July 31, 2007

First-quarter Earnings Conference Q&A

<Overall Business Performance>

Q: How do you view your first-quarter operating income relative to forecast?

A: We were aiming for the same level of operating income as the first quarter of the March 2007 fiscal year, but the result was slightly better than expected.

Q: What impact did exchange rates have on NEC's operating results?

A: Looking at individual business areas, the yen's depreciation increased earnings in some areas but reduced earnings in others. Overall, there was no major net foreign exchange impact because the positive and negative currency effects mostly canceled each other out.

<Segment Performance>

Q: First-quarter sales in the IT Services/System Integration (SI) area were higher year on year. How about earnings?

A: In the first quarter of March 2008 fiscal year, sales in the IT Services/SI area were generally strong, including in the financial and telecommunications sectors, increasing ¥14 billion year on year. However, the IT Services/SI area was impacted by intensifying price-based competition. Earnings from the IT Services/SI area did not increase because sales are usually relatively low in the first quarter. However, we aim to deliver earnings growth on a full-year basis by stepping up ongoing cost-cutting measures such as through production innovation in SI.

Q: There was an increase in overseas shipment volume in the Network Systems area. Could you please comment on first-quarter operating income in this area in year-on-year terms? And what is your outlook?

A: Operating income in the Network Systems area declined year on year mainly due to a drop-off in demand associated with capital investment by telecommunications carriers preparing for Mobile Number Portability (MNP). This result came despite higher overseas sales primarily reflecting a large Pasolink project. However, these conditions were largely in line with initial assumptions, so there was no change to our initial forecasts.

Q: In the first quarter, the Mobile/Personal Solutions business posted operating income of ¥9.6 billion, an improvement of around ¥25.0 billion from an operating loss in the first quarter of the previous fiscal year. What was the reason?

A: In the Mobile Terminals area, the improved operating income reflected the absence of losses resulting from the termination of overseas shipments recorded in the first quarter of fiscal 2007 and measures to streamline development expenses. The termination of the overseas Mobile Terminals shipments accounted for roughly one-third of the year-on-year improvement in operating income.

A: In the Personal Solutions area, the improved operating income mainly reflected improvement in overseas businesses as a result of the sale of NEC’s consumer PC business in Europe, as well as continuous cost-cutting and production innovation efforts.

Q: Why then do you expect the Mobile/Personal Solutions business to only break even in the interim period of the March 2008 fiscal year, after it posted a profit in the first quarter?

A: In the Mobile Terminals area, sales volumes of mobile handsets decline between the first and second quarters. In addition, development expenses for new products due to be launched in the second half of the March 2008 fiscal year are projected to increase in the second quarter.

A: Furthermore, in the Personal Solutions area, where most procurement is denominated in foreign currencies, NEC was almost unaffected by the weaker yen in the first quarter due to the effect of foreign exchange forward contracts. But we need to keep a close eye on currency movements in the second quarter and are therefore viewing our forecasts more cautiously.

A: For these reasons, we have not revised our initial overall earnings forecast of breaking even in the Mobile Personal Solutions business in the interim period of the March 2008 fiscal year.

Q: Are Mobile Terminals inventories increasing?

A: Our current models have gained a strong market response. And we are carefully monitoring inventory levels, so we believe there is no significant inventory risk.

<Others>

Q: NEC is prepared to spend strategic costs to boost sales in the medium term. How were these costs spent in the first quarter?

A: We plan to spend strategic R&D costs of roughly ¥20 billion in the March 2008 fiscal year in the IT/Network Solutions business. Of this amount, we spent a total of roughly ¥3 billion in the first quarter on thin client systems that realize stronger security, the HYDRAstor™ next-generation storage system with enhanced storage capacity efficiency, and on Network Systems areas.

A: On the other hand, in the first quarter, NEC spent almost none of the separate strategic expenses of ¥20 billion earmarked for driving future growth from a Company-wide perspective.

Q: What became of projects in the first quarter for which revenue recognition was scheduled for the end of the March 2007 fiscal year but postponed to the March 2008 fiscal year? What is your outlook?

A: We deferred the recognition of ¥30 billion in revenue and just over ¥10 billion in operating income to the March 2008 fiscal year. Of this amount, NEC recognized revenue of around ¥10 billion and operating income of around ¥3 billion in the first quarter.

A: The deferment mainly arose because it took longer than expected to receive acceptance certificates from some customers; we had planned to recognize revenue upon customer acceptance. Going forward, we aim to minimize these sorts of term by improving business processes and taking other measures.

Q: Does the projected decline in operating income between the first and second quarters reflect seasonal factors in NEC’s businesses? Or does it have something to do with NEC's change in accounting standards from U.S. to Japanese GAAP? And will there be no change in the concentration of earnings around the fiscal year-end?

A: The change in accounting standards is not relevant. The projected drop in second-quarter operating income reflects the fact that our forecasts for the March 2008 fiscal year call for the Mobile/Personal Solutions business, which posted operating income of ¥9.6 billion in the first quarter, to break even in the interim period, mainly based on the timing of projected expenses and shipment volumes.

A: NEC views the concentration of earnings around the fiscal year-end as an issue that must be resolved. However, it is also an issue that requires careful consideration of customer relationships and other factors. However, our goal is to recognize earnings more evenly throughout the year, as we strive to structure our business so that earnings are more evenly generated between quarters.

Q: NEC is forecasting a loss before income taxes and minority interests for the interim period of the March 2008 fiscal year. What are your forecasts for non-operating income and expenses?

A: In the first quarter, NEC posted net non-operating expenses of ¥3.1 billion. This mainly reflected the recording of interest expenses of ¥3.9 billion, retirement benefit expenses of ¥3.4 billion and a loss on disposal of fixed assets.

A: NEC is forecasting net non-operating expenses of ¥25 billion for the interim period of the March 2008 fiscal year. In terms of non-operating expenses, interest expenses, loss on disposal of fixed assets and retirement benefit expenses are all expected to be on a par with the corresponding period of the previous fiscal year. In special gains and losses, NEC expects to record restructuring charges.

A: In regards to projected income taxes, NEC expects to incur higher income taxes than would normally be assessed on the projected ¥15 billion interim loss before income taxes and minority interest. This mainly reflects goodwill, undistributed retained earnings and losses at subsidiaries from which NEC doesn’t expect tax benefits.