

# NEC Electronics Management Policies

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**Toshio Nakajima**

**President and CEO**  
**November 21, 2005**

**NEC Electronics will  
improve management efficiency and  
make every possible effort to be back  
in the black by next fiscal year (March 2007),  
aiming for double-digit profits  
in the very near term.**

- I. Issues currently faced,  
and steps to resolve them
  
- II. New management policies

# I. Issues currently faced, and steps to resolve them

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## Declining sales and deteriorating profit margins

1. Stagnant growth in Japanese market, and too few customers in global markets
2. Lack of strong, competitive product lines
3. Lagged in development of leading edge process technologies; lacked focus on analog technologies
4. Low fab utilization rates, resulting in high production costs

# 1. Further sales in Japan and increase overseas sales

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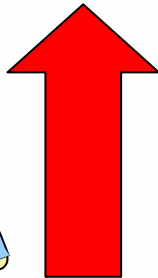
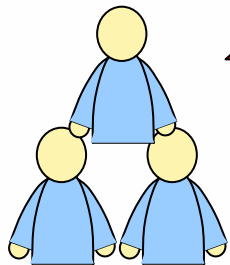
# Increase Orders with More Field Engineers

**With enhanced efficiency of design platform,  
bolster front-line technical resources**

## Field Engineers

Product planning,  
solutions, marketing

- Work together with distributors to respond to opportunities
- Support technical divisions of distributors
- Provide technical support to customers after receiving orders



Shift engineers to  
field engineering  
area

Enhanced efficiency in design

## Product Development

Design specs,  
design, evaluation

### Expected Outcome

Today

Design-wins

Lost



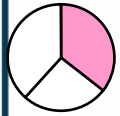
Shrink  
opportunity  
loss

New  
Sales  
Force

Future design-wins

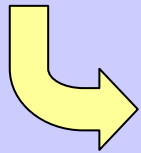
Opportunities

\*Standardized technologies, such as design environment and IP cores,  
are not included



# Shift Resources to Smaller-Size Accounts

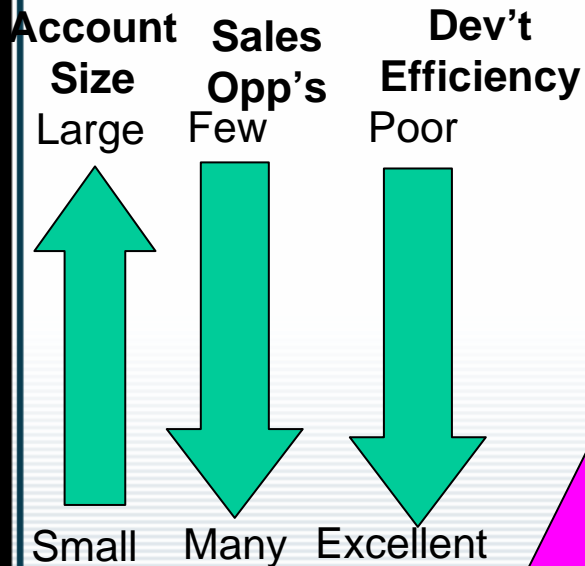
Before: Excessive allocation of resources to large customers



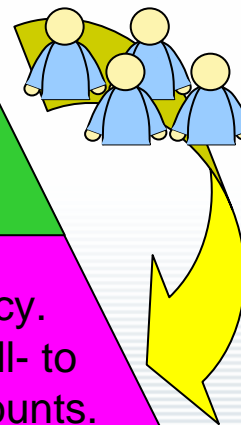
Good	Prospective sales: large
↕	Drive advanced technologies
↕	Large investment, long development times
Bad	Risk from lost or cancelled orders



**Shift resources to small- and mid-size accounts, with more efficient development and plenty of business opportunities**



