

# Financial Results for 1H FY07/3 (First Half of Fiscal Year Ending March 31, 2007)

December 22, 2006

**NEC Corporation**

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

※Financial figures announced on November 21, 2006 were partially amended on December 22, 2006.  
The amended figures are reflected in this document.

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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.

Free cash flows equals the sum of Cash flows from operating activities plus Cash flows from investing activities.

Owners' equity is total net assets less share subscription rights and minority interests.

D/E ratio is interest-bearing debt divided by owners' equity.

Owners' equity ratio is owners' equity divided by total assets.

# 1. Financial Overview

# Executive Summary

## ■ 1H Results (Period ended September 30, 2006; Japan GAAP)

Sales: ¥2,221.6 billion (3% decrease YoY)

Operating Income: ¥7.5 billion (¥2.5 billion increase YoY)

- ~The profit increase in other businesses YoY more than offset the decrease in mobile terminals.
- ~ Profit did not meet previously announced forecasts\*1 due to the start of booking warranty cost reservation of about ¥10 bill. for system products although the decrease of mobile terminals was to some degree compensated for by other businesses

## ■ Full Year Forecasts (Fiscal year ending March 31, 2007; Japan GAAP)

Sales: ¥4,680 billion (5% decrease YoY)

Operating Income: ¥100 billion (¥27 billion increase YoY)

- ~Target profit increase by improvement in semiconductors, network systems etc.
- ~The profit target was revised downward from the previous forecasts\*1 by about ¥10 bill. due to a new policy of booking warranty cost reserve for system products although the decrease of mobile terminals are expected to be compensated for by some degree by network systems and other businesses

\*1 "Previous forecasts" represents figures as of July 27, which were changed to a Japan GAAP basis from a U.S.GAAP basis.

\*Actual figures are unaudited.

\*Full year forecasts are as of November 21.

# FY07/3 First Half Results Summary (Japan GAAP)

(In Billions of Yen)

	FY06/3 First Half Actual	FY07/3 First Half		FY07/3 Previous Forecast *1
		Actual	YOY	
Net Sales	2,283.8	2,221.6	-3%	2,290
Operating Profit	5.0	7.5	+2.5	18
Ratio to Net Sales	0.2%	0.3%		0.8%
Ordinary Income	-19.3	-11.8	+7.5	-1
Net income	-0.3	-9.9	-9.6	-2
Ratio to net sales	0.0%	-0.4%		
EPS (Basic) in yen	-0.16	-4.94	-4.78	
Free Cash Flows	5.6	41.1	+35.5	
Total Assets	3,748.7	3,694.5	-54.2	
Owners' Equity	1,022.8	1,033.2	+10.4	
Interest-bearing Debt	1,035.2	877.2	158.0cut	
D/E Ratio (times)	1.01	0.85	0.16cut	
Owners' Equity Ratio	27.3%	28.0%	+0.7%	

\*1 "Previous forecasts" represent figures as of July 27, which were changed from a U.S. GAAP basis to a Japan GAAP basis.

# FY07/3 Full Year Forecasts Summary (Japan GAAP)

(In Billions of Yen)

	FY07/3	Full Year			Full Year
	First Half Actual	06/3 Actual	07/3 Forecast	YOY	07/3 Previous Forecast *1
Net Sales	2,221.6	4,930.0	4,680	-5.1%	4,980
Operating Profit	7.5	72.5	100	+27.5	110
Ratio to Net Sales	0.3%	1.5%	2.1%		0.8%
Ordinary Income	-11.8	15.0	40	+25.0	50
Net income	-9.9	-10.1	18	+28.1	23
Ratio to net sales	-0.4%	-0.2%	0.4%		0.5%
EPS (Basic) in yen	-4.94	-5.26			
Free Cash Flows	41.1	141.1			
Total Assets	3,694.5	3,802.8			
Owners' Equity	1,033.2	1,029.8			
Interest-bearing Debt	877.2	935.1			
D/E Ratio (times)	0.85	0.91			
Owners' Equity Ratio	28.0%	27.1%			

\*1 "Previous forecasts" represent figures as of July 27, which were changed from a U.S. GAAP basis to a Japan GAAP basis.

