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**NEC Electronics Reports Financial Results for the  
 Six Months Ended September 30, 2007**

**KAWASAKI, Japan, November 13, 2007** — NEC Electronics Corporation (TSE: 6723) today announced consolidated financial results for the six months ended September 30, 2007.

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# I. Summary of Consolidated Financial Results

	Six Months Ended September 30, 2006		Six Months Ended September 30, 2007			Increase (Decrease)		Year Ended March 31, 2007	
	Billion Yen	% of Net Sales	Billion Yen	Million USD	% of Net Sales	Billion Yen	% Change	Billion Yen	% of Net Sales
Net sales	343.0	100.0	351.0	3,052	100.0	8.0	2.3	692.3	100.0
Sales from semiconductors	327.8		334.1	2,905		6.3	1.9	659.7	
Operating income (loss)	(6.9)	(2.0)	1.9	16	0.5	8.8	---	(28.6)	(4.1)
Income (loss) before income taxes	(5.6)	(1.6)	1.8	16	0.5	7.4	---	(35.4)	(5.1)
Net loss	(7.4)	(2.2)	(3.0)	(26)	(0.9)	4.4	---	(41.5)	(6.0)
Net loss per share of common stock:	Yen		Yen	USD		Yen	% Change	Yen	% Change
Basic	(59.81)		(24.55)	(0.21)		35.26	---	(336.04)	
Diluted	(59.81)		(24.55)	(0.21)		35.26	---	(336.04)	

	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change	Billion Yen
Capital expenditures	76.7	27.2	237	(49.5)	(64.5)	105.9
Depreciation and amortization	38.7	36.7	319	(2.1)	(5.3)	83.0
R&D expenses	62.9	57.7	502	(5.2)	(8.2)	131.8
Exchange rate (USD)	Yen 115	Yen 120				Yen 117
Exchange rate (Euro)	145	162				149

	March 31, 2007	September 30, 2007		Increase (Decrease)		September 30, 2006
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change	Billion Yen
Total assets	695.9	687.9	5,982	(8.0)	(1.1)	777.0
Shareholders' equity	265.1	261.1	2,270	(4.0)	(1.5)	298.0

	Persons	Persons	Persons	% Change	Persons	
Number of employees	23,982	24,160		178	0.7	24,077

## Notes

1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥115=U.S.\$1.
2. All figures are rounded to the nearest 100 million yen.
3. The consolidated financial statements of NEC Electronics are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.
4. The figures for operating income (loss) shown above represent net sales minus the cost of sales, research and development, and selling, general and administrative expenses.
5. Net income (loss) per share of common stock is calculated based on Statement of Financial Accounting Standards ("SFAS") No.128, "Earnings per share".
6. The figures for shareholders' equity are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.
7. The current semiannual consolidated financial information is unaudited. The above semiannual consolidated financial information may change as a result of subsequent events and/or audit by the independent auditors. In the event of such changes, NEC Electronics will revise the information in a timely manner via a press release.

# Consolidated Financial Results for the Six Months Ended September 30, 2007



Prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP  
English translation from the original Japanese-language document

November 13, 2007

Company name : **NEC Electronics Corporation**  
 Stock exchanges on which the shares are listed : Tokyo Stock Exchange, First Section  
 Code number : 6723  
 URL : <http://www.necel.com>  
 Representative : Toshio Nakajima, President and CEO  
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 Filing date of Hanki Hokokusho (scheduled) : December 11, 2007

(Amounts are rounded to the nearest million yen)

## 1. Consolidated results for the year ended March 31, 2007

### (1) Consolidated financial results

(% of change from corresponding period of previous year)

	Net Sales		Operating Income (Loss)		Income (Loss) Before Income Taxes		Net Loss	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Six Months Ended September 30, 2007	350,973	2.3	1,852	---	1,831	---	(3,032)	---
Six Months Ended September 30, 2006	343,011	9.6	(6,924)	---	(5,603)	---	(7,387)	---
Year ended March 31, 2007	692,280		(28,557)		(35,375)		(41,500)	

	Net Loss Per Share: Basic	Net Loss Per Share: Diluted
	Yen	Yen
Six Months Ended September 30, 2007	(24.55)	(24.55)
Six Months Ended September 30, 2006	(59.81)	(59.81)
Year ended March 31, 2007	(336.04)	(336.04)

Reference: Equity in loss of affiliated companies:

Six months ended September 30, 2007: (334 million yen)

Six months ended September 30, 2006: (26 million yen)

Year ended March 31, 2007: (468 million yen)

Note 1: Net income (loss) per share of common stock is prepared in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share".

Note 2: NEC Electronics' consolidated information is in accordance with U.S. GAAP. However, the figure for operating income (loss) shown above represents net sales minus the cost of sales, research and development, and selling, general and administrative expenses.

### (2) Consolidated financial position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity Per Share
	Million Yen	Million Yen	%	Yen
September 30, 2007	687,908	261,060	37.9	2,113.88
September 30, 2006	777,037	298,027	38.4	2,413.20
March 31, 2007	695,886	265,068	38.1	2,146.32

Note: The figures for shareholders' equity are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

### (3) Consolidated cash flows

	Cash Flows From Operating Activities	Cash Flows From Investing Activities	Cash Flows From Financing Activities	Cash and Cash Equivalents at the End of the Period
	Million Yen	Million Yen	Million Yen	Million Yen
Six Months Ended September 30, 2007	29,128	(18,835)	(4,868)	191,367
Six Months Ended September 30, 2006	34,557	(21,112)	(2,980)	221,975
Year ended March 31, 2007	66,731	(78,497)	(15,273)	185,372

### 2. Cash dividends

	Interim Cash Dividends Per Share	Cash Dividends Per Share	Annual Cash Dividends Per Share
	Yen	Yen	Yen
Year ended March 31, 2007	---	---	---
Year ended March 31, 2008	---	---	---

### 3. Forecast of consolidated results for the year ending March 31, 2008

(% of change from previous year)

	Net Sales		Operating Income		Loss Before Income Taxes		Net Loss		Net Loss Per Share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Year ending March 31, 2008	690,000	(0.3)	0	---	(10,000)	---	(15,000)	---	(121.46)

### 4. Other

- (1) Changes in significant subsidiaries in the six months ended September 30, 2007 : No  
(changes in specified subsidiaries resulting in changes in scope of consolidation)

Note: Please refer to "NEC Electronics Group Companies" on page 16 for further information.

- (2) Changes in accounting principles, procedures, and presentations, etc.  
(Changes indicated to "Basis of Presenting the Consolidated Financial Statements")

1. Changes resulting from revisions in accounting principles, etc. : No  
2. Other changes : No

Note: Please refer to "Basis of Presenting the Consolidated Financial Statements" on page 28 for further information.

- (3) Number of shares issued and outstanding (common stock)

1. Number of shares issued and outstanding at the end of each period  
As of Sept. 30, 2007:123,500,000 As of Sept. 30, 2006:123,500,000 As of Mar. 31, 2007: 123,500,000
2. Number of treasury shares at the end of each period  
As of Sept. 30, 2007:1,836 As of Sept. 30, 2006:1,152 As of Mar. 31, 2007:1,445
3. Average number of shares issued and outstanding in each period  
As of Sept. 30, 2007 :123,498,306 As of Sept. 30, 2006: 123,498,915 As of Mar. 31, 3007:123,498,823

Cautionary Statement

The statements with respect to the financial outlook of NEC Electronics and its consolidated subsidiaries are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may differ materially from such forward-looking statements due to changes in several important factors.

