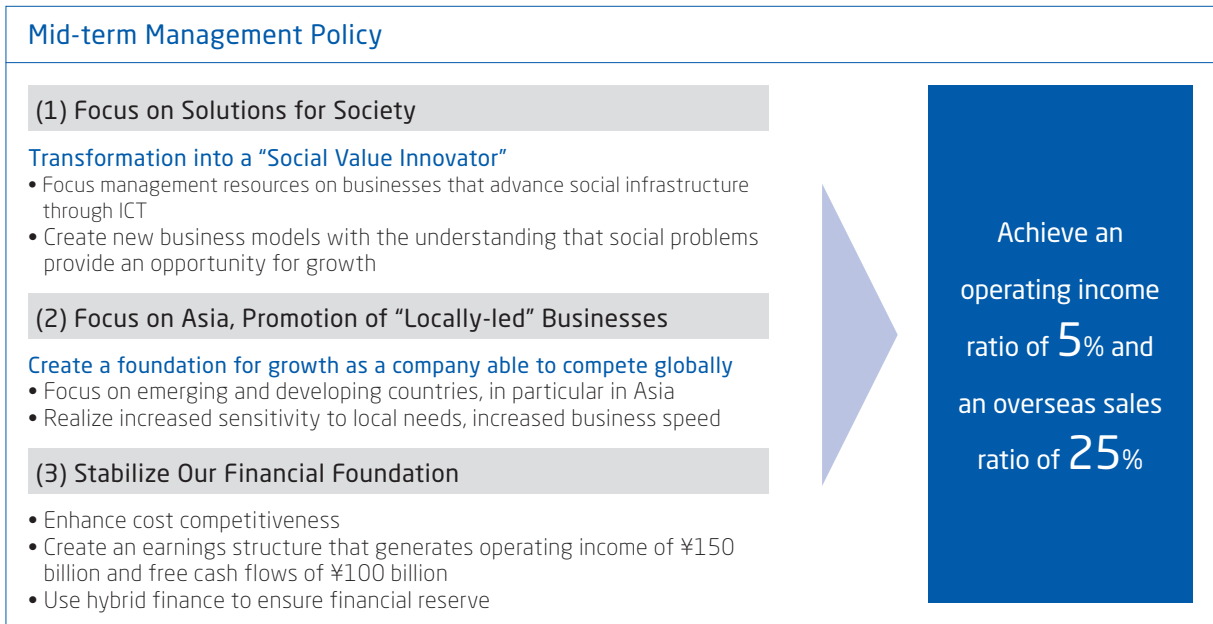# Progress on "Mid-term Management Plan 2015"

The fiscal year ended March 31, 2015 (the fiscal year under review) marked the second year of the "Mid-term Management Plan 2015," and during the year we focused on business activities aimed at achieving growth. Having declared our intention to transform the NEC Group into a Social Value Innovator, we are engaging in businesses based on the three policies of focusing on "Solutions for Society," focus on Asia and the promotion of 'locally-led' businesses, and stabilizing our financial foundation.

We have positioned the fiscal year ending March 31, 2016 (the upcoming fiscal year), the final year of the mid-term management plan, as a year for growth. In the upcoming fiscal year, we will grow our businesses and create the launching point for the next mid-term management plan. In this feature, we introduce the achievements made during the second year of the mid-term management plan, as well as initiatives we will undertake in the third year.

Main Initiatives and Performance in Fiscal 2015

(1) Focus on "Solutions for Society"

NEC concentrates its management resources in "Solutions for Society," and provides advanced social infrastructure using ICT (information and communications technology). We are transforming into a Social Value Innovator and aim to contribute to the realization of an affluent society, a society that ensures safety, security, efficiency and equality.

Mid-term Management Policy

(1) Focus on Solutions for Society

Transformation into a "Social Value Innovator"
- Focus management resources on businesses that advance social infrastructure through ICT
- Create new business models with the understanding that social problems provide an opportunity for growth

(2) Focus on Asia, Promotion of "Locally-led" Businesses

Create a foundation for growth as a company able to compete globally
- Focus on emerging and developing countries, in particular in Asia
- Realize increased sensitivity to local needs, increased business speed

(3) Stabilize Our Financial Foundation

- Enhance cost competitiveness
- Create an earnings structure that generates operating income of ¥150 billion and free cash flows of ¥100 billion
- Use hybrid finance to ensure financial reserve

Achieve an operating income ratio of 5% and an overseas sales ratio of 25%

In the fiscal year under review, we focused on SDN (Software-Defined Networking), a next-generation network technology that provides both efficiency and safety. In Japan, NEC was selected as the partner vendor for NTT DOCOMO, INC.'s development of network virtualization technology. We progressed on preparations for a large-scale trial on a commercial network aimed at launching Virtualized Customer Premises Equipment (vCPE) solutions for Telefónica Brasil, S.A. Already, NEC has delivered more than 250 systems for a variety of customers, including hospitals, transportation systems, municipalities, telecom operators, and data centers.

