

# Financial Results for Q3 Fiscal Year Ending March 31, 2020

January 29, 2020

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 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 . Consolidated Financial Results and Forecasts

An abstract graphic element consisting of several thick, curved orange lines that intersect and overlap each other, creating a sense of depth and movement against a dark blue background.

# Summary of Financial Results and Forecasts

The progress for FY20/3 forecasts is on track

(Billions of Yen)

	9 months <April to December>		
	FY19/3 Actual	FY20/3 Actual	YoY
Revenue	2,034.7	2,175.6	+ 6.9%
Operating Profit	16.7	77.9	+ 61.2
% to Revenue	0.8%	3.6%	
Adjusted Operating Profit	24.0	90.6	+ 66.6
% to Revenue	1.2%	4.2%	
Income before Income Taxes	26.5	78.8	+ 52.4
Net Profit	7.7	49.2	+ 41.5
% to Revenue	0.4%	2.3%	
Adjusted Net Profit	11.8	56.9	+ 45.1
% to Revenue	0.6%	2.6%	
Free Cash Flow	- 63.0	49.2	+ 112.2

Note: Average Exchange Rates (Yen)	USD 1
	EUR 1

Q3 <October to December>		
FY19/3 Actual	FY20/3 Actual	YoY
698.2	726.6	+ 4.1%
2.9	31.1	+ 28.2
0.4%	4.3%	
5.4	35.3	+ 29.9
0.8%	4.9%	
4.7	32.7	+ 28.0
- 1.5	20.0	+ 21.5
-0.2%	2.8%	
- 0.1	22.6	+ 22.7
0.0%	3.1%	
- 45.8	- 6.4	+ 39.4

112.70	108.16
129.62	119.31

	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 Flow	- 12.4	65.0	+ 77.4
Dividend per Share (Yen)	40	60	+ 20

Note: Average Exchange Rates (Yen)	USD 1	110.48	105.00
	EUR 1	128.84	125.00

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

\*Forecasts as of January 29, 2020

# <Ref.> Adjustments to Operating Profit

9 month &  
Q3 Results

(Billions of Yen)

	FY19/3			FY20/3		
	1H	Q3	9 months	1H	Q3	9 months
Operating Profit	13.8	2.9	16.7	46.9	31.1	77.9
Adjusted items	4.9	2.5	7.4	8.5	4.2	12.7
Amortization of intangible assets through acquisitions	4.8	2.5	7.3	8.3	4.2	12.5
M&A related expenses	1.0	0.0	1.0	2.0	0.0	2.0
Adjusted Operating Profit	18.7	5.4	24.0	55.4	35.3	90.6

# Impact of Business Structure Improvement in FY20/3 Q3

Total effects of business structure improvement over the past 9 months  
22.0

Voluntary early retirement  
13.5

Other measures:  
8.5

Breakdown by segment (approximate figures)	9-month total	Q3	FY19/3 Q3 business structure improvement expenses	Business structure improvement expenses recorded in FY19/3
Public	1.7	0.5	3.0	
Enterprise	0.6	0.2	1.0	
Network Services	1.2	0.4	2.0	
System Platform	4.7	1.5	8.0	
Global	0.7	0.2	1.0	
Other	3.5	1.2	3.0	
Adjustment	1.1	0.4	* 7.0	
Impact (approximate figures)	9-month total	Q3		
Optimizing overseas offices	3.7	1.2		
Other (e.g., optimizing plants, office floors)	4.7	1.4		

\*Adjustment includes expenses for halting the operations of Tsukuba Research Laboratories (5.0 billion yen)

## Public Business

(Public solutions and Public infrastructure)

FY2019/3  
9 months  
(YOY)

107%

FY2020/3  
9 months  
(YOY)

102%

## Enterprise Business

109%

99%  
(Excludes special factor)

## Network Services Business

99%

98%

## System Platform Business

107%

107%

## (Ref.) IT Services

108%

102%

# Approach to Full-year plan

- | **Adjusted operating profit was 15 billion yen higher than the internal plan over the first nine months of FY20/3**
- | **Plan to implement additional measures worth 10 billion yen in order to increase medium- to long-term corporate value**
- | **Full year forecasts remain unchanged and continue to consider executable measures within FY20/3**

**Additional  
measures**

**Approximately  
10 billion yen**

**Upfront investments for DX/5G  
Reinforcement of security**

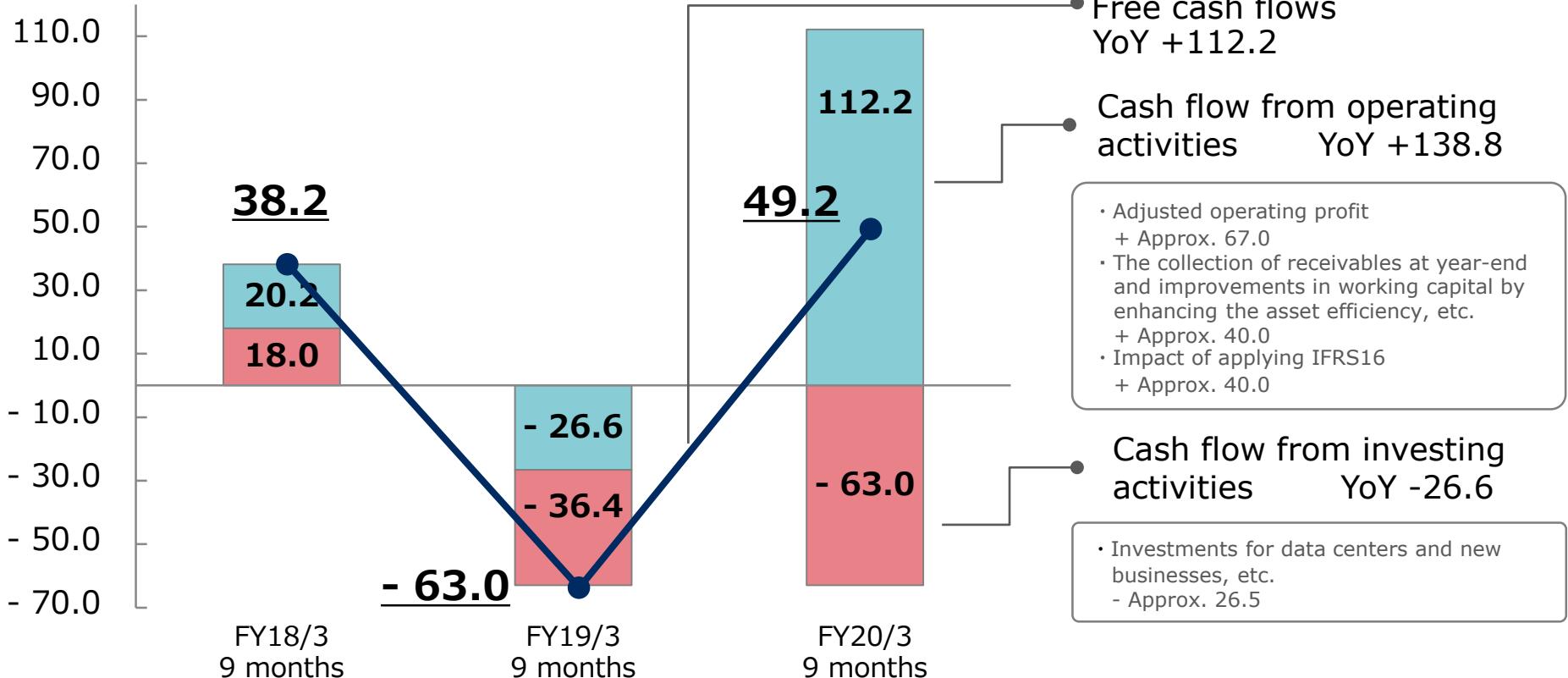
**Create a friendly working environment  
Human resource development  
Work-style reform**

**Profit structure reform**

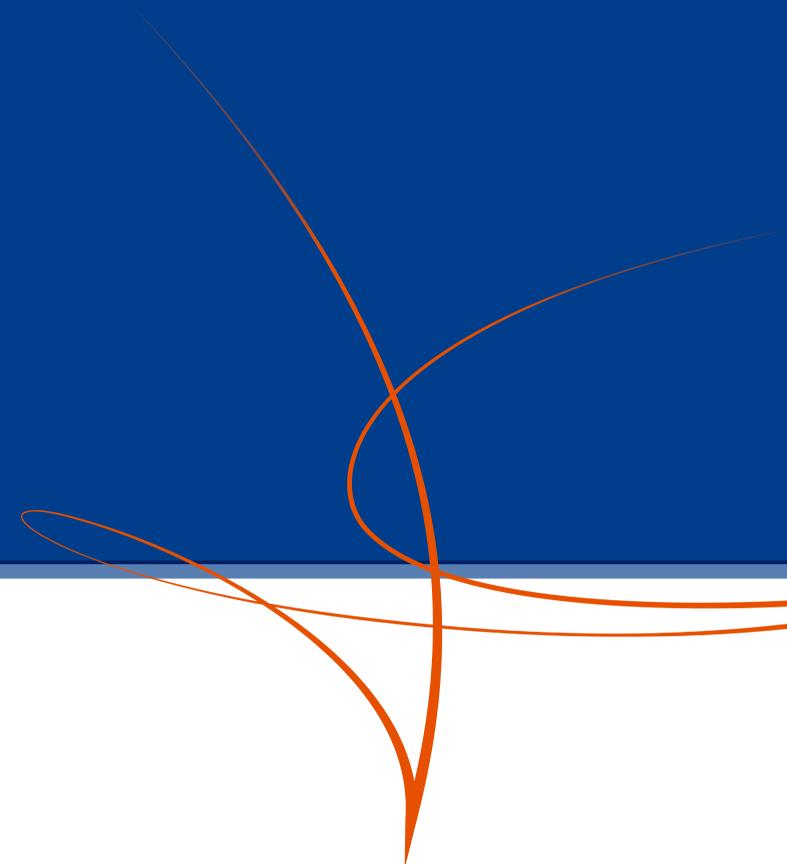
# Free Cash Flows

9 month  
Results

(Billions of Yen)



