

# Financial Results for 1H Fiscal Year Ending March 31, 2014

October 30, 2013

NEC Corporation

(<http://www.nec.com/en/global/ir>)

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- Reference (Financial data)

※ As stated in the July 9, 2013 announcement, “NEC to Revise Business Segments,” NEC has revised its business segments from the first quarter of the fiscal year ending March 31, 2014. Figures for the corresponding period of the previous fiscal year have been restated to conform with the new segments

# I . Financial Results for 1H, FY14/3



# Summary of Financial Results for 1H

<p><b>Net Sales</b></p> <p>YoY -4.5%</p>	<ul style="list-style-type: none"><li>● Achieved company plan, though decreased YoY (1% decrease excluding deconsolidation impact)<ul style="list-style-type: none"><li>• Increased in Public and Enterprise business</li><li>• Decreased in mobile phone and System Platform business</li></ul></li></ul>
<p><b>Operating Income</b></p> <p>YoY -47.0B Yen</p>	<ul style="list-style-type: none"><li>● Stayed in the Black, though decreased YoY<ul style="list-style-type: none"><li>• Larger loss in mobile phone business</li><li>• Impact from LCD patent sale in the previous year</li><li>• Decreased in Telecom Carrier and System Platform business</li></ul></li></ul>
<p><b>Net Income/Loss</b></p> <p>YoY -34.1B Yen</p>	<ul style="list-style-type: none"><li>● Net deficit due to operating income decrease<ul style="list-style-type: none"><li>• Extraordinary income by sale of stock of NEC Mobiling, Ltd.</li><li>• Approx. 11.0B yen extraordinary loss in mobile phone business</li></ul></li></ul>

# Summary of Financial Results for 1H

(Billions of Yen)

	Q2 <July to September>			1H <April to September>		
	FY13/3 Actual	FY14/3 Actual	YoY	FY13/3 Actual	FY14/3 Actual	YoY
Net Sales	816.3	743.0	- 9.0%	1,447.8	1,383.1	- 4.5%
Operating Income	55.2	22.2	-33.1	47.4	0.4	-47.0
% to Net Sales	6.8%	3.0%		3.3%	0.0%	
Ordinary Income/Loss	42.0	13.6	-28.4	29.9	-14.5	-44.4
% to Net Sales	5.2%	1.8%		2.1%	-1.1%	
Net Income/Loss	25.9	-4.7	-30.5	8.0	-26.2	-34.1
% to Net Sales	3.2%	-0.6%		0.6%	-1.9%	
Free Cash Flow	-58.6	-135.9	-77.2	-32.0	-94.8	-62.9

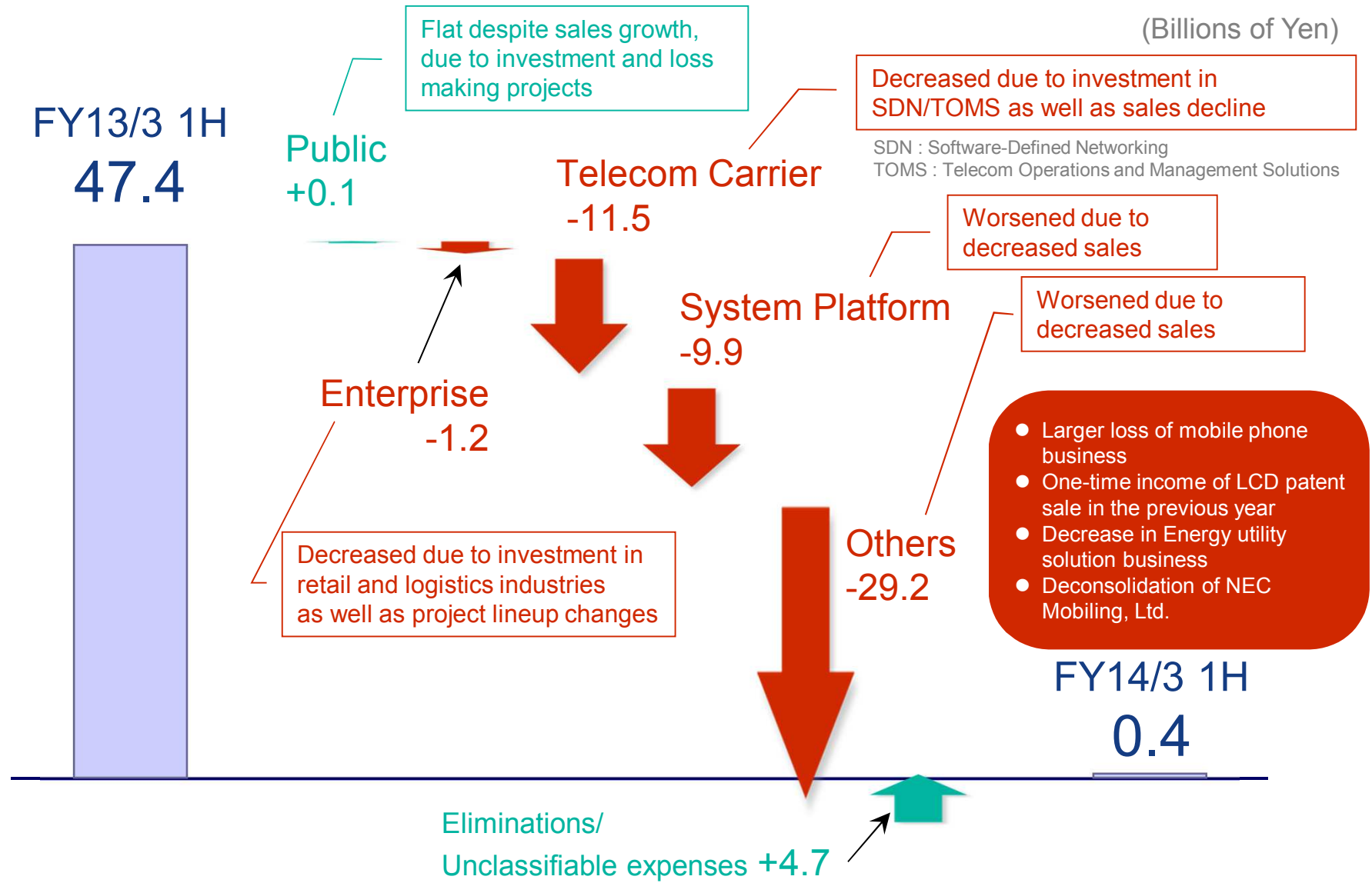
Note: Average exchange rates for 1H, FY14/3: 1\$= ¥98.11, 1€= ¥128.43  
 (Assumed exchange rates for FY14/3 as of July 31, 2013: 1\$ = ¥90, 1€= ¥115)

# 1H Results by Segment

(Billions of Yen)

		Q2 <July to September>			1H <April to September>			
		FY13/3 Actual	FY14/3 Actual	YoY	FY13/3 Actual	FY14/3 Actual	YoY	
Public	Net Sales	162.0	176.7	9.1%	276.9	303.3	9.5%	
	Operating Income	14.3	14.2	-0.2	14.4	14.5	0.1	
	% to Net Sales	8.8%	8.0%		5.2%	4.8%		
Enterprise	Net Sales	68.8	71.3	3.7%	118.8	130.1	9.5%	
	Operating Income	4.6	3.1	-1.5	1.9	0.7	-1.2	
	% to Net Sales	6.7%	4.4%		1.6%	0.6%		
Telecom Carrier	Net Sales	187.5	180.0	- 4.0%	342.7	334.0	- 2.5%	
	Operating Income	18.2	13.8	-4.5	30.9	19.4	-11.5	
	% to Net Sales	9.7%	7.7%		9.0%	5.8%		
System Platform	Net Sales	204.1	193.1	- 5.4%	367.2	350.7	- 4.5%	
	Operating Income	13.5	8.4	-5.1	11.7	1.8	-9.9	
	% to Net Sales	6.6%	4.3%		3.2%	0.5%		
Others	Net Sales	193.8	121.8	- 37.2%	342.2	264.9	- 22.6%	
	Operating Income/Loss	21.0	-2.0	-22.9	17.3	-11.8	-29.2	
	% to Net Sales	10.8%	-1.6%		5.1%	-4.5%		
Eliminations/ Unclassifiable expenses		Operating Loss	-16.3	-15.3	1.0	-28.9	-24.3	4.7
Total	Net Sales	816.3	743.0	- 9.0%	1,447.8	1,383.1	- 4.5%	
	Operating Income	55.2	22.2	-33.1	47.4	0.4	-47.0	
	% to Net Sales	6.8%	3.0%		3.3%	0.0%		

# Operating Income/Loss Change (Year on Year)

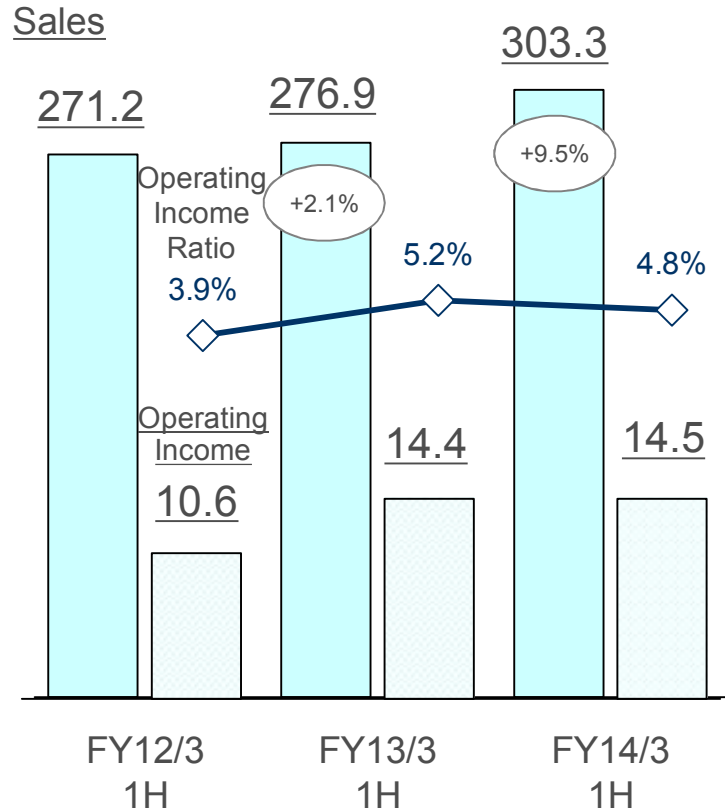


# Public Business

Billions of Yen (YoY)

(Billions of Yen)

YoY



**Sales 303.3 (+9.5%)**

△ Increased due to the steady sales for government and public areas

**Operating Income 14.5 (+0.1)**

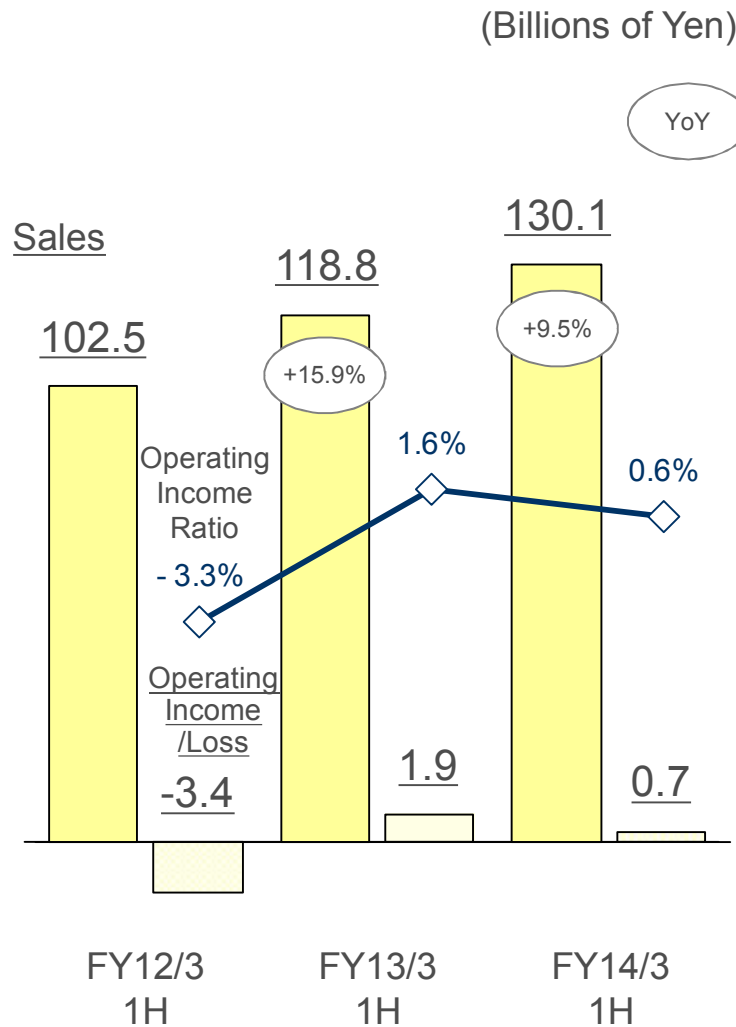
△ Flat from previous fiscal year despite sales growth, due to increased investment for strengthening organizations and loss-making projects





# Enterprise Business

Billions of Yen (YoY)



**Sales** 130.1 (+9.5%)

△ Increased due to the steady sales for the retail and service industries

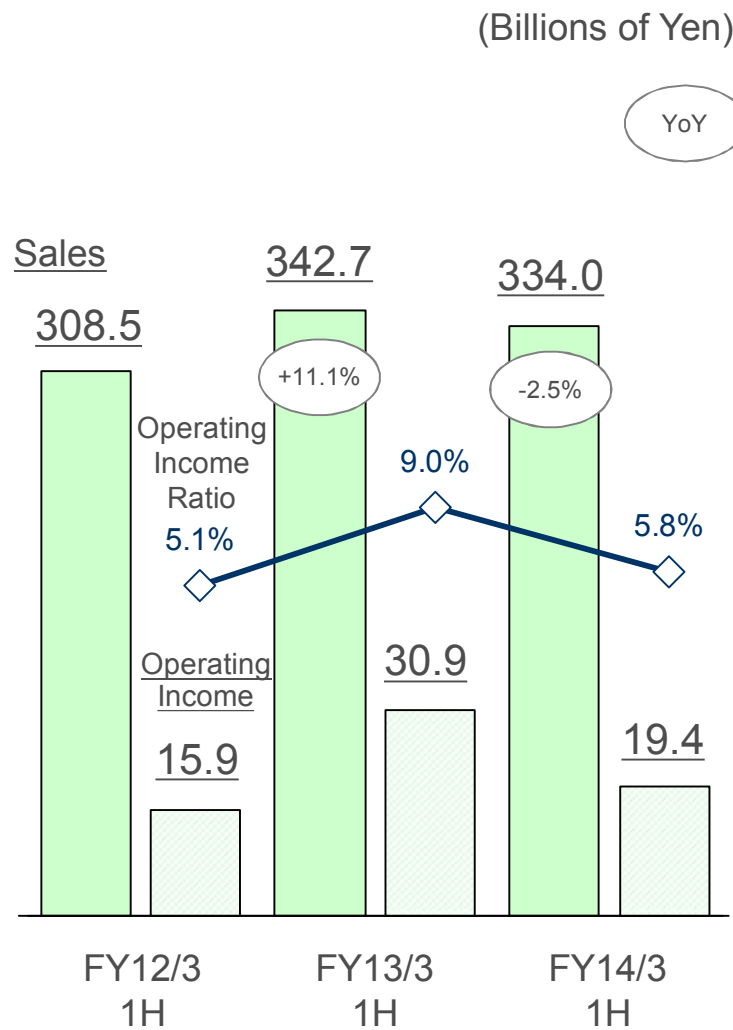
**Operating Income** 0.7 (-1.2)

▽ Decreased due to increased investment in retail and logistics industries as well as project lineup changes



# Telecom Carrier Business

Billions of Yen (YoY)



## Sales 334.0 (-2.5%)

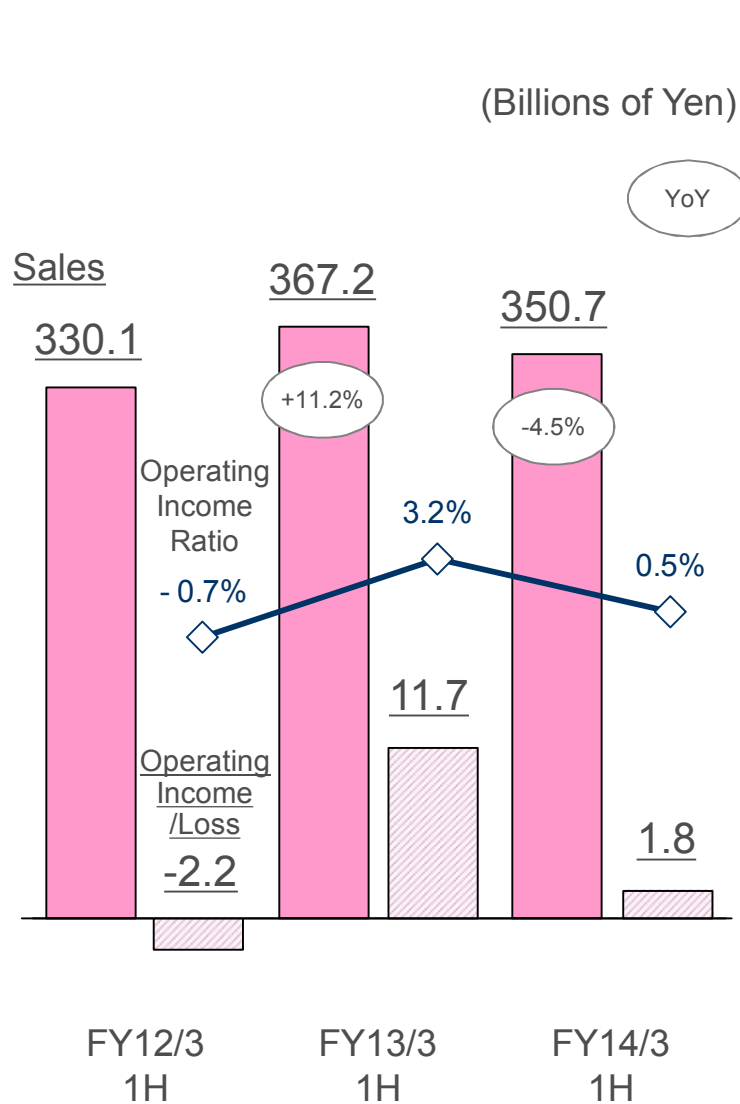
- ▽ Japan: Decreased from 1H of the previous year, when there was strong demand
- △ International: Increased mainly in TOMS

