

Financial Results for 1H Fiscal Year Ending March 31, 2017

October 31, 2016

NEC Corporation

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

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Reference

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

I . Financial Results for 1H, FY17/3

Revenue

YoY **-8.3%**

Decreased year on year

- Decrease in Public and Telecom Carrier business, despite an increase in Enterprise business

Operating Profit

YoY **-15.3B Yen**

Decreased year on year

- Decrease in Telecom Carrier business and Others, despite an increase in Enterprise business

Net Profit

YoY **+4.5B Yen**

Increased year on year

- Improvement due to a gain from the transfer of shares in an affiliated company and reconsideration of tax expenses through making Japan Aviation Electronics Industry a consolidated subsidiary

(Billions of Yen)

	Q2 <July to September>			1H <April to September>		
	FY16/3 Actual	FY17/3 Actual	YoY	FY16/3 Actual	FY17/3 Actual	YoY
Revenue	722.4	682.4	- 5.5%	1,309.7	1,201.1	- 8.3%
Operating Profit	26.6	33.7	+ 7.1	19.0	3.7	- 15.3
% to Revenue	3.7%	4.9%		1.5%	0.3%	
Income before Income Taxes	24.2	46.3	+ 22.1	19.8	12.6	- 7.1
Net Profit	14.2	33.2	+ 19.0	8.6	13.1	+ 4.5
% to Revenue	2.0%	4.9%		0.7%	1.1%	

Free Cash Flows	-71.6	-16.7	+ 54.8	9.4	47.0	+ 37.6
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Note: Average Exchange Rates (yen)	USD 1	123.40	103.60
	EUR 1	137.18	115.65

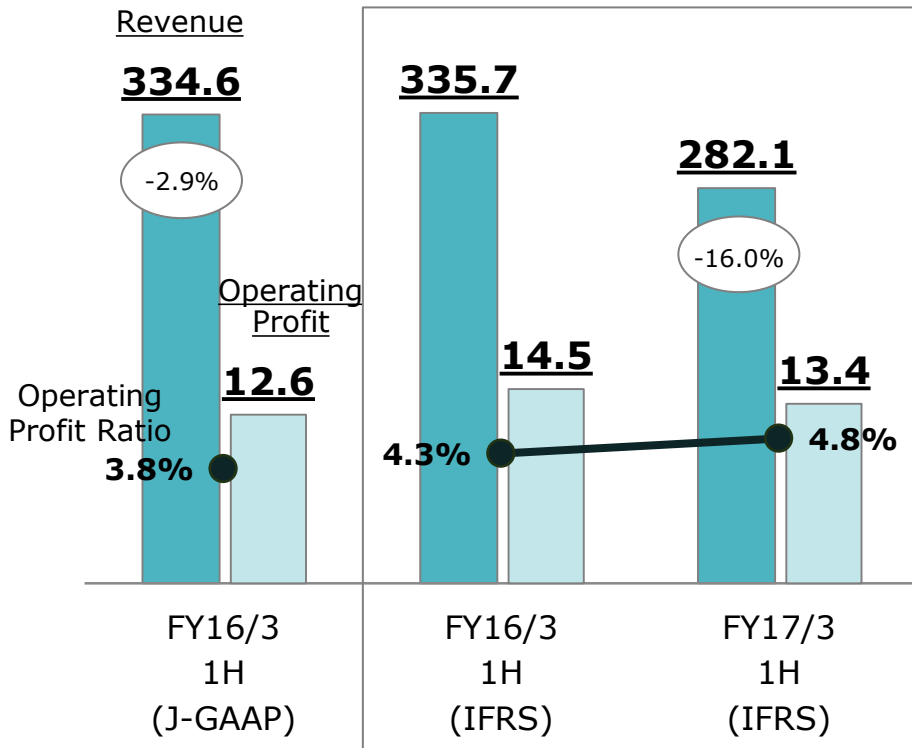
(Billions of Yen)

		Q2 <July to September>			1H <April to September>		
		FY16/3 Actual	FY17/3 Actual	YoY	FY16/3 Actual	FY17/3 Actual	YoY
Public	Revenue	190.1	164.6	- 13.4%	335.7	282.1	- 16.0%
	Operating Profit	13.9	16.0	+ 2.1	14.5	13.4	- 1.0
	% to Revenue	7.3%	9.7%		4.3%	4.8%	
Enterprise	Revenue	78.0	88.6	+ 13.6%	146.6	155.2	+ 5.8%
	Operating Profit	6.4	9.5	+ 3.0	9.8	13.2	+ 3.3
	% to Revenue	8.3%	10.7%		6.7%	8.5%	
Telecom Carrier	Revenue	185.1	161.7	- 12.6%	328.1	282.9	- 13.8%
	Operating Profit	15.2	11.2	- 4.0	12.8	4.3	- 8.5
	% to Revenue	8.2%	6.9%		3.9%	1.5%	
System Platform	Revenue	187.6	189.6	+ 1.0%	347.8	339.8	- 2.3%
	Operating Profit	4.9	12.3	+ 7.4	9.2	7.8	- 1.4
	% to Revenue	2.6%	6.5%		2.7%	2.3%	
Others	Revenue	81.6	77.8	- 4.7%	151.4	141.1	- 6.8%
	Operating Profit/Loss	3.7	1.2	- 2.5	-2.5	-7.2	- 4.7
	% to Revenue	4.5%	1.5%		-1.7%	-5.1%	
Adjustment	Operating Profit/Loss	-17.5	-16.4	+ 1.0	-24.8	-27.7	- 2.9
Total	Revenue	722.4	682.4	- 5.5%	1,309.7	1,201.1	- 8.3%
	Operating Profit	26.6	33.7	+ 7.1	19.0	3.7	- 15.3
	% to Revenue	3.7%	4.9%		1.5%	0.3%	

(Billions of Yen)

Billions of Yen (YoY)

YoY



Revenue 282.1 (-16.0%)

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

Operating Profit 13.4 (-1.0)

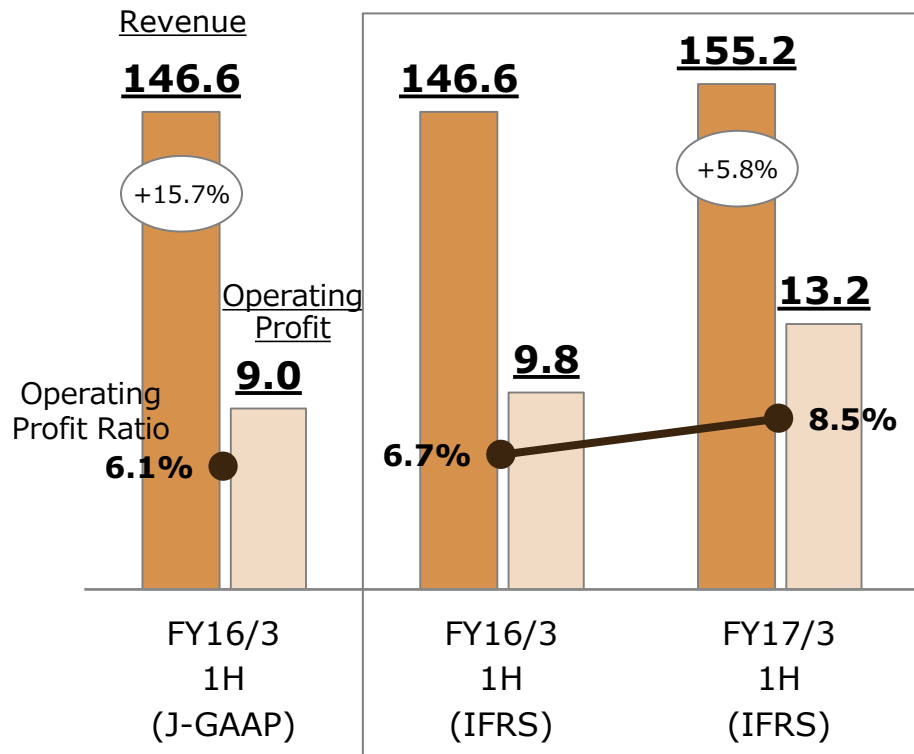
- Worsened due to a sales decline, despite an improvement from cost reduction



(Billions of Yen)

Billions of Yen (YoY)

YoY



Revenue 155.2 (+5.8%)

- Increased due to strong sales from manufacturing industries

Operating Profit 13.2 (+3.3)

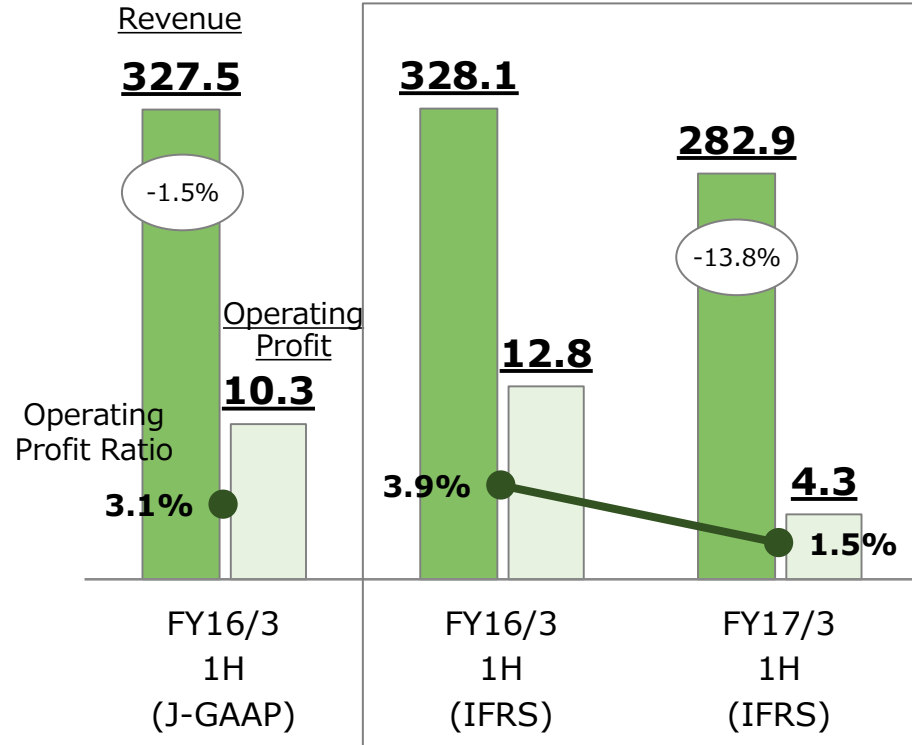
- Improved due to a sales increase and higher profitability in system construction services



(Billions of Yen)

Billions of Yen (YoY)

YoY



Revenue 282.9 (-13.8%)

- Decreased due to sluggish capital investment by domestic and international telecommunications carriers and the influence of the strong yen

Operating Profit 4.3 (-8.5)

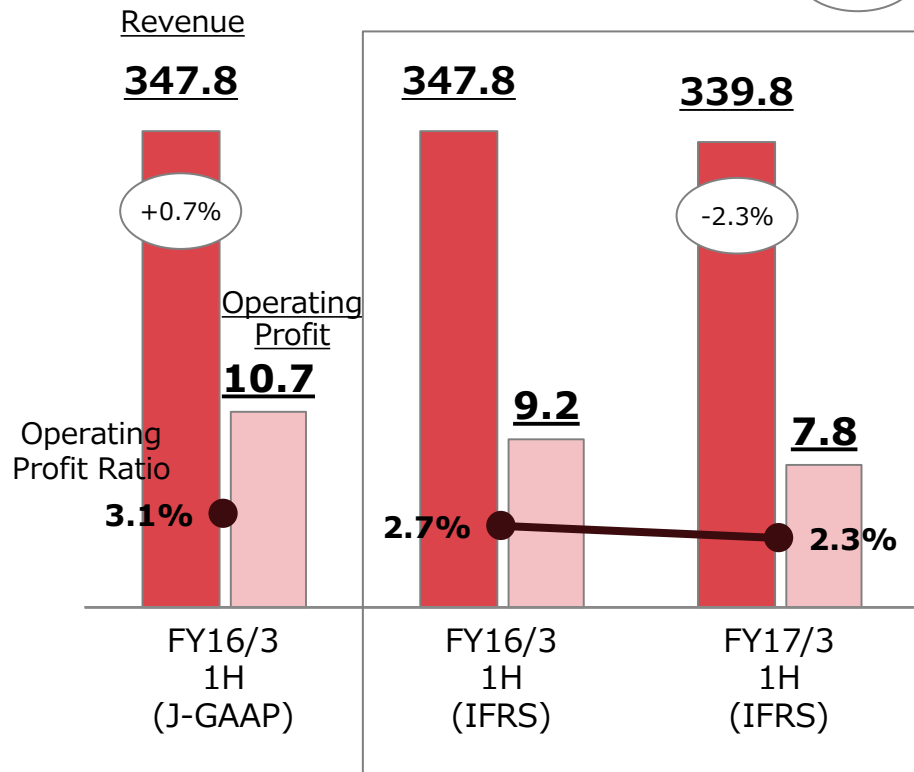
- Worsened due to a sales decline and the influence of the strong yen



