

1H FY07/3 Financial Results and Outlook

Toshio Nakajima

President and CEO

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NEC Electronics Corporation

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



NEC ELECTRONICS¹

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.

Agenda

I. 1H FY07/3 Financial Results

II. FY07/3 Financial Forecasts

III. Progress on Measures to Improve Performance

A Financial Snapshot

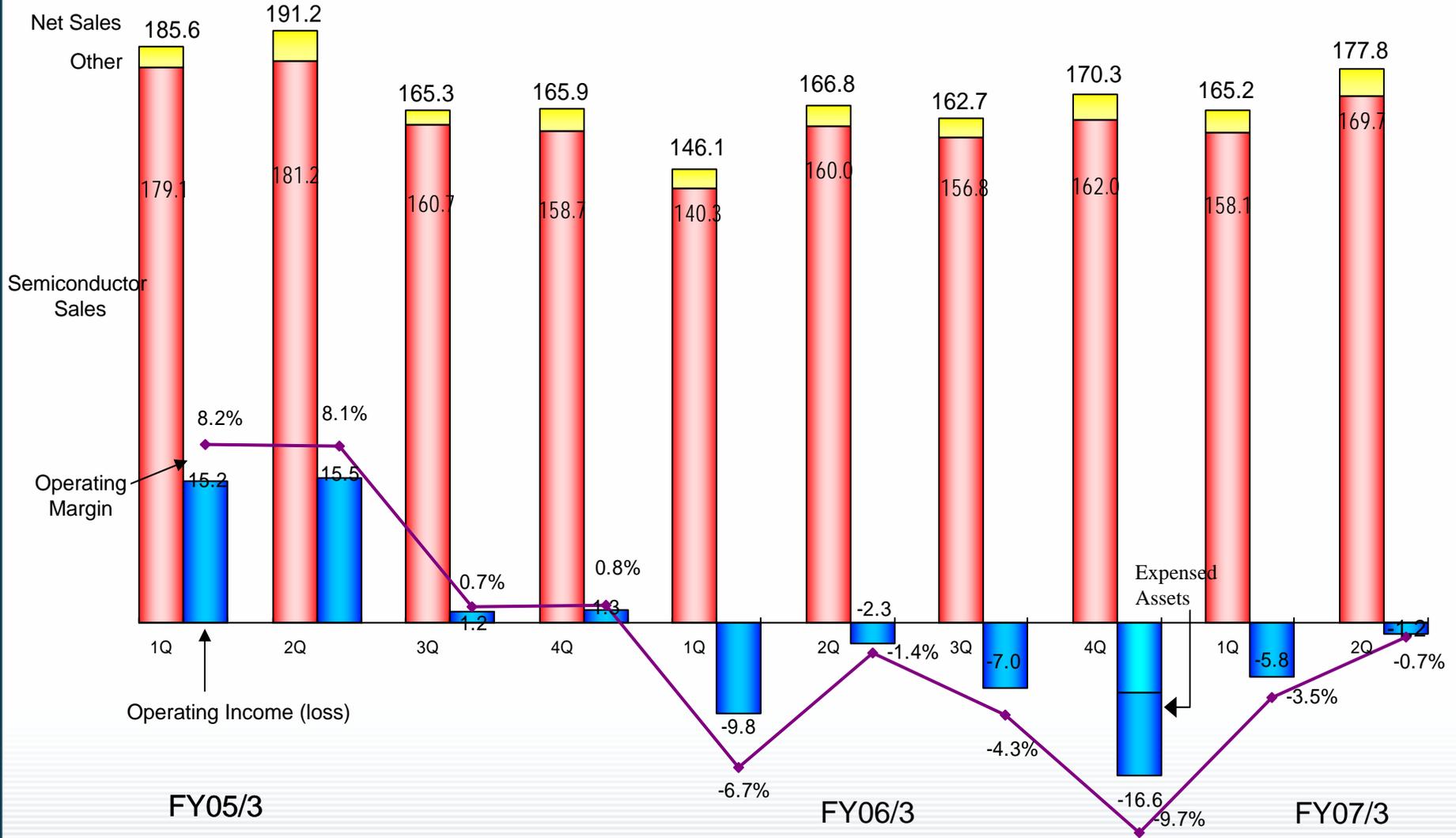
JPY Bn	FY06/3	FY07/3					
	Q2	Q1	Q2	1H			
					HoH	YoY	Previous Forecasts
Net Sales	166.8	165.2	177.8	343.0	+ 10.0	+ 30.1	345.0
Semiconductor Sales	160.0	158.1	169.7	327.8	+ 9.0	+ 27.5	330.0
Operating Loss	-2.3	-5.8	-1.2	-6.9	+ 16.6	+ 5.2	-5.0
Operating Margin	-1.4%	-3.5%	-0.7%	-2.0%	+5.1% points	+1.9% points	-1.4%
EBT	-2.9	-4.8	-0.8	-5.6	+ 23.1	+ 8.1	-7.0
Net Loss	-1.6	-6.1	-1.3	-7.4	+ 82.9	+ 0.5	-9.0
Net Income Margin	-0.9%	-3.7%	-0.7%	-2.2%	+ 24.9% points	+ 0.3% points	-2.6%

Exchange Rate	1US\$= ¥110 1Euro= ¥134	1US\$= ¥115 1Euro= ¥142	1US\$= ¥115 1Euro= ¥147	1US\$= ¥115 1Euro= ¥145			1US\$= ¥115 1Euro= ¥140

