NEC ELECTRONICS

CSR REPORT 2006

NEC ELECTRONICS

06

The Role of Corporate Social Responsibility Report 2006

The NEC Electronics Group aims to contribute to the sustainable growth of societies by undertaking business activities such as improving customer satisfaction, attaining a high degree of corporate transparency, protecting the environment, contributing to communities, and respecting human rights, in addition to expanding earnings as a company.

To fulfill our corporate social responsibility to disclose information to all of our current and future stakeholders—customers, shareholders and investors, trading partners, employees, and local communities where our businesses are located—we publish three reports that address the triple bottom lines of environment, society, and economy. Corporate Social Responsibility Report 2006 describes the variety of activities we undertake, based on the NEC Electronics Guiding Principles for corporate social responsibility management implemented throughout the NEC Electronics Group, in the effort to fulfill our responsibilities to our stakeholders, and the role of the semiconductor business in society.

Principle information disclosed in three reports

Report on social activities

CSR Report
- The role of the NEC Electronics Group in society
- Activities to fulfill our responsibilities to different stakeholders

Report on economic activities

Annual Report
- Management policies
- Business results
- Financial position

Report on environmental activities

Environmental Management Report
- Environmental management concepts
- Eco-products
- Eco-factories
- Eco-communication

Inclusion in SRI (Socially Responsible Investment) indexes
(current as of July 2006)

We are among 300 companies selected for inclusion in Dow Jones Sustainability Indexes (DJSI), a prominent SRI stock price index by Dow Jones & Company (U.S.) and SAM Indexes (Switzerland).
(September 2005)

We are among 150 companies selected for inclusion in the Morningstar Japan K.K. SRI stock price index, Morningstar Socially Responsible Investment Index (MS-SRI).
(September 2004)

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NEC Electronics Guiding Principles

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

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

NEC Electronics is committed to the following Guiding Principles.

◎**Customer Focus**

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

◎**Ethical Business Practices**

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

◎**Community Involvement**

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

◎**Environmental Protection**

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

◎**Corporate Culture**

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

Top Commitment

Providing semiconductor solutions that contribute to the sustainable growth of societies.

Management Philosophy
(Mission statement)

NEC Electronics Group Guiding Principles

Provision of Semiconductor Solutions

Customers

Trading Partners

Shareholders and Investors

Communities

Global Environment

Employees

Sustainable Growth of Societies

NEC Electronics Group CSR Concepts

In the 21st century, with the rapid transformation of society induced by information technology and globalization, we are witnessing a variety of values and lifestyles emerging, that differ greatly from those in the rapid economic growth and bubble economy periods.

We, as a responsible company, must comprehend these new values and the background these values arose from, as we reaffirm our role in promoting the sound development of society, and the fundamental principles underlying our business activities in fulfilling our corporate social responsibilities.

We at the NEC Electronics Group believe that it is our role to contribute to the growth and prosperity of societies through semiconductor solutions underpinned by advanced technologies. To accomplish this goal, it is essential to build a solid relationship of trust with all of our stakeholders premised on highly transparent corporate management practices.

To this end, we are strengthening our system of corporate governance. In June 2004, we established the NEC Electronics Guiding Principles for corporate social responsibility (CSR) management implemented throughout the NEC Electronics Group to make our basic position on CSR known within and outside the company. The goal of CSR management at NEC Electronics is to ensure that each and every employee is conscious of the Guiding Principles as common objectives in executing daily business.

We aim to fulfill our customers' needs of semiconductors with advanced technologies, and establish our partnerships with trading partners and communications with shareholders and investors with sincerity. We strive to contribute to the international and local communities as a global company, and reduce the environmental impact of our semiconductor products throughout their product life cycle. These endeavors can only be realized through the efforts of our employees. Accordingly, we will persevere in our effort to create a corporate culture that respects individuality and encourages innovation.

It is our hope that by persisting in our effort to raise the quality of our business activities and strengthen the relationship of trust with all of our stakeholders, we can contribute to the growth of societies.

During the fiscal year ended March 2006, we recorded negative earnings for the first time since the establishment of NEC Electronics. Financial performance of companies in the semiconductor industry tend to be volatile due to large-scale investments required for development and manufacture of next-generation products, and the end products are affected greatly by market fluctuations. We are working to improve our performance so that we can generate stable profits despite the difficult business environment.

To accomplish this goal, we must design and produce semiconductors that are even more eco-friendly, reliable, and user-friendly to give our customers' products a competitive advantage. Our success in creating the best semiconductor products in the world will enable us to build a firm foundation for our business activities. This is our vision for the sustainable business.

The NEC Electronics Group strives to make meaningful contributions to the development of sustainable societies supported by a solid business foundation.

We are committed to raising corporate value as we endeavor to solidify relationships with our stakeholders. We ask for your continued support and guidance as we move forward in this endeavor.

Toshio Nakajima
President and CEO
NEC Electronics Corporation

The Role of the Semiconductor Industry in Society

How semiconductors support cars and people

The NEC Electronics Group engages in research, development, manufacture, and sale of semiconductor products and provides related services. Here, we take an automobile as an example, to give our stakeholders an idea of the important roles microcontrollers and other semiconductors play in our daily lives. In recent years, remarkable progress has been made in reducing fuel consumption and improving automotive safety. Let's take a look at how the relationship between cars and semiconductors evolved from the past to the present and what awaits in the future to learn about one of the many ways in which semiconductors are making a difference in our lives.

The Role of Semiconductors in the Future of Automobiles

Semiconductors are used in computers, mobile phones and many other objects that are part of our daily lives. Without semiconductors, we would lose the comforts and convenience we enjoy in our daily lives. Even global economic activities would not function properly without semiconductors. Semiconductors also play an important role in environmental protection, which is a serious global concern.

A good example is improved driving efficiency and reduced environmental impact made possible by computerization of automotive control systems such as engine controls. The ITS (Intelligent Transport Systems) technologies, which can be utilized to collect and transmit information to traffic management centers are very promising. For example, information on driving behavior such as jackrabbit starts, sudden braking and fuel consumption rates, can be compared to the behavior of other drivers on the road, and road conditions such as slopes, and used to help people drive more safely and efficiently to conserve fuel.

As a big fan of driving cars myself, I drive a hybrid car equipped with a nav-igation system; my gas mileage is constantly tracked on the display screen. I make it a habit to drive safely and in an environmentally responsible way. My navigation system computes the best route to my destination and takes me there with a map display and voice instructions, so I don't have to worry about getting lost and wasting gas, which ultimately means lower fuel consumption. I also feel that the ETC (Electronic Toll Collection system) lanes on toll roads are very effective in relieving traffic congestion and making driving less stressful.

When I think of all the things semiconductors have made possible so far and potential for even greater achievements, I look forward to the role they will play in the safe and pleasant motorized society in the future.

Saburo Kato
Chairman, Japan Association of Environment
and Society for the 21st Century (JAES21)

The transition from "drive", "turn", and "stop" to "environment", "safety", and "comfort"

The first semiconductors to be used in cars in the 1960s were the transistors in car radios. Now, half a century later, the semiconductor controls all of the basic functions of the car—driving, turning, and stopping—that formerly were mechanically operated. This is the result of demand for more precise control of the engine, transmission, power steering, and braking.

In addition to this basic equipment, features are constantly being added to automobiles to create a more pleasant driving environment: air conditioners, power windows, windshield wipers, rear-view mirrors, door modules, and air bags to protect passengers from accident-induced injuries. They are all made possible by semiconductors.

Automobiles have evolved dramatically by incorporating of a broad range of electronics technologies accompanied by increasingly advanced development concepts that now focus on environment, safety, and comfort.

■ Microcontroller-operated automotive equipment and systems

Windshield wipers (rain-response self-start wipers)
Air conditioner (temperature control for each vehicle seat)
Dashboard (driver information display)
Power seats (driver and passenger memory seats)
Power windows (automatic stop or reverse when obstruction is detected)
Rear view mirrors (remote controlled)
Doors (central door lock system, power sliding doors)
Vehicle compartment lamps (automatic dimming control)

Power steering
(vehicle speed response control, motor-assisted power steering, four-wheel steering)
Brakes (ABS, electronic brake assistance)

Headlights (automatic on/off control, halo control linked to rudder angle/up-down movement)

Engine (hybrid)
Transmission (shift pattern selection, paddle shift)

Sensors (accelerometer, tire pressure, obstacles/rain, illumination)
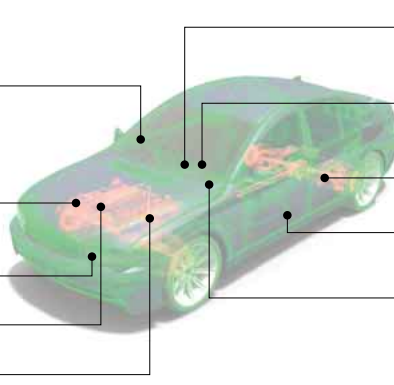
Car audio (digital audio)
In-vehicle navigation (3D display, camera monitor image display)

ETC (Electronic Toll Collection system)
Image recognition (lane detection, night vision)
Cruise control (leading vehicle detection)
Parking assistance (Guidance to make parking easier)

Vehicle stability control (side drift prevention)

Keyless entry (remote control starter)
Immobilizer (authorized engine start-up)
Security (vehicle theft alarm)

Seat belts (pre-tensioner)
Air bags (passenger occupant detection)

Microcontrollers and engine control

The phrase, "Environmentally responsible vehicle performance" immediately brings to mind the keywords such as fuel consumption and exhaust gas—in other words, engine performance.

Microcontrollers were first used in engine control thirty years ago, in the 1970s. In Japan, this was a period of rapid economic growth. It was also the time when the world experienced the oil crisis, or the "oil shock," which triggered global efforts in conserving energy.

Facing the world energy crisis, regulations concerning vehicle fuel consumption and exhaust emissions were tightened in the effort to suppress and prevent air pollution. To meet the requirements imposed by the regulations, automotive manufacturers began using microcontrollers to operate the engine electronically, so that fuel could be burned more efficiently.

The first 8-bit microcontrollers produced for car engines were used for optimum control of fuel injection and ignition timing. As regulations became increasingly stringent, 8-bit microcontrollers were replaced by higher-performance, more sophisticated 16-bit and, eventually, 32-bit microcontrollers to improve engine performance in effort to lessen environmental impact by reducing fuel consumption and exhaust emissions.

■ Mechanism for engine control by microcontrollers
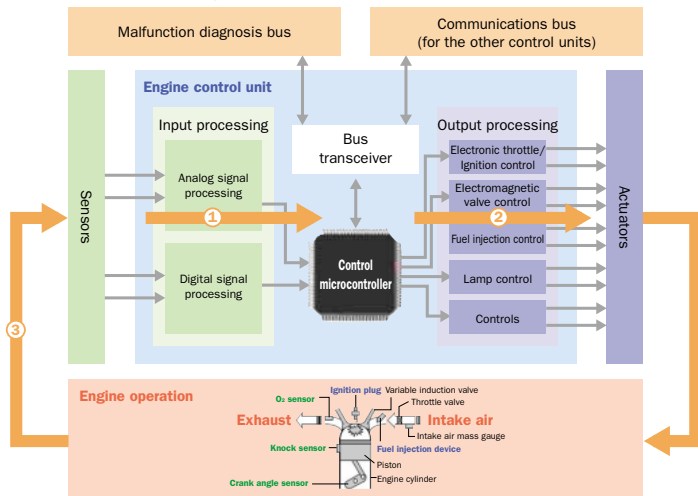
① Sensors monitor factors such as the engine's crank angles, the air intake mass, how far the throttle valves are open, and the amount of oxygen in exhaust gas, and send to the microcontroller.
② To reduce fuel consumption and exhaust emissions, the CPU in the microcontroller calculates and determines the optimum amount of fuel injected into the cylinders and ignition timing in relation to the air intake mass, and then sends this control information to the actuators.
③ The condition of the exhaust gas and other information is constantly fed back to the microcontroller, which in turn controls the amount of fuel injected into the cylinders and the timing of ignition.

Emergence of 32-bit microcontrollers for hybrid cars

In the 1990s, the need to curb CO_2 emissions became serious issue concerning global warming. Due to strict regulations against exhaust emissions, mainly in North America, people began to demand clean-energy vehicles. Electric cars appeared to be a promising solution, but there still remain several obstacles for widespread adoption. For example, batteries in electric cars are large and heavy, and it takes a long time to recharge; even when the batteries are fully charged, the cars are only able to drive a short distance before they need to be recharged, not to mention the lack of battery charging facilities.

The limitations of electric vehicle technology led to the development of hybrid cars, which have both the gasoline engines and electric motors. Hybrid cars can be refueled at conventional gas stations, making addition-

al infrastructure construction unnecessary. Hybrids also solve the problems of recharging time and driving distance.

When a hybrid car decelerates, kinetic energy is recovered by the batteries as electricity; when the car stops or decelerates the engine shuts off, making it possible to eliminate the fuel consumed by idling. However, parallel use of the gasoline engine and the electric motor requires extremely sophisticated processing. These complicated operations are processed by microcontrollers.

NEC Electronics has been quick to commercialize automotive microcontrollers. In August 2006, we developed the V850E/PG2, a 32-bit Microcontroller for electric motor control. The V850E/PG2 performs high-precision measurement of sensor data, and has a variety of embedded functions that enable highly

accurate motor control, achieving the high efficiency and reliability demanded for the hybrid cars.

