

NECEL 3Q Script

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For the next 15 minutes or so, I would like to give a brief overview of NEC Electronics' financial results for the third quarter of the fiscal year ending March 31, 2005.

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Let me start with third-quarter financial data.

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This slide shows a summary of business results.

Third-quarter consolidated net sales declined 6% year on year to 165.3 billion yen, and were down 14% from the second quarter. Despite the drop in net sales, we did secure profitability.

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In this slide, I'll explain the reason of the change in operating profit from the second quarter.

Semiconductor sales fell by about 20.0 billion yen. The largest declines were in LCD driver ICs for mobile handsets. I'll go into more detail of sales on the next slide.

Adding to the lower sales, an increase in depreciation and amortization and a higher yen impacted our profit. However, by taking various measures to improve cost efficiency, we finally generated operating income of 1.2 billion yen.

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In a breakdown of semiconductor sales by end-market application and product, we see that while sales remained relatively strong for semiconductors used in automotive applications, sales fell in almost all other product categories and markets from the second quarter.

The largest declines were in Computing and peripherals, which including LCD driver ICs for personal computers, due to the adjustment of inventory of parts on customers' side. Sales for Communications also declined due to decrease in TFT-LCD driver IC sales for mobile phone.

Sales of discrete, optical and microwave devices, as well as other general-purpose devices, were also lower in line with industry slowdown. In semiconductors for consumer electronics, sales of semiconductors for televisions, digital camcorders and other digital consumer electronics were down.

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Next slide shows our balance sheet. Here, ongoing management at factories is preventing an increase in inventories.

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In October, we downward the forecast of our business plan because we anticipated a temporary adjustment phase for digital AV equipment and Japanese mobile phone and other end-products.

However, Since then, recovery of semiconductor demand is taking longer than expected, although the temporary adjustment phase is leveling off.

In this business environment, we are promoting solutions more proactively to increase customer orders, as well as implementing measures such as cost reduction to improve earnings. However, due to the difficulty in overcoming the decrease in demand, NEC Electronics revises its full-year forecast.

In the next part, I will describe the background of revisions.

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So, let me now give further details on the variables that affected our business forecasts.

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- First, let's look at our initial plan for operating results this fiscal year compared against the previous year.
- Our plan called for semiconductors sales, particularly for consumer electronics and PC peripherals, to increase by 12%. We believed this growth would surpass the 11% growth rate forecast for the semiconductor market as a whole (excluding DRAM and MPU).
- On the earnings side, we anticipated an increase in depreciation and

amortization, together with higher costs due to the yen's appreciation. Despite this, we expected benefits gained from structural reforms such as higher production and cost efficiency to enable us to achieve earnings growth.

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This slide shows our plan for sales by end-market application in April last year. The reasons of the growth we thought are shown in slide 13.

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We expected high sales growth driven by expanding electronic devices and LCD panel production for the demands mainly relating to Olympic game.

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Next chart shows the changes in our business plan for this fiscal year. As I explained before, after we announced the revision in October, recovery of semiconductor demand is taking longer than expected. The adjustment of inventory for end products manufactured for the demand relating to Olympics is coming to an end, but adjustments during the third quarter were larger than anticipated.

Although we are implementing further measures to curb various costs and expenses, it is difficult to achieve the forecast in October.

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The breakdown of revisions of semiconductor sales by applications and products is shown in slide 15. For your information, please refer slide 17 to 20 for the background of revisions.

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Slide 16 shows forecasts for the semiconductor sales by applications in the fourth quarter. We're seeing the indication of recovery of sales of LCD driver IC for personal computers and microcontrollers. However, because we anticipate sales decline in some products such as system memories for mobile handsets, LSI for game consoles and others, we expect sales will be almost flat compared with the third quarter.

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On this slide are some of the measures we have enacted to minimize the impact of this climate on operating results.

Right now, we are encouraging more orders for products for delivery within the current fiscal year, and paring back production-related costs, among other actions.

This concludes our presentations today. Thank you very much.