

NEC ELECTRONICS

# ANNUAL REPORT 2009

ANNUAL REPORT 2009 (Abridged Version)

Year ended March 31, 2009

NEC ELECTRONICS

# 09

## LETTER FROM THE PRESIDENT

As NEC Electronics Corporation's newly appointed President and Chief Executive Officer, I am pleased to be writing my first letter to our shareholders in this year's annual report.

During the year under review, the semiconductor market started with a decelerating trend, characterized by unexpectedly weak demand associated with the Beijing Olympics in the first half of the fiscal year. In the second half of the fiscal year, the financial crisis spurred downward momentum in the economy, triggering a severe economic downturn worldwide. As a result, the semiconductor market, especially in the second half of the fiscal year, saw a sharp downturn in demand and massive inventory adjustments, experiencing harsh conditions that were worse than when the IT bubble collapsed in 2001.

In this challenging climate, consolidated net sales for the fiscal year ended March 31, 2009 were ¥546.5 billion (\$5,520 million). We saw solid sales in some products, such as the EMMA series products for digital home appliances with an expansion in the customer base, and new business for embedded DRAM LSIs. This growth, however, was outweighed by lower sales of driver ICs for LCD panels, automotive semiconductors, and general-purpose products, including discrete semiconductors and microcontrollers.

We posted a consolidated net loss of ¥82.6 billion (\$835 million) for the fiscal year, primarily due to a loss provision related to pending legal issues, as well as expenses stemming from the closing of manufacturing and R&D lines in Japan.

In light of severe economic conditions, NEC Electronics intends to accelerate structural reforms for building a sound business foundation in the fiscal year ending March 31, 2010. We will speed up realignment of manufacturing structures, enhance R&D efficiency, and slash other expenses, which will include reductions in personnel expenses. By implementing these measures we will reduce fixed costs significantly, and aim to restore "EIGYO profit"\* for the fiscal year ending March 2010.

As competition heats up in the global semiconductor market, NEC Electronics and Renesas Technology Corp. entered into negotiations to integrate their business operations in April 2010. It is our utmost goal to establish a strong business foundation and technology drive, and to attain substantial growth in corporate value through further improvements in customer satisfaction.

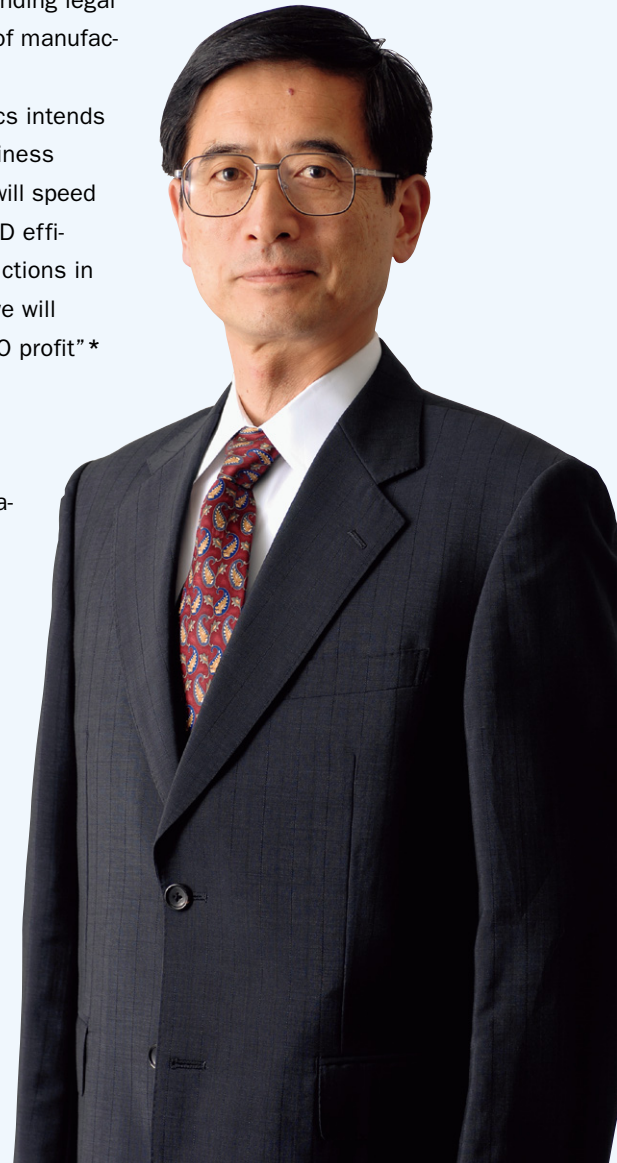
I ask for your continuous support and guidance as we strive to build a "stronger NEC Electronics."

June 2009



Junshi Yamaguchi  
President and CEO, NEC Electronics Corporation

\*"EIGYO profit" is calculated as net sales less cost of sales, research and development expenses, and selling, general and administrative expenses, and is equivalent to operating profit under financial reporting practices generally accepted in Japan.



# FINANCIAL HIGHLIGHTS

NEC Electronics Corporation and Consolidated Subsidiaries  
For the years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2005	2006	2007	2008	2009	2009
Net sales	¥708,014	¥645,963	¥692,280	¥687,745	¥546,470	\$5,519,899
Communications	138,010	107,995	99,641	70,350	60,199	608,071
Computing and peripherals	140,941	126,581	123,714	119,352	87,237	881,182
Consumer electronics	101,278	102,639	120,757	134,546	119,330	1,205,353
Automotive and industrial	102,784	103,780	106,097	113,320	91,492	924,162
Multi-market ICs	78,575	69,449	88,961	89,643	70,478	711,899
Discrete, optical and microwave devices	118,172	108,701	120,563	126,064	92,999	939,384
Semiconductor sales	679,760	619,145	659,733	653,275	521,735	5,270,051
Other	28,254	26,818	32,547	34,470	24,735	249,848
Cost of sales	485,871	477,476	502,086	485,683	425,918	4,302,202
R&D expenses	107,942	120,874	131,751	112,300	110,380	1,114,950
Selling, general and administrative expenses	81,025	83,302	87,000	84,668	78,527	793,202
Income (loss) before income taxes	26,409	(42,386)	(35,375)	(3,252)	(89,335)	(902,374)
Net income (loss)	16,031	(98,198)	(41,500)	(15,995)	(82,625)	(834,596)
Capital expenditures	163,173	83,030	105,865	56,128	56,573	571,444
Depreciation and amortization	95,999	89,342	82,960	75,067	67,346	680,263
<b>Per share of common stock</b> (in yen and U.S. dollars):						
Basic net income (loss) per share	¥129.81	¥(795.13)	¥(336.04)	¥(129.52)	¥(669.04)	\$(6.76)
Diluted net income (loss) per share	120.30	(795.13)	(336.04)	(129.52)	(669.04)	(6.76)
<b>At year-end:</b>						
Total assets	¥814,222	¥745,281	¥695,886	¥616,304	¥482,545	\$4,874,192
Shareholders' equity	393,863	308,251	265,068	227,138	128,130	1,294,242
Ratio of net income (loss) to shareholders' equity	4.2%	(28.0)%	(14.5)%	(6.5)%	(46.5)%	
Ratio of income (loss) before income taxes to total assets	3.4%	(5.4)%	(4.9)%	(0.5)%	(16.3)%	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥99=U.S.\$1.

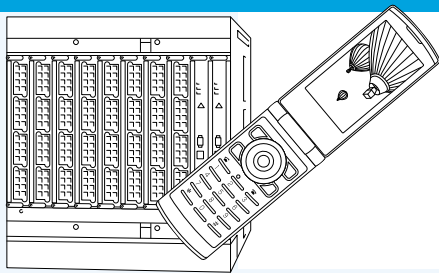
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In this annual report, unless the context otherwise requires, references to "NEC Electronics," "we," "our," and "us" are to NEC Electronics Corporation and its consolidated subsidiaries. The statements in this annual report with respect to NEC Electronics' current plans, strategies, and beliefs, as well as other statements that are not historical facts are forward-looking statements. Such forward-looking statements are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them. We do not intend to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable laws. The risks and uncertainties that could cause actual results to differ materially from such statements include, but are not limited to, general economic conditions in NEC Electronics' markets, which are primarily Japan, Asia, North America and Europe; demand for, and competitive pricing pressure on, NEC Electronics' products and services in the marketplace; NEC Electronics' ability to continue to win acceptance for its products and services in these highly competitive markets; and fluctuations of currency exchange rates, particularly the rate between the yen and the U.S. dollar in which NEC Electronics makes significant sales.

