FY08/3 Q1 Financial Results and Outlook

NEC Electronics Corporation

July 30, 2007

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

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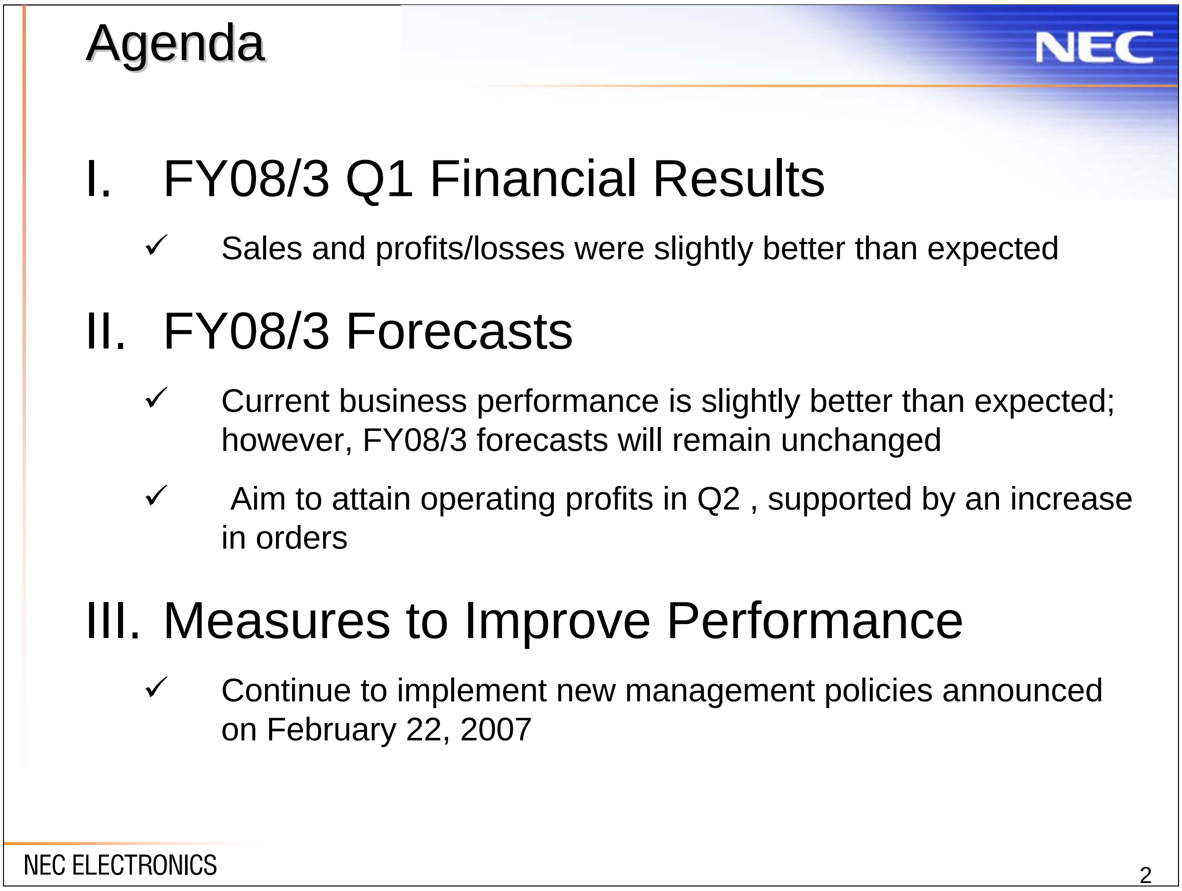
Welcome to NEC Electronics' webcast.

My name is Hank Sato, CFO of NEC Electronics.



Slide 2 provides an overview of the points we will discuss today.

First, financial results for the first quarter were slightly better than expected, both in terms of sales and profits.

Second, we have not changed the forecasts for the fiscal year ending March 31, 2008. Although our business performance is recovering, we took into consideration that the semiconductor market conditions remain uncertain in the latter half of the fiscal year. We aim to attain operating profits for the second quarter.

Third, we will explain progress being made on the new management policies.

I. FY08/3 Q1 Financial Results

II. FY08/3 Forecasts

III. Measures to Improve Performance

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Let me begin with the summary of the first quarter financial results, shown on slide 4.

Financial Snapshot

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(B Yen)	FY07/3 Q1 June 30 Actual	FY07/3 Q4 March 31 Actual	FY08/3 Q1 June 30 Actual	FY08/3 Q1 June 30 YoY	FY08/3 Q1 June 30 QoQ
Net Sales	165.2	171.4	173.6	+8.3	+2.2
Semiconductor Sales	158.1	160.8	165.0	+6.9	+4.2
Operating Income (Loss)	-5.8	-17.8	-2.2	+3.5	+15.6
Income (Loss) Before Income Taxes	-4.8	-26.3	0.4	+5.3	+26.7
Net Income (Loss)	-6.1	-28.4	-1.3	+4.8	+27.0
Free Cash Flows	-4.6	-17.6	-5.9	-1.2	+11.7
D/E Ratio	0.49	0.51	0.50	-	-
Shareholders' Equity Ratio	40%	38%	39%	-	-
Exchange Rates	US$1 = 115 yen 1 Euro = 142 yen	US$1 = 119 yen 1 Euro = 156 yen	US$1 = 119 yen 1 Euro = 160 yen		

