

# Financial Results for Fiscal Year 2010 Ended March 2011

April 28, 2011

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NEC Networks & System Integration Corporation



# Foreword

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## ■ Impact of the Great East Japan Earthquake on our business

- Only some damage to local offices
- Services infrastructure such as data centers, operation centers, and contact centers, operated on a 24/7 basis as usual and supplied urgent services
- Sales: Impact of sales shift of about 5 billion yen  
P/L: Extraordinary loss of about 0.3 billion yen



# Agenda

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I. Results for FY2011/3

II. Business Policy and Forecasts  
for FY2012/3

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# I. Results for FY2011 1/3

# Summary

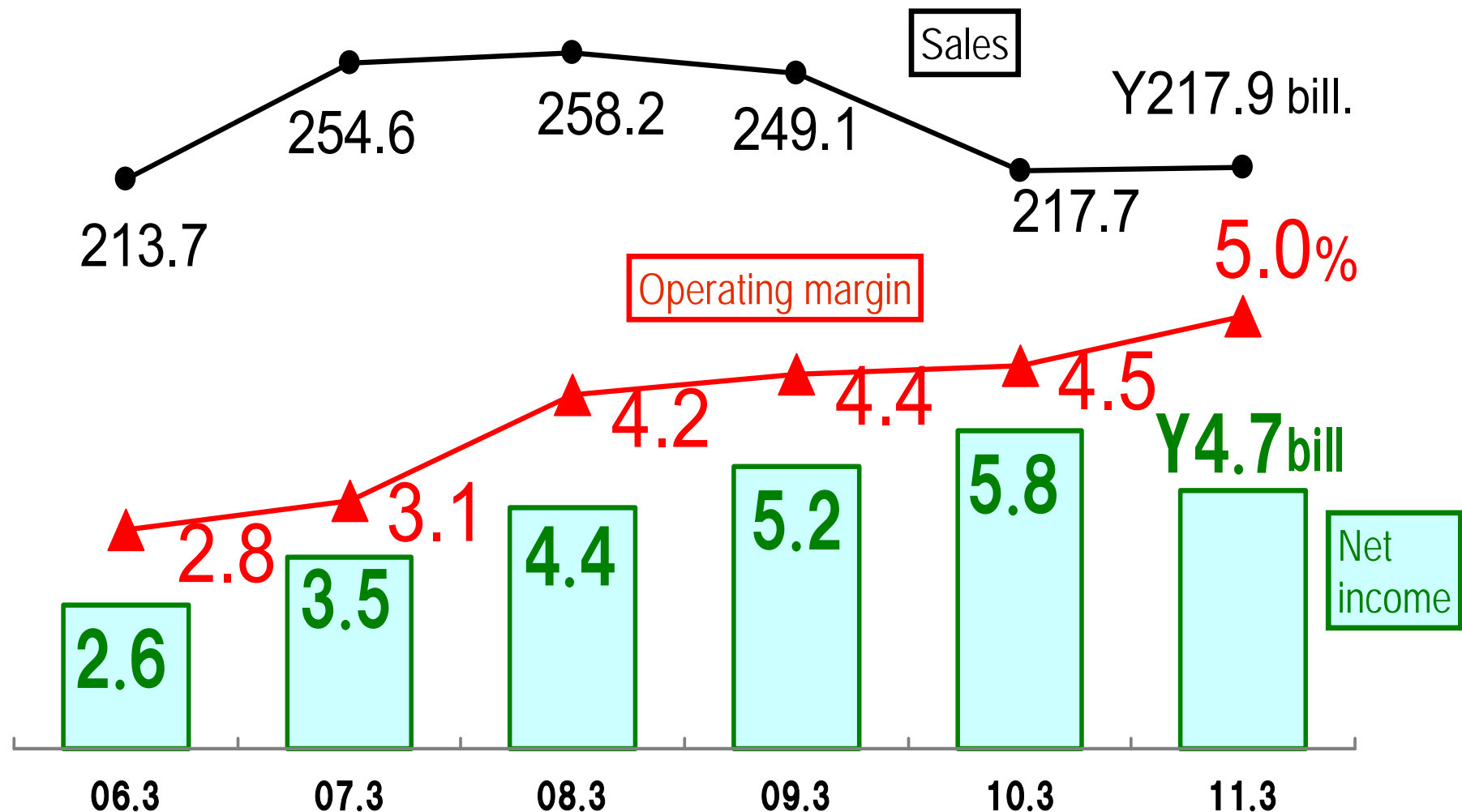
| (Billion yen)                                     | FY2010/3<br>Results         | FY2011/3<br>Results          | YoY                          | Diff. from<br>forecasts      |
|---|-----------------------------|------------------------------|------------------------------|------------------------------|
| <b>Sales</b>                                      | <b>217.7</b>                | <b>217.9</b>                 | <b>+0%</b>                   | <b>-22.1</b>                 |
| <b>Operating<br/>income<br/><i>(to sales)</i></b> | <b>9.9</b><br><i>(4.5%)</i> | <b>10.8</b><br><i>(5.0%)</i> | <b>+1.0</b><br><i>+0.5pt</i> | <b>+0.8</b><br><i>+0.8pt</i> |
| <b>Extraordinary<br/>gain (loss)</b>              | <b>-</b>                    | <b>(2.6)</b>                 | <b>-2.6</b>                  | <b>-0.7</b>                  |
| <b>Net income<br/><i>(to sales)</i></b>           | <b>5.8</b><br><i>(2.7%)</i> | <b>4.7</b><br><i>(2.2%)</i>  | <b>-1.1</b><br><i>+0.5pt</i> | <b>+0</b><br><i>+0.2pt</i>   |
| <b>ROE</b>  | <b>8.2</b>                  | <b>6.3</b>                   | <b>-1.9pt</b>                |                              |

