Q&A at IR Briefing for Financial Results for Fiscal Year 2009 ended March 31, 2010

May 21, 2010

Date and Time: May 21, 2010 15:30 – 16:25

Venue: Nihonbashi, Chuo-ku, Tokyo

Questioner A

Q: You said that you would focus on expanding the top line by shifting to aggressive management in fiscal 2010, based on the assumption that the environment for receiving orders would recover. On the other hand, you expect profit margins to decline. I am afraid that you are trying to increase the top line at the cost of the bottom. At the same time, however, you aim to improve the operating margin over the medium term, namely by fiscal 2012. Please tell me about your vision for expanding sales with lower profit margins.

A: We do not intend to increase orders by lowering profitability in our forecast for fiscal 2010. To achieve our projection of net sales of 240 billion yen, it is important to expand market share, acquire new customers and enter new businesses. Our policy is to make the investments required to do that, and we will be increasing promotional expenses such as advertisements on the sales front. We will not reduce profitability to win orders; rather we will be prudent in our management. For example, we will not allow our employees to receive orders that set aside profitability in one-time projects. Instead, we will invest in areas that will help achieve our targets over the next fiscal year, fiscal 2011, and fiscal 2012. Even with prior investments, senior management,, including me, will not leave them up to our subordinates, but will be directly involved in administering and executing them.

Questioner B

Q: With respect to cash flows, the balance of cash and deposits increased to nearly 30 billion yen at the end of fiscal 2009 as a result of a substantial increase in operating cash flows. Although you have just explained the implementation of prior investments, what do you think of the future movement of cash flows, including these investments and the appropriate level of cash and deposits?

A: The fact that cash and deposits has increased shows that we are not making effective use of the funds we receive from our shareholders, and I think that this is something I need to consider as president. Our basic policy is to move in a direction where we use cash for growth, while appropriately balancing cash flows.

I believe that cash flows in the previous fiscal year were evidence that we have been steadily building a strong cash flow position, as a result of our efforts to strengthen cash management, optimizing control of expenses, and improving profitability. I also think it reflects the fact that it was a time when funds tend to be abundant because of our business cycle. Nonetheless, I feel that cash and deposits of 30 billion yen is a little too much, given our size and the need for capital efficiency. I believe that if we have cash and deposits equivalent to about one month of sales (approximately 20 billion yen), we won't have any problem. As just described, we have surplus funds on hand at the moment, and I believe that it is well within our capacity to generate cash flows to support active investments for growth in the future.

With respect to investments, I think that we need to make new injections to benefit from new areas of business, rather than just extending our conventional operations. Therefore, we want to invest in growth, through M&A and other means, more actively than ever, although we will do so while managing the investments in an orderly fashion. As for the relocation of head office, although it is not a large investment in terms of cash flows, the purpose is not to relocate to a new place simply because the present head office has become old, but to create a place where we can compete effectively. We have strategies for growth, and the relocation of head office is an investment to put these strategies into practice.

Q: In the prior investments you mentioned a moment ago, is there any possibility that capital spending will increase further? Also, what do you think of your level of borrowings? Will you maintain the outstanding balance close to the current level, thinking that (interest) is a necessary cost, or try to reduce borrowings to eventually become debt free?

A: First, regarding our relationship with banks, there is an element that they are also our customers in a sense. It is also necessary to take into account the possibility that the financing environment could deteriorate substantially. I think we should consider our relationship with banks in light of these factors. At this moment, however, it is probably unlikely that borrowings will increase from the current level.

Q: Please tell me about the impact on profits of the relocation of the head office. Will relocation costs have an impact on profits in the current fiscal year and even the next fiscal year? Also, will you vacate the current head office completely to relocate to the new one?

A: Investment costs for moving to the new head office are approximately 1.5 billion yen. This has already been incorporated into our results forecast for fiscal 2010 as an extraordinary loss. Basically, we will not incur any other relocation-related costs. Indeed, we think that the costs will generate an investment effect after the next fiscal year. More specifically, we are very confident that we will be able to reduce floor expenses by hundreds of millions of yen by improving floor efficiency by more than 35%, and we think that business efficiency will also improve as our work style changes. In addition, as far as more detailed expenses are concerned, we think that that we can anticipate cost savings of more than one billion yen a year if we add together the reduction of transfer costs such as commuting costs, the transformation to a paperless office through work style reforms and other aspects. These effects have also been reflected on our medium-term operating income target.

Q: Does the reduction of floor expenses by 35% mean that you will create efficient floor areas, taking changes in the work style and other factors into account, instead of simply reducing the space per employee?

A: To begin with, as we currently rent several floors in Shibaura (Minato-ku, Tokyo) apart from the head office, we will improve efficiency by about 10% by terminating this lease and integrating this area with the new head office. We will also improve efficiency another 10% by reducing the desk space for employees who do not require a constant desk, such as salespersons, by introducing a free-address system based on EmpoweredOffice. We will be able to achieve another 10% reduction by cutting back cabinets through the transformation to a paperless office and other means. With these initiatives, we will reduce floor expenses by more than 30%. We have already prepared a rough plan, and we are currently in the process of executing it.

Q: You said that you would aim for growth by expanding new business through M&A and other means. Please tell me about the areas where NEC Networks & System Integration Corporation visualizes M&A possibilities, specifically.

A: We would like to examine opportunities for M&A in various fields. For example, the Company lacks sales strength in areas other than information and communication technologies (ICT) and telecommunication construction. We will benefit from alliances with a partner who is capable of conducting sales and marketing of large-scale office proposals in the area of EmpoweredOffice. I also believe that it will be meaningful to ally with companies that have a strong environmental business. Currently, the support service of the Company is not only centered on maintenance and operation, but is also frequently performed in an old-fashioned manner of depending heavily on manpower. We could therefore choose to enter into an alliance with a company that has strength in monitoring systems, making full use of ICT. In operations, we could ally with a company that excels in the operation of call centers, contact centers and data centers. As just described, we want to actively invest in and ally with companies that have strength in areas where we don’t. As we acquired Nichiwa in 2008, we will also consider bolstering our existing businesses by acquiring an industry peer. We would like to partner with a variety of companies to strengthen our business in sales, marketing and support services, if the opportunity arises.