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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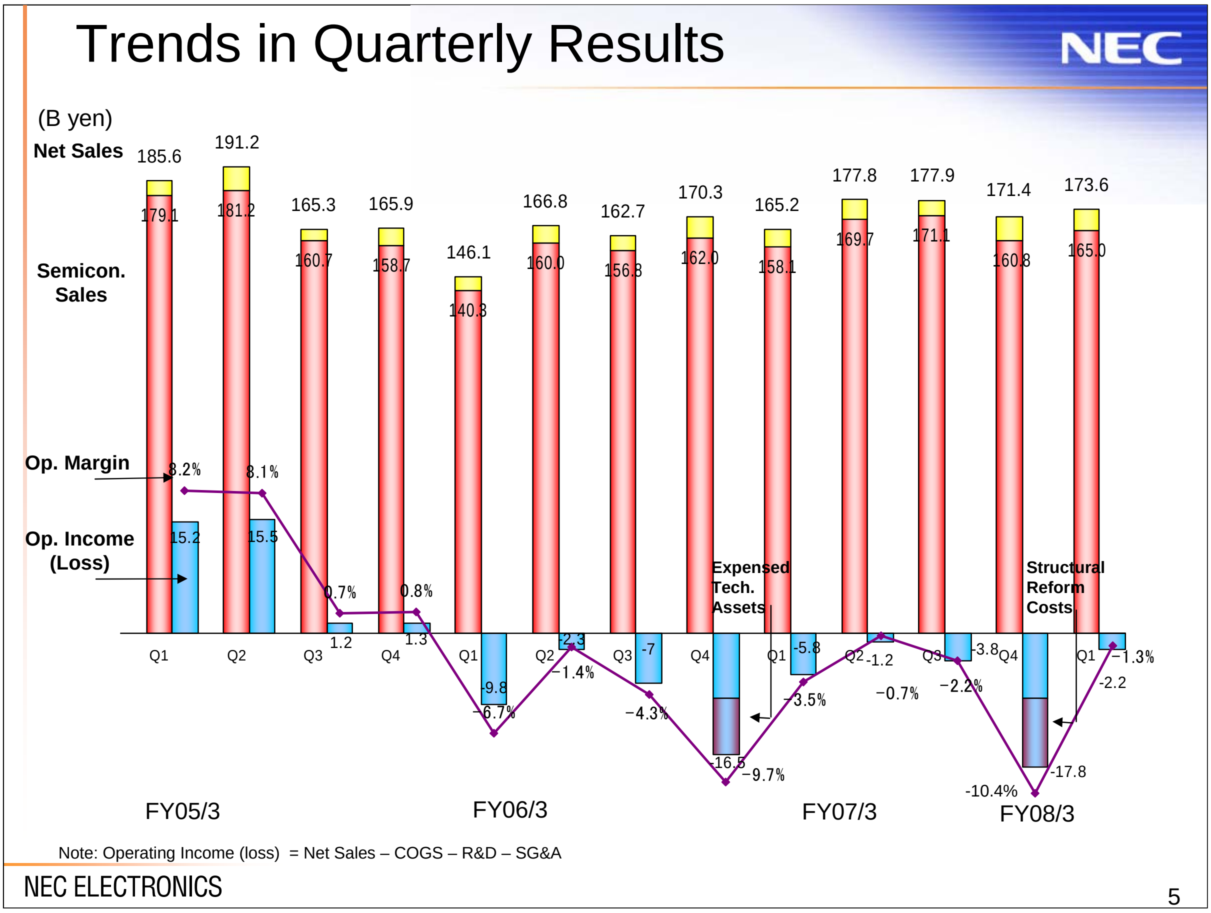
Net sales were 173.6 billion yen, 5% growth year on year.

Semiconductor sales were 165.0 billion yen, and operating loss was 2.2 billion yen, a 4.2 billion yen increase and a 15.6 billion yen improvement respectively compared with the previous quarter.

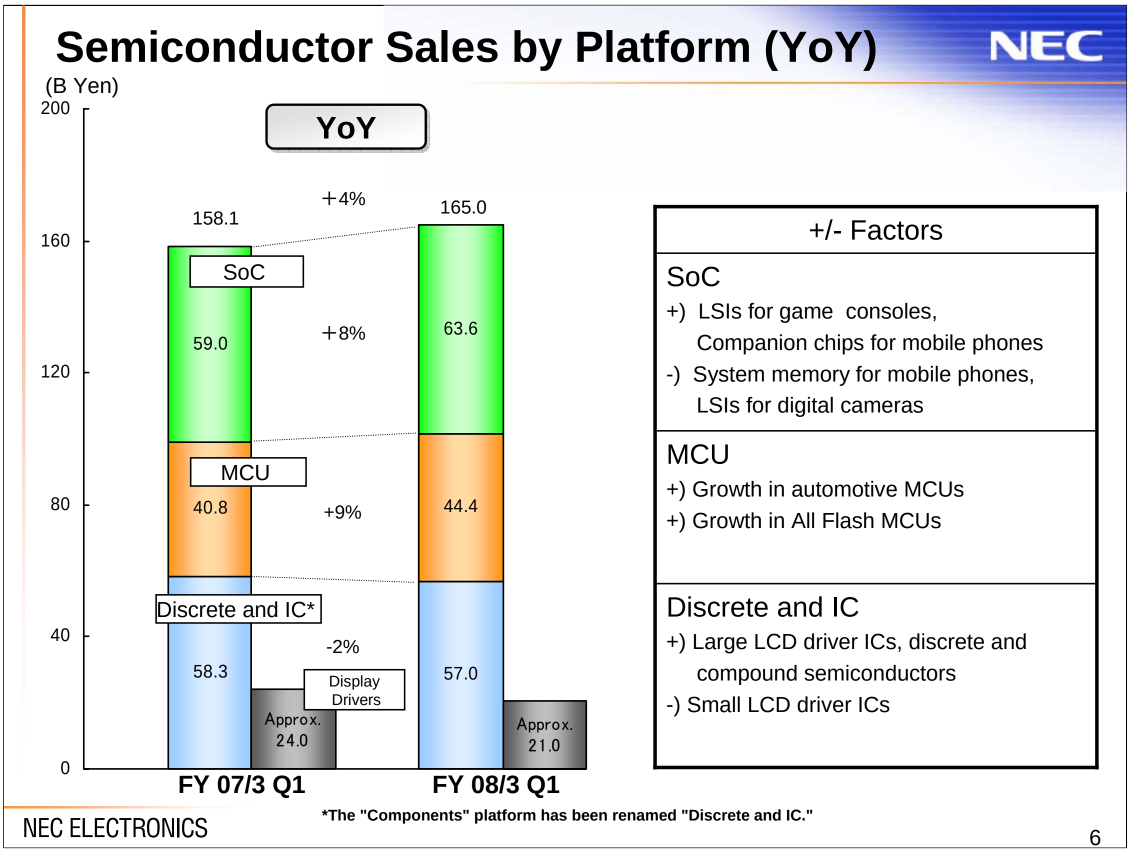
After 9 quarters of loss before income taxes, we recorded income before income taxes in the first quarter, mainly due to income from the sale of the photomask business.

