

Q3 FY07/3 Financial Results and Outlook

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



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Before we start, please be sure to review the cautionary statements carefully.

I. Q3 FY07/3 Financial Results

✓ Semiconductor sales were in line with initial expectations but operating losses were greater than expected due to changes in the product mix.

II. FY07/3 Financial Forecasts and Measures to Improve Profitability

✓ Q4 results are expected to worsen from Q3 levels, as sales and profits will fall short of targets due to adjustments for LCD panels and PC peripherals.

✓ NEC Electronics is currently considering plans for structural reform and strategies for growth, which it intends to announce on February 22nd. Consequently, costs associated with these reforms are also being determined, and forecasts for the fiscal year remain unchanged for the time being.

Slide 3 shows a summary of today's presentation.

Semiconductor sales for the third quarter were in line with initial expectations, driven by strong demand for chips for consumer electronics applications. However, operating losses were larger than expected due to changes in the product mix.

Fourth quarter sales and gross profits are not expected to meet targeted levels, leading to higher operating losses in the fourth quarter. However, as costs associated with structural reforms are still under consideration, the full-year financial forecasts remain unchanged for the time being.

NEC Electronics plans to announce growth strategies and structural reform plans on February 22nd.

Agenda

I. Q3 FY07/3 Financial Results

II. FY07/3 Financial Forecasts and Measures to Improve Profitability

Let us review the financial results for the third quarter.

A Financial Snapshot

| JPY Bn | FY06/3 | | FY07/3 | | | |
|---------------------|--------------|---------------------|---------------|-------|---------------------|-------|
| | Q3 Dec. 31st | 9 months Cumulative | Q3, Dec. 31st | | 9 months Cumulative | |
| | | | | YoY | | YoY |
| Net Sales | 162.7 | 475.6 | 177.9 | +15.2 | 520.9 | +45.3 |
| Semiconductor Sales | 156.8 | 457.1 | 171.1 | +14.4 | 498.9 | +41.8 |
| Operating Loss | -7.0 | -19.2 | -3.8 | +3.2 | -10.8 | +8.4 |
| EBT | -4.4 | -18.1 | -3.5 | +0.9 | -9.1 | +9.0 |
| Net Loss | -2.6 | -10.4 | -5.8 | -3.2 | -13.1 | -2.7 |

| | | | | | | |
|-----------------|------|------|------|-------|-----|------|
| Free Cash Flows | 34.5 | 15.0 | -7.6 | -42.1 | 5.8 | -9.1 |
|-----------------|------|------|------|-------|-----|------|

| | | | | | | |
|--------------|------|---|------|---|---|---|
| D/E Ratio | 0.40 | - | 0.49 | - | - | - |
| Equity Ratio | 48% | - | 39% | - | - | - |

| | | | | | | |
|----------------|--------------------------|--------------------------|--------------------------|---|--------------------------|---|
| Exchange Rates | 1US\$=¥115 1Euro=¥138 | 1US\$=¥111 1Euro=¥137 | 1US\$=¥118 1Euro=¥150 | - | 1US\$=¥116 1Euro=¥146 | - |
|----------------|--------------------------|--------------------------|--------------------------|---|--------------------------|---|

Note: Operating Income (loss) = Net Sales – COGS – R&D – SG&A

Slide 5 shows a summary of results for the third quarter.

Semiconductor sales were 171.1 billion yen, an increase of 14.4 billion yen year on year, and 1.4 billion yen quarter on quarter. On a nine-month cumulative basis, sales increased 41.8 billion yen, or 9 percent, totaling 498.9 billion yen.

