

# Financial Results for 1H Fiscal Year Ending March 31, 2020

October 29, 2019  
NEC Corporation  
(<https://jpn.nec.com/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 10, 2019 announcement, "NEC to Revise Operating Segments," NEC has revised its operating segments from Q1, FY20/3. Figures for the corresponding period of FY18/3 or FY19/3 have been restated to conform with the new segments.
- \* NEC applied IFRS 9 and IFRS 15 from Q1, FY19/3 and applied IFRS 16 from Q1, FY20/3. The cumulative effect of the change in accounting policies was recognized at the date of initial application, and the previous period statements were not restated.
- \* Since the provisional accounting for KMD Holding, which was acquired by NEC in FY19/3, was finalized in Q2, FY20/3, retroactive adjustments were made to the relevant figures for FY19/3.

# I . Financial Results for 1H, FY20/3

# Summary of Financial Results for 1H

1H Results

(Billions of Yen)

	Q2 <July to September>			1H <April to September>		
	FY19/3 Actual	FY20/3 Actual	YoY	FY19/3 Actual	FY20/3 Actual	YoY
<b>Revenue</b>	723.5	795.1	+ 9.9%	1,336.4	1,449.0	+ 8.4%
<b>Operating Profit</b>	24.5	43.5	+ 18.9	13.8	46.9	+ 33.0
% to Revenue	3.4%	5.5%		1.0%	3.2%	
<b>Adjusted Operating Profit</b>	26.9	47.8	+ 20.9	18.7	55.4	+ 36.7
% to Revenue	3.7%	6.0%		1.4%	3.8%	
<b>Income before Income Taxes</b>	26.5	42.4	+ 15.8	21.8	46.1	+ 24.3
<b>Net Profit</b>	14.9	25.9	+ 11.0	9.2	29.2	+ 20.0
% to Revenue	2.1%	3.3%		0.7%	2.0%	
<b>Adjusted Net Profit</b>	16.3	28.4	+ 12.2	11.9	34.3	+ 22.4
% to Revenue	2.2%	3.6%		0.9%	2.4%	
<b>Free Cash Fow</b>	- 53.0	- 27.5	+ 25.5	- 17.1	55.6	+ 72.8
<b>Dividend per Share (Yen)</b>				0	30	+ 30

Note: Average Exchange Rates (Yen)	USD 1	110.83	107.57
	EUR 1	128.96	120.61

# Results by Segment for FY20/3

1H Results

(Billions of Yen)

		Q2 <July to September>			1H <April to September>		
		FY19/3 Actual	FY20/3 Actual	YoY	FY19/3 Actual	FY20/3 Actual	YoY
Public	Revenue	214.8	237.8	+ 10.7%	400.5	418.1	+ 4.4%
	Adjusted Operating Profit	9.8	21.1	+ 11.3	12.8	26.3	+ 13.4
	% to Revenue	4.6%	8.9%		3.2%	6.3%	
Enterprise	Revenue	114.7	120.6	+ 5.1%	210.1	234.9	+ 11.8%
	Adjusted Operating Profit	12.2	10.8	- 1.4	16.0	17.5	+ 1.5
	% to Revenue	10.6%	9.0%		7.6%	7.4%	
Network Services	Revenue	113.4	125.5	+ 10.6%	203.2	225.6	+ 11.0%
	Adjusted Operating Profit	7.4	10.3	+ 3.0	5.0	11.6	+ 6.6
	% to Revenue	6.5%	8.2%		2.4%	5.1%	
System Platform	Revenue	125.8	149.5	+ 18.8%	226.1	263.7	+ 16.7%
	Adjusted Operating Profit	7.7	16.1	+ 8.4	5.0	20.8	+ 15.8
	% to Revenue	6.1%	10.8%		2.2%	7.9%	
Global	Revenue	107.7	129.3	+ 20.1%	197.5	243.6	+ 23.3%
	Adjusted Operating Profit/Loss	4.0	1.6	- 2.4	- 2.7	0.9	+ 3.6
	% to Revenue	3.7%	1.3%		-1.4%	0.4%	
Others	Revenue	47.1	32.5	- 31.0%	99.1	63.1	- 36.3%
	Adjusted Operating Profit	2.1	3.8	+ 1.7	5.0	6.5	+ 1.4
	% to Revenue	4.4%	11.6%		5.1%	10.2%	
Adjustment	Adjusted Operating Profit/Loss	- 16.3	- 16.0	+ 0.3	- 22.4	- 28.1	- 5.7
Total	Revenue	723.5	795.1	+ 9.9%	1,336.4	1,449.0	+ 8.4%
	Adjusted Operating Profit	26.9	47.8	+ 20.9	18.7	55.4	+ 36.7
	% to Revenue	3.7%	6.0%		1.4%	3.8%	

(Billions of Yen)

	FY19/3			FY20/3		
	Q1	Q2	1H	Q1	Q2	1H
Operating Profit/Loss	- 10.7	24.5	13.8	3.4	43.5	46.9
Adjusted items	2.5	2.4	4.9	4.2	4.3	8.5
Amortization of intangible assets through acquisitions	2.4	2.4	4.8	4.2	4.1	8.3
M&A related expenses	0.0	0.0	0.1	- 0.0	0.2	0.2
Adjusted Operating Profit/Loss	- 8.3	26.9	18.7	7.6	47.8	55.4

(Billions of Yen)

**Total: 15.0**

**Voluntary early retirement**  
**9.1**

**Other measures**  
**5.8**

## Breakdown by segment (Approximate figures)

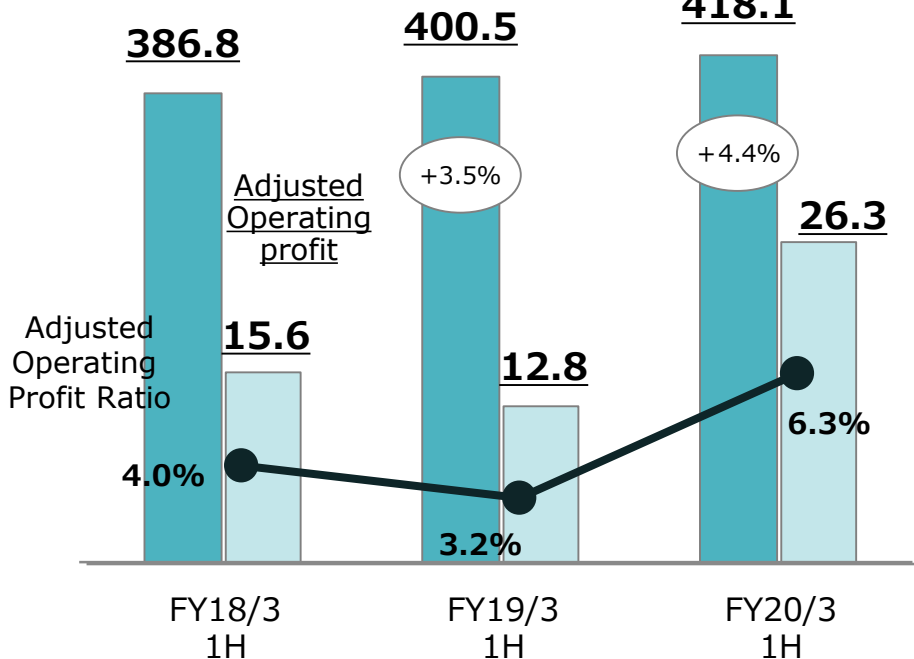
Public	1.2
Enterprise	0.4
Network Services	0.8
System Platform	3.2
Global	0.5
Others	2.3
Adjustment	0.7

## Impact (Approximate figures)

Optimizing overseas offices	2.5
Others (Optimizing plants, office floor)	3.3

(Billions of Yen)

Revenue



Revenue **418.1 (+4.4%)**

- Increased in public solutions and public structure areas

Adjusted Operating Profit **26.3 (+13.4)**

- Increased due to increase in sales in IT services for local governments and aerospace/defense areas

\*% figures in parentheses are year-on-year



(Billions of Yen)

**234.9**

YoY

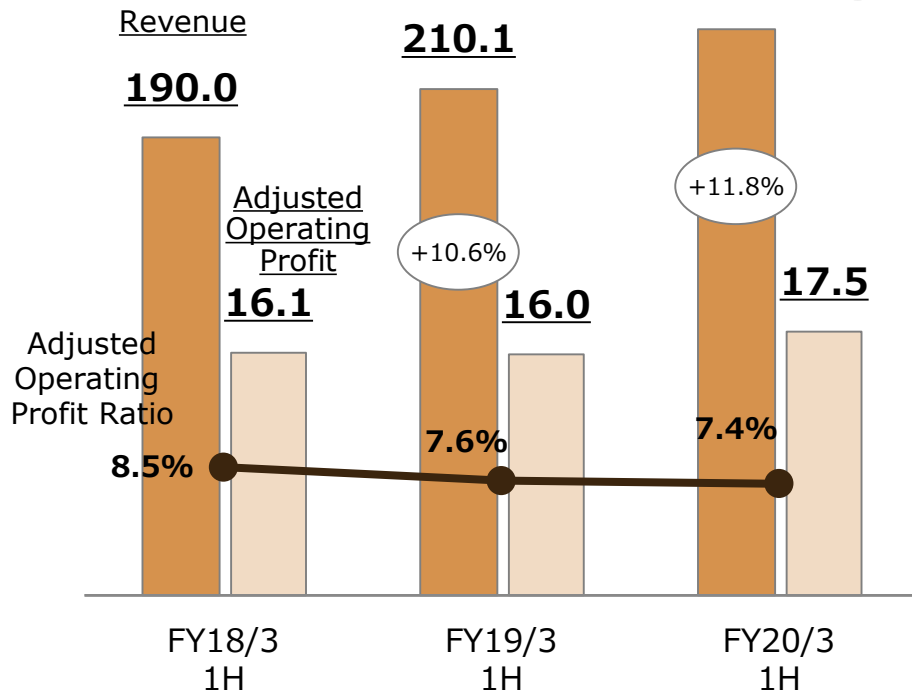
**Revenue** 234.9 (+11.8%)

