Empowered by Innovation

NEC

ANNUAL REPORT 2008

Year ended March 31, 2008

NEC CORPORATION

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CHANGE IN ACCOUNTING PRINCIPLES

NEC changed its accounting principles to prepare consolidated financial statements required under Japanese law from accounting principles generally accepted in the United States of America ("U.S.GAAP") to accounting principles generally accepted in Japan ("Japan GAAP") starting from the fiscal year ended March 31, 2007. Accordingly, the financial statements for the fiscal year ended March 31, 2006 on this annual report presented under Japan GAAP for comparison purpose.

FINANCIAL HIGHLIGHTS

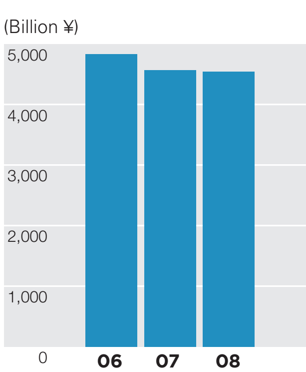
NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2006, 2007 and 2008

(Japan GAAP)

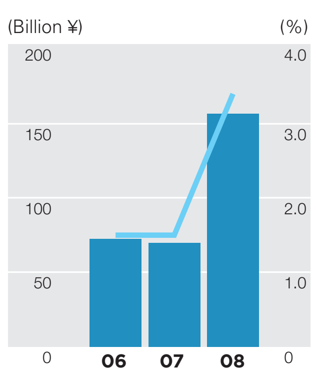
	In millions of yen			In millions of U.S. dollars	Percent change
	2006	2007	**2008**	**2008**	2008/2007
For the year:					
Net sales	¥4,929,970	¥4,652,649	**¥4,617,153**	**$46,172**	–0.8%
Operating income	72,526	69,976	**156,765**	**1,568**	124.0
Ordinary income	14,955	16,347	**112,240**	**1,122**	586.6
Net income (loss)	(10,062)	9,128	**22,681**	**227**	148.5
Per share data (in yen and U.S. dollars):					
Net income (loss)	(5.26)	4.43	**11.06**	**0.11**	149.7
Diluted net income	–	4.23	**10.64**	**0.11**	151.5
Cash dividends	6.00	8.00	**8.00**	**0.08**	0.0
At year-end:					
Total assets	3,802,775	3,731,669	**3,526,795**	**35,268**	–5.5
Owner's equity	1,029,807	1,038,808	**1,004,221**	**10,042**	–3.3
Interest-bearing debt	935,103	859,292	**800,843**	**8,008**	–6.8
Number of employees	154,180	154,786	**152,922**		

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥100 = U.S.$1.
2. Net income (loss) per share is calculated based on the weighted-average number of shares outstanding during each period.
3. Cash dividends per share for the year ended March 31, 2008 are the total of interim and year-end dividends approved by the Company's board of directors on November 14, 2007 and May 15, 2008, respectively.
4. Owner's equity is sum of total shareholders' equity and total valuation and translation adjustments.

NET SALES

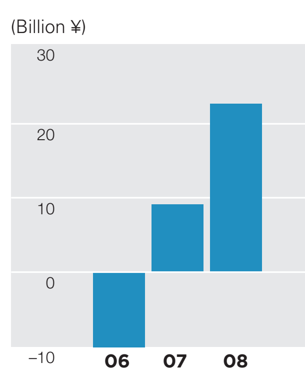


OPERATING INCOME, OPERATING INCOME RATIO

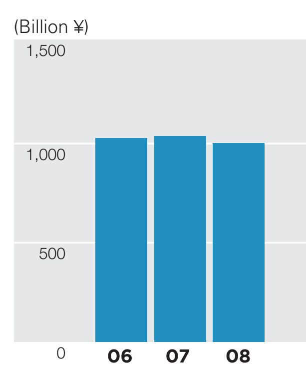


Operating Income
Operating Income Ratio

NET INCOME (LOSS)



OWNER'S EQUITY



MESSAGE FROM THE MANAGEMENT

Hajime Sasaki
Chairman of the Board

Kaoru Yano
President

NEC positioned fiscal 2008 (fiscal year ended March 31, 2008) as a year for implementing concrete growth strategies centered on Next Generation Networks (NGNs), and carried out a broad range of activities, including developing products and putting in place sales networks. Because we have launched many products and solutions ahead of other companies, sales in the NGN-related business in fiscal 2008 were significantly higher than in the previous fiscal year.

By restructuring the mobile terminals and semiconductor areas, which had recorded large losses in the past, we restored these areas to operating profitability in fiscal 2008, as promised at the start of the fiscal year.

As a result of these business activities, consolidated net sales were ¥4,617.2 billion, consolidated operating income was ¥156.8 billion and consolidated net income was ¥22.7 billion in fiscal 2008. Net sales were mostly unchanged from the previous fiscal year, but if the impact of business restructuring, including the sale of the European consumer PC business, is excluded, net sales actually increased in year-on-year terms. During the fiscal year, NEC also incurred strategic development expenses aimed at driving sales and earnings growth over the medium term. In fiscal 2008, operating income was substantially higher than the ¥70.0 billion recorded in the previous fiscal year, mainly thanks to improvement in underperforming businesses. Consolidated net income also increased from ¥9.1 billion in the previous fiscal year.

Cash dividends applicable to fiscal 2008 were ¥8 per share.

To rapidly achieve a level of earnings that satisfies shareholder expectations, we believe it is crucial for the NEC group to work as one to accelerate the pace of sales growth. In fiscal 2008, we made significant achievements while establishing a strong foothold for growth. Going forward NEC aims to expand business globally while creating new markets by spurring on IT and networking innovations as more opportunities for developing NGNs emerge. In this way, we aim to enhance shareholder value and corporate value.

We look forward to your continued support in this endeavor.

July 2008

Hajime Sasaki

Hajime Sasaki
Chairman of the Board

Kaoru Yano

Kaoru Yano
President

INTERVIEW WITH THE PRESIDENT

NEC President Kaoru Yano Discusses NEC's Strategies

FISCAL 2008 PERFORMANCE IN REVIEW

QUESTION:

What is your assessment of NEC's performance in the past fiscal year?

A: During fiscal 2008, ended March 31, 2008, NEC produced solid results by working to strengthen its earnings power and growth potential toward the objectives set for the fiscal year—achieving our operating income target and implementing growth initiatives.

Regarding strengthening our earnings ability, we successfully restored operating profitability in both the semiconductor and mobile terminals areas, which have been unprofitable in the past few years. NEC's IT/Network Solutions business, which is a steady source of earnings, also posted higher earnings year on year. In fiscal 2008, operating income and net income both more than doubled to ¥156.8 billion and ¥22.7 billion, respectively.

Regarding strengthening our growth potential, we roughly doubled sales related to the construction of Next Generation Networks (NGNs), which will play a pivotal role in these fields. In addition, NEC implemented growth initiatives such as forming alliances to expand businesses globally and development activities to fortify strategic fields.

Nevertheless, I'm still far from satisfied with this level of performance. Going forward, we seek to further enhance our performance by translating our initiatives into growth.

GROWTH STRATEGIES

QUESTION:

How do you see NGN-driven growth opportunities in Japan?

A: NEC sees NGN-related businesses as encompassing a broad range of fields. Looking at communications networks alone, NGN involves more than just the conversion of fixed-line communications networks into IP-based networks. It also encompasses major trends such as the convergence of fixed-line and mobile communications networks and the fusion of communications and broadcasting, not to mention the widespread adoption of next-generation mobile communications technologies such as LTE and WiMAX expected in the near future. Furthermore, service platforms that provide authentication, billing and other capabilities needed by communications carriers to offer a variety of services will be constructed over communications networks. NGNs are reliable networks that differ completely from past networks in terms of being able to guarantee communications quality and ensure tight security. Therefore, NGNs offer further growth prospects as companies and the public sector draw on these advantages to offer new services. NEC believes that solutions for these companies and the public sector, not to mention demand for constructing communications networks, present major business opportunities.

NEC has already staked out a solid position in the NGN construction field in Japan. The field of new services, which has strong growth potential, is one where NEC can demonstrate its strengths in both communications infrastructure technologies and IT. By harnessing this market growth and achieving an even stronger position, NEC aims to outperform the domestic market in terms of sales growth.

QUESTION:
What is your approach to overseas businesses?

A: Growing overseas businesses is vital to accelerating the pace of growth. In fiscal 2008, NEC's overseas sales only accounted for 25% of total sales following downsizing in the wake of the IT bubble's collapse, termination of overseas mobile terminals operations and other actions. But I intend to raise this share to 30% as soon as possible and to 40% thereafter. NEC has an outstanding track record in Japan's world-leading NGN market. By harnessing NEC's collective IT and network capabilities, I believe we have a perfect opportunity to sharply grow our overseas business.

NEC's PASOLINK point-to-point microwave communication system has already been a major success overseas. Backed by the exceptional manufacturing capabilities of NEC's plant in Fukushima, PASOLINK has earned high marks for its product quality and performance. Sales volumes are growing fast atop strong demand from mobile communications carriers for linking mobile base stations. Thanks to a sharp increase in its market share, NEC captured the No. 1 share* of the global market for this type of equipment in 2007. Elsewhere, our optical submarine cable system business is now also much bigger against the backdrop of burgeoning communications traffic. In addition, we are developing and launching products that are targeted first at overseas markets. The HYDRAstor grid storage system released in fiscal 2008 is an example. By offering more of these sorts of competitive products in parallel with effective marketing and targeting, we aim to continue to expand our overseas business. Leveraging partnerships is another priority. In this regard, we are actively forming alliances with global partners including Alcatel-Lucent, SAP AG, Hewlett-Packard Company and EMC Corporation.

*Source: Sky Light Research (Cumulative unit sales from January to December 2007)

QUESTION:
How are you further boosting profitability?

A: Since 1999, NEC has been implementing a production innovation drive based on the Toyota Production System. Through this approach, our PASOLINK plant in Fukushima and all other plants have boosted productivity manyfold by putting their heads together, while at the same time sharing their production innovations with one another to make further improvements. We are also applying this hardware-centered production innovation drive to software development and systems integration. Specifically, efforts are focused on offering better proposals to customers to improve the quality of orders we receive, and to reduce the redevelopment cost incurred as a result of setbacks during the development process. We are also standardizing software development techniques not only within the NEC group but also at partner companies. Another initiative is using a half-finished software module called a "system model" to shorten development periods and improve quality. These improvement measures constitute a steady and continuous endeavor. By continuously reaping the benefits of this hard work, we ultimately aim to enhance our profitability.

THE SEMICONDUCTOR AND MOBILE TERMINALS AREAS

QUESTION:

NEC has restored profitability in the semiconductor and mobile terminals areas. How will you develop these businesses going forward?

A: One reason for the semiconductor area's lackluster performance was its large R&D expenses. NEC Electronics Corporation, for example, used to spread its resources thin. However, it is now focusing R&D resources on applications for digital consumer electronics and automobiles, with the aim of becoming an industry leader in each field. Looking ahead, cross-applications of R&D achievements will be important for us. NEC leads the way in cross-applications of software development achievements, and we want to bring this advantage to bear on boosting development efficiency in the semiconductor field as well.

We have managed to restore profitability in the mobile terminals area by concentrating on Japan at the expense of overseas where we posted large losses. NEC had lost some market share over the past two to three years in Japan, but recently released new models have garnered a strong customer response for their fast and efficient operability, long standby battery life and product design and our market share is improving as a result. In fiscal 2009, I believe we can substantially increase our mobile handset sales volume by capturing a greater market share with an expanded range of user friendly, attractive models and by increasing the number of mobile communications carriers to whom we supply our handsets.

Information terminals are what people will actually touch and manipulate when interfacing with NGNs. In the near future, I believe that an entirely new type of terminal based on current mobile handsets will become necessary. This will certainly take advantage of NEC's unique strengths in linking today's PCs, home networks and more.

TEN-YEAR VISION

QUESTION:
What is your vision for NEC?

A: NEC has an unchanging corporate philosophy: "NEC strives through 'C&C' to help advance societies worldwide toward deepened mutual understanding and the fulfillment of human potential." Based on this, we have formulated the NEC Group Vision 2017, which expresses our aspirations as follows: "To be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth."

NEC must contribute to society and grow its businesses globally. The most important CSR themes in information and communications technology, NEC's core business domain, are eliminating the digital divide and addressing global warming and other environmental issues. In 2017, I hope that NEC will have won recognition for helping to solve these two issues in a major way.

Modern society has various drawbacks, not the least of which is the fact that many convenient services unless they can access and use information and communications devices. We want to help develop technologies that revolve around people, not the other way around—and are easy for anyone to use. NEC has strengths that differ from those of home appliance manufacturers in that it supplies not only information terminals, but also networks and services over them. By capitalizing on these sorts of strengths, we aim to help build a society where everybody can reliably and securely access information when needed and freely communicate over networks, using any kind of terminal.

In terms of the environment, as IT and networking equipment consume more and more power, reducing this power consumption has become a major issue in the fight against global warming. NEC offers environmental management solutions based on energy-efficient semiconductors, power control software and other advances. We have also decided to start volume production of lithium-ion batteries for automobiles through a joint venture with Nissan Motor Co., Ltd. Besides supplying IT equipment with low CO_2 emissions as mentioned earlier, we aim to help reduce society's entire CO_2 footprint by reducing CO_2 emissions from our own production activities and by providing solutions that encourage our business clients to change the way they work mainly by adopting paperless procedures and reducing unnecessary transportation.

Creating an "information society friendly to humans and the earth" is our mission and will open up major business opportunities that will fully leverage our capacity to innovate.

QUESTION:

How are you strengthening employee cohesion to realize this vision?

A: I believe that the most important way for us to make the NEC group more cohesive and bring out even more of the strengths of our employees than before is to encourage employees to aim higher, envision NEC's future, and have the ambition to realize that vision. To this end, the NEC Group Core Values outline company strengths and values that NEC employees should treasure. These Values comprise the four elements of "Passion for Innovation," "Self-help," "Collaboration," and "Better Products, Better Services." Ever since its founding in 1899, NEC has pursued customer satisfaction based on a "Passion for Innovation" and the corporate slogan "Better Products, Better Services." In this process, we constantly aim to provide even better products and services to customers without becoming complacent even if they are already the best at the time. To achieve this, we have emphasized the principle of "Self-help" while fostering a corporate culture of teamwork. This is essential to realizing the NEC Group Vision 2017 and our corporate philosophy.

Because we aim to expand our businesses globally, it is essential for us to sufficiently share a common set of values with employees of overseas subsidiaries. The NEC Group Core Values reflect the need to clearly put in writing what has always been tacitly acknowledged.

Guided by our newly formulated vision and values, I want every employee to reaffirm NEC's strengths, as we aim to become a truly global company that takes the initiative to transform itself with a healthy sense of urgency.

MEDIUM-TERM MANAGEMENT TARGETS

QUESTION:

What medium-term management targets will you pursue as you execute the growth strategies and vision you have explained?

A: Companies owe their existence to capital provided by shareholders, and so we regard generating returns on this capital in the form of net income as a top priority. Based on this thinking, we are putting emphasis on ROE (Return on Equity). I believe that an ROE of around 15% is necessary to be a truly global company. However, our first step will be to achieve an ROE of 10% over the medium term.

In order to boost net income and achieve this goal, we must first and foremost increase operating income. This, in turn, means that we must grow sales.

IN CLOSING

Our most important goal is to achieve growth globally. In parallel, we hope to contribute to society by realizing "an information society friendly to humans and the earth." We aim to achieve these goals leveraging the power of innovation. The continued support and understanding of all stakeholders will also be essential.

(June 2008)

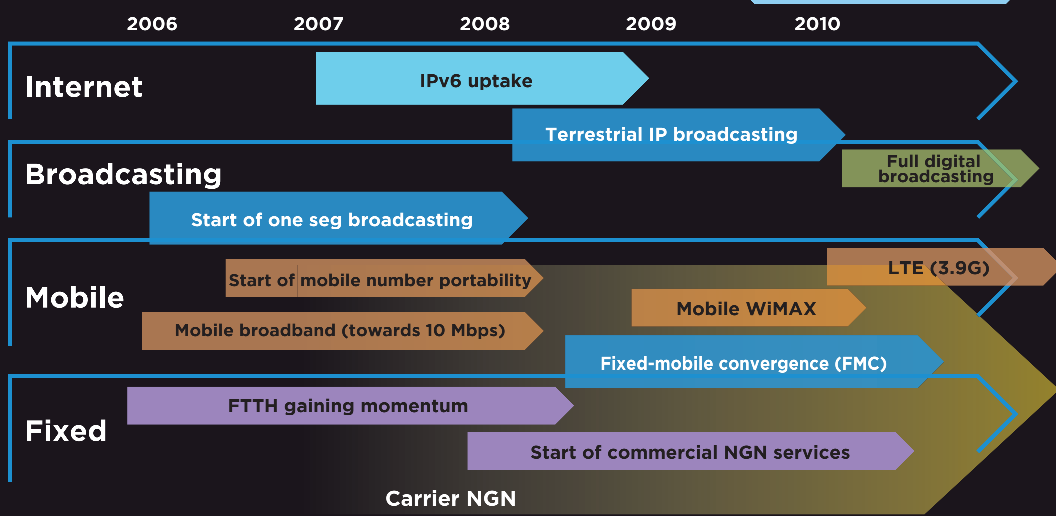
NEC'S GROWTH STRATEGIES

NEC'S COMPETITIVE EDGE:

Next Generation Networks (NGN) and wireless broadband networks are coming to the fore around the world. Furthermore, IT investment is increasing in growth markets such as the BRICs countries and resource-rich countries.

NEC is expanding NGN-related businesses in Japan's world-leading NGN market, and aims to extend its IT/Network Solutions business to overseas markets around the world and thereby accelerate growth. This will be accomplished by harnessing its competitive edge in both IT and networks and through alliances with leading companies.

NEC'S VIEW ON ROADMAP FOR NGN EVOLUTION



EVOLUTION TOWARD NGN

Nippon Telegraph and Telephone Corporation (NTT) has started building a next-generation network (NGN) that will increase the sophistication and capacity of its existing IP*1 communications network. This is being accomplished by using its optical FTTH*2 network, which extends all the way to subscriber networks. In March 2008, NTT began commercial NGN services in Tokyo and surrounding metro areas. In addition, KDDI, SoftBank and other companies have also started to build and expand NGN backbones that address the emergence of IP networks and FMC*3 as well as the convergence of broadcasting and communications.

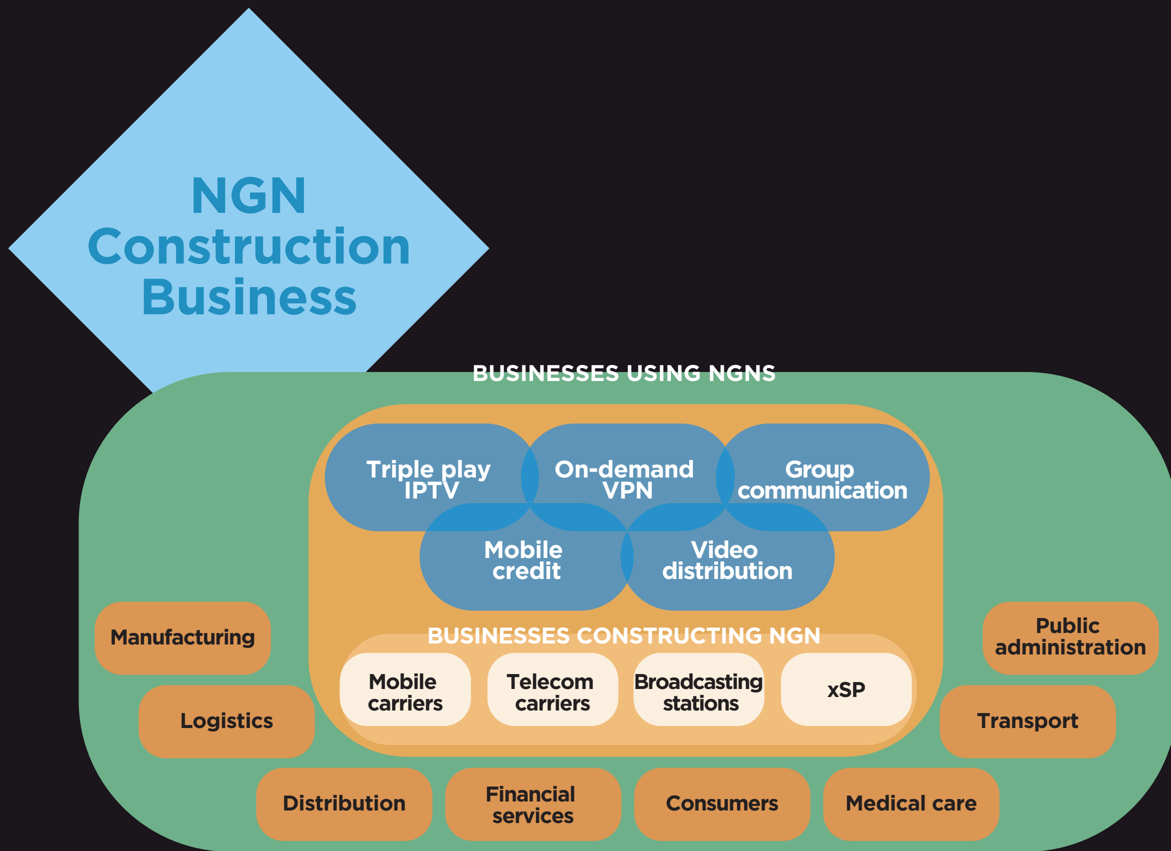
Turning to mobile communications networks, penetration of HSDPA*4, a high-speed service, has been increasing, and services with download speeds of up to 7.2 Mbps are now available. In terms of mobile WiMAX and the LTE*5 3.9G mobile phone system, which will both become NGNs, telecom companies are engaged in standardization activities and developing equipment aimed at the roll-out of commercial services from 2009. Thus, even for mobile phone users, ultra high-speed communications comparable to FTTH will soon become a reality.

Looking at terrestrial TV broadcasting in Japan, digital broadcasting has already got under way, and full digital broadcasting will begin in 2011 when analog TV broadcasting ends. This is expected to increase content distribution over NGNs.

In these ways, as various networks evolve to become NGNs, people will be able to exchange video and data at high speeds anytime and anywhere. NGN construction is also likely to give rise to a diverse array of new services using these networks.

NGN is a new type of network that combines the advantages of the reliability of telephone exchange networks, which have now been used for some 100 years, with the flexibility and convenience of the Internet. Technologies integrating IT and networks will become more important when NGN construction and use gets fully under way. Because NEC has world-class technological capabilities in both IT and networks, it will be presented with significant business opportunities.

*1 IP: Internet Protocol
*2 FTTH: Fiber to the Home
*3 FMC: Fixed-Mobile Convergence
*4 HSDPA: High Speed Downlink Packet Access
*5 LTE: Long-Term Evolution



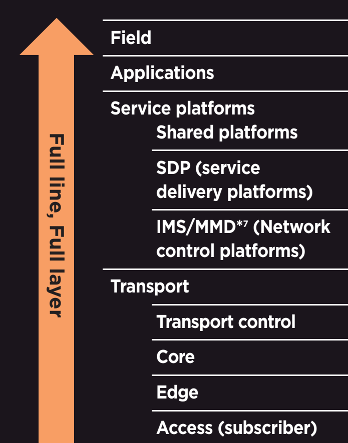
NEC'S BUSINESSES

NEC's NGN-Related Business

NEC is engaged in NGN-related businesses in two main areas.

The first area is business related to NGN construction. NEC can provide fixed-line communications service providers, mobile communications service providers, broadcasters and other customers with a comprehensive range of products and services, ranging from network design to network equipment. Specifically, NEC can provide a full lineup and full layer of products and services. These include access (subscriber) network equipment, backbone network equipment, network control platforms such as IMS[*6] based on SIP servers, and shared platforms (service platforms) for the delivery of services. This has given NEC an advantageous position in business negotiations on NGN construction in Japan. Based on experience and expertise gained in the Japanese market, NEC will develop business globally going forward.

In fiscal 2008, sales in NGN construction-related business amounted to approximately ¥200 billion, marking a substantial increase from approximately ¥90 billion in the previous fiscal year. These sales mainly comprised IMS, which will lie at the heart of NGNs, and network systems for IP telephony using FTTH, as well as optical transport products, and service platforms.



