To Our Stakeholders

Orchestrating a brighter world

Self-help to create a dependable self

At NEC, our greatest strengths include our superior Information and Communication Technology (ICT) assets, cultivated over a history spanning 117 years, and our ability to integrate and combine these and deliver them to our customers. Making the best use of these strengths, we endeavor to provide social value for our customers as well as for people in countries and regions across the world, in order to establish abundant societies and lifestyles, and bright futures full of hope. In 2014, we sought to embody this mission through our corporate brand statement, “Orchestrating a brighter world,” devoting our energies to delivering “Solutions for Society” and addressing seven themes on the creation of social value, thus clarifying the future direction for NEC.

As a Social Value Innovator, and to continue creating value for our customers into the future, each of us at NEC needs to demonstrate the spirit of self-help, displaying the appropriate initiative, thought, and behavior to meet the expectations of society and customers. In this process, we will continue to engage in dialog with a variety of stakeholders and build relationships of trust. With these principles established as part of our corporate culture, constructing a business model that allows us to continue to create value is essential. Based on my strong belief that in managing the NEC group we should practice “Self-help to create a dependable self,” I hope we can establish an NEC that continues to create value for the next 100 years and beyond.

July 2016

Takashi Niino
President and CEO

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Editorial Policy

Chapter I presents a message from the President and a profile of NEC. Chapter II features the NEC Group’s corporate overview, and Chapter III presents commentary from the President as well as the CFO. Chapter IV introduces examples of our businesses activities for social value creation in addition to an overview of each segment and our overseas business structure. Chapter V introduces the management foundation that supports NEC, medium-term and long-term efforts to improve corporate value, including corporate governance and environmental initiatives such as CSR-related information.

By incorporating the opinions of the International Integrated Reporting Council (IIRC) institutional investors and various other stakeholders, controlling their scope and incorporating NEC’s megatrends, Chapter V introduces examples of our businesses activities for social value creation in addition to an overview of each segment and our overseas business structure. Chapter VII introduces the management foundation that supports NEC, medium- and long-term efforts to improve corporate value, including corporate governance and environmental initiatives such as CSR-related information.

IV Scope of Report
04 Corporate Overview
05 Global Overview
06 Administration Structure
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08 References
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References
Nations

MSCI Global Sustainability Indexes
FTSE4Good Global Index
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Contribution
Financial Management

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Key Management Measures

Fiscal year ended March 31, 2011

- Made NEC Electronics Corporation, a semiconductor business currently Renesas Electronics Corporation, into an equity-method affiliate
- Acquired Global View S.A., a video surveillance service business in Argentina

Fiscal year ended March 31, 2012

- Made the consumer PC business into an equity-method affiliate
- Acquired IT service business of Australia-based CSG Limited
- Made NEC TWIN CORP. into an equity-method affiliate

Fiscal year ended March 31, 2013

- Acquired the business support system business of U.S.-based Conveyo Corporation
- Acquired the IT service business of Australia-based CSG Limited
- Made NEC Holdings, Ltd., providing operation and maintenance service for IT systems, into a wholly owned subsidiary
- Established NEC Solution Innovators, Ltd. in a reorganization of seven software development subsidiaries
- Established NEC Platforms, Ltd. in a reorganization of four hardware development and manufacturing subsidiaries
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Fiscal year ended March 31, 2016 (fiscal year under review)

- Transferred administrative staff functions and shared IT assets from NEC to NEC Management Partner, Ltd. (Business Process Optimization Project)

Notes:
1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥112 = U.S.$1.
2. Profit (loss) attributable to owners of the parent per share is calculated based on the weighted-average number of shares outstanding during each period.
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Net sales, operating income (loss), and composition of sales are financial results for the fiscal year ended March 31, 2016 (Japanese GAAP).

At a Glance
NEC Corporation and Consolidated Subsidiaries

### Public Business
- **Net sales**: 766.8 billion yen
- **Operating income**: 57.5 billion yen
- **Main customers**: Government, public, healthcare, finance and media

**Focus businesses**
- Infrastructure preparation towards the year 2020
- Cyber security

**Composition of sales**
- 27%

### Enterprise Business
- **Net sales**: 300.7 billion yen
- **Operating income**: 22.2 billion yen
- **Main customers**: Manufacturing, retail and services

**Focus businesses**
- IT services business for retail
- Manufacturing Co-Creation Program

**Composition of sales**
- 11%

### Telecom Carrier Business
- **Net sales**: 698.9 billion yen
- **Operating income**: 45.6 billion yen
- **Main customers**: Telecom carriers

