Business Update

July 10, 2007
Kaoru Yano
President
NEC Corporation
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The management targets included in this material are not projections, and do not represent management's current estimates of future performance. Rather, they represent targets that management will strive to achieve through the successful implementation of NEC's business strategies.

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(Notes)
NEC has changed the accounting principles for preparing its consolidated financial statements from accounting principles generally accepted in the U.S., or U.S. GAAP, to accounting principles generally accepted in Japan, or Japan GAAP. Results for the first half of the fiscal year ended March 31, 2006 have been presented under Japan GAAP for comparison purposes.
Agenda

I. Strategic Direction and Challenges

II. Business Operation Strategy for FY2007

III. FY2007 Management Objectives
I. Strategic Direction and Challenges
Strategic Direction of NEC Group

Corporate Philosophy
NEC strives through ‘C&C’
to help advance societies worldwide
toward deepened mutual understanding
and the fulfillment of human potential

A Global “Innovation Company”

Develop global business

Create Innovation for our customers

Supporting Activities of enterprises and consumers in the ubiquitous era
[IT/Network for enterprises] [Mobile/Personal Solutions]

Innovation through Technology

Building a Safe Foundation for a ubiquitous networking society
[IT/Network for carriers - Social Infrastructure]

Electron Devices Business

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Electron Devices Business

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The Driving Force to ensure Growth

Innovation through collective strength of NEC group

Innovative Solutions generated through our collective strength
(e.g. RFID Applications, Imaging Solutions)

**Effective utilization of R&D Accomplishments within NEC Group**

**Consumer / Enterprise Business**
[IT/Network for businesses] [Mobile/Personal Solutions]

- Apply Carrier/Social infrastructure technologies for corporate customers
- Offer new service applications and terminals (to Carriers)
- Apply commercial technologies for social infrastructure business

**Social Infrastructure Business**
[IT/Network for carriers - Social Infrastructure]

**Electron Device Business**

- Image Processing Technologies,
- New Materials,
- Nano-technology

Increase superiority of our competitive advantage with devices

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Management Policy

Reaffirm our Corporate Philosophy, Gain trust and satisfaction from stakeholders

- Fulfillment of social responsibility
  - Ensure strict compliance to corporate ethics and contribute to the sustainable development of society

- Improvement of performance level
  - Increase profit (especially in IT/Network Solutions)
    - Acquire business opportunities with NGN
    - Rebuild and expand global business
  - Secure return on invested capital
    (Especially in Mobile, Personal and Electron Devices Business)
    - Ensure recovery of underperforming businesses
Current Situation

Looking back on Fiscal Year ended March 2007 (FY2006)

Last Years’ Management Objectives

- Expedite implementation of measures towards growth:
  Focus on NGN (Next Generation Network) strategies
- Assure turnaround progress in underperforming businesses
- Achieve business forecasts

- Accounting problems
- Significantly falling short on business forecasts
  - Delay in the turnaround of semiconductor business
  - Impact deriving from accounting problems
- Ensure execution of our growth strategy lead by NGN
  - Leading the NGN market with potential business with NTT, KDDI and other customers
Changes in FY2006 Operating Profits
(Compared with initial forecast)

Initial Forecast *
Approx. JPY 110 Bn

IT/NW Solutions
- JPY 26 Bn
  - Booking of warranty
  - Cost reservation
  - Forwarded revenue recognitions

Electron Devices
- JPY 31 Bn

Mobile/Personal
+ JPY 6.5 Bn
  - Restructuring Costs of China Business
  + Decreasing losses from overseas Business

Others
+ JPY 10 Bn

Actual
JPY 70 Bn

NEC Electronics
Compared with Initial Forecast
- JPY 33.6 Bn (US GAAP)

* Initial Forecast (by US GAAP) roughly recalculated at Japanese GAAP
II. Business Operation Strategy for FY2007
Business Operation Strategy for FY2007

Achieve JPY 130 Billion Operating Profit
Accelerate the execution of growth measures

