Empowered by Innovation NEC

Platform Business Growth Strategy

February 9, 2011

Platform Business Unit

Senior Vice President

Masato Yamamoto

To be a leading global company
leveraging the power of innovation
to realize an information society
friendly to humans and the earth

NEC Group Vision 2017

1. Business Overview

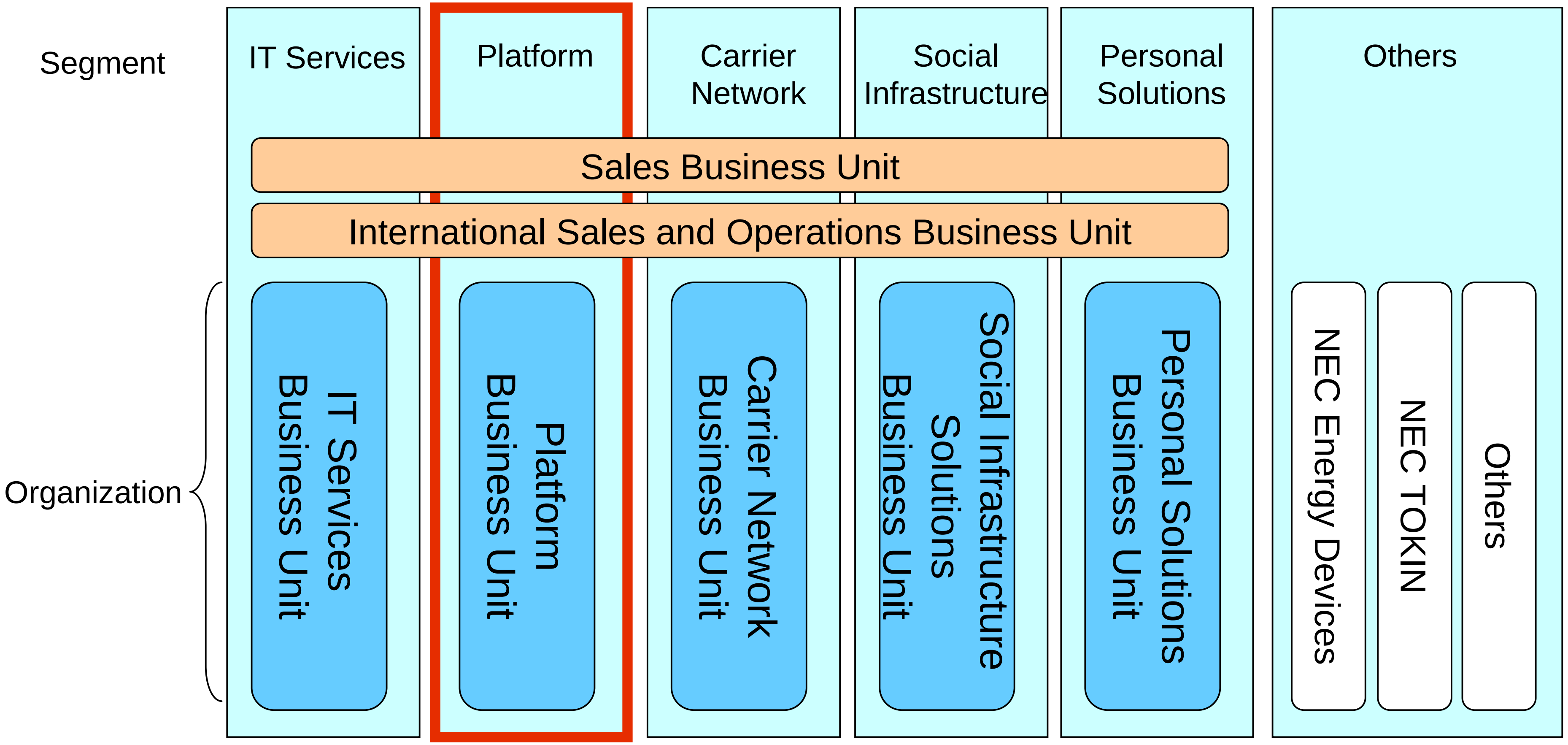
2. Market Trends and Business Opportunities

3. Platform Business Growth Strategies

4. Towards Achieving ‘V2012’

Business Organization

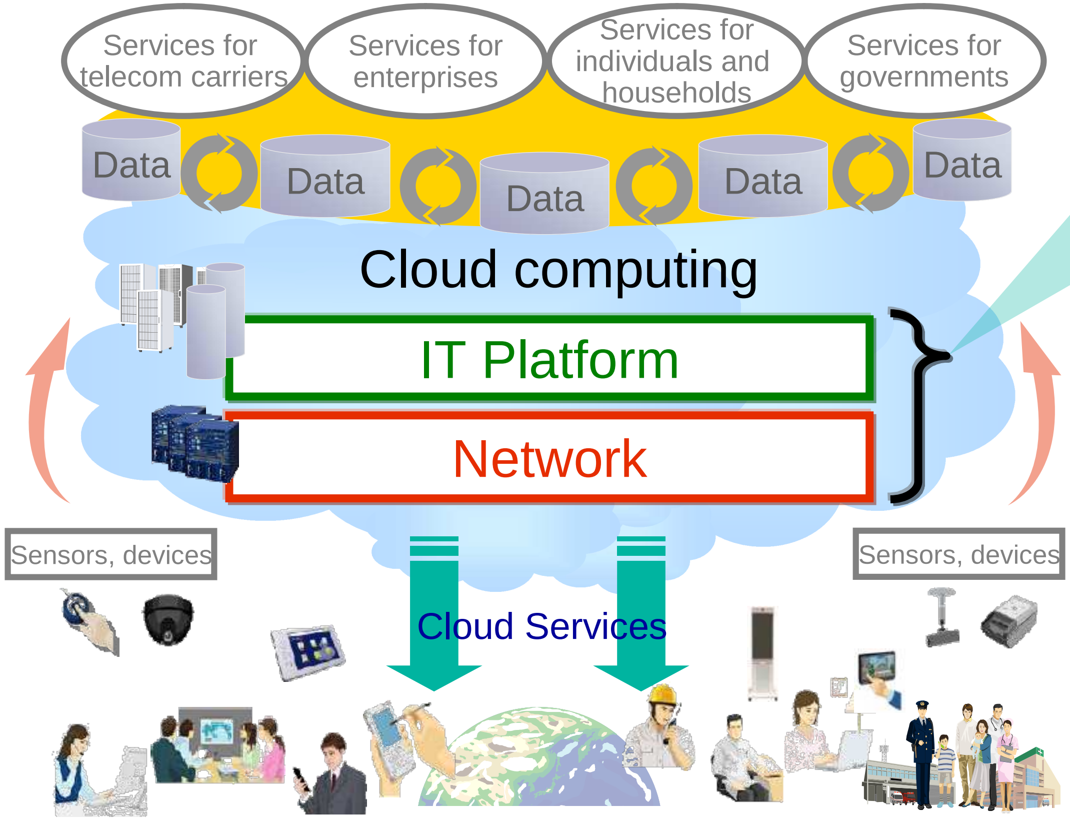
- Provide IT platform/network products globally with enterprises and governments (Product Sales)


Segment
IT Services
Platform
Carrier Network
Social Infrastructure
Personal Solutions
Others
Sales Business Unit
International Sales and Operations Business Unit
Organization
IT Services Business Unit
Platform Business Unit
Carrier Network Business Unit
Social Infrastructure Solutions Business Unit
Personal Solutions Business Unit
NEC Energy Devices
NEC TOKIN
Others

Business Domain

Provide core products of cloud computing: IT platform products (IT hardware, IT software) and network products

<C&C Cloud : What's NEC's Cloud Computing?>


Services for telecom carriers
Services for enterprises
Services for individuals and households
Services for governments
Data
Data
Data
Data
Data
Cloud computing
IT Platform
Network
Sensors, devices
Sensors, devices
Cloud Services

Main Products Group

IT Platform Products

<IT Hardware>

- Server
- Storage
- ATM
- POS etc

Express5800
iStorage

<IT Software>

- OS
- Middleware
  - Operation Management
  - Service Execution Platform etc

CLUSTERPRO
WebSAM
WebOTX

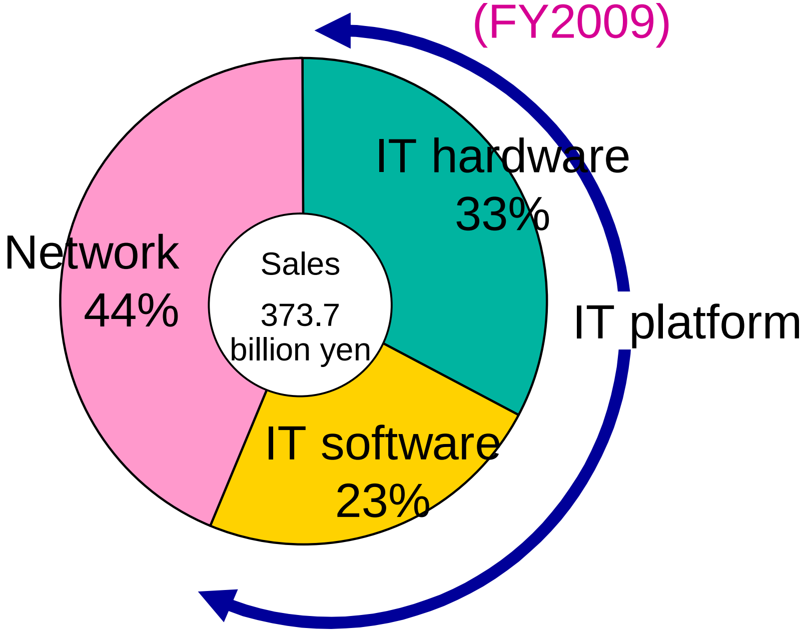
Network Products

- PBX/Business Phone
- Unified Communications etc

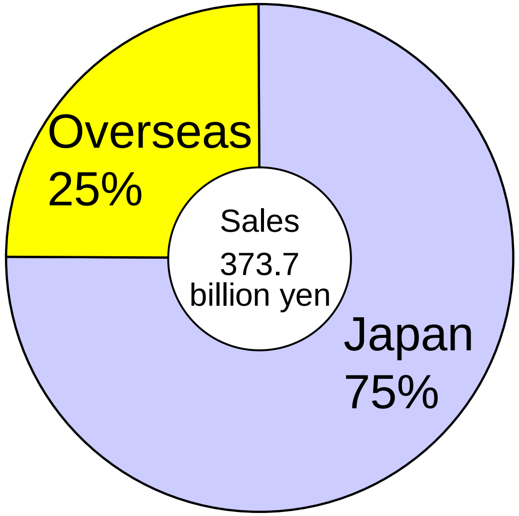
Sales Composition

- Well balanced sales composition
- Overseas Sales Ratio: 25% (FY2009)
  - Network business - Overseas sales ratio: 50%
    - Main market: U.S, Europe and Australia
  - IT platform business - Main market: Japan

<Sales Composition by Products> (FY2009)

