

Business Strategy

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(Note)

1. The consolidated financial statements of NEC are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.
2. "Operating income" set forth above is a measure commonly used by other Japanese companies that report their financial results in accordance with generally accepted accounting financial reporting practices in Japan. "Operating income" is calculated by deducting cost of sales and selling, general and administrative expenses from net sales. Management believes this measure is useful to investors in comparing NEC's results of operations to other Japanese companies. This measure, however, should not be construed as an alternative to "income before income taxes" or "net income" as determined in accordance with U.S. GAAP. Please refer to the condensed consolidated statement of operations for the calculation of the operating income.

FY (Fiscal Year) 2006 indicated in this slides means the year ending March 2007. Other FYs are indicated in same way.

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Today's Agenda

- I. Management Policies
- II. Turnaround Measures of Underperforming Businesses
- III. Growth Strategy Geared toward NGN
 - IT / NW Solutions for Carriers
 - IT / NW Solutions for Enterprises
- IV. Conclusion

I. Management Policies

Current Situation of NEC Group

- ◆ Accomplishments & issues over the past few years
 - Strengthened capital structure, implemented structural reforms
 - Reinforced IT/Network Solutions business
 - Poor performance of Semiconductors and Mobile Terminals businesses
- ◆ Expansion of business opportunities
 - NGN (Next Generation Network), as the new ICT market



Execute turnaround of underperforming businesses and

move aggressively towards growth

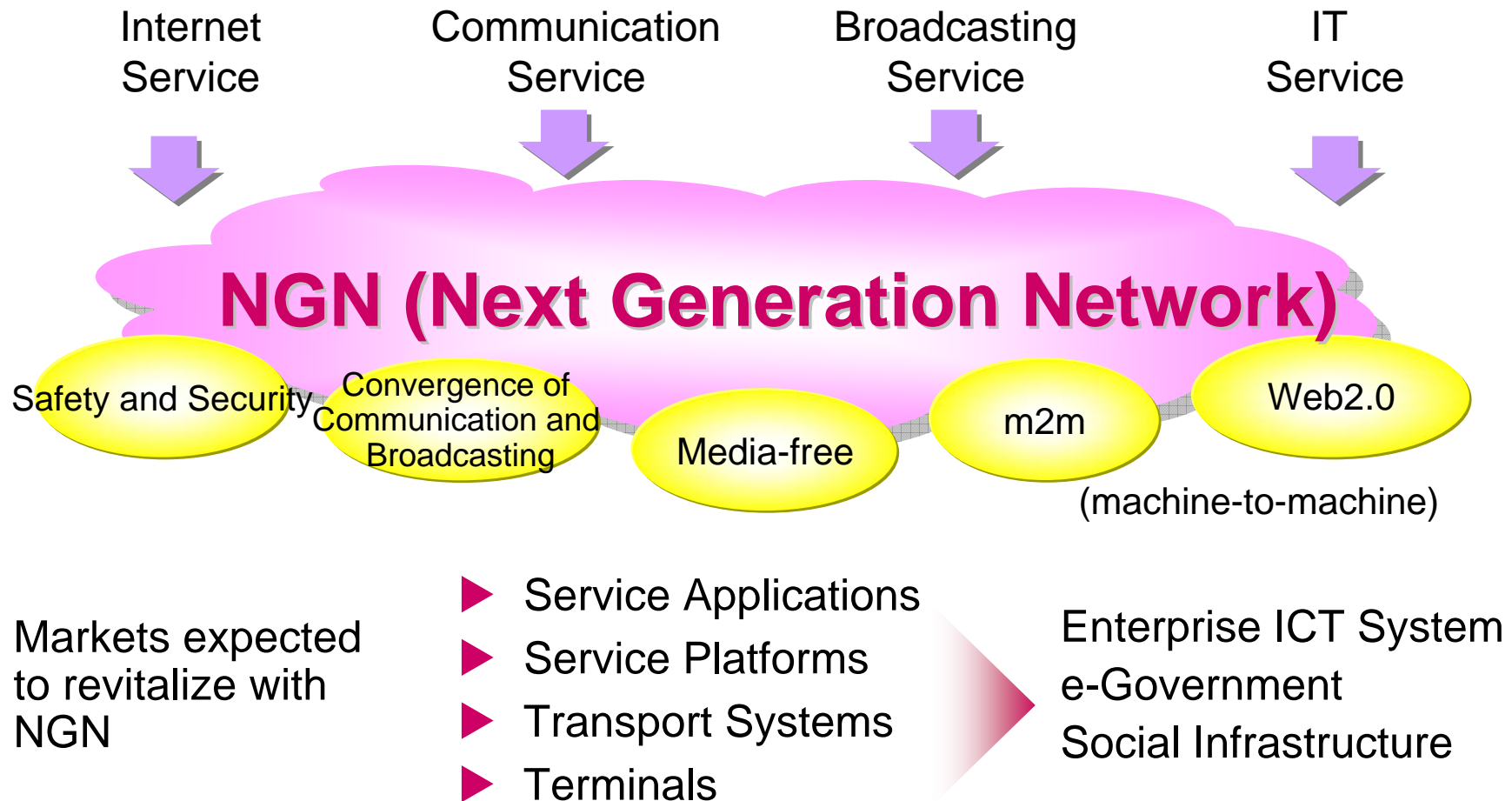
Direction of NEC Group

A Global “Innovation Company”

- ◆ **NEC’s Technology** as the key driver for growth
 - Create globally competitive products
 - Integrate NEC’s strengths
Hardware + Software, IT + Network + Semiconductor
- ◆ Create “**Innovation**” for customers
 - New solutions, new business models, etc.
- ◆ Rebuild and expand **global** business