\*Forecasts as of November 21, 2006

# FY07/3 Financial Summary by Segment (Japan GAAP)

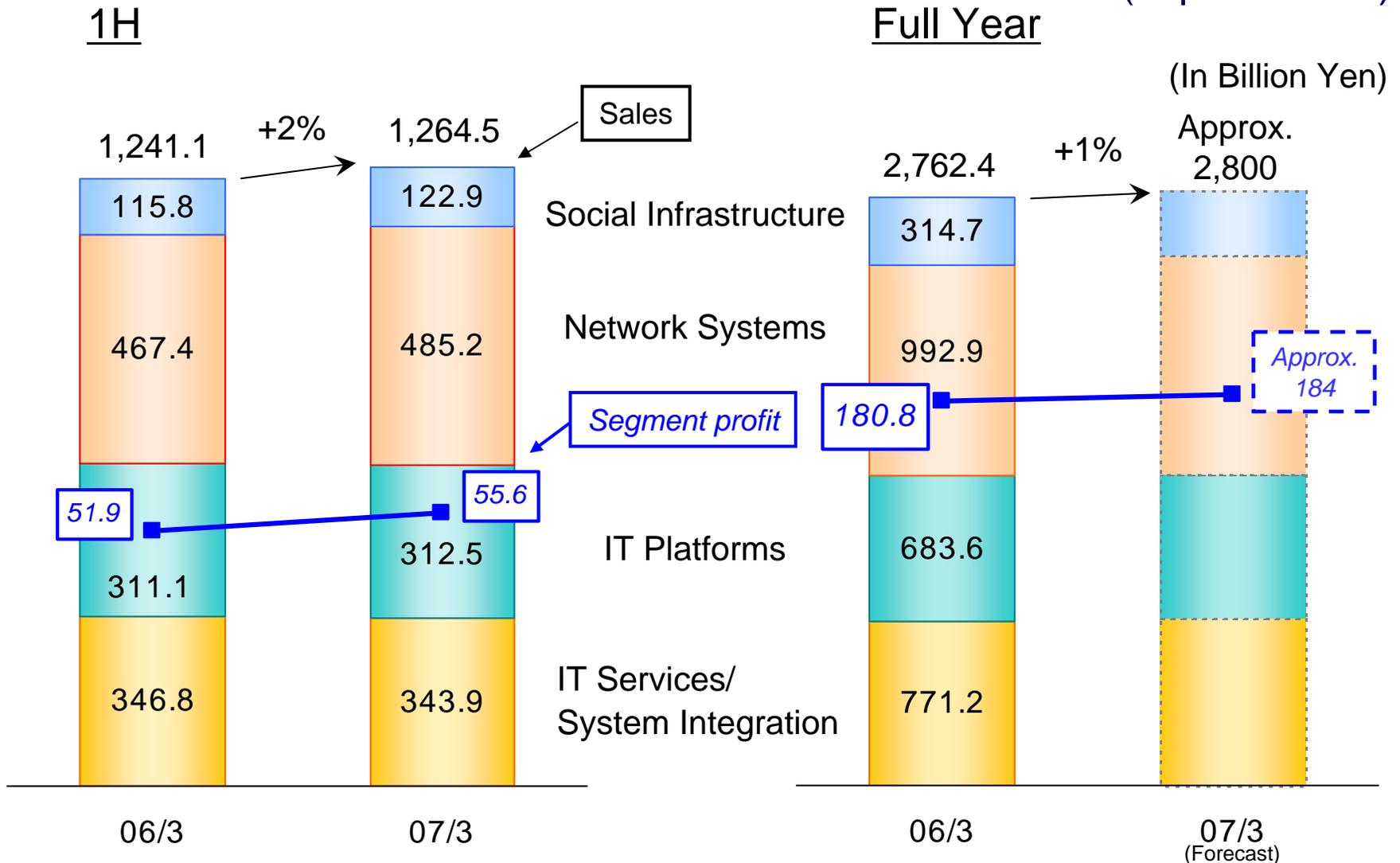
(Billion Yen)		07/3				07/3 Previous Forecast	
		First Half Actual	YOY	Full Year Forecast	YOY	1st Half Forecast	Full Year Forecast
IT/Network Solutions	Net sales	1,264.5	+2%	2,800	+1%	1,288	2,790
	Profit/Loss (to sales)	55.6 4.4%	+ 3.7	184 6.6%	+ 3.2	68 5.3%	180 6.5%
Mobile/Personal Solutions	Net sales	499.0	-14%	945	-24%	543	1,225
	Profit/Loss (to sales)	-37.3 -7.5%	- 21.6	-54 -5.7%	+ 1.3	-33 -6.1%	-40 -3.3%
Electron Devices	Net sales	427.0	+7%	865	+6%	434	890
	Profit/Loss (to sales)	-4.2 -1.0%	+ 6.1	0 0.0%	+ 30.8	-2 -0.3%	8 0.9%
Others/Eliminations etc.	Net sales	31.1	-	70	-	25	75
	Profit/Loss (to sales)	-6.6 -	+ 14.3	-30 -	- 7.8	-16 -	-38 -
Total	Net sales	2,221.6	-3%	4,680	-5%	2,290	4,980
	Profit/Loss (to sales)	7.5 0.3%	+ 2.5	100 2.1%	+ 27.5	18 0.8%	110 2.2%

