

**Earnings Presentation Q&A for the First Quarter of Fiscal Year Ending March 2013**

Date/Time: July 31, 2012 18:00-18:50  
Location: NEC Headquarters, Tokyo  
Presenters: Isamu Kawashima, Associate Senior Vice President and CFO

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**Questioner A**

*Q. The Carrier Network segment has performed well in Japan. How sustainable is this performance? What are your prospects for sustaining this strong performance throughout the year?*

A. The Carrier Network segment posted growth of 11% in sales year on year. This reflected strong sales to telecom operators in Japan. In the second quarter, the Carrier Network segment will start to benefit monetarily from the acquisition of the Convergys BSS business. Healthy demand for submarine cable systems should also make an additional contribution to sales. Besides the continuing strong performance in Japan, major overseas projects will also contribute to the top line. As a result, we believe that the Carrier Network segment is on track to achieving full-year sales growth of 15%.

*Q. NEC has planned strategic investments of 20 billion yen for the fiscal year ending March 31, 2013. How much of these investments were executed in the first quarter, and on what kinds of projects?*

A. Of the 20 billion yen, we used around 1 billion yen in the first quarter. These were used mainly to strengthen the energy and overseas businesses, and utilize NEC's assets to develop new businesses. Also, we have commenced activities corresponding to investment of 10 billion yen. We will decide whether to use the remaining 10 billion yen after carefully assessing conditions in the first half.

*Q. Does that mean you will make strategic investments of 9 billion yen in the second quarter?*

A. Yes.

*Q. What monetary impact will the integration of the Convergys BSS business have in the second quarter?*

A. Amortization of goodwill will start in the second quarter. Also, the Convergys BSS business will be integrated into Netcracker Technology Corp. of the U.S. We expect to incur information system integration costs and other expenses, which are projected to total a few billion yen.

**Questioner B**

*Q. In the Carrier Network segment, first-quarter operating income exceeded the Company's budget by 5 billion yen. However, NEC has maintained its forecasts for the first half. This means that NEC is projecting a decline in second-quarter operating income year on year. Is that because NEC expects to incur costs of some sort that were not booked in the previous fiscal year? Besides the impact of the Convergys BSS business mentioned earlier, do you expect any other factors, such as a worsening product mix, to negatively impact profitability in year-on-year terms?*

- A. In the second quarter, the Carrier Network segment expects to incur integration costs related to the Convergys BSS business. However, we do not necessarily expect other aspects to clearly deteriorate. Besides the Company-wide strategic investments planned for the future, we expect to make outlays for development and upfront investments in the Carrier Network segment. In broad terms, we have not revised our forecasts to reflect the higher-than-anticipated performance in the first quarter. In this respect, we believe that the current forecast is somewhat conservative.
- Q. *Can I correctly assume that the IT Services business performed as budget? What factors will drive improvements in the second quarter?*
- A. The IT Services business performed almost in line in the first quarter. Sales in the IT Services business for the first quarter rose 5% year on year, with sales growth to the telecom and manufacturing sectors increasing by over 10%. We expect to maintain a solid performance in the IT Services business going forward.
- Q. *In the Personal Solutions segment, mobile terminals posted a loss in the first quarter, but should return to a profit in the second quarter, breaking even for the first half. What changes have taken place in the mobile terminals business in terms of business conditions in Japan and overseas, including trends in mobile terminal shipments?*
- A. We have not changed our first-half forecast of mobile terminal shipments of 2 million units. We achieved mobile terminal shipments of 0.8 million units in the first quarter, and are projecting mobile terminal shipments of 1.2 million units in the second quarter. One major factor behind the increase in mobile terminal shipments from the first to second quarter is the launch of a new model in Japan. In July, we launched the N-07D in Japan, which has made a favorable start. Some portion for overseas were pushed back from the first quarter to second quarter. Efforts are under way to restore profitability. In fact, we have gradually started to see restructuring effects emerge in the second quarter. (We are assuming an overseas sales ratio for mobile terminals of 35% relative to first-quarter mobile terminal shipments of 0.8 million units, and 35% for the first-half shipments forecast of 2 million units.)
- Q. *Could you please explain your policies on Renesas Electronics? Will NEC join forces with other shareholders to provide support, as reported in the news media? Thus far, NEC has said that it will not invest in Renesas Electronics. Has your thinking changed? Recent events have once again highlighted the fact that Renesas Electronics accounts for a high proportion of NEC's pension assets. How will NEC address future increases in pension underfunded? Although this is not an issue that can be resolved quickly, could you please explain your strategies and approaches?*
- A. We will continue to support Renesas Electronics as a key business partner, just as we have done before. Our support is neither an investment nor a bailout. NEC purchases semiconductors from Renesas Electronics. These semiconductors are embedded into some of NEC's systems and equipments. By providing a fund to ensure the supply of these semiconductors, NEC aims to have Renesas maintain a stable supply of semiconductors by executing stable operations. Our approach is to provide this sort of business support.
- NEC has contributed the majority of its shares of Renesas Electronics to a retirement benefit trust. If Renesas turns its business performance around by implementing restructuring with the support of NEC, this will have a positive impact on the retirement benefit trust.

