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**NEC Electronics Reports Financial Results for the  
 Year Ended March 31, 2008**

**KAWASAKI, Japan, May 14, 2008** — NEC Electronics Corporation (TSE: 6723) today announced consolidated financial results for the year ended March 31, 2008.

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## I. Summary of Consolidated Financial Results

	Year Ended March 31, 2007		Year Ended March 31, 2008			Increase (Decrease)	
	Billion Yen	% of Net Sales	Billion Yen	Million USD	% of Net Sales	Billion Yen	% Change
Net sales	692.3	100.0	687.7	6,877	100.0	(4.5)	(0.7)
Sales from semiconductors	659.7		653.3	6,533		(6.5)	(1.0)
Operating income (loss)	(28.6)	(4.1)	5.1	51	0.7	33.7	---
Loss before income taxes	(35.4)	(5.1)	(3.3)	(33)	(0.5)	32.1	---
Net loss	(41.5)	(6.0)	(16.0)	(160)	(2.3)	25.5	---
Net loss per share of common stock:	Yen		Yen	USD		Yen	% Change
Basic	(336.04)		(129.52)	(1.30)		206.52	---
Diluted	(336.04)		(129.52)	(1.30)		206.52	---

	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Capital expenditures	105.9	56.1	561	(49.7)	(47.0)
Depreciation and amortization	83.0	75.1	751	(7.9)	(9.5)
R&D expenses	131.8	112.3	1,123	(19.5)	(14.8)
Exchange rate (USD)	Yen 117	Yen 116			
Exchange rate (Euro)	149	161			
	March 31, 2007	March 31, 2008		Increase (Decrease)	
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Total assets	695.9	616.3	6,163	(79.6)	(11.4)
Shareholders' equity	265.1	227.1	2,271	(37.9)	(14.3)

	Persons	Persons	Persons	% Change
Number of employees	23,982	23,110		(872) (3.6)

### Notes

1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥100=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 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.



## Consolidated Financial Results for the Year Ended March 31, 2008

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

May 14, 2008

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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Date of the ordinary general shareholders' meeting : June 26, 2008

Filing date of Yukashoken Hokokusho : June 26, 2008

(Amounts are rounded to the nearest million yen)

### 1. Consolidated results for the year ended March 31, 2008

#### (1) Consolidated financial results

(% of change from previous year)

	Net Sales		Operating Income (Loss)		Loss Before Income Taxes		Net Loss	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Year ended March 31, 2008	687,745	(0.7)	5,094	---	(3,252)	---	(15,995)	---
Year ended March 31, 2007	692,280	7.2	(28,557)	---	(35,375)	---	(41,500)	---

  

	Net Loss Per Share: Basic	Net Loss Per Share: Diluted	Ratio of Net Loss to Shareholders' Equity (ROE)	Ratio of Loss Before Income Taxes to Total Assets (ROA)	Ratio of Operating Income (Loss) to Net Sales
	Yen	Yen	%	%	%
Year ended March 31, 2008	(129.52)	(129.52)	(6.5)	(0.5)	0.7
Year ended March 31, 2007	(336.04)	(336.04)	(14.5)	(4.9)	(4.1)

Reference: Equity in losses of affiliated companies:

Year ended March 31, 2008: (207) million yen

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

Note 1: Net 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
March 31, 2008	616,304	227,138	36.9	1,839.20
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 End of Year
	Million Yen	Million Yen	Million Yen	Million Yen
Year ended March 31, 2008	43,262	(37,769)	(22,985)	165,472
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	Annual Cash Dividends	Payout Ratio	Ratio of Dividends to Shareholders' Equity
	Yen	Yen	Yen	Million Yen	%	%
Year ended March 31, 2007	0.00	0.00	0.00	---	---	---
Year ended March 31, 2008	0.00	0.00	0.00	---	---	---
Year ending March 31, 2009 (forecast)	0.00	0.00	0.00		---	

### 3. Forecast of consolidated results for the year ending March 31, 2009

(% of change from previous year)

	Net Sales		Operating Income (Loss)		Income (Loss) Before Income Taxes		Net Income (Loss)		Net Income (Loss) Per Share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Six months ending September 30, 2008	335,000	(4.6)	3,000	62.0	0	---	(2,000)	---	(16.19)
Year ending March 31, 2009	685,000	(0.4)	10,000	96.3	4,000	---	0	---	0.00

### 4. Other

#### (1) Changes in significant subsidiaries for the year ended March 31, 2008 : No

(changes in specified subsidiaries resulting in changes in scope of consolidation)

#### (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. : Yes

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)

- Number of shares issued and outstanding at the end of each fiscal year  
FY2008: 123,500,000 shares      FY2007: 123,500,000 shares
- Number of treasury stock at the end of each fiscal year  
FY2008: 2,039 shares      FY2007: 1,445 shares
- Average number of shares issued and outstanding in each fiscal year  
FY2008: 123,498,165 shares      FY2007: 123,498,823 shares

**(Reference) Non-consolidated results for the year ended March 31, 2008****(1) Non-consolidated financial results** (% of change from previous year)

	Net Sales		Operating Loss		Ordinary Loss		Net Loss	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Year ended March 31, 2008	588,999	(1.2)	(26,801)	---	(29,505)	---	(28,417)	---
Year ended March 31, 2007	596,141	17.6	(49,234)	---	(55,192)	---	(77,521)	---

	Net Loss Per Share: Basic	Net Loss Per Share: Diluted
	Yen	Yen
Year ended March 31, 2008	(230.10)	---
Year ended March 31, 2007	(627.71)	---

