NEC CORPORATION

Annual Report 2001

NEC SOLUTIONS

NEC NETWORKS

NEC ELECTRON DEVICES

imagination. Solutions.

NEC

NEC—THE INTERNET SOLUTION PROVIDER

Opportunities spawned by the Internet's growth appear to be limitless. Many companies are targeting this market but few have NEC's depth. NEC ranks among the world leaders in three fields critical to the Internet age: computers, communications equipment and electron devices. Continued growth in all three is assured as the Internet revolution gains momentum. To ensure its own prosperity, NEC is concentrating all three of these core businesses on Internet-related fields. This strategy will firmly position NEC as a key Internet solution provider, creating greater value for customers and shareholders alike.

CONTENTS

FINANCIAL HIGHLIGHTS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 1999, 2000 and 2001

	In millions of yen			In thousands of U.S. dollars	Percent change
	1999	2000	**2001**	**2001**	2001/2000
Net sales	¥4,759,412	¥4,991,447	**¥5,409,736**	**$42,934,413**	8%
NEC Solutions	2,036,653	2,270,625	**2,228,472**	**17,686,286**	–2
NEC Networks	1,582,169	1,527,758	**1,834,362**	**14,558,429**	20
NEC Electron Devices	1,044,884	1,122,790	**1,228,893**	**9,753,119**	9
Others	721,543	723,911	**742,432**	**5,892,317**	3
Eliminations	(625,837)	(653,637)	**(624,423)**	**(4,955,738)**	–
Income (loss) before income taxes	(224,726)	30,183	**92,323**	**732,722**	206
Provision (benefit) for income taxes	(72,988)	32,484	**56,308**	**446,889**	73
Net income (loss)	(151,261)	10,416	**56,603**	**449,230**	443
Per share of common stock (in yen and U.S. dollars):					
Net income (loss)					
Basic	(94.49)	6.40	**34.55**	**0.27**	440
Diluted	(94.49)	6.40	**32.17**	**0.26**	403
Cash dividends	8.50	6.00	**11.00**	**0.09**	83
Per American Depositary Share, each representing 5 shares of common stock* (in yen and U.S. dollars):					
Net income (loss)					
Basic	(472)	32	**173**	**1.37**	440
Diluted	(472)	32	**161**	**1.28**	403
Cash dividends	42.5	30	**55**	**0.44**	83
Total assets	5,045,934	4,608,964	**4,823,624**	**38,282,730**	5
Shareholders' equity	927,345	976,853	**915,036**	**7,262,190**	–6
Capital expenditures	253,623	281,639	**346,491**	**2,749,929**	23
R&D expenses	346,215	315,163	**344,957**	**2,737,754**	9
Employees	157,773	154,787	**149,931**		–3

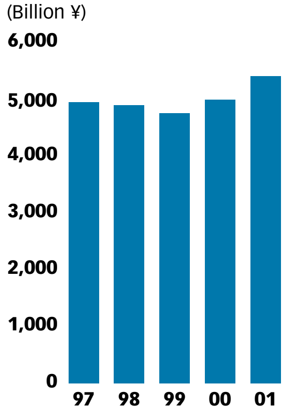
** Common Stocks-to-ADRs exchange ratio was changed from 5:1 to 1:1, effective May 25, 2001.*

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥126=U.S.$1.

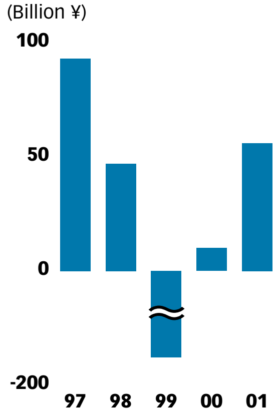
2. NEC adopted SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" beginning with the fiscal year ended March 31, 2000, which requires a "management" approach in reporting segment information. Previously reported segment information has been restated to conform with the requirements of SFAS No. 131. All segment sales figures include intersegment transactions.

3. NEC adopted SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" beginning with the fiscal year ended March 31, 2000, and has restated its prior years' consolidated financial statements.

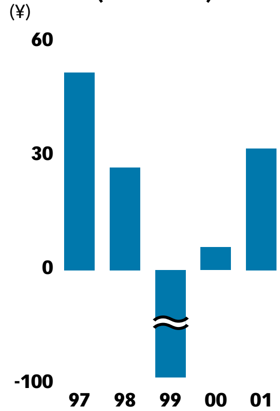
NET SALES



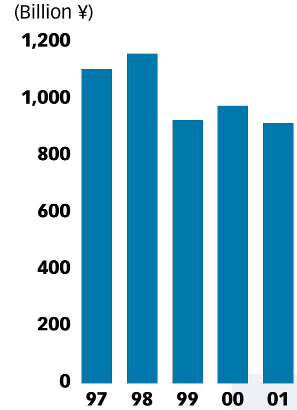
NET INCOME (LOSS)



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



SHAREHOLDERS' EQUITY



TO OUR SHAREHOLDERS

In April 2000, NEC adopted a new organization based on an in-house company system, aimed at focusing its operations on Internet-related businesses. In fiscal 2001, ended March 31, 2001, NEC embarked upon its first year under the new organization.

IMPROVED RESULTS IN A TRANSFORMING MARKET

NEC's business environment changed drastically during fiscal 2001. In the first half, worldwide demand for communications and information equipment expanded. The second half, however, was characterized by a slowdown in the PC market, principally for consumer-use PCs, which precipitated a rapid decline in demand for memory devices and liquid crystal displays (LCDs). Nonetheless, Japan's mobile phone market gained momentum as NTT DoCoMo, Inc.'s i-mode mobile phone services expanded, and IT (information technology) investment in Japan at length showed signs of recovery.

NEC's consolidated net sales increased 8% to ¥5,409.7 billion ($42,934 million), reflecting strong sales of submarine cable systems to the Asia-Pacific region, brisk domestic sales of mobile phones, and expansion across all semiconductor businesses. Net income accordingly increased more than five-fold over the previous year, to ¥56.6 billion ($449 million). NEC increased cash dividends from ¥6 per share to ¥11 per share due to the improvement in earnings.

FOCUSING SHARPLY ON BROADBAND & MOBILE INTERNET BUSINESSES

Internet-related fields hold the key to NEC's sustained growth. This recognition was behind the reorganization of NEC into three in-house companies, supervised by corporate headquarters, in April 2000 based on customers and markets served: NEC Solutions provides Internet solutions mainly to corporate and individual customers; NEC Networks provides Internet solutions to network service providers; NEC Electron Devices provides device solutions to manufacturers of Internet-related equipment. NEC corporate headquarters oversees and supports these in-house companies. As Internet use increases, the markets served by the in-house companies are likely to stimulate growth in one another, thus generating positive feedback. This is ultimately expected to drive overall growth in these markets.

Wide-ranging authority and responsibility have been vested in the in-house companies. This enables the quick decision-making needed to respond effectively to NEC's global competitors, with the ultimate goal of continually staying one step ahead of rivals in all growth markets.

Under the new business structure, NEC drafted a medium-term strategy in fiscal 2001, which positions broadband & mobile Internet operations as NEC's core strategic business areas. Broadband Internet refers to high-speed, large-capacity networks and the new services they enable, while mobile Internet operations focus on Internet access via mobile information terminals. In the

Koji Nishigaki, President

Hajime Sasaki, Chairman of the Board

U.S., telecommunications carriers have already expanded broadband access through intensive investment in optical networks and the Internet. This has promoted greater corporate Internet usage, which in turn is spurring even more investment in networks. A positive feedback cycle is thus achieved. Moreover, in Japan, mobile phone use has made sweeping strides forward, exemplified by the increasing popularity of i-mode, which permits users to access the Internet from mobile phones. And the forthcoming launch of next-generation mobile communications technology will usher in a new stage. Although these developments are more or less susceptible to the effects of economic cycles, demand for advanced telecommunications and network technology is continuing its advancement forward at a breathtaking pace.

STRATEGIC INVESTMENTS AND PARTNERSHIPS

Bolstering competitiveness in strategic core business areas hinges on NEC actively forming alliances with other companies and making strategic investments, including M&A activities, in venture businesses that possess promising technologies. NEC adhered to this concept again in fiscal 2001. And alliances formed in the previous year also began producing favorable results.

NEC established a joint venture with NTT Data Corporation to develop next-generation administrative information systems for local governments, which have been increasing their investments to realize electronic government administration. In the next-generation high-performance servers area, NEC is collaborating with Hewlett-Packard Company in OEM supply, R&D and other activities with the view to secure a prominent position in the global market.

In the optical networking area, to bolster its strong position in DWDM (dense wavelength division multiplexing) technology, NEC invested in WaveSplitter Technologies, Inc. of the United States, which specializes in advanced optical fiber technologies.

The market for small and medium-sized displays for mobile phones and other devices is expected to grow dramatically in the near future. NEC will continue to work with Casio Computer Co., Ltd. in the production and development of color LCD modules. Furthermore, NEC and Samsung SDI Co., Ltd. of South Korea established a joint venture to develop, manufacture and market next-generation organic electro-luminescent (EL) displays. In large displays, NEC and Thomson multimedia S.A. of France signed a Memorandum of Understanding to form a worldwide R&D, manufacturing and sales joint venture for plasma display panel modules and monitors. The new company will seek to create new markets and become the leading supplier in the plasma display business.

Meanwhile, Elpida Memory, Inc., a joint venture launched in fiscal 2000 by NEC and Hitachi, Ltd., became the first company in the world to develop 256Mbit DRAMs based on 0.13-micron process technology. The company is making steady strides toward becoming the low-cost leader in this field. In next-generation mobile phone systems, the partnership with Siemens AG has produced a stream of positive results. For instance, NEC received orders from UK-based Hutchison 3G UK Limited.

SELECTION AND FOCUS ON CORE BUSINESSES

NEC remains fully committed to structural reforms aimed at selection and focus of resources on its core businesses. In fiscal 2001, NEC and Toshiba Corporation agreed to form a joint venture for space-related business, and to transfer their space operations to the new company. Likewise, NEC and Germany’s Schott Glas agreed to form a joint venture, to which NEC transferred its hermetic seal business. NEC also transferred its semiconductor sealing machinery business to Sumitomo Heavy Industries, Ltd.

With the view to maximize the NEC group’s corporate value, NEC has continued its restructuring efforts this year, by focusing on group companies. The process involves assessment of where subsidiaries are positioned within the NEC group in terms of synergies with NEC’s core businesses, profitability and growth potential with the view to optimize NEC’s group portfolio. In February 2001, NEC sold most of its equity interest in Ando Electric Co., Ltd., which manufactures and sells electronic testing and measuring equipment, to Yokogawa Electric Corporation. In June 2001, NEC consolidated its key telephone system and point of sales (POS) terminal businesses with those of Nitsuko Corporation. Following the consolidation, Nitsuko Corporation was renamed NEC Infrontia Corporation. NEC has and is actively considering taking competitive subsidiaries public to create corporate value by increasing visibility of corporate value, and by subjecting management teams directly to capital market forces, thereby encouraging the creation of further corporate value. In fiscal 2001, NEC took two subsidiaries public, NEC Soft, Ltd. and NEC Machinery Corporation.

NEC also reorganized its manufacturing subsidiaries. In the field of communications equipment, NEC sold plants where costs could be saved by outsourcing production. A transmission equipment plant in the state of Oregon (U.S.) and a communications equipment plant in Brazil were sold to EMS (electronics manufacturing service) companies during fiscal 2001. NEC is now outsourcing production to these firms. Meanwhile, NEC is working to equip its cost-competitive plants with EMS functions to serve outside companies. NEC Nagano, Ltd., as the first case, is receiving production orders from non-NEC companies.

AIMING TO BECOME A COMPANY OF GLOBAL EXCELLENCE

In fiscal 2000, unprofitable businesses were restructured and closed, and the company returned to profitability. In fiscal 2001, NEC launched its in-house company system, and pushed ahead with selection and focus of resources on broadband & mobile Internet businesses. NEC will build on this foundation, and move forward with growth strategies for each of our core businesses. We expect fiscal 2002 to be the year in which we take a significant step toward becoming a company of global excellence. As markets globalize, competition is intensifying. With recognition that fiscal 2002 will be a crucial turning point in NEC's development, we will focus all our energy to face the challenges ahead of us. We respectfully ask for the continuing support and understanding of our shareholders and customers.

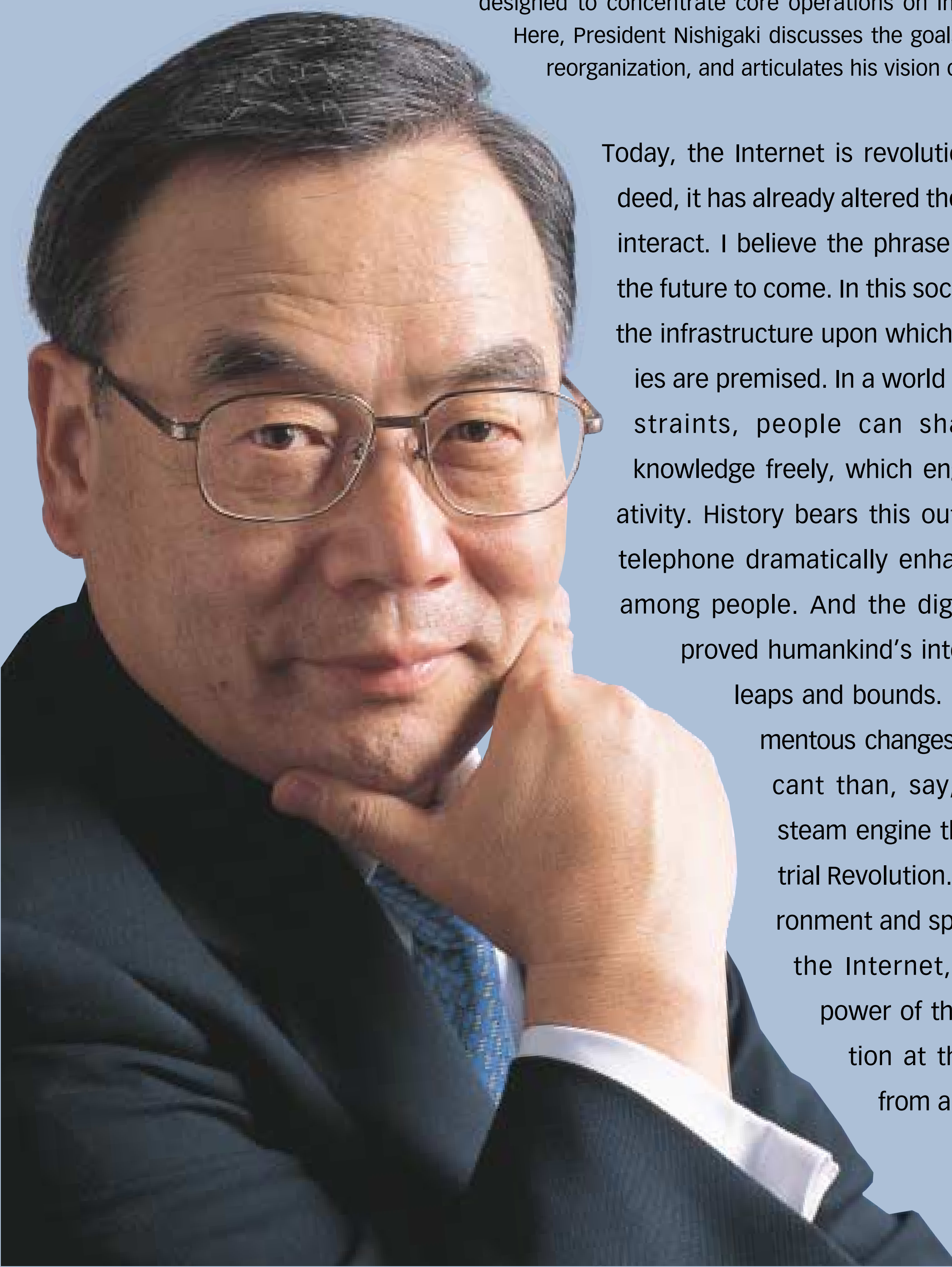
June 21, 2001

Hajime Sasaki
Chairman of the Board

Koji Nishigaki
President

NEC EMBRACES THE FUTURE

NEC President Koji Nishigaki has implemented wide-ranging structural reforms since assuming office. NEC has completed its first year under the new in-house company system, designed to concentrate core operations on Internet-related businesses. Here, President Nishigaki discusses the goals and achievements of the reorganization, and articulates his vision of NEC's future.



Today, the Internet is revolutionizing our society. Indeed, it has already altered the way we live, work and interact. I believe the phrase "i-Society," best befits the future to come. In this society, the Internet will be the infrastructure upon which economies and societies are premised. In a world free of networking constraints, people can share information and knowledge freely, which engenders enhanced creativity. History bears this out. The invention of the telephone dramatically enhanced communications among people. And the digital computer has improved humankind's intellectual capabilities by leaps and bounds. In this sense, these momentous changes are even more significant than, say, the invention of the steam engine that powered the Industrial Revolution. And shaping their environment and spurring their evolution is the Internet, a tool that puts the power of this technological revolution at the fingertips of people from all walks of life.

NEC'S COMPETITIVE ADVANTAGE IN THE INTERNET ERA

Soon after my appointment as president, I came to a critical decision—that NEC's future must lie in the Internet. This is why I instituted NEC's in-house company system. The idea was to vest greater authority in the three in-house companies, which are positioned in Internet-related markets, to facilitate speedy decision-making and more easily identify other specialized manufacturers to use as benchmarks. NEC's in-house companies aspire to be global number ones in their respective fields. In other words, we are focusing on businesses where we can outstrip our competitors on a global scale.

NEC's core strength is our ability to create leading-edge technologies. NEC's research scientists and engineers, and the state-of-the-art technologies they develop, are among the best in the world. In fundamental research, notable accomplishments include the discovery of carbon nanotubes. Indeed, the race to develop new applications of carbon nanotube technology is attracting considerable attention worldwide. In my view, translating our strength in technological development into viable businesses is the key to become a global number one in all of our businesses.

Please let me explain NEC's three in-house companies: NEC Solutions, NEC Networks and NEC Electron Devices.

NEC Solutions' core competence lies in developing mission-critical systems for open UNIX server environments. Ideally, these systems should not crash under any circumstances. In reality, we aim for highly reliable systems that can recover from service interruptions immediately. Mainframe computers have traditionally been associated with high reliability, whereas open systems were weak in this regard. By reinforcing open systems with middleware, for instance, NEC Solutions achieves reliability on a par with mainframe computers. In this aspect, I believe NEC Solutions offers technical expertise unparalleled the world over.

NEC Networks aims to become a global number one in optical networking systems, high quality IP (Internet protocol) networks, next-generation mobile phone systems, and mobile handsets. Indeed, NEC's achievements to date make it a strong contender. AT&T Corp. has chosen NEC's 160-channel DWDM (dense wavelength division multiplexing) system as its next-generation DWDM platform. NEC also has a strong market position in submarine cable systems. And NEC is a step ahead in developing infrastructure and mobile handset technology for next-generation mobile phones. In particular, NEC has already supplied systems and handsets to NTT DoCoMo, which is leading the way in commercializing 3G mobile phone technology.

NEC Electron Devices will shift core operations to system LSIs. From early on, we have worked to establish global design resources. Combined with our versatile, wide-ranging design expertise, we believe our operations to be world class. Our competitive edge also extends to processing technology. NEC Electron Devices develops new technologies such as system LSIs incorporating embedded DRAMs.