## Operating Income 19.4 (-11.5)

- ▽ Worsened due to the acceleration of investment in SDN, TOMS as well as sales decline



# System Platform Business



Billions of Yen (YoY)

**Sales** 350.7 (-4.5%)

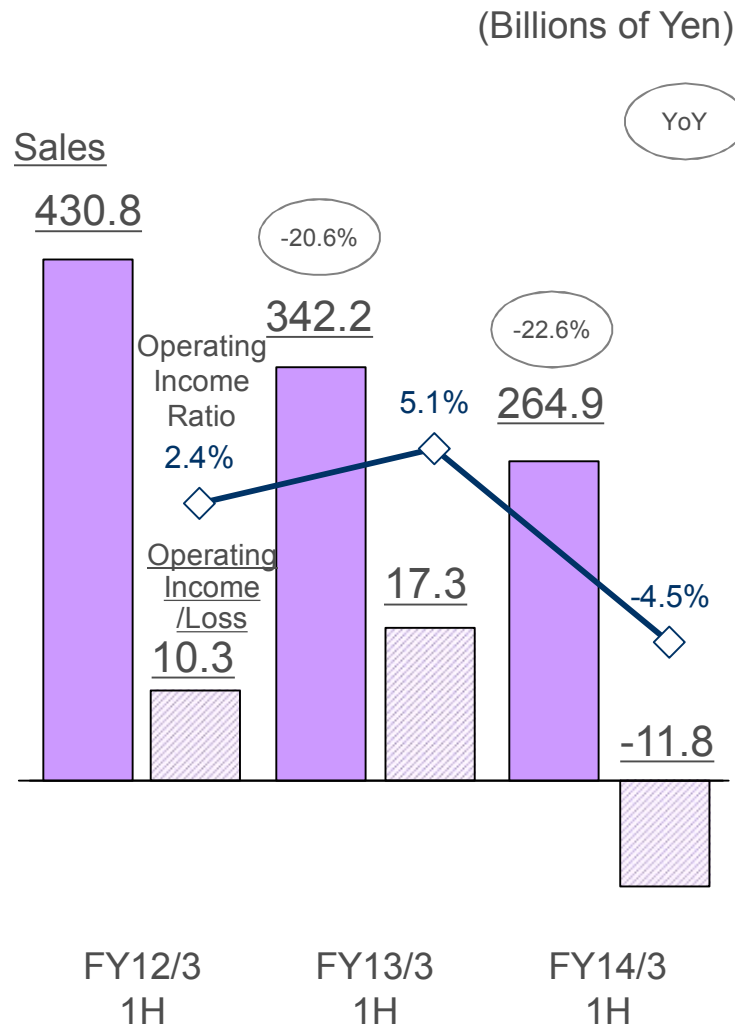
▽ Declined due to large-scale projects in the previous fiscal year

**Operating Income** 1.8 (-9.9)

▽ Worsened due to decreased sales as well as deteriorated income of NEC Fielding, Ltd.



Billions of Yen (YoY)



**Sales** 264.9 (-22.6%)

- ▽ Decrease of mobile phone shipments
- ▽ Deconsolidation of NEC Mobiling, Ltd. and electronic components business
- ▽ Impact by one-time income of LCD patent sale in the previous fiscal year

**Operating Loss** -11.8 (-29.2)

- ▽ Worsened due to decreased sales
- ▽ Impact by one-time income of LCD patent sale in the previous fiscal year

# Mobile Phone Business Update

## Major issues to be settled within FY14/3

- Resource shifting
  - Over 60% of staff has been shifted out by October, to be minimized to 150 FTEs
- Conventional mobile phone business
  - Deployed in 2013-14 Winter/Spring model (to be shipped at the end of Nov.)
- NEC Saitama, Ltd.
  - Detailed actions in process to contribute to Solutions for Society
- Extraordinary costs
  - Recorded approx. 11.0B yen as extraordinary loss (restructuring expenses) in 1H

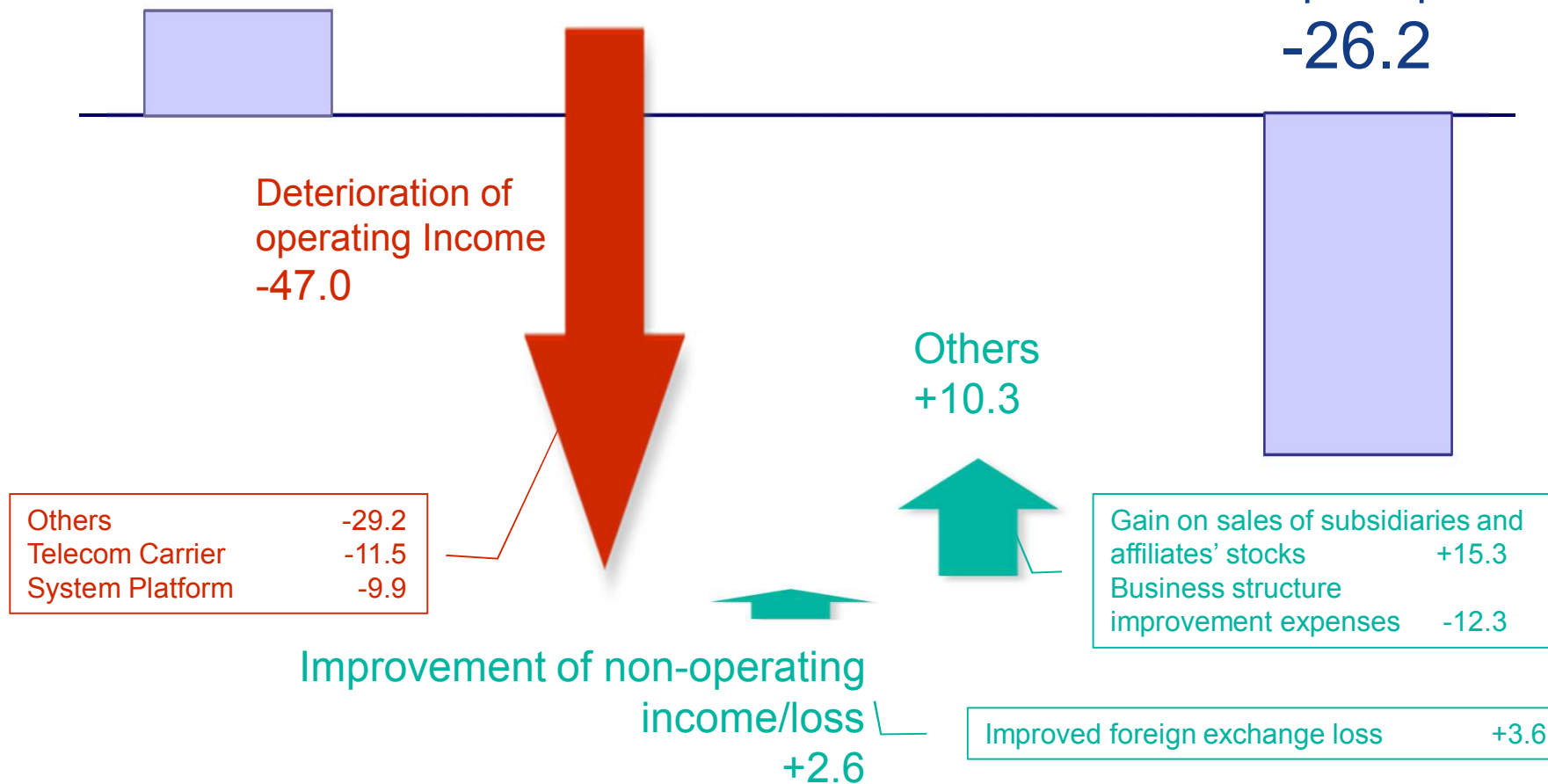
Taking actions to minimize operations

# Net Income/Loss Change (Year on Year)

(Billions of Yen)

FY13/3 1H  
<Apr-Sep>  
8.0

FY14/3 1H  
<Apr-Sep>  
-26.2



## II . Financial Forecasts for FY14/3



# Summary of Financial Forecasts for FY14/3

## Achieve 100 billion yen operating income

(Sales increase by approximately 2%, excluding the impact of deconsolidation)

(Billions of Yen)

	2H <October to March>			Full Year			Difference from July 31
	FY13/3 Actual	FY14/3 Forecasts	YoY	FY13/3 Actual	FY14/3 Forecasts	YoY	
Net Sales	1,623.8	1,616.9	-0.4%	3,071.6	3,000.0	-2.3%	0.0
Operating Income	67.3	99.6	32.3	114.6	100.0	-14.6	0.0
% to Net Sales	4.1%	6.2%		3.7%	3.3%		
Ordinary Income	62.2	84.5	22.4	92.0	70.0	-22.0	0.0
% to Net Sales	3.8%	5.2%		3.0%	2.3%		
Net Income	22.4	46.2	23.7	30.4	20.0	-10.4	0.0
% to Net Sales	1.4%	2.9%		1.0%	0.7%		

Note: Assumed exchange rates for 2H, FY14/3 1\$=¥100, 1€=¥125

\* Forecasts as of October 30, 2013



# Financial Forecasts for FY14/3 by Segment

## Revised sales breakdown by segment

- Expect further growth in businesses with stable demand, while Others (mobile phone etc.) falls short of previous plan

(Billions of Yen)

		2H <October to March>			Full Year			Difference from July 31
		FY13/3 Actual	FY14/3 Forecasts	YoY	FY13/3 Actual	FY14/3 Forecasts	YoY	
Public	Net Sales	403.7	441.7	9.4%	680.7	745.0	9.5%	10.0
	Operating Income	34.6	42.5	7.8	49.0	57.0	8.0	0.0
	% to Net Sales	8.6%	9.6%		7.2%	7.7%		
Enterprise	Net Sales	132.7	134.9	1.6%	251.6	265.0	5.3%	10.0
	Operating Income	3.5	5.3	1.8	5.5	6.0	0.5	0.0
	% to Net Sales	2.7%	3.9%		2.2%	2.3%		
Telecom Carrier	Net Sales	366.6	381.0	3.9%	709.3	715.0	0.8%	0.0
	Operating Income	40.6	40.6	-0.0	71.6	60.0	-11.6	0.0
	% to Net Sales	11.1%	10.7%		10.1%	8.4%		
System Platform	Net Sales	377.2	389.3	3.2%	744.4	740.0	-0.6%	35.0
	Operating Income	21.0	27.2	6.2	32.7	29.0	-3.7	0.0
	% to Net Sales	5.6%	7.0%		4.4%	3.9%		
Others	Net Sales	343.5	270.1	-21.4%	685.7	535.0	-22.0%	-55.0
	Operating Income/Loss	-0.4	13.8	14.2	16.9	2.0	-14.9	0.0
	% to Net Sales	-0.1%	5.1%		2.5%	0.4%		
Eliminations/ Unclassifiable expenses	Operating Loss	-32.1	-29.7	2.4	-61.0	-54.0	7.0	0.0
Total	Net Sales	1,623.8	1,616.9	-0.4%	3,071.6	3,000.0	-2.3%	0.0
	Operating Income	67.3	99.6	32.3	114.6	100.0	-14.6	0.0
	% to Net Sales	4.1%	6.2%		3.7%	3.3%		

\* Forecasts as of October 30, 2013

# Business Environment

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## Stable demand in domestic IT services and social infrastructure

- Order receipt 1H exceeded company plan
  - Public business grew 118% YoY, Enterprise 108%

## Strong demand to update WindowsXP

- Respond to higher demand than estimated, try to offset the impact of large-scale System Platform project in the previous fiscal year

## SDN promotion in international markets

- Collaborate with more than 10 global telecom carriers for commercial deployment

**Secure business opportunities in expanding markets**

## Key Points of 2H Forecasts by Segment (Year on Year)

Public	<ul style="list-style-type: none"><li>● Secure steady growth in the government and public areas</li><li>● Improve profitability by sales increase, cost reduction, cut loss-making projects</li></ul>
Enterprise	<ul style="list-style-type: none"><li>● Secure steady growth in the retail and service industries, and restore growth in the manufacturing industry</li><li>● Improve profitability by sales increase, cost reduction, cut loss-making projects, SGA saving</li></ul>
Telecom Carrier	<ul style="list-style-type: none"><li>● Increase mainly in TOMS</li><li>● Secure same level as previous FY, offsetting decline in Japan by growth in international markets</li></ul>
System Platform	<ul style="list-style-type: none"><li>● Increase from high demand for IT systems investment such as business PCs</li><li>● Improve profitability by sales increase, cost reduction, SGA saving</li></ul>
Others	<ul style="list-style-type: none"><li>● Decrease due to deconsolidation of NEC Mobiling, Ltd.</li><li>● Improve profitability of mobile phone business</li></ul>

\*Each segment's top line refers to sales, lower lines are for income, Forecasts as of October 30, 2013

### III. Progress on Mid-term Management Plan 2015



# Mid-term Management Policy

## (1) Focus on Solutions for Society

### → Transformation into a social value innovator

- Focusing of management resources on businesses that advance social infrastructure through ICT
- Create new business models with the understanding that social problems provide an opportunity for growth

## (2) Focus on Asia, promotion of “locally-led” business

### → Creation of a foundation for growth as a company able to compete globally

- Focus on emerging and developing countries, particularly in Asia
- Realization of increased sensitivity to local needs, increased business speed

## (3) Stabilize our financial foundation

- • Enhanced cost competitiveness
- Creation of an earnings structure that produces operating income of 150 billion yen and free cash flow of 100 billion yen
- Hybrid finance to ensure financial reserve



These initiatives will represent 5% of operating income and 25% of international sales

\* Forecasts as of April 26, 2013

# Achievements and Next Steps

## Achievements

- Strengthened foundations to start Mid-term Plan
  - Started new customer focused organization structure (April)
  - Revised mobile phone business strategy (July)
    - Ended new development of smartphones
  - Enhanced organizations and sales activities in strategic businesses/regions

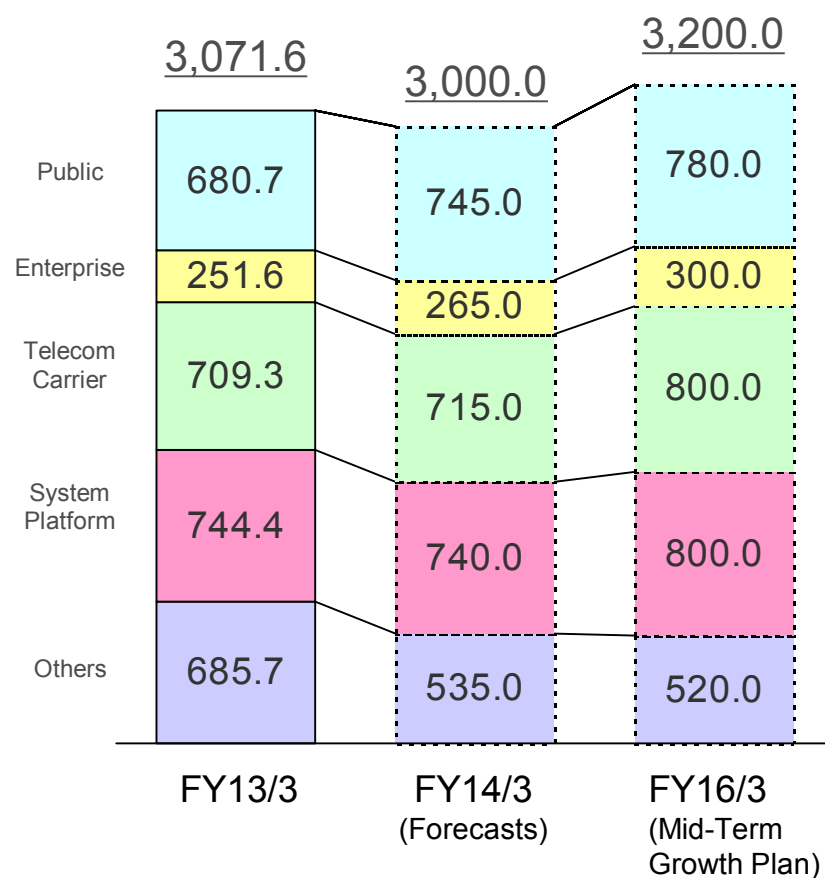
## Next Steps

- Materialize growth plan / Eliminate loss making business
  - Establish new pillars for global expansion: SDN, Safety, etc.
  - Arouse and secure demand for infrastructure:  
Growth plan of Japan, Tokyo Olympic games, etc.
  - Improve profitability of international business, determining direction of less profitable businesses
  - Accelerate measures to enhance cost competitiveness

