

**Earnings Presentation QA for 1H (April-September) of**  
**Fiscal Year Ending March 2012**

Date/Time: October 27, 2011 18:00-19:00  
Location: NEC Headquarters, Tokyo  
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**Questioner A**

*Q. Mobile terminal shipments for 1H were 2.4 million units, which fell short of the projected forecast of 3.0 million units. What were the factors behind the result?*

A. One of the factors that affected the mobile terminal shipments was timing of the product release. Smartphones were released on March 15, a few days after the Great East Japan Earthquake. We refrained from active promotion considering the situation, which led to lower-than-expected shipment result. However, smartphone shipments are increasing with good reviews from our customers. Medias, our smartphone will be provided to Softbank and KDDI in 2H, in addition to NTT Docomo. We also have good feedback from telecom carriers overseas, and strive to expand our mobile terminal business globally.

*Q. KDDI began its sales of iPhone in Japan. Does this affect NEC's mobile terminal business?*

A. It is likely to affect our mobile terminal business going forward. Looking at the mobile terminal market in Japan, if 120 million users replaced their mobile phones every 3 years, there will be 40 million units in demand per year. This indicates that NEC will compete in a market of 40 million units for replacement per year, with iPhone emerging as a new participant in the market. NEC will reinforce competitiveness of Medias by focusing on features unique to the Japanese market, such as "e-Wallet," as well as ultra-thin models.

*Q. The break even point for mobile terminals was previously estimated at 6 million units. Did it change?*

A. The break even point for mobile terminals remains at around 6 million units.

*Q What was the profitability of mobile terminals in 1H?*

A. Mobile terminals, excluding NEC Mobiling, Ltd., recorded loss in sum of less than one billion yen.

*Q. What were the reasons for lowering the full year forecast for mobile terminal shipments from 7.4 million units to 6.5 million units?*

A. Mobile terminal shipments fell short of the projected forecasts for 1H by 0.6 million units, out of which 0.5 million units were due to stagnant high-end feature phones. The rest 0.1 million units fell short due to an impact from material procurement for smartphones. The full year forecast was altered by 0.9 million units, taken in consideration of changes in the mobile phone market environment in Japan. Out of the altered 0.9million units, smartphones consists of 2/3 and feature phones for 1/3.

*Q. IT services showed an increase in 1H orders from the previous fiscal year. In which*

*sectors did we observe solid orders?*

A. We saw healthy orders in medical, local government and manufacturing sectors.

Q. *What kinds of risk are anticipated in IT Services going forward in 2H?*

A. One of the risks we anticipate includes yen appreciation against dollars. We see an IT investment trend picking up. On the other hand, customers are considering possibilities in investing overseas, instead of in Japan. We predict that customers may delay their investment decisions in response to business environment, and we will work closely with the customers to monitor carefully.

Q. *Carrier Network fell short of its sales forecast by 10 billion yen in 1H, and exceeded its profit forecast by 3.3 billion yen. Why did sales fall short and what was product mix improvement that pushed up profits?*

A. 1H sales were short by 10 billion yen from its forecast, due to delay in some projects by our subsidiary. We expect to retrieve impact from the delay in 2H. Full year forecast for Carrier Network sales on the other hand, is revised downward by 10 billion yen due to impact from super strong yen in its overseas business.

In the profit front, there was an improvement in product mix, such as iPASOLINK, which after a year from its launch, is starting to see an increase in share and shipment volume. We also saw a healthy business in submarine cable systems with large scale projects.

Q. *Platform fell short of its sales forecast by 11.0 billion yen and operating loss by 3.7 billion yen. What were the reasons for sales to fall short?*

A. Sales of Platform did not reach its sales forecast by 11.0 billion yen, due to its less-than-expected shipment volumes. We are extending sales of servers globally, and we are seeing recovery trend with orders coming in, despite severe economic environment in Europe. We will increase shipment volumes to improve profits as well.

Q. *Carrier Network should see improvement in its product mix from telecom carrier investments in Japan. Is this the case?*

A. Carrier Network enjoys healthy sales in Japan, which contributes to overall profits.

## **Questioner B**

Q. *NEC revised downward its full year sales forecasts and did not revise its forecasts for operating profit and net profit. Please explain how NEC formulated the forecasts.*

A. Sales forecast for this fiscal year was revised by 50.0 billion yen. IT Services saw orders to increase by 3% year on year in 1H. We anticipate that the same levels of demand should occur in other business segments, leading to overall company full-year sales to grow by approximately 4% year on year.

