Welcome to NEC Electronics’ audio webcast.

My name is Hank Sato, Senior Vice President and CFO of NEC Electronics Corporation.

I will present you with a brief overview of NEC Electronics’ financial results for the first quarter of fiscal year ending March 2007.
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.

Before we begin, please be sure to review the cautionary statement on slide 2.
Today’s agenda is shown on slide 3.
A summary of results for the first quarter is shown on slide 4.

Consolidated net sales increased by 19.1 billion yen, or 13% to 165.2 billion yen year-on-year. This figure is 5.1 billion yen or 3% lower than the previous quarter.

Operating losses were 5.8 billion yen, an increase in profit in the amount of 4 billion yen year-on-year. This is also an increase in profit in the amount of 10.7 billion yen from the previous quarter. Considering that there were one-time factors involving expensing technological assets in the amount of 9.0 billion yen last quarter, actual improvements in profits were 1.7 billion yen.

EBT and net losses showed good improvements from the previous quarter, where a large sum of losses were recorded for a valuation allowance against deferred tax assets.

I will explain our financial results in detail in the following slides.
The next slide shows semiconductor sales year-on-year. While sales of each platform and application increased, areas such as LCD driver ICs and general purpose MCUs showed particularly strong growth.

The graph shows a solid recovery in sales compared to the first quarter of last fiscal year.
Slide 6 shows trends in quarterly results.

Although there are signs of improvement, operating income has not yet shown a strong recovery.
Slide 7 shows changes in sales by platform from the fourth quarter of last fiscal year to the first quarter.

Sales of the SoC platform decreased by 8% from the fourth quarter. This is mainly due to a decline in sales of digital baseband LSIs and system memories for mobile handsets, and LSIs for DVD drives.

Sales of the MCU platform remained flat quarter-on-quarter. Although the general-purpose MCU market showed a recovery trend, especially in Asia and Europe, a decrease in automotive MCU sales due to seasonal production adjustments in the Japanese market affected the overall sales.

Sales of Components increased by 3% from the last quarter, due to an increase in sales of LCD driver ICs for small panels contributed by market share expansion. A recovery in the discrete market also contributed to increased sales.

At the time of our full-year announcement of financial results on April 25th, NEC Electronics’ outlook for the first quarter sales was nearly flat compared to fourth quarter levels. However, actual first quarter semiconductor sales were approximately 4.0 billion yen or 2% lower than expected for the SoC platform.

This was caused by postponed shipments for certain U.S. customers due to inventory adjustments. Additionally, there was a decline in sales of digital baseband LSIs for mobile handsets in the first quarter, resulting from expanded production for the Japanese market in the second half of last fiscal year. Sales of LSIs for DVD drives were also affected by a slowdown in the PC market.
The next slide shows quarter-on-quarter sales by application.

Multi-market ICs, which includes general-purpose MCUs, enjoyed sales growth stemming from new business for All Flash Microcontrollers. Discrete, optical and microwave products also saw a steady growth.

On the other hand, there was a decline in sales in areas such as computing and peripherals, consumer electronics and communications due to the reasons shown on the slide.
Slide 9 explains the change in profits between the fourth quarter of the previous fiscal year, and this first quarter.

First, we considered the expensed technology assets in the amount of 9.0 billion yen in the fourth quarter, which was only a one-time expense. In addition, in the first quarter, there was a decrease in depreciation and lease expense in the amount of 5.5 billion yen, SG&A expenses in the amount of 1.0 billion yen, and an upsurge in utilization rates as well as cost cutting efforts which led to 3.5 billion yen savings.

However, seasonal price declines of about 3%, resulted in losses of 6.0 billion yen, gross profit decreased 1.5 billion yen due to sales decline, and there were currency losses in the amount of 0.5 billion yen. As a result, we recorded operating losses of 5.8 billion yen for the first quarter.
Slide 10 shows the company’s balance sheet.

Total assets at the end of June were 742.6 billion yen, 2.7 billion yen less than the end of March. This is mainly due to a decrease in cash and cash equivalents from equipment payments.

Inventories increased by 3.6 billion yen from the end of March. This is mainly due to postponed shipments in the first quarter for certain U.S. customers.

Looking at manufacturing, wafer input is increasing steadily with anticipated sales expansion in the second quarter. Our utilization rates (wafer input base) for the first quarter were at 90% or above, which was an improvement of approximately 5% from the last quarter.
The next slide shows cash flows.

Despite recording 6.1 billion yen in net losses for the first quarter, depreciation in the amount of 18.9 billion yen, resulted in positive cash flows from operating activities of 7.8 billion yen.

Cash flows from investing activities recorded negative 12.4 billion yen, due to equipment payments for the 300mm wafer line at Yamagata.

Free cash flows were negative 4.6 billion yen, improved in the amount of 14.1 billion yen year-on-year.

We made no change in forecasts and we expect free cash flows for the fiscal year ending March 2007 to be positive.
Next, we will address the company’s outlook for the fiscal year ending March 2007.
Slide 13 shows forecast of the second quarter semiconductor sales by platform.

As shown on the graph, we expect to see a substantial increase in sales of the SoC platform, mainly attributable to shipments of LSIs for a new game console, which should not be affected by the semiconductor market trends.

MCU platform and Components are also expected to show steady growth.

LCD driver ICs included in Components are expected to remain flat for the second quarter. While LCD driver ICs for large panels continue to undergo adjustments, we expect LCD driver ICs for small panels to gain share. However, we see a risk that sales may decline lower than we anticipated, depending on market conditions.
Slide 14 shows historical trends in orders for total semiconductors, MCUs, discrete and LCD driver ICs.

For MCUs, which are relatively profitable, we foresee an increase in orders due to new business for the All Flash microcontroller series. Discretes also show steady growth.

However, we anticipate a slowdown in orders for LCD driver ICs for large panels, and we will continue to follow the order trends closely.
Slide 15 shows financial forecasts for the fiscal year ending March 2007.

As I have explained during my presentation today, financial results for the first quarter fell slightly short of our expectation, however, sales and profits are expected to increase in the second quarter.

While there is a risk that products such as LCD driver ICs for large panels may perform worse than we expected, there are products such as MCUs and discretes which show a solid recovery. In conclusion, we do not believe it necessary to change our forecasts for this fiscal year.

We will continue to evaluate our outlook for the second half of fiscal year, but we strive to post operating profits during this fiscal year.
Finally, on slide 17, I would like to review our progress on measures we announced on April 25th to improve performance.
First, our order trends are approaching to levels seen during the fiscal year of good financial performance in the past. Although we need to further evaluate our outlook for the second half of fiscal year, we are confident that we will see good sales growth in the second quarter.

Second, utilization rates for the front-end wafer lines increased to 90% for the first quarter, and cost to sales ratio decreased to 72%, an improvement from 73.9% from the last fiscal year. We are not fully satisfied with the results, however, we are working to further reduce costs in the second quarter.

Lastly, we are aiming to recover profitability by developing strong products. Currently we are holding intensive discussions to refine product lines. We will continue to put in every effort to measure up to our shareholders’ expectation.
This concludes my presentation for today.

Thank you for joining us.