**Shift resources**



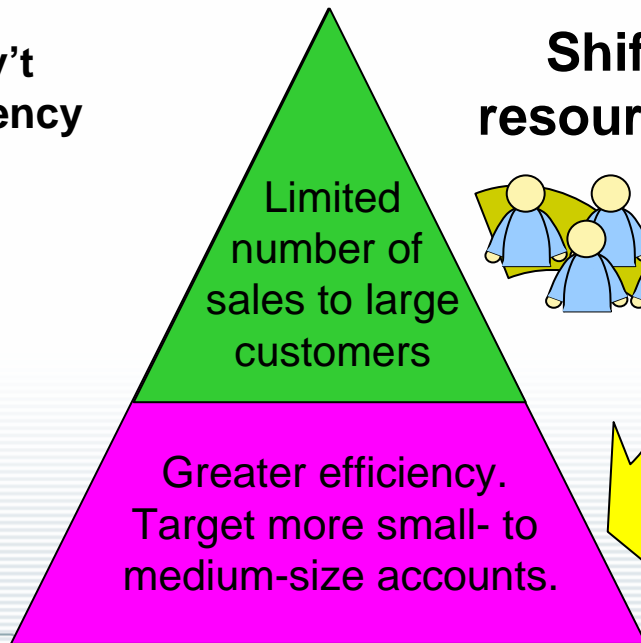
**Growth Drivers**

Leading edge process, design environments, IP

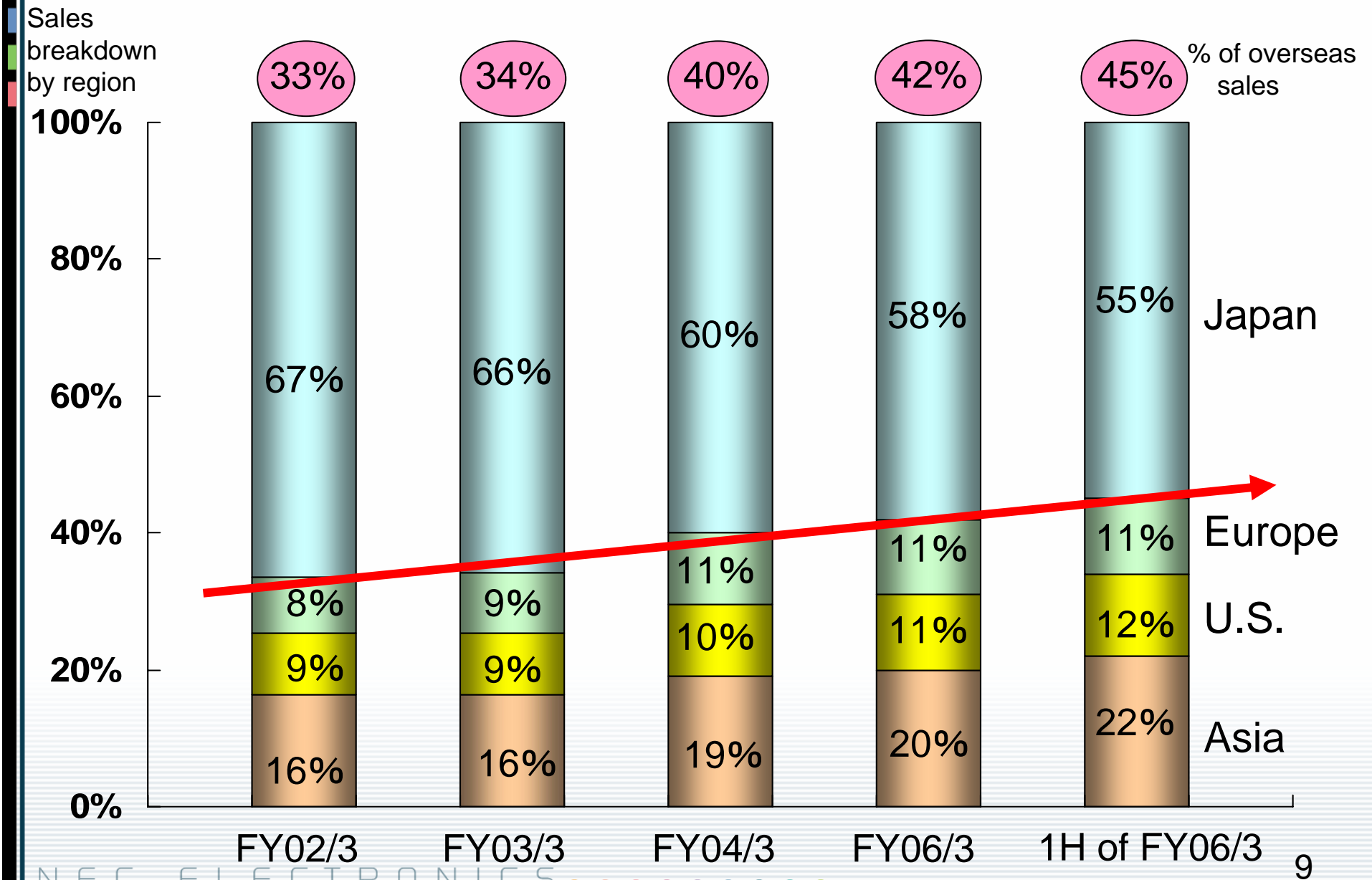


**Profit Drivers**

High efficiency with platform-based development



# Expand Sales Outside of Japan



# Business Realignment in China

## NEC Electronics (China) established October 1, 2005

### Previous sales structure

Restrictions on the import of semiconductor products developed or manufactured outside of China