Business Environment : Beginning of the “NGN (Next Generation Network)” era

Extensive investments by carriers and other sectors



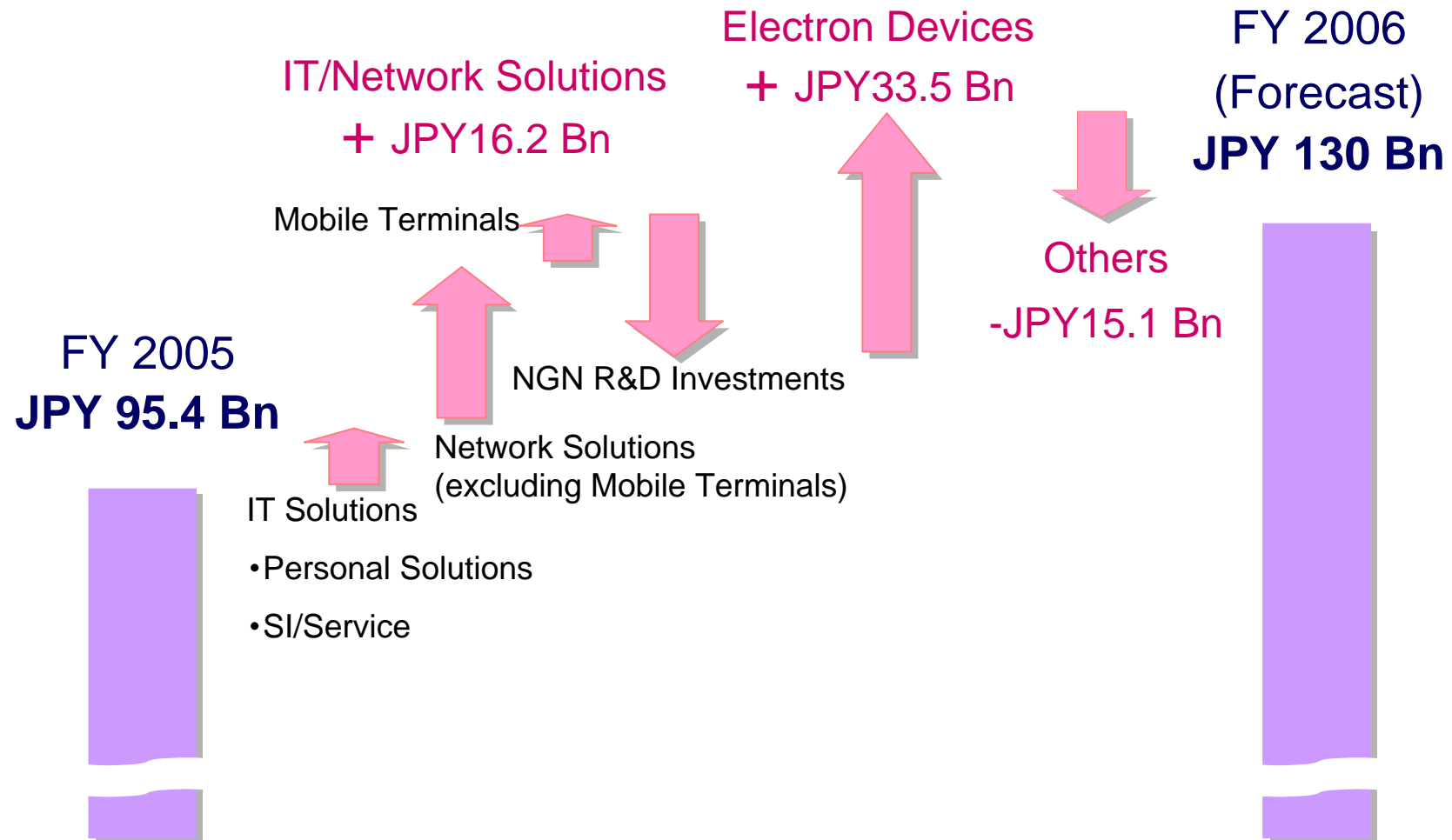
Management Goals for FY2006

- ✓ Expedite implementation of measures towards growth
 - Focus on NGN (Next Generation Network) strategies
 - Enhance existing business orders
 - Strengthen corporate structure and accelerate development speed towards FY2007 ~
- ✓ Assure turnaround progress in underperforming businesses
- ✓ Achieve business forecasts

Operating Income of JPY 130Bn

* Forecasts as of 5/11/2006

Operating Income Forecasts [FY2005/FY2006]



* Forecasts as of 5/11/2006

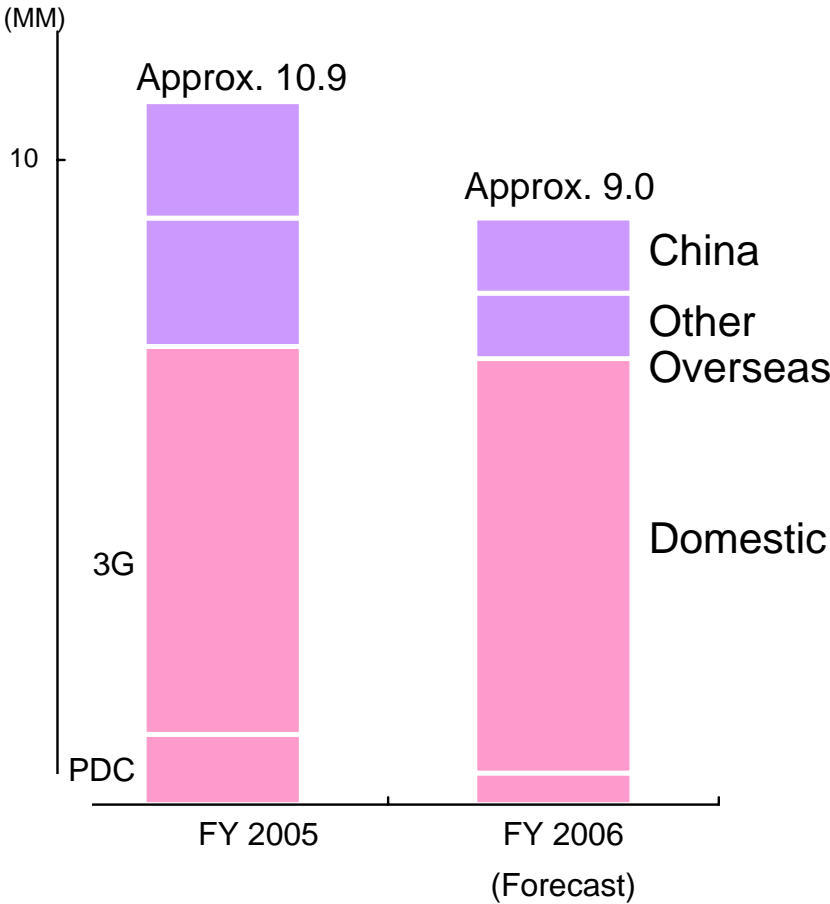
II. Turnaround Measures of Underperforming Businesses

