

**(Translation)**

The following is an English translation of the Notice of the 6th Ordinary General Meeting of Shareholders of NEC Electronics Corporation to be held on June 26, 2008, except for the INSTRUCTION ON VOTING RIGHTS in the Notice. The Company provides this translation for your reference and convenience only and without any warranty as to its accuracy or otherwise.

**NEC Electronics Corporation**

1753, Shimonumabe, Nakahara-ku,  
Kawasaki, Kanagawa

Toshio Nakajima  
President

June 4, 2008

**To Our Shareholders:**

**NOTICE OF THE 6TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

The Sixth Ordinary General Meeting of Shareholders (the "General Meeting") of NEC Electronics Corporation (the "Company") will be held as follows:

1. DATE: June 26, 2008 (Thursday) at 10:00 A.M. (Japan Standard Time)
2. PLACE: Tamagawa Renaissance City Hall located within the NEC Tamagawa Plant at 1753, Shimonumabe, Nakahara-ku, Kawasaki, Kanagawa, Japan

3. AGENDA OF THE GENERAL MEETING

MATTERS TO BE REPORTED UPON:

- (1) Report on the Business Report, Consolidated Financial Statements and report on the results of the audit conducted on the Consolidated Financial Statements by the Independent Auditors and the Board of Corporate Auditors with respect to the 6th Business Period from April 1, 2007 to March 31, 2008.
- (2) Report on the Financial Statements with respect to the 6th Business Period from April 1, 2007 to March 31, 2008.

MATTERS TO BE VOTED UPON:

- (1) Election of Eight Directors
- (2) Election of Two Corporate Auditors

(Translation)

**REFERENCE DOCUMENTS FOR THE GENERAL MEETING**

**Proposal No. 1: Election of Eight Directors**

Upon the close of the General Meeting, the term of office as Director held by all the Directors will expire. It is proposed that eight Directors be elected. The candidates are as follows:

	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
1	Toshio Nakajima (October 5, 1947)	April 1970 November 2002  April 2003 June 2004 April 2005  June 2005 November 2005	Joined NEC Corporation Senior Vice President, the Company President and Chief Executive Officer, NEC Electronics America, Inc. Resigned as Senior Vice President, the Company Elected to the Board of Directors, the Company Senior Vice President and Member of the Board, the Company Resigned as President and Chief Executive Officer, NEC Electronics America, Inc. Executive Vice President and Member of the Board, the Company President, the Company (to the present) (Responsibilities) Management of execution of overall business operations. (Representative Status in Other Companies, etc.) Chairman (part-time), Semiconductor Technology Academic Research Center	8,000

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	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
2	T. W. Kang (September 25, 1957)	July 1979	Joined Intel Corporation	0
		September 1985	Director, Office of Development, Intel K.K.	
		October 1987	General Manager, System Group, Intel K.K.	
		December 1990	Left Intel Corporation Established Global Synergy Associates Inc. Managing Director, Global Synergy Associates Inc. (to the present)	
		February 1999	Elected to the Board of Directors, Synaptics Incorporated	
		February 2001	Resigned as Director, Synaptics Incorporated	
		March 2006	Elected to the Board of Directors, Siport, Inc. (to the present)	
		June 2007	Elected to the Board of Directors, the Company (to the present) (Representative Status in Other Companies, etc.) Managing Director, Global Synergy Associates Inc.	

(Translation)

	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
3	Toshihiko Takahashi (October 22, 1943)	April 1967 June 1999  April 2000 October 2001  June 2002 April 2005  April 2006  June 2006  April 2007  June 2007	Joined NEC Corporation Vice President and Member of the Board and Executive General Manager, Computers Software Operations Unit, NEC Corporation Senior Vice President, NEC Corporation President, NEC System Technologies, Ltd. Left NEC Corporation Joined NEC Corporation Executive Vice President, NEC Corporation Executive Vice President and General Manager, Software Business Planning Office, NEC Corporation Resigned as President, NEC System Technologies, Ltd. Advisor, NEC Corporation (to the present) Elected to the Board of Directors, the Company (to the present)	0
4	Hajime Matsukura (December 12, 1961)	April 1985 October 2002  April 2005  April 2006  April 2008	Joined NEC Corporation Senior Manager, Corporate Planning Division, NEC Corporation General Manger, Marketing Strategy and Planning Division, NEC Corporation Senior General Manager, Corporate Business Development Unit, NEC Corporation General Manager, Corporate Strategy and Business Development Division, NEC Corporation (to the present)	0

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	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
5	Junshi Yamaguchi (November 27, 1950)	December 1976 November 2002 June 2003 October 2003 August 2004 June 2005 May 2006	Joined NEC Corporation Vice President, Corporate Strategic Planning Unit, the Company Vice President, Corporate Strategic Planning Unit and General Manager, Corporate Communications Division, the Company Senior Vice President and Vice President, Corporate Strategic Planning Unit, the Company Senior Vice President, Vice President, Corporate Strategic Planning Unit and General Manager, Corporate Communications Division, the Company Executive Vice President and Member of the Board, the Company (to the present) Chairman, NEC Electronics (China) Co., Ltd. (to the present) (Responsibilities) Management of important matters relating to sales, matters relating to Information Systems Division, Order Transaction Control Department and Trade Control Department (Representative Status in Other Companies, etc.) Chairman (part-time), NEC Electronics (China) Co., Ltd.	3,000

**(Translation)**

	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
6	Yoshikazu Inada (September 28, 1946)	April 1969 November 2002  April 2004 April 2006  June 2006  April 2008	Joined NEC Corporation Senior Vice President and Vice President, Sales Operations Unit, the Company Senior Vice President, the Company Senior Vice President and Vice President, 5th Systems Operations Unit, the Company Executive Vice President and Member of the Board, the Company (to the present) President, NEC Semiconductors Kyushu Yamaguchi, Ltd. (to the present) (Responsibilities) Management of important matters relating to production, matters relating to NEC Semiconductors Kyushu Yamaguchi, Ltd. (Representative Status in Other Companies, etc.) President, NEC Semiconductors Kyushu Yamaguchi, Ltd.	1,700

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	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
7	Zensuke Matsuda (February 11, 1949)	April 1973 November 2002  April 2004  April 2006  September 2006 May 2007 June 2007	Joined NEC Corporation Vice President, 3rd Business Development Operations Unit, the Company Vice President, 5th Systems Operations Unit, the Company Vice President, 1st Systems Operations Unit, the Company Senior Vice President, the Company Executive Vice President, the Company Executive Vice President and Member of the Board, the Company (to the present) (Responsibilities) Matters relating to Discrete and IC Business Unit	700

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	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
8	Yoichi Yano (November 20, 1954)	April 1980 November 2002  April 2004 November 2004 September 2006  May 2007 June 2007  April 2008	Joined NEC Corporation General Manager, 4th System LSI Division, 2nd Business Development Operations Unit, the Company Associate Vice President, 4th Systems Operations Unit, the Company Vice President, 4th Systems Operations Unit, the Company Senior Vice President and Vice President, 4th Systems Operations Unit, the Company Executive Vice President and Vice President, Microcomputer Operations Unit, the Company Executive Vice President and Member of the Board and Vice President, Microcomputer Operations Unit, the Company Relieved of Vice President, Microcomputer Operations Unit, the Company (to the present) (Responsibilities) Management of important matters relating to automotive business, matters relating to SoC Business Unit, Microcomputer Business Unit and Corporate Quality Assurance Division	1,000

- (Note) 1. Mr. T. W. Kang concurrently serves as a Director of Sanka Corporation, which has a consulting service agreement with the Company.
2. Except for Note 1 above, none of the candidates have a special conflict of interest with the Company.
3. Mr. Toshihiko Takahashi has been involved in the execution of operations (as defined



**(Translation)**

in Item 6, Paragraph 3, Article 2 of the Enforcement Regulations of the Company Law; hereinafter the same) of NEC Corporation and its subsidiary, NEC System Technologies, Ltd. during the past 5 years. Mr. Hajime Matsukura is currently and has been involved in the execution of operations of NEC Corporation during the past 5 years. Their positions and responsibilities are described in the 'Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.' section above. NEC Corporation and NEC System Technologies, Ltd. are "Special Related Parties" as defined in Item 19, Paragraph 3, Article 2 of the Enforcement Regulations of the Company Law.

4. Messrs. T. W. Kang, Toshihiko Takahashi and Hajime Matsukura are candidates for outside Directors. The reasons for selecting them as candidates for outside Directors are as follows:
  - i) The Company has selected Mr. T. W. Kang as a candidate for outside Director with the expectation that he continue to oversee and check the overall management of the Company by leveraging his extensive experience at Intel Corporation and its subsidiary, Intel K.K., and his knowledge, experience and insight gained from his management consulting activities as the Managing Director of Global Synergy Associates Inc.
  - ii) The Company has selected Mr. Toshihiko Takahashi as a candidate for outside Director with the expectation that he continue to oversee and check the overall management of the Company by leveraging his knowledge, experience and insight gained from his many years of involvement in the business operations and management as an executive or a board member of NEC Corporation and its subsidiary, NEC System Technologies, Ltd.
  - iii) The Company has selected Mr. Hajime Matsukura as a candidate for outside Director with the expectation that he oversee and check the overall management of the Company by leveraging his knowledge, experience and insight gained from his involvement in the business planning of NEC Corporation and the management of the NEC Group, including NEC Corporation's subsidiaries, at the corporate planning section of NEC Corporation.
5. Messrs. T. W. Kang and Toshio Takahashi are currently outside Directors of the Company, and upon the close of the General Meeting, they will have served for 1 year.
6. If the new appointment of Mr. Hajime Matsukura is approved, the Company will enter into a liability limitation agreement with Mr. Hajime Matsukura limiting his liability as defined in Paragraph 1, Article 423 of the Company Law to the minimum liability amount as stipulated in Paragraph 1, Article 427 of the Company Law. The Company has already entered into liability limitation agreements with Messrs. T. W. Kang and

**(Translation)**

Toshihiko Takahashi, limiting their liabilities as defined in Paragraph 1, Article 423 of the Company Law, to the minimum liability amount as stipulated in Paragraph 1, Article 427 of the Company Law, and if the reappointment of Messrs. T. W. Kang and Toshihiko Takahashi is approved, the Company will renew such liability limitation agreements.

**Proposal No. 2: Election of Two Corporate Auditors**

Upon the close of the General Meeting, the term of office as Corporate Auditor held by Messrs. Norio Tanoue and Keiji Suzuki will expire. It is proposed that two Corporate Auditors be elected. The consent of the Board of Corporate Auditors for this Proposal has been obtained.

