

# FY09/3 Q1 Financial Results

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July 30, 2008

**NEC Electronics Corporation**

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

Thank you for joining NEC Electronics' webcast.

My name is Hank Sato, CFO of NEC Electronics.

Before we begin, please be sure to review the cautionary statement on page 16.

## I. FY09/3 Q1 Financial Results

- ✓Sales and operating profit were in line with the company's expectation

## II. FY09/3 Forecasts

- ✓FY09/3 forecasts will remain unchanged; however, aim to attain operating profit of more than 3B yen for 1H
- ✓Aim to attain net profit for full-year, although weak demand for general-purpose products may affect the 2H outcome

## III. Business Highlights

- ✓A new joint venture company for display driver ICs (announced on June 20, 2008)
- ✓Progress on embedded DRAM LSI and EMMA business

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

First, the first quarter financial results were in line with our expectation, both in terms of sales and operating profit.

Second, we have not changed the forecasts for the fiscal year ending March 2009. However, we expect the currency exchange rates to be more favorable in the first half of the fiscal year, with weaker yen against dollars, and we aim to attain operating profit of more than 3 billion yen. For the second half, we expect that weak demand for general-purpose products may have some impact on the outcome, nonetheless, we aim to restore net income in the fiscal year.

Lastly, we will discuss progress in the focus business areas.

## I. FY09/3 Q1 Financial Results

## II. FY09/3 Forecasts

## III. Business Highlights

Let us begin with the summary of the first quarter financial results on slide 4.

# Financial Snapshot



| (B Yen)                                      | FY08/3                         |                                | FY09/3                         |                              |                             |
|--|--------------------------------|--------------------------------|--------------------------------|------------------------------|-----------------------------|
|  | Q1, 6/30                       | Q4, 3/31                       | Q1, 6/30                       |                              |                             |
|  | Actual                         | Actual                         | Actual                         | YoY                          | QoQ                         |
| <b>Net Sales</b>                             | 173.6                          | 166.0                          | 166.3                          | -7.3                         | +0.3                        |
| <b>Semiconductor Sales</b>                   | 165.0                          | 155.4                          | 159.2                          | -5.8                         | +3.7                        |
| <b>Operating Income (Loss)</b>               | -2.2                           | 0.2                            | 1.7                            | +3.9                         | +1.5                        |
| <b>Income (Loss) Before<br/>Income Taxes</b> | 0.4                            | -6.7                           | 0.3                            | -0.2                         | +7.0                        |
| <b>Net Income (Loss)</b>                     | -1.3                           | -12.0                          | -1.3                           | +0                           | +10.7                       |
| <b>Free Cash Flows</b>                       | -5.9                           | -3.8                           | -6.7                           | -0.8                         | -2.9                        |
| <b>D/E Ratio</b>                             | 0.50                           | 0.51                           | 0.51                           | -                            | -                           |
| <b>Shareholders' Equity Ratio</b>            | 39%                            | 37%                            | 37%                            | -                            | -                           |
| <b>Exchange Rates</b>                        | 1US\$=119 yen<br>1Euro=160 yen | 1US\$=109 yen<br>1Euro=160 yen | 1US\$=103 yen<br>1Euro=160 yen | US\$ 16 yen strong<br>Euro - | US\$ 6 yen strong<br>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 expenses, and selling, general, and administrative expenses.