*Q. Is the fund a prepayment or loan? How will you recover these funds?*

A. It is a fund provided to ensure that Renesas Electronics can maintain a stable supply of semiconductors to NEC. We intend to have Renesas Electronics use these funds to implement restructuring, which should lead to a stable supply of semiconductors. We will make an agreement stipulating detailed conditions with Renesas Electronics. NEC has already clarified the repayment conditions, including a repayment deadline.

### **Questioner C**

*Q. Could you please provide a breakdown of the factors behind the higher-than-budget results? I believe that first-quarter operating income was about 15 to 16 billion yen higher than budget. Please provide a clearer explanation of the factors behind this result, with reference to segment performance and eliminations/unclassifiable expenses, as well as any cost savings from urgent initiatives.*

A. Operating income in the Carrier Network segment was just over 5 billion yen higher than budget. The main factor was a solid performance in Japan, despite a slight decrease in overseas due to sluggish sales in PASOLINK. The Personal Solutions segment posted a smaller operating loss than budget partly due to cost cutting, despite lower mobile terminal shipments. Although we had set a conservative outlook for sales, profitability including PCs and others was around 4 billion yen better than budget. Eliminations/unclassifiable expenses improved by around 4-5 billion yen from our budget. We had allocated around half of this amount to strategic investments to be executed from the first quarter. However, this amount has been pushed back to the second quarter without being used, leading to a 1-2 billion yen improvement. We did not use our budget for other expenses, such as corporate staff and promotion expenses, although we may have set a conservative budget in these areas. All together, the improvement was around 13-14 billion yen. In reality, we believe that the Carrier Network segment will continue to improve, whereas the Personal Solutions segment must be watched carefully for some more time as the improvement in the first quarter largely reflected a conservative budget. Eliminations/unclassifiable expenses were also conservative in certain respects. Although around half of the expenses had been brought forward or was not used, we believe that the remaining half has improved in real terms.

*Q. NEC plans to reduce its headcount by 10,000 by the end of September. What progress has NEC made on the headcount reduction? I believe that urgent initiatives have taken a toll on salaries as well. Could you please outline your current progress with restructuring measures, and also go over how the benefits of the headcount and salary reductions will become apparent?*

A. Today is the application deadline for early retirement program at NEC Corporation. At certain group companies, the program will take until around mid-August. However, judging from various sources of information, headcount reductions are progressing largely on schedule.

We achieved savings of 6 billion yen as a result of urgent initiatives. These savings were largely generated by salary reductions. We have reduced the salaries of employees from April, and have started to reap benefits from reducing the use of contract workers.

*Q. I believe that the headcount reduction of 10,000 will consist of half based overseas and*

*half based in Japan. Do you expect the reduction in employees to increase slightly?*

- A. Actually, half of the headcount reductions will come from external human resources, with the remaining half coming from employees. In terms of employees, we have already cut 3,000 jobs overseas, and expect to cut 2,000 jobs in Japan. We do not expect any major changes to the headcount reduction of 2,000 in Japan. We also plan to reduce external human resources by the end of the first half.
- Q. *In terms of business conditions, I have understood that demand for carrier networks in Japan should remain firm for the time being. Conditions in the IT business are stable at present. What are your future plans in each business sector? I am concerned about challenging conditions in the second half. What changes can be expected from the first to second half, including orders?*
- A. In the IT Services business, orders increased by about 5% in the first quarter year on year. Orders from the telecom, distribution and service sectors were fairly strong. We have to watch the situation a little longer to see if this trend will continue into the second half. However, we expect to maintain a steady performance in the first half.
- Q. *NEC has said that it will aim to achieve its initial forecasts for the first half at the very least, while seeking to outperform those forecasts. What is the maximum upside potential in terms of performance?*
- A. Our official stance is that we will aim for our initial forecasts, while seeking to outperform them as much as possible. We need to size up the situation a little more before we change our stance. One key point is that half of our business performance in the first quarter improved in real terms, while the rest reflected timing differences.

#### **Questioner D**

- Q. *Could you please share any positive developments in Carrier Network segment, such as the winning of long-term orders?*
- A. We do not necessarily have large, steady orders lined up. Based on the current growth in network traffic, we believe that we can sustain our momentum in this segment to a certain extent.
- Q. *The mobile terminals business has continued to face challenging conditions. From the standpoint of the markets, some may ask why NEC does not exit this business. Do you have any particular criteria for making major decisions like selling or exiting the mobile terminals business?*
- A. We have positioned mobile terminals as cloud-based devices, and must consider how to incorporate these devices in order to set our businesses apart. We believe that this is not a matter to be decided based solely on losses or other such quantitative criteria. We will continue to consider our course of action.