\*Forecasts as of November 21, 2006

## **2. Segment Information**

# IT/Network Solutions Business 1

(Japan GAAP)



\*Forecasts as of November 21, 2006

# IT/Network Solutions Business 2

## ■ IT Services/System Integration

- ◇ 1H : Secured profit as planned through subcontractor cost reductions and reinforcement of project management
- ◇ 2H : Expecting steady increase in sales with market recovery
  - Strategic IT investment in the area of finance and distribution business
  - Service Platform for telecommunication carriers

Aim to increase profitability through the positive outcome of process innovation in system integration

## ■ IT Platforms

- ◇ 1H : Growth in sales and profit on target, Introduced platform concept of “REAL IT PLATFORM” Maintained No. 1 share in domestic server market
- ◇ 2H: Aim to focus on launching products with unique features based on distinct concepts  
e.g.) SIGMABLADE, SigmaSystemCenter, Thin-Client systems



# IT/Network Solutions Business 3

## ■ Network Systems

- ◇ 1H: Favorable growth in carrier network business  
Domestic : Sales driven by aggressive investment by the carriers to keep & gain subscribers with the introduction of Mobile Number Portability  
Overseas : Continuous steady growth in PASOLINK, mainly in Russia and Asia
- ◇ 2H: Focus to win NGN related orders from the carriers  
Strengthen solution business for enterprises
  - Security solutions, Network outsourcing, etc

