

January 29, 2015

Earnings Presentation Q&A for Q3, Fiscal Year Ending March 2015

Date/Time: January 29, 2015 18:00-18:50 JST

Location: NEC Headquarters, Tokyo

Presenter: Isamu Kawashima, Senior Vice President and CFO

Questioner A

Q. Operating loss was recorded for Q3 in Others. Why is the segment unprofitable even after the business restructuring? Does its profitability get better looking forward?

A. There are two loss making businesses in Others: energy and international businesses. In energy business, NEC Energy Solutions recorded loss but aims to attain break even around next fiscal year. In the international business, we recorded loss from making necessary investments in Global Safety Division.

Q. In Telecom Carrier, operating income declined due to SDN (software-defined networking)-related prior investments. What is the nature of the prior investments?

A. Currently, there are around 20 SDN related projects with where we are working with telecom operators globally. NEC is making prior investments necessary to close the projects in success.

Q. Are there any notable items in Telecom Carrier in addition to SDN related prior investments?

A. Q3 results for Telecom Carrier were somewhat lower than expected due mainly to the following 2 factors. First, there was a delay in installation of PASOLINK in the international market. Second, there was a delay in a base station related project for a mobile operator in Japan, where we expect to pick up in Q4.

Questioner B

Q. What is the viewpoint of NEC in changing the accounting method to IFRS?

A. One of the significant differences between the Japanese GAAP and IFRS is how amortization of goodwill is depreciated. Personally, I believe that it is more appropriate to amortize goodwill yearly as M&A cost. On the other hand, I also acknowledge that IFRS is the trend many companies will follow. As explained at Q1 financials, if NEC were to apply IFRS, profits will be larger from the differences in amortization of goodwill and amortization of unrecognized obligation for pension. NEC is preparing for the application of IFRS, but we have not yet determined when we apply.

Q. Please confirm that Q3 results of Adjustment were 5.0 billion yen better than the internal forecast.

A. Yes, we confirm.

Q. Please comment on risks by segment in achieving the full year forecasts. Does the company expect a 10.0 billion yen improvement in Adjustment?

A. By segment, in Public, we expect to see stronger-than-expected sales but operating income to remain in line. The operating income forecasts include improvement in loss projects. Enterprise remains in line with forecasts, while Telecom Carrier and System Platform may lower the forecasts by 5.0 billion yen and 3.0 billion yen respectively. Others may also lower the forecasts due to lower-than-expected results in Energy business. On the other hand, we expect Adjustment to improve by 10.0 billion yen. All in all, operating income is expected to stay in line with the company forecasts.

Questioner C

Q. How does NEC view the IT market in Japan in fiscal 2015?

A. We view that the IT market will show solid growth going forward.

Q. Does the company expect the market to stagnate compared with fiscal 2014?

A. We believe that the market will show healthy growth, driven by events such as “My Number” projects. We expect the economic mindset will improve accordingly.

Q. In the U.S. market, cloud services are booming. Does the company see an influence on the IT market in Japan? Please comment on opportunities and threats of the development?

A. The cloud market is growing by 20% per year. NEC is offering hybrid cloud services, which is a combination of public cloud and private cloud. We would like to materialize our cloud business in the market.

Q. Microsoft ends support for Windows Server 2003. With it, it is expected to see cloud services to expand in the market. Please comment on how this would affect NEC’s server business.

A. We believe that while cloud services will expand, we still see sizable market for servers. NEC is providing high efficiency servers for data centers, with cooling capabilities and low power consumption.

Q. It is expected that more use of public cloud among small to medium businesses will be observed. Does NEC expect to maintain its sales with hybrid cloud while the market tends to focus more on public cloud?

A. We acknowledge that the need for public cloud is increasing. On the other hand, we provide private cloud services to our customers, and we are confident that we can serve customer needs in offering the hybrid cloud.

Questioner D

Q. In achieving the full year forecasts, how probable are the risks mentioned in each segment? In other words, did the company lay out the worst scenario?

A. The company has not changed its forecasts from the beginning of the fiscal year. In the presentation and during the QA session, we touched on some of risks in achieving the segment forecasts to indicate that the company is contemplating the possibility.

Q. Does the company plan to acknowledge tax loss carryforwards? Is there enough to compensate for consolidated and non-consolidated tax expenses?

A. It is difficult to determine before evaluating the taxable income. We expect to record notable amount in loss carryforwards related to losses by NEC Mobile Communications, Ltd. in the past. However, nothing is determined yet.

Q. Does NEC plan to keep the target for the Mid-term Management Plan 2015 into the next fiscal year? Are there changes—positive or negative—in the plan, which may not have been expected a year ago or when the plan was instituted?

A. NEC aims to achieve the target outlined in the mid-term plan. We will announce the forecasts for the next fiscal year by reviewing the up-to-date internal forecasts.

Questioner E

Q. The Japan Fair Trade Commission carried out an on-site inspection of NEC in suspicion of violating antitrust law with respect to transactions with digital firefighting emergency radio systems. The digitalization of firefighting emergency radio systems is to be completed by May 2016 according to the plan. How does the incident affect the business at NEC and the overall plan?

A. The company is cooperating fully with the Commission's inspection and refrains from commenting.

Q. Please give an update on a SDN project with Telefonica.

A. We are conducting trials with Telefonica in preparing for commercial deployment. As of today, we have not yet won a contract but the project is going well underway.

Questioner F

Q. How do the orders by segment look like for IT services in Japan?

A. Overall orders increased by 2% year on year, mainly due to an increase in public businesses. Orders for manufacturing are also increasing. On the other hand, orders for finance are decreasing slightly, and orders for telecommunication show a dip from the previous fiscal year.

Q. Please comment on strategic investments in Adjustment. In 10.0 billion yen of an expected improvement in Adjustment, does it include 5.0 billion yen from pension expenses?

A. There is no change to the company's plan in spending 15.0 billion yen for strategic investments. Although the company initially planned as Adjustment expenses, 5.0 billion yen out of total strategic spending were recorded as segment expenses in the ended 9 months, and the rest 10.0 billion yen were included in Adjustment. An expected improvement of 10.0 billion yen in Adjustment includes 5.0 billion yen from strategic spending that were recorded as segment expenses, and 5.0 billion yen from actuarial differences in amortization of pension expenses.

Q. It was mentioned that NEC Energy Solutions recorded operating loss with prior investments. Does it indicate an impact from foreign exchanges?

A. No, the primary factor of operating loss is the investments spent to start up the business.

Questioner G

Q. On the balance sheets, there is a noticeable improvement in foreign currency translation adjustment. Please comment on owner's equity ratio in consideration with improved balance sheets in the yen depreciated market.

A. As pointed out, there is an improvement in foreign currency translation adjustment. However, we do not believe that the adjustment will improve further. As a conclusion, we expect that owner's ratio will not change significantly, from observing valuation difference on available-for-sale securities and remeasurements of defined benefits plans.