Mobile Terminals Business

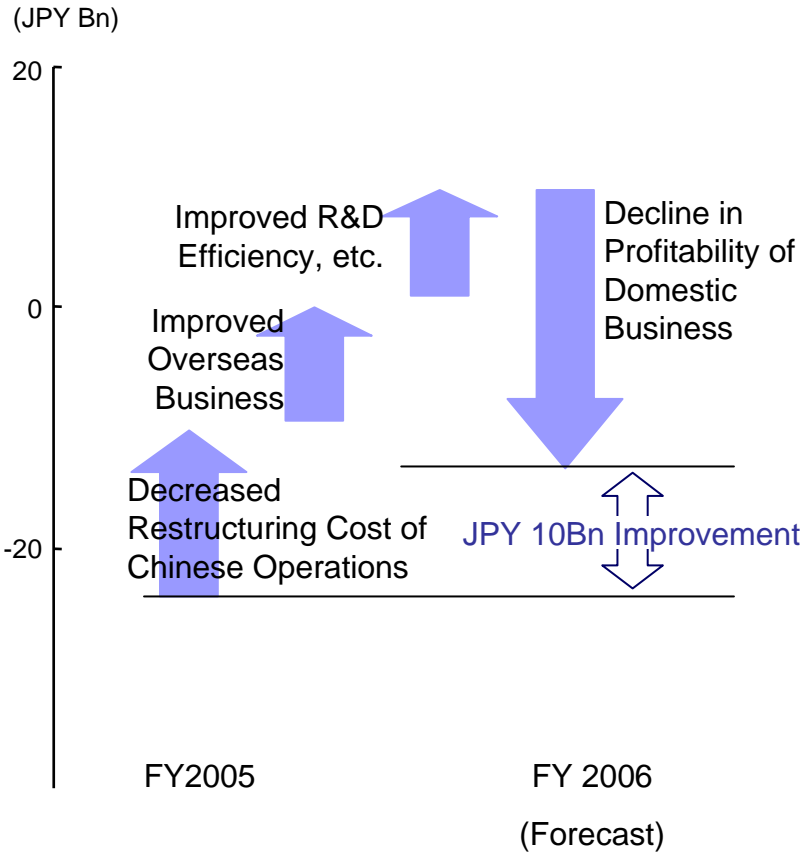
Semiconductor Business

1. Mobile Terminals Business

Unit Shipments



Factors affecting Operating Income



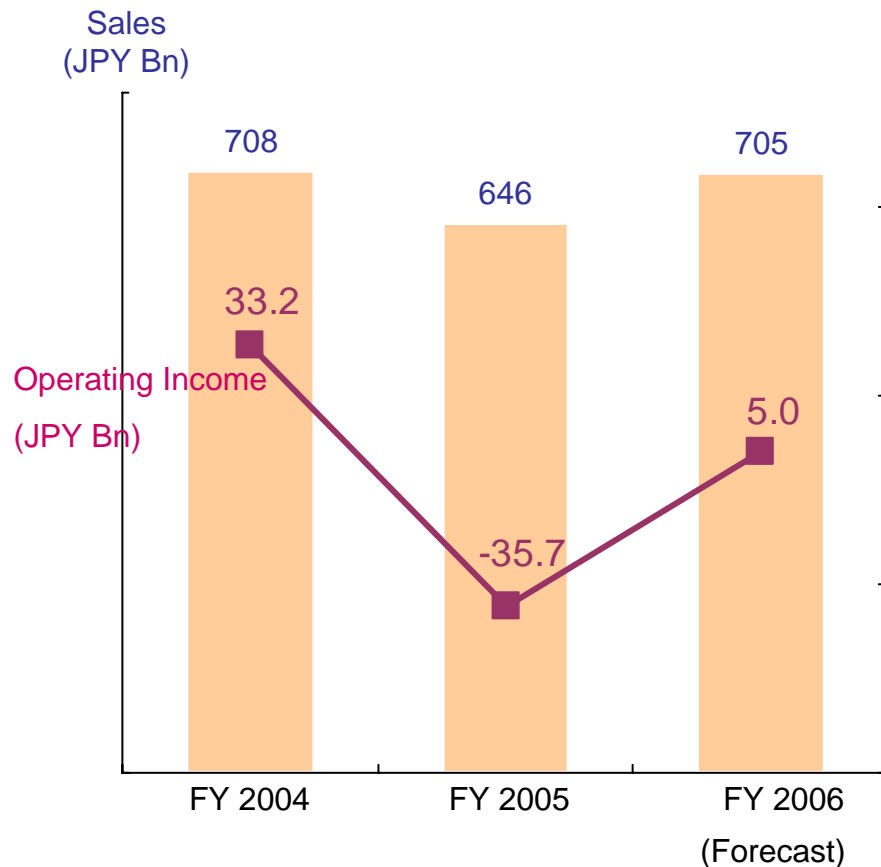
* Forecasts as of 5/11/2006

Progress Update on Turnaround Measures

- ◆ Optimization of development process and reduction of development costs
 - Reduced software development cost per model by over 40% (YoY)
- ◆ Restructuring of overseas operations
 - Optimized inventory level in Chinese market (FY 2005)
 - Emphasize profitability, cut down number of new models
 - Scaled-down production base for overseas shipment
- ◆ Currently under alliance discussions with Matsushita

2. Semiconductor Business

NEC Electronics Sales and Operating Income



* Forecasts as of 4/25/2006

- ◆ Expecting to return to profit in FY06
- ◆ Portfolio improvement
(Enhance high profit margin areas)
 - Expanding sales of Digital AVPF (EMMA):
 - Sony LCD TV “BRAVIA”
 - Toshiba DVD/HDD Recorder
 - #1 global market share in 32-bit MCU
(Source: Gartner Dataquest)
 - Increasing sales in ASSP and multi-purpose ASIC
- ◆ Reduce costs, enhance production
 - Increase 300mm/90nm production capacity
 - SoC orders for Nintendo’s “Wii”

Direction of Semiconductor Business (NEC's perspective)

Cooperate with NEC Electronics to expand its business spectrum

- ◆ Expand Microcomputer and Semiconductor Platform Business
 - Utilize NEC group's software resources
- ◆ Co-develop advanced process with Toshiba and Sony
 - Allocate human resource from NEC Central Research Labs.
- ◆ Promote sales collaboration
 - Leverage alliance relationships (Cooperation with SONY for DVD Drives, etc.)
 - Build firm relationships with distributors



<Next Steps >

- ◆ Support NECEL to expand its Software Business
- ◆ Promote joint development of NGN-compatible LSI system

III. Growth Strategy Geared toward NGN

NGN (Next Generation Network)

- ◆ IP-Based Network: brings revolutionary change to the telecommunication network
- ◆ Comprised of transport & service platforms;
flexibly enables variety of service offerings
- ◆ Managed QoS (assuring quality & speed)



NGN (Next Generation Network)

Value Creation for Users

- ◆ Safety, Security, High Quality and High Reliability
- ◆ Convergence of fixed and mobile communication
(FMC: One Phone, One Bill, One Number)
- ◆ More diverse choice of attractive services
(Multi-Media Communications, Entertainment, etc.)

Carriers Moving towards NGN

NGN Roadmap of NTT

Construction of relay network starts in FY06

Deployment of relay nodes and optical wavelength transmission equipment (IP networks of NTT East and NTT West)

Based on Medium-Term Management Strategy as of Nov. 2005

Fiscal Year	2006	2007	2008~
Steps introducing the next generation network		STEP 1 Field trials	STEP 2 Introduction of optical fiber to 30M users (End of fiscal 2010)
Core network		Construction of relay network (- deploy relay nodes - deploy optical wavelength transmission equipment)	Construction of subscriber network (- deploy edge nodes)
Service control functions			Deployment of service control functions (BMS deployment (Conforming to ITU standards))
Service development	Trial services <Field trials with limited regions and users>	Full scale development of next generation services	<ul style="list-style-type: none"> Broadband Internet access IP telephony Multicast transmission for video distribution Bi-directional video(data) communication Ethernet services, etc.
			STEP 3 Seamless integration with mobile network

