

February 25, 2010

Q&A for Mid-Term Growth Plan

Key:

- : Question
- : NEC's answer

*Fiscal 2010: Year ending March 31, 2011

Fiscal 2012: Year ending March 31, 2013

Questioner A

•Investment by telecom carriers is expected to enter a tapering-off period in fiscal 2010. In light of this trend, how does NEC plan to manage operations?

→In the Japanese market, investment in LTE (*1) and WiMAX (*2) is expected to finally emerge. Investment by telecom carriers consists of network systems and IT-related investments. We anticipate additional IT investment particularly for providing new services, which in turn will spur investment in network systems. As the SaaS (*3) project for Telefonica S.A. in Spain demonstrates, there are also new businesses that combine IT/Networks solutions, and these businesses should provide substantial opportunities for NEC.

•How much capital investment will be needed to raise annual production capacity for the electrodes used in automotive lithium-ion batteries to 10 million kWh by the end of fiscal 2012?

→Investments will be made step by step as we closely monitor sales and market conditions for electric vehicles from Nissan Motor Co., Ltd. The scale of investment will be on the order of several tens of billion yen.

Questioner B

- What level of capital investment and depreciation will you be aiming for in relation to your fiscal 2012 operating income target of ¥200 billion?

→Until now, capital investment has been on the order of ¥100 billion on an annual basis. Going forward, we expect to maintain capital investment at the ¥100 billion level, including strategic investments. We can hold depreciation to a certain level and don't foresee any major increases.

- Which indicator is more central to your mid-term growth plan – sales or operating income?

→Our main focus is on ensuring profits.

Questioner C

- Can you explain the level of demand or approaches you anticipate in the network related business?

→PASOLINK (*4) is continuing to evolve to meet customer needs. We currently hold the top share in this area, and are focusing on emerging markets. Femtocell (*5) has very few competitors, and is poised to develop into a large-scale business by adding various functions to home equipment such as home network building. The submarine cable systems market is dominated by a small group of players, so the ongoing increase in video traffic should translate into growth. NGN investment by NTT is also likely to continue. In addition, we plan to offer unique solutions that differentiate NEC from its competitors, such as the successful integrated IT/Network solution for Telefonica.

Questioner D

- Can you share your approach to developing the smart grid business, including alliances with heavy electrical machinery manufacturers?

→The smart grid business offers many different possibilities for the future. While we haven't formed close relationships with any heavy electrical machinery manufacturers at the moment, we have begun demonstration projects and other initiatives with electric power companies. The day is not far off when the average home will have battery systems related to solar cells installed.

•Do you intend to revise the mid-term growth plan in response to changes in the business environment?

→We won't change the plan's direction over the three-year period. In every business, we plan to comprehensively check cash flows, growth potential, and other metrics in a timely manner.

•What is your mid-term outlook for ICT market prospects?

→ The global ICT market was valued at roughly ¥150 trillion in 2009. Given an annual growth rate of 6%, that figure is expected to climb to between ¥170 trillion and ¥180 trillion by 2012. If cloud computing, for example, accounts for around 10% of this market it will amount to ¥15 trillion to ¥16 trillion. NEC is targeting ¥1 trillion in sales from "C&C Cloud Strategy" related businesses in fiscal 2012.

Questioner E

•NEC could choose to increase profits by focusing exclusively on the Japanese market. Given this option, why is NEC intent on building a presence in the global market, despite the risks this entails?

→Our strategy is to make the most of our customer base and know-how; there is no real sense that we are assuming greater risks. For example, we are utilizing the customer base of Europe-based NEC Philips Unified Solutions B.V., which will be turned into a wholly owned subsidiary, and the assets of NEC Sphere Communications, Inc., a company we acquired in North America. Since we aren't creating a completely new business, advancing into the global market seems very viable.

Questioner F

•Will your priority fields for R&D change when NEC Electronics is deconsolidated in April 2010? What percentage of net sales do you anticipate for R&D expenditures?

→We will be able to efficiently shift investments previously earmarked for NEC Electronics over to C&C Cloud related businesses. R&D expenditures are projected to account for around 8% of net sales.

→Our priority field is C&C Cloud platform systems, and we will develop a single architecture platform. From an early stage, for example, we plan to launch OpenFlow technology, which can enhance investment efficiency by controlling data flow. In this way, we will differentiate ourselves from our competitors.

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

*2 WiMAX: popular name for the IEEE 802.16 standard, a wireless communications standard promoted by the WiMAX Forum.

*3 SaaS (Software as a Service): format enabling the sharing of applications via networks.

*4 PASOLINK: product name for a point-to-point, ultra-small microwave communication system produced by NEC. Access lines among mobile BTS (Base Transceiver Stations) are the largest source of demand for this product.

*5 Femtocell: an ultra-compact wireless base station installed in the home.