

Mid-term Management Plan 2018

Market Environment and Risks/Opportunities

NEC's forecast for the future macro environment indicates that Europe and North America will see stable growth, while emerging countries' growth will slacken, especially in resource-rich countries. Japan will continue to see low growth. In contrast, in the ICT market, general awareness of artificial intelligence (AI) and the Internet of Things (IoT) will grow and it will become

reality where people, things, and phenomena are connected securely in various aspects of our lives. In other words, the importance of Solutions for Society will continue to grow. The values of safety, security, efficiency and equality that NEC provides will become of greater use around the world and will serve as a tailwind propelling NEC's business strategy forward.

Framework of Mid-term Management Plan 2018

Under the new Mid-term Management Plan, we will usher in in-house reforms based on the various challenges we face and continue to further strengthen our focus on Solutions for Society. With regards to this, our management policy is largely broken down into inward efforts and outward efforts.

Inward efforts will focus on reorganizing the profit structure, with the goal to generate a 5% operating income ratio as the very minimum. To accomplish this, we will reform underperforming businesses and unprofitable projects, promote our Business Process Optimization Project, and optimize development and manufacturing functions.

For our outward efforts, we will work to get back on a growth track. This will be achieved by globalizing Solutions for Society

after reconfiguring the business perspective of our four focus businesses, which until now have been based on technical assets, and focusing management resources on the three business areas of Safety, Global Carrier Network and Retail IT Service.

The Mid-term Management Plan targets for the fiscal year ending March 31, 2019 (under International Financial Reporting Standards [IFRS]) are net sales of ¥3,000 billion, operating income of ¥150 billion (operating profit ratio of 5%), profit attributable to owners of the parent of ¥85 billion, free cash flows of ¥100 billion, and ROE of 10%. We will now work diligently to achieve these targets, which represent the absolute minimum to be attained.

Mid-term Management Policies

Implement reforms to address challenges and continued focus on Solutions for Society

Reorganization of profit structure

– establish profit structure for generating 5% operating profit ratio –

- Reform underperforming businesses and unprofitable projects
- Business process optimization project
- Optimization of development and manufacturing functions

Getting back on the track to growth

– globalization of Solutions for Society –

- Focus on key businesses
 - Safety business
 - Global carrier network business
 - Retail IT service business

Mid-term Management Targets

(Billions of Yen)	FY2016/3		FY2019/3 Target IFRS
	JGAAP	IFRS	
Net sales	2,821.2	2,824.8	3,000.0
Operating income	107.3	91.4	150.0
(Operating income ratio)	3.8%	3.2%	5%
Profit attributable to owners of the parent	68.7	75.9	85.0
Free cash flow	65.6	–	100.0
Return on equity (ROE)	8.5%	–	10%

* FY2016/3 IFRS figures are currently not audited and subject to change upon audit completion during FY2017/3.

Reorganization of Profit Structure

There are three key areas we must address in reorganizing our profit structure.

First, NEC will reform underperforming businesses and unprofitable projects. Initially, this will involve making improvements to the smart energy business where we recorded a significant loss in the fiscal year under review. Our target is to improve profits by ¥24 billion in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). We carried out asset impairments of around ¥10 billion in the fiscal year under review, so that actual improvement in profits will be around ¥14 billion. In April 2016, NEC reorganized the smart energy business as a business division under direct control of Corporate and executed management structure reforms. In addition to optimizing the scale of its resources by minimizing operations, NEC will continue to transform its business portfolio and shift its business model towards system integration and service business. We will make efforts to curtail unprofitable projects, with the target to improve profits by ¥13 billion in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). This past year the public business and international business saw increases in unprofitable projects, but the enterprise business successfully eliminated unprofitable projects through risk assessments prior to the contract and careful management at key project milestones. NEC will laterally deploy this know-how of profitability control across the entire NEC Group to reduce these projects. In addition, NEC will focus on strengthening its project management capabilities and PMO* functions. The management for global affiliates will be urgently reinforced in an effort to improve profitability control.