CONTINUOUS MANAGEMENT AND STRUCTURAL REFORM

NEC must continue to reform its business structure to realize its ambition of becoming a global number one in fields critical to the Internet age. Since becoming president, I have spearheaded reform on two major fronts. The first focused on enhancing corporate governance. In 1998, NEC faced serious challenges, including a decline in operating results. This was partially attributable to belated responses to crises. In response, NEC resolved to reform corporate governance. More specifically, we halved the number of directors and bolstered the supervisory role of the Board of Directors. Following NEC's reorganization, operational authority was transferred principally to executives at in-house companies. In addition, we intend to appoint independent directors on a regular basis, with the view to facilitating balanced discussion among independent directors, directors who are officers at corporate headquarters, and directors who are officers at in-house companies. This system will be implemented gradually. Meanwhile, the newly established Management Advisory Committee and the Compensation Committee will be the places to listen to expert views from outside the company. We will also work to ensure greater transparency among management.

The second set of reforms focuses on improving profitability and corporate value, with the aim to transform NEC into a company of global excellence. During my first year as president, we exited unprofitable businesses such as NEC Home Electronics, Ltd. and Packard Bell NEC, Inc. Selection and focus of resources toward becoming a global number one will remain the order of the day. We will also curtail fixed costs, including personnel expenses. NEC's achievements thus far have already translated into improved profitability. There is always room to improve, however, and I am determined to boost profitability even further.

Taking subsidiaries public is another way to increase corporate value. We will explore ways for relatively small scale but competitive businesses to establish separate companies allowing direct access to capital markets. For example, as we announced earlier, the compound semiconductor business is one of the candidates. Many subsidiaries and affiliates that have already been separated from NEC are expected to grow in such a way. I believe that these businesses can grow even faster with direct access to the capital markets. I am confident that this approach will ultimately make a substantial contribution to consolidated profits, thereby creating value for our shareholders.

ENCOURAGING EMPLOYEES TO "SHINE AS INDIVIDUALS"

Let me end by saying something about our people. I constantly urge NEC employees to shine as individuals. Japan is renowned the world over for its tradition of lifetime employment. But today, employees must hone their skills in preparation for any number of job changes in the course of their careers. At NEC, we have implemented an in-house personnel placement system designed at shifting our resources to growth areas. This system allows individual employees to apply and interview for positions in growth areas within the company requiring additional employees. To do so, however, employees must study on their own and acquire the skills needed to shift positions. Supporting initiative, training individuals and defining new requirements for employees, are of paramount importance at NEC. In this regard, we will revise the personnel system to reward employees with higher remuneration and promotion commensurate with their skills and performance. The ultimate goal in this drive will be to foster employees who shine as individuals.

If all our employees are fully aware how NEC will progress in the future, and move forward in unison, our company will be a powerful force. I will continue to maintain an open and frank dialogue with employees through various channels, including my own website, which is updated weekly. In particular, I wish to make my views and vision for NEC known and clearly understood. The global IT industry may well be faced with severe competition now, but NEC is working to achieve steady growth and to improve earnings. It will be our results in the medium term that count.

The businesses of NEC are conducted by three in-house companies aligned according to markets served and corporate headquarters. Headquarters assist decision-making of top management, directs company-wide R&D in line with the NEC group's overall growth strategy, and implements NEC's Internet strategy.

MAJOR R&D ACHIEVEMENTS IN FISCAL 2001

NEC Laboratories, the core of corporate R&D activities, is engaged in the development of fundamental technologies that spur the creation of new businesses, as well as new technologies that dramatically enhance existing businesses.

■ World Record in 10.9 Tbps DWDM Optical Transmission Capacity

NEC successfully transmitted 10.9 Tbps (40Gbps (OC-768) x 273 channels) of information over 117 km on a single line of optical fiber, setting a new DWDM (dense wavelength division multiplexing) transmission capacity world record. DWDM technology enables multiplex transmission of information on different wavelengths (colors) of light. NEC set the new record by dramatically expanding the utilized-optical-bandwidth compared with the previous 6.4Tbps (40Gbps x 160 channels) transmission capacity record set by NEC.

The world record in DWDM transmission capacity was achieved through three technologies developed by NEC: (1)Thulium-doped fiber amplifiers (TDFAs) that allow for the first time light amplification in the 1.49 micron wavelength band; (2) DWDM technology enabling simultaneous transmission in three wavelength bands, combining existing optical amplifiers in the 1.55 micron and 1.58 micron bands with the newly developed 1.49 micron optical amplifier; and (3) polarization-based multiplexing/demultiplexing technique that doubled optical signal density compared to conventional DWDM technique.

This record-setting capacity will, for instance, allow simultaneous, interactive video transmissions on a network serving over 1 million households.

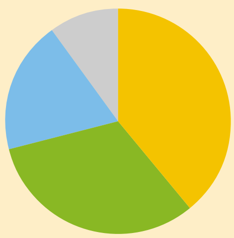
Note: A part of this work was supported by the Telecommunications Advancement Organization of Japan (TAO).

■ "RightsShell": A Secure Capsulated Content Distribution & Digital Right Management System for the Internet

NEC has developed a new secure capsulated content distribution and digital right management system. Called "RightsShell," the system allows content suppliers to protect copyrighted materials distributed online, including various forms of digital content, such as picture, movie, etc. "RightsShell" protects content from unauthorized alteration and piracy by requiring end users to first obtain a digital ticket, a license to view the content, to unlock encrypted content.

NEC Solutions has already developed an application for this technology in the form of a marketing research system as a service menu of BIGLOBE, one of the largest Internet service providers (ISPs) in Japan. This system enables content suppliers to get consumer feedback on movies and TV commercials before they are screened to the mass market.

BREAKDOWN OF NET SALES TO EXTERNAL CUSTOMERS
IN FISCAL 2001: ¥5,409.7 billion ($42,934 million)



- NEC SOLUTIONS 39%
- NEC NETWORKS 32%
- NEC ELECTRON DEVICES ... 19%
- OTHERS 10%

NEC SOLUTIONS

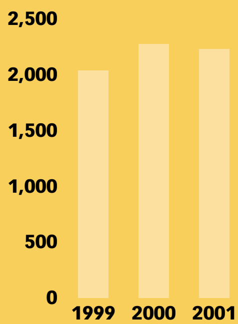
NEC NETWORKS

NEC ELECTRON DEVICES

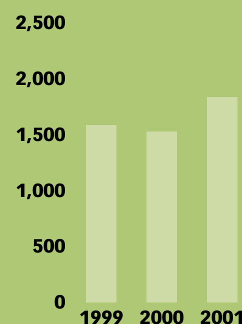
For the years ended March 31, 1999, 2000 and 2001

SALES (Including intersegment sales)

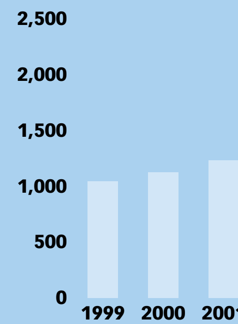
(Billion ¥)



(Billion ¥)

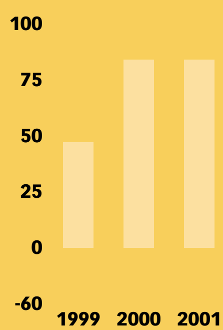


(Billion ¥)

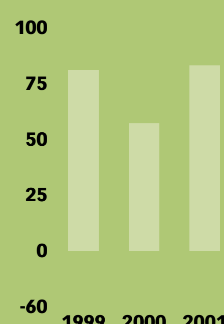


SEGMENT PROFIT (LOSS)

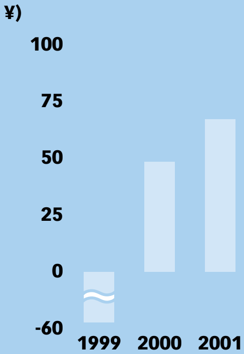
(Billion ¥)



(Billion ¥)



(Billion ¥)



NEC SOLUTIONS

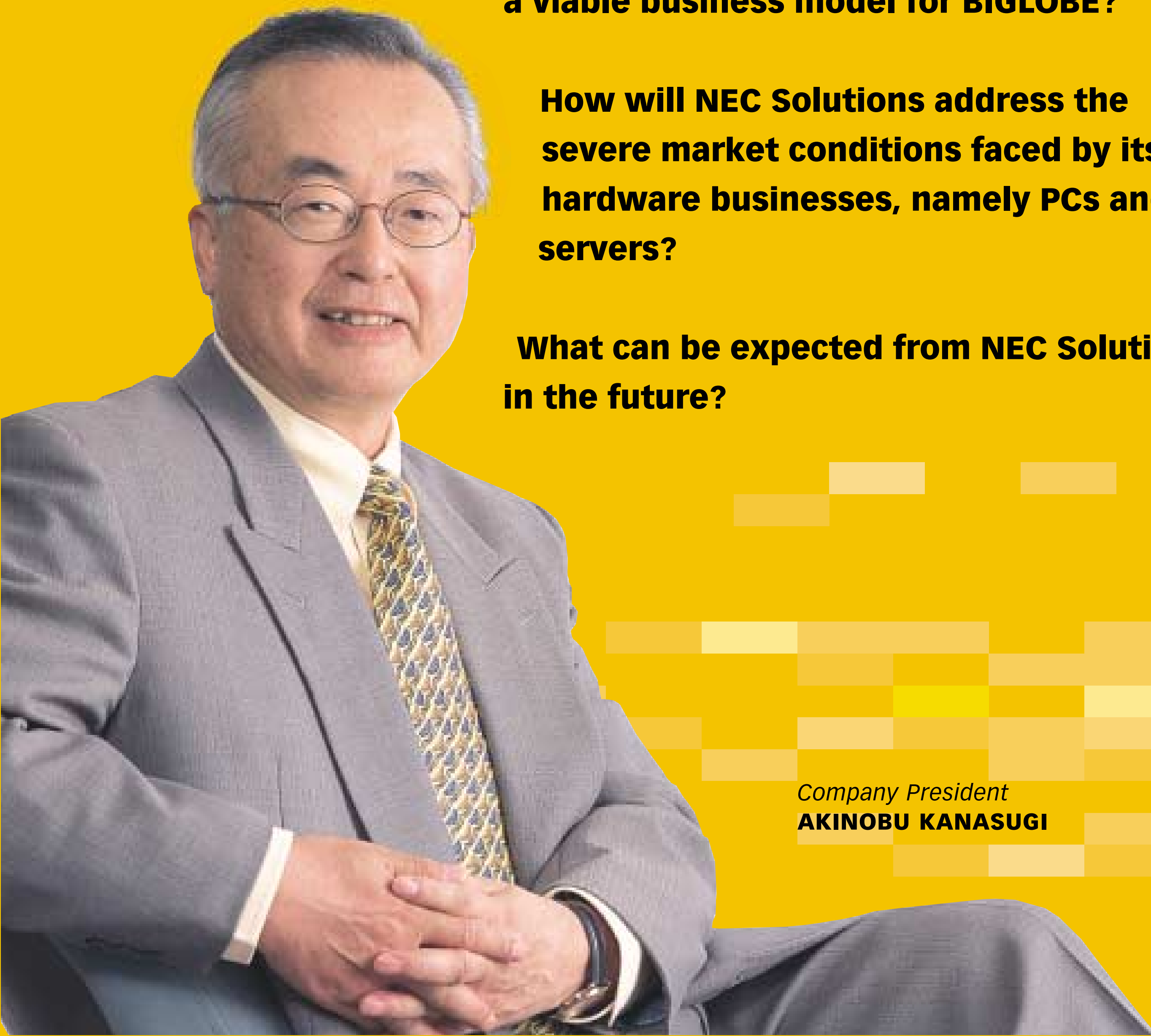
What is the outlook for IT investment in Japan, the main driver of growth for NEC Solutions?

How will NEC Solutions improve profitability in software and IT services?

What is NEC Solutions' approach to designing a viable business model for BIGLOBE?

How will NEC Solutions address the severe market conditions faced by its hardware businesses, namely PCs and servers?

What can be expected from NEC Solutions in the future?



Company President
AKINOBU KANASUGI

FISCAL 2001 RESULTS

In fiscal 2001, ended March 2001, NEC Solutions' net sales declined 2% to ¥2,228.5 billion ($17,686 million). In software and IT services, sales climbed over the previous year. In hardware, however, sales fell due to NEC's withdrawal from the consumer PC business in North America in fiscal 2000 and to the worldwide slowdown in PC demand and decrease in mainframe computers sales. Segment profit remained largely unchanged at ¥84.1 billion ($667 million). Despite declining profitability in the domestic PC business, profitability improved in SI (systems integration) services such as consulting and system development.

DOMESTIC IT INVESTMENT AND ORDERS

In fiscal 2001, IT investment by small and medium-sized companies and regional users was slow to pick up after Y2K compliance measures had been taken. Weakness in the Japanese economy also stunted investment.

In this business environment, NEC Solutions won large orders from the financial services sector, which has seen active IT investment in the wake of major industry consolidation. In addition, NEC Solutions saw an increase in orders for e-marketplaces and other e-business projects from major companies in Japan. We anticipate that these projects will serve as a springboard for future sales growth.

PROFITABILITY OF SOFTWARE AND IT SERVICES

As IT investment increases, the key to strengthening NEC Solutions' bottom line lies in improving the profitability of its software and IT services, particularly SI services. In more specific terms, NEC Solutions is bolstering project management, outsourcing work to overseas SEs (systems engineers), reusing software as components, and applying package software. In project management, a project manager is assigned to each of NEC Solutions' 3,000 projects undertaken annually. This significantly reduces losses caused by error and is steadily helping to bring down costs. To enhance the skills of SEs and consultants, who are the key to SI projects, and grow the SI business, in April 2001, we introduced the NEC Solutions Certified Professional (NSCP), a performance appraisal and incentive compensation system, which includes an innovative compensation package for highly specialized, professional SEs.

NEC Solutions has been drawing on skilled overseas SE resources mainly from China and India to reinforce its Japanese SE workforce. This is making a significant contribution to results. In fiscal 2001, NEC Solutions utilized more than 1,000 overseas SEs, and plans to increase their number in future.

BIGLOBE'S BUSINESS MODEL

BIGLOBE is one of the largest Internet service providers (ISPs) in Japan. BIGLOBE sales comprise revenue from ISP services and other value-added services. In fiscal 2001, sales climbed to over

¥50 billion, buoyed by an increase in members. The ISP sales ratio to BIGLOBE sales was approximately 65%. Despite declining profitability of ISP services on the whole in the face of stiff price competition, NEC Solutions is working to improve profitability by reducing communications costs.

Meanwhile, NEC Solutions plans to increase the proportion of sales derived from value-added services, which are more profitable than ISP services. NEC Solutions will create new mobile services for consumers by linking BIGLOBE business with mobile phones, as typified by NTT DoCoMo's i-mode services and will expand BIGLOBE's online advertising business. For businesses, NEC Solutions will enhance housing (physical maintenance and operation of servers) and hosting (providing a variety of server functions) services that capitalize on its competitive advantage in being able to provide a comprehensive range of services from consulting to website operation.

PROFITABILITY OF HARDWARE OPERATIONS, INCLUDING PCs

During fiscal 2001, the worldwide slowdown in demand for PCs adversely affected the profitability of NEC Solutions' PC operations. NEC Solutions, however, takes the view that in the PC business risks go hand in hand with new opportunities. NEC has a loyal customer base and solid brand recognition developed over many years. We believe that NEC Solutions is in a good position to capitalize on recent changes in the business environment, such as the advance of broadband and mobile technologies, and the fusion of communications and broadcasting. NEC Solutions believes that in suitable combination, its broad spectrum of operations and technologies can offer a variety of solutions and services for consumers. Huge potential lies in this business. To improve profitability, NEC Solutions aims to provide innovative solutions backed by its strengths and to streamline its development, design, parts procurement, production, and marketing processes. We believe these measures will improve profitability and forge a business structure resilient to changes in market conditions.

Even in growth markets for open type servers that have emerged in recent years, such as UNIX servers, we must cut costs by achieving greater scale merit to ensure profitability. In this field, by partnering with Intel Corporation, Hewlett-Packard Company, and Stratus Technologies International, S.à r.l., NEC Solutions aims to be among the leaders in global sales volume, including OEM products. NEC Solutions is shifting production overseas to maintain cost competitiveness. In supercomputers, NEC formed an alliance with Cray Inc. of the United States. Supplying Cray with NEC vector supercomputers on an OEM basis allows NEC to increase sales in the North American market.

STRENGTHENING NEC SOLUTIONS' BUSINESS STRUCTURE

In fiscal 2001, NEC decided to combine five subsidiaries engaged in the sale of computer products and related services to strengthen operations by concentrating resources. In this way, we eliminated redundancies in service provider operations targeted at Japanese small and medium-sized

Société Générale established SG Online in order to offer its world-class online trading services to Japanese individual investors. In online trading services, besides offering a wide range of financial products, providing the latest information at all times, and guaranteeing the security of systems is essential. As our partner, NEC Solutions enabled us to provide information through BIGLOBE, helped us to establish a call center system, and customized our exclusive trading software (GTS*) for Japanese customers whilst supporting us throughout with expertise in a great variety of fields.

GTS: Global Trading System

Guy d'Albrand (Pictured to left)
Executive Vice President
Branch Manager
Société Générale Securities (North Pacific) Ltd.
SG Online Branch

companies. The new company, NEC Nexsolutions, Ltd., was established in April 2001. In July 2000, our software subsidiary NEC Soft, Ltd. conducted an IPO. This move allowed us to secure the funds needed to boost competitiveness. Through the IPO, NEC worked to enhance the corporate value of the entire NEC group.

To ensure steady growth, NEC Solutions decided to conduct strategic business investments totaling approximately ¥15 billion in areas such as Internet services specializing in the operation of e-marketplaces and in SI firms with extensive IT expertise, including ZEFER Corp. of the United States.

THE SHAPE OF NEC SOLUTIONS TO COME

NEC Solutions is a total solutions provider, offering solutions across a wide range of businesses. We offer everything from mission-critical system (core system) solutions that underpin essential social services to services for consumers tailored to the Internet age, backed by a team of Japan's leading SEs. NEC Solutions considers itself a leader in terms of results achieved in providing mission-critical solutions based on open systems architecture, which enables superior scalability and lower start-up costs. NEC Solutions aims to build on these strengths to steadily improve profitability.