Net loss was 1.3 billion yen mainly due to recognition of provision for income taxes for subsidiaries outside of Japan and others.



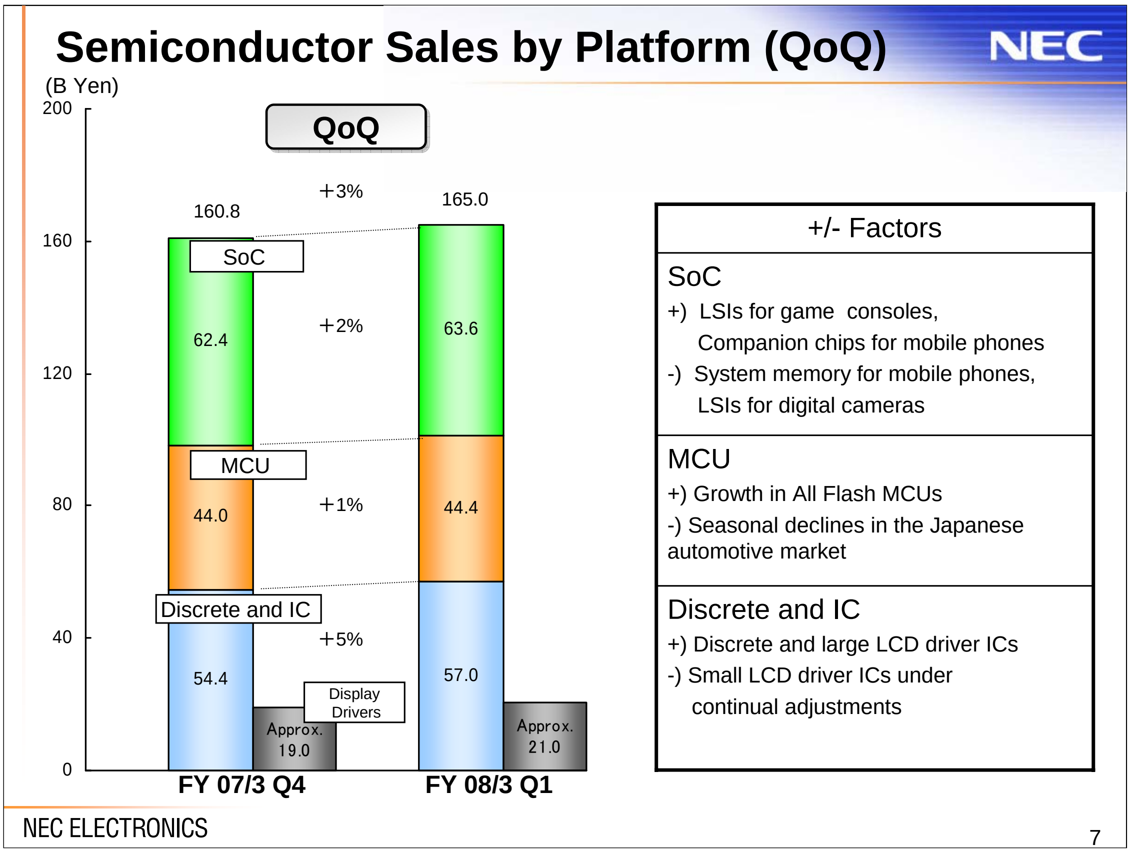
Slide 5 shows trends in quarterly sales.

In the first quarter, an increase in semiconductor sales, and reduction of costs, such as fixed costs, led to smaller operating loss.