### New sales structure from 2H

**Import and sales of all NEC Electronics products**

### NEC Electronics (China) Co., Ltd.

#### Sales on yuan basis in China

- First Japanese company to acquire a license to import/sell in China
- 100+ local FAEs and solution development teams
- New contracts with experienced local distributors

NEC Electronics Shanghai

NEC Electronics Hong Kong

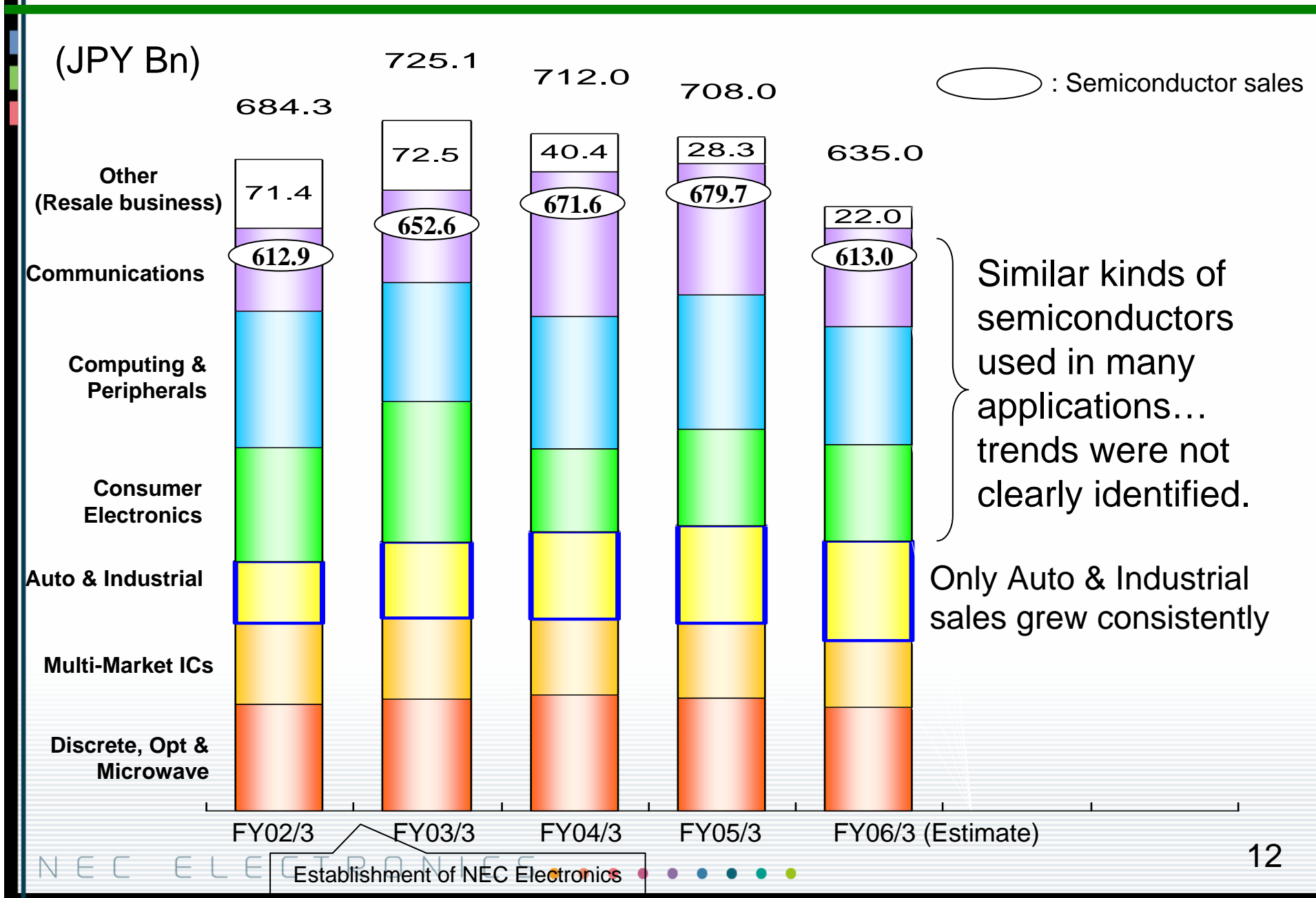
Sales on USD basis for Japanese and local companies

