

Mid-term Management Plan 2018

April 28, 2016

NEC Corporation

(<http://www.nec.com/en/global/ir>)

Mid-term Management Plan 2018

I. Looking Back at the “Mid-term Management Plan 2015”

II. Mid-term Management Directions

III. Reorganization of Profit Structure

IV. Getting back on the Track to Growth
Supplement : Mid-term Plan by Segment

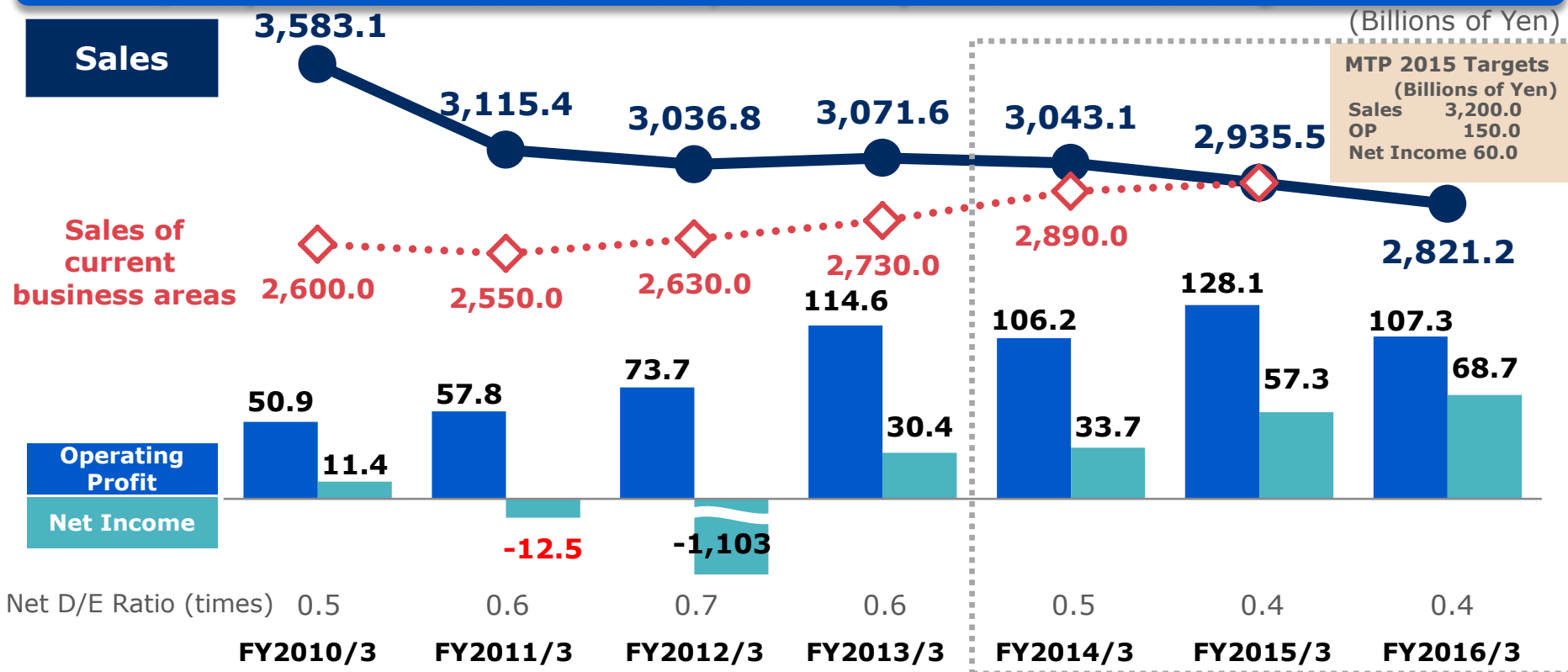
* “Net Income” of FY2015 is net income attributable to the stockholders of the parent company based on J-GAAP. IFRS will be applied from FY2016 onwards, and “Net Income” is the amount of Profit(loss) attributable to owners of the parent on IFRS.

* FY16/3 IFRS figures are currently not audited and subject to change upon audit completion during FY17/3

I. Looking Back at the “Mid-term Management Plan 2015”

Transition in Financial Performance Results (JGAAP)

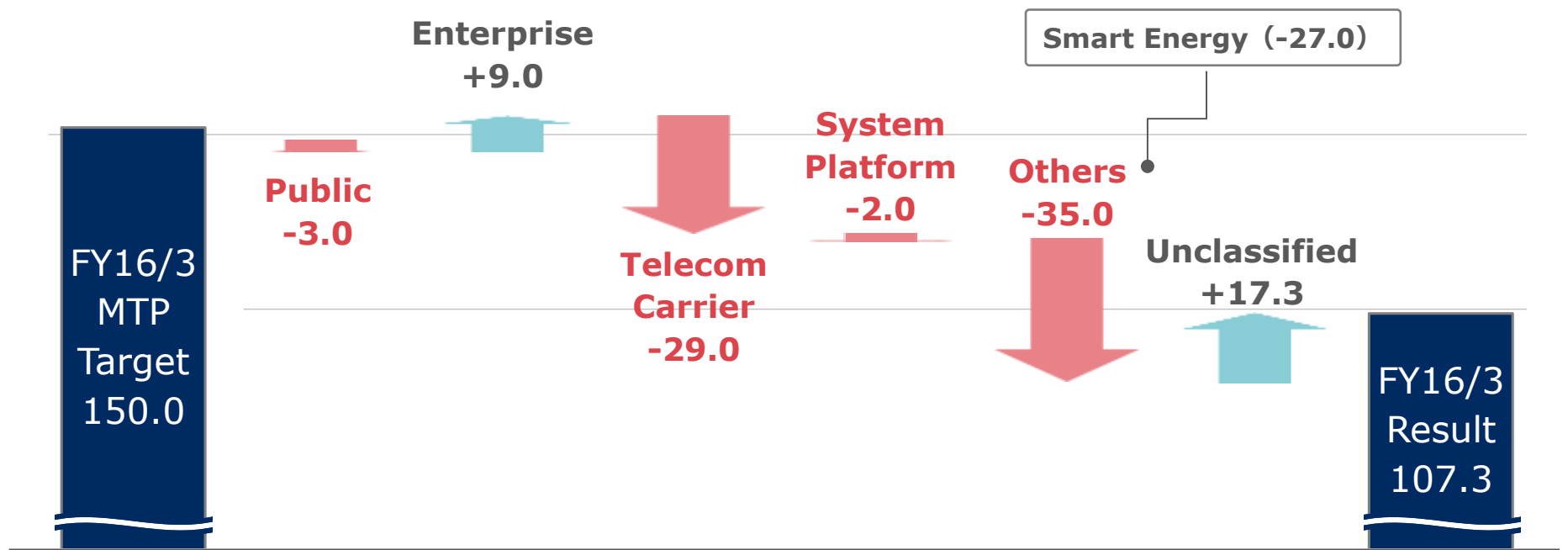
Unable to achieve our Mid-term Management Plan (MTP) 2015 targets except for net income, despite our effort to enhance profitability and financial strength