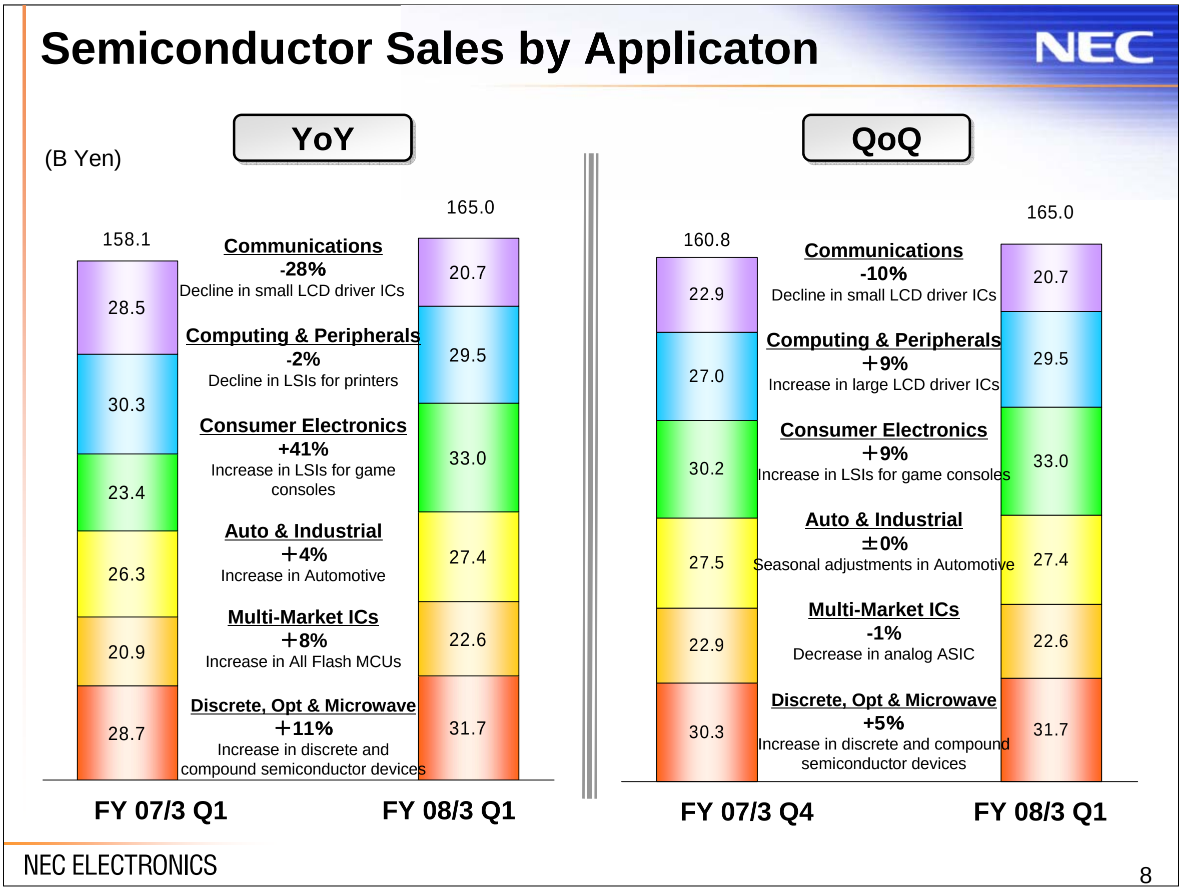
The next slide shows a year-on-year comparison of first quarter sales, according to platform.

There was a decline in sales for driver ICs for small panels, however, sales of LSIs for game consoles and microcontrollers increased, pushing overall semiconductor sales to increase by 4 percent.



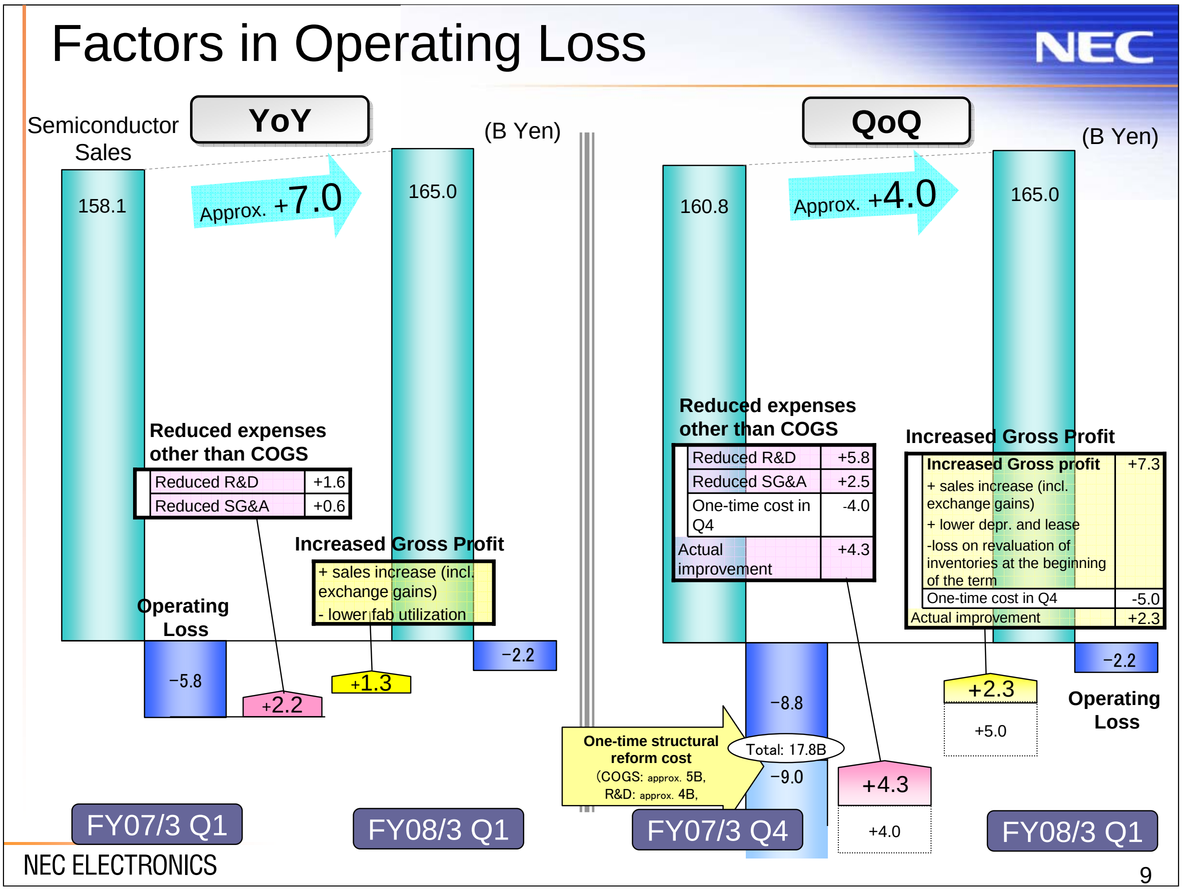
Slide 7 shows a quarter-on-quarter comparison of first quarter sales.

At the beginning of the term, we expected sales to decline slightly, however, sales of LCD driver ICs for large panels and chips for game consoles increased more than expected, and we ended the quarter with better-than-expected results.



The next slide shows first quarter sales by application.

First quarter sales for Communications declined both year on year and quarter on quarter. On the other hand, Consumer Electronics and Discrete, Optical and Microwave showed significant growth in sales.



