Financial Strategy

Mid-term Management Plan 2025 is driven by a fundamental policy in which we continuously improve our ability to generate cash from our business activities by maximizing long-term profit and optimizing short-term profit, and enhance corporate value through active investment.

Free Cash Flows

In fiscal 2024, free cash flows totaled ¥195.2 billion, a year-on-year increase of ¥92.7 billion. Cash flows from operating activities increased ¥18 billion due to a rise in adjusted operating profit, and working capital saw a year-on-year increase of ¥119.1 billion, due to the receipt of advance payments for large-scale projects and the collection of accounts receivable accumulated at the end of fiscal 2023, in addition to the approximately ¥101.0 gained from reducing inventories that had been strategically built up through the end of fiscal 2023. Meanwhile, cash flows from investing activities increased ¥26.4 billion due to a reactionary decrease in asset sales in fiscal 2023 and investment in data centers.

Activities for Shortening Our Cash Conversion Cycle

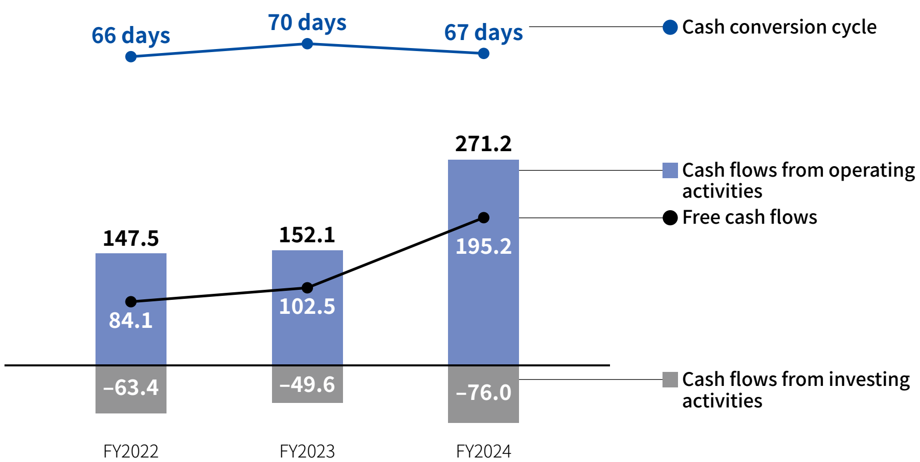
Our cash conversion cycle (CCC), which we have been working to shorten since the previous mid-term management plan to improve asset efficiency, lengthened in fiscal 2022 due to factors such as the strategic buildup of inventories to cope with component shortages, but by reducing these inventories through the end of fiscal 2024, we shortened the cycle by three days from the end of the previous fiscal year to 67 days.

Cross-Shareholdings

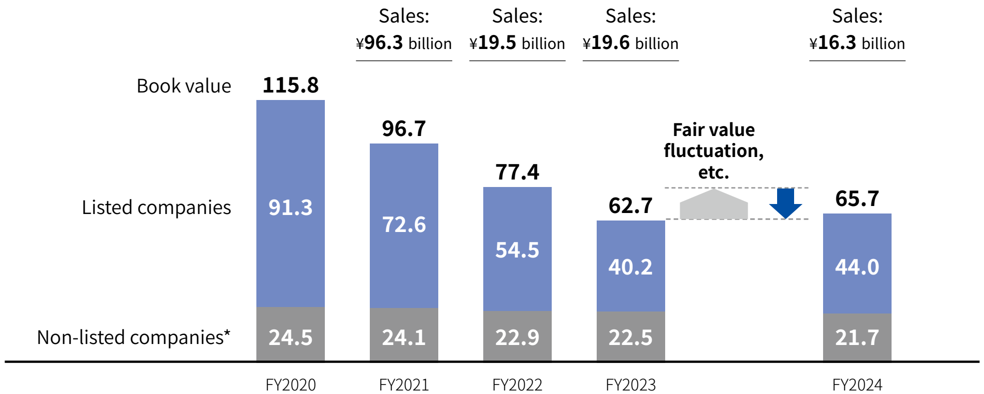
In April 2020, we set guidelines for eliminating cross-shareholdings. All cross-shareholdings possessed by NEC are subject to comprehensive annual review by the Board of Directors, in which the Board clarifies the strategic value of each holding and considers returns in terms of capital cost and other perspectives. If the Board accepts the rationale for a holding, it is kept; if not, it is sold. We have reduced our cross-shareholdings in listed companies (excluding deemed holdings) from 108 at the end of fiscal 2020 to 27 at the end of fiscal 2024. For the remaining 27 cross-shareholdings, including those which we have already agreed to sell, we have achieved a reduction of roughly 80% in terms of the number of cross-shareholdings, and we will continue our efforts in this regard. In January 2024, the Company sold its shares in

