Years Record



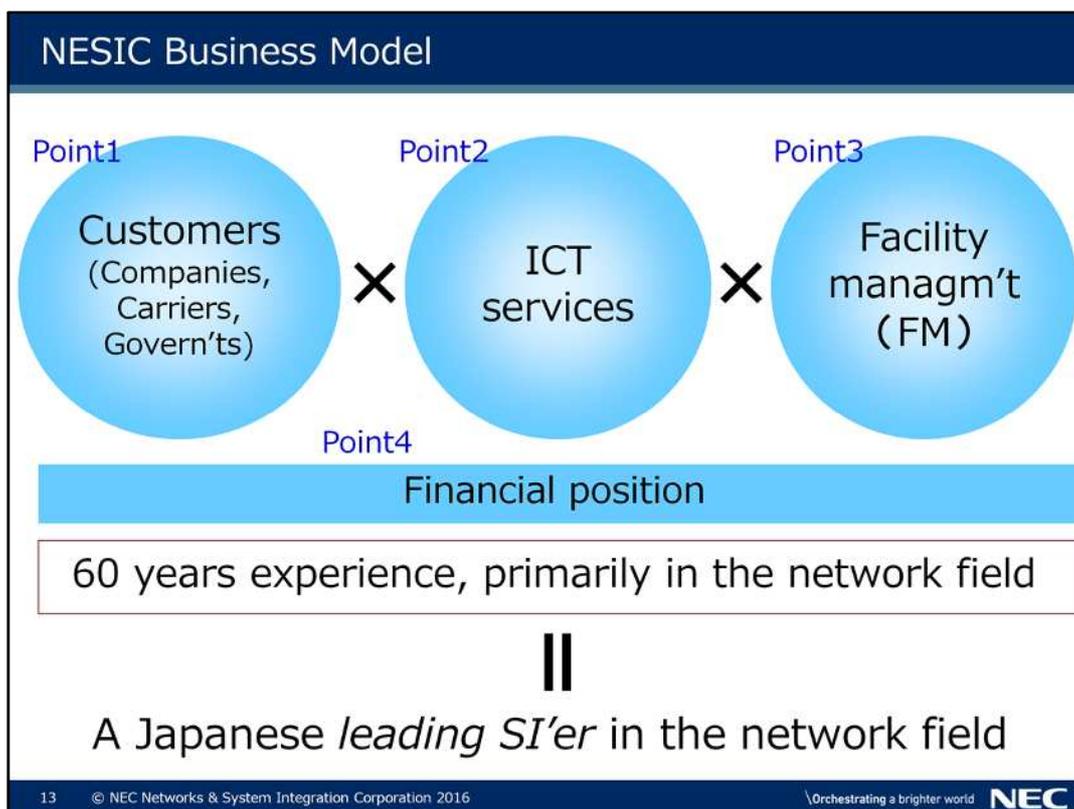
This is our recent financial record. For past decade, although there were the financial crisis triggered by the Lehman collapse and March 11th disaster, we have been improved our profitability without large impact by them.

■ NESIC's Business Model

- NESIC's Strength
- Current Financial Situation

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I will show our business model, next.



Our business model has 4 points:

1st: We DO business for various customers, private companies, telecom carriers and governments.

2nd: We can provide them variety of services related to ICT, such as consulting, system integrations, maintenance-operation, and outsourcing services, utilizing our strong service & support bases.

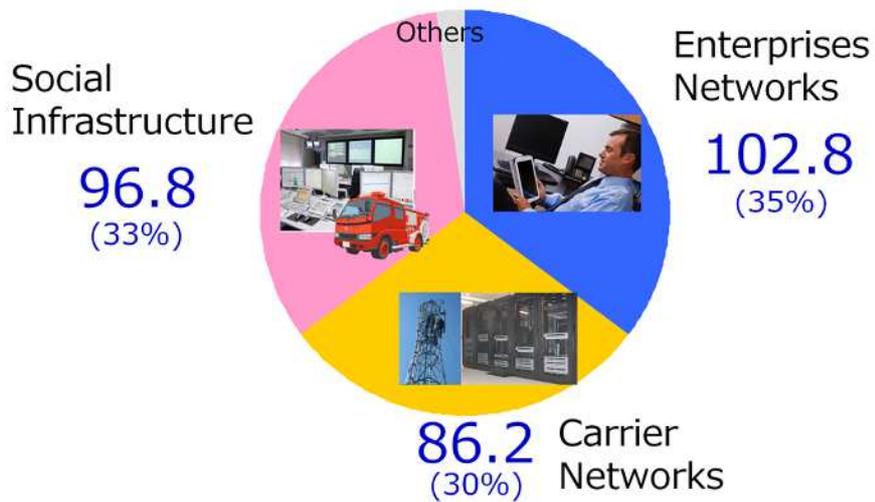
3rd: We also have total facility management knowhow through telecom construction experience, including office facilities and design.