The forecasts for profits were not revised. We aim to attain our forecasts by implementing cost reductions.

Q. *What is the extent of impact from the flooding in Thailand estimated as of today?*

A. There are two major issues that may affect our business. The first is the recovery of manufacturing operations and the second is an impact on shipments from material shortage.

There are two manufacturing plants in Thailand affected by the flooding. It may take another month and a half to assess the extent of impact from submersion, but precautions were made to move equipment to higher floors of the buildings or shifting

some production operations to Japan, in order to minimize the impact. The impact on special loss from the disaster should be limited, with a considerable coverage from insurance. However, if the situation prolongs, there is an impact on operation. We are carefully monitoring situations in Thailand.

PC business may see an impact of material shortage. There is a limited source for alternative procurement for hard disk drives, and we are carefully assessing the impact on financial results.

*Q. The full year forecast for mobile terminal shipments were altered to 6.5 million units. What is the breakdown by regions? In the past, NEC recorded loss from excess inventory in the mobile terminal business overseas. Does NEC have plans to avoid making the same mistakes and do these plans contribute to profitability of the business? Do these plans help to avert downside risks?*

A. We expect approximately 30% of mobile terminal shipments to overseas. We pay careful attention to control and maintain inventory levels. For example, we established a team in the United States to monitor the business and follow the business negotiations with care. We are confident to avoid situations we faced in China in the past.

*Q. The financial goals presented in the mid-term growth plan "V2012" were somewhat aggressive to achieve from the market view, and the plan relied heavily on the growth from this fiscal year to the next fiscal year ending March 2013. What is the company plan in altering its mid-term goals and how will it announce to the market?*

A. It has been a year and half since our announcement of "V2012," the mid-term growth plan, and we now stand at the halfway point of the plan. We see that the business environment is unstable and unclear. We also recognize that the goals we presented in "V2012" are challenging. However, challenging goals drive us to aim for better results. We are assessing the budget for the next fiscal year, and we will disclose in a timely manner if and when decisions are made.

### **Questioner C**

*Q. What is the impact from foreign exchange fluctuations? What is the impact by dollar and euro on profit?*

A. Assumed rates for 2H are set at 75 yen per dollar and 105 yen per euro. We expect the foreign exchange rates will not fluctuate dramatically in a short period of time.

There is an impact of 0.5 billion yen from 1 yen appreciation against dollar per year. There is an impact of 0.2 to 0.3 billion yen in half a year. As for euro, the impact is limited, ranging from 0.1 to 0.2 billion yen from 1 yen appreciation against euro per half a year.

*Q. Carrier Network is expecting to see an aggressive increase in sales in 2H. Considering 10 billion yen from delayed project in 1H, is the 2H sales goal achievable? Even if the sales were not achieved, would Carrier Network aim to attain operating profits in target of 57.0 billion yen? If the demand for expanding base stations in Japan continues, do we expect to see stronger results?*

A. As smartphone users increase, there will be an increase in data traffic in Japan. This results in demand for reinforcing network, including not only base stations, but upgrading and strengthening of core network. We will focus on serving the demand to reinforce network. We also provide LTE services to base stations for NTT Docomo and KDDI. We anticipate a strong business demand in the Japanese market to continue,

given, for an example, that NTT Docomo announced in its focus on Xi (read: CROSSY), an LTE service. We also see our 2H targets, achievable.

*Q. Mobile Backhaul is expected to expand globally, particularly in Russia. Does it affect its profitability considering super strong yen?*

A. In the previous fiscal year, there was a delay in development and launch of iPasolink products, resulting in limited shipments in 2H. In this fiscal year, we expect to see 0.3 million units in Pasolink shipments, and with our cost reduction efforts, we expect to secure profits.

*Q. Personal Solutions shows forecasts with unclear factors. There are risks from the flooding in Thailand which affect hard disk drives in PC business and there is severe competition in the smartphone market. To confirm, the risks from the flooding in Thailand are not included in the forecasts? Why were profit forecasts for mobile terminals unchanged while the full year forecast for mobile terminal shipments were altered by 0.9 million?*

A. The impact from the flooding in Thailand is not yet included in our forecasts for the fiscal year.

We did not change the forecast for operating profit in mobile terminal business. We do not expect drastic improvements in profits. However, we will increase material procurement by dollar, and implement further cost reduction.