

July 30, 2014

Earnings Presentation Q&A for the First Quarter of the Fiscal Year Ending March 2015

Date/Time: July 30, 2014 18:00-19:00

Location: NEC Headquarters, Tokyo

Presenter: Isamu Kawashima, Senior Vice President and CFO

Questioner A

Q. NEC estimates to attain cost reduction of approximately 20.0 billion yen, accumulative of three years, by making NEC FIELDING, Ltd. a 100% owned subsidiary in 2014. In the ended first quarter of Fiscal 2015 (three months ending March 31, 2015), does NEC see the cost reduction effect from the integration? Likewise, what do we see with NetCracker Corp.?

A. In the first quarter of Fiscal 2015, sales and profits of NEC FIELDING, Ltd. improved year on year. We have just begun our process in integrating the company, and we are seeing cost reduction effect already. NetCracker Corp. also showed good performance, recording profit after deduction of amortization of goodwill. NEC is pleased with the acquisition of NetCracker Corp.

Q. Please explain why NEC is cautious in adopting IFRS, the International Financial Reporting Standards?

A. At NEC, we view adoption of IFRS from various aspects. First, in the past, it was speculated that adoption of IFRS would be mandatory from 2015. NEC made strategic plans to become early adopter and provide system integration and consulting services associated with the adoption of IFRS. As it turns out, the adoption of IFRS has not yet become mandatory as of today, and the market associated with IFRS has not grown enough to push our business forward. Second, if IFRS were to be adopted, profits would appear to have increased mainly due to differences in recording of pension expenses and goodwill. The Company is cautious to make such changes in profit improvement since the actual financial status remains unchanged. Finally, there still remains a possibility of changes made in IFRS. A new standard for recognition of sales and profits was set, but the standard for lease is not yet established. At NEC, we will follow the progress closely for further decision.

Q. Is there any negative impact from adopting IFRS?

A. We do not expect IFRS to have negative impact on our financial reporting. We will follow the progress closely and make a decision from a wide perspective.

Questioner B

Q. The first quarter ended in a good tone as operating loss marked 5.0 billion yen above the budget, and the Company presentation suggests the improvement to remain into the second quarter. Yet the Company made no changes to the full year forecast. Are there any events in the second half of fiscal 2015 which might offset the good performance seen in the ended quarter?

A. We ended the first quarter with a good momentum. Also, we are not expecting any event that will offset the profit in the second half. If all things go well, we can record profits above our forecast, but since we have nine more months left to close the fiscal year, we made a decision to evaluate the business climate for now.

Q. In the Public business, it is speculated that orders continue to be strong. Which projects are contributing to the sales, how will the overall sales for the segment grow, and does the Company expect the growth momentum to continue?

A. In the Public business, order trends fluctuate with large projects. When evaluating order trends excluding large projects, we saw more than 10% increase in orders year on year in the first quarter; increase by 10% or more in IT related area and few % in social infrastructure.

Q. In the area of SDN, NEC and Telefonica S.A. collaborated in carrying out field trials. When does the Company expect to see sales and profits from these activities?

A. Beginning from summer to autumn in 2014, we are planning to carry out field trials with Telefonica S.A. involving a few thousand end users. We are comfortable with how the project is progressing and are working toward to commercial deployment in latter Fiscal 2015.

Questioner C

Q. In the Enterprise business, how do orders look in the first quarter and how do they change into the second quarter?

A. We saw a dip in order trends in Enterprise year on year. This is due to an upsurge from large projects in the last fiscal year. We are seeing improvements and we expect the order trends to grow into the second quarter.

Q. The first quarter results for the System Platform business gave a good surprise. What made its operating profit to exceed the budget by 5.0 billion yen? The Company presentation suggests that operating profit level for the first half is expected to remain flat year on year. Does this indicate a profit decrease in the second quarter?

A. System Platform performed very well, owing to a continuing recovery trend in IT investments from the last year. Profit improvements also included deferred expenses to the second quarter. These expenses will be recorded in the second quarter, but we plan to secure the upside we earned in the first quarter. We intend to outperform the first half budget of the profits, at least by the exceeded amount in the first quarter.

Q. In the past, NEC was delisted from NASDAQ having conflicts with revenue recognition. Suppose NEC adopts IFRS, would there be difficulty in sorting out revenue recognition involving multiple contracts?

A. NEC faced difficult ordeals in the past, and made a decision to change its accounting method to J-GAAP from U.S. GAAP. Since then, the Company has made improvements by establishing sound organization in recording sales data with fair pricing. NEC is aware that the revenue recognition in IFRS well resembles the fair pricing method of U.S.GAAP, and is carefully evaluating the status of the Company. However, NEC will not be facing difficult tasks like those it dealt with in the past, in applying IFRS.

Questioner D

Q. What is the impact from exiting business and deconsolidation of subsidiaries? How does NEC FIELDING, Ltd. affect the company sales and profits?