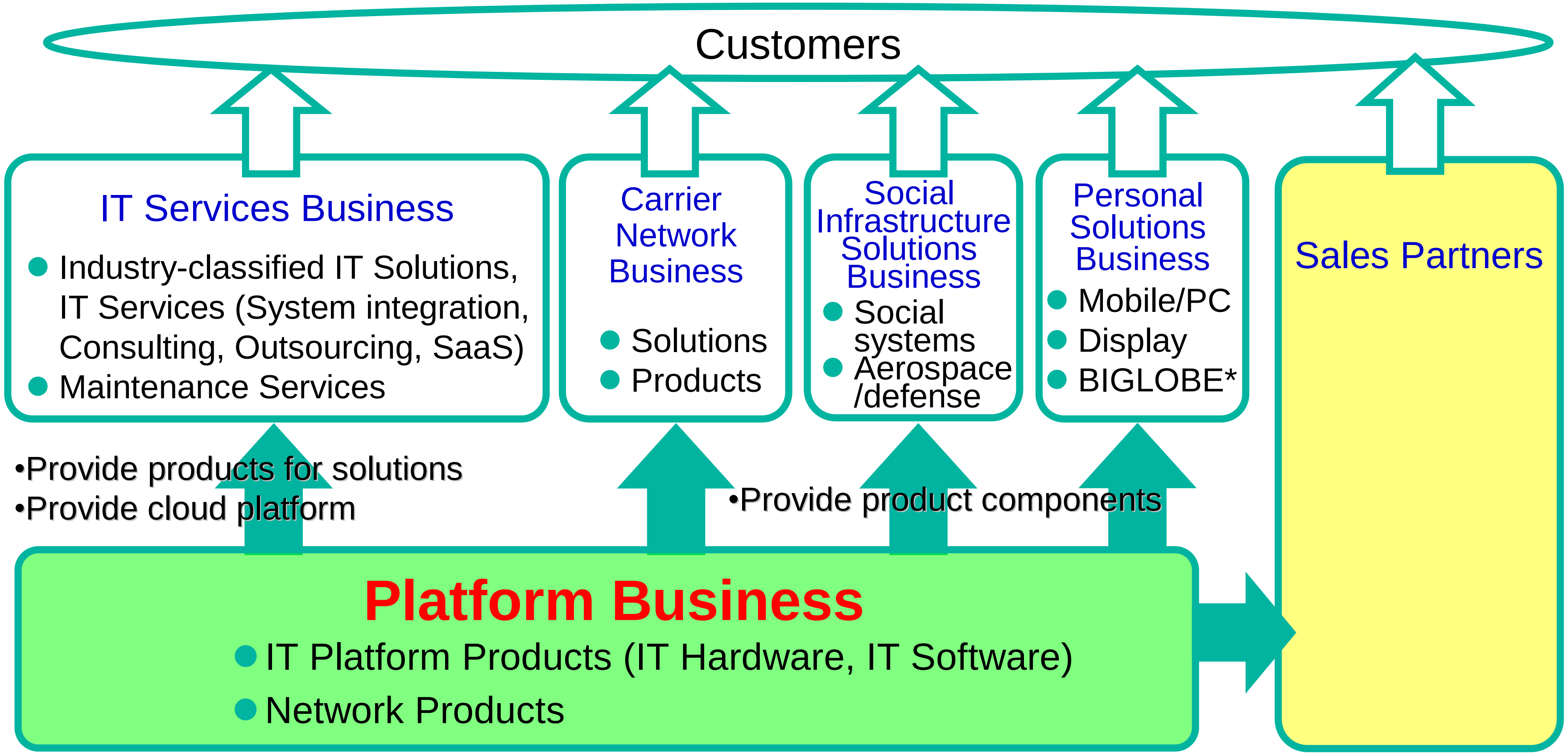


<Sales Composition by Regions> (FY2009)



Relations among Platform Business and Other Businesses

- Provide products to support solutions and services of IT services business
- Provide products for Carrier Network, Social Infrastructure, and Personal Solutions businesses.



Customers

IT Services Business
- Industry-classified IT Solutions, IT Services (System integration, Consulting, Outsourcing, SaaS)
- Maintenance Services

Carrier Network Business
- Solutions
- Products

Social Infrastructure Solutions Business
- Social systems
- Aerospace /defense

Personal Solutions Business
- Mobile/PC
- Display
- BIGLOBE*

Sales Partners

•Provide products for solutions
•Provide cloud platform

•Provide product components

Platform Business
- IT Platform Products (IT Hardware, IT Software)
- Network Products

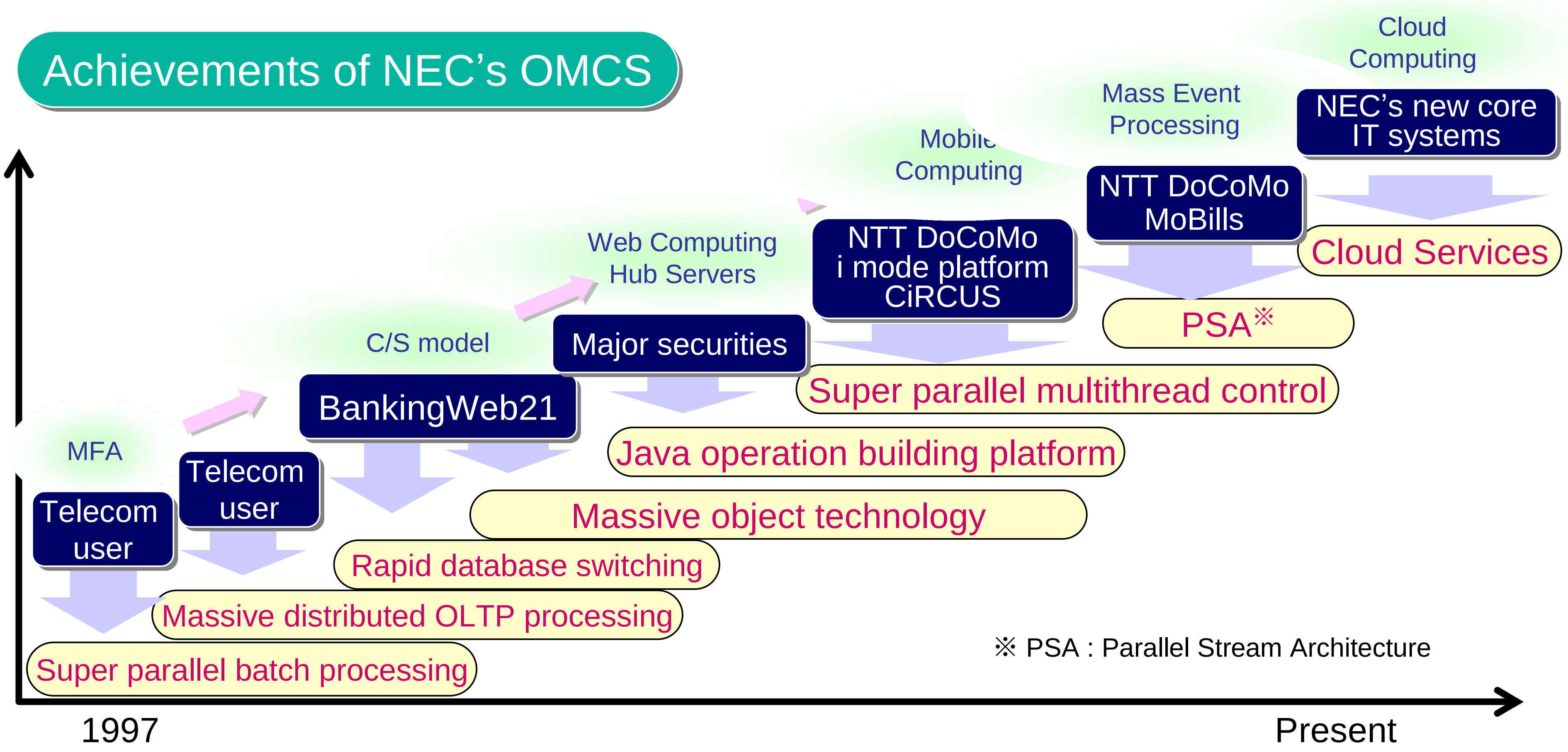
*BIGLOBE: Internet services

(e.g) NEC’s OMCS (Open Mission Critical Systems)

Support NEC’s OMCS with our product technologies

➔ Realize high reliable/available platform with our/others’ products

Achievements of NEC’s OMCS


Cloud Computing
Mass Event Processing
Mobile Computing
Web Computing Hub Servers
C/S model
MFA
NEC’s new core IT systems
NTT DoCoMo MoBills
NTT DoCoMo i mode platform CiRCUS
Major securities
BankingWeb21
Telecom user
Telecom user
Cloud Services
PSA※
Super parallel multithread control
Java operation building platform
Massive object technology
Rapid database switching
Massive distributed OLTP processing
Super parallel batch processing
1997
Present

※ PSA : Parallel Stream Architecture

Platform Business – IT Platform Business (IT Hardware)

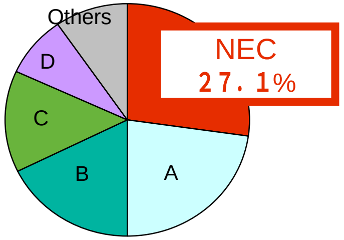
Provide products with enterprises/governments requirements

- PC Servers, UNIX Servers, mainframes, supercomputers, storages, ATM, and POS
- Optimized platform: Combine NEC and OEM products

Express5800

Japan PC Server Share (units) 2009 Actual

Top share in Japan for 14 consecutive years

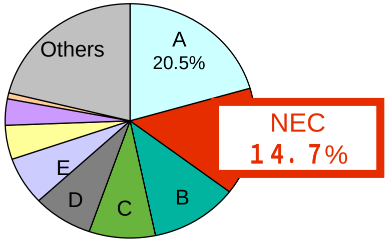


(Source：IDC Japan: Japan Server Quarterly Model Analysis CY2009 Q4)

iStorage

Japan Low-end and Open SAN/DAS/RAID Share (units) 2009 Actual

No2 share in Japan Low-end Market



(Source：IDC Japan: Quarterly Disk Storage Systems Tracker 3Q 2010)

Utilize mainframes/supercomputers technologies to common technologies

- Eco-technology：Auto power saving, hybrid power
- Maintenance ：Prompt failure analysis
- Reliability ：High reliability with unique chipset

Express5800 ECO CENTER

Green IT Award 2008
‘Energy Saving of IT’
Minister of Economy Award

New model ATM for Seven Bank

Green IT Award 2010
‘Energy Saving of IT’
Jury’s Special Awards

Platform Business – IT Platform Business (IT Software)

Provide middleware for OMCS

- Operation management, applications server, security, OS, database etc

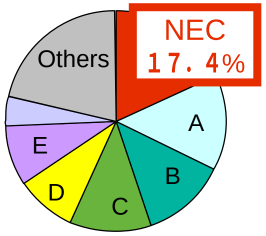
Realize open and high reliable systems by combining NEC and OEM products

- NEC products：
  Functions related to customers’ needs
- OEM products：
  De facto products such as OS and database
  - Support reliability of total systems
  - Long term alliances with major vendors
    ー Oracle, hp, Microsoft, VMware, etc

CLUSTERPRO

High availability software APAC share (amount) 2009 Actual

APAC share: No1 (Share No1 for 9 consecutive years in Japan)



(Source：IDC Asia/Pacific, 2010 ‘Asia/Pacific (Excluding Japan) Availability and Clustering Software 2010-2014 Forecast (AP2670310S)‘

APAC: Asia Pacific

WebSAM

Integrated operation management software

Interop Tokyo 2010
’Best of Show Award’
Top award of the ‘People’s Choice’ section

WebOTX

Service execution platform software

WebSAM

Integrated operation management software

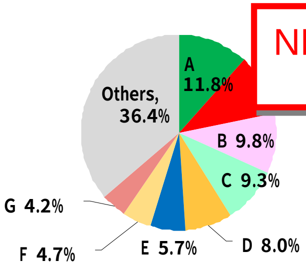
Nikkei Computer
The 15th CS Research: No.1

Platform Business – Network Business

Provide network products with enterprises/ governments

- Voice network system (communication server), WAN/ Wireless access system, LAN, Communication software
- Optimized solutions by combining NEC and OEM products

Enterprise Telephony Worldwide Share (Gartner)
(number of lines)

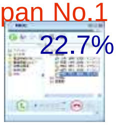


NEC: Over 10% WW share

(Source：Gartner Market Share: Enterprise Telephony Equipment and Business Telephones, Worldwide, 2009)

IP -PBX
Japan No.1
30.8%

Softphone
Japan No.1
22.7%



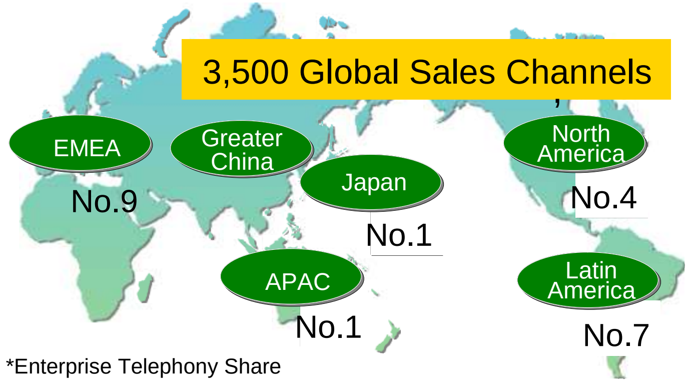
Phone device
Japan No.1
37.4%

(Source：Fuji Chimera Research：2008)

