

## MESSAGE FROM THE PRESIDENT



**Nobuhiro Endo**  
President, NEC Corporation

In the previous fiscal year (fiscal 2012, the year ended March 31, 2012), NEC unavoidably posted a consolidated net loss of ¥110.3 billion, including business structure improvement expenses. Our bottom line was affected by major upheavals in the economic environment due to the fiscal crisis in various European countries, along with the impact of the Great East Japan Earthquake and the flooding in Thailand. These factors were compounded by the review of deferred tax assets reflecting tax reforms in Japan and deterioration in our financial results for fiscal 2012.

Against this backdrop, in the fiscal year under review (fiscal 2013), we initiated structural reforms directed at transforming NEC into a profitable enterprise. At the same time, the NEC Group reviewed its business portfolio and strove to implement reforms designed to transform itself into a stable cash flow-driven enterprise with four core businesses, namely the IT Services business, Carrier Network business, Social Infrastructure business and Energy business.

Looking first at structural reforms, the NEC Group reduced its workforce by approximately 10,000 headcount as originally planned. The mobile phone business and the platform business streamlined their development and production structures. In addition, NEC implemented measures such as wage reductions for officers and employees. These initiatives yielded a positive impact of ¥40.0 billion on operating income as planned. Regarding the NEC Group's business portfolio review, for the electronic components business, NEC formed a capital and business alliance with a U.S.-based company, resulting in the deconsolidation of NEC TOKIN Corporation. Moreover, Renesas Electronics Corporation, an NEC equity-method affiliate, decided to accept an infusion of capital via a third party share allotment to the Innovation Network Corporation of Japan and eight private enterprises. As a result, NEC plans to exclude Renesas Electronics from treatment as an equity-method affiliate.

In terms of focusing on its four core businesses, the NEC Group worked to build a foundation for

growth through concentrated investment in these four fields: the IT Services area in the IT Solutions business, Carrier Network business, Social Infrastructure business and Energy business. To this end, the NEC Group actively implemented measures such as business acquisitions and

forming alliances with other companies for expanding business on a global scale.

As a result, we have transformed NEC into an enterprise that can generate profits to enable dividend payments even with the current level of net sales of ¥3 trillion.

## Fiscal 2013 Performance

In fiscal 2013, the NEC Group recorded consolidated net sales of ¥3,071.6 billion, an increase of ¥34.8 billion, or 1.1% year on year. This increase was mainly due to increased sales from the IT Solutions business, the Carrier Network business and the Social Infrastructure business, primarily reflecting a recovery in domestic IT investment, as well as higher demand from network-related fields and from earthquake reconstruction and disaster prevention measures. Sales growth was partly offset by decreased sales from the Personal Solutions business, primarily due to the deconsolidation of the PC business for individual customers and lower mobile phone sales volume. Regarding profitability, consolidated operating income improved by ¥40.9 billion year on year, to ¥114.6 billion, mainly due to

increased sales, as well as the steady execution of structural reforms, an improved cost-of-sales ratio and streamlined selling, general and administrative expenses. Consolidated net income was ¥30.4 billion, an improvement of ¥140.7 billion compared to the net loss recorded in the previous fiscal year, when the bottom line was impacted by a review of deferred tax assets. This improvement was mainly due to the higher operating income, improved equity in earnings (losses) of affiliates, and lower business structure improvement expenses. Although consolidated net sales fell below our initial target, we surpassed all of our primary initial earnings targets. Consequently, we decided to resume a dividend payment of ¥4 per share as promised at the beginning of fiscal 2013.

