NEC Corporation

Annual Report 1999

WebComputing

SOLUTION PROVIDER

PROGRESSIVEUNITY

A New NEC for the Next Century

SYSTEM ON A CHIP

NEC

C&C for Human Potential

PROFILE

Founded in 1899, NEC Corporation is a leading international supplier of electronic products that comprise primarily communications systems and equipment, computers and industrial electronic systems, and electron devices.

All of NEC's activities are based on its synergistic business concept of "C&C," the integration of computers and communications.

In Japan, NEC maintains a network of 88 consolidated subsidiaries, 61 plants, and approximately 450 sales offices. Overseas, NEC's 175 subsidiaries and affiliates in 35 nations operate 64 plants in 21 countries as well as marketing, service, and research and development facilities in 34 countries.

CONTENTS

Statements in this annual report with respect to NEC's plans, strategies, and beliefs, as well as other statements that are not historical facts are forward-looking statements involving risks and uncertainties. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, general economic conditions in NEC's markets, which are primarily Japan, North America, Asia and Europe; demand for, and competitive pricing pressure on, NEC's products and services in the marketplace; NEC's ability to continue to win acceptance for its products and services in these highly competitive markets; and movements of currency exchange rates.

FINANCIAL HIGHLIGHTS

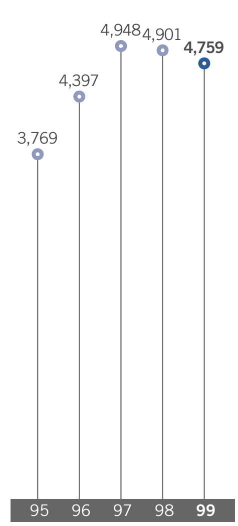
NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 1997, 1998 and 1999

	In millions of yen			In thousands of U.S. dollars	Percent change
	1997	1998	**1999**	**1999**	1999/1998
Net sales	¥4,948,437	¥4,901,122	**¥4,759,412**	**$40,334,000**	–3%
Information/communications systems operations	3,765,074	3,694,488	**3,682,064**	**31,203,932**	0
Communications systems and equipment	1,686,594	1,717,259	**1,492,217**	**12,645,907**	–13
Computers and industrial electronic systems	2,078,480	1,977,229	**2,189,847**	**18,558,025**	11
Electron devices operations	963,176	988,784	**874,951**	**7,414,839**	–12
Others	220,187	217,850	**202,397**	**1,715,229**	–7
Income (loss) before income taxes	121,222	90,993	**(224,726)**	**(1,904,458)**	–
Income taxes	24,900	48,033	**(67,558)**	**(572,526)**	–
Net income (loss)	91,581	41,302	**(157,947)**	**(1,338,534)**	–
Per share of common stock (in yen and U.S. dollars):					
Net income (loss)					
Basic	59.05	25.94	**(98.66)**	**(0.836)**	–
Diluted	51.38	24.05	**(98.66)**	**(0.836)**	–
Cash dividends	11.00	11.00	**8.50**	**0.072**	–23
Per American Depositary Share, each representing 5 shares of common stock (in yen and U.S. dollars):					
Net income (loss)					
Basic	295	130	**(493)**	**(4.18)**	–
Diluted	257	120	**(493)**	**(4.18)**	–
Cash dividends	55	55	**43**	**0.36**	–23
Total assets	4,799,165	4,973,836	**4,976,543**	**42,174,093**	0
Shareholders' equity	1,003,371	1,070,757	**853,194**	**7,230,458**	–20
Capital expenditures	405,772	385,346	**253,623**	**2,149,347**	–34
R&D expenses	348,537	381,239	**346,215**	**2,934,025**	–9
Employees	151,966	152,450	**157,773**		3

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118=U.S.$1.

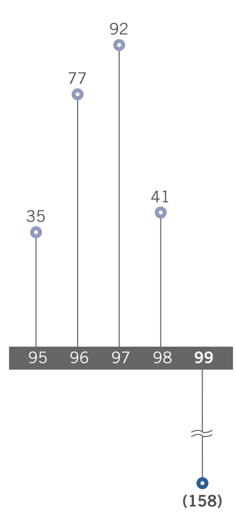
NET SALES

(Billion ¥)



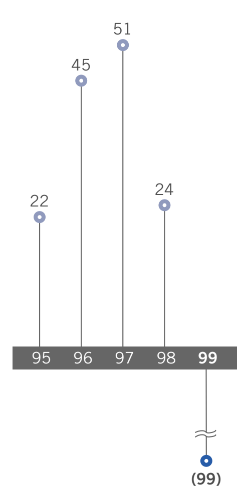
NET INCOME (LOSS)

(Billion ¥)



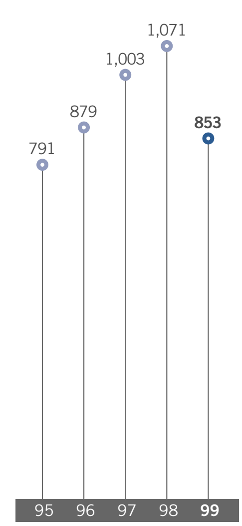
NET INCOME (LOSS) PER SHARE OF COMMON STOCK (DILUTED)

(¥)



SHAREHOLDERS' EQUITY

(Billion ¥)



LETTER FROM THE MANAGEMENT

HAJIME SASAKI
Chairman of the Board

Business Performance

NEC reported a net loss of ¥157.9 billion ($1,339 million) for the 1999 fiscal year, ended March 31, 1999. Net sales decreased 3 percent to ¥4,759.4 billion ($40,334 million), primarily a reflection of slumping economies in Japan and Asia in addition to the yen's sharp rise. While domestic sales declined 11 percent, overseas sales rose 24 percent and accounted for 30 percent of total net sales, compared to 24 percent in the previous fiscal year. In the communications systems field, lower investments by Japanese communications carriers and general weakness in private-sector capital spending were mostly responsible for the year's disappointing results. In computers, our systems integration business grew despite widespread reluctance among Japanese companies to make IT (information technology) investments. The inclusion of Packard Bell NEC, Inc. in consolidated results beginning with the year's second half also contributed to sales growth. Electron device results felt the effects of a precipitous drop in memory prices and soft demand for microcomputers and other components used in consumer electronics. Overall, these factors led to operating income of ¥3.1 billion ($27 million).

In addition, there were several nonrecurring restructuring expenses that significantly impacted our bottom line, including the charges related to the restructuring of Packard Bell NEC.

Battered by intense price competition in the U.S. PC market, Packard Bell NEC recorded another large loss in calendar 1998. Significant steps have been taken to address this problem since July 1998. By making cuts in its workforce while boosting productivity, Packard Bell NEC was able to slash fixed costs by approximately 50 percent during the year. To reduce and control inventory, it has strategically cut the number of models offered to the consumer and has restructured its distribution network to target a handful of nation-

KOJI NISHIGAKI
President

wide retailers. This has created a solid position for a fresh start. We will make a concerted effort to return Packard Bell NEC to profitability and position it as a major player in the global development of our PC and server businesses.

Steps to Innovate NEC's Management

Last year's loss cannot be blamed solely on Japan's extreme economic difficulties. With the rapid pace of globalization and spread of open systems and Internet technologies, our operating environment is undergoing nothing less than a revolution. Looking back, it is clear that we were unable to respond adequately to the dramatic structural changes in our markets. This is why we have embarked on a revolution of our own to redefine how NEC is managed. As the new chairman and president, it is our first priority to return NEC to profitability and sustained growth. To do so, we have started to reconfigure four elements of the NEC organization: our management structure, business portfolio, cost structure, and financial structure.

Management structure-In an increasingly competitive global marketplace, we must reach decisions faster and more efficiently to effectively compete. Additionally, we need to create a higher degree of accountability by clarifying lines of responsibility for individual businesses. Specific measures are currently under review and are expected to be announced in September 1999.

Business portfolio-We must identify the core businesses where NEC is most competitive globally and realign our operations accordingly. Our primary objective is to become an IT-driven solutions provider. Within this framework, we will channel resources to areas holding the most promise for medium- to long-term growth. Unprofitable non-core activities will be restructured.

Cost structure-To improve profitability, we must make significant cuts in our fixed cost base in an intelligent manner. Over the next three years, we will reduce our workforce by 10 percent, approximately 15,000 positions, across the group. All fixed costs, including capital expenditures and research budgets, will be affected by this drive.

Financial structure-We must reduce our debt to improve financial stability. NEC's interest-bearing liabilities were ¥2,376 billion ($20,132 million) as of March 31, 1999. Our goal is to lower this figure by ¥600 billion over the three-year period ending in March 2002. The first step is maximizing cash generated from operating activities by improving profitability, limiting capital expenditures and reducing inventories. Other actions will include leasing semiconductor production equipment and securitizing receivables.

Reaffirming our Position Among the World's Leading Companies

NEC has always aspired to be a highly valued global enterprise. One requirement is earning the trust of society, customers, investors, and employees. Value is also linked to generating strong earnings, excelling in bringing about change from within and preserving a high profile in our markets. Here is how we plan to do this.

First, we will accelerate the transformation of NEC into a solutions provider. Today, customers demand more than just the components that make up a solution to their problems; they demand solutions that entirely meet their needs. By developing direct relationships with customers, we will be better positioned to anticipate their needs and to provide them with meaningful solutions. In our search to become a true provider of value-added solutions, we are conducting a review of our businesses to determine which ones to focus on. We have identified three broad areas where we can compete globally: next-generation network businesses; systems integration businesses; and electron device businesses built around system-on-a-chip technology. We will concentrate our finite resources on building these businesses into the most competitive in the world.

Second, we will foster a proactive management mindset. Our people must never fear change. Rather, NEC should be a place that instigates change. To establish a management system that can immediately adapt to change, each business unit is being allowed far greater decision-making powers. At the same time, managers are becoming more accountable for performance. We want to give each business unit a largely self-reliant, independent management structure. By implementing this transformation in our management, we will be able to quickly exploit market opportunities and remain ahead of competitors.

Third, we will retain a tight focus on the pursuit of profit-oriented measures centered on raising returns on our investments. We will make every effort to increase shareholder value by improving financial performance as measured by global standards such as ROE and free cash flow.

Fourth, we will create an atmosphere where each and every individual at NEC can shine. We want our people to realize their full potential. We will emphasize the empowerment of employees through the specialization of their skill sets. This requires that we build a work environment that encourages highly motivated and talented individuals. Ultimately, bolstering the ability of each individual enhances the power of the entire organization.

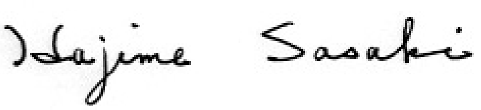
Renewed Emphasis on Internal Auditing

During the past fiscal year, an incident occurred regarding improprieties with regard to NEC's past sales of equipment to Japan's Defense Agency and the National Space Development Agency of Japan. We at NEC feel a deep sense of regret about the incident. In order to prevent a similar situation, we are personally taking the lead in implementing the decisive steps needed to reinforce management controls. This is being accomplished through the establishment of the Corporate Auditing Bureau, which is headed by the president himself, among other measures. We pledge to marshal the resources of the entire company to restore public confidence.

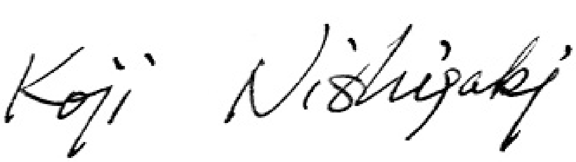
NEC's Second Century

As July 1999, the centennial of NEC's founding, approaches, the entire company is devoted to building a reinvigorated NEC for the next century that is highly valued and sets standards in global excellence. Our goal is to remain at the vanguard of the next century's information-driven society, now being ushered in by the Internet revolution. In order to achieve this, we kindly ask for the continued support of our shareholders and customers.

June 29, 1999



HAJIME SASAKI
Chairman of the Board

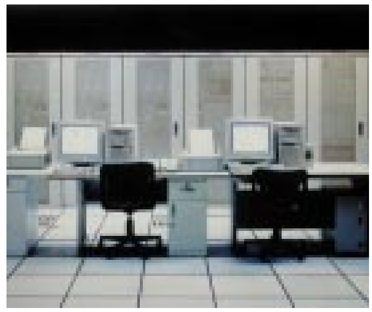


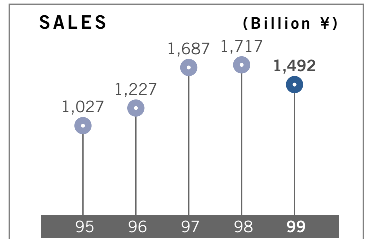
KOJI NISHIGAKI
President

FISCAL 1999 AT A GLANCE

INFORMATION/COMMUNICATIONS SYSTEMS OPERATIONS

COMMUNICATIONS SYSTEMS AND EQUIPMENT


NEAX61 Σ switching system

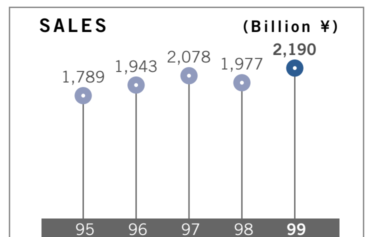


SHARE OF NET SALES (%)

95	96	97	98	99
27	28	34	35	**32**

COMPUTERS AND INDUSTRIAL ELECTRONIC SYSTEMS

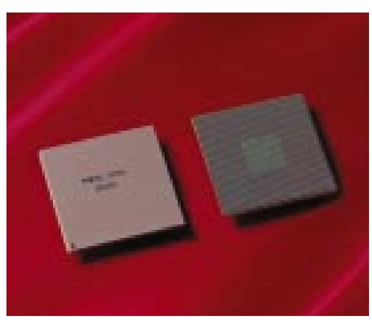

Express5800 series of servers

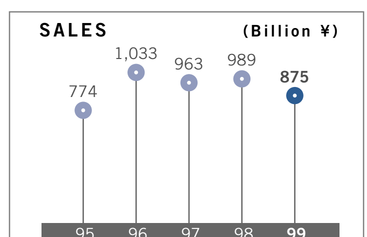


SHARE OF NET SALES (%)

95	96	97	98	99
47	44	42	40	**46**

ELECTRON DEVICES OPERATIONS

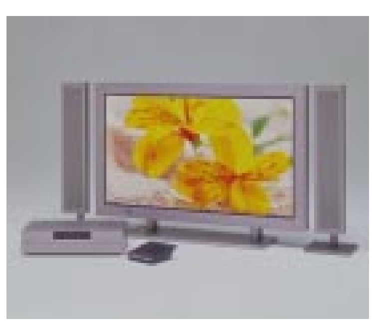

System on a chip platform, CB-11

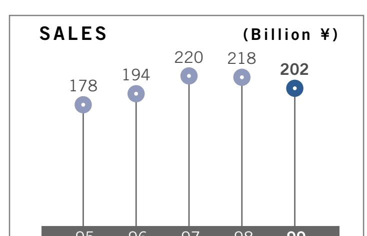


SHARE OF NET SALES (%)

95	96	97	98	99
21	24	20	20	**18**

OTHERS


Plasma TV



SHARE OF NET SALES (%)

95	96	97	98	99
5	4	4	5	**4**

Sales fell 13 percent to ¥1,492.2 billion ($12,646 million). Although overseas sales were stable, especially in the United States, total sales declined because of lower investments by communications carriers in Japan.

- Digital central office switching systems
- Digital PBXs
- Packet switching systems
- Mobile communications systems
- Network management systems
- Intelligent network systems
- Fiber-optic transmission systems
- Fiber-optic submarine cable systems
- CATV systems
- Teleconferencing systems
- Routers
- Hubs
- Data modems
- Microwave communications systems
- Satellite communications systems (satellite-mounted and ground support communications equipment)
- Television and radio broadcast equipment
- Video and studio equipment
- Aircraft and space electronic equipment
- Satellites
- Rocket guidance and control equipment
- Radio navigation and radar equipment
- Cellular phones
- PHS terminals
- Facsimiles
- Pagers
- Key telephone systems
- ISDN terminal adapters
- Installation and maintenance of communications systems

Sales increased 11 percent to ¥2,189.8 billion ($18,558 million). The inclusion of Packard Bell NEC in consolidated results in the second half of the fiscal year and a solid performance by the systems integration business in Japan were the major sources of growth.

- PCs
- Mainframe computers
- PC servers
- UNIX servers
- Workstations
- Supercomputers
- Terminal equipment
- Monitors
- Video projectors
- Printers
- CD-ROM drives
- Hard disk drives
- Optical disk players
- Automated fingerprint identification systems
- Telemetry and remote control systems
- Postal automation systems
- Network management systems
- Building automation systems
- Recognition control equipment
- YAG laser equipment
- Underwater ultrasonic application equipment
- Semiconductor manufacturing equipment and vacuum equipment
- Measuring and testing systems
- Car electronic products
- Software products
- Systems integration services
- Maintenance of computers and related equipment
- VAN information services
- Internet services

Sales declined 12 percent to ¥875.0 billion ($7,415 million), mainly due to a fall in orders for system LSIs because of weak demand for consumer electronics products and to lower sales of memories and color display tubes as sales prices dropped.

- Microcontrollers
- Microprocessors
- Cell-based ICs
- Gate arrays
- ASSPs (Application Specific Standard Products)
- DRAMs
- SRAMs
- Mask ROMs
- Optical semiconductor devices
- Gallium arsenide transistors
- Power semiconductor devices
- Transistors
- Diodes
- Linear ICs
- TFT color LCDs
- Color plasma display panels
- Color display tubes
- Capacitors
- Printed wiring boards
- Relays
- Hermetic seals
- Microwave tubes
- Electrical connectors

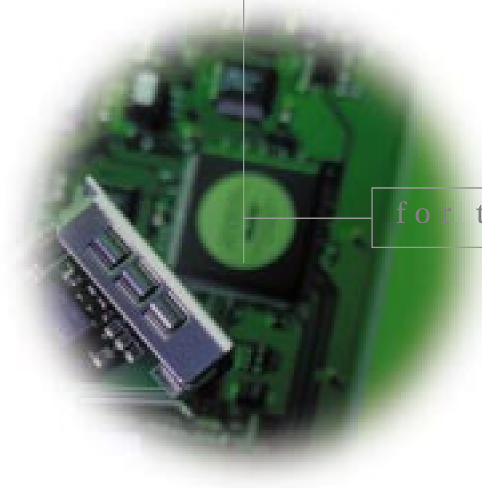
Sales decreased 7 percent to ¥202.4 billion ($1,715 million). This decline was primarily attributable to NEC's decision to cease sales of home appliances such as refrigerators and air conditioners. NEC sells, among other products, lighting products and high-end TVs such as Internet TVs and plasma TVs.

NEC also markets plasma display monitors used as notice boards in public spaces and multimedia presentation devices. In May 1999, NEC introduced a plasma TV and a plasma monitor that offer a dramatic improvement in picture contrast.

