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**NEC Electronics Reports Financial Results for the  
 Year Ended March 31, 2007**

**KAWASAKI, Japan, May 14, 2007** — NEC Electronics Corporation (TSE: 6723) today announced consolidated financial results for the year ended March 31, 2007.

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## I. Summary of Consolidated Financial Results

	Year Ended March 31, 2006		Year Ended March 31, 2007			Increase (Decrease)	
	Billion Yen	% of Net Sales	Billion Yen	Million USD	% of Net Sales	Billion Yen	% Change
Net sales	646.0	100.0	692.3	5,867	100.0	46.3	7.2
Sales from semiconductors	619.1		659.7	5,591		40.6	6.6
Operating loss	(35.7)	(5.5)	(28.6)	(242)	(4.1)	7.1	---
Loss before income taxes	(42.4)	(6.6)	(35.4)	(300)	(5.1)	7.0	---
Net loss	(98.2)	(15.2)	(41.5)	(352)	(6.0)	56.7	---
Net loss per share of common stock:	Yen		Yen	USD		Yen	% Change
Basic	(795.13)		(336.04)	(2.85)		459.09	---
Diluted	(795.13)		(336.04)	(2.85)		459.09	---

	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Capital expenditures	83.0	105.9	897	22.8	27.5
Depreciation and amortization	89.3	83.0	703	(6.4)	(7.1)
R&D expenses	120.9	131.8	1,117	10.9	9.0
Exchange rate (USD)	Yen 112	Yen 117			
Exchange rate (Euro)	138	149			
	March 31, 2006		March 31, 2007		Increase (Decrease)
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Total assets	745.3	695.9	5,897	(49.4)	(6.6)
Shareholders' equity	308.3	265.1	2,246	(43.2)	(14.0)

	Persons	Persons	Persons	% Change
Number of employees	23,857	23,982	125	0.5

### Notes

1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118=U.S.\$1.
2. All figures are rounded to the nearest 100 million yen.
3. The consolidated financial statements of NEC Electronics are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.
4. The figures for operating loss shown above represent net sales minus the cost of sales, research and development, and selling, general and administrative expenses.
5. Net income (loss) per share of common stock is calculated based on Statement of Financial Accounting Standards ("SFAS") No.128, "Earnings per share".
6. The figures for shareholders' equity are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.
7. The consolidated financial information is unaudited. The above consolidated financial information may change as a result of subsequent events and/or audit by the independent auditors. In the event of such changes, NEC Electronics will revise the information in a timely manner via a press release.



## Consolidated Financial Results for the Year Ended March 31, 2007

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

May 14, 2007

Company name : **NEC Electronics Corporation**  
 Stock exchanges on which the shares are listed : Tokyo Stock Exchange, First Section  
 Code number : 6723  
 Location of the head office : Kanagawa Prefecture  
 URL : <http://www.necel.com>  
 Representative : Toshio Nakajima, President and CEO  
 Contact person : Taizo Endo, Associate General Manager  
 Corporate Communications Department  
 Tel. +81 (0)44-435-1664

Date of the ordinary general shareholders' meeting : June 27, 2007  
 Filing date of Yukashoken Hokokusho : June 27, 2007

(Amounts are rounded to the nearest million yen)

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

#### (1) Consolidated financial results

(% of change from previous year)

	Net Sales		Operating Loss		Loss Before Income Taxes		Net Loss	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Year ended March 31, 2007	692,280	7.2	(28,557)	---	(35,375)	---	(41,500)	---
Year ended March 31, 2006	645,963	(8.8)	(35,689)	---	(42,386)	---	(98,198)	---

	Net Loss Per Share: Basic	Net Loss Per Share: Diluted	Ratio of Net Loss to Shareholders' Equity (ROE)	Ratio of Loss Before Income Taxes to Total Assets (ROA)	Ratio of Operating Loss to Net Sales
	Yen	Yen	%	%	%
Year ended March 31, 2007	(336.04)	(336.04)	(14.5)	(4.9)	(4.1)
Year ended March 31, 2006	(795.13)	(795.13)	(28.0)	(5.4)	(5.5)

Reference: Equity in losses of affiliated companies:  
 Year ended March 31, 2007: (468 million yen)  
 Year ended March 31, 2006: -

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

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

#### (2) Consolidated financial position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity Per Share
	Million Yen	Million Yen	%	Yen
March 31, 2007	695,886	265,068	38.1	2,146.32
March 31, 2006	745,281	308,251	41.4	2,495.98

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

### (3) Consolidated cash flows

	Cash Flows From Operating Activities	Cash Flows From Investing Activities	Cash Flows From Financing Activities	Cash and Cash Equivalents at the End of the Year
	Million Yen	Million Yen	Million Yen	Million Yen
Year ended March 31, 2007	66,731	(78,497)	(15,273)	185,372
Year ended March 31, 2006	49,890	(54,673)	(12,530)	211,060

