

(Translation)

The following is an English translation of the Notice of the 4th Ordinary General Meeting of Shareholders of NEC Electronics Corporation to be held on June 27, 2006, except for the INSTRUCTION ON VOTING RIGHTS in the Notice. The Company provides this translation for your reference and convenience only and without any warranty as to its accuracy or otherwise.

NEC Electronics Corporation

1753, Shimonumabe, Nakahara-ku,
Kawasaki, Kanagawa

Toshio Nakajima
President

June 5, 2006

To Our Shareholders:

NOTICE OF THE 4TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

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

1. DATE: June 27, 2006 (Tuesday) at 10:00 A.M. Japanese Standard Time
2. PLACE: Tamagawa Renaissance City Hall located within the NEC Tamagawa Plant at 1753, Shimonumabe, Nakahara-ku, Kawasaki, Kanagawa, Japan
3. AGENDA OF THE GENERAL MEETING
MATTERS TO BE REPORTED UPON:
 - (1) Report on the Business Report, Consolidated Balance Sheet, Consolidated Statement of Operations, and report on the results of the audit conducted on the Consolidated Balance Sheet and the Consolidated Statement of Operations by the Independent Auditors and the Board of Corporate Auditors, with respect to the 4th Business Period from April 1, 2005 to March 31, 2006.
 - (2) Report on the Balance Sheet and Statement of Operations with respect to the 4th Business Period from April 1, 2005 to March 31, 2006.

(Translation)

MATTERS TO BE VOTED UPON:

- (1) Approval of the Proposed Disposal of Losses for the 4th Business Period
- (2) Reduction in Capital Reserve
(The outline of this proposal is shown in “Reference Documents for Exercising Voting Rights” below)
- (3) Partial Amendment to the Articles of Incorporation
(The outline of this proposal is shown in “Reference Documents for Exercising Voting Rights” below)
- (4) Election of Five Directors
- (5) Election of One Corporate Auditor and One Alternative Corporate Auditor
- (6) Issuance of Stock Acquisition Rights for Granting Stock Options
(The outline of this proposal is shown in “Reference Documents for Exercising Voting Rights” below)
- (7) Payment of Retirement Allowances to Retiring Director and Upon Abolition of Retirement Allowances Scheme for Directors and Corporate Auditors

(Translation)

REFERENCE DOCUMENTS FOR EXERCISING VOTING RIGHTS

1. **Total number of voting rights:** 1,234,629
2. **Proposals for the matters to be voted upon and reference matters relating to the proposals**

Proposal No. 1: Approval of the Proposed Disposal of Losses for the 4th Business Period

The proposed disposal of losses is as shown in the attached document titled “Report for the 4th Business Period.”

The Company recognized a significant net loss for the 4th Business Period and the amount of the undisposed losses for that same period is 84,677,479,776 yen. This was mainly due to the decrease in demand in the domestic semiconductor market, a price decline and the recording of a valuation allowance against deferred tax assets.

With respect to the undisposed losses for the 4th Business Period, the reserve for special depreciation under the Special Taxation Measures Law shall be used and reserved, and the accumulated deficit shall be compensated by providing part of the capital reserve pursuant to the provisions of Paragraph 1, Article 289 of the former Commercial Code. As a result thereof, the amount of losses to be carried forward shall be 6,511,546,441 yen; however, the balance as retained earnings together with the unappropriated reserve shall be zero yen.

The Company hereby expresses its apologies for not paying dividends for the 4th Business Period. We thank you for your understanding.

Proposal No. 2: Reduction in Capital Reserve

In order to enhance the flexibility of future capital policy, the entire amount of capital reserve exceeding one-fourth of the amount of capital (236,238,758,414 yen if Proposal No. 1 is approved and adopted) shall be reduced and transferred to retained earnings pursuant to the provisions of Paragraph 2, Article 289 of the former Commercial Code.

Proposal No. 3: Partial Amendment to the Articles of Incorporation

It is proposed that the current Articles of Incorporation of the Company be amended as

(Translation)

follows.

1. Reasons for Amendment

- (1) Under the Law for Partial Amendment to the Commercial Code for Introduction of Electronic Public Notice System (Law No. 87, 2004), effective on February 1, 2005, the Company seeks to introduce an electronic public notice system as well as prescribe an alternative method thereof.
- (2) Under the Company Law (Law No. 86, 2005), effective on May 1, 2006, the Articles of Incorporation are to be amended as follows.
 - (i) The rights exercisable by holders of shares constituting less than one (1) unit are now allowed to be limited by prescribing so in the Articles of Incorporation and the Company seeks to establish new provisions limiting the rights of shares constituting less than one (1) unit to the extent appropriate taking into consideration the rights of holders of shares constituting one (1) unit.
 - (ii) Part of the reference documents and other documents relating to convocation procedures of general meetings of shareholders are now permitted to be disclosed through the Internet by prescribing so in the Articles of Incorporation and the Company seeks to establish new provisions which allow such disclosure.
 - (iii) Resolutions of the Board of Directors are now allowed to be made in writing or digitally by prescribing so in the Articles of Incorporation and the Company seeks to establish new provisions that allow such resolutions to be made in writing or digitally for purposes of increased flexibility and effective management of the Board of Directors.
 - (iv) The period that a resolution electing Corporate Auditors to be elected to fill vacancy is now allowed to be extended by prescribing so in the Articles of Incorporation and the Company seeks to establish new provisions which extend such period to four (4) years which is the same as the term of office of Corporate Auditors.

(Translation)

- (v) The Company may now enter into a contract with outside Corporate Auditors to limit such Corporate Auditors' liability in advance by prescribing so in the Articles of Incorporation and the Company seeks to establish new provisions which allow the execution of such contracts in order to have capable personnel appointed as outside Corporate Auditors.
 - (vi) In addition to the above, the Company seeks to newly establish necessary provisions and delete unnecessary provisions to comply with the Company Law, and shall make any required amendments in accordance with the numbering of articles and wording of the provisions of the Company Law.
- (3) The Company shall amend certain numbering of the articles due to the additions and deletions of the provisions as described above, and shall make necessary amendments resulting thereof, including changes to the wording throughout the entire Articles of Incorporation.

(Translation)

2. Details of Amendment

Details of amendment are as follows.

(Underlined are the amended parts)

Current Text	Proposed Amendment
CHAPTER I GENERAL PROVISIONS	
Article 1. (Trade Name) The Company is called NEC Electronics Kabushiki Kaisha. Its English expression shall be NEC Electronics Corporation.	<i>[Not amended]</i>
Article 2. (Object) The object of the Company is to carry on the following businesses: (Omitted)	<i>[Not amended]</i>
Article 3. (Location of Principal Office) The Principal Office of the Company shall be located in the city of Kawasaki, Kanagawa Prefecture.	<i>[Not amended]</i>
<i>[New Article]</i>	<u>Article 4. (Corporate Organization)</u> <u>In addition to general meetings of shareholders and Directors, the Company shall have the following organizations:</u> <u>(1) The Board of Directors;</u> <u>(2) Corporate Auditors;</u> <u>(3) The Board of Corporate Auditors; and</u> <u>(4) Accounting Auditors.</u> [Note 1.]

(Translation)

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<p>Article 4. (Method of Giving Public Notices)</p> <p>Public notices of the Company shall be <u>inserted</u> in the Nihon Keizai Shimbun <u>published in Tokyo Metropolis.</u></p>	<p>Article 5. (Method of Giving Public Notices)</p> <p><u>The method of giving</u> public notices of the Company shall be <u>electronic public notices; provided, however, that in cases where an electronic public notice is impracticable due to an accident or other unavoidable reason, the Company shall give its public notice</u> in the Nihon Keizai Shimbun.</p> <p>[Note 2.]</p>
<p>CHAPTER II SHARES</p>	
<p>Article 5. (Total Number of Shares Authorized to Be Issued)</p> <p>The total number of shares authorized to be issued by the Company shall be four hundred million (400,000,000).</p>	<p>Article 6. (Total Number of Shares Authorized to Be Issued)</p> <p><i>[This Article will be amended to make partial modifications of the description in Japanese only. No modification of the English translation of this Article is necessary.]</i></p> <p>[Note 3.]</p>
<p>Article 6. (Acquisition of Own Shares)</p> <p>The Company may <u>purchase</u> its own shares by a resolution of the Board of Directors in accordance with the provision of <u>Item 2 of Paragraph 1, Article 211-3 of the Commercial Code of Japan.</u></p>	<p>Article 7. (Acquisition of Own Shares)</p> <p>The Company may <u>acquire</u> its own shares by a resolution of the Board of Directors in accordance with the provision of <u>Paragraph 2, Article 165 of the Company Law.</u></p> <p>[Note 3.] [Note 4.]</p>

(Translation)

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<p><i>[New Article]</i></p>	<p><u>Article 8. (Issuance of Share Certificates)</u></p> <p><u>The Company shall issue share certificates representing its issued shares.</u></p> <p>[Note 5.]</p>
<p>Article 7. (Number of Shares Constituting One Unit of Shares)</p> <p>1. The number of shares constituting one unit of shares of the Company shall be one hundred (100).</p> <p>2. The Company shall not issue share certificates with respect to any number of shares constituting less than one unit (<u>hereinafter called “shares less than one unit”</u>).</p>	<p>Article 9. (Number of Shares Constituting One Unit of Shares <u>and Non-issuance of Share Certificates for Shares Constituting Less Than One Unit</u>)</p> <p><i>[This Article will be amended to make partial modifications of the description in Japanese only. No modification of the English translation of this Article is necessary.]</i></p> <p>2. <u>Notwithstanding the provision of the preceding Article</u>, the Company shall not issue share certificates with respect to any number of shares constituting less than one unit.</p> <p>[Note 3.]</p>
<p><i>[New Article]</i></p>	<p><u>Article 10. (Rights for Shares Constituting Less Than One Unit)</u></p> <p><u>A shareholder of the Company (including a beneficial shareholder; hereinafter the same interpretation being applicable) who holds shares constituting less than one unit may not exercise any rights, except for the following rights, with respect to the shares constituting less than one unit held by that shareholder:</u></p> <p>(1) <u>The rights provided for in each Item of</u></p>

(Translation)

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	<p><u>Paragraph 2, Article 189 of the Company Law;</u></p> <p>(2) <u>The right to claim as provided for in Paragraph 1, Article 166 of the Company Law; and</u></p> <p>(3) <u>The right to receive an allotment of offered shares and offered stock acquisition rights in proportion to the number of shares held.</u></p> <p>[Note 6.]</p>
<p>Article <u>8</u>. (Handling Regulations of Shares)</p> <p><u>The denominations of share certificates, entry of a change in the name of a shareholder, registration of the creation of a pledge, manifestation of a trust, purchase of shares less than one unit, reissuance of a share certificate, and any other procedures</u> relating to shares as well as fees thereof, shall be governed by the Share Handling Regulations established by the Board of Directors.</p>	<p>Article <u>11</u>. (Handling Regulations of Shares)</p> <p><u>Handling</u> relating to shares as well as fees thereof, shall be governed by the Share Handling Regulations established by the Board of Directors, <u>as well as the applicable laws and regulations or these Articles of Incorporation.</u></p> <p>[Note 3.]</p>
<p>Article <u>9</u>. (Transfer Agent)</p> <p>1. The Company shall appoint a Transfer Agent for shares.</p> <p>2. The Transfer Agent and its office shall be designated by a resolution of the Board of Directors.</p>	<p>Article <u>12</u>. (Transfer Agent)</p> <p><i>[This Article will be amended to make partial modifications of the description in Japanese only. No modification of the English translation of this Article is necessary.]</i></p> <p><i>[This Article will be amended to make partial modifications of the description in Japanese only. No modification of the English translation of this Article is necessary.]</i></p>

(Translation)

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<p>3. The Register of Shareholders (including the Register of Beneficial Shareholders; hereinafter the same interpretation being applicable) <u>and the Register of Lost Share Certificates of the Company shall be kept at the office of the Transfer Agent, and the Transfer Agent shall handle the entry of a change in the name of a shareholder, purchase of shares less than one unit and any other business relating to shares,</u> no such businesses being handled by the Company.</p>	<p>3. <u>The Transfer Agent shall prepare and keep the Register of Shareholders (including the Register of Beneficial Shareholders; hereinafter the same interpretation being applicable), the Register of Lost Share Certificates of the Company and the Register of Stock Acquisition Rights, and shall handle other business pertaining to the Register of Shareholders, the Register of Lost Share Certificates and the Register of Stock Acquisition Rights, with</u> no such businesses being handled by the Company.</p> <p>[Note 7.]</p>
<p><u>Article 10. (Record Date)</u></p> <p>1. <u>The shareholders (including beneficial shareholders; hereinafter the same interpretation being applicable) recorded (in electronic form included; hereinafter the same interpretation being applicable) in the last Register of Shareholders as of the last day of each business period shall be deemed the shareholders entitled to exercise the rights of shareholders at the ordinary general meeting of shareholders for that business period.</u></p> <p>2. <u>By a resolution of the Board of Directors, a record date may be set whenever necessary in addition to the record date in the preceding paragraph, provided that an advance public notice shall be given thereof.</u></p>	<p><i>[Deleted]</i></p> <p>[Note 8.]</p>
<p>CHAPTER III GENERAL MEETINGS OF SHAREHOLDERS</p>	

(Translation)