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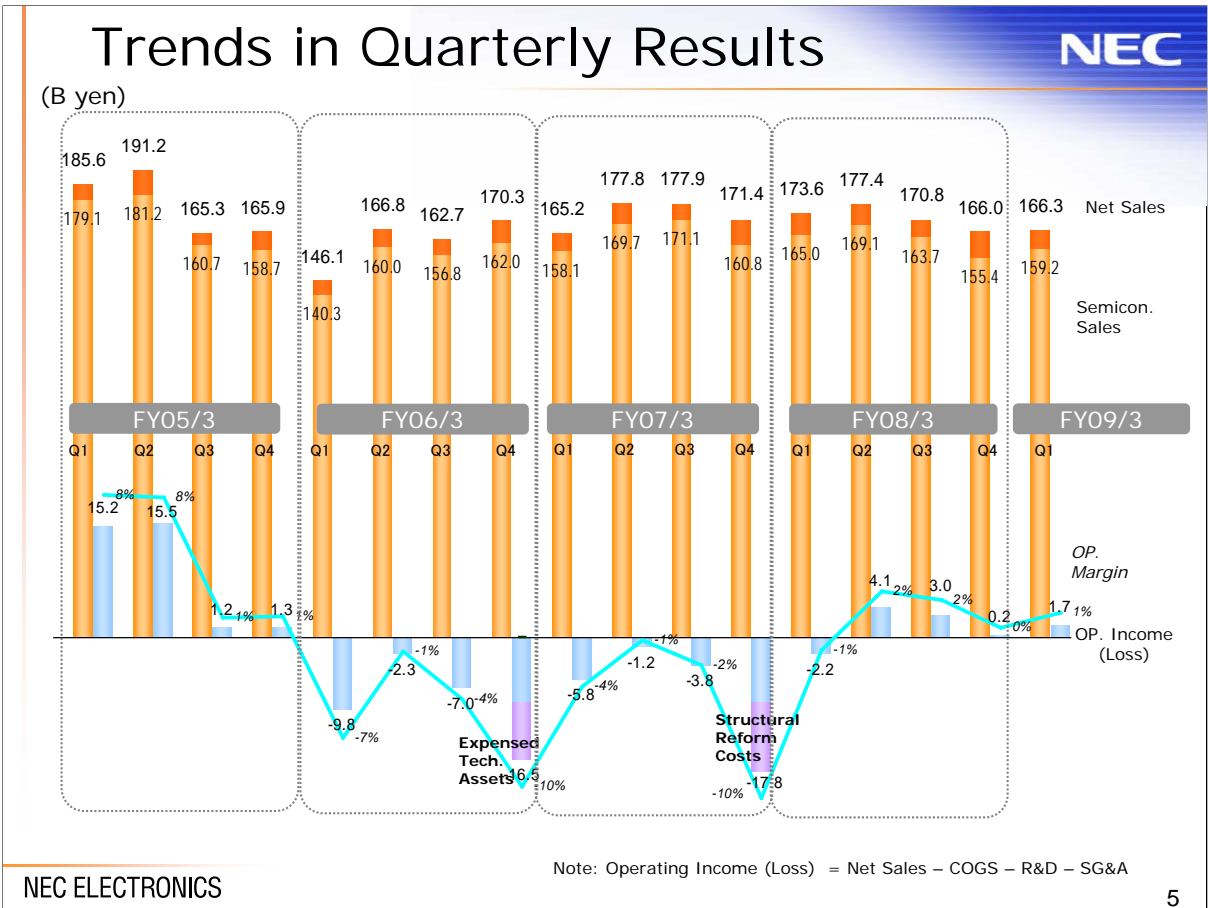
4

Net sales were 166.3 billion yen, flat compared to the previous quarter.

Semiconductor sales were 159.2 billion yen, a 2percent increase quarter on quarter.

