

# Measures Toward Recovery

Toshio Nakajima  
President and CEO  
NEC Electronics Corporation

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

# Revised Forecasts for FY07/3

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

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

## 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

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# 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

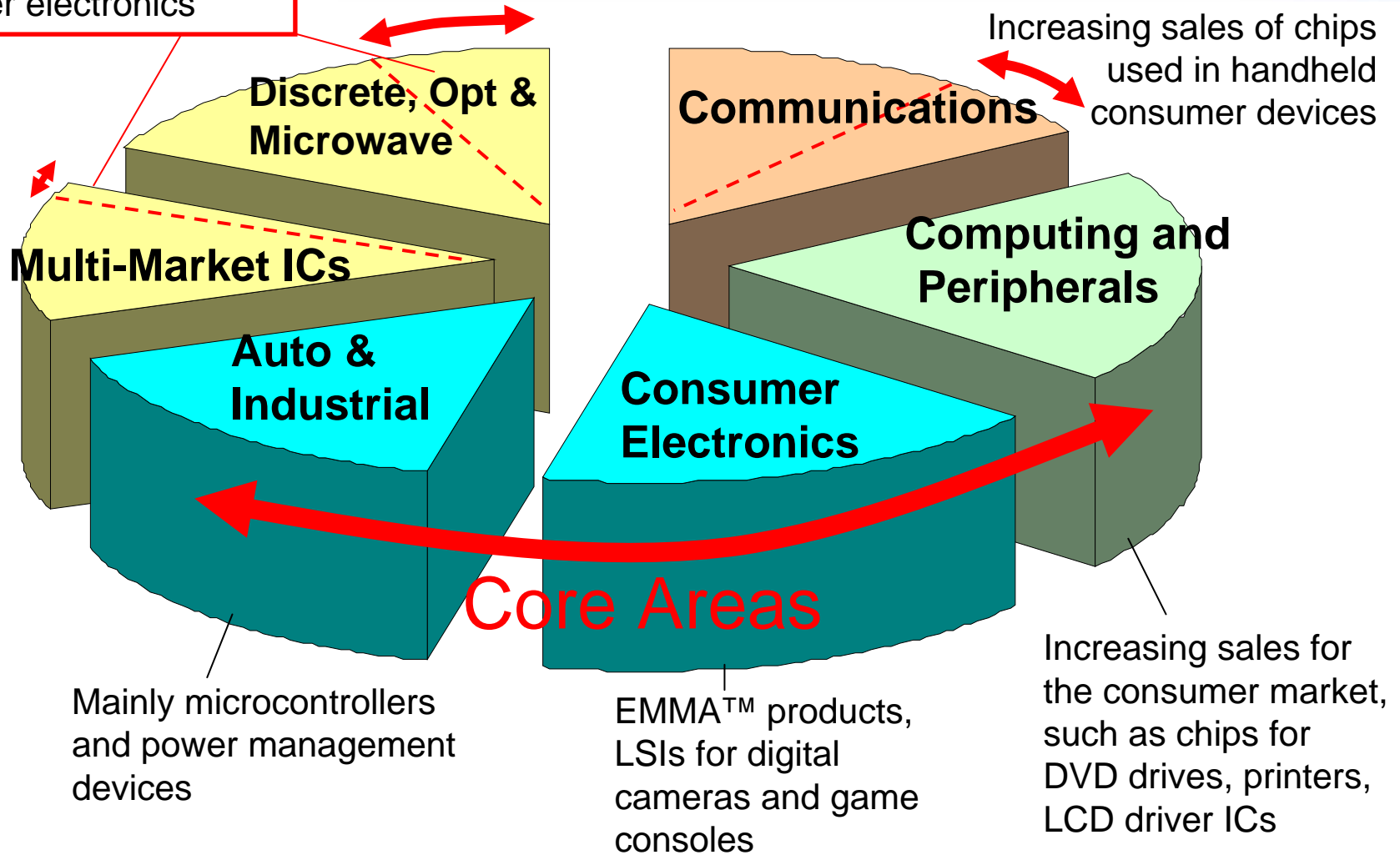
In 2005, NEC Electronics claimed a 15.4% share of the worldwide automotive MCU market, and a 6.9% share of the total automotive semiconductor market. (Source: Strategy Analytics)

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

# Sales Breakdown and Future Areas of Focus

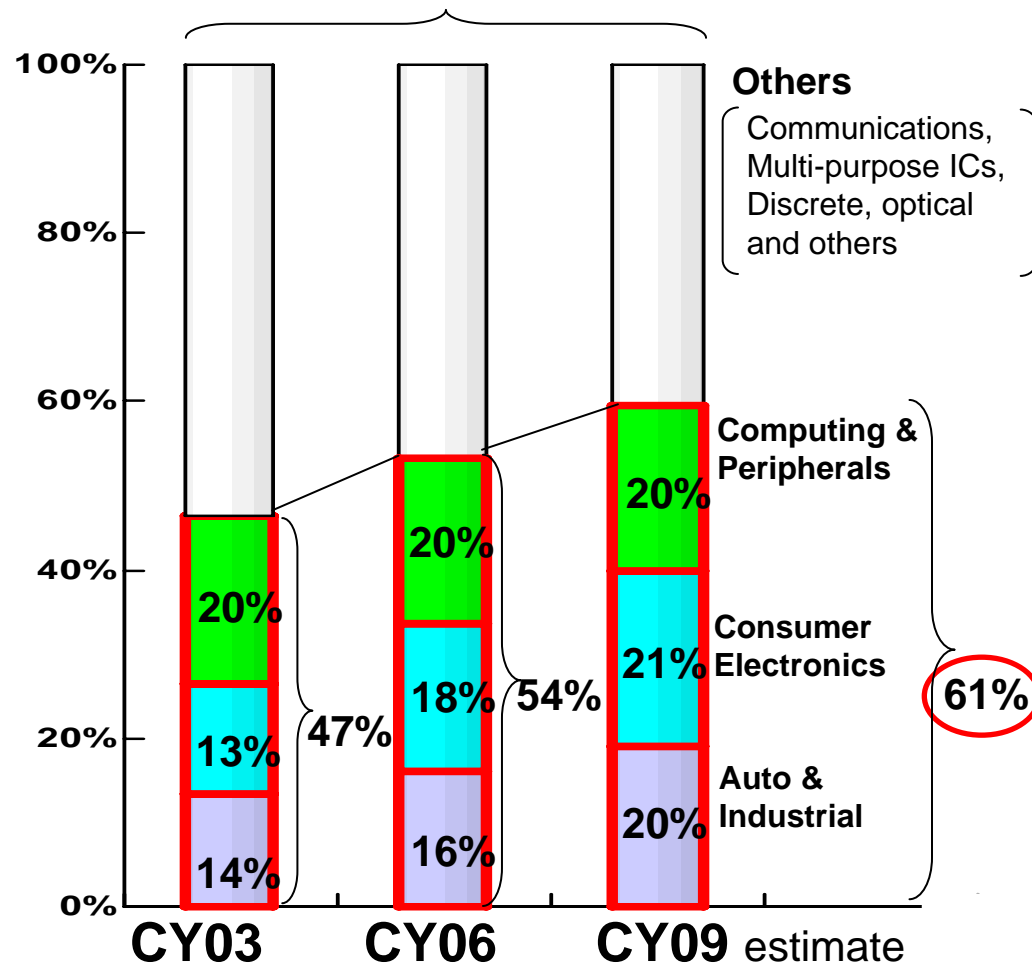
Includes multi-purpose chips for automotive and consumer electronics