- Color TVs (HDTVs, Internet TVs, PlasmaTVs)
- DBS receivers
- Lighting products

INFORMATION/COMMUNICATIONS SYSTEMS OPERATIONS

Communications Systems and Equipment



for the next century

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➤ Business Performance

Communications systems and equipment sales were down 13 percent in fiscal 1999 to ¥1,492.2 billion ($12,646 million), accounting for 32 percent of net sales. In Japan, sales decreased 19 percent. This was caused by a number of factors. One was weak demand for transmission equipment resulting from slower growth in communications traffic in Japan's recession-plagued market. Nippon Telegraph and Telephone Corporation's completion of its conversion to a digital switching system also held back sales. Orders were further impacted by a temporary downturn in demand due to the upcoming introduction of next-generation technology in Japan for mobile communication systems. Overseas, on the other hand, sales grew by 6 percent. Sales of PBXs (private branch exchanges) in the United States benefited from burgeoning demand from universities and hotels, thus raising NEC's market share to third place. WDM (wavelength division multiplexing) systems also did well. In Southeast Asia and Russia, however, NEC's sales suffered because of the economic crises.

➤ Addressing Customers' Needs for Total Solutions

The appearance of new services and the convergence of networks are altering the landscape of the solution-providing field. Most notable is the accelerating fusion of networks: communication and broadcasting, fixed and mobile, private and public, and voice and data. Customers now require solutions that encompass entire networks rather than merely systems that handle individual elements of a larger network.

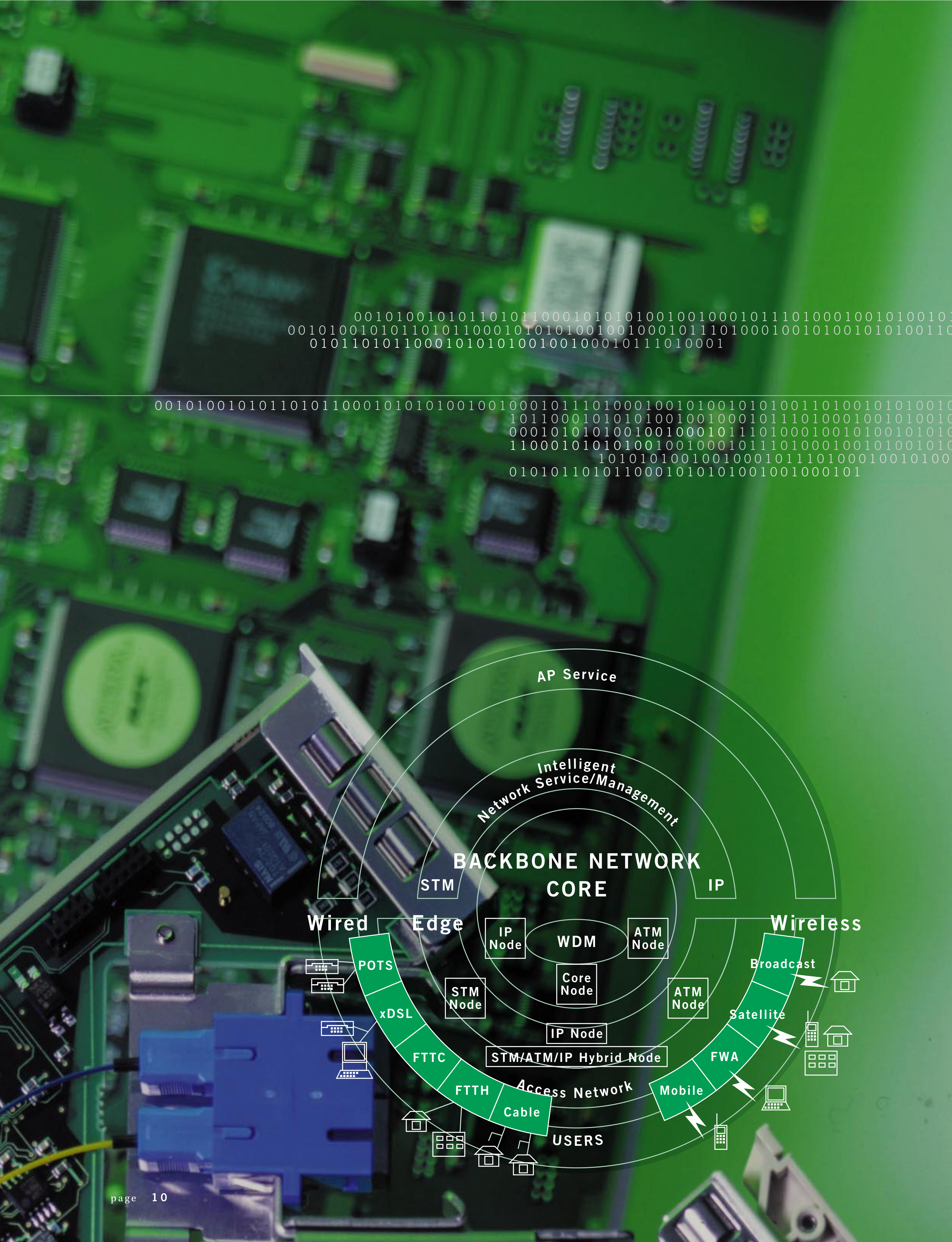
NEC reinforced its organization in 1998 in order to provide domestic carriers, corporate customers and Internet service providers with the best possible network solutions. In the United States, NEC merged its two sales and service subsidiaries to establish NEC Business Network Solutions, Inc. By fortifying end-to-end network integration services for corporate customers, this merger contributed to growth in PBX sales. To speed up product development, NEC is moving faster to adopt platforms common to all customers, meeting with customers needs. This process is already well under way with regard to switching system platforms and is now being expanded to include transmission systems as well. In addition, NEC is compressing the time between development and manufacture by employing innovative development processes and supply chain management techniques.

Intent on maximizing its competitive edge, NEC is conducting R&D activities for next-generation technologies in Japan, North America and Europe. In North America, NEC is concentrating on Internet networking and other leading-edge technologies. European bases are targeting products compatible with the standards of local communication systems. In Japan NEC pursues a broad product development strategy. Furthermore, by shifting human resources to such growing fields as mobile communications systems and data communications networks, NEC will heighten its ability to supply customers with total network solutions.

➤ The Pre-eminent Supplier of W-CDMA Systems

Immense potential exists for wideband code division multiple access (W-CDMA) technology. Proposed by Japan and European countries, this technology represents the nucleus of the third-generation International Telecommunication Union (ITU) IMT-2000 standard. NEC has been taking part in the development of W-CDMA for years. NEC regards W-CDMA as an opportunity to expand on a global scale. Significantly, NEC will be positioned to provide total network systems made up of base transceiver stations, multimedia processing equipment, network management systems and billing systems.

W-CDMA services are expected to begin first in Japan, followed by Europe and Asia. NEC plans to tap experience gained in Japan to develop its W-CDMA business in other countries. NEC has already established W-CDMA development centers in the United Kingdom and Singapore. In the United Kingdom, NEC is now jointly testing a next-generation mobile system called UMTS (Universal Mobile Telecommunications System) that uses W-CDMA technology together with British Telecommunications plc. And in March 1999, NEC and Siemens AG of Germany reached an agreement in principle to form a strategic alliance by which mutually complementary technologies from both companies will be merged. By making the most of its technological skills and these alliances with carriers and vendors, NEC aims to expand sales of W-CDMA systems.


AP Service
Intelligent Network Service/Management
BACKBONE NETWORK CORE
STM
IP
Wired
Edge
Wireless
IP Node
WDM
ATM Node
Core Node
STM Node
ATM Node
IP Node
STM/ATM/IP Hybrid Node
POTS
xDSL
FTTC
FTTH
Cable
Access Network
Broadcast
Satellite
FWA
Mobile
USERS

Total Network Solutions

Focusing on Solutions for Next-Generation Networks

In June 1999, NEC announced the “ProgressiveUnity” concept for next-generation communication networks. This signifies a commitment to addressing the distinct requirements of individual market sectors, such as communications carriers, corporate customers, and broadcasters. Progressive expresses the continuously evolving nature of these solutions; unity expresses their ability to encompass every element of a network, including the use of existing equipment.

For carriers, NEC will provide three basic solutions under this concept: photonic IP (Internet Protocol) solutions, ATM (asynchronous transfer mode) solutions and STM/ATM/IP hybrid solutions.

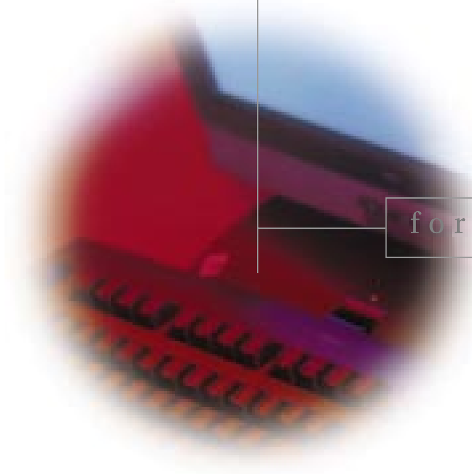
Photonic IP solutions enable the integration of data, video and voice traffic using IP as a common protocol. This technology is best suited for customers who want to provide data communication services at a low cost. NEC has concentrated on developing a family of photonic IP networking systems, including DWDM (dense-WDM) systems, giga-bit routers and optical routers. Having supplied DWDM systems to major U.S. carriers, NEC is well ahead of the competition. By fusing proven expertise in optical networking technologies and network reliability, NEC plans to further enhance its stature in IP networking.

ATM solutions are high-speed data networks incorporating IP and ATM technology as well as the outstanding QoS (quality of service) characteristic of ATM.

STM/ATM/IP hybrid solutions draw on the attributes of all three of these technologies. These solutions are best suited for building IP networks at communications carriers that currently have a network infrastructure designed mainly for conventional telephone service.

In all, NEC communications systems are currently used by carriers in more than 100 countries. With ProgressiveUnity solutions for carriers, NEC has all the tools needed to serve this immense customer base by facilitating the smooth and seamless migration from current to next-generation networks while making use of existing equipment wherever possible. To maximize opportunities for raising sales, NEC will provide these solutions to new customers as well as its current user base.

INFORMATION/COMMUNICATIONS SYSTEMS OPERATIONS
Computers and Industrial Electronic Systems



for the next century

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➤ Business Performance

Sales of computers and industrial electronic systems were up 11 percent to ¥2,189.8 billion ($18,558 million), representing 46 percent of net sales. Sales in Japan were lower because of poor economic conditions. The systems integration business was stable, supported by strength in systems integration services and software. Domestic PC results declined because of lower sales to corporate customers, although PC sales to consumers began to recover in the second half of the fiscal year. Overseas sales increased because Packard Bell NEC became a consolidated subsidiary in the second half.

During the year, NEC strengthened its WebComputing Framework, a concept for the construction of advanced information systems using Internet technology, by expanding industry-specific and cross-industry solution packages. With these frameworks, NEC can more quickly provide customers with high-value-added solutions while improving the profitability of this business.

In calendar 1998, Packard Bell NEC of the United States posted another substantial loss due to intense PC price competition. The company has been taking decisive steps to return to profitability. Among them are cuts in fixed costs, mainly through workforce reductions, streamlining sales channels and product lineups, and outsourcing production.

➤ Leveraging Systems Integration Skills for Total Solutions

Customers are increasingly seeking solutions that address their most pressing management issues. Hardware is just one of many NEC responses. The company can offer customers a comprehensive package of services that extend from the planning and construction of information systems through their operation and maintenance.

WebComputing

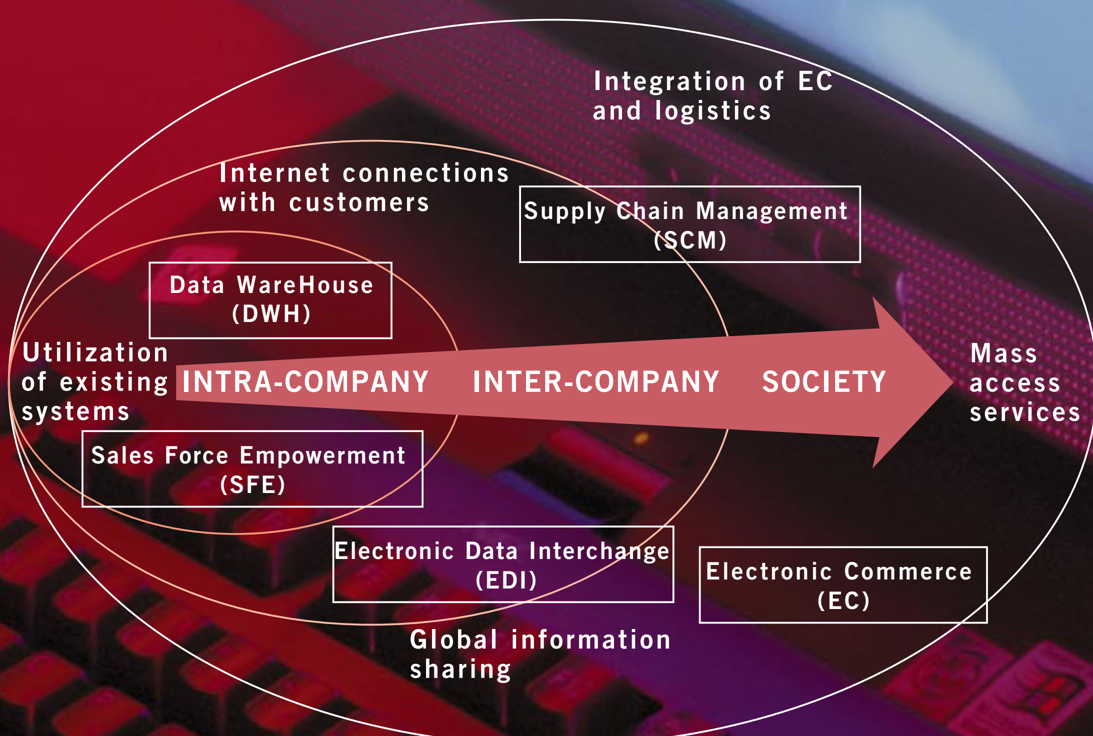
Systems Integration

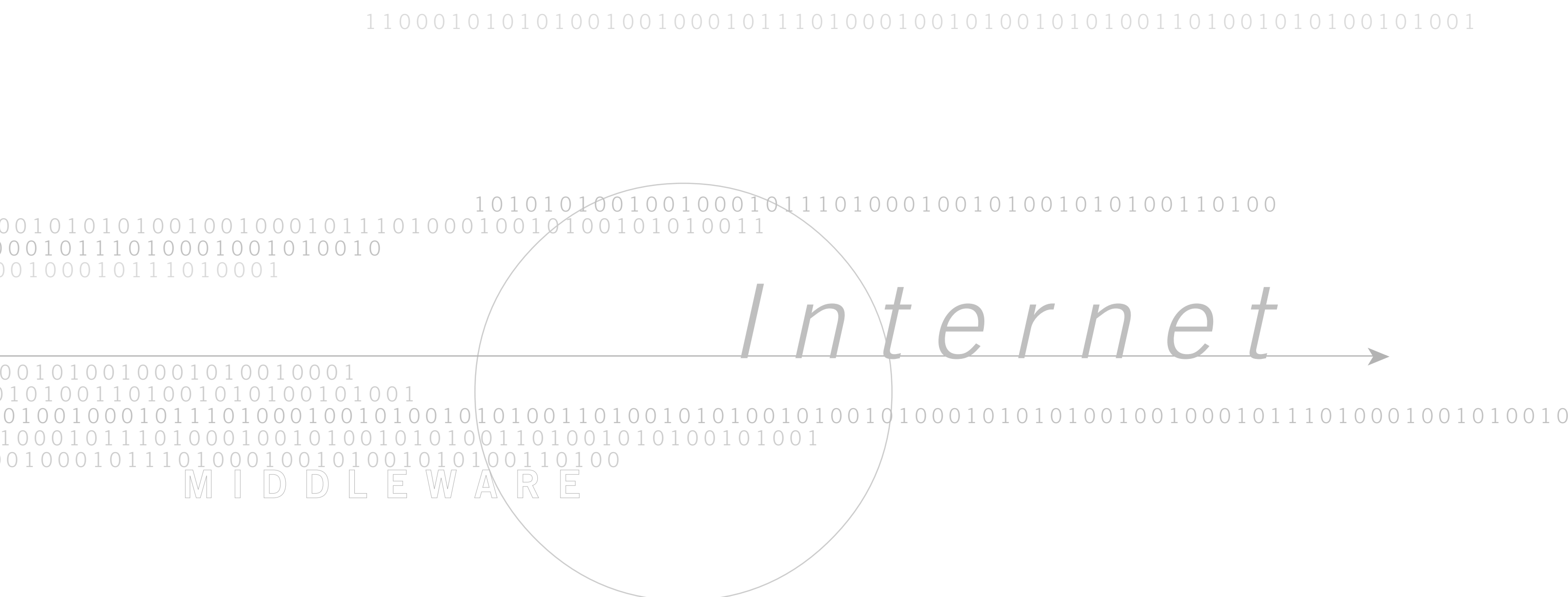
Expertise gained through decades of experience in mainframes allows NEC to supply complex, mission-critical systems such as a 24-hour banking system for The Sumitomo Bank, Limited. In the field of open systems, NEC pioneered the construction of large and highly sophisticated systems. Several are already operative, including a store data management system for Seven-Eleven Japan Co., Ltd. NEC uses advanced IT skills in other ways as well to create powerful, client-specific solutions. Among them are a Data WareHouse (DWH) system that analyzes a broad range of data to formulate business plans and a Sales Force Empowerment (SFE) system that uses mobile terminals to make sales activities more effective.

Middleware is the key to structuring all of these solution-driven systems. The coexistence of different operating systems and application software makes today’s computing environment increasingly complex. By standing between the operating system and application software, middleware facilitates the creation of a single, integrated system. Middleware is thus an essential core competence, and NEC has applied its extensive systems integration skills to this field. Middleware products designed to mesh with the Internet are now placed under the WebComputing Application Server umbrella. Coverage extends from small-scale systems to huge corporate systems linked with external networks. NEC is determined to continue enhancing its middleware product lineup.

Outsourcing is another field targeted for growth. To meet rising demand, NEC established an outsourcing business division for the manufacturing and distribution and retailing sectors. In June 1999, NEC started to offer network-related outsourcing services as well. The focus will be on performance and security diagnostics, operations and other services where NEC can supply the most value for customers.

THE EXPANDING FRONTIERS OF WEBCOMPUTING



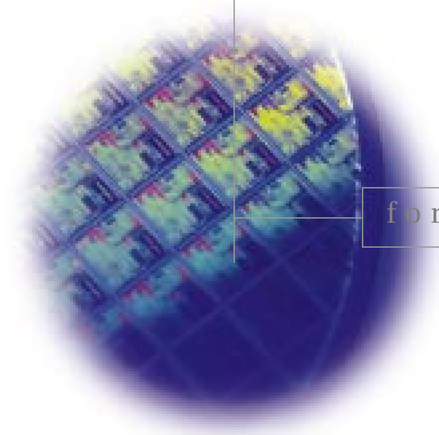


➤ Building a Solid Base for the PC Business in Japan

Potential demand for PCs in Japan is immense; the penetration ratio still lags behind the United States. To give impetus to the market, NEC went one step ahead of the competition by introducing desktop PCs with LCD monitors and notebook PCs with large screens in high-volume price ranges. Furthermore, NEC is enhancing its PC lineup by adding models with easy Internet connections and improved security. LCD monitor desktop models have elicited an especially strong response. In a move to create a new desktop PC category, NEC introduced a "boxless PC." By placing PC circuitry in the LCD monitor's base, the unit's desktop footprint is less than one-third that of a conventional desktop PC. To solidify its position as Japan's number-one PC supplier, NEC will offer more models with space-saving formats and simple Internet access. Plans also include the development of PCs that use voice-recognition systems and other leading-edge technologies.