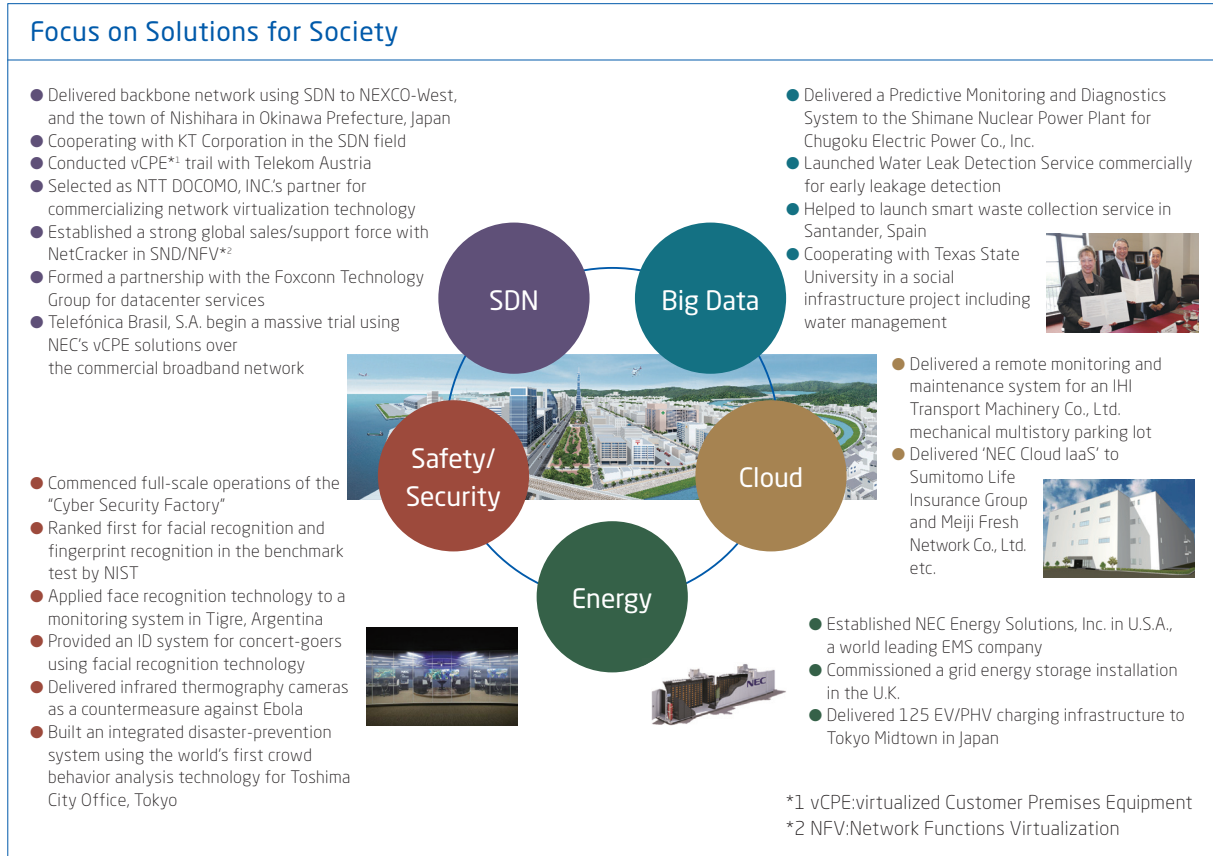In the cloud business, we utilized the NEC Kanagawa Data Center to expand sales of the "NEC Cloud IaaS" cloud platform service. The strengths of our service are high cost performance, strong performance, and high reliability. Furthermore, we will newly build the NEC Kobe Data Center to strengthen the domestic data center business.

In Big Data, we delivered a Predictive Monitoring and Diagnostics System for large-scale plants to The Chugoku Electric Power Co., Inc. This system detects abnormalities in equipment at an early stage and provides information on locations of possible abnormalities, allowing time for repairs before a malfunction occurs. In the state of Texas in the U.S., we worked on a project for a Water Leak Detection Service. By combining high-precision sensors and the cloud, this service allows water utilities to manage water resources at low cost.

