

# Financial Results for Q1 Fiscal Year Ending March 31, 2017

July 29, 2016

NEC Corporation

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

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Reference

\* Net profit/loss refers to net profit/loss attributable to owners of the parent for the same period.

# I . Financial Results for Q1, FY17/3

	Q1 <April to June>		
	FY16/3 Actual	FY17/3 Actual	YoY
Revenue	587.3	518.7	-11.7%
Operating Profit/Loss	-7.6	-29.9	-22.4
% to Revenue	-1.3%	-5.8%	
Income/Loss before Income Taxes	-4.4	-33.7	-29.3
Net Profit/Loss	-5.6	-20.1	-14.5
% to Revenue	-1.0%	-3.9%	

Free Cash Flows	80.9	63.7	-17.2
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Note: Average Exchange Rates (yen)	USD 1	120.23	110.66
	EUR 1	131.42	124.38

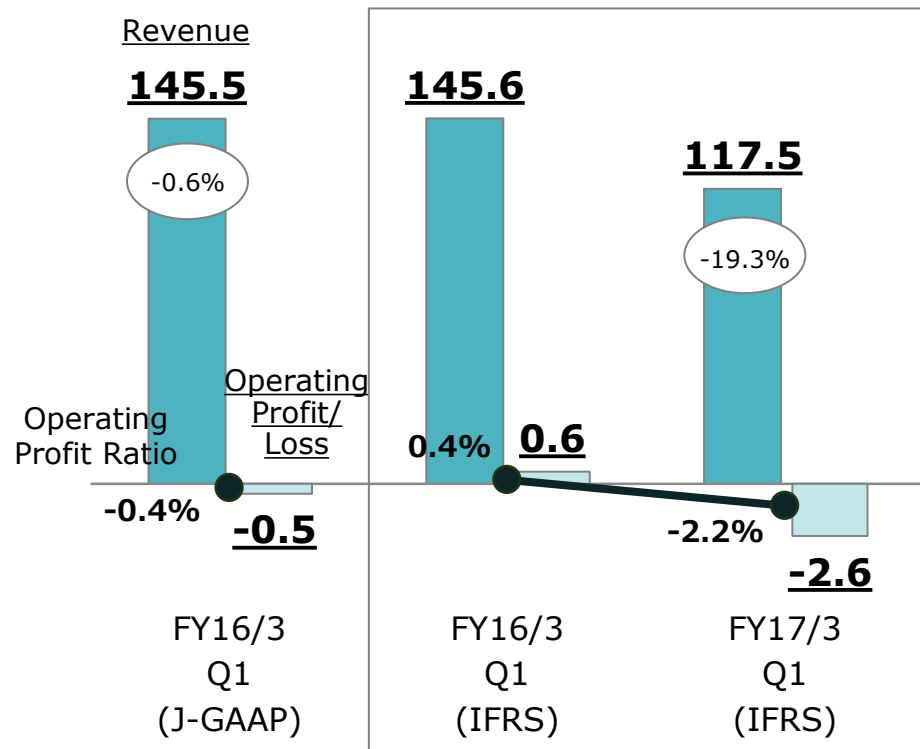
(Billions of Yen)

		Q1 <April to June>		
		FY16/3 Actual	FY17/3 Actual	YoY
Public	Revenue	145.6	117.5	-19.3%
	Operating Profit/Loss	0.6	-2.6	-3.2
	% to Revenue	0.4%	-2.2%	
Enterprise	Revenue	68.6	66.5	-3.1%
	Operating Profit	3.4	3.7	+0.3
	% to Revenue	5.0%	5.6%	
Telecom Carrier	Revenue	143.1	121.1	-15.3%
	Operating Profit/Loss	-2.4	-6.9	-4.5
	% to Revenue	-1.7%	-5.7%	
System Platform	Revenue	160.2	150.2	-6.2%
	Operating Profit/Loss	4.3	-4.5	-8.9
	% to Revenue	2.7%	-3.0%	
Others	Revenue	69.8	63.3	-9.3%
	Operating Profit/Loss	-6.2	-8.4	-2.2
	% to Revenue	-8.9%	-13.2%	
Adjustment	Operating Profit/Loss	-7.3	-11.2	-3.9
Total	Revenue	587.3	518.7	-11.7%
	Operating Profit/Loss	-7.6	-29.9	-22.4
	% to Revenue	-1.3%	-5.8%	

(Billions of Yen)

Billions of Yen (YoY)

YoY



## Revenue 117.5 (-19.3%)

- Decreased due to a decline in large-scale projects for the central government in the previous fiscal year, and a decline in demand for the digitalization of fire and emergency radio in the public areas

## Operating Profit/Loss -2.6 (-3.2)

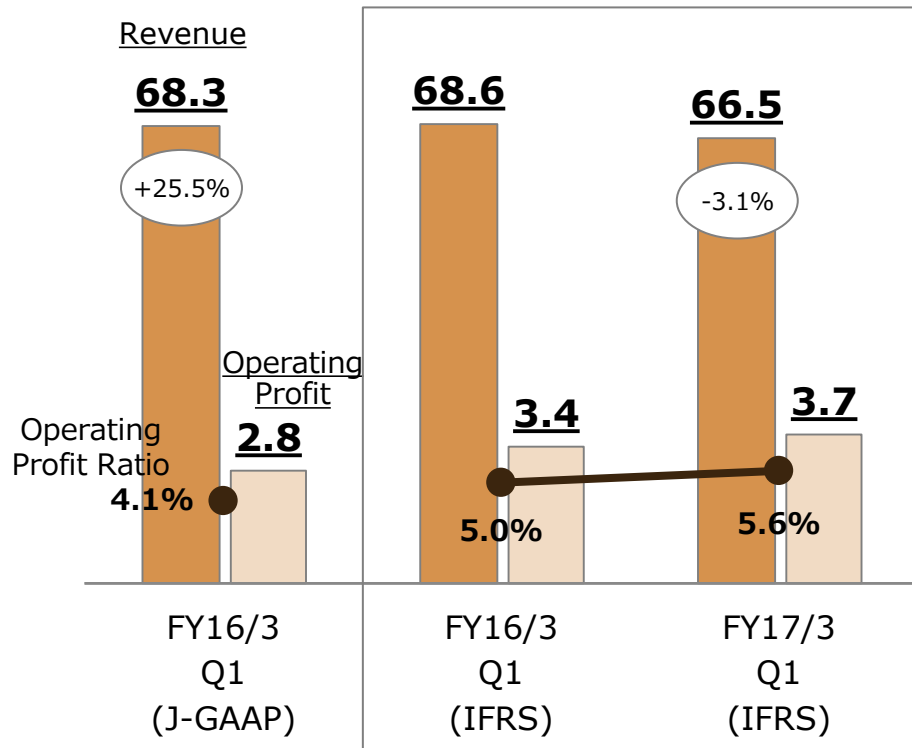
- Worsened due to a sales decline



(Billions of Yen)

Billions of Yen (YoY)

YoY



## Revenue 66.5 (-3.1%)

- Decreased due to a decline in large-scale projects in retail and services in the previous fiscal year, despite strong sales from manufacturing industries

## Operating Profit 3.7 (+0.3)

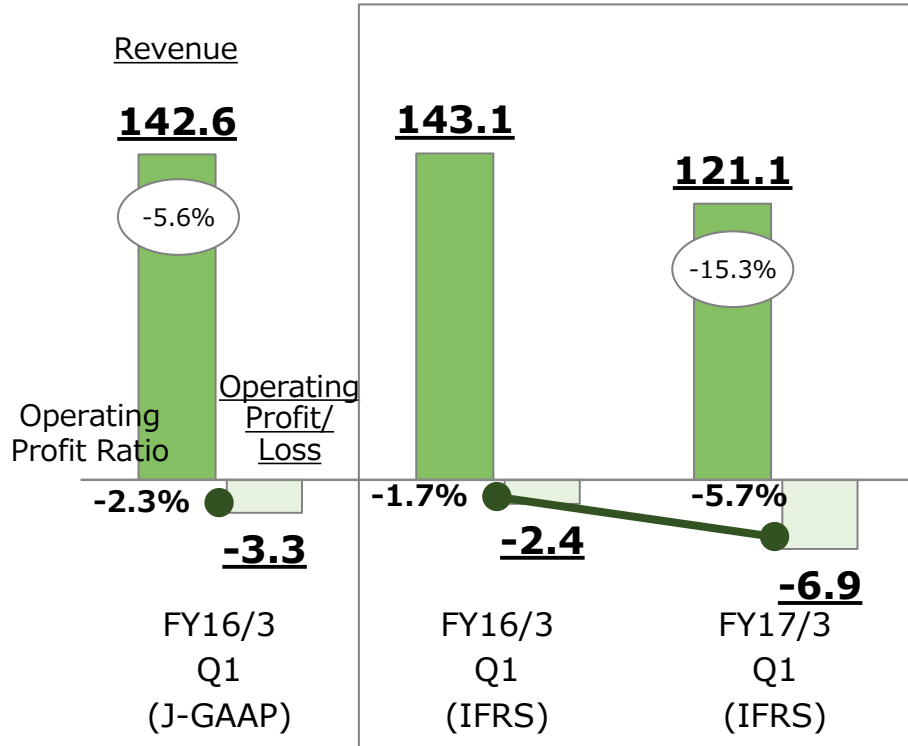
- Improved due to higher profitability in system construction services, despite a sales decline



(Billions of Yen)

Billions of Yen (YoY)

YoY



## Revenue 121.1 (-15.3%)

- Decreased due to sluggish capital investment by domestic and international telecommunications carriers

## Operating Profit/Loss -6.9 (-4.5)

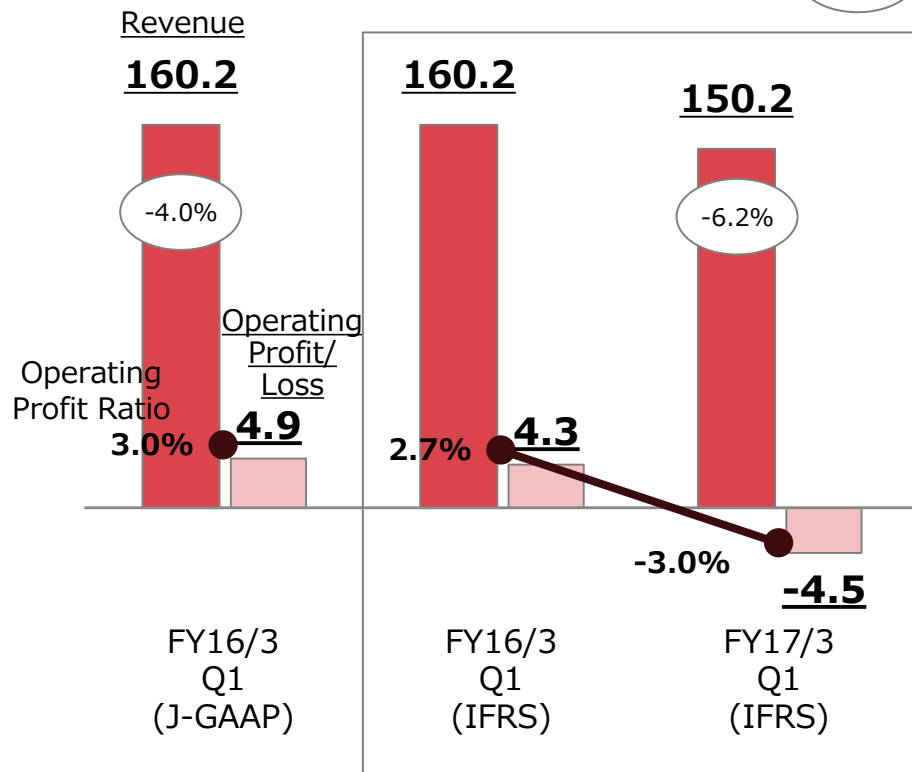
- Worsened due to a sales decline



(Billions of Yen)

Billions of Yen (YoY)

