Message from the CFO

NEC will commit to improving its enterprise value placing the focus of its capital policy on increasing shareholder returns, while expanding investments in growth business areas and enhancing the financial foundation.

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

Isamu Kawashima

Fiscal 2016 Performance

The NEC Group recorded consolidated net sales of ¥2,821.2 billion for fiscal 2016, a decrease of ¥114.3 billion or 3.9% year on year. While the Enterprise business saw an increase in sales, there were decreases in the sales of the Public and Telecom Carrier businesses. In addition, sales of Others declined due to deconsolidation of the logistics service business. Regarding profitability, consolidated operating income declined by ¥20.8 billion year on year to ¥107.3 billion, mainly due to the decline in gross profit as a result of a drop in sales despite our efforts to reduce selling, general and administrative expenses. Profit attributable to owners of the parent was ¥68.7 billion, a year-on-year improvement of ¥11.4 billion, mainly due to a tax expenses decrease from the debt waiver for NEC Mobile Communications Ltd. As a result, return on equity (ROE) was 8.5%, a 1.0 percentage point improvement from the previous fiscal year. NEC attained the target for profit attributable to owners of the parent, and a dividend of ¥6 per share was issued as announced at the beginning of the period.

	FY2015/3	FY2016/3	
(Billion ¥)	Results	Initial Forecasts	Results
Net sales	2,935.5	3,100.0	2,821.2
Overseas sales	586.8		603.2
Overseas sales ratio	20.0%		21.4%
Operating income	128.1	135.0	107.3
Operating income ratio	4.4%	4.4%	3.8%
Profit attributable to owners of the parent	57.3	65.0	68.7
Return on equity (ROE)	7.5%		8.5%

Fiscal 2016 Financial State

Total assets were ¥2,493.4 billion as of March 31, 2016, a decrease of ¥127.2 billion compared with the end of the previous fiscal year. Current assets as of March 31, 2016 decreased by ¥49.5 billion compared with the end of the previous fiscal year to ¥1,527.3 billion as a result of collection in accounts receivable-trade. Noncurrent assets as of March 31, 2016 decreased by ¥77.7 billion compared with the end of the previous fiscal year to ¥966.2 billion due to declines in retirement benefit assets and goodwill.

Total liabilities as of March 31, 2016 decreased by ¥95.5 billion compared with the end of the previous fiscal year to ¥1,640.9 billion, mainly due to declines in trade notes and accounts payable and interest-bearing debt. The balance of interest-bearing debt amounted to ¥481 billion, a decrease of ¥39.8 billion from the end of the previous fiscal year. The debt-equity ratio as of March 31, 2016 was 0.61, an improvement of 0.02 percentage points compared with the end of the previous fiscal year. The balance of net interest-bearing debt as of March 31, 2016, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to ¥288.7 billion, a decrease of ¥51 billion compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2016 was 0.36, an improvement of 0.05 percentage points compared with the end of the previous fiscal year.

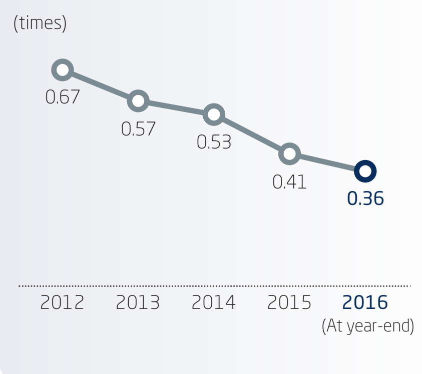
Total net assets decreased by ¥31.7 billion compared with the end of the previous fiscal year to ¥852.5 billion as a result of declines in remeasurements of defined benefit plans and foreign currency translation adjustment, despite recording profit attributable to owners of the parent.

As a result, the owner's equity as of March 31, 2016 was ¥792.1 billion and the owner's equity ratio was 31.8%, an improvement of 0.4 percentage points compared with the end of the previous year.