**(2) Non-consolidated financial position**

	Total Assets	Net Assets	Net Assets to Total Assets	Net Assets Per Share
	Million Yen	Million Yen	%	Yen
March 31, 2008	508,282	237,765	46.8	1,924.78
March 31, 2007	553,904	266,162	48.0	2,154.97

Reference: Shareholders' equity at the end of the year ended March 31, 2008: 237,706 million yen  
Shareholders' equity at the end of the year ended March 31, 2007: 266,136 million yen

**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 Year Ended March 31, 2008

For the fiscal year ended March 31, 2008, the global economy had a strong showing in the first half of the year, which turned to stagnation in the second half due to escalating prices for resources such as oil, and volatile fluctuations in exchange rates, in addition to chaos in the financial markets caused by the subprime mortgage crisis in the United States.

The U.S. economy gradually deteriorated throughout the period, capped by an employment adjustment at the end, and the European economy slowed down in the second half of the year as well despite a strong start. While the Asian economy maintained strong growth, falling stock prices in stock markets there suggested that the Asian economy was also slumping in the second half of the year. In light of these global economic conditions, the Japanese economy, with its high dependency on exported goods and imported resources, saw business confidence slip in the second half of the year and growing uncertainty about future prospects for the economy.

After the semiconductor market started the year with slow, yet solid growth, the shipment growth rate declined overall due to poor holiday sales and falling prices for memory that accompanied the decelerating worldwide economy. Although it was expected that demand would grow in the year as is typical before the Olympics, there was no significant increase in demand, leading to a poor business climate.

#### 2. Summary of Consolidated Financial Results

	Year Ended March 31, 2007	Year Ended March 31, 2008		Increase (Decrease)	
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Net sales	692.3	687.7	6,877	(4.5)	(0.7)
Operating income (loss)	(28.6)	5.1	51	33.7	---
Loss before income taxes	(35.4)	(3.3)	(33)	32.1	---
Net loss	(41.5)	(16.0)	(160)	25.5	---
	Yen	Yen			
Exchange rate (USD)	117	116		---	---
Exchange rate (Euro)	149	161		---	---

Consolidated net sales for the fiscal year ended March 31, 2008 were 687.7 billion yen, a decrease of 4.5 billion yen, or 0.7%, from the previous fiscal year. During this period, there was a large increase in the sales of semiconductors for game consoles and an increase in semiconductors for digital television sets as well, resulting in a marked increase in sales for

Consumer Electronics year on year. In addition, healthy microcontroller sales led to increases in Automotive and Industrial as well as Multi-market ICs. Nevertheless, a decrease in LCD driver ICs and system memory for mobile phones caused a sharp fall in sales in the Communications year on year. As well, a drop in semiconductors for printers led to a reduction in sales in Computing and Peripherals year on year, resulting in the 0.7% decline in sales overall.

Consolidated operating income was 5.1 billion yen, an improvement of 33.7 billion yen from the previous fiscal year. In addition to an improvement in the sales cost ratio, factors behind this change included measures to cut fixed costs including improved R&D efficiency.

Consolidated loss before income taxes was 3.3 billion yen, an improvement of 32.1 billion over the previous fiscal year, and the consolidated net loss was 16.0 billion yen as a result of recording a valuation allowance for deferred tax assets of a U.S. subsidiary, an improvement of 25.5 billion yen year on year.

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

	Year Ended March 31, 2007	Year Ended March 31, 2008		Increase (Decrease)	
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Communications	99.6	70.4	704	(29.3)	(29.4)
Computing and peripherals	123.7	119.4	1,194	(4.4)	(3.5)
Consumer electronics	120.8	134.5	1,345	13.8	11.4
Automotive and industrial	106.1	113.3	1,133	7.2	6.8
Multi-market ICs	89.0	89.6	896	0.7	0.8
Discrete, optical, and microwave devices	120.6	126.1	1,261	5.5	4.6
Semiconductor total	659.7	653.3	6,533	(6.5)	(1.0)
Other	32.5	34.5	344	1.9	5.9
Total	692.3	687.7	6,877	(4.5)	(0.7)

#### Communications

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

**Net sales** 70.4 billion yen (Down 29.3 billion yen, 29.4% year on year)

Sales of semiconductors for mobile phones decreased year on year as a result of a sharp drop in sales of LCD driver ICs and memory, which was brought about by lower unit sales as well as price declines.

### Computing and Peripherals

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

Net sales 119.4 billion yen (Down 4.4 billion yen, 3.5% year on year)

Sales of semiconductors for PC peripherals fell year on year. While sales of LCD driver ICs for LCD televisions and computer monitors were boosted by an increase in market demand, this was outweighed by a large drop in sales of semiconductors for printers, resulting in a net decrease.

### Consumer Electronics

Products Semiconductors for digital AV equipment and game consoles.

Net sales 134.5 billion yen (Up 13.8 billion yen, 11.4% year on year)

Although sales of semiconductors for digital still cameras declined year on year, sales of semiconductors for game consoles and digital televisions increased, and the ramp up of semiconductors for blue laser DVD drives helped drive strong year-on-year growth.

### Automotive and Industrial

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

Net sales 113.3 billion yen (Up 7.2 billion yen, 6.8% year on year)

Although sales of semiconductors for industrial equipment declined, sales of automotive semiconductors increased significantly year on year as a greater number of semiconductors are used in vehicles, and the company's share of the automotive microcontroller market in Japan and Europe increased.

