



# **FY11/3 Q2 Financial Results**

Renesas Electronics Corporation

October 27, 2010

Yasushi Akao, President

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Thank you for joining Renesas Electronics' webcast.

Before we begin, please be sure to review the cautionary statement on page 2.

(NOTE) FY10/3 consolidated results are sum of respective results of the former NEC Electronics Corporation and the former Renesas Technology Corp. The amount of "Net sales" and "Sales from semiconductors" are presented by rearranging the former Renesas Technology's sales account to adjust presentation to the former NEC Electronics' presentation.

(FOREWARD-LOOKING STATEMENTS)

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## Executive Summary

- Net sales in the first half ended September 30, 2010 were in line with the company's expectation. Achieved operating profit by improving the sales cost ratio and by streamlining R&D cost through reviewing of product portfolio.
- Expect to maintain operating profit in the second-half. Sales are expected to remain flat from the first-half and will be lower-than-expected from the original forecast. This is mainly due to stagnant market condition and influence of exchange rate fluctuations.
- Aim to achieve full-year operating profit of 7.0 billion.

Slide 3 provides an overview of the points we will discuss today.

First, sales in the first half were in line with the company's expectation. We were able to attain an operating profit in the first half of the first fiscal year after the merger by improving the sales cost ratio with production increase and by streamlining R&D cost through reviewing of product portfolio.

Second, we expect sales in the second half to be lower-than-expected due to stagnant market condition and influence of exchange rate. However, we still plan to secure operating profits.

As for the full-year forecasts, we continue to aim to achieve an operating profit of 7.0 billion yen as we originally forecast.

## **I. FY11/3 Q2 Financial Results**

Now let us discuss the second quarter results for the fiscal year ending March 2011.

## FY11/3 Q2 Financial Snapshot

- Q2 sales increased by 1% QoQ
- Achieved operating profit

(B Yen)	FY10/3	FY11/3			
	Q2	Q1	Q2	YoY	QoQ
Net Sales	265.0	292.0	295.4	+30.4	+3.4
Semiconductor Sales	234.4	261.5	263.5	+29.1	+2.0
Operating Income (Loss)	-43.9	-0.3	1.1	+45.0	+1.4
Ordinary Income (Loss)	-48.4	-3.5	-4.3	+44.1	-0.7
Net Income (Loss)	-54.8	-33.1	-8.2	+46.6	+24.9
1US\$=	-	92 yen	88 yen	-	4 yen strong
1 Euro=	-	121 yen	111 yen	-	10 yen strong

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Slide 5 shows the second quarter results.

Semiconductor sales were 263.5 billion yen, a 2.0 billion yen increase quarter on quarter.

Operating income was 1.1 billion yen, improved by 1.4 billion yen quarter on quarter,

Ordinary loss was 4.3 billion yen due to foreign exchange losses and non-operating expenses including interest expenses. Net loss was 8.2 billion yen.

## Q2 Semiconductor Sales (YoY / QoQ)

- Sales of both MCUs and Analog & Power devices increased significantly YoY

(B Yen)	FY11/3			Sales Overview by BU (QoQ)
	Q2	YoY (%)	QoQ (%)	
<b>Semiconductor Sales</b>	263.5	+12%	+1%	<b>MCU</b> [→]: General-purpose MCU stayed flat [↓]: Decrease in sales of automotive MCU mainly in Japan
<b>MCU</b>	95.9	+17%	-3%	
<b>Analog &amp; Power</b>	83.5	+30%	+1%	<b>Analog &amp; Power</b> [↑]: Sales of power devices were solid [↓]: Decrease in sales of display drivers due to drop in demand
<b>SoC</b>	83.2	-5%	+7%	
<b>Other Semiconductors</b>	0.9	+30%	-53%	<b>SoC</b> [↑]: Increase in sales of SoCs for consumer electronics and industrial applications [↓]: Decrease in SoCs for communication devices especially mobile phones in Japan

Slide 6 shows the breakdown of the second quarter sales by business unit. Both MCUs and Analog & Power devices showed dramatic increase in sales year on year.

Semiconductor sales increased by 1 percent quarter on quarter.

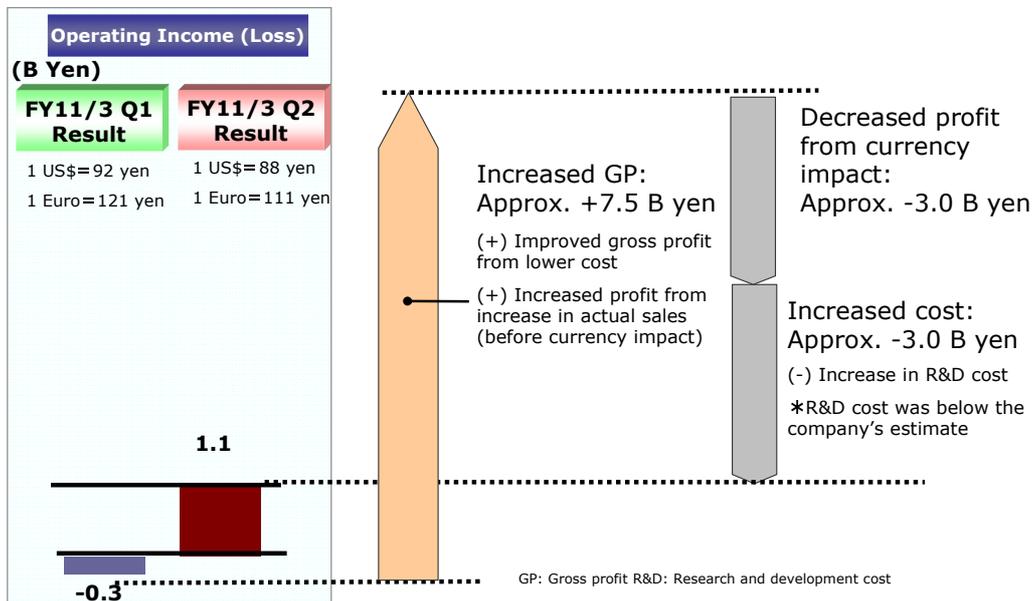
Though sales of MCUs increased significantly YoY, general-purpose MCUs stayed flat QoQ and sales of automotive MCUs decreased QoQ due to reduced demand mainly from domestic major automakers.

