Message from the CFO

Takayuki Morita
Senior Executive Vice President,
CFO (Chief Financial Officer) and Member of the Board (Representative Director)

We will maintain a sound financial structure, improve earnings capacity and increase corporate value through appropriate capital allocation

In the fiscal year ended March 31, 2019, the first year under the Mid-term Management Plan 2020, the Company recorded one-time expenses totaling 50.0 billion yen, including 35.0 billion yen for business structure improvements to improve profitability and 15.0 billion yen for optimizing assets, such as impairment in the Global Business.

We also expanded NEC Safer Cities by acquiring KMD Holding ApS for 136.0 billion yen with a view to achieving growth. The acquisition is in line with our existing strategy, as we can expect this acquisition to contribute to earnings, and it is in a field where NEC can leverage its strengths. With this acquisition and that of Northgate Public Services Limited in the fiscal year ended March 31, 2018, we have executed the M&A investment target of 200.0 billion yen set out in the previous mid-term management plan of the fiscal year ended March 31, 2017. These two M&As have generated expenses for amortization of intangible fixed assets in terms of accounting, however, we can expect them to contribute to cash flow generation. Starting from the fiscal year ended March 31, 2019, we have decided to disclose adjusted operating profit (loss)*[1] and adjusted net profit (loss)*[2] to clearly show the underlying profitability of the Company including the M&As.

For future M&As, we will maintain our existing policy of using free cash flow to fund the acquisitions and continue to consider them as long as they do not impact the Company's financial base.

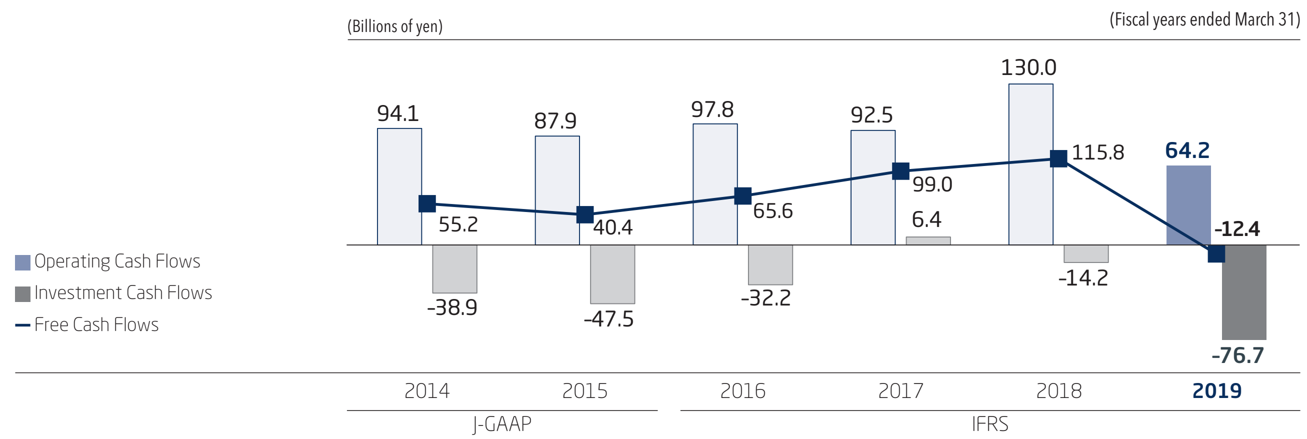
Adjustments to Operating Profit

(Billions of yen)	FY2018/3 Results	FY2019/3 Results	FY2020/3 Forecasts
Operating profit	63.9	58.5	110.0
Adjusted items	8.7	11.4	15.0
Amortization of intangible assets through acquisition	7.5	9.7	
M&A related expenses	1.2	1.8	
Adjusted operating profit	72.5	69.9	125.0
Net profit attributable to owners of the parent	45.9	40.2	65.0
Adjusted items	4.4	6.7	9.0
Adjusted net profit	50.3	47.0	74.0

Cash Generation for Investment in Fields Required for Growth

Next, with regard to enhancing capital efficiency, over the past few years our improvement in CCC*[3] has leveled off. Improving this situation is an important priority for us. In February 2019, we established the CCC Improvement Office specifically to tackle this issue. It will be challenging, but we will generate cash by streamlining our working capital and allocating resources to investments in fields required for our growth, including M&As, R&D, and capital expenditures. Through these efforts we will drive further improvement in our corporate value.

Operating Cash Flows, Investment Cash Flows, Free Cash Flows



Approach to Capital Allocation

We are planning to pay an annual dividend of 60 yen per share in the fiscal year ending March 31, 2020, the same level as the fiscal year ended March 31, 2018. In addition, to ensure the expected profits for shareholders, we have decided to recommence payment of an interim dividend, ending a 12-year hiatus.

NEC Corporation considers it important to increase its corporate value over the long term and to achieve capital gain. As CFO, in allocating capital I will seek a balance between growth investments, a sound financial structure, and shareholder returns. I will strive to increase our profitability over the long term while increasing corporate value.

*1 "Adjusted Operating profit (loss)" = "IFRS Operating profit (loss)"-"Adjusted items"
Adjustment items
• Amortization of intangible assets recognized as a result of M&A
• Expenses for acquisition of companies (financial advisory fees, etc.)
*2 Adjustments related to operating profit, taxes and non-controlling interests are excluded from IFRS net profit.
*3 Cash Conversion Cycle: Days inventory outstanding + Days sales outstanding - Days payable outstanding = Number of days from payment for raw materials until receive of payment for products and services