

# Financial Results for Q3 Fiscal Year Ending March 31, 2019

January 30, 2019

NEC Corporation

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

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- \* Net profit/loss refers to net profit/loss attributable to owners of the parent for the same period.
- \*\* As stated in the July 20, 2018 announcement, "NEC to Revise Operating Segments," NEC has revised its operating segments from Q1, FY19/3. Figures for the corresponding period of FY17/3 or FY18/3 have been restated to conform with the new segments.
- \*\*\* NEC applied IFRS 9 and IFRS 15 from Q1, FY19/3. The cumulative effect of a change in accounting policies was recognized at the date of initial application, and the previous period statements were not restated.

# I . Financial Results for Q3, FY19/3

# Summary of Financial Results for Q3

Q3 Results  
(3/9 months)

(Billions of Yen)

	Q3 <October to December>		
	FY18/3 Actual	FY19/3 Actual	YoY
Revenue	683.3	698.2	+2.2%
Operating Profit	7.0	2.9	-4.1
% to Revenue	1.0%	0.4%	
Income before Income Taxes	9.4	4.7	-4.7
Net Profit/Loss	-1.2	-1.5	-0.3
% to Revenue	-0.2%	-0.2%	

9 months <April to December>		
FY18/3 Actual	FY19/3 Actual	YoY
1,971.3	2,034.7	+3.2%
14.3	16.7	+2.4
0.7%	0.8%	
40.2	26.5	-13.8
17.6	7.7	-9.9
0.9%	0.4%	

Free Cash Flows	-37.2	-45.8	-8.7
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38.2	-63.0	-101.1
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Note:	USD	1	112.22	112.70
Average Exchange Rates (yen)	EUR	1	132.39	129.62

(Billions of Yen)

		Q3 <October to December>			9 months <April to December>		
		FY18/3 Actual	FY19/3 Actual	YoY	FY18/3 Actual	FY19/3 Actual	YoY
Public	Revenue	221.6	228.4	+3.1%	625.8	648.1	+3.6%
	Operating Profit	5.5	15.6	+10.0	20.1	27.8	+7.7
	% to Revenue	2.5%	6.8%		3.2%	4.3%	
Enterprise	Revenue	99.3	106.0	+6.7%	291.2	317.7	+9.1%
	Operating Profit	9.3	9.6	+0.2	25.1	25.2	+0.1
	% to Revenue	9.4%	9.0%		8.6%	7.9%	
Network Services	Revenue	89.8	89.1	-0.8%	263.0	265.1	+0.8%
	Operating Profit	3.1	2.7	-0.5	8.6	6.1	-2.6
	% to Revenue	3.5%	3.0%		3.3%	2.3%	
System Platform	Revenue	130.8	133.0	+1.6%	372.3	375.6	+0.9%
	Operating Profit	9.4	0.5	-8.8	14.7	4.5	-10.1
	% to Revenue	7.2%	0.4%		3.9%	1.2%	
Global	Revenue	107.0	107.0	-0.0%	319.1	320.4	+0.4%
	Operating Profit/Loss	-5.6	-4.8	+0.8	-16.6	-9.8	+6.7
	% to Revenue	-5.2%	-4.5%		-5.2%	-3.1%	
Others	Revenue	34.7	34.7	-0.0%	100.0	107.8	+7.8%
	Operating Profit/Loss	-3.0	0.6	+3.6	-3.4	6.6	+10.0
	% to Revenue	-8.7%	1.8%		-3.4%	6.1%	
Adjustment	Operating Profit/Loss	-11.7	-21.3	-9.5	-34.3	-43.7	-9.4
Total	Revenue	683.3	698.2	+2.2%	1,971.3	2,034.7	+3.2%
	Operating Profit	7.0	2.9	-4.1	14.3	16.7	+2.4
	% to Revenue	1.0%	0.4%		0.7%	0.8%	

## Implementation of voluntary early retirement

Number of applicants 2,170  
Business structure improvement expenses 20.0B yen

## Other measures

Temporary/permanent transfers to companies outside the NEC Group (by the end of March 2019) 400 personnel

## Transfer of lighting business

Decided to transfer all businesses of NEC Lighting, Ltd.  
Scheduled to take place on April 1, 2019

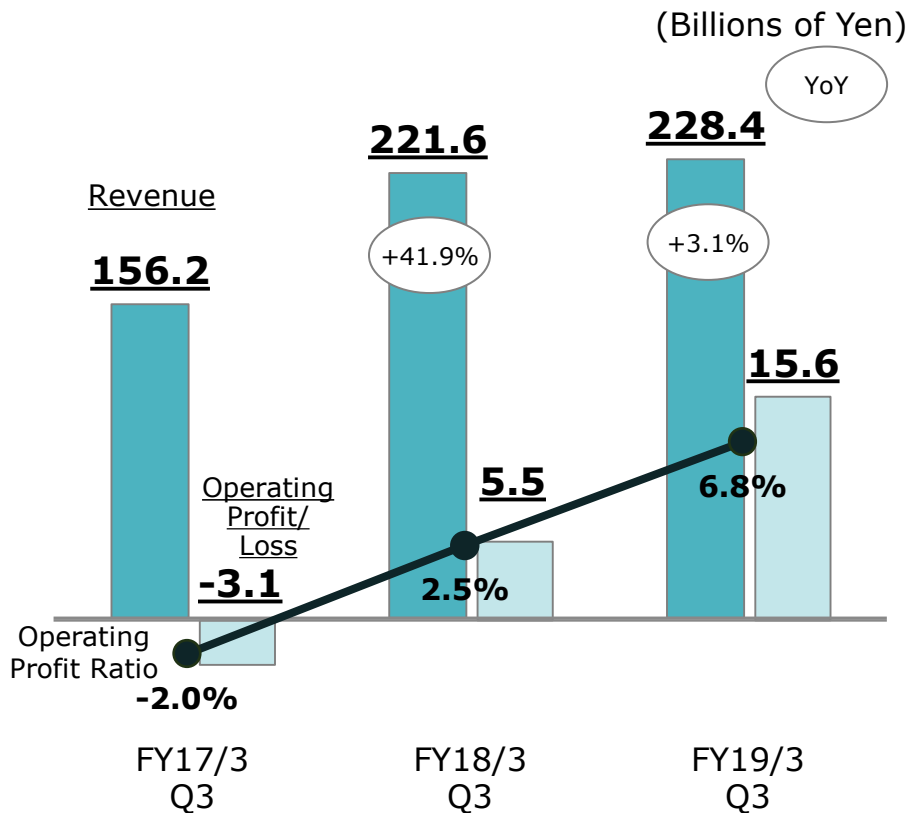
**In total, streamline workforce by 3,000 personnel**

## End of operation at Tsukuba Research Laboratories

Record expenses of 5.0B yen (in Adjustment)  
Scheduled to take place on the end of March 2020  
Optimize workforce of research laboratories

## Business structure improvement expenses by segment (approximate figures recorded in Q3)

Public	3.0B yen
Enterprise	1.0B yen
Network Services	2.0B yen
System Platform	8.0B yen
Global	1.0B yen
Others	3.0B yen
Adjustment	2.0B yen



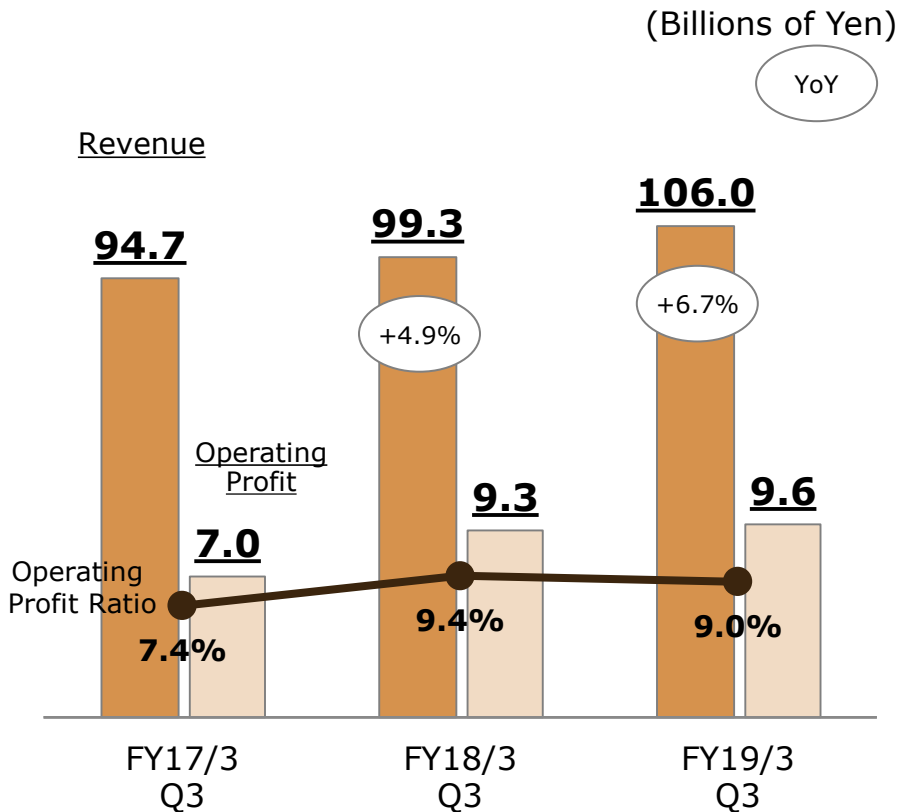
Billions of Yen (YoY)