Expand global businesses with ‘UNIVERGE’

- Utilize 3500 global sales channels based on 5 regions
- Develop/provide systems to meet the regional/industry needs

UNIVERGE



*Enterprise Telephony Share

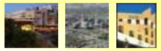
(Source：Gartner Market Share: Enterprise Telephony Equipment and Business Telephones, Worldwide, 2009)

EMEA: Europe, Middle East and Africa

Hotel

- Global hotel chain
- Over 50% share in Las Vegas

Hospital

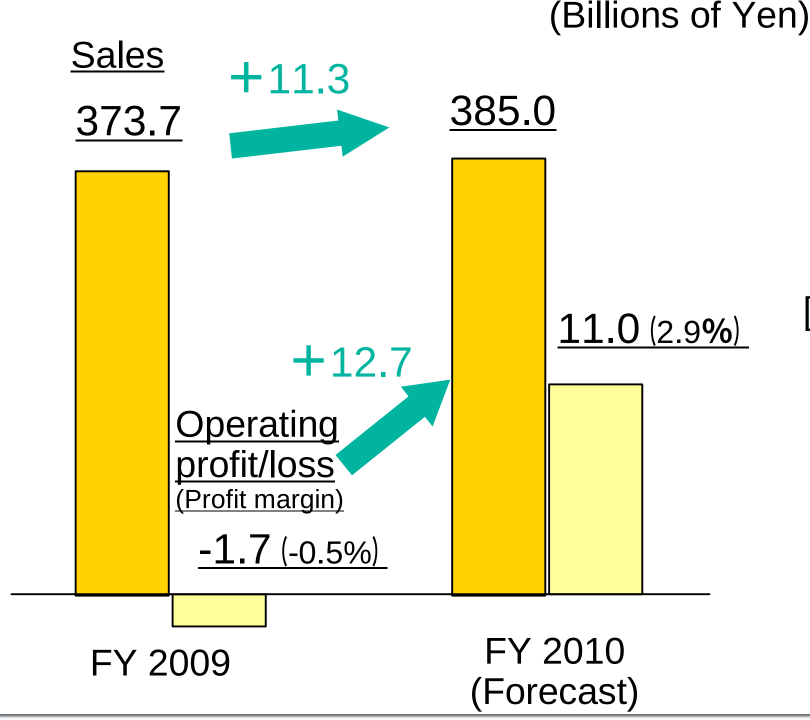


- Over 1200 cases in global (US, Europe, Australia, etc)

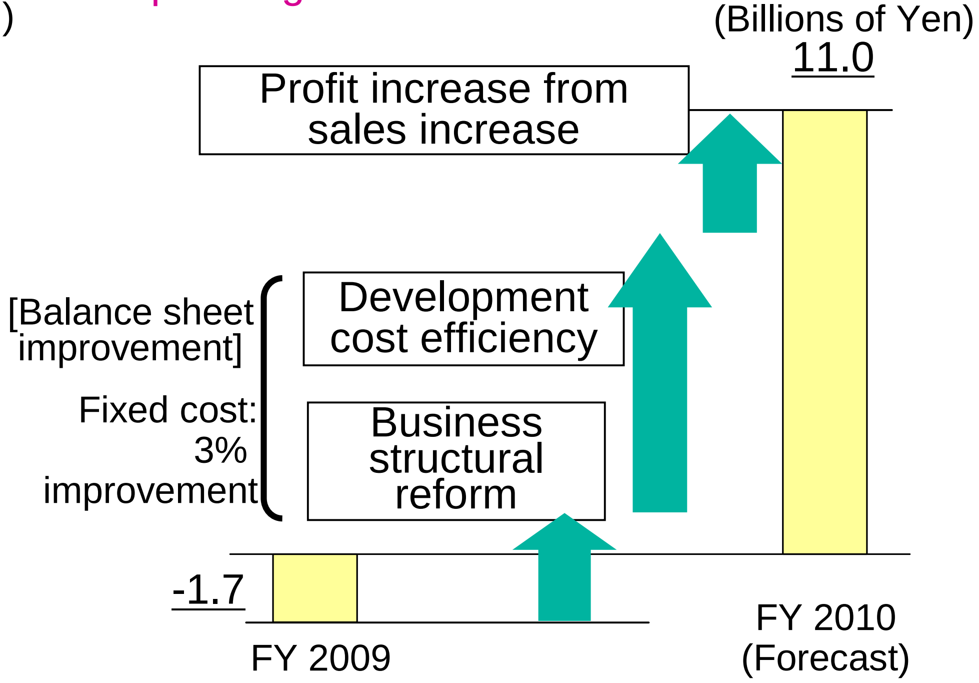
Sales and Operating Profit of Platform Business

- **Sales**： Expect to increase sales from server consolidation with virtualization
- **Operating Profit/Loss**： Expect to increase the profit from improvement of efficiency and a sales increase while price erosion of hardware continues

<Sales and Operating Profit/Loss>



<Operating Profit/Loss Breakdown>



※Forecast is as of 9th February, 2011

Improving Cost Structure (From FY2009 to FY2010)

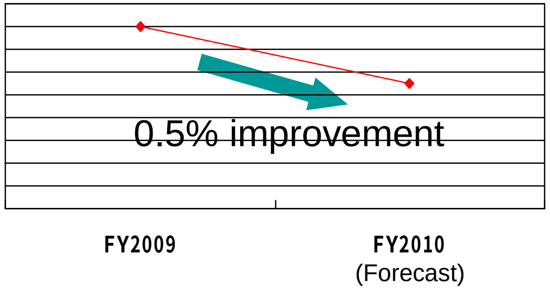
Business structural reform

- Integrated former IT Platform Business Unit and former Enterprise Communications Solutions Operations Unit. Improved efficiency through organization change
- Improved our cost structure with total process reform

  (QCD reform from planning and development design phases)

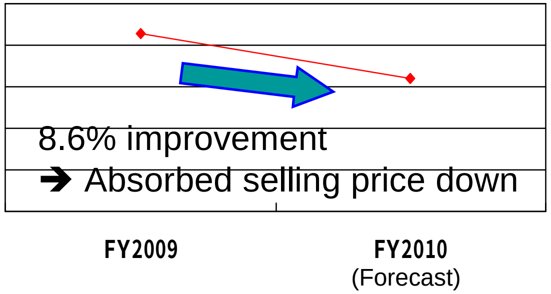
Q: Quality reform

<Quality Loss Cost>
(Sales comparison)



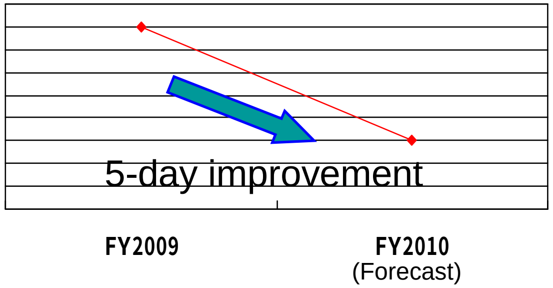
C: Cost reform

<Amount of Cost Reduction>
(Cost comparison)



D: Delivery reform

<Inventory Turnover Period>



Development cost efficiency

- Review our product portfolio (Focusing on key businesses)
- Common development (Hardware, Software and Network)

※Forecast is as of 9th February, 2011

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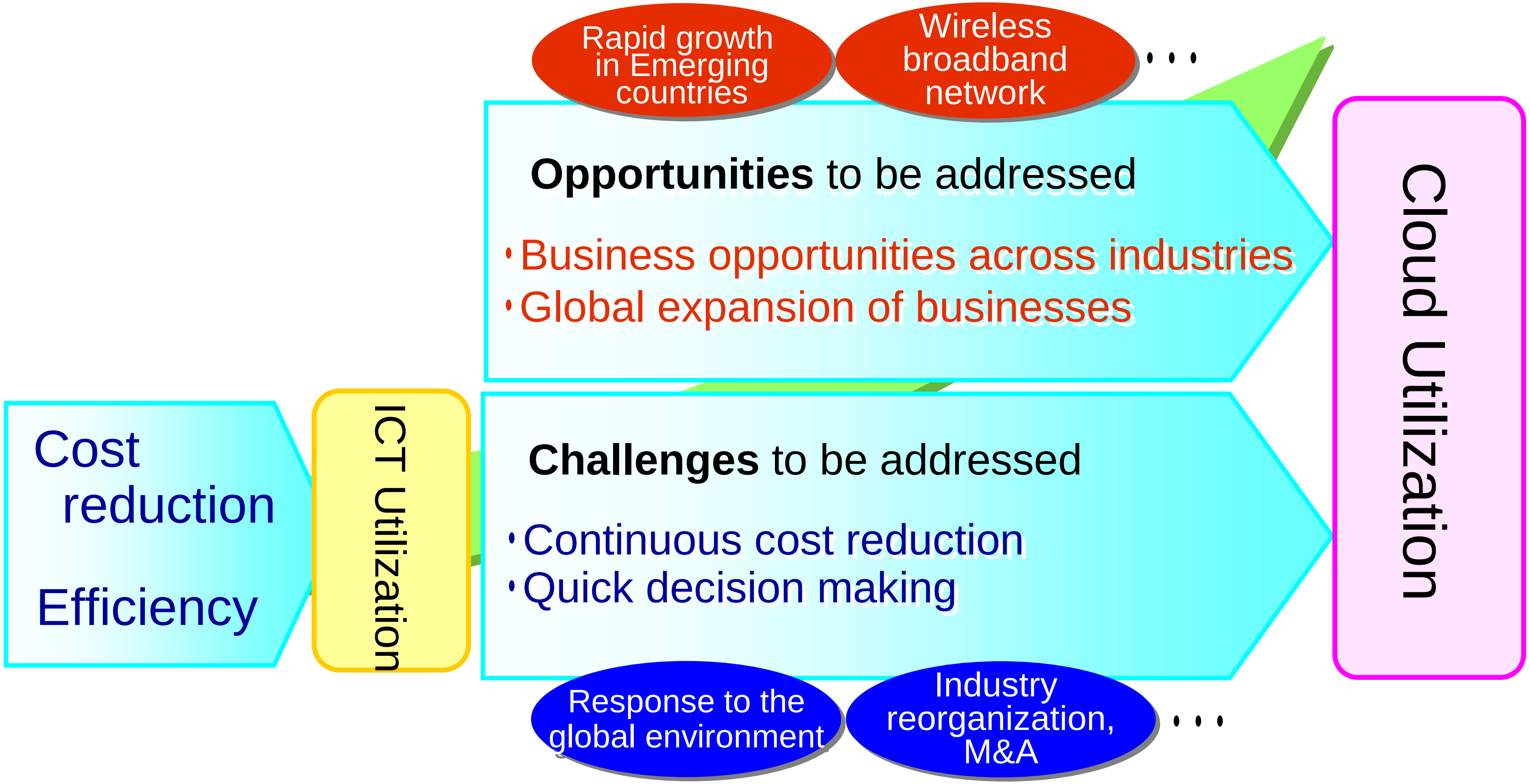
Changing Market Environment

- Shifting from ICT to Cloud to adapt to rapid environment changes
- Developing new global businesses using Cloud



