

# NEC Corporation

## Semiannual Report

Six months ended September 30, 2000

NEC SOLUTIONS

NEC NETWORKS

THE RIGHT STRENGTHS  
FOR THE INTERNET ERA

NEC ELECTRON DEVICES

## NEC Corporation

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NEC

# TO OUR SHAREHOLDERS

## OVERVIEW OF OPERATIONS

During the first half of fiscal 2001, the six-month period ended September 30, 2000, the global economy remained on an expansionary track. Although higher interest rates affected some sectors of consumer spending, the U.S. economy continued to expand. The European and Asian economies also continued to grow. In Japan, consumer and private-sector capital spending are gradually replacing public-works projects as key growth drivers. The result is a weak but self-sustaining expansion. Japan's electronics industry benefited from rising demand for PCs, mobile phones and digital home appliances, as more people logged on to the Internet. Trends were also favorable in electron devices, mainly due to growth in exports to Asia.

NEC concentrated on reinforcing the operations of the entire group and boosting efficiency with the aim of increasing corporate value. One step in this direction was the decision to merge the key telephone and POS terminal businesses of NEC and group member Nitsuko Corporation to eliminate overlapping activities. We are also moving ahead with the integration of five computer sales and service subsidiaries. Overseas, NEC America, Inc. and NEC do Brasil S.A., both communications systems suppliers, began to outsource their manufacturing activities to contract manufacturers. This move better enables these two group members to turn their attention to upgrading their systems integration businesses. In addition, software development subsidiary NEC Soft, Ltd. of Japan conducted its initial public offering.

In order to speed up product development and become more competitive on a global scale, we entered into many strategic alliances during the interim period. In server computers, we formed alliances with Intel Corporation and Hewlett-Packard Company. In the highly attractive optical communications arena, we agreed to cooperate with a U.S. company that develops devices for optical network systems. Moreover, in October, NEC and Hitachi, Ltd. reached an agreement to jointly develop next-generation optical transport systems.

## CONSOLIDATED RESULTS

Compared with the first half of fiscal 2000, consolidated net sales increased 9% to ¥2,478.3 billion (\$22,947 million). Sales of mobile phones and PCs in Japan were strong. Another factor behind the

growth was a substantial increase in sales of semiconductors as DRAM prices improved and demand for mobile phones and digital home appliances rose.

NEC posted operating income of ¥74.6 billion (\$691 million), a dramatic improvement over the ¥8.0 billion operating loss one year earlier. The primary contributor to this turnaround was a strong performance by in-house company NEC Electron Devices. The other two in-house companies, NEC Solutions and NEC Networks, increased their earnings, too. Earnings also reflect a gain from the initial public offering of NEC Soft as well as restructuring expenses. The result was net income of ¥20.5 billion (\$190 million). The net income to sales ratio was 0.8% and the return on equity was 4.2%. Diluted net income per share was ¥11.99 (\$0.111).

We continued to place emphasis on increasing free cash flows. Our actions in this regard allowed us to reduce interest-bearing debt by ¥96.6 billion during the past six months to ¥1,860.6 billion (\$17,228 million). The debt-to-equity ratio fell from 2.0 times at March 31 to 1.9 times at September 30.

At its October 26, 2000 meeting, the Board of Directors approved an interim dividend of ¥5.50 (\$0.051) per share.

## RESULTS BY OPERATING SEGMENT

NEC Solutions-Sales decreased 3% to ¥1,006.1 billion (\$9,315 million). This decline primarily reflected lower overseas PC sales due to NEC's withdrawal in the previous fiscal year from the consumer PC business in North America. Higher sales of lower-end servers relative to more expensive models also brought down segment sales. Operating income was up 118% to ¥29.8 billion (\$276 million) as earnings rose in the PC and the software and services businesses.

NEC Networks-Sales increased 9% to ¥778.5 billion (\$7,208 million) and operating income advanced 48% to ¥21.3 billion (\$197 million). This segment posted a substantial increase in sales of mobile phones in Japan, mainly models for the i-mode service of NTT DoCoMo, Inc. Another major contributor was communications systems, as Japanese communications carriers added capacity to accommodate rising Internet traffic.