## Revenue 228.4 (+3.1%)

- Public Solutions area: increased in firefighting and disaster prevention systems
- Public Infrastructure area: increased in general, such as in the aerospace and defense business

## Operating Profit/Loss 15.6 (+10.0)

- Improved due to a sales increase and a decrease in unprofitable projects



**Revenue** 106.0 (+6.7%)

- Increased in retail and services, as well as financial institutions

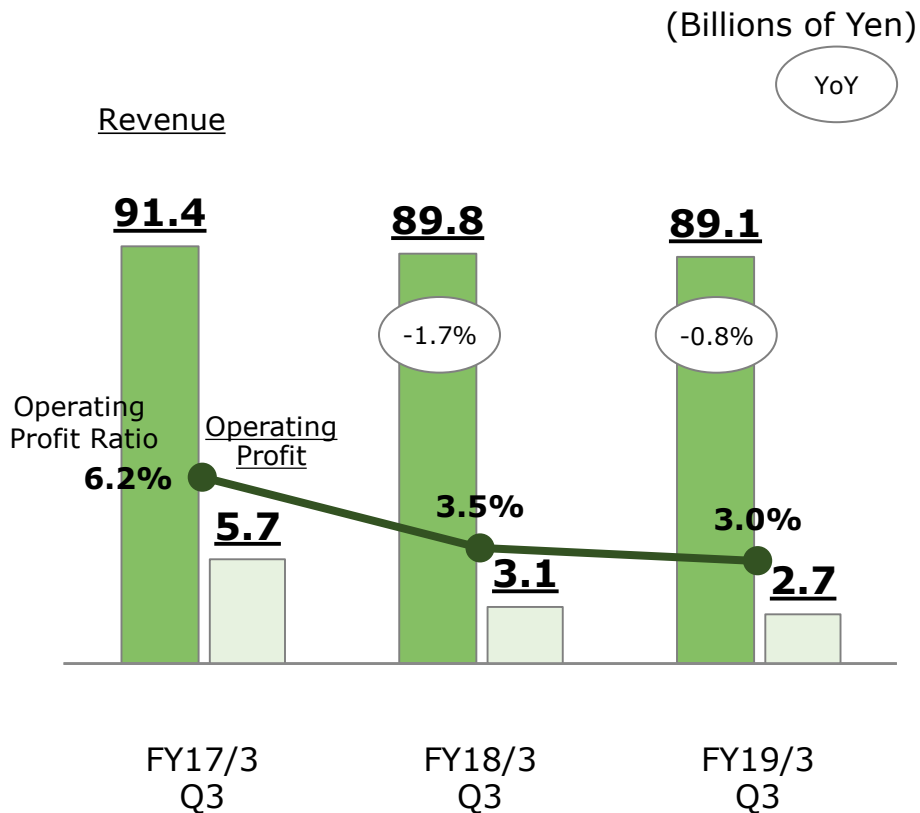
**Operating Profit** 9.6 (+0.2)

- Improved in system construction services, despite an increase in AI and IoT related investment expenses

\*AI: Artificial Intelligence  
IoT: Internet of Things

Billions of Yen (YoY)





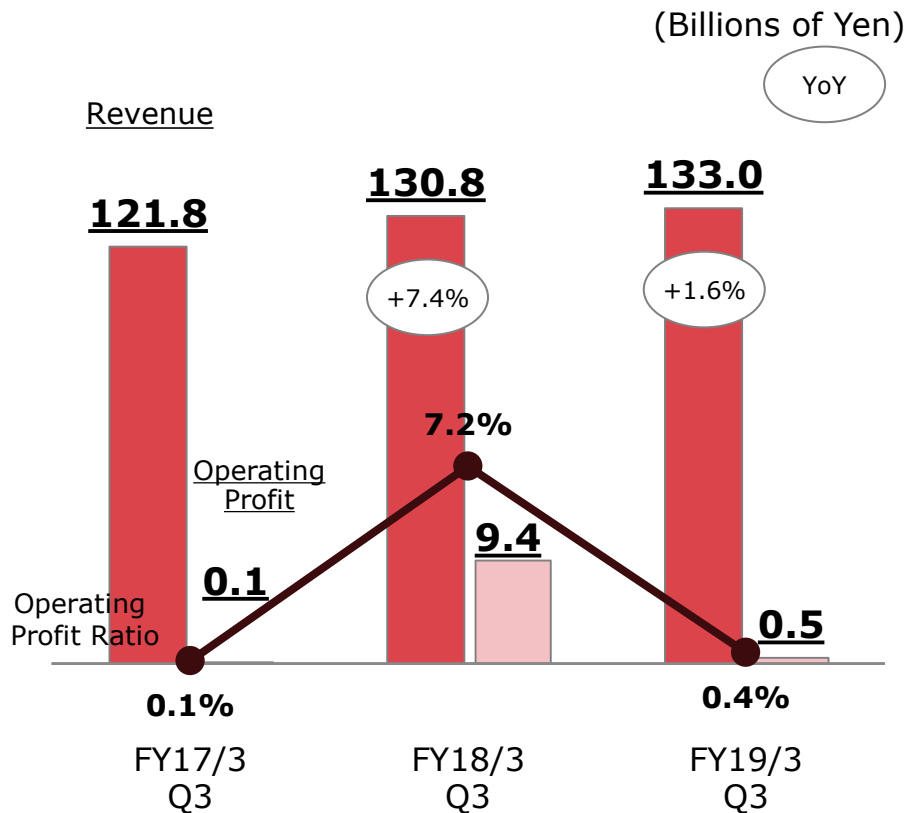
Billions of Yen (YoY)

**Revenue** 89.1 (-0.8%)

- Remained flat with sluggish capital investment by telecommunications carriers

**Operating Profit** 2.7 (-0.5)

- Worsened due to the recording of business structure improvement expenses, while profitability improved



**Revenue** 133.0 (+1.6%)

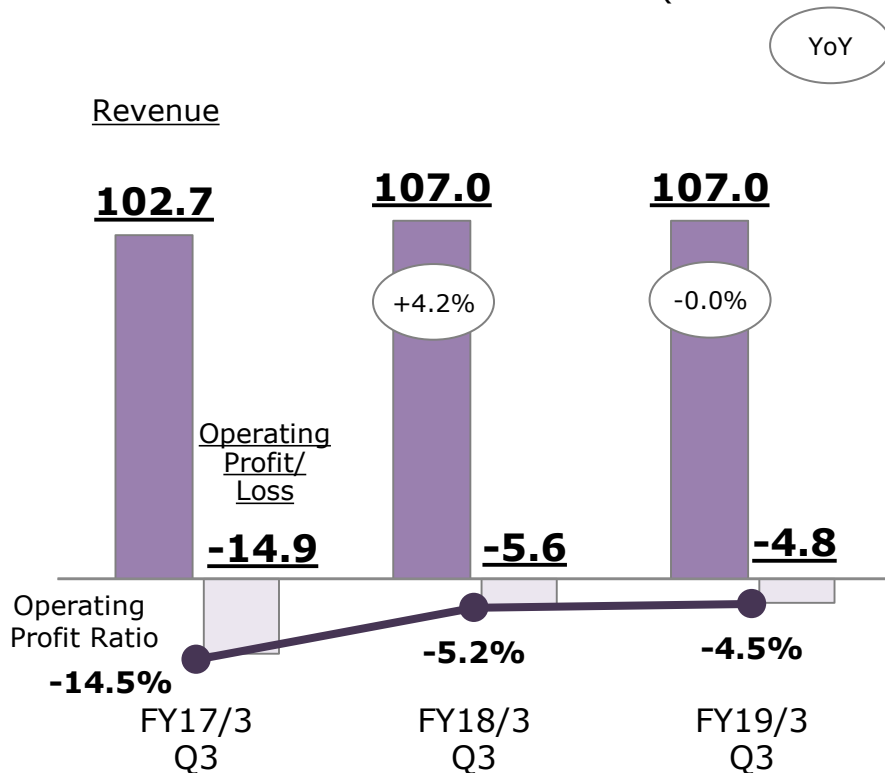
- Increased in business PCs

**Operating Profit** 0.5 (-8.8)

- Worsened due to the recording of business structure improvement expenses

(Billions of Yen)

Billions of Yen (YoY)