While creating more distinctive products, NEC is taking steps to improve the profitability of its PC business in an environment where price competition continues to intensify. The primary goal is minimizing inventories. This involves the adoption of a build-to-order system for corporate customers and a comprehensive supply chain management system that extends from procurement through sales for the consumer PC business. Product development and assembly functions are targeted as well. Here, NEC will increase JIT (just-in-time) procurement while outsourcing more production. NEC will also work more closely with Packard Bell NEC by sharing designs and increasing the joint purchasing of components.

ELECTRON DEVICES OPERATIONS



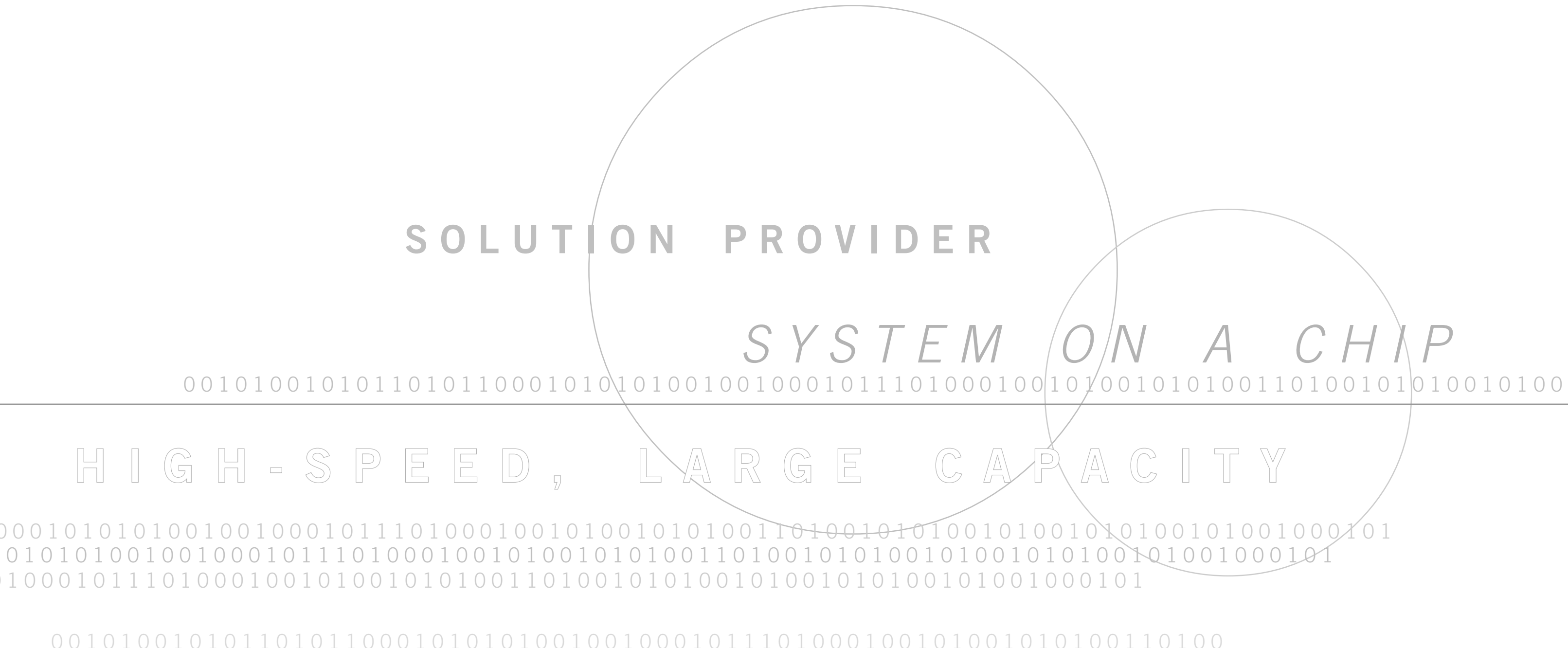
➤ Business Performance

Fiscal 1999 sales of electron devices decreased 12 percent to ¥875.0 billion ($7,415 million) and accounted for 18 percent of net sales. Declines in sales of system LSIs, mainly microcomputers and application-specific integrated circuits (ASICs), as well as in memories and color display tubes (CDTs) were the primary causes. Orders for system LSIs were held back by soft demand for consumer electronics products. In memories, a healthy PC market fed growth but prices fell again as the industry's output exceeded demand. The CDT sector felt the effects of the ongoing shift from CDTs to color liquid crystal displays (LCDs).

Having finished its UC Plant in April 1998, NEC is moving ahead with research on the world's most advanced semiconductor production technologies. The objective is to develop ultra-fine processes with a view to early mass production of next-generation semiconductors. Equipped with lithography equipment using electron beams and argon fluoride (ArF) excimer lasers, the UC Plant is studying ways to form circuit lines no more than 0.18 microns wide.

➤ Raising NEC's Stature in the "System on a Chip" Market

NEC places strong emphasis on system LSIs. Dedicated to offering solutions to its customers, NEC is rapidly enhancing its position in the technology known as system on a chip, in which several functions are placed on a single chip. These chips present many opportunities to add value through greater speed, smaller size, lighter weight and lower power consumption in electronics products. As the world's foremost maker of memories, microcomputers and ASICs, NEC is in a strong position to provide system on a chip solutions to customers. Expertise in process and design technologies further enhance NEC's competitive edge.



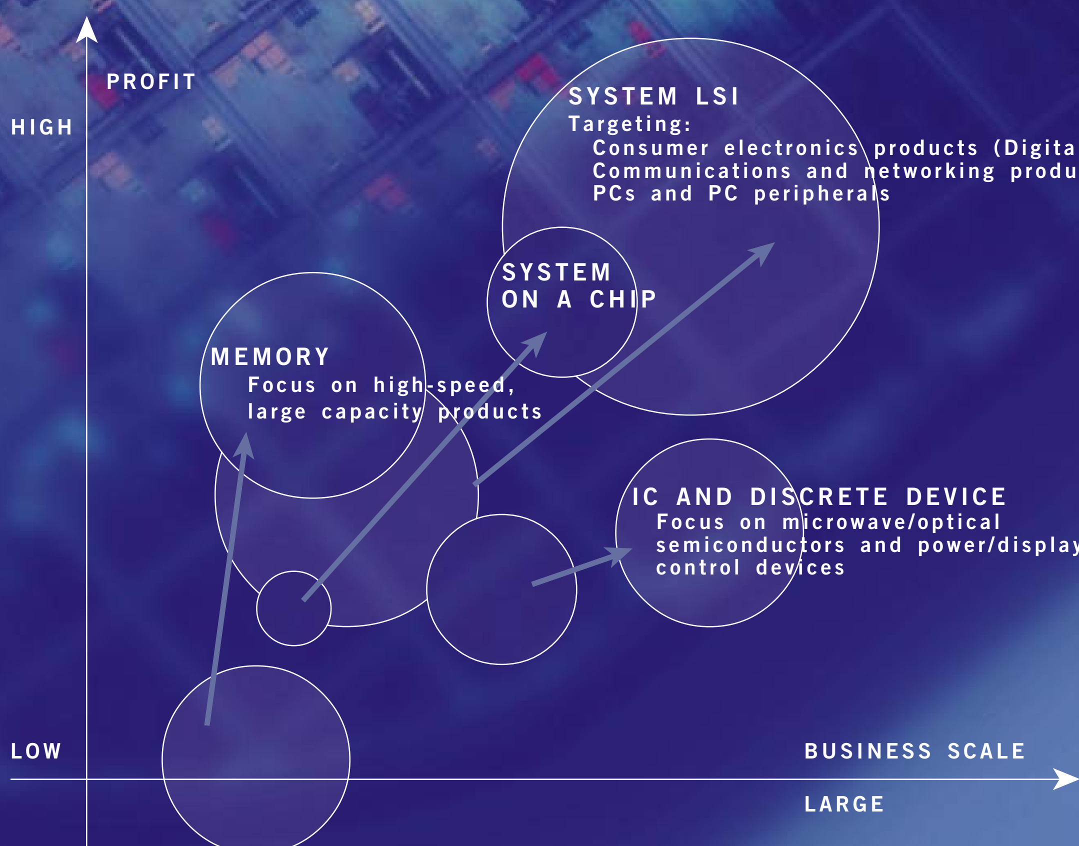
To propel sales growth of system LSIs, NEC is targeting three core markets: consumer electronics, especially digital products; communications and networking equipment, with emphasis on LAN and access networks; and PCs and PC peripherals. In April 1999, the system LSI business was structured along the lines of these markets rather than by product categories. This further reinforces the focus on providing solutions to customers. Among NEC's new products are a system on a chip device for a digital TV set-top box and the CB-11 family, a platform for system on a chip solutions that employs 0.15 and 0.18 micron process technology.

➤ Returning the DRAM Business to Health

NEC is determined to return its dynamic random access memory (DRAM) business, which posted a loss last year, to profitability as soon as possible. A growing PC market and increasing needs for larger memory capacity in PCs point to long-term growth. To generate profits, NEC is concentrating on value-added products. NEC has plenty of promising candidates in the pipeline: next-generation high-speed, high-capacity 128 and 256M synchronous DRAMs; Direct Rambus™ DRAMs for high-end PCs; and double data rate (DDR) synchronous DRAMs for servers. At the same time, sophisticated processes are shrinking chip sizes to reduce their cost.

NEC plans to position its virtual channel memory technology as one of the industry standards for memory design. This technology raises operating performance by about 30 percent over synchronous DRAMs. Makers of middle and lower priced PCs will find these memories very attractive. Second source agreements signed with Infineon Technologies AG of Germany (formerly the semiconductor division of Siemens AG) and Hyundai Electronics Industries Co., Ltd. of Korea during the 1999 fiscal year show that the potential is great. Additionally, three major Taiwanese motherboard vendors are supporting virtual channel memory technology.

MANAGEMENT DIRECTION OF SEMICONDUCTOR BUSINESS



Ultra-Fine Process

FLAT PANEL DISPLAY

➤ Selectively Investing in New Technologies for the Future

Flat panel displays have immense potential as computer users seek ways to save space and power. With Korean makers in the fray, competition among color LCD suppliers is intense, but fortunately, supply and demand dynamics are improving as the demand for display monitors grows. In response to rising demand for larger screens, NEC began to raise production of 14-, 15- and 18-inch displays, where it is most competitive. By targeting attractive markets like these, NEC plans to lift earnings along with production volumes.

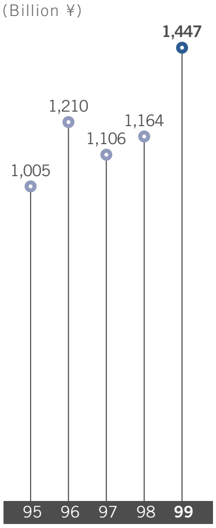
The color plasma display panel (PDP) market will take off as these devices move from commercial applications into the TV market. NEC will be a major beneficiary. One NEC advantage is the ability to produce high-resolution panels using its exclusive capsulated color filter (CCF) technology. Furthermore, making use of its advanced semiconductor technologies, NEC is creating high-performance LSI chips for PDPs to cut costs. In fiscal 1999, NEC started mass production at a state-of-the-art domestic plant capable of producing two 42-inch color PDPs per glass sheet. Profitability is expected to rise along with production volumes.

In the field of lithium-ion rechargeable batteries, where prolonged growth in demand is projected, NEC offers batteries using manganese materials in the electrode for improved safety and a lower cost.

INTERNATIONAL ACTIVITIES

SALES

(Billion ¥)



SHARE OF NET SALES (%)

27	28	22	24	**30**

Overseas sales in fiscal 1999 rose 24 percent to ¥1,447.0 billion ($12,262 million), representing 30 percent of net sales. Sales of communications equipment were higher in North America and Europe, and sales of hard disk drives (HDDs) increased in Asia. The consolidation of Packard Bell NEC's second-half results contributed to sales gains in North America and Europe. One highlight of the year was NEC's joint capture with other manufacturers of a large contract for a submarine cable system linking Japan and the United States.

Asia and Oceania

An adverse business climate persisted in Southeast Asia throughout the year. In China, NEC won several orders for WDM and SDH fiber-optic and microwave transmission systems, both key elements in that nation's five-year plan to expand capacity of its nation-wide backbone networks. In Indonesia, NEC was chosen to supply equipment for television and radio networks. In addition, the Express5800 series of servers sold well in Asian market.

A subsidiary, NEC Mobile Communications Development Singapore Pte. Ltd., was established to design and develop a W-CDMA mobile communications system. NEC also began manufacturing digital switching systems in Vietnam and formed NEC Computer Storage Philippines, Inc. to manufacture HDDs.

In Oceania, NEC entered into a new relationship agreement with Telecom New Zealand Limited under which it will offer a complete three-year support package from network design and equipment provision to maintenance and the development of new services.

North America

Backed by a healthy economy, NEC's sales in the United States increased, propelled by growth in PBX sales following the introduction of several new products. However, DRAMs, color CRT monitors and CD-ROM drives all posted lower sales because of falling prices.

Currently, relatively small, entrepreneurial companies dominate the rapidly growing market for Internet-access equipment. To become more competitive, NEC America, Inc. spun off its network access products division as a new company called NEC Eluminant Technologies, Inc. NEC also established a subsidiary, DCM Solutions, Inc. to provide demand chain management systems solutions using experience gained in Japan in systems integration for the retailing and distribution sector. NEC started selling SOCKS, an Internet security software that is recognized worldwide as the de facto standard.

Latin America

Despite intense competition following privatization of communications carriers in Brazil, NEC was able to capture orders for CDMA cellular systems from two operators. In Venezuela, NEC captured the first order in Latin America for asymmetric digital subscriber line (ADSL) systems to provide high-speed Internet access.

Europe

NEC's sales continued to expand. Two major contributors were satellite communications infrastructure equipment for ICO Global Communications Holdings B.V. and color LCD monitors. Economic turmoil in Russia, however, caused the postponement of several projects.

In France, NEC won an order for its latest supercomputer, the SX-5, from ONERA, the French aerospace research agency, under the collaboration with BULL and began supplying PBXs to BULL on an OEM basis. In the strategic system LSI field, NEC captured new orders to supply chips used in digital TV set-top boxes and automotive electronics.

Middle and Near East and Africa

Low oil prices weakened local economies and created a tough environment. In Ghana, PERNEC Corporation, a Malaysian joint venture company owned by NEC and other local firms, received an order for a 200,000-line switching system and NEC, through a trading company, won a contract to supply an SDH microwave communications system for a high-capacity communications infrastructure. In Egypt, production of NEC's digital switching systems started at a local company. This is part of that country's implementation of a national project to increase communications network capacity.

HIGHLIGHTS OF THE YEAR


Shanghai Semiconductor Plant

NEAX2400IMS-IMX PBX

TV station in South Africa

A Higher Profile in China's Semiconductor Market

In February 1999, operations started on an 8-inch wafer fabrication line at NEC's joint venture company in Shanghai. This is NEC's second semiconductor plant in China, after Shougang NEC Electronics Co., Ltd. in Beijing. Additionally, NEC established a joint venture in Beijing that will design and sell LSIs.

PBX Business Continues to Grow in the United States

NEC was able to carve out a larger share of the U.S. market for PBXs, thanks to several new product introductions for a broader range of customers. NEC has earned a solid reputation for its ability to design and deliver converged enterprise network solutions. Sales to universities, hotels and hospitals have been particularly strong.

NEC Business Network Solutions, Inc. purchased the network integration division of Enterprise Networking Systems, Inc., a data communications system integrator. This further enhances NEC's ability to supply integrated multiservice network solutions to large corporations and the public sector.

Building Expertise in Third Generation Mobile Communications Systems

NEC has commenced trials for a W-CDMA mobile communications system with British Telecommunications plc. Furthermore, to gain a strategic advantage in Europe and Asia, NEC advanced R&D activities on W-CDMA systems in the United Kingdom and Singapore.

Transmitter Delivered to South African TV Broadcaster

NEC delivered TV transmitters to SENTECH, a leading South African broadcast signal distribution company. This completed the first phase of the e-TV network, South Africa's first privatized TV station that went on air in October 1998. NEC stands to win more orders if SENTECH goes ahead with a planned expansion.

RESEARCH AND DEVELOPMENT

NEC focuses its research and development activities on new materials, semiconductors, multimedia systems, C&C systems, software and environmental solution technologies. R&D at NEC is based on medium- and long-term perspectives, targeting new technologies that can form the basis for future businesses.

HIGHLIGHTS OF THE YEAR

SX-5 series supercomputer

LCD monitor made with NuCycle

Super high-resolution color LCD

W-CDMA Mobile Communications

NEC is strongly committed to developing advanced technologies for W-CDMA. Since many signals share the same wideband frequency simultaneously in W-CDMA, suppressing mutual interference was a major issue. This problem was solved by NEC's development of a multiuser interference canceller, which enables a base station to handle more subscribers. For mobile handsets, NEC developed a power amplifier using the world's most efficient power HJFETs (Hetero-Junction field effect transistors) and an MPEG4 (Moving Picture Experts Group Phase 4) video codec for the efficient data transmission of moving images.

High-Performance VLSI Processor for the SX-5 Series Supercomputer

NEC developed a VLSI chip that has 15 million transistors for its SX-5 series supercomputer. NEC's cutting-edge technologies in super-high-speed circuitry, computer-aided design (CAD) for high-speed VLSI and parallel processor architecture made possible the development of this chip. With this VLSI, each CPU of the SX-5 series is capable of performing 8 billion floating point operations per second. This allows the SX-5 series to tackle projects ranging from the massive scientific calculations required by research into molecular and atomic structures to the costly and time-consuming work required by automotive crash simulation and analysis.

Environmentally Friendly, Non-Toxic, Flame-Retarding Plastic

NEC developed an environmentally conscious flame-retarding plastic called NuCycle. This plastic is made of a polycarbonate resin containing a silicone compound. It is easy to recycle and does not produce any toxic gases when incinerated. NuCycle is now used in NEC's MultiSync LCD monitors, LCD projectors and PCs.

Super High-Resolution 11.3-inch Color LCD

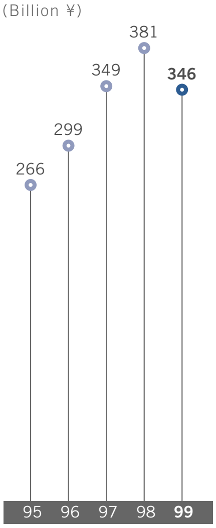
NEC has developed a super-high-resolution 11.3-inch color LCD with 200dpi (dot-per-inch) class resolution. This permits the clear display of an entire letter-size document. The new high-resolution pixel structure technology makes a significant contribution to this achievement.