# NEC ELECTRONICS AT A GLANCE

## Communications



### Applications

Mobile handsets  
Broadband networking equipment  
Routers  
Mobile phone base stations

### Major Products

System LSIs  
Driver ICs for small TFT-LCDs  
System memories

### Customers\*

Nokia Siemens Networks, Samsung Electronics, Sharp, Sony Ericsson Mobile Communications, NEC

## Computing and Peripherals

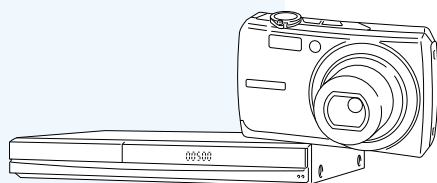


Computers  
Servers  
Workstations  
Computing peripherals  
Rewritable DVD drives  
Printers  
LCDs for PCs

System LSIs  
Microcontrollers  
Driver ICs for large TFT-LCDs

AUO, Canon, Hitachi, LG Display, Pioneer, Samsung Electronics, Seiko Epson, NEC

## Consumer Electronics

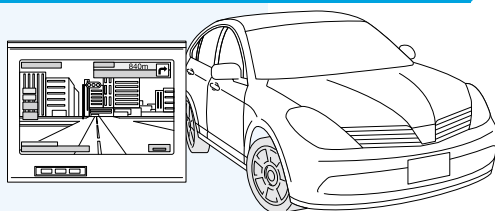


Digital consumer electronics  
Blu-ray players/recorders  
Digital televisions  
Digital cameras  
Home appliances  
Game consoles

System LSIs  
Microcontrollers

Casio Computer, LG Electronics, Nintendo, Panasonic, Samsung Electronics, Sharp, Sony

## Automotive and Industrial

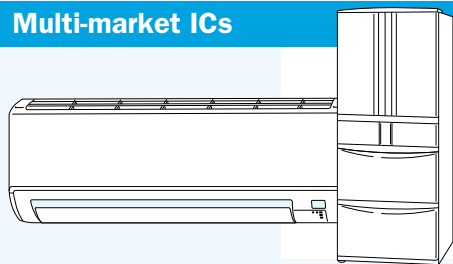


Automobiles  
Engine  
Body control  
Airbags  
Car audios  
Industrial  
Factory automation

Microcontrollers  
System LSIs

Continental, Delphi, DENSO, Mitsubishi Electric, Robert Bosch, Siemens, Toyota

## Multi-market ICs

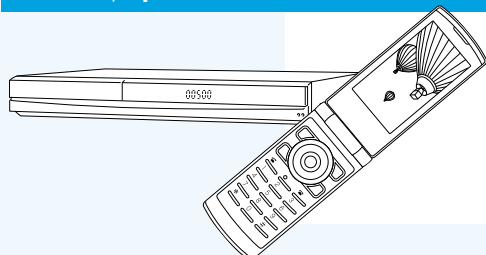


Wide range of electronics equipment

General-purpose microcontrollers  
Gate arrays  
General-purpose system memories

Overall customers

## Discrete, Optical and Microwave Devices



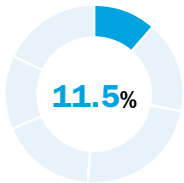
Wide range of electronics equipment

Diodes  
Transistors  
Optical semiconductors  
Microwave semiconductors

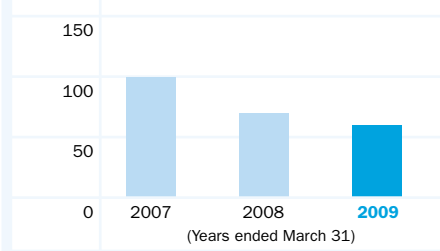
DENSO, GIGABYTE, Murata Manufacturing, SANYO Electric, NEC

\* The list of customers is neither comprehensive nor necessarily representative.

**Percentage of Fiscal 2009 Semiconductor Sales**

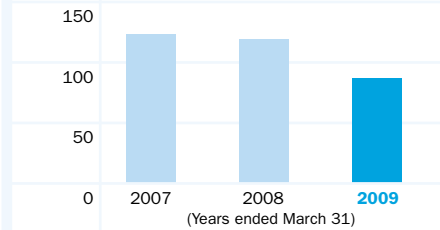
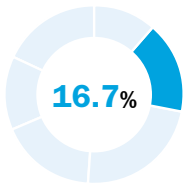


**Net Sales (¥ Billion)**

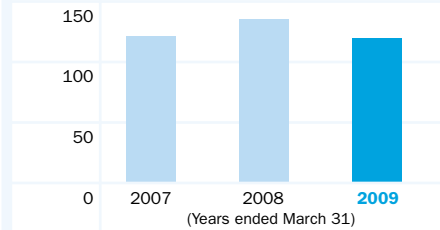
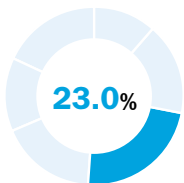


**Trends in the Fiscal Year Ended March 31, 2009**

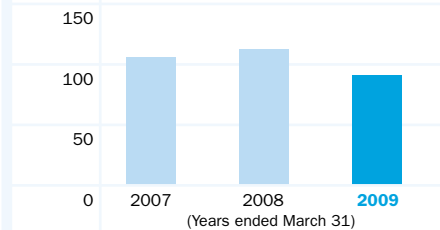
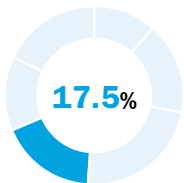
Although sales of ICs for camera-equipped mobile phones increased year on year, overall sales of semiconductors for mobile phones decreased year on year as a result of a drop in sales of digital baseband ICs and LCD driver ICs declined year on year.



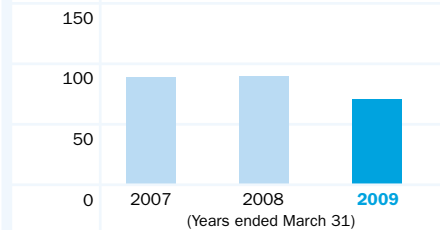
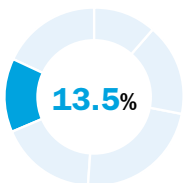
Sales of LCD driver ICs for LCD televisions and computer monitors, and semiconductors for printers all declined year on year.



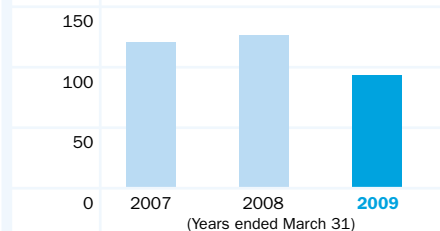
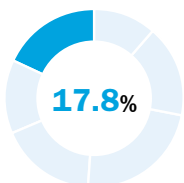
Although sales of EMMA series, image processing ICs for digital televisions and blu-ray devices increased, sales of semiconductors for digital cameras and white goods declined year on year.



Sales of automotive microcontrollers and semiconductors for industrial equipments declined year on year.



Sales of general-purpose microcontrollers and gate arrays declined year on year.