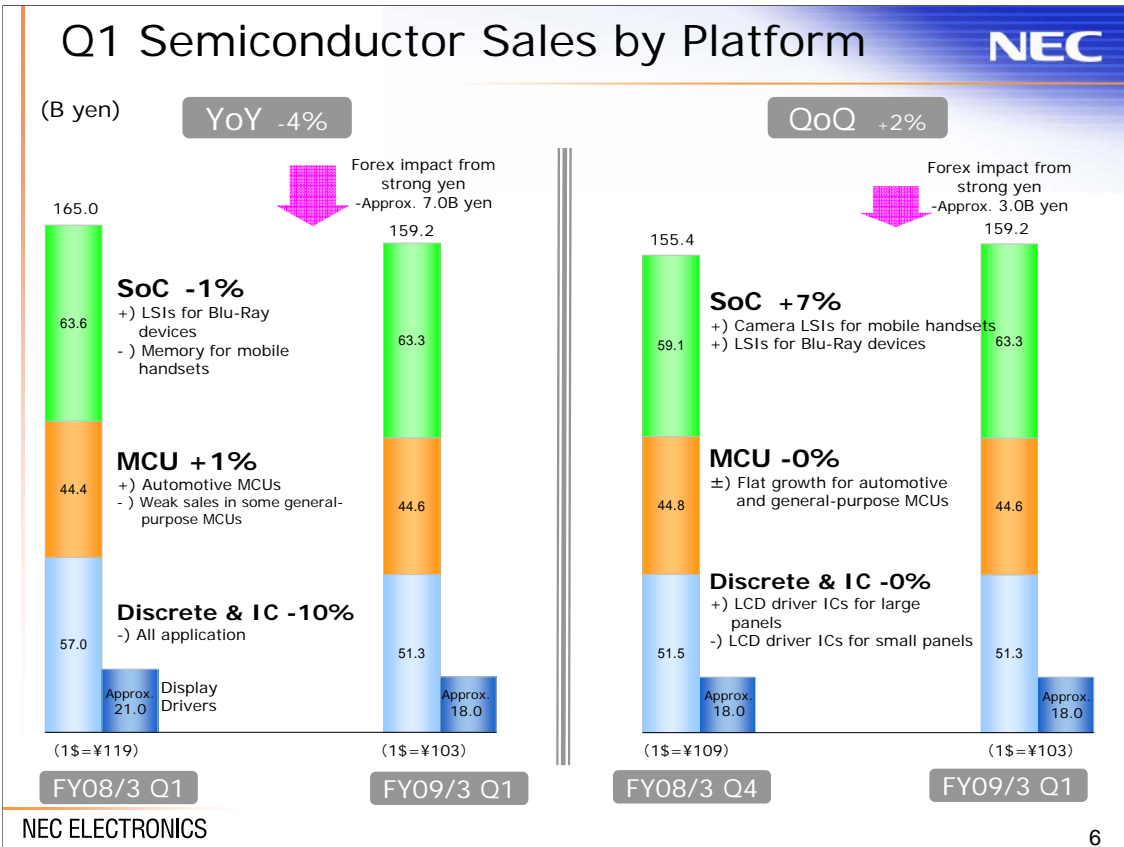
We recorded operating profit of 1.7 billion yen, a 1.5 billion yen increase from the previous quarter.

Net loss was 1.3 billion yen, mainly due to taxes on income at subsidiaries outside of Japan.



Slide 5 shows trends in quarterly results.

There was the impact from currency exchange fluctuations which suppressed sales from growing. However, we were successful in securing operating profits for four consecutive quarters.



Slide 6 shows semiconductor sales by platform.

Year on year, we saw decline in semiconductor sales by 4 percent. Despite strong growth of Blu-Ray related LSIs, a decrease in sales of the Discrete and IC platform affected the overall sales.