The candidates are as follows:

	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
1	Keiji Suzuki (August 3, 1945)	April 1970 November 2002	Joined NEC Corporation Senior Vice President and Vice President, 1st Business Development Operations Unit, the Company	1,100
		April 2004	Relieved of Vice President, 1st Business Development Operations Unit, the Company	
		June 2004	Corporate Auditor, the Company (to the present)	

**(Translation)**

	Name (Date of Birth)	Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.		Number of the Company's Shares Held
2	Hiroki Kawamura (November 10, 1947)	April 1970	Joined NEC Corporation	0
		July 2001	General Manager, Controller Division, NEC Networks, NEC Corporation	
		April 2003	Senior Assistant to Mr. Matoi, Associate Senior Vice President, NEC Corporation	
		June 2003	Left NEC Corporation Elected to the Board of Directors, NEC Mobiling, Ltd.	
		June 2005	Associate Senior Vice President and Member of the Board, NEC Mobiling, Ltd. (to the present)	

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- (Note)
1. The candidates have no special conflict of interest with the Company.
  2. Mr. Hiroki Kawamura is currently and has been involved in the execution of operations (as defined in Item 6, Paragraph 3, Article 2 of the Enforcement Regulations of the Company Law) of NEC Mobiling, Ltd. during the past 5 years. His position and responsibilities are described in the ‘Brief Employment History, Position, Responsibility and Representative Status in Other Companies, etc.’ section above. NEC Mobiling, Ltd. is a “Special Related Party” as defined in Item 19, Paragraph 3 Article 2 of the Enforcement Regulations of the Company Law.
  3. Mr. Hiroki Kawamura is a candidate for outside Corporate Auditor. The reasons for selecting him as an outside Corporate Auditor are as follows:  
The Company has selected Mr. Hiroki Kawamura as a candidate for outside Corporate Auditor with the expectation that he audit the overall management of the Company by leveraging his knowledge, experience and insight gained from his many years of involvement in accounting operations at NEC Corporation and his involvement in business operations and management as a board member at NEC Mobiling, Ltd.

## **Business Report**

(For the Period from April 1, 2007 to March 31, 2008 (the “Period”))

### **1. Review of Operations of the NEC Electronics Group**

#### **(1) Progress and Results of Operations**

##### **(i) Overview**

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.

In such a business environment, the NEC Electronics Group has implemented various measures focusing on the new management policies established February, 2007 consisting of “Concentration of development resources on the areas of growing products”, “Reform of organizational structure optimized for each product group”, and “Reorganization of manufacturing lines” to create a solid foundation for business that can deliver profitability in an adverse economic climate, and also has endeavored to improve management efficiency with the goal to move into black in the fiscal year by reducing fixed costs.

With respect to “Concentration of development resources on the areas of growing products”, the Company made efforts to promote concentration of development resources to automotive products and digital consumer products which the NEC Electronics Group has strength in, while focusing on reviewing profitability of development project, and implementing development of products and technologies with world wide competitive and expansion of products line-up. As a result of such efforts, image processing LSI “EMMA2” was adopted in Sony Corporation’s LCD television product “BRAVIA” released in April and May of 2007. In addition, in June of 2007, the Company started sales of image processing LSI “CE131”, enabling high resolution at 8 megapixel incorporated in mobile phone camera, resulting in being widely adapted for mobile phones. Further, in October, 2007, the

Company introduced “NaviEngine” LSI optimized for car navigation system with the industry leading performance using multiple core technologies. With respect to “All Flash” microcontrollers embedded flash memory which have been already adopted by wide range of customers, the Company released various new products of such series and strengthened their product lineup in the fiscal year, resulting in being more widely adopted by customers. As for next generation semiconductor technologies, the Company integrated process technologies of 45-nanometer, and developed new technologies for the manufacture of 40-nanometer system-on-chip devices with embedded dynamic random access memory (eDRAM), which are available in memory configurations up to 256 megabits.

As for “Reform of organizational structure optimized for each product group”, to optimize each business of system-on-chip (SoC), microcomputer and discrete, the Company changed its conventional division structure of development, manufacturing and sales, to three seamless business unit for each product concluding its business within “SoC Business Unit”, “Microcomputer Business Unit” and “Discrete and IC Business Unit” in May 2007.

As for “Reorganization of manufacturing lines”, to strengthen cost competitiveness, the Company restructured the manufacturing lines in domestic and overseas. To reduce time and cost needed for the development to manufacturing, the Company decided to position NEC Yamagata, Ltd. (changed its corporate name to “NEC Semiconductors Yamagata, Ltd.” as of April, 2008) as most advanced volume production facility for SoC Business Unit, and transferred leading edge development, prototyping and manufacturing functions of 300 millimeters wafer as its facility in Sagamihara to a new location on the premises of NEC Yamagata, achieving a seamless transition from development to manufacturing for SoC Business Unit. Following that, to build a seamless transition from front end wafer processing and back end wafer processing, NEC Kyushu, Ltd., NEC Yamaguchi, Ltd. and NEC Semicon Package Solutions, Ltd. were integrated into one company as of April, 2008, having a new company name “NEC Semiconductors Kyushu Yamaguchi, Ltd.”. NEC Semiconductors Kyushu Yamaguchi serves as the flagship manufacturing facility for Microcomputer Business Unit. As a part of strengthening business of semiconductors for automotives, the Company decided to start building a new factory and clean room of NEC Semiconductors Kyushu Yamaguchi in December 2008. NEC Kansai and NEC Fukui were also integrated into one company as of April, 2008, having a new company name “NEC Semiconductors Kansai, Ltd.”. NEC Semiconductors Kansai serves as the main manufacturing facility for power management devices, display drivers, and compound semiconductor devices for Discrete and IC Business Unit. To expand the manufacturing capacity of power management devices in NEC Semiconductors Kansai, it will start strengthening its production ability of 200 millimeters wafer production line from autumn of 2008. In overseas, the Company strengthened production ability of production line for discrete semiconductors in NEC Semiconductors (Malaysia) Sdn. Bhd.

Additionally, as international business expanding plan, especially to expand business in China and India where semiconductor business is rapidly growing, NEC Electronics China opened its branch in Chengdu in June 2007 in addition to Shanghai and Shenzhen branches, and NEC Electronics Singapore established liaison office in Bangalore, India in February 2008, and the NEC Electronics Group

increased the number of engineers to support local customers in each such country.

The Company also actively promoted the strategic alliance with other companies. In June 2007, NEC Fabserve Corporation transferred its photomask manufacturing and sales business to Dai Nippon Printing Co., Ltd., and the NEC Electronics Group established cooperative relationship in developing and manufacturing photomask with Dai Nippon group. In development of next generation semiconductor technology, the Company reached an agreement with Toshiba Corporation to extend the scope of their collaboration to the 32-nanometer generation in November 2007, following the joint development of 45-nanometer process technology.

The NEC Electronics Group will build a strong management body which steadily generates profits, uninfluenced by boom-and-bust of the semiconductors market, through implementing various measures.

## **(ii) Summary of Consolidated Financial Results**

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.

### **(iii) Review of Operations by End-Market Applications**

Consolidated net sales by end-market application broken down into categories according to principal applications and characteristics of semiconductors for the Period are as follows:

#### Communications

Net sales of semiconductors for communications applications decreased 29.3 billion yen (29.4 percent) from the previous year, to 70.4 billion yen. Products such as semiconductors for broadband networking equipment including routers and mobile-phone base stations, and semiconductors for mobile handsets are included in this category.

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

Net sales of semiconductors for computing and peripherals applications decreased 4.4 billion yen (3.5 percent) from the previous year, to 119.4 billion yen. Semiconductors for servers, workstations, personal computers and PC peripherals are products included in this category.

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

Net sales of semiconductors for the consumer electronics applications increased 13.8 billion yen (11.4 percent) from the previous year, to 134.5 billion yen. Semiconductors for digital AV equipment and game consoles are products included in this category.

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

Net sales of semiconductors for automotive and industrial applications increased 7.2 billion yen (6.8 percent) from the previous year, to 113.3 billion yen. Semiconductors used in automobiles and industrial systems, such as factory automation equipment, are products included in this category.

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

Net sales of multi-market ICs increased 0.7 billion yen (0.8 percent) from the previous year, to 89.6 billion yen. Products such as general purpose microcontrollers, gate arrays and multi-purpose SRAMs are those included in this category.

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

Net sales of discrete, optical and microwave devices increased 5.5 billion yen (4.6 percent) from the previous year, to 126.1 billion yen. 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 are products included in this category.

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

Other net sales increased 1.9 billion yen (5.9 percent) from the previous year, to 34.5 billion yen. This includes the sales of non-semiconductors products such as color LCDs, sold on a resale basis by the NEC Electronics Group's sales subsidiaries.

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

## **(2) Research and Development by the NEC Electronics Group**

The NEC Electronics Group is actively engaged in the research and development of advanced products and technology in the field of semiconductors, mainly of leading system LSIs, to provide the best semiconductor solution to meet its customer's various needs. Major achievements of research and development activities in the Period are as follows:

### **(i) World's first single chip LSI "NaviEngine" with multicore SMP for car navigation**

The NEC Electronics Group developed "NaviEngine", the industry's most powerful single-chip system LSI solution optimized for car navigation systems. This LSI is the first single-chip car

navigation solution to enable symmetric multiprocessing (SMP) by integrating multiple processor cores on one chip. This allows it to perform multiple tasks simultaneously, such as route guidance, mobile TV reception, and image processing for display of traffic conditions, and also allows rapid access to large volumes of data, such as maps, for powerful and feature-rich car navigation systems.

Especially for high-end models, car navigation systems are expected to play an increasingly prominent role in enhanced driving safety, such as in-vehicle cameras to provide advanced driving assistance. The NEC Electronics Group regards the NaviEngine as a ground-breaking product that ensures the NEC Electronics Group's continued leadership in automotive semiconductors, one of its strategic markets, keeping firmly in mind car navigation systems evolution for automotive information technology.

**(ii) Top-class eight-megapixel image signal processor “CE131” for mobile phone cameras**

The NEC Electronics Group developed the image signal processor (ISP) “CE131” for mobile phone cameras that delivers a top-class eight megapixels of resolution.

In a mobile phone, the ISP is a component located between the CMOS camera sensor and the mobile phone application processor, and is responsible for processing image signal from CMOS camera sensor.

Both in Japan and overseas, consumers are increasingly choosing mobile phones with picture taking capabilities, and coming to demand higher image quality. Drawing on the NEC Electronics Group's expertise in digital camera technology, the CE131 provides features such as large volume of data processing, noise suppression, hand shake compensation and color correction. The eight megapixels of resolution supported by the CE131 delivers this and more, allowing users to enlarge their photos up to A1 poster size (594 x 841 mm) with no noticeable degradation in image quality.

**(iii) 32-bit microcontrollers with world's lowest power consumption**

The NEC Electronics Group is the world's leading supplier of 32-bit microcontrollers. To solidify this position, the NEC Electronics Group developed a series of 32-bit microcontrollers embedded flash memory that deploy a variety of power-saving technologies to slash power consumption to half of previous levels.