- Increased due to increase in sales for financial sector and a special factor (the change of divisions recording sales)

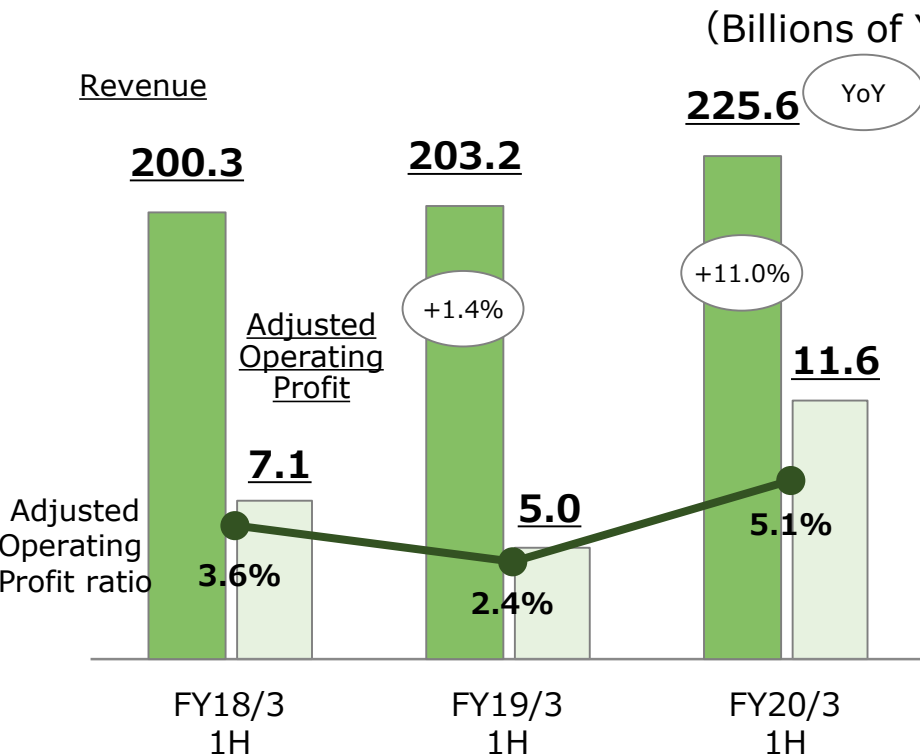
Note : Excluding special factor: +4%

**Adjusted Operating Profit** 17.5 (+15.0)

- Increased due to increase in sales



\*% figures in parentheses are year-on-year



**Revenue** 225.6 (+11.0%)

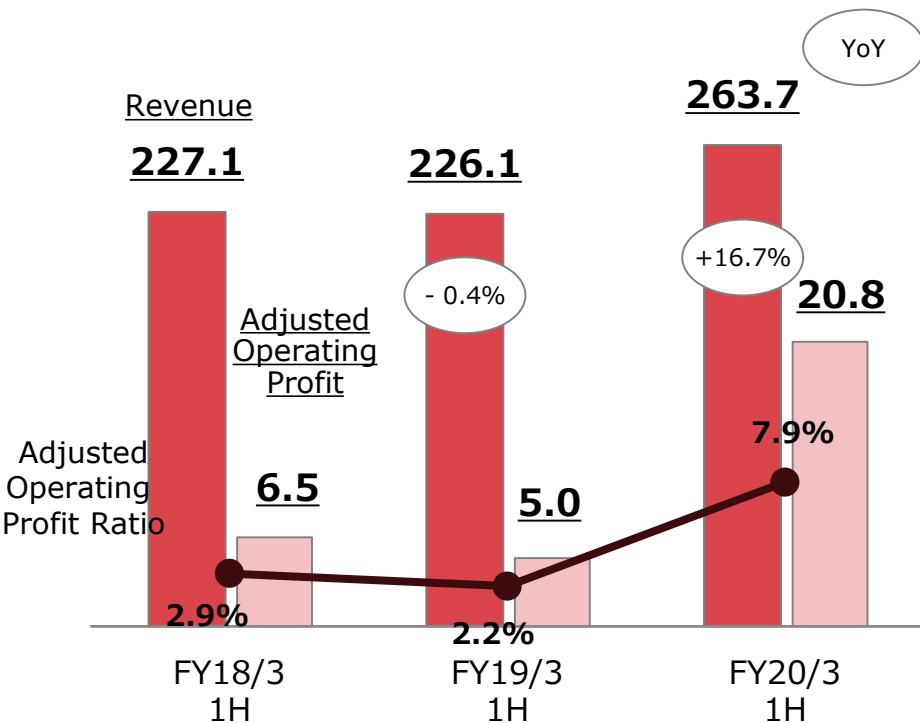
- Increased mainly in fixed network area

**Adjusted Operating Profit** 11.6 (+6.6)

- Improved due to increase in sales

\*% figures in parentheses are year-on-year

(Billions of Yen)



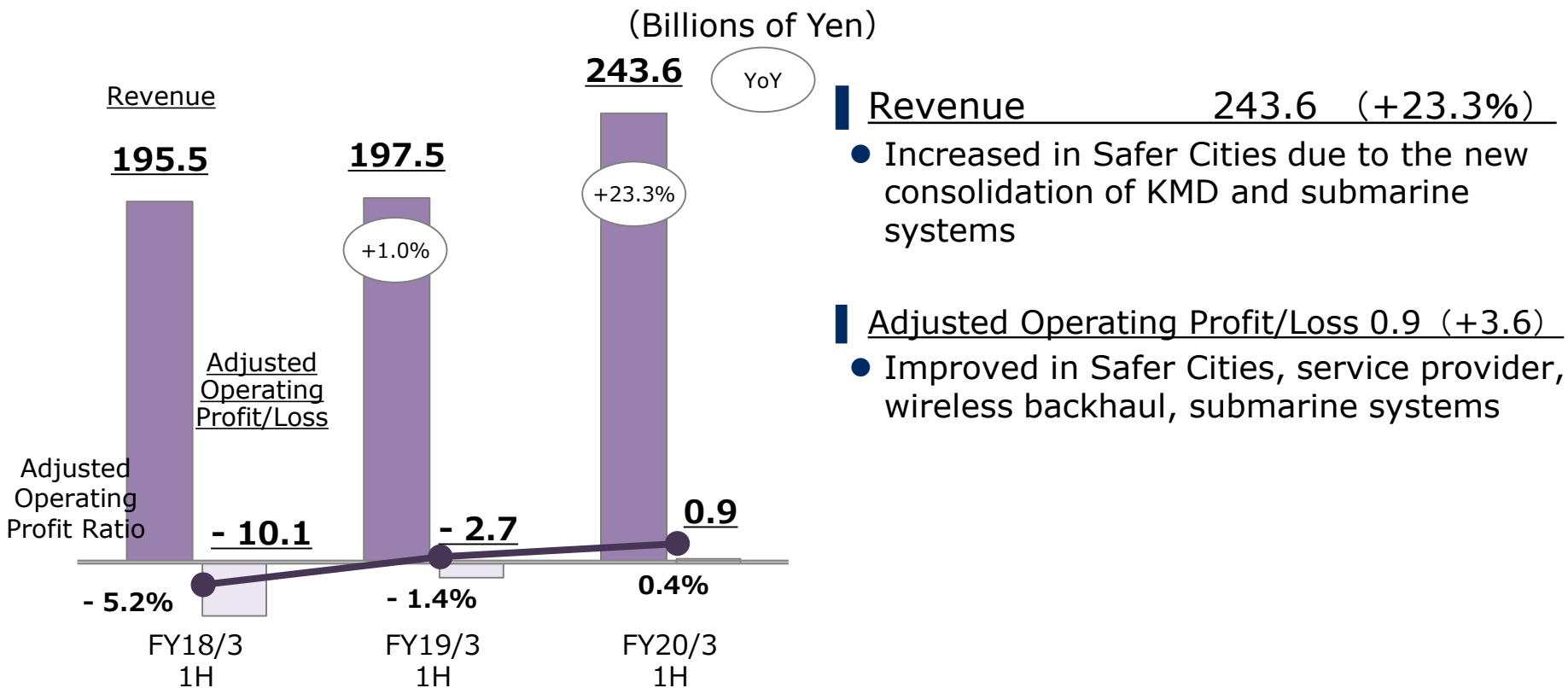
**Revenue** 263.7 (+16.7%)