YoY



**Revenue** 150.2 (-6.2%)

- Decreased in hardware

**Operating Profit/Loss** -4.5 (-8.9)

- Worsened due to a sales decline and project lineup changes

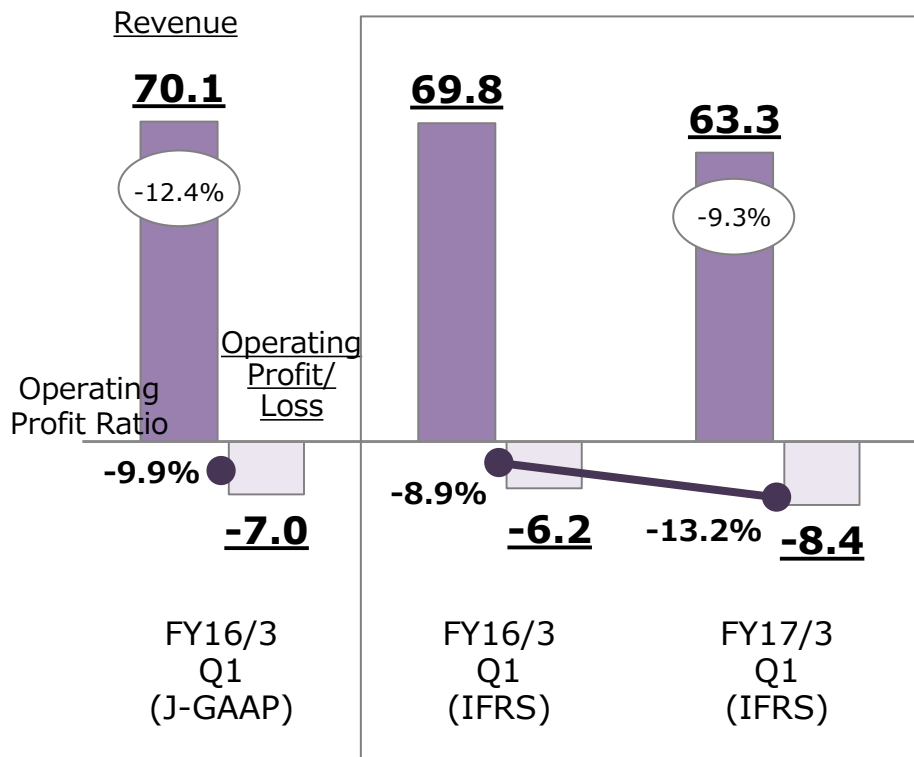




(Billions of Yen)

Billions of Yen (YoY)

YoY



**Revenue** 63.3 (-9.3%)

- Decreased in the energy business

**Operating Profit/Loss** -8.4 (-2.2)

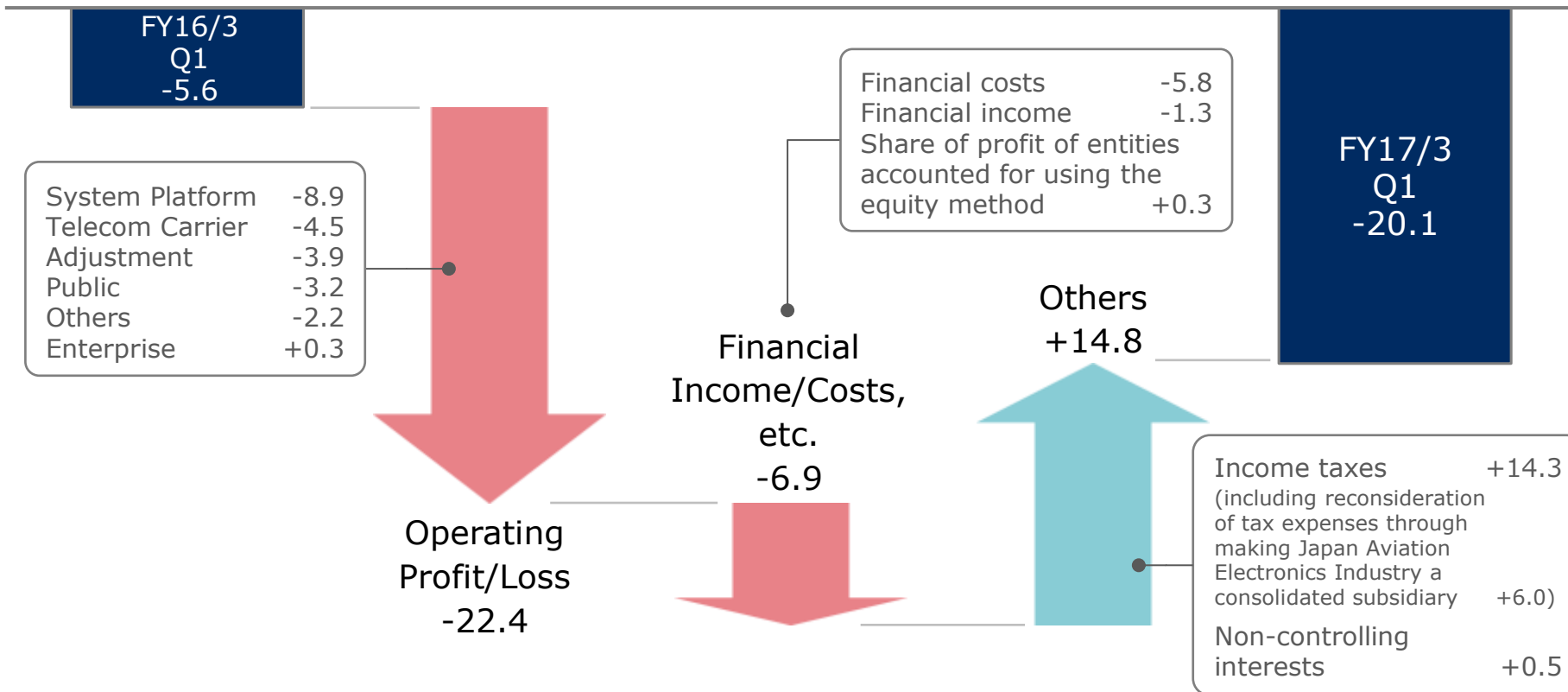
- Worsened due to a sales decline



# Net Profit/Loss Change (Year on Year)

Q1 Results

(Billions of Yen)



## Safety business: Won international projects and conducted trials in Japan

- Selected by CrimTrac, an Australian federal government agency, to provide national facial recognition and fingerprint matching capability
- Provided facial comparison technology at John F. Kennedy International Airport, USA
- Provided the local government of Shinagawa-ku, Tokyo, Japan, with a new security function which prevents information leakage caused by targeted cyber attacks

### <Notable Trials>

- Advanced security system utilizing image analysis technology (during the G7 Ise-Shima summit)
- Walk-through facial recognition system (at Narita Airport, Japan and NEC's head office)
- Payment service utilizing facial recognition (NEC's head office)

## II. Financial Forecasts for FY17/3

Achieve 50.0 billion yen in net profit, continue an annual dividend of 6 yen per share

	Full Year		
	FY16/3 Actual	FY17/3 Forecasts	YoY
Revenue	2,824.8	2,880.0	+2.0%
Operating Profit	91.4	100.0	+8.6
% to Revenue	3.2%	3.5%	
Net Profit	75.9	50.0	-25.9
% to Revenue	2.7%	1.7%	

Dividends per Share (yen)	6.00	6.00	0.00
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Note: Average Exchange Rates (yen)	USD 1	120.75	105.00
	EUR 1	132.99	115.00

(Billions of Yen)

		Full Year		
		FY16/3 Actual	FY17/3 Forecasts	YoY
Public	Revenue	771.6	735.0	-4.7%
	Operating Profit	57.3	69.0	+11.7
	% to Revenue	7.4%	9.4%	
Enterprise	Revenue	300.3	305.0	+1.6%
	Operating Profit	23.9	19.0	-4.9
	% to Revenue	8.0%	6.2%	
Telecom Carrier	Revenue	697.5	705.0	+1.1%
	Operating Profit	46.5	48.0	+1.5
	% to Revenue	6.7%	6.8%	
System Platform	Revenue	728.6	755.0	+3.6%
	Operating Profit	31.7	32.0	+0.3
	% to Revenue	4.4%	4.2%	
Others	Revenue	326.8	380.0	+16.3%
	Operating Profit/Loss	-18.2	1.0	+19.2
	% to Revenue	-5.6%	0.3%	
Adjustment	Operating Profit/Loss	-49.8	-69.0	-19.2
Total	Revenue	2,824.8	2,880.0	+2.0%
	Operating Profit	91.4	100.0	+8.6
	% to Revenue	3.2%	3.5%	

\*Forecasts as of July 29, 2016

# Management Topics (1/2)

## Plan to commence tender offer for shares of Japan Aviation Electronics Industry, Limited (announced on May 31, 2016)

- Purpose: to make Japan Aviation Electronics Industry, Limited (JAE) a consolidated subsidiary of NEC (to strengthen IoT Solutions)
- Conditions precedent to the commencement of the tender offer:
  - i. to complete the clearance under foreign and domestic anti-trust laws, and
  - ii. JAE's board of directors duly and validly approves to express JAE's opinion supporting the tender offer and makes an announcement thereof
- Schedule: Aim to commence the tender offer around November 2016, but not yet determined
- Tender Offer Price: 1,920 yen per share of common stock
- Number of Shares to Be Acquired: 10,000,000 shares (Maximum)
- Purchase Price: 19.2 billion yen

Note: This proposed transaction is not factored into the financial forecasts for FY17/3.

\*Forecasts as of July 29, 2016

## Management Topics (2/2)

The recording of gain from the transfer of a portion of shares in an affiliated company accounted for by the equity-method (announced on July 1, 2016)

- Transferred Shares: 44,100 ordinary shares of Lenovo NEC Holdings B.V. (LNH), a joint venture with Lenovo Group Limited (Lenovo) that operates in the personal computer business (i.e. 90% of the ordinary shares that NEC holds in LNH)
  - NEC will maintain a 33.4% voting ratio in LNH with the right to veto material corporate actions
  - NEC will continue to engage in the personal computer business in alliance with Lenovo
- Transfer Date: July 28, 2016
- Impact on Financial Results: This share transfer will result in approximately 20.0 billion yen in non-operating income in the consolidated financial statement for Q2, FY17/3

Note: This transaction is not factored into the financial forecasts for FY17/3.

\*Forecasts as of July 29, 2016



Improve management speed  
and enhance execution power

Achieve 50.0 billion yen in  
net profit (company forecast),  
continue an annual dividend of  
6 yen per share

\*Forecasts as of July 29, 2016





# Orchestrating a brighter world

NEC brings together and integrates technology and expertise to create the ICT-enabled society of tomorrow.

We collaborate closely with partners and customers around the world, orchestrating each project to ensure all its parts are fine-tuned to local needs.

Every day, our innovative solutions for society contribute to greater safety, security, efficiency and equality, and enable people to live brighter lives.