### 2. Cash dividends

	Interim Cash Dividends Per Share	Cash Dividends Per Share	Annual Cash Dividends Per Share	Annual Cash Dividends	Payout Ratio	Ratio of Dividends to Shareholders' Equity
	Yen	Yen	Yen	Million Yen	%	%
Year ended March 31, 2007	---	---	---	---	---	---
Year ended March 31, 2006	---	---	---	---	---	---
Year ending March 31, 2008 (forecast)	---	---	---	---	---	---

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

(% of change from previous year)

	Net Sales		Operating Income (Loss)		Loss Before Income Taxes		Net Loss		Net Loss Per Share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Six months ending September 30, 2007	335,000	(2.3)	(5,000)	---	(12,000)	---	(15,000)	---	(121.46)
Year ending March 31, 2008	690,000	(0.3)	---	---	(10,000)	---	(15,000)	---	(121.46)

### 4. Other

- (1) Changes in significant subsidiaries in the year ended March 31, 2007 : Yes  
(changes in specified subsidiaries resulting in changes in scope of consolidation)

Added: 1 (NEC Electronics Korea Limited)

Removed: 2 (NEC Compound Semiconductor Devices, Ltd.; NEC Deviceport, Ltd.)

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

- (2) Changes in accounting principles, procedures, and presentations, etc.

(Changes indicated to "Basis of Presenting the Consolidated Financial Statements")

1. Changes resulting from revisions  
in accounting principles, etc. : Yes

2. Other changes : No

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

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

1. Number of shares issued and outstanding at the end of each fiscal year

FY2007: 123,500,000 shares      FY2006: 123,500,000 shares

2. Number of treasury shares at the end of each fiscal year

FY2007: 1,445 shares      FY2006: 1,020 shares

3. Average number of shares issued and outstanding in each fiscal year

FY2007: 123,498,823 shares      FY2006: 123,499,052 shares

## (Reference) Non-consolidated results for the year ended March 31, 2007

### (1) Non-consolidated financial results

(% of change from previous year)

	Net Sales		Operating Loss		Ordinary Loss		Net Loss	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Year ended March 31, 2007	596,141	17.6	(49,234)	---	(55,192)	---	(77,521)	---
Year ended March 31, 2006	506,747	(10.0)	(64,317)	---	(66,942)	---	(95,964)	---

	Net Loss Per Share: Basic	Net Loss Per Share: Diluted
	Yen	Yen
Year ended March 31, 2007	(627.71)	---
Year ended March 31, 2006	(777.04)	---

### (2) Non-consolidated financial position

	Total Assets	Net Assets	Net Assets to Total Assets	Net Assets Per Share
	Million Yen	Million Yen	%	Yen
March 31, 2007	553,904	266,162	48.0	2,154.97
March 31, 2006	632,648	349,423	55.2	2,829.36

Reference: Shareholders' equity at the end of the year ended March 31, 2007: 266,144 million yen  
Shareholders' equity at the end of the year ended March 31, 2006: 349,423 million yen

#### Cautionary Statement

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

## II. Business Results

### (1) Analysis of Business Results

#### 1. Overview of the Year Ended March 31, 2007

The global economy fared well in the first half of the fiscal year ended March 31, 2007, but signs of a downturn emerged during the second half. In the United States, policy interest rate caps led to a slowdown in housing investment, while in Asia there were inventory adjustments for IT equipment and LCD panels. Despite a steady rise in domestic demand in Europe and Japan, foreign demand began to decline in the second half, leading to a slowdown in these economies.

As with the global economy, growth in the semiconductor market began to taper off from the summer of 2006. In particular, monthly semiconductor shipments, excluding DRAM, slowed year-on-year from the latter half of the fiscal year. Particularly in Asia, semiconductor sales volumes continued to increase, driven by the uptake of mobile phones in emerging economies, but on a monetary basis growth was flat as unit prices fell. Semiconductor sales in Japan were sluggish, especially around the start of the new year, due to saturation of the mobile phone market and falling prices for digital consumer electronics.

#### 2. Summary of Consolidated Financial Results

	Year Ended March 31, 2006	Year Ended March 31, 2007		Increase (Decrease)	
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Net sales	646.0	692.3	5,867	46.3	7.2
Operating loss	(35.7)	(28.6)	(242)	7.1	---
Loss before income taxes	(42.4)	(35.4)	(300)	7.0	---
Net loss	(98.2)	(41.5)	(352)	56.7	---
Exchange rate (USD)	Yen 112	Yen 117		---	---
Exchange rate (Euro)	138	149		---	---

Consolidated net sales for the fiscal year ended March 31, 2007 were 692.3 billion yen, up 46.3 billion yen, or 7.2%, from the previous fiscal year. Although the Communications and the Computing & Peripherals segments lagged from lower sales of system memory for mobile phones and semiconductors for PC peripherals, this was offset by large gains in the Consumer Electronics segment due to shipments for a new game console and higher sales of semiconductors for digital televisions, as well as expanded sales of All Flash™ microcontrollers in the Multi-market IC segment.