- Increased in hardware business mainly for business PC and servers

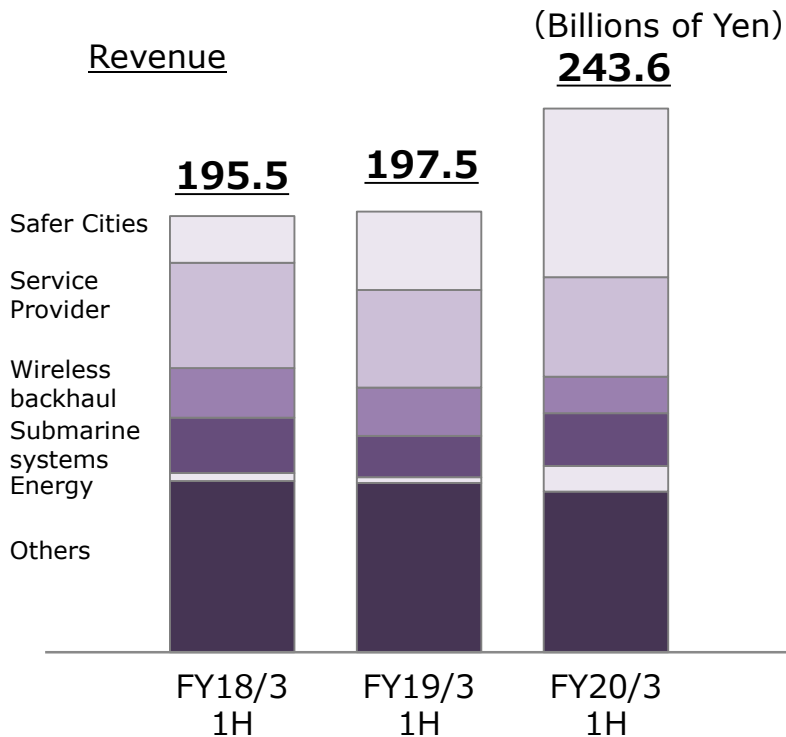
**Adjusted Operating Profit** 20.8 (+15.8)

- Improved due to increase in sales and the effects of business structure improvement

\*% figures in parentheses are year-on-year



\*% figures in parentheses are year-on-year



## Safer Cities

- Increased due to new consolidation of KMD

## Service Provider

- Same level compared to the previous year in both software services and optical IP systems

## Wireless backhaul

- Decreased due to select orders with emphasis on profitability

## Submarine systems

- Increased due to increase in orders from previous year

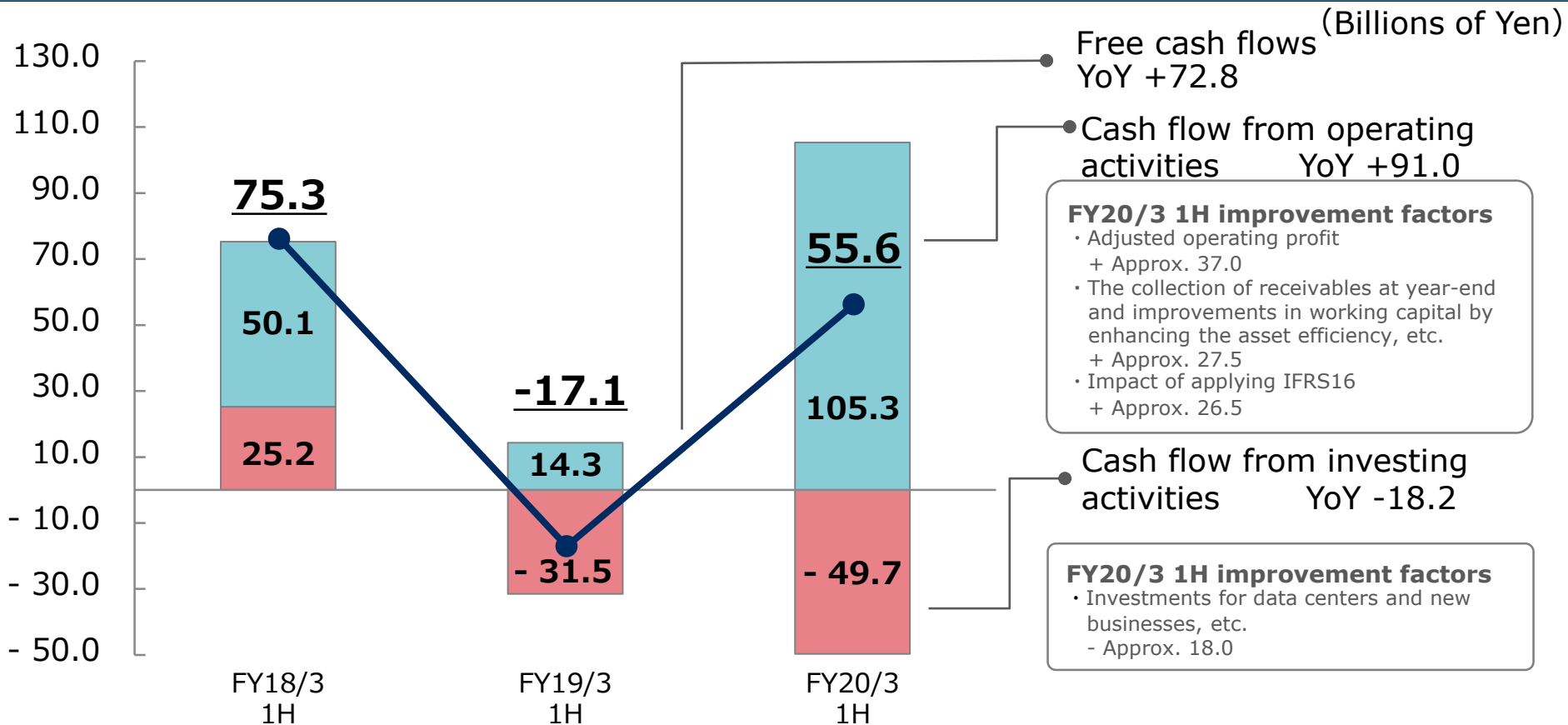
## Energy

- Increased due to increase in orders from previous year

## Display

- Continued intensifying competition

KMD : KMD Holding



## II . Financial Forecasts for FY20/3

## No change in forecasts for FY20/3

	Full Year		
	FY19/3 Actual	FY20/3 Forecasts	YoY
Revenue	2,913.4	2,950.0	+1.3%
Operating Profit	57.8	110.0	+52.2
% to Revenue	2.0%	3.7%	
Adjusted Operating Profit	69.9	125.0	+55.1
% to Revenue	2.4%	4.2%	
Net Profit	39.7	65.0	+25.3
% to Revenue	1.4%	2.2%	
Adjusted Net Profit	46.9	74.0	+27.1
% to Revenue	1.6%	2.5%	
Free Cash Flows	-12.4	65.0	+77.4
Dividend per Share (yen)	40	60	+20
Note: Average Exchange Rates (yen)	USD 1 EUR 1	110.48 128.84	105.00 125.00

(Billions of Yen)

		Full Year		
		FY19/3 Actual	FY20/3 Forecasts	YoY
Public	Revenue	908.0	895.0	- 1.4%
	Adjusted Operating Profit	52.6	69.0	+ 16.4
	% to Revenue	5.8%	7.7%	
Enterprise	Revenue	431.8	430.0	- 0.4%
	Adjusted Operating Profit	35.8	39.0	+ 3.2
	% to Revenue	8.3%	9.1%	
Network Services	Revenue	460.3	455.0	- 1.2%
	Adjusted Operating Profit	20.7	30.0	+ 9.3
	% to Revenue	4.5%	6.6%	
System Platform	Revenue	500.2	480.0	- 4.0%
	Adjusted Operating Profit	20.1	38.0	+ 17.9
	% to Revenue	4.0%	7.9%	
Global	Revenue	409.4	550.0	+ 34.4%
	Adjusted Operating Profit/Loss	- 22.5	17.0	+ 39.5
	% to Revenue	-5.5%	3.1%	
Others	Revenue	203.7	140.0	- 31.3%
	Adjusted Operating Profit	19.0	5.0	- 14.0
	% to Revenue	9.3%	3.6%	
Adjustment	Adjusted Operating Profit/Loss	- 55.7	- 73.0	- 17.3
Total	Revenue	2,913.4	2,950.0	+ 1.3%
	Adjusted Operating Profit	69.9	125.0	+ 55.1
	% to Revenue	2.4%	4.2%	

\* Forecast for Free Cash Flows does not include the impact of applying IFRS 16

\* Forecast as of October 29, 2019



## Steady orders in Japan during first half

### **Public (Public Solutions, Public Infrastructure areas)**

- Sustained favorable performance centered on local governments and other sectors