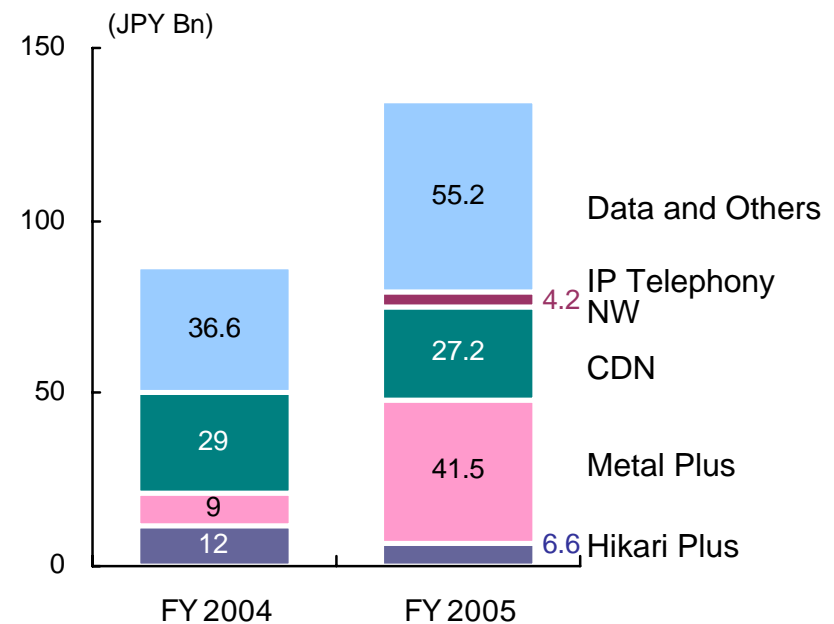
NTT East: Nippon Telegraph and Telephone East Corporation
NTT West: Nippon Telegraph and Telephone West Corporation

Investment Trend of KDDI

First mover towards NGN (in Japan)

- started building fixed IP network (FY 2005)
- investment to improve services (CDN, FMC)

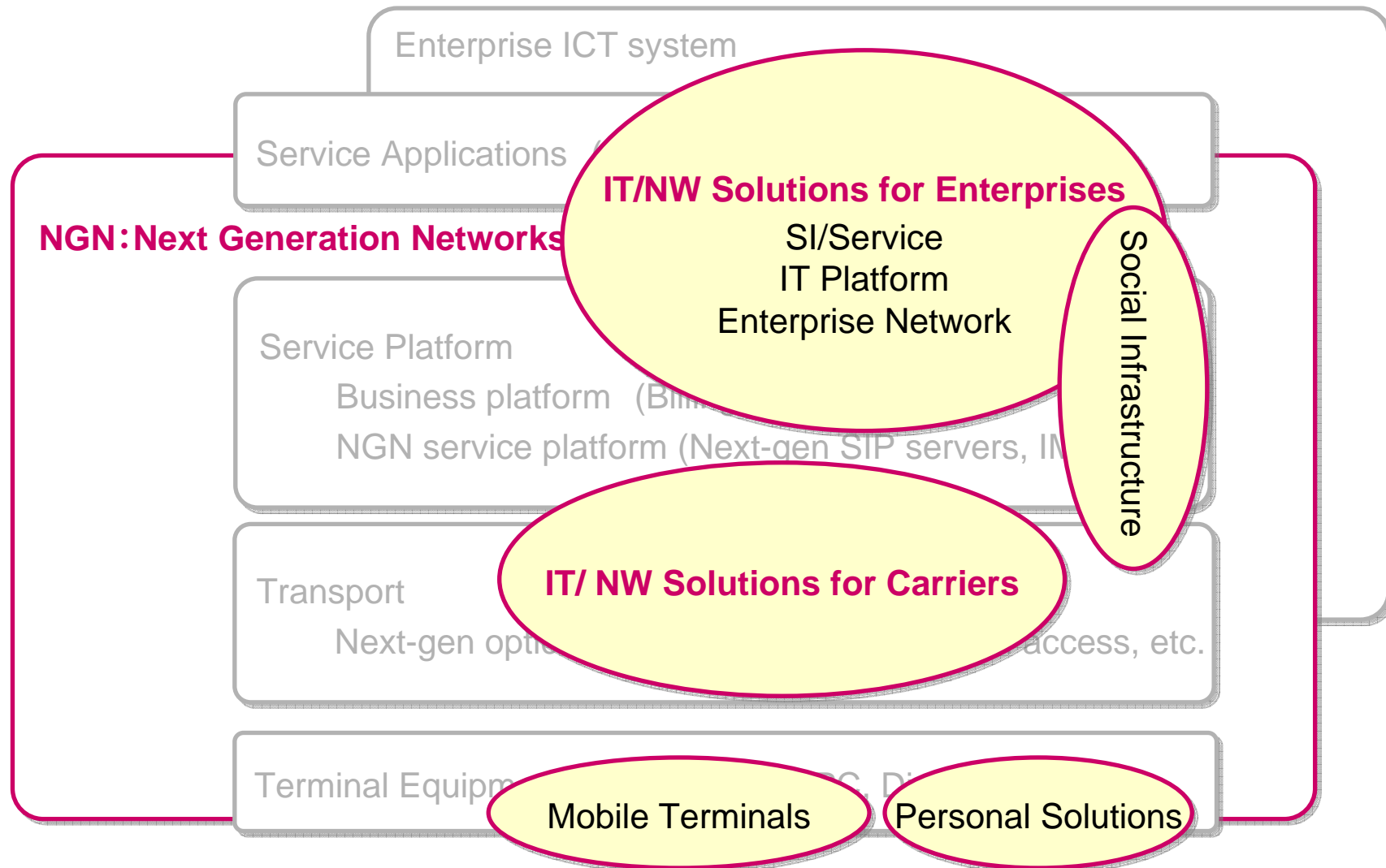
Fixed-line Capex
(From KDDI earnings announcement)



CDN: Contents Delivery Network

NGN Business Opportunities (cont'd)

