FY09/3 Q3 Financial Results

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NEC Electronics Corporation

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

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Thank you for joining NEC Electronics' webcast.

Before we begin, please be sure to review the cautionary statement on page 23.

Revised Forecasts

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Lowered full-year forecasts for FY09/3 due to rapidly deteriorating economic environment and yen appreciation.

(B yen)

	Forecasts as of January 29, 2009	Previous Forecasts (October 21, 2008)	Difference
Net Sales	555.0	660.0	-105.0
Semiconductor Sales	530.0	630.0	-100.0
Operating Income (Loss)	-55.0	1.0	-56.0
Net Income (Loss)	-65.0	-8.0	-57.0

Notes: Assumed foreign currency exchange rates for FY09/3 Q4 forecasts are as follows:
1U.S.$=90 yen, 1 Euro=125 yen

Slide 2 shows the revised forecasts for the fiscal year ending March 2009.

We lowered the forecasts for sales and profit from the previous forecasts announced on October 21, 2008.

In the semiconductor market, particularly from November onward, customers saw declines in sales and production, and adjusted their inventories. Consequently, the decrease in demand for semiconductors far exceeded the decrease in customers' sales.

The new forecasts were necessary because third quarter results were significantly below estimates, and fourth quarter results are projected to worsen even further.

The new forecast for net sales is 555.0 billion yen, and for semiconductor sales is 530.0 billion yen. The forecast for operating income was lowered from 1.0 billion yen in income to a 55.0 billion yen loss. The forecast for net loss declined from 8.0 billion yen to 65.0 billion yen.

Later in this presentation I will discuss measures we will take to weather the deteriorating economic environment and improve our future financial performance.

Executive Summary

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Ⅰ FY09/3 Q3 Financial Results

- Due to the deteriorating economic environment and yen appreciation, semiconductor sales and operating loss were much worse than had been estimated in the most recent announcement (Oct. 21, 2008)

Ⅱ FY09/3 Forecasts

- Lowered full-year forecasts on expectation that FY09/3 Q4 will be even more severe than Q3
- Realigning manufacturing framework to adapt to anticipated decrease in fab utilization rates
  (estimating utilization rates of approximately 50% for FY09/3 Q4)

Ⅲ Measures to Improve Future Financial Performance

- Reduce fixed costs by 80.0 billion yen over two years
  (60.0 billion yen reduction in FY10/3)

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Slide 3 provides an overview of the points we will discuss today.

First, third quarter financial results were much worse than previous estimates, due to the economic decline and yen appreciation.

Second, we expect the fourth quarter to be even more severe than the third quarter, and have revised our forecasts accordingly. Fab utilization rates are projected to fall to as low as 50 percent, and we are realigning the manufacturing framework in order to address this situation.

Third, we will discuss measures to improve future performance. The largest impact will come from an 80.0 billion yen reduction in fixed costs over the next two fiscal years, 60.0 billion yen of which will take place in the fiscal year ending March 2010.

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Ⅱ. FY09/3 Forecasts

Ⅲ. Measures to Improve Future Financial Performance

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Now let us move on to the main presentation, starting with the results for the third quarter ended December 31, 2008.

Financial Snapshot

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(B Yen)	FY09/3				
	Q3, 12/31			9 Months Cumulative	
	Actual	YoY	QoQ	Actual	YoY
Net Sales	127.3	-43.4	-40.0	460.9	-60.8
Semiconductor Sales	122.7	-41.1	-36.5	441.0	-56.8
Operating Income (Loss)	-16.2	-19.2	-15.7	-15.0	-19.9
Income (Loss) Before Income Taxes	-20.1	-21.8	-19.8	-20.1	-23.6
Net Income (Loss)	-19.9	-19.0	-19.3	-21.8	-17.8
Free Cash Flow	3.3	+4.4	+1.2	-1.2	-10.5
D/E Ratio	0.59	-	-	-	-
Shareholders' Equity Ratio	34.0%	-	-	-	-
Exchange Rates	1US$ =101 yen 1Euro=137 yen	US$ 13 yen stronger Euro 26 yen stronger	US$ 7 yen stronger Euro 29 yen stronger	1US$ =104 yen 1Euro=154 yen	US$ 14 yen stronger Euro 8 yen stronger

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 expenses, and selling, general, and administrative expenses.

