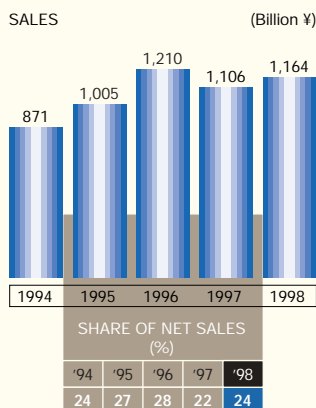


During fiscal 1998, overseas sales increased 5 percent, to ¥1,164.1 billion (\$8,753 million), and accounted for 24 percent of net sales. This rise was attributable primarily to strong sales of communications infrastructure equipment in Asia, Latin America, and Europe as well as of semiconductors in Asia, Europe, and North America.

## ASIA AND OCEANIA

The sharp depreciation of Asian currencies precipitated by the drop in the value of the Thai baht created an extremely severe operating environment. However, its wide-ranging activities in Asia helped NEC record increased sales in the region. Particularly strong contributors to this expansion were the sales of communications infrastructure equipment in China. >> During the year under review, NEC strengthened its strategic alliances in China by establishing a semiconductor manufacturing joint venture company in Shanghai and by signing an agreement to establish a joint venture for semiconductor design in Beijing. In addition, NEC increased its assembly capacities at its semiconductor plants in Singapore, Malaysia, and Indonesia. Also, NEC established a subsidiary for the manufacture and sale of digital switching systems in Vietnam, a country with significant latent demand. >> NEC is promoting multimedia business in Asian countries. In Hong Kong, where a commercial interactive TV service was launched in March 1998, NEC delivered both leading-edge infrastructure equipment and set-top boxes (STBs). Furthermore, NEC won an order for a trial system of multimedia on demand in Guangdong, China. In Taiwan, NEC was awarded an order for an intracompany network project from a major convenience store



## Highlights of the Year

- Production of electronic components begins in the Philippines
- NEC expands Russian communications systems business
- Semiconductor production capacity increased at NEC's plant in Scotland
- Orders received for CDMA systems in Brazil
- NEC posts strong sales of PBXs in the United States
- New orders for supercomputers are favorable
- NEC's LCD monitors are well received in Europe
- NEC receives order for automated postal processing systems in Taiwan
- NEC begins display monitor production in Mexico
- Strategic tie-ups formed with major European companies

#### NEC Receives Order for Automated Postal Processing Systems in Taiwan

NEC is working to expand its automated postal processing systems business in overseas markets. In fiscal 1998, NEC received a large order for such systems in Taiwan, covering five major cities of the country. NEC's systems integration capabilities, in addition to its advanced mail processing technologies, was the key to winning the order.

#### NEC Starts Production of Electronic Components in the Philippines

During the year under review, a plant of NEC Components Philippines, Inc., was brought on stream. The plant manufactures advanced printed wiring boards (PWBs) and relays for car electronics. This plant stresses environmental protection and includes facilities to recycle refuse and process wastewater.



chain. NEC will build and operate the system for this project. >> In Oceania, NEC posted strong sales of cellular phones and supercomputers. Also, NEC strengthened its server and systems integration businesses in Australia.

#### NORTH AMERICA

The U.S. economy continued to expand during the year under review; however, NEC's sales in North America declined despite higher sales of memory devices, color LCDs, and private branch exchanges (PBXs). This decline was due to lower sales of analog cellular phones and the July 1996 transfer of NEC's overseas PC business to Packard Bell NEC, an unconsolidated affiliated company. >> During fiscal 1998, NEC continued to reinforce its local product development capabilities and was successful in developing TDMA (time division multiple access) digital cellular phones for the U.S. market as well as microcomputers for use in communications equipment. >> To keep abreast of new markets and emerging technologies and apply this knowledge effectively into NEC's business, NEC established a corporate venture capital fund in the United States. Through this fund, NEC invested in several venture companies with unique technologies and services in such fields as the Internet and digital cellular phones.

#### LATIN AMERICA

Investment in communications infrastructure has been brisk in Latin America. During fiscal 1998, NEC do Brasil S.A., an affiliate in Brazil, recorded a sharp gain in shipments of cellular phone systems and won an order for digital switching systems. In addition, NEC de Colombia S.A.



