

Q&A at IR Briefing for Consolidated Financial Statements for the Fiscal Year
ended March 31, 2011 (Fiscal Year 2010)

April 28, 2011

NEC Networks & System Integration Corporation

1. Date and Time: Thursday, April 28, 2011, 13:30 – 14:20
2. Venue: Tokyo Station Conference, Marunouchi, Chiyoda-ku, Tokyo

Questioner A

Q: What do you expect the gross margin by segment for the fiscal year ending March 2012 to be?

A: All segments generally expect to reach a level similar to that achieved in the fiscal year ended March 2011. However, because we will give priority to growth, the costs associated with developing markets are likely to increase. As a result, we expect that the gross margin of each segment will decline slightly.

Q: The growth of income for the fiscal year ending March 2012 appears to be somewhat limited in light of the fact that you plan to bolster net sales. Is this because, in the same manner as the fiscal year ended March 2011, you expect to have a temporary setback in the profitability as you pursue the growth?

A: Yes, it is. I think that in the fiscal year ended March 2011, we failed to expand our businesses that should have grown because we were not brave enough to invest. Learning from this, we will focus on growth by making up-front investments, including price strategies. Successful growth will bring us stronger income in the future. So it is time for us now to manage operations with the affirmative resolution that we will achieve growth by even temporarily sacrificing income.

Q: I believe that you have set a medium-term target of operating income of 18 billion yen for the fiscal year ending March 2013. Forecast operating income of 11 billion yen for the fiscal year ending March 2012 seems to be significantly lagging behind the above target. What is your view on this?

A: We will not change the medium-term target. However, it is also true that the economic impact on operating results for the fiscal year ending March 2012 from the recent devastating earthquake and tsunami is yet to become fully apparent. For example, the government may not be able to allocate a budget beyond that for supporting the victims. By taking this situation into account, we have set a realistic forecast operating income of 11 billion yen. Going forward, we will continue striving to achieve the medium-term target through measures such as M&A.

Questioner B

Q: Net sales for the fiscal year ended March 2011 underperformed the forecast sales by approximately 22 billion yen. I understand that 5 billion yen of this 22 billion yen was caused by changes in the period for recording certain sales because of the earthquake. What are the factors that caused the remaining shortfall of 17 billion yen?

A: The main factor for the underperformance in the Enterprises Networks business was the sluggish service business. As we have already taken action, we are determined to generate favorable results for the fiscal year ending March 2012.

The maintenance of hardware and the overseas business slowed in the Carrier Network business.

In the Social Infrastructure business, our anticipation for higher local information network sales and stronger demand for fire-fighting and disaster-prevention systems in advance was not fully materialized.

Q: How do you think the business environment has changed since the March 11 earthquake and tsunami? Is the lower profit margin expected for the new fiscal year not only because of spending for growth, but also because of the impact from the disaster?

A: The disaster will impact on our operations for the short-term. However, we believe that the impact will not continue into the medium and long terms, and we do not need to change our management policies. If we see any impact that exceeds our expectation, we will promptly disclose such information.

Q: I think that your operations may be affected by the breakdown of the supply chain, or conversely by the special demand from the reconstruction in the affected area. Don't you think that this impact is also significant?

A: We still have certain procurement problems, but a number of our suppliers, including NEC's plants, have resumed operations. Therefore, we have not to date experienced the kind of problems that auto manufacturers are having for example.

We understand that some systems we constructed have been damaged by the tsunami. However, we do not know at present when any plans for reconstructing these systems will emerge. Although we expect that any special demand from the reconstruction will be centered on communications networks in the near term, the impact from that demand is not considered to be particularly significant.

Questioner C

Q: You also put the priority on the growth during the fiscal year ended March 2011, and, consequently, you could not meet the targets. Don't you think that it will still take some more time before you can see results from the measures you took?

A: We understand that the speed of the measures we took has not been

sufficient. As a result of this, we held today's meeting earlier than before, which was a few days after the announcement of the results. This is part of our initiatives to speed up management and the turnover of the overall operations. We will also accelerate our investments by adopting top-down rather than bottom-up approach. These initiatives will be the key to encouraging customers to make quick decisions. Instead of proposing ideas from our perspective, we will offer proposals to customers by considering what is necessary for them to make their decisions. In fact, this is also the very essence of "Vi60th," our new management innovation activity.

Q: Demand for data centers for the backup of data is expected to rise after the earthquake. What has been the reaction by customers?

A: Inquiries have indeed been rising, and demand from the perspective of energy saving and BCP has also emerged. What is important is helping customers to make their decisions and turning these inquiries and demand into real business. I believe that this is the critical issue.

Although unrelated to the effects of the earthquake, business related to data centers in the Kansai area of western Japan has been growing strongly. This business has been expanding at a rate faster than we expected, as our rather homespun approach of providing proposals in accordance with each customer, instead of offering our menus to the customers, has been well received.