[*6] IMS: IP Multimedia Subsystem
[*7] MMD: Multimedia Domain

NEC'S VIDEO SOLUTION
DIGITAL SIGNAGE (Electronic Signs)

Distribute different advertisements depending on time period

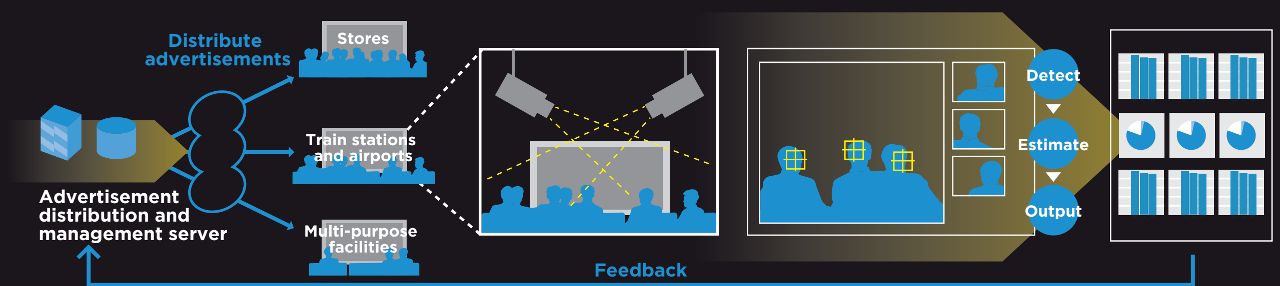
Capture viewer responses down to facial expressions

Analyze number and description of people who saw advertisements and level of interest

Using digital signage as advertising media

Facial recognition systems

Automatic gender/age assessment system



The second area is business related to services that use NGNs.

Gaining the ability to exchange video and data reliably and securely at high speeds and in large volume will become a major catalyst for change in terms of consumer behavior and corporate business models that have existed so far. It will drive the provision of a diverse spectrum of new services by telecom providers and broadcasters to companies and individuals, by companies to individuals, and among companies. As a result, system construction employing ICT technology[*8] will gain new strength, and spur growth in IT investment. NEC has an extensive track record in the construction of such large-scale open systems. By harnessing this strength, NEC aims to drive further growth in its businesses.

For example, NEC's Digital Signage and other video solutions are provided by integrating technologies and know-how related to IT, networks, broadcasting and video, and terminals as well as the BIGLOBE service. These important solutions give NEC a competitive edge. In addition, NEC will provide solutions combining its experience in constructing large-scale systems and new technologies. This includes developing services using NGNs in social infrastructure fields in the public and financial services sectors, as well as electronic money and RFID solutions in the distribution and services fields. As moves to establish NGNs and wireless broadband networks get fully under way in global markets, NEC aims to seize these business opportunities to further expand sales and earnings.

[*8] ICT: Information and Communications Technology

Overseas Expansion of the IT/Network Solutions Business

"iStorage HS Series (HYDRAstor)"
This next-generation grid storage system product was developed at NEC Laboratories America, Inc.

"iStorage E1"
Released in January 2008, this storage product was jointly developed with EMC Corporation based on a strategic alliance with this partner.

OVERSEAS BUSINESS EXPANSION

Overseas business expansion is indispensable to NEC's growth. In particular, the IT/Network Solutions business is a field in which NEC is well positioned to demonstrate its world-class technological capabilities on a global scale. Based on a business network that is firmly established in various regions of the world, NEC is striving to reinforce its organizational structure through such efforts as enhancing its local operations, for example, while attempting to further strengthen overseas business through global alliances. Our aim is to raise the overseas sales ratio, which currently is 25%, to 40% over the medium term.

In businesses involving IT systems such as system integration (SI) and servers, we are aiming for growth mainly in areas where we can harness our strengths. So far, NEC has built up a strong track record in step with the entry of Japanese companies into China and other Asian countries in such fields as systems for manufacturing and distribution industries. However, in fiscal 2008, we took an equity stake in a consulting company for manufacturers and acquired a system integrator involved in the distribution and retail industries in China, as part of efforts to expand solutions businesses targeting Chinese companies.

In the field of security, particularly fingerprint identification technology, NEC boasts advanced technologies that hold a very large share of the global market for security systems for police forces. By further applying these technologies, we are aggressively expanding businesses centered on immigration control systems and national ID systems in various countries.

We are also promoting alliances with global partners. In particular, there are high hopes for growth in the field of service platforms, which will help companies to provide new services over networks. Therefore, we have established collaborative ties with six leading overseas IT vendors while making use of the advanced technological capabilities we have cultivated in Japan's world-leading market.

In the field of hardware as well, NEC is endeavoring to expand overseas business, centered on distinctive NEC products. "iStorage HS Series" which we launched first in the U.S. market in fiscal 2008, is a unique product that realizes highly reliable and scalable disk storage at a price comparable to tape media. NEC is also actively engaged in alliances with overseas companies and has launched a jointly developed compact storage product with EMC Corporation of the U.S.

One of the world's largest national identification systems based on fingerprint authentication technology—Republic of South Africa

Turning to NEC's overseas network business, growth opportunities are expected to expand rapidly in step with the full-scale launch of NGNs in markets around the world.

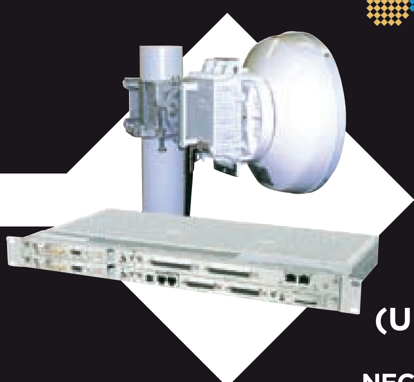
In terms of the outlook for the overseas network business, supported by the full-scale launch of NGNs, markets in developed countries are expected to expand, while demand in emerging countries is expected to remain robust, leading to projected annual growth in the overseas network business of around 5% as a whole. Going forward, in overseas markets where stronger growth is projected than in Japan, NEC will strengthen sales of products backed by an extensive track record in Japan, which leads the world in terms of NGN services, with the aim of expanding overseas business.

First, we will expand business by leveraging our proven track record in the global market and our customer base, both of which are NEC's strengths. For major network products such as microwave transmission equipment, optical transmission equipment, and switching systems, NEC has a customer base that spans more than 150 countries in total. By making the most of this customer base, we will expand sales of our network products and service platforms, both of which have rapidly incorporated worldwide standard specifications.

Next, we will cultivate new markets through alliances with other companies.

With the aim of expanding overseas business, NEC announced in February 2008 that it would establish a wide-ranging cooperative relationship with Alcatel-Lucent. As a first step in this collaboration, NEC entered into a preliminary agreement including establishment of a joint-venture company that will jointly develop LTE, a next-generation mobile communications system. Going forward, LTE is expected to be adopted by numerous mobile phone service providers in Japan and overseas, including NTT DOCOMO, Inc. and Verizon Communications Inc. of the U.S. NEC will supply products developed by this joint-venture company in a timely manner to meet demand from customers around the world.

Besides LTE, NEC is also considering specific collaboration plans with Alcatel-Lucent in fields such as IMS, which is indispensable to NGNs and next-generation mobile and wireless services, optical communications, IP routing technology and more. By harnessing each other's strengths in technologies, products, and markets, the two companies aim to enhance development efficiency and cultivate new markets, and thereby establish their positions as global leaders in the network sector.



PASOLINK:

Driving Overseas Business Expansion

(Ultra-Compact, Point-to-Point Microwave Wireless Access System)

NEC's PASOLINK is an ultra-compact, high-performance microwave communications system. It is making a substantial contribution to the development of mobile infrastructure all over the world mainly as a form of communications equipment that links base stations.

In fiscal 2008, PASOLINK sales increased approximately 80% year on year. NEC has delivered a total of 780,000 units to 131 countries[*9], and PASOLINK achieved top global market share in 2007[*10].

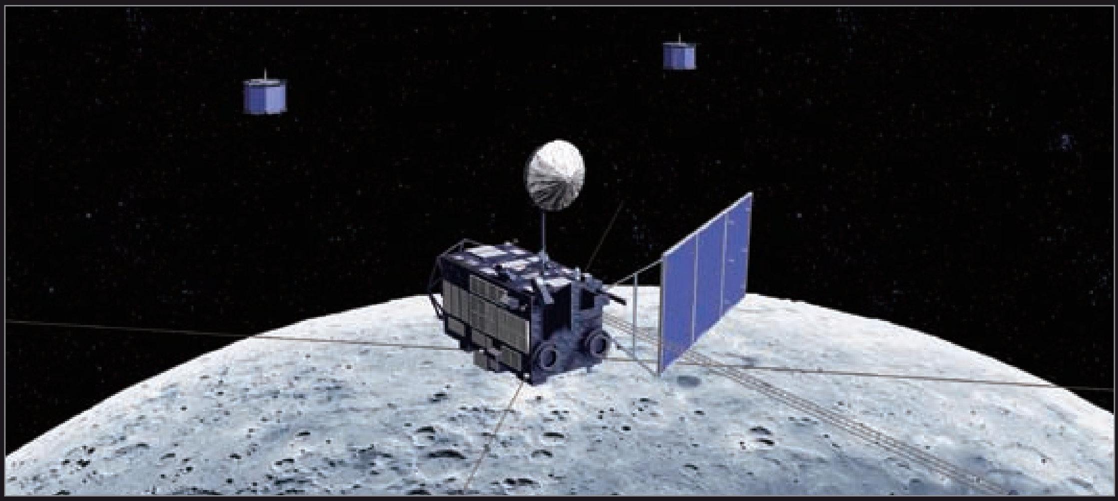
At present, the number of mobile phone subscribers is increasing rapidly mainly in the Asian region. In India, especially, growth has continued at an explosive pace, with the number of new subscriptions surpassing 100 million from May 2006 to August 2007. For communications service providers to acquire more subscribers in such regions, it is vital to install many more base stations in a shorter time than their competitors and thereby rapidly expand their service area. Consequently, demand is rising for wireless communications equipment, which enables systems to be constructed more swiftly and economically than fixed-line systems. PASOLINK's excellent product capabilities and NEC's ability to flexibly respond to customer needs have won high acclaim from the global market, and NEC has continued to field numerous business inquiries from such telecom providers.

NEC has so far developed numerous outstanding wireless technologies. For example, we were the first in the world to commercialize digital microwave communications in 1969. By bringing together all these technologies, PASOLINK boasts exceptional reliability with a failure probability of less than once every 100 years, and a far more compact form and much lower power consumption than competing products.

Furthermore, by establishing a global supply chain integrating the product development division, plant, and sales force, NEC can fill custom orders for over 1,000 different models based on differences in frequency and capacity and delivery times in as short as about two weeks from order to delivery.

With PASOLINK as one of the driving forces behind the expansion of its overseas network systems business, NEC will continue to expand business mainly in emerging countries, where mobile infrastructure demand is growing at a phenomenal pace.

*9 As of December 31, 2007
*10 Source: Sky Light Research
(Based on cumulative unit sales from January 2007 to December 2007)



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PARTICIPATION IN KAGUYA LUNAR ORBITER PROJECT

—Exploring the Enigma of the Moon's Origin and Evolution

The KAGUYA lunar orbiter was launched in September 2007 and began full-scale lunar observations in December.

It is the largest lunar mission since the Apollo program, and it has drawn considerable media attention around the world as an endeavor that will significantly advance our understanding of the Moon's origin and evolution.

As a prime contractor in this project, NEC is in charge of the manufacture and operation of KAGUYA under the supervision of the Japan Aerospace Exploration Agency (JAXA). NEC is playing an important role as a member of this project by handling, for example, the development of on-board equipment for an advanced laser-based topographical survey of the Moon's surface and for measurement of the Moon's gravitational field.

NEC has accumulated more than 50 years of experience in space development projects, beginning with the development of Japan's first satellite, OHSUMI. Also, NEC has been engaged in the KIZUNA project, the Wide InterNetworking engineering test and Demonstration Satellite that was launched after KAGUYA, and the Kibo international space station project. NEC's technological and manufacturing capabilities are being broadly utilized even in satellites in outer space, and are contributing to the advancement of space development and the creation of an affluent society.

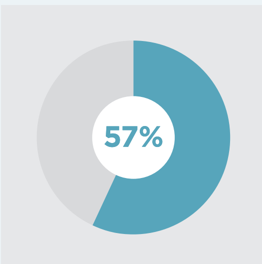
NEC supports the KAGUYA Lunar Orbiter project

AT A GLANCE

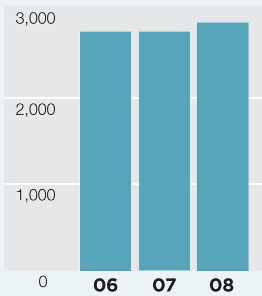
NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2006, 2007 and 2008

IT/Network Solutions Business

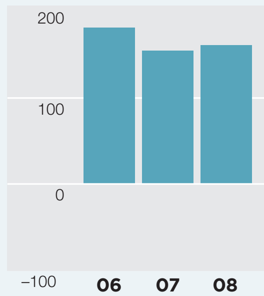
PROPORTION OF SALES (2008)



SALES
(Including Intersegment Sales)
(Billion ¥)



OPERATING INCOME
(Billion ¥)

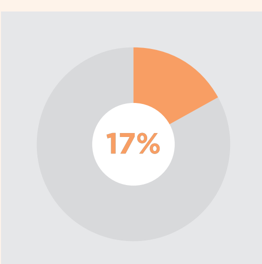


The IT/Network Solutions business provides solutions for the ubiquitous networking era, mainly to government agencies, communications service providers, and other private-sector enterprises.

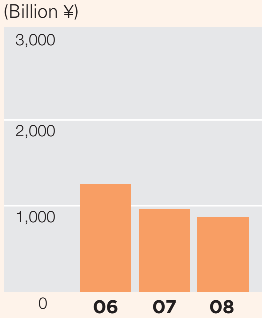
NEC has world-class technologies in both IT and networking, principally grounded on an extensive track record in constructing large-scale open mission critical systems; and carrier-class reliability developed through experience in both fields of fixed and mobile communications systems. Furthermore, NEC has leading-edge technologies in areas of convergence between IT and networking.

Mobile/Personal Solutions Business

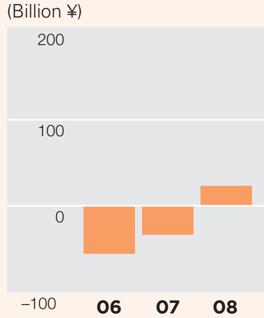
PROPORTION OF SALES (2008)



SALES
(Including Intersegment Sales)
(Billion ¥)



OPERATING INCOME (LOSS)
(Billion ¥)

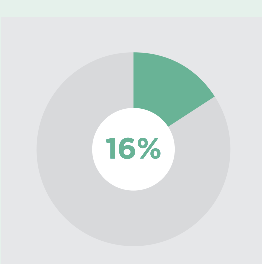


The Mobile/Personal Solutions business provides mobile handsets, personal computers and other terminals that channel individuals to the ubiquitous networking society, as well as Internet services.

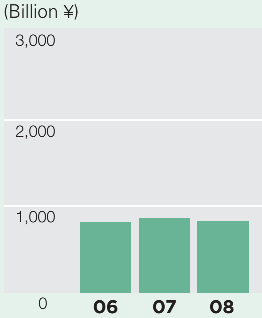
This business underpins the NEC brand with leading-edge technologies that realize enjoyable features and user friendliness, as well as finely tuned support services.

Electron Devices Business

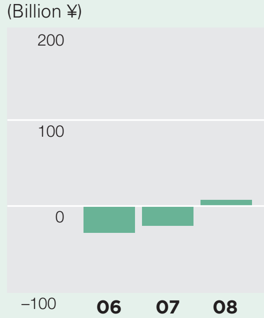
PROPORTION OF SALES (2008)



SALES
(Including Intersegment Sales)
(Billion ¥)



OPERATING INCOME (LOSS)
(Billion ¥)



The Electron Devices business provides the semiconductors, liquid crystal displays, electronic components and other products that play a vital role in realizing higher performance devices mainly for manufacturers involved in digital home electronics and automobiles.

IT SERVICES/ SYSTEM INTEGRATION

- **Systems Integration**
  (Systems Construction, Consulting)
- **Maintenance and Support**
- **IT Outsourcing**

IT PRODUCTS

- **PC Servers**
- **UNIX Servers**
- **Mainframe Computers**
- **Supercomputers**
- **Storage Products**
- **Business Personal Computers**
- **Professional Workstations**
- **Computer Software**
  (Operating Systems, Middleware, Application Software)

NETWORK SYSTEMS

- **Network Systems for Communications Service Providers**
  - **Network Infrastructure**
    (Mobile Communications Systems, Fixed-line Communications Systems)
    Backbone Networking Systems
    (SDH Systems, WDM Systems, Routers/Switching Systems)
    Access Networking Systems
    (Broadband Access Networking Systems, Mobile Access Networking Systems, Microwave Communications Systems)
  - **Network Control Platforms Systems**
  - **Network Service Delivery Platform Systems**
- **Enterprise Network Systems**
  (IP Telephony Systems, Routers/Switching Systems, Wireless LAN, Network Outsourcing)

SOCIAL INFRASTRUCTURE

- **Broadcasting Systems and Video Equipment**
- **Control Systems**
- **Transportation Systems**
- **Aerospace and Defense Systems**
- **Fire and Disaster Prevention Systems**

MOBILE TERMINALS

- **Mobile Handsets**

PERSONAL SOLUTIONS

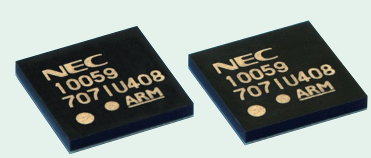
- **Personal Computers**
- **Personal Communications Equipment**
- **"BIGLOBE" Internet Services**

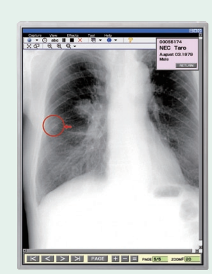
SEMICONDUCTORS

- **System LSIs**
  (For Use in Communications Equipment, Computing and Peripheral Products, Consumer Electronics Products, Automotive and Industrial Products)
- **Microcontrollers**
- **Discrete Devices**
- **Optical and Microwave Devices**

ELECTRONIC COMPONENTS AND OTHERS

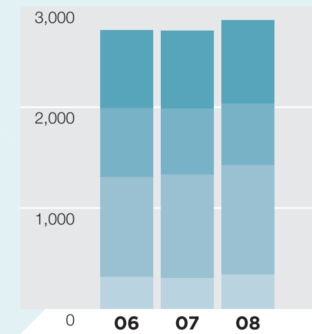
- **LCDs**
- **Capacitors**
- **Lithium-ion Rechargeable Batteries**
- **Piezoelectric Devices**
- **Relays**
- **IC Cards, IC Tags**





SALES BY SUBSEGMENT
(Including Intersegment Sales)
(Billion ¥)

- IT Services/System Integration
- IT Products
- Network Systems
- Social Infrastructure



PERFORMANCE BY SEGMENT

IT/NETWORK SOLUTIONS BUSINESS

The IT/Network Solutions business provides products and services mainly to the public sector, corporations and communications service providers, by leveraging both world-class IT and network technologies. This business comprises: IT Services/SI (Systems Integration), which involves consulting, systems construction, maintenance and support; IT Products, which consists of servers and other products; Network Systems, which involves providing fixed-line and mobile communications systems to communications service providers, and network systems for enterprises; and Social Infrastructure, which involves broadcasting, aerospace and other domains.

Fiscal 2008 Financial Results

In fiscal 2008, the year ended March 31, 2008, sales of the IT/Network Solutions business rose 4% year on year to ¥2,866.2 billion. By subsegment, sales in the IT Services/SI area increased 7% year on year to ¥832.5 billion supported by steady growth in sales to almost all industries. In the Network Systems area, sales increased 6% year on year to ¥1,086.0 billion as a result of strong sales to overseas communications service providers, despite a decrease in sales to mobile communications service providers in Japan. In the Social Infrastructure area, sales were up 12% year on year at ¥340.9 billion. On the other hand, IT Products sales declined 7% year on year to ¥606.8 billion, mainly reflecting the impact of the transfer of sales operations for optical disk drives. Overall, operating income improved ¥6.6 billion year on year to ¥160.6 billion, mainly reflecting sales growth in the IT Services/SI area and higher earnings as a result of SI innovation activities.

Fiscal 2008 Accomplishments

IT Services/SI Accomplishments and Outlook

Supported by firm domestic IT investment, NEC achieved business expansion in almost all business sectors during fiscal 2008. In particular, we expanded our high-growth service platform business by offering a wide range of systems for video management/distribution, billing and settlement, authentication, and other systems. In addition, targeting global development of our service platform solutions, we strengthened our business alliances with six major IT vendors*[1]. In the field of ERP (Enterprise Resource Planning) systems demand for deploying SAP systems is growing in various industries. Here, NEC expanded SAP systems track records to the manufacturing and other sectors, by combining SAP systems with applications where NEC excels. NEC has formed a broad alliance with SAP AG, not only in Japan, but also targeting global businesses in Asia and other markets. The alliance covers a broad range of activities from development and marketing of solutions to sales.

NEC is actively creating and expanding new markets using leading-edge technologies. One example is RFID-related solutions, where tiny wireless chips are used to identify and track people or objects. In Japan, we increased sales efforts in this market through such activities as offering customers a location where they could conduct RFID trials in simulated environments reflecting actual situations. As a result, we steadily continued to build on our record for introducing RFID-related solutions in materials and parts inventory management and other systems in the manufacturing production field. Based on these achievements in Japan, we are planning to develop our business in China, where the market for RFID-related solutions is expected to expand. In March 2008, to drive business expansion, we built an experimental facility in Shanghai in cooperation with Tongji University.

Returned books are put on a conveyor belt for automatic processing and sorting.

AUTOMATED RFID-BASED PROCESSING AND SORTING SYSTEM FOR RETURNED BOOKS
(Saitama Municipal Chuou Library)

In terms of earnings, we are implementing "SI innovations" throughout the NEC group to enhance profitability. We achieved improved earnings in the period under review through such measures as broadening the scope of our system development standards to include partner companies in Japan and overseas, and promoting use of a standard model for systems with the aim of realizing shorter development times, higher quality, and lower costs. We intend to step up these efforts, with the aim of steadily improving the IT Services/SI operating income ratio.

*[1] BEA Systems, Inc., EMC Corporation, Hewlett-Packard Company, Microsoft Corporation, Oracle Corporation, and Sun Microsystems, Inc.

IT Products Accomplishments

Demand for IT-driven systems is increasing as the Next Generation Networks (NGN) era comes of age. In this context, it is important to offer customers flexible, reliable, and user-friendly IT products. To that end, we are introducing competitive products based on sophisticated technologies unique to NEC.

In fiscal 2008, NEC began sales of SX-9*[2], the world's fastest vector supercomputer. With a peak processing performance of 839 teraflops (TFLOPS: 1 trillion floating-point operations per second), the system is optimal for large-scale simulations in such fields as aerospace, aviation and meteorology. NEC received orders for more than 100 of these supercomputers from research facilities around the world. In Thin-Client systems, which are attracting attention as a means of preventing data leaks, NEC has expanded deliveries of these systems to Daiwa Securities Group Inc.; Sumitomo Trust & Banking Co., Ltd.'s New York Branch; and other customers. In the storage field, we commercialized a next-generation grid storage system called the "iStorage HS series (HYDRAstor)." Developed by NEC Laboratories America, Inc., shipments of the system began during the fiscal year. By eliminating data duplication and compressing stored data, the iStorage HS series provides a disk storage solution with outstanding reliability and scalability at a unit price comparable to tape media. We aim to expand sales of this product first in the backup market. In other areas, NEC captured a 23.7% share of the Japanese IA server*[3] market on a unit basis in 2007, commanding the top share*[4] in the market for 12 consecutive years. NEC's cumulative shipments of these servers have surpassed the one-million-unit mark.

In the software market, we focused our business

Express 5800 Series: Top Share for the 12th Straight Year in Japanese PC Servers Market

expansion efforts on priority fields such as the operation and management of increasingly complex systems and the high-demand security systems market. In the high-availability software market, our CLUSTERPRO software held the No. 1 market share*5 for the third consecutive year. This software establishes a highly reliable system that prevents business stoppages even when faults occur in the system by providing operational redundancy using multiple servers.

*2 A supercomputer with a large-memory vector processor that can sequentially process large amounts of data.
*3 A server based on Intel architecture (IA).
*4 For x86 servers in Japan (in terms of unit shipments and factory revenues) for the calendar years 1996 to 2007 (source: IDC Japan)
*5 For HA clustering software in Japan (in terms of revenues of Windows and Linux) for the calendar years 2004 to 2006 (source: IDC Japan)

Network Systems Accomplishments

During the fiscal year, NEC substantially expanded its overseas sales, especially of network systems for communications service providers.

