

# Financial Results for 1H Fiscal Year Ending March 31, 2018

October 31, 2017

NEC Corporation

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

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

\*\* As stated in the July 21, 2017 announcement, "NEC to Revise Business Segments," NEC has revised its business segments from Q1, FY18/3. Figures for the corresponding period of FY16/3 or FY17/3 have been restated to conform with the new segments.

# I . Financial Results for 1H, FY18/3

## Revenue

YoY +7.2%

### Increased year on year

- Increased in Public business and Others

## Operating Profit

YoY +3.5B Yen

### Improved year on year

- Improved in Public business and Others, while worsened in Enterprise and Telecom Carrier business

## Net Profit

YoY +5.7B Yen

### Improved year on year

- Improved in operating profit, as well as foreign exchange gains/losses

(Billions of Yen)

	Q2 <July to September>		
	FY17/3 Actual	FY18/3 Actual	YoY
Revenue	682.4	705.6	+3.4%
Operating Profit	33.7	21.7	-12.0
% to Revenue	4.9%	3.1%	
Income before Income Taxes	46.3	23.7	-22.6
Net Profit	33.2	11.0	-22.2
% to Revenue	4.9%	1.6%	

1H <April to September>		
FY17/3 Actual	FY18/3 Actual	YoY
1,201.1	1,288.0	+7.2%
3.7	7.3	+3.5
0.3%	0.6%	
12.6	30.8	+18.2
13.1	18.8	+5.7
1.1%	1.5%	

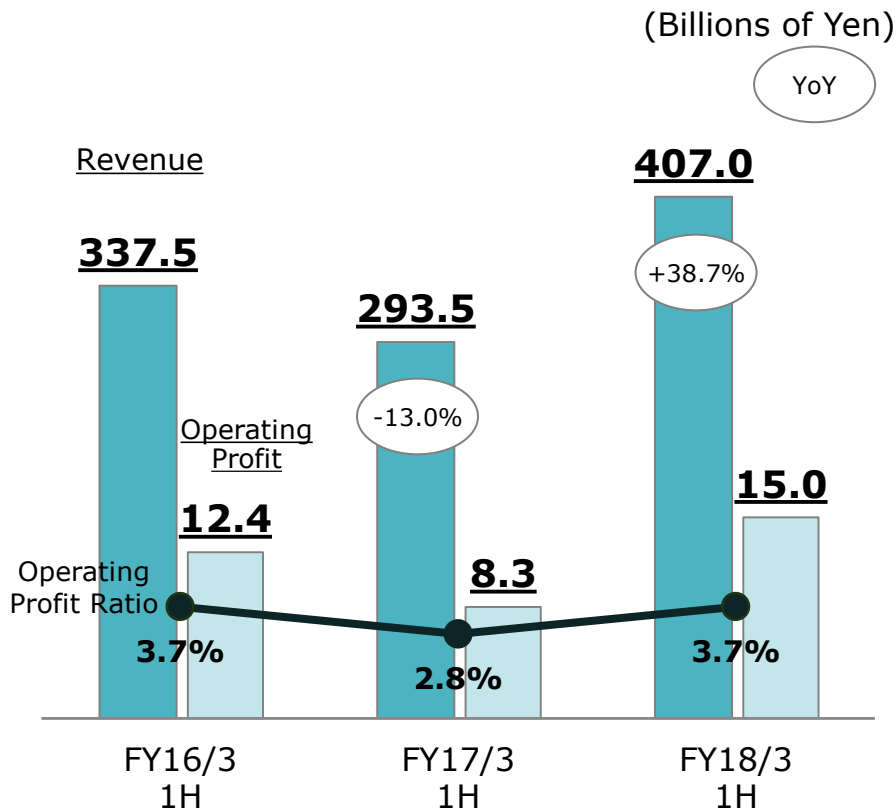
Free Cash Flows	-16.7	-39.2	-22.4
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47.0	75.3	+28.3
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Note:			
Average Exchange Rates (yen)	USD 1	103.60	111.09
	EUR 1	115.65	127.94

(Billions of Yen)

		Q2 <July to September>			1H <April to September>		
		FY17/3 Actual	FY18/3 Actual	YoY	FY17/3 Actual	FY18/3 Actual	YoY
Public	Revenue	172.8	226.0	+30.8%	293.5	407.0	+38.7%
	Operating Profit	14.4	15.5	+1.1	8.3	15.0	+6.7
	% to Revenue	8.3%	6.9%		2.8%	3.7%	
Enterprise	Revenue	114.9	104.0	-9.4%	204.0	191.8	-6.0%
	Operating Profit	13.7	10.8	-2.8	19.4	15.8	-3.5
	% to Revenue	11.9%	10.4%		9.5%	8.3%	
Telecom Carrier	Revenue	159.0	144.1	-9.3%	277.6	267.5	-3.7%
	Operating Profit	10.9	4.0	-6.9	3.9	0.6	-3.3
	% to Revenue	6.9%	2.7%		1.4%	0.2%	
System Platform	Revenue	189.6	179.8	-5.2%	339.8	333.0	-2.0%
	Operating Profit	12.4	8.1	-4.3	7.8	6.3	-1.4
	% to Revenue	6.5%	4.5%		2.3%	1.9%	
Others	Revenue	46.2	51.6	+11.9%	86.1	88.7	+3.1%
	Operating Profit/Loss	-2.1	-0.5	+1.7	-9.8	-5.8	+4.0
	% to Revenue	-4.6%	-1.0%		-11.4%	-6.6%	
Adjustment	Operating Profit/Loss	-15.5	-16.2	-0.7	-25.8	-24.7	+1.1
Total	Revenue	682.4	705.6	+3.4%	1,201.1	1,288.0	+7.2%
	Operating Profit	33.7	21.7	-12.0	3.7	7.3	+3.5
	% to Revenue	4.9%	3.1%		0.3%	0.6%	



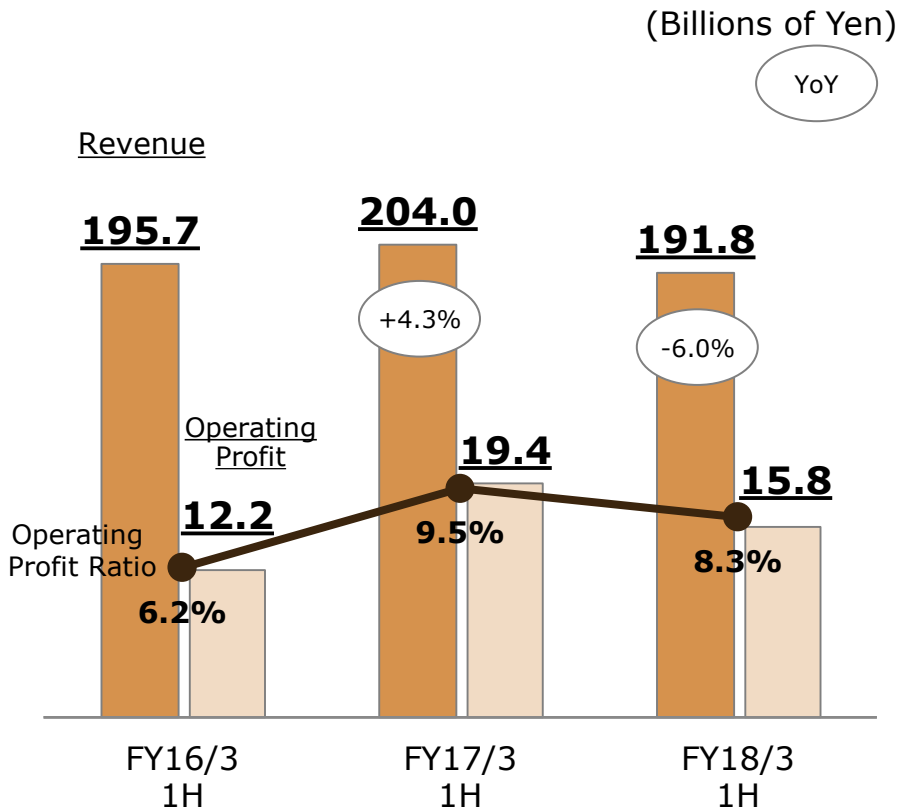
**Revenue** 407.0 (+38.7%)

- Public Solutions area: decreased in firefighting and disaster prevention systems
- Public Infrastructure area: increased due to consolidation of Japan Aviation Electronics Industry, Limited

**Operating Profit** 15.0 (+6.7)

- Improved due to a sales increase





**Revenue** 191.8 (-6.0%)

- Decreased in retail and services

**Operating Profit** 15.8 (-3.5)

- Worsened due to a sales decline, as well as an increase in IoT related investment expenses

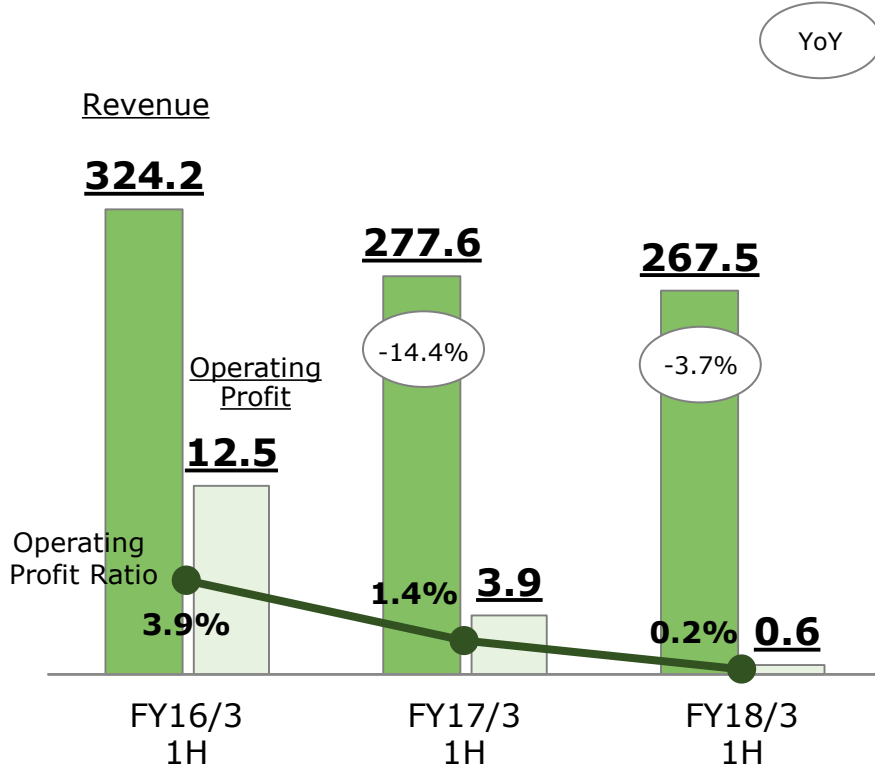
\*IoT: Internet of Things





(Billions of Yen)

Billions of Yen (YoY)



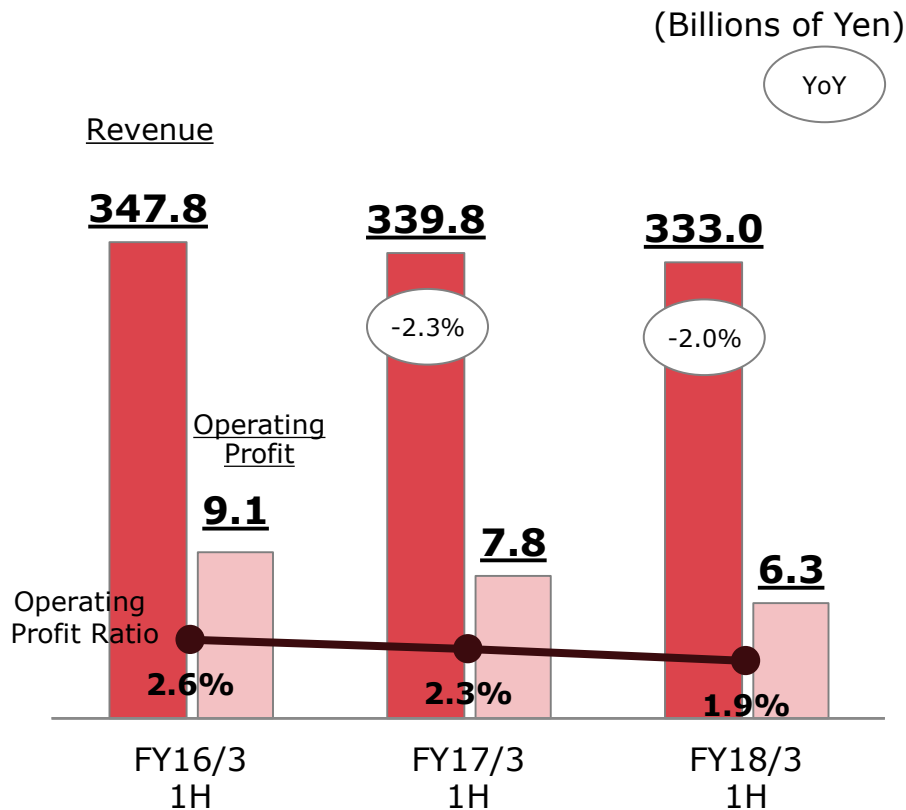
## Revenue 267.5 (-3.7%)