## II . Segment Status

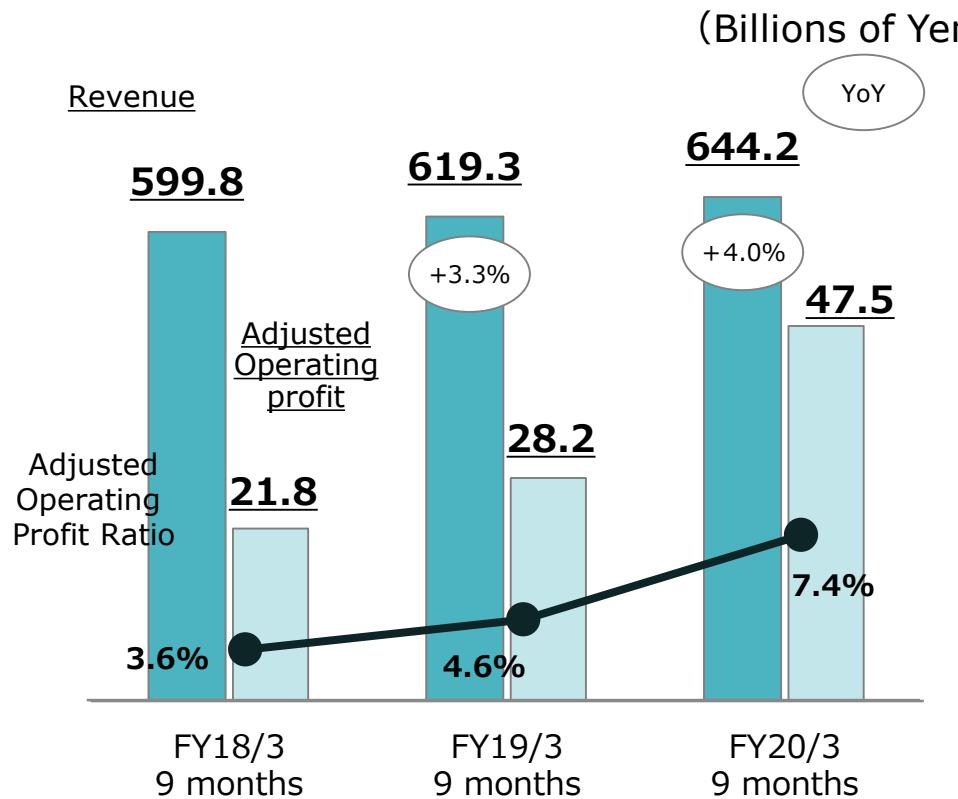


# Financial Results and Forecasts by Segment

(Billions of Yen)

		9 months <April to December>			Q3 <October to December>			Full year		
		FY19/3 Actual	FY20/3 Actual	YoY	FY19/3 Actual	FY20/3 Actual	YoY	FY19/3 Actual	FY20/3 Forecasts	YoY
Public	Revenue	619.3	644.2	+ 4.0%	218.8	226.1	+ 3.3%	908.0	895.0	- 1.4%
	Adjusted Operating Profit	28.2	47.5	+ 19.2	15.4	21.2	+ 5.8	52.6	69.0	+ 16.4
	% to Revenue	4.6%	7.4%		7.0%	9.4%		5.8%	7.7%	
Enterprise	Revenue	315.4	339.5	+ 7.7%	105.2	104.7	- 0.5%	431.8	430.0	- 0.4%
	Adjusted Operating Profit	25.6	27.3	+ 1.7	9.6	9.8	+ 0.2	35.8	39.0	+ 3.2
	% to Revenue	8.1%	8.0%		9.1%	9.4%		8.3%	9.1%	
Network Services	Revenue	308.9	341.4	+ 10.5%	105.8	115.9	+ 9.5%	460.3	455.0	- 1.2%
	Adjusted Operating Profit	9.7	18.1	+ 8.4	4.8	6.6	+ 1.8	20.7	30.0	+ 9.3
	% to Revenue	3.2%	5.3%		4.5%	5.7%		4.5%	6.6%	
System Platform	Revenue	346.8	389.2	+ 12.2%	120.7	125.5	+ 3.9%	500.2	480.0	- 4.0%
	Adjusted Operating Profit/Loss	4.8	32.3	+ 27.5	- 0.2	11.5	+ 11.7	20.1	38.0	+ 17.9
	% to Revenue	1.4%	8.3%		-0.2%	9.2%		4.0%	7.9%	
Global	Revenue	297.2	366.6	+ 23.3%	99.8	123.1	+ 23.3%	409.4	550.0	+ 34.4%
	Adjusted Operating Profit/Loss	- 6.1	1.2	+ 7.3	- 3.4	0.3	+ 3.7	- 22.5	17.0	+ 39.5
	% to Revenue	-2.1%	0.3%		-3.4%	0.3%		-5.5%	3.1%	
Others	Revenue	147.0	94.6	- 35.6%	47.9	31.5	- 34.3%	203.7	140.0	- 31.3%
	Adjusted Operating Profit	5.5	8.5	+ 3.1	0.4	2.1	+ 1.7	19.0	5.0	- 14.0
	% to Revenue	3.7%	9.0%		0.9%	6.6%		9.3%	3.6%	
Adjustment	Adjusted Operating Profit/Loss	- 43.7	- 44.3	- 0.6	- 21.3	- 16.2	+ 5.0	- 55.7	- 73.0	- 17.3
Total	Revenue	2,034.7	2,175.6	+ 6.9%	698.2	726.6	+ 4.1%	2,913.4	2,950.0	+ 1.3%
	Adjusted Operating Profit	24.0	90.6	+ 66.6	5.4	35.3	+ 29.9	69.9	125.0	+ 55.1
	% to Revenue	1.2%	4.2%		0.8%	4.9%		2.4%	4.2%	

\*Forecasts as of January 29, 2020



## Revenue 644.2 (+4.0%)

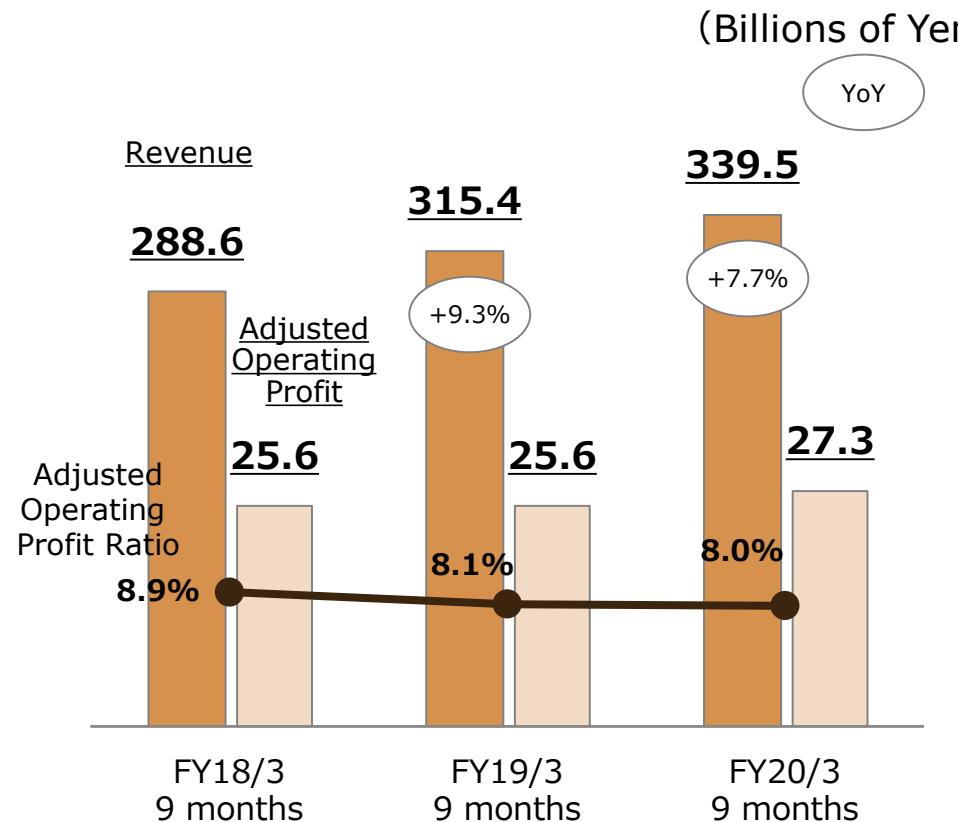
- Increased in public solutions and public infrastructure areas

## Adjusted Operating Profit 47.5 (+19.2)

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

Forecasts	FY20/3
Revenue	895.0
Adjusted Operating profit	69.0

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



## Revenue 339.5 (+7.7%)

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

Note : Excluding special factor: +2%

## Adjusted Operating Profit 27.3 (+1.7%)

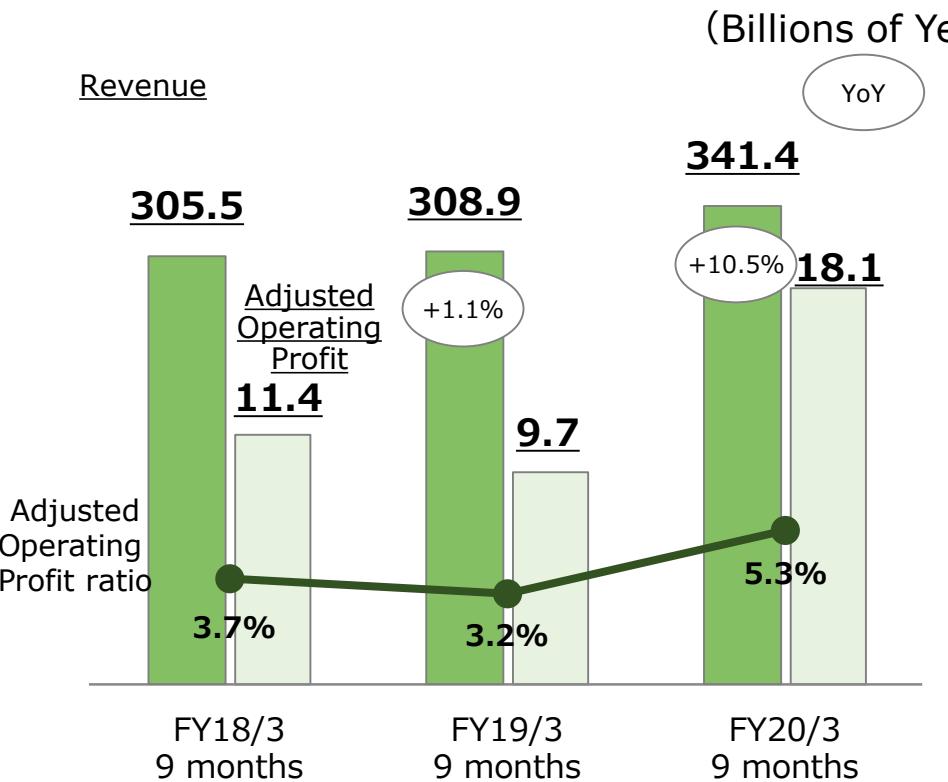
- Increased due to increase in sales

Forecasts	FY20/3
Revenue	430.0
Adjusted Operating profit	39.0

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

# Network Services Business

9 month  
Results



Revenue 341.4 (+10.5%)