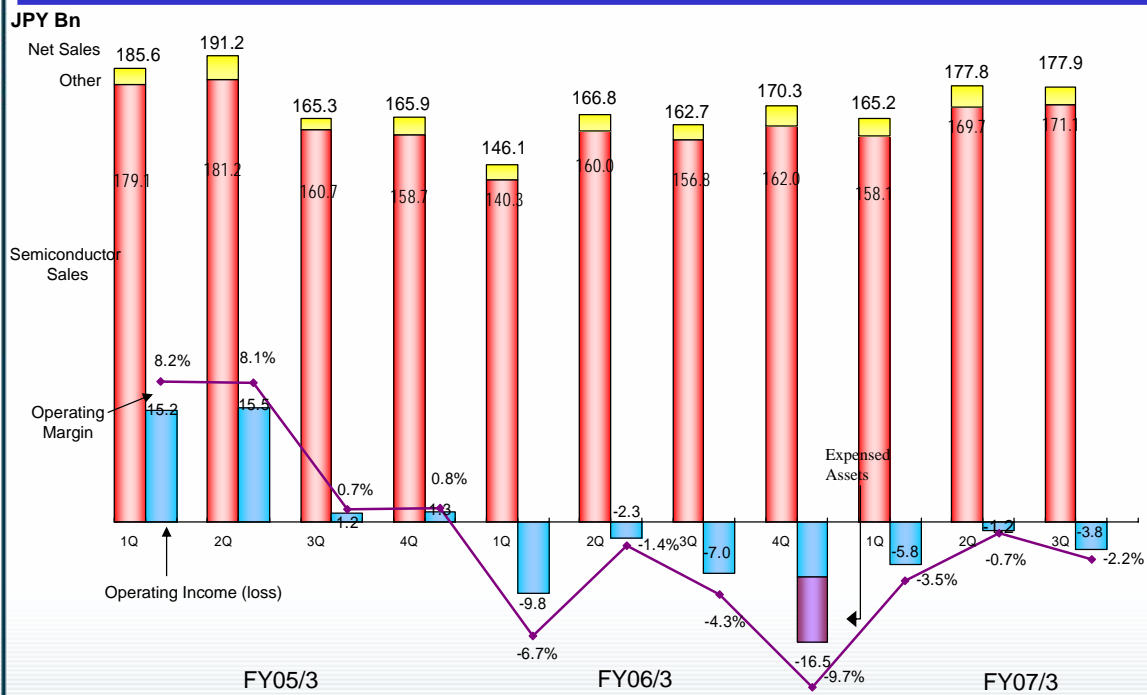
Operating losses were 3.8 billion yen. This was a 3.2 billion yen year-on-year improvement, but was still 2.7 billion yen worse than the previous quarter. On a nine-month cumulative basis, operating losses totaled 10.8 billion yen, an 8.4 billion yen improvement.

We recorded losses for EBT in the amount of 3.5 billion yen, and net loss of 5.8 billion yen.

Free cash flows for the third quarter were negative 7.6 billion yen, but on a nine-month cumulative basis, they were positive 5.8 billion yen.

Shareholder's equity ratio was 39%.