The semiconductor products we provide to automotive manufacturers play an important part in improving vehicle performance to reduce environmental impact, and they make a significant contribution to fuel consumption and CO_2 emission reduction measures to prevent global warming.

The V850E/PG2

IMAPCAR®, our quest for safety

Improving automotive safety is one of today's most important issues. Realization of cars that don't collide with objects or cause accidents would be an immense contribution to society.

If a driver were able to recognize all solid objects on both sides and in front and back of the car, most accidents could probably be prevented. Although automotive manufacturers have long been working to achieve this goal by equipping vehicles with sensing capabilities, such as radar and cameras, there were limitations in aspects of flexibility, cost, and performance.

To offer a solution to these challenging issues, NEC Electronics joined forces with NEC Laboratories on research and development of IMAPCAR®, a sophisticated parallel processor*. IMAPCAR® with its world-leading high-speed performance, enables real-time detection of three-dimensional objects including pedestrians, a feature which was difficult to achieve until today. The product will contribute to improvement in safety for both drivers and pedestrians.

IMAPCAR®, jointly developed by NEC Electronics, Toyota Motor Corporation, and Denso Corporation, will be embedded in the pre-crash safety developed by Toyota Motor Corporation, which is featured in Toyota's Lexus LS460, scheduled to be available in September 2006.

*The new sophisticated parallel processor integrates 128 processing elements, enabling highly efficient simultaneous processing of multiple tasks.
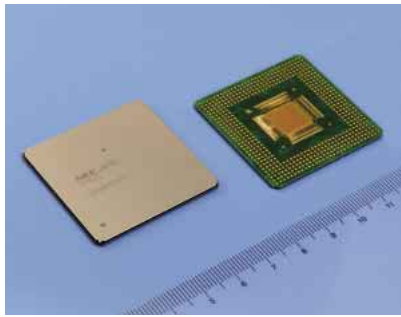
IMAPCAR®
IMAPCAR® is a registered trademark of NEC Electronics in Japan

入力画像

処理結果 立体物認識
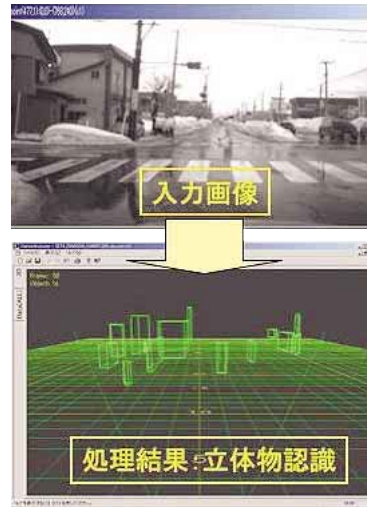
IMAPCAR® image processing to detect pedestrians

Making future automobiles more pleasant

What constitutes a pleasant driving environment? A smooth, enjoyable drive to your destination? An entertaining in-vehicle environment that prevents boredom? The ideal comforts we seek are diverse and limitless.

More than ten years have passed since the appearance of in-vehicle navigation systems in Japan that fulfill the dream of getting to one's destination smoothly without getting lost. The pursuit of comforts in driving has resulted in evolving navigation systems that not only serve navigational needs, but also are able to handle a variety of other data.

Steady progress is being made on the new ITS program in Japan to solve the inescapable issues of car-dependent society —traffic accidents and traffic congestion.

We foresee the arrival of a motorized society where in-vehicle navigation systems work together with a network of ITS services. We also envision that an ideal car of the future will possess functions just like a robot that integrates all control systems and acts as a man-machine interface to support drivers under any kind of driving conditions.

Environment-responsive automotive performance and safety together with comfortable driving environments—car manufacturers are at work on these tasks in the effort to fulfill their corporate social responsibility in achieving a sustainable motorized society. We at NEC Electronics share this vision with car manufacturers for the future automobile society, and pledge to play our part in making it a reality by providing semiconductors that bring automotive performance to the highest level possible.
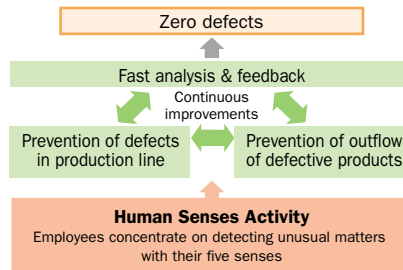
Quality management at NEC Kyushu

55 percent of the microcontrollers shipped by the NEC Electronics Group are used in automotive applications; many of these are manufactured at NEC Kyushu.

Malfunctions of microcontrollers in cars can potentially threaten lives of the drivers and many other people as well, so even one defective part is unacceptable. To ensure the high quality demanded of automotive microcontrollers, NEC Kyushu has developed a unique quality management activity called the Human Senses Activity, to achieve zero defects and maintain the highest quality by pairing proficient skills by hands—in other words, human proficiency—with the highly reliable digital technologies of semiconductor manufacturing equipment. This activity enabled NEC Kyushu to reduce defective products at factory shipment by 90 percent.

We are also reinforcing the manufacturing lines at the Roseville plant in the United States to implement global production of automotive microcontrollers. We are creating systems to develop the quality management practices at NEC Kyushu to our other manufacturing subsidiaries in the effort to provide automotive manufacturers with products of the highest quality.

■ The Human Senses Activity at NEC Kyushu

Zero defects

↑

Fast analysis & feedback

Continuous improvements

Prevention of defects in production line ⇄ Prevention of outflow of defective products

↑

Human Senses Activity
Employees concentrate on detecting unusual matters with their five senses

Design globally

To meet the varying needs of automotive manufacturers around the world, it is important to work closely with the customers in developing and designing products.

To this end, NEC Electronics has established design centers in Europe and North America to advance product designing tailored to particular requirements of automotive manufacturers in every region of the world. The centers cooperate with our design teams at company headquarters in Japan in adopting the latest design methods to improve design quality.

At NEC Electronics, we are continuously working to improve product quality by establishing a group-wide system from design to manufacturing in our aim to capture the

world's No. 1 share of the automotive microcontroller market.

Customers' Voice

Provision of the best solutions for advanced safety technologies

Takashi Ogawa
General Manager
Electronic Engineering Div. II
Vehicle Engineering Group
Toyota Motor Corporation

IMAPCAR®, which was developed in collaboration with NEC Electronics, makes a great contribution to the camera sensor in Toyota's enhanced pre-crash safety. NEC Electronics not only developed the semiconductors, they also cooperated in many other ways; for example, by providing us with development tools and working on software development. This all-around support enabled us to smoothly complete all of the processes from development to product commercialization smoothly. We are very grateful for NEC Electronics' effort.

Toyota is working to achieve the ultimate goal of a motorized society—zero deaths from traffic accidents. We will persevere in increased efforts to develop advanced safety technologies. We hope to form a solid partnership with NEC Electronics and anticipate for their continual efforts to provide optimum semiconductor solutions.

Partnership with NEC Electronics

Matthias Ludwig

Purchasing Director
Automotive Electronics Division
Bosch Corporation

My name is Matthias Ludwig and I am Purchasing Director for Electronic Components at Automotive Electronics Division within the Bosch Group. First of all let me thank you for the close and open partnership. We appreciate the long and successful business relationship between our companies.

Bosch as number one worldwide automotive system supplier with a total turnover of 40 billion euro is delivering high quality and high innovative solutions to the entire car industry. To achieve our targets, we need strong partners which are strictly committed to those goals. We appreciate NEC Electronics supporting Bosch successfully, for example, in the electronic power steering applications with 32-bit MCU and PMF (PowerMOSFET) with above the average quality.

As an international acting supplier the support of our global activities all around the world is very important for us. NEC Electronics has recognized these necessities. They increased, for example, the support to Bosch after identifying new ramping up projects in Australia.

The challenges of the automotive industry for the coming years are based on the capability to realize a zero defect culture and to improve competitiveness. I personally ask NEC Electronics to help us to achieve these goals.

I hope we can both strengthen our close business partnership and be successful in the market with our high quality, innovative, competitive and excellent solutions.

NEC Electronics Group CSR Management System

The Corporate Social Responsibility Promotion Committee is central to development of the CSR promotion system at NEC Electronics. In addition, we are strengthening corporate governance to maximize corporate value. For us, this means ensuring transparency and integrity of management and practicing compliance in accordance with our Code of Conduct.

CSR Promotion System

We promote CSR through strong teamwork between NEC Electronics divisions and subsidiaries.

In June 2004, we established the NEC Electronics Guiding Principles to clarify policies for group-wide CSR promotion activities, and also set up a Corporate Social Responsibility Promotion Committee, chaired by the president of NEC Electronics. The committee defines the NEC Electronics Group approach to CSR activities by deliberating important tasks for CSR promotion, which are grouped into six categories.

Formerly, each of our management divisions worked independently on promoting CSR activities. Now all of these activities are systematically implemented group-wide under the leadership of the president.

■CSR tasks

| Category	CSR tasks
Mutual tasks	Compliance (business ethics/compliance with laws and regulations), risk management, information security
Customer focus	Customer satisfaction improvement, quality improvement, product accident response
Ethical business practices	Fair trade (compliance with antitrust regulations, etc.), relations with purchasing partners, security export control (compliance with laws and regulations governing exports), donations to political and other organizations, information disclosure and communication
Community involvement	Communication with local communities, community involvement activities
Environmental protection	Environmental management
Corporate culture	Occupational health and safety, employment for physically challenged people, equal employment opportunity, human rights/discrimination prevention, education and training programs

Risk Management System

NEC Electronics established Basic Rules for Risk Management that clarifies policies governing risk management and responses in the event of a management crisis.

Formerly, NEC Electronics implemented a system of risk management that divided responsibilities among its divisions. We formulated Basic Rules for Risk Management, which plays a central role in internal control by prescribing a set of activities that are uniformly implemented company-wide.

NEC Electronics has created a comprehensive risk management system that encompasses daily risk management and potential crisis response. A variety of management crises are categorized by frequency of occurrence and degree of severity and a crisis unit is set up for each category to perform the work of daily risk management related to the category. The crisis units are also responsible for predetermining response mechanisms should a management crisis occur.

NEC Electronics will introduce the same risk management system in all group companies to enable a group-wide response in the event of management crises that threaten our group business activities.

■Risk management process
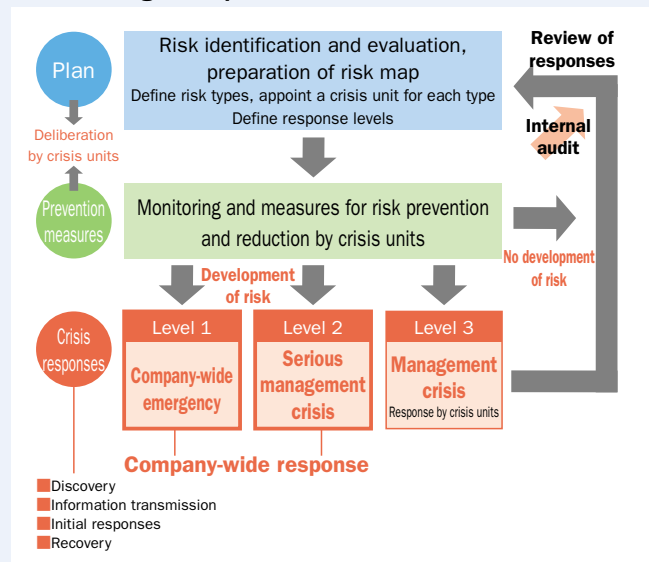
Corporate Governance System

We have developed a framework for business execution and management oversight, and an internal control system.

NEC Electronics is strengthening the corporate governance system from the standpoint of Group governance.

The new Japanese Company Law, which became effective in May 2006, gives companies more flexibility in structuring their organizations. In the wake of the new law, NEC Electronics has modified its decision-making system to exercise more control over domestic subsidiaries, eliminating the boards of directors of these companies. If a Japanese subsidiary must make major decisions, they are now voted on at their shareholder meeting. We will utilize this new system to fortify corporate governance from a Group perspective.

In addition, we have placed staff dedicated to internal control in each of our Japanese subsidiaries. In the past, the subsidiaries each had their own individual internal control systems, but now the Internal Control staff handle such activities with the support of the Internal Auditing Division at NEC Electronics to reinforce consistency in activities throughout the entire Group.

In regard to our overseas subsidiaries, we are currently examining similar measures that will reinforce Group governance, while also considering the particular local practices.

NEC Electronics Group Code of Conduct

The NEC Electronics Group Code of Conduct establishes rules for the conduct of executives and employees in Japan.

The NEC Electronics Group Code of Conduct

In June 2003, NEC Electronics established the NEC Electronics Code of Conduct to promote compliance by prescribing compliance matters to be observed by the company's executives and employees in the conduct of their daily business activities. All of our subsidiaries are developing their own codes of conduct modeled on the NEC Electronics Code of Conduct, which is partially modified as necessary to meet the requirements of relevant laws, regulations, and social codes of the country where each is located. With the establishment in 2006 of the Company Low in Japan, the company decided to extend its code of conduct to all domestic subsidiaries. The new NEC Electronics Group Code of Conduct was created in July 2006, and all Group companies in Japan must now follow this code.

Also in July 2006, we established the NEC Electronics Group Compliance Program, which sets forth basic policies, systems, procedures, and other matters related to compliance by subsidiaries in Japan.