- Strategic initiatives for key businesses
  - Rebuild semiconductor business for mid-term growth
  - Ensure profitability of mobile terminal business and reinforce competitive product offering
  - Set breakdown plan of growth strategy centered on NGN
- Enhance corporate-wide measures to realize further growth
FY2007 Forecast by Segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2006 (JPY Bn)</th>
<th>FY2007 (Forecast) (JPY Bn)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>4,653</td>
<td>4,700</td>
<td>+1%</td>
</tr>
<tr>
<td>IT/NW Solutions</td>
<td>2,760</td>
<td>2,870</td>
<td>+4%</td>
</tr>
<tr>
<td>Mobile/Personal Solutions</td>
<td>965</td>
<td>890</td>
<td>-8%</td>
</tr>
<tr>
<td>Electron Devices</td>
<td>861</td>
<td>870</td>
<td>+1%</td>
</tr>
<tr>
<td>Others / Elimination</td>
<td>68</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Mobile/Personal Solutions</td>
<td>154</td>
<td></td>
<td></td>
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<tr>
<td>Electron Devices</td>
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<td>-28</td>
<td></td>
</tr>
<tr>
<td>Others / Elimination</td>
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<td>-34</td>
<td></td>
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<tr>
<td>Total</td>
<td>174</td>
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<tr>
<td>IT/NW Solutions</td>
<td></td>
<td>130</td>
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<tr>
<td>Mobile/Personal Solutions</td>
<td></td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Electron Devices</td>
<td></td>
<td>-53</td>
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</tr>
<tr>
<td>Others / Elimination</td>
<td></td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

* Forecasts as of May 21, 2007
Change in Operating Profits (FY2006 / FY2007)

FY2006 Results
JPY 70 Bn

IT/NW Solutions
+ JPY 19.9 Bn

Mobile / Personal
+ JPY 39.5 Bn

Electron Devices
+ JPY 26.0 Bn

Others
- JPY 25.4 Bn

Strategy Implementation Costs

Strategic R&D cost

FY2007 Forecast
JPY 130 Bn

* Forecasts as of May 21, 2007

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1. Electron Devices Business

- **Semiconductors** (NEC Electronics)
  - Orders and order backlog improved from end of FY2006
  - Reduction of fixed cost by 20 Bn Yen and focus on turnaround as highest priority

- **Other Electron Devices** (NEC Tokin)
  - Strengthen core and strategic products
    - Increase sales of new products such as tantal capacitors
    - Expand proadlizer business
  - Strengthen the operational foundation of battery business

*Forecasts as of May 21, 2007*
## Progress of New Management Policies of NEC Electronics

Source: NEC Electronics “FY07/3 Financial Results and FY08/3 Outlook”, May 14th, 2007

### Launched Projects to Execute New Management Policies

<table>
<thead>
<tr>
<th>Goal</th>
<th>Primary Measures</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve competitiveness of products by focusing resources</td>
<td>Reduce technology outsourcing costs roughly equivalent to 600 people</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td>Shift development resources equivalent to approx. 400 employees</td>
<td>Halfway Complete (Expect to complete all 400 by the end of the fiscal year)</td>
</tr>
<tr>
<td>Reduce costs by reorganizing manufacturing operations</td>
<td>Establish timeline for reorganization</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
<td>Prepare to obtain customer consent</td>
<td>Begun</td>
</tr>
<tr>
<td></td>
<td>Ready the necessary manufacturing equipment</td>
<td>Begun</td>
</tr>
<tr>
<td>Improve profit/loss management with corporate reorganization</td>
<td>Establish business units for SoC, MCU, and Components; each is responsible for its own profit management. Eliminate 18 divisions (from 59 to 41) to facilitate sharing of human resources and improve efficiency</td>
<td>Reorganization Completed</td>
</tr>
<tr>
<td>Reduce fixed costs to attain operating profits in FY08/3</td>
<td>Reduce technology outsourcing</td>
<td>Completed (see above)</td>
</tr>
<tr>
<td></td>
<td>Reduce fixed production costs by capping CAPEX etc.</td>
<td>Established budget to reduce CAPEX</td>
</tr>
<tr>
<td></td>
<td>Reduce salaries for employee</td>
<td>Underway</td>
</tr>
</tbody>
</table>