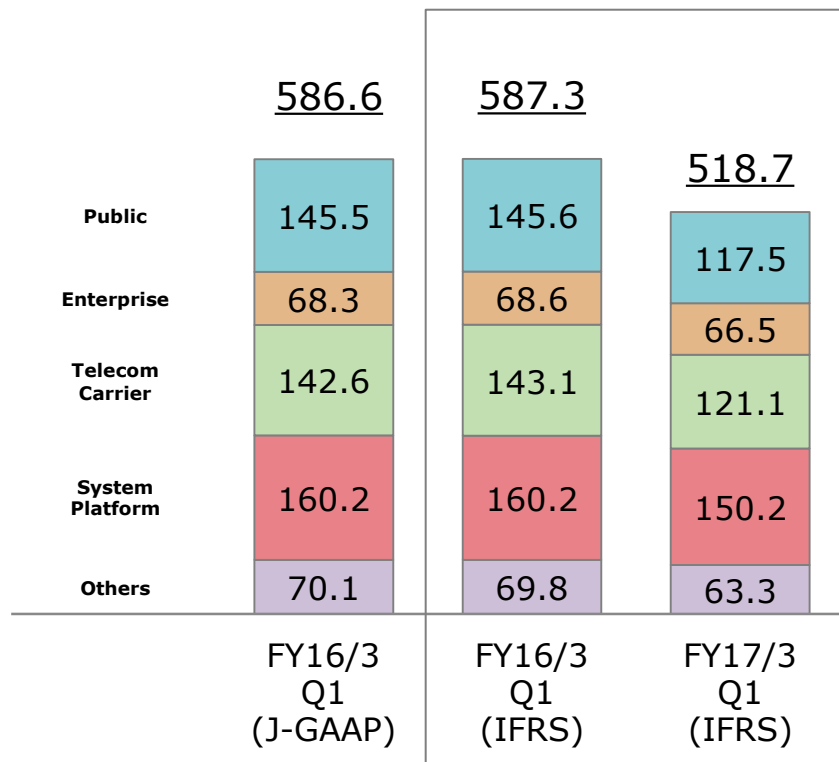
 **Orchestrating** a brighter world

**NEC**

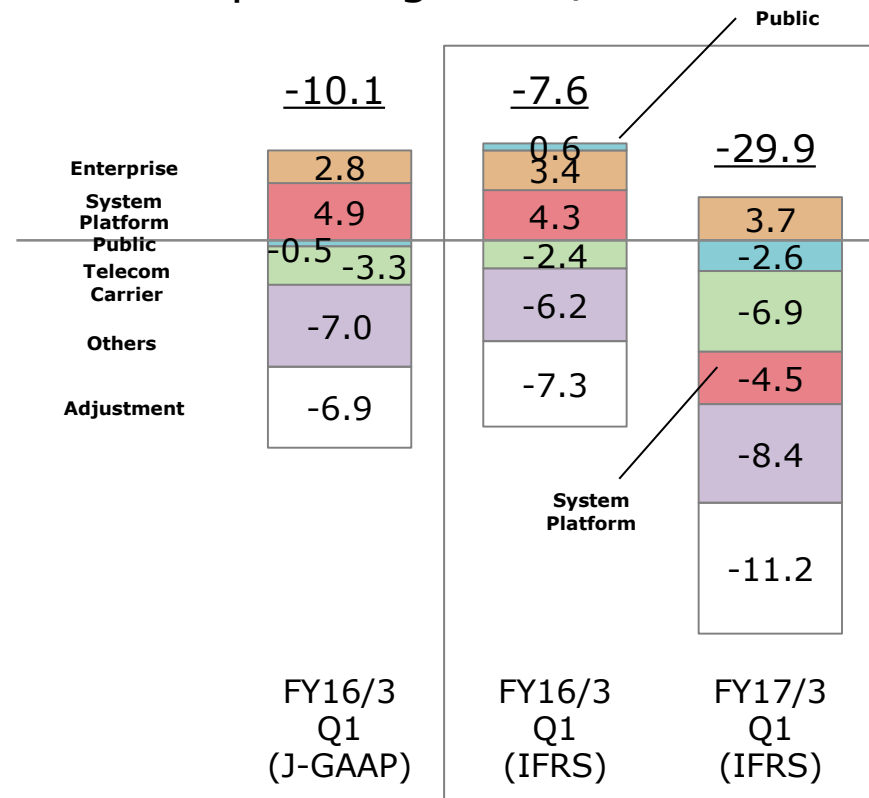
# Financial Results for Q1, FY17/3 (Appendix)

(Billions of Yen)

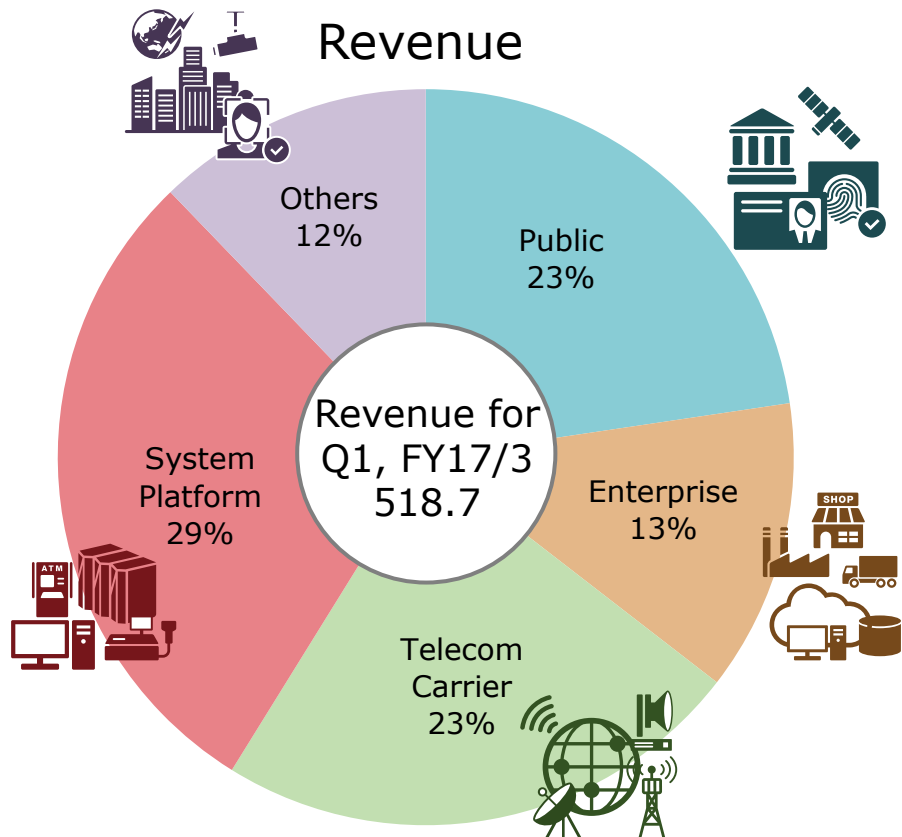
## Revenue



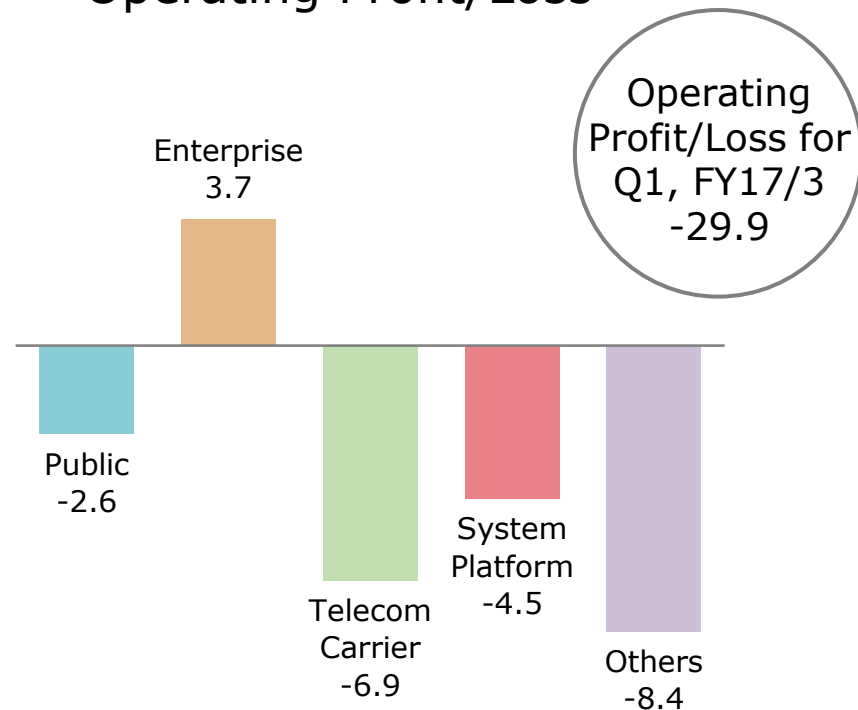
## Operating Profit/Loss



(Billions of Yen)

