

# FY07/3 Financial Results and FY08/3 Outlook

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President and CEO  
NEC Electronics Corporation

**May 14, 2007**

<http://www.necel.com/ir/en>

## I. FY07/3 Financial Results

- ✓ Sales and profits/losses in line with previous forecasts announced on February 22, 2007

## II. FY08/3 Forecasts

- ✓ Must achieve full-year operating profits committed to by management (Achieve by reducing fixed costs, and increasing sales slightly)

## III. Measures to Improve Performance

- ✓ Aggressive implementation of new management policies announced on February 22, 2007

# I. FY07/3 Financial Results

## Summary

Q4 Results

Full-Year Results

## II. FY08/3 Forecasts

## III. Measures to Improve Performance

# Financial Snapshot

(B Yen)	FY06/3	FY07/3				
	Full Year	Q4		Full Year		
	Actual	Actual	YoY	Actual	YoY	Compared to Feb. 22 Forecasts
Net Sales	646.0	171.4	+1.1	692.3	+46.3	+2.3
Semiconductor Sales	619.1	160.8	-1.3	659.7	+40.6	-0.3
Operating Income (Loss)	-35.7	-17.8	-1.3	-28.6	+7.1	+1.4
Income (Loss) Before Income Taxes	-42.4	-26.3	-1.9	-35.4	+7.0	+3.6
Net Income (Loss)	-98.2	-28.4	+59.4	-41.5	+56.7	+3.5

Free Cash Flows	-4.8	-17.6	2.1	-11.8	-7.0	-
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D/E Ratio	0.48	-	-	0.51	+0.03 points	-
Shareholders' Equity Ratio	41%	-	-	38%	-3% points	-

Exchange Rates	US\$1 = 112 yen 1 Euro = 138 yen	US\$1 = 119 yen 1 Euro = 156 yen	2 yen weak / US\$ 16 yen weak/ Euro	US\$1 = 117 yen 1 Euro = 149 yen	5 yen weak/ US\$ 11 yen weak / Euro	
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Note: NEC Electronics' consolidated information is in accordance with U.S.GAAP. However, the figure for operating income (loss) shown above represents net sales minus the cost of sales, research and development, and selling, general, and administrative expenses.

