

Business Update

July 10, 2007
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The management targets included in this material are not projections, and do not represent management's current estimates of future performance. Rather, they represent targets that management will strive to achieve through the successful implementation of NEC's business strategies.

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(Notes)

NEC has changed the accounting principles for preparing its consolidated financial statements from accounting principles generally accepted in the U.S., or U.S. GAAP, to accounting principles generally accepted in Japan, or Japan GAAP. Results for the first half of the fiscal year ended March 31, 2006 have been presented under Japan GAAP for comparison purposes.

Agenda

I. Strategic Direction and Challenges

II. Business Operation Strategy for FY2007

III. FY2007 Management Objectives

I. Strategic Direction and Challenges

Strategic Direction of NEC Group

Corporate Philosophy

NEC strives through 'C&C'
to help advance societies worldwide
toward deepened mutual understanding
and the fulfillment of human potential

A Global "Innovation Company"

Develop global business

Create Innovation for our customers

Supporting Activities of enterprises and consumers in the ubiquitous era
[IT/Network for enterprises] [Mobile/Personal Solutions]

Innovation through Technology

Building a Safe Foundation for a ubiquitous networking society
[IT/Network for carriers - Social Infrastructure]

Electron
Devices
Business

The Driving Force to ensure Growth

Innovation through collective strength of NEC group

Innovative Solutions generated through our collective strength
(e.g. RFID Applications, Imaging Solutions)



Increase superiority of our competitive advantage with devices



- Apply Carrier/Social infrastructure technologies for corporate customers
- Offer new service applications and terminals (to Carriers)
- Apply commercial technologies for social infrastructure business

Effective utilization of R&D Accomplishments within NEC Group

- Image Processing Technologies,
- New Materials,
- Nano-technology



Management Policy

Reaffirm our Corporate Philosophy,
Gain trust and satisfaction from stakeholders

- Fulfillment of social responsibility
 - ▶ Ensure strict compliance to corporate ethics and contribute to the sustainable development of society
- Improvement of performance level
 - ▶ Increase profit (especially in IT/Network Solutions)
 - Acquire business opportunities with NGN
 - Rebuild and expand global business
 - ▶ Secure return on invested capital
(Especially in Mobile, Personal and Electron Devices Business)
 - Ensure recovery of underperforming businesses

Current Situation

Looking back on Fiscal Year ended March 2007 (FY2006)

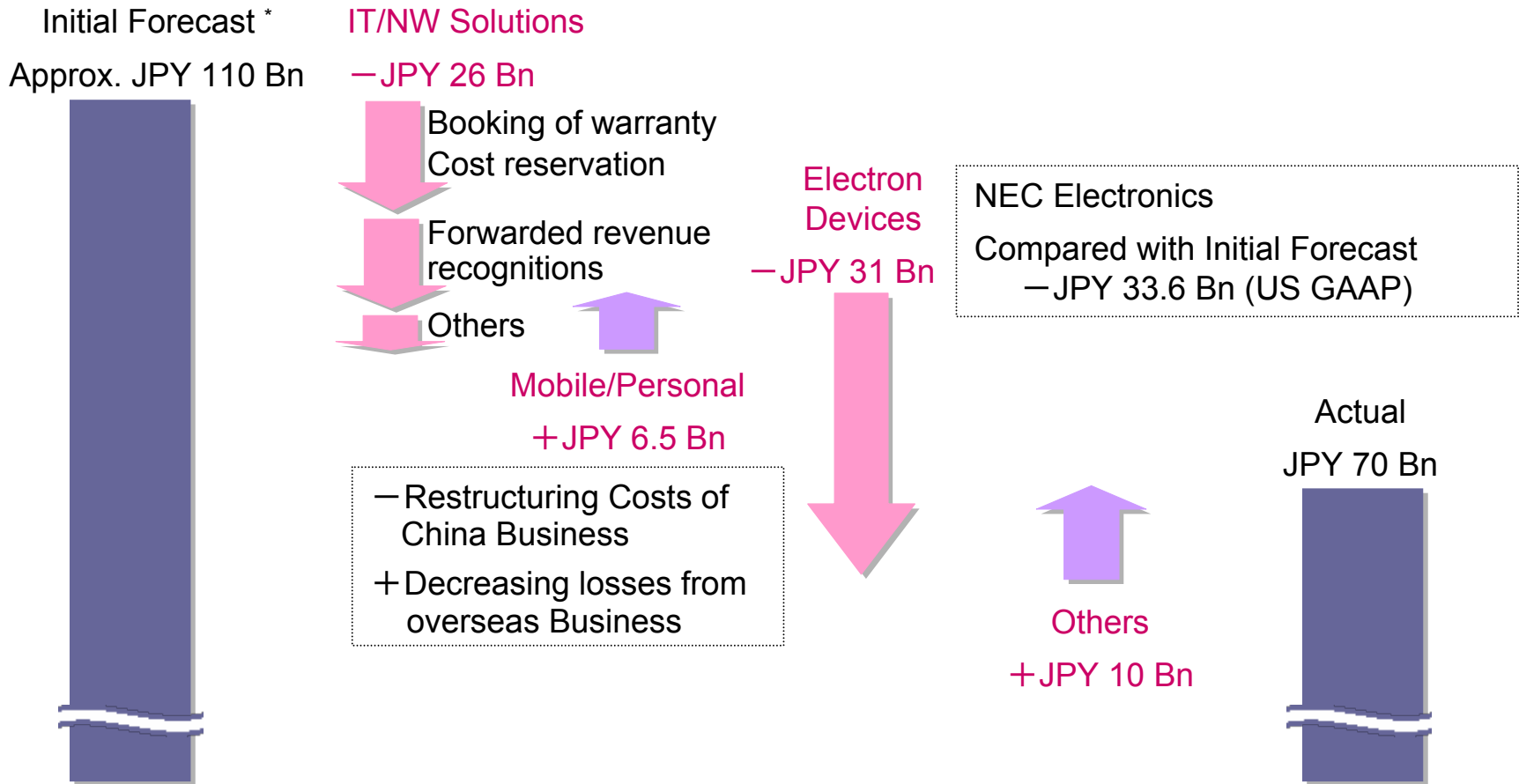
Last Years' Management Objectives

- ✓ Expedite implementation of measures towards growth :
Focus on NGN (Next Generation Network) strategies
- ✓ Assure turnaround progress in underperforming businesses
- ✓ Achieve business forecasts



- Accounting problems
- Significantly falling short on business forecasts
 - ▶ Delay in the turnaround of semiconductor business
 - ▶ Impact deriving from accounting problems
- Ensure execution of our growth strategy lead by NGN
 - ▶ Leading the NGN market with potential business with NTT, KDDI and other customers

Changes in FY2006 Operating Profits (Compared with initial forecast)