NEC NETWORKS

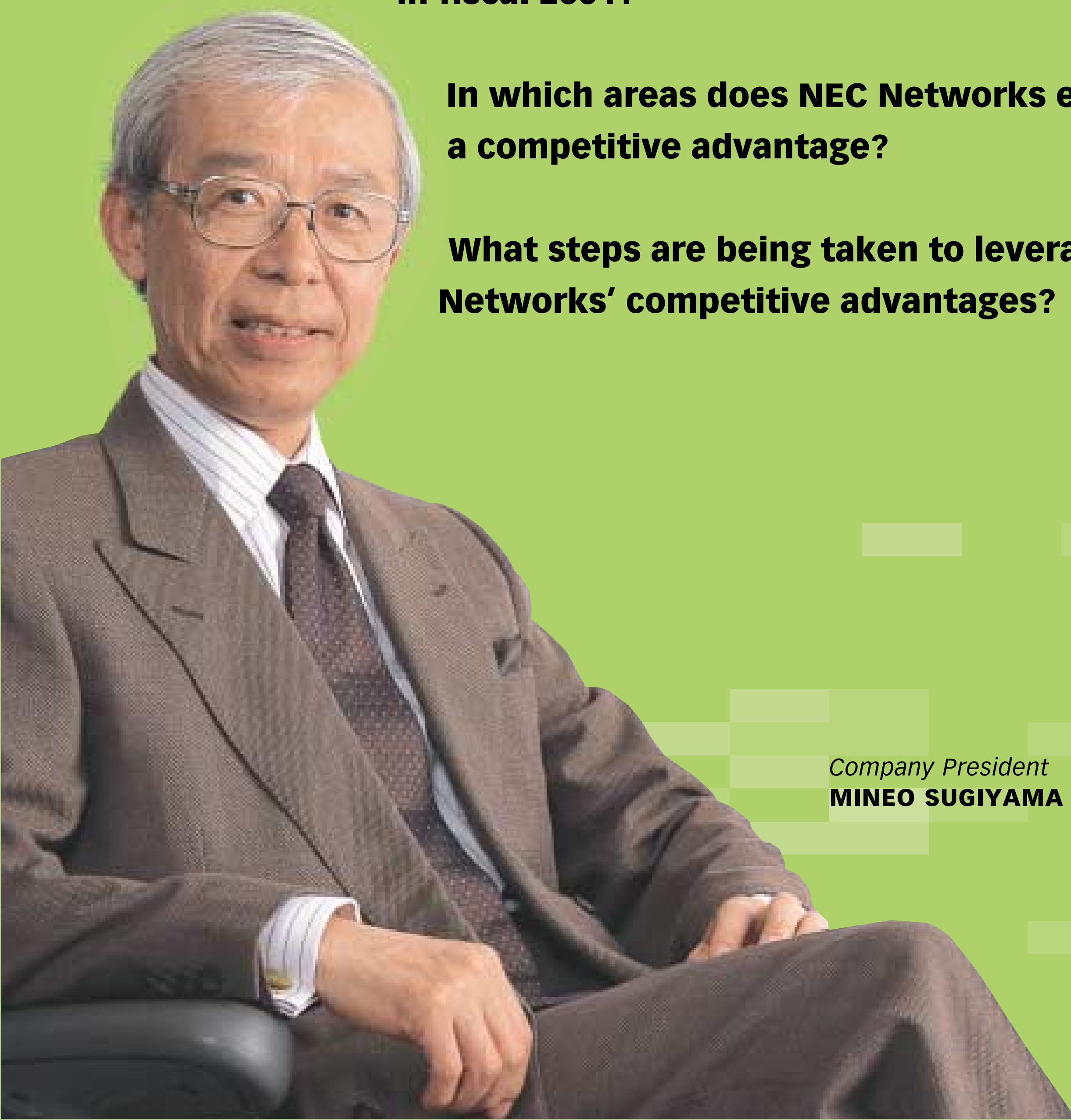
How did NEC Networks perform in fiscal 2001?

What business areas is NEC Networks concentrating on?

What were NEC Networks' major accomplishments in fiscal 2001?

In which areas does NEC Networks exercise a competitive advantage?

What steps are being taken to leverage NEC Networks' competitive advantages?



Company President
MINEO SUGIYAMA

FISCAL 2001 RESULTS

During fiscal 2001, ended March 2001, the drive to realize broadband Internet services gained momentum in the Japanese communications systems market. The Japanese government formed a national IT strategy, subscribers to ADSL (asymmetrical digital subscriber line) services jumped, and FTTH (fiber to the home) services began. Additionally, the submarine cable system business grew, particularly in the Asia-Pacific region. Meanwhile, North American interexchange carriers (IXCs) abruptly scaled back capital spending due to a slowdown in the U.S. economy.

Under these conditions, NEC Networks' net sales rose 20% to ¥1,834.4 billion ($14,558 million), while segment profit surged 46% to ¥83.1 billion ($660 million). This was a year in which NEC took great strides toward achieving the goals set forth in it's medium-term management plan, which positions the broadband & mobile Internet as its core business to achieve growth.

In particular, growth in sales of mobile handsets, principally in i-mode handsets produced for NTT DoCoMo, Inc., exceeded market growth as a whole. This contributed significantly to earnings. In optical networking systems, although sales were somewhat affected by lackluster capital spending by North American IXCs, NEC Networks was awarded three major contracts to supply large-scale DWDM systems for fiber-optic submarine cables in the Asia-Pacific region. This resulted in a significant improvement in sales of DWDM systems over the previous year.

FOCUS ON THE BROADBAND & MOBILE INTERNET BUSINESSES

NEC Networks is focusing on two areas. One is broadband Internet, which is composed of high-speed access systems, ultra high-speed backbone systems and other components, and the other is mobile Internet which is composed of next-generation mobile communication infrastructure, mobile handsets and other equipment. We are concentrating resources here to become a global leader. Moreover NEC Networks puts emphasis on network integration as well as lineups of IP switching routers and servers, which support solutions in the broadband & mobile Internet businesses.

BROADBAND INTERNET:

OPTICAL NETWORKING SYSTEMS

NEC enjoys a leading position in DWDM optical networking systems employed in both terrestrial and submarine cables. In this business, NEC's core competence — in parallel with its cutting-edge technological strengths — is its ability to offer integrated solutions linking terrestrial and submarine communications systems. In DWDM submarine cable systems, NEC offers highly-competitive full turnkey solutions: besides supplying DWDM equipment, NEC Networks offers systems construction from deep sea cable installation to maintenance and operation. Indeed, NEC Networks' end-to-end SI (systems integration) expertise has earned high marks in the marketplace. During fiscal 2001, we received several large orders in the submarine cable system field, totaling over ¥160 billion.

Meanwhile, in terrestrial DWDM systems, NEC and AT&T Corp. signed a purchase agreement to supply the latest 10Gbps (OC-192) x 160 channels, long-haul system in October 2000. NEC succeeded in transmitting 10.9 Tbps data using a DWDM system in March 2001. Moreover NEC aims to

Yukio Itoh is an NEC engineer specializing in the assembly of submarine cable repeaters.
"We are certified engineers responsible for the assembly of repeaters employed in DWDM systems for submarine cables. We use world-class technology to assemble these components and ensure the highest standard of reliability, a hallmark of NEC's DWDM systems for submarine cables."

Yukio Itoh

shorten development time through partnerships with WaveSplitter Technologies, Inc., a U.S. venture business for optical fiber technology and with Hitachi, Ltd. for ultra high-speed optical networking systems. The aim is to position NEC Networks as a major player in optical networking systems.

MOBILE INTERNET:

W-CDMA: 3^{RD}-GENERATION (3G) MOBILE PHONE SYSTEM

In Japan, NTT DoCoMo is slated to launch a W-CDMA (wideband code division multiple access) service during 2001, marking the commercial debut of 3G communications technology. NTT DoCoMo has selected NEC to provide all the building blocks for its commercial W-CDMA system, including handsets, radio access networks and core networks. In September 2000, NEC Networks started supplying NTT DoCoMo with commercial systems for W-CDMA. This track record underscores NEC's standing as a pioneer in the development of W-CDMA systems. Moreover, NEC has been chosen as a provider of W-CDMA radio access networks and core networks for J-Phone Communications Co., Ltd. NEC is determined to preserve its position as the top supplier of these systems in Japan.

Overseas, NEC Networks worked to raise corporate visibility through a number of initiatives. An alliance with Siemens AG in the W-CDMA infrastructure area was forged to complement each other's strengths. And NEC Networks carried out field trials in collaboration with major European communications operators such as British Telecommunications plc and Telecom Italia Mobile S.p.A. In April 2001, NEC Networks became Hutchison 3G UK Limited's provider of W-CDMA radio access networks. This deal was highly significant, marking the entry of NEC into the European market for mobile communications systems, and paving the way for its global expansion of W-CDMA operations.

NEXT-GENERATION MOBILE HANDSETS

NEC's share of the Japanese market for mobile handsets surged in fiscal 2001 on the back of strong demand for foldable i-mode handsets with large color LCDs for NTT DoCoMo. Meanwhile, in the overseas mobile handset business, NEC realigned its production facilities, selling its UK plant to a electronics manufacturing services (EMS) company and closing its plant in Mexico. NEC Networks aims to develop a host of products as mobile Internet access tools that stand out from those of other companies. To actively extend its mobile handset operations beyond the domestic market to Europe and Asia, NEC Networks will capitalize on its know-how in developing foldable handsets equipped with large LCDs, which were well received in the domestic market and its wealth of technical expertise amassed over many years.

IP SWITCHING ROUTERS & SERVERS

IP networks have recently been playing an increasingly central role in basic systems critical to society. Ensuring the reliability of IP networks, therefore, is paramount. NEC Networks provides the carrier-class quality of IP networks. This is why NTT DoCoMo adopted NEC's IP switching routers for its all IP W-CDMA network trials. Furthermore, NEC Networks was foremost in taking development and standardization activities to IPv6 technology. Its IPv6 router is already adopted by advanced network operators and enterprise users. NEC aims to build reliable networks by appropriately combining IP switching routers with network infrastructure servers which are able to offer a wide variety of services tailored to the objectives of communications operators.

THE SHAPE OF NEC NETWORKS TO COME

The launch of the in-house company system was a crucial turning point for NEC Networks. In-house companies have through-structures meaning that they are in charge of their own product development, manufacturing and sales operations, and have been entrusted with substantial decision-making authority. Management thus has more flexibility to act, and speedy decision-making has been greatly facilitated. Moreover, management is directly accountable for NEC Networks' operations. In fiscal 2001, NEC Networks worked to foster a greater awareness of the cost of capital in all levels of its organization, besides traditional performance indicators such as sales, earnings and cash flow, so as to reflect shareholders' interests in the running of NEC Networks.

Demand for the mobile and broadband Internet is expanding worldwide. This constantly changing market offers tremendous business opportunities for NEC Networks. Through state-of-the-art product development operations, we aim to distinguish our products from others, and thereby enhance our global competitiveness. NEC Networks will offer solutions to communications operators that allow them to offer services that substantially improve their revenues. These solutions will encompass planning through business design, network design, maintenance and operation. NEC Networks will thus seek to increase sales from higher value-added services.

NEC Networks is currently undergoing signficant change. Concerted efforts will focus on bolstering competitiveness in next-generation networking technology so as to compete effectively in global markets to improve profitability and to become a global leader in its field.

NEC ELECTRON DEVICES

How did NEC Electron Devices perform in fiscal 2001?

What businesses will NEC Electron Devices concentrate on?

What is NEC Electron Devices' stance on selection and focus of resources on core businesses?

How will NEC Electron Devices improve the profitability of its flat display business?

What can be expected from NEC Electron Devices in the future?

Company President
KANJI SUGIHARA

FISCAL 2001 RESULTS

In the first half of fiscal 2001, ended March 2001, most of NEC Electron Devices' products, including DRAMs, system LSIs, LCD driver ICs, discrete devices, and electronic components, achieved strong growth. This was attributable to a surge in worldwide demand for PCs, mobile phones and digital home appliances. In the second half of fiscal 2001, however, the PC market slowed, precipitating lackluster demand for DRAMs and color LCDs, which ultimately drove prices down rapidly. This had a significant impact on our operations. Nevertheless, for fiscal 2001, NEC Electron Devices posted an increase in both sales and earnings. Net sales increased 9% to ¥1,228.9 billion ($9,753 million), while segment profit rose 38% to ¥68.3 billion ($542 million).

REORGANIZATION TO BOLSTER COMPETITIVENESS

During fiscal 2001, NEC Electron Devices implemented a host of structural reforms to bolster its competitiveness. In particular, we actively promoted its spin-off and joint venture strategy to enhance its business.

NEC Electron Devices announced plans to spin-off its optical and microwave semiconductor businesses as a new subsidiary to be established in October 2001. These businesses are characterized by high barriers to market entry due to the highly specialized, advanced technology required. As society embraces broadband and mobile Internet technologies, these fields are likely to see substantial growth. A large number of qualified, skilled engineers is essential. The new company will implement a system that allows it to raise funds for business investments as well as a proprietary incentive plan to attract skilled engineers, who are in short supply, and to expand its business.

NEC Electron Devices and Samsung SDI Co., Ltd. of South Korea formed a joint venture, Samsung NEC Mobile Display Co., Ltd., to develop, manufacture, and market displays based on organic electro-luminescent (EL) technology. Since organic EL displays do not require backlighting, they are slimmer and weigh less than conventional displays, and consume much less power. They provide a high level of resolution on a par with CRT displays, and a faster response time for clearer video imaging. These features are ideal for next-generation mobile handsets, various information terminals, including those for automobile use and a wide range of other applications. Through this joint venture, NEC Electron Devices and Samsung SDI aim to bolster R&D and speed up production by leveraging their combined technical expertise, while sharing investment risks associated with development and production. The new company aims to take the top share in the market for organic EL displays by 2005.

In April 2000, NEC and Hitachi, Ltd. began full-fledged joint development of DRAMs through their joint venture Elpida Memory, Inc. In August 2000, Elpida Memory developed the world's first 256Mbit DRAM employing 0.13-micron process technology. In March 2001, Elpida Memory launched global sales operations, integrating the DRAM marketing operations of NEC and Hitachi.

In addition to continuing to bolster its development and marketing operations, Elpida Memory plans to construct a 300mm wafer fabrication plant, and will seek cost advantages by manufacturing a host of next-generation products on its new production line. This measure will buffer and enhance profitability even in a marketplace that rapidly changes.

FOCUS ON THE SYSTEM LSI BUSINESS

NEC Electron Devices will further concentrate on system LSIs, the core component of device solutions. Here, developing devices with performance specifications in line with customer needs is critical. To this end, NEC Electron Devices works closely with customers right from the initial design stage, in order to gain a firm grasp of their needs. To optimize its competitive status, NEC has set up design facilities at global bases. Our basic policy is to design system LSIs where their applications are most widely commercialized and advanced, so as to promote the accumulation of design assets. For example, we design system LSIs for broadband network equipment in North America, set-top boxes for digital broadcast receivers and IC cards in Europe, and 3G mobile communications systems and handsets in Japan. Including those acquired through tie-ups, NEC Electron Devices' extensive repertoire of chip design assets such as IP cores constitutes its competitive advantage.

Close interaction with customers ensures that system LSI operations are stable, and somehow insulated from short-term changes in market conditions. Nonetheless, these operations entail substantial prior development costs. NEC Electron Devices will focus development on growth fields and customers, while making full use of its rich portfolio of design assets. This will enable us to optimize development costs and enhance profitability.

RESTRUCTURING THE FLAT PANEL DISPLAY BUSINESS

In the market for color LCDs during fiscal 2001, South Korean and Taiwanese manufacturers substantially ramped up production capacity, while the major source of demand — the PC market — experienced slower growth. This resulted in a glut of color LCDs, causing prices for 14- and 15-inch displays for notebook PCs and monitors to nosedive. NEC Electron Devices plans to improve profitability in this field by outsourcing production of displays for notebook PCs, which are exposed to stiff price competition, to a third party. Meanwhile, we will concentrate on large-scale, high-resolution 18-inch (or above) displays for monitors as well as small to medium-sized displays for mobile handsets and terminals, which are likely to see substantial growth. As part of its focus on small to medium-sized color LCDs, NEC partnered with Casio Computer Co., Ltd. in October 2000.

In plasma displays, NEC and France's Thomson multimedia S.A., a major digital home appliance manufacturer, signed a Memorandum of Understanding to establish a joint venture to consolidate their plasma display operations. Strengthening the global development of its operations, the new company will promote the use of plasma displays in its aim to become the world's leading manufacturer in this field.

NEC Networks' Technology Manager, Yutaka Tomiyori is in charge of the development of W-CDMA terminals. Mr. Tomiyori and NEC Electron Devices jointly developed baseband LSIs for NEC's W-CDMA terminals. Mr. Tomiyori explains: "The development of baseband LSIs, the heart of mobile terminals, demands leading-edge technology. NEC Electron Devices made a substantial contribution to the development of high-performance baseband LSIs that enhance the functionality and lower power consumption of W-CDMA terminals using their superior design skills and processing technology, while combining NEC Networks' systems know-how."

From Left:
Yutaka Tomiyori, NEC Networks and
Makoto Tsurumaru, NEC Electron Devices

THE SHAPE OF NEC ELECTRON DEVICES TO COME

NEC Electron Devices' basic policy is to offer optimal device solutions that meet diverse customer needs. To this end, we must offer products in a wider range of fields to enhance its solutions menu. NEC Electron Devices' largest competitive advantages lie in its broad customer base. Amid a growing trend toward specialization among device manufacturers, we have nurtured rich chip design assets and technical development prowess over many years of offering a variety of devices for a wide range of customer segments. For instance, proprietary solutions devised by NEC include high-performance system LSIs employing ultra-multilevel wiring technology and logic processing technology embedded in DRAMs.

The market for electron devices has grown considerably on the back of high growth in digital home appliances and PCs. Recently, however, mobile phones and Internet appliances have emerged as the dominant applications driving growth. Responding to market changes, NEC Electron Devices is shifting its emphasis to broadband and mobile Internet applications, while leveraging its core strengths, namely its ability to operate in wide range of business fields. Concentrating R&D resources on these areas, NEC Electron Devices aims to increase earnings by bolstering its operations through joint development with other NEC in-house companies and the development of state-of-the-art technology through strategic alliances.

FINANCIAL SECTION

CONTENTS

FIVE-YEAR SUMMARY

	In millions of yen					In thousands of U.S. dollars
	1997	1998	1999	2000	**2001**	**2001**
For the fiscal year:						
Sales and other income	¥5,064,872	¥4,970,686	¥4,815,791	¥5,209,891	**¥5,591,122**	**$44,373,984**
Net sales	4,948,437	4,901,122	4,759,412	4,991,447	**5,409,736**	**42,934,413**
Income (loss) before income taxes	121,222	90,993	(224,726)	30,183	**92,323**	**732,722**
Provision (benefit) for income taxes	24,900	41,514	(72,988)	32,484	**56,308**	**446,889**
Net income (loss)	92,838	47,417	(151,261)	10,416	**56,603**	**449,230**
Capital expenditures	405,772	385,346	253,623	281,639	**346,491**	**2,749,929**
Depreciation	272,933	285,862	306,442	260,942	**250,138**	**1,985,222**
R&D expenses	348,537	381,239	346,215	315,163	**344,957**	**2,737,754**
Per share data (in yen and U.S. dollars):						
Per share of common stock:						
Net income (loss)						
Basic	59.86	29.78	(94.49)	6.40	**34.55**	**0.27**
Diluted	52.06	27.36	(94.49)	6.40	**32.17**	**0.26**
Cash dividends	11.00	11.00	8.50	6.00	**11.00**	**0.09**
Per American Depositary Share, each representing 5 shares of common stock*:						
Net income (loss)						
Basic	299	149	(472)	32	**173**	**1.37**
Diluted	260	137	(472)	32	**161**	**1.28**
Cash dividends	55	55	42.5	30	**55**	**0.44**
At year-end:						
Total assets	4,940,995	5,074,478	5,045,934	4,608,964	**4,823,624**	**38,282,730**
Shareholders' equity	1,105,716	1,162,287	927,345	976,853	**915,036**	**7,262,190**
Employees	151,966	152,450	157,773	154,787	**149,931**	

** Common Stocks-to-ADRs exchange ratio was changed from 5:1 to 1:1, effective May 25, 2001.*

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥126=U.S.$1.