### **Enterprise**

- Continued steady performance in retail and services sector

### **Network Services**

- Increased fixed-line infrastructure development in preparation for the introduction of 5G

### **System Platform**

- Increased in orders primarily for business PCs

Growth in orders  
(consolidated Basis, YoY)

**109%**

**100%**  
(Excluding special factor)

**104%**

**110%**

# Full-year outlook

## Japan

- Supported by a favorable business environment, both sales and profits increased in all segments for the first half
- Attained higher profits than initially expected in the first half; Will aim to achieve better performance than expected for the full-year plan as well

## International

- Achieved profitability in the first half due to improvements in Safer Cities, service provider, wireless backhaul, and other businesses
- Fell short of plans for energy and display businesses in the first half; Will strive to eliminate associated risks to the full-year plan going forward

# III. Progress on Mid-term Management Plan 2020

## **Returned to profitability of wireless backhaul and service provider in the first half**

### **Safer Cities business**

- Favorable PMI following M&A of NPS and KMD
- Partnership with Star Alliance

### **Service Provider Solutions business**

- Steady progress seen in virtualization project for Tier 1 European carriers

## ■ Achievement of No.1 ranking in NIST facial recognition testing for the fifth time

## ■ Promotion of co-creation activities

- Development of next-generation ATM equipped with facial recognition technology for Seven Bank
- Unmanned store trial for convenience store chain Lawson

## ■ Contributions to resolve global social issues

- Signing of a partnership agreement with the World Food Programme (WFP) for technology advisory and services
- Signing of MoU with the Global Alliance for Vaccines and Immunisation (Gavi) and Simprints to deploy a scalable child-fingerprint-identification solution to boost immunization in developing countries

■ **Commencement of shipping of 5G base station radio units (RU) to NTT DOCOMO, INC**

■ **Receipt of order for 5G RU from Rakuten Mobile, Inc.**

■ **Ongoing co-creation activities and trials with numerous industry partners to bring about industrial DX leveraging local 5G:**

- **Railways: IoT-based facility surveillance system, optimization of maintenance operations, etc.**
- **Retail: Optimization of store operations, customer behavior analysis, etc.**
- **Construction: Automation and autonomous driving system for construction machinery (Obayashi Corporation, Taiyu Co., Ltd.)**
- **Manufacturing: Factory automation, warehouse automated transport system, etc.**



■ **Provision of next-generation commercial radio systems for trials at the Rugby World Cup 2019™**

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## Creation of friendly work environment

- Establishment of co-working space: BASE
- Promotion of telework environment
- Introduction of a flextime system with no core hours



Expand implementation of the “Code of Values” standards for behavior and the 9Block system for performance management to subsidiary companies globally

Reduction of the number of positions and change to one-year term for corporate officers

Reform that involves stakeholders, such as IR Day



# \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.



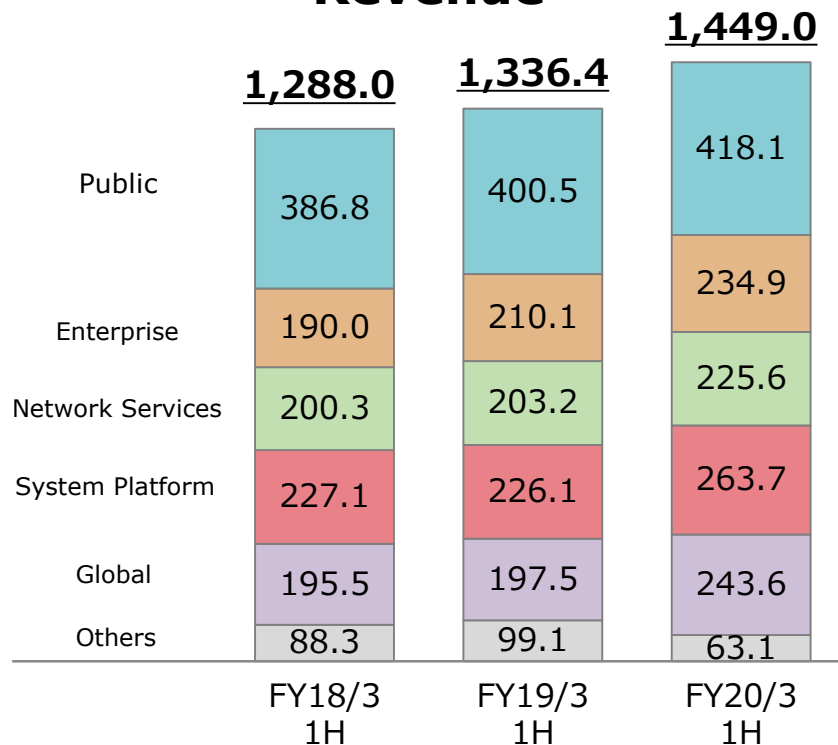
 **Orchestrating** a brighter world

**NEC**

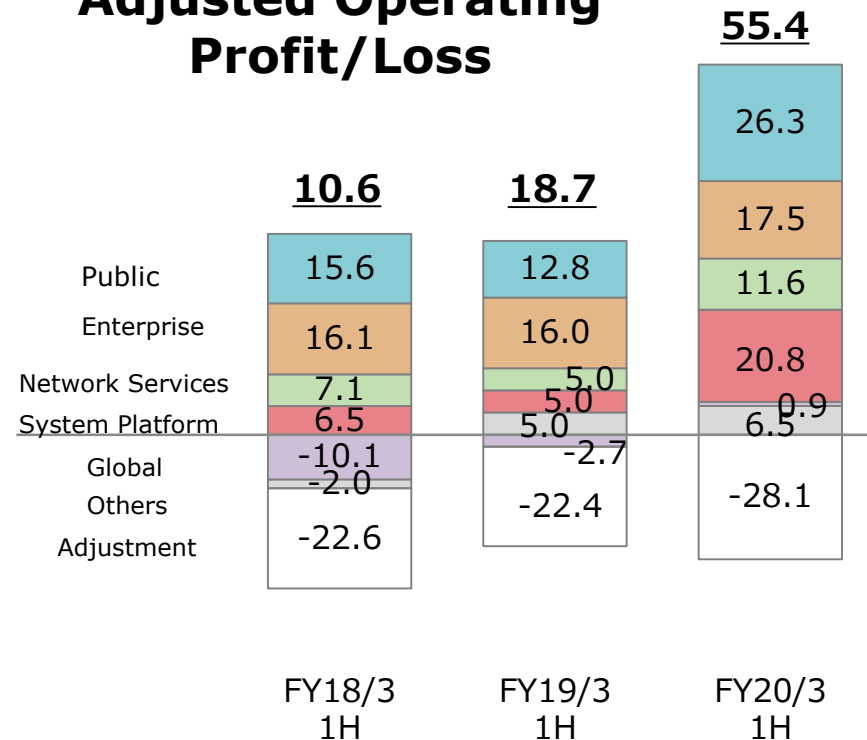
# Financial Results for 1H, FY20/3 (Appendix)

