

# Financial Results for FY 2006 (Fiscal year ended March 2007)

May 21, 2007

NEC Corporation

*(<http://www.nec.co.jp/ir/en>)*

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(Notes)

NEC has changed the accounting principles for preparing its consolidated financial statements from accounting principles generally accepted in the U.S., or U.S. GAAP, to accounting principles generally accepted in Japan, or Japan GAAP. Results for the first half of the fiscal year ended March 31, 2006 have been presented under Japan GAAP for comparison purposes.

# I . Financial Results for FY 2006 (FY ended 2007/3)

# FY06 Financial Results (Overview)

(In billions of yen)

	FY05	FY06	YoY
Net Sales	4,930.0	4,652.6	- 5.6%
Operating Income (Ratio to Net Sales)	72.5 ( 1.5% )	70.0 ( 1.5% )	-2.6
Ordinary Income	15.0	16.3	+1.4
Net Income (Ratio to Net Sales)	-10.1 ( -0.2% )	9.1 ( 0.2% )	+19.2
Net income per share: (yen)	-5.26	4.43	+9.69

# Key points of FY2006

## <Achievements>

- Focus on NGN-related business
  - Established foothold in nascent NGN market
  - Introduction of advanced products / technologies
- Turnaround of mobile terminal business (2H/FY06)

## <Challenges>

- Slow recovery of semiconductor business
- Insufficient growth speed of IT/NW solutions business

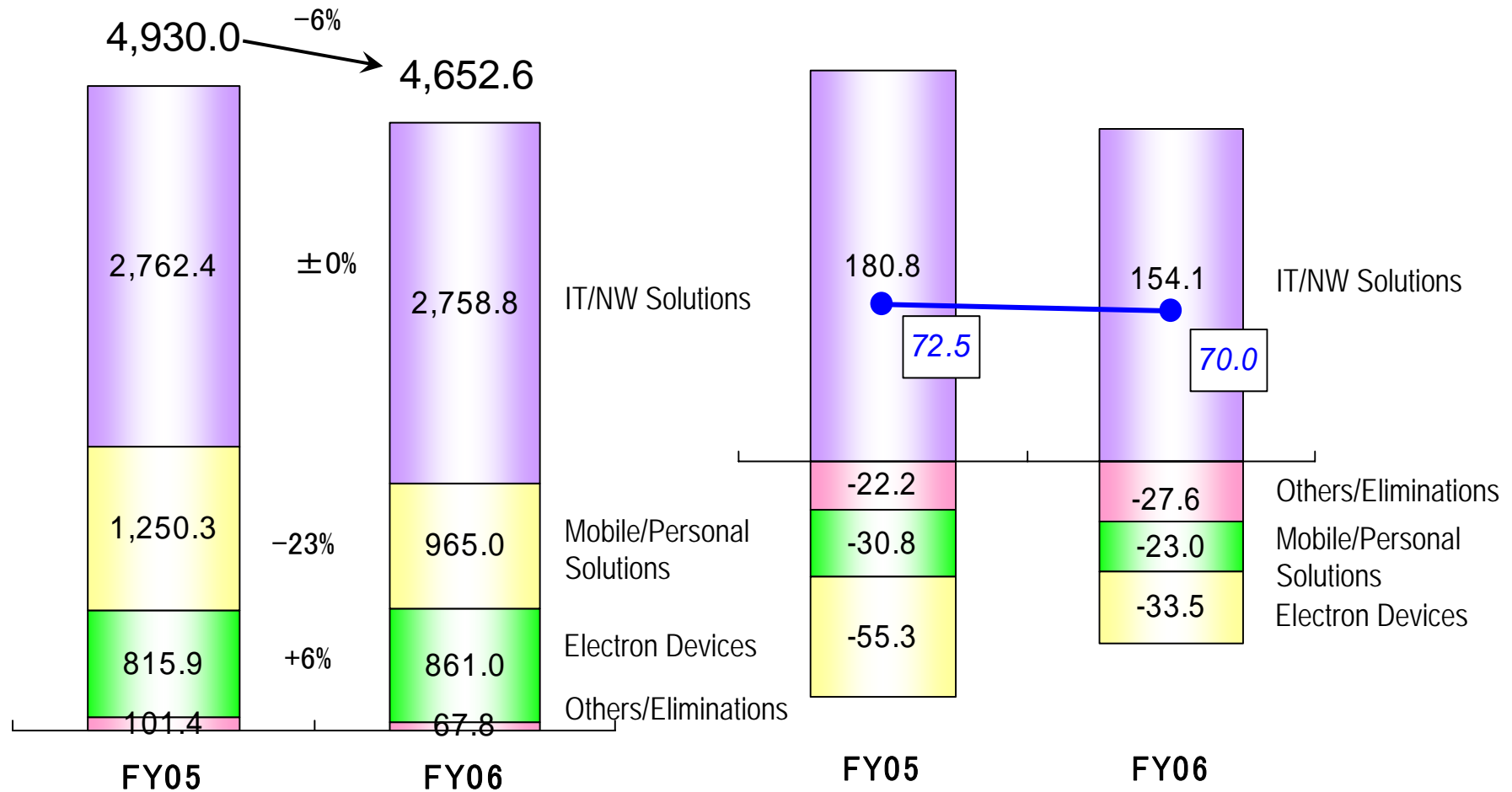
# FY06 Sales/Operating Income by Segment