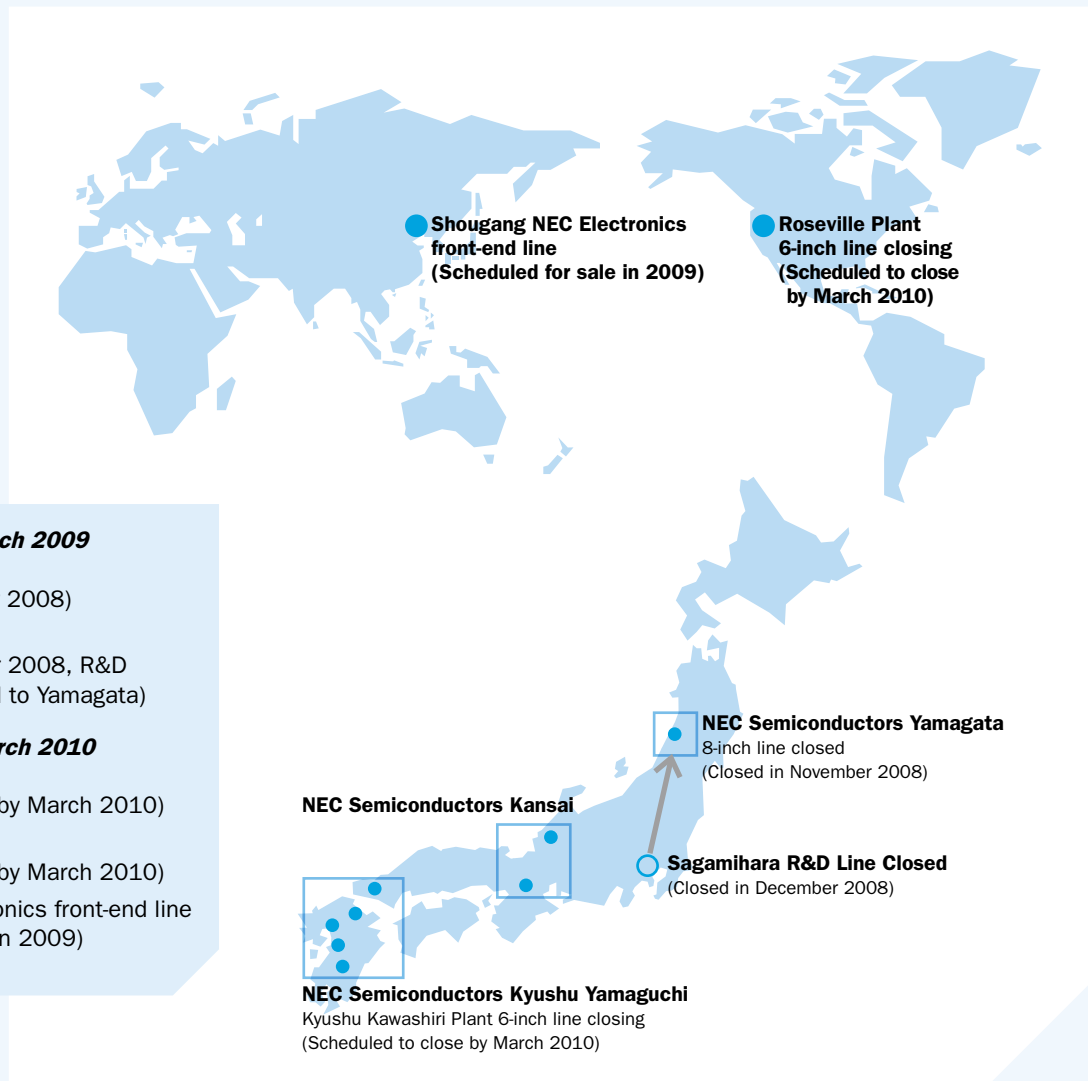


Sales of discrete semiconductors, optical semiconductors, and compound semiconductors declined year on year.

# STRUCTURAL REFORM MEASURES

## Accelerating Realignment of Manufacturing Lines

Although NEC Electronics has been working to reestablish its manufacturing structure in Japan and overseas, we will speed up the realignment of manufacturing lines going forward. In the fiscal year ended March 2009, the Company closed NEC Semiconductors Yamagata's 8-inch line and the Sagamihara R&D line. In the fiscal year ending March 2010, the Company will close the 6-inch lines at NEC Semiconductors Kyushu Yamaguchi's Kawashiri Plant and NEC Electronics America's Roseville Plant, and plans to sell Shougang NEC Electronics' front-end line.



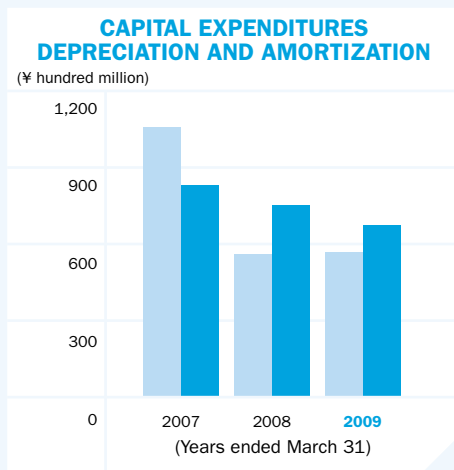
### **Fiscal Year Ended March 2009**

- Yamagata 8-inch line  
(Closed in November 2008)
- Sagamihara R&D line  
(Closed in December 2008, R&D functions transferred to Yamagata)

### **Fiscal Year Ending March 2010**

- Kyushu 6-inch line  
(Scheduled to close by March 2010)
- Roseville 6-inch line  
(Scheduled to close by March 2010)
- Shougang NEC Electronics front-end line  
(Scheduled for sale in 2009)

## Improved Efficiency for Manufacturing-Related Costs

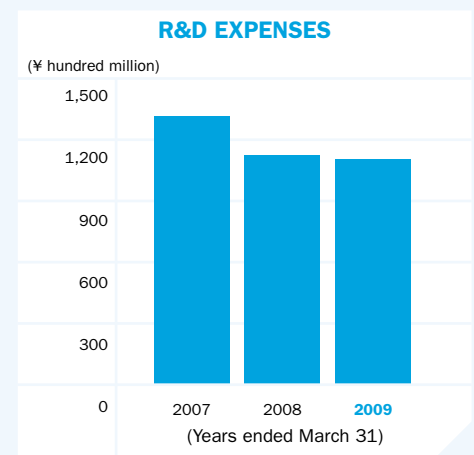


■ Capital Expenditures  
■ Depreciation and Amortization

While NEC Electronics has invested in state-of-the-art process technologies at the Yamagata fab for producing cutting-edge products, we worked to improve the efficiency of capital expenditures. Capital expenditures for the fiscal year ended March 2009 were flat from the previous year, and depreciation and amortization declined by approximately ¥7.7 billion (\$78 million) year on year. In the fiscal year ending March 2010, NEC Electronics will further improve productivity, while minimizing spending on capital investments. This will result in a significant reduction in manufacturing-related costs, including depreciation and amortization.

## Greater Efficiency in R&D-Related Expenses

The Company will seek to reinforce the realignment of its product portfolio by slimming down the range of development items. In the fiscal year ended March 2009, NEC Electronics focused on the fast-growing business area of “low-power consumption” and “ecology” while slashing R&D expenses by approximately ¥1.9 billion (\$19 million) year on year, primarily by reviewing outsourcing to third parties. While the Company will continue to focus its resources on the development of eco-friendly semiconductors in the fiscal year ending March 2010, it will decrease the number of products in development, and reduce overall R&D expenses by ¥20.0 billion.



## Reducing Other Fixed Costs

In response to the sharp deterioration in the business environment, NEC Electronics took measures to adjust production in the fiscal year ended March 2009. Along with the production adjustments, there were alterations in work shift schedules at manufacturing plants, and a reduction of temporary workers. With companywide measures targeting extensive cost reductions, the Company aims to run operations at minimum cost in the fiscal year ending March 2010.