Analog and Power devices showed significant increase in sales YoY and power devices continued to show steady growth during the second quarter, however, sales of overall Analog & Power devices remained flat, mainly owing to decrease in sales of display drivers for large panels.

Of SoCs, although sales for the communication devices decreased due to downturn in demand for mobile phones in Japan, sales for consumer electronics and industrial appliance increased QoQ.

## Factors in Operating Income (Loss) in QoQ Comparison

■ Achieved operating profit in Q2



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The next slide shows Q2 operating income and loss in a quarterly comparison.

Gross profit ratio improved during the second quarter ended September 30, 2010 due to increase in actual sales and reduced cost despite the impact of the stronger yen and the increased R&D cost.

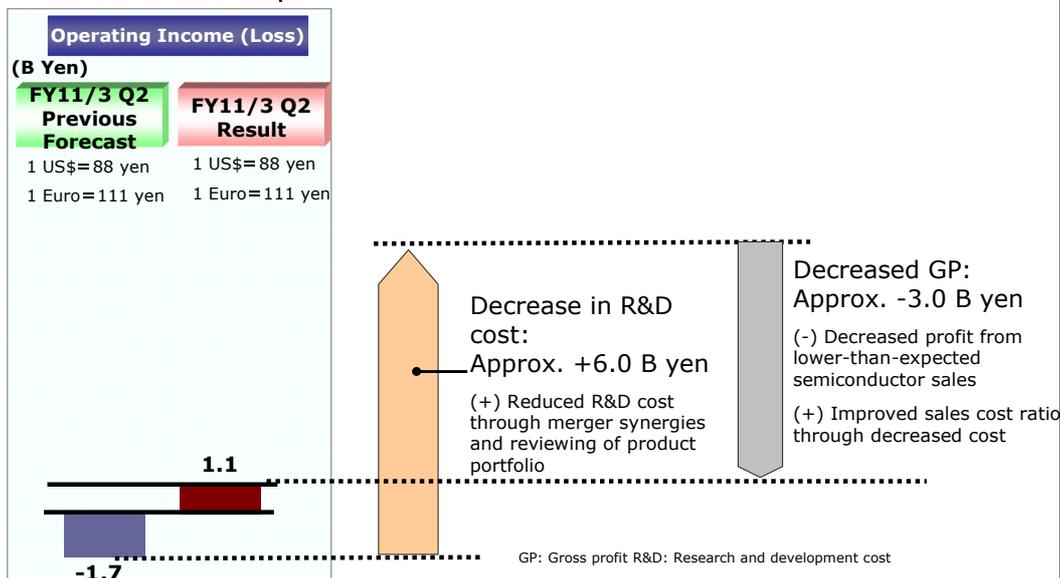
As a result, operating income was 1.1 billion yen, an improvement of 1.4 billion yen QoQ.

R&D cost was lower than the company's estimate.

We will explain more in the next slide.

## Factors in Operating Income (Loss) in Comparison with Forecasts

- Q2 operating income was higher than had been estimated despite the lower-than-estimated sales



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Slide 8 shows Q2 operating income and loss in comparison with the company's forecasts.

As of July 29, 2010, we had estimated the second quarter operating loss to total approximately 1.7 billion yen.

However, we improved our second quarter operating income by approximately 2.8 billion yen, due to cost improvement through increased production and reduced R&D through reviewing of the company's product portfolio, despite a decrease in gross profit due to lower-than-expected sales.

## Balance Sheets

(B yen)	As of Apr. 1, 2010 (After the capital injection)	As of Jun. 30, 2010	As of Sep. 30, 2010
Total Assets	1,215.4	1,151.0	1,162.7
Cash and Cash Equivalents	337.7	318.6	331.8
Inventories	126.6	130.7	135.9
Liabilities	801.7	777.5	799.2
Interest-bearing Debt	372.0	375.4	374.4
Shareholders' Equity	421.0	388.0	379.8
Net Assets	413.6	373.5	363.5
D/E Ratio (Gross)	0.91	1.02	1.05
D/E Ratio (Net)	0.08	0.15	0.12
Equity Ratio	33.5%	31.9%	30.7 %

Note 1)

- "Cash and Cash Equivalents": Sum of cash and deposits, and short-term investment securities minus the Time deposits with maturities of more than three months
  - "Interest-bearing debt": Short-term borrowings, Current portion of long-term borrowings, Current portion of bonds with share subscription rights, Lease obligations, Bonds with share subscription rights, Long-term borrowings
  - "Equity": Shareholders' equity, Valuation and translation adjustments
  - "D/E ratio (gross)": Interest-bearing debt / Equity
  - "Liabilities" as of April 1, 2010 (after the capital injection ) includes negative goodwill
- Note 2) Figures for "As of Apr.1, 2010 (After the capital injection)" reflect accounting treatment relating to the corporate merger on April 1, 2010 of figures at the start of fiscal 2011 and approximately 134.6 billion yen capital injection by way of third-party allotments on the same date.

Slide 9 shows the company's balance sheets.