## Sales

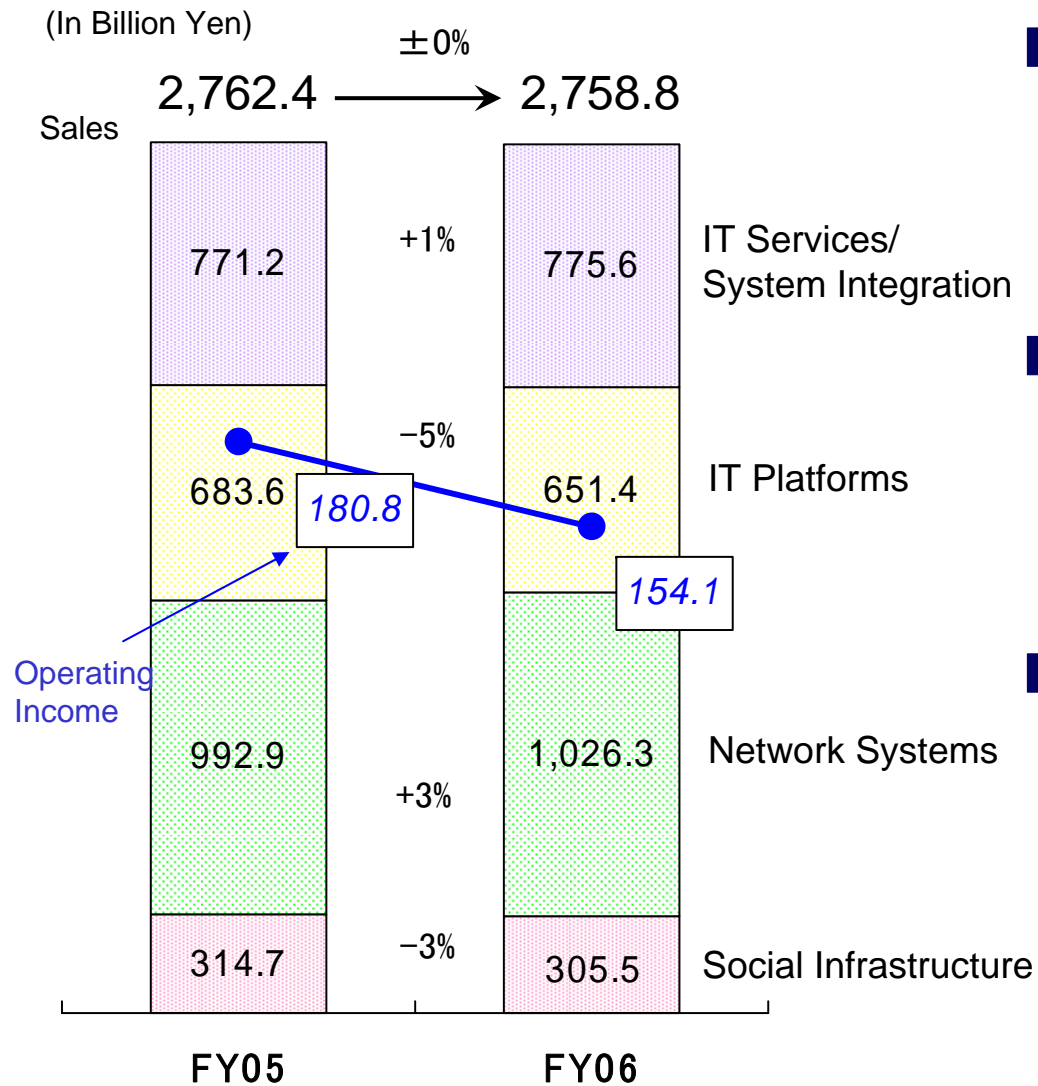
(In Billions of Yen)

## Operating Income

(In Billions of Yen)



# FY06 IT/NW Solutions Business



## ■ IT Services/Systems Integration

- Service platforms for telecommunication carriers, distribution / retail, government, and finance sectors were steady