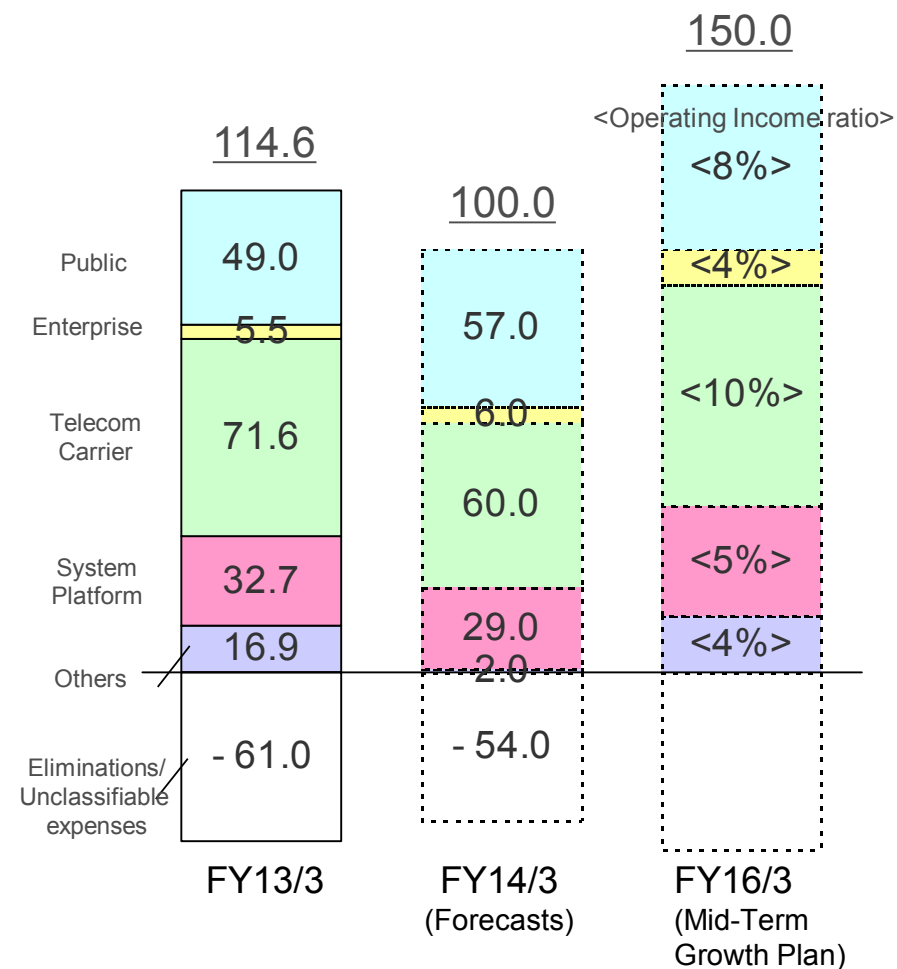
# Mid-term Plan by Segment (new segment base)

(Billions of Yen)

## Net Sales



## Operating Income/Loss



\* Forecasts as of October 30, 2013

# Mid-term Management Policy by Segment

Public	<ul style="list-style-type: none"><li>● Business development by integrated IT/NW, Expand global business</li><li>● Win large-scale projects (infrastructure such as the national identification number system, public safety projects, etc.)</li></ul>
Enterprise	<ul style="list-style-type: none"><li>● Focus on specialty areas of existing business. Shift to high value-added business</li><li>● Expand new/global business (SDN, Big Data, C&amp;C Cloud)</li></ul>
Telecom Carrier	<ul style="list-style-type: none"><li>● Global expansion with TOMS/SDN</li><li>● Enhance solution business by strengthening delivery capability</li></ul>
System Platform	<ul style="list-style-type: none"><li>● Conversion to a solution provider of vertically integrated products/services</li><li>● Enhance cost competitiveness and maintain high quality</li></ul>
Others (Smart Energy)	<ul style="list-style-type: none"><li>● Develop “Energy Service business” by integrating energy storage technology with ICT</li><li>● Enhance solutions and sales channels through alliances</li></ul>

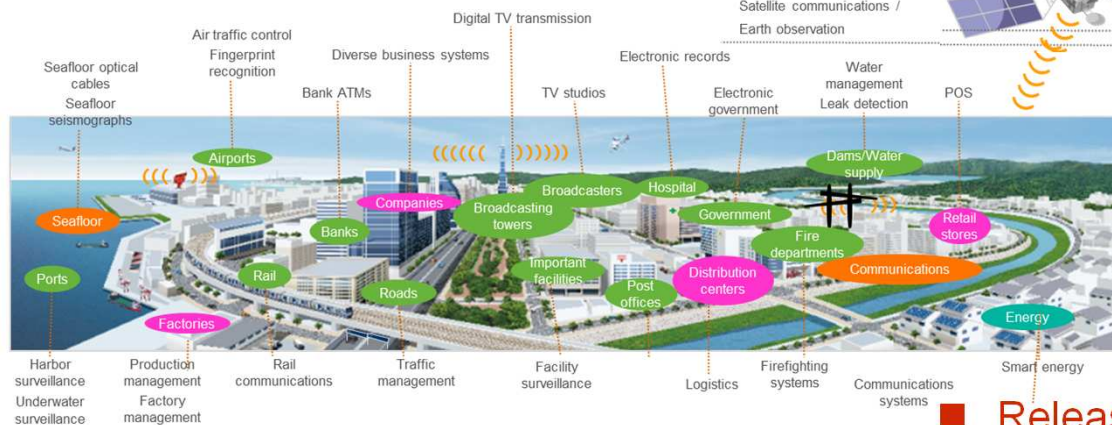


# Focus on Solutions for Society



- Start construction of the Japan Trench undersea earthquake tsunami observation network

Seafloor



Space

- Contribute to JAXA's "Hisaki (SPRINT-A\*)" launch

\* Spectroscopic Planet Observatory for Recognition of Interaction of Atmosphere

Important facilities

- Develop failure sign monitoring system for large-scale plants

- Start energy service for households through a battery rental model

BIG DATA

Energy

SDN

- Build ICT systems for stadiums in Brazil

Important facilities

- Provide urban surveillance solution for the province of Santa Fe, Argentina

Important facilities

- Launched 'Cyber Security Strategy Office'

Enhanced

Released TOMS9.0

Enhanced

Communications

Companies

Released NEC SDN Solutions

Enhanced

Communications

Companies

- Integrate fire emergency digital radio and common fire command systems in Chiba, Japan

Fire Departments



# Focus on Asia: Promotion of “Locally-led” Business



## Stabilize Our Financial Foundation /Review Business Portfolio

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### Fund procurement through hybrid financing (May)

- Plan to help repay existing interest-bearing liabilities and to finance business

### Revised mobile phone business strategy (July)

### Sold share of NEC Mobiling, Ltd. (June)

- Joined public tender offer by MX Holdings

### Deconsolidation of Renesas Electronics (September)

- Innovation Network Corporation of Japan completed capital injection

### Completed share transfer of NEC Toppan Circuit Solutions, Inc. (October)

- Transferred all shares to Kyocera

### Agreed to transfer NEC's magneto-resistance sensor business to Murata (June)

# Summary



**Achieve financial forecasts  
and continue dividend payments  
to shareholders**

**Transform into a “Social Value Innovator”  
through growth strategies and the  
elimination of loss making businesses**

\* Forecasts as of October 30, 2013

Empowered by Innovation

**NEC**

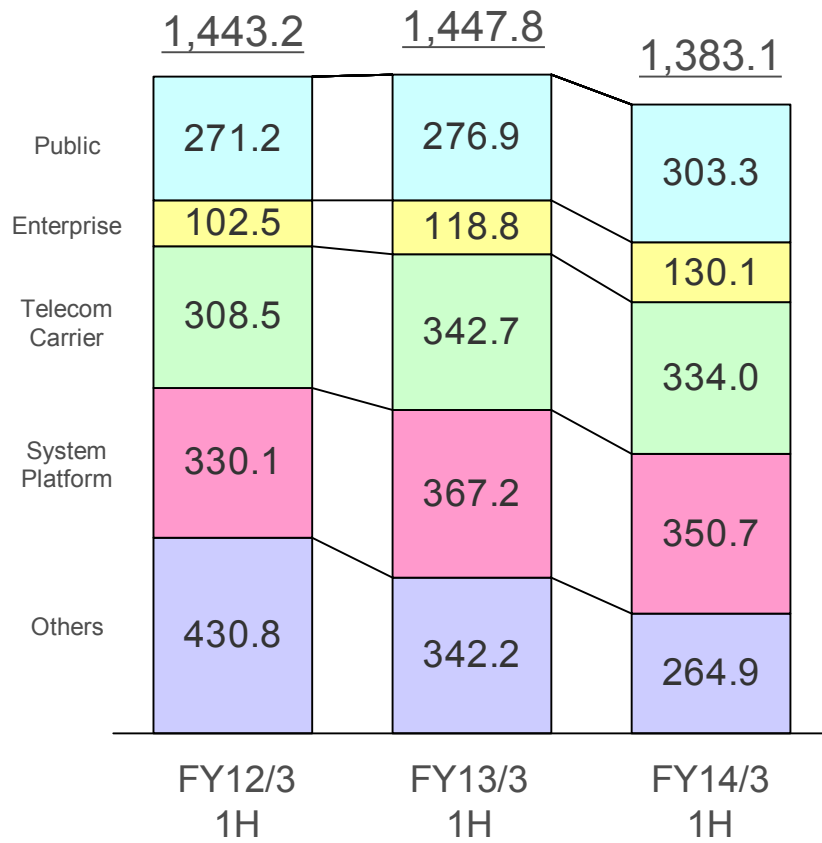
# Financial Results for 1H, FY14/3 (Appendix)



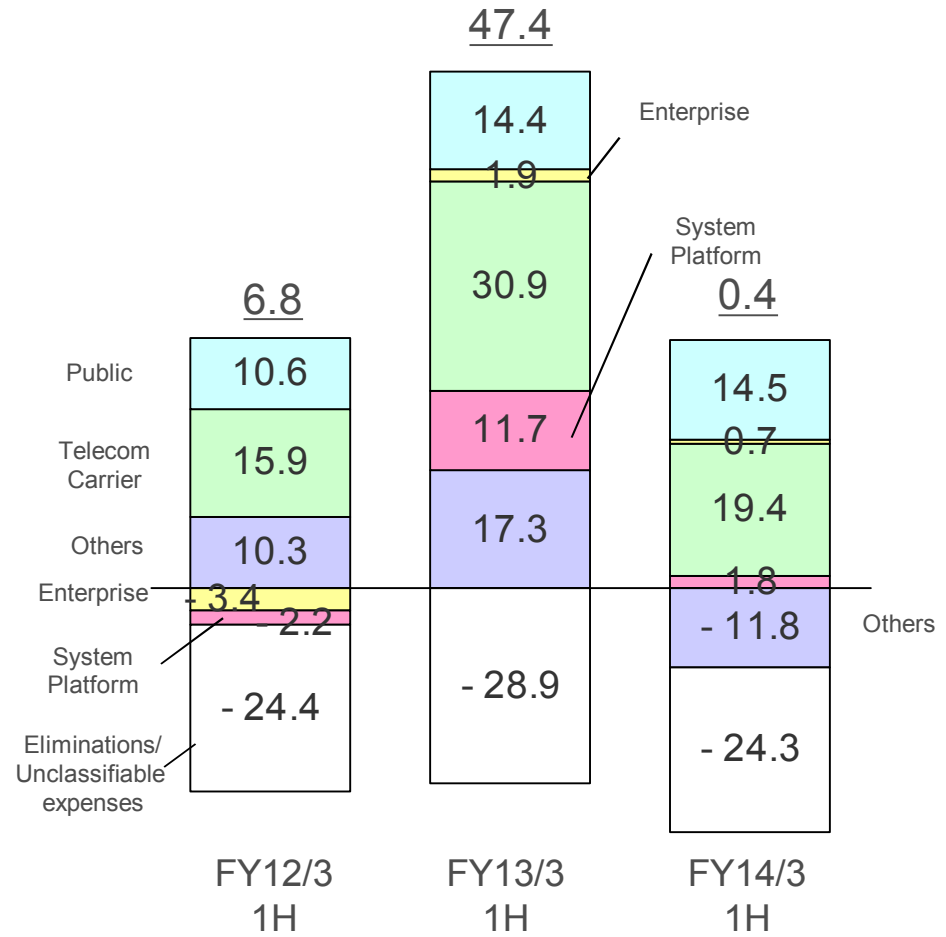
# Results for 1H by Segment

(Billions of Yen)

Net Sales



Operating Income/Loss



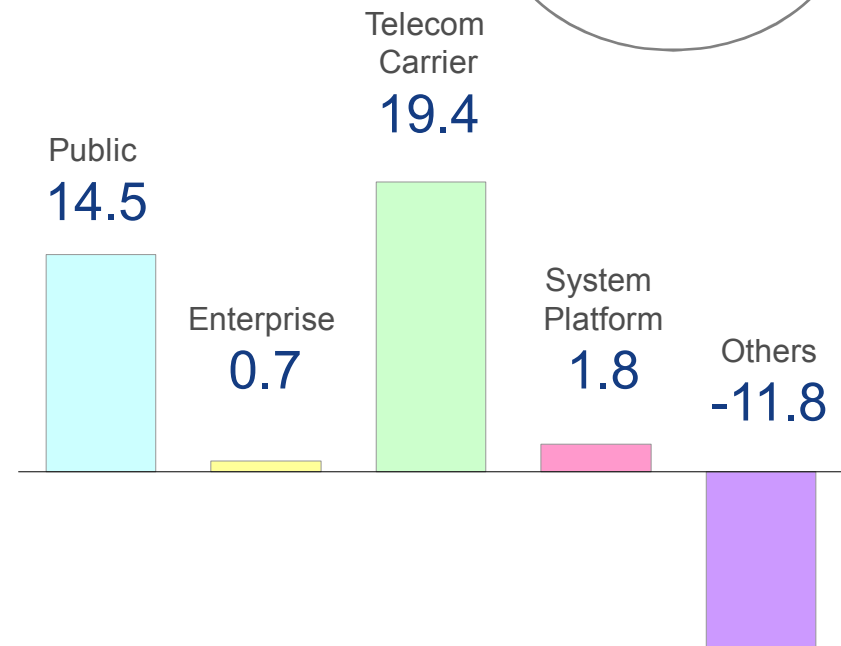
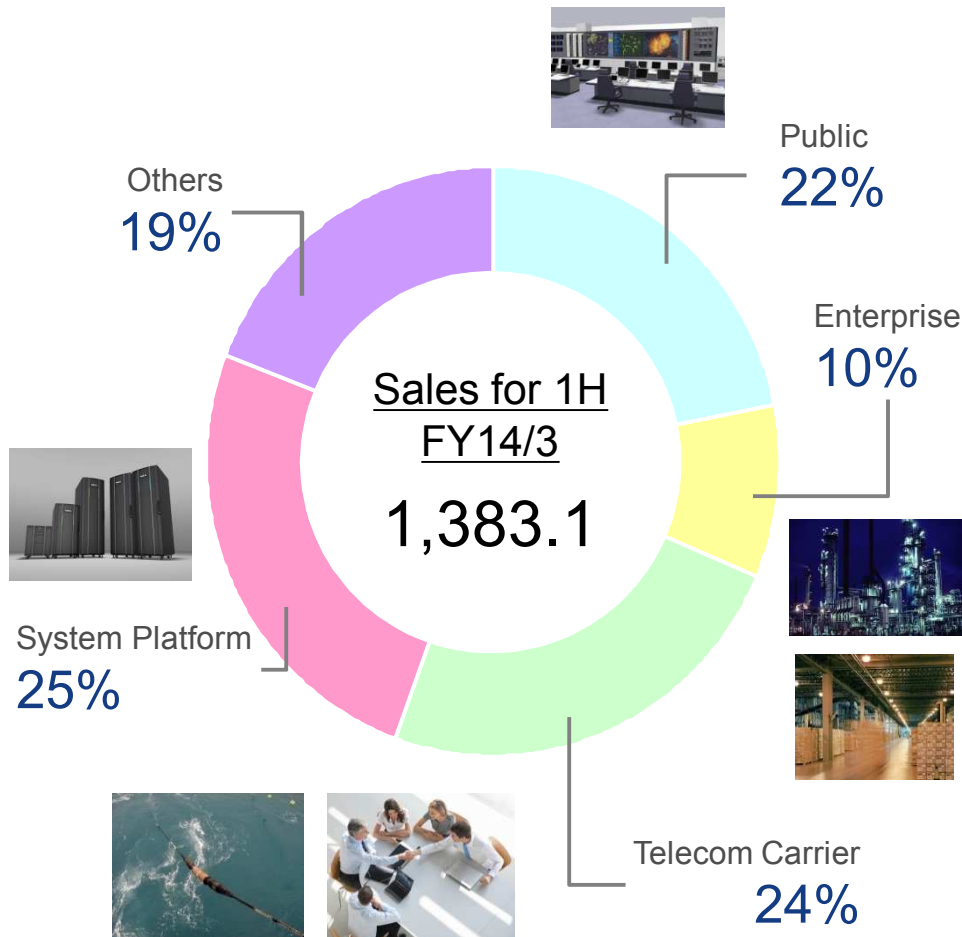
# Summary of Financial Results for 1H by Segment