## II. Business Results

### (1) Analysis of Business Results

#### 1. Overview of the Six Months Ended September 30, 2007

In the first half of the fiscal year, the U.S. economy showed signs of a slowdown as a result of adjustments in the housing market, whereas the European and Asian economies demonstrated steady growth. In Japan, the ongoing recovery of consumer spending, and the tendency toward a weaker yen, led to moderate growth.

In the semiconductor market, price erosion for DRAM showed no indications of slowing, which suppressed growth in the overall semiconductor market. Non-DRAM semiconductors did see limited growth, but there was little change to the recent trend of shipment increases offset by price decreases for applications such as personal computers and flat-screen televisions.

The outlook for the semiconductor market in the second half of the fiscal year and beyond is difficult to forecast. Under normal circumstances, the lead-up to the Olympics and the U.S. presidential elections would be expected to spur demand, but adjustments in the U.S. housing market since this summer could negatively affect the pre-holiday market for consumer electronics. NEC Electronics is carefully assessing the semiconductor market situation.

#### 2. Summary of Consolidated Financial Results

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2007		Increase (Decrease)	
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Net sales	343.0	351.0	3,052	8.0	2.3
Operating income (loss)	(6.9)	1.9	16	8.8	---
Income (loss) before income taxes	(5.6)	1.8	16	7.4	---
Net loss	(7.4)	(3.0)	(26)	4.4	---
Exchange rate (USD)	Yen 115	Yen 120		---	---
Exchange rate (Euro)	145	162		---	---

Consolidated net sales for the six months ended September 30, 2007 were 351.0 billion yen, up 8.0 billion yen, or 2.3%, from the previous fiscal year. Although sales of liquid crystal display (LCD) driver ICs for mobile phones and semiconductors for printers declined, with resultant year-on-year declines in Communications and Computing & Peripherals, sales in other areas showed healthy growth, leading to an overall 2.3 percent increase in semiconductor sales. In particular, robust sales of semiconductors for game consoles and an increase in sales of

semiconductors for digital televisions helped to push sales in the Consumer Electronics area by roughly 25 percent year on year.

Consolidated operating income was 1.8 billion yen, an improvement of 8.8 billion yen year on year. This was the result of higher consolidated sales, in addition to a reduction in fixed costs including R&D expenses, and currency gains.

Consolidated income before income taxes was 1.8 billion yen, a 7.4 billion yen improvement year on year. Consolidated net loss was 3.0 billion yen, a 4.4 billion yen improvement year on year.

### 3. Breakdown of Net Sales by Market Application

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2007		Increase (Decrease)	
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Communications	53.1	37.7	328	(15.3)	(28.9)
Computing and peripherals	64.9	62.1	540	(2.8)	(4.4)
Consumer electronics	54.1	67.6	587	13.5	24.9
Automotive and industrial	52.1	55.1	480	3.0	5.8
Multi-market ICs	44.2	47.4	413	3.3	7.4
Discrete, optical, and microwave devices	59.4	64.1	557	4.7	7.9
Semiconductor total	327.8	334.1	2,905	6.3	1.9
Other	15.2	16.9	147	1.7	11.1
Total	343.0	351.0	3,052	8.0	2.3

#### Communications

**Products** Semiconductors for broadband networking equipment including routers and mobile-phone base stations; semiconductors for mobile handsets.

**Net sales** 37.7 billion yen (Down 15.3 billion yen, 28.9% year on year)

Sales of semiconductors for mobile phones decreased year on year. Sales of LCD driver ICs for high resolution TFT-LCD displays, on which the company is focusing its efforts, dropped sharply due to ongoing adjustments by major customers, and sales of system memory for mobile phones also declined year on year.

#### Computing and Peripherals

**Products** Semiconductors for servers, workstations, personal computers, and PC peripherals.

**Net sales** 62.1 billion yen (Down 2.8 billion yen, 4.4% year on year)

Sales of semiconductors for PC peripherals fell year on year. Despite a boost in sales of LCD driver ICs for LCD televisions and computer monitors due to higher demand, declines in sales of semiconductors for printers and recordable DVD drives led to a net decrease.

### Consumer Electronics

Products Semiconductors for digital AV equipment and game consoles.

Net sales 67.6 billion yen (Up 13.5 billion yen, 24.9% year on year)

Although sales of semiconductors for digital cameras declined significantly year on year, sales for game consoles recorded a significant year-on-year increase, and sales for digital televisions also increase, resulting in a large year-on-year increase for Consumer Electronics.

### Automotive and Industrial

Products Semiconductors used in automobiles and industrial systems, including factory automation equipment.

Net sales 55.1 billion yen (Up 3.0 billion yen, 5.8% year on year)

Sales increased year on year as a result of strong microcontroller sales to global automotive electronics manufacturers, and the larger number of semiconductors used per vehicle with the evolution of advanced automotive electronics.

### Multi-market ICs

Products General purpose microcontrollers, gate arrays and multi-purpose SRAM.

Net sales 47.4 billion yen (Up 3.3 billion yen, 7.4% year on year)

Sales of general purpose microcontrollers increased year on year due to expansion of the All Flash™ lineup.

### Discrete, Optical and Microwave Devices

Products Discrete devices such as diodes and transistors; optical semiconductors for optical communications equipment and DVD devices; and microwave semiconductors for mobile handsets and other applications.

Net sales 64.1 billion yen (Up 4.7 billion yen, 7.9% year on year)

Healthy sales of discrete semiconductors for personal computers, as well as compound semiconductor devices, helped increase sales year on year.



## Other

Products Non-semiconductor products such as color LCDs, sold on a resale basis by NEC Electronics' sales subsidiaries.

Net sales 16.9 billion yen (Up 1.7 billion yen, 11.1% year on year)

Resale of non-semiconductor products is not part of NEC Electronics' core business.

## **4. Geographical Segment Analysis**

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2007		Increase (Decrease)	
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Japan	182.0	185.4	1,613	3.5	1.9
United States of America	37.0	30.4	264	(6.6)	(17.8)
Europe	42.7	48.8	424	6.1	14.3
Asia	81.4	86.4	751	5.0	6.1
Total	343.0	351.0	3,052	8.0	2.3

### Japan

Net sales 185.4 billion yen (Up 3.5 billion yen, 1.9% year on year)

Although sales of LCD driver ICs for mobile handsets and chips for digital cameras and printers decreased, sales of game console chips increased significantly.

### United States of America

Net sales 30.4 billion yen (Down 6.6 billion yen, 17.8% year on year)

Sales of system memory for mobile handsets and semiconductors for game consoles decreased.

### Europe

Net sales 48.8 billion yen (Up 6.1 billion yen, 14.3% year on year)

Sales of automotive semiconductors increased.

### Asia

Net sales 86.4 billion yen (Up 5.0 billion yen, 6.1% year on year)

Sales of LCD driver ICs for LCD televisions and PC monitors, as well as discrete devices, increased.

## **5. Consolidated Forecasts for the Fiscal Year Ending March 31, 2008**

For the first half of the fiscal year, the growth rate for the overall semiconductor market was significantly hampered by DRAM price erosion. As NEC Electronics focuses on non-DRAM markets, however, the company's sales growth was slow but steady. For the second half of the fiscal year, there is expectation for stronger market demand ahead of the 2008 Beijing Olympics, but the global impact of the U.S. subprime mortgage crisis and a steep rise in crude oil prices have made it difficult to accurately gauge the economy, and careful analysis of the situation will be necessary.