## ■ IT Platforms

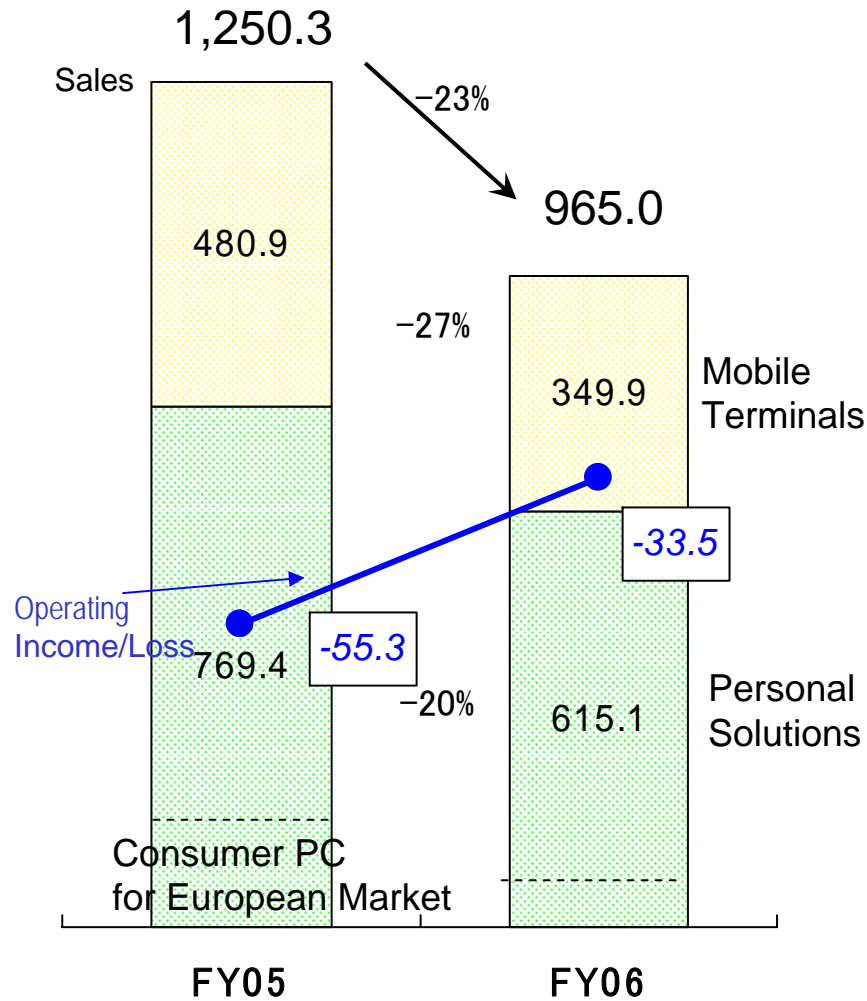
- Sales decreased due to the decrease of DVD drive business
- Secured profit through cost reductions

## ■ Network Systems

- PASOLINK for the overseas market grew by approx. 15% yoy, driving growth
- Investment in base stations in Japan continued to be steady to enhance ease of connectivity, even after mobile number portability services started.

# FY06 Mobile/Personal Solutions Business

(In Billion Yen)



## Mobile Terminals

- Broke-even in 2H, reported profitability, excluding one-time charges
- Completed structuring reforms of overseas biz
- Introduced competitive products for Japanese market