### Multi-market ICs

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

Net sales 89.6 billion yen (Up 0.7 billion yen, 0.8% year on year)

Sales of general purpose microcontrollers increased year on year as a result of an expanded lineup of the company's All Flash™ microcontrollers and subsequent increase in market share.



### 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** 126.1 billion yen (Up 5.5 billion yen, 4.6% year on year)

Sales of discrete semiconductors for personal computers and automotive applications increased year on year. Additionally, sales of compound semiconductors, primarily for broadcasting equipment, increased year on year.

### Other

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

**Net sales** 34.5 billion yen (Up 1.9 billion yen, 5.9% year on year)

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

## **4. Geographical Segment Analysis**

	Year Ended March 31, 2007		Year Ended March 31, 2008		Increase (Decrease)	
	Billion Yen	Million USD	Billion Yen	Million USD	Billion Yen	% Change
Japan	377.3	3,702	370.2	3,702	(7.1)	(1.9)
United States of America	67.5	583	58.3	583	(9.2)	(13.6)
Europe	88.9	959	95.9	959	7.0	7.9
Asia	158.6	1,633	163.3	1,633	4.7	3.0
Total	692.3	6,877	687.7	6,877	(4.5)	(0.7)

### **Note:**

1. Geographic areas are based on the country of location of the company other than Japan and the United States of America:

Europe: Germany, Ireland, and the United Kingdom

Asia: China, Singapore, Taiwan, Malaysia, South Korea, and Indonesia

### Japan

**Net sales** 370.2 billion yen (Down 7.1 billion yen, 1.9% year on year)

Sales of game console chips grew significantly, but sales of LCD driver ICs for mobile handsets, and semiconductors for digital cameras and printers decreased.

### United States of America

Net sales 58.3 billion yen (Down 9.2 billion yen, 13.6% year on year)

Sales of semiconductors for cable equipment increased, but sales of system memory for mobile handsets and semiconductors for game consoles decreased.

### Europe

Net sales 95.9 billion yen (Up 7.0 billion yen, 7.9% year on year)

Sales of automotive semiconductors and general purpose microcontrollers increased. The majority of sales in Europe for the fiscal years ended in 2007 and 2008 were sales of NEC Electronics' subsidiary in Germany.

### Asia

Net sales 163.3 billion yen (Up 4.7 billion yen, 3.0% year on year)

Sales of general purpose microcontrollers, as well as discrete devices for battery-operated equipment increased. Sales of NEC Electronics' subsidiaries in China for the fiscal years ended in 2007 and 2008 were 98.3 billion and 93.1 billion yen, respectively.

## **5. Consolidated Forecasts for the Fiscal Year Ending March 31, 2009**

The general slowdown in the global economy in the latter half of 2007 has made it increasingly difficult to gauge the future of the semiconductor market. The rapid rise of the yen, and the spike in prices for crude oil and other resources have further complicated the business environment in which NEC Electronics operates.

In light of this situation, the NEC Electronics Group's first priority is to implement the management policies announced in February 2007, to create a solid foundation for business that can deliver profitability in the face of such an adverse economic climate.

Consolidated net sales for the fiscal year are expected to remain in line with the year just ended, at approximately 685.0 billion yen, with sales from semiconductors accounting for approximately 650.0 billion yen. Although semiconductor shipment levels are expected to increase, the impact of a strong yen will have an adverse effect on sales growth.

Consolidated operating income is expected to be 10.0 billion yen despite the dilutive effect on profit of a strong yen, due to higher manufacturing volumes, improvements in sales cost ratio, reduction in fixed costs, and improved management efficiency.

Consolidated income before income taxes is expected to be 4.0 billion yen, and consolidated net profit is expected to be zero billion yen.

	Billion Yen	Million USD	Year on Year
Net sales	685.0	6,850	(0.4)%
Sales from semiconductors	650.0	6,500	(0.5)%
Operating income	10.0	100	96.3 %
Income before income taxes	4.0	40	---
Net income	0.0	0	---

The consolidated financial forecasts for the fiscal year are calculated at the rate of 100 yen per USD, and 160 yen per Euro. 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 important factors.

## (2) Financial Condition

### 1. Total Assets and Shareholders' Equity

	March 31, 2007		March 31, 2008		Increase (Decrease)
	Billion Yen	Million USD	Billion Yen	Million USD	Billion Yen
Total assets	695.9	616.3	616.3	616.3	(79.6)
Shareholders' equity	265.1	227.1	227.1	227.1	(37.9)
Equity ratio	38.1%	36.9%			(1.2%)
Shareholders' equity per share	2,146 yen	1,839 yen	1,839 yen	18.39 USD	(307) yen
Interest-bearing debt	136.0	116.6	116.6	1,166	(19.4)

Total assets at March 31, 2008 totaled 616.3 billion yen, a 79.6 billion yen decrease from March 31, 2007. This was mainly due to a 37.1 billion yen decrease in fixed assets due to lower capital expenditures, and depreciation and others, as well as a 19.9 billion yen decrease in cash and cash equivalents for the repayment of debt, and a significant decline in shareholder's equity from consolidated net losses.

Compared to March 31, 2007, shareholders' equity was 37.9 billion yen lower at 227.1 billion yen, due to consolidated net loss in the amount of 16.0 billion yen and losses in accumulated other comprehensive income (loss) in the amount of 22.0 billion yen. Shareholders' equity ratio decreased by 1.2 points from March 31, 2007 as a result of the decrease in shareholders' equity.

Interest-bearing debt totaled 116.6 billion yen, decreasing 19.4 billion yen from March 31, 2007 mainly due to the repayment of debt.