**Target: Sales of 100 Bn Yen** (approx. 35 Bn Yen currently)

## 2. Develop stronger products

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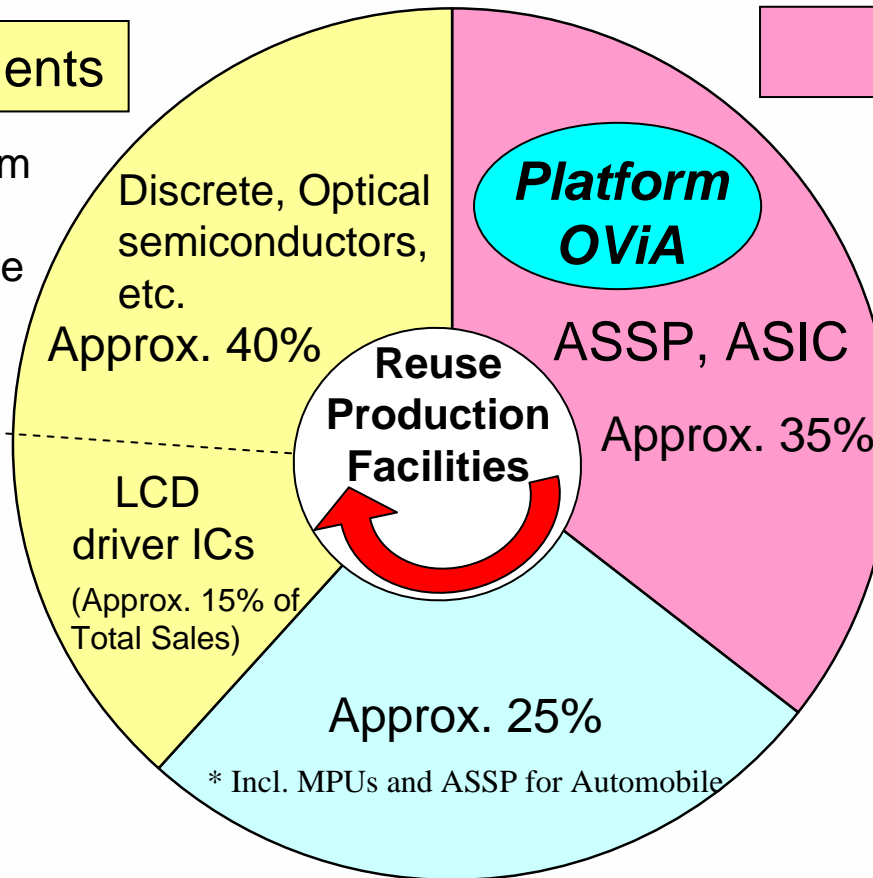
# Analysis of Past Sales Trends by Application



# Reinforce Competitiveness by Platform

## Individual Components

Seamless production from development to manufacturing, to achieve cost efficiency and product characteristics

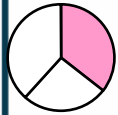


## SoC Platform

Maintain and reuse resources such as process technologies, design environments, libraries, IP cores and software development environments to promote growth

## MCU Platform

Support production with embedded flash technologies and circuit design, as well as support for application software and development environments to drive growth