NEC Electronics posted a consolidated operating loss of 28.6 billion yen, an improvement of only 7.1 billion yen from the previous fiscal year. Despite higher sales year on year, R&D expenses and investments to boost production capacity increased, while Group-wide cost reduction measures were unable to keep pace with price erosion. Another contributory factor was the one-time expense for structural reforms, including costs related to the consolidation of development projects.

Improvement of consolidated loss before income taxes was similarly limited, as it decreased 7.0 billion yen, improved to 35.4 billion yen.

Consolidated net loss improved 56.7 billion yen year on year, to 41.5 billion yen. This was mainly due to a decrease in provision for income taxes as a result of recording an allowance to reduce deferred tax assets in the previous year.

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

	Year Ended March 31, 2006	Year Ended March 31, 2007		Increase (Decrease)	
	Billion Yen	Billion Yen	Million USD	Billion Yen	% Change
Communications	108.0	99.6	844	(8.4)	(7.7)
Computing and peripherals	126.6	123.7	1,049	(2.9)	(2.3)
Consumer electronics	102.6	120.8	1,023	18.1	17.7
Automotive and industrial	103.8	106.1	899	2.3	2.2
Multi-market ICs	69.4	89.0	754	19.5	28.1
Discrete, optical, and microwave devices	108.7	120.6	1,022	11.9	10.9
Semiconductor total	619.1	659.7	5,591	40.6	6.6
Other	26.8	32.5	276	5.7	21.4
Total	646.0	692.3	5,867	46.3	7.2

#### Communications

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

**Net sales** 99.6 billion yen (Down 8.4 billion yen, 7.7% year on year)

Sales of semiconductors for mobile phones decreased year on year. Sales of LCD driver ICs increased due to the proliferation of handsets featuring high definition TFT-LCD displays, on which the company is focusing its efforts, but this was offset by a large year-on-year fall in sales of system memory for mobile phones.

#### Computing and Peripherals

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

Net sales 123.7 billion yen (Down 2.9 billion yen, 2.3% year on year)

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

### Consumer Electronics

Products Semiconductors for digital AV equipment and game consoles.

Net sales 120.8 billion yen (Up 18.1 billion yen, 17.7% year on year)

Sales of semiconductors for game consoles recorded a significant year-on-year increase, the result of commencing shipments chips for a new game console. This was coupled with increased sales of semiconductors for products such as digital cameras and digital televisions driven by the expansion of the digital consumer electronics market.

### Automotive and Industrial

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

Net sales 106.1 billion yen (Up 2.3 billion yen, 2.2% year on year)

Sales of automotive semiconductors increased during the fiscal year as more semiconductors are used in vehicles due to the greater application of electronics in cars.

### Multi-market ICs

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

Net sales 89.0 billion yen (Up 19.5 billion yen, 28.1% year on year)

Sales of general purpose microcontrollers increased sharply due to an upturn in the market coupled with higher sales of All Flash™ microcontrollers.

### Discrete, Optical and Microwave Devices

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

Net sales 120.6 billion yen (Up 11.9 billion yen, 10.9% year on year)



Sales of discrete semiconductors increased mainly due to a market recovery.

#### Other

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

**Net sales** 32.5 billion yen (Up 5.7 billion yen, 21.4% year on year)

Resale of non-semiconductor products is not part of NEC Electronics' core business, and has a minimal effect on the company's overall profit and loss.

#### **4. Geographical Segment Analysis**

	Year Ended March 31, 2006		Year Ended March 31, 2007		Increase (Decrease)	
	Billion Yen		Billion Yen	Million USD	Billion Yen	% Change
Japan	352.9		377.3	3,198	24.4	6.9
United States of America	76.9		67.5	572	(9.4)	(12.2)
Europe	73.0		88.9	753	15.9	21.9
Asia	143.3		158.6	1,344	15.3	10.7
<b>Total</b>	<b>646.0</b>		<b>692.3</b>	<b>5,867</b>	<b>46.3</b>	<b>7.2</b>

#### Japan

**Net sales** 377.3 billion yen (Up 24.4 billion yen, 6.9% year on year)

Sales of chips for printers and driver ICs for plasma display panels (PDPs) decreased, but sales of game console chips grew significantly.

#### United States of America

**Net sales** 67.5 billion yen (Down 9.4 billion yen, 12.2% year on year)

Sales of system memory for mobile handsets decreased.

#### Europe

**Net sales** 88.9 billion yen (Up 15.9 billion yen, 21.9% year on year)

Sales of set top box LSI chips, automotive semiconductors, and general purpose microcontrollers increased.

