Measures Toward Recovery

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President and CEO
NEC Electronics Corporation

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## Revised Forecasts for FY07/3

<table>
<thead>
<tr>
<th>JPY Bn</th>
<th>Net Sales</th>
<th>Operating Income (Loss)</th>
<th>EBT</th>
<th>Net Income (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous forecasts</td>
<td>695.0</td>
<td>-7.0</td>
<td>-19.0</td>
<td>-25.0</td>
</tr>
<tr>
<td>Revised forecasts</td>
<td>690.0</td>
<td>-30.0</td>
<td>-39.0</td>
<td>-45.0</td>
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<tr>
<td>Increase (decrease)</td>
<td>-5.0</td>
<td>-23.0</td>
<td>-20.0</td>
<td>-20.0</td>
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<tr>
<td>Results for FY06/3</td>
<td>646.0</td>
<td>-35.7</td>
<td>-42.4</td>
<td>-98.2</td>
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**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
Factors Contributing to Current Situation

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
Measures Toward Recovery

I. Focus resources on automotive and digital consumer

• Cancel or convert approximately 1,000 engineers’ projects
  Aim to the 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
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
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
Sales Breakdown and Future Areas of Focus

**Current Sales Breakdown (%):**

- **Multi-Market ICs**: Includes multi-purpose chips for automotive and consumer electronics.
- **Auto & Industrial**: Mainly microcontrollers and power management devices.
- **Communications**: EMMA™ products, LSIs for digital cameras and game consoles.
- **Consumer Electronics**: Increasing sales of chips used in handheld consumer devices.
- **Computing and Peripherals**: Increasing sales for the consumer market, such as chips for DVD drives, printers, LCD driver ICs.
- **Discrete, Opt & Microwave**: Increasing sales for the consumer market, such as chips for DVD drives, printers, LCD driver ICs.
Expand Core Areas to Over 70% of Chip Sales

Breakdown of Semiconductor Sales

Breakdown by end market
Define and re-sort products which fall under “Others”

Auto
22% (CY09)

70% CY09

Digital Consumer
48% (CY09)

CY06 60%

Computing & Peripherals

61%

Consumer Electronics

20% CY09 estimate

Auto & Industrial

16% CY06

14% CY03

Others
Communications, Multi-purpose ICs, Discrete, optical and others

Communications, Multi-purpose ICs, Discrete, optical and others

70% CY09

Auto
22% (CY09)

Digital Consumer
48% (CY09)

CY06 60%

Computing & Peripherals

61%

Consumer Electronics

20% CY09 estimate

Auto & Industrial

16% CY06

14% CY03

Others
Communications, Multi-purpose ICs, Discrete, optical and others

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70% CY09

Auto
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Digital Consumer
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CY06 60%
Shift Resources to Core Areas

Re-allocating resources equivalent to 1,000 positions

Resources to Shift
- Structured ASIC
- Platform for mobile handsets
  (M2 currently under development. Sample shipping expected in March ’07)

Cut costs equivalent to 600 positions

Core Areas
- Digital televisions
- Automotive information systems
- Automotive power devices

Shift approx. 400 engineers

i.e.
Cut costs equivalent
to 600 positions
Automotive Market: Expand MCU Business

- **New growth area driven by multi-core processors (information/safety)**
- **Safety** IMAP
- **Navigation** Multi-core

- **Engine/AT**
- **EPS**
- **Airbag**
- **Body**
- **Audio**
- **Dashboard**

- Gained foothold in electronic control systems market with MCUs, building track record with customers

- **Strengthen power devices which connect MCUs and machines**
  - High voltage resistant, large current control power ICs, MOSFETs

- *Charts: CY05 MCU shares by system (Source: NEC Electronics estimate)*

- **MCU**

- **Motors**
- **Headlights**
- **Injectors**
- **Solenoid**
  - Etc..
Digital TV Market: Low-End Platform

- 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™

<table>
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<th>High</th>
<th>Japan</th>
<th>North America</th>
<th>China</th>
<th>Europe</th>
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<tr>
<td>Mid</td>
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Last year, concentrated on building partnerships with major customers

This year, focus resources on establishing a global standard platform
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.

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

A new approach: a high-speed interface

Source: Gartner Dataquest (November, 2006) GJ07071

Growth of Semiconductors for the LCD TV market

- LCD driver IC Market
- ASSP (EMMA) Market

2005: 1,945
2006: 3,213
2007: 4,427
2008: 5,729
2009: 6,027
2010: 6,789
Focus resources on the NEC group’s strength in digital baseband and provide 3G solution through partnerships with other companies.

