

NEC CORPORATION

Semiannual Report

Six months ended September 30, 2001



NEC SOLUTIONS

NEC NETWORKS

NEC ELECTRON DEVICES

NEC Corporation

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Investor Relations home page: <http://www.nec.co.jp/ir-e>

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Empowered by Innovation



FINANCIAL HIGHLIGHTS

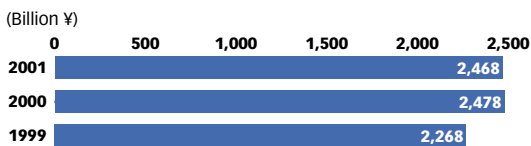
NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 1999, 2000 and 2001

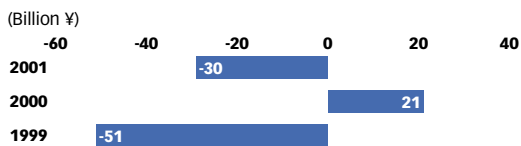
	In millions of yen			In thousands of U.S. dollars	Percent change 2001/2000
	1999	2000	2001	2001	
Net sales	¥2,267,512	¥2,478,299	¥2,468,047	\$20,739,891	-0.4%
Domestic	1,560,196	1,781,438	1,834,389	15,415,034	3.0
Overseas	707,316	696,861	633,658	5,324,857	-9.1
North America	294,208	261,266	160,070	1,345,126	-38.7
Others	413,108	435,595	473,588	3,979,731	8.7
Income (loss) before income taxes	(58,413)	35,446	(34,266)	(287,950)	-
Provision (benefit) for income taxes	(6,738)	26,645	(14,829)	(124,613)	-
Net income (loss)	(51,184)	20,525	(29,896)	(251,227)	-
Per share of common stock (in yen and U.S. dollars):					
Net income (loss)					
Basic	(31.45)	12.58	(18.07)	(0.152)	-
Diluted	(31.45)	11.99	(18.07)	(0.152)	-
Cash dividends	3.00	5.50	3.00	0.025	-45.5
Total assets	4,633,878	4,693,124	5,075,687	42,652,832	8.2
Shareholders' equity	871,226	975,459	835,729	7,022,933	-14.3

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥119=U.S.\$1.

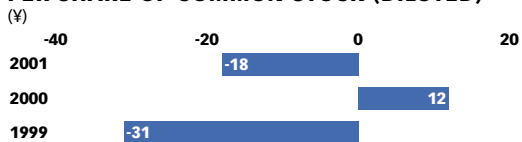
NET SALES



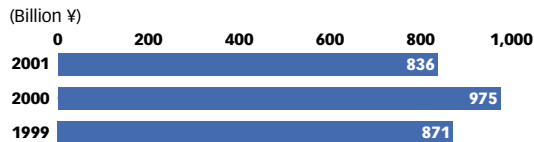
NET INCOME (LOSS)



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



SHAREHOLDERS' EQUITY



TO OUR SHAREHOLDERS

OVERVIEW OF OPERATIONS

During the first half of fiscal 2002, the six-month period ended September 30, 2001, the global economy showed clear signs of a slowdown, as the slump in demand for information technology (IT) products and services in the U.S. was felt around the world. Moreover, the September 11 terrorist attacks on the United States have fueled concerns that the worldwide economy may take longer than expected to recover. Japan's economy also faced increasingly difficult conditions, as exemplified by negative GDP growth during the April-June quarter due to falling stock prices and a decline in exports.

In Japan's electronics industry, corporate IT investment, mainly by financial services and telecommunications sectors, remained steady. However, electronics manufacturers' earnings were hit hard by the slowdown in the PC market, scaled down investment by overseas telecommunications carriers, and worsening conditions in the semiconductor market.

CONSOLIDATED RESULTS

In this business climate, consolidated net sales were ¥2,468.0 billion (\$20,740 million), a decline of 0.4% compared with the same period a year ago. The significant factor behind this sales decrease was a 34% decline in sales at NEC Electron Devices, which together with a 5% decline in sales at NEC Solutions offset a 36% increase in sales at NEC Networks.