**Focus businesses**
- Business expansion based on TOMS*1, SDN*2, NFV*3
- Enhancing development to maintain competitiveness for 5G

**Composition of sales**
- 25%

### System Platform Business
- **Net sales**: 728.5 billion yen
- **Operating income**: 37.5 billion yen
- **Main customers**: Telecom carriers

**Focus businesses**
- Maximizing the profit of existing businesses
- Establishing an IoT*4 platform focused on safety and retail
- Strengthening key business areas

**Composition of sales**
- 26%

### Others
- **Net sales**: 326.2 billion yen
- **Operating loss**: -8.9 billion yen

**Focus businesses**
- International safety business

**Composition of sales**
- 11%

### Major Products and Services
- **Focus businesses**
  - Telecom Operations and Management Solutions (TOMS), Cloud Network, Mobile Phone Base Stations
  - Submarine Systems (Submarine Cable Systems, Ocean Observation Systems), Optical Transmission Systems, Router/Switches, Mobile Backbone
  - Software, Service Automation Solutions, Application Servers, Storage

- **Examples of Solutions by Business Sector/Industry**
  - Manufacturing: Global SCM, Product Lifecycle Management, Enterprise Network Solutions
  - Telecom: Telecom Operations and Management Solutions (TOMS), Network Functions Virtualization
  - Government: Social Security and Tax, Satellite Communications, Earth Observation, Outdoor Communication
  - Healthcare: Electronic Medical Record, Regional Healthcare Information Network
  - Finance: Banking, Business Branch Systems
  - Media: TV Program Production/News/Production/Transmission Systems, Digital TV Transmitters

### Major Consolidated Subsidiaries
- **NEC Facilities, Ltd.**
- **NEC Engineering, Ltd.**
- **NEC Network and Sensor Systems, Ltd.**
- **NEC Space Technologies, Ltd.**
- **Nippon Avionics Co., Ltd.**
- **NEC Management Partner, Ltd.**
- **NEC Nexsolutions, Ltd.**
- **NEC Energy Solutions, Inc.**
- **NEC Lighting, Ltd.**
- **NEC Facilities, Ltd.**
- **NEC Energy Devices, Ltd.**
- **NEC Engineering, Ltd.**
- **NEC Facilities, Ltd.**
- **NEC Management Partner, Ltd.**
- **NEC Platform, Ltd.**
- **NEC Display Solutions, Ltd.**
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*1 TOMS: Telecom Operations and Management Solutions
*2 SDN: Software Defined Networking
*3 NFV: Network Functions Virtualization
*4 IoT: Internet of Things
Building upon our corporate brand statement “Orchestrating a brighter world,” NEC is committed as a social value innovator to providing value that leverages the power of ICT. In setting our direction for this, we first analyzed worldwide economic, social, and technological trends, narrowing them down to six megatrends. Viewed from the long-term perspective, these are the issues that will likely confront countries, companies, communities and people for the next 20 or 30 years. Based on these megatrends, we established seven themes for social value creation, taking advantage of our strengths in ICT. To maintain our own sustainable development while simultaneously achieving a sustainable society, NEC is committed to providing social value centered on these seven themes.

The Social Value That the NEC Group Aims to Create

The Seven Themes for Social Value Creation

Sustainable Earth
Safer Cities & Public Services
Lifeline Infrastructure
Communication
Quality of Life
Value for Society

Four Sources of Value

Safety
Security
Efficiency
Equality

6 Megatrends
(Material Issues)

01
Choke of resources and environmental issues
The consumption of water and food due to population growth and urbanization will impact the other resources and the environment.

02
Growth in emerging countries and their new challenges
Rapid economic growth in emerging countries will cause new issues, such as environmental concerns and resource shortages, even as their power grows.

03
Search for more secure models
In advanced countries, low birthrates, aging of populations, and the deterioration of facilities will encourage reform of the current legal and social systems.

04
Increase in power and influence of individuals
Advancement of the Internet will raise concerns over cyber-attacks, etc., while increasing the influence of individuals on the global stage.

05
Decentralization of power
As emerging countries and individuals have more influence, the world will decentralize and form a new power balance.

06
Rising threats and needs for safety and security
Big changes in the world will generate various threats to both the real world and cyberspace, and increase demand for safety and security.

Value for Society

Real time
Dynamic
Remote
Secure

Orchestrating a brighter world
Value for Society

What is the social value that NEC provides? We strive hard to be a social value innovator who pursues the improvement of the fundamental issues facing society, its customers, and enriches human lives. These factors led us to conclude that there are four types of social value the NEC Group should continue to provide: safety, security, efficiency, and equality.