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<p>Article <u>11</u>. (Convocation)</p> <p><u>1. An ordinary general meeting of shareholders shall be convened within three months after the end of each business <u>period</u>, and an extraordinary general meeting of shareholders shall be convened whenever necessary.</u></p> <p><u>2. A general meeting of shareholders shall be convened by the Representative Director pursuant to a resolution of the Board of Directors unless otherwise provided by applicable laws and regulations. In case where the Company has two or more Representative Directors, it shall be convened by the Representative Director in accordance with an order previously determined by the Board of Directors.</u></p> <p><u>3. A general meeting of shareholders shall be convened at the place where the Principal Office locates, Minato-ku of Tokyo or their neighboring place.</u></p>	<p>Article <u>13</u>. (Convocation)</p> <p>An ordinary general meeting of shareholders shall be convened within three months after the end of each business <u>year</u>, and an extraordinary general meeting of shareholders shall be convened whenever necessary.</p> <p><i>[Deleted]</i></p> <p><i>[Deleted]</i></p> <p>[Note 9.]</p>
<p><i>[New Article]</i></p>	<p><u>Article 14. (Record Date for Ordinary General Meetings of Shareholders)</u></p> <p><u>The record date for voting rights for the ordinary general meetings of shareholders of the Company shall be March 31 of each year.</u></p> <p>[Note 10.]</p>
<p>Article <u>12</u>. (Chairman)</p> <p><u>The chairmanship of a general meeting of shareholders shall be assumed by the Representative</u></p>	<p>Article <u>15</u>. (<u>Convener and</u> Chairman)</p> <p><u>1. The Representative Director shall convene a general meeting of shareholders and act as Chairman</u></p>

(Translation)

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<p><u>Director</u>. In case where the Company has two or more Representative Directors, <u>it shall be assumed by the Representative Director</u> in accordance with an order previously determined by the Board of Directors.</p>	<p><u>thereat</u>.</p> <p><u>2.</u> In case where the Company has two or more Representative Directors <u>or the Representative Director is unable to act as Convener and Chairman, a Representative Director or other Director</u>, in accordance with an order previously determined by the Board of Directors, <u>shall convene a general meeting of shareholders and act as Chairman thereat</u>.</p> <p>[Note 11.]</p>
<p>[New Article]</p>	<p><u>Article 16. (Disclosure of Reference Documents for General Meetings of Shareholders, Etc. through the Internet and Deemed Provision)</u></p> <p><u>In convening a general meeting of shareholders, it may be deemed that the Company has provided the shareholders with the necessary information that should be described or indicated in the reference documents for the general meeting of shareholders, business reports, non-consolidated financial statements, and consolidated financial statements, on the condition that such information is disclosed through the Internet in accordance with the Ministry of Justice Ordinance.</u></p> <p>[Note 12.]</p>
<p>Article <u>13</u>. (Requirements for Resolution)</p> <p>1. The <u>ordinary</u> resolutions of general meetings of shareholders shall be passed by a majority of votes of the shareholders <u>present</u>.</p>	<p>Article <u>17</u>. (Requirements for Resolution)</p> <p>1. The resolutions of general meetings of shareholders shall be passed by a majority of votes of the <u>attending</u> shareholders <u>entitled to exercise their voting rights</u>.</p>

(Translation)

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<p>2. The resolution of general meetings of shareholders provided for in <u>Paragraph 1, Article 343 of the Commercial Code</u> shall be passed by not less than two-thirds of votes of shareholders present at a general meeting at which shareholders having not less than one-third of the total number of voting rights of <u>all</u> shareholders are present.</p>	<p>2. The resolution of general meetings of shareholders provided for in <u>Paragraph 2, Article 309 of the Company Law</u> shall be passed by not less than two-thirds of votes of shareholders present at a general meeting at which shareholders having not less than one-third of the total number of voting rights of shareholders <u>entitled to exercise their voting rights</u> are present.</p> <p>[Note 3.] [Note 4.]</p>
<p>Article <u>14</u>. (Exercise of Voting Rights by Proxy)</p> <p>A shareholder may exercise his/her voting rights by a proxy, who shall be a shareholder of the Company <u>with the right to vote</u>, provided that a document establishing his/her power of representation must be filed with the Company prior to the opening of the general meeting of shareholders.</p>	<p>Article <u>18</u>. (Exercise of Voting Rights by Proxy)</p> <p>A shareholder may exercise his/her voting rights by a proxy, who shall be a shareholder <u>having voting rights</u> of the Company, provided that a document establishing his/her power of representation must be filed with the Company prior to the opening of the general meeting of shareholders.</p> <p>[Note 3.]</p>
<p>Article <u>15</u>. (Minutes)</p> <p>1. <u>The summary of proceedings and results of each general meeting of shareholders shall be recorded in the minutes, and the Chairman and the Directors present shall print their respective names and affix their respective seals on such minutes or shall sign (in electronic form included) such minutes.</u></p> <p>2. <u>The original of the minutes mentioned in the preceding paragraph shall be kept at the Principal</u></p>	<p><i>[Deleted]</i></p> <p>[Note 13.]</p>

(Translation)

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<p><u>Office of the Company for ten years, and a certified copy thereof shall be kept at each registered branch office of the Company for five years.</u></p>	
<p>CHAPTER IV DIRECTORS AND BOARD OF DIRECTORS</p>	
<p>Article <u>16</u>. (Number)</p> <p>The Company shall have Directors not exceeding ten in number.</p>	<p>Article <u>19</u>. (Number)</p> <p><i>[This Article will be amended to make partial modifications of the description in Japanese only. No modification of the English translation of this Article is necessary.]</i></p> <p>[Note 3.]</p>
<p>Article <u>17</u>. (Election)</p> <p>1. A resolution electing Directors shall be adopted by a majority of votes of the shareholders present at a general meeting of shareholders at which shareholders representing not less than one-third of the voting rights of <u>all</u> shareholders are present.</p> <p>2. No cumulative voting shall be used for the resolution mentioned in the preceding paragraph.</p>	<p>Article <u>20</u>. (Election)</p> <p>1. A resolution electing Directors shall be adopted by a majority of votes of the shareholders present at a general meeting of shareholders at which shareholders representing not less than one-third of the voting rights of shareholders <u>entitled to exercise their voting rights</u> are present.</p> <p>2. <i>[Not amended]</i></p> <p>[Note 3.]</p>
<p>Article <u>18</u>. (Term of Office)</p> <p>The term of office of a Director shall expire at the conclusion of the ordinary general meeting of shareholders <u>to settle the accounts for</u> the last business <u>period</u> ending within one year following his/her <u>assumption of office</u>.</p>	<p>Article <u>21</u>. (Term of Office)</p> <p>The term of office of a Director shall expire at the conclusion of the ordinary general meeting of shareholders <u>held with respect to</u> the last business <u>year</u> ending within one year following his/her <u>election</u>.</p>

(Translation)

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	[Note 3.]
<p>Article <u>19</u>. (Representative Director)</p> <p><u>The Director(s) who represent the Company shall be nominated by a resolution of the Board of Directors.</u></p>	<p>Article <u>22</u>. (Representative Director)</p> <p><u>The Board of Directors shall elect Representative Director(s) by its resolution.</u></p> <p>[Note 3.]</p>
<p>Article <u>20</u>. (Board of Directors)</p> <p><u>1. The Board of Directors shall make decision on the management of the affairs of the Company in accordance with the provisions of applicable laws and regulations and of these Articles of Incorporation.</u></p> <p>2. In addition to the provisions of applicable laws and regulations and of these Articles of Incorporation, the Rules of the Board of Directors established by the Board of Directors shall apply to matters relating to the Board of Directors.</p> <p>3. In convening a meeting of the Board of Directors, notice shall be issued to each Director and each Corporate Auditor at least three days before the meeting date. Provided, however, in case of an urgency, this period may be shortened.</p>	<p>Article <u>23</u>. (Board of Directors)</p> <p><i>[Deleted]</i></p> <p><u>1.</u> <i>[Not amended]</i></p> <p><u>2.</u> <i>[Not amended]</i></p> <p>[Note 14.]</p>
[New Article]	<p>Article <u>24</u>. (Deemed Resolution of Board of Directors)</p> <p><u>If all Directors unanimously express their consent in writing or digitally to a matter to be</u></p>

(Translation)

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	<p><u>resolved by the Board of Directors, it shall be deemed that such matter is adopted by a resolution of the Board of Directors unless the Corporate Auditors express objections thereto.</u></p> <p>[Note 15.]</p>
<p>Article <u>21</u>. (<u>Remuneration and Retirement Allowances</u>)</p> <p>Remuneration <u>and retirement allowances for Directors</u> shall be fixed by a resolution of a general meeting of shareholders.</p>	<p>Article <u>25</u>. (<u>Remuneration, Etc.</u>)</p> <p>Remuneration, <u>bonuses and other financial benefits given by the Company in consideration of the performance of duties (hereinafter referred to as the “Remuneration, Etc.”)</u> to Directors shall be fixed by a resolution of a general meeting of shareholders.</p> <p>[Note 3.]</p>
<p>Article <u>22</u>. (<u>Release of Directors’ Liability</u>)</p> <p>1. The Company may, pursuant to the provision of <u>Paragraph 12, Article 266 of the Commercial Code of Japan</u>, release the Directors (including those who had been Directors) of their liability <u>relating to actions stipulated in Item 5 of Paragraph 1, Article 266 of the Commercial Code of Japan</u> by a resolution of the Board of Directors, to the extent permitted by applicable laws and regulations.</p> <p>2. The Company may, pursuant to the provision of <u>Paragraph 19, Article 266 of the Commercial Code of Japan</u>, enter into a contract with its outside Directors to limit their liability to the Company for damages arising from <u>actions stipulated in Item 5 of Paragraph 1, Article 266 of the Commercial Code of Japan</u>, to <u>the aggregate amount</u> stipulated in</p>	<p>Article <u>26</u>. (<u>Release of Directors’ Liability</u>)</p> <p>1. The Company may, pursuant to the provision of <u>Paragraph 1, Article 426 of the Company Law</u>, release the Directors (including those who had been Directors) of their liability <u>for damages arising from negligence of their duties</u> by a resolution of the Board of Directors, to the extent permitted by the applicable laws and regulations.</p> <p>2. The Company may, pursuant to the provision of <u>Paragraph 1, Article 427 of the Company Law</u>, enter into a contract with its outside Directors to limit their liability to the Company for damages arising from <u>negligence of their duties</u>, to <u>the minimum limited liability amount stipulated in the same Paragraph of the same Article of the Company</u></p>

(Translation)

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<p><u>Paragraph 19, Article 266 of the Commercial Code of Japan.</u></p>	<p><u>Law.</u></p> <p>[Note 3.]</p> <p>[Note 4.]</p>
<p>CHAPTER V CORPORATE AUDITORS AND THE BOARD OF CORPORATE AUDITORS</p>	
<p>Article <u>23.</u> (Number)</p> <p>The Company shall have Corporate Auditors not exceeding five in number.</p>	<p>Article <u>27.</u> (Number)</p> <p><i>[This Article will be amended to make partial modifications of the description in Japanese only. No modification of the English translation of this Article is necessary.]</i></p> <p>[Note 3.]</p>
<p>Article <u>24.</u> (Election)</p> <p>A resolution electing Corporate Auditors shall be adopted by a majority of votes of the shareholders present at a general meeting of shareholders at which shareholders representing not less than one-third of the voting rights of <u>all</u> shareholders are present.</p> <p><i>[New Paragraph]</i></p>	<p>Article <u>28.</u> (Election)</p> <p>A resolution electing Corporate Auditors shall be adopted by a majority of votes of the shareholders present at a general meeting of shareholders at which shareholders representing not less than one-third of the voting rights of shareholders <u>entitled to exercise their voting rights</u> are present.</p> <p><u>2. A resolution electing Corporate Auditors to be elected to fill vacancy shall be effective until the opening of the ordinary general meeting of shareholders held with respect to the last business year ending within four years following such resolution.</u></p> <p>[Note 3.]</p> <p>[Note 16.]</p>

(Translation)

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<p>Article <u>25</u>. (Term of Office)</p> <p>The term of office of a Corporate Auditor shall expire at the conclusion of the ordinary general meeting of shareholders <u>to settle the accounts for the last business period</u> ending within four years following his/her <u>assumption of office</u>.</p>	<p>Article <u>29</u>. (Term of Office)</p> <p>The term of office of a Corporate Auditor shall expire at the conclusion of the ordinary general meeting of shareholders <u>held with respect to the last business year</u> ending within four years following his/her <u>election</u>.</p> <p>[Note 3.]</p>
<p>Article <u>26</u>. (Full-time Corporate Auditor)</p> <p>Corporate Auditors shall appoint <u>from among themselves</u> one or more full-time Corporate Auditors.</p>	<p>Article <u>30</u>. (Full-time Corporate Auditor)</p> <p><u>The Board of</u> Corporate Auditors shall appoint one or more full-time Corporate Auditors <u>by its resolution</u>.</p> <p>[Note 3.]</p>
<p>Article <u>27</u>. (Board of Corporate Auditors)</p> <p><u>1. The Board of Corporate Auditors shall make decisions on the matters relating to the performance of duties of a Corporate Auditor in accordance with the provisions of applicable laws and regulations and of these Articles of Incorporation. Provided, however, the Board of Corporate Auditors shall not prevent a Corporate Auditor from exercising his/her powers.</u></p> <p><u>2. In addition to the provisions of applicable laws and regulations and of these Articles of Incorporation, the Rules of the Board of Corporate Auditors established by the Board of Corporate Auditors shall apply to matters relating to the Board of Corporate Auditors.</u></p>	<p>Article <u>31</u>. (Board of Corporate Auditors)</p> <p><i>[Deleted]</i></p> <p><u>1.</u> <i>[Not amended]</i></p>