# I. FY07/3 Financial Results

Summary

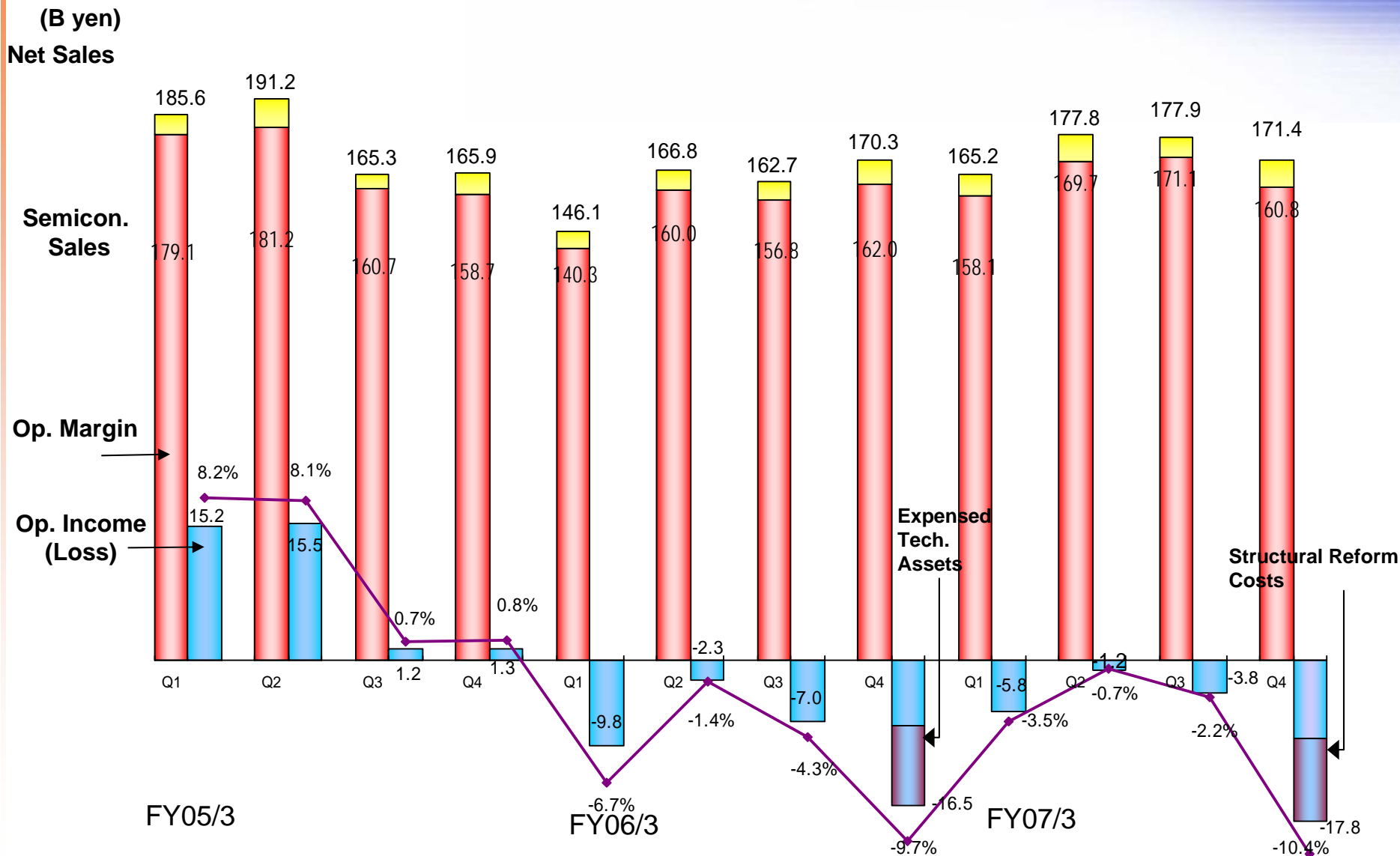
**Q4 Results**

Full-Year Results

## II. FY08/3 Forecasts

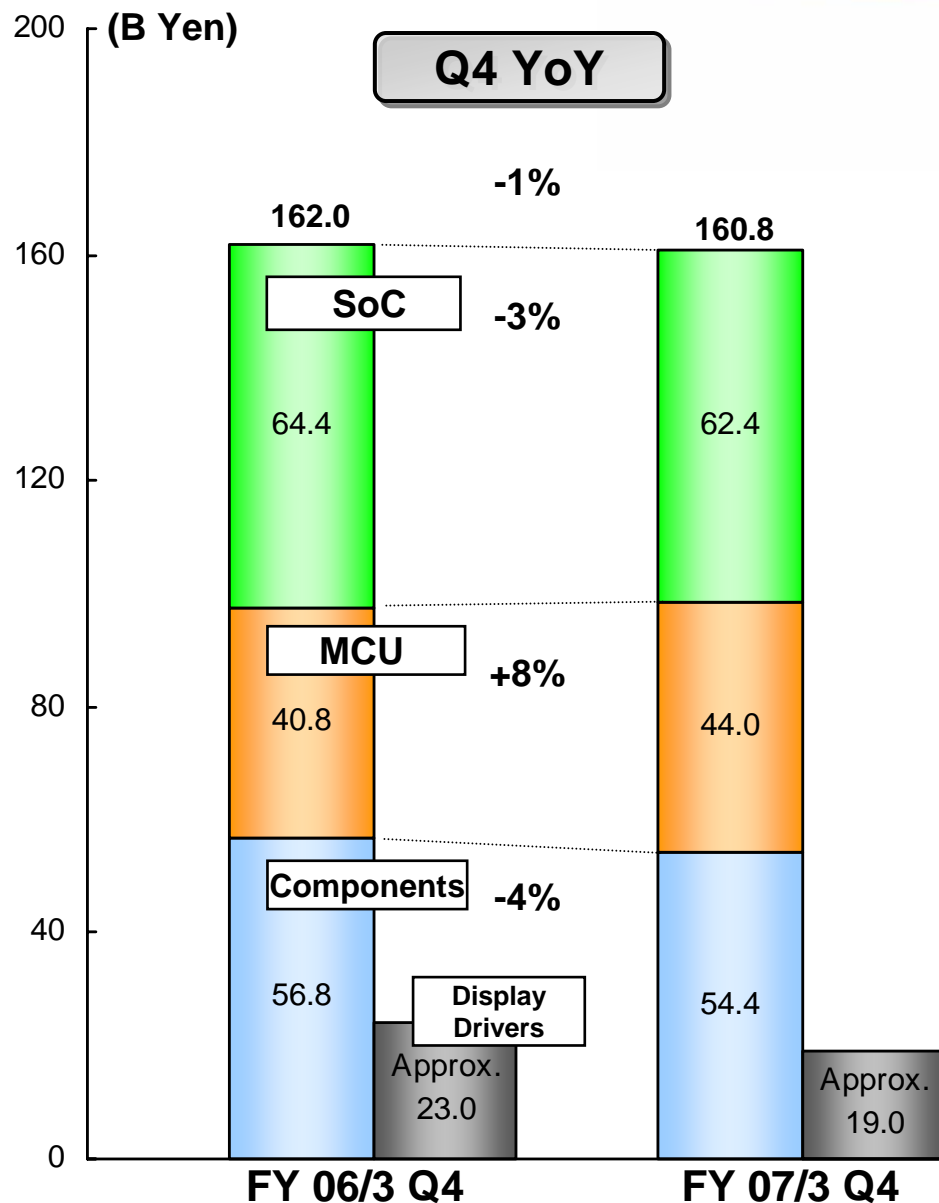
## III. Measures to Improve Performance

# Trends in Quarterly Results



Note: Operating Income (loss) = Net Sales – COGS – R&D – SG&A

# Q4 Semiconductor Sales by Platform (YoY)



## +/- Factors

### SoC

- (+) Shipping LSIs for game consoles
- (-) LSIs for DVD drives; digital baseband LSIs and system memory for mobile phones

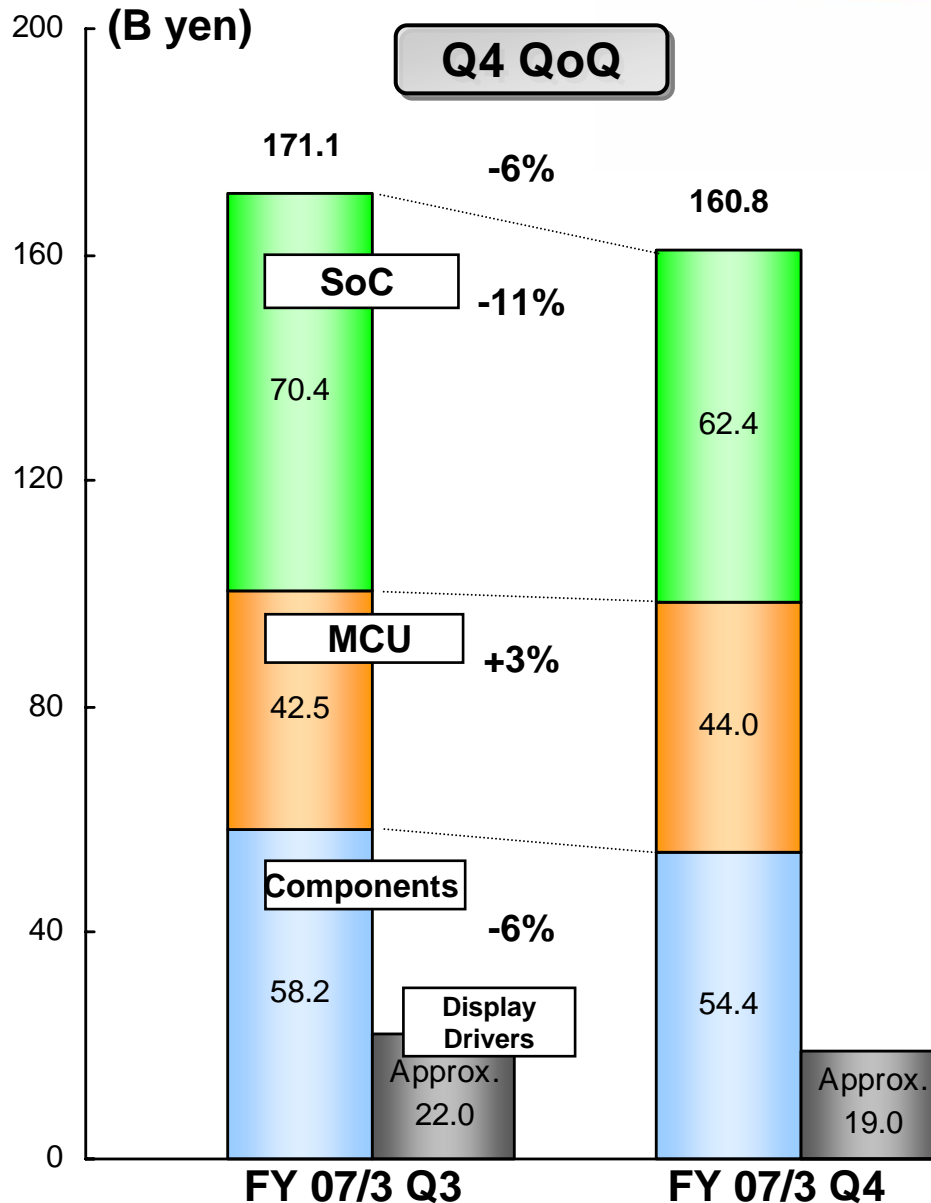
### MCU

- (+) Automotive
- (+) All Flash™ microcontrollers

### Components

- (+) Discrete and compound semiconductor devices
- (-) LCD driver ICs for large and small panels

# Q4 Semiconductor Sales by Platform (QoQ)



## +/- Factors

### SoC

(-) Seasonal adjustments for consumer electronics and PC peripherals

### MCU

(+) Growth in automotive, and slight growth in multi-purpose MCUs

### Components

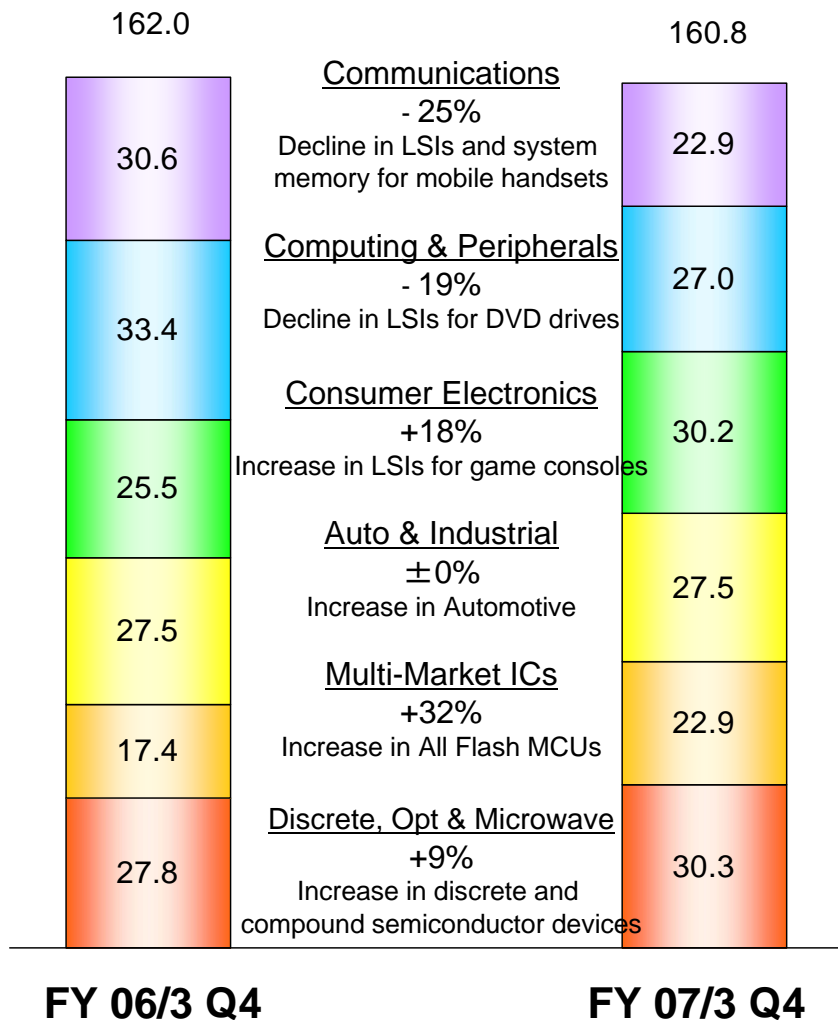
(-) Seasonal declines in discrete  
(-) Lower revenue from LCD driver ICs for large and small panels