The second key area is the Business Process Optimization Project. In 2014, NEC established NEC Management Partner, Ltd. (NMP) to achieve ¥30 billion in cost savings and, through

visualization and standardization of operations and process reform, NEC has striven to streamline its Administrative Staff operations by 30%. We have already achieved ¥5 billion of this target in the fiscal year under review, so now we will work to achieve the remaining ¥25 billion over the next three years. Specifically, NEC will expand the consolidation of Administrative Staff operations to 16 of its largest Group companies to accelerate process reform along with visualization and standardization. Workforce reduction of 30% should be delivered through curbing supplemental staff and shifting personnel to other operations. We will consolidate IT operation management, including order operations and mission-critical systems to thoroughly streamline costs, with the target of ¥10 billion in cost savings in the fiscal year ending March 31, 2019 (compared to the fiscal year under review).

The third key area is optimization of development and manufacturing functions. We will further accelerate the integration of these functions within the Group in an effort to realize ¥10 billion in cost savings in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). NEC has a track record of successful cost reduction through integration of subsidiaries, such as NEC Network Products, Ltd., combining three subsidiaries engaged in network related hardware businesses; NEC Solution Innovators, Ltd., merging seven software subsidiaries; and NEC Platforms, Ltd., combining four subsidiaries engaged in IT hardware businesses. NEC will continue with similar initiatives in the future to achieve even greater effects. For the optimization of hardware development and production, NEC will integrate development processes and development environments. In the software segment, NEC will pursue the optimal allocation of resources flexibly, regardless if a subsidiary is engaged in IT-related or network-related software.

* PMO: Project Management Office

Getting Back on the Track to Growth

Under the Mid-term Management Plan 2015, we made strong progress in terms of company-wide strategic investments primarily in the Big Data, Cloud, Safety/Cyber Security and SDN domains. Sales from these four domains in the fiscal year ended March 31, 2014 totaled about ¥120 billion, but in the fiscal year under review this amount nearly doubled to about ¥230 billion. This growth far outpaces that of the market. Over the past three years, these domains have not only contributed to sales, they have helped us to reinforce our technical assets.

IoT will play an integral role in the world of tomorrow. For this reason, a variety of businesses will be created atop the platform of IoT. This will involve a series of processes spanning from

visualizing a wide range of data on the real world in the cyber world, to analyzing this data and predicting the near future, which result in providing value to the real world through necessary controls and guidance. This same series of processes will be found in every form of business in the future. It will be critical to produce various forms of value within this flow of processes and the four domains we have focused on strengthening will serve as very important assets for us going forward.

Under the Mid-term Management Plan 2018, we will commit management resources to the three businesses of Safety, Global Carrier Network and Retail IT Service, while also being mindful of IoT platforms and the seven themes of value creation.

The sales goal for each of these three focus businesses in the fiscal year ending March 31, 2019 is ¥142 billion for the Safety business (3.4 times compared to the fiscal year under review), ¥210 billion

for the Global Carrier Network business (1.8 times compared to the fiscal year under review), and ¥160 billion for the Retail IT Service business (1.2 times compared to the fiscal year under review).

Focus Business Safety Business

Studies indicate that the world's population will increase 1.3 times to more than 9 billion people by the year 2050. The population of people living in cities will increase 1.8 times, causing urban issues such as rush hour overcrowding, traffic congestion, deterioration of public safety, and pollution to grow worse. For this reason, we believe there will be growing demand for the Safety business, which will underpin people's safe and secure lives in the future.

NEC maintains some of the most advanced face and fingerprint recognition technologies in the world, while it has also established a high level of expertise in security operation center operations, winning a broad range of bids from governments and other companies in the process. We will utilize these strengths to contribute to even greater safety and security by understanding events and phenomena in real time. The targets of these efforts will be major cities in APAC, the Middle East, Africa, and Latin America, as well as important facilities such as government institutions or airports. To achieve this, we will need to further enhance our global delivery capability through partnerships. Under the Mid-term Management Plan 2015, we established the Global Safety Division (GSD) in Singapore. Under the Mid-term Management Plan 2018, we will further strengthen GSD and enhance the business globally.