- Decreased in submarine cable systems resulting from fluctuations in large scale projects in the international market
- Decreased due to sluggish capital investment by domestic telecommunications carriers

## Operating Profit 0.6 (-3.3%)

- Worsened due to a sales decline





**Revenue** 333.0 (-2.0%)

- Decreased in hardware

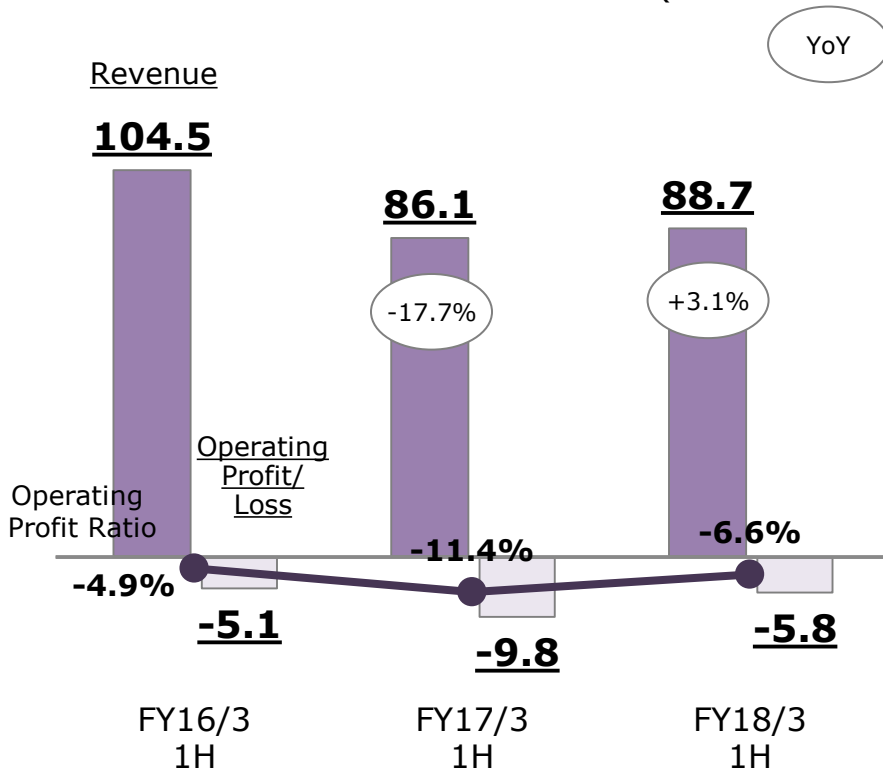
**Operating Profit** 6.3 (-1.4)

- Worsened due to a sales decline



(Billions of Yen)

Billions of Yen (YoY)



**Revenue** 88.7 (+3.1%)

- Increased in the international safety business

**Operating Profit/Loss** -5.8 (+4.0)

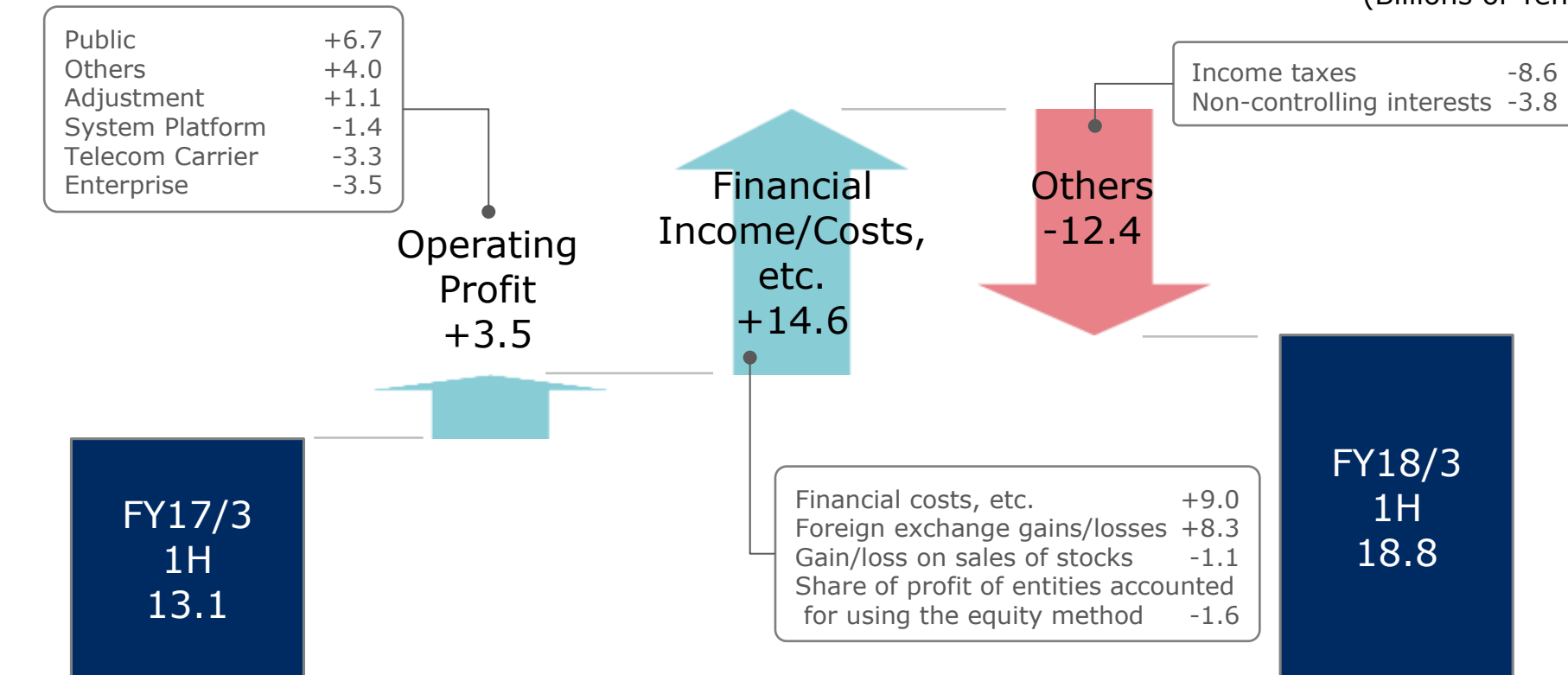
- Improved due to a sales increase and cost efficiency



# Net Profit Change (Year on Year)

1H Results

(Billions of Yen)



## II . Financial Forecasts for FY18/3

# Main Factors in Revision of Financial Forecasts

## Embodiment of strategic investment costs

(Billions of Yen)

Segment	Previous Forecasts	Revised Forecasts	Notes
Enterprise	-	3.0	To strengthen solutions development (e.g. supply and demand optimization)
Others	-	2.0	To accelerate development of IoT platforms and investment for global growth
Adjustment	8.0	3.0	Under consideration
Total	8.0	8.0	

## Influence of the suspension from contract bidding processes (updated)

- Influence of 40.0 billion yen in revenue and 10.0 billion yen in operating profit (in Public and System Platform business)

## Sale of NEC's stocks in Renesas Electronics Corporation

# Summary of Financial Forecasts

Forecasts  
FY18/3

(Billions of Yen)

	Full Year			Variance from Forecasts as of Jul 31
	FY17/3 Actual	FY18/3 Forecasts	YoY	
Revenue	2,665.0	2,800.0	+5.1%	+0.0
Operating Profit	41.8	50.0	+8.2	+0.0
% to Revenue	1.6%	1.8%		
Net Profit	27.3	35.0	+7.7	+5.0
% to Revenue	1.0%	1.3%		

Free Cash Flows	99.0	90.0	-9.0	+10.0
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Dividends per Share (yen)	6.00	* 60.00	-	-
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\* Reflecting the share consolidation in the ratio of 10:1 implemented as of October 1, 2017. Amount of dividends is not changed from initial forecasts as of April 27, 2017.

Note: Average Exchange Rates (yen)	USD 1	108.38	105.00
	EUR 1	119.19	115.00

\*\*Forecasts as of October 31, 2017

# Summary of Financial Forecasts

Forecasts  
FY18/3

(Billions of Yen)

		Full Year			Variance from Forecasts as of Jul 31
		FY17/3 Actual	FY18/3 Forecasts	YoY	
Public	Revenue	766.2	915.0	+19.4%	+0.0
	Operating Profit	33.2	55.0	+21.8	+0.0
	% to Revenue	4.3%	6.0%		
Enterprise	Revenue	408.6	415.0	+1.6%	+0.0
	Operating Profit	39.7	33.0	-6.7	-3.0
	% to Revenue	9.7%	8.0%		
Telecom Carrier	Revenue	600.4	595.0	-0.9%	+0.0
	Operating Profit	18.1	23.0	+4.9	+0.0
	% to Revenue	3.0%	3.9%		
System Platform	Revenue	719.8	685.0	-4.8%	+0.0
	Operating Profit	29.6	29.0	-0.6	+0.0
	% to Revenue	4.1%	4.2%		
Others	Revenue	170.0	190.0	+11.8%	+0.0
	Operating Profit/Loss	-20.0	-18.0	+2.0	-2.0
	% to Revenue	-11.8%	-9.5%		
Adjustment	Operating Profit/Loss	-58.7	-72.0	-13.3	+5.0
Total	Revenue	2,665.0	2,800.0	+5.1%	+0.0
	Operating Profit	41.8	50.0	+8.2	+0.0
	% to Revenue	1.6%	1.8%		

\*Forecasts as of October 31, 2017



Decided to transfer shares in an affiliated company accounted for by the equity-method, engaged in the lithium ion batteries business

All shares of Automotive Energy Supply Corporation (AESC), an affiliated company accounted for by the equity-method, owned by NEC and NEC Energy Devices Ltd. will be transferred to Nissan Motor Co., Ltd. (announced in Aug 2017)

- Nissan plans to sell its electric battery operations and production facilities, including the AESC shares, to GSR Capital.
- This share transfer is subject to the execution of a share transfer agreement between NEC and GSR for the transfer of NEC Energy Devices shares owned by NEC to GSR.

-> NEC is currently negotiating for the execution of a share transfer agreement with GSR.

- When this share transfer is executed, approximately 10.0 billion yen in non-operating income is expected to be recorded.  
(This transaction is not yet factored into the financial forecasts for 18/3.)

**Achieve full-year forecasts  
and continue a year end dividend**

**Currently in the process of  
formulating our next mid-term  
management plan  
(to be announced in Jan 2018)**



# 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.

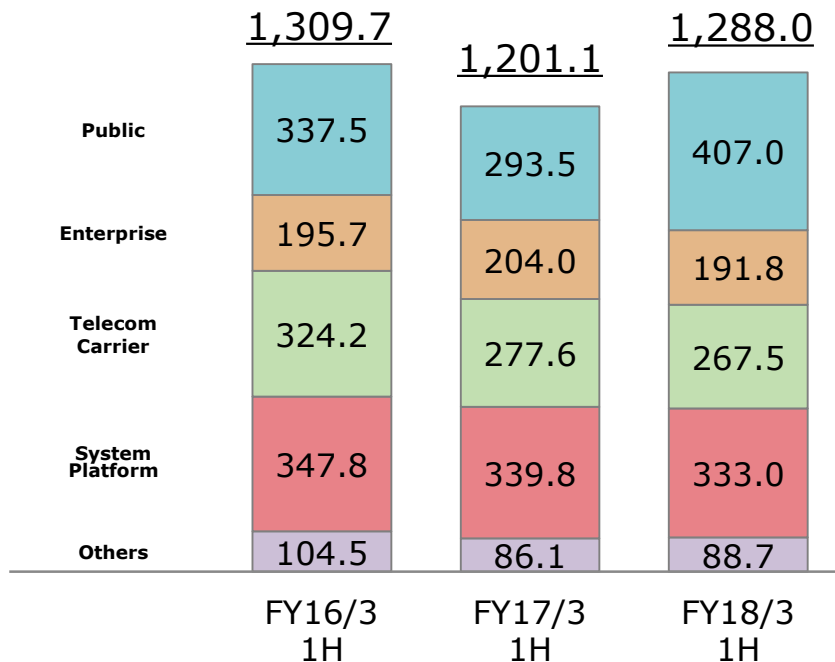
 **Orchestrating** a brighter world

**NEC**

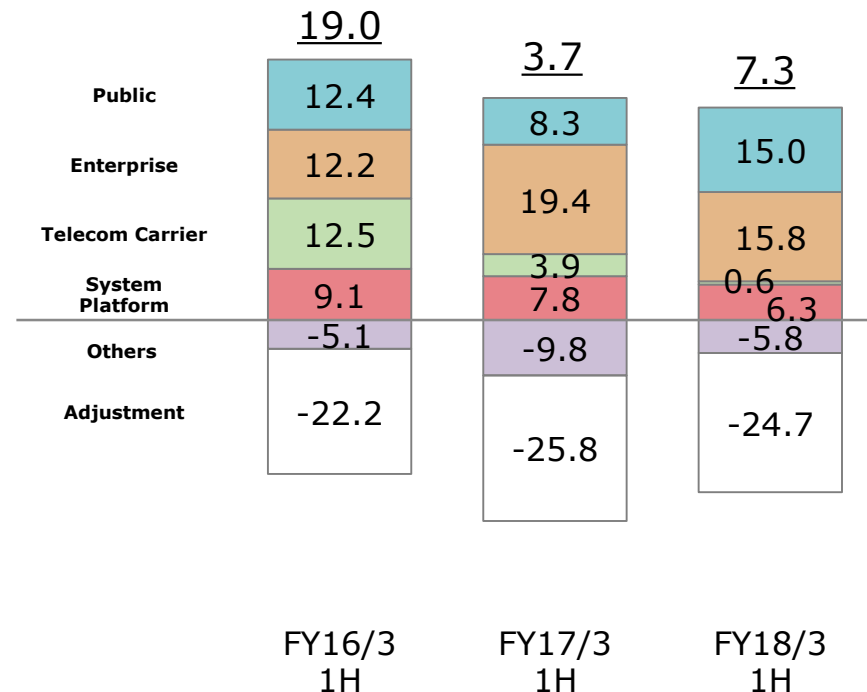
# Financial Results for 1H, FY18/3 (Appendix)