From Carriers/Media to Enterprises, Governmental Agencies and Consumers

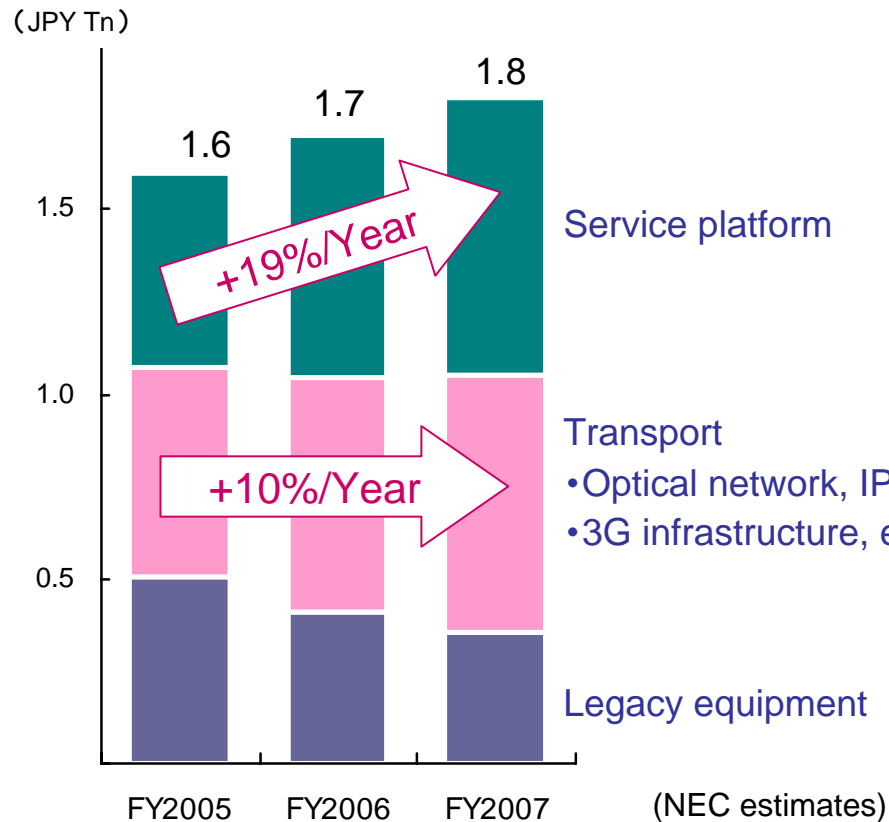


1. IT/Network Solution for Carriers

Maintain and strengthen No.1 Market Share, and target to become the major global player

Japanese carrier market forecast

※Excludes revenues from constructions



- ◆ Strengthen business structure
(Integration of production and sales, organizational consolidation to meet market needs on a full-scale basis from infrastructure to services)
- ◆ Advanced development & timely release of NGN-compatible products / solutions
- ◆ Expand business, gain competitive edge leveraging software
 - Expand Service Platform business
 - Enhance multipurpose server platform and software to improve competitiveness
- ◆ Rebuild overseas business

NEC's Accomplishments and Strengths

- ◆ Extensive product portfolio in all layers
 - From Service Platforms, Transport, to Terminals, etc.
→ Provide total solutions to carriers
- ◆ Proven track records in service platforms
 - Dominant market share in domestic SIP servers for carriers
 - Nearly 80% market share in the overseas i-mode system
 - Market Pioneer in “IMS” which is the core of NGN
 - NTT DoCoMo's “PushTalk service” platform
- ◆ Orchestration of NEC's competence in IT/Network
 - Leader in software development capability among competitors (including pure network vendors)
 - Synergy in carrier business and broadcasting business

Enforcement of Transport Products for NGN

- ◆ Gain competitive edge in ATCA platform with market frontier advantage
 - Mobile packet core - RNC, etc.
 - Continuously enhance competitiveness of platforms by concentrating internal server and LINUX technologies
- ◆ Speed-up development of 40G optical transport products
- ◆ Maintain Technological Leadership in Mobile/Wireless Area
 - 3GRAN LTE※, WiMAX, Ultracompact Microwave Transmission System, etc.
※Long Term Evolution
- ◆ Strengthen competitiveness of router & switch products with advanced IP function
 - Partnerships with Juniper Networks and Alaxala Networks
 - Timely response to advanced demands in Japan (Plan to expand into the global market as well)

ROADM “SpectralWave DW4200 Series”

Reconfigurable
Optical Add/Drop
Multiplexer



40Gbps transmit speed
Maximum 80 wavelengths capacity
Installing wavelength cross-connect function, and GMPLS features
Downsize to 1/3 using High-Density Packaging Technology
(source: company data)

ATCA: Advanced Telecom Computing Architecture, 3G RAN LTE: 2G RAN (Radio Access Network) Long Term Evolution, WiMAX: World Interoperability for Microwave Access
GMPLS: Generalized Multi-Protocol Label Switching

Expansion of Service Platform Business

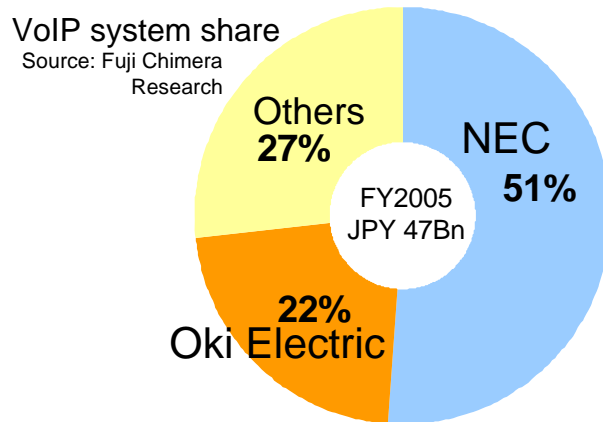
Accelerate software development to expand business in the growth area

- ◆ Acquire business opportunities by utilizing NEC's competitive advantage in SIP server, overseas i-mode gateway, network management

SIP Server/IMS	Integration/enforcement of platform products for FMC
i-mode/RBM	Development of contents delivery and messaging services
Network Management	Focus on reliability and security of All-IP network (congestion control, quality monitoring)

* RBM: Ring Back Melody

IP phone subscribers by countries and VoIP system share for carriers (Japan)



Transmission control software "NC9000 Series"



ATCA Server

- Provide IP multimedia services to both fixed and mobile access network
- Conform to the standards of IMS
- High-reliability at the same level of a base station switch
 - System utilization rate at 99.9999% (Annual downtime below 13 seconds)
- Compatible with several hardware products
 - ATCA server
 - UNIX server (Plan)

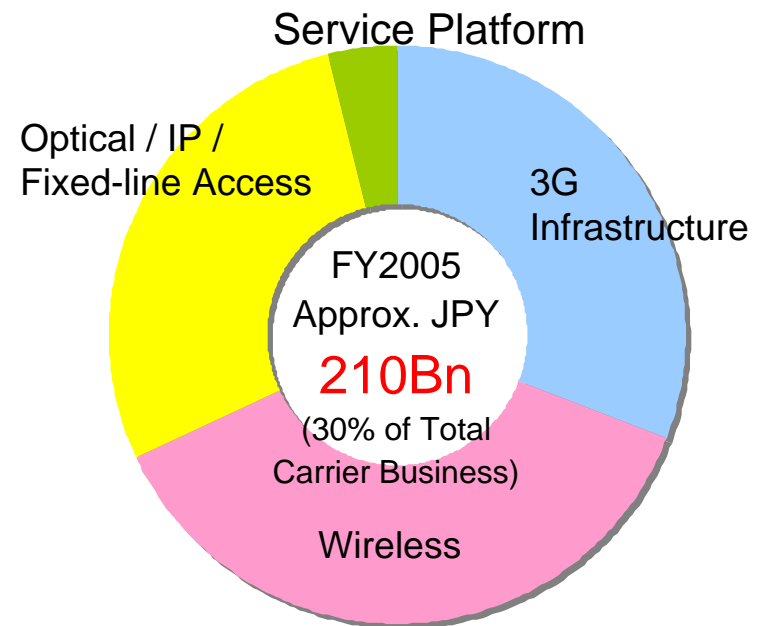
Expansion of Carrier Business

- ◆ In addition to Mobile Wireless Business, expand into the following areas:
 - Fixed Network, FMC, Service Platform businesses
- ◆ Maximum utilization of NEC's resources and competitive advantages
- ◆ Strengthen/Improve operational structures of NEC and overseas subsidiaries

