FY09/3 Q2 Financial Results

Toshio Nakajima
President and CEO

October 29, 2008
NEC Electronics Corporation
Executive Summary

- Despite the effects of considerable yen depreciation, in the first fiscal half ended September 30, 2008, net sales did not quite reach the level originally forecast.

  Operating profits were secured, though the profit margin was slimmer than had been estimated in the most recent financial announcement (July 30, 2008).

- Forecasts for the second half and full year were lowered, but the company still expects to achieve operating profits on both second half and full-year bases.

- Cost reductions measures, such as the accelerated closure of certain manufacturing lines, are being implemented.
Agenda

I. FY09/3 Q2 Financial Results

II. FY09/3 Forecasts
I. FY09/3 Q2 Financial Results

II. FY09/3 Forecasts
## Financial Snapshot

<table>
<thead>
<tr>
<th>(B Yen)</th>
<th>FY09/3</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1, 6/30</td>
<td>Q2, 9/30</td>
<td>H1, 9/30</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Actual</td>
<td>Actual</td>
<td>Actual</td>
<td>YoY</td>
<td>HoH</td>
</tr>
<tr>
<td><strong>Net Sales</strong></td>
<td>166.3</td>
<td>167.3</td>
<td>333.6</td>
<td>-17.4</td>
<td>-3.2</td>
</tr>
<tr>
<td><strong>Semiconductor Sales</strong></td>
<td>159.2</td>
<td>159.2</td>
<td>318.4</td>
<td>-15.7</td>
<td>-0.8</td>
</tr>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td>1.7</td>
<td>-0.5</td>
<td>1.2</td>
<td>-0.6</td>
<td>-2.0</td>
</tr>
<tr>
<td><strong>Income (Loss) Before Income Taxes</strong></td>
<td>0.3</td>
<td>-0.3</td>
<td>-0.0</td>
<td>-1.8</td>
<td>+5.1</td>
</tr>
<tr>
<td><strong>Net Income (Loss)</strong></td>
<td>-1.3</td>
<td>-0.6</td>
<td>-1.9</td>
<td>+1.1</td>
<td>+11.1</td>
</tr>
</tbody>
</table>

| **Free Cash Flows**     | -6.7   | 2.1     | -4.5  | -14.8 | +0.3 |
| **D/E Ratio**           | 0.51   | -       | 0.52  | -     | -    |
| **Shareholders’ Equity Ratio** | 37%  | -       | 36%   | -     | -    |

| **Exchange Rates**      | 1US$=103 yen 1Euro=160 yen | 1US$=108 yen 1Euro=166 yen | 1US$=105 yen 1Euro=163 yen | US$ 15 yen weak | US$ 7 yen weak |
| **Income (Loss) Before Income Taxes** | 0.3  | -0.3    | -0.0  | -1.8  | +5.1 |
| **Net Income (Loss)**   | -1.3   | -0.6    | -1.9  | +1.1  | +11.1 |

**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.
Trends in Quarterly Results

Note: Operating Income (Loss) = Net Sales – COGS – R&D – SG&A
Q2 Semiconductor Sales by Platform

**YoY -6%**

Currency impact
Approx. -5.5B yen

169.1

SoC  -1%

64.9

MCU  -2%

46.1

Discrete & IC -15%

58.1

**QoQ +0%**

Currency impact
Approx. +2.0B yen

159.2

SoC  +2%

Discrete & IC -3%

+ ) LSIs for Blu-ray devices

- ) Overall decline

159.2

FY08/3 Q2

(1$=120 yen)

FY09/3 Q2

(1$=108 yen)

FY09/3 Q1

(1$=103 yen)

FY09/3 Q2

(1$=108 yen)

MCU  +1%

+ ) Multipurpose MCUs

- ) Automotive MCUs

Display Drivers

Approx. 21.0

Approx. 17.0

Display Drivers

Approx. 18.0

Approx. 17.0

NEC ELECTRONICS
Factors in Operating Income (Loss)

**YoY**

- Currency impact Approx. -5.5

**QoQ**

- Currency impact Approx. +2.0

**Op. Profit**

**Semicon. Sales**

(B yen)

- 169.1

- 159.2

- 159.2

- 159.2

**Factors in Operating Income (Loss)**

- **Lower sales (including currency impact)**
- **Lower SG&A** +0.6
- **Lower GP** -3.3
- **Higher R&D** -1.9
- **Higher utilization rates** (89% → 91%)
- **Higher depreciation** -0.5

**Expenses carried over from Q1**

- **Higher GP** +3.0
- **Higher SG&A** -1.4
- **Higher R&D** -3.8
- **Lower costs**
- **Higher utilization rates** (89% → 91%)
- **Higher depreciation** -0.5

