

January 28, 2010

**Earnings Presentation Q&A  
for the Third Quarter of Fiscal 2009, the Year Ending March 31, 2010**

Key:

- : Question
- : NEC's answer

\*“Previous forecasts” refers to forecasts announced on October 29, 2009 (at the first-half earnings presentation).

- \*Fiscal 2008: Year ended March 31, 2009
- Fiscal 2009: Year ending March 31, 2010
- Fiscal 2010: Year ending March 31, 2011

**Questioner A**

•How did the Network Systems Business' PASOLINK and submarine cable system perform in the third quarter of fiscal 2009? What is your outlook for fiscal 2010 and beyond? Can PASOLINK-related fixed costs be reduced any further going forward?

→In the fiscal 2009 third quarter, PASOLINK sales were approximately ¥25.0 billion, and roughly ¥40.0 billion in the fiscal 2008 third quarter. Full-year PASOLINK sales are projected at roughly ¥110.0 billion for fiscal 2009, down roughly ¥40.0 billion from approximately ¥150.0 billion for fiscal 2008. Although its market situation is becoming severe, PASOLINK has held on to the top share of the global market.

→The submarine cable system involves large individual projects. In fiscal 2009, many projects have been winding down, while there were projects for which the timing for recognizing sales and orders have been delayed, despite efforts to win future projects from existing ones. As a result, third-quarter submarine cable system sales decreased year on year. These factors notwithstanding, there is considerable demand for submarine cable systems.

→In fiscal 2010 and beyond, PASOLINK sales are likely to remain mostly unchanged, and will probably not increase substantially from fiscal 2009, although growth will depend on the strength of demand in newly emerging countries. In fiscal 2010, we expect submarine cable system sales to return to the fiscal 2008 level, as projects for which the timing for recognizing sales and orders have been delayed start contributing to sales.

→We have continued to reduce PASOLINK-related fixed costs, and this will continue going forward.

•In the Personal Solutions Business, NEC has made downward revision of the shipments forecast for mobile handsets by 0.5 million units. However, NEC has not revised its fiscal 2009 sales forecast for the Personal Solutions Business, or its operating income forecast. Why not?

→In the mobile handset field, higher development-cost efficiency has yielded increasing benefits year by year. Therefore, we believe that earnings will not be significantly affected by the drop in shipments volume. In fact, the Mobile Terminals area is generating a profit.

→The PC market is being energized by the launch of the Windows 7 operating system. Growing needs for value-added PCs are emerging, as the popularity of low-price PCs slows down. The PC and Others area, which includes PCs, is generating a profit.

## **Questioner B**

•NEC recorded a reversal of provision for contingent loss of ¥4.4 billion under non-operating income in the third quarter of fiscal 2009. Please explain.

→ In connection with an overseas tariff case under negotiations with the relevant authorities, NEC had previously recorded a provision for contingent loss. However, because a resolution now appears likely, we have recorded the difference between the provision and the anticipated loss as a reversal of the provision for contingent loss.

•Please explain the assumptions behind your full-year ordinary income and net income forecasts.

→We are currently analyzing a range of possibilities for achieving our most important target for the current fiscal year: net income of ¥10.0 billion. We are trying to take all steps necessary to meet this target, including reorganizing assets.

•Generally speaking, IT services businesses are struggling, particularly in the small- and medium business (SMB) market in Japan. How does NEC view the situation?

→We feel that recovery has been slow in the SMB market compared with that for major companies. Business conditions have been in line with initial expectations. Even if there are some differences between actual sales in the SMB market and forecasts, we do not anticipate any large impact on our IT Services Business as a whole for the full fiscal year.

### **Questioner C**

•How does the third-quarter operating loss of ¥7.5 billion compare with your internal forecast?

→Our impression is that the operating-loss result was slightly better than expected overall, because of faster-than-anticipated progress with cost reductions. Net sales largely tracked our initial forecast.

•Could NEC surpass its fixed-cost reduction target of ¥290.0 billion in fiscal 2009?

→With fixed-cost reductions progressing ahead of schedule through the third quarter, we believe that our fixed-cost reduction target of ¥290 billion is well within reach. A strong sense of urgency has permeated the entire company.

•Could the IT Services Business outperform its previous full-year forecasts?

→We certainly hope so. The IT Services Business, has progressed steadily through the third quarter. However, fourth-quarter sales account for a large percentage of full-year sales and our targets are fairly aggressive.

### **Questioner D**

•The IT Services Business has performed largely in line with internal forecasts through the third quarter. Has the IT Services Business sought to bring forward any projects from the fourth quarter? Has the IT Services Business been affected by the fiscal 2009 partial supplementary budget freeze or other policy changes by the new Japanese administration?

→The IT Services Business is working to bring forward as many projects as possible to achieve its targets. While emphasizing customer relationships, the IT Services Business will continue working to win orders and conduct project inspections as early as possible.

→There has been no particular impact from the fiscal 2009 partial supplementary budget freeze or the screening of budget requests.

•How did the Electron Devices Business, excluding semiconductors, perform in terms of third-quarter operating profitability?

→NEC TOKIN Corporation is currently engaged in business restructuring and has returned to profitability. Automotive lithium-ion batteries are now at the prototype stage, and will therefore have almost no impact on fiscal 2009 results.

#### **Questioner E**

•How are prices of PCs for business use trending?

→Compared with PCs for consumers, PCs for business use do not presently offer prospects for improvement in terms of volume or price. PCs for business are not very likely to show improvement in average unit price either, compared with PCs for consumers.

#### **Questioner G**

•What kind of smart-phone lineup will be provided by NEC CASIO Mobile Communications, Ltd., the new mobile-handset joint venture company?

→These smart phones will probably be used as “C&C Cloud” solution handsets. We plan to release a handset based on the Android operating system in the latter half of fiscal 2010.