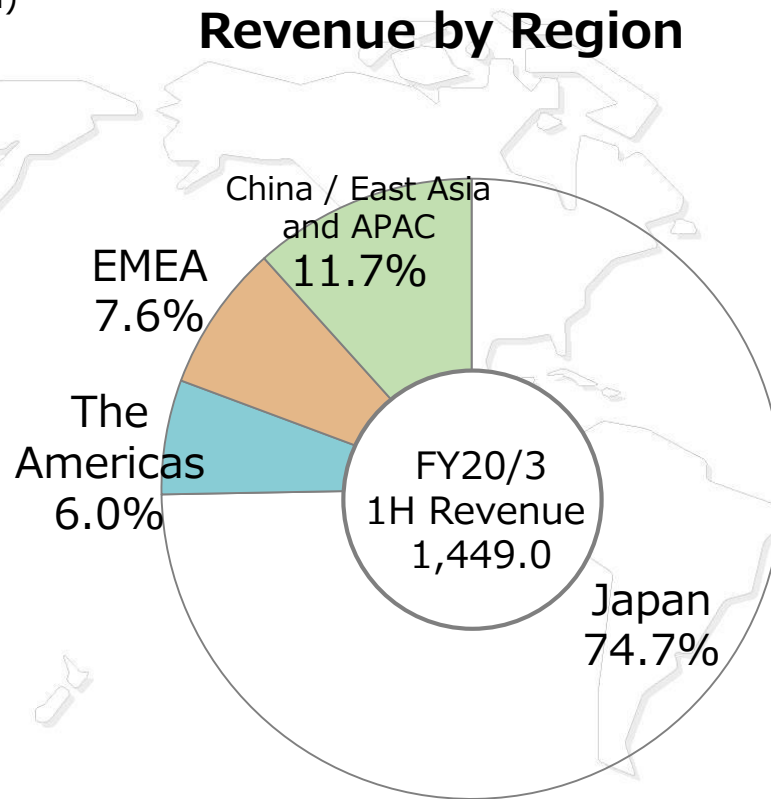
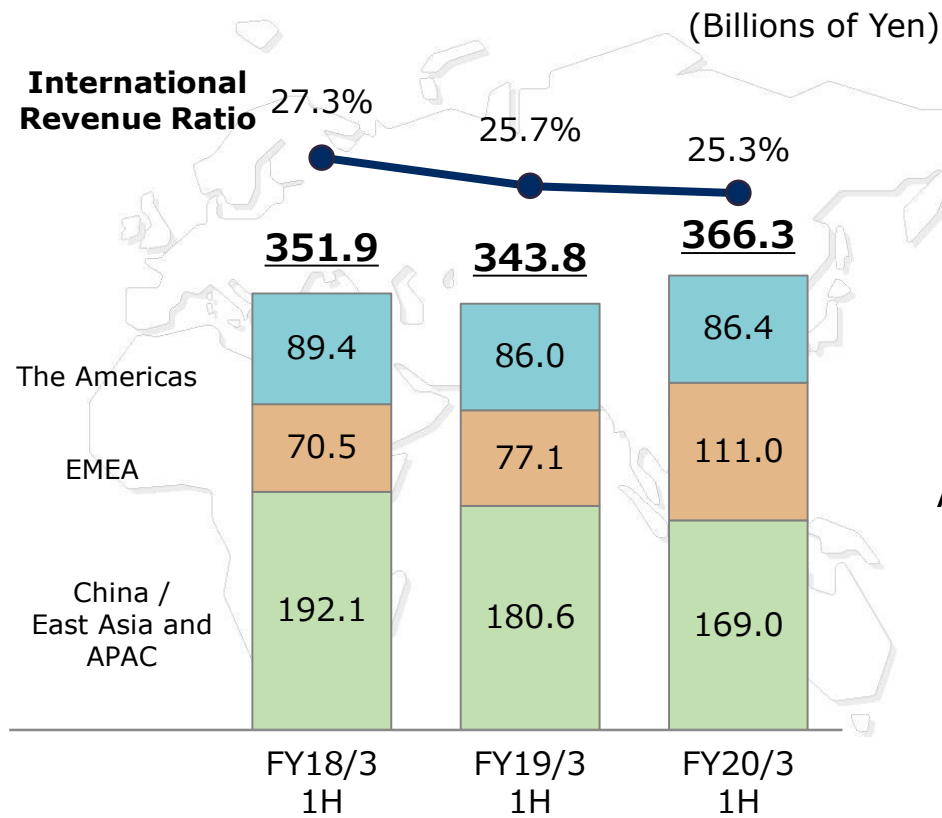
(Billions of Yen)

## Revenue



## Adjusted Operating Profit/Loss





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

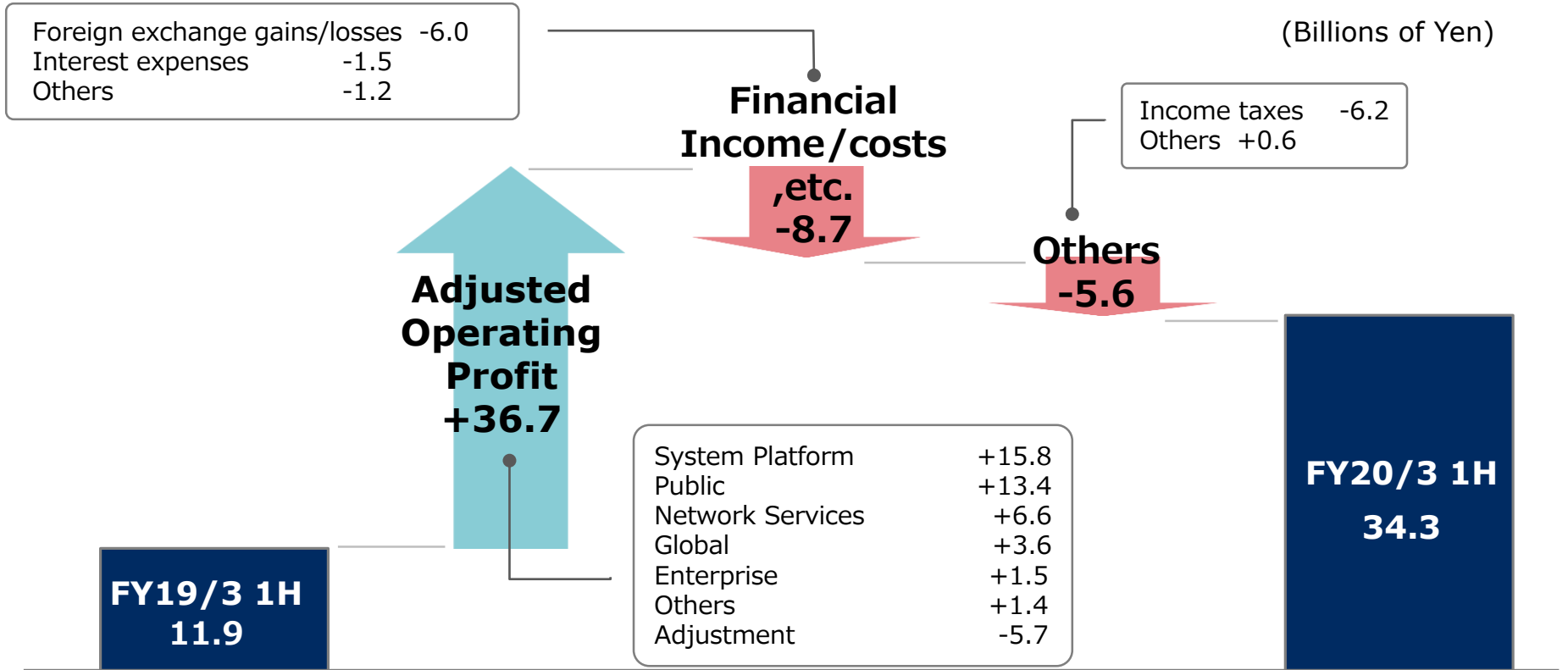
(Billions of Yen)

	End of March 2019	End of September 2019	Variance from end of March 2019
Total assets	2,963.2	2,983.7	+ 20.5
Total equity	1,059.7	1,058.0	- 1.7
Interest-bearing debt	552.5	681.9	+ 129.4
Equity attributable to owners of the parent	858.9	858.7	- 0.2
Ratio of equity attributable to owners of the parent (%)	29.0%	28.8%	- 0.2pt
D/E ratio (times)	0.64	0.79	- 0.15pt
Net D/E ratio (times)	0.32	0.48	- 0.16pt
Cash and cash equivalents	278.3	270.0	- 8.3

\*Total assets and liabilities (interest-bearing debt) at the end of Q2, FY20/3 increased by approximately 170.0 billion yen mainly due to a recording of lease liabilities in applying IFRS 16

# Adjusted Net Profit/Loss Change (Year on Year)

1H Results



(Billions of Yen)

Compared to end of March 2019

**Current Assets**  
1,526.4

Decreased due to the collection of trade and other receivables

- 111.9

Increased due to an increase in property, plant and equipment as a result of recording right-of-use assets in applying IFRS 16

+132.4

**Non-current Assets**  
1,457.4

**Total**  
2,983.7

(+20.5 compared to end of March 2019)

**Liabilities**  
1,925.8

- Decreased in trade and other payables due to the payment of materials cost
- Increased as a result of recording right-of-use assets in applying IFRS 16

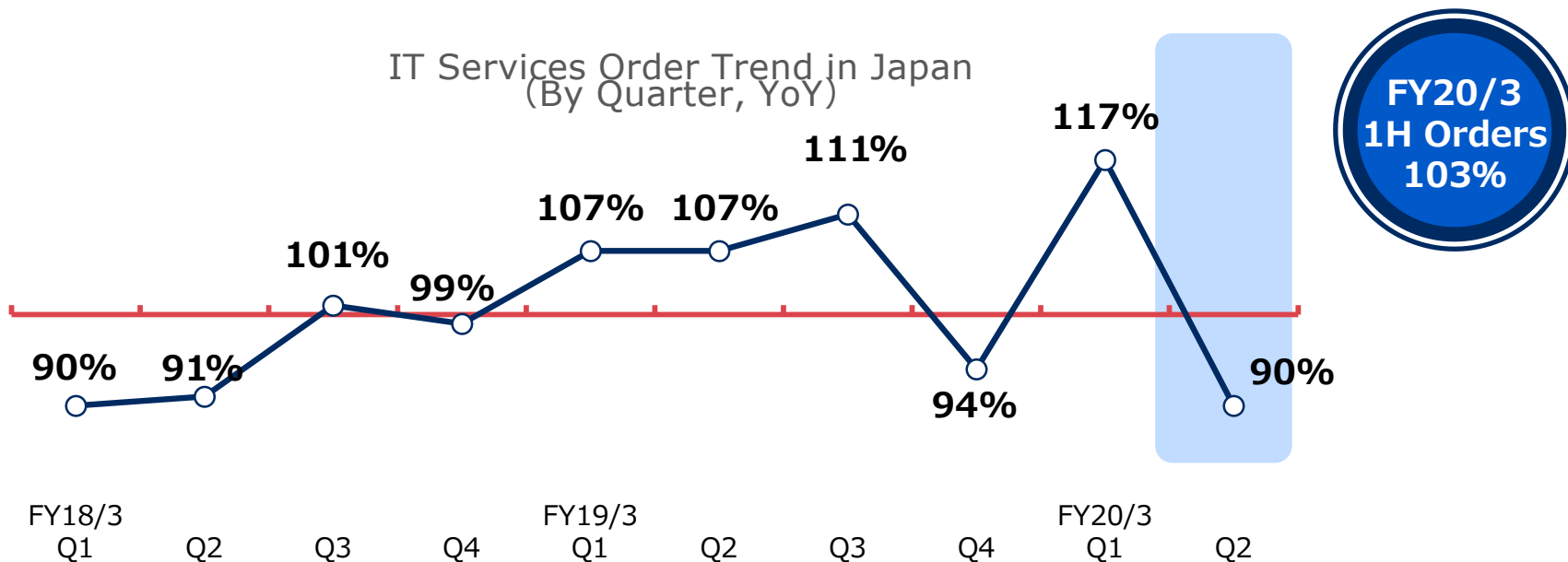
+22.2

- Recorded net profit attributable to owners of the parent
- Decreased in exchange differences on translating foreign operations from yen appreciation and in the payment of dividends

