

NEC Corporation

Semiannual Report

Six months ended September 30, 1999

Web Computing

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SOLUTION
PROVIDER

PROGRESSIVE UNITY

A NEW NEC FOR
THE NEXT CENTURY

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SYSTEM ON A CHIP

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NEC Corporation

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Investor Relations home page: <http://www.nec.co.jp/ir-e>

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NEC

TO OUR SHAREHOLDERS

RESULTS OF OPERATIONS

During the first half of fiscal 2000, ended September 30, 1999, the U.S. and European economies recorded favorable growth while the Asian economy mostly remained on a recovery footing. In Japan, however, the operating environment is still difficult. Despite signs of an upturn in consumer spending, housing demand and public-sector capital investment, Japan's current rebound does not appear to be self-sustaining.

NEC's consolidated net sales increased 7 percent to ¥2,267.5 billion (\$21,192 million) compared with the first half of the previous fiscal year. Computers were mainly responsible for this growth. By region, sales in Japan, which accounted for 69 percent of the total for the period, rose 6 percent to ¥1,560.2 billion (\$14,581 million) and overseas sales increased 11 percent to ¥707.3 billion (\$6,610 million).

Earnings were affected by falling memory prices, the yen's appreciation and restructuring charges at subsidiaries. The result was an operating loss of ¥8.0 billion (\$75 million) compared with a profit of ¥15.3 billion one year earlier, and a net loss of ¥48.8 billion (\$457 million). The net loss per share was ¥30.02 (\$0.281). An interim dividend payment of ¥3.00 (\$0.028) per share was approved at the October 25, 1999 meeting of the Board of Directors.

RESULTS BY INDUSTRY SEGMENT

In communications systems and equipment, sales decreased 2 percent to ¥700.5 billion (\$6,547 million). Domestic sales of mobile phones and sales of PBXs and optical transmission systems in North America were brisk. However, this growth was outweighed by sluggish infrastructure demand from Japanese carriers as well as weak sales in Southeast Asia and Brazil. Operating income fell 79 percent to ¥11.4 billion (\$107 million).

In computers and industrial electronic systems, sales rose 17 percent to ¥1,026.2 billion (\$9,591 million). In addition to the contribution of Packard Bell NEC, which has been consolidated since the second half of the previous fiscal year, segment results were supported by higher demand for PCs in Japan and another strong performance by our domestic systems integration business. Operating income increased 13 percent to ¥16.2 billion (\$152 million). The systems integration business, in addition to productivity gains realized through increased application of

supply chain management and other measures were the chief reasons for the higher earnings.

In electron devices, sales increased 3 percent to ¥446.0 billion (\$4,168 million). Although memory prices fell, results were held up by solid demand for color LCDs. However, the steep fall in memory prices during the first three months of the period caused this segment to report an operating loss of ¥7.4 billion (\$69 million).

NEW MANAGEMENT FOR THE INTERNET ERA

Since our appointments as chairman and president of NEC, we have worked towards radically changing management methods at NEC. To position our businesses for consistent expansion, we firmly believe that we must transform NEC into a company that can create value in the Internet era. All of our businesses and our corporate structure will focus on the Internet.

— *Providing Internet solutions*

Under our new strategy that we call "Invitation to the Internet," NEC will offer a broad range of solutions to customers by focusing all our resources on the Internet domain. There are three elements to this strategy.

First, we will strengthen and position our BIGLOBE Internet service provider, one of Japan's largest, as the driving force for all of NEC's Internet activities. We want to open the door to the Internet for a broad range of participants and work with them to foster win-win relationships in which we can generate profits with our partners. As the first step in this strategy, BIGLOBE formed an alliance with Intel Online Service, an Internet hosting services business of Intel Corporation. With access to Intel's data centers, BIGLOBE can offer global Internet services with the reliability and scale needed to succeed in the business-to-business and business-to-consumer markets.

Second, in order to compete and win against industry-focused companies anywhere in the world, we will reorganize our businesses into three in-house companies in April 2000. "NEC Solutions" will offer Internet solutions for companies, individuals and the public sector. "NEC Networks" will be a supplier of Internet solutions for network operators. "NEC Electron Devices" will supply key components essential to future progress in all parts of the Internet world.