## Revenue 107.0 (-0.0%)

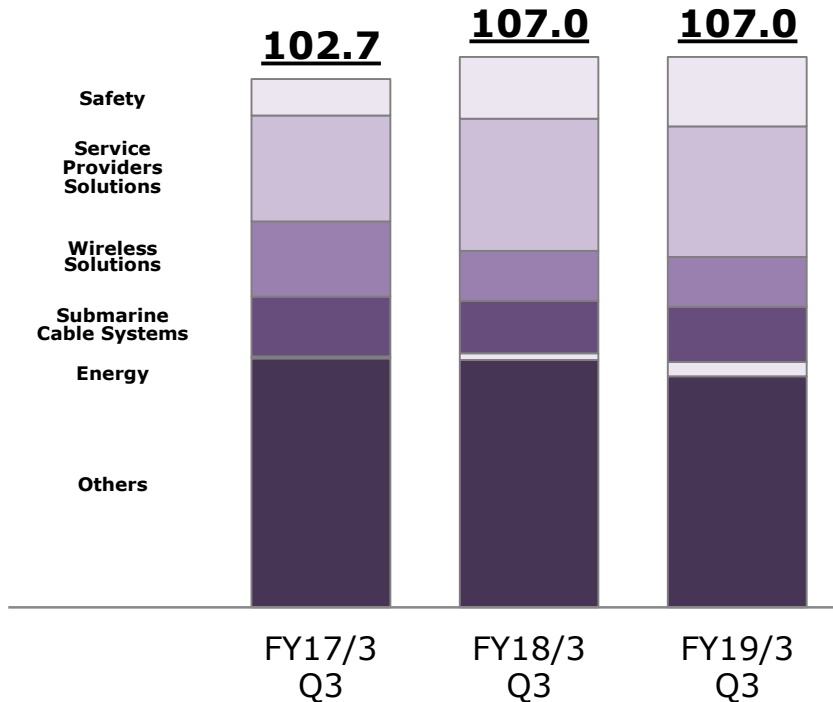
- Remained flat with an increase in safety, offset by a decline in display solutions

## Operating Profit/Loss -4.8 (+0.8)

- Improved in wireless solutions, while worsened in display solutions

(Billions of Yen)

## Revenue



### Safety

- Increased due to consolidation of NPS

### Service Providers Solutions

- Remained flat

### Wireless Solutions/Submarine Cable Systems

- Remained flat in wireless solutions
- Increased in submarine cable systems

### Display Solutions

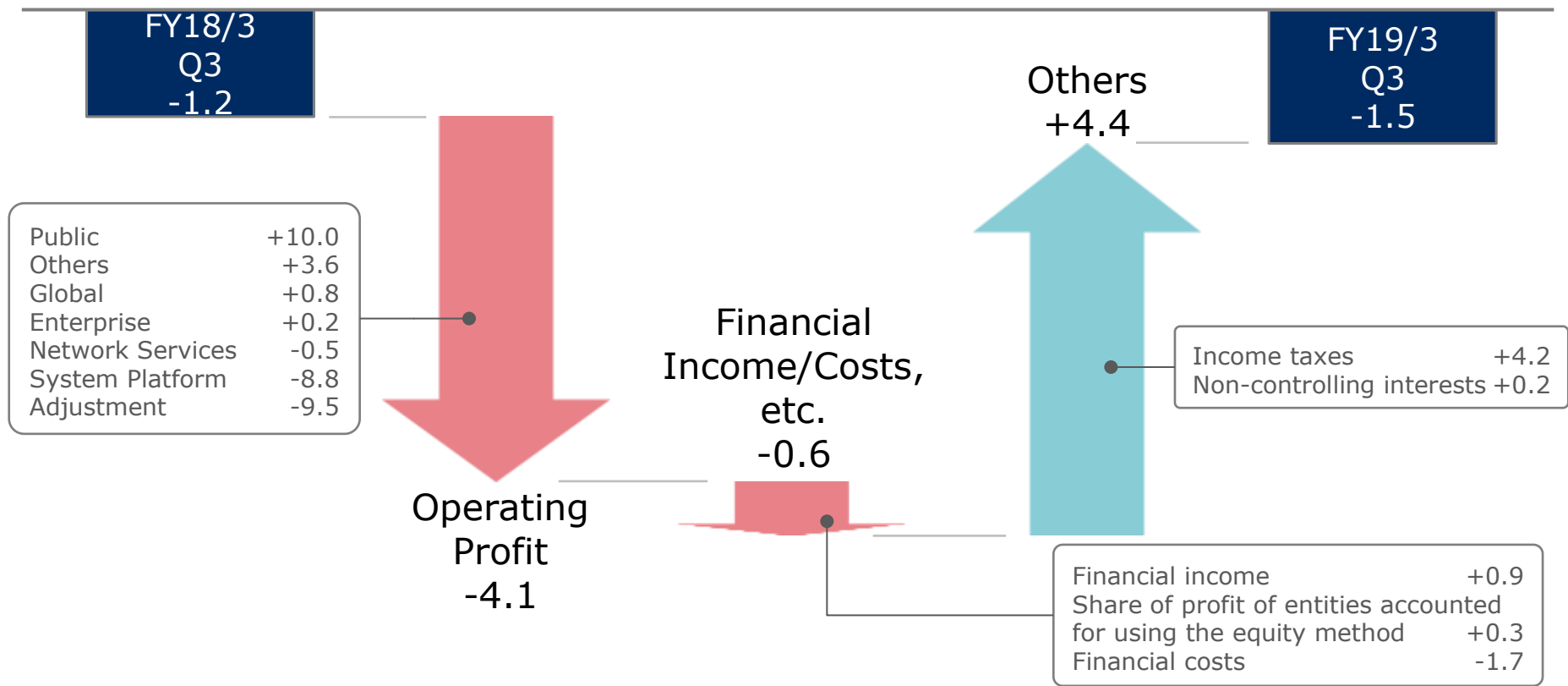
- Decreased due to intensifying competition in North America

\*Others includes the display solutions business and global unified communications business.

\*NPS : Northgate Public Services Limited

# Net Profit/Loss Change (Year on Year)

(Billions of Yen)



## Decided to acquire KMD – Strengthen "NEC Safer Cities" –

- KMD has a wide variety of software for supporting the digitization of Denmark and NEC acquires its business model that leverages platforms in the digital government domain.
- Investment 136.0B yen  
(The acquisition is expected to be completed by the end of February 2019.)
- After completion of the acquisition, accelerate creation of synergy among NEC, NPS and KMD
  - Expand business from northern Europe to neighboring countries and globally through cross-selling among NEC, NPS and KMD



## II. Financial Forecasts for FY19/3

# Summary of Financial Forecasts

Forecasts  
FY19/3

Not changed from initial forecasts as of April 27, 2018. Undertake additional business structure improvement contributing to profitability from FY20/3 onwards.

(Billions of Yen)

	Full Year		
	FY18/3 Actual	FY19/3 Forecasts	YoY
Revenue	2,844.4	2,830.0	-0.5%
Operating Profit	63.9	50.0	-13.9
% to Revenue	2.2%	1.8%	
Net Profit	45.9	25.0	-20.9
% to Revenue	1.6%	0.9%	

Free Cash Flows	115.8	40.0	-75.8
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Dividends per Share (yen)	60	40	-20
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Note: Average Exchange Rates (yen)	USD 1	111.43	105.00
	EUR 1	128.86	115.00

		Full Year		
		FY18/3 Actual	FY19/3 Forecasts	YoY
Public	Revenue	933.1	945.0	+1.3%
	Operating Profit	53.2	61.0	+7.8
	% to Revenue	5.7%	6.5%	
Enterprise	Revenue	408.7	410.0	+0.3%
	Operating Profit	35.7	32.0	-3.7
	% to Revenue	8.7%	7.8%	
Network Services	Revenue	377.6	360.0	-4.7%
	Operating Profit	17.3	11.0	-6.3
	% to Revenue	4.6%	3.1%	
System Platform	Revenue	531.7	510.0	-4.1%
	Operating Profit	30.0	32.0	+2.0
	% to Revenue	5.6%	6.3%	
Global	Revenue	453.7	505.0	+11.3%
	Operating Profit/Loss	-28.0	0.0	+28.0
	% to Revenue	-6.2%	0.0%	
Others	Revenue	139.7	100.0	-28.4%
	Operating Profit/Loss	-0.4	15.0	+15.4
	% to Revenue	-0.3%	15.0%	
Adjustment	Operating Profit/Loss	-43.8	-101.0	-57.2
Total	Revenue	2,844.4	2,830.0	-0.5%
	Operating Profit	63.9	50.0	-13.9
	% to Revenue	2.2%	1.8%	


\*Forecasts as of January 30, 2019



Expected upside mainly in the Enterprise and Public businesses since orders expanded through 9 months, FY19/3

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

FY19/3	
Q1	107%
Q2	107%
Q3	111%



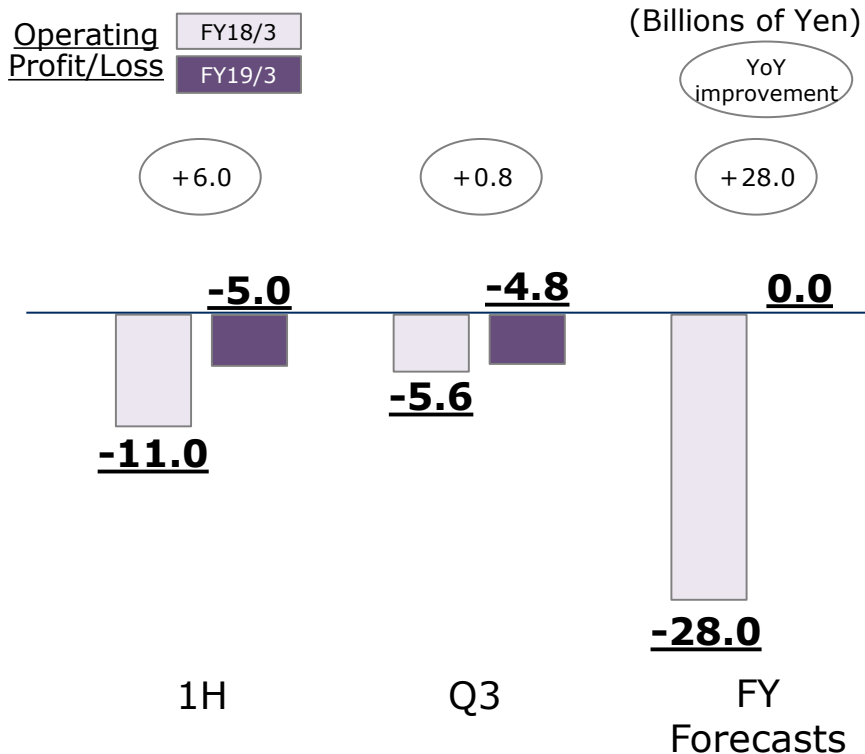
Consolidated Order Trend  
(YoY)