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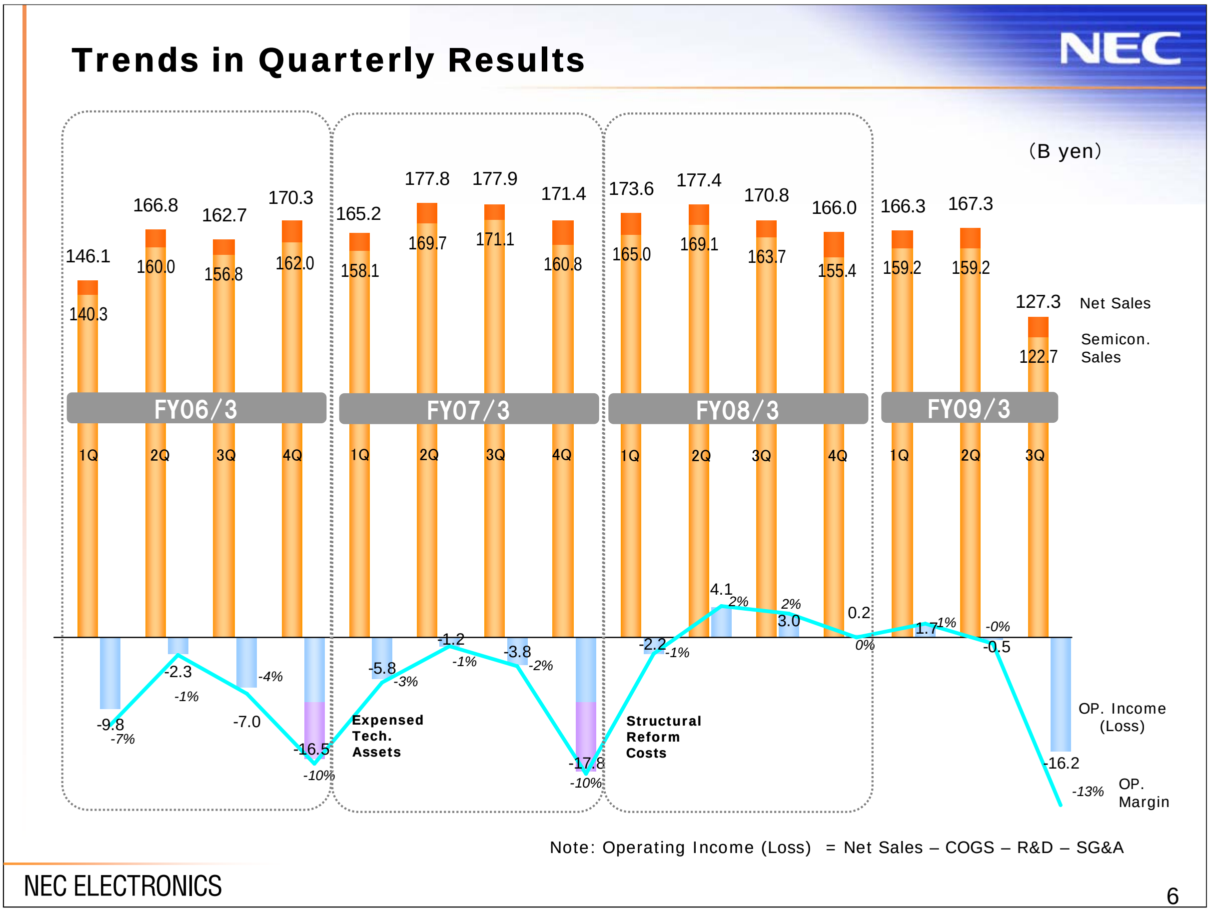
Slide 5 shows the third quarter results.

Net sales were 127.3 billion yen, a 25 percent decrease year on year.

Semiconductor sales also decreased 25 percent year on year, to 122.7 billion yen.

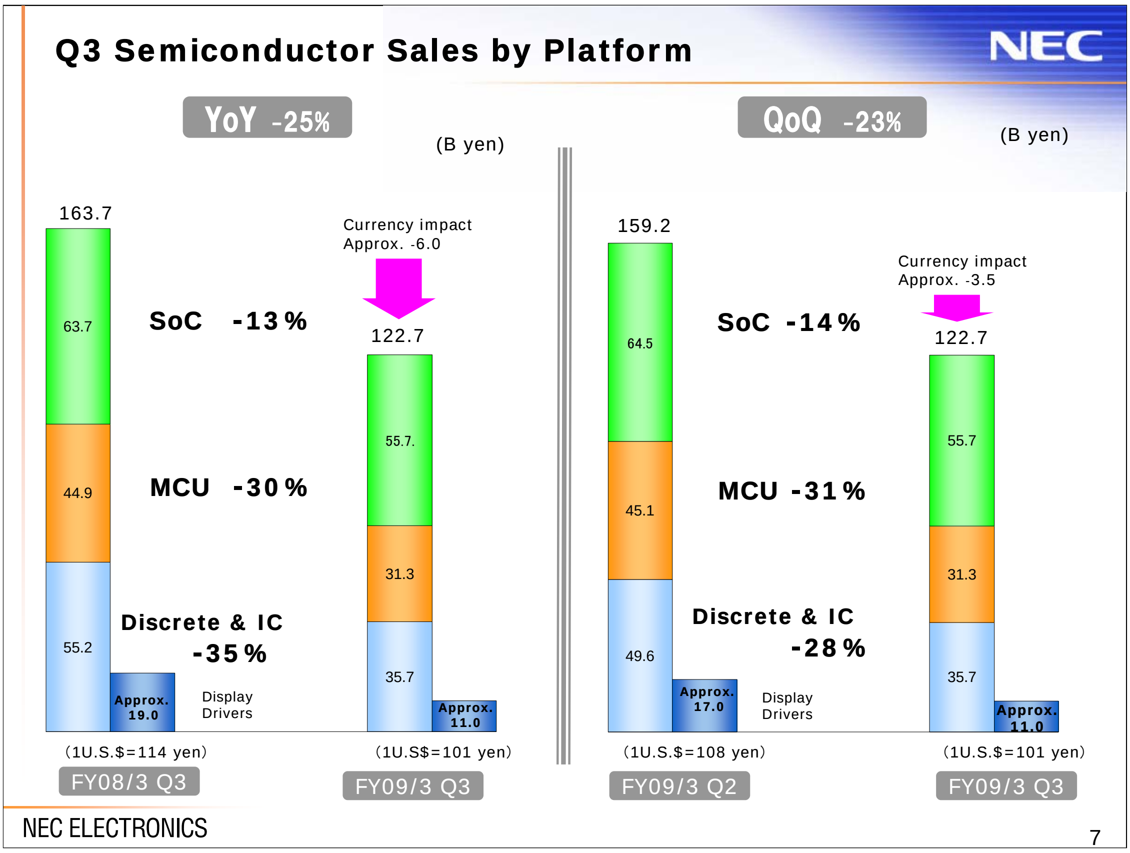
Operating profit worsened by 19.2 billion yen, resulting in a loss of 16.2 billion yen.