(Billions of Yen)

Billions of Yen (YoY)

YoY



Revenue 339.8 (-2.3%)

- Decreased in hardware

Operating Profit 7.8 (-1.4)

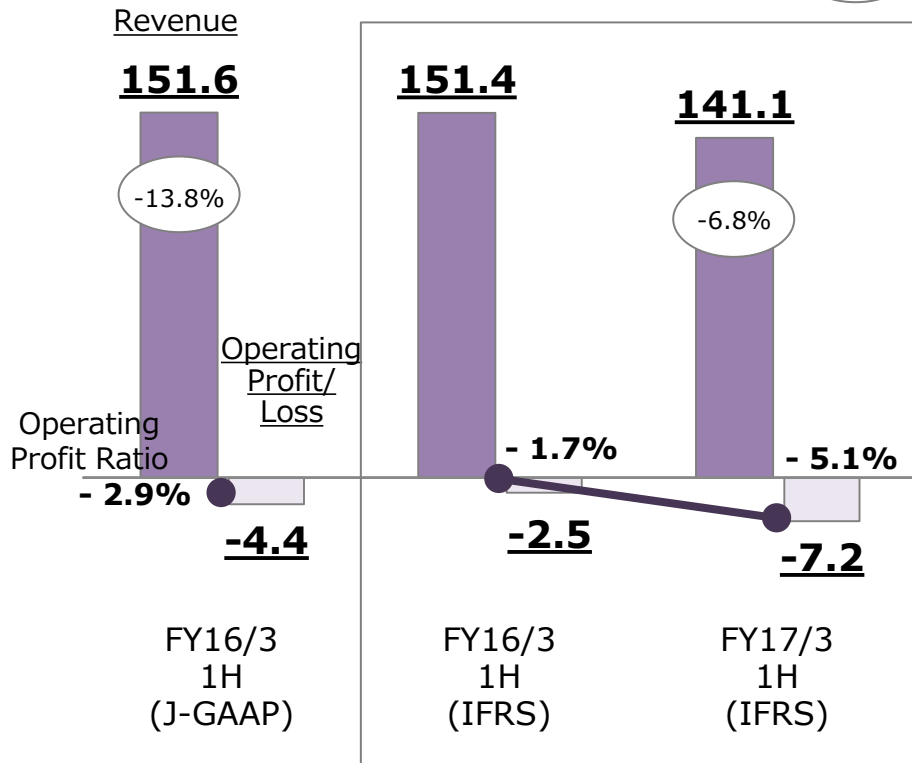
- Worsened due to a sales decline



(Billions of Yen)

Billions of Yen (YoY)

YoY



Revenue 141.1 (-6.8%)

- Decreased due to an impact from the transfer of mobile handset business, as well as a decline in the energy business

Operating Profit/Loss -7.2 (-4.7)

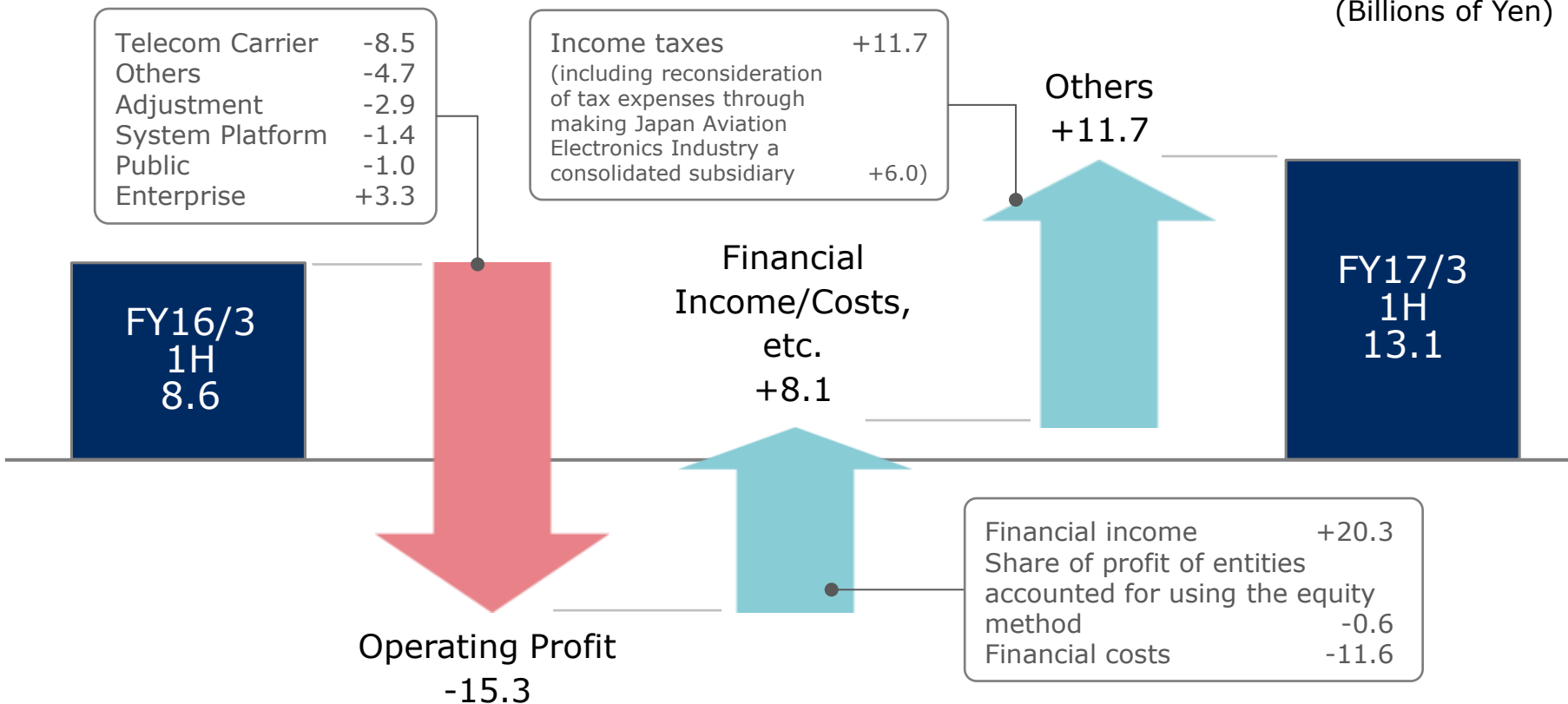
- Worsened due to a sales decline



Net Profit Change (Year on Year)

1H Results

(Billions of Yen)



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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*Assumed exchange rates for 2H, FY17/3 \$1=¥105, €1=¥115

(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 October 31, 2016

Major Factors of Full-year Forecasts

Elements yet to be factored into full-year forecasts

- Transfer of a portion of shares in Lenovo NEC Holdings B.V. (done)
- Tender offer for shares of Japan Aviation Electronics Industry, Limited (to be commenced)
- Progress of businesses after Q2 Earnings
 - Public: Progress of aerospace and defense projects, Control of unprofitable projects
 - Enterprise: IT investment trend in Japan, Profitability improvement for systems construction
 - Telecom Carrier: Capex trend of domestic and international operators, Forex impact
 - System Platform: Sales increase especially in hardware
 - Others: Improvement in the energy business, Global business expansion

*Forecasts as of October 31, 2016

Ⅲ. Progress on Mid-term Management Plan 2018

Implement reforms to address challenges and continue focus on Solutions for Society

■ Reorganization of profit structure – establish profit structure for generating 5% operating profit ratio -

- Reform underperforming businesses and unprofitable projects
- Business process optimization project
- Optimization of development and manufacturing functions

■ Getting back on the track to growth - globalization of Solutions for Society

- Focus on key businesses
 - Safety business
 - Global carrier network business
 - Retail IT service business

Smart energy business

1H 2016

- Tougher competition under stagnant capex of utility companies
Weaker demand for small energy storage after the termination of subsidy
(Sales decreased by ¥5.0 Bil. YoY.
Operating loss worsened by ¥2.0 Bil. YoY)

Measures underway

- Resource shift
(Target 15% reduction of headcount YoY)
- Business for the Japanese utility companies transferred to Public Business (effective on Oct. 1)
- Reviewing the system development operation of small energy storage

Control of unprofitable projects

1H 2016

- Drastic reduction of losses from IT-related unprofitable projects
(Improved ¥5.0 Bil. YoY)

Measures underway

- Prevention of new unprofitable projects

In progress, designating NEC Management Partner, Ltd. (NMP) as a core force

Integration of back-office operations

- Back-office operations of subsidiaries in Japan to be integrated with NEC Corporation under NMP
-> 90% of planned integration completed (4,300 personnel now under NMP)
- IT management -> Approx. ¥20 Bil. in IT assets transferred to NMP
- International back-office operations -> Integration in process in Greater China, then other areas

Execution of optimization under NMP

- Cross-organization activities (35 themes)
- Operation efficiency capitalizing on AI technology and RPA*
(Integrating internal help desk, automation of routine tasks) *RPA: Robotic Process Automation

Change the way of operations for the 100K members of the NEC Group

- Sharing NMP's know-how of back-office efficiency with different areas
-> Started improving the efficiency of sales processes, expanding to other business processes

Enhancement of hardware development and production

Integrate hardware development and production subsidiaries in Japan (effective on Apr. 1, 2017)

- Integrate 5 companies/divisions into one as a consolidated operation of the NEC Group's hardware development and production, both for IT and network equipment
 - NEC Platforms, Ltd. (Development and production of IT systems)
 - NEC Network Products, Ltd. (Development and production of network equipment)
 - NEC Yamanashi, Ltd. (Production of optical communication devices)
 - NEC Engineering, Ltd. (System solution provider, including the development of various equipment)
 - Equipment development operation of NEC Communication Systems, Ltd. (Development of communication equipment)

Enhanced operation, customer wins

- Acquired Arcon Informatica S.A, an IT security business in Brazil
 - Expand IT Security business in Brazil by capitalizing on Arcon's leading technologies, know-how, and capability to support large scale customers
- Contributed to India's Aadhaar identification program through biometrics technologies
- Delivered video surveillance systems at football stadium in Medellin, Colombia
- Selected by South Australia Police to provide face recognition systems
- Launched biometrics business office in Washington, D.C., U.S.A.
- Established Security Operations Center in Austria

Accelerate development and use of state-of-the-art AI technologies supporting advanced fields

Launched AI brand “NEC the WISE”

- Social value creation utilizing advanced AI technology for “Visualization,” “Analysis,” and “Prescription”



NEC the WISE

AI technologies from NEC
for enriching human intellect and creativity

Industry-Academia alliance for the better use of AI, including legal systems and ethics

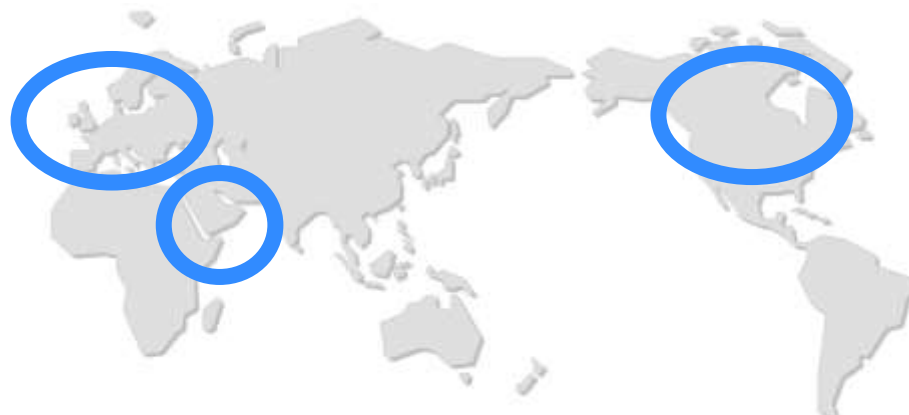
- Osaka University: Joint research on Brain-inspired computing, a “post-deep learning” technology
- National Institute of Advanced Industrial Science and Technology (AIST): Convergence of simulation and AI supporting decision making under uncertainties
- University of Tokyo: Joint research on AI including “brain-morphic,” a processing technology with low power consumption. Investigation of ethics and legal systems. Promotion of human resource development

Awarded commercial deployment from 5 tier-1 operators in Europe, Middle East and North America

SDN/NFV gains momentum among global carriers

NEC's enhanced proposal through the "Agile Virtualization Platform and Practice" (Released in May 2016)

- Support rapid implementation of new carrier services (e.g. enterprise solutions)
- Visualize SDN/NFV effects
- Consulting



*SDN: Software-Defined Networking
NFV: Network Functions Virtualization

*As of October 31, 2016

Establish seamless support for Japanese customers to develop, implement, operate and maintain IoT solutions

Realize an industrial IoT ecosystem

- NEC deploys Predix for its global supply-chain improvement project
- Start joint marketing of Predix in Japan

Create new value in the industrial IoT space by integrating technologies of both companies



Leverage the support and training capability for Predix

- Enhance customer support for Predix in Japan
- Expand Predix related training sessions and increase the number of certified engineers

Develop cyber security solutions in the operational technology (OT) and IT space



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 October 31, 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.

