



# Q1 FY07/3 Financial Results and Outlook

July 26, 2006

NEC Electronics Corporation

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

## 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.

# Agenda

I. Q1 FY07/3 Financial Results

II. FY07/3 Forecasts

III. Progress on Measures to Improve Performance

# A Financial Snapshot

(JPY Bn)	FY06/3		FY07/3		
	Q1	Q4	Q1		
				QoQ	YoY
Net Sales	146.1	170.3	165.2	-5.1	+19.1
Semiconductor Sales	140.3	162.0	158.1	-4.0	+17.7
Operating Income (Loss)	-9.8	-16.5	-5.8	+10.7	+4.0
Operating Margin	-6.7%	-9.7%	-3.5%	+6.2% points	+3.2% points
EBT	-10.8	-24.3	-4.8	+19.5	+6.0
Net Loss	-6.3	-87.8	-6.1	+81.7	+0.2
Net Income Margin	-4.3%	-51.5%	-3.7%	+47.8% points	+0.6% points

Note 1: Operating Income (loss) = Net Sales – COGS – R&D – SG&A

Note 2: Average exchange rate for Q1 FY06/3 was calculated at US\$1=107 yen, 1 Euro=138 yen

Average exchange rate for Q4 FY06/3 was calculated at US \$1=117 yen, 1 Euro=141yen

Average exchange rate for Q1 FY07/3 was calculated at US \$1=115 yen, 1 Euro=142 yen

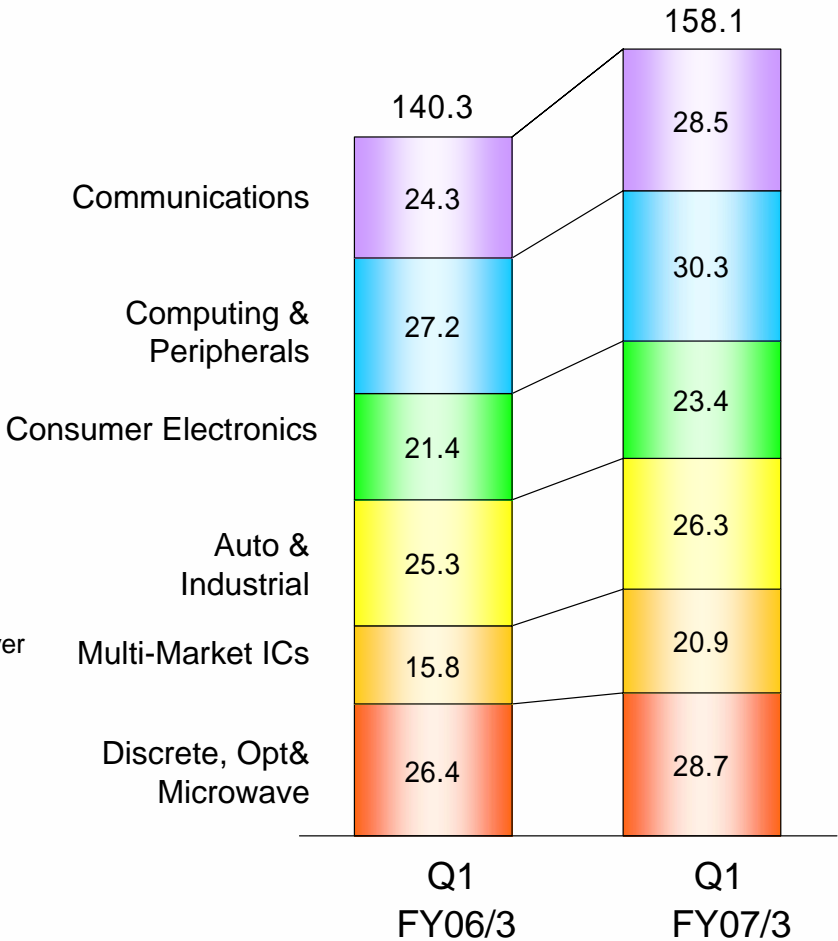
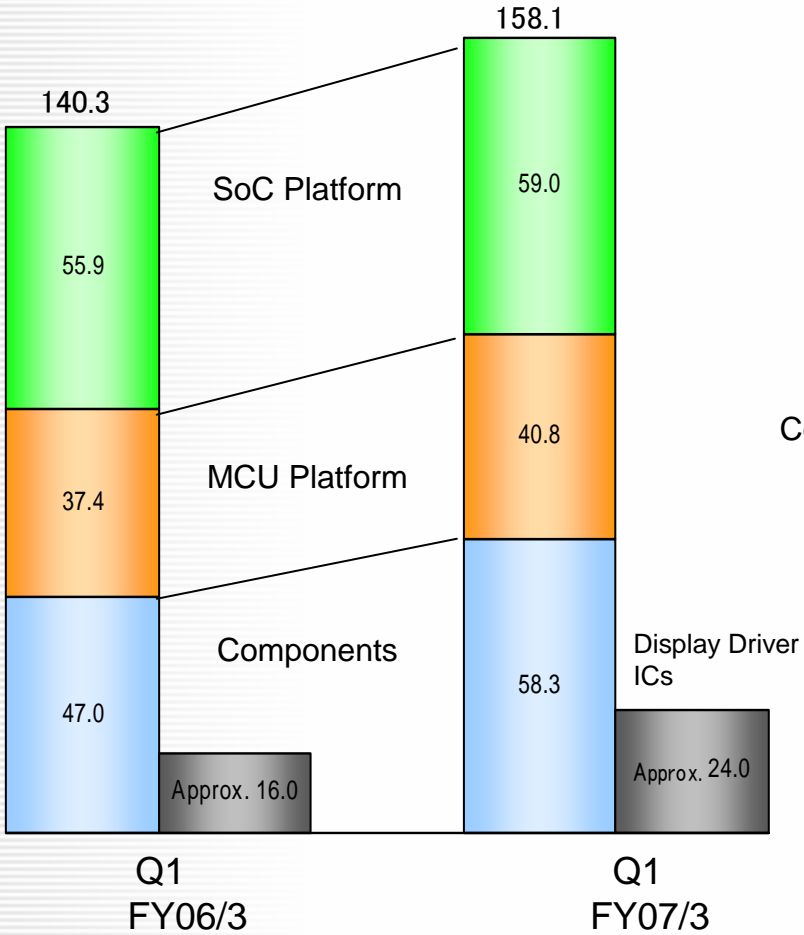
# Year-on-Year Semiconductor Sales