As for the results as of September 30, 2010, cash and cash equivalents improved from the end of June due to improved free cash flow and net debt to equity ratio was 0.12.

On the other hand, as a result of recording net loss, shareholders' equity decreased and equity ratio was 30.7 percent.

# Cash Flow

(B yen)	FY10/3	FY11/3		
	Q2	Q1	Q2	1H
Cash Flows from Operating Activities	18.0	-2.0	35.0	33.0
Cash Flows from Investing Activities	-16.2	-14.4	-18.4	-32.8
Free Cash Flows	1.8	-16.4	16.6	0.2

Slide 10 shows cash flows.

Free cash flows for the second quarter were positive 16.6 billion yen, due to great improvement in cash flow from profit increase, despite investments addressing increased production.

We also succeeded in maintaining positive free cash flows throughout the first half.

## **II. FY11/3 2H and Full-Year Forecasts**

In the next section, we will discuss the second-half and the full-year financial forecasts for the year ending March 2011.

## FY11/3 Financial Forecasts

- Aim to secure operating profit by steadily implementing plans decided through the 100-Day Project
- Revised second-half and full-year net sales addressing stagnant market conditions and currency impact

(B Yen)	FY10/3			FY11/3			
	1H	2H	Full-Year	1H Actual	2H Forecasts	Full-Year Forecasts	Difference from July 29, 2010
Net Sales	500.3	562.1	1,062.4	587.5	582.5	1,170.0	-20.0
Semiconductor Sales	443.1	499.4	942.5	525.0	525.0	1,050.0	-40.0
Operating Income (Loss)	-87.9	-25.4	-113.3	0.7	6.3	7.0	-
Ordinary Income (Loss)	-93.4	-32.0	-125.3	-7.8	2.8	-5.0	-
Net Income (Loss)	-99.2	-38.5	-137.8	-41.2	-38.8	-80.0	-
				1US\$= 90 yen	82 yen		
				1 Euro= 116 yen	110 yen		

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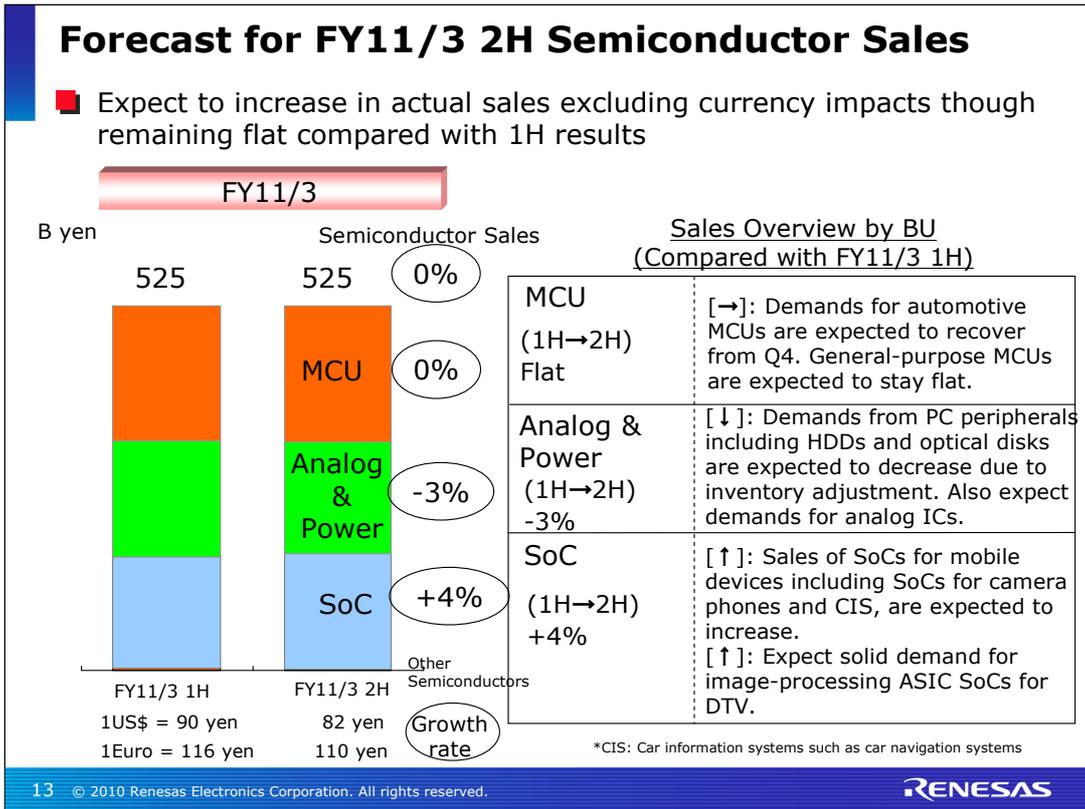
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Slide 12 shows the company's financial forecasts for the fiscal year ending March, 2011.

Based on the uncertain outlook for the market and the influence of stronger yen, we lowered our forecast for net sales to 1,170.0 billion yen, down by 20.0 billion yen from the previous forecast, which it disclosed on July 29, 2010.

The consolidated financial forecasts for the fiscal year are calculated at the rate of 82 yen per USD and 110 yen per Euro.

Operating income, ordinary loss and net loss remain unchanged from the previous forecasts.



Slide 13 shows the forecast for semiconductor sales in the second half.