Assets / Advantages of NEC

- Customer base of approx. 400 carriers
- Globally competitive product lines
 - 3G Mobile NW:
Over 35 carriers in 26 countries
 - PASOLINK: 350,000 shipped in 110 countries
 - NEMIP: 9 countries
- High capability in SI and product development of oversea subsidiaries
- Proven track-record and accumulated know-how in broadband & mobile developed countries

Overseas Business Composition of Network Solutions for Carriers



2. IT/Network Solutions for Enterprises

Vitalize Enterprise IT/NW Market with NGN

Sophistication of Application/Service Offerings

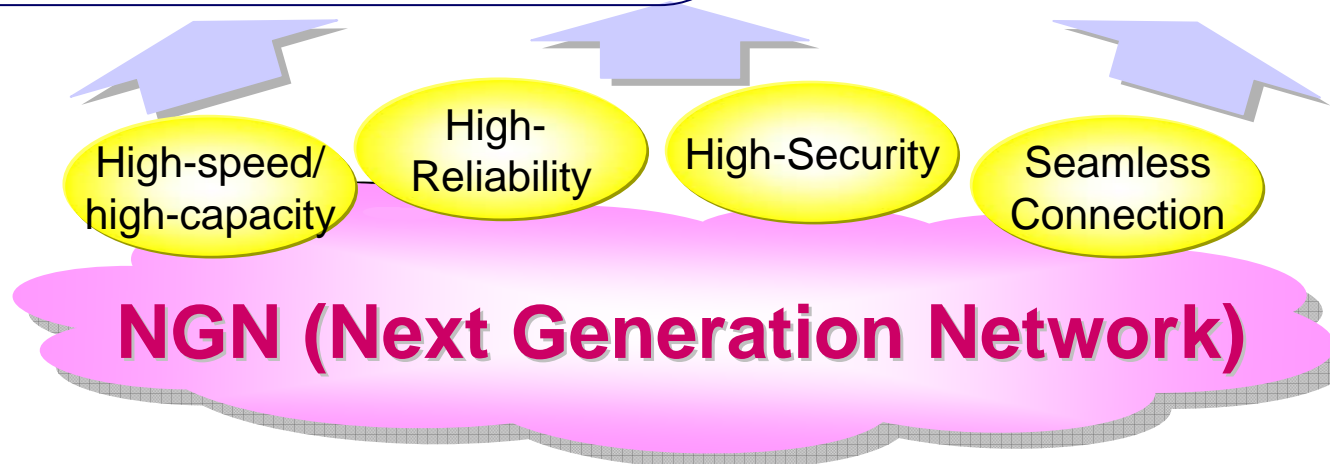
- New services to consumers
- Next-gen CRM
- Broadband office
- Real-time SCM
- RFID applications, etc.

Evolution of Enterprise Network

- Voice/Data integrated network
- Fixed/Mobile integrated network
- Real-time Communication platform, etc.

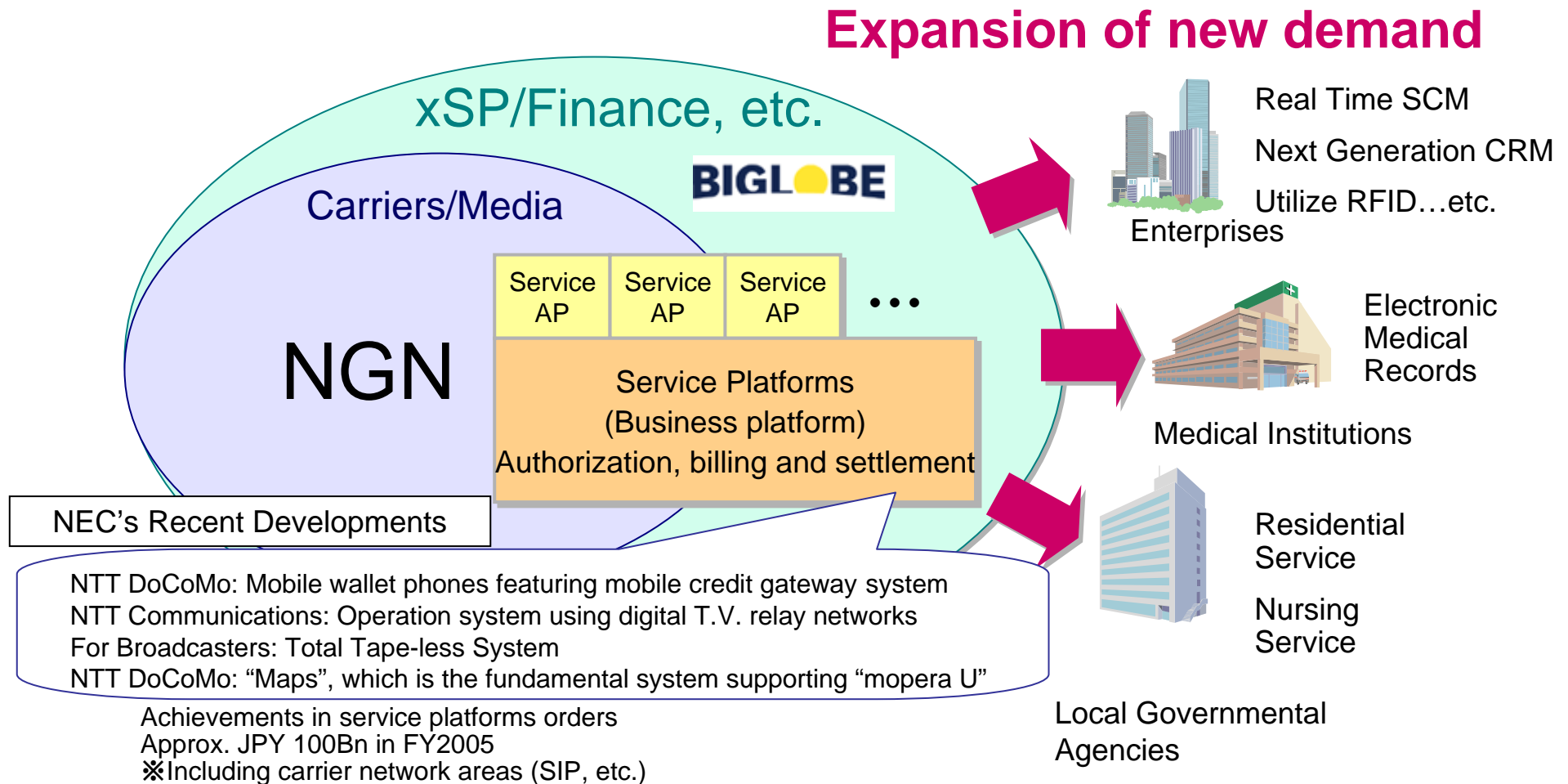
Evolution of IT Infrastructure

- Integration of servers/storage
- Grid computing
- ThinClient, etc.



