

FY10/3 Second Quarter (July-September) Q&A

Q1. How does the company analyze the lower-than-expected profitability for the second quarter?

A1: Semiconductor sales for the first quarter were 114.3 billion yen, a 16 % increase quarter on quarter, and better than the company's original estimates of 9% or plus growth. This was due to sales expansion of multi-purpose products, such as microcontrollers and discrete semiconductors, as well as better-than-expected revenue for automotive semiconductors.

Operating loss was 15.5 billion yen. Although an improvement from the previous quarter, it was lower than the company estimates. This was due to lower-than-expected fab utilization rates for the advanced 300mm line, lower production levels and higher-than-expected R&D expenses.

Q2:What are the reasons behind the downward revisions for FY10/3 forecasts?

A2:NEC Electronics revised the financial forecasts for the fiscal year ending March 2010. Semiconductor sales were revised by 15.0 billion yen decrease from the original forecasts, due to a sharp decline in sales of some SoC products, despite solid microcontroller and discrete semiconductor sales.

Forecasts for operating income/loss were revised to 46.5 billion yen in loss. This is due to the revised sales forecasts and low utilization rates at 300mm line.

Q3:What is the outlook for the third quarter (Oct.-Dec.)? Will the factors that caused lower profitability be solved?

A3:Semiconductor sales for the third quarter are expected to increase by a few percent from the previous quarter. Sales of multi-purpose products, such as microcontrollers and discrete semiconductors, are expected to show solid growth. However, we expected a sharp decrease in some SoC products.

We expect to record operating loss for the third quarter. However, profitability will improve due to launching mass production of 40 nanometer process products at 300mm line and an increase in production from solid microcontrollers and discrete semiconductors. In addition, there will be cost reduction effect from the first half to the second half of the fiscal year in the amount of approximately 8 billion yen, partially effective in the third quarter.

Q4: Is there any progress on the merger with Renesas Technology?

A4: As announced on September 16, NEC Electronics and Renesas Technology reached a definitive agreement on business integration. NEC Electronics and Renesas Technology are working diligently toward successful merger in April 2010.

For the outline of the new company, please see the press release below:

“NEC Electronics and Renesas Reach a Definitive Agreement on Business Integration”

<http://www.necel.com/news/en/archive/0909/1601.html>

The new company will raise 134.6 billion yen by issuing shares to NEC, Hitachi and Mitsubishi Electric by the Third Party Allotment. Renesas Technology will raise 71.7 billion yen prior to the merger by issuing shares to Hitachi and Mitsubishi Electric.