In safety, in June 2014 we began full-scale operations of the Cyber Security Factory to support the comprehensive information security of approximately 100 companies. This facility was newly constructed as a core base for protecting information assets from cyberattacks. On the other hand, our face recognition technology, which supports a more secure society, was ranked No. 1 for the third consecutive time in benchmark testing performed by the U.S. National Institute of Standards and Technology (NIST). Our fingerprint recognition technology was also ranked highest in the industry.

Finally, in smart energy, NEC delivered smart meter communication units for Tokyo Electric Power Company, Incorporated. We also established NEC Energy Solutions, Inc. in the U.S. as part of our effort to globally expand the energy storage business.

Focus on Solutions for Society

- Delivered backbone network using SDN to NEXCO-West, and the town of Nishihara in Okinawa Prefecture, Japan
- Cooperating with KT Corporation in the SDN field
- Conducted vCPE*¹ trail with Telekom Austria
- Selected as NTT DOCOMO, INC.'s partner for commercializing network virtualization technology
- Established a strong global sales/support force with NetCracker in SND/NFV*²
- Formed a partnership with the Foxconn Technology Group for datacenter services
- Telefónica Brasil, S.A. begin a massive trial using NEC's vCPE solutions over the commercial broadband network

- Commenced full-scale operations of the "Cyber Security Factory"
- Ranked first for facial recognition and fingerprint recognition in the benchmark test by NIST
- Applied face recognition technology to a monitoring system in Tigre, Argentina
- Provided an ID system for concert-goers using facial recognition technology
- Delivered infrared thermography cameras as a countermeasure against Ebola
- Built an integrated disaster-prevention system using the world's first crowd behavior analysis technology for Toshima City Office, Tokyo

- Delivered a Predictive Monitoring and Diagnostics System to the Shimane Nuclear Power Plant for Chugoku Electric Power Co., Inc.
- Launched Water Leak Detection Service commercially for early leakage detection
- Helped to launch smart waste collection service in Santander, Spain
- Cooperating with Texas State University in a social infrastructure project including water management

- Delivered a remote monitoring and maintenance system for an IHI Transport Machinery Co., Ltd. mechanical multistory parking lot
- Delivered 'NEC Cloud IaaS' to Sumitomo Life Insurance Group and Meiji Fresh Network Co., Ltd. etc.

- Established NEC Energy Solutions, Inc. in U.S.A., a world leading EMS company
- Commissioned a grid energy storage installation in the U.K.
- Delivered 125 EV/PHV charging infrastructure to Tokyo Midtown in Japan

SDN · Big Data · Cloud · Energy · Safety/Security

*1 vCPE:virtualized Customer Premises Equipment
*2 NFV:Network Functions Virtualization

(2) Focus on Asia, Promotion of "Locally-led" Businesses

The NEC Group is expanding international business with an aim to establish a foundation for growth in Asia in particular, where there is robust demand for social infrastructure. We are paying close attention to local needs and work to accelerate the development of "locally-led" businesses.

During the fiscal year under review, in the telecom carrier business, NEC worked on a number of large projects for submarine cable systems in the Asia-Pacific region. In addition, we received an order for the world's first submarine cable system crossing the South Atlantic Ocean as well as an order from Zambia's Zamtel for a large mobile backhaul project. NEC and its subsidiary, NetCracker Technology Corp., provided Swisscom AG, a leading Swiss telecom company for Operational Support System or OSS. We also agreed with Swisscom to discuss further for providing technology for next-generation Telecom Operations and Management Solutions (hereafter, TOMS) and Management and Network Orchestration (hereafter, MANO).

Moreover, in the IT-related business, we began new businesses globally in both the IT and social infrastructure fields. During the fiscal year under review, NEC integrated the public transportation fare system of Dhaka (Bangladesh) and introduced facial recognition technology into the urban surveillance system of Tigre (Argentina). We also participated in a smart waste collection management

service in Santander (Spain), and provided managed IT service in Australia. These projects were obtained by offering the NEC Group's technologies and expert solutions in a global market, and going forward, we will develop these as the pillars of our solutions for further growth.