## 2. Cash Flows

	Year Ended March 31, 2007	Year Ended March 31, 2008		Increase (Decrease)
	Billion Yen	Billion Yen	Million USD	Billion Yen
Net cash provided by operating activities	66.7	43.3	433	(23.5)
Net cash used in investing activities	(78.5)	(37.8)	(378)	40.7
Free cash flows	(11.8)	5.5	55	17.3
Net cash used in financing activities	(15.3)	(23.0)	(230)	(7.7)
Effect of exchange rate changes on cash and cash equivalents	1.6	(2.4)	(24)	(4.0)
Net decrease in cash and cash equivalents	(25.4)	(19.9)	(199)	5.5
Cash and cash equivalents at beginning of year	211.1	185.4	1,854	(25.7)
Cash and cash equivalents at end of year	185.4	165.5	1,655	(19.9)

Net cash provided by operating activities was 43.3 billion yen despite posting consolidated net losses, due to depreciation and amortization in the amount of 75.1 billion yen.

Despite proceeds from the transfer of the photomask business and assets, payments for property, plant, and equipment in the amount of 62.2 billion yen brought the total net cash used in investing activities to 37.8 billion yen.

The foregoing resulted in positive free cash flows of 5.5 billion yen.

Financing activities used net cash in the amount of 23.0 billion yen for the repayment of debt.

As a result of the above, combined with the impact from currency fluctuations, cash and cash equivalents totaled 165.5 billion yen, a net decrease of 19.9 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 and non-consolidated income 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."

For the year ended March 31, 2008, the company posted net losses on both consolidated and non-consolidated bases. Accordingly, it suspended payment of dividends for this period.

Although NEC Electronics aims to restore net profit for the year ending March 31, 2009, net income levels are not expected to be high enough to reinstate dividend payments. Therefore the company intends to forgo interim and year-end dividend payments but 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**

Although the NEC Electronics Group carefully monitors 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, as well as lower fab utilization rates which may in turn result in diminished cost ratios, ultimately leading to 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 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. 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.

#### **6. 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, the Group may be forced to recognize an impairment in their value.

#### **7. Information Management**

The NEC Electronics Group has in its possession a great deal of confidential information relating to its business activities. While such confidential information is managed according to internal regulations specifically designed for that purpose, there is always the risk that information may leak due to unforeseen circumstances. Should such an event occur, there is a likelihood that customer confidence and social trust would deteriorate, resulting in a negative effect on the Group's performance.

## **8. Environmental Factors**

The NEC Electronics Group strives to decrease its environmental impact in accordance with the “NEC Electronics Environmental Policy,” with respect to diversified and complex environmental issues such as global warming, air pollution, industrial waste, tightening of hazardous substance regulation, and soil pollution. There is the possibility that, regardless of whether there is negligence in its pursuit of business activities, NEC Electronics Group could bear legal or social responsibility for environmental problems. Should such an event occur, the burden of expenses for resolution could potentially be high, and the Group could suffer an erosion in social trust.

## **9. 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 resolved by settlement the class action civil antitrust lawsuits from direct purchasers (customers who had directly purchased DRAM from the NEC Electronics Group in the past), but it 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 (including the SRAM 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 in the SRAM industry have been brought against NEC Electronics America and NEC Electronics Corporation in the United States and elsewhere, and numerous class action civil antitrust lawsuits seeking damages for alleged antitrust violations in the TFT-LCD industry 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, in consultation with NEC Corporation, 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. <sup>1</sup>  
NEC Fukui, Ltd. <sup>2</sup>  
NEC Kansai, Ltd. <sup>2</sup>  
NEC Yamaguchi, Ltd. <sup>3</sup>  
NEC Kyushu, Ltd. <sup>3</sup>  
NEC Semicon Package Solutions, Ltd. <sup>3</sup>  
NEC Fabserve, Ltd. <sup>4</sup>  
NEC Electronics America, Inc. <sup>5</sup>  
NEC Semiconductors Ireland Limited <sup>6</sup>  
NEC Semiconductors Singapore Pte. Ltd.  
NEC Semiconductors (Malaysia) Sdn. Bhd.  
P.T. NEC Semiconductors Indonesia <sup>7</sup>  
Shougang NEC Electronics Co., Ltd.

## Design Companies

NEC Micro Systems, Ltd.

## Sales Companies

NEC Electronics (Europe) GmbH  
NEC Electronics (UK) Limited <sup>8</sup>  
NEC Electronics Taiwan, Ltd.  
NEC Electronics Singapore Pte. Ltd.  
NEC Electronics (China) Co., Ltd. <sup>9</sup>  
NEC Electronics Hong Kong Limited  
NEC Electronics Shanghai, Ltd.  
NEC Electronics Korea Limited  
NEC Compound Semiconductor Devices Hong Kong Limited <sup>10</sup>

## Other

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

Note 1: NEC Yamagata, Ltd. changed its company name to NEC Semiconductors Yamagata, Ltd. on April 1, 2008.

Note 2: NEC Kansai, Ltd. merged with NEC Fukui, Ltd. on April 1, 2008. The name of the new company is NEC Semiconductors Kansai, Ltd.

Note 3: NEC Kyushu, Ltd. merged with NEC Yamaguchi, Ltd. and NEC Semicon Package Solutions, Ltd. on April 1, 2008. The name of the new company is NEC Semiconductors Kyushu Yamaguchi, Ltd.