Although strong sales of microcontrollers and devices for digital AV applications in the first half, combined with a reduction in fixed costs and the improvement in foreign currency gains, helped boost the company's financial results beyond initial forecasts, numerous economic uncertainties remain, particularly for the fourth quarter. Therefore, the company has elected not to revise the full-year forecasts announced on May 14, 2007.

The consolidated financial forecasts for the fiscal year are calculated at the rate of 115 yen per USD, and 155 yen per Euro (revised from the rate of 150 yen per Euro used in the initial forecast).

The statements in this press release are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may vary materially from such forward-looking statements due to several factors.

## (2) Financial Condition

### 1. Total Assets and Shareholders' Equity

	March 31, 2007	September 30, 2007		Increase (Decrease)
	Billion Yen	Billion Yen	Million USD	Billion Yen
Total assets	695.9	687.9	5,982	(8.0)
Shareholders' equity	265.1	261.1	2,270	(4.0)
Equity ratio	38.1%	37.9%		(0.2%)
Shareholders' equity per share	2,146 yen	2,114 yen	18.38 USD	(32) yen
Interest-bearing debt	136.0	132.9	1,155	(3.2)

Total assets at September 30, 2007 totaled 687.9 billion yen, an 8.0 billion yen decrease from March 31, 2007. This was mainly due to a 13.8 billion yen decrease in property, plant, and equipment as a result of reduced capital expenditures, and recording depreciation and amortization.

Compared to March 31, 2007, shareholders' equity was 4.0 billion yen lower at 261.1 billion yen, due to net loss in the amount of 3.0 billion yen. Shareholders' equity ratio decreased by 0.2 points from March 31, 2007 as a result of the decrease in shareholders' equity.

Interest-bearing debt totaled 132.9 billion yen, decreasing 3.2 billion yen from March 31, 2007 mainly due to the repayment of debt.

### 2. Cash Flows

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2007		Increase (Decrease)
	Billion Yen	Billion Yen	Million USD	Billion Yen
Net cash provided by operating activities	34.6	29.1	254	(5.4)
Net cash used in investing activities	(21.1)	(18.8)	(164)	2.3
Free cash flows	13.4	10.3	90	(3.2)
Net cash used in financing activities	(3.0)	(4.9)	(42)	(1.9)
Effect of exchange rate changes on cash and cash equivalents	0.7	0.6	4	(0.1)
Net increase (decrease) in cash and cash equivalents	11.2	6.0	52	(5.2)
Cash and cash equivalents at beginning of period	211.1	185.4	1,612	(25.7)
Cash and cash equivalents at end of period	222.0	191.4	1,664	(30.6)

Despite recording a net loss and decreases in accounts payable, depreciation and lease in the amount of 36.7 billion yen led to net cash provided by operating activities in the amount of 29.1 billion yen.

Although there was income from the transfer of the company's photomask business and assets, payments for property, plant, and equipment in the amount of 29.4 billion yen brought the total net cash used in investing activities to 18.8 billion yen.

The foregoing resulted in positive free cash flows of 10.3 billion yen.

Financing activities used net cash in the amount of 4.9 billion yen for the repayment of debt.

As a result of the foregoing, combined with the impact of currency exchange fluctuations, net increase in cash and cash equivalents was 6.0 billion yen, resulting in cash and cash equivalents at September 30, 2007 totaling 191.4 billion yen.

### **(3) Policy on Profit Distribution and Dividend Payments**

NEC Electronics distributes part of its earnings to shareholders in the form of dividends, while appropriating retained earnings for the research and development of new products and capital expenditures, and maintaining a durable financial structure capable of generating high earnings to maximize enterprise value. For each dividend period, payment determinations are made with consideration of consolidated retained earnings and non-consolidated earned surplus, consolidated income, forecast for income for the next period, and cash flow status.

NEC Electronics' policy is to distribute surpluses twice a year in the form of interim and year-end dividends. The amount of year-end dividends is decided by the general meeting of shareholders; the amount of interim dividends is decided by the board of directors. In addition, the company's article of incorporation states that, "Based on the decision by the board of directors, September 30 of each year has been set as the date of record and interim dividends may be provided."

Although NEC Electronics expects that its financial performance for the current fiscal year will improve over the previous fiscal year, it still expects to record a net loss on a consolidated basis. As such, the company will forgo interim dividend payments, and plans to forgo year-end dividend payments as well. However, it will work toward improved results that will allow dividends to be reinstated at the earliest possible date.

### **(4) Risk Factors**

NEC Electronics recognizes the following as some of the most significant risk factors faced in its business operations.

#### **1. Impact of Market Fluctuations (Silicon Cycle)**

The semiconductor industry is known to be subject to cyclical market fluctuations, a phenomenon known as the "silicon cycle". Although the NEC Electronics Group operates on the basis of careful monitoring of changes in market conditions, it is difficult to completely avoid the impact of market fluctuations due to economic cycles in countries around the world and

changes in the demand for end products. Market downturns, therefore, could lead to sales declines and lower fab utilization rates, which may in turn result in diminished cost ratios and a significant deterioration in profits.

## **2. Foreign Currency Fluctuations**

The operating results and financial position of the NEC Electronics Group are affected by fluctuations in foreign currency exchange markets. The Group takes various measures to avert or reduce risks relating to fluctuations in the foreign currency exchange markets, such as forward exchange contracts. However, these fluctuations may impact the yen value of assets and liabilities arising from business transactions in foreign currencies, as well as the costs and sales of various products denominated in foreign currencies. In addition, conversion of the financial statements of NEC Electronics' overseas subsidiaries into Japanese yen, which is the reporting currency of the NEC Electronics Group, may also affect Groups assets and liabilities, as well as earnings and expenses.

## **3. Natural Disasters**

Natural disasters such as earthquakes, typhoons, and floods, as well as accidents, acts of terror and other factors beyond the control of the NEC Electronics Group, could severely damage semiconductor manufacturing facilities and other Group-owned facilities. The NEC Electronics Group owns facilities in areas where earthquakes occur at a frequency higher than the global average. Consequently, the effects of earthquakes and other events could force a halt to manufacturing and other operations. The NEC Electronics Group is insured against losses and damages relating to earthquakes, however, the insurance may be unable to cover all the losses and damages if the earthquake is extraordinarily severe.

## **4. Competition**

The semiconductor industry is extremely competitive, and the NEC Electronics Group is exposed to fierce competition from rival companies around the world in areas such as product performance, structure, pricing and quality. To maintain competitiveness, the NEC Electronics Group takes various measures including development of leading edge technologies, standardizing design, and cost reduction, but in the event that the Group is not competitive, the Group's market share may decline, which may negatively impact the Group's financial results. Price competition for the purpose of maintaining market share may also lead to sharp declines in the market price of Group company products. When this cannot be offset by cost reductions, the Group's gross profit margin ratio may decline.

## **5. Poor Decision-Making Concerning Investments in Capital and R&D**

As an integrated device manufacturer (IDM), many of the semiconductor products sold by the NEC Electronics Group are developed and produced within the Group. As such, substantial capital expenditures are made annually to stay ahead of technological innovation and to boost production. While the Group constantly strives to invest the appropriate amount at the appropriate time, poor decisions concerning either timing or amount could cause the Group to lose substantial business opportunities or suffer operational losses.

The NEC Electronics Group also invests heavily in R&D for leading-edge technologies. However, errors in selecting R&D subjects, delays in development and other factors could prevent such investments from helping sales and earnings, essentially nullifying the investments.

