

# **Financial Results for 1H FY06/3 (First Half of Fiscal Year Ending March 2006)**

**October 27, 2005**

**NEC Corporation**

**(<http://www.nec.co.jp/ir/en/>)**

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(Note)

(1) "Operating income (loss)" set forth above is a measure commonly used by other Japanese companies that report their financial results in accordance with generally accepted financial reporting practices in Japan. "Operating income (loss)" is calculated by deducting cost of sales and selling, general and administrative expenses from net sales. Management believes this measure is useful to investors in comparing NEC's results of operations to other Japanese companies. This measure, however, should not be construed as an alternative to "income (loss) before income taxes" or "net income (loss)" as determined in accordance with U.S. GAAP. Please refer to the condensed consolidated statement of operations for the calculation of the operating income (loss).

# Executive Summary

OP in 1H: ¥13 Bn.

Results almost achieved the target, compensated for shortage in Semicon.

## IT Solutions:

Sales steadily increased despite tough market conditions

## Network (NW) Solutions:

Infrastructure business maintained good condition while sales of mobile terminals struggled

## Electron Devices:

Almost achieved forecast as of July  
(From April ¥ -13.7Bn.)

Full year OP forecast  
¥150 Bn. -> ¥100 Bn.

¥58 Bn. downward revision in Semicon. while IT/NW aims to achieve the target. Recovery of mobile terminals slow

## Management issues

- Turnaround of semicon. & mobile terminals businesses
- Acceleration of market development of IT/NW solutions businesses
- Enforcement of NEC group's value chain

# I . Financial Results for 1H

# Financial Summary (Overview)

(Billion Yen)	FY05/3	FY06/3				
	1st Half	1st Half			2Q	
	Actual	Actual	Revised by	YOY	Actual	YOY
Net sales	2,303.2	2,233.0	-17.0	-3.0%	1,232.1	-1.2%
Operating income (% to Net sales)	59.3 2.6%	13.0 0.6%	-2.0	-46.3	34.0 2.8%	-8.8
Income before income taxes	71.9	28.5	+0.5	-43.4	57.4	+25.9
Net income (% to Net sales)	25.2 1.1%	16.4 0.7%	+2.4	-8.8	27.4 2.2%	+23.2
EPS: Basic (in Yen)	12.77	8.36		-4.41		

# Financial Summary by Segment

(Billion Yen)		1st Half				
		FY04/3	FY05/3	FY06/3		
		Actual	Actual	Actual	Revised by	YOY
IT Solutions	Net sales	949.5	962.7	990.1	20.1	2.8%
	Profit/Loss	34.0	34.3	26.4	-3.6	- 7.9
	(to sales)	3.6%	3.6%	2.7%	-	
Network Solutions	Net sales	852.6	899.9	811.3	-28.7	-9.8%
	Profit/Loss	25.0	18.2	13.7	3.7	- 4.5
	(to sales)	2.9%	2.0%	1.7%	-	
Electron Devices	Net sales	460.9	461.4	392.7	-2.3	-14.9%
	Profit/Loss	21.6	33.8	-9.7	-1.7	- 43.5
	(to sales)	4.7%	7.3%	-2.5%	-	
Others/Eliminations etc.	Net sales	20.0	-20.8	38.9	-6.1	-
	Profit/Loss	-22.6	-27.0	-17.4	-0.4	-
	(to sales)	-	-	-	-	
Total	Net sales	2,283.0	2,303.2	2,233.0	-17.0	-3.0%
	Profit/Loss	58.0	59.3	13.0	-2.0	- 46.3
	(to sales)	2.5%	2.6%	0.6%	-	

## **II . Financial Outlook for Full Year**

# Financial Outlook (Overview)

(Billion Yen)	FY05/3	FY06/3	FY06/3		
	Full Year	1st Half	Full Year		
	Actual	Actual	Forecast	Revised by	YOY
Net sales	4,855.1	2,233.0	4,930	-70	+2%
Operating income (% to Net sales)	131.2 2.7%	13.0 0.6%	100 2.0%	-50	-31.2
Income before income taxes	115.7	28.5	90	-40	-25.7
Net income (% to Net sales)	67.9 1.4%	16.4 0.7%	60 1.2%	+0	-7.9
EPS: Basic (in Yen)	34.77	8.36			

