

OPERATING RESULTS

Sales

Based on its concept of C&C, NEC is promoting primarily information/communications systems operations and electron devices operations. In fiscal 1998, ended March 31, 1998, consolidated net sales declined 1 percent, to ¥4,901.1 billion (\$36,851 million).

By industry segment, **information/communications systems operations**, which comprise the manufacture and sale of communications systems and equipment and computers and industrial electronic systems, recorded a 2 percent decline in sales, to ¥3,694.5 billion (\$27,778 million), due mainly to a drop in domestic sales of PCs. Of this segment, sales of communications systems and equipment rose 2 percent, to ¥1,717.3 billion (\$12,912 million), reflecting higher overseas sales of infrastructure equipment for communications networks, which offset decreased domestic sales of mobile communications systems due to a leveling-off of the high-level infrastructure investment by communications carriers. In computers and industrial electronic systems, lower domestic sales of PCs and their peripheral equipment precipitated a 5 percent sales decline, to ¥1,977.2 billion (\$14,866 million). **Electron devices operations** showed a 3 percent increase in sales, to ¥988.8 billion (\$7,434 million), thanks to sales gains in system LSIs, such as microcomputers and ASICs. Sales of **others** decreased 1 percent, to ¥217.9 billion (\$1,638 million).

On a consolidated basis, domestic sales fell 3 percent, to ¥3,737.0 billion (\$28,098 million), as a consequence of weaker sales of communications systems and computers. Overseas sales advanced 5 percent, to ¥1,164.1 billion (\$8,753 million), due to strong sales of communications systems as well as electron devices, such as 64Mbit DRAMs and microcomputers.

Operating Income

Operating income increased 4 percent, to ¥190.4 billion (\$1,432 million), due mainly to cost-cutting activities, which led to a decline in the ratio of cost of sales to net sales compared with the previous period.

By industry segment, operating income of **information/communications systems operations** increased 1 percent, to ¥204.8 billion (\$1,540 million), primarily owing to cost reduction within the operations. Operating income of **electron devices operations** decreased 1 percent, to ¥52.8 billion (\$397 million). The decrease was mainly attributable to the sharp price erosion of memory devices despite increased sales of system LSIs. Operating loss from **others** decreased ¥3.2 billion (\$24 million), to ¥1.1 billion (\$8 million).

Net Income

Income before income taxes fell 25 percent, to ¥91.0 billion (\$684 million), due to the restructuring of the hard disk drive business and the devaluation of shares of Packard Bell NEC, Inc., from the previous fiscal year, in which a considerable amount of gain from sales of marketable securities and land was realized. Net income declined 55 percent, to ¥41.3 billion (\$311 million), over the previous term, in which tax burden was unusually low reflecting the devaluation of shares of NEC Home Electronics, Ltd., a wholly owned subsidiary.

As a result, diluted net income per share of common stock was ¥24.05 (\$0.181) and diluted net income per American Depositary Share was ¥120 (\$0.90).

Dividends

In fiscal 1998, cash dividends per share remained at ¥11.00 (\$0.083), which included an interim dividend of ¥5.50 (\$0.041) per share paid in December 1997.

INVESTMENT PROGRAMS

R&D Expenses

In further advancing its C&C business, NEC is actively engaged in the R&D of leading-edge technologies. During the fiscal year under review, R&D expenses increased 9 percent, to ¥381.2 billion (\$2,866 million), accounting for 8 percent of net sales.

Capital Expenditures

In fiscal 1998, NEC's capital expenditures amounted to ¥385.3 billion (\$2,897 million), a 5 percent decline from the previous year. During the term, we primarily invested in facilities mainly for the manufacture of semiconductors and color LCDs.

LIQUIDITY

Financial Position

At fiscal year-end, total assets were ¥4,973.8 billion (\$37,397 million), a ¥174.7 billion (\$1,313 million) increase from the previous fiscal year-end. Although current assets decreased because inventories showed a drop, total assets grew as a result of the increase in property, plant and equipment owing to the capital investment to expand production capacity of electron devices as well as the rise in long-term receivables and investments with additional investment in Packard Bell NEC, Inc. NEC's asset turnover ratio fell 0.04 percentage point, to 1.00.

Total liabilities rose ¥103.0 billion (\$775 million), to ¥3,833.3 billion (\$28,822 million). This rise in liabilities was attributable to an increase in long-term debt associated with the issuance of bonds and commercial paper. NEC procured such funds for fiscal 1998, ended March 31, 1998, as well as the subsequent fiscal year in light of the difficult conditions that Japan's financial system is currently facing.

As a result, the shareholders' equity ratio improved 0.6 percentage point over the previous fiscal year-end, to 21.5 percent.

Cash Flows

Net cash provided by operating activities increased ¥39.2 billion (\$295 million) from the previous fiscal year, to ¥296.1 billion (\$2,227 million). This was attributable to substantial decreases in the previous fiscal year of employees' savings deposits and notes and accounts payable, although net income decreased and notes and accounts receivable grew.

Net cash used in investing activities increased ¥45.9 billion (\$345 million), to ¥513.6 billion (\$3,862 million), due mainly to a drop in proceeds from sales of marketable securities.

Despite a reduction in short-term borrowings other than commercial paper, net cash provided by financing activities rose ¥11.6 billion (\$88 million), to ¥186.5 billion (\$1,402 million), primarily through the issuance of bonds and commercial paper.