* Initial Forecast (by US GAAP) roughly recalculated at Japanese GAAP

II. Business Operation Strategy for FY2007

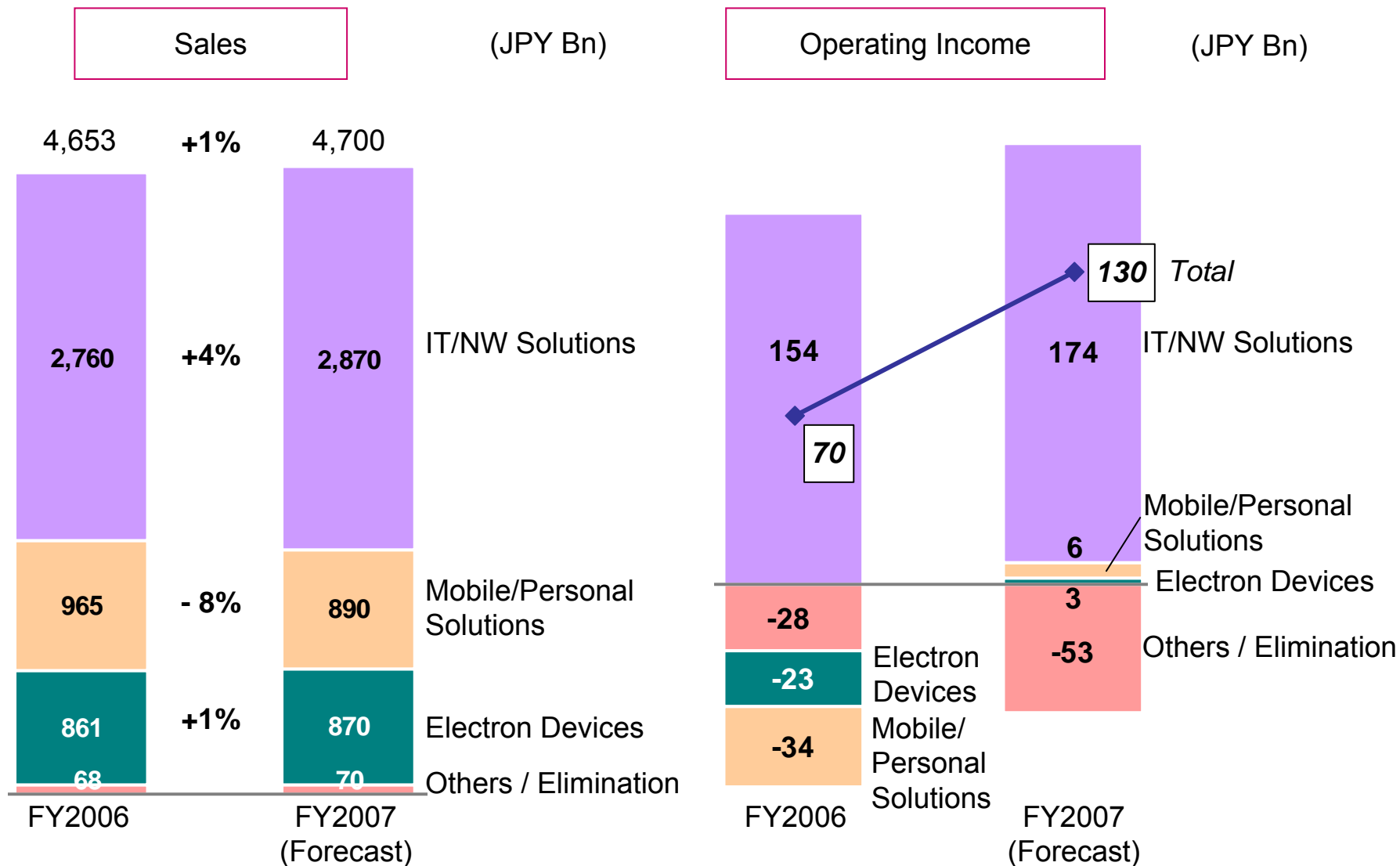
Business Operation Strategy for FY2007

Achieve JPY 130 Billion Operating Profit

Accelerate the execution of growth measures

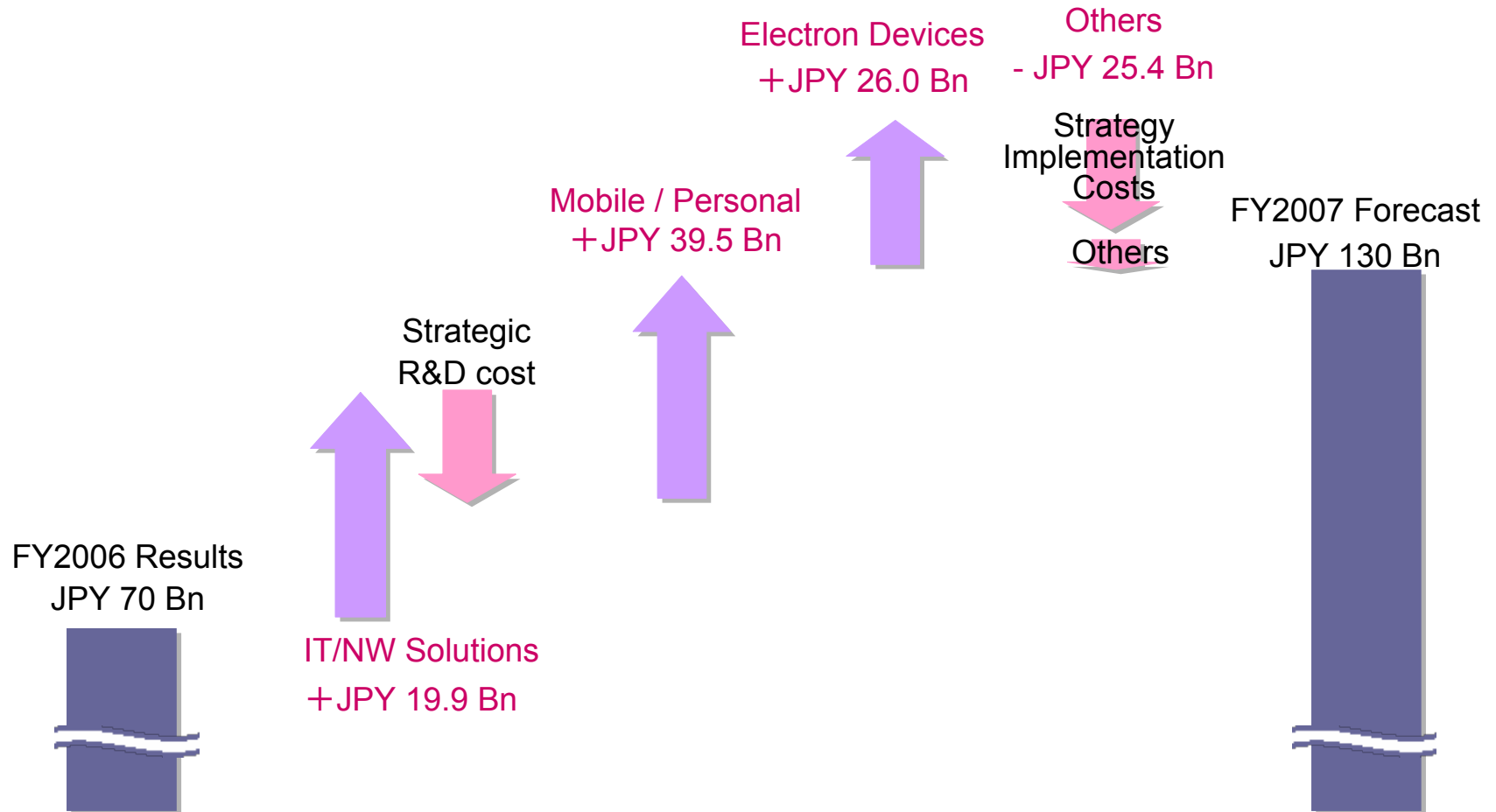
- Strategic initiatives for key businesses
 - ▶ Rebuild semiconductor business for mid-term growth
 - ▶ Ensure profitability of mobile terminal business and reinforce competitive product offering
 - ▶ Set breakdown plan of growth strategy centered on NGN
- Enhance corporate-wide measures to realize further growth