NEC Electron Devices-Sales climbed 21% to ¥648.4 billion (\$6,004 million) and operating income surged to ¥60.0 billion (\$556 million) from ¥3.7 billion in the first half of the previous fiscal year. In addition to higher memory prices, this segment's performance was aided by solid demand for system LSIs and other semiconductors for use in PCs, mobile phones, digital home appliances and other electronic products.

## **A STRATEGY FOR GROWTH IN THE INTERNET SOCIETY**

The world stands on the doorstep of the Internet society. As this new era takes shape, we are witnessing rapid growth in demand for high-speed, broadband networks and wireless communications. In this society, networks give people complete freedom to exchange information and knowledge. In line with this vision, NEC is targeting two fields: broadband and mobile Internet applications. All in-house companies will be channeling resources to these fields with the aim of gaining a position among the global leaders in both.

NEC Solutions will leverage its BIGLOBE business, one of Japan's largest Internet service providers, to create a Japanese-style electronic commerce platform. This company will also place priority on its systems integration business. At the heart of this drive will be its proven expertise in building large-scale open systems using UNIX computers and other components to perform critical operations for customers.

NEC Networks will concentrate on a number of forward-looking themes. One is optical communication systems such as a DWDM (dense wavelength division multiplexing) system, where rising demand for broadband networks is expected to fuel immense growth. Next-generation mobile communication systems and terminals make up another strategic field.

NEC Electron Devices will focus on a variety of device solutions for the broadband and wireless Internet markets as well as for PCs.

Each in-house company will aim for growth by maintaining an intent focus on strategic business fields. To support these in-house companies, we will manage NEC in a more dynamic fashion. As part of this approach, we will dramatically enlarge our strategic investments, including mergers and acquisitions, to become a global leader in our targeted fields.

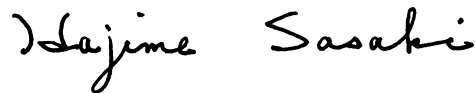
To increase returns, we will manage the entire NEC Group so as to optimize its business portfolio, altering the business structure of group members where necessary. Overlapping operations will be eliminated. Further actions may include transforming some manufacturing companies that make up our value chain into contract manufacturers. Moreover, we will have some subsidiaries conduct initial public offerings to bolster their operating bases. Only in this way can we make the entire NEC Group more competitive.

## **IMPROVING NEC'S CORPORATE GOVERNANCE**

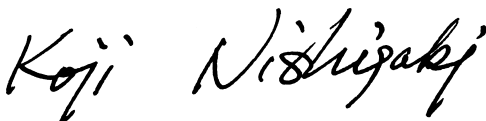
As one way to enhance NEC's management and transparency, we plan to increase the number of outside directors to create a more balanced Board of Directors. One step in this direction is the establishment in 2001 of an advisory committee to provide opinions from an external perspective to top management. We also plan to set up a compensation committee next year to determine appropriate levels of remuneration for directors and corporate officers. But these are just the first of many actions. We will continue to study ways to bring our corporate governance framework still closer to the highest standards in the world.

In short, we aim for nothing less than to be recognized as one of the world's most competitive and best-managed companies. We are confident that this strategy, centered on the broadband and mobile Internet fields, is the most effective way to generate greater value for shareholders over the long term.