NEC recorded a loss before income taxes of ¥34.3 billion (\$288 million), a ¥69.7 billion decline from the same period of the previous year, in which the company posted income before income taxes of ¥35.4 billion (\$298 million). This loss was principally attributable to a substantial decrease in aggregate segment profit, discussed in detail in the following section. As a consequence, NEC recorded a net loss of ¥29.9 billion (\$251 million), representing a year-on-year decline of ¥50.4 billion.

At a meeting held on October 26, 2001, NEC's Board of Directors approved an interim dividend of ¥3.00 (\$0.025) per share.

RESULTS BY OPERATING SEGMENT

Financial results for NEC's main operating segments are explained below.

NEC Solutions sales declined by 4% to ¥961.3 billion (\$8,078 million), while segment profit fell by 37% to ¥18.8 billion (\$158 million). Systems integration (SI) services for large companies in Japan and the Japanese government performed well, even as the consumer PC business weakened.

NEC Networks sales climbed by 36% to ¥1,060.1 billion (\$8,908 million). Mobile handsets for the domestic market performed extremely well. NEC Networks also saw substantial sales growth in fiber-optic submarine cable systems and third-generation (3G) mobile communications systems. Segment profit increased sharply by 158% to ¥55.0 billion (\$462 million), mainly reflecting the contribution from mobile handset business.

NEC Electron Devices sales declined by 34% to ¥430.0 billion (\$3,613 million). It posted a segment loss of ¥55.3 billion (\$465 million), down by ¥115.3 billion from the same period a year ago. The major factors were lower demand and prices for memories, in particular DRAMs.

EXECUTION OF STRUCTURAL REFORMS

Over the last two years, NEC has executed structural reforms that have addressed corporate governance, the concentration of resources into growth fields, and the restructuring of underperforming businesses.

In April 2001, NEC announced and subsequently implemented immediate structural reform measures to cope with the sharp downturn in PC and related component markets, which began in the second half of fiscal 2001. Measures called for a shift in strategies for the DRAM and display businesses, and the restructuring of the PC business. Specifically, NEC is stopping DRAM production at overseas semiconductor plants and shifting resources to the system LSI business. In the flat panel display business, NEC is outsourcing production

of LCDs for PCs, allowing its production facilities to focus on fields in which it holds a competitive advantage, such as small and medium-sized LCDs, as well as large-screen, high resolution LCDs. In the PC business, product development and manufacturing bases were centralized to respond with greater agility to rapid changes in market conditions.

Since the announcement of these measures, business conditions have deteriorated further than expected. For this reason, NEC Electron Devices has formulated and swiftly implemented additional measures designed to optimize production capacity, streamline human resources, and scale down capital expenditures, with the overriding goal of achieving a profitable cost structure in the next fiscal year, starting April 2002.

ADVANCING GROWTH STRATEGIES

As mentioned above, NEC is committed to implementing structural reforms and aggressively advancing growth strategies in the broadband & mobile Internet business to maximize corporate value. Specific plans of action for each in-house company are as follows.

Firstly, NEC Solutions will concentrate on the domestic software and IT services business, a market where steady growth is expected. Leveraging its firm customer base and sophisticated technological expertise, NEC Solutions will bolster business activities in the key areas of mission-critical solutions for core systems, e-Government and local government solutions, and e-business solutions.

Secondly, NEC Networks will enhance its competitive advantage in mobile handsets and 3G mobile communications systems. At the same time, it will concentrate resources on optical networking and Internet Protocol (IP) networking system businesses, fields where NEC anticipates medium- to long-term growth. Additionally, NEC will continue to pursue strategic partnerships with other companies. One notable example is NEC and the Matsushita Group's agreement on

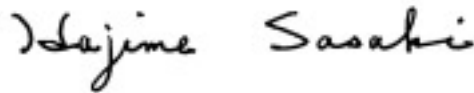
strategic development cooperation in the mobile handset business aimed at shortening development lead times, achieving greater efficiencies in the use of development resources and introducing even more reliable handsets backed by the combined know-how and expertise of both companies.

NEC Electron Devices will seek to further strengthen its business activities centered on system LSIs. NEC's policy for this in-house company is to improve earnings by channeling resources into growth fields. To this end, NEC Electron Devices will draw on its advanced technological expertise to accelerate the processing speed and lower the power consumption of electronics equipment, using semiconductors incorporating DRAM embedding processes and advanced copper wiring technologies.