Expand SI/Service Business

- ◆ Leveraging system integration expertise gained from carriers and media
- ◆ Pioneer new market demand arising with NGN



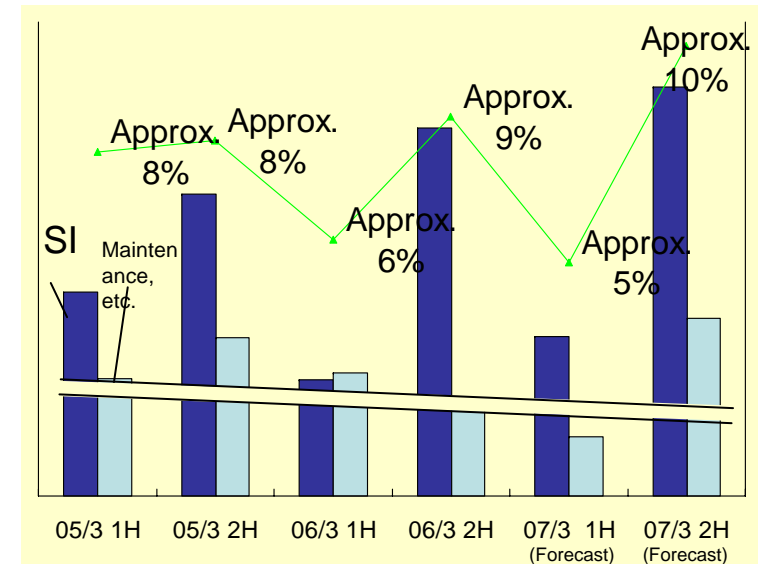
Secure Profitability in SI Business

◆ FY 2005 Results

Positive outputs from integration of NES / NECST

- Reduced outsourcing costs by promoting **SI production innovation**
 - ✓ Unified software procurement functions within NEC Group, focused orders to key partners
 - ✓ Enhanced competition among suppliers
- Decreased underperforming projects
 - ✓ Increased the number of project managers of NEC
 - ✓ Enforced risk management (Prior examination of orders, etc.)

SI/Service Profitability and Profit Composition



※Forecast value as of 5/11/2006

◆ Measures for FY 2006

- Further increase profitability by NEC Group-wide promotion of **SI Innovation**
 - ✓ Enhancement of development and management standards

NES: NEC Soft, Ltd. NECST: NEC System Technologies, Ltd.

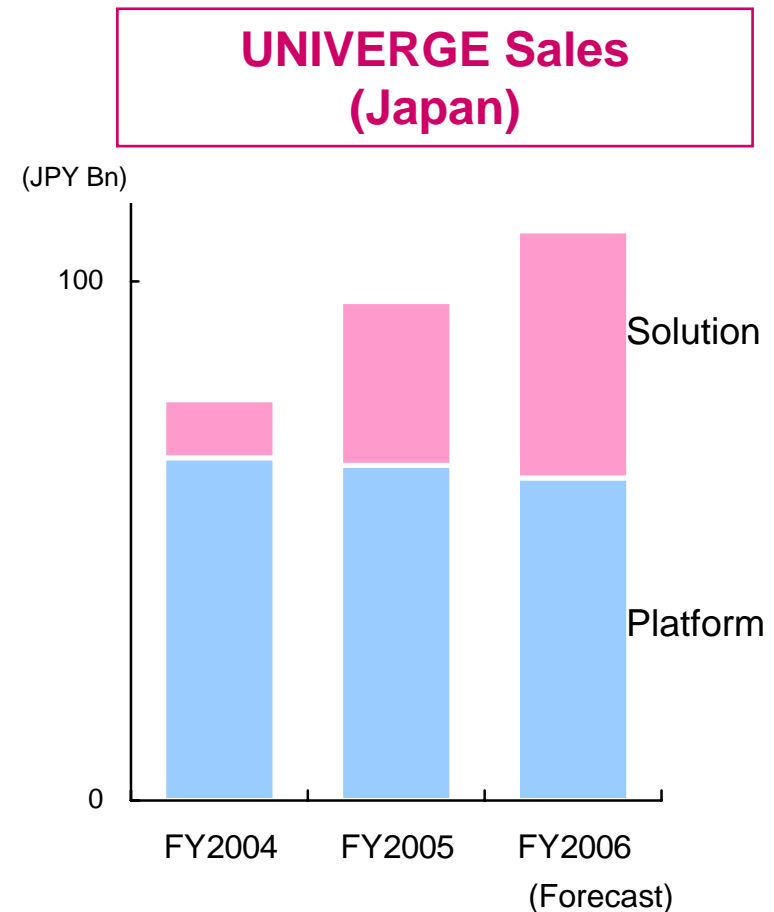
Accelerate Growth in Network Solutions Business for Enterprises

Realize effects from the enhanced operational structure

- ◆ Strengthen Sales Force / SI Capability
 - Increased 200 sales forces/SI engineers
- ◆ Integrate R&D Function to NEC Infrontia (planned in July)

Continuous growth of UNIVERGE business

- ◆ UNIVERGE sales target (Japan) + 15% YoY
(FY 2005 Actual: + over 20% YoY)
- ◆ Expansion of Solution Business
 - Over 350 application partner companies
 - Alliance with Microsoft



* Forecasts as of 5/11/2006



Global Expansion of Solutions Business

◆ Established NEC Philips Unified Solutions

- HQ in Holland, sales network in 13 countries (800 employees)
- Client base: 6,000 companies (PBX / Key Telephone System)

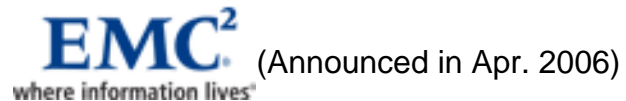


◆ Continuous Growth in North America

- Expanding market share: +7% sales growth, exceeding market level (+1%)
Gartner "Preliminary Market Analysis of Enterprise Telephony Equipment, North America, 2005"

◆ Expansion of Global Alliance

- Expand server / storage business enhancing joint development / OEM relationships