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

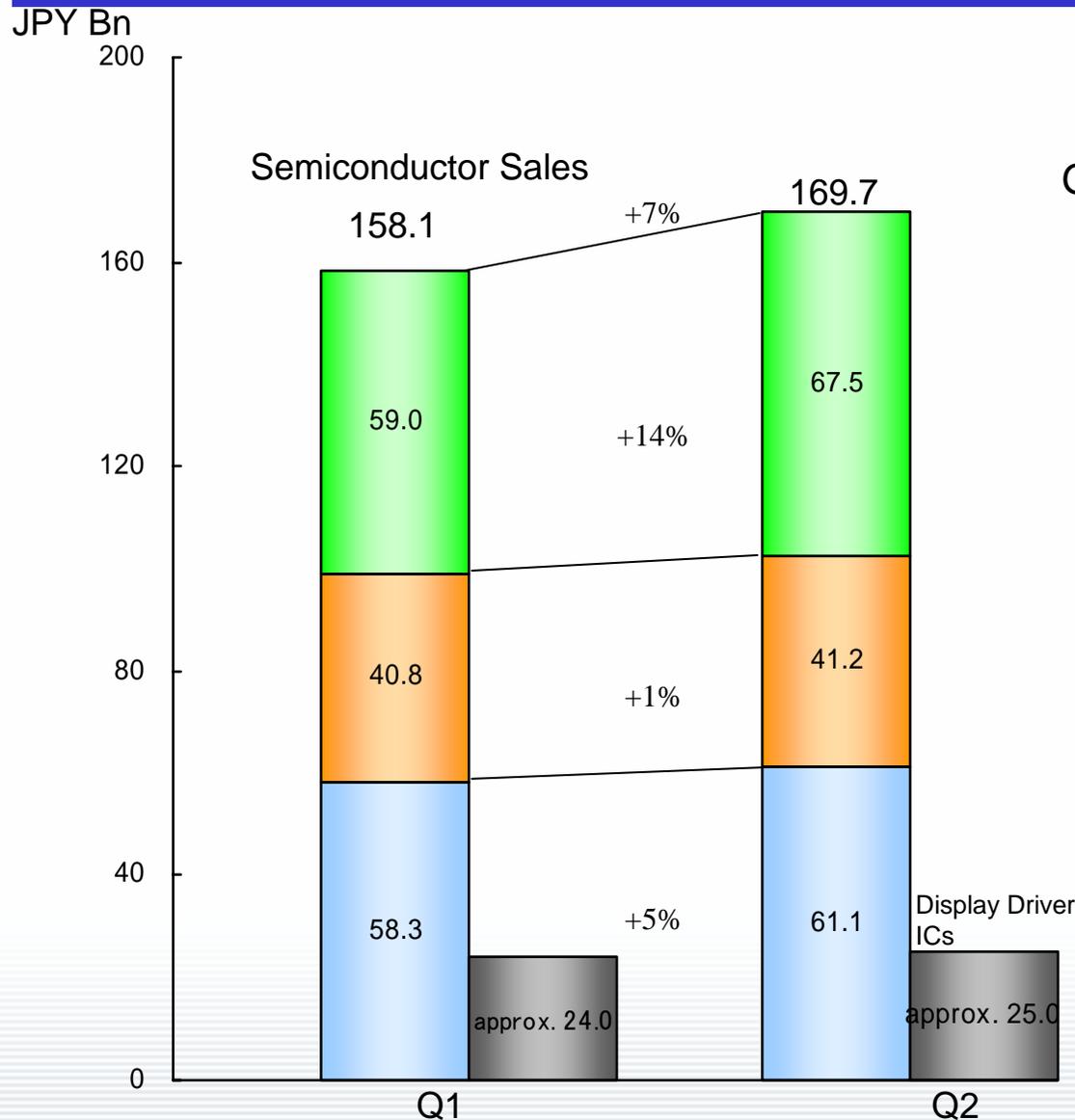
Trends in Quarterly Results

JPY Bn



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

Q1-Q2 Revenue Growth by Platform



Growth Factors in Q1-Q2 Revenues

SOC Platform

- An increase in sales due to launching shipments of LSIs for a new game console
- An increase in sales of LSIs for printers and DVD drives due to seasonality factors
- A decrease in sales of digital baseband LSIs for mobile handsets due to continued inventory adjustments in the Japanese market