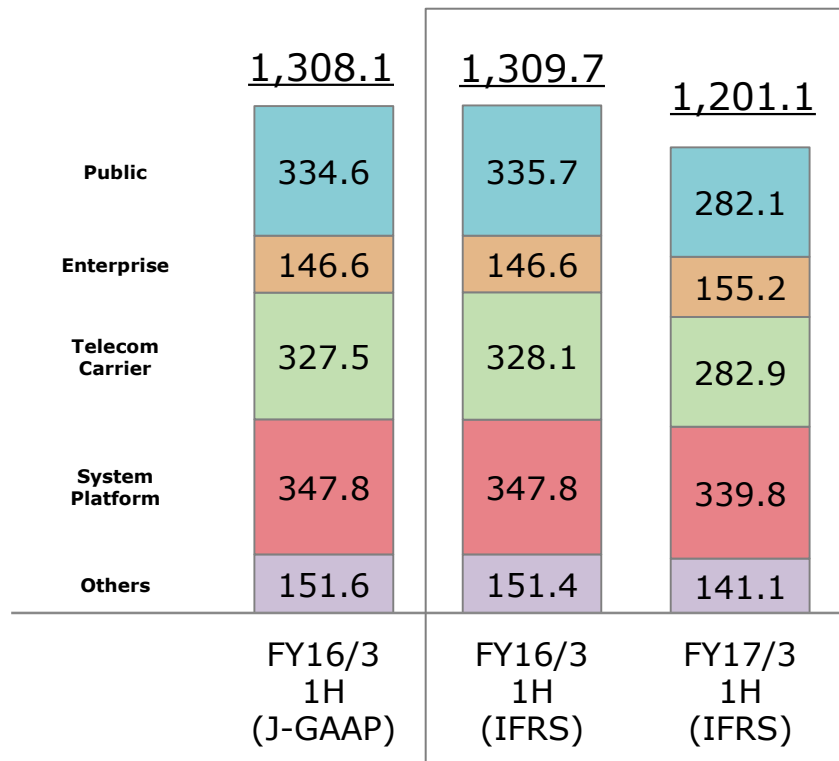
 **Orchestrating** a brighter world

NEC

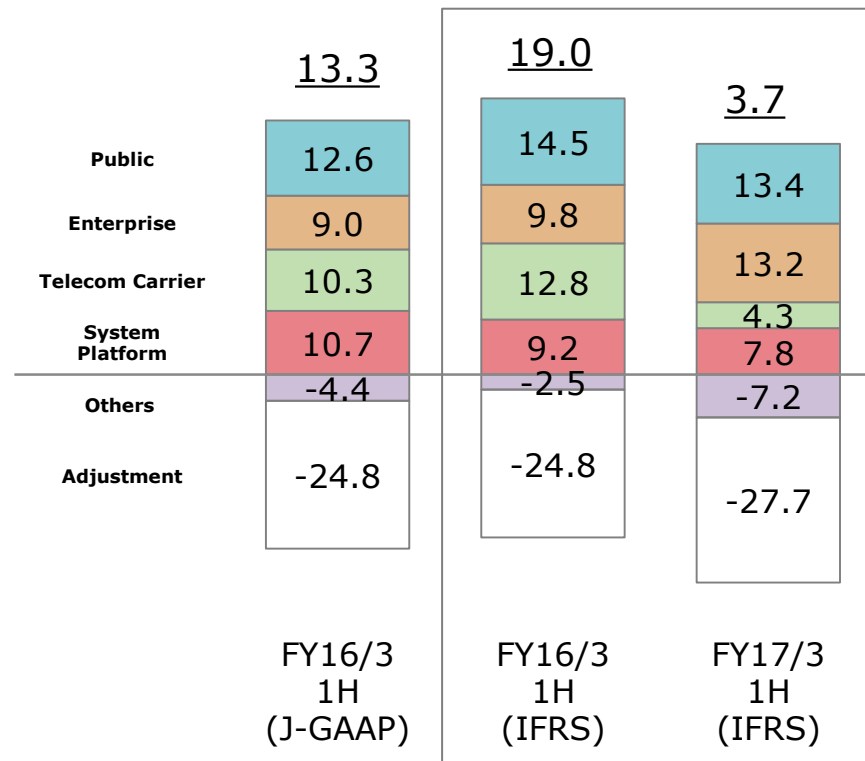
Financial Results for Q2, FY17/3 (Appendix)

(Billions of Yen)

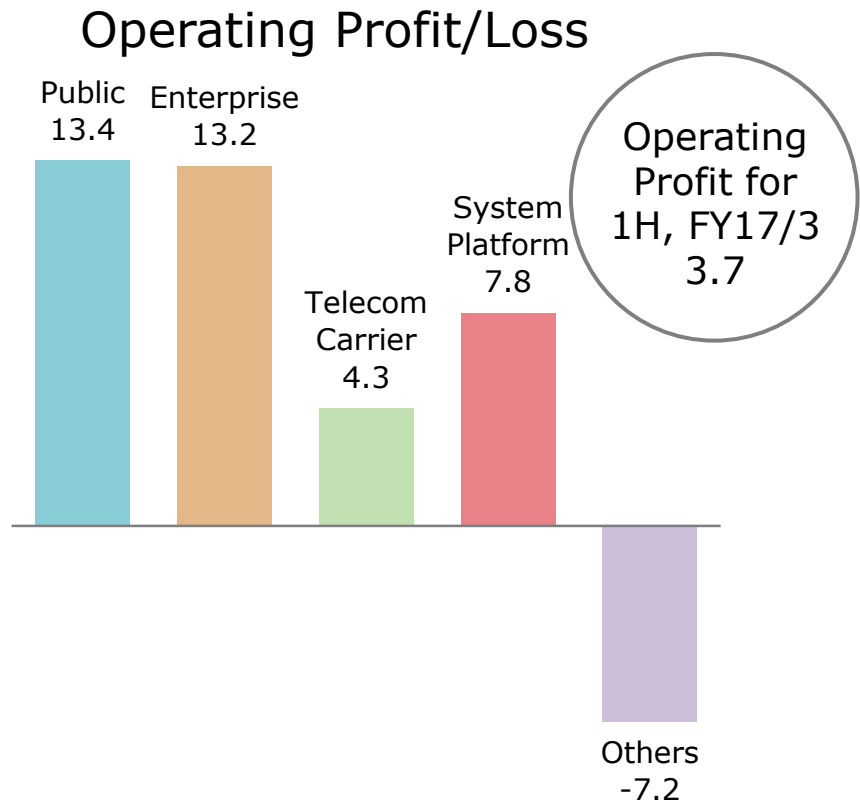
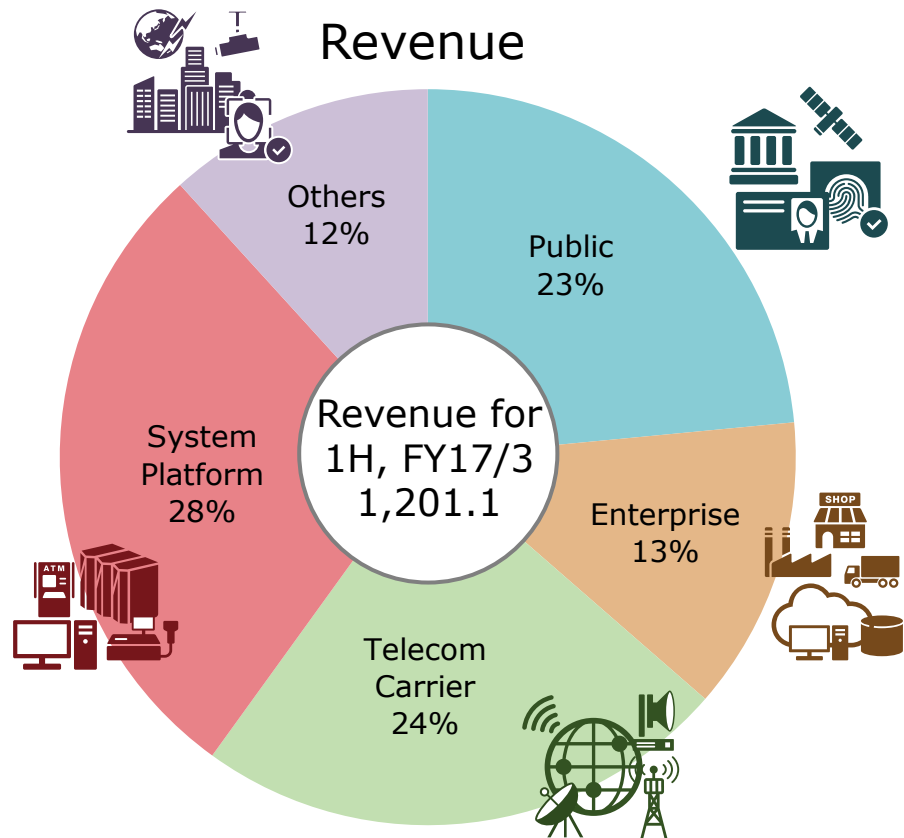
Revenue