## Current Sales Breakdown (%)



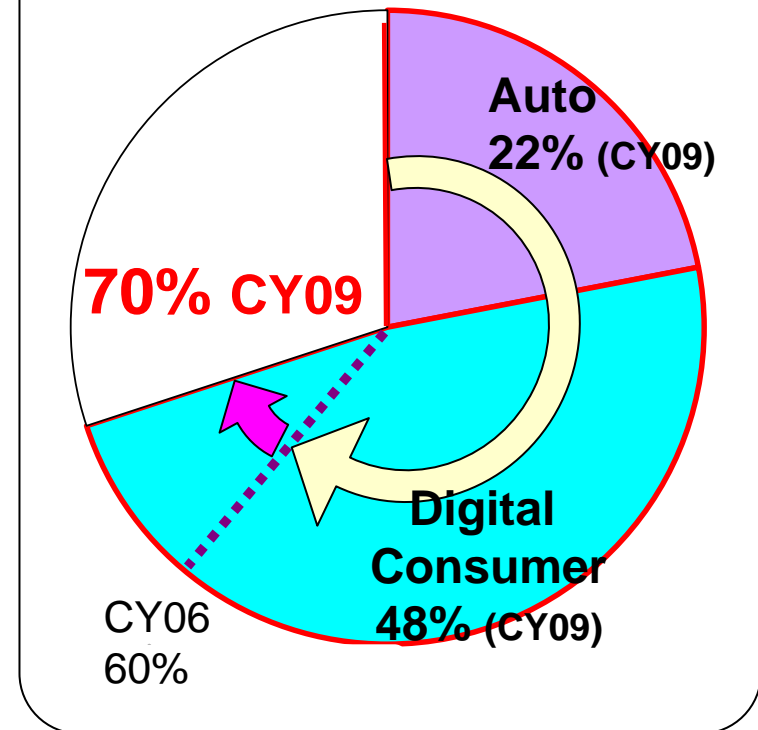
# Expand Core Areas to Over 70% of Chip Sales

## Breakdown of Semiconductor Sales



## Breakdown by end market

Define and re-sort products which fall under "Others"



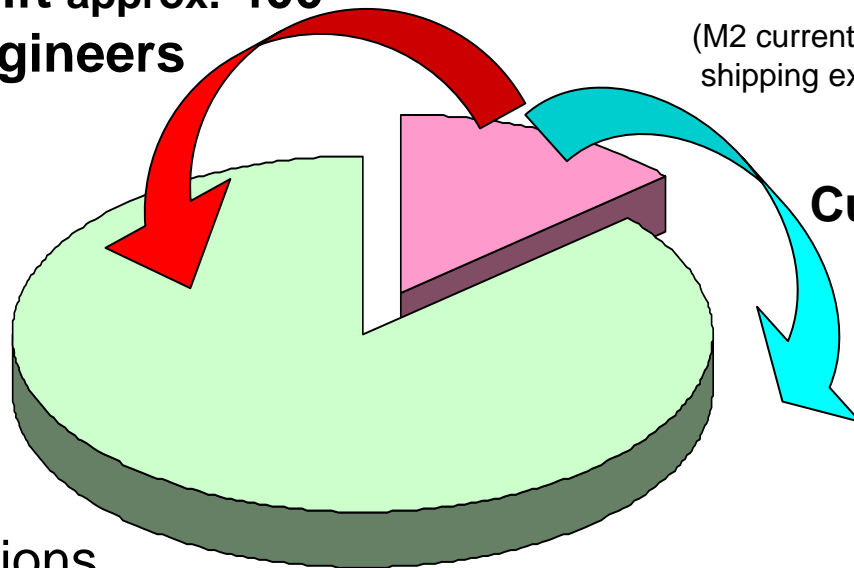


## Re-allocating resources equivalent to 1,000 positions

Resources to Shift

- i.e. • Structured ASIC
- Platform for mobile handsets  
(M2 currently under development. Sample shipping expected in March '07)