(Translation)

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<p><u>3.</u> In convening a meeting of the Board of Corporate Auditors, notice shall be issued to each Corporate Auditor at least three days before the meeting date. Provided, however, in case of an urgency, this period may be shortened.</p>	<p><u>2.</u> <i>[Not amended]</i></p> <p>[Note 17.]</p>
<p>Article <u>28.</u> (<u>Remuneration and Retirement Allowances</u>)</p> <p>Remuneration and retirement allowances for Corporate Auditors shall be fixed by a resolution of a general meeting of shareholders.</p>	<p>Article <u>32.</u> (<u>Remuneration, Etc.</u>)</p> <p>Remuneration, Etc. for Corporate Auditors shall be fixed by a resolution of a general meeting of shareholders.</p> <p>[Note 3.]</p>
<p>Article <u>29.</u> (<u>Release of Corporate Auditors' Liability</u>)</p> <p>The Company may, pursuant to the provision of <u>Paragraph 1, Article 280 of the Commercial Code of Japan</u>, release its Corporate Auditors (including those who had been Corporate Auditors) of their liability to the Company by a resolution of the Board of Directors, to the extent permitted by applicable laws and regulations.</p> <p><i>[New Paragraph]</i></p>	<p>Article <u>33.</u> (<u>Release of Corporate Auditors' Liability</u>)</p> <p><u>1.</u> The Company may, pursuant to the provision of <u>Paragraph 1, Article 426 of the Company Law</u>, release its Corporate Auditors (including those who had been Corporate Auditors) of their liability to the Company <u>for damages arising from negligence of their duties</u> by a resolution of the Board of Directors, to the extent permitted by applicable laws and regulations.</p> <p><u>2.</u> The Company may, pursuant to the provision <u>in Paragraph 1, Article 427 of the Company Law</u>, enter into a contract with its outside Corporate Auditors to limit their liability to the Company <u>for damages arising from negligence of their duties, to the minimum limited liability amount stipulated in the same Paragraph of the same Article of the Company Law.</u></p>

(Translation)

Current Text	Proposed Amendment
	[Note 3.] [Note 18.]
CHAPTER VI ACCOUNTS	
Article <u>30</u> . (Settlement of Accounts) The Company's business <u>period</u> shall be from April 1st of each year to March 31st of the ensuing year, <u>and its accounts shall be settled at the end of each business period.</u>	Article <u>34</u> . (<u>Business Year</u>) The Company's business <u>year</u> shall be from April 1st of each year to March 31st of the ensuing year. [Note 3.]
Article <u>31</u> . (Dividends) <u>Dividends shall be paid to the shareholders or registered pledgees recorded in the last Register of Shareholders as of the last day of each business period.</u>	Article <u>35</u> . (<u>Year-end Dividends</u>) <u>The record date for year-end dividends is March 31st of each year.</u> [Note 3.]
Article <u>32</u> . (Interim Dividends) The Company may by a resolution of the Board of Directors make cash distribution provided for in <u>Article 293-5 of the Commercial Code (herein called "interim dividends") to the shareholders and registered pledgees recorded in the last Register of Shareholders as of September 30th of each year.</u>	Article <u>36</u> . (Interim Dividends) The Company may by a resolution of the Board of Directors make interim dividends provided for in <u>Paragraph 5, Article 454 of the Company Law of which the record date is September 30th of each year.</u> [Note 3.] [Note 4.]
Article <u>33</u> . (Limitation of Payment Period) In cases where dividends or interim dividends shall remain unclaimed after the lapse of three years	Article <u>37</u> . (Limitation of Payment Period) In cases where <u>year-end</u> dividends or interim dividends shall remain unclaimed after the lapse of

(Translation)

Current Text	Proposed Amendment
from the day on which payment thereof was commenced, the Company shall be exonerated from the responsibility of payment thereof.	three years from the day on which payment thereof was commenced, the Company shall be exonerated from the responsibility of payment thereof. <u>Accrued year-end dividends or interim dividends shall not bear any interest.</u> [Note 19.]

Note 1. The Company newly establishes the provisions expressly setting forth that it has a Board of Directors, Corporate Auditors, a Board of Corporate Auditors and Accounting Auditors since the Articles of Incorporation are deemed to contain such provisions under the Company Law.

Note 2. The Company changes the method of giving public notices from publication in the Nihon Keizai Shimbun to electronic public notices in order to enhance access to public notices and reduce the cost for giving public notices, and prescribes an alternative method in case of unexpected situations such as an accident or otherwise.

Note 3. The provisions are amended to comply with the wording of the Company Law.

Note 4. The cited provisions are changed.

Note 5. The Company newly establishes the provisions expressly setting forth that the Company shall issue share certificates since the Articles of Incorporation are deemed to contain such provisions under the Company Law.

Note 6. Article 10 of the proposed amendment is newly established as it is permitted to prescribe the provisions concerning the exercise of rights by holders of shares constituting less than one unit under the Company Law.

Note 7. The Company newly establishes the provisions expressly setting forth that the Company shall appoint a Transfer Agent since the Articles of Incorporation are deemed to contain such provisions under the Company Law. Also, the Company amends the provisions to comply with the treatment of businesses relating to shares by adding descriptions such as those relating to the Register of Stock Acquisition Rights.

(Translation)

- Note 8. Article 10 of the current Articles of Incorporation was prescribed for the purpose of omitting public notices by providing for the record date of ordinary general meetings of shareholders in the Articles of Incorporation. Considering such purpose, Paragraph 1, Article 10 of the current Articles of Incorporation is moved to Article 14 of Chapter III (General Meetings of Shareholders) of the proposed amendment. Paragraph 2 of the same Article is deleted since the record date may be established without being prescribed in the Articles of Incorporation.
- Note 9. The wording of Paragraph 1, Article 11 of the current Articles of Incorporation is amended to comply with the wording of the Company Law. In addition, Paragraph 2 of the same Article becomes Article 15 of the proposed amendment and is combined with the provisions concerning the person to convene and chair general meetings of shareholders. Moreover, Paragraph 3 of the Article 11 is deleted since the limitations on the place where a general meeting of shareholders should be held are abolished under the Company Law.
- Note 10. The provisions concerning the record date of ordinary general meetings of shareholders are moved from Paragraph 1, Article 10 of the current Articles of Incorporation and established as a new Article.
- Note 11. Paragraph 2 of Article 11 of the current Articles of Incorporation is combined with Article 12 of the current Articles of Incorporation as the provisions concerning the person to convene and chair general meetings of shareholders. In addition, the provisions concerning the person to convene and chair where the Representative Director is unable to act as the person to convene and chair are added.
- Note 12. Article 16 of the proposed amendment is newly established for the purpose of enhancing shareholders' convenience and further, developed disclosure as disclosure of part of the reference documents and other documents through the Internet is now allowed under the Company Law.
- Note 13. Article 15 of the current Articles of Incorporation prescribing the minutes of general meetings of shareholders is deleted since the Company Law provides therefor.
- Note 14. Paragraph 1, Article 20 of the current Articles of Incorporation prescribing the power and authority of the Board of Directors is deleted since the Company Law provides

(Translation)

therefor.

- Note 15. The provisions prescribing that only if all Directors unanimously express their consent and all Corporate Auditors express no objections, the Board of Directors are deemed to have resolved a matter without holding a meeting of the Board of Directors are newly established for the purposes of increased flexibility and effective management of the Board of Directors as the so-called written resolution of the Board of Directors is allowed under the Company Law.
- Note 16. Paragraph 2, Article 28 of the proposed amendment is newly established for the purpose of making the effective period of a resolution electing alternative Corporate Auditors to conform to the term of office of Corporate Auditors since such effective period of resolution electing alternative Corporate Auditors is allowed to be extended under the Company Law.
- Note 17. Paragraph 1, Article 27 of the current Articles of Incorporation prescribing the power and authority of the Board of Corporate Auditors is deleted since the Company Law provides therefor.
- Note 18. Paragraph 2, Article 33 of the proposed amendment is newly established in order to have capable personnel appointed as outside Corporate Auditors as a company may enter into a contract with outside Corporate Auditors to limit such Corporate Auditors' liability to that company under the Company Law.
- Note 19. The wording of Article 33 of the current Articles of Incorporation is amended consistent with the wording of Articles 35 and 36 of the proposed amendment. Further, a necessary statement is added for the usual treatment of non-interest on accrued dividends.

Proposal No. 4: Election of Five Directors

Upon the close of the General Meeting, the term of office as Director held by all the Directors will expire.

It is proposed that five Directors be elected. The candidates are as follows:

(Translation)

	Name (Date of Birth)	Brief Employment History and Representative Status in Other Companies		Number of the Company's Shares Held
1	Toshio Nakajima (October 5, 1947)	April 1970 April 1999 August 2001 April 2002 November 2002 April 2003 June 2004 April 2005 June 2005 November 2005	Joined NEC Corporation General Manager, 1st System LSI Division, System LSI Operations Unit, NEC Corporation President and Chief Executive Officer, NEC Electronics Inc. (currently NEC Electronics America, Inc.) Associate Senior Vice President, NEC Corporation Senior Vice President, the Company Resigned as Senior Vice President, the Company Elected to the Board of Directors, the Company Senior Vice President and Member of the Board, the Company Executive Vice President and Member of the Board, the Company President, the Company (to the present)	5,900

(Translation)

	Name (Date of Birth)	Brief Employment History and Representative Status in Other Companies		Number of the Company's Shares Held
2	Shunichi Suzuki (February 20, 1945)	April 1967 February 1996 July 1999 April 2000 June 2002 November 2002 April 2005	Joined NEC Corporation General Manager, Affiliates and Auditing Division, NEC Corporation Vice President, NEC Corporation Associate Senior Vice President and General Manager, Corporate Strategic Planning & Business Development Division, NEC Corporation Senior Vice President and Member of the Board, NEC Corporation Elected to the Board of Directors, the Company Executive Vice President and Member of the Board, NEC Corporation (to the present)	0

(Translation)

	Name (Date of Birth)	Brief Employment History and Representative Status in Other Companies		Number of the Company's Shares Held
3	Hideto Goto (January 1, 1947)	April 1970	Joined NEC Corporation	600
		July 1996	General Manager, 2nd Memory Division, Memory Operations Unit, NEC Corporation	
		July 1998	President, NEC Semiconductors (UK) Limited (to the present)	
		April 2002	Associate Senior Vice President and Deputy Executive General Manager, System LSI Operations Unit, NEC Corporation	
		November 2002	Senior Vice President and Vice President, Manufacturing Operations Unit, the Company	
		April 2004	Relieved of Vice President, Manufacturing Operations Unit, the Company	
		June 2004	Senior Vice President and Member of the Board, the Company	
		June 2005	Executive Vice President and Member of the Board, the Company (to the present) (Representative Status in Other Companies) Managing Director, NEC Semiconductors (UK) Limited	

(Translation)

	Name (Date of Birth)	Brief Employment History and Representative Status in Other Companies		Number of the Company's Shares Held
4	Junshi Yamaguchi (November 27, 1950)	December 1976 September 2002 November 2002 October 2003 August 2004 June 2005	Joined NEC Corporation General Manager, Strategic Planning Division, NEC Electron Devices, NEC Corporation Vice President, Corporate Strategic Planning Unit, the Company Senior Vice President and Vice President, Corporate Strategic Planning Unit, the Company Senior Vice President, Vice President, Corporate Strategic Planning Unit, and General Manager, Corporate Communications Division, the Company Executive Vice President and Member of the Board, the Company (to the present)	1,600
5	Yoshikazu Inada (September 28, 1946)	April 1969 June 1998 October 2001 November 2002 April 2006	Joined NEC Corporation General Manager, Semiconductor Division, IC & Discrete Operations Unit, NEC Corporation Vice President, NEC Electron Devices, NEC Corporation Senior Vice President and Vice President, Sales Operations Unit, the Company Senior Vice President and Vice President, 5th Systems Operations Unit, the Company (to the present)	700

(Note) None of the candidates have a special conflict of interest with the Company.

(Translation)

Proposal No. 5: Election of One Corporate Auditor and One Alternative Corporate Auditor

Upon the close of the General Meeting, the term of office as Auditor held by Mr. Yasuyuki Shibata will expire. It is proposed that one Corporate Auditor be elected.

In order to respond in the contingency that the number of corporate auditors falls short of the number required by law, the Company requests the advance election of one alternative Corporate Auditor for i) Mr. Norio Tanoue, the outside Corporate Auditor, and ii) Mr. Yasuyuki Shibata, the candidate of the outside Corporate Auditor.

The effect of the alternative Corporate Auditor election shall be revoked by the resolution of the Board of Directors, with the consent of the Board of Corporate Auditors, only if it is resolved before his/her assumption of office.

The Board of Corporate Auditors has agreed to the submission of this Proposal to the General Meeting.

