

Measures Toward Recovery

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<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 statements at the end of the presentation.

Revised Forecasts for FY07/3

NEC

JPY Bn	Net Sales	Operating Income (Loss)	EBT	Net Income (Loss)
Previous forecasts	695.0	-7.0	-19.0	-25.0
Revised forecasts	690.0	-30.0	-39.0	-45.0
Increase (decrease)	-5.0	-23.0	-20.0	-20.0
Results for FY06/3	646.0	-35.7	-42.4	-98.2

Costs incurred by structural reforms in EBT: approx. 16B yen

- Restructuring costs included in operating losses: approx. 10B yen
 - Costs related to consolidation of projects in development, and re-evaluation of assets
- Additional costs included in non-operating losses: approx. 6B yen
 - Closing the 200mm pilot line at Sagamihara and the Ireland plant, and memory-related litigation expenses

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Slide 2 shows the company's revised forecasts for the fiscal year.

At the announcement of the third quarter financial results in January, I explained that the results for the fourth quarter are expected to worsen from the third quarter levels due to lower sales. In addition, I mentioned that we have been considering structural reforms and intended to announce the full year forecasts once the costs incurred by these reforms were determined.

Operating loss is expected to total 30 billion yen. This includes approximately 10 billion yen for restructuring costs. Last month, we mentioned that fourth quarter operating loss may reach tens of billions of yen, and we now expect this figure to reach close to 20 billion yen.

Even considering the 10 billion yen for restructuring costs, unfortunately there still remains 20 billion in other operating loss -- 7 billion yen for the first half, and 13 billion yen for the second half -- from ordinary operating activities.

Believed sales growth would lead to profits, but ultimately targets were not achieved

- Management resources were not focused enough, leading to weak products that could not compete in global markets and scattered product lineups. The company could not recoup its R&D costs.
- Streamline of manufacturing lines was too slow, and despite various measures, cost reductions could not match the pace of price erosion
- The value chain of sales, manufacturing, and development did not function smoothly, resulting in inefficient operations

NEC Electronics is facing a serious situation.

Slide 3 outlines factors which triggered the current situation.

We have been working on growing sales in the belief that it would lead to profits, but ultimately, we were not able to achieve the targets.

There are three factors which contributed to the situation we are in today:

First, management resources were not focused enough, leading to weak products that could not compete in global markets and scattered product lineups. In the end, we could not recoup R&D costs.

Second, we were slow to reorganize manufacturing lines, and despite various measures, we could not keep up with the pace of price erosion.

Third, the value chain of sales, manufacturing, and development did not function smoothly, resulting in inefficient operation.

I. Focus resources on automotive and digital consumer

- Cancel or convert approximately 1,000 engineers' projects
Aim to become the global leader in our focus areas

II. Emphasize cost competitiveness in manufacturing

- Front-end: consolidate production lines by half
Back-end: accelerate shifting of production overseas, and re-evaluate the roles of Japanese manufacturing subsidiaries

III. Change management structure to clarify responsibilities

- Improve business awareness and management speed by changing the organization, which is divided by function

IV. Reduce fixed costs to ensure profitability in FY08

- Reduce fixed costs by 20B yen to ensure operating profits even if FY08 sales are flat

To alleviate the situation, I believe that we must change the company's policy and directions significantly. I have decided to take on four measures to revitalize the company. The measures are shown on slide 4.

First, we will focus resources on automotive and digital consumer areas. To do so, we will cancel or convert approximately 1,000 engineers' projects.

Second, we will consolidate front-end production lines in Japan, from nine to four lines, and expand production capacity of the consolidated lines. With regard to back-end production, we will accelerate the transfer of production overseas and reevaluate the roles of subsidiaries in Japan.

Third, we will change the organizational structure. We will realign the organization by product types, such as SoC, microcontrollers and components, instead of by functions such as manufacturing, sales and development.

Lastly, we will cut fixed costs by 20 billion yen in the next fiscal year, as compared to this fiscal year. This includes reduction in personnel expenses.

I. Focus resources on automotive and digital consumer

II. Emphasize cost competitiveness in manufacturing

III. Change management structure to clarify responsibilities

IV. Reduce fixed costs to ensure profitability in FY08

First, let us look at our focus areas.

Global Leader in Automotive and Consumer Devices

- ✓ **Focus resources** on areas of competency
- ✓ Become the global leader in **automotive MCUs**, and expand lineup of other automotive products

In 2005, NEC Electronics claimed a 15.4% share of the worldwide automotive MCU market, and a 6.9% share of the total automotive semiconductor market. (Source: Strategy Analytics)

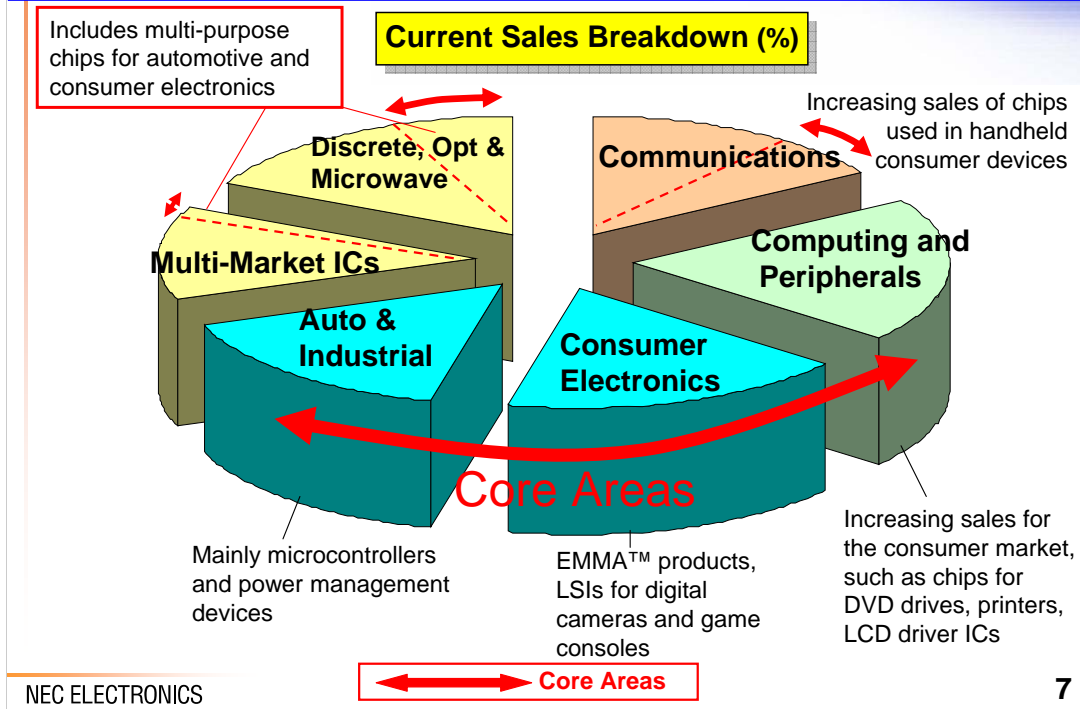
- ✓ Set the global standard in chips for **digital televisions**, and expand sales for digital consumer applications