FY2007 Forecast by Segment



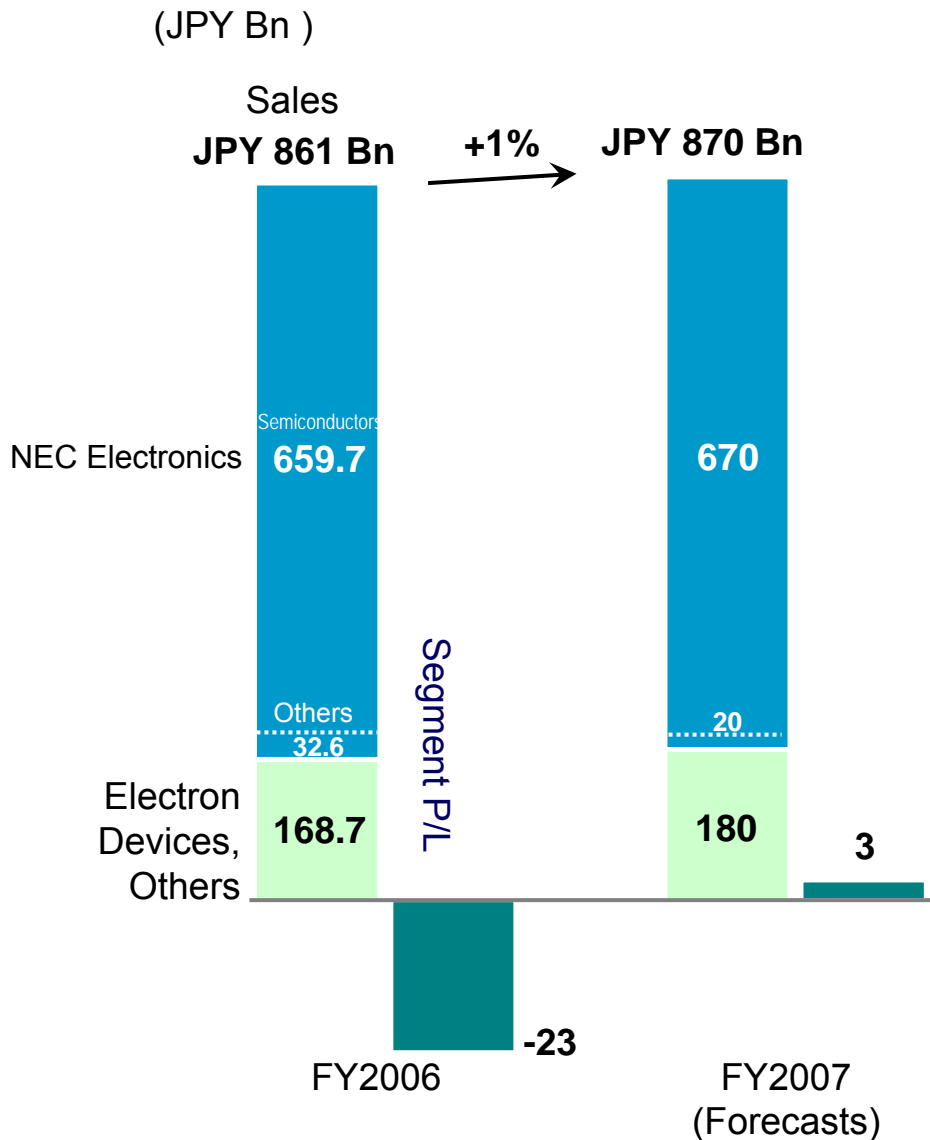
* Forecasts as of May 21, 2007

Change in Operating Profits (FY2006 / FY2007)



* Forecasts as of May 21, 2007

1. Electron Devices Business



▶ Semiconductors

(NEC Electronics)

- Orders and order backlog improved from end of FY2006
- Reduction of fixed cost by 20 Bn Yen and focus on turnaround as highest priority

▶ Other Electron Devices

(NEC Tokin)

- Strengthen core and strategic products
 - Increase sales of new products such as tantalum capacitors
 - Expand proadlizer business
- Strengthen the operational foundation of battery business

* Forecasts as of May 21, 2007

Progress of New Management Policies of NEC Electronics

Source : NEC Electronics “FY07/3 Financial Results and FY08/3 Outlook”, May 14th, 2007

Launched Projects to Execute New Management Policies

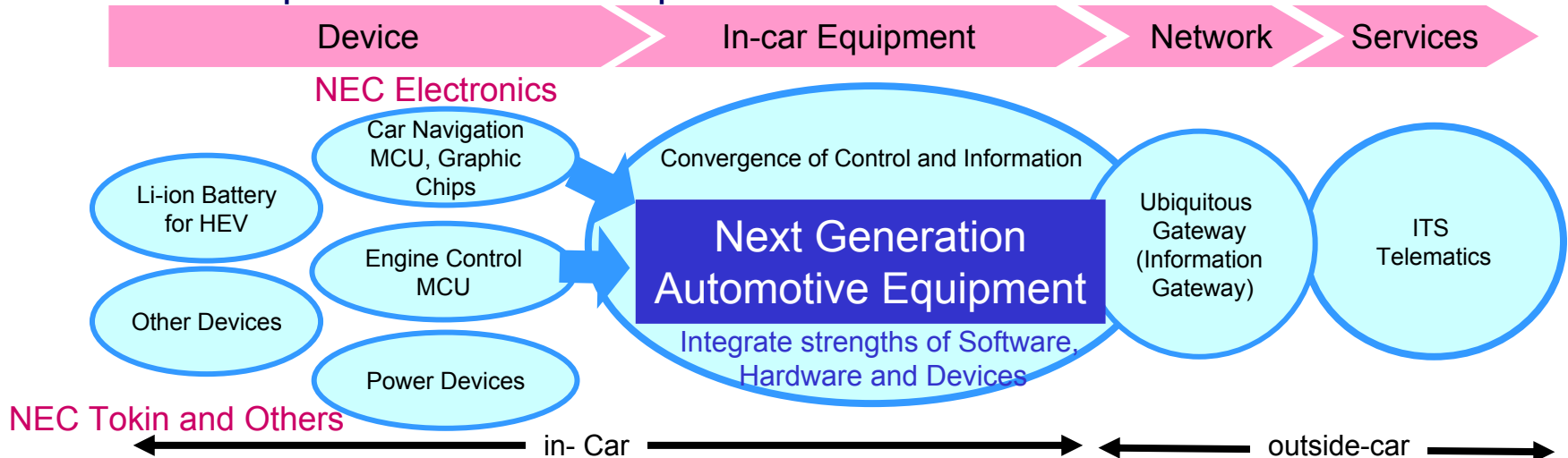
Goal	Primary Measures	Status
Improve competitiveness of products by focusing resources	Reduce technology outsourcing costs roughly equivalent to 600 people	Completed
	Shift development resources equivalent to approx. 400 employees	Halfway Complete (Expect to complete all 400 by the end of the fiscal year)
Reduce costs by reorganizing manufacturing operations	Establish timeline for reorganization	Completed
	Prepare to obtain customer consent	Begun
	Ready the necessary manufacturing equipment	Begun
Improve profit/loss management with corporate reorganization	Establish business units for SoC, MCU, and Components; each is responsible for its own profit management. Eliminate 18 divisions (from 59 to 41) to facilitate sharing of human resources and improve efficiency	Reorganization Completed
Reduce fixed costs to attain operating profits in FY08/3	Reduce technology outsourcing	Completed (see above)
	Reduce fixed production costs by capping CAPEX etc.	Established budget to reduce CAPEX
	Reduce salaries for employee	Underway