Sales shift to next FY  
due to earthquake:  
Approx. - 5 bill. yen

Head office relocation:  
-1.9 bill. yen  
Earthquake related:  
- 0.3 bill. yen

# Results for Six Years

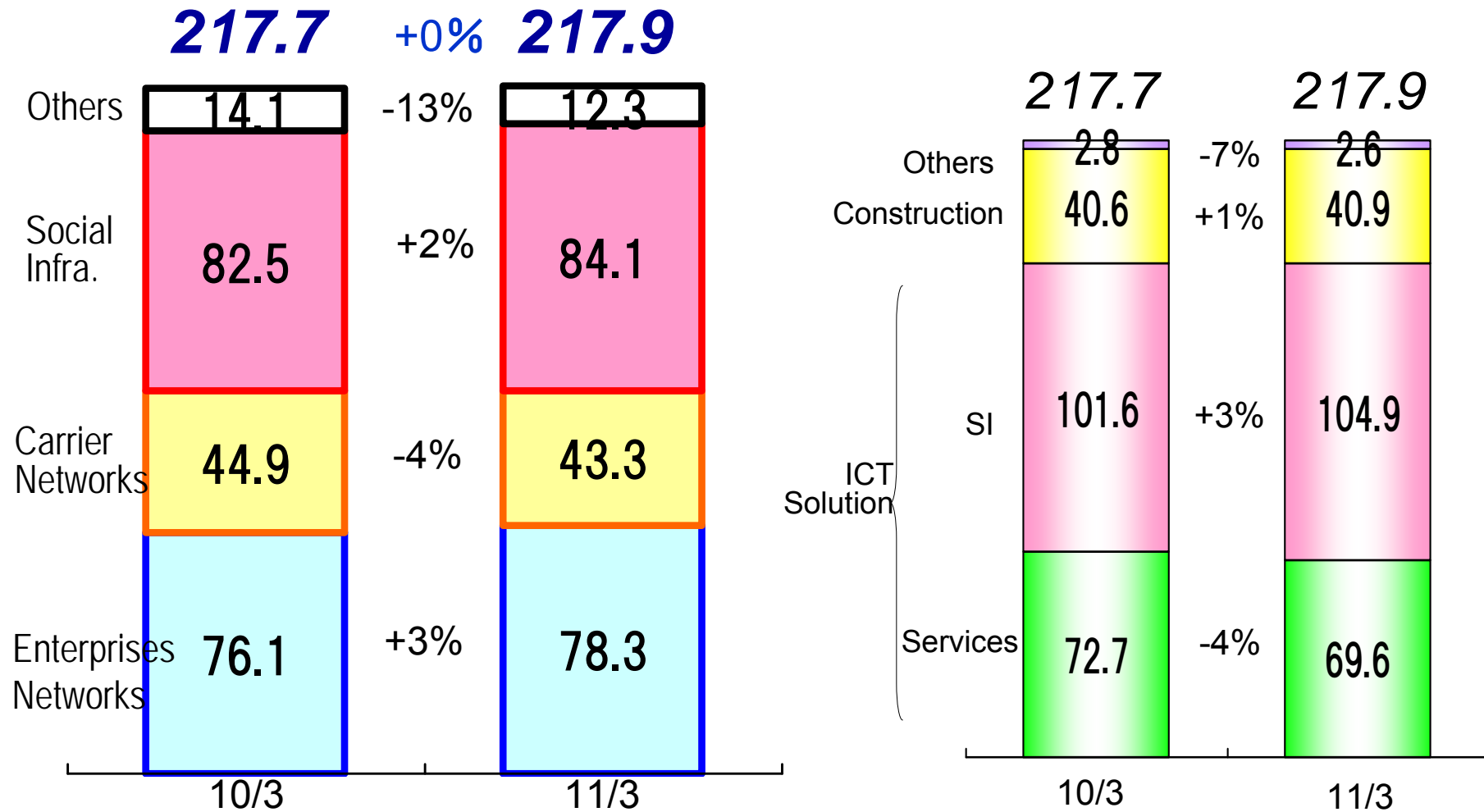
Improved profitability but the challenge is growth



# FY2011/3 Sales by Segment

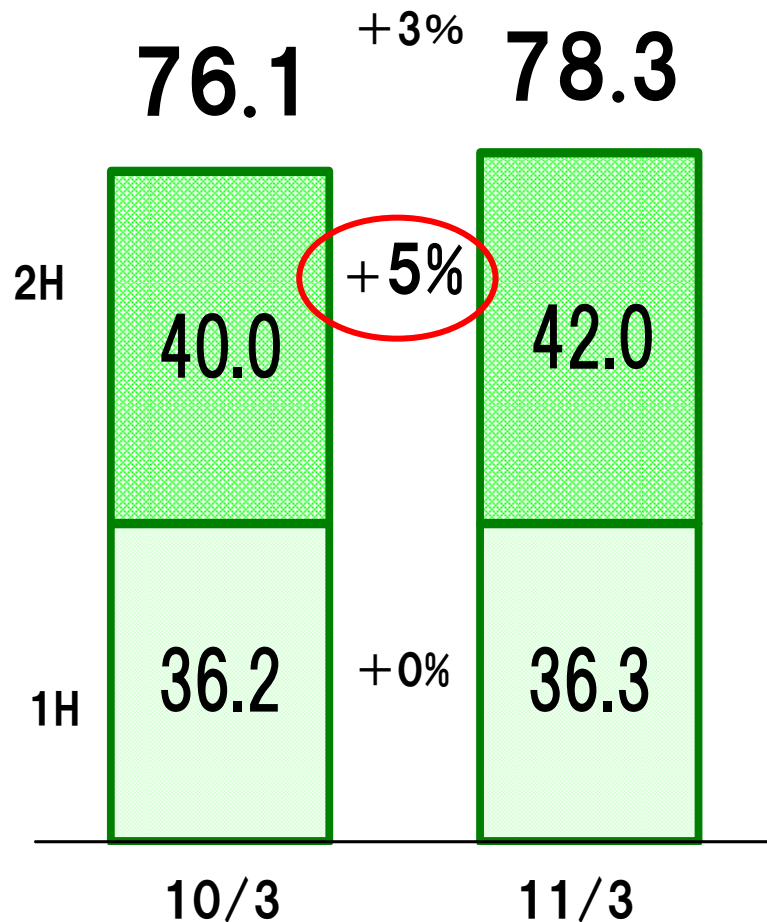
(Billion yen)

(cf. sales by business style)



# FY2011/3 Enterprises Network Business

(Billion yen)



## Positive effect of new head office (October)

- Office innovation practice  
-> A place where visitors can experience themselves how it works
  - “NO-paper” work
  - “NO-meeting-room” work, etc.
- Penetrating “EmpoweredOffice” brand

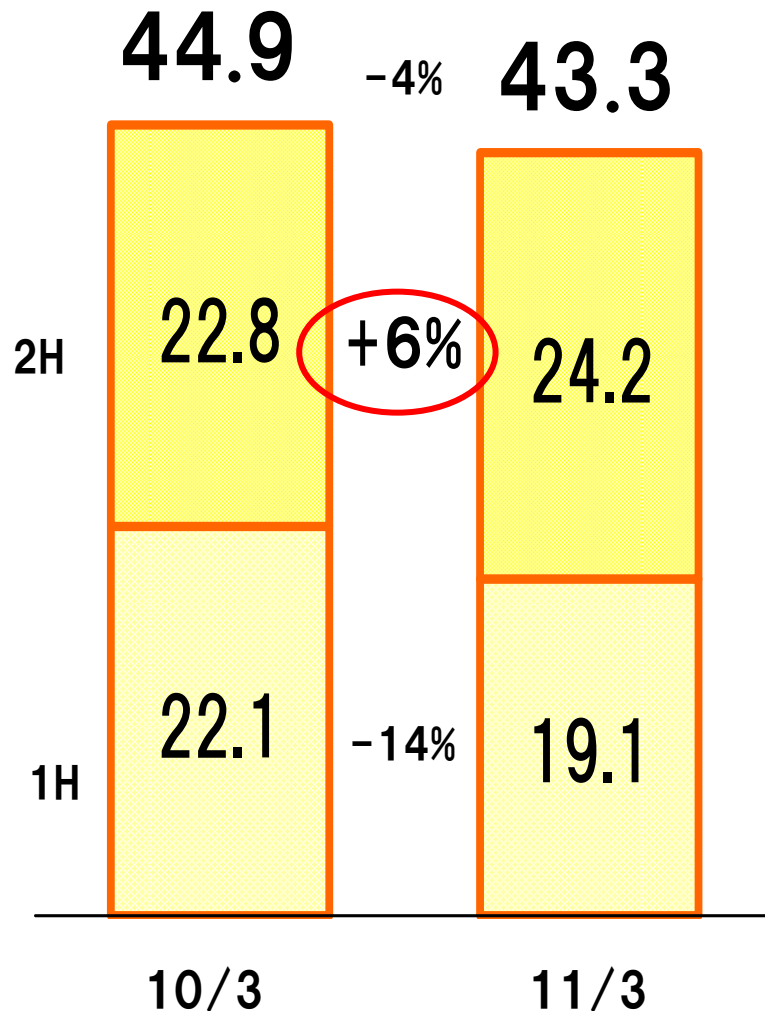
## Preparation for expansion of services business