(Billions of Yen)

## Net Sales

## Operating Income/Loss

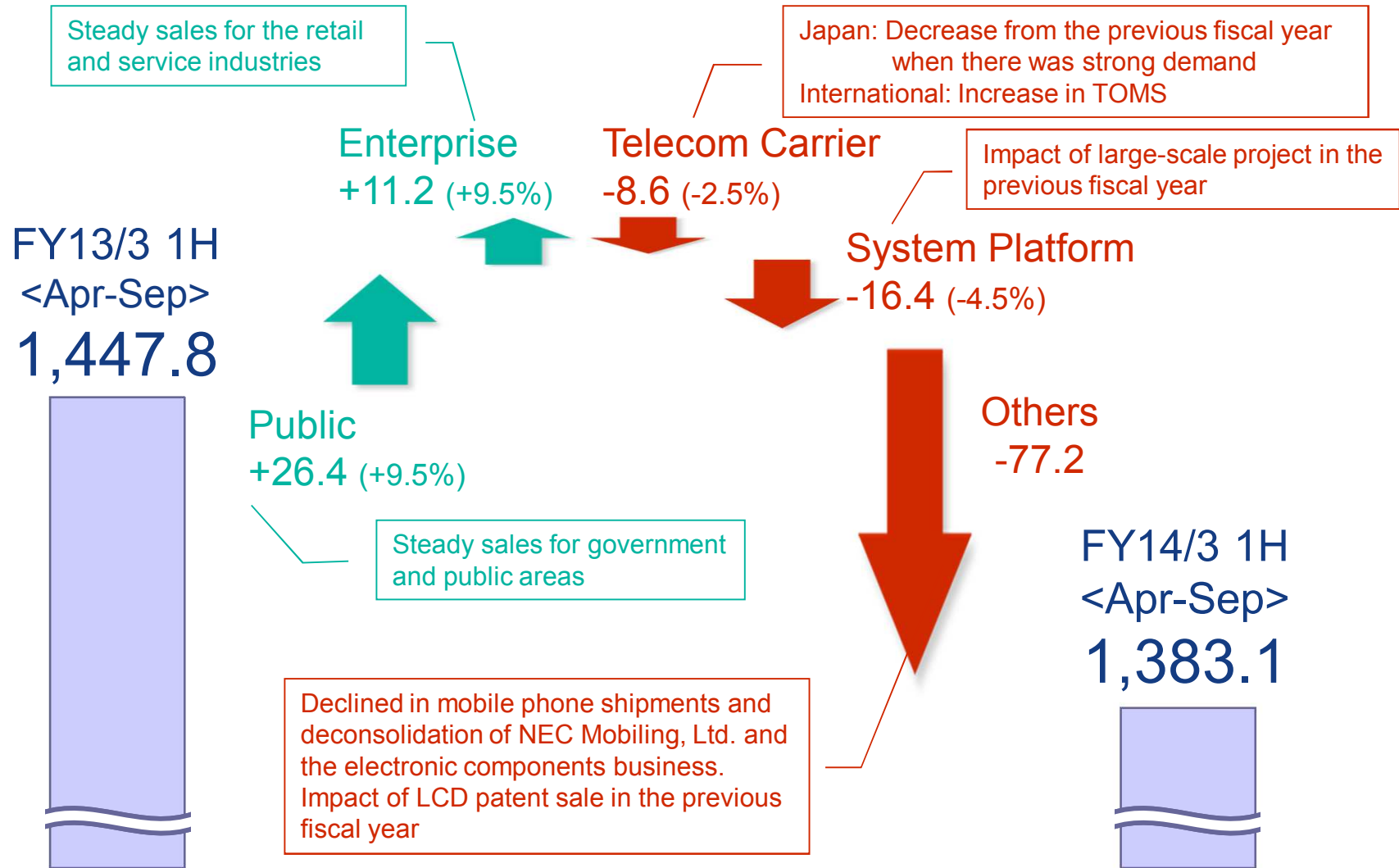
Operating Income  
for 1H, FY14/3  
**0.4**





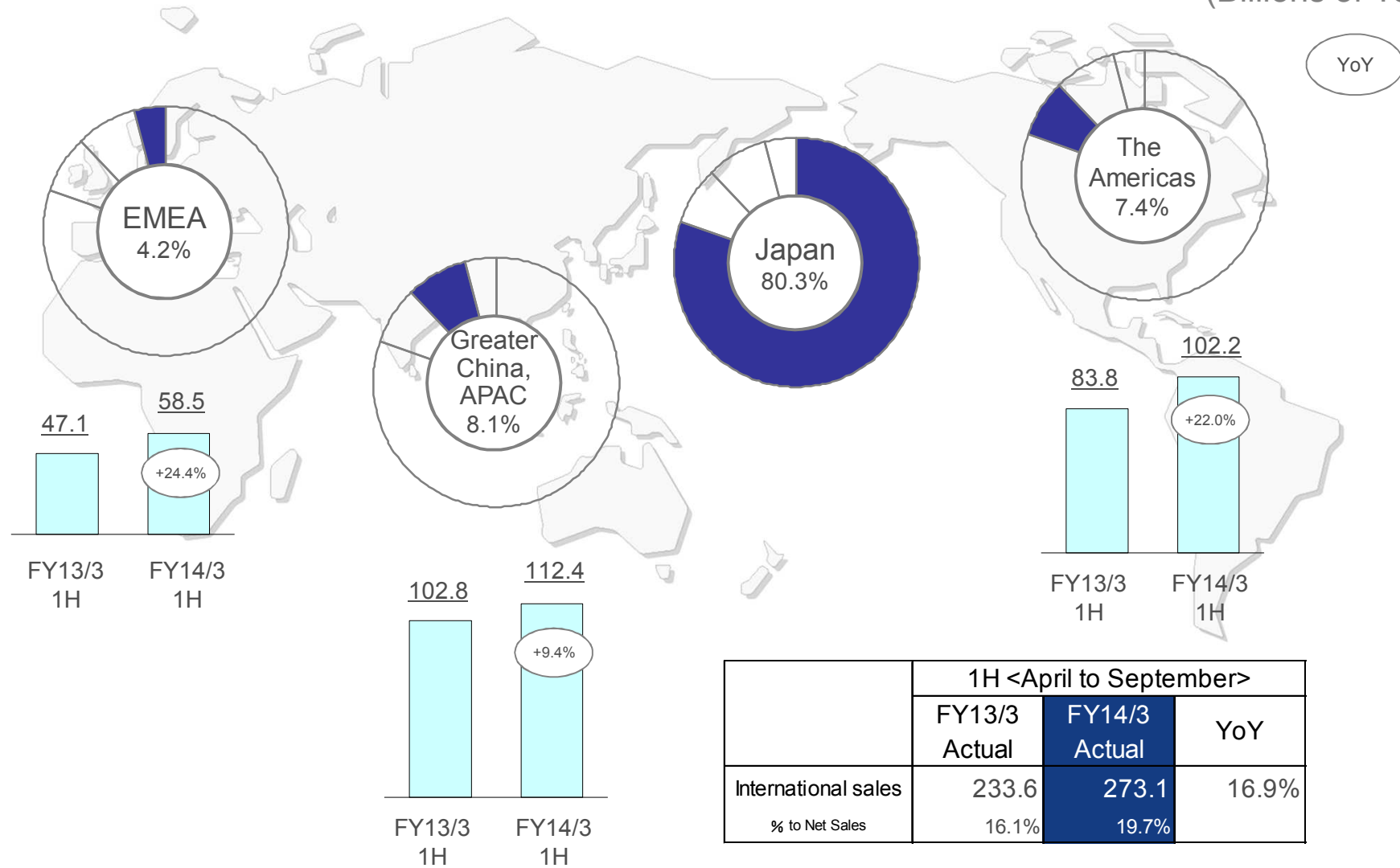
# Sales Change (Year on Year)

(Billions of Yen)



# International Sales

(Billions of Yen)



\* Sales are classified by country or region based on customer locations

# Financial Position Data

(Billions of Yen)

	End of Mar 2013	End of Sep 2013	Difference from Mar 2013	End of Sep 2012
Total Assets	2,581.0	2,478.3	-102.7	2,432.2
Net Assets	836.1	787.8	-48.3	766.3
Interest-bearing debt	603.5	688.7	85.3	683.3
Shareholders' Equity	710.7	684.1	-26.5	647.1
Equity ratio(%)	27.5%	27.6%	0.1pt	26.6%
D/E ratio (times)	0.85	1.01	-0.16pt	1.06
Net D/E ratio (times)	0.57	0.75	-0.18pt	0.74
Balance of cash and cash equivalents	197.1	174.0	-23.2	204.4

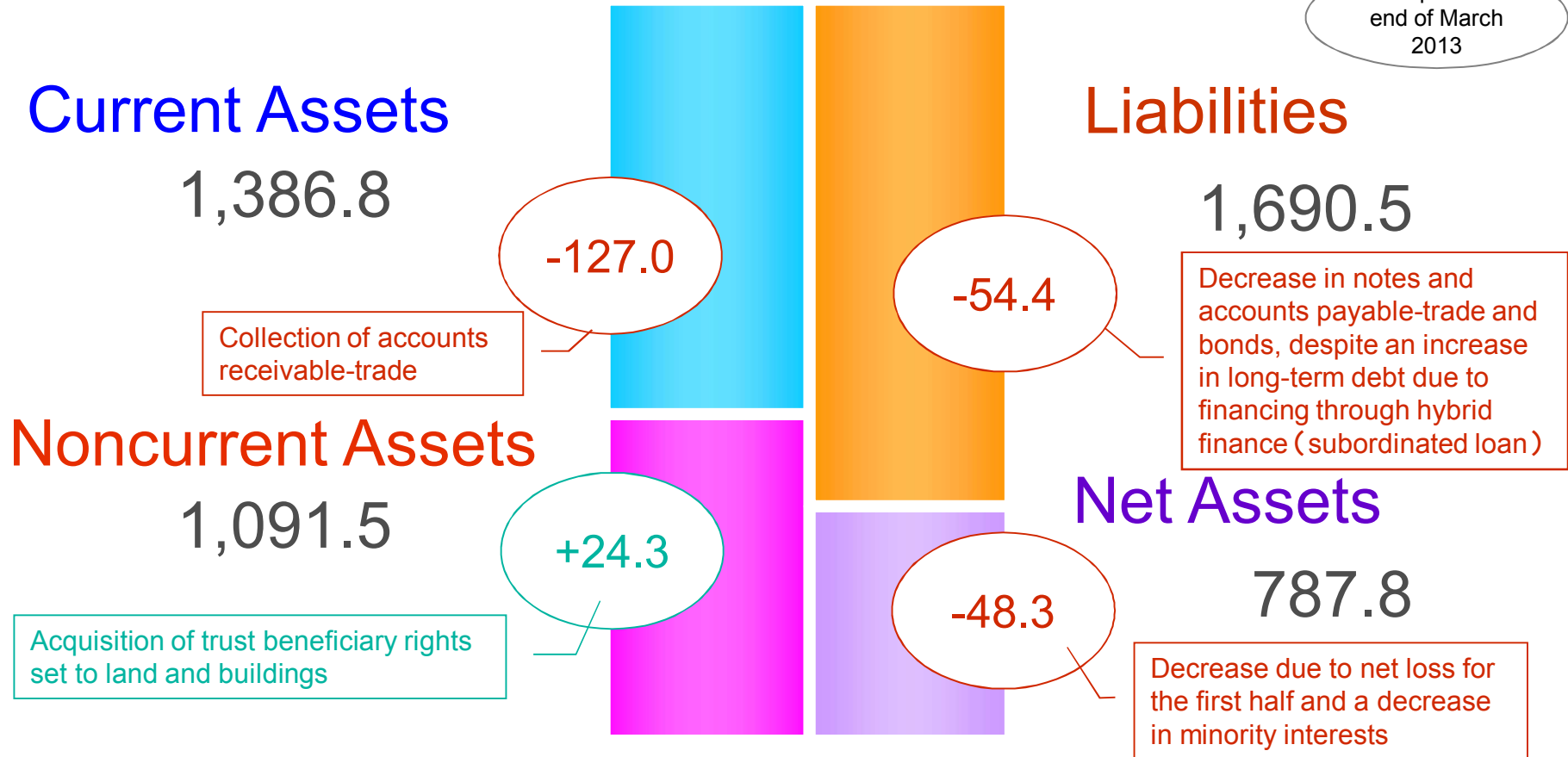
# <Ref.> Balance Sheets (At the end of September, 2013)

(Billions of Yen)

<Compared to end of March 2013>  
(-102.7)

**Total Assets 2,478.3**

Compared to  
end of March  
2013



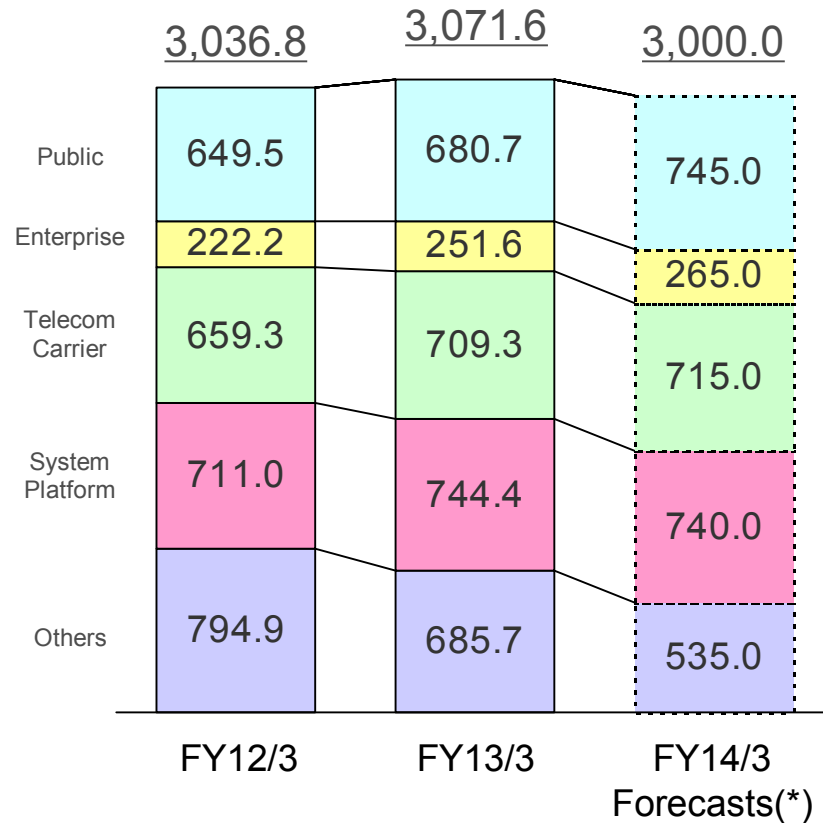
# Financial Forecasts for FY14/3 (Appendix)



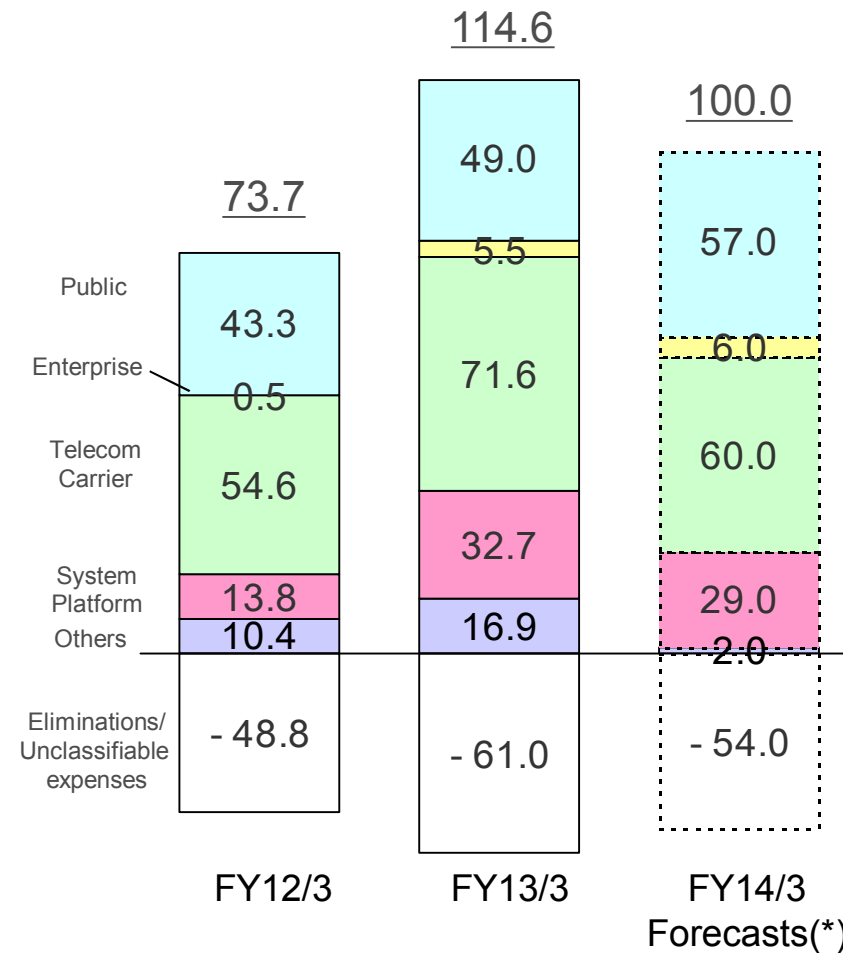
# Financial Forecasts for FY14/3 by Segment