Note 4: As agreed on February 27, 2007 with Dai Nippon Printing Co., Ltd., NEC Fabserve, Ltd. spun off its photomask business and established a new subsidiary company on May 1, 2007, and transferred the entirety of its stock to the new company on June 1, 2007.

Note 5: NEC Electronics America, Inc. handles both manufacturing and sales.

Note 6: NEC Semiconductors Ireland Limited ceased manufacturing and shipping activities in September, 2006.

Note 7: P.T. NEC Semiconductors Indonesia ceased manufacturing and shipping activities in October, 2007.

Note 8: NEC Electronics (UK) Limited is an inactive company.

Note 9: NEC Electronics (China) Co., Ltd. conducts sales and design activities.

Note 10: 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**

Aiming to be a leading global semiconductor company, NEC Electronics Group is working to increase its business value and share value based on the following principles:

The focus of business on the three product areas of

- SoC (system on chip), microcomputers, and discrete & IC in the sectors of automobiles, industrial devices and consumer devices.
- Utilization of the close relationship between development and production to create new capacity and value.
- An integrated policy of responsibility from development through production and support to earn customer trust.
- Development and expansion of the product groups and areas to create new value and earn social trust.

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

NEC Electronics believes that in order to improve return on assets (ROA) and return on equity (ROE), it is of the utmost importance to increase the ratio of profitability to sales, and therefore strives to improve consolidated operating profit levels to double digits as quickly as possible. In February 2007, the company announced management policies designed to make its business structure more robust and help it to achieve profits despite the downturn in the semiconductor market, and 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) Consistent business administration of development and production for each product group**

There are three main areas of products at the NEC Electronics Group: SoC, microcomputers and discrete & IC. In the past, NEC Electronics used an organizational structure based on function. Beginning in the period under review, however, business units were created for each

of these three product groups to strengthen the control over profits. Production subsidiaries have similarly been reorganized along these lines as well. This product-based organization system allows increased competitiveness in cost, quality and delivery because the process is made uniform from development through production and support. The close relationship between development and production has brought steady results such as the achievement of extremely short turnaround time for production of cutting edge LSIs as well as increased yields. The company will continue working to strengthen these areas

## **2) Stronger product competitiveness through a focus on core fields**

The NEC Electronics Group is positioned in its core areas of automobiles, industry and consumer products. In the automotive and industry areas, providing high reliability (zero defects) and long-term stable supply are critical for semiconductors. In the area of consumer products, technologies such as image processing and low power consumption are required of semiconductors. The NEC Electronics Group's background is such that it is well equipped to handle these issues.

The NEC Electronics Group has a favorable business relationship with customers who lead powerful industries around the world, and is working to further strengthen its competitiveness by focusing development resources on the areas of automobiles, industry and consumer products.

## **3) A trustworthy company to customers and society**

For the NEC Electronics Group, continuity in areas such as development support capacity, upholding development delivery scheduling, maintaining/improving volume product quality, immediate response to defects, and stable product supply are recognized by customers over the long term, and this has a value also in maintaining a difference from our competitors. Enhancing competitiveness by maintaining that difference to provide value that customers want is how NEC Electronics earns trust from customers. As people increasingly demand global environment protection as well as safe living and social circumstances, semiconductors with lower power consumption and high quality—a strong point of NEC Electronics Group—will contribute to our development, and our continued pursuit of further development will lead to social trust.

The NEC Electronics Group aims to be a leading semiconductor global company, and will continue operations into the future as a company that responds to customer trust and social trust.

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

The NEC Electronics Group is well prepared to continue operations into the future even given the difficult business conditions seen in the second half of the period under review, and is addressing the following issues to expand revenue.

##### **1) Acceleration of cost restructuring under the rapid rise of the yen**

The NEC Electronics Group supplies semiconductors to a wide range of customers throughout the world, and the ratio of foreign currency involved in sales rises each year. As the close relationship between development and production is a source of its competitiveness, the Group's wafer processing facilities are based mainly in Japan, close to the semiconductor development bases, resulting in the increase in the yen-based percentage of overall costs.

With respect to the rapid rise of the yen, while the yen-based costs remain constant, a decrease in sales when converted in the fluctuating exchange market may directly result in a decrease of the gross profitability.

To decrease the difference in the sales and costs and to alleviate the effect due to foreign exchange fluctuation, the Group is accelerating the procurement of materials in foreign currency and the transition of semiconductor test and assembly bases overseas. Consolidation of production lines and improvements in production efficiency by expanding the scale of individual production lines have progressed at the wafer process bases as well, and by accelerating this, the Group is pushing the restructuring of its cost structure, to retain a high competitiveness against other rival companies around the world even if fixed expenditures such as labor, depreciation and power usage are yen-based.

##### **2) Balancing strong production and improved breakeven point control through centralized development resources**

By setting targets for improved returns not dependent on sales and greatly reducing fixed expenses during this period, the NEC Electronics Group focused on lowering the breakeven point, achieving a consolidated sales profit, the initial goal.

Included in the fixed expenses, however, are R&D expenses for developing products targeted for future growth, and the issue of how to balance investments for the future and base expense reductions is an important management issue.

Having been through the experience of future investments burdening the company and worsening results, the NEC Electronics Group is planning to control the ratio of R&D costs to sales to a constant number for the time being, and simultaneously produce strongly competitive products to generate a boost in sales and profits, with a target of nurturing product groups to at least 10 percent of the world market share, then move to 20 percent, and finally take top place in the world. Based on this, the company will make further progress with selection and

concentration of development resource investment, focusing development personnel and expenses in products with promise in competitiveness and growth.