Recycling of Waste Material From PC Housings Into New Desktop PCs

The popularity of PCs has created the problem of disposal. In response, NEC has stepped up its efforts to recycle discarded NEC products. However, using a high proportion of recycled plastic materials can lower the strength of a product. NEC solved the problem by designing sandwich-type moldings. Recycled plastic can be used for 100 percent of the core layer and 14 percent of the skin layer, an average of up to 35 percent of the entire molding.

R&D EXPENSES

(Billion ¥)



RATIO TO NET SALES (%)

7	7	7	8	**7**

ENVIRONMENTAL MANAGEMENT AND SOCIAL RESPONSIBILITY

NEC believes that environmental protection is one of the company's top priorities and is trying to minimize the burden placed on the environment by each of its operations. NEC is also deeply involved in a host of social activities aimed at furthering environmental preservation, social welfare, youth education, art, culture, sports, and volunteer programs that help to make our world a better place to live in.

MAJOR ACTIVITIES OF THE YEAR

"Eco Symbol"

Protection for eagle habitats

"Galileo Club"

Reducing Our Environmental Impact

NEC is engaged in developing products that are environmentally friendly. In December 1998, we started marking new products that satisfy our own strict guidelines for environmental compatibility with an "Eco Symbol," and releasing the information on the Internet. The first products to earn the Eco Symbol were new personal computers.

NEC has established a Life Cycle Assessment Support Center to help evaluate the environmental burden of products during each stage of their life cycles, from manufacture through distribution, use and disposal. A Green Purchasing Support Center was also formed to promote the purchasing of products that have a minimal environmental impact. Both centers, located in separate subsidiaries, offer support to companies outside the NEC group, too.

NEC has been collecting and recycling used computers sold directly to corporate customers. In October 1998, we expanded this activity to include computers sold to these customers via distribution channels, too.

As a result of ongoing efforts to build and improve its environmental management systems during the year under review, four domestic service subsidiaries and six overseas manufacturing subsidiaries received ISO14001 certification, a set of standards relating to environmental management systems determined by the International Organization for Standardization. This makes a total of 56 companies and plants within the NEC group that have received this status.

In addition, NEC has started evaluating the cost and benefits of its environmental activities at plants for the purpose of developing and introducing an environmental accounting system.

Contributions to Society

To help protect eagles in their natural habitat, NEC developed simulation software based on data from a survey of eagle migratory routes using satellites in cooperation with the Wild Bird Society of Japan. Using the software, NEC and the society projected the future trends in the eagle population and raised awareness of the importance of protecting eagles.

NEC founded the Galileo Club in 1996 to help children experience the excitement of science through home-made experiments. Approximately 670 children participated in the fourth Galileo Club session held at NEC headquarters in Tokyo and eight branches around Japan in March 1999.

FINANCIAL SECTION

CONTENTS

SIX-YEAR SUMMARY

	In millions of yen						In thousands of U.S. dollars
	1994	1995	1996	1997	1998	**1999**	**1999**
For the fiscal year:							
Sales and other income	¥3,652,501	¥3,829,538	¥4,427,272	¥5,064,872	¥4,970,686	**¥4,815,791**	**$40,811,788**
Net sales	3,579,787	3,769,357	4,397,192	4,948,437	4,901,122	**4,759,412**	**40,334,000**
Operating income	77,481	155,769	247,802	183,781	190,404	**3,139**	**26,602**
Income (loss) before income taxes	25,110	74,724	151,318	121,222	90,993	**(224,726)**	**(1,904,458)**
Income taxes	25,531	51,448	76,376	24,900	48,033	**(67,558)**	**(572,526)**
Net income (loss)	6,606	35,316	77,166	91,581	41,302	**(157,947)**	**(1,338,534)**
Capital expenditures	230,069	300,220	401,999	405,772	385,346	**253,623**	**2,149,347**
Depreciation	213,380	222,780	260,247	272,933	285,862	**306,442**	**2,596,966**
R&D expenses	261,659	266,006	298,713	348,537	381,239	**346,215**	**2,934,025**
Per share data (in yen and U.S. dollars):							
Per share of common stock:							
Net income (loss)							
Basic	4.29	22.92	49.98	59.05	25.94	**(98.66)**	**(0.836)**
Diluted	4.29	22.36	45.14	51.38	24.05	**(98.66)**	**(0.836)**
Cash dividends	10.00	10.00	11.00	11.00	11.00	**8.50**	**0.072**
Per American Depositary Share, each representing 5 shares of common stock:							
Net income (loss)							
Basic	21	115	250	295	130	**(493)**	**(4.18)**
Diluted	21	112	226	257	120	**(493)**	**(4.18)**
Cash dividends	50	50	55	55	55	**43**	**0.36**
At year-end:							
Total assets	4,039,809	4,151,320	4,683,120	4,799,165	4,973,836	**4,976,543**	**42,174,093**
Shareholders' equity	782,061	790,749	878,852	1,003,371	1,070,757	**853,194**	**7,230,458**
Employees	147,910	151,069	152,719	151,966	152,450	**157,773**	

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118=U.S.$1.

OPERATING RESULTS

Year ended March 31	1997	1998	**1999**	**1999**
	(In billions of yen and millions of dollars)			
Net Sales	¥4,948.4	¥4,901.1	**¥4,759.4**	**$40,334**
Cost of sales	3,528.3	3,409.6	**3,520.8**	**29,838**
Selling, general and administrative expenses	1,236.3	1,301.1	**1,235.4**	**10,470**
Operating income	183.8	190.4	**3.1**	**27**
Income (loss) before income taxes	121.2	91.0	**(224.7)**	**(1,904)**
Net income (loss)	91.6	41.3	**(157.9)**	**(1,339)**

Sales

Consolidated net sales for fiscal 1999, the year ended March 31, 1999, decreased 3% to ¥4,759.4 billion ($40,334 million). By industry segment, **information/communications systems operations**, which represents the manufacture and sale of communications systems and equipment and computers and industrial electronic systems, posted sales of ¥3,682.1 billion ($31,204 million), the same level with the previous term. Sales of communications systems and equipment decreased while sales of computers and industrial electronic systems increased. The sales decline in communications systems was mainly attributable to the lower investments by Japanese communications carriers and weak demand for network equipment from corporate customers reflecting Japan's prolonged economic slump. Sales increase in computers was largely attributable to the consolidation of the results of Packard Bell NEC, Inc. of the United States and its subsidiaries (collectively "Packard Bell NEC") in the second half of the fiscal year. The systems integration business was firm despite the soft demand for information systems caused by poor economic conditions in Japan. In **electron devices operations**, sales were down 12% to ¥875.0 billion ($7,415 million). This was the result of a drop in memory prices and lower demand for microcomputers and ASICs for consumer electronics products in Japan and Asia. Sales of **others** decreased 7% to ¥202.4 billion ($1,715 million).

Domestic sales fell 11%, to ¥3,312.4 billion ($28,072 million), mainly due to lower demand for communications infrastructure equipment and memory price declines. Sales in North America increased 23%, to ¥524.4 billion ($4,444 million) as a result of the consolidation of Packard Bell NEC, Inc. of the United States and healthy sales of communications systems. Sales to other regions increased 25%, to ¥922.5 billion ($7,818 million), primarily attributable to the consolidation of Packard Bell NEC Europe B.V.

Cost of Sales

Cost of sales increased from 69.6% to 73.9% of net sales because of sales decline in memories caused by a price drop. The increase in the ratio of fixed costs to net sales mainly caused by the sales decline in communications systems and equipment in the domestic market also contributed to the increase in ratio of cost of sales to net sales.

Selling, General and Administrative Expenses

These expenses decreased 5 % despite the consolidation of Packard Bell NEC in the second half of the fiscal year. The ratio to net sales declined from 26.5% to 26.0%. This was accomplished because of the benefits of ongoing efforts to control overhead expenses.

Operating Income

Operating income fell from ¥190.4 billion to ¥3.1 billion ($27 million), primarily a reflection of the decline in sales. By industry segment, operating income of **information/communications systems operations** was down 43% to ¥116.9 billion ($991 million), mainly because of lower sales of communications systems and equipment and the consolidation of Packard Bell NEC. **Electron devices operations** had an operating loss of ¥51.9 billion ($440 million) compared with operating income of ¥52.8 billion in the previous fiscal year. The rapid fall in memory prices and a decrease in orders for microcomputers and ASICs were the major reasons. Earnings in this segment were further impacted by a decline in sales prices of color display tubes and start-up expenses in the plasma display panel business. The operating loss from **others** increased ¥3.4 billion ($29 million) to ¥4.4 billion ($38 million).

Other Costs and Expenses

The "other" component of costs and expenses increased from ¥107.7 billion to ¥225.7 billion ($1,912 million). This was mostly the result of restructuring charges involving Packard Bell NEC, Inc. of the United States and NEC Home Electronics, Ltd. of Japan, and of losses on the revaluation of foreign currency-denominated receivables due to the yen's appreciation.

Minority Interest in Consolidated Subsidiary Companies

As a result of losses at consolidated subsidiaries with less than 100% NEC ownership, mainly in Japan, due to difficult operating conditions, minority interest resulted in income of ¥5.5 billion ($47 million), an addition of ¥8.4 billion ($71 million) compared to the minority interest loss of ¥2.8 billion in the previous fiscal year.

Equity in Earnings (Losses) of Affiliated Companies

Equity in losses of affiliated companies was ¥6.3 billion ($54 million), a decrease of ¥7.5 billion ($64 million) compared with equity in earnings of ¥1.2 billion in the previous fiscal year. This was primarily attributable to a revaluation loss at an equity-method affiliate in Brazil resulting from that country's currency devaluation and switch to a floating exchange rate.

Income Taxes

Due to the pretax loss in fiscal 1999, income taxes made a contribution of ¥67.6 billion ($573 million) compared with a deduction of ¥48.0 billion in the previous fiscal year. The effective tax rate declined from 52.8% to 30.1%. This was the result of the posting of a valuation allowance for losses carried forward at subsidiaries, and an adjustment in deferred tax assets related to the reduction in Japan's normal statutory tax rate from 47% to 42% in fiscal 2000, ending March 31, 2000.

Net Income (Loss)

Net loss for the year was ¥157.9 billion ($1,339 million) compared with net income of ¥41.3 billion in the previous fiscal year. As a result, the diluted net loss per share of common stock was ¥98.66 ($0.836) and the diluted net loss per American Depositary Share was ¥493 ($4.18).

Dividends

Cash dividends per share applicable to fiscal 1999 were ¥8.5 ($0.072), ¥2.5 ($0.021) less than in fiscal 1998. This was the result of an interim dividend of ¥5.5 ($0.047) paid in December 1998 and a term-end dividend of ¥3.0 ($0.025) paid in June 1999.

R&D Expenses

R&D expenses decreased 9% to ¥346.2 billion ($2,934 million) and accounted for 7.3% of net sales compared with 7.8% in the previous fiscal year. NEC believes that R&D is essential to the company's future development and conducts an extensive R&D program that is targeted on strategic business areas such as next-generation network equipment and high-performance VLSIs.

Capital Expenditures

In response to a decline in cash flows caused by the year's net loss and other factors, the company decided to reduce capital expenditures. The result was a 34% decline in these expenditures to ¥253.6 billion ($2,149 million), mostly for semiconductor production equipment.

LIQUIDITY

Financial Position

Total assets as of March 31, 1999 amounted to ¥4,976.5 billion ($42,174 million), approximately the same as one year earlier. Current assets declined ¥77.6 billion ($658 million) to ¥2,519.0 billion ($21,348 million) as the company made progress in managing receivables and inventories more effectively; for example, by the expansion of build-to-order and supply-chain management systems in the PC business. Inventories at year-end decreased by ¥53.7 billion ($455 million) to ¥811.3 billion ($6,876 million) and the inventory turnover ratio improved from 5.4 to 5.7 times. Fixed assets increased ¥80.3 billion ($681 million), to ¥2,457.5 billion ($20,827 million), primarily the result of higher deferred tax assets and the addition of goodwill with the acquisition of Packard Bell NEC Europe B.V. As a result, NEC's asset turnover ratio fell 0.04 point to 0.96.

Liabilities increased ¥188.1 billion ($1,594 million) to ¥4,021.4 billion ($34,080 million). Interest-bearing debt rose ¥181.3 billion ($1,537 million) to ¥2,375.5 billion ($20,132 million), mainly the result of bond issues. As a result, total debt rose from 2.0 to 2.8 times shareholders' equity. The company plans to reduce interest-bearing debt by promoting the more effective use of assets by such measures as limiting capital expenditures, reducing inventories, leasing semiconductor production equipment, and securitizing receivables.

Shareholders' equity decreased ¥217.6 billion ($1,844 million) to ¥853.2 billion ($7,230 million) because of the year's net loss and accumulated other comprehensive loss due to a decline in foreign currency translation adjustments and a newly posted minimum pension liability adjustment in loss from this fiscal year.

Due to these factors, the shareholders' equity ratio decreased from 21.5% to 17.1%.

Cash Flows

	(In billions of yen and millions of dollars)			
Year ended March 31	1997	1998	**1999**	**1999**
Net cash provided by (used in):				
Operating activities	¥ 256.9	¥ 296.1	**¥ 114.8**	**$ 973**
Investing activities	(467.7)	(513.6)	**(328.6)**	**(2,785)**
Financing activities	174.9	186.5	**220.9**	**1,872**
Effect of exchange rate changes on cash and cash equivalents	5.4	(0.6)	**(6.4)**	**(55)**
Net change in cash and cash equivalents	(30.5)	(31.5)	**0.7**	**6**

Net cash provided by operating activities was ¥114.8 billion ($973 million), ¥181.3 billion ($1,536 million) less than in the previous fiscal year as the company reported a net loss for the year, although there was a substantial decrease in notes and accounts receivable, trade. Net cash used in investing activities was ¥328.6 billion ($2,785 million), a decrease of ¥185.0 billion ($1,568 million) as capital expenditures, mainly investments in semiconductor production equipment, were reduced in response to the lower cash flows from operating activities. Net cash provided by financing activities increased ¥34.4 billion ($291 million) to ¥220.9 billion ($1,872 million). Short-term borrowings decreased while bonds and long-term debt increased. In response to the financial instability in the domestic market, NEC is strategically centralizing fund raising at the parent company and shifting its portfolio from bank borrowings to capital market financing, and from short-term to long-term liabilities. The net result of these cash flows was year-end cash and cash equivalents of ¥319.7 billion ($2,709 million), about the same as one year earlier.

Consolidated Subsidiaries

At the end of fiscal 1999, there were 162 consolidated subsidiaries, a net increase of 31 during the year. There was one newly consolidated subsidiary in Japan, NEC Yamanashi, Ltd. Overseas, 33 subsidiaries were newly consolidated: NEC Capital, Inc., NEC Communication Systems (Thailand) Co., Ltd., Packard Bell NEC, Inc. and its 3 subsidiaries, Packard Bell NEC Europe B.V. and its 23 subsidiaries, North Coast Logic, Inc., Open Networks Engineering, Inc., and NEC Eluminant Technologies, Inc. Additionally, 3 consolidated subsidiaries, NEC Software Kitakanto, Ltd., NEC Software Kanagawa, Ltd., and NEC Business Communication Systems (West), Ltd., were eliminated through mergers with other subsidiaries.

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.

	In millions of yen			In thousands of U.S. dollars (Note 3)
Year ended March 31	1997	1998	**1999**	**1999**
Net sales				
Information/communications systems operations				
Unaffiliated customers	¥3,765,074	¥3,694,488	**¥3,682,064**	**$31,203,932**
Intersegment	54,448	48,472	**39,853**	**337,737**
Total	3,819,522	3,742,960	**3,721,917**	**31,541,669**
Electron devices operations				
Unaffiliated customers	963,176	988,784	**874,951**	**7,414,839**
Intersegment	114,076	140,087	**150,106**	**1,272,085**
Total	1,077,252	1,128,871	**1,025,057**	**8,686,924**
Others				
Unaffiliated customers	220,187	217,850	**202,397**	**1,715,229**
Intersegment	97,610	94,901	**107,456**	**910,644**
Total	317,797	312,751	**309,853**	**2,625,873**
Eliminations	(266,134)	(283,460)	**(297,415)**	**(2,520,466)**
Consolidated	¥4,948,437	¥4,901,122	**¥4,759,412**	**$40,334,000**
Operating profit (loss)				
Information/communications systems operations	¥ 203,407	¥ 204,815	**¥ 116,939**	**$ 991,008**
Electron devices operations	53,570	52,769	**(51,908)**	**(439,898)**
Others	(4,305)	(1,062)	**(4,437)**	**(37,601)**
Corporate expenses	(68,891)	(66,118)	**(57,455)**	**(486,907)**
Consolidated	¥ 183,781	¥ 190,404	**¥ 3,139**	**$ 26,602**
Assets				
Information/communications systems operations	¥2,410,852	¥2,352,634	**¥2,392,704**	**$20,277,153**
Electron devices operations	1,223,899	1,322,544	**1,255,854**	**10,642,831**
Others	436,273	471,729	**394,140**	**3,340,168**
Corporate and eliminations	728,141	826,929	**933,845**	**7,913,941**
Consolidated	¥4,799,165	¥4,973,836	**¥4,976,543**	**$42,174,093**
Depreciation and amortization				
Information/communications systems operations	¥ 77,781	¥ 84,329	**¥ 99,851**	**$ 846,195**
Electron devices operations	174,006	177,503	**183,665**	**1,556,483**
Others	3,991	4,294	**3,926**	**33,271**
Corporate and eliminations	17,452	20,023	**20,956**	**177,593**
Consolidated	¥ 273,230	¥ 286,149	**¥ 308,398**	**$ 2,613,542**
Capital expenditures (including intangible assets other than goodwill)				
Information/communications systems operations	¥ 132,070	¥ 121,216	**¥ 102,416**	**$ 867,932**
Electron devices operations	231,820	231,286	**130,452**	**1,105,525**
Others	8,882	6,688	**2,301**	**19,500**
Corporate and eliminations	34,225	26,422	**23,239**	**196,941**
Consolidated	¥ 406,997	¥ 385,612	**¥ 258,408**	**$ 2,189,898**

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

	In millions of yen			In thousands of U.S. dollars (Note 3)
Year ended March 31	1997	1998	**1999**	**1999**
Net sales				
Japan				
Unaffiliated customers	¥4,078,220	¥4,048,556	**¥3,662,123**	**$31,034,941**
Intersegment	446,772	494,300	**440,921**	**3,736,619**
Total	4,524,992	4,542,856	**4,103,044**	**34,771,560**
North America				
Unaffiliated customers	–	–	**519,134**	**4,399,441**
Intersegment	–	–	**37,491**	**317,720**
Total	–	–	**556,625**	**4,717,161**
Others				
Unaffiliated customers	870,217	852,566	**578,155**	**4,899,618**
Intersegment	183,173	166,680	**179,233**	**1,518,924**
Total	1,053,390	1,019,246	**757,388**	**6,418,542**
Eliminations	(629,945)	(660,980)	**(657,645)**	**(5,573,263)**
Consolidated	¥4,948,437	¥4,901,122	**¥4,759,412**	**$40,334,000**
Operating profit (loss)				
Japan	¥ 184,373	¥ 207,841	**¥ 54,732**	**$ 463,831**
North America	–	–	**(37,730)**	**(319,746)**
Others	3,724	(13,693)	**(12,168)**	**(103,119)**
Eliminations	(4,316)	(3,744)	**(1,695)**	**(14,364)**
Consolidated	¥ 183,781	¥ 190,404	**¥ 3,139**	**$ 26,602**
Assets				
Japan	¥4,159,919	¥4,243,887	**¥4,472,315**	**$37,900,975**
North America	–	–	**353,864**	**2,998,847**
Others	758,485	807,333	**438,544**	**3,716,475**
Eliminations	(119,239)	(77,384)	**(288,180)**	**(2,442,204)**
Consolidated	¥4,799,165	¥4,973,836	**¥4,976,543**	**$42,174,093**

Note: Net sales, operating profit (loss), and assets for North America in the years ended March 31, 1997 and 1998 were included in others.