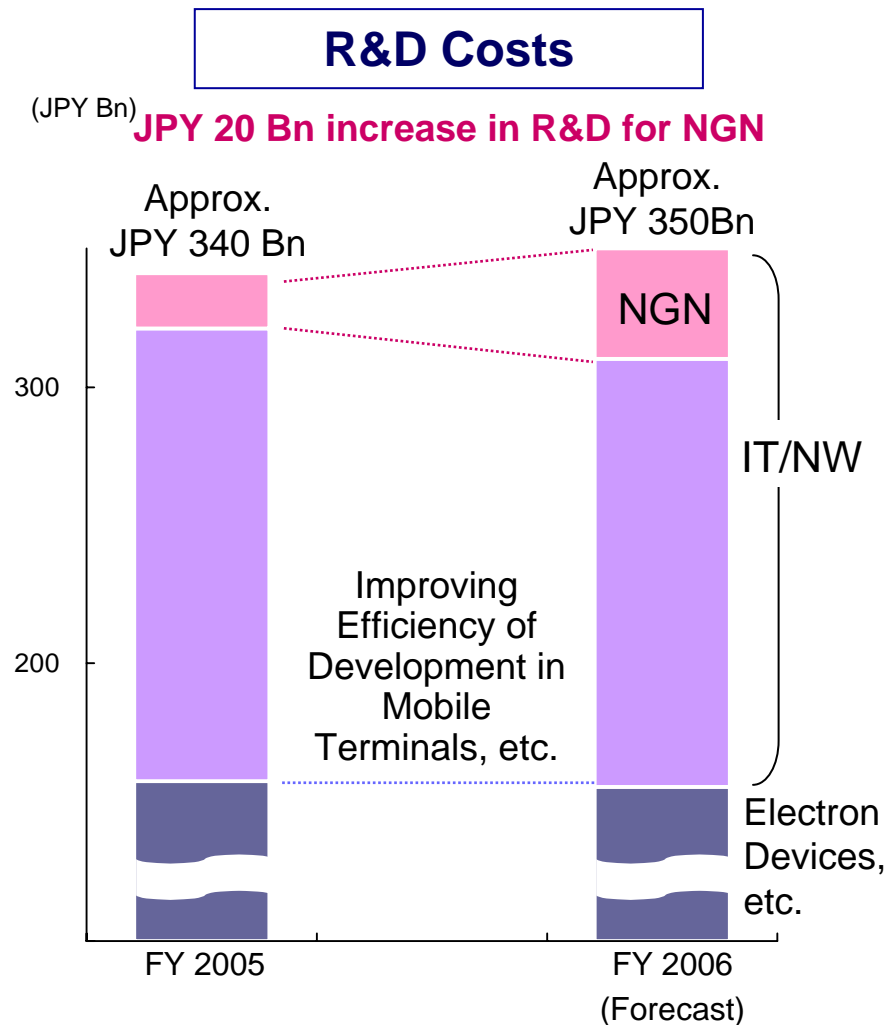


- Fortify alliance with Microsoft
 - Cooperate to develop and distribute communication software products
 - Development cooperation to alliances with Unisys and Stratus



4. Strengthen R&D towards Growth

Technology and Innovation as the Driving Force of Growth



Focus on NGN Area

- ◆ accelerate development of NGN transport and service platforms
- ◆ Alliance with NEC Electronics to develop core devices

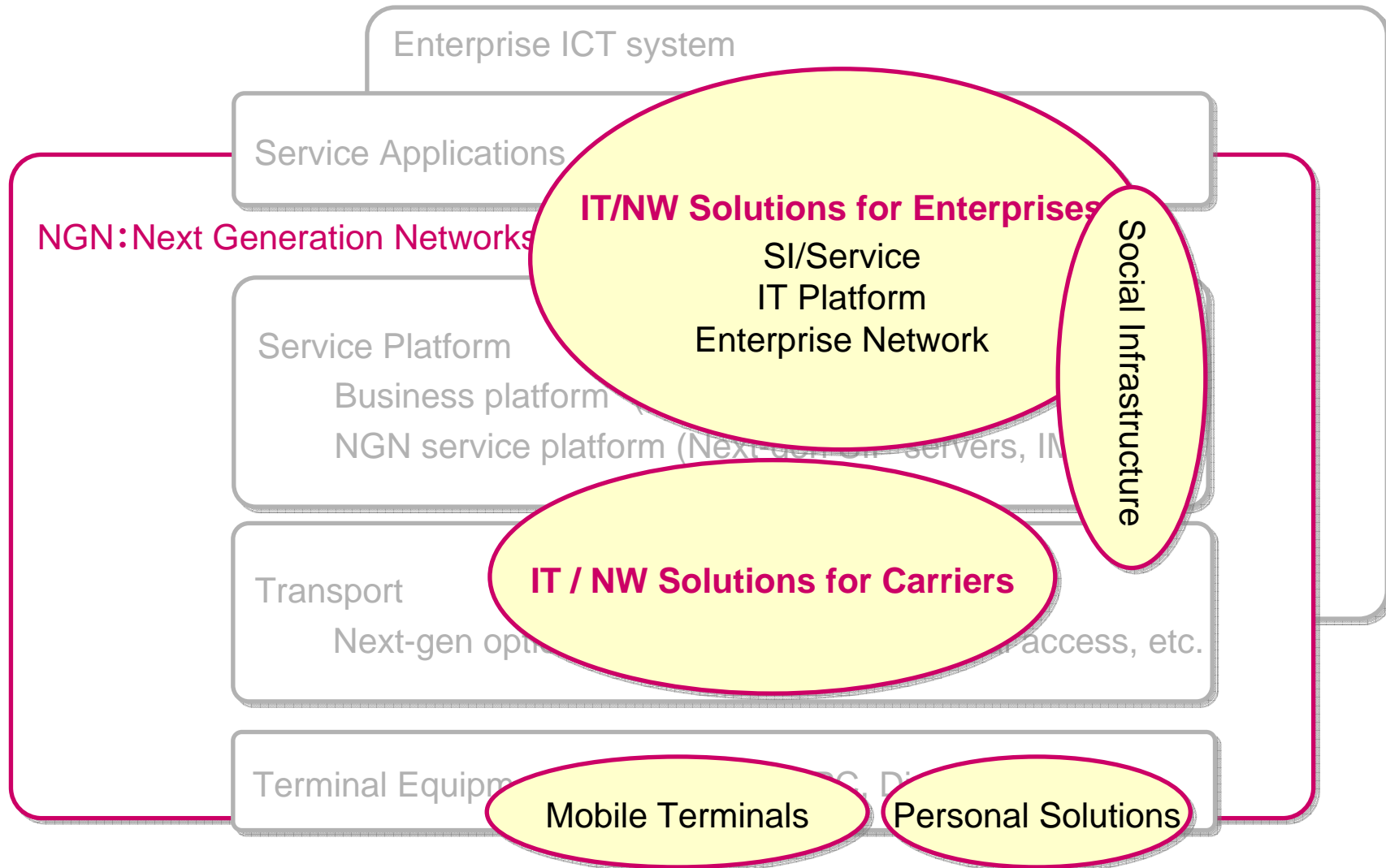
Strengthen Development in NGN-related Areas

- ◆ RFID, Grid computing, etc.
- ◆ Strengthen BIGLOBE infrastructure, services and contents

* Forecasts as of 5/11/2006

NGN Business Opportunities

From Carriers/Media to Enterprises/Governmental Agencies and Consumers



IV. Conclusion

Another Challenge towards Mid-Term Targets

FY 2006 Target:

solidify the “First Step for another challenge”

- ✓ Fortify implementation of growth measures
Focus on NGN (Next Generation Network) strategies
- ✓ Assure progress of turnaround in underperforming businesses
- ✓ Achieve the Operating Income target of :
JPY 130Bn

Mid-term targets:

ROE = 15%, Operating profit = 7%

* Forecasts as of 5/11/2006

Empowered by Innovation

NEC