Shift approx. 400 engineers

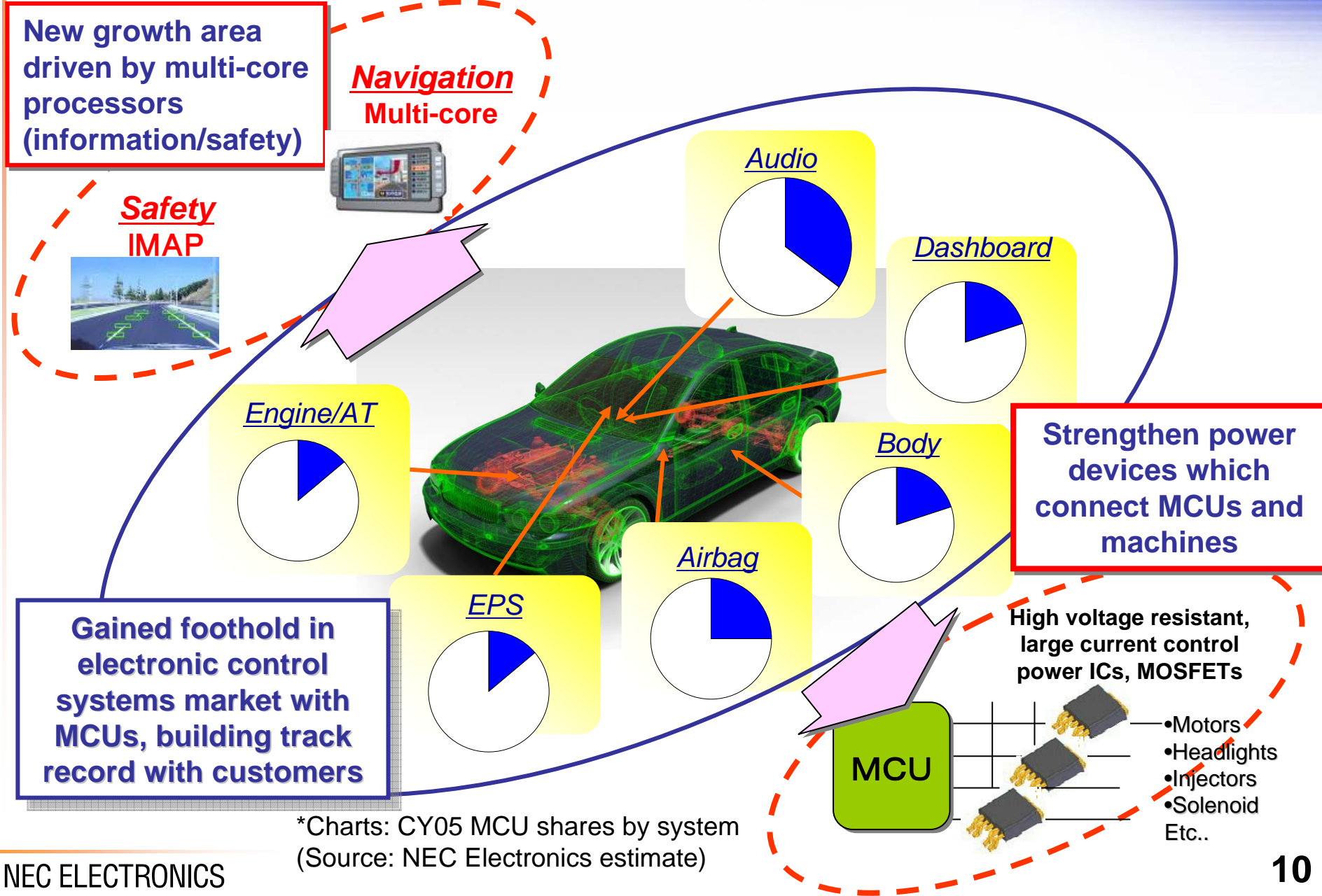


Cut costs equivalent to 600 positions

Core Areas

- Digital televisions
- Automotive information systems
- Automotive power devices

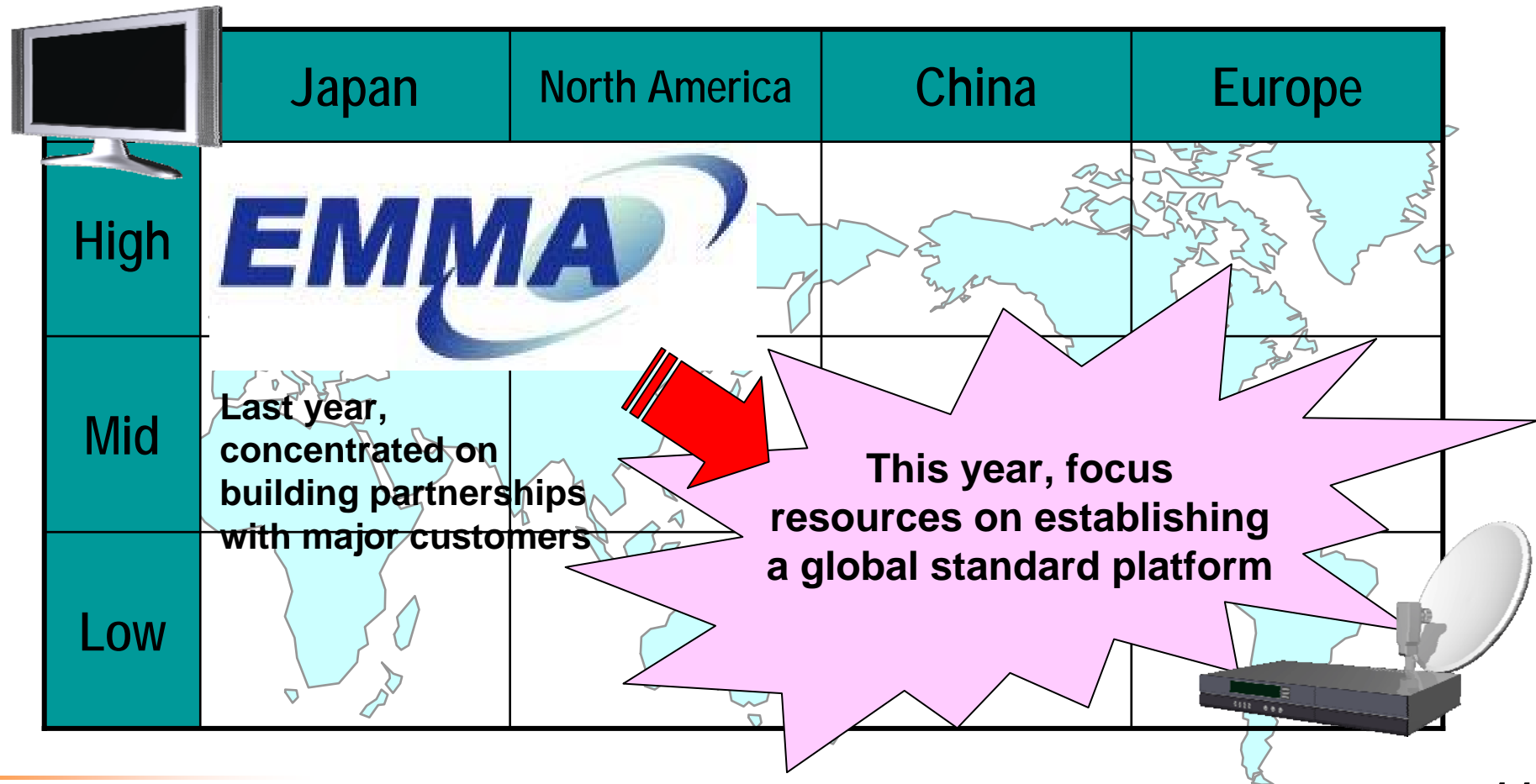
# Automotive Market: Expand MCU Business