Loss before income taxes was 20.1 billion yen and net loss was 19.9 billion yen.



Slide 6 shows trends in quarterly results.

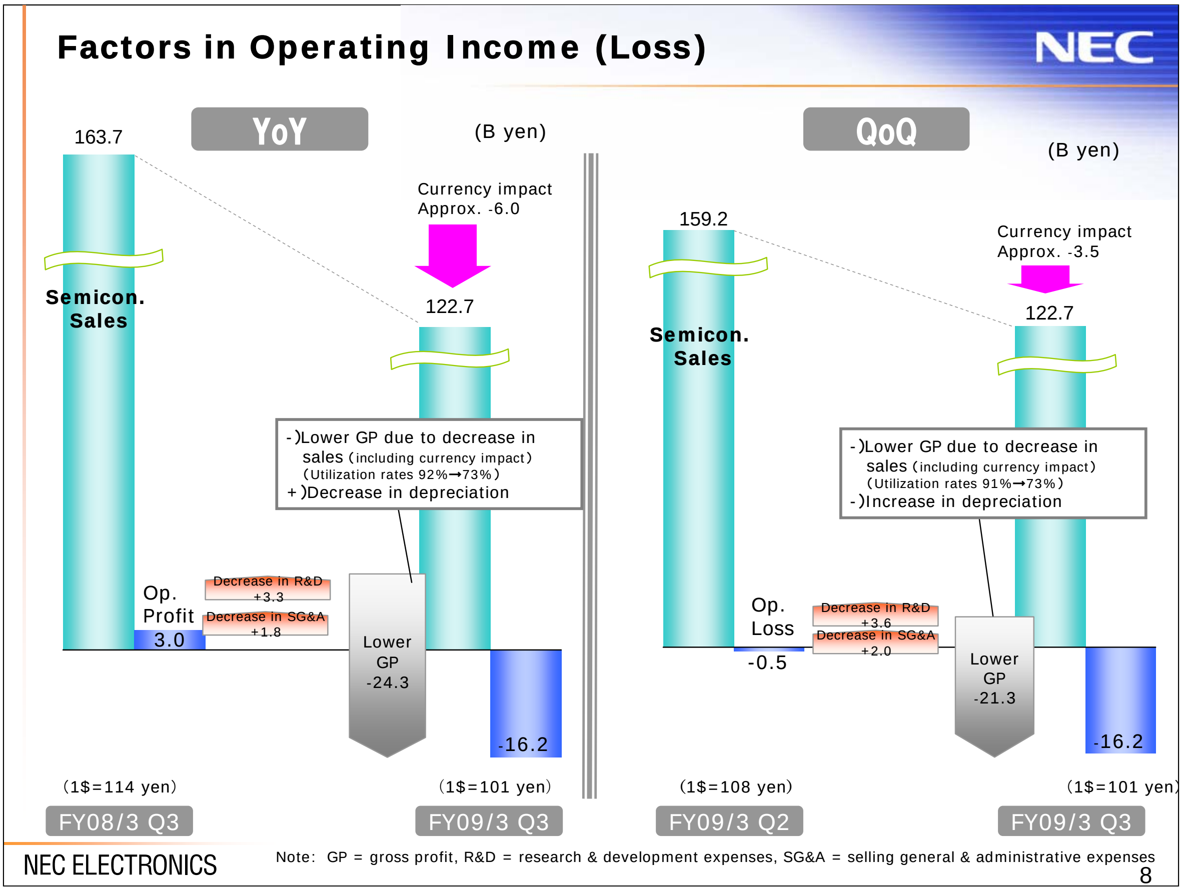
The severe economic climate dragged quarterly net sales to the lowest level since the company’s establishment.



Slide 7 shows the breakdown of third quarter sales by platform.

There was a steep decline in sales of MCU as well as Discrete and IC, both year on year and quarter on quarter.

The declines in SoC sales were in the mid-10 percent range, due to healthy sales of LSIs for game consoles.



The next slide shows the factors affecting operating income and loss in the third quarter.

As shown on the graph, the rapid drop in net sales contributed to the greater operating loss in the third quarter.

Balance Sheets

(B yen)		As of Dec. 31, 2007	As of Sep. 30, 2008	As of Dec. 31, 2008
	Cash and Cash Equivalents	188.9	158.0	156.5
	Accounts Receivable	92.6	95.3	68.1
	Inventories	81.1	82.0	82.1
	PP&E	273.8	257.0	244.7
	Other Assets	31.3	29.7	28.0
Total Assets		667.6	622.0	579.4
	Accounts Payable	118.3	111.9	110.9
	Debt Payable	132.0	117.1	117.0
	Other Liabilities	153.5	162.9	149.4
Liabilities		403.7	392.0	377.3
Minority Shareholders' Equity		5.1	5.2	5.2
Shareholders' Equity		258.8	224.8	196.9
Liabilities and Shareholders' Equity		667.6	622.0	579.4
D/E Ratio (Gross)		0.51	0.52	0.59
Equity Ratio		39%	36%	34%

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Slide 9 shows the company's balance sheets.

Cash and cash equivalents at the end of December were 156.5 billion yen, and inventories were 82.1 billion yen, remaining flat from the end of September.

At the start of the third quarter, we had anticipated that fab utilization rates would be 86 percent. However, we decreased wafer input due to the rapid downturn in orders from November, and actual utilization rates were more than 10 percent lower than expected, at 73 percent.