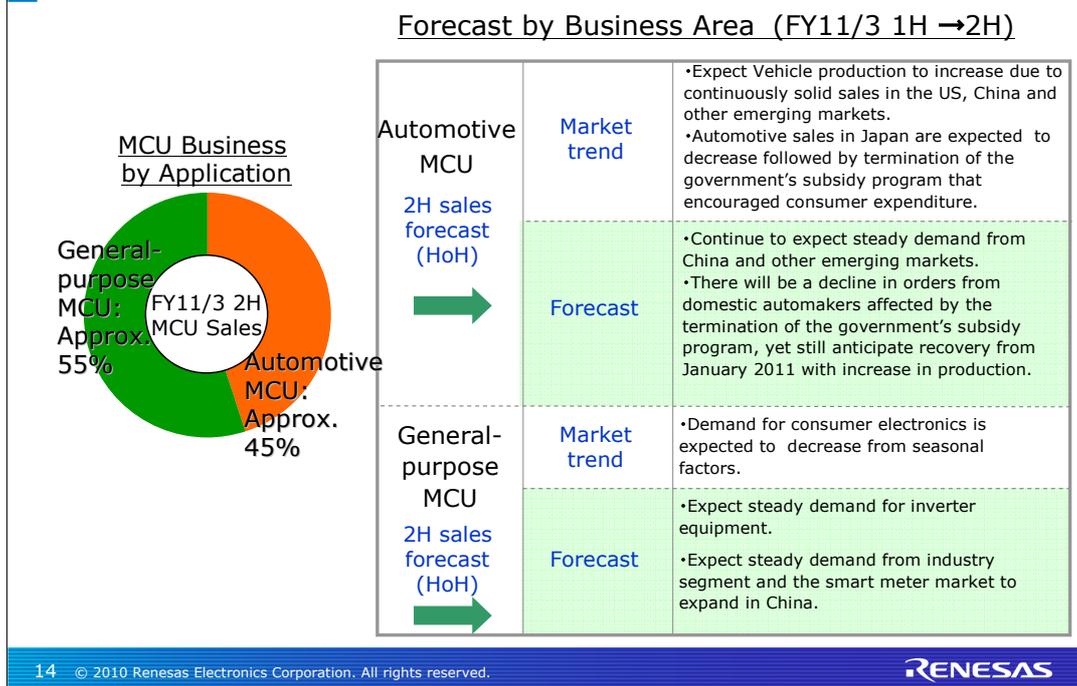
We expect the semiconductor sales in the second half to stay flat taking into account the currency impact.

Based on the expected recovery of demand for automotive MCUs and general-purpose MCUs that are expected to remain flat QoQ, overall MCU sales are expected to remain flat from the first half.

As for analog & power devices, we expect the sales in the second half to decrease from the first half. This drop is due to decrease in demand for analog ICs for PC peripheral devices such as storage devices and optical disks, despite the solid growth of power devices.

We expect sales of SoCs in the second half to increase. This increase is mainly due to increase in sales of SoCs for camera equipped phones, SoCs for car information systems such as car navigation systems as well as SoCs for DTVs.

## FY11/3 2H MCU Sales Forecast



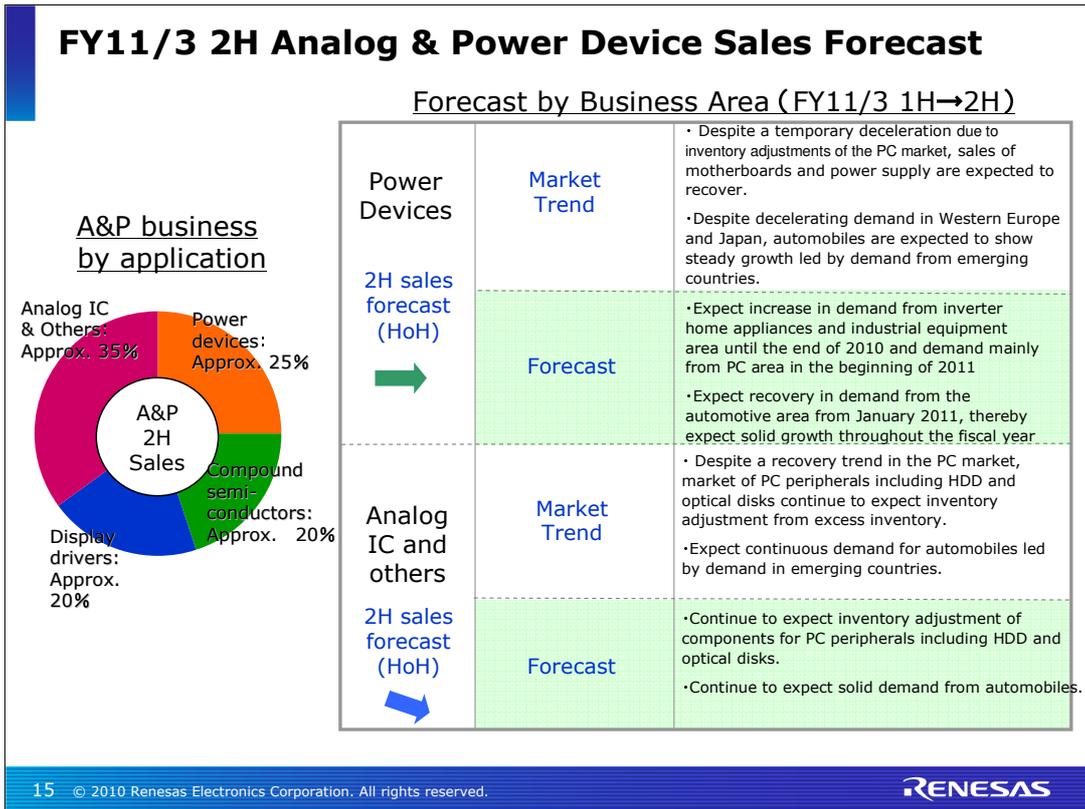
Now let us explain more about our forecasts for MCU sales in the second half.

Our second half MCU sales consist of approximately 45 percent with automotive MCUs and approximately 55 percent with general-purpose MCUs.