Trends in Quarterly Results

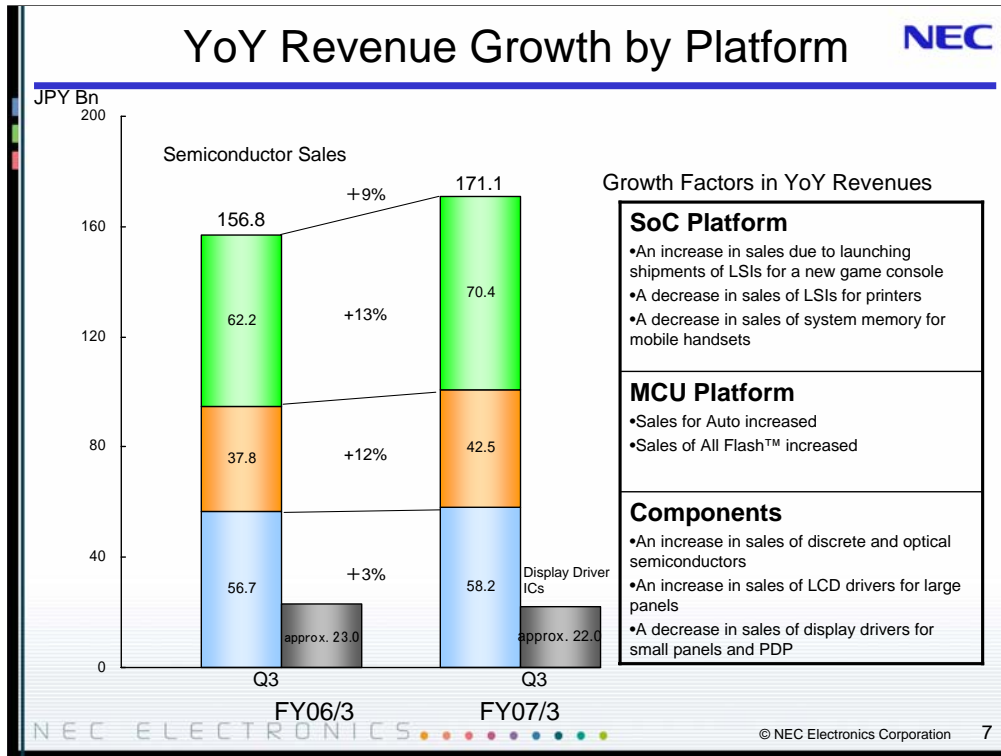


Note: Operating Income (loss) = Net Sales - COGS - R&D - SG&A

Slide 6 shows trends in quarterly results.

Profits improved steadily through the second quarter, when operating losses were 1.2 billion yen. However, stagnant sales growth and changes in the product mix resulted in larger operating losses in the third quarter.

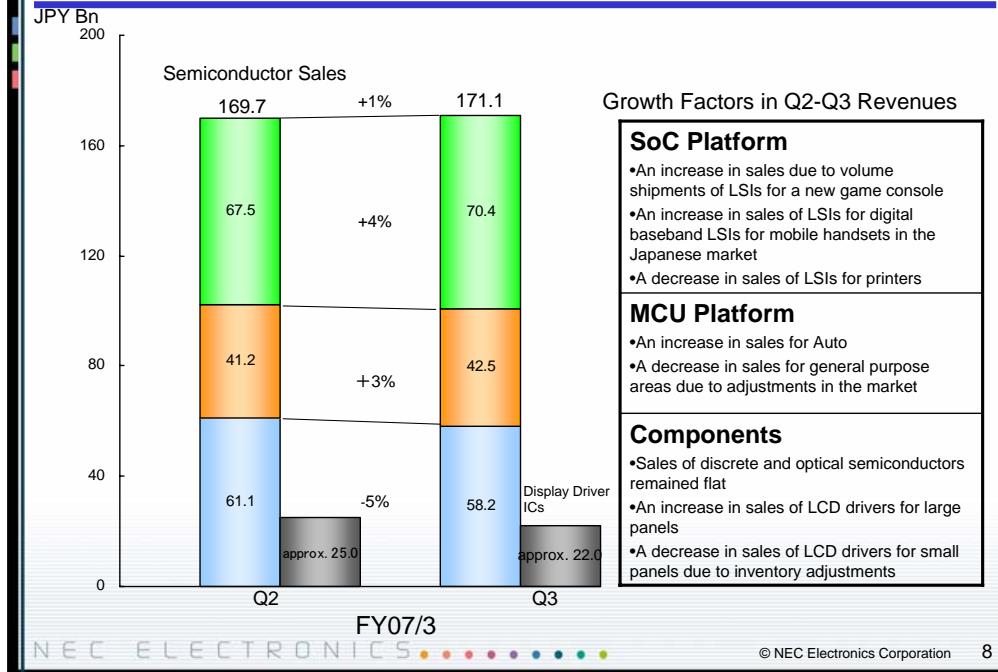
YoY Revenue Growth by Platform



Slide 7 shows year-on-year changes in sales, by platform.

Third quarter sales grew 9% year on year, due to increases in sales of game console chips, and automotive and All Flash™ microcontrollers.