Cash Flows

(B yen)	FY08/3 Q3	FY08/3 9 Months Cumulative	FY09/3 Q2	FY09/3 Q3	FY09/3 9 Months Cumulative
Cash Flows from Operating Activities	13.6	42.8	14.6	10.5	29.4
Cash Flows from Investing Activities	-14.7	-33.5	-12.5	-7.2	-30.6
Free Cash Flows	-1.0	9.3	2.1	3.3	-1.2

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Slide 10 shows cash flows.

Cash flows from operating activities were 10.5 billion yen. Despite posting a net loss for the third quarter, accounts receivable decreased, and there was depreciation in the amount of 17.4 billion yen.

Cash flows from investing activities were negative 7.2 billion yen due to 11.1 billion yen for the purchase of property, plant, and equipment.

As a result, free cash flows were positive 3.3 billion yen.

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Ⅱ. FY09/3 Forecasts

Ⅲ. Measures to Improve Future Financial Performance

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In the next section, we will discuss the new full-year forecasts.

FY09/3 Financial Forecasts

Revised full-year forecasts on assumption of further downturn in business environment

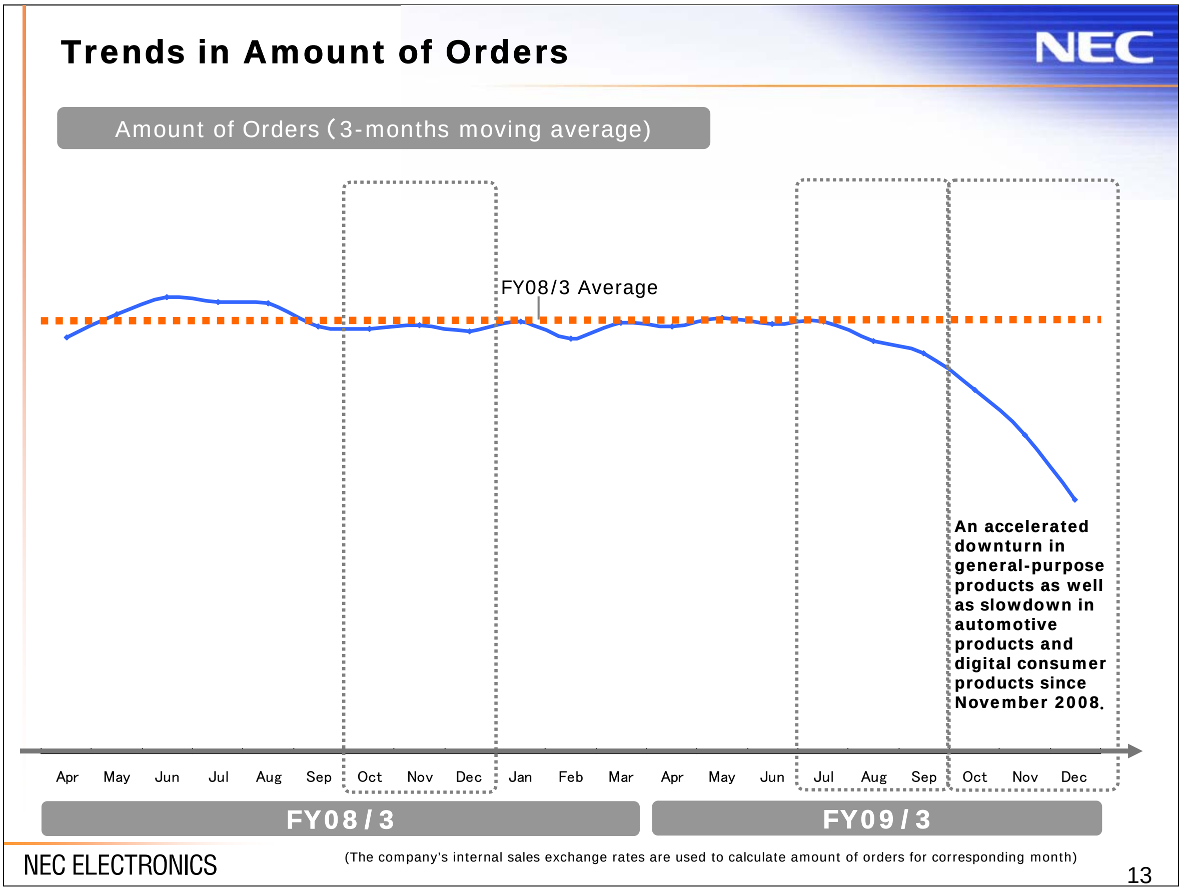
(B yen)	FY08/3 Full-Year Actual	FY09/3 9 Months Actual	FY09/3 Full Year Previous Forecasts (October 21, 2008)	FY09/3 Full Year Forecasts as of January 29, 2009	FY09/3 Full Year Difference from Previous Forecasts	FY09/3 Full Year Difference from FY08/3 Results
Net Sales	687.7	460.9	660.0	555.0	-105.0	-132.7
Semiconductor Sales	653.3	441.0	630.0	530.0	-100.0	-123.3
Operating Income (Loss)	5.1	-15.0	1.0	-55.0	-56.0	-60.1
Income (Loss) Before Income Taxes	-3.3	-20.1	-4.0	-62.0	-58.0	-58.7
Net Income (Loss)	-16.0	-21.8	-8.0	-65.0	-57.0	-49.0

Exchange Rates

1US$=	116 yen	104 yen	105 yen	Q4 90 yen		
1Euro=	161 yen	154 yen	145 yen	Q4 125 yen		

Note 1: Operating Income (Loss) = Net Sales – COGS – R&D – SG&A.
Note 2: Forecasts as of January 29, 2009.