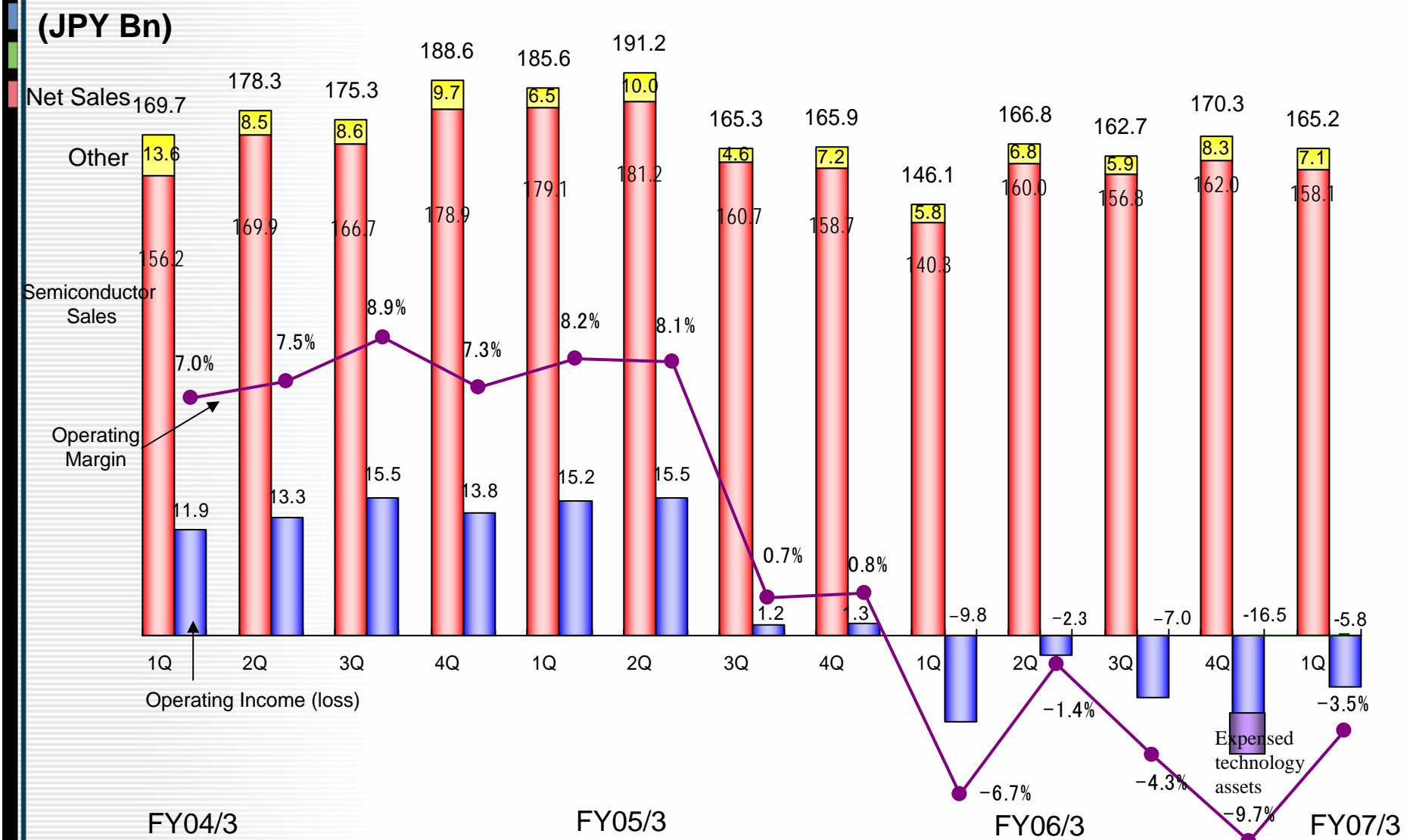
(JPY Bn)

