

# Overview of the Mid-term Management Plan 2020

## Main Points of the Mid-term Management Plan 2020

The Mid-term Management Plan 2020 has set the following mid-term targets as a level to be achieved in order to be a sustainable company: revenue of ¥3,000.0 billion, operating profit of ¥150.0 billion (5% operating profit ratio), net profit attributable to owners of the parent

of ¥90.0 billion, free cash flow of ¥100.0 billion, and ROE of 10%.

To realize these targets, we have established three mid-term management policies: reform of profit structure, achievement of growth, and restructuring of execution capabilities.

### Mid-term Management Targets

(Billion ¥)	FY2017/3 Results	FY2018/3 Results	FY2021/3 Targets
Revenue	2,665.0	2,844.4	3,000.0
Operating profit	41.8	63.9	150.0
(Operating profit ratio)	1.6%	2.2%	5.0%
Net profit attributable to owners of the parent	27.3	45.9	90.0
Free cash flows*	99.0	115.8	100.0
Return on equity (ROE)	3.4%	5.3%	10%

\* M&A excluded

(Note) Forecasts and targets as of January 30, 2018

### Mid-term Management Policies

Implement fundamental reform of profit structure, including reduction of fixed costs, to be able to carry out investments needed to get back on the track to growth

#### Reform of profit structure

- SG&A expenses (Personnel expense reduction/cost cutting)
- Business structure (Telecom carrier business/ Energy business)
- Production system

#### Achievement of growth

- Japan
  - Securely capture growth opportunities in Japan market
  - Shift to service business
- Global
  - Focus on safety business as the growth engine
  - Reorganize global structure supporting growth

#### Restructuring of execution capabilities

- Pursuing the creation of customer value by leveraging the latest technologies
- Restructuring of personnel system to enable employees to maximize their capabilities

## 1 Reform of Profit Structure

For the reform of profit structure, we will take steps to fundamentally reform our profit structure, including reduction of fixed costs, in order to carry out investments needed to get back on the track to growth. Through three reforms targeting selling, general and administrative (SG&A) expenses, business structure, and our production system, we will create a structure capable of succeeding globally.

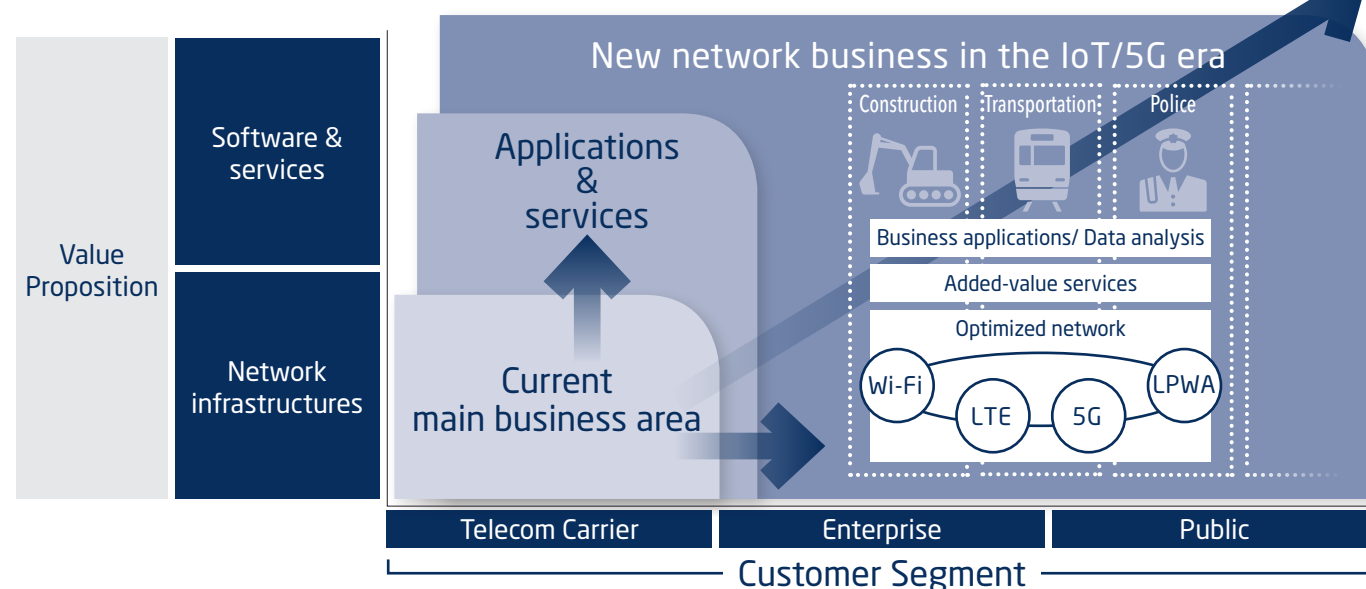
With regard to SG&A expenses, in fiscal 2019 we will carry out structural reforms targeting 3,000 personnel working in back office functions and the hardware business in Japan. We will look to streamline fixed property, IT, and marketing costs, aiming to bring the SG&A expense ratio down to 20% or less, and we will work to improve the profit structure so that we can continue the necessary investments required to transform our business model.