Operating Profit/Loss



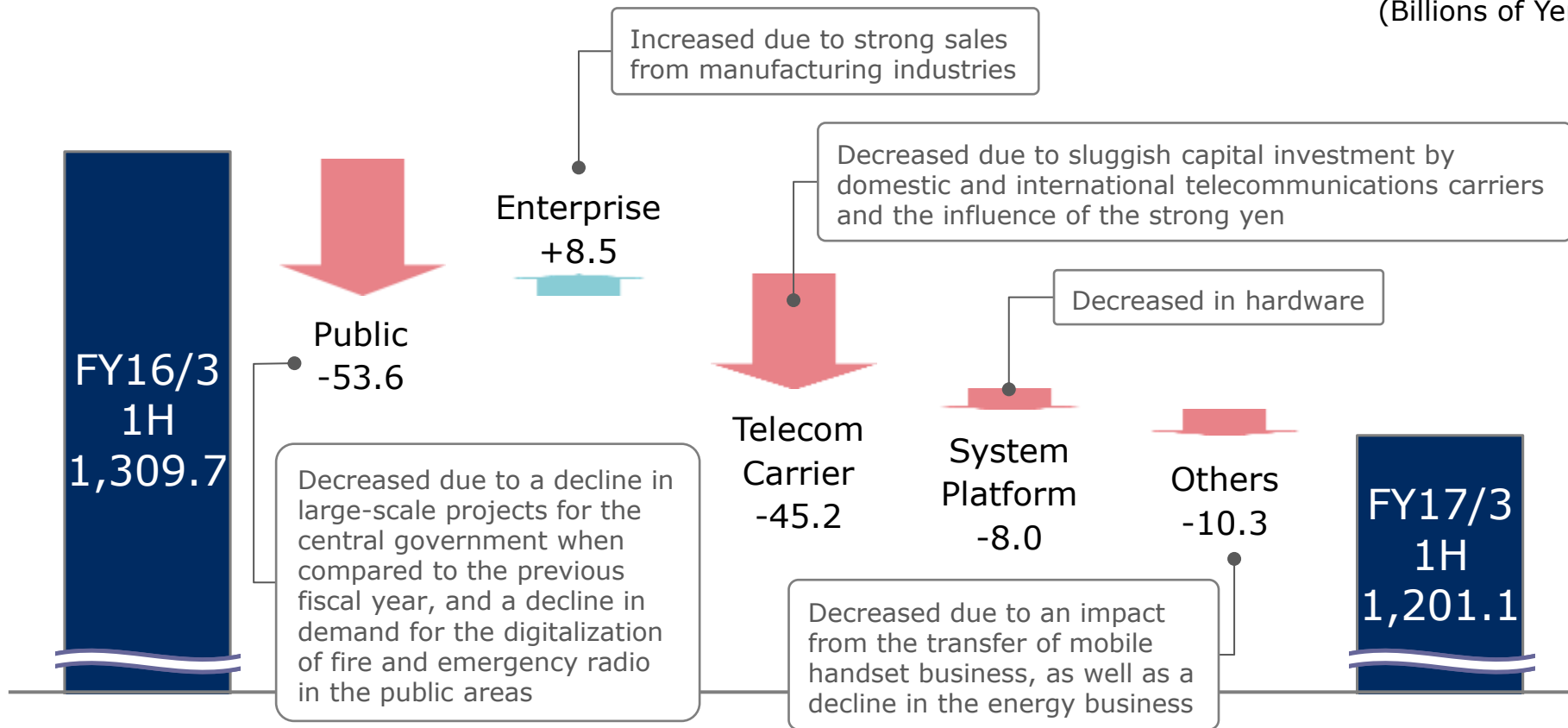
(Billions of Yen)



Revenue Change (Year on Year)

1H Results

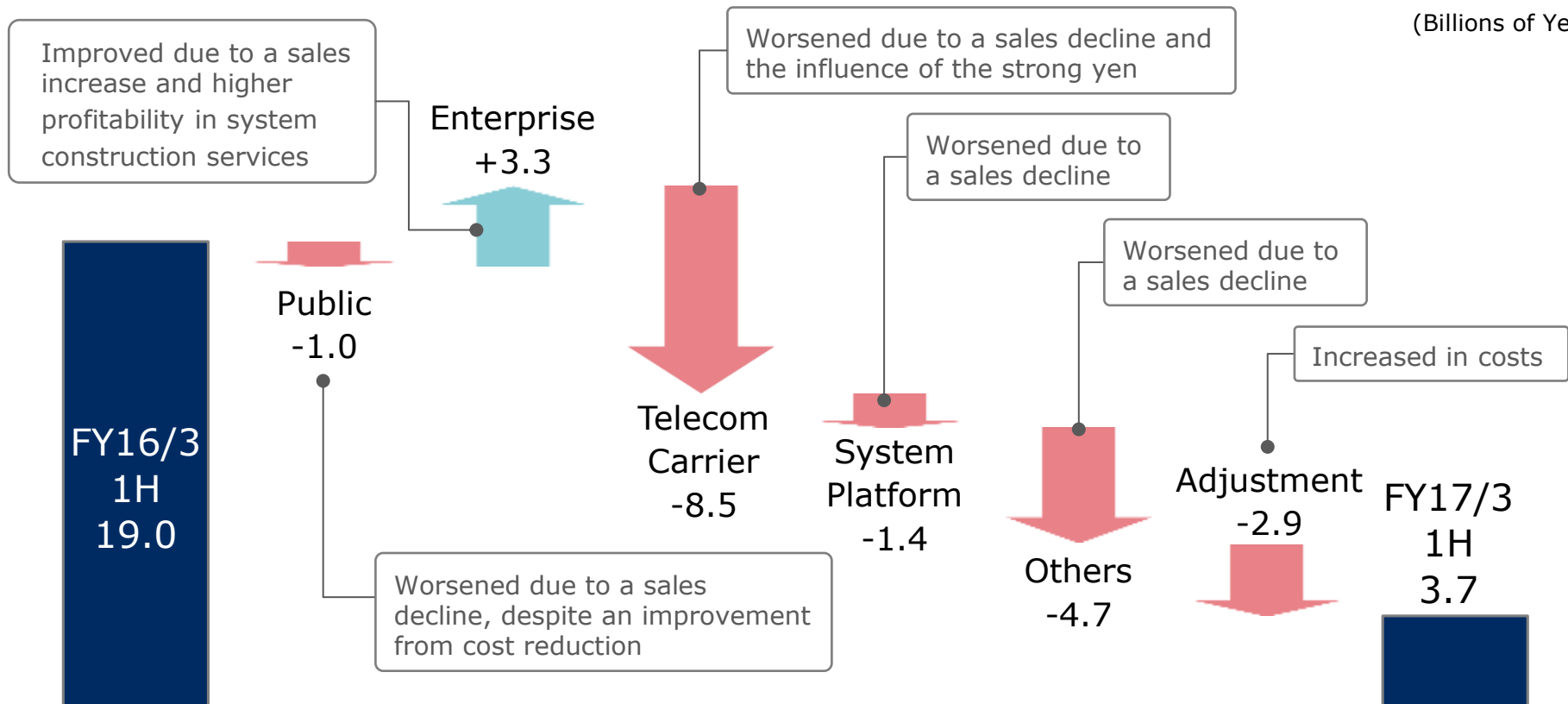
(Billions of Yen)



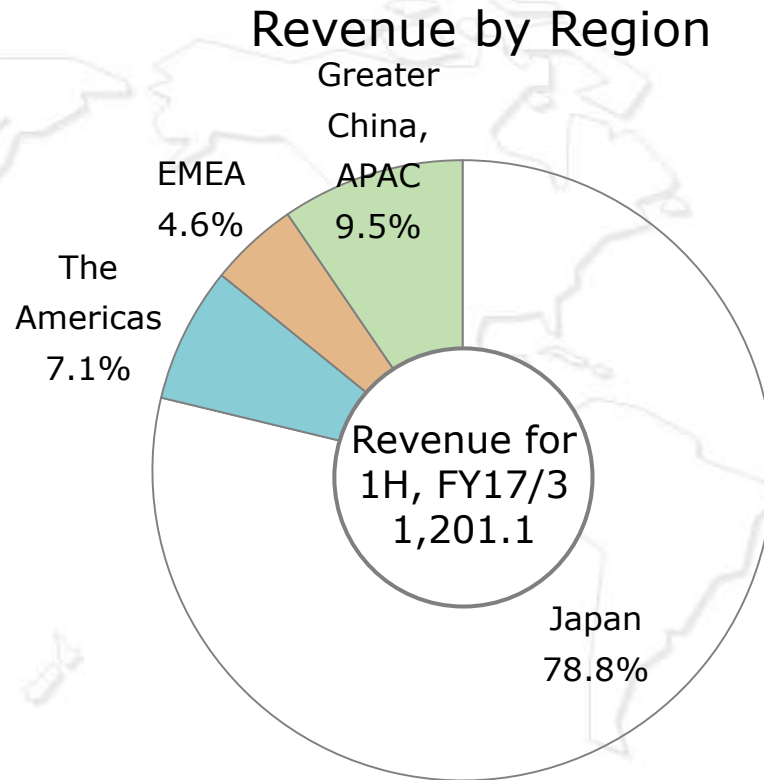
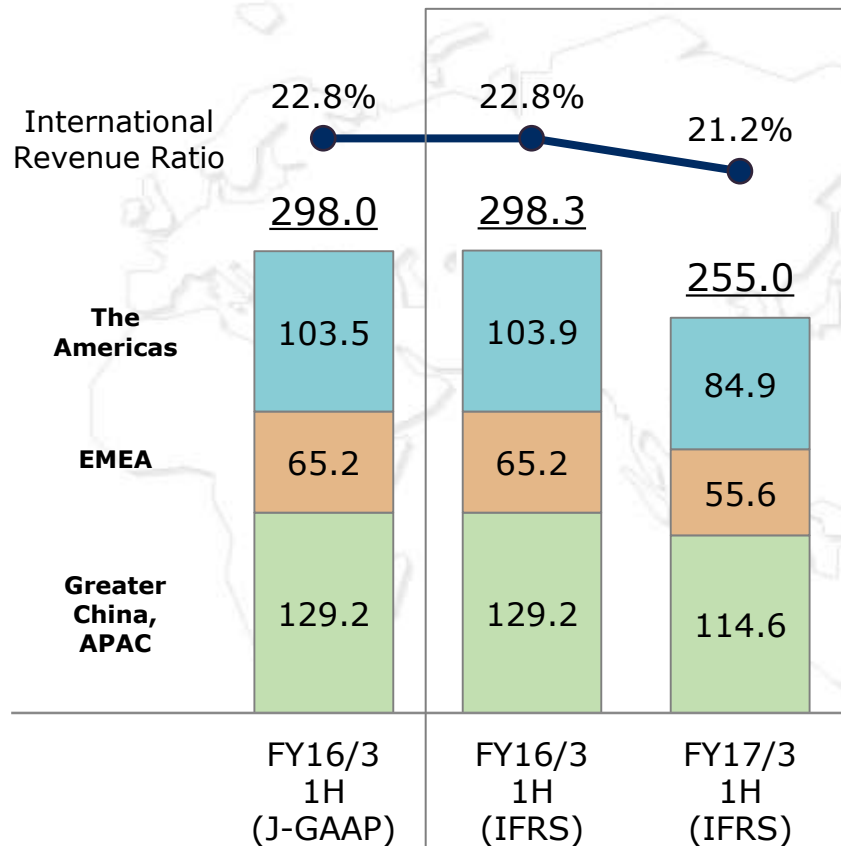
Operating Profit Change (Year on Year)

1H Results

(Billions of Yen)

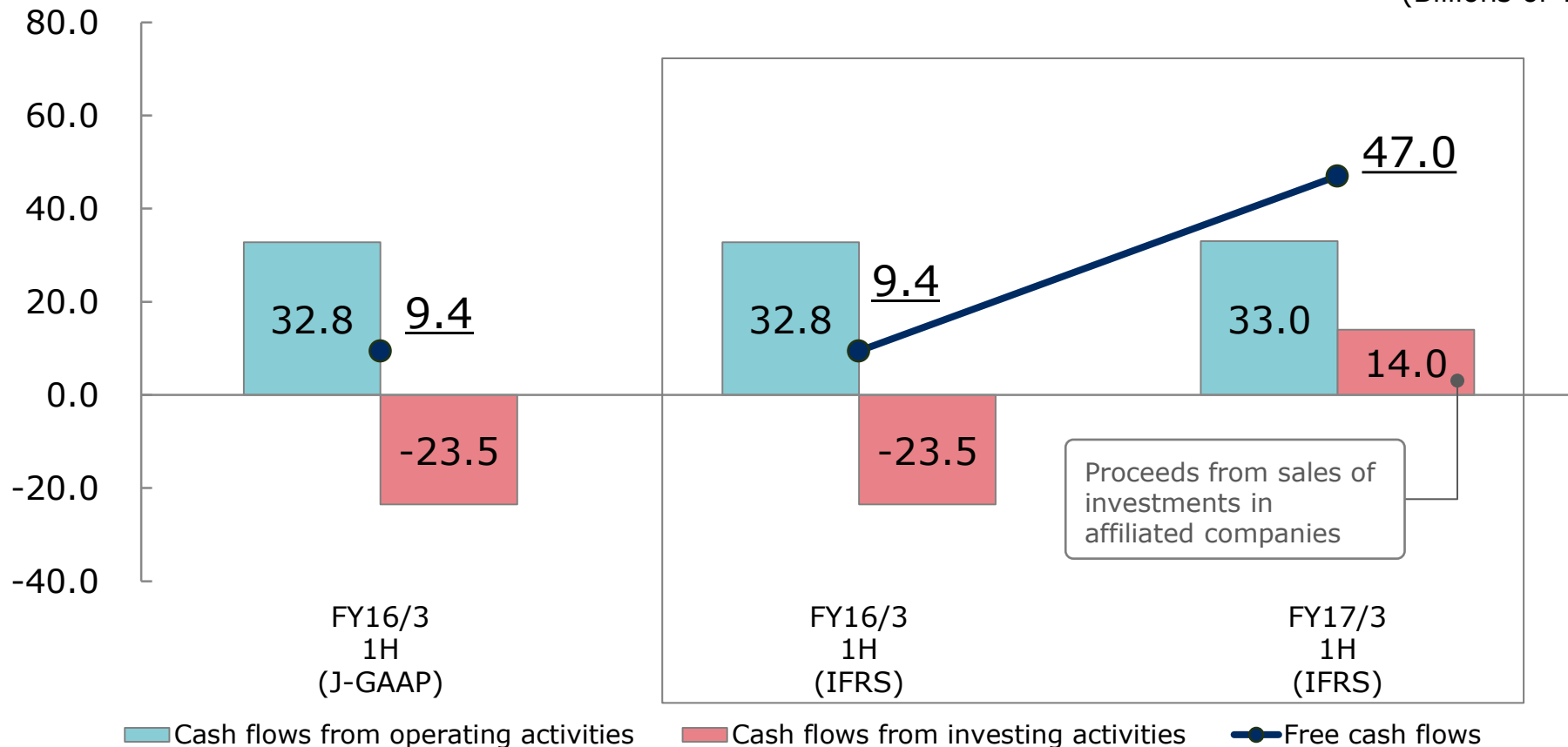


(Billions of Yen)