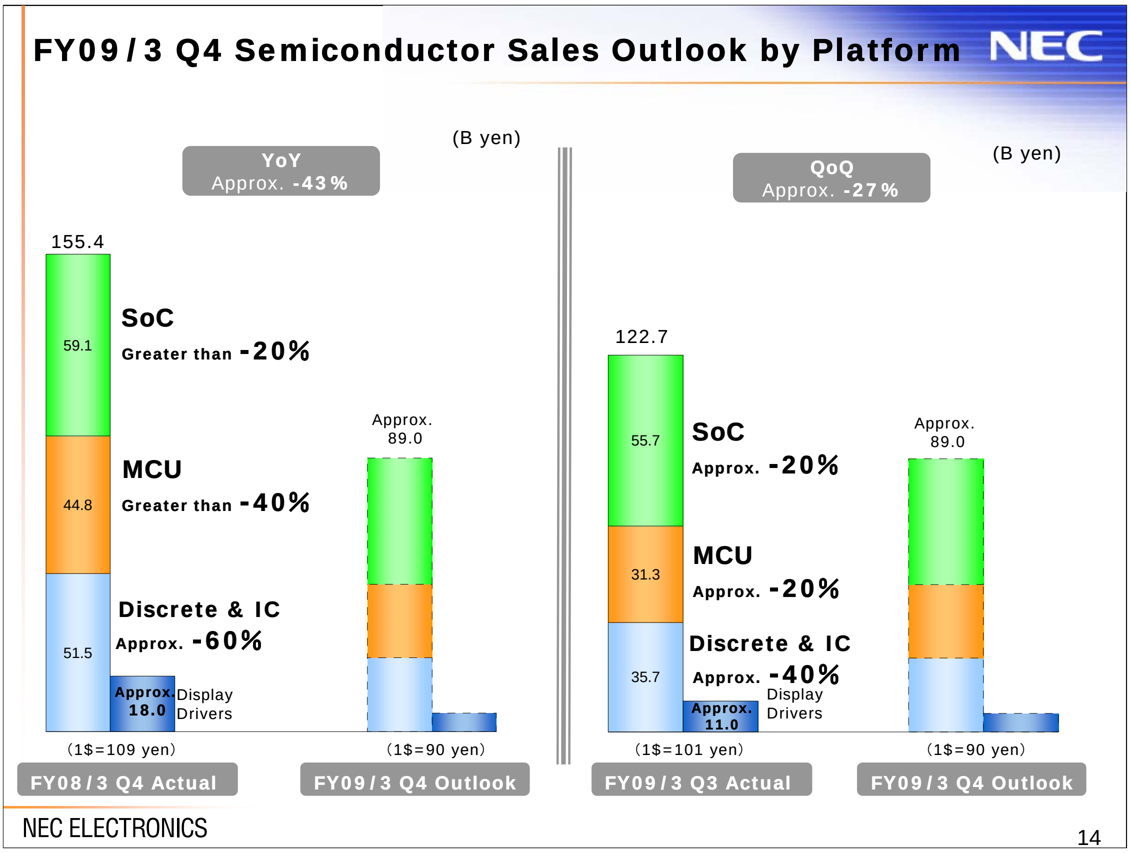
Slide 12 shows the revised forecasts for the fiscal year ending March 2009, which we touched on in the beginning of this presentation. These forecasts were calculated based on exchange rates of 90 yen to the dollar and 125 yen to the euro.



Slide 13 shows a three-month moving average of semiconductor orders.

In addition to a further decline in orders for general purpose products, orders for automotive and digital consumer products dropped significantly.

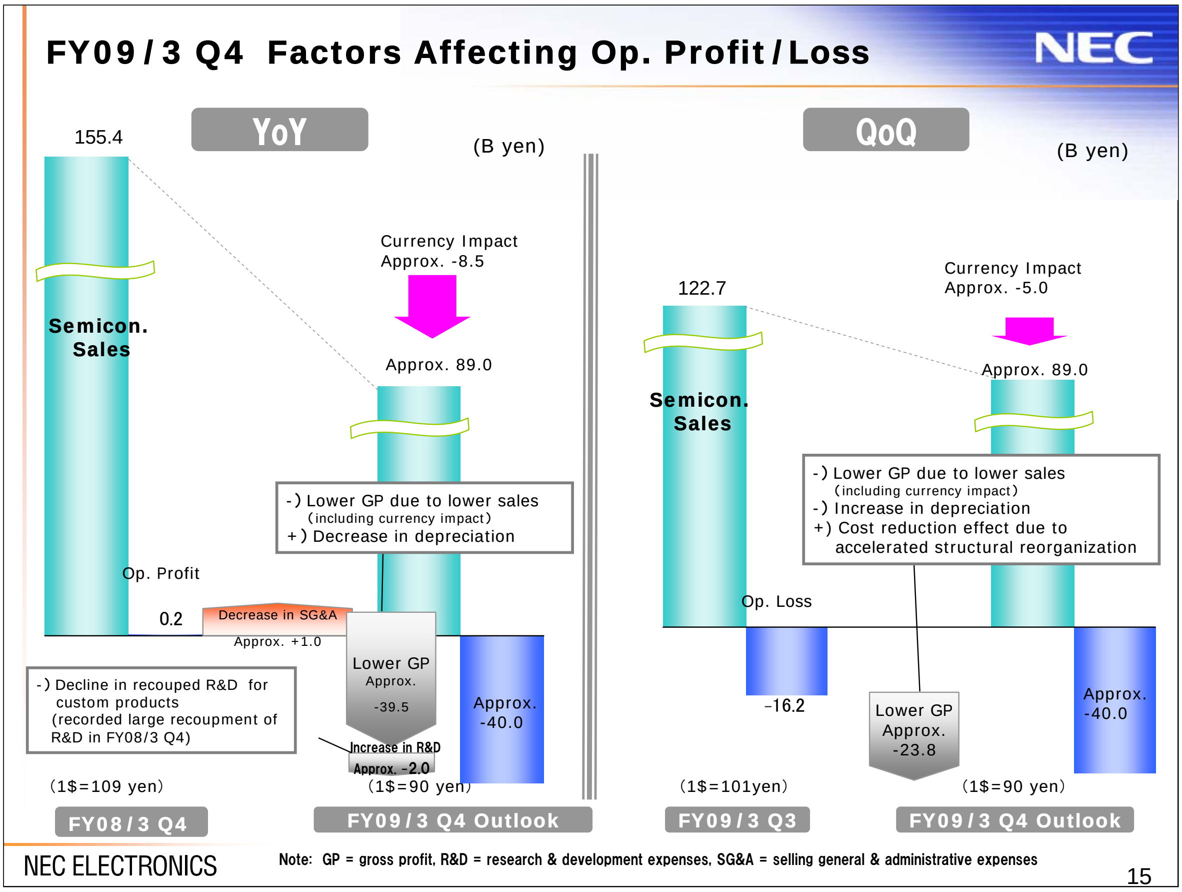
The amount of orders in the third quarter decreased 40% year on year. The situation has remained grim in January as well.