Sales by Market

	In millions of yen			In thousands of U.S. dollars (Note 3)
Year ended March 31	1997	1998	**1999**	**1999**
Domestic				
Net sales	¥3,842,839	¥3,737,029	**¥3,312,440**	**$28,071,525**
Percent change	21%	–3%	**-11%**	
Percentage of net sales	78%	76%	**70%**	
North America				
Net sales	¥ 482,686	¥ 425,207	**¥ 524,447**	**$ 4,444,466**
Percent change	-11%	-12%	**23%**	
Percentage of net sales	10%	9%	**11%**	
Others				
Net sales	¥ 622,912	¥ 738,886	**¥ 922,525**	**$ 7,818,009**
Percent change	-9%	19%	**25%**	
Percentage of net sales	12%	15%	**19%**	
Total				
Net sales	¥4,948,437	¥4,901,122	**¥4,759,412**	**$40,334,000**
Percent change	13%	-1%	**-3%**	
Percentage of net sales	100%	100%	**100%**	

CONSOLIDATED BALANCE SHEETS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 1998 and 1999

	In millions of yen		In thousands of U.S. dollars (Note 3)
ASSETS	1998	**1999**	**1999**
Current assets:			
Cash and cash equivalents	¥ 318,976	**¥ 319,669**	**$ 2,709,059**
Marketable securities (Note 5)	120,393	**114,300**	**968,644**
Notes and accounts receivable, trade (Note 7)	1,190,674	**1,143,320**	**9,689,153**
Allowance for doubtful notes and accounts	(12,075)	**(17,273)**	**(146,381)**
Inventories (Note 6)	865,033	**811,317**	**6,875,568**
Deferred income taxes (Note 9)	46,519	**85,885**	**727,839**
Prepaid expenses and other current assets	67,117	**61,791**	**523,652**
Total current assets	2,596,637	**2,519,009**	**21,347,534**
Long-term receivables and investments:			
Marketable securities (Notes 5 and 7)	167,854	**181,580**	**1,538,814**
Investments and advances (Notes 4 and 5) —			
Affiliated companies	289,326	**184,678**	**1,565,068**
Other	112,987	**163,208**	**1,383,118**
Long-term receivables, trade (Note 7)	40,111	**41,952**	**355,525**
	610,278	**571,418**	**4,842,525**
Property, plant and equipment (Notes 7 and 17):			
Land	111,267	**113,265**	**959,873**
Buildings	950,513	**952,907**	**8,075,483**
Machinery and equipment	2,399,260	**2,497,035**	**21,161,313**
Construction in progress	122,094	**62,904**	**533,085**
	3,583,134	**3,626,111**	**30,729,754**
Accumulated depreciation	(2,163,948)	**(2,324,781)**	**(19,701,534)**
	1,419,186	**1,301,330**	**11,028,220**
Other assets:			
Deferred income taxes (Note 9)	78,674	**192,695**	**1,633,008**
Intangible assets	190,533	**306,457**	**2,597,093**
Other	78,528	**85,634**	**725,713**
	347,735	**584,786**	**4,955,814**
	¥ 4,973,836	**¥ 4,976,543**	**$ 42,174,093**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen 1998	In millions of yen 1999	In thousands of U.S. dollars (Note 3) 1999
Current liabilities:			
Short-term borrowings (Note 7)	¥ 801,913	**¥ 548,135**	**$ 4,645,212**
Current portion of long-term debt (Note 7)	218,205	**240,356**	**2,036,915**
Notes and accounts payable, trade	891,049	**837,349**	**7,096,178**
Accrued taxes on income	6,037	**22,129**	**187,534**
Other current liabilities	466,094	**437,453**	**3,707,229**
Total current liabilities	2,383,298	**2,085,422**	**17,673,068**
Long-term liabilities:			
Long-term debt (Note 7)	1,174,102	**1,587,057**	**13,449,636**
Accrued pension and severance costs (Note 8)	245,076	**341,045**	**2,890,212**
Other	30,787	**7,880**	**66,779**
	1,449,965	**1,935,982**	**16,406,627**
Minority shareholders' equity in consolidated subsidiaries	69,816	**64,722**	**548,491**
Non-voting redeemable convertible preferred stock (Note 10):			
$0.001 par value —			
Authorized — 20,756,570 shares			
Issued and outstanding 1999 — 6,725,285 shares	–	**37,223**	**315,449**
Shareholders' equity (Note 11):			
Common stock, ¥50 par value —			
Authorized — 3,200,000,000 shares			
Issued 1998 — 1,598,093,154 shares	216,053	**–**	**–**
1999 — 1,627,021,410 shares	–	**230,212**	**1,950,949**
Additional paid-in capital	330,931	**345,642**	**2,929,169**
Legal reserve	34,081	**35,652**	**302,136**
Retained earnings	476,838	**299,148**	**2,535,153**
Accumulated other comprehensive income (loss)	12,862	**(57,442)**	**(486,797)**
	1,070,765	**853,212**	**7,230,610**
Treasury stock, at cost —			
1998 — 5,882 shares	(8)	**–**	**–**
1999 — 12,891 shares	–	**(18)**	**(152)**
	1,070,757	**853,194**	**7,230,458**
Commitments and contingent liabilities (Note 18)			
	¥4,973,836	**¥4,976,543**	**$42,174,093**

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 1997, 1998 and 1999

	In millions of yen			In thousands of U.S. dollars (Note 3)
	1997	1998	**1999**	**1999**
Sales and other income:				
Net sales	¥4,948,437	¥4,901,122	**¥4,759,412**	**$40,334,000**
Interest, gain on securities sold, dividends and other (Notes 5 and 16)	116,435	69,564	**56,379**	**477,788**
	5,064,872	4,970,686	**4,815,791**	**40,811,788**
Costs and expenses:				
Cost of sales	3,528,326	3,409,607	**3,520,837**	**29,837,601**
Selling, general and administrative (Notes 14 and 15)	1,236,330	1,301,111	**1,235,436**	**10,469,797**
Interest	60,463	61,257	**58,575**	**496,399**
Other (Note 16)	118,531	107,718	**225,669**	**1,912,449**
	4,943,650	4,879,693	**5,040,517**	**42,716,246**
Income (loss) before income taxes	121,222	90,993	**(224,726)**	**(1,904,458)**
Income taxes (Note 9)	24,900	48,033	**(67,558)**	**(572,526)**
Income (loss) before minority interest and equity in earnings of affiliated companies	96,322	42,960	**(157,168)**	**(1,331,932)**
Minority interest in income (loss) of consolidated subsidiary companies	5,018	2,839	**(5,545)**	**(46,991)**
Income (loss) before equity in earnings of affiliated companies	91,304	40,121	**(151,623)**	**(1,284,941)**
Equity in earnings (losses) of affiliated companies (Note 4)	277	1,181	**(6,324)**	**(53,593)**
Net income (loss)	91,581	41,302	**(157,947)**	**(1,338,534)**
Comprehensive income:				
Other comprehensive income (loss), net of tax (Note 11)				
Foreign currency translation adjustments for the year	29,137	9,261	**(14,510)**	**(122,966)**
Minimum pension liability adjustment	–	–	**(55,794)**	**(472,831)**
Other comprehensive income (loss)	29,137	9,261	**(70,304)**	**(595,797)**
Comprehensive income (loss)	¥ 120,718	¥ 50,563	**¥ (228,251)**	**$ (1,934,331)**
Retained earnings:				
Balance at beginning of year	¥ 382,901	¥ 455,205	**¥ 476,838**	**$ 4,041,000**
Net income (loss)	91,581	41,302	**(157,947)**	**(1,338,534)**
Dividends	(17,118)	(17,573)	**(18,172)**	**(154,000)**
Transfer to legal reserve	(2,159)	(2,096)	**(1,571)**	**(13,313)**
Balance at end of year	¥ 455,205	¥ 476,838	**¥ 299,148**	**$ 2,535,153**

	Yen			U.S. dollars (Note 3)
	1997	1998	**1999**	**1999**
Net income (loss) per share of common stock (Note 12):				
Basic	¥59.05	¥25.94	**¥(98.66)**	**$(0.836)**
Diluted	51.38	24.05	**(98.66)**	**(0.836)**
Cash dividends per share	¥11.00	¥11.00	**¥ 8.50**	**$ 0.072**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 1997, 1998 and 1999

	In millions of yen			In thousands of U.S. dollars (Note 3)
	1997	1998	**1999**	**1999**
Cash flows from operating activities:				
Net income (loss)	¥ 91,581	¥ 41,302	**¥ (157,947)**	**$(1,338,534)**
Adjustments to reconcile net income to net cash provided by operating activities —				
Depreciation	272,933	285,862	**306,442**	**2,596,966**
Deferred income taxes	(2,193)	(11,073)	**(114,623)**	**(971,381)**
Accrual for pension and severance costs, less payments	10,614	(5,197)	**3,709**	**31,432**
Equity in earnings of affiliated companies, net of dividends	12,514	8,596	**18,179**	**154,059**
Minority interest in consolidated subsidiary companies	5,018	2,839	**(5,545)**	**(46,991)**
(Increase) decrease in notes and accounts receivable	46,925	(30,913)	**44,928**	**380,746**
Decrease in inventories	126,946	77,655	**55,867**	**473,449**
Decrease in notes and accounts payable	(179,355)	(54,706)	**(68,972)**	**(584,508)**
Increase (decrease) in accrued taxes on income	(48,009)	(3,885)	**15,644**	**132,576**
Increase (decrease) in employees' savings deposits	(92,302)	(3,914)	**142**	**1,203**
Other, net	12,277	(10,431)	**17,021**	**144,246**
Net cash provided by operating activities	256,949	296,135	**114,845**	**973,263**
Cash flows from investing activities:				
Proceeds from sales of property, plant and equipment	40,072	5,794	**39,438**	**334,220**
Additions to property, plant and equipment	(452,109)	(393,776)	**(279,849)**	**(2,371,602)**
Proceeds from sales of marketable securities	118,259	22,419	**18,087**	**153,280**
Payments for purchase of marketable securities	(104,419)	(46,606)	**(26,286)**	**(222,763)**
Investments in affiliated companies	(71,064)	(71,803)	**(32,183)**	**(272,737)**
Cash acquired relating to a newly consolidated subsidiary	–	–	**37,388**	**316,847**
Disbursements for long-term loans	(5,694)	(2,703)	**(11,164)**	**(94,610)**
Decrease in long-term loans	10,236	11,642	**6,501**	**55,093**
(Increase) decrease in other investment securities	11,133	(13,468)	**(47,123)**	**(399,347)**
Other, net	(14,114)	(25,079)	**(33,396)**	**(283,017)**
Net cash used in investing activities	(467,700)	(513,580)	**(328,587)**	**(2,784,636)**
Cash flows from financing activities:				
Proceeds from long-term debt	252,152	360,892	**1,078,359**	**9,138,636**
Repayments of long-term debt	(150,220)	(167,762)	**(194,026)**	**(1,644,288)**
Increase (decrease) in short-term borrowings	91,252	10,032	**(646,178)**	**(5,476,085)**
Dividends paid	(17,782)	(17,407)	**(17,583)**	**(149,009)**
Other, net	(540)	749	**294**	**2,492**
Net cash provided by financing activities	174,862	186,504	**220,866**	**1,871,746**
Effect of exchange rate changes on cash and cash equivalents	5,378	(577)	**(6,431)**	**(54,500)**
Net increase (decrease) in cash and cash equivalents	(30,511)	(31,518)	**693**	**5,873**
Cash and cash equivalents at beginning of year	381,005	350,494	**318,976**	**2,703,186**
Cash and cash equivalents at end of year	¥ 350,494	¥ 318,976	**¥ 319,669**	**$ 2,709,059**
Supplemental disclosures of cash flow information:				
Cash paid during the year for —				
Interest	¥ 62,941	¥ 61,412	**¥ 56,287**	**$ 477,008**
Income taxes	¥ 71,399	¥ 88,844	**¥ 30,713**	**$ 260,280**
Supplemental information of noncash financing activities:				
Conversion of convertible debt into common stock and additional paid-in capital	¥ 19,326	¥ 33,957	**¥ 28,870**	**$ 244,661**

The accompanying notes are an integral part of these statements.

1. NATURE OF OPERATIONS

The company is primarily engaged in the development, manufacture and sale of information/communications systems — comprising communications systems and equipment and computers and industrial electronic systems — as well as electron devices. The company's principal business activities are based on the integration of computer and communications products and technology ("C&C"), supported by semiconductor and software technology. For the years ended March 31, 1997, 1998 and 1999, sales of information/communications systems operations accounted for 76 percent, 76 percent and 78 percent and sales of electron devices operations accounted for 20 percent, 20 percent and 18 percent of consolidated net sales, respectively. The company operates both in Japan and overseas, with manufacturing facilities in Japan, the United States of America, Europe, Asia, and other countries and sales offices in Japan and around the world. During the years ended March 31, 1997, 1998 and 1999, sales to customers in Japan were 78 percent, 76 percent and 70 percent of consolidated net sales, respectively. In these Notes, references to the "company" are (unless the context does not so permit) to the parent company and its consolidated subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES

The parent company and its Japanese subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile. Certain adjustments and reclassifications, including those relating to the tax effects of temporary differences, the accrual of certain expenses, and the accounting for foreign currency translation, lease transactions and common stock warrants have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America. These adjustments were not recorded in the statutory books of account.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounting policies, after reflecting adjustments for the above, are as follows:

Basis of consolidation and investments in affiliated companies

The consolidated financial statements include those of the parent company and those of its majority-owned subsidiaries. All significant intercompany transactions and accounts are eliminated. The fiscal years of certain foreign subsidiaries are December 31 and there have been no significant transactions for the period from January 1, 1999 to March 31, 1999.

Investments in 50 percent or less owned companies over which the company does not have control, but has the ability to exercise significant influence, are accounted for by the equity method.

Cash equivalents

All highly liquid investments, including time deposits, with original maturities of three months or less are considered to be cash equivalents.

Foreign currency translation

Asset and liability accounts of foreign consolidated subsidiaries and equity investments are translated into yen at appropriate year-end rates of exchange and all revenue and expense accounts are translated at average rates of exchange prevailing during the year. The resulting translation adjustments are accumulated and included in accumulated other comprehensive income (loss) of shareholders' equity.

Marketable securities and other investments

The current and noncurrent portfolios of marketable equity securities are each carried at the lower of aggregate cost or market. Other marketable securities are carried at the lower of cost or market. Other investment securities are stated at cost or less. Realized gains or losses on the sale of marketable equity securities are based on the average cost of all of the shares of a particular security held at the time of sale. (See Note 5 to the consolidated financial statements for an explanation of the effects of not adopting the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115.)

Inventories

Inventories are stated at the lower of cost or market.

Finished products made to customer specifications are costed on the basis of accumulated production costs. Mass-produced standard products are principally costed on a first-in, first-out basis.

Work in process made to customer specifications represents accumulated production costs of job orders. Work in process of mass-produced standard products is stated on an average cost basis. The cost of semifinished components is principally determined on a first-in, first-out basis.

Raw materials and purchased components are principally stated on a first-in, first-out basis and, for certain subsidiaries, on an average cost method.

Effective April 1, 1997, the company changed its inventory costing method for other finished products, semifinished components, and raw materials and purchased components, principally from last-in, first-out basis to first-in, first-out basis. The company has recently been experiencing reductions in manufacturing cost through lower cost of purchased components and increased labor efficiency. The company believes that the first-in, first-out methodology is more representative of fair value of inventory. The effect of the change in accounting principle was not material to the financial position or results of operations.

Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. Depreciation is computed primarily on the declining-balance method and, for certain subsidiaries, on the straight-line method, at rates based on the following estimated useful lives of the assets: buildings, two to 65 years, machinery and equipment, two to 22 years. Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

Intangible assets

Intangible assets consist primarily of the costs of purchased patents and trade names and goodwill. Goodwill represents the excess of cost over the fair value of net tangible assets acquired in business combinations and investments accounted for under the equity method. Costs allocated to patents and trade names are amortized mainly on a straight basis over their estimated useful lives. Goodwill is amortized on a straight-line basis over the period of expected benefit which does not exceed 10 years. The company evaluates goodwill and other intangible assets for impairment using undiscounted future cash flows at the aggregate business unit level, whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable.

Accumulated amortization of intangible assets was ¥66,461 million and ¥152,536 million ($1,292,678 thousand) at March 31, 1998 and 1999, respectively.

Income taxes

The provision for income taxes is based on the pretax income included in the consolidated statements of income, comprehensive income and retained earnings and is computed under the asset and liability approach. Under this approach, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting basis and tax basis of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Pension and severance plans

In the fiscal year ended March 31, 1999, the company adopted SFAS No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits,” which standardizes the disclosure requirements for pensions and other postretirement benefit plans. SFAS No. 132 is primarily disclosure oriented and does not affect the consolidated financial position and operating results of the company. All prior-period disclosures have been restated to conform with the provisions of this statement.

Additional paid-in capital and free distributions of common stock

Under the Japanese Commercial Code, the entire amount of the issue price of shares is required to be accounted for in the common stock account although a company in Japan may, by a resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the shares as additional paid-in capital.

The company in Japan has made, based on the resolution of the board of directors, a free distribution of shares to shareholders, which is clearly distinguished from a “stock dividend” paid out of profits that, under the Commercial Code, must be approved by the shareholders. In accounting for the free distribution of shares, the Commercial Code permitted the board of directors to authorize either (1) a transfer from additional paid-in capital to the common stock account or (2) no entry if free shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account. Companies in the United States of America issuing shares in amounts comparable to those of the free share distributions of the parent company would be required to account for them as stock dividends and the fair value of the shares would be transferred from retained earnings to appropriate capital accounts. Such transfer, however, has no effect on total shareholders’ equity.