Slide 9 shows year-on-year and quarter-on-quarter comparisons of operating loss for the first quarter.

Year on year, there were reductions in fixed costs such as R&D, as well as profits from an increase in sales. However, lower production levels in the previous quarter affected fab utilization for this first quarter, leading to limited cost reduction.

Quarter on quarter, there was an overall improvement of 15.6 billion yen in operating loss. Excluding structural reform costs in the fourth quarter, there was a

1. 4.3 billion yen improvement from lower R&D and SG&A expenses
2. 2.3 billion yen improvement in gross profit. This was due to increased profits from sales increase and lower depreciation and lease, and loss on revaluation of inventories at the beginning of term.

All in all, there was a 6.6 billion yen improvement on an operating basis, resulting in operating loss of 2.2 billion yen for the first quarter.

Items in Non-Operating Income

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Item	Amount	Description	
Interest and dividend Income	0.5 B yen		
Other	3.2 B yen	Gains on the sale of the photomask business and assets	•NEC Fabserve, a wholly-owned subsidiary, transferred its photomask business to Dai Nippon Printing Co., Ltd. in June, 2007 •The name of the new company established: DNP Fine Electronics Sagamihara Co. Ltd.
		Others	•Disposal of idle assets •Others including foreign exchange gains
Non-Operating Income	3.7 B yen		

Slide 10 shows items included in non-operating income.

As we announced through press release, NEC Fabserve, a wholly-owned subsidiary of NEC Electronics, transferred its photomask business to Dai Nippon Printing Co. Ltd., as of June 1, 2007. We recorded gains on the sale of the photomask business and assets under Other income.

Balance Sheet

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	06/06	07/03	07/06
Cash and Cash Equivalents	204.8	185.4	177.3
Accounts Receivable	106.5	99.5	104.2
Inventories	76.1	82.6	83.4
PP&E	309.5	292.8	287.9
Other Assets	45.6	35.6	37.1
Total Assets	742.6	695.9	690.0
Accounts Payable	137.5	132.5	127.3
Debt Payable	146.6	136.0	133.7
Other Liabilities	155.1	157.5	155.5
Liabilities	439.3	426.0	416.6
Minority Shareholders' Equity	4.1	4.8	4.7
Shareholders' Equity	299.2	265.1	268.7
Liabilities and Shareholders' Equity	742.6	695.9	690.0

D/E Ratio (Gross)	0.49	0.51	0.50
Equity Ratio	40%	38%	39%

Reference

Deferred Tax Assets	10.5	10.7	11.9
Deferred Tax Liabilities	9.9	10.9	13.0

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The balance sheet is shown on slide 11.

Total assets at the end of June were 690.0 billion yen, a decrease in the amount of 5.9 billion yen from the end of March, 2007. This is mainly due to an 8.0 billion yen decrease in cash and cash equivalents for payment of materials purchased in the previous quarter.

Inventories remained at the same level as the previous quarter, where there were production adjustments, at 83.4 billion yen.

Shareholders' equity was 268.7 billion yen, an increase of 3.6 billion yen from the end of March. This is due to 3.5 billion yen in foreign currency translation adjustments, despite recording net loss of 1.3 billion yen.

Cash Flows

(B yen)	FY07/3			FY08/3
	Q1	Q4	Full Year	Q1
Cash Flows from Operating Activities	7.8	12.7	66.7	1.5
Cash Flows from Investing Activities	-12.4	-30.3	-78.5	-7.3
Free Cash Flows	-4.6	-17.6	-11.8	-5.9

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Slide 12 shows cash flows.

Cash flows from operating activities for the first quarter were 1.5 billion yen. Despite recording net loss and a decrease in account payable, there were 17.7 billion yen of depreciation contributing to cash flows.

Cash flows from investing activities were negative 7.3 billion yen. Despite gain on sales of photomask business and the assets, there were 14.4 billion yen in payments for purchasing property, plant and equipment.

Free cash flows were negative 5.9 billion yen for the first quarter.

I. FY08/3 Q1 Financial Results

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Next we will discuss the full-year financial forecasts for the fiscal year ending March 2008 on slide 14.

FY08/3 Forecasts

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FY08/3 forecasts remain unchanged from the previous announcement on May 14, although financial results for Q1 were slightly better than expected

(B yen)	FY07/3		FY08/3		
	Half Year	Full Year	Half Year	Full Year	
	Actual	Actual	Forecast	Forecast	YoY
Net Sales	343.0	692.3	335.0	690.0	-2.3
Semiconductor Sales	327.8	659.7	325.0	670.0	+10.3
Operating Income (Loss)	-6.9	-28.6	-5.0	0.0	+28.6
Income (Loss) Before Income Taxes	-5.6	-35.4	-12.0	-10.0	+25.4
Net Income (Loss)	-7.4	-41.5	-15.0	-15.0	+26.5

Exchange Rates	US$1 = 115 yen 1 Euro = 145 yen	US$1 = 117 yen 1 Euro = 149 yen	US$1 = 115 yen 1 Euro = 150 yen	2 yen stronger/ US$ 1 yen weaker / Euro

Note 1: Operating Income (Loss) = Net Sales – COGS – R&D – SG&A.
Note 2: Forecasts as of July 30, 2007.