Slide 6 shows the new areas of focus.

Until recently, our strategy was to accept any project that may contribute to sales, but this approach lacked focus and direction.

Now, we are going to focus on two core areas: to expand share in the automotive semiconductor market with microcontrollers, and to increase sales in the digital consumer area by establishing the EMMA series as a global standard platform for digital televisions.

We aim to become a global leader in both automotive and consumer device markets.



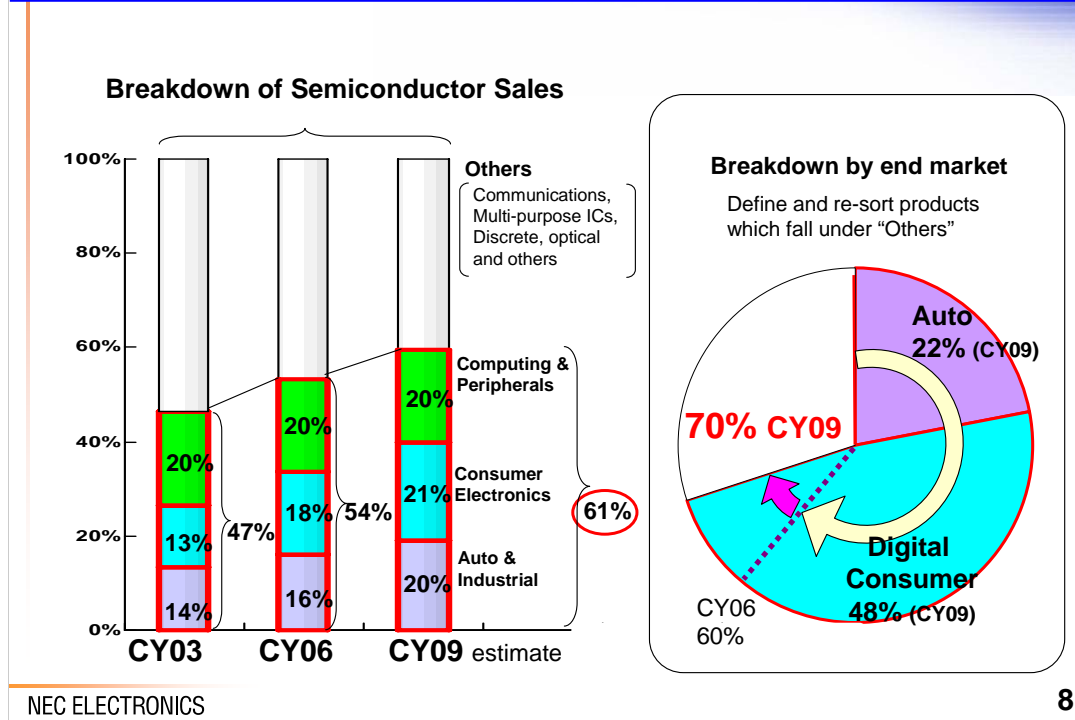
Slide 7 shows the current breakdown of semiconductor sales.

Our new focus on “automotive” includes not just products previously included in the Automotive and Industrial segment, but also some discrete and multi-market ICs which are used in automotive applications.

Our new focus on “digital consumer”, by which we mean digital devices commonly used by individuals or households, includes the Consumer Electronics segment, as well as a large portion of the Computing and Peripherals segment and some Communications products.

The red arrows on the pie chart indicate our new focus areas.

Expand Core Areas to Over 70% of Chip Sales



Slide 8 shows two graphs.

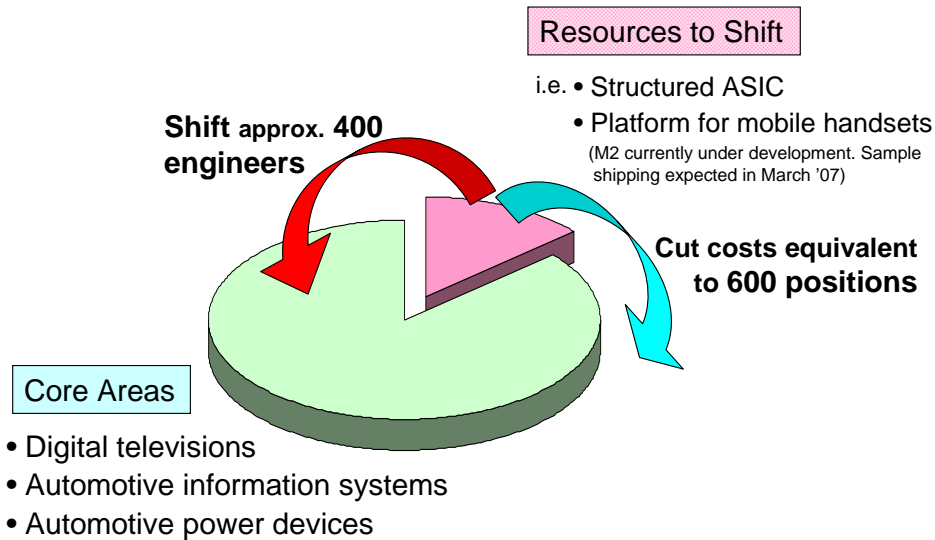
The graph on the left shows sales trends and targets, according to our traditional breakdown.

The graph on the right shows our new focus on automotive and digital consumer, and the proportion of our total semiconductor sales comprised by these focus areas.