(Billions of Yen)

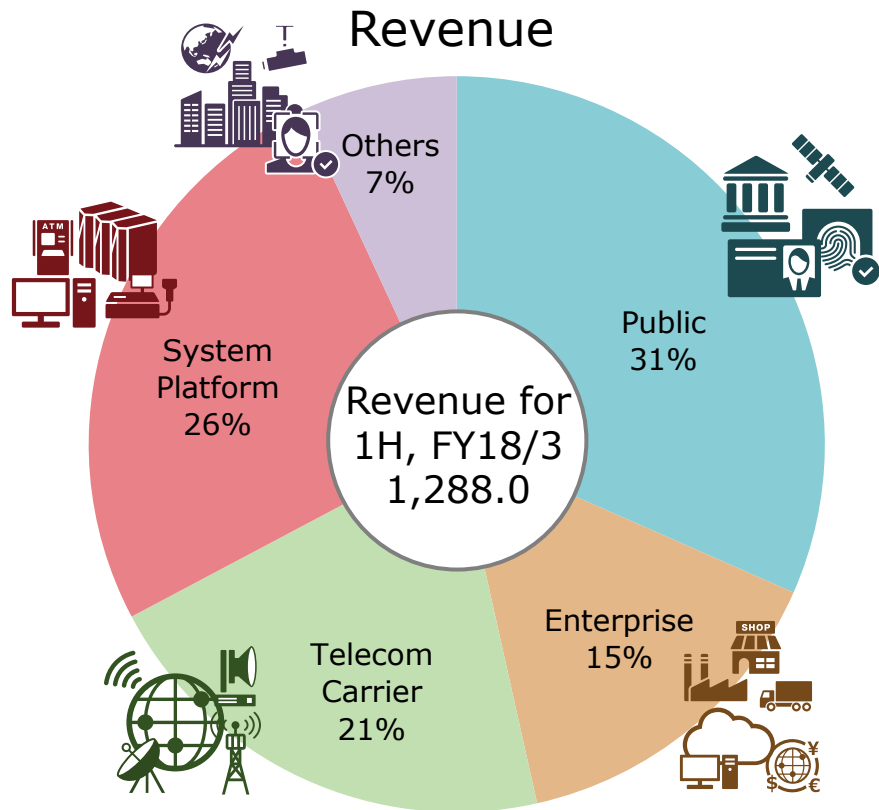
### Revenue



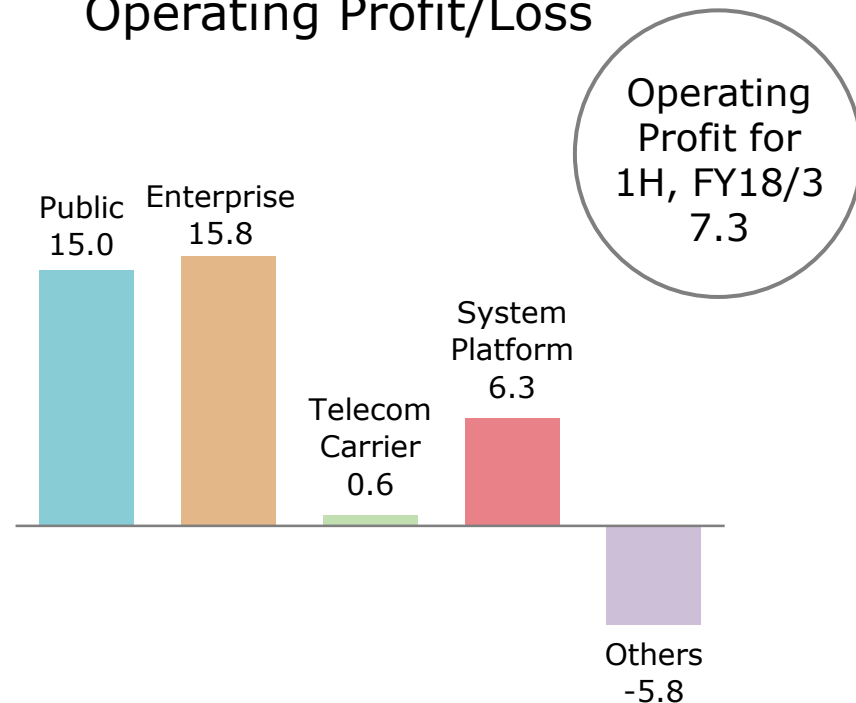
### Operating Profit/Loss



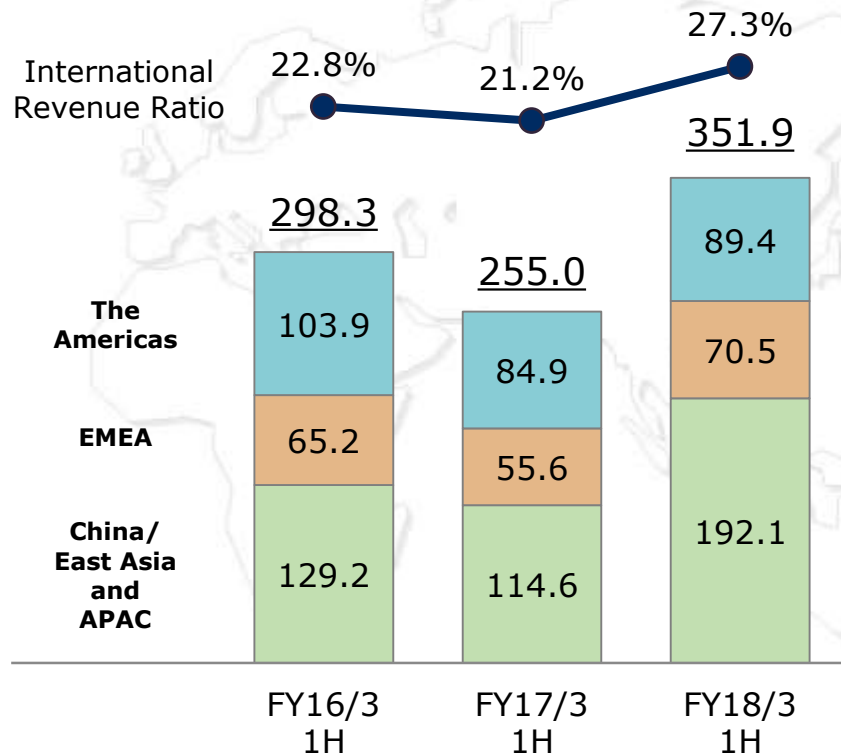
(Billions of Yen)



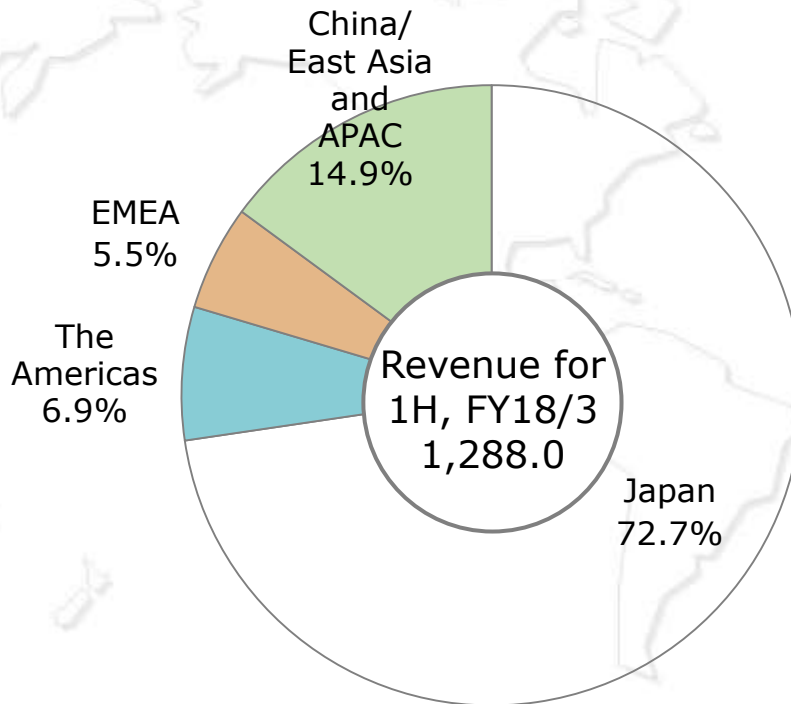
## Operating Profit/Loss



(Billions of Yen)



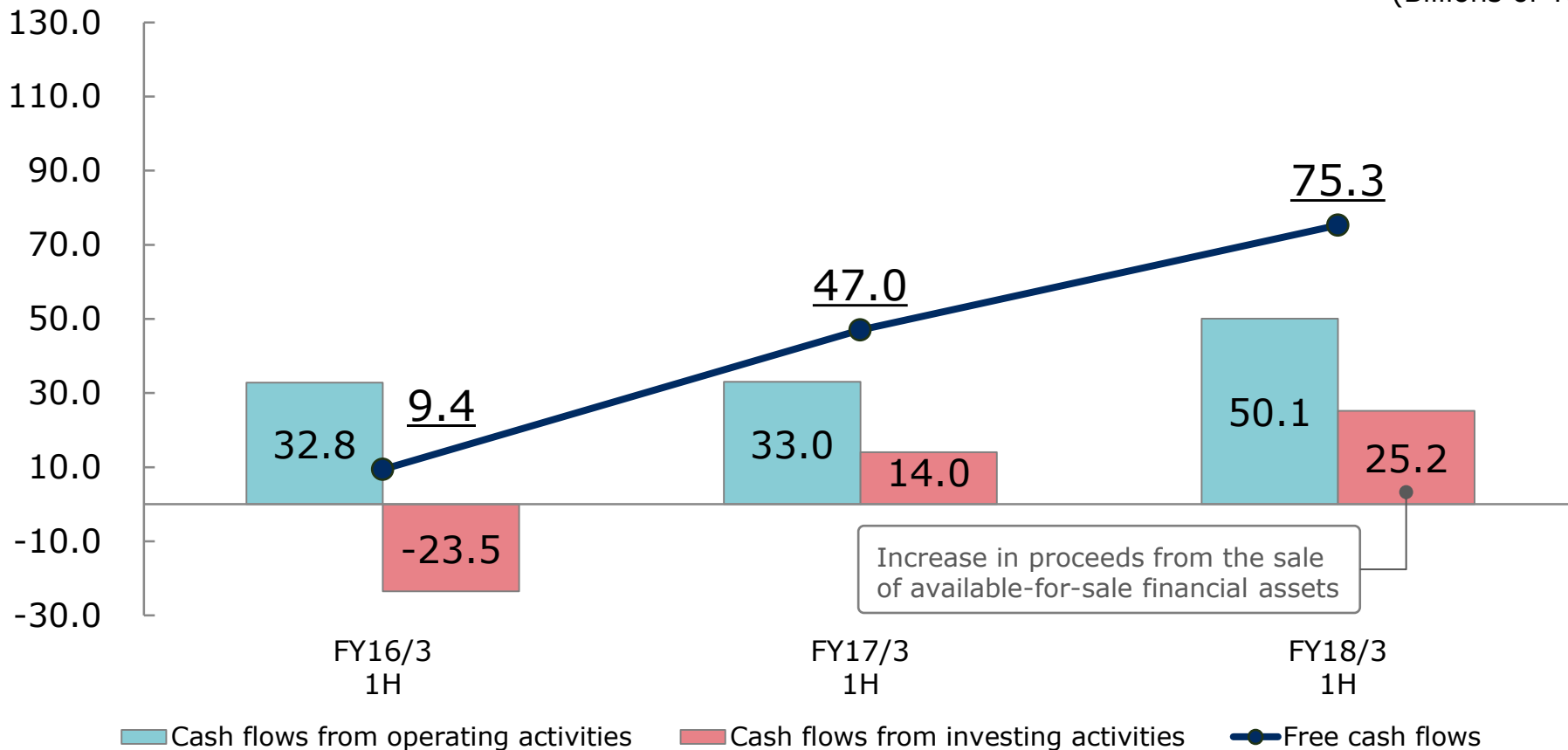
## Revenue by Region



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



(Billions of Yen)



(Billions of Yen)