Four Sources of Value

Backed by our ICT assets and our advanced ability to integrate these assets, the following four capabilities represent our sources of value: happening in real-time, being dynamic, being remote, and being secure.

Four Sources of Value

Delivered by technologies such as cloud infrastructure and supercomputers. Utilizing computing capabilities that surpass previous abilities, we create value that transcends the constraints of time.

Delivered by software technologies, such as big-data analysis, and image analysis, as well as through system-integration (SI) abilities. It allows us to flexibly create value in response to any kind of change.

Delivered by technologies such as mobile-communication infrastructure, submarine cables, and software-defined networking (SDN). Bringing advanced networks into fruition, even in remote locations, allows us to provide value that transcends the constraints of distance.

In advancing the creation of social value through ICT, it is essential to maintain safety both in cyberspace and the real world. While ensuring the safety of value creation, we guarantee the expansion of the value we provide.

One-to-Many

Tackling the fundamental issues of our customers and society

To maximize the social value that NEC provides, the company needs to change. Historically, we built our presence within a culture of responding comprehensively to the requirements of each customer. In other words, it was a one-to-one business model.

Moving forward, we need to tackle more social issues in the global market and to keep making greater contributions. We also need to create our own value for our customers’ customers. In addition to a one-to-one business model, it is essential that we strengthen our one-to-many business model. This framework is based on developing business models through understanding of our customers’ requirements, taking advantage of our past experience in successfully creating various kinds of value and also by working together with our customers in creating new value for society as a whole. In addition, we will consider the external environment when elaborating on NEC’s unique business model for our customers and society.

The efforts of all our employees will lead us to establishing a one-to-many culture. Through this transformation, we aim to both continue providing greater value to society and to become a true business partner, irreplaceable to our customers.
Working in Concert with Stakeholders to Find Solutions to Social Issues

Through dialog and cooperation with our various stakeholders, NEC is working to better understand the fundamental issues facing our customers and society. We aim to build a better relationship of trust by doing so. NEC will continue to create and provide new value by working toward finding solutions to social issues together with our stakeholders.

Working with Our Customers to Resolve Issues Together

The opinions of customers that we receive as a result of our day-to-day business activities are a valuable source of information when it comes to improving those business activities and generating ideas for new solutions. And to help spur innovators, we have established a co-creation workshop space at NEC that is being used to collaborate with customers and partners to help clarify the issues facing our customers and society. Then, we can better come up with ideas about how to address those issues.

Aiming to Resolve Social Issues as a Member of Local Communities

When it comes to resolving social issues, engaging in dialog with local governments, NPOs, and other organizations that are familiar with regional issues is imperative. In this fiscal year, we were able to deepen collaborative ties with local governments by signing a reconstruction cooperation agreement with Minamisanriku town in Miyagi Prefecture. This was an extension of the Great East Japan Earthquake reconstruction volunteer activities of the NEC Group’s “TOMONI” Project. We also co-hosted the Tokyo Sign Language College in cooperation with the Tokyo Metropolitan Government and Tokyo Metropolitan University, a public university corporation. At NEC, we will continue to work toward resolving social issues by focusing on the three themes of “Welfare & Diversity,” “the Environment” and “Education, Culture & Sports.” We will do this while promoting social contribution programs, such as our employee community volunteer program: the NEC Make-a-Difference Drive.

Improving Corporate Value via Dialogs with Shareholders and Investors

Our shareholders and investors provide valuable feedback that can lead to improvements in management, such as the ability to make rapid responses to changes in the external environment. At NEC, the Investor Relations Office, a department within the Corporate Strategy Division, focuses primarily on investor relations activities with the assistance of the president and CPO. These activities include meetings with shareholders, quarterly financial result briefings, and business briefings. The ideas gained through these dialogs are communicated to senior management and reported regularly to the Board of Directors. Moving forward, NEC will continue to actively engage in IR activities to make our dialogs with shareholders and investors even more fruitful.

Engaging in Responsible Corporate Activities with Suppliers

The need to work with suppliers to ensure responsible procurement is a common issue worldwide. Even the 2015 G7 Summit Leaders’ Declaration included a reference to “Responsible Supply Chains.” At NEC, we established the NEC Group Procurement Policy based on ISO26000 guidance on social responsibility, to address six priority risk categories related to procurement. They are human rights, labor, fair trade, the environment, information security, and supply responsibility. So, for example, we use our CSR-PMR* on-site assessment of human rights and occupational safety and health as a program unique to NEC. It has been conducted with suppliers since fiscal 2013. Rather than a simple one-sided audit, the program relies on engaging in mutual dialogs with suppliers.