## **6. Product Defects, Anomalies and Malfunctions**

Although the NEC Electronics Group makes an effort to improve the quality of semiconductor products and related software, they may contain defects, anomalies or malfunctions that are undetectable at the time of shipment due to increased sophistication of technologies and diversity of ways in which the Group's products are used by customers. These defects, anomalies or malfunctions could be discovered after NEC Electronics Group products are embedded in customers' end products, resulting in the return or exchange of NEC Electronics' products, claims for compensatory damages, or discontinuation of the use of NEC Electronics' products, which could negatively impact the profits and operating results of the Group. To prepare for such events, the NEC Electronics Group has product liability insurance and recall insurance, but it is not guaranteed that the full costs of reimbursements would be covered by these.

## **7. Impairment of Long-Lived Assets**

The NEC Electronics Group has recorded tangible fixed assets and many other long-lived assets in its consolidated balance sheet, and periodically reviews whether it will be able to recover the recorded residual value of these assets in the form of future cash flows. If these assets do not generate sufficient cash flows, NEC Electronics and the NEC Electronics Group may be forced to recognize an impairment in their value.

## **8. Legal Issues**

The NEC Electronics Group's products utilize a wide range of technologies, and it is possible that a third party may claim that certain Group technologies infringe upon its intellectual property rights. In the event of such claims, the Group may incur substantial costs related to legal actions and other expenses in defense of the NEC Electronics Group and/or its customers. Depending on the outcome of these claims, the Group could be ordered to pay

substantial amounts in damages or be forced to cease use of such technology due to the demand for excessive license fees which are not economically feasible.

The NEC Electronics Group's operations are subject to various laws and regulations in Japan and other countries around the world, pertaining to the environment, safety, fair business practices and other matters. The Group strives to comply fully with these laws and regulations. However, in the event of a lawsuit or legal proceeding based on violations of such laws and regulations, a ruling against the NEC Electronics Group could negatively impact Group earnings and operating results.

NEC Electronics America, Inc. has been named as one of the defendants in numerous class action civil antitrust lawsuits from direct purchasers (customers who had directly purchased DRAM from the NEC Electronics Group in the past) seeking damages for alleged antitrust violations in the DRAM industry. These class action lawsuits were resolved by settlement, NEC Electronics America is still in litigation, or in settlement negotiations along with NEC Corporation, with several customers who have opted out of such class action lawsuits. NEC Electronics America has also been named as one of the defendants in numerous class action civil lawsuits from indirect purchasers (customers who had purchased products containing DRAM), as well as a number of antitrust lawsuits filed by the Attorneys General of numerous states in the U.S.

Additionally, the NEC Electronics Group, together with NEC Corporation, is fully cooperating with the European Commission in its investigation of potential violations of European competition laws in the DRAM industry.

Furthermore, the NEC Electronics Group is also subject to (1) investigations in connection with potential antitrust violations in the SRAM industry being conducted by the U.S. Department of Justice and the European Commission, (2) investigations in connection with potential antitrust violations in the semiconductor industry by the Korea Fair Trade Commission, as well as (3) investigations by the U.S. Department of Justice, the European Commission, the Korea Fair Trade Commission, and the Competition Bureau of Canada in connection with potential antitrust violations in the thin-film transistor liquid crystal display (TFT-LCD) industry. Following the initiation of investigations by the U.S. Department of Justice into the SRAM and TFT-LCD industries, numerous class action civil antitrust lawsuits seeking damages for alleged antitrust violations have been brought against NEC Electronics America in the United States and elsewhere.

Although the outcome of the aforementioned investigations, antitrust lawsuits and settlement negotiations is not known at this time, the NEC Electronics Group has recorded the probable and reasonably estimable losses for the U.S. DRAM civil lawsuits and settlements with customers in the U.S.

## NEC Electronics Group Companies

The NEC Electronics Group comprises 25 consolidated subsidiaries, listed below according to primary business activity.

### Manufacturing Companies

NEC Yamagata, Ltd.  
NEC Fukui, Ltd.  
NEC Kansai, Ltd.  
NEC Yamaguchi, Ltd.  
NEC Kyushu, Ltd.  
NEC Semicon Package Solutions, Ltd.  
NEC Fabserve, Ltd.  
NEC Electronics America, Inc. <sup>1</sup>  
NEC Semiconductors Ireland Limited <sup>2</sup>  
NEC Semiconductors Singapore Pte. Ltd.  
NEC Semiconductors (Malaysia) Sdn. Bhd.  
P.T. NEC Semiconductors Indonesia <sup>3</sup>  
Shougang NEC Electronics Co., Ltd.

### Design Companies

NEC Micro Systems, Ltd.

### Sales Companies

NEC Electronics (Europe) GmbH  
NEC Electronics (UK) Limited <sup>4</sup>  
NEC Electronics Taiwan, Ltd.  
NEC Electronics Singapore Pte. Ltd.  
NEC Electronics (China) Co., Ltd. <sup>5</sup>  
NEC Electronics Hong Kong Limited  
NEC Electronics Shanghai, Ltd.  
NEC Electronics Korea Limited  
NEC Compound Semiconductor Devices Hong Kong Limited <sup>6</sup>

### Other

Nippon Electroluminescent Light Co., Ltd.  
Kinki Bunseki Center, Ltd.

Note 1: NEC Electronics America, Inc. handles both manufacturing and sales.

Note 2: NEC Semiconductors Ireland Limited ceased manufacturing and shipping activities in September, 2006.

Note 3: P.T. NEC Semiconductors Indonesia ceased manufacturing and shipping activities in October, 2007.

Note 4: NEC Electronics (UK) Limited is an inactive company.

Note 5: NEC Electronics (China) Co., Ltd. conducts sales and design activities.

Note 6: NEC Compound Semiconductor Devices Hong Kong Limited transferred its business to NEC Electronics Hong Kong on November 1, 2006 and ceased sales operations.



### **III. Management Policies**

#### **1. Management policies**

*NEC Electronics aims to be the partner of choice by providing differentiated semiconductor solutions based on advanced technologies that give our customers a competitive advantage.*

NEC Electronics aims to increase corporate and shareholder value based upon the following policies.

- Ensure a customer-oriented approach to all business activities, delivering optimal solutions and excellent product quality, with an eye toward increasing sales and earnings through improved customer satisfaction.
- Focus on the company's three core areas of SoC (system on chip), microcomputers, and discrete semiconductors. Develop business processes for each business unit, while promoting re-use of core technologies and resources, to address various customer needs with high-quality and low-cost solutions, thus achieving steady growth and profits.
- Leverage the company's position as an international player to connect with customers, aggressively pursue global business opportunities, and expand sales.

#### **2. Management Targets**

To improve return on assets (ROA) and return on equity (ROE), NEC Electronics places primary emphasis on raising the ratio of earnings to net sales. The goal of the company is to raise the ratio of operating income to consolidated net sales. However, as the company has posted operating losses for two consecutive years, its first aim is to restore profitability as quickly as possible.

In February 2007 NEC Electronics announced new management policies designed to make the company's business structure more robust and help it to achieve profits even despite the downturn in the semiconductor market. The company is making a concerted effort to implement these new policies as thoroughly as possible.

#### **3. Mid-term Corporate Strategies**

To achieve the above-mentioned policies, the company is adopting the following measures as mid-term corporate strategies.