In this process, it will be critical to determine the future potential of products as early in the process as possible, however due to the large time gap from product development until volume production sales reach their peak, it is difficult to make a determination at an early stage. Despite these difficulties, the NEC Electronics Group is working on selection and concentration of resource investment in the product development stage, and which the company is confident that such effort is the only way to balance strong product manufacturing and better management of the breakeven point.

### **3) Expansion of overseas sales ratio**

Among semiconductor markets around the globe, Japan is a top consumer. However, in recent years, the Asian market outside of Japan and particularly the Chinese market have expanded rapidly, and it is not an overstating the case that the way in which the market share of sales in the Chinese and Asian markets is increased is what will determine growth for semiconductor businesses.

With such changes in the market environment, the NEC Electronics Group has moved forward with its sales base infrastructure in the Chinese and Asian markets, and has greatly increased its engineering staff to support local customers. However, the active demand for semiconductors in the Chinese and Asian markets means that there are many situations where the standards for performance, function and price differ from those in Japan, Europe and the US. The situation is that, currently the NEC Electronics Group does not have enough product groups optimally suited for the Chinese and Asian markets.

By moving forward with our sales base infrastructure geared for the Chinese and Asian markets, further increasing our sales and sales engineering staff, and strengthening development of products in line with local demand, the Group will increase its sales market share in the Chinese and Asian markets with their continued rapid growth, and quickly achieve overseas sales ratio of at least 50 percent for the group.

## **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

	Year Ended March 31, 2007		Year Ended March 31, 2008			Increase (Decrease)
	Million Yen	% of Net Sales	Million Yen	Million USD	% of Net Sales	Million Yen
Net sales	692,280	100.0	687,745	6,877	100.0	(4,535)
Cost of sales	502,086	72.5	485,683	4,857	70.6	(16,403)
Research and development	131,751	19.0	112,300	1,123	16.3	(19,451)
Selling, general, and administrative expenses	87,000	12.6	84,668	846	12.4	(2,332)
Operating income (loss)	(28,557)	(4.1)	5,094	51	0.7	33,651
Non-operating income	10,913	1.6	6,053	61	0.9	(4,860)
Interest and dividends income	1,929		2,152	22		223
Other	8,984		3,901	39		(5,083)
Non-operating expense	17,731	2.6	14,399	145	2.1	(3,332)
Interest expense	698		741	7		43
Other	17,033		13,658	138		(3,375)
Loss before income taxes	(35,375)	(5.1)	(3,252)	(33)	(0.5)	32,123
Provision for income taxes	5,105	0.7	12,285	122	1.8	7,180
Minority interest in income (loss) of consolidated subsidiaries	552	0.1	251	3	0.0	(301)
Equity in loss of affiliated companies	(468)	(0.1)	(207)	(2)	(0.0)	261
Net Loss	(41,500)	(6.0)	(15,995)	(160)	(2.3)	25,505

#### 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.

## Condensed Consolidated Balance Sheets

	March 31, 2007	March 31, 2008		Increase (Decrease)
	Million Yen	Million Yen	Million USD	Million Yen
<b>Current assets</b>	378,206	344,115	3,441	(34,091)
Cash and cash equivalents	185,372	165,472	1,655	(19,900)
Notes and accounts receivable, trade	99,543	96,352	964	(3,191)
Inventories	79,165	75,839	758	(3,326)
Other current assets	14,126	6,452	64	(7,674)
<b>Long-term assets</b>	317,680	272,189	2,722	(45,491)
Investments	7,154	4,565	46	(2,589)
Property, plant and equipment	296,231	259,151	2,592	(37,080)
Other assets	14,295	8,473	84	(5,822)
<b>Total assets</b>	695,886	616,304	6,163	(79,582)
<b>Current liabilities</b>	222,960	179,715	1,797	(43,245)
Short-term borrowings and current portion of long-term debt	20,603	2,394	24	(18,209)
Notes and accounts payable, trade	132,467	107,311	1,073	(25,156)
Other current liabilities	69,890	70,010	700	120
<b>Long-term liabilities</b>	203,023	204,275	2,043	1,252
Long-term debt	115,427	114,207	1,142	(1,220)
Accrued pension and severance costs	71,535	74,460	745	2,925
Other	16,061	15,608	156	(453)
<b>Minority shareholders' equity in consolidated subsidiaries</b>	4,835	5,176	52	341
<b>Shareholders' equity</b>	265,068	227,138	2,271	(37,930)
Common stock	85,955	85,955	860	---
Additional paid-in capital	281,039	281,073	2,810	34
Accumulated deficit	(98,901)	(114,896)	(1,149)	(15,995)
Accumulated other comprehensive income (loss)	(3,017)	(24,984)	(250)	(21,967)
Treasury stock	(8)	(10)	(0)	(2)
<b>Total liabilities and shareholders' equity</b>	695,886	616,304	6,163	(79,582)
<b>Interest-bearing debt</b>	136,030	116,601	1,166	(19,429)
<b>Equity ratio</b>	38.1%	36.9%		(1.2%)
<b>Debt / equity ratio</b>	0.51 times	0.51 times		---
<b>Accumulated other comprehensive income (loss):</b>				
Foreign currency translation adjustments	10,502	1,913	19	(8,589)
Pension liability adjustment	(15,937)	(27,737)	(277)	(11,800)
Unrealized gains (losses) on marketable securities	2,418	840	8	(1,578)

### Note

- Certain amounts in the consolidated financial statements for the period ended March 31, 2007 have been reclassified to conform to the presentation in the consolidated financial statements for the period ended March 31, 2008.