Focus resources on digital baseband for high-speed communication

3G integrated platform (M1, M2)

Communication
- Dual DBB
- 3.6M HSDPA
- HSDPA ~14.4M
- HSUPA ~5.6M (3.5G)

Basic application functions

Application Chip

Companion Chip (peripheral chip)

Wireless communication technology will be a key technology for the digital consumer area in the future

Leverage Alliances
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
Emphasize Cost Competitive Manufacturing

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
Consolidating Front-end Production Lines by Half

Excess workforce, mask costs etc. for multiple lines were factors in high manufacturing costs

Reduce costs by consolidating lines

Dedicated line for display and power devices

Kansai

Yamaguchi

Yamagata

Kyushu

Leading edge SoCs (Cu interconnect)

Flagship site for flash and automotive MCUs

- Multipurpose MCUs, Multipurpose ASICs, Display drivers
- Indicates 5K wafers/month based on 8 inch wafers

- 5 inch, 6 inch, 8 inch

- 5 inch, 8 inch

- 300mm

- * Timeline for closure of 5-inch lines will be decided with consideration of commitments to fulfill existing customer orders, and profitability

- * Roseville facility in California uses same process as NEC Kyushu.

By FY10

Reduce costs by consolidating lines

Indicates 5K wafers/month based on 8 inch wafers

NEC ELECTRONICS

5 inch, 6 inch, 8 inch

5 inch, 8 inch

300mm

6 inch, 8 inch

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By FY10

Reduce costs by consolidating lines

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NEC ELECTRONICS
Reorganize Manufacturing Lines by Product

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

Reduce cost per wafer with fewer number of manufacturing steps

Shrinking chip size yields more chips per wafer

Goal is to halve chip costs

Conventional process

New dedicated process

Conventional process

New dedicated process

Goal is to halve chip costs
Back-end: Shift Overseas, Re-evaluate Japanese Fabs

- Discrete devices
- Power devices
- Multipurpose MCU (QFP)
- Multipurpose MCUs (QFP) for China
- SoC (QFP)
- Multipurpose MCUs (QFP) for China
- SoC (QFP)
- Power devices
- Multipurpose MCU (QFP)
- Automotive MCUs (QFP) for North America and Europe
- Discrete devices

Increase capacity in China and Malaysia
- China (SGNEC)
  - Multipurpose MCUs (QFP) for China
  - SoC (QFP)

Malaysia
- Power devices
- Multipurpose MCU (QFP)
- (Main plant for multipurpose products)

Singapore
- Automotive MCUs (QFP) for North America and Europe

Indonesia
- Discrete devices

Fukui
- display drivers (TCP, COF)
- Power devices

SPACKS
- Advanced SoC pkg. (SiP, FPBGA)
- Products with very short TAT
- Automotive MCU (QFP etc.)

Establish “global manufacturing center” in Q2 CY07 to support overseas manufacturing
Capital Expenditure includes assets used for operating lease under acquired value conversion, but does not include intangible fixed assets.

Large-scale investment for 300mm concluded.
I. Focus resources on automotive and digital consumer

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Clarify Management Structure

- 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

*From April ‘07*
Shift to Autonomous Business Management

Sales and Marketing Divisions

Digital Consumer

Automotive

SoC

Z. Matsuda, Senior V.P.

Improve marketing

MCU

Y. Yano, Senior V.P.

Autonomous business management according to product lines

Components

Y. Inada Executive V.P.

Manufacturing Divisions (Subsidiaries)

NEC Yamagata

NEC Kyushu

Roseville
NEC Electronics America

NEC Yamaguchi

NEC Kansai
I. Focus resources on automotive and digital consumer

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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)
V. Summary
## Recovery Timetable

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

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<th>Refine Product Lines</th>
<th>Reform Cost Structure</th>
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</table>
| **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                          |
Mid-term Profit Target

Improving Profits by 10% against Sales

- Lower SG&A to Sales Ratio: 2%
- Lower R&D to Sales Ratio: 3%
- Lower Cost to Sales Ratio: 5%

Expand sales with focus on core areas, and improve cost efficiency.

Lower costs by reorganizing and expanding the production map, and implementing dedicated processes.
Relationship with NEC Group

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.
Future Directions

Global Manufacturing/Development/Sales

Application Engineering | Propose Solutions | System Integration (SI) | Software

Utilize the Collective Strength of the NEC Group

Digital Consumer | Automotive

Image processing/display | High reliability

Technological Strengths

Architectures | Development Platforms | C programming/verification | IP cores

Low power consumption | High reliability | Leading edge processes | eDRAM | Power devices

Dev’t | Mfg.
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.