Platform

Application



# Trends in Quarterly Results



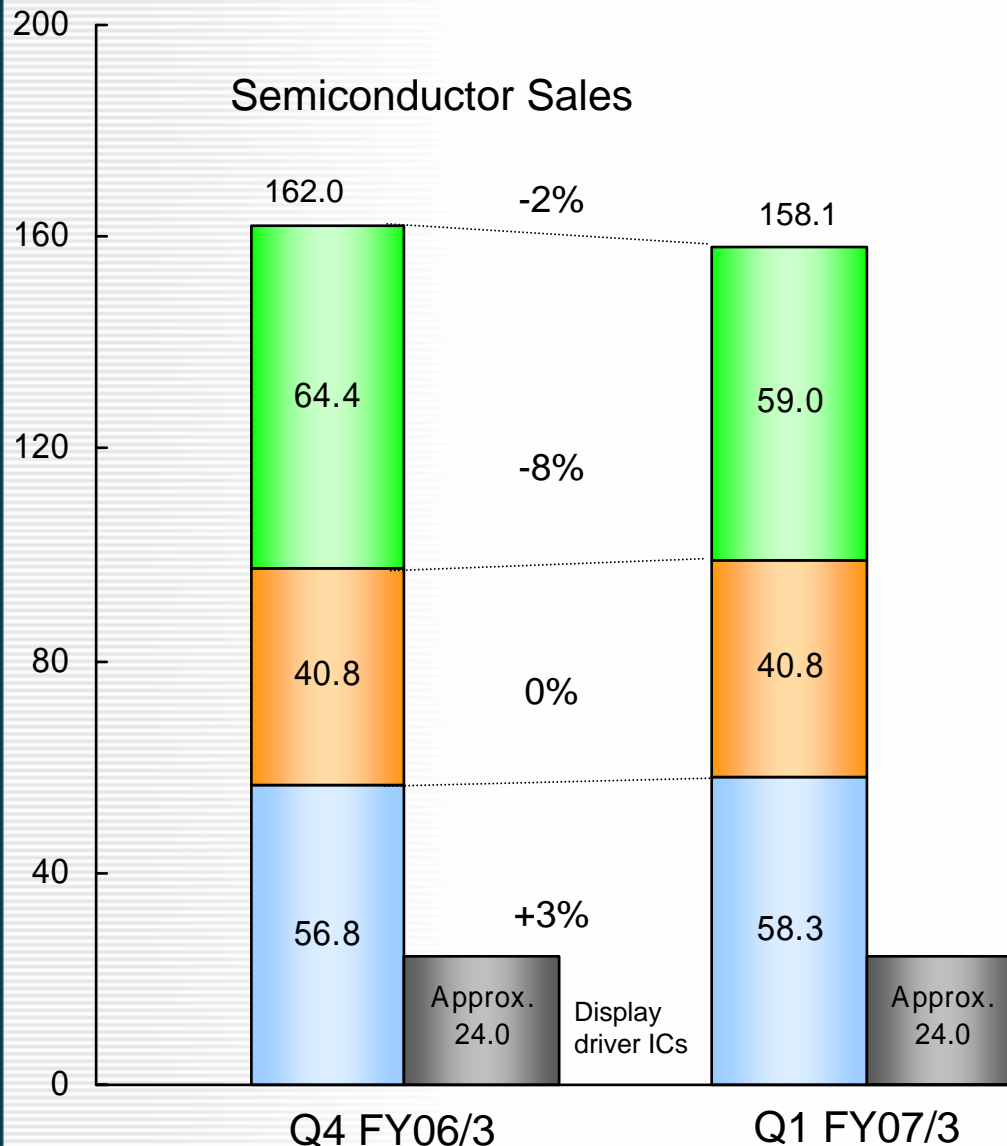
(-4.4% excl. expensed tech. assets)