Comprehensive income

In the fiscal year ended March 31, 1999, the company adopted SFAS No. 130 "Reporting Comprehensive Income," which requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income (loss) consists of net income (loss), change in foreign currency translation adjustments and change in minimum pension liability adjustment and is displayed in the consolidated statements of income, comprehensive income and retained earnings. SFAS No. 130 is primarily disclosure oriented and does not affect the consolidated financial position and operating results of the company. All prior-period consolidated financial statements have been reclassified to conform with SFAS No. 130.

Net income per share

Basic net income per share ("EPS") is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock.

Sales

Sales of computers and certain types of major equipment are recorded when the units are installed and accepted by the customers, while sales of other equipment, components and appliances are recorded when completed units are shipped. The estimated accrued losses arising from estimated future returns of leased computers, and the related future tax benefit, are reflected in the financial statements.

Financial instruments

The company has entered into forward exchange contracts as hedges against the adverse impact of foreign currency fluctuations on monetary assets and liabilities arising from the company's operations. Gains and losses on these contract hedges are deferred and included in the measurement of the related foreign currency transactions so that foreign exchange gains or losses on the underlying assets and liabilities could be effectively offset. Agreements that are, in substance, essentially the same as forward exchange contracts, such as currency swaps, are accounted for in a manner similar to the accounting for forward exchange contracts. The interest rate swap agreements are fully integrated with underlying debt obligations and designed to convert fixed rate debt into floating rate debt, or vice versa, and interest rate option agreements are also arranged so that exposures to losses resulting from fluctuations in interest rates are managed. The differentials to be paid or received related to interest rate swap agreements are recognized in interest expense over the lives of the agreements. (See Note 13 to the consolidated financial statements for detailed descriptions of these financial instruments.)

Recent pronouncement

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires that an entity recognize all derivatives as either assets or liabilities in the statements of financial position. In the case of the company, SFAS No. 133 is effective for the fiscal year beginning April 1, 2000. At this stage, the company is unable to estimate the effect of adoption on the consolidated financial position or operating results of the company.

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued SOP98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which provides guidance on accounting for the costs of computer software developed or obtained for internal use. In the case of the company, SOP98-1 is effective for the fiscal year beginning April 1, 1999. The company is in the process of estimating the effect of adoption on the consolidated financial position or operating results of the company.

Reclassifications

Certain accounts in the consolidated financial statements for the years ended March 31, 1997 and 1998 have been reclassified to conform to the 1999 presentation.

3. U.S. DOLLAR AMOUNTS

U.S. dollar amounts are included solely for the convenience of the readers of the financial statements. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

As the amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the rate of ¥118=U.S.$1, the approximate current rate at March 31, 1999, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. INVESTMENTS IN AFFILIATED COMPANIES

The investees accounted for by the equity method together with a percentage of the company's ownership of voting share are Nippon Electric Glass Co., Ltd. (42.2%), ANRITSU CORPORATION (26.9%), Toyo Communication Equipment Co., Ltd. (39.0%), NITSUKO CORPORATION (34.3%), Nippon Electric Industry Co., Ltd. (47.9%), Tokin Corporation (41.1%), NEC Leasing, Ltd. (50.0%), Sumitomo 3M Limited (25.0%) and five other companies at March 31, 1999.

Summarized financial information relating to 50 percent or less owned companies accounted for under the equity method is as follows:

	In millions of yen		In thousands of U.S. dollars
March 31	1998	**1999**	**1999**
Current assets	¥1,089,749	**¥1,024,407**	**$8,681,415**
Other assets, including property, plant and equipment	1,064,536	**1,040,474**	**8,817,576**
Current liabilities	937,307	**805,776**	**6,828,610**
Long-term liabilities	797,261	**827,737**	**7,014,720**
Redeemable preferred stock	150,597	**–**	**–**

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Sales and operating revenue	¥1,715,434	¥1,755,668*1	**¥1,444,449***2	**$12,241,093**
Net loss	34,797	43,551*1	**63,913***2	**541,636**

*1 Including the amounts related to Packard Bell NEC, Inc. ("PBN") for 1998, ¥461,551 million and ¥76,798 million, respectively. The company recognized ¥15,320 million as equity loss.

*2 Including the amounts related to PBN up to the time when the company consolidated PBN, ¥170,293 million ($1,443,161 thousand) and ¥43,413 million ($367,907 thousand), respectively. Please refer to the separate caption, "Investment to Packard Bell NEC, Inc. (PBN)," which is indicated below.

Of the 13 companies at March 31, 1999 (15 companies at March 31, 1998) accounted for under the equity basis, the stocks of six companies carried at equity of ¥115,384 million and ¥120,888 million ($1,024,475 thousand) at March 31, 1998 and 1999, respectively, were quoted on the market at an aggregate value of ¥201,449 million and ¥194,624 million ($1,649,356 thousand), respectively, at those dates.

The balances and transactions with companies accounted for under the equity method are shown below:

	In millions of yen		In thousands of U.S. dollars
March 31	1998	**1999**	**1999**
Receivables, trade	¥33,212	**¥57,615**	**$488,263**
Payables, trade	46,447	**52,596**	**445,729**

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Sales	¥253,393	¥257,170	**¥254,738**	**$2,158,797**
Purchases	112,776	117,016	**114,273**	**968,415**

Investment to Packard Bell NEC, Inc. (PBN)

On August 31, 1995, for consideration of ¥17,026 million the company acquired 4,040,149 shares of voting convertible preferred stock of Packard Bell Electronics, Inc. ("PB") representing 19.97% of the then combined outstanding common and preferred stock of PB.

On April 1, 1996, the company purchased 6,725,285 shares of non-voting redeemable convertible preferred stock from PB for ¥30,706 million. On June 30, 1996, the parent company, NEC Technologies, Inc., a wholly owned subsidiary, and PB effected an agreement to transfer certain assets and liabilities of the company's personal computer business to PB in order to integrate their worldwide personal computer businesses, except in Japan and China. The company received 7,306,000 shares of non-voting redeemable convertible preferred stock of PB for ¥35,270 million consideration for the assets transferred. On July 11, 1996, PB changed its name to Packard Bell NEC, Inc. On June 30, 1997, the company purchased 6,772,814 shares of non-voting redeemable convertible preferred stock from PBN for ¥32,875 million. On December 26, 1997 and February 6, 1998, the company purchased senior subordinated convertible notes for ¥19,725 million and ¥18,780 million, respectively.

In February 1998, in connection with the note purchase, 11,445,000 shares of non-voting redeemable convertible preferred stock of PBN held by the company have been exchanged on a one-for-one basis for 11,445,000 shares of voting convertible preferred stock of PBN. The preferred stock exchanged has been devalued to fair value and a loss of ¥10,663 million has been recognized on this exchange. The company also recognized a loss of ¥19,706 million, relating to the devaluation of the investment. After the exchange, the company's share of the outstanding voting shares of PBN has increased to 49% of the combined outstanding common and voting shares of PBN.

On July 31, and August 31, 1998, the parent company purchased subordinated convertible unsecured notes for ¥21,578 million ($182,864 thousand) and ¥10,605 million ($89,873 thousand), respectively, from PBN.

On September 4, 1998, the parent company converted 11,445,000 shares of voting convertible preferred stock of PBN and 2,586,285 shares of non-voting preferred stock of PBN into common stock. The preferred stock converted has been devalued to fair value and a loss of ¥17,792 million ($150,780 thousand) has been recognized on this conversion. The company also recognized a loss of ¥5,950 million ($50,424 thousand), relating to the devaluation of the remaining investment in the preferred stock. After the conversion, since the company's share of the outstanding voting shares of PBN has increased to 52.81% of the combined outstanding common and voting shares of PBN, the company consolidated PBN effective October 1, 1998.

On January 6, 1999, the parent company acquired 12,288,311 shares of common stock of PBN. After the acquisition, the company's share of the outstanding voting shares of PBN has increased to 88.32% of the combined outstanding common and voting shares of PBN.

On February 26, 1999, the parent company acquired all of outstanding shares of Packard Bell NEC Europe B.V. ("PBNE"), which was a wholly owned subsidiary of PBN, for ¥53,797 million ($455,907 thousand). On February 26, 1999, the parent company purchased 475,285 shares of non-voting redeemable convertible preferred stock of PBN and sold 8,698,429 shares of common stock of PBNE representing 4.44% of the voting securities of PBNE.

The acquisitions were recorded under the purchase method accounting and the purchase prices have been allocated to assets acquired based on their estimated fair value at the dates of acquisition. Considering the disappointing recent financial performance of PBN, the company prepared a revised business plan and operating forecast. Based on such revised business plan and operating forecast, the company determined that goodwill, which had been recognized relating to the acquisitions of PBN, had been impaired and recorded a loss of ¥37,795 million ($320,297 thousand) including the amortization.

The following unaudited pro forma financial information for the company gives effect to the PBN acquisitions as if they had occurred on April 1, 1997. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred on the date indicated, or which may result in the future.

	In millions of yen		In thousands of U.S. dollars
Year ended March 31	1998	**1999**	**1999**
Net sales	¥5,352,256	**¥4,920,776**	**$41,701,492**
Net income (loss)	41,302	**(157,947)**	**(1,338,534)**

	Yen		U.S. dollars
Year ended March 31	1998	**1999**	**1999**
Net income (loss) per share of common stock			
Basic	¥25.94	**¥(98.66)**	**$(0.836)**
Diluted	24.05	**(98.66)**	**(0.836)**

The non-voting redeemable convertible preferred stock is classified as debt securities based on the provisions of SFAS No. 115.

5. MARKETABLE AND INVESTMENT SECURITIES

At the request of the company and other Japanese companies which file their consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, with the United States Securities and Exchange Commission (the "SEC") and the Japanese Ministry of Finance, in August 1993 the SEC issued a confirmation letter that the SEC would accept filings by the company and other Japanese companies that do not adopt the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," in their primary financial statements, but provide the information required by the provisions of SFAS No. 115 in a note to the financial statements. SFAS No. 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Under SFAS No. 115, certain investments in debt and equity securities are classified in the following three categories: held-to-maturity, trading or available-for-sale securities. Debt and equity securities classified as available-for-sale securities are reported at fair value, with unrealized gains and losses included in accumulated other comprehensive income (loss) of shareholders' equity, net of taxes.

The effects on the consolidated balance sheet accounts at March 31, 1998 and 1999 of the departure from the provisions of SFAS No. 115 are summarized as follows:

	In millions of yen		In thousands of U.S. dollars
March 31	1998	**1999**	**1999**
Shareholders' equity as reported	¥1,070,757	**¥853,194**	**$7,230,458**
Net increase in carrying amount of:			
Marketable and investment securities			
— Current	41,321	**42,655**	**361,483**
— Noncurrent	113,677	**67,050**	**568,220**
Net decrease in deferred tax assets and increase in deferred tax liabilities:			
Deferred tax assets — Current	10,845	**8,848**	**74,983**
— Noncurrent	530	**7,671**	**65,009**
Deferred tax liabilities — Current	(30,292)	**(26,896)**	**(227,932)**
— Noncurrent	(56,332)	**(37,846)**	**(320,729)**
Net increase in investments and advances — affiliated companies and other	12,002	**12,605**	**106,822**
Net (increase) decrease in minority interest	(221)	**64**	**542**
Shareholders' equity in accordance with accounting principles generally accepted in the United States of America	¥1,162,287	**¥927,345**	**$7,858,856**

The following is a summary of marketable and investment securities by major security type:

	In millions of yen							
	1998				**1999**			
March 31	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses	Fair value	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current								
Available-for-sale:								
Equity securities	¥ 99,856	¥ 64,214	¥23,130	¥140,940	**¥ 98,449**	**¥63,817**	**¥21,382**	**¥140,884**
Debt securities	20,537	237	–	20,774	**15,851**	**220**	**–**	**16,071**
	¥120,393	¥ 64,451	¥23,130	¥161,714	**¥114,300**	**¥64,037**	**¥21,382**	**¥156,955**
Noncurrent								
Available-for-sale:								
Equity securities	¥142,628	¥110,161	¥ 1,482	¥251,307	**¥157,430**	**¥84,128**	**¥18,363**	**¥223,195**
Debt securities	86,845	4,998	–	91,843	**24,150**	**1,285**	**–**	**25,435**
	¥229,473	¥115,159	¥ 1,482	¥343,150	**¥181,580**	**¥85,413**	**¥18,363**	**¥248,630**

March 31	In thousands of U.S. dollars 1999 Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Current				
Available-for-sale:				
Equity securities	**$ 834,313**	**$540,822**	**$181,203**	**$1,193,932**
Debt securities	**134,331**	**1,864**	**–**	**136,195**
	$ 968,644	**$542,686**	**$181,203**	**$1,330,127**
Noncurrent				
Available-for-sale:				
Equity securities	**$1,334,153**	**$712,949**	**$155,619**	**$1,891,483**
Debt securities	**204,661**	**10,890**	**–**	**215,551**
	$1,538,814	**$723,839**	**$155,619**	**$2,107,034**

The net unrealized holding gains, net of taxes, on available-for-sale securities decreased by ¥85,297 million, ¥10,815 million and ¥17,379 million ($147,280 thousand) for the years ended March 31, 1997, 1998 and 1999, respectively.

As a result, if the provision of SFAS No. 115 had been adopted, net gain (loss) recognized in comprehensive income (loss) for the years ended March 31, 1997, 1998 and 1999 would have been ¥35,421 million, ¥39,748 million and ¥(245,630) million ($2,081,610 thousand), respectively.

Contractual maturities of available-for-sale debt securities at March 31, 1999 are in the period from April 1, 1999 to June 15, 2015.

Proceeds from sales of available-for-sale securities were ¥118,259 million, ¥22,419 million and ¥18,087 million ($153,280 thousand) for the years ended March 31, 1997, 1998 and 1999, respectively. Gross realized gains on those sales were ¥52,137 million, ¥16,885 million and ¥12,887 million ($109,212 thousand) for the years ended March 31, 1997, 1998 and 1999, respectively, and gross realized losses were ¥194 million for the year ended March 31, 1997, and ¥30,412 million and ¥23,970 million ($203,136 thousand), including devaluation losses relating to the investments described in Note 4, for the years ended March 31, 1998 and 1999, respectively.

6. INVENTORIES

Inventories at March 31, 1998 and 1999 comprise the following:

	In millions of yen		In thousands of U.S. dollars
March 31	1998	**1999**	**1999**
Finished products	¥296,352	**¥248,539**	**$2,106,263**
Work in process and semifinished components	434,866	**432,358**	**3,664,051**
Less — Advance payments received	(34,026)	**(32,957)**	**(279,297)**
Raw materials and purchased components	167,841	**163,377**	**1,384,551**
	¥865,033	**¥811,317**	**$6,875,568**

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 1998 and 1999 comprise the following:

	In millions of yen		In thousands of U.S. dollars
March 31	1998	**1999**	**1999**
Loans, principally from banks, including bank overdrafts (average interest rate of 2.62% at March 31, 1998 and 2.11% at March 31, 1999):			
Secured	¥ 60,152	**¥ 27,231**	**$ 230,771**
Unsecured	612,131	**389,504**	**3,300,882**
Commercial paper (interest rates of 0.70% to 6.10% at March 31, 1998 and 0.31% to 5.94% at March 31, 1999)	129,630	**131,400**	**1,113,559**
	¥801,913	**¥548,135**	**$4,645,212**

Long-term debt at March 31, 1998 and 1999 comprises the following:

March 31	In millions of yen 1998	In millions of yen 1999	In thousands of U.S. dollars 1999
Loans, principally from banks and insurance companies, due 1998 to 2010 with interest rates of 0.705% to 9.72% at March 31, 1998 and due 1999 to 2010 with interest rates of 0.573% to 9.72% at March 31, 1999:			
Secured	¥ 42,416	¥ **53,449**	$ **452,958**
Unsecured	449,949	**533,237**	**4,518,958**
5.6% to 7.15% at March 31, 1998 and 1999 unsecured yen bonds due 1998 to 2007 at March 31, 1998 and due 1999 to 2007 at March 31, 1999 issued in the Euromarket	130,000	**100,000**	**847,458**
1.9% to 3.3% at March 31, 1998 and 1.1% to 3.3% at March 31, 1999 unsecured yen debentures due 1999 to 2009 at March 31, 1998 and due 1999 to 2010 at March 31, 1999	270,000	**670,000**	**5,677,966**
1.9% unsecured yen convertible debentures due 2004, convertible currently at ¥1,962.90 for one common share, redeemable before due date	118,522	**118,522**	**1,004,424**
1.0% unsecured yen convertible debentures due 2011, convertible currently at ¥1,375.00 for one common share, redeemable before due date	99,460	**99,389**	**842,280**
1.8% unsecured yen convertible debentures due 2002, convertible currently at ¥2,066.80 for one common share, redeemable before due date	95,041	**95,041**	**805,432**
1.9% unsecured yen convertible debentures due 2001, convertible currently at ¥976.00 for one common share, redeemable before due date	27,412	**27,410**	**232,288**
1.7% unsecured yen convertible debentures due 1999, convertible currently at ¥976.00 for one common share, redeemable before due date	21,796	**–**	**–**
2.1% unsecured yen convertible debentures due 1998, convertible currently at ¥1,414.10 for one common share, redeemable before due date	19,515	**–**	**–**
1.0% unsecured Swiss Francs convertible notes (Swiss Francs 81,350 thousand — 1998) due 1999, convertible currently at ¥976.00 for one common share, redeemable before due date	7,131	**–**	**–**
0.375% unsecured yen convertible notes issued by a consolidated subsidiary due 2002	12,000	**6,000**	**50,847**
0.2% to 1.6% yen medium-term notes issued by a consolidated subsidiary due 1999 to 2003 (swapped for LIBOR related Sterling Pound obligation)	29,121	**52,491**	**444,839**
Long-term capital lease obligation, due 1998 to 2003 with interest rates of 2.3% to 8.4% at March 31, 1998 and due 1999 to 2008 with interest rates of 2.1% to 8.4% at March 31, 1999	67,780	**64,061**	**542,890**
Other	1,756	**7,564**	**64,101**
	1,391,899	**1,827,164**	**15,484,441**
Unamortized premium	408	**249**	**2,110**
	1,392,307	**1,827,413**	**15,486,551**
Less — Portion due within one year	218,205	**240,356**	**2,036,915**
	¥1,174,102	**¥1,587,057**	**$13,449,636**

The following are pledged as security for short-term borrowings and long-term debt at March 31, 1999:

Description	In millions of yen	In thousands of U.S. dollars
Current notes and accounts receivable	¥ 5,884	$ 49,864
Marketable securities — Noncurrent	49	415
Long-term receivables, trade	4,412	37,390
Property, plant and equipment (net book value)	113,751	963,992

The 2.1 percent and 1.8 percent unsecured yen convertible debenture agreements stipulate, among other things, that (1) the parent company is required to deposit with a designated bank, as a sinking fund payment, amounts adjusted for redemptions and conversions made to the dates specified in the agreements and (2) certain restrictions are placed on the payment of dividends. Under the agreements the parent company deposited, instead of the cash, marketable securities amounting to ¥30,318 million and ¥10,110 million ($85,678 thousand) at March 31, 1998 and 1999, respectively.

