June 9, 2008

Mobile Terminals Business Conference Q&A

Questioner A

Q NEC is targeting sales volume of 10 million mobile handsets in fiscal 2010 (the fiscal year ending March 2011). How large is the market expected to be then? Of the 10 million handsets, what percentage do you expect to sell via partners?

A In fiscal 2010, we expect the market for existing mobile handsets to have contracted but we still foresee a market of around 50 million units, including new domains such as smart phones. Mobile handset sales via partners are projected to account for several percent of total sales.

Q How does NEC view the iPhone?

A The iPhone is different from existing mobile phones in terms of business model and enhanced audio/video (AV) functionality with a large screen. Despite its outstanding AV functionality, the iPhone is slightly weak on battery life, which is the lifeblood of mobile phones. We believe that the iPhone will co-exist with the traditional mobile handset market for the time being.

Q Does NEC plan to launch a handset with a multi-touch panel like the iPhone?

A That option is currently being considered.

Q Roughly how many mobile handset software developers work at NEC? Do you plan to increase their number going forward?

A I'm afraid I can't comment on details since we don't disclose that number by product.

A Despite doubling the number of new handset models from fiscal 2007 (the fiscal year ended March 2008) to fiscal 2008, we expect to hold the increase in development expenses to around 20% by raising efficiency. We expect to complete the bulk of LTE platform development in fiscal 2008 and will continuously pursue higher development efficiency, including hardware development, going forward. Accordingly, we believe we have

enough software developers at present.

Q How much software development is outsourced?

A We outsource around 30% to 40% of software development to companies other than NEC group companies. We believe that the current level of outsourcing is appropriate for maintaining high quality amid the increasing sophistication of software development processes year after year.

Q Does NEC plan to develop proprietary chipsets for LTE handsets?

A We currently use internally developed chips in our 3G handsets and have begun developing LTE handsets based on these chips. We believe that our own chips are superior to competing products and so we're actively encouraging other companies to use them, too. However, since other companies are also developing a variety of LTE chips, we plan to choose the optimal ones based on market conditions.

Q Do your mobile phones use the Linux operating system?

A Currently, yes. Going forward, we will basically continue to use Linux, but our policy will be to choose the optimal operating system depending on market conditions.

Q Do you think WiMAX functionality will   be built into mobile phones?

A At this time, communication carriers have yet to begin offering WiMAX services, and NEC has yet to determine concrete plans. However, we want to be prepared for the roll out of these services.

Questioner B

Q Does your fiscal 2008 first-quarter sales volume target of 1.6 million mobile handsets include sales to SOFTBANK MOBILE Corporation?

A Basically, we aim to meet this target with sales to NTT DoCoMo, Inc. and ODM sales, but sales to SOFTBANK MOBILE may also be included.

Q Which of the new models released since the beginning of fiscal 2008 employ master software?

A We are currently developing master software for use in models planned for release beginning with the second half of fiscal 2008.

Q What is your stance on resuming overseas operations in mobile handsets after 2010?

A We are currently focusing on Japan with the aim of achieving our sales volume target of 10 million mobile handsets. We expect NEC's LTE platforms to be well established by the time that worldwide adoption of LTE gets under way from 2011. Considering this, we don't expect to begin looking at doing business overseas until that time.

Questioner C

Q How is NEC responding to Google's Android platform? What impact will Android have on NEC's businesses going forward?

A Android is one of many technologies that could become the world's primary mobile phone software platform. We are thus analyzing and looking closely at the technological aspects of Android from many angles. NEC believes it is important to figure out how to differentiate itself as a handset manufacturer if and when Android transforms the mobile phone business model.

Q Do you feel that Android could threaten NEC's mobile terminals business by reducing it to a mere assembly operation?

A There may be a higher risk of that scenario playing out going forward, since Android will lower barriers to entering the mobile terminals business for operators with no technological base. To prepare for such an eventuality, we will carefully identify the areas where we can add the most value. However, because the value-added segments of the business will partly shift from operating systems to the higher layer of applications, we need to be prepared to harness NEC's strengths in those areas.

Q Considering the upcoming release of the iPhone and PRADA phone, what is your outlook for the market share of overseas vendors in Japan in fiscal 2010?

A Unlike overseas markets, the Japanese handset market requires handsets that offer sophisticated network-based services. Add to that the difficulty in satisfying Japanese consumers' unique preferences, and it is not likely that

overseas vendors will become major players in the Japanese market over the medium term. However, we must remain cautious because overseas vendors boast price-based competitiveness.

Questioner D

Q Your 2010 sales volume target will see projected mobile handset sales increase by nearly 50% compared with your forecast for the current fiscal year. By around how much will R&D expenses increase by that time?

A In monetary terms, mobile handset sales in 2010 are projected to increase only by about 20% compared with fiscal 2008, mainly due to the impact of falling unit prices. Therefore, we must hold any increase in development expenses to just under 20% through greater efficiency.

Q How much common software do you expect to use for handsets for NTT DoCoMo and SOFTBANK MOBILE?

A We expect to use common software for almost all areas except for applications by taking advantage of master software that we plan to develop within fiscal 2008.

Q By how much will the number of master software versions increase when mobile handset sales reach 10 million units? You are targeting no more than a 20% increase in development expenses at that time, but what is the relationship between increases in the number of master software versions and development expenses?

A We don't expect a large increase in the number of master software versions. In addition, since development expenses include upfront development costs such as outlays for future user interfaces and other new functions and features, the projected sales volume increase will not directly feed into earnings growth. However, we believe that proceeding with upfront development with an eye to 2010 onward is important.

Q What kinds of products do you define as new domains and smart phones?

A These categories are not strictly defined. They include a variety of products other than current mobile handsets. Some examples are terminals modified in various ways to utilize NEC-developed "Lui" home servers;

customized handsets with specialized functionality; and "wearable" terminals that are designed to be carried regularly by users.

Q NEC sold around 10 million mobile handsets in the past in Japan, but that number dropped to around 5 million units for some reason. Why is this? In this context, how do you expect to achieve your current target?

A The main reason for the past drop in mobile handset sales was that we were unable to fully satisfy the diversifying needs of NTT DoCoMo mobile phone users. By addressing that weakness, NEC has recently received high marks from users in terms of product design and other areas. Furthermore, we plan to release models with enhanced Internet connectivity and innovative form factors in the second half of fiscal 2008. Through these initiatives, we aim to increase our share of sales to NTT DoCoMo. Meanwhile, new handset models will soon be shipped to SOFTBANK MOBILE. In the first half, we will roll out multiple new models targeting women. By responding precisely to market needs, we aim to achieve our mobile handset sales volume target.