## Condensed Consolidated Statements of Change in Shareholders' Equity

Year Ended March 31, 2007	Common stock		Additional paid-in capital		Accumulated deficit		Accumulated other comprehensive income (loss)		Treasury stock		Total	
	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen
Balance at beginning of year	85,955	281,014			(57,369)		(1,342)		(7)			308,251
Compensation expense for stock options		25										25
Comprehensive income (loss)												
Net loss					(41,500)							(41,500)
Other comprehensive income (loss), net of tax												
Foreign currency translation adjustments							2,789					2,789
Minimum pension liability adjustment							(878)					(878)
Unrealized gains (losses) on marketable securities							(3,336)					(3,336)
Unrealized gains (losses) on derivative financial instruments							12					12
Comprehensive income (loss)												(42,913)
Adjustment for implementation of SFAS 158, net of tax							(262)					(262)
Effect of change in fiscal year-end of a subsidiary					(32)							(32)
Purchase of treasury stock, at cost									(1)			(1)
Balance at end of the period	85,955	281,039			(98,901)		(3,017)		(8)			265,068

Year Ended March 31, 2008	Common stock		Additional paid-in capital		Accumulated deficit		Accumulated other comprehensive income (loss)		Treasury stock		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 beginning of year	85,955	860	281,039	2,810	(98,901)	(989)	(3,017)	(30)	(8)	(0)	265,068	2,651
Compensation expense for stock options			34	0							34	0
Comprehensive income (loss)												
Net loss					(15,995)	(160)					(15,995)	(160)
Other comprehensive income (loss), net of tax												
Foreign currency translation adjustments							(8,589)	(86)			(8,589)	(86)
Pension liability adjustment							(11,800)	(118)			(11,800)	(118)
Unrealized gains (losses) on marketable securities							(1,578)	(16)			(1,578)	(16)
Comprehensive income (loss)											(37,962)	(380)
Purchase of treasury stock, at cost									(2)	(0)	(2)	(0)
Balance at end of the period	85,955	860	281,073	2,810	(114,896)	(1,149)	(24,984)	(250)	(10)	(0)	227,138	2,271

## Condensed Consolidated Statements of Cash Flows

	Year Ended	Year Ended		Increase
	March 31, 2007	March 31, 2008		(Decrease)
	Million Yen	Million Yen	Million USD	Million Yen
<b>I. Cash flows from operating activities</b>				
Net loss	(41,500)	(15,995)	(160)	25,505
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation and amortization	82,960	75,067	751	(7,893)
(Increase) decrease in notes and accounts receivable	15,985	(3,710)	(37)	(19,695)
(Increase) decrease in inventories	(9,333)	856	9	10,189
Increase (decrease) in notes and accounts payable	16,171	(17,309)	(173)	(33,480)
Other, net	2,448	4,353	43	1,905
Net cash provided by operating activities	66,731	43,262	433	(23,469)
<b>II. Cash flows from investing activities</b>				
Proceeds from sales of property, plant and equipment	39,803	20,653	207	(19,150)
Additions to property, plant and equipment	(121,126)	(62,188)	(622)	58,938
Proceeds from sales of marketable securities	3,660	---	---	(3,660)
(Increase) decrease in loans receivable	511	(2)	(0)	(513)
Other, net	(1,345)	3,768	37	5,113
Net cash used in investing activities	(78,497)	(37,769)	(378)	40,728
Free cash flows ( I + II )	(11,766)	5,493	55	17,259
<b>III. Cash flows from financing activities</b>				
Net repayments of borrowings	(13,074)	(20,456)	(205)	(7,382)
Other, net	(2,199)	(2,529)	(25)	(330)
Net cash used in financing activities	(15,273)	(22,985)	(230)	(7,712)
Effect of exchange rate changes on cash and cash equivalents	1,595	(2,408)	(24)	(4,003)
Net decrease in cash and cash equivalents	(25,444)	(19,900)	(199)	5,544
Effect of change in fiscal year-end of certain subsidiary	(244)	---	---	244
Cash and cash equivalents at beginning of year	211,060	185,372	1,854	(25,688)
Cash and cash equivalents at end of year	185,372	165,472	1,655	(19,900)

## Condensed Consolidated Statements of Operations (Three Months)

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2008			Increase (Decrease)
	Million Yen	% of Net Sales	Million Yen	Million USD	% of Net Sales	Million Yen
Net sales	171,390	100.0	165,994	1,660	100.0	(5,396)
Cost of sales	131,017	76.4	120,497	1,205	72.6	(10,520)
Research and development	35,180	20.5	24,594	246	14.8	(10,586)
Selling, general, and administrative expenses	22,993	13.5	20,663	207	12.5	(2,330)
Operating income (loss)	(17,800)	(10.4)	240	2	0.1	18,040
Non-operating income	1,014	0.6	874	9	0.5	(140)
Interest and dividends income	439		531	5		92
Other	575		343	4		(232)
Non-operating expense	9,496	5.5	7,841	78	4.7	(1,655)
Interest expense	53		117	1		64
Other	9,443		7,724	77		(1,719)
Loss before income taxes	(26,282)	(15.3)	(6,727)	(67)	(4.1)	19,555
Provision for income taxes	1,831	1.1	5,426	54	3.2	3,595
Minority interest in income (loss) of consolidated subsidiaries	168	0.1	5	0	0.0	(163)
Equity in income (loss) of affiliated companies	(78)	(0.0)	131	1	0.1	209
Net loss	(28,359)	(16.5)	(12,027)	(120)	(7.2)	16,332

### 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
Number of affiliate companies accounted for by the equity method	1 company

## 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 classified as available for sale 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*."

