

Q&A at IR Briefing for Financial Results for the
First Half of Fiscal Year Ending March 31, 2017

November 1, 2016

NEC Networks & System Integration Corporation

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Questioner A

Q: You mentioned that orders from telecommunication carriers have started to show signs of hitting bottom. Do you expect these orders to turn around or to remain at a low level in the coming months? If orders remain weak, do you think that it is necessary to institute additional cost reforms?

A: Telecom carriers have scaled back their investments significantly. We think that they are now close to the lowest levels necessary for maintaining service quality, but we do not expect their capital spending to pick up again from the current levels.

On the other hand, we have made progress in cost reforms, including an improvement in the gross margin, and we will continue to promote streamlining. However, given that we have already taken extensive measures, we will need to focus on expanding the top line, rather than seeking any further significant improvements in costs. As it is unlikely that our carrier business will see growth, we intend to use our assets for that segment to develop business with local governments and in education, medicine and other domains.

Q: What was the background to the order for the construction project for solar power generation plants? Was it an initiative of the NEC Group? Also, do you expect that there will continue to be a market in the future?

A: The environmental and energy field was one of the focus areas in the Infrastructure Business in the previous medium-term plan, and we have been receiving orders amounting to 2 billion yen to 3 billion yen a year. Consequently, we had the first contact with X-Elio and were successful in receiving the order. This is our own business in which NEC had no involvement.

With respect to solar power generation, only about half of the rights obtained by power generation companies under the FIT (a feed-in-tariff system for renewable energy) have actually been exercised. To utilize the rights, it is necessary for renewable energy producers to have contracts with utilities for power to be purchased by March 31, 2017 and to start power generation by March 31, 2020. Based on these target dates, there is demand to establish power plants. This reflects the situation in which overseas power companies are very interested in the Japanese market, partly because the purchase prices for electricity are higher than those overseas. Although X-Elio has announced that it would establish a 600Mw

power plant in Japan, we think that it is important to properly execute the project first and achieve strong results.

Q: What is the profitability of the construction project for the solar power generation plants?

A: We anticipate profitability to be lower than our average, but we will endeavor to raise profitability in areas related to ICT, etc.

Questioner B

Q: When will you post sales from the construction project for the solar power generation plants?

A: We are currently finalizing the details. Sales of the project will start to be posted in the current second half, as the percentage-of-completion method will be applied. The land development portion of the project will be the first to generate sales. However, its contribution to overall sales will be small in the current fiscal year, and we think that it will be made mainly in the next fiscal year.

Q: Was the construction project for the solar power generation plants included in the orders forecast at the beginning of the fiscal year?

A: Although we did not specifically anticipate this project, we have incorporated a few billion yen for energy-related orders.

Q: What are the reasons for the revision of sales forecast by segment from the forecast at the beginning of the fiscal year?

A: With respect to the Carrier Networks Business, although there are signs of leveling out in orders, sales remain weaker than initially projected. In light of this situation, we revised down the sales forecast by 5 billion yen. We also increased the sales forecast for the Social Infrastructures Business by the same amount. This is because we took into account factors such as the fact that sales in the first half were about 2 billion yen above the initial projection, which was conservative. We also expect the solar power generation plants project to contribute to sales to a certain degree, and sales of robust business areas such as broadcasting/CATV to exceed our forecast

Q: Regarding the low-profitability projects, which business segment owned the project, and what was the nature of the project? Also, what was the amount involved?

A: It was an overseas railway-related project in the Social Infrastructures Business in the first quarter. The amount involved was several hundred million yen, and this was the only factor that caused the decline in gross margin in the Social Infrastructures Business.

Questioner C

Q: All of the reporting segments are involved in the construction project for the solar power generation plants. What are the roles of each segment, and what is the amount of orders for each segment?

A: The project is large and will be undertaken as a company-wide project. Each segment posted an amount for orders according to its areas of specialty and responsibility.

The Enterprise Networks Business segment is in charge of electrical equipment work and project management and posted an order of about 5.5 billion yen; the Carrier Networks Business is in charge of the establishment and installation of the support structures for solar panels and the construction of monitoring systems for the facilities and posted about 3.5 billion yen; and the Social Infrastructures Business is in charge of the land development, and posted about 4 billion yen.

Q: What is the position of X-Elio, the client in the construction project for the solar power generation plants, in light of the overall project? Recently, there have been articles about some distressed solar power supply distributors. Are there any uncertainties about its earnings position, etc.?

A: In the construction of solar power generation plants, there are usually three players (companies) with different positions. The first player is the solar power supply distributor which owns an interest in a specific purpose company (SPC), and X-Elio is such a player. The second player is the EPC (Engineering, Procurement and Construction) firm that constructs the power plant, and we are that second player. The final player consists of the financial institutions in charge of financing. As the financial institutions conduct rigorous checks to ensure that the SPC is safe, and X-Elio itself is a large company with business activities in 18 countries across the world, we don't see any concern about its earnings position.

Q: The fire-fighting emergency radio system digitalization projects were completed in May 2016. When do you expect the next wave of investments to come in said area?

A: Replacement demand for the radio systems for fire-fighting, which received a boost from these projects, runs in cycles of about 10 years. In the fire-fighting system, there is another system called a command station. Replacement demand for command stations emerges occasionally, unlike investment in radio system that tends to come in waves.

Looking at other areas of radio systems, there are disaster prevention municipal radio communication systems. Replacement demand arises from time to time in the disaster prevention municipal radio communication systems introduced in the 48

prefectures in Japan, and one-third of the nation's cities, towns and villages have not introduced any disaster prevention community radio communication system. This situation will need to be improved, and there is demand for digital systems in communities that presently have analog systems.

Q: Does the Enterprise Networks Business have areas of strength other than the EmpoweredOffice?

A: The EmpoweredOffice is the key driver in the Enterprise Networks Business overall, and the business has remained strong, partly backed by replacement demand for PBX.

End.