Organizational Revitalization via Dialogs with Employees

The opinions of our employees serve as an essential gauge to indicate whether we are fostering an organizational culture that they are happy to be a part of. At NEC, we conduct a “One NEC Survey” annually to identify the factors that motivate employees as well as those that need improvement. For the fiscal 2016 Japan survey, responses were obtained from 64,805 employees, making the response rate about 89%. More than 70% of the respondents expressed positive opinions about their degree of trust in their co-workers, their desire to contribute to customers, and their loyalty to NEC. However, only 40% to 50% of the employees had positive opinions about career opportunities, evaluation systems, and work processes. NEC also holds regular labor-management council meetings in Japan and overseas to brief labor unions on management policies and air their opinions of employees directly.

The Social Sector: Dialogs with CSR Review Forum-Japan

At NEC, annual reports and CSR reports are used to engage in dialogs with NPOs as a part of our CSR management. This includes dialogs that are based on ISO26000. They have been going on since 2011 with CSR Review Forum-Japan, an NPO that was jointly established by labor groups, consumer groups, and NGO/NPOs with the goal of building a sustainable society.

A dialog was held in 2016 that covered our new Mid-term Management Plan, issues with partnerships in creating solutions for society, privacy issues when promoting business using ICT, and CSR procurement.
NEC’s Distinctive ICT Underpinning Social Value Creation

ICT connects numerous physical things in the real world and allows us to visualize them in the cyber world. By analyzing how these physical things are linked, we can better understand and predict the true needs of our stakeholders and help create new value for our customers and society. Artificial intelligence (AI) helps us visualize these physical things and analyze data. And controls and guidance help us turn the results of that analysis into services and solutions. Here are a few of NEC’s powerful ICT assets that help us in our quest to create new value.

With over 40 years of continued R&D, NEC is a pioneer in the field of biometric authentication. We have implemented more than 700 biometric authentication systems in over 70 countries around the world. Our face recognition AI technology took first place at three consecutive Face Recognition Vendor Tests conducted by the U.S. National Institute of Standards and Technology (NIST). There was an overwhelming gap between us and all other participating vendors each time. NEC has therefore established itself as the undeniable global leader in this area.

Traditional networks are complex, requiring a high level of specialized knowledge to modify or troubleshoot them. However, with the development of cloud solutions and server virtualization, networks are now expected to be more flexible and efficient. SDN uses software to achieve centralized management of a network, resulting in a network that is not only easier to modify than traditional ones, but also more flexible and efficient. NEC proactively led the standardization of SDN from early on. And, in 2011, NEC was one of the first companies in the world to release SDN products. Now, over 600 systems around the world rely on NEC’s SDN technology.*

* As of May 2016

Our “Invariant Analysis Technology” automatically models correlations between large amounts of sensor data to enable the early detection of anomalies that would otherwise be unnoticeable. The technology is being used for factory prediction monitoring and diagnostic systems. And our “Heterogeneous Mixture Learning Technology” uncovers multiple relationships hidden in Big Data to automatically discover and predict useful patterns and regularities. This enables prediction and decision making in a way that makes reasons known in dynamically changing environments. It was previously problematic with machine learning technologies.

NEC provides safe and secure ICT environments based on its “security-by-design” concept that requires strong security from the planning and design phases. We are also developing advanced technologies to help protect against increasingly sophisticated cyberattacks, including AI-driven measures against unknown attacks. Moreover, the cooperative ties we have forged with INTERPOL and other agencies have allowed NEC to collect and analyze threat intelligence from around the world to help strengthen cyber security globally.
NEC Corporation is working to improve management speed, enhance execution power, and pursue group business management in preparation for the large changes that will take place in the future.

**Message from the President**

Takashi Niino
President and CEO

September 1954
Born in Fukuoka Prefecture, Japan

March 1977
Graduated from the Faculty of Engineering of Kyoto University

April 1977
Joined NEC Corporation

April 2008
Senior Vice President

April 2010
Executive Vice President

June 2011
Executive Vice President and Member of the Board

April 2012
Senior Executive Vice President and Member of the Board

April 2016
President and CEO (Representative Director) (to present)

Mr. Niino was appointed President and CEO in April 2016 after being engaged in the management of the financial solutions business and the NEC Group’s management strategies.

**Introduction**

Ever since its establishment in 1899, NEC has strived to maintain high ethical standards; create products and services that provide value to our customers, and become a company trusted and chosen by all of its stakeholders, including customers, under our motto of “Better Products, Better Services.” This philosophy is alive and well today as a part of The NEC Way, a “Better Products, Better Services.” This philosophy is named “Orchestrating a brighter world.”