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

# Digital TV Market: Low-End Platform

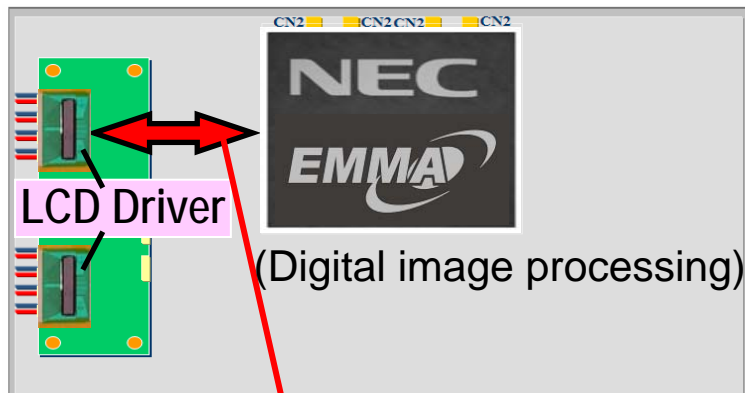
- 100+ engineers dedicated to developing standard platform (in April, 2007)
- Reinforcing the 50-person FAE team in NEC Electronics China
  - Introduce standard software for platform OViA™



## Promoting a kit for EMMA and LCD driver ICs

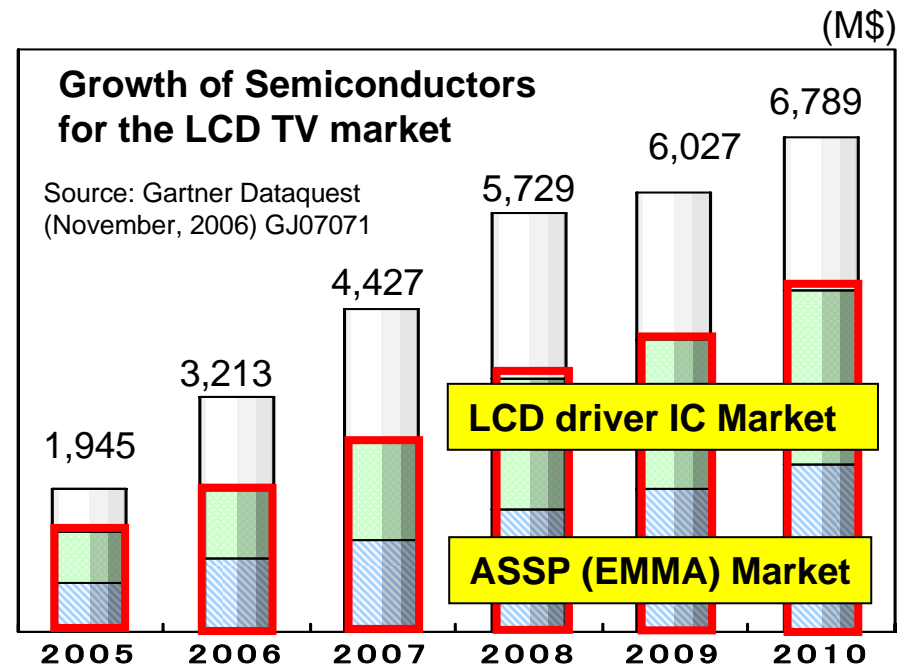
- Strengthen collaboration in product planning and marketing for EMMA+LCD driver IC kits, and expand share through synergistic effects

[Backside of LCD panel for TV]



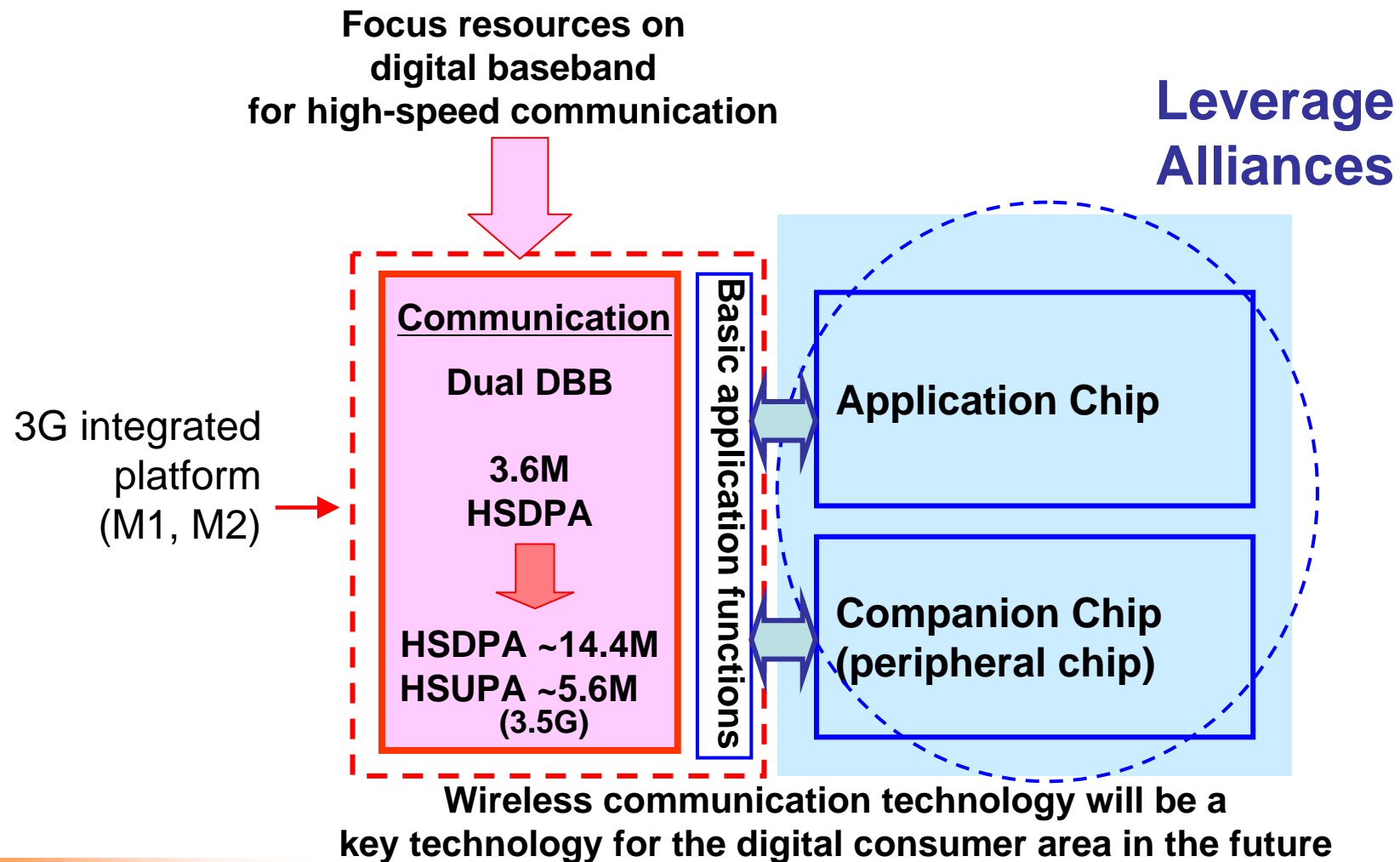
**A new approach: a high-speed interface**

