

FY07/3 Financial Results and FY08/3 Outlook

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

Welcome to NEC Electronics' webcast.

I. FY07/3 Financial Results

- ✓ Sales and profits/losses in line with previous forecasts announced on February 22, 2007

II. FY08/3 Forecasts

- ✓ Must achieve full-year operating profits committed to by management (Achieve by reducing fixed costs, and increasing sales slightly)

III. Measures to Improve Performance

- ✓ Aggressive implementation of new management policies announced on February 22, 2007

Slide 2 provides an overview of the points we will discuss today.

First, we will present financial results for the fiscal year ended March 31, 2007. Sales and operating profit/loss were in line with the forecasts we announced on February 22.

Second, we will present the forecast for the current fiscal year. We will reduce fixed costs by 20.0 billion yen as promised on February 22, and achieve operating profits.

Third, we will explain progress being made on the new management policies.

I. FY07/3 Financial Results

Summary

Q4 Results

Full-Year Results

II. FY08/3 Forecasts

III. Measures to Improve Performance

Let me begin with the summary of financial results, shown on slide 4.

Financial Snapshot



(B Yen)	FY06/3	FY07/3				
	Full Year	Q4		Full Year		
	Actual	Actual	YoY	Actual	YoY	Compared to Feb. 22 Forecasts
Net Sales	646.0	171.4	+1.1	692.3	+46.3	+2.3
Semiconductor Sales	619.1	160.8	-1.3	659.7	+40.6	-0.3
Operating Income (Loss)	-35.7	-17.8	-1.3	-28.6	+7.1	+1.4
Income (Loss) Before Income Taxes	-42.4	-26.3	-1.9	-35.4	+7.0	+3.6
Net Income (Loss)	-98.2	-28.4	+59.4	-41.5	+56.7	+3.5
Free Cash Flows	-4.8	-17.6	2.1	-11.8	-7.0	-
D/E Ratio	0.48	-	-	0.51	+0.03 points	-
Shareholders' Equity Ratio	41%	-	-	38%	-3% points	-
Exchange Rates	US\$1 = 112 yen 1 Euro = 138 yen	US\$1 = 119 yen 1 Euro = 156 yen	2 yen weak / US\$ 16 yen weak/ Euro	US\$1 = 117 yen 1 Euro = 149 yen	5 yen weak/ US\$ 11 yen weak / Euro	

Note: NEC Electronics' consolidated information is in accordance with U.S.GAAP. However, the figure for operating income (loss) shown above represents net sales minus the cost of sales, research and development, and selling, general, and administrative expenses.

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Semiconductor sales were 659.7 billion yen, a 40.6 billion yen increase from the previous fiscal year.

Operating loss was 28.6 billion yen, a 7.1 billion yen improvement from the previous year. Net loss was 41.5 billion yen.

I. FY07/3 Financial Results

Summary

Q4 Results

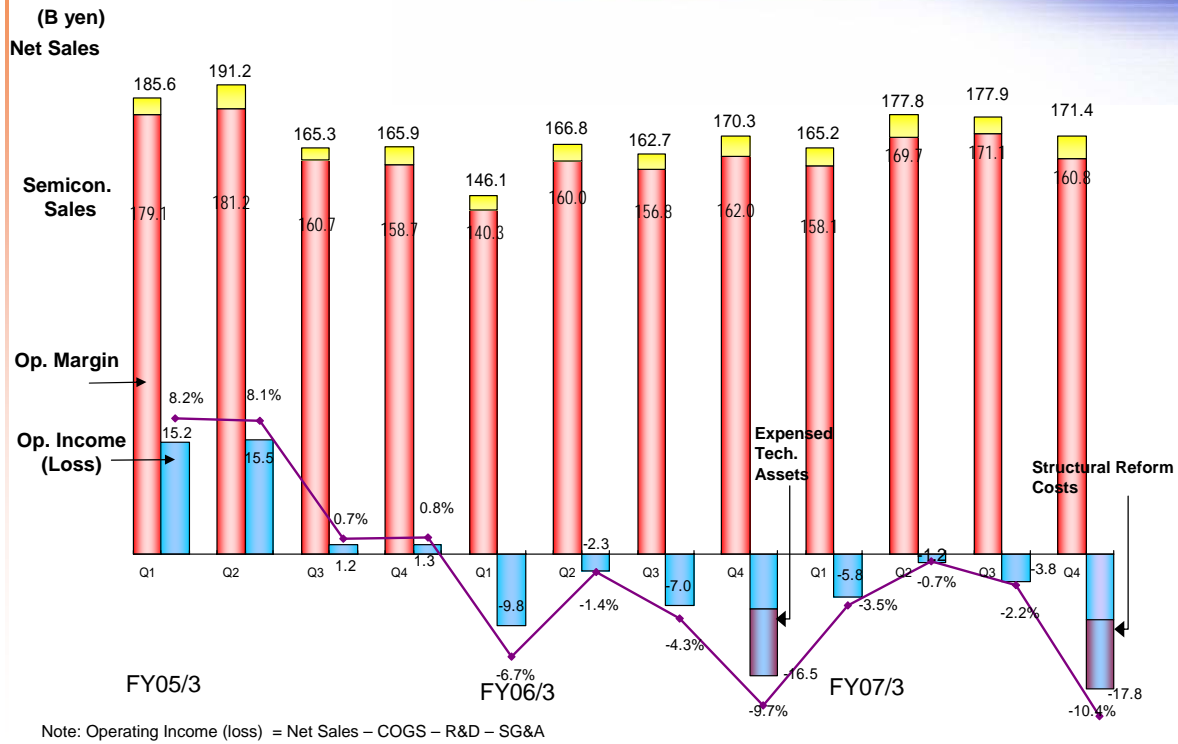
Full-Year Results

II. FY08/3 Forecasts

III. Measures to Improve Performance

Next we will explain fourth quarter results.