MCU Platform

- Sales for Auto and general-purpose MCUs remained flat

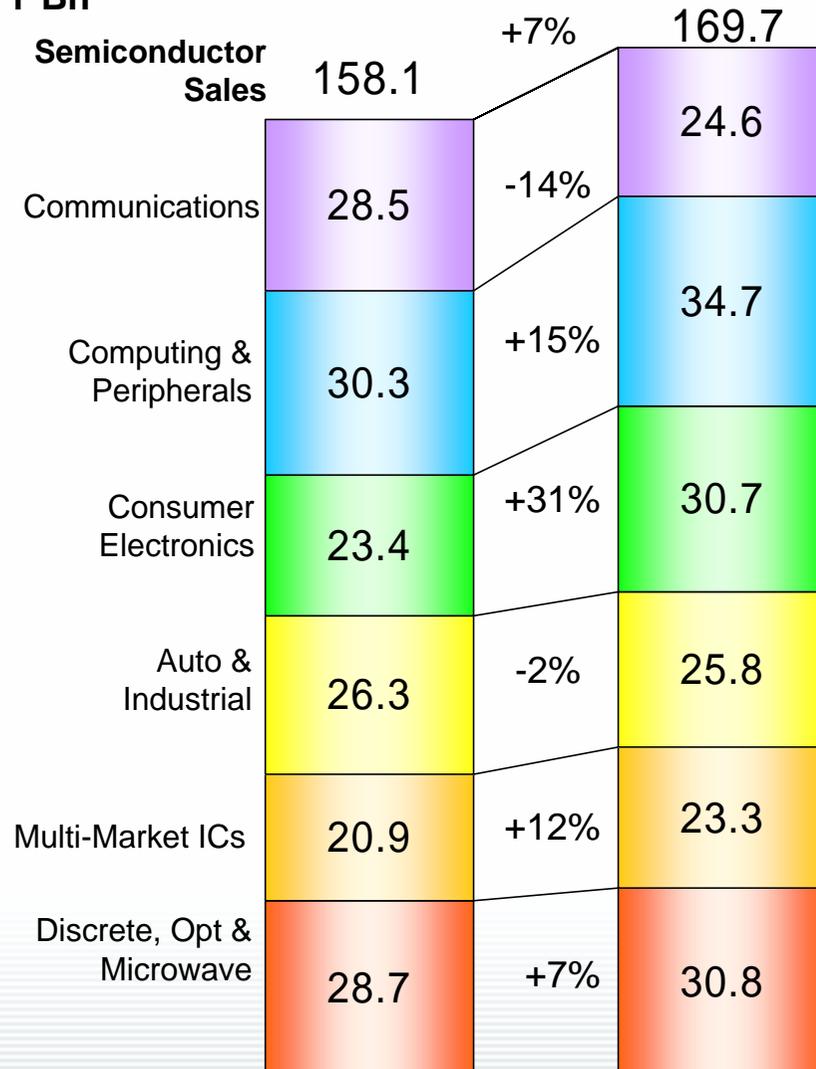
Components

- An increase in sales of discrete and optical semiconductors
- An increase in sales of LCD drivers for small panels

FY07/3

Q1-Q2 Revenue Growth by Application **NEC**

JPY Bn



Growth Factors in Q1-Q2 Revenues

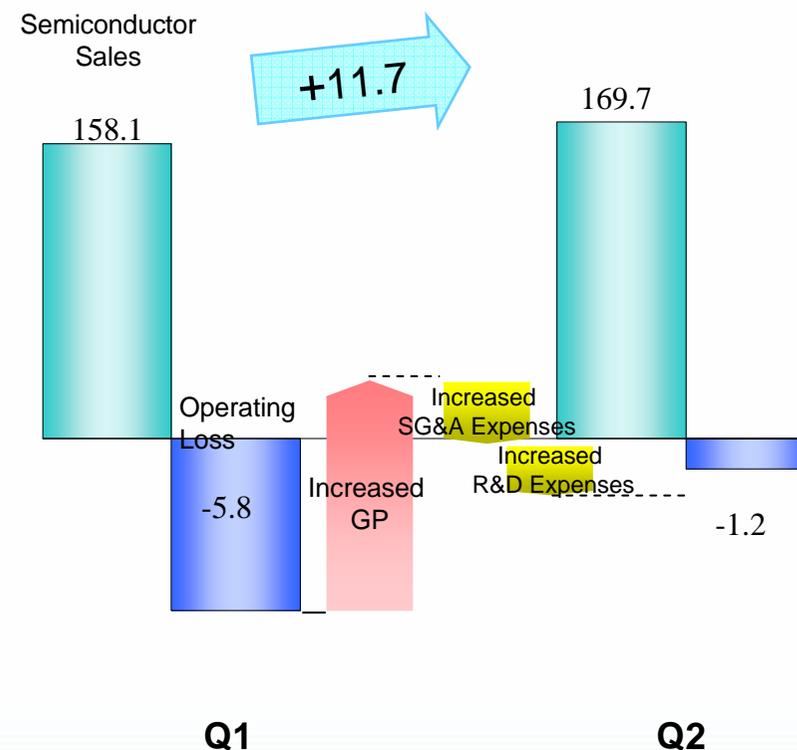
- Sales of digital baseband LSIs for mobile handsets decreased
- Sales of LCD driver ICs for mobile handsets increased due to an increased share
- Sales of LSIs for DVD drives increased
- Sales of LCD driver ICs for large panel remained flat
- Launched shipments of LSIs for a new game console
- Shipments of LSIs for digital AV increased
- Sales for automotive area remained flat
- Sales increased overall, including the All Flash microcontrollers
- Sales of discrete and chemical compound semiconductors increased

Q1 FY07/3 Q2

Changes in Q1-Q2 Profits

JPY Bn	Q1	Q2		
	(% Against Net sales)	(% Against Net sales)	QoQ	YoY
Net Sales	165.2	177.8	+12.5	+10.9
Semiconductor Sales	158.1	169.7	+11.7	+9.7
Cost of Goods Sold	118.9 (72.0%)	124.7 (70.2%)	+5.8	+3.4
Gross Profit	46.3 (28.0%)	53.1 (29.8%)	+6.8	+7.6
R&D Expenses	31.0 (18.7%)	31.9 (17.9%)	+0.9	+5.0
SG&A Expenses	21.1 (12.8%)	22.3 (12.6%)	+1.3	+1.4
Operating Losses	-5.8 (-3.5%)	-1.2 (-0.7%)	+4.6	+1.2

