REVIEW OF OPERATIONS

IT SOLUTIONS BUSINESS

NEC provides a range of IT services covering system integration, maintenance and support, operation and outsourcing, as well as cloud services. NEC also supplies the platforms essential to the development of IT systems and enterprise network systems, such as servers, storage, software and IP telephony systems. Using its extensive experience in developing highly reliable systems backed by state-of-the-art IT and network technologies, NEC aims to realize an information society friendly to humans and the earth.

Takaaki Shimizu
Senior Vice President

FISCAL 2012 PERFORMANCE AND MAIN ACCOMPLISHMENTS

Business segment sales increased 0.8% year on year to ¥1,189.2 billion. This increase mainly reflected steady growth in the IT services business, mostly to government agencies, local governments, medical institutions and the manufacturing sector. This was despite lower sales in the platform business, centered on hardware, primarily due to the impact of the flooding in Thailand.

Operating income improved ¥14.5 billion year on year to ¥44.8 billion. This improvement was mainly due to higher sales, fewer unprofitable projects and cost reductions in the IT services business, which outweighed lower earnings in the platform business due to lower sales and the impact of the flooding in Thailand.
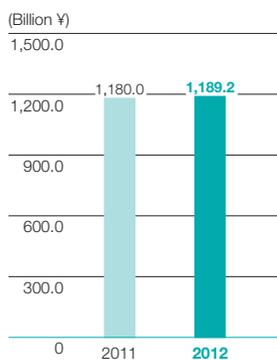
In fiscal 2012, in the IT services business, NEC remained focused on increasing sales of Software as a Service (SaaS) for specific business sectors and operations. Examples included finance, accounting and payroll management systems for 10 local government bodies in Kanagawa Prefecture, and a SaaS-based electronic

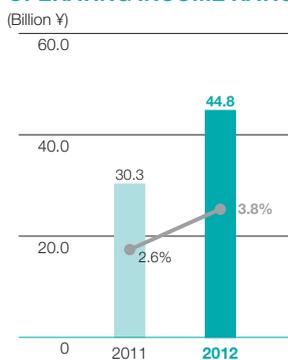medical record service for medical institutions. Furthermore, NEC steadily built up its track record of integration of private cloud systems for educational institutions such as Tokai University, and integration of business systems infrastructure for All Nippon Airways, Co., Ltd.

In the platform business, NEC's "UNIVERGE PF Series" (ProgrammableFlow), the world's first next generation network products equipped with the new network control technology OpenFlow, attracted considerable attention. Given the extremely strong customer interest in these products, which substantially reduce network operation and management costs, NEC supplied "UNIVERGE PF Series" products to enterprises and data center operators worldwide. In addition, the "UNIVERGE PF Series" received the "Best of Interop 2012" award at Interop Las Vegas 2012. In other areas, NEC has received many accolades from customers for its platform products supporting cloud computing. For example, NEC's PC server "Express5800 series" achieved the No. 1 share[*1] in the Japanese market for the 16th consecutive year. NEC's core cloud platform
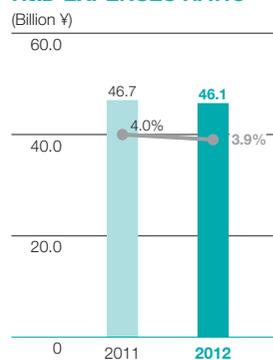
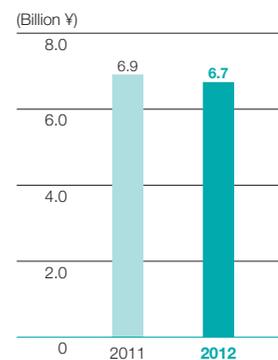**SALES**

(Billion ¥)

	2011	2012
	1,180.0	**1,189.2**

OPERATING INCOME, OPERATING INCOME RATIO

(Billion ¥)

	2011	2012
Operating income	30.3	**44.8**
Operating income ratio	2.6%	3.8%

R&D EXPENSES*, R&D EXPENSES RATIO*

(Billion ¥)

	2011	2012
R&D expenses	46.7	**46.1**
R&D expenses ratio	4.0%	3.9%

CAPITAL EXPENDITURES*

(Billion ¥)

	2011	2012
	6.9	**6.7**

■ Operating income
■ Operating income ratio

■ R&D expenses
■ R&D expenses ratio

* R&D expenses, the R&D expenses ratio and capital expenditures represent the sum of corresponding figures for the former IT Services and Platform businesses

*1 Source: CY1996–2011 Japan x86 Server Market (Unit, Factory Revenue (Yen)), IDC, Worldwide Quarterly Server Tracker, 2012Q1
*2 Source: Nikkei Computer (16th Customer Satisfaction Survey, August 18, 2011 issue); 1st place integrated operation management software category

software "WebSAM" was also ranked No. 1 in a customer satisfaction survey[2] for the second straight year.