Third is a far-reaching program to give NEC the appropriate structure for a major Internet participant. All of the company's systems, including research and development, will be realigned to support our strategic focus on Internet businesses. The Internet Business Strategy Office, overseen by the president, was inaugurated on October 1, 1999. Its scope of work spans the entire company and includes the promotion of alliances and other new forms of cooperation with partners. Research and development will concentrate on electron devices and services that are critical for realizing the next-generation Internet society.

In order to ensure that each in-house company is a self-reliant, profitable enterprise, we will give each one much more autonomy and the tools to formulate and implement its own strategies. Each will be responsible for the entire business process from R&D and production through marketing. All NEC business units will be managed to optimize earnings, free cash flows, growth in sales, ROE and the debt-equity ratio. Every in-house company, and the individual businesses within those companies, will be evaluated against these standards.

— *Dealing with underperforming businesses*

NEC has already taken decisive actions to turn around unprofitable operations. NEC Home Electronics Co. Ltd. is undergoing a dramatic restructuring which includes a transfer of the display monitor business to a joint venture with Mitsubishi Electric Corporation. At U.S. Packard Bell NEC, the production facility will be closed and employment cut to about one-fifth of current levels by the end of 1999. The operations of this company will be taken over by a new subsidiary owned by Packard Bell NEC Europe. We will concentrate on selling PCs and servers to corporate customers in the U.S. through the new company. In the DRAM sector, we have agreed to form a development and marketing joint venture with Hitachi, Ltd. Combining the expertise of NEC and Hitachi, two of the world's leading names in the DRAM business, will allow us to improve profitability by speeding up development and introduction of new technology and cost-cutting.

NEC will continue with the ongoing strategic review of all group companies. The aim is to establish a business mix that optimizes returns on capital and shareholder value. We intend to move more quickly than we already have to fulfill these objectives.

— *More effective corporate governance*

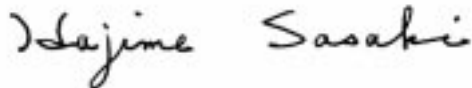
To implement the steps outlined above, NEC will make managers more accountable for reaching their goals. One step in this direction is cutting the size of the Board of Directors by about half and introducing the company officer position and company board system. This will create a better division of responsibility and accountability. The role of the directors will be to concentrate on fundamental management strategy while the in-house company boards will have a large degree of autonomy in managing their respective companies. Going one more step, we will disclose the results of each in-house company from the coming fiscal year onward. These measures will give NEC's management the speed and flexibility needed for success in today's markets.

NEC AND CORPORATE VALUE

The central goal of all of the actions outlined thus far is to increase the value of NEC. We will do this by mobilizing the expertise of our employees to supply products and services of the highest quality. We are well aware that more value for customers and employees equates to higher value for shareholders as well over the medium and long terms.

And, as we stand on the verge of the 21st century, we are determined to create a new NEC that is capable of taking on the challenges it will bring. We pledge to do what needs to be done, comprehensively and quickly, and ask for your support as we proceed.

November 1999



HAJIME SASAKI
Chairman of the Board



KOJI NISHIGAKI
President

CONSOLIDATED BALANCE SHEETS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of September 30, 1998 and 1999

The statements are subject to year-end adjustments and audit.

ASSETS	In millions of yen		In thousands of U.S. dollars
	1998	1999	1999
Current assets:			
Cash and cash equivalents	¥ 214,136	¥ 296,843	\$ 2,774,234
Marketable securities	116,674	98,505	920,607
Notes and accounts receivable, trade	1,004,009	862,420	8,060,000
Allowance for doubtful notes and accounts	(8,974)	(17,790)	(166,262)
Inventories	973,097	806,270	7,535,234
Income tax prepayments	43,759	89,072	832,449
Prepaid expenses and other current assets	73,368	78,365	732,383
Total current assets	2,416,069	2,213,685	20,688,645
Long-term receivables and investments:			
Marketable securities	177,477	177,907	1,662,682
Investments and advances—			
Affiliated companies	292,275	183,175	1,711,916
Other	151,782	163,105	1,524,346
Long-term receivables, trade	36,728	37,810	353,364
	658,262	561,997	5,252,308
Property, plant and equipment:			
Land	112,879	111,216	1,039,402
Buildings	950,215	951,353	8,891,150
Machinery and equipment	2,473,577	2,321,191	21,693,374
Construction in progress	123,259	67,610	631,869
	3,659,930	3,451,370	32,255,795
Accumulated depreciation	(2,261,487)	(2,281,608)	(21,323,439)
	1,398,443	1,169,762	10,932,356
Other assets:			
Income tax prepayments	98,755	212,362	1,984,692
Other	290,785	389,181	3,637,205
	389,540	601,543	5,621,897
	¥4,862,314	¥4,546,987	\$42,495,206

