NEC Electronics Presentation Script

1.

Good morning to people in North America and Good afternoon to people in Europe. My name is Hank Sato, SVP and CFO of NEC Electronics.

For the next 10 minutes or so, I would like to give a brief overview of our third-quarter financial results for the fiscal year ending March 2004.

2.

Before I discuss the Company's third quarter results for the year ending March 2004, I would like to remind you that all statements made during the conference call, that are not statements of historical fact, constitute "forward-looking statements." Actual results may vary materially from those contained in the forward-looking statements.

Please be sure to review the cautionary statement in your handouts.

3.

On slide 3, you will find a summary of NEC Electronics' third-quarter results.

As you can see, net sales were down 5.6% year on year to 175.2 billion yen. Year-on-year semiconductor sales were mostly flat, at 166.6 billion yen.

Operating income rose 34% to 15.5 billion yen. Income before income taxes was 88% higher at 13.8 billion yen, while net income climbed 76% over a year earlier to 8.3 billion yen.

Free cash flow remained positive, at 18.7 billion yen. Shareholders' equity was 356.6 billion yen and the equity ratio was 48%.

4.

This slide shows a year-on-year comparison for sales, which are broadly divided into categories: "semiconductors" or "other."

Sales in the "other" segment declined due to the transfer of resale operations for LCDs and printed wiring boards in Japan.

Semiconductor sales were almost flat year on year, despite healthy sales for mobile handsets, computers and peripherals, and digital AVs. A drop in demand for system LSIs for game consoles and the yen's rapid appreciation stood in the way of further growth.

While net sales were slightly lower, our operating margin improved from 6.2% to 8.9% year on year.

5.

This slide shows P&L analysis. One might assume that semiconductor sales grew, if the impact of currency exchange rates is ignored. In actuality, semiconductor sales were flat because of the yen's appreciation. Earnings rose, despite the effect of exchange rates and higher expenses resulting from changes in Japan's social insurance system, because of benefits gained from improved cost efficiency and other structural reforms, the shift to high-value-added projects or higher margin projects, and increased production volume.

6.

Regarding profit management system, although we monitor profitability by projects, it might not lead us to maximize our profit as a whole company. So, we also focus on fixed or variable costs analysis of a company, since our facilities are mixed-product lines, no single product more than 5% of our total sales and common R&D expenses.

Thanks to our shift to high-value-added or higher margin projects, reduced materials costs, and other successful initiatives, the variable cost ratio declined by 2 percentage points. This came despite increased reliance on external foundries.

The fixed cost ratio declined by 1 percentage point, the result of lower production costs achieved through ongoing production innovation activities, optimization of our production lines, and other means.

7.
Next, let’s take a quarter-by-quarter profitability over the 7 quarters
For the third quarter of fiscal year ending March 2004, the operating margin was 8.9%, achieving a sequential improvement in our profitability.

8.
The graph on slide 8 shows sales breakdown by application over the last 7 quarters and we can see the strong upward trend in our sales for communications area, particularly in semiconductors for mobile handsets.

In computing and peripherals, while sales fell in the previous year due to our withdrawal from LSIs used in HDDs, growth for LSIs used in rewriteable DVD drives, printers and other products lifted sales year on year.

In the consumer electronics sector, sales continue to steadily improve despite the sharp drop in demand for LSIs for game consoles since the fourth quarter of the previous fiscal year. This is due largely to healthy sales for use in digital AV equipment, such as MPEG encorder/decorder LSIs for DVD recorders.

Sales in the automotive and industrial category grew steadily in microcontrollers for automobiles.

Sales for multi-market ICs and discrete follow the similar trend as general economy.

9.
Now, let’s move briefly through the balance sheet.

As of December 31, 2003, total assets stood at 746.3 billion yen, while shareholders’ equity was 356.6 billion yen. Cash and cash equivalents were 192.1 billion yen.

Establishment of global cash management system allowed us to reduce the total for short- and long-term debt to 105.0 billion yen.

As a result, our gross debt to equity ratio was 0.29 and our equity ratio was 48%.

10.
Next, cash flows.

Free cash flow was in the black for the third quarter for the fiscal year ending March 31, 2004, at 18.7 billion yen. This brings cumulative free cash flow for the 9 months of the current fiscal year to 41.8 billion yen.

While capital expenditures rose due to investments in cutting-edge process technology to meet increased demand for semiconductors used in digital AV equipment and mobile handsets, this was more than offset by higher earnings and assets management.

11.
Now, I would like to discuss our projections for full-year results.

Although the fourth quarter is typically a time of slow sales due to seasonal factors, we have strong demand for digital AV and mobile handsets. Therefore, we are not anticipating any significant downturn in sales, although the yen appreciation remains a risk factor. So, we project consolidated net sales of 705.0 billion yen, as planned.

Due to benefits emerging from a shift to high-value-added or higher margin projects and our production innovation activities, we have revised our estimate for operating income to 53.0 billion yen. This is up from the earlier figure of 50.0 billion yen announced with our interim business results.

Forecasts for income before income taxes and net income, however, remain unchanged from our initial targets, at 44.0 billion yen and 26.0 billion, respectively, as we are expecting to book non-operating exchange losses due to the higher yen appreciation.

Thank you for your attention.