Against the background of increased awareness of the environment, lower power consumption has become an important theme in both the consumer electronics and industrial sectors. The NEC Electronics Group was one of the first semiconductor suppliers to recognize this, and it has developed many industry-leading power saving technologies. These have enabled the development of microcontrollers with superior power/performance ratios, including some with the lowest power consumption in their class.

The recently developed microcontrollers deploy a variety of the NEC Electronics Group's technologies to suppress leakage current, with the result that power consumption has been slashed to half of the level of previous devices in the series. This allows users to take advantage of the processing

power of 32-bit microcontrollers while reducing power requirements, enabling longer operating times and the use of smaller batteries.

Essentially there are no limits to what can be done to meet the demand for reduced power consumption, in the automotive industry as well as the consumer electronics and industrial sectors. The NEC Electronics Group remains committed to a comprehensive effort to lowering power consumption across its lineup of products, and to delivering industry-leading power/performance ratios.

**(3) Capital Expenditures of the NEC Electronics Group**

During this Period, the NEC Electronics Group invested a total of 56.1 billion yen in capital expenditures with the aim of expanding facilities for using 300mm wafers and other production facilities in back-end process.

**(4) Financing Activities of the NEC Electronics Group**

During this Period there were no financing activities important enough to require special mention.

**(5) Issues to be Addressed by the NEC Electronics Group**

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, as described in “(1) Progress and Results of Operations (i) Overview” section above, and is addressing the following issues to expand revenue.

**(i) 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 NEC Electronics 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 NEC Electronics 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 NEC Electronics 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.

**(ii) 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 the 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 NEC Electronics Group 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 NEC Electronics Group 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 NEC Electronics Group is confident that such effort is the only way to balance strong product manufacturing and better management of the breakeven point.

**(iii) 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 NEC Electronics 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 NEC Electronics Group.

**(6) Changes in the Results of Financial Position and Profit and Loss (Consolidated)**

(In billions of yen except per share figures)

Business Period Indices	2nd Business Period 4/1/03-3/31/04	3rd Business Period 4/1/04-3/31/05	4th Business Period 4/1/05-3/31/06	5th Business Period 4/1/06-3/31/07	6th Business Period 4/1/07-3/31/08
Net sales	712.0	708.0	646.0	692.3	687.7
Operating income (loss)	54.6	33.2	(35.7)	(28.6)	5.1
Net income (loss) before income taxes	44.4	26.4	(42.4)	(35.4)	(3.3)
Net income (loss)	28.1	16.0	(98.2)	(41.5)	(16.0)
Net income (loss) per share (yen)	240.61	129.81	(795.13)	(336.04)	(129.52)
Total assets	741.5	814.2	745.3	695.9	616.3
Net assets	371.7	393.9	308.3	265.1	227.1

- (Note) 1. The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.  
2. "Net income (loss) per share" is calculated based on the average number of shares outstanding during each business period.

**(7) Principal Parent Company and Subsidiaries (as of March 31, 2008)**

**(i) Relationship with Parent Company**

NEC Corporation is the parent company of the Company and holds 65.02% of the total voting rights of the Company (80,300,000 shares) and reserves the right to instruct the exercise of 5.02% of the total voting rights of the Company which are contributed to severance indemnities trust.

The NEC Electronics Group sells system LSIs and other products to NEC Corporation and its affiliates. The NEC Electronics Group believes that the use of the high-profile NEC trademark for indicating the NEC Electronics Group's affiliation with NEC Corporation will contribute to the enhancement of the NEC Electronics Group's own brand value, and thus uses the NEC trademark pursuant to the trademark license agreement between the Company and NEC Corporation. Additionally, the Company leases its corporate headquarters and part of its offices from NEC Corporation, and outsources part of its research and development and other affairs to NEC Corporation.

**(ii) Principal Subsidiaries**

Name of Subsidiaries	Capital (Millions of yen)	Percentages of Voting Rights Held by the Company (%)	Main Business
NEC Yamagata, Ltd.	1,000	100	Development, manufacture (front-end process) and sale of integrated circuits and discrete semiconductors
NEC Kansai, Ltd.	1,000	100	Development, manufacture (front-end process) and sale of integrated circuits and discrete semiconductors
NEC Kyushu, Ltd.	1,000	100	Manufacture (front-end process) and sale of integrated circuits
NEC Fukui, Ltd.	400	100	Development, manufacture (back-end process) and sale of integrated circuits and discrete semiconductors
NEC Semicon Package Solutions, Ltd.	400	100	Manufacture (back-end process) and sale of integrated circuits
NEC Micro Systems, Ltd.	400	100	Design and development of integrated circuits and software
NEC Yamaguchi, Ltd.	320	100	Manufacture (front-end process) and sale of integrated circuits
NEC Fabserve, Ltd.	310	100	Prototyping, production and facility services of integrated circuits
NEC Electronics America, Inc.	(1,000USD) 380,800	100	Development, manufacture (front-end process) and sale of integrated circuits
NEC Electronics (Europe) GmbH	(1,000Euro) 14,000	100	Sale of electronic components
NEC Semiconductors (Malaysia) Sdn. Bhd.	(1,000RM) 118,237	100	Manufacture (back-end process) and sale of integrated circuits and discrete semiconductors
NEC Semiconductors Singapore Pte. Ltd.	(1,000SGD) 111,000	100	Manufacture (back-end process) and sale of integrated circuits

Name of Subsidiaries	Capital (Millions of yen)	Percentages of Voting Rights Held by the Company (%)	Main Business
NEC Electronics Singapore Pte. Ltd.	(1,000SGD) 3,000	100	Sale of electronic components
Shougang NEC Electronics Co., Ltd.	20,750	50.3	Manufacture (front-end and back-end process) and sale of integrated circuits
NEC Electronics (China) Co., Ltd.	(1,000USD) 38,540	100	Design, development and sale of integrated circuits and software
NEC Electronics Hong Kong Limited	(1,000HKD) 2,000	100	Sale of electronic components
NEC Electronics Taiwan Ltd.	(1,000NTD) 100,000	100	Sale of electronic components
NEC Electronics Korea Limited	(1,000KRW) 2,000,000	100	Sale of electronic components

**(iii) Progress of Business Affiliation**

- (a) NEC Fabserve, Ltd. spun off its photomask business and established a new subsidiary on May 1, 2007, and transferred the entirety of its shares to Dai Nippon Printing Co., Ltd. on June 1, 2007, in accordance with Share Transfer Agreement with Dai Nippon Printing as of February 27, 2007.
- (b) P.T. NEC Semiconductors Indonesia ceased manufacturing and sales activities in October, 2007.
- (c) NEC Yamagata, Ltd. changed its company name to NEC Semiconductors Yamagata, Ltd. on April 1, 2008.
- (d) NEC Kansai, Ltd. merged with NEC Fukui, Ltd. and changed its company name to NEC Semiconductors Kansai, Ltd. on April 1, 2008.
- (e) NEC Kyushu, Ltd. merged with NEC Yamaguchi, Ltd. and NEC Semicon Package Solutions, Ltd. and changed its company name to NEC Semiconductors Kyushu Yamaguchi, Ltd. on April 1, 2008.

**(iv) Results of Business Affiliation**

There are a total of 25 consolidated subsidiaries as of March 31, 2008, consisting of 10 domestic companies and 15 overseas companies, including the major subsidiaries set forth in the “(ii) Principal Subsidiaries” section above, and 1 equity method affiliate. The results of operations on a consolidated basis for the Period are set forth in “1. Review of Operations of the NEC Electronics Group (1) Progress and Results of Operations” section above.

**(v) Important Technical Alliances**

Name of Company	Contents of Alliance
NEC Corporation	Cross licensing of intellectual property rights regarding semiconductor business succeeded on the occasion of the Company's corporate separation
Freescale Semiconductor, Inc.	Patent cross licensing regarding semiconductors
Texas Instruments Incorporated	Patent cross licensing regarding semiconductors
NEC Corporation Matsushita Electric Industrial Co., Ltd. Panasonic Mobile Communications Co., Ltd. Texas Instruments Incorporated	Joint venture business with respect to joint development of communications platform for mobile handsets for the 3rd generation (3G/3.5G) and beyond and technology licensing for such platform
Toshiba Corporation	Joint development of process technology and production technology for 45-nanometer generation and 32-nanometer generation system LSIs (ideal for low power consumption)

**(8) Major Operations of the NEC Electronics Group (as of March 31, 2008)**

The NEC Electronics Group's main business is the research, development, manufacture, sale and provision of services of semiconductors, primarily system LSIs.



**(9) Principal Offices and Plants of the NEC Electronics Group (as of March 31, 2008)**

The Company		Head Office (Kawasaki, Kanagawa), Tamagawa Plant (Kawasaki, Kanagawa), Sagamihara Plant (Sagamihara, Kanagawa)
Subsidiaries	Domestic	NEC Yamagata, Ltd. (Tsuruoka, Yamagata)
		NEC Kansai, Ltd. (Ootsu, Shiga)
		NEC Kyushu, Ltd. (Kumamoto, Kumamoto)
		NEC Fukui, Ltd. (Sakai, Fukui)
		NEC Semicon Package Solutions, Ltd. (Yanagawa, Fukuoka)
		NEC Micro Systems, Ltd (Kawasaki, Kanagawa)
		NEC Yamaguchi, Ltd. (Ube, Yamaguchi)
		NEC Fabserve, Ltd. (Sagamihara, Kanagawa)
	Overseas	NEC Electronics America, Inc. (United States of America)
		NEC Electronics (Europe) GmbH (Germany)
		NEC Semiconductors (Malaysia) Sdn. Bhd. (Malaysia)
		NEC Semiconductors Singapore Pte. Ltd. (Singapore)
		NEC Electronics Singapore Pte. Ltd. (Singapore)
		Shougang NEC Electronics Co., Ltd. (Beijing, China)
		NEC Electronics (China) Co., Ltd. (Beijing, China)
		NEC Electronics Hong Kong Limited (Hong Kong, China)
		NEC Electronics Taiwan Ltd. (Taiwan)
		NEC Electronics Korea Limited (Korea)

- (Note) 1. NEC Yamagata, Ltd. changed its company name to NEC Semiconductors Yamagata, Ltd. on April 1, 2008.
2. NEC Kansai, Ltd. merged with NEC Fukui, Ltd. and changed its company name to NEC Semiconductors Kansai, Ltd. on April 1, 2008.
3. NEC Kyushu, Ltd. merged with NEC Yamaguchi, Ltd. and NEC Semicon Package Solutions, Ltd. and changed its company name to NEC Semiconductors Kyushu Yamaguchi, Ltd. on April 1, 2008.