Depreciation (CF) + Lease	26.8	28.1	+1.3	-1.4
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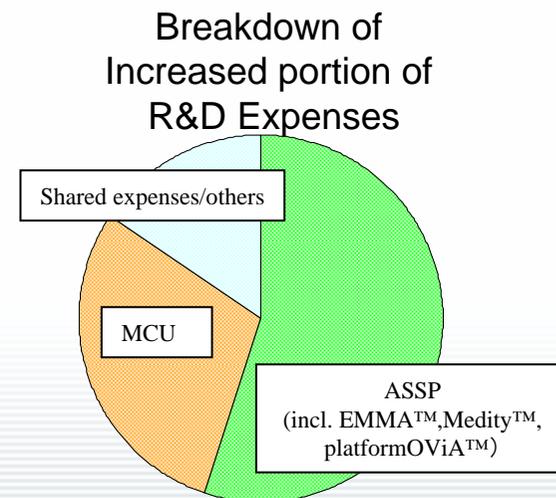
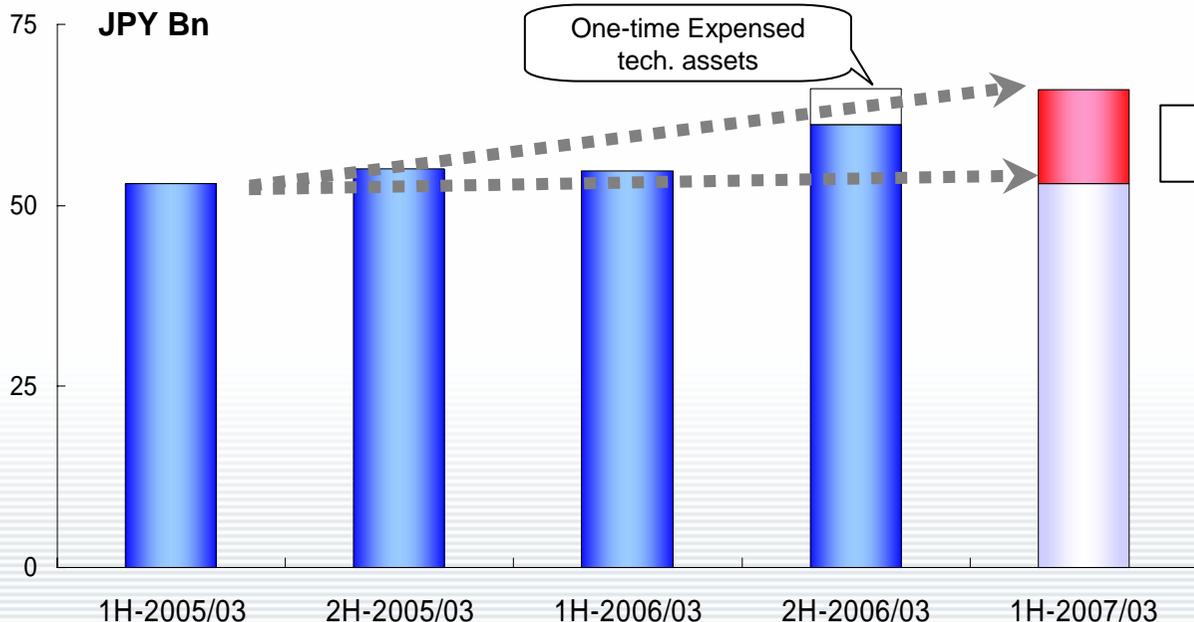
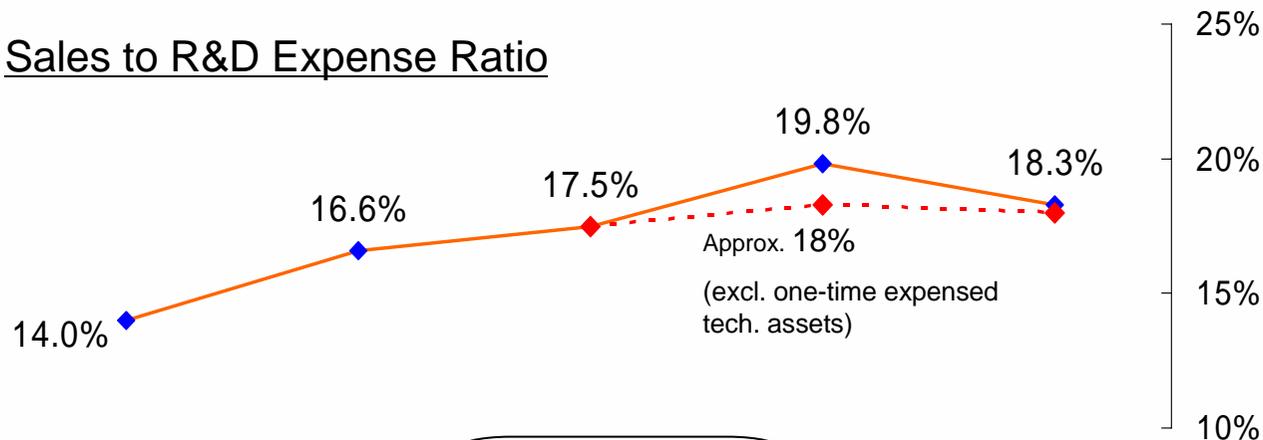


FY07/3

R&D Expenses (for the last 5 interim terms)

Intensive R&D Spending in Growth Areas

Sales to R&D Expense Ratio



Balance Sheet

JPY Bn		05/9	06/6	06/9
	Cash and Cash Equivalents	201.7	204.8	222.0
	Accounts Receivable	113.3	106.5	116.7
	Inventories	72.2	76.1	83.1
	PP&E	324.7	309.5	305.9
	Other Assets	88.0	45.6	49.4
	Total Assets	799.7	742.6	777.0
	Accounts Payable	117.5	137.5	169.2
	Debt Payable	151.9	146.6	146.0
	Other Liabilities	138.2	155.1	159.5
	Liabilities	407.7	439.3	474.8
	Shareholders' Equity	388.1	299.2	298.0
	D/E Ratio	0.39	0.49	0.49
	Equity Ratio	49%	40%	38%

Cash Flows

Free cash flow turned black for the 1H FY07/3

JPY Bn	FY06/3	FY07/3		
	1H	Q1	Q2	1H
Cash Flows from Operating Activities	14.7	7.8	26.8	34.6
Cash Flows from Investing Activities	-34.2	-12.4	-8.7	-21.1
Free Cash Flow	-19.5	-4.6	18.1	13.4