(Billions of Yen)

## Net Sales

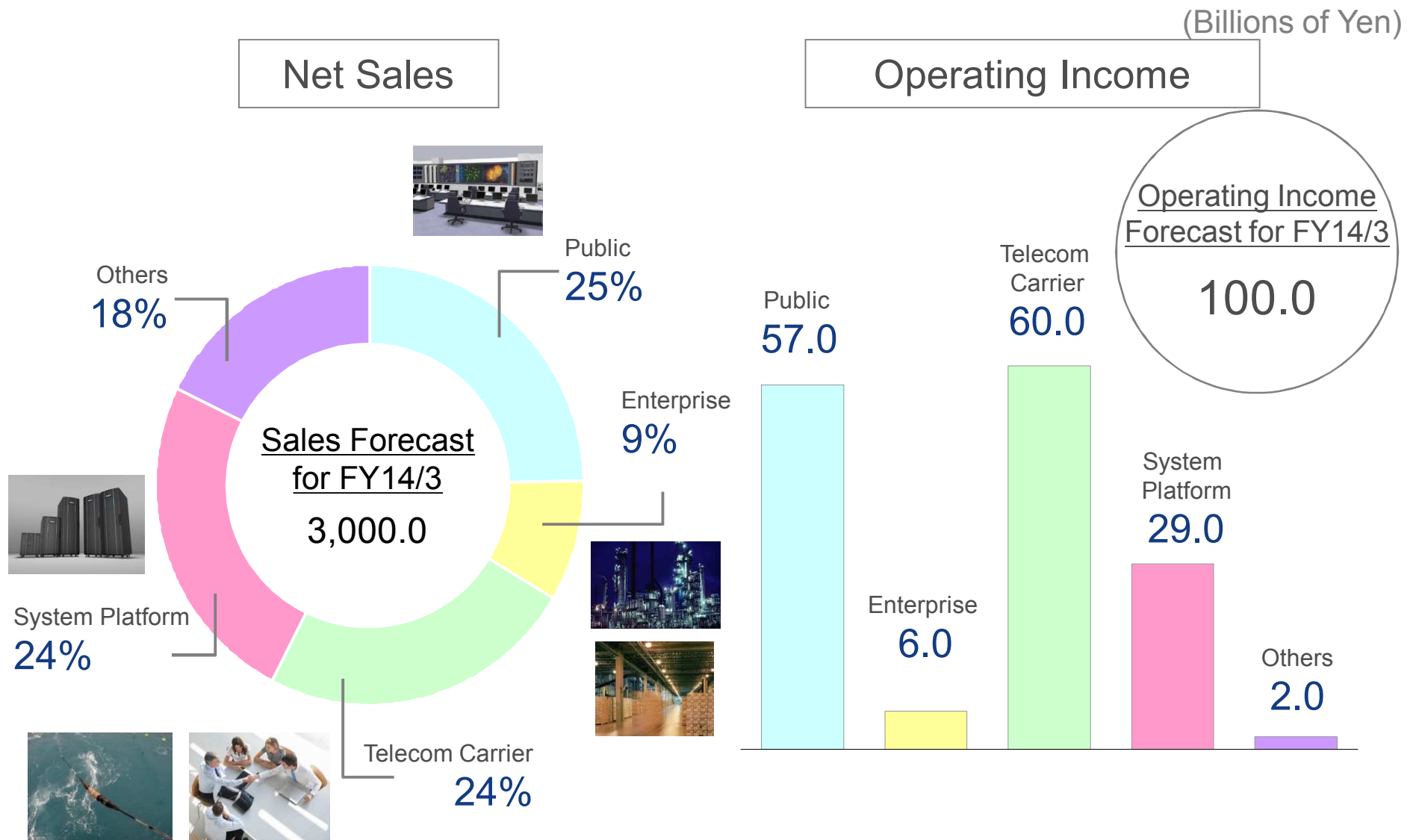


## Operating Income/Loss



\* Forecasts as of October 30, 2013

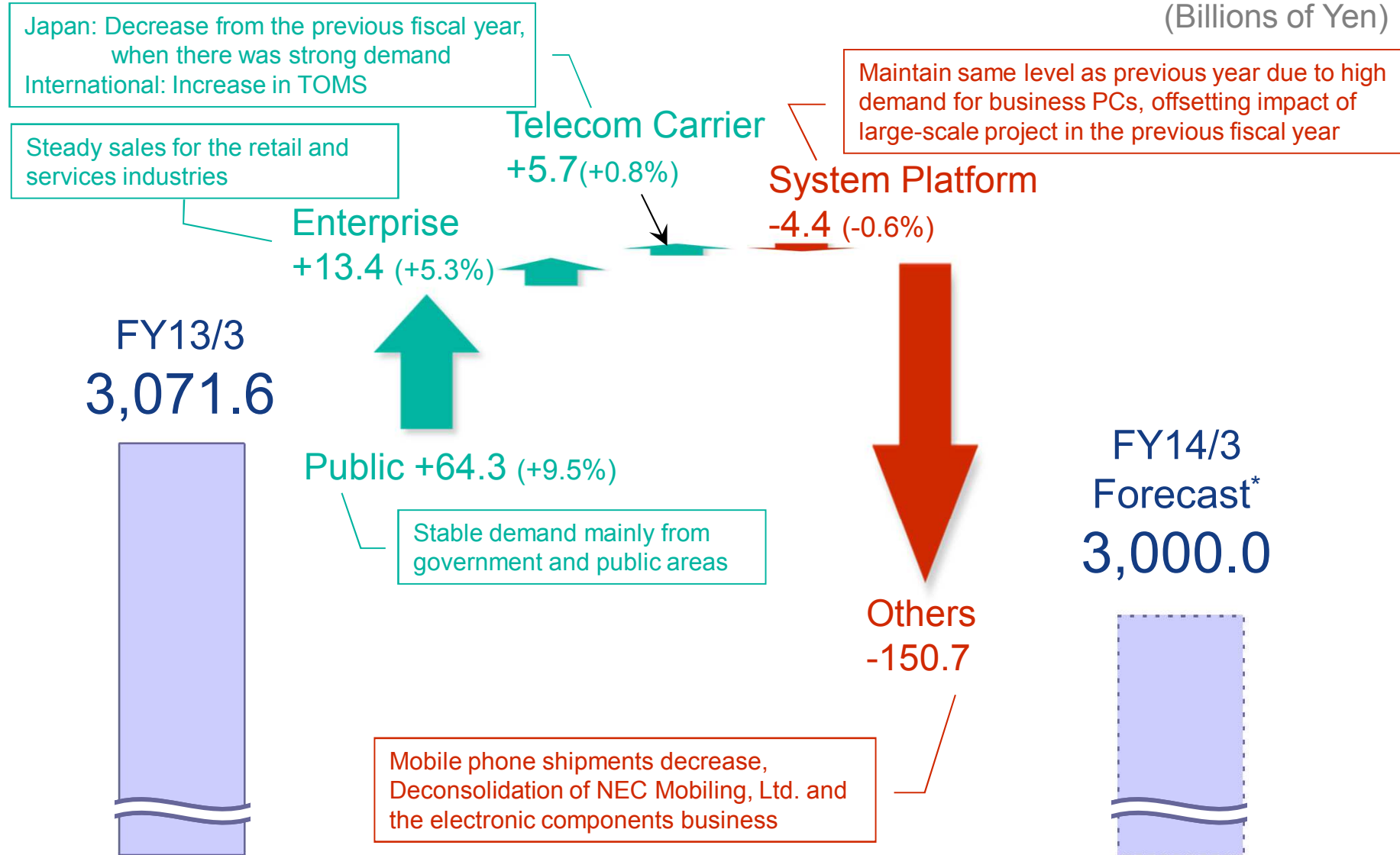
# Summary of Financial Forecasts for FY14/3 by Segment



\* Forecasts as of October 30, 2013

# Sales Change (Year on Year)

(Billions of Yen)

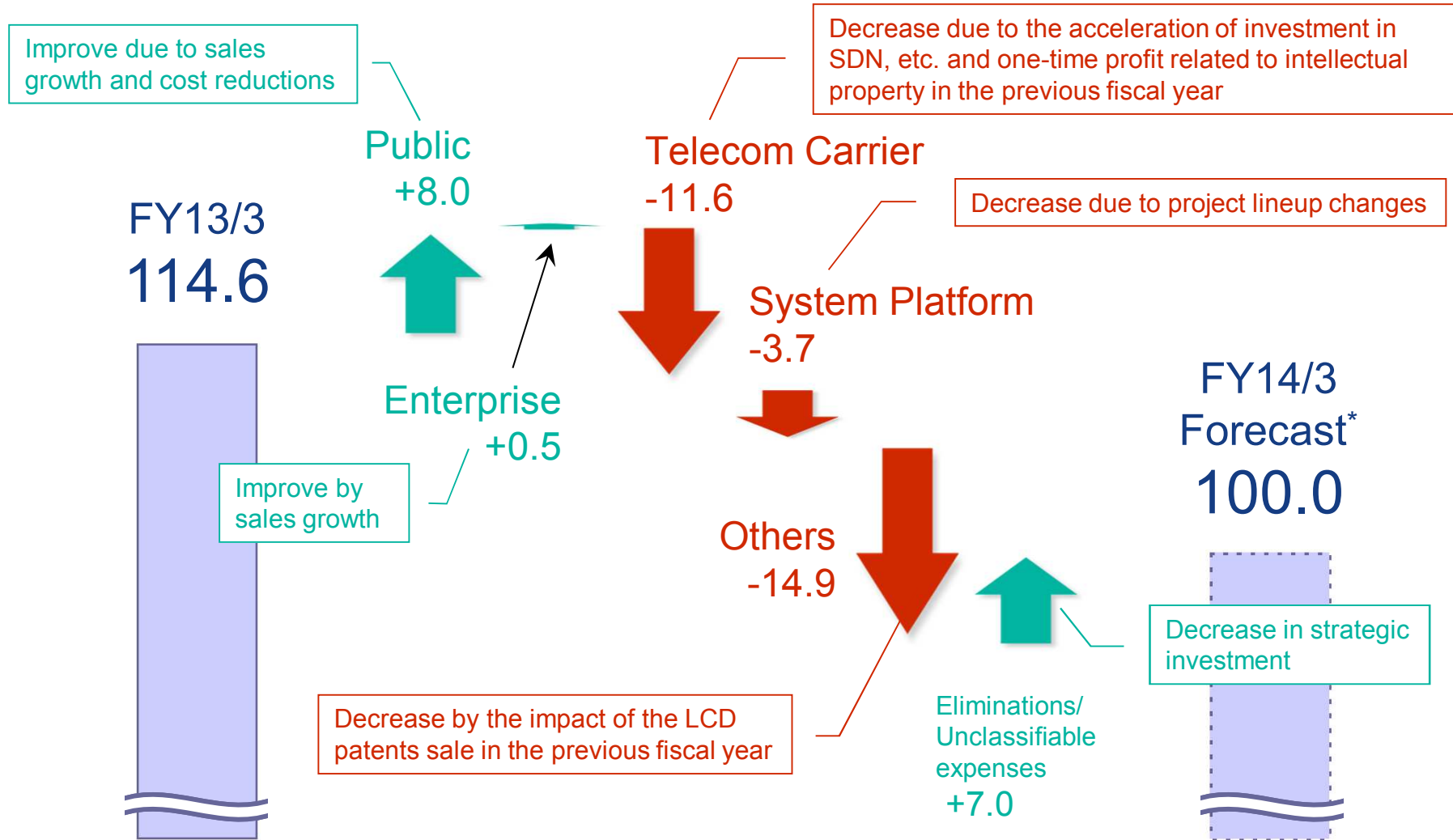


\* Forecasts as of October 30, 2013



# Operating Income Change (Year on Year)

(Billions of Yen)

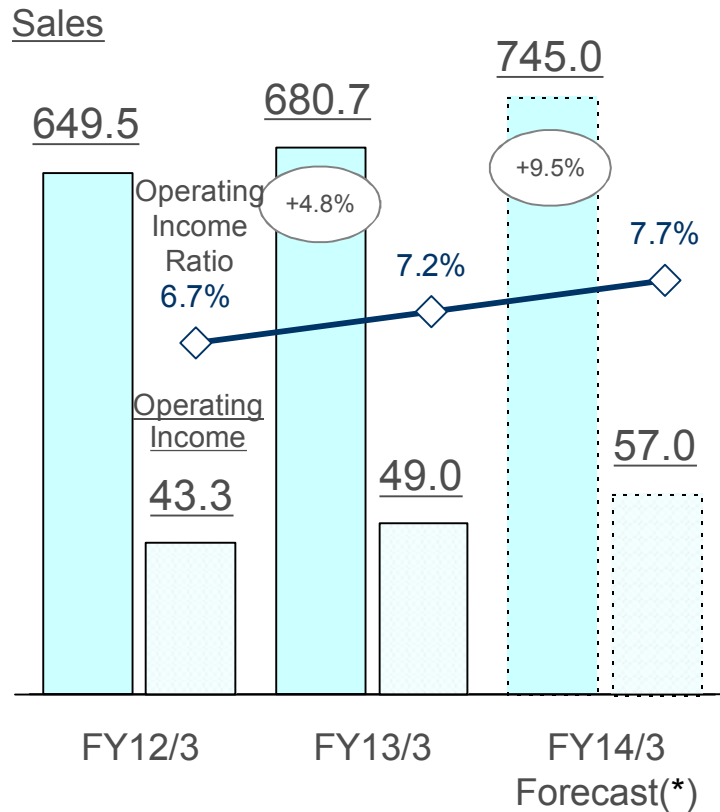


\* Forecasts as of October 30, 2013

Billions of Yen (YoY)

(Billions of Yen)

YoY



**Sales** 745.0 (+9.5%)

△ Increase due to stable demand mainly from government and public areas

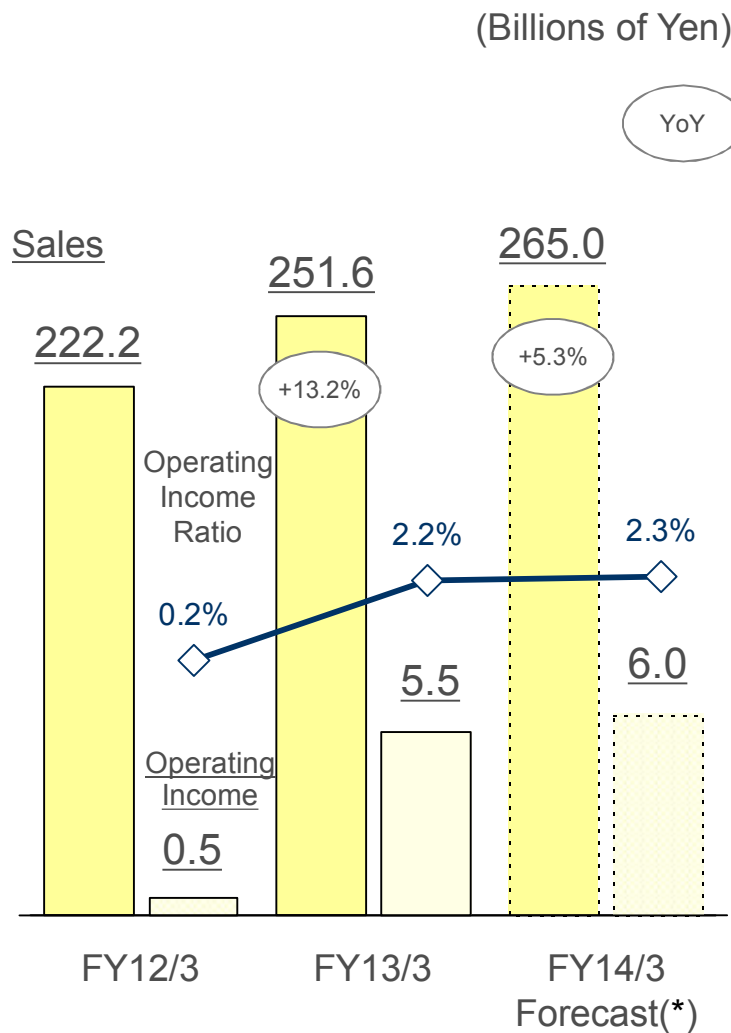
**Operating Income** 57.0 (+8.0)

△ Improve due to sales growth and cost reductions



\* Forecasts as of October 30, 2013

Billions of Yen (YoY)