According to the graph, sales of the core areas account for about 60% in calendar year 2006, and we intend to expand sales of these products to 70% by 2009.

The rate at which we can expand sales in these areas will have a profound impact on the future of the company.

Re-allocating resources equivalent to 1,000 positions

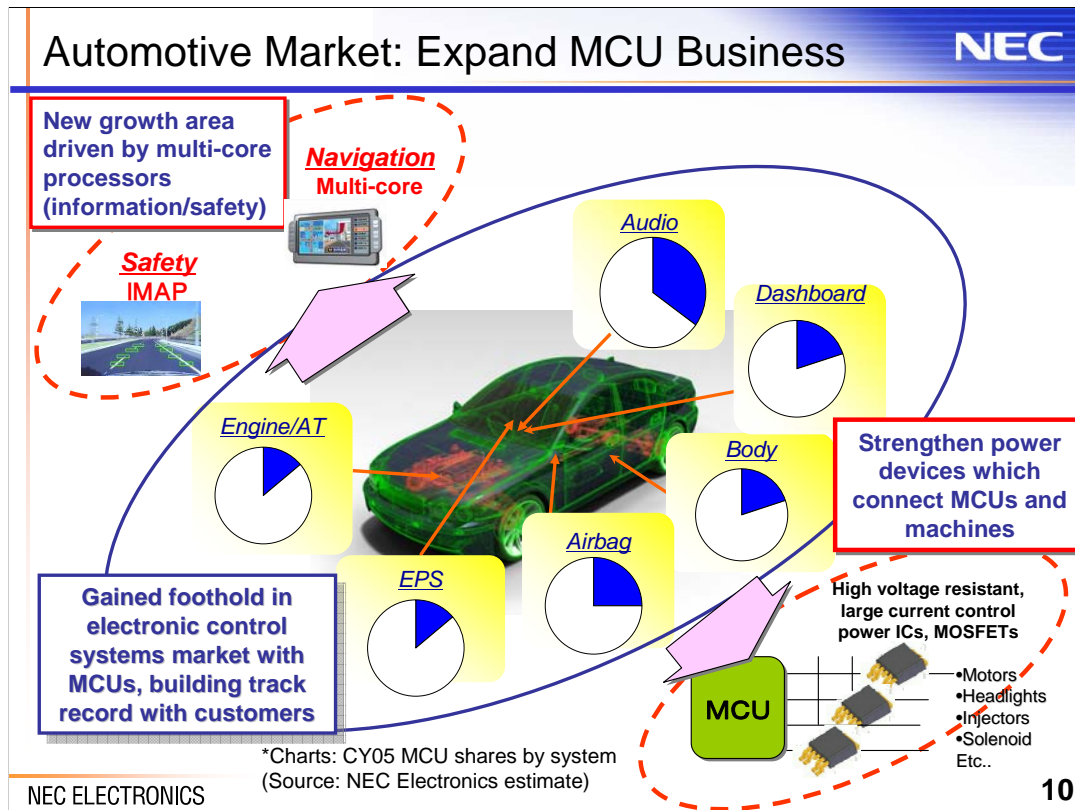


Slide 9 shows the shifting of resources.

In the past, all of our sales segments were equally considered “core areas” and we spread our limited development resources evenly among them. However, in doing so, some segments did not have enough resources, forcing them to rely on outsourcing, which in turn increased costs.

To sharpen our focus, we carefully evaluated the company’s development projects at the end of last year. Of the company’s 7,000 engineering positions (which include outsourced positions), we decided to terminate or re-allocate 1,000.

This includes cutting development costs equivalent to 600 positions, and shifting approximately 400 of our own engineers to the new focus areas.



Slide 10 shows our products for the automotive market, where we have a reputation for high quality products.

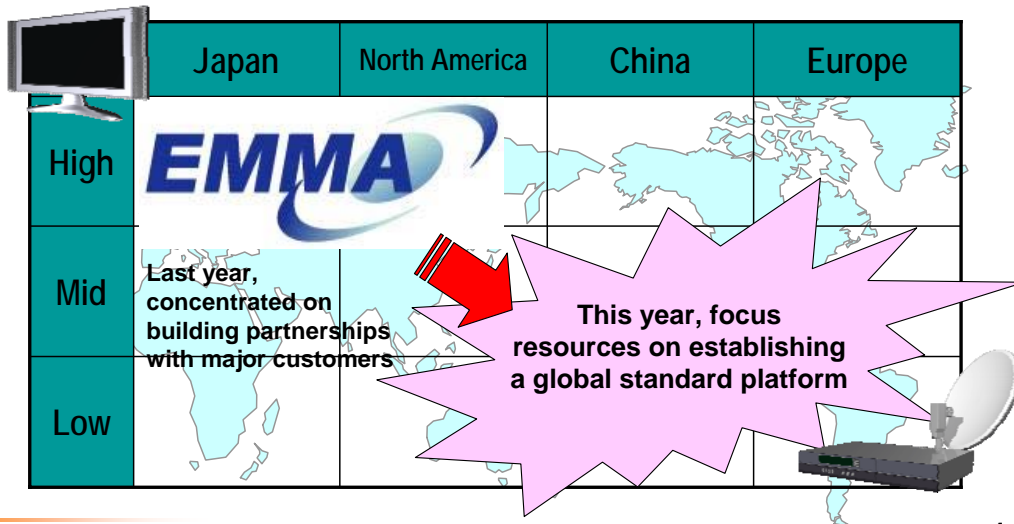
We are especially strong in automotive MCUs, and the pie charts represent our share of the global market for these products.

Having gained a foothold in automotive MCUs, we aim to expand sales of other automotive semiconductors with new offerings.

In the growing areas of safety and information systems, we will offer new multi-core solutions based on ARM processors, and new image recognition technologies.

We will also reinforce power management devices used to connect systems within the vehicle.

- 100+ engineers dedicated to developing standard platform (in April, 2007)
- Reinforcing the 50-person FAE team in NEC Electronics China
 - Introduce standard software for platform OViA™



Let's take a look at the next slide.

To help expand sales of chips used in digital televisions, we will reallocate more than 100 engineers by April toward development of a low-end platform, which we hope to position as a global standard.