FY16/3 Operating Income Target and Result Variance (JGAAP)

Unable to achieve targets due to our overly optimistic expectations of the market volume and lack of ability to execute

(Billions of Yen)



Achievements and Challenges

Progress in portfolio reorganization; delays in business growth and profit structure improvement

Focus on Solutions for Society	Achievements	<ul style="list-style-type: none">● Portfolio reorganization● Acquisition of large-scale public infrastructure businesses● Strengthening of core assets
	Challenges	<ul style="list-style-type: none">● Delay in new business establishment
Focus on Asia, promotion of “locally led” business	Achievements	<ul style="list-style-type: none">● Expanded business in Asia and Latin American regions, namely in public safety
	Challenges	<ul style="list-style-type: none">● Expanded international business, but were not able to achieve targets
Establishment of a stable financial foundation	Achievements	<ul style="list-style-type: none">● Achieved a sound balance sheet● Increased shareholder returns (increased dividend)
	Challenges	<ul style="list-style-type: none">● Inability to achieve free cash flow and ROE targets

NEC's Challenges

Shortfall in the application of ideas into
action plans and execution

Lack of speed in adapting to change



**NEC possesses the assets to create
the value we target**

Management Policies

Enforcement of compliance / Evolution of corporate culture

Instill and build corporate ethics and compliance as group-wide corporate culture

Strengthen capability to continuously create value, and establish system based on "HR philosophy"

Improve management speed

- ✓ Implement PDCA that is conducive to swift decision-making
- ✓ Build consensus by thorough discussion and accelerating execution speed

Enhance execution power

- ✓ Clearly define authority/responsibility within the complex businesses
- ✓ Select business partners based on strong capability to navigate the market

Group business management

- ✓ Pursue the "Best" for the whole NEC Group.
- ✓ Transform the work style of the 200 group companies and 100,000 employees, and optimize resource allocation

II. Mid-term Management Direction

Market Environment Outlook

Macro Environment



- **Stable growth in the US and Europe. Resource-rich emerging economies show slower growth**
- **Heightened social instability due to aging population, urbanization, disasters and terrorism**
- **Changes in industry structure and competitive landscape will emerge due to progress in digitalization of enterprise activities**



- **Prolonged, low economic growth due to sluggish exports, population decline, and other structural problems.**
- **Increase in the promotion of public-private partnerships geared at realizing structural reforms and growth strategies**

ICT Market

Social Infrastructures

- **Increase in demand for cyber security solutions to protect digital economic activities such as FinTech and National ID**

IT services

- **Secure services, connecting everything through the Cloud, will be the market drivers**

Technologies

- **AI and IOT will realize a world whereby “people,” “things,” and “phenomena” are connected securely**



Safety



Security

Greater importance of secure Solutions for Society

Efficiency



Equality



*FinTech: Finance and Technology AI: Artificial Intelligence IoT: Internet of Things

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 JGAAP	FY2016/3 IFRS	FY2019/3 Targets 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%
Net income	68.7	76.5	85.0
Free cash flows	65.6	-	100.0
Return on Equity(ROE)	8.5%	-	10%

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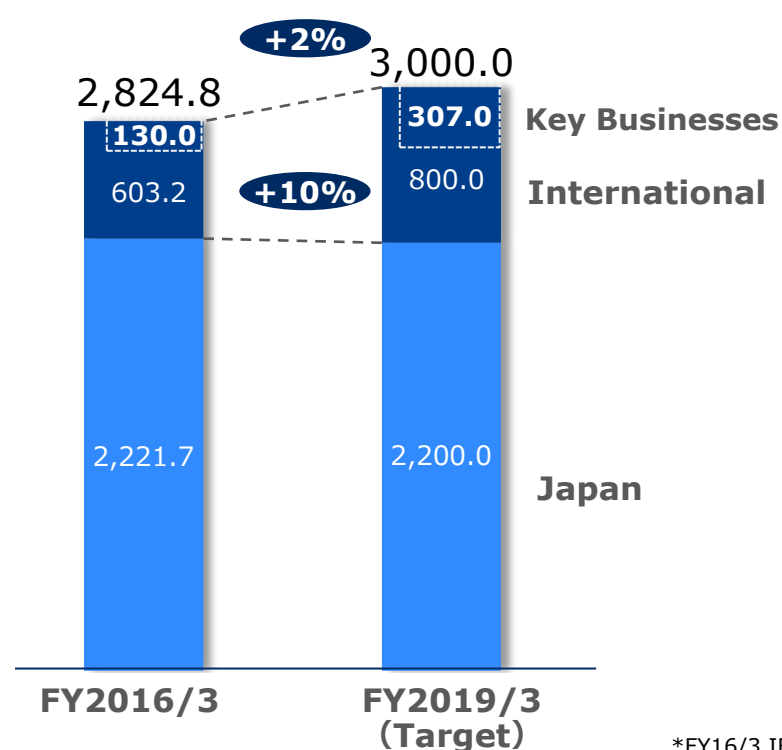
*Target figures are as of April 28, 2016

Sales Target - Approach

Sales Budget

Average annual growth rate

Billions of Yen



International

- Define business areas where we can apply our strength as Key Businesses and expand business
- Acceleration of “One to Many”

Japan

- By capturing new business opportunities, compensate for contraction of existing businesses and maintain current business scale.

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Capture New Business Opportunities (Examples in Japan)

Infrastructure preparation for 2020

By leveraging our public safety products, contribute to safety, security and "omotenashi" hospitality in cities

Private markets

Public markets



Providing solutions for a smart society

"My Number" - Use in private sector

"My Number" - Private use strongly supports creation of new services



Regional Revitalization

By strengthening the organization in which all group companies work together and through joint efforts with local stakeholders, contribute to solving the problems of local government and residents.