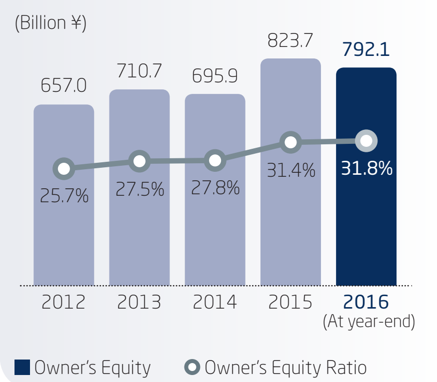
Net cash inflows from operating activities for the fiscal year ended March 31, 2016 were ¥97.8 billion, an improvement of ¥9.9 billion compared with the previous fiscal year, mainly due to improved working capital.

Net cash outflows from investment activities for the fiscal year ended March 31, 2016 were ¥32.2 billion, a decline of ¥15.3 billion compared with the previous fiscal year. This was mainly due to decreased outflows for business acquisitions. As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investment activities for the fiscal year ended March 31, 2016 totaled cash inflows of ¥65.6 billion, an increase of ¥25.2 billion year on year.

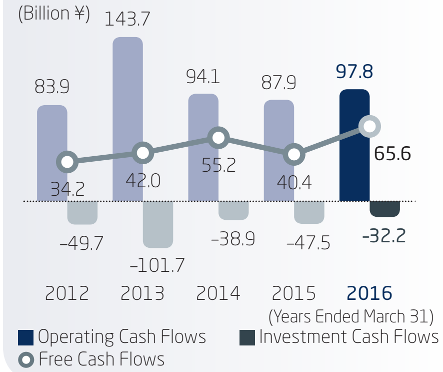
Net Debt-Equity Ratio



Owner's Equity, Owner's Equity Ratio



Operating Cash Flows, Investment Cash Flows, Free Cash Flows



Mid-term Management Plan 2018 and the Initiatives for Fiscal 2017

NEC decided to adopt the International Financial Reporting Standards (IFRS) from the fiscal year ending March 31, 2017. Under the Mid-term Management Plan 2018 announced in April 2016, NEC targets to achieve an average sales growth of 2% per annum and an increase in operating income by approx. ¥60 billion to ¥150 billion, which is 1.6 times the current level over three years for the fiscal year ending March 2019. As for the management policy, in terms of income, NEC will first undertake reorganization of its earnings structure, implementing various enterprise-wide measures to achieve an operating income ratio of 5% and an ROE of 10% for the fiscal year ending March 2019. Then, with regard to growth, NEC will get back on the track to growth and achieve a new sales target exceeding ¥3 trillion, concentrating on three focus businesses which have been newly defined.

In the upcoming fiscal year, NEC will try to improve profitability through speedy PDCA and creating a stable cash flow from these two viewpoints of income and growth. NEC will make company-wide efforts to achieve the target for the upcoming fiscal year and to get back on the track to growth this year with its eyes set on the policies/targets under the new Mid-term Management Plan.

Capital Allocation

Under the Mid-term Management Plan 2018, NEC will commit to the improvement of corporate value while expanding investments in growth business areas and enhancing its financial foundation, placing the focus of its capital policy on shareholders' returns. We set profit attributable to owners of the parent of ¥85 billion as a target for the fiscal year ending March 2019 through resolving issues for growth and promoting operational efficiency. We also aim to achieve free cash flows of ¥100 billion by creating cash through improvement of the cash conversion cycle (CCC) as well as accumulation of profits.

For growth-oriented investments, we have secured a ¥200 billion framework for inorganic strategy including M&A, and allocate investments to accelerate the growth of our three focus businesses. With regard to enhancement of the financial foundation, we will aim for an increased dividend from the current annual dividend of ¥6 for shareholders' return, making conscious effort to achieve the net debt-equity ratio of 0.5 as of March 31, 2019.

Capital Allocation

Aiming for shareholder returns while expanding investment in growth business areas and enhancing the financial foundation

Net income
FY2019/3 (Target): ¥85 billion

- Secure operating income by resolving of issues and streamlining to operational efficiency

Free cash flow
FY2019/3 (Target): ¥100 billion

- Compress operating capital by promoting CCC improvement

Investment for growth	Secure ¥200 billion framework for inorganic strategy
Enhancement of financial foundation	Net D/E Ratio around 0.5 times <End of FY2019/3>
Shareholder returns	Aim for increased dividend from ¥6 (annual dividend)