N703i μ  
High quality in 11.4mm



N903i  
Smooth image retrieval on high-resolution display,

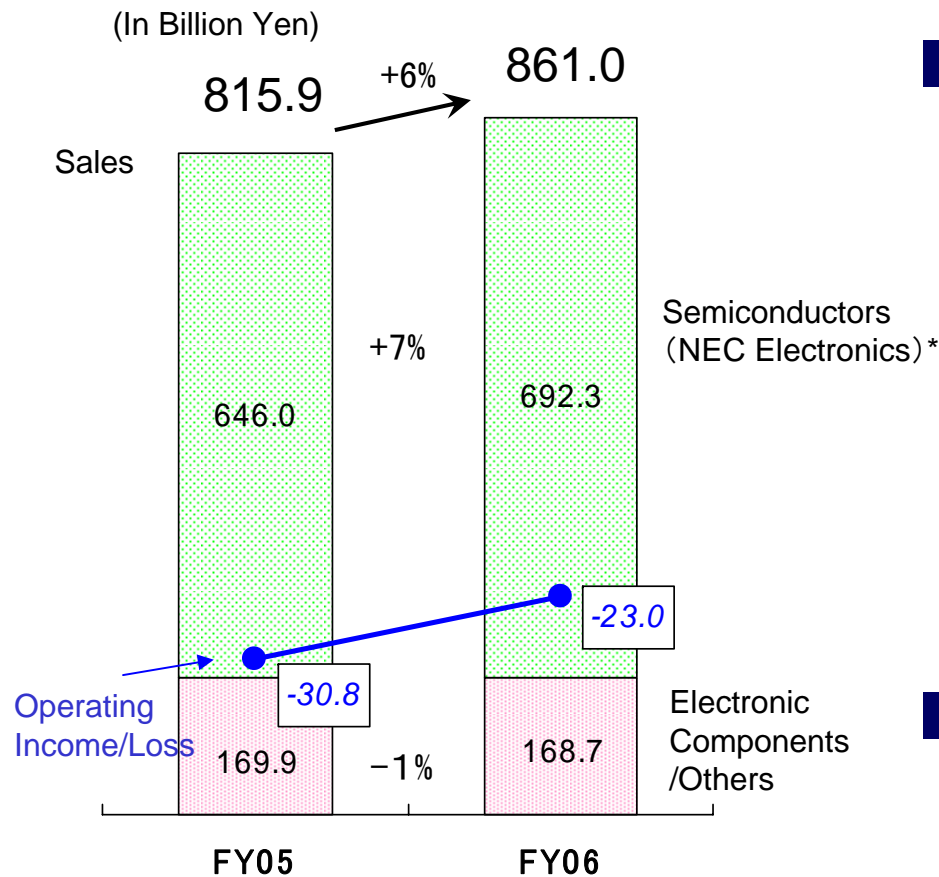


## Personal Solutions

- Sales decreased due to the impact of the sale of the consumer PC business in Europe and the difficult domestic PC market condition.
- Secured profit through cost reductions



# FY06 Electron Devices Business



(In Billion Yen)	06/3 Full Year	07/3 Full Year
Operating Profit in Semiconductor area (NEC Electronics)	-35.7	-28.6

## ■ Semiconductors

- Operating Loss improved by ¥7.1B, but remained in the red.
- Increased fixed manufacturing costs and R&D expenses.
- Recorded expenses to improve profitability.

## ■ Electronic Components/Others

- Sales of electronic components rose by launch of "Proadlizer" and new products.

\*The results for the area of Semiconductors are the official public figures of NEC Electronics Corporation, which are prepared in accordance with U.S. GAAP. The difference that arises as a result of the adjustment to Japan GAAP is included in Electronic Components and Others.

## **II . Financial Forecasts for FY 2007 (FY ending 2008/3)**

# FY07 Financial Forecasts (Overview)

(In billions of yen)

	FY06	FY07 (forecast)	YoY	1H/FY07 (forecast)
Net Sales	4,652.6	4,700	+ 1%	2,150
Operating Income (Ratio to Net Sales)	70.0 ( 1.5% )	130 ( 2.8% )	+60	15 ( 0.7% )
Ordinary Income	16.3	80	+64	-10
Net Income (Ratio to Net Sales)	9.1 ( 0.2% )	30 ( 0.6% )	+21	-22 ( -1.0% )

\*Forecast as of May 21, 2007

# Challenges in FY2007

## ■ Reinforcement of growth strategy

- Steady execution of NGN business strategy
  - Growth in global market
- = > Strategic expenses for new market creation