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

(Billions of Yen)



(Billions of Yen)

	End of March 2016	End of September 2016	Variance from end of March 2016	End of September 2015
Total assets	2,528.9	2,437.2	-91.7	2,502.8
Total equity	837.2	814.8	-22.4	869.4
Interest-bearing debt	479.5	530.8	+51.3	529.0
Equity attributable to owners of the parent	769.8	747.2	-22.6	802.2
Ratio of equity attributable to owners of the parent (%)	30.4%	30.7%	+0.2pt	32.1%
D/E ratio (times)	0.62	0.71	-0.09pt	0.66
Net D/E ratio (times)	0.37	0.35	+0.02pt	0.42
Cash and cash equivalents	192.3	270.9	+78.6	188.5

(Billions of Yen)

Compared to
end of March
2016

Current Assets
1,387.4

Liabilities
1,622.5

Collection of trade and
other receivables

-65.9

Total Assets
2,437.2

-69.2

Decrease in trade and
other payables

(-91.7 compared to
end of March 2016)

Decrease in other
components of equity

Noncurrent Assets
1,049.8

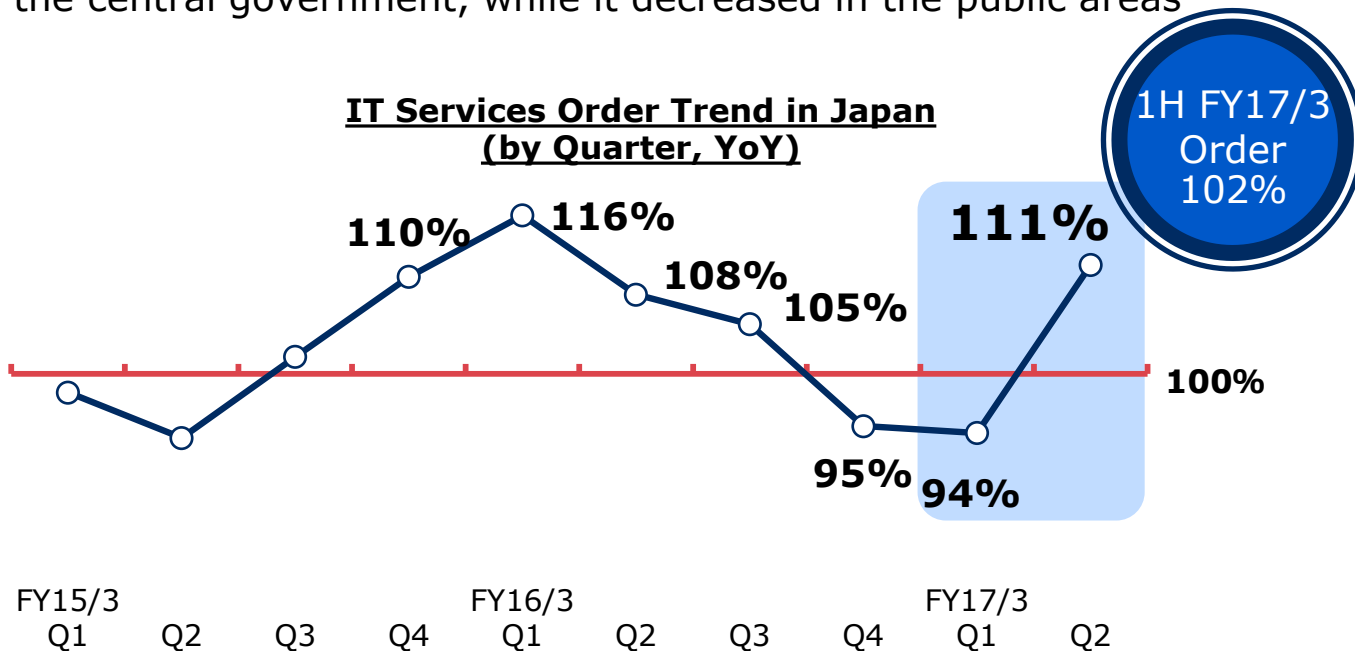
-25.8

Net Assets
814.8

-22.4

The order trend for IT investment in services : 102% YoY

- IT services in Japan for 1H, FY17/3 showed stable performance in manufacturing areas and for the central government, while it decreased in the public areas



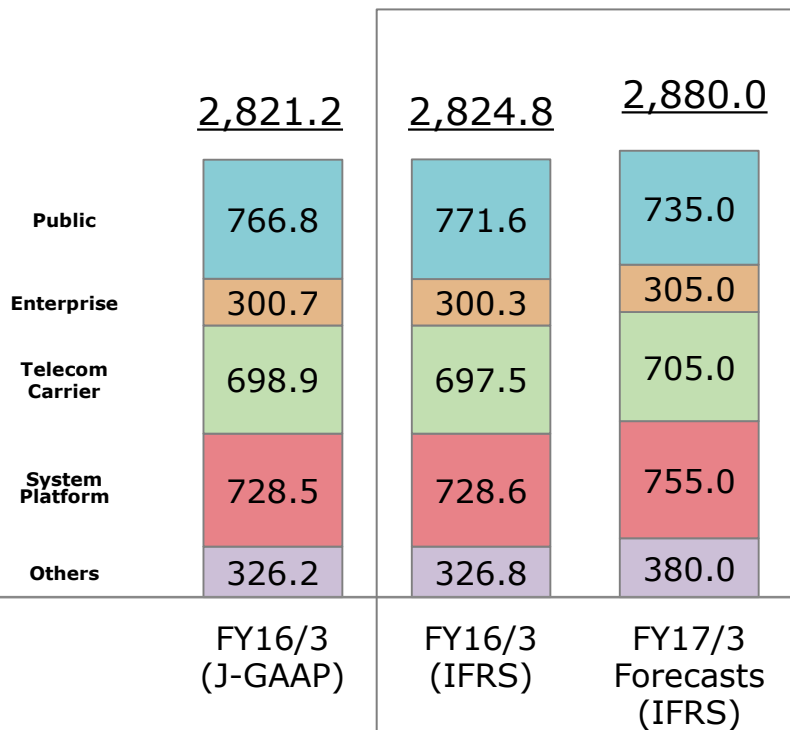
Financial Forecasts for FY17/3 (Appendix)

Financial Forecasts by Segment (two-year transition)

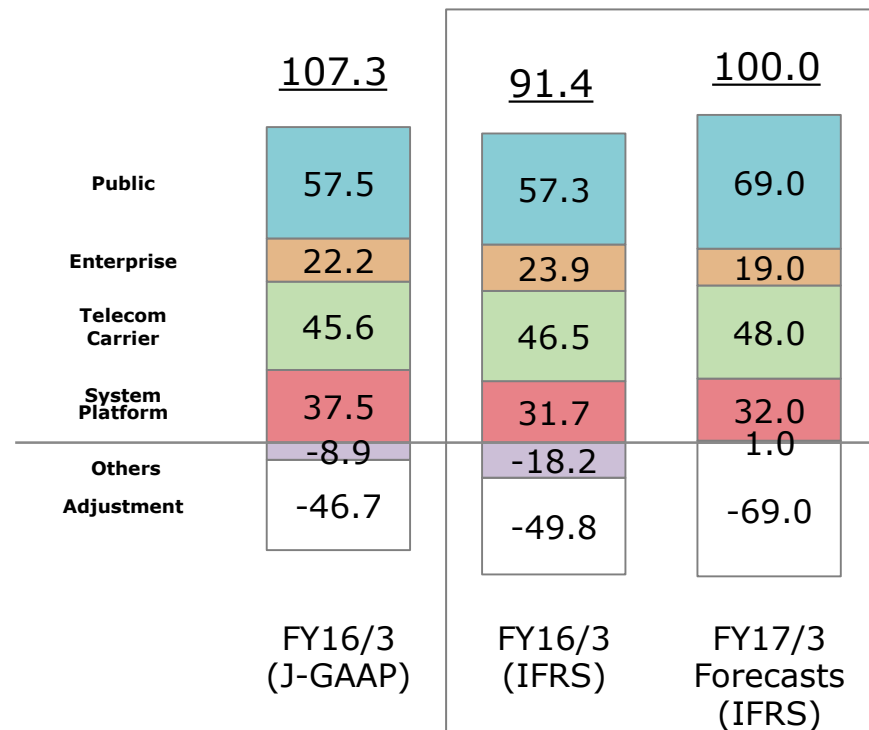
Forecasts
FY17/3

(Billions of Yen)

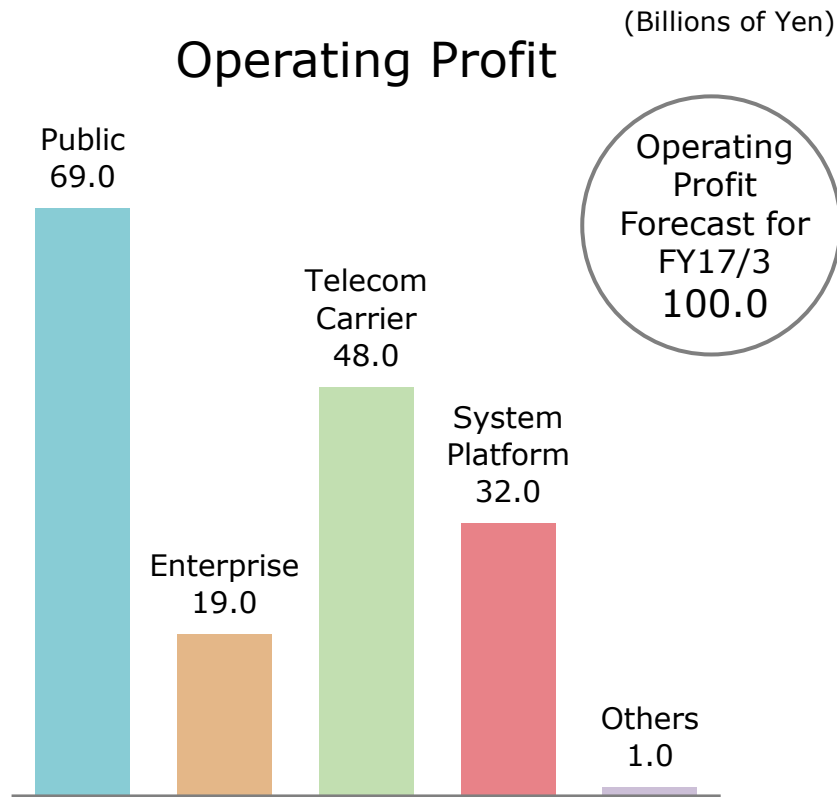
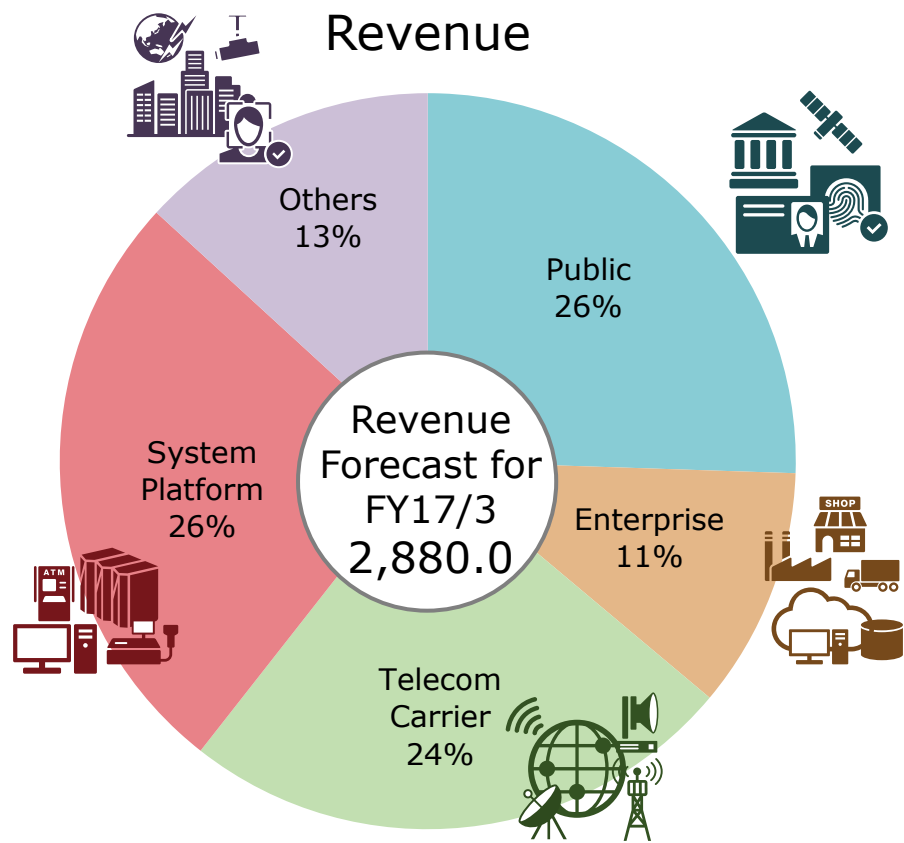
Revenue



