

Carrier Network Business Growth Strategy Presentation Q&A

Key:

- : Question
- : NEC's answer

The four key business areas

- How do you see the increase of the data traffic in the future?
  - Rapid spread of smart phones such as iPhone and Android-based phones, and high functionality mobile devices are a quite impressive in these days. And the demands for mobile phones are increasing in emerging countries. With the increase of uploading and watching videos and playing online-games, the data traffic will be expected to increase significantly in the future. This trend is favorable for our Carrier Network business.
- What are the four key business areas?
  - They are (i)Wireless Broadband Access , (ii)Mobile Backhaul, (iii)Submarine Cable System and (iv)Service & Management.
- What is the reason for choosing these four key business areas?
  - We have selected these areas in terms of market size, growth rate and the business domain we have competitive advantages. It doesn't mean we slash the development cost as a whole business. We are focusing on areas where we can differentiate and have competitive advantages. Of course, we are analyzing the cost structure of Chinese vendors and considering various countermeasures.
- Toward achieving overseas sales ratio of 40% in FY2012 (28% in FY2009), which regions will NEC focus in each business area? And how can NEC compete with Chinese vendors?
  - The main target for (i)Wireless Broadband Access and (iv)Service & Management business is the advanced countries. As for (ii)Mobile Backhaul business, our target is emerging countries where mobile subscribers are rapidly increasing. As for (iii)Submarine Cable System, our target is the Asian countries. To implement the Submarine Cable System, the vendor has to carry the long-distance cable by ship, we have a geographical advantage and expertise compared with competitors.
  - In each business area, we think we should avoid the competition purely on price with Chinese vendors. While Chinese vendors supply network products, we can supply high reliable and high quality products and implement network-system backed by sophisticated expertise and experience. And we can provide the integrated solutions including

telecom management systems for telecom carriers to decrease OPEX. Furthermore, we can propose our Cloud Solution liaised with the IT system product for telecom carriers to increase their profit by providing various network services. We can differentiate ourselves from the competitors by providing above concrete system.

- The target of operating margin in FY2012 is 9%. How much is profit margin in each key business areas?
  - As (i)Wireless Broadband Access is still in the investment stage, the contribution to the profit is limited. (ii)Mobile Backhaul and (iii)Submarine Cable System are expected almost same level as the total Carrier Network business. (iv)Service & Management is currently very high margin. We are aiming for the double-digit operating margin in this business area.

### PASOLINK business

- PASOLINK business in India is currently in the phase of transition. When will the demand for PASOLINK for 3G systems emerge?
  - The orders for PASOLINK were delayed due to 3G frequency allocation. However, this delay is already solved, and we expect to get orders from now on.
- Is there possibility that the sales of PASOLINK will return to 150 billion yen (highest level in the past)? If yes, when will NEC achieve this?
  - We strengthen our competitiveness by introducing new PASOLINK product from this fiscal year to meet the data traffic expansion with the increase of 3G subscribers, smart phones and high functionality devices. In addition, by launching this new product, we can apply our products to all mobile backhaul network and our sales will reach the level of 150 billion yen in FY2012. We need to expand the market share to achieve this sales target in the price competitive market.
- Which regions will be there demand for the next generation PASOLINK?
  - We expect approximately 80% of the demand will come from emerging countries where subscribers and mobile data traffic will significantly increase.

### Other growth strategies

- What is your strategy on M&A and alliance?
  - We examine the possibility of M&A and alliance considering market situation.
- How much is the level of R&D expenses?

- R&D expense remains about 9% of sales in the Carrier Network business.
- In manufacturing, are you going to utilize EMS (businesses that specialize in contract manufacturing of electronic equipment orders from other vendors), or NEC Group's factories?
  - Even if we were to use EMS, we believe we should have the expertise in manufacturing operations by ourselves.