Consolidated Orders  
(9 months)

Enterprise  
109%

Public  
(Public Solutions and  
Public Infrastructure areas)  
107%

## Downside risk remains, while continued to improve profitability



### Safety

- Profit improved in line with forecast by a sales increase, expect to achieve break-even for FY

### Wireless Solutions

- Improved profitability in Q3 following 1H, expect to improve in line with FY forecast

### Service Providers Solutions

- Profitability improvement delayed due to the slippage of an optical/IP network project

### Energy

- While orders increased, further cost reductions are imminent

### Display Solutions

- As profit decreased due to a sales decline, gross margin improvement and expense reductions are needed

\*Forecasts as of January 30, 2019

## Already done in Q3

Voluntary early retirement  
(20.0B yen)

End of operation at Tsukuba  
Research Laboratories (5.0B yen)

## To be done in Q4

Optimizing plants of NEC Platforms,  
Ltd. (Ichinoseki and Ibaraki)

Business structure improvement in  
NEC Lighting, Ltd.

Office floor optimization

Optimizing overseas offices

Advancing development investment

**Undertake practicable measures within FY19/3, which leads to profitability improvement in FY20/3**



# 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**

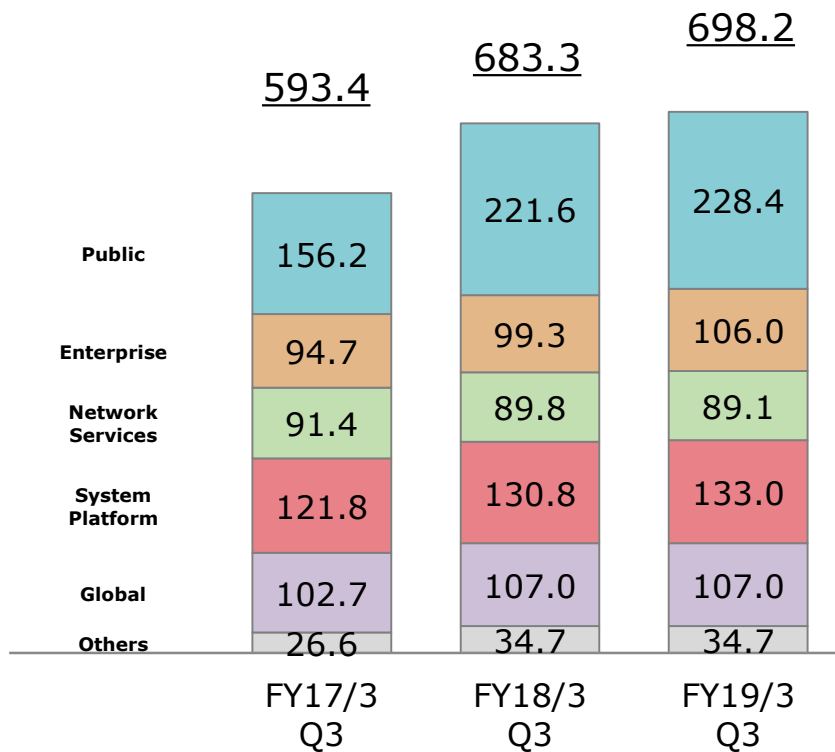
# Financial Results for Q3, FY19/3 (Appendix)

# Financial Results for Q3 by Segment (three-year transition)

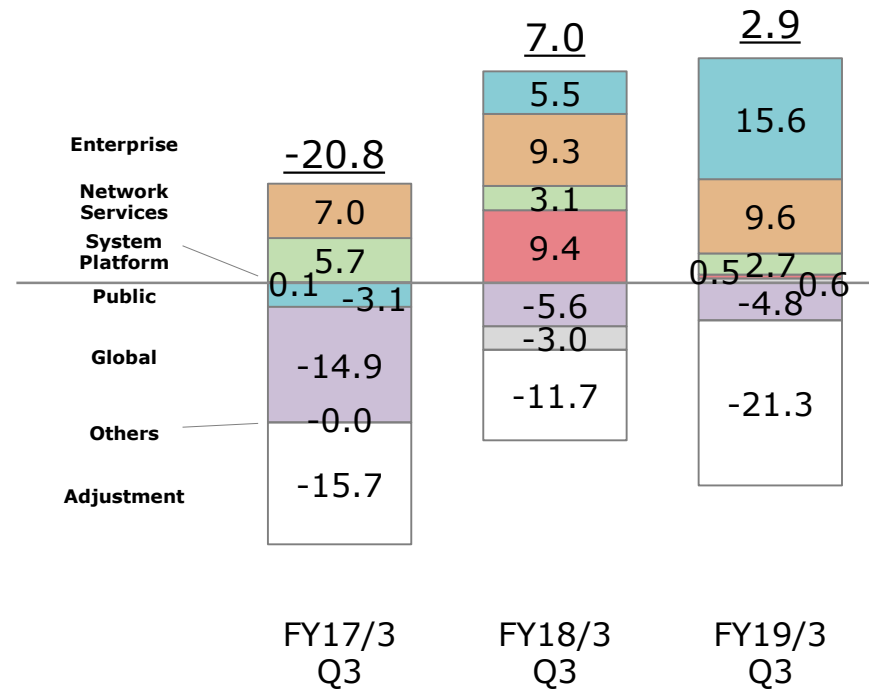
Q3 Results  
(3 months)

(Billions of Yen)

## Revenue

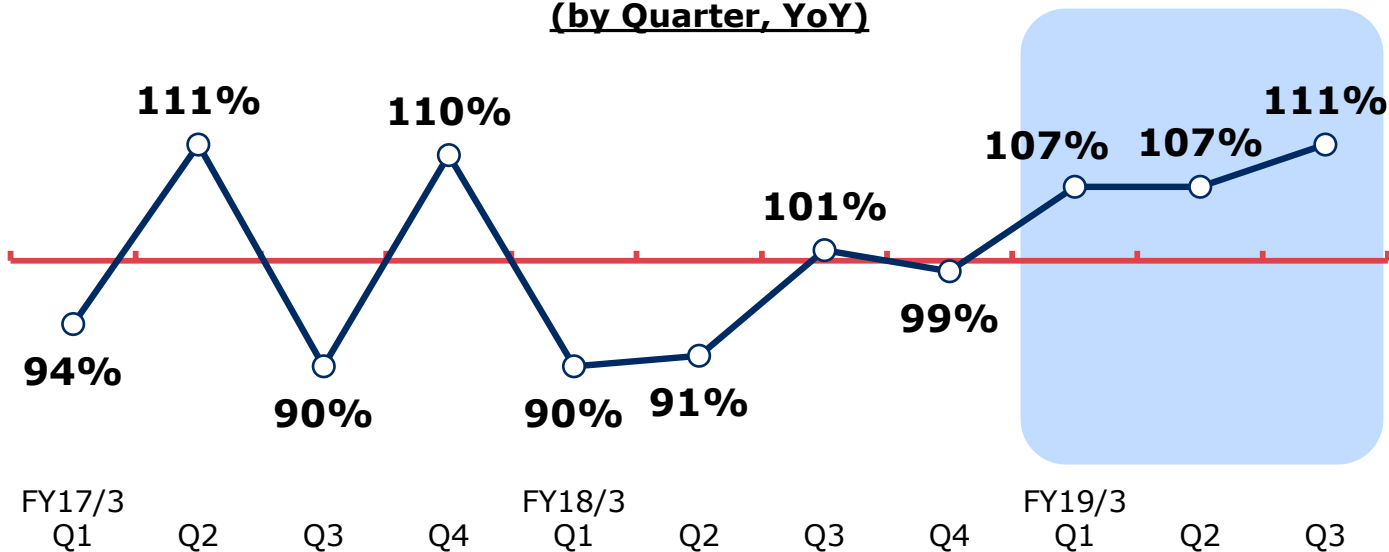


## Operating Profit/Loss



IT services orders in Japan for Q3, FY19/3 showed strong performance in the central government and public area, as well as the private sector (manufacturing and retail and services)