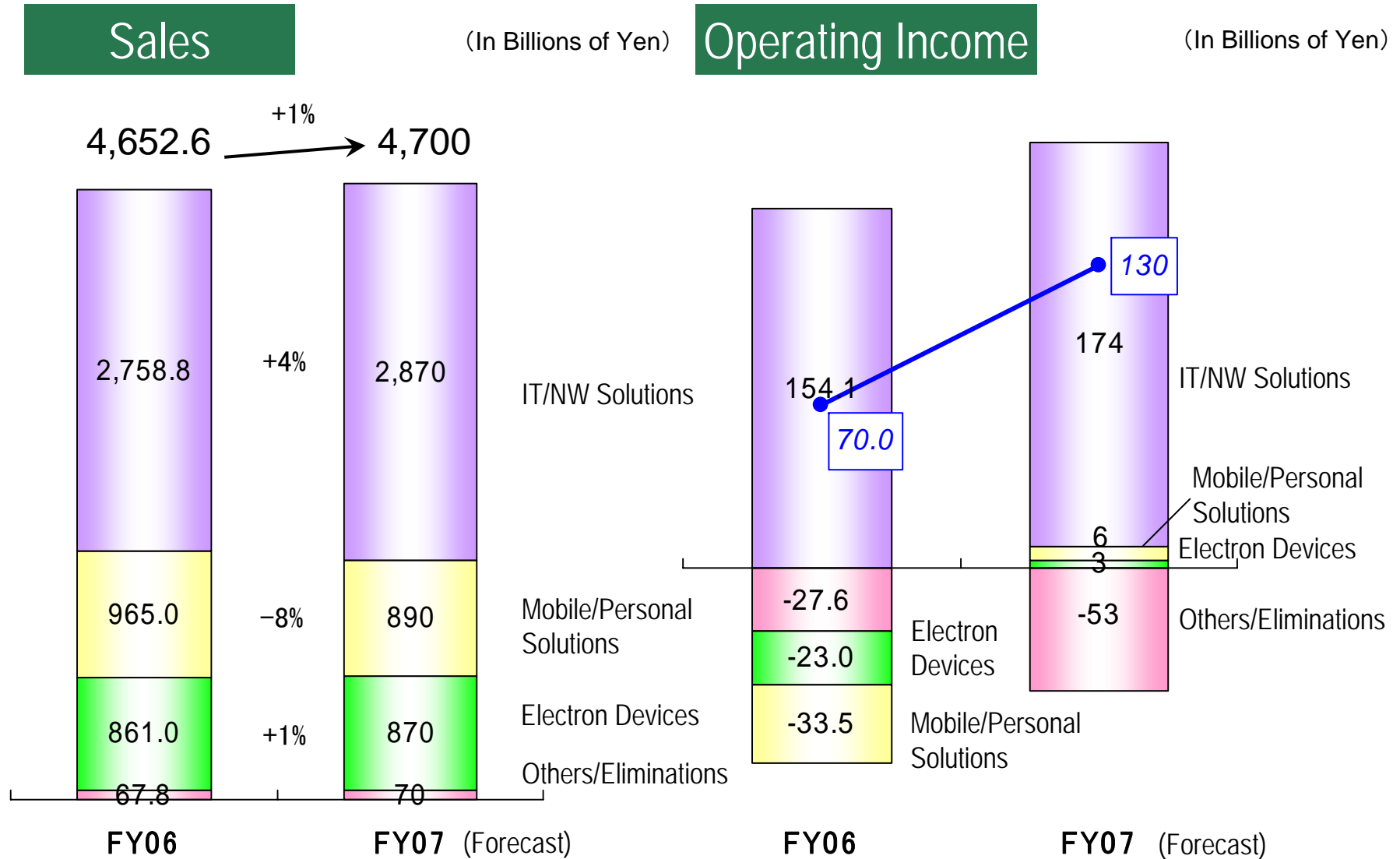
## ■ Further improvement of non-profitable businesses

- Solidifying mobile terminal business' profitability
- Support of NEC Electronics' turnaround  
as the largest shareholder