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



# Mobile Handsets: Re-evaluate Strategy, Focus on Baseband

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



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

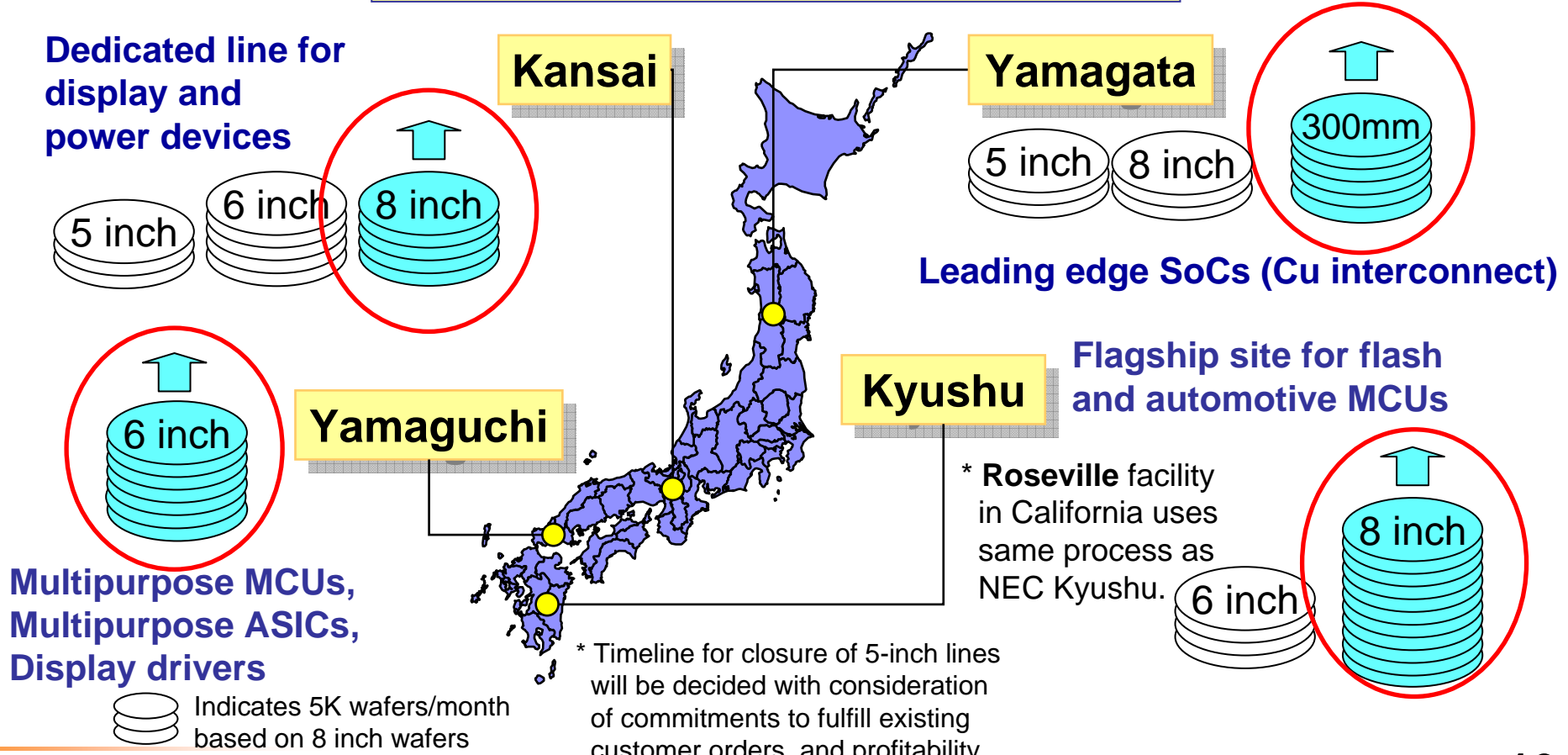


# Consolidating Front-end Production Lines by Half

By FY10

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

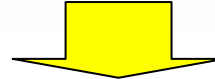
Reduce costs by consolidating lines





# Reorganize Manufacturing Lines by Product

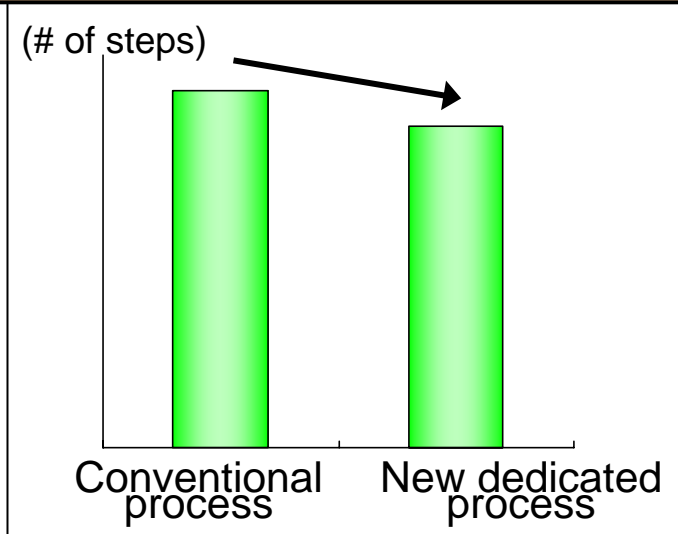
Before: Mixed production to improve total fab utilization rate to reduce costs