Note1: Operating Income (loss) = Net Sales - COGS - R&D - SG&A

Note2: Excluding gain due to transfer of the governmental welfare component in the amount of 1.87 billion yen for Q4 FY04/3

# Changes in Q4-Q1 Sales by Platform

(JPY Bn)



## Reasons for changes in Q4-Q1 Sales

### SoC Platform

- A decline in sales of digital baseband LSIs due to production adjustments for mobile handsets in the Japanese market
- A decline in sales of memories for mobile handsets
- A decline in sales of LSIs for DVD drives

### MCU Platform

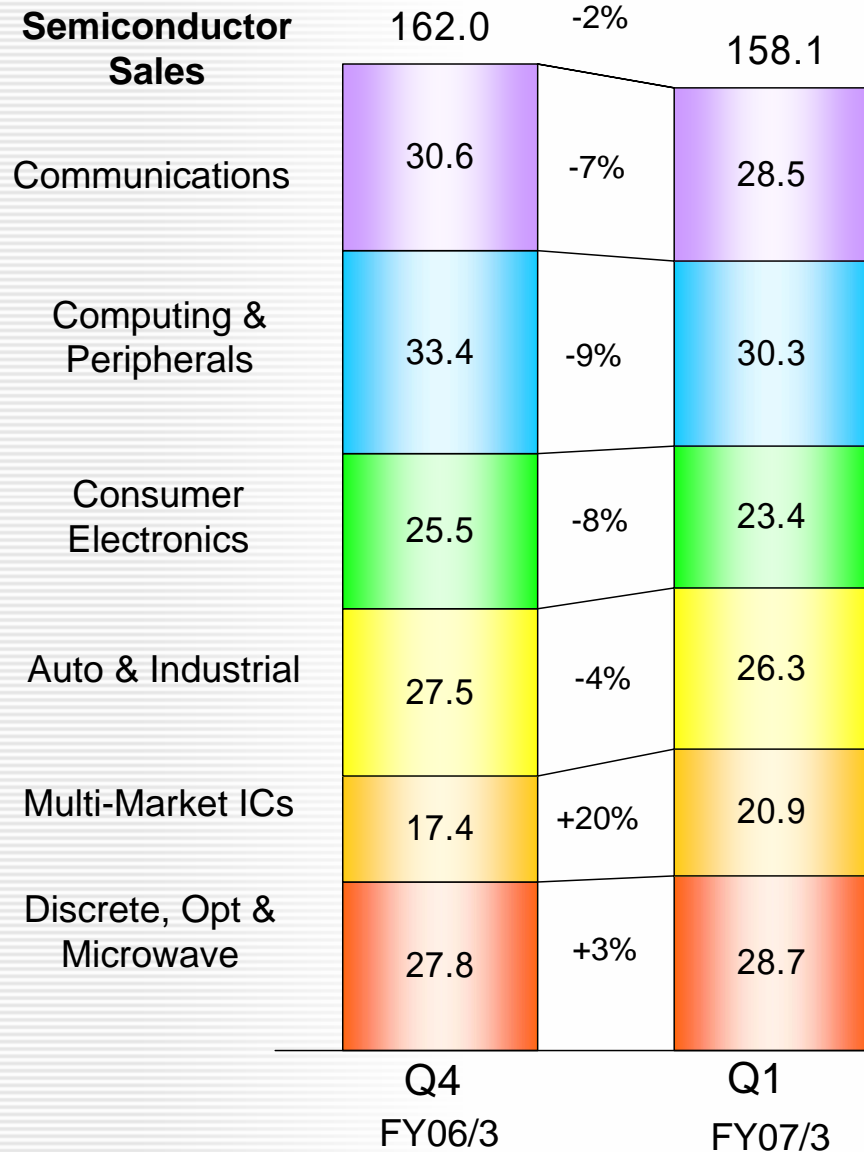
- A recovery in the general-purpose MCU market especially in Asia and Europe
- A decrease in production for Auto MCUs in the Japanese market due to seasonality factors