(Progress as of May 14, 2007)

Strategic importance of Semiconductor Business for the NEC Group

- ▶ Significance of Semiconductor Business
 - Mid-term sales and profit growth driver
 - Acquiring new market opportunities by integrating the strengths of Semiconductor and IT/Network Businesses
 - e.g. : Unique approach to automotive manufacturers joining the strengths of NEC Group as one
 - Realization of technology Innovation by leveraging on R&D accomplishments

NEC Group's business development in automotive business



Towards revamp of Semiconductor Business

Expectations to NEC Electronics as a major shareholder

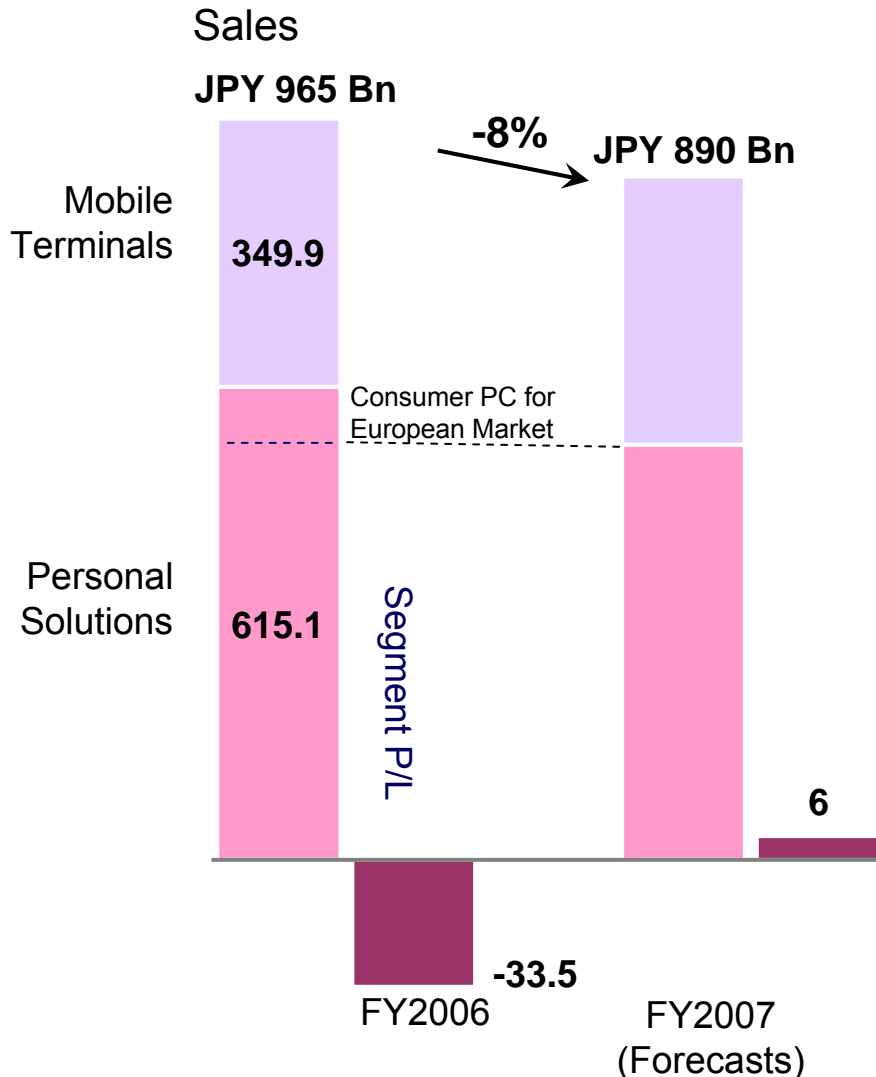
1. Ensure operating profit breakeven for FY2007
2. Continue to increase orders and realize mid-term growth
→ Become sales and profit growth driver for NEC Group

▶ Continue to support the revamp of semiconductor business as NEC Group

- Support from NEC's product division to enhance design capability
- Promote joint sales effort for strategic customer accounts as NEC Group, and fortify collaboration with sales partners
- Accelerate the collaboration of NEC Electronics, NEC, and strategic partner in the area of IT/Network business
- Execute strategic investment in core technology to gain competitive advantage as NEC Group in areas such as :
 - e.g.: Ultimately low power consumption technology ⇒ LCD backlight control, M2
 - e.g.: Graphic technology and NGN technology ⇒ EMMA and IPTV business

2. Mobile / Personal Solutions Business

(JPY Bn)