2. NEC adopted SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" beginning with the fiscal year ended March 31, 2000, and has restated its prior years' consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Results

Year Ended March 31, 2001
Compared With the Year Ended March 31, 2000

In fiscal 2001, ended March 31, 2001, the U.S. economy experienced a slowdown in the second half, and the European economy also began to show signs of losing momentum. Although Asian economies experienced comparatively favorable internal demand, the slowdown in the U.S. caused the pace of its economic expansion to slow in the second half. Meanwhile, Japan's economy continued on its recovery path in the first half of fiscal 2001 as corporate earnings improved due to export growth and capital spending increased. However, consumer spending remained sluggish, and a drop in exports in the second half of fiscal 2001, along with other factors, clouded the nation's economic prospects.

The electronics industry saw an increase in demand for communications and information equipment driven by the IT revolution. In the second half of fiscal 2001, however, earnings in the electronics industry worsened due to a downturn in the PC market, notably in the U.S., and the drastic price erosions of electron devices such as DRAMs and LCDs.

In this business environment, NEC took the following actions to maximize group-wide corporate value during fiscal 2001.

(1) Strengthened corporate governance

NEC has clearly drawn the line between management and the execution of operations with the introduction of a company officer system in April 2000, in concurrence with the organizational reform to the in-house company system. At the same time: (a) NEC reduced the number of members of the Board of Directors; and (b) introduced a stock option plan. In the second half of fiscal 2001, (c) NEC established guidelines for an increase in the number of independent directors and the review of director compensation; and (d) introduced the Management Advisory Committee to discuss a wide range of management issues adopting expert views from outside the company, and the Compensation Committee, a deliberative body to ensure transparency and objectivity in the determination of compensation for directors and company officers.

(2) Reformed the business structure

NEC continued with business realignment. Actions included forming alliances with other companies with the view to accelerate core product development and bolster competitiveness in the global market. In the field of server products, NEC formed alliances with U.S.-based Intel Corporation and Hewlett-Packard Company. In the field of optical networking, where the market is expected to expand, an alliance with a U.S.-based developer of optical devices was launched. NEC also partnered with Casio Computer Co., Ltd. and Samsung SDI Co., Ltd. in small and medium-sized displays, a field that is likely to see substantial growth owing to the spread of mobile phones. NEC announced the spin-off of its compound chemical semiconductor business as a subsidiary aiming to achieve faster growth in this field through independent management. NEC's semiconductor sealing machinery business was transferred to Sumitomo Heavy Industries, Ltd. Moreover, NEC and Toshiba Corporation consolidated their space related equipment operations into a joint venture in April 2001.

(3) Realigned group companies

With the aim to maximize corporate value, NEC began assessing the positioning of subsidiaries within the NEC group in terms of synergies with NEC's core businesses, profitability and growth potential. As a result, NEC sold most of its equity interest in Ando Electric Co., Ltd., which manufactures and sells electronic testing and measuring equipment, to Yokogawa Electric Corporation. NEC and NITSUKO CORPORATION agreed to consolidate their key telephone system and point of sales (POS) terminal businesses, which overlapped. Furthermore, NEC took two of its subsidiaries, including NEC Soft, Ltd., a software development company, public to raise their corporate value and spur growth.

Sales

In fiscal 2001, NEC's net sales increased by ¥418.3 billion to ¥5,409.7 billion ($42,934 million), up 8% from the previous fiscal year. This increase was attributable to increases of 20% and 9% in net sales at NEC Networks and NEC Electron Devices, respectively, which more than offset a 2% decline in net sales at NEC Solutions.

By geographicical location of customers, sales in Japan climbed 13% to ¥3,954.7 billion ($31,386 million). This was principally attributable to growth in demand for mobile handsets for the i-mode service of NTT DoCoMo, Inc., systems integration (SI) services for e-business, and the BIGLOBE business, as well as steady sales growth in PCs and devices for mobile phones. These gains outweighed slow sales of mainframe-related information equipment and color LCDs. Overseas sales were ¥1,455.1 billion ($11,548 million), a decline of 3%. This primarily reflected the discontinuance of NEC's consumer PC business in North America, among other actions.

Interest, Gain on Securities Sold, Dividends and Other (Other Income)

Other income was ¥140.1 billion ($1,112 million), down ¥78.3 billion from ¥218.4 billion in the previous year. In fiscal 2000, NEC recognized gains on the sale of securities and a gain on the securitization of the head office building to generate funds to offset expenses that were used mainly for restructuring expenses for such as NEC Home Electronics, Ltd. and Packard Bell NEC, Inc. In fiscal 2001, NEC recorded gains on the sale of land and securities as well as gains on the sale of overseas production facilities to EMS (electronics manufacturing service) companies.

Gains due to Stock Offerings by Subsidiaries

During fiscal 2001, NEC Soft, Ltd. and NEC Machinery Corporation made their initial public offerings. NEC recorded ¥41.3 billion ($328 million) in gains due to stock offerings by subsidiaries (see Note18 to consolidated financial statements on page 49).

Cost of Sales

Cost of sales was ¥3,981.1 billion ($31,596 million), up ¥316.6 billion compared with fiscal 2000. As a percentage of net sales, cost of sales was 73.6%, remaining largely unchanged from fiscal 2000 despite the sudden drop in market prices of memory devices and PCs in the second half of the year. This was mainly attributable to efforts to promote supply chain management and efforts to trim fixed costs.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased ¥26.9 billion to ¥1,243.4 billion ($9,869 million) which correspond with higher net sales and a rise in R&D expenses. As a percentage of net sales, SG&A expenses decreased from 24.4% in fiscal 2000 to 23.0% in fiscal 2001 owing primarily to greater selectivity in R&D investment, and active efforts to reduce costs.

R&D expenses were ¥345.0 billion ($2,738 million), an increase of 9% compared with fiscal 2000 and represented 6.4% of net sales. NEC focused its R&D efforts and pursued greater efficiency. Meanwhile, NEC focused on the development of next-generation fields such as 3G mobile communications systems, as well as optical networking and Internet-related products.

Other

Other fell ¥18.1 billion to ¥210.4 billion ($1,670 million) compared with fiscal 2000. In fiscal 2000, restructuring expenses, including those of NEC Home Electronics and Packard Bell NEC, and refunds to the Defense Agency and the Defense Facilities Administration Agency of Japan were recorded. In fiscal 2001, NEC incurred additional restructuring charges for the disposition of assets and the liquidation of NEC Home Electronics and restructuring of other subsidiaries, and recognized impairment losses of marketable securities.

Income Before Income Taxes

Income before income taxes was ¥92.3 billion ($733 million), an improvement of ¥62.1 billion from the previous fiscal year. This reflected a dramatic improvement in gross profit resulting from strong sales growth, and gains on the sale of overseas production bases and gains due to stock offerings by subsidiaries although we posted the previously mentioned restructuring expenses and recognized impairment losses on marketable securities.

Net Income

Net income for fiscal 2001 was ¥56.6 billion ($449 million), a dramatic improvement by ¥46.2 billion from fiscal 2000 due to the previously mentioned large increase in income before income taxes and the increase in equity in earnings of domestic affiliated companies. The net income to net sales ratio was 1.0% and ROE (return on equity) was 6.0%. Basic net income per share was ¥34.55 ($0.27) and diluted net income per share was ¥32.17 ($0.26).

Dividends

Cash dividends per share applicable to fiscal 2001 were ¥11.0 ($0.09), ¥5.0 more than fiscal 2000, out of which NEC paid an interim dividend of ¥5.5 per share in December 2000.

Capital Expenditures

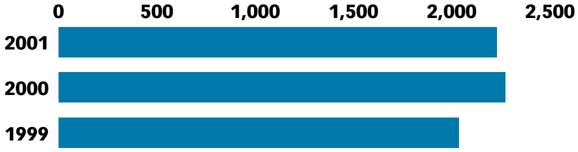
Capital expenditures increased 23% to ¥346.5 billion ($2,750 million) compared with fiscal 2000. Efforts were made to conduct capital investment projects more efficiently. NEC executed strategically-focused investments, especially in the semiconductor field. Major capital expenditures included investment in manufacturing facilities for state-of-the-art system LSIs at NEC Yamagata, Ltd. and NEC Kyushu, Ltd.

RESULTS BY OPERATING SEGMENT

NEC sales and segment profit figures for each of the company's operating segments are presented below. Sales and segment profit figures for each segment include intersegment transactions (see Note 22 to consolidated financial statements on page 51).

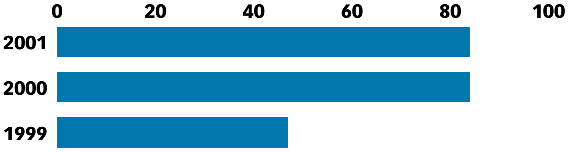
NEC SOLUTIONS

SALES
(Billion ¥)



Year ended March 31

SEGMENT PROFIT
(Billion ¥)



Year ended March 31

Sales

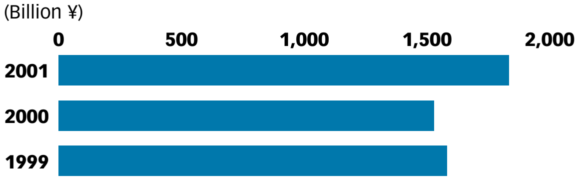
NEC Solutions' sales were ¥2,228.5 billion ($17,686 million), down 2% from fiscal 2000. Sales of software and IT services increased owing to an increase in orders for e-marketplaces and other e-business projects and the expansion of the BIGLOBE business, supported by growing use of the Internet. In hardware, sales of open servers and workstations declined due to slower-than-expected IT investment by small and medium-sized companies and regional users as well as a decrease in sales of mainframe computers. Meanwhile, overseas sales declined compared with fiscal 2000 due to the slowdown in demand for PCs in the worldwide market, and NEC's withdrawal from the consumer PC business in North America.

Segment Profit

Segment profit at NEC Solutions was ¥84.1 billion ($667 million), largely unchanged from fiscal 2000. Despite efforts to improve supply chain management and cost-containment initiatives, hardware business was suffered from the rapid drop in PC prices in the second half of fiscal 2001 and slow sales of mainframe computers. In software and IT services, NEC Solutions enhanced productivity in SI services and selectivity in software development. As a result, segment profit-to-sales ratio of NEC Solutions was kept the same level of the previous year, 3.8%.

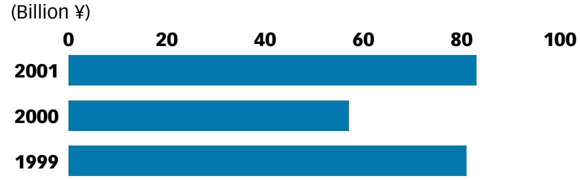
NEC NETWORKS

SALES
(Billion ¥)



Year ended March 31

SEGMENT PROFIT
(Billion ¥)



Year ended March 31

Sales

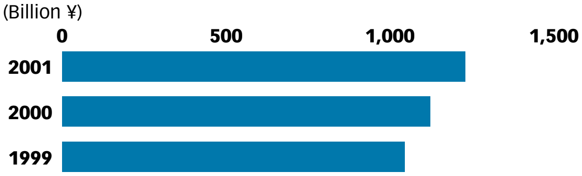
NEC Networks' sales in fiscal 2001 increased 20% to ¥1,834.4 billion ($14,558 million) from fiscal 2000. In the domestic market, sales increased due to strong growth in i-mode mobile handsets for NTT DoCoMo and investment in network buildouts by network service providers. Overseas sales also increased. Although sales of high-capacity optical fiber transmission systems fell in the North American market due to scaled-down investment in network infrastructure by service providers, in Asia and Oceania, sales grew, particularly in the area of submarine cable systems. In Latin America, NEC Networks also posted strong sales growth owing to vigorous capital investment in communications infrastructure such as central office switching systems.

Segment Profit

Segment profit was ¥83.1 billion ($660 million), a 46% increase over fiscal 2000, improving from 3.7% of fiscal 2000 net sales to 4.5% of NEC Networks' net sales in fiscal 2001. This was attributable to a dramatic increase in sales of mobile handsets for NTT DoCoMo's i-mode service and network infrastructure systems in the domestic market, which more than offset the increase in expense of strategic development of equipment for next-generation communications infrastructure.

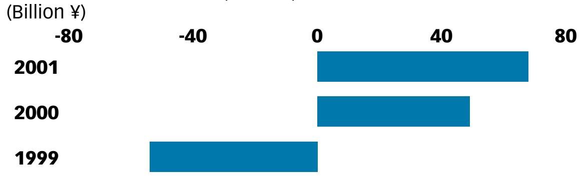
NEC ELECTRON DEVICES

SALES
(Billion ¥)



Year ended March 31

SEGMENT PROFIT (LOSS)
(Billion ¥)



Year ended March 31

Sales
Sales at NEC Electron Devices rose 9% to ¥1,228.9 billion ($9,753 million), supported by robust demand for PCs, mobile handsets and digital home appliances continued from the previous year. Although sales of color LCDs declined due to weak market conditions, sales of almost all product categories of semiconductors, including memories, general-purpose semiconductors such as LCD driver ICs and opto-devices and system LSIs, and electronic components in the first half of fiscal 2001 contributed to the growth.

Segment profit
Segment profit rose 38% to ¥68.3 billion ($542 million), improving from 4.4% of fiscal 2000 net sales to 5.6% of NEC Electron Devices' net sales in fiscal 2001. This reflected improved sales of general-purpose semiconductors such as LCD driver ICs, opto-devices and system LSIs, and was especially attributable to memory prices that rose in the first half of fiscal 2001.

OTHERS

Sales
The Others segment includes the manufacture and sale of LCD projectors, avionics systems, and semiconductor manufacturing equipment as well as information and network system construction services. Sales in this segment were ¥742.4 billion ($5,892 million), largely unchanged from fiscal 2000.

Segment Profit
Fiscal 2001 saw a reversal of fiscal 2000's segment loss of ¥2.7 billion. Segment profit improved dramatically to ¥20.2 billion ($161 million) owing to enhanced profitability in semiconductor manufacturing equipment, avionics systems, and information and network system construction services.

LIQUIDITY AND CAPITAL RESOURCES

Financial and Liquidity Management
NEC announced a financial restructuring program aimed at reducing interest-bearing debt by ¥600 billion over the three-year period from the end of March 1999 to March 2002. NEC has been making every effort to achieve this goal. In fiscal 2001, NEC allocated ¥249.0 billion in free cash flows generated by increased earnings and by maximizing efficiency in the use of working capital to the repayment of loans from banks and the redemption of corporate debentures. Accordingly, interest-bearing debt was further reduced by ¥272.9 billion in fiscal 2001 following a reduction of ¥418.4 billion in fiscal 2000. NEC has thus succeeded in achieving the program's goal one year ahead of schedule. As of March 31, 2001, interest-bearing debt was ¥1,684.3 billion. The debt-to-equity ratio improved from 2.00 as of March 31, 2000 to 1.84 at March 31, 2001.

In financing operations, NEC is pursuing a policy of increasing emphasis on procuring long-term funds and on the use of capital market instruments. Under this policy, NEC issued zero-coupon unsecured yen convertible debentures in August 2000. Long-term funding accounted for 73% of total funds procured as of March 31, 2001, compared with 68% one year ago. The increasing use of capital market instruments raised the share of bonds and other debt securities from 64% of total financing, compared with 56% one year ago. These improvements provided NEC with benefits similar to those received in fiscal 2000. NEC obtained more long-term funding, and at the same time was in a strong position to take advantage of the current low interest-rate environment in Japan.

NEC maintains sufficient financial programs for its short- and long-term cash requirements. Regarding long-term financing, NEC's U.S. financial subsidiary set up a $500 million medium-term notes (MTN) program, and NEC Corporation and its U.K. financial subsidiary also together established a $2 billion MTN program. With regard to short-term financing, NEC relies primarily on commercial paper (CP) in Japan to preserve the necessary flexibility. NEC has a ¥500.0 billion CP program, and the maximum month-end balance during fiscal 2001 was ¥260 billion. NEC's U.S. financial subsidiary also has a $500 million CP program.

Regarding liquidity, NEC's policy is to maintain a level of cash and cash equivalents, including committed credit facilities with financial institutions, equivalent to approximately one month of net sales. Time deposits and other investments included in cash and cash equivalents are limited to highly liquid instruments with the protection of principal. Committed credit facilities established with financial institutions in Japan and overseas were ¥250.0 billion as of March 31, 2001. NEC has established a cash management system in Japan, North America and Europe. This makes possible the efficient use of capital through the centralized financing and treasury operations at NEC Corporation and each of its regional financial subsidiaries. Moreover, receivables among NEC's subsidiaries and between these subsidiaries and NEC Corporation are netted out within North America, Europe and Asia.

Assets, Liabilities and Shareholders' Equity

Total assets at the end of fiscal 2001 were ¥4,823.6 billion ($38,283 million), an increase of ¥214.7 billion compared to the end of fiscal 2000. This was principally due to an increase in receivables, resulting from higher sales, and a rise in inventories associated with large-scale projects slated for shipment in fiscal 2002. The total asset turnover ratio improved from 1.03 of fiscal 2000 to 1.15, despite an increase in total assets, owing to NEC's drive to promote the efficient use of capital, including the pursuit of greater efficiency in the collection of amounts due, and optimizing supply chain management.

Current assets at the end of fiscal 2001 were ¥2,465.8 billion ($19,570 million), an increase of ¥312.2 billion compared with fiscal 2000. Cash and cash equivalents increased ¥12.9 billion to ¥386.8 billion ($3,070 million) from the end of fiscal 2000. Notes and accounts receivable, trade after allowances for doubtful notes and accounts are deducted, increased ¥176.0 billion from the end of fiscal 2000 to ¥1,053.1 billion ($8,358 million), mainly reflecting an increase in sales. Inventories rose ¥80.5 billion from the end of fiscal 2000 to ¥828.1 billion ($6,572 million), reflecting a build-up of W-CDMA infrastructure equipment, expected for full-fledged shipment in fiscal 2002, and inventories associated with large-scale projects to lay submarine optical-fiber cable between Japan and Australia and other areas.

Investments and long-term receivables fell ¥151.2 billion to ¥733.6 billion ($5,823 million). This was mainly a result of a ¥151.3 billion decline from the end of fiscal 2000 in marketable securities to ¥335.7 billion ($2,664 million) as of the end of fiscal 2001, primarily reflecting weak stock prices and the sale of marketable securities to enhance asset efficiency.

Property, plant and equipment climbed ¥13.6 billion from the end of fiscal 2000 to ¥1,128.8 billion ($8,959 million). This was attributable to an increase in strategic capital investments, principally in the semiconductor field despite the decrease due to the sale of overseas production bases to EMS companies.

Other assets totaled ¥495.4 billion ($3,932 million), an increase of ¥40.0 billion. The rise mainly reflected the recognition of deferred tax assets in line with an increase in the minimum pension liability adjustment. Deferred tax assets were ¥178.8 billion ($1,419 million), up ¥50.8 billion from a year ago.

Current and long-term liabilities increased ¥272.5 billion from the end of fiscal 2000 to ¥3,840.2 billion ($30,478 million). Interest-bearing debt, the sum of short-term borrowings, the current portion of long-term debt and long-term debt, declined ¥272.9 billion from the end of fiscal 2000 to ¥1,684.3 billion

($13,367 million). NEC issued zero-coupon unsecured yen convertible debentures via a public offering. Meanwhile, the reduction in interest-bearing debt was made possible by an improvement in operating cash flows due to higher earnings.

Accrued pension and severance costs increased ¥139.0 billion from the end of fiscal 2000 to ¥400.3 billion ($3,177 million). This was due principally to an increased unrecognized actuarial loss resulting from the reduction in the applicable discount rate on pension plan assets and actual loss on plan assets brought about by the weak stock market.