The following slide shows the semiconductor sales outlook for the fourth quarter.

Semiconductor sales are expected to be approximately 89.0 billion yen, a more than 40 percent decrease year on year and 30 percent decrease quarter on quarter.

In particular, sales of Discrete and IC are expected to fall sharply.



Slide 15 shows factors affecting operating loss in the fourth quarter.

As shown in the graph on the right, gross profit is expected to be impacted significantly by the decline in sales. Although we expect some cost reductions with the accelerated closure of some manufacturing lines, operating loss is likely to decline to approximately 40.0 billion yen.

In addition, fab utilization rates are expected to be 50 percent for the fourth quarter.

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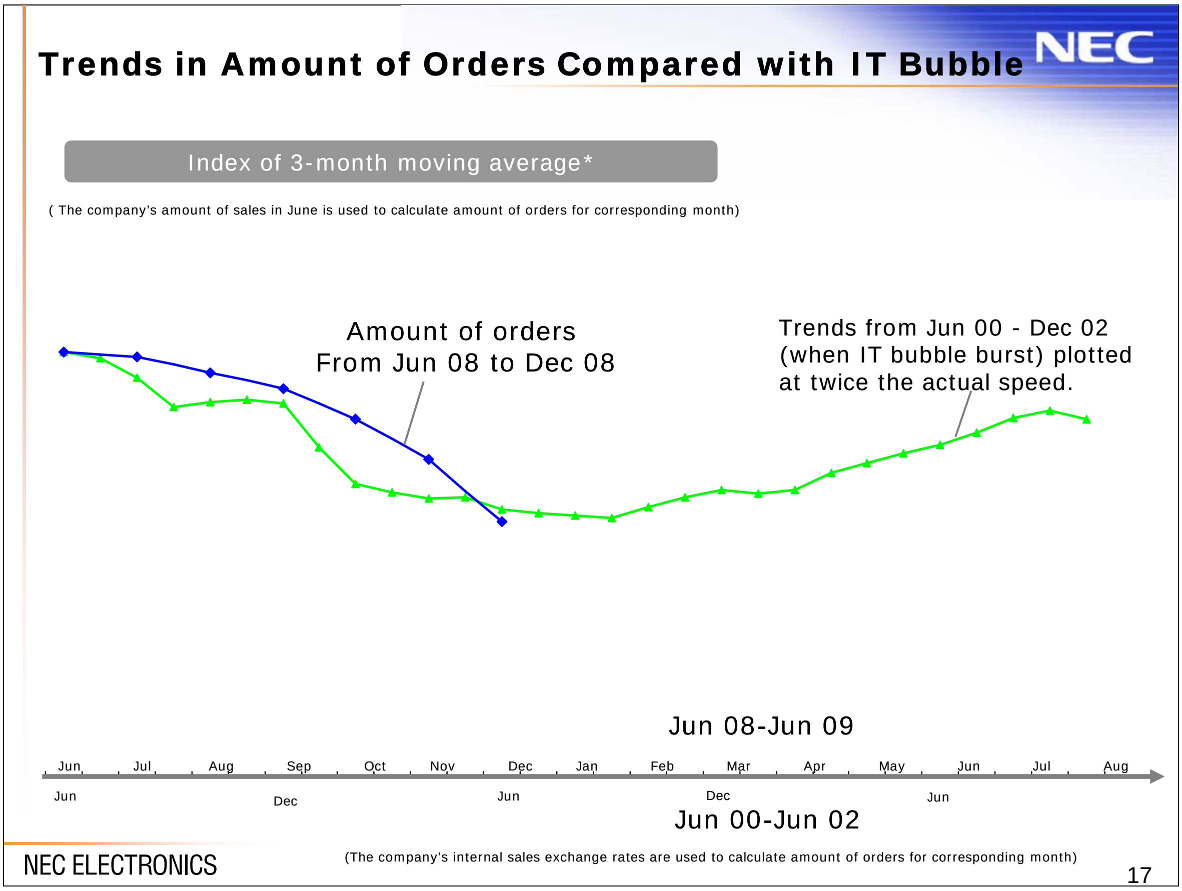
In the third section, we will look at the measures to improve future financial performance.



Slide 17 shows a three-month moving average of semiconductor orders, together with a comparison of when the IT bubble burst.