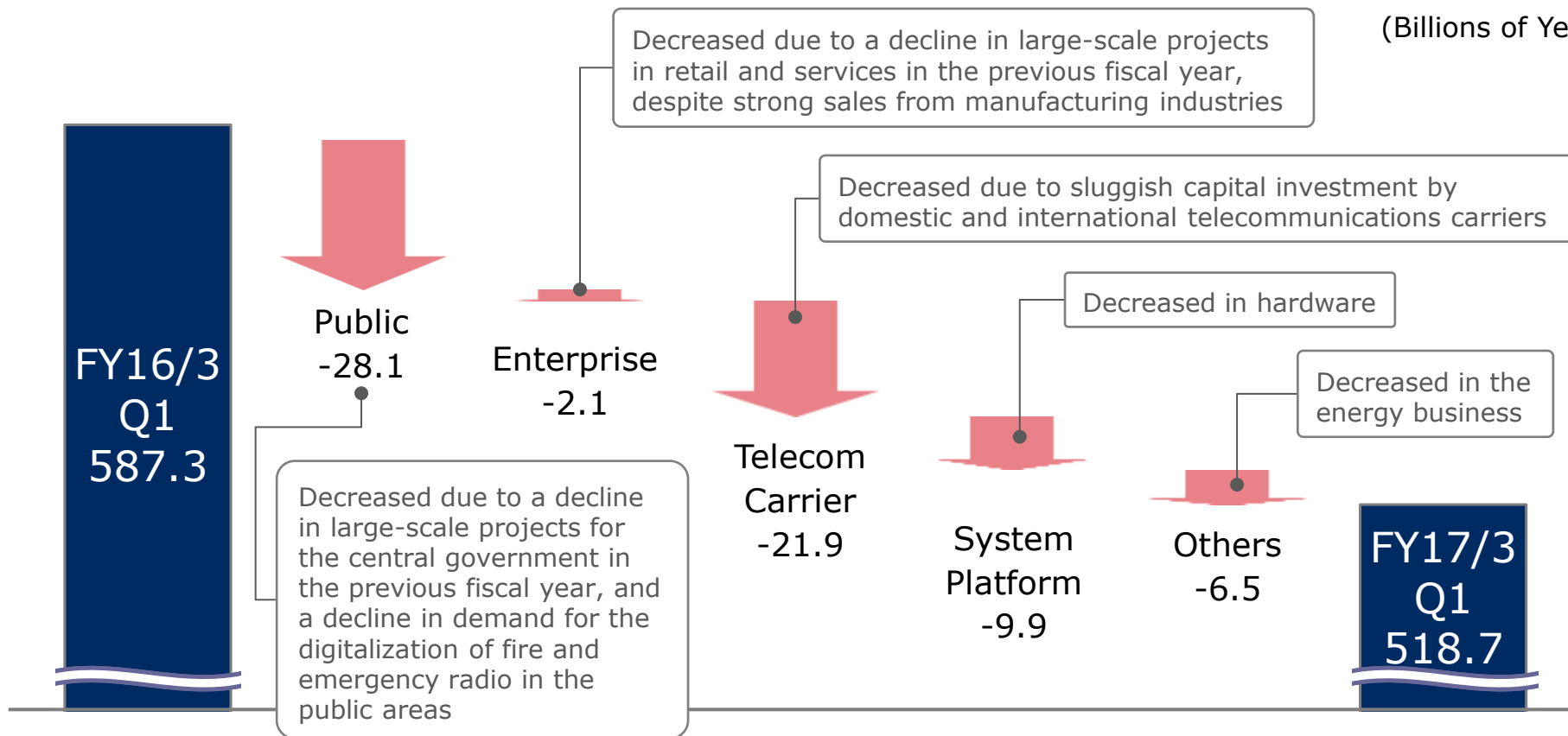


## Operating Profit/Loss



# Revenue Change (Year on Year)

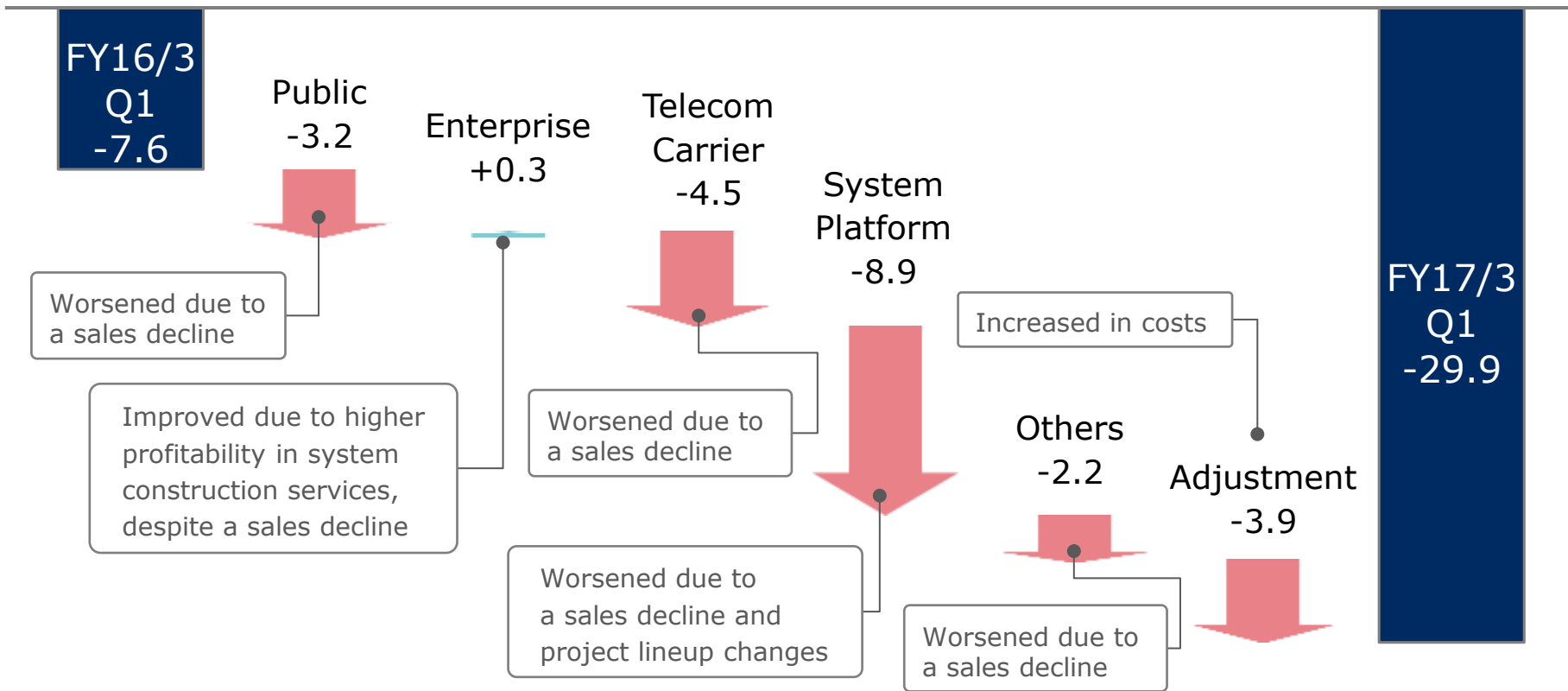
(Billions of Yen)

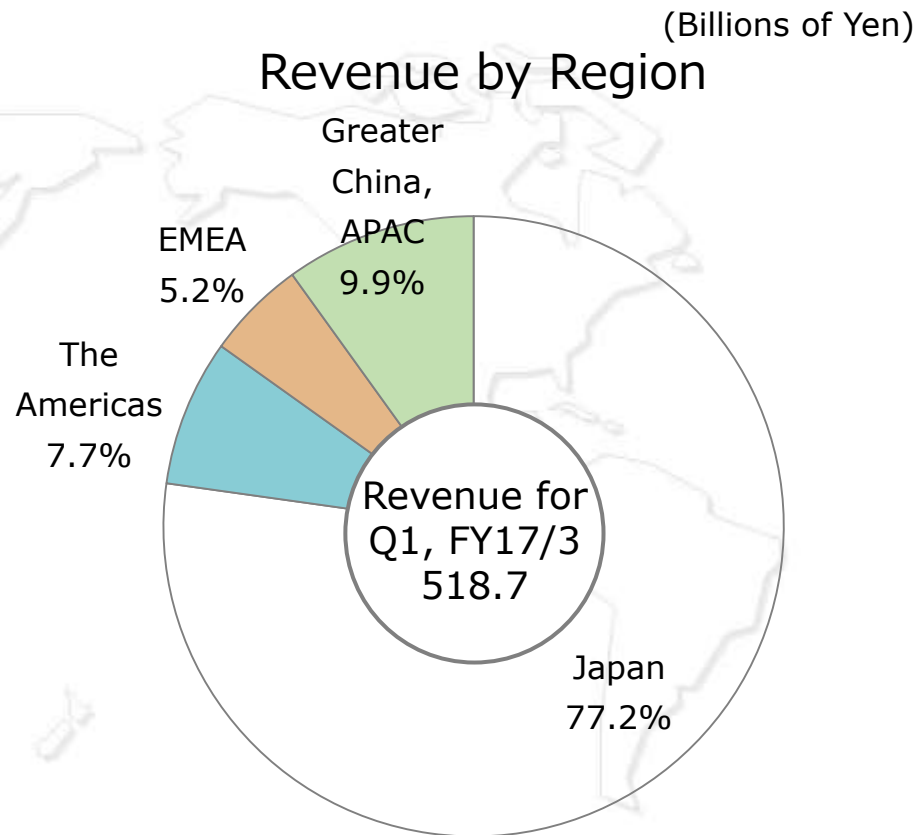
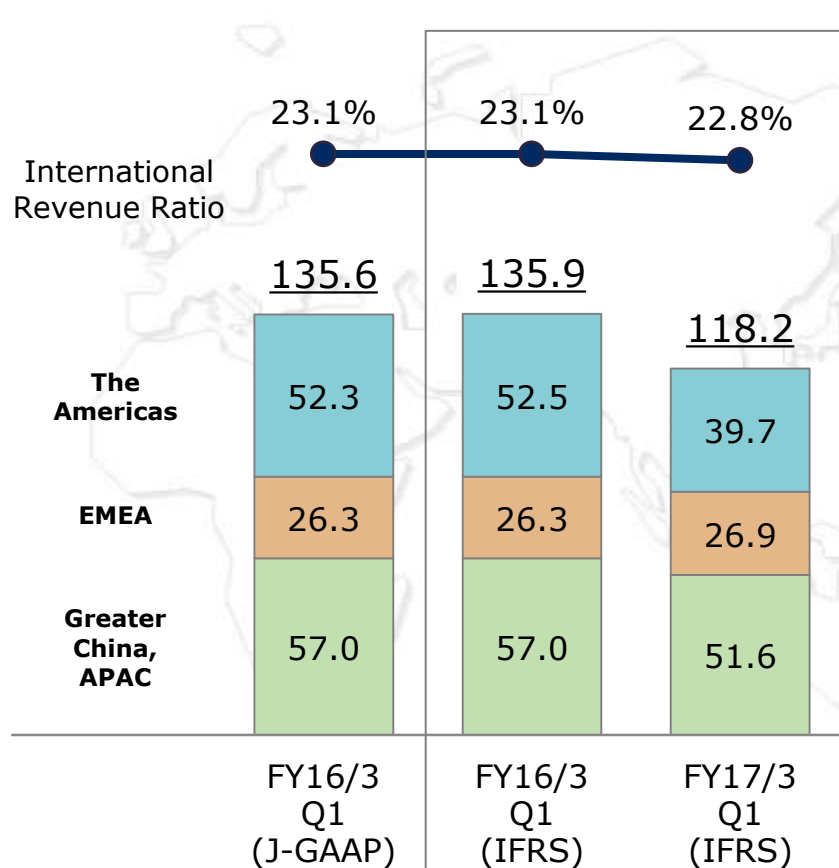


# Operating Profit/Loss Change (Year on Year)

Q1 Results

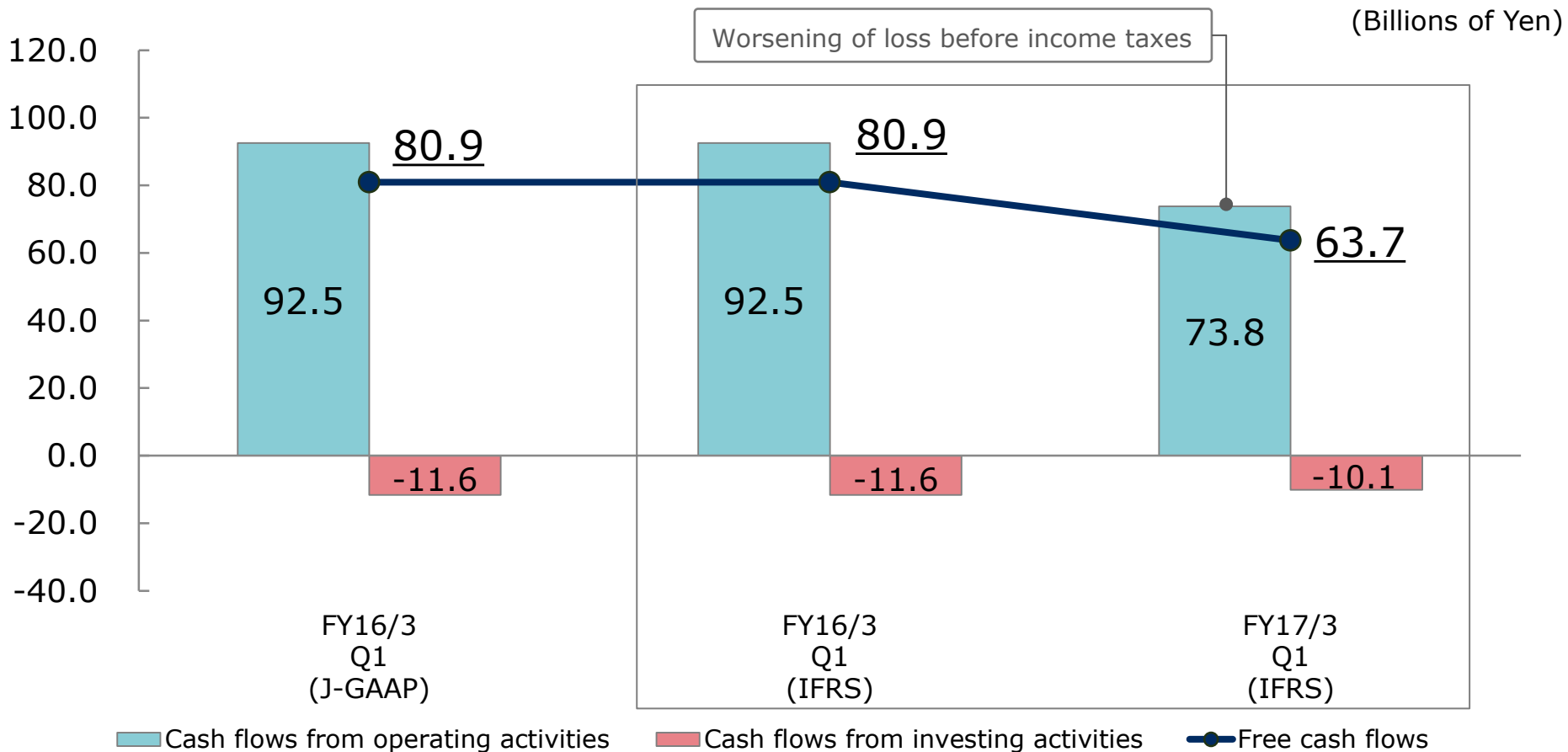
(Billions of Yen)





\*Revenue is classified by country or region based on customer locations.