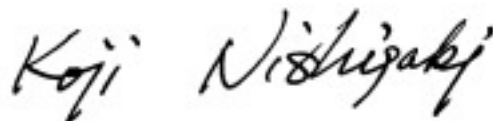
In these ways, NEC is aiming to become a company of global excellence by channeling resources into the broadband & mobile Internet business.

We ask for your continued support and understanding as we work to achieve these goals.

October 26, 2001



Hajime Sasaki
Chairman of the Board



Koji Nishigaki
President

CONSOLIDATED BALANCE SHEETS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of September 30, 2000 and 2001 (unaudited)

ASSETS	In millions of yen		In thousands of U.S. dollars
	2000	2001	2001
Current assets:			
Cash and cash equivalents	¥ 456,939	¥ 234,660	\$ 1,971,933
Notes and accounts receivable, trade	849,412	924,565	7,769,454
Allowance for doubtful notes and accounts	(41,837)	(25,231)	(212,025)
Current portion of investment in leases	–	244,215	2,052,227
Inventories	838,508	882,766	7,418,202
Other current assets	168,533	258,595	2,173,066
Total current assets	2,271,555	2,519,570	21,172,857
Investments and long-term receivables:			
Marketable securities	435,384	261,208	2,195,025
Investments and advances:			
Affiliated companies	194,098	153,605	1,290,798
Other	152,570	170,300	1,431,092
Long-term receivables, trade	54,901	44,254	371,883
Investment in leases	–	237,658	1,997,126
	836,953	867,025	7,285,924
Property, plant and equipment:			
Land	113,411	102,862	864,387
Buildings	931,716	947,632	7,963,294
Machinery and equipment	2,240,448	2,611,039	21,941,504
Construction in progress	71,301	67,157	564,344
	3,356,876	3,728,690	31,333,529
Accumulated depreciation	(2,209,888)	(2,592,491)	(21,785,638)
	1,146,988	1,136,199	9,547,891
Other assets:			
Intangible assets	235,039	265,597	2,231,908
Other	202,589	287,296	2,414,252
	437,628	552,893	4,646,160
	¥ 4,693,124	¥ 5,075,687	\$ 42,652,832

Note: Interest-bearing debt was ¥2,234.9 billion as of September 30, 2001. This represents an increase of ¥550.7 billion from March 31, 2001, the previous fiscal year-end. The primary factor was the inclusion of finance subsidiary NEC Leasing, Ltd. within the scope of consolidation in the current fiscal year, ending March 31, 2002. Excluding the effect of this change, interest-bearing debt increased ¥6.9 billion.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen		In thousands of U.S. dollars
	2000	2001	2001
Current liabilities:			
Short-term borrowings	¥ 266,815	¥ 392,648	\$ 3,299,563
Current portion of long-term debt	228,312	430,711	3,619,420
Notes and accounts payable, trade	1,048,575	970,687	8,157,034
Accounts payable, other and accrued expenses	276,308	271,571	2,282,109
Other current liabilities	171,794	205,384	1,725,916
Total current liabilities	1,991,804	2,271,001	19,084,042
Long-term liabilities:			
Long-term debt	1,365,495	1,411,555	11,861,807
Accrued pension and severance costs	255,842	399,781	3,359,504
Other	30,132	40,532	340,605
	1,651,469	1,851,868	15,561,916
Minority shareholders' equity in consolidated subsidiaries	74,392	117,089	983,941
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorized — 3,200,000,000 shares			
Issued 2000 — 1,632,244,858 shares	232,995		
2001 — 1,656,261,902 shares		244,720	2,056,471
Additional paid-in capital	350,081	361,816	3,040,471
Legal reserve	37,933	39,046	328,118
Retained earnings	323,176	314,170	2,640,084
Accumulated other comprehensive income (loss)	32,256	(122,019)	(1,025,371)
	976,441	837,733	7,039,773
Treasury stock, at cost:			
2000 — 310,514 shares	(982)		
2001 — 1,752,658 shares		(2,004)	(16,840)
	975,459	835,729	7,022,933
	¥4,693,124	¥5,075,687	\$42,652,832

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 1999, 2000 and 2001 (unaudited)