**(10) Employees of the NEC Electronics Group (as of March 31, 2008)**

Number of Employees	Decrease from March 31, 2007
23,110	872

**(11) Major Borrowings of the NEC Electronics Group (as of March 31, 2008)**

Lenders	Balance of Borrowings (Millions of yen)
Sumitomo Mitsui Banking Corporation	619
The Yamagata Bank, Ltd.	500

**2. Outline of the Company****(1) Shares of the Company (as of March 31, 2008)**

- (i) **Total Number of Authorized Shares** 400,000,000 shares
- (ii) **Total Number of Shares Issued** 123,497,961 shares  
(excluding 2,039 of Company's own shares)
- (iii) **Number of Shareholders** 13,545 persons
- (iv) **Major Shareholders (top ten)**

Name of Shareholders	Number of Shares Held (In thousands of shares)	Percentage of Shares Held
NEC Corporation	80,300	65.02
Japan Trustee Services Bank, Ltd. (Re-trust of Sumitomo Trust & Banking Co., Ltd. / NEC Corporation pension and severance payments Trust Account)	6,200	5.02
Perry Japan Investments, LLC.	5,883	4.76
London Client Account, RBC Dexia Investor Services Trust	2,801	2.27
Goldman Sachs International	2,602	2.11
Deutsche Bank Trust Company Americas	2,350	1.90
Moxley & Co.	1,858	1.50
State Street Bank and Trust Client Omnibus Account OM02	1,795	1.45
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,074	0.87

Japan Trustee Services Bank, Ltd. (Trust Account)	936	0.76
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- (Note) 1. Shares less than a thousand are omitted.  
2. 6,200,000 shares (percentage of shares held: 5.02%) which are owned by Japan Trustee Services Bank, Ltd. (Re-trust of Sumitomo Trust & Banking Co., Ltd./NEC Corporation pension and severance payments Trust Account) were shares that were contributed by NEC Corporation as severance indemnities trusts. The voting rights of such shares will be exercised at the instruction of NEC Corporation.

**(2) Stock Acquisition Rights, etc. of the Company**

**(i) Stock Acquisition Rights Issued to the Board Members of the Company as a Compensation for their Duties (as of March 31, 2008)**

- (a) Stock Acquisition Rights Pursuant to the Provisions of Articles 236, 238 and 239 of the Company Law.

	Number of Stock Acquisition Rights Issued	Class and Number of Shares to be Issued and Transferred	Issue Price of Stock Acquisition Right	Amount to be paid upon Exercise of Stock Acquisition Rights	Exercisable Period
4th Stock Acquisition Rights (Resolved at the Company's General Meeting of Shareholders and the Meeting of the Board of Directors held on 6/27/06)	240	24,000 shares of common stock (100 shares per 1 stock acquisition right)	No charge	¥3,927	7/13/08-7/12/12

**(b) Stock Acquisition Rights Held by the Board Members of the Company**

Title	Number of Stock Acquisition Rights Issued	Number of Directors
Directors (excluding outside directors)	240	5

- (Note) 1. No corporate auditor and outside director holds the Stock Acquisition Rights.

**(ii) Other Important Facts Concerning the Stock Acquisition Rights (as of March 31, 2008)**

Stock Acquisition Rights Attached to the Bonds with Stock Acquisition Rights Issued Pursuant to the Provision of Article 341-2 of the former Commercial Code of Japan

	Number of Stock Acquisition Rights Issued	Class and Number of Shares for which Stock Acquisition Rights were Issued	Issue Price of Stock Acquisition Right
Zero Coupon Convertible Bonds due 2011 (Resolved at the Meeting of the Board of Directors held on 5/10/04)	11,000	11,156,100 shares of common stock	No charge

**(3) Directors and Corporate Auditors of the Company**

**(i) Name etc. of Directors and Corporate Auditors of the Company (as of March 31, 2008)**

Name	Position at the Company	Responsibility and Representative Status in Other Companies, etc.
Toshio Nakajima	*President	Management of execution of overall business operations Chairman (Part time), Semiconductor Technology Academic Research Center
Junshi Yamaguchi	*Executive Vice President and Member of the Board	Matters relating to sales, Information Systems Division, Order Transaction Control Department and Trade Control Department Chairman (Part time), NEC Electronics (China) Co., Ltd.
Yoshikazu Inada	*Executive Vice President and Member of the Board	Management of matters relating to production
Zensuke Matsuda	*Executive Vice President and Member of the Board	Matters relating to Discrete and IC Business Unit

Yoichi Yano	*Executive Vice President and Member of the Board	Management of important matters relating to automotive business, matters relating to SoC Business Unit, Microcomputer Business Unit and Corporate Quality Assurance Division Vice President, Microcomputer Operations Unit
T. W. Kang	Member of the Board	Managing Director, Global Synergy Associates Inc.
ToshihikoTakahashi	Member of the Board	Advisor, NEC Corporation
Tetsuya Nakamura	Member of the Board	General Manager, Corporate Planning Division of NEC Corporation
Norio Tanoue	Corporate Auditor (Full time)	
Keiji Suzuki	Corporate Auditor (Full time)	
Yasuyuki Shibata	Corporate Auditor	Attorney-at-law
Kaoru Ikenaga	Corporate Auditor	Vice President, NEC Corporation

(Note)

1. Messrs. T.W. Kang, Toshihiko Takahashi and Tetsuya Nakamura are outside Directors, as stipulated in Item 15, Article 2 of the Company Law.
2. Messrs. Norio Tanoue and Yasuyuki Shibata are outside Corporate Auditors, as stipulated in Item 16, Article 2 of the Company Law.
3. Mr. Norio Tanoue was a corporate officer in charge of accounting at an affiliated company of NEC Corporation, and thus has a fair knowledge of finance and accounting.
4. Mr. Kaoru Ikenaga is Vice President of NEC Corporation in charge of accounting, and thus has a fair knowledge of finance and accounting.
5. The Directors and Corporate Auditors were changed during the Period as follows:
  - i) At the 5th Ordinary General Meeting of Shareholders held on June 27, 2007, Messrs. Zensuke Matsuda, Yoichi Yano, T. W. Kang, Toshihiko Takahashi and Tetsuya Nakamura have been newly elected to the Board of Directors, and Mr. Kaoru Ikenaga has been newly elected as a Corporate Auditor, respectively, and all of them have taken office.
  - ii) Upon the close of the 5th Ordinary General Meeting of Shareholders held on June 27, 2007, Messrs. Hideto Goto and Shunichi Suzuki have retired as the Member of the Board due to expiration of each term of office as Director, and Mr. Shigeo Matsumoto has retired as Corporate Auditor due to resigning.
6. On April 1, 2008, the responsibilities of Directors within the Company or representative status in other companies were partially changed as follows:

Name	Position at the Company	Responsibility or Representative Status in other Companies after Change
Junshi Yamaguchi	*Executive Vice President and Member of the Board	Management of important matters relating to sales, matters relating to Information Systems Division, Order Transaction Control Department and Trade Control Department Chairman (Part time), NEC Electronics (China) Co., Ltd.
Yoshikazu Inada	*Executive Vice President and Member of the Board	Management of important matters relating to production, matters relating to NEC Semiconductors Kyushu Yamaguchi, Ltd. President, NEC Semiconductors Kyushu Yamaguchi, Ltd.
Yoichi Yano	*Executive Vice President and Member of the Board	Management of important matters relating to automotive business, matters relating to SoC Business Unit, Microcomputer Business Unit and Corporate Quality Assurance Division
Tetsuya Nakamura	Member of the Board	Corporate Chief Consultant, NEC Corporation

7. Asterisks denote the Directors who have been acting as Corporate Officers. The names of other Corporate Officers (who are not also Directors) as of April 1, 2008 are as follows: Messrs. Hiroshi Sato, Masao Fukuma, Masaki Kato, Tatsuo Yoshino and Yoshihiko Miura.

**(ii) Remuneration, etc. for Directors and Corporate Auditors**

	Number / Total Amount Paid
Directors	10 persons / 146 million yen (including 3 outside Directors / 23 million yen)
Corporate Auditors	5 persons / 56 million yen (including 3 outside Corporate Auditors / 36 million yen)
Total	15 persons / 202 million yen (including 6 outside Directors and Corporate Auditors / 59 million yen)

- (Note) 1. The amount of Directors' remuneration does not include the amount paid as salary for employees to those Directors who are also employees.  
2. The amount of Directors' remuneration includes 11 million yen of Stock Acquisition Rights allotted as stock options. No bonuses were paid to Directors.

3. No bonuses were paid to the Corporate Auditors. No Stock Acquisition Rights were allotted as stock options to the Corporate Auditors.
4. As of March 31, 2008, there were eight (8) Directors and four (4) Corporate Auditors.
5. The maximum monthly remuneration for Directors as approved by the General Meeting of Shareholders is 20 million yen. (Approved at the 2nd Ordinary General Meeting of Shareholders held on June 25, 2004.)  
In addition to the above, the Company allotted up to three hundred (300) Stock Acquisition Rights as stock options from shares of common stock of the Company (not exceeding ninety thousand (90,000) shares). The amount of such Stock Acquisition Rights shall be calculated, based on the "Black-Scholes Option Pricing Model", on the allotment date by the total number of the Stock Acquisition Rights to be allotted to Directors in office as of the allotment date. (Approved at the 4th Company's General Meeting of Shareholders held on June 27, 2006)
6. The maximum monthly remuneration for Corporate Auditors as approved by the General Meeting of Shareholders is 10 million yen. (Approved at the 2nd Ordinary General Meeting of Shareholders held on June 25, 2004.)

**(4) Outside Directors and Corporate Auditors of the Company**

**(i) Concurrent position of Outside Directors and Corporate Auditors of the Company (having a position in execution of operations of other companies or outside Director or Corporate Auditor of other companies) (as of March 31, 2008)**

Title	Name	Concurrent Position
Directors	T.W. Kang	Managing Director, Global Synergy Associates Inc. Director, Sanka Corporation Director, Siport, Inc. (outside Director)
	Toshihiko Takahashi	Advisor, NEC Corporation
	Tetsuya Nakamura	Corporate Chief Consultant, Corporate Planning Division of NEC Corporation Corporate Auditor, Japan Aviation Electronics Industry, Limited (outside Corporate Auditor) Director, NEC Australia Pty. Ltd. (outside Director) Director, NEC Europe Ltd. (outside Director) Director, NEC (China) Co., Ltd. (outside Director)
Corporate Auditors	Norio Tanoue	Corporate Auditor, NOK Corporation (outside Corporate Auditor) Corporate Auditor, NEC Kansai, Ltd. (outside Corporate Auditor)
	Kaoru Ikenaga	Vice President, NEC Corporation Corporate Auditor, NEC Tokin Corporation (outside Corporate Auditor) Corporate Auditor, NEC Fielding, Ltd. (outside Corporate Auditor) Director, NEC Asia Pte. Ltd. (outside Director) Director, NEC Australia Pty. Ltd. (outside Director) Director, NEC Solutions (China) Co., Ltd. (outside Director)

1. The Company does not have any specific relationship with Global Synergy Associates Inc.
2. The Company has a consulting service agreement with Sanka Corporation.
3. NEC Corporation is parent company of the Company, and its relationship with the Company is as described in “1.Review of Operations of the NEC Electronics Group (7) Principal Parent Company and Subsidiaries (as of March 31, 2008) (i) Relationship with Parent Company” section above.
4. Concurrent Position of Directors and Corporate Auditors of the Company are changed as below on April 1, 2008.