Rapid growth in Emerging countries

Wireless broadband network

・・・

Opportunities to be addressed

- Business opportunities across industries
- Global expansion of businesses

Cost reduction

Efficiency

ICT Utilization

Challenges to be addressed

- Continuous cost reduction
- Quick decision making

Cloud Utilization

Response to the global environment

Industry reorganization, M&A

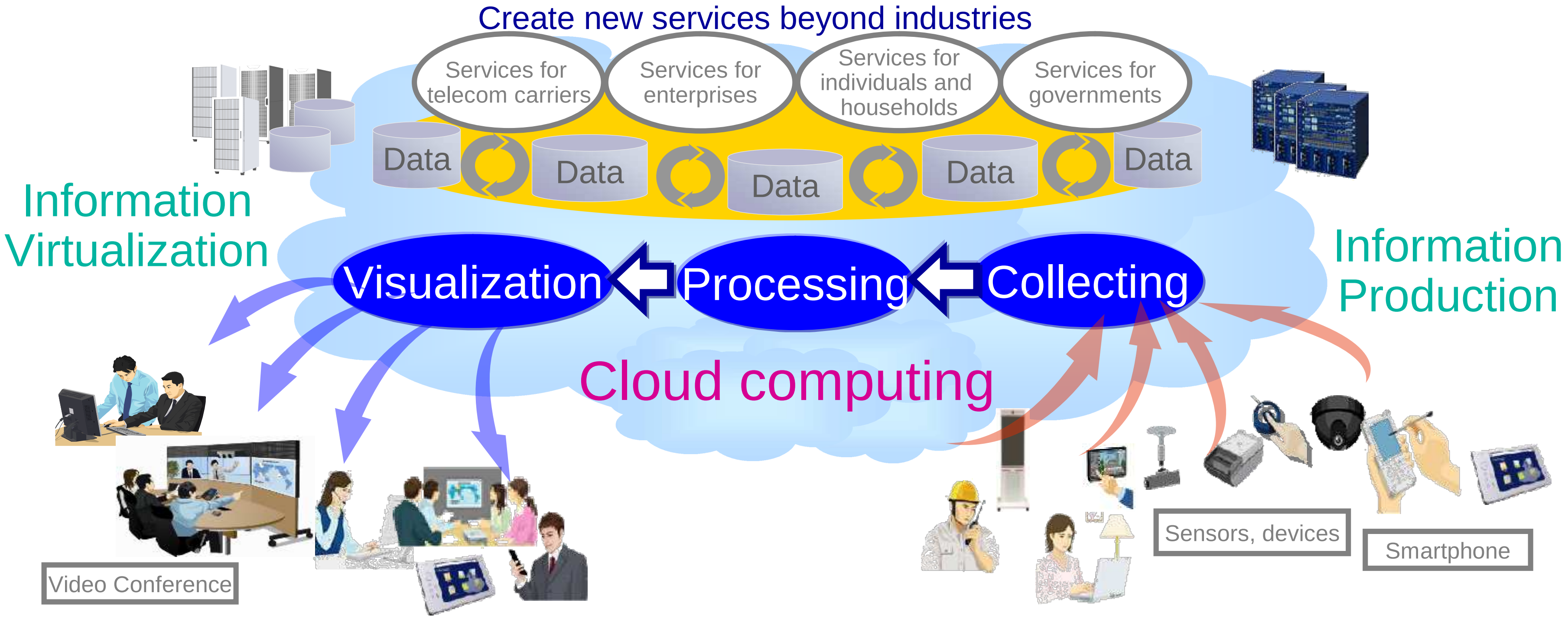
・・・

Increasing the Roles of Platform in Cloud Era

- Bursty increase of data processing in cloud computing due to all information become electronics data.

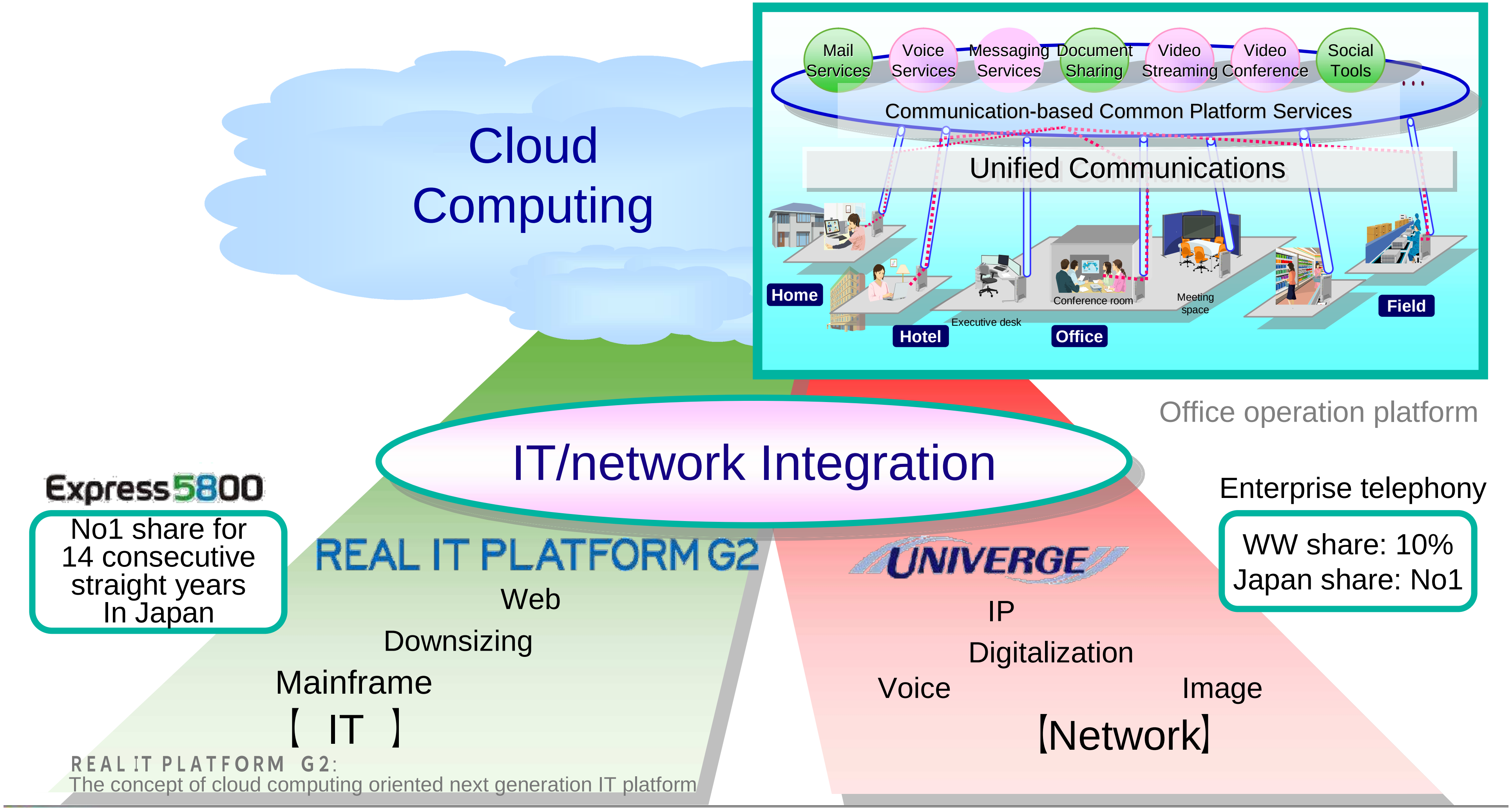
➔ Needs for collecting, processing and visualization of information will continue increasing dramatically

➔ Create new services by utilizing analyzed data among various industries


Create new services beyond industries
Services for telecom carriers
Services for enterprises
Services for individuals and households
Services for governments
Data
Data
Data
Data
Data
Information Virtualization
Visualization
Processing
Collecting
Information Production
Cloud computing
Video Conference
Sensors, devices
Smartphone

Strengths and the Future of Platform Business

Realize Cloud Computing and Unified Communications by integrating IT/network technologies and knowhow



Cloud Computing

Mail Services
Voice Services
Messaging Services
Document Sharing
Video Streaming
Video Conference
Social Tools
…

Communication-based Common Platform Services

Unified Communications

Office operation platform

IT/network Integration

Express5800

No1 share for 14 consecutive straight years In Japan

REAL IT PLATFORM G2

Web

Downsizing

Mainframe

【 IT 】

REAL IT PLATFORM G2:
The concept of cloud computing oriented next generation IT platform

UNIVERGE

IP

Digitalization

Voice

Image

【Network】

Enterprise telephony

WW share: 10%
Japan share: No1

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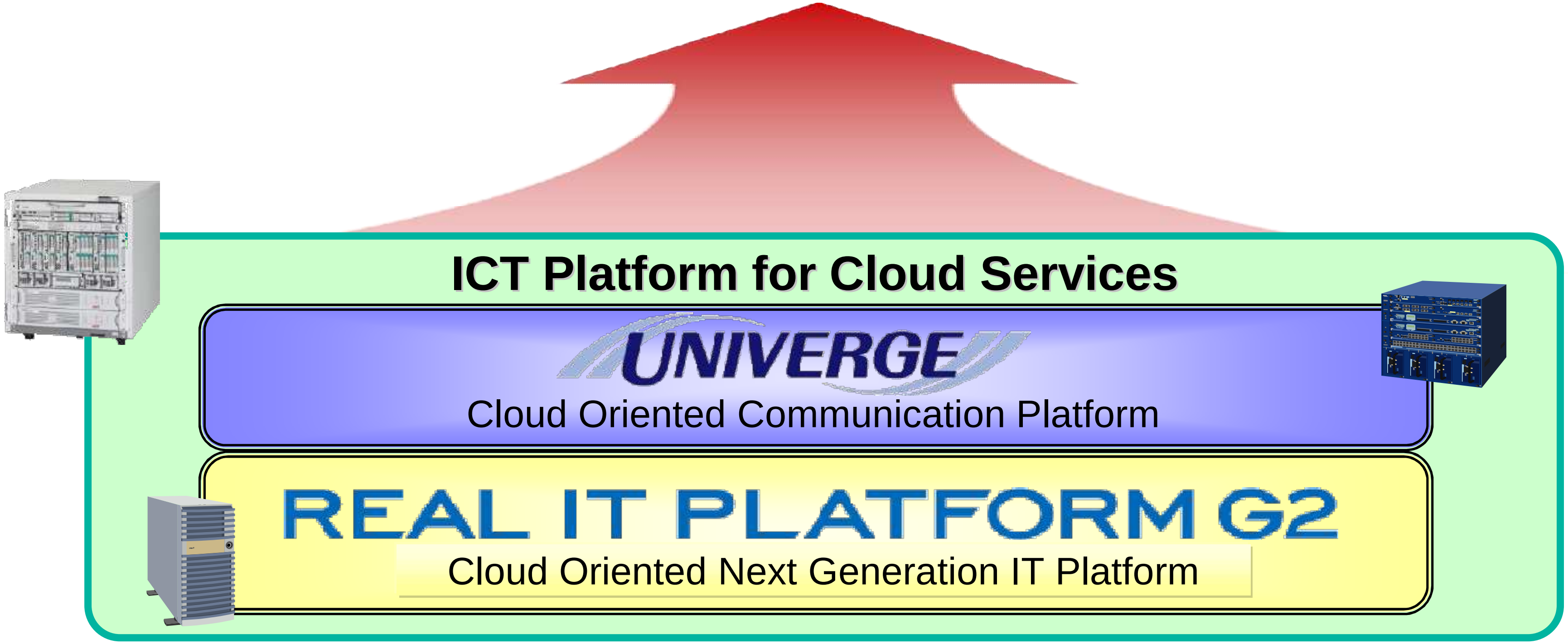
Platform Business Vision

ICT Platform Global Provider
to realize an information society friendly
to humans and the earth