### **1) Platform Architectures for Improved Ability to Propose and Execute Solutions**

The successful development and deployment of SoC and microcomputer solutions involves a set of mutually related systems, ranging from semiconductor process technology and circuit design technology to development environments (tools and manuals) to support designers and software, including operating systems and drivers. NEC Electronics refers to this entire set of systems as a “platform”. By developing a wide range of platforms with common architectures and interfaces, there is greater efficiency of development efforts, as well as the ability to provide customers with complete and easy to use solutions.

Specific examples of the company’s platform architectures include the acclaimed All Flash™ microcontrollers and the EMMA™ series of digital video solutions. These strong platforms welcome the contribution of software and development tools from outside developers, which enhances the completeness of the platforms and our ability to propose competitive solutions. The company will continue to develop such winning solutions in order to promote build robust platforms for the future.

### **2) Superior Quality**

The quality of NEC Electronics’ solutions is a key component of improving customer satisfaction. To improve the overall quality of the company’s solutions, NEC Electronics is standardizing and clarifying quality standards across Group companies to improve both the semiconductors and software that comprise these solutions, and diligently abide by these standards.

NEC Electronics also believes in the importance of “quality integration,” or the pursuit of superior quality at every step from design to manufacturing, implementing processes at each stage to catch defects quickly, and prevent faulty products from proceeding to the next manufacturing step, establishing a “zero defects” policy to ensure superior product quality. To improve software quality, the company will standardize design methods and execute project management for software design.

### **3) Leveraging Strategic Partnerships**

Strategic partnerships with semiconductor distributors and other companies in the industry will allow the company to achieve higher revenues and profits by concentrating its limited management resources.

SoC platform development requires a tremendous investment of human and financial capital. NEC Electronics is conducting joint development with Toshiba Corporation for leading edge process technology. The company believes this collaboration is ideal for reducing the significant burden of development costs, and shortening development times for process technology, which is critical to the SoC platform.

NEC Electronics has also concluded exclusive distribution contracts with leading semiconductor distributors around the world, working closely with them to construct a strong global marketing and support network. Particularly with regard to products like microcontrollers and discrete semiconductors, where product lines are extensive and customer requirements are manifold, partnerships with semiconductor distributors are essential to expanding sales. The company will continue to strengthen its partnerships with these distributors.

#### **4. Issues to Address**

To implement the management policy and mid-term corporate strategy, NEC Electronics is taking the following steps.

##### **1) Concentration of development resources to improve efficiency and expand sales**

In the past, the NEC Electronics Group had steadily increased the amount spent on research and development (R&D) expenses, with the aim of improving sales and profits. However, a very broad range of semiconductor solutions, and resources such as development expenses and personnel were diluted among all of the various products, which put the company at a competitive disadvantage compared to other companies that focused their development resources on specific products, and triggered a downturn in profits.

Acknowledging this, the company is adjusting its resource allocation and reducing total development costs by halting the development of non-competitive products, while still increasing the amount of development expenses for strategic products to ensure sales growth. This change in policy will improve the R&D to sales ratio, and help to develop more competitive products that in turn, will lead to improved sales and gross profit over the mid-term.

##### **2) Facilitating lower manufacturing costs by consolidating production lines**

The dispersal of development resources led to a decline in the competitiveness of the company's products, resulting in pricing pressure from the market, and the group's cost to sales ratio continues to decline over the mid-term.

In order to overcome this, the company will strengthen its product lines by concentrating development resources and reviewing the production process with an emphasis on improved competitiveness at minimal cost, and work to reduce manufacturing costs by means of structural reforms such as consolidating production lines.

Specifically, production at the company's smaller and older front-end wafer production lines will be shifted to lines with larger wafer size and production volumes. The smaller lines will be closed as quickly as possible, while giving consideration to fulfilling existing customer commitments.

In addition, back-end test and assembly functions, particularly for products with high personnel costs or large production volumes, will be moved from Japan to other locations in

Asia where personnel costs are less expensive. By shifting back-end production to locations such as Malaysia and China, the Group's overall cost competitiveness will improve. Although there are some challenges in executing these shifts, such as transferring production technology, maintaining quality prior to and following the transfer, and acquiring the consent of customers, these measures are vital to lowering production costs in the mid-term, and the company is putting its full efforts behind rapid implementation.

### **3) Optimizing sales, development, and production for each product group**

The NEC Electronics Group's product offerings can be largely broken down into the three categories of system-on-chip (SoC), microcomputers, and discrete semiconductors. The company's previous organizational structure was divided by function such as sales, development, and production. This structure of dividing labor by function is suitable for increasing efficiency and optimization for each function. However, it makes it difficult to optimize the flow from sales through to production for each of the three product groups. Additionally, there were points which could not necessarily be called optimal in terms of implementing individual measures to expand sales and promoting manufacturing cost reductions suited to the special characteristics of the three businesses.

Therefore, on the date of May 7, 2007 the company conducted a structural transformation. Following an examination of the special characteristics of the three businesses of SoC, microcomputers, and discrete semiconductors, by making the most of the group's strengths here the company changed to an organizational structure which is optimal for expanding each business. The essentials of this structural transformation are detailed below.

- (a) The business of the NEC Electronics Group will be reorganized around the three core products of SoC, microcontrollers, and discrete semiconductors, and the structure for handling each of these will be termed business units.
- (b) Some of the functions for handling production will be transferred to each business unit, and their responsibility and authority for conducting business will be strengthened.
- (c) For the sales department, while continuing to maintain a sales structure by customer the company will increase the personnel for the sales promotion departments corresponding to each business unit and strengthen their product marketing capacity.
- (d) The company will increase the liquidity of human resources and increase the efficiency of business management by means of consolidating the small-scale departments which had been subdivided throughout the entire company.

Through these structural transformations the company will make it so that the flow from sales through to development and production for the NEC Electronics Group as a whole is integrated

for each product group. By creating a structure which is capable of adapting to market changes the company will realize an expansion in sales and manufacturing cost reductions for each product group and aim to increase profits.

## **5. Corporate Social Responsibility**

In June 2004, NEC Electronics created a company-wide framework for promoting corporate social responsibility (CSR) by establishing the NEC Electronics Guiding Principles, which serve as a framework for the company's management policy, and establishing the Corporate Social Responsibility Promotion Committee.

To comply with the Personal Information Protection Law which took effect in April 2005, the company reviewed its internal regulations and took steps to ensure that all personnel are familiar with the importance of protecting personal information. The company also publishes its CSR report, annual report, and environmental management report in accordance with Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

In addition to local community service activities such as the "Kanagawa Watershed Forestation Project" and beautification projects, from October 2006 the company initiated arts and crafts programs using electronics components for elementary and middle school students to help stimulate their interest in electronics.

As a responsible corporate citizen, NEC Electronics recognizes that meeting social responsibility is directly linked to sustainable growth in both enterprise and shareholder value.

### **NEC Electronics Guiding Principles**

At NEC Electronics, we are dedicated to cultivating trust with every individual and organization, including customers, shareholders, investors, trading partners and employees.

We pledge to conduct our business with integrity, beyond legal compliance, by acting responsibly as concerned corporate citizens, while providing superior semiconductor solutions based on advanced technologies.

NEC Electronics is committed to the following Guiding Principles.

#### Customer Focus

To provide optimized solutions and comprehensive support that exceed the highest expectations of our customers and earn their unwavering loyalty.

#### Ethical Business Practices

To promote free and fair market competition through transparent and ethical business practices, which are conveyed to the public through our actions and communications.