4th: In addition, we have good financial position.

As a result, we are proud of leading position in the Japanese network market, based on the trust, earned through our sixty-years experience and know-how.

Point 1: A Wide Range of Customers

Sales: ¥292.2bn (FY 2015/3)



*Segment figures have been changed in accordance with the current content of business segments

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This is our sales by segment. It is well balanced, based on our broad customer base. And this gives our performance some stability against environmental change in each field.

Enterprises Networks

- ICT systems for the offices of enterprises, etc.
Total office innovation solutions.

Example: Office Innovation Solution "EmpoweredOffice"

- Office innovation concept

- ✓ Proposal of innovated Working-style
- ✓ ICT + Facility management(FM) + Consultation
- ✓ To improve productivity, cost-efficiency, environmental responsiveness

"Empower"

"Economy"

"Ecology"

+Enjoy



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Here I'd like to explain our business segments; Enterprises networks business is system integration and related services regarding ICT systems mainly for the companies' offices.

One of our focusing businesses is our solution named EmpoweredOffice to improve total office productivity. White workers' productivity is a critical issue for Japanese senior management to survive in matured market condition. By combining the strength of ICT and our facilities management such as office design, supplies and electricity, we provide the 3E effects to enhance the corporate value of our customers:

That is: Empowering creativity of each worker, and realizing Economical and Ecological work style. We have been implementing the solution for ourselves and Enjoying it... that may be 4th "E". In our case, it was effective in reducing floor space by 40%, and the power consumption by half, as well as in speeding up management decision and information sharing. We have invited customers, especially senior managements, to feel the effectiveness for themselves by watching around our offices. As a result, the EmpoweredOffice brand has gradually been penetrating to our customers.

Carrier Networks

System integration for telecom carriers (fixed, mobile), and maintenance and operation services, etc.

SI & maintenance of core networks

Telecom carriers' network systems

Outdoor base stations

Installing indoor base stations

Installation & maintenance of mobile base stations

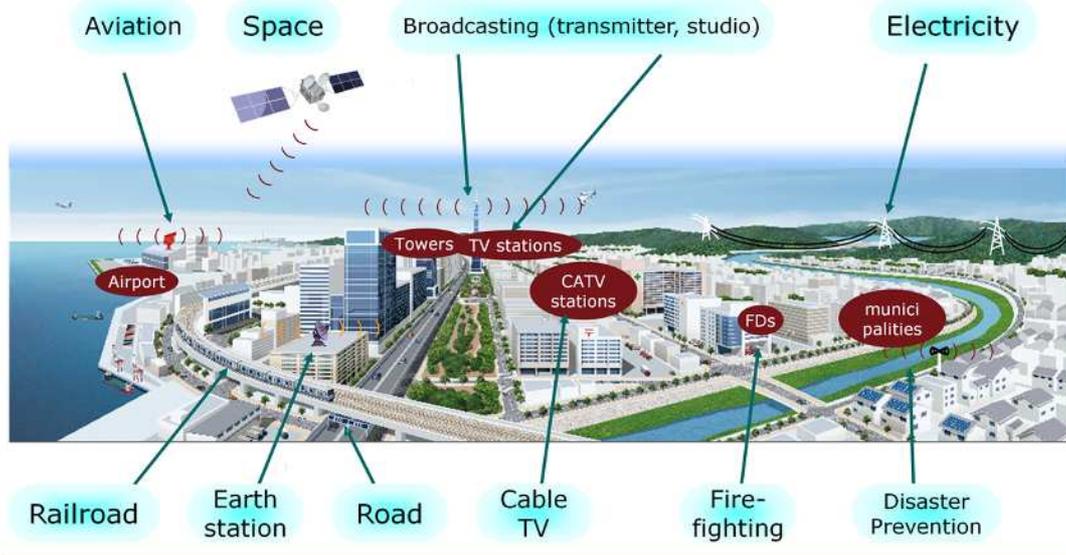
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Carrier network business is the business mainly for telecom carriers' public networks, from installation and maintenance of mobile base stations to system integration or configuration of core networks.

