

May 12, 2009

Fiscal 2008 Earnings Presentation Q&A

Key:

- : Question
- : NEC's answer

Questioner A

•NEC has doubled its target for reductions in fixed costs since it released earnings for the third quarter of fiscal 2008, the year ended March 31, 2009. Of the targeted reduction of ¥270 billion in fixed costs announced most recently, around how much is already achievable? In addition, by around how much do you expect to reduce fixed costs through one-time initiatives planned for fiscal 2009?

→We believe that all fixed costs like labor, depreciation and lease, advertising and IT costs are achievable because these costs can be controlled internally. In addition, we have already set cost reduction targets for each business unit for outsourcing engineering and consignment of activities and should be able to reduce overall costs in this regard by around 20% year on year. Concrete measures include discontinuing product development projects offering no prospects for recouping our investment, shifting software development offshore, and developing products more internally. Costs related to outsourcing engineering and consignment of activities will be controlled meticulously not only monthly, but also weekly or even daily as necessary. Every effort will be made to ensure that cost reductions proceed as planned.

→Labor cost reductions will include one-time measures such as remuneration cuts for above manager-level employees and freezes on pay raises. Total labor cost reductions of one-time initiatives are projected at under ¥10 billion.

•The IT/Network Solutions business is forecasting lower sales to the Government sector in fiscal 2009, but mostly the same level of sales to the finance sector and to wireline telecom carriers in Japan, including NGN

(Next Generation Networks). Why?

→Our fiscal 2009 forecast for IT/Network Solutions business sales to the Government sector is lower because of sales from large projects recorded in fiscal 2008. Despite challenging market conditions in the finance sector, we are forecasting roughly the same level of sales to this sector based on several prospective projects. In fiscal 2009, sales to wireline telecom carriers in Japan are also expected to remain largely on a par with the previous year.

•To what extent do forecasts for fiscal 2009 reflect restructuring costs related to future management reforms?

→In fiscal 2008, NEC posted nearly ¥90 billion in restructuring costs as it accelerated management reforms in the aftermath of “the Lehman shock”. Restructuring costs for fiscal 2009 are projected at less than ¥10 billion.

•Do you expect growth in the NGN-related business to reach a standstill in fiscal 2009?

→“NGN” is a broad term that can be defined in different ways. NEC expects the NGN-related business to mark time in fiscal 2009, based on its own definition of NGN. Going forward, however, we anticipate the emergence of new services such as LTE (*1) and WiMAX (*2). Therefore, we will continue to approach customers in anticipation of an economic recovery, keeping an eye on overseas businesses as well.

Questioner B

•NEC is forecasting lower Mobile Terminals sales in fiscal 2009 due to product mix changes. Why are you changing the product mix?

→In fiscal 2009, we are targeting mobile terminal shipments of 5 million units, and aiming to capture a higher market share. In this context, we plan to offer comparatively basic new models for users switching from PDC (*3) to 3G (Third-Generation Mobile Phone) handsets. Our outlook for Mobile Terminals sales is conservative as it assumes that demand for

handsets will be concentrated on relatively low price models.

- Do you plan to reduce LTE development costs?

→We will maintain LTE development costs as we planned, and will also try to curb development costs through partnerships with other companies.

- NEC seems to lack adequate funds to pay dividends based on the non-consolidated balance sheet. Are you planning any capital raising measures?

→In fiscal 2009, NEC is targeting non-consolidated net income of ¥20 billion, but still expects a shortfall in retained earnings. Therefore, we are considering transferring items within the net assets section of the balance sheet.

Questioner C

- I believe that global business expansion is a pressing issue for NEC, given that the company previously exited overseas PC and mobile handset businesses. What is your present global business strategy going forward?

→We recognize that global business expansion is a top priority. One concrete measure was our acquisition of NetCracker Technology Corp. in 2008. This move will provide a very effective means of expanding our business overseas. We will also need to consider additional M&As going forward. However, the timing of any such deal will be decided cautiously.