## Emergency Cost Reduction Initiatives

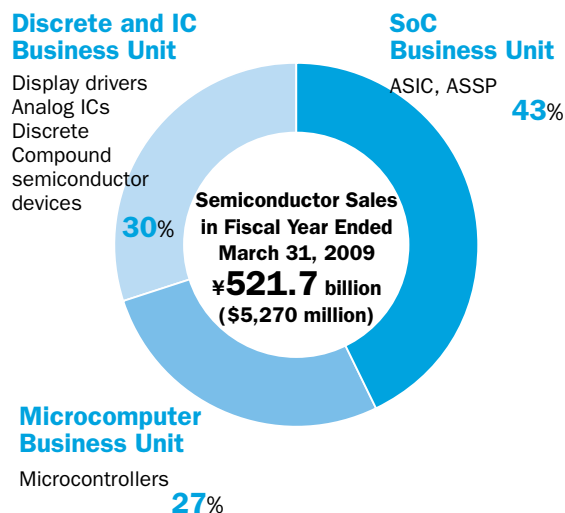
NEC Electronics is reducing corporate officer and employee bonuses, and pursuing a range of other cost-cutting measures as part of emergency initiatives for reducing costs in the fiscal year ending March 2010.

## BUSINESS HIGHLIGHTS

In a semiconductor market that contracted globally in 2008, NEC Electronics expanded its market share and lifted its industry share ranking to 10th position\*.

NEC Electronics' relatively healthy showing was the result of firm growth in embedded DRAM LSIs for game consoles and other applications, as well as the Company's solid performance in a sharply shrinking microcontroller market.

### SALES BY BUSINESS UNIT IN FISCAL YEAR ENDED MARCH 31, 2009



### Overall Highlights

#### Joint Development of Advanced Process Technology

NEC Electronics and IBM Corporation are cooperating on the development of process technology at the 32-nm node and beyond. NEC Electronics is taking part in a joint development project for next-generation CMOS process technology, along with advanced basic research related to future semiconductor technologies. The development of a common process platform with IBM and its research partners will enhance NEC Electronics' System on Chip (SoC) development and design capabilities.

#### Semiconductors—"Eco-Products" That Are Eco-Conscious and Energy Efficient

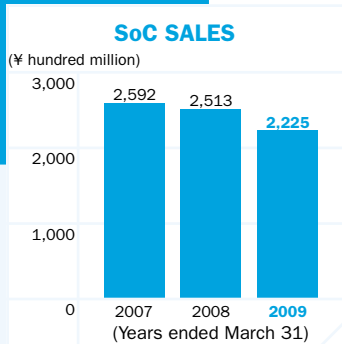
NEC Electronics is focusing on semiconductors ("eco-products") that will contribute to the growth fields of "low power consumption" and "ecology."

In "eco-products," the Company's lineup includes "eco-microcontrollers" and embedded DRAM LSIs that feature low power consumption, as well as discrete semiconductors for power supply controllers.

\* Source: Gartner "Semiconductor Industry Worldwide Annual Market Share: Database" 2 April 2009  
The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Prospectus) and the opinions expressed in the Gartner Report(s) are subject to change without notice.



## SoC (System on Chip) Business Unit



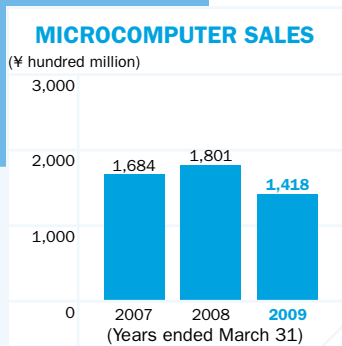
### Embedded DRAM LSIs

NEC Electronics is the industry leader in embedded DRAM LSIs used most notably in graphic devices. These products are also used in a variety of other applications such as game consoles, mobile phones, and digital televisions.

### EMMA Platform for Digital AV Equipment

NEC Electronics' proprietary EMMA platform for digital AV equipment has been newly incorporated into blu-ray devices, terrestrial digital set-top boxes, and a host of other AV equipment.

## Microcomputer Business Unit



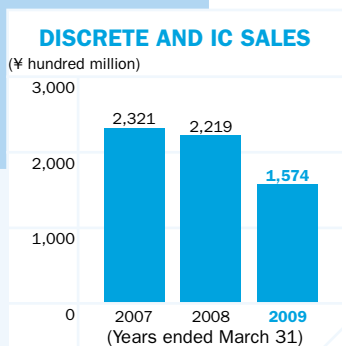
### Microcontroller Share Expansion

Despite tremendous contraction in the microcontroller market caused by the global recession and slumping automotive industry, NEC Electronics maintained its leading global market share in 32-bit microcontrollers\* from the previous year and expanded its share in the microcontroller market as a whole.

### “Eco-Microcontrollers”

Leveraging low power consumption technology, NEC Electronics developed microcontrollers driven by embedded flash memory that reduce power consumption to half that of conventional models.

## Discrete and IC Business Unit



### Development of LED Driver ICs

NEC Electronics has developed 4-channel LED driver ICs compatible with the large electrical current used for outdoor illuminations, store displays and other specialty and event lighting. The use of these products enables three primary light color LEDs—red, green and blue LEDs—as well as a white LED, to be driven by a single IC, resulting in fewer components and reducing the required mounting size. LEDs are widely expected to emerge as next-generation lighting sources, including for the home, since they significantly reduce power consumption from lighting.

# CORPORATE SOCIAL RESPONSIBILITY (CSR)

NEC Electronics recognizes that it is essential to build a solid relationship of trust and cooperation with all of our stakeholders. When we listed on the stock market in July 2003, we committed to a transparent and trustworthy style of management and have been working hard to ensure it ever since. In order to thoroughly implement this philosophy, we formed the NEC Electronics Guiding Principles and established a Corporate Social Responsibility Promotion Committee chaired by the President of NEC Electronics in June 2004 to promote management guidelines for CSR promotion at the Company and its subsidiaries, making our position on CSR known within and outside the Company. Each and every executive and employee pledges to share the spirit of the Guiding Principles and join together in a concerted effort to promote CSR.

## 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.

## Commitment to customer satisfaction

At NEC Electronics, we believe our mission as a company is to provide our customers with optimal solutions, thereby earning their trust. This is the foundation of how we improve customer satisfaction. For example, we conduct surveys to determine CS levels in order to reflect feedback from customers in the products and services we provide. The NEC Electronics Group has acquired ISO 9001 quality management system certification, as well as ISO/TS16949 certification specific to quality management in the automotive sector, and carries out continual improvements to quality management at each stage of product design, manufacture and support.

## Strengthening relationships with our trading partners

NEC Electronics strives to maintain and improve mutual understanding and strong relationships of trust with purchasing and sales partners. To this end, we publicly issue a set of CSR Guidelines on our website that specify tasks we would like purchasing partners to undertake from the standpoint of CSR. Additionally, we regularly hold top executive meetings with sales partners, and support their sales representative training activities in order to build stronger relationships with them.

## Community involvement

The NEC Electronics Group is involved in environmental conservation activities globally as well as in local communities, and has developed systems and a culture in the Company that makes it easier for employees to participate in volunteer activities. For instance, since 2005, NEC Electronics has taken part in a local water-source forest protection project in Japan: “Kanagawa Water-Source Forest Creation Project.” Here, NEC Electronics employees are participating in nature preservation events such as brush clearing, nature watching and other volunteer activities. NEC Electronics also promoted unique activities as part of its contribution to local communities. These included holding an electronic industrial arts class for local elementary school students on the applications of microcontrollers, as well as volunteer work at a local child-care home.

For their part, NEC Electronics’ subsidiaries conduct various activities that contribute to local communities. For instance, NEC Semiconductors Kansai’s Shiga plant helps to keep the shores of Lake Biwa, an important water resource for the Kinki region, and the area around its plant clean. Employees at NEC Electronics America, meanwhile, help pack school items in backpacks at local elementary schools ahead of the new school year. In these and other ways, NEC Electronics’ subsidiaries are conducting social contribution activities closely tied with communities.

## Conserving the global environment

NEC Electronics bases environmental management policies on contributing to the conservation of the global environment in the course of our business activities in the semiconductor industry. There are three pillars that support our environmental activities: 1) We produce eco-products by incorporating environmental considerations into the entire product life cycle from the design and development stages; 2) We aim to reduce greenhouse gas emissions which cause global warming and to cut back hazardous chemical substances as a part of our eco-factory effort; and 3) We offer environmental education programs that raise employees’ awareness of environmental issues and disclose information on our eco-activities to the public.