-1.7

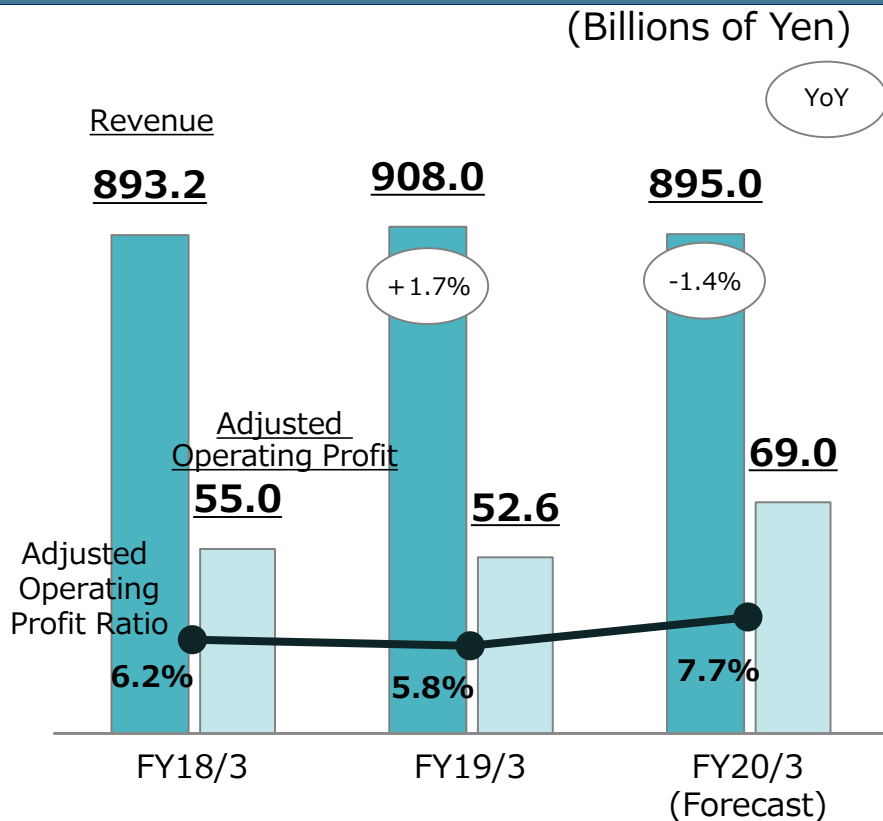
**Equity**  
1,058.0

**NEC's IT services orders in Japan for FY20/3 1H increased in the central and local government sectors, etc.**





# Financial Forecasts for FY20/3 (Appendix)



Billions of Yen (YoY)

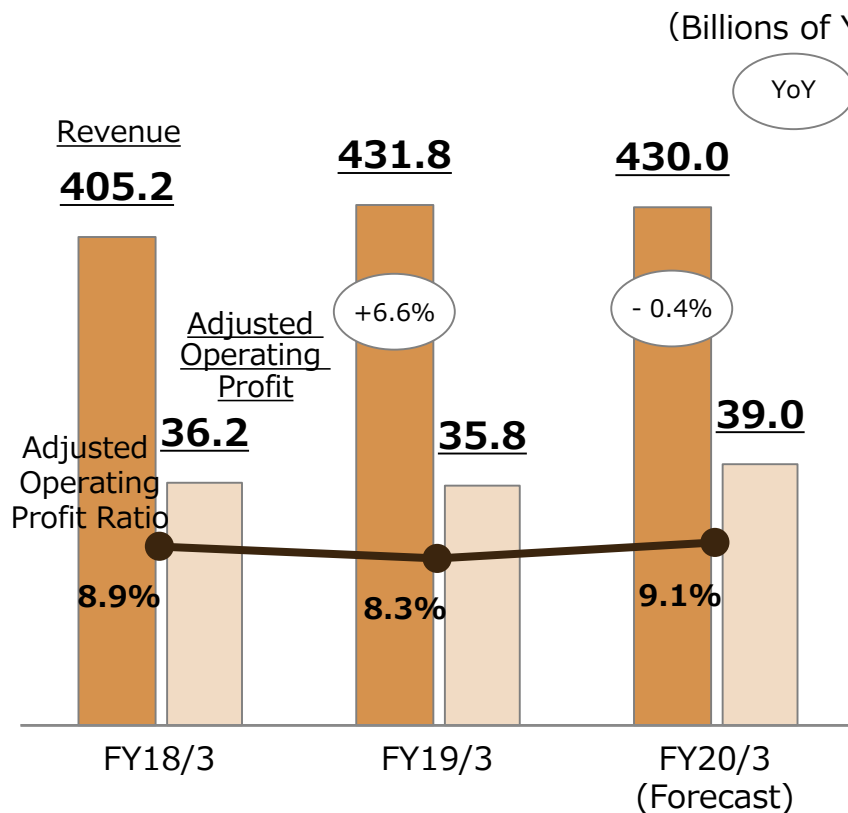
## Revenue 895.0 (-1.4%)

- Public Solutions area: remain flat
- Public Infrastructure area: decrease due to a decline in a large-scale project in the previous year

## Adjusted Operating Profit 69.0 (+16.4)

- Improve due to control of unprofitable projects as well as business structure improvement, despite a sales decline

\*Forecasts as of October 29, 2019



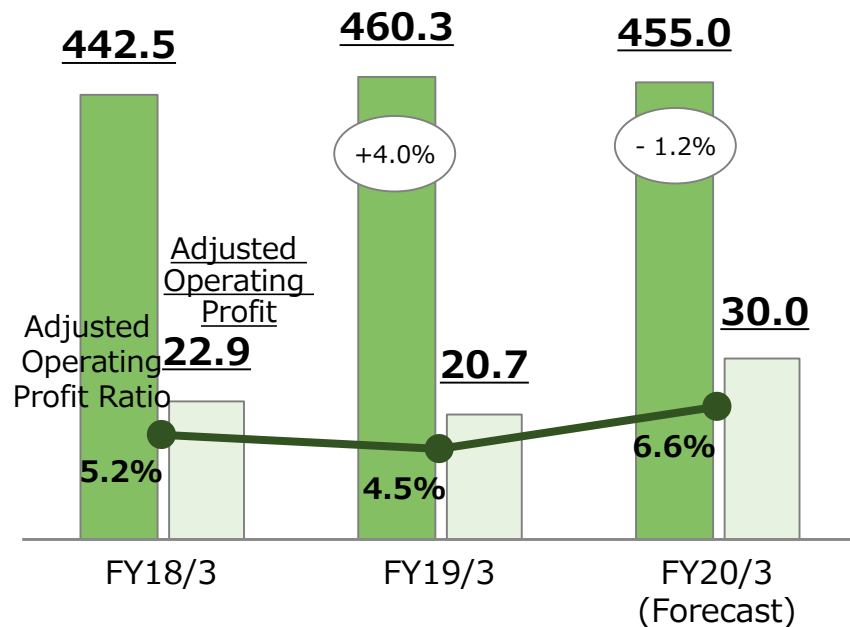
- Revenue 430.0 (-0.4%)**
- Remain flat compared to the previous fiscal year with strong performance
- Adjusted Operating Profit 39.0 (+3.2)**
- Improve due to business structure improvement

\*Forecasts as of October 29, 2019

(Billions of Yen)

Billions of Yen (YoY)

Revenue



## Revenue 455.0 (-1.2%)

- Remain flat with sluggish capital investment by telecommunications carriers

## Adjusted Operating Profit 30.0 (+9.3)

- Improve due to business structure improvement as well as a decrease in a loss from a specific project recorded in the previous fiscal year

\*Forecasts as of October 29, 2019

(Billions of Yen)

Billions of Yen (YoY)