With regard to our business structure, we will resolutely implement reforms to improve profitability in the Telecom Carrier business<sup>\*1</sup> and the Energy business. In the Energy business, we have made the decision to sell the electrode business and to discontinue development and production of small-scale storage batteries. We

aim to achieve growth by concentrating our previously multi-directional operations anew in the energy system integration (SI) business centered on NEC Energy Solutions, Inc.

The Telecom Carrier business is facing extremely rapid market changes, which have dramatically reshaped the state of the business up to now. First, in the network infrastructure area, we will strive to improve profitability. In Japan, we will optimize resources in accordance with revenue scale, while internationally we will look at withdrawing from and scaling-down low-profit businesses. Meanwhile, the software and services area will be strengthened as a growth area. In Japan, we will accelerate the shifting of skills and partnering in order to adapt to changes in our customers' investments and expand our provision of services to telecom carriers. We will also grasp diversifying network needs and accelerate our business development for non-telecom carriers. Outside of Japan, we will position software and services as a key area and expand our business, revising our strategy and business structure and setting our strong TOMS<sup>\*2</sup> business as a core driver.

### Reform of Business Structure: Telecom Carrier Business



Regarding the production system, we will standardize production processes and systems for all factories worldwide and reorganize the global value chain to achieve further efficiency gains and downsize back-office personnel.

<sup>\*1</sup> With an organization change on April 1, 2018, the business for international customers was transferred to the Global business and business for customers in Japan was renamed the Network Services business.  
<sup>\*2</sup> TOMS: Telecom Operations and Management Solutions

## 2 Achievement of Growth

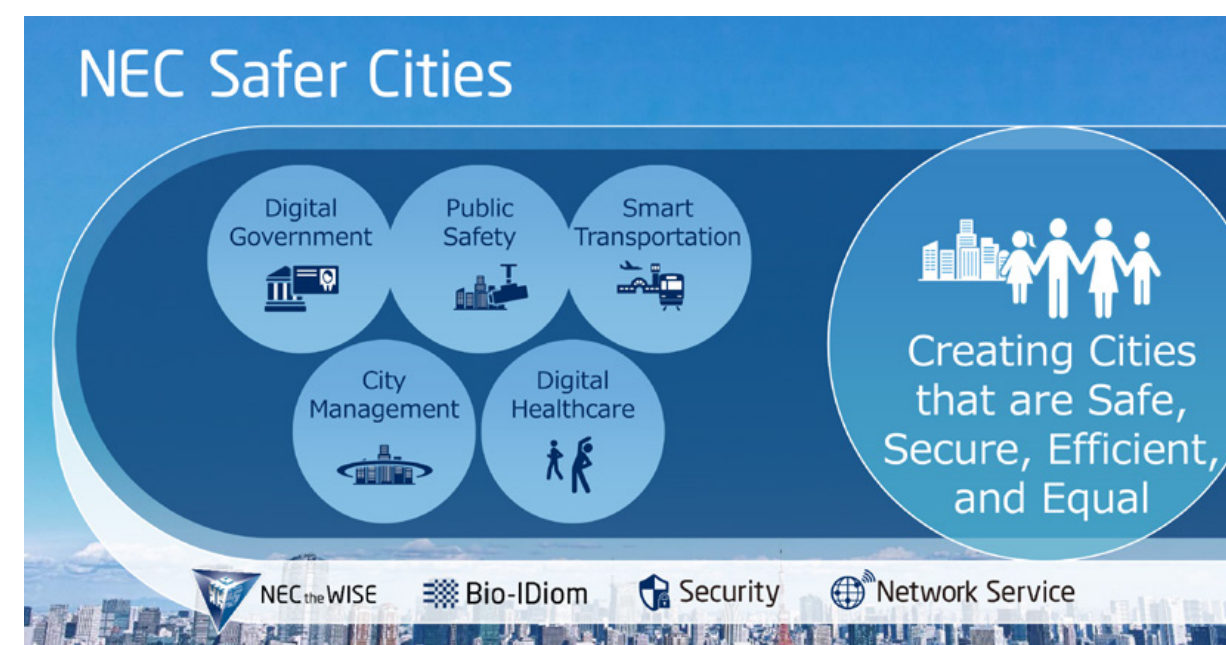
To achieve growth, NEC will focus on two areas based on its strengths in artificial intelligence (AI), biometrics, security, and network services.

