NEC’s Mobile Terminals Business

June 9, 2008
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Executive Vice President
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(Notes)
NEC prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan ("Japan GAAP"). FY2007=FY ended March 2008, FY2008=FY ending March 2009 and so on.
FY08 Business Plan
Current Status of Mobile Terminal Business

- **Sales Volume**: Returning to growth after bottoming out
- **Operating P/L**: Maintaining profitability since breaking even in 2H/FY06

### Sales Volume & Operating P/L of Mobile Terminals business

<table>
<thead>
<tr>
<th>Sales Volume (Millions of Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating P/L (Billions of Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>B/E</td>
</tr>
</tbody>
</table>

Toward growth phase

Sales Volume Forecast as of May 15, 2008

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Business Strategies

**Drive further top-line growth**
- Enhance product lineup for NTT DoCoMo and increase our share of sales
- Begin supply of NEC terminals to SOFTBANK MOBILE (Release in July)
- Promote business with partners

**Strengthen profit structure**
- Enhance development capabilities through common software development
- Reduce material costs by using more common parts
- Maximize earning opportunities through strong supply chain management

<table>
<thead>
<tr>
<th>Sales Volume (Millions of units)</th>
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<tbody>
<tr>
<td>2007</td>
</tr>
<tr>
<td>1H</td>
</tr>
<tr>
<td>1.2</td>
</tr>
<tr>
<td>2H</td>
</tr>
<tr>
<td>2.7</td>
</tr>
<tr>
<td>2008 (Forecast)</td>
</tr>
<tr>
<td>1Q</td>
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<tr>
<td>1.6</td>
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<tr>
<td>1Q</td>
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<tr>
<td>1.2</td>
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<tr>
<td>2.1</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>7</td>
</tr>
</tbody>
</table>

U can change.
FY08 Product Enhancement

✿ Introduce more than twice as many models than FY07
  ▶ Aiming to increase sales volume and market share with a diverse lineup
    1H/FY07: 2 models
    2H/FY07: 4 models
    1H/FY08: 8 models

✿ 1H/FY08 Enhancement measures
  ▶ Excellence in design, functionality and CMF
  ▶ Unwavering pursuit of user friendliness
  ▶ Better Internet compatibility in anticipation of the NGN era

*CMF: Colors, Materials and Finish
Pursue excellence in designs, functionality and CMF

▶ Greater functionality
▶ More fashionable & stylish

▶ Collaboration with name brands

Unwavering pursuit of user friendliness
▶ Propose products to a broad range of customers based on Universal Design principles that make products more user friendly

Better Internet capability in anticipation of the NGN era
▶ Advanced HSDPA / W-LAN dual handset for realizing personal FMC

*CMF: Colors, Materials and Finish
N906iL (onefone): W-LAN Dual Handset for Realizing Personal FMC

NTT DoCoMo’s Home U Service: Backed by NEC’s Collective Strengths

- Base stations
- IMS
- CIRCUS (i-mode gateway)
- Aterm (W-LAN router)
- onefone N906iL

Home network terminals such as ONU/ADSL Modem etc.

High-speed packet communication via W-LAN

Home U environment (home)

- FOMA 3G cellular environment (outside home)

VoIP calls between Home U users are free 24/7

VoIP calls to non-Home U users are 30% cheaper

Non-N906iL models (mobile/fixed)

Home U

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Measures for Enhancing Development Capabilities
Measures for Enhancing Development Capabilities

Software development

- Enhance software platform based on Linux
- Develop and assess derivative models more efficiently through process improvements
  ⇒ Shorten development/assessment period through master software incorporating specifications for multiple models

Hardware development

- Upfront development of a reference model as the basis for new models
- Establish specialized development processes for derivative models
- Reinforce common parts and cost management
Software Development (Master Software)

- Advanced development of master software and application to models
  - Design software architecture for flexible adoption/removal of functions for each product
  - Conduct efficient development by selecting modules and picking out software for each commercial model as needed

Master software architecture

<table>
<thead>
<tr>
<th>Functionality Block</th>
<th>Application</th>
<th>Middleware</th>
<th>OS (Common)</th>
<th>Driver (by hardware)</th>
</tr>
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Examples of functions incorporated into master software
- Main features: PoC, GPS, DTV, Electric book
- Languages: Japanese, English, XX
- Input: Neuro-pointer
- Camera: 3M, 5M
- LCD resolution: WVGA, WQVGA
- Hardware Style: Cram-shell, 2-axis hinge
- Back display: Yes/No, Sizes

- **Product-A**
  - Main features: All
  - Languages: Japanese, English
  - Input: Neuro-pointer
  - Camera: 5M
  - LCD resolution: WVGA
  - Hardware Style: 2-axis hinge
  - Back display: No

- **Product-B**
  - Main features: No PoC, No GPS
  - Languages: Japanese only
  - Input: No
  - Camera: 3M
  - LCD resolution: WQVGA
  - Hardware Style: Clam-shell
  - Back display: OLED
Medium-term Growth Target
Drive Further Top-line Growth

- Capture a top share of the existing mobile handset market
- Create new value and markets through the One NEC collaboration

Sales Volume (Millions of units)

Japanese market share

Note: Figures for 2005 and 2006 include overseas mobile handset sales volumes.
Measures to Drive Top-line Growth