NEC is working to realize “an information society friendly to humans and the earth” as asserted in the NEC Group Vision, based on NEC’s Corporate Philosophy. With the belief that NEC, as an enterprise, must contribute to the well-being of society, everyone at NEC values ethics and is committed to meeting compliance standards in daily business operations by practicing the NEC Group Core Values.

The NEC Way includes the Group Corporate Philosophy, the Group Vision, the Group Core Values, the Group Charter of Corporate Behavior, and the Group Code of Conduct. NEC’s commitment, NEC is promoting corporate business activities in compliance with the ten principles in the areas of human rights, labor, the environment, and anti-corruption based on the UNGC framework. NEC is working to solve social issues by providing value in the four areas of safety, security, efficiency and equality. This is aimed at creating a sustainable society and making contributions to building a peaceful and just society, which is the stated goal of “Transforming Our World: the 2030 Agenda for Sustainable Development” (SDGs*) adopted by the United Nations in 2015.

**NEC Group Corporate Charter of Corporate Behavior**

**NEC Group Core Values**

(Passion for Innovation, Self-help, Collaboration, and Better Products, Better Services)

**NEC Group Core Values**

What we value and base our behavior on

- **Customer and Shareholders and Other Interests Business Partner**
- **Local Communities and Employees**
- **Provide active disclosure and feedback**
- **NEC Group Vision**

- A sustainable society
- Community
- **NEC Group Corporate Philosophy**

- An information society friendly to humans and the earth
- **NEC Group Charter of Corporate Behavior**

- Build trust through communication
- **NEC Group Code of Conduct**

- Corporate ethics and compliance

SDGs: Sustainable Development Goals
Review of Mid-term Management Plan 2015

The Mid-term Management Plan 2015, announced in April 2013 as a three-year plan up to the fiscal year ended March 31, 2016 (the fiscal year under review), calls for NEC to further strengthen its four focus businesses of Big Data, Cloud, Safety/Cyber Security, and SDN (Software-Defined Networking), given the expected decline in our existing businesses in Japan. The other major goal of this plan is to create new businesses primarily in international markets. Prior to the previous fiscal year, our profits exceeded the targets in the plan, underpinned by demand in major public infrastructure replacements mainly in Japan. However, in the fiscal year under review, we fell largely short of our targets in terms of net sales and operating income.

Comparing the operating income target and results for the fiscal year under review shows a major gap between the two for the telecom carrier business and smart energy business. I believe this is because both businesses had excessive expectations for their markets and lacked the execution power to achieve our targets. Meanwhile, looking at the results from the previous four years, we achieved operating income of ¥100 billion or higher, and net income grew slowly but steadily. Additionally, we lowered our debt-equity ratio (on a net basis) steadily, which I believe shows the strengthening of our profitability and the progression of our financial strength.

Our progress under the three management policies cited in the Mid-term Management Plan 2015 is as follows. In terms of focusing on “Solutions for Society,” we achieved solid results in strengthening the core assets in our four focus businesses and restructuring our business portfolio in the consumer business. Nevertheless, we are left with the challenge of having to make up for delays in launching new businesses, including transforming our business model. In terms of focusing on Asia and promotion of “locally-led” businesses, we accumulated positive results in Asia and Latin America, mainly in the safety business, while our international operations also grew steadily, but both sales and operating income fell short of the target. Finally, in terms of stabilizing the financial foundation, we achieved a sound balance sheet and increased the dividend, but again we fell short of our goals for free cash flows and return on equity (ROE).

While progress has been made in optimizing our business portfolio, we are behind schedule in terms of business growth and earnings structure improvements.

NEC’s Challenges

We set out three years ago to devote our energies to “Solutions for Society,” and our goal of finding solutions to social issues through ICT as a social value innovator remains the same today. I know that NEC has the necessary technical and human assets to create value in this growth field. However, one of the reasons we did not achieve our targets was that measures to address various risks were not included in our action plans in the essential planning stage of the PDCA cycle. Another challenge was that we were unable to create new value fast enough to stay ahead of the rapid changes in the market.

Management Policy

A commitment to thorough enforcement of compliance and the evolution of corporate culture represent the very foundation of business operations and, for this reason, we are working to thoroughly improve and reinforce these areas as a top priority.