(Progress as of May 14, 2007)
Strategic importance of Semiconductor Business for the NEC Group

Significance of Semiconductor Business
- Mid-term sales and profit growth driver
- Acquiring new market opportunities by integrating the strengths of Semiconductor and IT/Network Businesses
  - e.g. : Unique approach to automotive manufacturers joining the strengths of NEC Group as one
- Realization of technology Innovation by leveraging on R&D accomplishments

NEC Group’s business development in automotive business

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Towards revamp of Semiconductor Business

Expectations to NEC Electronics as a major shareholder

1. Ensure operating profit breakeven for FY2007
2. Continue to increase orders and realize mid-term growth

Become sales and profit growth driver for NEC Group

Continue to support the revamp of semiconductor business as NEC Group

- Support from NEC’s product division to enhance design capability
- Promote joint sales effort for strategic customer accounts as NEC Group, and fortify collaboration with sales partners
- Accelerate the collaboration of NEC Electronics, NEC, and strategic partner in the area of IT/Network business
- Execute strategic investment in core technology to gain competitive advantage as NEC Group in areas such as:
  - e.g.: Ultimately low power consumption technology ⇒ LCD backlight control, M2
  - e.g.: Graphic technology and NGN technology ⇒ EMMA and IPTV business
2. Mobile / Personal Solutions Business

Market Environment

- Mobile Terminals
  - Continuation of fierce competition among mobile operators
  - Diversification of demand in handset market
    (Demand increase in simple handsets, FOMA70x Series)
  - Slight decrease in domestic handset unit sales (NEC estimate)

- Personal Solutions
  - Domestic PC market expected at previous year level (IDC forecast, by unit)
  - Growth in video related services utilizing broadband network

FY2006
- Mobile Terminals: JPY 349.9
- Personal Solutions: JPY 615.1

FY2007
- Mobile Terminals: JPY 890 Bn (-8%)
- Personal Solutions: JPY 965 Bn

* Forecasts as of May 21, 2007
Mobile Terminals Business Strategy

Ensure profitability for full fiscal year

- Strengthening product competitiveness
  - Establish new uniqueness of “N-Brand”
    - Competitive products backed by technology advantage
      - Speed: HSDPA, Response time
      - Increased stand-by time, talk-time
      - Ultra-thin, High definition
    - Improve design competitiveness

- Realize results from strategic alliances
  - Commercialization of communication platforms from Adcore-Tech (2H/FY2007)
  - Co-development: Raise efficiency and expand partners (ESTEEMO, LiMo)

* Forecasts as of May 21, 2007
Personal Solutions Business Strategy

Maintain profitability and create new growth businesses

- **Strengthen the profitability of PC business**
  - Reduction of fixed costs
    - Improve quality and reduce support cost
  - Cost reduction through production innovation and improvement of capital efficiency

- **Expansion of services and new products, moving towards the NGN era**
  - Platform service business (BIGLOBE)
  - New personal solution products centered on home servers
  - Home network products (e.g. Home Gateway)
3. IT / NW Solutions Business

Market Environment

▲ Domestic IT Market
  - Favorable market environment with strong company results
  - Continuous growth in Service and Software

▲ Enterprise Network Market
  - Slight slow down in domestic market (4% to 5% growth)
  - Increasing demand for unified communication in the US
  - Increasing shift to IP in Europe

▲ Carrier Network Market
  - Domestic:
    - Investment in base stations due to Mobile Number Portability expected to peak out
    - Investments for commercialization of NGN products to pick in 2H/FY2007
  - Overseas:
    - Market recovery in US fixed line (optical fiber) market
    - Continuous growth in emerging countries