\*Forecasts as of Oct. 27, 2005



# Financial Outlook by Segment

(Billion Yen)		Full Year				
		FY04/3	FY05/3	FY06/3		
		Actual	Actual	Forecast	Revised by	YOY
IT Solutions	Net sales	2,098.9	2,144.4	2,200	+ 0	2.6%
	Profit/Loss	91.8	102.3	115	+ 0	+ 12.7
	(to sales)	4.4%	4.8%	5.2%	-	
Network Solutions	Net sales	1,775.7	1,892.0	1,830	- 60	-3.3%
	Profit/Loss	67.9	26.5	50	+ 0	+ 23.5
	(to sales)	3.8%	1.4%	2.7%	-	
Electron Devices	Net sales	932.2	868.7	790	- 90	-9.1%
	Profit/Loss	54.3	37.2	-28	- 58	- 65.2
	(to sales)	5.8%	4.3%	-3.5%	-	
Others/Eliminations etc.	Net sales	100.0	-50.0	110	+ 80	-
	Profit/Loss	-31.3	-34.8	-37	+ 8	-
	(to sales)	-	-	-	-	
Total	Net sales	4,906.8	4,855.1	4,930	- 70	1.5%
	Profit/Loss	182.7	131.2	100	- 50	- 31.2
	(to sales)	3.7%	2.7%	2.0%	-	

