

Q&A at IR Briefing for Consolidated Financial Statements for the First
Half of Fiscal Year 2009 ending March 31, 2010

Date and Time: November 5, 2009 15:30 - 16:30

Venue: Tokyo Station Conference (Marunouchi, Chiyoda-ku, Tokyo)

Questioner A

Q: I believe that you win government projects through bidding. How are prices and profitability?

A: As you pointed out, since we obtain all projects through bidding, competition is tough. In that respect, it is important to be involved in a large number of projects to generate economies of scale.

Lately, as projects are becoming more like network integration-type business, including the procurement of equipment, instead of simple engineering work, we are taking steps to improve profitability in diverse aspects, including our capability to procure equipment. Through these initiatives, we ensure that government projects are profitable.

Q: Looking at the gross margin of the Network Integration business, profitability will deteriorate on a year-on-year basis in the second half according to your full-year forecast. What are the factors for this? I have the impression that your full-year forecast is conservative, given the actual results for the first half.

A: When the level of sales falls, profitability tends to decline as the fixed costs ratio rises. As we expect that sales in the Network Integration business will decline year on year, we have set the gross margin shown in our forecast. It is understandable that you have the impression that our forecast is conservative, but we think that the predictions we made are reasonable given the difficult business environment. It goes without saying that if sales rebound, we will focus on increasing profitability.

Q: With respect to the Support Services business, you said that sales to enterprises increased in the first half. Did orders from enterprises also increase? What are reasons for higher sales at a time when enterprises are cutting back capital spending?

A: In the Support Services business for enterprises, orders are also on an upward trend.

I believe that this is a result of the concerted efforts we made as an organization. For instance, we stepped up sales and proposal activities to improve the ratio of the Support Services business. Efforts that effectively connect the flow-type business (business such as system construction that receives orders for a new project each time) with the stock-type business (business such as a maintenance service that is expected to record consistent sales that are not susceptible to economic conditions) are also producing good results. For example, support services in the past were centered on a model in which maintenance

staff rushed to the scene when a problem arose, but we now focus on a monitoring-type service in which we are able to track the status of customer systems via a network and deal with problems before they happen. Through this type of service, we plan to bolster businesses that lead to proposals for the construction of the next system. In the current fiscal year, we are diversifying the monitoring menu, such as offering a low-priced entry service that is easier for more cost-aware customers to introduce. We are also making efforts to encourage customers to visit the Network Total Operation Centers (nTOCs), the infrastructure for these services, and we think that we have been strengthening the brand of the Company's service businesses at the same time. We believe that the major factor for producing acceptable results in the difficult business environment is our sustained efforts to respond to customer needs from their perspective.

Questioner B

Q: In the first half, although sales were below your initial projection, profits were higher than you expected. Given that you have not changed your full-year forecast from the initial projection for both sales and profits, I assume that profitability will deteriorate from the initial projection in the second half. Does this mean that you have not changed the full-year forecast simply because the business environment is uncertain? If there are any risk factors in the second half, please let me know.

A: Of course, we really do hope that we can beat our profit projection. However, there is one factor in that the sales mix will change, so that sales to enterprises will decline while sales to governments will increase. Although governments are a promising market, it is a market that is expected to become even more competitive. Given lower sales to enterprises and the NEC Group that are centered on the higher margin Network Integration/Support Services business, we believe that we do need to anticipate a challenging situation for our profit outlook at this point.

Q: Regarding the outlook for government business, should we view the market as contracting without the positive effect of the supplementary budget? Or will it still expand?

Also, why did you attach a question (“?”) mark to the direction of the Support Services business for governments on page 15 of the presentation material?

A: With respect to the supplementary budget for fiscal 2009, our understanding is that the Japanese government will accelerate the development of planned projects (such as eliminating the digital divide, expanding the reception area of terrestrial digital broadcasting, upgrading and widening the firefighting and disaster prevention networks) in areas related to the Company by frontloading implementation schedules. Therefore, associated investments could peak out in two to three years, and we think that we need to take action in preparation for this.

One initiative will be the Support Services business for local

governments, and we plan to make proposals such as regional development with software/services, shifting from hardware and infrastructure. For instance, although the CATV network is put in place as an infrastructure for community information, it is mainly used for the reception of terrestrial and BS digital broadcasting and telephone services, but it is far from sufficient in terms of use of the Internet. Given that there is substantial room for improvement in the use of the Internet in local regions, we think that there are opportunities for us to operate service businesses in this field. We are currently planning to examine in what areas the Company and the NEC Group will be able to make a contribution.

Q: Sales to carriers faced severe conditions in the first half. Is this temporary, so that sales will rebound in the second half?

A: We expect that the current level will continue in areas related to the Company. However, we think that the nature of investment could change from infrastructure development to services going forward, as carriers take an active position on cloud computing. We will aim to seize these new opportunities.

Questioner C

Q: Will the gross margin of the Support Services business improve even in an environment where sales and the unit price are declining, because the development of service infrastructure is making a large contribution? Is it possible that this trend will continue in the second half?

A: As you pointed out, we think that the major factor behind the improvement in the profitability of the Support Services business is that the effect of standardization and streamlining is emerging thanks to infrastructure development such as the parts center and the contact center. As we believe that the Support Services business could produce a gross margin of 20%, we will continue to work to bolster profitability after the second quarter through infrastructure enhancement as well as other particular activities.

Questioner D

Q: Sales to the NEC Group have fallen substantially. How is this situation likely to evolve from the next fiscal year?

A: It is hard to tell for sure what the situation will look like from the next fiscal year, as transactions with the NEC Group represent business between independent companies.

We will continue to improve our proposals for boosting the businesses of the NEC Group, for instance by improving cost competitiveness.

Q: Please explain your initiatives to increase your share of sales to governments.

A: We believe that cost competitiveness is an important element. We have been making efforts such as eliminating variations in quality by consolidating management of the approaches we have made in each

region, for example by bringing together the efforts of a branch office and a sales office in the past under project management officers. We think that these efforts are producing results.

Q: You said that the Company will focus on streamlining indirect costs, including SG&A as well as direct costs. What costs are you going to cut?

A: All costs are subject to reduction. We will act based on an assessment of the situation, with measures such as eliminating unnecessary and non-urgent business travel, closing unprofitable sales bases, and improving floor efficiency by expanding the introduction of the EmpoweredOffice* in house.

* EmpoweredOffice: An office reform solution that we provide. It fuses our strengths in information and communication technologies (ICT) and facility installation to reform office work processes by encouraging knowledge-building work styles and proposes changes in ways of working and the workplace environment to fulfill social responsibilities such as stronger security and environmental responsiveness.

Q: With respect to the effect of cost cutting, is there room for further cuts from the next fiscal year?

A: We think that there is still significant scope to streamline, depending on the approach we take with it, and we will strengthen our focus on making additional efficiency improvements from the next fiscal year. Since we are now competing at open cloud computing, real cost competitiveness will not be achievable simply by improving the direct cost ratio. We believe that differences in the extent to which reductions are made in all costs, including indirect costs such as SG&A, will decide the winners and losers. The ratio of SG&A to sales at our Company is still more than 10%, and this will not be a competitive level in this open market. Recognizing that we are competing on a new playing field, we remain committed to further cost reductions.