January 29, 2008

Third-quarter Earnings Presentation Q&A

Key:

•:	Question
→:	NEC's answer
Third quarter:	October to December
Fourth quarter:	January to March

<u>Questioner A</u>

•NEC posted third-quarter operating income of ¥16.0 billion. How does this result compare with your internal plan?

→NEC's third-quarter operating income was slightly below our plan. The main reason was that certain Network Systems sales in the IT/Network Solutions business were postponed from the third quarter to the fourth quarter. All other aspects of performance were largely in line with our expectations.

• NEC's full-year forecast for the IT/Network Solutions business calls for a large percentage of operating income to be generated in the fourth quarter. Which areas of this business, if any, present a risk in terms of achieving your forecast?

→Business areas that expect to generate a large percentage of operating income in the fourth quarter are IT Services/SI (Systems Integration), Network Systems, Social Infrastructure and IT Platforms. We are steadily accumulating orders in the IT Services/SI and Network Systems areas. I would have to say, however, that IT Platforms and Social Infrastructure may slightly underperform.

<u>Questioner B</u>

•The Mobile/Personal Solutions business made a profit over the past three months. However, margins are by no means high. Why is this when the PC market was strong?

→In the Mobile/Personal Solutions business, Personal Solutions saw earnings decline due to flat PC shipments year on year in the third quarter.

The recording of development expenses for “Lui” was partly responsible for the earnings decrease. “Lui” is a new home server launched in December that paves the way for new PC-based digital lifestyles.

•Do you plan to record any more development expenses for home servers?
→Having reached the stage of announcing the product concept for home servers back in December, we do not expect to incur any more large development expenses.

•The Mobile/Personal Solutions business seems to be forecasting a loss in the fourth quarter, judging from the difference between the full-year earnings forecast and results for the April-December period. Is there any reason why this business should, in fact, slip back into the red?
→The Mobile/Personal Solutions business would return a fourth-quarter loss of approximately ¥4.0 billion on that basis. But this largely reflects the fact that we have not revised our full-year earnings forecast. We don’t actually expect such a large loss. The Mobile/Personal Solutions business is trying to ensure that it is consistently profitable. However, fourth-quarter profitability in the Mobile Terminals area will be affected by increases in development expenses for a number of new mobile handsets due for release this spring.

•Why did profitability in the Others segment improve in the third quarter?
→Because Head Office and other expenses are expected to be concentrated in the fourth quarter, the Others segment managed to post a year-on-year earnings increase in the third quarter.

•The IT/Network Solutions business expects a large increase in earnings in the fourth quarter, despite posting a large year-on-year decrease in earnings in the third quarter. Why?
→Profitability will improve in the Network Systems area of the IT/Network Solutions business. Sales of PASOLINK, an ultra-compact, point-to-point microwave wireless access system, rose around 60% year on year in the third quarter, and are expected to continue to grow steadily in the fourth quarter too. In the IT Services/SI area, high-margin projects were concentrated in the third quarter of fiscal 2007 , the year ended March 2007,

so profitability dropped off in the fourth quarter that fiscal year. Due to seasonal factors, IT/Network Solutions sales are mostly concentrated in the fourth quarter. NEC expects to see large projects concentrated in the fourth quarter of the current fiscal year as well. We have made a point of reinforcing project management capabilities in fiscal 2008, and thus expect fewer unprofitable projects. Based on these factors, we believe our fourth-quarter projection is well within reach.

•In the Electron Devices business, NEC TOKIN Corporation sharply reduced its full-year earnings forecasts. As its parent company, shouldn't NEC play a more active role in this company's management?
→NEC TOKIN is finally seeing some improvement in business performance, as a result of integration and realignment of NEC's capacitor, relay and other operations following poor performance in the past. NEC is NEC TOKIN's parent company, but our equity interest is around 50%. Moreover, since NEC TOKIN is a publicly listed company, we believe that its management should be independent of NEC. NEC, however, advises NEC TOKIN on business execution based on regular reports we receive on its business operations.

Questioner C

•Have you made any changes to full-year segment operating income forecasts?
→Yes. Previously, we had planned to book some strategic expenses to spur future growth in the Others segment. However, certain strategic expenses whose use has been determined have now been included in forecasts for the IT/Network Solutions business. Based on this, we are now forecasting operating income of ¥159.0 billion in the IT/Network Solutions business, ¥6.0 billion in the Mobile/Personal Solutions business and ¥3.0 billion in the Electron Devices business.

•Projected fourth-quarter earnings in the IT/Network Solutions business are very large. Is there any particular reason why you expect a concentration of high-margin projects in the fourth quarter?
→There are two main reasons. First, IT Services/SI sales are usually concentrated in the fourth quarter in a typical year. Second, Network

Systems now expects to achieve in the fourth quarter the target it failed to achieve in the third quarter. The third-quarter target was originally set high, despite a projected decline in third-quarter Network Systems sales to communications carriers.

•Will deferred tax assets be affected if NEC does not achieve its ¥130.0 billion fiscal 2008 operating income target?

→We expect Social Infrastructure and IT Platforms to face some difficulty in reaching their full-year forecasts. However, because Mobile Terminals has so far performed better than expected, at this time we believe that our ¥130.0 billion operating income target is well within reach. We therefore expect no impact on deferred tax assets.