Although automotive market is expected to decelerate, we still expect automobile sales in the U.S., China and other emerging markets to stay solid. Therefore, we estimate our sales of automotive MCUs in the second half to remain flat from the first half taking into account the continuously strong demand from the emerging countries and the domestic demand that is expected to recover from the turn of the year.

The market of general-purpose MCUs are expected to weaken mainly due to seasonal factors. However, we expect general-purpose MCUs for consumer electronics, especially inverter equipment that boast high market share, to continue to show relatively steady performance.

We also expect demand for MCUs for industrial equipment and MCUs for smart meter devices to continue to show steady performance. Therefore, we estimated the overall general-purpose MCUs in the second half to remain flat from the first half.

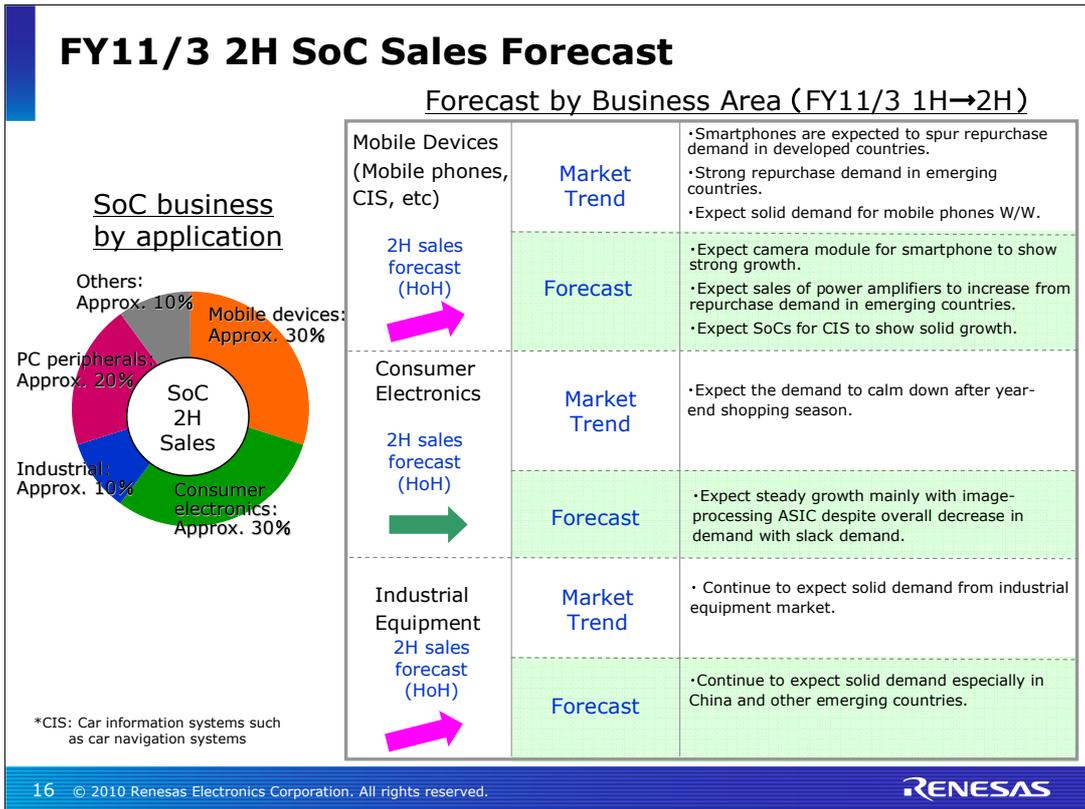


In slide 15, we will explain our forecasts for sales of Analog & Power devices in the second half more in detail.

Our second half Analog and Power device sales consist of approximately 25 percent with power devices and approximately 20 percent with compound semiconductors, approximately 20 percent with display drivers and approximately 35 percent with analog ICs.

Though the market of PC peripheral such as power supply are expected to decelerate due to inventory adjustment of the PC market, it is likely to recover after the turn of the year. Despite decelerating demand in Western Europe and Japan, automobile market is expected to show steady growth led by demand from emerging countries. Renesas Electronics expect increase in demand from inverter home appliances and industrial equipment area until the end of 2010 and then a recovery in demand mainly from PC area from the beginning of 2011. As for automotive, we expect recovery in demand from the beginning of 2011, thus expect solid growth throughout the fiscal year.

As for market of analog IC and others, although inventory adjustments are likely to continue in the market of PC peripherals including HDD and optical disks, demand from automobile are expected to continue to remain solid especially from the emerging countries. We expect the weak demand from PC peripherals, however demand from automobiles will be solid.



In slide 16, we will explain our forecasts for SoC sales in the second half.

Our second half SoC sales consist of approximately 30 percent with SoCs for mobile handsets and approximately 30 percent with SoCs for consumer electronics, approximately 20 percent with PC peripherals and approximately 20 percent with SoCs for others.

Mobile phone market is expected to increase its shipment volume worldwide with smartphones triggering repurchase demand and increasing demand in the emerging countries. Renesas Electronics also expects increase in demand for image processing SoCs for camera-equipped smartphones, power amplifiers in the emerging countries as well as sales increase with SoCs for CIS including car navigation systems.

Market of consumer electronics is expected to calm down after year-end shopping season. Though we expect slack demand from digital AV appliances especially in Japan, relatively strong growth mainly with image-processing ASIC is expected to continue despite overall decrease in demand with slack demand.

As for industrial equipment, the market will continue to grow steadily, therefore we also expect a growth especially from China and other emerging countries.