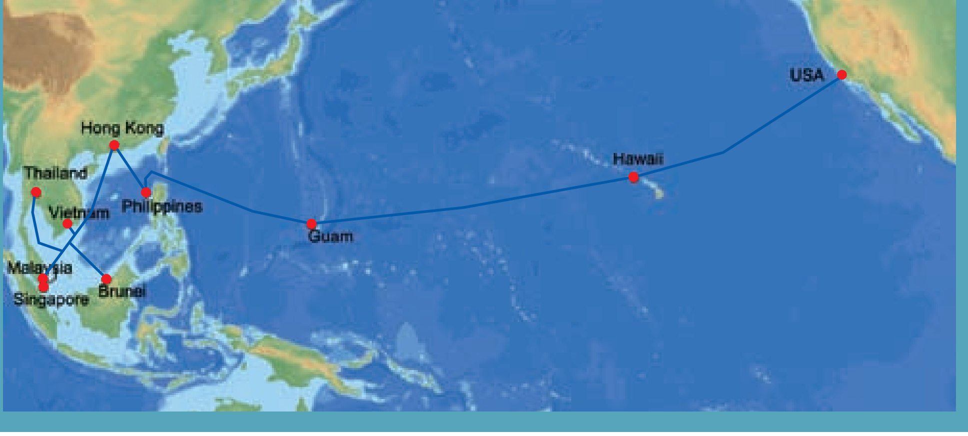
One of the main contributors to this growth was PASOLINK, an ultra-compact point-to-point microwave wireless access system, for which shipments rose sharply against the backdrop of ongoing construction of mobile phone systems in Asia and other areas. Moreover, sales of NEC's optical submarine cable systems more than doubled year on year. As part of the AAG Project (see chart below), NEC has been commissioned, along with Alcatel-Lucent, to lay a total of 20,000 km of submarine cable connecting Southeast Asia with the United States. This is one of the world's largest optical submarine cable projects and completion is planned for the end of 2008. NEC is also part of a consortium laying optical submarine cable in Alaska for GCI, a major communications services provider.

Regarding the Long Term Evolution (LTE) next-generation mobile communications system, for which commercial services are expected to begin around 2010, NEC has begun collaborating with Alcatel-Lucent to rapidly introduce this system in markets around the world.

For Further Growth

As NGN construction gets fully under way, NEC expects growing business opportunities in all its business domains, not only in Japan but also elsewhere worldwide. By harnessing alliances with other companies, we aim to expand our businesses globally by leveraging our strengths in both IT and networks.

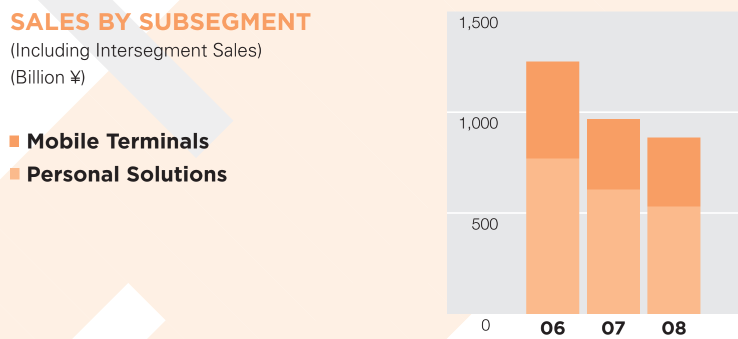
AAG PROJECT



The AAG Project for laying 20,000 km of optical submarine cable

SALES BY SUBSEGMENT

(Including Intersegment Sales)
(Billion ¥)



MOBILE/PERSONAL SOLUTIONS BUSINESS

As Next Generation Networks (NGN) bring the ubiquitous networking society closer to reality, mobile handsets and PCs will come to serve as direct user interfaces allowing us all to benefit from the advantages of such a society. The Mobile/Personal Solutions business provides the BIGLOBE Internet service and these information terminals, and aims to provide even more user-friendly terminals and services going forward.

Fiscal 2008 Operating Results

In fiscal 2008, the year ended March 31, 2008, sales in the Mobile/Personal Solutions business declined 10% year on year to ¥872.9 billion. The major reasons behind the decline were the sale of the European consumer PC business, and the termination of the overseas mobile handset business in the previous fiscal year. Operating profitability, however, improved sharply by ¥56.7 billion year on year to operating income of ¥23.2 billion. This return to profitability was largely attributable to efforts to terminate the unprofitable overseas mobile handset business.

Main Initiatives and Accomplishments in Fiscal 2008

Mobile Terminals

During the fiscal year, NEC gave top priority to strengthening the earnings base in the mobile terminals area. To achieve better results, we concentrated our business resources on supplying products to NTT DOCOMO, Inc.

Targeting a rebound in shipment growth in Japan, NEC strengthened its product capabilities by improving mobile handset design and usability. Among the new handsets introduced were the N905i, which has a 5.2 megapixel camera and "one-seg" terrestrial digital broadcast reception capability; the N705i, created in collaboration with a famous designer consumer electronics brand;

and the N705iμ, the world's thinnest* 9.8 mm foldable W-CDMA handset.

In addition, NEC actively conducted new types of sales promotions, including a promotion tied into a joint cross-media TV drama produced by Nippon Television Network Corporation and an event featuring a live demonstration of new NEC mobile handsets for popular bloggers.

As a result of these activities, NEC mobile handsets garnered a strong customer response, while gaining wider recognition among broader customer segments. In this way, we have established a foothold for capturing a larger market share.

* When folded, among clamshell-type 3G mobile handsets; based on NEC research as of December 17, 2007.

Enables remote use of a home server PC from outside the home over networks via a PC remoter

HOME SERVER CLIENT SOLUTION "Lui"

Personal Solutions

Amid continued fierce competition, NEC maintained its top share of the Japanese PC market in fiscal 2008 (Source: IDC Worldwide Quarterly PC Tracker Q1 2008).

This continued success was attributable to the timely roll-out of products satisfying consumers' desire to fully enjoy the enhanced graphic functions of the Windows Vista™ operating system, watch terrestrial digital broadcasting programs on their PCs, and other needs.

In the first half, NEC launched VALUESTAR N, a desktop PC that balances space savings surpassing laptops with the user friendliness of desktop PCs; VALUESTAR W, which features the world's first water-cooled hard disc drive to realize quieter operation than a DVD recorder; and other products. In the second half, NEC received a strong market response for realizing a better user environment by expanding its range of models featuring 2GB of memory and a dual core CPU while launching products incorporating new designs with a highly distinctive look.

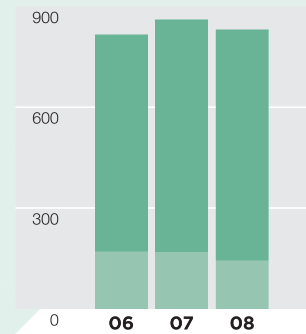
In the BIGLOBE Internet service area, NEC took steps to strengthen businesses involving the provision of its own service platforms cultivated so far to enterprises via networks. In October 2007, NEC formed a business alliance with Adobe Systems Inc. and launched a new service for securely managing the electronic business documents of companies over networks. Since the need for such services are expected to steadily increase in step with the broader uptake of NGN, NEC plans to further expand related businesses going forward.

For Further Growth

The convergence of NGN, which is a reliable and secure network, with PCs and mobile handsets enabling people to access a variety of new services anywhere, any time via NGNs is gaining ground. As a new concept for this new age, NEC has announced "Lui," a solution that paves the way for new PC-based digital lifestyles.

"Lui" provides unified management on a home server of all personal digital content, including images, music, and photographs. It is a new personal solution that enables people to view this content on PCs in the living room or other private rooms in their homes or to remotely access them through the home server over a network using compact and lightweight mobile devices.

NEC is targeting further growth in the Mobile/Personal Solutions business not only by enhancing the basic functions of PCs and mobile handsets, but also by actively supplying solutions unique to NEC in new fields.



ELECTRON DEVICES BUSINESS

The Electron Devices business provides semiconductors and electronic components essential to creating a more secure and user-friendly ubiquitous networking society.

This business is enhancing solutions-based proposal capabilities and quality, while raising development and production efficiency. It also has competitive advantages in software and system development capabilities developed in the IT/Network Solutions business.

Fiscal 2008 Operating Results

In fiscal 2008, the year ended March 31, 2008, sales in the Electron Devices business were ¥830.9 billion, down 4% year on year. In the core semiconductor area, sales of semiconductors for consumer electronics and automotive and industrial equipment rose, but were more than offset by lower sales of semiconductors for communication devices and PC peripherals. As a result, overall semiconductor sales were down by 1% from the previous fiscal year. In the electronic components and others business sales decreased by 15% due to inventory adjustments at major customers and other factors. However, the Electron Devices business restored operating profitability to ¥7.4 billion in fiscal 2008, compared with an operating loss of ¥23.0 billion in fiscal 2007. In addition to an improvement in the sales cost ratio, factors behind this change included measures to cut fixed costs including improved R&D efficiency.

Structural Reforms

NEC is implementing measures to reform the semiconductor area to boost competitiveness.

First, NEC sought to generate earnings by slashing R&D expenses by focusing business resources on developing highly competitive products in global markets. NEC consolidated development projects, reallocated employees and bolstered production capabilities. NEC also concentrated business resources on semiconductors for use in automotive equipment, mainly automotive microcontrollers, for which NEC ranks third* in terms of global market share based on its highly reliable technological capabilities, and on semiconductors for use in digital consumer electronics, where the "EMMA" series in the digital image processing field and other products enjoy a diverse range of applications.

As the next step, NEC is streamlining its manufacturing operations to enhance cost competitiveness. NEC decided to transfer development functions to its Yamagata production site by the end of fiscal 2009. In addition, NEC reorganized its six domestic production subsidiaries in April 2008. NEC plans to shorten the product development-to-mass production period and reduce costs.

NEC has strong technological capabilities in the field of display-driver ICs, being one of the world's top vendors. NEC now plans to use a dedicated production process for display-driver ICs to reduce manufacturing costs. In this way, NEC aims to improve display-driver IC profitability by offering products with advanced process technologies.

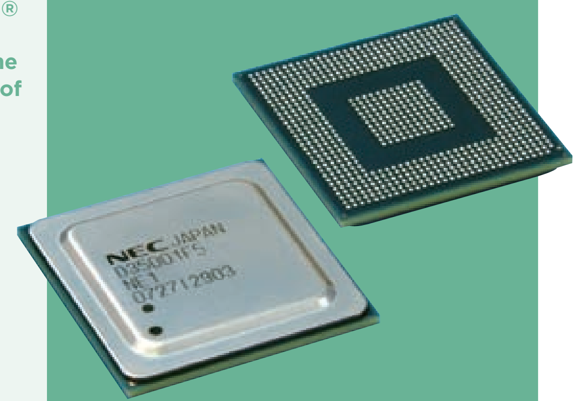
In fiscal 2008, NEC began shipments of the "M2" chip, its new third-generation (3G) mobile communications platform, from fall 2007. With this step, the development of the current platform for mobile handset semiconductors has been completed. Resulting in a sharp decrease in R&D expenses. The "M2" chip is an outstanding IC that boasts 50% less power consumption than NEC's previous technologies, enabling manufacturing of even smaller mobile handsets.

On the development front, resources are weighing even more heavily on this segment than before because of the highly sophisticated technologies needed to achieve high performance and low power consumption when developing state-of-the-art processes. In response, NEC has decided to jointly develop next-generation 32nm (nanometer: one nanometer is one billionth of a meter) system LSI processes with Toshiba Corporation. Both partners will share development costs to improve the effectiveness of their R&D activities. The two companies will continue to discuss possible joint manufacturing operations for the 32 nm generation.

In the electronic components field, NEC will streamline the battery business in order to expand the lithium manganate battery business, while strengthening its product portfolio by leveraging NEC's materials development capabilities.

Incorporating multicore technology, NaviEngine® system LSI for car navigation systems offers the industry's highest level of performance.

NaviEngine®



* NEC boasts the third largest global market share in the global automotive microprocessor market. (Based on research by NEC Electronics Corporation)

For Further Growth

NEC has positioned the Electron Devices business as a driver of sales and earnings growth for the NEC group over the medium and long terms. In core semiconductor operations, NEC will provide high-quality, high-performance semiconductors to customers by leveraging its high reliability and low power consumption technologies, based on close collaboration between development and manufacturing operations.

Going forward, NEC will strengthen group-wide management and cultivate new markets by achieving technological innovation by combining the group's advanced technologies in semiconductors and electronic component businesses with those of the IT/Network Solutions business. In these ways, NEC will strive to make the Electron Devices business a driving force behind the NEC group's overall growth.

R&D AND INTELLECTUAL ASSETS STRATEGY

NEC views intellectual assets as a key management resource and conducts R&D activities based on closely linked management/business, R&D, and intellectual asset strategies. Through innovations driven by these R&D activities, NEC aims to achieve global growth over the medium and long terms.

1. Basic Policy on R&D

NEC views the following as key R&D themes for supporting medium- and long-term growth: strengthening basic technologies and developing ways to efficiently commercialize R&D achievements.

Strengthening fundamental technologies entails reinforcing the search for technology seeds (fundamental technologies), which are anchored in natural sciences such as physics, mathematics, and chemistry. It also includes developing platform technologies which aggregate and advance those technology seeds. NEC is also fortifying its development of core technologies for producing competitive products. NEC is redoubling efforts in basic technology fields, which lie at the core of its R&D programs, with several goals in mind. By increasing its focus on these fields, NEC aims to develop competitive businesses in global markets and to better fulfill the need for solutions to problems faced by society, such as environmental degradation and security-related issues.

Dealing with fast-changing social trends while also staying ahead of competitors by being the first to introduce products and services that meet new needs is also important to NEC's business strategies. To those ends, NEC strives to efficiently and rapidly commercialize R&D achievements by effectively allocating resources in a selective and focused manner.

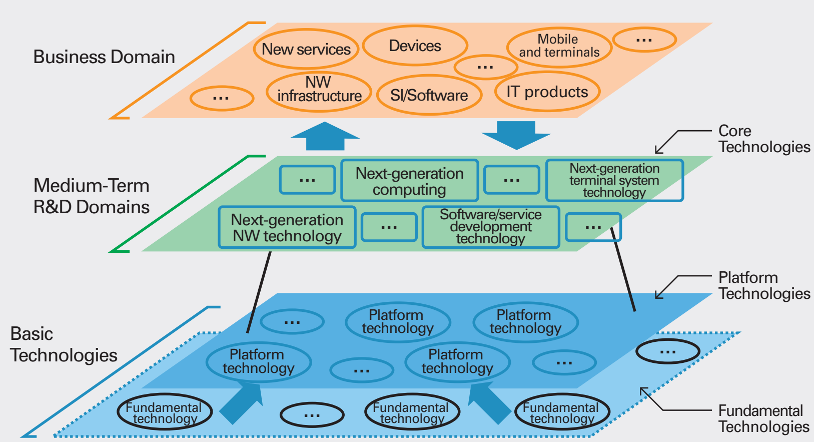
NEC positions R&D in growth-driving Next Generation Networks (NGN) business-related fields and key devices that support NGN-related businesses as important medium-term research domains. Taking into account the characteristics of different fields so that we can properly respond to market trends, and differences in product development timelines, we are conducting R&D activities based on the following three-group organization to ensure optimal management of our R&D activities.

■ Solution Platforms Research Group:
R&D in service platforms and common platforms that are the foundation of solutions construction

■ IT/NW System Platforms Research Group:
R&D in IT/Network system platforms, hardware packaging and equipment business, and intellectual property core technologies that are the foundation of semiconductor devices

■ Materials and Process Research Group:
R&D in new concepts and materials for new electronic devices

R&D AND INNOVATION CREATION FOCUSED ON MEDIUM-TERM R&D DOMAINS



2. R&D from a Global Perspective and Promotion of Open Innovation

To be successful in global business, NEC believes that it is essential to carry out R&D activities in line with regional characteristics in terms of markets, technologies and other factors. For example, in China, mobile communications networks are more fully developed than fixed-line communications networks. For this reason, one regional characteristic of China is that it is strong in developing leading-edge applications for mobile handsets. NEC has established global research bases in North America, Europe and China, and through collaboration between these research bases and its Japanese research base.

To raise the effectiveness and quality of R&D activities, NEC proactively utilizes outside resources in addition to its in-house R&D assets based on an Open Innovation approach. Operating under a basic policy of global Open Innovation, NEC aggressively incorporates knowledge from domestic and overseas universities and research institutions. Measures to bring in knowledge include accepting student trainees under internship programs, carrying out joint research, and inviting researchers from outside the Company to work with NEC. In conjunction with these efforts, NEC aims to acquire knowledge through collaborative innovation with companies in other industries. Through such measures, NEC seeks to discover competitive core technologies and continuously deliver research achievements that spur on business development.

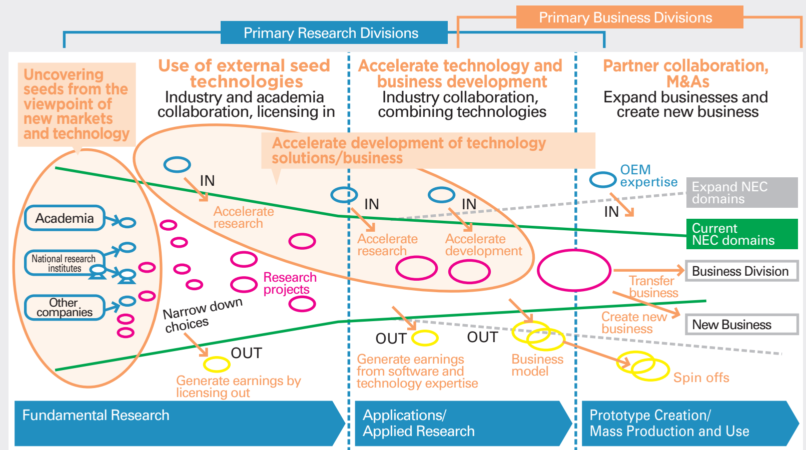
3. Intellectual Asset Strategies Supporting NEC

NEC positions intellectual assets as a foundation for driving sustained growth of the group's business activities. To build a powerful operating base, NEC is pursuing strategic patent projects in growing business domains, such as NGN, as an effort to establish a group-wide patent network. Furthermore, in line with global business expansion, NEC has established IA centers in the U.S., China, and Europe and is reinforcing intellectual asset development activities at overseas bases and stepping up patent applications worldwide. Organizationally, NEC has appointed a CPO (Chief Patent Officer) in all business units and research laboratories, to formulate intellectual asset strategies that unify business and R&D strategies to establish a powerful patent network that includes essential patents in standards. To ensure stable and efficient business execution, NEC forms cross license arrangements and alliances, and acquires intellectual assets from outside the Company. As for the development of open source software, NEC has invested in and participates in OIN (Open Invention Network), which is the organization established for both Linux software development and Linux collaborative patent protection.

To develop a high-quality patent portfolio, NEC is nurturing its human resources and reinforcing collaboration between R&D departments and patent engineers. In conjunction with these efforts, NEC is strengthening its compensation systems for employees' inventions and training courses on patents. NEC carefully monitors infringements of its patents, trademarks, and designs by other companies as well as illegal copies of products. Through warnings and lawsuits, NEC works to protect its rights.

As of March 31, 2008, the NEC group held approximately 71,000 patents worldwide, including 32,000 patents in Japan.

ACCELERATING OPEN INNOVATION



*Based on "OPEN INNOVATION" by Henry W. Chesbrough, with some additional content by NEC

Establishment of C&C Innovation Research Laboratories

Promoting Open Innovation-Oriented R&D With a View to 30 Years From Now

NEC established the C&C Innovation Research Laboratories for the purpose of conducting R&D into future information and communication systems with a view to 30 years from now. We are seeking to produce even higher quality research by promoting R&D from a global perspective and Open Innovation. The laboratories will become a base for global, Open Innovation-oriented research and development, which involves partnerships with universities, research institutes and other industries worldwide.

The laboratories are currently involved in the following research themes.

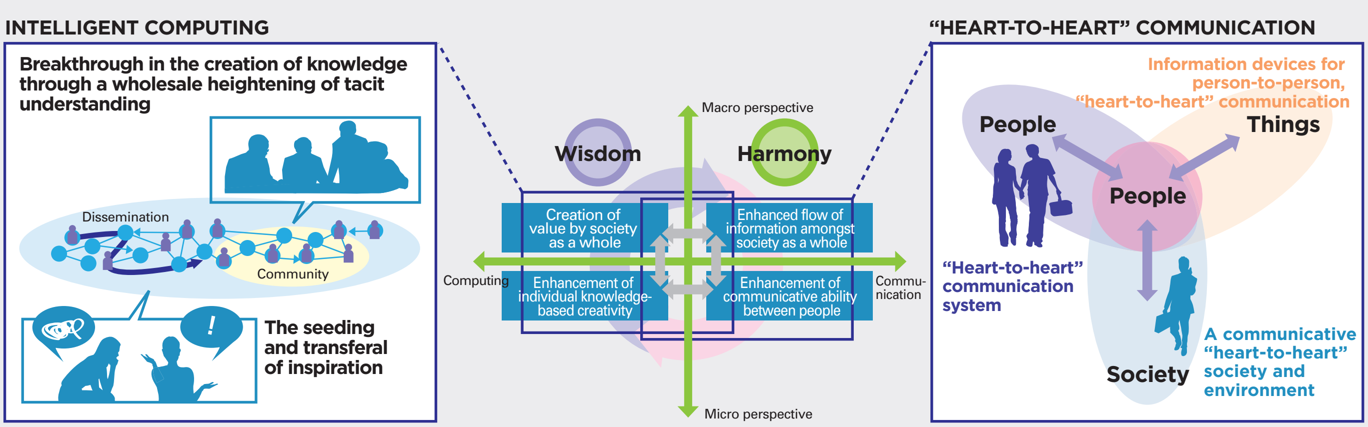
(1) Principles and practical applications of "intelligent computing"

NEC is conducting research into "intelligent computing," which refers to the process of pooling knowledge and ideas from people around the world to achieve innovation. For example, we are delving into basic principles for expanding creativity by conveying someone's idea to another person in order to inspire a new idea, and then repeating the process with other people, or feeding back ideas to their originators. We are also researching mechanisms for promoting intellectual activities by keeping and analyzing records of research team members' intellectual activities such as conversations, actions and device operations in combination with each member's emotional state.

(2) Principles and practical applications of "heart-to-heart communication"

NEC is also exploring the principles behind "heart-to-heart communication," which involves elucidating and measuring "how people connect on an emotional level" and "how empathy occurs," as well as the expression of intangible emotions. We are also researching systems for conveying emotion and experience to people far removed from one another in a way that transcends linguistic and cultural differences as well as space and time constraints. The field of human communication is traditionally concerned with how to accurately convey information using tools such as the telephone or e-mail. However, from the perspective that what is intrinsically important to communication is the ability to convey personal emotions and to experience empathy, we also conduct research into new information and communications systems that allow people to express their emotions in new ways.

From the standpoint of clarifying what truly enriches people's lives, NEC will explore new relationships between people and information and communications systems by harnessing the knowledge of people around the world, with the aim of becoming a global innovation company.



NEC Develops the World's Fastest and Longest Optical Interconnection Technology Using Vertical-Cavity Surface-Emitting Lasers

Realizes high-speed data transfer essential to next-generation supercomputers

Looking ahead, high-performance supercomputers with petaflop*[1]-class processing speeds will be required in around 2010. While internal CPU performance is projected to improve in step with continuous technological innovation in LSI device technologies, realizing data transfer speeds between LSIs with the capacity to supply data volumes commensurate with CPU performance has become a performance enhancement issue.

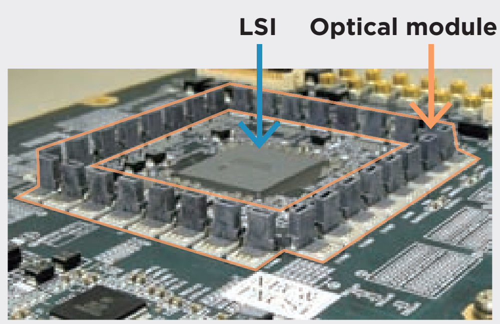
From the three years from fiscal 2006 to fiscal 2008, NEC participated in joint research with the Tokyo Institute of Technology focused on the theme of "R&D in Optical Interconnection Technology for Ultra High-speed Computers." This was part of a research project of the Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT) called "R&D in Basic Next-generation Supercomputing Technology." As a result, NEC has successfully developed an optical interconnection technology allowing ultra-high-speed and large volume data transmission for next-generation supercomputers. By applying this technology to cutting-edge LSIs in around 2010, NEC aims to achieve ultra-high-speed data transfers in the order of 20 terabits*[2] a second for every one LSI within a roughly 10 cm^2 area on a printed circuit board. This will allow a transmission volume that is approximately 1,000 times larger than that of current industry-standard optical modules.