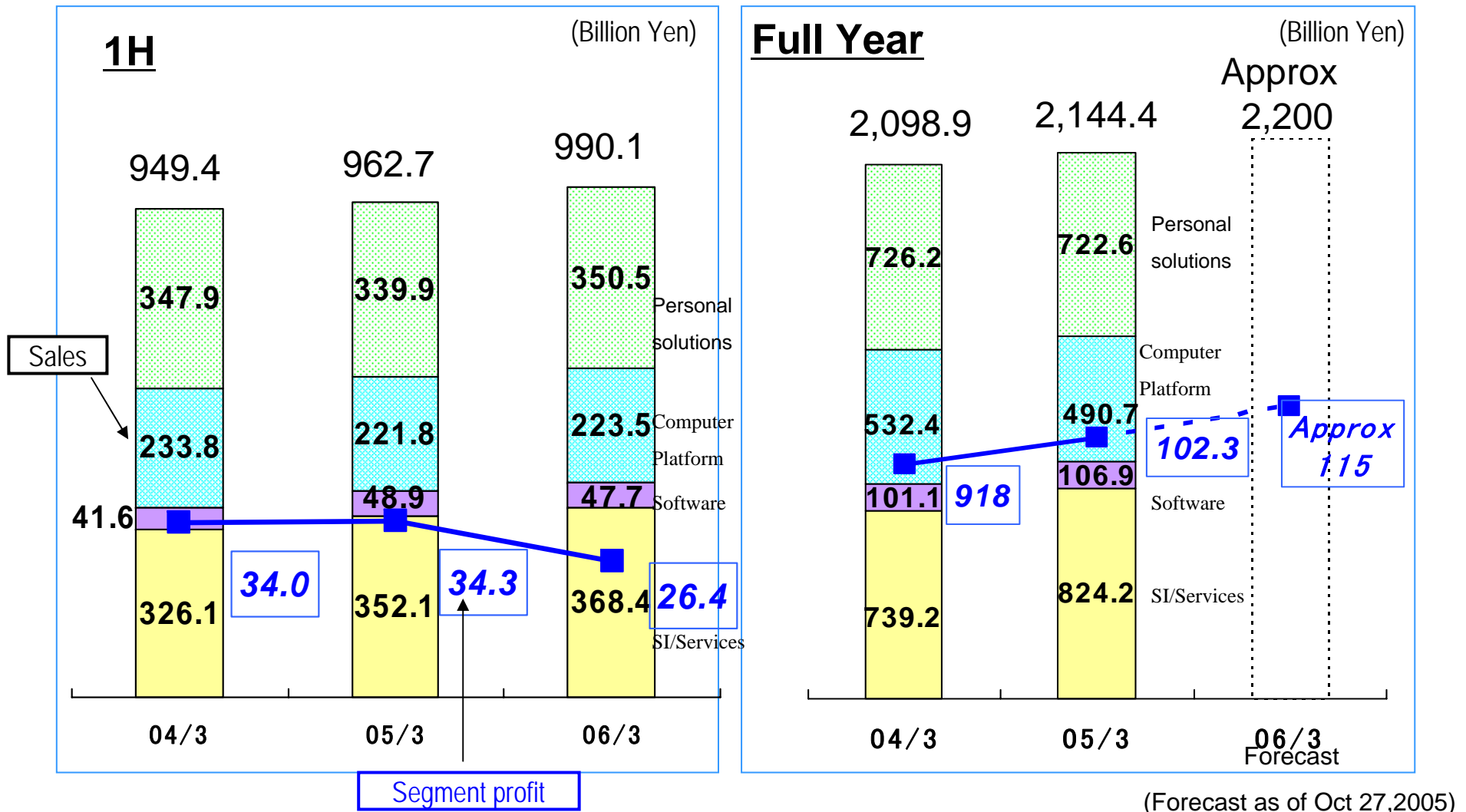
\*Forecasts as of Oct. 27, 2005

## **III. Segment Information**

# IT Solutions Business

1H : Sales grew steadily

Full year : Sales and profit are expected to increase YoY as planned



# IT Solutions Business

## ■ SI/Services

◇ **Market : Steady growth continues, but severe pressure to reduce price**

### ◇ **Measures**

- Expand sales/reduce costs by further strengthening growth strategy for software and services business.