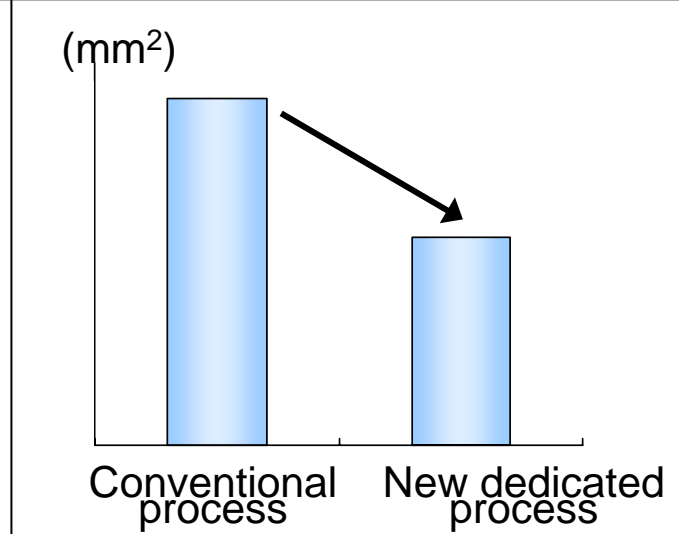
After: Reorganizing manufacturing lines according to product lines to promote systematic cost down between development and manufacturing

**Example: LCD drivers for large panels**

Reduce cost per wafer with fewer number of manufacturing steps



Shrinking chip size yields more chips per wafer



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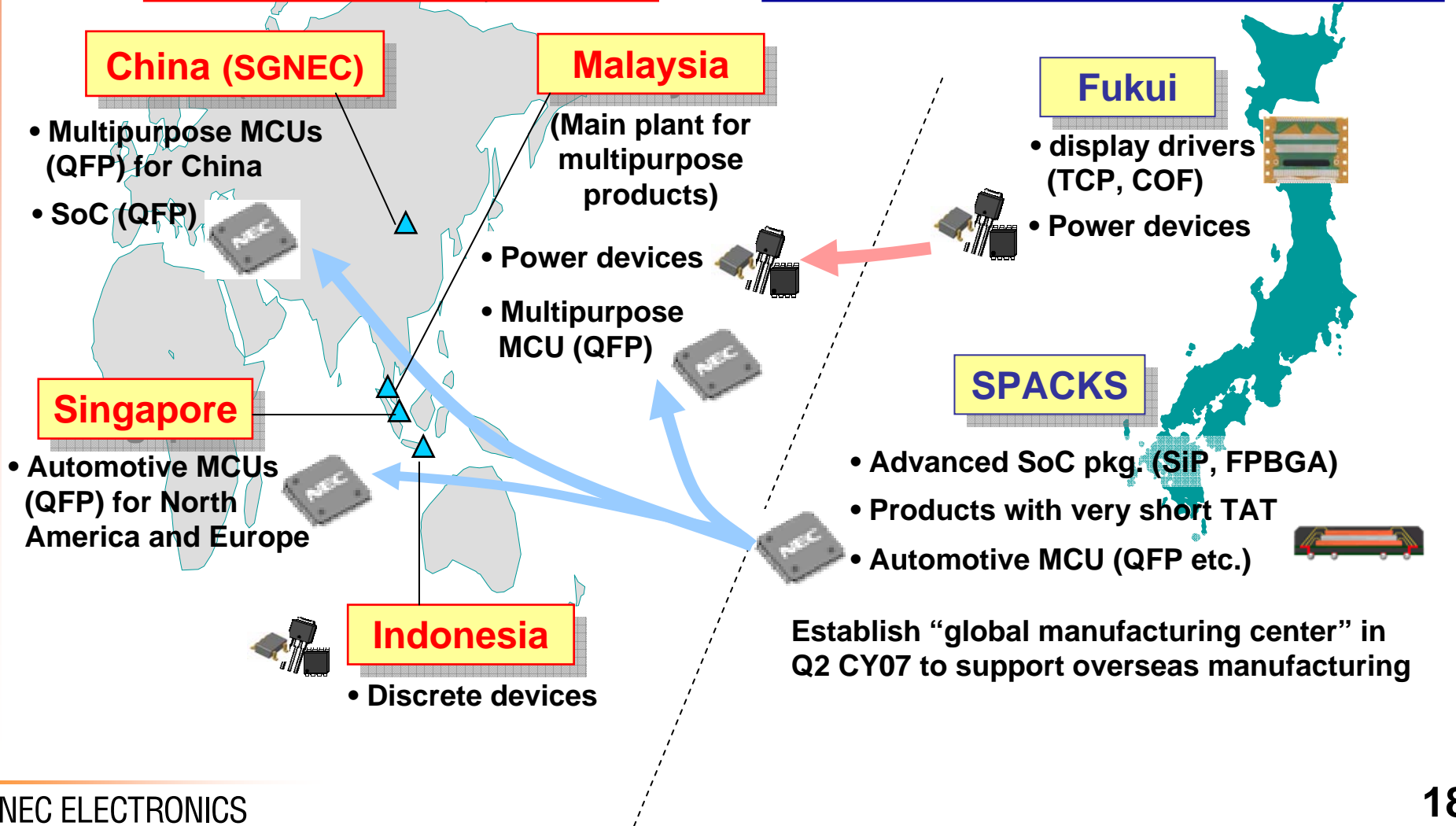
**Goal is to halve chip costs**