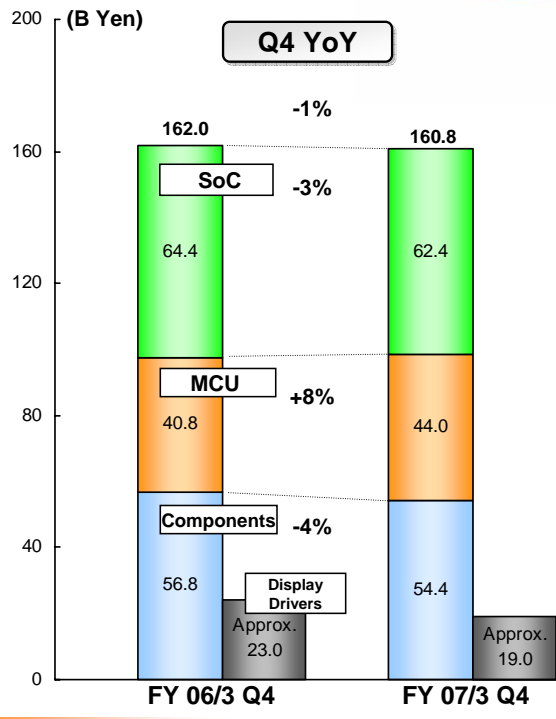
Trends in Quarterly Results



Slide 6 shows trends in quarterly sales.

In the fourth quarter, a decline in semiconductor sales, and costs associated with structural reforms led to larger operating loss.

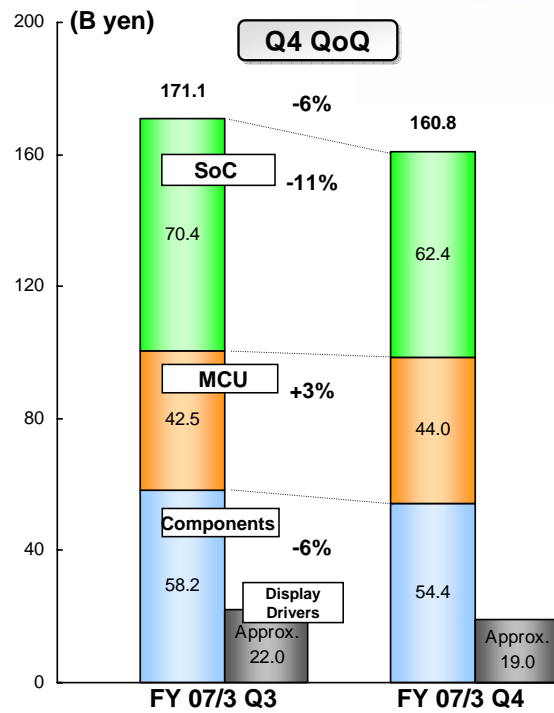
Q4 Semiconductor Sales by Platform (YoY)



+/- Factors	
SoC	(+) Shipping LSIs for game consoles (-) LSIs for DVD drives; digital baseband LSIs and system memory for mobile phones
MCU	(+) Automotive (+) All Flash™ microcontrollers
Components	(+) Discrete and compound semiconductor devices (-) LCD driver ICs for large and small panels

The next slide shows a year-on-year comparison of fourth quarter sales, according to platform. Although sales of MCUs grew, adjustments for LCD driver ICs led to a 1 percent overall decline year on year.

Q4 Semiconductor Sales by Platform (QoQ)

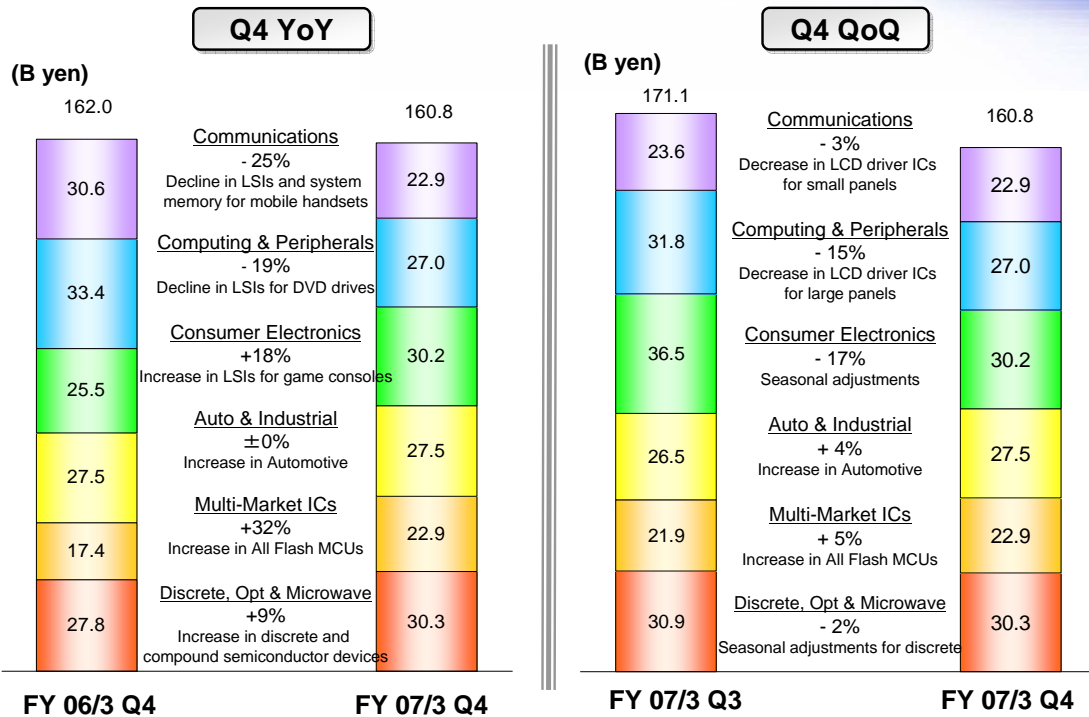


+/- Factors	
SoC	(-) Seasonal adjustments for consumer electronics and PC peripherals
MCU	(+) Growth in automotive, and slight growth in multi-purpose MCUs
Components	(-) Seasonal declines in discrete (-) Lower revenue from LCD driver ICs for large and small panels

Slide 8 shows a quarter-on-quarter comparison of fourth quarter sales.

Aside from relatively strong sales of MCUs, most other products experienced either seasonal adjustments or inventory adjustments, leading to a 6 percent decline quarter on quarter.