Shareholders' equity at the end of fiscal 2001 was ¥915.0 billion ($7,262 million), ¥61.8 billion lower than a year ago. This was primarily due to a decline of ¥126.6 billion in accumulated other comprehensive income (loss), despite the increase in net income in fiscal 2001. Accumulated other comprehensive income (loss) is the sum of foreign currency translation adjustments, the minimum pension liability adjustment and unrealized gains (losses) on marketable securities. Of these, an increase in the minimum pension liability adjustment and a decrease in unrealized gains (losses) on marketable securities were primarily responsible for the decline in accumulated other comprehensive income (loss). The minimum pension liability adjustment increased ¥84.9 billion compared with the end of fiscal 2000 owing to a change in the applicable discount rate and actual loss on plan assets brought about by the weak stock market. Unrealized gains (losses) on marketable securities declined ¥60.9 billion compared with fiscal 2000, due to the weak stock market. These factors resulted in a shareholders' equity ratio of 19.0%, compared with 21.2% at the previous fiscal year-end.

Cash Flows

	In billions of yen			In millions of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Net cash provided by (used in):				
Operating activities	¥ 114.8	¥ 458.5	**¥ 360.5**	**$ 2,861**
Investing activities	(328.6)	90.4	**(111.5)**	**(885)**
Financing activities	220.9	(487.5)	**(240.0)**	**(1,905)**
Effect of exchange rate changes on cash and cash equivalents	(6.4)	(7.1)	**3.9**	**31**
Net increase in cash and cash equivalents	0.7	54.3	**12.9**	**102**

Cash and cash equivalents at the end of fiscal 2001 amounted to ¥386.8 billion ($3,070 million), an increase of ¥12.9 billion from the end of fiscal 2000.

Net cash provided by operating activities declined ¥98.0 billion to ¥360.5 billion ($2,861 million) due to an increase in account receivables, reflecting higher sales, and the build-up of inventories in preparation for sales in fiscal 2002. Depreciation declined ¥10.8 billion to ¥250.1 billion ($1,985 million) owing to focused capital expenditures, the leasing of certain types of facilities and the sale of certain overseas production bases.

Net cash used in investing activities was ¥111.5 billion ($885 million), an increase of ¥201.9 billion compared with fiscal 2000. This reflected a drastic reduction in the sale of real estate and marketable securities and an increase in strategic capital investments, centered on the semiconductor field.

Net cash used in financing activities was ¥240.0 billion ($1,905 million). This reflected the issue of zero-coupon unsecured yen convertible debentures offset by measures such as repayments of long-term debt and short-term borrowings and the redemption of corporate debentures.

CONSOLIDATED BALANCE SHEETS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2000 and 2001

	In millions of yen		In thousands of U.S. dollars (Note 3)
ASSETS	2000	**2001**	**2001**
Current assets:			
Cash and cash equivalents	¥ 373,967	**¥ 386,835**	**$ 3,070,119**
Notes receivable, trade (Notes 8 and 15)	49,319	**60,127**	**477,198**
Accounts receivable, trade (Notes 8 and 15)	854,257	**1,020,205**	**8,096,865**
Allowance for doubtful notes and accounts	(26,415)	**(27,199)**	**(215,865)**
Inventories (Note 6)	747,609	**828,081**	**6,572,071**
Deferred tax assets (Note 10)	73,802	**123,786**	**982,429**
Prepaid expenses and other current assets	80,992	**73,940**	**586,826**
Total current assets	2,153,531	**2,465,775**	**19,569,643**
Investments and long-term receivables:			
Marketable securities (Notes 5 and 8)	486,959	**335,680**	**2,664,127**
Investments and advances (Notes 4 and 5):			
Affiliated companies	160,288	**194,138**	**1,540,778**
Other	184,563	**153,964**	**1,221,936**
Long-term receivables, trade	53,018	**49,855**	**395,675**
	884,828	**733,637**	**5,822,516**
Property, plant and equipment (Notes 8 and 20):			
Land	112,731	**98,261**	**779,849**
Buildings	885,842	**935,953**	**7,428,198**
Machinery and equipment	2,277,678	**2,321,503**	**18,424,627**
Construction in progress	71,075	**59,171**	**469,611**
	3,347,326	**3,414,888**	**27,102,285**
Accumulated depreciation	(2,232,075)	**(2,286,075)**	**(18,143,452)**
	1,115,251	**1,128,813**	**8,958,833**
Other assets:			
Deferred tax assets (Note 10)	128,025	**178,838**	**1,419,349**
Intangible assets (Note 7)	233,056	**243,630**	**1,933,571**
Other	94,273	**72,931**	**578,818**
	455,354	**495,399**	**3,931,738**
	¥ 4,608,964	**¥ 4,823,624**	**$ 38,282,730**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	In millions of yen		In thousands of U.S. dollars (Note 3)
	2000	**2001**	**2001**
Current liabilities:			
Short-term borrowings (Note 8)	¥ 376,487	**¥ 231,251**	**$ 1,835,325**
Current portion of long-term debt (Note 8)	254,565	**231,713**	**1,838,992**
Notes payable, trade	68,997	**83,899**	**665,865**
Accounts payable, trade	837,682	**1,107,449**	**8,789,278**
Accounts payable, other and accrued expenses	264,597	**296,585**	**2,353,849**
Accrued income taxes	17,438	**42,862**	**340,175**
Other current liabilities	136,391	**203,904**	**1,618,286**
Total current liabilities	1,956,157	**2,197,663**	**17,441,770**
Long-term liabilities:			
Long-term debt (Note 8)	1,326,138	**1,221,295**	**9,692,817**
Accrued pension and severance costs (Note 9)	261,301	**400,333**	**3,177,246**
Other	24,065	**20,910**	**165,953**
	1,611,504	**1,642,538**	**13,036,016**
Minority shareholders' equity in consolidated subsidiaries	64,450	**68,387**	**542,754**
Commitments and contingent liabilities (Note 21):			
Shareholders' equity (Note 11):			
Common stock, ¥50 par value:			
Authorized — 3,200,000,000 shares			
Issued 2000 — 1,628,819,840 shares	231,137		
2001 — 1,656,259,435 shares		**244,717**	**1,942,198**
Additional paid-in capital	348,234	**361,813**	**2,871,532**
Legal reserve	36,922	**39,046**	**309,889**
Retained earnings	312,638	**349,033**	**2,770,103**
Accumulated other comprehensive income (loss)	48,005	**(78,603)**	**(623,833)**
	976,936	**916,006**	**7,269,889**
Treasury stock, at cost:			
2000 — 30,559 shares	(83)		
2001 — 307,716 shares		**(970)**	**(7,699)**
	976,853	**915,036**	**7,262,190**
	¥4,608,964	**¥4,823,624**	**$38,282,730**

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

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 1999, 2000 and 2001

	In millions of yen			In thousands of U.S. dollars (Note 3)
	1999	2000	**2001**	**2001**
Sales and other income:				
Net sales	¥4,759,412	¥4,991,447	**¥5,409,736**	**$42,934,413**
Interest, gain on securities sold, dividends and other (Notes 5, 19 and 20)	56,379	218,444	**140,062**	**1,111,603**
Gain due to stock offerings by subsidiaries (Note 18)	–	–	**41,324**	**327,968**
	4,815,791	5,209,891	**5,591,122**	**44,373,984**
Costs and expenses:				
Cost of sales	3,520,837	3,664,513	**3,981,113**	**31,596,135**
Selling, general and administrative (Notes 16 and 17)	1,235,436	1,216,520	**1,243,440**	**9,868,571**
Interest	67,165	70,211	**63,873**	**506,929**
Other (Note 19)	217,079	228,464	**210,373**	**1,669,627**
	5,040,517	5,179,708	**5,498,799**	**43,641,262**
Income (loss) before income taxes	(224,726)	30,183	**92,323**	**732,722**
Provision (benefit) for income taxes (Note 10)	(72,988)	32,484	**56,308**	**446,889**
Income (loss) before minority interest and equity in earnings (losses) of affiliated companies	(151,738)	(2,301)	**36,015**	**285,833**
Minority interest in income (losses) of consolidated subsidiaries	(5,545)	(1,419)	**1,296**	**10,286**
Income (loss) before equity in earnings (losses) of affiliated companies	(146,193)	(882)	**34,719**	**275,547**
Equity in earnings (losses) of affiliated companies (Note 4)	(5,068)	11,298	**21,884**	**173,683**
Net income (loss)	(151,261)	10,416	**56,603**	**449,230**
Comprehensive income (loss):				
Other comprehensive income (loss), net of tax (Note 11):				
Foreign currency translation adjustments	(14,510)	(24,333)	**19,127**	**151,802**
Minimum pension liability adjustment (Note 9)	(55,794)	28,243	**(84,871)**	**(673,579)**
Unrealized gains (losses) on marketable securities (Note 5)	(24,065)	41,500	**(60,864)**	**(483,048)**
Other comprehensive income (loss)	(94,369)	45,410	**(126,608)**	**(1,004,825)**
Comprehensive income (loss)	¥ (245,630)	¥ 55,826	**¥ (70,005)**	**$ (555,595)**
Retained earnings:				
Balance at beginning of year	¥ 484,266	¥ 313,262	**¥ 312,638**	**$ 2,481,254**
Net income (loss)	(151,261)	10,416	**56,603**	**449,230**
Dividends	(18,172)	(9,770)	**(18,084)**	**(143,524)**
Transfer to legal reserve	(1,571)	(1,270)	**(2,124)**	**(16,857)**
Balance at end of year	¥ 313,262	¥ 312,638	**¥ 349,033**	**$ 2,770,103**

	Yen			U.S. dollars (Note 3)
	1999	2000	**2001**	**2001**
Net income (loss) per share (Note 13):				
Basic	¥(94.49)	¥6.40	**¥34.55**	**$0.27**
Diluted	(94.49)	6.40	**32.17**	**0.26**
Cash dividends per share	¥ 8.50	¥6.00	**¥11.00**	**$0.09**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 1999, 2000 and 2001

	In millions of yen			In thousands of U.S. dollars (Note 3)
	1999	2000	**2001**	**2001**
Cash flows from operating activities:				
Net income (loss)	¥ (151,261)	¥ 10,416	**¥ 56,603**	**$ 449,230**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	306,442	260,942	**250,138**	**1,985,222**
Deferred income taxes	(121,309)	(2,102)	**(2,463)**	**(19,548)**
(Gain) loss on property, plant and equipment	3,991	(24,249)	**(13,823)**	**(109,706)**
Realized (gain) loss on marketable securities	11,083	(98,194)	**2,175**	**17,262**
Gain due to stock offerings by subsidiaries	–	–	**(41,324)**	**(327,968)**
Provision for pension and severance costs, less payments	3,709	10,310	**5,060**	**40,159**
Equity in (earnings) losses of affiliated companies, net of dividends	18,179	(7,552)	**(17,149)**	**(136,103)**
Minority interest in income (losses) of consolidated subsidiaries	(5,545)	(1,419)	**1,296**	**10,286**
(Increase) decrease in notes and accounts receivable	44,928	201,934	**(139,644)**	**(1,108,286)**
(Increase) decrease in inventories	55,867	85,104	**(83,769)**	**(664,833)**
Increase (decrease) in notes and accounts payable	(68,972)	80,817	**226,886**	**1,800,682**
Increase (decrease) in other current liabilities	(24,907)	(56,383)	**110,723**	**878,754**
Other, net	42,640	(1,087)	**5,783**	**45,897**
Net cash provided by operating activities	114,845	458,537	**360,492**	**2,861,048**
Cash flows from investing activities:				
Proceeds from sales of property, plant and equipment	39,438	246,386	**112,887**	**895,929**
Additions to property, plant and equipment	(279,849)	(263,767)	**(310,711)**	**(2,465,960)**
Proceeds from sales of marketable securities	18,087	180,576	**48,053**	**381,373**
Purchase of marketable securities	(26,286)	(97,606)	**(3,373)**	**(26,770)**
Proceeds from sales of affiliates' stock	–	33,672	**55,656**	**441,714**
Investments in affiliated companies	(32,183)	–	**–**	**–**
Cash acquired relating to newly consolidated subsidiaries	37,388	2,022	**693**	**5,500**
Disbursements for long-term loans	(11,164)	(646)	**(23,151)**	**(183,738)**
Decrease in long-term loans	6,501	1,599	**10,458**	**83,000**
Increase in other investment securities	(47,123)	(6,241)	**(2,028)**	**(16,095)**
Other, net	(33,396)	(5,599)	**(10)**	**(80)**
Net cash provided by (used in) investing activities	(328,587)	90,396	**(111,526)**	**(885,127)**
Cash flows from financing activities:				
Proceeds from long-term debt	1,078,359	24,916	**115,401**	**915,881**
Repayments of long-term debt	(194,026)	(282,917)	**(218,144)**	**(1,731,302)**
Decrease in short-term borrowings	(646,178)	(222,434)	**(149,988)**	**(1,190,381)**
Dividends paid	(17,583)	(9,801)	**(14,577)**	**(115,690)**
Proceeds from stock offerings by subsidiaries	–	–	**24,635**	**195,516**
Other, net	294	2,765	**2,627**	**20,849**
Net cash provided by (used in) financing activities	220,866	(487,471)	**(240,046)**	**(1,905,127)**
Effect of exchange rate changes on cash and cash equivalents	(6,431)	(7,164)	**3,948**	**31,333**
Net increase in cash and cash equivalents	693	54,298	**12,868**	**102,127**
Cash and cash equivalents at beginning of year	318,976	319,669	**373,967**	**2,967,992**
Cash and cash equivalents at end of year	¥ 319,669	¥ 373,967	**¥ 386,835**	**$ 3,070,119**
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	¥ 64,877	¥ 70,120	**¥ 63,021**	**$ 500,167**
Income taxes	30,713	39,277	**33,347**	**264,659**
Supplemental information of noncash financing activities:				
Conversion of convertible debt into shares of common stock	¥ 28,870	¥ 1,292	**¥ 27,159**	**$ 215,547**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. NATURE OF OPERATIONS

NEC Corporation and its consolidated subsidiaries (the "Company") is a provider of products, services, and support solutions for the industrial and consumer Internet environment. Organizationally, the Company's major operating segments are as follows; NEC Solutions, NEC Networks and NEC Electron Devices.

NEC Solutions designs, develops, manufactures and markets computer systems which include Internet services, supercomputers, mainframe computers, PCs, PC servers, UNIX servers, workstations, software products, system integration services, printers, hard disk drives and related maintenance services.

NEC Networks designs, develops, manufactures and markets networking systems and communications equipment which include switching systems, mobile communication systems, fiber-optic transmission systems, CATV systems, routers, microwave communication systems, television and radio broadcast equipment, satellites, and cellular phones.

NEC Electron Devices designs, develops, manufactures and markets devices which include dynamic random access memories (DRAMs) and other memories, application-specific integrated circuits (ASICs), microcomputers, color liquid crystal displays (LCDs), color plasma display panels (PDPs), transistors, diodes, relays, and car electronic products.

The Company's principal manufacturing facilities are located in Japan, the United States of America, Europe, and Asia, and its products are marketed by the Company throughout the world.

2. SIGNIFICANT ACCOUNTING POLICIES

NEC Corporation 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 in which such subsidiaries are domiciled. Certain adjustments and reclassifications 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 estimated.

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 the accounts of NEC Corporation and 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 such subsidiaries for the period from January 1, 2001 to March 31, 2001.

Investments in 20–50 % 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 with original maturities of three months or less are considered to be cash equivalents.

Foreign currency translation

Assets and liabilities of foreign consolidated subsidiaries and affiliated companies accounted for by the equity method 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) classified as part of shareholders' equity.

Marketable securities and other investments

The Company classifies its marketable securities as available-for-sale which are reported at fair value, with unrealized gains and losses included in accumulated other comprehensive income (loss), net of taxes. Realized gains or losses on the sale of marketable securities are based on the average cost of a particular security held at the time of sale.

Other investment securities are stated at cost or less.

Inventories

Inventories are stated at the lower of cost or market.

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

Work in process made to customer specifications is stated at 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 basis.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is computed principally using the declining-balance method at rates based on the following estimated useful lives of the assets: buildings, 7 to 50 years, machinery and equipment, 2 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. Costs allocated to patents and trade names are amortized principally on a straight-line 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.

Impairment of long-lived assets

Long-lived assets are evaluated for impairment using an estimate of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the estimate of undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded based on the fair value of the assets.

Income taxes

Deferred tax assets and liabilities are determined based on the financial statement and tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the temporary differences are expected to reverse. Deferred tax assets are also recognized for the estimated future tax effects attributable to operating loss carryforwards. Valuation allowances are established to reduce deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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 NEC Corporation 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.

Sale of stock by a subsidiary

When a subsidiary sells stock to unrelated third parties, the Company's ownership interest in the subsidiary decreases; however, if the price per share is more or less than the Company's average carrying amount per share, the Company is required to adjust the carrying amount of its investment in the subsidiary.

Prior to fiscal 2001, the Company accounted for such adjustments as capital transactions, with a charge or credit to additional paid-in capital. In fiscal 2001, the Company changed its accounting method to recognize such gains or losses in income for the year in which the change in ownership interest occurs.

The Company believes this change is to a preferable method because it better reflects the Company's stated strategy of taking competitive subsidiaries public and raising their overall corporate value. As a result of the change, net income and diluted net income per share for the year ended March 31, 2001 increased by ¥8,868 million ($70,381 thousand) and by ¥4.79 per share ($0.04 per share), respectively.

Net income per share

Basic net income per share ("EPS") is computed by dividing net income 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.

Revenue recognition

Revenue from sales of mass-produced standard products such as electron devices, mobile terminals, computers and workstations is recognized when the products are shipped.

Revenue from services is recognized as the services are provided.

Revenue from development of custom software products is recognized when the software products have been delivered and accepted by the customer.

The Company enters into multiple element projects with customers which include both products and services. Such projects generally include several separate agreements covering portions of the project. If the Company has vendor specific objective evidence for revenues allocated to each separate agreement and undelivered elements are not essential to functionality of delivered elements, revenue is allocated among the elements as each is completed and accepted by the customer. If undelivered elements are essential to functionality, revenue for the project is recognized when all elements have been completed and the project is accepted by the customer.

Shipping and handling costs

The Company includes shipping and handling costs which totaled ¥4,268 million, ¥6,938 million and ¥6,719 million ($53,325 thousand) for the years ended March 31, 1999, 2000 and 2001 in selling, general and administrative expenses.

Derivative financial instruments

The Company utilizes derivative financial instruments to manage fluctuations in foreign currency exchange rates and interest rates. The Company has policies and procedures for risk management and the approval, reporting and monitoring of derivative financial instruments. The Company's policies prohibit holding or issuing derivative financial instruments for trading purposes. To qualify for hedge accounting, the contracts must meet defined correlation and effectiveness criteria, be designated as hedges and substantially offset the changes in the value of the hedged item.

Forward exchange contracts: Gains and losses on contracts designated as hedges are recognized in income and are offset against the foreign exchange differences in the underlying assets and liabilities. The gains and losses are included in other income or expenses. The discounts and premiums on forward exchange contracts are amortized over the lives of the respective contracts and included in interest expense. The related receivable or payable is included in other current assets or other current liabilities. 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.

Interest rate swap agreements: The differentials to be paid or received related to interest rate swap agreements are recognized in interest expense over the lives of the agreement. The receivable or payable for the differential is included in other current assets or other current liabilities.

Sales of receivables

In some cases, the Company retains certain interests in trade receivables sold in securitizations. Gain or loss on the sale of the trade receivables is based on the previous carrying amount of the trade receivables involved in the transfer, allocated between the trade receivables sold and the retained interests based on their relative fair values at the transfer date. The Company generally estimates fair value based on the present value of future expected cash flows estimated using certain assumptions; credit losses and discount rates commensurate with the risks involved.