- Acquired contact center
- Established cloud infra. for west Japan
- Expanded Tokyo data center



# FY2011/3 Carrier Network Business

(Billion yen)

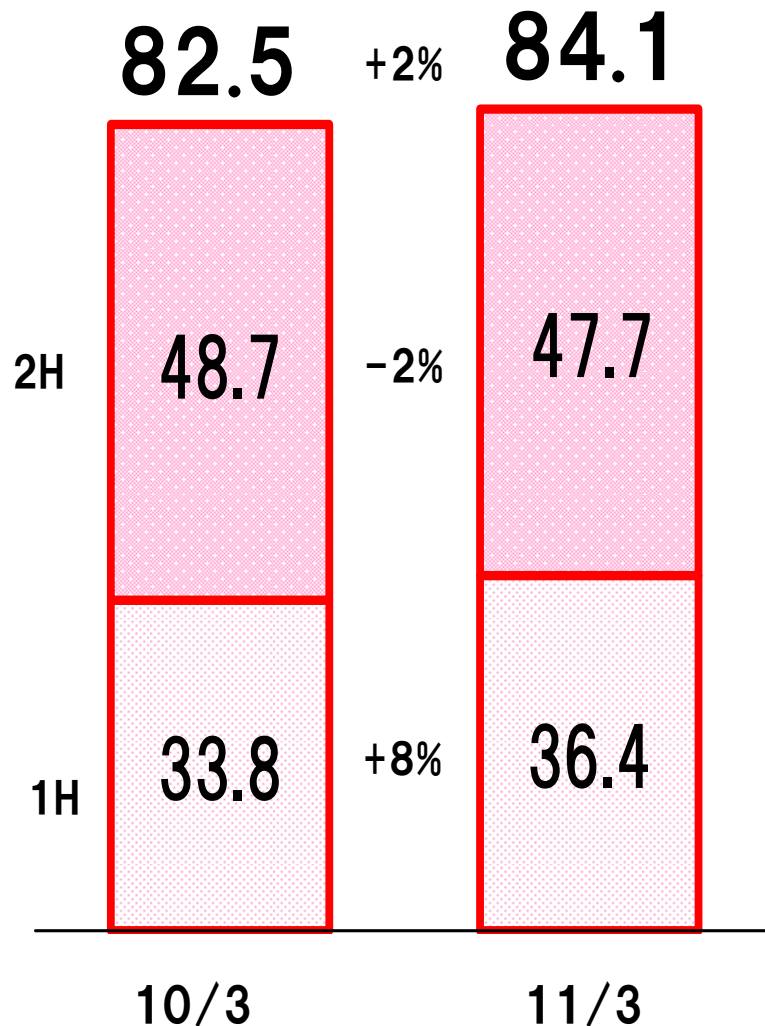


SI for telecom carriers increased in 2H

- Smartphone boom  
~ Actively corresponded to related infrastructure investment
- Full support for telecom carriers  
~ NEC + overseas vendors

# FY2011/3 Social Infrastructures Business

(Billion yen)



Local info. network sales increased

- Expanded sharply in 1H thanks to supplementary budget of previous fiscal year
- Handled by nationwide project execution system

