

Corporate Strategy, February 22nd, 2007 FAQ

Q1: What are the main focus points in the new strategy?

A1: The key points in the new strategy announced on February 22nd are: 1) invest development resources in the automotive and digital consumer areas, 2) reform the production framework, 3) change the management structure to support and accelerate reforms. Through these measures, we are going to improve our business performance as fast as possible, and to attain operating profits next fiscal year.

Q2: What are the plans to reinforce business in the automotive area?

A2: We aim to gain No.1 share in the automotive MCU market. We will also reinforce business in the information and safety area, such as car navigation and image processors used in pre-crash safety systems, and power management devices used to connect systems within the vehicle to expand business opportunities in the automotive area as a whole.

Q3: What are the plans to reinforce business in the digital consumer area?

A4: In the digital consumer area, we will mainly focus on solutions for image processing such as MPEG and H.264. These include products utilized in digital televisions, DVD recorders or drives, and set top boxes (STB). We will especially focus our development resources and reinforce business for the digital television area, where the market expansion is rapid.

Q4: How long does it take to consolidate front-end fabrication lines?

A4: With regards to 6 and 8 inch lines, we will complete the consolidation within three years. Detailed timetable will be made with careful consideration, addressing the relationships with our customers and sales decrease which may occur temporarily by executing the plan. With regards to the 5-inch lines, there are certain products that can only be produced using

theses lines, therefore, we will consolidate these lines gradually, while fulfilling our commitments to our customers as well considering the economy of the 5-inch lines.

Q5: The new strategy mentioned a consolidation of production lines and reduction of fixed costs. Are there plans for downsizing of personnel?

A5: Our plans to reduce fixed costs include cutbacks in personnel costs, but do not include the downsizing of personnel. However, as we implement the measures to improve our performance, we will not hesitate to cut costs aggressively.

Q6: What are sales forecasts for the next fiscal year and the mid-term sales targets?

A6: We expect the semiconductor market for the first half of next fiscal year to be severe, and although some predict an improvement from the middle of the next fiscal year, we are not as optimistic. At the moment, we are unable to predict our sales levels for the next fiscal year, but we will establish a cost structure, including cost reduction measures, that would enable us to attain operating profits even if the sales levels remain flat from this fiscal year. With regards to the mid-term sales targets, we aim to achieve 800 billion yen in the fiscal year ending March 2010.

Q7: What is the outlook for R&D and CAPEX for next fiscal year and what are their mid-term targets?

A7: We expect to reduce at least 6 billion yen in R&D for the next fiscal year. We will lower R&D to sales ratio to 15% over a medium term, which was the target level we announced at the IPO. We will also reduce CAPEX by approximately 30 billion yen, and estimate to spend roughly 70 billion yen next fiscal year. Since the 12-inch line at NEC Yamagata reached a competitive capacity, we expect to spend no more than 100 billion yen in CAPEX in following years.