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen		In thousands of U.S. dollars
	1998	1999	1999
Current liabilities:			
Short-term borrowings	¥ 718,813	¥ 486,497	\$ 4,546,701
Current portion of long-term debt	220,573	247,753	2,315,449
Notes and accounts payable, trade	783,773	788,312	7,367,402
Employees' savings deposits	714	363	3,393
Other current liabilities	399,897	395,459	3,695,878
Total current liabilities	2,123,770	1,918,384	17,928,823
Long-term liabilities:			
Long-term debt	1,355,544	1,394,261	13,030,477
Accrued pension and severance costs	243,117	344,055	3,215,467
Other accruals	21,785	9,264	86,579
	1,620,446	1,747,580	16,332,523
Minority shareholders' equity in consolidated subsidiaries	68,111	61,620	575,888
Non-voting redeemable convertible preferred stock	—	39,818	372,131
Shareholders' equity:			
Common stock, ¥50 par value—			
Authorized— 3,200,000,000 shares			
Issued 1998—1,598,538,791 shares	216,310	—	—
1999—1,628,059,020 shares	—	230,719	2,156,252
Additional paid-in capital	331,188	346,150	3,235,047
Legal reserve	34,815	36,423	340,402
Retained earnings	447,580	243,579	2,276,439
Accumulated other comprehensive income (loss)	20,097	(77,248)	(721,944)
	1,049,990	779,623	7,286,196
Treasury stock, at cost—			
1998— 3,223 shares	(3)	—	—
1999—17,954 shares	—	(38)	(355)
	1,049,987	779,585	7,285,841
	¥4,862,314	¥4,546,987	\$42,495,206

Note: Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," has not been adopted by the Company. If SFAS No. 115 had been implemented, shareholders' equity as of September 30, 1999, would have increased by ¥91,641 million (\$856,458 thousand).

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the six months ended September 30, 1997, 1998 and 1999

The statements are subject to year-end adjustments and audit.

	In millions of yen			In thousands of U.S. dollars
	1997	1998	1999	1999
Sales and other income:				
Net sales	¥2,371,610	¥2,113,093	¥2,267,512	\$21,191,701
Interest, gain on securities sold, dividends and other	23,874	35,747	37,265	348,271
	2,395,484	2,148,840	2,304,777	21,539,972
Costs and expenses:				
Cost of sales	1,626,679	1,490,420	1,664,427	15,555,393
Selling, general and administrative	638,132	607,379	611,078	5,711,009
Interest	29,507	26,324	27,618	258,112
Other	35,946	49,261	60,067	561,374
	2,330,264	2,173,384	2,363,190	22,085,888
Income (loss) before income taxes	65,220	(24,544)	(58,413)	(545,916)
Income taxes	30,464	(648)	(7,619)	(71,206)
Income (loss) before minority interest and equity in earnings of affiliated companies	34,756	(23,896)	(50,794)	(474,710)
Minority interest in income (loss) of consolidated subsidiary companies	1,084	(1,464)	(2,310)	(21,589)
Income (loss) before equity in earnings of affiliated companies	33,672	(22,432)	(48,484)	(453,121)
Equity in earnings (losses) of affiliated companies	2,091	2,700	(363)	(3,393)
Net income (loss)	35,763	(19,732)	(48,847)	(456,514)
Comprehensive income:				
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments for the year	(16,734)	7,235	(19,842)	(185,439)
Minimum pension liability adjustment	—	—	36	336
Other comprehensive income (loss)	(16,734)	7,235	(19,806)	(185,103)
Comprehensive income (loss)	19,029	(12,497)	(68,653)	(641,617)
Retained earnings:				
Balance at beginning of year	455,205	476,838	299,148	2,795,776
Net income (loss)	35,763	(19,732)	(48,847)	(456,514)
Dividends	(8,611)	(8,792)	(5,951)	(55,617)
Transfer to legal reserve	(839)	(734)	(771)	(7,206)
Balance at end of period	¥ 481,518	¥ 447,580	¥ 243,579	\$ 2,276,439