Compliance promotion system

The Legal Division at NEC Electronics is the primary unit responsible for promoting compliance. It does this by creating a compliance system and supporting its implementation in domestic Group companies, and also by organizing education programs and awareness-raising activities related to compliance. Compliance officers are installed in NEC Electronics divisions and subsidiaries to assist the general managers and presidents of domestic Group companies to promote compliance.

Compliance promotion activities

To ensure thorough compliance, NEC Electronics also has internal units to help address compliance risks; units are responsible for developing rules and manuals, raising employees' awareness of compliance issues through education and information provision, and monitoring compliance. These efforts are noted on the compliance risk pages on the internal website along with information that shows at a glance which unit to contact and which company rules to refer to should a compliance-related problem be encountered in the course of work. In this way, we hope to prevent problems from arising.

Each compliance risk unit makes plans for promoting compliance over the course of the fiscal year; based on these, NEC Electronics divisions and domestic Group companies prepare their own yearly plans to actively promote compliance at each worksite.

The PDCA (plan, do, check, action) management cycle is implemented by the entire group to enhance the effectiveness of compliance promotion activities.

Compliance education programs and information transmission

NEC Electronics conducts compliance education programs for new employees, assistant managers, and managers, and also provides compliance education for executives and employees once a year. When we revised the Code of Conduct in July 2006, we utilized e-learning as a tool to help employees understand the intent of the revisions.

Through our company intranet and monthly mail magazine for employees, we are working to provide substantial information on compliance. The mail magazine contains a section with case studies of compliance-related issues, that is particularly effective in helping employees become more familiar with compliance issues by presenting examples of problems from the standpoint of compliance that they are likely to encounter.

Helpline for Consultation and Reporting

We established the NEC Electronics Group Helpline in Japan for more effective compliance management.

However, we recognize that problems may go unreported for any number of reasons. To encourage early detection and speedy resolution of problems, a company helpline was set up in June 2003 for NEC Electronics employees to direct their concerns and report problems.

In July 2006, the helpline was opened to employees in our domestic Group companies, purchasing partners, and exclusive sales distributors as well, to encourage greater communication and facilitate even earlier detection of problems. We have also set up helplines in third-party facilities so that people who want to consult on or report problems but have their names withheld can be guaranteed anonymity.

We have established new rules, available on the internal website, concerning reporting procedures and how the contents of reports are handled. Also, the rules have been designed to enable employees to report their concerns confidently without fear of retribution or negative consequences.

Creating a Corporate Culture We Take Pride In

The NEC Electronics Group and its employees are making a concerted effort to build and foster a corporate culture that enables all employees to fully develop their individuality and demonstrate their capabilities.

Our Corporate Culture

We will create a corporate culture that enables all employees to fully demonstrate their capabilities.

It is only in safe, healthy workplace environments free of discrimination and harassment that employees are able to fully develop their individuality and demonstrate their capabilities. Good workplaces such as these also generate increased efficiency and productivity. All employees at NEC Electronics play a role in building a corporate culture we take pride in.

TALK about CSR

Health care support for every employee is part of the CSR effort.

Health care support for company employees doesn't just mean maintaining and improving physical health. It is becoming increasingly important to provide both mental and physical health care so that employees can fully realize their unique qualities and capabilities.

   As public health nurses, we undertake many activities—health counseling, mental health seminars, regular provision of health-related information, self-checks for stress—to provide health care support and help employees raise their health awareness. We want to do everything possible to help all the employees make full use of their talents and abilities; in this way we are doing our part to contribute to an even more vibrant company.

Naomi Hirayama (left)
Yoshiko Yamaguchi (right)
Public health nurses
HR & General Affairs Division

Respect for Human Rights, Equal Employment Opportunity

Through meaningful communication with employees, NEC Electronics will develop a workplace environment that promotes mutual trust and enables individuals to fully demonstrate their capabilities.

Awareness of Human Rights Issues

We are working to maintain workplaces free of discrimination and harassment, where employees can fully demonstrate their capabilities.

Awareness of human rights issues

NEC Electronics undertakes a number of activities to promote human rights awareness. A Human Rights Awareness Committee was established with the mandate to implement training programs for employees that promote awareness of human rights issues throughout the NEC Electronics Group. The internal website maintains a page on "Human Rights and Employment of Persons with Disabilities," and carries out activities to foster human rights awareness during Human Rights Week.

Human rights activities

(1) Inclusion of information on human rights issues on the internal website
    a) Various human rights issues in and outside Japan.
    b) Checklist for sexual harassment in the workplace (Self-check).
(2) Activities to promote awareness of human rights issues during Human Rights Week
    a) Human rights slogan contest.
    b) Circulation of an in-house leaflet on human rights.

Prevention of sexual harassment and promotion of equal employment

The NEC Electronics Group Code of Conduct clearly prohibits sexual harassment. We endeavor to prevent sexual harassment in the workplace by conducting educational and awareness-raising activities, providing relevant information, and responding appropriately to incidents of sexual harassment.

In the effort to create an environment conducive to consultation on sensitive issues, NEC Electronics has also established an internal service staffed partly by women for consulting on equal rights and other issues. Posters are displayed to let employees know about the service.

Employment for Physically Challenged People

We are developing barrier-free workplaces for the physically challenged.

NEC Electronics is making every effort to develop workplace environments considerate of employees who are physically challenged. Employees with hearing disabilities are now able to receive signing translations of the audio portion of meetings transmitted over the internal website. We also introduced contactless cards for security gate entrance, and are renovating lavatory facilities in the effort to create workplace environments that are considerate to persons with upper or lower limb disabilities.

Balancing Work and Family Life

We are implementing a progressive, family-friendly workplace program that seeks to enhance work and family life.

In addition to supporting employees' efforts to fully demonstrate their capabilities, NEC Electronics implements many family-friendly measures (described below) that help employees balance work and family responsibilities so that they can experience satisfaction both at work and at home.

Family-friendly measures

(1) Family-friendly leave
    Leave for multiple purposes including preventive medical care for the employee or a family member, childcare or eldercare, attendance at a child's school events, and volunteer work.
(2) Family-friendly fund
    a) Lump-sum allowance when a child is born.
    b) Cash incentive for employees with company-sponsored child education insurance.
    c) Monthly allowance for designated dependents.
(3) Coupons
    a) Provision of nursing care coupons (discounts on fees charged for recruiting and introducing home helpers/Benefit Association) and childcare coupons (discounts on babysitter fees).
    b) A fixed sum to apply toward fees for the use of municipal family support centers.

■ Development of family-friendly support system

Year	Implementation	
	Childcare System	Nursing Care System
1990	Childcare leave	Nursing care leave
1992	Reduced working hours (childcare)	Reduced working hours (nursing care)
	Medical care leave	
1997		Nursing care coupon system (Benefit Association)
1998	Childcare coupon system	
2000	Extension of reduced working hours (childcare) (3 years old, end of March → entrance into elementary school)	Extension of reduced working hours (nursing care) (3 years → until nursing care is no longer necessary)
	Work-at-home system	
2002	Family-friendly leave (revision of medical care leave)	
2004	Extension of reduced working hours (to first grade, end of March in special circumstances)	
	Enabled to set the working hours on a half-hour basis instead of one-hour basis	
2005	Extension of reduced working hours (to third grade, end of March in special circumstances)	
	Family-friendly leave (morning sickness, medical treatment of infertility)	

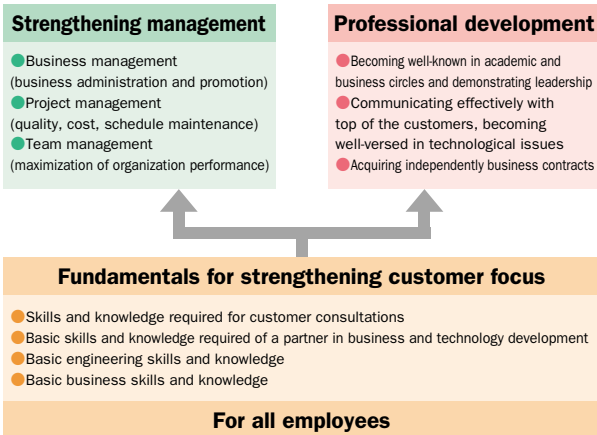# Human Resources Development and Career Support

NEC Electronics implements a mandatory training program designed to give all employees a sense of commitment and the job skills they need, and strives to create workplace environments that enable self-actualization.
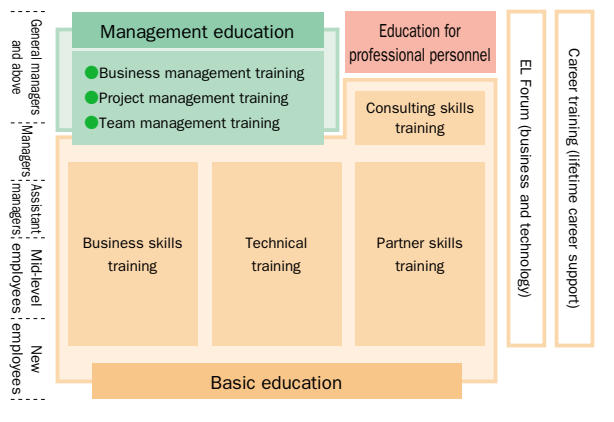
Human Resources Development

We have devised a three-part training curriculum to develop employees' skills.

NEC Electronics is building a curriculum for our training program that emphasizes three areas: fundamentals for strengthening customer-focus, which underpins the program, strengthening management, and professional development. Our training program is designed to raise employees performance levels and to help employees acquire the knowledge and know-how needed to carry out their job duties and responsibilities. We support employees' voluntary efforts toward self-development and self-actualization.

■ Triple-emphasis curriculum for human resources development

Strengthening management
- Business management (business administration and promotion)
- Project management (quality, cost, schedule maintenance)
- Team management (maximization of organization performance)

Professional development
- Becoming well-known in academic and business circles and demonstrating leadership
- Communicating effectively with top of the customers, becoming well-versed in technological issues
- Acquiring independently business contracts

Fundamentals for strengthening customer focus
- Skills and knowledge required for customer consultations
- Basic skills and knowledge required of a partner in business and technology development
- Basic engineering skills and knowledge
- Basic business skills and knowledge

For all employees

■ Human resources development curriculum

Lifetime Career Support

We support the efforts of pro-active individuals to achieve self-realization, and implement measures to raise employees' morale.

NEC Electronics is working to place the right persons in the right jobs with the double objective of encouraging ongoing personal growth and securing the best human resources for the organization. To achieve this, we are departing from the traditional lifetime employment and seniority system premised on mutual dependence of the company and its employees, to build a revolutionary new company-employee relationship in which the company supports the individual's ongoing professional growth over the long term.

We encourage employees to be innovative and to keep developing their talents and abilities, in the effort to inspire them to set lofty goals and to be self-motivated toward their achievement.

Career Support

1. Career advice
   All employees can seek advice on career advancement.
2. Milestone training, sabbaticals
   Training courses are held for employees reaching the milestone ages of 30, 40, and 50, held in the fiscal year following their birthday, and they are entitled to take a one-week leave of absence.
3. Career packages
   A package of books and a list of training opportunities is mailed to employees' home addresses between the milestone ages when they reach 35, 45, and 55 years of age.
4. Career design support payment
   Paid to employees in the fiscal year following the year they turn 50.
5. Internal job posting system
   All employees can apply for open positions in the company (not contingent on approval by the supervisor).
6. Self-marketing for managerial positions
   Employees in a managerial position can apply for any position that they believe fit better than the sitting (not contingent on approval by the supervisor).

■ Lifetime career support
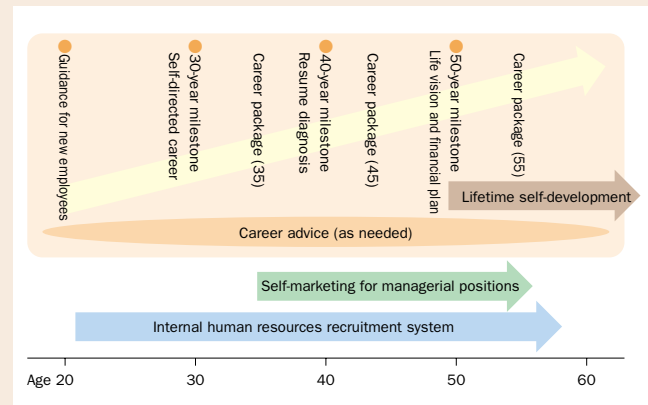
Recruitment

NEC Electronics conducts open recruitment activities in the effort to secure a versatile workforce and ensure fair employment opportunities.

Recruitment activities

We accept applicants from a wide range of countries and educational institutions.

NEC Electronics strives for impartiality in recruitment practices and has eliminated the system of school recommendations, replacing it with a free application system for students desiring employment with NEC Electronics. We want job applicants to have a sufficient understanding of our business and the jobs available, so early in the recruitment process we provide information on our company through our website and other employment media and actively participate in joint company information fairs and job information seminars at universities. We also offer many worksite tours and get-togethers with company employees in the effort to give job applicants a taste of our corporate culture.

To ensure the highest quality employees, NEC Electronics focuses on the selection process, with a particular emphasis on individual interviews. We are also active in recruiting foreign job applicants and we are proud to have a rapidly growing workforce of international employees. This is also an advantage from the viewpoint of corporate internationalization.