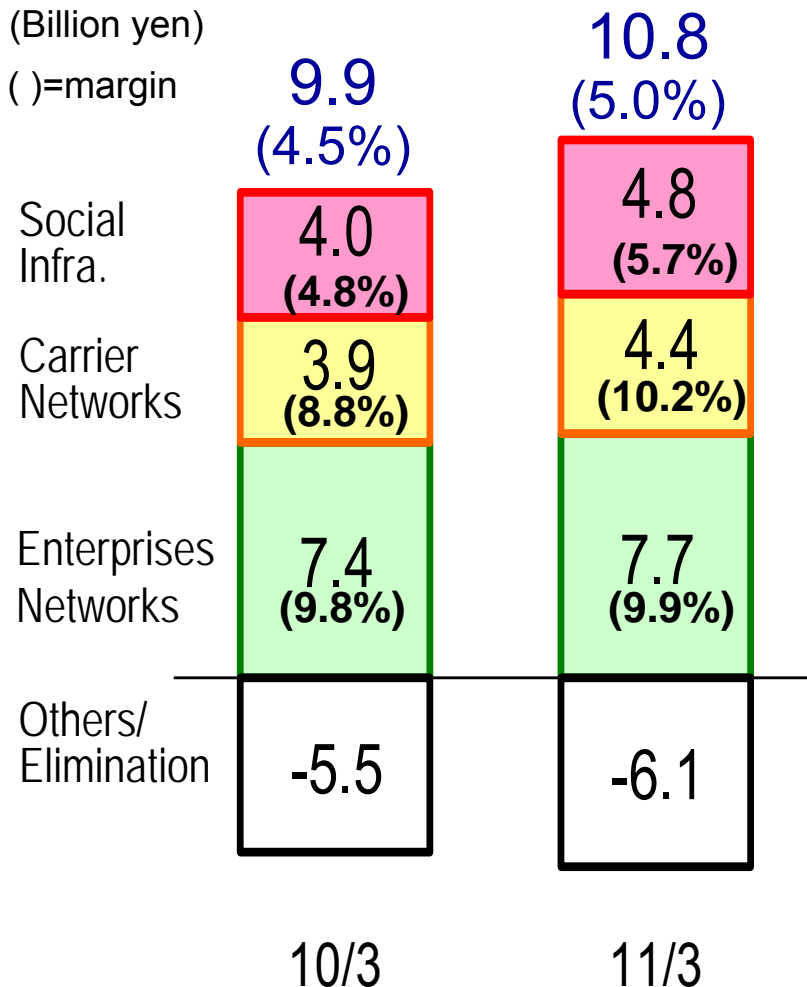
Telecom construction decreased

- Downsized base stations
- Intensified price competition overseas

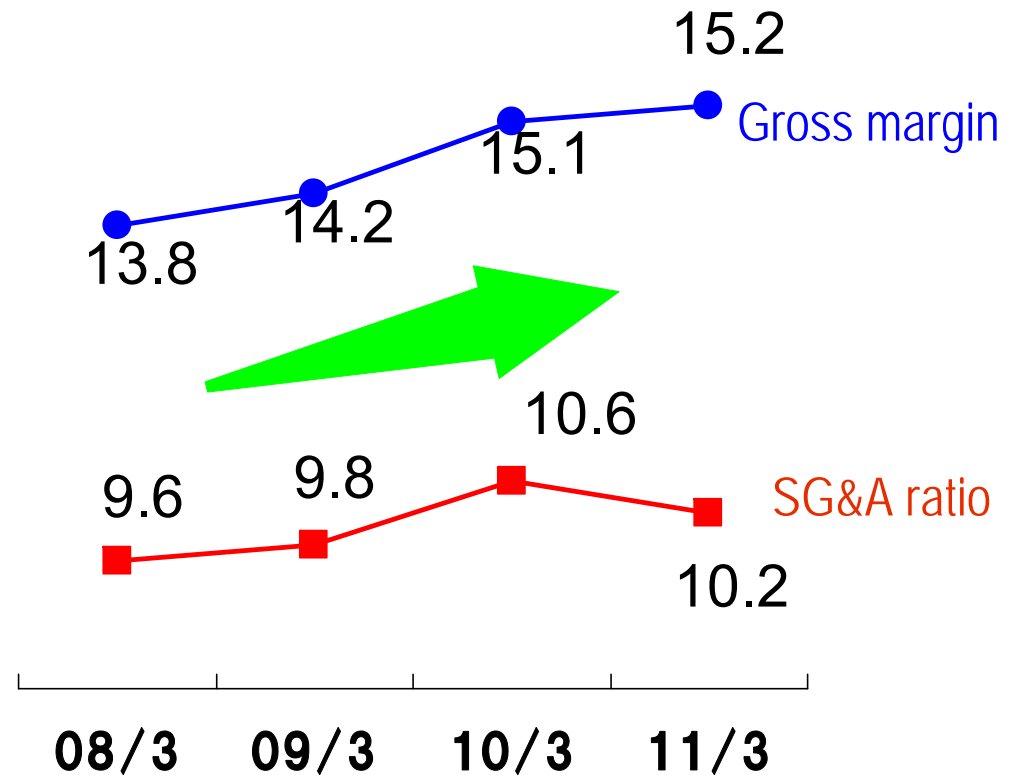
# FY2011/3 Operating Income

Continuous total cost reduction: Improved both gross margin & SG&A ratio

(Billion yen)  
( )=margin



■ Gross margin & SG&A ratio trend (%)



# 2011/3 Balance Sheet

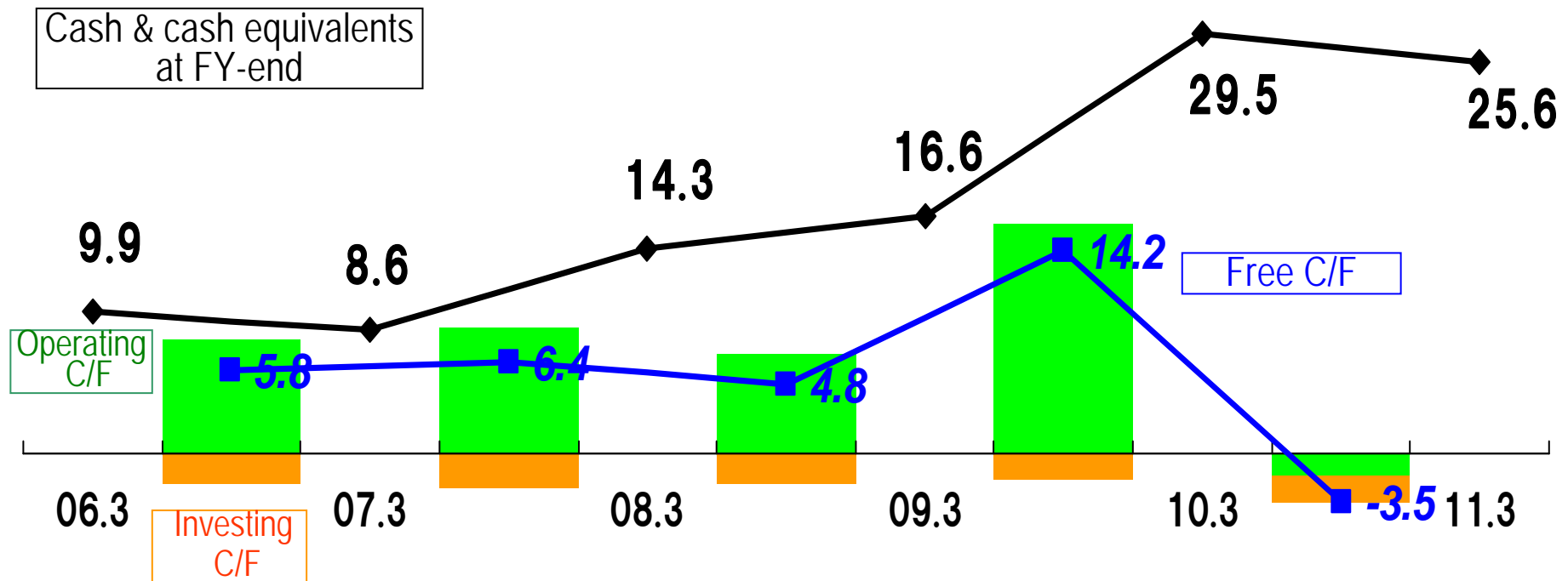
(Billion yen)

|                                     |                                      | end of 10/3  | end of 11/3  | diff.         |
|-------------------------------------|--------------------------------------|--------------|--------------|---------------|
|                                     | Cash and cash equivalents            | 29.5         | 25.6         | -3.9          |
|                                     | Notes and accounts receivable        | 80.0         | 86.3         | 6.3           |
|                                     | Inventories                          | 7.3          | 7.1          | -0.2          |
|                                     | Other                                | 7.1          | 7.4          | 0.3           |
| <b>Current Assets</b>               |                                      | <b>123.9</b> | <b>126.4</b> | <b>2.5</b>    |
| Noncurrent Assets                   |                                      | 23.0         | 23.6         | 0.6           |
| <b>Assets</b>                       |                                      | <b>146.9</b> | <b>149.9</b> | <b>3.0</b>    |
|                                     | Notes and accounts payable           | 35.0         | 31.4         | -3.6          |
|                                     | Loans                                | 5.0          | 6.3          | 1.3           |
|                                     | Other                                | 32.7         | 34.8         | 2.1           |
| <b>Liabilities</b>                  |                                      | <b>72.7</b>  | <b>72.5</b>  | <b>-0.2</b>   |
|                                     | Shareholders' equity                 | 74.0         | 77.4         | 3.4           |
|                                     | Valuation and translation adjustment | -0.5         | -0.5         | -0.1          |
|                                     | Minority interests                   | 0.6          | 0.6          | -0.1          |
| <b>Net Assets</b>                   |                                      | <b>74.2</b>  | <b>77.5</b>  | <b>3.2</b>    |
| <b>Liabilities &amp; Net Assets</b> |                                      | <b>146.9</b> | <b>149.9</b> | <b>3.0</b>    |
| <b>Owner's Equity Ratio</b>         |                                      | <b>50.1%</b> | <b>51.3%</b> | <b>+1.2pt</b> |