Manufacturing ("monozukuri") - Co-creation (For manufacturers)

Know-how and assets (needed for production innovation or global supply-chain renovation) - Provided under four concepts



* Monozukuri Research Group
Members: 3,078 (As of March 2016)

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 yen

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

Free cash flows

FY2019/3(Target): 100 billion yen

- Compress working capital by promoting CCC improvement

Investment for growth

Secure 200 billion yen 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 yen (annual dividend)

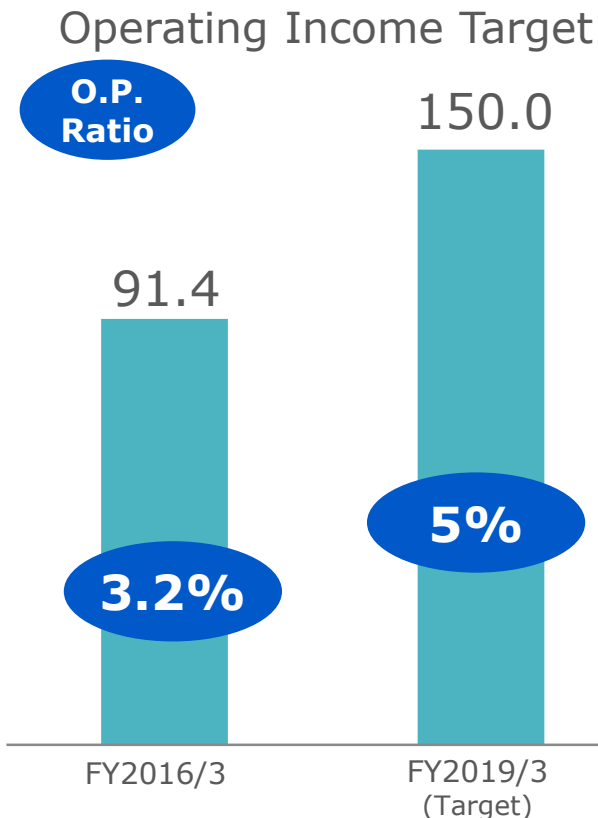
*Target figures are as of April 28, 2016

III. Reorganization of Profit Structure

An abstract graphic consisting of several thin, flowing orange lines that intersect and curve across the right side of the slide, extending from the top right towards the bottom right.

Approach for Reorganization of Profit Structure

(Billions of Yen)



Measures for improvement in operating income ratio

- Measures for underperforming business and unprofitable projects
 - Structural reform for smart energy
 - Prevent new unprofitable projects

Effect of FY19/3
(compared to FY16/3)
<Unit: Billions of Yen>

- Business process optimization project
 - Staff operation efficiency
 - Cost / IT Cost efficiency
- Optimization of development and manufacturing functions

24.0
13.0

25.0
10.0

10.0

82.0

-24.0

Changes in business mix

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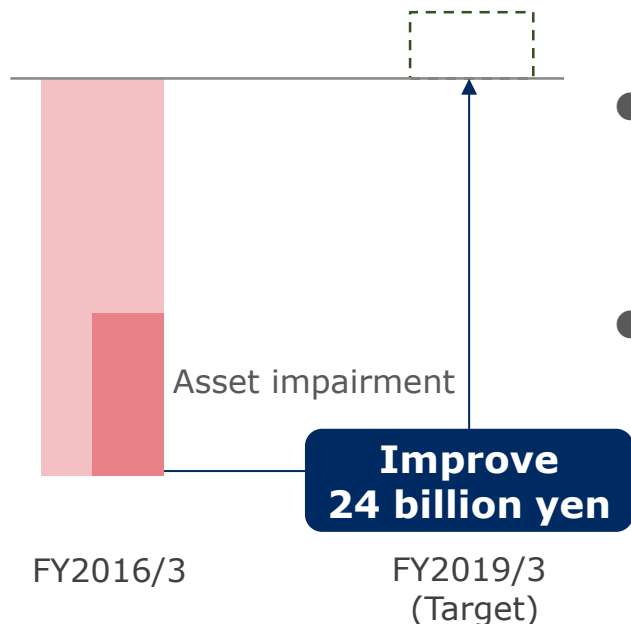
Addressing Underperforming Businesses and Unprofitable Projects-1

Smart Energy Business – stop losses

Stop the losses: (24 billion yen)

(Billions of Yen)

Operating income/loss target



- Management change - From "Business Unit" to a division directly controlled under corporate
- Carry out structural reform

- Promote portfolio reform
 - ✓ Shift to Energy System Integration / Service Business
- Optimize the resource scale by "minimized operations"

*Target figures are as of April 28, 2016

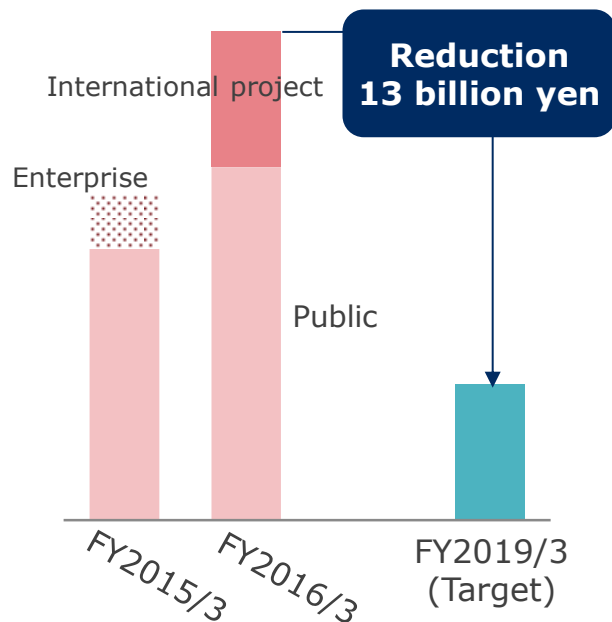
Addressing Underperforming Businesses and Unprofitable Projects-2

Unprofitable projects - Control

Loss reduction (13 billion yen)

(Billions of Yen)

Loss-making projects - Amount



- Enterprise - More effectively manage unprofitable projects
Communicate this know-how across group companies
- Enhance project management abilities and PMO functions
- Control international unprofitable projects by enhancing governance of global affiliates

*PMO: Project Management Office

*Target figures are as of April 28, 2016

Business Process Optimization Project

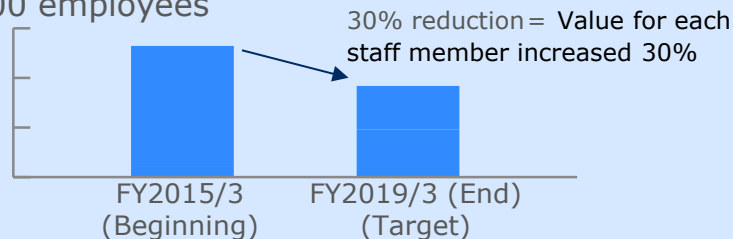
Administrative Staff operation - Streamlining

Effect **(25 billion yen)**

- Administrative Staff operation consolidation for NEC Management Partner - Extended to 16 major companies
(16 major companies cover about 90% of administrative staff)
- Visualization / Standardization and Process re-engineering- Streamline operations 30%
- Control new employment and shifting resources to reduce administrative staff numbers by 30%