(Billion ¥)	FY2011/3	FY2012/3	FY2013/3	
	Results	Results	Initial plan	Results
Net sales	3,115.4	3,036.8	3,150.0	<b>3,071.6</b>
Overseas sales	479.3	481.5		<b>483.1</b>
Overseas sales ratio	15.4%	15.9%		<b>15.7%</b>
Operating income	57.8	73.7	100.0	<b>114.6</b>
Operating income ratio	1.9%	2.4%	3.2%	<b>3.7%</b>
Net income (loss)	-12.5	-110.3	20.0	<b>30.4</b>
Return on equity (ROE)	—	—		<b>4.5%</b>

## Mid-term Management Plan 2015

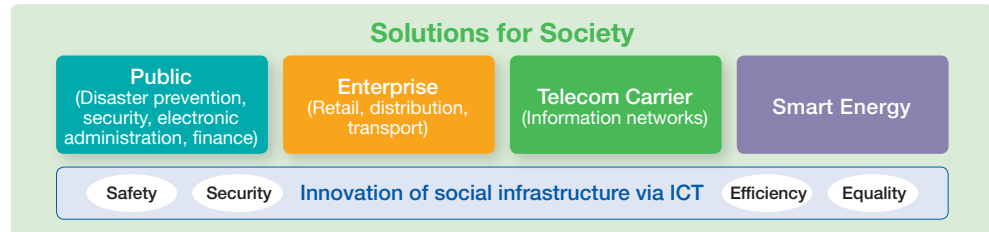
Fiscal 2013 was the final year of our Mid-term Growth Plan “V2012.” Under “V2012,” we targeted net sales of ¥4 trillion, an operating income ratio of 5% and an overseas sales ratio of 25% for fiscal 2013 as goals necessary to executing sound business operations. However, we were unable to lay the groundwork for global growth, partly because a large overseas M&A initiative fell through

in the IT field. Taking heed of the lessons learned from this experience, we formulated “Mid-term Management Plan 2015” in April 2013, which sets forth our management policies and business targets for the three-year period through fiscal 2016.

Demand for resources such as energy and food is projected to increase in step with the world’s growing population, as well as the increasing rate of

## NEC's Concept of "Innovative Social Infrastructure"

For People to Live and Thrive in Society

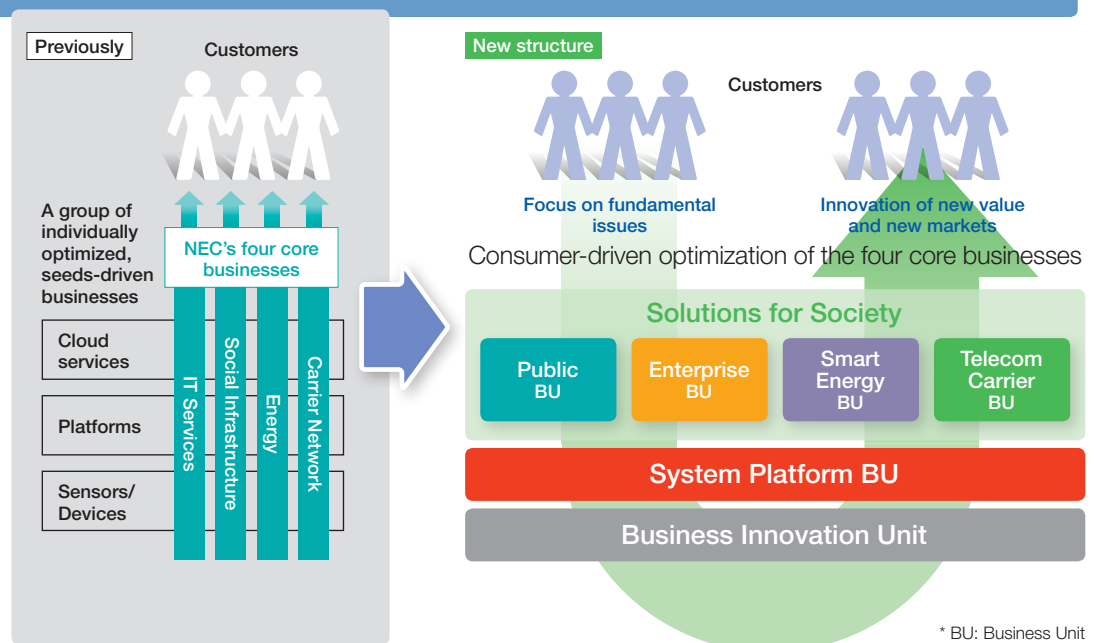


urbanization. Considering these and other developments in society, the NEC Group is focusing on its "Solutions for Society." Here, we will leverage our strengths in information and communications technology (ICT) to provide new social infrastructure in order to realize a society that is safe, secure, efficient and fair, where people can lead prosperous lives.