	In millions of yen			In thousands of U.S. dollars
	1999	2000	2001	2001
Sales and other income:				
Net sales	¥2,267,512	¥2,478,299	¥2,468,047	\$20,739,891
Interest, gain on securities sold, dividends and other	37,265	67,922	59,623	501,033
Gain due to stock offerings by subsidiaries	–	30,389	–	–
	2,304,777	2,576,610	2,527,670	21,240,924
Costs and expenses:				
Cost of sales	1,664,427	1,801,129	1,836,319	15,431,252
Selling, general and administrative	611,078	602,558	626,394	5,263,815
Interest	32,027	33,504	26,663	224,059
Other	55,658	103,973	72,560	609,748
	2,363,190	2,541,164	2,561,936	21,528,874
Income (loss) before income taxes	(58,413)	35,446	(34,266)	(287,950)
Provision (benefit) for income taxes	(6,738)	26,645	(14,829)	(124,613)
Income (loss) before minority interest, equity in earnings (losses) of affiliated companies and cumulative effect of accounting change	(51,675)	8,801	(19,437)	(163,337)
Minority interest in income (losses) of consolidated subsidiaries	(2,310)	(1,099)	(233)	(1,958)
Income (loss) before equity in earnings (losses) of affiliated companies and cumulative effect of accounting change	(49,365)	9,900	(19,204)	(161,379)
Equity in earnings (losses) of affiliated companies	(1,819)	10,625	(8,097)	(68,042)
Income (loss) before cumulative effect of accounting change . .	(51,184)	20,525	(27,301)	(229,421)
Cumulative effect of accounting change, net of tax	–	–	(2,595)	(21,806)
Net income (loss)	(51,184)	20,525	(29,896)	(251,227)
Comprehensive income (loss):				
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	(19,842)	(1,953)	(2,369)	(19,908)
Minimum pension liability adjustment	36	5,373	6,627	55,689
Unrealized gains (losses) on marketable securities	19,827	(19,169)	(44,336)	(372,570)
Unrealized gains on derivative financial instruments	–	–	268	2,252
Cumulative effect of accounting change	–	–	(3,606)	(30,303)
Other comprehensive income (loss)	21	(15,749)	(43,416)	(364,840)
Comprehensive income (loss)	¥ (51,163)	¥ 4,776	¥ (73,312)	\$ (616,067)
Retained earnings:				
Balance at beginning of period	¥ 313,262	¥ 312,638	¥ 349,033	\$ 2,933,050
Net income (loss)	(51,184)	20,525	(29,896)	(251,227)
Dividends	(5,951)	(8,976)	(4,967)	(41,739)
Transfer to legal reserve	(771)	(1,011)	–	–
Balance at end of period	¥ 255,356	¥ 323,176	¥ 314,170	\$ 2,640,084

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONDENSED)

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 1999, 2000 and 2001 (unaudited)

	In millions of yen			In thousands of U.S. dollars
	1999	2000	2001	2001
Net cash provided by operating activities:				
Net income (loss)	¥ (51,184)	¥ 20,525	¥ (29,896)	\$ (251,227)
Depreciation	127,501	114,926	118,041	991,941
Other	110,177	78,707	(58,918)	(495,109)
	186,494	214,158	29,227	245,605
Net cash provided by (used in) investing activities	16,113	(56,658)	(134,103)	(1,126,916)
Free cash flow	202,607	157,500	(104,876)	(881,311)
Net cash used in financing activities	(222,843)	(73,346)	(44,966)	(377,866)
Effect of exchange rate changes on cash and cash equivalents ..	(2,590)	(1,182)	(2,333)	(19,605)
Net increase (decrease) in cash and cash equivalents	¥ (22,826)	¥ 82,972	¥(152,175)	\$ (1,278,782)