Note: For computation of comprehensive income which is required by Statement of Financial Accounting Standards (SFAS) No. 130 "Reporting Comprehensive Income," NEC Corporation excludes effects of adopting SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities."

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 1998 and 1999

The statements are subject to year-end adjustments and audit.

	In millions of yen		In thousands of U.S. dollars
	1998	1999	1999
Net cash provided by operating activities:			
Net income (loss)	¥ (19,732)	¥ (48,847)	\$ (456,514)
Depreciation	147,241	127,501	1,191,598
Other	(85,372)	107,840	1,007,850
	42,137	186,494	1,742,934
Net cash used in investing activities	(224,303)	16,113	150,589
Free cash flow	(182,166)	202,607	1,893,523
Net cash provided by financing activities	76,352	(222,843)	(2,082,645)
Effect of exchange rate changes on cash and cash equivalents	974	(2,590)	(24,205)
Net change in cash and cash equivalents	¥(104,840)	¥ (22,826)	\$ (213,327)

PRINCIPAL ACCOUNTING OFFICER'S CERTIFICATE

In my opinion, the accompanying consolidated balance sheets and consolidated statements of income, comprehensive income and retained earnings and of cash flows (condensed) present fairly the financial position of NEC Corporation and its consolidated subsidiary companies at September 30, 1999, and the results of their operations for the six months then ended, in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis.

October 25, 1999



SHIGEO MATSUMOTO
Executive Vice President

INDUSTRY SEGMENT INFORMATION

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 1998 and 1999

The following segment information is prepared in accordance with the regulations under the Securities and Exchange Law of Japan.

	In millions of yen		In thousands of U.S. dollars
	1998	1999	1999
Net sales			
Communications systems and equipment			
Unaffiliated customers	¥ 712,353	¥ 700,501	\$ 6,546,738
Intersegment	14,963	16,553	154,701
Total	727,316	717,054	6,701,439
Computers and industrial electronic systems			
Unaffiliated customers	879,361	1,026,237	9,591,000
Intersegment	38,196	47,617	445,019
Total	917,557	1,073,854	10,036,019
Electron devices			
Unaffiliated customers	431,238	445,972	4,167,963
Intersegment	72,129	86,296	806,505
Total	503,367	532,268	4,974,468
Others			
Unaffiliated customers	90,141	94,802	886,000
Intersegment	47,019	40,332	376,935
Total	137,160	135,134	1,262,935
Eliminations	(172,307)	(190,798)	(1,783,160)
Consolidated	¥2,113,093	¥2,267,512	\$21,191,701
Operating profit (loss)			
Communications systems and equipment	¥ 55,017	¥ 11,418	\$ 106,710
Computers and industrial electronic systems	14,405	16,214	151,533
Electron devices	(23,823)	(7,430)	(69,439)
Others	(121)	(2,059)	(19,243)
Corporate expenses	(30,184)	(26,136)	(244,262)
Consolidated	¥ 15,294	¥ (7,993)	\$ (74,701)

Note: Corporate expenses include general corporate expenses at the parent company and R&D expenses at the Central Research Laboratories.

CORPORATE DIRECTORY

JAPAN

Consolidated Subsidiaries

The Company has 86 consolidated subsidiaries throughout Japan.

Manufacturing Plants

The Company has six major plants in or near Tokyo, and its consolidated subsidiaries maintain 54 plants throughout Japan.

Marketing Network

The Company and its consolidated subsidiaries have approximately 440 sales offices located in major cities throughout Japan.

R&D Facilities

The Company has five R&D facilities near Tokyo and two in the Osaka area.

OVERSEAS

Consolidated Subsidiaries

The Company has 74 consolidated subsidiaries in 23 countries.