# Back-end: Shift Overseas, Re-evaluate Japanese Fabs

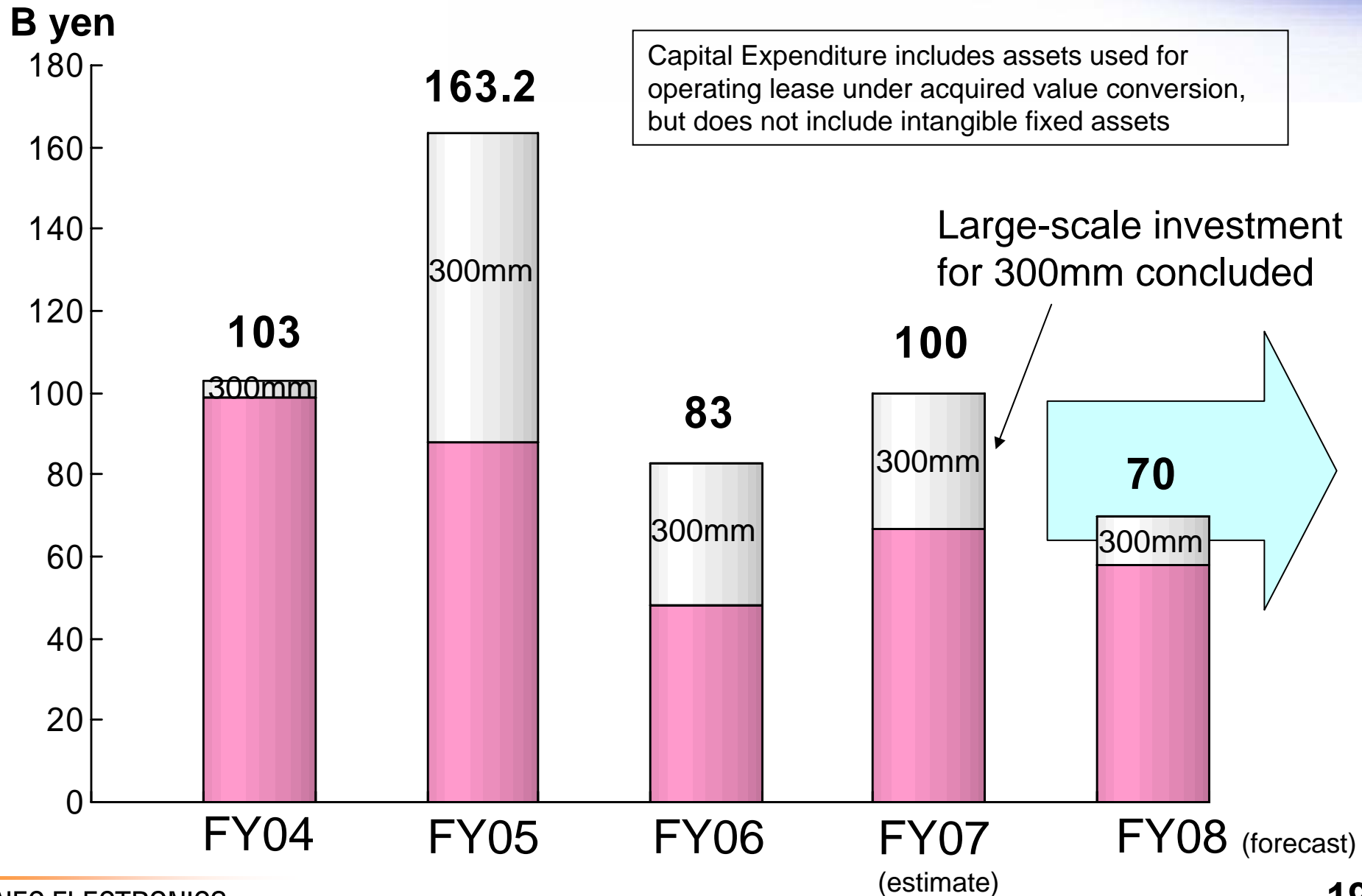
~FY09

**Increase capacity in China and Malaysia**

**Domestic fabs provide support; focus on high-value products**



# CAPEX: Major Investment Concluded, Keep Optimum Levels



I. Focus resources on automotive and digital consumer

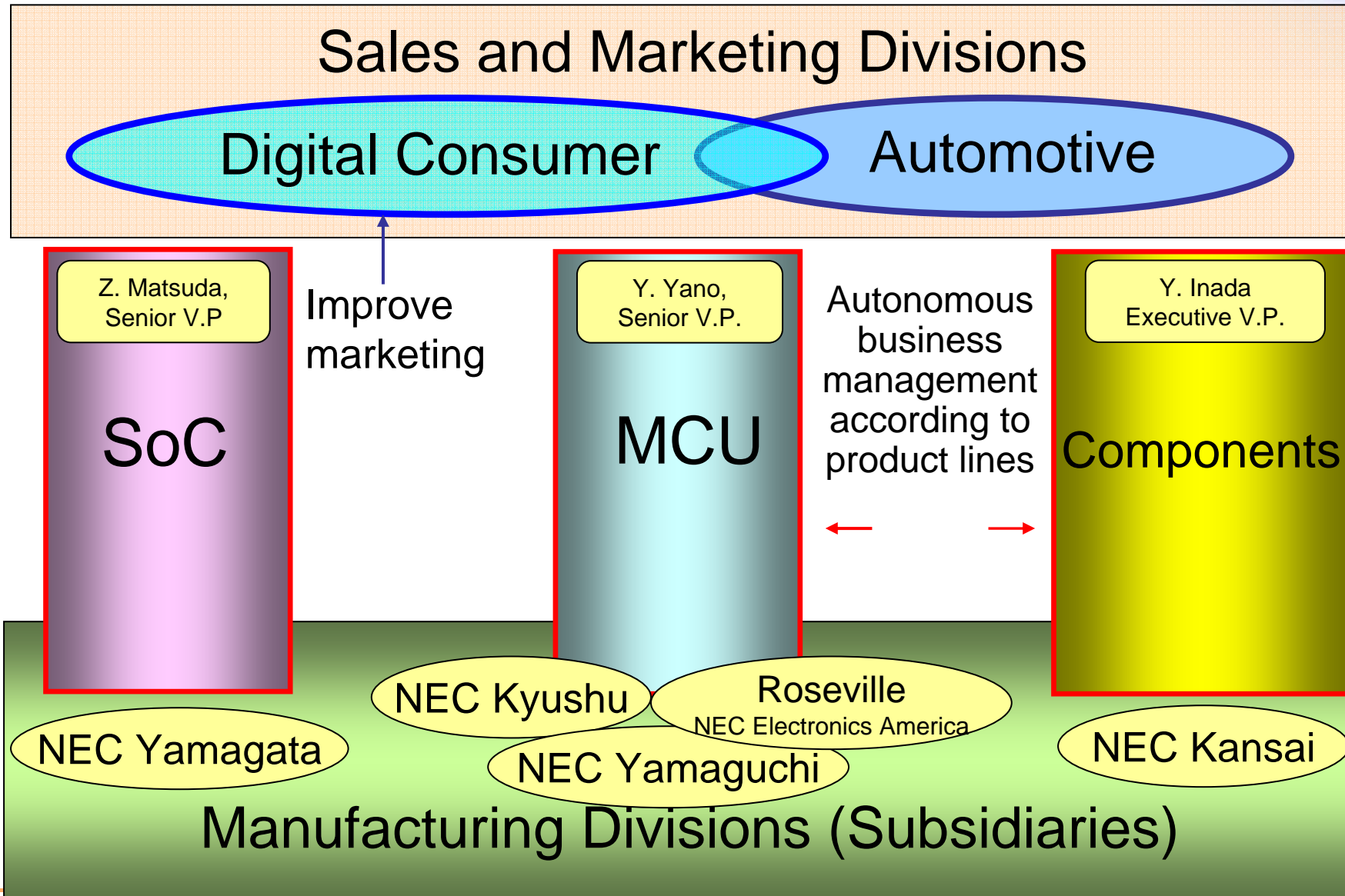
II. Emphasize cost competitiveness in manufacturing