**Sales** 265.0 (+5.3%)

△ Increase due to the steady sales for the retail and services industries

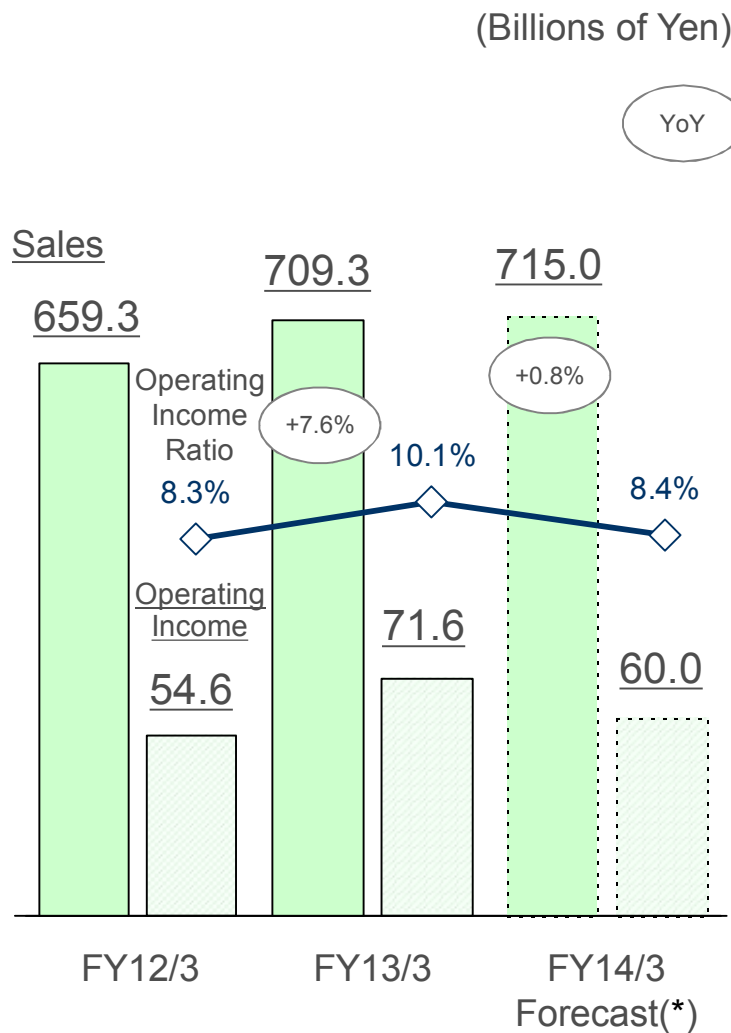
**Operating Income** 6.0 (+0.5)

△ Improve by sales growth



\* Forecasts as of October 30, 2013

Billions of Yen (YoY)



## Sales 715.0 (+0.8%)

- ▽ Japan: Decrease from the previous fiscal year, when there was strong demand
- △ International: Increase in TOMS

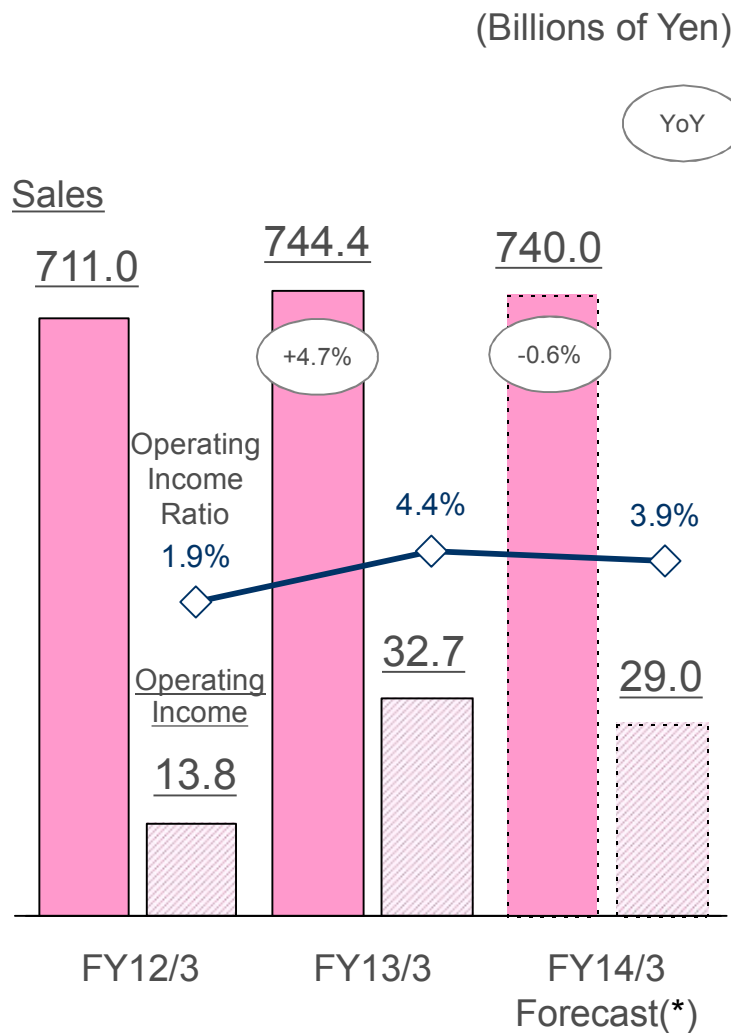
## Operating Income 60.0 (-11.6%)

- ▽ Decrease due to the acceleration of investment in SDN, etc. and one-time profit related to intellectual property in the previous fiscal year



\* Forecasts as of October 30, 2013

Billions of Yen (YoY)



**Sales** 740.0 (-0.6%)

- ▽ Maintain same level as previous year due to high demand for business PCs, offsetting impact of large-scale project in the previous fiscal year

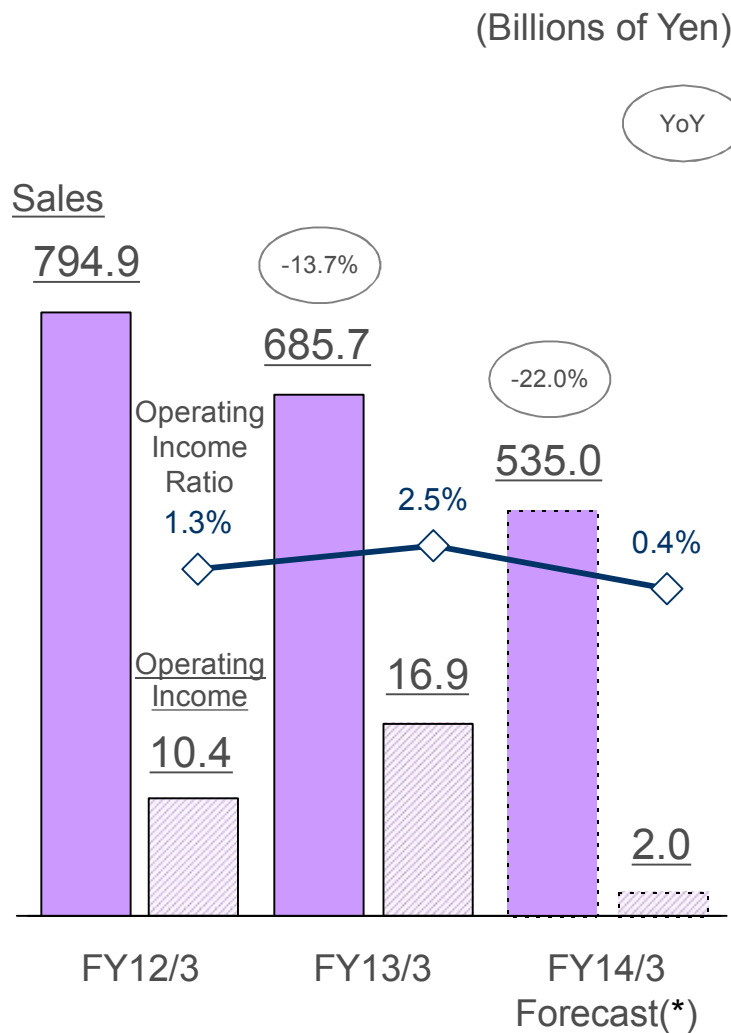
**Operating Income** 29.0 (-3.7%)

- ▽ Decrease due to project lineup changes



\* Forecasts as of October 30, 2013

Billions of Yen (YoY)



**Sales** 535.0 (-22.0%)

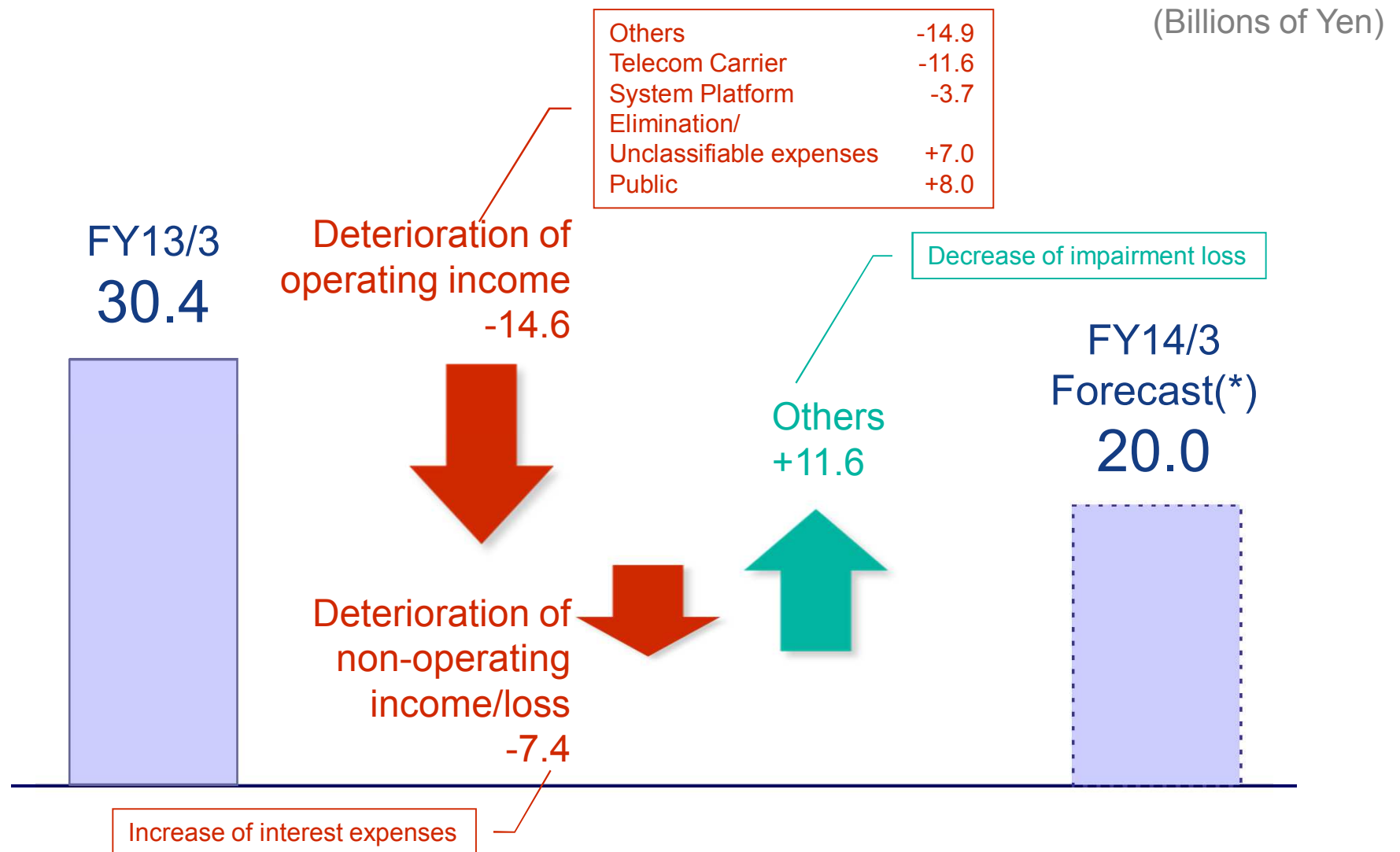
- ▽ Mobile phone shipments decrease
- ▽ Deconsolidation of NEC Mobiling, Ltd. and the electronic components business

**Operating Income** 2.0 (-14.9)

- ▽ Decrease by the impact of the LCD patents sale in the previous fiscal year

\* Forecasts as of October 30, 2013

# Net Income Change (Year on Year)



\* Forecasts as of October 30, 2013

# Capital Expenditure, Depreciation and R&D expenses

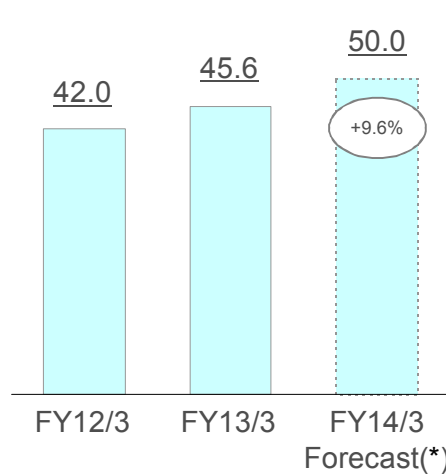
(Billions of Yen)

	FY12/3 Actual	FY13/3 Actual	FY14/3 Forecasts	YoY
Capital Expenditure	42.0	45.6	* 50.0	9.6%
Depreciation	53.3	51.2	* 50.0	- 2.3%
R&D expenses	162.0	151.7	160.0	5.5%
% to Net Sales	5.3%	4.9%	5.3%	

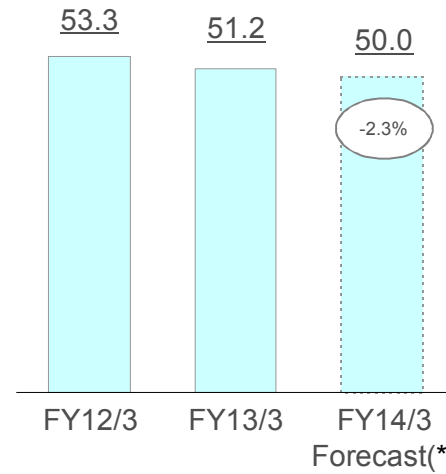


\* Not including acquisition of trust beneficiary rights

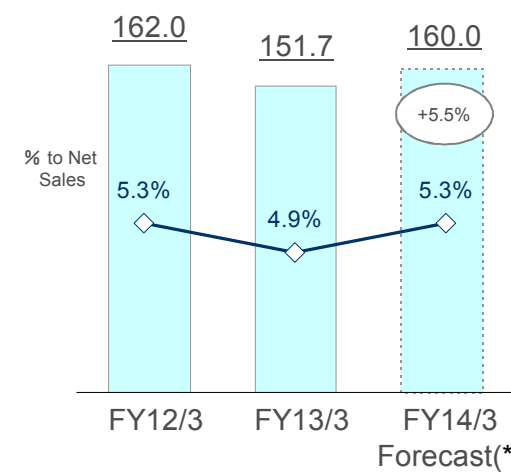
Capital Expenditure



Depreciation



R&D expenses



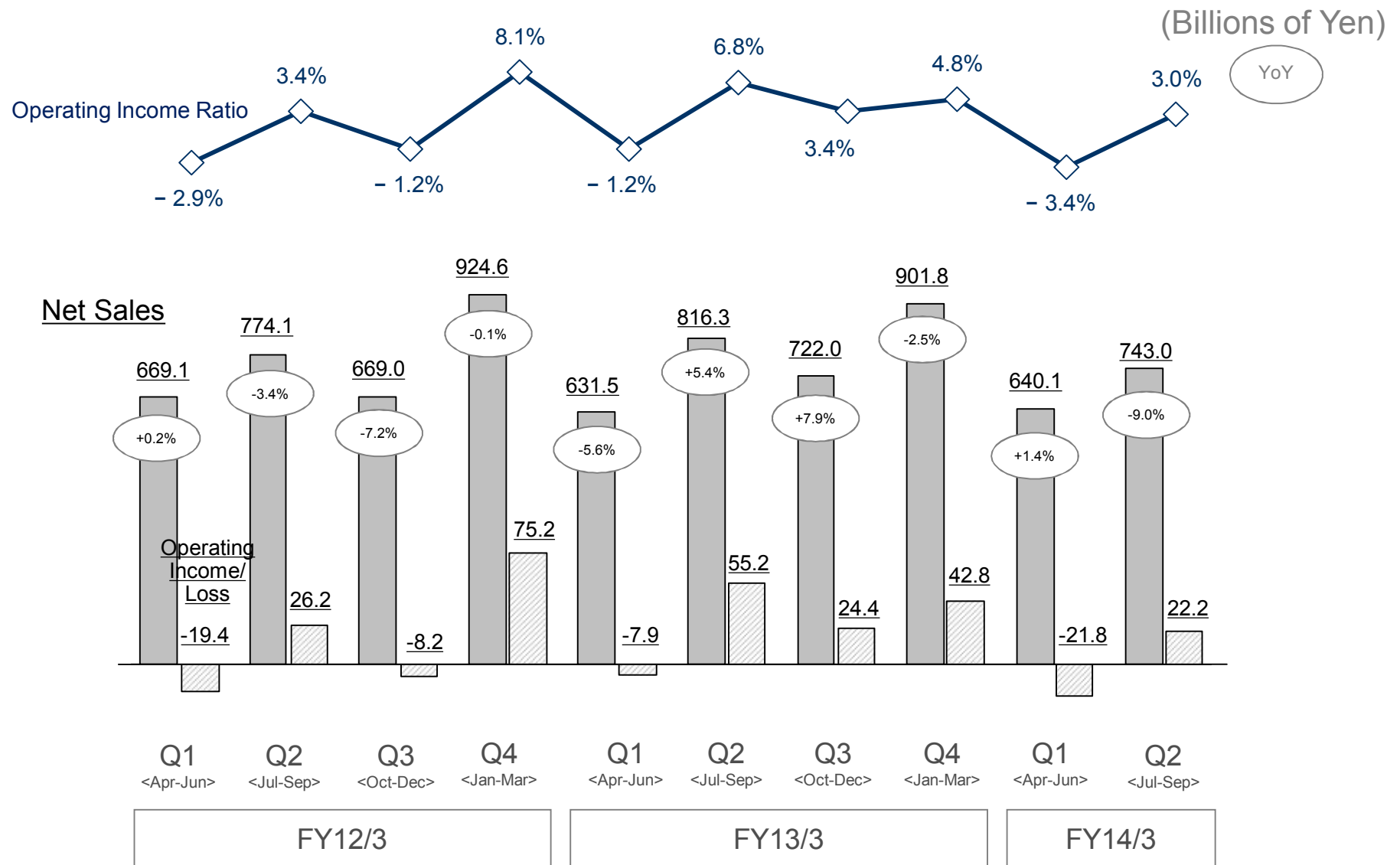
\* Forecasts as of October 30, 2013 (Note: Unchanged from forecasts announced on July 31)