Manufacturing Plants

The Company's 66 majority-owned manufacturing subsidiaries and affiliates (in which it has ownership interests of 20% to 50%) operate a total of 66 plants in 21 countries.

Marketing Network and Liaison Offices

The Company has 152* marketing and service subsidiaries and affiliates in 34 countries and 21 liaison offices in 21 countries.

R&D Facilities

The Company has three R&D facilities in the United States and one in Germany.

**Including 46 manufacturing subsidiaries and affiliates*

INVESTOR INFORMATION

Transfer Agent for Common Stock

The Sumitomo Trust and Banking Company, Limited
4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

Stock Exchange Listings and Quotations

NEC common stock is listed on the Tokyo and seven other stock exchanges in Japan. Overseas listings are on the Frankfurt Stock Exchange (in the form of a Global Bearer Certificate), the Swiss Exchange (in the form of Swiss Bearer Depositary Receipts), the London Stock Exchange, and Amsterdam Exchanges.

American Depositary Receipts for common stock (Symbol: NIPNY) are quoted in the NASDAQ system in the United States.

Depository for American Depositary Receipts (ADRs)

The Bank of New York
101 Barclay Street, New York, NY 10286, U.S.A.
Telephone: (212) 815-2042
U.S. toll free: (888) 269-2377 (888-BNY-ADRS)

Sponsoring Bank for Global Bearer Certificate (GBC)

Deutsche Bank AG
Taunusanlage 12, 60325 Frankfurt am Main, Germany

Depository Agent for Swiss Bearer Depositary Receipts (SBDs)

UBS AG
P.O. Box 8098, Zurich, Switzerland

• *NEC and BIGLOBE appearing in this semiannual report are trademarks of NEC Corporation in Japan and other countries.*

FINANCIAL HIGHLIGHTS

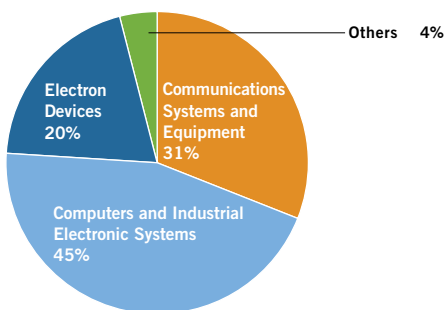
NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six-month periods ended September 30, 1997, 1998 and 1999

	In millions of yen			In thousands of U.S. dollars	Percent change
	1997	1998	1999	1999	1999/1998
Net sales	¥2,371,610	¥2,113,093	¥2,267,512	\$21,191,701	7%
Domestic	1,785,919	1,478,178	1,560,196	14,581,271	6
Overseas	585,691	634,915	707,316	6,610,430	11
Net income (loss)	35,763	(19,732)	(48,847)	(456,514)	—
Per share of common stock (in yen and U.S. dollars):					
Net income (loss)					
Basic	22.53	(12.35)	(30.02)	(0.281)	—
Diluted	20.26	(12.35)	(30.02)	(0.281)	—
Cash dividends	5.50	5.50	3.00	0.028	-45
Per American Depositary Share, each representing 5 shares of common stock (in yen and U.S. dollars):					
Net income (loss)					
Basic	113	(62)	(150)	(1.402)	
Diluted	101	(62)	(150)	(1.402)	
Cash dividends	28	28	15	0.140	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥107=US\$1.

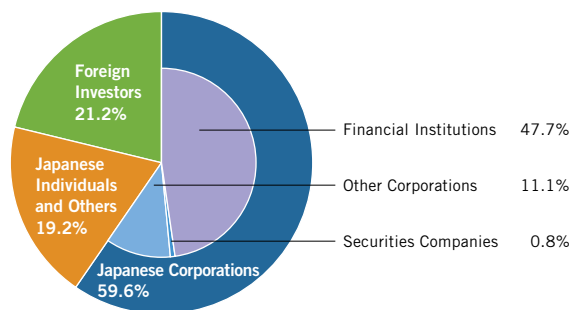
SALES BY PRODUCT



(Six months ended September 30, 1999)

COMPOSITION OF SHAREHOLDERS

(% of shares held)



(As of September 30, 1999)