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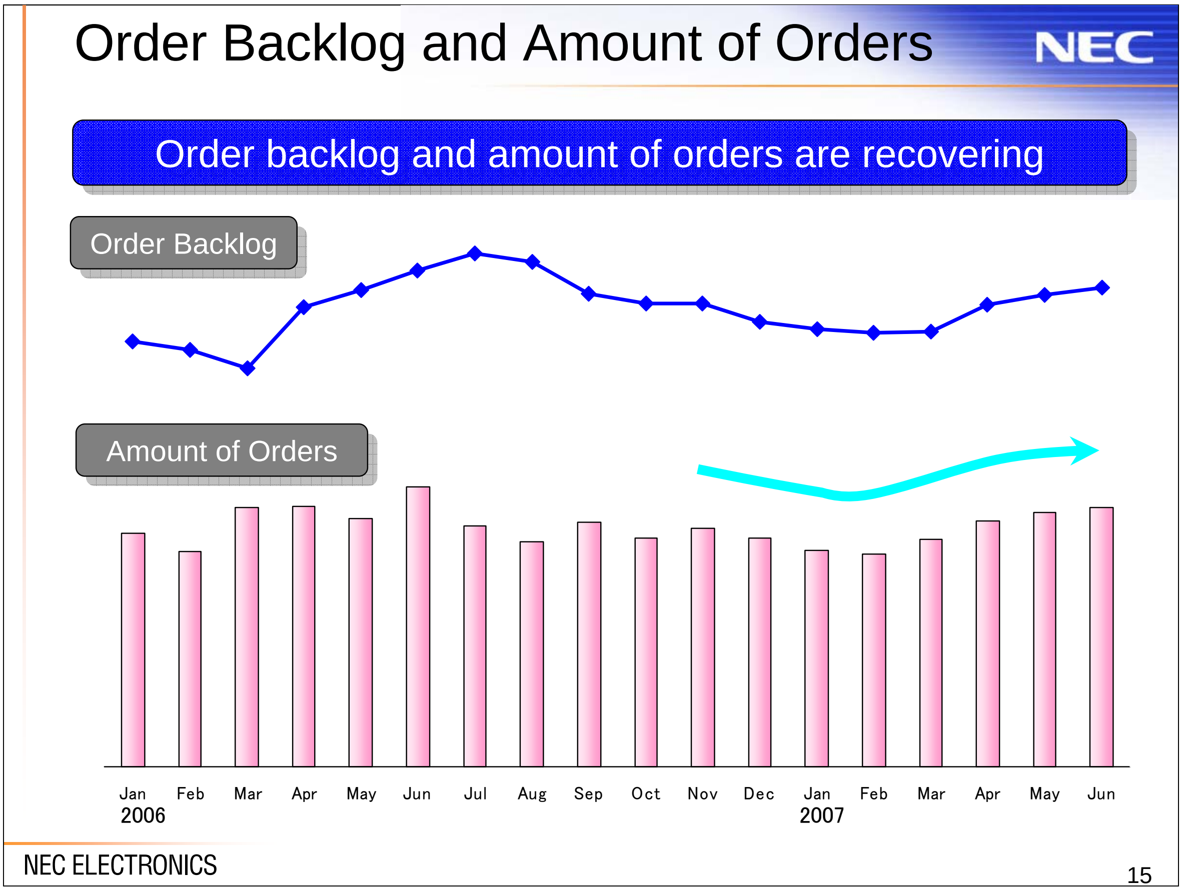
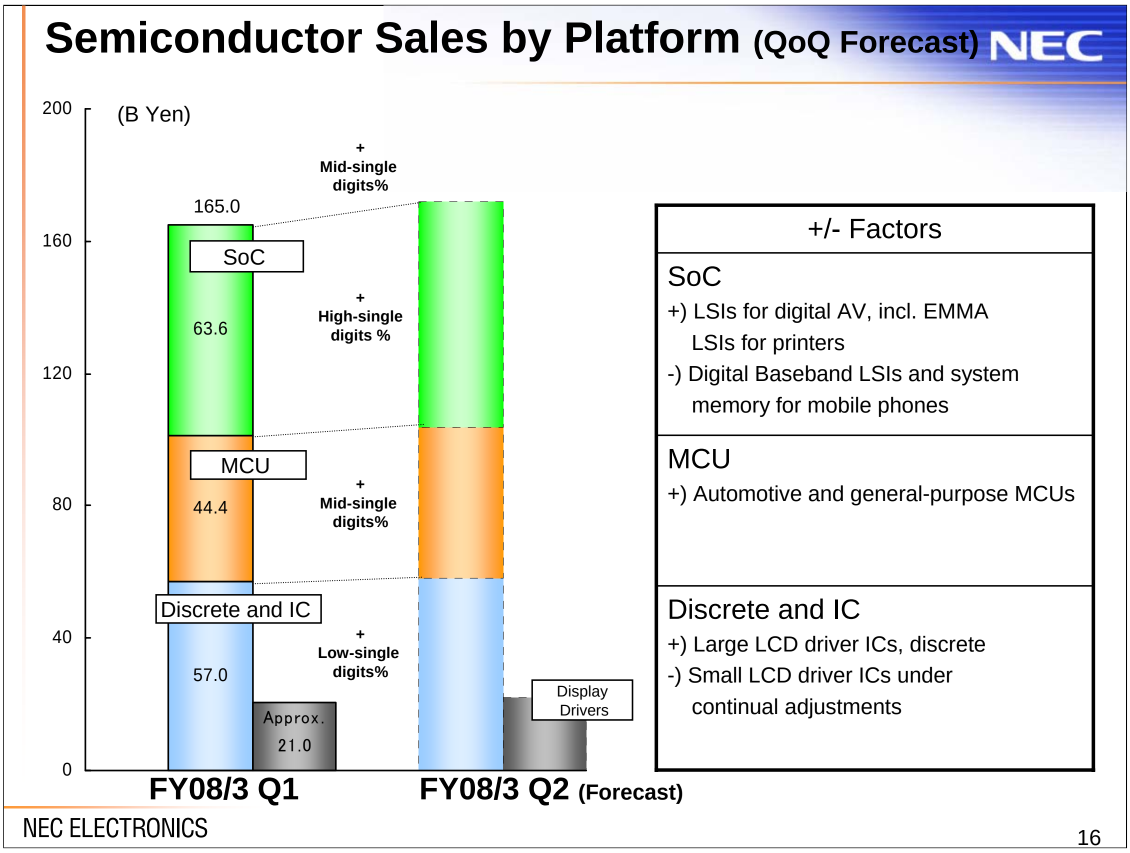
As we have discussed earlier in the presentation, our financial results for the first quarter were slightly better than expected so far.