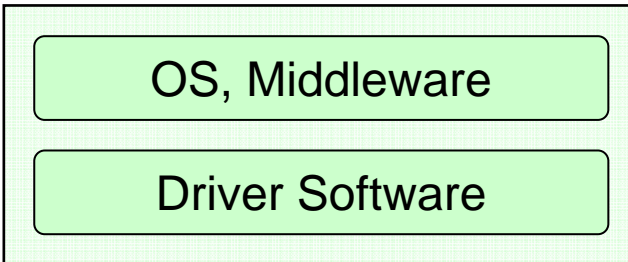


# Strengthen SoC Platform

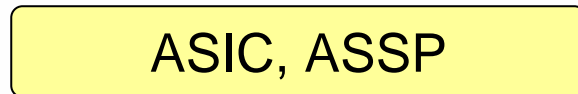
Customer Applications



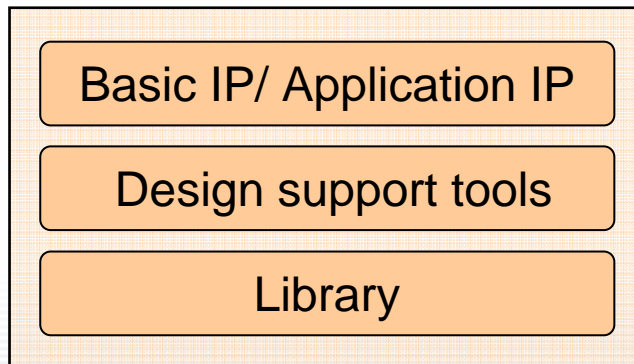
Basic Software



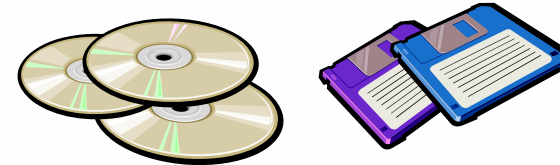
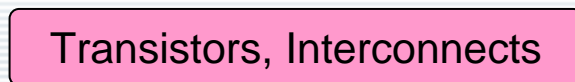
LSI Design



Library, Development Tools

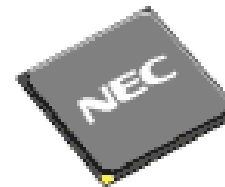


Process Technology



**Expand platformOVIA**  
Open, Value interface for your Applications

## Partner Program



Enrich lineup by developing our own differentiated technologies, as well as through strategic alliances

- Increase development speed and costs by joint development with partners
- Focus on developing differentiated technologies with high added value



# SoC Platform: Digital AV

NEC

**EMMArchitecture™ is world's only lineup deployed in 3 different product areas. Aim to make EMMArchitecture the global leader.**

**~Adopted by 30 World-leading Digital AV Manufacturers~**



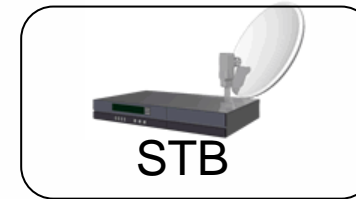
## Market Share



DVD Recorders

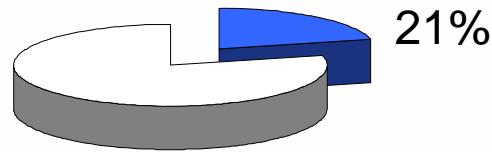


Digital TVs



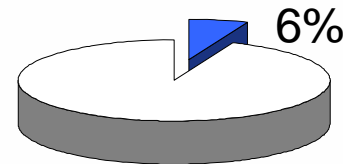
STB

**CY2004**  
(Source: NEC Electronics)

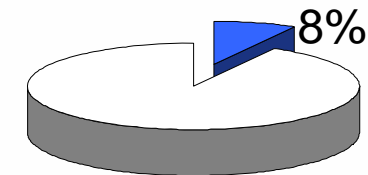


W/W No.2

Built-in DVD drives and broadcasting features: version compatible with blue laser technology under development



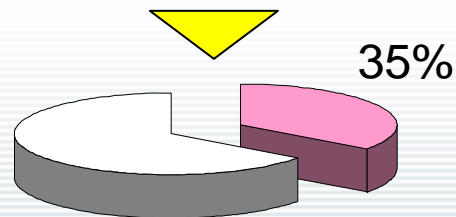
Under business negotiations with leading manufacturers in Japan



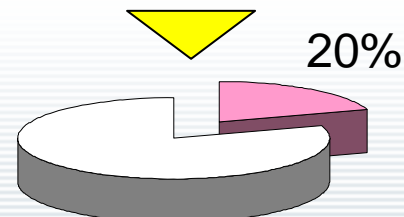
W/W No.4

Robust shipments to the U.S., Europe and Asia

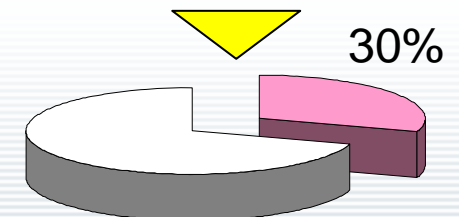
**CY2008 (Target)**



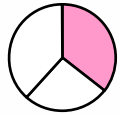
W/W No.1



W/W No.3



W/W No.2 15



# SoC Platform: Mobile Handsets

NEC

Complete lineup of mobile phone solutions  
Aim to double worldwide sales by 2008