The agreement of the 1.9 percent unsecured yen convertible debentures due 2004 stipulates, among other things, that the parent company is required to deposit with a designated bank, as a sinking fund payment, amounts adjusted for redemptions and conversions made to the dates specified in the agreement.

The sinking fund payments, adjusted for the conversions made to March 31, 1999, are as follows:

	Sinking fund payments		
		Amount of each payment	
Convertible debentures	Date	In millions of yen	In thousands of U.S. dollars
1.8%	March 31, 2000 and 2001	¥12,000	$101,695
1.9%	March 31, 2000	10,000	84,746
	March 31, 2001, 2002 and 2003	14,000	118,644

At March 31, 1999, an aggregate of 206,802 thousand shares of common stock would have been issuable upon conversion of all convertible debt of the parent company.

The company has basic agreements with lending banks to the effect that, with respect to all present or future loans with such banks, the company shall provide collateral (including sums on deposit with such banks) or guarantors therefor immediately upon the bank's request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all indebtedness to such banks.

Certain of the loan agreements provide, among other things, that the company submits to the lenders (upon their request) for approval its proposed appropriation of income (including dividends) before such appropriation can be submitted to the shareholders for approval.

Annual maturities and sinking fund requirements on long-term debt during the five years ending March 31, 2004 are as follows:

Year ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥262,356	$2,223,356
2001	273,563	2,318,331
2002	289,449	2,452,958
2003	227,054	1,924,186
2004	234,244	1,985,119

8. PENSION AND SEVERANCE PLANS

The parent company and subsidiaries in Japan have severance indemnity plans and non-contributory defined benefit funded pension plans, or only severance indemnity plans, covering substantially all of their employees who meet eligibility requirements of the retirement regulations. Under the plans, employees whose service with the company is terminated are, under most circumstances, entitled to lump-sum severance indemnities and/or pension payments, determined by reference to current basic rate of pay, length of service and conditions under which the termination occurs. The funding policy is to make contributions that can be deducted for Japanese income tax purposes.

The parent company and certain subsidiaries in Japan also have contributory defined benefit pension plans, covering substantially all of their employees, including the governmental welfare pension benefit plan which would otherwise be provided by the Japanese government. The pension benefits are determined based on years of service and the compensation amount as stipulated in the regulations. The governmental welfare pension contributions are funded in conformity with the requirements regulated by the Japanese Welfare Pension Insurance Law. The contributions to the contributory and the non-contributory pension plans are placed into trusteed pension funds.

Most subsidiaries outside Japan have various retirement plans covering substantially all of their employees, which are primarily defined contribution plans. The funding policy for the defined contribution plans is to annually contribute an amount equal to a certain percentage of the participants' annual salaries.

Reconciliations of the beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

	In millions of yen		In thousands of U.S. dollars
March 31	1998	**1999**	**1999**
Change in benefit obligations:			
Benefit obligations at beginning of year	¥864,322	**¥ 951,749**	**$8,065,669**
Service cost	44,851	**49,624**	**420,543**
Interest cost	38,894	**39,958**	**338,627**
Actuarial loss	35,235	**106,594**	**903,339**
Benefits paid	(31,553)	**(40,137)**	**(340,144)**
Benefit obligations at end of year	951,749	**1,107,788**	**9,388,034**
Change in plan assets: (*1)			
Fair value of plan assets at beginning of year	548,975	**616,682**	**5,226,119**
Actual return on plan assets	35,039	**16,480**	**139,661**
Employer contributions	46,692	**50,147**	**424,974**
Benefits paid	(14,024)	**(18,157)**	**(153,873)**
Fair value of plan assets at end of year	616,682	**665,152**	**5,636,881**
Funded status	335,067	**442,636**	**3,751,153**
Unrecognized prior service cost and actuarial loss	(65,251)	**(79,898)**	**(677,102)**
Unrecognized net obligation at April 1, 1989 being recognized over 17 years	(24,740)	**(21,693)**	**(183,839)**
Net amounts recognized	¥245,076	**¥ 341,045**	**$2,890,212**
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension and severance costs	¥200,348	**¥ 203,768**	**$1,726,847**
Intangible assets	44,728	**41,080**	**348,136**
Accumulated other comprehensive income, gross of tax	–	**96,197**	**815,229**
Net amounts recognized	¥245,076	**¥ 341,045**	**$2,890,212**

*1 The plan assets consist principally of corporate equity securities, government securities and corporate debt securities.

The weighted-average assumptions used in the accounting for the plans as at March 31 are as follows:

March 31	1998	**1999**
Discount rate	4.2%	**4.0%**
Rate of increase in future compensation level	1.7% – 3.8%	**1.7% – 3.8%**
Expected long-term rate of return on plan assets	4.2%	**4.0%**

Components of net pension and severance cost for all defined benefit plans including both the company's and employees' contributory portion of such plans for the years ended March 31, 1997, 1998 and 1999 were as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Service cost	¥ 44,154	¥ 44,851	**¥ 49,624**	**$ 420,543**
Interest cost	36,487	38,894	**39,958**	**338,627**
Expected return on plan assets	(24,843)	(28,956)	**(25,960)**	**(220,000)**
Amortization of unrecognized prior service cost and actuarial loss	13,228	1,168	**9,001**	**76,280**
Amortization of unrecognized net obligation at April 1, 1989 being recognized over 17 years	3,047	3,047	**3,047**	**25,821**
Net pension and severance cost for all defined benefit plans	¥ 72,073	¥ 59,004	**¥ 75,670**	**$ 641,271**

The total cost for all defined benefit and defined contribution plans was as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Net pension and severance cost for all defined benefit plans	¥ 72,073	¥ 59,004	**¥ 75,670**	**$ 641,271**
Net pension cost for employees' portion of the contributory defined benefit pension plans	(13,144)	(13,688)	**(16,516)**	**(139,966)**
Pension and severance cost for defined contribution plans and severance indemnity plans	1,560	1,952	**2,198**	**18,627**
Total cost for all defined benefit and defined contribution plans	¥ 60,489	¥ 47,268	**¥ 61,352**	**$ 519,932**

9. INCOME TAXES

The components of income tax expense (benefit) are as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Current	¥22,507	¥ 67,985	**¥ 45,476**	**$ 385,390**
Deferred	2,393	(19,952)	**(113,034)**	**(957,916)**
	¥24,900	¥ 48,033	**¥ (67,558)**	**$(572,526)**

The company is subject to a number of different income taxes which, in the aggregate, indicate a normal statutory tax rate in Japan of approximately 51 percent for the years ended March 31, 1997 and 1998, and approximately 47 percent for the year ended March 31, 1999. On March 31, 1998, the Japanese government passed a law that changed the tax rates for corporations. As a result of the change, a normal statutory tax rate in Japan has become approximately 47 percent for the year beginning on April 1, 1998. On March 31, 1999, the Japanese government passed a law that changed the tax rates for corporations, again. As a result of the change, a normal statutory tax rate in Japan will be approximately 42 percent for the year beginning on April 1, 1999 and subsequent years. A reconciliation between the reported total income tax expense (benefit) and the amount computed by multiplying the income (loss) before tax by the applicable normal statutory income tax rate is as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Current "expected" tax expense (benefit)	¥ 61,823	¥ 46,406	**¥(105,621)**	**$(895,093)**
Increase (decrease) in taxes resulting from:				
a) Disposition of an investment in a consolidated subsidiary	(49,980)	–	**(66,748)**	**(565,661)**
b) Changes in valuation allowance	8,054	(12,857)	**33,895**	**287,246**
c) Non-deductible expense for tax purposes	4,836	4,570	**3,378**	**28,627**
d) International tax rate differences	674	78	**9,866**	**83,610**
e) Effect of change in normal statutory tax rate in Japan	–	6,604	**23,326**	**197,678**
f) Goodwill	130	1,211	**19,458**	**164,898**
g) Other	(637)	2,021	**14,888**	**126,169**
Actual total income tax expense (benefit)	¥ 24,900	¥ 48,033	**¥ (67,558)**	**$(572,526)**

The significant components of deferred tax assets and liabilities at March 31, 1998 and 1999 are as follows:

	In millions of yen		In thousands of U.S. dollars
March 31	1998	**1999**	**1999**
Deferred tax assets:			
Intercompany profit on inventories and tangible fixed assets between consolidated companies	¥ 33,909	**¥ 25,811**	**$ 218,737**
Accrued pension and severance costs	40,560	**74,026**	**627,339**
Operating lease	33,479	**36,086**	**305,814**
Loss carryforwards	97,504	**238,700**	**2,022,881**
Other	88,737	**71,793**	**608,415**
	294,189	**446,416**	**3,783,186**
Less — Valuation allowance	65,158	**83,827**	**710,398**
Total	¥229,031	**¥362,589**	**$3,072,788**
Deferred tax liabilities:			
Tax deductible reserve	¥ 37,423	**¥ 30,317**	**$ 256,924**
Tax on undistributed earnings	22,260	**9,595**	**81,314**
Marketable securities	16,710	**19,983**	**169,347**
Other	27,445	**24,114**	**204,356**
Total	¥103,838	**¥ 84,009**	**$ 711,941**

In Japan, consolidated tax returns are not permitted; accordingly, company subsidiaries are required to file separate tax returns. The valuation allowance is primarily related to deferred tax assets of certain consolidated subsidiaries with operating loss carryforwards which are not expected to be realized. The net changes in the total valuation allowance for the years ended March 31, 1997, 1998 and 1999 were decreases of ¥8,773 million, ¥23,850 million and increase of ¥18,669 million ($158,212 thousand), respectively. Of the changes in the valuation allowance, the amounts attributable to the release of the beginning-of-the-year balance due to favorable developments in the subsequent year for the years ended March 31, 1997, 1998 and 1999 were decreases of ¥15,560 million, ¥21,576 million and ¥6,542 million ($55,441 thousand), respectively.

At March 31, 1999, for tax return purposes, the company had tax loss carryforwards amounting to approximately ¥500,907 million ($4,244,975 thousand) which will expire primarily during the period from 2000 through 2004 and in 2007, 2008 and 2010. Realization is dependent on companies generating sufficient taxable income prior to expiration of the tax loss carryforwards. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

10. NON-VOTING REDEEMABLE CONVERTIBLE PREFERRED STOCK

Non-voting redeemable convertible preferred stock consists of 6,725,285 shares issued by the company's newly consolidated subsidiary PBN, and held by a third party other than NEC. The significant features of non-voting redeemable convertible preferred stock at March 31, 1999 are as follows:

Liquidation preference — In the event of liquidation or dissolution of PBN, the holder of share of non-voting redeemable convertible preferred stock is entitled to receive payment out of the assets of PBN available for distribution to stockholders, before any payments or distribution are made on the common stock or on any other class of stock ranking junior to the preferred stock in respect of distributions upon liquidation. This liquidation preference is equal to $42.08 per share. In addition, the liquidation preference will also include any accumulated and unpaid dividends at the date of liquidation or dissolution.

Redemption — The redemption prices equal the sum of (1) $42.08 per share and (2) accumulated and unpaid dividends at the date of redemption. Beginning with the tenth anniversary of the issuance date, PBN must redeem all outstanding shares of non-voting redeemable convertible preferred stock in five equal and annual installments. The mandatory redemption will not occur for five years from March 31, 1999. However, under the Delaware General Corporation Law, the mandatory redemption can not be made when the capital is impaired.

Conversion rights — A holder of non-voting redeemable convertible preferred stock has the right to convert such shares, including accumulated and unpaid dividends, into common stock at any time on or after January 1, 1999 at the conversion price as defined. In the event of an initial public offering, which meets certain size requirements, non-voting redeemable convertible preferred stock will be automatically converted into common stock. As at March 31,1999, the conversion price of non-voting redeemable convertible preferred stock was $21.04.

Dividends — Non-voting redeemable convertible preferred stock accumulated dividends at an annual rate of $2.10 per share, whether or not declared by PBN's board of directors. Non-voting redeemable convertible preferred stock dividends are cumulative from the issuance date until such shares are converted or redeemed. As at March 31, 1999, accumulated and unpaid dividends on non-voting redeemable convertible preferred stock amounted to ¥4,499 million ($38,127 thousand).

11. SHAREHOLDERS' EQUITY

Changes in common stock, additional paid-in capital, legal reserve, accumulated other comprehensive income (loss) and treasury stock are shown below:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Common stock:				
Balance at beginning of year	¥191,294	¥200,403	**¥216,053**	**$1,830,958**
Conversion of convertible debt	9,109	15,650	**14,159**	**119,991**
Balance at end of year	¥200,403	¥216,053	**¥230,212**	**$1,950,949**
Additional paid-in capital:				
Balance at beginning of year	¥300,374	¥312,192	**¥330,931**	**$2,804,500**
Conversion of convertible debt	10,207	18,303	**14,711**	**124,669**
Change in interest in consolidated subsidiaries	1,611	435	**–**	**–**
Gain on sale of treasury stock	–	1	**–**	**–**
Balance at end of year	¥312,192	¥330,931	**¥345,642**	**$2,929,169**
Legal reserve:				
Balance at beginning of year	¥ 29,826	¥ 31,985	**¥ 34,081**	**$ 288,822**
Transfer from retained earnings	2,159	2,096	**1,571**	**13,314**
Balance at end of year	¥ 31,985	¥ 34,081	**¥ 35,652**	**$ 302,136**
Accumulated other comprehensive income (loss):				
Balance at beginning of year	¥ (25,536)	¥ 3,601	**¥ 12,862**	**$ 109,000**
Other comprehensive income (loss), net of tax	29,137	9,261	**(70,304)**	**(595,797)**
Balance at end of year	¥ 3,601	¥ 12,862	**¥ (57,442)**	**$ (486,797)**
Treasury stock, at cost:				
Balance at beginning of year	¥ (7)	¥ (15)	**¥ (8)**	**$ (68)**
Net change resulting from purchase and sales of fractional shares of less than "One Unit" as defined by the Japanese Commercial Code	(8)	7	**(10)**	**(84)**
Balance at end of year	¥ (15)	¥ (8)	**¥ (18)**	**$ (152)**

(1) Common stock and additional paid-in capital

Issuances of common stock in connection with conversions of convertible debt for the years ended March 31, 1997, 1998 and 1999 were 19,454,109 shares, 32,439,230 shares and 28,928,256 shares, respectively.

Prior to 1985, the parent company made free share distributions of 233,182,146 shares. The cumulative amount of the fair value of these shares at the time of issuance was ¥258,755 million. Had the company accounted for these free share distributions in the manner used by United States companies, that amount would have been transferred from retained earnings to appropriate capital accounts.

(2) Legal reserve and retained earnings

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash dividends and other distributions from retained earnings paid by the parent company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriation is required when the legal reserve equals 25 percent of their respective stated capital.

The amount of retained earnings available for dividends is based on the parent company's retained earnings determined in accordance with generally accepted accounting principles and the Commercial Code in Japan. The appropriations of retained earnings for the year ended March 31, 1999, as incorporated in the accompanying consolidated financial statements, include year-end dividends of ¥4,881 million ($41,364 thousand) which, in accordance with the Japanese Commercial Code, will be proposed for approval at the Ordinary General Meeting of Shareholders to be held on June 29, 1999 and will be recorded in the statutory books of account on that date.

(3) Other comprehensive income

Change in accumulated other comprehensive income (loss) is as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Foreign currency translation adjustments:				
Balance at beginning of year	¥(25,536)	¥ 3,601	**¥ 12,862**	**$ 109,000**
Change in the current period	29,137	9,261	**(14,510)**	**(122,966)**
Balance at end of year	¥ 3,601	¥12,862	**¥ (1,648)**	**$ (13,966)**
Minimum pension liability adjustment:				
Balance at beginning of year	¥ –	¥ –	**¥ –**	**$ –**
Change in the current period	–	–	**(55,794)**	**(472,831)**
Balance at end of year	¥ –	¥ –	**¥(55,794)**	**$(472,831)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	¥(25,536)	¥ 3,601	**¥ 12,862**	**$ 109,000**
Change in the current period	29,137	9,261	**(70,304)**	**(595,797)**
Balance at end of year	¥ 3,601	¥12,862	**¥(57,442)**	**$(486,797)**

Tax effect allocated to each component of other comprehensive income (loss) is as follows:

	In millions of yen		
Year ended March 31	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
1997:			
Foreign currency translation adjustments	¥ 29,137	¥ –	¥ 29,137
1998:			
Foreign currency translation adjustments	¥ 9,261	¥ –	¥ 9,261
1999:			
Foreign currency translation adjustments	¥ (14,510)	¥ –	¥(14,510)
Minimum pension liability adjustment	(96,197)	40,403	(55,794)
Other comprehensive income (loss)	¥(110,707)	¥40,403	¥(70,304)

	In thousands of U.S. dollars		
Year ended March 31	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
1999:			
Foreign currency translation adjustments	$(122,966)	$ –	$(122,966)
Minimum pension liability adjustment	(815,229)	342,398	(472,831)
Other comprehensive income (loss)	$(938,195)	$342,398	$(595,797)

12. NET INCOME PER SHARE

Basic and diluted net income (loss) per share are computed as follows:

	In exact shares		
Year ended March 31	1997	1998	**1999**
Number of shares for basic per share computations for net income:			
Weighted-average number of shares of common stock outstanding for the year	1,551,017,559	1,592,406,790	**1,600,876,070**
Add — Incremental shares related to convertible bonds	296,731,689	254,578,150	**–**
Number of shares for diluted per share computations for net income	1,847,749,248	1,846,984,940	**1,600,876,070**

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Net income (loss) available to common shareholders	¥91,581	¥41,302	**¥(157,947)**	**$(1,338,534)**
Net income effect of interest on convertible bonds	3,354	3,109	**–**	**–**
Net income (loss) available to common shareholders and assumed conversions	¥94,935	¥44,411	**¥(157,947)**	**$(1,338,534)**

	Yen			U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Net income (loss) per share of common stock:				
Basic	¥59.05	¥25.94	**¥(98.66)**	**$(0.836)**
Diluted	51.38	24.05	**(98.66)**	**(0.836)**

13. FINANCIAL INSTRUMENTS

(1) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, time deposits, notes and accounts receivable and payable, trade, short-term borrowings, employees' savings deposits, accrued taxes on income and other current assets and liabilities approximated fair value because of their short-term maturities. The carrying amounts and estimated fair values of the other financial instruments are summarized as follows:

	In millions of yen				In thousands of U.S. dollars	
	1998		**1999**		**1999**	
March 31	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Marketable and investment securities	¥ 349,866	¥ 504,864	**¥ 295,880**	**¥ 405,585**	**$ 2,507,458**	**$ 3,437,161**
Long-term receivables, trade	40,111	41,010	**41,952**	**42,623**	**355,525**	**361,212**
Long-term loans	21,533	21,677	**24,663**	**24,712**	**209,008**	**209,424**
Long-term debt, including current portion and excluding capital lease obligation	(1,324,527)	(1,377,861)	**(1,763,352)**	**(1,823,606)**	**(14,943,661)**	**(15,454,288)**
Derivatives:						
Forward exchange contracts	279	209	**(728)**	**(488)**	**(6,169)**	**(4,136)**
Interest rate and currency swap agreements	5,194	(2,621)	**884**	**(15,277)**	**7,492**	**(129,466)**
Option contracts —						
Purchased	440	338	**270**	**229**	**2,288**	**1,941**
Written	0	0	**(29)**	**(29)**	**(246)**	**(246)**

The fair values of financial instruments at March 31, 1998 and 1999 are determined by using a variety of methods and assumptions such as reference to various market and other data as appropriate. For marketable securities, fair value is determined based on quoted market prices. For investment debt securities, fair value is determined based on information obtained from independent third parties. For long-term receivables, trade and long-term loans included in investments and advances — other, fair value is estimated using estimated discounted values of future cash flows. For long-term debt, fair value is estimated using market quotes, or where market quotes are not available, using estimated discounted future cash flows for the same or similar types of instruments. Investments in equity securities, included in investments and advances — other, with an aggregated carrying value of ¥91,454 million and ¥138,545 million ($1,174,110 thousand) at March 31, 1998 and 1999, respectively, consist of numerous investments in securities of non-public companies. It is not practicable to reasonably estimate the fair values of these investments. Fair value of the forward exchange contracts is estimated by obtaining quotes for futures contracts with similar maturities, and fair value of the interest rate and currency swap agreements is estimated based on the discounted values of net future cash flows, and fair value of the option contracts is estimated using pricing models based upon current market interest and foreign exchange rates and volatilities.