## FY11/3 2H Operating Income (Loss) Forecasts (HoH Comparison)

### Operating Income (Loss)

(B Yen)

FY11/3 1H  
Result

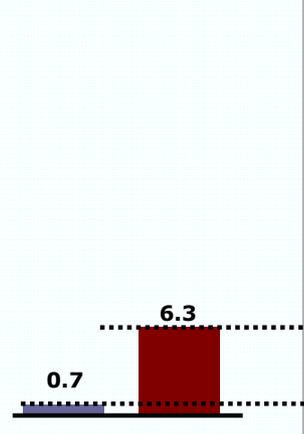
FY11/3 2H  
Forecast

1 US\$=90 yen

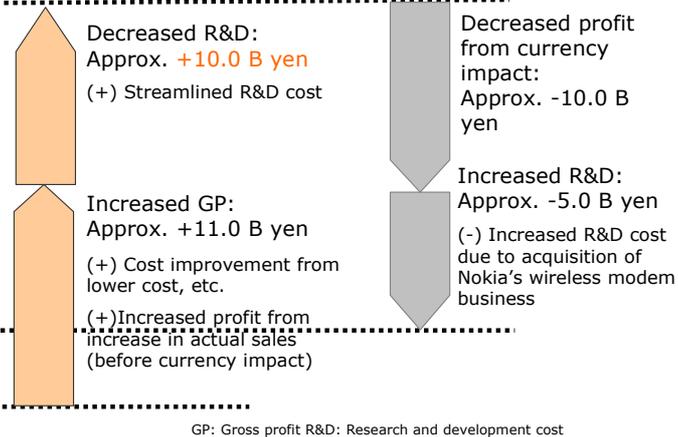
1 US\$=82 yen

1 Euro=116 yen

1 Euro=110 yen



■ Secure operating profit in the second half by executing plans formulated through the 100-day Project



Slide 17 shows our operating income from the first half to the second half.

As we announced on July 29, 2010, assuming that the sales from the first half to the second half to stay flat, we expect to improve our operating income by executing plans formulated through the 100-day Project.

Specifically, we expect GP increase through increased production, cost improvement through reduced cost and R&D efficiency through merger synergies.

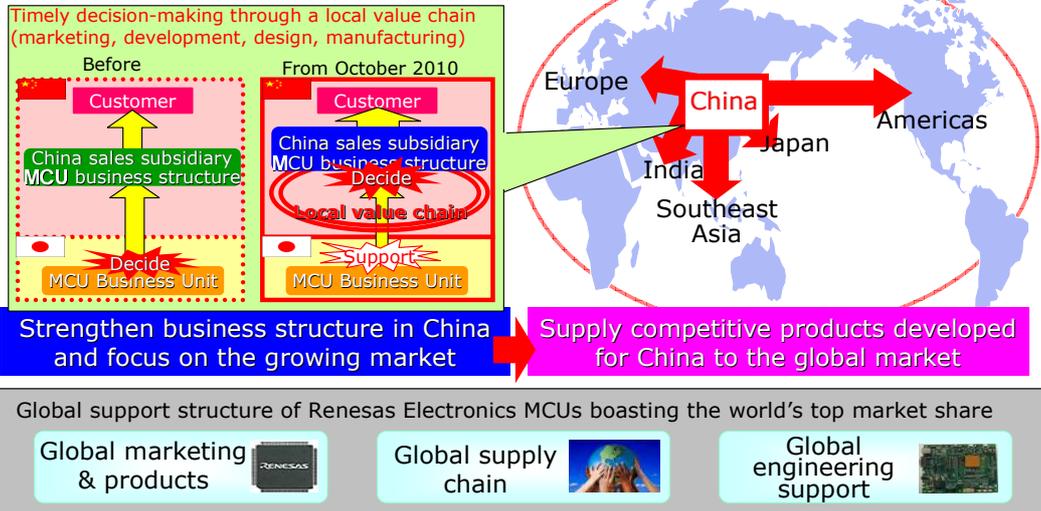
However, we also expect currency impact and increase in R&D cost from acquisition of Nokia's wireless modem business.

### **III. Progress on the 100-Day Project**

In the next section, we will explain our progress on the 100-day project.

## Establish MCU-Dedicated Business Division in China

- Position China, which drives w/w market, as the most important market and **strengthen MCU business structure in China starting October 1, 2010**
- Rapidly capture the dramatically changing Chinese market environment and customer needs and achieve **"Just in Function, Just in Quality"**.
- Provide competitive products worldwide through global support structure of the MCU that boast the global top market share



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Slide 19 explains progress on our MCU growth strategy from the 100-day Project

We established a new China-based MCU business division on October 1, 2010 to strengthen our MCU business for the Chinese market. The new MCU business division will engage in all processes from marketing to development, design, and sales, to realize local value chain.

We aim to expand our business in China by allowing local decision-making, instead of promoting China business through the headquarters in Japan. This enables us to capture market environment and customer needs in China and address the changing Chinese market by making decisions for development and manufacturing on timely basis, realizing "Just in Function Just in Quality".

After establishing a firm position in China, we aim to supply those products developed for the Chinese market into the global market through sales channels cultivated through our strong MCUs with the world-leading market share.