Operating Profit/Loss



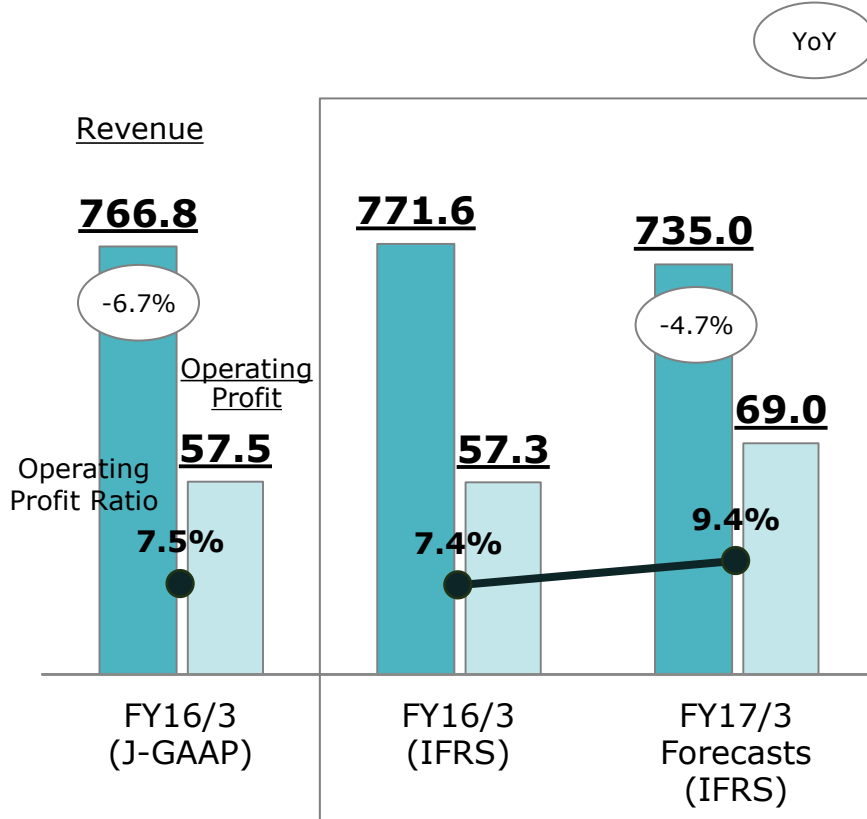
*Forecasts as of October 31, 2016



*Forecasts as of October 31, 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

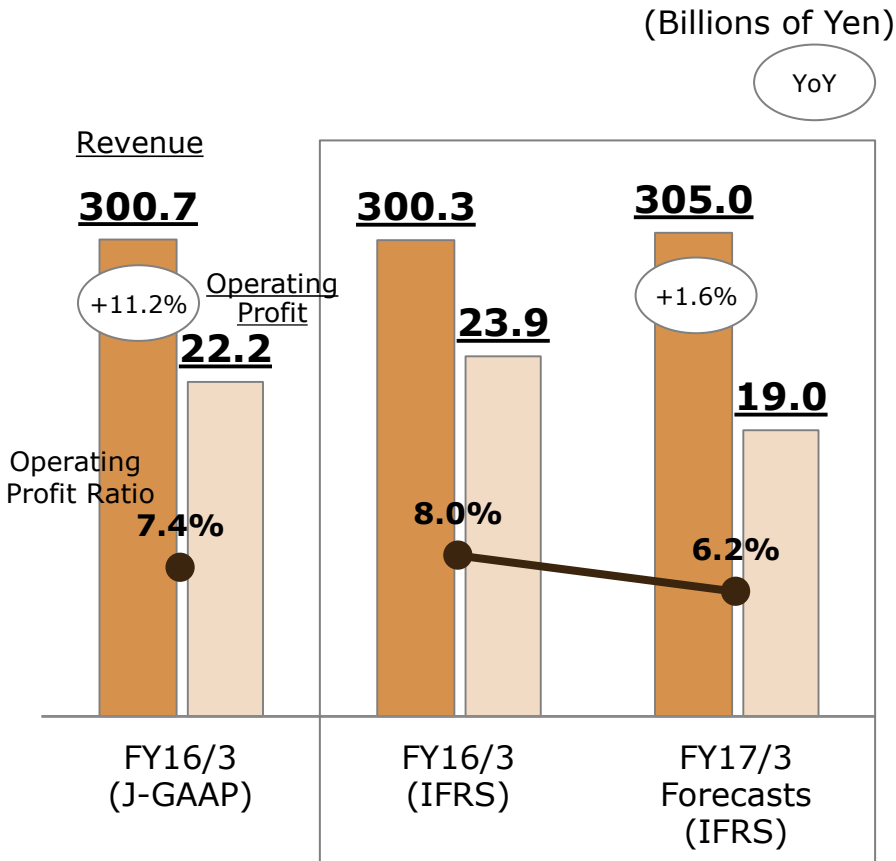
* Including transfer of certain business (Approx. -40 billion yen)

Operating Profit 69.0 (+11.7)

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



*Forecasts as of October 31, 2016



Revenue 305.0 (+1.6%)

- Increase in manufacturing industries

Operating Profit 19.0 (-4.9)

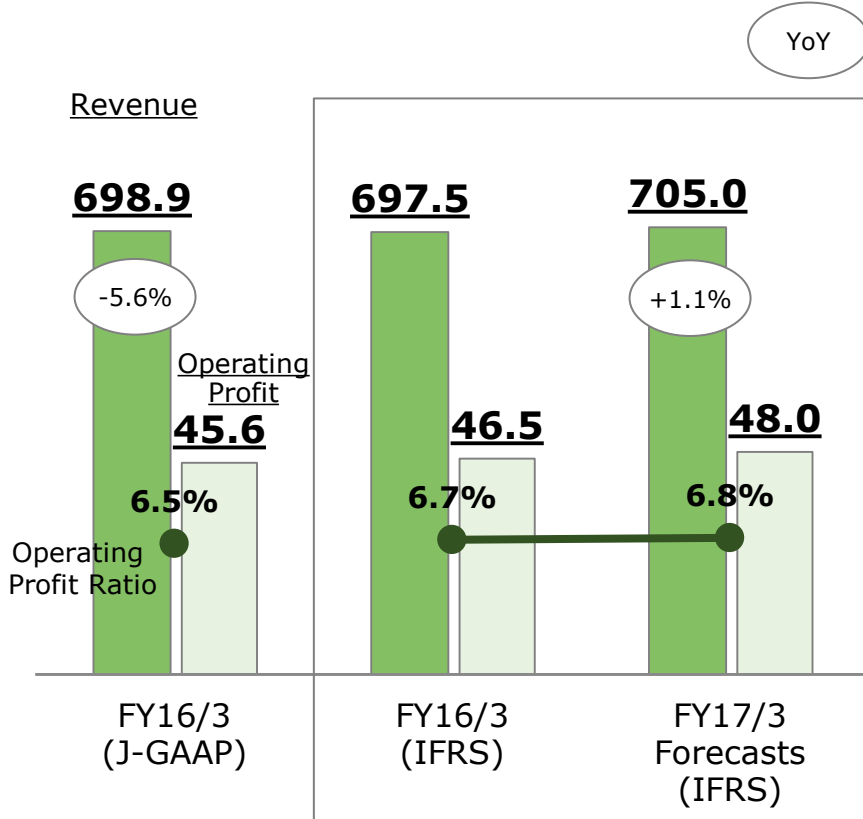
- Decrease due to project lineup changes and an investment increase in the IT services business for retail industries



*Forecasts as of October 31, 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

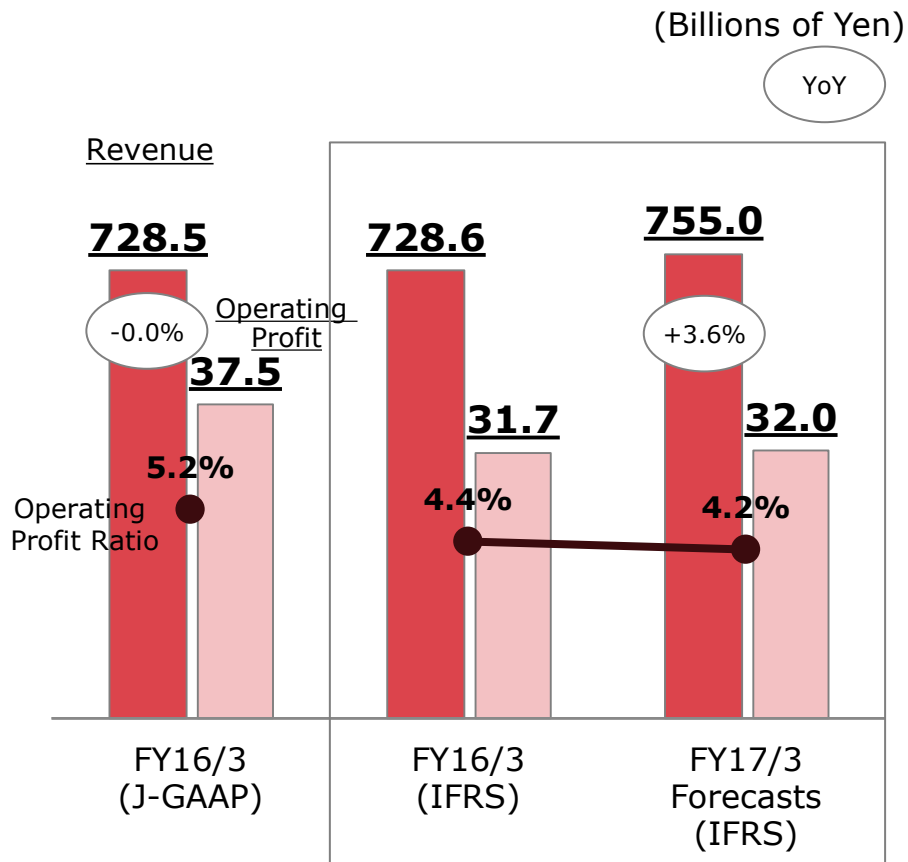
Operating Profit 48.0 (+1.5)