## ■ Thorough enhancement of profitability

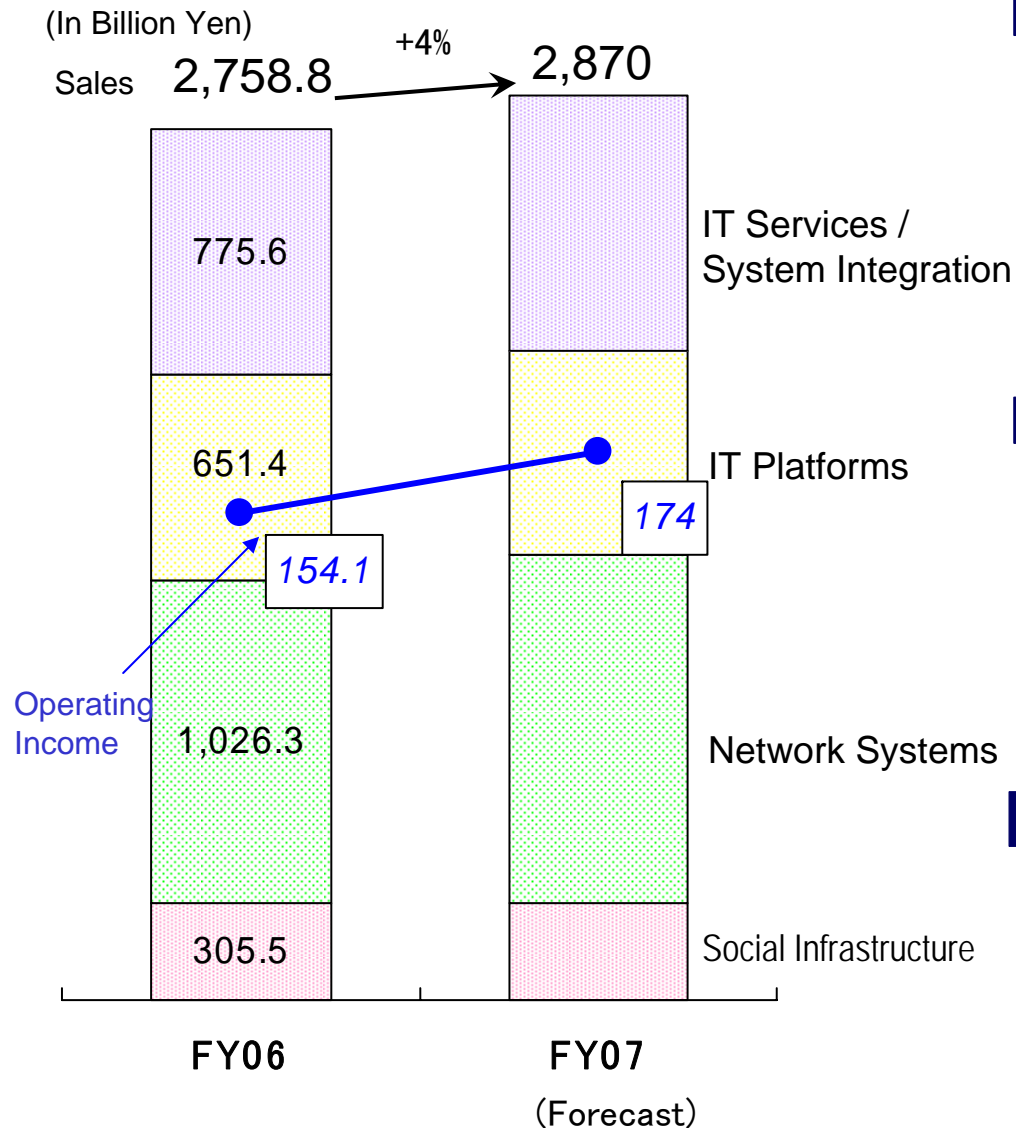
- Further pursuit of production / development efficiency  
as NEC Group

# FY07 Sales/Operating Income by Segment



\*Forecast as of May 21, 2007

# FY07 IT/NW Solutions Business



## IT Services / Systems Integration

- Aim for a stable increase in sales of service platforms for telecommunication carriers and financial sectors etc.
- Aim to increase profit through sales increase and cost reductions

## IT Platforms

- Plan to maintain the same level of profit of FY06 in FY07, despite price erosion, by enhancing the competitiveness of products such as storage systems, middleware, and thin-client systems, in addition to reducing cost

## Network Systems

- Japan: Investment in base stations will decline, but aim to increase NGN sales in the 2H.
- Overseas: target more growth and No1 share of PASOLINK