# Semiconductor Sales by Application

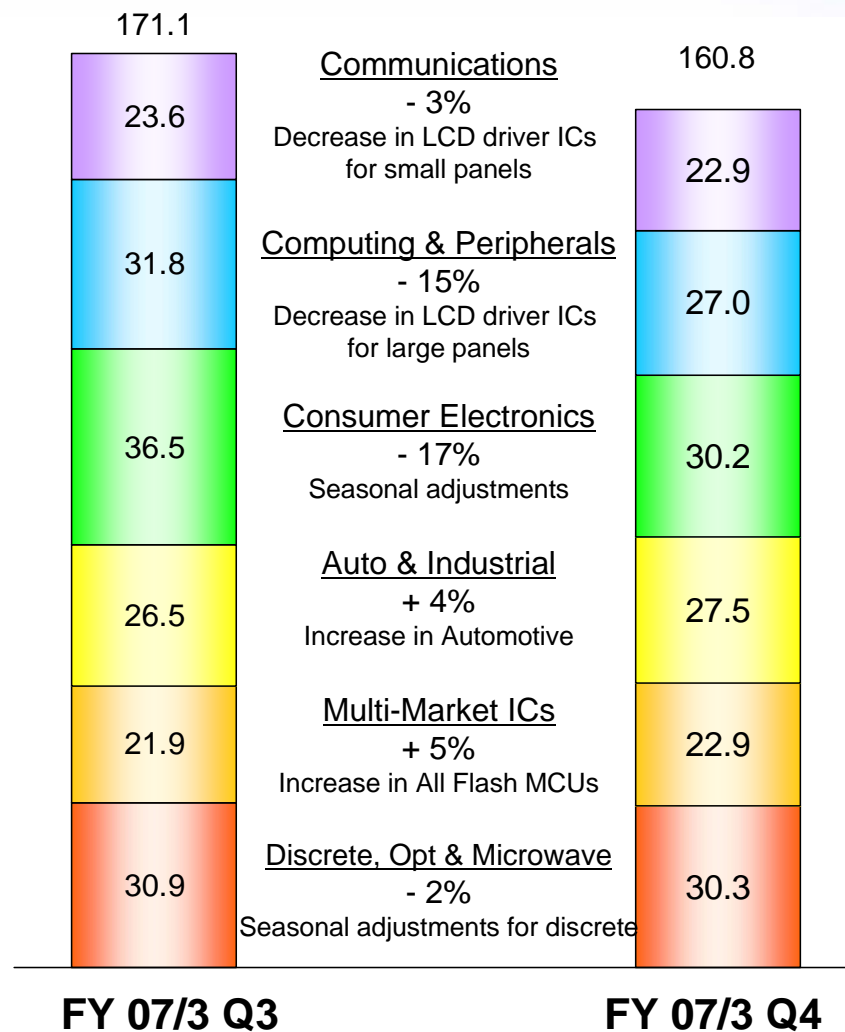
## Q4 YoY

(B yen)

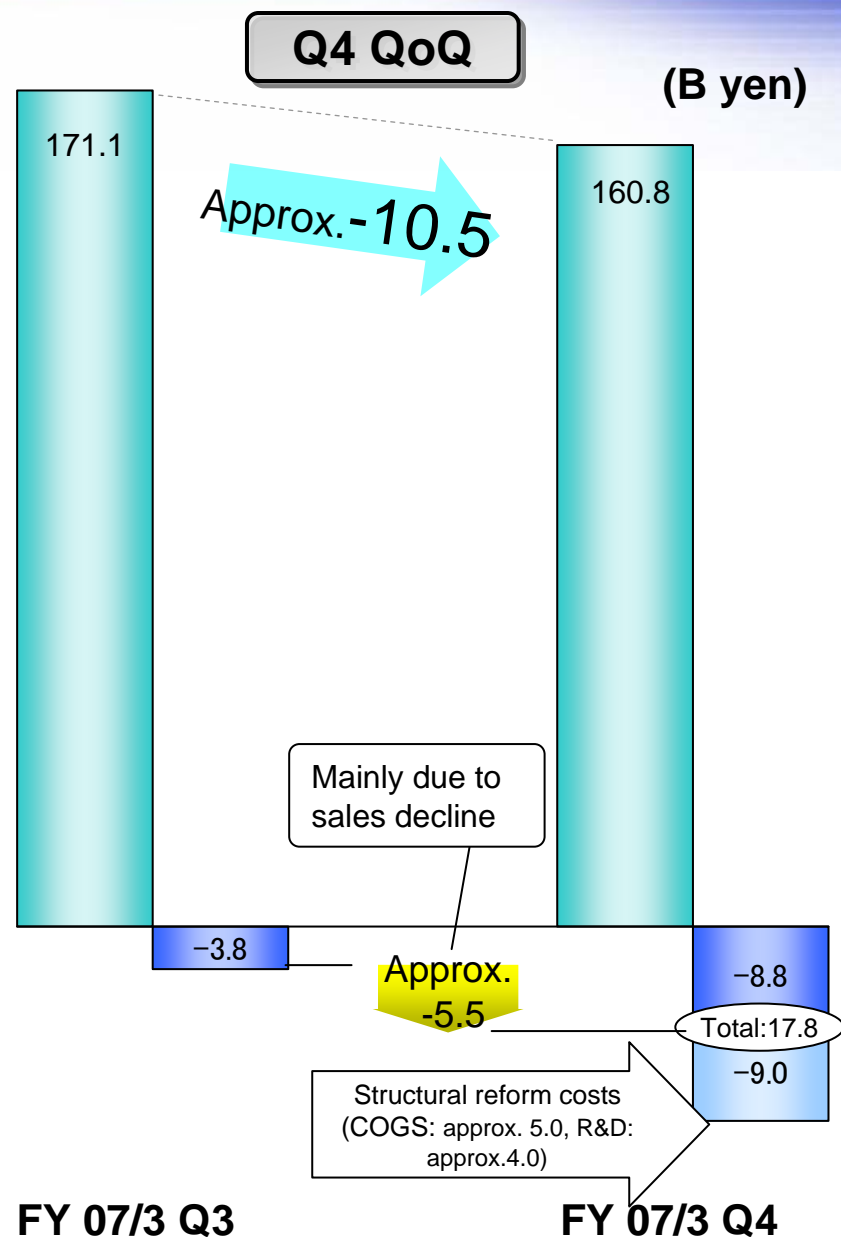
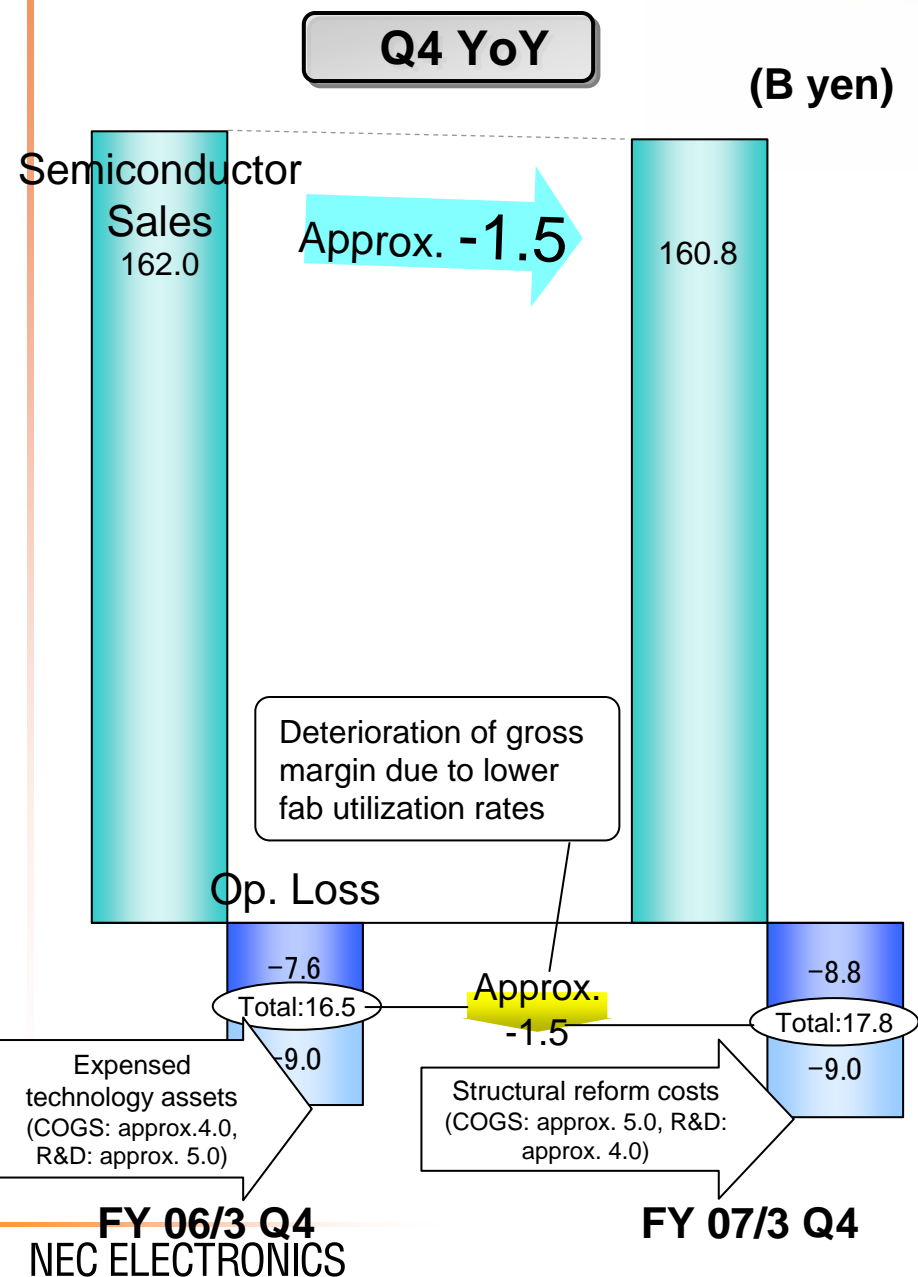