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FY07/3 Forecasts

JPY Bn	FY06/3	FY07/3								
	Full Year	1H			2H			Full Year		
		Previous Forecasts (as of April 25 th)	1H Results	changes	Previous Forecasts (as of April 25 th)	2H Forecasts	changes	Previous Forecasts (as of April 25 th)	Full Year Forecasts	changes
Net Sales	646.0	345.0	343.0	-1.9	360.0	Approx. 350.0	Approx. -10.0	705.0	695.0	-10.0
Semiconductor Sales	619.1	330.0	327.8	-2.2	350.0	Approx. 340.0	Approx. -10.0	680.0	667.8	-12.2
Operating Income (Loss)	-35.7	-5.0	-6.9	-1.9	10.0	0	Approx. -10.0	5.0	-7.0	-12.0
EBT	-42.4	-7.0	-5.6	+1.4	7.0	Approx. -13.4	Approx. -20.0	0	-19.0	-19.0
Net Income (Loss)	-98.2	-9.0	-7.4	+1.6	4.0	Approx. -17.6	Approx. -22.0	-5.0	-25.0	-20.0

Exchange Rates

1US\$=	¥112	¥115	¥115	-	¥110	¥115	-	¥113	¥115	-
1Euro=	¥138	¥140	¥145	-	¥135	¥145	-	¥137	¥145	-

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

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

Non-Operating Income and Expenses

JPY Bn	FY06/3	FY07/3								
	Full Year	1H			2H			Full Year		
		Previous Forecasts (as of April 25 th)	1H Results	changes	Previous Forecasts (as of April 25 th)	2H Forecasts	changes	Previous Forecasts (as of April 25 th)	Full Year Forecasts	changes
	-6.7	-2.0	+1.3	+3.3	-3.0	Approx. -13.4	Approx. -10.4	-5.0	-12.0	-7.0
Non-operating Income		•Gain on sale of marketable securities and others								
Non-operating Expenses		<ul style="list-style-type: none"> •Expenses for closing the Ireland plant •Expenses for closing the Sagamihara 200mm pilot line 			<ul style="list-style-type: none"> •Expenses for closing the plant carried over •Expenses involving memory-related litigation •Expenses related to various reforms 					

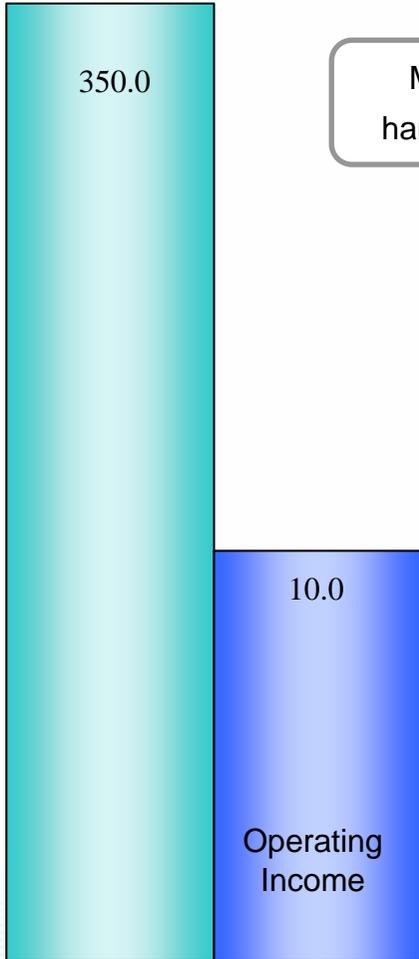
Note 1: Operating Income (loss) = Net Sales – COGS – R&D – SG&A

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

Changes in Previous and Current 2H Forecasts

JPY Bn

Semiconductor Sales

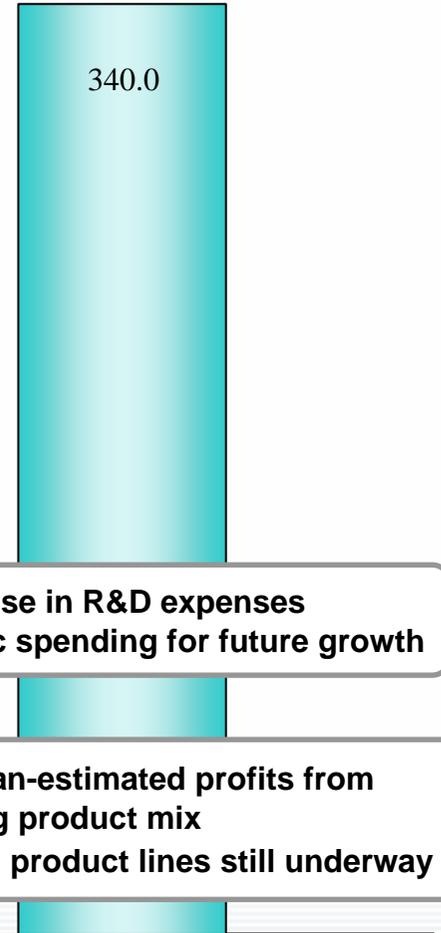


Previous Forecasts
(as of April 25th)

-10.0Bn

Market slowdown and sales decline in the mobile handsets area drag down overall semiconductor sale

Semiconductor Sales



Current Forecasts
(as of Oct 25th)