### Components

- An increase in sales of LCD drivers for small panels due to market share expansion
- A recovery in the discrete market
- A decline in sales of driver ICs for PDP panels

# Changes in Q4-Q1 Sales by Application **NEC**

(JPY Bn)



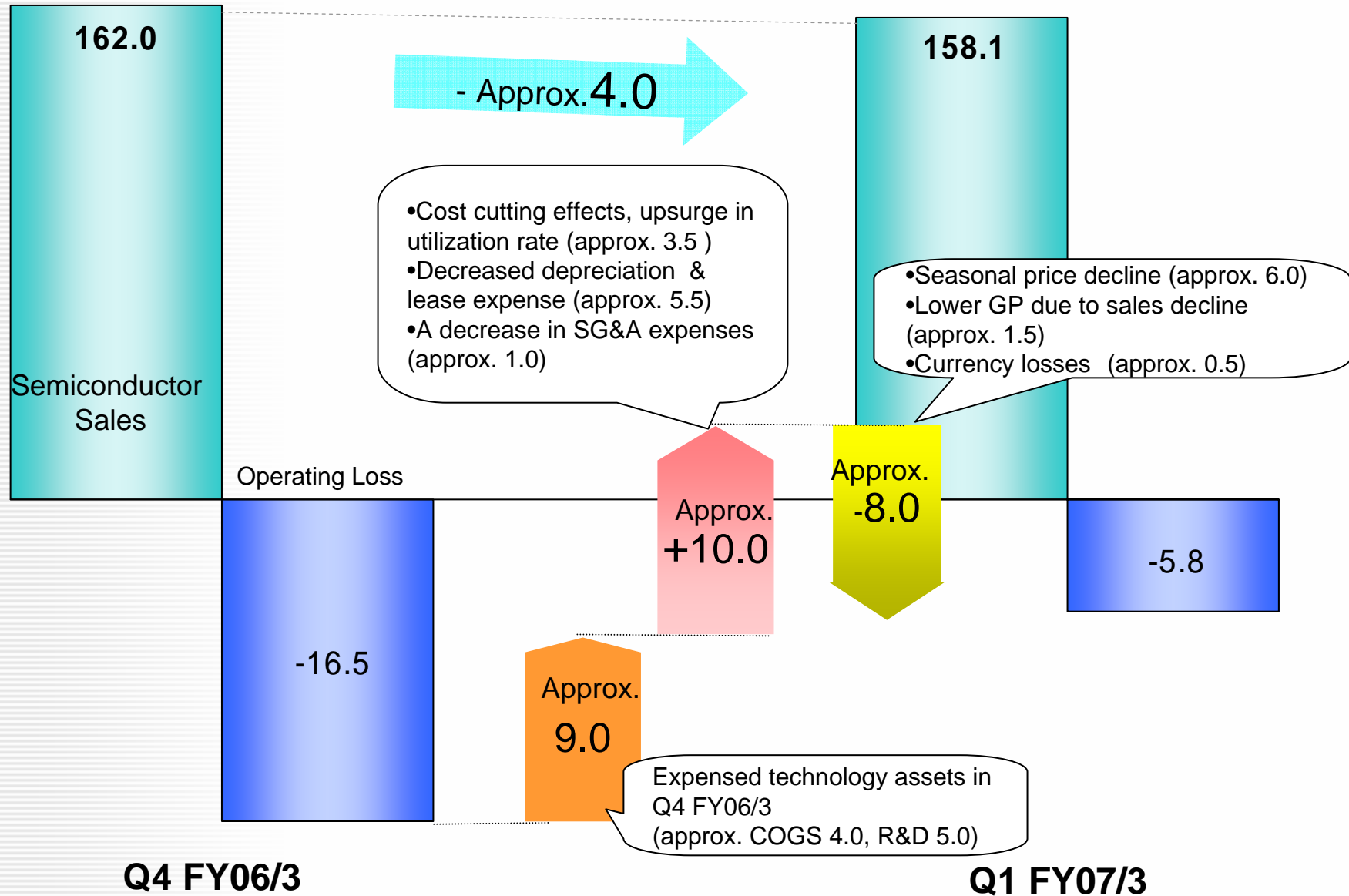
## Reasons for changes in Q4-Q1 Sales

- Sales of digital baseband LSIs for mobile handsets decreased due to production adjustments
- Sales of LCD drivers ICs for mobile handsets increased due to an increase in market share
- Sales of LSIs for DVD drives declined
- Sales of LCD driver ICs for large panel decreased due to inventory adjustments
- Sales of driver ICs for PDP panels decreased
- Sales for automotive area declined in the Japanese market due to seasonality factors
- Sales of MCUs increased, including the All Flash microcontrollers
- A recovery in the discrete market contributed to an increase in sales



# Analysis of Changes in Q4-Q1 Profits

(JPY Bn)



# Balance Sheet

<b>(JPY Bn)</b>		<b>05/6</b>	<b>06/3</b>	<b>06/6</b>