(Translation)

The candidate of the Corporate Auditor is as follows:

	Name (Date of Birth)	Brief Employment History and Representative Status in Other Companies		Number of the Company's Shares Held
1	Yasuyuki Shibata (November 29, 1931)	April 1961 April 1971 April 1976 January 1980 April 1982 April 1987 August 1990 March 1992 April 1996 November 1996 March 2000 November 2002	Assistant Judge, Tokyo District Court Juridical Research Official, Supreme Court Judge, Tokyo District Court Judge, Tokyo High Court Juridical Research Official, Supreme Court Judge, Tokyo District Court (Presiding Judge of the Division) Chief Judge, Maebashi Family Court Judge, Tokyo High Court (Presiding Judge of the Division) Retired Professor, Toin University of Yokohama (faculty of law) Registered as a Private Practicing Lawyer Resigned Corporate Auditor, the Company (to the present)	0

(Translation)

The candidate of the alternative Corporate Auditor is as follows:

	Name (Date of Birth)	Brief Employment History and Representative Status in Other Companies		Number of the Company's Shares Held
2	Takayuki Morita (February 5,1960)	April 1983 April 2002 April 2006	Joined NEC Corporation General Manager, Business Development Division, NEC Corporation Associate Senior Vice President and Executive General Manager, Corporate Business Development Unit, NEC Corporation (to the present)	0

- (Note) 1. None of the candidates have a special conflict of interest with the Company.
2. Messrs. Yasuyuki Shibata and Takayuki Morita are the candidates for the outside Corporate Auditor.

Proposal No. 6: Issuance of Stock Acquisition Rights for Granting Stock Options

The Company hereby asks for approval to issue stock acquisition rights which can be exercised to acquire shares of the Company in order to grant stock options to Directors, Corporate Officers and employees of the Company and its subsidiaries, and to delegate the determination of the terms of such stock acquisition rights to the Board of Directors of the Company, in accordance with the provisions of Articles 236, 238 and 239 of the Company Law.

As the stock acquisition rights to be allotted as stock options to the Company's Directors have been changed and are now regarded as remuneration etc. for Directors under the Company Law, the Company also hereby asks for approval for the amendment to the amount of remuneration etc. for Directors and for that remuneration etc. to be made other than in cash.

In this respect, the current number of Directors is five (5), and if Proposal No. 4 is approved as originally proposed, the number of Directors shall be five (5).

(Translation)

1. Reason for offering Stock Acquisition Rights under Specially Favorable Conditions

With a view to promoting management’s awareness of shareholder value and creating motivation to improve the business results of the Company and its group companies, the Company will issue stock acquisition rights (the “Stock Acquisition Rights”) as stock options to the persons listed in 2. below. Since the Company issues the Stock Acquisition Rights with this purpose, the Stock Acquisition Rights will be issued without payment of any consideration and the amount of assets to be contributed per share upon the exercise of each Stock Acquisition Right shall be determined on the basis of the market value of shares of the Company on the allotment date of the Stock Acquisition Rights (the “Allotment Date”) described in 6. below.

2. Persons to whom Stock Acquisition Rights will be Allotted

Directors, Corporate Officers and employees of the Company and its subsidiaries who are in office as of the Allotment Date.

3. Details of the Stock Acquisition Rights

(1) Number of shares to be issued or transferred upon exercise of the Stock Acquisition Rights

No more than ninety thousand (90,000) shares of common stock of the Company will be issued or transferred.

The number of shares to be issued or transferred upon exercise of each Stock Acquisition Right (the “Number of Granted Shares”) shall be one hundred (100). Provided, however, that if the Company conducts stock splits of shares of common stock of the Company (including free distribution (*musho-wariate*) of shares of common stock of the Company; the same shall apply to any reference to stock split below) or consolidation thereof on or after the date of resolution of the General Meeting (the “Resolution Date”), the Number of Granted Shares shall be adjusted according to the following formula:

Number of Granted Shares after adjustment	=	Number of Granted Shares before adjustment	×	Ratio of split or consolidation
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In addition, the Number of Granted Shares shall be adjusted to the extent

(Translation)

reasonable and necessary, in the event of a merger, corporate split or reduction in capital of the Company and in other events similar thereto where an adjustment of the Number of Granted Shares is required.

The adjustment above shall be made only to the Stock Acquisition Rights which have not been exercised at the relevant time, and any fraction less than one (1) share resulting from such adjustment shall be discarded.

(2) Amount of Assets to be Contributed upon Exercise of Stock Acquisition Rights

The amount of assets to be contributed upon exercise of the Stock Acquisition Rights shall be equal to the price to be paid in per share which may be delivered upon exercise of the Stock Acquisition Rights (the “Exercise Price”) multiplied by the Number of Granted Shares.

The Exercise Price shall be equal to the price obtained by multiplying 1.05 by the average of the closing prices in regular trading of the shares of common stock of the Company on the Tokyo Stock Exchange (each the “Closing Price”) on each day (except the days on which no sales took place) during the month immediately preceding the month of the Allotment Date, with fractional amounts of less than one (1) yen resulting from this calculation to be rounded up to one (1) yen; provided, however, that if such calculated price is lower than either of (i) the Closing Price on the date immediately preceding the Allotment Date (if the Closing Price does not exist on such date, the Closing Price on the trading day immediately preceding such date) or (ii) the average of the Closing Prices of each day for the thirty (30) consecutive trading days (excluding days on which there is no Closing Price) commencing forty-five (45) trading days immediately before the Allotment Date (with fractional amounts of less than one (1) yen resulting from this calculation to be rounded up to one (1) yen), the Exercise Price shall be the highest thereof.

In the event of a stock split or consolidation of the Company’s common stock on or after the Allotment Date, the Exercise Price shall be adjusted according to the following formula, with fractional amounts of less than one (1) yen resulting from this adjustment to be rounded up to one (1) yen:

(Translation)

Exercise Price after adjustment	=	Exercise Price before adjustment	×	$\frac{1}{\text{Ratio of split or consolidation}}$
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In addition, the Exercise Price shall be adjusted to the extent reasonable and necessary, in the event of a merger, corporate split or reduction in capital of the Company and in other events similar thereto where an adjustment of the Number of Granted Shares is required after the Allotment Date.

(3) Exercise Period of Stock Acquisition Rights

The period during which the Stock Acquisition Rights may be exercised is from July 13, 2008 to July 12, 2012.

(4) Conditions of Exercise of Stock Acquisition Rights

- (i) Each Stock Acquisition Right may not be exercised in part.
- (ii) If any of the following events occurs, a person holding the Stock Acquisition Rights may not exercise his/her Stock Acquisition Rights:
 - (a) A merger agreement in which the Company is not the surviving company is approved by a general meeting of shareholders of the Company;
 - (b) A share exchange agreement or a share transfer plan in which the Company will become a wholly-owned subsidiary of another company is approved by a general meeting of shareholders of the Company (or approved by the Board of Directors of the Company if approval by a general meeting of shareholders is not required); and
 - (c) There occurs any event provided for in the “Agreement for Allocation of Stock Acquisition Rights” separately executed by and between the Company and the holder of the Stock Acquisition Rights pursuant to the resolution of the General Meeting and the Board of Directors.

(Translation)

(5) Amount of Capital and Capital Reserve to be Increased by Issuance of Shares upon Exercise of Stock Acquisition Rights

(i) The amount of capital to be increased by issuance of shares upon exercise of the Stock Acquisition Rights shall be the amount equal to one-half (1/2) of the maximum limit amount of capital increase as calculated in accordance with the provisions of Paragraph 1, Article 40 of the Company Accounting Regulations, with fractional amounts of less than one (1) yen resulting from this calculation to be rounded up to one (1) yen.

(ii) The amount of capital reserve to be increased by issuance of shares upon exercise of the Stock Acquisition Rights shall be equal to the amount of the maximum limit amount of capital increase provided in (i) above minus the amount of capital to be increased provided in (i) above.

(6) Restriction on Transfer of Stock Acquisition Rights

The Stock Acquisition Rights are nontransferable, unless such transfer is expressly approved by the Board of Directors.

(7) Mandatory Repurchase of Stock Acquisition Rights

No mandatory repurchase shall be allowed for the Stock Acquisition Rights.

4. Number of Stock Acquisition Rights

No more than nine hundred (900) Stock Acquisition Rights will be allotted.

5. Whether Payment of Consideration for Stock Acquisition Rights is Required or Not

The Stock Acquisition Rights will be issued without payment of any consideration.

6. Allotment Date of Stock Acquisition Rights

(Translation)

July 13, 2006

7. Matters Concerning Stock Acquisition Rights to be Allotted to Directors as Remuneration Etc. for Directors

The current amount of remuneration etc. for Directors of the Company was approved to be not exceeding 20 million (20,000,000) yen per month by the second ordinary general meeting of shareholders held on June 25, 2004. In addition to such amount of remuneration etc., the Stock Acquisition Rights of which details are described in 3. above shall be allotted as stock options to the extent not exceeding three hundred (300) in total, which number was determined in consideration of the actual allotment made in the past two (2) years. The amount of the Stock Acquisition Rights to be allotted as remuneration etc. shall be obtained by multiplying the fair market value of a Stock Acquisition Right to be calculated on the Allotment Date by the total number of the Stock Acquisition Rights to be allotted to Directors in office as of the Allotment Date (not exceeding five (5) Directors).

“The fair market value of a Stock Acquisition Right” shall be the amount calculated in accordance with the “Black-Scholes Option Pricing Model” which is generally used for calculation of the fair market value of a stock acquisition right based on the risk-free interest rate and the stock price of the Company and other factors to be used on the Allotment Date.

In the case where a Director serves concurrently as an employee, the amount of remuneration for Directors shall not include the salary as an employee if such Director serves concurrently as an employee.

Proposal No. 7: Payment of Retirement Allowances to Retiring Director and Upon Abolition of Retirement Allowances Scheme for Directors and Corporate Auditors

Upon the close of the General Meeting, the term of office as Director held by Mr. Kaoru Tosaka will expire. It is proposed that a reasonable retirement allowance be paid to the above one retiring Director in accordance with the rules of the Company, in recognition of his services to the Company during his term as Director. It is further proposed that the Board of Directors be authorized to deliberate and decide the amount, timing, and method of payment as well as other details in respect of the retirement allowance to be paid to the

(Translation)

retiring Director.

A brief employment history of the retiring Director at the Company is as follows.

Name	Brief Employment History	
Kaoru Tosaka	November 2002	President, the Company
	November 2005	Senior Corporate Advisor and Member of the Board, the Company
	April 2006	Elected to the Board of Directors, the Company (to the present)

In addition, the Board of Directors determined at the meeting of the Board of Directors held on April 28, 2006 to abolish the retirement allowances scheme for Directors and Corporate Auditors at the conclusion of the General Meeting. It is proposed that, pursuant to such abolition, the Company pays a reasonable retirement allowance in accordance with the rules of the Company to i) four (4) Directors, Messrs. Toshio Nakajima, Hideto Goto, Junshi Yamaguchi and Shunichi Suzuki, and one (1) Corporate Auditor, Mr. Yasuyuki Shibata, who will be reappointed subject to the approval of Proposals No. 4 and No. 5; and ii) the other three (3) Corporate Auditors, Messrs. Norio Tanoue, Keiji Suzuki and Shigeo Matsumoto, who are currently in office, in recognition of their services to the Company during their term as Director or Corporate Auditor until the conclusion of the General Meeting.

It is further proposed that the timing of such payment be at the retirement of each such Director and Corporate Auditor, and the Board of Directors be authorized to deliberate and decide the amount and method of payment as well as other details.

Directors and Corporate Auditors who will receive the payment and their brief employment history are as follows.

(Translation)

Name	Brief Employment History	
Toshio Nakajima	June 2004	Elected to the Board of Directors, the Company
	April 2005	Senior Vice President and Member of the Board, the Company
	June 2005	Executive Vice President and Member of the Board, the Company
	November 2005	President, the Company (to the present)
Hideto Goto	June 2004	Senior Vice President and Member of the Board, the Company
	June 2005	Executive Vice President and Member of the Board, the Company (to the present)
Junshi Yamaguchi	June 2005	Executive Vice President and Member of the Board, the Company (to the present)
Shunichi Suzuki	November 2002	Elected to the Board of Directors, the Company (to the present)
Norio Tanoue	June 2004	Full-time Corporate Auditor, the Company (to the present)
Keiji Suzuki	June 2004	Full-time Corporate Auditor, the Company (to the present)
Yasuyuki Shibata	November 2002	Corporate Auditor, the Company (to the present)
Shigeo Matsumoto	June 2004	Corporate Auditor, the Company (to the present)

(Translation)

Business Report

(For the Period from April 1, 2005 to March 31, 2006 (the “Period”))

1. Review of Operations

(1) Progress and Results of Operations of the NEC Electronics Group

(i) Overview

For the fiscal year ended March 31, 2006, the United States economy showed continued growth, as a result of strong consumer spending resulting from an improved employment outlook and the increase of corporate capital expenditure, despite some causes for concern such as escalating crude oil prices and interest rate hikes. Asian and other regions' economies, which rely heavily on exports to the United States, were also buoyed by the U.S. economy. In the midst of this global situation, the Japanese economy also showed strong consumer spending and corporate capital expenditure, maintaining a tone of self-sustaining recovery.

In the semiconductor industry, production adjustments, which are typically seen worldwide in a downward phase of a silicon cycle, began in the second half of the previous year and continued until the summer of 2005, at which point the situation gradually started to improve, mainly due to increases in semiconductors for notebook PCs and second-generation mobile phones in North America and Asia. However, the Japanese semiconductor market saw declines in demand due to saturation of the domestic mobile phone market, and was affected by larger-than-expected price deterioration for digital consumer goods. The European semiconductor market also experienced continued negative growth.