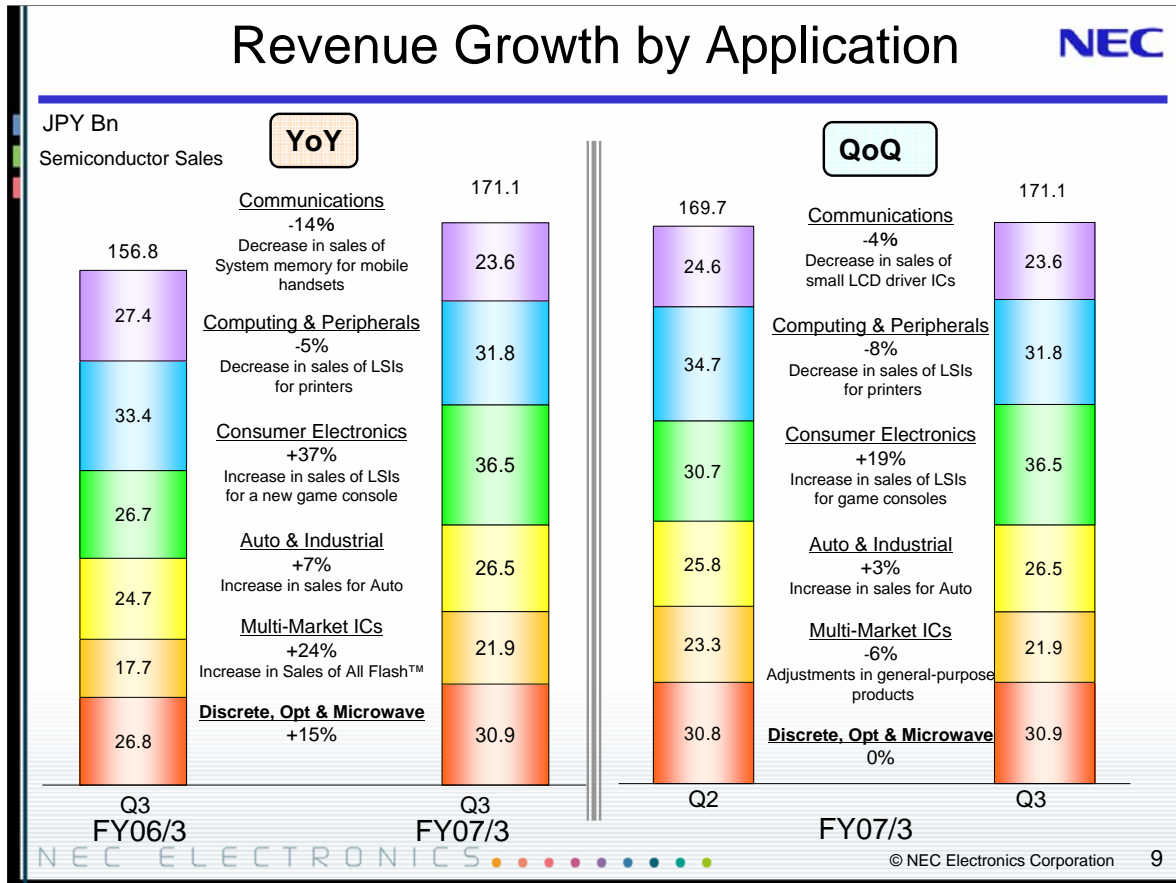
Q2-Q3 Revenue Growth by Platform NEC



The next slide shows quarter-on-quarter changes in sales, by platform.