■ Recruitment events

October-December	January-March	April-May
Provision of industry- and company-related information	**Provision of company- and job-related information**	**Applicant screening**
Internet ■NEC Electronics website ■Employment information site	**Company information sessions** (Sapporo, Sendai, Kanagawa, Nagoya, Osaka, Fukuoka)	**Individual interviews** (Kanagawa, Osaka)
Company information fairs ■Joint company information fairs (Tokyo, Kanagawa, Osaka) ■Job information seminars at universities (Sapporo, Sendai, Tokyo, Kyoto, Osaka)	**Job information seminars** (Sapporo, Sendai, Kanagawa, Nagoya, Osaka, Fukuoka) **Get-togethers with company employees** (Kanagawa, Osaka) **Worksite tours** (Kanagawa) **University seminars** (Tokyo, Fukuoka)	**Interviews focus on the individual's personal character and are conducted with all applicants who desire an interview.**

Recruitment website

Work Experience Internships

We support academic institutions by cooperating with work experience internship programs.

In response to requests from universities, we are actively involved in cooperating with work experience internship programs for students. Many universities have a high regard for work experience programs because they give students learning opportunities unavailable in the classroom. Since fiscal 2004, NEC Electronics has been answering this need by actively accepting students from work experience internship programs.

We will continue to take an active part in these programs from our desire to contribute to university education and to make our business widely known by the public.

■ Work experience activities in fiscal 2005

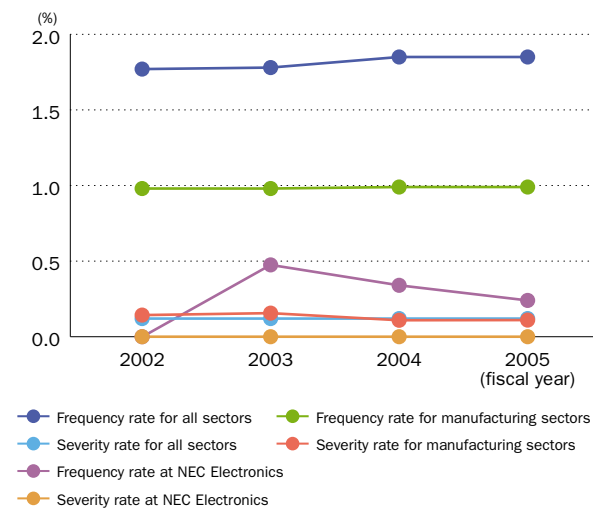|	Three-week work experience	One-day work experience
Content	Engineering work at the worksite	■Lecture on the semiconductor business ■Group work ■Worksite tour
Date	August 23-September 9	From July to September
Number of participants	22	192

Occupational Health and Safety (OH&S)

NEC Electronics recognizes that health is an irreplaceable asset and places high priority on ensuring the safety and health of employees. This core principle underpins the preventive focus of safety and health measures implemented by the NEC Electronics Group.

Occupational Health and Safety (OH&S)

We promote OH&S with the watchword "zero accidents" by implementing an infrastructure for OH&S management in each workplace.

"Zero accidents" is the watchword we have coined to express the goal of OH&S management infrastructures in each workplace, whose close cooperation with work and health management divisions to devise and implement preventive measures and carry out detailed daily safety management activities has resulted in a steady decline in workplace accidents.

■**Trend in work-related accidents**

- Frequency rate for all sectors
- Frequency rate for manufacturing sectors
- Severity rate for all sectors
- Severity rate for manufacturing sectors
- Frequency rate at NEC Electronics
- Severity rate at NEC Electronics

The frequency rate is equivalent to the number of injuries and deaths due to industrial accidents divided by total actual working hours x 1,000,000.
The severity rate is equivalent to the number of lost working days divided by total actual working hours x 1,000.
Most work-related casualties occurred away from the workplace (e.g., tripping and falling down the stairs at the train station), and did not involve fatal accidents.

Mental Health Management

NEC Electronics bases development of mental health care services on prevention and early response.

Change in industrial structures accompanied by a shift in work styles from labor-intensive to knowledge-intensive has given rise to the important task of preventing stress-related physical and mental health problems in the workplace.

In cooperation with NEC Corporation's Health Care Center, NEC Electronics placed two public health nurses on the staff of the HR & General Affairs Division in the second half of fiscal 2005. Since that time, the nurses have been working with employees, worksite managers, and in cooperation with industrial physicians and medical specialists to provide employees with strong mental health care support.

Specifically, this involves professional instruction in mental health for all managers to heighten their awareness of mental health issues and of their responsibility as the most likely person to spot potential problems in employees under their supervision and approach the individuals concerned. The nurses have also started up a special website for employees called "News from the Nurses" that provides information on mental health care to facilitate self-care. Through measures such as these, we are developing a company-wide system for promoting mental health care.

We will continue to develop even more closely focused activities to facilitate early detection and treatment of mental health problems and also promote preventive activities.

■**Consultation and support system for mental health problems**
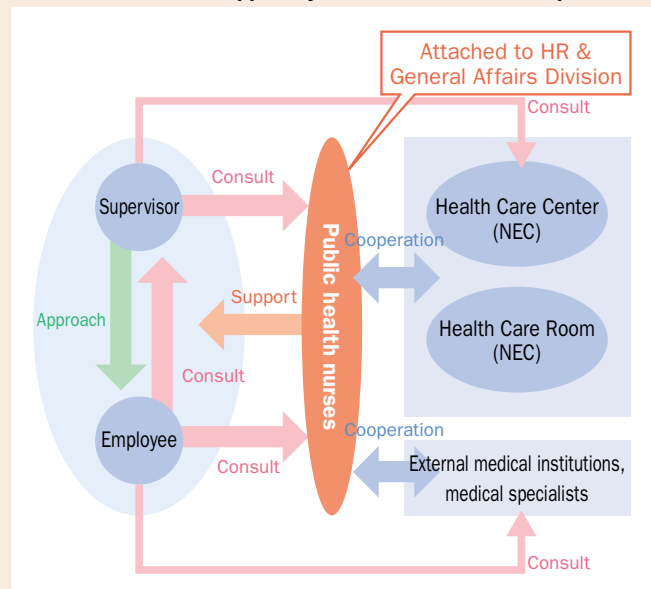
A Customer-focused Business

NEC Electronics' customer satisfaction efforts begin with the voice of the customer. By continually improving our sales, development, manufacturing, and support functions, we are able to provide products and services that further satisfy our customers.

Our approach to customer satisfaction

As an IDM (Integrated Device Manufacturer), we focus all of our efforts and expertise on offering optimized solutions that make us your partner of choice.

As an IDM, we focus all of our efforts and expertise on producing optimized product solutions by constantly seeking to discover:
1. what kind of products customers want,
2. what elements will raise product value, and
3. how to incorporate those elements in products.
At NEC Electronics, we are confident that our tireless efforts help to create value for our customers.

TALK about CSR

I promote CSR by energizing customer satisfaction activities.

In the Corporate Sales Planning Division, we make a constant effort to act from the customer's point of view. To respond to the opinions and requests we receive from customers, we promote implementation of needed measures and improvements in all divisions—sales, development, and manufacturing. To ensure that these efforts are carried out faithfully and lead to improved customer satisfaction, we are working to energize in-house communication and support customer satisfaction activities in all divisions.

Toshio Hiroe
Corporate Sales Planning Division

Performing CSR with the creation and offering of safe, good-quality products.

Sustainability is a word that expresses the philosophy of Corporate Social Responsibility. I believe it's only when you realize the meaning of this word—corporate activities in harmony with the enduring presence of the global environment and human societies—that you can truly understand the concept of CSR. All employees at NEC Electronics bring a quality focus to all of their work duties with this philosophy in mind. And also the Corporate Quality Assurance Division cooperates with all relevant business units in the effort to develop safe, good-quality products.

Shiro Nishijima
Corporate Quality Assurance Division
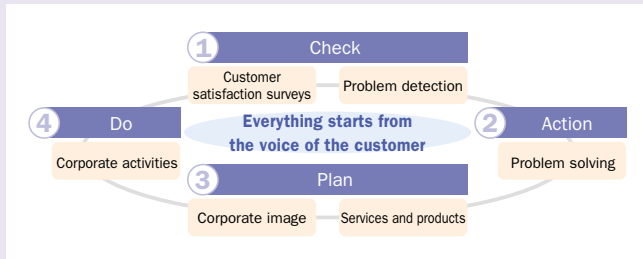
Customer Satisfaction Improvement

NEC Electronics is engaged in a variety of efforts to improve customer satisfaction that include direct communication with customers in the aim to reflect the voice of the customer in our products and services and in our business activities.

Basic Policies for Customer Satisfaction Promotion

We are working to increase our customers' satisfaction in our products and confidence in our company, as well as doing our part to improve the quality of life.

At NEC Electronics, our basic policies for promoting customer satisfaction are speedy provision of high-performance, high-quality semiconductor products and provision of solutions that create added value for the customer. Based on these policies, each employee in our sales, development, manufacturing, and staffing divisions keeps the customer uppermost in mind in the performance of work duties.

### ■Concepts for customer satisfaction management

Customer Communication

We are pursuing customer satisfaction through surveys that measure satisfaction levels.

At NEC Electronics, we receive information on customer needs and related matters on a daily basis from our customers and sales partners. In addition, we regularly conduct surveys to measure the satisfaction levels of each of our customers and sales partners.

The results of surveys are grouped into five categories by satisfaction constituent (TQRDC)—Technology, Quality, Responsiveness, Delivery, and Cost—analyzed, and findings are utilized to improve products, services, and business activities.

■Everything begins from the voice of the customer
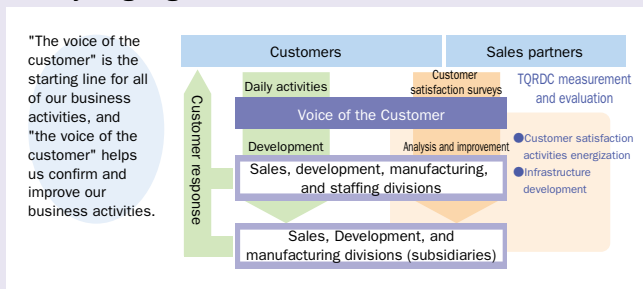
Employee Customer Satisfaction Awareness

We conduct a customer satisfaction education program to raise employees' awareness of customer satisfaction issues.

NEC Electronic conducts a level-specific customer satisfaction education program and utilizes e-learning to instruct all employees in matters related to customer satisfaction improvement in the aim to raise each employee's awareness of customer satisfaction issues.
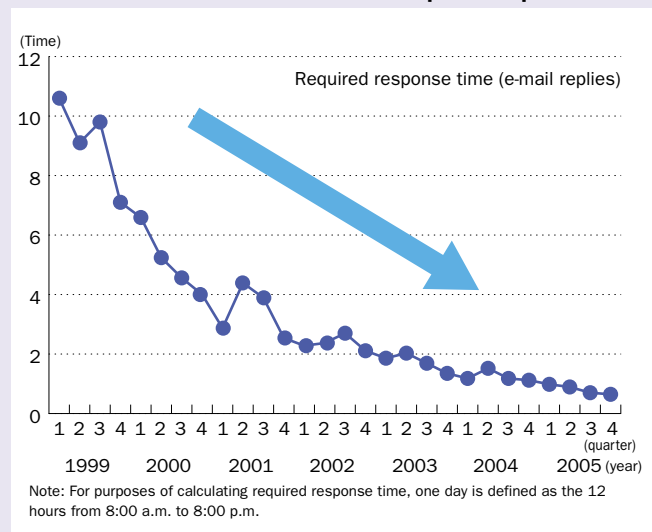
Semiconductor Hotline

We have set up a Semiconductor Hotline to respond to inquiries related to products and services.

NEC Electronics has set up a Semiconductor Hotline to provide a variety of technical information on products in order to help customers use our products and services safely, correctly, and effectively.

In fiscal 2005, we received approximately 10,000 inquiries by phone and e-mail from customers in and outside Japan. The Semiconductor Hotline endeavors to respond to inquiries as quickly and accurately as possible. We reply to 95% of e-mail inquiries within four business hours after receiving them.

Feedback on customer inquiries is relayed to all NEC Electronics divisions so that they can reflect the customer's voice in improvements made to products and services. In addition, the Q&A on our website answers commonly asked questions and questions about key matters are opened to facilitate information disclosure to customers.

■Semiconductor Hotline reduction of required response time

Note: For purposes of calculating required response time, one day is defined as the 12 hours from 8:00 a.m. to 8:00 p.m.

Quality Policies

As an IDM (Integrated Device Manufacturer), NEC Electronics leverages advanced technologies to develop and provide high-quality, high-reliability products that satisfy customers as well as contribute to the development of societies.

Quality Policy

We have defined a quality policy for pursuit of product reliability and safety.

The entire NEC Electronics Group makes a concerted effort to improve quality by implementing strict quality control in line with the company's quality policy in all phases of business including sales, development, and manufacturing.

Every NEC Electronics organization sets goals for quality improvement in each half of the fiscal year in conformity with our quality policy, and develops and implements plans to achieve goals. In addition, the top of each organization is obligated to report the progress of quality improvement activities to the management in each half of the fiscal year.

We have defined scenario-specific procedures to minimize negative impacts on all concerned parties, in the event that quality problems should occur.

Quality Policy

We aim to be the partner of choice by providing differentiated semiconductor solutions based on high-quality products and services that satisfy customer requirements and provide a competitive advantage.