October 26, 2000



Hajime Sasaki  
Chairman of the Board



Koji Nishigaki  
President

# CONSOLIDATED BALANCE SHEETS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of September 30, 1999 and 2000

ASSETS	In millions of yen		In thousands of U.S. dollars
	1999	2000	2000
<b>Current assets:</b>			
Cash and cash equivalents . . . . .	¥ 296,843	¥ 456,939	\$ 4,230,917
Notes and accounts receivable, trade . . . . .	862,420	849,412	7,864,926
Allowance for doubtful notes and accounts . . . . .	(17,790)	(41,837)	(387,380)
Inventories . . . . .	806,270	838,508	7,763,963
Other current assets . . . . .	180,884	168,533	1,560,491
Total current assets . . . . .	2,128,627	2,271,555	21,032,917
<b>Long-term receivables and investments:</b>			
Marketable securities . . . . .	409,091	435,384	4,031,333
Investments and advances—			
Affiliated companies . . . . .	195,258	194,098	1,797,204
Other . . . . .	163,105	152,570	1,412,685
Long-term receivables, trade . . . . .	37,810	54,901	508,343
	805,264	836,953	7,749,565
<b>Property, plant and equipment:</b>			
Land . . . . .	111,216	113,411	1,050,102
Buildings . . . . .	951,353	931,716	8,627,000
Machinery and equipment . . . . .	2,321,191	2,240,448	20,744,889
Construction in progress . . . . .	67,610	71,301	660,194
	3,451,370	3,356,876	31,082,185
Accumulated depreciation . . . . .	(2,281,608)	(2,209,888)	(20,461,926)
	1,169,762	1,146,988	10,620,259
<b>Other assets:</b>			
Intangible assets . . . . .	310,359	235,039	2,176,287
Other . . . . .	219,866	202,589	1,875,824
	530,225	437,628	4,052,111
	¥ 4,633,878	¥ 4,693,124	\$ 43,454,852

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	In millions of yen		In thousands of U.S. dollars
	1999	2000	2000
<b>Current liabilities:</b>			
Short-term borrowings . . . . .	¥ 486,497	¥ 266,815	\$ 2,470,509
Current portion of long-term debt . . . . .	247,753	228,312	2,114,000
Notes and accounts payable, trade . . . . .	788,312	1,048,575	9,709,028
Other current liabilities . . . . .	395,822	448,102	4,149,093
Total current liabilities . . . . .	1,918,384	1,991,804	18,442,630
<b>Long-term liabilities:</b>			
Long-term debt . . . . .	1,394,261	1,365,495	12,643,472
Accrued pension and severance costs . . . . .	344,055	255,842	2,368,907
Other . . . . .	4,568	30,132	279,000
	1,742,884	1,651,469	15,291,379
<b>Minority shareholders' equity in consolidated subsidiaries . . . . .</b>	61,566	74,392	688,815
<b>Non-voting redeemable convertible preferred stock . . . . .</b>	39,818	—	—
<b>Shareholders' equity:</b>			
Common stock, ¥50 par value—			
Authorized — 3,200,000,000 shares			
Issued 1999 — 1,628,059,020 shares . . . . .	230,719	—	—
2000 — 1,632,244,858 shares . . . . .	—	232,995	2,157,361
Additional paid-in capital . . . . .	346,150	350,081	3,241,491
Legal reserve . . . . .	36,423	37,933	351,231
Retained earnings . . . . .	255,356	323,176	2,992,370
Accumulated other comprehensive income . . . . .	2,616	32,256	298,668
	871,264	976,441	9,041,121
Treasury stock, at cost—			
1999 — 17,954 shares . . . . .	(38)	—	—
2000 — 310,514 shares . . . . .	—	(982)	(9,093)
	871,226	975,459	9,032,028
	¥4,633,878	¥4,693,124	\$43,454,852

# CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 1998, 1999 and 2000

	In millions of yen			In thousands of U.S. dollars
	1998	1999	2000	2000
<b>Sales and other income:</b>				
Net sales . . . . .	¥2,113,093	¥2,267,512	<b>¥2,478,299</b>	<b>\$22,947,213</b>
Interest, gain on securities sold, dividends and other . . . . .	35,747	37,265	<b>67,922</b>	<b>628,907</b>
Gain on subsidiary sale of stock . . . . .	–	–	<b>30,389</b>	<b>281,380</b>
	2,148,840	2,304,777	<b>2,576,610</b>	<b>23,857,500</b>
<b>Costs and expenses:</b>				
Cost of sales . . . . .	1,490,420	1,664,427	<b>1,801,129</b>	<b>16,677,120</b>
Selling, general and administrative . . . . .	607,379	611,078	<b>602,558</b>	<b>5,579,241</b>
Interest . . . . .	30,512	32,027	<b>33,504</b>	<b>310,222</b>
Other . . . . .	45,073	55,658	<b>103,973</b>	<b>962,713</b>
	2,173,384	2,363,190	<b>2,541,164</b>	<b>23,529,296</b>
<b>Income (loss) before income taxes</b> . . . . .	(24,544)	(58,413)	<b>35,446</b>	<b>328,204</b>
<b>Income taxes</b> . . . . .	(526)	(6,738)	<b>26,645</b>	<b>246,713</b>
<b>Income (loss) before minority interest and equity in earnings of affiliated companies</b> . . . . .	(24,018)	(51,675)	<b>8,801</b>	<b>81,491</b>
<b>Minority interest in consolidated subsidiary companies</b> . . . . .	(1,464)	(2,310)	<b>(1,099)</b>	<b>(10,176)</b>
<b>Income (loss) before equity in earnings of affiliated companies</b> . . . . .	(22,554)	(49,365)	<b>9,900</b>	<b>91,667</b>
<b>Equity in earnings (losses) of affiliated companies</b> . . . . .	5,488	(1,819)	<b>10,625</b>	<b>98,379</b>
<b>Net income (loss)</b> . . . . .	(17,066)	(51,184)	<b>20,525</b>	<b>190,046</b>
<b>Comprehensive income:</b>				
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments for the year . . . . .	7,235	(19,842)	<b>(1,953)</b>	<b>(18,083)</b>
Minimum pension liability adjustment . . . . .	–	36	<b>5,373</b>	<b>49,750</b>
Unrealized gains on marketable securities . . . . .	(75,055)	19,827	<b>(19,169)</b>	<b>(177,491)</b>
Other comprehensive income (loss) . . . . .	(67,820)	21	<b>(15,749)</b>	<b>(145,824)</b>
Comprehensive income (loss) . . . . .	(84,886)	(51,163)	<b>4,776</b>	<b>44,222</b>
<b>Retained earnings:</b>				
Balance at beginning of year . . . . .	484,266	313,262	<b>312,638</b>	<b>2,894,796</b>
Net income (loss) . . . . .	(17,066)	(51,184)	<b>20,525</b>	<b>190,046</b>
Dividends . . . . .	(8,792)	(5,951)	<b>(8,976)</b>	<b>(83,111)</b>
Transfer to legal reserve . . . . .	(734)	(771)	<b>(1,011)</b>	<b>(9,361)</b>
Balance at end of period . . . . .	¥ 457,674	¥ 255,356	<b>¥ 323,176</b>	<b>\$ 2,992,370</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES  
For the six months ended September 30, 1998, 1999 and 2000

	In millions of yen			In thousands of U.S. dollars
	1998	1999	2000	2000
<b>Net cash provided by operating activities:</b>				
Net income (loss) . . . . .	¥ (17,066)	¥ (51,184)	¥ 20,525	\$ 190,046
Depreciation . . . . .	147,241	127,501	114,926	1,064,130
Other . . . . .	(88,038)	110,177	78,707	728,768
	42,137	186,494	214,158	1,982,944
<b>Net cash used in (provided by) investing activities</b> . . . . .	(224,303)	16,113	(56,658)	(524,611)
<b>Free cash flow</b> . . . . .	(182,166)	202,607	157,500	1,458,333
<b>Net cash provided by (used for) financing activities</b> . . . . .	76,352	(222,843)	(73,346)	(679,130)
<b>Effect of exchange rate changes on cash and cash equivalents</b> . . . . .	974	(2,590)	(1,182)	(10,944)
<b>Net increase (decrease) in cash and cash equivalents</b> . . . . .	¥(104,840)	¥ (22,826)	¥ 82,972	\$ 768,259