  - Realize positive effects from acquisition of NES/NECST (reduce subcontractor costs)
  - Leverage strategic alliance with Abeam Consulting
  - Enhance solution proposal capability by sales & SE collaboration
- Reinforce project management

## ■ Platform products that underpin SI

◇ **Servers : favorable growth in 1H**

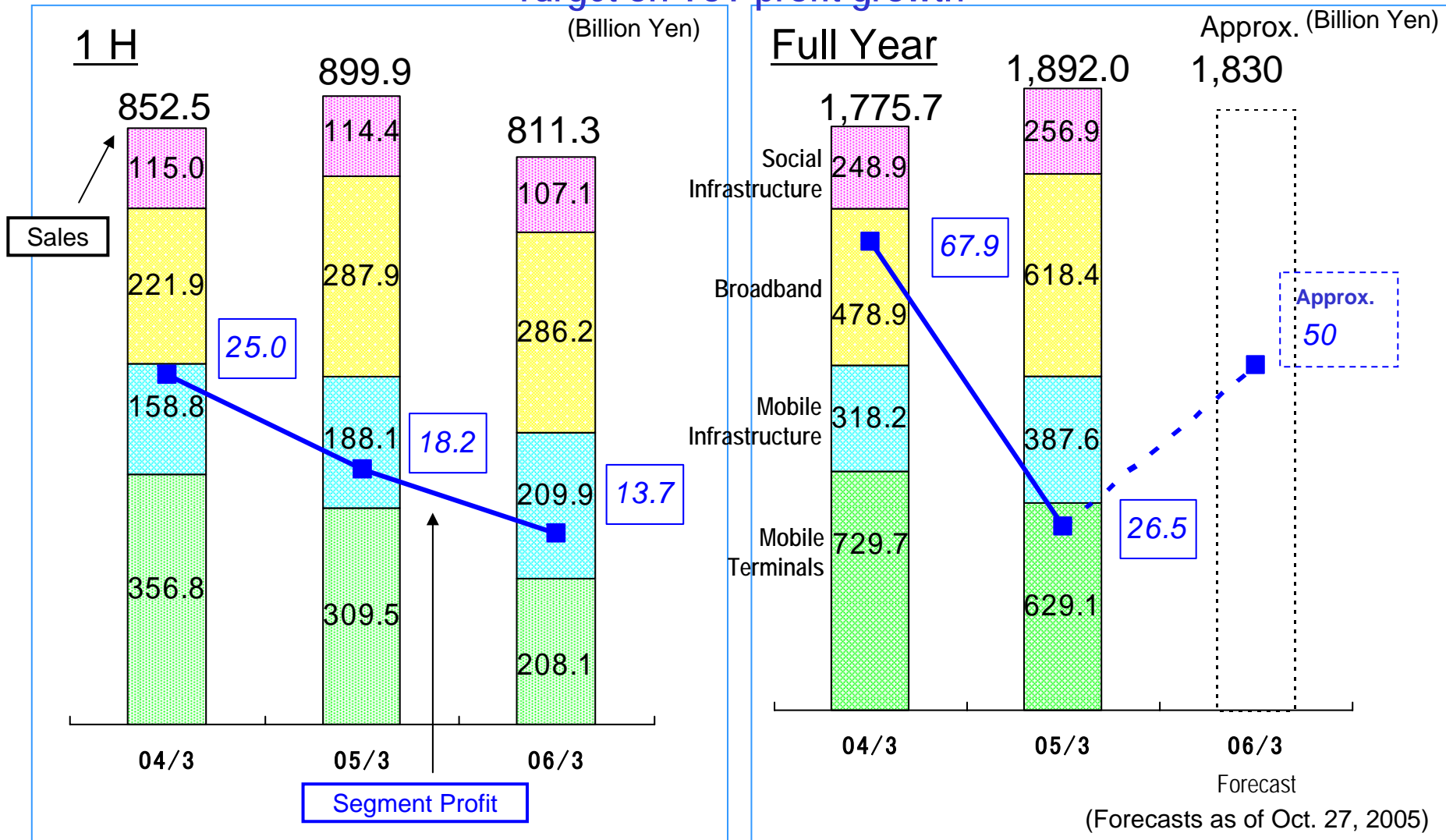
- IA Servers +17% , UNIX Servers +7% (YoY, Unit)