Social Infrastructure

Installing networks for the broad social infrastructures



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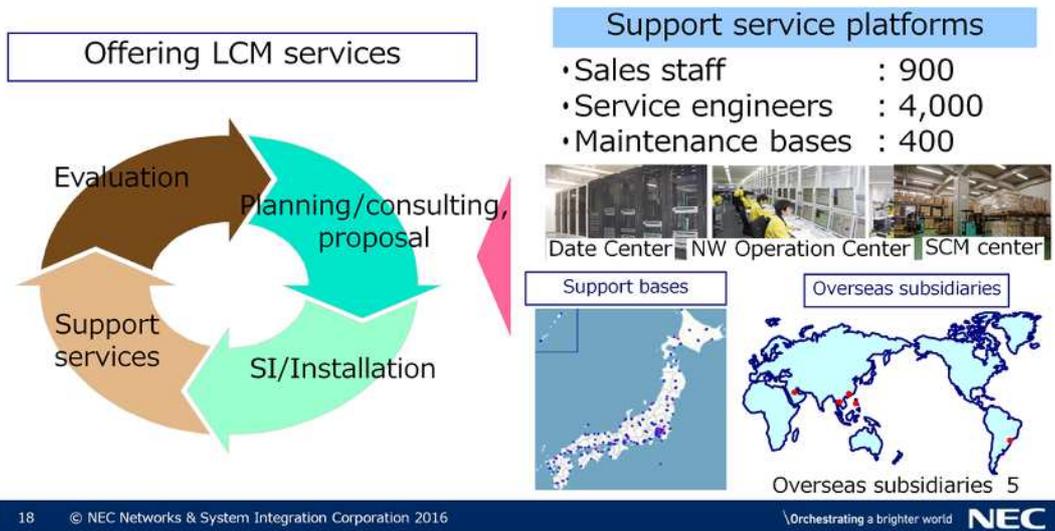
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Social infrastructure business is mainly installation and related services for network systems regarding variety of public infrastructures, including fire-fighting and emergency networks, broadcasting systems such as transmitters and studio systems, cable TV networks, and telecommunication systems along roads and rails.

Point 2: Infrastructure for Extensive ICT Services

Offering all services from the standpoint of customers

- Business infrastructure for offering all kinds of services, including consulting, construction, maintenance and operations



Second point is our services infrastructures. We are able to provide ICT services as a management cycle, from consulting, integration, maintenance and outsourcing services.

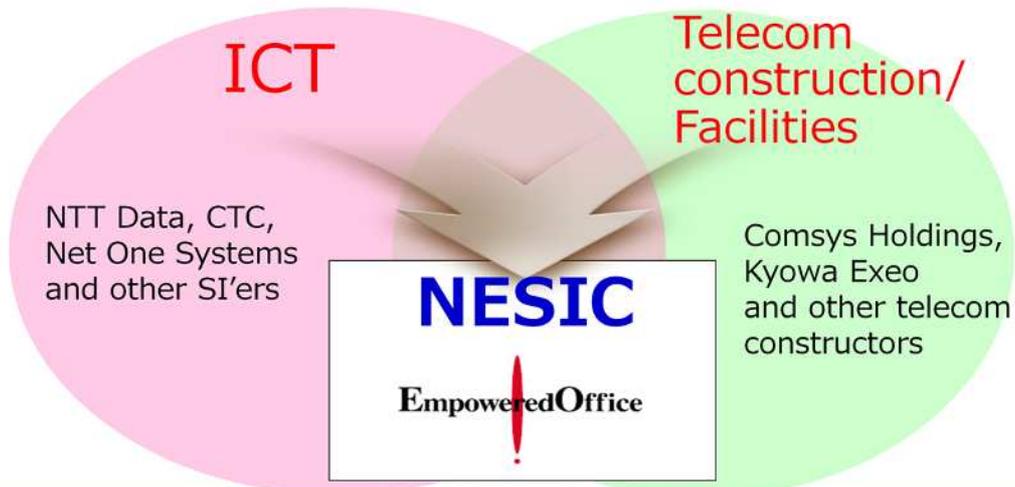
It is our intense service and support bases nation-wide that differentiates our business model.

For an example, we can send support staff and necessary parts to our customers in just an hour almost wherever they are in Japan. It is the service quality NESIC is proud of, through the experience of mission critical public network business.

