

February 29, 2016

Q&A for Revision of Financial Forecasts for the Fiscal Year
Ending March 31, 2016

Date/Time: February 29, 2016 18:00-18:55 JST (Conference Call)

Presenter: Isamu Kawashima, Executive Vice President and CFO

Questioner A

Q. Could you please discuss the impact of unprofitable projects in the public business and the telecom carrier business on the revised forecasts?

A. Amid slow progress on projects and other conditions, we can now clearly see how NEC and its customers view these projects differently. Therefore, we have decided to allow for the necessary monetary amounts in our forecasts at this time. In the public business, unprofitable projects will have an impact of just over 5.0 billion yen. However, these projects do not fall under the Social Security and Tax Number System (“My Number”) area, where we are concentrating our efforts. In the telecom carrier business, an unprofitable project will have an impact of just over 5.0 billion yen. This involves a project to deliver one-stop network integration and maintenance services to an overseas telecom operator.

Q. Why did NEC decide to downwardly revise its forecasts at this time? Are the revised forecasts conservative? Could they still possibly be revised again in the future?

A. At our Q3 earnings announcement, we thought we could achieve our overall operating income forecast based on the strengths of each segment, even after taking into account a certain degree of risk.

We knew that our activities in Q4 would be crucial to meeting our forecasts. However, a close look at our activities at the end of January showed that there were delays in large projects in the public business, along with the cancellation or loss of several prospective projects. In the telecom carrier business, we now clearly see that capital investment by telecom operators in Japan will not reach NEC’s expectations. Combined

with some projects that were pushed back to March, we judged that it would be extremely difficult to make up for lost ground in the nine-month period ended December 31, 2015 during Q4.

Q. What is your approach to the energy business next fiscal year?

A. In the current fiscal year, we worked to expand sales by executing strategic investments. However, considering that orders for several projects have been either lost or delayed, we believe that we now need to approach projects according to current conditions. This means that we will need to examine ways of incurring expenses on a different time span than what we have envisioned until now. Furthermore, small-scale energy storage systems lost momentum when subsidies were discontinued. In light of these factors, we believe it is now imperative to implement cost-cutting and other measures.

Questioner B

Q. By redefining the business strategy of small- and large-scale energy storage systems, do you mean to say that NEC will consider discontinuing this business? If you are unable to take this action immediately, will you at least be able to reduce expenses and implement other reform measures?

A. We believe that we must fine tune how we incur expenses in this business, and we will redefine this business from this perspective. Naturally, we will also consider a minimum optimal scale. We will discuss these and other matters in the course of formulating our next mid-term management plan.

Q. Does that mean that NEC will spend the next three years redefining this business? Will you see the future direction for this business at an early stage?

A. This does not mean we will spend a lot of time redefining this business. In fact, we intend to respond appropriately as early as possible.

Q. NEC reduced its operating income forecast for the public business by 24.0 billion yen. Assuming that around 5.0 billion yen of this reduction reflects the impact of unprofitable projects, I suspect the remainder is mainly attributable to a decline in

sales. Could you please break down the difference of almost 20.0 billion yen in terms of the delay of projects into the next fiscal year and the loss or postponement of prospective projects?

A. Looking at the rough breakdown of the projected shortfall in sales in the public business, delays of projects into the next fiscal year account for just under 50% of the shortfall, while the loss or postponement of prospective projects account for just over 50%. The projects delayed into the next fiscal year will be recorded as sales next fiscal year, but we will need to continue to watch the situation closely. Although there has recently been a tendency for projects to take more time than anticipated and a variety of projects have emerged, we need to carefully gauge the time frame of each project.

Q. Have there been any changes in the structure of budgets at public institutions? Has NEC seen its share decline in any particular field?

A. We don't think this is a matter of NEC's share declining in a particular field. We have produced results by making many different project proposals. However, we have been impacted by the postponement of projects, including a major cyber security project that was pushed back to March. We don't believe the business structure has changed significantly.

Q. Why hasn't NEC revised its net income forecast?

A. NEC downwardly revised its operating income forecast by 35.0 billion yen. After deducting taxes, the net income forecast would have been reduced by around 25.0 billion yen. Meanwhile, we believe that the decrease in tax expense associated with NEC's waiver of debt to NEC Mobile Communications, Ltd. will amount to 24.0 billion yen. The net income forecast has remained unchanged because the aforementioned two factors will mostly offset one another.

Q. What is your outlook for extraordinary income/loss?

A. In terms of nine-month results, NEC has already recorded extraordinary income mainly through the sale of shares. To ensure that we are prepared for any contingency that could affect extraordinary income/loss, we are assuming that net extraordinary income/loss will be nearly zero on a full-year basis.

Q. Do the revised forecasts incorporate the impact of the reduction in the corporate tax rate?

A. Yes. We have factored in a certain degree of impact from the revised corporate tax rate into our revised forecasts.

Questioner C

Q. Could you please discuss the details of the delays of projects into the next fiscal year, as well as the loss or postponement of prospective projects?

