

July 30, 2009

Fiscal 2009 First Quarter Earnings Presentation Q&A

Key:

- : Question
- : NEC's answer

Questioner A

•Please explain your stance and strategy concerning automotive lithium-ion batteries. Please include your capital expenditure plans.

→As we have already announced, NEC will responsibly supply the electrodes for the batteries to be used in the 65,000 electric vehicles that Nissan plans to manufacture. Capital expenditures will exceed ¥10 billion and the sources of these funds have been arranged.

•The conclusion of a definitive agreement to integrate business operations at NEC Electronics and Renesas Technology has been postponed. Has NEC changed its position concerning the integration of business operations?

→We initially planned to sign this agreement by the end of July but announced a postponement on July 28. Since there is a large amount of fixed expenses in the semiconductor business, a strict due-diligence analysis of the value of assets must be completed. This process is taking longer than expected. There is no change in our basic thinking concerning the integration of business operations.

Questioner B

•By how much did first-quarter performance exceed your expectations? How about reductions in fixed expenses?

→Net sales were about ¥50 billion and the operating loss was about ¥20 billion better than we expected. The IT Services business and Personal

Solutions business (mainly mobile handsets) were responsible for the better-than-expected operating loss. But some mobile handset sales were brought forward from the second quarter. Therefore, we are making no change in our initial forecast for first-half mobile handset sales.

→In the first quarter, we achieved 27% of our total planned fixed cost reductions for the fiscal year. Very roughly, reductions exceeded expectations by around ¥10 billion or possibly several billions of yen more.

•What is the position of your customers in Japan concerning IT investments? What is your view of LTE(*1) in the next fiscal year and afterward?

→In Japan, the level of IT investments is relatively strong for the government, public sector/medical, retail and other market sectors. But the economic deterioration is still having a negative effect on these investments. However, we see a particularly severe impact from the economic downturn in the manufacturing and media sectors.

Concerning LTE, things will depend on the plans of communications carriers. If services start in the second half of the fiscal year ending March 31, 2011, we expect LTE to start making a contribution to our operations from the fiscal year ending March 31, 2012.

•Please explain the NEC Group Vision 2017.

→NEC started using the C&C(*2) corporate philosophy about 30 years ago. Now we are thinking about how NEC should change over the next decade. What will society be like 10 years from now? And what should we aim for at that time? We want to channel the energy of our employees in a single direction based on this philosophy. We want to use this as the basis for a medium-term plan, too.

•Was the first-quarter operating loss better than expected because the IT Services business exceeded your plan due to more progress in cutting fixed costs?

→Net sales exceeded the plan by less than ¥10 billion. In terms of operating profitability, we benefited from SI innovations and cuts in fixed expenses.

•Since operating income from the IT Services business will probably be higher than originally planned, will there be a revision in the forecast for consolidated operating income?

→There has been no change in the forecast of ¥100 billion due to the performance of other business units.

Questioner C

•For operating income (loss) in the Electron Devices business, can NEC achieve a break-even result for the fiscal year? Are uncertainties about this business the reason that you are not revising first-half and fiscal-year consolidated operating income (loss) forecasts?

→The Electron Devices business includes NEC Electronics, which is a publicly owned company. This company's forecasts are reflected in our own forecasts. There are many types of risk, but our forecast does not reflect any measures to hedge these risks.

•What are your plans for second-quarter shipments of PCs and mobile handsets?

→For PCs, we plan to ship approximately 1.1 million units in the first half, so we will ship approximately 0.6 million units in the second quarter. For handsets, we plan to ship approximately 2.3 million units in the first half, so we will ship approximately 1.0 million units in the second quarter.

Questioner D

•In the Network Systems business, please explain the status of optical telecommunication systems in North America and PASOLINK.

→We expect a decline in sales of optical telecommunication systems because the business climate is worsening in North America. Regarding PASOLINK, demand is currently weak because of the economic recession. First-quarter sales were down about 20% from one year earlier, including the effect of foreign exchange rates. However, the PASOLINK market is healthy, particularly in emerging economies. We therefore believe that market conditions will return to the previous level starting in the second half of this fiscal year. We expect that full-year PASOLINK shipment units will be about the same as in the previous fiscal year.

•What was the first-quarter operating income from mobile terminals?

→Mobile terminals accounted for most of the operating income in the Personal Solutions business. PCs and others were roughly at the break-even point.

•What is the outlook by industry for the IT Services business?

→Sales are better than anticipated in the government, public sector/medical, and retail sectors. But we expect a downturn in demand in the manufacturing and media sectors. The IT Services business should perform slightly better than expected in this first half. But we have left our full-year forecast unchanged because of uncertainty about the second half.

Questioner E

•In the first quarter, sales surpassed the forecast by ¥50 billion, and the operating loss was ¥20 billion better than forecast. Please provide a breakdown of these figures.

→Sales in all business segments were higher than expected, particularly in the Personal Solutions business and the IT Services business. These same two segments were also the main reasons that the operating loss was better than forecast. For the IT Services business, both sales and the operating loss were almost ¥10 billion higher than the forecast.

- Why were first-quarter free cash flows negative?

→Free cash flows in the first quarter were a negative ¥47.5 billion. One reason was the effect on cash flows in the current fiscal year of structural reforms in the previous fiscal year.

Free cash flows improved relative to projections in the first quarter and, at this time, we anticipate an improvement from current projections for the entire fiscal year as well.

Questioner F

- Please explain the effect of foreign exchange rates on first-quarter performance, how this compares with what you expected, and the current use of foreign exchange forward contracts.

→As in the past, we estimate that our full-year earnings fall by ¥0.8 billion for every ¥1 appreciation of the yen against the dollar. Therefore, this impact is one-fourth as large in the first quarter. We based our forecast on a first-quarter dollar exchange rate of ¥90. Since the actual average exchange rate for sales in the quarter was about ¥98, this had a positive effect on our earnings. For the euro exchange rate, we estimate that each movement of one yen raises or lowers our annual earnings by ¥0.4 billion.

We constantly hedge 50% of our foreign currency-denominated business with foreign exchange forward contracts regardless of the direction of exchange rates.

- Why was there a decrease in equity-method income in the first quarter?

→Nippon Electric Glass was responsible for much of this decline.

- Do you plan to reduce inventories between now and the end of September?

→Inventories totaled about ¥410 billion at the end of June. Our goal is to reduce this to the mid-¥300 billion level by the end of September and to ¥300 billion by the end of March 2010.

•What are your plans for capital expenditures in automotive lithium-ion batteries?

→First of all, we need to make expenditures based on our current plan. Then we will think about what to do next.

*1 LTE: Long Term Evolution is the next step in high-speed standards for mobile 3G services. LTE is also referred to as 3.9G or even “Super 3G.”

*2 C&C: Computers and Communications

*3 Corporate philosophy: NEC strives through “C&C” to help advance societies worldwide toward deepened mutual understanding and the fulfillment of human potential. (Established in 1990)