**Factors affecting Op. Profit**

- **Lower sales (including currency impact)**
- **Lower SG&A** +0.6
- **Lower GP** -3.3
- **Higher R&D** -1.9
- **Higher utilization rates** (89% → 91%)
- **Higher depreciation** -0.5

**FY08/3 Q2**

(1$=120 yen)

**FY09/3 Q2**

(1$=108 yen)

**FY09/3 Q1**

(1$=103 yen)

**FY09/3 Q2**

(1$=108 yen)

* GP = gross profit
## Balance Sheets

<table>
<thead>
<tr>
<th>(B yen)</th>
<th>As of Sep. 30, 2007</th>
<th>As of Mar. 31, 2008</th>
<th>As of Sep. 30, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>191.4</td>
<td>165.5</td>
<td>158.0</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>100.3</td>
<td>96.4</td>
<td>95.3</td>
</tr>
<tr>
<td>Inventories</td>
<td>80.2</td>
<td>75.8</td>
<td>82.0</td>
</tr>
<tr>
<td>PP&amp;E</td>
<td>282.5</td>
<td>259.2</td>
<td>257.0</td>
</tr>
<tr>
<td>Other Assets</td>
<td>33.6</td>
<td>19.5</td>
<td>29.7</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>687.9</td>
<td>616.3</td>
<td>622.0</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>130.8</td>
<td>108.1</td>
<td>111.9</td>
</tr>
<tr>
<td>Debt Payable</td>
<td>132.9</td>
<td>116.6</td>
<td>117.1</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>157.9</td>
<td>159.3</td>
<td>162.9</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>421.6</td>
<td>384.0</td>
<td>392.0</td>
</tr>
<tr>
<td>Minority Shareholders’ Equity</td>
<td>5.3</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Shareholders’ Equity</td>
<td>261.1</td>
<td>227.1</td>
<td>224.8</td>
</tr>
<tr>
<td>Liabilities and Shareholders’ Equity</td>
<td>687.9</td>
<td>616.3</td>
<td>622.0</td>
</tr>
</tbody>
</table>

| D/E Ratio (Gross)               | 0.51                | 0.51                | 0.52                |
| Equity Ratio                    | 38%                 | 37%                 | 36%                 |
## Cash Flows

<table>
<thead>
<tr>
<th>(B yen)</th>
<th>FY08/3</th>
<th>FY09/3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>H1</td>
<td>Q1</td>
</tr>
<tr>
<td>Cash Flows from Operating Activities</td>
<td>29.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Cash Flows from Investing Activities</td>
<td>-18.8</td>
<td>-10.9</td>
</tr>
<tr>
<td>Free Cash Flows</td>
<td>10.3</td>
<td>-6.7</td>
</tr>
</tbody>
</table>
I. FY09/3 Q2 Financial Results

II. FY09/3 Forecasts
# FY09/3 Financial Forecasts

## Targeting Second Half and Full-year Operating Profit

### Operating Income (Loss) = Net Sales – COGS – R&D – SG&A.

### Forecasts as of October 21, 2008 (Note 2)

<table>
<thead>
<tr>
<th></th>
<th>FY08/3</th>
<th>FY09/3</th>
<th>Full-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(B yen)</td>
<td>H1</td>
<td>H2</td>
</tr>
<tr>
<td><strong>Net Sales</strong></td>
<td>687.7</td>
<td>335.0</td>
<td>333.6 -1.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Semiconductor Sales</strong></td>
<td>653.3</td>
<td>320.0</td>
<td>318.4 -1.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td>5.1</td>
<td>3.0</td>
<td>1.2 -1.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income (Loss) Before Income Taxes</strong></td>
<td>-3.3</td>
<td>0.0</td>
<td>-0.0 -0.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Income (Loss)</strong></td>
<td>-16.0</td>
<td>-2.0</td>
<td>-1.9 +0.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Exchange Rates

<table>
<thead>
<tr>
<th></th>
<th>FY08/3</th>
<th>FY09/3</th>
<th>Full-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1US$=</strong></td>
<td>116 yen</td>
<td>100 yen</td>
<td>105 yen +5 yen</td>
</tr>
<tr>
<td><strong>1Euro=</strong></td>
<td>161 yen</td>
<td>160 yen</td>
<td>163 yen +3 yen</td>
</tr>
</tbody>
</table>

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

Note 2: Forecasts as of October 21, 2008.
General weakness in LCD drivers and multi-purpose products, and slowdown appeared in automotive products as well.

Orders for advanced LSIs such as for Blu-ray applications were solid.

(The company’s internal sales exchange rates are used to calculate amount of orders for corresponding month)
Semiconductor Sales by Platform (HoH Comparison)

HoH

(B yen)

318.4
-3%
Approx.
310.0

SoC
127.8
+ low single digit pct.