(Billions of Yen)

	End of March 2016	End of June 2016	Variance from end of March 2016
Total assets	2,528.9	2,332.4	-196.5
Total equity	837.2	779.0	-58.3
Interest-bearing debt	479.5	472.8	-6.7
Equity attributable to owners of the parent	769.8	713.4	-56.4
Ratio of equity attributable to owners of the parent (%)	30.4%	30.6%	+0.1pt
D/E ratio (times)	0.62	0.66	-0.04pt
Net D/E ratio (times)	0.37	0.34	+0.03pt
Cash and cash equivalents	192.3	230.9	+38.6

(Billions of Yen)

Compared to  
end of March  
2016

Current Assets  
**1,266.6**

Liabilities  
**1,553.5**

Collection of trade and  
other receivables

-186.8

Total Assets  
**2,332.4**

-138.2

Decrease in trade and  
other payables, as well as  
accruals

(-196.5 compared to  
end of March 2016)

Payment of dividends and  
recording of net loss  
attributable to owners of  
the parent

Noncurrent Assets  
**1,065.9**

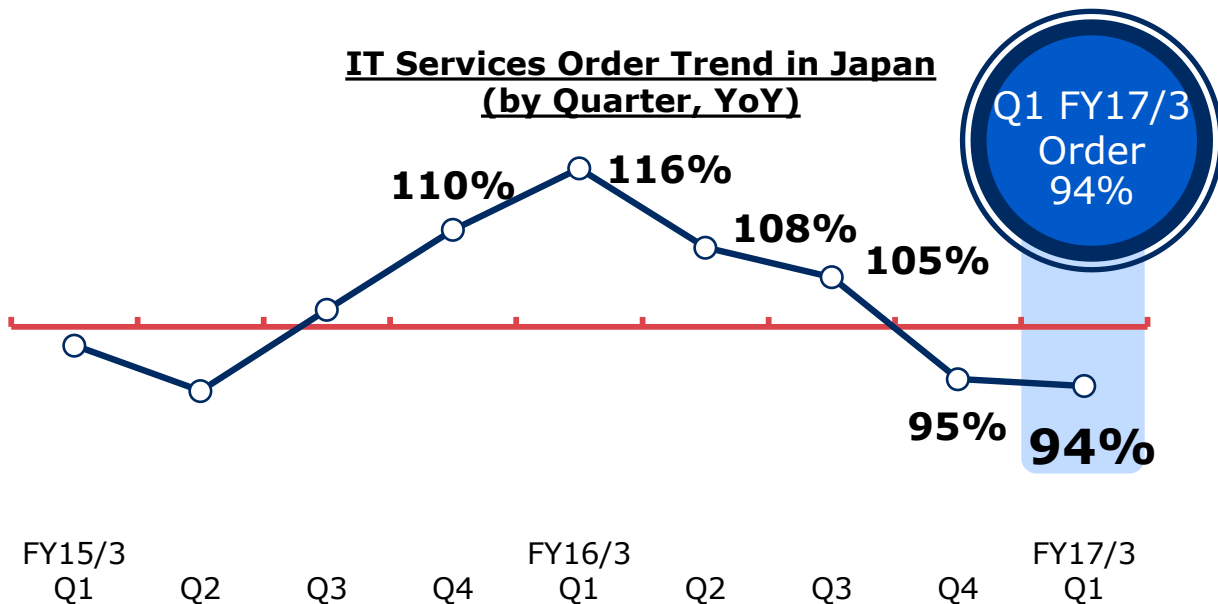
-9.7

-58.3

Net Assets  
**779.0**

### The order trend for IT investment in services : 94% YoY

- IT services in Japan for Q1, FY17/3 showed stable performance in manufacturing and financial areas, while it decreased in the retail and services areas



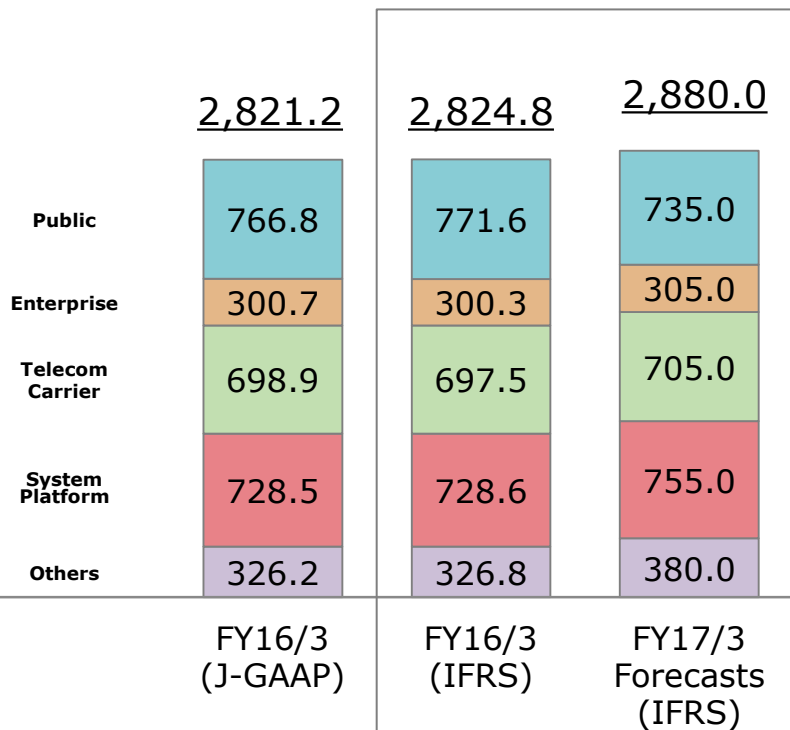
# Financial Forecasts for FY17/3 (Appendix)

# Financial Forecasts by Segment (two-year transition)

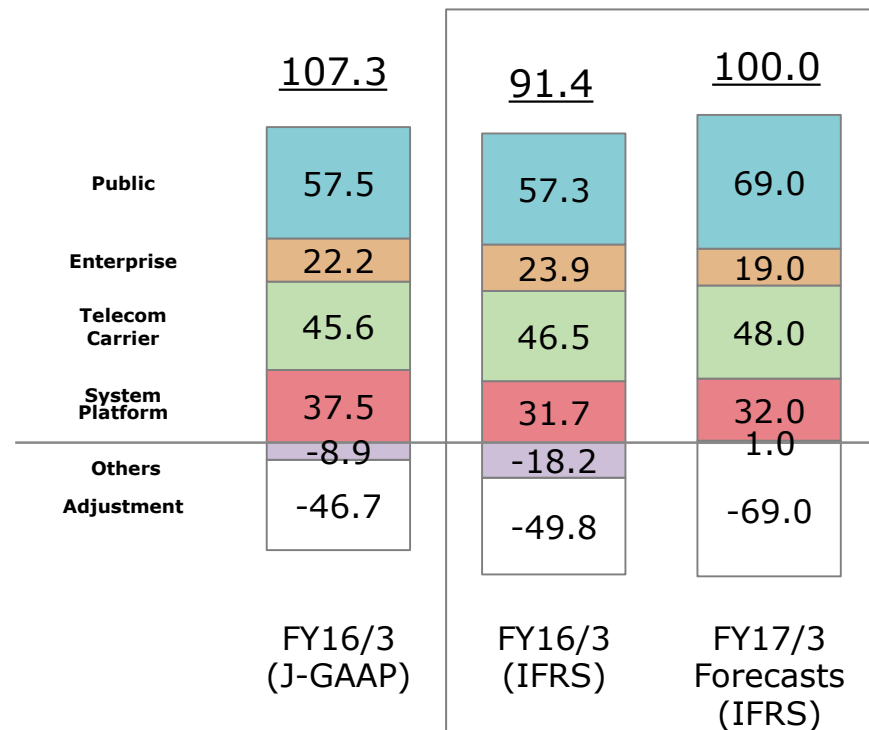
Forecasts  
FY17/3

(Billions of Yen)

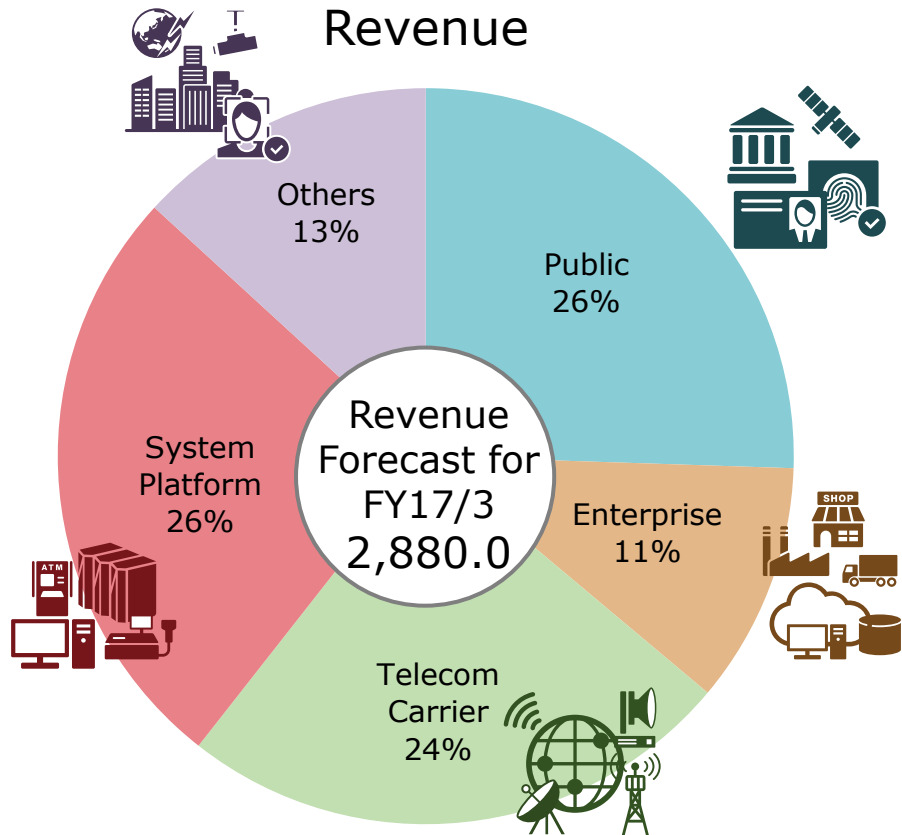
## Revenue



## Operating Profit/Loss

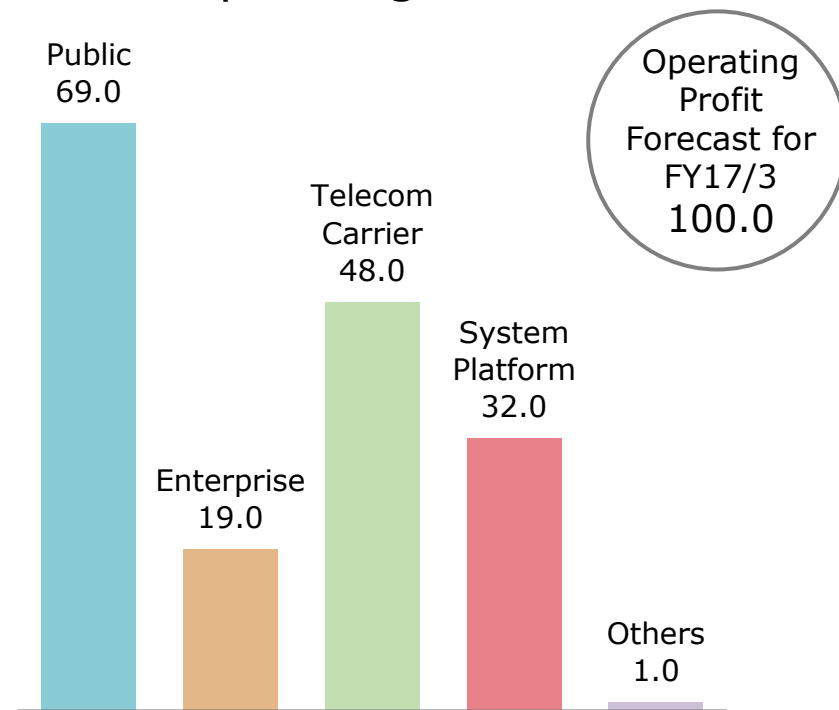


\*Forecasts as of July 29, 2016



## Operating Profit

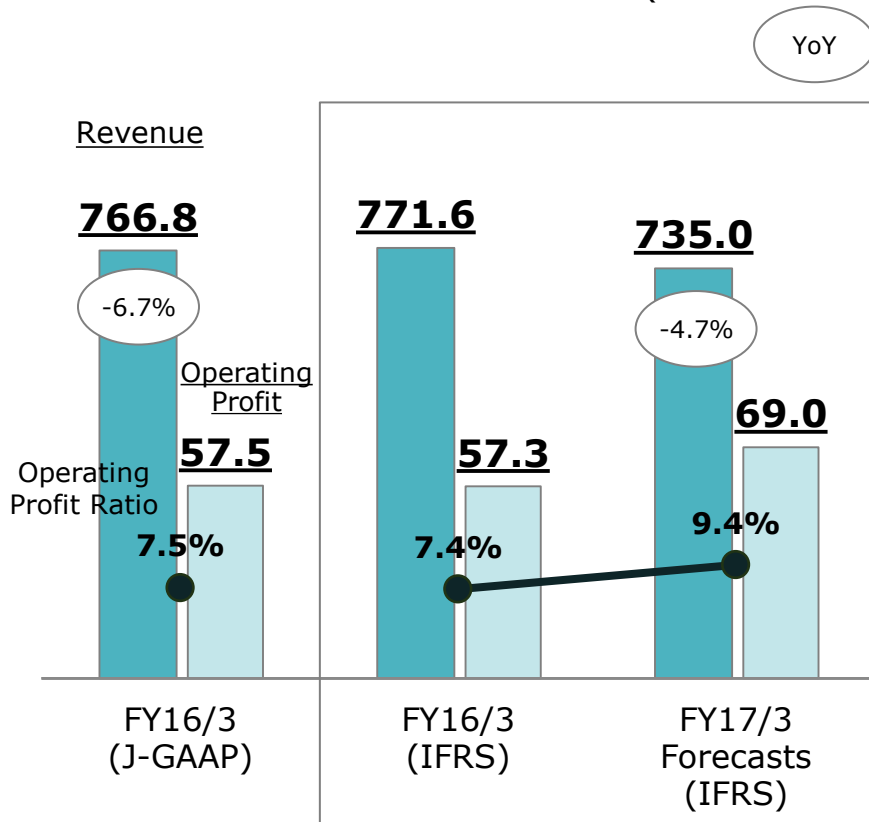
(Billions of Yen)