YoY

Revenue

**488.6**

**500.2**

**480.0**

Adjusted  
Operating  
Profit  
**29.3**

+2.4%

- 4.0%

**38.0**

**20.1**

**7.9%**

Adjusted  
Operating  
Profit Ratio

**6.0%**

**4.0%**

FY18/3

FY19/3

FY20/3  
(Forecast)

## Revenue 480.0 (- 4.0%)

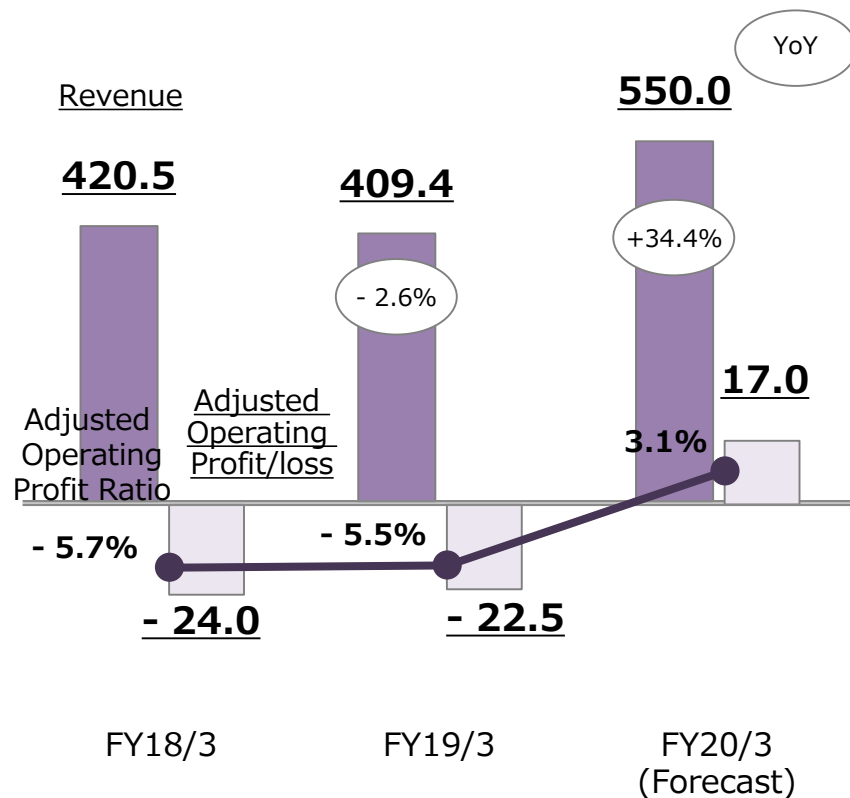
- Decrease due to a decline in business PCs compared to the previous fiscal year when there was replacement demand

## Adjusted Operating Profit 38.0 (+17.9)

- Improve due to business structure improvement

\*Forecasts as of October 29, 2019

(Billions of Yen)



Billions of Yen (YoY)

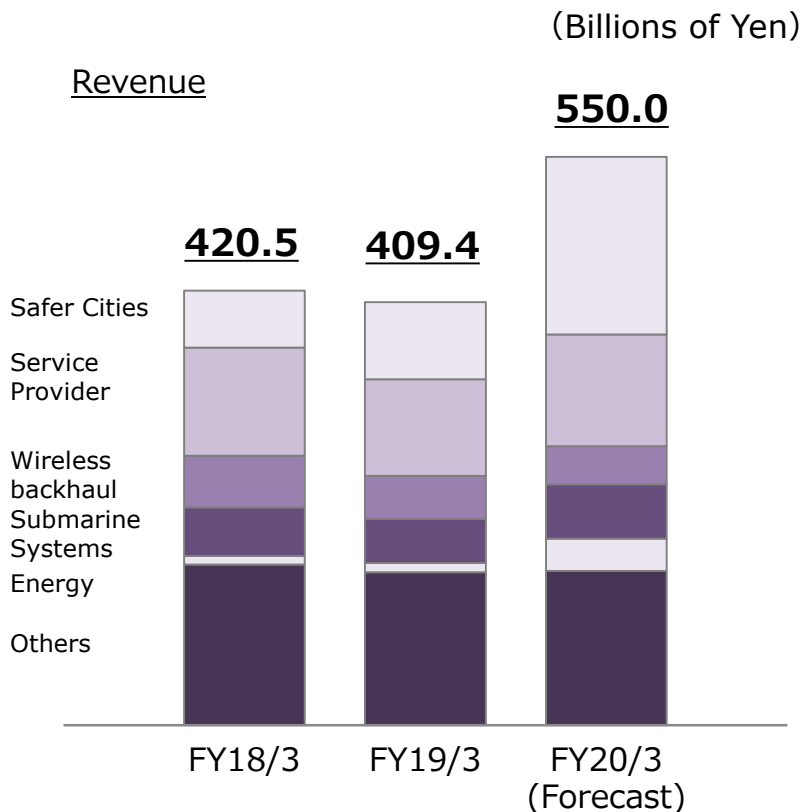
### Revenue 550.0 (+34.4%)

- Increase in Safer Cities, software and services for service providers as well as submarine systems

### Adjusted Operating Profit/Loss 17.0 (+39.5)

- Turn to the black due to a decrease in one-time costs recorded in the previous fiscal year, such as business structure improvement expenses and the impairment of assets

\*Forecasts as of October 29, 2019



\*Forecasts as of October 29, 2019

## Safer Cities

- Increased sales expected from the new consolidation of KMD

## Service Provider

- Increased sales expected for software services and optical IP

## Wireless backhaul

- Select orders with emphasis on profitability and expect sales to decline

## Submarine systems

- As orders increased in FY19/3, sales expected to increase

## Energy

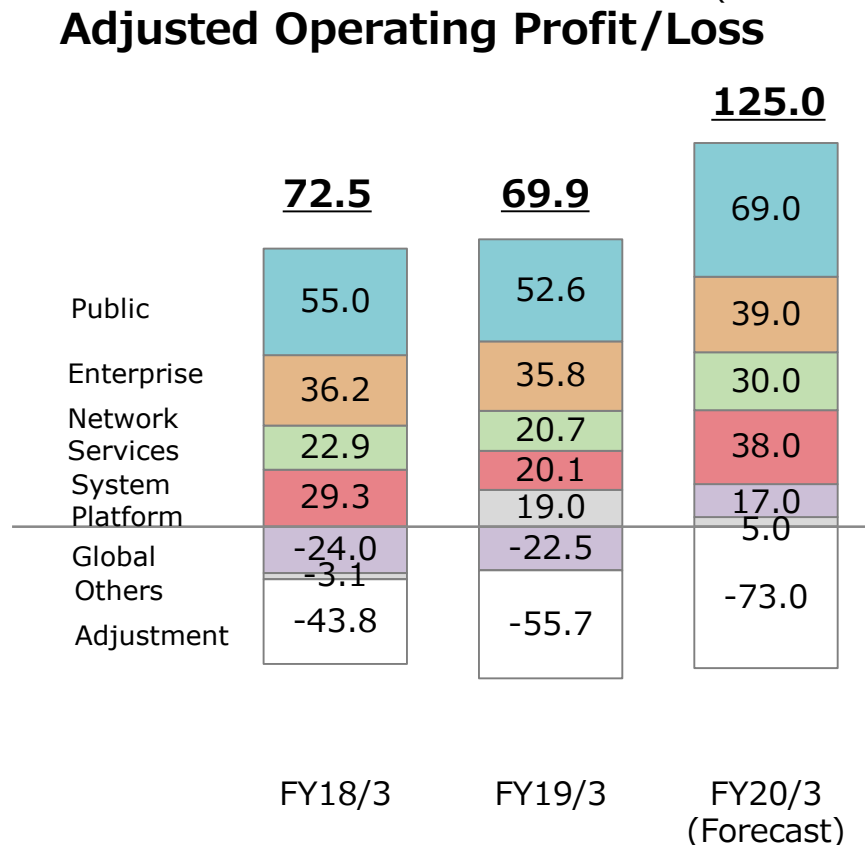
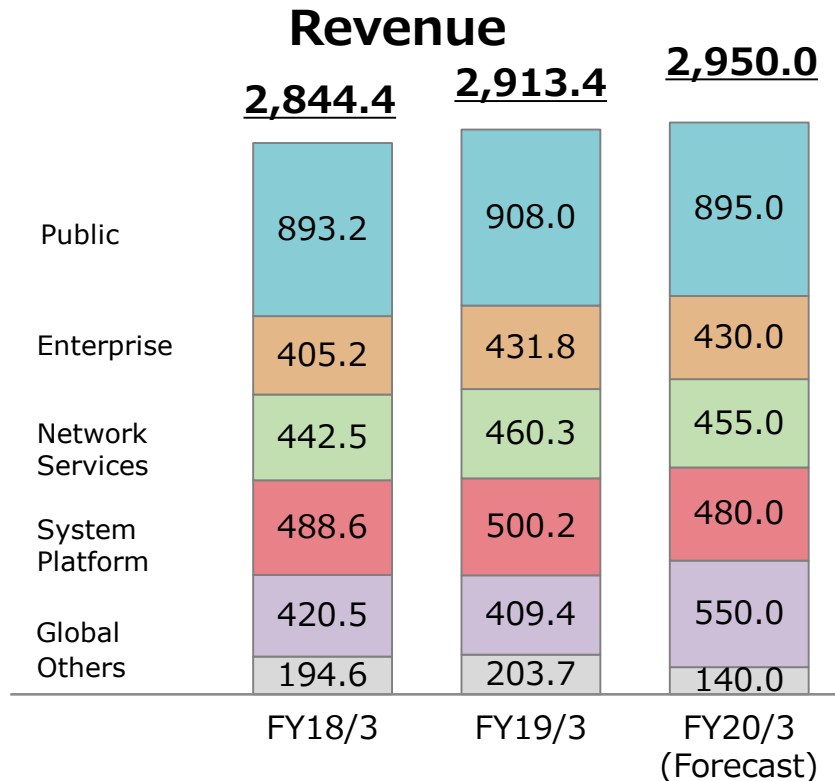
- As orders increased in FY19/3, sales expected to increase