- Increased mainly in fixed network area

Adjusted Operating Profit 18.1 (+8.4%)

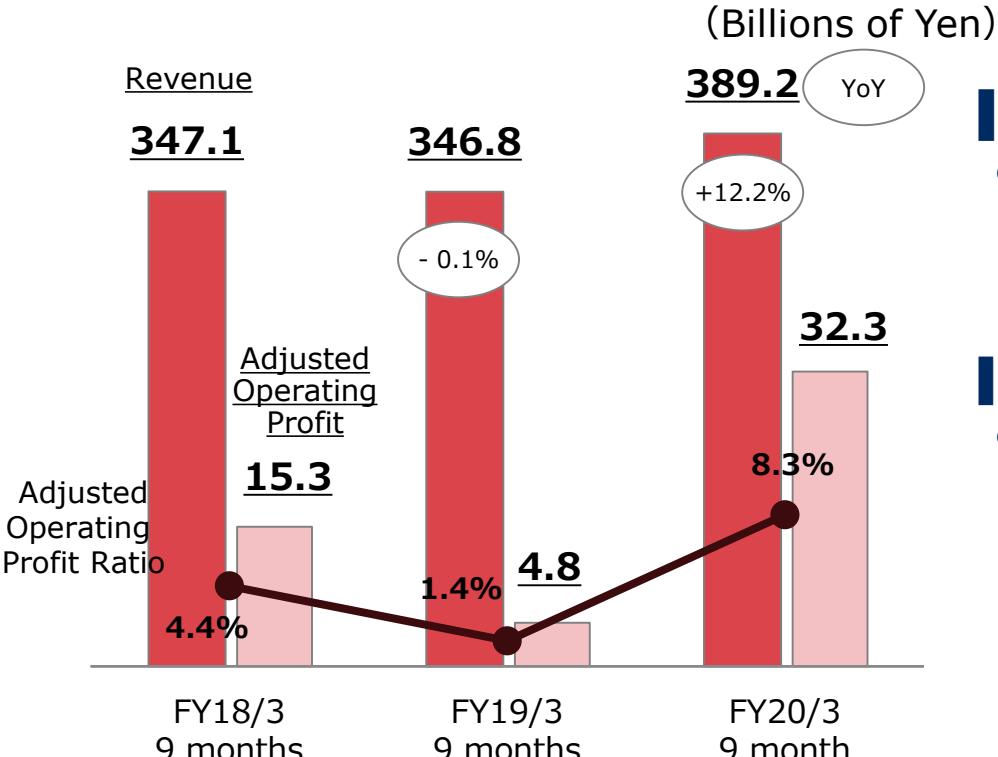
- Improved due to increase in sales

Forecasts	FY20/3
Revenue	455.0
Adjusted Operating profit	30.0

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

# System Platform Business

9 month  
Results



## Revenue 389.2 (+12.2%)

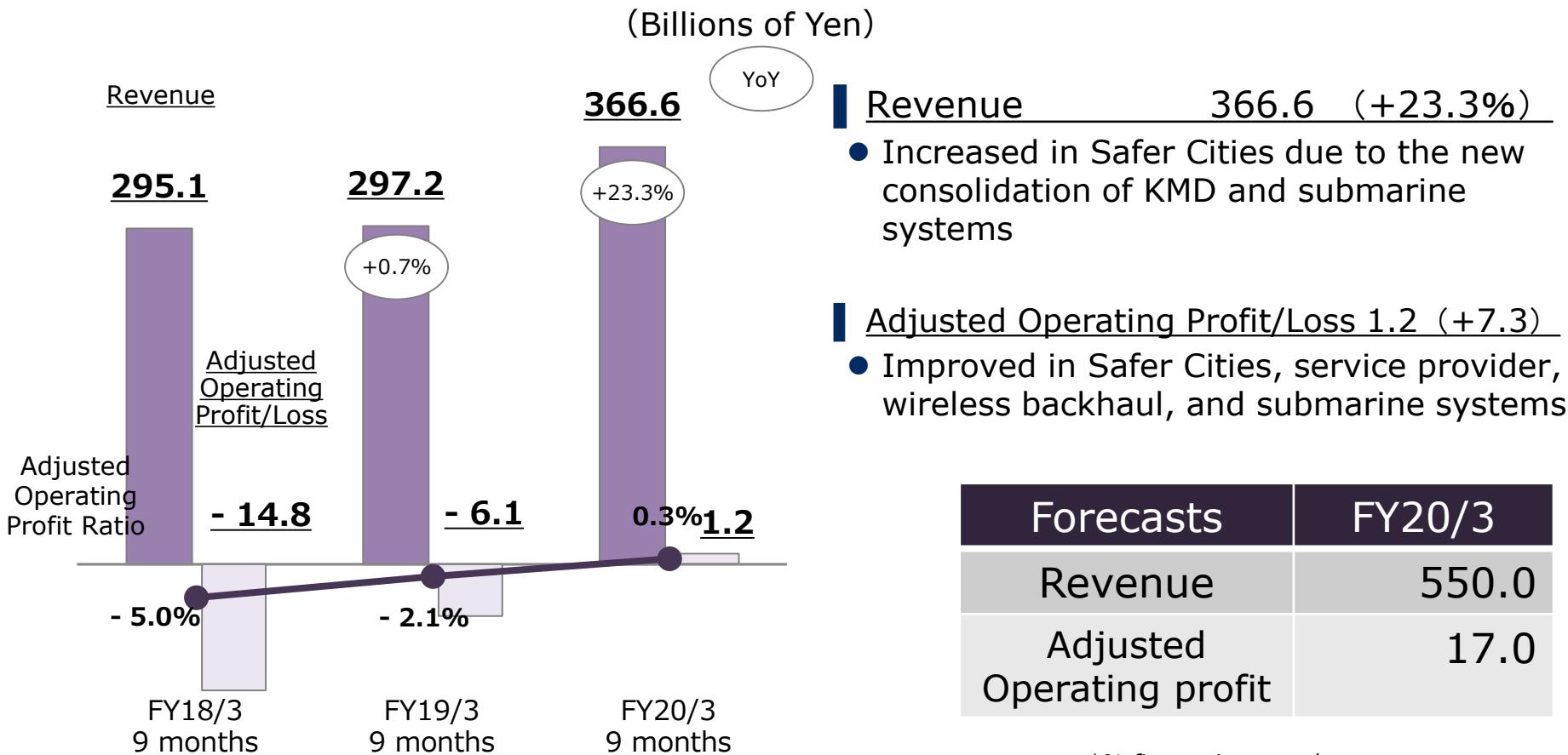
- Increased in hardware business mainly for business PC and servers

## Adjusted Operating Profit 32.3 (+27.5)

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

Forecasts	FY20/3
Revenue	480.0
Adjusted Operating profit	38.0

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

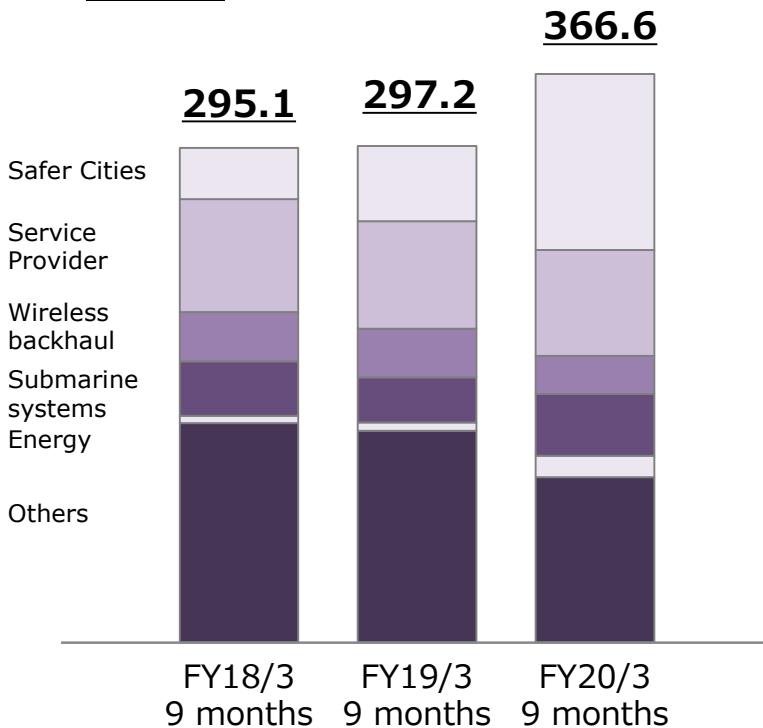


# Details of Global Business

9 month  
Results

(Billions of Yen)