Title	Name	Concurrent Position
Director	Tetsuya Nakamura	Corporate Chief Consultant, NEC Corporation Corporate Auditor, Japan Aviation Electronics Industry, Limited (outside Corporate Auditor) Director, NEC Australia Pty. Ltd. (outside Director) Director, NEC Europe Ltd. (outside Director) Director, NEC (China) Co., Ltd. (outside Director)
Corporate Auditor	Norio Tanoue	Corporate Auditor, NOK Corporation (outside Corporate Auditor) Corporate Auditor, NEC Semiconductors Kansai, Ltd. (outside Corporate Auditor)

5. Mr. Kaoru Ikenaga, Corporate Auditor of the Company, is a relative within the 3 degree of relationship of an employee of NEC Corporation.

**(ii) Principal Activities**

Title	Name	Principal Activities
Directors	T.W. Kang	Mr. T.W. Kang attended 13 of 15 Meetings of Board of Directors after his assumption of Member of the Board in June, 2007, and made necessary remarks to discussion of proposals based on his wealth of knowledge and experience gained from management consulting activities.
	Toshihiko Takahashi	Mr. Toshihiko Takahashi attended 14 of 15 Meetings of Board of Directors after his assumption of Member of the Board in June, 2007, and made necessary remarks to discussion of proposals based on his wealth of knowledge and experience of management and business operations.
	Tetsuya Nakamura	Mr. Tetsuya Nakamura attended 14 of 15 Meetings of



		Board of Directors after his assumption of Member of the Board in June, 2007, and made necessary remarks to discussion of proposals based on his wealth of knowledge and experience of business management.
Corporate Auditors	Norio Tanoue	<p>(i) Mr. Tanoue attended all 20 Meetings of Board of Directors during the Period, and made necessary remarks so that decisions at the Meetings of Board of Directors were fairly and properly made.</p> <p>(ii) Mr. Tanoue attended all 18 Meetings of Corporate Auditors during the Period, and chaired such Meetings of Corporate Auditors. Further, as a full-time Corporate Auditor, Mr. Tanoue (a) explained the contents of the discussion at the Executive Committee, etc. regarding the matters to be placed on the Meetings of Board of Directors, (b) reported the audit status and results thereof, and (c) answered to the questions raised in the Meeting of Corporate Auditors.</p>
	Yasuyuki Shibata	<p>(i) Mr. Yasuyuki Shibata attended 18 of 20 Meetings of Board of Directors during the Period, and made necessary remarks, mainly from the legal viewpoint as an attorney at law, so that decisions at the Meetings of Board of Directors were fairly and properly made.</p> <p>(ii) Mr. Yasuyuki Shibata attended all 18 Meetings of Corporate Auditors during the Period, and made necessary remarks, mainly from the legal viewpoint as an attorney at law, for building and maintenance of the Company's compliance system.</p>
	Kaoru Ikenaga	<p>(i) Mr. Kaoru Ikenaga attended 12 of 15 Meetings of Board of Directors after his assumption of Corporate Auditor in June, 2007, and made necessary remarks based on his wealth of knowledge and experience of accounting, so that decisions at the Meetings of Board of Directors were fairly and properly made.</p> <p>(ii) Mr. Kaoru Ikenaga attended 10 of 12 Meetings of Corporate Auditors after his assumption of</p>

		Corporate Auditor in June, 2007, and made necessary remarks based on his wealth of knowledge and experience of accounting, for ensuring appropriate accounting procedure.
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**(iii) Outline of Liability Limitation Agreements**

The Company has already entered into liability limitation agreements with 3 Directors, Messrs. T.W. Kang, Toshihiko Takahashi and Tetsuya Nakamura, and 2 Corporate Auditors, Messrs. Yasuyuki Shibata and Kaoru Ikenaga, respectively, limiting their liabilities as defined in Paragraph 1, Article 423 of the Company Law, to the minimum liability amount as stipulated in Paragraph 1, Article 427 of the Company Law.

**(iv) Total Amount of Remuneration, etc. Received from Parent Company or its Subsidiaries (excluding the Company) as a Director or Corporate Auditor thereof in the Period**

1,850,000 yen

**(5) Independent Auditors of the Company**

**(i) Name: Ernst & Young Shin Nihon**

**(ii) Remuneration and Other Amounts to be Paid to the Independent Auditors for the Period:**

Classification	Amount (in millions of yen)
(i) The total amount of money and other property benefits to be paid by the Company and its subsidiaries to the Independent Auditors	320
(ii) Remuneration and other amounts to be paid by the Company to the Independent Auditors for the services stipulated in Paragraph 1, Article 2 of the Certified Public Accountants Law.	269

(Note) 1. As there is no explicit distinction in the audit contract (entered into by the Company and the Independent Auditors) between the fees for audits based on the Company Law and the fees for audits based on the Financial Instruments and Exchange Law, and as it is difficult to distinguish between these two types of fees, the fees set forth in (ii) above include both of such fees.

2. Among the Company's principal subsidiaries, NEC Electronics America, Inc., NEC Electronics (Europe) GmbH, NEC Semiconductors (Malaysia) Sdn. Bhd., NEC Semiconductors Singapore Pte. Ltd., NEC Electronics Singapore Pte. Ltd., Shougang NEC Electronics Co., Ltd., NEC Electronics (China) Co., Ltd., NEC Electronics Hong Kong Limited, NEC Electronics Taiwan Ltd. and NEC Electronics Korea Limited are audited by other Independent Auditors.

**(iii) Policy Regarding Decision to Either Dismiss or Not Reappoint the Independent Auditor**

The Board of Corporate Auditors, by unanimous agreement, will dismiss the Independent Auditor when confirmed that the Independent Auditor falls under any item of Paragraph 1, Article 340 of the Company Law.

In addition, should anything occur to negatively impact the qualifications or independence of the Independent Auditor, making it unlikely that the Independent Auditor will be able to properly perform

an audit, the Director will propose, with the agreement of the Board of Corporate Auditors, or as requested by the Board of Corporate Auditors, not to reappoint the Independent Auditor at a General Meeting of Shareholders.

**(6) Structures for Ensuring Appropriate Execution of Directors' Duties in Conformity with Laws and Regulations and the Articles of Incorporation; and Other Structures to Ensure Appropriate Business Operation**

The Meeting of the Board of Directors made the following resolution with respect to the basic policies for the establishment of structures as set forth in to Item 6, Paragraph 4, Article 362 of the Company Law and Paragraphs 1 and 3, Article 100 of the Enforcement Regulations of the Company Law ("Internal Control System").

<The Basic Policies for Establishment of Internal Control System>

The Company sets forth the basic policies for the establishment of structures defined in Item 6, Paragraph 4, Article 362 of the Company Law and Paragraphs 1 and 3, Article 100 of the Enforcement Regulations of the Company Law as follows:

**(i) Structures for ensuring execution of duties by Directors and employees in conformity with laws and regulations and the Articles of Incorporation**

- (a) The "NEC Electronics Guiding Principles" and the 'NEC Electronics Group Code of Conduct' had been adopted to establish corporate ethics and to ensure compliance of laws and regulations, the Articles of Incorporation of the Company and other internal rules of the Company by its Directors and employees. The NEC Electronics Group has kept informed about and followed these principles.
- (b) Directors and Corporate Officers acknowledge that to keep informed about the 'NEC Electronics Guiding Principles' and the 'NEC Electronics Group Code of Conduct' is one of their principal duties, and take the lead in putting these principles into practice; while i) the Legal Division carries out practical activities, and ii) the Internal Auditing Division audits the actual state of implementation of such activities, points out the problems and offers suggestions for improvements thereof.
- (c) When the important facts regarding the compliance of laws and regulations, the Articles of Incorporation or the internal rules of the Company (including but not limited to the serious violation thereof) ("Compliance") are found, Directors shall immediately inform Corporate Auditors of such facts and report them at the Meeting of the Board of Directors without delay.
- (d) Major issues relating to the Compliance are deliberated and decided by the "CSR Promotion Committee". The compliance promotion system, awareness-raising programs and other fundamental issues, meanwhile, are ensured under its fundamental company regulations regarding compliance, the "NEC Electronics Group Compliance Program". In addition,

NEC Electronics designates compliance promoters in each division and its subsidiaries, and carries out the Compliance throughout the NEC Electronics Group.

- (e) NEC Electronics has set up 'NEC Electronics Group Helplines', as an internal window for a report on the compliance violation issues, for the NEC Electronics Group and its business partners. Further, the Company, upon request from the informant, assures the anonymousness of such informant, and keeps informed that such informant will never be placed at a disadvantage.

**(ii) Matters relating to the preservation and management of information related to the execution of duties by Directors**

- (a) The minutes of the Meetings of Shareholders and Board of Directors are properly prepared, saved and managed in accordance with the relevant laws and regulations. Other documents pertaining to the duties of Directors and employees, and other books and records are also properly prepared, saved and managed based on the Company's own fundamental regulation rules regarding document management.
- (b) Documents related to the execution of duties by Directors are managed in a way accessible by Directors and Corporate Auditors at any time.
- (c) Trade secrets are properly and strictly managed in accordance with the Company's own fundamental regulations regarding the management and protection of confidential information.
- (d) Personal information is properly and strictly managed in accordance with the Company's own fundamental regulations regarding the management and protection of personal information.
- (e) As to the information security, the Company has established its own fundamental regulations regarding the information security to clarify where the responsibility for information security lies, and built information management and security system to continuously carry out measures for maintaining and improving information security.
- (f) The fundamental issues pertaining to the management and security of confidential and personal information are deliberated by the "Information Management and Security Committee". The "Information Management and Security Committee" also designates information management promoters in each division and subsidiaries, and carries out the compliance with each regulation regarding information management.

**(iii) Rules and other structures regarding the management of risk of loss**

- (a) NEC Electronics has established a risk management framework in line with the Company's own fundamental regulations regarding risk management. Important matters which are not defined in such regulations and the revisions of such regulations are discussed and resolved at the Executive Committee.