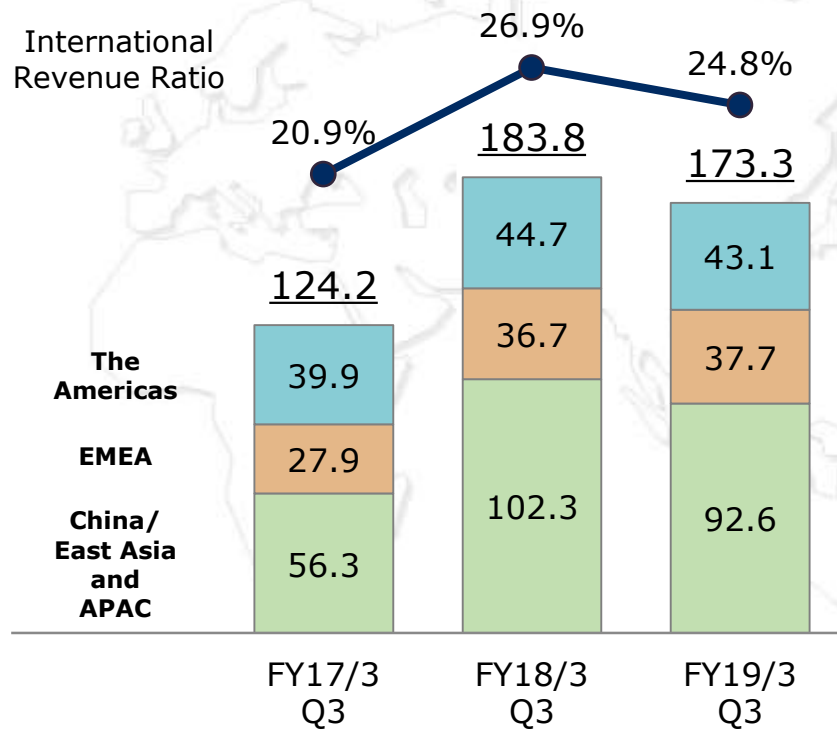
**IT Services Order Trend in Japan  
(by Quarter, YoY)**



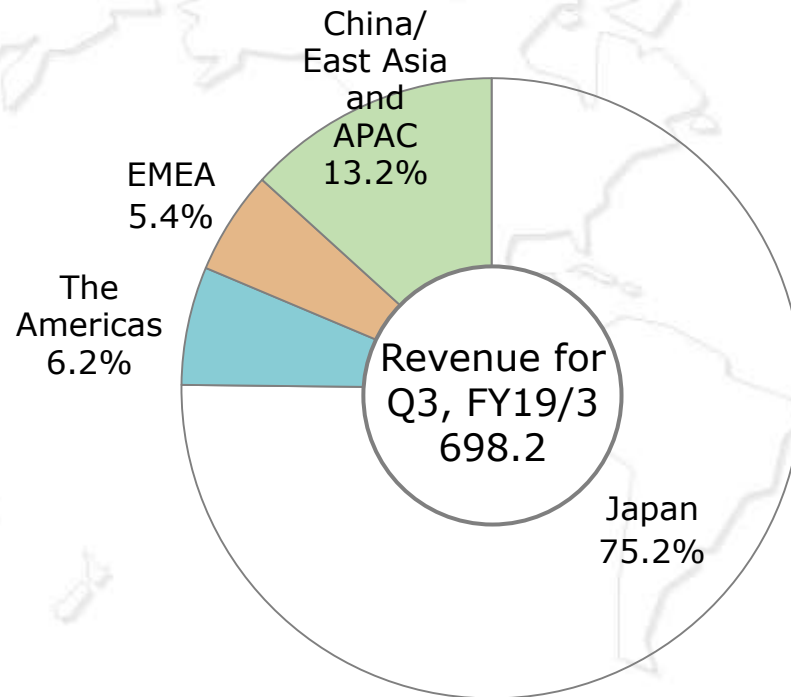
9 months,  
FY19/3  
Orders  
108%



(Billions of Yen)

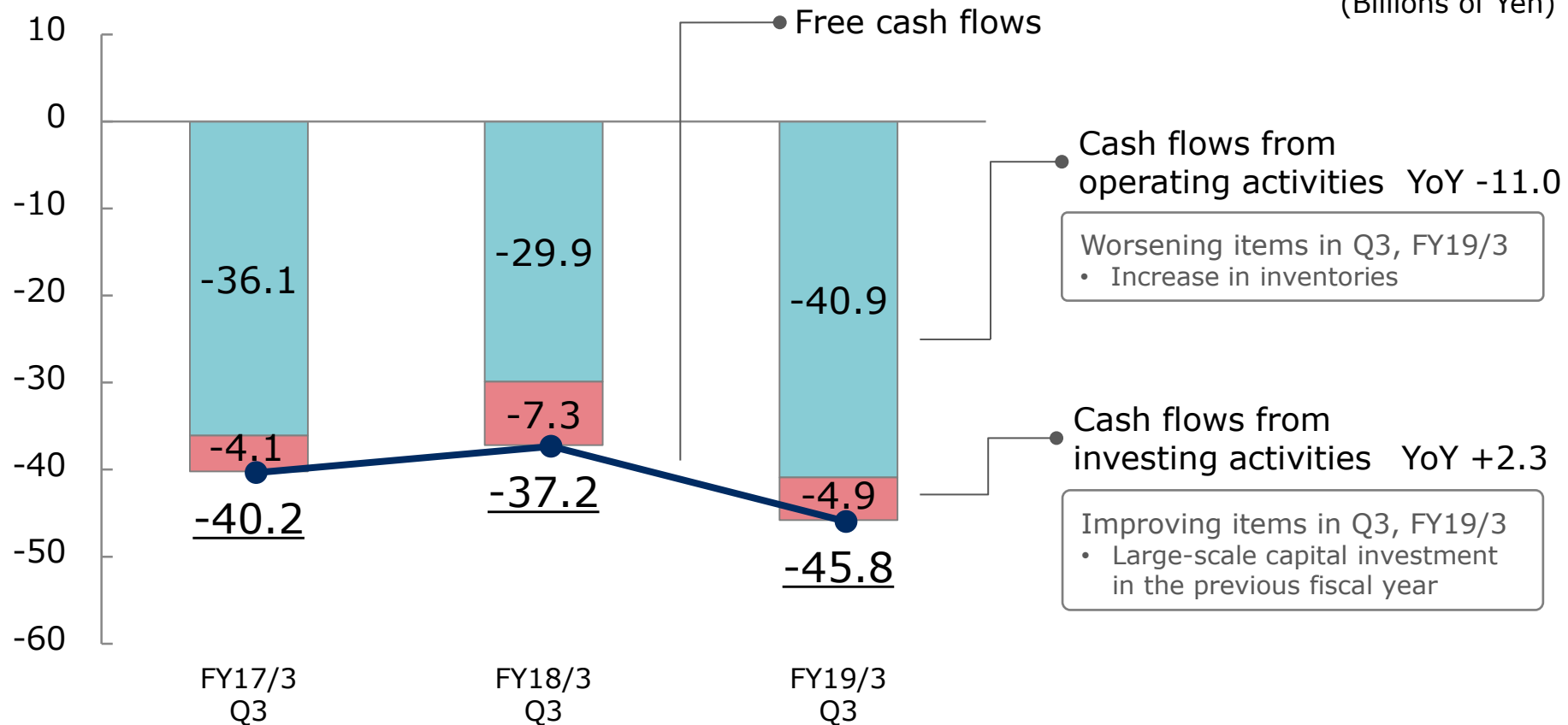


## Revenue by Region



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

(Billions of Yen)



(Billions of Yen)

	End of March 2018	End of December 2018	Variance from end of March 2018	End of December 2017
Total assets	2,821.4	2,760.8	-60.5	2,710.3
Total equity	1,054.3	1,035.7	-18.6	1,042.9
Interest-bearing debt	520.7	532.4	+11.7	527.1
Equity attributable to owners of the parent	880.8	856.5	-24.4	874.6
Ratio of equity attributable to owners of the parent (%)	31.2%	31.0%	-0.2pt	32.3%
D/E ratio (times)	0.59	0.62	-0.03pt	0.60
Net D/E ratio (times)	0.20	0.31	-0.11pt	0.24
Cash and cash equivalents	346.0	268.0	-78.0	318.8

(Billions of Yen)

Compared to  
end of March  
2018

Current Assets  
**1,569.6**

Decrease in trade and other receivables resulting from its collection as well as in cash and cash equivalents from the payment of materials cost

-70.7

Increase in other non-current assets, despite a decrease in other financial assets attributable to a decline in market prices of shares

+10.2

Non-current Assets  
**1,191.2**

Total Assets  
**2,760.8**

(-60.5 compared to  
end of March 2018)