NEC has developed two main technologies. The first is an optical module using vertical-cavity surface-emitting lasers (VCSELs) that achieves the world's fastest signal transmission speeds. NEC developed the world's fastest VCSEL with an operating speed of 25 Gbps*[3], more than double conventional transmission speeds, an opposing surface illuminated photodetector, and an optical IC transceiver to operate the system's optical elements. NEC also established an integrated opto-electronic design technique for incorporating all of these elements into an optical fiber-based circuit-design model. This has enabled multi-mode data transfers at 25 Gbps per signal over circuits linked by 100 m of optical fiber, the world's longest optical interconnection. By doing so, NEC has boosted data transmission speeds between LSIs and between circuit boards, thereby eliminating a major bottleneck to next-generation supercomputing processing speeds. The second is ultra high-density optical modules. NEC developed an ultra-small optical module (12 signals), comprising flip-tip mounted*[4] optical elements on a ceramic substrate 5 mm wide and 7 mm long, and optical connectors with internal optical wiring mounted on the optical module circuit board. Through this advance, NEC can mount ultra-small optical modules representing approximately 1,000 signals within a 10 cm^2 area centered on LSIs mounted on printed circuit boards. This allows the use of shorter electrical wiring between LSIs and optical modules, enabling the exchange of electrical signals with clean waveforms between LSIs and optical modules.

Going forward, NEC will actively develop optical interconnection technologies with the view to broadly applying this technology to servers and network equipment requiring large data capacities.

*[1] 1 petaflop: 1 quadrillion floating point calculations per second
*[2] 1 terabit: 1 trillion bits
*[3] 1 gigabit: 1 billion bits
*[4] Technology for directly mounting optical elements onto electrodes

HIGH-DENSITY CIRCUIT BOARD WITH OPTICAL MODULES MOUNTED AROUND AN LSI



CORPORATE GOVERNANCE

(As of June 23, 2008)

In recognition of the fact that reliable corporate governance is essential to the maximization of corporate value, NEC is committed to strengthening its corporate governance practices through (1) assurance of transparent and sound management, (2) realization of prompt decision making and business execution, (3) clarification of accountability and (4) timely, appropriate and fair disclosure of information.

Corporate Governance Structure

NEC has introduced a corporate officer system to clarify management responsibility and facilitate prompt decision making and business execution. This has involved transferring substantial authority for business execution from the Board of Directors to corporate officers. NEC has also been working to improve management transparency through such means as continuing to increase the number of outside directors, establishing a Compensation Committee, and to ensure management soundness through such means as encouraging closer cooperation among NEC's Corporate Auditors, internal auditing division and Accounting Auditors.

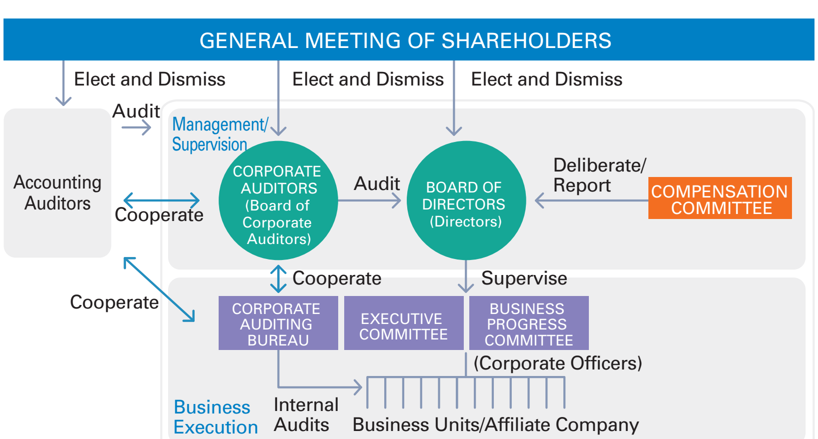
Board of Directors

The Board of Directors consists of 15 members, five of whom are Outside Directors. Aiming to strengthen the Board of Directors' supervisory functions, NEC raised the number of Outside Directors to one-third of the Board of Directors. In parallel, NEC has been working to enhance deliberations by the Board of Directors through such means as briefing Outside Directors in advance on particularly important proposals to be put forward to the meetings of the Board of Directors. Furthermore, the term of Directors is one year in order to clarify their responsibility for management every fiscal year.

Executive Committee and Business Progress Committee

The Executive Committee, which comprises around 20 corporate officers, discusses important NEC group management issues such as management policies and strategies. This committee extensively discusses matters of particular importance prior to putting them forward to the meetings of the Board of Directors for approval. In doing so, the committee enhances the deliberations and ensures appropriate decision making.

Meanwhile, the Business Progress Committee comprises corporate officers, executive general managers of business units and other members. This committee deliberates and reports on matters related to the status of the NEC group's business execution, such as monitoring progress with respect to meeting budgets adopted by the Board of Directors, with the aim of sharing management information and promoting execution efficiency.



Compensation Committee

NEC has established the Compensation Committee, which consists of five members, including three outside members, one of whom is the chairperson. This committee deliberates on the remuneration system and level of compensation for directors and corporate officers from an objective perspective. The Compensation Committee reports the results of its deliberations to the Board of Directors.

Corporate Auditors

NEC has adopted the corporate auditor system and established the Board of Corporate Auditors pursuant to the Company Law of Japan. Five Corporate Auditors, three of whom are Outside Corporate Auditors, audit the Directors' performance of duties. Furthermore, the Board of Corporate Auditors decides on audit policies and other matters, and receives status reports on audits from each Corporate Auditor and on other matters. The Corporate Auditors are stepping up cooperation with the Accounting Auditors, such as by receiving briefings on financial audits covering status reports on their audits and audit plans, and exchanging opinions on their audits.

Corporate Auditing Bureau (Internal Auditing Division)

NEC has established the Corporate Auditing Bureau as an internal auditing division reporting directly to the president of NEC. This bureau mainly consists of corporate staff members with expertise in internal auditing. The Corporate Auditing Bureau performs audits of the NEC group in cooperation with the internal auditing sections of NEC subsidiaries to ensure legal, appropriate and efficient execution of business activities, and identifies issues and proposes improvements. The Corporate Auditing Bureau is taking steps to strengthen cooperation with the Corporate Auditors. These steps include reporting and exchanging opinions on audit results regularly or as necessary with the Corporate Auditors, and reporting on the status of "NEC Helpline," a compliance hotline for employees and contractors to discuss or report issues concerning possible breaches of corporate ethics or compliance.

Accounting Auditors

In fiscal 2008, the independent audit of NEC was performed by Ernst & Young ShinNihon.

In light of the expiry of the term of office of the above Accounting Auditors upon the close of the Ordinary General Meeting of Shareholders held in June 2008, and its number of consecutive years in office as Accounting Auditors, KPMG AZSA & Co. was newly elected as NEC's Accounting Auditors at this meeting.

Internal Control System

NEC's Board of Directors has formulated a "Basic Policy on Implementation of Internal Control Systems" for ensuring the properness of corporate business operations.

The main points of this basic policy are as follows:

NEC shall endeavor to establish and operate its internal control systems more effectively, through continuous evaluation of the implementation of the internal control systems under this policy as well as taking measures necessary for its improvement, and conducting consistent reviews of this basic policy in response to changes in the business environment.

(1) In order to ensure that Directors and employees perform their duties in compliance with laws, regulations, and the Company's Articles of Incorporation, Directors and corporate officers shall take the lead in practicing and striving to make known the "NEC Group Charter of Corporate Behavior" and the "NEC Group Code of Conduct," both of which were adopted to establish business ethics standards for the NEC group and to ensure compliance with laws and regulations, the Articles of Incorporation and internal rules. If any material violation of laws, the Articles of Incorporation or internal rules is found, NEC shall investigate the cause of such violation and formulate and implement preventive measures. In addition, NEC shall encourage the use of the NEC Helpline, a compliance hotline.

(2) NEC shall properly store and manage information in accordance with applicable laws, regulations and internal rules.

(3) NEC shall implement risk management systems efficiently and comprehensively under a consistent companywide policy in accordance with internal rules. Business divisions shall properly implement risk management systems related to their operations and corporate staff divisions shall support such Business divisions' activities. NEC shall fully deliberate matters of importance from a risk management perspective, such as its strategy to control important management risks. Of these, matters of particular importance shall be reported to the Board of Directors. The internal auditing division shall conduct audits of the enterprise risk management system and the status of risk management.

(4) In order to ensure that Directors perform their duties efficiently, the Board of Directors shall delegate substantial authority to corporate officers and promote more timely decision making and effective performance of duties. The corporate officers shall, under the supervision of the Board of Directors, conduct business efficiently in accordance with medium-term corporate management goals and budgets.

(5) In order to ensure that the NEC group conducts operations appropriately, NEC shall send Directors and Corporate Auditors to subsidiaries; share information routinely with subsidiaries to conduct operations based on the "NEC Group Charter of Corporate Behavior" and the "NEC Group Code of Conduct"; and give instructions and assistance to subsidiaries with respect to the establishment of systems for ensuring compliance with laws, regulations and properness of business operations. The Internal Auditing Division shall conduct audits of subsidiaries in cooperation with their internal auditing sections to ensure proper operations.

(6) Internal control over financial reporting of the NEC group shall be evaluated, maintained and improved in accordance with applicable laws and regulations. From the perspective of proper and efficient operations of the NEC group, NEC shall endeavor to conduct improvement and standardization of business processes, and further strengthen its internal control utilizing information systems.

(7) NEC shall assign full-time employees to assist Corporate Auditors in performing their duties. The Corporate Auditors shall approve matters concerning these employees, including performance evaluations, personnel changes and disciplinary action.

(8) Directors and employees shall report to the Corporate Auditors on the status of the performance of their duties and other matters.

(9) In order to ensure that audits are performed effectively, Corporate Auditors shall exchange information and consult with each other on the status of audits. Furthermore, Corporate Auditors shall periodically receive reports on financial audits from the Accounting Auditors and exchange opinions with them.

This policy is disclosed on NEC's website at the following URL:
http://www.nec.co.jp/profile/en/internalcontrol.html

Information Disclosure Structure

NEC recognizes the importance of providing timely, proper and fair disclosure to obtain a fair evaluation of its corporate value from the capital markets. Accordingly, NEC regularly strives to ensure that internal divisions and subsidiaries have a clear understanding of timely disclosure and other rules issued by financial instruments exchanges, while establishing a framework for communication between relevant internal head office divisions and subsidiaries.

Furthermore, NEC holds quarterly investors' meetings where members of senior management announce and explain financial results. Other actions include holding meetings to explain management strategies, improving disclosure of information on NEC's website (including simultaneous disclosures both in Japanese and English), and enhancing investor relations activities on a global scale.

(As of June 23, 2008)

Directors

Hajime Sasaki	Chairman of the Board
Kaoru Yano	President (Representative Director)
Botaro Hirosaki	Senior Executive Vice President and Member of the Board (Representative Director)
Masatoshi Aizawa	Senior Executive Vice President and Member of the Board (Representative Director)
Konosuke Kashima	Executive Vice President and Member of the Board
Akihito Otake	Executive Vice President and Member of the Board
Toshimitsu Iwanami	Senior Vice President and Member of the Board
Susumu Otani	Senior Vice President and Member of the Board
Takao Ono	Senior Vice President and Member of the Board
Junji Yasui	Senior Vice President and Member of the Board
Toshio Morikawa*[1]	Member of the Board Advisor, Sumitomo Mitsui Banking Corporation
Yoshinari Hara*[1]	Member of the Board Chief Corporate Adviser, Daiwa Securities Group Inc.
Sawako Nohara*[1]	Member of the Board President, IPSe Marketing, Inc.
Kenji Miyahara*[1]	Member of the Board Senior Adviser, Sumitomo Corporation
Hideaki Takahashi*[1]	Member of the Board Professor, Keio University Graduate School of Media and Governance

*[1] Outside Directors as stipulated in Item 15 of Article 2 of the Company Law of Japan

Corporate Auditors

Hiroshi Takakuta	full-time
Kenji Seo	full-time
Shinichi Yokoyama*[2]	Chairman, Representative Director, Sumitomo Life Insurance Company
Tatsuzo Homma*[2]	Attorney at Law
Satoshi Itoh*[2]	Certified Public Accountant

*[2] Outside Corporate Auditors as stipulated in Item 16 of Article 2 of the Company Law of Japan

NEC aspires to play a part in enriching society by delivering innovation through business activities. We are deeply aware that our business activities are premised on relationships with many stakeholders, including shareholders and other investors, customers, business partners, the community at large, and employees.

Corporate social responsibility (CSR) at NEC means achieving sustainable growth together with society by earning the trust of all stakeholders as we create and provide value through a diverse array of business activities.

NEC has summarized its vision for the kind of society it seeks to realize and the kind of company it seeks to become over the next 10 years in the NEC Group Vision 2017, as follows: "To be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth." NEC considers all its business activities to be an integral part of CSR activities. We also remain engaged in a range of activities in fields such as environmental protection and social contribution, with the aim of realizing our Group Vision.

"REAL IT COOL PROJECT" Formulated to Reduce Power Consumption of Customers' IT Systems

NEC has formulated the "REAL IT COOL PROJECT," a series of programs and activities for the development and provision of technologies, products, and services that will reduce the power consumption of customers' IT systems. By promoting this project, NEC aims to cut the annual power consumption of customers' IT systems by 50% to achieve a cumulative reduction in CO_2 emissions from IT devices of approximately 910,000 tons by the year 2012. Based on this plan, NEC launched the new "ECO CENTER" energy-saving server that reduces power consumption by up to 55% compared with conventional servers. In this manner, NEC is striving to reduce the environmental impact of its customers and society as a whole.

ECO CENTER

Helping to Combat Global Warming by Recycling PCs

NEC plants one eucalyptus tree on Kangaroo Island in Australia for each used PC that it buys from customers for resale as a recycled PC. In December 2007, the number of recycled PC shipments exceeded 100,000 units, and the cumulative CO_2 reduction benefit is expected to reach 35,724 tons, equivalent to a capacity of roughly 16 times the Tokyo Dome stadium.

Tree planting on Kangaroo Island

Having Fun Restoring a Natural Environment

As part of environmental awareness raising activities and the "NEC Make-a-Difference Drive," a community contribution program in which employees participate, NEC has been carrying out the "Rice Paddy Building Project" since fiscal 2005. In this project, as part of the environmental restoration of the Lake Kasumigaura basin promoted by the non-profit organization "Asaza Fund," we are working with the "Asaza Fund" to restore a rice paddy in a ravine in Ishioka City, Ibaraki Prefecture, which is located at the source of Lake Kasumigaura. So far, a total of 4,320 people, including NEC group employees and their families, have taken part in the program. The participants have helped to restore a natural environment while having fun, through experiences ranging from rice planting to rice harvesting and making sake from the rice crop.

Rice planting activities

Inclusion in Socially Responsible Investment (SRI)

(as of June 2008)

- Dow Jones Sustainability World Indexes
- MS-SRI Morningstar Socially Responsible Investment Index

Dow Jones Sustainability Indexes
Member 2007/08

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Selected Financial Data

【Japan GAAP】

	Millions of yen		*Millions of U.S. dollars*	*Percent change*
Year Ended March 31	2007	2008	2008	2008/2007
For the year:				
Net sales:	¥4,652,649	¥4,617,153	$46,172	-0.8%
IT/Network Solutions business	2,758,806	2,866,170	28,662	3.9%
Mobile/Personal Solutions business	965,003	872,861	8,729	-9.5%
Electron Devices business	861,001	830,850	8,309	-3.5%
Others	548,666	487,927	4,879	-11.1%
Eliminations	(480,827)	(440,655)	(4,407)	-
Operating profit/loss:	69,976	156,765	1,568	124.0%
IT/Network Solutions business	154,064	160,624	1,606	4.3%
Mobile/Personal Solutions business	(33,490)	23,177	232	-
Electron Devices business	(23,035)	7,354	74	-
Others	17,738	11,756	118	-33.7%
Eliminations and unallocable operating expenses	(45,301)	(46,146)	(461)	-
Ordinary income	16,347	112,240	1,122	586.6%
Net income	9,128	22,681	227	148.5%
R&D expenses	334,639	352,200	3,522	5.2%
Capital expenditures (property, plant and equipment)	177,480	122,577	1,226	-30.9%
Depreciation (property, plant and equipment)	149,681	147,779	1,478	-1.3%
Free cash flows	68,642	56,542	565	-17.6%
Per share data (in yen and U.S. dollars):				
Net income	4.43	11.06	0.11	149.7%
Diluted net income	4.23	10.64	0.11	151.5%
Cash dividends	8.00	8.00	0.08	0.0%
At the year end:				
Total assets	3,731,669	3,526,795	35,268	-5.5%
Owner's equity	1,038,808	1,004,221	10,042	-3.3%
Interest-bearing debt	859,292	800,843	8,008	-6.8%
Owner's equity ratio (%)	27.8%	28.5%		
D/E ratio(times)	0.83	0.80		
Return on owner's equity (%)	0.9%	2.2%		
Number of employees	154,786	152,922		

Notes:
1. U.S.dollar amounts are translated from yen, for convenience only, at the rate of ¥100=U.S.$1.
2. Net sales and operating profit/loss of each business segment includes intersegment transactions.
3. Cash dividends per share for the year ended March 31, 2008 are the total of interim and year-end dividends approved by the Company's board of directors on November 14, 2007 and May 15, 2008, respectively.
4. Owner's equity is sum of total shareholders' equity and total valuation and translation adjustments.
5. D/E ratio is interest-bearing debt divided by owner's equity.

Management's Discussion and Analysis

Year Ended March 31, 2008(Fiscal 2008)

Compared With the Year Ended March 31, 2007(Fiscal 2007)

This section contains forward-looking statements concerning the NEC Group's financial condition and business results. These statements are based on the judgment of the NEC Group as of March 31, 2008. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated.

(1) Business Overview and Key Business Drivers

Based on the NEC Group Corporate Philosophy, and the NEC Group Vision 2017, which was unveiled in April 2008, the NEC Group aims to realize an "information society friendly to humans and the earth" by leveraging the power of innovation. We are working to achieve further growth and increase earnings power by providing comprehensive solutions that bundle our world-class technologies in the three business domains of IT/Network Solutions, Mobile/Personal Solutions and Electron Devices.

The NEC Group generates sales from three principal segments: the IT/Network Solutions business, Mobile/Personal Solutions business and Electron Devices business. For the fiscal year ended March 31, 2008, 57% of the NEC Group's total sales came from the IT/Network Solutions business, 17% from the Mobile/Personal Solutions business, and 16% from the Electron Devices business. (The ratio of segment sales to total sales is calculated based on segment sales including intersegment transactions.)

The following is a segment overview of products and services:

Sales in the IT/Network Solutions business are derived mainly from the sale of computer systems and communication/broadcasting systems and the provision of SI, maintenance and support services and outsourcing and other services to national and local governments, and telecommunications carriers and other business enterprises. The business results of the IT/Network Solutions business are affected by trends in economic conditions, IT and network investments and investments by telecommunications carriers.

Sales in the Mobile/Personal Solutions business are derived mainly from the sale of mobile handsets to telecommunications carriers, the sale of personal computers ("PCs") to corporate and individual customers in Japan, and the provision of the "BIGLOBE" Internet service. Sales of mobile handsets are affected by business strategies of telecommunications carriers. Sales of PCs and Internet services are affected by demand from corporate and individual customers mainly in Japan.

Sales in the Electron Devices business are derived from the sale of semiconductors such as system LSIs, and electronic components and other products. Sales of semiconductors are affected by demand for end products such as digital consumer electronics.

(2) Analysis of Business Results for the Fiscal Year Ended March 31, 2008

The global economy as a whole exhibited steady growth during the fiscal year ended March 31, 2008 ("fiscal 2008"), owing to high levels of continuous growth in developing countries such as China and India, despite a slowdown in the U.S. economy due to a worsening housing market. Despite a decline in housing investment, the Japanese economy also continued to enjoy a slow expansion supported by an export-led improvement in corporate earnings. In the second half of fiscal 2008, however, business prospects in both domestic and international markets became increasingly unclear as a result of turmoil in the financial markets triggered by the subprime mortgage loan crisis in the U.S., as well as rising prices for oil and raw materials.

Amid this business environment, the NEC Group adopted a management policy for fiscal 2008 of "achieving projected operating income and implementing growth measures" and undertook efforts to enhance growth potential and improve profitability. To enhance growth potential, the Company promoted growth strategies centered on the next-generation network ("NGN"), and significantly expanded its NGN construction business for telecommunications carriers. At the same time, the NEC Group steadily increased sales in the area of construction and provision of service platforms which are the key infrastructure for enterprise customers to provide network-based services. In addition, the NEC Group strengthened efforts to expand its global operations by entering into a preliminary agreement with Alcatel-Lucent to undertake extensive collaboration to develop and provide solutions for telecommunication carriers in such fields as NGN and next generation mobile/wireless communications, as well as strengthening cooperation with global IT vendors. Sales of PASOLINK, an ultra-compact, point-to-point microwave communication system used in the communication networks of mobile telecommunication carriers, increased especially in Asian and Middle Eastern markets

due to its high quality and price competitiveness, and as a result, the system captured the top global market share for 2007 (cumulative results from January 2007 to December 2007).
In order to improve profitability, the NEC Group focused on turning around business performance in the areas of Mobile Terminals and Semiconductors, as well as reducing costs across the entire group through production innovation. In the area of Mobile Terminals, under a basic policy of "ensuring profitability and strengthening product competitiveness for new growth," the Company endeavored to improve development efficiency and successfully developed and launched attractive handsets, including well-designed and ultra-slim models. In the area of Semiconductors, under a basic policy of "rebuilding for midum-term growth," efforts were made to streamline research and development activities and reduce other fixed costs. As a part of group-wide production innovation, the Company promoted further implementation of the Toyota Production System not only in factories but also in the area of software development and systems integration.

The Company recorded consolidated sales of 4,617.2 billion yen for fiscal 2008, a decrease of 35.5 billion yen (0.8%) year on year. Despite a steady increase in sales in the IT/Network Solutions business, particularly in the areas of IT Services/System Integration and Network Systems, this decrease was attributable to the sale of the PC business in Europe in the second half of the previous fiscal year in the Mobile/Personal Solutions business, and a decrease in sales of electronic components in the Electron Devices business.
Regarding profitability, operating income increased 86.8 billion yen year on year to 156.8 billion yen (2.2 times higher than in the previous fiscal year). This increase was attributable to a return to profitability in the Mobile/Personal Solutions and Electron Devices businesses as a result of the aforementioned business improvement measures in the areas of Mobile Terminals and Semiconductors. It was also due to increased sales and cost reductions derived from production innovation activities in the IT/Network Solutions business.
Mainly due to an increase in operating income, as well as an improvement in non-operating income owing to an improvement in equity in earnings of affiliated companies, ordinary income rose by 95.9 billion yen year on year to 112.2 billion yen (6.9 times higher than in the previous fiscal year).

The Company recorded income before income taxes and minority interests of 93.6 billion yen, a decrease of 2.7 billion yen (2.8%) year on year. Despite an increase in ordinary income, this was mainly due to a decrease in special gains resulting from a decrease in gains from the sale of investment securities, as well as the recording of special gains in the previous fiscal year accompanying the cancellation of part of the employee pension trust.

Despite a decrease in income before income taxes and minority interests, net income increased by 13.6 billion yen year on year to 22.7 billion yen (2.5 times higher than in the previous fiscal year) mainly due to a decrease in income taxes.
Sales and operating income in each segment (including intersegment transactions) were as follows (figures in brackets denote increases or decreases as compared with the previous fiscal year):

a. IT/Network Solutions business

Sales:	2,866.2 billion yen	(+3.9%)
Operating income:	160.6 billion yen	(Improvement of 6.6 billion yen)

Sales of the IT/Network Solutions business for fiscal 2008 amounted to 2,866.2 billion yen (including intersegment transactions), representing a year-on-year increase of 107.4 billion yen (3.9%).With regard to sales by subsegments, in the area of IT Services/System Integration, sales to nearly all business sectors increased steadily. In the area of Network Systems, in particular, sales of PASOLINK ultra-compact, point-to-point microwave communications systems to telecommunications carriers abroad and submarine cables systems increased strongly. In addition, sales in the area of Social Infrastructure increased. On the other hand, sales in the area of IT Products decreased year on year, mainly owing to the transfer of sales operations for optical disk drives.
Operating income increased 6.6 billion yen (4.3%) year on year to 160.6 billion yen. This was mainly due to increased sales and the cost reductions achieved through production innovation activities in the area of IT Services/System Integration.

b. Mobile/Personal Solutions business

Sales:	872.9 billion yen	(- 9.5%)
Operating income:	23.2 billion yen	(Improvement of 56.7 billion yen)

Sales of the Mobile/Personal Solutions business for fiscal 2008 were 872.9 billion yen (including intersegment transactions), a decrease of 92.1 billion yen (9.5%) year on year.
With regard to sales by subsegments, in the area of Mobile Terminals, sales decreased year on year, mainly owing to streamlining the overseas mobile handset business. In the area of Personal Solutions, sales fell year on year. This was mainly due to the sale of the PC business in Europe in the second half of the previous fiscal year.
The Mobile/Personal Solutions business recorded operating income of 23.2 billion yen, a year-on-year improvement of 56.7 billion yen. This improvement was mainly attributable to the completion of structural reform in the overseas mobile handset business and an improvement in development efficiency in the area of Mobile Terminals, as well as cost reductions in the area of Personal Solutions.

c. Electron Devices business

Sales:	830.9 billion yen	(-3.5%)
Operating income:	7.4 billion yen	(Improvement of 30.4 billion yen)

Sales of the Electron Devices business for fiscal 2008 amounted to 830.9 billion yen (including intersegment transactions), a decrease of 30.2 billion yen (3.5%) year on year. With regard to sales by subsegments, in the area of Semiconductors, sales fell year on year. Despite an increase in sales of semiconductors for digital household appliances and automobiles, this fall was mainly due to a decrease in sales of semiconductors for telecommunication equipment and computer peripherals. In the area of Electronic Components and Others, sales fell year on year, mainly owing to a decrease in sales of lithium-ion rechargeable batteries and small LCDs.