Increase design-in opportunities with  
synergy of two types of solutions

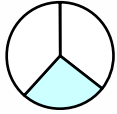
**“Companion chips”**  
For individual applications  
Audio, camera, H.264

**Total 3G Solution**  
Baseband/application processor  
in one, HSDPA, etc.

**platformOVIA**

Open, Value Interface for your Applications

Solution integrating system, software, and LSI



# MCU Platform

NEC

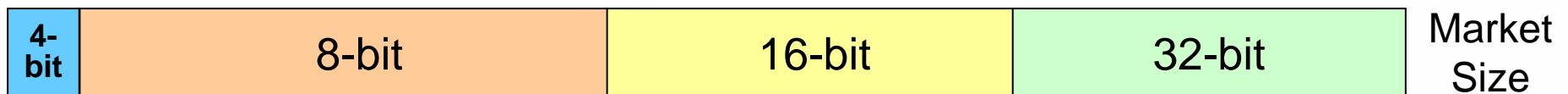
**#1 supplier of 32-bit MCUs by 2006, with 20% market share**

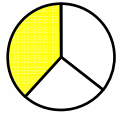
#2 as of 2004, with 18.1% market share\*

**#1 supplier of automotive MCUs by 2010, with 20% market share**

#3 as of 2004, with 12.4% market share\* \*Source: Gartner Dataquest, April 2005, GJ05473

**Increase share of multipurpose MCUs with expanded All Flash lineup**

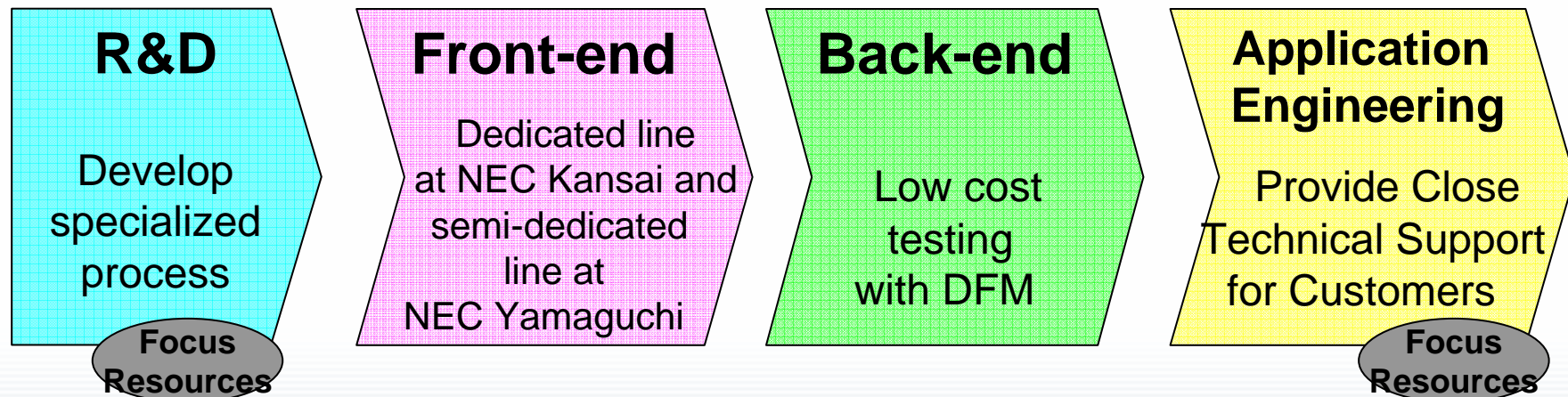




# Individual Components: LCD Driver ICs **NEC**

Establish world's largest full value-chain for LCD driver ICs  
**Attain 20% global market share and enhance profitability**  
(approx. 15% global market share currently)

**Thorough Supply Chain Management (SCM)**



**Lower costs with Design For Manufacturing (DFM)**

### 3. Strategic joint development with alliance partners

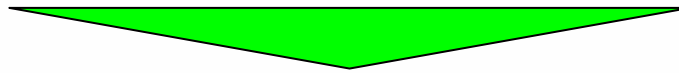
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# Example 1: Alliance with Toshiba