Cutting SG&A Expenses

Approx. **+2.0**

Changes in Exchange Rates

Approx. **+4.0**

Lower profits from Sales decline

Approx. **-6.0**

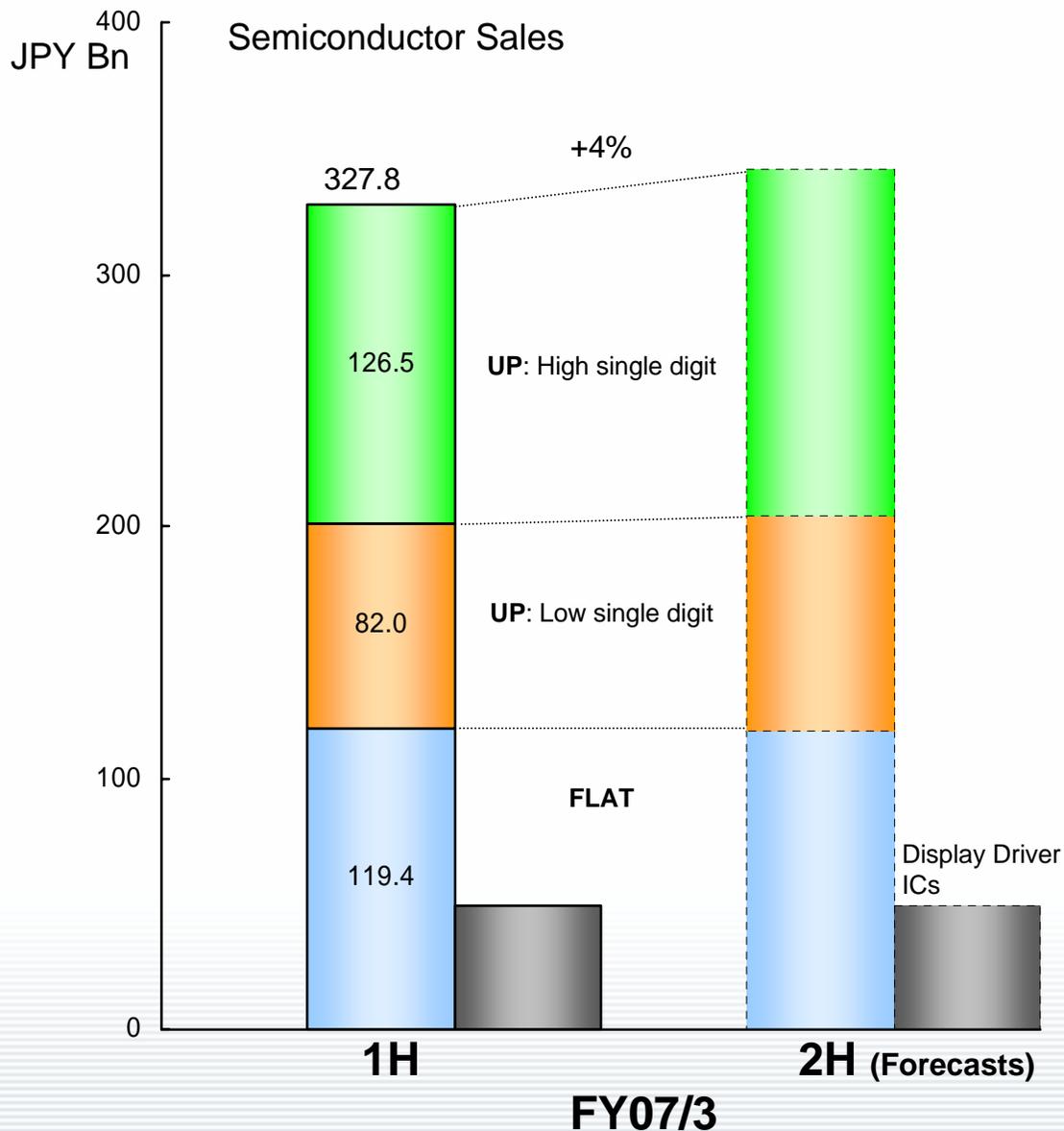
Approx. **-5.0**

An increase in R&D expenses
~strategic spending for future growth

Approx. **-5.0**

Lower-than-estimated profits from improving product mix
~Refining product lines still underway

Semiconductor Sales Forecasts (HoH) NEC



SoC Platform

- (+) Volume shipments of LSIs for a new game consoles
- (+) Increase in shipments of LSIs for mobile handsets, such as digital baseband LSIs, due to a recovery in the Japanese market from adjustment period
- (-) Decrease in shipments of LSIs for digital cameras

MCU Platform

- (+) Steady growth for Auto MCUs
- (-) Anticipated adjustments in the general-purpose MCU market