All NEC Electronics Group companies have acquired ISO 14001 certification, the international standard for environmental systems, and are working hard on these three main environmental activities.

## Creating a corporate culture we take pride in

In March 2008, NEC Electronics became a participant in the United Nations Global Compact. Our participation marks the Company’s commitment to basic human rights, and to engaging in activities that help eliminate discrimination and child and forced labor, as well as in activities for protecting the environment and preventing corruption.

NEC Electronics also believes that a safe, healthy work environment free of discrimination and harassment is essential in bringing out each employee’s individuality and capabilities to the fullest extent. All employees at NEC Electronics play a role in building a corporate culture we take pride in. We undertake measures such as promoting awareness of human rights issues, as well as family-friendly workplace initiatives to enhance work and family life, and measures to promote mental health management.

\* Please refer to the NEC Electronics CSR Environmental Report 2009 which is due out in October 2009, for more details.  
<http://www.necel.com/csr/en/>

## Fundamental Corporate Governance Policy

- In recognition of the fact that, in addition to efficient execution of management, assurance of sound and transparent management is essential to continuously increasing its corporate value, NEC Electronics is committed to improve its management structure and to implement measures toward further strengthening its corporate governance.
- NEC Electronics has adopted the corporate auditor system for its corporate governance, and has a corporate governance structure with the Board of Corporate Auditors that monitors the actions of NEC Electronics' directors in the business execution of their duties. NEC Electronics believes that its audit structure for corporate governance is sufficiently functional, through full-time auditors, who can effectively obtain high-quality information from relevant divisions using their knowledge and understanding of the business, while the meetings of the Board of Corporate Auditors, which includes part-time auditors, conduct analysis of the information.

## Corporate Governance Measures

### NEC Electronics' Governance Structures

1. The Board of Directors is composed of four directors (including one outside director) for faster and more efficient management. The outside director is an executive of NEC Corporation, the parent company of NEC Electronics.
2. The Board of Corporate Auditors is composed of four corporate auditors, including three outside corporate auditors. Of the three outside corporate auditors, one has judicial experience and two come from NEC Corporation, the parent company of NEC Electronics, one of these being an executive from accounting. The Board of Corporate Auditors establishes audit policies and holds auditors' meetings. At the meetings, corporate auditors exchange information and deliberate on each corporate auditor's audit status. The Board also receives regular reports from independent auditors on their audit services and exchanges viewpoints on them.
3. NEC Electronics has introduced the Corporate Officer System to clarify responsibilities for conducting business operations and for quick decision-making in the execution of business activities.

### Basic Policy Regarding the Internal Control System

NEC Electronics has decided the basic policies for the establishment of the Internal Control System such as those described below, and implements them accordingly. In addition, issues and policies related to internal control stipulated by the Companies Act and Financial Instruments and Exchange Act are deliberated, devised and promoted by the Internal Control Promotion Committee.

#### 1. Compliance framework

- NEC Electronics has adopted the NEC Electronics Guiding Principles and the NEC Electronics Group Code of Conduct to establish corporate ethics and ensure compliance policies throughout the NEC Electronics Group. Directors and corporate officers take the lead in putting these principles into practice. Simultaneously, the Legal Division carries out practical activities to keep officers and employees informed about these principles, while the Internal Auditing Division audits the actual state of implementation.
- Major compliance-related issues 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 regulation regarding compliance, the NEC Electronics Group Compliance Program. In addition to these compliance measures, NEC Electronics has set up help lines for the NEC Electronics Group and its business partners to report compliance violation issues.

## **2. Information management framework**

- NEC Electronics properly prepares, saves and manages various documents pertaining to business operations based on legal regulations and the Company's own fundamental regulation rules regarding document management. Trade secrets and personal information are both properly and strictly managed in accordance with the Company's own fundamental regulations regarding the management and protection of these types of information.
- The fundamental issues pertaining to the management and security of information are deliberated by the Information Management and Security Committee. The Information Management and Security Committee also continuously carries out measures for maintaining and improving information security based on the Company's own pertinent fundamental regulations.

## **3. Risk management framework**

- NEC Electronics is establishing a risk management framework in line with the Company's own fundamental regulations devised regarding risk management. These rules classify company-wide management risks, designate the corporate officers and the division responsible for each classified risk category, and other fundamental issues. 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.
- When serious risks materialize, NEC Electronics sets up a Crisis Countermeasures Committee or Emergency Headquarters to respond to the situation in accordance with the particular category of risk involved.

## **4. Framework for ensuring effective execution of business activities**

- The Executive Committee discusses issues of importance to the Company's management prior to a meeting of the Board of Directors in order to enhance the Board's deliberations. Furthermore, authority is properly transferred from directors to corporate officers and other employees by office routine regulations, decision-making and authorization procedure regulations and other pertinent fundamental regulations.

## **5. The NEC Electronics Group's internal control system**

- Important matters concerning business operations of the NEC Electronics Group's subsidiaries are approved at each subsidiary's General Meeting of Shareholders or the Board meetings. NEC Electronics makes the decision based on its own assessment of the seriousness of the issue being decided, then exercises its shareholder's rights directly or indirectly.
- The Company's responsible divisions oversee the routine management of subsidiaries based on the NEC Electronics Guiding Principles and the NEC Electronics Group Code of Conduct. Evaluation, maintenance and improvement of the NEC Electronics Group's internal control systems over financial reporting are performed in accordance with the applicable laws in or outside of Japan.
- Examinations of subsidiaries are performed by the corporate auditors and the Internal Auditing Division in cooperation with the subsidiaries' own corporate auditors and internal auditing staff members.

## **6. Corporate auditors' auditing framework**

- NEC Electronics has established a Corporate Auditors Office composed of specialized staff members who assist the corporate auditors' audit activities. The Company also bears the cost of obtaining expert advice from outside specialists when the Board of Corporate Auditors requires such for its audits.

- Corporate auditors receive reports as needed from directors and other officers regarding the status of business execution, as well as regular reports, depending on the specific duty, from general managers of divisions such as the Internal Auditing Division, Legal Division and Accounting Division.
- Corporate auditors may attend all important company meetings as they deem necessary, and are guaranteed a right to access to all critical corporate information, including the inspection of important authorization documents such as the minutes, decision records and other documents of important meetings.
- Regular meetings are held to provide the corporate auditors and directors with the opportunity to exchange viewpoints.