	End of March 2017	End of September 2017	Variance from end of March 2017	End of September 2016
Total assets	2,684.0	2,716.4	+32.4	2,437.2
Total equity	1,016.1	1,025.9	+9.8	814.8
Interest-bearing debt	466.9	541.6	+74.6	530.8
Equity attributable to owners of the parent	854.3	859.7	+5.5	747.2
Ratio of equity attributable to owners of the parent (%)	31.8%	31.6%	-0.2pt	30.7%
D/E ratio (times)	0.55	0.63	-0.08pt	0.71
Net D/E ratio (times)	0.27	0.20	+0.07pt	0.35
Cash and cash equivalents	240.0	372.5	+132.5	270.9

(Billions of Yen)

Compared to  
end of March  
2017

Current Assets  
1,580.5

Liabilities  
1,690.5

+71.7

+22.6

Increase in cash and  
cash equivalents, as  
well as inventories

Total Assets  
2,716.4

Issuance of bonds

Decrease in other  
financial assets

(+32.4 compared to  
end of March 2017)

Recording of  
net profit

-39.3

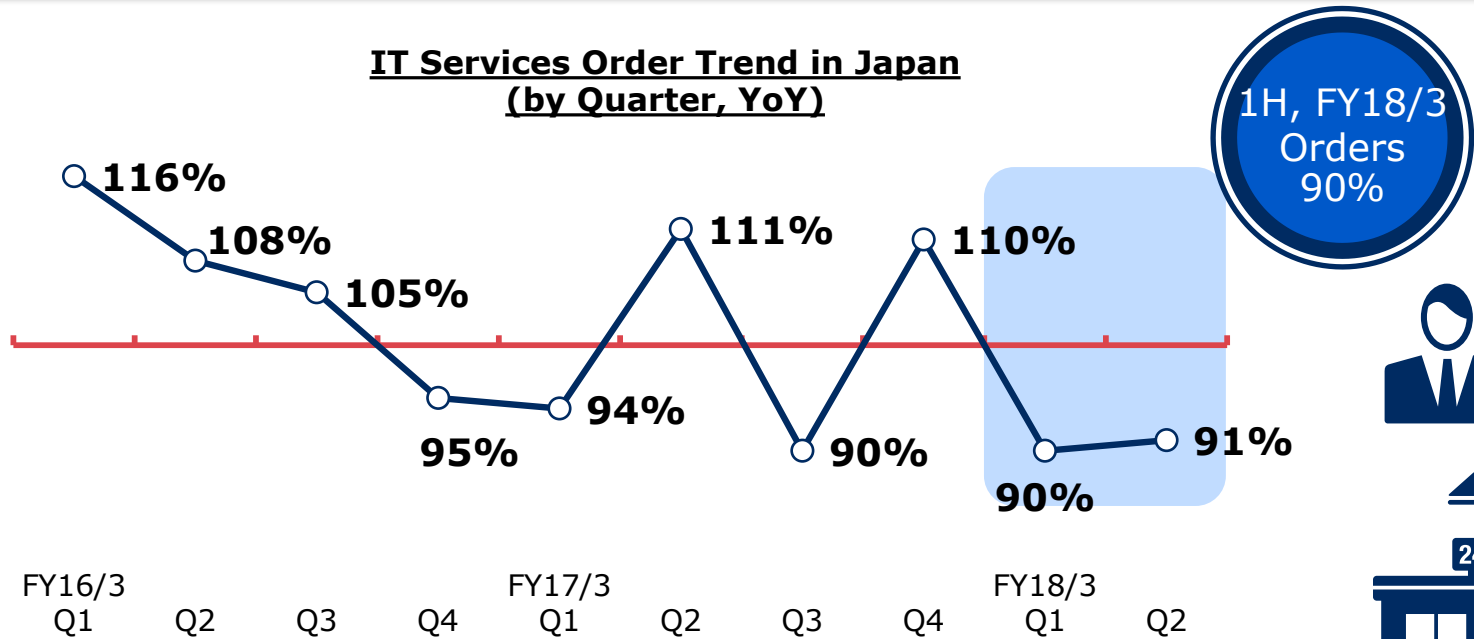
+9.8

Non-current Assets  
1,135.9

Equity  
1,025.9

IT services in Japan for 1H, FY18/3 showed stable performance in general (orders increased compared to forecast as of Jul 2017), while orders decreased due to a decline in large-scale projects compared to the previous fiscal year

**IT Services Order Trend in Japan**  
(by Quarter, YoY)



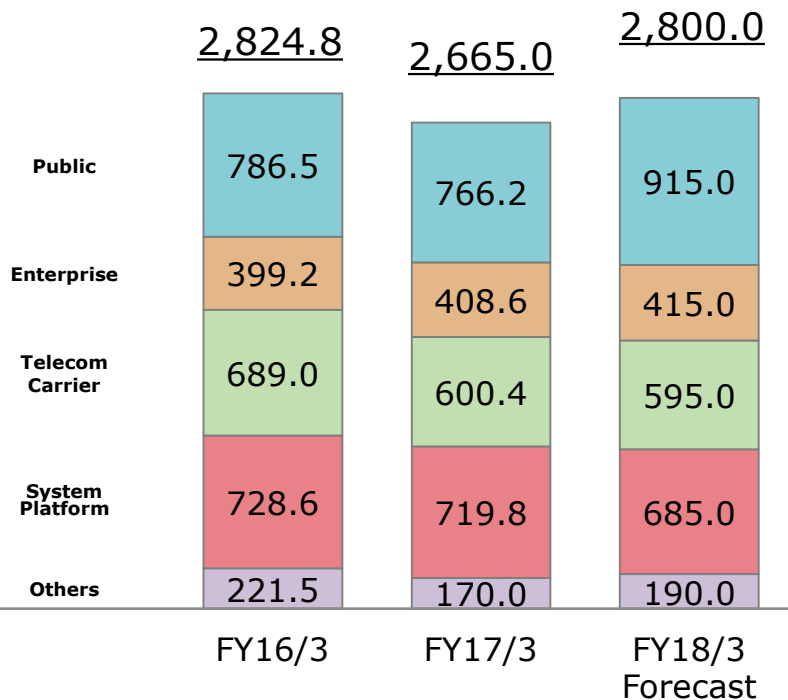
# Financial Forecasts for FY18/3 (Appendix)

# Financial Results/Forecasts by Segment (three-year transition)

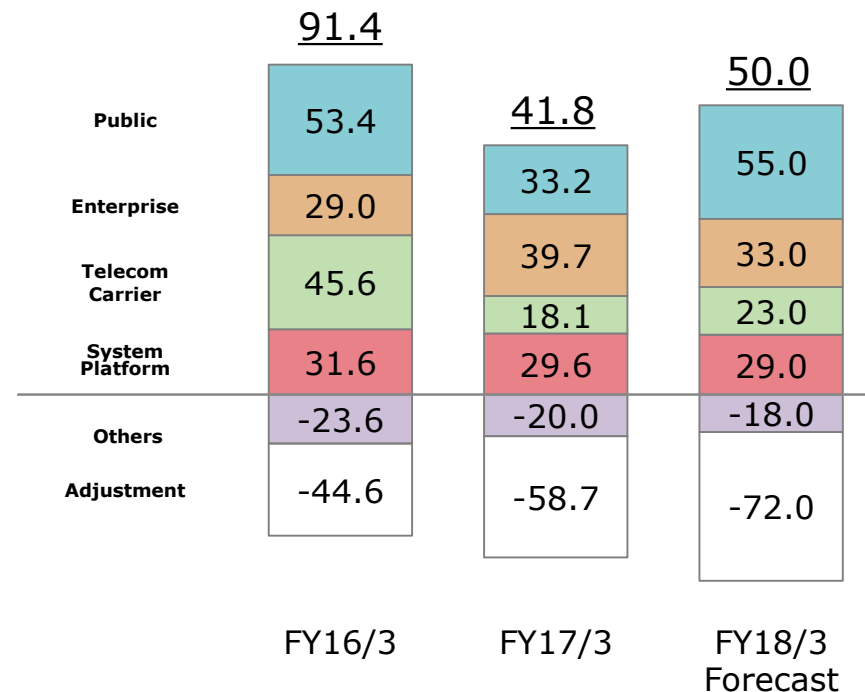
Forecasts  
FY18/3

(Billions of Yen)

## Revenue

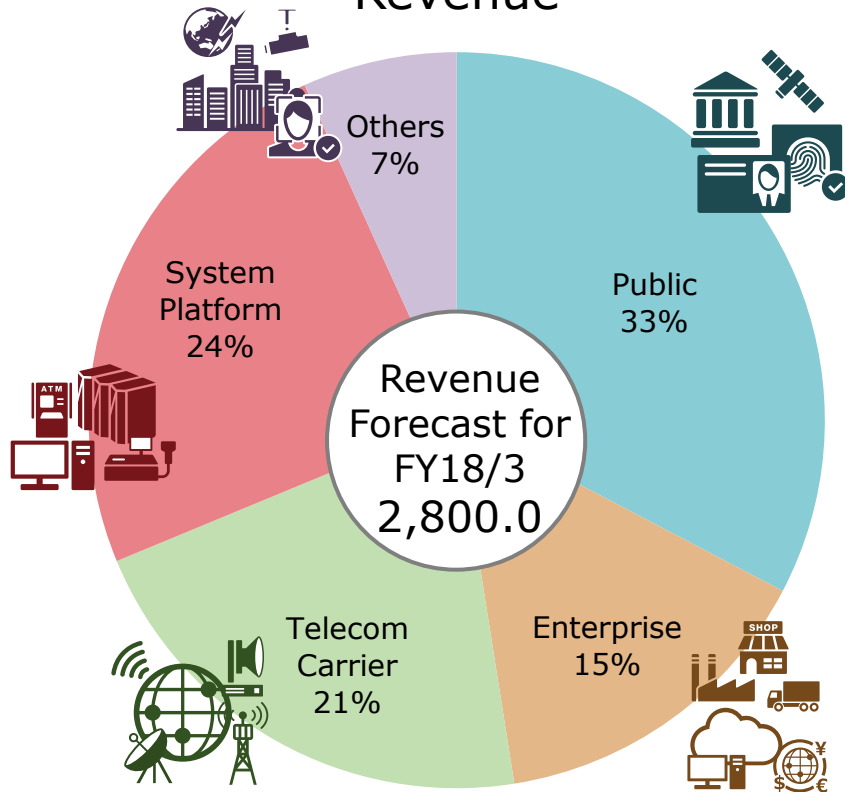


## Operating Profit/Loss



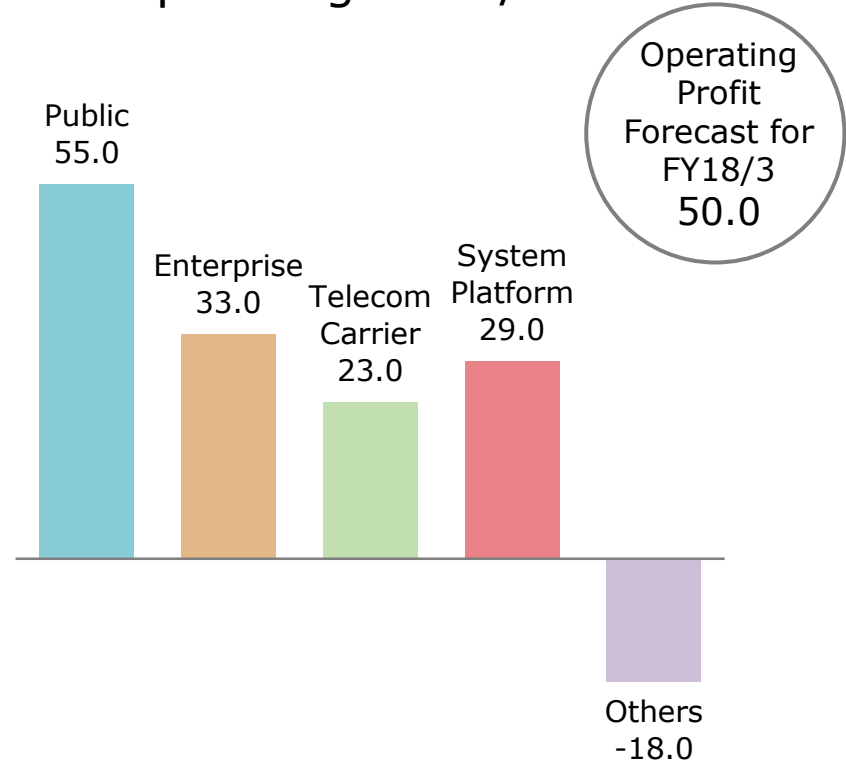
\*Forecasts as of October 31, 2017

## Revenue

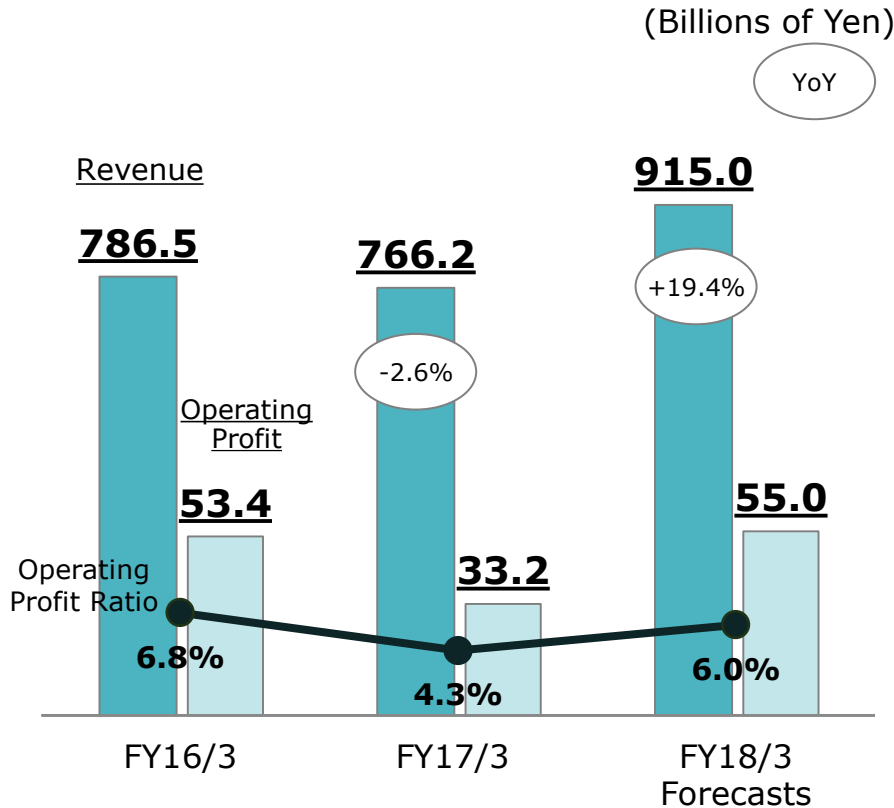


(Billions of Yen)