- (b) The above regulations classify company wide management risks, and designate the Corporate Officers and the division responsible for each classified risk category. Each responsible Corporate Officer and division is charged with devising and carrying out measures to prevent their specific category of risk from materializing, as well as preparing countermeasures in case of the actual materialization of risks.
  - (c) Understanding and classification of possible risks, and management of the division responsible for each risk, is controlled by the Corporate Planning Division. This system is regularly reviewed at the Executive Committee.
  - (d) Matters of particular importance to the Company's risk management are placed on the Board of Directors' agenda following prior discussion by the Executive Committee.
  - (e) When serious risks materialize, NEC Electronics sets up a 'Crisis Countermeasures Committee' or 'Emergency Headquarters', which will be chaired by the President, to respond to the situation in accordance with the particular category of risk involved.
- (iv) Structures for ensuring efficient execution of duties by Directors**
- (a) The Board of Directors holds an ordinary meeting once a month and extraordinary meeting as needed for the quick decision-making.
  - (b) The Company has adopted Corporate Officer System and has Directors not exceeding ten in number. The Board of Directors makes decisions on the important management of the affairs of the Company at the Meeting of the Board of Directors and supervises the execution of duties by the Corporate Officers. However, the important issues of the Company's management are discussed at the Executive Committee prior to the Meeting of the Board of Directors in order to enhance the Board's deliberation.
  - (c) The Board of Directors decides the mid-term management plan and annual/semiannual budgets, and supervised executions thereof.
  - (d) Execution of duties is flexibly and efficiently performed by Corporate Officers (including Corporate Officers who also act as Directors) in accordance with the office routine regulations decided by the Board of Directors. Corporate Officers efficiently perform their duties in accordance with the mid-term management plan and annual/semiannual budget decided at the Meeting of the Board of Directors, and report the progress of the budget implementation at the Corporate Management Meeting.
  - (e) Directors make quick decision regarding the business operation by transferring the authority to Corporate Officers, General Managers and other employees. Authorities of Corporate Officers, General Managers and other employees are executed in accordance with the office routine regulations, decision-making and authorization procedures regulations and other pertinent fundamental regulations.
  - (f) Corporate Officers build, operate and improve the information system for each business operation, to ensure efficient execution of their duties.

**(v) Structures for ensuring appropriate operations of the NEC Electronics Group**

- (a) The Company's responsible divisions oversee the routine management of subsidiaries based on 'NEC Electronics Guiding Principle' and the 'NEC Electronics Group Code of Conduct', while Corporate Auditors instruct and support the subsidiaries regarding the compliance system and other systems to ensure their appropriate operations through hearings of their business reports and investigations of their operation and finance
- (b) Important matters concerning business operations of NEC Electronics Group's subsidiaries are approved at each subsidiaries' General Meeting of Shareholders or Meeting of Board of Directors. NEC Electronics makes the decision (including the resolution at the Meeting of Board of Directors) based on its own assessment of the seriousness of the issue being decided, then exercises its shareholder's rights directly or indirectly.
- (c) Evaluation, maintenance and improvement of NEC Electronics Group's internal control systems over financial reporting are performed in accordance with the applicable laws of Japan and other countries.
- (d) To ensure appropriate operations of the NEC Electronics Group, Internal Auditing Division audits the appropriate operations of subsidiaries. In addition, the Company has principal subsidiaries place internal auditing staff or division, and ensure them to cooperate with the Internal Auditing Division and Corporate Auditors of such subsidiaries.
- (e) Examinations of subsidiaries, including visiting audits, are performed by Corporate Auditors in cooperation with the subsidiaries' own corporate auditors to ensure appropriate operations of the NEC Electronics Group.

**(vi) Matters relating to employees assigned to assist the Corporate Auditors and independence of such employees from Directors**

NEC Electronics has established the Corporate Auditors Office composed of specialized staff members that assist the Corporate Auditors' audit activities. Any merit evaluation, personnel transfer or reprimand, etc. of such specialized staff requires prior consultation of full-time Corporate Auditors.

**(vii) Structures for Directors' and employees' reporting to Corporate Auditors; and structures relating to other reporting to Corporate Auditors**

- (a) Directors and employees of the Company, in response to the Corporate Auditors' request, report their execution of duties, etc. to Corporate Auditors.
- (b) General Managers of divisions such as the Internal Auditing Division, Legal Division and Controller Division, depending on the specific duty, regularly report the status of their business execution once a month, quarter or other term.
- (c) The manager of the internal window for a report on compliance violation issues regularly reports the status of its operation to Corporate Auditors. Further, the said manager, as

needed, promptly reports the violation of the Compliance by Directors and other important matters to Corporate Auditors.

- (d) Important authorization documents (such as the minutes, decision records and other documents of important meetings) are reviewed by Corporate Auditors.

**(viii) Structures for ensuring effective auditing by Corporate Auditors**

- (a) Corporate Auditors may attend all important Company meetings as they deem necessary. Also the right of Corporate Auditors to access to all critical corporate information is guaranteed.
- (b) Independent rooms are provided to the full-time Corporate Auditors.
- (c) Corporate Auditors may obtain, at Company's cost, expert advice from outside specialists as they deem necessary for the audit.
- (d) Corporate Auditors hold the Meeting of the Corporate Auditors at least once a month, and exchange information and deliberate on each Corporate Auditor's audit status, and also receive regular reports from independent auditors on their audit activities and exchanges viewpoints on them.
- (e) Regular meetings are held to provide the Corporate Auditors and Directors with the opportunity to exchange their viewpoints.

**CONSOLIDATED BALANCE SHEET**

(As of March 31, 2008)

(Millions of Yen)

Assets	
<b>Current assets:</b>	
Cash and cash equivalents	¥165,472
Notes and accounts receivable, trade	96,504
Allowance for doubtful notes and accounts	(152)
Inventories	75,839
Deferred tax assets	899
Prepaid expenses and other current assets	5,553
<b>Total current assets</b>	<b>344,115</b>
<b>Investments:</b>	
Marketable securities	3,345
Investments, other:	
Affiliated companies	539
Other	681
	<b>4,565</b>
<b>Property, plant and equipment:</b>	
Land	15,708
Buildings	239,406
Machinery and equipment	931,709
Construction in progress	21,717
	<b>1,208,540</b>
Accumulated depreciation	(949,389)
	<b>259,151</b>
<b>Other assets:</b>	
Deferred tax assets	2,062
License fees and other intangibles	5,471
Other	940
	<b>8,473</b>
	<b>¥616,304</b>



(Millions of Yen)

Liabilities and shareholders' equity	
<b>Current liabilities:</b>	
Short-term borrowings	¥ 954
Current portion of long-term debt	619
Current portion of obligation under capital leases to related party	821
Notes and accounts payable, trade	107,311
Accounts payable, other and accrued expenses	58,056
Accrued income taxes	2,049
Other current liabilities	9,905
<b>Total current liabilities</b>	<b>179,715</b>
<b>Long-term liabilities:</b>	
Long-term debt	110,000
Obligation under capital leases to related party	4,207
Accrued pension and severance costs	74,460
Deferred tax liabilities	11,068
Other	4,540
	<b>204,275</b>
<b>Minority shareholders' equity in consolidated subsidiaries</b>	<b>5,176</b>
<b>Commitments and contingent liabilities</b>	
<b>Common stock:</b>	<b>85,955</b>
Authorized	
400,000,000 shares	
Issued and outstanding	
123,500,000 shares	
<b>Additional paid-in capital</b>	<b>281,073</b>
<b>Accumulated deficit</b>	<b>(114,896)</b>
<b>Accumulated other comprehensive income (loss)</b>	<b>(24,984)</b>
<b>Treasury stock, at cost</b>	<b>(10)</b>
2,039 shares	
	<b>227,138</b>
	<b>¥616,304</b>

**CONSOLIDATED STATEMENT OF OPERATIONS**

(For the Period from April 1, 2007 to March 31, 2008)

(Millions of Yen)

<b>Sales and other income:</b>	
Net sales	¥687,745
Gain on sales of property, plant and equipment and other	1,861
Net gain on sales of business	2,040
Interest and dividend income	2,152
	<b>693,798</b>
<b>Costs and expenses:</b>	
Cost of sales	485,683
Research and development	112,300
Selling, general and administrative	84,668
Restructuring charges	7,931
Loss on sales or disposal of property, plant and equipment and other	4,634
Interest	741
Net foreign exchange loss	1,091
Loss on investments in securities	2
	<b>697,050</b>
<b>Loss before income taxes</b>	<b>(3,252)</b>
<b>Provision for income taxes</b>	<b>12,285</b>
	<b>(15,537)</b>
<b>Loss before minority interest, equity in loss of affiliated companies</b>	<b>(15,537)</b>
<b>Minority interest in income of consolidated subsidiaries</b>	<b>251</b>
	<b>(15,788)</b>
<b>Loss before equity in loss of affiliated companies</b>	<b>(15,788)</b>
<b>Equity in loss of affiliated companies</b>	<b>(207)</b>
	<b>¥ (15,995)</b>
<b>Net loss</b>	<b>¥ (15,995)</b>

**CONSOLIDATED STATEMENT**  
**OF CHANGES IN SHAREHOLDER'S EQUITY**  
(For the Period from April 1, 2007 to March 31, 2008)

(Millions of Yen)

	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total
<b>Balance at March 31, 2007</b>	¥85,955	¥281,039	¥(98,901)	¥ (3,017)	¥ (8)	¥265,068
Compensation expense for stock options		34				34
Comprehensive income (loss)						
Net loss			(15,995)			(15,995)
Other comprehensive income (loss)						
Foreign currency translation adjustments				(8,589)		(8,589)
Pension liability adjustment, net of tax				(11,800)		(11,800)
Unrealized gains (losses) on marketable securities, net of tax				(1,578)		(1,578)
Comprehensive income (loss)						<u>(37,962)</u>
Purchase of treasury stock, at cost					(2)	(2)
<b>Balance at March 31, 2008</b>	¥85,955	¥281,073	¥(114,896)	¥(24,984)	¥(10)	¥227,138

## **Basis of Presenting the Consolidated Financial Statements**

(Scope of consolidation and equity method)

Number of consolidated subsidiaries	25 Companies
Number of affiliate companies accounted for by the equity method	1 Company

(Significant Accounting Policies)

1. Basis of preparation of the consolidated financial statements

Pursuant to Paragraph 1 of Article 148 of the Japanese Company Accounting Regulations, the accompanying consolidated financial statements have been prepared by using the terms, forms and methods consistent with accounting principles generally accepted in the United States of America. Certain information and footnotes required by accounting principles generally accepted in the United States of America are omitted pursuant to the aforesaid Article.

2. Method and basis of valuation of inventories

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

3. Method and basis of valuation of marketable equity securities

The Company applies 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 March 31, 2008. 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:

In accordance with SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, accrued pension and severance costs are provided for resignation of employees, based on projected benefit obligations and fair value of plan assets at March 31, 2008. Prior service costs or credits and actuarial gains or losses are amortized on the straight-line method over the average remaining service period of employees expected to receive benefits under the plan.