Quality Management System

NEC Electronics Group is developing and implementing a quality management system in conformance with ISO 9001 and ISO/TS 16949 standards in the effort to improve customer satisfaction.

As part of the effort to strengthen quality control, the NEC Electronics Group has acquired ISO 9001 certification, which is international standard for quality management system. Quality management system is implemented by all NEC Electronics Group companies to ensure quality for the entire range of our sales, development, and manufacturing, in order to raise customer satisfaction and provide products and services of high quality and high reliability.

In view of the fact that we supply products to many companies associated with automotive production, we also acquired ISO/TS 16949 certification, which is the standard for quality management system in the automotive industry. The entire NEC Electronics Group is building sales, development, and manufacturing mechanisms in conformance with this standard in the effort to improve quality.

■**Quality management process**
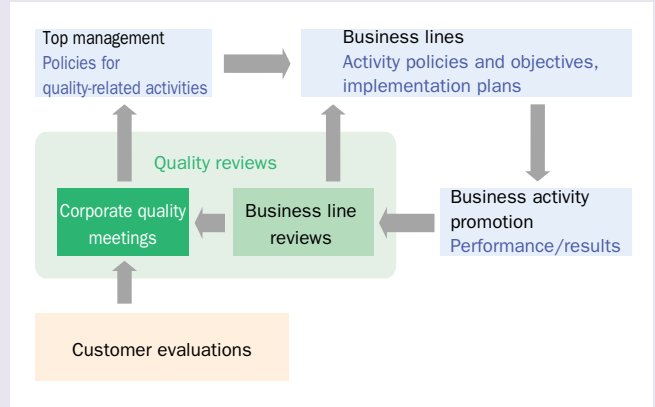
ISO 9001 Certificate of Registration

Quality Improvement

NEC Electronics implements quality improvement by establishing quality control procedures in every phase of business including design, procurement, and manufacturing.

Quality Assurance in the Design, Manufacturing, and Support Processes

We promote strict quality control in the design, manufacturing, and support processes.

Design process

NEC Electronics is working to build quality into products by developing advanced design environments and evaluative and analytic techniques appropriate for the latest technologies, employing design methods that meet requirements related to product miniaturization and larger-scale products, and utilizing the DRBFM tool (Design Review Based on Failure Modes) to prevent problems resulting from design changes and modifications. In addition, we standardize design methods and execute strict project management for software design, and also promote platform standardization in the effort to improve software quality.

Manufacturing process

To ensure reliable manufacture of products, NEC Electronics utilizes scientific and statistical methods to manage manufacturing processes, and 4M (Man, Machine, Material, Method) management to build quality into products. Also, we have developed a strict quality control and quality assurance system for early detection of indications of variations and abnormalities and prompt corrective action to prevent shipping of defective products.

Support

We are working to raise the quality of semiconductor technology reports and support services we provide customers and are developing a global support system so that our customers can use our products with confidence.

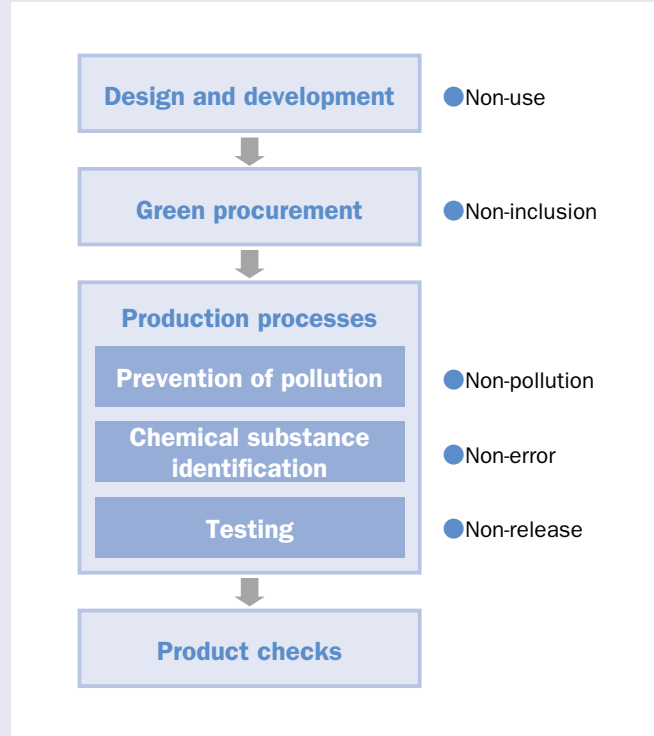■**Comprehensive quality improvement**
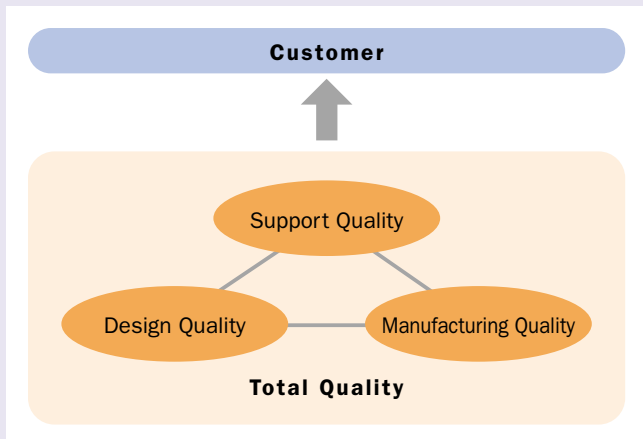
Strategies for Eco-conscious Products

NEC Electronics provides semiconductor products with minimal environmental impact and no certain hazardous substances.

Global efforts to protect the environment continue to move forward, manifested by environmental legislation such as the Directive 2002/95/EC on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (known as the "RoHS Directive") enacted in Europe in July 2006, and the Law for Recycling of Specified Kinds of Home Appliances in Japan.

The NEC Electronics Group is participating in this effort by devising and implementing a quality assurance system to regulate the use of chemical substances in all manufacturing processes. This involves promoting elimination of lead in products; activities to prevent pollution during product development, part procurement, and manufacturing processes; chemical substance identification; and product checks that enable us to provide semiconductor products our customers can use with confidence.

■**Chemical substance regulation in all manufacturing processes**

Design and development	Non-use
Green procurement	Non-inclusion
Production processes	
Prevention of pollution	Non-pollution
Chemical substance identification	Non-error
Testing	Non-release
Product checks	

Community Involvement

The NEC Electronics Group desires to work together with employees to make heartfelt contributions to society. Thus far, we have focused on developing work environments that make it easy for employees to participate in activities that contribute to communities. Moving forward, we will actively contribute to society as a good corporate citizen.

Basic Policies for Social Contribution Activities

We will promote social contribution activities by encouraging employees to be aware of community issues and by supporting their efforts to be of service to communities.

1. As a semiconductor manufacturer, NEC Electronics is deeply involved in issues of global environmental conservation. We will contribute to society as a good corporate citizen by doing our part to aid in environmental efforts and other issues of importance to local communities where we do business.
2. The NEC Electronics Group will engage in activities that contribute to improving and projecting a corporate image that is appropriate for a global enterprise.
3. We will participate in activities promoted by the NEC Group to contribute to NEC's brand value.

TALK about CSR

We are working to get as many people as possible involved in volunteer work.

Some people are interested in doing volunteer work but have never been given an opportunity. Others feel a little awkward about the prospect of doing volunteer work. I hope to get employees like these involved by making information available and planning projects that are easy to participate in. Volunteer work is an expression of the caring nature we all have. I want to do what I can to help make as many people as possible happy and put smiles on their faces.

For three years I've participated in the Rice Field Project organized by NEC Corporation and an NPO to revitalize lowland rice fields. In addition to helping the revitalization effort, working in the rice paddies and vegetable fields lets us experience the trials and joys of raising our own food.

I'll keep encouraging people to give projects like this a try—it's an easy and enjoyable way to get started in volunteer work.

Kayoko Denda
Corporate Communications Division
(photo taken during work at the Rice Field Project)

I count it a privilege to be involved in volunteer work.

Our employee volunteers believe that giving is a privilege and not an obligation or duty. I am proud that the company supports its local communities by hosting employee volunteer activities, which have a positive impact on local organizations. Our company's pledge to CSR is a source of pride for employees, and we are reminded how fortunate we are for what we have, which drives us to give back to the community.

Denise Garibaldi
NEC Electronics America

Heartfelt Social Contribution Activities

As a semiconductor manufacturer, the NEC Electronics Group is fully concerned with issues of global environmental conservation. We will contribute to environmental conservation and to the local communities as our social contribution activities.

Volunteer Support System

NEC Electronics is developing a system that facilitates employees participation in volunteer work, and makes information available on volunteer activities.

Family-friendly leave

Employees can use family-friendly leaves to participate in volunteer work. Many reports have been received from employees about a variety of volunteer activities they were able to participate in through this system.

Information on volunteer opportunities

Information on accessible opportunities for volunteer work is made available to employees on the internal website.

Volunteers association

Employees who work at NEC Electronics headquarters and the company facility in Sagamihara plant have formed a Volunteers Association. Members meet twice a year to exchange information about the volunteer activities they are involved in. Also, the association e-mails a variety of information related to volunteer work to members.

Public Relations

NEC Electronics actively publicizes community support efforts we undertake. As a result, many of our activities are written up in trade papers.

Dempa Shimbun article
(July 4, 2005)

Community-based Activities

As a good corporate citizen, NEC Electronics develops activities that contribute to local communities.

Cleanups

We regularly conduct river beautification cleanups of the Tamagawa River near our headquarters and the Sagamigawa River near the Sagamihara plant, and also cleanups of streets employees use to commute to work.

Tamagawa River beautification cleanup

Collection campaigns

Foreign coins, used stamps, calendars, and other items are collected for donation to local communities, the United Nations, and NPOs.
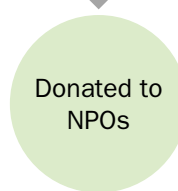
■**How collection campaigns work**

Stamps and coins

Calendars and personal planner notebooks

Separated by volunteers

Donated to local communities

Donated to NPOs

Distributed to community residents

Forest Conservation Activities

The semiconductor industry consumes enormous volumes of water; NEC Electronics is doing its part to help conserve water resources by actively promoting forest conservation activities.

Semiconductor Forest

Since July 2005, NEC Electronics has participated in the effort by Kanagawa Prefecture to protect Kanagawa's water resources by creating riverhead forests. One of these, the Yadoriki riverhead forest in the Yadoriki area of the town of Matsuda, is the location of our Semiconductor Forest, which we are working to protect and grow.

Yadoriki riverhead forest

Semiconductor Forest sign

Forest conservation lecture

Preceding project work, we invited a forestry instructor to speak to the employees on the importance of forests and forest preservation work.

Employees learn about the importance of forest preservation

Forest nature walks

Forest nature walks were held in the spring and fall of 2005, in our Semiconductor Forest. Many employees and their family members participated in the events to view the riverhead forest.

The nature walk in spring

The nature walk in fall

Forest thinning operations

Employees and their family members tried their hand at forest thinning operations, which are of primary importance to forest preservation. All the participants got a taste of the hard work involved in protecting forests.

First experience at being a lumberjack

Employees walk along the path into the forest

Yadoriki get-togethers

Employees and their family members participated in a Yadoriki get-together organized by Kanagawa Prefecture. The event was an opportunity for participants to make discoveries and have new experiences —like eating venison stew—that they would not normally encounter in everyday life. Everyone reported that it was a very satisfying day.

First taste of venison stew

Participants discovered unusual plants like this one

Certificate of appreciation from Kanagawa Prefecture

NEC Electronics' forest conservation activities earned us a certificate of appreciation from Kanagawa Prefecture Governor Matsuzawa. On this occasion, we renewed our commitment to be even more active in promoting forest protection efforts.

Executive Vice President Junshi Yamaguchi (left) receives the certificate of appreciation from Governor Matsuzawa

Partnership with NEC Corporation

As a member of the NEC Group, NEC Electronics actively cooperates in activities developed by NEC Corporation to contribute to communities.

Fund-raising

Relief funds were sent to aid victims of major natural disasters including Hurricane Katrina in the United States (September 2005) and the earthquake in Pakistan (October 2005).

NEC Make a Difference Day 2005

NEC Group employees around the world cooperate with this program, which began inspired by the slogan "Start small by doing what you can." The program gives employees opportunities to enrich both their communities and themselves. Also, ongoing participation in volunteer work helps to raise employees' awareness of their responsibility as corporate citizens to contribute to the needs of society.

Rice field project

NEC Electronics employees participated in a project to revitalize lowland rice fields that was launched by NEC Corporation in conjunction with the NPO Asaza Fund project to revitalize nature in the vicinity of Kasumigaura.

Rice field project

Community Involvement by Group Companies

We are developing community-based activities in local communities in and outside Japan.

NEC Semiconductors Indonesia

Employees visited a junior high school near the company and volunteered to paint classroom walls and repair desks and chairs. They also donated books and school supplies to the students.

Employees paint a school wall

NEC Electronics (China)

Students studying Japanese at the Beijing Language and Culture University toured the company facility. Employees at NEC Electronics China who graduated from the university talked to the students about their experiences making the transition from university student to working adult.

NEC Electronics America

Employees working at the Roseville Plant participated in the One Root Festival, an event to promote cross-cultural exchange. Japanese employees working at NEC Electronics America and their family members took part by teaching children how to fold origami objects and make fans and kites.