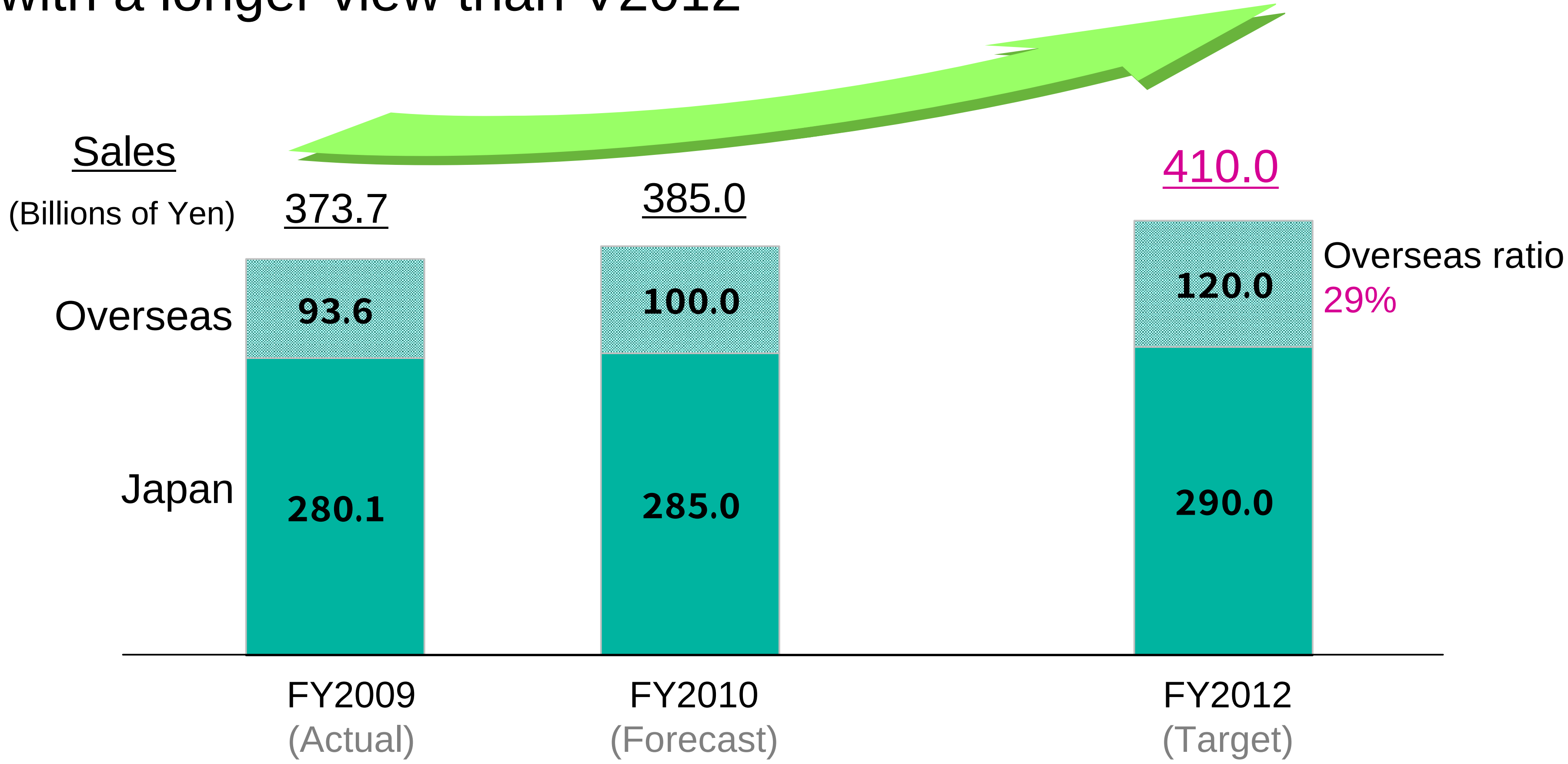
ICT Platform for Cloud Services

UNIVERGE
Cloud Oriented Communication Platform

REAL IT PLATFORM G2
Cloud Oriented Next Generation IT Platform

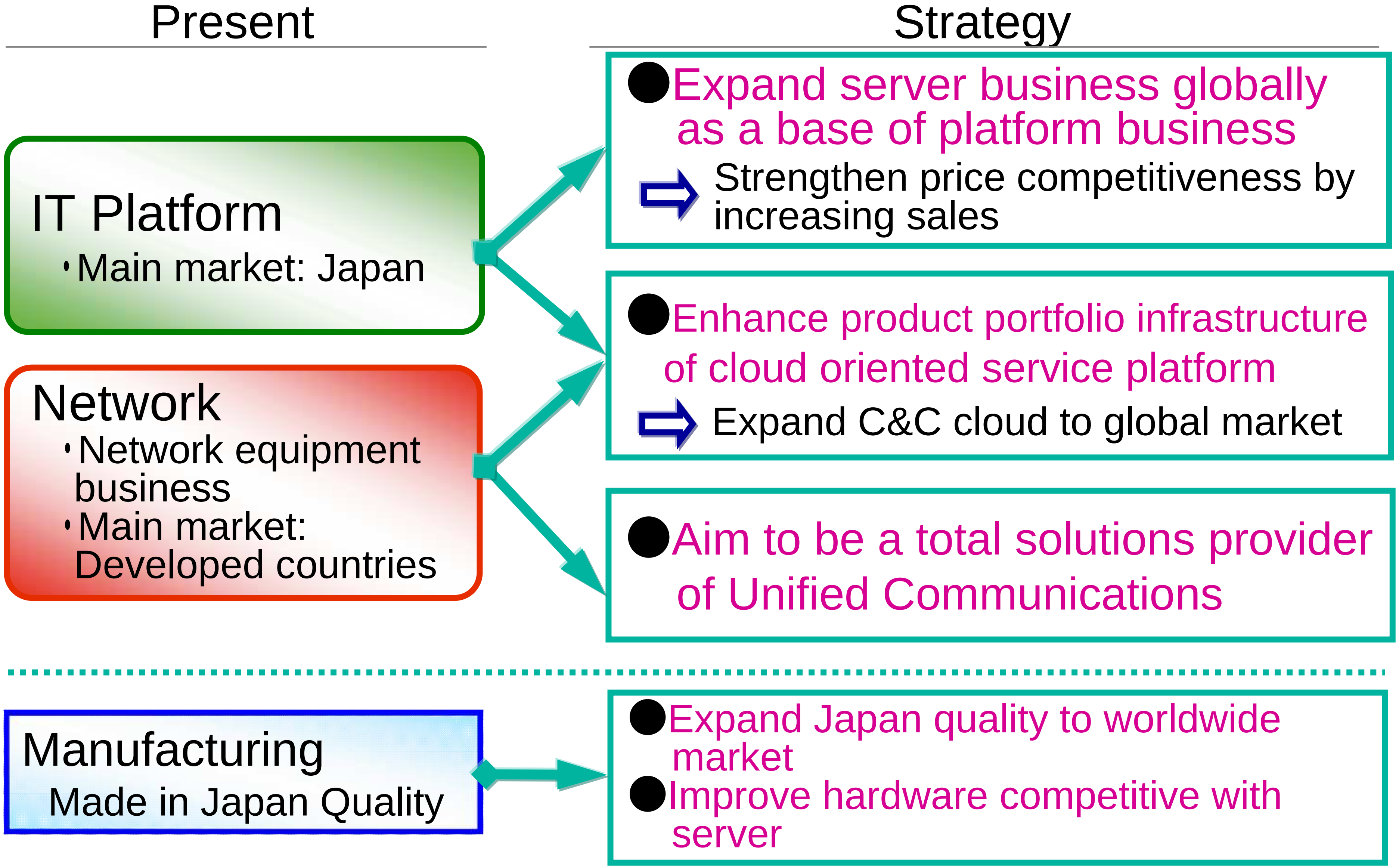
Mid-term Plan (V2012)

- Keep increasing sales after FY2009
- Aim for our goal (sales: 410 billion Yen, overseas ratio: 29%) with a longer view than V2012



※Forecast is as of 9th February, 2011

New Platform Business Strategy for Global Market



Present

Strategy

IT Platform
- Main market: Japan

Network
- Network equipment business
- Main market: Developed countries

●Expand server business globally as a base of platform business

⇨ Strengthen price competitiveness by increasing sales

●Enhance product portfolio infrastructure of cloud oriented service platform

⇨ Expand C&C cloud to global market

●Aim to be a total solutions provider of Unified Communications

Manufacturing

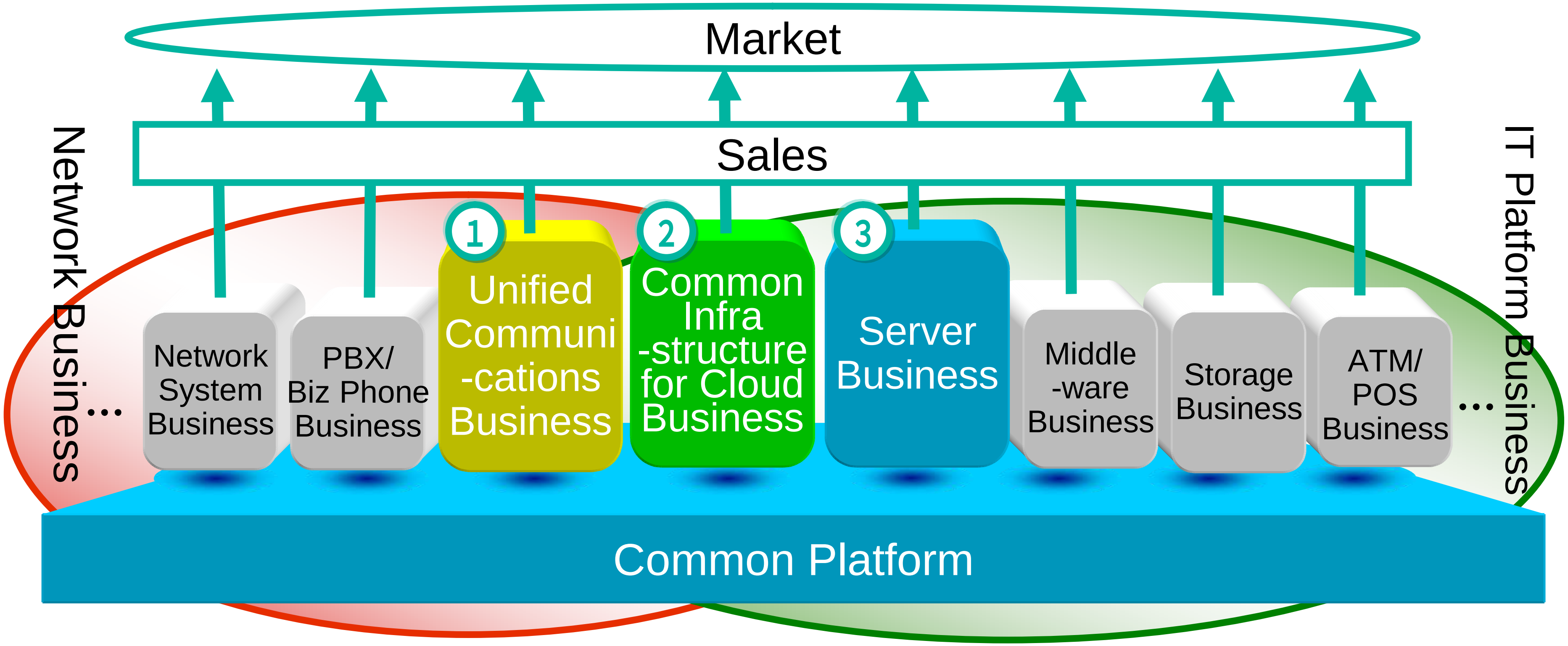
Made in Japan Quality

●Expand Japan quality to worldwide market

●Improve hardware competitive with server

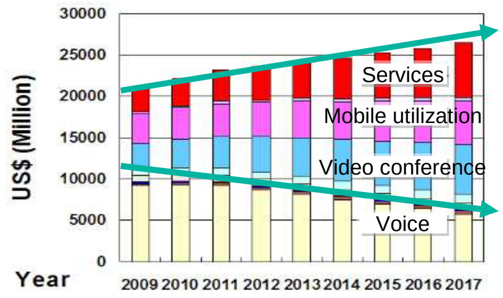
Platform Business Domain and Key Business Domain

- Develop NEC’s strengths/new technologies to IT/network integrated three businesses
  - ①Unified Communications: IT/network integrated office operation platform products
  - ②Common Infrastructure for Cloud: Cloud services supported platform products
  - ③Server: Environmentally durable server products
- IT/network ‘Common Platform’ based on server technology


Market
Sales
Network Business
IT Platform Business
…
Network System Business
PBX/ Biz Phone Business
①
Unified Communi-cations Business
②
Common Infra-structure for Cloud Business
③
Server Business
Middle-ware Business
Storage Business
ATM/ POS Business
…
Common Platform