# FY2011/3 Cash Flows

- Remained good financial position in spite of temporary negative FCF due to timing of cash collection of large projects (Average FCF over 5 billion yen annually)

(Billion yen)



# Summing Up

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## Achievements:

- Enhance customer-driven businesses
  - => Enterprise NW & Carrier NW businesses increased in 2H
- Exceeded profit target

## Challenges: Prepared but...

- Did not achieve growth
  - Above all, the services business was short of the target

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## II. Business Policy and Forecasts for FY2012/3

# FY2012/3 Forecasts

- Re-challenge to sales target as 240 bill. yen
- Aiming to achieve record profits with aggressive investment in growth

| (Billion yen)                                | FY11/3                       | FY12/3<br>forecast           | YoY                          |
|--|------------------------------|------------------------------|------------------------------|
| <b>Sales</b>                                 | <b>217.9</b>                 | <b>240</b>                   | <b>+10%</b>                  |
| <b>Operating income</b><br><i>(to sales)</i> | <b>10.8</b><br><i>(5.0%)</i> | <b>11.0</b><br><i>(4.6%)</i> | <b>+0.2</b><br><i>-0.4pt</i> |
| Extraordinary<br>gain (loss)                 | <b>(2.6)</b>                 | <b>0.0</b>                   | <b>+2.6</b>                  |
| <b>Net income</b><br><i>(to sales)</i>       | <b>4.7</b><br><i>(2.2%)</i>  | <b>6.2</b><br><i>(2.6%)</i>  | <b>+1.5</b><br><i>+0.4pt</i> |

\*Forecasts as of April 28, 2011



# Trends in Market / Customer Needs

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## Enterprises Networks

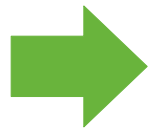
- Accelerating office innovation based on management point of view + BCP/electricity saving
- Cloud computing/outsourcing

## Carrier Networks

- Enhancing networks for the increasingly prevalent smartphones
- Expanding needs for constructing data centers

## Social Infrastructures

- Wide-area and digitalized firefighting and disaster prevention systems



Increased the importance of our focus area through the earthquake

# FY2012/3 Business Policy

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## Sticking more to

: Customers' point of view!

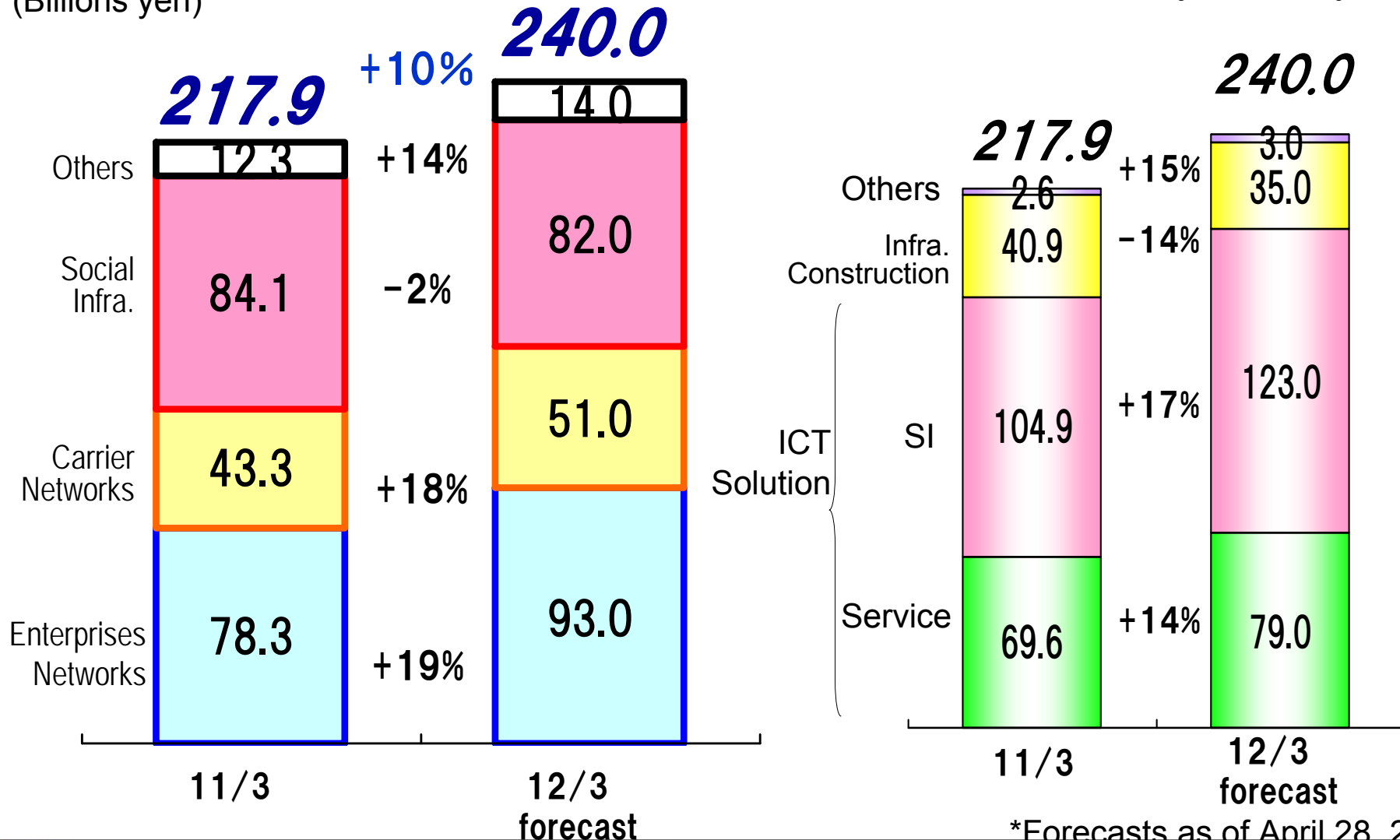
: Growth!