-41.9

Liabilities  
**1,725.2**

Decrease in accruals due to bonus payments

Dividends paid, despite the recording of net profit

-18.6

Equity  
**1,035.7**

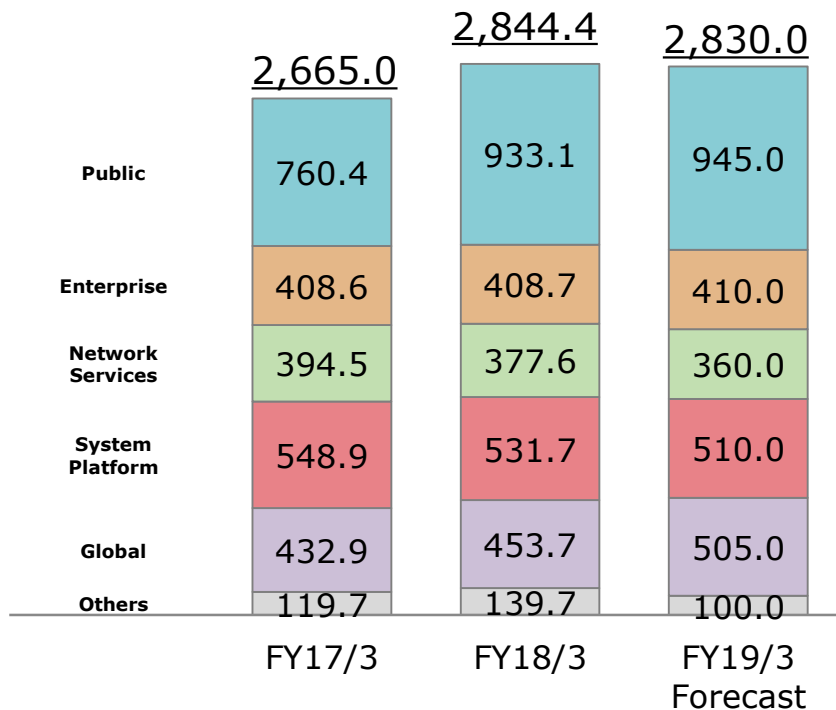
# Financial Forecasts for FY19/3 (Appendix)

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

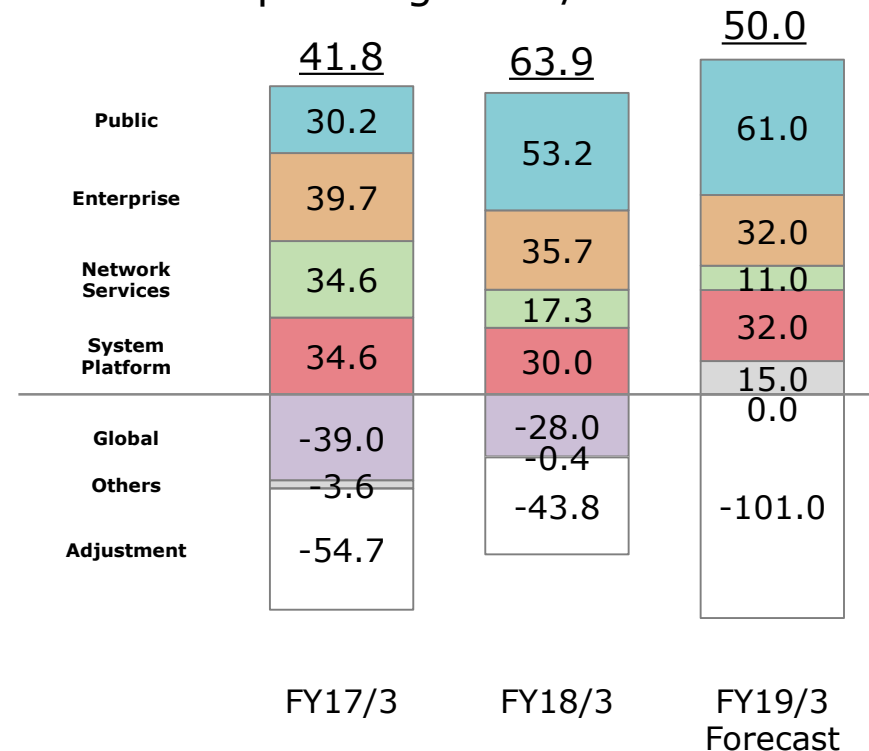
Forecasts  
FY19/3

(Billions of Yen)

## Revenue



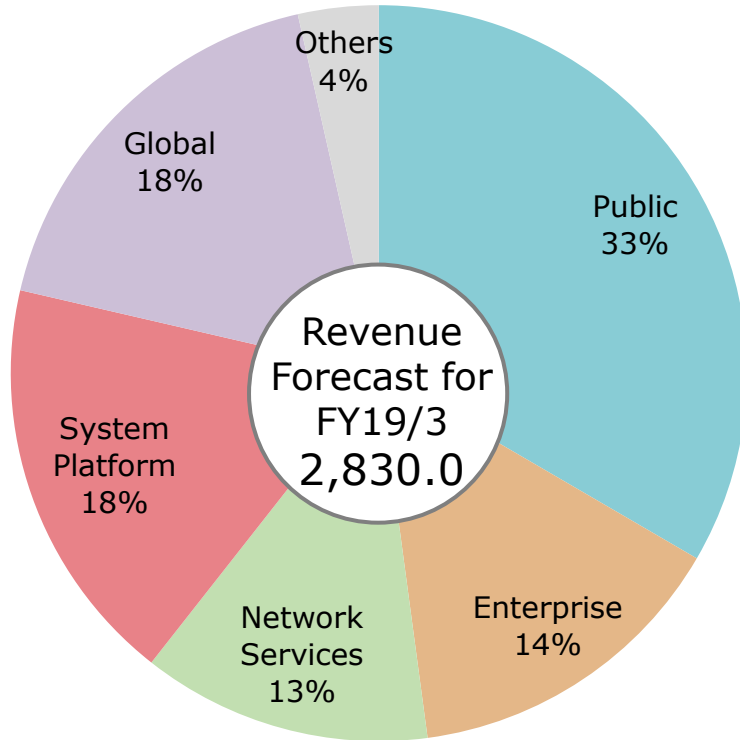
## Operating Profit/Loss



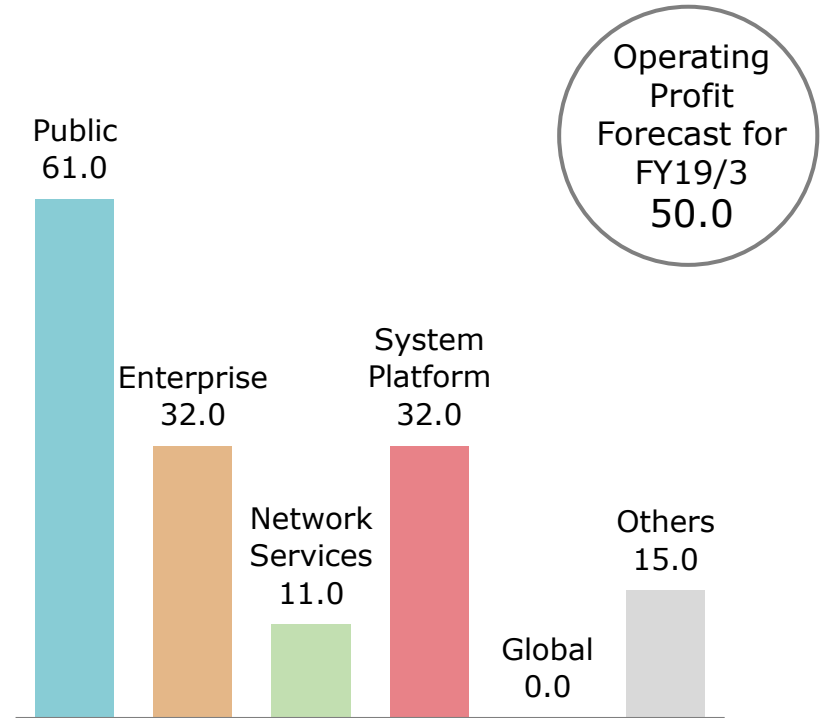
\*Forecasts as of January 30, 2019

(Billions of Yen)