- How do planned reductions in R&D expenses break down in terms of your business fields?

→We aim to reduce R&D expenses across the board from ¥346.5 billion in fiscal 2008 to ¥280 billion in fiscal 2009. Specifically, we will work to develop standardized mobile handset master platform, realign the IT/Network Solutions product portfolio, and take other actions.

- NEC plans to deconsolidate NEC Electronics Corporation by integrating it

with Renesas Technologies Corporation. As NEC Electronics' parent company, does NEC plan to lead the new integrated company?

→We will seek returns as a major shareholder of the new integrated company, without being particularly conscious of our status as its parent company. NEC has no intention of controlling the new company.

Questioner D

•Will NEC be able to offset the possible impacts of worsening profitability after orders are received and falling prices with projected cost cutting?

→We expect to cover those impacts with projected total cost reductions of approximately ¥150 billion in all hardware, software and SI businesses.

•How will the deconsolidation of NEC Electronics affect NEC's balance sheet?

→Roughly speaking, we expect the equity ratio to improve by a few percentage points and the debt-equity ratio to improve.

•NEC is seeking to develop cloud computing businesses. How do your ambitions in this area differ from your competitors?

→Currently, NEC is developing a service platform for a cloud computing system that will be used by 50 NEC Group companies. Although this system is not scheduled to be fully operational until fiscal 2010 or so, we are already fielding a growing number of inquiries from large enterprises with whom we have yet to do business. We believe that the sales, materials purchasing and other systems we are now developing for internal use will serve as reference models for similar systems we will provide to other companies.

→NEC envisions three "Cloud-Oriented"(*4) business models. The first model will involve the construction of custom-built systems for large enterprises. The second will use data centers to provide cloud computing services to middle-tier and small and medium-sized enterprises. The third

model will address the needs of service providers such as telecom carriers.

→ NEC's systems feature "six-nine" (99.9999%) reliability and the optimal combination of not only NEC proprietary products but also leading open-systems products from around the world. The NTT DOCOMO Internet Gateway System and billing_system constructed by NEC can process 10 times the transactions handled by systems in use at Japan's megabanks. We believe that one of our core strengths is our expertise in building these systems.

• What is NEC's approximate exchange-rate sensitivity?

→ Every ¥1 change in the yen-U.S. dollar rate would have an impact of around ¥0.8 billion on operating income (loss) per year.

Questioner E

• Are you considering reassigning researchers previously involved in basic semiconductor development at NEC Electronics to the development of lithium-ion batteries or other areas?

→ We are currently revamping our R&D portfolio. However, we need to decide on reassignments of semiconductor researchers through discussions with the parent companies of Renesas Technology, namely Hitachi, Ltd. and Mitsubishi Electric Corporation. For its part, NEC will pursue R&D activities focused on strategic themes, rather than comprehensive R&D activities.

• I suspect that NEC's balance sheet deteriorated because it was slow to restructure businesses that were not posting large losses. In the future, NEC must carry out such restructuring sooner. What direction is planned for the Mobile Terminals and PC businesses?

→ One example of where we learned an important lesson was NEC TOKIN Corporation. Especially in the electronic components field, we believe it is impossible to ride out market downturns without a certain level of business scale.

→ We feel a sense of urgency with respect to the Mobile Terminals and PC businesses. Here, we must now shift to new businesses that bundle Mobile Terminals and PCs with services. We have yet to roll out specific products, but certain products are already being developed.

*1 LTE (Long Term Evolution): a high-speed 3G (Third Generation Mobile Phones) standard also referred to as “3.9G” and “Super 3G.”

*2 WiMAX: a wireless standard that has been approved for standardization by the IEEE 802.16 Committee as a broadband wireless access system that enables “last one mile” access.

*3 PDC (Personal Digital Cellular): A 2G mobile communications standard that saw broad uptake in Japan.

*4 “Cloud-Oriented”: an expression that likens the countless Internet-based computing resources floating in cyberspace to a “cloud.”