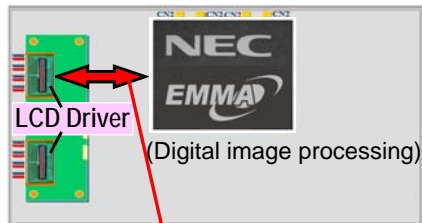
Moreover, we will strengthen the 50-person FAE team in NEC Electronics China to address the growing digital TV market there.

We will also create an ASSP for the low-end digital TV market this year. Using our accumulated know-how and software assets, we will complete development quickly, and expand sales to ODMs and design houses in Asia and around the world.

Promoting a kit for EMMA and LCD driver ICs

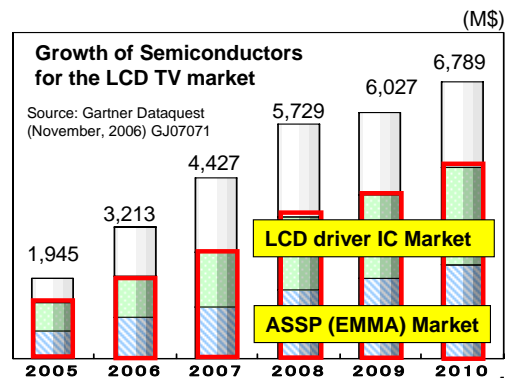
- Strengthen collaboration in product planning and marketing for EMMA+LCD driver IC kits, and expand share through synergistic effects

[Backside of LCD panel for TV]



A new approach: a high-speed interface

Focus on 60-70% of LCD TV chip market with EMMA and LCD driver ICs



To drive new business, we will also pursue a combination of display drivers and EMMA chips, as shown on slide 12.

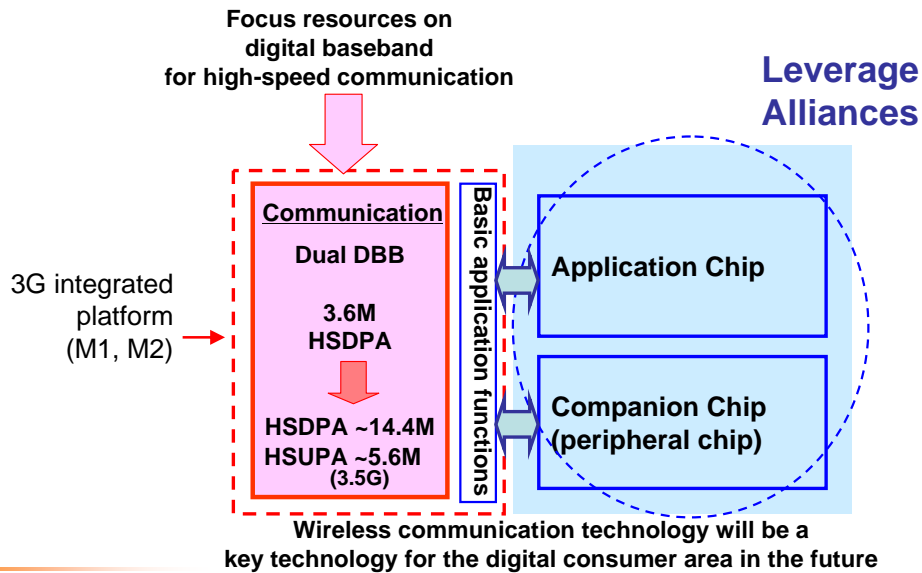
We have a unique advantage in the digital TV market due to our ability to offer both digital image processing LSIs, as well as LCD driver ICs.

Although these two types of devices were developed independently of each other, there is increasing demand for sophisticated features and lower prices in flat panel televisions, where pairing LCD driver ICs and image processing LSIs may provide a whole new business opportunity.

According to research by Gartner Dataquest, approximately 60 to 70% of the LCD TV semiconductor market consists of image processing ASSPs and LCD driver ICs.

We will leverage our strengths in these areas to provide new solutions and technology for manufacturers of panels and televisions.

Focus resources on the NEC group's strength in digital baseband and provide 3G solution through partnerships with other companies.



The next slide shows our new approach for the mobile handset business.

In past years, we invested tremendous resources to develop an integrated solution, which is 3G digital baseband and application processor integrated into one-chip.

The development of the integration solution for mobile handsets will be completed with "M2," which is the second generation of Medity chip that will begin sample shipping in March 2007.

Now that the development of M2 is complete, we will focus resources on digital baseband. For application chips and companion chips, we will continue in-house development as well as leverage alliances, and expand these products to other portable devices.

With the rise of HSDPA and other 3G communication technologies, we intend to take advantage of the NEC Group's strengths in this area to offer competitive solutions.

I. Focus resources on automotive and digital consumer

II. Emphasize cost competitiveness in manufacturing

III. Change management structure to clarify responsibilities

IV. Reduce fixed costs to ensure profitability in FY08

Next, we will talk about measures to establish a more cost competitive manufacturing framework.

Front-end

Absorb impact from price declines and
Reduce cost to sales ratio 3+% by FY10

By FY10

- ✓ Consolidate production lines in Japan by half
- ✓ Reduce costs by reorganizing manufacturing lines by product

Back-end

Absorb impact from price declines and
Reduce cost to sales ratio 2+% by FY10

By FY09

- ✓ Accelerate shifting of production overseas, and re-evaluate the roles of Japanese manufacturing subsidiaries