## Revenue



## 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

- Decreased due to continued intensifying competition

# 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

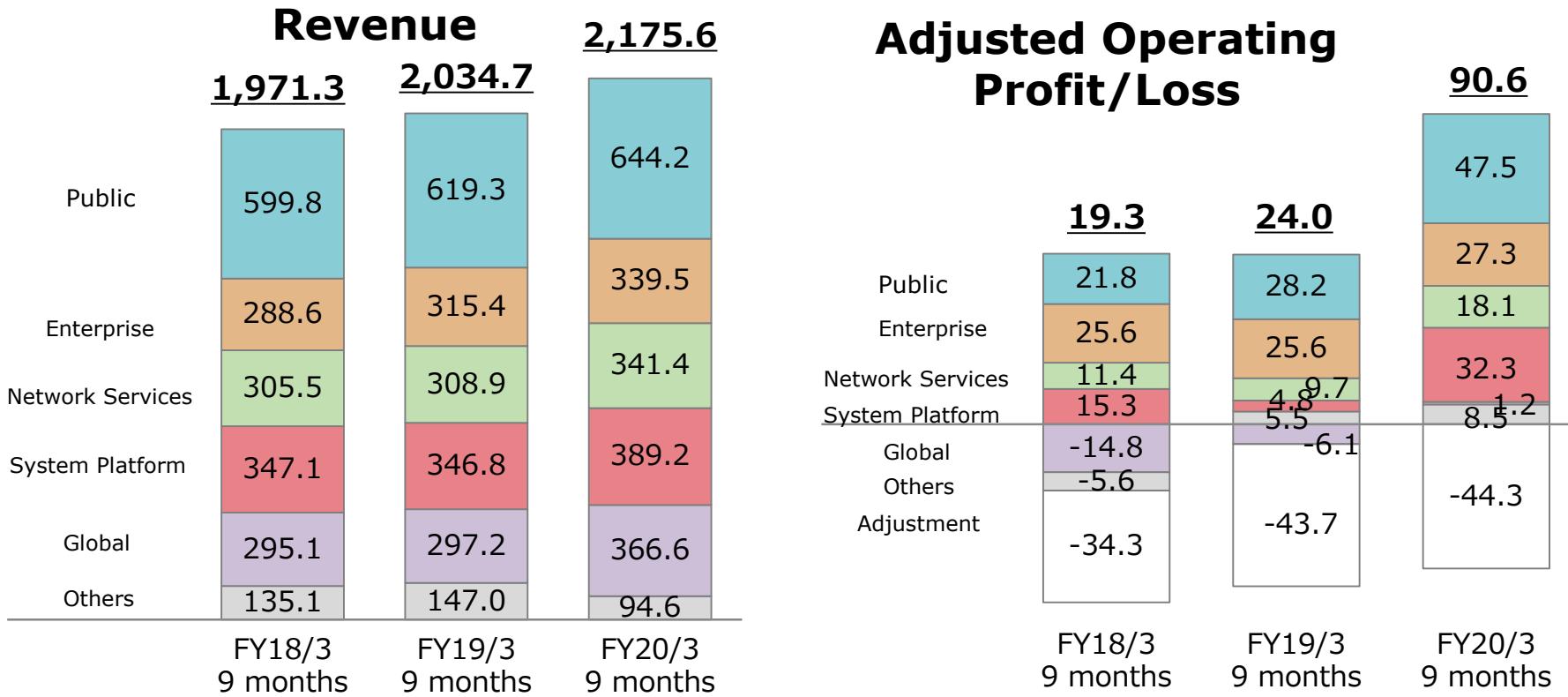
**NEC**

# Financial Results for the Nine Months ended December 31, 2019 (Appendix)

# Results by Segment (three-year transition)

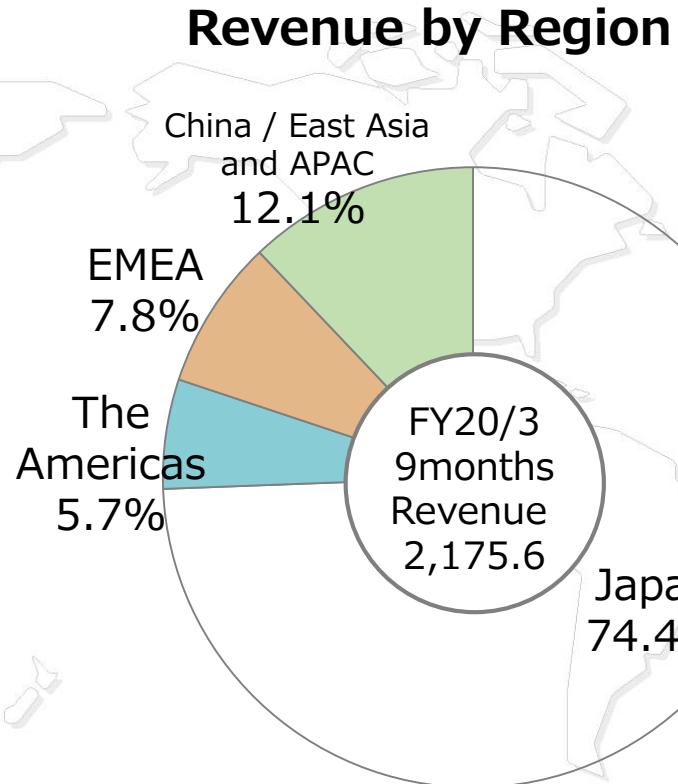
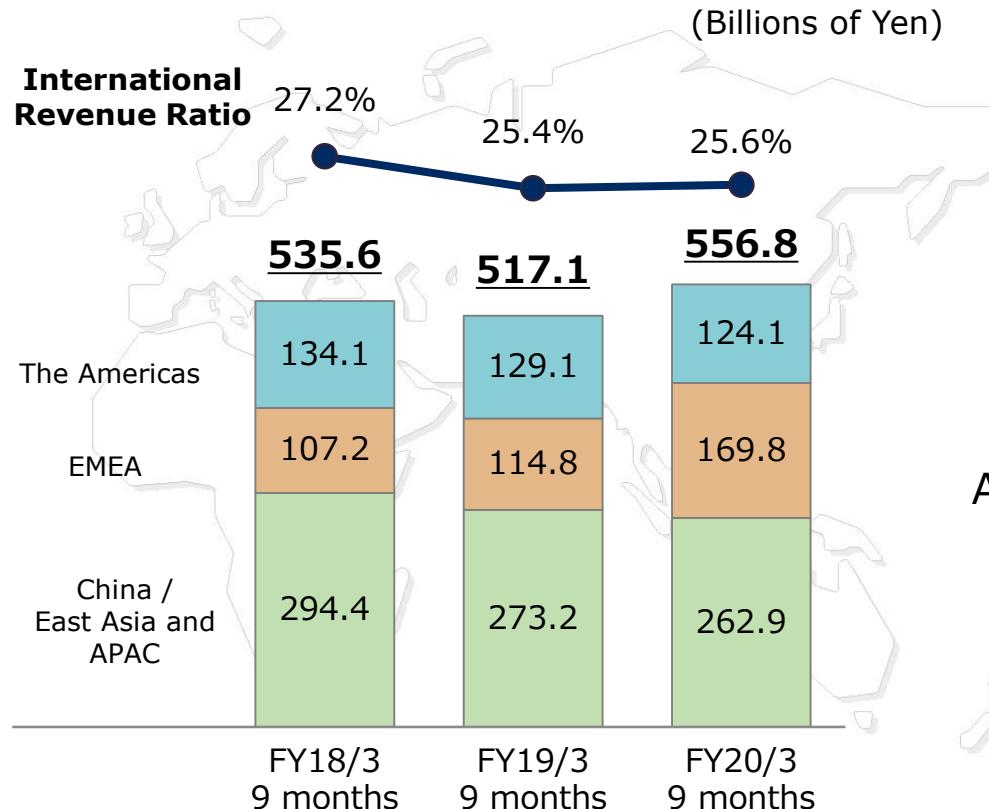
9 month  
Results

(Billions of Yen)



# International Revenue

9 month  
Results



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

# Financial Position Data

Q3 Results

(Billions of Yen)

	End of March 2019	End of December 2019	Variance from end of March 2019	End of December 2018
Total assets	2,963.2	3,041.9	+ 78.7	2,760.8
Total equity	1,059.7	1,091.0	+ 31.3	1,035.7
Interest-bearing debt	552.5	694.4	+ 141.9	532.4
Equity attributable to owners of the parent	858.9	889.8	+ 30.9	856.5
Ratio of equity attributable to owners of the parent (%)	29.0%	29.3%	+ 0.3pt	31.0%
D/E ratio (times)	0.64	0.78	- 0.14pt	0.62
Net D/E ratio (times)	0.32	0.50	- 0.18pt	0.31
Cash and cash equivalents	278.3	253.1	- 25.2	268.0

\*Total assets and liabilities (interest-bearing debt) at the end of Q3, FY20/3 increased by approximately 170.0 billion yen mainly due to a recording of lease liabilities in applying IFRS 16

# Adjusted Net Profit Change (Year on Year)

9 month  
Results

(Billions of Yen)

Foreign exchange gains/losses	-3.1
Gain on sales of affiliates' stocks	-2.4
Interest expenses	-2.1
Others	-1.3

Financial  
Income/Costs, etc.  
**-8.9**

Income taxes	-13.8
Others	+1.2

**Others**  
**-12.6**

Adjusted  
Operating  
Profit  
**+66.6**

**FY19/3**  
**9 months**  
**11.8**

System Platform	+27.5
Public	+19.2
Network Services	+8.4
Global	+7.3
Enterprise	+1.7
Others	+3.1
Adjustment	-0.6

**FY20/3**  
**9 months**  
**56.9**

(Billions of Yen)

Compared to end  
of March 2019

## Current Assets

1,579.7

- Decreased mainly due to the collection of trade and other receivables
- Inventories increased due to the investment toward the end of the fiscal year.

- 58.5

**Total**  
**3,041.9**

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

+137.2

## Non-current Assets

1,462.2

**Liabilities**  
**1,950.9**

- Increased mainly due to a recording of lease liabilities in applying IFRS 16
- Trade and other payables decreased due to the payment of materials cost.