New accounting standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which is required to be adopted in years beginning after June 15, 2000. The Company will adopt the new Statement effective April 1, 2001. SFAS No. 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of a hedge will be immediately recognized in earnings. Based on derivative positions at March 31, 2001, the Company estimates that upon adoption of SFAS No. 133 a loss from the cumulative effect of an accounting change of approximately ¥2,595 million ($20,595 thousand) will be recorded in the statement of operations and a reduction of approximately ¥3,606 million ($28,619 thousand) will be recorded in accumulated other comprehensive income (loss).

In September 2000, the FASB issued SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, which replaces SFAS No. 125 with the same title and revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires entities that have securitized financial assets to provide specific disclosures. SFAS No. 140 is effective for transfer and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adoption of SFAS No. 140 will not have a material effect on the Company's statement of operations or financial positions.

Reclassifications

Certain accounts in the consolidated financial statements for the years ended March 31, 1999 and 2000 have been reclassified to conform to the 2001 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, the rate of ¥126=U.S.$1, the approximate current rate at March 30, 2001, 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

Investments in affiliated companies accounted for by the equity method together with a percentage of the Company's ownership of voting shares at March 31, 2001 are: Nippon Electric Glass Co., Ltd. (35.3%); ANRITSU CORPORATION (21.6%); Toyo Communication Equipment Co., Ltd. (20.4%); NITSUKO CORPORATION (34.8%); Tokin Corporation (41.1%); NEC Leasing, Ltd. (50.0%); SUMITOMO 3M Limited (25.0%); Elpida Memory, Inc. (50.0%); NEC-Mitsubishi Electric Visual Systems Corporation (50.0%) and 7 other companies at March 31, 2001. See Note 23 for discussion of changes subsequent to March 31, 2001.

Summarized financial information relating to affiliated companies accounted for by the equity method is as follows:

March 31	In millions of yen 2000	2001	In thousands of U.S. dollars 2001
Current assets	¥ 937,351	**¥1,189,132**	**$ 9,437,556**
Other assets, including property, plant and equipment	968,509	**1,043,043**	**8,278,119**
Total assets	¥1,905,860	**¥2,232,175**	**$17,715,675**
Current liabilities	¥ 614,305	**¥ 854,569**	**$ 6,782,294**
Long-term liabilities	800,913	**751,623**	**5,965,262**
Shareholders' equity	490,642	**625,983**	**4,968,119**
Total liabilities and shareholders' equity	¥1,905,860	**¥2,232,175**	**$17,715,675**

Year ended March 31	In millions of yen 1999	2000	2001	In thousands of U.S. dollars 2001
Sales and operating revenue	¥1,444,449*1	¥1,104,816	**¥1,388,641**	**$11,020,960**
Gross profit	221,536*1	212,714	**276,966**	**2,198,143**
Net income (loss)	(68,985)*1	30,204	**75,888**	**602,286**

*1 Including the following amounts related to Packard Bell NEC, Inc. ("PBN") during the period in fiscal 1999 up to the time when the Company consolidated PBN: sales of ¥170,293 million; a gross loss of ¥1,934 million and a net loss of ¥43,413 million, respectively. Please refer to the separate caption, "Investment in Packard Bell NEC, Inc.," which is indicated below.

Of the 16 affiliated companies at March 31, 2001 (11 companies at March 31, 2000) accounted for by the equity method, the stocks of 5 companies (5 companies at March 31, 2000) carried at ¥114,262 million and ¥118,382 million ($939,540 thousand) at March 31, 2000 and 2001, respectively, had quoted market values of an aggregate of ¥180,408 million and ¥217,234 million ($1,724,079 thousand) at March 31, 2000 and 2001, respectively.

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

March 31	In millions of yen 2000	2001	In thousands of U.S. dollars 2001
Receivables, trade	¥14,010	**¥62,929**	**$499,437**
Payables, trade	60,506	**83,636**	**663,778**

Year ended March 31	In millions of yen 1999	2000	2001	In thousands of U.S. dollars 2001
Sales	¥254,738	¥211,388	**¥206,961**	**$1,642,548**
Purchases	114,273	111,119	**172,571**	**1,369,611**

Dividends received from affiliated companies accounted for by the equity method for the years ended March 31, 1999, 2000 and 2001 totaled ¥4,331 million, ¥3,746 million and ¥5,052 million ($40,095 thousand), respectively.

Investment in Packard Bell NEC, Inc.

In September 1998, since the Company attained a controlling ownership interest in Packard Bell NEC, Inc. ("PBN"), the Company consolidated PBN effective October 1,1998. In the year ended March 31, 1999, considering the disappointing 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 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 1,1998. 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.

Year ended March 31	In millions of yen 1999
Net sales	¥4,920,776
Net loss	(151,261)

Year ended March 31	Yen 1999
Net loss per share:	
Basic	¥(94.49)
Diluted	(94.49)

During the year ended March 31,2000, PBN decided to close its operations. Based on the decision, the Company treated PBN as a liquidated company and recorded a loss of ¥15,011 million, net of the effect of the exemption of non-voting redeemable convertible preferred stock.

5. MARKETABLE SECURITIES

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

	In millions of yen							
	2000				**2001**			
March 31	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Available-for-sale:								
Equity securities	¥294,652	¥186,533	¥21,003	¥460,182	**¥233,842**	**¥100,420**	**¥32,984**	**¥301,278**
Debt securities	25,987	1,987	1,197	26,777	**26,425**	**8,209**	**232**	**34,402**
	¥320,639	¥188,520	¥22,200	¥486,959	**¥260,267**	**¥108,629**	**¥33,216**	**¥335,680**

	In thousands of U.S. dollars			
	2001			
March 31	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Available-for-sale:				
Equity securities	**$1,855,889**	**$796,984**	**$261,778**	**$2,391,095**
Debt securities	**209,722**	**65,151**	**1,841**	**273,032**
	$2,065,611	**$862,135**	**$263,619**	**$2,664,127**

Contractual maturities of available-for-sale debt securities at March 31, 2001 are in the period from June 20, 2001 to December 14, 2009.

Proceeds from sales of available-for-sale securities were ¥18,087 million, ¥180,576 million and ¥48,053 million ($381,373 thousand) for the years ended March 31, 1999, 2000 and 2001, respectively. Gross realized gains were ¥12,887 million, ¥98,200 million and ¥40,099 million ($318,246 thousand) for the years ended March 31, 1999, 2000 and 2001, respectively, and gross realized losses, including writedowns, were ¥23,970 million, ¥6 million and ¥42,274 million ($335,508 thousand) for the years ended March 31, 1999, 2000 and 2001, respectively.

6. INVENTORIES

Inventories at March 31, 2000 and 2001 consisted of the following:

	In millions of yen		In thousands of U.S. dollars
March 31	2000	**2001**	**2001**
Finished products	¥224,228	**¥294,876**	**$2,340,285**
Work in process and semifinished components	384,544	**403,501**	**3,202,389**
Less — Advance payments received	(40,691)	**(54,414)**	**(431,857)**
Raw materials and purchased components	179,528	**184,118**	**1,461,254**
	¥747,609	**¥828,081**	**$6,572,071**

7. INTANGIBLE ASSETS

Accumulated amortization of intangible assets was ¥144,970 million and ¥237,170 million ($1,882,302 thousand) at March 31, 2000 and 2001, respectively.

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2000 and 2001 were as follows:

	In millions of yen		In thousands of U.S. dollars
March 31	2000	**2001**	**2001**
Loans, principally from banks, including bank overdrafts (average interest rate of 2.24% in 2000 and 1.96% in 2001):			
Secured	¥ 3,460	**¥ 7,720**	**$ 61,270**
Unsecured	372,111	**211,797**	**1,680,928**
Commercial paper (average interest rate of 20.20% in 2000 and 12.24% in 2001)	916	**11,734**	**93,127**
	¥376,487	**¥231,251**	**$1,835,325**

At March 31, 2001, the Company has unused lines of credit for short-term financing aggregating ¥212,794 million ($1,688,841 thousand) with no commitment fees and credit facility agreements aggregating ¥250,000 million ($1,984,127 thousand) with certain facility fees.

Long-term debt at March 31, 2000 and 2001 was as follows:

	In millions of yen		In thousands of U.S. dollars
March 31	2000	**2001**	**2001**
Loans, principally from banks and insurance companies, due 2000 to 2010 with interest rates of 0.459% to 11.00% at March 31, 2000 and due 2001 to 2010 with interest rates of 0.233% to 12.75% at March 31, 2001:			
Secured	¥ 45,288	**¥ 30,960**	**$ 245,714**
Unsecured	415,075	**298,159**	**2,366,341**
5.6% to 6.05% at March 31, 2000 and 5.7% to 6.05% at March 31, 2001 unsecured yen bonds due 2000 to 2007 at March 31, 2000 and due 2002 to 2007 at March 31, 2001	50,000	**30,000**	**238,095**
1.1% to 3.3% unsecured yen debentures due 2000 to 2010 at March 31, 2000 and due 2001 to 2010 at March 31, 2001	640,000	**595,000**	**4,722,222**
1.9% unsecured yen convertible debentures due 2004, convertible currently at ¥1,962.90 for one common share, redeemable before due date	118,521	**118,508**	**940,540**
1.0% unsecured yen convertible debentures due 2011, convertible currently at ¥1,375.00 for one common share, redeemable before due date	99,158	**97,906**	**777,032**
1.8% unsecured yen convertible debentures due 2002, convertible currently at ¥2,066.80 for one common share, redeemable before due date	95,028	**95,011**	**754,055**
1.9% unsecured yen convertible debentures due 2001	25,890	**–**	**–**
Zero coupon unsecured yen convertible debentures due 2007, convertible currently at ¥3,207.00 for one common share, redeemable before due date	–	**100,000**	**793,651**
0.375% unsecured yen convertible notes issued by a consolidated subsidiary due 2002	5,980	**5,312**	**42,159**
0.2% to 1.3% at March 31, 2000 and 0.2% to 5.1% at March 31, 2001 medium-term notes issued by consolidated subsidiaries due 2000 to 2003 at March 31, 2000 and due 2001 to 2004 at March 31, 2001	30,285	**30,560**	**242,540**
Long-term capital lease obligations, due 2000 to 2011 with interest rates of 1.9% to 7.9% at March 31, 2000 and due 2001 to 2029 with interest rates of 1.6% to 7.9% at March 31, 2001	48,556	**45,081**	**357,786**
Other	6,797	**6,451**	**51,198**
	1,580,578	**1,452,948**	**11,531,333**
Unamortized premium	125	**60**	**476**
	1,580,703	**1,453,008**	**11,531,809**
Less — Portion due within one year	254,565	**231,713**	**1,838,992**
	¥1,326,138	**¥1,221,295**	**$ 9,692,817**

The following were pledged as security for short-term borrowings and long-term debt at March 31, 2001:

	In millions of yen	In thousands of U.S. dollars
Current notes and accounts receivable	¥ 941	$ 7,468
Marketable securities	7,047	55,929
Property, plant and equipment (net book value)	110,484	876,857

The 1.8% unsecured yen convertible debenture agreement stipulates, among other things, that (1) NEC Corporation 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 and (2) certain restrictions are placed on the payment of dividends. Under the agreement, NEC Corporation deposited, instead of the cash, marketable securities amounting to ¥71,244 million and ¥86,306 million ($684,968 thousand) at March 31, 2000 and 2001, respectively.

The agreement for the 1.9% unsecured yen convertible debentures due 2004 stipulates, among other things, that NEC Corporation 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. Under the agreement, NEC Corporation deposited, instead of the cash, marketable securities amounting to ¥49,709 million and ¥66,113 million ($524,706 thousand) at March 31, 2000 and 2001, respectively.

The sinking fund payments, adjusted for the conversions made to March 31, 2001, are as follows:

	Sinking fund payments		
		Amount of each payment	
Convertible debentures	Date	In millions of yen	In thousands of U.S. dollars
1.9%	March 31, 2002 and 2003	¥14,000	$111,111

At March 31, 2001, an aggregate of 208,730 thousand shares of common stock would have been issuable upon conversion of all convertible debt of NEC Corporation.

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 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, 2006 are as follows:

Year ending March 31	In millions of yen	In thousands of U.S. dollars
2002	¥245,713	$1,950,103
2003	224,704	1,783,365
2004	253,334	2,010,587
2005	183,408	1,455,619
2006	124,826	990,683

9. PENSION AND SEVERANCE PLANS

NEC Corporation and its 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 the current base 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.

NEC Corporation 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.

In fiscal 2000, NEC Corporation and certain subsidiaries in Japan made revisions to their pension and severance indemnity plans which reduced the benefit obligation. In addition, according to revisions of the Japanese Welfare Pension Insurance Law in March 2000, NEC Corporation and certain subsidiaries in Japan amended the governmental welfare pension benefit plan effective in March 2000 and 2001 which reduced the benefit obligation.

Most subsidiaries outside Japan have various retirement plans which are primarily defined contribution plans covering substantially all of their employees. 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 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	2000	**2001**	**2001**
Change in benefit obligations:			
Benefit obligations at beginning of year	¥1,107,788	**¥1,156,107**	**$ 9,175,452**
Service cost	51,940	**61,175**	**485,516**
Interest cost	44,312	**46,245**	**367,024**
Actuarial loss	57,502	**123,256**	**978,222**
Benefits paid	(52,097)	**(54,096)**	**(429,333)**
Plan amendments	(53,338)	**(52,069)**	**(413,246)**
Benefit obligations at end of year	1,156,107	**1,280,618**	**10,163,635**
Change in plan assets:(*1)			
Fair value of plan assets at beginning of year	665,152	**787,915**	**6,253,294**
Actual return (loss) on plan assets	96,592	**(69,061)**	**(548,103)**
Employer contributions	51,202	**67,262**	**533,825**
Benefits paid	(25,031)	**(26,545)**	**(210,675)**
Fair value of plan assets at end of year	787,915	**759,571**	**6,028,341**
Funded status	(368,192)	**(521,047)**	**(4,135,294)**
Unrecognized prior service cost and actuarial loss(*2)	135,747	**298,946**	**2,372,587**
Unrecognized net obligation at April 1, 1989 being recognized over 17 years	18,646	**15,599**	**123,802**
Net amounts recognized	¥ (213,799)	**¥ (206,502)**	**$ (1,638,905)**
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension and severance costs	¥ (261,301)	**¥ (400,333)**	**$ (3,177,246)**
Accumulated other comprehensive income, gross of tax	47,502	**193,831**	**1,538,341**
Net amounts recognized	¥ (213,799)	**¥ (206,502)**	**$ (1,638,905)**

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

*2 Unrecognized prior service cost and actuarial loss have been amortized on the straight-line method over the average remaining service period of employees expected to receive benefits under the plan.

The weighted-average assumptions used in the accounting for the plans at March 31, 2000 and 2001 are as follows:

March 31	2000	**2001**
Discount rate	4.0%	**3.5%**
Rate of increase in future compensation level	1.7% – 3.8%	**1.7% – 3.8%**
Expected long-term rate of return on plan assets	4.0%	**4.0%**

Components of net pension and severance cost for all defined benefit plans including both the Company's and the employees' contributory portion of such plans for the years ended March 31, 1999, 2000 and 2001 were as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Service cost	¥ 49,624	¥ 51,940	**¥ 61,175**	**$ 485,516**
Interest cost	39,958	44,312	**46,245**	**367,024**
Expected return on plan assets	(25,960)	(26,783)	**(31,617)**	**(250,929)**
Amortization of unrecognized prior service cost and actuarial loss	9,001	15,867	**8,666**	**68,778**
Amortization of unrecognized net obligation at April 1, 1989 being recognized over 17 years	3,047	3,047	**3,047**	**24,182**
Net pension and severance cost for all defined benefit plans	¥ 75,670	¥ 88,383	**¥ 87,516**	**$ 694,571**

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	1999	2000	**2001**	**2001**
Net pension and severance cost for all defined benefit plans	¥ 75,670	¥ 88,383	**¥ 87,516**	**$ 694,571**
Net pension cost for employees' portion of the contributory defined benefit pension plans	(16,516)	(19,053)	**(13,959)**	**(110,785)**
Pension and severance cost for defined contribution plans	2,198	2,307	**3,355**	**26,627**
Total cost for all defined benefit and defined contribution plans	¥ 61,352	¥ 71,637	**¥ 76,912**	**$ 610,413**

10. INCOME TAXES

Income (loss) before income taxes and provision (benefit) for income taxes comprise the following components:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Income (loss) before income taxes:				
NEC Corporation and domestic subsidiaries	¥(104,695)	¥120,198	**¥89,191**	**$707,865**
Foreign subsidiaries	(120,031)	(90,015)	**3,132**	**24,857**
	¥(224,726)	¥ 30,183	**¥92,323**	**$732,722**
Provision (benefit) for income taxes:				
Current:				
NEC Corporation and domestic subsidiaries	¥ 36,420	¥ 29,551	**¥48,480**	**$384,762**
Foreign subsidiaries	9,056	5,035	**10,291**	**81,675**
	45,476	34,586	**58,771**	**466,437**
Deferred:				
NEC Corporation and domestic subsidiaries	(113,440)	7,273	**6,755**	**53,611**
Foreign subsidiaries	(5,024)	(9,375)	**(9,218)**	**(73,159)**
	(118,464)	(2,102)	**(2,463)**	**(19,548)**
	¥ (72,988)	¥ 32,484	**¥56,308**	**$446,889**

The Company is subject to a number of different income taxes which, in the aggregate, result in normal statutory tax rates in Japan of approximately 47% for the year ended March 31, 1999, and 42% for the years ended March 31, 2000 and 2001. A reconciliation between the reported total income tax expense (benefit) and the amount computed by multiplying the income (loss) before income taxes by the applicable normal statutory tax rates is as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
"Expected" tax expense (benefit)	¥(105,621)	¥ 12,677	**¥38,776**	**$307,746**
Increase (decrease) in taxes resulting from:				
a) Tax benefit on prior losses of subsidiaries	(66,748)	(1,050)	**(5,417)**	**(42,992)**
b) Changes in valuation allowance	33,895	(11,844)	**2,562**	**20,333**
c) Non-deductible expense for tax purposes	3,378	2,337	**2,613**	**20,738**
d) International tax rate differences	9,866	9,206	**(452)**	**(3,587)**
e) Effect of change in normal statutory tax rate in Japan	23,326	–	**–**	**–**
f) Tax rate difference relating to unrecognized gain (loss) of marketable securities	(5,430)	6,694	**–**	**–**
g) Non-deductible goodwill amortization	19,458	8,648	**4,349**	**34,516**
h) Tax on undistributed earnings	(8,020)	8,141	**8,587**	**68,151**
i) Other	22,908	(2,325)	**5,290**	**41,984**
Actual total income tax expense (benefit)	¥ (72,988)	¥ 32,484	**¥56,308**	**$446,889**

The significant components of deferred tax assets and liabilities at March 31, 2000 and 2001 are as follows:

	In millions of yen		In thousands of U.S. dollars
March 31	2000	**2001**	**2001**
Deferred tax assets:			
Intercompany profit between consolidated companies	¥ 20,268	**¥ 29,892**	**$ 237,238**
Investments and advances	59,266	**67,853**	**538,516**
Accrued bonus	20,619	**30,642**	**243,190**
Accrued pension and severance costs	61,140	**121,124**	**961,302**
Operating lease	33,168	**29,236**	**232,032**
Operating loss carryforwards	154,334	**103,631**	**822,468**
Other	61,302	**70,850**	**562,302**
	410,097	**453,228**	**3,597,048**
Less — Valuation allowance	43,880	**36,683**	**291,135**
Total	¥366,217	**¥416,545**	**$3,305,913**
Deferred tax liabilities:			
Marketable securities	¥ 87,133	**¥ 38,084**	**$ 302,254**
Tax deductible reserve	53,245	**45,337**	**359,817**
Tax on undistributed earnings	12,462	**19,932**	**158,191**
Other	11,550	**10,568**	**83,873**
Total	¥164,390	**¥113,921**	**$ 904,135**

In Japan, consolidated tax returns are not permitted; accordingly, 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, 1999, 2000 and 2001 were an increase of ¥10,019 million, a decrease of ¥31,297 million and a decrease of ¥7,197 million ($57,119 thousand), respectively. Of the change in the valuation allowance, the amounts attributable to the release of the beginning of the year balance for the years ended March 31, 1999, 2000 and 2001 were ¥6,542 million, ¥31,228 million and ¥2,077 million ($16,484 thousand), respectively.