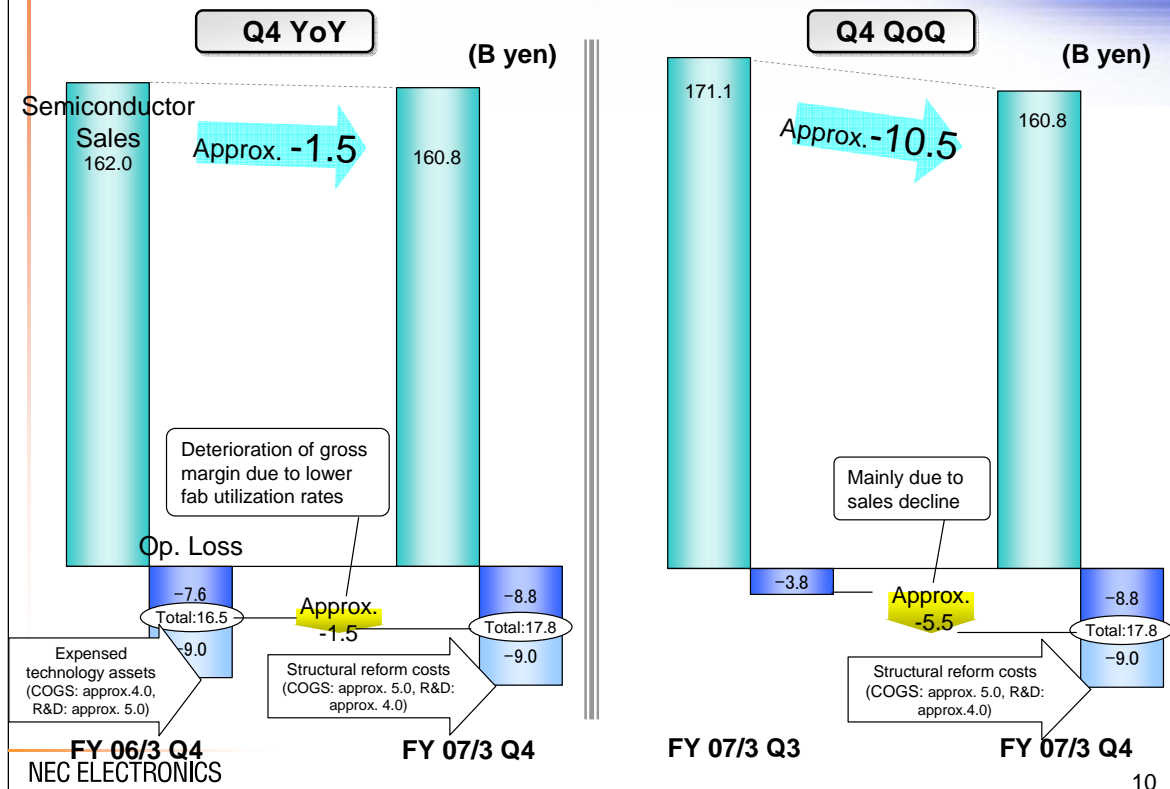
Semiconductor Sales by Application



The next slide shows fourth quarter sales by application.

Fourth quarter sales for Computing and Peripherals showed large declines both year on year and quarter on quarter.

Factors in Operating Loss



Slide 10 shows operating loss for the fourth quarter, which declined both year on year and quarter on quarter, even excluding the impact of costs associated with structural reforms. We will explain these costs in greater detail in later slides.

Year on year, lower fab utilization rates led to lower gross margin, and quarter on quarter, a decline in sales led to larger operating losses.

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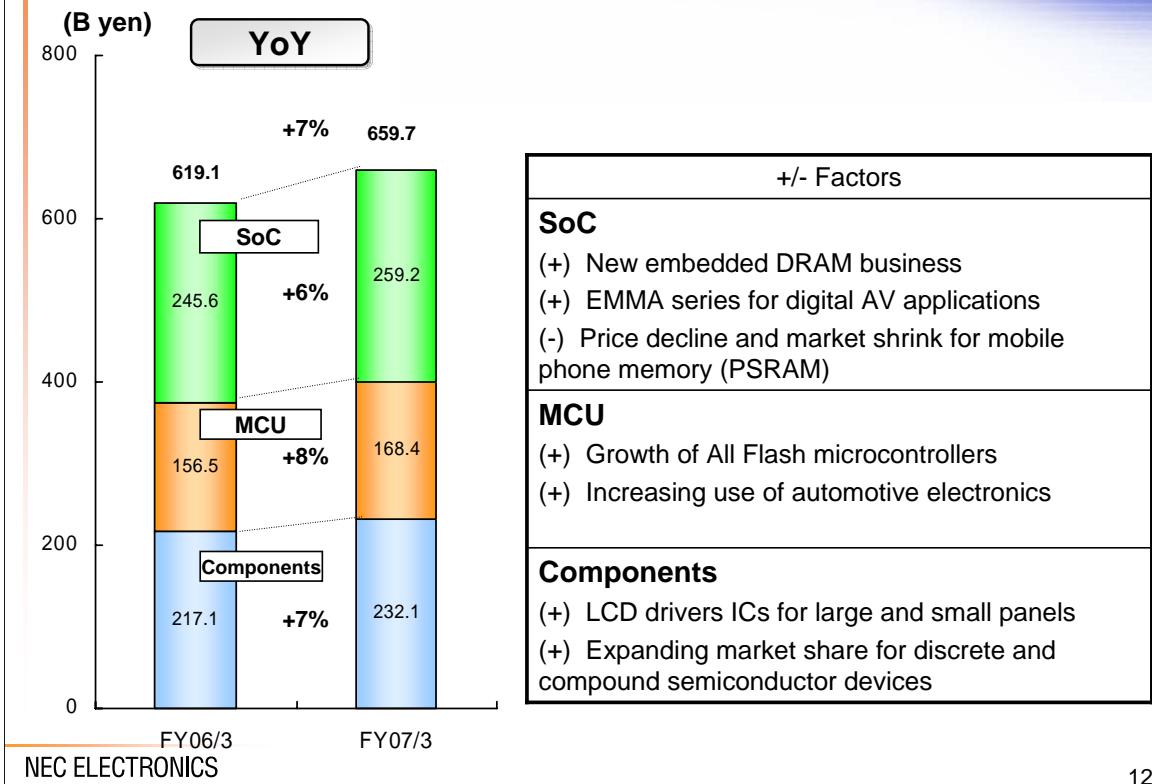
Full-Year Results

II. FY08/3 Forecasts

III. Measures to Improve Performance

Next, we will explain the full-year financial results.