## ■ Social Infrastructure

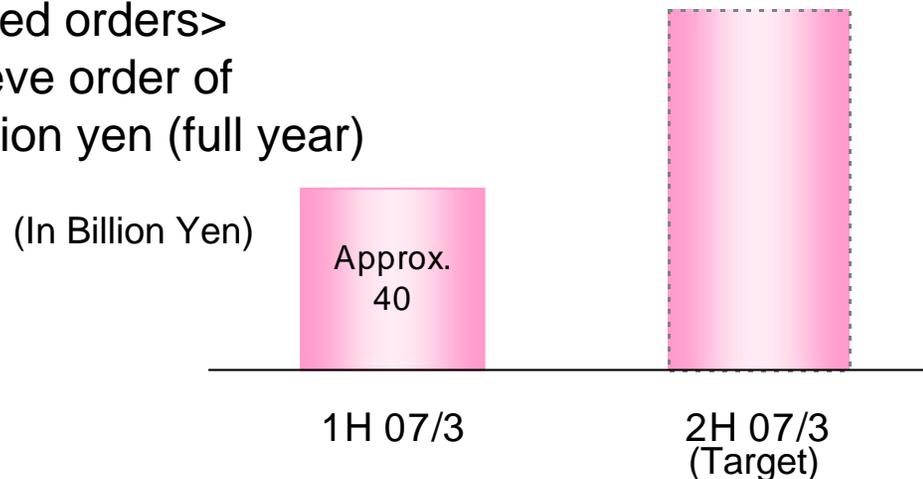
- ◇ 1H: Steady increase in shipment and profit, lead by digital terrestrial TV broadcasting system and its sub-core systems

# IT/Network Solutions Business 4

## ■ Promising start of NGN-related business

- ◇ Gained orders for NGN-related systems and products from carriers
  - Implemented service platform system for NTT DoCoMo's mobile credit payment service (Released on July 25, 2006)