(Change in the accounting policy)

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

(Notes to Consolidated Balance Sheet)

1. Under operating lease agreements, the Company is obligated to guarantee the residual value of machinery and equipment when the Company returns such machinery and equipment at the end of lease term. At March 31, 2008, the amount of the recognized residual value guarantee was 25,050 million yen.

2. Legal issues

The NEC Electronics Group is engaged in business all over the world. In such a business environment, there is a high possibility the NEC Electronics Group would get involved in litigations, claims seeking damages and other disputes from time to time. Although there are various unresolved legal issues, the Company has acknowledged that, except for the following cases, there are no legal issues which may have a material impact on the NEC Electronics Group's financial position and operating results as of March 31, 2008.

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 the Company 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, has recorded, through consultation

with NEC Corporation, the probable and reasonably estimable losses in the amount of about 2,700 million yen as “Accounts payable, other and accrued expenses” for the U.S. DRAM civil lawsuits and settlements with customers in the U.S. No accrual is made for contingent losses from the other aforementioned civil lawsuits and investigations by authorities, because litigation is inherently uncertain and difficult to predict and the amount of losses cannot be reasonably estimated at this time.

3. Accumulated other comprehensive income (loss) includes foreign currency translation adjustments, pension liability adjustment, and unrealized gains (losses) on marketable securities.

(Notes to Consolidated Statement of Operations)

Net loss per share:

Basic	129.52 yen
Diluted	129.52 yen

**BALANCE SHEET**  
(on a non-consolidated basis)  
(As of March 31, 2008)

(Millions of yen)

Assets	
<b>Current assets</b>	<b>¥389,651</b>
Cash and deposits	30,488
Notes receivable, trade	83
Accounts receivable, trade	67,183
Marketable securities	121,958
Short-term loans receivable	127,418
Accounts receivable, other	18,918
Finished goods	8,401
Raw materials	7,424
Work in process	895
Supplies	5,156
Prepaid expenses	142
Other current assets	1,587
Allowance for doubtful notes and accounts	(2)
<b>Fixed assets</b>	<b>118,631</b>
<b>Property, plant and equipment</b>	<b>24,554</b>
Buildings and structures	6,167
Machinery and equipment	13,008
Delivery equipment, tools, furniture and fixtures	4,811
Construction in progress	568
<b>Intangible fixed assets</b>	<b>19,808</b>
Software	14,553
Software in progress	5,199
Other intangible fixed assets	56
<b>Investments and other assets</b>	<b>74,269</b>
Investments in securities	507
Investments in affiliated companies	62,737
Long-term prepaid expenses	3,952
Prepaid pension expenses	7,102
Other investments	330
<b>Total assets</b>	<b>¥508,282</b>

(Millions of Yen)

Liabilities	
<b>Current liabilities</b>	<b>¥ 156,623</b>
Notes payable	6
Accounts payable, trade	76,523
Accounts payable, other	13,783
Accrued expenses	18,687
Accrued income taxes	284
Advances received	1,204
Deposits	45,498
Provision for product warranties	638
<b>Long-term liabilities</b>	<b>113,893</b>
Convertible bonds	110,000
Deferred tax liabilities	2,646
Other long-term liabilities	1,247
<b>Total liabilities</b>	<b>¥ 270,516</b>
Net assets	
<b>Shareholders' equity</b>	<b>237,735</b>
<b>Common stock</b>	<b>85,955</b>
<b>Capital surplus</b>	<b>257,728</b>
Capital legal reserve	21,489
Other capital surplus	236,239
<b>Earned Surplus</b>	<b>(105,938)</b>
Other earned surplus	(105,938)
Earned surplus brought forward	(105,938)
<b>Treasury stock</b>	<b>(10)</b>
<b>Difference of appreciation and conversion</b>	<b>(28)</b>
Unrealized losses on investments in securities	(28)
<b>New share acquisition rights</b>	<b>59</b>
<b>Total net assets</b>	<b>237,765</b>
<b>Total liabilities and net assets</b>	<b>¥ 508,282</b>



**STATEMENT OF OPERATIONS**  
(on a non-consolidated basis)  
(For the Period from April 1, 2007 to March 31, 2008)

(Millions of yen)

<b>Net sales</b>	<b>588,999</b>
Cost of sales	427,017
<b>Gross of profit</b>	<b>161,982</b>
Selling, general and administrative expenses	188,783
<b>Operating loss</b>	<b>26,801</b>
<b>Non-operating income</b>	<b>4,288</b>
Interest income	3,942
Dividends income	3
Other non-operating income	343
<b>Non-operating expenses</b>	<b>6,992</b>
Interest expense	1,667
Foreign exchange loss	2,576
Loss on disposal of fixed assets	1,175
Accrued pension and severance cost	940
Other non-operating expenses	634
<b>Ordinary loss</b>	<b>29,505</b>
<b>Extraordinary Income</b>	<b>4,191</b>
Gain on sales of fixed assets	2,025
Allowance for provision of loss for affiliated company	1,306
Allowance for doubtful accounts	860
<b>Extraordinary losses</b>	<b>4,888</b>
Valuation loss of subsidiaries' stocks, etc.	2,314
Special retirement related expenses	2,038
Other extraordinary losses	536
<b>Loss before income taxes</b>	<b>30,201</b>
Current income taxes	(1,792)
Deferred income taxes	8
<b>Net loss</b>	<b>28,417</b>

**STATEMENT OF CHANGES IN NET ASSETS**  
(on a non-consolidated basis)  
(For the Period from April 1, 2007 to March 31, 2008)

(Millions of yen)

	Shareholders' equity					Treasury stock	Total shareholders' equity
	Common stock	Capital surplus		Earned surplus			
		Capital legal reserve	Other capital surplus	Other earned surplus	Earned surplus brought forward		
Balance at March 31, 2007	85,955	21,489	236,239	(77,521)	(8)	266,154	
Changes during the annual period							
Net loss				(28,417)		(28,417)	
Purchase of treasury stock					(2)	(2)	
Net changes other than shareholders' equity							
Total changes during the annual period	-	-	-	(28,417)	(2)	(28,419)	
Balance at March 31, 2008	85,955	21,489	236,239	(105,938)	(10)	237,735	

	Difference of appreciation and conversion			New share acquisition rights	Total net assets
	Unrealized losses on investments in securities	Deferred losses on hedges	Total difference of appreciation and conversion		
Balance at March 31, 2007	(10)	(8)	(17)	25	266,162
Changes during the annual period					
Net loss					(28,417)
Purchase of treasury stock					(2)
Net changes other than shareholders' equity	(19)	8	(11)	34	23
Total changes during the annual period	(19)	8	(11)	34	(28,396)
Balance at March 31, 2008	(28)	-	(28)	59	237,765

(Notes to Significant Accounting Policies)

1. Basis and method of valuation of assets

(1) Securities:

Investments in subsidiaries and affiliates		Moving average cost method
Investments in other securities	Marketable securities	Fair value method. Unrealized gains and losses on investments in marketable securities are included in "Unrealized losses on investments in securities." Cost of sales for marketable securities is based on the moving average cost.
	Non-marketable securities	Moving average cost method

(2) Derivatives: Fair value method

(3) Inventories: Lower of cost or market method based on the cost calculated by the following method:

Finished goods	Custom-made products	Specific cost method
	Mass-produced standard products	First-in, first-out method
Raw materials		First-in, first-out method
Work in process	Custom-made products	Specific cost method
Supplies		Specific cost method

2. Depreciation method for fixed assets:

- Property, plant and equipment: Declining-balance method
- Intangible fixed assets: Straight-line method  
Software for internal use is amortized on a straight-line basis over the useful years (5 years).
- Long-term prepaid expenses: Straight-line method

3. Basis of provision for allowance:

(1) Allowance for doubtful notes and accounts

— In order to provide for bad debt, allowance for ordinary receivable is provided based on past actual bad debt ratio, and allowance for receivable considered to be uncollectible is provided based on the individual estimated collectability.

(2) Accrued pension and severance cost (Prepaid pension expenses)

— In order to provide for pension and severance payments, accrued pension and severance cost is calculated based on the estimated amounts of benefit obligation and pension plan assets as of March 31, 2008.

Regarding the difference arising upon changes in the accounting standards, the amount succeeded to from NEC Corporation is allocated proportionally and expensed over the year ending March 31, 2015.

The prior service costs and actuarial losses are amortized on the straight-line method over the average remaining service period of employees.

(3) Provision for product warranties

— In order to provide for after-sales repair cost at no charge, provision for product warranties is provided on the estimated amounts of specific businesses and estimated amounts based on historical performance to sales.

4. Lease transactions

Finance lease transactions except for the case where the ownership of leased assets is transferred to the lessee are recorded in accordance with the policy of ordinary lease transactions.

5. Accounting for hedging

(1) Hedge accounting: For derivative transactions for the purpose of hedging interest rate, the

- Company adopted deferred accounting for hedging.
- (2) Hedging Instrument: interest rate swap
  - (3) Hedging subject: debt
  - (4) Hedge Policy: The Company contracted interest rate swap to manage interest volatility risk in the market for long term fixed liability based on the Company's hedging regulations.
  - (5) Assessment of hedge effectiveness: Interest rate swap meets certain conditions, and thus is effective.
6. Accounting policies on consumption taxes  
Consumption taxes are accounted for as deposits received or deposits paid.
7. Consolidated taxation system  
The Company adopted the consolidated taxation system.

(Notes to Changes in Presentation)

Balance Sheet

Effective from the year ended March 31, 2008, the Company adopted "Practical Guidelines on Accounting Standards for Financial Instruments (Accounting System Committee Report No. 14, issued on January 31, 1999, revised on July 4, 2007). As a result, certificates of deposits which were included in "Cash and deposits" as of March 31, 2007 were included in "Marketable securities" as of March 31, 2008. The amount of certificates of deposit included in "Cash and deposits" as of March 31, 2007 was ¥69,500 million.

In accordance with this revision, cash equivalents were also included in "Marketable securities" effective from the year ended March 31, 2008. The amount of cash equivalents included in "Marketable securities" as of March 31, 2008 was ¥39,058 million.

(Notes to Balance Sheet)

1. Reported amounts are rounded to the nearest one million yen.
2. Accumulated depreciation of property, plant and equipment: ¥82,550 million
3. Guarantees for loan:
  - Loan to affiliates ¥11,153 million
  - Residual value guarantees for operating lease agreements: ¥23,359 million
4. Monetary receivable from and payable to affiliates:

Short-term receivable	¥170,870 million
Short-term payable	¥ 93,797 million

(Notes to Statement of Operations)

1. Reported amounts are rounded to the nearest one million yen.
2. Transactions with affiliated companies:

Net sales	¥214,335 million
Purchases	¥551,966 million
Transactions other than operation	¥ 5,901 million

(Notes to Statements of Change in Net Assets)

As of March 31, 2008

1. Kind and number of outstanding shares including treasury stock
  - Common stock 123,500,000 shares
2. Kind and number of treasury stock
  - Common stock 2,039 shares

(Notes to Deferred Income Tax)

Significant components of deferred tax assets are loss on revaluation of investments in affiliates, deficit, R&D expenses, excess in depreciation and others. Significant component of deferred tax liabilities is gain on contribution of securities to retirement benefit trust.