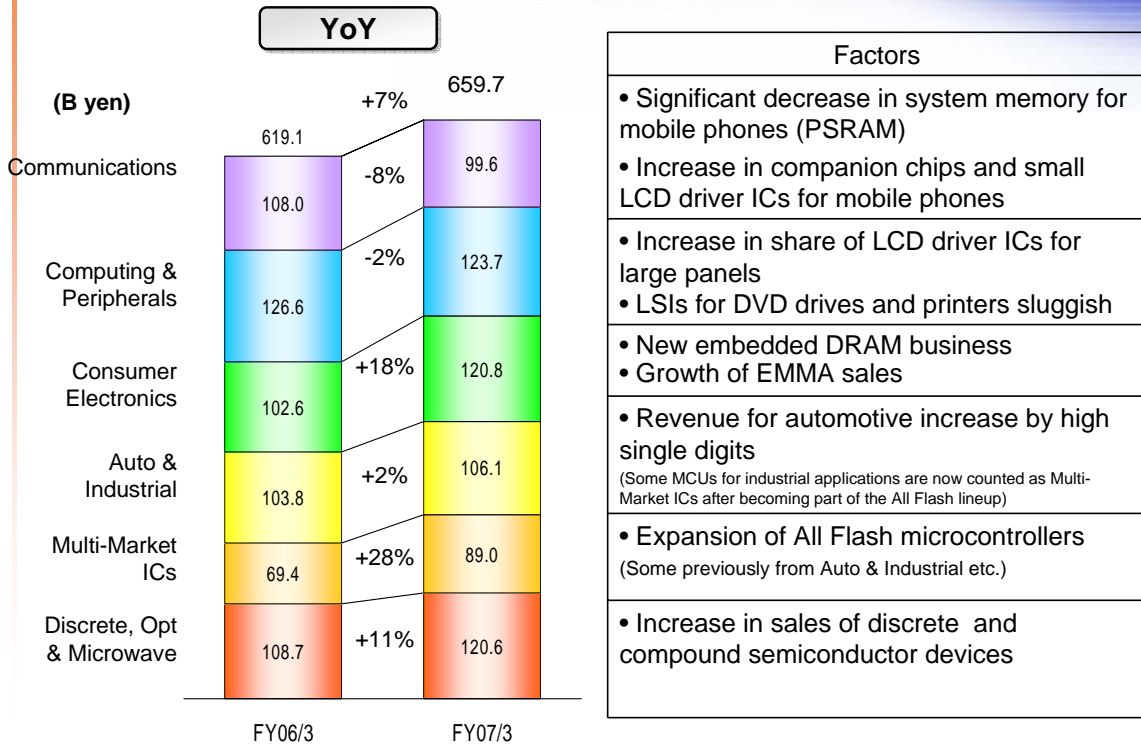
Semiconductor Sales by Platform (YoY)



As you can see on slide 12, semiconductor sales grew 7 percent year on year.

For the SoC platform, there was the launch of a new business. In MCUs, sales of both general purpose and automotive microcontrollers increased. Sales of nearly all of the products in the Components category increased as well.

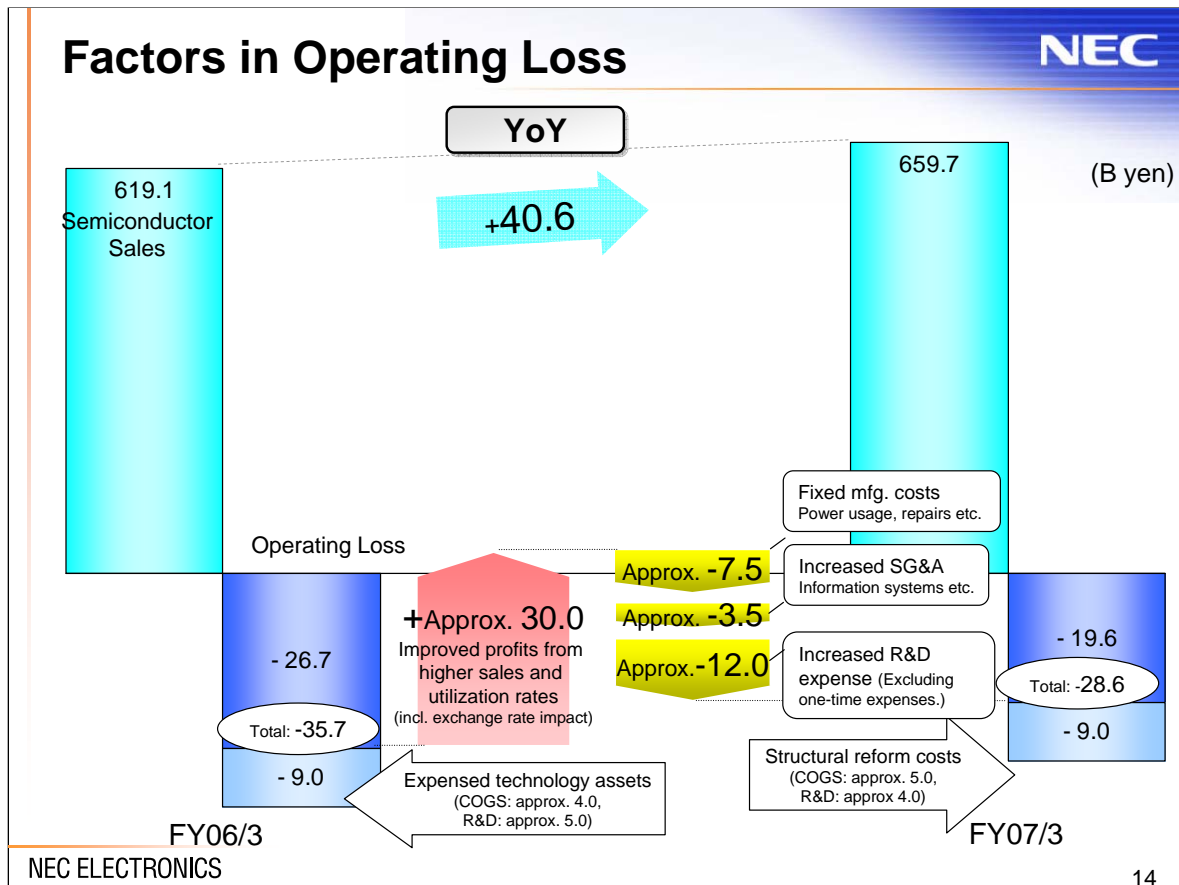
Semiconductor Sales by Application (YoY)



The next page shows annual semiconductor sales by application.