However, considering the uncertainty of the semiconductor market for the latter half of the fiscal year, we have not changed the financial forecasts for the fiscal 2008, both mid-term and full-year.



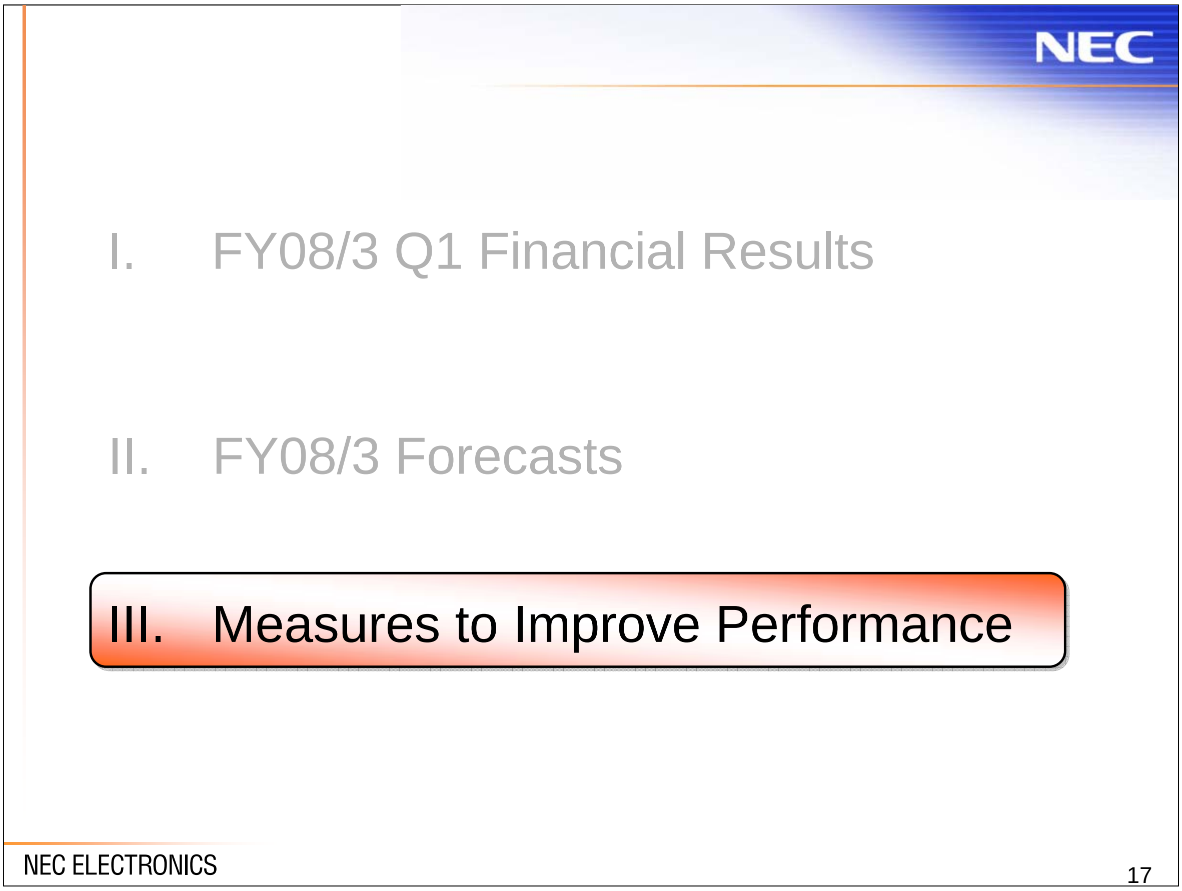
Slide 15 shows monthly trends in order backlog and orders. As you can see, both order backlog and orders are improving steadily. The SoC, MCU and Discrete and IC platforms all showed upward trends.

On the other hand, the upward trends are leveling off in July, and we will carefully assess business conditions in the latter half of the fiscal year.



As we mentioned earlier, forecasts for the fiscal 2008 will remain unchanged, but we aim to increase semiconductor sales quarter on quarter, and to attain profits on an operating basis in the second quarter.

Although we expect sluggish sales for mobile phones, we anticipate sales growth in SoC, particularly for digital consumer applications, and automotive microcontrollers.



Finally we will discuss progress on implementing our new management policies on slide 18.

Progress of New Management Policies (Announced on Feb. 22, 2007)

Executing New Management Policies

Item	Primary Measures	Status
Reallocate development resources	Reduce technology outsourcing costs roughly equivalent to 600 people	Completed
	Shift development resources equivalent to approx. 400 employees	Halfway Complete (Expect to complete all 400 by the end of the fiscal year)
Reorganize front-end lines	Phase out 8-inch manufacturing in Yamagata by the end of CY2008 and reallocate equipment	Begun notifying customers
	Shift production from 6-inch lines in Kyushu and Kansai to 8-inch lines	Underway
Shift back-end production overseas	Ratio of back-end production overseas (unit base) FY07/3: approx. 45% → FY09/3: approx. 65%	Underway
Corporate reorganization	Established 3 business units (SoC, Microcomputer, and Discrete and IC), enhance profit management by business unit	Completed
Reduce Fixed Costs for FY08/3	Reduce technology outsourcing, fixed production costs by limiting CAPEX etc, and other fixed costs including personnel costs	Underway Aim to reduce by 20B yen from FY07/3

(Status as of July 30, 2007)

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We would like to point out in particular, the measures involving production reorganization.

With regard to reorganizing front-end production lines, we will phase out operations at the Yamagata 8-inch fabrication line by the end of calendar year 2008, and we began notifying customers in preparation for the event. For the 6-inch lines at Kyushu and Kansai, we are carrying forward with plans to shift production to 8-inch lines.