#### Community Involvement

To implement activities which contribute to both local and international communities, while respecting the history, culture, and human rights of each region.

#### Environmental Protection

To promote sustainable development by minimizing the environmental impact of our products throughout their entire life cycles.

#### Corporate Culture

To foster a corporate culture that respects individuality and encourages innovation, where all employees are proud to be part of the NEC Electronics team.

## IV. Condensed Consolidated Financial Statements

### Condensed Consolidated Statements of Operations

	Six Months Ended September 30, 2006		Six Months Ended September 30, 2007			Increase (Decrease)	Year Ended March 31, 2007	
	Million Yen	% of Net Sales	Million Yen	Million USD	% of Net Sales		Million Yen	% of Net Sales
Net sales	343,011	100.0	350,973	3,052	100.0	7,962	692,280	100.0
Cost of sales	243,635	71.0	248,751	2,163	70.9	5,116	502,086	72.5
Research and development expenses	62,858	18.3	57,685	502	16.4	(5,173)	131,751	19.0
Selling, general, and administrative expenses	43,442	12.7	42,685	371	12.2	(757)	87,000	12.6
Operating income (loss)	(6,924)	(2.0)	1,852	16	0.5	8,776	(28,557)	(4.1)
Non-operating income	8,595	2.5	4,288	37	1.2	(4,307)	10,913	1.6
Interest and dividend income	1,001		1,046	9		45	1,929	
Other	7,594		3,242	28		(4,352)	8,984	
Non-operating expense	7,274	2.1	4,309	37	1.2	(2,965)	17,731	2.6
Interest expense	422		472	4		50	698	
Other	6,852		3,837	33		(3,015)	17,033	
Income (loss) before income taxes	(5,603)	(1.6)	1,831	16	0.5	7,434	(35,375)	(5.1)
Provision for income taxes	1,558	0.5	4,343	38	1.2	2,785	5,105	0.7
Minority interest in income (loss) of consolidated subsidiaries	200	0.1	186	1	0.1	(14)	552	0.1
Equity in loss of affiliated companies	(26)	---	(334)	(3)	(0.1)	(308)	(468)	(0.1)
Net loss	(7,387)	(2.2)	(3,032)	(26)	(0.9)	4,355	(41,500)	(6.0)

#### Notes

- The consolidated financial statements of NEC Electronics are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.
- The figures for operating income (loss) shown above represent net sales minus the cost of sales, research and development, and selling, general and administrative expenses.

## Condensed Consolidated Balance Sheets

	March 31, 2007	September 30, 2007		Increase (Decrease)	September 30, 2006
	Million Yen	Million Yen	Million USD	Million Yen	Million Yen
<b>Current assets</b>	378,206	386,179	3,358	7,973	448,439
Cash and cash equivalents	185,372	191,367	1,664	5,995	221,975
Notes and accounts receivable, trade	99,543	100,312	872	769	116,685
Inventories	79,165	80,167	697	1,002	80,345
Other current assets	14,126	14,333	125	207	29,434
<b>Long-term assets</b>	317,680	301,729	2,624	(15,951)	328,598
Investments	7,154	6,899	60	(255)	6,841
Property, plant and equipment	296,231	282,456	2,456	(13,775)	308,646
Other assets	14,295	12,374	108	(1,921)	13,111
<b>Total assets</b>	695,886	687,908	5,982	(7,978)	777,037
<b>Current liabilities</b>	222,960	219,047	1,905	(3,913)	257,878
Short-term borrowings and current portion of long-term debt	20,603	18,404	160	(2,199)	13,682
Notes and accounts payable, trade	132,467	129,992	1,130	(2,475)	169,222
Other current liabilities	69,890	70,651	615	761	74,974
<b>Long-term liabilities</b>	203,023	202,513	1,761	(510)	216,904
Long-term debt	115,427	114,465	995	(962)	132,349
Accrued pension and severance costs	71,535	70,064	609	(1,471)	69,922
Other liabilities	16,061	17,984	157	1,923	14,633
<b>Minority shareholders' equity in consolidated subsidiaries</b>	4,835	5,288	46	453	4,228
<b>Shareholders' equity</b>	265,068	261,060	2,270	(4,008)	298,027
Common Stock	85,955	85,955	747	---	85,955
Additional paid-in capital	281,039	281,056	2,444	17	281,022
Accumulated deficit	(98,901)	(101,933)	(886)	(3,032)	(64,788)
Accumulated other comprehensive income (loss)	(3,017)	(4,009)	(35)	(992)	(4,155)
Treasury stock, at cost	(8)	(9)	---	(1)	(7)
<b>Total liabilities and shareholders' equity</b>	695,886	687,908	5,982	(7,978)	777,037

Interest-bearing debt	136,030	132,869	1,155	(3,161)	146,031
Equity ratio	38.1%	37.9%		(0.2%)	38.4
Debt / equity ratio	0.51 times	0.51 times		---	0.49

<b>Accumulated other comprehensive income (loss):</b>					
Foreign currency translation adjustments	10,502	9,582	83	(920)	8,605
Minimum pension liability adjustment	---	---	---	---	(14,419)
Pension liability adjustment	(15,937)	(16,057)	(140)	(120)	---
Unrealized gains (losses) on marketable securities	2,418	2,466	22	48	1,652
Unrealized gains (losses) on derivative financial instruments	---	---	---	---	7

### Notes

1. Certain amounts in the consolidated financial statements for the period ended September 30, 2006 and the year ended March 31, 2007 have been reclassified to conform to the presentation in the consolidated financial statements for the period ended September 30, 2007.



## Condensed Consolidated Statements of Change in Shareholders' Equity

Six Months Ended September 30, 2006	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total
	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen
Balance at March 31, 2006	85,955	281,014	(57,369)	(1,342)	(7)	308,251
Compensation expense for stock options		8				8
Comprehensive income (loss)						
Net income (loss)			(7,387)			(7,387)
Other comprehensive income (loss)						
Foreign currency translation adjustments				892		892
Minimum pension liability adjustment, net of tax				378		378
Unrealized gains (losses) on marketable securities, net of tax				(4,102)		(4,102)
Unrealized gains (losses) on derivative financial instruments, net of tax				19		19
Comprehensive income (loss)						(10,200)
Effect of change in fiscal year-end of certain subsidiary			(32)			(32)
Balance at September 30, 2006	85,955	281,022	(64,788)	(4,155)	(7)	298,027

Six Months Ended September 30, 2007	Common stock		Additional paid-in capital		Accumulated deficit		Accumulated other comprehensive income (loss)		Treasury stock, at cost		Total	
	Million Yen	Million USD	Million Yen	Million USD	Million Yen	Million USD	Million Yen	Million USD	Million Yen	Million USD	Million Yen	Million USD
Balance at March 31, 2007	85,955	747	281,039	2,444	(98,901)	(860)	(3,017)	(26)	(8)	---	265,068	2,305
Compensation expense for stock options			17	---							17	---
Comprehensive income (loss)												
Net income (loss)					(3,032)	(26)					(3,032)	(26)
Other comprehensive income (loss)												
Foreign currency translation adjustments							(920)	(9)			(920)	(9)
Pension liability adjustment, net of tax							(120)	---			(120)	---
Unrealized gains (losses) on marketable securities, net of tax							48	---			48	---
Comprehensive income (loss)											(4,024)	(35)
Purchase of treasury stock, at cost									(1)	---	(1)	---
Balance at September 30, 2007	85,955	747	281,056	2,444	(101,933)	(886)	(4,009)	(35)	(9)	---	261,060	2,270