#### Asia

**Net sales** 158.6 billion yen (Up 15.3 billion yen, 10.7% year on year)

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

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

The general slowdown in the semiconductor market which began in the latter half of 2007 still shows signs of lingering, and while inventory adjustments have eased, a genuine recovery does not appear likely until around the middle of the current fiscal year. Demand is expected to pick up in the latter half of the fiscal year leading up to the Beijing Olympics in 2008, but it will be necessary to remain watchful of the situation.

The NEC Electronics Group's first priority is to implement the new management policies announced in February 2007, and bring operating profits into the black as quickly as possible.

Consolidated net sales for the fiscal year are expected to remain in line with the year just ended, at approximately 690 billion yen, with sales from semiconductors accounting for approximately 670 billion yen, representing a 1.6 percent increase.

In the first half of the fiscal year, there should be a recovery in demand for some products such as LCD driver ICs for large panels, but the situation on the whole will remain severe. In the second half, the semiconductor market is expected to pick up in preparation for the Olympics, and sales of chips, particularly for digital consumer electronics, are expected to pick up.

Consolidated operating profit is expected to be zero billion yen due to improved profits from higher semiconductor sales and better management efficiency through a decreased in fixed costs. Consolidated loss before taxes is expected to be 10.0 billion yen, and consolidated net loss is expected to be 15.0 billion yen.

	Billion Yen	Million USD	Year on Year
Net sales	690.0	5,847	-0.3%
Sales from semiconductors	670.0	5,678	1.6%
Operating income	---	---	---
Loss before income taxes	(10.0)	(85)	---
Net loss	(15.0)	(127)	---

The consolidated financial forecasts for the fiscal year are calculated at the rate of 115 yen per USD, and 150 yen per Euro. The statements in this press release are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may vary materially from such forward-looking statements due to several important factors.

## (2) Financial Condition

### 1. Total Assets and Shareholders' Equity

	March 31, 2006	March 31, 2007		Increase (Decrease)
	Billion Yen	Billion Yen	Million USD	Billion Yen
Total assets	745.3	695.9	5,897	(49.4)
Shareholders' equity	308.3	265.1	2,246	(43.2)
Equity ratio	41.4%	38.1%		(3.3%)
Shareholders' equity per share	2,496 yen	2,146 yen	18.19 USD	(350) yen
Interest-bearing debt	148.3	136.0	1,153	(12.3)

Total assets at March 31, 2007 totaled 695.9 billion yen, a 49.4 billion yen decrease from March 31, 2006. This was mainly due to payments for manufacturing equipment purchased in the previous fiscal year, which led to a 25.7 billion yen decrease in cash and cash equivalents.

Compared to March 31, 2006, shareholders' equity was 43.2 billion yen lower at 265.1 billion yen, due to net loss in the amount of 41.5 billion yen. Shareholders' equity ratio decreased by 3.3 points from March 31, 2006 as a result of the decrease in shareholders' equity.

Interest-bearing debt totaled 136.0 billion yen, decreasing 12.3 billion yen from March 31, 2006 mainly due to the repayment of debt.

### 2. Cash Flows

	Year Ended March 31, 2006	Year Ended March 31, 2007		Increase (Decrease)
	Billion Yen	Billion Yen	Million USD	Billion Yen
Net cash provided by operating activities	49.9	66.7	565	16.8
Net cash used in investing activities	(54.7)	(78.5)	(665)	(23.8)
Free cash flows	(4.8)	(11.8)	(100)	(7.0)
Net cash used in financing activities	(12.5)	(15.3)	(130)	(2.7)
Effect of exchange rate changes on cash and cash equivalents	2.7	1.6	14	(1.1)
Net decrease in cash and cash equivalents	(14.6)	(25.4)	(216)	(10.8)
Cash and cash equivalents at beginning of year	225.7	211.1	1,789	(14.6)
Cash and cash equivalents at end of year	211.1	185.4	1,571	(25.7)

As a result of improved working capital due to increases in accounts payable and decreases in accounts receivable, net cash provided by operating activities was 66.7 billion yen, a 16.8 billion yen improvement year on year.

A decrease in income from the sale of equipment, and payments for property, plant, and equipment brought the total net cash used in investing activities to 78.5 billion yen, 23.8 billion yen more year on year.

The foregoing resulted in negative free cash flows of 11.8 billion yen, 7.0 billion yen more year on year.

Financing activities used net cash in the amount of 15.3 billion yen for the repayment of debt. This figure was 2.7 billion yen more compared to the corresponding period of the previous fiscal year.

As a result of the above, net decrease in cash and cash equivalents was 25.4 billion yen. Cash and cash equivalents at March 31, 2007 was 185.4 billion yen, a 25.7 billion yen decrease from March 31, 2006 resulting from a change in fiscal year-end of an NEC Electronics subsidiary.

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

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

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

For the year ended March 31, 2007, the company posted net losses on both consolidated and non-consolidated bases. Accordingly, the company suspended payment of dividends for this period.