While sales of system memory for mobile phones declined, double-digit growth in the Consumer Electronics, Multi-Market IC, and Discrete, Optical and Microwave categories drove overall sales higher.

One note of clarification concerning microcontroller sales, is that some automotive and industrial microcontrollers, amongst others, that had previously used mask ROM products have in recent times shifted to All Flash, which may appear to inflate the sales figures for the Multi-Purpose IC category.



The next slide shows operating loss.

Comparing operating loss year on year, excluding one-time costs associated with structural reforms, there was approximately 30.0 billion yen improvement due to increased sales and higher utilization rates. However, an increase in fixed costs related to the increase in manufacturing operations, and higher R&D expenses resulted in operating loss in the amount of 19.6 billion yen.

Structural Reform Costs

Restructuring executed as planned (from Feb. 22).
Recorded approx. 15 B yen in related costs.

Item	Amount	Description
COGS	Approx. 5.0 B yen (Q4)	• Reduction of Inventories
R&D Expenses	Approx. 4.0 B yen (Q4)	• Costs associated with consolidation of development projects
Non-operating Expenses	Approx. 6.0 B yen (Full Year)	• Closure of Ireland plant and 8-in. prototype line at Sagamihara, Japan • Disposal of manufacturing equipment

The structural reform costs are explained on slide 15.

On an operating basis, we reduced inventories and consolidated development projects as planned, recording 9.0 billion yen in associated costs for the fourth quarter. On a non-operating basis, we incurred costs for the closure of the Ireland plant and 8-inch prototype line in Sagamihara, Japan.

These costs were in line with our initial estimates, which we announced on February 22.

Balance Sheet

(B yen)	06/3	06/12	07/3
Cash and Cash Equivalents	211.1	212.6	185.4
Accounts Receivable	113.9	105.1	99.5
Inventories	72.5	89.0	82.6
PP&E	302.1	305.7	292.8
Other Assets	45.7	39.3	35.6
Total Assets	745.3	751.7	695.9
Accounts Payable	122.9	150.7	132.5
Debt Payable	148.3	144.7	136.0
Other Liabilities	161.7	157.0	157.5
Liabilities	432.9	452.4	426.0
Minority Shareholders' Equity	4.1	4.6	4.8
Shareholders' Equity	308.3	294.8	265.1
Liabilities and Shareholders' Equity	745.3	751.7	695.9
D/E Ratio (Gross)	0.48	0.49	0.51
Equity Ratio	41%	39%	38%
Deferred Tax Assets (Net)*	-1.6	0.2	-0.2

* The figure for deferred tax assets includes deferred tax assets as well as deferred tax liabilities.

The balance sheet is on shown on slide 16. Inventories at the end of December were at a high level of 89.0 billion yen, but shrank to 82.6 billion yen by the end of March due to adjustments in production.

Cash Flows

(B yen)	FY06/3		FY07/3		
	Q4	Full Year	Q3	Q4	Full Year
Cash Flows from Operating Activities	-0.5	49.9	19.5	12.7	66.7
Cash Flows from Investing Activities	-19.2	-54.7	-27.1	-30.3	-78.5
Free Cash Flows	-19.7	-4.8	-7.6	-17.6	-11.8

Slide 17 shows cash flows. Free cash flows were negative 11.8 billion yen due to factors such as net loss in the amount of 41.5 billion yen, as well as payments for capital investment.

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Next, we will discuss the financial forecasts for the fiscal year ending March 2008, on slide 19.

Market for NEC Electronics' Products Expected to Grow 2 to 8% YoY

(NEC Electronics' forecast, excluding DRAM, FLASH, and MPU)

	YoY	Market Situation
1H (Apr-Sep)	0 to +2%	In Q1, inventory adjustments will ease and orders will pick up, but sales will not recover until early summer, limiting overall sales growth.
2H (Oct-Mar)	+5% to +9%	Sales of digital TV and PC-related devices will grow quickly from mid-year heading into the Olympics, spurring the semiconductor market. In the Jan-Mar period, demand will not fall as sharply as in the previous year due to the Olympics.
Full Year	+2% to +8%	Anticipate mid-range growth of roughly 5%

Before explaining the financial forecasts, we would first like to explain our view of the semiconductor market for the coming year.

Looking at NEC Electronics' core semiconductor business, which excludes DRAM and MPUs, in the first half we expect to see signs of recovery, but actual sales growth will remain limited.