- Making the initiatives adopted in the second half of the previous fiscal year more effective
  - New head-office innovation/Expanding sales through practices
  - Growth through the service business
  - Strengthen SI capacity for telecom carriers
- Enhancing management innovation for further growth
- Accelerating M&A

# FY2012/3 Sales Forecast by Segment

(Billions yen)

(cf. sales forecast by business style)

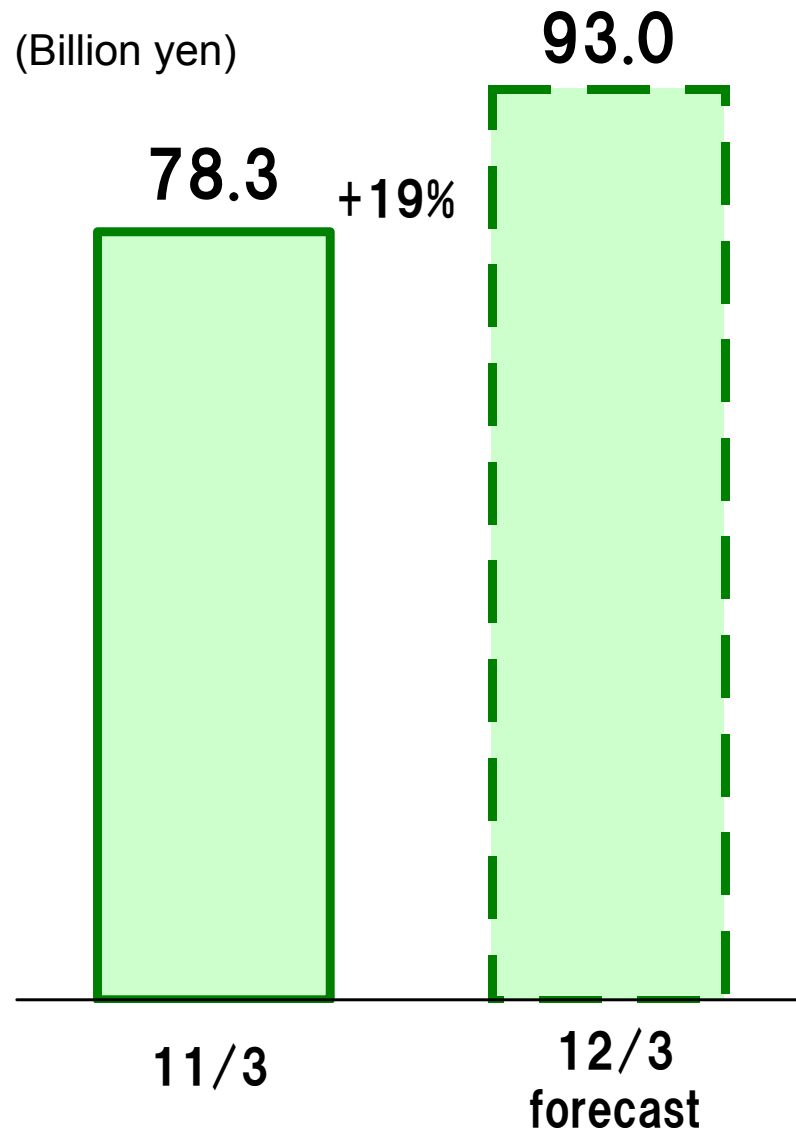


\*Forecasts as of April 28, 2011

Empowered by Innovation



# Sales Forecast (Enterprises Networks)



Promoting our office innovation effect on “current” customer needs

- Efficiency → BCP/Ecology  
(Power consumption has been halved compared to before the earthquake)

Service business unique as NEC NW&SI

- Comprehensive services
- Custom-made services

Small, high-turnover business

\*Forecasts as of April 28, 2011

# Example of Eco-Solutions (Visual-Ecology)

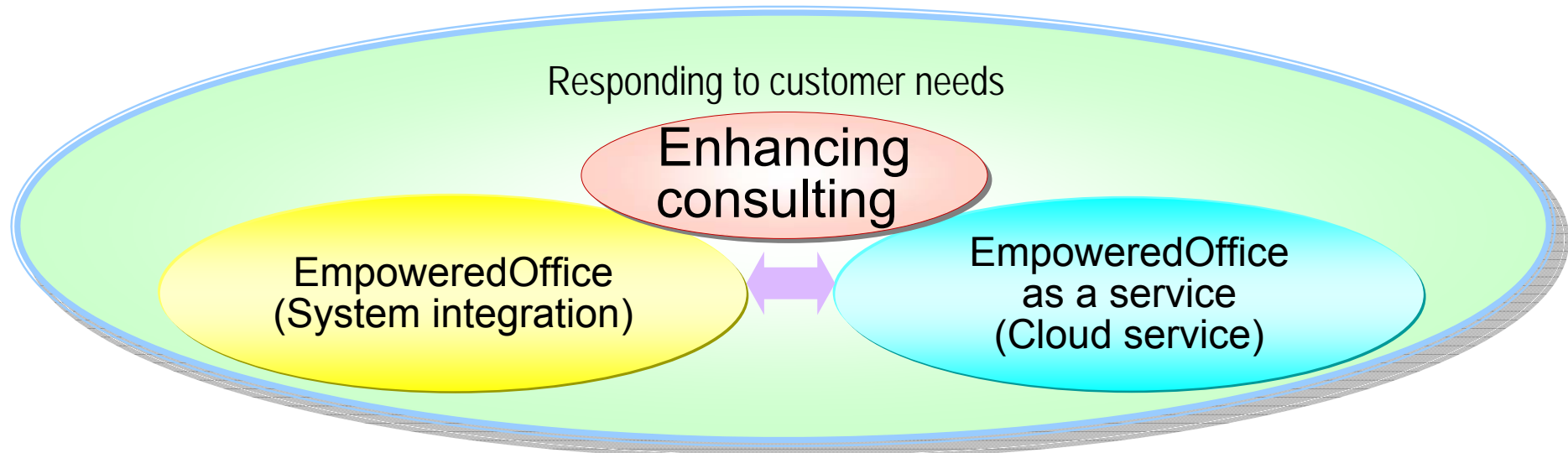
- An office solution showing power consumption in real time based on facility management capability
- Improving through internal use