  - Won order for world's first Multimedia Domain (MMD) from KDDI for their Ultra-3G (Released on Nov 1, 2006)
  - Won order for core products for NTT's NGN field trial (Released on Nov 14, 2006)
- ◇ Introducing competitive products for NGN
  - Launched "NC7000", software for network service platform (Released on Sept 27, 2006)

< NGN-related orders >  
Aim to achieve order of  
over 100 billion yen (full year)



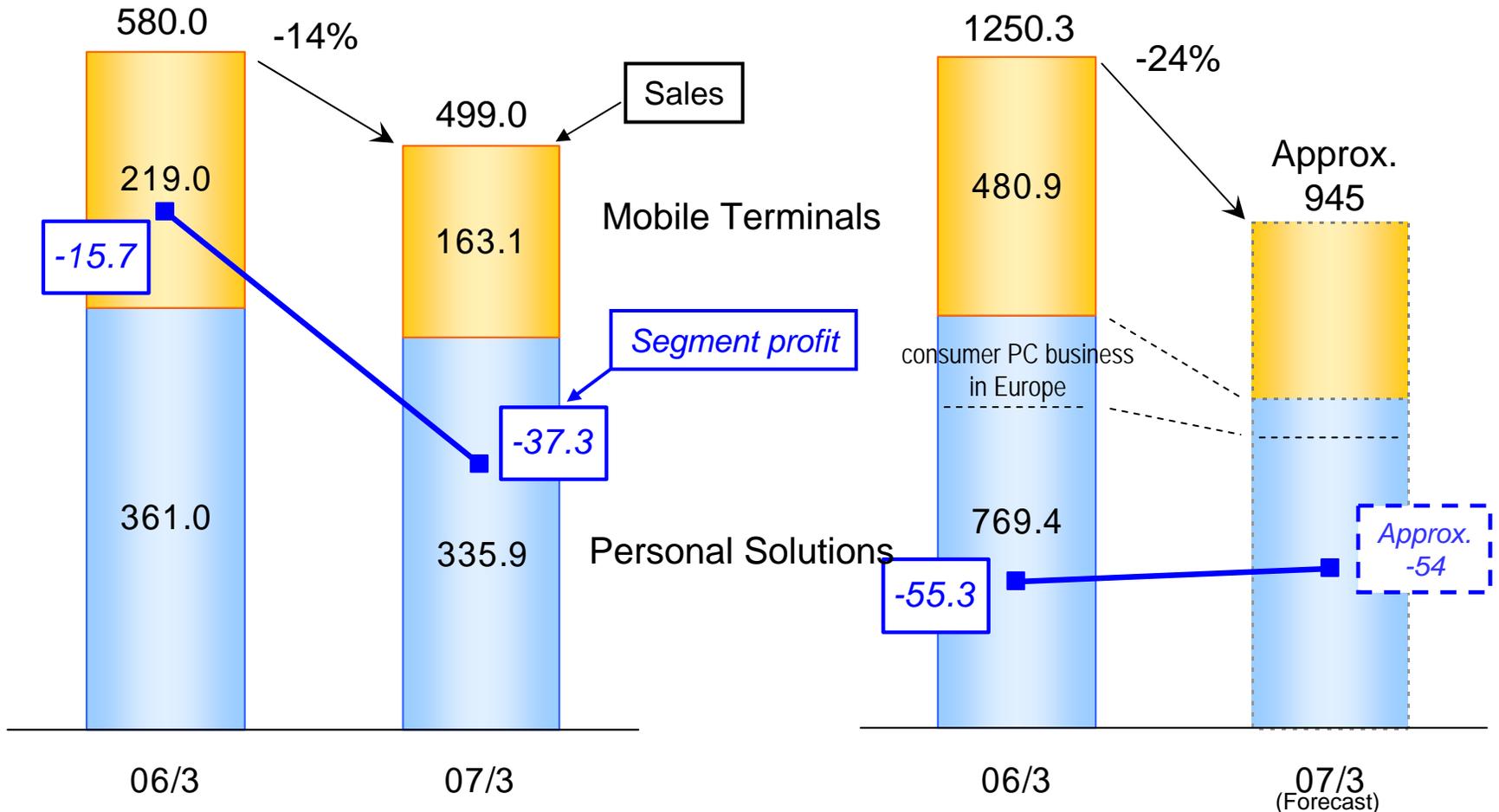
# Mobile Terminals / Personal Solutions Business 1