No. of administrative staff at all group companies (Japan)

10,000 employees



Expenses/IT Cost - Streamlining

Effect **(10 billion yen)**

<Expenses>

- Expense management activities - Extending to all group companies / global
- Order process - Optimization

<IT costs>

- Reduce existing IT system costs to half by centrally controlling IT assets of all group companies and enhancing IT control
- New investment for further operation streamlining and sophistication

*Target figures are as of April 28, 2016

Optimization of development and manufacturing functions

Enhancement of optimization strategies and attainment of achievements from group function integration Effect of FY19/3 10 Billion Yen

<Major integration cases>

2011	NEC Network Products	Integrated 3 affiliate companies for network hardware
2014	NEC Solution Innovators	Integrated 7 affiliate companies for software
2014	NEC Platforms	Integrated 4 affiliate companies for IT hardware
		(plan to also integrate business of NEC Nagano and NEC Saitama to NEC Platforms)

Hardware Development and Manufacturing

- Enhancement and streamlining of development/production systems from the "One NEC" view point
- Streamlining of development structure by integrating development processes and development environments

Software Development

- Reassembling and optimizing the resource map
- Leveraging local SI/service resources efficiently and activating regional businesses

*Target figures are as of April 28, 2016

IV. Getting Back on the Track to Growth

4 Key Business Area Results :

Enhance technology assets across business areas



Big Data

- Many demonstration tests for nuclear power plants
- Promote the training of data scientists



Cloud

- Construction and operation of centers by NEC
- Established organization to provide E2E services



Cyber Security

- Supplied core system to Interpol
- Strengthened evangelists and security engineers and provided SOC services globally

*SOC : Security Operation Center



SDN

- Expanded business for enterprises with next generation NW infrastructure (i.e., easy operation, high scalability, BCP for cyber attacks, etc.)

Sales of 4 key businesses FY14/3 120 Billion Yen



FY16/3 230 Billion Yen

Target Businesses and the Value Creation Platform Within the IoT Era

Real World

IoT



Cyber Field

AI

Visualization

Analysis

Control / Lead



Sensing



Big Data



SDN
/NFV



Cloud



SDN
/NFV



Cyber Security

Select the business to focus on in which the technology assets that NEC has been refining can be used as a "lever".