## Promote the Strengthening of Analog & Power Device Business

Achieve a growth rate that exceeds the market growth rate

Measures to  
Attain growth  
outperforming  
the market

- Strengthen product lineups of power devices extending from low-voltage to high-voltage (Launch 1,000 products in 3 years)
- Expand kit solutions that combine analog/power/opto devices by utilizing the MCU sales channels. Expand sales by providing kit solutions that facilitate system development to China and other emerging countries.
  - Provide reference boards
  - Offer complete documents (Including 107 application catalogue)
  - Provide technical data and power supply development tool

Example of reference board



Expand the  
basis for  
growth

Front-end: Promote 6-inch → 8-inch and fab-network (Kofu , Shiga)  
Back-end: Shift to overseas

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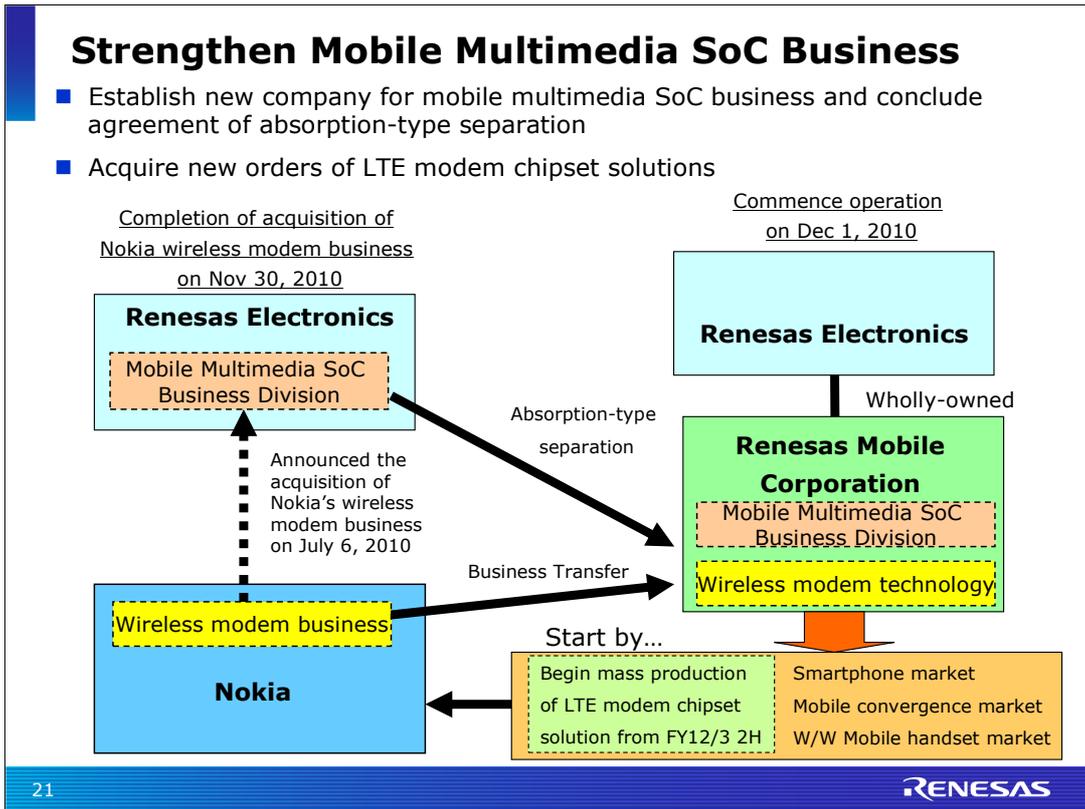
Slide 20 explains measure to strengthen our Analog & Power device business.

In order to realize a growth that outperform the market growth rate, we must first construct a “fab network” and promote large wafers as decided through the 100-day Project, and also steadily strengthen our product lineups by optimizing the business product portfolio.

To expand our basis for growth, we are promoting measures to shift our front-end lines from 6-inch to 8-inch and to construct a “fab network”. We are also accelerating back-end production overseas.

To build on our measures to expand our basis for growth, we will also concentrate our development resource for power devices and launch approximately 1,000 new products by the fiscal year ending March 2013.

In addition, we aim to promote our kit solutions by utilizing the sales channels cultivated through our world’s top MCUs. By expanding kit solutions that integrate analog & power devices and opto devices, we aim to provide kit solutions that enable system designers in China and other emerging countries to facilitate system development for in China, and expand our sales.



Slide 21 introduces our progress on strengthening of our SoC business, which is our principal pillar of the growth strategy of the 100-day Project.

Today, we concluded an agreement of absorption-type separation with Renesas Mobile Corporation. Renesas Mobile has been established on September 1, 2010, as a wholly-owned subsidiary of Renesas Electronics.

Based on the agreement, both the Renesas Electronics' mobile multimedia SoC business and the wireless modem business which, as announced on July 6, 2010, is scheduled to be transferred from Nokia Corporation as of November 30, will be transferred to Renesas Mobile. Renesas Mobile will commence operation on December 1, 2010.

Renesas Mobile will ship its first sample of modem chipset solutions incorporating LTE/HSPA+ modems in the fourth quarter of the fiscal year ending March 2011 to customers worldwide, including Nokia, which has already agreed to adopt Renesas Mobile's offering into their products.

By leveraging business relationships with over thirty thousand customers cultivated through Renesas Electronics' MCU business with the global top market share, Renesas Mobile will supply mobile platforms that integrate Nokia's wireless modem technology and Renesas Electronics' application processors and RF ICs for the convergence market, which includes not only mobile phones but a variety of mobile devices such as navigation systems and netbooks as well.

## Merger Synergies

### Improve sales efficiency

- Optimization of sales channels
  - ✓ Decreased the number of distributors from 30 to 16 and started new sales channels from Oct 1
- Integrate sales sites
  - ✓ Integrate major domestic branch company/office from 17 to 11  
Close down 5 offices to 6 sites by the end of December, 2010
  - ✓ Close to completing integration of overlapping overseas sales sites including sales companies and sales offices in every region
- Integrate logistics, warehouses and information systems by mid-FY2010 (proceeding as planned)
  - ✓ Integrate domestic/overseas warehouses
  - ✓ Consolidate exporters and integrate packaging materials and exporting

### Integrate products and improve design technology as well as manufacturing efficiency

- In the final stage to release new low-end MCU (Integrate 2 cores derived from both companies)
- Integrate environment development and reduce design cost (proceeding as planned)
- Miniaturization of chip size and package and reduction of testing time, etc (proceeding as planned)

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The next slide explains our progress on the realization of merger synergies.