The Electron Devices business recorded operating income of 7.4 billion yen, an improvement of 30.4 billion yen year on year. This was mainly due to a reduction in fixed costs such as research and development costs and a decrease in depreciation costs in the area of Semiconductors.

d. Others

Sales of the Others segment, which mainly consists of the manufacture and sale of monitors and LCD projectors, were 487.9 billion yen (including intersegment transactions), a decrease of 60.7 billion yen (11.1%) year on year.

Operating income amounted to 11.8 billion yen, a decrease of 6.0 billion yen year on year, mainly owing to a decrease in sales.

(3) Liquidity and Capital Resources

a. Cash Flows

	Billions of Yen		*Millions of U.S. Dollars*
	2007	2008	2008
Net cash provided by (Used in)			
Operating activities	¥238.3	¥192.3	$1,923
Investing activities	(169.7)	(135.8)	(1,358)
Financing activities	(103.7)	(100.7)	(1,007)
Effect of exchange rate changes on cash and cash equivalents	6.1	(4.3)	(43)
Net decrease in cash and cash equivalents	¥(29.0)	¥(48.5)	$(485)

b. Basic Liquidity Management Policy

The NEC Group's basic policy is to maintain sufficient liquidity for conducting future business activities. Liquidity in hand is the sum of cash and cash equivalents and the unused portion of committed credit facilities established with multiple financial institutions.
As of March 31, 2008, NEC had a sufficient amount of liquidity. Total liquidity in hand was 641.5 billion yen, comprising cash and cash equivalents of 374.8 billion yen and unused committed credit facilities of 266.7 billion yen. Cash and cash equivalents are mainly denominated in yen as well as other denominations that include U.S. dollars and euros.

c. Capital Resources

The NEC Group maintains credit facilities that it believes are sufficient to meet its short-term and long-term financing needs.
With regard to short-term financing, the NEC Group relies primarily on commercial paper ("CP") in Japan to provide for short-term financing for operating purposes. It has a 515.0 billion yen CP program. To prepare for unexpected short-term funding needs or instability in fund procurement through the issue of CP, the NEC Group maintains committed short-term credit facilities of 314.0 billion yen to ensure that funds may be borrowed from financial institutions at all times. Of this amount, 80.0 billion yen represents a committed credit facility with a contract period effective from March 2008 through March 2011 that enables it to obtain short-term loans.
With regard to long-term financing, the NEC Group has a 300.0 billion yen straight bond issuance program in Japan.
In fiscal 2008, the Company did not procure significant amounts of funds through the issuance of new shares or bonds.
Our basic policy regarding the structure of liabilities on the balance sheets is to maintain a balanced mix of fund procurement from debt and capital market instruments, while securing adequate long-term funds, from the standpoint of satisfying funding requirements in a stable manner.

The Group's fund procurement status was as follows:

As of March 31,	2007	2008
Long-term fund procurement*1	58.9%	62.3%
Use of capital market instruments*2	72.5%	65.4%

*1. Long-term fund procurement is calculated by dividing the sum of bonds and long-term borrowings and others (lease obligations with maturities of more than one year) by interest-bearing debt.

*2. Use of capital market instruments is calculated by dividing the sum of bonds (including the current portion) and CPs by interest-bearing debt.

As of March 31, 2008, long-term fund procurement was 62.3% and the use of capital market instruments was 65.4%. Short-term borrowings include loans mainly from banks and the average interest rate for fiscal 2008 was 1.49%.

(4) Management Strategy and Policy

Based on the NEC Group Corporate Philosophy, and the NEC Group Vision 2017 which was unveiled in April 2008, the NEC Group aims to realize by leveraging the power of innovation an "Information society friendly to humans and the earth" and will promote further growth and increase profitability through the provision of total solutions gathering together its world-class technological competence in the three business domains of IT/Network Solutions, Mobile/Personal Solutions and Electron Devices.

Regarding its growth strategy, the NEC Group will pursue business opportunities which will be expanded by the next generation network ("NGN"). The Group will focus on creating new business and new markets by aggressively promoting collaborations with other companies as well as proceeding with the integration of IT and network technologies.

In the IT/Network Solutions business, the NEC Group will pursue discussions with Alcatel-Lucent on wide-ranging collaboration covering the development and provision of solutions for telecommunications carriers, such as solutions in NGN and next generation mobile/wireless communications. The NEC Group will also expand alliances with major global IT vendors in the areas of construction and provision of service platforms which are the key infrastructure of network services.

In the Mobile / Personal Solutions business, the NEC Group will work diligently to establish new markets for NGN by, among other things, developing new products with enhanced mobility and portability to enable customers to utilize sophisticated functions and services anytime, anywhere.

The NEC Group promotes environmentally-focused management aimed at the realization of an "information society friendly to humans and the earth," The NEC Group will make every effort to contribute to global environmental protection by increasing the power-efficiency of customer's IT systems. This will be accomplished by developing environmentally friendly technologies for products such as the servers and storage products using power-saving technologies, energy efficient semiconductors and energy-saving control software.

The NEC Group will also make an effort to develop and increase the shipment of competitive new products in the global market by concentrating its management resources on growth areas.

The NEC Group will accelerate expansion of its global business through such measures as well as alliances with overseas companies.
To improve profitability, the NEC Group will further strengthen operations and its financial position in the areas of Semiconductors and Mobile Terminals by reducing fixed costs, increasing development efficiency and improving cost structures. The NEC Group aims to reduce costs further than price erosion through production innovation activities in the areas of systems construction as well as products such as PCs and servers. In particular, the NEC Group will improve profitability in the area of System Integration by increasing customer orders and improving customer satisfaction by increasing the number of IT consultants, and through production innovation activities such as the visualization of software development, which enables improvements in software quality and reduction in working hours.
The NEC Group will also strive to reform its cost structure by promoting continuous business process innovation and by improving work efficiency throughout the NEC Group, including the efficiency of corporate staff.
In addition, the NEC Group will focus on reinforcing consolidated group management, by making continuous efforts to strengthen its group-wide internal control system by, ensuring thorough compliance and reinforcing information security measures and the risk management system, among other measures.
The NEC Group will also make efforts to expand cooperative activities among all NEC Group companies in the sale of products and provision of services and enhance the management of intellectual property rights and brand reputation, and promote global business by leveraging the collective capabilities of the NEC Group.
By thoroughly implementing these measures, the NEC Group seeks to expand its business and improve profitability with the aim of realizing an “information society friendly to humans and the earth.”

NEC Corporation

Consolidated Balance Sheets

March 31, 2007 and 2008

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2007	2008	2008
Assets			
Current assets:			
Cash and cash equivalents	¥ 423,369	¥ 374,838	$ 3,748,380
Short-term investments	647	517	5,170
Trade notes and accounts receivable	874,543	853,773	8,537,730
Inventories *(Note 6)*	493,224	457,493	4,574,930
Deferred tax assets *(Note 13)*	114,560	120,956	1,209,560
Other current assets *(Note 18)*	150,895	147,150	1,471,500
Allowance for doubtful accounts	(9,557)	(5,913)	(59,130)
Total current assets	2,047,681	1,948,814	19,488,140
Property, plant and equipment, net of accumulated depreciation *(Note 7)*:			
Land	92,203	89,224	892,240
Buildings and structures	238,677	227,522	2,275,220
Machinery and equipment	214,833	180,866	1,808,660
Furniture and fixtures	104,925	108,174	1,081,740
Construction in progress	33,891	34,961	349,610
Total property, plant and equipment	684,529	640,747	6,407,470
Investments and other assets:			
Investment securities *(Note 5)*	230,504	185,614	1,856,140
Investments in affiliated companies	221,864	223,478	2,234,780
Goodwill *(Notes 2.a, 4 and 16)*	89,566	93,525	935,250
Software	126,339	123,841	1,238,410
Deferred tax assets *(Note 13)*	160,810	131,465	1,314,650
Other assets *(Note 8)*	187,184	188,533	1,885,330
Allowance for doubtful accounts	(16,808)	(9,222)	(92,220)
Total investments and other assets	999,459	937,234	9,372,340
Total assets	¥3,731,669	¥3,526,795	$35,267,950

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
Liabilities and net assets			
Current liabilities:			
Short-term borrowings *(Note 7)*	¥ 213,328	¥ 170,587	$ 1,705,870
Current portion of long-term debt *(Note 7)*	139,893	131,099	1,310,990
Trade notes and accounts payable	786,899	700,797	7,007,970
Accrued expenses	285,039	274,044	2,740,440
Other current liabilities *(Notes 9, 13 and 18)*	270,320	272,779	2,727,790
Total current liabilities	1,695,479	1,549,306	15,493,060
Long-term liabilities:			
Long-term debt *(Note 7)*	506,071	499,157	4,991,570
Liabilities for retirement benefits *(Note 8)*	216,769	224,143	2,241,430
Deferred tax liabilities *(Note 13)*	11,424	14,031	140,310
Other long-term liabilities *(Note 10)*	61,803	54,637	546,370
Total long-term liabilities	796,067	791,968	7,919,680
Commitments and contingent liabilities *(Notes 17, 18 and 19)*			
Net assets *(Notes 11, 22 and 24)*:			
Shareholders' equity:			
Common stock:			
Authorized – 7,500,000 thousand shares			
Issued – 2,029,555 thousand shares in 2007 and 2,029,733 thousand shares in 2008	337,822	337,940	3,379,400
Capital surplus	464,838	464,875	4,648,750
Retained earnings	173,003	179,391	1,793,910
Treasury stock—at cost: 4,546 thousand shares in 2007 and 4,947 thousand shares in 2008	(3,225)	(3,233)	(32,330)
Total shareholders' equity	972,438	978,973	9,789,730
Valuation and translation adjustments:			
Unrealized gains on available-for-sale securities	57,706	29,898	298,980
Unrealized losses on derivative financial instruments	(143)	(283)	(2,830)
Foreign currency translation adjustments	8,807	(4,367)	(43,670)
Total valuation and translation adjustments	66,370	25,248	252,480
Stock subscription rights *(Note 12)*	81	115	1,150
Minority interests	201,234	181,185	1,811,850
Total net assets	1,240,123	1,185,521	11,855,210
Total liabilities and net assets	¥3,731,669	¥3,526,795	$35,267,950

NEC Corporation

Consolidated Statements of Operations

Years Ended March 31, 2007 and 2008

	Millions of Yen		*Thousands of U.S. Dollars (Note 1)*
	2007	2008	2008
Net sales	¥4,652,649	¥4,617,153	$46,171,530
Cost of sales *(Note 8)*	3,242,459	3,142,844	31,428,440
Gross profit	1,410,190	1,474,309	14,743,090
Selling, general and administrative expenses *(Notes 3, 8 and 14)*	1,340,214	1,317,544	13,175,440
Operating income	69,976	156,765	1,567,650
Non-operating income:			
Interest and dividend income	12,573	12,348	123,480
Equity in earnings of affiliated companies, net	–	1,003	10,030
Settlement and compensation income	1,992	3,296	32,960
Other non-operating income	11,630	13,206	132,060
Total non-operating income	26,195	29,853	298,530
Non-operating expenses:			
Interest expense	16,161	14,724	147,240
Loss on disposals of property, plant and equipment	15,639	9,243	92,430
Retirement benefit expenses *(Note 8)*	13,863	13,850	138,500
Settlement and compensation loss	7,510	2,142	21,420
Equity in losses of affiliated companies, net	4,006	–	–
Foreign exchange loss, net	2,622	17,872	178,720
Other non-operating expenses	20,023	16,547	165,470
Total non-operating expenses	79,824	74,378	743,780
Ordinary income	16,347	112,240	1,122,400
Special gains *(Note 15)*	115,155	12,126	121,260
Special losses *(Note 15)*	35,205	30,748	307,480
Income before income taxes and minority interests	96,297	93,618	936,180
Income taxes *(Note 13)*:			
Current	30,728	38,791	387,910
Deferred	62,242	43,364	433,640
Total income taxes	92,970	82,155	821,550
Minority interests in net loss of subsidiaries	(5,801)	(11,218)	(112,180)
Net income	¥ 9,128	¥ 22,681	$ 226,810

	Yen		*U.S. Dollars (Note 1)*
	2007	2008	2008
Per share of common stock *(Note 21)*:			
Basic net income	¥4.43	¥11.06	$0.11
Diluted net income	4.23	10.64	0.11
Cash dividends applicable to the year	8	8	0.08

See notes to consolidated financial statements.

NEC Corporation

Consolidated Statements of Changes in Net Assets

Years Ended March 31, 2007 and 2008

	Thousands	Shareholders' Equity			
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
Balance, April 1, 2006	1,995,923	¥337,821	¥441,155	¥173,808	¥(2,869)
Net income				9,128	
Cash dividends paid, ¥7 per share				(14,081)	
Bonuses to directors				(200)	
Purchases of treasury stock					(558)
Disposals of treasury stock			(153)		202
Increase due to stock-for-stock exchange *(Note 4)*	33,631		24,382		
Conversion of convertible bonds with stock subscription rights	1	1	1		
Other decrease in capital surplus			(547)		
Adjustment for changes in companies accounted for by the equity method *(Note 5)*				4,348	
Net changes in items other than shareholders' equity during the year					
Balance, March 31, 2007	2,029,555	337,822	464,838	173,003	(3,225)
Net income				22,681	
Cash dividends paid, ¥8 per share				(16,202)	
Purchases of treasury stock					(281)
Disposals of treasury stock			(81)	(91)	273
Conversion of convertible bonds with stock subscription rights	178	118	118		
Net changes in items other than shareholders' equity during the year					
Balance, March 31, 2008	2,029,733	¥337,940	¥464,875	¥179,391	¥(3,233)

	Shareholders' Equity			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
Balance, March 31, 2007	$3,378,220	$4,648,380	$1,730,030	$(32,250)
Net income			226,810	
Cash dividends paid, $0.08 per share			(162,020)	
Purchases of treasury stock				(2,810)
Disposals of treasury stock		(810)	(910)	2,730
Conversion of convertible bonds with stock subscription rights	1,180	1,180		
Net changes in items other than shareholders' equity during the year				
Balance, March 31, 2008	$3,379,400	$4,648,750	$1,793,910	$(32,330)

See notes to consolidated financial statements.

Millions of Yen							
	Valuation and Translation Adjustments						
Total	Unrealized Gains (Losses) on Available-for-sale Securities	Unrealized Losses on Derivative Financial Instruments	Foreign Currency Translation Adjustments	Total	Stock Subscription Rights	Minority Interests	Total Net Assets
¥949,915	¥ 78,128	¥ –	¥ 1,764	¥ 79,892	¥ –	¥212,843	¥1,242,650
9,128							9,128
(14,081)							(14,081)
(200)							(200)
(558)							(558)
49							49
24,382							24,382
2							2
(547)							(547)
4,348							4,348
–	(20,422)	(143)	7,043	(13,522)	81	(11,609)	(25,050)
972,438	57,706	(143)	8,807	66,370	81	201,234	1,240,123
22,681							22,681
(16,202)							(16,202)
(281)							(281)
101							101
236							236
–	(27,808)	(140)	(13,174)	(41,122)	34	(20,049)	(61,137)
¥978,973	¥ 29,898	¥(283)	¥ (4,367)	¥ 25,248	¥115	¥181,185	¥1,185,521

Thousands of U.S. Dollars (Note 1)							
	Valuation and Translation Adjustments						
Total	Unrealized Gains (Losses) on Available-for-sale Securities	Unrealized Losses on Derivative Financial Instruments	Foreign Currency Translation Adjustments	Total	Stock Subscription Rights	Minority Interests	Total Net Assets
$9,724,380	$ 577,060	$(1,430)	$ 88,070	$ 663,700	$ 810	$2,012,340	$12,401,230
226,810							226,810
(162,020)							(162,020)
(2,810)							(2,810)
1,010							1,010
2,360							2,360
–	(278,080)	(1,400)	(131,740)	(411,220)	340	(200,490)	(611,370)
$9,789,730	$ 298,980	$(2,830)	$ (43,670)	$ 252,480	$1,150	$1,811,850	$11,855,210

NEC Corporation

Consolidated Statements of Cash Flows

Years Ended March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 96,297	¥ 93,618	$ 936,180
Depreciation	198,398	192,658	1,926,580
Amortization of long-term prepaid expenses	25,975	23,941	239,410
Impairment losses on property, plant and equipment, and other assets	2,768	4,555	45,550
Amortization of goodwill	8,287	9,332	93,320
Decrease in allowance for doubtful accounts	(13,327)	(11,254)	(112,540)
Increase in product warranty liabilities	24,553	4,820	48,200
Decrease in provision for loss on repurchase of computers	(3,177)	(3,859)	(38,590)
Increase in liabilities for retirement benefits	28,629	6,145	61,450
Interest and dividend income	(12,573)	(12,348)	(123,480)
Interest expense	16,161	14,724	147,240
Equity in losses (earnings) of affiliated companies	4,006	(1,003)	(10,030)
Gain on change in interests in subsidiaries and affiliated companies	(8,630)	(333)	(3,330)
Gain on sales of property, plant and equipment	(2,872)	(1,423)	(14,230)
Loss on sales of property, plant and equipment	208	932	9,320
Loss on retirement of property, plant and equipment	–	2,396	23,960
Gain on sales of investment securities	(25,651)	(3,320)	(33,200)
Write-off of investment securities	10,058	3,798	37,980
Loss on sales of investment securities	19	4	40
Gain on sales of investments in affiliated companies	(41)	(480)	(4,800)
Loss on sales of investments in affiliated companies	661	408	4,080
Gain on expiration of stock subscription rights	(2)	–	–
Gain on reversion of securities from the pension trust	(69,533)	–	–
Gain on transfer of securities to the pension trust	(6,534)	–	–
Settlement and compensation loss	7,510	2,142	21,420
(Increase) decrease in trade notes and accounts receivable	(31,524)	8,047	80,470
(Increase) decrease in inventories	(14,098)	20,942	209,420
(Increase) decrease in accounts receivable, other	41,350	(3,968)	(39,680)
Decrease in trade notes and accounts payable	(24,413)	(82,171)	(821,710)
Others – net	32,742	(33,765)	(337,650)
Subtotal	285,247	234,538	2,345,380
Interest and dividends received	12,598	12,384	123,840
Interest paid	(16,180)	(15,632)	(156,320)
Payment for settlement and compensation loss	(15,240)	(2,660)	(26,600)
Income taxes – paid	(28,107)	(36,328)	(363,280)
Net cash provided by operating activities	¥ 238,318	¥ 192,302	$ 1,923,020

NEC Corporation

Consolidated Statements of Cash Flows (continued)

Years Ended March 31, 2007 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2008	2008
Cash flows from investing activities			
Purchases of property, plant and equipment	¥(186,815)	¥(125,327)	$(1,253,270)
Proceeds from sales of property, plant and equipment	50,316	31,258	312,580
Acquisitions of intangible assets	(36,262)	(36,689)	(366,890)
Purchases of investment securities	(10,655)	(9,578)	(95,780)
Proceeds from sales of investment securities	38,432	8,006	80,060
Disbursements for acquisitions of shares of newly consolidated subsidiaries	(1,630)	(8,448)	(84,480)
Proceeds from acquisitions of shares of newly consolidated subsidiaries	1,716	51	510
Proceeds from sales of shares of subsidiaries being excluded from the consolidation	39	421	4,210
Disbursements for sales of shares of subsidiaries being excluded from the consolidation	(1,496)	–	–
Purchases of investments in affiliated companies	(22,915)	(5,287)	(52,870)
Proceeds from sales of investments in affiliated companies	260	464	4,640
Decrease in short-term loans receivable, net	119	3,673	36,730
Disbursements for loans receivable	(12,304)	(853)	(8,530)
Collection of loans receivable	14,887	86	860
Others – net	(3,368)	6,463	64,630
Net cash used in investing activities	(169,676)	(135,760)	(1,357,600)
Cash flows from financing activities			
Increase (decrease) in short-term borrowings, net	70,574	(42,452)	(424,520)
Proceeds from long-term borrowings	15,564	108,807	1,088,070
Repayments of long-term borrowings	(58,328)	(71,958)	(719,580)
Redemption of bonds	(29,270)	(76,670)	(766,700)
Redemption of convertible bonds	(99,998)	–	–
Proceeds from capital contribution from minority shareholders	14,378	–	–
Dividends paid	(14,060)	(16,176)	(161,760)
Dividends paid to minority shareholders	(2,268)	(2,225)	(22,250)
Others – net	(331)	(30)	(300)
Net cash used in financing activities	(103,739)	(100,704)	(1,007,040)
Effect of exchange rate changes on cash and cash equivalents	6,096	(4,369)	(43,690)
Net decrease in cash and cash equivalents	(29,001)	(48,531)	(485,310)
Cash and cash equivalents, at beginning of year	452,370	423,369	4,233,690
Cash and cash equivalents, at end of year	¥ 423,369	¥ 374,838	$ 3,748,380
Non-cash investing and financing activities			
Stock-for-stock exchange	¥ 24,382	¥ –	$ –
Finance leases	9,432	12,412	124,120
Conversion of convertible bonds with stock subscription rights	2	236	2,360

See notes to consolidated financial statements.

NEC Corporation

Notes to Consolidated Financial Statements

Years Ended March 31, 2007 and 2008

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (the "Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which NEC Corporation ("NEC" or the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100 to $1, the approximate rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Accounting standards adopted by consolidated subsidiaries are, in general, the same as those adopted by the Company. Certain accounting standards adopted by overseas consolidated subsidiaries are in accordance with those of respective countries.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of March 31, 2008 include the accounts of the Company and its 334 (342 in 2007) subsidiaries (together, the "Group"). Investments in 66 (68 in 2007) affiliated companies are accounted for by the equity method.

Under the control or influence concept, those companies in which the Group, directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Group has the ability to exercise significant influence in terms of their operating and financial policies are accounted for by the equity method.

2. Summary of Significant Accounting Policies (continued)

a. Consolidation (continued)

Goodwill, which represents cost in excess of fair value of net assets of subsidiaries acquired, is amortized on a straight-line basis over periods not exceeding 20 years (NEC Soft, Ltd. – 20 years, NEC System Technologies, Ltd. – 20 years, NEC Infrontia – 15 years, Abeam Consulting Ltd. – 10 years).

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.
Cash equivalents include time deposits, certificate of deposits, commercial papers and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Inventories

Inventories are stated at the lower of cost or market. The cost of custom-made products, including the related work-in-process, is determined mainly by the specific identification method. The cost of mass produced standard products, semi-finished components and raw materials is determined mainly by the first-in, first-out method. The cost of work-in-process of mass produced standard products is determined mainly by the average method.

d. Investment Securities

Marketable investment securities are valued at the quoted market prices prevailing at the fiscal year end, with unrealized gains and losses, net of applicable taxes, included in a component of net assets. The cost of securities sold is determined based on the moving-average method.

Non-marketable investment securities are stated at cost determined by the moving-average method.

Investments in limited partnerships are accounted for by the equity method.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets.

The range of useful lives is principally from 7 to 60 years for buildings and structures, from 2 to 22 years for machinery and equipment, and furniture and fixtures. Leased assets are depreciated by the declining-balance method over the respective lease periods.

2. Summary of Significant Accounting Policies (continued)

e. Property, Plant and Equipment (continued)

Upon the revision to the Corporation Tax Law in Japan, certain domestic subsidiaries changed their depreciation method for property, plant and equipment, excluding assets capitalized under finance lease, acquired on and after April 1, 2007 to the declining-balance method as permitted under the revised Corporation Tax Law, which is effective for fiscal years beginning on or after April 1, 2007. There was an inconsequential effect due to this change in depreciation method.

The Company and certain domestic subsidiaries had depreciated their property, plant and equipment up to their residual value, 5% of acquisition cost, as permitted under the former Corporation Tax Law. Upon the revision to the Corporation Tax Law enacted on April 1, 2007, the Company and those domestic subsidiaries depreciate such 5% portion of property, plant and equipment acquired on or before March 31, 2007 on a straight-line basis over 5 years starting in the following year in which the carrying value of property, plant and equipment has reached 5% of the acquisition cost.

The effect of this change in accounting treatment was to decrease operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2008 by ¥2,530 million ($25,300 thousand). The effects on segment information are described in Note 23.