(2) Derivative financial instruments

In the normal course of business, the company enters into various derivative financial instruments in order to manage exposures resulting from fluctuations in foreign currency exchange rates and interest rates. The primary classes of derivatives used by the company are forward exchange contracts, interest rate swap agreements, currency swap agreements and foreign currency purchased and written options as a normal part of its risk management efforts, which include those transactions designed as hedges but that do not qualify for hedge accounting under accounting principles generally accepted in the United States of America. Gains and losses on those derivative financial instruments qualified for hedge accounting are deferred and effectively offset gains and losses on the underlying hedged assets and liabilities by recognizing them in the same period. Other derivatives used for hedging purposes but not qualifying for hedge accounting under accounting principles generally accepted in the United States of America are marked to market.

The forward exchange contracts have been entered into as hedges against the adverse impact of fluctuations in foreign currency exchange rates on monetary assets and liabilities denominated in foreign currencies arising from the company's operating activities. The company had outstanding forward exchange contracts which, at March 31, 1998, mature through March 1999 to purchase the equivalent of ¥85,082 million, principally U.S. Dollars, and to sell the equivalent of ¥49,345 million, principally U.K. Pounds, German Marks and U.S. Dollars, of various foreign currencies. At March 31, 1999, the company had outstanding forward exchange contracts which mature through March 2000 to purchase the equivalent of ¥27,526 million ($233,271 thousand), principally U.S. Dollars and German Marks, and to sell the equivalent of ¥82,937 million ($702,856 thousand), principally U.S. Dollars and German Marks, of various foreign currencies.

The interest rate swap agreements are fully integrated with underlying debt obligations and designed to convert fixed rate debt into floating rate debt, or vice versa, and interest rate option agreements are also arranged so that exposures to losses resulting from fluctuations in interest rates are managed. The currency swap agreements and options are designed to limit exposures to losses resulting from fluctuations in foreign currency exchange rates. The aggregate notional principal amounts for interest rate swap agreements and currency swap agreements were ¥527,188 million and ¥620,628 million ($5,259,559 thousand) at March 31, 1998 and 1999, respectively. These agreements mature through 2009. The differentials to be paid or received related to interest rate swap agreements are recognized in interest expense over the terms of the agreements. The notional principal amounts of purchased interest rate option contracts were ¥29,737 million and ¥25,279 million ($214,229 thousand) at March 31, 1998 and 1999, respectively. These agreements mature through 2007. The notional principal amounts of written interest rate option contracts at March 31, 1998 and 1999 were ¥2,642 million and ¥1,680 million ($14,237 thousand). These agreements mature through 2003.

The counterparties to the company's derivative transactions are major financial institutions. As a normal business risk, the company is exposed to credit loss in the event of nonperformance by the counterparties, however, the company does not anticipate nonperformance by the counterparties to these agreements, and no material losses are expected.

14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses approximated ¥348,537 million, ¥381,239 million and ¥346,215 million ($2,934,025 thousand) for the years ended March 31, 1997, 1998 and 1999, respectively.

15. ADVERTISING COSTS

The company expenses advertising costs as incurred. Advertising expenses amounted to ¥42,527 million, ¥45,684 million and ¥34,766 million ($294,627 thousand) for the years ended March 31, 1997, 1998 and 1999, respectively.

16. EXCHANGE GAINS AND LOSSES

Foreign currency transaction gains and losses which were included in either other income or other expenses were as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Net exchange gains (losses)	¥19,373	¥1,954	**¥(21,040)**	**$(178,305)**

17. LEASING ARRANGEMENTS

(1) Leasing of computer equipment

In the normal course of business, the company sells certain equipment to an affiliated financing company which in turn leases the equipment to certain government and government agency customers under operating leases. The company also agrees to repurchase that equipment at prescribed amounts at the expiration of the lease. The company has previously accounted for these transactions as sales which is consistent with accounting practices in Japan. The estimated accrued losses arising from future repurchases of computers have been provided for. Effective December 1, 1995, the company began to account for these transactions as assets owned and leased to others under operating leases as required by accounting principles generally accepted in the United States of America. The company has not restated prior periods because the effect on earnings of applying the new accounting practice is not material. During a period of transition, which will continue for approximately three years, income before taxes was reduced by ¥23,800 million for the year ended March 31, 1997, ¥17,309 million for the year ended March 31, 1998 and loss before taxes was increased ¥9,027 million ($76,500 thousand) for the year ended March 31, 1999 compared to income or loss that would have been reported if the company had previously followed the new accounting practice.

At March 31, 1998 and 1999, the company invested in computer equipment to be leased to others as described above, amounting to ¥70,640 million less accumulated depreciation of ¥39,131 million and ¥70,284 million ($595,627 thousand) less accumulated depreciation of ¥45,337 million ($384,212 thousand), respectively. Future minimum lease payments from noncancelable leases as of March 31, 1999 are ¥7,171 million ($60,771 thousand) and ¥590 million ($5,000 thousand) for the years ending March 31, 2000 and 2001, respectively.

(2) Lease of facilities and equipment for the company's use

The company leases certain facilities and equipment for its own use. Gross amount of leased assets under capital leases included in machinery and equipment was ¥107,287 million and ¥133,785 million ($1,133,771 thousand) at March 31, 1998 and 1999, respectively. Accumulated amortization of the leased assets at March 31, 1998 and 1999 was ¥46,708 million and ¥77,946 million ($660,559 thousand), respectively.

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments at March 31, 1999:

Year ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥26,454	$224,186
2001	19,568	165,831
2002	14,159	119,992
2003	6,419	54,398
2004	2,383	20,195
2005	1,393	11,805
Total minimum lease payments	70,376	596,407
Less — Amount representing interest	6,315	53,517
Present value of net minimum lease payments	64,061	542,890
Less — Current obligation	25,049	212,280
Long-term lease obligation	¥39,012	$330,610

Rental expenses under operating leases were as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1997	1998	**1999**	**1999**
Rental expenses under operating leases	¥120,056	¥122,730	**¥118,584**	**$1,004,949**

Future minimum rental payments are as follows:

Year ending March 31	In millions of yen	In thousands of U.S. dollars
2000	¥34,345	$291,059
2001	11,571	98,059
2002	5,748	48,712
2003	5,060	42,881
2004	4,220	35,763
2005 and thereafter	19,226	162,932

18. COMMITMENTS AND CONTINGENT LIABILITIES

In connection with certain transactions for the purpose of goods and services with the Defense Agency of Japan and National Space Development Agency of Japan (the "Agencies"), it has been determined that the company overcharged for such goods and services. The company is required to refund the amount overcharged. Though the audit of the transactions of the Agencies is still in process, based on the amount refunded to date and the status of the audit, the company has recorded a reasonable amount to meet additional liabilities arising from the audit conducted by the Agencies.

Commitments outstanding at March 31, 1999 for the purchase of property, plant and equipment approximated ¥48,006 million ($406,831 thousand).

Contingent liabilities at March 31, 1999 for notes discounted, loans guaranteed and other guarantees amounted to approximately ¥172,521 million ($1,462,042 thousand).

REPORT OF INDEPENDENT ACCOUNTANTS

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Price Waterhouse

June 18, 1999

To the Board of Directors and Shareholders of NEC Corporation
(Nippon Denki Kabushiki Kaisha)

We have audited the accompanying consolidated balance sheets of NEC Corporation and its consolidated subsidiaries as of March 31, 1998 and 1999, and the related consolidated statements of income, comprehensive income and retained earnings and of cash flows for each of the three years in the period ended March 31, 1999, stated in yen. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The company has not applied Statement of Financial Accounting Standards ("SFAS") No. 115 in accounting for certain investments in debt and equity securities but has provided the disclosures as required by the provisions of SFAS No. 115. The effects on the consolidated financial statements of not adopting SFAS No. 115 are summarized in Note 5 to the consolidated financial statements.

The company has not presented segment information for each of the three years in the period ended March 31, 1999. The presentation of information about operating segments, products and services, geographic areas, and major customers is required by accounting principles generally accepted in the United States of America for a complete presentation of consolidated financial statements.

In our opinion, except for the effects of the departure from SFAS No. 115 in accounting for certain investments in debt and equity securities as discussed in the third paragraph, and the omission of segment information as discussed in the fourth paragraph of this report, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of NEC Corporation and its consolidated subsidiaries at March 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

Price Waterhouse

DIRECTORS AND CORPORATE AUDITORS

(As of June 29, 1999)

CHANGES IN MANAGEMENT

Tadahiro Sekimoto resigned as Chairman of the Board on October 23, 1998, and was appointed Counselor by the Board of Directors effective the same date. Hisashi Kaneko resigned as President on March 26, 1999 and was named Counselor on the same date.

Effective March 26, 1999, Hajime Sasaki, formerly Senior Executive Vice President, was named Chairman of the Board and Koji Nishigaki, formerly Executive Vice President, was named President.

Effective June 29, 1999, Hirokazu Akiyama, formerly Executive Vice President, was named Senior Executive Vice President. Eiichi Yoshikawa, and Shigeo Matsumoto, formerly Senior Vice Presidents, were named Executive Vice Presidents. Tatsuo Ishiguro, Norio Saito, Akinobu Kanasugi, and Kaoru Yano, formerly Associate Senior Vice Presidents, were named Senior Vice Presidents.

At the Ordinary General Meeting of Shareholders held on June 29, 1999, Kyoji Yamamoto, and Taiji Suzuki, formerly Vice Presidents, Toshihiko Takahashi, formerly Vice President and Executive General Manager, Computers Software Operations Unit, and Katsuichi Tomita, formerly Vice President and Executive General Manager, 1st Personal C&C Operations Unit, were newly elected to the Board of Directors.

Seijiro Yokoyama, formerly Senior Executive Vice President and a director since 1986, Masami Shinozaki, formerly Executive Vice President and a director since 1991, Hiroshi Shiba, formerly Senior Vice President and a director since 1992, and Takashi Torii, formerly Associate Senior Vice President and a director since 1994, retired from the Board of Directors on June 29, 1999.

DIRECTORS

Hajime Sasaki
Chairman of the Board

Koji Nishigaki
President

Tatsuo Sakairi
Senior Executive Vice President

Hirokazu Akiyama
Senior Executive Vice President

Yoshi Takayama
Executive Vice President

Masato Chiba
Executive Vice President

Mineo Sugiyama
Executive Vice President

Eiichi Yoshikawa
Executive Vice President

Shigeo Matsumoto
Executive Vice President

Yoshio Omori
Senior Vice President

Kazuhiko Kanou
Senior Vice President

Yukihiko Baba
Senior Vice President

Kanji Sugihara
Senior Vice President

Iwao Shinohara
Senior Vice President

Kaoru Tosaka
Senior Vice President

Tatsuo Ishiguro
Senior Vice President

Norio Saito
Senior Vice President

Akinobu Kanasugi
Senior Vice President

Kaoru Yano
Senior Vice President

Kyonosuke Ibe
Advisor, The Sumitomo Bank, Limited

Tadahiro Sekimoto
Counselor

Hisashi Kaneko
Counselor

Shigeki Matsue
Associate Senior Vice President

Hiromi Hayashi
Associate Senior Vice President

Kouichi Ohtsuka
Associate Senior Vice President

Toshiki Inazumi
Associate Senior Vice President

Toshiro Kawamura
Associate Senior Vice President

Keiichi Shimakura
Associate Senior Vice President

Kazuhiko Kobayashi
Associate Senior Vice President

Yukio Doi
Associate Senior Vice President

Yasushi Kaito
Associate Senior Vice President

Masakatsu Miwa
Associate Senior Vice President

Kazumasa Fujie
Associate Senior Vice President

Kyoji Yamamoto
Associate Senior Vice President

Taiji Suzuki
Associate Senior Vice President

Toshihiko Takahashi
Associate Senior Vice President

Katsuichi Tomita
Associate Senior Vice President

CORPORATE AUDITORS

Tadashi Suzuki

Toshio Ono

Satoshi Tamaki

Masaaki Arai
Honorary Chairman, Sumitomo Life Insurance Company

Michio Nishi
Attorney at Law, Nishi & Partners

Transfer Agent for Common Stock

The Sumitomo Trust and Banking Company, Limited
4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan

Stock Exchange Listings and Quotations

NEC common stock is listed on the Tokyo and seven other stock exchanges in Japan. Overseas listings are on the Swiss Exchange (in the form of Swiss Bearer Depositary Receipts), the Frankfurt Stock Exchange (in the form of a Global Bearer Certificate), the London Stock Exchange, and Amsterdam Exchanges. American Depositary Receipts for common stock (Symbol: NIPNY) are quoted in the NASDAQ system in the United States.

Depositary for American Depositary Receipts (ADRs)

The Bank of New York
101 Barclay Street, New York, NY 10286, U.S.A.
Tel: (212) 815-2042
U.S. toll free: (888) 269-2377 (888-BNY-ADRS)

Sponsoring Bank for Global Bearer Certificate (GBC)

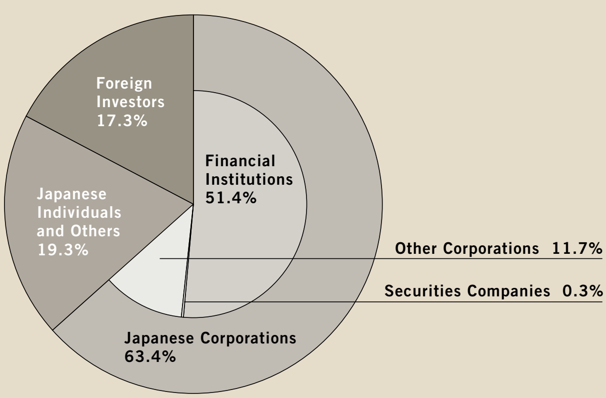
Deutsche Bank A.G.
Taunusanlage 12, 60262 Frankfurt am Main, Germany

Depositary Agent for Swiss Bearer Depositary Receipts (SBDRs)

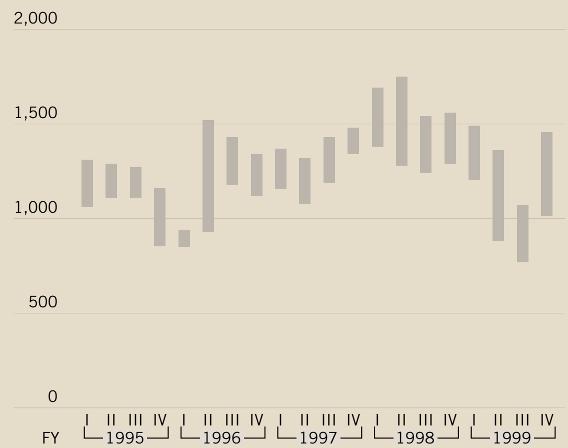
UBS AG
Badenerstrasse 574, 8098 Zurich, Switzerland

Composition of Shareholders

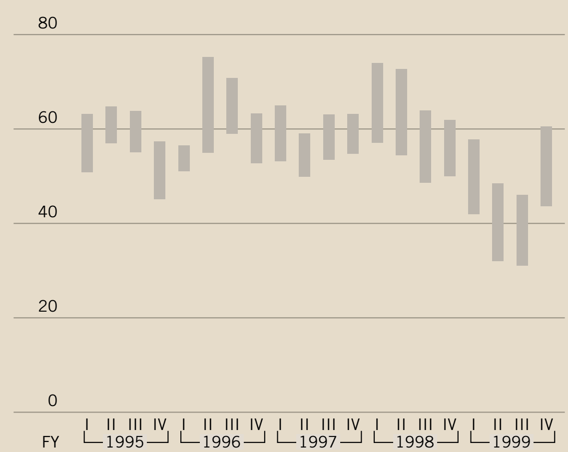
(As of March 31, 1999)



Stock Price Range on the Tokyo Stock Exchange (Yen)



ADR (NASDAQ) Price Range (U.S. dollars)



CORPORATE DIRECTORY

(As of March 31, 1999)

Facilities

JAPAN

Consolidated Subsidiaries
The Company has 88 consolidated subsidiaries throughout Japan.

Manufacturing Plants
The Company has six major plants in or near Tokyo, and its consolidated subsidiaries maintain 55 plants throughout Japan.

Marketing Network
The Company and its consolidated subsidiaries have approximately 450 sales offices located in major cities throughout Japan.

R&D Facilities
The Company has five R&D facilities near Tokyo and two in the Osaka area.

OVERSEAS

Consolidated Subsidiaries
The Company has 74 consolidated subsidiaries in 23 countries.

Manufacturing Plants
The Company's 64 majority-owned manufacturing subsidiaries and affiliates (in which it has ownership interests of 20% to 50%) operate a total of 64 plants in 21 countries.

Marketing Network
The Company has 154* marketing and service subsidiaries and affiliates in 34 countries and 22 liaison offices in 22 countries.

R&D Facilities
The Company has three R&D facilities in the United States and three in Germany.

**Including 44 manufacturing subsidiaries and affiliates*

Major Consolidated Subsidiaries

JAPAN

NEC Home Electronics, Ltd.
NEC Kansai, Ltd.
NEC Personal Systems, Ltd.
NEC Field Service, Ltd.
NEC Kyushu, Ltd.
NEC Yonezawa, Ltd.
NEC Shizuoka, Ltd.
NEC Tohoku, Ltd.
NEC Logistics, Ltd.
NEC Gunma, Ltd.
NEC Saitama, Ltd.
Japan Aviation Electronics Industry, Limited
Ando Electric Company, Limited
NEC System Integration & Construction, Ltd.
Nippon Avionics Co., Ltd.

OVERSEAS

NEC Electronics Inc. (U.S.A.)
NEC America, Inc. (U.S.A.)
Packard Bell NEC, Inc. (U.S.A.)

NEC Corporation

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NSN 1082

ISSN 0910-0229

Printed in Japan on recycled paper