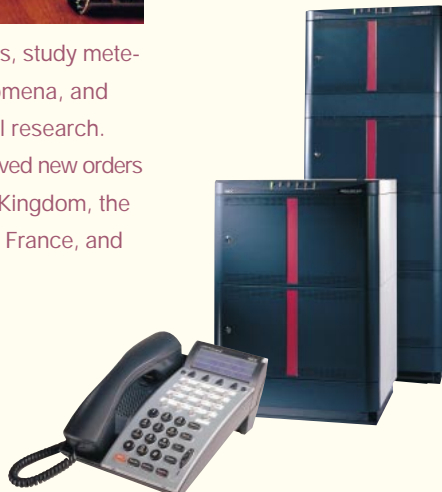
**NEC Enjoying Healthy Orders for Supercomputers**  
Sales of NEC's supercomputers were healthy in fiscal 1998. NEC delivered an SX-4 supercomputer to the Australian Bureau of Meteorology. The SX-4 will be used by the bureau and the Commonwealth Scientific and Industrial Research Organization (CSIRO) to make

weather forecasts, study meteorological phenomena, and conduct medical research. NEC also received new orders from the United Kingdom, the Czech Republic, France, and Germany.

**NEC Posts Strong Sales of PBXs in the United States**  
Fueled by the introduction of NEAX2400IMS-IMX (Integrated Multimedia eXchange), sales of PBXs grew in the United States. NEC has gained market share in the highly competitive U.S. PBX market by applying its systems integration capabilities and thanks to the NEAX2400IMS-IMX's enhanced

network software and hardware designed to meet current customer demands and emerging intranet, extranet, and Internet access requirements.

**NEC Receives Orders for CDMA Systems in Brazil**  
NEC's analog cellular system commands a market share of more than 30 percent in Brazil. During the year under review, NEC, through its local affiliate NEC do Brasil, received an order from TELEBAHIA, a cellular operator in Brazil, for a CDMA system. In April 1998, NEC also received orders for such systems from operators in São Paulo and Rio de Janeiro.



received major orders for digital switching systems and SDH FOTS's. >> Furthermore, NEC do Brasil began the assembly of memory modules in response to Brazil's growing PC market. NEC strengthened its business in Argentina by making its affiliate there a wholly owned subsidiary. >> NEC established Multivisual NEC de Mexico, S.A. de C.V. for the production of display monitors to bolster its cost-competitiveness.

#### EUROPE

The European economies continued to recover and supported healthy NEC sales in the region. Communications infrastructure equipment, microcomputers, display monitors, and color LCDs were among the products that sold well in Europe. To ensure that its technologies are compliant with European communications standards, NEC fortified its R&D network in Europe with the addition of a research facility in Heidelberg, Germany. Furthermore, we have formed a partnership with Philips Semiconductors, of the Netherlands, in the field of SOC's for digital consumer products; with THOMSON multimedia, of France, in the color PDP's field; and with BULL, of France, in the supercomputers and PC servers fields.

#### THE MIDDLE AND NEAR EAST AND AFRICA

NEC delivered digital switching systems and microwave transmission systems in Egypt that contributed to a national project aimed at increasing the number of telephone subscribers in the upper Nile region. Also, in Morocco a digital radio multiple-access subscriber system (DRMASS) delivered by NEC became operational.

#### Large Orders Received for LCD Monitors from Major European Banks

NEC received large orders for its LCD2000 20-inch TFT color LCD monitors from major European banks. These large-screen, high-resolution LCD monitors are known for their wide-angle view, made possible through NEC's superfine technologies.



#### NEC's Communications Systems Business Expanding in Russia

Expected to expand rapidly in the future, the communications industry in Russia is a key market for NEC. During fiscal 1998, NEC established a joint venture company for switching systems in St. Petersburg. NEC won a contract to supply switching systems and FOTS's to St. Petersburg and several orders for switching systems from Moscow and other major cities. NEC also received orders in Russia for very small aperture terminals (VSATs) from government organizations and private-sector companies.



#### Semiconductor Production Capacity Increased in Scotland

Responding to an uptrend in demand for advanced 64Mbit DRAMs and logic ICs, NEC expanded its production capacity at its plant in Scotland. This plant will be a strategic base in NEC's semiconductor business.