

July 31, 2008

## **Fiscal 2008 First-Quarter Earnings Presentation Q&A**

### **Questioner A**

**Q** How did earnings in the Mobile/Personal Solutions business break down in the first quarter?

**A** In the first quarter, earnings in the Mobile Terminals and Personal Solutions areas were around ¥5.0 billion and ¥1.0 billion, respectively. However, our first-half earnings forecast of ¥6.0 billion for the Mobile/Personal Solutions business is based on earnings from the Mobile Terminals area only; the Personal Solutions area is projected to break even in the first half.

**Q** Can you still achieve your sales volume forecast for mobile handsets, given the challenging market conditions at present?

**A** We have not changed our sales volume targets of 3 million units and 4 million units for the first half and second half, respectively. Considering that some projections are calling for an approximate 20% decline in Japan's mobile handset market in fiscal 2008, these targets will by no means be easy to achieve. However, NEC posted an approximate 30% year-on-year increase in sales volume mobile handsets in the first quarter. By harnessing our unique strengths in terms of handset thinness and usability, we aim to sustain our first-quarter momentum.

**Q** PASOLINK sales declined after growing for some time. How are market conditions holding up?

**A** Regarding PASOLINK, first-quarter sales volume grew at a 10-15% rate, but first-quarter monetary sales decreased year on year due to the impact of the stronger yen. Our price-based competitiveness was affected by the yen's appreciation, even as we faced competition with Chinese manufacturers and other issues.

### **Questioner B**

**Q** You said that sales volume to mobile communications carriers in Japan declined year on year. However, certain other companies reported higher

sales volumes to NTT DOCOMO in connection with base stations for new bandwidths. How did things go at NEC?

**A** Our sales volume was significantly affected by lower sales to carriers other than NTT DOCOMO, rather than by a drop in sales volume to NTT DOCOMO per se.

**Q** How do you view your emerging competitors from China in the PASOLINK business?

**A** We believe they are formidable in terms of price. However, price is not the only factor determining competitiveness. We intend to enhance our price-based competitiveness by continuously cutting costs through production innovation activities, which have produced major results so far. At the same time, we should be able to take advantage of our strengths in many other areas, such as our high quality and performance, maintenance support and short delivery periods.

### **Questioner C**

**Q** How do retail inventories for mobile phones stand?

**A** Retail inventories may be increasing compared with previous levels. We need to keep a close eye on the situation.

**Q** What actions will NEC take if achievement of mobile handset sales volume forecasts becomes unlikely amid a deteriorating operating climate?

**A** We would focus on balancing sales volume with profitability.

**Q** Has NEC begun shipping mobile handsets to Softbank Mobile? How are efforts to supply mobile handsets under third-party brands progressing?

**A** We have been shipping mobile handsets to Softbank Mobile since the end of June. We are also supplying mobile handsets under third-party brands. Things are proceeding on schedule.

### **Questioner D**

**Q** Has there been any change to your full-year business forecasts?

**A** At this time, there has been no change.

**Q** How confident are you about achieving your first-half forecasts for the

Network Systems area?

**A** Our forecast is an ambitious target. In the Network Systems area, our strong NGN-related business posted first-quarter sales growth of around 50% year on year. We expect capital investment by carriers to increase as they expand their service areas going forward. Meanwhile, we are keeping a close eye on investment trends among carriers and the effect of exchange rate movements on overseas shipments.

### **Questioner E**

**Q** Has there been any change in the industry make-up of new orders received in the IT Services/SI area?

**A** In the first quarter, new orders received were largely as initially forecast. By industry, new orders received from the financial services sector (regional banks and securities firms) slowed slightly, but new orders from all other sectors grew steadily.

**Q** Has NEC made any more progress with its alliance with Alcatel-Lucent?

**A** Plans to establish a joint venture this fall to develop Long Term Evolution (LTE), a 3.9G mobile phone system, are on track. The two companies are also considering collaboration in other fields.

### **Questioner F**

**Q** The Mobile Terminals area posted first-quarter operating income of ¥5.0 billion. Was this in line with your projections? Shouldn't development expenses decrease from the first to second quarters given that mobile handset shipments to Softbank Mobile were resumed in the first quarter?

**A** In the first half, NEC will launch 8 models, compared with 2 models in the same period of the previous fiscal year, and plans to release multiple models in the second half. Therefore, we expect second-quarter development expenses to remain roughly the same as the first quarter. The main reason for the second-quarter drop in earnings from the first quarter is the projected decline in sales volume from the first to second quarters.

**Q** In PASOLINK operations, does NEC compete with Chinese manufacturers in the 3G or GSM domains?

**A** PASOLINK is compatible with both 3G and GSM networks. Therefore,

certain PASOLINK products are in competition with Chinese manufacturers.