## Operating Profit/Loss



\*Forecasts as of October 31, 2017



## Revenue 915.0 (+19.4%)

- Public Solutions area: decrease due to the influence of the suspension from contract bidding processes
- Public Infrastructure area: increase due to consolidation of Japan Aviation Electronics Industry, Limited

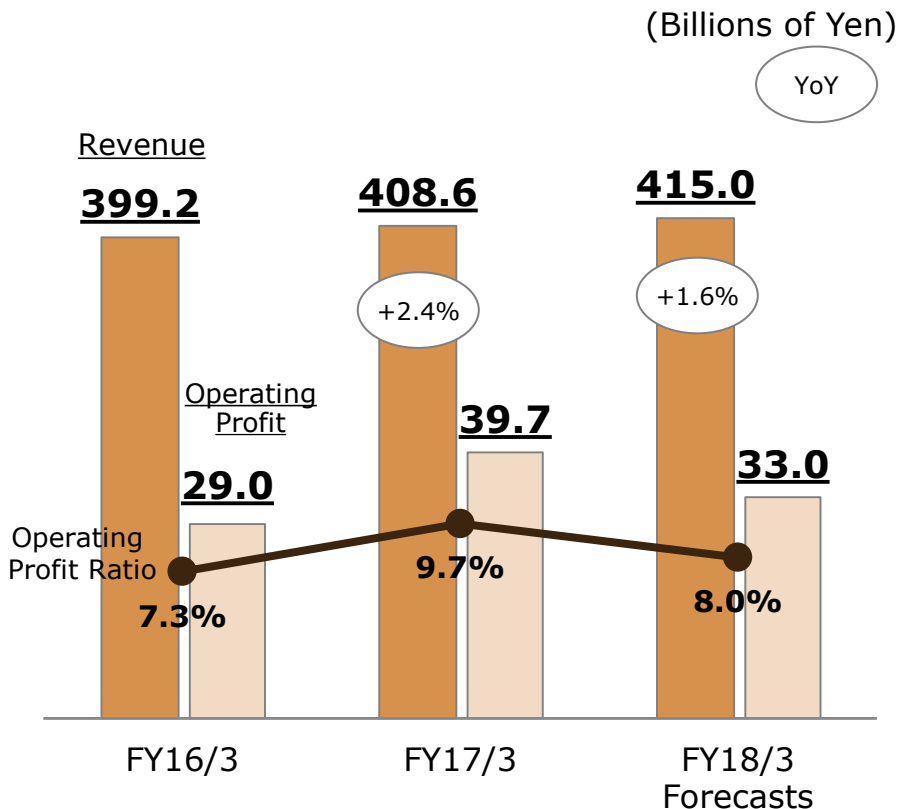
## Operating Profit 55.0 (+21.8%)

- Improve due to a sales increase and profitability improvement in the space business, as well as a decrease in provision for contingent loss recorded in the previous fiscal year



\*Forecasts as of October 31, 2017





**Revenue** 415.0 (+1.6%)

- Increase slightly due to increase in manufacturing industries and financial institutions, despite a decline in retail and services

**Operating Profit** 33.0 (-6.7)

- Worsen due to project lineup changes, as well as an increase in IoT related investment expenses

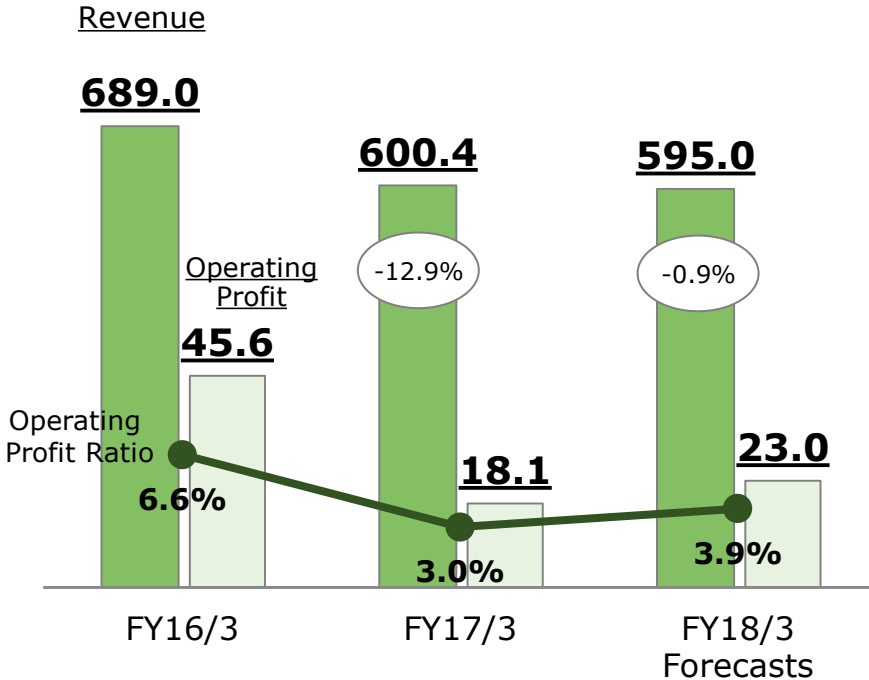


\*Forecasts as of October 31, 2017

(Billions of Yen)

Billions of Yen (YoY)

YoY



**Revenue** 595.0 (-0.9%)

- Remain flat due to a decline in existing international business such as submarine cable systems, despite expansion of new business

**Operating Profit** 23.0 (+4.9)

- Improve due to international business, despite an increase in development expenses for 5G

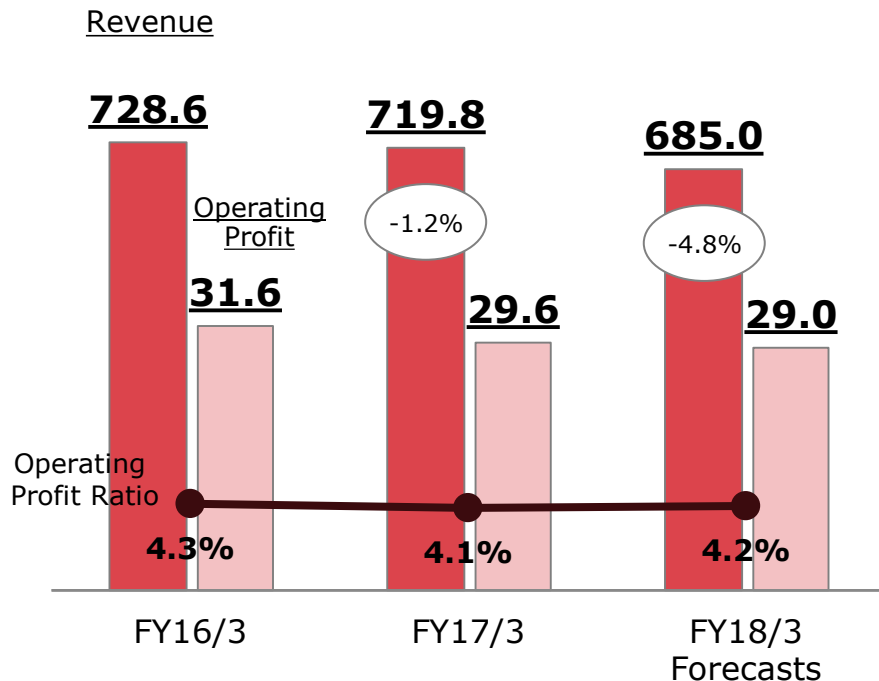


\*Forecasts as of October 31, 2017

(Billions of Yen)

Billions of Yen (YoY)

YoY



**Revenue** 685.0 (-4.8%)

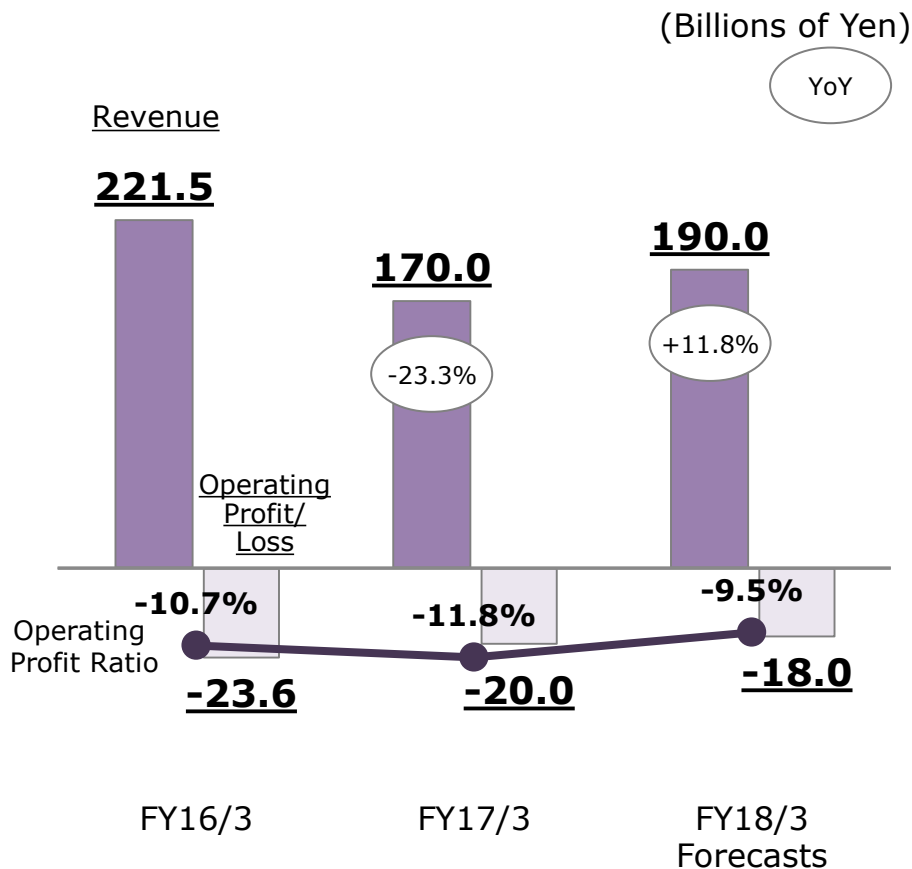
- Decrease due to the influence of the suspension from contract bidding processes, as well as a decline in hardware such as mobile handsets

**Operating Profit** 29.0 (-0.6)

- Worsen due to a sales decline, despite an improvement from cost efficiency, as well as a decrease in provision for contingent loss recorded in the previous fiscal year