(Japan GAAP)

1H

Full Year

(In Billion Yen)



\*Forecasts as of November 21, 2006

# Mobile Terminals / Personal Solutions Business 2

## ■ Personal Solution

### ➤ 1H results:

- Japan: achieved profits
- Overseas: completed the sale of consumer PC business (Packard Bell) in Europe (announced Oct.16,2006)

### ➤ 2H forecasts:

- Expecting 4Q~ shipment growth following the release of Windows Vista
- Reduce component costs, reduce support/maintenance costs by improving product quality

## ■ Mobile Terminals

### ➤ 1H results:

**Shipment 2.9 million units (approx.40% down YoY)**

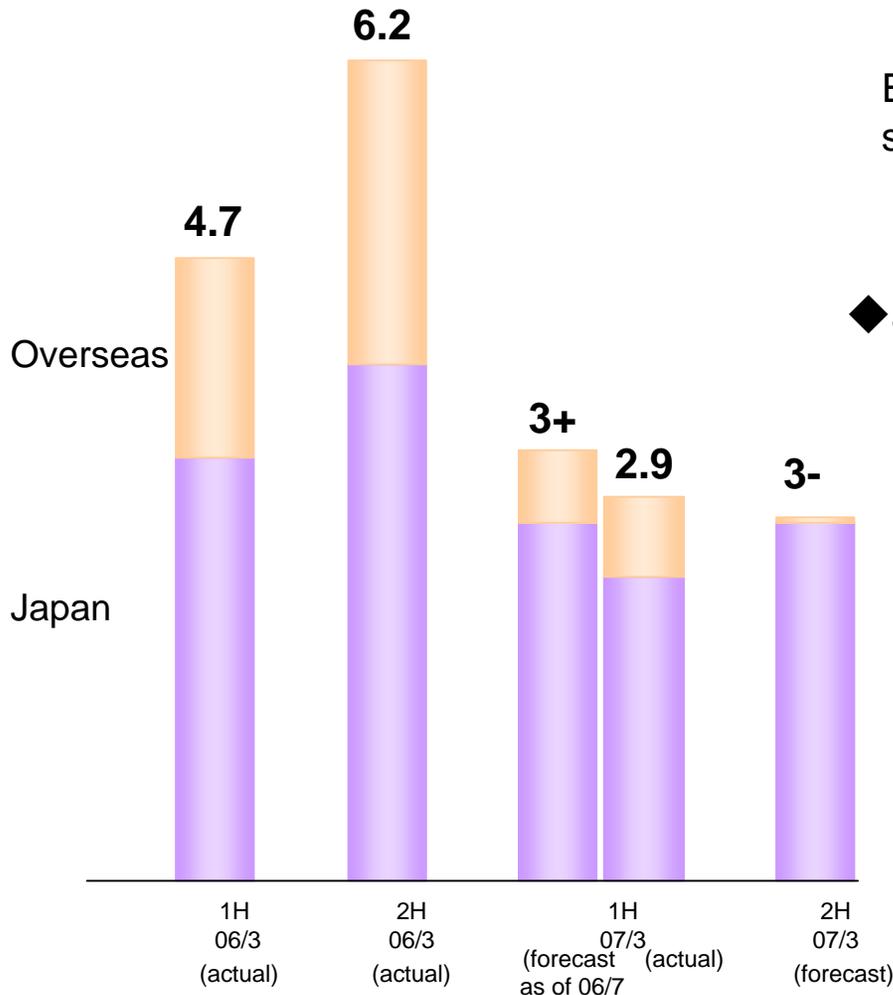
- Japan: Unit shipments dropped approx.30% as the market condition became more severe than expected
- Overseas: Europe - Stopped launch of new models  
China - Shipment dropped to approx. 40% due to focus-down of models