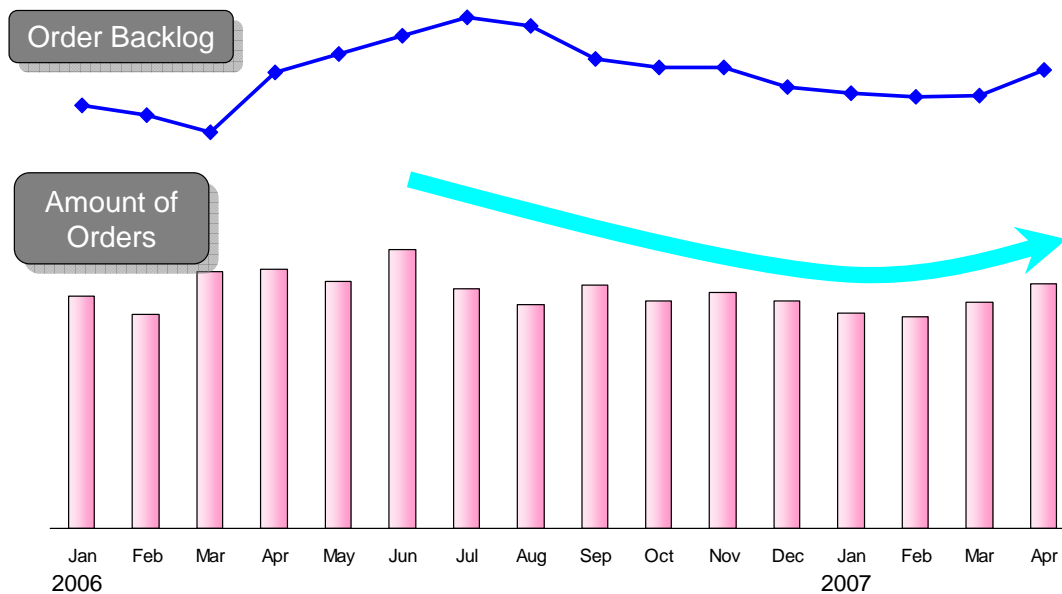
By the second half, demand for digital televisions leading up to the Olympics, and an upsurge in the PC market due to demand for Microsoft's Windows Vista should boost semiconductor market growth.

Overall, we expect to see somewhere between 2 to 8 percent growth, probably near the mid-range mark of 5 percent for the full year.

Order Backlog and Amount of Orders

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Order backlog and amount of orders point to signs of recovery



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Slide 20 shows monthly trends in order backlog and orders. As you can see, both order backlog and orders are showing signs of recovery from March.

In particular, discrete and other general purpose products, as well as LCD driver ICs for large panels, are showing strong signs of recovery.

Financial forecasts were established based on the lowest end of the 2 to 8% growth rate predicted for the semiconductor market

(B yen)	FY07/3		FY08/3		
	Half Year	Full Year	Half Year	Full Year	
	Actual	Actual	Forecast	Forecast	YoY
Net Sales	343.0	692.3	335.0	690.0	-2.3
Semiconductor Sales	327.8	659.7	325.0	670.0	+10.3
Operating Income (Loss)	-6.9	-28.6	-5.0	0.0	+28.6
Income (Loss) Before Income Taxes	-5.6	-35.4	-12.0	-10.0	+25.4
Net Income (Loss)	-7.4	-41.5	-15.0	-15.0	+26.5

Exchange Rates	US\$1 = 115 yen 1 Euro = 145 yen	US\$1 = 117 yen 1 Euro = 149 yen	US\$1 = 115 yen 1 Euro = 150 yen	2 yen strong / US\$ 1 yen weak / Euro
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Note 1: Operating Income (Loss) = Net Sales – COGS – R&D – SG&A.
 Note 2: There is no change to the depreciation method.
 Note 3: Forecasts as of May 14, 2007.

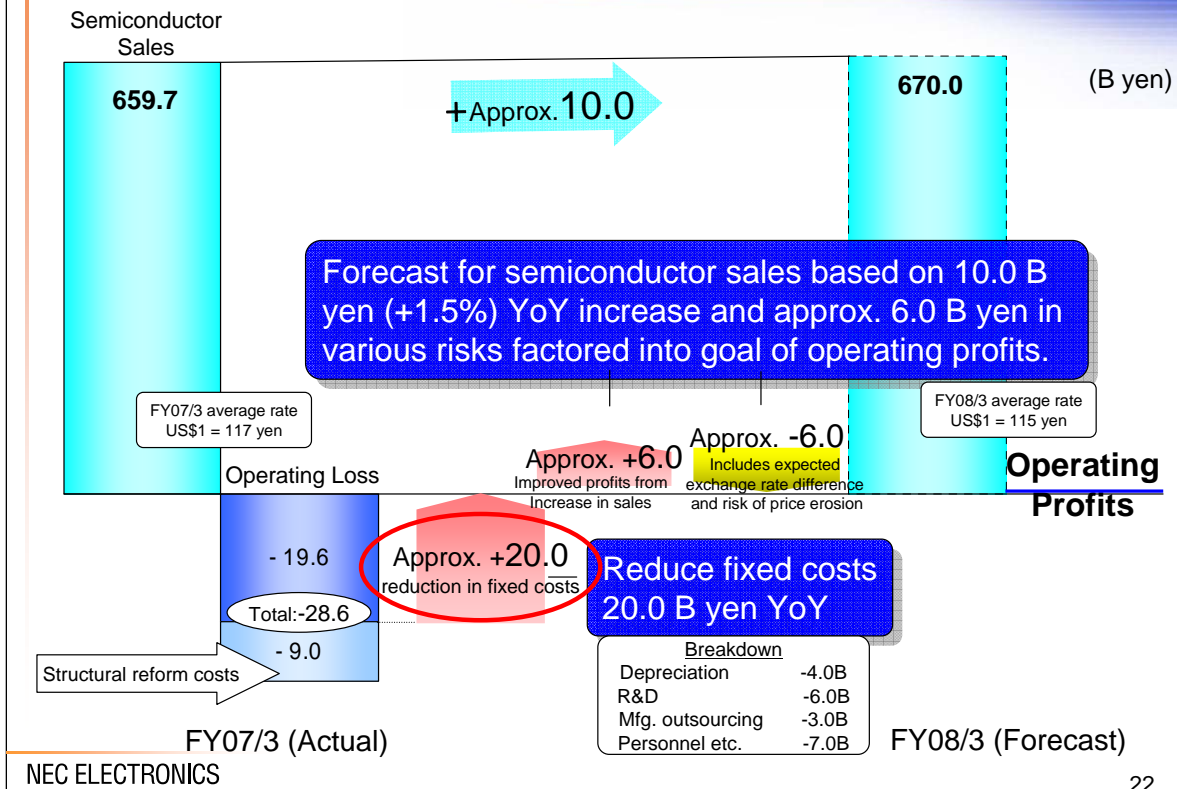
Now let us look at the financial forecasts on slide 21.

As we just explained, we believe that the semiconductor market will grow between 2 to 8 percent. Our forecasts were prepared based on the most conservative scenario of just 2 percent growth.

We believe semiconductor sales will increase by 10.0 billion yen, to 670.0 billion yen.