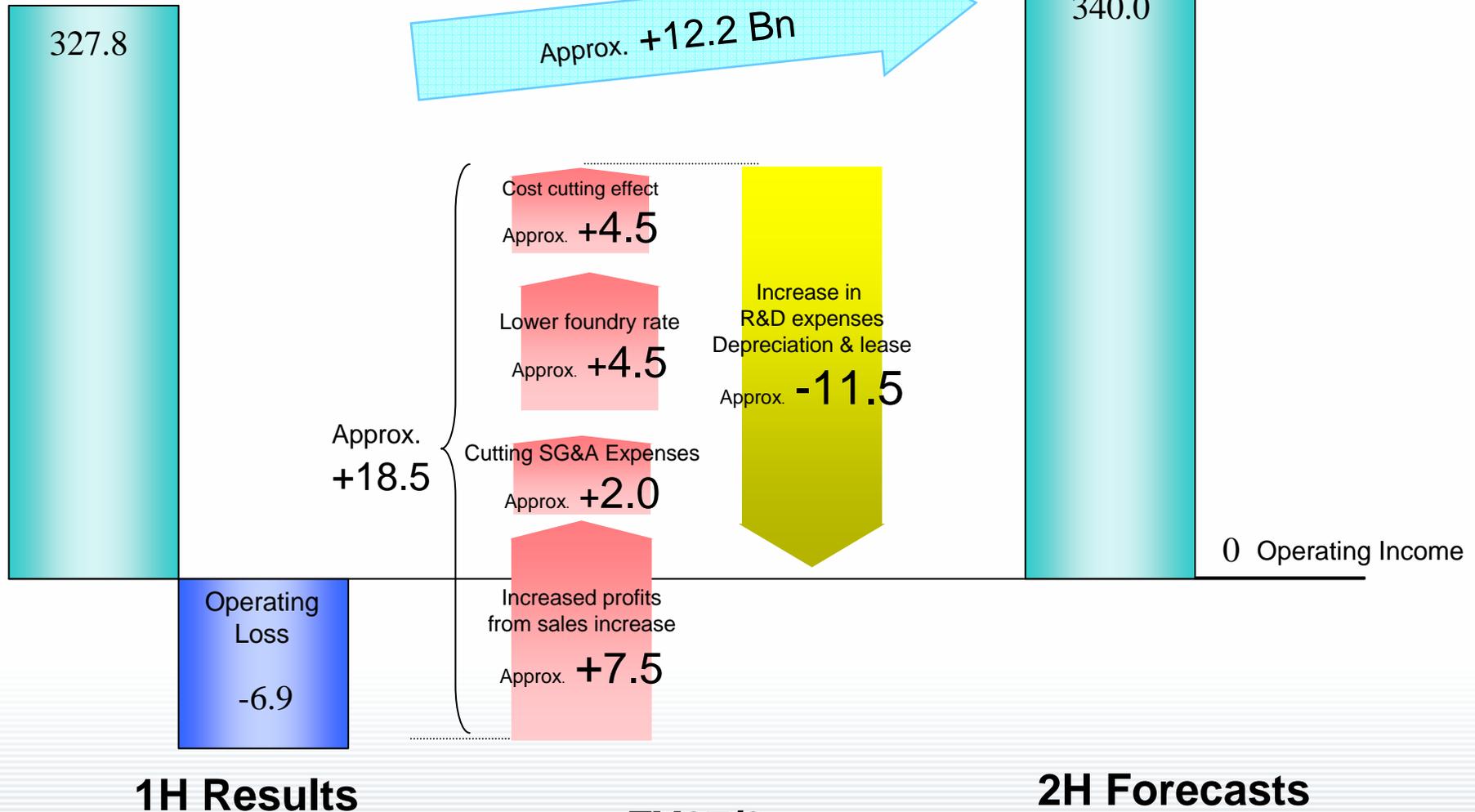
Components

- (+) An upward momentum in the LCD driver IC market for large panels anticipated to continue even after the turn of the year
- (-) Adjustments for LCD driver ICs for small panels continue for 2H
- (+) Discretes slowing, but continue to grow

Changes in 1H – 2H Operating Income (Loss) **NEC**

JPY Bn

Semiconductor Sales

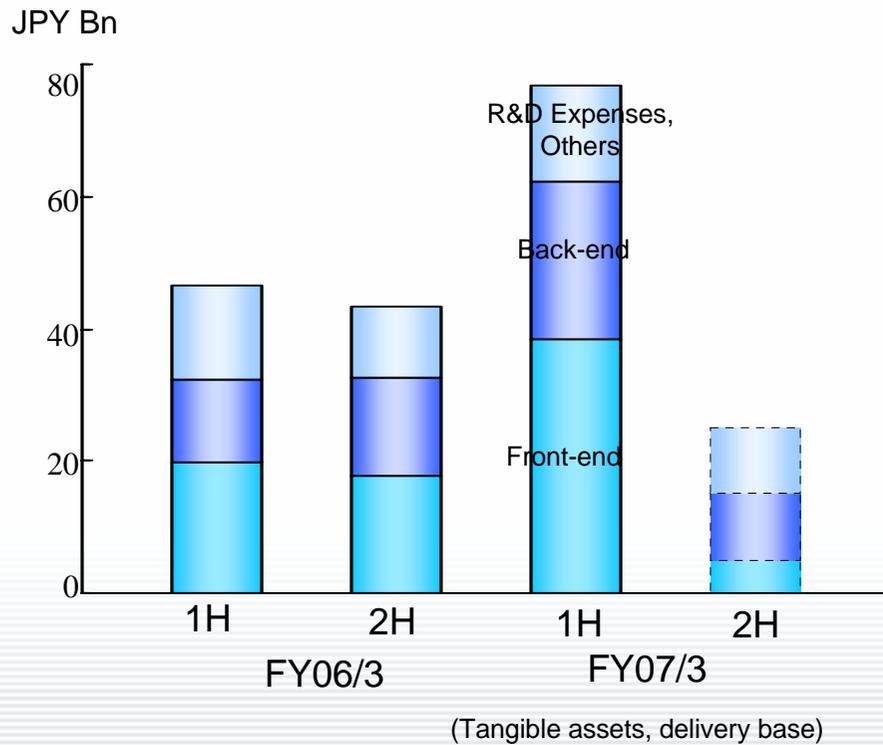


FY07/3

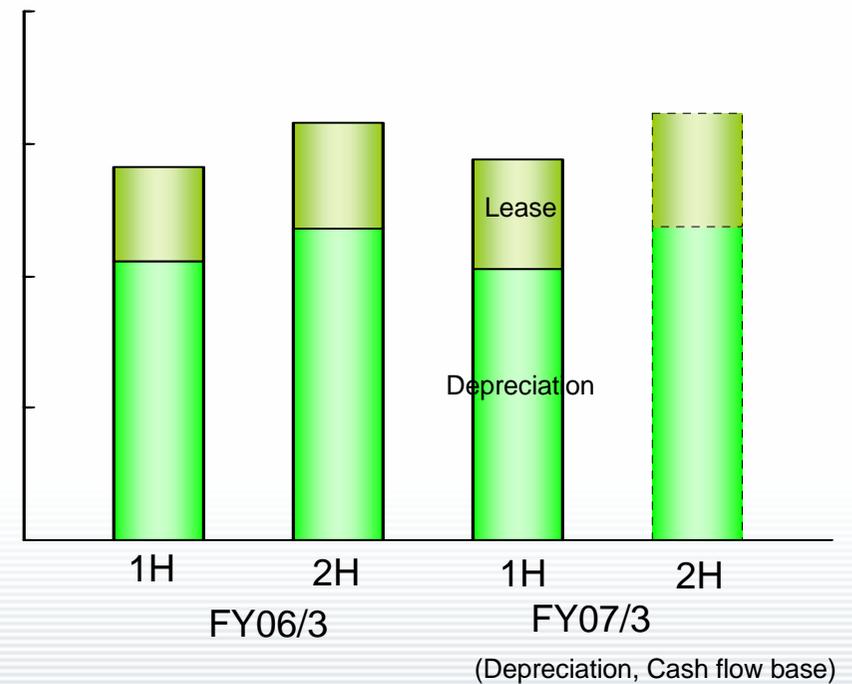
Capex, Depreciation and Lease expenses

Majority of Capex spent in 1H, Expenses increase in 2H

Capex Spending



Depreciation & Lease expenses



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Measures to Improve Performance