Based on improvement in supply chain management since the IT bubble burst, we compared the current situation at twice the speed of the previous era, and reached the conclusion that orders are likely to hit bottom in the spring before recovering gradually.

However, since the current decline in orders is unlike anything we have previously encountered, we will operate under the assumption that it may take even longer to recover this time.

New Management Strategies

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- Reduce fixed costs by 80 billion yen over two years
  - ➢ FY10/3 Reduce fixed costs by approx. 60 billion yen
  - ➢ FY11/3 Reduce fixed costs by approx. 20 billion yen

  *** Additional cost reduction under consideration.**

Improve the break-even point for FY11/3 to approx. 500 billion yen

- Accelerate the Structural Reorganization
  - ➢ Accelerate the realignment of some fabrication lines
- Concentrate Management Resources on Growing Markets
  - ➢ Channel resources to growing market for environmentally-friendly and low power consumption “eco-products”

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Slide 18 shows three main strategies to improve our future performance.

First, we will reduce 80.0 billion yen in fixed costs over two years -- 60.0 billion yen in the next fiscal year, and 20.0 billion yen in the following fiscal year.

In addition, we are considering further cost-reduction measures for the fiscal year ending March, 2011, and aim to improve the break-even point to approximately 500.0 billion yen.

Second, we plan to accelerate the realignment of manufacturing facilities.

Third, we will focus on growing markets by developing low power consumption and environmentally-friendly “eco-products” to drive future sales growth.

The following slides will provide more detail on each strategy.

Reduce Fixed Costs by 60B Yen in FY10/3

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- <u>Reduce manufacturing-related fixed costs by approx. 30.0 billion yen</u>
  - Cost reduction effect from closure of certain fabrication lines (Approx. 8.0 billion yen)
    - Closure of 8-inch line in Yamagata and 300mm prototype line in Sagamihara, Japan
  - Cost reduction effect from personnel expenses as a result of production adjustment (Approx.10.0 billion yen)
    - Alteration of work shift schedule
    - Contract of approx. 1,200 temporary employees expiring
  - Cost reduction effect from reduced Capex (Approx. 12.0 billion yen)
    - Decrease in depreciation and lease payment
    - Minimize the Capex to below 40.0 billion yen in FY10/3
- <u>Reduce R&D expenses by approx. 20.0 billion yen</u>
  - Decrease the number of products in development with more stringent ROI standards
  - Improve development efficiency, utilize development resources overseas (India, China, etc.)
- <u>Reduce other corporate expenses by approx. 10.0 billion yen</u>
  - Reduction of personnel costs (for corporate officers and managers)
  - Enforce strict limits on expenses

<u>Aiming to accelerate some of the cost cut effects to FY09/3</u>

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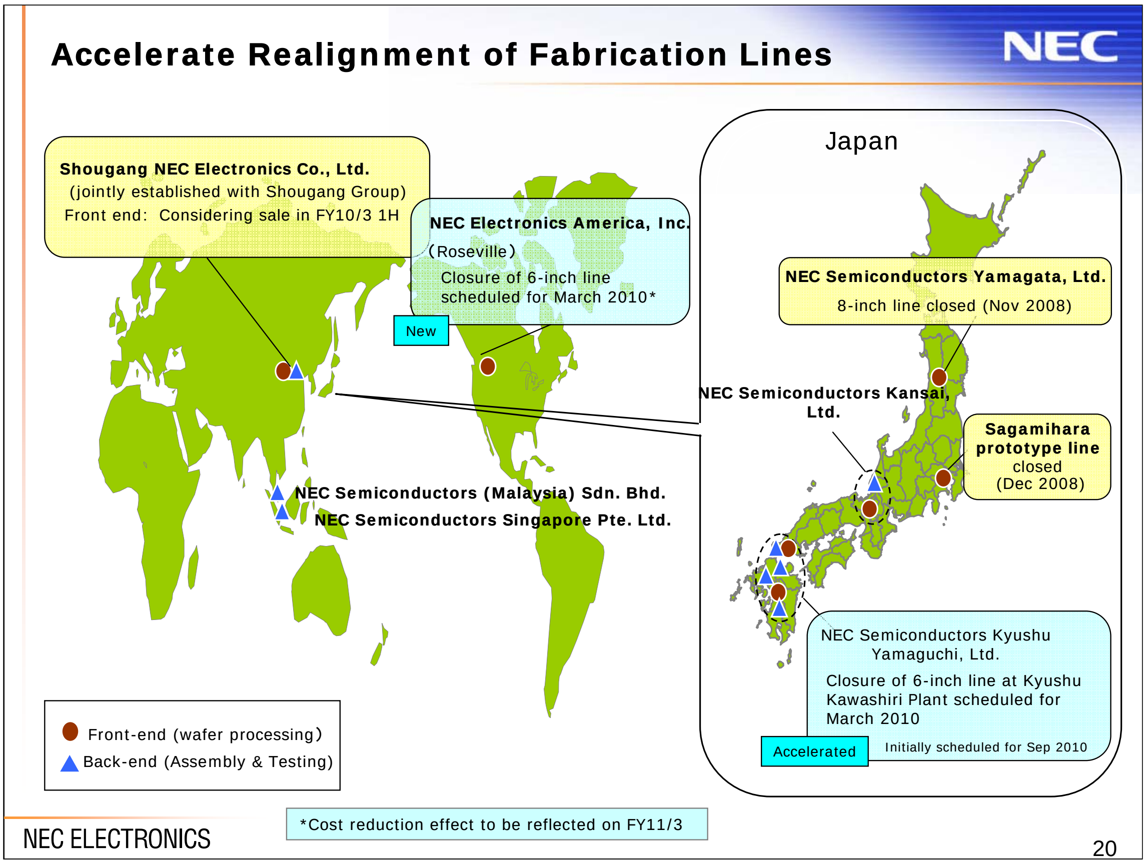
Slide 19 shows a breakout of the 60.0 billion yen fixed cost reduction for the next fiscal year.

