

FY07/3 Third Quarter (Oct. - Dec.) Q&A

- 1. What are the reasons for Q3 operating losses to worsen from Q2 levels when semiconductor sales increased?**
 - A. Semiconductor sales growth for Q3 was in line with initial expectations. On the other hand, operating losses were larger than expected due to increases in R&D expenses, depreciation and lease expenses and changes in product mix, even though there were positive factors such as impact from exchange rates and reduction in SG&A costs.

- 2. What are the factors for the expected increase in Q4 (Jan. – Mar.) operating losses from Q3?**
 - A. Q4 operating losses are expected to worsen due to a decrease in semiconductor sales and a decline in utilization rates from adjustments in production level in response to bringing inventories to optimal levels. Additionally, we are currently considering plans for structural reforms, which are likely to affect operating losses. In conclusion, we may record operating losses close to 2-digit billion yen for Q4.

- 3. Why are forecasts for the fiscal year remained unchanged when Q4 results are expected to worsen?**
 - A. We are currently considering plans for structural reforms and consequently, costs associated with these reforms are also being determined. The full-year financial forecasts, therefore, remain unchanged for the time being.
We plan to announce structural reform plans on February 22nd.

- 4. There are increases in inventory levels from the end of September. Does the company consider it a problem?**
 - A. Inventories increased from the end of September mainly due to year-end inventory increases in North America and Europe. We consider the inventory levels at the end of December to be higher than optimal levels, and plan to lower inventories by the end of March by adjusting production levels.

- 5. What sort of structural reforms NEC Electronics plans to announce on February 22nd?**
 - A. Fundamentally, there will be two key points in the reforms plans. First, expand sales by re-evaluating product portfolio and redefining “core” products. Second, improve cost competitiveness by re-evaluating manufacturing operations and streamlining expenses

such as CAPEX and R&D.

We will announce a detailed plan on February 22nd.