## Q4 QoQ

(B yen)



# Factors in Operating Loss



# I. FY07/3 Financial Results

Summary

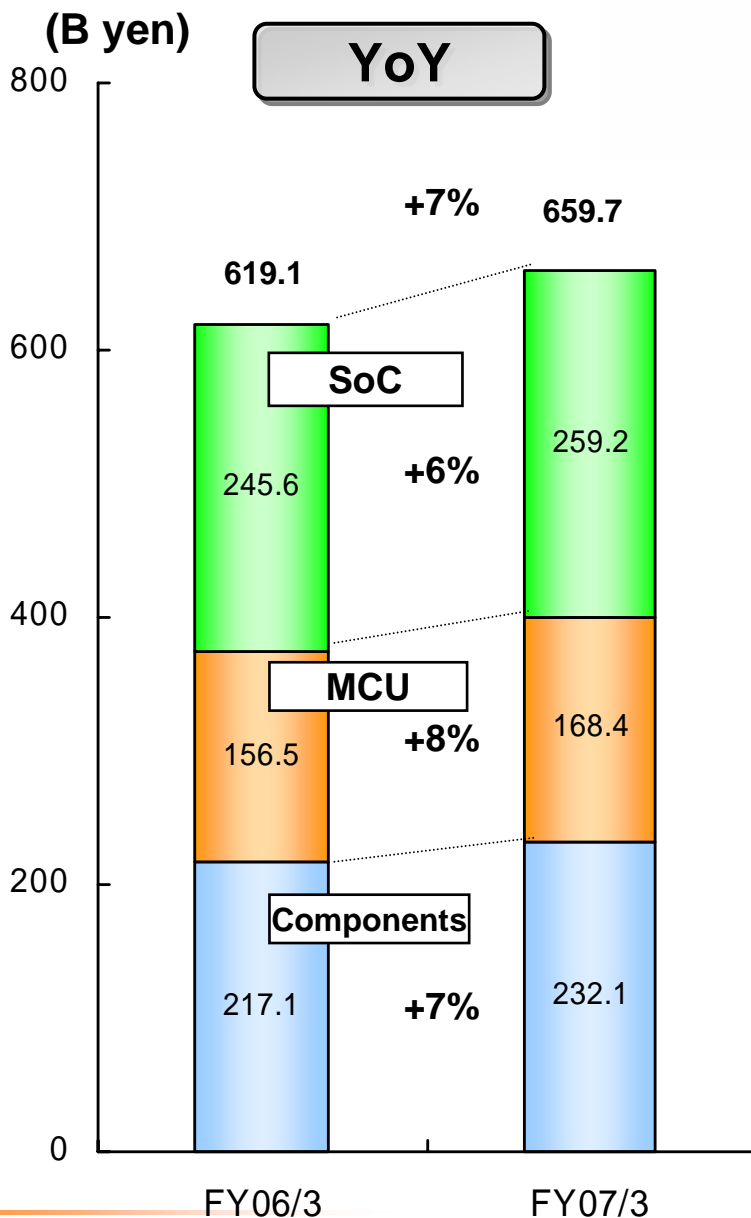
Q4 Results

**Full-Year Results**

## II. FY08/3 Forecasts

## III. Measures to Improve Performance

# Semiconductor Sales by Platform (YoY)

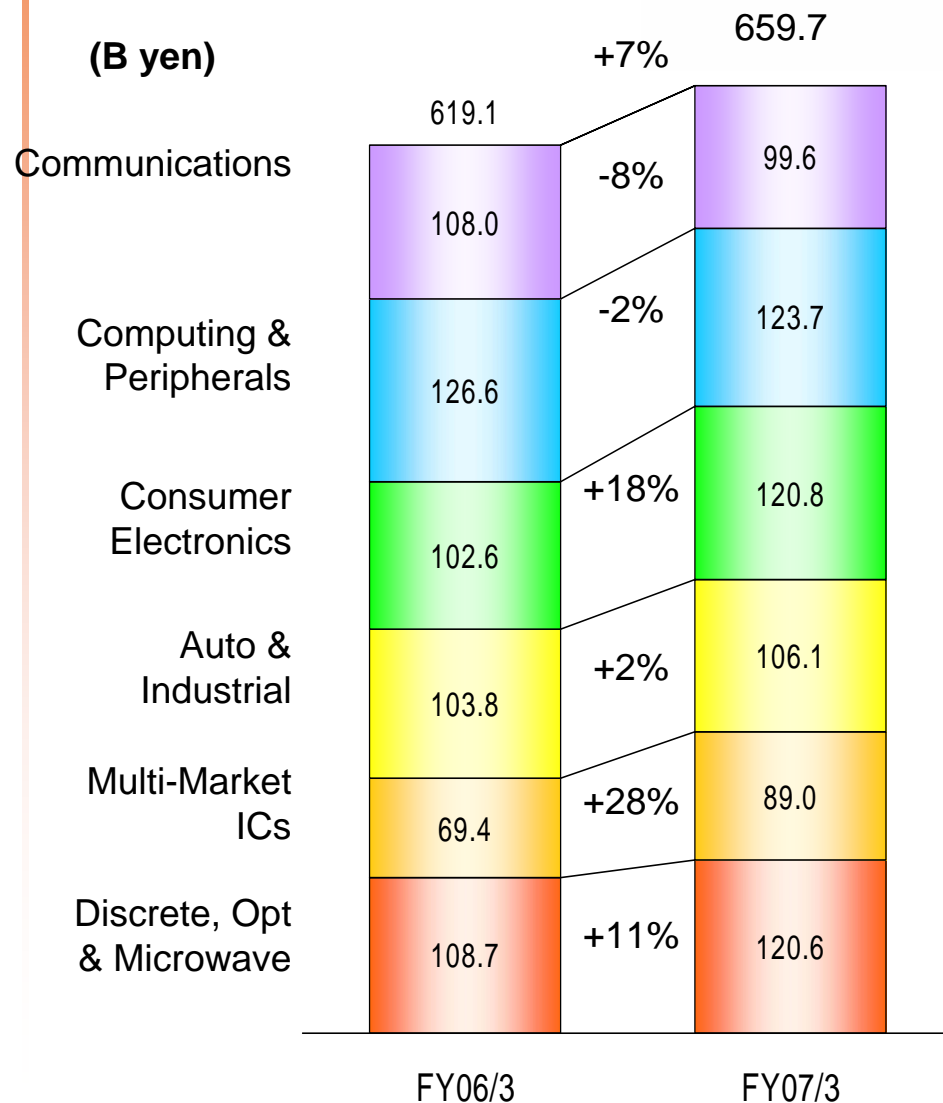


+/- Factors
<b>SoC</b> (+) New embedded DRAM business (+) EMMA series for digital AV applications (-) Price decline and market shrink for mobile phone memory (PSRAM)
<b>MCU</b> (+) Growth of All Flash microcontrollers (+) Increasing use of automotive electronics
<b>Components</b> (+) LCD drivers ICs for large and small panels (+) Expanding market share for discrete and compound semiconductor devices