### ◇ **Measures**

- Platform-optimizing solutions (i.e. Consolidation of servers)
- Blade servers, space saving servers, water cooled servers
- Cost reduction

# Network Solutions Business

- Upturn of mobile infrastructure covered for the delay in recovery of mobile terminals
- Target on YoY profit growth



# Network Solutions Business

## ■ Mobile Terminals : sales and profit lagged behind target Focus on creating a solid base to rebuild the business

Shipment volume in 1H 4.7 m units

- Japan : 3G accounted for 80% of shipment as result of demand shift towards 3G
- Overseas : 2.5G struggling against severe price erosion

Shipment volume in FY (plan) 10m+ units

- Japan : strengthen 3G products lineup in 2H
- Overseas : concentrate on markets/models, with priority on profitability

## ■ Mobile infrastructure : continuing robust performance

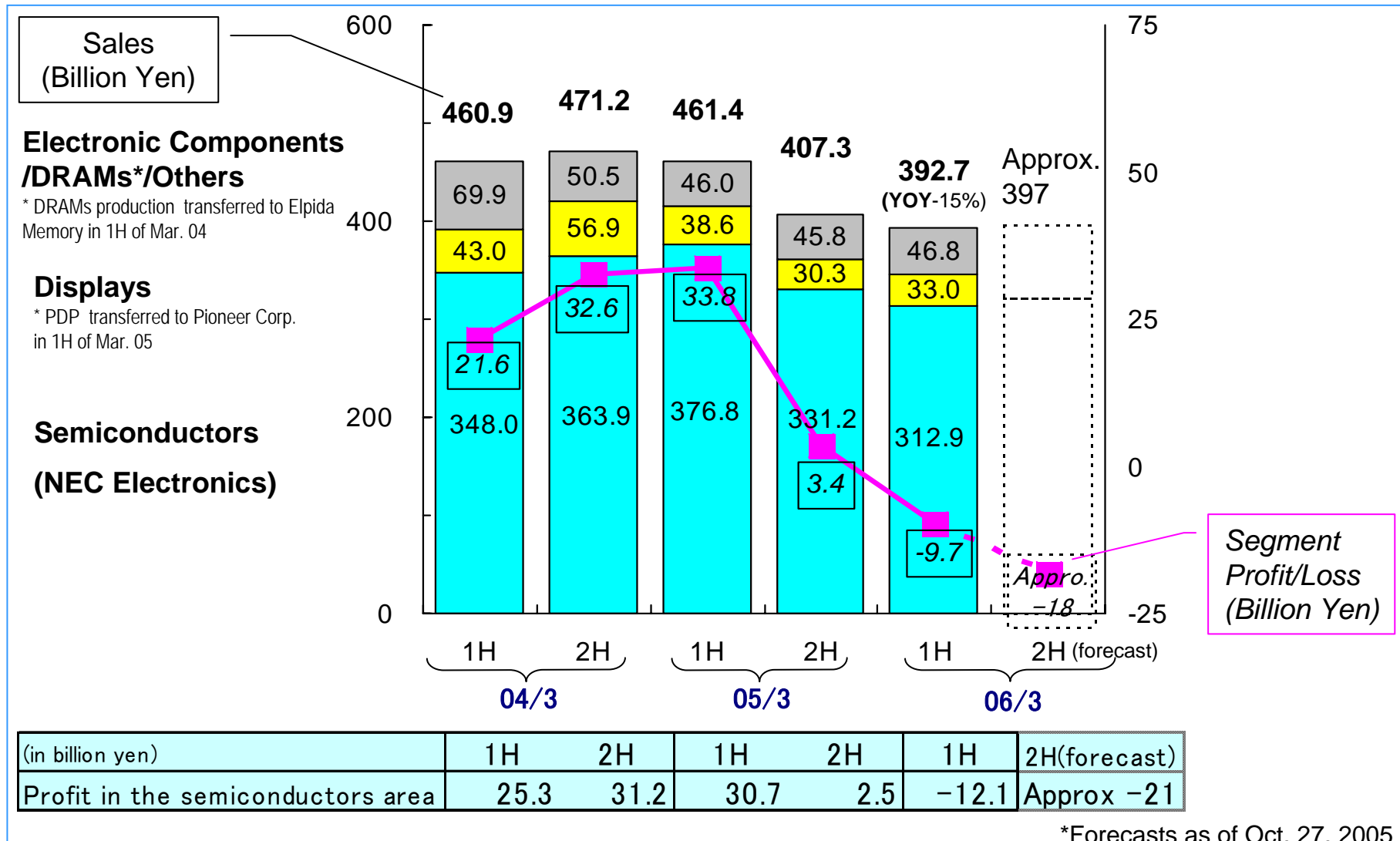
- Japan : stable growth of investments towards additional service improvements
- Overseas: rapid growth in sales of 3G base stations and PASOLINK,  
profitability also improved

## ■ Broadband business : continuing steady performance

- Business with communication service providers :  
optical access networking systems etc. are doing well.  
investments for new service platforms are ahead of schedule
- Business with enterprises : sales of UNIVERGE solutions increased favorably,  
corresponding to strong demand for security solutions etc.

# Electron Devices Business

1H: Sales/profit decreased YOY due to delay in recovery of semiconductors business



# Electron Devices Business

## ■ Semiconductors Solutions Business:

◇ 1H results: Sales decreased 17% YOY

Sales decreased in semiconductors for mobile handsets, servers, workstations, as well as discrete, optical and microwave devices.

◇ Full year forecast revised down by: Sales ¥ -85bn., Profit ¥ -58bn. (from Aril)

- Sluggish sales led to considerable downward revision
- Deteriorated profit ratio due to changes in product mix

◇ Measures to improve business performance:

- Achieve revenue growth by reallocating engineers and strengthening relationship with our distributors in Japan, etc.
- Improve marginal profit ratio
- Cut fixed costs

■ Color LCDs, electronic components: Sales/profit continued to be stable.



