

Q What is NEC doing to develop its computer business in today's increasingly competitive information technology market?

A With a soaring number of users, the Internet has rapidly become commonplace in recent years, focusing attention on new information systems adopting the latest Internet technology. In 1997, NEC introduced a new framework to construct information systems, named the WebComputing Framework, which incorporates Internet technology and distributed object technology. Playing a pivotal role in this framework are our competitive Express5800 series of PC servers and PC98-NX series of PCs. On the software side, NEC is strengthening its product lineup, not only through its own development efforts but also by acquiring cutting-edge information technology through alliances with other companies. NEC's leading-edge systems integration services make full use of these competitive hardware and software products to offer customers optimal solutions. The WebComputing Framework is the key to increasing sales and earnings in NEC's computer business.

In fiscal 1998, sales of computers and industrial electronic systems decreased 5 percent, to ¥1,977.2 billion (\$14,866 million), and accounted for 40 percent of net sales. Despite the sluggish domestic economy, corporate investment in information systems was firm, reflecting the increased use of the Internet and local area networks (LANs). For this reason, NEC's sales in software, systems integration, and server businesses expanded, but, due to a slump in the domestic PC market caused by stagnant consumer spending, PC sales fell severely.

>> **Software and systems integration business** grew, thanks to increasing corporate need for information sharing via groupware as well as for data analysis and decision-making support through the utilization of Data Warehouse software.

>> As for **mainframes**, shipments of small-scale models grew on account of the introduction of products with dramatically improved price performance. However, because shipments of medium-sized and large mainframes decreased, overall sales remained at almost the same level as the previous period.

>> Sales of **servers** rose, thanks to the increasing need for open systems and an expansion in the use of PCs in network environments. With a broad product lineup and extensive sales and support channels, market share grew for the Express5800 series, already Japan's best-selling line of PC servers. In fiscal 1998, NEC formed an alliance with Microsoft Corporation in the enterprise server field, including the codevelopment of next-generation high-performance servers for mission-critical operations. Furthermore, NEC's UNIX server, which offers high reliability, enjoyed strong sales.

>> Meanwhile, sales of **PCs** dropped, as domestic sales of consumer desktop PCs were especially poor. In an era of worldwide network connections, the adoption of global standards is imperative to NEC's success. During the term, NEC moved away from a strategy of proprietary PC standards by launching the PC98-NX series, which conforms to new global standards for next-generation PCs. In overseas business developments, Packard Bell NEC, an affiliated company that recorded a loss in 1997 due to intensified competition in the U.S. PC market, has been implementing restructuring measures, including the consolidation of its facilities.

>> NEC manufactures and sells **industrial electronic systems**, including network management systems, postal automation systems, and factory automation systems. Sales of postal automation systems rose substantially, due to the introduction of new sorting machines accompanying the change of Japan's postal codes from five to seven digits.

Highlights of the Year

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| □ Share expands for market-leading Express5800 series of PC servers |
| □ Alliance with Microsoft Corporation formed in enterprise server field |
| ■ PC98-NX series, conforming to new global standards, launched |
| □ WebComputing Framework for constructing new information systems announced |
| ■ Order received for basic architecture design for ultracomputer |
| ■ Multimedia service business established in Australia |
| ■ Shipment of postal automation systems to Finland begun |

Multimedia Service Business Established in Australia

NEC Australia Pty. Ltd. was contracted by the state of Victoria, Australia, to build and administer a system for an electronic public service, called Electronic Service Delivery. To administer this service, NEC Australia established Maxi Multimedia Pty. Ltd., a joint venture with a local software company.

With the Electronic Service Delivery, state residents will be able to enjoy such convenient public services as electronically paying utility bills and applying



for certificates at kiosk terminals placed in public locations or by telephone or Internet-connected PCs in the home and office.

PC98-NX series, Conforming to New Global Standards, Launched

With the development of the multimedia age, demand is growing for new PCs that can readily handle a variety of data, including text and graphics, in network environments.



NEC launched the PC98-NX series, which complies with "PC97/PC98 System Design," new global PC standards advocated by Microsoft Corporation and Intel Corporation, both of the United States. This new series boasts superior operability, including fast start-up and simple peripheral connection. It also offers a faster processing capability for large amounts of multimedia data in network environments.



Shipment of Postal Automation Systems to Finland Begun

NEC has begun supplying Finland Post with the latest automated postal processing systems. As well as improving the ability to scan addresses and postal codes, convert this information into barcode form,

print the barcode on the item, and sort items in the order of delivery, NEC's new system boasts highly accurate alpha-numeric handwriting recognition technology. Through this technology, NEC aims to increase its global market share in postal automation systems.

Order Received for Basic Architecture Design for Ultracomputer

As part of its Earth Simulator Project, Japan's Science and Technology Agency is planning for the fiscal 2002 introduction of an "ultracomputer" with approximately 1,000 times the execution speed of the existing supercomputer used in the meteorological and environmental fields. NEC received an order to draw up the basic architecture design for this project.

The Earth Simulator Project will establish a computerized "virtual earth" to study and simulate the process of long-term climatic change. Through participation in this project, NEC hopes to contribute to solving environmental problems.