The One Root Festival

NEC Electronics Singapore

Employees held a charity auction of computers and other IT equipment and donated the proceeds from sales to an orphanage. They also held a tea party for the children and they all had a good time playing games.

NEC Semiconductors Ireland

Women employees participated in a mini-marathon for charity. Money raised by the event was donated to St. Luke's Hospital in Dublin.

The women who ran in the marathon

NEC Fukui

A Parent and Child Communication Class was held at a nearby elementary school as part of the Fukui Community School, a project jointly undertaken by residents, the community, and schools to promote community-wide education.

Parent and Child Communication Class

NEC Yamagata

A crafts bazaar was held in the cafeterias at the Tsuruoka East and Tsuruoka plants to promote understanding for the work activities of physically and mentally challenged persons and support their efforts toward self-reliance and also introduce their workshops.

NEC Yamaguchi

Employees dressed up as Santa Claus and delivered presents of Christmas cakes to elderly people in a special nursing home facility in the community.

Employees in Santa Claus outfits

Conserving the Global Environment

NEC Electronics is committed to the development and manufacture of leading-edge semiconductor products from the perspective of global sustainability, and to fulfilling our responsibilities as a green partner by responding to environmental needs.

NEC Electronics Environmental Policy

We will contribute to conservation of the global environment in the course of our activities within the semiconductor industry.

1. We will incorporate environmental considerations into all stages of our product life cycle, including development, procurement, manufacturing, sales, use, and disposal.
2. We will strive to prevent pollution as well as minimize impacts on the environment caused by chemical substances.
3. Our environmental management efforts will involve compliance with all environmental laws and regulations and other demands to which we have given our consent as well as establishment of our own voluntary environmental standards.
4. We will educate all employees in environmental management and foster awareness of environment, safety, and health.
5. We will regularly review environmental management system and continually improve environmental activities.

TALK about CSR

Through our environmental management system we are working to reduce our environmental impact.

The broad scope of our environmental activities requires all of our employees to make a conscious effort to reduce the environmental impact of their daily business activities. It is the responsibility of our division to contribute to reducing the company's environmental impact by ensuring that each division is steadfast in implementing the environmental management system in accordance with our environmental policies.

Takashi Kawai
Environmental Management Division

Environmental Management System

NEC Electronics is creating and implementing an environmental management system focused on three activities—eco-products, eco-factories, and eco-communication—in the effort to reduce our environmental impact and contribute to conservation of the global environment in the course of our activities in the semiconductor industry.

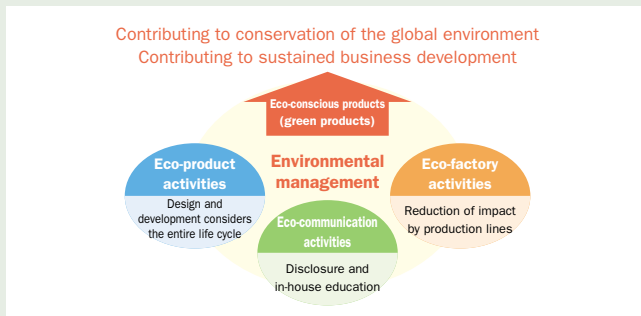## Eco-products, Eco-factories, Eco-communication

Promotion of environmental management revolves around three activities involving all our employees.

The NEC Electronics Group recognizes that global environmental issues are directly linked to continued development of its business. It is our intention to contribute to conservation of the global environment in all of our semiconductor manufacturing activities.

(1) We produce eco-products by incorporating environmental considerations into the entire product life cycle right from the design and development stage.

(2) In our eco-factories we are working to reduce the impact of production processes on the environment by reducing greenhouse gas emissions that contribute to global warming and by phasing out hazardous chemical substances.

(3) We promote eco-communication by offering environmental education programs that raise employees' awareness of environmental issues, and by making information on our eco activities widely available to the public.

We have built an environmental management system to serve as the infrastructure for promotion of these three pillars of environmental activities undertaken in all business areas with the full participation of all our employees.

■**Environmental management system**

Contributing to conservation of the global environment
Contributing to sustained business development

Eco-conscious products (green products)

Environmental management

Eco-product activities
Design and development considers the entire life cycle

Eco-factory activities
Reduction of impact by production lines

Eco-communication activities
Disclosure and in-house education

Environmental Management System

All employees of the NEC Electronics Group work together to develop and promote our environmental activities.

NEC Electronics has established an Environment Conference convened by the president that is responsible for deliberating environmental concerns related to all group companies. Decisions are implemented at the group level by the Executive Environmental Officer and the General Manager of Environmental Management Division. When dealing with matters of high specialization or prime importance, specialist sub-groups under the direction of the Executive Environmental Officer are set up to assist in deliberating and drafting strategies to deal with the issues at hand. The Environment Conference consists of members from both NEC Electronics and its group companies.

NEC Electronics also operates a separate internal environmental management system that conforms to ISO 14001 requirements, which is headed by the Executive Environmental Officer.

Eco-communication activities

We make environmental information available to the public in the effort to promote global information transmission.

We publish an environmental management report, disclose environmental information on our website, and participate in symposiums and exhibitions to facilitate global disclosure of information on our environmental efforts.

Website information disclosure

We provide environmental information services on our website, as one of the important tools we use for eco-communication. Our environmental policies, the content of our environmental efforts, and environmental reports are available to the public at the site. In view of the many inquiries we receive from customers concerning our lead-free activities, we have added searchable pages with information and data on recommended soldering conditions, solder joint reliability, and other related topics.

NEC Electronics Group companies also release environmental information on their own websites.

URL **http://www.necel.com/eco/en/**

Product-related environmental information provision to customers

In response to customer requests for information on the environmental impact of products and substances they contain, we developed and operate a database of environmental product information and organized a team that works full-time replying to customers' inquiries. Chemical substances contained in products can be checked immediately by accessing the database product composition tables. In this way, we can rapidly provide customers with accurate environmental information on products.

In addition to providing environmental product information, we have also formed a team whose sole job is to answer questions about RoHS compliance and environmental management systems implemented by the NEC Electronics Group. This enables us to quickly respond to requests for environmental information of a general nature.

Presentation at ISESH

At the International Semiconductor Environment, Safety, and Health Conference that was held in June 2005 in Portland, Oregon, NEC Electronics America made a presentation at the PFC session chaired by NEC Electronics.

The presentation was a chance to share information with semiconductor industry representatives from around the world about our PFC-alternative technology activities, including their contribution to environmental protection and how these measures are effective from an economical standpoint as well.

Eco-product Activities

NEC Electronics is committed to providing green products that are safe, harmless, and friendly to the environment, while also actively releasing environmental data related to our products. Our green products contribute to our customers' environmental solutions.

Small, Energy-saving Devices

We provide semiconductor devices with increasingly advanced functions and high-performance that help our customers build greener products.

The contribution of LSIs to IT products

In recent years, as IT product functions become increasingly advanced, they consume much less power and are lighter and more compact.

The NEC Electronics Group contributes to the achievement of these diametrically opposed requirements by making semiconductor devices that are smaller, contain more advanced functions, and consume less power per functional unit to provide solutions that help customers produce energy-saving products.

■ Examples of LSI contributions
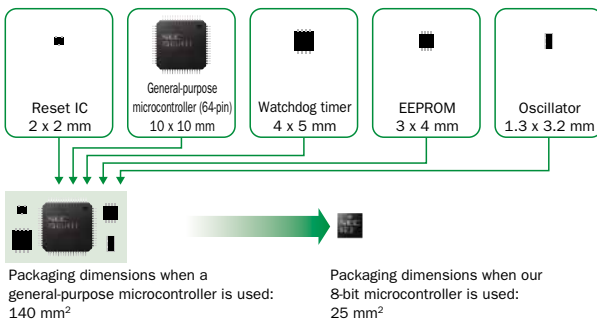
USB controller (ECOUSB™)

Smaller packages, embedded peripheral parts, and power-saving design enable development of smaller, more energy-efficient devices.

Comparison of operating currents (for 4 ports)

	Former product: UPD720112GK	ECOUSB™: UPD720114GA	% Reduction
Package size	Approx. 150 mm³	Approx. 50 mm³	67%
Full-speed mode (USB1.1)	52.3 mA	41 mA	22%
High-speed mode (USB2.0)	202 mA	149 mA	26%
Suspended state	920 μA	220 μA	76%

8-bit Microcontroller

Integration of the microcontroller and peripheral components on one chip enables reduction of the total packaging dimensions.
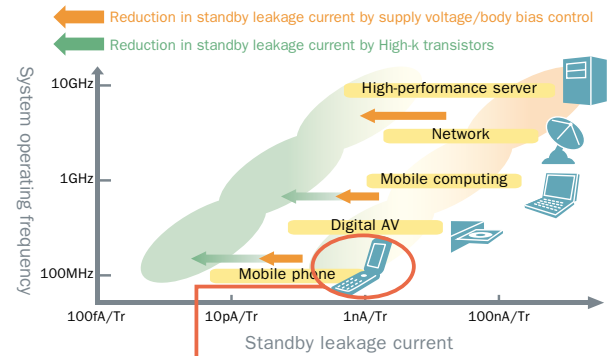
Reset IC
2 x 2 mm

General-purpose microcontroller (64-pin)
10 x 10 mm

Watchdog timer
4 x 5 mm

EEPROM
3 x 4 mm

Oscillator
1.3 x 3.2 mm

Packaging dimensions when a general-purpose microcontroller is used: 140 mm²

Packaging dimensions when our 8-bit microcontroller is used: 25 mm²

*The figures shown are the minimum dimensions necessary to package each component and do not include dimensions necessary for interconnects.

New energy-saving technologies

Leading-edge electronic devices now under development faced the challenge of physical limitations resulting in greater standby leakage current. By modifying materials and circuit technology, we have developed new technologies that achieve a ninety-percent reduction in leakage current. The new technology will enable our customers to offer products with reduced standby power consumption and lower CO_2 emissions.

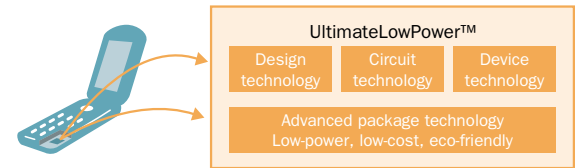## ■ Examples of power consumption reduction

Reduction in standby leakage current by supply voltage/body bias control
Reduction in standby leakage current by High-k transistors

System operating frequency

10GHz — High-performance server
— Network
1GHz — Mobile computing
— Digital AV
100MHz — Mobile phone

100fA/Tr   10pA/Tr   1nA/Tr   100nA/Tr
Standby leakage current

UltimateLowPower™

Brand new technologies enable LSIs with ultra-low power consumption

A synergy of device, circuit, and design technologies achieves power reduction in 65nm/55nm generation LSIs

■ 90 percent reduction in power consumed in standby mode by conventional mobile phones.

■ New technologies reduce power consumption in products ranging from high-speed digital consumer applications to low-end applications.

■ Ultra-low power consumption can be achieved with the same ease as conventional cell-based LSI design.

UltimateLowPower™

Design technology	Circuit technology	Device technology

Advanced package technology
Low-power, low-cost, eco-friendly

Life Cycle Assessment Efforts

LCA analysis of each product and manufacturing process enables NEC Electronics to reduce the environmental impact of products.

NEC Electronics employs LCA to evaluate environmental impact throughout the entire product lifecycle. The evaluation results obtained from LCA analysis of some of our products enabled us to become the first company in the semiconductor industry to acquire Type III EPD label certification for one microcontroller and four one-dimensional CCD sensors (two ceramic and two plastic sensors). The EPD program assesses the environmental impact of products at every stage from materials procurement to manufacture and shipping. Results are available on the website of the certification organization.

LCA analysis tools are also used to evaluate semiconductor manufacturing processes. The results are applied to product development design in the effort to provide our customers with products that have minimal impact on the environment.

Eco-factory Activities

Eco-factory is a term we coined to signify efforts by the NEC Electronics Group to reduce the environmental impact of our factories through efficient use of resources, reduction of greenhouse gas emissions, reduction and regulation of chemical substances, reduction and recycling of industrial waste, and implementation of environmental risk management.

Efficient Use of Energy

Our energy strategy comprises activities to promote efficient use of energy.

The NEC Electronics Group is currently working to reduce the amount of energy it consumes, with the goal of reducing CO_2 emissions per real production unit to 75% or less of the fiscal 1990 level by fiscal 2010. Thus far, we have actively participated in efforts by the semiconductor industry to use energy efficiently by working to eliminate wasteful use of energy, and reexamining our manufacturing processes. We also work closely with production facility and incidental facility industries to promote energy conservation measures.

Also, in recent years we have been implementing energy-saving measures from the standpoint of improved productivity.

Improving efficiency of existing manufacturing lines

The NEC Electronics Group has prepared a booklet of energy-saving measures that is used and applied by all manufacturing companies.

In the first half of fiscal 2005, we achieved implementation of 80% of the measures. The booklet is updated every year; the latest update in February 2006 added eight new energy-saving measures. At present, we have completed implementation of 61 of the 82 tasks and are at work on the remaining 21 tasks.