Point 3: FM Capability Based on Construction Know-how

Facility management (FM) + ICT capabilities

- Creating new business using synergy between expertise in facility management & ICT



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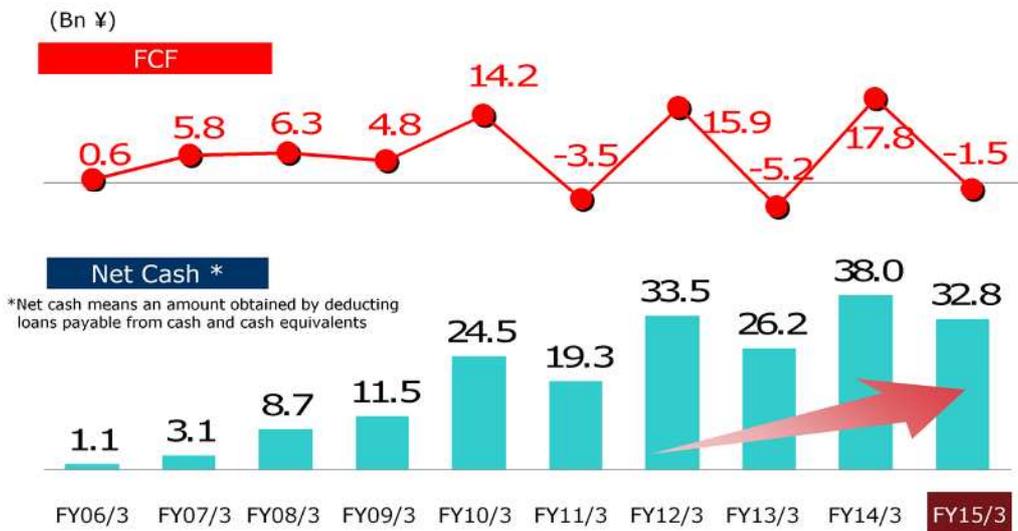
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Another clear differentiation compared to other system integrators, lies in our know-how and installation capabilities for office, electrical and other facilities. These skills have been built through our infrastructure construction business, leading to the creation of new business. One of such examples is our office innovation solution "EmpoweredOffice," I mentioned earlier.

Point 4: Financial Position

Financial strength for the next growth!



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Fourth point is our financial position. Through increased profitability, we have built solid financial strength. We are ready to use it for further growth.

A Japanese leading SI'er in the network field

■ Holding a top-class position in networking in Japan

- Competitors engage mainly in product sales and software and systems development.

(Bn ¥)

	FY2014 Sales	YoY	Network Business
1 NTT data	1,511.8	12.5%	77.3
2 Canon Marketing Japan	659.4	0.3%	14.6
3 OTSUKA	605.8	7.3%	69.7
4 NRI	406.0	5.2%	-
5 CTC	381.9	8.9%	123.4
6 IT Holdings	361.0	4.1%	32.1
7 SCSK	297.6	3.3%	60.0
8 NESIC	292.2	8.1%	161.4
9 Nihon Unisys	269.2	-4.8%	62.8
10 NS Solutions	206.3	14.6%	13.4
11 Transcosmos	199.2	6.8%	-
12 Net One Systems	143.2	0.5%	84.6

※ Source : The Company based on "Study of New Business Strategies by SI/NI Vendors of Japan 2015" from Fuji Chimera Research Institute

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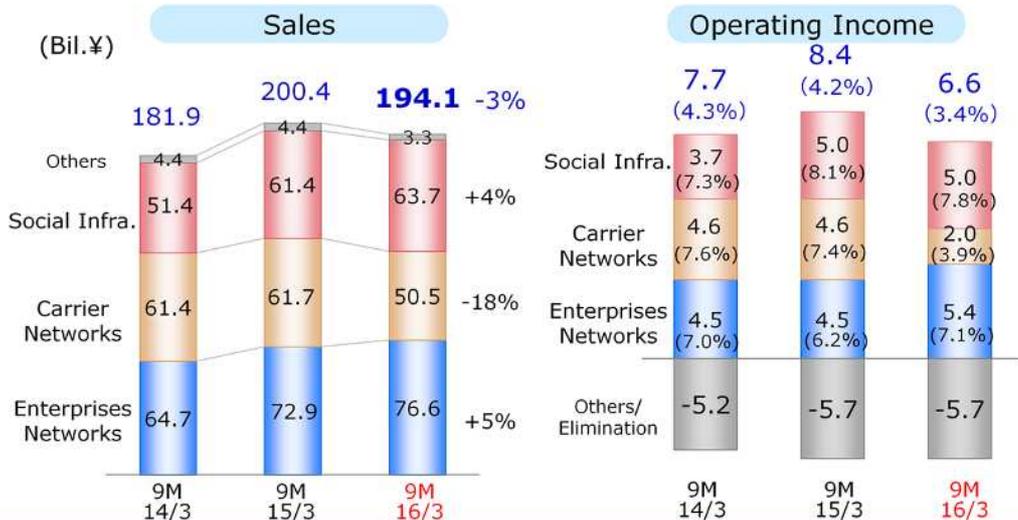
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By demonstrating the features and strengths explained so far, NESIC holds the position of a top system integrator in networking in Japanese ICT service industry.