The first area is NEC Safer Cities. Here, we will expand the

development of platforms that enable people to live abundantly in and outside of Japan, including public safety, digital government, and smart transportation.

### Achievement of Growth: NEC Safer Cities

#### Realizing NEC Safer Cities that utilize biometrics and AI technologies



The second is NEC Value Chain Innovation. In this area, we will work on initiatives for the formation of sustainable smart supply chains. We will promote initiatives for realizing food supply and demand optimization, cashless transactions, non-stop factories and plants, as well as the provision of technologies such as AI, IoT, and networks.

By focusing on these two areas, NEC aims to achieve revenues of ¥3,000 billion in fiscal 2021. Looking at revenues in Japan and internationally, we expect most of the increase from fiscal 2018 to fiscal 2021 to be realized outside of Japan, with domestic revenues remaining stable over this period. This projection is based on an expectation of growth opportunities in Japan related to infrastructure preparation for the Olympic and Paralympic Games Tokyo 2020 and digital government, offset by an expected contraction of our existing businesses.

Meanwhile, in our global domain, we plan to grow revenues mainly in the safety business, expanding the business domain from areas such as criminal investigation and immigration control to include administrative platforms and citizen services, among others. To accelerate growth in the global domain, we acquired U.K. company Northgate Public Services Limited in January 2018 and we will actively continue to pursue M&As in this vein.

To achieve rapid growth, NEC shifted to a dedicated operating structure for its global business in April 2018 and appointed external personnel with abundant global business experience and performance history to take charge. Through this appointment, we seek to examine whether our approach to date has been on the right path, and to drive our transformation from a wider perspective, giving consideration to how we might overcome the obstacles that have defied our efforts up to now.

### 3 Restructuring of Execution Capabilities

The final policy of the Mid-term Management Plan 2020, restructuring of execution capabilities, is the most important one in my view. Specifically, we will seek to strengthen business development capabilities and build an organization with the capacity to carry out actions to completion. In strengthening our business development capabilities, we will break away from the closed innovation mindset to promote solutions development via co-creation with our customers and business partners, aiming to create new social value beyond existing frameworks. This approach is aimed at addressing NEC's existing task of anticipating customer needs and accelerating monetization of competitive technologies.

In our effort to break away from the close innovation mindset, we have already seen results from initiatives such as open research and solution development, incubation through diverse schemes, and software product delivery services. In April 2018, we announced the establishment of dotData, Inc. in the U.S. to develop and sell software

that automates data science processes using AI in the field of big data utilization, and analytic work that requires large amounts of time to process manually.

With regard to solutions development via co-creation, we will step up our initiatives by expanding our bases for co-creation and trials in Japan and Singapore into other regions. In June 2018, we announced the establishment of NEC X, Inc. in the U.S. to serve as an incubator for accelerating the commercialization of our core technologies. NEC X, Inc. aims to create an ecosystem centered on the advanced technologies of NEC's talent and research laboratories and to accelerate new business development through open innovation.

In addition, we will strengthen our relations with governments, international institutions, and standardization bodies with a view to creating new social value as we strive to anticipate the future needs of society and our customers.

In order to realize an organization with the capacity to carry out actions to completion, we will introduce structures to allow us to complete execution quickly while enabling employees to maximize their capabilities, thereby enhancing NEC's execution capability.

Specifically, we will define management's responsibilities and authority more clearly to strengthen their commitment to results. We will also introduce a new evaluation and compensation system for rewarding those who take action and actively hire and appoint

human resources with diverse skills into executive and other positions. These measures will enhance our execution capability while firmly establishing a culture that encourages innovative actions and challenges.