At the time of the merger, it was assumed that it would take time to integrate our sales channels as the two companies had very different sales style. However, we were able to start out our second half with a new sales channel on October 1, 2010.

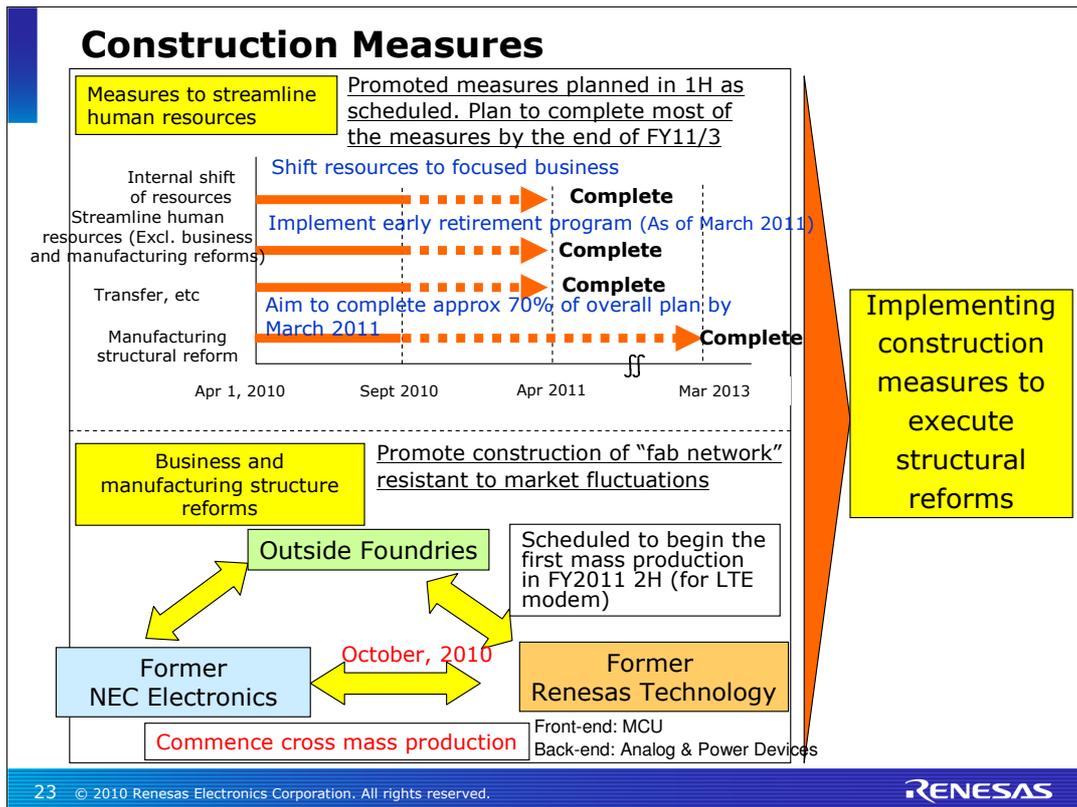
We completed the integration and closure of our sales sites in Japan and the number of sales sites will be reduced from 17 to 5 by the end of December 2010. As for our overseas sales site, we are close to completing the integration of overlapping sales sites in every region.

We aim to further promote the integration of domestic and overseas warehouses and streamlining of exporters.

In the meantime, we will promote those plans formulated through the 100-day Project to integrate our products, improve our design technology and improve our manufacturing efficiency.

We have been fully engaged in preparing the first launch of our low-cost, core-integrated MCU products by the end of this fiscal year. We plan to explain more about this in November 2010.

Lastly, we are proceeding our plans to reduce design cost by integrating development environment, miniaturization of chip size and package as well as reduction of testing time as scheduled.



Slide 23 shows progress on our construction measures.

First, we are proceeding measures to streamline our human resources as scheduled. We will implement the early retirement program which we announced today by March 2010. We will also complete our plans to shift our human resources internally to focused business to transfer outside Renesas Electronics Group by March 2010. Additionally, we will promoting our plan to streamline human resources as part of our manufacturing structural reforms by the end of March 2013.

As part of our business and manufacturing structure reforms, we have started cross production of our MCUs and analog and power devices among the outside foundries and the plants from former NEC Electronics and former Renesas Technology. We also plan to begin mass production of our chip set solution for LTE modem as the first product launch through the cross production "fab network" between outside foundry and the plant from the former Renesas Technology by the second half of the fiscal year ending 2012.

We aim to promote structural reform to become resistant to market fluctuations through the second half by implementing construction measures formulated through the 100-day Project.

## **IV. Summary**

In the last section, we will show the summary of our management targets.

- Sales in the second half are expected to remain flat from the first half despite the stagnant market condition and currency impact.
- Achieve operating profit by steadily implementing all the measures formulated through the 100-day Project.
- Promote structural reforms to attain net profit in FY12/3 and two-digit operating profit ratio in the mid-term period.

To summarize, taking into account the stagnant market condition and currency impact, Renesas Electronics left the net sales for the second half nearly unchanged from the first half.

In the meantime, we aim to achieve operating profit for both the second half and full year by steadily implementing plans decided through our 100-day Project.

We will also attain net profit in the next fiscal year and two-digit operating profit ratio in the mid-term period by executing structural reforms and constructing solid management structure.



Thank you very much for your continued support of Renesas Electronics.

This concludes our presentation today.