Market Environment

▶ Mobile Terminals

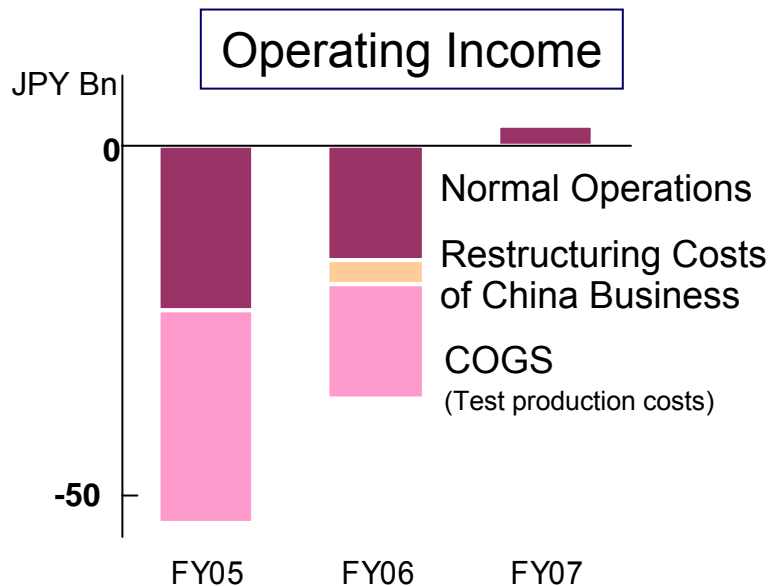
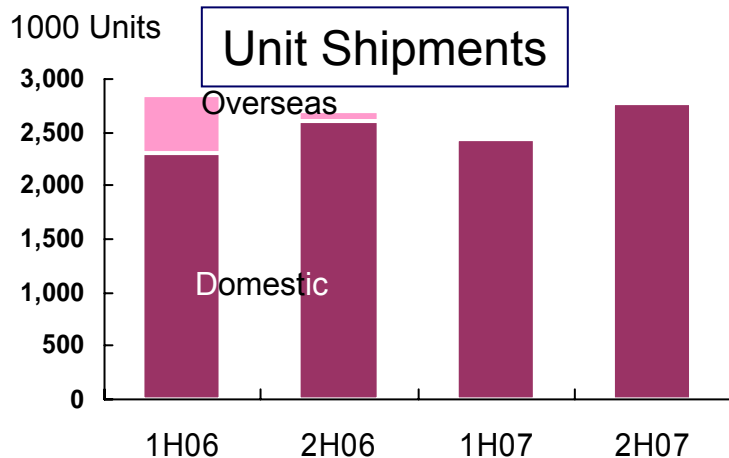
- Continuation of fierce competition among mobile operators
- Diversification of demand in handset market (Demand increase in simple handsets, FOMA70x Series)
- Slight decrease in domestic handset unit sales (NEC estimate)

▶ Personal Solutions

- Domestic PC market expected at previous year level (IDC forecast, by unit)
- Growth in video related services utilizing broadband network

* Forecasts as of May 21, 2007

Mobile Terminals Business Strategy



* Forecasts as of May 21, 2007

Ensure profitability for full fiscal year

▶ Strengthening product competitiveness

Establish new uniqueness of “N-Brand”

- Competitive products backed by technology advantage
 - Speed : HSDPA, Response time
 - Increased stand-by time, talk-time
 - Ultra-thin, High definition
- Improve design competitiveness

▶ Realize results from strategic alliances

- Commercialization of communication platforms from Adcore-Tech (2H/FY2007)
- Co-development: Raise efficiency and expand partners (ESTEEMO, LiMo)

Personal Solutions Business Strategy

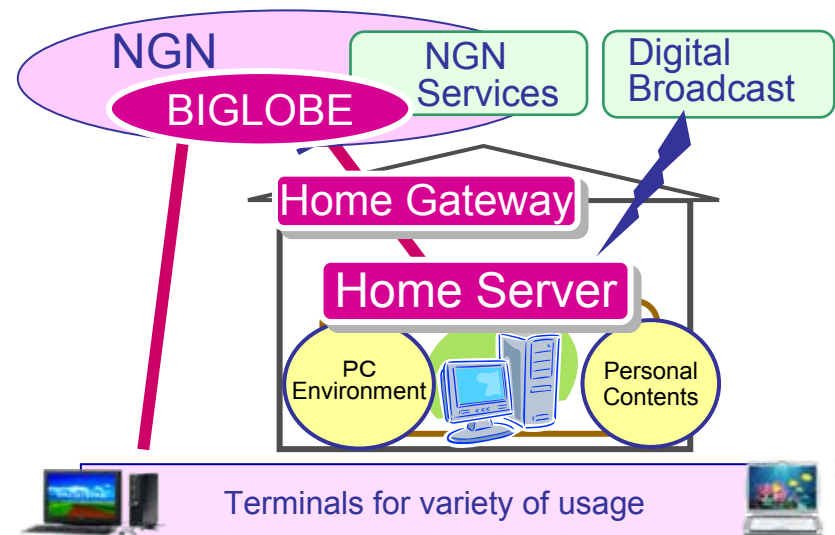
Maintain profitability and create new growth businesses

▶ **Strengthen the profitability of PC business**

- Reduction of fixed costs
Improve quality and reduce support cost
- Cost reduction through production innovation and improvement of capital efficiency

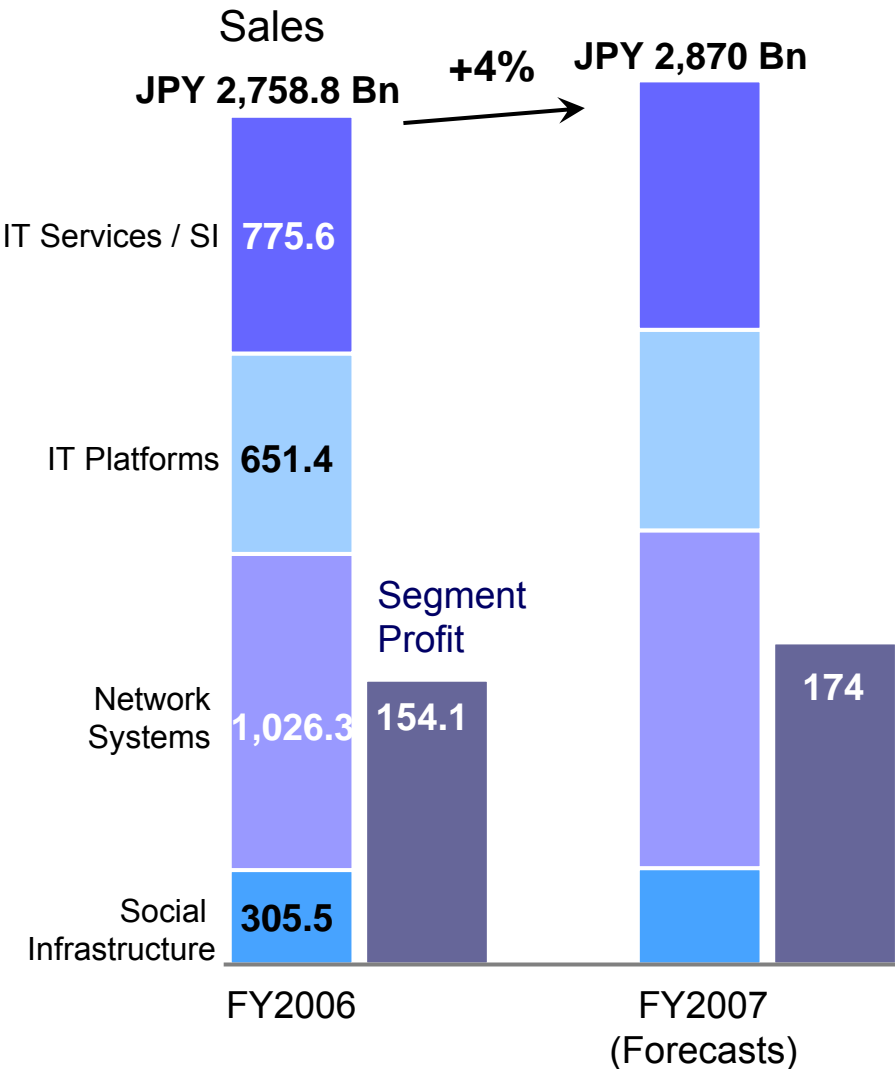
▶ **Expansion of services and new products, moving towards the NGN era**