### ➤ 2H forecasts:

- Japan: Increase shipments by producing more competitive models
- Overseas: China – suspend launch of new models for the time being, expect small number of shipments

# Mobile Terminals Business (1)

## Unit Sales Trend (million units)



◆ Overseas: Restructure operations, get ready for 3.5G and beyond  
 Europe: have stopped 2.5G new models, and streamlined local operations

- China: complete business restructuring by 07/3

◆ Japan: Reinforce product competitiveness, and recover market share

- Smooth image retrieval on high-resolution display
  - N903i: highest resolution display (VGA+) among FOMA models
- Small, light-weight and slim models
  - Simple N1: min. weight among FOMA models
  - 705N : slim model for SoftBank
- Advanced functions
  - N902iL: wireless LAN dual, enforced security function
- High-speed (HSDPA)
  - N902ix: enabled high-speed content download

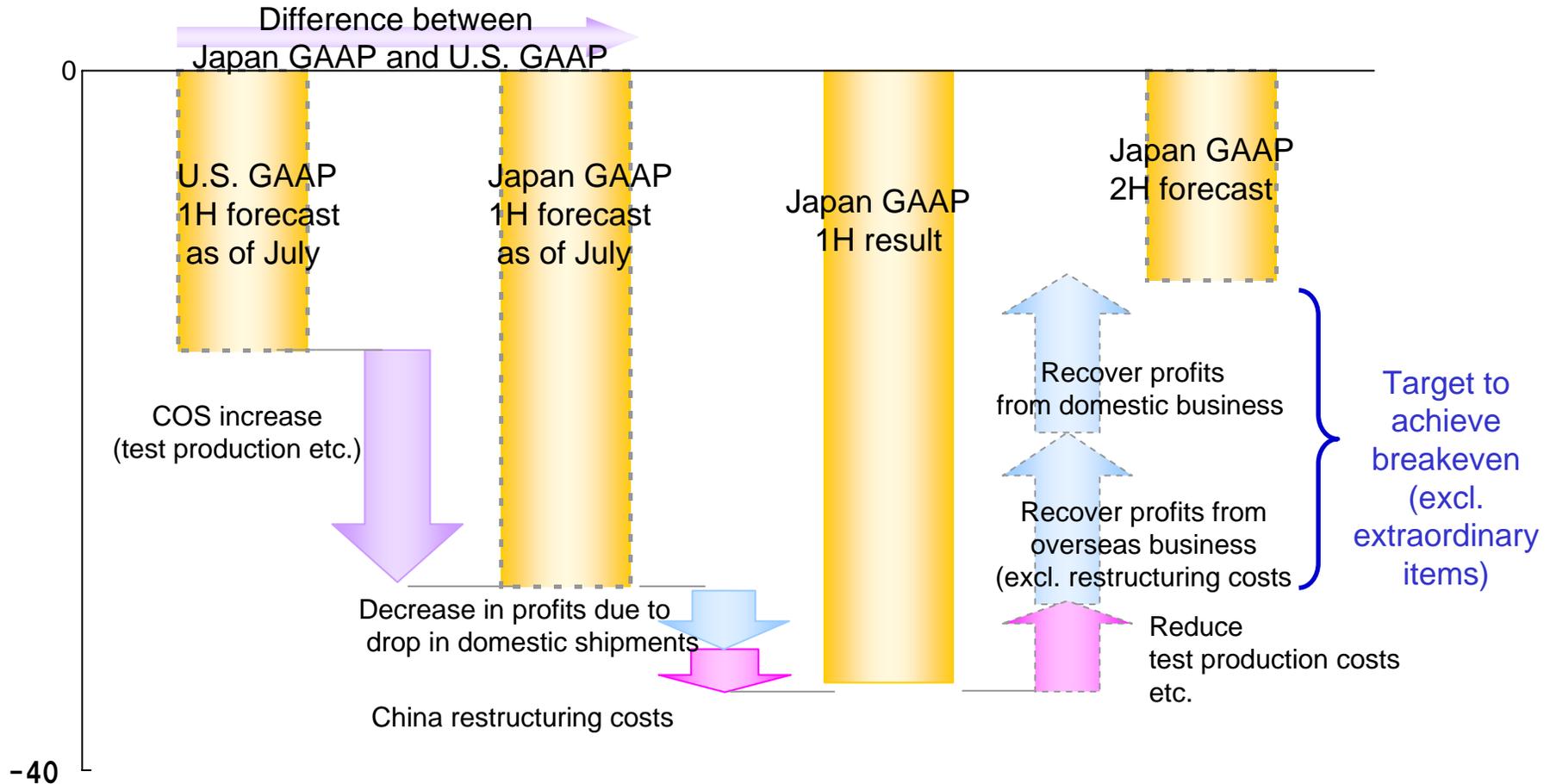
\*Forecast as of November 21, 2006

# Mobile Terminals Business (2)

Profits (billion Yen)