CAPEX

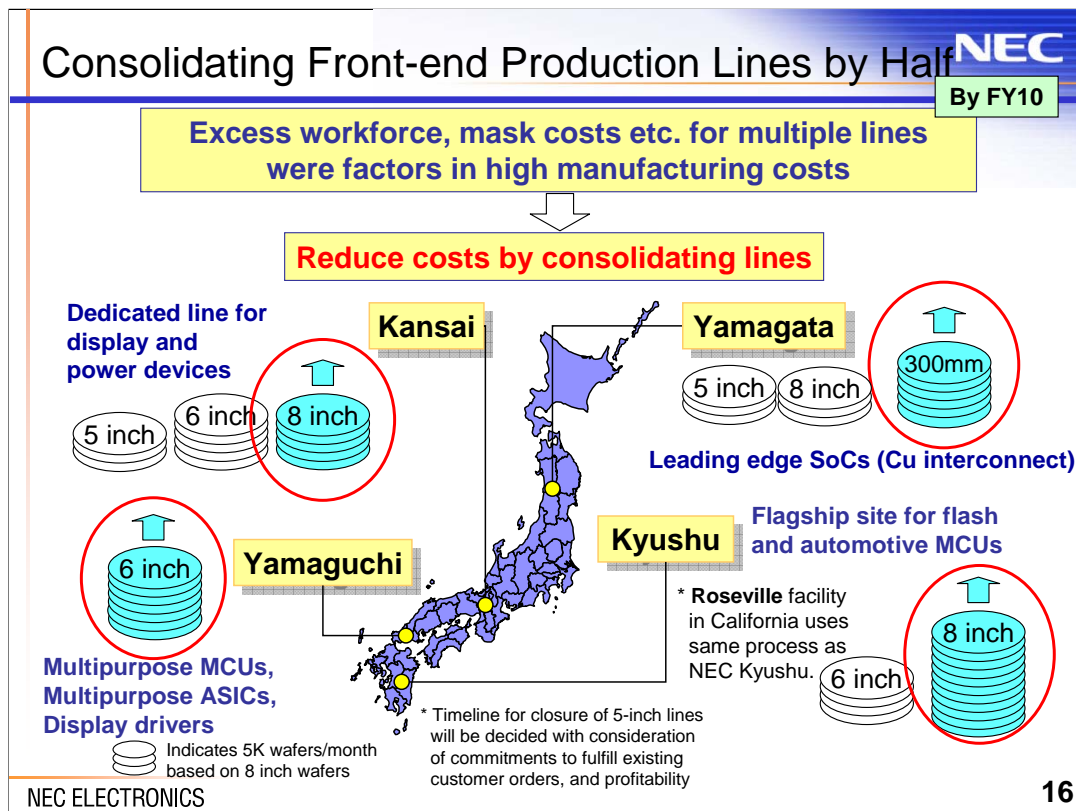
- ✓ Reduce FY08 CAPEX to 70B yen
Maintain optimum CAPEX levels from FY09 onward

Slide 15 shows how we will reform manufacturing with an eye to increased cost competitiveness.

For front-end manufacturing, we will consolidate production lines in Japan by half, and pursue cost reductions by assigning specific manufacturing facilities to certain product types.

In back-end manufacturing, we will proactively shift production overseas while revising the roles of the facilities in Japan.

We will limit capital expenditures to 70 billion yen, and believe we can keep capex levels under 100 billion yen in the years to come.



Slide 16 shows the reorganization of our front-end production lines. NEC Electronics currently has 4 production facilities in Japan, with different lines of varying wafer size for a total of 9 production lines which have been built throughout the years.

In general, there is a strong inverse correlation between manufacturing volumes and costs, so if we can consolidate and centralize production of one wafer size at one location, it would represent a significant savings even though total production levels would remain the same.

Based on these ideas, we will reorganize our front-end manufacturing lines, consolidating our smaller 6- and 8-inch lines within 3 years while expanding larger-scale production lines.

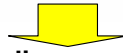
For the 5-inch lines, there are certain products which can only be produced using these lines, so we will consolidate these lines gradually while being mindful of our existing commitments to customers as well as our need to improve profits.

Reorganize Manufacturing Lines by Product

NEC

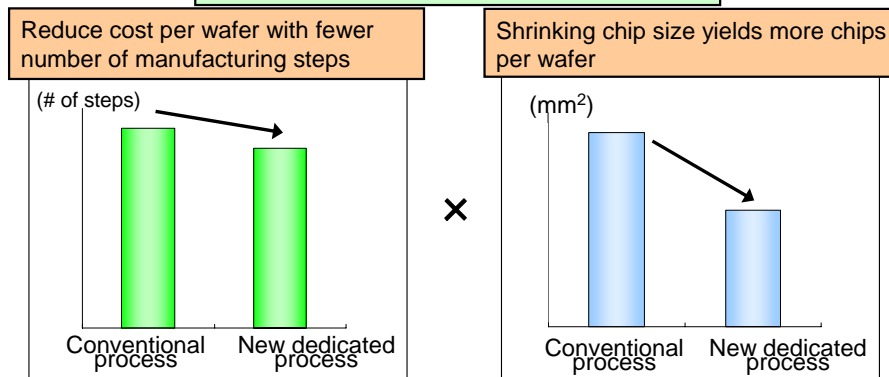
FY08

Before: Mixed production to improve total fab utilization rate to reduce costs



After: Reorganizing manufacturing lines according to product lines to promote systematic cost down between development and manufacturing

Example: LCD drivers for large panels



Goal is to halve chip costs

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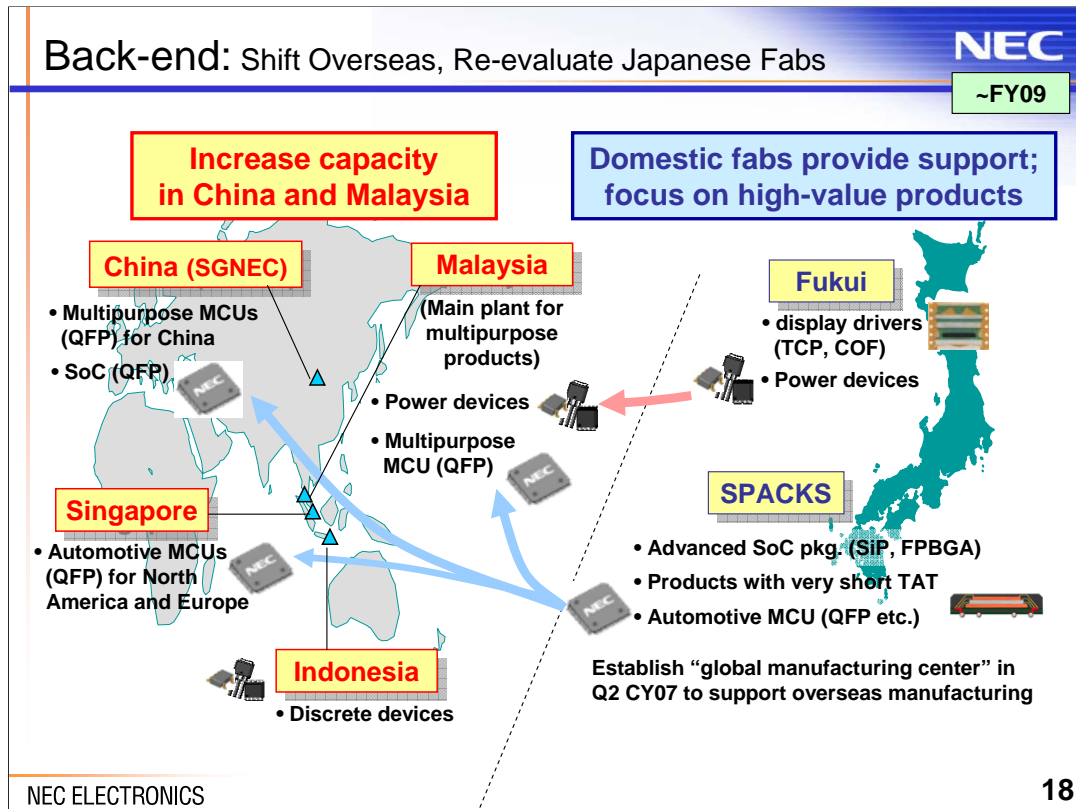
This next slide shows how aligning products with a specific production facility will help support cost reductions.