<Actions in existing markets>

- Meet diversifying user needs
  - Strive to make NGN/Internet access handsets even more user friendly
    - Enhance product design and collaboration functions
    - New form factors – enable easy one-hand mobile handset operation, depending on application, in order to realize more user friendly formats
    - Next Generation User Interface (UI)
      - Develop MI engine and Adopt widget technologies
        ※MI engine: Mobile Intelligent engine
        Provides optimal user interfaces, functionality and services by learning each user’s behavior and mobile-handset operating characteristics

<Actions in new markets>

- Drive further advancement in personal FMC
  (Seamless radio access technologies)

- Create new value through collaboration between PC/Mobile Handsets/Services (BIGLOBE)
NEC’s Future Direction
Change in Market Conditions①:
Advancement in Information and Communications Technologies

- **Expansion of network infrastructure and increases in CPU processing power** are expected to continue going forward.

**Expansion of network infrastructure**
- Network access speed is now 1,600 times faster than roughly 10 years ago.
- Increases in CPU processing power are now 100 times faster than roughly 10 years ago.
  - (1995 → 2008)

**Speed**
- 1980
- 1985
- 1990
- 1995
- 2000
- 2007~

**Clock frequency**
- 3GHz

**Wired**
- Coupler
- Analog line
- ISDN
- ADSL
- FTTH
- 100M bps
- 100M bps

**Wireless**
- Mobile 3.5G
- 2Mbps
- 64kbps
- 2400bps
- 2400bps

**CPU processing power**
- 33M
- 800M

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Changes in Market Conditions②: Rapid Increase in Data Traffic

Rapid increase in data traffic due to the emergence of rich content

Data traffic exchanged at major domestic IXs (JPIX, JPNAP, and NSPIXP)

[Source: MIC press release issued February 21, 2008]

Expanded roughly 1,300-fold over approx. 10 years
(Jan 1997 to Nov. 2007)

Monthly average of daily peak traffic
Addressing User needs:  
Providing an Information Environment Friendly to Consumers

Consumers want:
1. To use network service reliably and securely
2. To use information freely wherever it may be stored
3. To use information intuitively via easy-to-use handsets
4. To use rich content services anytime, anyplace
“One NEC” Value Proposition: To Provide an Information Environment Friendly to People

Realize an information environment where users can access the information and applications they need immediately, easily, securely and anywhere

Home area
- PCs (Desktop)
- PCs (Laptop)
- Lui PC Remoters
- Mobile (FMC)

Mobile area
- Mobile
- N906iL
- N906i μ

Mobile area
- N906i μ
- Special purpose

New terminals
- Mobile
- Portable

Develop new handset markets

Develop new service markets

Home area
- Information and data in network storage
- Information on Lui server
- Various applications

Content, Personal Information and Applications

① Robust information security
- NGN
- LTE

Secure, hi-speed infrastructure

② Unification and optimal placement of information

③ Next generation UI (Optimal for each terminal and unified in terms of unique NEC designs)

④ Make rich-content services compatible with mobility (Link mobile phone and PC technologies and equipment, and network services)

⑤ SDP, IMS
- Advanced billing, authentication, and settlement

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Make Rich Content Services Compatible with Mobility through Lui’s “PC on Demand” Function

Enable remote use of home server PC over a home network or the Internet via a small, lightweight PC remoter

Handheld portable devices

From a hotel

From a cafe

From another room

Internet

TV

Home server PC

Public wireless LAN service

Diverse radio network access

Remote screen technology

Enable more user friendly and secure remote access through the dedicated image compression LSI “Remote screen engine” and the proprietary “Safe connect” VPN

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Example of a New Value Proposition: Supporting Individual Experiences

- Support individuals by unifying terminals (network coordination/next generation UI) and services
- Enable even more advanced support by enhancing network coordination/next generation UI going forward (Provide AI-level support with processing power on par with supercomputers)

**<In the next 1-2 years>**
- Educational support service
- Metabolic syndrome prevention service etc

**Terminals**
- Educational terminals
- Health management terminals

**<In the future>**
- AI (Advanced artificial intelligence)
  - General health management services etc

**Advancement in services/terminals**
- Portable handheld supercomputers

**Next generation UI (Intuitive operation)**
- Touch panel, voice recognition, acceleration sensors, etc

**Information networks**
- Information processing function, storage function, service platforms (billing, security, etc)

**Self-improvement services**
- Educational support service
  - Metabolic syndrome prevention service etc

**U can change.** 

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20
New Lifestyle Proposal for the Ubiquitous Networking Era

- Home electronics manufacturers
- Video cameras
- Digital cameras
- Recorders
- Game machines
- TVs

Linking information in the home

- NEC’s model
  - NEC’s businesses
    - New handset markets
    - New service markets
      - Various content, personal information and applications
    - New infrastructure
      - Security, network, billing/authentication and settlement

- NGN
  - SaaS platforms
  - Servers
  - Datacenters
  - Storage
  - Supercomputers
  - Mobile handsets
  - PDAs
  - PC remoters

Linking information in the home (photographs, videos, etc)

- Access information as needed over networks from any terminal

- People friendly
  - Eliminate the digital divide
  - Make rich content services compatible with mobility
  - Next generation UIs (people friendly)
  - Unify information
  - Provide safety and security

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NEC’s attractive range of products for 2008 will help us to reach a new stage of growth.