## OPERATING SEGMENT INFORMATION

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES  
For the six months ended September 30, 1999 and 2000

### a. Sales

	In millions of yen		In thousands of U.S. dollars
	1999	2000	2000
Sales:			
NEC Solutions —			
External customers . . . . .	¥ 976,388	¥ 943,056	\$ 8,732,000
Intersegment . . . . .	61,127	63,007	583,398
Total . . . . .	1,037,515	1,006,063	9,315,398
NEC Networks —			
External customers . . . . .	663,214	736,642	6,820,759
Intersegment . . . . .	48,085	41,818	387,204
Total . . . . .	711,299	778,460	7,207,963
NEC Electron Devices —			
External customers . . . . .	417,037	543,254	5,030,130
Intersegment . . . . .	119,245	105,129	973,416
Total . . . . .	536,282	648,383	6,003,546
Others —			
External customers . . . . .	210,873	255,347	2,364,324
Intersegment . . . . .	82,709	87,231	807,695
Total . . . . .	293,582	342,578	3,172,019
Eliminations . . . . .	(311,166)	(297,185)	(2,751,713)
Consolidated total . . . . .	¥2,267,512	¥2,478,299	\$22,947,213

b. Segment profit or loss

	In millions of yen		In thousands of U.S. dollars
	1999	2000	2000
Operating income (loss):			
NEC Solutions . . . . .	¥ 13,643	¥ 29,759	\$ 275,546
NEC Networks . . . . .	14,402	21,296	197,185
NEC Electron Devices . . . . .	3,667	60,009	555,639
Others . . . . .	(30)	496	4,593
Total . . . . .	31,682	111,560	1,032,963
Eliminations . . . . .	(9,876)	(10,069)	(93,231)
Unallocated amounts:			
Corporate expenses . . . . .	(29,799)	(26,879)	(248,880)
Consolidated operating income (loss) . . . . .	(7,993)	74,612	690,852
Other income . . . . .	37,265	98,311	910,287
Other expenses . . . . .	(87,685)	(137,477)	(1,272,935)
Consolidated income (loss) before income taxes . . . . .	¥(58,413)	¥ 35,446	\$ 328,204

## PRINCIPAL ACCOUNTING OFFICER'S CERTIFICATE

In my opinion, the accompanying consolidated balance sheets, consolidated statements of income, comprehensive income and retained earnings and of cash flows (condensed) and operating segment information present fairly the financial position of NEC Corporation and its consolidated subsidiary companies at September 30, 2000, and the results of their operations for the six months then ended, in conformity with accounting principles generally accepted in the United States of America applied on a consistent basis.

October 26, 2000



Shigeo Matsumoto  
Executive Vice President  
and Member of the Board



# NEC FACTS

(As of September 30, 2000)

## 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 56 plants throughout Japan.

### Marketing Network

The Company and its consolidated subsidiaries have approximately 350 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 76 consolidated subsidiaries in 23 countries.

### Manufacturing Plants

The Company's 65 majority-owned manufacturing subsidiaries and affiliates (in which it has ownership interests of 20% to 50%) operate a total of 62 plants in 20 countries.

### Marketing Network and Liaison Offices

The Company has 151\* marketing and service subsidiaries and affiliates in 34 countries and 19 liaison offices in 19 countries.

### R&D Facilities

The Company has two R&D facilities in the United States and one in Germany.

*\*Including 44 manufacturing subsidiaries and affiliates*

# INVESTOR INFORMATION

### 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 five other stock exchanges in Japan. Overseas listings are on the Frankfurt Stock Exchange (in the form of a Global Bearer Certificate), the Swiss Exchange (in the form of Swiss Bearer Depositary Receipts), 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.