Improving efficiency of newer manufacturing lines

Recently, a mini-environment system was employed for a newly installed semiconductor manufacturing line. The system maintains a high level of cleanliness within a limited area of the clean room where products are handled, while lowering the cleanliness levels of other factory areas to increase energy efficiency. This system, combined with effective utilization of waste heat and outside air, helped cut energy consumption by 20% or more compared to a conventional system. The technology is also employed for the 300-mm wafer fabrication line installed at NEC Yamagata.

Greenhouse Gas Emission Reduction

We promote measures to reduce greenhouse gas emissions in our volume-production factories.

Greenhouse gases used by the NEC Electronics Group consist primarily of perfluorocarbon (PFC) gases used for cleaning reaction chambers* used in the semiconductor manufacturing process. Reducing PFC emissions is an urgent issue because of its long atmospheric life and high global warming potential some 10,000 times that of CO_2.

In light of this urgency, NEC Electronics is at work developing technologies that will enable reduction of PFC gas emissions to no more than 90% of the 1995 level by 2010.

In 2005, by implementing various emission reduction measures such as the optimization of gas usage conditions, use of substitute gases, and installation of PFC extraction equipment, we were success-

ful in reducing emissions below the previous year's level. In future, higher production volumes will no doubt be accompanied by a rise in greenhouse gas emissions. However, we will persevere in the effort to achieve our reduction targets through systematic introduction of various technologies in our volume-production factories.

*A reaction chamber is a vessel into which process gases are introduced to deposit thin films on wafers. Cleaning gases are used to clean reaction chambers.
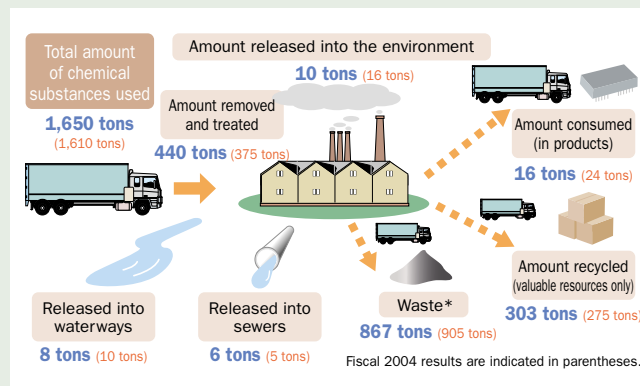
Strategies to Regulate Chemical Substances in Production Processes

We promote substitution and reduction of chemical substances based on usage conditions and PRTR input/output data.

The chemical substance database built by NEC Electronics contains a wide range of information concerning green procurement as well as laws and regulations. We refer to this database when conducting assessments. This makes it possible to identify the total amount of chemical substances in use and manage chemical substances from the viewpoint of toxicity, which serves as the foundation for R&D activities intended to create green products and eco-factories. In 1998, NEC Electronics joined a pilot PRTR scheme, under which we provide information required by law (such as reporting the use of chemical substances in amounts of five tons or more per year until March 2003, and one ton or more per year from April 2003). We also perform more precise chemical input/output numerical control for risk management.

Besides reporting, we also analyze results and relay feedback to enhance efforts to introduce substitutes for and minimize the use of hazardous chemical substances. Related activities at NEC Electronics, guidelines, and our database are available on our company website (in English and Japanese) to facilitate global information sharing by our subsidiaries in Japan and overseas.

■ PRTR data for fiscal 2005

Total amount of chemical substances used
1,650 tons (1,610 tons)

Amount released into the environment
10 tons (16 tons)

Amount removed and treated
440 tons (375 tons)

Amount consumed (in products)
16 tons (24 tons)

Amount recycled (valuable resources only)
303 tons (275 tons)

Released into waterways
8 tons (10 tons)

Released into sewers
6 tons (5 tons)

Waste*
867 tons (905 tons)

Fiscal 2004 results are indicated in parentheses.

*Includes recycling paid for by NEC Electronics.

Ethical Business Practices

NEC Electronics makes every effort to practice ethical, highly transparent management. We place primary importance on cooperating with our trading partners, and maintaining the confidence of our shareholders and investors over the long term by practicing timely and fair disclosure of appropriate corporate information.

Our approach to cooperation with trading partners

We aim to be a partner that can raise corporate value for both ourselves and our trading partners.

NEC Electronics is committed to conducting a fair and ethical business. We seek to provide trading partners a good understanding of our business and CSR activities and, through multilateral cooperation, raise corporate value for both ourselves and our partners.

Strengthening relationships of trust with our shareholders and investors

Building a conscientious and transparent management.

NEC Electronics constantly works to strengthen our competitive edge, improve profitability, and maintain sound operations. Moreover, we pursue sincere and transparent management, and implement good internal controls to become a company worthy of the confidence of all our stakeholders over the long term.
The NEC Electronics Group makes a concerted effort to practice the NEC Electronics Group Guiding Principles in our commitment to maximize the corporate value of the entire group.

TALK about CSR

The first step is to get a good understanding of the concept of corporate social responsibility.

My division conducts transactions with our purchasing partners every day. The first step in obtaining their cooperation for our corporate social responsibility efforts is to understand of the concept of corporate social responsibility ourselves. We are going to conduct more questionnaire surveys to research purchasing partners' activities. In such occasions, we also would like to take into careful consideration developments of standardization in the industry.

Haruki Mori
Purchasing Division

We work together with our distributors in the continuous effort to improve sales skills and technical knowledge.

Our distributors are our sales partners. I believe we need to bring the same spirit and maximum use of our respective skills to the variety of sales activities directed at customers that we undertake. We want to work together with our distributors in the effort to improve sales performance by offering a variety of training courses and seminars that contribute to maintaining and strengthening sales skills and technical knowledge on the individual level.

Satoshi Sato
Corporate Sales Planning Division

CSR is one of the important activities that maximize corporate value.

I believe that companies cannot achieve sustainable development unless, as corporate citizens, they act with the highest integrity. A proactive approach to corporate responsibility also leads to maximizing corporate value. We will continue to promote sincere and honest communication with our shareholders and investors through transparent disclosure of information in clear and understandable terms.

Yoshito Yahazu
Corporate Communications Division

Working Together with Purchasing Partners

We procure high quality materials and services at reasonable prices within appropriate delivery times from global markets, and work to raise corporate value of our customers, our purchasing partners, and the NEC Electronics Group.

Procurement Policies

We provide opportunities for fair competition, and engage in fair, impartial, and open business dealings.

Since its establishment, the NEC Electronics Group has given priority to green procurement, purchasing materials and equipment with minimum impact to the environment, from purchasing partners who care for the environment.

In fiscal 2004, we began implementing CSR procurement, in which we make more comprehensive evaluations of purchasing partners from the viewpoint of compliance, risk management, human rights protection and so on, in addition to our environmental evaluation. We have added requests to our purchasing partners on our website to pursue further improvements in the supply chain.

Procurement Policies

1. Provision of equal, competitive opportunities
   Information on procurement is provided in an appropriate and timely fashion so as to provide equal, competitive opportunities to all companies, both domestic and overseas, who express an interest in working with us.
2. Evaluation and selection of partners in a fair manner
   We employ a comprehensive partner evaluation and selection process that considers the reliability of the potential partner's management, as well as the prices, qualities, delivery dates, and advanced technologies of the products to be procured, and the partner's CSR policies.
3. Development of mutual trust
   We value communications with our partners and always strive to form relationships of mutual trust which all sides can build and use as a basis for expansion in the years to come.
4. Management and protection of information
   We recognize the value of the information that we obtain through our purchase transactions and manage it accordingly.

URL http://www.necel.com/procurement/en/
Website for purchasing partners

Practice of CSR Procurement

Performing procurement activities with consideration to CSR.

Disclosure of CSR Guidelines

We have formulated CSR Guidelines and disclosed them on our public website to better explain our requests to purchasing partners. This will help us to strengthen cooperative relationships with purchasing partners who supply us with the materials we use to manufacture products, and provide assurance to customers and consumers.

Major activities in fiscal 2005

Corporate social responsibility encompasses a broad range of activities. We have worked together with our purchasing partners on thorough implementation of green procurement for many years, and in fiscal 2005, we asked purchasing partners to also thoroughly implement risk management, compliance, and information security management.

In the area of risk management, we request that purchasing partners inform us immediately in the event that they meet with natural disasters, industrial accidents, or other catastrophes. We have developed a system for immediately relaying such information to all relevant persons around the world, even on weekends or holidays.

Promotion of green procurement

We achieved our goal of 100% green procurement for direct materials and packaging materials in March 2004, and indirect materials used in manufacturing processes and manufacturing facilities, fixtures, and tools in March 2006.

CSR audits

Previously, the individual NEC Electronics divisions conducted audits to survey how each of our purchasing partners met environmental, quality, and occupational health and safety requirements. However, in fiscal 2004, the divisions began conducting CSR audits of our purchasing partners that survey about compliance with laws and regulations and information security in addition.

Commendation of purchasing partners

We make annual evaluations of many activities undertaken by our purchasing partners, such as those related to product cost, quality, delivery time and technology. In fiscal 2005, we added CSR efforts to the items we evaluate. Based on the results of evaluations, we held a commendation ceremony in June to recognize purchasing partners that demonstrated excellence in these areas.

The commendation ceremony

Trophies

Working Together with Sales Partners

NEC Electronics will make ongoing, proactive efforts to strengthen partnerships with sales partners, whose close cooperation is indispensable to providing products and services to the market, and to strengthening trustworthy relationships with customers.

Strengthening Partnerships with Distributors in Japan

We are gaining a competitive advantage through teamwork with distributors.

Executive meetings
NEC Electronics holds regular meetings each half of the fiscal year with the executive teams of our distributors to strengthen partnerships at the management level, exchange information on trends in the electronics and semiconductor markets, and determine mutual tasks we need to undertake.

Support for sales training
NEC Electronics offers a variety of training courses and product information courses to help our distributors' sales persons and sales engineers acquire the knowledge and skills they need to sell our products.

During the course of a year, we offer about 160 training courses designed to raise technical skills and sales skills of our distributors' personnel. A total of approximately 1,000 people attend these training courses each year.

Design-Win Grand Prix
The Design-Win Grand Prix was conceived to honor distributors' sales persons and sales engineers whose outstanding achievements in sales and technical support contribute to improved customer satisfaction. Design-Win Grand Prix awards are given to top achievers based on evaluations of essays and presentations by candidates that introduce sales success stories.

In fiscal 2005, approximately 50 candidates participated in the Design-Win Grand Prix.

The Design-Win Grand Prix

Trophies

Strengthening Partnerships with Overseas Sales Partners

We are working with sales partners to promote community-based sales activities.

Partnerships in Europe and the United States
Each of our sales subsidiaries in Europe and the United States carries out direct sales, and also engages in sales activities together with local sales distributors. NEC Electronics holds sales conferences in the beginning of each fiscal year and regular quarterly meetings with executives from our sales subsidiaries to exchange opinions and discuss various ways in which we can strengthen our business partnerships.

Partnerships in Asia
Our sales subsidiaries in Asia maintain close relationships with distributors in the region. To provide adequate support for local and multinational customers in Asia, NEC Electronics is making an effort to enrich sales tools and sales infrastructure for our distributors that correspond to a variety of local needs, through close cooperation with our distributors.

Business Results in Fiscal 2005 (Year ended March 31, 2006)

To fulfill its corporate social responsibility, NEC Electronics continues to enhance the soundness and efficiency of its management system and to build integrity and transparency into management.

Business Results in Fiscal 2005

We are taking measures to increase orders and sales.

Semiconductor market conditions and NEC Electronics business results

The semiconductor market bottomed in the summer of 2005, particularly in Asia and North America, and is now making a gradual recovery worldwide. However, the semiconductor markets in Japan and Europe experienced negative growth due to saturation of Japanese mobile phone market, a larger-than-expected drop in prices of digital consumer products and slow transition to third-generation mobile phones in Europe.

With regard to NEC Electronics' consolidated financial results for the fiscal 2005, sales were 646.0 billion yen, a decline of 62.1 billion yen from the previous fiscal year. This was mainly due to significant decline in sales of semiconductors for mobile phones.

Loss before income taxes was 42.4 billion yen, a decrease of 68.8 billion yen from the previous fiscal year, despite our various efforts to improve productivity and cut costs. Net loss was 98.2 billion yen, a 114.2 billion yen decrease year on year. This was a result of the recording of a valuation allowance against deferred tax assets in accordance with generally accepted accounting principles in the United States of America.
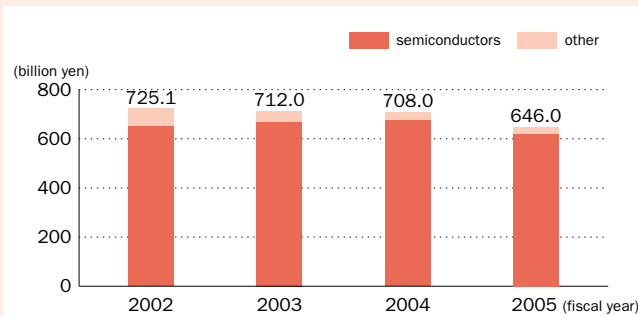
Measures to expand future sales growth

NEC Electronics carried out various measures for attaining future sales growth in fiscal 2005. In the area of product development, we focused on offering globally competitive products. This effort included expansion of our "All Flash" microcontroller lineup to support our customers' efficient product development. We also began volume shipping of system LSIs that incorporate advanced embedded DRAM technology. We began joint development with Toshiba Corporation and Sony Corporation on 45-nanometer* process technology, which will be a future core technology. The project will contribute to shorter development periods and strengthening our competitiveness.
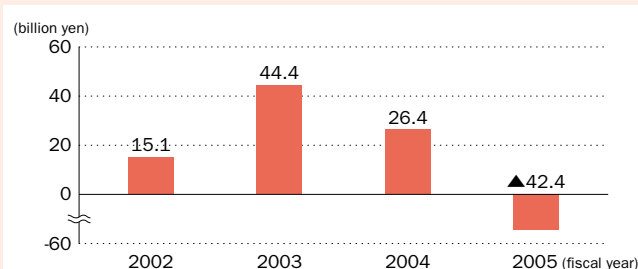
In the area of sales, we fortified our sales structure in China, where the semiconductor market is growing at a remarkable pace, by reorganizing and integrating our decentralized sales and design operations, which we re-launched as NEC Electronics (China) Co., Ltd. We were also the first Japanese semiconductor manufacturer to acquire rights to import and sell semiconductors in China that are manufactured outside China.

