

## An Interview with the Management

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*Hisashi Kaneko, President    Tadahiro Sekimoto, Chairman of the Board*

**Q** Please give an overview of  
NEC's business environment in fiscal 1998, ended March 31, 1998.

**A** The Japanese economy remained stagnant in fiscal 1998, primarily due to suppressed consumer spending and ongoing concerns about the stability of Japan's financial system. Overseas, the U.S. economy continued to expand and European economies showed mild recoveries. Meanwhile, the currency crisis affecting Asia caused a slowdown in economic growth in that region.

>> In the electronics industry in Japan, the end of an investment cycle in mobile communications infrastructure, sluggish demand for personal computers (PCs) and consumer electronics products, and price erosion in memories have depressed the market. Overseas, markets remained brisk as investment in information and communications systems spurred by ongoing developments in digital and networking technologies compensated for the dampening effects of falling memory prices and the currency crisis in Asia.

**Q** What were NEC's performance results under such conditions?

**A** In fiscal 1998, consolidated net sales slipped 1 percent from the previous fiscal year, to ¥4,901.1 billion (\$36,851 million). Sales of communications equipment increased due to favorable communications infrastructure business in overseas markets, which offset the negative impact from the completion of an investment cycle in mobile communications infrastructure in Japan. Computer sales decreased, primarily owing to the weak PC market in Japan. Electron devices recorded higher sales, supported by strong demand for microcomputers and other system LSIs (large-scale integrated circuits), despite the adverse effects of falling memory prices.

>> The ratio of overseas sales to net sales increased to 24 percent, from 22 percent in the previous year. This rise was attributable to strong sales of communications equipment and semiconductors.

>> Net income fell 55 percent, to ¥41.3 billion (\$311 million), due primarily to a drop in memory prices and lower corporate tax benefits compared to the unusual case of the previous fiscal year. Cash dividends per share of common stock were ¥11.00 (\$0.083), including an interim dividend of ¥5.50 (\$0.041) per share paid in December 1997.

**Q** What were the effects of the currency crisis in  
Southeast Asia on overseas business and how is NEC responding?

**A** NEC has a long and proud history in Southeast Asia. As part of its strategy for globalization, NEC has established manufacturing and marketing affiliates mainly for the communications systems and semiconductors businesses. The recent sharp drop in the exchange rate values of Southeast Asian currencies has resulted in currency valuation losses for those overseas affiliates burdened with foreign debt. Fortunately, these negative factors have had a limited effect on NEC's consolidated earnings. On the positive side, the crisis has boosted the cost-competitiveness of local manufacturing affiliates, who have a large proportion of exports to countries outside Asia.

>> Although the recovery of Southeast Asian economies may take some time, from a medium-to-long-term perspective, the prospects for further growth in Asian markets remain strong, especially in the area of communications infrastructure. NEC is committed to developing its business while keeping a close eye on trends in individual economies and exchange rates as well as constantly balancing the costs and benefits of maintaining or expanding manufacturing facilities in the region.

## Q What are NEC's global competencies?



With the advent of the "borderless" society brought on by economic globalization and advances in information technology, strengthening global competencies has never been more important.

>> NEC's core global competence—and the area on which it places the highest priority—is technology. To sharpen NEC's competitive edge, in addition to boosting market-focused R&D activities, it is imperative to apply innovative technologies to bring new products to the market ahead of the competition.

>> Moreover, NEC is working to enhance what it calls "total management skill" to turn promising technologies into viable businesses. For example, NEC is building on innovative manufacturing techniques, such as lean production and concurrent engineering. NEC is continuously seeking innovations in business processes across the entire spectrum of its operations, including sales, procurement, human resources, and finance, to bring a new level of competence to NEC.

## Q What are some of the specific products and technologies where NEC has global competencies?



NEC provides a wide range of globally competitive products that will be the foundation for ensuring its continued profitability.

In communications equipment, NEC is promoting NEAX61Σ digital switching systems, fiber-optic transmission systems (FOTS's), and a wideband code division multiple access (W-CDMA) system, which is expected to be the global standard for next-generation mobile communications systems.

>> In the computer business, NEC's Express5800 series of PC servers, which offers among the world's highest performance while complying with global technology standards, has the number one market share in Japan and a growing market overseas. In a particularly significant development in its PC business, NEC introduced the PC98-NX series, which conforms to new global standards for next-generation PCs.

>> In electron devices, NEC is expanding its SOC (system on a chip) business by leveraging its comprehensive technological strengths in semiconductor development. NEC is also developing highly competitive color plasma display panels (PDPs), which are expected to enjoy strong demand in the multimedia age.

## Q What are NEC's strategies for promoting alliances with other companies to develop global businesses?



While technologies developed in-house are the backbone of our technological competencies, alliances are necessary to

supplement our technologies and product lineup as well as to reduce the burden of R&D costs in a broad range of operations. Such tie-ups with other companies to augment expertise and accelerate the process of bringing new products to the market are a crucial part of today's business.

>> NEC has established a joint venture company in the United Kingdom to develop radio technologies for next-generation mobile communications systems. NEC is also working to strengthen its global PC business through its affiliate Packard Bell NEC, Inc. In addition, NEC has signed agreements with Microsoft Corporation to develop next-generation PC servers and with Hewlett-Packard Company for the development and sale of large-scale UNIX servers. Other major NEC alliances include agreements with MIPS Technologies, Inc., to develop reduced instruction set computer (RISC) microprocessors and with Lucent Technologies Inc. for the development of next-generation complementary metal oxide semiconductor (CMOS) processors.

**Q** As a global enterprise,  
what steps is NEC taking to protect the environment?

**A** NEC looks at environmental issues from a global viewpoint and places top priority on growth in harmony with nature.

In Europe, where environmental awareness is particularly high, NEC established the European Environmental Center, in Germany, for the purpose of collecting information on environmental activities. In addition, 48 NEC facilities, including R&D, design, and manufacturing facilities, have received ISO14001 certification, awarded by the International Organization for Standardization upon meeting requirements related to environmental management systems. NEC will continue to develop and enhance its environmental technologies at every stage and across every area of business, including development, production, sales, distribution, and disposal.

**Q** What is the outlook for the electronics industry  
for fiscal 1999, ending March 31, 1999?

**A** In Japan, the economy is forecast to remain weak, with the government's economic stimulus package beginning to take effect in the second half of fiscal 1999. The world economy should continue to grow, especially in the United States and Europe, while Asian economies will again experience slower growth.

>> Against this backdrop, overseas markets for electronics products should remain firm with continued investments in information and communications systems. In the domestic electronics industry, NEC forecasts a gradual recovery in the second half of fiscal 1999 due to increased demand for PCs following the introduction of Windows® 98—a new operating system for PCs—and the spreading use of mobile computing, a recovery in corporate investment in information infrastructures, and gradual improvements in the balance of supply and demand for memories.

>> Amid this business environment, NEC will continue to improve its earnings structure by lowering costs, further controlling overhead expenses, and keeping a sharp eye on market demand in production control. NEC will strengthen its overseas business in communications systems and equipment, expand its systems integration business, and further expand its system LSI business.

>> As always, NEC remains committed to benefiting its shareholders, customers, and employees and will continue to help advance societies worldwide through its C&C technologies.

June 26, 1998



Tadahiro Sekimoto  
Chairman of the Board



Hisashi Kaneko  
President