Year Ended March 31, 2007	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total
	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen
Balance at March 31, 2006	85,955	281,014	(57,369)	(1,342)	(7)	308,251
Compensation expense for stock options		25				25
Comprehensive income (loss)						
Net income (loss)			(41,500)			(41,500)
Other comprehensive income (loss)						
Foreign currency translation adjustments				2,789		2,789
Minimum pension liability adjustment, net of tax				(878)		(878)
Unrealized gains (losses) on marketable securities, net of tax				(3,336)		(3,336)
Unrealized gains (losses) on derivative financial instruments, net of tax				12		12
Comprehensive income (loss)						(42,913)
Adjustment to initially apply SFAS No.158, net of tax				(262)		(262)
Effect of change in fiscal year-end of certain subsidiary			(32)			(32)
Purchase of treasury stock, at cost					(1)	(1)
Balance at March 31, 2007	85,955	281,039	(98,901)	(3,017)	(8)	265,068

## Condensed Consolidated Statements of Cash Flows

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2007		Increase (Decrease)	Year Ended March 31, 2007
	Million Yen	Million Yen	Million USD	Million Yen	Million Yen
<b>I. Cash flows from operating activities</b>					
Net loss	(7,387)	(3,032)	(26)	4,355	(41,500)
Adjustments to reconcile net loss to net cash provided by operating activities					
Depreciation and amortization	38,731	36,678	319	(2,053)	82,960
(Increase) decrease in notes and accounts receivable	(1,688)	(1,082)	(9)	606	15,985
Increase in inventories	(10,200)	(1,856)	(16)	8,344	(9,333)
Increase (decrease) in notes and accounts payable	19,551	(1,688)	(15)	(21,239)	16,171
Other, net	(4,450)	108	1	4,558	2,448
Net cash provided by operating activities	34,557	29,128	254	(5,429)	66,731
<b>II. Cash flows from investing activities</b>					
Proceeds from sales of property, plant and equipment	37,831	5,756	50	(32,075)	39,803
Additions to property, plant and equipment	(54,029)	(29,409)	(256)	24,620	(121,126)
Proceeds from sales of marketable securities	3,660	---	---	(3,660)	3,660
(Increase) decrease in loans receivable	(7,881)	---	---	7,881	511
Other, net	(693)	4,818	42	5,511	(1,345)
Net cash used in investing activities	(21,112)	(18,835)	(164)	2,277	(78,497)
Free cash flows ( I + II )	13,445	10,293	90	(3,152)	(11,766)
<b>III. Cash flows from financing activities</b>					
Net repayments of borrowings	(1,881)	(3,596)	(31)	(1,715)	(13,074)
Other, net	(1,099)	(1,272)	(11)	(173)	(2,199)
Net cash used in financing activities	(2,980)	(4,868)	(42)	(1,888)	(15,273)
Effect of exchange rate changes on cash and cash equivalents	694	570	4	(124)	1,595
Net increase (decrease) in cash and cash equivalents	11,159	5,995	52	(5,164)	(25,444)
Effect of change in fiscal year-end of certain subsidiary	(244)	---	---	244	(244)
Cash and cash equivalents at beginning of period	211,060	185,372	1,612	(25,688)	211,060
Cash and cash equivalents at end of period	221,975	191,367	1,664	(30,608)	185,372

## Condensed Consolidated Statements of Operations (Three Months)

	Three Months Ended September 30, 2006		Three Months Ended September 30, 2007			Increase (Decrease) Million Yen
	Million Yen	% of Net Sales	Million Yen	Million USD	% of Net Sales	
Net sales	177,773	100.0	177,400	1,543	100.0	(373)
Cost of sales	124,704	70.2	122,824	1,068	69.2	(1,880)
Research and development expenses	31,880	17.9	28,341	246	16.0	(3,539)
Selling, general, and administrative expenses	22,349	12.6	22,156	194	12.5	(193)
Operating income (loss)	(1,160)	(0.7)	4,079	35	2.3	5,239
Non-operating income	3,848	2.3	969	8	0.6	(2,879)
Interest and dividend income	507		551	5		44
Other	3,341		418	3		(2,923)
Non-operating expense	3,469	2.0	3,654	31	2.1	185
Interest expense	210		244	2		34
Other	3,259		3,410	29		151
Income (loss) before income taxes	(781)	(0.4)	1,394	12	0.8	2,175
Provision for income taxes	320	0.2	2,764	24	1.6	2,444
Minority interest in income (loss) of consolidated subsidiaries	167	0.1	285	3	0.2	118
Equity in loss of affiliated companies	(26)	---	(51)	---	---	(25)
Net loss	(1,294)	(0.7)	(1,706)	(15)	(1.0)	(412)

### Notes

1. The consolidated financial statements of NEC Electronics are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.
2. The figures for operating income (loss) shown above represent net sales minus the cost of sales, research and development, and selling, general and administrative expenses.

# Basis of Presenting the Consolidated Financial Statements

## 1. Scope of consolidation and equity method

Number of consolidated subsidiaries					
25 companies	Added	No change	Removed	No change	
Number of affiliate companies accounted for by the equity method					
1 company	Added	No change	Removed	No change	

## 2. Significant accounting policies

### 1. Basis of preparation of the consolidated financial statements

The consolidated financial statements of NEC Electronics are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

### 2. Method and basis of valuation of inventories

Inventories are stated at the lower of cost or market principally on a first-in, first-out basis.

### 3. Methods and basis of valuation of marketable equity securities

The Company applies the Statement of Financial Accounting Standards (“SFAS”) No. 115, “*Accounting for Certain Investments in Debt and Equity Securities.*” Marketable equity securities are reported at fair value based on market price at the end of each period. Unrealized gains and losses are included in accumulated other comprehensive income (loss), net of tax. Costs of marketable equity securities sold are calculated on the basis of the average cost of a particular security held at the time of sale.

### 4. Depreciation and amortization

Property, plant and equipment are depreciated mainly using the declining-balance method. Intangible assets are mainly amortized on a straight-line basis.

5. Basis of provision for allowance

Allowance for doubtful notes and accounts

An allowance for doubtful notes and accounts is provided based on credit loss history and an evaluation of any specific doubtful notes and accounts.

Accrued pension and severance costs

The Company applies SFAS No. 87, "*Employers' Accounting for Pensions*", and SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*".

## Segment Information

### Breakdown of Net Sales by Market Application

	Six Months Ended September 30, 2006		Six Months Ended September 30, 2007			Increase (Decrease)		Year Ended March 31, 2007	
	Million Yen	% Total	Million Yen	Million USD	% Total	Million Yen	% Change	Million Yen	% Total
Communications	53,085	15.5	37,749	328	10.8	(15,336)	(28.9)	99,641	14.4
Computing and peripherals	64,934	18.9	62,092	540	17.7	(2,842)	(4.4)	123,714	17.9
Consumer electronics	54,086	15.8	67,550	587	19.2	13,464	24.9	120,757	17.4
Automotive and industrial	52,107	15.2	55,148	480	15.7	3,041	5.8	106,097	15.3
Multi-market ICs	44,191	12.9	47,443	413	13.5	3,252	7.4	88,961	12.9
Discrete, optical, and microwave devices	59,416	17.3	64,108	557	18.3	4,692	7.9	120,563	17.4
Semiconductor total	327,819	95.6	334,090	2,905	95.2	6,271	1.9	659,733	95.3
Other	15,192	4.4	16,883	147	4.8	1,691	11.1	32,547	4.7
<b>Total</b>	<b>343,011</b>	<b>100.0</b>	<b>350,973</b>	<b>3,052</b>	<b>100.0</b>	<b>7,962</b>	<b>2.3</b>	<b>692,280</b>	<b>100.0</b>

### (Reference) Breakdown of Net Sales by Platform

In addition to reporting sales by market application, NEC Electronics also reports sales by platform.