For example, LCD driver ICs face tremendous price pressure, and it is customary to establish dedicated manufacturing processes to achieve cost reductions, but we were slow to adopt this.

The reason for this was that we were producing LCD driver ICs at multiple facilities in order to improve our overall fab utilization rates and reduce costs. The standardized process we used also offered the flexibility to produce the chips at any of our manufacturing sites.

Yet the cost reductions made possible through a dedicated line would be more than the cost reductions possible through the improvement of the overall utilization rate. We intend to pursue this new strategy from this year onward.

The potential to reduce costs through the dedicated process is significantly greater, and we intend to recover profits for LCD driver ICs with this new framework.



The reorganization of back-end production is shown on slide 18.

Here too, we would like to align manufacturing more directly with products to promote cost reductions in the early design and materials selection phases.

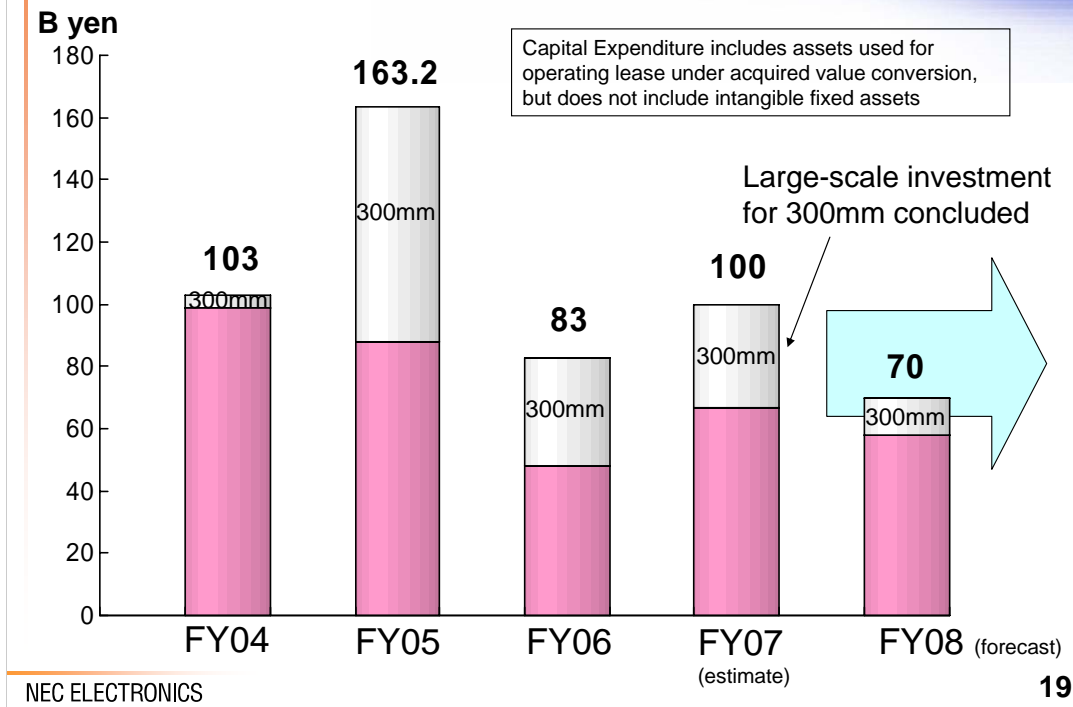
We also intend to expand back-end facilities in China and Malaysia to expand capacity overseas.

We have wanted to aggressively shift production overseas for a long time now, but had difficulty standardizing global production quality, and obtaining consent from some customers.

Now, we are strengthening infrastructure such as training facilities to improve quality levels overseas, as well as provide technical support from flagship facilities in Japan, to ensure high quality levels at competitive costs.

CAPEX: Major Investment Concluded, Keep Optimum Levels

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Slide 19 shows the status of capital expenditures.

Investment in the 300mm line at NEC Yamagata required a considerable share of our R&D resources. The line was built in a new building, with brand new clean room equipment, which required a significant investment at the outset.

However, the 300mm production capacity has now reached our target of 13,000 wafers per month. We expect that additional investment in the 300mm line will be significantly less than in previous years.

As a result, from next fiscal year onward, we will spend much less on CAPEX. The current estimate is to spend roughly 70 billion yen for next fiscal year. In following years, we should be able to cover CAPEX with a maximum of 100 billion yen at the most.