- Improve due to a sales increase

*TOMS: Telecom Operations & Management Solutions



*Forecasts as of October 31, 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)

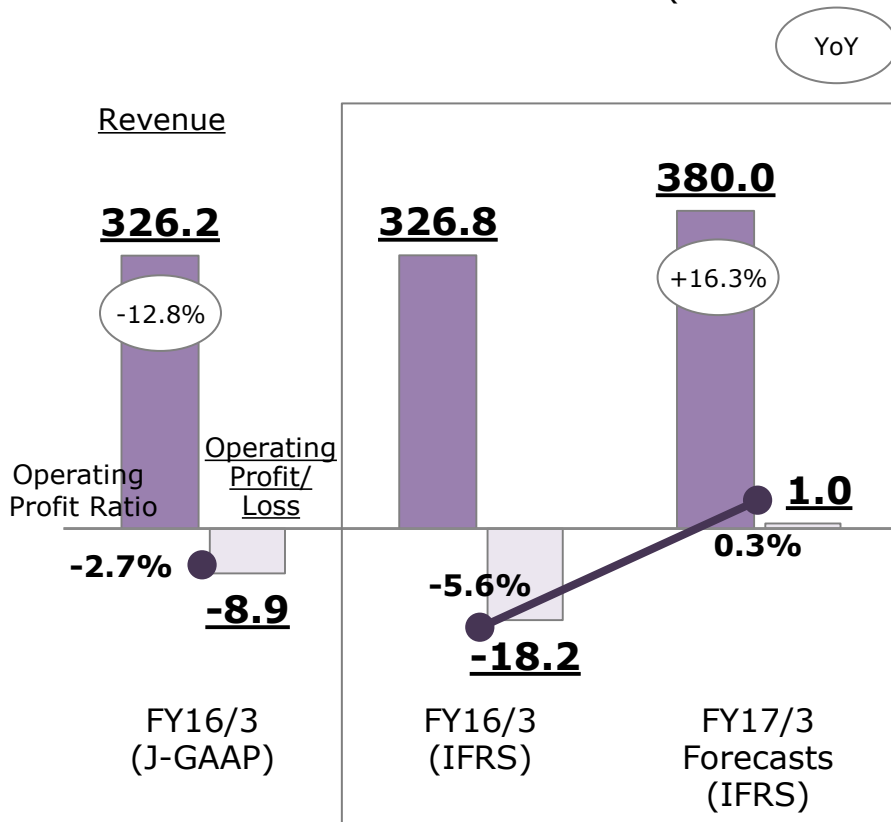
- Remain flat due to project lineup changes, despite a sales increase



*Forecasts as of October 31, 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

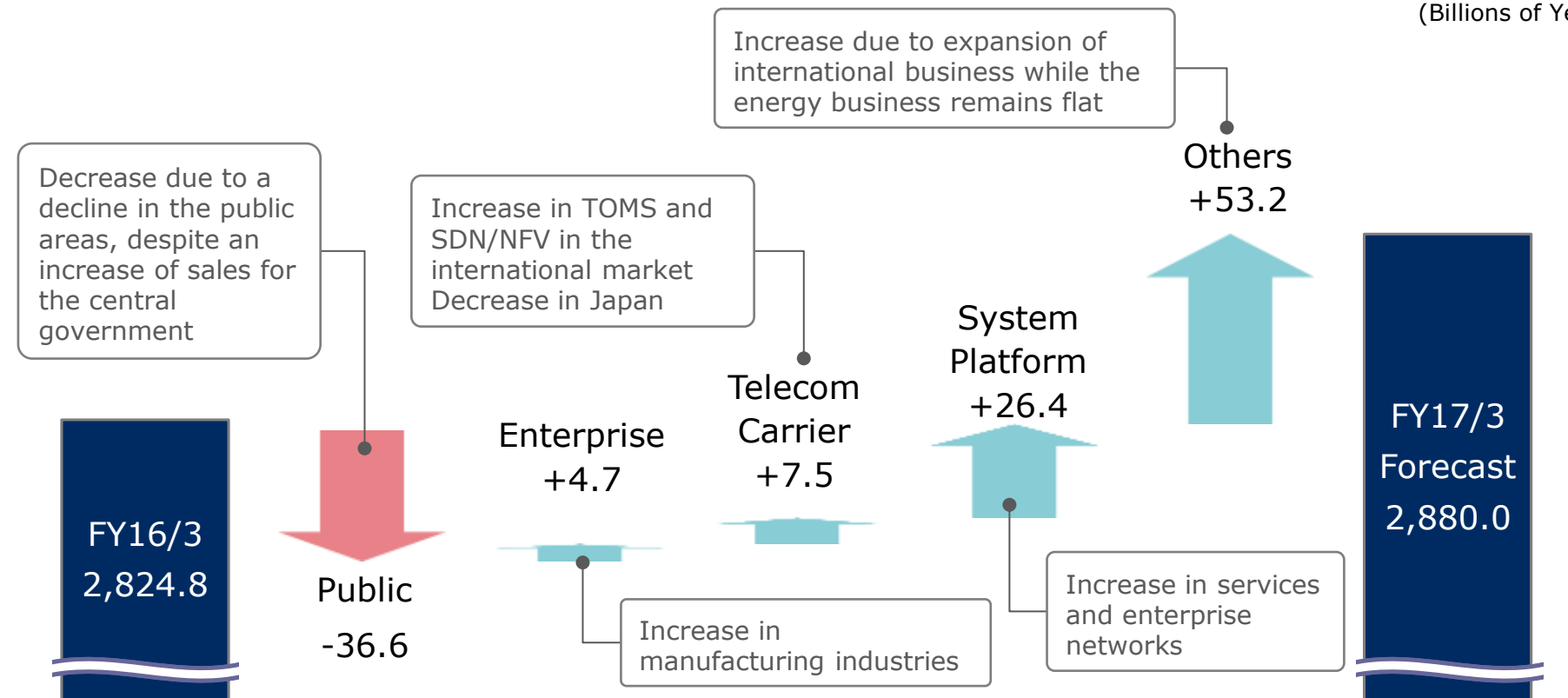


*Forecasts as of October 31, 2016

Revenue Change (Year on Year)

Forecasts
FY17/3

(Billions of Yen)

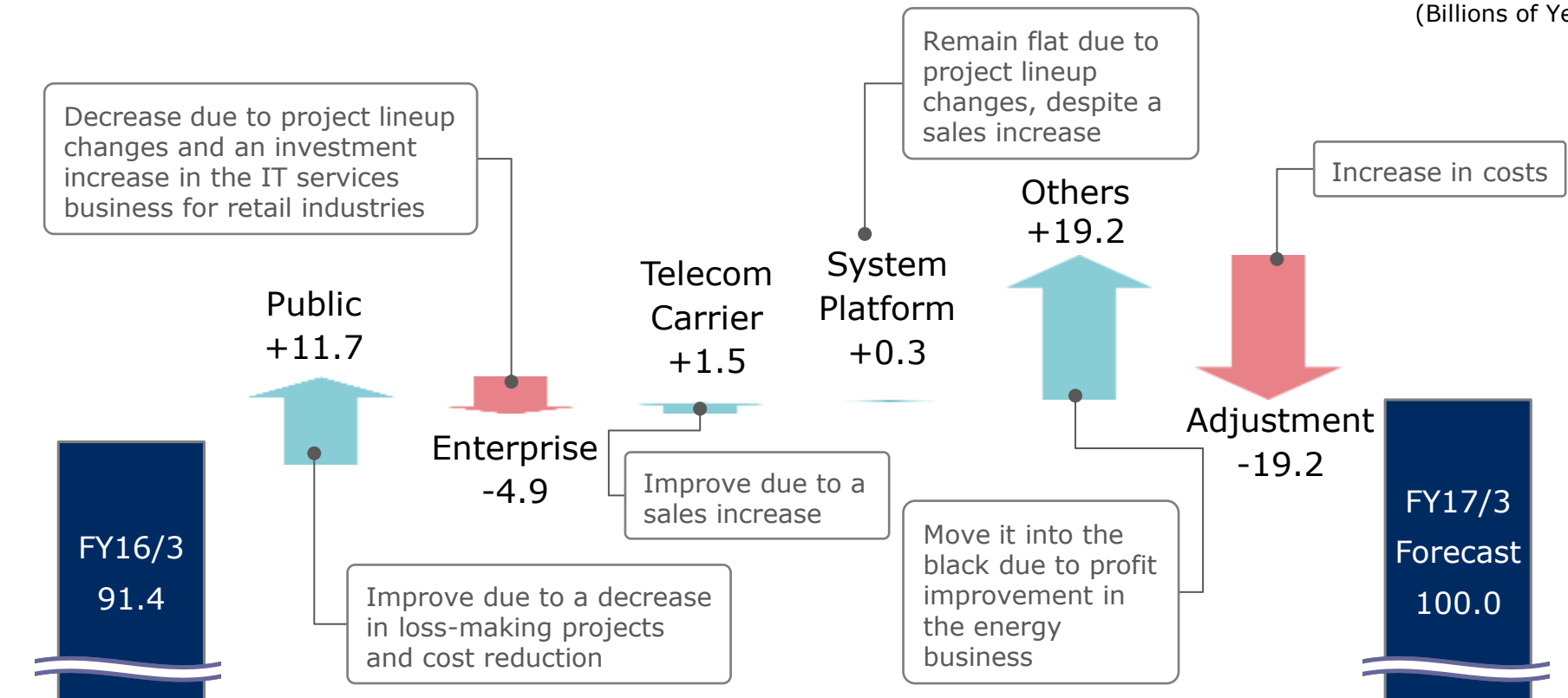


*Forecasts as of October 31, 2016

Operating Profit Change (Year on Year)

Forecasts
FY17/3

(Billions of Yen)

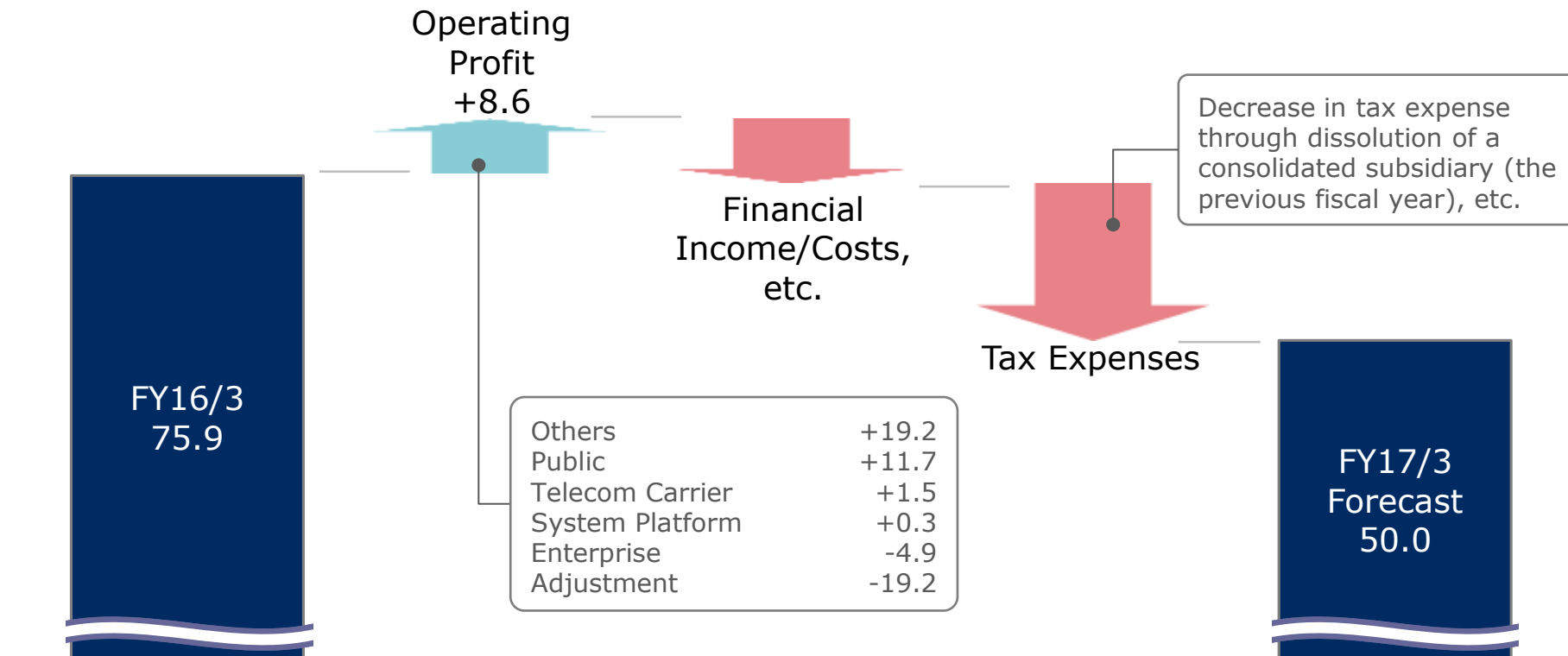


*Forecasts as of October 31, 2016

Net Profit Change (Year on Year)