### Depository for American Depositary Receipts (ADRs)

The Bank of New York  
101 Barclay Street, New York, NY 10286, U.S.A.  
Telephone: (212) 815-2218  
U.S. toll free: (888) 269-2377 (888-BNY-ADRS)

### Sponsoring Bank for Global Bearer Certificate (GBC)

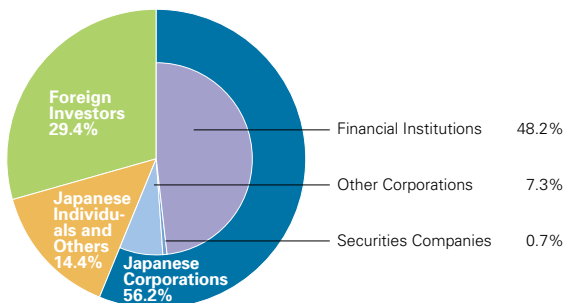
Deutsche Bank AG  
Tausananlage 12, 60325 Frankfurt am Main, Germany

### Depository Agent for Swiss Bearer Depositary Receipts (SBDs)

UBS AG  
P.O. Box, CH-8098, Zurich, Switzerland

## COMPOSITION OF SHAREHOLDERS

(% of shares held)



(As of September 30, 2000)

## CAUTIONARY STATEMENTS:

The statements in this semiannual 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 of its products and services in these highly competitive markets; and movements of currency exchange rates, particularly the rate between the yen and the U.S. dollar, in which NEC makes significant sales.

- NEC and BIGLOBE appearing in this semiannual report are trademarks of NEC Corporation in Japan and other countries.
- All other names may be trademarks of their respective owners.

# FINANCIAL HIGHLIGHTS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six-month periods ended September 30, 1998, 1999 and 2000

	In millions of yen			In thousands of U.S. dollars	Percent change 2000/1999
	1998	1999	2000	2000	
Net sales . . . . .	¥2,113,093	¥2,267,512	<b>¥2,478,299</b>	<b>\$22,947,213</b>	9.3%
Domestic . . . . .	1,478,178	1,560,196	<b>1,781,438</b>	<b>16,494,796</b>	14.2
Overseas . . . . .	634,915	707,316	<b>696,861</b>	<b>6,452,417</b>	-1.5
North America . . . . .	-	294,208	<b>261,266</b>	<b>2,419,130</b>	-11.2
Others . . . . .	-	413,108	<b>435,595</b>	<b>4,033,287</b>	5.4
Income (loss) before income taxes . . . . .	(24,544)	(58,413)	<b>35,446</b>	<b>328,204</b>	-
Provision (benefit) for income taxes . . . . .	(526)	(6,738)	<b>26,645</b>	<b>246,713</b>	-
Net income (loss) . . . . .	(17,066)	(51,184)	<b>20,525</b>	<b>190,046</b>	-
Per share of common stock (in yen and U.S. dollars):					
Net income (loss)					
Basic . . . . .	(10.68)	(31.45)	<b>12.58</b>	<b>0.116</b>	-
Diluted . . . . .	(10.68)	(31.45)	<b>11.99</b>	<b>0.111</b>	-
Cash dividends . . . . .	5.50	3.00	<b>5.50</b>	<b>0.051</b>	83.3
Per American Depositary Share, each representing 5 shares of common stock (in yen and U.S. dollars):					
Net income (loss)					
Basic . . . . .	(53)	(157)	<b>63</b>	<b>0.582</b>	-
Diluted . . . . .	(53)	(157)	<b>60</b>	<b>0.555</b>	-
Cash dividends . . . . .	27.5	15	<b>27.5</b>	<b>0.255</b>	83.3
Total assets . . . . .	4,877,245	4,633,878	<b>4,693,124</b>	<b>43,454,852</b>	1.3
Shareholders' equity . . . . .	1,069,128	871,226	<b>975,459</b>	<b>9,032,028</b>	12.0

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥108=U.S.\$1.

## NET SALES

(Billion ¥)

2000	2,478
1999	2,268
1998	2,113

## NET INCOME (LOSS)

(Billion ¥)

2000	21
1999	-51
1998	-17

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

(¥)

2000	12
1999	-31
1998	-11

## SHAREHOLDERS' EQUITY

(Billion ¥)

2000	975
1999	871
1998	1,069