FOR FURTHER GROWTH

Despite an uncertain outlook due to concerns about a recession in Europe and other factors, IT investment by customers in Japan, which had been curtailed since the Lehman Brothers bankruptcy and the Great East Japan Earthquake, has started to show signs of gradual recovery.

In anticipation of medium-term market developments, such as progress on the shift to cloud computing and expanding demand for IT systems in emerging countries, NEC will accelerate measures for future growth. Efforts will be focused on expanding the services business and global business.

To expand the services business, NEC will enhance its lineup of platform products supporting the delivery of services. In addition, NEC has opened data centers in Kansai and Hokkaido. In the hardware business, NEC will contribute to power conservation efforts by supplying servers, storage and other hardware that can operate in a 40ºC environment, which is 5ºC higher than the general operating temperature limit for such equipment. In the software business, NEC aims to help customers enhance management and create new business using Big Data, which continues to increase tremendously. To this end, NEC is working to increase sales of database software "InfoFrame" that achieves flexible scalability and high reliability through its competitive technology.

Furthermore, NEC will provide comprehensive support ranging from design to operation of customers' IT assets. Measures include development of solutions for specific business sectors and operations through a strategic cloud business partnership with Microsoft Japan Co., Ltd. for large enterprises, and stronger collaboration in integrated operation and management of systems with Oracle Corporation Japan.

Eyeing expansion of global business, NEC aims to provide support to Japanese companies seeking to enter overseas markets as their strategic partner, with emphasis on companies in the manufacturing and distribution sectors. One example is a cloud oriented accounting service delivered to Sanden Corporation as a global accounting system. NEC plans to roll out this system at their overseas subsidiaries going forward.

Moreover, NEC will continue to strengthen business development based on globally competitive products and services. These include solutions utilizing NEC's world-class biometrics technologies, such as fingerprint identification and face recognition. Another example is point-of-sale (POS) systems, for which orders are increasing overseas from major convenience store operators in Indonesia and Mexico, among other customers.

Through the foregoing measures, the IT services and platform businesses will work as one and combine their expertise in specific business sectors and operations developed over the years, as well as technologies and products where their strengths lie. The goal is to further enhance and promote the supply of value-added solutions from the customer's viewpoint.
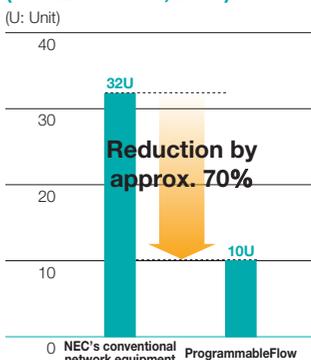

Contactless hybrid finger scanner

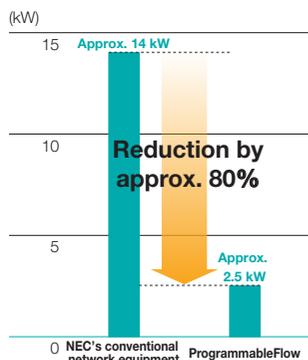## ADVANTAGES OF IMPLEMENTING UNIVERGE PF SERIES:

- Installation space and power consumption: Reduced by 70-80%
- Switchover time in the event of a disruption: Less than 1 second
- Dramatic reduction in operating costs

INSTALLATION SPACE (CORE SWITCH, ETC.)
(U: Unit)

Reduction by approx. 70%

32U — NEC's conventional network equipment
10U — ProgrammableFlow

POWER CONSUMPTION
(kW)

Reduction by approx. 80%

Approx. 14 kW — NEC's conventional network equipment
Approx. 2.5 kW — ProgrammableFlow

SWITCHING TIME IN THE EVENT OF DISRUPTION
(Seconds)

Reduction by approx. 98%

Approx. 50 seconds — NEC's conventional network equipment
Less than 1 second — ProgrammableFlow