Cash and Cash Equivalents		203.0	211.1	204.8
Accounts Receivable		97.7	113.9	106.5
Inventories		72.2	72.5	76.1
PP&E		332.0	302.1	309.5
Other Assets		82.7	45.7	45.6
<b>Total Assets</b>		<b>787.5</b>	<b>745.3</b>	<b>742.6</b>
Accounts Payable		110.7	122.9	137.5
Debt Payable		151.9	148.3	146.6
Other Liabilities		133.5	161.7	155.1
<b>Liabilities</b>		<b>396.2</b>	<b>432.9</b>	<b>439.3</b>
Minority Shareholders' Equity		3.9	4.1	4.1
Shareholders' Equity		387.3	308.3	299.2
<b>Liabilities and Shareholders' Equity</b>		<b>787.5</b>	<b>745.3</b>	<b>742.6</b>
D/E Ratio (Gross)		0.39	0.48	0.49
Equity Ratio		49%	41%	40%

# Cash Flows

(JPY Bn)	FY06/3			FY07/3
	Q1	Q4	Full Year	Q1
Cash Flows from Operating Activities	1.5	-0.5	49.9	7.8
Cash Flows from Investing Activities	-20.3	-19.2	-54.7	-12.4
Free Cash Flows	-18.8	-19.7	-4.8	-4.6

# Agenda

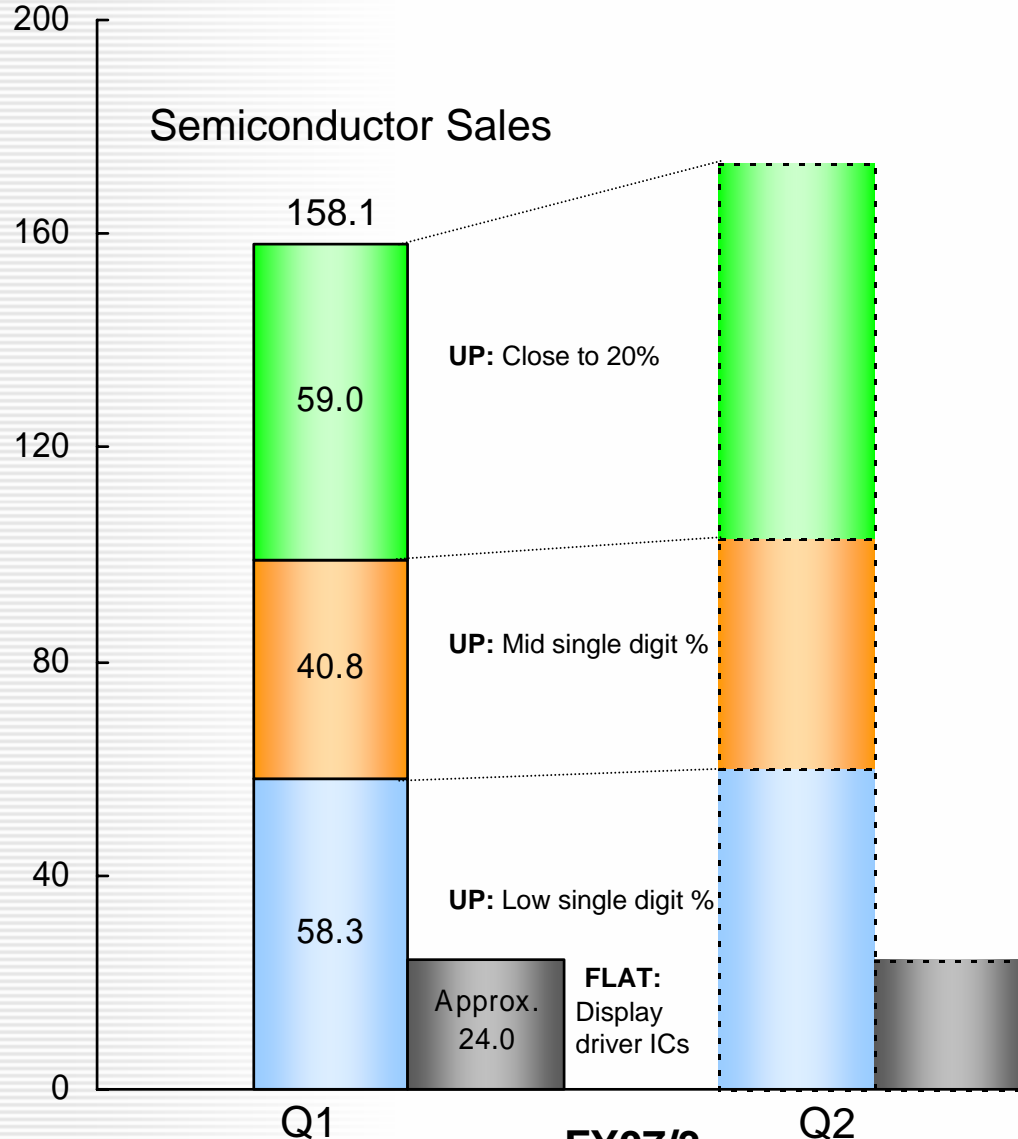
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# Forecast of Q2 Semiconductor Sales by Platform **NEC**