For the year ending March 31, 2008, the company expects to post net losses on a consolidated basis, and therefore intends to forgo dividend interim and year-end dividend payments, but will work toward improved results that will allow dividends to be reinstated at the earliest possible date.

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

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

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

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

the impact of market fluctuations due to economic cycles in countries around the world and changes in the demand for end products. Market downturns, therefore, could lead to sales declines and lower fab utilization rates, which may in turn result in diminished cost ratios and a significant deterioration in profits.

## **2. Foreign Currency Fluctuations**

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

## **3. Natural Disasters**

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

## **4. Competition**

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

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

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

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

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

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

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

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

## **8. Legal Issues**

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

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

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

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

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

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

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

# NEC Electronics Group Companies

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

## Manufacturing Companies

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

## Design Companies

NEC Micro Systems, Ltd.

## Sales Companies

NEC Electronics (Europe) GmbH  
NEC Electronics Taiwan, Ltd.  
NEC Electronics Singapore Pte. Ltd.  
NEC Electronics (China) Co., Ltd.<sup>3</sup>  
NEC Electronics Hong Kong Limited  
NEC Electronics Shanghai, Ltd.  
NEC Electronics (UK) Limited <sup>4</sup>  
NEC Electronics Korea Limited <sup>5</sup>  
NEC Compound Semiconductor Devices Hong Kong Limited <sup>6</sup>

## Other

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

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

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

Note 3: NEC Electronics (China) Co., Ltd. conducts sales and design activities.

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

Note 5: NEC Electronics Korea Limited was established on September 1, 2006 as a wholly-owned subsidiary of NEC Electronics Corporation, and commenced operations on November 1, 2006.

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

Note 7: NEC Compound Semiconductor Devices, Ltd. was merged with NEC Electronics Corporation on April 1, 2006.

Note 8: NEC Deviceport, Ltd. was merged with NEC Electronics Corporation on November 1, 2006.



### **III. Management Policies**

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

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

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

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

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

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

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

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

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

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

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

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

### **2) Superior Quality**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **5. Corporate Social Responsibility**

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

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

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

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

### **NEC Electronics Guiding Principles**

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

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

NEC Electronics is committed to the following Guiding Principles.

#### Customer Focus

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

#### Ethical Business Practices

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

#### Community Involvement

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

#### Environmental Protection

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

#### Corporate Culture

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

## IV. Condensed Consolidated Financial Statements

### Condensed Consolidated Statements of Operations

	Year Ended March 31, 2006		Year Ended March 31, 2007			Increase (Decrease) Million Yen
	Million Yen	% of Net Sales	Million Yen	Million USD	% of Net Sales	
Net sales	645,963	100.0	692,280	5,867	100.0	46,317
Cost of sales	477,476	73.9	502,086	4,255	72.5	24,610
Research and development	120,874	18.7	131,751	1,117	19.0	10,877
Selling, general, and administrative expenses	83,302	12.9	87,000	737	12.6	3,698
Operating loss	(35,689)	(5.5)	(28,557)	(242)	(4.1)	7,132
Non-operating income	4,360	0.6	10,913	92	1.6	6,553
Interest and dividends income	1,078		1,929	16		851
Other	3,282		8,984	76		5,702
Non-operating expense	11,057	1.7	17,731	150	2.6	6,674
Interest expense	874		698	6		(176)
Other	10,183		17,033	144		6,850
Loss before income taxes	(42,386)	(6.6)	(35,375)	(300)	(5.1)	7,011
Provision for income taxes	56,166	8.7	5,105	43	0.7	(51,061)
Minority interest in income (losses) of consolidated subsidiaries	(354)	(0.1)	552	5	0.1	906
Equity in losses of affiliated companies	---	---	(468)	(4)	(0.1)	(468)
Net loss	(98,198)	(15.2)	(41,500)	(352)	(6.0)	56,698

#### Notes

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

## Condensed Consolidated Balance Sheets

	March 31, 2006	March 31, 2007		Increase (Decrease)
	Million Yen	Million Yen	Million USD	Million Yen
Current assets	413,370	381,614	3,234	(31,756)
Cash and cash equivalents	211,060	185,372	1,571	(25,688)
Notes and accounts receivable, trade	113,850	99,543	843	(14,307)
Inventories	72,525	82,573	700	10,048
Other current assets	15,935	14,126	120	(1,809)
Long-term assets	331,911	314,272	2,663	(17,639)
Investments	15,597	7,154	60	(8,443)
Property, plant and equipment	302,125	292,823	2,482	(9,302)
Other assets	14,189	14,295	121	106
Total assets	745,281	695,886	5,897	(49,395)
Current liabilities	210,894	222,960	1,889	12,066
Short-term borrowings and current portion of long-term debt	15,074	20,603	175	5,529
Notes and accounts payable, trade	122,939	132,467	1,122	9,528
Other current liabilities	72,881	69,890	592	(2,991)
Long-term liabilities	222,014	203,023	1,721	(18,991)
Long-term debt	133,235	115,427	978	(17,808)
Accrued pension and severance costs	75,761	71,535	607	(4,226)
Other	13,018	16,061	136	3,043
Minority shareholders' equity in consolidated subsidiaries	4,122	4,835	41	713
Shareholders' equity	308,251	265,068	2,246	(43,183)
Common stock	85,955	85,955	728	---
Additional paid-in capital	281,014	281,039	2,382	25
Retained earnings (Accumulated deficit)	(57,369)	(98,901)	(838)	(41,532)
Accumulated other comprehensive income (loss)	(1,342)	(3,017)	(26)	(1,675)
Treasury stock	(7)	(8)	---	(1)
Total liabilities and shareholders' equity	745,281	695,886	5,897	(49,395)

