

Q&A at the President's Small Group Meeting for the Selling Side

Date: September 30, 2011 and October 4, 2011

<Q&A on the Enterprises Networks Business>

Q: The systems integration that many other systems integrators appear to be primarily engaged in is the programming of software. What kind of systems integration is the Enterprises Networks business of NEC Networks & System Integration specifically doing?

A: We have been mainly undertaking the design of telephony network systems. It has recently expanded its operations to the overall information and communications technology business, including the systems design and integration of servers. Because we do not particularly specialize in developing application software for individual industries, we do not focus on developing these products, but procure them from other companies. As a result, we develop systems by installing such software in hardware. For example, we use software developed by NEC in its e-mail system. However, we embed a security management function and other functions in the software so that the system can handle a large volume of e-mails. That is how we operate. In our system integration operations, we develop systems that are useful to customers in areas close to customers by using existing hardware and software as well as our own solutions.

Q: Do you have any particularly important customers?

A: We are not excessively dependent on any particular company, but deal with a variety of customers, with no concentration in any particular industry. Generally speaking, we have a relatively large customer base in the financial industry, such as securities, banking, and insurance.

Q: Which is the growth industry?

A: We do not develop applications by industry. As a result, we do not see any particular difference in growth by industries.

Q: Do you mean that the Enterprises Networks business mainly develops an office information technology environment?

A: We seek to design an office work style by expanding its business not only into information and communications technologies, but also into office equipment, such as desks and chairs, physical security, such as entry and exit management, and electrical facilities, such as air conditioning and lighting, along with any other office-related items.

Q: Do you mostly use NEC products?

A: We use NEC products as its core products, but it all depends on the

customers' needs. In fact, we provide all the items, such as office furniture, that NEC does not handle.

As stated in the financial report, the overall value of the products we purchased from NEC stood at ¥33.6 billion, including those for businesses other than the enterprise business.

Q: Conversely, is the NEC Group an entity that accounts for a large part of your sales?

A: We manage the e-mail system and other operations of the NEC Group.

However, the relevant sales are not particularly large, only accounting for a quarter of the total sales of the Enterprises Networks business.

Q: How many companies do you currently deal with?

A: We currently deal with slightly fewer than 10,000 companies. Because we mainly deal with large to midsize companies that are listed on the first section or the second section of stock exchanges, we deal with fewer customers than those companies tailored towards small and medium enterprises.

Q: What is the scale of enterprise projects?

A: The scale of each project is not that large, amounting to several hundred million yen at the most. We believe that increasing the number of projects is more important.

Q: How much does the stock type business (that does not provide services just for one occasion, but continually provides services, such as an operational management contract) account for in the service businesses?

A: Our service businesses are a stock business, in principle.

Q: How do you determine prices of the service businesses?

A: We may determine prices in accordance with a basic menu that stipulates prices. We may also adjust the basic prices to meet the requirements of each customer. Customers in the Kansai region, in particular, require service customization. Services that offer the standardization of operations include the cloud service, which supports the outsourcing of administrative operations.

<Q&A on the Telecommunications Carrier Business (the Carrier Networks Business and Telecommunications Carrier Construction Work)>

Q: What are the overall sales from the telecommunications carrier business? What about the level of sales for each telecommunications carrier?

A: Sales from telecommunications carriers stand between ¥45 billion and ¥50 billion. Those from KDDI and Softbank are relatively large, while those from NTT remain small, considering the scale of NTT's operations, mainly because the Company is not engaged in NTT construction work. We also offer our services to telecommunications companies under electricity power

groups and service providers.

Q: With respect to the LTE, KDDI decided to adopt NEC's base stations that KDDI did not use for its 3G services. Will this have an impact on NEC Networks & System Integration's construction works for base stations?

A: In the telecommunications carrier business, some orders are placed on a full-turnkey basis (from sales of equipment to the adjustment, configuration and installation works). However, the number of orders for adjusting, configuring or installing equipment that telecommunications carriers acquired by themselves has been rising. Consequently, it is not clear if NEC products always have advantages.

In any case, we believe that construction work for base stations will not increase significantly. On the other hand, to respond to an increase in the network traffic and the LTE, not only base stations, but also the backbone network, which is key infrastructure, are likely to be strengthened. As a result, business related to system integration is expected to increase.