*One nanometer is equal to one-millionth of one millimeter.

Trends in consolidated net sales

(billion yen)

semiconductors / other

- 2002: 725.1
- 2003: 712.0
- 2004: 708.0
- 2005: 646.0

(fiscal year)

Trends in consolidated income (loss) before income taxes

(billion yen)

- 2002: 15.1
- 2003: 44.4
- 2004: 26.4
- 2005: ▲42.4

(fiscal year)

Sales by application

Fiscal 2005
646.0 billion yen

- Other 4.1%
- Communications 16.7%
- Computing and peripherals 19.6%
- Consumer electronics 15.9%
- Automotive and industrial 16.1%
- Multi-market ICs 10.8%
- Discrete, optical, and microwave devices 16.8%
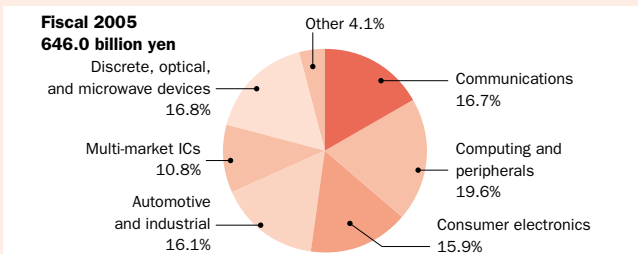
Sales by geographical segment

Fiscal 2005
646.0 billion yen

- Japan 54.6%
- Asia 22.2%
- Europe 11.3%
- United States 11.9%
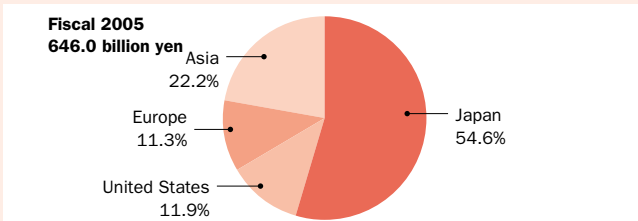
Distribution of ownership among shareholders

As of March 31, 2006

- Individuals, other 3.8%
- Securities companies 0.5%
- Domestic financial institutions 8.5%
- Foreign companies 22.0%
- Other companies 65.2%
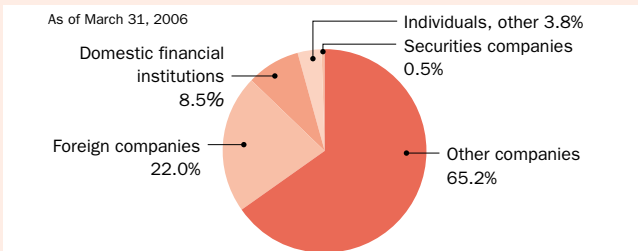
Ongoing Approach to Transparent Management

NEC Electronics is an open company that proactively practices transparent management through timely and fair disclosure of appropriate corporate information and other activities that promote sincere and honest communication.

Investor Relations

We are strengthening relationships of trust with shareholders and investors toward the creation of a favorable financing environment for the future.

NEC Electronics makes a sincere effort to practice timely, fair, and appropriate disclosure of information concerning important matters, which may affect investment decisions such as corporate management strategies and earnings. By doing so, we hope to build strong relationships of trust with our shareholders and investors and continually improve management transparency.

In addition to creating a favorable financing environment and raising corporate value, we believe that another important objective of investor relations activities involves improving the quality of management. We regularly report first-hand opinions and assessments of capital markets to the management team for further improvement.

Summary of investor relations activities

We are expanding our IR website to facilitate fair disclosure of information to all of our individual and institutional shareholders and investors in and outside Japan. Materials of financial results and corporate strategy meetings hosted by the president for institutional investors and financial analysts, including audio files are promptly placed on our IR website in both English and Japanese languages. We have also posted a site dedicated for individual investors to to promote better understanding of NEC Electronics. In addition, our IR website contains quarterly financial results, IR-related reports such as annual reports, stock prices, a calendar of IR events, and other information.

Financial results meeting

As a result of these efforts, we received an Excellent Corporate website evaluation from Nikko Investor Relations in its fiscal 2005 survey on the websites of all listed companies in Japan.

URL http://www.necel.com/ir/en/

The Top Corporate Website
2005
Nikko Invester Relations Co.,Ltd
Ranking by Secter ®
The Excellent Corporate website mark from Nikko Investor Relations

Open Shareholders' Meetings

Our general meetings of shareholders are open for direct dialogue with shareholders.

NEC Electronics believes shareholders' meetings are an important occasion for direct dialogue with shareholders and makes every effort to organize meetings to fulfill that function. This includes sufficient notice of shareholder's meetings by sending invitations to shareholder's three weeks in advance and displaying exhibits in the meeting venue that introduce our products and technologies with the aim of promoting a deeper understanding of our business.

The venue for shareholder's meetings

An exhibit introducing products and the applications they are used in

Company Profile

Company Profile

Company Name NEC Electronics Corporation
Headquarters 753 Shimonumabe, Nakahara-ku, Kawasaki, Kanagawa 211-8668, Japan
Established November 1, 2002
Capital Stock 86 billion yen (as of March 31, 2006)
Consolidated sales 646 billion yen (for the year ended March 2006)
Major operations Research, development, manufacture, sale and servicing of semiconductors, primarily system LSIs.
Employees(consolidated basis) about 24,000 (as of March 31, 2006)

History

1899 Nippon Electric Company, Ltd. (now NEC Corporation) is established.
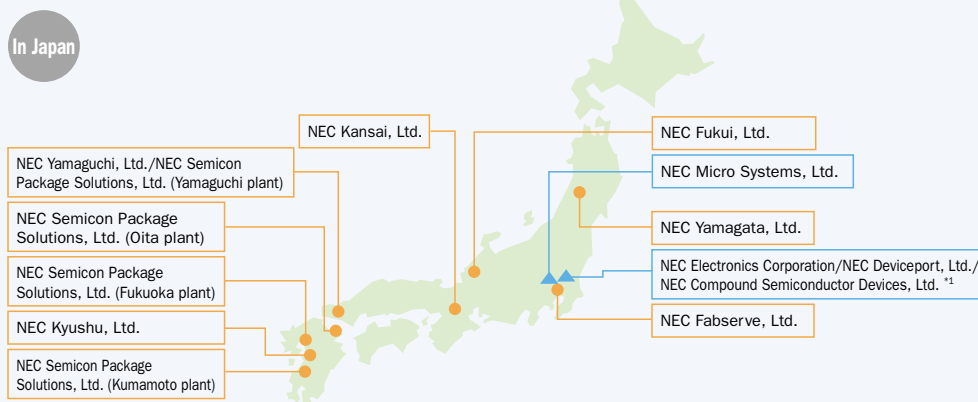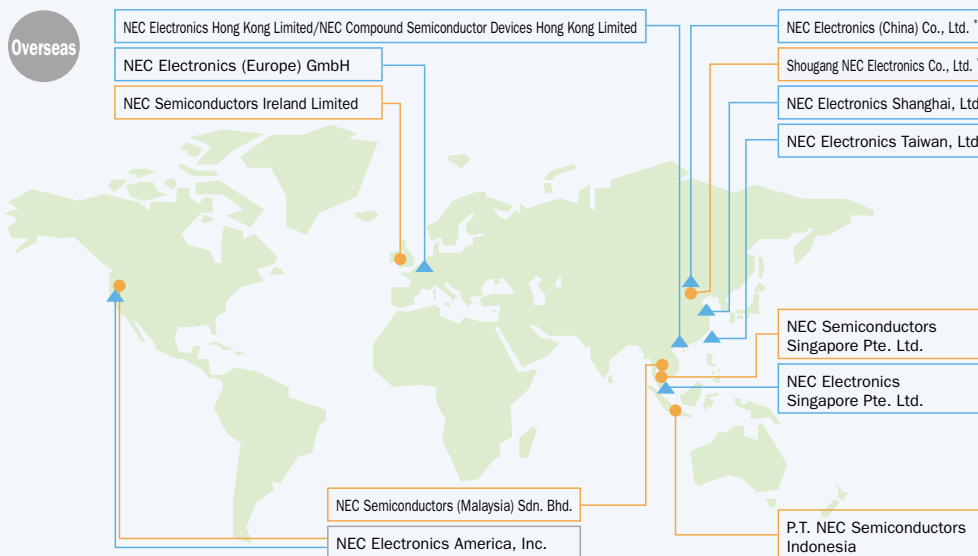1960 Begins integrated circuit R&D.
1985 Captures largest share of the global semiconductor market.
2002 NEC Electronics separated from parent company NEC Corporation and established as an independent semiconductor company.
2003 Makes initial public offering on the Tokyo Stock Exchange (First Section).

NEC Electronics Group global operations (as of March 31, 2006)

● Manufacturing companies   ▲ Sales and design companies

Overseas

NEC Electronics Hong Kong Limited/NEC Compound Semiconductor Devices Hong Kong Limited
NEC Electronics (Europe) GmbH
NEC Semiconductors Ireland Limited

NEC Electronics (China) Co., Ltd. *3
Shougang NEC Electronics Co., Ltd. *2
NEC Electronics Shanghai, Ltd.
NEC Electronics Taiwan, Ltd.

NEC Semiconductors Singapore Pte. Ltd.
NEC Electronics Singapore Pte. Ltd.

NEC Semiconductors (Malaysia) Sdn. Bhd.
NEC Electronics America, Inc.

P.T. NEC Semiconductors Indonesia

In Japan

NEC Kansai, Ltd.
NEC Fukui, Ltd.
NEC Yamaguchi, Ltd./NEC Semicon Package Solutions, Ltd. (Yamaguchi plant)
NEC Micro Systems, Ltd.
NEC Semicon Package Solutions, Ltd. (Oita plant)
NEC Yamagata, Ltd.
NEC Semicon Package Solutions, Ltd. (Fukuoka plant)
NEC Electronics Corporation/NEC Deviceport, Ltd./NEC Compound Semiconductor Devices, Ltd. *1
NEC Kyushu, Ltd.
NEC Fabserve, Ltd.
NEC Semicon Package Solutions, Ltd. (Kumamoto plant)

*1 NEC Compound Semiconductor Devices, Ltd. was absorbed by NEC Electronics Corporation on April 1, 2006.
*2 The sales division of Shougang NEC Electronics Co., Ltd. was integrated with NEC Electronics (China) Co., Ltd.*3
*3 NEC IC Design Beijing Co., Ltd., a sales and design subsidiary, was re-launched under the new name NEC Electronics (China) Co., Ltd.

About the Report

Editing Policies

● Beginning with the current fiscal year we will publish three reports-the Environmental Management Report, the Corporate Social Responsibility Report, and the Annual Report-that address the environmental, social, and economic activities of the NEC Electronics Group.

● This report is intended for all of NEC Electronics' many stakeholders—employees, customers, local communities where our businesses are located, trading partners, shareholders, and investors—with the objectives of presenting the concepts we hold and specific efforts we undertake related to corporate social responsibility and promoting two-way communication with stakeholders.

Guidelines used for Reference

● The Ministry of the Environment's *Environmental Reporting Guidelines 2003*

● GRI's (Global Reporting Initiative) *Sustainability Reporting Guidelines 2002*

Scope of Content

The content of this report relates to the 11 companies in Japan, including NEC Electronics Corporation, and 13 companies overseas that comprise the NEC Electronics Group.

Reporting Period

Fiscal 2005 (the fiscal year from April 1, 2005 to March 31, 2006). Some activities described in this report took place subsequent to the reporting period.

Publication Date

September 2006 (the fiscal 2006 issue is scheduled for publication in July 2007).

Detailed Information

In addition to the information contained in this report, detailed information on NEC Electronics' CSR efforts is available on our website at the URL shown below.

URL http://www.necel.com/csr/en/

Editor's postscript

Thank you for reading Corporate Social Responsibility Report 2006. This year's report begins with a special feature, The Role of the Semiconductor Industry in Society, that presents the contribution semiconductors make to automobiles as one example of the importance the NEC Electronics Group's semiconductor business plays in people's lives. We hope the article gives readers a better understanding of our semiconductor business. We will continue to issue reports such as this one and disclose various other information that helps to earn the confidence and trust of everyone with a stake in our company.

Please use the questionnaire form to let us know any questions you may have in regard to this report and your opinions and questions concerning corporate social responsibility activities undertaken by the NEC Electronics Group.

Direct inquiries to:

NEC Electronics Corporation
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