At March 31, 2001, for tax return purposes the Company had operating loss carryforwards amounting to approximately ¥270,303 million ($2,145,262 thousand) of which ¥168,440 million ($1,336,825 thousand) relates to domestic companies and will expire during the period from 2002 through 2006. The remainder of approximately ¥101,863 million ($808,437 thousand) relates to foreign subsidiaries and, except for approximately ¥77,000 million ($611,111 thousand) with no expiration date, will expire primarily through 2007.

Realization is dependent on the Company generating sufficient taxable income prior to expiration of the operating loss carryforwards or the Company executing certain available tax strategies. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized.

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	1999	2000	**2001**	**2001**
Common stock:				
Balance at beginning of year	¥216,053	¥230,212	**¥ 231,137**	**$ 1,834,421**
Conversion of convertible debt	14,159	925	**13,580**	**107,777**
Balance at end of year	¥230,212	¥231,137	**¥ 244,717**	**$ 1,942,198**
Additional paid-in capital:				
Balance at beginning of year	¥330,931	¥345,642	**¥ 348,234**	**$ 2,763,762**
Conversion of convertible debt	14,711	803	**13,579**	**107,770**
Change in interest in consolidated subsidiaries	–	1,780	**–**	**–**
Gain on sale of treasury stock	–	9	**–**	**–**
Balance at end of year	¥345,642	¥348,234	**¥ 361,813**	**$ 2,871,532**
Legal reserve:				
Balance at beginning of year	¥ 34,081	¥ 35,652	**¥ 36,922**	**$ 293,032**
Transfer from retained earnings	1,571	1,270	**2,124**	**16,857**
Balance at end of year	¥ 35,652	¥ 36,922	**¥ 39,046**	**$ 309,889**
Accumulated other comprehensive income (loss):				
Balance at beginning of year	¥ 96,964	¥ 2,595	**¥ 48,005**	**$ 380,992**
Other comprehensive income (loss), net of tax	(94,369)	45,410	**(126,608)**	**(1,004,825)**
Balance at end of year	¥ 2,595	¥ 48,005	**¥ (78,603)**	**$ (623,833)**
Treasury stock, at cost:				
Balance at beginning of year	¥ (8)	¥ (18)	**¥ (83)**	**$ (659)**
Net change resulting from purchase and sales of fractional shares of less than "One Unit" as defined by the Japanese Commercial Code	(10)	(65)	**70**	**555**
Purchase of shares for stock option plan	–	–	**(957)**	**(7,595)**
Balance at end of year	¥ (18)	¥ (83)	**¥ (970)**	**$ (7,699)**

(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, 1999, 2000 and 2001 were 28,928,256 shares, 1,798,430 shares and 27,439,595 shares, respectively.

Prior to 1985, NEC Corporation 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 NEC Corporation 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% of cash dividends and other distributions from retained earnings paid by NEC Corporation and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriation is required when the legal reserve equals 25% of their respective stated capital.

The amount of retained earnings available for dividends is based on NEC Corporation'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, 2001, as incorporated in the accompanying consolidated financial statements, include year-end dividends of ¥9,108 million ($72,286 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 21, 2001 and will be recorded in the statutory books of account on that date.

Retained earnings at March 31, 2001 include the Company's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥125,276 million ($994,254 thousand).

(3) Other comprehensive income (loss)

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

Year ended March 31	In millions of yen 1999	2000	**2001**	In thousands of U.S. dollars **2001**
Foreign currency translation adjustments:				
Balance at beginning of year	¥ 12,862	¥ (1,648)	**¥ (25,981)**	**$ (206,198)**
Change in the current period	(14,510)	(24,333)	**19,127**	**151,802**
Balance at end of year	¥ (1,648)	¥ (25,981)	**¥ (6,854)**	**$ (54,396)**
Minimum pension liability adjustment:				
Balance at beginning of year	¥ –	¥ (55,794)	**¥ (27,551)**	**$ (218,659)**
Change in the current period	(55,794)	28,243	**(84,871)**	**(673,579)**
Balance at end of year	¥(55,794)	¥ (27,551)	**¥(112,422)**	**$ (892,238)**
Unrealized gains (losses) on marketable securities:				
Balance at beginning of year	¥ 84,102	¥ 60,037	**¥ 101,537**	**$ 805,849**
Change in the current period	(24,065)	41,500	**(60,864)**	**(483,048)**
Balance at end of year	¥ 60,037	¥101,537	**¥ 40,673**	**$ 322,801**
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	¥ 96,964	¥ 2,595	**¥ 48,005**	**$ 380,992**
Change in the current period	(94,369)	45,410	**(126,608)**	**(1,004,825)**
Balance at end of year	¥ 2,595	¥ 48,005	**¥ (78,603)**	**$ (623,833)**

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

Year ended March 31	In millions of yen Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
1999:			
Foreign currency translation adjustments	¥ (14,510)	¥ –	¥ (14,510)
Minimum pension liability adjustment	(96,197)	40,403	(55,794)
Unrealized gains (losses) on marketable securities:			
Unrealized holding losses arising during period	(56,744)	26,496	(30,248)
Less: reclassification adjustments for losses realized in net income	11,083	(4,900)	6,183
Other comprehensive income (loss)	¥ (156,368)	¥ 61,999	¥ (94,369)
2000:			
Foreign currency translation adjustments	¥ (24,333)	¥ –	¥ (24,333)
Minimum pension liability adjustment	48,695	(20,452)	28,243
Unrealized gains (losses) on marketable securities:			
Unrealized holding gains arising during period	156,825	(65,019)	91,806
Less: reclassification adjustments for gains realized in net income	(98,194)	47,888	(50,306)
Other comprehensive income (loss)	¥ 82,993	¥ (37,583)	¥ 45,410
2001:			
Foreign currency translation adjustments	**¥ 19,127**	**¥ –**	**¥ 19,127**
Minimum pension liability adjustment	**(146,329)**	**61,458**	**(84,871)**
Unrealized gains (losses) on marketable securities:			
Unrealized holding losses arising during period	**(100,977)**	**38,851**	**(62,126)**
Less: reclassification adjustments for losses realized in net income	**2,175**	**(913)**	**1,262**
Other comprehensive income (loss)	**¥(226,004)**	**¥ 99,396**	**¥(126,608)**

Year ended March 31	In thousands of U.S. dollars Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2001:			
Foreign currency translation adjustments	**$ 151,802**	**$ –**	**$ 151,802**
Minimum pension liability adjustment	**(1,161,341)**	**487,762**	**(673,579)**
Unrealized gains (losses) on marketable securities:			
Unrealized holding losses arising during period	**(801,405)**	**308,341**	**(493,064)**
Less: reclassification adjustments for losses realized in net income	**17,262**	**(7,246)**	**10,016**
Other comprehensive income (loss)	**$(1,793,682)**	**$788,857**	**$(1,004,825)**

12. STOCK-BASED COMPENSATION PLAN

At the shareholders' meeting held in June 2000, the Company's shareholders approved a stock option plan (the "Plan") for directors, corporate officers and certain upper-level employees of NEC Corporation. Under the Plan, NEC Corporation was to purchase no more than 320,000 shares in the market with an aggregate price not exceeding ¥1,200 million ($9,524 thousand), and will hold and reserve such shares for transfer to option holders upon exercise of the options.

NEC Corporation granted options to purchase 301,000 shares of its common stock at ¥3,400 per share ($26.98 per share), the approximate market value at the date of grant. The terms of the options are subject to adjustment if there is a share split or consolidation of shares, or in certain circumstances, if new shares are issued at a price less than the current quoted market price.

The options vested at the grant date, and are exercisable during the period from July 1, 2002 to June 30, 2006. The Plan provides that options lapse automatically upon the option holder's death and generally expire one year after termination of service.

The stock option activity is as follows:

	2001		
		Weighted-average exercise price	
Year ended March 31	Number of options	Yen	U.S. dollars
Outstanding at beginning of year	–	¥ –	$ –
Granted	**301,000**	**3,400**	**26.98**
Outstanding at end of year	**301,000**	**3,400**	**26.98**
Exercisable at end of year	–	–	–

The weighted-average remaining contractual life for options outstanding at March 31, 2001 is 5.25 years.

SFAS No. 123, *Accounting for Stock-Based Compensation*, encourages entities to use a fair value method in accounting for stock based compensation plans, but permits entities to continue to use the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 ("APB No. 25"), *Accounting for Stock Issued to Employees*, for employee stock options. Companies electing to use APB No. 25 are required to present pro forma disclosures of net income and net income per share as if the SFAS No. 123 fair value method had been used.

The Company has elected to apply APB No. 25 under which the Company recognizes no compensation expense as long as the option price per share is at least equal to the market price at the measurement date. Had the Company recognized stock-based compensation expense based on the SFAS No. 123 fair value method, net income and net income per share for the year ended March 31, 2001 would have been as follows:

	In millions of yen	In thousands of U.S. dollars
Net income:		
As reported	**¥56,603**	**$449,230**
Pro forma	**56,305**	**446,865**

	Yen	U.S. dollars
Basic EPS:		
As reported	**¥34.55**	**$0.27**
Pro forma	**34.37**	**0.27**
Diluted EPS:		
As reported	**¥32.17**	**$0.26**
Pro forma	**32.01**	**0.25**

The weighted-average fair value per option at the grant date for options granted during the year ended March 31, 2001 was ¥991 ($7.87). The fair value of options granted, which is charged to income at the grant date in determining the pro forma impact, is estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

March 31	2001
Risk-free interest rate	**1.00%**
Expected life	**4 years**
Expected volatility	**36.40%**
Expected dividend	**0.27%**

13. NET INCOME (LOSS) PER SHARE

A reconciliation of the numerator and the denominators of the basic and diluted per share computations for net income (loss) is as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Net income (loss) available to common shareholders . .	¥(151,261)	¥10,416	**¥56,603**	**$449,230**
Effect of dilutive securities:				
Convertible debt	–	–	**2,995**	**23,770**
Diluted net income (loss)	¥(151,261)	¥10,416	**¥59,598**	**$473,000**

	Number of shares		
Year ended March 31	1999	2000	**2001**
Weighted-average number of shares of common stock outstanding for the year	1,600,876,070	1,627,817,355	**1,638,173,139**
Effect of dilutive securities:			
Convertible debt	–	–	**214,656,268**
Weighted-average number of shares of diluted common stock outstanding for the year	1,600,876,070	1,627,817,355	**1,852,829,407**

	Yen			U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Net income (loss) per share:				
Basic	¥(94.49)	¥6.40	**¥34.55**	**$0.27**
Diluted	(94.49)	6.40	**32.17**	**0.26**

The following convertible debt and stock options were not included in the diluted net income (loss) per share calculation because such items would have been antidilutive:

	Number of shares		
Year ended March 31	1999	2000	**2001**
Convertible debt.	240,207,041	205,924,498	**–**
Stock options	–	–	**301,000**

14. FINANCIAL INSTRUMENTS

(1) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, notes and accounts receivable, trade, notes and accounts payable, trade, short-term borrowings, accounts payable, other and accrued expenses, accrued income taxes 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	
	2000		**2001**		**2001**	
March 31	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Long-term receivables, trade . .	¥ 53,018	¥ 54,081	**¥ 49,855**	**¥ 50,639**	**$ 395,675**	**$ 401,897**
Long-term loans	22,088	22,182	**34,591**	**34,838**	**274,532**	**276,492**
Long-term debt, including current portion and excluding capital lease obligations	(1,532,147)	(1,798,325)	**(1,407,927)**	**(1,551,636)**	**(11,174,023)**	**(12,314,571)**
Derivatives:						
Forward exchange contracts	213	330	**(15,937)**	**(15,903)**	**(126,484)**	**(126,214)**
Interest rate and currency swap agreements	5,975	(4,585)	**(14,228)**	**(21,688)**	**(112,921)**	**(172,127)**
Option contracts:						
Purchased	127	52	**–**	**–**	**–**	**–**

The fair values of financial instruments at Mach 31, 2000 and 2001 are determined by using a variety of methods and assumptions such as reference to various markets and other data as appropriate. For long-term receivables, trade and long-term loans included in investments and advances-other, fair value is estimated using estimated discounted 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. Investments in equity securities, included in investments and advances-other, with an aggregate carrying amount of ¥162,475 million and ¥119,373 million ($947,404 thousand) at March 31, 2000 and 2001, respectively, consist of numerous investments in securities of non-public companies. It is not practicable to reasonably estimate the fair values of these investments. The fair value of forward exchange contracts is estimated by obtaining quotes for futures contracts with similar maturities, the fair value of interest rate and currency swap agreements is estimated based on estimated discounted net future cash flows, and the fair value of option contracts is estimated using pricing models based upon current market interest and foreign exchange rates and volatilities.

(2) Derivative financial instruments

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. At March 31, 2000, the Company had outstanding forward exchange contracts which mature through March 2001 to purchase the equivalent of ¥59,543 million, principally U.S. dollars, and to sell the equivalent of ¥175,334 million, principally U.S. dollars and Euros. At March 31, 2001, the Company had outstanding forward exchange contracts which mainly mature through March 2002 to purchase the equivalent of ¥85,337 million ($677,278 thousand), principally U.S. dollars, and to sell the equivalent of ¥146,082 million ($1,159,381 thousand), principally U.S. dollars and Euros.

The interest rate swap agreements are basically integrated with underlying debt obligations and designed to convert fixed rate debt into floating rate debt, or vice versa, and interest rate option contracts are also arranged so that exposures to losses resulting from fluctuations in interest rates are managed. Currency swap agreements and option contracts 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 ¥585,846 million and ¥516,543 million ($4,099,548 thousand) at March 31, 2000 and 2001, respectively. These agreements mature through 2009. The notional principal amounts of purchased interest rate option contracts were ¥14,548 million at March 31, 2000. These contracts were settled in fiscal 2001.

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.

15. SECURITIZATION OF RECEIVABLES

The Company has several revolving securitization programs under which certain trade receivables are transferred, without recourse, to a special purpose entity ("SPE"). Simultaneously, the SPE sells an interest in those receivables to a large financial institution. In certain securitizations, the Company has retained subordinated interests which are not material to the Company's financial position. Credit losses related to the securitized trade receivables have been immaterial.

The Company services, administers and collects the securitized trade receivables on behalf of the SPE. For the years ended March 31, 1999, 2000 and 2001, ¥540,987 million, ¥1,065,845 million and ¥1,255,087 million ($9,961,008 thousand) in proceeds have been received under the securitization programs. For the years ended March 31, 1999, 2000 and 2001, the Company has recorded losses of ¥387 million, ¥399 million and ¥692 million ($5,492 thousand) related to the securitization programs.

16. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses approximated ¥346,215 million, ¥315,163 million and ¥344,957 million ($2,737,754 thousand) for the years ended March 31, 1999, 2000 and 2001, respectively.

17. ADVERTISING COSTS

The Company expenses advertising costs as incurred. Advertising expenses amounted to ¥34,766 million, ¥31,774 million and ¥20,703 million ($164,310 thousand) for the years ended March 31, 1999, 2000 and 2001, respectively.

18. INITIAL PUBLIC OFFERING BY SUBSIDIARIES

NEC Soft, Ltd. ("NES"), a consolidated subsidiary which develops software, sold 2,800,000 shares of stock at ¥7,107 per share ($56.40 per share) to third parties in a public offering on July 28, 2000, receiving total consideration of ¥19,900 million ($157,937 thousand). At the same time, the Company sold 2,800,000 shares of NES's stock to third parties at the same price through the market, and recognized a gain of ¥17,399 million ($138,087 thousand) on this transaction. As a result of NES's public offering, the Company's ownership interest in NES decreased from 95.34% to 67.41%. However, because the issuance price per share for stock sold by NES was more than the Company's average carrying amount per share, the Company was required to adjust the carrying amount of its investment in NES by ¥12,990 million ($103,095 thousand) and recognized a gain for that amount. The Company provided a deferred tax liability of ¥5,456 million ($43,301 thousand) on such gain.

NEC Machinery Corporation ("NEM"), a consolidated subsidiary which manufactures and markets semiconductor manufacturing machinery and factory automation systems, sold 1,000,000 shares of stock at ¥4,735 per share ($37.58 per share) to third parties in a public offering on October 6, 2000, receiving total consideration of ¥4,735 million ($37,579 thousand). At the same time, the Company sold 2,000,000 shares of NEM's stock to third parties at the same price through the market, and recognized a gain of ¥8,635 million ($68,532 thousand) on this transaction. As a result of NEM's public offering, the Company's ownership interest in NEM decreased from 90.90% to 53.91 %. However, because the issuance price per share for stock sold by NEM was more than the Company's average carrying amount per share, the Company was required to adjust the carrying amount of its investment in NEM by ¥2,300 million ($18,254 thousand) and recognized a gain for that amount. The Company provided a deferred tax liability of ¥966 million ($7,667 thousand) on such gain.

19. OTHER INCOME AND EXPENSES

The principal components of other income and expenses for the years ended March 31, 1999, 2000 and 2001 were as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Interest, gain on securities sold, dividends and other:				
Interest and dividend income	¥ 21,542	¥ 14,255	**¥ 20,786**	**$ 164,968**
Gain on sale of investments in securities	12,887	112,446	**57,928**	**459,746**
Gain on sale of property, plant and equipment	–	45,329	**34,289**	**272,135**
Other	21,950	46,414	**27,059**	**214,754**
	¥ 56,379	¥218,444	**¥140,062**	**$1,111,603**
Other expenses:				
Net foreign exchange loss	¥ 21,040	¥ 34,398	**¥ 9,537**	**$ 75,690**
Restructuring and other unusual charges	129,916	148,022	**136,187**	**1,080,849**
Amortization of goodwill	8,111	5,517	**6,330**	**50,238**
Loss on sale or disposal of property, plant and equipment	3,991	21,080	**20,466**	**162,429**
Other	54,021	19,447	**37,853**	**300,421**
	¥217,079	¥228,464	**¥210,373**	**$1,669,627**

Restructuring and other unusual charges principally consisted of restructuring charges, refund of the amount overcharged in connection with the Defense Agency and the Defense Facilities Administration Agency of Japan, and write-offs of investments in securities.

The Company closed its consumer PC business in North America in fiscal 2000, and completed restructuring of its consumer electronics appliances business in fiscal 2001. As a result, the Company recorded restructuring charges which principally consisted of write-off or disposal of inventories, machinery and equipment and other assets and personnel related costs. All disbursements relating to the restructuring charges have been completed in the respective fiscal years.