A. In the first quarter, mobile phone business turned to black, improving profits by 9.0 billion yen year on year. On the other hand, transferring business lowered profits by approximately 2.0 billion yen from NEC Mobiling, Ltd, and approximately 1.0 billion yen from NEC BIGLOBE, Ltd. When looking at the full year profit forecast, we see an improvement in the mobile phone business by 16.0 billion yen, which was making loss in the last fiscal year. We also expect to see a negative impact of approximately 2.0 billion yen, the amount NEC Mobiling, Ltd. recorded in the first quarter of fiscal 2014, and approximately 5.0 billion yen, the amount NEC BIGLOBE, Ltd. recorded in the full year.

NEC FIELDING, Ltd. has been a consolidated subsidiary and it will have no impact on operating profit forecast, but the amount recorded in minority interests in income will be added to profits from the second quarter of fiscal 2015.

Notably, factors in profit changes also include strategic investments which are expected to increase by 10.0 billion yen in Eliminations year on year.

Q. Collaboration with Telefonica S.A. is a new business never been tried before. What is the Company estimate in its business scale?

A. We do not specify business scale by customers. In SDN business, we are expecting sales of 50.0 billion yen in fiscal 2015.

Q. How does the business scale change when other major telecom carriers employ SDN?

A. We intend to secure 100.0 billion yen in SDN business for telecom carriers in fiscal 2016. As a total SDN business, including sales for enterprise and telecom carriers, we aim to attain 150.0 billion yen.

Questioner E

Q. What were the factors pushing System Platform to outperform in the first quarter?

A. We saw a good improvement in profitability of hardware, including servers.

Q. It was mentioned that there was 10.0 billion yen of improvement from a decrease in unrecognized pension liabilities in the last fiscal year, out of which only half the amount was reflected in fiscal 2015 forecast for operating profit. What is the status now?

A. We have not included the remaining 5.0 billion yen to the full year forecast for operating income of 120.0 billion yen. In the first quarter, however, we booked a quarter of the remaining to the operating income.

Q. If NEC adopts IFRS, would sales change as well?

A. Sales are unlikely to change.

Questioner F

Q. It was mentioned that orders in IT related business are going well. Do we see IT investments in the financial sector to become more bullish?

A. In the financial sector, customers carry out investments according to their plans, as opposed to private sectors like manufacturing, where customers are actively increasing investments. We see good momentum in private sectors.

Q. Please explain how tax expenses changed in the first quarter from last fiscal year.

A. In the last fiscal year, there was tax paid on differences in book value between consolidated and unconsolidated booking, in sales of stocks of NEC Mobiling, Ltd., in the first quarter. There were no such tax expenses in this ended quarter.

Q. In understanding deferred income taxes, can I confirm that such taxes will diminish or will have tax merit when all the non-consolidated entities (in taxation) make profits, and overall tax paid will decrease?

A. In the last fiscal year, NEC recorded deferred income taxes due to loss from NEC Casio Mobile Communications, Ltd. We estimate that tax expenses will normalize in fiscal 2015, for no such amount in deferred income taxes will be recorded. In terms of our full year forecast, we are a bit conservative in estimating tax expenses for goodwill among others.

Q. Can I confirm that NEC can deduct tax loss carryforwards, which should contribute to lower tax expenses?

A. We will have to evaluate tax planning to confirm.

Questioner G

Q. In understanding how the second quarter and the second half of fiscal 2015 will progress, please comment on how the Company views the first half outcome. For example, in Public, if we were to see an increase of 5.0 billion yen in profit, we would expect year-on-year improvement of 4.0 billion yen and 10.0 billion yen in the second quarter and the second half respectively. What would drive the profit growth? In Telecom Carrier, suppose profit for the first half remain flat year on year, we would have to assume that all the profit improvement for the full year must take place in the second half. If so, what would drive these profits?

A. In Public, we evaluated order trends to anticipate same levels of growth in sales and profits in the second quarter. We also expect to see sales growth in the second half of fiscal 2015, which will contribute to profit improvements. In Telecom Carrier, we expect to see improvements in the second half of the fiscal year. Specifically, we will see good outcome from product development, progress in submarine cable systems and recover delayed installation for mobile backhaul.

Q. Please add more to growth factors in Telecom Carrier, other than submarine cable systems and mobile backhaul.

A. We expect to see global expansion in Telecom Carrier. In TOMS business, we will see sales for major projects from the second quarter, which NetCracker Corp. initiated in the last fiscal year. This, combined with sales of mobile backhaul, will contribute to sales and profit growth in the second half.

Q. We expect the establishment of a national ID number, or “my number” system in Japan to commence in 2016. Please comment on how the national ID number system will affect the Public business.

A. NEC received orders related to the national ID number system, and we anticipate specific projects to progress in the second half of this fiscal year.

Q. Can NEC reserve enough resource to deliver the system?

A. We are reserving engineers at NEC Solution Innovators, Ltd., where it reorganized its software subsidiaries to allocate resources. We are taking further steps to secure project managers, which is important in delivering the system on time.

Q. Please comment on loss making projects.

A. In the first quarter, we were able to control projects successfully. We expect to improve profitability for fiscal 2015 in comparison with the last fiscal year. To note, we are seeing fewer new projects which are loss making, while we still need to work on on-going projects.