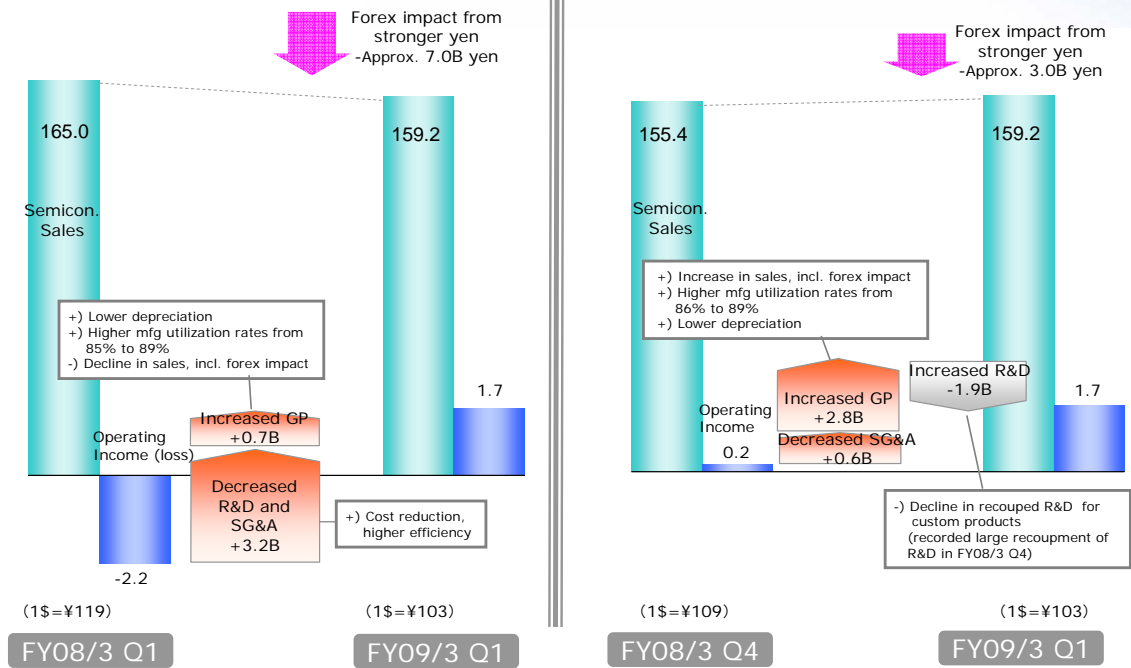
Quarter on quarter, semiconductor sales increased by 2 percent. Sales of the SoC platform increased by 7%, mainly from growth of camera LSIs for mobile handsets and LSIs for Blu-Ray devices.

# Factors in Operating Income (Loss)

(B yen)

YoY

QoQ



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Next slide explains first quarter operating profit.

Year on year, we improved operating profit by 3.9 billion yen mainly due to reduction in R&D expenses, despite the decline in sales from strong yen.

Quarter on quarter, even though there was significant decline in recoupment of R&D expenses for custom products, we saw an improvement of 1.5 billion yen in operating profit due to higher manufacturing utilization rates and decrease in depreciation.

# Balance Sheet

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| (B yen) |   | 07/6         | 08/3         | 08/6         |
|---------|---|--------------|--------------|--------------|
|         | Cash and Cash Equivalents                   | 177.3        | 165.5        | 159.0        |
|         | Accounts Receivable                         | 104.2        | 96.4         | 99.5         |
|         | Inventories                                 | 79.9         | 75.8         | 79.5         |
|         | PP&E  | 291.5        | 259.2        | 253.9        |
|         | Other Assets                                | 37.1         | 19.5         | 29.3         |
|         | <b>Total Assets</b>                         | <b>690.0</b> | <b>616.3</b> | <b>621.2</b> |
|         | Accounts Payable                            | 127.3        | 108.1        | 106.0        |
|         | Debt Payable                                | 133.7        | 116.6        | 117.3        |
|         | Other Liabilities                           | 155.5        | 159.3        | 162.9        |
|         | <b>Liabilities</b>                          | <b>416.6</b> | <b>384.0</b> | <b>386.3</b> |
|         | Minority Shareholders' Equity               | 4.7          | 5.2          | 4.8          |
|         | Shareholders' Equity                        | 268.7        | 227.1        | 230.1        |
|         | <b>Liabilities and Shareholders' Equity</b> | <b>690.0</b> | <b>616.3</b> | <b>621.2</b> |
|         | D/E Ratio (Gross)                           | 0.50         | 0.51         | 0.51         |
|         | Equity Ratio                                | 39%          | 37%          | 37%          |

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8

Slide 8 shows the company's balance sheet.

Inventories increased from the end of March. This is due to higher manufacturing utilization rates, preparing for anticipated sales expansion.

We believe that inventories are at optimal levels.

Debt to equity ratio and equity ratio were 0.51 and 37% respectively, remaining flat from the end of March.