Various data based on customers needs can be displayed

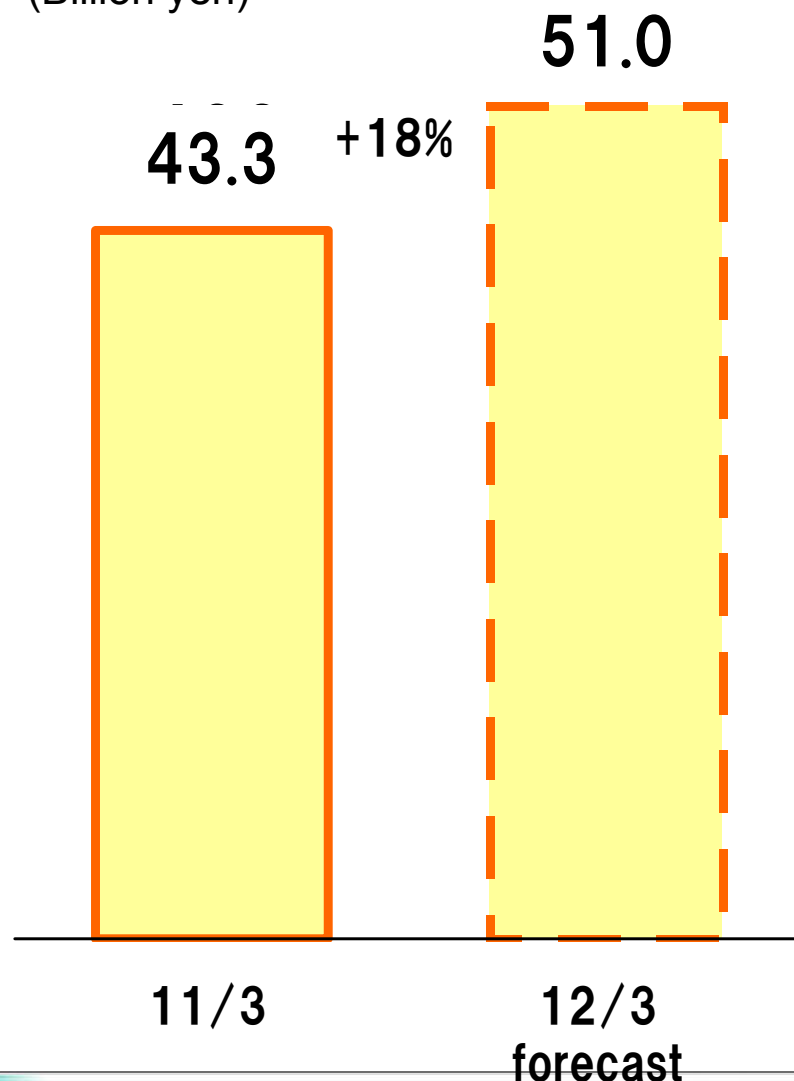
# A Business Model Unique to NEC NW&SI

- Office innovation business using facility capabilities and achievements from our own experience
- Providing a combination of SI + services according to customer needs
- Strong service support 24/7



# Sales Forecast (Carrier Networks)

(Billion yen)



## Strengthening SI business for telecom carriers

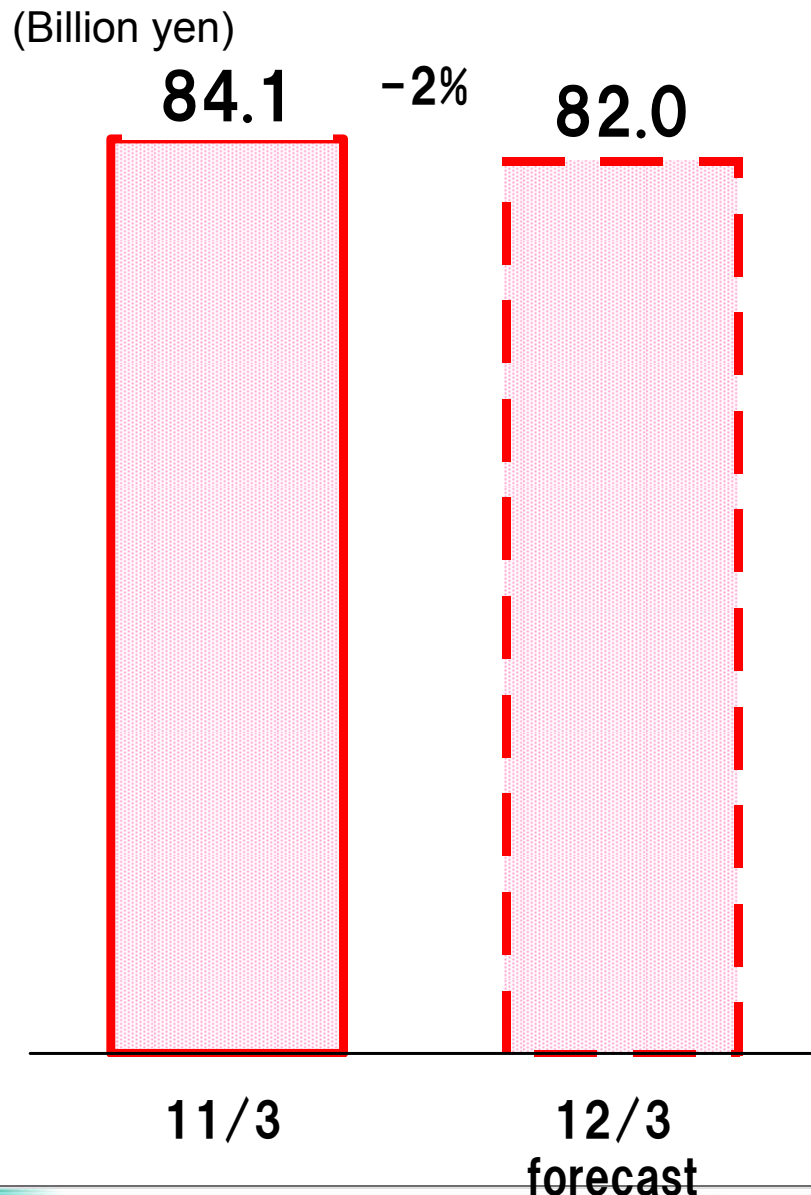
- Responding to increasing network traffic for smartphone and other services
- Bolstering multi-vendor capabilities

## Expanding data center construction business

- High credibility
- Power-saving capability
- Disaster-resistant facility management capability

\*Forecasts as of April 28, 2011

# Sales Forecast (Social Infrastructure)



## Business respond to the changing needs of market

- Local information network projects will taper off
- Expanding the fire-fighting & disaster prevention systems
  - Establishing a specialized division
- Taking action for the post-disaster recovery and reconstruction