- Platform service business (BIGLOBE)
- New personal solution products centered on home servers
- Home network products (e.g. Home Gateway)



3. IT / NW Solutions Business

(JPY Bn)



Market Environment

▶ Domestic IT Market

- Favorable market environment with strong company results
- Continuous growth in Service and Software

▶ Enterprise Network Market

- Slight slow down in domestic market (4% to 5% growth)
- Increasing demand for unified communication in the US
- Increasing shift to IP in Europe

▶ Carrier Network Market

- Domestic:
 - Investment in base stations due to Mobile Number Portability expected to peak out
 - Investments for commercialization of NGN products to pick in 2H/FY2007
- Overseas:
 - Market recovery in US fixed line (optical fiber) market
 - Continuous growth in emerging countries

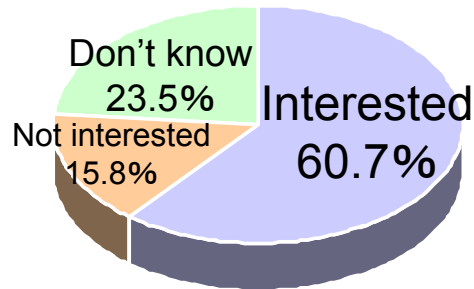
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Increasing market expectations for NGN

NGN has gained great momentum this year

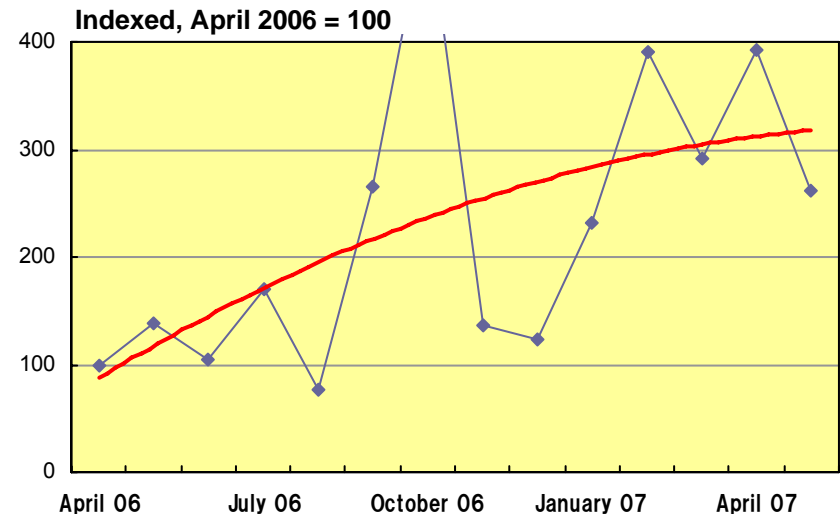
- ▶ Market expectation for NGN to create new business opportunities

Market interest in NGN



Source :Nikkei Communications, July 2007

Number of “NGN” Search on BIGLOBE



Growing number of publications on NGN



▶ Increasing interest in overseas

- Very high level of interest at NGN seminars held in Indonesia and Thailand
< Sponsored by NEC, co-sponsored by NTT, Asia Info-Communication Council, and others >

Expansion of NGN Deployment Business

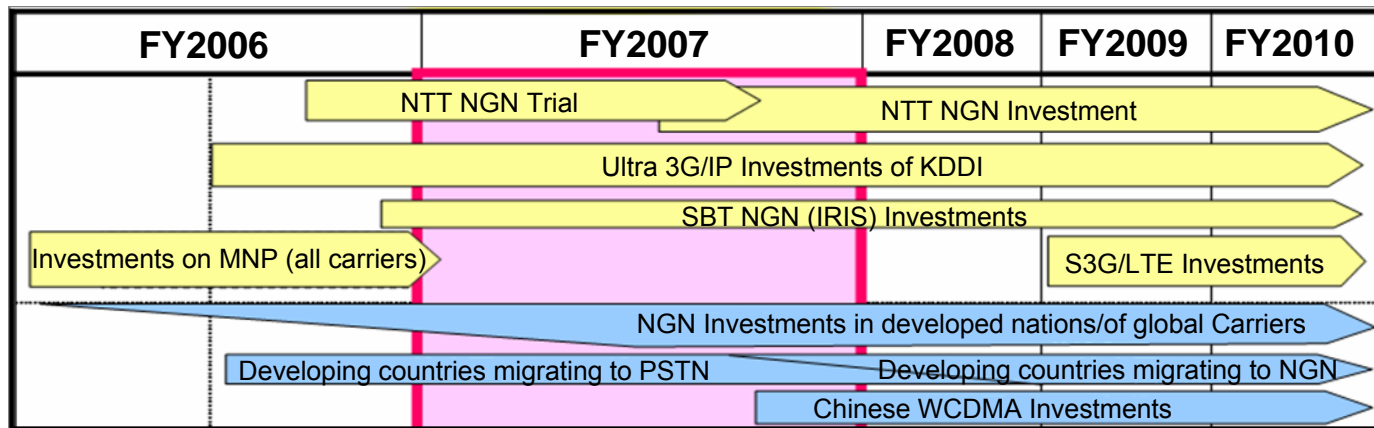
Aiming to double FY2006 Sales of JPY 90 Bn in FY2007

- ▶ Assure to gain orders for 2nd phase (commercialization) of NGN projects
- ▶ Enhance service platform business by proposing new business models
- ▶ Focus and concentrate on overseas projects