First, from the perspective of improving management speed, we will clarify decision making for the corporate, business unit and business division levels, and also quickly implement the PDCA cycle to achieve continual improvements. In order to accelerate the pace of execution after decisions are made, we will ensure thorough discussion takes place and that business is executed with alignment among all those involved. Also, in the arena of new value creation, it is essential that our organizations are closely intertwined both vertically and horizontally and work closely together. In order to do this, from the perspective of enhancing execution power, firstly we will clarify each person’s authority and responsibility in new business creation. Also, we will always consider potential partnerships to speed up execution. Until now, NEC’s culture has been strongly inclined to go it alone, believing that our own technologies and know-how would be enough. However, we will now work to change this mindset.

In terms of promoting corporate group business management, we will work to optimize the entire NEC Group. Currently, the NEC Group comprises more than 200 affiliated companies employing some 100,000 employees. Through the work style transformation by each employee and the creation of a more open and collaborative culture as “One NEC,” we will continue working on optimizing the entire NEC Group to respond to the constantly changing world of tomorrow.

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”

- Implement PDCA that is conducive to swift decision-making
- Build alignment by thorough discussion and accelerate execution speed

Improve management 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
Market Environment and Risks/Opportunities

NEC's forecast for the future macro environment indicates that Europe and North America will see stable growth, while emerging countries' growth will slow, especially in resource-rich countries. Japan will continue to see low growth. In contrast, in the ICT market, general awareness of artificial intelligence (AI) and the Internet of Things (IoT) will grow and it will become reality where people, things, and phenomena are connected securely in various aspects of our lives. In other words, the importance of Solutions for Society will continue to grow. The values of safety, security, efficiency, and equality that NEC provides will become of greater use around the world and will serve as a tailwind propelling NEC’s business strategy forward.

Framework of Mid-term Management Plan 2018

Under the new Mid-term Management Plan, we will usher in in-house reforms based on the various challenges we face and continue to further strengthen our focus on Solutions for Society. With regards to this, our management policy is largely broken down into inward efforts and outward efforts. Inward efforts will focus on reorganizing the profit structure, with the goal to generate a 5% operating income ratio as the very minimum. To accomplish this, we will reform underperforming businesses and unprofitable projects, promote our Business Process Optimization Project, and optimize development and manufacturing functions. For our outward efforts, we will work to get back on a growth track. This will be achieved by globalizing Solutions for Society.

Reorganization of Profit Structure

There are three key areas we must address in reorganizing our profit structure.

First, NEC will reform underperforming businesses and unprofitable projects. Initially, this will involve making improvements to the smart-energy business where we recorded a significant loss in the fiscal year under review. Our target is to improve profits by ¥2.4 billion in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). We carried out asset impairments of around ¥10 billion in the fiscal year under review, so that actual improvement in profits will be around ¥1.4 billion. In April 2016, NEC reorganized the smart energy business as a business division under direct control of Corporate and executed management structure reforms. In addition to optimizing the scale of its resources by minimizing operations, NEC will continue to transform its business portfolio and shift its business model towards system integration and service business. We will make efforts to curtail unprofitable projects, with the target to improve profits by ¥1.3 billion in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). This past year the public business and international business saw increases in unprofitable projects, but the enterprise business successfully eliminated unprofitable projects through risk assessments prior to the contract and careful management at key project milestones. NEC will laterally deploy this know-how of profitability control across the entire NEC Group to reduce these projects. In addition, NEC will focus on strengthening its project management capabilities and PMO* functions. The management for global affiliates will be further reinforced in an effort to improve profitability control.

The second key area is the Business Process Optimization Project. In 2014, NEC established NEC Management Partner, Ltd. (NMP) to achieve ¥30 billion in cost savings and, through Mid-term Management Targets

<table>
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<th>Profit attributable to owners of the parent</th>
<th>Free cash flow</th>
<th>Return on equity (ROE)</th>
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* PMO: Project Management Office