Accumulated depreciation of property, plant and equipment as of March 31, 2007 and 2008 were ¥1,789,062 million and ¥1,791,098 million ($17,910,980 thousand), respectively.

f. Software

Software for sale to the market is amortized based on either projected sales volumes or projected sales amounts, primarily not to exceed the effective useful life of three years.

Software for internal use is amortized on a straight-line basis over the estimated useful life, not to exceed five years.

g. Long-lived Assets

In principle, the Company groups assets for business use based on its business units and managerial accounting segments. The Company groups idle assets on an individual basis. The higher of the estimated net realizable value or the estimated value in use is used as the estimated recoverable amounts of fixed assets in business use. The net realizable value is used as the estimated recoverable amounts of idle assets.

h. Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided against potential losses on collections at an amount determined using a historical bad debt loss ratio, plus an amount individually estimated on the collectibility of receivables that are expected to be uncollectible due to bad financial condition or insolvency of the debtor.

2. Summary of Significant Accounting Policies (continued)

i. Product Warranty Liabilities

The Group accrues product warranty liabilities for estimated future warranty costs using the historical ratio of warranty costs to net sales or other relevant factors, plus an amount individually measured on the incremental costs that are expected to be incurred, in expectation of expenditures for warranty costs after sale of products, or upon delivery of developed software.

Practical Issues Task Force (the "PITF") Report No. 17, "Practical Solution on Revenue Recognition of Software," that was issued on March 30, 2006, was early adopted effective for fiscal 2007. In accordance with PITF Report No. 17, the Company and its domestic subsidiaries additionally accrued for defect correcting costs to be incurred subsequent to the delivery of software to customers, using the historical ratio of such costs, plus an amount individually measured on the incremental costs. The effect of the adoption for the fiscal year ended March 31, 2007 was to decrease operating income, ordinary income, and income before income taxes and minority interests by ¥13,370 million.

j. Provision for Loss on Repurchase of Computers

The Company provides a provision for the estimated losses arising from the repurchase of computers based on the actual loss incurred in the past years.

k. Provision for Recycling Expenses of Personal Computers

In accordance with personal computer recycling law, a certain domestic subsidiary provides a provision for recycling expenses of personal computers for estimated recycling costs to be incurred upon collection of household personal computers that were sold by the subsidiary, based on volume of shipments and collection ratio.

The Company annually reviews the various rates used in the calculation of the provision based on reports issued by JEITA (Japan Electronics and Information Technology Industries Association) and the actual collection and recycling records of the subsidiary.

l. Retirement and Pension Plans

The Company and its domestic subsidiaries have non-contributory funded defined benefit plans, and most of the overseas subsidiaries have various types of pension benefit plans which are mainly defined contribution plans and defined benefit plans.

The Company and certain domestic subsidiaries have pension and retirement benefit trusts.

Liabilities for retirement benefits or prepaid pension expenses are recorded for employees' pension and severance payments based on the projected benefit obligation and the estimated fair value of plan assets as of the fiscal year end.

The transitional obligation is amortized on a straight-line basis mainly over 15 years since fiscal 2001.

2. Summary of Significant Accounting Policies (continued)

l. Retirement and Pension Plans (continued)

Prior service costs are amortized on a straight-line basis over the employees' estimated average remaining service periods (mainly, 14 years in fiscal 2007, and 13 years in fiscal 2008).

Actuarial gains and losses are amortized on a straight-line basis over the employees' estimated average remaining service periods (mainly, 12 years in fiscal 2007, and 13 years in fiscal 2008), starting in the following year after incurrence.

m. Stock Options

The ASBJ Statement No. 8, "Accounting Standard for Share-based Payments" and related guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheets, the stock option is presented as a stock subscription right as a separate component of net assets until exercised. The standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

n. Research and Development Costs

Research and development costs are charged to earnings as incurred. The amounts charged to earnings for the fiscal 2007 and 2008 were ¥334,639 million and ¥352,200 million ($3,522,000 thousand), respectively.

o. Leases

Finance leases as lessee are capitalized and accounted for as ordinary sales transactions.

p. Bonuses to Directors

Bonuses to directors are accrued for in the fiscal year to which such bonuses are attributable.

q. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of tax loss carryforwards and temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to tax loss carryforwards and temporary differences. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

2. Summary of Significant Accounting Policies (continued)

r. Foreign Currency Transactions

Foreign currency denominated monetary assets and liabilities are translated into Japanese yen at the exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations.

s. Foreign Currency Financial Statements

The balance sheet accounts of the overseas subsidiaries and affiliated companies are translated into Japanese yen at the exchange rate as of the balance sheet date except for components of net assets, which are translated at the historical rates. Income and expense accounts of overseas subsidiaries and affiliated companies are translated into Japanese yen at the average exchange rate. Differences arising from such translation were shown as “Foreign currency translation adjustments” and included in “Minority interests” in a separate component of net assets.

t. Derivative Financial Instruments

The Group enters into foreign exchange forward contracts, currency swaps and interest rate swaps.

Derivative financial instruments are classified and accounted for as follows: all derivatives are recognized as either assets or liabilities and measured at fair value, and a) for derivatives not qualifying for hedge accounting, unrealized gains or losses on derivative transactions are recognized in the consolidated statements of operations and b) for derivatives qualifying for hedge accounting, unrealized gains or losses on derivatives are deferred until maturity of the hedged transactions as a separate component of net assets.

u. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding for the fiscal year.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the fiscal year (or as of the time of issuance) with applicable adjustments for related interest expense, net of tax, and full exercise of outstanding stock subscription rights (Note 21).

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

Net assets per share are computed by dividing net assets available to common shareholders by the outstanding number of shares of common stock as of each balance sheet date (Note 22).

3. Accounting Changes

Adoption of Accounting Standards for Business Combinations and Business Divestitures

Effective for the fiscal year ended March 31, 2007, the Company adopted the "Accounting Standard for Business Combinations" (BAC Statement of Opinion, issued on October 31, 2003), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on December 27, 2005), and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, final revision, issued on December 22, 2006).

Revision of Accounting Standard for Treasury Shares and Appropriation of Legal Reserve

Effective for the fiscal year ended March 31, 2007, the Company adopted the revised "Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" (ASBJ Statement No. 1, final revision, issued on August 11, 2006) and "Implementation Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" (ASBJ Guidance No. 2, final revision, issued on August 11, 2006), which had no effect on the consolidated statement of operations for the fiscal year ended March 31, 2007.

Accounting Standard for Directors' Bonus

Effective for the fiscal year ended March 31, 2007, the Company adopted the "Accounting Standard for Directors' Bonus" (ASBJ Statement No. 4, issued on November 29, 2005). As a result of this accounting change, operating income, ordinary income and income before income taxes and minority interests decreased by ¥401 million for the fiscal year ended March 31, 2007 from the corresponding amounts which would have been recorded under the previous method. The effect on segment information is described in Note 23.

Accounting Standards for Stock Options

Effective for the fiscal year ended March 31, 2007, the Company adopted the "Accounting Standard for Share-based Payments" (ASBJ Statement No. 8, issued on December 27, 2005), and "Implementation Guidance on Accounting Standard for Share-based Payments" (ASBJ Guidance No. 11, final revision, issued on May 31, 2006), which had inconsequential effect on the consolidated statement of operations for the fiscal year ended March 31, 2007.

4. Business Combinations

Stock-for-stock Exchange Transaction under Common Control (NEC Telenetworx, Ltd ("NEC Telenetworx") and NEC Nets SI Co., Ltd. ("Nets SI"))

Effective April 1, 2006, a stock-for-stock exchange transaction was conducted in which Nets SI, which was previously a 42.16% (26.91% excluding stocks in pension and retirement benefit trusts) owned subsidiary of NEC, acquired all shares (300,000 shares) of NEC Telenetworx, previously a wholly-owned subsidiary of NEC (Nets SI 26.051 shares for NEC Telenetworx 1 share). Nets SI engages in businesses of planning, consulting, designing, and constructing of network systems, while NEC Telenetworx engages in businesses of maintenance and support of equipment related to switching, carrier communication, wireless communication (microwave and satellite), communication control, broadcasting and activities in aerospace.

4. Business Combinations (continued)

The stock-for-stock exchange transaction was intended to reinforce the maintenance and operation service business in the network solution area and to promote streamlining of the business. Through this stock-for-stock exchange transaction, the Company acquired additional 7,815,300 shares of Nets SI, the fair value of which was determined at ¥6,780 million based on the third party valuation appraisal. As a result, the Company's ownership interest in Nets SI increased by 9.09% (11.48% excluding stocks in pension and retirement benefit trusts).

Since Nets SI has minority shareholders, the Company accounted for the difference between the amount of decrease in its ownership interests in NEC Telenetworx and the fair value of the business deemed transferred to minority shareholders of NEC Telenetworx as special gain on change in interests in subsidiaries and affiliated companies (Note 15). The Company also recognized goodwill of ¥581 million for the fair value of additional investment in Nets SI in excess of the carrying amount of net assets acquired from minority shareholders of Nets SI.

Stock-for-stock Exchange Transaction under Common Control (NEC Infrontia Corporation ("NEC Infrontia"))

Effective May 1, 2006, a stock-for-stock exchange transaction was conducted in which NEC Infrontia, which was previously 65.71% owned subsidiary of NEC, became a wholly-owned subsidiary of the Company (NEC 0.774 shares for NEC Infrontia 1 share). NEC Infrontia engages in businesses of manufacturing and marketing of information and telecommunications systems and operation terminals and system solution business. The stock-for-stock exchange transaction was intended to reinforce the IP telephony business within the Group. Through this stock-for-stock exchange transaction, the Company acquired additional 34.29% of NEC Infrontia in exchange for NEC's common stock of 33,630,520 shares, the fair value of which was determined at ¥24,382 million based on the third party valuation appraisal.

The Company recognized goodwill of ¥12,916 million for the fair value of additional investment in NEC Infrontia in excess of the carrying amount of net assets acquired from minority shareholders of NEC Infrontia.

Business Divestiture Transaction (Sony NEC Optiarc Inc. ("Sony NEC Optiarc"))

Effective April 1, 2006, the Company and Sony Corporation ("Sony") contributed each of their optical disk drive businesses into a newly incorporated company, Sony NEC Optiarc, to integrate and reinforce the optical disk drive businesses of the Company and Sony. The businesses which were contributed by the Company were included in the business segment of IT/Network solution. As a result of this business divesture, the Company acquired 45% ownership interest in Sony NEC Optiarc, which was determined based on the fair value of the contributed business. The fair value was determined based on the present value of future cash flows, estimated by a third party appraiser.

4. Business Combinations (continued)

Incorporation of a jointly controlled company (Adcore-Tech Co., Ltd. ("Adcore-Tech"))

NEC, NEC Electronics Corporation ("NEC Electronics"), which is a majority-owned subsidiary of NEC, Matsushita Electric Industrial Co., Ltd ("Matsushita Electric"), Panasonic Mobile Communications Co., Ltd ("Panasonic Mobile"), which is a subsidiary of Matsushita Electric, and Texas Instruments Incorporated ("Texas Instruments") jointly incorporated Adcore-Tech which engages in the businesses of development, designing and technical licensing of a "communication platform" that plays the key role in communication technologies of mobile phone systems of third generation and onwards. Adcore-Tech plans to lead the development of a communication platform that will play the key role in the current advanced 3.5G mobile phone system, in anticipation of developing a 3.9G mobile phone system in the future. The results of development efforts will be licensed worldwide, contributing to the development of the mobile phone industry. The Company and NEC Electronics contributed ¥2,650 million in the aggregate into Adcore-Tech to acquire 44.2% ownership interest.

The shareholders of Adcore-Tech consist of three groups, namely, the Company and NEC Electronics, Matsushita Electric and Panasonic Mobile, and Texas Instruments. The total number of shares held by the Company and NEC Electronics is the same as the total number held by Matsushita Electric and Panasonic Mobile, both of which are the two largest shareholders among three groups.

5. Investment Securities

The carrying amounts and aggregate fair values of marketable investment securities as of March 31, 2007 and 2008 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	¥63,235	¥87,473	¥ 867	¥149,841
Debt securities	627	3	2	628
Others	1,675	36	41	1,670
Total	¥65,537	¥87,512	¥ 910	¥152,139
March 31, 2008				
Securities classified as:				
Available-for-sale:				
Equity securities	¥67,436	¥44,997	¥3,299	¥109,134
Debt securities	1,500	–	105	1,395
Others	3,430	42	255	3,217
Total	¥72,366	¥45,039	¥3,659	¥113,746

5. Investment Securities (continued)

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2008				
Securities classified as:				
Available-for-sale:				
Equity securities	$674,360	$449,970	$32,990	$1,091,340
Debt securities	15,000	–	1,050	13,950
Others	34,300	420	2,550	32,170
Total	$723,660	$450,390	$36,590	$1,137,460

Non-marketable investment securities whose fair value is not readily determinable as of March 31, 2007 and 2008 were as follows:

	Carrying amount		
	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Available-for-sale:			
Equity securities	¥70,132	¥63,081	$630,810
Debt securities	996	1,018	10,180
Investments in limited partnerships	6,945	7,395	73,950
Others	292	374	3,740
Total	¥78,365	¥71,868	$718,680

The equity securities of Hua Hong Semiconductor previously accounted for by the equity method, and classified in investments in affiliated companies, were reclassified to investment securities, because the Company lost its ability to exercise a significant influence during the fiscal year ended March 31, 2007. As a result, investment securities increased by ¥18,233 million, and investments in affiliated companies decreased by ¥13,885 million. The difference of ¥4,348 million was credited to retained earnings.

6. Inventories

Inventories as of March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Finished products	¥164,556	¥141,793	$1,417,930
Work in process	210,042	195,403	1,954,030
Raw materials and semi-finished components	118,626	120,297	1,202,970
Total	¥493,224	¥457,493	$4,574,930

7. Short-term Borrowings and Long-term Debt

Short-term Borrowings

Short-term borrowings as of March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Loans (weighted-average interest rate of 1.49% as of March 31, 2008)	¥110,385	¥ 89,632	$ 896,320
Commercial papers (weighted-average interest rate of 0.71% as of March 31, 2008)	102,943	80,955	809,550
Total	¥213,328	¥170,587	$1,705,870

As of March 31, 2008, the Group had line-of-credit agreements for short-term borrowings with financial institutions aggregating ¥314,000 million ($3,140,000 thousand), out of which ¥47,350 million ($473,500 thousand) was used for short-term borrowings and the remainder, ¥266,650 million ($2,666,500 thousand), was unused.

Long-term debt as of March 31, 2007 and 2008 consisted of the following:

Long-term Borrowings

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Loans from financial institutions, due in 2008 through 2014 (weighted-average interest rate of 1.22% as of March 31, 2008)	¥ 84,321	¥145,156	$1,451,560
Less current portion	(41,562)	(23,907)	(239,070)
Total	¥ 42,759	¥121,249	$1,212,490

7. Short-term Borrowings and Long-term Debt (continued)

Bonds

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
NEC 20th unsecured 2.55% bonds due in 2007	¥ 46,000	¥ –	$ –
NEC 21st unsecured 2.7% bonds due in 2009	18,500	18,500	185,000
NEC 23rd unsecured 2.325% bonds due in 2008	20,000	–	–
NEC 24th unsecured 2.6% bonds due in 2008	43,600	43,600	436,000
NEC 29th unsecured 2.25% bonds due in 2008	30,000	30,000	300,000
NEC 32nd unsecured 2.43% bonds due in 2010	19,800	19,800	198,000
NEC 35th unsecured 2.21% bonds due in 2008	15,400	15,400	154,000
NEC Euro-yen 6.05% bonds due in 2007	10,000	–	–
NEC 10th unsecured 1.0% convertible bonds due in 2011	97,904	97,669	976,690
NEC Euro-yen 0.0% convertible bonds due in 2010	100,000	100,000	1,000,000
NEC Electronics Euro-yen zero coupon convertible bonds with stock subscription rights due in 2011 subject to certain covenants	110,000	110,000	1,100,000
NEC TOKIN Euro-yen 0.0% convertible bonds with stock subscription rights due in 2010	7,500	7,500	75,000
0.54% – 1.51% bonds due in 2007 through 2011	1,085	565	5,650
Less current portion of bonds	(76,570)	(89,250)	(892,500)
Total	¥443,219	¥353,784	$3,537,840

The details of convertible bonds outstanding as of March 31, 2008 were as follows:

Description	NEC 10th unsecured 1.0% convertible bonds due in 2011	NEC Euro-yen 0.0% convertible bonds due in 2010
Period of conversion request	June 3, 1996 – September 29, 2011	January 7, 2002 – March 17, 2010
Conversion price *(Yen)*	¥1,326.00	¥1,664.10
Stock to be issued	Common stock	Common stock
Increase in equity due if converted *(Yen/share)*	¥663	¥832

7. Short-term Borrowings and Long-term Debt (continued)

The details of bonds with stock subscription rights were as follows:

Description	NEC Electronics Euro-yen zero coupon convertible bonds with stock subscription rights due in 2011 subject to certain covenants	NEC TOKIN Euro-yen 0.0% convertible bonds with stock subscription rights due in 2010
Type of stocks to be issued upon exercise of stock subscription rights	Common stock	Common stock
Issue price *(Yen)*	¥ 0	¥ 0
Exercise price *(Yen)*	¥9,860	¥907
Total exercise price *(Millions of yen)*	¥110,000	¥15,000 Including ¥7,500 million held by NEC, the parent company of NEC TOKIN
Total exercise price to be credited to common stock, upon exercise of the stock subscription rights *(Millions of yen)*	—	—
Ratio of stock subscription rights *(%)*	100%	100%
Exercise period of stock subscription rights	June 10, 2004 – May 24, 2011	January 4, 2006 – December 3, 2010

Lease Obligations

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Lease obligations, due in 2008 through 2017 (weighted-average interest rate of 2.13% as of March 31, 2008)	¥ 41,854	¥ 42,066	$ 420,660
Less current portion	(21,761)	(17,942)	(179,420)
Total	¥ 20,093	¥ 24,124	$ 241,240

7. Short-term Borrowings and Long-term Debt (continued)

Annual maturities for the fiscal years ending March 31, 2009 through 2013 of long-term debt as of March 31, 2008 were as follows:

Year Ending March 31,	*Millions of Yen*	*Thousands of U.S. Dollars*
2009	¥131,099	$1,310,990
2010	147,059	1,470,590
2011	76,896	768,960
2012	213,155	2,131,550
2013	60,018	600,180
2014 and thereafter	2,029	20,290
Total	¥630,256	$6,302,560

The carrying amounts of assets, net of accumulated depreciation, pledged as collateral for short-term borrowings of ¥1,878 million ($18,780 thousand) and long-term borrowings of ¥1,690 million ($16,900 thousand) and other debt of ¥139 million ($1,390 thousand) as of March 31, 2008 were as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
Land	¥5,812	$58,120
Buildings and structures	2,673	26,730
Machinery and equipment	117	1,170
Others	39	390
Total, net of accumulated depreciation	¥8,641	$86,410

8. Retirement and Pension Plans

The Company and its domestic subsidiaries have non-contributory funded defined benefit plans, which include defined benefit pension plans, tax-qualified pension plans and lump-sum severance payment plans. Additional retirement benefits are paid in certain circumstances.

Most of overseas subsidiaries have various types of pension benefit plans which cover substantially all employees. Those plans are mainly defined contribution plans and defined benefit plans.

The Company and certain domestic subsidiaries have pension and retirement benefit trusts.

As a result of a recovery in stock market conditions and other factors, there has been an excess of pension funds over the pension obligation of the Company. The Company reversed a portion of pension and retirement benefit trust assets during the fiscal year ended March 31, 2007, to the extent that the excess funding position of pension assets on the trust is reasonably expected to continue, and recorded a special gain of ¥69,533 million. See Note 15.

8. Retirement and Pension Plans (continued)

The liability and the asset for employees' retirement benefits as of March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Project benefit obligations	¥(1,093,808)	¥(1,094,915)	$(10,949,150)
Fair value of plan assets	863,303	730,595	7,305,950
Unfunded retirement benefit obligations	(230,505)	(364,320)	(3,643,200)
Unrecognized transitional obligation	116,897	101,794	1,017,940
Unrecognized actuarial gain	68,875	229,811	2,298,110
Unrecognized prior service costs	(105,614)	(104,977)	(1,049,770)
Net amounts recognized in the consolidated balance sheets	(150,347)	(137,692)	(1,376,920)
Prepaid pension expenses	66,422	86,451	864,510
Liabilities for retirement benefits	¥ (216,769)	¥ (224,143)	$ (2,241,430)

The components of retirement benefit expenses for the fiscal years ended March 31, 2007 and 2008 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Service cost	¥ 45,739	¥ 40,413	$ 404,130
Interest cost	26,048	26,765	267,650
Expected return on plan assets	(15,292)	(16,643)	(166,430)
Amortization of transitional obligation	14,782	14,635	146,350
Amortization of actuarial gains and losses	3,311	7,122	71,220
Amortization of prior service costs	(8,838)	(9,880)	(98,800)
Others	3,633	7,424	74,240
Total retirement benefit expenses	¥ 69,383	¥ 69,836	$ 698,360

The line item of "Others" above includes the amount of contributions paid for the defined contribution pension plans.

In addition to retirement benefit expenses in the above table, special retirement benefits were recognized and included in "restructuring charges" under special losses, in the amount of ¥6,545 million ($65,450 thousand) for the fiscal year ended March 31, 2008. See Note 15.

8. Retirement and Pension Plans (continued)

Assumptions used for the fiscal years ended March 31, 2007 and 2008 were as follows:

	2007	2008
Discount rate	Mainly 2.5%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%
Amortization period of prior service costs	Mainly 14 years	Mainly 13 years
Amortization period of actuarial gains and losses	Mainly 12 years	Mainly 13 years
Amortization period of transitional obligation	Mainly 15 years	Mainly 15 years

Prior service costs and actuarial gains and losses are amortized on a straight-line basis.

9. Other Current Liabilities

Other current liabilities consisted of the followings:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Advances from customers	¥ 66,730	¥ 67,924	$ 679,240
Reserve for bonuses to directors	401	488	4,880
Product warranty liabilities	34,459	40,032	400,320
Others	168,730	164,335	1,643,350
Total	¥270,320	¥272,779	$2,727,790

10. Other Long-term Liabilities

Other long-term liabilities consisted of the followings:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Provision for loss on repurchase of computers	¥16,355	¥12,496	$124,960
Long-term product warranty liabilities	2,380	918	9,180
Provision for recycling expenses of personal computers	5,634	5,726	57,260
Others	37,434	35,497	354,970
Total	¥61,803	¥54,637	$546,370

11. Net Assets

Since May 1, 2006, Japanese companies are subject to the Corporation Law of Japan (the "Corporation Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporation Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporation Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. NEC meets all the above criteria. The Corporation Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporation Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporation Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporation Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporation Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Subscription Rights

The Corporation Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporation Law, stock subscription rights, which were previously presented as a liability, are now presented as a separate component of net assets. The Corporation Law also provides that companies can purchase both treasury stock subscription rights and treasury stock. Such treasury stock subscription rights are presented as a separate component of net assets or deducted directly from stock subscription rights.

12. Stock Options

The Company and NEC Electronics have stock option plans as follows:

NEC

The stock options outstanding during the fiscal years ended March 31, 2007 and 2008 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Period
2000 Stock Option	17 directors, and 152 employees of the Company	301,000 shares	July 3, 2000	From July 1, 2002 to June 30, 2006
2001 Stock Option	16 directors, and 154 employees of the Company	310,000 shares	July 2, 2001	From July 1, 2003 to June 30, 2007
2002 Stock Option	15 directors, and 218 employees of the Company including presidents of subsidiaries	358,000 shares	July 10, 2002	From July 1, 2004 to June 30, 2008
2003 Stock Option	15 directors, and 171 employees of the Company including presidents of subsidiaries	313,000 shares	July 10, 2003	From July 1, 2005 to June 30, 2009
2004 Stock Option	15 directors, and 159 employees of the Company including presidents of subsidiaries	289,000 shares	July 12, 2004	From July 1, 2006 to June 30, 2010
2005 Stock Option	15 directors, and 161 employees of the Company including presidents of subsidiaries	300,000 shares	July 11, 2005	From July 1, 2007 to June 30, 2011
2006 Stock Option	14 directors, and 158 employees of the Company including presidents of subsidiaries	304,000 shares	July 28, 2006	From August 1, 2008 to July 31, 2012

No vesting conditions are specified for options noted above.