①Unified Communications Business

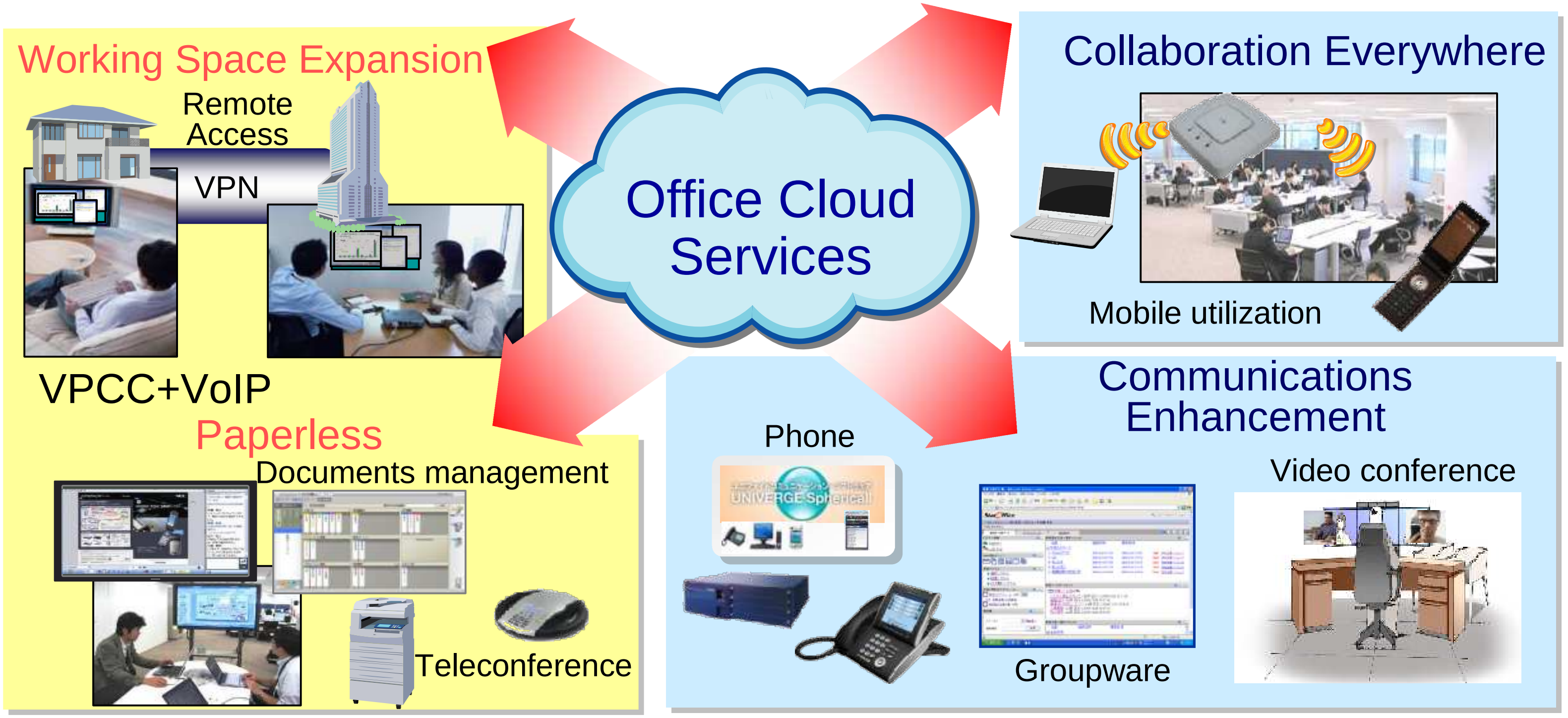
- Office environments have been changing to the new collaboration tools (integrated voice and data)
- Combine cloud services and existing office solutions to stimulate internal/external collaborations



UC WW Market NEC Forecast 2009〜2017

Working Style Renovation Concept

C&C Office ➡ When needed, whenever, and globally



Working Space Expansion
Remote Access
VPN
VPCC+VoIP
Paperless
Documents management
Teleconference
Office Cloud Services
Collaboration Everywhere
Mobile utilization
Communications Enhancement
Phone
UNIVERGE Sphericall
Groupware
Video conference

①Unified Communications Business

Expand our business by leveraging strength in IT/network integration and global sales channels

Enhance Products Competitiveness

- Cloud services of C&C Office
  - ‘UNIVERGE Live’ (Launched in September 2010)
- Utilize new devices (smartphone)
- Launch strategic products to promote IP/ unified communications in emerging countries and small and medium-sized enterprise market
  - Low-capacity communication server UNIVERGE ‘SL1000’ for emerging countries

Affordable, Efficient and
IP Enabled Solution

UNIVERGE SL1000
(Launched Jan/2011)

Strengthen Sales Channels

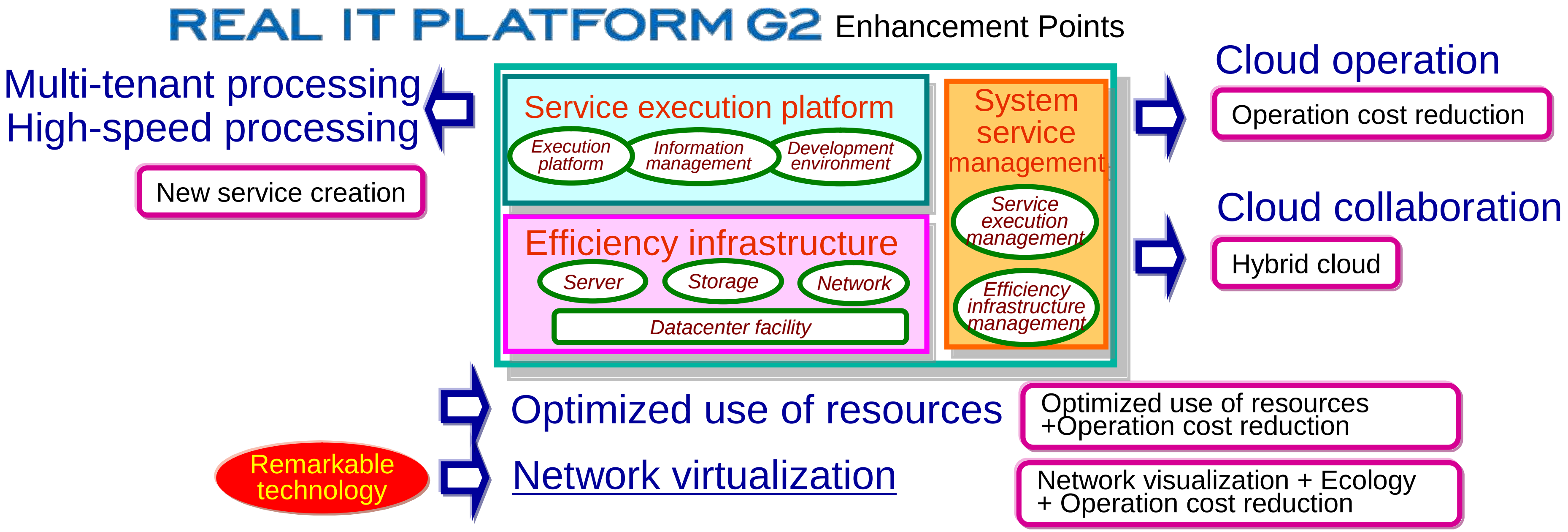
- Expand services business with partners
  - Expand UNIVERGE Live with partners’ resources
  - Offer cloud services (Swisscom hotel telephony)
- Develop solutions specific to each industry segments (ex: hotel, hospital)
  - From Japan and North America to Emerging countries

Aim to be a global top player

② ”Common Infrastructure for Cloud” Business

Cloud platform suitable for data explosion/new services creation

➔Flexible, secure and comfortable platform based on
‘REAL IT PLATFORM G2’



REAL IT PLATFORM G2 Enhancement Points

Multi-tenant processing
High-speed processing

New service creation

Service execution platform

Execution platform

Information management

Development environment

Efficiency infrastructure

Server

Storage

Network

Datacenter facility

System service management

Service execution management

Efficiency infrastructure management

Cloud operation

Operation cost reduction

Cloud collaboration

Hybrid cloud

Optimized use of resources

Optimized use of resources
+Operation cost reduction

Remarkable technology

Network virtualization

Network visualization + Ecology
+ Operation cost reduction

Common infrastructure to support existing C&C Cloud

- Basic functions of cloud-oriented datacenter platform
- Common infrastructure of enterprise/carrier/social cloud for customers

Lead the NEC’s C&C Cloud Business

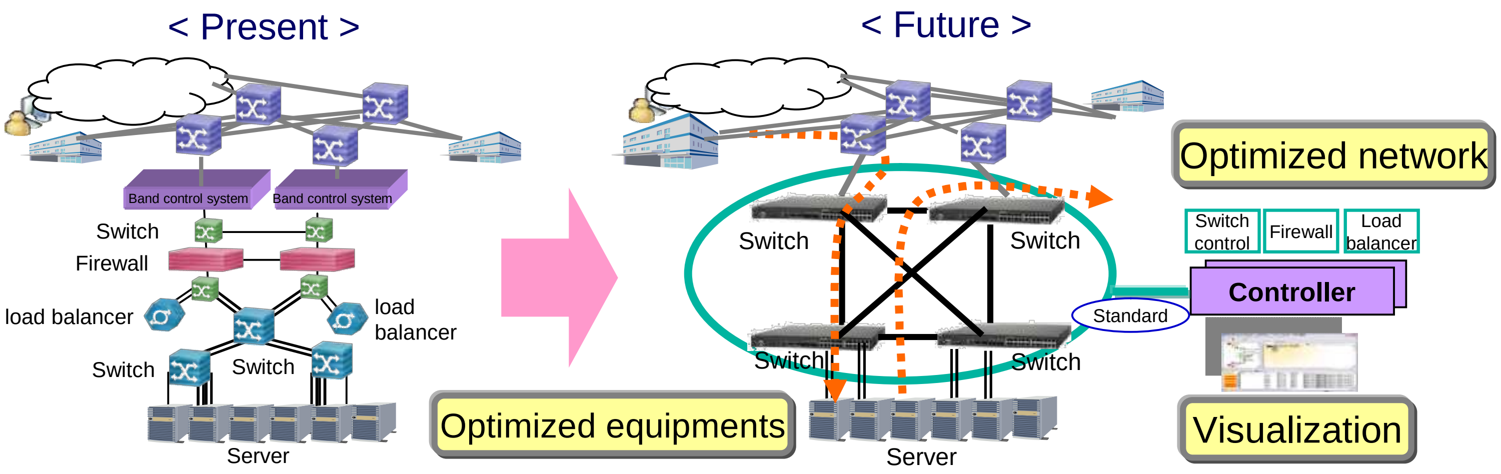
② Common Infrastructure for Cloud Business Network Virtualization Platform

Remarkable Technology

New network control technology ‘OpenFlow’

- Network control technology mainly advocated by Stanford University
- Innovate the mindset of complicated network management

  ➔Network visualization, optimized data transfer and equipments


< Present >
< Future >
Band control system
Band control system
Switch
Firewall
load balancer
load balancer
Switch
Switch
Server
Optimized equipments
Optimized network
Switch control
Firewall
Load balancer
Controller
Standard
Switch
Switch
Switch
Switch
Server
Visualization

Bring it to activate phase with advanced technology, experience and performance

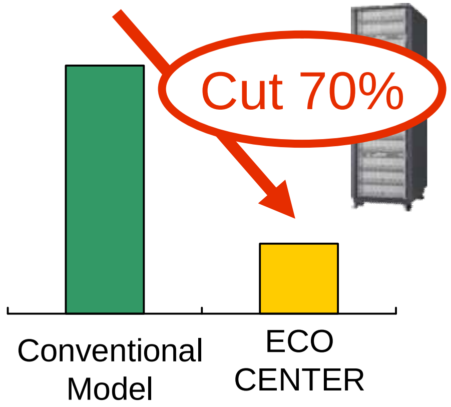
- NEC is the first company to commit to commercialize Openflow technology
- Performance of the proving evaluation in Japan/Overseas
- Release our first product for datacenter soon

③Server Business

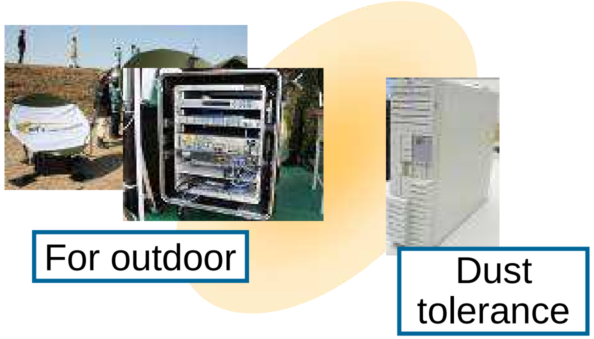
Differentiate NEC’s servers from others with high environmentally durable servers

- Low Power Consumption Servers
  - ✓ Power saving, high-density, and reduce weight
  - ✓ Use unique power saving technology and cooling technology