For operating profits, we are determined to at least break even, but loss before income taxes and net loss will still remain in the red.

Analysis of Forecast for Operating Profits

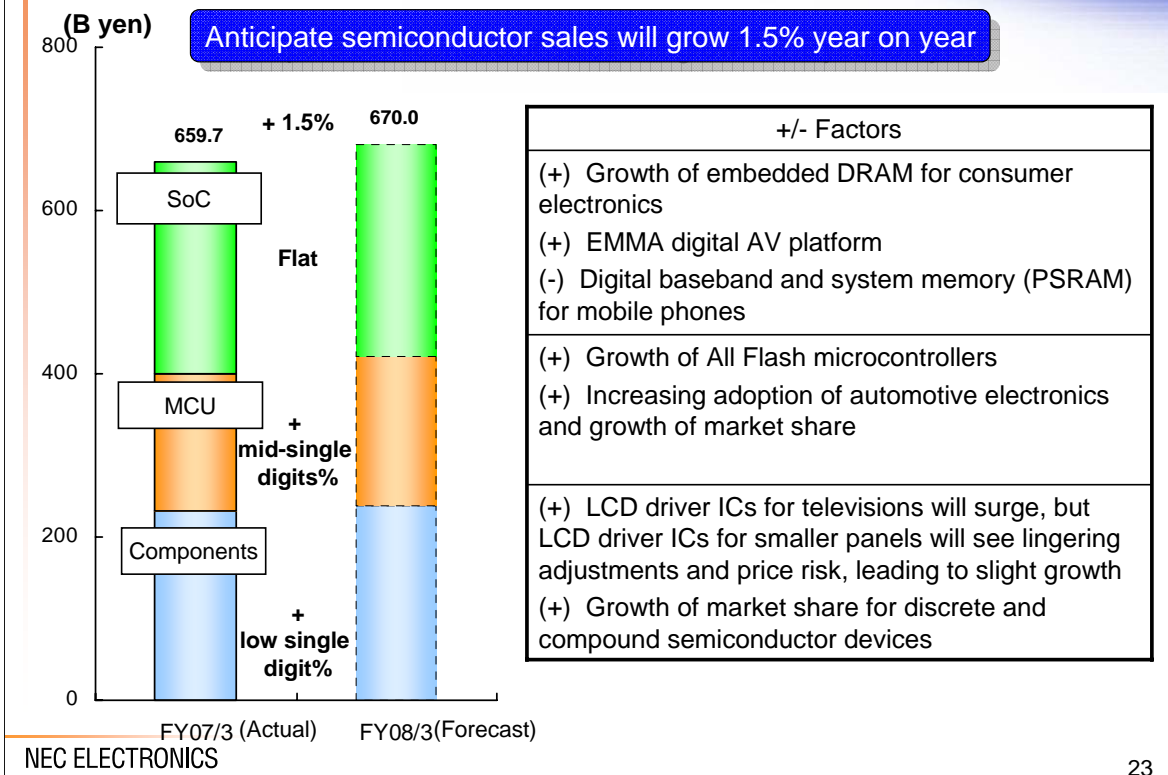


The next slide explains our analysis in greater detail.

As I explained on February 22, we are working to reduce fixed costs by 20.0 billion yen this year.

We also anticipate an improvement in marginal profit from a 10.0 billion yen increase in semiconductor sales. Although there may be fluctuation in exchange rates and other various risks, our forecast is still to attain operating profits.

Semiconductor Sales by Platform (Forecast) NEC



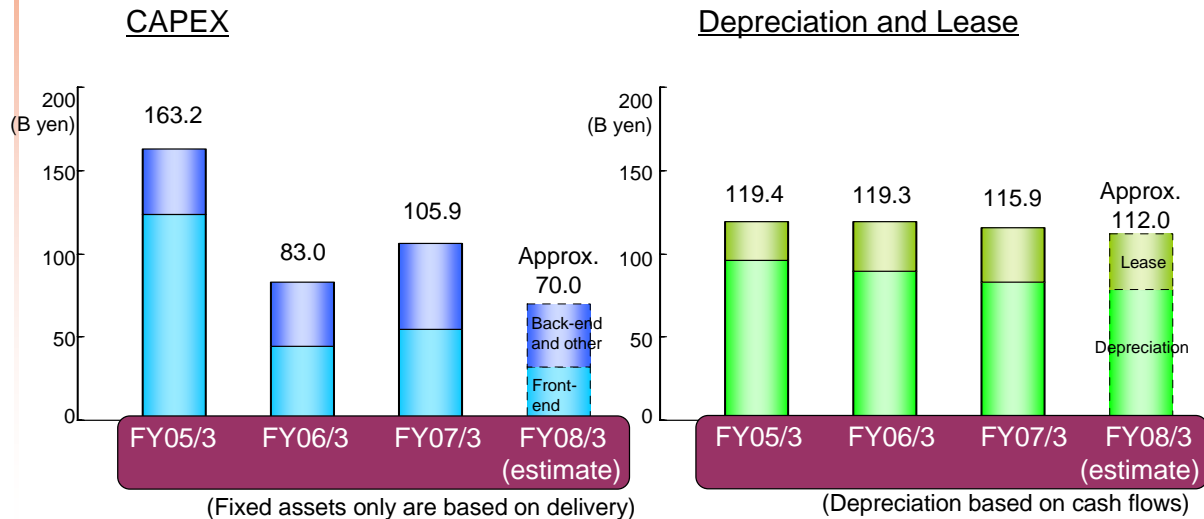
Slide 23 shows the breakdown of our semiconductor sales forecast.

For SoCs, growth in embedded DRAM for consumer electronics will be offset by the decline in digital baseband and system memory for mobile phones, leading to overall flat growth.

For MCUs, both automotive and general purpose will increase, but we have set the forecast for growth conservatively in the mid-single digits.

For Components, growth will be in the low single digits when factoring into account the possible extension of adjustments of LCD driver ICs for small panels, and price risk.

- FY08/3 CAPEX restricted to 70.0 billion yen
- Focus investment on value-added products such as automotive MCUs, and 55nm process technology



The next slide explains capital expenditures, and depreciation and lease.