Expanding orders and sales

Lower costs to sales ratio with capacity increase and higher utilization rate

2nd Half FY07/3

Develop Stronger Products and Recover Profitability

Measures to Improve Performance

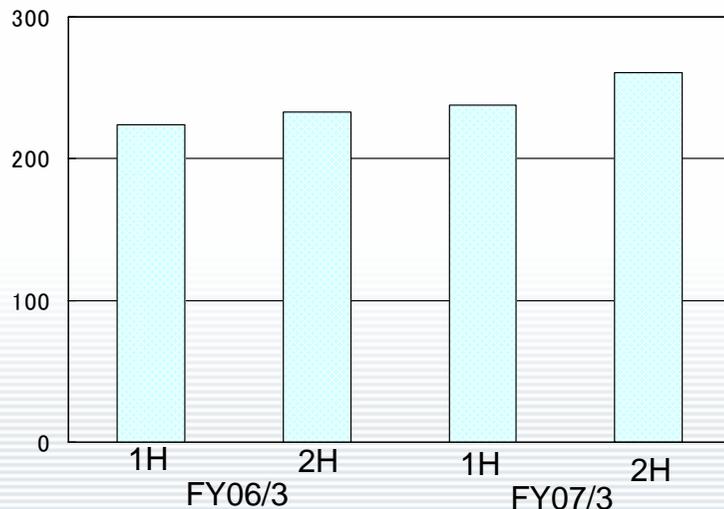
Lower costs to sales ratio with capacity increase and higher utilization rate

✓ Manufacturing capacity is expected to increase by about 10% from 1H to 2H due to investments in the 300mm line at Yamagata and the OEE* activities, however, not enough orders to fill the lines

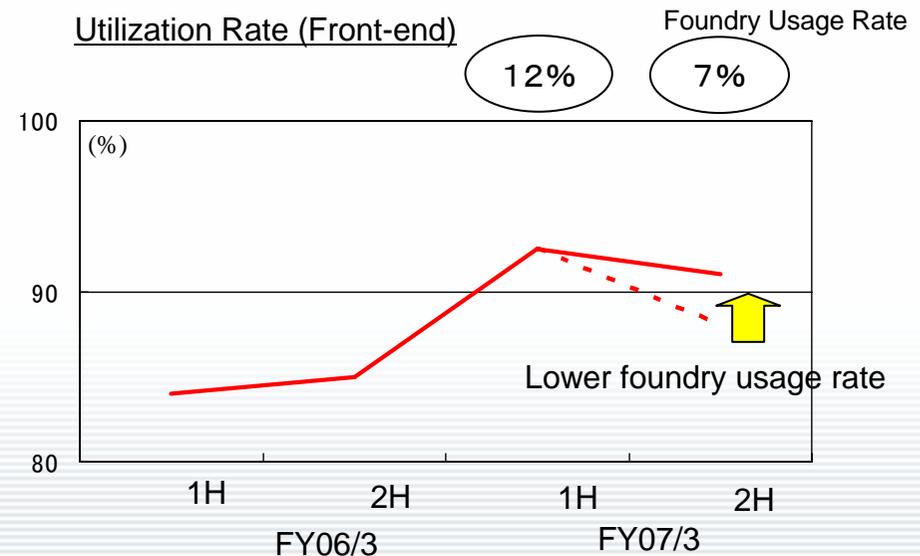
*OEE (Overall Equipment Efficiency)

✓ Lower foundry usage rate to maintain high in-house utilization rate

Manufacturing Capacity (8-inch K wafers/ month, Average)



Utilization Rate (Front-end)



Our Progress and Issues We Face

2nd Half FY07/3

Develop Stronger Products and Recover Profitability

Steady progress in the MCU sales increase and the ASSP expansion, but the profits have not yet shown true recovery

■ The EMMA™ series for the digital AV platform



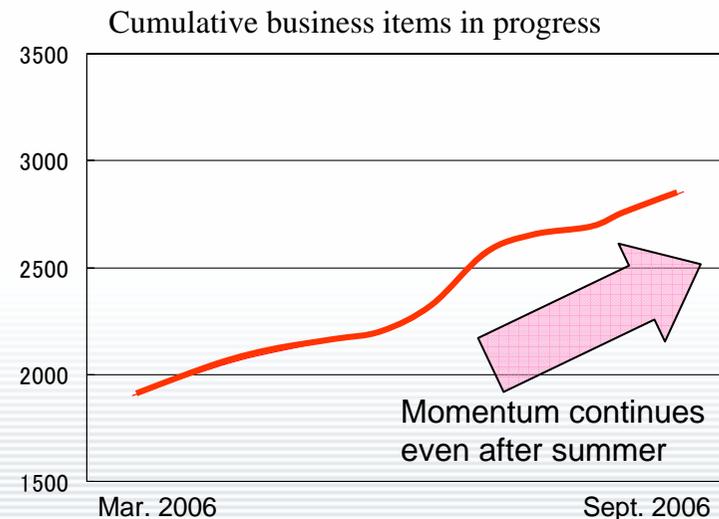
2H: design-ins for 50 companies worldwide
(cumulative)



■ All Flash™ MCUs



2H: 3,000 business items in progress



Measuring Our Progress

Continue to work on sales & order expansion and cost cutting measures, while developing products to recover profitability

Expanding orders and sales

Lower costs to sales ratio with capacity increase and higher utilization rate

Develop Stronger Products and Recover Profitability

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