(JPY Bn)



+/- Factors

## SoC Platform

- (+) Launching shipments of LSIs for a new game console, with a ramp-up in capacity for 300mm line in Yamagata
- (+) Expanding sales of LSIs for printers due to seasonality factors
- (-) Adjustments in digital baseband LSIs for mobile handsets continue

## MCU Platform

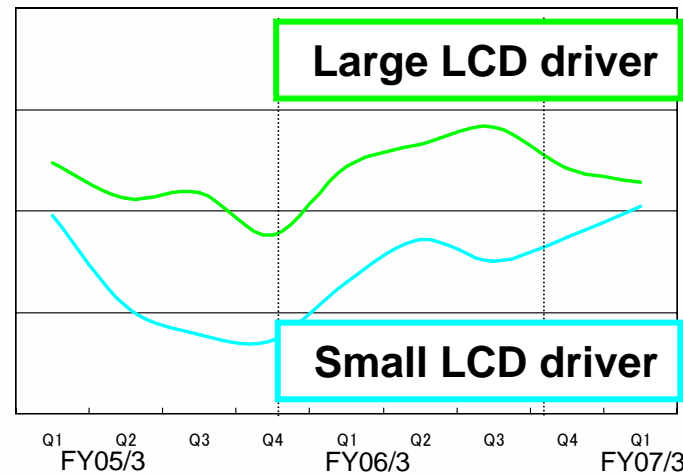
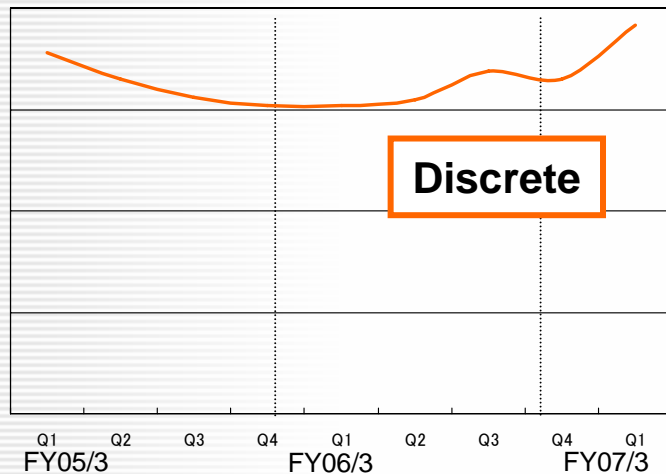
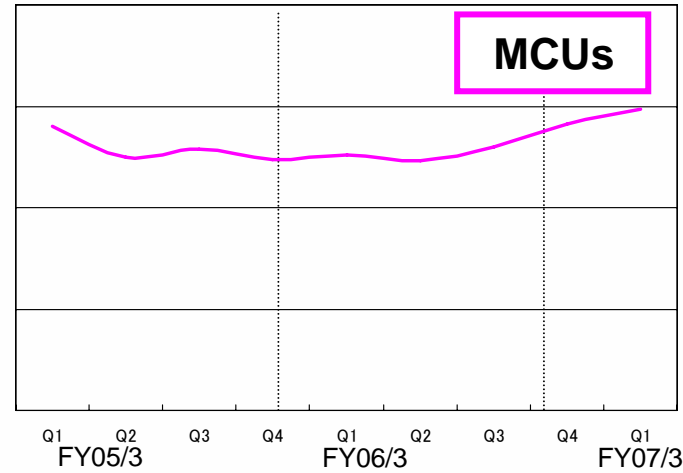
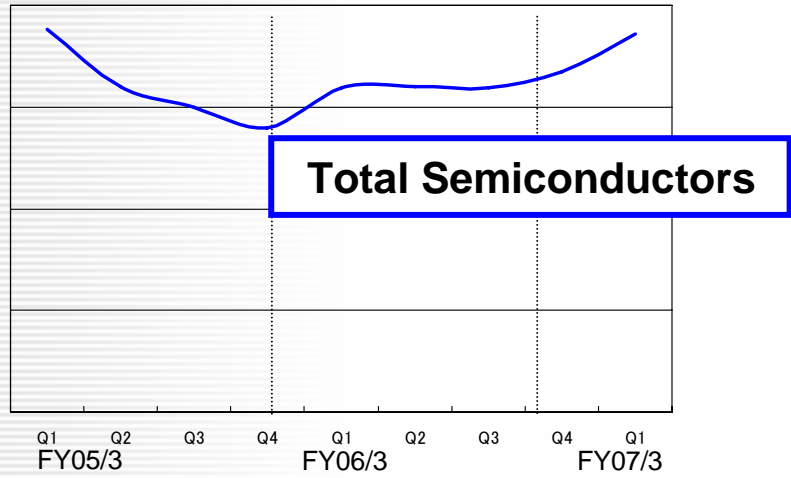
- (+) Expanding sales for Auto due to seasonality factors
- (+) An upward momentum in the general-purpose MCU market continues

## Components

- (+) An upward momentum in the discrete market continues
- (-) Adjustments for LCD driver ICs for large panels continue

# Order Trends (9 quarterly periods)

An upward trend, especially in MCUs and discrete; however, adjustments may occur in consumer electronic and PC related areas in 2H FY07/3



# FY07/3 Forecasts

No change from previous announcements made on April 25th

(JPY Bn)	FY06/3	FY07/3		
		Half Year Forecasts	Full Year Forecasts	YoY
<b>Net Sales</b>	646.0	345.0	705.0	+9.1%
