

May 28, 2008

Business Presentation Q&A

Questioner A

Q Personnel development will be important to achieving your future goals. What is your approach to fostering personnel who can achieve innovation? How will you strengthen employee cohesion?

A Regarding personnel development, NEC has already established various in-house certification systems designed to enhance employees' skills, and will continue upgrading each system. Separately, we will encourage employees to participate in academic meetings and to hold extensive discussions with employees of other companies. I believe that our production innovation activities, which involve much repeated trial and error, will give employees opportunities to take notice of and learn about things. I want to provide employees with many opportunities of this kind, so that they can develop and grow on their own as individuals.

I also believe that the most important way for us to make the NEC group more cohesive and bring out even more of the strengths of our employees than before is to encourage employees to aim higher, envision NEC's future, and have the ambition to realize that vision. To this end, we recently formulated the NEC Group Vision 2017, which clarifies our vision for NEC based on our Corporate Philosophy, as well as the NEC Group Core Values, which outlines the values and guiding principles that the group must embrace to realize this vision. A team of younger employees, including members of group companies, listened to the views of a broad range of NEC group employees, thereby involving them in the process of formulating this vision and the core values.

Questioner B

Q Could you please elaborate on the overseas NGN-related business? What is the make up of the NGN construction business for the current fiscal year by layer?

A Because Japan has the world's most advanced NGN market, NEC has yet

to work on overseas NGN construction projects in large numbers. However, with a layer structure similar to NGNs, 3G infrastructure represents a predecessor of NGNs. Regarding 3G infrastructure, NEC has supplied infrastructure systems to NTT DoCoMo, Inc. and constructed the “push-to-talk” service on an NEC service platform. Another example of an application service with this structure is “i-mode.” Overseas, NEC has delivered i-mode systems to more than 10 telecoms carriers.

Projected NGN construction business sales are ¥300 billion for the current fiscal year. Of this amount, in rough terms, network infrastructure is expected to account for around two-thirds of sales, while service platforms should account for most of the rest.

Q What is your approach to the mobile handset OEM/ODM business? How confident are you about the medium-term sales volume target of 10 million mobile handsets, which was announced at the previous business presentation in February? Could you also please explain your thinking on overseas business development?

A I’m afraid I cannot comment on details of the OEM/ODM business out of counterparty considerations.

We are confident about reaching projected sales of around 10 million mobile handsets in Japan, partly because we have a new customer, Softbank.

In terms of overseas business development, I believe that a unique course that differentiates us from other companies would be necessary.

Q What is your outlook for R&D expenses over the next two to three years?

A We plan to maintain our current ratio of R&D expenses to sales. However, this ratio varies considerably among multinational companies depending on their respective business domains. Therefore, I believe that R&D expenses should be considered on a segment-by-segment basis, rather

than in terms of a company-wide ratio. In the Electron Devices business, we have spent heavily in the past on development expenses for process development. However, we plan to reduce these R&D expenses through collaboration and other means going forward.

Questioner C

Q You said that the semiconductor business is grounded on IT and networking technologies. Could you please explain more about this?

A Let me illustrate this with some examples. NEC Electronics Corporation has developed a semiconductor chip for automobiles that is designed to prevent vehicle collisions. NEC's networking and IT technologies contributed to this chip's development. Elsewhere, image processing chips for home electric appliances combine IT and networking technologies developed by NEC Central Research Laboratories. Because application technologies are of primary importance to semiconductor development, I believe that NEC's extensive IT and networking technologies will be a major driving force behind this development process.

Q What is your strategic direction for the battery business?

A NEC TOKIN Corporation has developed square shaped rechargeable lithium ion batteries, but the battery business faces issues in terms of competitiveness. So, I believe we must shift our focus. Batteries for automobiles harbor tremendous potential going forward and I believe that the NEC group's technologies can contribute here.

Q Which segments of the PC market are you targeting? What is NEC's direction and approach to the PC business?

A I believe that thin client terminals embody the ultimate form of simplicity for PCs. On the other hand, NEC will provide products with sophisticated functionality, such as the "Lui" home server and home client solution launched in April. Over the medium term, I anticipate that we will focus mainly on these two market segments, but our actions will be based

on an accurate grasp of market needs.

Q Does NEC plan to adopt international financial reporting standards (IFRS)?

A Local accounting standards are currently converging with IFRS. I believe that Japanese generally accepted accounting principles (GAAPs) are in a period of transition, since they will become obsolete unless they are made to conform more closely with IFRS. One example of this is the introduction of the percentage of completion method from next fiscal year. NEC will continue to apply Japanese GAAPs, but we believe that they will eventually converge with IFRS.

Questioner D

Q What is the aim of OEM/ODM discussions in the mobile handset business? How will this contribute to earnings?

A Lower production costs, resulting from projected volume increases, are expected to contribute to earnings. This outlook is based on our experience of having sold more than 10 million mobile handsets in a year in the past.

Q How do you plan to increase net income to achieve ROE of 10%?

A We recognize that what happens between the ordinary income and net income levels is a key issue. Our first priority is to reduce special losses. On top of this, NEC's tax rate was higher than the standard rate in the past few years, because of the effect of deferred taxes on losses at subsidiaries. Therefore, various group companies and businesses must increase their earnings going forward.

To increase net income, we must first and foremost increase operating income. Because tax rate differences are fixed in terms of absolute amounts, the higher our pre-tax income, the less susceptible we will be to these sorts of tax effects. We are targeting operating income of more than ¥200 billion going forward.