Message from the CFO

We aim to enhance corporate value by investing in growth businesses, further solidifying our financial foundation and keeping a commitment to shareholder returns at the center of our capital policies.

Executive Vice President, CFO (Chief Financial Officer) and Member of the Board Isamu Kawashima

Fiscal 2017 Performance

The NEC Group recorded consolidated revenue of ¥2,665.0 billion for fiscal 2017, a decrease of ¥159.8 billion yen (5.7%) year-on-year. This decrease was mainly due to decreased sales in the Telecom Carrier business and the Public business. Regarding profitability, operating profit worsened by ¥49.6 billion year-on-year, to an operating profit of ¥41.8 billion, mainly due to a decrease in gross profit caused by a decline in revenue, despite efforts to reduce selling, general and administrative expenses. Net profit attributable to owners of the parent was a profit of ¥27.3 billion, worsening by ¥48.6 billion year-on–year. This was primary due to the worsening of income before income taxes and increased income taxes. As a result, return on equity (ROE) was 3.4%, a 6.1 percentage point worse than the previous fiscal year. Although the profit attributable to owners of the parent for fiscal 2017 was less than planned, NEC secured profit over the total amount of dividends. As a result, NEC declared an annual dividend of ¥6 per share of common stock, the same value as announced at the beginning of fiscal 2017.

	FY2016/3	FY2017/3	
(Billion ¥)	Results	Initial Forecasts	Results
Revenue	2,824.8	2,880.0	2,665.0
International Revenue	603.1		571.0
International Revenue Ratio	21.4%		21.4%
Operating Profit	91.4	100.0	41.8
Operating Profit Ratio	3.2%	3.5%	1.6%
Net profit attributable to owners of the parent	75.9	50.0	27.3
Return on equity (ROE)	9.5%		3.4%

Fiscal 2017 Financial State

Total assets were ¥2,684.0 billion as of March 31, 2017, an increase of ¥155.1 billion as compared with the end of the previous fiscal year. Current assets as of March 31, 2017 increased by ¥55.4 billion compared with the end of the previous fiscal year to ¥1,508.7 billion, mainly due to an increase of cash and cash equivalents. Non-current assets as of March 31, 2017 increased by ¥99.7 billion compared with the end of the previous fiscal year to ¥1,175.3 billion, mainly due to increases in property, plant and equipment, net, as well as other non-current assets.

Total liabilities as of March 31, 2017 decreased by ¥23.8 billion compared with the end of the previous fiscal year, to ¥1,667.9 billion. This was mainly due to a decrease in defined benefit liabilities. The balance of interest-bearing debt amounted to ¥466.9 billion, a decrease of ¥12.6 billion as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2017 was 0.55 (an improvement of 0.07 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2017, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to ¥227.0 billion, a decrease of ¥60.2 billion as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2017 was 0.27 (an improvement of 0.10 points as compared with the end of the previous fiscal year).

Total equity was ¥1,016.1 billion as of March 31, 2017, an increase of ¥178.8 billion as compared with the end of the previous fiscal year, mainly due to an increase of non-controlling interests and other components of equity.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2017 was ¥854.3 billion, and the ratio of equity attributable to owners of the parent was 31.8% (an improvement of 1.4 percentage points as compared with the end of the previous fiscal year).

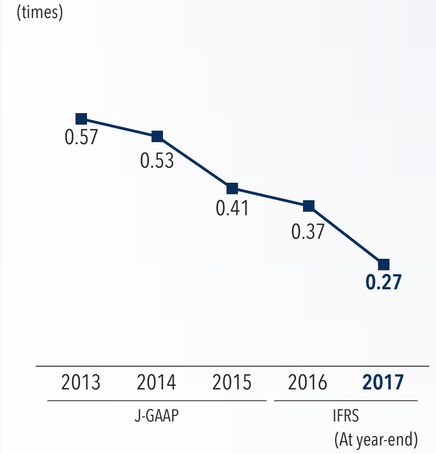
Net cash inflows from operating activities for fiscal 2017 were ¥92.5 billion, a worsening of ¥5.3 billion as compared with the previous fiscal year.