(Notes to Fixed Assets Used for Lease)

Fixed assets and parts of office equipment and production equipment in the balance sheet are used for

finance lease except for the case where the ownership of leased assets is transferred to the lessee.

(Notes to Transaction with Related Parties)

Subsidiaries

(Millions of yen)

Attribution	Company name	Ratio of Share-holding	Relation with related parties	Contents of transaction	Transaction amount (*3)(*4)	Account	Balance at March 31, 2008(*3)
Subsidiary	NEC Yamagata, Ltd.	100.0 %	Purchasing parts of our products	Purchasing products(*1), Loan(*2) Receiving interests	80,249 54,000 498	Accounts payable Short-term loans	8,977 37,894
Subsidiary	NEC Kansai, Ltd.	100.0 %	Purchasing parts of our products	Purchasing products(*1), Loan(*2)	56,475 22,000	Accounts payable Short-term loans	8,227 16,865
Subsidiary	NEC Kyushu, Ltd.	100.0 %	Purchasing parts of our products	Purchasing products(*1), Loan(*2)	56,291 41,500	Accounts payable Short-term loans	5,470 31,064
Subsidiary	NEC Fukui, Ltd.	100.0 %	Purchasing parts of our products	Loan(*2)	7,300	Short-term loans	2,981
Subsidiary	NEC Semicon Package Solutions, Ltd.	100.0 %	Purchasing parts of our products	Purchasing products(*1), Loan(*2)	59,501 24,000	Accounts payable Short-term loans	5,719 10,778
Subsidiary	NEC Yamaguchi, Ltd.	100.0 %	Purchasing parts of our products	Loan(*2)	15,000	Short-term loans	12,020
Subsidiary	NEC Electronics America, Inc.	100.0 %	Selling parts of our products, Purchasing parts of our products	Loan(*2) Receiving interests	163,800 539 thousands of US dollars	Short-term loans Accounts receivable, other	10,391 30
Subsidiary	NEC Electronics (Europe) GmbH	100.0 %	Selling parts of our products	Selling products(*1) Money deposited(*2)	44,691 -	Accounts receivable Deposits	7,829 9,491
Subsidiary	NEC Semiconductors Singapore Pte.Ltd.	100.0 %	Purchasing parts of our products	Money deposited (*2)	-	Deposits	13,475
Subsidiary	Shougang NEC Electronics Co., Ltd.	50.3%	Purchasing parts of our products	Loan(*2)	68,100 thousands of US dollars	Short-term loans	5,224
Subsidiary	NEC Electronics Hong Kong Limited	100.0 %	Selling parts of our products	Selling products(*1)	50,996	Accounts receivable	5,775

(\*1) Price and other transaction conditions were determined under price negotiation.

(\*2) Rate for loan to subsidiaries and money deposited from subsidiaries were determined by considering the market rate.

(\*3) Consumption tax and other taxes are not included in balances of transaction amount, short-term loan, deposits, and accounts receivable, other.

(\*4) "Transaction amount" of loan is shown here as loan ceiling.

Board member, major individual shareholder and others

(Millions of yen)

Attribution	Company name	Ratio of Share-holding	Relation with related parties	Contents of transaction	Transaction amount (*3)	Account	Balance at March 31, 2008(*3)
Company and others that Board member and the close relatives own the majority of voting right	Sanka Corporation (*1)	Nil	Concurrently serving as a board member	Consulting service agreement for semiconductor business with the Company(*2)	20	Accounts payable,	5
						other Accrued expenses	4

(\*1) Mr. T. W. Kang, the Company's outside Director, and his close relatives own the majority of voting right.

(\*2) Price and other transaction conditions were determined under price negotiation.

(\*3) Consumption tax and other taxes are not included in transaction amount and the balances.

(Notes to the per share information)

1. Net assets per share
2. Net loss per share

1,924.78 yen  
230.10 yen

## Report of Independent Auditors

May 12, 2008

TO: The Board of Directors  
NEC Electronics Corporation (the "Company")

Ernst & Young Shin Nihon  
Engagement partner and CPA Kazuya Oki (Seal)  
Engagement partner and CPA Kiyomi Nakayama (Seal)  
Engagement partner and CPA Koki Ito (Seal)  
Engagement partner and CPA Kazuhiro Ishiguro (Seal)

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of operations, consolidated statement of change in shareholders' equity and notes to the consolidated financial statements for the 6th business period, from April 1, 2007 to March 31, 2008, of the Company pursuant to Paragraph 4, Article 444 of the Company Law. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements as an independent third party based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we obtain reasonable assurance about whether consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements as described above present fairly the financial position and the results of operations of the NEC Electronics Group, which consists of the Company and its consolidated subsidiaries, for the 6th business period, for which the consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles, under Paragraph 1, Article 148 of the Japanese Company Accounting Regulations (refer to Note 1 of "Significant Accounting Policies" of "Basis of Presenting the Consolidated Financial Statements" in the notes to the consolidated financial statements).

Neither our firm nor we have an interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law in Japan.

## Report of Independent Auditors

May 12, 2008

TO: The Board of Directors  
NEC Electronics Corporation (the "Company")

Ernst & Young Shin Nihon  
Engagement partner and CPA Kazuya Oki (Seal)  
Engagement partner and CPA Kiyomi Nakayama (Seal)  
Engagement partner and CPA Koki Ito (Seal)  
Engagement partner and CPA Kazuhiro Ishiguro (Seal)

We have audited the financial statements, comprising the non-consolidated balance sheet, the non-consolidated statement of operations, the non-consolidated statement of changes in net assets, notes to the non-consolidated financial statements, and supplementary schedules for the 6th business period, from April 1, 2007 to March 31, 2008, of the Company pursuant to Item 1, Paragraph 2, Article 436 of the Company Law. The financial statements and supplementary schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and supplementary schedules as an independent third party based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we obtain reasonable assurance about whether the financial statements and supplementary schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and supplementary schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation in the financial statements and supplementary schedules. We believe that our audit provides a reasonable basis for our opinion.

The financial statements and supplementary schedules as described above fairly present the financial position and the results of operations of the Company for the 6th business period covered by the aforesaid financial statements and supplementary schedules in conformity with auditing standards generally accepted in Japan.

Neither our firm nor we have an interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

## **Audit Report of Board of Corporate Auditors**

Based on audit reports from each Corporate Auditor, and following due discussion at meetings, the Board of Corporate Auditors have prepared this report regarding the execution of the duties of the Board of Directors for the 6th business period, from April 1, 2007 to March 31, 2008. The Board reports as follows:

### 1. Auditing Method Employed by the Corporate Auditors and Board of Corporate Auditors and the Details

The Board of Corporate Auditors established auditing policies and plans and received reports from each Corporate Auditor on the status of the implementation of audits and the results thereof, as well as reports from Directors and the Independent Auditors regarding the status of execution of their duties, and requested explanations as necessary.

On the basis of the Board of Corporate Auditors Rules established by the Board of Corporate Auditors, and in accordance with the auditing policies and plans, the Corporate Auditors sought mutual understanding with Directors and employees in their efforts to collect information and achieve an environment conducive to audits, attended meetings of the Board of Directors and other important meetings, and received reports from Directors and employees regarding performance of their duties, requested explanations as necessary, and perused important documents regarding decisions and approvals made, and investigated the status of operations and the financial position at the Company's head office and principal offices of business. The Board of Corporate Auditors also carried out an audit and verification of the particulars of Board of Director resolutions relating to the establishment of structures as set forth in Paragraphs 1 and 3, Article 100 of the Enforcement Regulations of the Company Law, as structures necessary to ensure that the Board of Directors' performance of its duties is in conformity with applicable laws and regulations and the Company's Articles of Incorporation and to otherwise ensure the appropriateness of the business of a Kabushiki Kaisha, as well as structures established pursuant to such resolutions (Internal Control System). Regarding the subsidiaries, the Board of Corporate Auditors sought to achieve a mutual understanding and exchange of information with directors and corporate auditors of the subsidiaries, and, where necessary, visited the subsidiaries, received business reports from the subsidiaries, and examined their operations and assets. Based on the above methods, the Board of Corporate Auditors evaluated the Business Report and supplementary schedules thereto for the 6th business period.

In addition, the Board of Corporate Auditors audited and verified whether the Independent Auditors maintained their independence and carried out their audits appropriately, received reports from the Independent Auditors regarding the execution of their duties and, where necessary, requested explanations. Also, the Board of Corporate Auditors received notification from the Independent Auditors to the effect that the "structure to ensure that duties are executed appropriately" (the matters listed in Article 159 of the Japanese Company Accounting Regulations) has been established in accordance with "Quality Control Standards for Auditing" (adopted by the Business Accounting Council on October 28, 2005), etc., and requested explanations as necessary. Based on the above methods, the Board of Corporate Auditors audited the non-consolidated financial statements related to the 6th business period (the non-consolidated balance sheet, the non-consolidated statement of operations, the non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements) and supplementary schedules as well as the consolidated financial statements (the consolidated balance sheet, the consolidated statement of operations, the consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements).

### 2. Results of Audit

#### (1) Results of the Audit on the Business Report, etc.

1. We found that the Business Report and supplementary schedules accurately reflect the conditions of the Company in accordance with applicable laws and regulations and the Articles of Incorporation.
2. No inappropriate conduct concerning the execution of duties by Directors or material facts in violation of applicable laws and regulations or the Articles of Incorporation were found.
3. We found that the particulars of Board of Directors' resolutions concerning the Internal Control System are appropriate. Further, no matter requiring note on our part were found with respect to Director' execution of duties in regards to the Internal Control System.

#### (2) Results of the Audit on the Non-Consolidated Financial Statements and Supplementary Schedules

We found that the methods and the results of the audit conducted by the Independent Auditors, Ernst & Young Shin Nihon, are appropriate.

#### (3) Results of the Audit on the Consolidated Financial Statements and Supplementary Schedules

We found that the methods and the results of the audits conducted by the Independent Auditors, Ernst & Young Shin Nihon, are appropriate.



May 13, 2008

Board of Corporate Auditors of NEC Electronics Corporation

Corporate Auditor (Full-time) Norio Tanoue (Seal)

Corporate Auditor (Full-time) Keiji Suzuki (Seal)

Corporate Auditor Yasuyuki Shibata (Seal)

Corporate Auditor Kaoru Ikenaga (Seal)

Note: Messrs. Norio Tanoue, Keiji Shibata and Kaoru Ikenaga are outside Corporate Auditors stipulated in item 16, Article 2, and paragraph 3, Article 335, of the Company Law.