As explained on February 22, CAPEX will be set at 70.0 billion yen, focusing on value-added products such as automotive microcontrollers and 55nm process technology. However, we will continue to increase manufacturing capacity from the Overall Equipment Efficiency (OEE) activities as previously planned, so even if there is larger-than-anticipated market growth, we will be able to meet demand.

Depreciation and lease is estimated to decrease by 4.0 billion yen.

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Finally, we will discuss progress on implementing our new management policies on slide 26.

Launched Projects to Execute New Management Policies

(Progress as of May 14, 2007)

Goal	Primary Measures	Status
Improve competitiveness of products by focusing resources	Reduce technology outsourcing costs roughly equivalent to 600 people	Completed
	Shift development resources equivalent to approx. 400 employees	Halfway Complete (Expect to complete all 400 by the end of the fiscal year)
Reduce costs by reorganizing manufacturing operations	Establish timeline for reorganization	Completed
	Prepare to obtain customer consent	Begun
	Ready the necessary manufacturing equipment	Begun
Improve profit/loss management with corporate reorganization	Establish business units for SoC, MCU, and Components; each is responsible for its own profit management. Eliminate 18 divisions (from 59 to 41) to facilitate sharing of human resources and improve efficiency	Reorganization Completed
Reduce fixed costs to attain operating profits in FY08/3	Reduce technology outsourcing	Completed (see above)
	Reduce fixed production costs by capping CAPEX etc.	Established budget to reduce CAPEX
	Reduce salaries for employees	Underway

We are steadily executing the new management policies introduced on February 22, and management is involved in establishing projects to ensure their thorough implementation. Let me explain the status of our progress thus far.

1. To help improve competitiveness, we have begun consolidating development resources by directing approximately 200 employees thus far to other key projects, and reducing technology outsourcing costs roughly equivalent to 600 people. We are continually considering other means of consolidating development resources.
2. We are working to reduce costs by reorganizing manufacturing operations. We have established a timeline for implementation, and while we cannot disclose details at this time, we are considering additional measures.
3. We have introduced a new Business Unit structure for the core areas of SoC, MCU, and Components. These units are also directly linked to specific manufacturing sites, which promotes greater responsibility for profit management and cost reduction within each business. We have also streamlined the number of divisions by about one-third, consolidating or eliminating 18 divisions to enhance greater sharing of human resources.
4. To reduce fixed costs, we have begun cutting employee salaries, as well as reducing technology outsourcing costs and CAPEX.

In addition to making sure that these measures are thoroughly implemented, we are reviewing additional measures to help improve operating efficiency.

- Management will achieve, at a minimum, operating profits for the fiscal year. This is our commitment.
- We will push operating profits even higher by improving the efficiency of our operations.

In closing, I would like to say that for the current fiscal year, it is our commitment as management to achieve operating profits, at a minimum, and we will work to push operating profits even higher by improving the efficiency of our operations.

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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.

Finally, before we conclude, please be sure to review the cautionary statements. Thank you very much for joining us today.

Appendix: Business Highlights

MP201 application chip for mobile phones applied to digital consumer devices

- ✓ Application processor with low power consumption optimized for QVGA video and audio playback
- ✓ Compatible with platformOVIA software platform
- ✓ Easy to develop new applications with flexible IP

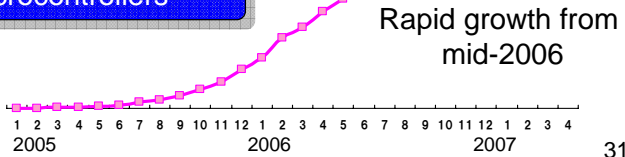


Highlight: Microcomputers

Aggressive efforts to expand sales of All Flash microcontrollers

Demo Systems, Evaluation Boards			Website	Seminars	Literature
V850+ヤマハ YGV626	掃除機デモ	ReferSTAR 78K/Kx2	78K0マイコン初級コース eラーニング	オープンセミナー(東京)	78K0 78Kマイコン
V850+アクセル AG301	PCファン デモ	K0R 拡張ボード	サンプルプログラム	オープンセミナー(大阪)	Interface V850
音声合成デモ	ZigBeeデモ	いろは姫	Flashアプリノート	パートナーセミナー	

Shipments of All Flash microcontrollers

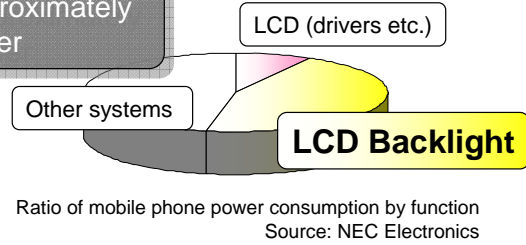


Highlight: Components

Developed LCD backlight control technology for mobile applications
Extremely low power consumption features lead to new value-added business

Conventional LCD backlights consume approximately 40 percent of a mobile phone's overall power

- ✓ Evolution of mobile content such as one-segment broadcasting, video, and 3D graphics further increase power consumption.
- ✓ However, attempts to reduce power consumption result in lower image quality.



NEC Electronics' unique value-added technology

- ✓ Enables up to 50% reduction in backlight power consumption (up to 20% of overall power consumption) by optimizing display brightness, while maintaining image quality with gamma-curve processing, in real-time.
- ✓ Design wins with Japanese and international mobile phone manufacturers

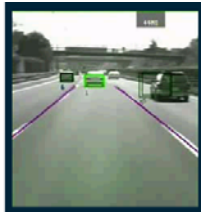


IMPCAR parallel processor for image recognition

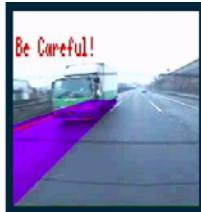
Joint development with Toyota, Denso, and NEC

- ✓ 128 processing elements and performance of 100 billion operations per second enables image recognition of lane markers, vehicles, and pedestrians in real-time
- ✓ Adopted in the Lexus LS460's pre-crash safety system

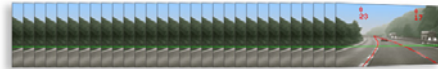
Lane markers,
vehicles ahead



Vehicles in rear



Processes 30 frames/second



Won *Nikkan Kogyo Newspaper's 4th Annual Monozukuri Taisho Award*