Specifically, we will focus business resources on fields based on three customer sectors, namely the public, enterprise and telecom carrier sectors, as well as the smart energy sector, which is expected to grow going forward. The public sector mainly

covers disaster prevention, security, electronic administration, and finance infrastructure. The enterprise sector mainly covers retail, distribution infrastructure, and transport. The telecom carrier sector includes information networks and related service businesses. By harnessing ICT, NEC already provides infrastructure that is essential to our daily lives—infrastructure needed for people to live and thrive. Looking ahead, we will actively work to create new value to solve issues facing society, by focusing on the NEC Group's strengths in technology and expertise related to networks, IT platforms, and a diverse array of sensors and

## Implementing "Mid-term Management Plan 2015" Under a New Customer-Driven Organization



devices, while tapping into technologies and expertise outside the Group as well.

In order to accelerate our focus on the “Solutions for Society” and steadily execute “Mid-term Management Plan 2015,” NEC implemented a major reorganization in April 2013. Up to fiscal 2013, NEC’s organization was driven by the technologies and expertise, products, services and other assets held by the Company. However, we have reorganized the Company into a structure driven by

markets and customers. We have adopted a structure that will allow us to focus on the fundamental issues faced by customers, and provide solutions that create new value grounded in the strengths of our core ICT assets. NEC will continue to press on with the selection and concentration of its operations based on the “Solutions for Society,” with the aim of improving corporate value.

## Toward Achieving “Mid-term Management Plan 2015” and Sustainable Development

As the first year of “Mid-term Management Plan 2015,” fiscal 2014 is a crucial year for the NEC Group. The outlook for the Japanese economy calls for gradual yet steady growth as economic sentiment recovers. On the other hand, there are some lingering uncertainties such as weak growth in external demand associated with stagnant European economies. Looking at the business environment surrounding NEC, although domestic IT investment is on a recovery path, capital expenditures by telecom carriers are projected to decline mainly in existing fields. Instead, the markets for Telecom Operations & Management Solutions (TOMS) and Software-Defined Networking (SDN) are expected to expand in the near term. Furthermore, in the social infrastructure field, Japan’s economic and fiscal policies have progressed steadily following the change in government, and we have been seeing a string of vigorous developments on projects in the smart energy field.

In these circumstances, NEC will focus on the “Solutions for Society,” with the view to achieving the management goals set forth in “Mid-term Management Plan 2015.” Our goal is to create a foundation for growth that will enable us to compete globally. And through the execution of the “Solutions for Society,” NEC will support innovation in social infrastructure around the world, while helping to solve issues faced by society. In the process, we will drive NEC’s transformation into a

social value innovator.

From a sustainable development perspective, NEC became a signatory to the United Nations Global Compact (UNGC) in 2005. Accordingly, NEC will continue to strive to conduct corporate business activities in compliance with the 10 principles in the areas of human rights, labor, the environment, and anti-corruption based on the UNGC framework. At the same time, NEC will promote diversity as an integral part of its management strategy, in order to put an environment in place where various people can succeed globally. NEC’s vision is “To be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth.” To realize this vision, NEC will continue to create new forms of value by listening sincerely to the requests and expectations of all stakeholders, while staying attuned to changes in society’s values and signs of emerging issues. In doing so, we seek to make the NEC Group an enterprise that is respected by all stakeholders.

We look forward to your continued understanding and support as we endeavor to reach our goals.

June 2013



Nobuhiro Endo  
President, NEC Corporation