# Cash Flows

| (B yen)                              | FY08/3 |      |           | FY09/3 |
|--------------------------------------|--------|------|-----------|--------|
|                                      | Q1     | Q4   | Full-Year | Q1     |
| Cash Flows from Operating Activities | 1.5    | 0.5  | 43.3      | 4.2    |
| Cash Flows from Investing Activities | -7.3   | -4.3 | -37.8     | -10.9  |
| Free Cash Flows                      | -5.9   | -3.8 | 5.5       | -6.7   |

Slide 9 shows cash flows.

Cash flows from investing activities were negative 10.9 billion yen. This is mainly due to payment for purchasing manufacturing equipment for ramping up production capacity, such as 300mm line in Yamagata.

Free cash flows were negative 6.7 billion yen.

I. FY09/3 Q1 Financial Results

II. FY09/3 Forecasts

III. Business Highlights

Next, we will discuss the full-year financial forecasts for the year ending March 2009.

The full-year forecasts remain unchanged.  
Aim to attain net profit for FY09/3

| (B yen)                           | FY08/3 |        |           | FY09/3   |          |           |       |
|-----------------------------------|--------|--------|-----------|----------|----------|-----------|-------|
|                                   | 1H     | 2H     | Full-Year | 1H       | 2H       | Full-Year |       |
|                                   | Actual | Actual | Actual    | Forecast | Forecast | Forecast  | YoY   |
| Net Sales                         | 351.0  | 336.8  | 687.7     | 335.0    | 350.0    | 685.0     | -2.7  |
| Semiconductor Sales               | 334.1  | 319.2  | 653.3     | 320.0    | 330.0    | 650.0     | -3.3  |
| Operating Income (Loss)           | 1.9    | 3.2    | 5.1       | 3.0      | 7.0      | 10.0      | +4.9  |
| Income (Loss) Before Income Taxes | 1.8    | -5.1   | -3.3      | 0        | 4.0      | 4.0       | +7.3  |
| Net Income (Loss)                 | -3.0   | -13.0  | -16.0     | -2.0     | 2.0      | 0         | +16.0 |

#### Exchange Rates

|        |         |         |         |         |         |         |               |
|--------|---------|---------|---------|---------|---------|---------|---------------|
| 1US\$= | 120 yen | 112 yen | 116 yen | 100 yen | 100 yen | 100 yen | 16 yen strong |
| 1Euro= | 162 yen | 161 yen | 161 yen | 160 yen | 160 yen | 160 yen | 1 yen strong  |

Note 1: Operating Income (Loss) = Net Sales – COGS – R&D – SG&A.  
Note 2: Forecasts as of July 30, 2008.

As shown on slide 11, we have not changed the full-year forecasts.

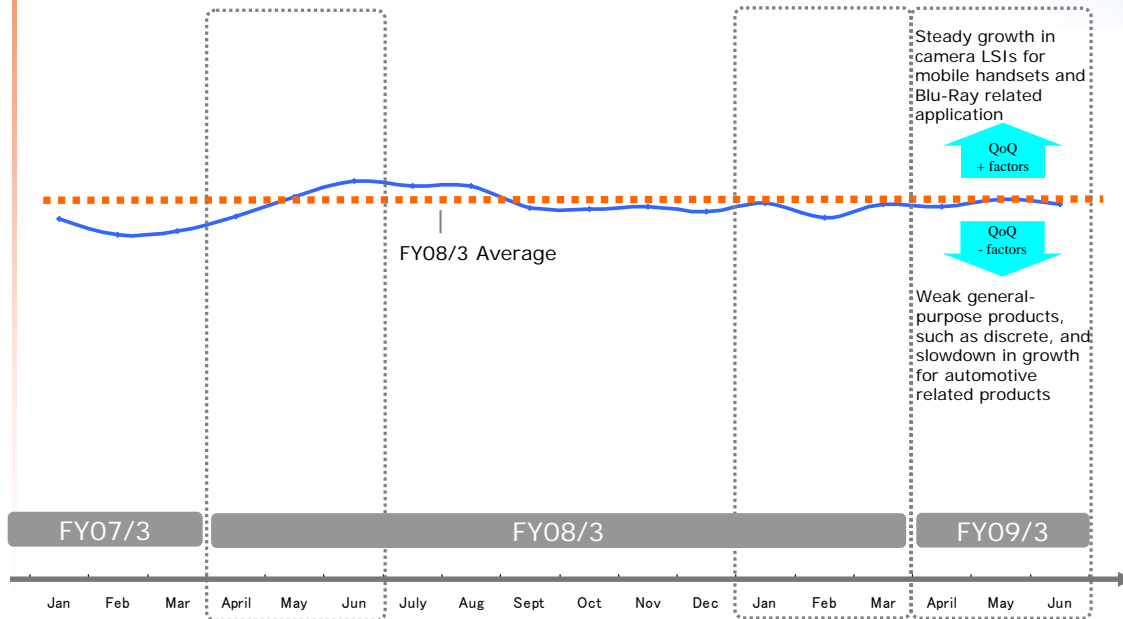
While weaker demand for general-purpose products in the latter half of fiscal year and the spike in material prices may have some impact, we will continue to aim for net profit for the fiscal year.