**III. Change management structure to clarify responsibilities**

IV. Reduce fixed costs to ensure profitability in FY08

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



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# FY08 Profit Target and Cost Reduction

## 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)



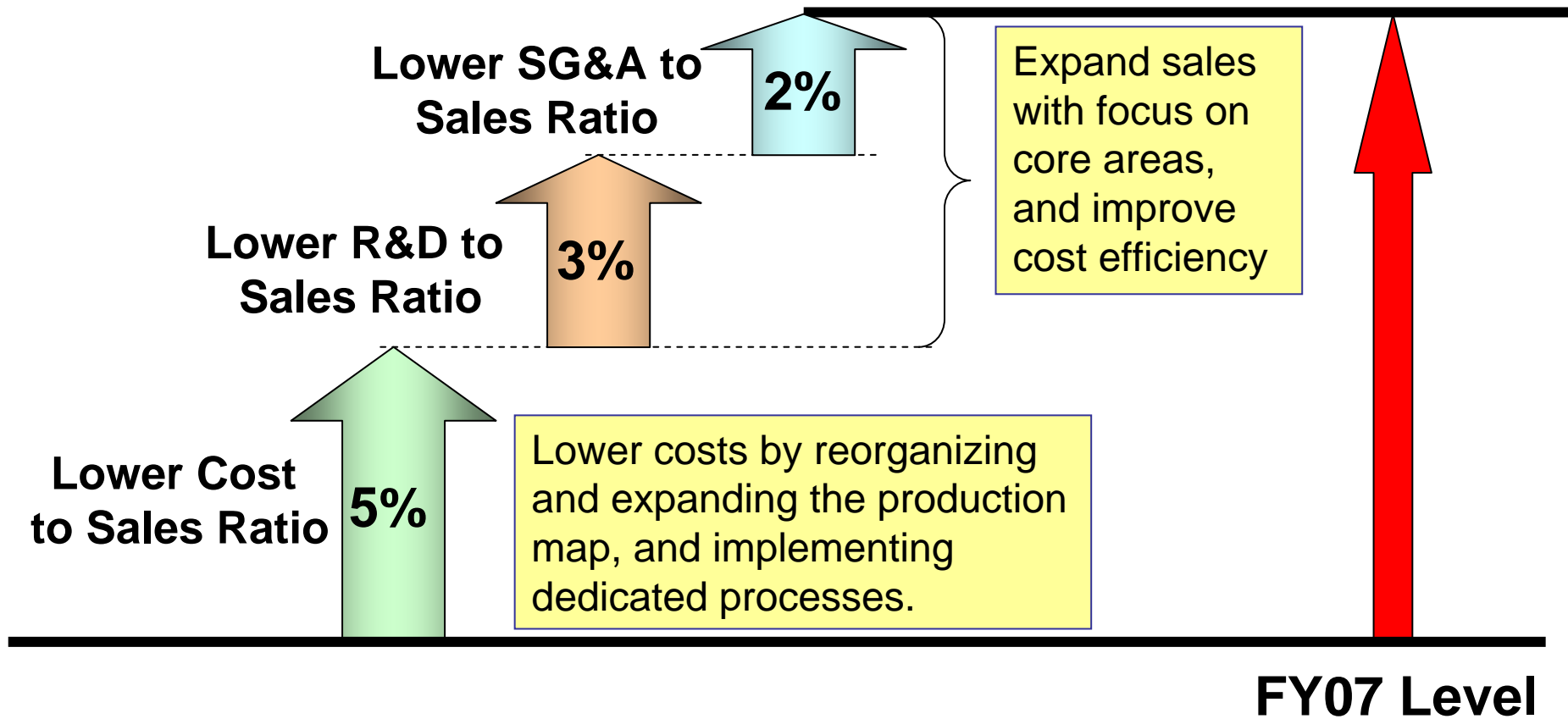
V. Summary

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

	<b>Refine Product Lines</b>	<b>Reform Cost Structure</b>
<b>FY08</b>	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
<b>FY09</b>	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
<b>FY10</b>	Continue expanding sales in focus areas	Pursue further cost reductions leveraging new production map

## Improving Profits by 10% against Sales

### Mid-Term Target



## 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*



**Technological Strengths**

Architectures    Development Platforms    C programming/verification    IP cores

High reliability    Low power consumption    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.