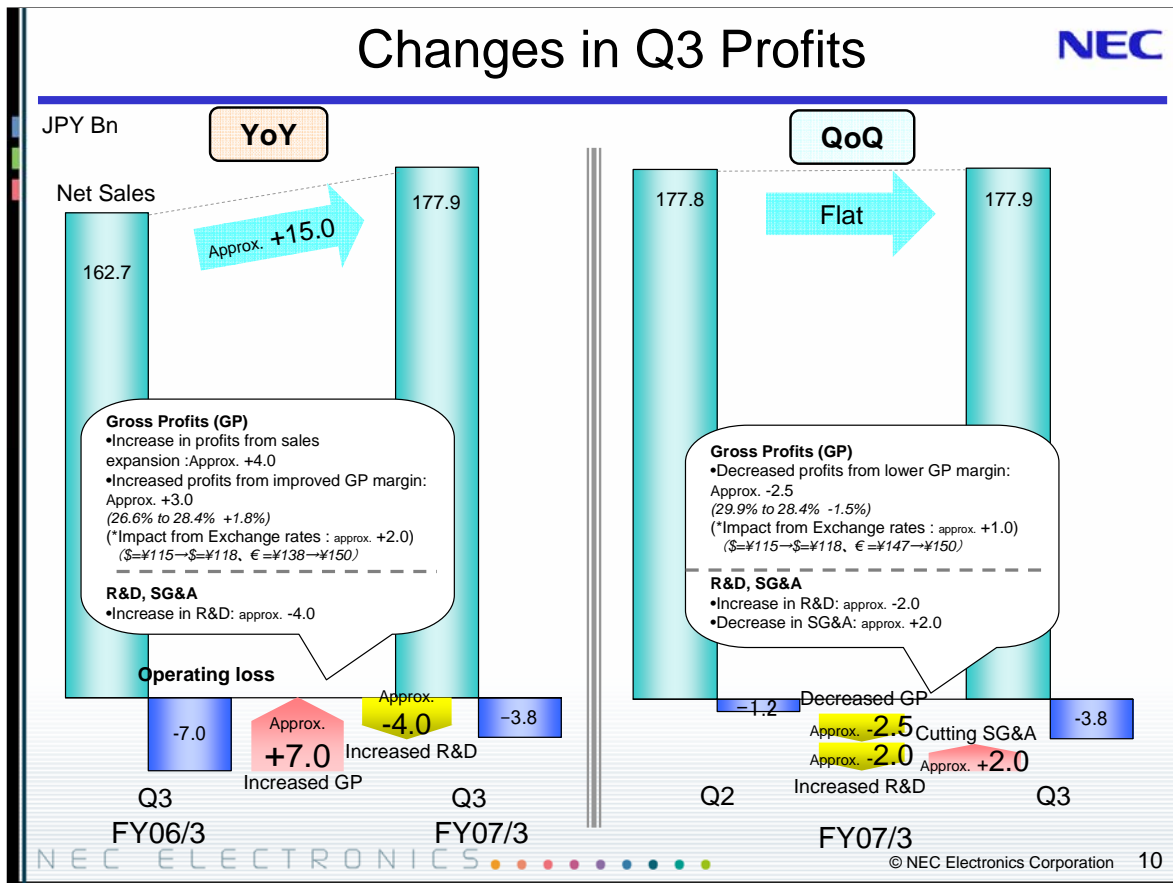
Third quarter sales grew only slightly from the previous quarter, unlike the strong growth shown year-on-year.

Revenue Growth by Application



Slide 9 shows sales growth by application.

The Consumer Electronics segment showed strong growth both yearly and quarterly, boosting overall semiconductor sales, but Communications and Computing and Peripherals showed decreases in sales both year on year and quarter on quarter.



Slide 10 shows year-on-year and quarter-on-quarter changes in profits for the third quarter.

Year-on-year, higher semiconductor sales and gross profit margins contributed to improvements in profitability, but an increase in R&D expenses necessary for future growth resulted in operating loss.

On a quarterly basis, we expected that operating losses in the third quarter would be similar to those in the second quarter. Although semiconductor sales for the third quarter were as expected, sales of products with lower gross profit margins increased more than expected, and led to greater operating losses for the third quarter.

Balance Sheet

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| JPY Bn | 05/12 | 06/9 | 06/12 |
|---|--------------|--------------|--------------|
| Cash and Cash Equivalents | 236.9 | 222.0 | 212.6 |
| Accounts Receivable | 99.6 | 116.7 | 105.1 |
| Inventories | 77.6 | 83.1 | 89.0 |
| PP&E | 306.0 | 305.9 | 305.7 |
| Other Assets | 90.4 | 49.4 | 39.3 |
| Total Assets | 810.4 | 777.0 | 751.7 |
| Accounts Payable | 128.3 | 169.2 | 150.7 |
| Debt Payable | 153.9 | 146.0 | 144.7 |
| Other Liabilities | 135.7 | 159.5 | 157.0 |
| Liabilities | 417.9 | 474.8 | 452.4 |
| Minority Shareholders' Equity | 4.0 | 4.2 | 4.6 |
| Shareholders' Equity | 388.6 | 298.0 | 294.8 |
| Total Liabilities and Shareholders' Equity | 810.4 | 777.0 | 751.7 |
| D/E Ratio (gross) | 0.40 | 0.49 | 0.49 |
| Equity Ratio | 48% | 38% | 39% |
| Deferred Tax Assets (NET)* | 54.9 | 1.0 | 0.2 |

*Note: Deferred Tax Assets (NET) = Deferred Tax Assets + Deferred Tax Liabilities

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The next slide shows the company's balance sheet.