# Trends in Amount of Orders

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Amount of Orders (3-months moving average)

Q1 Order Trends (QoQ)



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(The company's internal sales exchange rates are used to calculate amount of orders for corresponding month)

12

Slide 12 shows a three month moving average of semiconductor orders.

Compared to the previous quarter, the first quarter trends show strong orders in our focus areas, such as camera LSIs for mobile handsets and LSIs for Blu-Ray devices. On the other hand, general-purpose products such as discrete semiconductors are weak, and automotive area shows a decline in orders especially in North America.

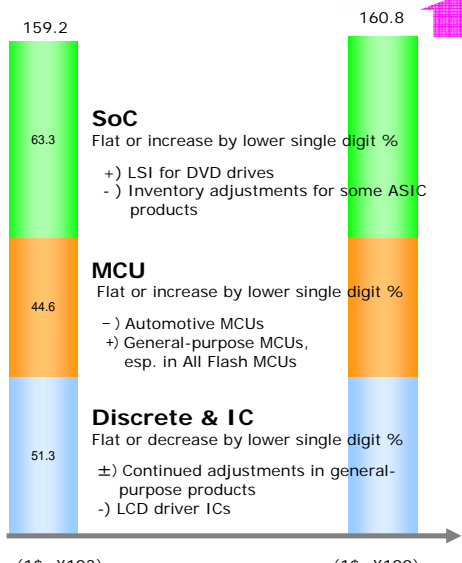
We may see the sales growth of strong products in the focus areas offset by decline in sales of general-purpose products, which could affect the outcome in the latter half of the fiscal year.

# FY09/3 Q2 Forecasts (QoQ)

(B yen)

**Semicon. Sales**  
1H Outlook: 320.0B yen

Sales increase due to weaker yen



**Operating Income**  
1H Outlook: 3.0B yen

Increase in operating income due to weaker yen



FY09/3 Q1

FY09/3 Q2

FY09/3 Q1

FY09/3 Q2

Slide 13 shows the forecasts for semiconductor sales and operating profit for the second quarter.

As mentioned previously, we did not change the forecasts for the first half of the fiscal year. The forecasts have been calculated at 100 yen per dollar. On that premise, semiconductor sales are expected to increase by approximately 1 percent.

However, we could benefit from weaker yen and we aim to grow sales further. We also aim to improve operating profit, even with the expected increase in costs such as depreciation.

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III. Business Highlights

Lastly, we will discuss business highlights.

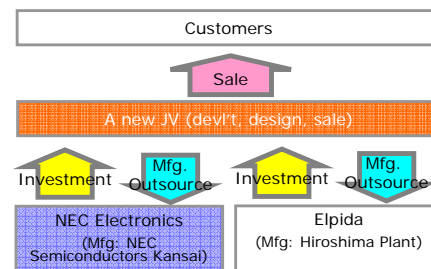
# Business Highlights

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## Establishment of JV Company for Display Driver IC

NEC Electronics and Elpida agreed to establish a JV for Display Driver IC  
(Announced on June 20, 2008)