Interest-bearing debt	148,309	136,030	1,153	(12,279)
Equity ratio	41.4%	38.1%		-3.3%
Debt / equity ratio	0.48 times	0.51 times		0.03 times

Accumulated other comprehensive income (loss):				
Foreign currency translation adjustments	7,713	10,502	89	2,789
Minimum pension liability adjustment	(14,797)	---	---	14,797
Pension liability adjustment	---	(15,937)	(135)	(15,937)
Unrealized gains (losses) on marketable securities	5,754	2,418	20	(3,336)
Unrealized gains (losses) on derivative financial instruments	(12)	---	---	12



## Condensed Consolidated Statements of Change in Shareholders' Equity

Year Ended March 31, 2007	Common stock		Additional paid-in capital		Retained earnings (Accumulated deficit)		Accumulated other comprehensive income (loss)		Treasury stock		Total	
	Million Yen	Million USD	Million Yen	Million USD	Million Yen	Million USD	Million Yen	Million USD	Million Yen	Million USD	Million Yen	Million USD
Balance at beginning of year	85,955	728	281,014	2,381	(57,369)	(486)	(1,342)	(11)	(7)	---	308,251	2,612
Compensation expense for stock options			25	---							25	---
Comprehensive income (loss)												
Net loss					(41,500)	(352)					(41,500)	(352)
Other comprehensive income (loss), net of tax												
Foreign currency translation adjustments							2,789	24			2,789	24
Minimum pension liability adjustment							(878)	(7)			(878)	(7)
Unrealized gains (losses) on marketable securities							(3,336)	(29)			(3,336)	(29)
Unrealized gains (losses) on derivative financial instruments							12	---			12	---
Comprehensive income (loss)											(42,913)	(364)
Adjustment for implementation of SFAS 158, net of tax							(262)	(2)			(262)	(2)
Effect of change in fiscal year-end of a subsidiary					(32)	---					(32)	---
Purchase of treasury stock, at cost									(1)	---	(1)	---
Balance at end of the period	85,955	728	281,039	2,381	(98,901)	(838)	(3,017)	(25)	(8)	---	265,068	2,246

Year Ended March 31, 2006	Common stock		Additional paid-in capital		Retained earnings (Accumulated deficit)		Accumulated other comprehensive income (loss)		Treasury stock		Total	
	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen	Million Yen
Balance at beginning of year	85,955		276,693		40,829		(9,608)		(6)		393,863	
Contribution to capital			6,092								6,092	
Transaction under common control			(1,974)								(1,974)	
Compensation expense for stock options			203								203	
Comprehensive income (loss)												
Net loss					(98,198)						(98,198)	
Other comprehensive income (loss), net of tax												
Foreign currency translation adjustments							4,757				4,757	
Minimum pension liability adjustment							1,243				1,243	
Unrealized gains (losses) on marketable securities							2,304				2,304	
Unrealized gains (losses) on derivative financial instruments							(38)				(38)	
Comprehensive income (loss)											(89,932)	
Purchase of treasury stock, at cost									(1)		(1)	
Balance at end of year	85,955		281,014		(57,369)		(1,342)		(7)		308,251	