To realize these initiatives, in April 2018 we launched the NEC Group Culture Transformation Division, appointing a professional from outside NEC to execute human resource system and culture reforms.

#### Restructuring of Execution Capabilities

**Organization with the capacity to carry out actions to completion**

Restructuring to enable employees to maximize their capabilities

Define the management's responsibilities and authorities more clearly

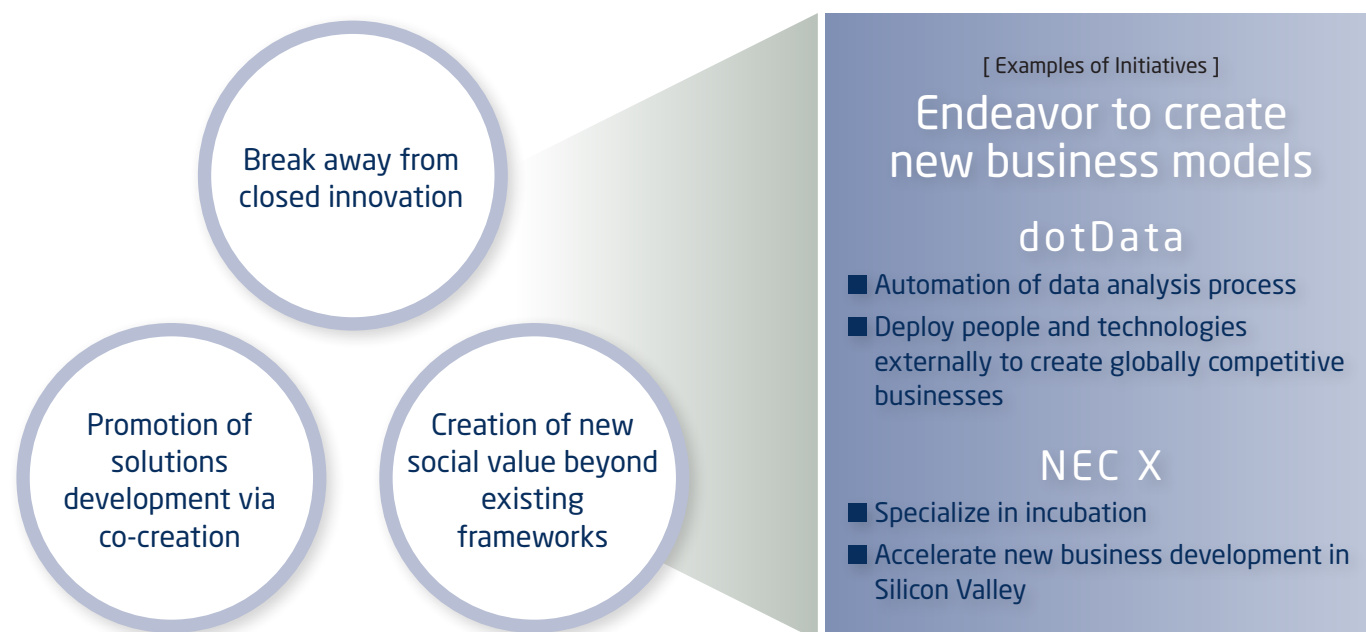
Encourage innovative actions and challenges

Accelerate diversification of the NEC Group

It is important that this transformation in our corporate culture ultimately creates an environment where NEC Group employees can move into action. I believe communication is important to enable every employee to undertake this transformation willingly, and I will

actively share my ideas about the transformation with them. I have therefore instituted dialogue sessions where I can personally share my ideas with NEC Group employees, and I will continue to hold these sessions going forward.

#### Strengthening of business development capability



#### Starting the Transformation Process to Achieve the Mid-term Management Plan 2020

The target operating profit ratio of 5% under the Mid-term Management Plan 2020 is not NEC's final goal. We consider this 5% margin to be only the starting point that will enable us to compete globally as a social value innovator. This is another reason why we must first complete the reform of profit structure in fiscal 2019, as it is the first step towards getting back on the track to growth.

Now is the time when NEC must make dramatic changes if it is to be regarded by society as a sustainable company. We are determined to break from our conventional ways of thinking, discern what is really necessary, and drive a transformation that will restore NEC's strength.