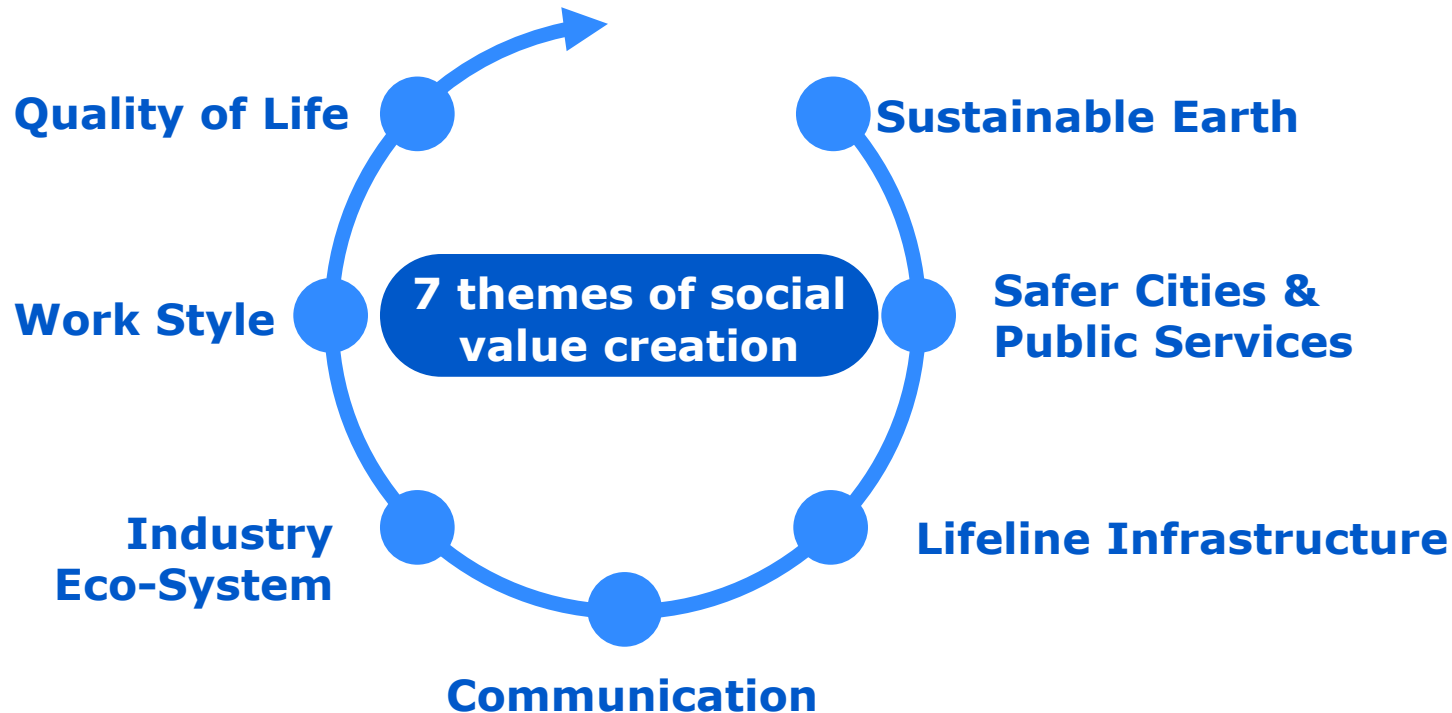
Real World
Social Value



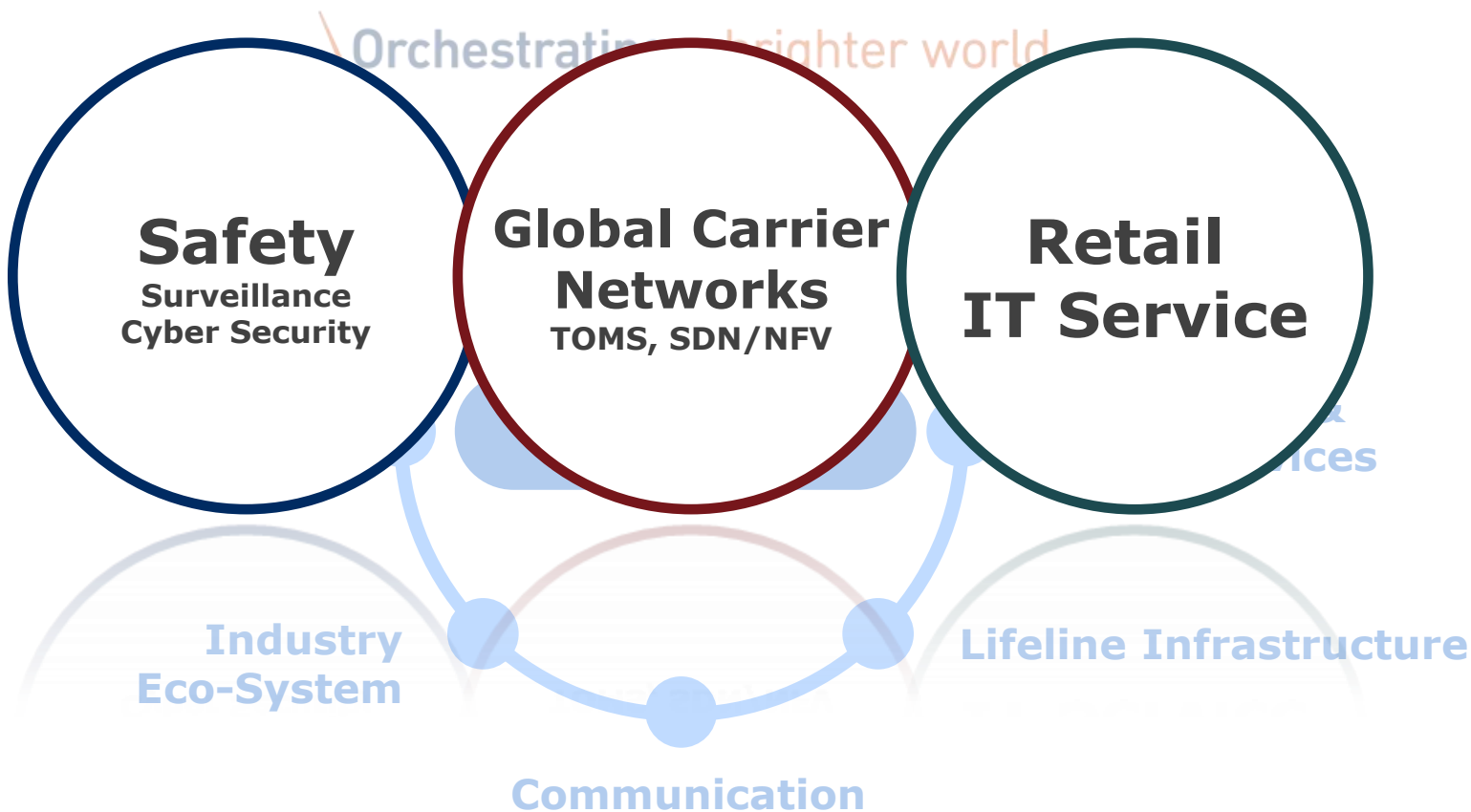
R&D for
leading-edge
technologies

7 Themes for Value Creation

Orchestrating a brighter world



Key Businesses in Mid-term Management Plan 2018



Safety Business

Surveillance /
Cyber Security

■ Establishing a safe and secure infrastructure that supports society

- Progress of urbanization (1.8 times / 2050)
- Urban challenges such as commuter rush hours, traffic jams, worsening security, pollution, etc.
- Integration of urban functions and cyberspace
- Risk of urban function interruption caused by disaster, terrorism or urban overpopulation



Safety Business

Value Offerings

- Contributing to greater safety and security by analyzing phenomenon in real-time
 - **Authentication technology**
 - **SOC operation know-how**
 - **Delivery of government projects**

Target Areas / Customers

- APAC, Major cities in Middle East, Africa, Central and South America
- Essential public institutions (e.g., Government, Airports)

Major Projects

- Solution Enhancement
 - ▶ Integrate operation know-how that NEC has gained in its current businesses and technology core set and provide the service of this integrated system (including operation).
- Business operation organization - Strengthening
 - ▶ Enhance the global delivery system by partnering, etc.
 - ▶ Enhance the planning function of "One to Many" solution
 - ⇒ Consolidate the internal related divisions into Global BU* and integrate it in the GSD**

*BU : Business Unit

**GSD : Global Safety Division



Global Carrier Networks

TOMS,
SDN/NFV

■ For the "Hyper Connected" era

- Increasing digitalized information (4.4 trillion GB → 44 trillion GB/2020)
- Rapidly increasing network traffic

■ Expansion of new business using IoT

- Smart factories
- Connected cars
- Connected homes
- Smart logistics, etc.

} Implemented on
information and
communications
service



Network Business for Global Carriers

Value Offerings

- Quickly implement a new service (carrier) to address social needs
- **Ability to provide TOMS solution and customer base**
- **SDN/NFV commercial launch**

Target Areas / Customers

- Leverage the customer bases of NEC and NetCracker
- SDN/NFV - Horizontal expansion to other carriers from leading-edge global carriers

Major Projects

- Solution Enhancement
 - ▶ TOMS / SDN/NFV combination (E2E orchestration, etc.) / IT/NW integrated solution - Continuous enhancement
 - ▶ Promotion of open standards and partner collaboration to offer diverse solutions
- Enhancement of business operation organization
 - ▶ Integrate the capabilities to provide the total solution for SDN/NFV business and accelerate business expansion



IT service business for retail

■ Heightened demand for safety and efficiency

In a world where urbanization is progressing...

- Food demand ... 1.7 times
- Water demand... 1.6 times
- Energy demand...1.8 times

■ Diversifying consumer needs



IT Service Business for Retail

Value Offerings

- Realizing a 24/7 store operation - Safe, Secure, Efficient
- Further improvements in consumer convenience
 - **Commercial launch – Major convenience store chain**
 - **Best practice model**

Target Areas / Customers

- Major convenience store chains in North America, APAC, Greater China, Central and South America
- Development of business for drug stores and variety stores