20. 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 Untied States of America. The Company did not restate prior periods because the effect on earnings of applying the new accounting practice was not material. Loss before income taxes was increased by ¥9,027 million for the year ended March 31, 1999 compared to loss that would have been reported if the Company had previously followed the new accounting practice.

At March 31, 2000 and 2001, the Company invested in computer equipment to be leased to others, amounting to ¥59,301 million less accumulated depreciation of ¥40,104 million and ¥53,308 million ($423,079 thousand) less accumulated depreciation of ¥40,311 million ($319,929 thousand), respectively. Future minimum lease payments from noncancelable leases at March 31, 2001 are ¥4,469 million ($35,468 thousand) and ¥463 million ($3,675 thousand) for the years ending March 31, 2002 and 2003, respectively.

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

The Company leases certain facilities and equipment for its own use. The gross amount of leased assets under capital leases included in machinery and equipment was ¥122,253 million and ¥100,897 million ($800,770 thousand) at March 31, 2000 and 2001, respectively. Accumulated depreciation of the leased assets at March 31, 2000 and 2001 was ¥78,007 million and ¥61,599 million ($488,881 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, 2001:

Year ending March 31	In millions of yen	In thousands of U.S. dollars
2002	¥19,933	$158,199
2003	12,175	96,627
2004	7,664	60,825
2005	5,547	44,024
2006	2,122	16,841
2007 and thereafter	807	6,405
Total minimum lease payments	48,248	382,921
Less — Amount representing interest	3,167	25,135
Present value of net minimum lease payments	45,081	357,786
Less — Current obligation	18,613	147,723
Long-term lease obligation	¥26,468	$210,063

During the year ended March 31, 2000, the Company sold certain land, buildings, facilities and equipment for ¥176,057 million. The assets were leased back from the purchaser over periods of one to four years. The resulting leases were classified as operating leases and the resulting gain of ¥43,787 million, relating to the profit on the sale in excess of the present value of the minimum lease payments over the lease terms, was recorded as other income, and a deferred gain of ¥21,124 million is being amortized over the lease terms.

Rental expense under operating leases, including the assets subject to sale-leaseback transactions discussed above, were as follows:

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Rental expense under operating leases	¥118,584	¥121,510	**¥138,655**	**$1,100,437**

Future minimum rental payments are as follows:

Year ending March 31	In millions of yen	In thousands of U.S. dollars
2002	¥32,354	$256,778
2003	26,580	210,952
2004	25,458	202,048
2005	15,320	121,587
2006	9,900	78,572
2007 and thereafter	15,146	120,206

21. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments outstanding at March 31, 2001 for the purchase of property, plant and equipment approximated ¥33,739 million ($267,770 thousand).

Contingent liabilities at March 31, 2001 for loans guaranteed and other guarantees amounted to approximately ¥117,722 million ($934,302 thousand) and ¥9,485 million ($75,278 thousand), respectively. Loans guaranteed at March 31, 2001 included loans guaranteed for affiliated companies of ¥29,648 million ($235,302 thousand) and for employees of ¥ 45,967 million ($364,817 thousand). The terms of guarantees generally range from 1 to 23 years. In the opinion of management, the risk of loss related to these contingencies at March 31, 2001 is not material to the Company's financial position.

22. SEGMENT INFORMATION

(1) Operating segments

The following information represents the operating segments of the Company, for which separate financial information is available and is reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance periodically. "NEC Solutions" provides Internet solutions to corporations, individuals and government/public sectors, and develops, designs, manufactures and markets mainframe computers called "ACOS series," PC servers, PCs, workstations and software products. "NEC Networks" provides Internet solutions to network operators, and develops, designs, manufactures and markets mobile communication systems, transmission systems, switching systems and microwave communications systems. "NEC Electron Devices" provides electron device solutions for the Internet industry, and develops, designs, manufactures, and markets DRAMs, microcomputers, ASICs, transistors, LCDs and capacitors. "Others" consists of operations producing monitors, LCD projectors, electronic measuring and testing instruments, and electronic appliances.

a. Sales

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Sales:				
NEC Solutions:				
External customers	¥1,915,682	¥2,138,161	**¥2,103,031**	**$16,690,723**
Intersegment	120,971	132,464	**125,441**	**995,563**
Total	2,036,653	2,270,625	**2,228,472**	**17,686,286**
NEC Networks:				
External customers	1,458,612	1,422,302	**1,743,054**	**13,833,762**
Intersegment	123,557	105,456	**91,308**	**724,667**
Total	1,582,169	1,527,758	**1,834,362**	**14,558,429**
NEC Electron Devices:				
External customers	830,434	881,895	**1,021,746**	**8,109,095**
Intersegment	214,450	240,895	**207,147**	**1,644,024**
Total	1,044,884	1,122,790	**1,228,893**	**9,753,119**
Others:				
External customers	554,684	549,089	**541,905**	**4,300,833**
Intersegment	166,859	174,822	**200,527**	**1,591,484**
Total	721,543	723,911	**742,432**	**5,892,317**
Eliminations	(625,837)	(653,637)	**(624,423)**	**(4,955,738)**
Consolidated total	¥4,759,412	¥4,991,447	**¥5,409,736**	**$42,934,413**

b. Segment profit or loss

Year ended March 31	In millions of yen 1999	2000	**2001**	In thousands of U.S. dollars **2001**
Segment profit (loss):				
NEC Solutions	¥ 47,325	¥ 84,430	**¥ 84,055**	**$ 667,103**
NEC Networks	81,023	57,110	**83,144**	**659,873**
NEC Electron Devices	(54,450)	49,444	**68,290**	**541,984**
Others	(9,444)	(2,747)	**20,249**	**160,707**
Total	64,454	188,237	**255,738**	**2,029,667**
Eliminations	573	(17,640)	**(16,852)**	**(133,746)**
Unallocated corporate expenses	(61,888)	(60,183)	**(53,703)**	**(426,214)**
	3,139	110,414	**185,183**	**1,469,707**
Other income	56,379	218,444	**181,386**	**1,439,571**
Other expenses	(284,244)	(298,675)	**(274,246)**	**(2,176,556)**
Consolidated income (loss) before income taxes	¥(224,726)	¥ 30,183	**¥ 92,323**	**$ 732,722**

c. Assets

March 31	In millions of yen 1999	2000	**2001**	In thousands of U.S. dollars **2001**
Total assets:				
NEC Solutions	¥1,211,188	¥1,023,039	**¥1,070,999**	**$ 8,499,992**
NEC Networks	984,514	1,071,050	**1,326,517**	**10,527,913**
NEC Electron Devices	1,204,262	1,171,940	**1,222,183**	**9,699,865**
Others	1,141,818	758,059	**759,007**	**6,023,865**
Total	4,541,782	4,024,088	**4,378,706**	**34,751,635**
Eliminations	(244,309)	(222,528)	**(290,862)**	**(2,308,429)**
Corporate assets	748,461	807,404	**735,780**	**5,839,524**
Consolidated total	¥5,045,934	¥4,608,964	**¥4,823,624**	**$38,282,730**

d. Other significant items

Year ended March 31	In millions of yen 1999	2000	**2001**	In thousands of U.S. dollars **2001**
Depreciation:				
NEC Solutions	¥ 37,233	¥ 31,119	**¥ 29,363**	**$ 233,040**
NEC Networks	30,944	32,770	**31,859**	**252,849**
NEC Electron Devices	192,868	153,559	**151,867**	**1,205,294**
Others	24,169	23,561	**17,859**	**141,738**
Total	285,214	241,009	**230,948**	**1,832,921**
Corporate	21,228	19,933	**19,190**	**152,301**
Consolidated total	¥306,442	¥260,942	**¥250,138**	**$1,985,222**
Capital expenditures for segment assets:				
NEC Solutions	¥ 37,136	¥ 31,662	**¥ 26,947**	**$ 213,865**
NEC Networks	32,337	32,955	**44,882**	**356,206**
NEC Electron Devices	124,073	171,857	**239,536**	**1,901,079**
Others	34,385	17,713	**20,058**	**159,191**
Total	227,931	254,187	**331,423**	**2,630,341**
Corporate	25,692	27,452	**15,068**	**119,588**
Consolidated total	¥253,623	¥281,639	**¥346,491**	**$2,749,929**

Transfers between reportable operating segments are made at arm's-length prices. Corporate expenses include general corporate expenses and research and development expenses at NEC Corporation which are not allocated to any operating segment. Corporate assets consist primarily of cash and cash equivalents and buildings maintained for general corporate purposes. The capital expenditures represent the additions to fixed assets of each segment.

(2) Geographic information

Sales, which are attributed to geographic areas based on the country location of NEC Corporation or its subsidiaries that transacted the sale with the external customers, geographic profit (loss) for the years ended March 31, 1999, 2000 and 2001 and long-lived assets at March 31, 1999, 2000 and 2001 were as follows. Although the disclosure of geographic profit (loss) is not required under accounting principles generally accepted in the United States of America, the Company discloses this information as supplemental information due to the disclosure requirements of the Japanese Securities and Exchange Law.

	In millions of yen			In thousands of U.S. dollars
Year ended March 31	1999	2000	**2001**	**2001**
Net sales:				
Japan	¥3,662,123	¥3,745,910	**¥4,308,152**	**$34,191,683**
North America	519,134	521,684	**379,569**	**3,012,452**
Others	578,155	723,853	**722,015**	**5,730,278**
Total	¥4,759,412	¥4,991,447	**¥5,409,736**	**$42,934,413**
Geographic profit (loss):				
Japan	¥ 54,732	¥ 120,141	**¥ 170,094**	**$ 1,349,953**
North America	(37,730)	(13,705)	**(2,904)**	**(23,048)**
Others	(12,168)	4,774	**17,993**	**142,802**
Eliminations	(1,695)	(796)	**–**	**–**
Total	¥ 3,139	¥ 110,414	**¥ 185,183**	**$ 1,469,707**

	In millions of yen			In thousands of U.S. dollars
March 31	1999	2000	**2001**	**2001**
Long-lived assets:				
Japan	¥1,356,772	¥1,213,264	**¥1,203,522**	**$ 9,551,762**
North America	101,631	65,023	**77,167**	**612,436**
Others	150,030	126,628	**128,541**	**1,020,167**
Total	¥1,608,433	¥1,404,915	**¥1,409,230**	**$11,184,365**

There are not any individually material countries with respect to the sales and long-lived assets included in other areas. Transfers between geographic segments are made at arm's-length prices.

(3) Major customers

Sales to one customer accounted for approximately 10.6%, 11.6% and 13.2% of consolidated sales for the years ended March 31, 1999, 2000 and 2001, respectively, principally in the NEC Networks and NEC Solutions segments.

23. SUBSEQUENT EVENTS

Subsequent to March 31, 2001, the Company reorganized the ownership structure of certain affiliated companies and subsidiaries which provide general facility services. As a result of such reorganization, the Company attained a controlling ownership interest in a leasing company formerly accounted for by the equity method, and it became a consolidated subsidiary effective April 1, 2001.

REPORT OF INDEPENDENT AUDITORS

ERNST & YOUNG

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Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

Phone: 03 3503-1191
Fax: 03 3503-1277

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

We have audited the accompanying consolidated balance sheet of NEC Corporation (the "Company") as of March 31, 2001, and the related consolidated statements of operations, comprehensive income (loss) and retained earnings and cash flows for the year then ended, all expressed in Japanese 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 audit. The consolidated balance sheet of NEC Corporation as of March 31, 2000 and the related consolidated statements of operations, comprehensive income (loss) and retained earnings and cash flows for each of the two years in the period ended March 31, 2000, were audited by other auditors whose report dated May 11, 2000 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the fiscal 2001 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NEC Corporation at March 31, 2001, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2001 the Company changed its method of accounting for the sale of stock by a subsidiary.

We have also reviewed the translation of the financial statements mentioned above into United States dollars on the basis described in Note 3. In our opinion, such statements have been translated on such basis.

Ernst & Young

April 25, 2001

DIRECTORS, CORPORATE AUDITORS AND CORPORATE OFFICERS

(As of June 21, 2001)

DIRECTORS AND CORPORATE AUDITORS

Directors

Chairman of the Board
Hajime Sasaki

President
Koji Nishigaki

Senior Executive Vice President
Masato Chiba

Senior Executive Vice President
Mineo Sugiyama

Executive Vice President
Eiichi Yoshikawa

Executive Vice President
Shigeo Matsumoto

Executive Vice President
Kanji Sugihara

Executive Vice President
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Senior Vice President
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Senior Vice President
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Senior Vice President
Norio Saito

Senior Vice President
Kaoru Yano

Senior Vice President
Toshiro Kawamura

Senior Vice President
Makoto Maruyama

Toshio Morikawa
Advisor,
Sumitomo Mitsui Banking Corporation

Koichi Kimura
Special Advisor,
Daiwa Institute of Research Ltd.

Corporate Auditors

Tatsuo Sakairi

Kenji Usui

Koichi Yoshida
President,
Sumitomo Life Insurance Company

Tsuneo Kabe
Attorney at Law,
Ishizawa, Kô & Sato

CORPORATE OFFICERS

Corporate Headquarters

Chairman of the Board
Hajime Sasaki*

President
Koji Nishigaki*

Senior Executive Vice President
Masato Chiba*

Executive Vice Presidents
Eiichi Yoshikawa*
Shigeo Matsumoto*
Iwao Shinohara

Senior Vice Presidents
Yoshio Omori*
Norio Saito*
Makoto Maruyama*
Yukio Doi
Masakatsu Miwa

Associate Senior Vice Presidents
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Shunichi Suzuki
Hideki Teranishi
Hisatsune Watanabe
Yasuo Matoi

NEC Solutions

Company President
Akinobu Kanasugi*

Company Deputy Presidents
Kaoru Tosaka*
Toshiro Kawamura*

Senior Vice Presidents
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Yasushi Kaito
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Katsuichi Tomita

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Yoshiaki Tsuda
Konosuke Kashima
Kenji Yoshiyama
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Iwao Fuchigami
Tadao Kondo

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Company Deputy Presidents
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Associate Senior Vice Presidents
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Hirofumi Okuyama
Masao Hibino
Kazunori Kiuchi
Toshiyuki Takenaka
Kanehiro Kubota
Tsutomu Nakamura
Botaro Hirosaki
Masahiko Yamamoto
Naotake Takatsukasa

NEC Electron Devices

Company President
Kanji Sugihara*

Company Deputy President
Keiichi Shimakura

Senior Vice Presidents
Toshiki Inazumi
Kyoji Yamamoto
Tsuneo Kawaguchi

Associate Senior Vice Presidents
Haruo Akiyama
Koichiro Inoue
Masato Sakata
Toshio Nakamura
Sadayuki Kishi
Hirokazu Hashimoto

* indicates Directors

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 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)
http://www.adrbny.com
Ratio: 1 ADR=1 ordinary share
(effective on May 25, 2001)

Sponsoring Bank for Global Bearer Certificate (GBC)

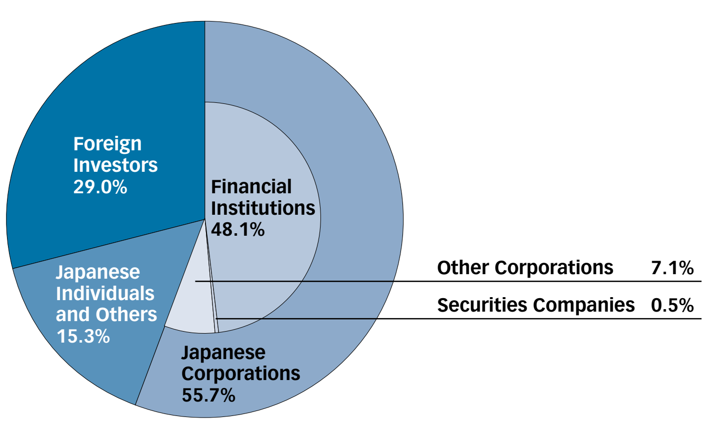
Deutsche Bank A.G.
Taunusanlage 12, 60325 Frankfurt am Main,
Germany

Depositary Agent for Swiss Bearer Depositary Receipts (SBDRs)

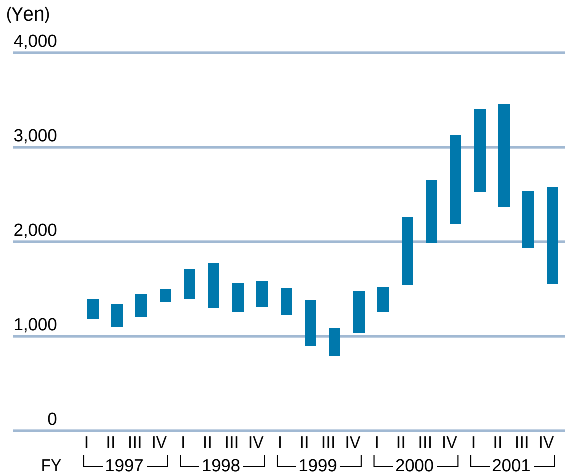
UBS AG
P.O. Box 8098, Zurich, Switzerland

Composition of Shareholders

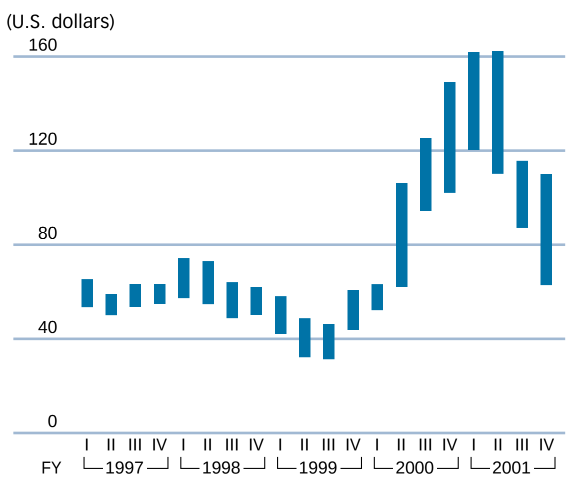
(As of March 31, 2001)



Stock Price Range on the Tokyo Stock Exchange



ADR (NASDAQ) Price Range



NEC FACTS
(As of March 31, 2001)

FACILITIES

JAPAN

Consolidated Subsidiaries
The Company has 89 consolidated subsidiaries throughout Japan.

Manufacturing Plants
The Company has five major plants in or near Tokyo, and its consolidated subsidiaries maintain 53 plants throughout Japan.

Marketing Network
The Company and its consolidated subsidiaries have approximately 330 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 75 consolidated subsidiaries in 25 countries.

Manufacturing Plants
The Company's 66 majority-owned manufacturing subsidiaries and affiliates (in which it has ownership interests of 20% to 50%) operate a total of 61 plants in 21 countries.

Marketing Network
The Company has 154* 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 47 manufacturing subsidiaries and affiliates

MAJOR CONSOLIDATED SUBSIDIARIES

JAPAN

NEC Kansai, Ltd.
NEC Personal Systems, Ltd.
NEC Fielding, Ltd.
NEC Kyushu, Ltd.
NEC Yonezawa, Ltd.
NEC Shizuoka, Ltd.
NEC Tohoku, Ltd.
NEC Logistics, Ltd.
NEC Saitama, Ltd.
NEC Gunma, Ltd.
NEC Systems Integration & Construction, Ltd.
Japan Aviation Electronics Industry, Limited
NEC Soft, Ltd.
Nippon Avionics Co., Ltd.
NEC Machinery Corporation

OVERSEAS

NEC Electronics Inc. (U.S.A.)
NEC America, Inc. (U.S.A.)
NEC Computers International B.V. (Netherlands)

NEC Corporation

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