Main Initiatives in Global Business

Greater China and APAC
- Commenced demonstration tests for energy management system for mobile phone base stations in India
- Deployed leading face recognition solution at Lemon Tree Hotels for advanced security
- Provided face recognition technology to Surat City Police
- Delivered a transit fare system for public transportation in Dhaka, Bangladesh
- Built ICT infrastructure for the Myanmar International Convention Center
- Implemented solutions for SMRT Corporation to enhance bus service excellence
- Signed MOU with Singapore Economic Development Board to collaborate on cyber security, smart energy, health care and IoT

- Cooperating with KT Corporation in SDN field
- Awarded an order to build New Trans-Pacific Cable System "FASTER"
- Began construction of "SEA-US" (the South-East Asia-United States.) Cable System
- Awarded an order to build a submarine cable system between Thailand and Hong Kong
- Implemented nationwide digital TV transmitters for Thai Public Broadcasting Service
- Provided cloud service Obbligato for SaaS, to auto part and machine tool manufacturer in Thailand
- Won a contract for management and provision of Centralised Processing facilities for the Australian Department of Defence
- Awarded a next generation WiFi and video solution, "iPASOLINK EX" for public safety purposes from the Liverpool City Council, Australia
- Won TOMS contract from Singtel Optus Pty Limited, an integrated telecommunications service provider in Australia
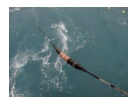
EMEA
- Collaborated with Arqiva with the BBC on a series of live trails of over-the-air 4K Ultra High Definition (UHD) broadcasts
- Formed a partnership with Ymens to develop trustworthy government cloud services for Romania
- Helped to launch smart waste collection service in Santander, Spain
- Collaborated with Dacom B.V. on precision farming solution field tests in Romania
- Awarded a contract for microcell backbone/access from Zamtel, Zambia
- Delivered infrared thermography cameras as a countermeasure against Ebola

Americas
- Delivered ICT system for a stadium in Natal, Brazil
- Collaborated with Brazil's largest TV network, for live 4K terrestrial broadcasting trial
- Started large-scale trial on a commercial network aimed at launching vCPE solutions for Telefónica Brasil, S.A.
- Applied face recognition technology for a monitoring system in Tigre, Argentina
- Collaborating with the Mexican Space Agency in satellite development
- Cooperating with Texas State University in a social infrastructure project
- Built ICT rooms at schools and community centers in Colombia

(3) Stabilize Our Financial Foundation

In terms of building a stable financial foundation, the NEC Group aims to secure solid net income and consistently generate 100 billion yen of free cash flows per year by establishing stronger profit structure. Furthermore, NEC hones cost competitiveness to accelerate its growth in a global market.

To this end, NEC acquired 100% stakes of NEC Fielding, Ltd., in enhancing efficiency in system integration and services. Furthermore, we reorganized the domestic hardware and software development and production offices, thereby strengthening "Solutions for Society." We also established NEC Management Partner, Ltd. and initiated measures to improve business processes.

Carrying Out NEC's Growth Strategy

In the "Mid-term Management Plan 2015," the NEC Group has established "Solutions for Society," as a focus business for global reach, and is advancing initiatives to deliver lasting growth. In the two years after our announcement of the midterm plan, we built stronger business portfolio with clearer focus areas. In the third and final year of the plan, we strive to make major contributions to markets.

In looking back at the past two years, the environment has improved in domestic public infrastructure investment, including outdoor communications systems, initiatives related to fire prevention digital technology, and initiatives related to the adoption of the Social Security and Tax Number System in Japan. On the other hand, some markets were slower than we initially expected, namely, the launch of the market for SDN for telecom carriers and the launch of energy markets, which we had expected would expand significantly. Furthermore, the weakening of the yen resulted in higher materials costs, particularly in the system platform business.

Taking these into consideration, in fiscal 2016, we will focus on accelerating growth strategies and improving profitability.

With respect to accelerating the growth strategies, we plan to increase strategic investments in SDN and energy by ¥15 billion year on year in fiscal 2016, and boost both sales and profits of these businesses over the medium term. We will also increase the sales ratio of focus businesses, such as SDN, cloud, Big Data, safety, and smart energy, from 10% to 15% year on year.

In terms of bolstering initiatives aimed at improving our level of profitability, we are taking initiatives to streamline business processes and reduce workload of indirect operations by 30%. We will allocate abundant resources from these initiatives into growth fields, such as businesses related to the Social Security and Tax Number System and the Tokyo 2020 Olympic and Paralympic Games, thereby achieving more efficient business management.

In fiscal 2016, we will set the course of direction that the NEC Group can follow to achieve future growth, and create the next medium-term management plan.

Going forward, our goal remains to contribute to realizing a better society by developing "Solutions for Society." NEC is transforming into a "Social Value Innovator" to serve a broader range of stakeholders.