\*Forecasts as of October 31, 2017



**Revenue** 190.0 (+11.8%)

- Increase in international business and the energy business

**Operating Profit/Loss** -18.0 (+2.0)

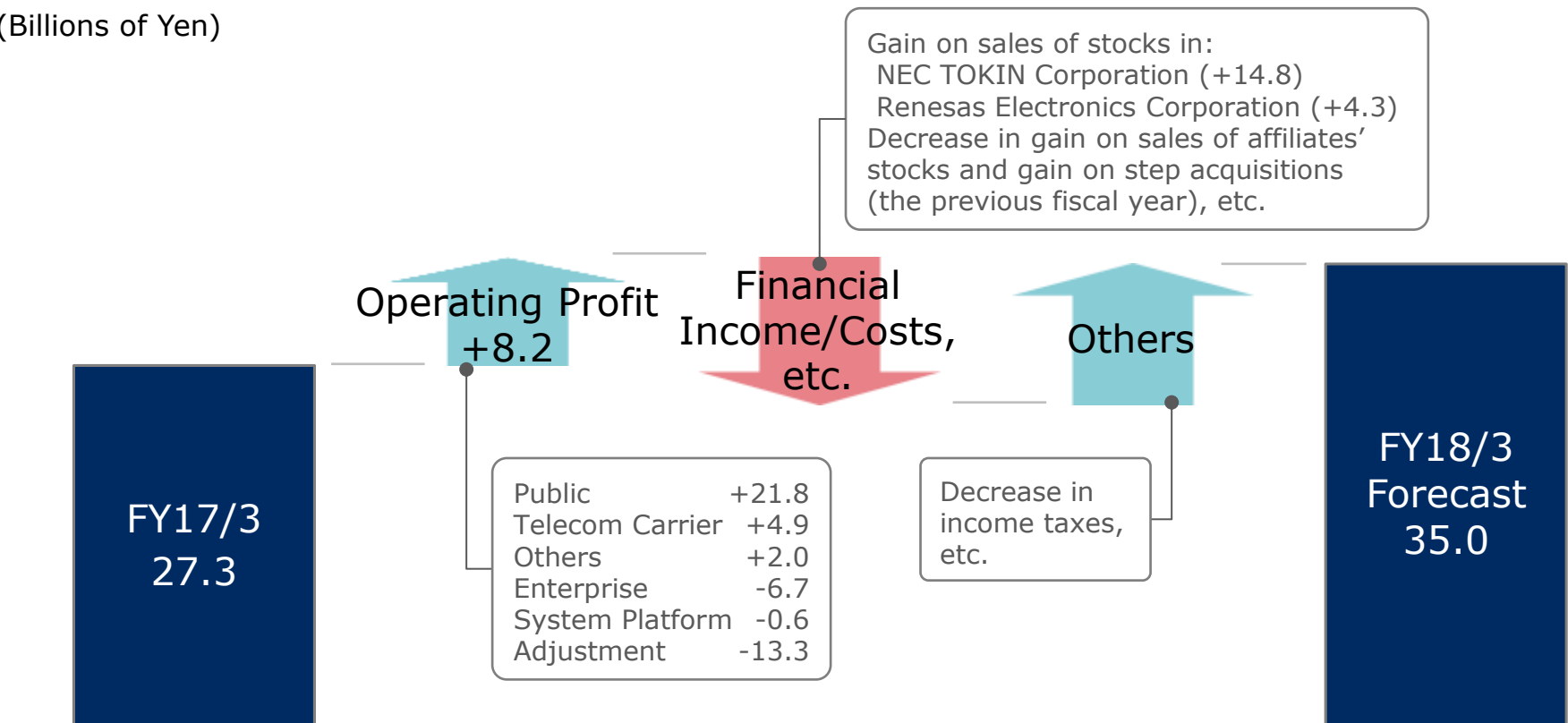
- Improve in the energy business and international business, despite an increase in IoT platform related investment expenses



\*Forecasts as of October 31, 2017

# Net Profit Change (Year on Year)

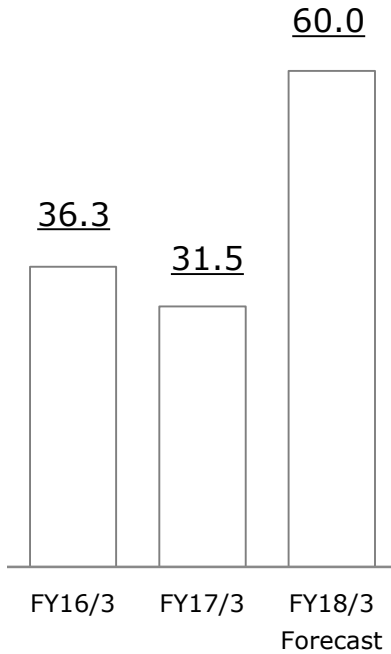
(Billions of Yen)



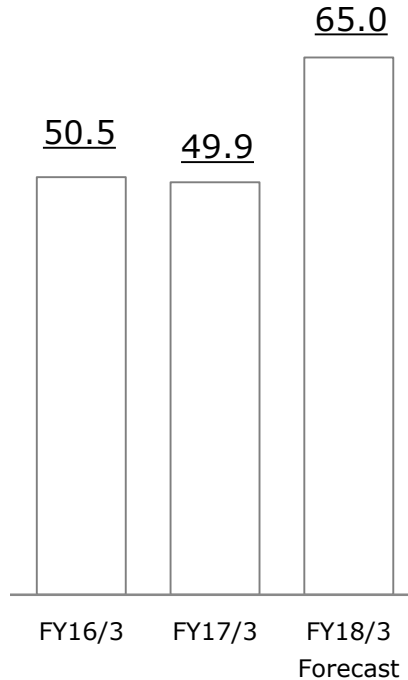
\*Forecasts as of October 31, 2017

(Billions of Yen)

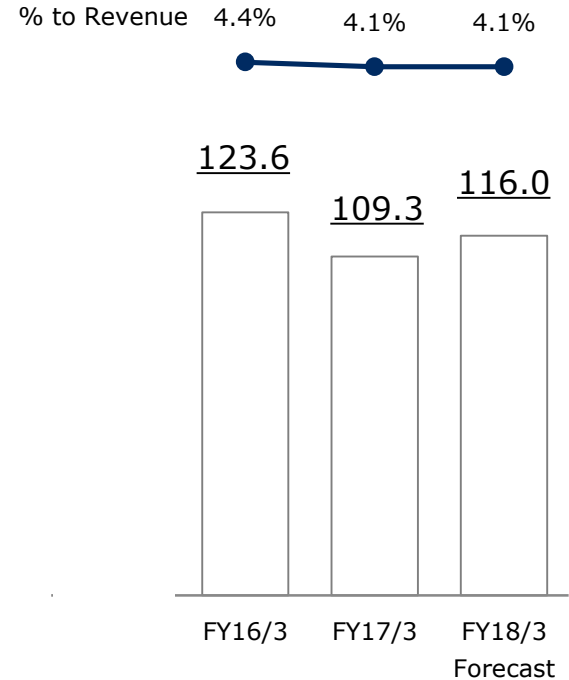
## Capital Expenditure



## Depreciation



## R&D Expenses



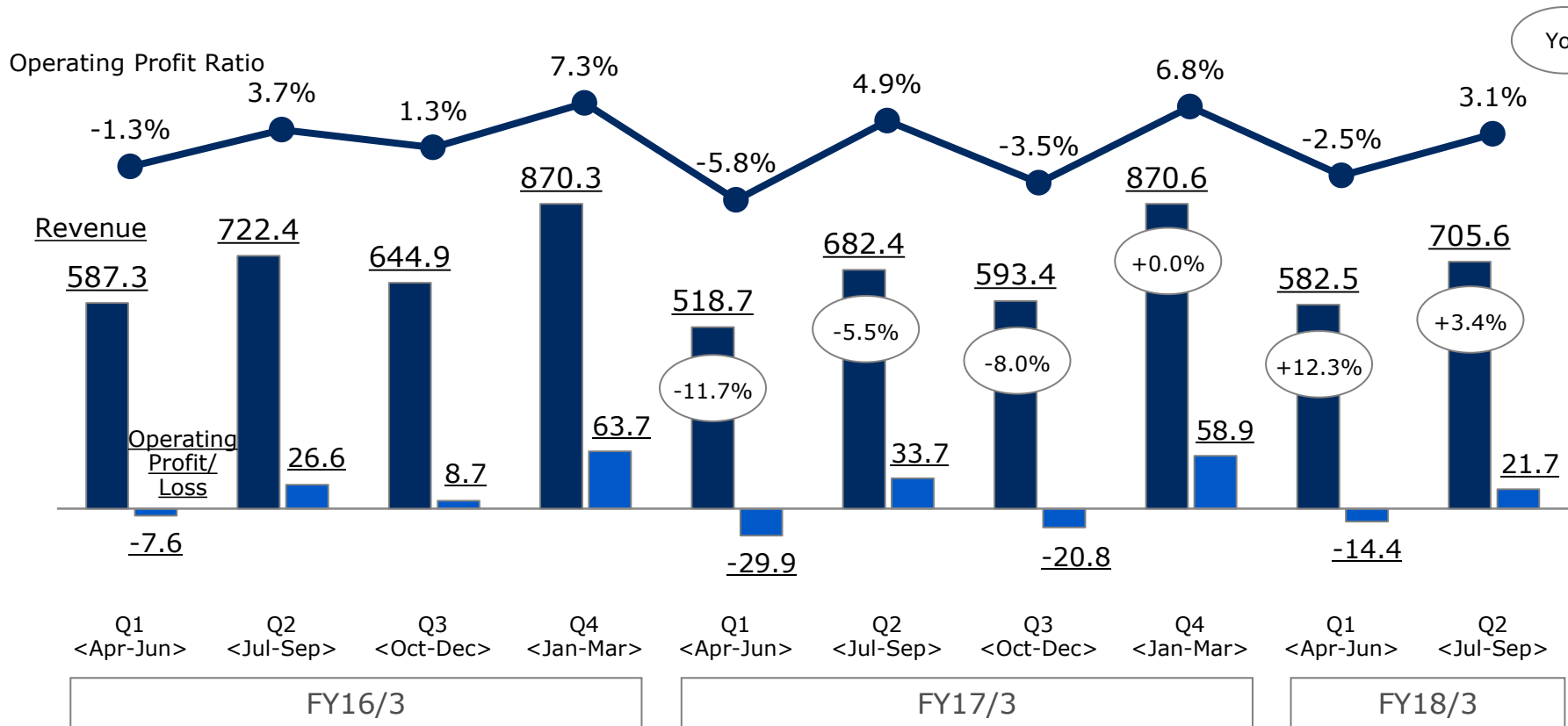
\*Forecasts as of October 31, 2017

# Reference (Financial data)



# Revenue, Operating Profit/Loss

(Billions of Yen)

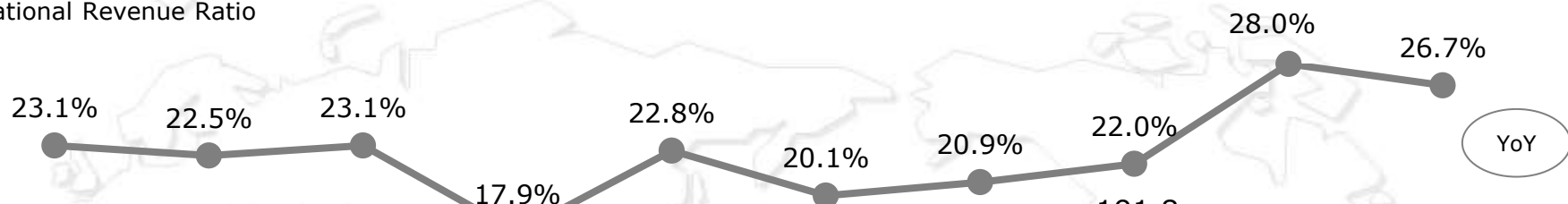




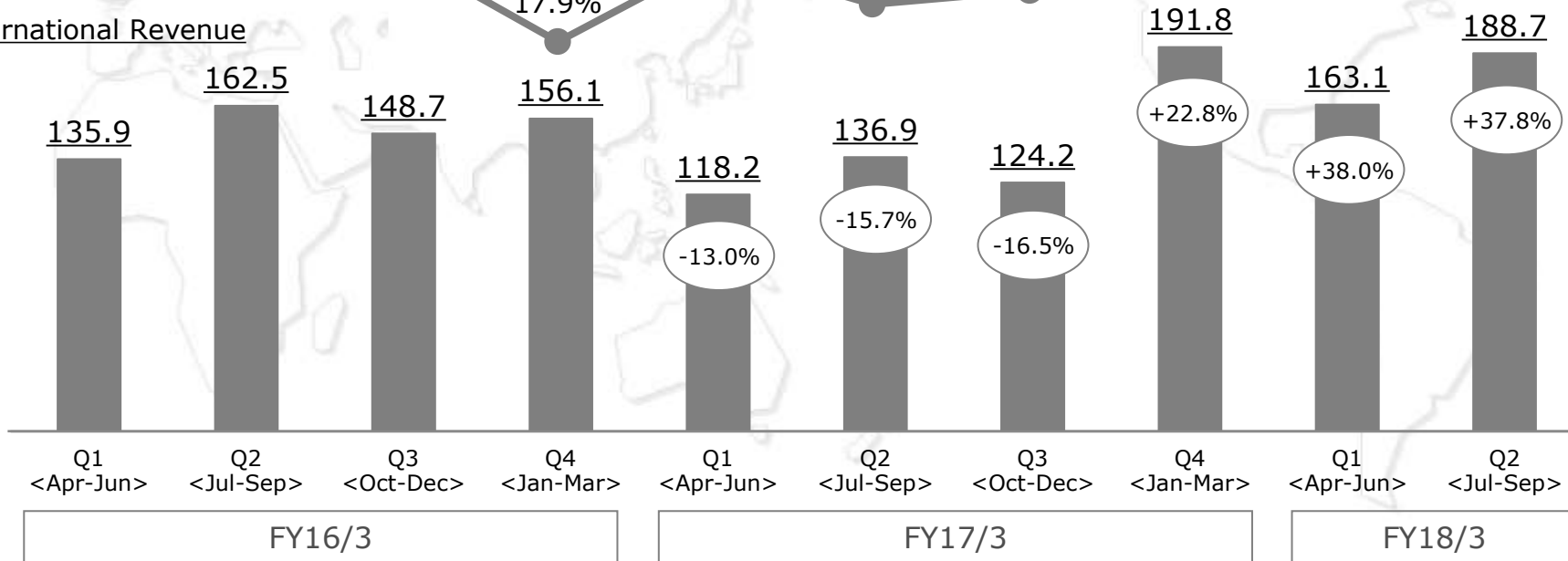
# International Revenue

(Billions of Yen)