\*Forecasts as of July 29, 2016

(Billions of Yen)

Billions of Yen (YoY)



## Revenue 735.0 (-4.7%)

- Decrease\* due to a decline in the public areas, despite an increase of sales for the central government

\* Including transfer of certain business (Approx. -40 billion yen)

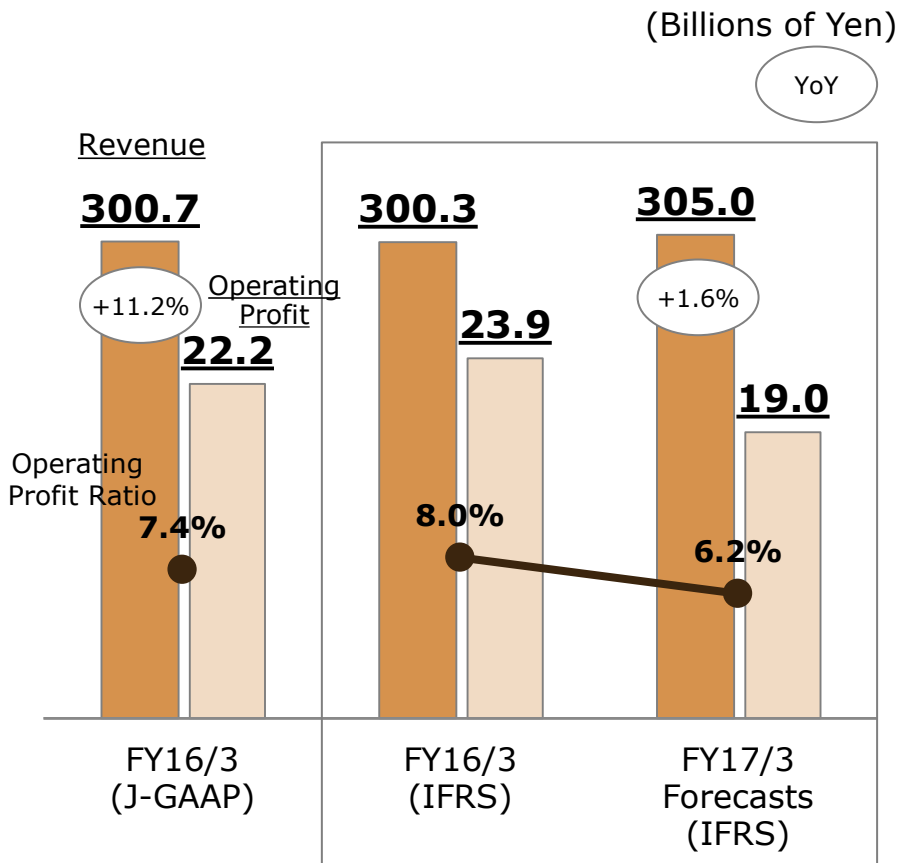
## Operating Profit 69.0 (+11.7)

- Improve due to a decrease in loss-making projects and cost reduction



\*Forecasts as of July 29, 2016





**Revenue** 305.0 (+1.6%)

- Increase in manufacturing industries

**Operating Profit** 19.0 (-4.9)

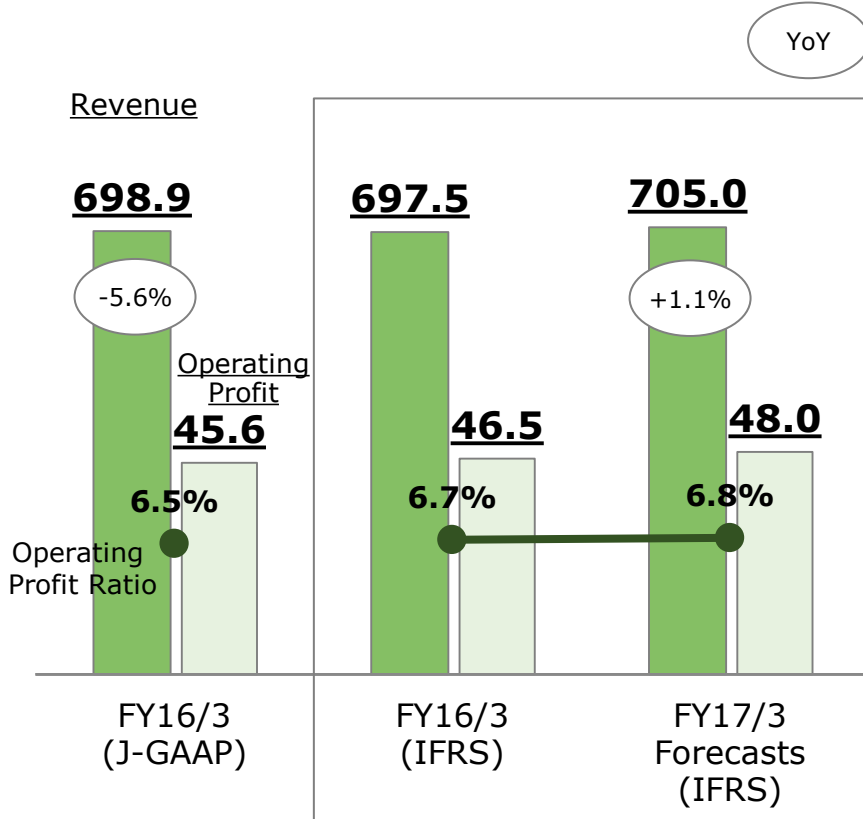
- Decrease due to project lineup changes and an investment increase in the IT services business for retail industries



\*Forecasts as of July 29, 2016

(Billions of Yen)

Billions of Yen (YoY)



**Revenue** 705.0 (+1.1%)

- Increase in TOMS and SDN/NFV in the international market
- Decrease in Japan

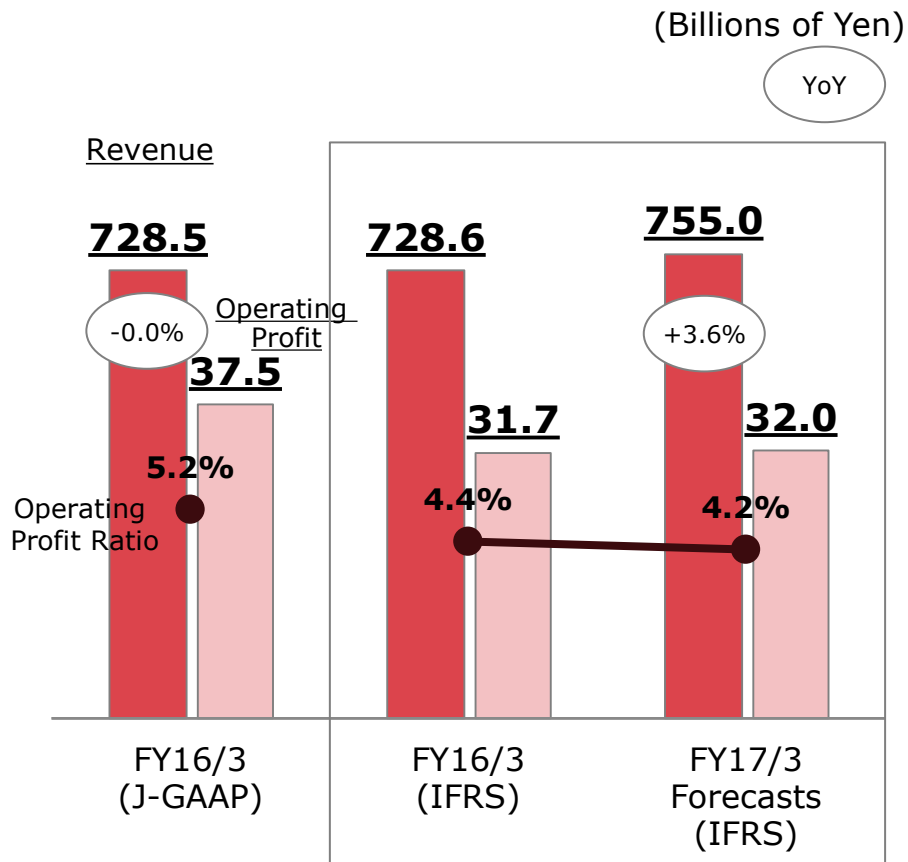
**Operating Profit** 48.0 (+1.5)

- Improve due to a sales increase

\* TOMS : Telecom Operations & Management Solutions  
 SDN : Software-Defined Networking  
 NFV : Network Functions Virtualization



\*Forecasts as of July 29, 2016



**Revenue** 755.0 (+3.6%)

- Increase\* in services and enterprise networks

\* Including transfer of certain business (Approx. +10 billion yen)

**Operating Profit** 32.0 (+0.3)

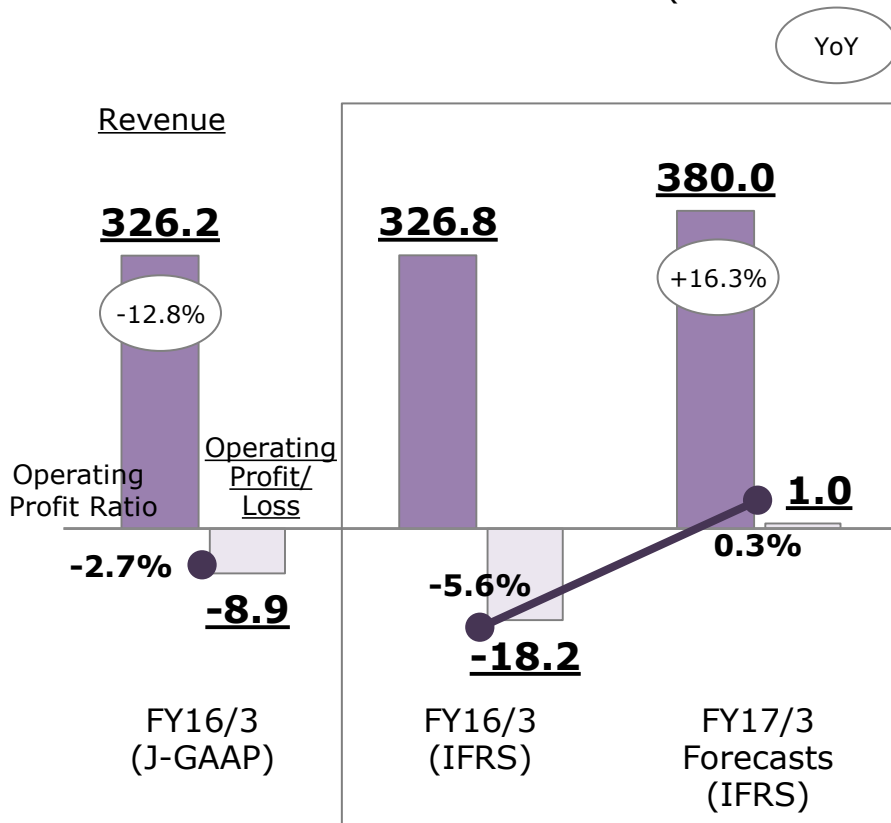
- Remain flat due to project lineup changes, despite a sales increase



\*Forecasts as of July 29, 2016

(Billions of Yen)

Billions of Yen (YoY)



## Revenue 380.0 (+16.3%)

- Increase due to expansion of international business while the energy business remains flat

\* Including transfer of certain business (Approx. +30 billion yen)