Focus Business Global Carrier Network Business

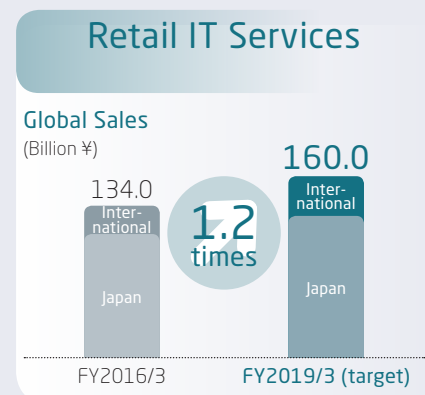
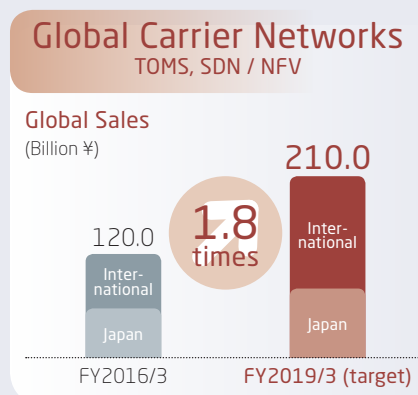
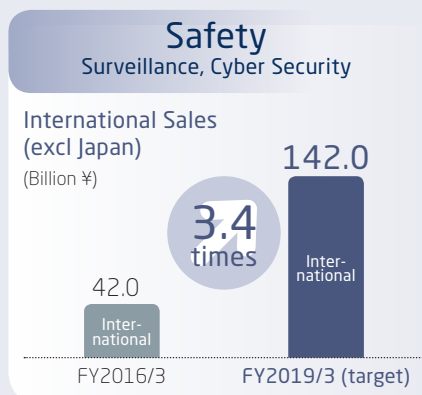
By the year 2020, the amount of computerized information is expected to increase about 10 times that of today (44 trillion gigabytes). All new businesses utilizing IoT, such as smart factories, connected cars, connected homes and smart logistics, will be underpinned by information communication services. This represents a major business opportunity for NEC.

NEC has the customer base and ability to provide Telecom Operations and Management Solution (TOMS), and an established track record in Proof of Concept projects and commercialization of SDN/Network Functions Virtualization (NFV). Utilizing this track record, we can help telecommunications carriers deliver new value-added services that meet the social needs of its customers quickly and efficiently. Specifically, we will enhance IT/network integrated solutions combining TOMS and SDN/NFV and accelerate business expansion through a shift to open standards and partner collaborations.

Focus Business Retail IT Service Business

As urbanization advances in the future, demand from cities will grow for food, water and energy. The development of platforms for retail business represents a critical task for facilitating convenient consumer activities for people living in cities, including purchasing safe and secure food.

NEC has established a solid track record over the past several decades providing various services to major convenience store chains in Japan. The business model of operating safe, secure and efficient stores 24 hours a day, 365 days a year has some of the most demanding standards in the world. Based on our experience gained from these relationships, we will examine practical solutions that can be rolled out globally. NEC will work on expanding the value it provides through solutions including omni-channel retailing, authentication and clearing, operational streamlining and facilities/equipment management. In particular, we will rapidly roll out solutions by enhancing our dedicated launch support organization (Regional Business Support Center (RBSC)) for APAC, China and North America.



Evolving our Corporate Culture

Since its founding, NEC's corporate culture has been embodied by our emphasis on technology and our employees' strong work ethic and commitment to complete work. We should value these traits as integral parts of our corporate DNA, but we need to transform ourselves if we expect to produce value and address the environmental changes taking place globally. As our main policy under the Mid-term Management Plan 2015 was to focus on Solutions for Society, we created the corporate brand message "Orchestrating a brighter world" and the booklet, "NEC Group Vision," which describes our future vision and direction. These were shared extensively within and outside the company. Next, we began more thorough communication among top management and also started activities to foster a shared understanding of NEC's vision for the future, in order to practice "team-based management." This aims to deliver value with common goals and directions shared by each organization of the NEC Group, instead of having each organization act independently. NEC has gradually

expanded the scope to include executives and then general managers, etc. in an effort to foster this culture internally. We also commenced activities to further establish this business model approach and actions with customers for value creation. These initiatives were executed with the goal of building a foundation for growth in the first stage of our transformation efforts.

In response, the new Mid-term Management Plan represents the second stage of our transformation, where we will create a growth pillar atop the growth foundation built during the first stage. The next three years will be used to create a stronger workforce that can lead NEC's value creation and accelerate innovation, further evolving our corporate culture while also utilizing the positive traits unique to NEC. This will enable us to make positive step-by-step progress toward becoming a stronger company.