Propose attractive migration scenario to current customers

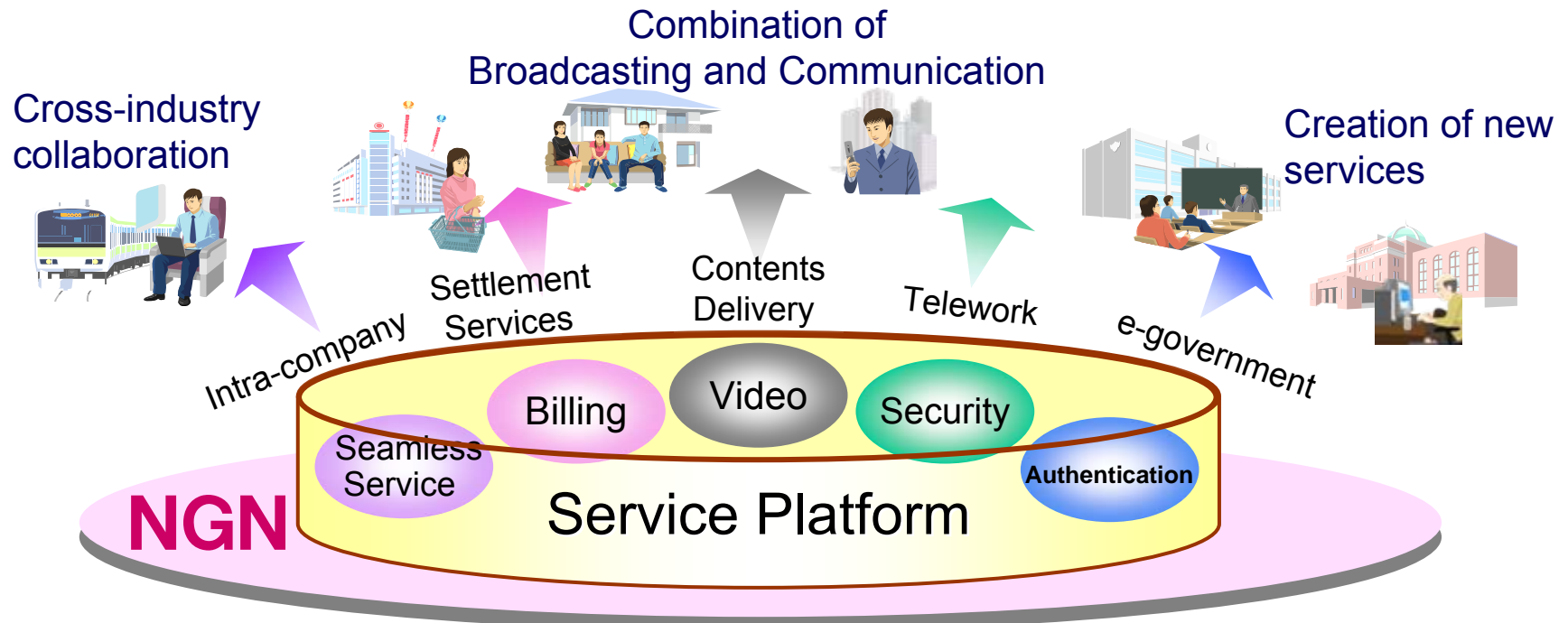
Participate in overseas leading projects (IMS, WiMAX···)

< Carrier Investment Trends >



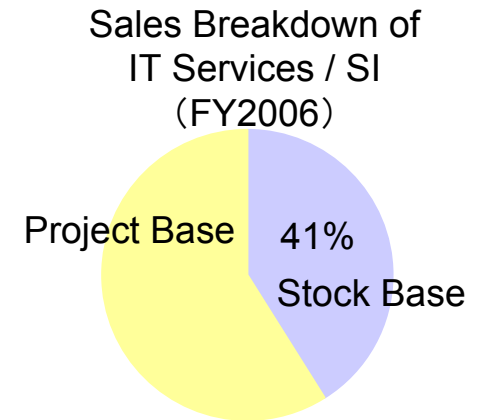
Creation of new business solutions with NGN

- ▶ Expand service platform business <FY2007 Sales : over 200 Bn Yen, Approx. +30%>
- ▶ Provide enterprise solutions for customers taking lead in NGN
 - Thin client solution deployment
e.g. Daiwa Securities Group introduced 1,500 Units ⇒ aim for 10,000 level
 - Expand UNIVERGE solution menu
(Aim +5% sales increase in Enterprise Solutions Business)
- ▶ Create new solutions by collective strength of NEC Group



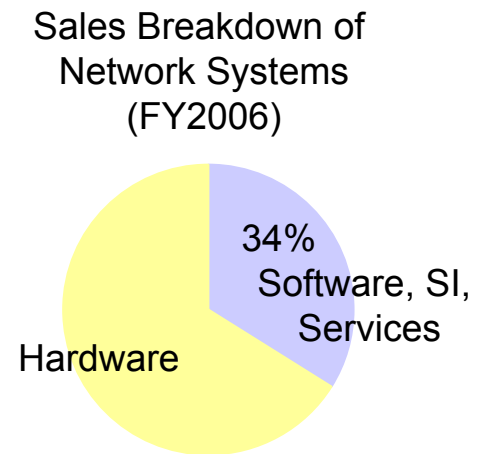
Driving Changes in Business Models

- ▶ Increase service revenue in IT Solution
 - Enhance “Life Cycle Support-type” of outsourcing (Total solution providing Integration, Operation and Maintenance)
 - Strengthen the operating base of Service Business
 - Increase staffs in Service Business
 - Establish virtual data centers utilizing NGN



▶ (Sales in Outsourcing Business : 290 Bn +20%) *including network service business

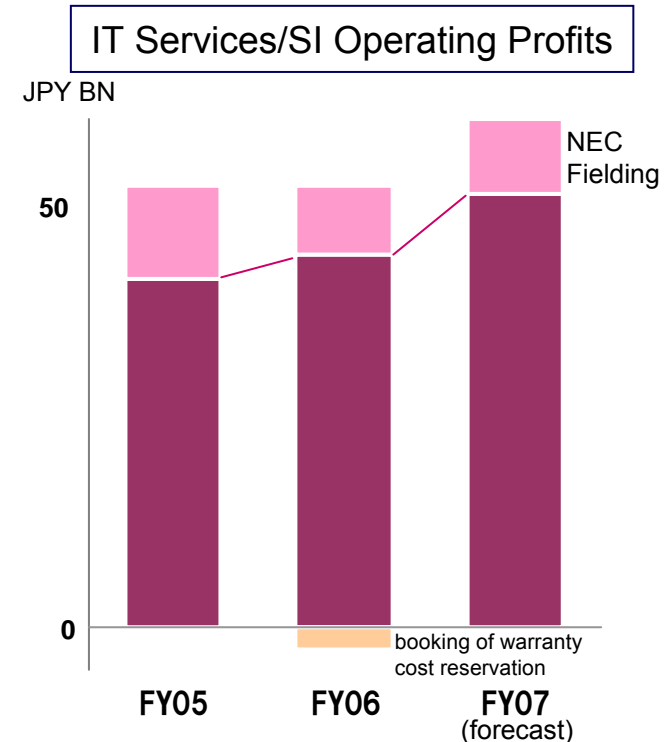
- ▶ Expand software, SI and service business for Network Systems
 - Increase NGN service platform business
 - Open Hardware + NEC Software
 - Enhance solution menu in overseas business
 - Software license
 - Network Consulting, Network Design, Optimization, and others
 - Operation outsourcing



Strengthening the operation of profit generating businesses (1/2)

Steady expansion in System Integration Business

- ▶ Drive growth by leveraging vertical solutions with NEC's competitive advantage
 - Service platforms for communication / media industry
 - SAP solutions for manufacturing industry
 - Store system solutions, electronic payment solutions for retail industry
- ▶ Continue SI process innovation
 - Innovation of business process from sales / contract stage
 - Improve contract process
 - Increase professional staff focused on contracts
 - Shift from labor intensive business model
 - Service Platform System Integration based on system model and business model
 - Consolidate system engineer resources for platform system integration



* Forecasts as of May 21, 2007

Empowered by Innovation

NEC

Strengthening the operation of profit generating businesses (2/2)

New Development in Social Infrastructure Business:

Create growth businesses for “Post-digital broadcasting”

- ▶ Exploit new markets by leveraging NEC Group synergy
 - Video solutions (Broadcasting + IT + Network + Display solutions)
 - Video streaming platform, digital cinema, monitoring systems
 - Uncooled Infrared Detector (Module)
- ▶ Win large-scale overseas projects
 - Digital broadcasting (Europe, South America and others)
 - Postal business, Satellite business
- ▶ Strengthen businesses which support safe society
 - Strengthen space business, ITS business operations
 - Expand fire & disaster prevention, and physical security business leveraging on core technology strengths (wireless, sensors etc.)



