

May 15, 2008

Fiscal 2007 Earnings Presentation Q&A

Questioner A

Q What is your forecast for income before income taxes and minority interests for fiscal 2008, the year ending March 31, 2009?

A Our forecast assumes possible structural reform expenses of between ¥10 billion and ¥20 billion, which will be deducted from our ordinary income forecast of ¥135 billion. However, specific structural reform expenses have yet to be determined at this time.

Q What are your segment forecasts for R&D expenses? In fiscal 2007, NEC earmarked separate strategic R&D expenses other than for its 3 segments. Do you have similar plans for fiscal 2008?

A We are forecasting R&D expenses of ¥375 billion for NEC as a whole for fiscal 2008. This forecast is made up of ¥170.0 billion for the IT/Network Solutions business, ¥13.5 billion more year on year; ¥50 billion for the Mobile/Personal Solutions business, ¥4.2 billion more than fiscal 2007; and ¥120 billion for the Electron Devices business, which is ¥2.2 billion more year on year; and ¥35 billion for the Others segment. We have included projected development expenses for driving medium-term sales growth in segment forecasts from the outset of fiscal 2008, as ongoing expenses from fiscal 2007.

Q What are your sales volume projections for mobile handsets and PCs? Do you expect growth in mobile handset sales volume to come entirely from the Japanese market?

A We are forecasting mobile handset sales of approximately 7 million units in fiscal 2008, with all projected sales in Japan. This compares with our fiscal 2007 result of 4.8 million units. Our PC sales projection is 2.75 million units, against 2.67 million units in fiscal 2007.

Questioner B

Q NEC Electronics Corporation does not seem competitive in semiconductors for communications applications, especially given that

sales in this business have halved over the past five years. Why is NEC Electronics continuing this business? How would NEC respond, as the parent company, if NEC Electronics' management were to announce plans to withdraw from semiconductors for mobile handsets?

A We don't feel it is appropriate for us to comment on the performance of NEC Electronics' semiconductors for communications applications. This issue principally concerns NEC Electronics and its market.

We believe that NEC Electronics should decide on issues related to its semiconductor business for mobile handsets, not NEC.

Q NEC rejected a ¥5,000-per-share purchase offer for its NEC Electronics shares. However, NEC Electronics' share price has since dropped sharply to around ¥2,400 at present. Have your shareholders lost out as a result of rejecting the offer?

A NEC Electronics is starting to see gradual improvement in its business results and stock price. Because it is a fundamentally strong company, we believe that higher profitability is well within reach and when achieved will be reflected in its stock price going forward. Therefore, we don't believe that our shareholders have suffered any loss.

Questioner C

Q How do you plan to achieve your fiscal 2008 sales volume target of 7 million mobile handsets? Do you plan to resume handset sales to SoftBank or conduct OEM/ODM? NEC is forecasting earnings growth of only around ¥3 billion in the mobile handset business on a projected nearly ¥100 billion increase in sales. Why is this?

A Our sales volume target for mobile handsets is fairly ambitious. However, we believe that a future sales volume target of around 10 million units is necessary to boost profitability in this business. To this end, in fiscal 2008 we will consider ways of having NEC mobile handsets account for a larger percentage of NTT DoCoMo, Inc.'s total handset procurement volume and resuming the supply of mobile handsets to other communications carrier.

In terms of earnings targets, we are projecting higher development

expenses than in the previous year because we plan to increase the number of handset models. Higher promotional expenses should also be necessary to begin shipments to new operator.

Q Looking at the impact of exchange rate movements on fiscal 2008 forecasts, NEC is assuming an exchange rate of ¥105 against the U.S. dollar. What impact would an exchange rate of ¥100 against the U.S. dollar have on NEC's performance in fiscal 2008?

A Because the NEC Group, excluding NEC Electronics, imports more than it exports, an exchange rate of ¥100 to the U.S. dollar would still have a positive impact on the NEC Group's overall earnings. Changing our yen-U.S. dollar exchange rate assumption from ¥105 to ¥100 would increase earnings by around ¥2 billion to ¥3 billion. However, this beneficial impact on earnings may be offset by falling product prices due to competition and other factors. For this reason, not all of the projected exchange rate benefits would result in higher earnings.