I. Focus resources on automotive and digital consumer

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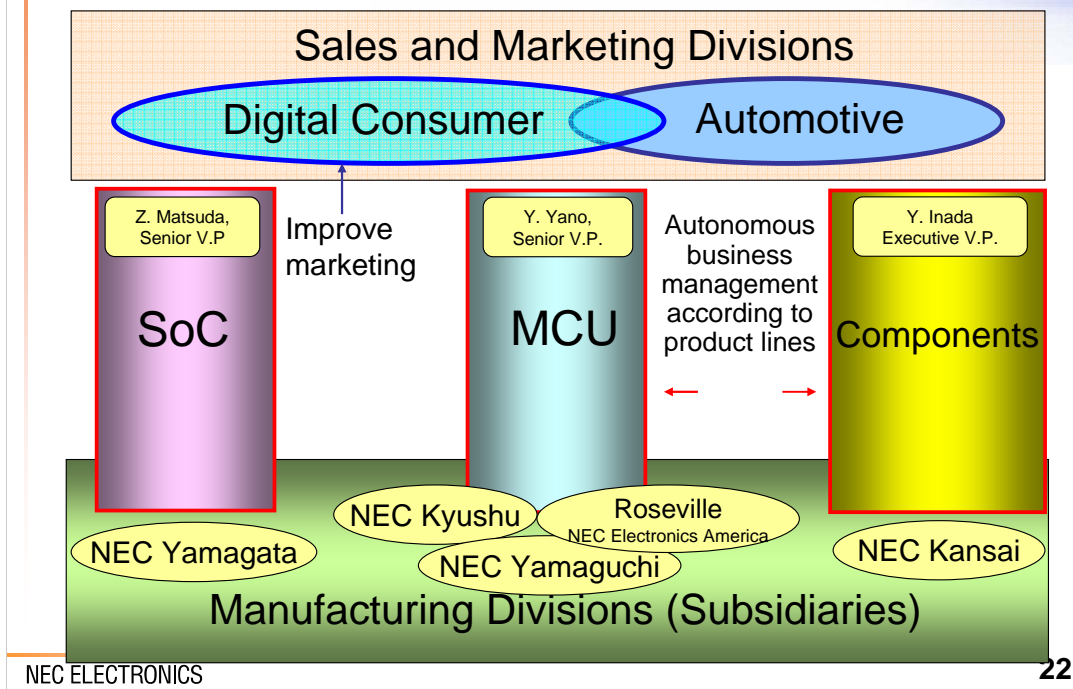
Next, I would like to explain changes in the management structure, on slide 21.

From April '07

- ✓ Shift to autonomous business management
- ✓ Establish new business management framework
 - ▶ **Corporate Planning:** Masaki Kato, Senior Vice President
 - ▶ **Management and Areas of Responsibility**
 - SoC:** Zensuke Matsuda, Senior Vice President
 - MCU:** Yoichi Yano, Senior Vice President
 - Components:** Yoshikazu Inada, Executive Vice President

First, starting in April, we intend to reorganize the company's management to enable more autonomy. These units would encompass everything from development to manufacturing to sales under one umbrella, which should facilitate communication as well as cost reduction.

Second, we will establish a new business management framework with more clearly defined responsibilities for our senior executives. Specifically, we have appointed Masaki Kato, who has previous experience leading the restructuring of Pioneer Corporation, as head of Corporate Planning. We have also designated executives in charge of the respective business units.



Slide 22 shows that NEC Electronics' organizational structure is a matrix of business units divided according to function as well as product. In the past, the functional axis was quite dominant, while the product axis was relatively weak.

Although the intention of this method of organization was to focus on development in order to facilitate development of stronger products, it also had the unwanted effect of weak collaboration between development and manufacturing to reduce costs, and weak collaboration between development and product marketing.

We will now redesign the organization with a stronger emphasis on product-based business units to boost marketing and cost reduction efforts.

You may be wondering if such an organizational shift by itself would really lead to improved financial performance, but I believe that together with clearer responsibility for the performance of these units, it will have a significant impact on cost reduction efforts. In particular, we are considering aligning our manufacturing facilities one-to-one with these new units.

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Now we will introduce our financial targets for the fiscal year ending March 2008.

Minimum targets for next fiscal year (FY08)

- Operating profits for the year
- Reduce fixed costs by 20B yen to ensure profitability even if sales remain at FY07 levels (this does not take into account effects on a change in the method of depreciation due to tax reforms)

Reduce fixed costs by 20 billion yen

- 4B : Depreciation (lower CAPEX from 100B in FY07 to 70B in FY08)
- 6B : R&D (outsourcing costs for cancelled development projects)
- 3B : Manufacturing (contract work, outsourcing)
- 7B : Other costs (fixed costs including personnel costs)

Slide 24 shows the targets for the year. I am fully committed to attaining our goal of full-year operating profits.

Normally the ability to turn a profit depends on sales, and at the moment we cannot predict our sales levels for the next fiscal year. We are still in the midst of a downturn, and though some predict an improvement around the middle of the fiscal year, it is difficult to say with certainty.

However, even if next year's sales were to remain flat, we have established a cost structure that would enable us to break even by reducing fixed costs by 20 billion yen. I have already discussed the reductions in R&D and manufacturing, and we intend to reduce additional costs, including personnel costs.

With respect to personnel costs, we began reducing the salaries of our top management this January. We will not hesitate to cut costs aggressively.

V. Summary

Finally, I would like to present our mid-term targets.

Overhaul business structure to enable strong sales and profits from the start of bottom of the next silicon cycle in FY10

	Refine Product Lines	Reform Cost Structure
FY08	1) Rapidly shift resources from cancelled and completed projects to focus areas (from 2H FY07) 2) Augment focus areas	Reduce fixed costs by 20B yen and reorganize production map according to product lines
FY09	Promote new design wins and expand sales in focus areas	Complete restructuring of production map according to product lines. Pursue cost reductions with new map
FY10	Continue expanding sales in focus areas	Pursue further cost reductions leveraging new production map

Slide 26 shows the timetable for improvement.