12. Stock Options (continued)

The stock option activities during the fiscal years ended March 31, 2007 and 2008 were as follows:

	Shares		
	2000 Stock Option	2001 Stock Option	2002 Stock Option
For the year ended March 31, 2007			
Non-vested:			
April 1, 2006 – Outstanding	–	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
March 31, 2007 – Outstanding	–	–	–
Vested:			
April 1, 2006 – Outstanding	70,000	93,000	202,000
Vested	–	–	–
Exercised	–	–	–
Forfeited	(70,000)	(31,000)	(39,000)
March 31, 2007 – Outstanding	–	62,000	163,000
For the year ended March 31, 2008			
Non-vested:			
April 1, 2007 – Outstanding	–	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
March 31, 2008 – Outstanding	–	–	–
Vested:			
April 1, 2007 – Outstanding	–	62,000	163,000
Vested	–	–	–
Exercised	–	–	–
Forfeited	–	(62,000)	(29,000)
March 31, 2008 – Outstanding	–	–	134,000

	Yen		
Exercise price	¥3,294	¥1,818	¥888
Average stock price at exercise	–	–	–
Fair value price at grant date	–	–	–

12. **Stock Options (continued)**

	Shares		
	2003 Stock Option	2004 Stock Option	2005 Stock Option
For the year ended March31, 2007			
Non-vested:			
April 1, 2006 – Outstanding	–	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
March 31, 2007 – Outstanding	–	–	–
Vested:			
April 1, 2006 – Outstanding	313,000	289,000	300,000
Vested	–	–	–
Exercised	(2,000)	–	–
Forfeited	(124,000)	(10,000)	(10,000)
March 31, 2007 – Outstanding	187,000	279,000	290,000
For the year ended March31, 2008			
Non-vested:			
April 1, 2007 – Outstanding	–	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
March 31, 2008 – Outstanding	–	–	–
Vested:			
April 1, 2007 – Outstanding	187,000	279,000	290,000
Vested	–	–	–
Exercised	–	–	–
Forfeited	(33,000)	(78,000)	–
March 31, 2008 – Outstanding	154,000	201,000	290,000

	Yen		
Exercise price	¥769	¥801	¥637
Average stock price at exercise	¥859	–	–
Fair value price at grant date	–	–	–

12. Stock Options (continued)

	Shares
	2006 Stock Option
For the year ended March31, 2007	
Non-vested:	
April 1, 2006 – Outstanding	–
Granted	304,000
Forfeited	–
Vested	(304,000)
March 31, 2007 – Outstanding	–
Vested:	
April 1, 2006 – Outstanding	–
Vested	304,000
Exercised	–
Forfeited	(10,000)
March 31, 2007 – Outstanding	294,000
For the year ended March31, 2008	
Non-vested:	
April 1, 2007 – Outstanding	–
Granted	–
Forfeited	–
Vested	–
March 31, 2008 – Outstanding	–
Vested:	
April 1, 2007 – Outstanding	294,000
Vested	–
Exercised	–
Forfeited	–
March 31, 2008 – Outstanding	294,000

	Yen
Exercise price	¥636
Average stock price at exercise	–
Fair value price at grant date	¥190

12. Stock Options (continued)

The assumptions used to measure fair value of the 2006 Stock Option were as follows:

Estimate method:	Black-scholes option pricing model
Volatility of stock price:	40.80%
Estimated remaining outstanding period:	4 years
Estimated dividend:	¥4.5 per share
Risk free interest rate:	1.20%

Notes: (a) Volatility of stock price is calculated based on the actual stock prices over a period of 4 years and 1 month (from June 2002 to June 2006).

(b) Due to lack of satisfactory accumulated data, it is difficult to make a reliable estimate. Therefore, estimated remaining outstanding period is determined based on an assumption that the stock options are exercised at the middle of the exercise period.

(c) Estimated dividend is an average of dividends over a period of 4 years (from fiscal year ended March 31, 2003 to fiscal year ended March 31, 2006).

(d) The rate of return on Japanese Government Bonds with the same duration as the estimated remaining outstanding period was used as a risk-free interest rate.

NEC Electronics

The stock options outstanding during the fiscal years ended March 31, 2007 and 2008 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Period
2003 Stock Option	3 directors, and 171 employees of NEC Electronics including presidents of subsidiaries	313,500 shares	October 17, 2003	From October 17, 2005 to October 16, 2007
2006 Stock Option	4 directors, and 26 employees of NEC Electronics including presidents of subsidiaries	75,000 shares	July 13, 2006	From July 13, 2008 to July 12, 2012

The 2003 options vested after two years from the date of grant under the condition that option holders were in service to NEC Electronics group as of the exercise date of the option and that consolidated income before income taxes of NEC Electronics for the fiscal year ended March 31, 2004 is ¥44 billion or more. The terms or the options are subject to adjustments if there is a stock split or reverse stock split. The plan provides conditions that options generally lapse automatically at termination of service before the exercise date and generally remain exercisable for one year after termination of service during the exercise period.

12. Stock Options (continued)

The 2006 options will vest after two years from the date of grant under the condition that option holders will be in service to NEC Electronics group as of the exercise date of the option. The terms of the options are subject to adjustments if there is a stock split or reverse stock split. The plan provides conditions that options generally lapse automatically at termination of service before the exercise date and generally remain exercisable for one year after termination of service during the exercise period.

The stock option activities during the fiscal years ended March 31, 2007 and 2008 were as follows:

	Shares	
	2003 Stock Option	2006 Stock Option
For the year ended March31, 2007		
Non-vested:		
April 1, 2006 – Outstanding	–	–
Granted	–	75,000
Forfeited	–	–
Vested	–	–
March 31, 2007 – Outstanding	–	75,000
Vested:		
April 1, 2006 – Outstanding	291,500	–
Vested	–	–
Exercised	–	–
Forfeited	(59,500)	–
March 31, 2007 – Outstanding	232,000	–
For the year ended March31, 2008		
Non-vested:		
April 1, 2007 – Outstanding	–	75,000
Granted	–	–
Forfeited	–	(3,000)
Vested	–	–
March 31, 2008 – Outstanding	–	72,000
Vested:		
April 1, 2007 – Outstanding	232,000	–
Vested	–	–
Exercised	–	–
Forfeited	(232,000)	–
March 31, 2008 – Outstanding	–	–

	Yen	
Exercise price	¥8,990	¥3,927
Average stock price at exercise	–	–
Fair value price at grant date	–	¥937

The assumptions used to measure fair value of the 2006 Stock Option were as follows:

Estimate method:	Black-scholes option pricing model
Volatility of stock price:	39.40%
Estimated remaining outstanding period:	4 years
Estimated dividend:	¥7.5 per share
Risk free interest rate:	1.09%

Notes: (a) Volatility of stock price is calculated based on the actual stock prices over a period of 3 years and 1 month (from July 2003 to July 2006).

(b) Due to lack of satisfactory accumulated data, it is difficult to make a reliable estimate. Therefore, estimated remaining outstanding period is determined based on an assumption that the stock options are exercised at the middle of the exercise period.

(c) Estimated dividend is an average of actual and estimated dividends over a period of 4 years (from fiscal year ended March 31, 2007 to fiscal year ending March 31, 2010).

(d) The rate of return on Japanese Government Bonds with the same duration as the estimated remaining outstanding period was used as a risk-free interest rate.

13. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the fiscal years ended March 31, 2007 and 2008. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Deferred tax assets:			
Tax loss carryforwards	¥ 173,034	¥ 182,682	$ 1,826,820
Pension and severance costs	129,354	110,188	1,101,880
Investments in affiliated companies	86,698	75,917	759,170
Accrued expenses and product warranty liabilities	72,709	72,946	729,460
Depreciation	42,854	46,817	468,170
Write-off of inventories	27,986	36,048	360,480
Write-off of investment securities	17,878	18,455	184,550
Research and development expenses	14,553	18,001	180,010
Elimination of unrealized profit by intercompany transactions among consolidated companies	13,320	12,504	125,040
Provision for loss on repurchase of computers	6,028	4,237	42,370
Others	58,413	57,669	576,690
Subtotal	642,827	635,464	6,354,640
Less valuation allowance	(185,136)	(233,240)	(2,332,400)
Total	457,691	402,224	4,022,240
Deferred tax liabilities:			
Gain on reversion of securities from the pension trust	56,184	40,875	408,750
Gain on transfer of securities to the pension trust	47,742	47,592	475,920
Unrealized gains on available-for-sale securities	29,300	11,335	113,350
Undistributed earnings of affiliated companies	27,204	32,854	328,540
Reserves under special taxation measures law	3,779	1,410	14,100
Others	30,498	30,512	305,120
Total	194,707	164,578	1,645,780
Net deferred tax assets	¥ 262,984	¥ 237,646	$ 2,376,460

13. Income Taxes (continued)

Net deferred tax assets were included in the consolidated balance sheets as of March 31, 2007 and 2008 as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Current assets- deferred tax assets	¥114,560	¥120,956	$1,209,560
Investments and other assets – deferred tax assets	160,810	131,465	1,314,650
Current liabilities – other current liabilities	(962)	(744)	(7,440)
Long-term liabilities – deferred tax liabilities	(11,424)	(14,031)	(140,310)
Net deferred tax assets	¥262,984	¥237,646	$2,376,460

Reconciliation between the statutory tax rate and the effective tax rates reflected in the accompanying consolidated statements of operations for the fiscal years ended March 31, 2007 and 2008 was as follows:

	2007	2008
Statutory tax rate	40.5%	40.5%
Changes in valuation allowance	41.8	36.9
Undistributed earnings of affiliated companies	6.6	8.7
Non-deductible expenses for tax purposes	6.1	4.5
Amortization of goodwill	3.5	3.2
Equity in losses (earnings) of affiliated companies	2.3	(1.3)
Elimination of unrealized profit by intercompany transactions among consolidated companies	1.7	2.3
Tax rates difference relating to overseas subsidiaries	(1.5)	(4.0)
Others	(4.5)	(3.0)
Effective tax rates	96.5%	87.8%

14. Significant Components of Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses for the fiscal years ended March 31, 2007 and 2008 consisted of the followings:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Salaries for employees	¥362,999	¥367,662	$3,676,620
Research and development expenses	329,605	348,500	3,485,000
Provision for product warranty liabilities	26,789	19,284	192,840
Provision for loss on repurchase of computers	3,870	1,050	10,500
Allowance for doubtful accounts	2,374	170	1,700
Retirement benefit expenses	972	2,304	23,040

15. Special Gains and Losses

(1) Special Gains

Special gains for the fiscal years ended March 31, 2007 and 2008 consisted of the followings:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Gain on reversion of securities from the pension trust *(Note 8)*	¥ 69,533	¥ –	$ –
Gain on business transfers	–	3,547	35,470
Gain on reversal of allowance for doubtful accounts	–	1,499	14,990
Gain on sales of investment securities	25,651	3,320	33,200
Gain on change in interests in subsidiaries and affiliated companies *(Note 4)*	8,630	933	9,330
Gain on transfer of securities to the pension trust	6,534	–	–
Gain on sales of property, plant and equipment	2,872	1,423	14,230
Gain on reversal of provision for recycling expenses of personal computers	1,892	924	9,240
Gain on sales of investments in affiliated companies	41	480	4,800
Gain on expiration of stock subscription rights	2	–	–
Total	¥115,155	¥12,126	$121,260

Gain on Reversion of Securities from the Pension Trust

Gain on reversion of securities from the pension trust was recognized on reversion of marketable equity securities of Nippon Electric Glass Co., Ltd., an affiliated company accounted for by the equity method, previously contributed to and held by the pension trust. The reversion was mainly due to an improvement in the pension fund status.

Gain on Business Transfers

Gain on business transfers was mainly due to disposals of assets following the liquidations of electron device business and IT/Network solutions business in Europe.

Gain on Change in Interests in Subsidiaries and Affiliated Companies

Gain on change in interests in subsidiaries and affiliated companies for the fiscal year ended March 31, 2007 was mainly related to a change in interest in the Biglobe business upon a private placement of the new shares to third party shareholders to establish NEC BIGLOBE Inc., and a change in interest in NEC Telenetworx.

Gain on change in interests in subsidiaries and affiliated companies for the fiscal year ended March 31, 2008 was mainly related to a new share issuance to designated third party shareholders conducted by Shanghai SVA NEC Liquid Crystal Display.

15. Special Gains and Losses (continued)

(1) Special Gains (continued)

Gain on Sales of Investments in Affiliated Companies

Gain on sales of investments in affiliated companies for the fiscal year ended March 31, 2007 was mainly related to the sale of shares of Netwin, Inc.
Gain on sales of investments in affiliated companies for the fiscal year ended March 31, 2008 was mainly related to the sale of shares of Imation Corporation and NT Sales Co., LTD. (Note 16).

(2) Special Losses

Special losses for the fiscal years ended March 31, 2007 and 2008 consisted of the followings:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Restructuring charges *(Note 8)*	¥15,805	¥14,567	$145,670
Write-off of investment securities	10,058	3,798	37,980
Cost of corrective measures for products	4,695	4,420	44,200
Impairment losses on property, plant and equipment, and other assets	2,768	4,555	45,550
Loss on retirement of property, plant and equipment	–	2,396	23,960
Loss on change in interest in affiliated company	–	600	6,000
Other retirement benefit expenses	991	–	–
Loss on sales of investments in affiliated companies	661	408	4,080
Loss on sales of property, plant and equipment	208	–	–
Loss on sales of investment securities *(Note 5)*	19	4	40
Total	¥35,205	¥30,748	$307,480

Restructuring Charges

Restructuring charges for the fiscal year ended March 31, 2007 was mainly related to losses on disposals of assets and losses pertaining to the transfer of employees and the revision of the product configuration following the restructuring of the electron device business and mobile terminal business in China.

Restructuring charges for the fiscal year ended March 31, 2008 was mainly related to losses on the early retirement of employees, losses on disposals of assets following the liquidations of electron device business and losses on dismissals of employees working for IT/Network solutions business in Europe.

15. Special Gains and Losses (continued)

(2) Special Losses (continued)

Cost of Corrective Measures for Products

Cost of corrective measures for products was mainly related to the costs to be incurred due to collection and replacement of defective products sold.

Impairment Losses on Property, Plant and Equipment, and Other Assets

Impairment losses recognized mainly due to lower profitability of assets for business use, primarily consisting of buildings and structures and intangible assets, and net realizable value declines of idle assets, primarily consisting of land, machinery and equipment.

The following summarizes the breakdown of impairment losses by account:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Land	¥ 400	¥ 531	$ 5,310
Buildings and structures	231	914	9,140
Machinery and equipment	338	137	1,370
Furniture and fixtures	310	685	6,850
Construction in progress	–	65	650
Goodwill	–	565	5,650
Software	1,080	431	4,310
Other assets	409	1,227	12,270
Total	¥2,768	¥4,555	$45,550

Loss on Retirement of Property, Plant and Equipment

Loss on disposal of property, plant and equipment for the fiscal year ended March 31, 2008 was mainly related to the disposal expenses and costs in Tamagawa and Fuchu plants.

Loss on Change in Interests in Affiliated Companies

Loss on change in interests in affiliated companies was mainly related to the new share issuance to designated third party shareholders conducted by Nippon Electric Glass Co., Ltd.

Loss on Sales of Investments in Affiliated Companies

Loss on sales of investments in affiliated companies for the fiscal year ended March 31, 2007 was mainly related to the sales of investments in Packard Bell B.V. (Note 16).

Loss on sales of investments in affiliated companies for the fiscal year ended March 31, 2008 was mainly related to the sales of investments in AUTHENTIC, Ltd.

16. Additional Cashflow Information

The Company acquired shares of NEC Philips Unified Solutions and NEC Neva Communications Systems, which were newly consolidated for the fiscal year ended March 31, 2007. The assets and liabilities of each company on the date of acquisition were as follows:

	Millions of Yen
NEC Philips Unified Solutions	
Current assets	¥ 8,856
Property, plant, and equipment	234
Goodwill	652
Current liabilities	(7,054)
Minority interests	(802)
Acquisition cost of shares	1,886
Cash and cash equivalents acquired	(256)
Disbursements for acquisition of shares of newly consolidated subsidiary	¥ 1,630

	Millions of Yen
NEC Neva Communications Systems	
Current assets	¥ 2,576
Property, plant, and equipment	193
Current liabilities	(1,480)
Minority interests	(547)
Balance sheet value under the equity method as of March 31, 2007	(597)
Acquisition cost of shares	145
Cash and cash equivalents acquired	(1,861)
(Proceeds) from acquisition of shares of newly consolidated subsidiary	¥(1,716)

The assets and liabilities of Packard Bell excluded from consolidation due to sale of shares for the fiscal year ended March 31, 2007 were as follows:

	Millions of yen
Packard Bell	
Current assets	¥ 37,713
Property, plant, and equipment	1,147
Current liabilities	(35,511)
Long-term liabilities	(91)
Foreign currency translation adjustments	572
Loss on sales of investments in affiliated companies	(569)
Sale amount of shares	3,261
Investment securities	(263)
Other receivables	(1,999)
Cash and cash equivalents	(2,495)
Disbursements for sale of shares of subsidiary excluded from consolidation	¥ (1,496)

16. Additional Cashflow Information (continued)

The assets and liabilities of other subsidiaries excluded from consolidation due to sales of shares for the fiscal year ended March 31, 2007 were as follows:

	Millions of yen
Other subsidiaries	
Current assets	¥ 150
Property, plant, and equipment	62
Current liabilities	(131)
Long-term liabilities	(12)
Loss on sales of investments in subsidiaries	(30)
Sale of shares	39
Proceeds from sales of shares of subsidiaries excluded from consolidation	¥ 39

The Company acquired shares of NEC Sphere Communications, Inc. and other four companies, which were newly consolidated in the fiscal year ended March 31, 2008. The assets and liabilities on the date of acquisition were as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
NEC Sphere Communications, Inc. and other four companies		
Current assets	¥ 2,807	$ 28,070
Property, plant, and equipment	125	1,250
Goodwill	9,092	90,920
Current liabilities	(1,208)	(12,080)
Minority interests	(596)	(5,960)
Acquisition cost of shares	10,220	102,200
Cash and cash equivalents	(1,772)	(17,720)
Disbursements for acquisition of shares of newly consolidated subsidiary	¥ 8,448	$ 84,480

The assets and liabilities of NT Sales Co., Ltd. and other two companies, which were excluded from consolidation due to sale of shares for the fiscal year ended March 31, 2008, were as follows:

	Millions of yen	*Thousands of U.S. Dollars*
NT Sales Co., Ltd. and other two companies		
Current assets	¥ 1,803	$ 18,030
Fixed assets	229	2,290
Goodwill	54	540
Current liabilities	(1,220)	(12,200)
Long-term liabilities	(80)	(800)
Minority interests	(239)	(2,390)
Gain on sales of investments in affiliated companies	159	1,590
Sale amount of shares	706	7,060
Cash and cash equivalents	(285)	(2,850)
Proceeds from sales of shares of subsidiaries excluded from consolidation	¥ 421	$ 4,210

17. Leases

The minimum obligations under noncancelable operating leases as of March 31, 2007 and 2008 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Due within one year	¥ 41,856	¥ 44,884	$ 448,840
Due after one year	144,979	129,965	1,299,650
Total	¥186,835	¥174,849	$1,748,490

18. Derivatives

The Group enters into foreign exchange forward contracts, currency swaps and interest rate swaps based on the Group's policies approved by the director of finance to reduce the exposures to fluctuations in foreign exchange rates and interest rates. Furthermore, hedge accounting is utilized for interest rate swaps if qualified for hedge accounting. The Group's policies prohibit holding or issuing derivative financial instruments for trading purposes.

Derivative transactions that are utilized to hedge interest rate risk on bonds and borrowings are measured at fair value as of the balance sheet date and the unrealized gains or losses are deferred until the maturity of such derivatives.

The Group assesses the hedge effectiveness by comparing the changes in fair value or the cumulative changes in cash flows of hedging instruments with the corresponding changes of hedged items.

The counterparties with whom the derivative financial instruments are contracted are thoroughly assessed in terms of their credit risks. Therefore, the Group has concluded that derivative financial instruments include minimal market and credit risks.

Fair value of foreign exchange forward contracts is calculated based on the forward exchange rate. Fair value of currency swap contracts is determined based on the present values of expected future cash flows of the contracts at year end. Fair value of interest rate swaps was determined based on the present values of expected future cash flows of the swaps at year end.

18. Derivatives (continued)

The Group had the following derivatives contracts outstanding as of March 31, 2007 and 2008:

	Millions of Yen					
	2007			2008		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Foreign exchange forward contracts:						
Buying:						
U.S.$	¥ 88,807	¥ 88,675	¥ (132)	¥ 89,815	¥ 84,670	¥(5,145)
Euro	1,691	1,707	16	5,036	5,022	(14)
Others	10,410	10,489	79	13,976	14,085	109
Selling:						
U.S.$	124,383	124,165	218	106,187	100,735	5,452
Euro	10,062	10,129	(67)	15,877	15,913	(36)
Others	4,650	4,891	(241)	4,464	4,450	14
Currency swaps	–	–	–	82	1	1
Total	¥ –	¥ –	¥ (127)	¥ –	¥ –	¥ 381
Interest rate swaps:						
Receive fixed/Pay floating rates	¥190,500	¥ 2,540	¥ 2,540	¥180,000	¥ 984	¥ 984
Pay fixed/Receive floating rates	202,745	(6,757)	(6,757)	175,685	(3,546)	(3,546)
Total	¥ –	¥(4,217)	¥(4,217)	¥ –	¥ (2,562)	¥(2,562)

	Thousands of U.S. Dollars		
	2008		
Foreign currency forward contracts:	Contract Amount	Fair Value	Unrealized Gain (Loss)
Buying:			
U.S.$	$ 898,150	$ 846,700	$(51,450)
Euro	50,360	50,220	(140)
Others	139,760	140,850	1,090
Selling:			
U.S.$	1,061,870	1,007,350	54,520
Euro	158,770	159,130	(360)
Others	44,640	44,500	140
Currency swaps	820	10	10
Total	$ –	$ –	$ 3,810
Interest rate swaps:			
Receive fixed/Pay floating rates	$1,800,000	$ 9,840	$ 9,840
Pay fixed/Receive floating rates	1,756,850	(35,460)	(35,460)
Total	$ –	$ (25,620)	$(25,620)

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

19. Contingent Liabilities

Litigation

NEC Electronics America, Inc., a consolidated subsidiary of the Company, has settled a number of class action civil antitrust lawsuits from direct DRAM purchasers seeking damages for alleged antitrust violations in the DRAM industry, but is still in litigations or in settlement negotiations with several customers who have opted out of such class action lawsuits. NEC Electronics America, Inc. has also been named as one of the defendants in a number of class action civil antitrust lawsuits from indirect DRAM 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 United States. NEC group companies are also fully cooperating with, and providing information to, the European Commission in its investigation of potential violations of European competition laws in the DRAM industry. Although the outcome of the aforementioned civil lawsuits and settlement negotiations in the United States is not known at this time, the NEC group has provided an accrual in a reasonably estimated amount of potential losses in connection with the civil lawsuits and settlement negotiations with customers in the United States. In addition, the European Commission may impose fines on one or more companies in the NEC group should they be found liable as a result of the investigation by the European Commission.

Other Contingent Liabilities

As of March 31, 2007 and 2008, the Group had the following contingent liabilities:

	Millions of Yen		*Thousands of U.S. Dollars*
	2007	2008	2008
Trade notes discounted	¥ 447	¥ 680	$ 6,800
Trade notes endorsed	959	30	300
Guarantees for bank loans and others	36,962	32,936	329,360
Residual value guarantees under operating leases	25,151	25,050	250,500

20. Related Party Transactions

IPSe Marketing, Inc., whose 80% of voting rights were held by Sawako Nohara, a director of NEC, was consigned consulting services with respect to IT business by NEC for a fee of ¥18 million and ¥9 million ($90 thousand) for the fiscal years ended March 31, 2007 and 2008, respectively. Accrued expenses relating to this transaction as of March 31, 2007 were ¥16 million.

All conditions of related party transactions including transactional prices are determined by negotiation on a case-by-case basis in consideration of market supply and demand as well as the trend of market prices and others.

21. Net Income Per Share

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the fiscal years ended March 31, 2007 and 2008 were as follows:

	Millions of Yen	*Thousands of Shares*	*Yen*
	Net Income	Weighted Average Shares	EPS
For the year ended March 31, 2007			
Basic EPS:			
Net income	¥9,128		
Amounts not attributable to common shareholders:			
Participating convertible securities	(181)		
Net income available to common shareholders	8,947	2,020,369	¥4.43
Effect of Dilutive Securities:			
Stock subscription rights		3	
Convertible bonds		92,426	
Diluted EPS:			
Net income for computation	¥8,947	2,112,798	¥4.23
For the year ended March 31, 2008			
Basic EPS:			
Net income	¥22,681		
Amounts not attributable to common shareholders:			
Participating convertible securities	(287)		
Net income available to common shareholders	22,394	2,024,893	¥11.06
Effect of Dilutive Securities:			
Convertible bonds	581	133,795	
Diluted EPS:			
Net income for computation	¥22,975	2,158,688	¥10.64

	Thousands of U.S. Dollars	*Thousands of shares*	*U.S. Dollars*
	Net Income	Weighted Average Shares	EPS
For the year ended March 31, 2008			
Basic EPS:			
Net income	$226,810		
Amounts not attributable to common shareholders:			
Participating convertible securities	(2,870)		
Net income available to common shareholders	223,940	2,024,893	$0.11
Effect of Dilutive Securities:			
Convertible bonds	5,810	133,795	
Diluted EPS:			
Net income for computation	$229,750	2,158,688	$0.11

Equity instruments which were not included in the basis for calculation of diluted net income per share as they are anti-dilutive are certain convertible bonds, bonds with stock subscription rights and stock subscription rights.