(Announced November 9, 2005)

## Topics

- Joint development of 45nm process technology
- Begin discussions on broader alliance



## Goals

- Share burden of development for leading edge system LSI technology
- Effectively use resources for process development
  - Joint development of fundamental CMOS process is standard practice around the world
  - Consider collaboration on other technology generations in addition to 45nm node
- Improve management efficiency with comprehensive alliance
  - Consider possibility for shared design platform
  - Also consider collaboration in manufacturing

# Example 2: Alliance with Link A Media Devices

(Announced November 8, 2005)

**Target growing HDD market, aim for 20% share in 2010**

## HDD Market

Expand mainly in mobile devices; double by 2010 (est. 700M units)



**System LSI sales**

### Link A Media Devices

- Development (Analog signal processing technology)
- Sales & Marketing

Investment

Joint development

### NEC Electronics

- Development (Macros, Libraries, Mixed A/D process)
- Manufacturing

## 4. Measures to curb high costs by reducing cost of goods sold

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# Expand 300mm Line at NEC Yamagata

(K wafers per month)

20

Maximum Capacity (Approx. 20K)

15

Increase capacity above 10k/mo. to achieve competitive production costs

Approx. 11K

+5K

Approx. 6K

90nm

Embedded DRAM process

Increase added value with differentiated process technologies

5

130nm

0

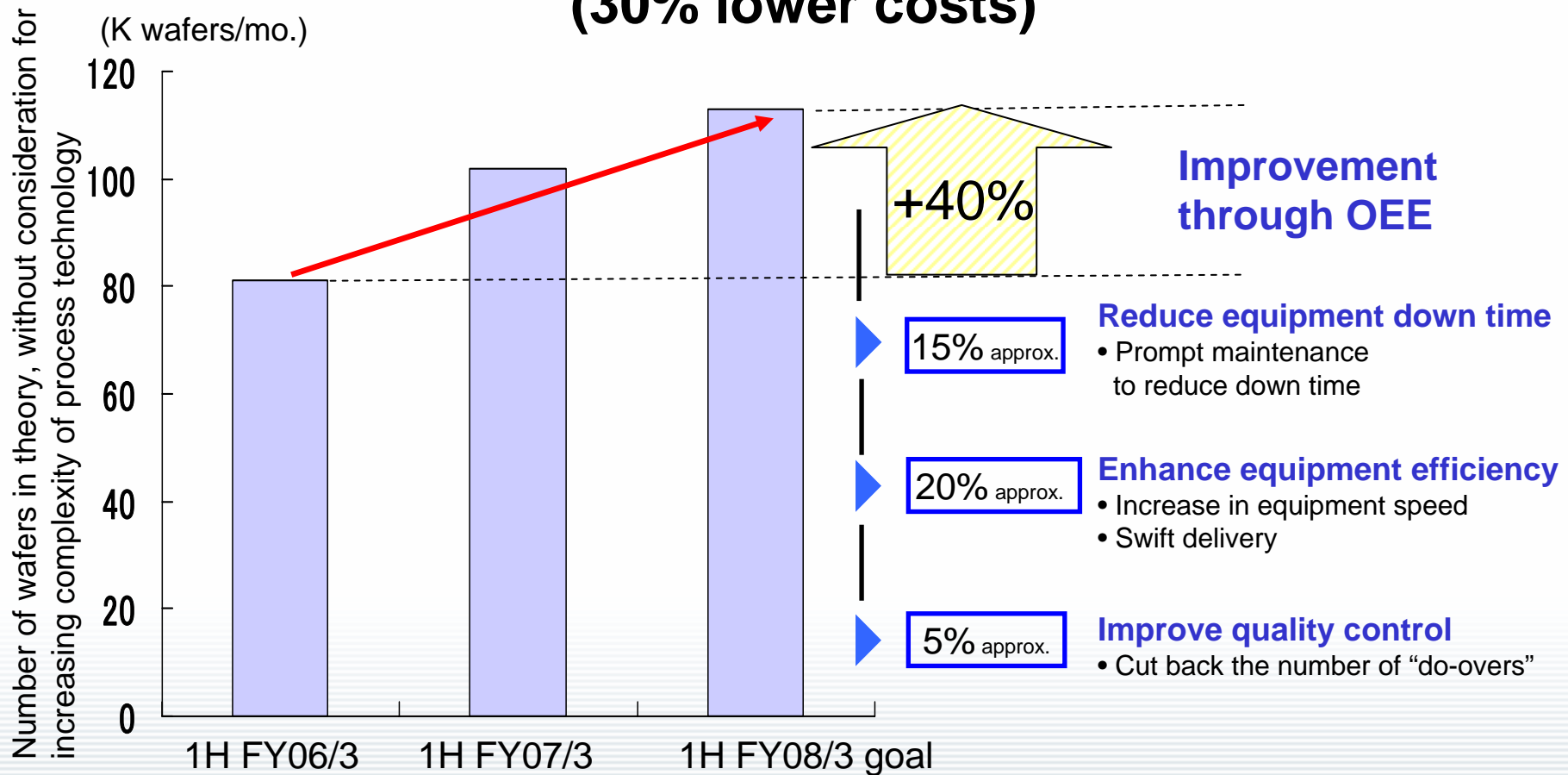
Current

1H of FY07/3 (Plan)

# Increase Capacity at Existing 200mm Lines

Expand production capacity through improvements without additional investment

