Thank you for joining NEC Electronics’ webcast.

Today we will first present an overview of the company's financial results for the first half of the fiscal year ending March 31, 2007, followed by the revised forecasts for the fiscal year.
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 start, please be sure to review the cautionary statement carefully.
Today’s agenda is shown on slide 3.

First, let us review the financial results for the first half.
A Financial Snapshot

A summary of results for the first half is shown on slide 4.

Semiconductor sales increased by 9 billion yen from the second half of the previous fiscal year, to 327.8 billion yen for the first half of this fiscal year.

Operating losses were 6.9 billion yen, improving profit by 16.6 billion yen.

These results were in line with our forecasts previously announced on April 25th.

The results for EBT and net losses were better than the previous forecasts. These will be explained later in the presentation.
Slide 5 shows trends in quarterly results.

Both sales and profits showed steady improvements, and we recorded operating losses of 1.2 billion yen for the second quarter.
The next slide shows quarter-on-quarter changes in sales, by platform.

Sales of the SoC platform increased by 14%, due to the start of shipments of LSIs for a new game console, and increased shipments of LSIs for printers and DVD drives.

Sales of the MCU platform showed solid growth quarter-on-quarter, and sales of Components increased due to high sales of discrete semiconductors.
Slide 7 shows quarter-on-quarter sales by application.

Increases in sales of Computing and Peripherals, and Consumer Electronics contributed to growth in overall sales.
Slide 8 shows changes in profits from the first quarter to the second quarter.

For the second quarter, gross profit increased due to sales growth, and a lower cost to sales ratio.

Although profits recovered, additional R&D expenses necessary for future growth led to operating losses of 1.2 billion yen.
The next slide shows increases in R&D expenses.

Increases in R&D spending for the past couple of years included investments to develop growing products, such as Application Specific Standard Products (ASSPs) and microcontrollers (MCUs).

These products require not only development of LSIs, but also related software, resulting in additional R&D expenses.

We anticipate that investing in the development of these products will contribute to sales growth in the future.

We are working to improve R&D efficiency, but we will also continue to devote R&D spending necessary for future growth.
Slide 10 shows the company’s balance sheet.

Inventory levels are higher, but this is due to an increase in sales, and we believe inventory remains at healthy levels.
Slide 11 shows cash flows.

As shown, free cash flow for the first half of this fiscal year was positive, at 13.4 billion yen.
Next, we will address the company’s outlook for the fiscal year ending March 2007.
Slide 13 shows revised financial forecasts for the fiscal year.

We have re-evaluated our outlook for the second half of the fiscal year, and reduced the full-year financial forecasts for sales by 10 billion yen, operating losses by 12 billion yen, and net losses by 20 billion yen from the previous forecasts, which we announced on April 25th.

The reasons behind the revisions will be explained in detail in the following slides.
Slide 14 shows changes in non-operating income and expenses.

For the first half of the fiscal year, there were expenses related to the closing of the Ireland plant and the 200mm pilot line in Sagamihara.

These increases in expenses were offset by gains on sales of marketable securities.

The revisions for the second half forecasts include anticipated increases in non-operating expenses, such as possible fees for memory-related litigation and additional reform costs.

These extra anticipated expenses led us to reduce the full-year forecasts by 7 billion yen.
Slide 15 shows changes in the financial forecasts for the second half of the fiscal year.

Forecasts for semiconductor sales decreased by 10 billion yen from the previous forecasts. This is due to an anticipated slowdown in the North American market, and delays of some relatively large new projects.

We expect profits to increase by approximately 6 billion yen due to changes in exchange rates and lower SG&A expenses.

However, R&D expenses for future growth will increase, and refinements to product lines may not improve profits as much as initially expected.

All in all, we expect to record zero operating income (break even) for the second half of the fiscal year.
Slide 16 shows forecasts of semiconductor sales by platform for the second half of the fiscal year.

The SoC platform is expected to grow in the high single digits, due to volume shipments of LSIs for a new game console.