In such a severe operating environment, the NEC Electronics Group, with its advanced technology, has adopted various measures to increase sales and earnings through improved customer satisfaction.

With respect to product development, the NEC Electronics Group endeavored to produce internationally competitive products by; i) enhancing the product lineup of AllFlash™ microcontrollers, which provide customers with greater product development efficiency through their flexible architecture, and EMMA™ series graphics processing LSIs, which have been highly acclaimed by customers because of their innovative design concept and wide variety of related software; and ii) commencing the mass-production of system LSI for Microsoft Corporation's personal game console Xbox360 which incorporates the most advanced embedded DRAM technology. As a result of such measures, the NEC Electronics Group was able to achieve #1 market share in the field of 32 bit microcontrollers one year earlier than the originally anticipated. Furthermore, with the aim to shorten development period and to strengthen our

(Translation)

competitive edge, the Company entered into an alliance with Toshiba Corporation and Sony Corporation to jointly develop system LSI process technologies for the 45-nanometer (a nanometer is equal to one billionth of a meter) generation, which will become the next generation's fundamental technology.

In the area of production, the "TOP (Transformation of Overall Productivity) Project", which aims to improve the productivity of manufacturing lines, has been implemented for the reduction of manufacturing costs. In addition, as part of our efforts to expand automotive microcontroller business, measures to restructure manufacturing plants are being taken, and as the NEC Electronics Group has determined to close down the test and assembly (the back-end process operation) line at NEC Semiconductors Ireland Limited and the prototype testing line for 200mm wafers at the Sagamihara Plant, and the production equipment of such lines will be transferred to the plants at NEC Semiconductors Singapore Pte. Ltd. and NEC Electronics America, Inc., which are strategic manufacturing plants for NEC Electronics Group's automotive microcontroller business.

Regarding sales, in order to strengthen our sales operations in China whose semiconductor market is showing remarkable growth, the design and sales operations of Shougang NEC Electronics Co., Ltd. was transferred to and integrated into NEC IC Design Beijing Co., Ltd., which was reorganized as NEC Electronics (China) Co., Ltd. NEC Electronics (China) Co., Ltd. has acquired a license from the Chinese government to import and sell semiconductor products designed and/or manufactured outside of China as the first Japanese semiconductor manufacturer to do so, and has been endeavoring to establish a sales network in collaboration with its local dealers.

The NEC Electronics Group has been working on creating a new information system to improve the business processes and operational efficiency, and the supply/demand management system and the core business system were launched during this Period. In addition, as demonstrated by the completion of ISO14001 certification by all worldwide entities of the NEC Electronics Group, which is the international standard of environmental management systems, the NEC Electronics Group has been engaging in environmental efforts.

As described above, despite the NEC Electronics Group's utmost efforts to respond to the severe business environment and various measures taken to expand sales and earnings, the affect of the sluggish demand in the semiconductor market and the price deterioration of customers products were larger than anticipated, forcing the Group to record a significant loss for the current business period.

(Translation)

For this Period, the NEC Electronics Group posted consolidated net sales of 646.0 billion yen, a decline of 62.1 billion yen (8.8%) from the previous year. This was mainly due to significant declines in sales of signal processing system LSIs for mobile phones and semiconductors for communications devices, such as system memory, as well as general sales declines across all product areas excluding Automotive and Industrial, and Consumer Electronics.

Consolidated operating loss before income taxes was 42.4 billion yen, a decrease in income of 68.8 billion yen from the previous year, due to a large decline in sales and the inability to make cost reductions keep pace with price erosion. Consolidated net loss was 98.2 billion yen, a 114.2 billion yen decrease in income year on year. This was a result of the consolidated loss before income taxes, as well as the recording of a valuation allowance against deferred tax assets in accordance with generally accepted accounting principles in the United States.

(Note) “Xbox” is a trademark/registered trademark of Microsoft Corporation in the United States and other countries.

(ii) Review of Operations by End-Market Applications

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

Communications

Net sales of semiconductors for communications applications decreased 30.0 billion yen (21.7 percent) from the previous year, to 108.0 billion yen. Products such as semiconductors for broadband networking equipment including routers and mobile-phone base stations, and semiconductors for mobile handsets are included in this category.

Sales of semiconductors for mobile phones decreased considerably year on year. The saturation of the Japanese mobile phone market led to a decline in demand, resulting in the decreased sales of signal processing system LSI chips and system memory. Sales volumes of LCD (Liquid Crystal Display) driver ICs for mobile phones increased, but this was offset by product price declines, leading to nearly flat growth from the previous year.

Sales of semiconductors for broadband networking equipment also saw year-on-year declines, due to a decrease in demand for semiconductors for mobile phone base stations systems.

(Translation)

Computing and Peripherals

Net sales of semiconductors for computing and peripherals applications decreased 14.4 billion yen (10.2 percent) from the previous year, to 126.6 billion yen. Semiconductors for servers, workstations, personal computers and PC peripherals are products included in this category.

Sales of semiconductors for servers and workstations declined sharply year on year due to a decrease in sales to specific customers for servers. Sales of semiconductors for PC peripherals were nearly flat; although sales of LCD driver ICs for large PC monitors increased with the increased demand from LCD panel manufacturers, system LSI chips for PC interface applications decreased.

Consumer Electronics

Net sales of semiconductors for the consumer electronics applications increased 1.4 billion yen (1.3 percent) from the previous year, to 102.6 billion yen. Semiconductors for digital AV equipment and game consoles are products included in this category.

Sales of semiconductors for consumer electronics such as DVD (Digital Versatile Disc) recorders and digital cameras were affected by price declines resulting from the rapid growth of domestic digital consumer electronics market. However, as the sales volumes increased considerably, the total sales resulted in a year-on-year increase. On the other hand, sales of semiconductors for older consumer electronics such as VTR (Video Tape Recorder) declined, leading to flat sales growth overall.

Automotive and Industrial

Net sales of semiconductors for automotive and industrial applications increased 1.0 billion yen (1.0 percent) from the previous year, to 103.8 billion yen. Semiconductors used in automobiles and industrial systems, such as factory automation equipment, are products included in this category.

Sales of automotive semiconductors increased significantly during the previous fiscal year, and sales of devices for car audio systems, which are similar in nature to consumer electronics, declined as a result of price deterioration, leading to overall flat sales. Additionally, sales of factory automation semiconductors increased, but sales of industrial semiconductors overall remained flat year on year.

Multi-market ICs

(Translation)

Net sales of multi-market ICs decreased 9.1 billion yen (11.6 percent) from the previous year, to 69.4 billion yen. Products such as general purpose microcontrollers, gate arrays and multi-purpose SRAMs are those included in this category.

Sales of general purpose microcontrollers declined due to a downturn in the market.

Discrete, Optical and Microwave Devices

Net sales of discrete, optical and microwave devices decreased 9.5 billion yen (8.0 percent) from the previous year, to 108.7 billion yen. Discrete devices such as diodes and transistors, optical semiconductors for optical communications equipment and DVD devices, and microwave semiconductors for mobile handsets and other applications are products included in this category.

Sales of discrete devices declined due to a decrease in demand resulting from production adjustments. Sales of optical and microwave products also declined year on year.

Other

Other net sales decreased 1.4 billion yen (5.1 percent) from the previous year, to 26.8 billion yen. This includes the sales of non-semiconductors products such as color LCDs, sold on a resale basis by the NEC Electronics Group's sales subsidiaries.

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

(2) Research and Development by the NEC Electronics Group

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

(i) System LSI integrating digital high-definition TV and DVD recorder functions

The NEC Electronics Group achieved an industry first by developing a high-performance system LSI that integrates on a single chip the functions required to receive high-definition digital TV broadcasts and the functions required to control DVD recorders, allowing three digital and analog programs to be recorded simultaneously.

By integrating functions formerly provided by separate chips, the new system LSI will help slash DVD recorder manufacturing costs by reducing the part count and board size. This system

(Translation)

LSI was honored by an award in the electric/electronic component category of the “3rd Monozukuri Component Grand Prize” awards. Sponsored by the Nikkan Kogyo Shimbun, a well-known Japanese industrial daily, these awards were established to recognize outstanding achievements in the development of the components that hold the key to competitiveness in the electronic, machinery, and automotive industries.

(ii) First Certified Wireless USB System LSI providing high-speed wireless connections to PCs and consumer electronics devices

The NEC Electronics Group developed the first system LSI compatible with the Certified Wireless USB standard, the next-generation interface that enables easy wireless connectivity between PCs or consumer electronics devices, and their peripherals.

Certified Wireless USB is a new wireless extension to the current USB 2.0 standard that combines the speed and security of wired technology with the ease-of-use of wireless technology. The newly developed system LSI enables wireless connections between PCs or consumer electronics devices and their peripherals at data transfer rates as high as 480 Mbps, which is fast enough to transfer the data for an entire song in less than one second. This will allow users to transfer their favorite songs between PCs and portable music players almost instantly, while eliminating the need for wires.

(iii) System LSI enabling up to 50 hours of continuous music playback on mobile phones

The NEC Electronics Group introduced a system LSI that enables up to 50 hours of continuous music playback on mobile phones.

Over the past few years, users have come to rely on their mobile phones for increasingly sophisticated functions. One of the most popular is music playback and the ability to download and save songs from Internet music portals. Current mobile phones tend to realize music playback function by using the same application processors used for camera image processing and Internet browsing to also be used to realize music playback. . The new system LSI integrates a CPU (central processing unit) and DSP (digital signal processor) dedicated to music playback, which greatly saves power and allows many hours of continuous music playback. Mobile phone users will now be able to listen to music without needing to worry about recharging the battery.

(3) Capital Expenditures of the NEC Electronics Group

During this Period, the NEC Electronics Group invested a total of 83.0 billion yen in capital expenditures with the aim of expanding production facilities including a production line for production using 300mm (12 inch) wafers.

(Translation)

(4) Financing Activities of the NEC Electronics Group

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

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

In order to attain increased sales and profitability through improved customer satisfaction, the NEC Electronics Group is taking steps to address the following issues and to enhance corporate and shareholder value.

(i) Redistribution of design resources to increase orders and expand sales

In discussions with system LSI customers, a great deal of time is spent resolving technical issues. For this reason, it is essential that highly skilled engineers be involved in the early stages of discussions even before orders are placed, to increase orders and sales. In order to meet the demand for such engineers, the NEC Electronics Group will increase its development efficiency by standardizing and sharing design rules and component libraries, thus allowing personnel to be reallocated to technical marketing activities that lead directly to increased orders, and to product development in fields where increased orders are foreseen.

As semiconductor technology is becoming more complex and specific, reallocation of engineers to new areas of operations is not easy. Nonetheless, NEC Electronics Group will endeavor to optimize the Group-wide allocation of engineers to increase orders and sales.

(ii) Reduction of manufacturing costs

During the Period, cost reduction measures were unable to keep pace with declining market prices, resulting in a sharp deterioration of the cost ratio. In response, the NEC Electronics Group intends to achieve Group-wide cost reduction by implementing the TOP (Transformation of Overall Productivity) Project initiative in all of its manufacturing subsidiaries, which aims to improve the productivity of existing lines. Furthermore, the capacity of the new 300-millimeter wafer fabrication line at NEC Yamagata Ltd. will be approximately doubled by the period ending in March, 2007, enabling monthly production of more than 10,000 wafers. The resulting efficiencies of scale will enable further cost reductions. These efforts are part of a company-wide commitment to reduce manufacturing costs.

(iii) Strengthening operations in China

In the global semiconductor market, demand is growing at a very fast pace in Asia, and particularly China. It is no exaggeration to say that growth in the Chinese market will be decisive in determining sales growth for every semiconductor vendor. In response to such situation, the NEC Electronics Group (mainly NEC Electronics (China) Co., Ltd. reorganized during this

(Translation)

Period) will continue to strengthen its operations and expand its sales in the Chinese market.

(iv) Launch of new information systems

The NEC Electronics Group is creating new information systems to improve the efficiency of its business processes, from receiving orders and design through production and delivery. During this period, the NEC Electronics Group launched and commenced the operations of the "Management System" that oversees supply, demand and production worldwide and the "Core Business System" that manages core functions from ordering to shipping and delivery while simultaneously handling accounting processes.

By introducing these new systems, the NEC Electronics Group will improve operating efficiency and reinforce management capabilities, while promoting the exchange of information which is the basis of collaboration among internal groups, improve customer service, and boost profitability.

(6) Explanation of Changes in the Results of Operations and Financial Position**(i) Changes in the Results of Operations and Financial Position (Consolidated)**

(In billions of yen except per share figures)

Business Period Indices	1st Business Period 4/1/02-3/31/03	2nd Business Period 4/1/03-3/31/04	3rd Business Period 4/1/04-3/31/05	4th Business Period 4/1/05-3/31/06
Net sales	725.1	712.0	708.0	646.0
Net income (loss) before income taxes	15.1	44.4	26.4	(42.4)
Net income (loss)	9.6	28.1	16.0	(98.2)
Net income (loss) per share (yen)	-	240.61	129.81	(795.13)
Total assets	655.5	741.5	814.2	745.3
Net assets	238.9	371.7	393.9	308.3

- Notes:
1. The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.
 2. "Net income (loss) per share" is calculated based on the average number of shares outstanding during each business period.
 3. The consolidated financial statements of the Company for the 1st Business Period is prepared on a basis that reflects the historical consolidated financial statements of the Company assuming that the Company had existed as a stand-alone company along with the Company's current group structure prior to the Company's corporate separation on November 1, 2002.