A. The projects delayed into the next fiscal year include large projects related to aerospace and cyber security. Postponed projects include big data-related projects we had expected to expand overseas, such as water management projects. In other areas, there were some proposed projects targeting Japan's supplementary budget that were discontinued.

Q. It must be difficult for NEC to record sales in the current fiscal year for My Number-related security projects, which are funded by Japan's supplementary budget. Is this actually the case? Was the fire prevention digital radio network area a factor behind the downward revision of forecasts?

A. My Number-related projects have been growing steadily, so we don't see any problems in that area. Also, the fire prevention digital radio network area has been progressing as expected, and was not a factor behind the revised forecasts.

Q. In the telecom carrier business, some of NEC's competitors reduced their forecasts when announcing nine-month earnings. Does NEC find itself in the same situation? Could you please comment on NEC's current conditions and outlook for the future?

A. We can no longer expect telecom operators in Japan to make capital investments to the extent we had initially envisioned. However, talks with telecom operators are still ongoing. Looking ahead, we may come under pressure considering our current situation. However, we would like to iron out the details with telecom operators through these ongoing discussions.

Q. Could you please discuss management's approach to renewable energy?

A. Management understands that the environment surrounding renewable energy has been changing in many different respects. Looking at actual conditions, our renewable energy initiatives have been running behind schedule. Therefore, we need to revise how we incur expenses in this field.

Q. In the past, NEC has made acquisitions in the energy field. Do these acquisitions face any risk of impairment?

A. In light of our future business plans, we will start considering how we will evaluate these businesses going forward.

Given that we are projecting an extraordinary income/loss of zero, we took various factors into consideration to ensure that we can achieve our revised forecast, while we are not planning to book impairment losses at this time.

Q. NEC's extraordinary income/loss was positive in the nine-month period ended December 31, 2015. Does this provide a buffer against contingencies?

A. Yes. That is one way of looking at it.

Questioner D

Q. The unprofitable project in the telecom carrier business represents a large impact in monetary terms. Could you please discuss this project in a little more detail? How will you approach this project next fiscal year?

A. We cannot discuss specific details because this project involves our customer. However, we can say that the project involves a locally led overseas business. Because progress on this project is behind schedule, we have responded by estimating the resulting deterioration in cost. Looking ahead, we intend to effectively execute this project.

Questioner E

Q. In the telecom carrier business, which areas deteriorated in terms of the risks anticipated at NEC's Q3 earnings announcement?

A. At the Q3 earnings announcement, net sales of around 30.0 to 40.0 billion yen were at risk. Although operating income was susceptible to some of that risk, we explained that we would work to achieve our initial forecast by streamlining costs and taking other measures. Specifically, there were risks in areas centered on our overseas businesses, including Software-Defined Networking (SDN).

The additional shortfall of 30.0 to 40.0 billion yen reflected in the revised forecast is due to restrained capital investment by telecom operators in Japan. The wireless telecommunications area in Japan had a large impact, but there was also some impact from the fixed-line telecommunications area in Japan.

Q. Were there several unprofitable projects overseas in the telecom carrier business?

A. There was just one unprofitable project.

Q. In the system platform business, NEC is now forecasting lower sales but higher earnings than the previous forecasts. Could you please discuss the main reasons for this revised outlook?

A. We have reduced our net sales forecast for the system platform business by 17.0 billion yen. One major reason for the lower forecast is business PCs. We are forecasting higher operating income than before based on an enhanced product mix, cost improvements and other factors.

Questioner F

Q. Are there any changes in your full-year forecasts for submarine cable systems or "PASOLINK" (mobile backhaul)? Will this have any major impact on the profitability of "PASOLINK"?

A. Submarine systems are on track to outperform forecasts. Compared with January, there have been no major changes in the outlook for "PASOLINK."

Q. What is the current order trend for IT services in Japan? Have there been any major changes in this trend?

A. We don't see any major changes in the current order trend for IT services.

Q. Business sentiment has started to be affected by recent trends such as the yen's appreciation and the depreciation of emerging market currencies. One concern is the impact these trends will have on corporate capital investment sentiment. Have there been any changes in this respect?

A. Since the end of January, we have not seen any major changes. However, we believe that future conditions warrant careful vigilance.

Q. I am concerned about the impact of negative interest rates on pension benefit obligations (PBOs). We have already heard news about this from other companies. How should we view the impact on PBOs?

A. We don't think the impact of negative interest rates on PBOs will increase significantly at this time. We believe that negative interest rates will have a larger impact on asset management than on PBOs because of falling stock prices. The investment yield on pension assets has not reached the initially forecasted 2.5%. We expect an impact of around 60.0 billion yen on a net assets basis, although it will depend on the stock price trend through to the fiscal year-end. Meanwhile, the discount rate for PBOs is 1.3%, but this will likely fall below 1%. Under J-GAAP, the discount rate level at the previous fiscal year-end will be maintained as long as the change in PBOs does not exceed 10% of the total balance. Therefore, we don't believe there will be a sizable impact on PBOs.