International Revenue Ratio



International Revenue

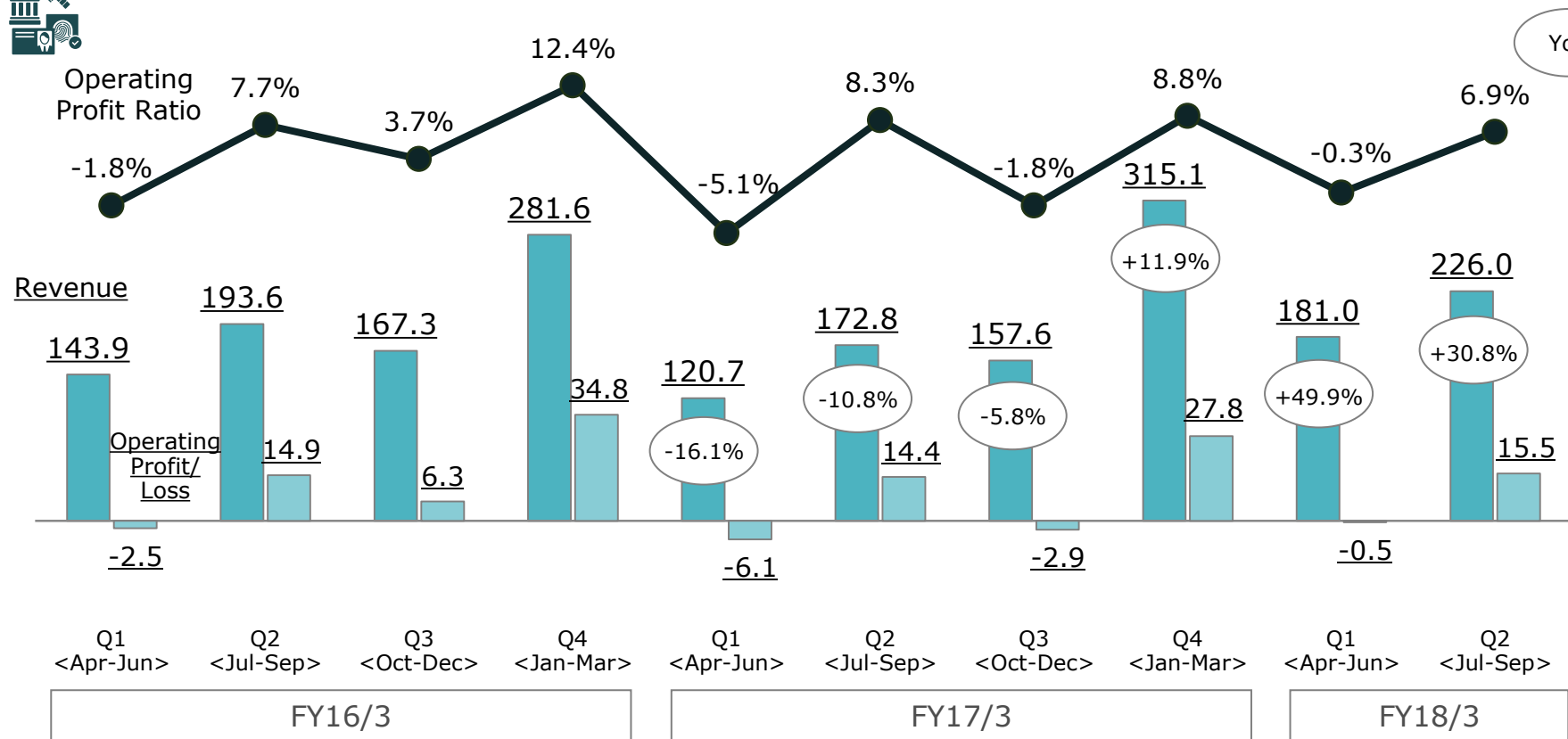


YoY

# Revenue, Operating Profit/Loss (Public)



(Billions of Yen)

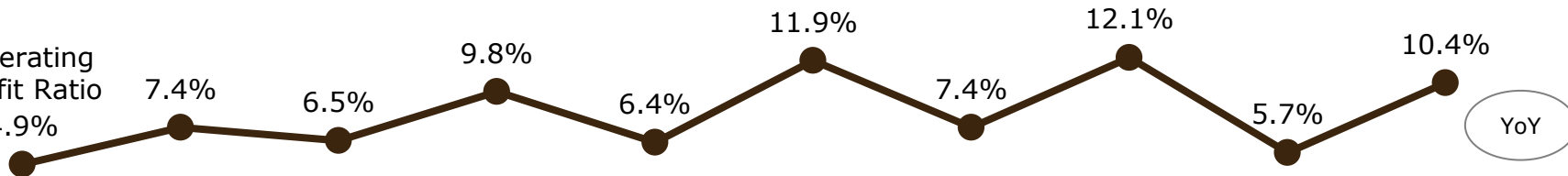


# Revenue, Operating Profit (Enterprise)

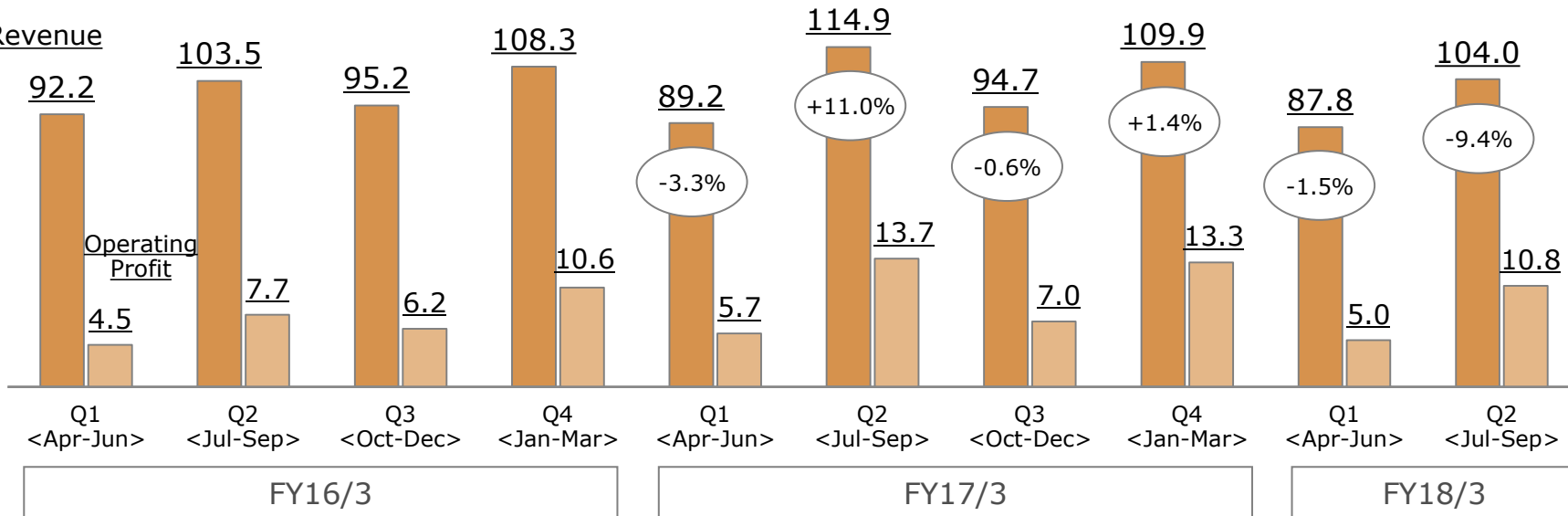
(Billions of Yen)