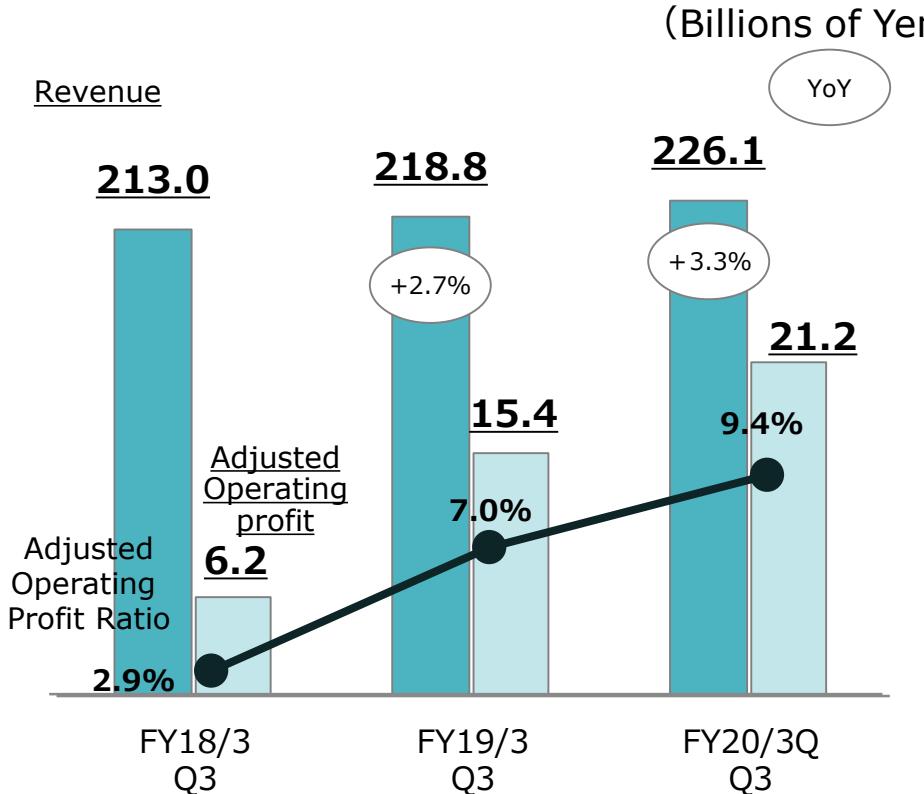
+47.4

- Increased mainly owing to net profit attributable to owners of the parent, despite the payment of dividends

+31.3

**Equity**  
**1,091.0**

# Financial Results for Q3, FY20/3 (Appendix)



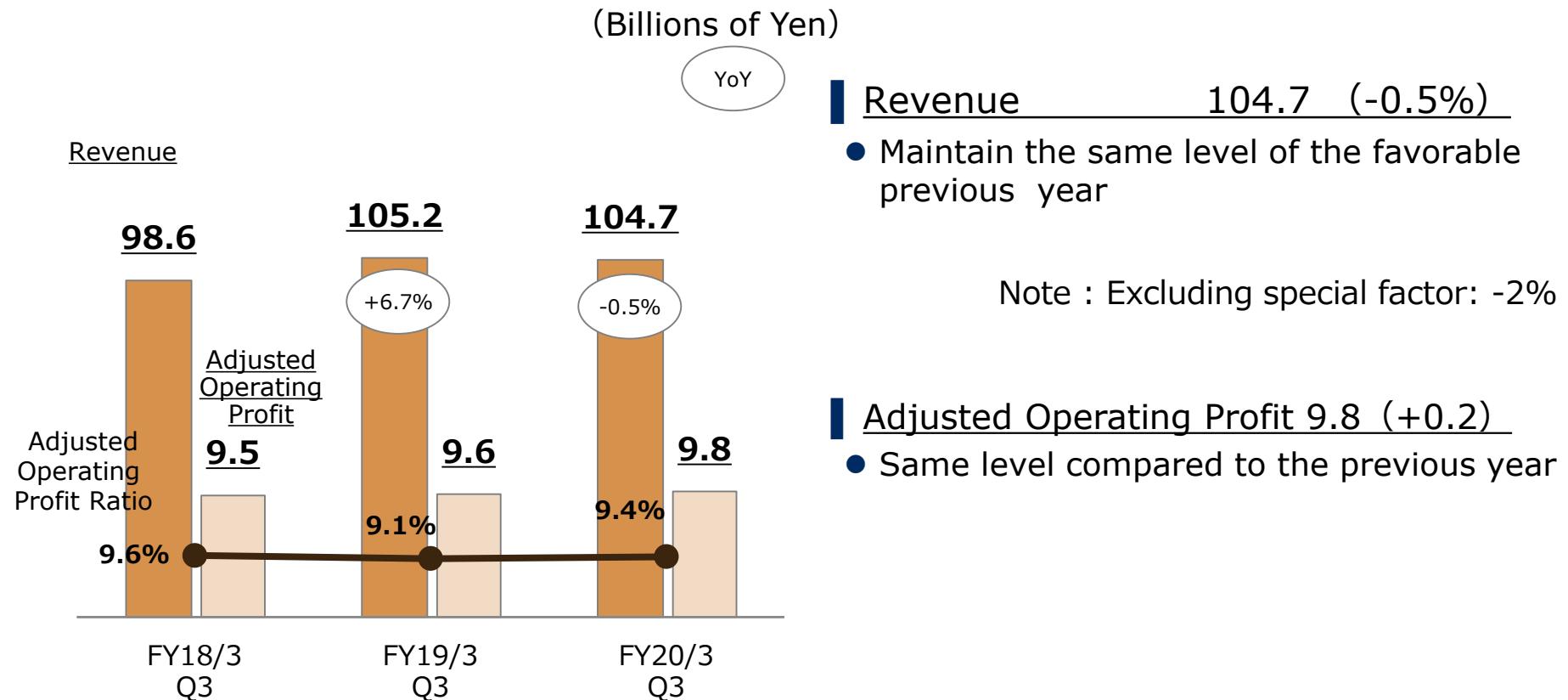
■ Revenue 226.1 (+3.3%)

- Increased in public solutions and public infrastructure areas

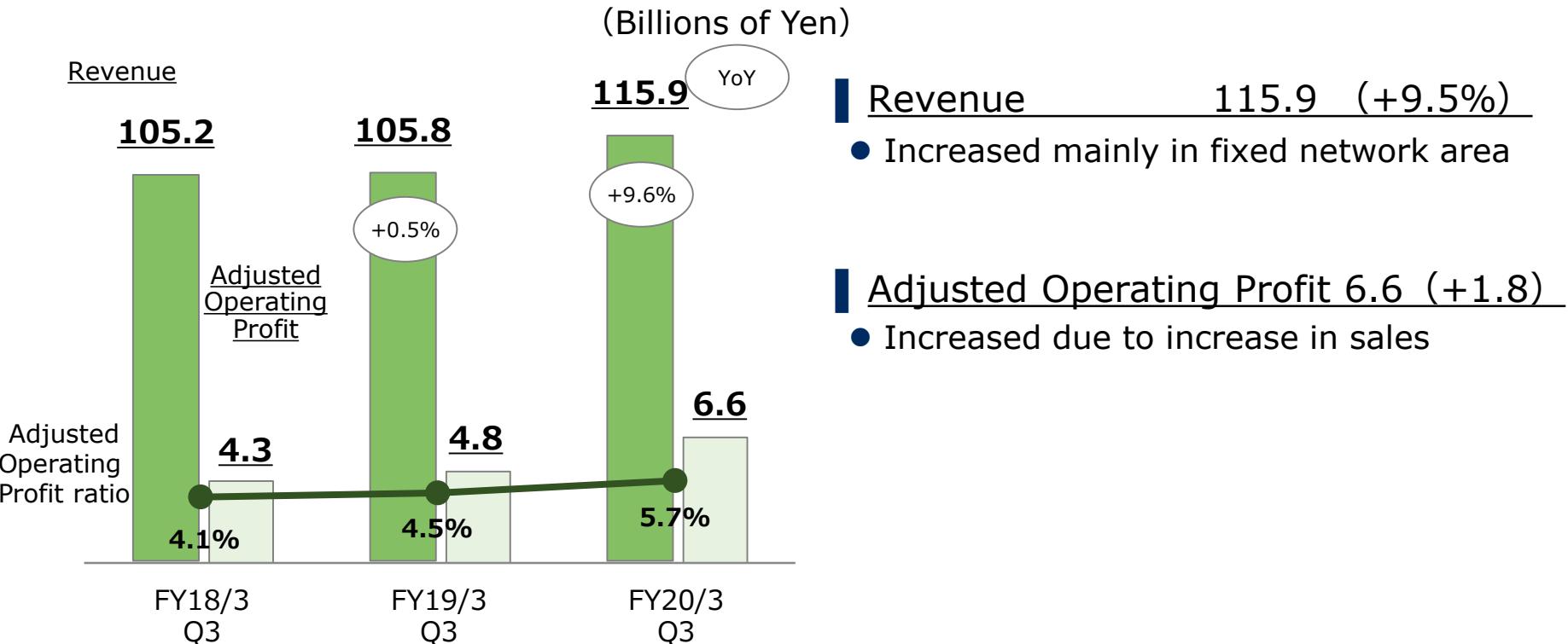
■ Adjusted Operating Profit 21.2 (+5.8)

