

Earnings Presentation Q&A for 1Q (April-June) of Fiscal Year Ending March 2014

Date/Time: July 31, 2013 18:00-18:45

Location: NEC Headquarters, Tokyo

Presenters: Isamu Kawashima, Senior Vice President and CFO

Questioner A

Q. You noted that NEC's first-quarter business performance was largely in line with the Company's budget. Could you please go over any changes in terms of segment performance? You also noted that NEC is currently assessing the impact of the mobile phone handset business on its business performance. Why hasn't NEC revised the Company's full-year forecasts based on additional costs incurred in this business and other factors?

A. There were no large differences in the operating profitability of each segment against the Company's budget. Going forward, we will be looking closely at any additional costs and other factors in the mobile phone handset business. NEC has recorded a gain on sale of NEC Mobiling, Ltd. shares of approximately 16.0 billion yen as an extraordinary gain. We will also be taking this gain into consideration as we carefully assess the impact on the Company's forecasts for fiscal year ending March 31, 2014.

Q. What was your initial vision for the final shape of the mobile phone handset business? What process led up to the measures announced today? Was this the best possible outcome?

A. Basically, we had explored partnerships with other companies to shore up our competitiveness in this business. However, as NEC shifts to "Solutions for Society," we believe that today's announcement represent the best possible outcome based on a comprehensive consideration of all the factors.

Q. Can NEC really maximize profit by ending the development of new smartphones, rather than having other companies make use of technologies in this business?

A. I cannot discuss the detailed considerations and process behind our decision. However, all considered, we believe that this was the best possible outcome for NEC.

Questioner B

Q. When explaining your first-quarter results, you said that all segments incurred higher costs due to upfront investments. Did segment profit decrease entirely due to such positive cost increases? Please confirm whether or not there were any other factors responsible for the higher costs, such as pressure from the external environment or unprofitable projects.

A. Upfront investments did not overrun the Company's budget. Given that the current fiscal year is the first year of the Mid-term Management Plan 2015, we are spending more on development mainly related to Software-Defined Networking (SDN) and Telecom Operations & Management Solutions (TOMS). Looking at the external environment, the public and enterprise businesses saw largely flat growth relative to the first quarter of the previous fiscal year, whereas the telecom carrier and systems platform businesses declined year on year. Notably, we saw lower investment by domestic telecom carriers against the previous fiscal year's first quarter. There was no particularly large number of unprofitable projects. In fact, unprofitable projects remained mostly the same as in the previous first quarter.

Q. In the smartphone-related business, NEC's latest plan means that employees will be reassigned to other divisions and that NEC Saitama, Ltd. will focus on production of conventional mobile phones. Does NEC plan to record any large extraordinary losses on plant facilities and so forth?

A. NEC Saitama will continue to make use of its plant facilities. We recorded impairment losses on the fixed assets of NEC CASIO Mobile Communications, Ltd. at the previous fiscal year-end. Therefore, we do not expect to book any large extraordinary losses in future. We will now start looking closely at the impact of ending the development of new smartphones.

Q. Eliminations/unclassifiable expenses have declined. Is this improvement due to accounting-related factors?

A. Eliminations/unclassifiable expenses improved 3.7 billion yen year on year, but this improvement was not due to accounting-related factors. Although timing differences in recording expenses may be at play, we believe the improvement is largely the result of Company-wide cost-cutting activities.

Questioner C

Q. My question concerns upfront investments. NEC is planning for Company-wide R&D expenses of 160 billion yen for the year ending March 31, 2014, compared to 151.7 billion yen in the year ended March 31, 2013. What were R&D expenses like in the first quarter?

A. Company-wide R&D expenses increased by a few billions of yen in the first quarter.

Q. Does NEC's first-quarter business performance include NEC Mobiling's results? You said that profitability at NEC CASIO Mobile Communications deteriorated by 3.0 billion yen. What was the amount of the loss? Also, how will narrowing down products to conventional mobile phone handsets affect profitability from the second quarter onward?