## Display

- Expect to recover from decreased sales in FY19/3 caused by intensifying competition in North America

\*SL : Solutions  
KMD : KMD Holding

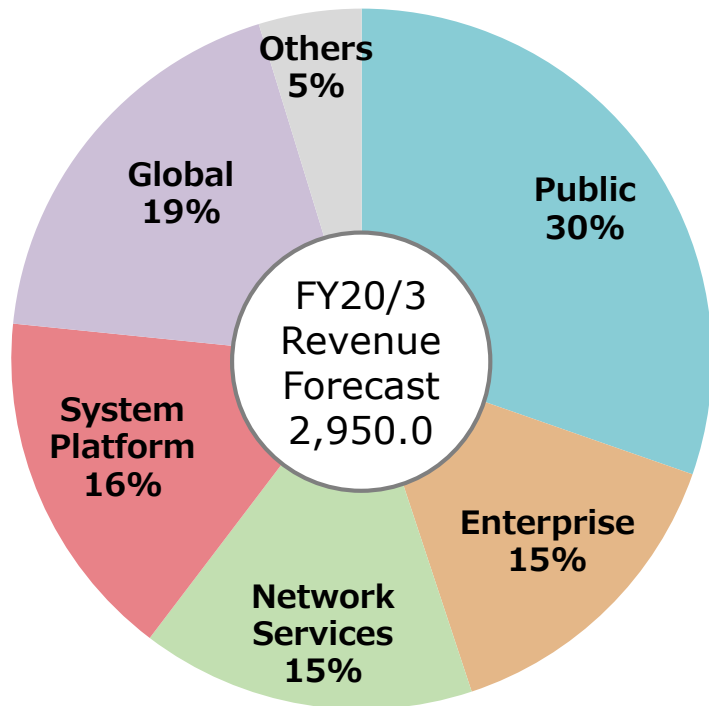
(Billions of Yen)



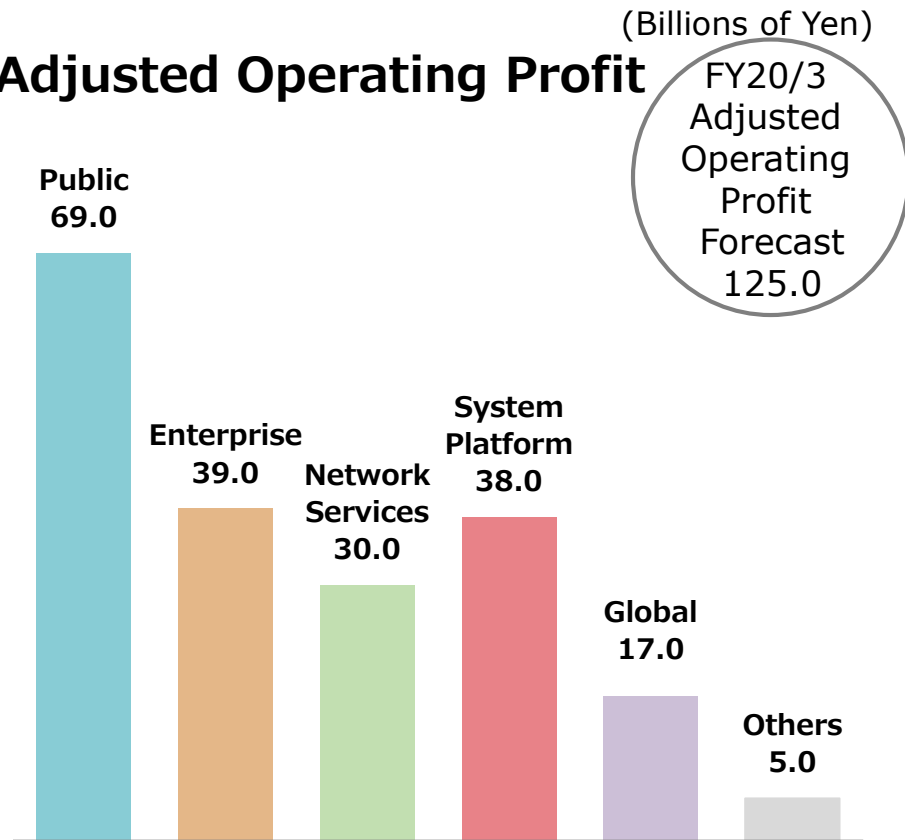
\*Forecasts as of October 29, 2019



## Revenue



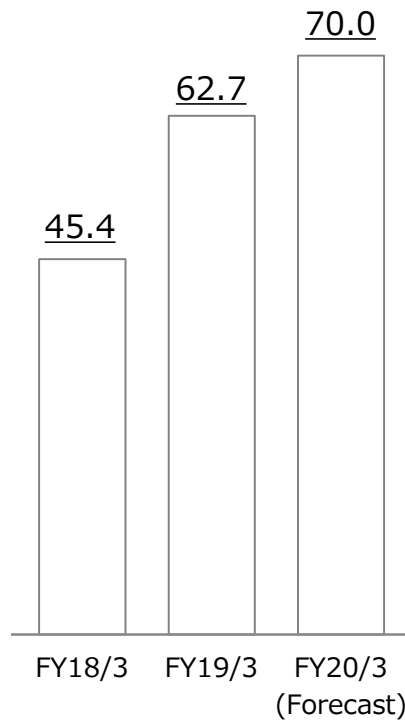
## Adjusted Operating Profit



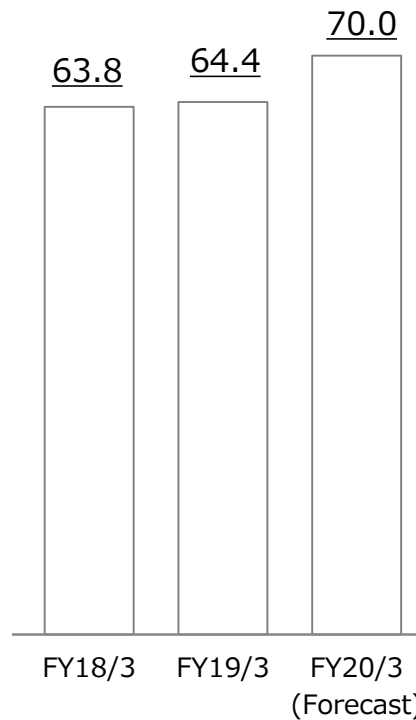
\*Forecasts as of October 29, 2019

(Billions of Yen)

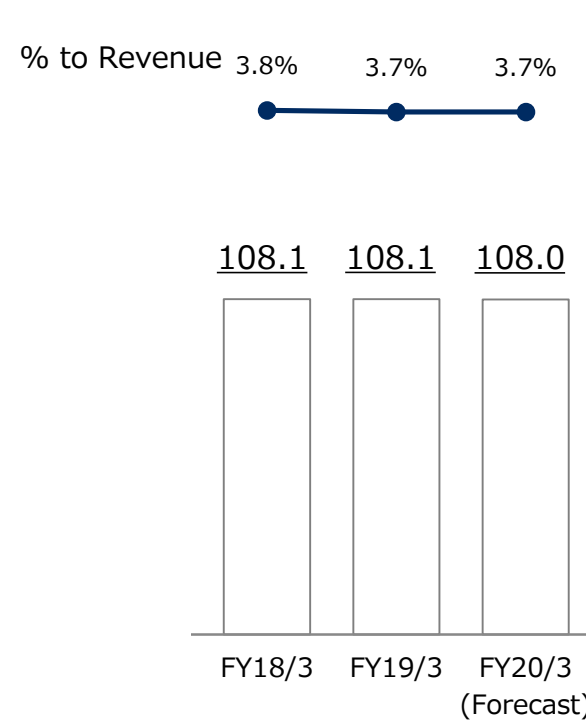
## Capital Expenditure



## Depreciation



## R&D Expenses



\* Forecast for Capital Expenditure and Depreciation do not include the impact of applying IFRS 16

\*Forecasts as of October 29, 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, 2019 and 20 were referred as FY19/3 and FY20/3 respectively. Any other fiscal years would be referred similarly.