In addition, we set our goal to increase back-end production overseas from 45 percent last fiscal year to 65 percent by March 2009, mainly shifting production to NEC Semiconductors Malaysia.

We are implementing other measures proactively, such as reallocating development resources and reducing fixed costs.

Notice Concerning the Ratio of Shares Held by the "Special Few"

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<u>Notice issued by the Tokyo Stock Exchange (TSE) concerning the ratio of the number of shares held by the “Special Few” on July 10, 2007.</u>

•NEC Electronics’ shares held by the “Special Few”* as of March 31, 2007 exceeded 75%, meeting the TSE’s criteria for delisting.

•The company's shares are now in a grace period for the purpose of delisting from April 1, 2007 to March 31, 2008.

✓The TSE announced a "Comprehensive Improvement Program for Listing System 2007" on June 22, 2007, and if these new criteria are implemented, it is expected that NEC Electronics will <u>no longer meet the criteria for delisting</u>.

✓We will continue to carefully monitor the changing criteria, and work diligently to maintain our listing on the TSE.

*The ratio of the number of a company's shares held by the "special few" is defined under TSE rules as the aggregate number of shares owned by the ten largest shareholders (minus the number of shares deemed evidently as those not owned for firmly-committed purposes), the shares owned by the officers of the company, and the listed company itself if it owns treasury stock, divided by the number of listed shares.

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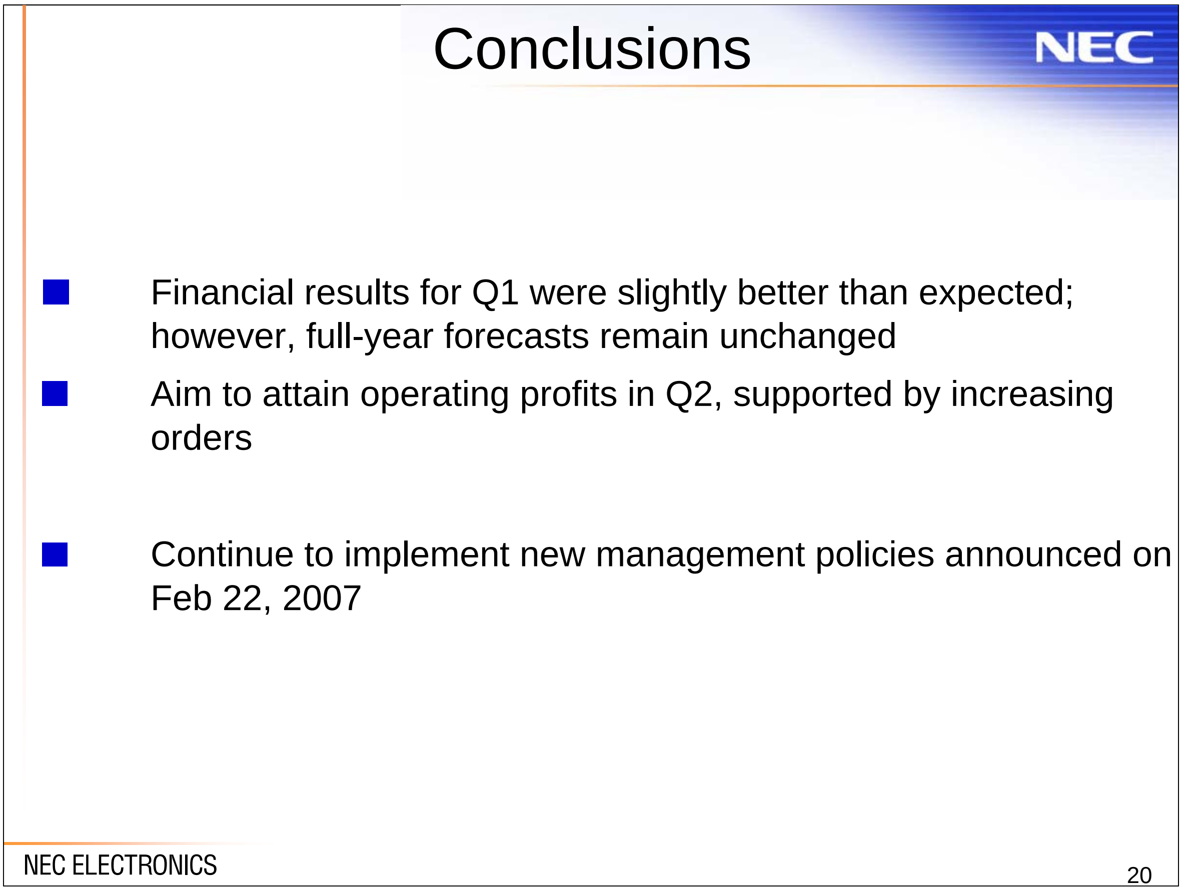
Next, we would like to take a moment to refer to the notice concerning the ratio of our shares held by the "Special Few,” in slide 19.

According to the Tokyo Stock Exchange (TSE), the ratio of the number of NEC Electronics’ shares held by the "special few" as of March 31, 2007 exceeded 75 percent, meeting the TSE's criteria for delisting. Accordingly, as announced by the TSE on July 10, the company's shares are now in a grace period for the purpose of delisting from April 1, 2007 to March 31, 2008.

However, the TSE announced a "Comprehensive Improvement Program for Listing System 2007" on June 22, 2007, and if these new criteria are implemented, it is expected that our shares will no longer meet the criteria for delisting.

While we believe our shares will not be delisted under the new criteria, we will nonetheless continue to carefully monitor the changing criteria, and work diligently to maintain our listing on the TSE.



In closing, although our results for the first quarter exceeded our expectations, we have not made any changes to the financial forecasts for the mid-term nor the full-year for the fiscal year ending March 2008.

We aim to attain operating profits for the second quarter, supported by increasing orders.

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.

Finally, before we conclude, please be sure to review the cautionary statements. Thank you very much for joining us today.