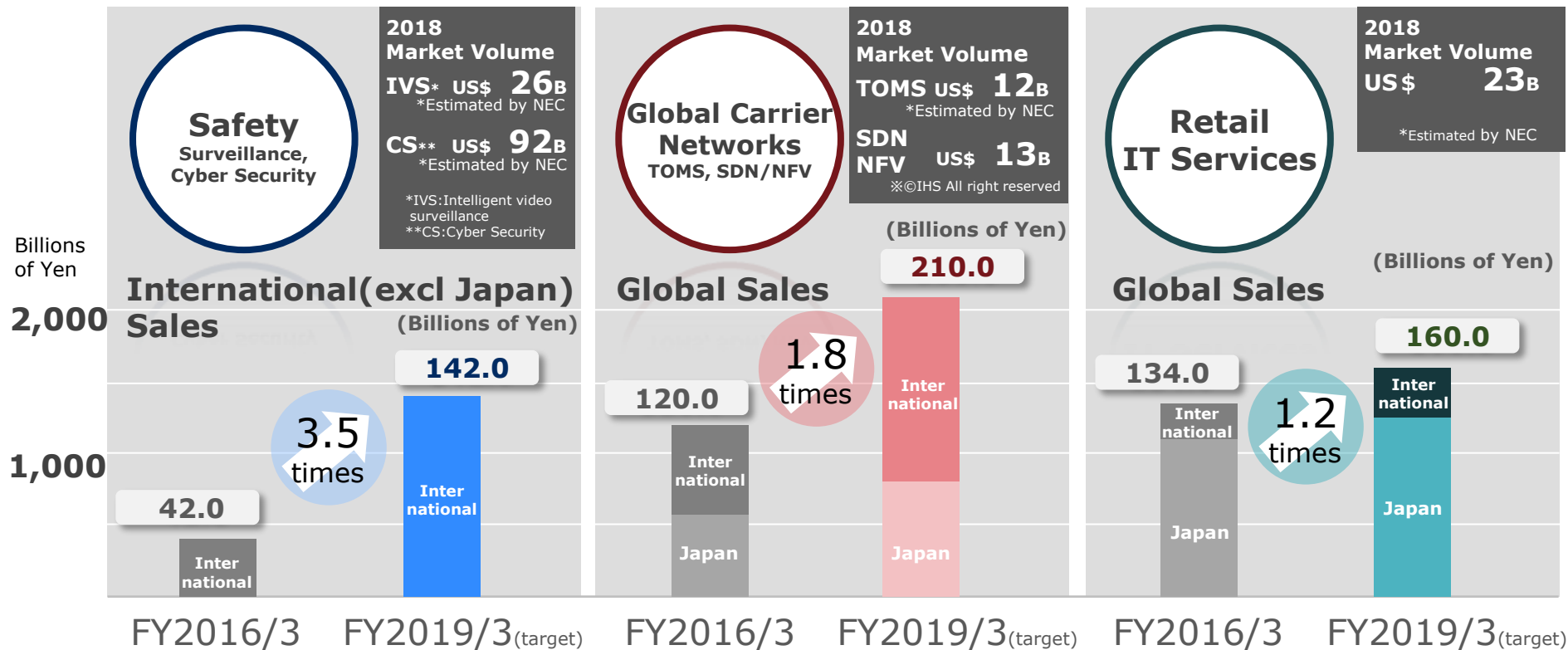
Major Projects

- Solution Enhancement
 - ▶ Enhance IT service life-cycle management
 - ▶ Enhance the new value provision solution
 - ① Omni channel ② Authentication / Clearing ③ Operation streamlining
 - ④ Facility / Equipment management
- Business operation organization - Strengthening
 - ▶ Enhance the specialized RBSC* and expand delivery and service operation organizations

*RBSC: Regional Business Support Center



Sales Targets for Key Businesses



*Target figures are as of April 28, 2016

Corporate Culture - Evolution



 **Orchestrating** a brighter world

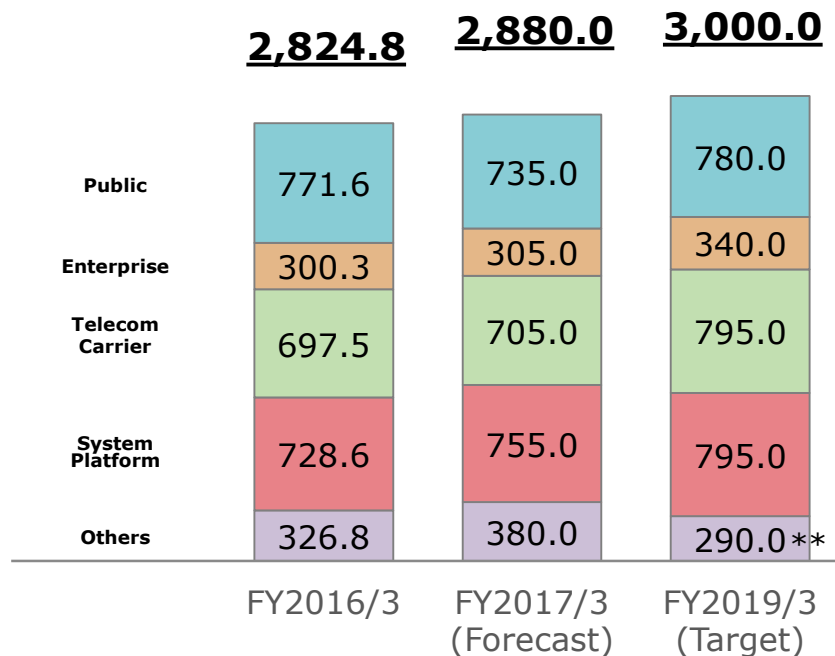
NEC

Supplement: Mid-term Plan by Segment

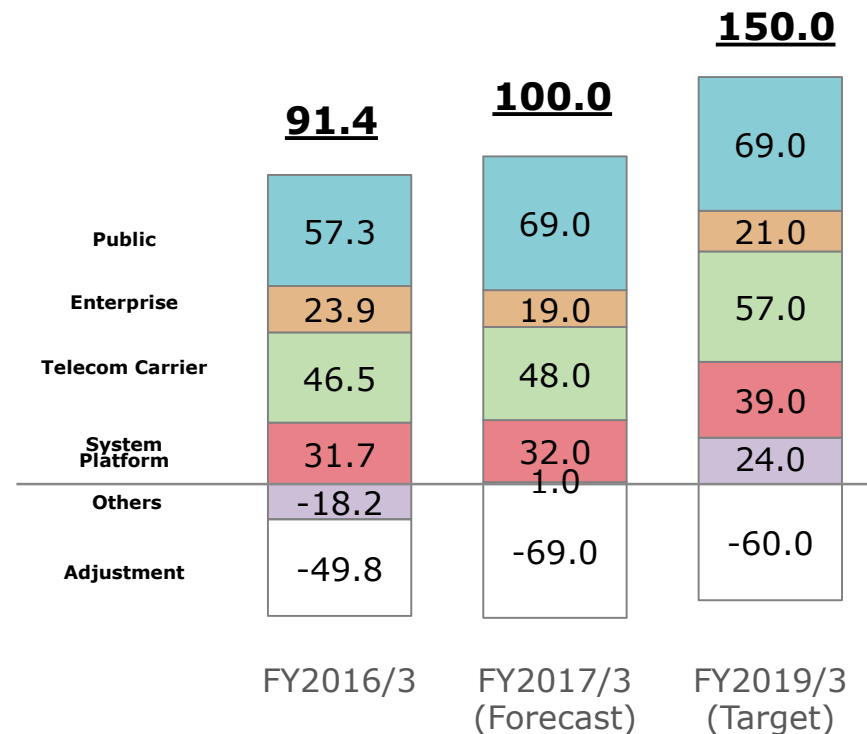
Mid Term Management Plan by Segment

(Billions of Yen)