Forecasts
FY17/3

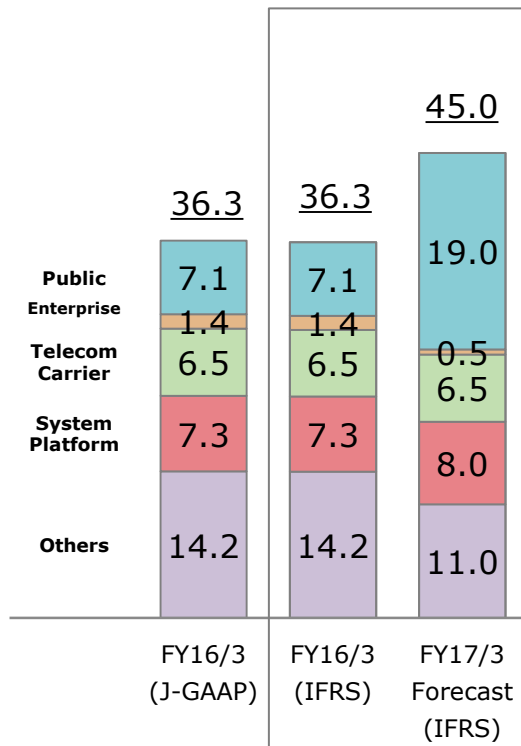
(Billions of Yen)



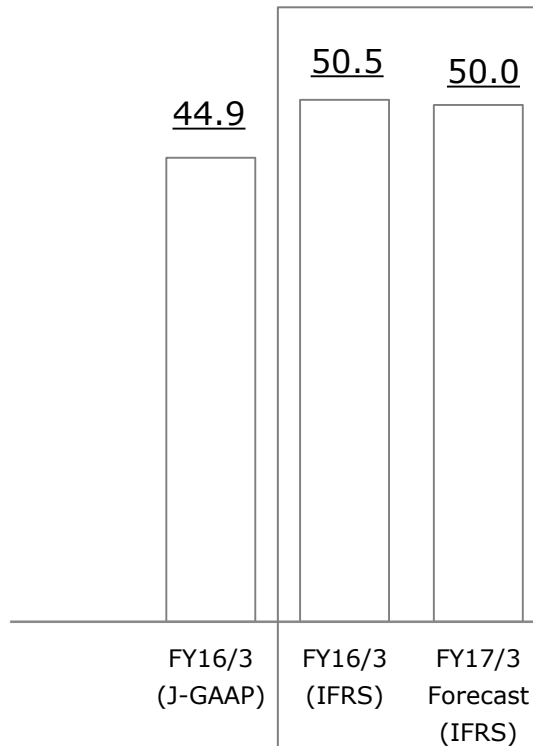
*Forecasts as of October 31, 2016

(Billions of Yen)

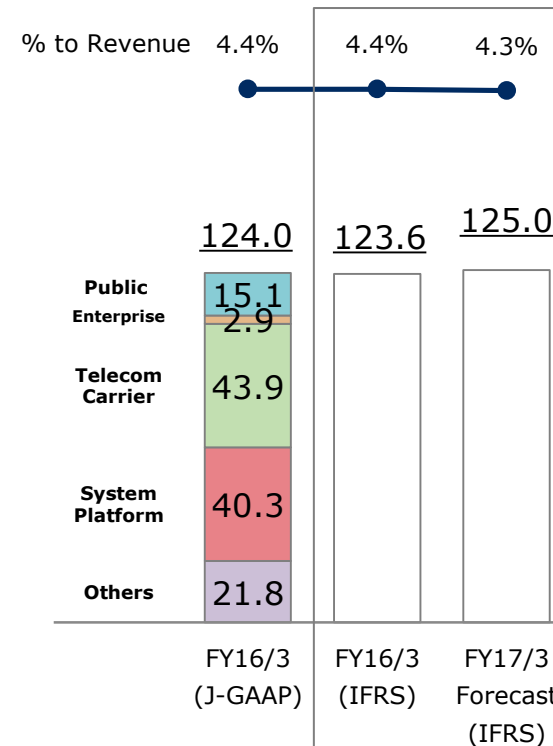
Capital Expenditure



Depreciation



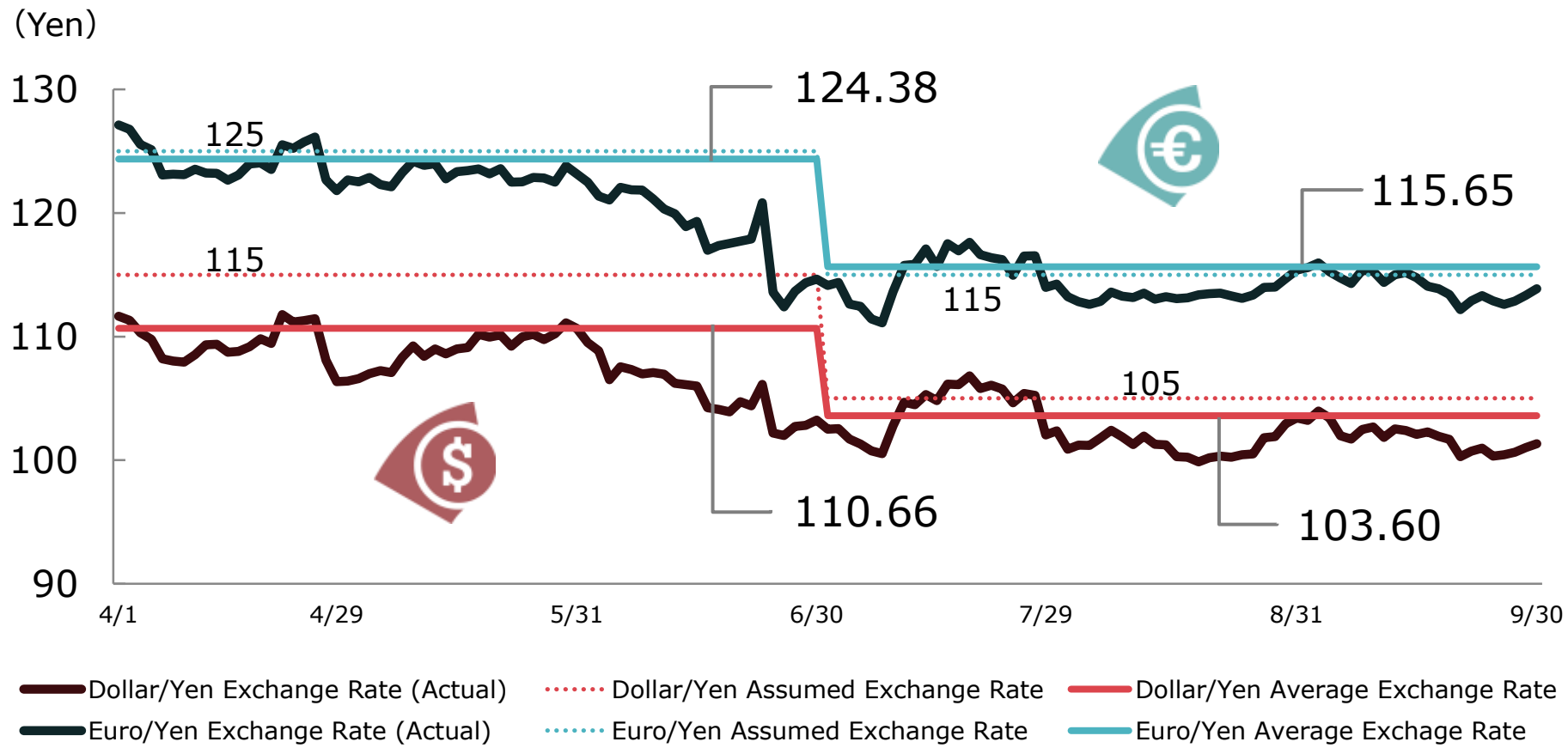
R&D Expenses



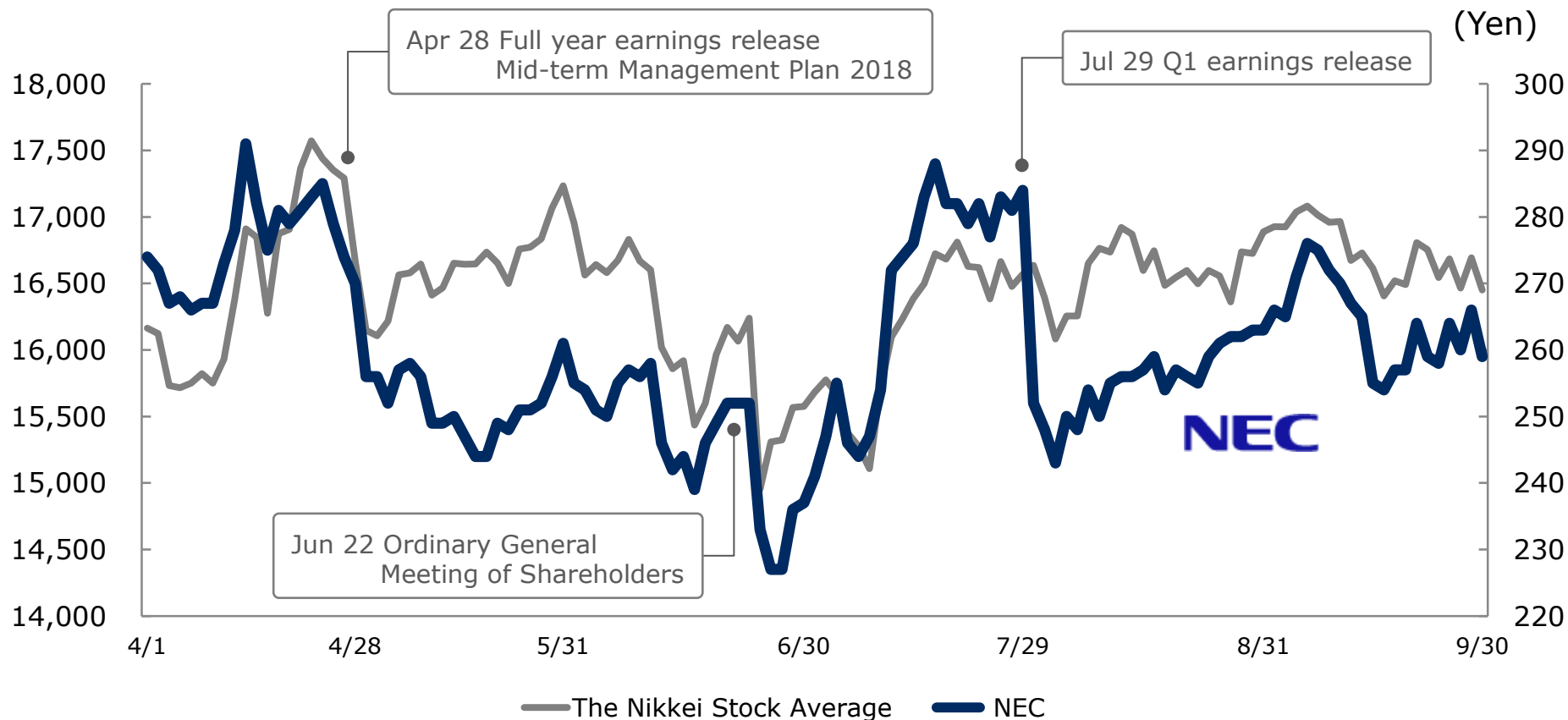
*Forecasts as of October 31, 2016

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.