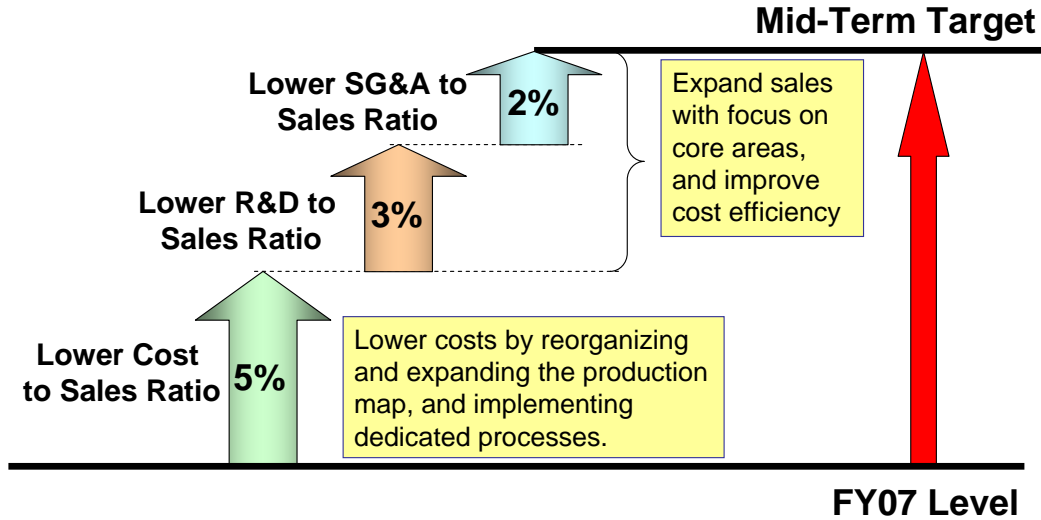
I believe the fundamental problems affecting NEC Electronics are 1) not being able to compensate for R&D investment with profits, and 2) the poor cost competitiveness in comparison with our rivals.

To address these problems, we will rebuild product lines around our focus areas, and reduce manufacturing costs to improve performance.

These measures will be implemented gradually while manufacturing and selling our existing products, so we expect it will take roughly two years to complete this restructuring.

Our restructuring will be complete in fiscal year 2010, which would put us at the valley of the next silicon cycle, when sales and profits usually decline. Our goal however is to enable the company to grow sales and profits starting that year, and outperform market levels.

Improving Profits by 10% against Sales



Slide 27 shows how these various measures will impact the company's profits.

Measured against sales, costs will decrease 5 points, R&D expenses 3 points, and SG&A 2 points, resulting in a total improvement of 10 points.

Since the company is currently at an operating loss, a 10-point improvement would still not be enough to represent an ideal profit level, but this will nonetheless be our goal for the mid-term.

Continued relationship with NEC Group

- The NEC name is associated with name recognition, trust, and helps establish relationships with customers
- Generate innovative new products by implementing NEC R&D's advanced core technologies and system technologies

Expansion of the relationship

- Collaboration between system solutions and semiconductors

Actively leverage the system development, software development, and know-how of the NEC Group companies.

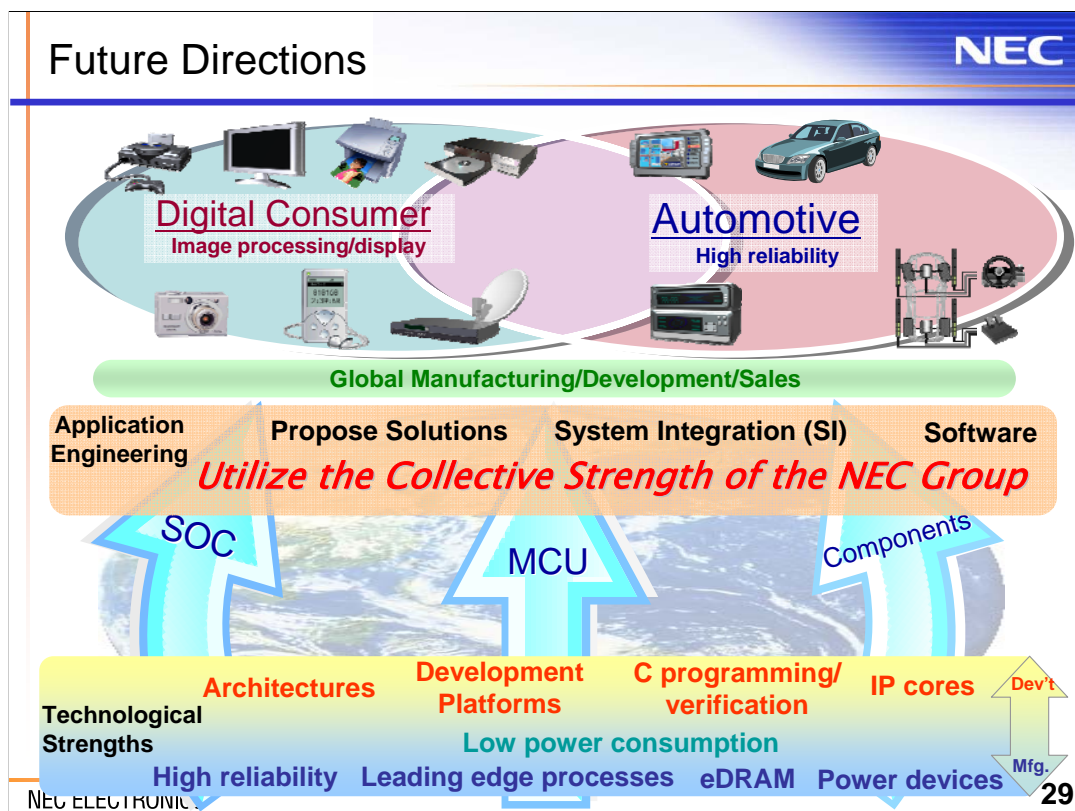
Position the collective strength of the Group as one of NEC Electronics' key competitive advantages to help business expansion.

Slide 28 describes NEC Electronics' relationship with NEC Corporation.

We have a long-standing relationship with NEC, which includes

- 1. Leveraging the NEC brand name to establish name recognition, trust, and relationships with customers, and**
- 2. Develop innovative new solutions using the advanced fundamental and system technologies of NEC's research laboratories.**

We would like to expand on this relationship, especially in the areas of system development and software development, utilizing their know-how, and positioning the collective strength of the Group as one of our core strengths to expand our business.



The last slide summarizes the plans discussed today, and our vision for the future of NEC Electronics.

In conclusion, I would like to state my personal commitment to ensuring the recovery of NEC Electronics.

I will personally lead the effort to unite the company in support of the reforms outlined today. This announcement will serve as a springboard for action to implement these changes throughout the company.

Looking ahead, I intend to hold meetings with our valued stakeholders every six months to report on our progress.

I will make every effort toward improving the company's performance, and sincerely appreciate your continued support.

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.