Current Financial Situation

< 9M FY2016/3 Sales/OP by Segment >

Net sales & incomes decreased due to the impact of investment cuts by telecom carriers.



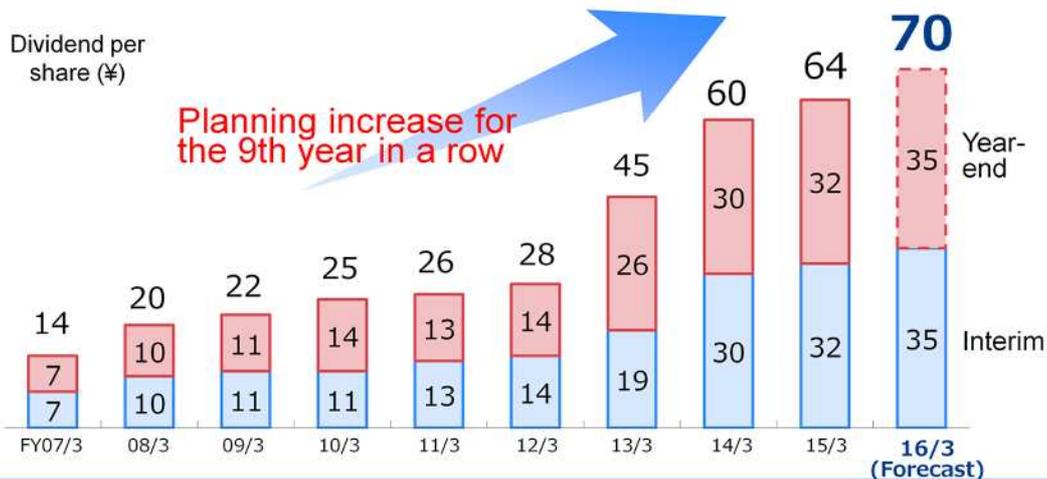
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Here I'd like to mention current financial situation. We must admit that this fiscal year we are suffered from severe business condition and both of 9 months sales and income decreased from the previous same period. Telecom carriers investment drastically decreased as the connectivity of their network has already improved. On the contrary, enterprises business is expanding constantly focusing our proposal for management innovation by ICT.

Dividends

Increasing dividends in step with improvements in profitability based on stable dividend policy



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We are planning 70 yen dividend per stock for this fiscal year. We have gradually increased dividends in step with our improved profitability, while focusing on stable dividends. By balancing returns to shareholders with investment, we aim to generate an overall return that satisfies all shareholders.



Next, I will explain about our business opportunities for the next growth.

Business Opportunities

Despite negative impact of decreased capex by telecom carriers and peak-out of FF radio digitalization at present, we have promising opportunities for the next growth

- Progress of work style from office to virtual office beyond distance
- Activation of 4K/8K broadcasting and urban infrastructure enforcement toward Tokyo 2020
- Needs for the disaster prevention (DP)
- Brisk investment in public infrastructure in Asia
- New services such as IoT/MVNO

*FF: Fire fighting

Let's take a look at the business environment.

As I mentioned earlier, telecom carriers are now cutting their investments, and no significant recovery is expected. For the next fiscal year, the digitalization of fire-fighting radio networks has come to an end and we do not expect major sales growth. However, there are several promising moves for the future.

In the corporate area, the scope of work-style reform will expand from work in offices to work that is not bound to a particular place.

In the infrastructure area, the foundation for the next-generation 4K and 8K broadcasting standards and urban infrastructure, including roads and rail transport, will be strengthened in preparation for the Olympic Games.

Investments in various disaster information networks are also expected.

Outside Japan, development of the communication infrastructure and many other kinds of social infrastructure will be stimulated in Southeast Asia.

In addition, there is anticipation for expansion of services in new domains, such as IoT and MVNO.

Strategies for the Next Growth

Basic Policy :

- (1) Surfing on waves of **infrastructure** investment
- (2) Expanding **services** business as stable base

Middle-ranged focusing areas

◆ Strengthen service business

- Managed service, BPO
- Next generation EmpoweredOffice

◆ Expand infra. business

- Strengthen and further develop infrastructure business in Japan (4K/8K, DP Infra., traffic infra., etc.)

◆ Expand overseas business

- Carrier/social infra. businesses and JOC business mostly in ASEAN region

◆ Embark on new business

- Create new services such as IoT/MVNO

With this perception of the environment, our strategy is to step up and expand both the service business and the infrastructure business.

The service business is the pillar of our stable growth. Meanwhile, in the infrastructure business, large and active investments will be made to meet special demand in specific projects such as terrestrial digital broadcasting and digitalization of fire-fighting radio networks. It is vital to take the greatest possible advantage of these business opportunities by adeptly moving with the tide of investments. In addition, we will respond positively to overseas infrastructure demand, mainly in Asia.