(Translation)

(ii) Changes in the Results of Operations and Financial Position (Non-Consolidated)

(In billions of yen except per share figures)

Business Period Indices	1st Business Period 11/1/02-3/31/03	2nd Business Period 4/1/03-3/31/04	3rd Business Period 4/1/04-3/31/05	4th Business Period 4/1/05-3/31/06
Net sales	221.3	563.1	562.8	506.7
Ordinary income (loss)	3.9	11.6	9.9	(66.9)
Net income (loss)	1.7	7.4	7.2	(96.0)
Net income (loss) per share (yen)	17.85	63.08	57.84	(777.04)
Total assets	587.8	614.6	691.9	632.6
Net assets	336.7	440.4	444.3	349.4

- Notes: 1. Fractions in the 1st Business Period and 2nd Business Period less than one hundred million yen are discarded, and fractions after the 3rd Business Period less than one hundred million yen are rounded to the nearest hundred million yen.
2. "Net income (loss) per share" is calculated based on the average number of shares outstanding during each business period.

(Translation)

2. Outline of the NEC Electronics Group and the Company (as of March 31, 2006)

(1) Major Operations of the NEC Electronics Group

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

(2) State of Shares of the Company

- (i) Total Number of Authorized Shares 400,000,000 shares
- (ii) Total Number of Shares Issued 123,500,000 shares
- (iii) Number of Shareholders 14,973 persons
- (iv) Major Shareholders (Top 10)

(In thousands of shares)

Name of Shareholders	Number of Shares Held (Percentage of Voting Rights Held)		The Company's Holding in Shareholders (Percentage of Voting Rights Held)
NEC Corporation	80,300	(65.02%)	None (None)
Deutsche Bank Trust Company Americas	7,656	(6.20%)	None (None)
Japan Trustee Services Bank, Ltd. (Re-trust of Sumitomo Trust & Banking Co., Ltd. / NEC Corporation pension and severance payments Trust Account)	6,200	(5.02%)	None (None)
Morgan Stanley & Co. International Limited	4,322	(3.50%)	None (None)
The Chase Manhattan Bank, N. A. London	1,490	(1.21%)	None (None)
UBS AG London Asia Equities	1,474	(1.19%)	None (None)
Moxley & Co.	1,431	(1.16%)	None (None)
State Street Bank and Trust Company	1,171	(0.95%)	None (None)
Japan Trustee Services Bank, Ltd. (Trust Account)	1,011	(0.82%)	None (None)
London Client Account, RBC Dexia Investor Services Trust	917	(0.74%)	None (None)

(Note) 6,200,000 shares (5.02% of voting rights) which are owned by Japan Trustee Services

(Translation)

Bank, Ltd. (Re-trust of Sumitomo Trust & Banking Co., Ltd./NEC Corporation pension and severance payments Trust Account) were shares that were contributed by NEC Corporation as severance indemnities trusts. The voting rights of such shares will be exercised at the instruction of NEC Corporation.

(v) Acquisition, Disposition and Holding of the Company's Own Shares

(a) Shares acquired by the Company during the 4th Business Period

Common Stock 131 shares
Total Amount Paid for Acquisition ¥516,190

(b) Shares disposed by the Company during the 4th Business Period

Not Applicable

(c) Shares held by the Company as of March 31, 2006

Common Stock 1,020 shares

(vi) State of Stock Acquisition Rights Issued by the Company

(a) Stock acquisition rights to be issued pursuant to the provision of Articles 280-20 and 280-21 of the Commercial Code of Japan

	Number of Stock Acquisition Rights Issued	Class and Number of Shares for which Stock Acquisition Rights were Issued	Issue Price of Stock Acquisition Right
1st Stock Acquisition Rights (Resolved at the Company's General Meeting of Shareholders held on 6/13/03 and the Meeting of the Board of Directors held on 9/30/03)	3,135	313,500 shares of common stock	No charge
	Number of Stock Acquisition Rights Issued	Class and Number of Shares for which Stock Acquisition Rights were Issued	Issue Price of Stock Acquisition Right
2nd Stock Acquisition Rights (Resolved at the Company's General Meeting of Shareholders and the Meeting of the Board of Directors, both	700	70,000 shares of common stock	No charge

(Translation)

held on 6/25/04)			
	Number of Stock Acquisition Rights Issued	Class and Number of Shares for which Stock Acquisition Rights were Issued	Issue Price of Stock Acquisition Right
3rd Stock Acquisition Rights (Resolved at the Company's General Meeting of Shareholders held on 6/24/05 and the Meeting of the Board of Directors held on 7/6/05)	710	71,000 shares of common stock	No charge

Note: The 2nd and 3rd stock acquisition rights are not exercisable since the condition was not met.

- (b) Stock acquisition rights attached to the bonds with stock acquisition rights issued pursuant to the provision of Article 341-2 of the Commercial Code of Japan

	Number of stock acquisition rights issued	Class and number of shares for which stock acquisition rights were issued	Issue price of stock acquisition right
Zero Coupon Convertible Bonds due 2011 (Resolved at the Meeting of the Board of Directors held on 5/10/04)	11,000	11,156,100 shares of common stock	No charge

(3) Employees of the NEC Electronics Group and the Company

(i) Employees of the NEC Electronics Group

Number of Employees	Increase (Decrease) from March 31, 2005
23,857	(106)

(Translation)

(ii) Employees of the Company

Number of Employees	Increase (Decrease) from March 31, 2005	Average Age	Average Years of Employment
5,184	272	40.2	3.3

Note: "Average Years of Employment" means the average years of employment after the Company's corporate separation on November 1, 2002.

(4) State of Consolidation

(i) Relationship with Parent Company

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

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

(ii) Major Subsidiaries

Name of Subsidiaries	Capital (Millions of yen)	Percentages of Voting Rights Held by the Company (%)	Main Business
NEC Compound Semiconductor Devices, Ltd.	10,000	100	Development, manufacture and sale of optical devices and microwave devices
NEC Yamagata, Ltd.	1,000	100	Development, manufacture (front-end process) and sale of integrated circuits and discrete semiconductors
NEC Kansai, Ltd.	1,000	100	Development, manufacture (front-end process) and sale of integrated circuits and discrete semiconductors
NEC Kyushu, Ltd.	1,000	100	Manufacture (front-end process) and sale of integrated circuits

(Translation)

Name of Subsidiaries	Capital (Millions of yen)	Percentages of Voting Rights Held by the Company (%)	Main Business
NEC Fukui, Ltd.	400	100	Development, manufacture (back-end process) and sale of integrated circuits and discrete semiconductors
NEC Semicon Package Solutions, Ltd.	400	100	Manufacture (back-end process) and sale of integrated circuits
NEC Micro Systems, Ltd.	400	100	Design of integrated circuits and development of software
NEC Deviceport, Ltd.	400	100	Sale of electronic components
NEC Yamaguchi, Ltd.	320	100	Manufacture (front-end process) and sale of integrated circuits
NEC Fabserve, Ltd.	310	100	Prototyping, production and facility services of integrated circuits
NEC Electronics America, Inc.	(1,000USD) 380,800	100	Development, manufacture (front-end process) and sale of integrated circuits
NEC Semiconductors Ireland Limited	(1,000Euro) 65,898	100	Manufacture (back-end process) and sale of integrated circuits
NEC Electronics (Europe) GmbH	(1,000Euro) 14,000	100	Sale of electronic components
NEC Semiconductors (Malaysia) Sdn. Bhd.	(1,000RM) 118,237	100	Manufacture (back-end process) and sale of integrated circuits and discrete semiconductors
NEC Semiconductors Singapore Pte. Ltd.	(1,000SGD) 111,000	100	Manufacture (back-end process) and sale of integrated circuits
NEC Electronics Singapore Pte. Ltd.	(1,000SGD) 3,000	100	Sale of electronic components
P.T. NEC Semiconductors Indonesia	(1,000USD) 15,400	100 (0.01)	Manufacture (back-end process) and sale of integrated circuits and discrete semiconductors

(Translation)

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

(Note) Parenthetical figures in the column of percentage of voting rights indicate the percentage of voting rights held indirectly by the Company.

(iii) Progress of Business Affiliation

- (a) NEC IC Design Beijing Co., Ltd. inherited the design and sales operations of Shougang NEC Electronics Co., Ltd., and was renamed NEC Electronics (China) Co., Ltd. as of October 1, 2005.
- (b) The Company merged NEC Compound Semiconductor Devices, Ltd., as of April 1, 2006. (This merger was implemented in line with "simple merger" procedures.)
- (c) The Company plans to close down NEC Semiconductors Ireland Limited during the next Business Period.

(iv) Results of Business Affiliation

There are a total of 26 consolidated subsidiaries as of March 31, 2006, consisting of 12 domestic companies and 14 overseas companies, including the major subsidiaries set forth in the "(ii) Major Subsidiaries" section above. The results of operations on a consolidated basis for the Period are set forth in "1. Review of Operations (1) Progress and Results of Operations of the NEC Electronics Group" section above.

(Translation)**(v) Important Technical Alliances**

Name of Company	Contents of Alliance
NEC Corporation	Cross licensing of intellectual property rights regarding semiconductor business succeeded on the occasion of the Company's corporate separation
Freescale Semiconductor, Inc.	Patent cross licensing regarding semiconductors
Texas Instruments Incorporated	Patent cross licensing regarding semiconductors
Toshiba Corporation and Sony Corporation	Joint Development of CMOS logic process technologies for the 45-nanometer generation

(5) Major Borrowings

Lenders	Balance of Borrowings	Number of Company's Shares and Percentage of Voting Rights Held by the Lenders	
		Thousands of shares	%
	Millions of yen		
The Development Bank of Japan	6,667	-	-
Mizuho Corporate Bank, Ltd.	2,667	-	-
Meiji Yasuda Life Insurance Company	2,667	-	-

(6) Principal Offices and Plants of the NEC Electronics Group

The Company		Head Office (Kawasaki, Kanagawa), Tamagawa Plant (Kawasaki, Kanagawa), Sagamihara Plant (Sagamihara, Kanagawa)
Subsidiaries	Domestic	NEC Compound Semiconductor Devices, Ltd. (Kawasaki, Kanagawa)
		NEC Yamagata, Ltd. (Tsuruoka, Yamagata)
		NEC Kansai, Ltd. (Otsu, Shiga)
		NEC Kyushu, Ltd. (Kumamoto, Kumamoto)
		NEC Fukui, Ltd. (Sakai, Fukui)
		NEC Semicon Package Solutions, Ltd. (Yanagawa, Fukuoka)
		NEC Micro Systems, Ltd (Kawasaki, Kanagawa)

(Translation)

		NEC Deviceport, Ltd. (Kawasaki, Kanagawa)
		NEC Yamaguchi, Ltd. (Ube, Yamaguchi)
		NEC Fabserve, Ltd. (Sagamihara, Kanagawa)
	Overseas	NEC Electronics America, Inc. (United States of America)
		NEC Semiconductors Ireland Limited (Ireland)
		NEC Electronics (Europe) GmbH (Germany)
		NEC Semiconductors (Malaysia) Sdn. Bhd. (Malaysia)
		NEC Semiconductors Singapore Pte. Ltd. (Singapore)
		NEC Electronics Singapore Pte. Ltd. (Singapore)
		P.T. NEC Semiconductors Indonesia (Indonesia)
		Shougang NEC Electronics Co., Ltd. (Beijing, China)
		NEC Electronics (China) Co., Ltd. (Beijing, China)
		NEC Electronics Hong Kong Limited (Hong Kong, China)
		NEC Compound Semiconductor Devices Hong Kong Limited (Hong Kong, China)
		NEC Electronics Taiwan Ltd. (Taiwan)

(Note) NEC Compound Semiconductor Devices, Ltd. was merged by the Company as of April 1, 2006 as described in the “(4) State of Consolidation (iii) Progress of Business Affiliation” section.

(7) Names etc. of Directors and Corporate Auditors of the Company

Name	Position at the Company	Responsibility or Principal Occupation
Toshio Nakajima	*President	Management of execution of the business
Hideto Goto	*Executive Vice President and Member of the Board	Information Systems Unit, Technology Foundation Development Operations Unit and Intellectual Asset Division
Junshi Yamaguchi	*Executive Vice President and Member of the Board	Corporate Planning Division, Corporate Business Planning Division, Corporate Communications Division, HR & General Affairs Division and Customer Satisfaction Promotion Division
Kaoru Tosaka	Senior Corporate Advisor and Member of the Board	
Shunichi Suzuki	Member of the Board	Executive Vice President and Member of the Board, NEC Corporation

(Translation)

Name	Position at the Company	Responsibility or Principal Occupation
Norio Tanoue	Corporate Auditor (Full time)	
Keiji Suzuki	Corporate Auditor (Full time)	
Yasuyuki Shibata	Corporate Auditor	Attorney-at-law
Shigeo Matsumoto	Corporate Auditor	Corporate Auditor (Full time), NEC Corporation

- (Note) 1. Messrs. Norio Tanoue and Yasuyuki Shibata are outside Corporate Auditors, as stipulated in Paragraph 1, Article 18 of the Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-Kaisha.
2. The Members of the Board were changed during the Period as follows:
- i) Retirement as of June 24, 2005 (Reason)
Executive Vice President and Member of the Board
Hirokazu Hashimoto (Expiration)
 - ii) Assumption as of June 24, 2005
Executive Vice President and Member of the Board
Junshi Yamaguchi
 - iii) Change of Representative Director as of November 1, 2005 (Prior Position)
President
Toshio Nakajima (Executive Vice President and Member of the Board)
Senior Corporate Adviser and Member of the Board
Kaoru Tosaka (President)
3. On April 1, 2006, the positions and responsibilities of Directors within the Company or principal occupation were partially changed as follows:

Name	Position at the Company	Responsibility or Principal Occupation after Change
Hideto Goto	*Executive Vice President and Member of the Board	Important matters relating to Technology Foundation Development Operations Unit, Information Systems Unit, 1st Systems Operations Unit, Intellectual Asset Division and Corporate Quality Assurance Division
Junshi Yamaguchi	*Executive Vice President and Member of the Board	Important matters relating to overseas business operations. Corporate Communications Division and HR & General Affairs Division
Kaoru Tosaka	Member of the Board	Special Adviser, NEC Corporation

(Translation)

4. Asterisks denote the Directors who have been acting as Corporate Officers. The names of other Corporate Officers (who are not also Directors) as of April 1, 2006 are as follows: Messrs. Yoshikazu Inada, Hiroshi Sato, Toyozo Hosoya, Kunio Morioka and Masao Fukuma.