Under the Mid-term Management Plan 2015, we made strong progress in terms of company-wide strategic investments primarily in Big Data, Cloud, Safety, Cyber Security and SDN domains. Sales from these four domains in the fiscal year ended March 31, 2014 totaled about ¥1.20 billion, but in the fiscal year under review this amount nearly doubled to about ¥2.30 billion. This growth far outpaces that of the market. Over the past three years, these domains have not only contributed to sales, they have helped us to reinforce our technical assets. IoT will play an integral role in the world of tomorrow. For this reason, a variety of businesses will be created atop the platform of IoT. This will involve a series of processes spanning from visualization and standardization of operations and process reform, NEC has striven to streamline its Administrative Staff operations by 30%. We have already achieved ¥5 billion of this target in the fiscal year under review, so now we will work to achieve the remaining ¥25 billion over the next three years. Specifically, NEC will expand the consolidation of Administrative Staff operations to 16 of its largest Group companies to accelerate process reform along with visualization and standardization. Workforce reduction of 30% should be delivered through cutting supplemental staff and shifting personnel to other operations. We will consolidate IT operation management, including order operations and mission-critical systems to thoroughly streamline costs, with the target of ¥10 billion in cost savings in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). The third key area is optimization of development and manufacturing functions. We will further accelerate the integration of these functions within the Group in an effort to realize ¥2.0 billion in cost savings in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). NEC has a track record of successful cost reduction through integration of subsidiaries, such as NEC Network Products, Ltd., combining three subsidiaries engaged in network related hardware businesses; NEC Solution Innovators, Ltd., merging seven software subsidiaries; and NEC Platforms, Ltd., combining four subsidiaries engaged in IT hardware businesses. NEC will continue with similar initiatives in the future to achieve even greater effects. For the optimization of hardware development and production, NEC will integrate development processes and development environments. In the software segment, NEC will pursue the optimal allocation of resources flexibly, regardless if a subsidiary is engaged in IT-related or network-related software.

Getting Back on the Track to Growth

Under the Mid-term Management Plan 2018, we will commit management resources to the three businesses of Safety, Global Carrier Network and Retail IT Service, while also being mindful of IoT platforms and the seven themes of value creation.
The sales goal for each of these three focus businesses in the fiscal year ending March 31, 2019 is ¥142 billion for the Safety business (3.4 times compared to the fiscal year under review), ¥210 billion for the Global Carrier Network business (1.8 times compared to the fiscal year under review), and ¥160 billion for the Retail IT Service business (1.2 times compared to the fiscal year under review).

Focus Business: Safety Business

Studies indicate that the world’s population will increase 1.3 times to more than 9 billion people by the year 2050. The population of people living in cities will increase 1.8 times, causing urban issues such as rush-hour overcrowding, traffic congestion, deterioration of public safety, and pollution to grow worse. For this reason, we believe there will be growing demand for the Safety business, which will underpin people’s safe and secure lives in the future. NEC maintains some of the most advanced face and fingerprint recognition technologies in the world, while it has also established a high level of expertise in security operation center operations, winning a broad range of bids from governments and other companies in the process. We utilize these strengths to contribute to even greater safety and security by understanding events and phenomena in real time. The targets of these efforts will be major cities in APAC, the Middle East, Africa, and Latin America, as well as important facilities such as government institutions or airports. To achieve this, we will need to further enhance our global delivery capability through partnerships. Under the Mid-term Management Plan 2015, we established the Global Safety Division (GSD) in Singapore. Under the Mid-term Management Plan 2018, we will further strengthen GSD and enhance the business globally.

Focus Business: Global Carrier Network Business

By the year 2020, the amount of computerized information is expected to increase about 10 times that of today (44 trillion gigabytes). All new businesses utilizing IoT, such as smart factories, connected cars, connected homes and smart logistics, will be underpinned by information communication services. This represents a major business opportunity for NEC.

NEC has the customer base and ability to provide Telecom Operations and Management Solution (TOMS), and an established track record in Proof of Concept projects and commercialization of SDN/NFV. Utilizing this track record, we can help telecommunications carriers deliver new value-added services that meet the social needs of its customers quickly and efficiently. Specifically, we will enhance IT network integrated solutions combining TOMS and SDAN/NFV and accelerate business expansion through a shift to open standards and partner collaborations.

Focus Business: Retail IT Service Business

As urbanization advances in the future, demand from cities will grow for food, water, and energy. The development of platforms for retail business represents a critical task for facilitating convenient consumer activities for people living in cities, including purchasing safe and secure food.

NEC has established a solid track record over the past several decades providing various services to major convenience store chains in Japan. The business model of operating safe, secure and efficient stores 24 hours a day, 365 days a year has some of the most demanding standards in the world. Based on our experience gained from these relationships, we will examine practical solutions that can be rolled out globally. NEC will work on expanding the value it provides through solutions including omni-channel retailing, authentication and clearing, operational streamline and facilities management. In particular, we will rapidly roll out solutions by enhancing our dedicated launch support organization (Regional Business Support Center (RBS)) for APAC, China and North America.