Operating Profit Ratio  
4.9%



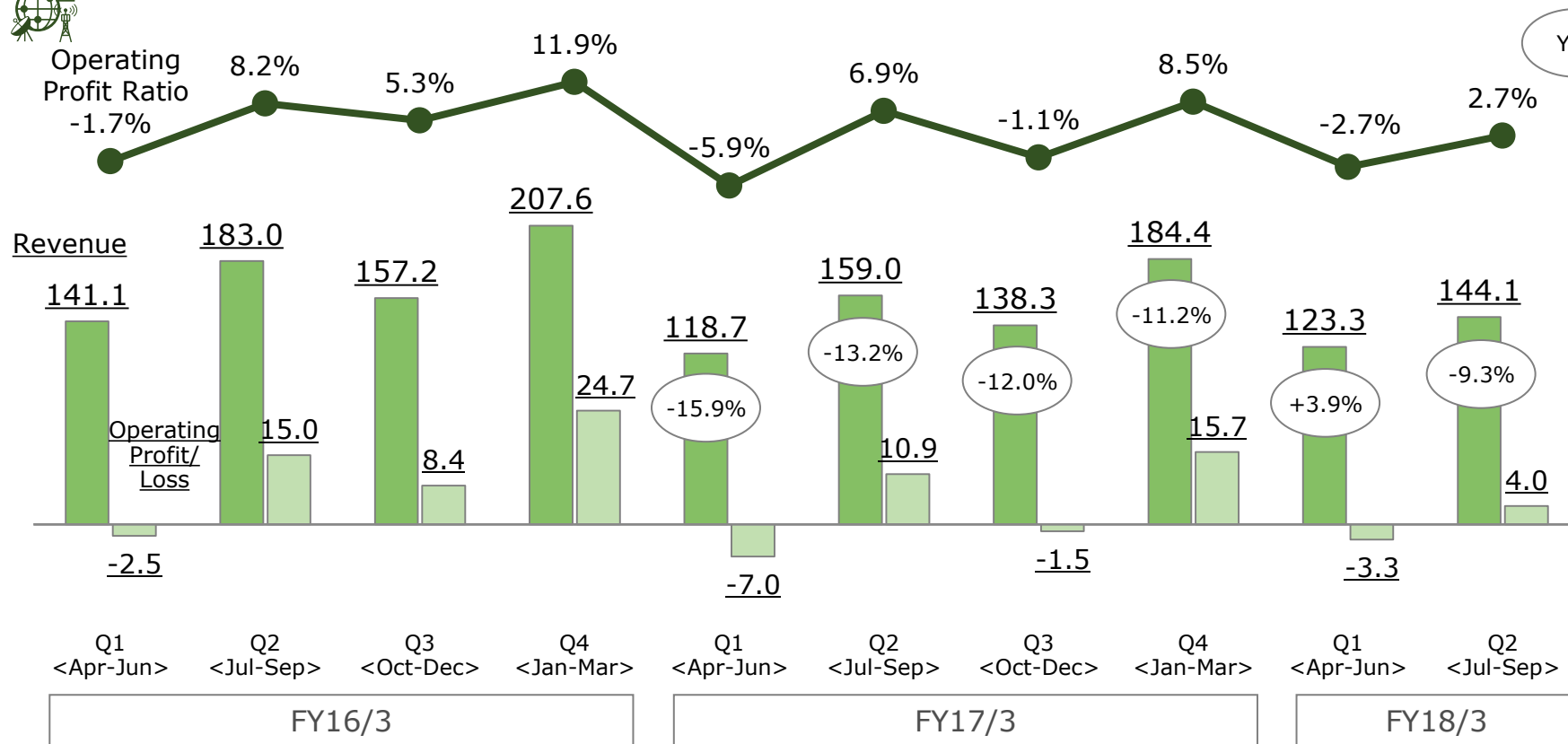
Revenue



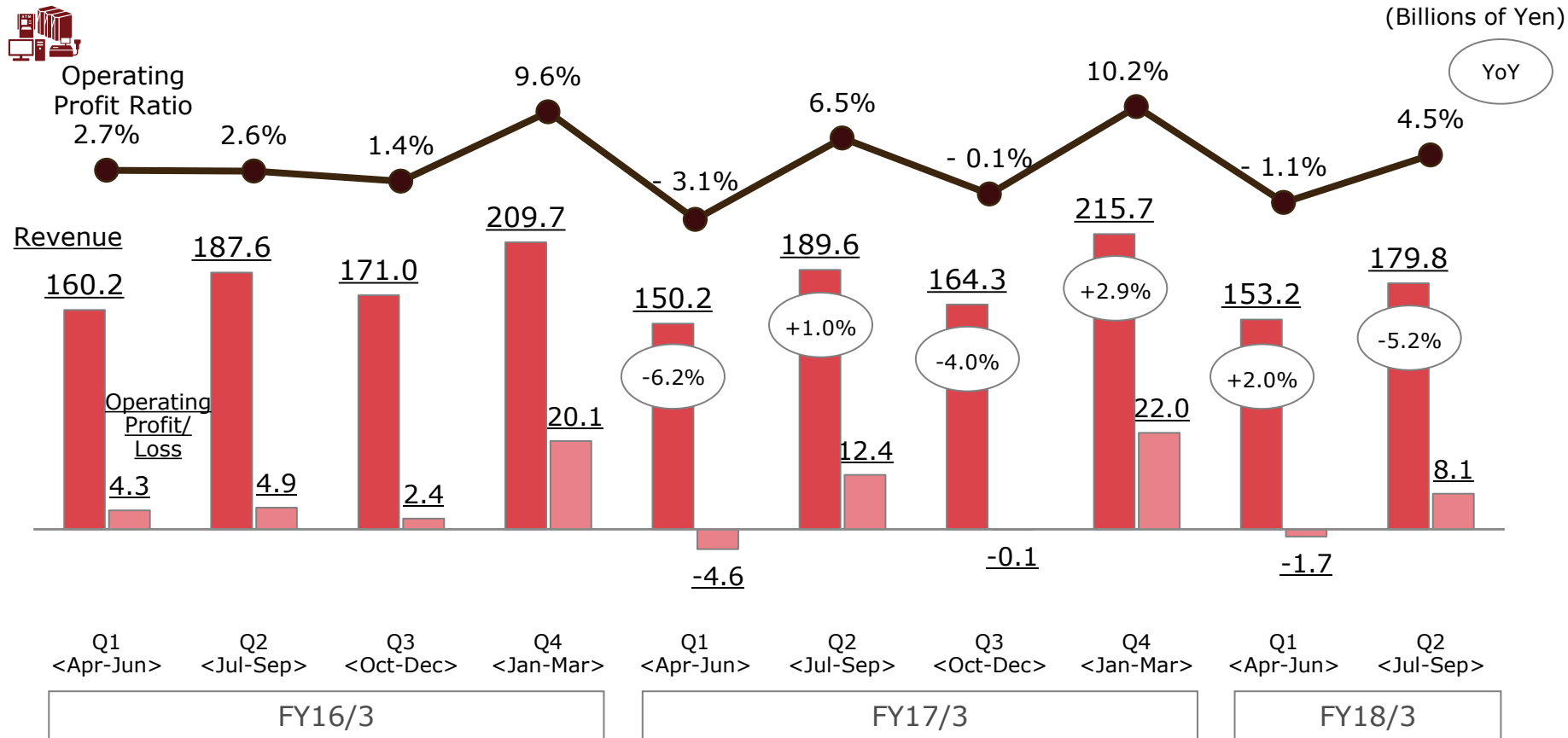
# Revenue, Operating Profit/Loss (Telecom Carrier)



(Billions of Yen)



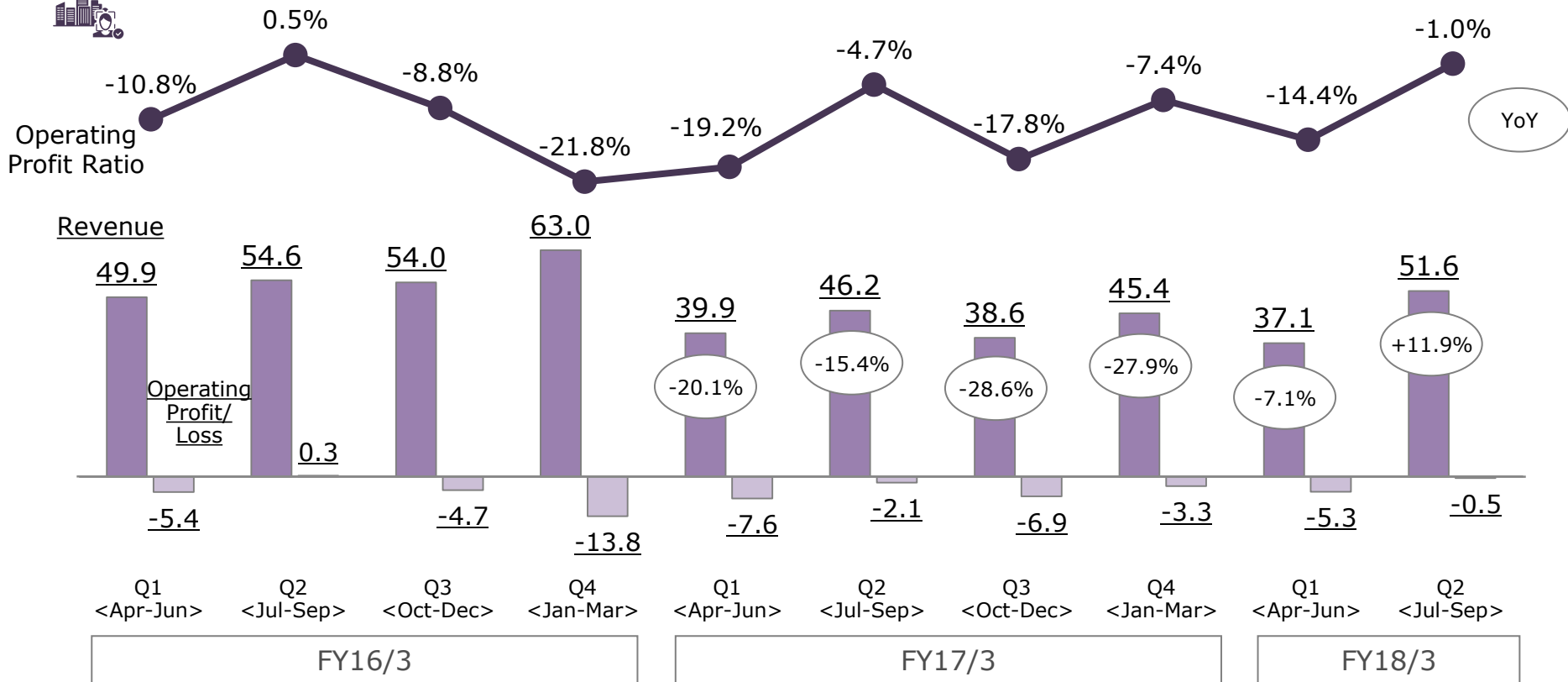
# Revenue, Operating Profit/Loss (System Platform)



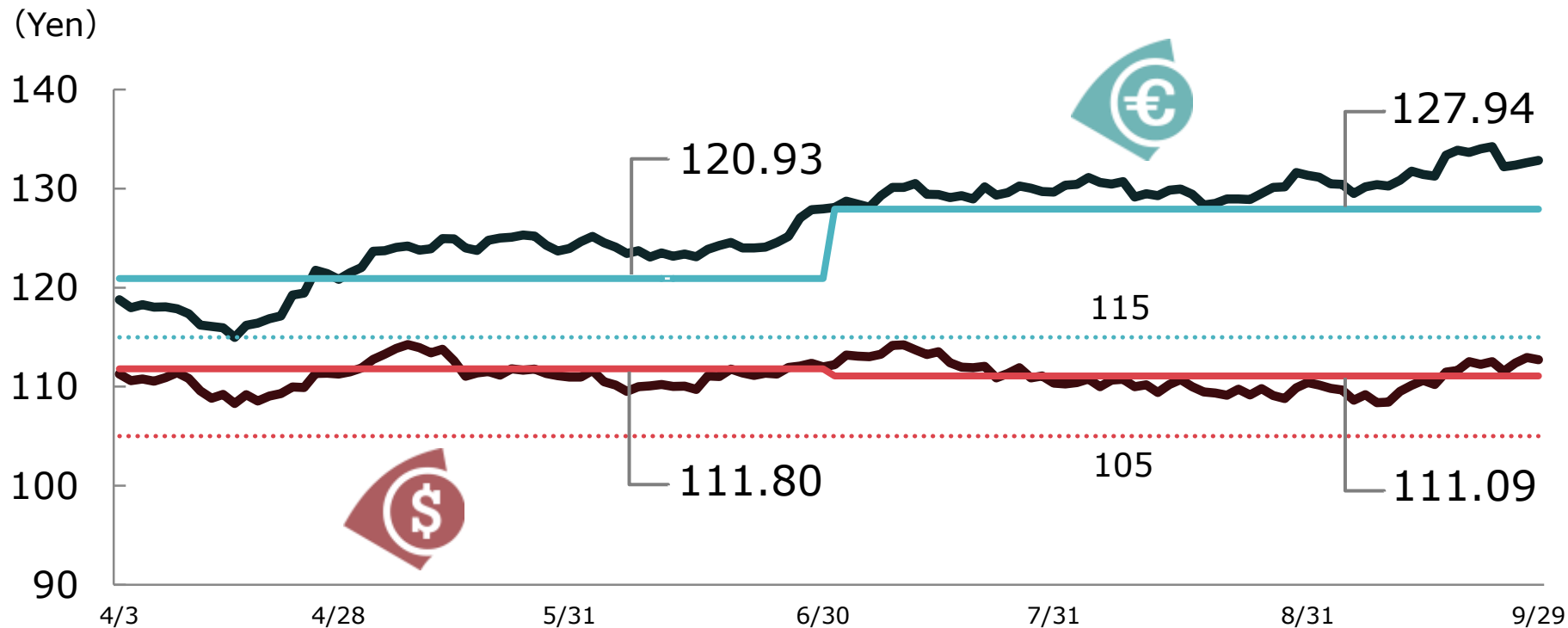
# Revenue, Operating Profit/Loss (Others)



(Billions of Yen)

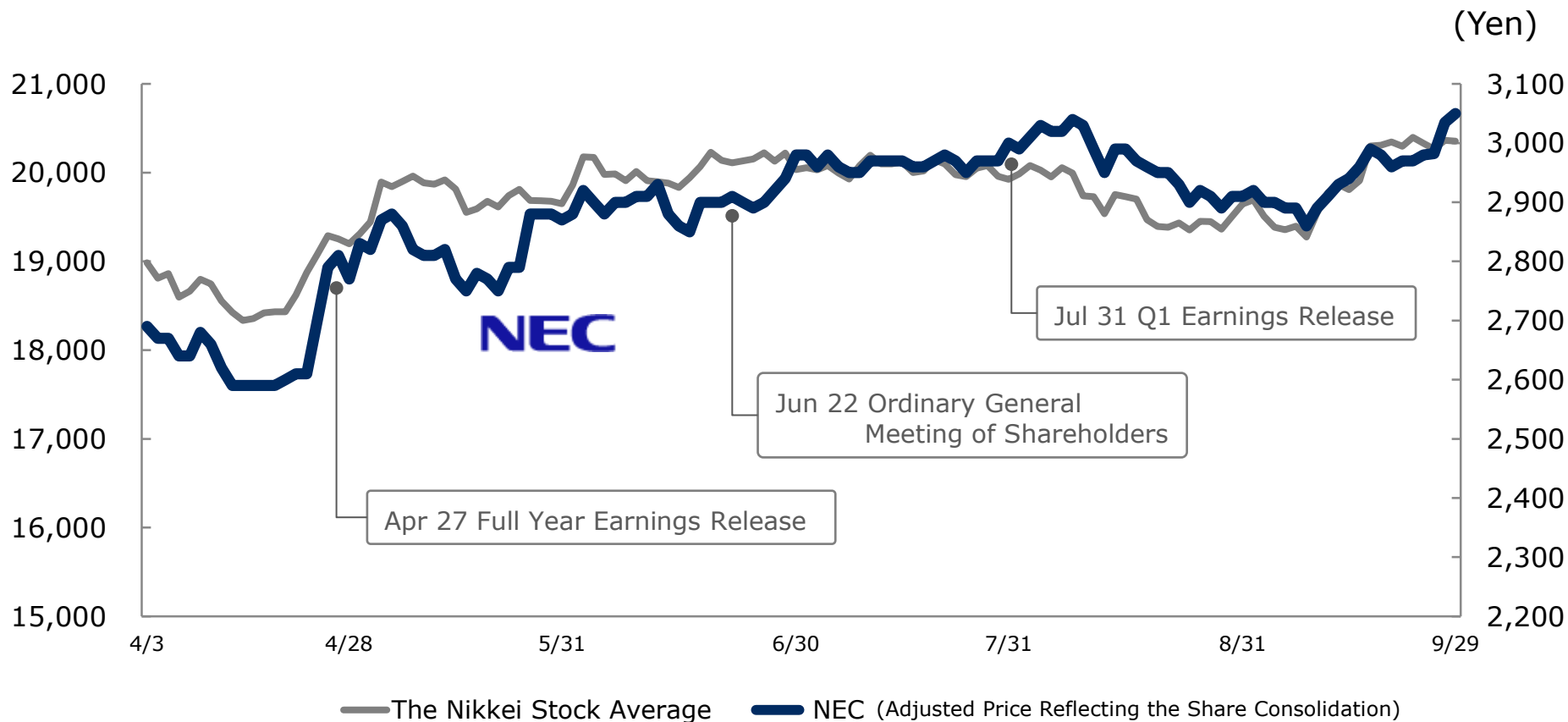


# Exchange Rate



- Dollar/Yen Exchange Rate (Actual)
- Dollar/Yen Assumed Exchange Rate
- Dollar/Yen Average Exchange Rate
- Euro/Yen Exchange Rate (Actual)
- Euro/Yen Assumed Exchange Rate
- Euro/Yen Average 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, 2016 and 17 were referred as FY16/3 and FY17/3 respectively. Any other fiscal years would be referred similarly.