\*Forecast as of May 21, 2007

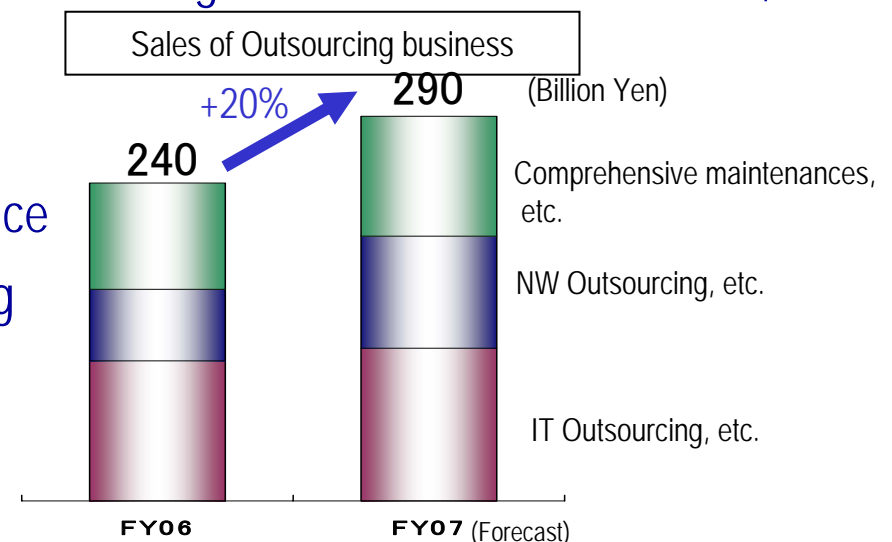
# Growth Strategy

## ■ Expand NGN business

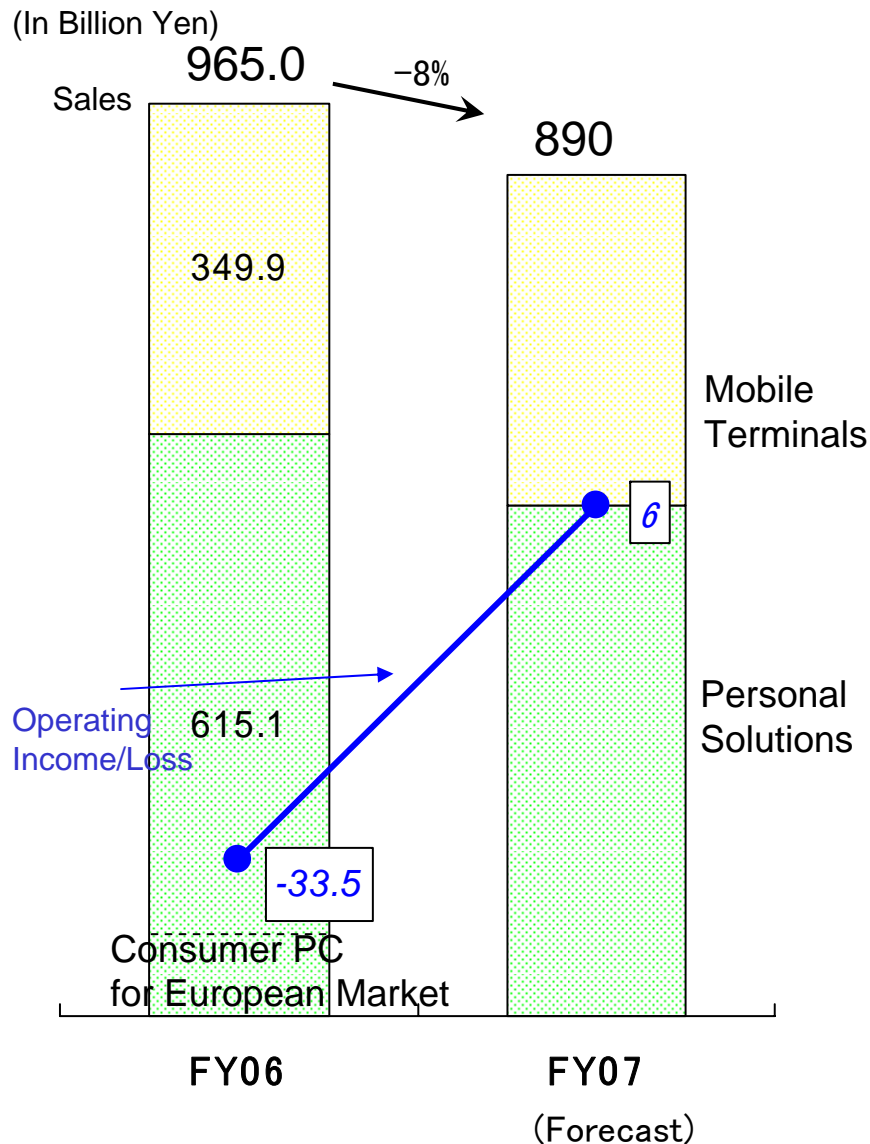
- Provide globally-competitive products to expand carrier solutions business
- Promote IT/NW solutions platforms, services platforms in NGN era  
⇒ FY07 : Target double sales YOY (sales of FY06 were approx. Y90B)

## ■ Secure markets invigorated by NGN

- Expansion of new services business, renovation of core systems in ubiquitous networking era  
(Video streaming services, EC, Ubiquitous networking solution-related businesses, etc)
- Expand Outsourcing business  
⇒ Promote LCM (Life Cycle Management) type outsourcing, linking SI / maintenance  
⇒ Strengthen outsourcing services utilizing data centers with network technologies



# FY07 Mobile/Personal Solutions Business



## Mobile Terminals

- Aim to maintain profitability for full fiscal year
- Shipment target: 5M units
- Concentrate on Japanese business and regain volume

N904i  
Italian design with  
3" W-VGA display



## Personal Solutions

- Strive to maintain profit
- Aim to boost demand with the launch of new-style products, as well as further enhancement of the audio visual functions