As a result, cash and cash equivalents fell ¥31.5 billion (\$237 million), to ¥319.0 billion (\$2,398 million), at fiscal year-end.

Consolidated Subsidiaries

At the end of fiscal 1998, the number of consolidated subsidiaries stood at 131, an increase of three over the previous fiscal year-end. NEC Techno-Service, Ltd., a domestic subsidiary, and three overseas subsidiaries—NEC Argentina S.A., Netcomm Management Group, Inc., and Glens Falls Communications Corporation—were added, while a domestic subsidiary was eliminated through a merger.

SEGMENT INFORMATION (UNAUDITED)

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

Industry Segment Information

As of fiscal 1998, NEC has changed the classification of its business into information/communications systems operations, which include the manufacture and sale of communications systems and equipment and computers and industrial electronic systems; electron devices operations; and others, in consideration of such factors as the differences in product type, characteristics, and sales and manufacturing methods as well as core technologies. As the integration of communications systems and computers has accelerated with the advance of an information-intensive society and the expansion of network environments on a global scale, NEC has made this change to help the better understanding of its operations through the disclosure of the industry segment information.

Year ended March 31	In millions of yen		In thousands of U.S. dollars (Note 3)
	1997	1998	1998
Net sales			
Information/communications systems operations			
Unaffiliated customers	¥3,765,074	¥3,694,488	\$27,778,105
Intersegment	54,448	48,472	364,451
Total	3,819,522	3,742,960	28,142,556
Electron devices operations			
Unaffiliated customers	963,176	988,784	7,434,466
Intersegment	114,076	140,087	1,053,286
Total	1,077,252	1,128,871	8,487,752
Others			
Unaffiliated customers	220,187	217,850	1,637,970
Intersegment	97,610	94,901	713,541
Total	317,797	312,751	2,351,511
Eliminations	(266,134)	(283,460)	(2,131,278)
Consolidated	¥4,948,437	¥4,901,122	\$36,850,541
Operating profit (loss)			
Information/communications systems operations	¥ 203,407	¥ 204,815	\$ 1,539,962
Electron devices operations	53,570	52,769	396,759
Others	(4,305)	(1,062)	(7,984)
Corporate expenses	(68,891)	(66,118)	(497,128)
Consolidated	¥ 183,781	¥ 190,404	\$ 1,431,609
Assets			
Information/communications systems operations	¥2,410,852	¥2,352,634	\$17,688,977
Electron devices operations	1,223,899	1,322,544	9,943,940
Others	436,273	471,729	3,546,835
Corporate and eliminations	728,141	826,929	6,217,511
Consolidated	¥4,799,165	¥4,973,836	\$37,397,263
Depreciation and amortization			
Information/communications systems operations	¥ 77,781	¥ 84,329	\$ 634,053
Electron devices operations	174,006	177,503	1,334,609
Others	3,991	4,294	32,285
Corporate and eliminations	17,452	20,023	150,549
Consolidated	¥ 273,230	¥ 286,149	\$ 2,151,496
Capital expenditures (including intangible assets other than goodwill)			
Information/communications systems operations	¥ 132,070	¥ 121,216	\$ 911,398
Electron devices operations	231,820	231,286	1,738,992
Others	8,882	6,688	50,286
Corporate and eliminations	34,225	26,422	198,662
Consolidated	¥ 406,997	¥ 385,612	\$ 2,899,338

Notes: 1. Corporate expenses include general corporate expenses at the parent company and R&D expenses at the Central Research Laboratories.

2. Corporate assets include cash, deposits, securities and investment securities at the parent company, and property, plant and equipment of Headquarters and Central Research Laboratories.

Geographic Segment Information

Year ended March 31	In millions of yen		In thousands of U.S. dollars (Note 3)
	1997	1998	1998
Net sales			
Japan			
Unaffiliated customers	¥4,078,220	¥4,048,556	\$30,440,271
Intersegment	446,772	494,300	3,716,541
Total	4,524,992	4,542,856	34,156,812
Overseas			
Unaffiliated customers	870,217	852,566	6,410,270
Intersegment	183,173	166,680	1,253,233
Total	1,053,390	1,019,246	7,663,503
Eliminations	(629,945)	(660,980)	(4,969,774)
Consolidated	¥4,948,437	¥4,901,122	\$36,850,541
Operating profit (loss)			
Japan.....	¥ 184,373	¥ 207,841	\$ 1,562,714
Overseas	3,724	(13,693)	(102,955)
Eliminations	(4,316)	(3,744)	(28,150)
Consolidated	¥ 183,781	¥ 190,404	\$ 1,431,609
Assets			
Japan.....	¥4,159,919	¥4,243,887	\$31,908,925
Overseas	758,485	807,333	6,070,173
Eliminations	(119,239)	(77,384)	(581,835)
Consolidated	¥4,799,165	¥4,973,836	\$37,397,263

Sales by Market

Year ended March 31	In millions of yen		In thousands of U.S. dollars (Note 3)
	1997	1998	1998
Domestic			
Net sales.....	¥3,842,839	¥3,737,029	\$28,097,962
Percent change	21%	-3%	
Percentage of net sales.....	78%	76%	
Overseas			
Net sales.....	¥1,105,598	¥1,164,093	\$ 8,752,579
Percent change	-9%	5%	
Percentage of net sales.....	22%	24%	
Total			
Net sales.....	¥4,948,437	¥4,901,122	\$36,850,541
Percent change	13%	-1%	
Percentage of net sales.....	100%	100%	