

Q&A at IR Briefing for Consolidated Financial Results
for the First Half of Fiscal Year 2011 ending March 31, 2012

NEC Networks & System Integration Corporation

Date and time: Friday, October 28, 2011, 10:00-11:00

Venue: Sankei Plaza, Tokyo

Questioner A

Q: During the first half, the infrastructure construction area did not grow as you had expected, but key areas such as SI and services expanded steadily. How should we interpret the progress in the Vi60th in each area?

A: I believe that we still have a task to overcome the slow progress of innovation in the infrastructure construction. In this area, we were unable to proceed with standardization and improve efficiency as we had anticipated, because not only does work on customers' job sites account for a large percentage of infrastructure construction, but also much of the work is people-related, based on the experience of our employees. As a result, our price competitiveness did not increase, and results fell short of expectation, which was coupled with intensified competition due to declining investment. Since the second quarter, we have been strengthening our cost innovation in infrastructure construction as a priority area of innovation, assigning full-time staff for that purpose. As areas where efficiency can be improved have become more evident, we would like in the second half to translate improvements in these aspects into concrete results. In other areas, we have been enhancing and maintaining profitability despite cost competition and producing results from innovations, such as the improvement of business processes, procurement and job sites.

Q: Please describe your approach to new customers.

A: We are approaching new customers in two ways. First, we approach new divisions of existing customers. Although our transactions were centered on the general affairs division and the information system division in the past, we will boost our approach to other divisions, such as planning and sales, to meet new needs. The second approach is to expand our efforts to reach out to key regional and mid-tier customers, particularly in local regions, with whom we have yet to have sufficient dealings.

Q: With respect to the service business, you have been developing infrastructure as

indicated by the opening of the second data center in October. I wonder if the expansion of your service business will accelerate even more from the second half.

A: We will accelerate the expansion of the service business with a view to M&A as well, in addition to the expansion of data centers. To enhance our services for customers, we will actively work on forming alliances with companies in industries other than the information and communication sector.

Questioner B

Q: Operating income in the first half was 2.4 billion yen, missing your projection of 3.1 billion yen. Similarly, in the previous fiscal year, operating income in the first half did not achieve the target but rose to 10.8 billion yen for the full year, exceeding the target of 10.0 billion yen. In the construction industry, the performance in the first half tends to be hard to forecast, and one downside factor in the first half of the current fiscal year was also the social infrastructure business (which has the nature of construction work). How will you improve the accuracy of your forecasting going forward?

A: In the infrastructure construction area, which is included in the social infrastructure business, there are some aspects that make it difficult to read ultimate earnings, given that the construction schedule tends to be long and that profits are recorded based on the percentage-of-completion method. In the previous fiscal year, the performance of the social infrastructure business was weak in the first half, but we improved it in the second half. However, the management was still insufficient, and it was difficult to control profits when sales declined, although we were able to control them when sales increased or remained flat. We will strengthen our management system once again for the second half.

Q: I think that one of the reasons why the social infrastructure business was weak in the first half was stalling of the government budget. Is it reasonable to think that you will be able to make up for that lost time in the second half, as the government budget has been set in motion?

A: Although the government budget is underway, we are still largely unclear on the specific content of the budget and which areas of reconstruction of the affected regions will receive an allocation. I think it is important to increase our market share in areas where the budget is relatively clear, such as the tsunami observation and alarm system.

Q: Ultimately, what effects has the earthquake had on the social infrastructure business, such as a delay in orders and sales and the emergence of new demand?

A: Although there were urgent restoration needs for mobile base stations after the earthquake, investments subsequently slowed in some areas. We look forward to the second half, as there will be moves to respond to the new frequencies in the months ahead.

Reconstruction-related needs are generally slow in central and local governments. We will work to find projects in the second half by strengthening our ability to make proposals. As there are many uncertainties, I think that it is important to increase our market share by bolstering our competitiveness.

Q: You have set net sales of 300 billion yen and operating income of 18 billion yen as the medium-term targets for the next fiscal year (ending March 31, 2013). Are there any changes in these targets?

A: I believe that it is important to aim at achieving these goals, as there are new areas to address, such as the volume business. I think that these targets are not impossible to achieve, although they are difficult, as we are also considering M&A.

Questioner C

Q: Orders in the social infrastructure business in the second quarter, which declined only 0.5 billion yen from the second quarter of the previous fiscal year, give me the impression that orders have been recovering. Will net sales also bounce back going forward? How long does it take for orders to be reflected in net sales?

A: The length of time required to go from an order to the posting of net sales varies from project to project, and can range from about six months up to one or two years. In other words, a fall in orders from the year-ago level in the first quarter will have an impact on sales in the third and fourth quarters as well. So, we would like to accumulate orders for projects with a short delivery time to the extent possible.

Q: What are factors for the early recovery of orders in the social infrastructure business?

A: I believe that this is a result of our efforts to comprehensively increase our cost competitiveness. Internally, we are operating with the aim of reducing costs to 75% of the current level.

Q: At the beginning of the period, you set a target of increasing sales even if that meant lowering the gross margin, but the gross margin ended up improving in the first half. What is a reasonable outlook for the future?

A: I believe that a business profile in which we can improve our gross margin while

operating a business is now established as one of the accomplishments of our management innovation activities, which we have been undertaking continuously. While the cost of failure is also declining steadily, there is still a lot of waste to cut. We would therefore like to maintain this trend throughout the Company.

Q: Have the floods in Thailand had any effect on the supply chain?

A: As reported by newspapers, there appears to be an impact on the procurement of hard disc drivers. Although I heard that the NEC plants have already taken measures, there is a possibility that other components will be affected. We have taken action in the procurement division to avoid a significant impact.

Questioner D

Q: You said that there was a delay in investments by telecommunications carriers in the construction of base stations. How much did sales decline from the previous fiscal year? Are there any factors that bring down your market share? The performance was also strong in the Carrier Networks business. I wonder if the expansion of smartphones will also have a positive impact on the construction of base stations.

A: Sales in the construction of base stations declined more than 15% in the first half, although we had expected the figure to be in line with the year-ago level. Although I think that our market share will not change, the fall in investments by a telecommunications carrier in the first half had an impact. In the second half, we look forward to an increase in their investments as they deal with larger network traffic associated with the increasing use of smartphones.

Questioner E

Q: Despite your expectation that there will be a risk of 15 billion to 20 billion yen to net sales in the Social Infrastructure business, you have not changed your full-year forecast. Would you elaborate on what this risk is?

A: In the first half, net sales were 14.2 billion yen short of our initial projection, primarily because sales were 9.1 billion yen short in the social infrastructure business. Our aim is to achieve our sales target by offsetting this shortfall in the second half. As to how much of the shortfall in the first half will be covered in the second half, there are still uncertainties in terms of the construction of base stations, investment in fire-fighting and disaster prevention systems, and the timing of the supplementary budget. We consequently see these factors as risks.

Q: There is some talk that the telecommunications carrier that reduced investment in the first half will not move to the long term evolution (LTE) soon, so I think that there is a possibility that investment may not increase in the second half. What measures will you take to increase orders for the construction of base stations?

A: Disclosure by the telecommunications carrier shows that they have not changed their annual investment plan, despite a fall in capital investment in the first half. We therefore expect that their investments will increase in the second half. We will also strive to increase our market share on our own, such as increasing our cost competitiveness.