

To Our Shareholders

On behalf of the entire company, I would like to take this opportunity to apologize to our shareholders, customers, and other concerned parties for the trouble caused by the incidents concerning the procurement of equipment by the Defense Agency of Japan and the National Space Development Agency of Japan. Effective October 23, 1998, Dr. Tadahiro Sekimoto resigned as Chairman of the Board. We will make every effort to regain public confidence and strive to meet the expectations of our shareholders and customers. We request your continued support in these endeavors.

Business Results

During the first half of fiscal 1999, ended September 30, 1998, the Japanese economy struggled with restrained private-sector capital investment and weak personal spending, and the market environment overseas was affected by economic crises in Asia, Russia, and Latin America.

Amid such conditions, NEC Corporation recorded consolidated net sales of ¥2,113.1 billion (\$15,424 million), a decrease of 11% from the same period of the previous year. This was primarily due to a decline in domestic demand for communications equipment and weak market conditions for semiconductors. Domestic sales fell 17%, to ¥1,478.2 billion (\$10,790 million), accounting for 70% of net sales. However, overseas sales increased 8%, to ¥634.9 billion (\$4,634 million).

NEC posted operating income of ¥15.3 billion (\$112 million), down 86%, a pretax loss of ¥24.5 billion (\$179 million), and a net loss for the period of ¥19.7 billion (\$144 million). As a result, diluted net loss per share of common stock was ¥12.35 (\$0.090). On October 23, 1998, the Board of Directors declared an interim cash dividend of ¥5.50 (\$0.040) per share.

Performance by Industry Segment

Sales of information/communications systems operations, which comprise the manufacture and sale of communications systems and equipment as well as computers and industrial electronic systems, declined 9%, to ¥1,591.7 billion (\$11,618 million). Within this segment, sales of communications equipment fell 14%, to ¥712.4 billion (\$5,200 million), due to the completion of an investment cycle in communications infrastructure in Japan and a decrease in domestic sales of network-related equipment, reflecting restrained private-sector capital investment. Sales of computers and industrial electronic systems dropped 4%, to ¥879.4 billion (\$6,419 million). While sales of systems integration business were solid in Japan, domestic sales of PCs fell substantially. As a result, operating income of the information/communications systems operations contracted 23%, to ¥69.4 billion (\$507 million).

Sales of electron devices operations were down 18%, to ¥431.2 billion (\$3,148 million). This decline was attributable to a sharp drop in memory prices and lower demand for logic ICs from consumer electronics manufacturers in Japan and other Asian countries. Electron devices operations posted an operating loss of ¥23.8 billion (\$174 million), compared with operating income of ¥50.9 billion (\$371 million) in the same period of the previous year. The loss was due primarily to losses in the memory and color liquid crystal display businesses.

During the period under review, NEC advanced R&D on next-generation technologies in such areas as communications systems and semiconductors and also strove to raise the efficiency of capital investment. In addition, to accelerate the renewal of Packard Bell NEC, Inc., NEC invested an additional \$225 million in that company and made it a subsidiary of NEC.

Outlook

Throughout the second half of fiscal 1999, difficult conditions are expected to prevail in the Japanese economy. Uncertainty spans the global economy, as financial markets continue to be volatile and signs of a slowdown have appeared in the previously strong U.S. economy. Even amid such economic trends, the electronics industry is expected to remain stable overseas, driven by investment in information technology, but the Japanese electronics industry is anticipated to remain weak due to a delayed recovery in the economy as a whole.

Against this backdrop, NEC will strengthen its systems integration business and endeavor to improve the profit structure of its semiconductor business, primarily by expanding sales of higher-value-added memories and system LSIs. In addition, NEC will secure further cost reductions through advances in manufacturing technologies, trim fixed costs by improving the efficiency of capital investment and R&D expenses, and shift human resources to growing business areas while streamlining business structure in a concerted effort to elevate performance and improve its financial position.

November 1998



Hisashi Kaneko
President