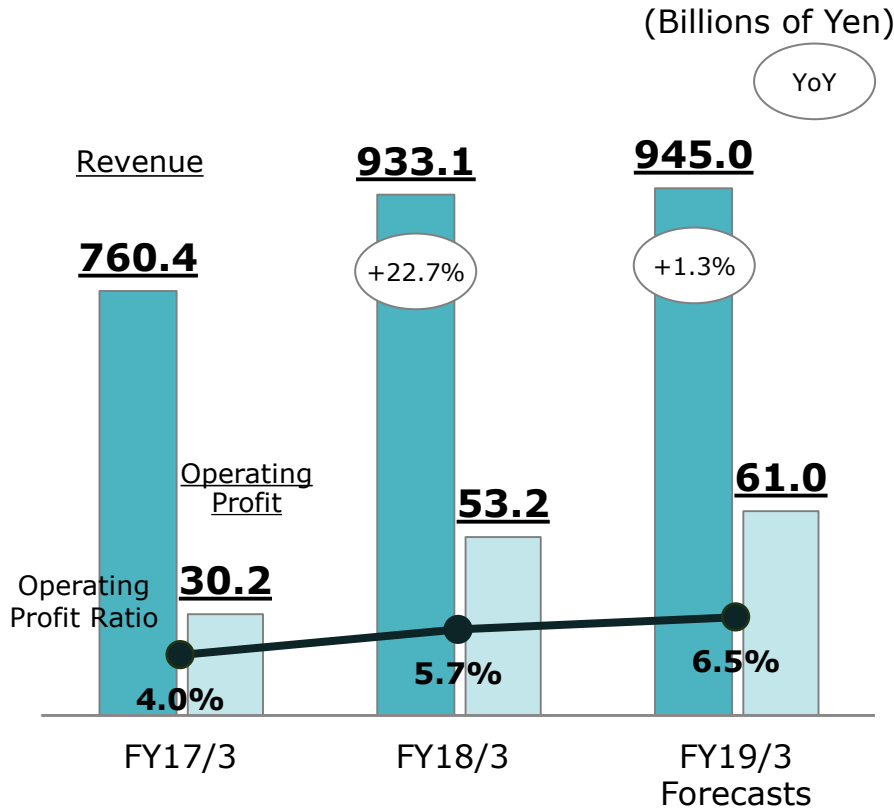
## Revenue



## Operating Profit



\*Forecasts as of January 30, 2019



## Revenue 945.0 (+1.3%)

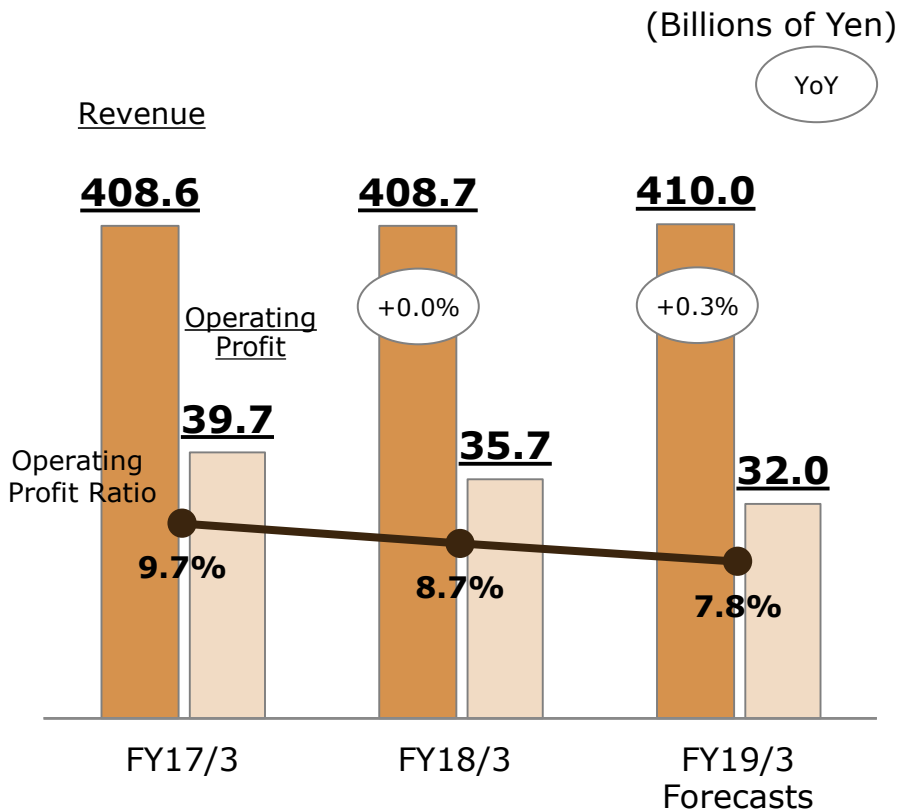
- Public Solutions area: increase due to business expansion for the 2020 Olympic/ Paralympic Games
- Public Infrastructure area: decrease due to a sales decline in consolidated subsidiaries

## Operating Profit 61.0 (+7.8)

- Improve due to business structure improvement in the previous fiscal year and control of unprofitable projects

\*Forecasts as of January 30, 2019





**Revenue** 410.0 (+0.3%)

- Increase in retail and services

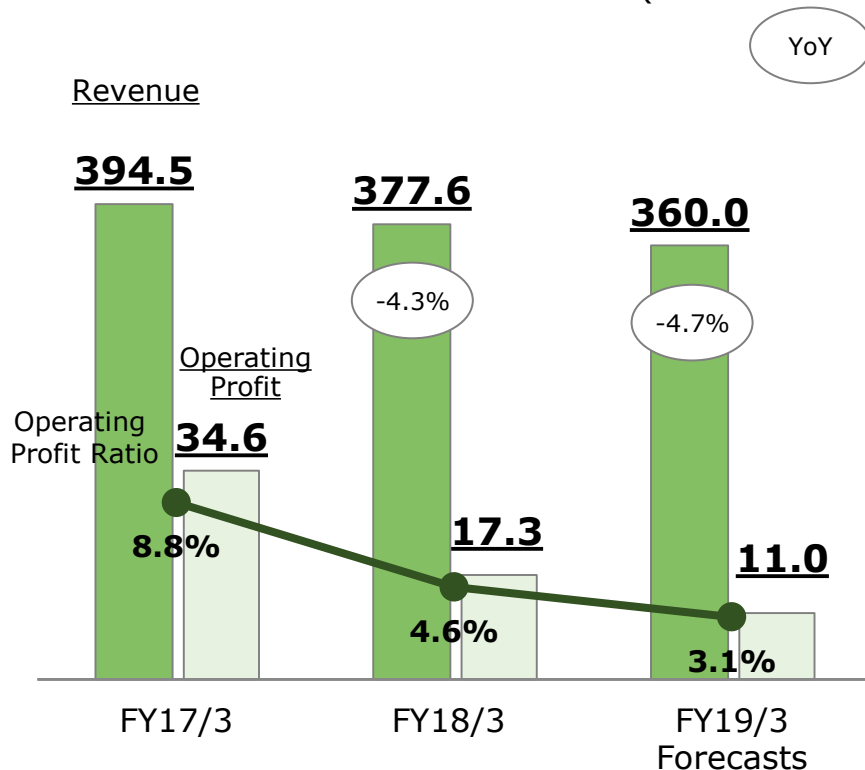
**Operating Profit** 32.0 (-3.7)

- Worsen due to an increase in AI and IoT related investment expenses, while profitability in system construction services improves

\*Forecasts as of January 30, 2019

(Billions of Yen)

Billions of Yen (YoY)



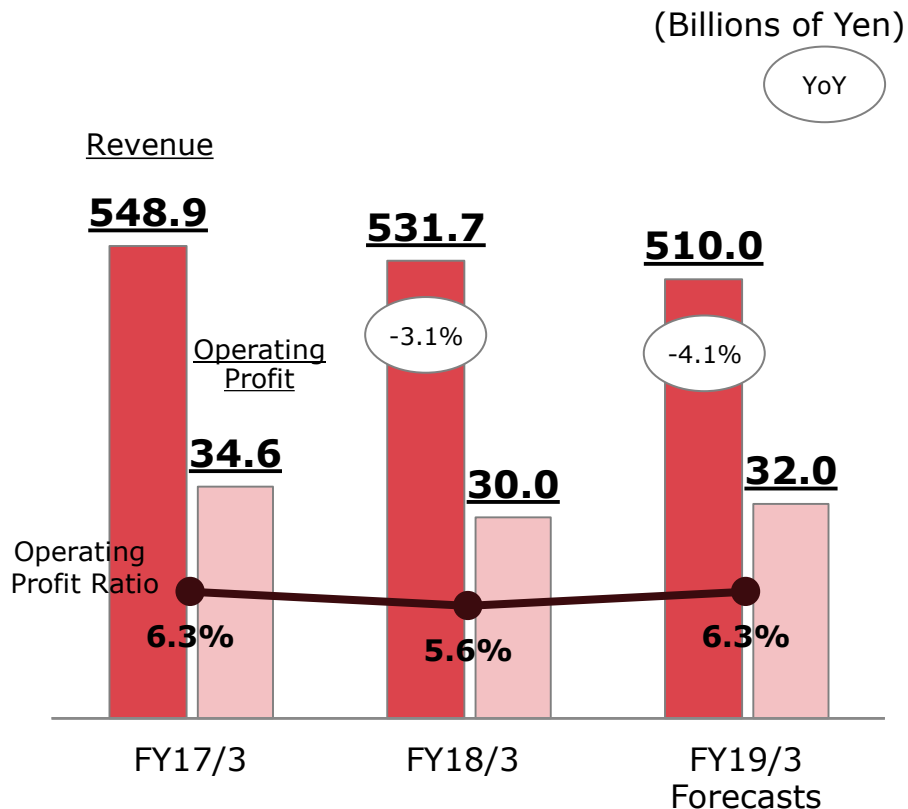
**Revenue** 360.0 (-4.7%)

- Decrease due to sluggish capital investment by telecommunications carriers

**Operating Profit** 11.0 (-6.3)

- Worsened due to a sales decline and an increase in investment expenses for 5G, etc.