Meanwhile, we will seek new business opportunities, such as new services that use smartphones, by cooperating with telecommunications carriers.

Q: What kind of operation is system integration for telecommunications carriers?

A: It encompasses a wide range of operations. For example, the installation of additional functions, such as securities and fee charging, to equipment that telecommunications carriers acquired, and the adjustment or configuration of equipment settings, as a result of the introduction of new equipment.

Q: In which area in the telecommunications carrier business do you expect to grow most?

A: At present, capital spending by telecommunications carriers is growing. Meanwhile, the number of instances of acquiring equipment from a number of vendors has been rising. Therefore, we will seek to expand businesses related to system integration, management and maintenance of equipment manufactured by a range of manufacturers. We aspire to grow as a company to which telecommunications carriers can assign full-scale management of equipment of different manufacturers.

<Q&A on the Social Infrastructure Business>

Q: In businesses related to the restoration and rebuilding from the Great East Japan Earthquake, which sector do you mainly deal with, the private sector or the public sector? Has the situation progressed from the stage of emergency measures to that of full-scale reconstruction?

A: Our experience was that demand after the earthquake was not that high from private companies, but mainly came from local governments and

telecommunications carriers. Although expectations for reconstruction demand are high, we believe that most such demand will come within the existing budget framework. Instead, we expect to see an increase in business opportunities, if new activities start in sectors related to smartphones using the band of frequencies that became available after the introduction of digital terrestrial broadcasting.

Q: What impact will the third supplementary budget have, if it includes a budget of ¥200 billion for IT services?

A: It will depend on which areas received a budget allocation. However, we believe the impact from the budget will not be that significant. In fact, part of the budget may be used for the operations of telecommunications carriers, and the allocation of the budget to areas that directly affect our operations may be surprisingly limited.

<Q&A on Overall Management>

Q: Do you have medium-term target?

A: We announced last year that we would aim to achieve net sales of ¥300 billion and an operating profit margin of 6% in fiscal March 2013. These goals have taken into consideration not only organic growth, but also M&A and other initiatives that take advantage of our financial strength.

Q: What are the targets, the timeframe, and the scale of M&A?

A: The timing of M&A cannot be pinpointed, as it relies on the other party. The Company is now seeking a variety of potential counterparties. We are paying particularly close attention to the service business, because we have some areas in this business where it lacks resources. Last year, we added Daiichi Ad System Co., Ltd., an outsourcing service provider specializing in contact centers, to our subsidiaries. We have established no particular limits on the scale of M&A. Because we have effectively no debts, we can theoretically make reasonably substantial investments, if we use fresh borrowings.

Q: As a preparation for a share swap for M&A, do you expect to buy back shares or take other such initiatives?

A: We will look at the possibility of share buybacks from the viewpoint of returning profits to shareholders, rather than as an instrument for M&A. Because NEC holds a 51% stake, it is necessary for us to examine this issue carefully. We will continue to look into this.

Q: What are the cost benefits from implementing EmpoweredOffice (an office innovation solution)? What are the other qualitative contributions to your operations?

A: We already achieved cost streamlining of approximately ¥500 million a year.

As for other impacts on operations, as access to customers has improved, sales activities have been revitalized. Sales staffs are aiming to increase the time they spend with customers by 20 to 30%. In addition, because we moved to a location closer to customers, the number of customers who visit us and learn about EmpoweredOffice has been rising significantly.

Q: What is your position in the NEC Group, and what is your relationship with other group companies? There are some corporate groups that have two or more different companies with similar functions under different group organizations. How about the relationship between NEC Networks & System Integration and NEC?

A: Our customers comprise enterprises, telecommunications carriers, public offices, and social infrastructure operators, across a wide range of sectors. We work with NEC in almost all of its business units, without concentrating on any particular business units.

Moreover, the independence of our operations is high, given that net sales through the NEC Group accounted for only 44% (for the fiscal year ended March 2011). A majority of net sales consist of sales directly from a wide range of customers (such as general enterprises, telecommunications carriers, public offices, and social infrastructure operators). As for the products we handle, although we recommend NEC products, we still place priority on the needs of customers. In fact, we use other companies' products when necessary in our systems; for example, a conference system that uses the iPad. We also maintain close ties with our customers through more than 500 sales staff. Our self-reliant value chain is an operational feature. We independently conduct sales, systems integration, and services in a comprehensive manner.