* Forecasts as of May 21, 2007
Increasing market expectations for NGN

NGN has gained great momentum this year

Market expectation for NGN to create new business opportunities

Market interest in NGN

- Interested 60.7%
- Don’t know 23.5%
- Not interested 15.8%

Source: Nikkei Communications, July 2007

Growing number of publications on NGN

Number of “NGN” Search on BIGLOBE

Indexed, April 2006 = 100

Growing number of publications on NGN

- Increasing interest in overseas
  - Very high level of interest at NGN seminars held in Indonesia and Thailand
    < Sponsored by NEC, co-sponsored by NTT, Asia Info-Communication Council, and others>
Expansion of NGN Deployment Business

Aiming to double FY2006 Sales of JPY 90 Bn in FY2007
► Assure to gain orders for 2nd phase (commercialization) of NGN projects
► Enhance service platform business by proposing new business models
► Focus and concentrate on overseas projects
  Propose attractive migration scenario to current customers
  Participate in overseas leading projects (IMS, WiMAX···)

< Carrier Investment Trends >

<table>
<thead>
<tr>
<th>FY2006</th>
<th>FY2007</th>
<th>FY2008</th>
<th>FY2009</th>
<th>FY2010</th>
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<tbody>
<tr>
<td>NTT NGN Trial</td>
<td>NTT NGN Investment</td>
<td>Ultra 3G/IP Investments of KDDI</td>
<td>SBT NGN (IRIS) Investments</td>
<td>S3G/LTE Investments</td>
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<tr>
<td>Investments on MNP (all carriers)</td>
<td>NGN Investments in developed nations/of global Carriers</td>
<td>Developing countries migrating to PSTN</td>
<td>Developing countries migrating to NGN</td>
<td>Chinese WCDMA Investments</td>
</tr>
</tbody>
</table>
Creation of new business solutions with NGN

- Expand service platform business <FY2007 Sales: over 200 Bn Yen, Approx. +30%>
- Provide enterprise solutions for customers taking lead in NGN
  - Thin client solution deployment
    - e.g. Daiwa Securities Group introduced 1,500 Units ⇒ aim for 10,000 level
  - Expand UNIVERGE solution menu
    (Aim +5% sales increase in Enterprise Solutions Business)
- Create new solutions by collective strength of NEC Group

Contents

Service Platform

- NGN
  - Seamless Service
  - Billing
  - Video
  - Security
  - Authentication

Combination of Broadcasting and Communication

Cross-industry collaboration

Intra-company Settlement Services Contents Delivery Telework e-government

Creation of new services
Driving Changes in Business Models

► Increase service revenue in IT Solution
  • Enhance “Life Cycle Support-type” of outsourcing
    (Total solution providing Integration, Operation and Maintenance)
  • Strengthen the operating base of Service Business
    • Increase staffs in Service Business
    • Establish virtual data centers utilizing NGN
  (Sales in Outsourcing Business : 290 Bn +20% ) *including network service business

► Expand software, SI and service business for Network Systems
  • Increase NGN service platform business
    • Open Hardware + NEC Software
  • Enhance solution menu in overseas business
    • Software license
    • Network Consulting, Network Design, Optimization, and others
    • Operation outsourcing

Sales Breakdown of IT Services / SI (FY2006)
- Project Base 41%
- Stock Base

Sales Breakdown of Network Systems (FY2006)
- Hardware
- Software, SI, Services 34%
- Others
Strengthening the operation of profit generating businesses (1/2)

Steady expansion in System Integration Business

► Drive growth by leveraging vertical solutions with NEC’s competitive advantage
  • Service platforms for communication / media industry
  • SAP solutions for manufacturing industry
  • Store system solutions, electronic payment solutions for retail industry

► Continue SI process innovation
  • Innovation of business process from sales / contract stage
    • Improve contract process
    • Increase professional staff focused on contracts
  • Shift from labor intensive business model
    • Service Platform System Integration based on system model and business model
    • Consolidate system engineer resources for platform system integration

