

Q&A at Business Update Conference

Questioner A

Q:

Today (July 10, 2007) the Tokyo Stock Exchange (TSE) announced that it had placed NEC Electronics in a grace period for delisting purposes because the company fell within criteria for delisting companies in which a “special few” shareholders own more than 75% of listed shares. Could you please confirm NEC’s shareholding policy with respect to NEC Electronics?

A:

The TSE’s announcement also states the following (in Japanese): “The revision of criteria relating to share liquidity and other issues is open to public comment through July 23, 2007. If the TSE adopts new criteria according to the main points of this proposal, the TSE expects to lift the grace period.”

The parent company’s policy on the listing of subsidiaries is to wholly own companies involved in core businesses together with NEC Corp. , in principle. Conversely, we will list subsidiaries whose operations can be clearly separated from the parent company and where there are significant advantages to doing so in terms of enhancing competitiveness. NEC Electronics has clearly separable operations, namely the semiconductor business, and there are clear advantages to remaining listed. At this moment, we have no plans to change our shareholding policy.

Q:

How are you reducing development costs in the mobile handset business, amid falling shipment volumes per model as handsets continue to diversify?

A:

We have been enhancing the cost effectiveness of handset development

over the past two to three years in the mobile handset business. Naturally, the top priority is to develop attractive products that sell. To this end, we are concentrating efforts on fields other than technology per se, such as design, size and user friendliness. Equally important is to continuously unveil attractive products by realizing such high-speed communications features as HSDPA (High Speed Downlink Packet Access). Properly developing communications platforms is another priority. By reusing software, standardizing components and taking other steps, we have been reducing the development cost per model. We are also collaborating in development with the Matsushita Group through a joint venture, so we expect to reap significant benefits going forward.

Q:

What is the current status of the report to be filed with the SEC on the trading of NEC ADRs (American Depository Receipts) on the U.S. NASDAQ market?

A:

We are trying to submit the data required by our independent auditor as soon as possible so that we can file the report.

Questioner B

Q:

How are you controlling R&D expenses? Do you have criteria for withdrawing from development projects offering no earnings prospects?

A:

R&D expenses consist of expenses for NEC's Central Research Laboratories and expenses for operating divisions. Although research themes are determined by discussion with operating divisions, some are closer in nature to basic research. In this field, we have established C&C Innovation Research Laboratories, where we promote R&D based on global and "open" innovation, where NEC conducts collaborative research with partners such as universities and research institutes in Japan and overseas, and different industries. Here we focus basic research on creating

new businesses for the future, rather than directly contributing to business results.

Regarding R&D expenses at operating divisions, after formulating business plans, each operating division undertakes research according to business plans, while monitoring the prospect of recouping investments. However, we are building systems to control R&D expenses by terminating R&D programs where we no longer expect returns. There are currently a growing number of R&D projects targeting NGN and service platforms. These projects are being steadily implemented in line with business plans. Efforts are also focused on new products required to develop businesses on a global scale.

Q:

Profitability in the IT/Network Solutions business is on a par with peer companies in Japan. What is your outlook?

A:

I believe there is still room to improve profitability in IT-related businesses by further enhancing software development efficiency. By contrast, profitability in the network-related business is already high, so we will focus instead on initiatives to achieve even higher growth in sales.

Q:

You brought up Pasolink (point-to-point microwave wireless access system), which is included in network systems, as an example of a successful global business. What was the secret behind this success?

A:

Production of Pasolink was initiated by NEC's section for microwave communications equipment around 20 years ago. Although market conditions forced us to downsize this section, I believe the resulting sense of urgency ultimately led to a stronger focus on the Pasolink business and its success today. To prevail against fierce price-based competition, we standardized components and took other production innovation initiatives. Furthermore, we stepped up collaboration vertically, including sales,

development, production and maintenance. Finally, our steadily rising market share has generated an even stronger positive cycle.

A:

Currently, there is large demand for Pasolink overseas as a communications system linking mobile phone base stations. Looking ahead, I believe Pasolink also has enterprise and other applications. NEC will continue to create new markets as we aim to boost shipment volumes.

Questioner C

Q:

Why did a corporate scandal occur at NEC? What measures are being taken to prevent a recurrence?