22. Net Assets Per Share

Net assets per share as of March 31, 2007 and 2008 were as follows:

	Yen		*U.S. Dollars*
	2007	2008	2008
Net assets per share	¥512.99	¥495.96	$4.96

The basis for calculation of net assets per share for the fiscal years ended March 31, 2007 and 2008 were as follows:

	Millions of Yen	*Thousands of Shares*	*Yen*
	Net Assets	Number of Shares of Common Stock to Calculate Net Assets Per Share	Net Assets Per Share
For the year ended March 31, 2007			
Total net assets	¥1,240,123		
Amounts deducted from total net assets:			
Stock subscription rights	(81)		
Minority interests	(201,234)		
Net assets as of the year end attributable to common shareholders	¥1,038,808	2,025,009	¥512.99
For the year ended March 31, 2008			
Total net assets	¥1,185,521		
Amounts deducted from total net assets:			
Stock subscription rights	(115)		
Minority interests	(181,185)		
Net assets as of the year end attributable to common shareholders	¥1,004,221	2,024,786	¥495.96

	Thousands of U.S. Dollars	*Thousands of Shares*	*U.S. Dollars*
	Net Assets	Number of Shares of Common Stock to Calculate Net Assets Per Share	Net Assets Per Share
For the year ended March 31, 2008			
Total net assets	$11,855,210		
Amounts deducted from total net assets:			
Stock subscription rights	(1,150)		
Minority interests	(1,811,850)		
Net assets as of the year end attributable to common shareholders	$10,042,210	2,024,786	$4.96

23. Segment Information

Information about business segments, geographical segments and sales to foreign customers of the Group for the fiscal years ended March 31, 2007 and 2008 was as follows:

(1) Business Segments

The Group operates in the IT/network solution business, mobile/personal solution business, electron device business and other industry segments.

Fiscal Year Ended March 31, 2007

a. Sales and Operating Income (Loss)

	Millions of Yen					
	2007					
	IT/ Network Solution Business	Mobile/ Personal Solution Business	Electron Device Business	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥2,659,774	¥801,692	¥816,918	¥374,265	¥ –	¥4,652,649
Intersegment sales and transfer	99,032	163,311	44,083	174,401	(480,827)	–
Total net sales	2,758,806	965,003	861,001	548,666	(480,827)	4,652,649
Operating expenses	2,604,742	998,493	884,036	530,928	(435,526)	4,582,673
Operating income (loss)	¥ 154,064	¥ (33,490)	¥ (23,035)	¥ 17,738	¥ (45,301)	¥ 69,976

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen					
	2007					
	IT/ Network Solution Business	Mobile/ Personal Solution Business	Electron Device Business	Others	Eliminations/ Corporate	Consolidated
Total assets	¥1,654,550	¥372,403	¥869,204	¥505,389	¥330,123	¥3,731,669
Depreciation	60,516	26,076	87,448	13,375	10,983	198,398
Impairment loss on property, plant and equipment, and other assets	450	1,804	382	132	–	2,768
Capital expenditures	75,187	22,644	133,527	23,888	10,904	266,150

23. Segment Information (continued)

(1) Business Segments (continued)

Fiscal Year Ended March 31, 2008

a. Sales and Operating Income

	Millions of Yen					
	2008					
	IT/ Network Solution Business	Mobile/ Personal Solution Business	Electron Device Business	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥2,766,425	¥707,910	¥792,399	¥350,419	¥ –	¥4,617,153
Intersegment sales and transfer	99,745	164,951	38,451	137,508	(440,655)	–
Total net sales	2,866,170	872,861	830,850	487,927	(440,655)	4,617,153
Operating expenses	2,705,546	849,684	823,496	476,171	(394,509)	4,460,388
Operating income	¥ 160,624	¥ 23,177	¥ 7,354	¥ 11,756	¥ (46,146)	¥ 156,765

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen					
	2008					
	IT/ Network Solution Business	Mobile/ Personal Solution Business	Electron Device Business	Others	Eliminations/ Corporate	Consolidated
Total assets	¥1,712,358	¥329,982	¥757,539	¥443,194	¥283,722	¥3,526,795
Depreciation	63,324	23,637	79,916	13,278	12,503	192,658
Impairment loss on property, plant and equipment, and other assets	3,208	309	315	1	722	4,555
Capital expenditures	85,919	22,169	81,468	22,162	14,149	225,867

23. Segment Information (continued)

(1) Business Segments (continued)

a. *Sales and Operating Income*

	Thousands of U.S. Dollars					
	2008					
	IT/ Network Solution Business	Mobile/ Personal Solution Business	Electron Device Business	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	$27,664,250	$7,079,100	$7,923,990	$3,504,190	$ –	$46,171,530
Intersegment sales and transfer	997,450	1,649,510	384,510	1,375,080	(4,406,550)	–
Total net sales	28,661,700	8,728,610	8,308,500	4,879,270	(4,406,550)	46,171,530
Operating expenses	27,055,460	8,496,840	8,234,960	4,761,710	(3,945,090)	44,603,880
Operating income	$ 1,606,240	$ 231,770	$ 73,540	$ 117,560	$ (461,460)	$ 1,567,650

b. *Total Assets, Depreciation, Impairment Loss and Capital Expenditures*

	Thousands of U.S. Dollars					
	2008					
	IT/ Network Solution Business	Mobile/ Personal Solution Business	Electron Device Business	Others	Eliminations/ Corporate	Consolidated
Total assets	$17,123,580	$3,299,820	$7,575,390	$4,431,940	$2,837,220	$35,267,950
Depreciation	633,240	236,370	799,160	132,780	125,030	1,926,580
Impairment loss on property, plant and equipment, and other assets	32,080	3,090	3,150	10	7,220	45,550
Capital expenditures	859,190	221,690	814,680	221,620	141,490	2,258,670

(a) The business segments are defined based on the similarity of types, characteristics, and the affinity of the sales market of products and services.

(b) Major services and products for each business segment are as follows:

IT/Network Solution Business .... System construction, consulting, outsourcing, support (maintenance), servers, storage products, professional workstations, business PCs, IT software, enterprise network systems, network systems for telecommunication carriers, broadcast video systems, control systems, aerospace/defense systems

Mobile/Personal Solution Business .... Mobile handsets, personal computers, personal communication devices, BIGLOBE

Electron Device Business........................ System LSI and other semiconductors, electronic components, LCD modules

Others .... Lighting Equipment Business, Logistics Business, Projector Business, Display Business

23. Segment Information (continued)

(1) Business Segments (continued)

(c) Unallocable operating expenses included in "Eliminations/Corporate" for the fiscal years ended March 31, 2007 and 2008 were ¥47,136 million and ¥46,576 million ($465,760 thousand), respectively. Main components of such expenses were general and administrative expenses incurred at the headquarters of the Company and basic research and development expenses.

(d) Assets included in "Eliminations/Corporate" as of March 31, 2007 and 2008 amounted to ¥499,418 million and ¥457,978 million ($4,579,780 thousand), respectively. Main components of such assets are surplus funds (cash and cash equivalents, and short-term investments), long-term investment funds (investment securities), deferred tax assets and assets belonging to administrative departments of the Company.

(e) The Company and certain domestic subsidiaries had depreciated their property, plant and equipment up to their residual value, 5% of acquisition cost, as permitted under the former Corporation Tax Law. Upon the revision to the Corporation Tax Law enacted on April 1, 2007, the Company and those domestic subsidiaries depreciate such 5% portion of property, plant and equipment acquired on or before March 31, 2007 on a straight-line basis over 5 years starting in the following year in which the carrying value of property, plant and equipment has reached 5% of the acquisition cost.

The effect of this change in accounting treatment was to decrease operating income of IT/Network Solution Business, Mobile/Personal Solution Business, Electron Device Business and Others for the year ended March 31, 2008 by ¥991 million ($9,910 thousand), ¥138 million ($1,380 thousand), ¥611 million ($6,110 thousand), and ¥790 million ($7,900 thousand), respectively.

(f) The effect of changes in accounting policies on business segments was as follows:

Accounting standard for directors' bonus

Effective for the fiscal 2007, the Company adopted the "Accounting Standard for Directors' Bonus" (ASBJ Statement No. 4, issued on November 29, 2005). There was inconsequential effect on each of the business segments' information for the fiscal year ended March 31, 2007.

23. Segment Information (continued)

(2) Geographical Segments

The Group operates in Japan, Asia, Europe and other geographical segments.

	Millions of Yen					
	2007					
	Japan	Asia	Europe	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥3,683,325	¥261,430	¥387,962	¥319,932	¥ –	¥4,652,649
Intersegment sales and transfer	418,520	176,751	17,255	28,357	(640,883)	–
Total net sales	4,101,845	438,181	405,217	348,289	(640,883)	4,652,649
Operating expenses	4,024,759	434,941	409,139	350,335	(636,501)	4,582,673
Operating income (loss)	¥ 77,086	¥ 3,240	¥ (3,922)	¥ (2,046)	¥ (4,382)	¥ 69,976
Total assets	¥2,883,983	¥237,238	¥151,914	¥190,908	¥ 267,626	¥3,731,669

	Millions of Yen					
	2008					
	Japan	Asia	Europe	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	¥3,741,586	¥265,833	¥291,435	¥318,299	¥ –	¥4,617,153
Intersegment sales and transfer	425,513	183,263	13,380	25,556	(647,712)	–
Total net sales	4,167,099	449,096	304,815	343,855	(647,712)	4,617,153
Operating expenses	3,974,170	434,662	304,407	347,545	(600,396)	4,460,388
Operating income (loss)	¥ 192,929	¥ 14,434	¥ 408	¥ (3,690)	¥ (47,316)	¥ 156,765
Total assets	¥2,754,708	¥224,443	¥143,722	¥174,740	¥229,182	¥3,526,795

	Thousands of U.S. Dollars					
	2008					
	Japan	Asia	Europe	Others	Eliminations/ Corporate	Consolidated
Net sales to external customers	$37,415,860	$2,658,330	$2,914,350	$3,182,990	$ –	$46,171,530
Intersegment sales and transfer	4,255,130	1,832,630	133,800	255,560	(6,477,120)	–
Total net sales	41,670,990	4,490,960	3,048,150	3,438,550	(6,477,120)	46,171,530
Operating expenses	39,741,700	4,346,620	3,044,070	3,475,450	(6,003,960)	44,603,880
Operating income (loss)	$ 1,929,290	$ 144,340	$ 4,080	$ (36,900)	$ (473,160)	$ 1,567,650
Total assets	$27,547,080	$2,244,430	$1,437,220	$1,747,400	$ 2,291,820	$35,267,950

23. Segment Information (continued)

(2) Geographical Segments (continued)

(a) Geographical distances are considered in the classification of a country or a region.

(b) Effective for the fiscal year ended March 31, 2008, "Asia" which was previously included in "Others," is separately disclosed due to increased volume of transactions in the region. Segment information in this regard for the fiscal year ended March 31, 2007 has been reclassified in the same manner as the fiscal year ended March 31, 2008.

(c) Major countries and regions in segments other than Japan are as follows:

(i) Asia ....China, Republic of China, India, Singapore, and Indonesia
(ii) Europe ........U.K., France, Netherlands, Germany, Italy and Spain
(iii) Others .........U.S.A.

(d) Assets included in "Eliminations/Corporate" as of March 31, 2007 and 2008 amounted to ¥499,418 million and ¥457,978 million ($4,579,780 thousand), respectively. Main components of such assets are surplus funds (cash and cash equivalents, and short-term investments), long-term investment funds (investment securities), deferred tax assets and assets belonging to administrative departments of the Company.

(e) Effective for the fiscal year ended March 31, 2008, unallocable operating expenses which had been contained in "Japan" is included in "Eliminations/Corporate" operating expenses to ensure consistency with the business segments information. Such expenses for the fiscal years ended March 31, 2007 and 2008 were ¥47,136 million and ¥46,576 million ($465,760 thousand), respectively. Main components of such expenses are both general and administrative expenses incurred at headquarters of the Company and basic research and development expenses.

(f) The Company and certain domestic subsidiaries had depreciated their property, plant and equipment up to their residual value, 5% of acquisition cost, as permitted under the former Corporation Tax Law. Upon the revision to the Corporation Tax Law enacted on April 1, 2007, the Company and those domestic subsidiaries depreciate such 5% portion of property, plant and equipment acquired on or before March 31, 2007 on a straight-line basis over 5 years starting in the following year in which the carrying value of property, plant and equipment has reached 5% of the acquisition cost.

The effect of this change in accounting treatment was to decrease operating income of Japan segment for the year ended March 31, 2008 by ¥2,530 million ($25,300 thousand).

(g) The effect of changes in accounting policies on geographical segments was as follows:

Accounting standard for directors' bonus

Effective for the fiscal year ended March 31, 2007, the Company adopted the "Accounting Standard for Directors' Bonus" (ASBJ Statement No. 4, issued on November 29, 2005). There was an inconsequential effect on each of the geographical segments' information for the fiscal year ended March 31, 2007.

23. Segment Information (continued)

(3) Sales to Foreign Customers

Sales to foreign customers for the fiscal years ended March 31, 2007 and 2008 amounted to ¥1,213,685 million and ¥1,155,749 million ($11,557,490 thousand), respectively.

	Millions of Yen			
	2007			
	Asia	Europe	Others	Total
Overseas sales	¥421,949	¥448,487	¥343,249	¥1,213,685
Consolidated sales	–	–	–	4,652,649
Percentage of overseas sales to consolidated net sales (%)	9.1%	9.6%	7.4%	26.1%

	Millions of Yen			
	2008			
	Asia	Europe	Others	Total
Overseas sales	¥458,719	¥325,582	¥371,448	¥1,155,749
Consolidated sales	–	–	–	4,617,153
Percentage of overseas sales to consolidated net sales (%)	9.9%	7.1%	8.0%	25.0%

	Thousands of U.S. Dollars			
	2008			
	Asia	Europe	Others	Total
Overseas sales	$4,587,190	$3,255,820	$3,714,480	$11,557,490
Consolidated sales	–	–	–	46,171,530
Percentage of overseas sales to consolidated net sale (%)	9.9%	7.1%	8.0%	25.0%

(a) Geographical distances are considered in the classification of a country or a region.

(b) Effective for the fiscal year ended March 31, 2008, "Asia" which was previously included in "Others" is separately disclosed due to increased volume of transactions in the region. Segment information in this regard for the fiscal year ended March 31, 2007 has been reclassified in the same manner as the fiscal year ended March 31, 2008.

(c) Major countries and regions in segments other than Japan are as follows:

(i) Asia.............China, Republic of China, India, Singapore, and Indonesia
(ii) Europe ........U.K., France, Netherlands, Germany, Italy and Spain
(iii) Others .........U.S.A.

(d) Overseas sales represent sales of the Group to countries and regions outside of Japan.

24. Subsequent Event

Appropriation of Retained Earnings

The following distribution of retained earnings which has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2008 was approved at the meeting of board of directors held on May 15, 2008:

	Millions of Yen	*Thousands of U.S. Dollars*
Cash dividends, ¥4 ($0.04) per share	¥8,104	$81,040

ERNST & YOUNG SHINNIHON

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C.P.O. Box 1196, Tokyo, Japan 100-8641

- Tel: 03 3503 1191
Fax: 03 3503 1277

Report of Independent Auditors

The Board of Directors
NEC Corporation (Nippon Denki Kabushiki Kaisha)

We have audited the accompanying consolidated balance sheets of NEC Corporation and subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NEC Corporation and subsidiaries at March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon

June 23, 2008

INVESTOR INFORMATION

Transfer Agent for Common Stock

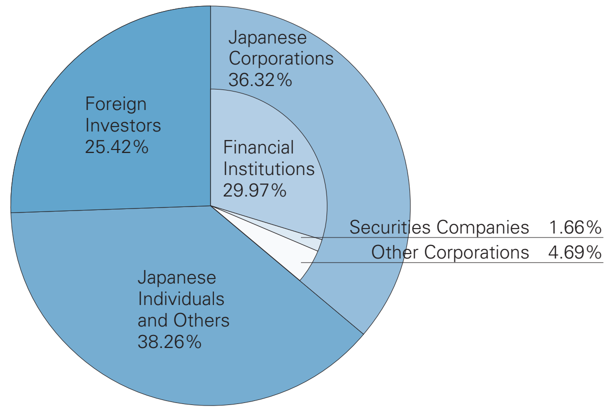
The Sumitomo Trust and Banking Company, Limited
4-4, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8233, Japan
Request forms for change of address, etc.
Japan toll free: 0120-175-417
Other inquiries
Japan toll free: 0120-176-417

Stock Exchange Listings and Quotations

(As of March 31, 2008)
Common Stock:
Tokyo Stock Exchange
Osaka Securities Exchange
Nagoya Stock Exchange
Fukuoka Stock Exchange
Sapporo Securities Exchange

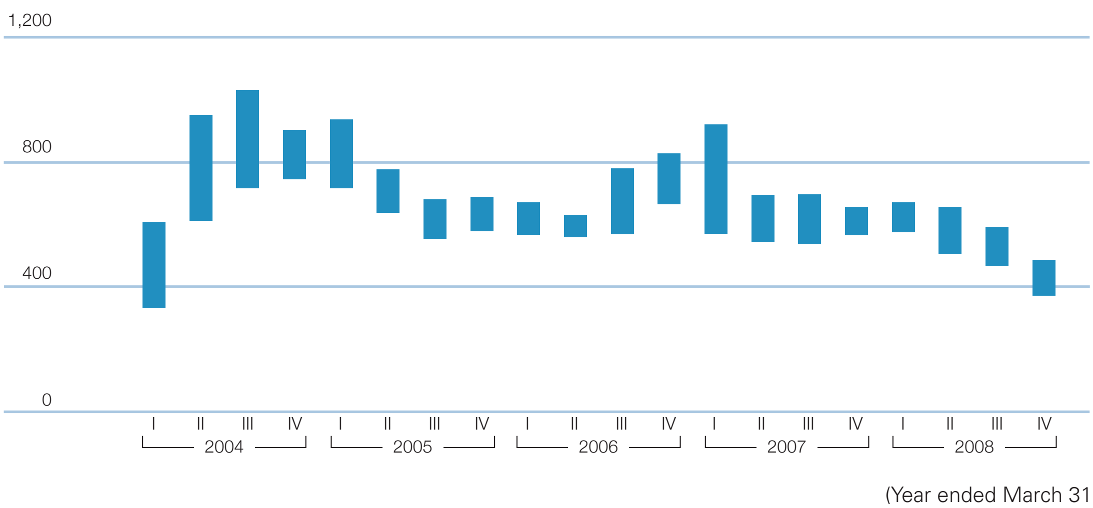
Composition of Shareholders

(Percentage of shares (%))
(As of March 31, 2008)



Stock Price Range on the Tokyo Stock Exchange

(Yen)

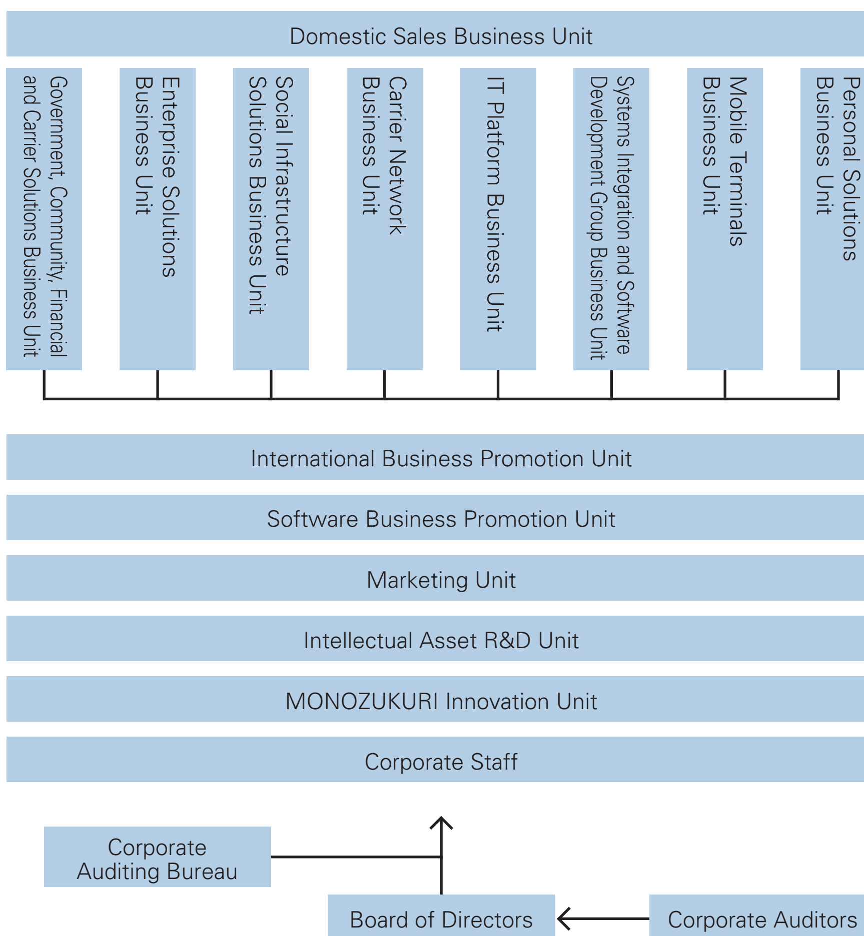


CORPORATE OVERVIEW

Company name	NEC Corporation
Address	7-1, Shiba 5-chome, Minato-ku, Tokyo, Japan
Established	July 17, 1899
Chairman of the Board	Hajime Sasaki
President	Kaoru Yano
Capital	¥337.9 billion (As of March 31, 2008)
Shares of common stock issued	2,029,732,635 shares (As of March 31, 2008)
Consolidated net sales	¥4,617.2 billion (Year ended March 31, 2008)
Business segments	IT/Network Solutions business Mobile/Personal Solutions business Electron Devices business
Number of employees	NEC Corporation and consolidated subsidiaries 152,922 (As of March 31, 2008)

Organization chart

(As of April 1, 2008)



Trademarks
- NEC is a registered trademark of NEC Corporation in Japan and other countries.
- All other names may be trademarks of their respective owners.

CAUTIONARY STATEMENTS:

This annual report contains forward-looking statements pertaining to strategies, financial targets, technology, products and services, and business performance of NEC Corporation and its consolidated subsidiaries (collectively "NEC"). Written forward-looking statements may appear in other documents that NEC files with stock exchanges or regulatory authorities, such as the Director of the Kanto Finance Bureau, and in reports to shareholders and other communications. NEC is relying on certain safe-harbors for forward-looking statements in making these disclosures. Some of the forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," "targets," "aims," or "anticipates," or the negative of those words, or other comparable words or phrases. You can also identify forward-looking statements by discussions of strategy, beliefs, plans, targets, or intentions. Forward-looking statements necessarily depend on currently available assumptions, data, or methods that may be incorrect or imprecise and NEC may not be able to realize the results expected by them. You should not place undue reliance on forward-looking statements, which reflect NEC's analysis and expectations only. Forward-looking statements are not guarantees of future performance and involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. Among the factors that could cause actual results to differ materially from such statements include (i) global economic conditions and general economic conditions in NEC's markets, (ii) fluctuating demand for, and competitive pricing pressure on, NEC's products and services, (iii) NEC's ability to continue to win acceptance of NEC's products and services in highly competitive markets, (iv) NEC's ability to expand into foreign markets, such as China, (v) regulatory change and uncertainty and potential legal liability relating to NEC's business and operations, (vi) NEC's ability to restructure, or otherwise adjust, its operations to reflect changing market conditions, (vii) movement of currency exchange rates, particularly the rate between the yen and the U.S. dollar, and (viii) impact of any regulatory action or legal proceeding against NEC. Any forward-looking statements speak only as of the date on which they are made. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect NEC. NEC does not undertake any obligation to update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise. You may find more current information on the NEC home page (http://www.nec.com) or NEC Investor Relations home page (http://www.nec.co.jp/ir/en).

The management targets included in this annual report are not projections, and do not represent management's current estimates of future performance. Rather, they represent targets that management will strive to achieve through the successful implementation of NEC's business strategies.

Finally, NEC cautions you that the statements made in this annual report are not an offer of securities for sale. The securities may not be offered or sold in any jurisdiction in which registration is required absent registration or an exemption from registration under the applicable securities laws.

NEC Corporation

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Investor Relations home page: http://www.nec.co.jp/ir/en

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