Q What was the average exchange rate for fiscal 2007?

A The simple average exchange rate over the first and second halves of the fiscal year was around ¥115 to the U.S. dollar.

Questioner D

Q Operating income was ¥156.8 billion, outperforming your January forecast of ¥130 billion. What were the reasons?

A Compared with our January forecast, operating income improved ¥17.0 billion in the Mobile/Personal Solutions business and ¥5.1 billion at NEC Electronics. The Others segment also beat the January forecast. The IT Products and IT Services/SI areas of the IT/Network Solutions business also outperformed due to emergence of strong seasonal factors in fiscal 2007 that concentrate sales and earnings in the fourth quarter.

Q Why are you targeting top-line growth in fiscal 2008?

A NEC's net sales have remained between ¥4.5 trillion and ¥5 trillion over the past 10 years. Going forward, we aim to drive earnings growth by increasing sales.

Q Your sales volume target of 7 million mobile handsets would represent a sharp increase on the 4.8 million units shipped in the previous fiscal year. You said that new initiatives, such as supplying handsets to customers other than NTT DoCoMo, would be involved. How confident are you about this target?

A We can't guarantee that we'll achieve it with absolute certainty, but our target takes into account discussions with customers currently under way.

Q What is the background behind the projected second-half increase in Network Systems sales?

A We are projecting higher overseas PASOLINK sales, as well as increased sales of optical submarine cable systems, optical networks and other products. We also expect the demand in the Japanese market to start increasing in the second half of the fiscal year.

Questioner E

Q Network Systems earnings are projected to increase in fiscal 2008 in year-on-year terms. How do you expect your product mix to change as NGN and PASOLINK sales increase, while base station equipment sales decrease?

A Let me explain this in terms of changes in sales. Network Systems sales for carriers in the Japanese market will account for two-thirds of overall sales, but we expect an upper single-digit increase. Overseas, we are projecting growth of just over 10%.

Q The NGN construction business posted net sales of ¥200 billion in fiscal 2007. What is your fiscal 2008 outlook?

A We expect continued growth, with projected net sales of around ¥300 billion for fiscal 2008.

Q What impact do exchange rate movements have on Network Systems?

A Because of the relatively heavy weighting of exports in the Network Systems area, a stronger yen has a negative impact here.

Q What is your fiscal 2008 free cash flows forecast?

A We are projecting free cash flows of ¥60 billion.

Questioner F

Q Please explain projected income taxes for fiscal 2008. Your tax rate seems higher than the standard rate. Why?

A Our tax rate was higher in fiscal 2007 because of the impact of losses at subsidiaries NEC Electronics and NEC TOKIN Corporation, which involved special factors, namely the booking of a valuation allowance on deferred tax assets. We don't expect special factors to have such a large impact in fiscal 2008. The difference between actual and standard tax rates reflects differences in financial and tax accounting, which produce differences of around ¥10 billion to ¥15 billion in a typical year. For example, entertainment expenses and the amortization of goodwill are not deductible for tax purposes.

Q There was an increase in the amount of unrecognized benefit obligations in fiscal 2007 due to falling stock prices. How many years will it take to amortize this shortfall? Does NEC expect lower pension costs if stock prices improve going forward?

A Pension assets have decreased by more than ¥100 billion compared with a year ago. The resulting shortfall in pension and retirement benefit reserves will be amortized over the average remaining service period of employees of 13 years. Therefore, this will have the impact of increasing pension costs by approximately ¥12 billion a year. Because the funded status of pension and retirement benefit reserves at the fiscal year-end determine pension costs for the following fiscal year, the impact of any improvement in stock prices on improving pension costs will not appear in the current fiscal year, but in the next fiscal year.

Q From fiscal 2008, inventories will be valued using the lower of cost or market method due to a change in accounting standards. What impact will this have on NEC?

A This change will have no impact on NEC because we have already applied the lower of cost or market method to inventories.