## Operating Profit 1.0 (+19.2%)

- Move it into the black due to profit improvement in the energy business

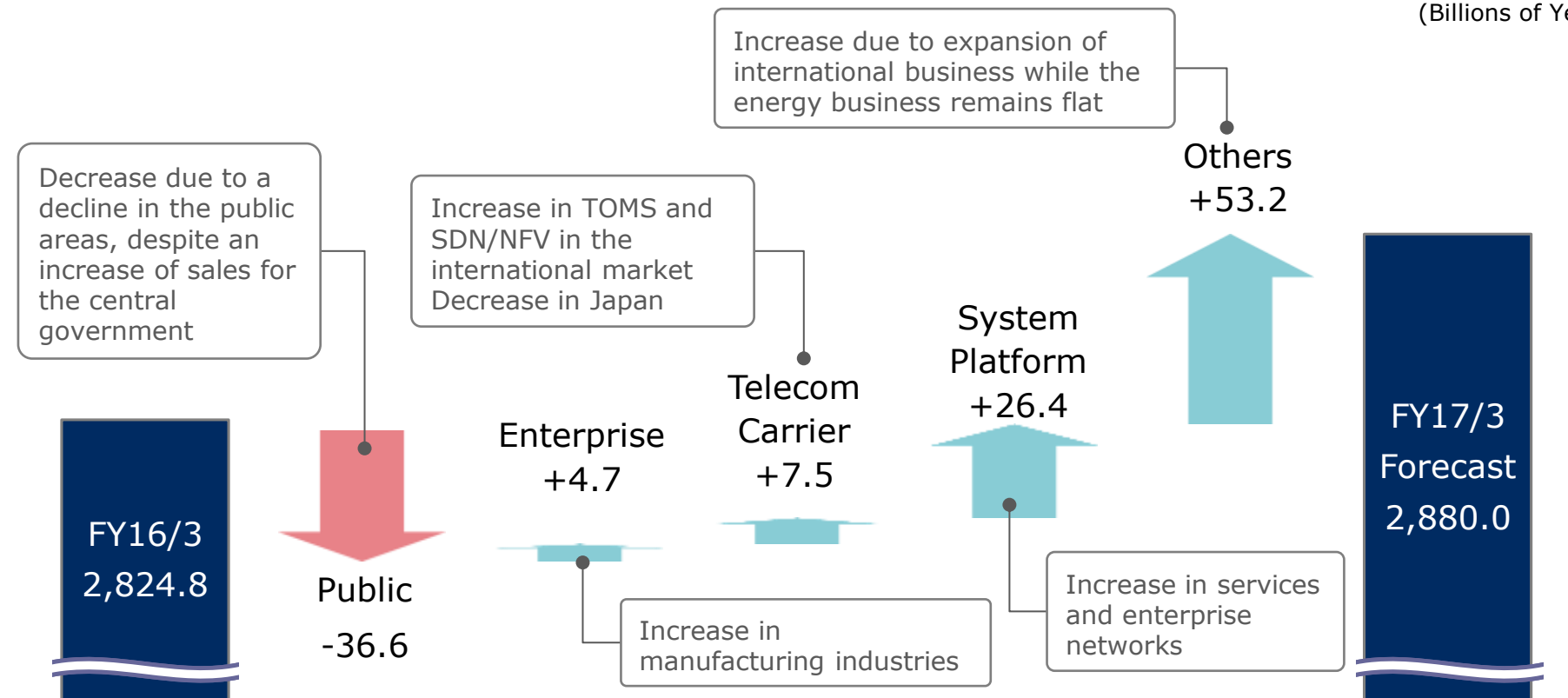


\*Forecasts as of July 29, 2016

# Revenue Change (Year on Year)

Forecasts  
FY17/3

(Billions of Yen)

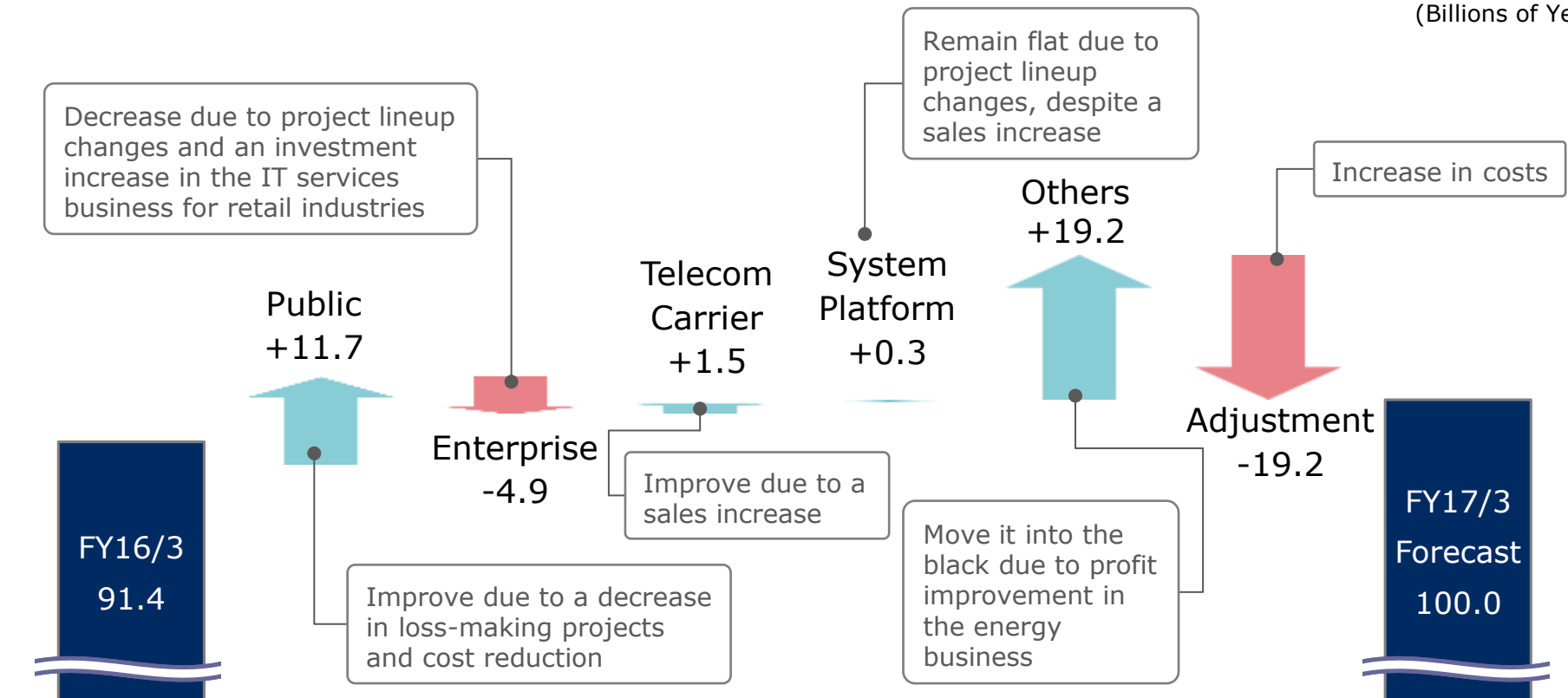


\*Forecasts as of July 29, 2016

# Operating Profit Change (Year on Year)

Forecasts  
FY17/3

(Billions of Yen)

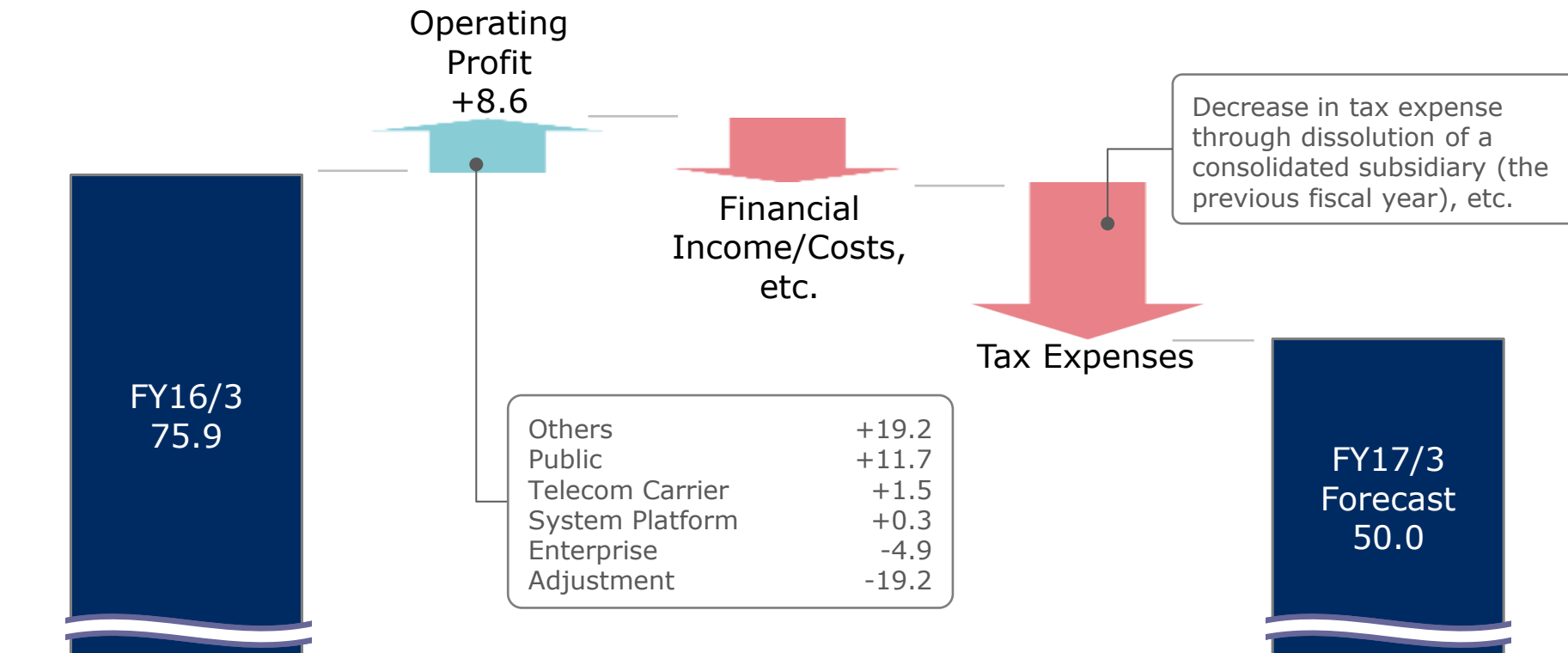


\*Forecasts as of July 29, 2016

# Net Profit Change (Year on Year)

Forecasts  
FY17/3

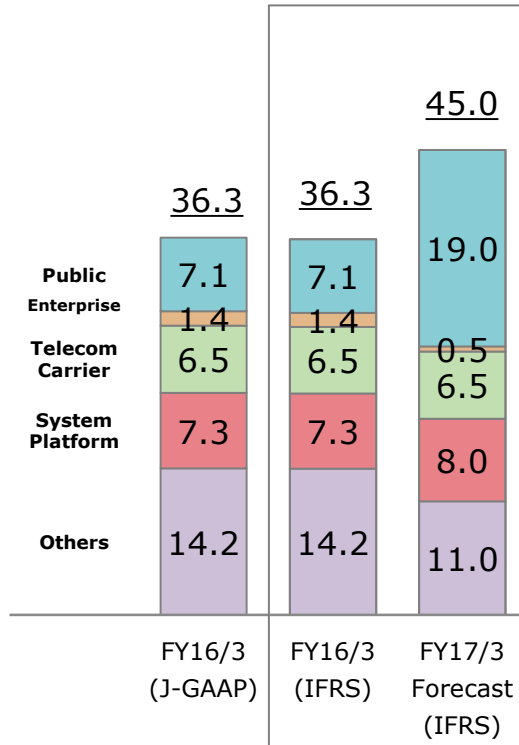
(Billions of Yen)