	Six Months Ended September 30, 2006		Six Months Ended September 30, 2007			Increase (Decrease)		Year Ended March 31, 2007	
	Million Yen	% Total	Million Yen	Million USD	% Total	Million Yen	% Change	Million Yen	% Total
SoC platform	126,475	36.9	128,485	1,117	36.6	2,010	1.6	259,249	37.5
MCU platform	81,957	23.9	90,481	787	25.8	8,524	10.4	168,421	24.3
Discrete and IC	119,387	34.8	115,124	1,001	32.8	(4,263)	(3.6)	232,063	33.5
Semiconductor total	327,819	95.6	334,090	2,905	95.2	6,271	1.9	659,733	95.3
Other	15,192	4.4	16,883	147	4.8	1,691	11.1	32,547	4.7
<b>Total</b>	<b>343,011</b>	<b>100.0</b>	<b>350,973</b>	<b>3,052</b>	<b>100.0</b>	<b>7,962</b>	<b>2.3</b>	<b>692,280</b>	<b>100.0</b>

Note: System-on-Chip (SoC) Platform: application specific integrated circuits (ASIC), application specific standard products (ASSP), memory  
 Microcomputer (MCU) Platform: microcontrollers, car audio controllers  
 Components: display drivers, analog ICs, discrete, optical and microwave devices

### Breakdown of Net Sales by Region

	Six Months Ended September 30, 2006		Six Months Ended September 30, 2007			Increase (Decrease) % Change	Year Ended March 31, 2007	
	Million Yen	% of Total	Million Yen	Million USD	% of Total		Million Yen	% of Total
Japan	181,951	53.1	185,403	1,613	52.8	1.9	377,298	54.5
United States of America	36,974	10.8	30,384	264	8.7	(17.8)	67,458	9.8
Europe	42,680	12.4	48,780	424	13.9	14.3	88,908	12.8
Asia	81,406	23.7	86,406	751	24.6	6.1	158,616	22.9
<b>Total</b>	<b>343,011</b>	<b>100.0</b>	<b>350,973</b>	<b>3,052</b>	<b>100.0</b>	<b>2.3</b>	<b>692,280</b>	<b>100.0</b>

## Segment Information

### Breakdown of Profit / Loss by Region

	Six Months Ended September 30, 2006		Six Months Ended September 30, 2007			Increase (Decrease)	Year Ended March 31, 2007	
	Million Yen	% of Total	Million Yen	Million USD	% of Total		Million Yen	% of Total
Japan	(14,274)	---	(4,294)	(37)	---	9,980	(38,877)	—
United States of America	1,718	---	(113)	(1)	---	(1,831)	(1,006)	—
Europe	118	---	295	3	---	177	100	—
Asia	5,514	---	5,964	51	---	450	11,226	—
Total	(6,924)	---	1,852	16	---	8,776	(28,557)	—

## Financial Instruments

### Derivatives

Carrying amounts and estimated fair values for all derivatives and related transactions are as follows:

	March 31, 2007		September 30, 2007				September 30, 2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Derivatives transactions	Million Yen		Million Yen		Million USD		Million Yen	
Forward exchange contracts	157	157	538	538	5	5	(930)	(930)
Interest rate swap agreements	(13)	(13)	(16)	(16)	---	---	(10)	(10)

### Marketable Securities

The acquisition cost, fair value and net unrealized holding gains on marketable securities, by category, are as follows:

	March 31, 2007		September 30, 2007		September 30, 2006	
	Million Yen	Million Yen	Million Yen	Million USD	Million Yen	Million Yen
Available-for-sale equity securities						
Cost	1,933	1,933	1,933	17	1,933	1,933
Fair value	5,977	6,077	6,077	53	4,706	4,706
Net unrealized holding gains	4,064	4,144	4,144	36	2,773	2,773

## Leasing Arrangements

NEC Electronics leases certain facilities and equipment for its own use. Future minimum rental payments under non-cancelable operating leases are as follows:

	March 31, 2007		September 30, 2007		September 30, 2006	
	Million Yen	Million Yen	Million Yen	Million USD	Million Yen	Million Yen
Due within one year	24,281	23,992	23,992	209	23,201	23,201
Due after one year	50,677	42,272	42,272	368	58,131	58,131



## Stock Options

Information pertaining to stock options is not included in this report.

### Net Income (Loss) Per Share of Common Stock

Computation of basic and diluted net income (loss) per share of common stock are as follows:

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2007		Year Ended March 31, 2007
Net loss	Million Yen (7,387)	Million Yen (3,032)	Million USD (26)	Million Yen (41,500)
Number of shares	Shares	Shares		Shares
Weighted average number of common shares outstanding	123,498,915	123,498,306		123,498,823
Diluted weighted average number of common shares outstanding	123,498,915	123,498,306		123,498,823
Net loss per share of common stock	Yen	Yen	USD	Yen
Basic	(59.81)	(24.55)	(0.21)	(336.04)
Diluted	(59.81)	(24.55)	(0.21)	(336.04)

Certain stock options and convertible bonds are not included in the computation of diluted net income (loss) per share for the periods presented since the inclusion would be antidilutive. The number of shares with the potential to have a dilutive effect on net income (loss) per share in the future is as follows:

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2007	Year Ended March 31, 2007
Number of shares	Shares	Shares	Shares
Convertible bonds	11,156,100	11,156,100	11,156,100
Stock options	366,500	279,000	307,000

### Capital Expenditures and R&D Expenses

	Six Months Ended September 30, 2006	Six Months Ended September 30, 2007		Year Ended March 31, 2007
Capital expenditures	Million Yen 76,744	Million Yen 27,219	Million USD 237	Million Yen 105,865
Depreciation and amortization	38,731	36,678	319	82,960
R&D expenses	62,858	57,685	502	131,751

Note: Capital expenditures refer to the cost of additions to property, plant and equipment (excluding software).

## **Forward-Looking Statements**

The statements in this press release with respect to the plans, strategies and financial outlook of NEC Electronics and its consolidated subsidiaries (collectively "NEC Electronics") are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may differ materially from such forward-looking statements due to several important factors including, but 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, products and services in the marketplace; ability to continue to win acceptance of products and services in these highly competitive markets; and fluctuations in currency exchange rates, particularly between the yen and the U.S. dollar. Among other factors, downturn of the world economy; deteriorating financial conditions in world markets, or deterioration in domestic and overseas stock markets, may cause actual results to differ from the projected results forecast.

## **About NEC Electronics**

NEC Electronics Corporation (TSE: 6723) specializes in semiconductor products encompassing advanced technology solutions for the high-end computing and broadband networking markets, system solutions for the mobile handsets, PC peripherals, automotive and digital consumer markets, and multi-market solutions for a wide range of customer applications. NEC Electronics Corporation has 25 subsidiaries worldwide including NEC Electronics America, Inc. ([www.am.necel.com](http://www.am.necel.com)) and NEC Electronics (Europe) GmbH ([www.eu.necel.com](http://www.eu.necel.com)). For additional information about NEC Electronics worldwide, visit [www.necel.com](http://www.necel.com).

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