## Condensed Consolidated Statements of Cash Flows

	Year Ended	Year Ended		Increase
	March 31, 2006	March 31, 2007		(Decrease)
	Million Yen	Million Yen	Million USD	Million Yen
<b>I. Cash flows from operating activities</b>				
Net loss	(98,198)	(41,500)	(352)	56,698
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation and amortization	89,342	82,960	703	(6,382)
(Increase) decrease in notes and accounts receivable	(7,928)	15,985	135	23,913
Increase in inventories	(3,062)	(9,333)	(79)	(6,271)
Increase in notes and accounts payable	5,675	16,171	137	10,496
Other, net	64,061	2,448	21	(61,613)
Net cash provided by operating activities	49,890	66,731	565	16,841
<b>II. Cash flows from investing activities</b>				
Proceeds from sales of property, plant and equipment	56,474	39,803	337	(16,671)
Additions to property, plant and equipment	(106,642)	(121,126)	(1,026)	(14,484)
Proceeds from sales of marketable securities	395	3,660	31	3,265
(Increase) decrease in loans receivable	(223)	511	4	734
Other, net	(4,677)	(1,345)	(11)	3,332
Net cash used in investing activities	(54,673)	(78,497)	(665)	(23,824)
Free cash flows ( I + II )	(4,783)	(11,766)	(100)	(6,983)
<b>III. Cash flows from financing activities</b>				
Net repayments of borrowings	(9,320)	(13,074)	(111)	(3,754)
Dividends paid	(1,235)	---	---	1,235
Other, net	(1,975)	(2,199)	(19)	(224)
Net cash used in financing activities	(12,530)	(15,273)	(130)	(2,743)
Effect of exchange rate changes on cash and cash equivalents	2,682	1,595	14	(1,087)
Net decrease in cash and cash equivalents	(14,631)	(25,444)	(216)	(10,813)
Effect of change in fiscal year-end of certain subsidiary	---	(244)	(2)	(244)
Cash and cash equivalents at beginning of year	225,691	211,060	1,789	(14,631)
Cash and cash equivalents at end of year	211,060	185,372	1,571	(25,688)

## Condensed Consolidated Statements of Operations (Three Months)

	Three Months Ended March 31, 2006		Three Months Ended March 31, 2007			Increase (Decrease)
	Million Yen	% of Net Sales	Million Yen	Million USD	% of Net Sales	Million Yen
Net sales	170,331	100.0	171,390	1,452	100.0	1,059
Cost of sales	128,750	75.6	131,017	1,110	76.4	2,267
Research and development	36,026	21.2	35,180	298	20.5	(846)
Selling, general, and administrative expenses	22,067	12.9	22,993	195	13.5	926
Operating loss	(16,512)	(9.7)	(17,800)	(151)	(10.4)	(1,288)
Non-operating income	1,630	1.0	1,014	9	0.6	(616)
Interest and dividends income	309		439	4		130
Other	1,321		575	5		(746)
Non-operating expense	9,454	5.6	9,496	81	5.5	42
Interest expense	260		53	1		(207)
Other	9,194		9,443	80		249
Loss before income taxes	(24,336)	(14.3)	(26,282)	(223)	(15.3)	(1,946)
Provision for income taxes	63,476	37.2	1,831	16	1.1	(61,645)
Minority interest in income (losses) of consolidated subsidiaries	(53)	---	168	1	0.1	221
Equity in losses of affiliated companies	---	---	(78)	---	---	(78)
Net loss	(87,759)	(51.5)	(28,359)	(240)	(16.5)	59,400

### Notes

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

# Basis of Presenting the Consolidated Financial Statements

## 1. Scope of consolidation and equity method

No. of consolidated subsidiaries	25 companies
No. of affiliate companies accounted for by the equity method	1 company

## 2. Status of major transfers

### Consolidated subsidiaries

Added	1 company	NEC Electronics Korea Limited
Removed	2 companies	NEC Compound Semiconductor Devices, Ltd., NEC Deviceport Co. Ltd.

### Affiliated companies accounted for by the equity method

Added	1 company	Adcore-Tech Co., Ltd.
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## 3. Significant accounting policies

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

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

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

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

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

The Company applies the Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Marketable equity securities are reported at fair value based on market price at March 31, 2007. 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, 2007. Unrecognized 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

The Company adopted SFAS No. 158 effective April 1, 2006. The Company recognizes the difference between projected benefit obligations and fair value of plan assets in the consolidated balance sheet. The Company also recognizes as a component of other comprehensive income, net of tax, prior service costs and actuarial losses that arise during the period but are not recognized as components of net periodic benefit cost. As a result of this change, accrued pension and severance costs increased by 374 million yen, and other comprehensive income, net of tax decreased by 262 million yen. There has been no effect on profit and loss.

## Segment Information

### Breakdown of Net Sales by Region

	Year Ended March 31, 2006		Year Ended March 31, 2007			Increase (Decrease)
	Million Yen	% of Total	Million Yen	Million USD	% of Total	% Change
Japan	352,875	54.6	377,298	3,198	54.5	6.9
United States of America	76,860	11.9	67,458	572	9.8	(12.2)
Europe	72,961	11.3	88,908	753	12.8	21.9
Asia	143,267	22.2	158,616	1,344	22.9	10.7
Total	645,963	100.0	692,280	5,867	100.0	7.2

### Breakdown of Profit / Loss by Region

	Year Ended March 31, 2006		Year Ended March 31, 2007			Increase (Decrease)
	Million Yen	% of Total	Million Yen	Million USD	% of Total	Million Yen
Japan	(51,074)	---	(38,877)	(329)	---	12,197
United States of America	7,999	---	(1,006)	(9)	---	(9,005)
Europe	20	---	100	1	---	80
Asia	7,366	---	11,226	95	---	3,860
Total	(35,689)	---	(28,557)	(242)	---	7,132