\*Forecasts as of January 30, 2019



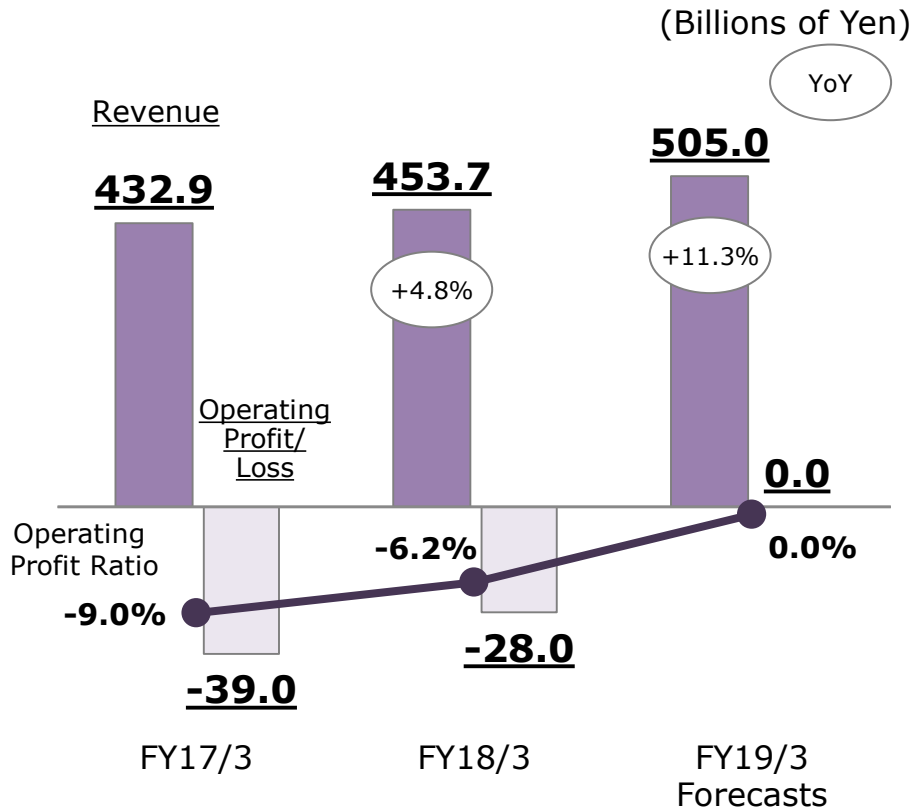
**Revenue** 510.0 (-4.1%)

- Decrease due to a decline in large-scale projects compared to the previous fiscal year

**Operating Profit** 32.0 (+2.0)

- Improve due to cost efficiency

\*Forecasts as of January 30, 2019



**Revenue** 505.0 (+11.3%)

- Increase in safety as well as software & services for service providers

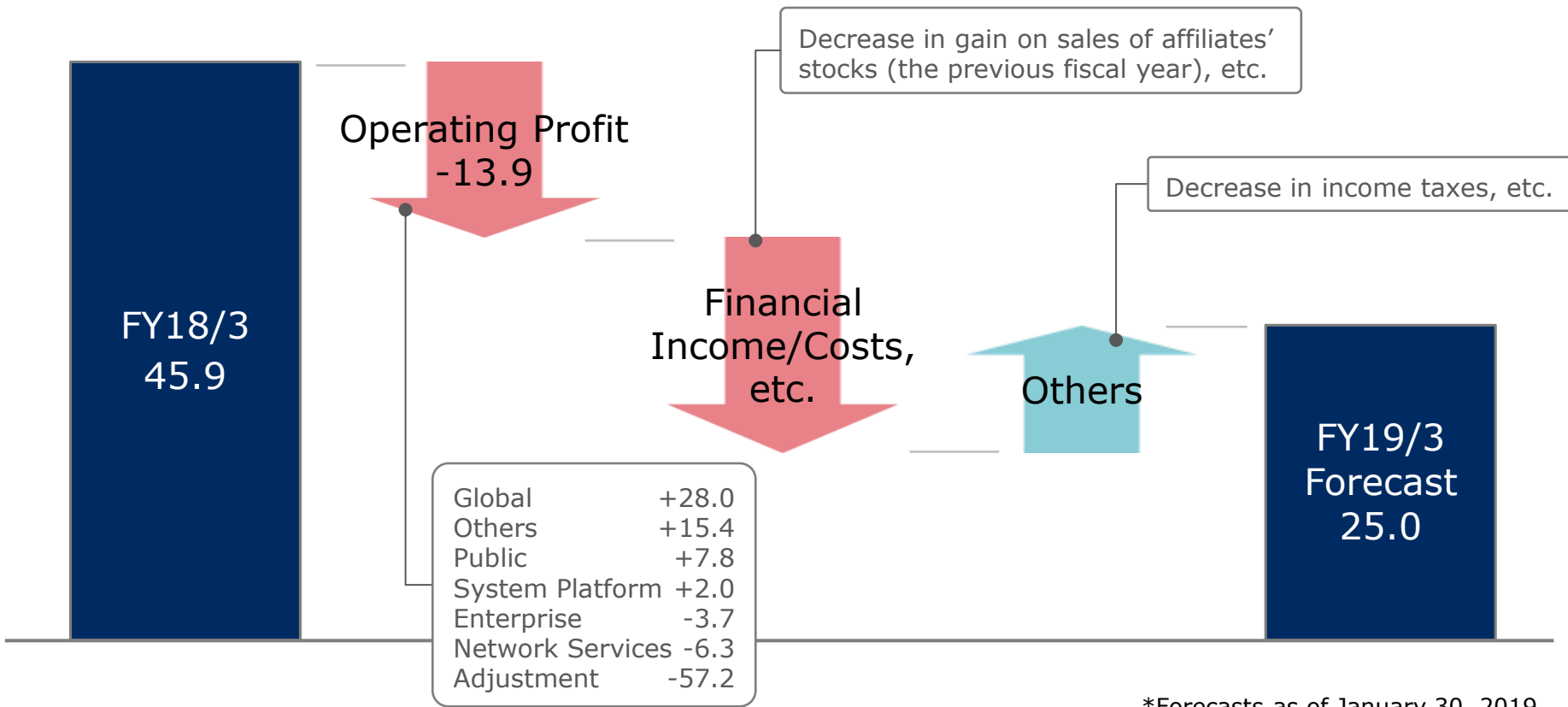
**Operating Profit/Loss** 0.0 (+28.0)

- Improve due to a sales increase and business structure improvement

\*Forecasts as of January 30, 2019

# Net Profit Change (Year on Year)

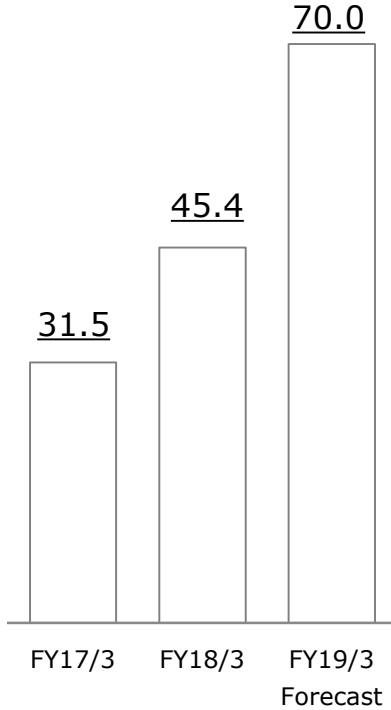
(Billions of Yen)



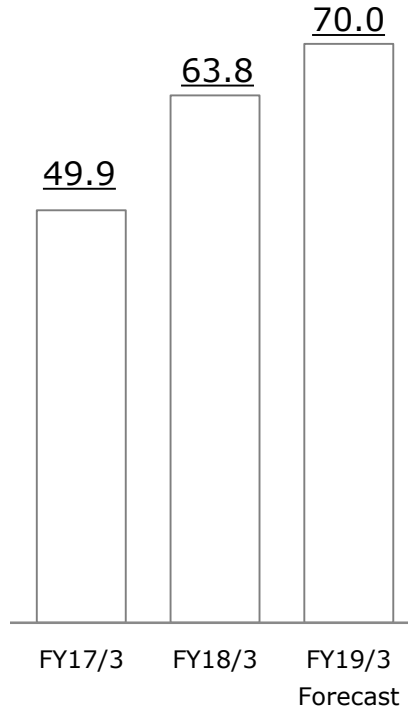
\*Forecasts as of January 30, 2019

(Billions of Yen)

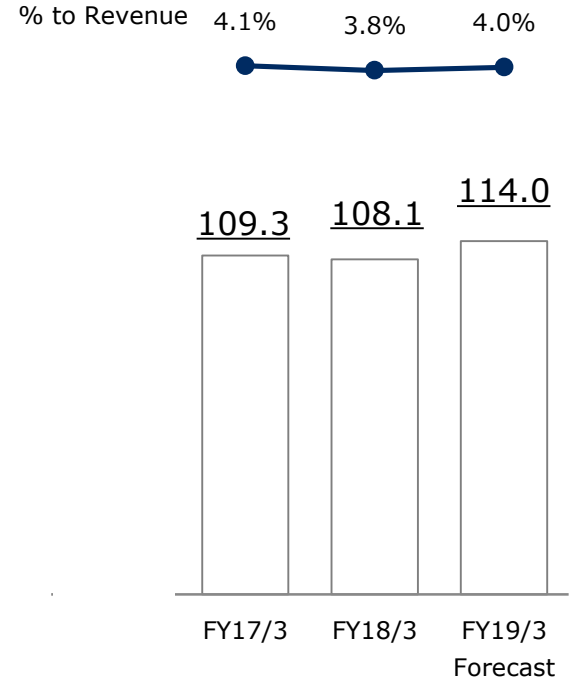
### Capital Expenditure



### Depreciation



### R&D Expenses



\*Forecasts as of January 30, 2019

# 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, 2018 and 19 were referred as FY18/3 and FY19/3 respectively. Any other fiscal years would be referred similarly.