Inventories increased by approximately 6 billion yen from the end of September. This was mainly due to year-end inventory increases in North America and Europe. We will lower inventories to optimal levels by the end of March, by adjusting production levels during the fourth quarter.

Cash Flows

| JPY Bn | FY06/3 | | FY07/3 | | |
|--------------------------------------|--------|---------------------|--------|-------|---------------------|
| | Q3 | 9 months Cumulative | Q2 | Q3 | 9 months Cumulative |
| Cash Flows from Operating Activities | 35.8 | 50.4 | 26.8 | 19.5 | 54.1 |
| Cash Flows from Investing Activities | -1.3 | -35.5 | -8.7 | -27.1 | -48.2 |
| Free Cash Flows | 34.5 | 15.0 | 18.1 | -7.6 | 5.8 |

Slide 12 shows cash flows.

Free cash flows for the third quarter were negative 7.6 billion yen. This was mainly due to capital expenditures in the amount of 37.8 billion yen related to capacity expansion for the 300mm wafer line.

Agenda

I. 1H FY07/3 Financial Results

II. FY07/3 Financial Forecasts and
Measures to Improve Profitability

Next, we will address the company's outlook for the fiscal year ending March 2007, and measures to improve profitability.

FY07/3 Forecasts

- Q4 results are expected to fall below Q3 levels, and the company is considering structural reforms aimed at recovery over the medium term.
- Consequently, costs associated with the reforms are still being determined, and NEC Electronics will disclose full-year forecasts when these figures are established.

| Previous Forecasts (announced on Oct. 25 th) | FY06/3 Full Year | FY07/3 | | |
|---|---------------------|--------|-----------------|-----------|
| | | 1H | 2H | Full Year |
| JPY Bn | | | Forecasts | Forecasts |
| Net Sales | 646.0 | 343.0 | Approx. 350.0 | 695.0 |
| Operating Income (loss) | -35.7 | -6.9 | 0 * | -7.0 * |
| EBT | -42.4 | -5.6 | Approx. -13.4 * | -19.0 * |
| Net Income (loss) | -98.2 | -7.4 | Approx. -17.6 * | -25.0 * |

Exchange Rates

| | | | | |
|--------|------|------|--------------------|--|
| 1US\$= | ¥112 | ¥115 | ¥115 (Q3: ¥118) | |
| 1Euro= | ¥138 | ¥145 | ¥145 (Q3: ¥150) | |

Note 1: Operating Income (loss) = Net Sales – COGS – R&D – SG&A

Note 2: FY07/3 forecasts are as of October 25, 2006

Slide 14 shows the current forecasts for the fiscal year, which we announced on October 25.

These forecasts will remain unchanged for the time being, but as we will explain in greater detail in the following slides, fourth quarter sales are expected to decline, making it inevitable that the company will post operating losses.

However, the amount of non-operating losses is still unclear, and operating losses themselves may be affected by the structural reforms currently under consideration. Therefore, we have decided not to revise the forecasts at this time.

I intend to explain our plan for reform on February 22nd. Forecasts will be announced in a timely manner, once the costs associated with reforms have been determined.

Decline in Q4 Profitability (on operating basis)

- Decrease in semiconductor sales

Q4 semiconductor sales are expected to be less than Q3 levels

- SoC Platform: Decrease in sales due to adjustments of PC peripherals
- Display Driver ICs: Decrease in sales due to production adjustments by customers and price declines

- Manufacturing adjustments (lower utilization rates)

Adjust manufacturing levels in response to slowing demand and higher-than-optimal inventory levels for December

| | Q3 | Q4 |
|-------------------|-------|-------------|
| Utilization Rates | > 90% | approx. 80% |

- Additional costs for structural reforms

Currently under consideration. To be announced February 22nd.

The next slide explains factors expected to cause operating losses to increase in the fourth quarter.

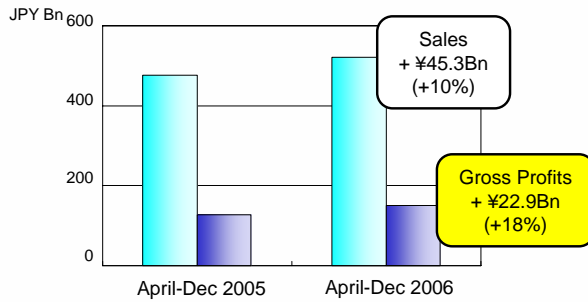
First, semiconductor sales in the fourth quarter are expected to be affected by adjustments in LCD drivers and PC peripherals, which would lead to a decline by several percentage points.