### Breakdown of Net Sales by Market Application

	Year Ended March 31, 2006		Year Ended March 31, 2007			Increase (Decrease)	
	Million Yen	% Total	Million Yen	Million USD	% Total	Million Yen	% Change
Communications	107,995	16.7	99,641	844	14.4	(8,354)	(7.7)
Computing and peripherals	126,581	19.6	123,714	1,049	17.9	(2,867)	(2.3)
Consumer electronics	102,639	15.9	120,757	1,023	17.4	18,118	17.7
Automotive and industrial	103,780	16.1	106,097	899	15.3	2,317	2.2
Multi-market ICs	69,449	10.8	88,961	754	12.9	19,512	28.1
Discrete, optical, and microwave devices	108,701	16.8	120,563	1,022	17.4	11,862	10.9
Semiconductor total	619,145	95.9	659,733	5,591	95.3	40,588	6.6
Other	26,818	4.1	32,547	276	4.7	5,729	21.4
Total	645,963	100.0	692,280	5,867	100.0	46,317	7.2

## Segment Information

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

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

	Year Ended March 31, 2006		Year Ended March 31, 2007			Increase (Decrease)	
	Million Yen	% Total	Million Yen	Million USD	% Total	Million Yen	% Change
SoC platform	245,602	38.0	259,249	2,197	37.5	13,647	5.6
MCU platform	156,490	24.2	168,421	1,427	24.3	11,931	7.6
Components	217,053	33.7	232,063	1,967	33.5	15,010	6.9
Semiconductor total	619,145	95.9	659,733	5,591	95.3	40,588	6.6
Other	26,818	4.1	32,547	276	4.7	5,729	21.4
Total	645,963	100.0	692,280	5,867	100.0	46,317	7.2

Note: System-on-Chip (SoC) Platform: application specific integrated circuits (ASIC), application specific standard products (ASSP), memory

Microcomputer (MCU) Platform: microcontrollers, car audio controllers

Components: display drivers, analog ICs, discrete, optical and microwave devices

## Financial Instruments

### Derivatives

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

	March 31, 2006		March 31, 2007			
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Derivatives transactions	Million Yen		Million Yen		Million USD	
Forward exchange contracts	(428)	(428)	157	157	1	1
Interest rate and currency swap agreements	(16)	(16)	(13)	(13)	---	---

### Marketable Securities

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

	March 31, 2006		March 31, 2007	
	Million Yen	Million Yen	Million Yen	Million USD
Available-for-sale equity securities				
Cost	4,231	1,933		16
Fair value	13,901	5,997		51
Net unrealized holding gains	9,670	4,064		35

## Leasing Arrangements

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

	March 31, 2006		March 31, 2007	
	Million Yen	Million Yen	Million Yen	Million USD
Due within one year	19,469	24,281		206
Due after one year	41,684	50,677		429



## Stock Options

Information pertaining to stock options will be announced at a later date.

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

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

	Year Ended March 31, 2006		Year Ended March 31, 2007		Increase (Decrease)
	Million Yen	Million Yen	Million Yen	Million USD	
Net loss	(98,198)	(41,500)	(352)		56,698
Number of shares	Shares		Shares		Shares
Weighted average number of common shares outstanding	123,499,052		123,498,823		(229)
Effect of dilutive securities	---		---		---
Diluted weighted average number of common shares outstanding	123,499,052		123,498,823		(229)
Net loss per share of common stock	Yen		Yen		USD
Basic	(795.13)		(336.04)	(2.85)	459.09
Diluted	(795.13)		(336.04)	(2.85)	459.09

	Year Ended March 31, 2006		Year Ended March 31, 2007		Increase (Decrease)
	Shares	Shares	Shares	Shares	
Number of shares	Shares		Shares		Shares
Convertible bonds	11,156,100		11,156,100		---
Stock options	291,500		307,000		15,500

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

### Capital Expenditures and R&D Expenses

	Year Ended March 31, 2006		Year Ended March 31, 2007		Increase (Decrease)
	Million Yen	Million Yen	Million Yen	Million USD	
Capital expenditures	83,030	105,865	897		22,835
Depreciation and amortization	89,342	82,960	703		(6,382)
R&D expenses	120,874	131,751	1,117		10,877

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

## **Forward-Looking Statements**

The statements in this press release with respect to the plans, strategies and financial outlook of NEC Electronics and its consolidated subsidiaries (collectively "NEC Electronics") are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may differ materially from such forward-looking statements due to several important factors including, but not limited to, general economic conditions in our markets, which are primarily Japan, North America, Asia, and Europe; demand for, and competitive pricing pressure on, products and services in the marketplace; ability to continue to win acceptance of products and services in these highly competitive markets; and fluctuations in currency exchange rates, particularly between the yen and the U.S. dollar. Among other factors, downturn of the world economy; deteriorating financial conditions in world markets, or deterioration in domestic and overseas stock markets, may cause actual results to differ from the projected results forecast.

## **About NEC Electronics**

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

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