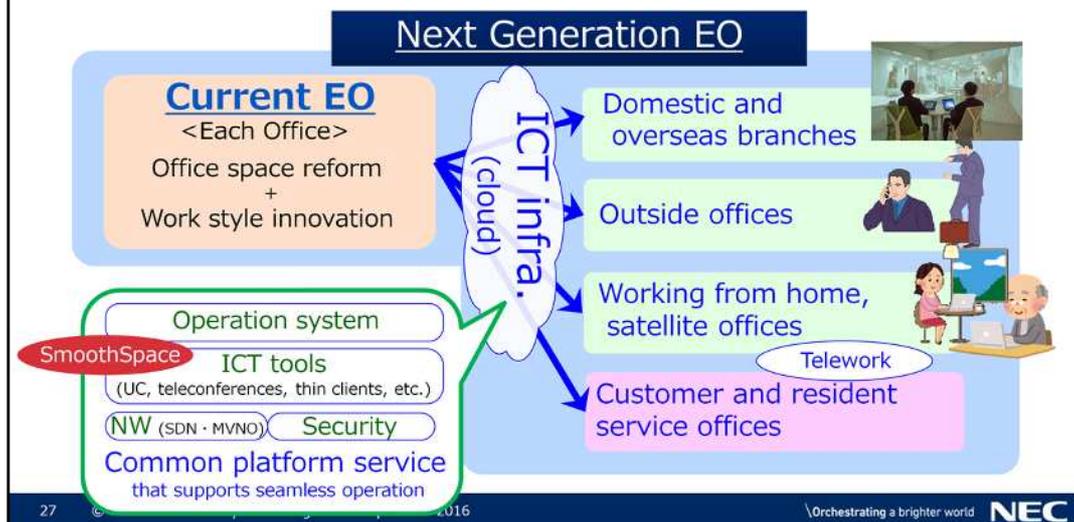
We will also venture into new businesses to identify market needs.

Now I will briefly talk about these efforts.

Strengthen Service Business (EmpoweredOffice Business)

EmpoweredOffice(EO) business development

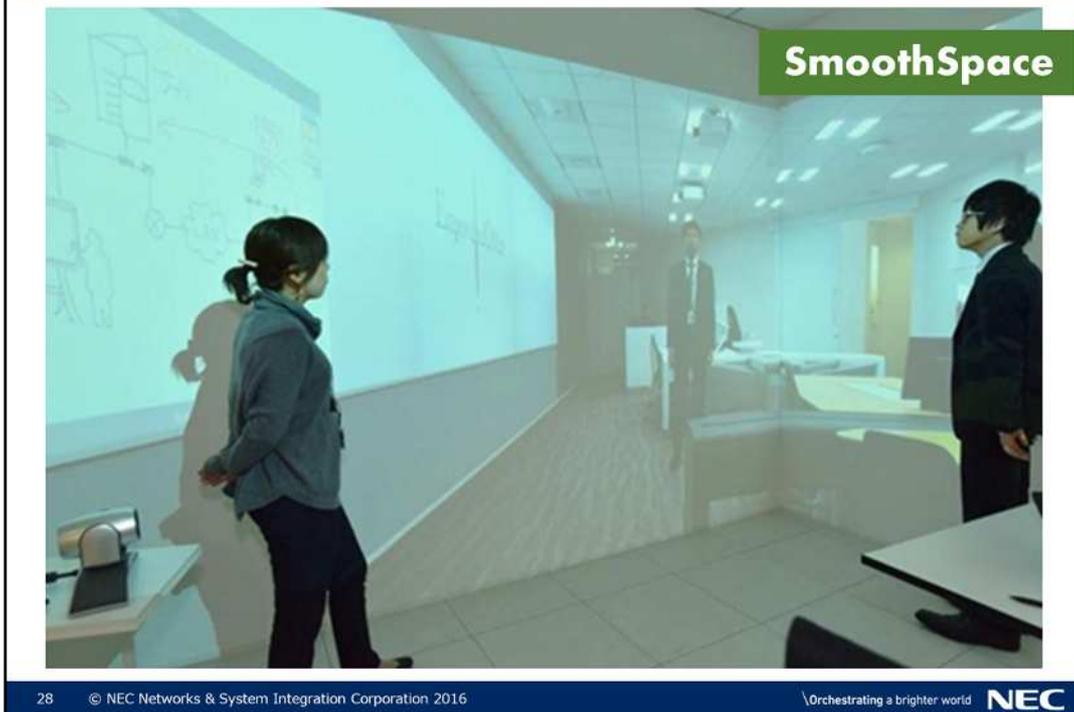
- From work-style innovation in the office space to the creation of work styles and work environments beyond the boundaries of spaces/places
- Achieve diverse work styles + increase corporate strength



First, for the service business, the use of ICT will further expand in domestic and international collaboration between different locations and in mobile working. In particular, we will see the accelerated resolution of social issues such as female empowerment and nursing care, diversification of working styles and expansion of teleworking. The cloud and security will be more and more important as foundations for these services.