Empowered by Innovation

**NEC**

# Key Points from BS/CF

Appendix

(Billion Yen)	<u>03/9</u>	<u>04/9</u>	<u>05/9</u>	<u>05/3</u>
<b>Total Assets</b>	4,140.5	3,906.1	3,807.3	3,940.7
<b>(Turnover)</b>	(1.11)	(1.22)	(1.26)	(1.23)
<b>Inventories</b>	631.3	629.4	559.3	528.9
<b>(Turnover Days)</b>	(47days)	(47days)	(43days)	(40days)
<b>Interest-Bearing Debt</b>	1,382.8	1,175.5	1,053.3	1,156.2
<b>(D/E Ratio) &lt;Times&gt;</b>	(3.5)	(1.6)	(1.2)	(1.4)
<b>Net Interest-Bearing Debt</b>	934.5	706.6	639.5	661.9
<b>(Net D/E Ratio)&lt;Times&gt;</b>	(2.4)	(1.0)	(0.7)	(0.8)
<b>Shareholders' Equity</b>	391.1	725.2	883.0	794.3
<b>(Shareholders' Equity Ratio)</b>	(9%)	(19%)	(23%)	(20%)
	<u>03/1H</u>	<u>04/1H</u>	<u>05/1H</u>	
<b>FCF</b>	98.3	-39.4	8.1	

\* "Total Assets Turnover" and "Inventories Turnover Days" are calculated by end-of-the-term and previous 12 months basis.

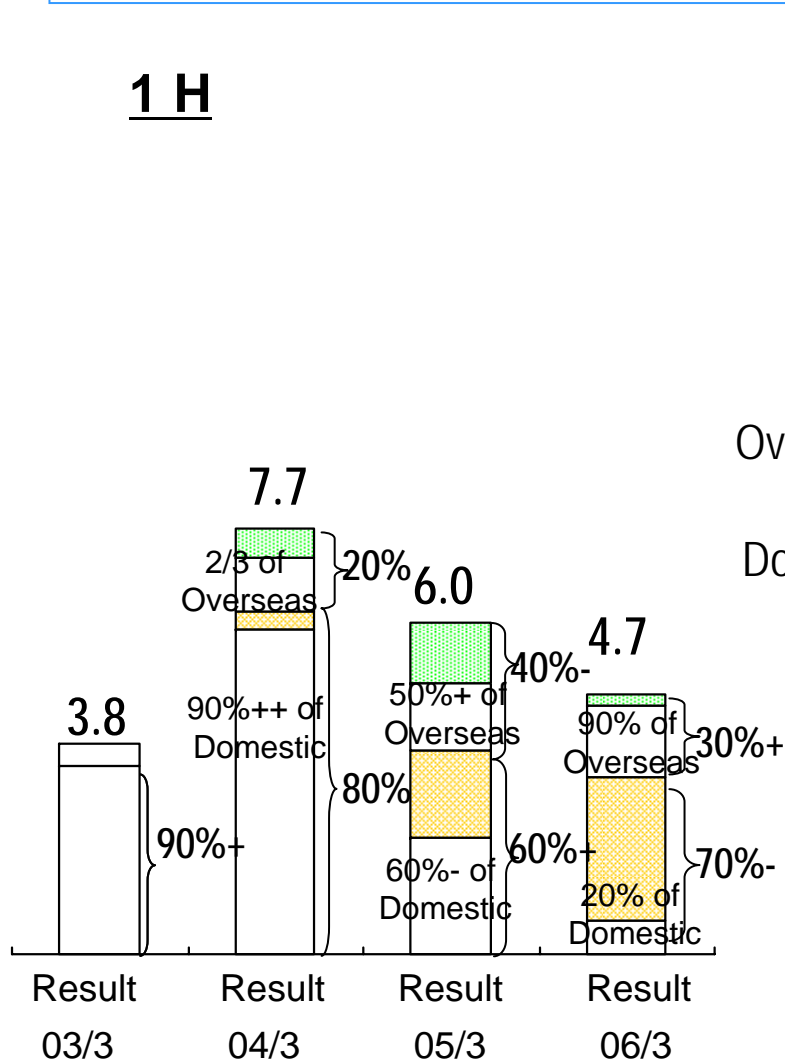
\*\*Net D/E Ratio = D/E Ratio – "Cash and cash equivalents"

# Sales of Mobile Terminals

Appendix

## Shipment volumes of mobile terminals

### 1 H



### Full Year