(8) Remuneration Paid to Directors and Corporate Auditors by the Company

	Number	Total Amount Paid (in millions of yen)
Directors	6	119
Corporate Auditors	4	51
Total	10	170

- Notes:
1. In addition to the above, the Company paid a total of 5 million yen in retirement allowances for Directors.
 2. In addition to the above, the Company paid a total of 39 million yen to its Directors as bonuses from its appropriated earnings. During the Period, no bonuses were paid to the Corporate Auditors.
 3. As of March 31, 2006, there were five (5) Directors and four (4) Corporate Auditors.
 4. The numbers above include the numbers of Directors and Corporate Auditors who retired prior to March 31, 2006.
 5. The maximum monthly remuneration for Directors as approved by the General Meeting of Shareholders is 20 million yen. (Approved at the 2nd Ordinary General Meeting of Shareholders on June 25, 2004.)
 6. The maximum monthly remuneration for Corporate Auditors as approved by the General Meeting of Shareholders is 10 million yen. (Approved at the 2nd Ordinary General Meeting of Shareholders on June 25, 2004.)

(9) Fees to be Paid to the Independent Auditors

Classification	Amount (in millions of yen)
(i) The total fees that the Company and its subsidiaries shall pay to the Independent Auditors	130
(ii) The total fees that the Company and its subsidiaries shall pay to the Independent Auditors for the services stipulated in Paragraph 1, Article 2 of the Certified Public Accountants Law, out of the total amount set forth in (i) above.	130
Classification	Amount (in millions of yen)
(iii) The fees that the Company shall pay to the Independent Auditors in their role as Independent Auditors, out of the total amount set forth in (ii) above.	105

- Note: As there is no explicit distinction in the audit contract (entered into by the Company and the Independent Auditors) between the fees for audits based on the Law For Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-Kaisha and the fees for audits based on the Securities Exchange Law in Japan, and as it is difficult to distinguish between these two types of fees, the fees set forth in (iii) above include both of such fees.

(Translation)

(10) State of Stock Acquisition Rights with Specially Favorable Conditions Issued to Persons Other than the Shareholders

(i) Aggregate Number of the Stock Acquisition Rights Issued

710 (100 shares per stock acquisition right)

(ii) Class and Number of Shares to be Issued or Transferred upon Exercise of Stock Acquisition Rights

71,000 shares of the Company's common stock

(iii) Issue Price of Stock Acquisition Rights

None

(iv) Amount to be Paid in per Share for Exercise of Stock Acquisition Rights

¥5,355

(v) Conditions of Exercise of Stock Acquisition Rights

- (a) The period during which Stock Acquisition Rights may be exercised ("Exercisable Period") is from July 11, 2007 to July 10, 2009.
- (b) Each Stock Acquisition Right shall not be exercised in part.
- (c) The Stock Acquisition Rights shall not be exercised on or after the approval by the General Meeting of Shareholders of a merger agreement under which the Company is not the surviving company.
- (d) The Stock Acquisition Rights shall not be exercised on or after the approval by the General Meeting of Shareholders of a stock exchange agreement or matters concerning share transfer in which the Company will become a wholly-owned subsidiary of another company.
- (e) For the fiscal period ended March 31, 2005, the Company must record income before income taxes of 23.0 billion yen or more on a consolidated basis.
- (f) The person to whom the Stock Acquisition Rights are allotted ("Qualified Person") must continuously be a Director, Corporate Officer or employee of the Company or its subsidiary up to and through the time that his/her Stock Acquisition Rights are exercised, provided, however, that (i) if the Qualified Person ceases to be a Director, Corporate Officer or employee of the Company or its subsidiary during the Exercisable Period for reasons other than involuntary termination for cause, the Qualified Person may exercise the Stock Acquisition Rights for a period limited to one year from the day (inclusive) on which he/she ceases to be a Director, Corporate Officer or employee of the Company or its subsidiary; (ii) in case that the Qualified Person ceases to be a Director, Corporate

(Translation)

Officer or employee of the Company or its subsidiary during the period from April 1, 2006 (inclusive) to July 10, 2007 (inclusive) for reasons other than involuntary termination for cause or his/her voluntary termination, the Qualified Person may exercise the Stock Acquisition Rights for a period of one year from July 11, 2007 (inclusive); and (iii) in case that the Qualified Person ceases to be a Director, Corporate Officer or employee of the Company or its subsidiary due to his/her death, the exercise by the successor of the Qualified Person shall be permitted for the same period as stated in (i) or (ii) above, as applicable.

(vi) Events and Conditions for Cancellation of Stock Acquisition Rights

In the event a Qualified Person is unable to exercise its Stock Acquisition Rights due to failure to meet any of the conditions set forth in (v)(c) through (f) above, the Company may cancel such Stock Acquisition Rights without any consideration, if.

(vii) Description of Favorable Conditions

The Company has issued the Stock Acquisition Rights, without any consideration, to the Directors, Corporate Officers and certain key employees of the Company and its subsidiaries.

(viii) The Names of the Qualified Persons and the Number of the Stock Acquisition Rights Allotted

(a) Directors of the Company

Name	Number
Kaoru Tosaka	100
Hideto Goto	50
Toshio Nakajima	50
Junshi Yamaguchi	50

(b) Corporate Officers and employees of the Company and Directors, Corporate Officers and employees of the Company's subsidiaries (Top 10)

Name	Number
Yoshikazu Inada	30
Susumu Sato	30
Hiroshi Sato	30
Kunio Morioka	20
Zensuke Matsuda	20

(Translation)

Masao Fukuma	20
Tetsuo Yoshino	20
Seiji Mitsuoka	20
Mikio Takashima	20
Shigeo Niitsu	20

- (c) Classification of the Stock Acquisition Rights issued to Corporate Officers and employees of the Company and Directors, Corporate Officers and employees of the Company's subsidiaries

Classification	Number of the Stock Acquisition Rights	Total Number of Qualified Persons
Corporate Officers and Employees of the Company	280	14
Directors of the Company's Subsidiaries	180	10
Corporate Officers and Employees of the Company's Subsidiaries	0	0

Note: The 3rd Stock Acquisition Rights are not exercisable since the condition set forth in (10) (v) (e) above was not met as of March 31, 2006.

3. Important Facts Concerning the Status of the NEC Electronics Group which Arose after the Fiscal Year Ended on March 31, 2006.

None.

(Translation)

CONSOLIDATED BALANCE SHEET

(As of March 31, 2006)

(Millions of Yen)

Assets	
Current assets:	
Cash and cash equivalents	¥211,060
Notes and accounts receivable, trade	114,579
Allowance for doubtful notes and accounts	(729)
Loans receivable	228
Inventories	72,525
Deferred tax assets	6,178
Prepaid expenses and other current assets	9,529
Total current assets	413,370
Investments:	
Marketable securities	13,901
Investments, other	1,696
Total investments	15,597
Property, plant and equipment:	
Land	17,365
Buildings	243,976
Machinery and equipment	954,969
Construction in progress	19,189
	1,235,499
Accumulated depreciation	(933,374)
Total property, plant and equipment	302,125
Other assets:	
Deferred tax assets	1,739
License fees and other intangibles	11,596
Other	854
Total other assets	14,189
Total Assets	¥745,281

(Translation)

(Millions of Yen)

Liabilities and shareholders' equity	
Current liabilities:	
Short-term borrowings	¥7,201
Current portion of long-term debt	6,471
Current portion of obligation under capital leases	1,402
Notes and accounts payable, trade	122,939
Accounts payable, other and accrued expenses	61,173
Accrued income taxes	3,770
Other current liabilities	11,071
Total current liabilities	214,027
Long-term liabilities:	
Long-term debt	127,185
Obligation under capital leases	6,050
Accrued pension and severance costs	75,761
Deferred tax liabilities	9,559
Other	326
Total long-term liabilities	218,881
Minority shareholders' equity in consolidated subsidiaries	4,122
Commitments and contingent liabilities	
Common stock:	85,955
Authorized 400,000,000 shares	
Issued and outstanding 123,500,000 shares	
Additional paid-in capital	281,014
Retained earnings	(57,369)
Accumulated other comprehensive income (loss)	(1,342)
Treasury stock, at cost	(7)
1,020 shares	
Total shareholders' equity	308,251
Total liabilities and shareholders' equity	¥745,281

(Translation)

Notes

- (1) Accumulated other comprehensive income (loss) includes foreign currency translation adjustments, unrealized gains (losses) on marketable securities, unrealized gains (losses) on derivative financial instruments and minimum pension liability adjustment.
- (2) Property, plant and equipment with a net book value of ¥6,168 million was pledged at March 31, 2006.
- (3) Under operating lease agreements, the Company is obligated to guarantee the residual value of machinery and equipment when the Company returns such machinery and equipment at the end of lease term. At March 31, 2006, the amount of the recognized residual value guarantee was ¥22,211 million.
- (4) The investigation having been conducted by the United States Department of Justice (“DOJ”) in regard to potential antitrust violations in the U.S. DRAM industry was resolved with respect to NEC Corporation and its subsidiaries, including the NEC Electronics Group, by a cooperation and non-prosecution agreement which was entered into between NEC Corporation and the DOJ. However, NEC Electronics America, Inc. is currently subject to the investigations being conducted by the Attorneys General of several states in the U.S. in connection with alleged antitrust violations among the DRAM suppliers. Further, NEC Electronics America, Inc. has also been named as one of the defendants in a number of class action civil antitrust lawsuits seeking damages for alleged antitrust violations, and it, along with NEC Corporation, has commenced settlement negotiations with certain customers to which it has sold DRAM in the past.

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

Although the outcome of the investigations by the several state Attorneys General and the European Commission, civil lawsuits or the settlement negotiations is not known at this time, the NEC Electronics Group has recorded probable and reasonably estimable losses for the civil lawsuits and settlements with the customers in the Period.

(Translation)

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended March 31, 2006

(Millions of Yen)

Sales and other income:	
Net sales	¥645,963
Gain on sales of property, plant and equipment and other	1,917
Interest and dividend income	1,078
Gain on sales of investments in securities	1,365
Total of sales and other income	650,323
Costs and expenses:	
Cost of sales	477,476
Research and development	120,874
Selling, general and administrative	83,302
Litigation and settlements expense	3,413
Restructuring charges	1,683
Loss on sales or disposal of property, plant and equipment and other	4,132
Interest	874
Net foreign exchange loss	519
Loss on investments in securities	436
Total of costs and expenses	692,709
Loss before income taxes and minority interest in losses of consolidated subsidiaries	42,386
Provision for income taxes	56,166
Loss before minority interest in losses of consolidated subsidiaries	98,552
Minority interest in losses of consolidated subsidiaries	(354)
Net loss	¥98,198

Notes

Net loss per share:

Basic 795.13 yen

Diluted 795.13 yen

(Translation)

Principles for Preparation of the Consolidated Financial Statements

【Significant Accounting Policies】

1. Basis of preparation of the consolidated financial statements
Pursuant to Paragraph 1 of Article 179 of the Regulations for Enforcement of the Commercial Code of Japan, the accompanying consolidated financial statements have been prepared by using the terms, forms and methods consistent with accounting principles generally accepted in the United States of America. Certain information and footnotes required by accounting principles generally accepted in the United States of America are omitted pursuant to the same provision of the Regulations for Enforcements of the Commercial Code of Japan.
2. Method and basis of valuation of inventories
Inventories are stated at the lower of cost or market principally on a first-in, first-out basis.
3. Method and basis of valuation of marketable equity securities
The Company applies Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.
Marketable equity securities are reported at fair value based on market price at March 31, 2006. Unrealized gains and losses are included in accumulated other comprehensive income (loss), net of tax. Costs of marketable equity securities sold are calculated on the basis of the average cost of a particular security held at the time of sale.
4. Depreciation and amortization
Property, plant and equipment are depreciated mainly using the declining-balance method.
Intangible assets are mainly amortized on a straight-line basis.
5. Basis of provision for allowance

Allowance for doubtful notes and accounts
An allowance for doubtful notes and accounts is provided based on credit loss history and an evaluation of any specific doubtful notes and accounts.