6. Accounting change

In the fiscal year beginning April 1, 2007, the Company adopted FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement No. 109, Accounting for Income Taxes*."

## Segment Information

### Breakdown of Net Sales by Market Application

	Year Ended March 31, 2007		Year Ended March 31, 2008			Increase (Decrease)	
	Million Yen	% Total	Million Yen	Million USD	% Total	Million Yen	% Change
Communications	99,641	14.4	70,350	704	10.2	(29,291)	(29.4)
Computing and peripherals	123,714	17.9	119,352	1,194	17.4	(4,362)	(3.5)
Consumer electronics	120,757	17.4	134,546	1,345	19.6	13,789	11.4
Automotive and industrial	106,097	15.3	113,320	1,133	16.5	7,223	6.8
Multi-market ICs	88,961	12.9	89,643	896	13.0	682	0.8
Discrete, optical, and microwave devices	120,563	17.4	126,064	1,261	18.3	5,501	4.6
Semiconductor total	659,733	95.3	653,275	6,533	95.0	(6,458)	(1.0)
Other	32,547	4.7	34,470	344	5.0	1,923	5.9
<b>Total</b>	<b>692,280</b>	<b>100.0</b>	<b>687,745</b>	<b>6,877</b>	<b>100.0</b>	<b>(4,535)</b>	<b>(0.7)</b>

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

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

	Year Ended March 31, 2007		Year Ended March 31, 2008			Increase (Decrease)	
	Million Yen	% Total	Million Yen	Million USD	% Total	Million Yen	% Change
SoC platform	259,249	37.5	251,295	2,513	36.5	(7,954)	(3.1)
MCU platform	168,421	24.3	180,113	1,801	26.2	11,692	6.9
Discrete and IC	232,063	33.5	221,867	2,219	32.3	(10,196)	(4.4)
Semiconductor total	659,733	95.3	653,275	6,533	95.0	(6,458)	(1.0)
Other	32,547	4.7	34,470	344	5.0	1,923	5.9
<b>Total</b>	<b>692,280</b>	<b>100.0</b>	<b>687,745</b>	<b>6,877</b>	<b>100.0</b>	<b>(4,535)</b>	<b>(0.7)</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

Discrete & IC: display drivers, analog ICs, discrete, optical and microwave devices

## Segment Information

### Breakdown of Net Sales by Region

	Year Ended March 31, 2007		Year Ended March 31, 2008			Increase (Decrease)
	Million Yen	% of Total	Million Yen	Million USD	% of Total	% Change
Japan	377,298	54.5	370,238	3,702	53.8	(1.9)
United States of America	67,458	9.8	58,256	583	8.5	(13.6)
Europe	88,908	12.8	95,936	959	14.0	7.9
Asia	158,616	22.9	163,315	1,633	23.7	3.0
Total	692,280	100.0	687,745	6,877	100.0	(0.7)

### Breakdown of Profit / Loss by Region

	Year Ended March 31, 2007		Year Ended March 31, 2008			Increase (Decrease)
	Million Yen	% of Total	Million Yen	Million USD	% of Total	Million Yen
Japan	(38,877)	---	(9,386)	(94)	---	29,491
United States of America	(1,006)	---	755	8	---	1,761
Europe	100	---	2,023	20	---	1,923
Asia	11,226	---	11,702	117	---	476
Total	(28,557)	---	5,094	51	---	33,651

## Financial Instruments

### Derivatives

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

	March 31, 2007		March 31, 2008			
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Derivatives transactions	Million Yen		Million Yen		Million USD	
Forward exchange contracts	157	157	1,520	1,520	15	15
Interest rate swap agreements	(13)	(13)	---	---	---	---

### Marketable Securities

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

	March 31, 2007		March 31, 2008	
	Million Yen	Million Yen	Million Yen	Million USD
Available-for-sale equity securities				
Cost	1,933	1,933		19
Fair value	5,997	3,345		33
Net unrealized holding gains	4,064	1,412		14

## 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		March 31, 2008	
	Million Yen	Million Yen	Million Yen	Million USD
Due within one year	24,281	25,499		255
Due after one year	50,677	40,555		406



## 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:

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:

	Year Ended March 31, 2007		Year Ended March 31, 2008		Increase (Decrease)
Net loss	Million Yen (41,500)	Million Yen (15,995)	Million USD (160)		Million Yen 25,505
Number of shares	Shares		Shares		Shares
Weighted average number of common shares outstanding	123,498,823		123,498,165		(658)
Effect of dilutive securities	---		---		---
Diluted weighted average number of common shares outstanding	123,498,823		123,498,165		(658)
Net loss per share of common stock	Yen		Yen USD		Yen
Basic	(336.04)		(129.52)	(1.30)	206.52
Diluted	(336.04)		(129.52)	(1.30)	206.52

	Year Ended March 31, 2007		Year Ended March 31, 2008		Increase (Decrease)
Number of shares	Shares		Shares		Shares
Convertible bonds	11,156,100		11,156,100		---
Stock options	307,000		72,000		(235,000)

### Capital Expenditures and R&D Expenses

	Year Ended March 31, 2007		Year Ended March 31, 2008		Increase (Decrease)
Capital expenditures	Million Yen 105,865	Million Yen 56,128	Million USD 561		Million Yen (49,737)
Depreciation and amortization	82,960	75,067	751		(7,893)
R&D expenses	131,751	112,300	1,123		(19,451)

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 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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