MCU
89.7
- mid single digit pct.

Discrete & IC
100.9
- high single digit pct.

Display Drivers
17.0

FY09/3 H1
(1$=105 yen)

FY09/3 H2
(1$=105 yen)

+/– Factors

SoC
+ ) EMMA for digital AV applications
– ) Some ASICs

MCU
– ) Automotive and multipurpose MCUs

Discrete & IC
– ) Overall decline
Factors Affecting H2 Op. Profit

HoH (B yen)

318.4
Semicon. Sales

1.2
Op. Profit

310.0

FY09/3 H1
(1$=105 yen)

+ Accelerated reorganization of manufacturing lines
+ Reduction of other fixed costs in manufacturing
+ Reduced procurement costs
+ Improved R&D efficiency

Cost reduction measures
Approx. +8.0

Lower GP* due to lower sales and utilization rates
Approx. -6.0

Increase in depreciation
Approx. -3.0

FY09/3 H2
(1$=105 yen)

* GP = gross profit
Measures to Secure H2 Op. Profit

Cost reductions starting with accelerated closure of certain manufacturing lines

- **Accelerate Closure of Certain Manufacturing Lines**
  - NEC Semiconductors Yamagata 8-inch line
    (Originally scheduled for December 2008, now moved up to November 2008)
  - 300mm line at Sagamihara
    (Originally scheduled for March 2009, now moved up to December 2008)

- **Improve Management Efficiency**
  - Reduce fixed costs associated with manufacturing
  - Further reduction in procurement costs
  - More efficient use of R&D expenses

Reducing costs by approx. 8.0B yen compared to the first half
Major Operating Expenses and CAPEX

**R&D Expenses**

- FY09/3 Approx. 111.0 B yen

**SG&A Expenses**

- FY09/3 Approx. 83.0 B yen

**CAPEX**

- FY09/3 Approx. 60.0 B yen

Note: The figures for operating expenses and CAPEX for the second half have been revised as of October 29, 2008

Increasing allocation for 300mm line at NEC Semiconductors Yamagata in FY09/3 H2

Depreciation and Lease are included in COGS, R&D and SG&A (Depreciation based on Cash Flows)
Summary

Revised second half and full-year forecasts due to deteriorating economic situation

Despite lower forecasts, plan to attain operating profits in second half and full year with additional cost-cutting measures

- Considering additional cost-cutting measures in anticipation of further market declines
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.
Appendix

1. Business Highlights

- Collaboration in leading edge process technology
- Progress in strategic products

2. Semiconductor Sales by Application
Appendix: Business Highlights

Collaboration in Leading Edge Process Technology

Collaborating with IBM on developing 32-nanometer process technology (announced September 17, 2008)

- Sharing of process and IP cores with global partners

Progress on Key Business Areas

Embedded-DRAM LSIs

- Expanded range of applications (digital AV, mobile handsets, communications equipment, and automotive)
- Steadily increased number of design-ins and customers

EMMA (Enhanced Multi-Media Architecture)

- Increasing new design-ins for Blu-Ray devices
- Growing orders of EMMA for digital televisions
Appendix: Semiconductor Sales by Application

(B yen)

<table>
<thead>
<tr>
<th></th>
<th>FY08/3 Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>FY09/3 Q1</th>
<th>Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications</td>
<td>165.0</td>
<td>169.1</td>
<td>163.7</td>
<td>155.4</td>
<td>159.2</td>
<td>159.2</td>
</tr>
<tr>
<td>Computing &amp; Peripherals</td>
<td>20.7</td>
<td>17.1</td>
<td>15.6</td>
<td>17.0</td>
<td>16.4</td>
<td>16.3</td>
</tr>
<tr>
<td>Consumer Electronics</td>
<td>29.5</td>
<td>32.6</td>
<td>30.1</td>
<td>27.1</td>
<td>30.0</td>
<td>30.6</td>
</tr>
<tr>
<td>Auto &amp; Industrial</td>
<td>33.0</td>
<td>34.5</td>
<td>35.3</td>
<td>31.7</td>
<td>32.1</td>
<td>31.9</td>
</tr>
<tr>
<td>Multi-market ICs</td>
<td>27.4</td>
<td>27.7</td>
<td>29.0</td>
<td>29.2</td>
<td>29.8</td>
<td>28.8</td>
</tr>
<tr>
<td>Discrete, Optical and Microwave</td>
<td>22.6</td>
<td>24.9</td>
<td>21.9</td>
<td>20.3</td>
<td>21.0</td>
<td>23.1</td>
</tr>
<tr>
<td></td>
<td>31.7</td>
<td>32.4</td>
<td>31.9</td>
<td>30.1</td>
<td>29.8</td>
<td>28.6</td>
</tr>
</tbody>
</table>