<b>Semiconductor Sales</b>	<b>619.1</b>	<b>330.0</b>	<b>680.0</b>	<b>+9.8%</b>
<b>Operating Income (loss)</b>	<b>-35.7</b>	<b>-5.0</b>	<b>5.0</b>	<b>+40.7</b>
<b>Operating Margin</b>	-5.5%	-1.4%	0.7%	+6.2%
<b>EBT</b>	-42.4	-7.0	0	+42.4
<b>Net Income (loss)</b>	-98.2	-9.0	-5.0	+93.2
<b>Net Income Margin</b>	-15.2%	-2.6%	-0.7%	+14.5%
<b>EPS</b>	-795.1 yen	-64.8 yen	-40.5 yen	+754.6 yen

Note 1: Operating Income (loss) = Net Sales – COGS – R&D – SG&A

Note 2: Average exchange rate for FY06/3 was calculated at US\$1=112 yen, 1 Euro=138 yen. Forecasts for FY07/3 is calculated at US\$1=115 yen, 1 Euro=140 yen for the first half of fiscal year, and US\$1=110 yen, 1 Euro=135 yen for the second half of fiscal year

Note 3: FY07/3 forecasts are as of July 26th, 2006.

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# Measuring Our Progress

Expanding orders and sales

Lower cost to sales ratio with capacity increase and higher utilization rate

2<sup>nd</sup> Half FY07/3

Develop Stronger Products and Recover Profitability

**NEC**  
NEC Electronics Corporation