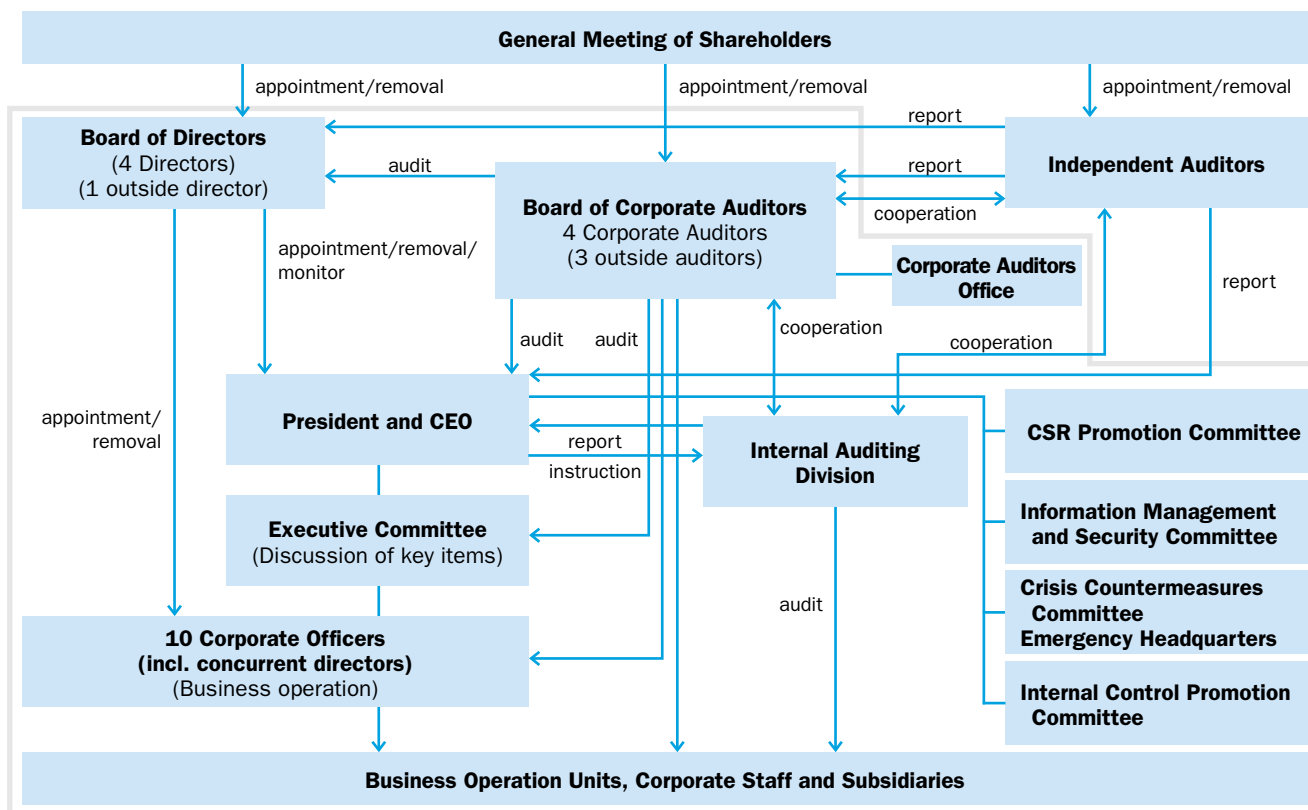
## Internal Audits and Audit of Financial Statements

### 1. Internal audits

Internal audits are performed by the Internal Auditing Division, which is supervised by the President of NEC Electronics. Specifically, the division serves as an autonomous third party for investigating and evaluating other parts of the management organization, including divisions responsible for business operation units, corporate staff, consolidated subsidiaries and other areas. This is carried out from a compliance, risk management and internal control perspective. The division also proposes concrete measures for rectifying or improving problems that arise.

### 2. Audit of financial statements

Independent Auditors who performed NEC Electronics' audit were Kazuya Oki, Koki Ito and Kazuhiro Ishiguro, partners of Ernst & Young ShinNihon LLC. The audit team included certified public accountants and junior accountants, as well as other specialists.



(As of June 25, 2009)

# FINANCIAL SECTION

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<b>Consolidated Statements of Operations</b>	<b>16</b>
<b>Consolidated Statements of Changes in Shareholders' Equity</b>	<b>17</b>
<b>Consolidated Statements of Cash Flows</b>	<b>18</b>

# CONSOLIDATED BALANCE SHEETS

NEC Electronics Corporation and Consolidated Subsidiaries  
As of March 31, 2008 and 2009

ASSETS	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 165,472	¥ 101,279	\$ 1,023,020
Notes and accounts receivable, trade:			
Related parties .....	11,991	4,913	49,626
Other .....	84,513	47,777	482,596
Allowance for doubtful notes and accounts .....	(152)	(202)	(2,040)
Inventories .....	75,839	63,220	638,586
Deferred tax assets .....	899	693	7,000
Prepaid expenses and other current assets .....	5,553	4,497	45,424
Total current assets .....	344,115	222,177	2,244,212
<b>Investments:</b>			
Marketable securities .....	3,345	2,158	21,798
Other:			
Affiliated companies .....	539	846	8,545
Other .....	681	470	4,748
	4,565	3,474	35,091
<b>Property, plant and equipment:</b>			
Land .....	15,708	15,417	155,727
Buildings .....	239,406	241,115	2,435,505
Machinery and equipment .....	931,709	904,812	9,139,515
Construction in progress .....	21,717	19,879	200,798
	1,208,540	1,181,223	11,931,545
Accumulated depreciation .....	(949,389)	(939,144)	(9,486,302)
	259,151	242,079	2,445,243
<b>Other assets:</b>			
Deferred tax assets .....	2,062	2,120	21,414
License fees and other intangibles .....	5,471	10,833	109,424
Other:			
Related parties .....	479	1,330	13,434
Other .....	461	532	5,374
	8,473	14,815	149,646
	¥ 616,304	¥ 482,545	\$ 4,874,192



LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
<b>Current liabilities:</b>			
Short-term borrowings .....	¥ 954	¥ 1,135	\$ 11,465
Current portion of long-term debt .....	619	—	—
Current portion of obligation under capital leases to related parties .....	821	770	7,778
Notes and accounts payable, trade:			
Related parties .....	27,013	23,967	242,091
Other .....	81,123	54,796	553,495
Accounts payable, other and accrued expenses:			
Related parties .....	3,768	2,522	25,475
Other .....	53,463	48,919	494,130
Accrued income taxes .....	2,049	1,462	14,768
Other current liabilities .....	9,905	8,336	84,202
<b>Total current liabilities .....</b>	<b>179,715</b>	<b>141,907</b>	<b>1,433,404</b>
<b>Long-term liabilities:</b>			
Long-term debt .....	110,000	110,000	1,111,111
Obligation under capital leases to related parties .....	4,207	4,966	50,162
Accrued pension and severance costs .....	74,460	81,167	819,869
Deferred tax liabilities .....	11,068	3,915	39,545
Other .....	4,540	8,339	84,232
	204,275	208,387	2,104,919
<b>Minority shareholders' equity in consolidated subsidiaries .....</b>	<b>5,176</b>	<b>4,121</b>	<b>41,627</b>
<b>Commitments and contingent liabilities</b>			
<b>Shareholders' equity:</b>			
Common stock: .....	85,955	85,955	868,232
Authorized — 400,000,000 shares			
Issued and outstanding — 123,500,000 shares			
Additional paid-in capital .....	281,073	281,081	2,839,202
Accumulated deficit .....	(114,896)	(197,521)	(1,995,162)
Accumulated other comprehensive income (loss) .....	(24,984)	(41,374)	(417,919)
Treasury stock, at cost:			
2008 — 2,039 shares .....	(10)		
2009 — 2,306 shares .....		(11)	(111)
	227,138	128,130	1,294,242
	¥ 616,304	¥ 482,545	\$ 4,874,192