Accrued pension and severance costs
In accordance with SFAS No. 87, *Employers' Accounting for Pensions*, accrued pension and severance costs are provided for resignation of employees, based on projected benefit obligations and fair value of plan assets. The amounts smaller than accumulated benefit obligations compared with a total amounts of fair value of plan assets and accrued pension and severance costs already recognized before recording the minimum pension liability, are additionally recorded in minimum pension liability adjustment. Unrecognized prior service cost and actuarial loss are amortized on the straight-line method over the average remaining service period of employees expected to receive benefits under the plan.

(Translation)

Report of Independent Auditors

April 25, 2006

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

Ernst & Young Shin Nihon
Engagement partner and CPA Sadahiko Yoshimura (Seal)
Engagement partner and CPA Kazuya Oki (Seal)

We have audited the financial statements, which are the consolidated balance sheet and the consolidated statement of operations, for the 4th business period, from April 1, 2005 to March 31, 2006, of the Company pursuant to Paragraph 3 of Article 19-2 of the Law for Special Exceptions to the Commercial Code of Japan Concerning Audit, etc. of Kabushiki-kaisha. The consolidated balance sheet and the consolidated statement of operations are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated balance sheet and the consolidated statement of operations as an independent third party based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we obtain reasonable assurance about whether the consolidated balance sheet and the consolidated statement of operations are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated balance sheet and the consolidated statement of operations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation in the consolidated balance sheet and the consolidated statement of operations. We believe that our audit provides a reasonable basis for our opinion. Such audit procedures also include those audit procedures applied to the Company's subsidiaries and consolidated subsidiaries as we considered necessary in the circumstances.

As a result of our audit, in our opinion, the consolidated balance sheet and the consolidated statement of operations as described above present fairly the financial position and the results of operations of the NEC Electronics group, which consists of the Company and its consolidated subsidiaries, etc., in conformity with applicable laws and the Company's Articles of Incorporation.

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

(Translation)

**REPORT OF THE BOARD OF CORPORATE AUDITORS ON
THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF OPERATIONS**

We, the Board of Corporate Auditors, received reports from each Corporate Auditor on the method and results of the audit concerning the consolidated balance sheet and the consolidated statement of operations for the 4th business period, from April 1, 2005 to March 31, 2006, and upon deliberation prepared this report. We hereby report as follows:

1. Outline of audit method by Corporate Auditors

In accordance with auditing principles and auditing plans determined by the Board of Corporate Auditors, each Corporate Auditor received reports and explanations from Directors and Independent Auditors on the consolidated balance sheet and the consolidated statement of operations, and conducted its audit thereof.

2. Results of audit

The method and results of the audit conducted by Ernst & Young Shin Nihon, the Independent Auditors, are fair and appropriate.

April 25, 2006

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

Corporate Auditor	Yasuyuki Shibata (Seal)
Corporate Auditor	Shigeo Matsumoto (Seal)

Note: Messrs. Norio Tanoue and Keiji Shibata are outside Corporate Auditors stipulated in Paragraph 1, Article 18 of the Law for Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-kaisha

(Translation)

BALANCE SHEET (on a non-consolidated basis)

(As of March 31, 2006)

(Millions of yen)

Assets	
Account	Amount
Current assets	¥419,768
Cash	136,815
Cash equivalents	44,719
Notes receivable, trade	100
Accounts receivable, trade	82,608
Short-term loans	120,137
Accounts receivable, other	16,695
Finished goods	5,656
Work in process	5,098
Raw materials	8,222
Other current assets	235
Allowance for doubtful notes and accounts	(515)
Fixed assets	212,880
Property, plant and equipment	54,535
Buildings and structures	6,928
Machinery and equipment	21,924
Transportation equipment, tools, furniture and fixtures	9,822
Construction in progress	15,862
Intangible fixed assets	24,494
Software	21,563
Software in progress	2,894
Other intangible fixed assets	37
Investments and other assets	133,851
Investments in securities	14,963
Investments in subsidiaries	102,177
Long-term loan receivable	2,485
Long-term prepaid expenses	13,792
Other investments	434
Total assets	¥632,648

(Translation)

(Millions of Yen)

Liabilities and shareholders' equity	
Account	Amount
Liabilities	
Current liabilities	¥150,059
Notes payable	18
Accounts payable, trade	67,712
Current portion of long-term debt	5,000
Accounts payable, other	42,928
Accrued income taxes	681
Other current liabilities	<u>33,720</u>
Long-term liabilities	133,166
Convertible bonds	110,000
Long-term debt	15,000
Accrued pension and severance cost	1,317
Deferred tax liabilities	4,239
Other long-term liabilities	2,609
Total liabilities	283,225
Shareholders' equity	
Common stock	85,955
Capital surplus	342,346
Capital reserve	342,346
Retained earning	<u>(84,618)</u>
Unappropriated reserve	59
Special depreciation reserve	59
Unappropriated net loss	84,677
Unrealized gains on investments in securities	5,747
Treasury stock	(7)
Total shareholders' equity	349,423
Total liabilities and shareholders' equity	¥632,648

(Translation)

STATEMENT OF OPERATIONS (on a non-consolidated basis)
(For the Period from April 1, 2004 to March 31, 2005)

(Millions of yen)

Account	Amount
Ordinary income and expenses	
Operating income and expenses	
Net sales	¥506,747
Cost of sales	385,251
Selling, general and administrative expenses	185,813
Operating loss	64,317
Non-operating income and expenses	
Non-operating income	2,723
Interest income	1,488
Dividends income	180
Other non-operating income	1,054
Non-operating expenses	5,348
Interest expense	657
Loss on disposal of fixed assets	1,675
Accrued pension and severance cost	940
Other non-operating expenses	2,075
Ordinary income	66,942
Extraordinary gains and losses	
Extraordinary losses	9,095
Valuation loss of subsidiaries' stocks, etc.	8,422
Other extraordinary losses	673
Loss before income taxes	76,037
Current income taxes	(3,800)
Deferred income taxes	23,727
Net loss	95,964
Retained earnings at beginning of year	11,286
Unappropriated net loss	¥84,677

(Translation)

(Significant accounting policies)

1. Basis and method of valuation of assets

(1) Securities:

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

(2) Derivatives: Fair value method

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

Finished goods	Custom-made products	Specific cost method
	Mass-produced standard products	First-in, first-out method
Work in process	Custom-made products	Specific cost method
Semifinished components and raw materials		First-in, first-out method

2. Depreciation method for fixed assets:

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

3. Basis of provision for allowance:

Allowance for doubtful notes and accounts

- In order to provide for bad debt, allowance for ordinary receivable is provided based on past actual bad debt ratio, and allowance for bad debt is provided based on collectability.

Accrued pension and severance cost

- The Company has defined benefit funded plans applying cash balance pension plans and severance indemnity plans for its employees.
In order to provide for pension and severance payments, accrued pension and severance cost is calculated based on the estimated amounts of benefit obligation and pension plan assets as of March 31, 2006.
Regarding the difference arising upon changes in the accounting standards, the amount succeeded to from NEC Corporation is allocated proportionally and expensed.

4. Lease transactions

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

5. Accounting for hedging

For derivative transactions for the purpose of hedging interest rate, the Company adopts deferred accounting for hedging.

- Means of hedging : interest rate swap
- Hedging subject: debt

6. Accounting policies on consumption taxes

Consumption taxes are accounted for as deposits received or deposits paid.

(Translation)

(Notes on Balance Sheet)

1. Reported amounts are in millions of yen, and fractions less than one million yen are discarded.

2. Monetary receivable from parent company

Short-term	¥523	million
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3. Monetary payable to parent company

Short-term	¥4,613	million
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4. Monetary receivable from subsidiaries:

Short-term	¥173,480	million
Long-term	¥2,207	million

5. Monetary payable to subsidiaries:

Short-term	69,606	million
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6. Accumulated depreciation of property, plant and equipment: ¥110,732 million

7. Guarantees for loan: ¥29,504 million

Residual value guarantees for operating lease agreements ¥19,594 million

8. The amount of net assets as prescribed in accordance with Article 124, item 3 of Commercial Code Enforcement Regulation of Japan is ¥5,747 million.

9. Deficit amount of the capital: ¥84,625 million

(Notes to Statement of Operations)

1. Reported amounts are in millions of yen, and fractions less than one million yen are discarded.

2. Transactions with parent company

Net sales	¥581	million
Purchases	¥6,125	million
Transactions other than operation	¥6,714	million

3. Transactions with subsidiaries:

Net sales	¥234,382	million
Purchases	¥436,402	million
Transactions other than operation	¥3,292	million

4. Research and development expenses included in “Selling, general and administrative expenses” were ¥112,113 million.

5. Net loss per share: ¥777.04

(Translation)

Proposed

Appropriation of Losses

(Yen)

Unappropriated net loss	¥84,677,479,776
To be appropriated as follows:	
Reversal of reserve for special depreciation	11,208,879
Reserve for special depreciation	6,463,333,169
Reversal of capital reserve	84,618,057,625
Losses to be carried forward	¥6,511,546,441

Notes As a result thereof, the amount of losses to be carried forward shall be 6,511,546,441 yen; however, the balance as retained earnings together with the unappropriated reserve (6,511,546,441 yen) shall be zero yen.

(Translation)

Report of Independent Auditors

April 25, 2006

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

E & Y Shin Nihon
Representative partner and CPA Sadahiko Yoshimura (Seal)
Representative partner and CPA Kazuya Oki (Seal)

We have audited the financial statements, which are the balance sheet, the statement of operations, the business report (accounting matters only), the proposed disposal of losses, and supplementary schedules (accounting matters only) for the 4th business period, from April 1, 2005 to March 31, 2006, of the Company pursuant to Paragraph 1, Article 2 of the Law for Special Exceptions to the Commercial Code of Japan Concerning Audit, etc. of Kabushiki-kaisha. The accounting matters of the business report and supplementary schedules that we have audited are those matters derived from accounting books and records. The financial statements and supplementary schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and supplementary schedules as an independent third party based on our audit.

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

As a result of the audit, our opinions are as follows:

- (1) The balance sheet and the statement of operations present fairly the Company's financial position and the results of operations in conformity with applicable laws and the Articles of Incorporation.
- (2) The business report (accounting matters only) presents fairly the Company's affairs in conformity with applicable laws and the Articles of Incorporation.
- (3) The proposed disposal of losses is in conformity with applicable laws and the Articles of Incorporation.
- (4) As regards the supplementary schedules (accounting matters only), there are no matters that should be reported pursuant to the Commercial Code.

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

(Translation)

REPORT OF THE BOARD OF CORPORATE AUDITORS

We, the Board of Corporate Auditors, received reports from each Corporate Auditor on the method and results of the audit concerning the performance by the Directors of their duties during the 4th business period, from April 1, 2005 to March 31, 2006, and upon deliberation prepared this report. We hereby report as follows:

1. Outline of audit method by Corporate Auditors

In accordance with auditing principles determined by the Board of Corporate Auditors, each Corporate Auditor attended meetings of the Board of Directors and other meetings of importance, received reports on operations from Directors and employees, examined documents evidencing important authorizations, and inspected (a) the operations and the state of assets, and (b) the compliance status of laws and regulations as well as internal operating procedures of risk management, at the head office and principal facilities. With respect to the Company's subsidiaries, each Corporate Auditor received reports on operations from relevant divisions and, when necessary, visited the subsidiaries for receiving reports on their operations, and inspected the operations and the state of assets. Furthermore, each Corporate Auditor received a report from the Independent Auditors on their audit and reviewed the accounting documents and supplementary schedules thereof.

In addition to the auditing procedures mentioned above, each Corporate Auditor, where necessary, received reports from Directors and employees in connection with (a) transactions by a Director in competition with the Company, (b) transactions between a Director and the Company in which the Director and the Company have a conflicting interest, (c) any presentation by the Company of proprietary benefit without consideration, (d) any irregular transactions between the Company and subsidiaries or shareholders of the Company, and (e) acquisition and disposition of stocks of the Company, and investigated the transactions in detail.

2. Results of audit

- (1) The procedures and results of the audit conducted by E & Y Shin Nihon, the Independent Auditors, are fair and appropriate.
- (2) The business report presents fairly the position of the Company in conformity with applicable laws and the Articles of Incorporation.
- (3) In view of the state of assets of the Company and other circumstances, we have found no matters that must be reported concerning the proposed disposal of losses.
- (4) Supplementary schedules presents fairly the matters to be disclosed therein and we have found no matters that must be reported in respect thereof.
- (5) We have found no improper acts by Directors in the performance of their duties or any material facts in connection with the performance by Directors of their duties that constitute any violation of applicable laws or the Articles of Incorporation.
- (6) Upon the investigation of the Company's subsidiaries, we have found no matters that must be reported with regard to the performance by Directors of their duties.

We also have found no breach of duties of Directors in (a) transactions by a Director in competition with the Company, (b) transactions between a Director and the Company in which the Director and the Company have a conflicting interest, (c) any presentation by the Company of proprietary benefit without consideration, (d) any irregular transactions between the Company and subsidiaries or shareholders of the Company, and (e) acquisition and disposition of stocks of the Company.

April 25, 2006

Corporate auditor (Full-time)	Norio Tanoue (Seal)
Corporate auditor (Full-time)	Keiji Suzuki (Seal)
Corporate auditor	Yasuyuki Shibata (Seal)
Corporate auditor	Shigeo Matsumoto (Seal)

(Note) Messrs. Norio Tanoue and Yasuyuki Shibata are outside Corporate Auditors stipulated in Paragraph 1, Article 18 of the Law For Special Exceptions to the Commercial Code Concerning Audit, etc. of Kabushiki-kaisha