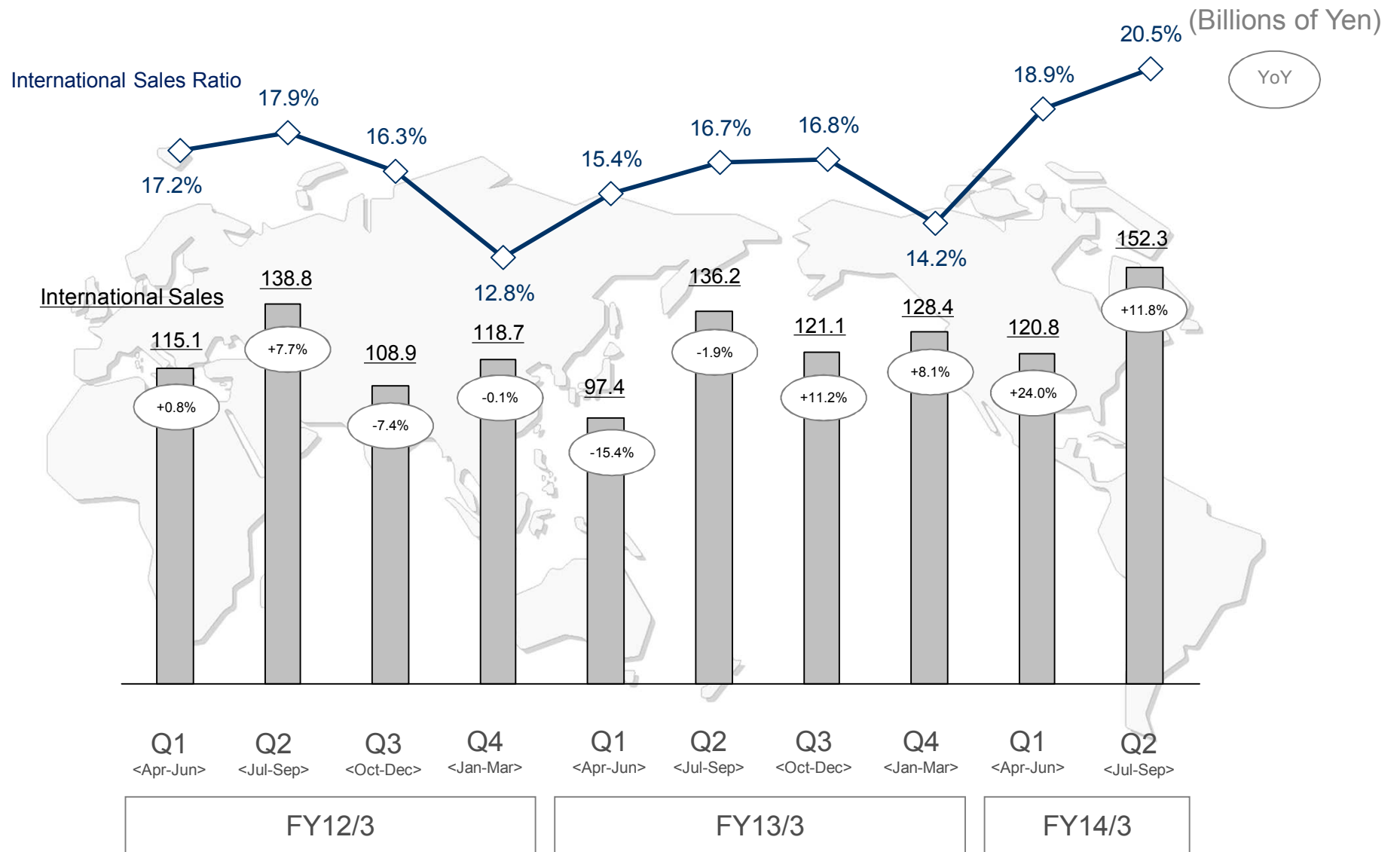
# Reference (Financial data)



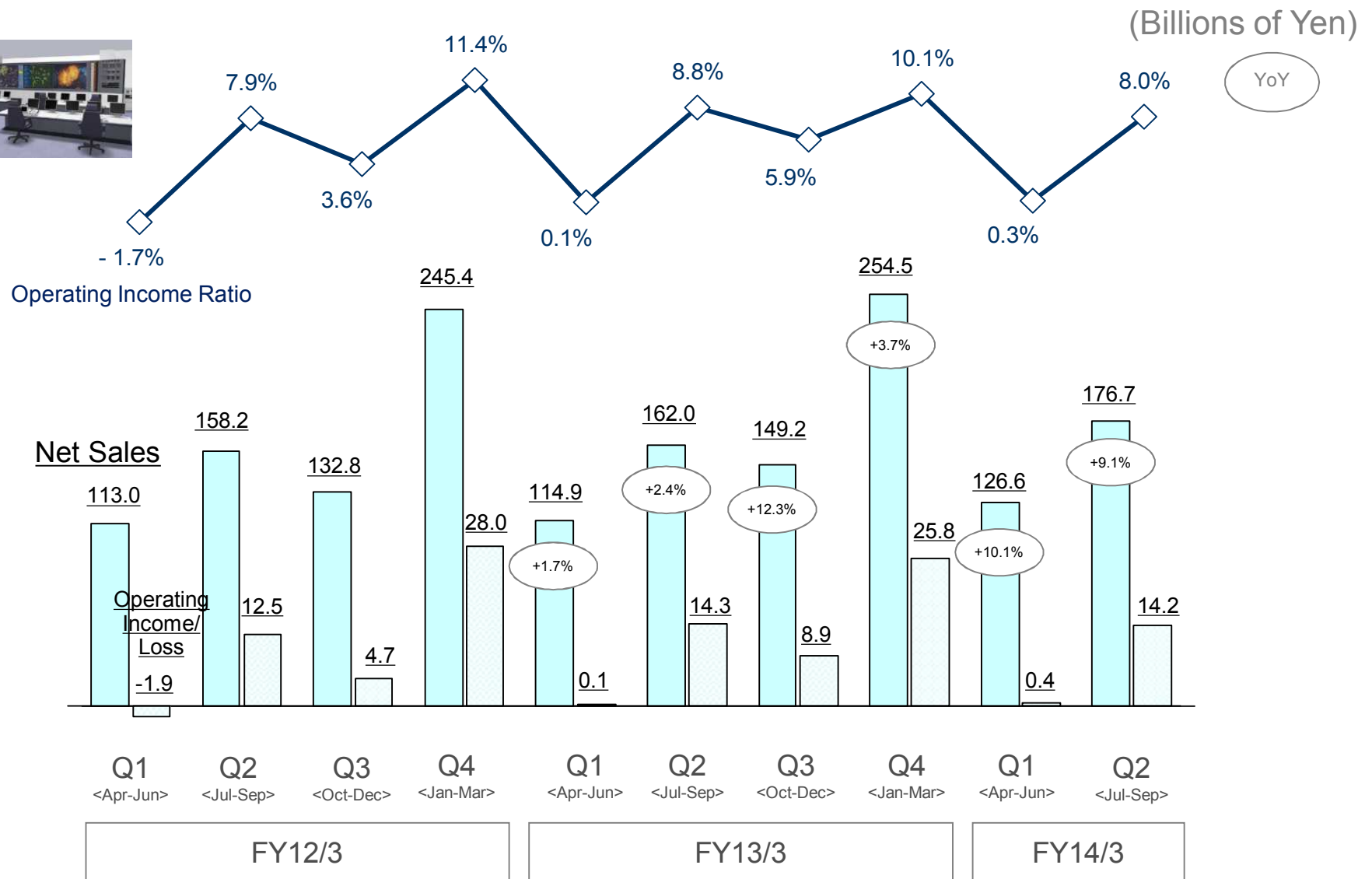
# Net Sales, Operating Income/Loss



# International Sales



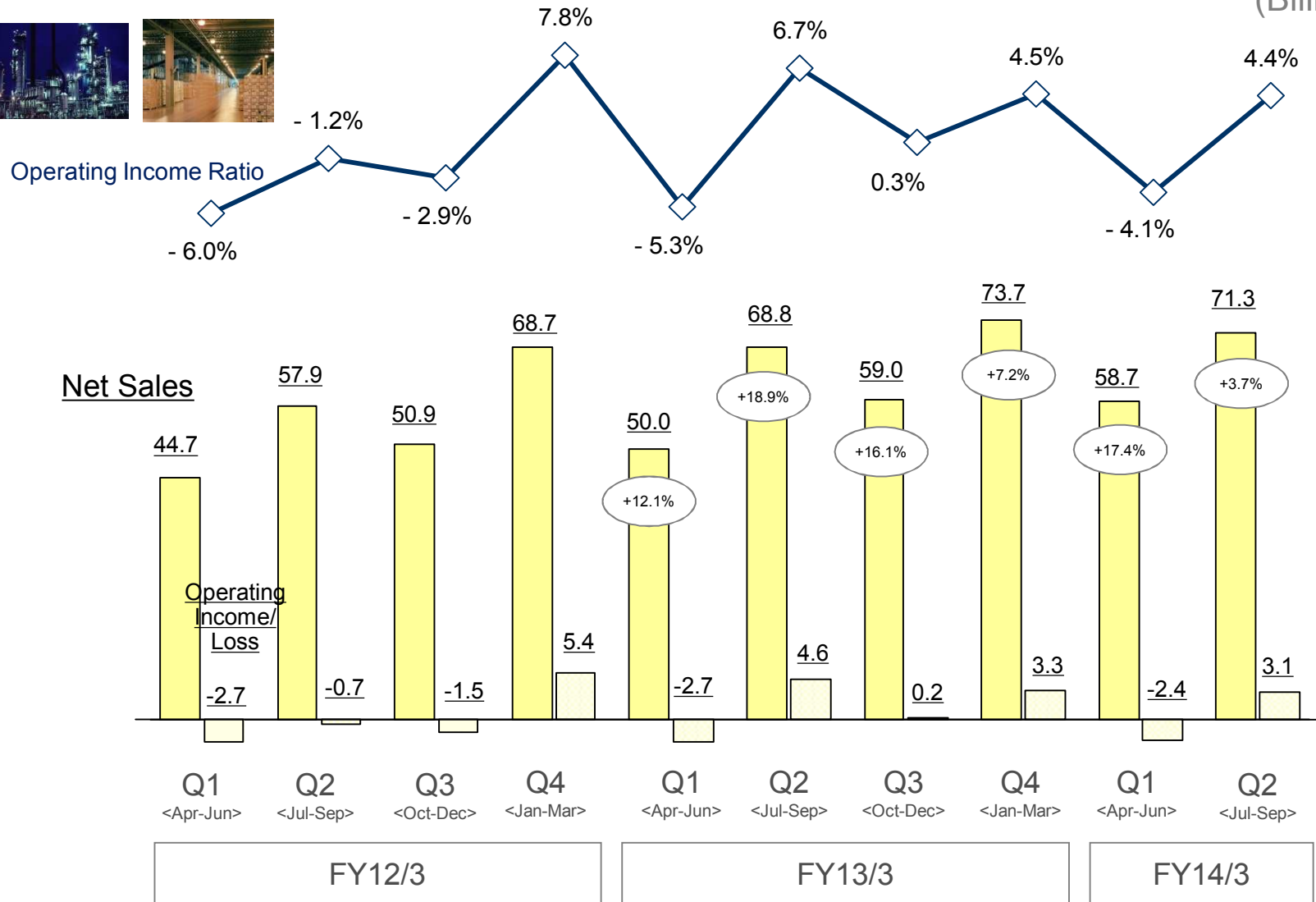
# Sales, Operating Income/Loss (Public)



# Sales, Operating Income/Loss (Enterprise)

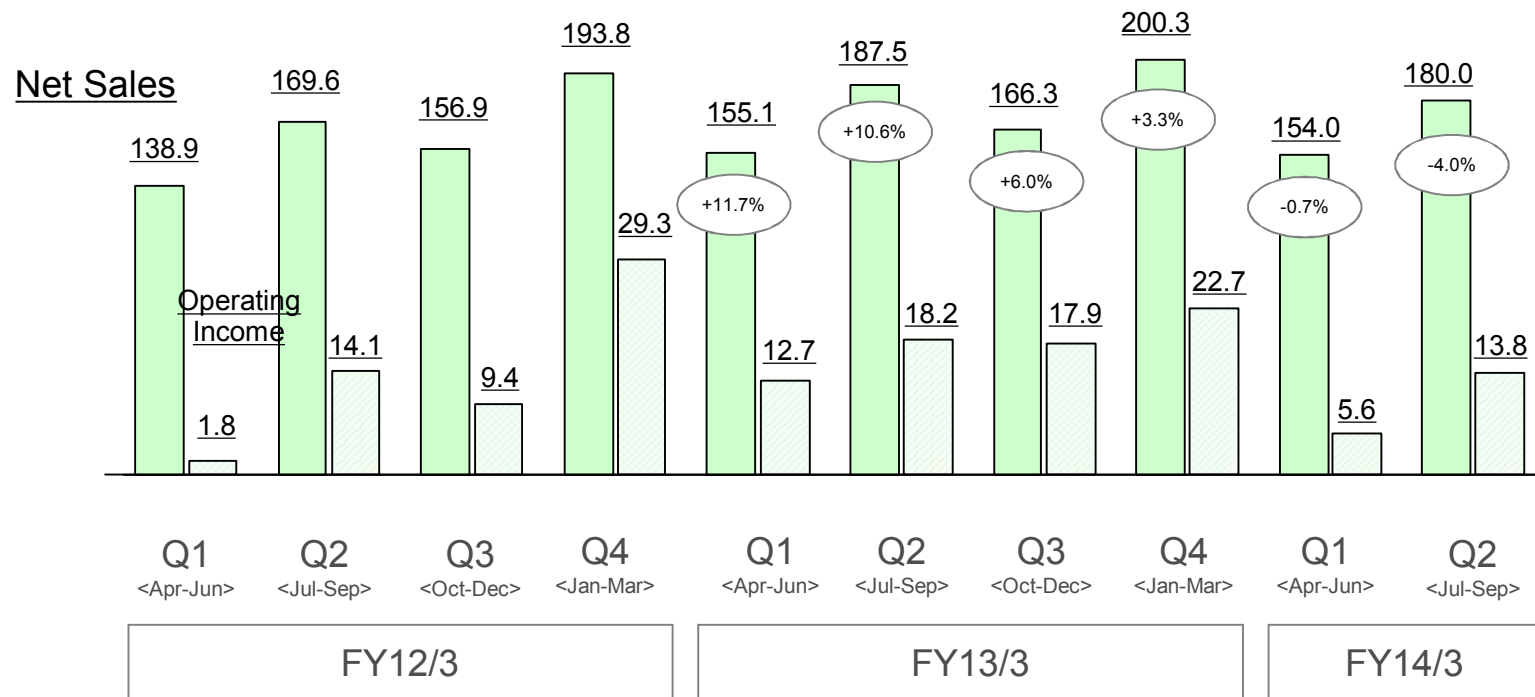
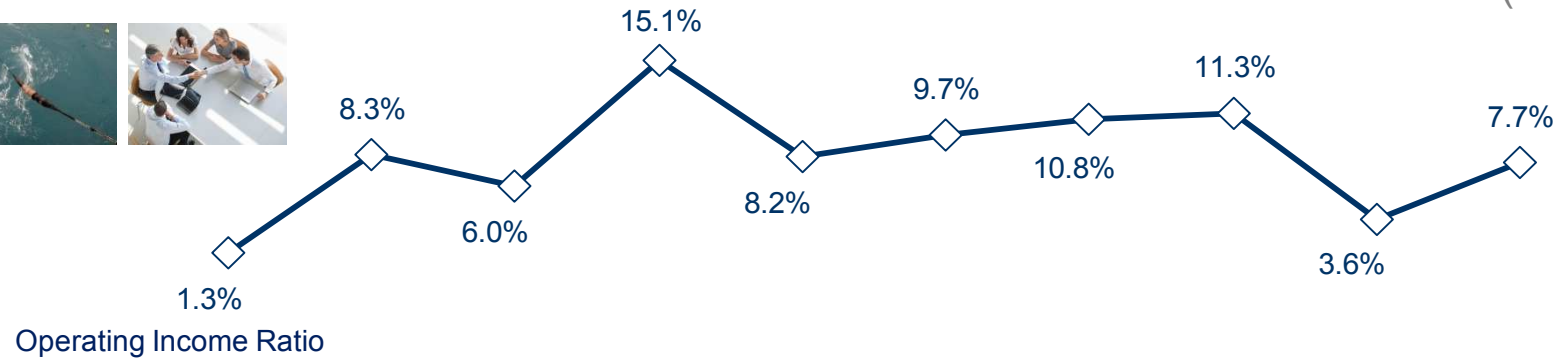
(Billions of Yen)