# CONSOLIDATED STATEMENTS OF OPERATIONS

NEC Electronics Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars
	2007	2008	2009	2009
<b>Sales and other income:</b>				
Net sales .....	¥692,280	¥687,745	<b>¥546,470</b>	<b>\$5,519,899</b>
Gain on sales of property, plant and equipment and other...	2,548	1,861	<b>2,032</b>	<b>20,525</b>
Net gain on business transfer .....	—	2,040	—	—
Interest and dividend income .....	1,929	2,152	<b>1,570</b>	<b>15,859</b>
Gain on disposition of investments in securities .....	6,436	—	<b>159</b>	<b>1,606</b>
	703,193	693,798	<b>550,231</b>	<b>5,557,889</b>
<b>Costs and expenses:</b>				
Cost of sales .....	502,086	485,683	<b>425,918</b>	<b>4,302,202</b>
Research and development .....	131,751	112,300	<b>110,380</b>	<b>1,114,950</b>
Selling, general and administrative .....	87,000	84,668	<b>78,527</b>	<b>793,202</b>
Litigation and settlement expense .....	1,435	—	<b>9,543</b>	<b>96,394</b>
Restructuring charges .....	4,192	7,931	<b>4,935</b>	<b>49,849</b>
Loss on sales or disposal of property, plant and equipment and other .....	9,229	4,634	<b>6,000</b>	<b>60,606</b>
Interest expense .....	698	741	<b>319</b>	<b>3,222</b>
Net foreign exchange loss .....	1,197	1,091	<b>3,616</b>	<b>36,525</b>
Loss on investments in securities .....	980	2	<b>328</b>	<b>3,313</b>
	738,568	697,050	<b>639,566</b>	<b>6,460,263</b>
<b>Loss before income taxes</b> .....	(35,375)	(3,252)	<b>(89,335)</b>	<b>(902,374)</b>
<b>Provision for (benefit from) income taxes</b> .....	5,105	12,285	<b>(6,115)</b>	<b>(61,768)</b>
<b>Loss before minority interest, equity in earning (loss) of affiliated companies</b> .....	(40,480)	(15,537)	<b>(83,220)</b>	<b>(840,606)</b>
<b>Minority interest in income (loss) of consolidated subsidiaries</b> ..	552	251	<b>(288)</b>	<b>(2,909)</b>
<b>Loss before equity in earning (loss) of affiliated companies</b> ..	(41,032)	(15,788)	<b>(82,932)</b>	<b>(837,697)</b>
<b>Equity in earning (loss) of affiliated companies</b> .....	(468)	(207)	<b>307</b>	<b>3,101</b>
<b>Net loss</b> .....	¥ (41,500)	¥ (15,995)	<b>¥ (82,625)</b>	<b>\$ (834,596)</b>
<hr/>				
	Yen			U.S. dollars
	2007	2008	2009	2009
<b>Basic net loss per share</b> .....	¥ (336.04)	¥ (129.52)	<b>¥ (669.04)</b>	<b>\$ (6.76)</b>
<b>Diluted net loss per share</b> .....	(336.04)	(129.52)	<b>(669.04)</b>	<b>(6.76)</b>

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

NEC Electronics Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2007, 2008 and 2009

	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, 2006</b> .....	¥85,955	¥281,014	¥ (57,369)	¥ (1,342)	¥ (7)	¥308,251
Compensation expense for stock options .....		25				25
Comprehensive income (loss):						
Net loss .....			(41,500)			(41,500)
Other comprehensive income (loss):						
Foreign currency translation adjustments.....				2,789		2,789
Minimum pension liability adjustment, net of tax.....				(878)		(878)
Unrealized gains (losses) on marketable securities, net of tax.....				(3,336)		(3,336)
Unrealized gains (losses) on derivative financial instruments, net of tax.....				12		12
Comprehensive income (loss).....						(42,913)
Adjustment to initially apply SFAS No. 158, net of tax.....				(262)		(262)
Effect of change in fiscal year-end of certain subsidiary.....			(32)			(32)
Purchase of treasury stock, at cost.....					(1)	(1)
<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).....						(37,962)
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
Compensation expense for stock options .....		8				8
Comprehensive income (loss):						
Net loss .....			(82,625)			(82,625)
Other comprehensive income (loss):						
Foreign currency translation adjustments.....				(8,476)		(8,476)
Pension liability adjustment, net of tax.....				(7,211)		(7,211)
Unrealized gains (losses) on marketable securities, net of tax.....				(703)		(703)
Comprehensive income (loss).....						(99,015)
Purchase of treasury stock, at cost.....					(1)	(1)
<b>Balance at March 31, 2009</b> .....	¥85,955	¥281,081	¥(197,521)	¥(41,374)	¥(11)	¥128,130

	Thousands of U.S. dollars					
	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total
<b>Balance at March 31, 2008</b> .....	\$868,232	\$2,839,121	\$(1,160,566)	\$(252,364)	\$(100)	\$ 2,294,323
Compensation expense for stock options .....		81				81
Comprehensive income (loss):						
Net loss .....			(834,596)			(834,596)
Other comprehensive income (loss):						
Foreign currency translation adjustments.....				(85,616)		(85,616)
Pension liability adjustment, net of tax.....				(72,838)		(72,838)
Unrealized gains (losses) on marketable securities, net of tax.....				(7,101)		(7,101)
Comprehensive income (loss).....						(1,000,151)
Purchase of treasury stock, at cost.....					(11)	(11)
<b>Balance at March 31, 2009</b> .....	\$868,232	\$2,839,202	\$(1,995,162)	\$(417,919)	\$(111)	\$ 1,294,242

# CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Electronics Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars
	2007	2008	2009	2009
<b>Cash flows from operating activities:</b>				
Net loss	¥ (41,500)	¥ (15,995)	¥ (82,625)	\$ (834,596)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	82,960	75,067	67,346	680,263
Deferred income taxes	2,998	8,352	(8,259)	(83,424)
Loss on property, plant and equipment, net	5,983	3,559	5,547	56,030
Realized (gain) loss on marketable securities	(6,383)	—	6	61
Provision for pension and severance costs, less payments	(1,115)	(7,962)	(308)	(3,111)
Equity in (earning) loss of affiliated companies	468	207	(307)	(3,101)
Minority interest in income (loss) of consolidated subsidiaries	552	251	(288)	(2,909)
Net gain on business transfer	—	(2,040)	—	—
(Increase) decrease in notes and accounts receivable	15,985	(3,710)	39,117	395,121
(Increase) decrease in inventories	(9,333)	856	10,911	110,212
Increase (decrease) in notes and accounts payable	16,171	(17,309)	(31,166)	(314,808)
Increase (decrease) in other current liabilities	(4,239)	2,884	(7,841)	(79,202)
Other, net	4,184	(898)	934	9,434
Net cash provided by (used in) operating activities	66,731	43,262	(6,933)	(70,030)
<b>Cash flows from investing activities:</b>				
Proceeds from sales of property, plant and equipment	39,803	20,653	6,271	63,343
Additions to property, plant and equipment	(121,126)	(62,188)	(53,035)	(535,707)
Proceeds from sales of marketable securities	3,660	—	—	—
Investments in affiliated companies	(1,400)	—	—	—
(Increase) decrease in loans receivable	242	(2)	(1)	(10)
Proceeds from business transfer, net of cash transferred	—	5,340	—	—
Proceeds from sales of other investment securities	198	—	159	1,606
Purchase of other investment securities	—	(328)	(154)	(1,556)
Other, net	126	(1,244)	(2,496)	(25,211)
Net cash used in investing activities	(78,497)	(37,769)	(49,256)	(497,535)
<b>Cash flows from financing activities:</b>				
Repayments of long-term debt	(7,191)	(15,980)	(593)	(5,990)
Increase (decrease) in short-term borrowings, net	(4,018)	(2,711)	185	1,869
Repayments of lease obligation to related parties	(1,865)	(1,765)	(1,179)	(11,909)
Payments on intangible assets purchase contracts	(2,196)	(2,527)	(2,707)	(27,344)
Other, net	(3)	(2)	(1)	(10)
Net cash used in financing activities	(15,273)	(22,985)	(4,295)	(43,384)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	1,595	(2,408)	(3,709)	(37,465)
<b>Net decrease in cash and cash equivalents</b>	(25,444)	(19,900)	(64,193)	(648,414)
<b>Effect of change in fiscal year-end of certain subsidiary</b>	(244)	—	—	—
<b>Cash and cash equivalents at beginning of year</b>	211,060	185,372	165,472	1,671,434
<b>Cash and cash equivalents at end of year</b>	¥ 185,372	¥ 165,472	¥ 101,279	\$ 1,023,020
<b>Supplemental disclosures of cash flow information:</b>				
Cash paid during the year for:				
Interest	¥ 706	¥ 765	¥ 319	\$ 3,222
Income taxes	33	4,572	2,903	29,323
Non-cash investing and financing transaction:				
Machinery and equipment obtained by capital leases	220	928	2,095	21,162
Intangible assets purchase contracts	721	—	9,265	93,586

# INVESTOR INFORMATION

(As of March 31, 2009)

## Total Number of Shares Issued

123,497,694 shares (excluding 2,306 of Company's own shares)

## Number of Shareholders

14,078 persons

## 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%
RBC Dexia Investor Services Trust, London—Clients Account	2,788	2.26%
Chase Manhattan Bank GTS Clients Account Escrow	2,185	1.77%
State Street Bank and Trust Client Omnibus Account OMO2	2,062	1.67%
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	1,803	1.46%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,557	1.26%
Credit Suisse Securities (Europe) Limited, PB SEC INT NON-TR CLT	1,547	1.25%
Mellon Bank, N.A. Treaty Client Omnibus	1,021	0.83%
Deutsche Bank AG London—PB Non-Treaty Clients 613	884	0.72%

(Notes) 1. Shares less than a thousand are omitted.