The MCU platform is expected to grow in the low single digits, due to growing sales of automotive MCUs, although we anticipate that adjustments may occur in the general purpose MCU market.

Sales of Components will remain flat. Although discrete semiconductors are expected to grow, display driver ICs are expected to decline slightly as a result of lower sales of driver ICs for small panels.
Slide 17 shows expected changes in operating income and loss from the first half to the second half.

Profits are expected to improve by approximately 18.5 billion yen as a result of sales growth, lower SG&A expenses, lower foundry usage rates, and improved cost efficiency from capacity expansion.

However, we plan to continue strategic R&D expenses in the second half of the fiscal year, and as a result of intensive capital spending during the first half, depreciation and lease expenses will increase.

All in all, we estimate operating income for the second half of the fiscal year will be zero.

Since sales and orders for the second half will not fully utilize the expanded manufacturing capacity, profitability will not improve as much as we had initially hoped. However, we believe that the utilization rates will increase, leading to improved profitability next fiscal year.
Slide 18 shows trends in capital expenditures, depreciation and lease expenses.

Capital expenditures for the first half of the fiscal year were approximately 77 billion yen, mainly attributable to the 300mm capacity expansion in Yamagata. There is no change in the full-year capital expenditure plans, and we expect to spend about 100 billion yen this fiscal year.

Depreciation and lease expenses in the second half are expected to total 64 billion yen, increasing roughly 10 billion yen from the first half of fiscal year.
Finally, I would like to conclude today’s presentation with a review of our progress on measures to improve performance.
Slide 20 shows three measures I introduced in April in order to improve business performance.

Regarding the first step, “expanding orders and sales”, semiconductor sales increased by 9 billion yen from the second half of the last fiscal year to the first half of this year, which pushed utilization rates above 90% during the first half.

Orders have been increasing steadily since February, but recent order trends show adjustments in some products.
The second step, shown on slide 21, is to lower the cost to sales ratio by increasing capacity utilization rates.

We expect manufacturing capacity to increase by 10% from the first half to the second half of this fiscal year.

The graph on the left shows increases in capacity.

Unfortunately, we have not secured enough orders to fill the manufacturing lines as yet, due to anticipated adjustments in some general-purpose products and delayed projects for some customers.

However, we have been working to lower our foundry usage rate, and as a result, we expect the in-house utilization rate to decline only slightly for the second half of this fiscal year.
Our Progress and Issues We Face

Steady progress in the MCU sales increase and the ASSP expansion, but the profits have not yet shown true recovery.

- The EMMA™ series for the digital AV platform
- All Flash™ MCUs

2H: design-ins for 50 companies worldwide (cumulative)

2H: 3,000 business items in progress

Cumulative business items in progress

Momentum continues even after summer

Slide 22 shows our progress for step 3, and issues we face in developing stronger products and recovering profitability.

The EMMA™ series continues to excel in the digital AV area, and has been adopted by leading companies such as Sony and Toshiba. For the second half of this fiscal year, we estimate design-ins with 50 companies worldwide.

In addition, our All Flash™ microcontrollers are also showing strong growth, and the number of business items in progress continues to increase, and we estimate that the cumulative number of business items will exceed 3000 for the second half.

From these results, we are confident that sales of ASSPs and MCUs will increase, but it may take some time to see the results of the improved product mix.
Develop Stronger Products and Recover Profitability

Lower costs to sales ratio with capacity increase and higher utilization rate

Expanding orders and sales

In summary, as shown on slide 23, we will continue to work on expanding sales and orders, and cutting costs, while reinforcing the framework for developing strong products. We will also continue to devote R&D spending necessary to reinforce product lines.
Finally, I had originally hoped to unveil a new midterm strategy today, but considering the immediate and urgent challenges we face, I felt it was more important to focus on near-term measures.

In closing, I would like to say that NEC Electronics is working diligently to achieve the goals for the second half, to provide a foundation for the next fiscal year. By executing the measures outlined earlier, we can continue to improve the company's performance and put it on the path to profitability.

Thank you very much for your continued understanding and support.