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

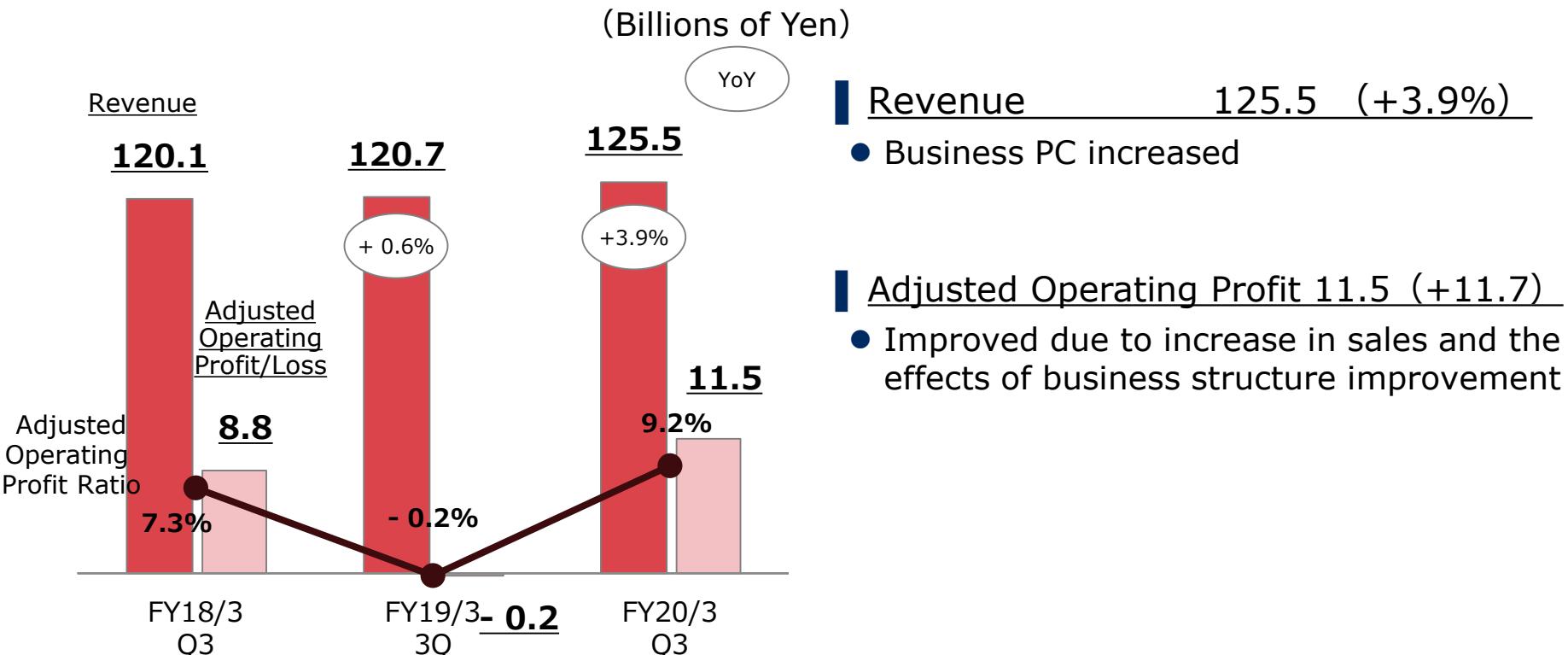
\*% figures in parentheses are year-on-year



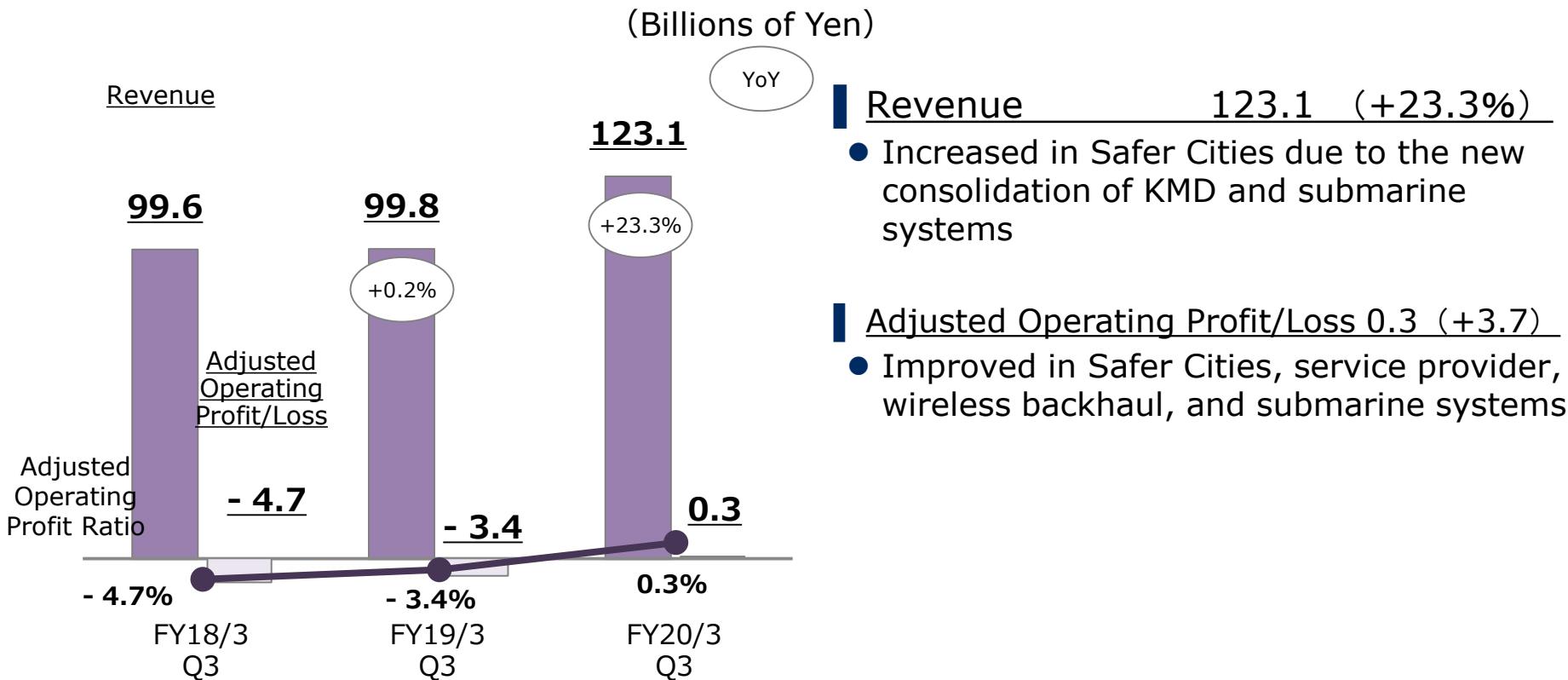
\*% figures in parentheses are year-on-year



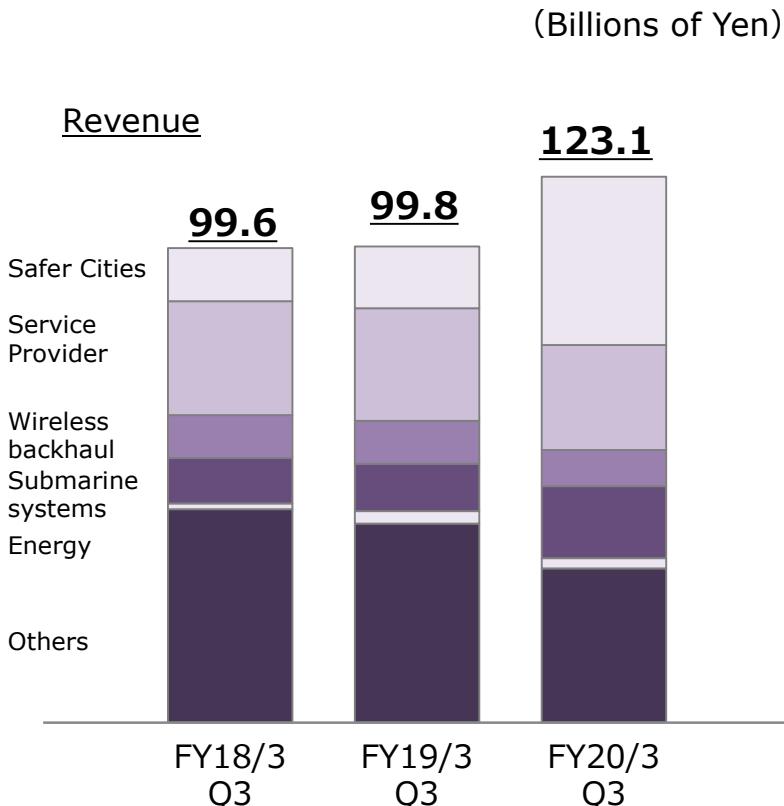
\*% figures in parentheses are year-on-year



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\*% 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

## Wireless backhaul

- Decreased due to select orders with emphasis on profitability

## Submarine systems

- Increased due to increase in orders from previous year

## Energy

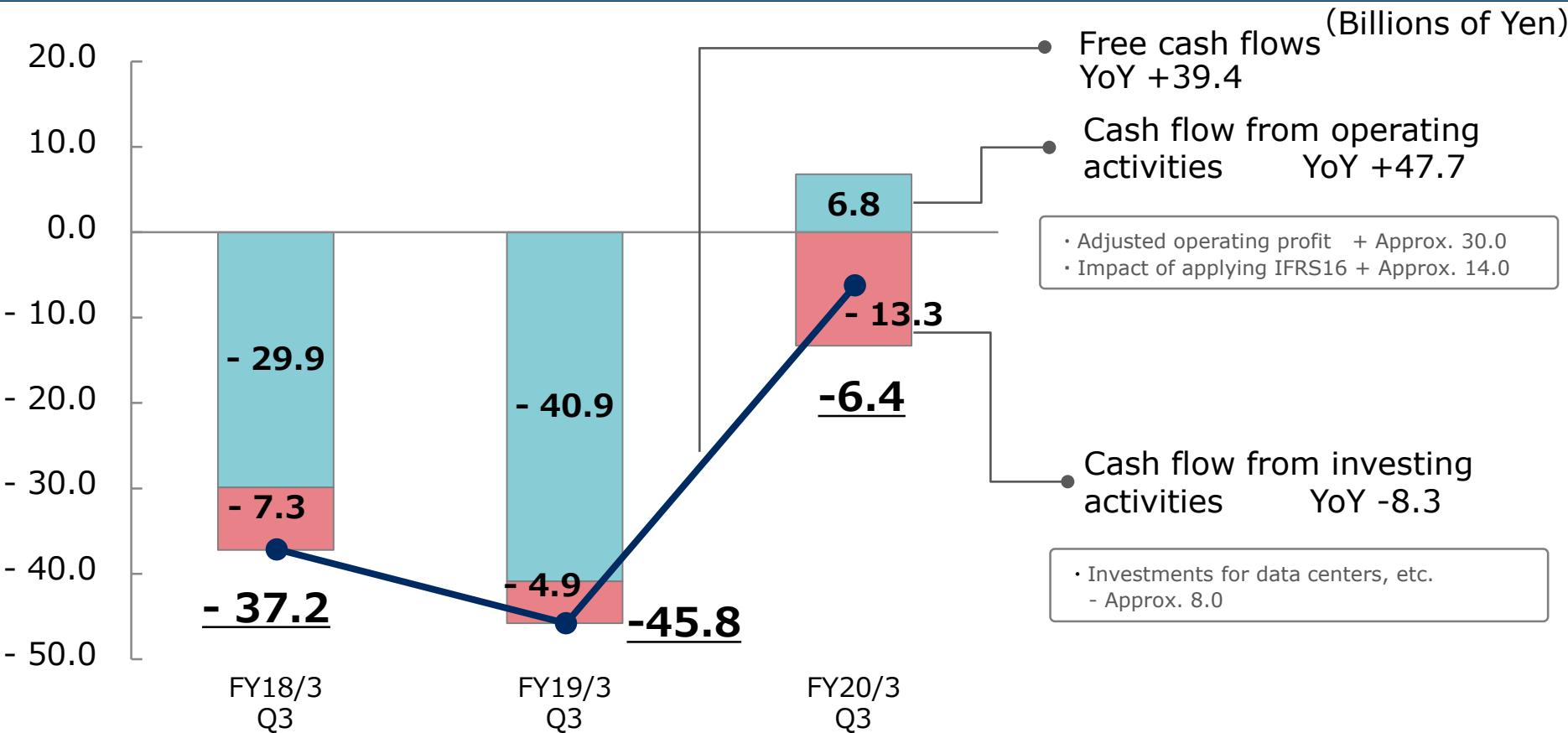
- Same level compared to the previous year