2. Percentage of shares held is calculated excluding 2,306 of Company's own shares.

3. 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.

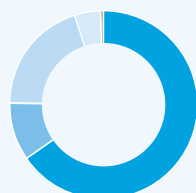
## Transfer Agent

The Sumitomo Trust and Banking Company, Limited  
Stock Transfer Agency Department:  
3-1, Yaesu 2-chome, Chiyoda-ku, Tokyo 104-0028, Japan  
Postal Address:  
1-10 Nikkou-cho, Fuchu-shi, Tokyo 183-8701, Japan  
Request forms for change of address, etc.  
Toll free (in Japan): 0120-176-417

## Stock Exchange Listing

Tokyo Stock Exchange First Section (code: 6723)

## Distribution of Ownership among Shareholders



Other companies	65.3%
Domestic financial institutions	10.0%
Foreign companies, others	19.8%
Individuals, others	4.4%
Securities companies	0.5%

# CORPORATE DATA

(As of March 31, 2009)

## Company Name

NEC Electronics Corporation

## Established

November 1, 2002

## Capital Stock

¥86.0 billion

## Investor Relations

<http://www.necel.com/ir/en/>

Guided by the NEC Electronics Guiding Principles, we promote highly transparent business practices that are fair, honest and conducted in good faith. We also proactively disclose the content of our activities to the public.

## Major Operations

Research, development, manufacture and sale and servicing of semiconductors, primarily system LSIs.

## Employees

22,476 (Consolidated)

## Headquarters

1753 Shimonumabe, Nakahara-ku,  
Kawasaki, Kanagawa 211-8668, Japan  
Tel: +81 44-435-5111

## Contact Information

Investor Relations  
Corporate Communications Department  
NEC Electronics Corporation  
Tel: +81 44-435-1664  
Fax: +81 44-435-1669  
e-mail: [ir@necel.com](mailto:ir@necel.com)

# DIRECTORS, CORPORATE AUDITORS AND CORPORATE OFFICERS

(As of June 25, 2009)

## Directors

### President and CEO

JUNSHI YAMAGUCHI

### Executive Vice President and Member of the Board

YOICHI YANO

MASAKI KATO

### Member of the Board

HAJIME MATSUKURA

## Corporate Auditors

KEIJI SUZUKI

HIROKI KAWAMURA

YASUYUKI SHIBATA

KAORU IKENAGA

## Corporate Officers

JUNSHI YAMAGUCHI

YOICHI YANO

MASAKI KATO

HIROSHI SATO

MASAO FUKUMA

TATSUO YOSHINO

YOSHIIHIKO MIURA

YOSHIRO MIYAJI

KAZUYOSHI YAMADA

SHINICHI IWAMOTO

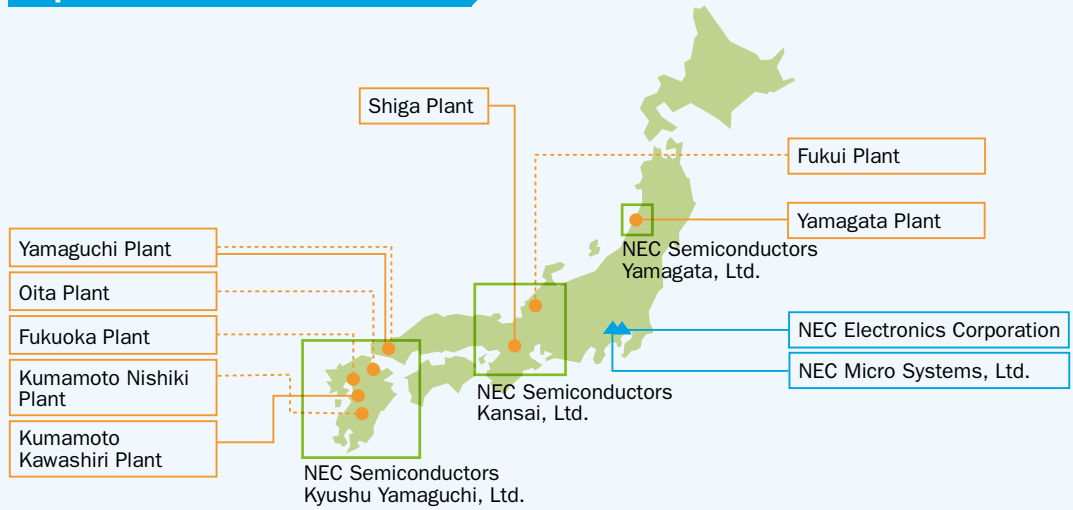
*Notes 1. Mr. Hajime Matsukura is an outside Director as stipulated in Item 15, Article 2 of the Companies Act.*

*2. Mr. Hiroki Kawamura, Mr. Yasuyuki Shibata and Mr. Kaoru Ikenaga are outside Corporate Auditors as stipulated in Item 16, Article 2 of the Companies Act.*

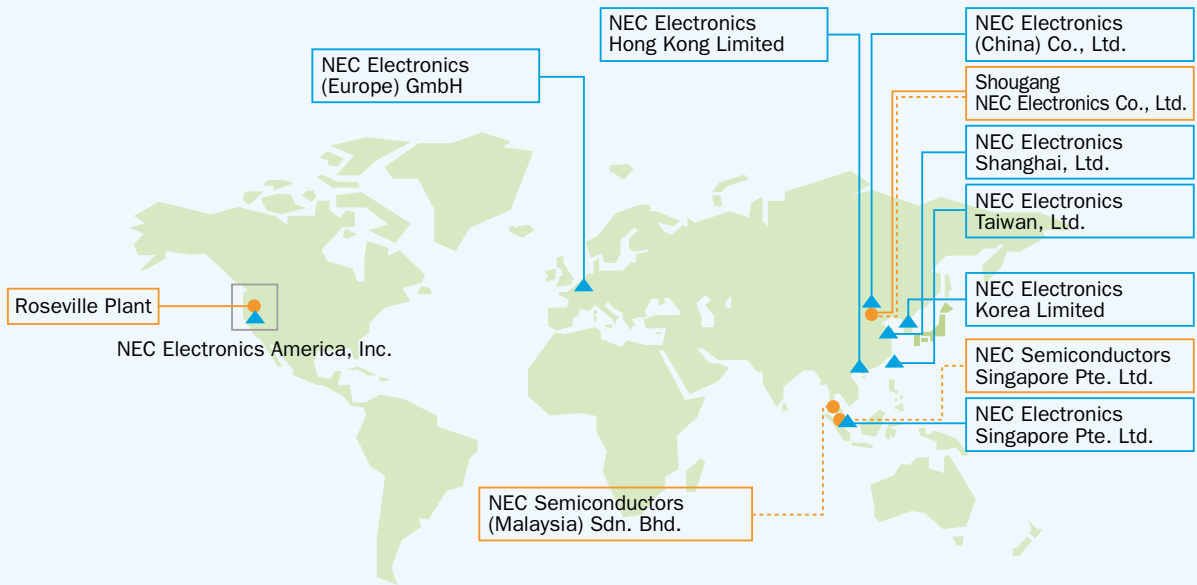
# MAJOR SUBSIDIARIES AND AFFILIATES

(As of April 1, 2009)

## Japan



## Overseas



● Manufacturing Companies/plants ( — Front-end - - - Back-end ▲ Sales & Design Companies

**NEC Electronics Corporation**

1753 Shimonumabe, Nakahara-ku,  
Kawasaki, Kanagawa 211-8668, Japan  
Tel: +81 44-435-5111  
<http://www.necel.com/>