Net Sales



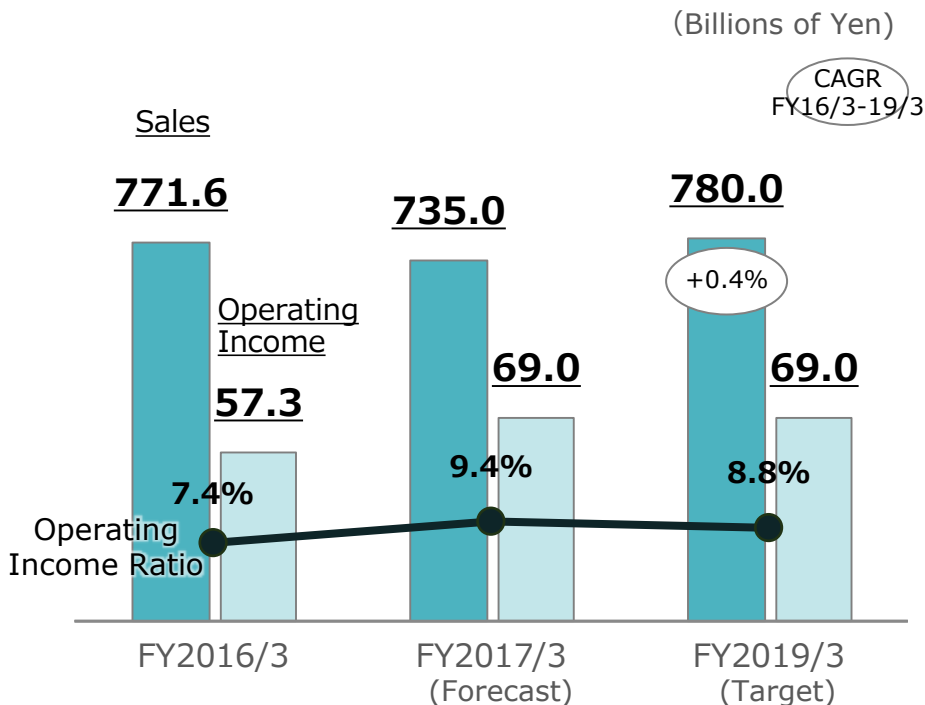
Operating Income



**Includes a fixed level of corporate contingency

* Forecast and targets are as of April 28th, 2016
*FY16/3 IFRS figures are currently not audited and subject to change upon audit completion during FY17/3.

Shift to an entity to sustain continuous growth and stable profitability



Sales

- Target to get back on the track towards growth by capturing Japanese market business opportunities, although fire prevention radio network businesses has peaked out
 - Infrastructure preparation towards year 2020
 - Cyber security
 - IT services for financial institutions(FinTech)

Operating Income

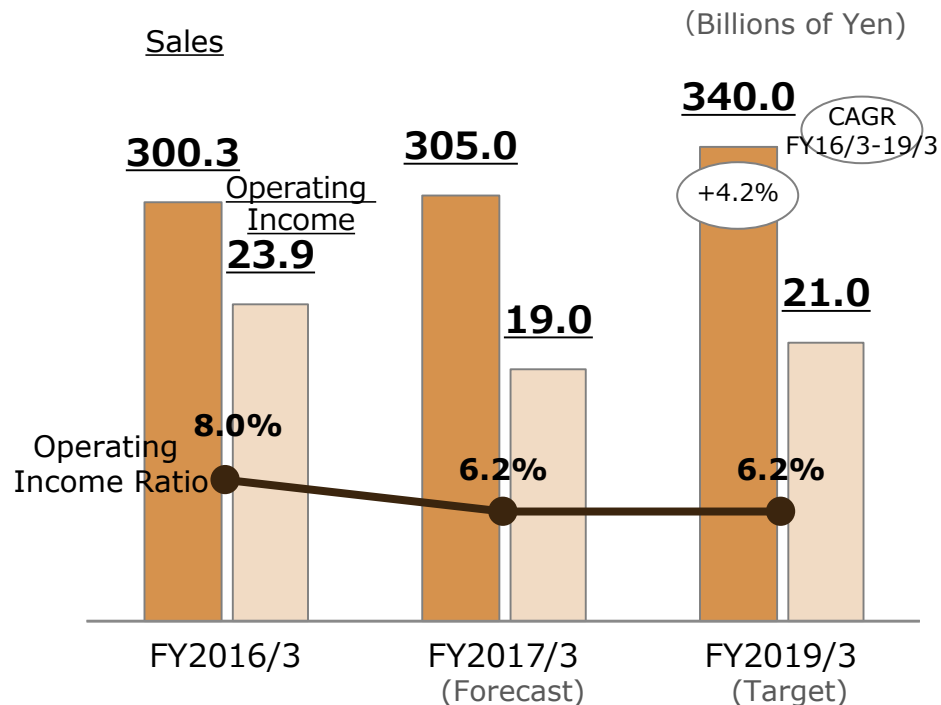
- Further to sales expansion, exit from loss-making businesses in order to improve profitability.



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Strengthening of business foundation towards global growth



Sales

- Growth in the focus businesses
 - IT services business for retail
 - Manufacturing Co-Creation Program

Operating Income

- Maintaining overall profitability whilst investing in the strengthening measures of the business foundation

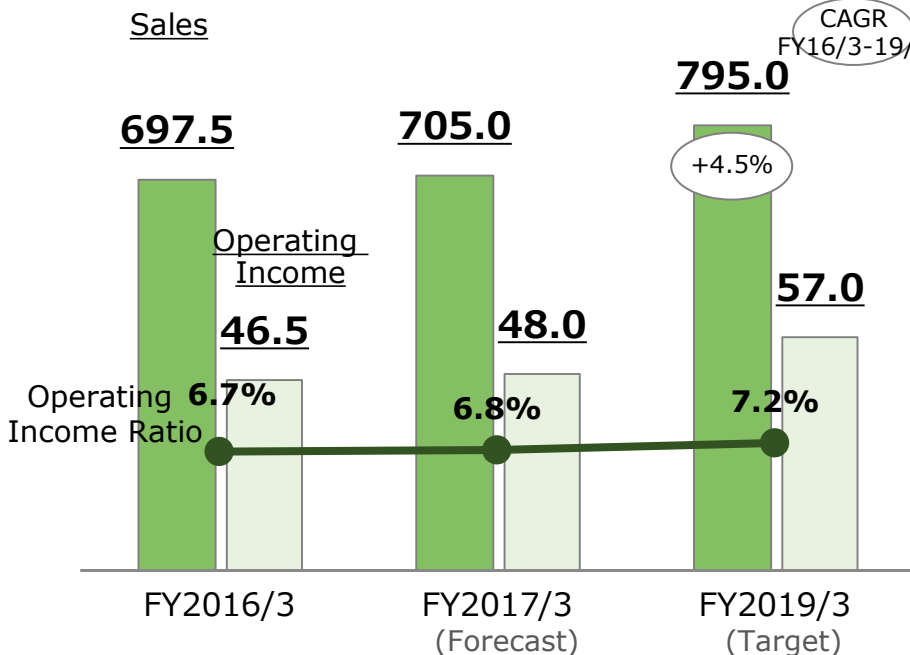


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Realizing global growth by capturing the network transformation opportunities