Second, operating profits will be affected as production levels are adjusted to respond to declining demand and bring inventories to optimal levels.

Third, to address such deterioration in financial performance, NEC Electronics is currently considering plans for structural reforms, which in turn are likely to affect operating losses.

Previous Sales expansion and Investment Strategies NEC

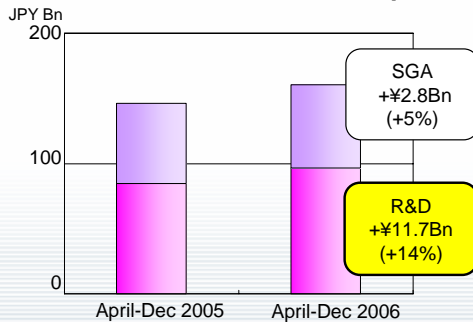
■ Increased Sales and Gross Profits



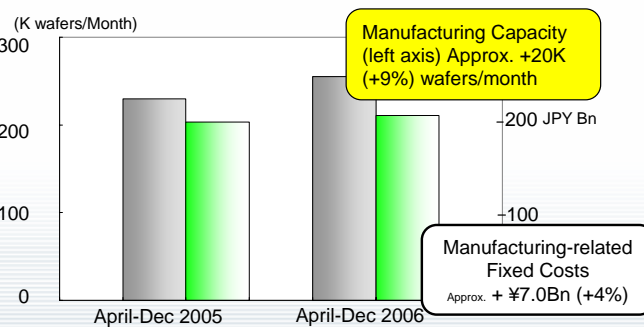
Comparing April-Dec periods of 2005 and 2006

- ✓ Sales and Gross Profits increased
- ✓ R&D investments and SG&A Expenses increased
- ✓ Manufacturing-related fixed costs grew as manufacturing capacity increased

■ Increased R&D and SG&A Expenses



■ Increased Manufacturing Capacity



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Slide 16 shows the company's understanding of the challenges it faces, which will be addressed by the structural reforms.

Until now, the company aimed to expand sales evenly across its different product types, and sales for the nine months ended December 31, 2006 did grow 10% year on year.

Although we increased R&D spending and CAPEX for capacity expansion in the hopes of sustaining double-digit sales growth, we do not believe we can sustain such growth or improve profits in the near term.

1. Expand Sales

Plans will be announced on February 22

Re-evaluate the company's product portfolio and redefine "core" products to focus on, for improved product development

2. Improve Cost Competitiveness, Streamline Expenses

Re-evaluate manufacturing, for example by accelerating the shift of production for mature products overseas

Improve efficiency of capital expenditures and R&D expenses

Now let's take a look at slide 17.

Taking into consideration the previous conditions, as well as the softening of the semiconductor market which is expected through the first half of next fiscal year, I feel it is necessary to implement some structural reforms in order to achieve new growth.

Although we cannot announce a detailed plan until February 22nd, fundamentally there will be two key points – expanding sales, and improving cost competitiveness.

Until now, the company had scattered its R&D resources across all of its various product lines, but as a result, resources were spread too thin and it was difficult to develop products that were competitive enough to win new business. As a first step toward expanding sales, the company needs to identify and focus on its "core" products, which should help win new business.

We will also re-evaluate manufacturing operations, particularly for mature products, which are facing stiff pricing pressure. As a first step, I think it will be necessary to actively shift manufacturing of these products overseas.

- ✓ **Date** : February 22nd
- ✓ **Place** : TBA
- ✓ **Spokesperson** : **Toshio Nakajima**
President and CEO

In closing today, I would like to reiterate that NEC Electronics is currently considering structural reforms, and will announce management and sales strategies on February 22nd.

As prospects for achieving operating profits in the second half of the fiscal year are slim, I understand the concern among our shareholders and stakeholders, and would like to ask for your understanding and patience as we carefully consider our plans for reform.

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This concludes our presentation today. Thank you for joining us.