Maximum power consumption when mount 80 servers



- Environmentally Durable Servers
  - ✓ Indoor installation → Outside installation
  - ✓ Customized servers for plants/built-in (dust tolerance/ easy maintainability/ long-term supply)

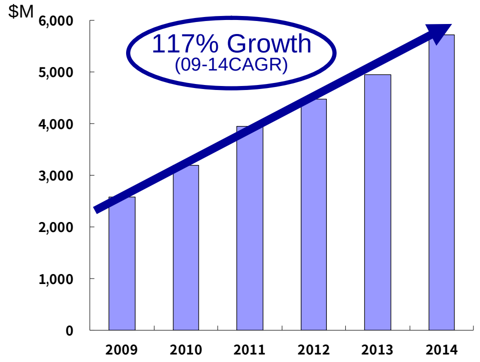


③Server Business

Expand business to global Datacenter Market

- Servers specialized for datacenter
  - Overwhelming power-saving and small-footprint
- Expand servers for C&C cloud

<Prediction: Server Demands for Worldwide Cloud Computing>



Source: IDC, Worldwide Enterprise Server Cloud Computing 2010-2014 Forecast, April 2010, #223118

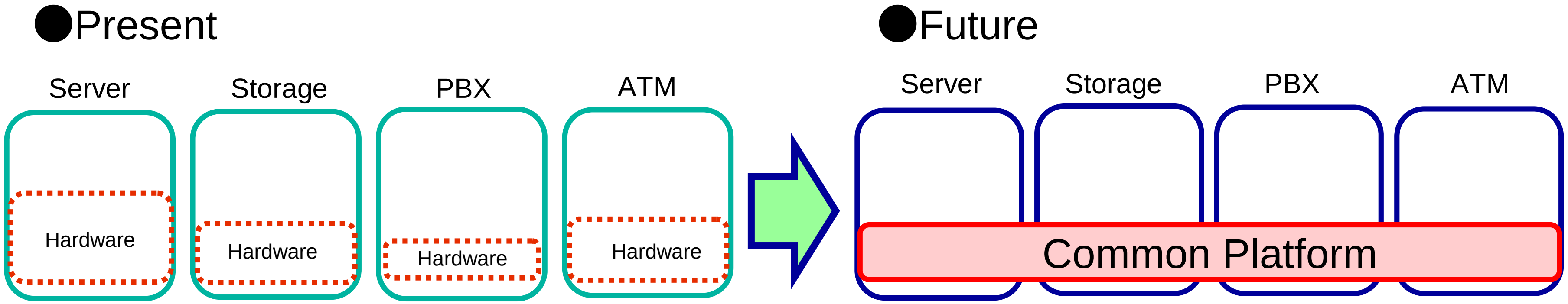
Leverage sales channels with network business

- Utilize global sales channels of our network business to expand server sales
- Develop new channels in emerging countries

Aim to be a global provider

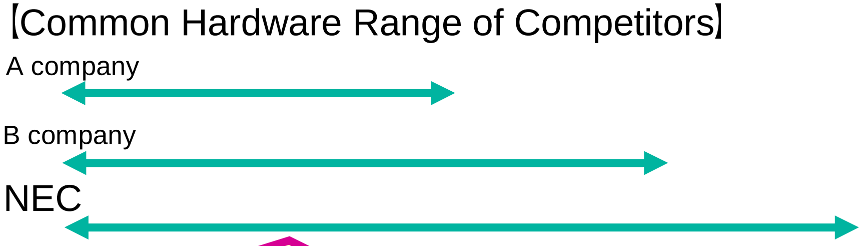
< Common Measure >
Enhance Competitive Hardware by Common Platform

Server based common platform across the product line
➔ Provide the latest technology at a low price


●Present
Server
Storage
PBX
ATM
Hardware
Hardware
Hardware
Hardware
●Future
Server
Storage
PBX
ATM
Common Platform

<Advantages>

- Early introduction of latest technology (environment, virtualization, high-reliability, high-availability)
- Provide special purpose hardware at a low price
- Reduce development/production/ maintenance cost


【Common Hardware Range of Competitors】
A company
B company
NEC

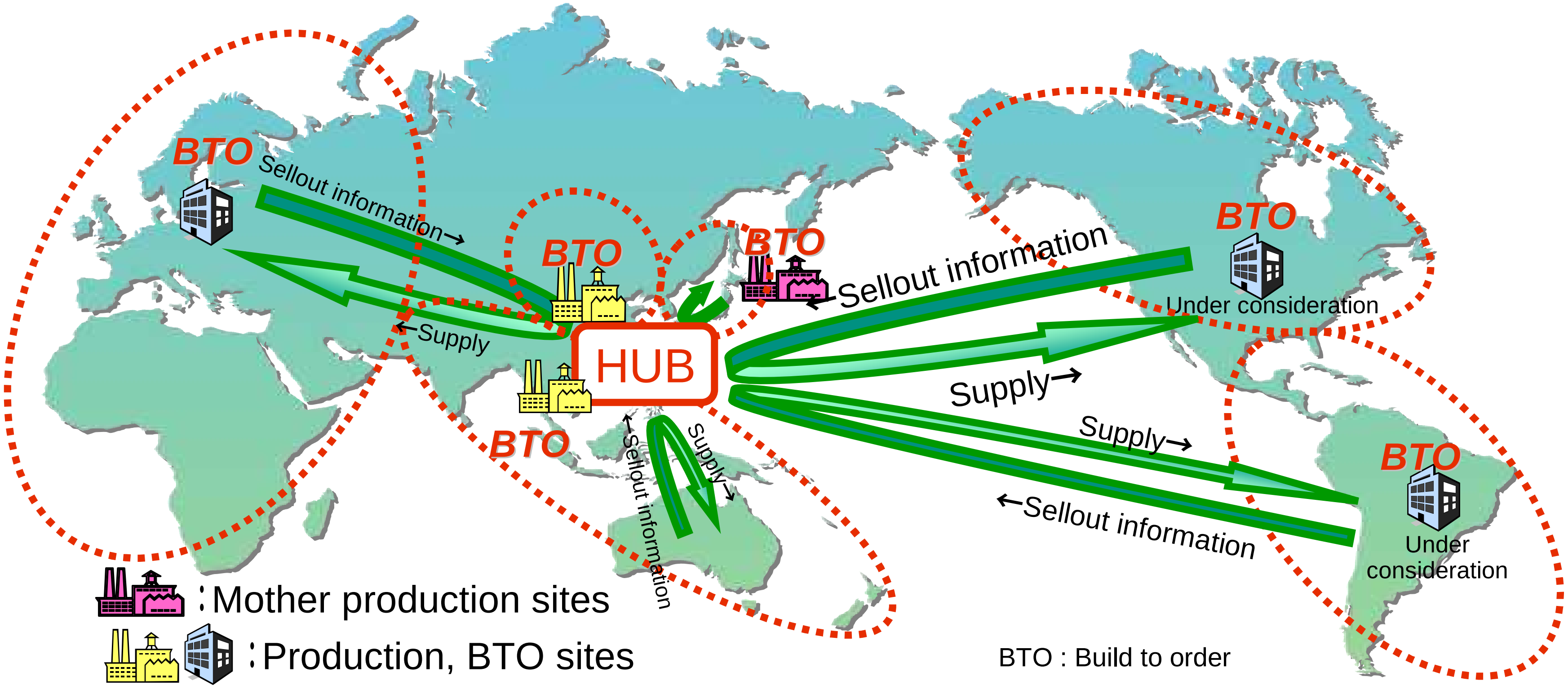
Only NEC can enhance hardware with common platform from server to storage, network and other complex devices

< Common Measure >

Global Supply Chain Management

Timely and stable supply to the global market

- Consolidate sellout information to the HUB and control inventories appropriately
- Put together flexibly in consuming areas

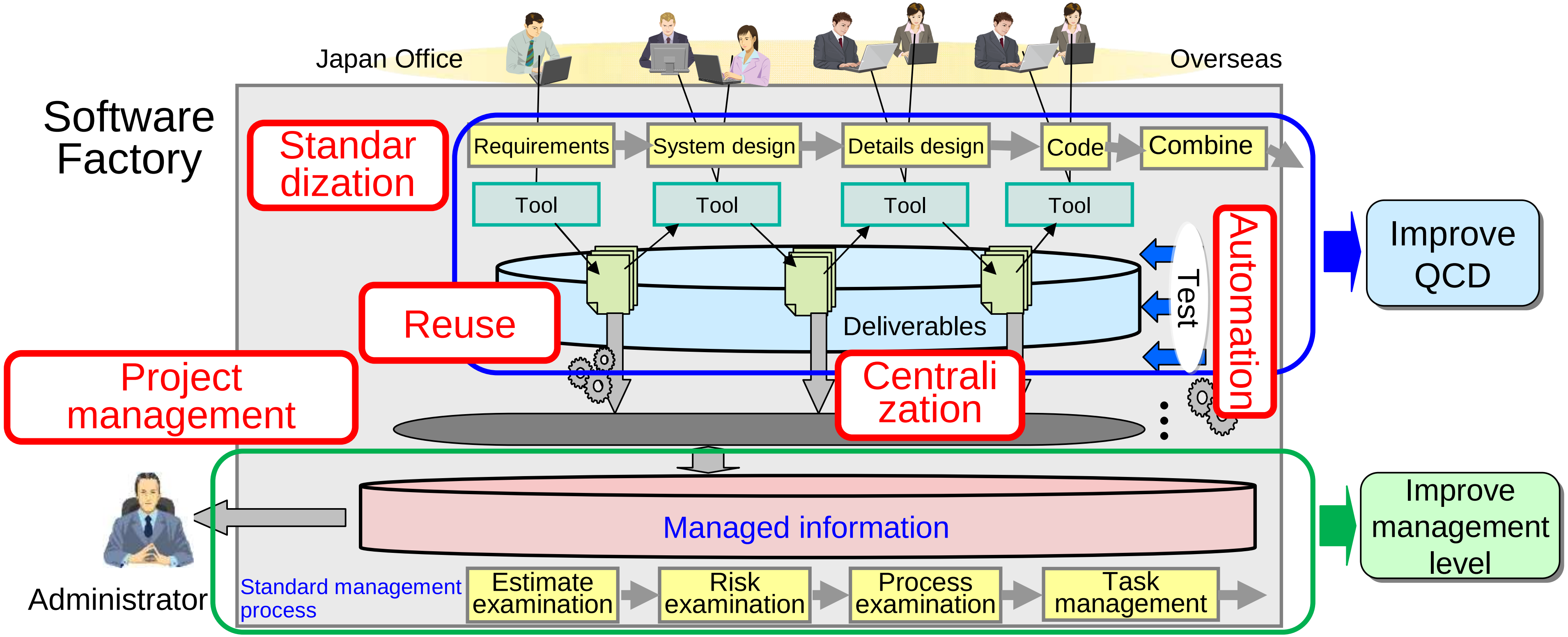

BTO
Sellout information→
←Supply
BTO
BTO
HUB
Sellout information
Supply→
BTO
Under consideration
BTO
←Sellout information
Supply→
Supply→
←Sellout information
BTO
Under consideration
:Mother production sites
:Production, BTO sites
BTO : Build to order

< Common Measure >
Software Productivity Improving Plan

- Standardize high quality software development method accumulated more than 20 years of experiences
- Establish Software Factory to realize high quality/ productivity software including overseas

ソフトウェア
品質会計
NECの高品質ソフトウェア開発を
支える品質保証技術

Published in 6/2010


Software Factory
Japan Office
Overseas
Standardization
Requirements
System design
Details design
Code
Combine
Tool
Tool
Tool
Tool
Deliverables
Test
Automation
Reuse
Centralization
Project management
Improve QCD
Managed information
Administrator
Standard management process
Estimate examination
Risk examination
Process examination
Task management
Improve management level