# Semiconductor Sales by Application (YoY)

YoY

(B yen)

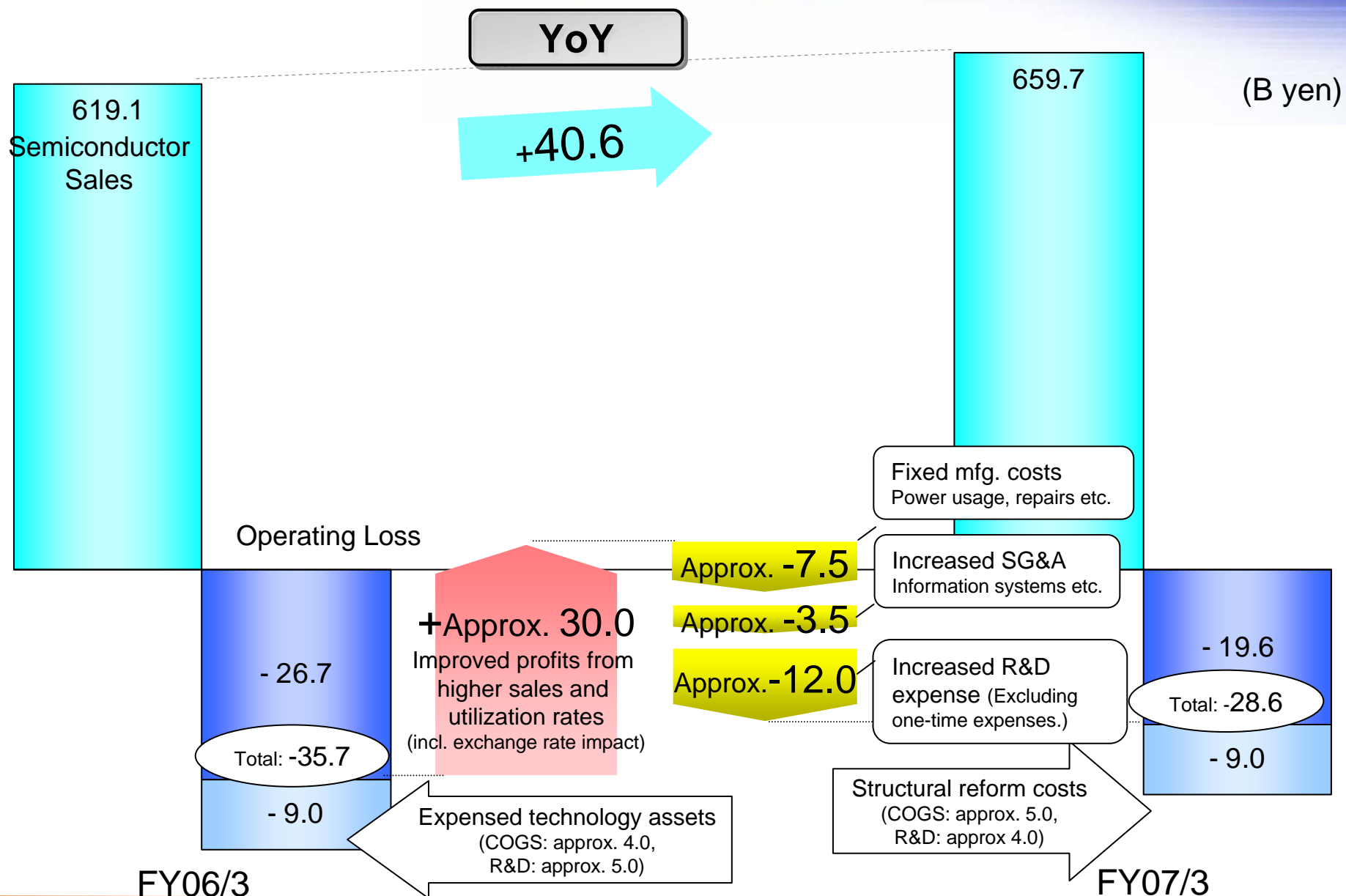


## Factors

- Significant decrease in system memory for mobile phones (PSRAM)
- Increase in companion chips and small LCD driver ICs for mobile phones
- Increase in share of LCD driver ICs for large panels
- LSIs for DVD drives and printers sluggish
- New embedded DRAM business
- Growth of EMMA sales
- Revenue for automotive increase by high single digits  
(Some MCUs for industrial applications are now counted as Multi-Market ICs after becoming part of the All Flash lineup)
- Expansion of All Flash microcontrollers  
(Some previously from Auto & Industrial etc.)
- Increase in sales of discrete and compound semiconductor devices

# Factors in Operating Loss

NEC



Restructuring executed as planned (from Feb. 22).  
Recorded approx. 15 B yen in related costs.

Item	Amount	Description
COGS	Approx. 5.0 B yen (Q4)	•Reduction of Inventories
R&D Expenses	Approx. 4.0 B yen (Q4)	•Costs associated with consolidation of development projects
Non-operating Expenses	Approx. 6.0 B yen (Full Year)	•Closure of Ireland plant and 8-in. prototype line at Sagamihara, Japan •Disposal of manufacturing equipment

# Balance Sheet

(B yen)		06/3	06/12	07/3
	Cash and Cash Equivalents	211.1	212.6	185.4
	Accounts Receivable	113.9	105.1	99.5
	Inventories	72.5	89.0	82.6
	PP&E	302.1	305.7	292.8
	Other Assets	45.7	39.3	35.6
Total Assets		745.3	751.7	695.9
	Accounts Payable	122.9	150.7	132.5
	Debt Payable	148.3	144.7	136.0
	Other Liabilities	161.7	157.0	157.5
Liabilities		432.9	452.4	426.0
Minority Shareholders' Equity		4.1	4.6	4.8
Shareholders' Equity		308.3	294.8	265.1
Liabilities and Shareholders' Equity		745.3	751.7	695.9
D/E Ratio (Gross)		0.48	0.49	0.51
Equity Ratio		41%	39%	38%
Deferred Tax Assets (Net)*		-1.6	0.2	-0.2

\* The figure for deferred tax assets includes deferred tax assets as well as deferred tax liabilities.



# Cash Flows

(B yen)	FY06/3		FY07/3		
	Q4	Full Year	Q3	Q4	Full Year
Cash Flows from Operating Activities	-0.5	49.9	19.5	12.7	66.7
Cash Flows from Investing Activities	-19.2	-54.7	-27.1	-30.3	-78.5
Free Cash Flows	-19.7	-4.8	-7.6	-17.6	-11.8

# I. FY07/3 Financial Results

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# Forecast for FY08/3 Semiconductor Market