A. NEC Mobiling is consolidated in NEC's first-quarter business results. NEC CASIO Mobile Communications posted a loss of close to 9.0 billion yen in the first quarter. Although we expect to achieve a certain degree of profitability from the second quarter onward, we will continue to closely monitor the impact of our recent measures on earnings.

Q. Has NEC obtained the understanding of its telecom carrier customers regarding the change in how it will operate the mobile phone handset business?

A. We have discussed our overall plans for the mobile phone handset business with our customers. However, we have yet to discuss the specific details with them.

Q. NEC has not revised its full-year business forecasts. Can I correctly assume that NEC has decided to maintain its initial business forecasts based on an assessment of the impact of its latest measures?

A. We cannot say anything definite at this point because the assessment has yet to be completed. However, in terms of our overall direction, we intend to do our utmost to achieve our initial business forecasts.

Questioner D

Q. What is your schedule for the smartphone-related business? When will NEC shift to only conventional mobile phone handsets and maintenance services? Also, does this decision mean that NEC can now make use of the large amount of tax loss carry forwards of NEC CASIO Mobile Communications for tax planning purposes? Will NEC consider offering a voluntary early retirement plan of sorts to NEC Saitama's employees? Could you please go over any other issues that could be risk factors?

A. Although we will discontinue the development of new smartphones, we have yet to determine the schedule for when we will switch to only conventional mobile phone handsets and maintenance services. We cannot be certain at this point, but we believe that the process will take some time. We will be unable to utilize the tax loss carry forwards of NEC CASIO Mobile Communications immediately because the company will continue to provide maintenance services. We plan to transfer employees within the Group, so we are not considering any early retirement programs. In addition, we do not believe that NEC Saitama will incur any particularly large losses. NEC Saitama will continue to function as a member of the NEC Group as a whole.

Q. Is it absolutely necessary to continue maintenance services at NEC CASIO Mobile Communications?

A. NEC CASIO Mobile Communications is currently engaged in the mobile phone handset business, and will carry out maintenance services as a natural extension of its mobile phone sales activities.

Q. NEC has many segments that posted higher first-quarter sales but mostly flat growth in earnings. You put this down to cost outlays for upfront investments. On a full-year basis, NEC is forecasting higher earnings on higher sales. Does this mean that upfront investments were concentrated in the first quarter?

A. First-quarter operating income in the Public and the Enterprise Businesses, including upfront investment, was mostly unchanged year on year. On a full-year basis, the Public Business is projecting higher year-on-year sales in the second half, which should contribute to earnings. We do not consider the upfront investments in the first quarter to be excessive. Rather, we expect earnings to increase in step with higher sales as we approach the fiscal year-end. In the Telecom Carrier Business, upfront investments were brought forward slightly. We should see a slightly smaller decline in sales in the second half. As capital expenditure by telecom carriers declines, we are forecasting a year-on-year decline in earnings, although we will still increase our services.

Q. How did orders received in the first quarter grow in year-on-year terms and against the Company's budget?

A. Orders received in the IT services field rose 5-6% year on year, while orders received in the Telecom Carrier Business decreased on this basis. Orders received were largely in line with the Company's budget.

Questioner E

Q. Previously, NEC cited the ability to provide ubiquitous solutions integrated with enterprise systems as the reason for remaining in the smartphone business. Looking at the market environment and activities of other companies, there has been progress on introducing smartphones and tablets at companies. Is it really a good idea to stop developing smartphones at this point? How will NEC supply smartphones and tablets in the future?

A. NEC will continue to supply tablets. Because tablets will be supplied as an integral part of system solutions, we do not believe that ending smartphone development will have a negative impact on the tablet business. The System Platform Business will be responsible for tablets. We will transfer personnel from NEC CASIO Mobile Communications to the relevant divisions.