## Display

- Decreased due to continued intensifying competition

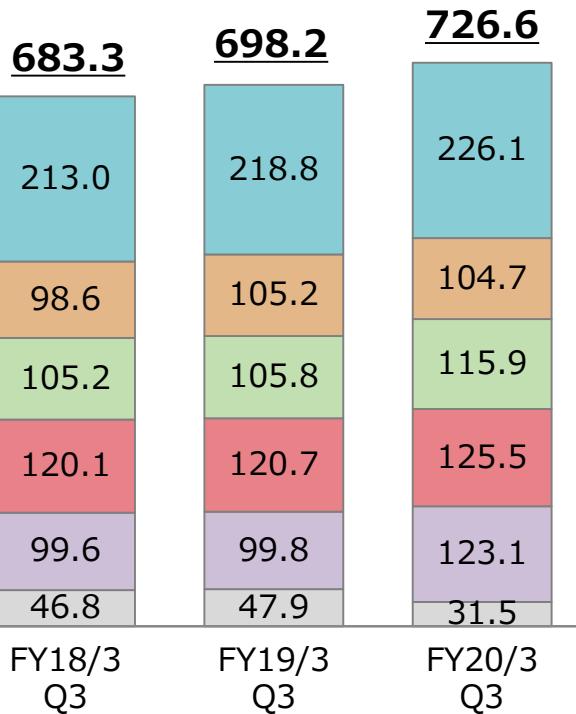
# Free Cash Flows

Q3 Results

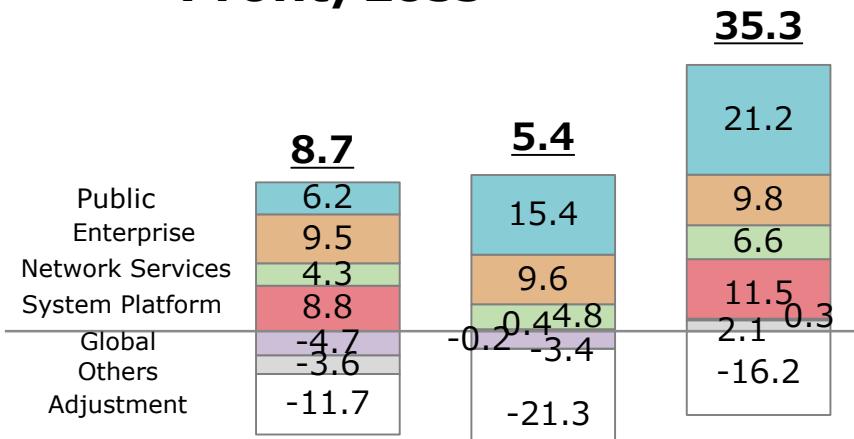


(Billions of Yen)

### Revenue

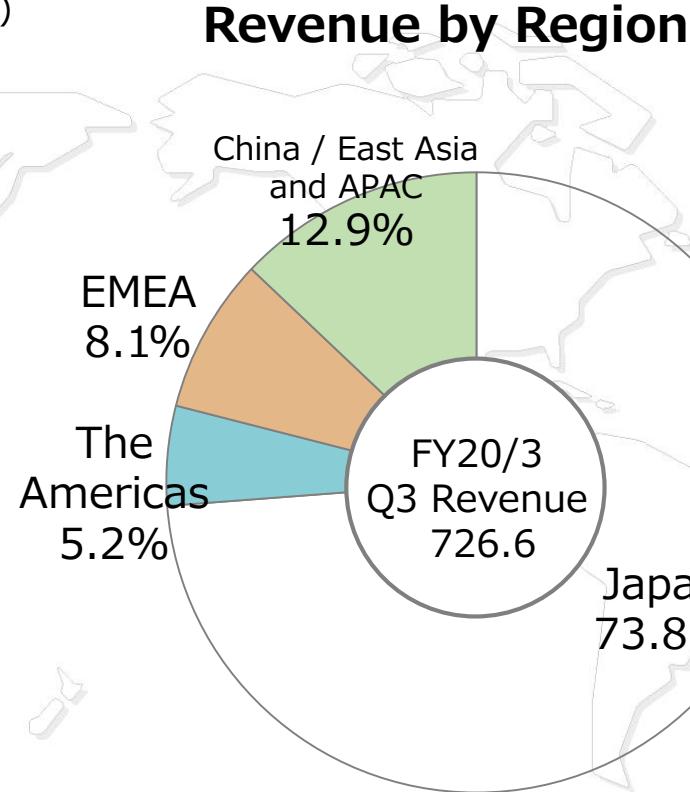
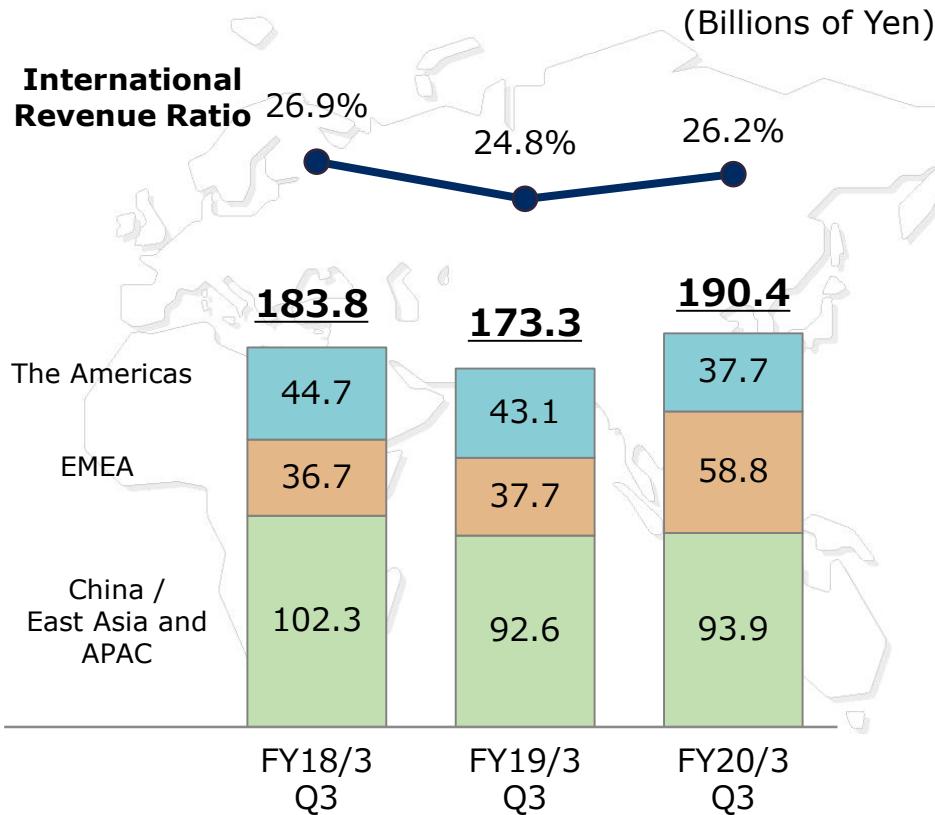