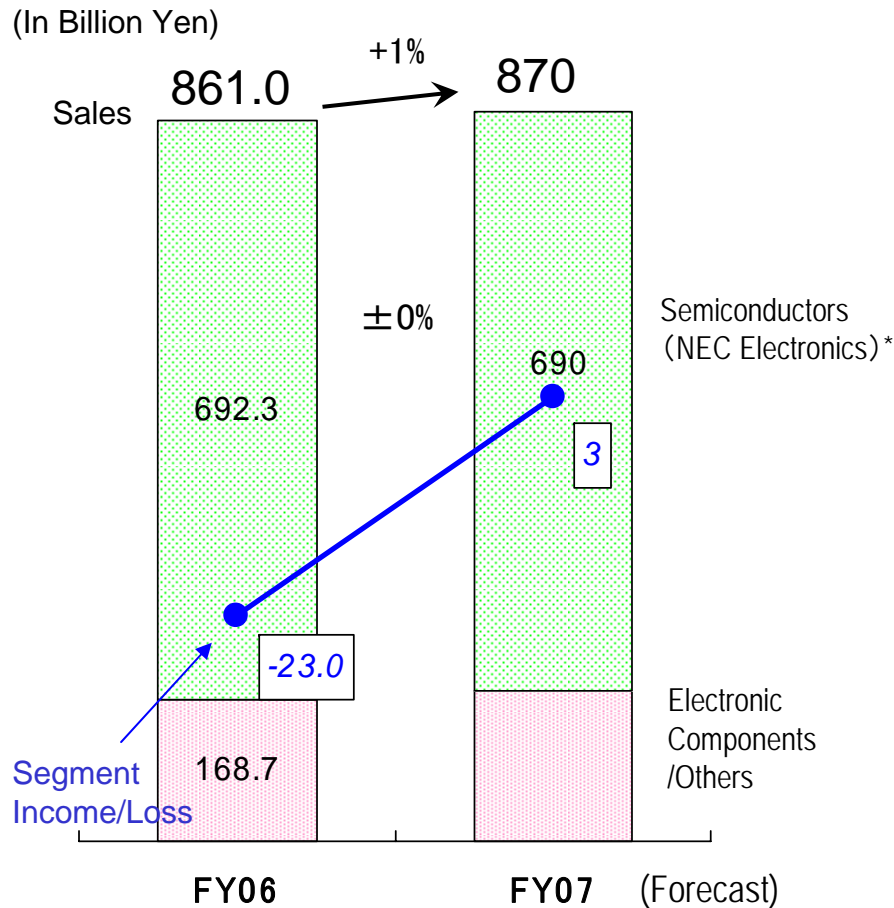
PC Free Style



Forecast as of May 21, 2007



# FY07 Electron Devices Business



(In Billion Yen)	07/3 Full year	08/3e Full Year
Operating Profit in Semiconductor area (NEC Electronics)	-28.6	0

## ■ Semiconductors

- Order backlog and amount of orders point to signs of recovery.
- Achieve operating profit, with fixed cost reduction of 20B Yen YoY.

## ■ Electronic Components/Others

- Sales increase is expected with new products.
- Industrial LCD is projected to grow.

\* Forecast as of May 21 2007

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Empowered by Innovation

**NEC**

## Segment Information

In Billion Yen		FY2005		FY2006		FY2007	
		First Half	Full Year	First Half	Full Year	First Half	Full Year
		Actual	Actual	Actual	Actual	Forecast	Forecast
IT Services/SI	IT Services/SI	346.8	771.2	343.9	775.6		
	IT Platforms	311.1	683.6	312.5	651.4		
	Network Systems	467.4	992.9	485.2	1,026.3		
	Social Infrastructure	115.8	314.7	122.9	305.5		
IT/NW Solutions Business	Sales	1,241.1	2,762.4	1,264.5	2,758.8	1,260	2,870
	Oper. Income/Loss	51.9	180.8	55.6	154.1	41	174
	to sales	4.2%	6.5%	4.4%	5.6%	3.3%	6.1%
Mobile Terminals	Mobile Terminals	219.0	480.9	163.1	349.9		
	Personal Solutions	361.0	769.4	335.9	615.1		
Mobile Terminals/Personal Solutions business	Sales	580.0	1,250.3	499.0	965.0	420	890
	Oper. Income/Loss	-15.7	-55.3	-37.3	-33.5	0	6
	to sales	-2.7%	-4.4%	-7.5%	-3.5%	0.0%	0.7%
Electron Devices Business	Sales	398.4	815.9	427.0	861.0	420	870
	Oper. Income/Loss	-10.3	-30.8	-4.2	-23.0	-4	3
	to sales	-2.6%	-3.8%	-1.0%	-2.7%	-1.0%	0.3%
Others/Eliminations etc.	Sales	64.2	101.4	31.1	67.8	50	70
	Oper. Income/Loss	-20.8	-22.2	-6.6	-27.6	-22	-53
Total	Sales	2,283.8	4,930.0	2,221.6	4,652.6	2,150	4,700
	Oper. Income/Loss	5.0	72.5	7.5	70.0	15	130
	to sales	0.2%	1.5%	0.3%	1.5%	0.7%	2.8%

\* Forecast as of May 21, 2007