* Forecasts as of May 21, 2007
Strengthening the operation of profit generating businesses (2/2)

New Development in Social Infrastructure Business:

Create growth businesses for “Post-digital broadcasting”

► Exploit new markets by leveraging NEC Group synergy
  • Video solutions (Broadcasting + IT + Network + Display solutions)
  • Video streaming platform, digital cinema, monitoring systems
  • Uncooled Infrared Detector (Module)

► Win large-scale overseas projects
  • Digital broadcasting (Europe, South America and others)
  • Postal business, Satellite business

► Strengthen businesses which support safe society
  • Strengthen space business, ITS business operations
  • Expand fire & disaster prevention, and physical security business leveraging on core technology strengths (wireless, sensors etc.)
Expansion of Global Business

Strengthen strategic global product portfolio

► Global expansion of Carrier Network Business
  ▶ Target #1 worldwide share of Pasolink
    Customer Base: 720 customers in 126 countries
  ▶ Expand optical fiber network business
    • Rebuild and expand US business
    • Win submarine cable projects

► Launch strategic IT Platform products
  ▶ Launch storage products centering on “HYDRAstor”
  ▶ Strengthen sales structure for thin client products in the US, Europe and APAC
  ▶ Quickly materialize results from global alliance
    • Introduction of fault tolerant server co-developed with Stratus
    • Promote cooperation with Unisys
    Product launch within the next Fiscal Year

World Share of Pasolink

Source: Sky Light Research

Ericsson
Nokia
Siemens
NEC

Express5800/320Fc-MR

ft Server

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4. Measures for Accelerating Growth

- Strengthen development of strategic products for IT/Network Solutions
  - NGN Transport / Service platform products
  - Global strategic products for IT Platforms
    (Storage, Thin Client, and others)

R&D Spending

Next Generation GRID Storage “HYDRAstor”

- Elimination of data duplication, dramatic increase in capacity efficiency
- Large capacity storage for the NGN era

* Forecasts as of May 21, 2007
4. Measures for Accelerating Growth (cont’d)

► Execute strategic investments in the growth area as a corporate-wide measure
  ▶ Solution development for the NGN era (e.g. Next-Gen CRM, RFID Solution)
  ▶ Establish global sales operation structure for strategic products
  ▶ Develop the world’s most advanced technologies (e.g. Next-Gen Supercomputer)

► Drive & Accelerate growth through M&A and Alliances
  ▶ Global expansion of IT solutions
    • Alliance with local System Integrators and consultants in Asia
    • Investigate non-organic growth opportunities lead by Global IT Solutions Strategy Division (newly established)
  ▶ Develop next generation technologies in the area of IT/Network business
    Seek cross-industrial cooperation to promote new business development
    • Establishment of joint venture with Nissan Motors Automotive Energy Supply Corporation
  ▶ Strengthen sales force through deeper relationship with partners

► Reinforce fundamental research capability to ensure mid-term growth
  ▶ Opening of C&C Innovation Research Laboratories
    • Aimed to conduct research in “C&C” that help advance societies and fulfillment of human potential through open innovation
III. FY2007 Management Objectives
# FY2007 Management Objectives

Execute growth measures and achieve business forecasts

<table>
<thead>
<tr>
<th>in JPY</th>
<th>FY07 Forecast</th>
<th>YoY</th>
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<tbody>
<tr>
<td>Net Sales</td>
<td>4,700 Billion</td>
<td>+ 1%</td>
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<tr>
<td>Operating Income</td>
<td>130 Billion</td>
<td>+60 Billion</td>
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<tr>
<td>Ratio to Net Sales</td>
<td>2.8%</td>
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<tr>
<td>Ordinary Income</td>
<td>80 Billion</td>
<td>+64 Billion</td>
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<tr>
<td>Net Income</td>
<td>30 Billion</td>
<td>+21 Billion</td>
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<tr>
<td>Ratio to Net Sales</td>
<td>0.6%</td>
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