OPERATING SEGMENT INFORMATION

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the six months ended September 30, 1999, 2000 and 2001 (unaudited)

a. Sales

	In millions of yen			In thousands of U.S. dollars
	1999	2000	2001	2001
Sales:				
NEC Solutions:				
External customers	¥ 976,388	¥ 943,056	¥ 882,049	\$ 7,412,176
Intersegment	61,127	63,007	79,232	665,816
Total	1,037,515	1,006,063	961,281	8,077,992
NEC Networks:				
External customers	663,214	736,642	1,017,134	8,547,345
Intersegment	48,085	41,818	42,963	361,033
Total	711,299	778,460	1,060,097	8,908,378
NEC Electron Devices:				
External customers	417,037	543,254	345,491	2,903,286
Intersegment	119,245	105,129	84,500	710,084
Total	536,282	648,383	429,991	3,613,370
Others:				
External customers	210,873	255,347	193,225	1,623,739
Intersegment	82,709	87,231	110,877	931,740
Total	293,582	342,578	304,102	2,555,479
Eliminations	(311,166)	(297,185)	(306,894)	(2,578,942)
Electronics business total	2,267,512	2,478,299	2,448,577	20,576,277
Leasing business:				
External customers	-	-	30,148	253,345
Intersegment	-	-	4,617	38,798
Total	-	-	34,765	292,143
Eliminations	-	-	(15,295)	(128,529)
Consolidated total	¥2,267,512	¥2,478,299	¥2,468,047	\$20,739,891

b. Segment profit or loss

	In millions of yen			In thousands of U.S. dollars
	1999	2000	2001	2001
Segment profit (loss):				
NEC Solutions	¥ 13,643	¥ 29,759	¥ 18,789	\$ 157,891
NEC Networks	14,402	21,296	54,965	461,891
NEC Electron Devices	3,667	60,009	(55,301)	(464,714)
Others	(30)	496	2,628	22,083
Total	31,682	111,560	21,081	177,151
Eliminations	(9,876)	(10,069)	1,785	15,001
Unallocated corporate expenses	(29,799)	(26,879)	(18,987)	(159,555)
Electronics business total	(7,993)	74,612	3,879	32,597
Leasing business	—	—	2,802	23,546
Eliminations	—	—	(1,347)	(11,319)
	(7,993)	74,612	5,334	44,824
Other income	37,265	98,311	59,623	501,034
Other expenses	(87,685)	(137,477)	(99,223)	(833,808)
Consolidated income (loss) before income taxes	¥(58,413)	¥ 35,446	¥ (34,266)	\$ (287,950)

PRINCIPAL ACCOUNTING OFFICER'S CERTIFICATE

In my opinion, the accompanying consolidated balance sheets, consolidated statements of operations, comprehensive income (loss) and retained earnings and cash flows (condensed) and operating segment information present fairly the financial position of NEC Corporation and its consolidated subsidiaries at September 30, 2001, and the results of their operations and their cash flows for the six months then ended, in conformity with accounting principles generally accepted in the United States of America.

October 26, 2001



Shigeo Matsumoto
Executive Vice President
and Member of the Board

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 four other stock exchanges in Japan. Overseas listings are on the Swiss Exchange (in the form of Swiss Bearer Depository Receipts), the Frankfurt Stock Exchange (in the form of a Global Bearer Certificate), the London Stock Exchange, and Amsterdam Exchanges.

American Depository Receipts for common stock (Symbol: NIPNY) are quoted in the NASDAQ system in the United States.

Depository for American Depository Receipts (ADRs)

The Bank of New York
620 Avenue of the Americas, New York, NY10011, U.S.A.
Telephone: (212) 462-6669
U.S. toll free: (888) 269-2377 (888-BNY-ADRS)
<http://www.adrbny.com>
ratio: 1 ADR=1 ordinary share

Sponsoring Bank for Global Bearer Certificate (GBC)

Deutsche Bank A.G.
Taubenstraße 12, 60325 Frankfurt am Main, Germany

Depository Agent for Swiss Bearer Depository Receipts (SBDs)

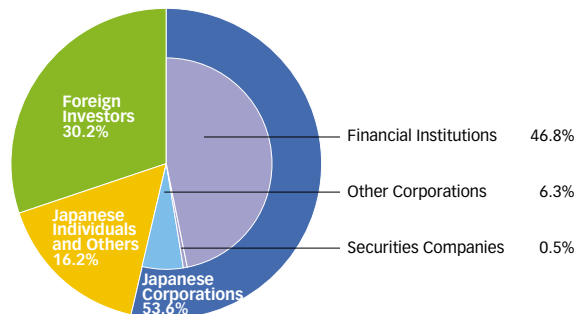
UBS AG
P.O. Box, CH-8098, Zurich, Switzerland

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.

COMPOSITION OF SHAREHOLDERS

(% of shares held)



(As of September 30, 2001)