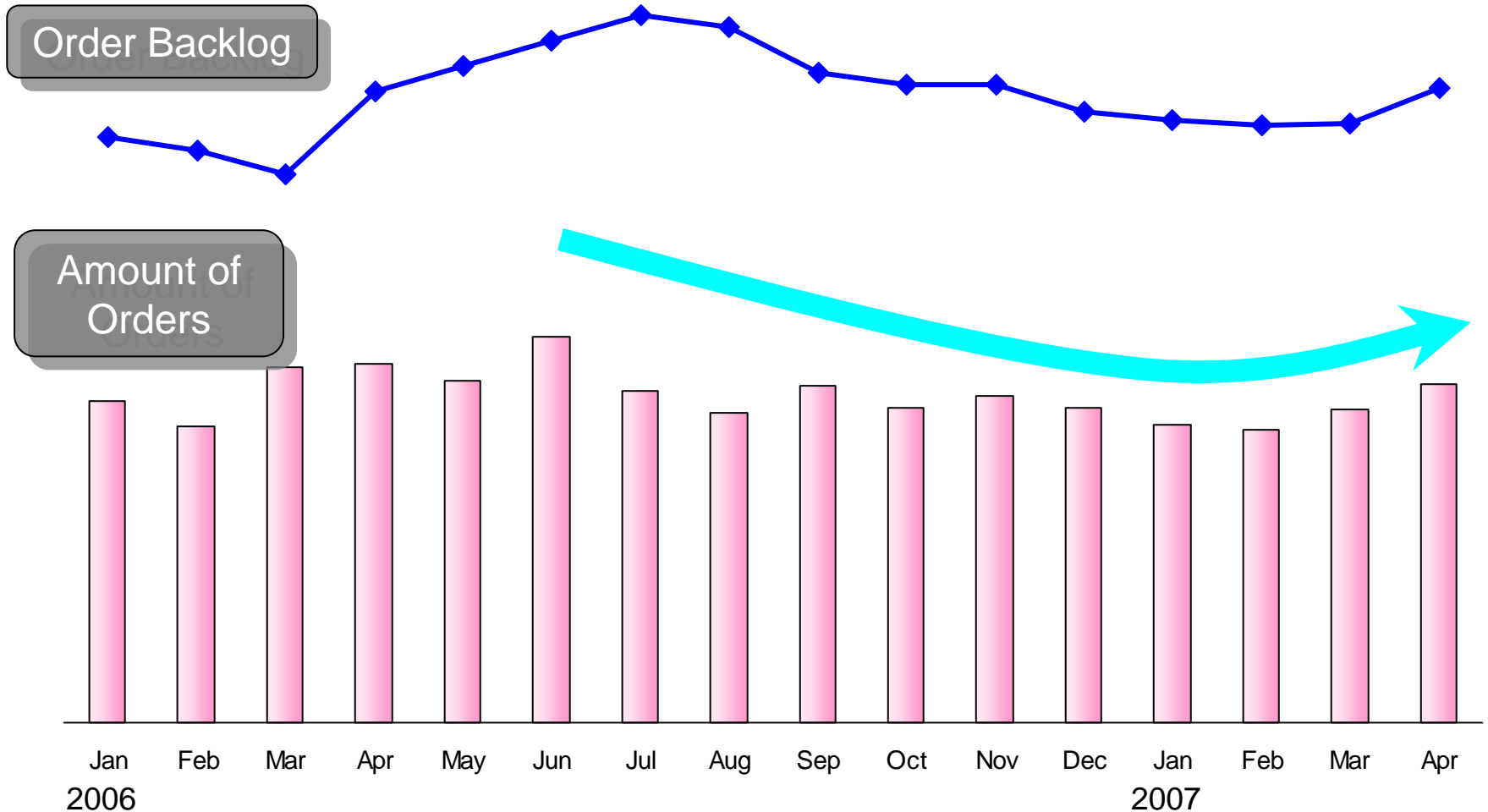
Market for NEC Electronics' Products Expected to Grow 2 to 8% YoY

(NEC Electronics' forecast, excluding DRAM, FLASH, and MPU)

	YoY	Market Situation
1H (Apr-Sep)	<b>0 to +2%</b>	In Q1, inventory adjustments will ease and orders will pick up, but sales will not recover until early summer, limiting overall sales growth.
2H (Oct-Mar)	<b>+5% to +9%</b>	Sales of digital TV and PC-related devices will grow quickly from mid-year heading into the Olympics, spurring the semiconductor market. In the Jan-Mar period, demand will not fall as sharply as in the previous year due to the Olympics.
Full Year	<b>+2% to +8%</b>	Anticipate mid-range growth of roughly 5%

# Order Backlog and Amount of Orders

Order backlog and amount of orders point to signs of recovery



Financial forecasts were established based on the lowest end of the 2 to 8% growth rate predicted for the semiconductor market

(B yen)	FY07/3		FY08/3		
	Half Year	Full Year	Half Year	Full Year	
	Actual	Actual	Forecast	Forecast	YoY
Net Sales	343.0	692.3	335.0	690.0	-2.3
Semiconductor Sales	327.8	659.7	325.0	670.0	+10.3
Operating Income (Loss)	-6.9	-28.6	-5.0	0.0	+28.6
Income (Loss) Before Income Taxes	-5.6	-35.4	-12.0	-10.0	+25.4
Net Income (Loss)	-7.4	-41.5	-15.0	-15.0	+26.5

Exchange Rates	US\$1 = 115 yen 1 Euro = 145 yen	US\$1 = 117 yen 1 Euro = 149 yen	US\$1 = 115 yen 1 Euro = 150 yen	2 yen strong/ US\$ 1 yen weak / Euro
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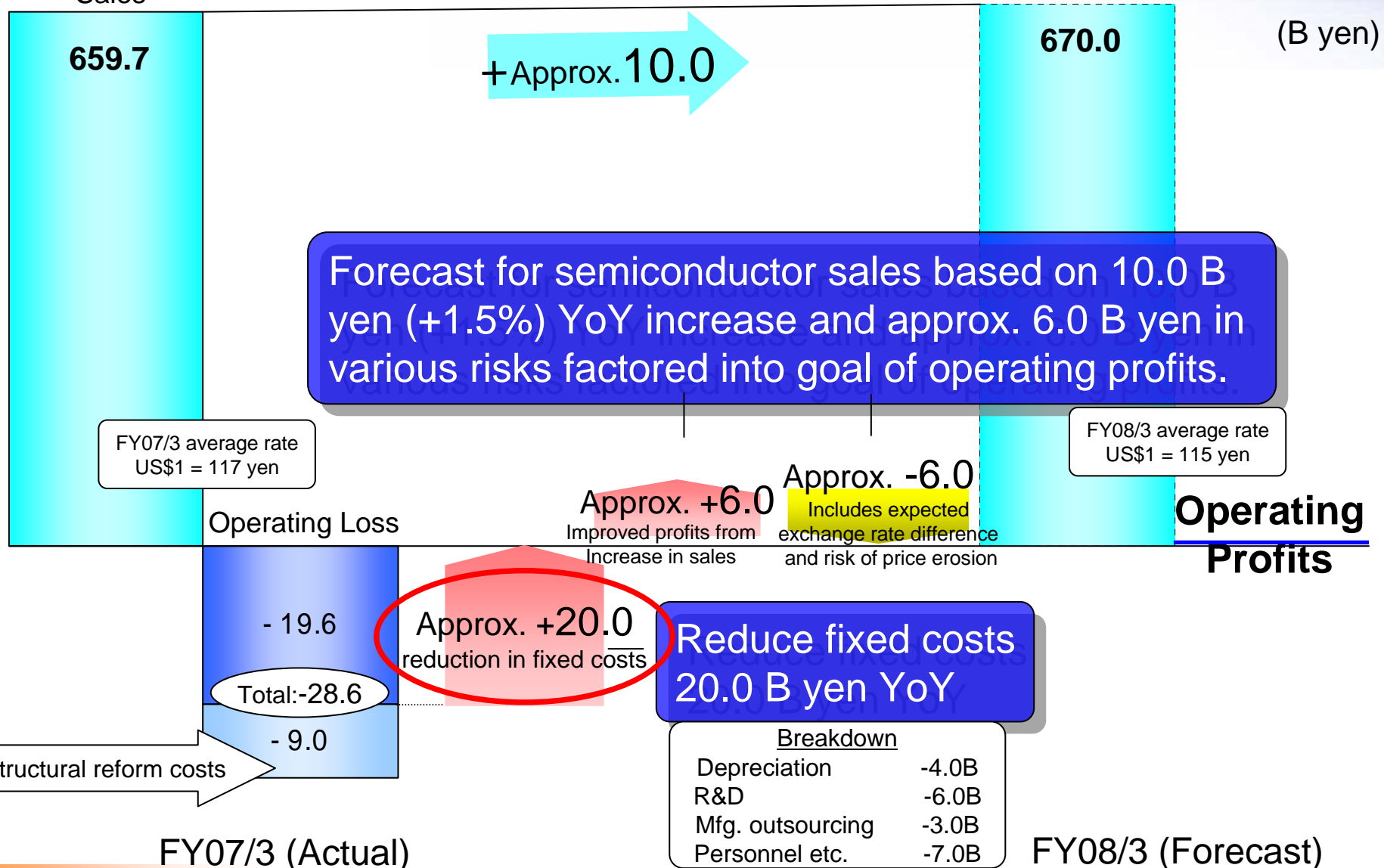
Note 1: Operating Income (Loss) = Net Sales – COGS – R&D – SG&A.

Note 2: There is no change to the depreciation method.

Note 3: Forecasts as of May 14, 2007.