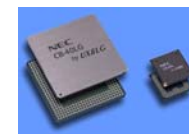
- Working to enter into a JV agreement by the end of September 2008
- Pursue cost competitiveness and expand business by leveraging NEC Electronics' advanced technology and Elpida's 300mm production capacity



## Progress on Focused Business

### Embedded-DRAM LSIs

- Launching business for embedded-DRAM CBIC on 40nm process node
- Began mass production for new products for mobile handsets/digital televisions



Embedded-DRAM CBIC on 40 nm

### EMMA (Enhanced Multi-Media Architecture)

- Design-ins for new customers in Blu-Ray devices and digital televisions, in addition to expanding existing business

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15

Slide 15 shows business highlights.

First, NEC Electronics and Elpida announced the establishment of a new joint venture company for display driver ICs on June 20th. The two companies are working out the detail of the new joint venture, aiming to expand the display driver IC business by leveraging strengths brought by the two companies.

Second, I would like to discuss the progress on some of the focus business.

We have launched business for embedded DRAM cell based IC using 40 nm process node. We are a leader in this business and we are well received by customers.

In addition, some of the embedded DRAM projects mentioned at the full-year financial announcement in May are now in volume production phase.

As for EMMA products, we are expanding business steadily, gaining new customers for Blu-Ray devices and digital televisions.

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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.

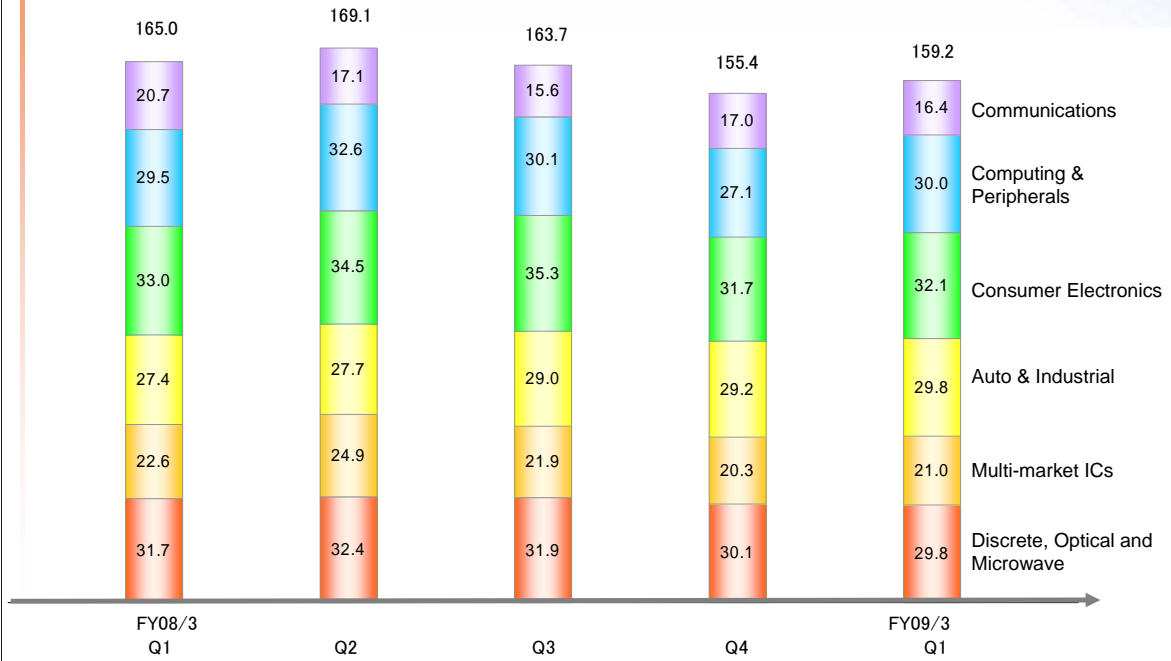
This concludes our presentation for the first quarter financial results.

Thank you for joining NEC Electronics' webcast.



# Appendix ~ Semiconductor Sales by Application **NEC**

(B yen)



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