

October 31, 2017

Earnings Presentation Q&A for Q2, the Fiscal Year Ending March 31, 2018

Date/Time: October 31, 2017 17:30-18:00 JST

Location: NEC Headquarters, Tokyo

Presenters: Takashi Niino, President and CEO

Isamu Kawashima, Executive Vice President and CFO

Questioner A

Q. NEC has reassessed the impact of the suspension from contract bidding processes. Could you please discuss the approximate impact in Q2 and what you expect the approximate impact to be in 2H?

A. In Q2, the suspension had an impact of around ¥10.0 billion on revenue and around ¥2.0 billion on operating profit/loss. In 2H, the suspension is expected to have an impact of around ¥27.0 billion on revenue and around ¥7.0 billion on operating profit/loss.

Q. Can I correctly assume that the impact of ¥2.0 billion on profits in Q2 was borne by the Public business?

A. Yes. The Public business was impacted.

Q. My understanding is that performance in the Public business improved compared with original forecasts. In short, the Telecom Carrier business underperformed the operating profit forecast by ¥2.0 billion, whereas the Public business outperformed the forecast by ¥2.0 billion. Considering the impact of the suspension from contract bidding processes, I believe that the Public business actually performed much better than expected. Is my understanding correct? In what specific areas did the Public business improve its performance?

A. In the Public business, operating profit was better than expected. It surpassed forecast by around ¥2.0 billion. There was an outperformance of around ¥2.0 billion from Japan Aviation Electronics Industry, Limited. The impact of the suspension from contract bidding processes was slightly lower than anticipated. However, performance in other areas did not improve as much as we had expected.

Q. NEC has made specific allocations of strategic investment costs. How much of the strategic investment costs were actually used in 1H? Could you also please discuss the portion that has not yet been allocated?

A. Of the total strategic investment costs of ¥8.0 billion, we have allocated ¥5.0 billion to segments. Of this amount, in 1H we used around ¥1.5 billion in the Enterprise business, half of the annual budget of ¥3.0 billion. In addition, we used several hundred million yen in the Others segment, so around ¥2.0 billion was used in total in 1H. Therefore, we plan to use around ¥3.0 billion in 2H. We will continue to look at ways of using the remaining portion of ¥3.0 billion that has not yet been allocated.

Q. I have a question about the status of the formulation of the mid-term management plan scheduled to be announced at the end of January. Could you please provide any insights into what will constitute the core themes of the next mid-term management plan? Could you please go over how you envision the plan at this time, touching on, for example, profit levels and what types of businesses you will grow?

A. We are currently in the process of considering the new mid-term management plan. I believe our first priority is to determine how to go about improving our current profitability. In the current fiscal year, we have been taking various steps to address profitability. We will see how much further we can cut costs, curtail unprofitable projects, and turn around low-profit areas over the next three years, and we will redouble our efforts to see these priorities through to the very end. Next, we would address the question of which areas we will identify as our core growth fields. Until now, NEC has focused primarily on the international business as a source of growth. Going forward, new fields will emerge in Japan, such as the automotive field and the Olympics. In these fields, NEC will be able to take full advantage of its strengths in AI and IoT. Therefore, we will look closely at how we will go about enhancing our profitability in each of these fields. Meanwhile, the international business has been challenging for NEC. Here, even as we narrow down our business fields and regions, we intend to devise measures to establish the international business as a core business. We believe that it will be imperative to make exhaustive efforts to enhance our current profitability and to realize the full promise of growth businesses, including domestic businesses.