### Adjusted Operating Profit/Loss



# International Revenue

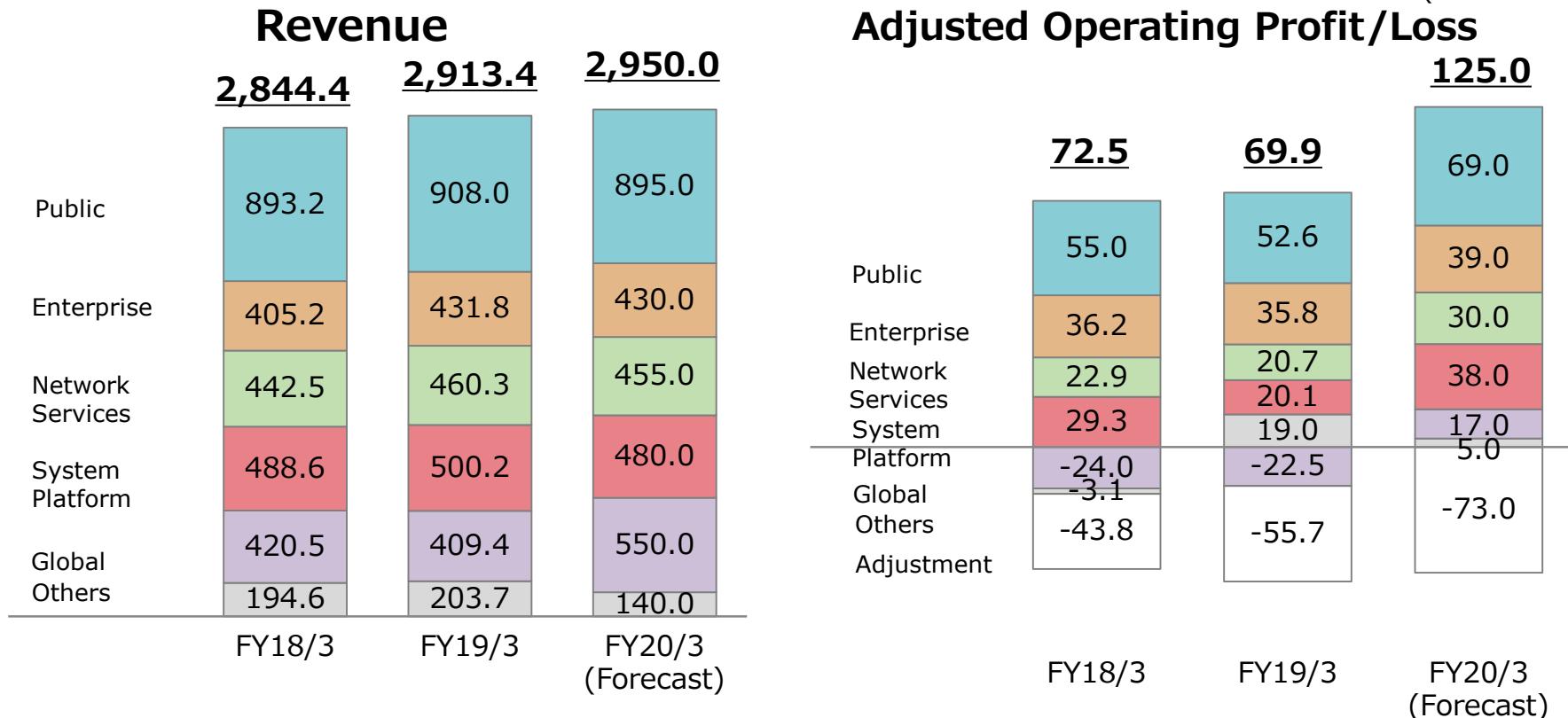
Q3 Results



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

# Financial Forecasts for FY20/3 (Appendix)

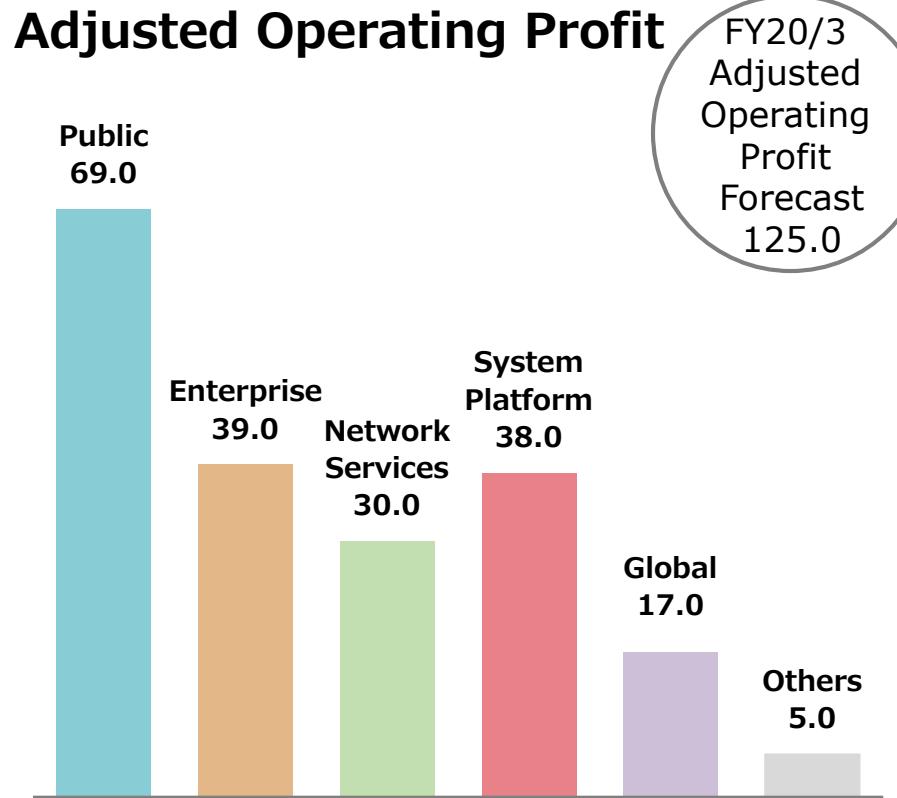
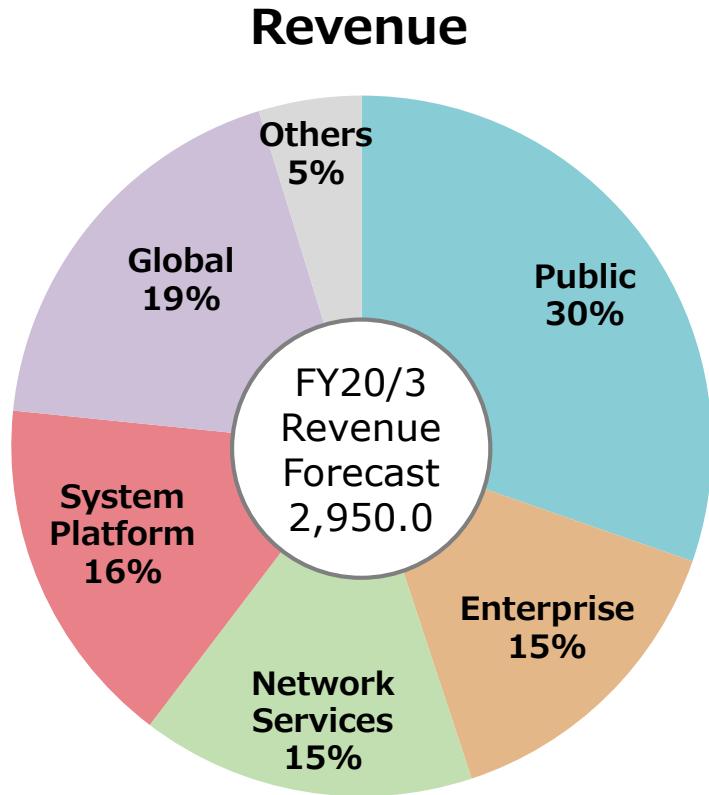
(Billions of Yen)



\*Forecasts as of January 29, 2020

# Financial Forecasts by Segment

Forecasts  
FY20/3



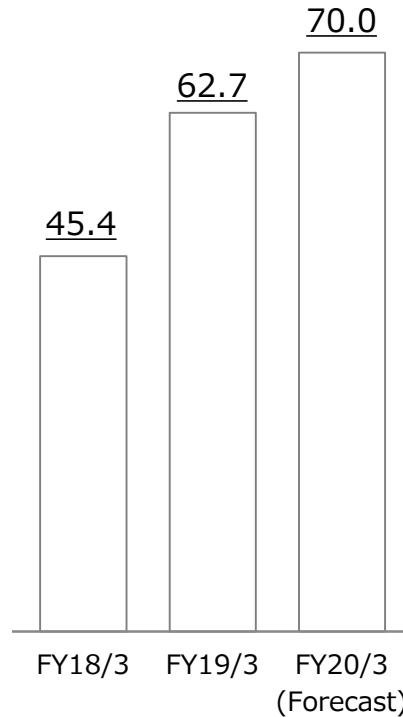
\*Forecasts as of January 29, 2020

# Capital Expenditure, Depreciation and R&D Expenses

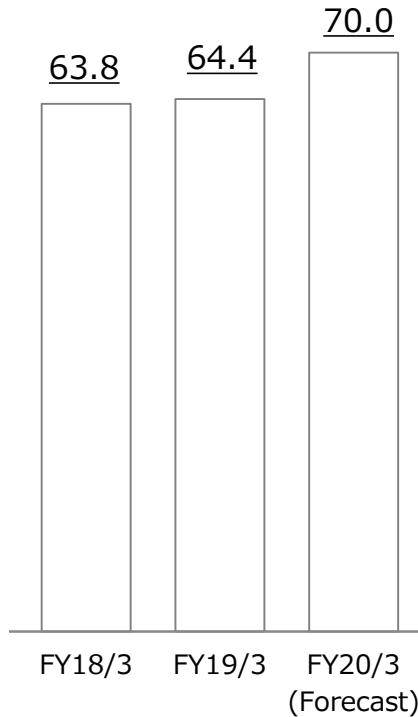
Forecasts  
FY20/3

(Billions of Yen)

## Capital Expenditure

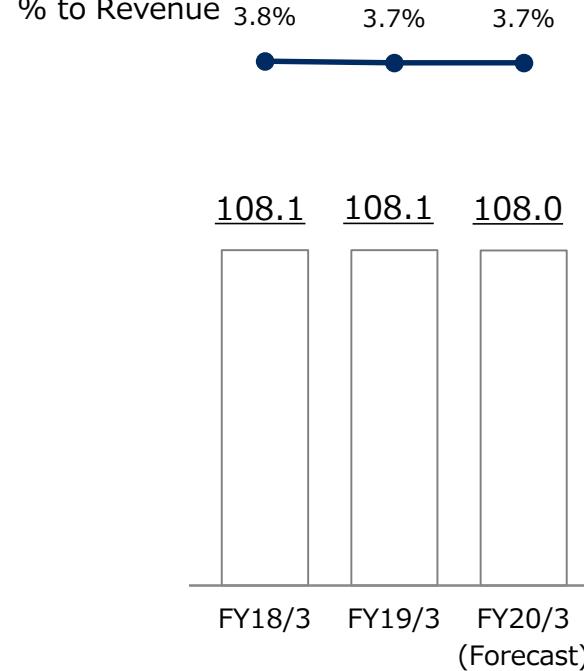


## Depreciation



## R&D Expenses

% to Revenue



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

\*Forecasts as of January 29, 2020

# 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.