30.0 billion yen will come from manufacturing-related fixed costs, 20.0 billion yen from R&D expenses, and 10.0 billion yen from other expenses.

The closures of the 8-inch line in Yamagata and the Sagamihara prototype line, announced three months ago, will reduce costs by 8.0 billion yen. We also expect to reduce personnel costs by 10.0 billion yen and depreciation and lease by 12.0 billion yen. Capex is estimated to be 40.0 billion yen or lower next fiscal year.

R&D expenses will be reduced by 20.0 billion yen by decreasing the number of products in development with more stringent ROI standards, as well as improving development efficiency and utilizing development resources overseas.

For other corporate expenses, we will cut personnel costs including salaries and enforce strict limits on other expenses.



Slide 20 shows the accelerated alignment of manufacturing facilities.

The 8-inch line at NEC Semiconductors Yamagata was closed in November 2008, followed by the Sagamihara prototype line closed in December 2008. The fixed-cost reductions from these closures will be reflected in the next fiscal year.

We also accelerated the timeline for closing the 6-inch line at NEC Semiconductors Kyushu Yamaguchi's Kawashiri facility by six months, to March, 2010. We will also close the 6-inch line at NEC Electronics America's Roseville facility in March, 2010.

In addition, we are considering selling the 6-inch line at Shougang NEC in the first half of the next fiscal year.

These measures will contribute to a 20.0 billion yen reduction in fixed costs for the fiscal year ending March, 2011, and NEC Electronics will continue to consider other means to optimize its manufacturing framework.

The next slide shows our focus on "eco-products."

Although we are reducing R&D expenses by 20.0 billion yen next fiscal year, we will channel management resources toward eco-products that will drive future sales growth.

Our eco-products include low power MCUs, embedded DRAM, MCUs to improve automotive fuel efficiency, and discrete devices for power management systems.

We aim to increase eco-product sales by 40 percent in the next three years.

Summary

Persevere in executing crucial structural reforms

- Improve the break-even point for FY11/3 to 500.0 billion yen

  (Reduce fixed costs by 80.0 billion yen over the next two years)

- Cultivate markets for eco-products to drive new sales growth

As a summary of today’s presentation,

We plan to improve the break-even point to 500.0 billion yen by reducing 80.0 billion yen of fixed costs over two years, and channel management resources to eco-products to drive new sales growth in the belief that our low power technologies will be in demand by customers and markets.

The revisions to our financial forecasts have been considerable this year, and I understand keenly the anxiety all of our stakeholders must feel. In the midst of an unprecedented economic decline that seems to worsen day by day, NEC Electronics is persevering in executing crucial structural reforms, with the aim of improving our financial results.

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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.

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Thank you very much for your continued support of NEC Electronics. This concludes our presentation today.

Appendix: Semiconductor Sales by Application

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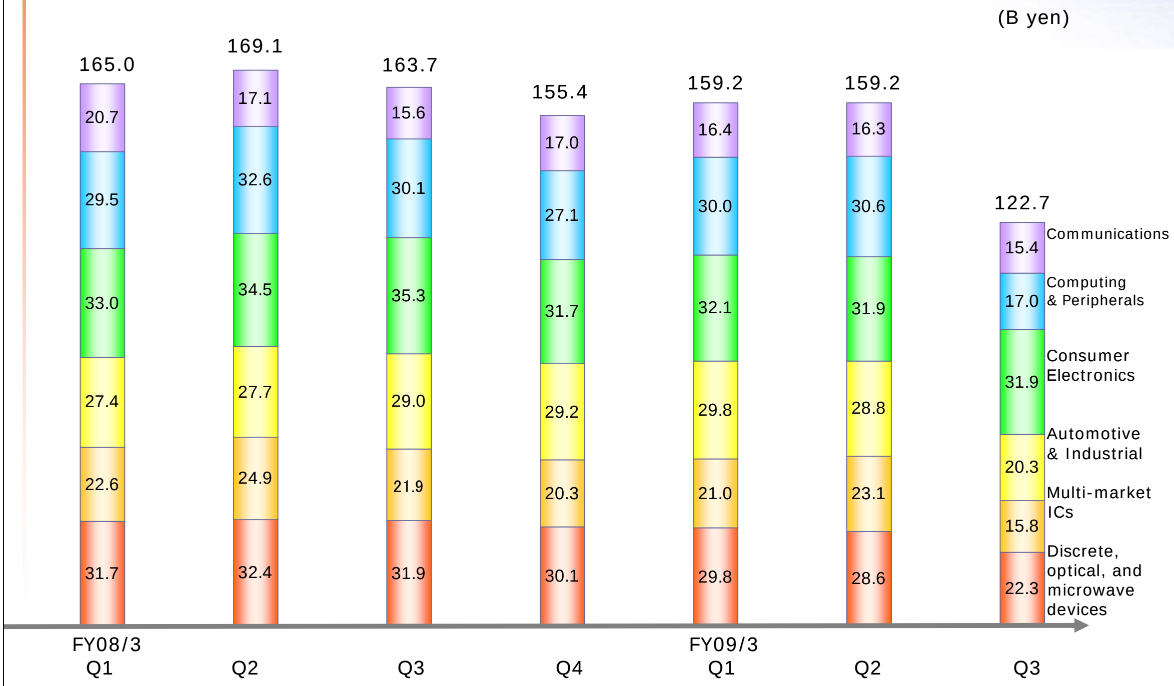

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