1H 07/3

2H 07/3

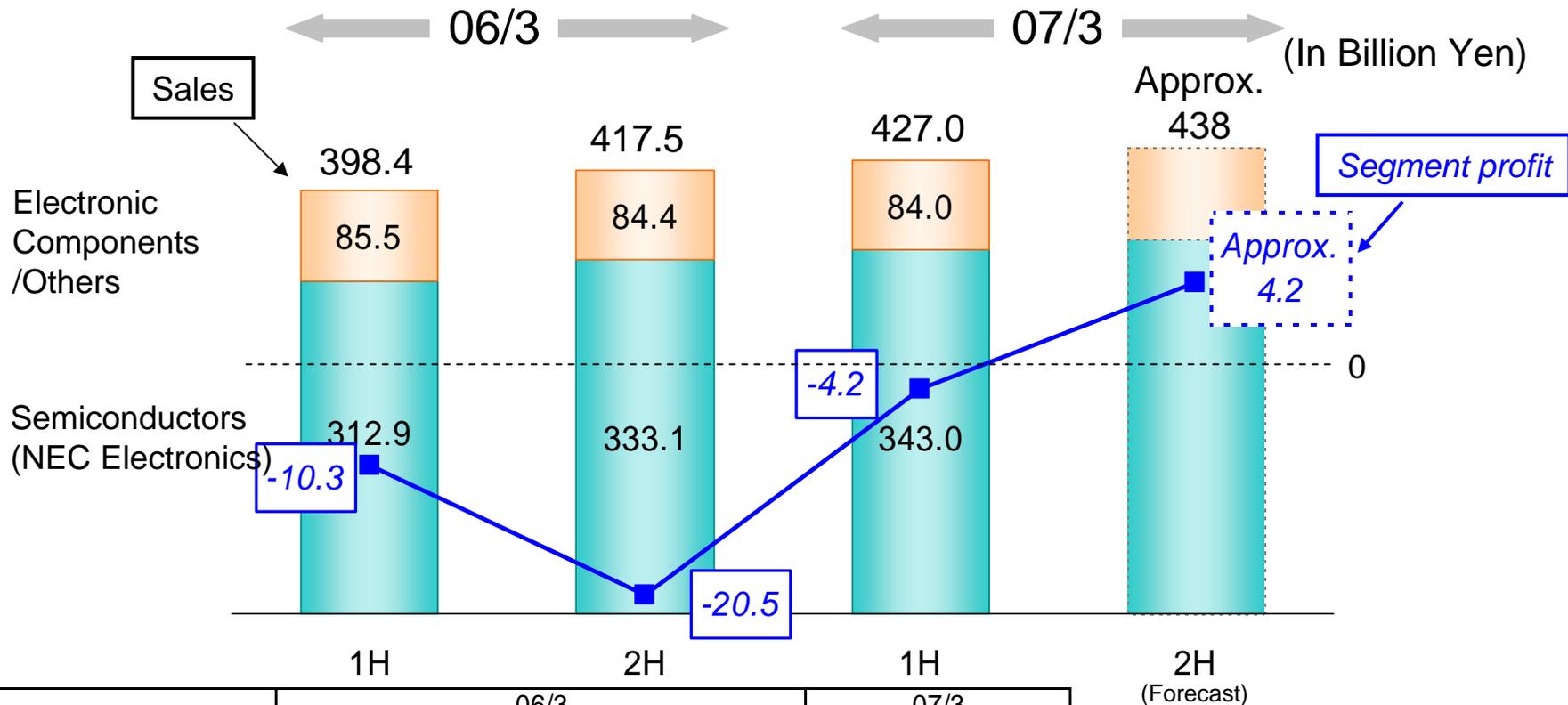


\*forecast as of November 21, 2006

-40

# Electron Devices Business 1

(Japan GAAP)



( in Billion Yen )	06/3				07/3	
	1Q	2Q	3Q	4Q	1Q	2Q
Operating Profit in Semiconductor area (NEC Electronics)	-9.8	-2.3	-7.0	-16.6	-5.8	-1.1

Please note that the operating results of Semiconductor area discussed in these slides are presented using NEC Electronics' reported amount which is in accordance with U.S.GAAP. The difference to reclassify to Japan GAAP is included in electronic components and others.

\*Forecasts as of November 21, 2006

# Electron Devices Business 2

## ■ Semiconductors (NEC Electronics)

- ◇ 1H: Recovery both in sales and profit from FY05/2H
  - Sales increase mainly in discretes, multi-purpose MCUs and LCD drivers for small panels
  - Slowdown in DBB LSIs for mobile handsets and LCD drivers for large panels, for the Auto MCUs.
- ◇ 2H forecasts: Planning 4% increase in semiconductors sales from 1H
  - Expect sales growth lead by volume shipments of SoCs for a new game console and market recovery in DBB LSIs for mobile handsets and LCD drivers for large panels
  - Plan to achieve break-even in operating P/L by increased sales, reduced costs and higher in-house production rate
- ◇ Full year forecasts:  
Revised downward considering re-evaluation of demand forecast and risks



NEC to support NEC Electronics' business recovery by cooperation  
in sales activities, embedded solutions and management of software development process

## ■ Electronic components and others

- ◇ 1H: Good results continued under the expanding market condition

Empowered by Innovation

**NEC**