In response to these changes in market needs, we will evolve our EmpoweredOffice business, from reforming work-styles in offices to creating workplaces for inter-locational work that are not bound to a single location, such as by working at visiting destinations or teleworking.

Strengthen Service Business (EmpoweredOffice Business)



As shown in this slide, we have already introduced the SmoothSpace as a solution for encouraging communication with remote locations to overcome distance. Employing projection mapping technology, it virtually links branches and other remote offices in the vicinity. This opens the way for sharing the atmosphere of one place and establishing casual forms of communication. It has already created new ways of working, which can be seen in the trials at unmanned outlets conducted by a financial company.

Expand Infrastructure Business (4K, 8K, etc. and broadcasting / CATV business)

Strengthen and further develop infrastructure business in Japan

example

<Market environment>

ICT market forecasts in key industries
(estimates for our business areas)

- ◆ National resilience and regional revitalization
¥400 bill/year
- ◆ Electric power-related business
¥200 bill (total of 14 through 18)
- ◆ Economic effects of Tokyo 2020
¥300 bill (total of 14 through 20)
- ◆ Broadcasting related capex
¥250 bill (total of 14 through 18)
- ◆ CATV related capex
¥200 bill (total of 14 through 18)

- CATV : 4K/8K, FTTH development
- Broadcasting: Expand the market by taking advantage of the strengths of the NEC Group, which has a large market share

		2015	2016	2017	2018	2019	2020
4K/8K schedule	CATV	Start 4K	Start experimental activities for 8K			Start 8K	
	CS	Start 4K					
	BS		Test 4K/8K broadcasting			Start 4K/8K (earlier than planned)	
CATV Update 4K/8K facilities	FTTH development	FTTH installation				● Achieve full-FTTH installation	
		HFC and reduction of cell size (extension of HFC life)					
Broadcasting station		Stations in Tokyo: Studio master renewal		Regional stations: Studio master renewal			
	Increasing demand for renewing broadcasting facilities	Switch AM radio to FM radio					

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In the infrastructure business, we foresee a rise in investments made in infrastructure that supports a safe, secure, and comfortable society. The market sizes mentioned here are roughly estimated figures, but without doubt investments in these areas will grow.

One promising area in the infrastructure business is the broadcasting.

The next-generation 4K or 8K broadcasting sends a large amount of data, so it is difficult to transmit it via terrestrial broadcasting, requiring it to be redistributed on CATV. As a result, copper cables, which still make up a large proportion of the CATV infrastructure, will be increasingly replaced with optical cables.

In addition, we will actively work to meet the demand, realizing that the replacement of broadcasting studio equipment will spread from the key stations to provincial stations.

As the year 2020 approaches, there will be growing demand for monitoring and security solutions based on video technologies. We will step up our efforts in this domain, too.

Expand Overseas Business (ASEAN Business)

Strengthen and expand social infra. business
centering on telecom. infra. & railroad infra.

<Market environment >

ASEAN telecom. infra.
(related to installation)

Approx. ¥600 bill/year

NESIC estimates based on the forecasts of
Asian Development Bank

ASEAN railroad infra.
(related to railroad communication and
security systems such as video monitoring)

Approx. ¥100 bill/year

NESIC estimates based on
MLIT data and media information

Recent example

◆ Full-scale entry into the Myanmar market

· Established Yangon branch of NESIC Thailand (April 2015)

< Carrier-related projects >

- Mobile base station (150 stations) project
- Satellite communication project

< Energy-related projects >

- Solar power system project for villages which
used to be no-electric-power villages

(Base station antennas)

