FY08/3 Second Quarter (July to Sept.) Q&A

Q1: How were Q2 results compared to the Company's expectations?

A1: Semiconductor sales for Q2 were 169.1 billion yen, a 2% increase quarter on quarter. Although sales for general-purpose microcontrollers, including All Flash microcontrollers, were strong, sales of LSIs for printers and DVD drives were weak, resulting in lower than expected overall sales. Operating income was 4.1 billion yen, a 6.3 billion yen increase year on year, after recording nine consecutive quarters of operating losses. All in all, although sales did not quite reach the Company's guidance announced on July 30, 2007, (which indicated a mid-single digit increase in semiconductor sales quarter on quarter) there were reductions in R&D expenses and currency gains, contributing to better than expected results on a profit basis.

Q2: What is the outlook for Q3 (Oct. to Dec.)?

A2: Semiconductor sales for Q3 are expected to be flat or a little decrease quarter on quarter. Sales of driver ICs for televisions and PCs as well as sales of LSIs for digital cameras are expected to decline. There are increases in R&D and depreciation and possible impact from foreign exchange, which negatively affect profits. However, we will implement measures to cut fixed costs to attain operating profits.

Q3: What is the impact from currency fluctuations?

A3: On an operating income (loss) basis, the impact from 1 yen fluctuation is approximately 100million yen per month for U.S. dollars. The impact from Euro is very small. For the first half of the fiscal year (April to September), there was currency gains in the amount of approximately 3.5 billion yen. (Estimated Exchange rates: 115 yen per 1 U.S. dollars; Actual Exchange Rates: 120 yen per 1 U.S. dollars)

Q4: Is NEC Electronics more confident in its goal to attain profits for FY08/3?

A4: The first half financial results exceeded the Company's expectations, recording operating profits in both second quarter and the first half. However, we are careful in assessing our business conditions for the second half, considering uncertain market conditions particularly in the fourth quarter. NEC Electronics has decided not to change the full-year forecasts. We are fully committed to operate our business in order to secure operating profits into the third and fourth quarter, and aim for further improvements in financial performance.

Q5: How did NEC Electronics progress on measures to reduce 20 billion yen year on year so far?

A5: During the first six months of the fiscal year, we concentrated on selecting and focusing items when spending CAPEX and R&D. In addition, we implemented salary cut for management and employees which contributed to reductions in personnel costs. We are further reducing CAPEX by approximately 10 billion yen due to enhanced investment efficiency in testing and assembly, and R&D by 4 billion yen, compared to the original estimates announced on May 14, 2007. The estimates for CAPEX and R&D for the fiscal year ending March 2008 are now approximately 60 billion yen and 118 billion yen, respectively.