A:

On May 29, 2007, NEC announced that an individual employee had recorded improper transactions. I believe that one factor behind this incident was the excessive downsizing of our organization to the bare minimum in pursuit of efficiency.

In response, as a measure to prevent a recurrence, we have separated job responsibilities to ensure that ordering and revenue recognition are not performed by one person. Furthermore, NEC has established an administrative team to audit these processes to fully verify transaction details. Job responsibilities are also being separated in procurement activities. Moreover, NEC is conducting internal audits of frontline operations through the Corporate Auditing Bureau, which reports directly to me. We have strengthened this bureau by increasing its staff to 200 employees Group-wide. In addition, we are encouraging employees to actively use the internal reporting system.

However, the most significant factor was that our corporate culture was permissive of such a corporate scandal. The false transactions scandal was uncovered through a tax investigation by the National Tax Agency of Japan that began one-and-a-half years ago. Since I was appointed president in

April 2006, I have repeatedly stressed to employees the importance of “Compliance First.” I have told everyone at NEC that I want them to conduct business that nobody would find objectionable. I have driven home this message to senior-level managers, and to employees through weekly Internet messages and on visits to plants and business offices, and on many other occasions. I want to create a corporate culture with no tolerance for misconduct. I want people to have an unwavering resolve to make improvements every day and to do their utmost to this end without becoming complacent.

Q:

Don’t you think NEC Electronics could better demonstrate its strengths as a wholly owned subsidiary of NEC?

A:

The listing has the advantage of giving NEC Electronics a broader range of channels to raise funds. In addition, I believe management of NEC Electronics is subject to extremely strict checks by shareholders other than NEC by virtue of being listed. The listing also has other benefits, including enhancing the morale of employees.

Q:

What are your Medium-term Management targets for the three years hence?

A:

ROE is a key management target. We will work to achieve double-digit ROE over the medium term.

Questioner D

Q:

There has been debate in Japan over the removal of SIM (Subscriber Identity Module) locks from mobile handsets*. What is your view?

* Information required for mobile handsets to function, such as phone numbers and user IDs, are recorded on SIM cards. Currently, even if SIM

cards are removed from handsets and replaced with the SIM cards of other mobile phone carriers, the handsets will not work because they are guarded by SIM locks (carrier locks).

A:

We have requested Japan's Mobile Business Study Group, which is proposing the removal of SIM locks from mobile handsets, to cautiously discuss this issue based on consideration of whether the current system has been working effectively..

Q:

NEC Electronics' M2 communications chip for mobile handsets doesn't seem to have a particularly strong customer following. I believe this chip is superior to those of other companies. Why isn't the customer base growing?

A:

In some respects, NEC Electronics may not have focused enough effort on the sale of this product. As NEC Electronics concentrates resources on strategic products, the communications aspects of mobile phones represent one of the company's strengths. The entire NEC Group is supporting NEC Electronics, through measures such as augmenting its sales activities with NEC's expertise in its devices business. In this and other ways, we will work on expanding the customer base.

Questioner E

Q:

What measures is NEC taking to improve the business performance of NEC Electronics, as its parent company?

A:

Improvement in NEC Electronics' business performance is extremely important for NEC and NEC Electronics shareholders. As a major shareholder, we urge NEC Electronics to prioritize improving its own business performance above all.

In the past, we decided to withhold some cooperation as a partner from NEC Electronics out of respect for its autonomy. However, we are currently doing our utmost as a partner to support NEC Electronics' drive to restore its earnings.

Q:

Will the change in mobile handset sales practices (subsidy system) have any impact on this business?

A:

No significant changes in the market are likely in the short term. However, I believe the most effective way to deal with this change in handset sales practices is to reinforce our business base. As before, we will continue to focus on developing attractive products and reinforcing sales capabilities.

Q:

Could you explain your plans for overseas businesses in IT-related fields?

A:

To expand businesses overseas, NEC will first continue to supply hardware on an OEM basis to its major worldwide partners, including U.S.-based Unisys Corporation, Stratus Technologies, Inc. and EMC Corporation. Furthermore, some products like next-generation storage products will be developed overseas to cultivate new customers abroad. And as IT and networks converge, we will leverage our strengths in the enterprise network field to expand this customer base into the IT field. For this purpose, we will consider M&As as a means of compensating for our weaknesses and reinforcing our strengths.