

July 30, 2015

Earnings Presentation Q&A for Q1, Fiscal Year Ending March 2016

Date/Time: July 30, 2015 18:15-19:15 JST

Location: NEC Headquarters, Tokyo

Presenter: Isamu Kawashima, Executive Vice President and CFO

Questioner A

Q. Explain why PC servers are performing well.

A. The orders for PC servers were stronger in June than April or May, which could have been due to demand for WindowsServer2003 replacement. We also observed that IT investments among private industry are picking up, contributing to the strong momentum in the IT service business.

Q. Full-year forecasts for Others show sales growth. With Q1 sales were down and Q2 sales expected to decrease, how does NEC expect Others to perform in the second half of the fiscal year?

A. There was an impact from deconsolidation of Nittsu NEC Logistics in the amount of 8.0 billion yen in Q1 from the previous fiscal year. We expect sales increase in smart energy for the full year.

Q. Q1 net loss was better than the Company internal forecasts by 3.0 billion yen. Does this lower the hurdle to achieve 65.0 billion yen of the full-year net income forecast?

A. We did not include foreign exchange gain and gain from investments in equity method companies in the forecasts. We instead, included 10.0 billion yen in special loss in the full-year budget, and this could give us some room by not spending them, but it is too early to tell.

Questioner B

Q. What is the breakdown of sales and operating profits for Telecom Carrier in and outside of Japan? What is the progress on SDN?

A. Sales in Japan decreased, particularly in wireless for Q1. Sales in the international business increased thanks to submarine cable systems among others. Sales of SDN are not as large and the business is still recovering costs.

Q. Tell us more on the progress with My Number projects.

A. My Number related sales in Q1 were not so large, but Q1 orders were strong mainly in government/public sector, and we achieved almost half the amount of our yearly target. Moreover, we are seeing increasing demand from the private sector, and we hope to expand our business responding to the demand.

Questioner C

Q. How does the order trend for IT services in Japan look into the next quarters?

A. The momentum is expected to remain strong and we expect a solid growth in the first half of the fiscal year.

Q. Which segments are included in the strong IT service growth?

A. There are IT service businesses in public, enterprises and telecom carrier.

Q. Are there any changes made to the internal forecasts for the first half of fiscal year? The outlook for enterprise operating income in the second half looks weak considering the present environment.

A. The second half outlook for enterprise looks too weak considering Q1 results. We will observe how we perform in the first half. Presently, we have not made changes to the full year forecasts.

Q. The second half outlook for operating income in Others seems strong. What improves?

A. We expect a sales increase in the smart energy business, which contributes to a profit improvement.

Q. I saw NEC Annual Report 2015 and the report seemed to have improved. Related to the corporate governance, it is mentioned that NEC adopts the corporate auditor system. What are the reasons for not adopting the committees in the corporate governance?

A. We acknowledge that auditing by our corporate auditors is effective in NEC's operations. We have several members of outside directors. We have established a nomination and compensation committee where more than half the members are from outside the company. At the Board meetings, we see active interactions by the outside directors. Hence we see no merit in changing the system. Instead, we will reinforce the corporate governance with the present system.

Q. It has been five years since NEC adopted chief officers into their management team. Tell us about positive outcomes from the adoption.

A. In the past, organizations were divided vertically. Chief officers joined to manage the organizations horizontally by overseeing the strengths in each business units. One of the initiatives include the introduction of the new Company message "orchestrating a brighter world," by Chief Marketing Officer. This initiative was intended to introduce a strong brand that is shared among employees, hence helping the company to move forward with *Solutions for Society*.

Questioner D

Q. How does the Smart Energy business look and how will it change into the second half of the fiscal year?

A. We have good expectations in smart energy business into the second half of the fiscal year. Our business includes energy storage for residents and systems for utility companies, as well as NEC Energy Solutions, a subsidiary in the U.S.A.

Q. Sales and profits of Public were down in Q1, but in-line with the Company internal forecasts. It is expected to improve in profits into Q2 and the second half. Is the business going well?

A. The public business is divided into IT services and social infrastructure. In Q1, sales for IT services increased by 10% from the previous year, but social infrastructure decreased by 7% due to the impact of large projects in the last fiscal year. We estimate a slight increase in sales for the first half, and an increase into the second half. We are comfortable with the outlook and our results so far are in-line with our expectation.

Q. What was the impact of yen depreciation in System Platform?

A. The exchange rate of a U.S. dollar to yen was appreciated to 120 yen for Q1 in this fiscal year, while it was 102 yen in the corresponding period for the last fiscal year, contributing to a negative impact of 3 to 4 billion yen. However, we were able to offset the impact by raising prices, and lowering production costs and other expenses.

Questioner E

Q. What was the increase in fixed costs and strategic investments?

A. Strategic investments increased by 2 to 3 billion yen. In addition, there was an impact from foreign exchange of about 2-3 billion yen. To encounter the increase in costs, we worked on raising prices, lowering production costs and other expenses. On the other hand, depreciation for pension fund decreased by 2.5 billion yen.

Q. Explain why Adjustment improved by 2.0 billion yen from the previous year.

A. Some expenses were pushed back into the next quarter.

Q. Does Adjustment include strategic investments that are to be increased by 63.0 billion yen in this fiscal year?

A. Strategic investments are included in Adjustment and business segments. We estimate that approximately 7.5 billion yen of strategic investments will be included in Adjustment of our full year target, flat year-on-year.

Q. How does NEC foresee its Adjustment in the first half of the fiscal year?

A. We have a relatively conservative budget with regards to expenses for Adjustment. For example, we have included 5 to 6 billion yen increase in expenses related to IFRS and measures to enhance cost competitiveness.

Q. Give us the update on firefighting emergency radio systems business in Public.

A. Orders for firefighting emergency radio systems have peaked out and sales are expected to decrease in the latter half of the fiscal year. Notably, sales decrease by large projects in Q1 for Public did not arise from the firefighting emergency radio systems.

Questioner F

Q. Update the order status for IT services by sectors in Japan? How does that change into Q2?

A. Orders in Q1 increased by over 10% for central government and close to 10% for local governments, and we expect the same strong momentum to continue into Q2. Orders in finance saw a decrease year on year, but they are expected to pick up into Q2, and reach an increase in growth in the cumulative first half of the fiscal year. Telecommunications saw an increase in Q1, but we expect to see a decrease in Q2, and a slight decrease in the first half year on year. Manufacturing saw 20% increase, and retail and services saw 50% increase, indicating that we see a growth in orders for the first half of the fiscal year.

Q. Does the Company expect the order trend to continue for manufacturing, retail and services?

A. We still need more time to say for sure, but we do expect the order level to be above the last fiscal year.

Q. What is included in expenses related to reinforcing of operations in Public? Do we expect to see the related expenses into Q2 and the fiscal year?

A. We are reinforcing global operations in Public, such as increasing personnel. We expect to see expenses related to the measure to continue for a while.

Questioner G

Q. Q1 orders for IT services in Japan increased by 16%. The order trend has been improving since the second half of the last fiscal year. To what levels will the order decrease?

A. We do not expect the order level to fall as much, but we will have to see how it changes while consider the low levels in the last fiscal year.