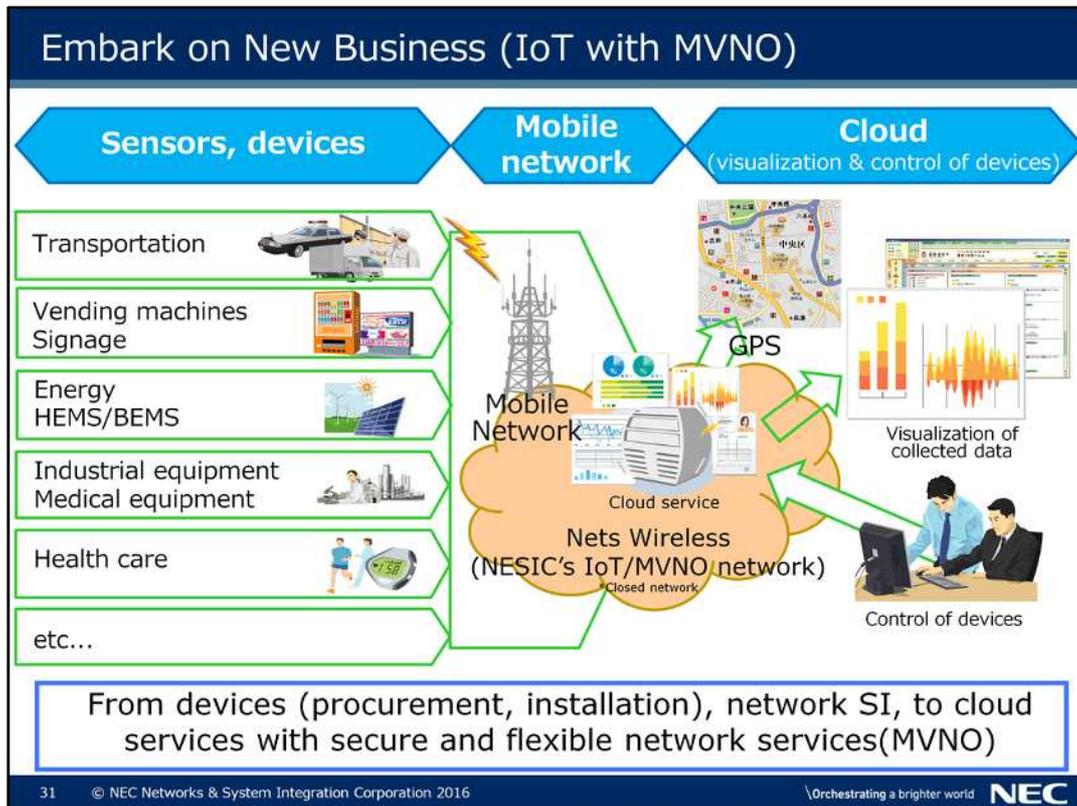


(Solar power system)



In the overseas business, our local subsidiaries serve as our business foundations. We will endeavor to expand this business mainly in the ASEAN region, where the market is expected to grow. We will focus our efforts on social infrastructure, which centers on telecommunications and rail networks. A project in Myanmar is referred to here as an example because there will be large-scale infrastructure investments in this country in ASEAN. In April last year, we launched a branch office of our Thailand-based subsidiary in Yangon. This has already produced some positive effects, winning orders for the installation of base stations for mobile communication and for equipment related to satellite communication.

In the energy sector, we also have achieved good results. For example, we have installed solar power generation systems in the mountainous regions without electric power utility services in the northwest and southwest of Myanmar. It is important to employ local operators to carry out construction work in regions like these, which take several days to reach from Yangon. We will make full use of the capacity of community-based local subsidiaries in a bid to help this business expand.



In regards new businesses, we launched the MVNO service in October 2015. This action is aimed at bolstering the IoT business. In this field, where rapid growth is anticipated, we are able to display our strength in offering an extensive service encompassing equipment procurement, installation, network integration, maintenance, and operation services. In addition, we provide flexible network service that suit the purposes of customers, and will differentiate ourselves from the competition by offering a vertically integrated service. Because the services in this business may be used in many different business fields, we will press ahead with collaboration with many device vendors and sales partners.



As I have mentioned earlier, our business segments currently face difficult circumstances, but in the future there will be many market opportunities for growth. We will work together as one to unfailingly take advantage of these market opportunities and achieve business growth. Thank you for your attention.

Cautionary Statement

Forecasts and targets of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.

Factors affecting results are not limited to the ones mentioned above.

The Group implemented the realignment of domestic subsidiaries to facilitate the efficient management of group companies, such as the integration (absorption-type merger) of Toyo Networks & System Integration Co., Ltd by NEC Magnus Communications, Ltd. As a result, changes were made to the consolidated financial results from the first quarter under review, such as the inclusion of Toyo Networks & System Integration Co., Ltd, which had been included in the "others" segment previously, in the "Carrier Networks" segment, which includes NEC Magnus Communications, Ltd.

Segment information for the fiscal years ended March 2014 and 2015 has been changed to reflect the change in the content of business segments.



Re-designing your Communication

NEC Networks & System Integration Corporation
is committed to increasing customer value by
re-designing future communications from the user's
perspective.



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