YoY

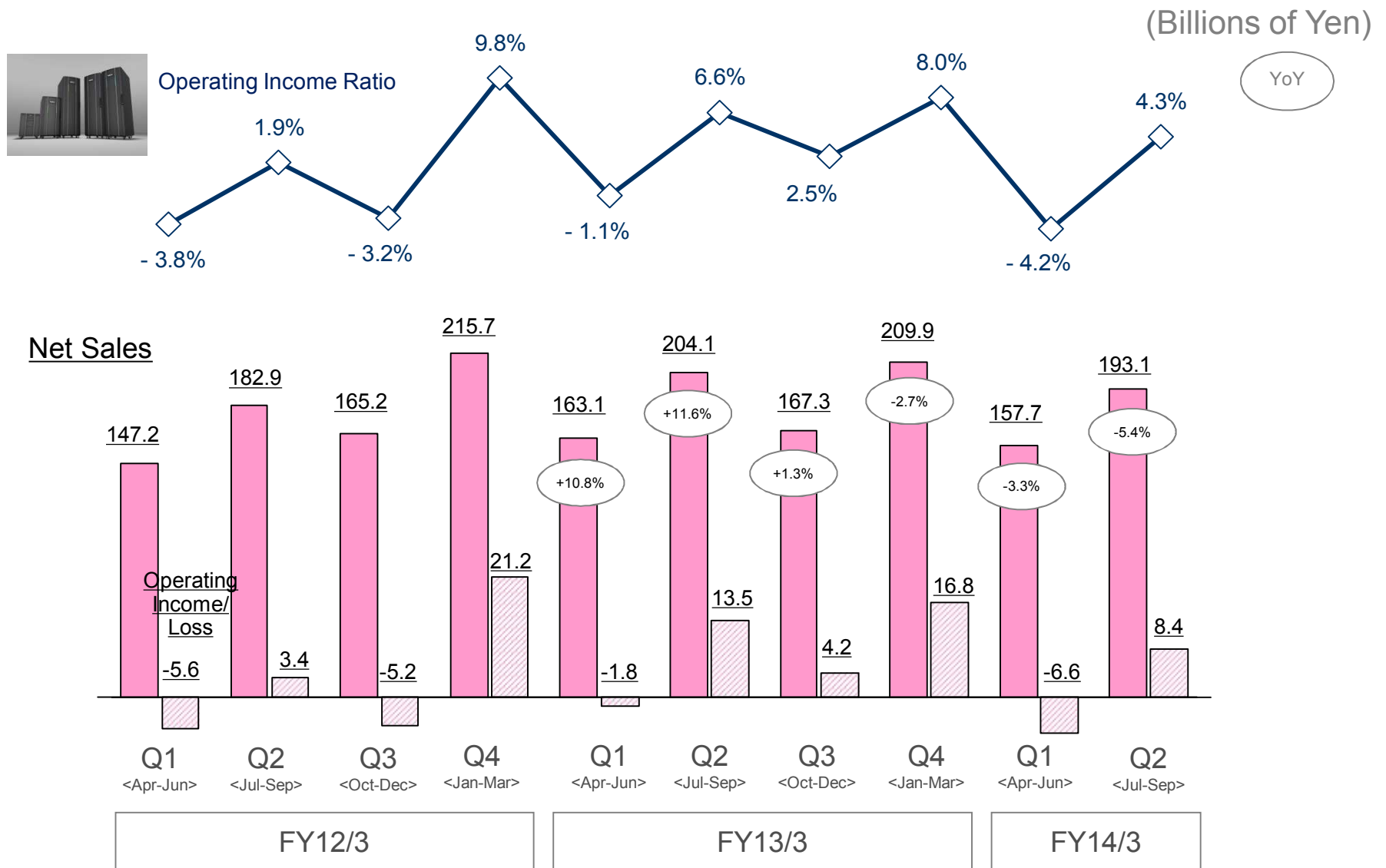


# Sales, Operating Income (Telecom Carrier)

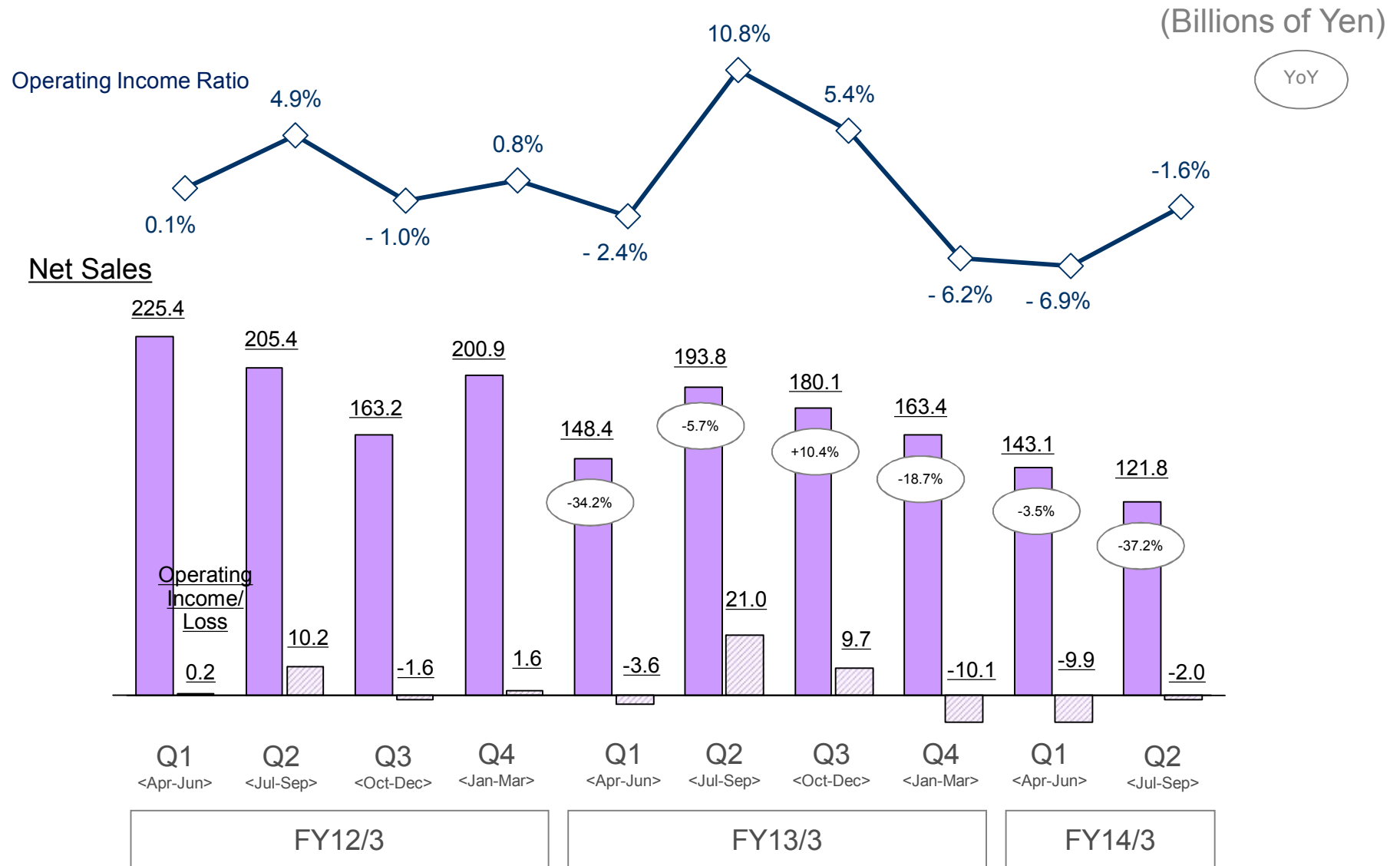
(Billions of Yen)



# Sales, Operating Income/Loss (System Platform)

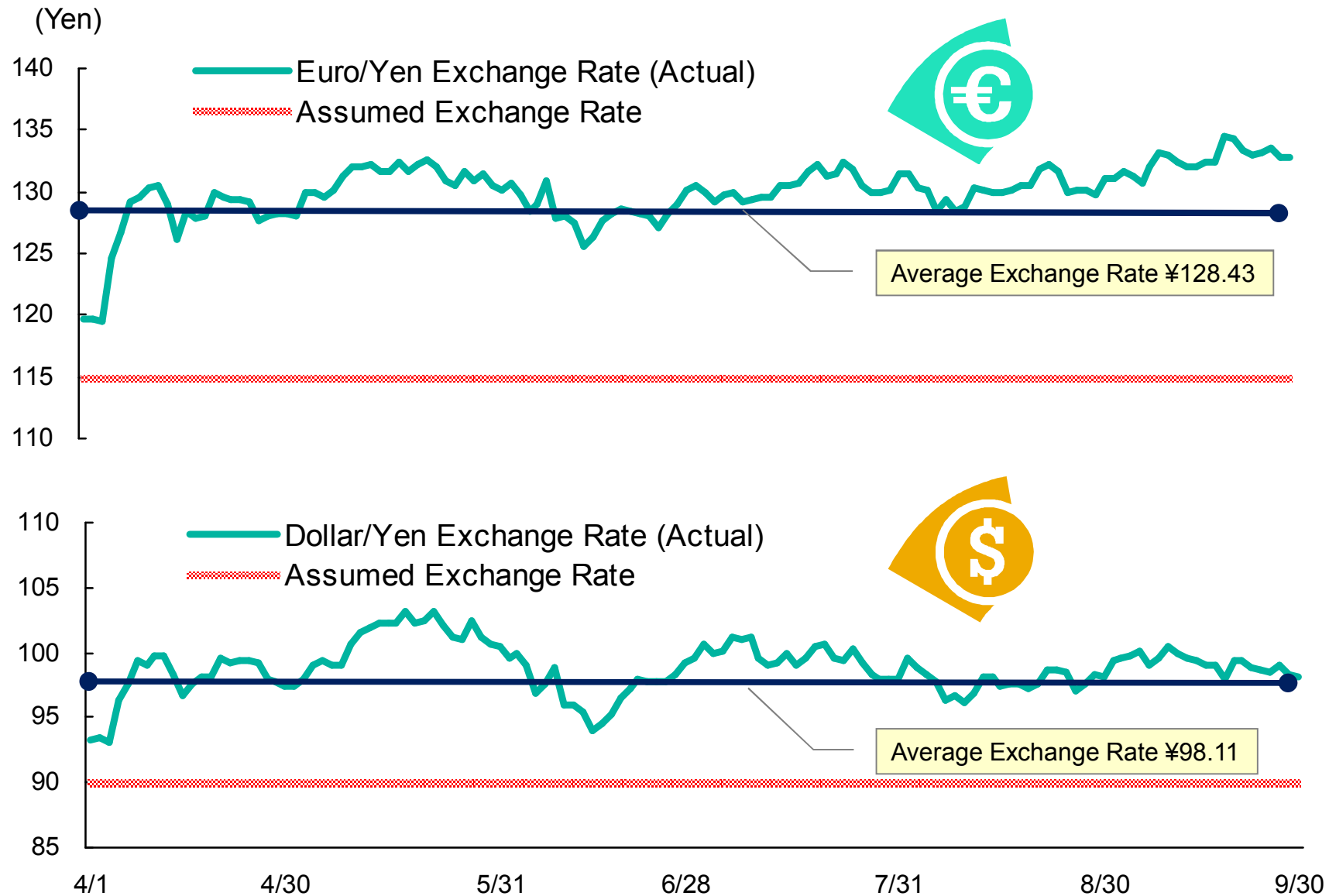


# Sales, Operating Income/Loss (Others)

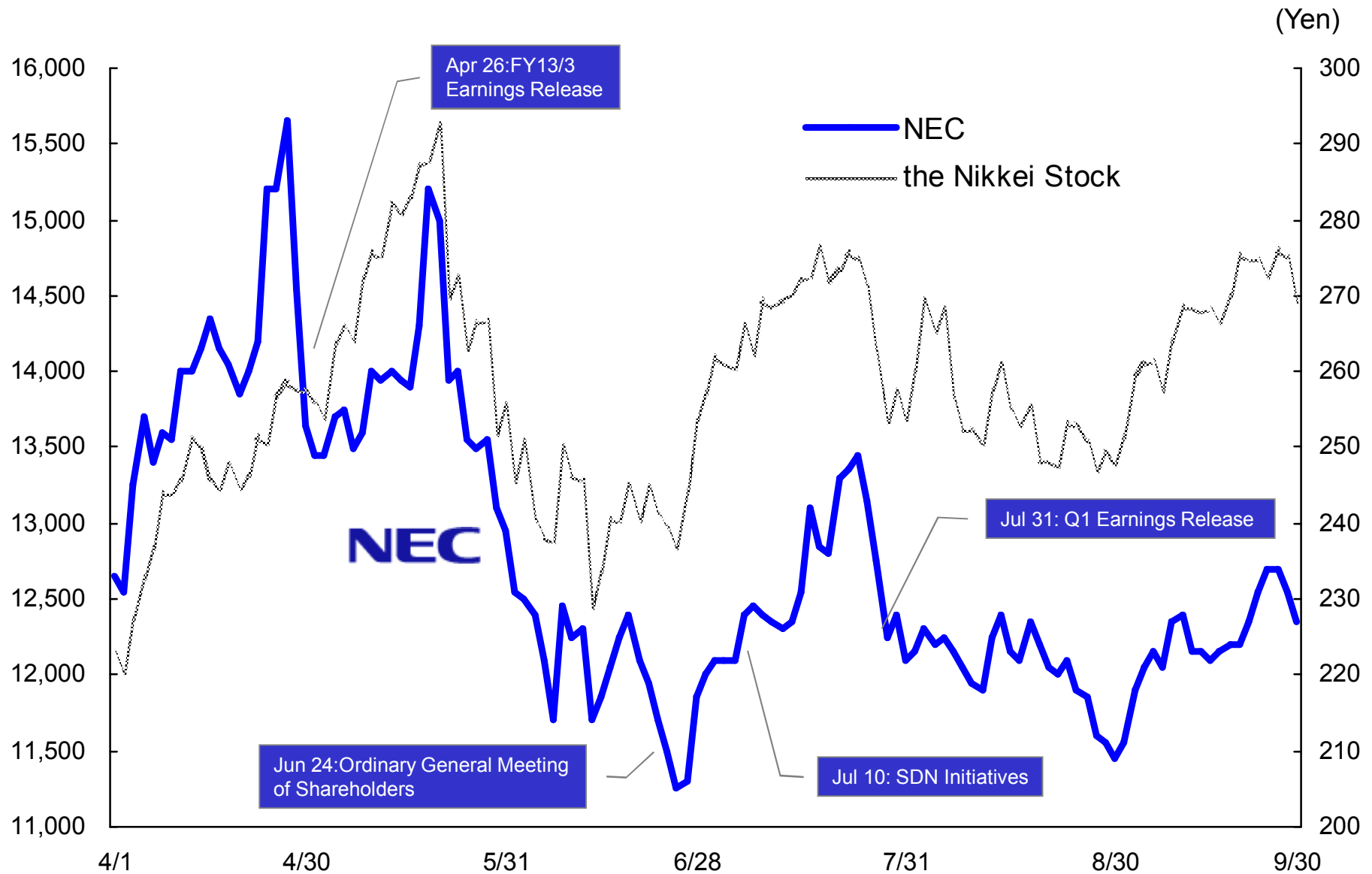




# Exchange Rate



# Stock Price



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This material contains forward-looking statements pertaining to strategies, financial targets, technology, products and services, and business performance of NEC Corporation and its consolidated subsidiaries (collectively "NEC"). Written forward-looking statements may appear in other documents that NEC files with stock exchanges or regulatory authorities, such as the Director of the Kanto Finance Bureau, and in reports to shareholders and other communications. NEC is relying on certain safe-harbors for forward-looking statements in making these disclosures. Some of the forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," "targets," "aims," or "anticipates," or the negative of those words, or other comparable words or phrases. You can also identify forward-looking statements by discussions of strategy, beliefs, plans, targets, or intentions. Forward-looking statements necessarily depend on currently available assumptions, data, or methods that may be incorrect or imprecise and NEC may not be able to realize the results expected by them. You should not place undue reliance on forward-looking statements, which reflect NEC's analysis and expectations only. Forward-looking statements are not guarantees of future performance and involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. Among the factors that could cause actual results to differ materially from such statements include (i) global economic conditions and general economic conditions in NEC's markets, (ii) fluctuating demand for, and competitive pricing pressure on, NEC's products and services, (iii) NEC's ability to continue to win acceptance of NEC's products and services in highly competitive markets, (iv) NEC's ability to expand into foreign markets, such as China, (v) regulatory change and uncertainty and potential legal liability relating to NEC's business and operations, (vi) NEC's ability to restructure, or otherwise adjust, its operations to reflect changing market conditions, (vii) movement of currency exchange rates, particularly the rate between the yen and the U.S. dollar, (viii) the impact of unfavorable conditions or developments, including share price declines, in the equity markets which may result in losses from devaluation of listed securities held by NEC, and (iv) impact of any regulatory action or legal proceeding against NEC. Any forward-looking statements speak only as of the date on which they are made. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect NEC. NEC does not undertake any obligation to update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise.

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