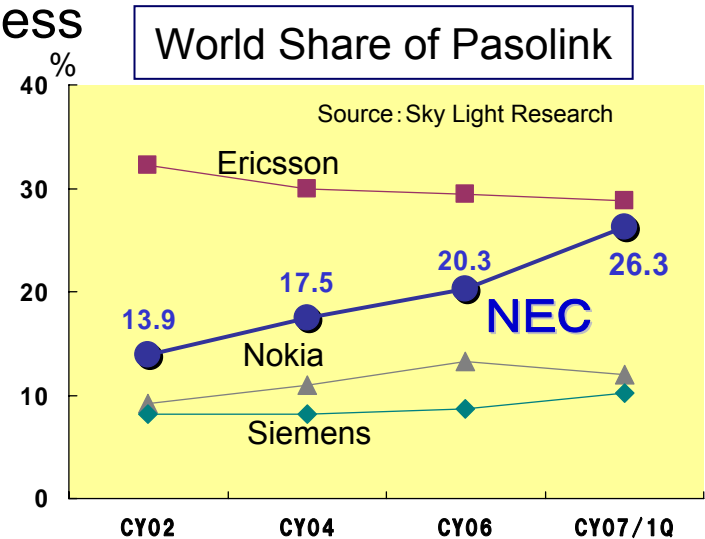
Advanced Land Observing Satellite “Daichi”
(Source : JAXA)

Expansion of Global Business

Strengthen strategic global product portfolio

▶ Global expansion of Carrier Network Business

- ▶ Target #1 worldwide share of Pasolink
Customer Base : 720 customers in 126 countries
- ▶ Expand optical fiber network business
 - Rebuild and expand US business
 - Win submarine cable projects



▶ Launch strategic IT Platform products

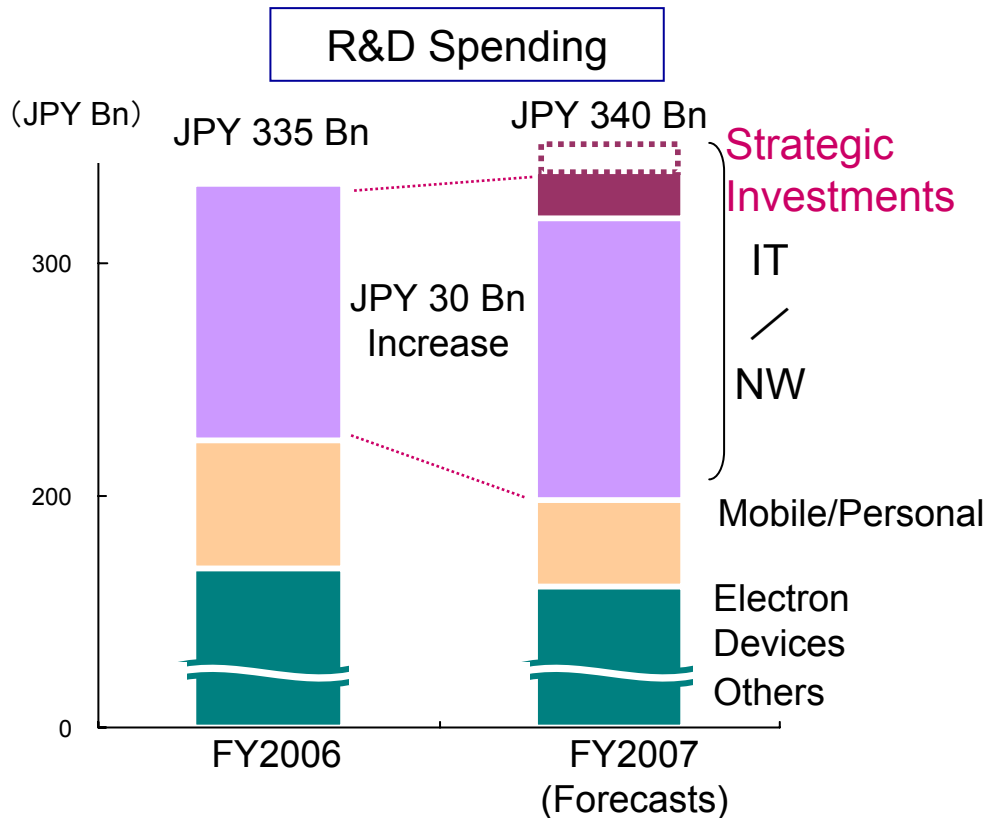
- ▶ Launch storage products centering on “HYDRAsstor”
 - ▶ Strengthen sales structure for thin client products in the US, Europe and APAC
 - ▶ Quickly materialize results from global alliance
 - Introduction of fault tolerant server co-developed with Stratus
 - Promote cooperation with Unisys
- Product launch within the next Fiscal Year



ft Server
Express5800/320Fc-MR

4. Measures for Accelerating Growth

- ▶ Strengthen development of strategic products for IT/Network Solutions
 - NGN Transport / Service platform products
 - Global strategic products for IT Platforms
(Storage, Thin Client, and others)



**Next Generation GRID Storage
"HYDRAsstor"**

- Elimination of data duplication, dramatic increase in capacity efficiency
- Large capacity storage for the NGN era

* Forecasts as of May 21, 2007

4. Measures for Accelerating Growth (cont'd)

- ▶ Execute strategic investments in the growth area as a corporate-wide measure
 - ▶ Solution development for the NGN era (e.g. Next-Gen CRM, RFID Solution)
 - ▶ Establish global sales operation structure for strategic products
 - ▶ Develop the world's most advanced technologies (e.g. Next-Gen Supercomputer)

- ▶ Drive & Accelerate growth through M&A and Alliances
 - ▶ Global expansion of IT solutions
 - Alliance with local System Integrators and consultants in Asia
 - Investigate non-organic growth opportunities lead by Global IT Solutions Strategy Division (newly established)
 - ▶ Develop next generation technologies in the area of IT/Network business
Seek cross-industrial cooperation to promote new business development
 - Establishment of joint venture with Nissan Motors
Automotive Energy Supply Corporation
 - ▶ Strengthen sales force through deeper relationship with partners

- ▶ Reinforce fundamental research capability to ensure mid-term growth
 - ▶ Opening of C&C Innovation Research Laboratories
 - Aimed to conduct research in “C&C” that help advance societies and fulfillment of human potential through open innovation

III. FY2007 Management Objectives

FY2007 Management Objectives

Execute growth measures and Achieve business forecasts

in JPY	FY07 Forecast	YoY
Net Sales	4,700 Billion	+ 1%
Operating Income	130 Billion	+60 Billion
Ratio to Net Sales	2.8%	
Ordinary Income	80 Billion	+64 Billion
Net Income	30 Billion	+21 Billion
Ratio to Net Sales	0.6%	

Empowered by Innovation

NEC