

January 17, 2008

## **PASOLINK Business Strategy Conference Q&A**

### **Questioner A**

Q: By roughly how much do you expect the PASOLINK market to grow going forward?

A: We expect the market to remain at its current size for at least the next two to three years. Demand is mainly expected from expansion of GSM infrastructure, development of 3G networks requiring more coverage area and emergence of new data links such as WiMAX and LTE. We also expect demand from customers seeking to replace systems to achieve higher data transmission speeds.

Q: Can you provide a breakdown of PASOLINK sales in terms of mobile access and other applications?

A: Mobile access represents at least 80% of the market, and a similar composition of NEC's sales.

Q: Which PASOLINK parts have the longest manufacturing lead times? What is the lead time?

A: Semiconductors have the longest lead times. Sometimes advance orders for semiconductors must be based on demand projections three months or so into the future. In practice, however, semiconductors are supplied to us on a daily basis in line with daily requirements using the *Kanban* System, which is a Just-in-Time (JIT) ordering system. By securing ample sales volume, we believe we can stay on top of changes in actual demand.

### **Questioner B**

Q: By roughly how much have you managed to reduce annual PASOLINK costs in percentage terms? How does this reduction compare with price declines? What are your plans in this regard?

A: Prices are falling by roughly 10% to 15% annually, but we have managed to reduce costs substantially by launching new models every half year or annually. As a result, cost reductions have exceeded price declines.

Going forward, our priorities are to reduce costs further through steps including reinforcing our supply chain, and to add value through means other than simply supplying hardware in order to boost our products' overall competitiveness, so that we are insulated more from price movements.

Q: Could you explain your plans to increase productivity at NEC Wireless Networks, Ltd. with reference to prior productivity improvements?

A: In terms of output per employee, we have seen an approximate 15-fold improvement since 2001, prior to launching our production innovation drive. In the past three years alone, we have achieved a three-fold productivity increase. Our challenge now is to improve productivity by three-fold again over the next three years. This is by no means an easy feat, but it is a benchmark we are using to gauge our progress.

Q: How are you extending NEC Wireless Networks' production innovation drive to other NEC plants?

A: We are consistently raising the bar in terms of production innovation at each plant. We have much to learn about production innovation based on the Toyota Production System, not only in terms of hardware production but also in software development, particularly with regards to managing relationships with materials suppliers. For the purpose of extending such know-how to each plant in the NEC group, we conduct regular plant inspections by production innovation supervisors and study sessions involving key personnel from each plant.

### **Questioner C**

Q: Page 13 of the presentation shows a regional breakdown of cumulative PASOLINK shipments. How will these shipments break down by region in the current fiscal year? Where in Europe are your largest shipments?

A: PASOLINK shipments in the current fiscal year (fiscal year ending March 31, 2008) will closely mirror the regional breakdown of cumulative shipments.

A: In Europe, we are seeing increases in shipments to Russia, the UK,

France and Eastern Europe.

Q: PASOLINK shipments to India seem quite large. Do you expect growth in this country to continue next fiscal year?

A: In the initial stages of developing services, mobile phone service carriers must accelerate investments in expanding their service areas in order to compete with other carriers for customers. Carriers in India are no exception. We, therefore, expect at least as much growth from this country as in the previous fiscal year.

Q: What is your approach to selling PASOLINK products worldwide?

A: We sell directly to customers and also through trading companies. PASOLINK products are also sold together with GSM base station equipment via other mobile infrastructure vendors.

#### **Questioner D**

Q: How does growth in the PASOLINK business in fiscal 2008 compare with your initial forecasts at the beginning of the fiscal year?

A: At the beginning of the fiscal year, we targeted growth of around 10% to 30%. However, growth has far surpassed this target. Greater-than-expected GSM infrastructure investment is mainly responsible for the large growth in the PASOLINK business.

Q: NEC supplies more than 1,000 combinations of PASOLINK products. Is there any risk in handling so many different products? How do you manage this complexity? Do you take any steps like grouping different types of products into similar production processes?

A: We produce many different types of PASOLINK products in order to satisfy customer needs precisely. However, one NEC product called PASOLINK NEO is based on a common platform. We try in many ways to run our business efficiently by combining such common platforms with flexible production of different types of products at NEC Wireless Networks.

#### **Questioner E**

Q: Roughly what percentage of PASOLINK products are used for 3G

mobile communications? Will you need to develop new PASOLINK models to keep abreast of the high-speed communications requirements of 3G mobile infrastructure?

A: We don't have a complete grasp of whether client communications carriers are using PASOLINK for either 3G or GSM networks. However, PASOLINK is used for 3G networks mainly in Europe, so we estimate that no more than roughly 10% of total PASOLINK shipments are used for 3G networks. For the current generation of products, customers using 3G networks are purchasing models with relatively high data transmission speeds.

Q: PASOLINK appears to be highly profitable at the moment. How do your competitors stand in terms of profitability? How does NEC stand in terms of price competitiveness?

A: Some of our major competitors are focusing on package sales of systems combining base station and other equipment. Although we can't be completely sure, we believe our competitors have achieved largely the same level of profitability as NEC. Meanwhile, NEC has achieved cost reductions by developing a systems platform that takes advantage of its outstanding wireless communications technologies.

#### **Questioner F**

Q: Can I assume that revenue from PASOLINK-related maintenance services is minimal?

A: NEC does not enter into maintenance agreements with customers, partly because of PASOLINK's outstanding quality. However, because we expect to see data communications come to the fore in the years ahead, we are looking to boost revenue from services by combining traditional maintenance services with data monitoring systems and other new services.