\*Forecasts as of April 28, 2011



# Active Growth Investment

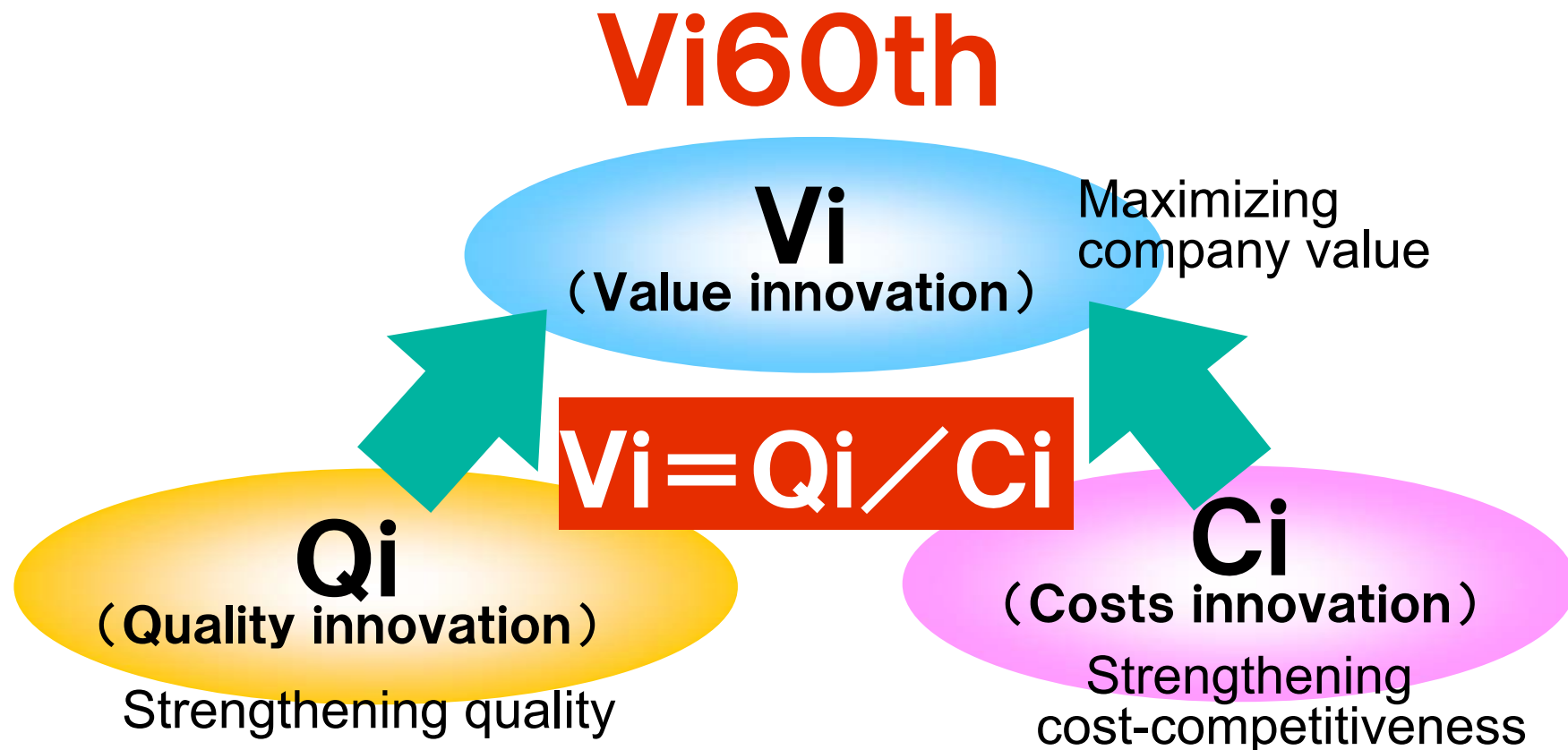
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Using cash and financial leverage to accelerate growth

- Active investment in growing business
  - Enhancing data centers
  - Advance investment for creating new solutions
- Acquiring resources & know-how in new service fields through M&A
  - BPO, consulting fields, environmental-related...

# Enhancing Management Innovation Activities for Further Growth

Aiming for growth & company value maximization with high-quality and cost performance, ahead of the 60<sup>th</sup> anniversary in 2013.



# What is “Vi60th” ?

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A management innovation activities, an evolution of AC-I which targets increase of profitability, for growth.

- Qi : To improve the quality of business activities from proposal to service
- Ci: To strengthen cost-competitiveness and increase price-competitiveness

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■ We stick to the customers' point of view, and build trust.

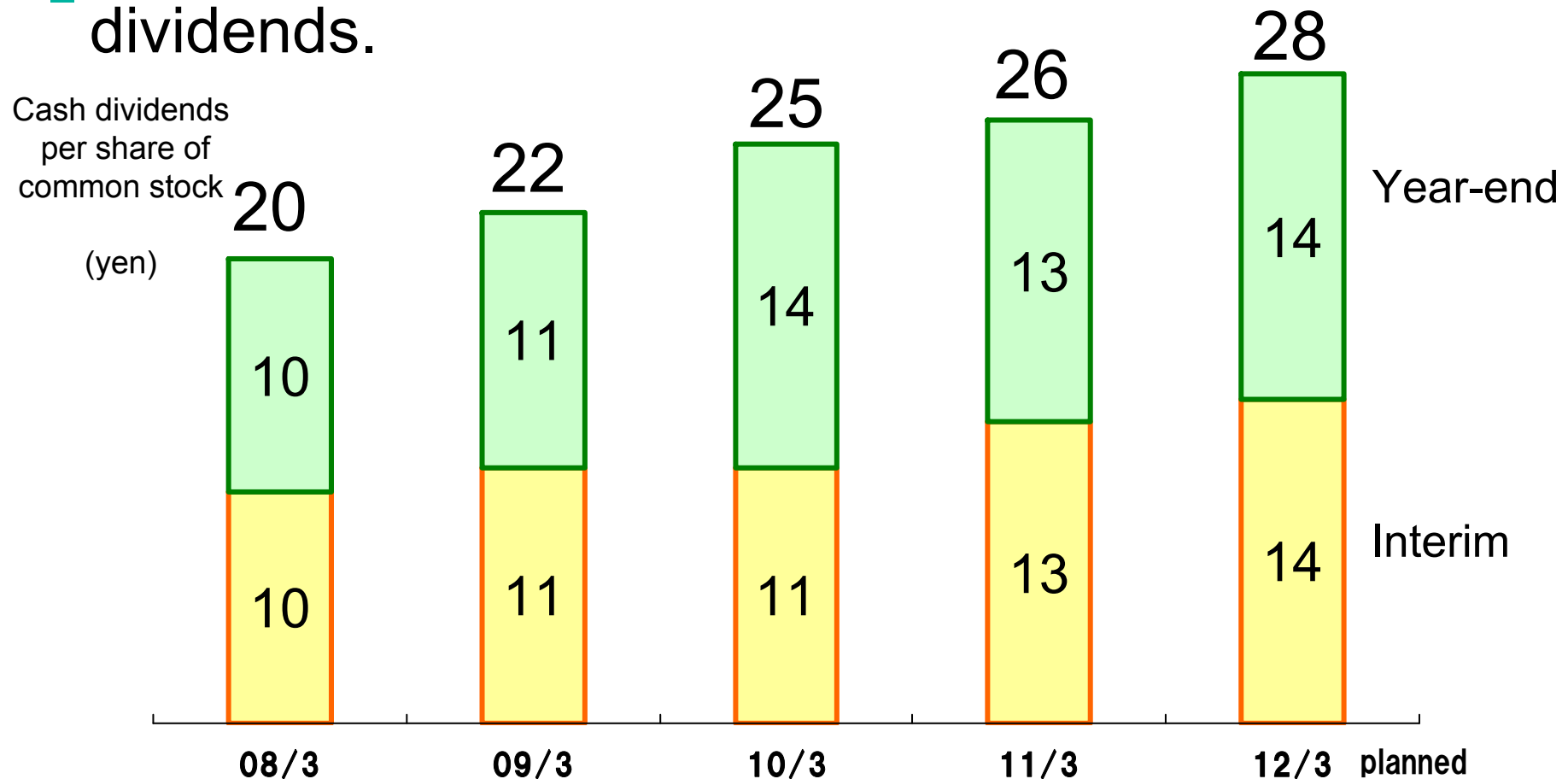
■ We will leverage our skills for customers facing various concerns such as recovering from the earthquake, BCP, and power saving.

■ As a customer-driven service integrator, we will accelerate growth and increase the corporate value.

# Dividend Plan

\*Forecasts as of April 28, 2011

- The basic policy is to use earnings for growth and for providing a return to shareholders.
- Despite the unclear environment, we plan to raise dividends.



# Cautionary Statement

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Forecasts of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.

Factors affecting results are not limited to the ones mentioned above.

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# NEC

NEC Networks & System Integration Corporation

<http://www.nesic.co.jp/english/index.html>