1. Business Overview

2. Market Trends and Business Opportunities

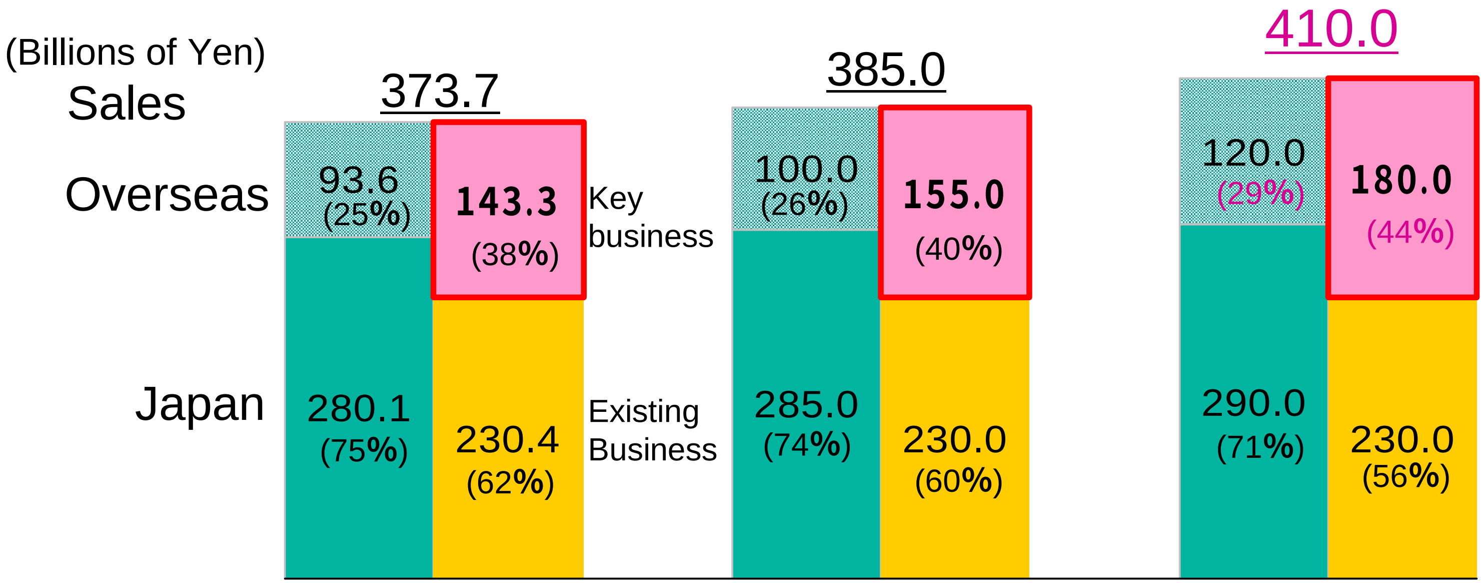
3. Platform Business Growth Strategies

4. Towards Achieving ‘V2012’

Sales Plan

Our goal:

410 billion yen in sales (operating profit margin 5%) by FY2012



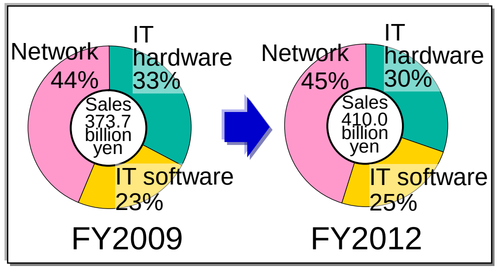
CAGR
(FY09-12)
Total 103%

- Key business 108%
- Existing business 100%

- Overseas 109%
- Japan 101%

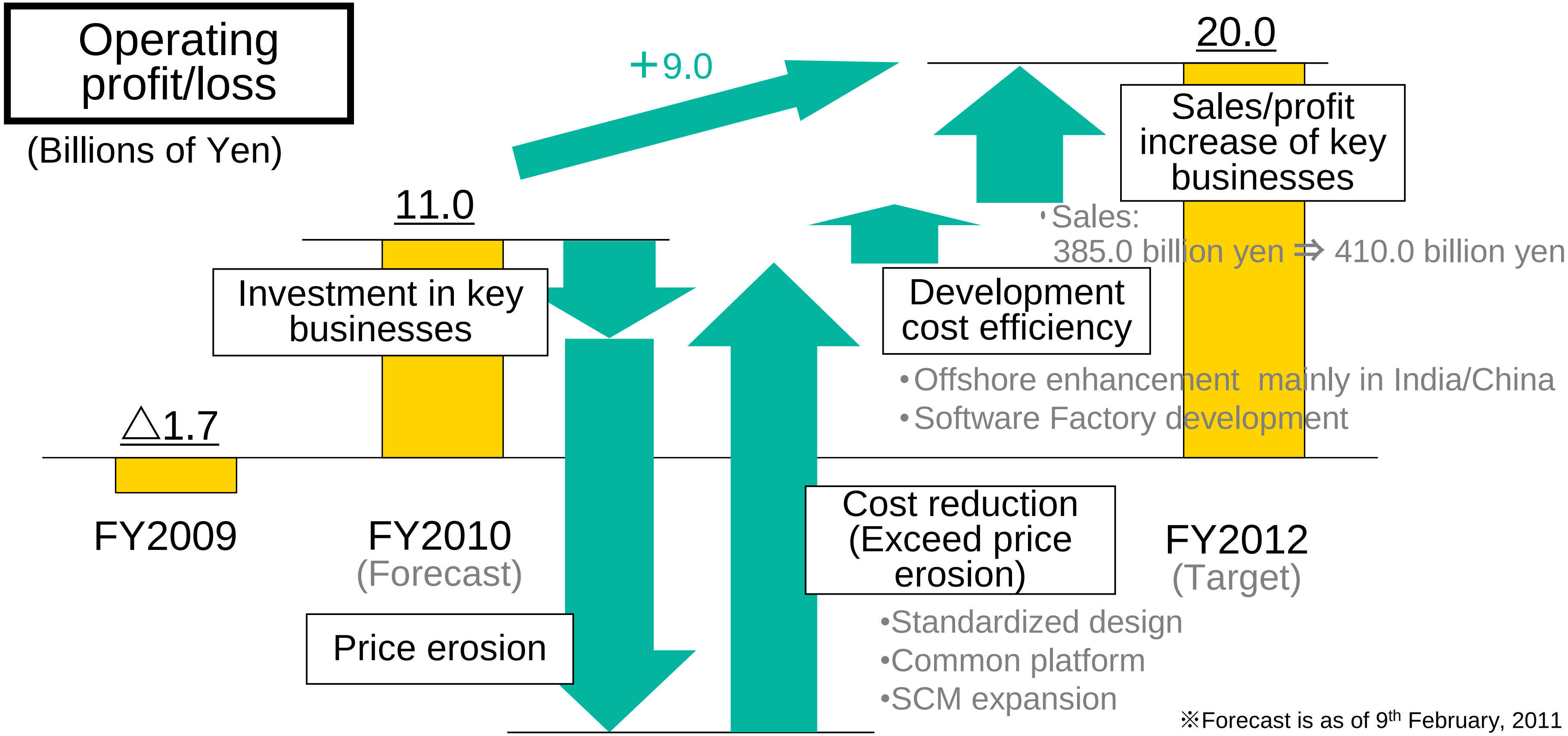
Operating Profit/Loss (Operating Profit Margin)	▲1.7	11.0 3%	20.0 5%
	FY2009 (Actual)	FY2010 (Forecast)	FY2012 (Plan)

※Forecast is as of 9th February, 2011



Efforts for Improving Profitability

- Reduce cost by standardization/overseas utilization
- Focus investment on key businesses and promote efficiency



- Sales:
  385.0 billion yen ⇒ 410.0 billion yen

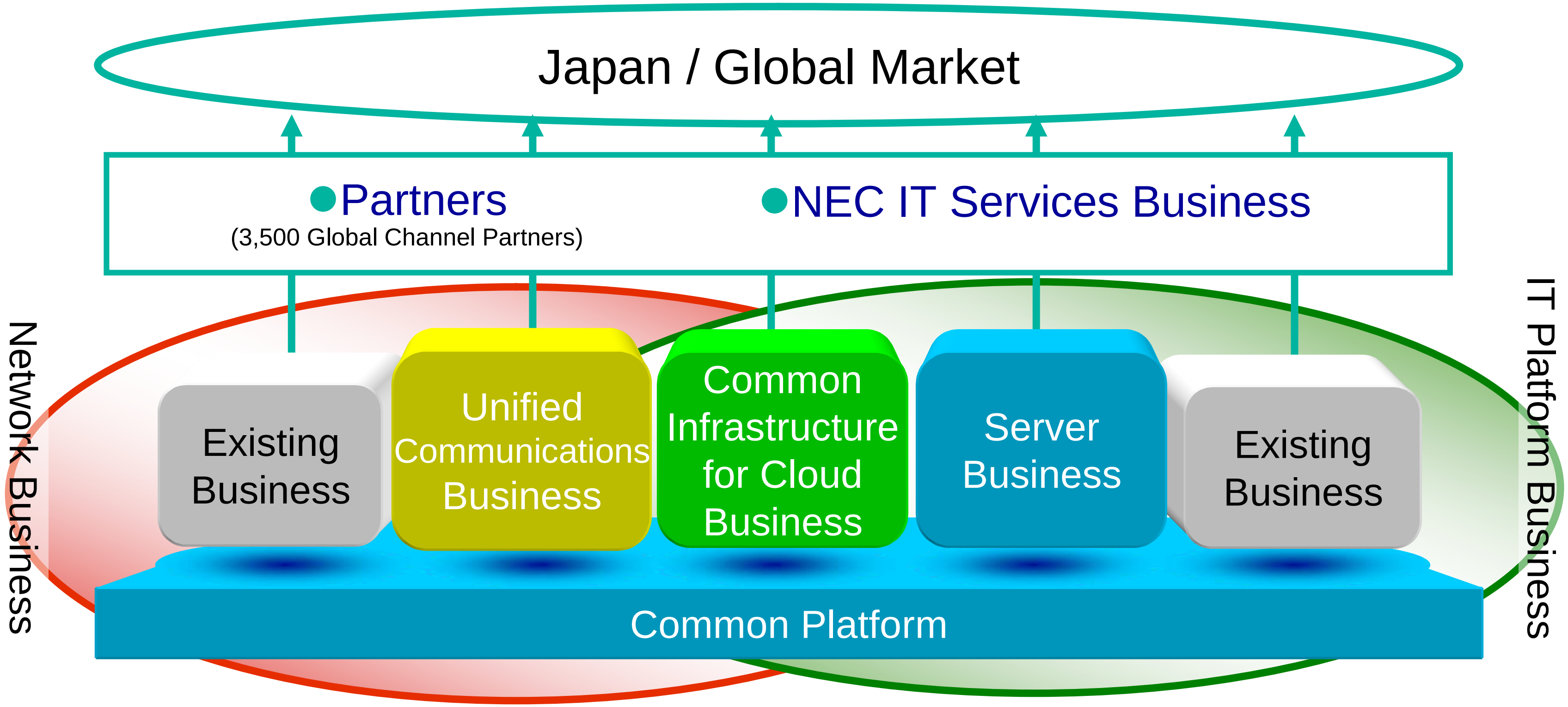
- Offshore enhancement mainly in India/China
- Software Factory development

- Standardized design
- Common platform
- SCM expansion

※Forecast is as of 9th February, 2011

Towards Achieving ‘V2012’

- Improve our business structure to secure profit steadily
- Leverage IT/network assets to expand global business



Japan / Global Market

●Partners
(3,500 Global Channel Partners)

●NEC IT Services Business

Network Business

Existing Business

Unified Communications Business

Common Infrastructure for Cloud Business

Server Business

Existing Business

IT Platform Business

Common Platform

Empowered by Innovation

NEC

Abbreviations

- ATM : Automated Teller Machine
- BTO : Build to Order
- C&C : Computer & Communication
- C/S : Client-Server
- DAS : Direct Attached Storage
- DB : Database
- HW : Hardware
- ICT : Information and Communications Technology
- LAN : Local Area Network
- MFA : Mainframe Alternative
- NW : Network
- OEM : Original Equipment Manufacturing
- OLTP : Online Transaction Processing
- OMCS : Open Mission Critical System
- PBX : Private Branch eXchange
- PF : Platform
- POS : Point of sale system
- PSA : Parallel Stream Architecture
- RAID : Redundant Array of Independent (Inexpensive) Disks
- SaaS : Software as a Service
- SAN : Storage Area Network
- SCM : Supply Chain Management
- SI : System Integration
- SL : Solution
- SW : Software
- UC : Unified Communications
- VoIP : Voice over IP
- VPCC : VirtualPCCenter
- VPN : Virtual Private Network
- WAN : Wide Area Network

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