## 40% increase in production capacity in 2 years (30% lower costs)

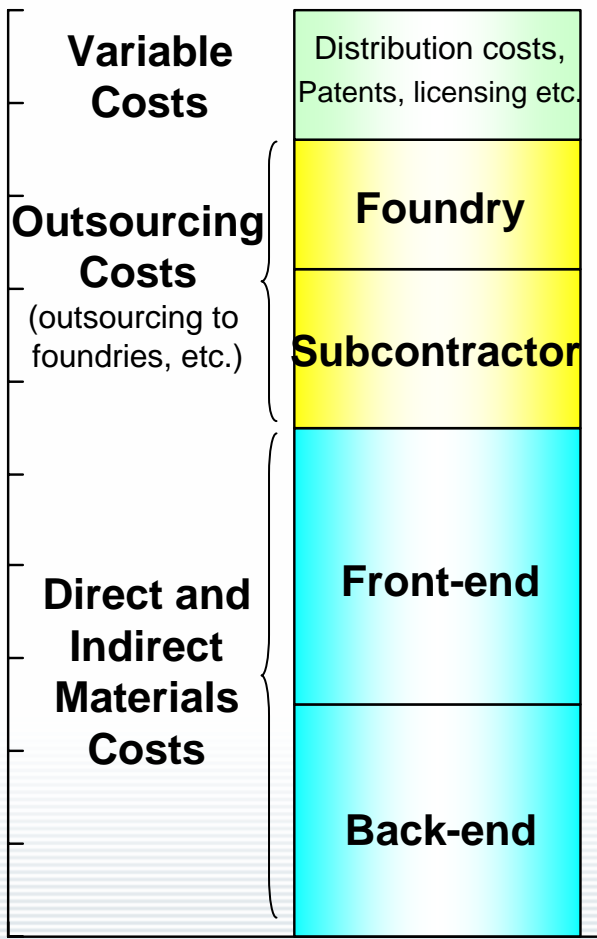


# Reduce Variable Costs

## Variable Cost Structure

## Primary Activities

(%)  
100  
90  
80  
70  
60  
50  
40  
30  
20  
10  
0



- ▶ Greater efficiency in distribution costs, etc.
- ▶ Improve added value in short term with in-house production (while still maintaining relationships with strategic partners)
- ▶ Improve price negotiations by limiting procurement partners
- ▶ Lower costs with 3-way collaborations with vendors and customers
- ▶ Increase local procurement ratio with expansion of overseas business

## II. New Management Policies

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# Summary of New Management Policies **NEC**

**NEC Electronics will make every possible effort to be back in the black by next fiscal year (March 2007), aiming for double-digit profits in the very near term**

## **1. Improve profits by increasing customer orders and sales**

⇒ Increase global sales with stronger marketing and sales

## **2. Develop product development and marketing strategies by platform**

⇒ Improve product performance with platforms, increasing sales and shares

## **3. Proactively utilize strategic alliances**

⇒ Utilize strategic alliances flexibly to help save resources for growth

## **4. Implement measures to reduce costs, improving fixed and variable costs**

⇒ Cut fixed costs and ramp up production capacity, improving variable costs

**Thank you very much.**

**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.

**NEC**  
NEC Electronics Corporation