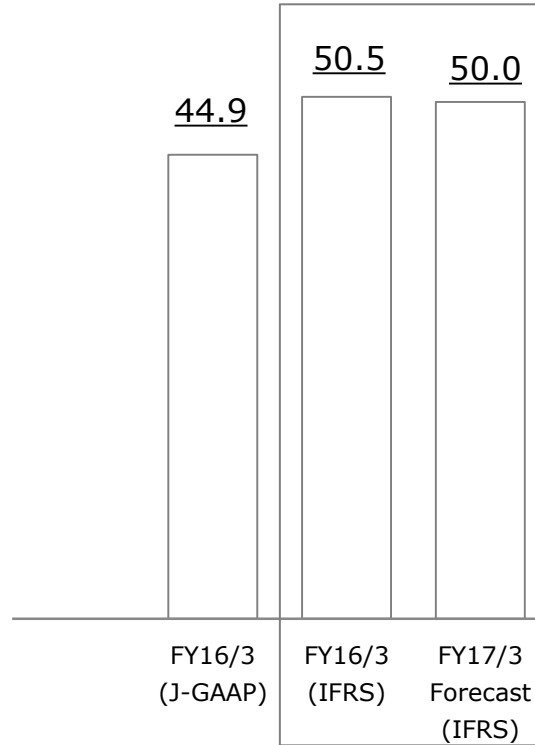
\*Forecasts as of July 29, 2016

(Billions of Yen)

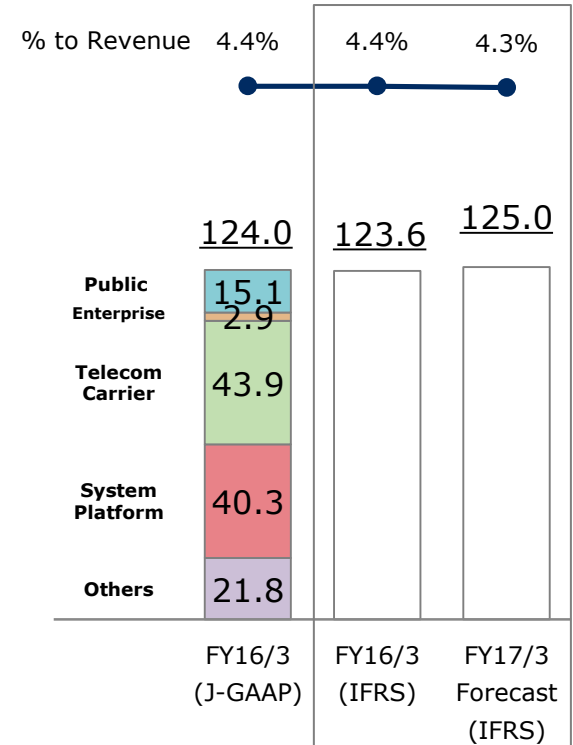
## Capital Expenditure



## Depreciation



## R&D Expenses

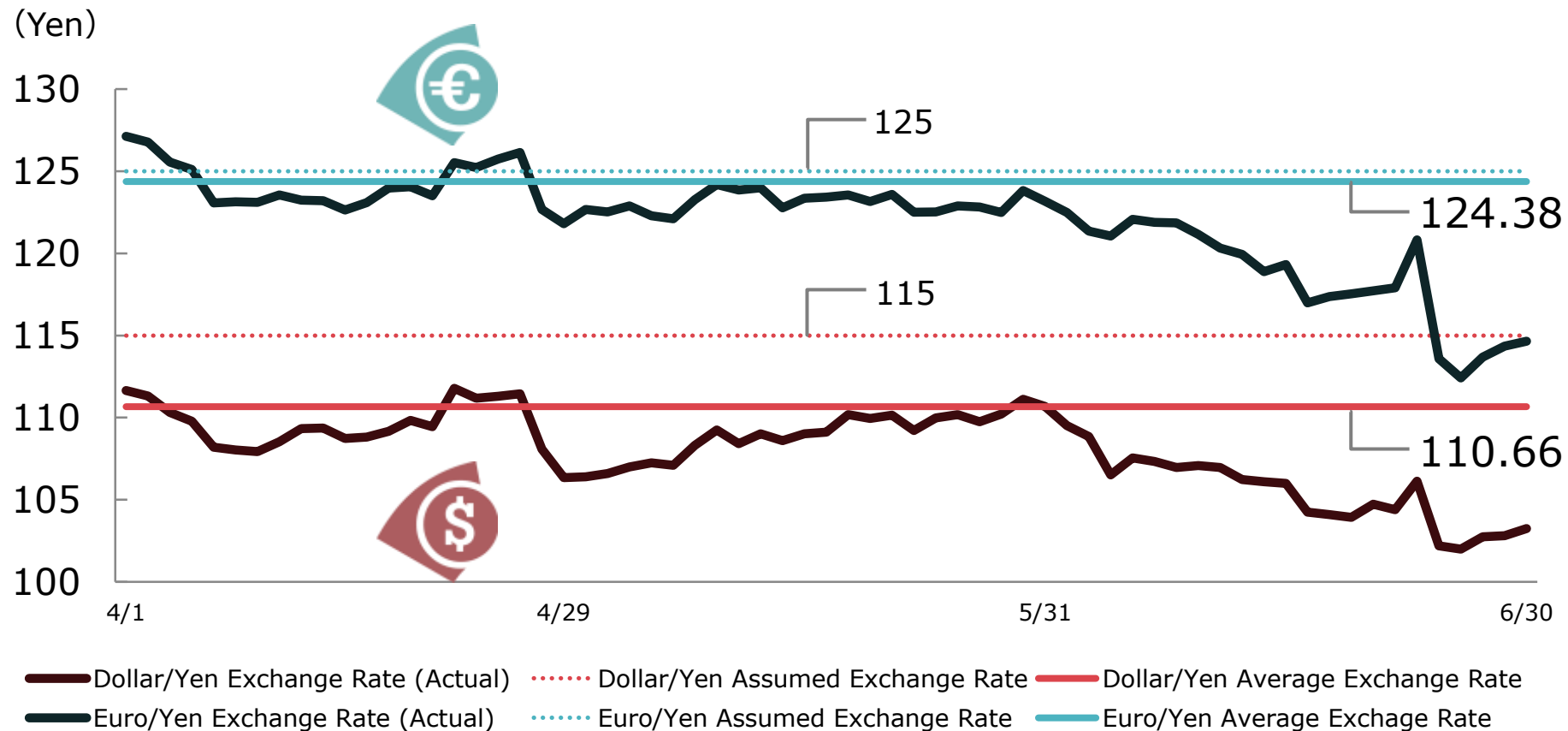


\*Forecasts as of July 29, 2016

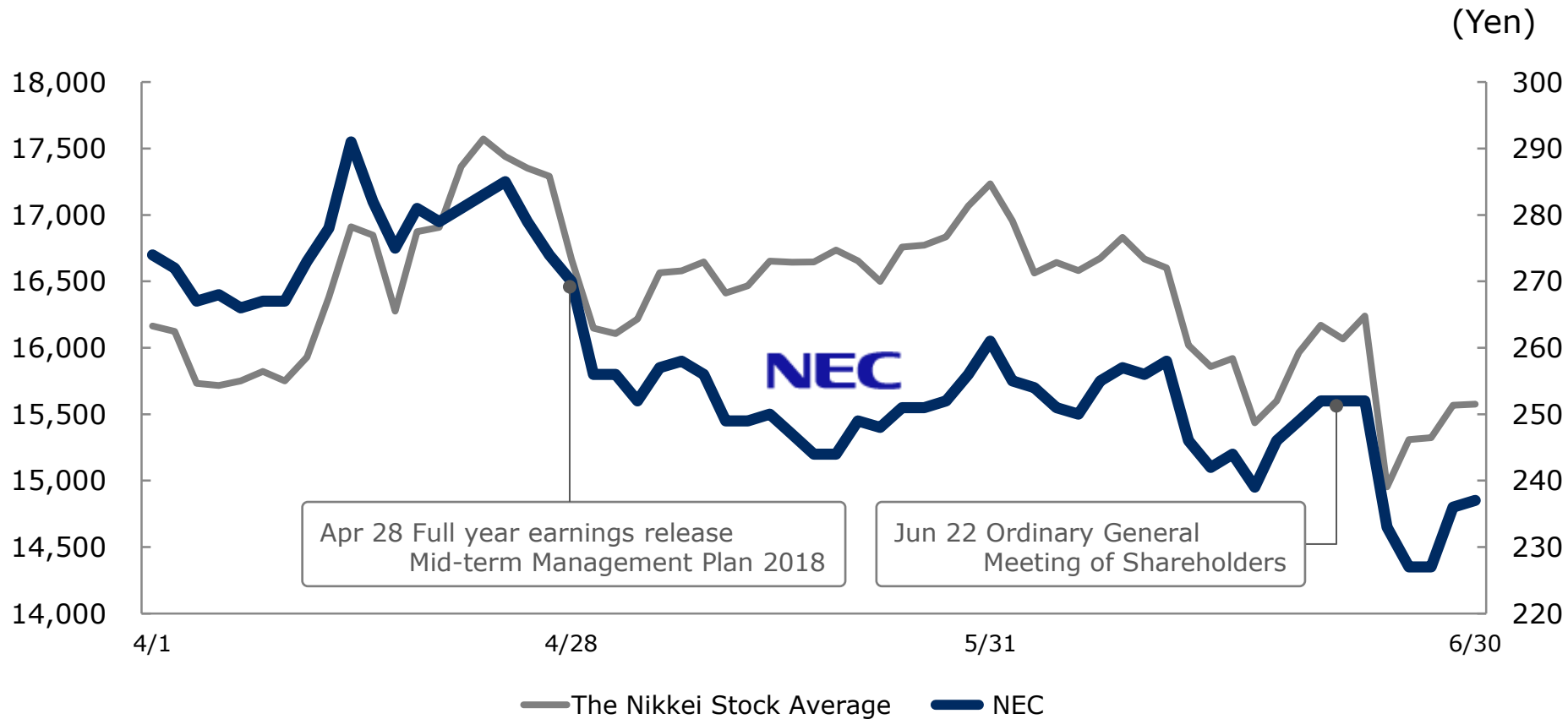


# Reference

# Exchange Rate



# Stock Price



# Cautionary Statement with Respect to Forward-Looking Statements

This material contains forward-looking statements regarding estimations, forecasts, targets and plans in relation to the results of operations, financial conditions and other overall management of the NEC Group (the “forward-looking statements”). The forward-looking statements are made based on information currently available to NEC and certain assumptions considered reasonable as of the date of this material. These determinations and assumptions are inherently subjective and uncertain. These forward-looking statements are not guarantees of future performance, and actual operating results may differ substantially due to a number of factors.

The factors that may influence the operating results include, but are not limited to, the following:

- Effects of economic conditions, volatility in the markets generally, and fluctuations in foreign currency exchange and interest rate
- Trends and factors beyond the NEC Group’s control and fluctuations in financial conditions and profits of the NEC Group that are caused by external factors
- Risks arising from acquisitions, business combinations and reorganizations, including the possibility that the expected benefits cannot be realized or that the transactions may result in unanticipated adverse consequences
- Developments in the NEC Group’s alliances with strategic partners
- Effects of expanding the NEC Group’s global business
- Risk that the NEC Group may fail to keep pace with rapid technological developments and changes in customer preferences
- Risk that the NEC Group may lose sales due to problems with the production process or due to its failure to adapt to demand fluctuations
- Defects in products and services
- Shortcomings in material procurement and increases in delivery cost
- Acquisition and protection of intellectual property rights necessary for the operation of business
- Risk that intellectual property licenses owned by third parties cannot be obtained and/or are discontinued
- Risk that the NEC Group may be exposed to unfavorable pricing environment due to intensified competition
- Risk that a major customer changes investment targets, reduces capital investment and/or reduces the value of transactions with the NEC Group
- Risk that the NEC Group may be unable to provide or facilitate payment arrangements (such as vendor financing) to its customers on terms acceptable to them or at all, or risk that the NEC Group’s customers are unable to make payments on time, due to the customers’ financial difficulties or otherwise
- Risk that the NEC Group may experience a substantial loss of, or an inability to attract, talented personnel
- Risk that the NEC Group’s ability to access the commercial paper market or other debt markets are adversely affected due to a downgrade in its credit rating
- Risk that the NEC Group may incur large costs and/or liabilities in relation to internal control, legal proceedings, laws and governmental policies, environmental laws and regulations, tax practice, information management, and human rights and working environment
- Consequences of natural and fire disasters
- Changes in methods, estimates and judgments that the NEC Group uses in applying its accounting policies
- Risk that the NEC Group may incur liabilities and losses in relation to its retirement benefit obligations

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. 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 the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Note: In this presentation, the accounting periods of the fiscal years for March 31, 2015 and 16 were referred as FY15/3 and FY16/3 respectively. Any other fiscal years would be referred similarly.