# Analysis of Forecast for Operating Profits

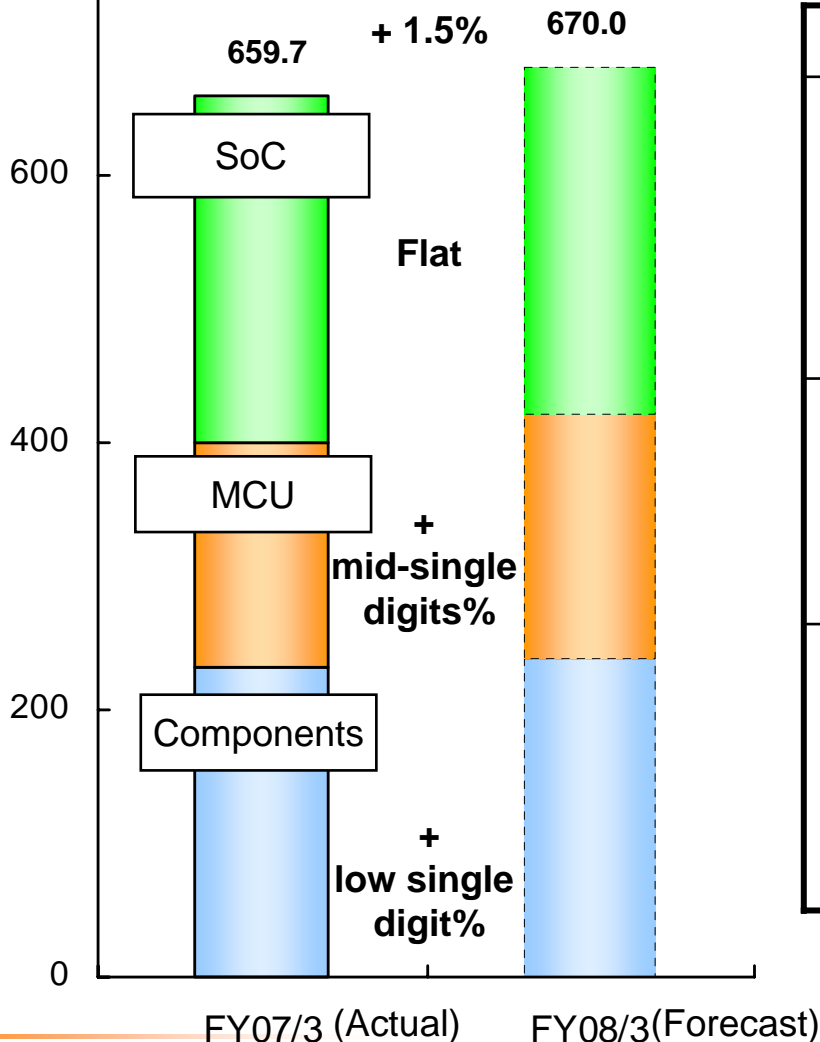
Semiconductor  
Sales



# Semiconductor Sales by Platform (Forecast)

(B yen)

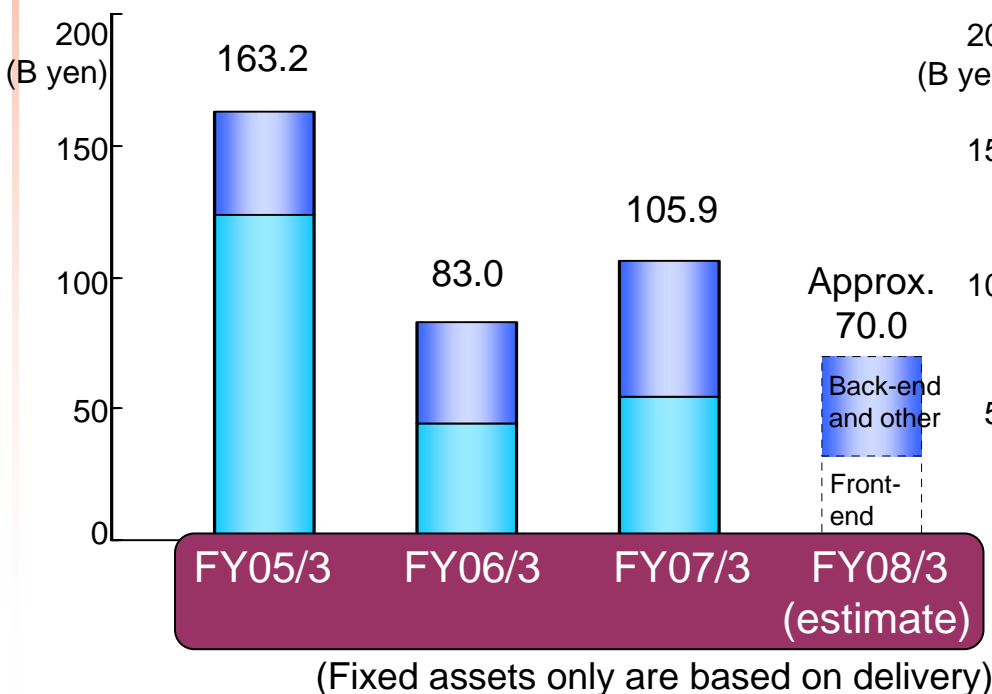
Anticipate semiconductor sales will grow 1.5% year on year



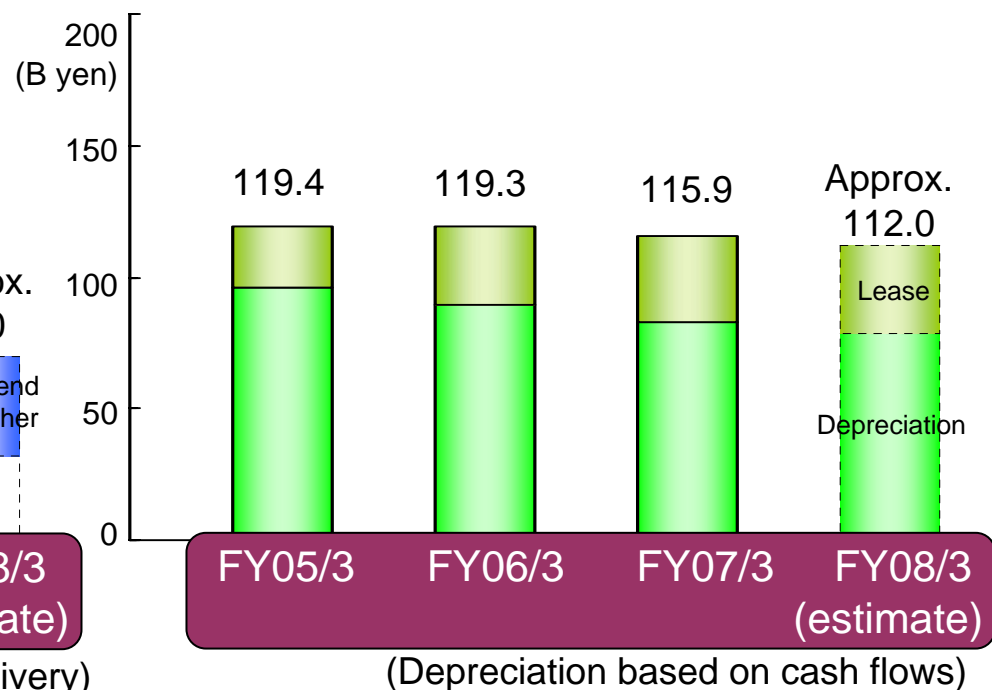
+/- Factors
(+) Growth of embedded DRAM for consumer electronics
(+) EMMA digital AV platform
(-) Digital baseband and system memory (PSRAM) for mobile phones
(+) Growth of All Flash microcontrollers
(+) Increasing adoption of automotive electronics and growth of market share
(+) LCD driver ICs for televisions will surge, but LCD driver ICs for smaller panels will see lingering adjustments and price risk, leading to slight growth
(+) Growth of market share for discrete and compound semiconductor devices

- FY08/3 CAPEX restricted to 70.0 billion yen
- Focus investment on value-added products such as automotive MCUs, and 55nm process technology

## CAPEX



## Depreciation and Lease





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# III. Measures to Improve Performance

## Launched Projects to Execute New Management Policies

(Progress as of May 14, 2007)

Goal	Primary Measures	Status
Improve competitiveness of products by focusing resources	Reduce technology outsourcing costs roughly equivalent to 600 people	Completed
	Shift development resources equivalent to approx. 400 employees	Halfway Complete (Expect to complete all 400 by the end of the fiscal year)
Reduce costs by reorganizing manufacturing operations	Establish timeline for reorganization	Completed
	Prepare to obtain customer consent	Begun
	Ready the necessary manufacturing equipment	Begun
Improve profit/loss management with corporate reorganization	Establish business units for SoC, MCU, and Components; each is responsible for its own profit management. Eliminate 18 divisions (from 59 to 41) to facilitate sharing of human resources and improve efficiency	Reorganization Completed
Reduce fixed costs to attain operating profits in FY08/3	Reduce technology outsourcing	Completed (see above)
	Reduce fixed production costs by capping CAPEX <u>etc.</u>	Established budget to reduce CAPEX
	Reduce salaries for employees	Underway

- Management will achieve, at a minimum, operating profits for the fiscal year.  
This is our commitment.
- We will push operating profits even higher by improving the efficiency of our operations.