Net cash inflows from investing activities for fiscal 2017 were ¥6.4 billion, an increase of ¥38.6 billion as compared with the previous fiscal year. This was mainly due to an increase in proceeds from the sale of investments in affiliated companies and acquisition of subsidiaries, net of cash acquired.

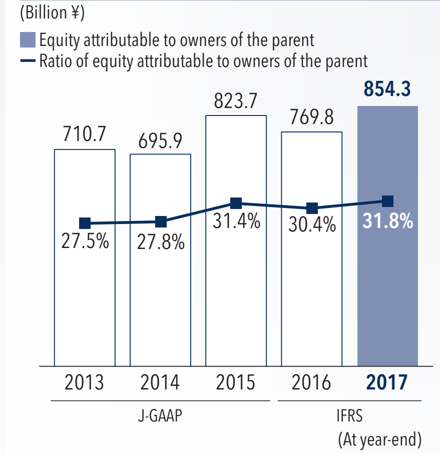
As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for fiscal 2017 totaled a cash inflow of ¥99.0 billion, an improvement of ¥33.3 billion year-on-year.

Although total equity's growth and the improvement in cash flows were partly attributable to one-time factors such as the sale of equity holdings, we maintained a sound financial foundation in fiscal 2017.

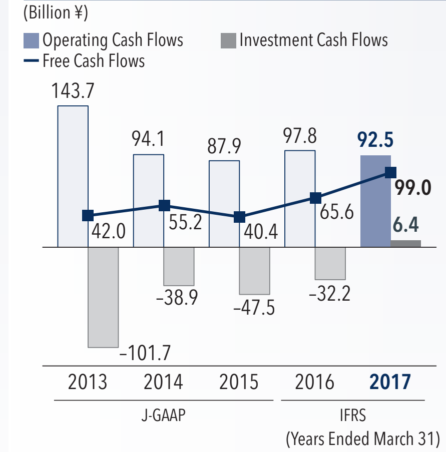
Net Debt-Equity Ratio



Equity attributable to owners of the parent, Ratio of equity attributable to owners of the parent



Operating Cash Flows, Investment Cash Flows, Free Cash Flows



Revision of Mid-term Management Plan 2018 and Fiscal 2018 Initiatives

Our fiscal 2017 operating performance fell far short of our Mid-term Management Plan 2018's targets for its initial fiscal year. Our fiscal 2017 performance was hurt by deficiencies in management speed and execution capabilities in terms of adapting to changes in the market environment and customer trends. In fiscal 2018, we will formulate our next mid-term management plan in pursuit of growth overseas and an improvement in domestic profitability, including reform of underperforming businesses. Fiscal 2018 is thus an important year for further solidifying our foundations heading into fiscal 2019, the first year of our next mid-term management plan.

For fiscal 2018, our revenue target is ¥2,800 billion. Although we face a top-line headwind in the form of suspension of our eligibility to bid on public contracts in conjunction with the Cease and Desist Orders and Surcharge Payment Orders from the Japan Fair Trade Commission, we aim to achieve our revenue target by expanding our three key businesses (Safety Business, Network Business for Global Carriers, IT Service Business for Retail) and adding new revenue from newly consolidated subsidiary Japan Aviation Electronics Industry, Limited. We set our fiscal 2018 targets for operating profit and net profit attributable to owners of the parent at ¥50 billion and ¥30 billion, respectively, factoring in strategic investments and restructuring costs. We plan to achieve these targets through a combination of offensive and defensive action. Offensively, we will execute restructuring and strategic investments in pursuit of growth as planned. Defensively, we will improve operating efficiency and unprofitable projects' profitability. By doing so, and continuing to pay annual dividends of ¥6 per share*, we intend to regain your trust.

* Assuming the share consolidation is achieved on October 1, 2017, an annual dividend per share of common stock will be ¥60.