Free Cash Flows
(Billions of yen)

Significant Increase in Working Capital Due to Inventory Reduction



Sales of Investment Securities (excluding deemed holdings)
(Billions of yen)



	FY2020	FY2021	FY2022	FY2023	FY2024
Number of cross-shareholdings (listed companies)	108	63	52	33	27
Non-listed companies	206	193	176	137	113

* Excluding alliance companies

Renesas Electronics Corporation, which were deemed holdings that had accounted for the largest proportion of its holdings of shares in other companies, for ¥174.9 billion. As for non-listed stocks, there are some that will take time to eliminate due to the circumstances that surrounded them from the time of investment, but we have reduced holdings in unlisted companies from 206 at the end of fiscal 2020 to 113 at the end of fiscal 2024. In addition to cross-shareholdings, the Board also assesses the significance of continuing to hold real estate and other assets and actively promotes the conversion of such holdings into cash.

Capital Allocation

Our basic policy on capital allocation under Mid-term Management Plan 2025 remains unchanged, as we continue to place the highest priority on growth investments while maintaining financial soundness. We will continue to explore investment opportunities in growth areas to enhance our corporate value, and to date, we have conducted a total of ¥35 billion in bolt-on M&As to strengthen the business portfolios of the three European DGDF companies acquired under the previous plan. Taking into consideration our current financial situation, we are looking to invest a total of ¥500 billion in future growth, while maintaining our current rating level.

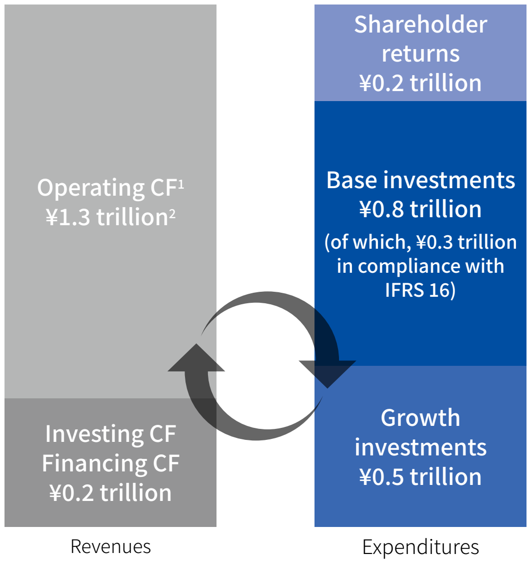
In addition, we intend to steadily increase dividends, planning full-year dividends of ¥140 per share for fiscal 2025 and ¥160 per share for fiscal 2026, the final year of Mid-term Management Plan 2025, in line with the projected increase in profit levels.

We will make decisions on the purchase of treasury stock in a flexible manner, taking into consideration the level of surplus funds and other factors.

Capital Cost-Conscious Management

We are aware that the markets assume NEC's WACC to be around 6.5%, and if we meet the goals of Mid-term Management Plan 2025, ROIC is expected to be 6.5% in the case of M&As, and 7.0% without M&As. We recognize that our WACC should exceed the level expected by the market and will manage it in a way that is consistent with the competitive landscape and our business strategy so that we can achieve even higher levels in the future.

Profit Cycle and Capital Allocation



1 CF = Cash flow
2 FY2022–FY2026 total

ROIC

FY2021 result	FY2022 result	FY2023 result	FY2024 result	FY2025 (forecast as of April 26, 2024)	FY2026 target
4.7%	3.9%	4.7%	5.0%	5.9%	6.5% In the case of M&As 7.0% In the case of no M&As