# NEC

## NEC Electronics Corporation

### Cautionary Statements

The statements in this presentation with respect to the plans, strategies and forecasts of NEC Electronics and its consolidated subsidiaries (collectively “we”) are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results could differ materially from such forward-looking statements due to several factors. The important factors that could cause actual results to differ materially from such statements include, but are not limited to: general economic conditions in our markets, which are primarily Japan, North America, Asia and Europe; demand for, and competitive pricing pressure on, our products and services in the marketplace; our ability to continue to win acceptance of its products and services in these highly competitive markets; and movements in currency exchange rates, particularly the rate between the yen and the U.S. dollar. Among other factors, a worsening of the world economy; a worsening of financial conditions in the world markets, and a deterioration in the domestic and overseas stock markets, would cause actual results to differ from the projected results forecast.

# **Appendix: Business Highlights**

## MP201 application chip for mobile phones applied to digital consumer devices

- ✓ Application processor with low power consumption optimized for QVGA video and audio playback
- ✓ Compatible with platformOVIA software platform
- ✓ Easy to develop new applications with flexible IP

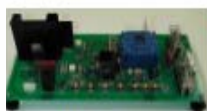


## Aggressive efforts to expand sales of All Flash microcontrollers

### Demo Systems, Evaluation Boards



V850+ヤマハYGV626



掃除機デモ



ReferSTAR  
78K/Kx2



V850+アクセルAG301



PCファン デモ



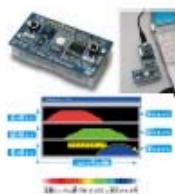
K0R 拡張ボード



音声合成デモ



ZigBeeデモ



いろは姫

### Website



eラーニング



サンプルプログラム



Flashアプリノート

### Seminars



オープンセミナー(東京)



オープンセミナー(大阪)



パートナー・セミナー

### Literature

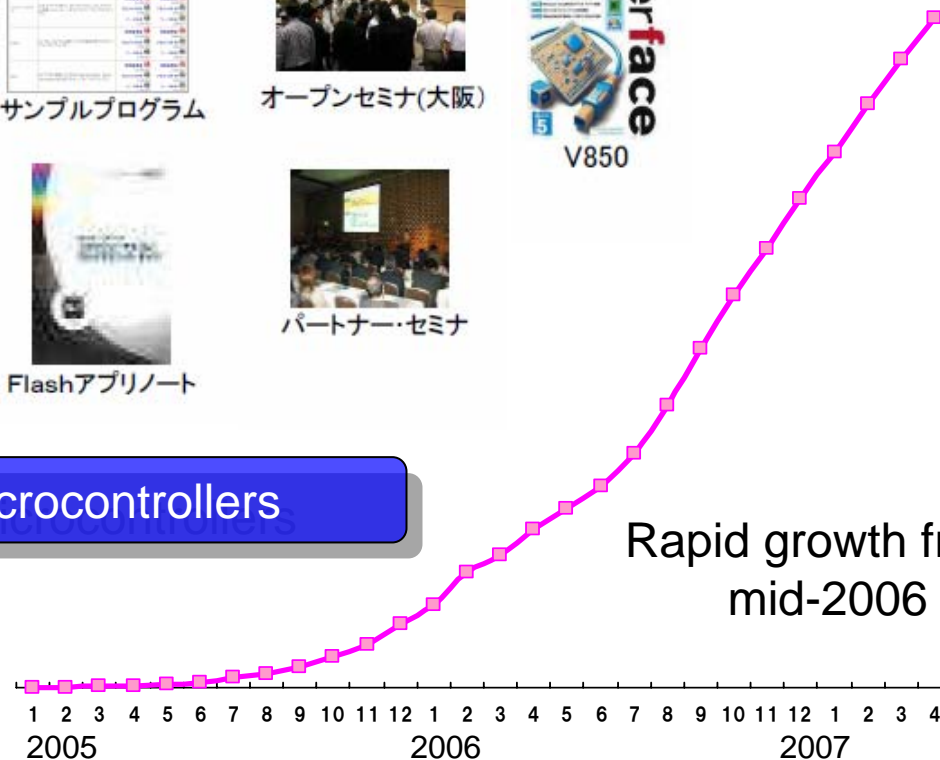


78K0



V850

## Shipments of All Flash microcontrollers



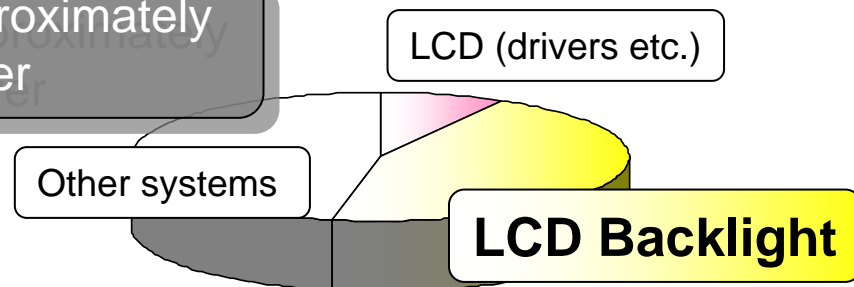
Rapid growth from  
mid-2006



Developed LCD backlight control technology for mobile applications  
Extremely low power consumption features lead to new value-added business

Conventional LCD backlights consume approximately 40 percent of a mobile phone's overall power

- ✓ Evolution of mobile content such as one-segment broadcasting, video, and 3D graphics further increase power consumption.
- ✓ However, attempts to reduce power consumption result in lower image quality.



Ratio of mobile phone power consumption by function  
Source: NEC Electronics

## NEC Electronics' unique value-added technology

- ✓ Enables up to 50% reduction in backlight power consumption (up to 20% of overall power consumption) by optimizing display brightness, while maintaining image quality with gamma-curve processing, in real-time.
- ✓ Design wins with Japanese and international mobile phone manufacturers





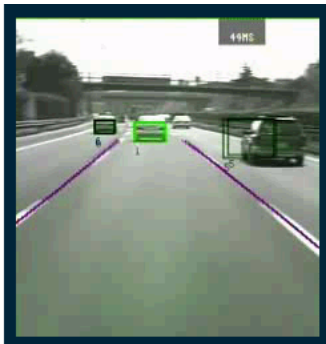
# Highlight: Next-Generation Technology

## IMAPCAR parallel processor for image recognition

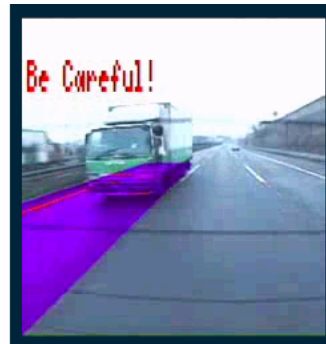
Joint development with Toyota, Denso, and NEC

- ✓ 128 processing elements and performance of 100 billion operations per second enables image recognition of lane markers, vehicles, and pedestrians in real-time
- ✓ Adopted in the Lexus LS460's pre-crash safety system

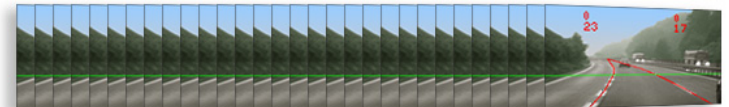
Lane markers,  
vehicles ahead



Vehicles in rear



Processes 30 frames/second



Won *Nikkan Kogyo* Newspaper's 4<sup>th</sup> Annual *Monozukuri Taisho* Award