(Billions of Yen)

CAGR
FY16/3-19/3



Sales

- Targeting expansion of market share within Japan, although the volume is forecasted to decrease
- TOMS · SDN/NFV shall be pillars of business expansion in the global market

Operating Income

- Improvement of international business profitability
 - Sales expansion in areas of growth
 - Prevention of loss making projects

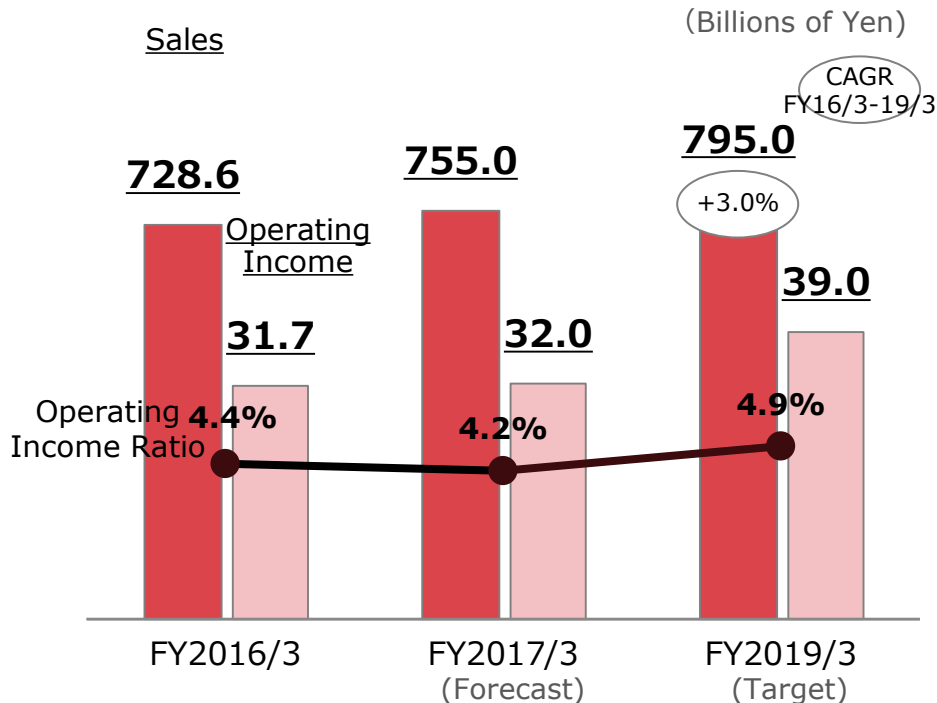


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System Platform

Supporting the solutions for society, and improving profitability



Sales

- Secure growth by the technologies which will support the key businesses such as IoT platform and SDN.

Operating Income

- Improvement of profitability by optimization of hardware development and production capabilities in addition to sales increase



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Reference : Mid-Term Management Plan2015 Targets and Results (FY2015)

※JGAAP (Billions of Yen)	FY2016/3 Targets	FY2016/3 Results	Variance
Net sales	3,200.0	2,821.2	-378.8
Operating income	150.0	107.3	-42.7
(Operating income ratio)	4.7%	3.8%	-0.9%
Net income	60.0	68.7	+8.7
Free cash flows	100.0	65.6	-34.4
Return on Equity(ROE)	10%	8.5%	-1.5%

Cautionary Statement with Respect to Forward-Looking Statements

This material contains forward-looking statements regarding estimations, forecasts, targets and plans in relation to the results of operations, financial conditions and other overall management of the NEC Group (the “forward-looking statements”). The forward-looking statements are made based on information currently available to NEC and certain assumptions considered reasonable as of the date of this material. These determinations and assumptions are inherently subjective and uncertain. These forward-looking statements are not guarantees of future performance, and actual operating results may differ substantially due to a number of factors.

The factors that may influence the operating results include, but are not limited to, the following:

- Effects of economic conditions, volatility in the markets generally, and fluctuations in foreign currency exchange and interest rate
- Trends and factors beyond the NEC Group’s control and fluctuations in financial conditions and profits of the NEC Group that are caused by external factors
- Risks arising from acquisitions, business combinations and reorganizations, including the possibility that the expected benefits cannot be realized or that the transactions may result in unanticipated adverse consequences
- Developments in the NEC Group’s alliances with strategic partners
- Effects of expanding the NEC Group’s global business
- Risk that the NEC Group may fail to keep pace with rapid technological developments and changes in customer preferences
- Risk that the NEC Group may lose sales due to problems with the production process or due to its failure to adapt to demand fluctuations
- Defects in products and services
- Shortcomings in material procurement and increases in delivery cost
- Acquisition and protection of intellectual property rights necessary for the operation of business
- Risk that intellectual property licenses owned by third parties cannot be obtained and/or are discontinued
- Risk that the NEC Group may be exposed to unfavorable pricing environment due to intensified competition
- Risk that a major customer changes investment targets, reduces capital investment and/or reduces the value of transactions with the NEC Group
- Risk that the NEC Group may be unable to provide or facilitate payment arrangements (such as vendor financing) to its customers on terms acceptable to them or at all, or risk that the NEC Group’s customers are unable to make payments on time, due to the customers’ financial difficulties or otherwise
- Risk that the NEC Group may experience a substantial loss of, or an inability to attract, talented personnel
- Risk that the NEC Group’s ability to access the commercial paper market or other debt markets are adversely affected due to a downgrade in its credit rating
- Risk that the NEC Group may incur large costs and/or liabilities in relation to internal control, legal proceedings, laws and governmental policies, environmental laws and regulations, tax practice, information management, and human rights and working environment
- Consequences of natural and fire disasters
- Changes in methods, estimates and judgments that the NEC Group uses in applying its accounting policies
- Risk that the NEC Group may incur liabilities and losses in relation to its retirement benefit obligations

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.