Evolving our Corporate Culture

Since its founding, NEC’s corporate culture has been embodied by our emphasis on technology and our employees’ strong work ethic and commitment to complete work. We should value these traits as integral parts of our corporate DNA, but we need to transform ourselves if we expect to produce value and address the environmental changes taking place globally. As our main policy under the Mid-term Management Plan 2015 was to focus on Solutions for Society, we created the corporate brand message “Orchestrating a brighter world” and the booklet, “NEC Group Vision,” which describes our future vision and direction. These were shared extensively within and outside the company. Next, we began more thorough communication among top management and also started activities to foster a shared understanding of NEC’s vision for the future, in order to practice “team-based management.” This aims to deliver value with common goals and directions shared by each organization of the NEC Group, instead of having each organization act independently. NEC has gradually expanded the scope to include executives and then general managers, etc. in an effort to foster this culture internally. We also commenced activities to further establish this business model approach and actions with customers for value creation. These initiatives were executed with the goal of building a foundation for growth in the first stage of our transformation efforts.

In response, the new Mid-term Management Plan represents the second stage of our transformation, where we will create a growth pillar atop the growth foundation built during the first stage. The next three years will be used to create a stronger workforce that can lead NEC’s value creation and accelerate innovation, further evolving our corporate culture while also utilizing the positive traits unique to NEC. This will enable us to make positive step-by-step progress toward becoming a stronger company.
Fiscal 2016 Performance

The NEC Group recorded consolidated net sales of ¥2,821.2 billion for fiscal 2016, a decrease of ¥114.3 billion or 3.9% year on year. While the Enterprise business saw an increase in sales, there were decreases in the sales of the Public and Telecom Carrier businesses. In addition, sales of Others declined due to deconsolidation of the logistics service business. Regarding profitability, consolidated operating income declined by ¥208.9 billion year on year to ¥1,640.9 billion, mainly due to a decrease in net sales. The operating income ratio as of March 31, 2016 was 0.36, an improvement of 0.05 percentage points compared with the end of the previous fiscal year.

The net interest-bearing debt as of March 31, 2016 amounted to ¥481 billion, a decrease of ¥39.8 billion from the end of the previous fiscal year. The debt-equity ratio as of March 31, 2016 was 0.61, an improvement of 0.02 percentage points compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2016 was 0.61, an improvement of 0.02 percentage points compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2016 was 0.61, an improvement of 0.02 percentage points compared with the end of the previous fiscal year.

The net cash inflows from operating activities for the fiscal year ended March 31, 2016 were ¥79.8 billion, an improvement of ¥9.9 billion compared with the previous fiscal year, mainly due to improved working capital. The net cash outflows from investment activities for the fiscal year ended March 31, 2016 were ¥32.2 billion, a decline of ¥15.3 billion compared with the previous fiscal year.

Fiscal 2016 Financial State

Total assets were ¥2,493.4 billion as of March 31, 2016, a decrease of ¥127.2 billion compared with the end of the previous fiscal year. Current assets as of March 31, 2016 decreased by ¥49.9 billion compared with the end of the previous fiscal year to ¥1,865.2 billion due to declines in trade notes and accounts payable compared with the end of the previous fiscal year. The balance of net interest-bearing debt as of March 31, 2016, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to ¥388.7 billion, a decrease of ¥51 billion compared with the balance of the previous fiscal year. The net debt-equity ratio as of March 31, 2016 was 0.36, an improvement of 0.05 percentage points compared with the end of the previous fiscal year.

Total net assets decreased by ¥31.7 billion compared with the end of the previous fiscal year to ¥852.5 billion as a result of declines in re-measurements of defined benefit plans and foreign currency translation adjustment, despite recording profit attributable to owners of the parent. As a result, the owner’s equity as of March 31, 2016 was ¥792.1 billion and the owner’s equity ratio was 31.8%, an improvement of 0.4 percentage points compared with the end of the previous year.

Mid-term Management Plan 2018 and the Initiatives for Fiscal 2017

NEC decided to adopt the International Financial Reporting Standards (IFRS) from the fiscal year ending March 31, 2017. Under the Mid-term Management Plan 2018 announced in April 2016, NEC targets to achieve an average sales growth of 2% per annum and an increase in operating income by approx. ¥50 billion to ¥150 billion, equal to 1.6 times the current level over three years for the fiscal year ending March 2019. As for the management policy, in terms of income, NEC will first undertake reorganization of its earnings structure, implementing various enterprise-wide measures to achieve an operating income ratio of 5% and an ROE of 10% for the fiscal year ending March 2019. Then, with regard to growth, NEC will set back on the track to growth and achieve a new sales target exceeding ¥9 trillion, concentrating on three focus businesses which have been newly defined.

In the upcoming fiscal year, NEC will try to improve profitability through speedy M&A and creating a stable cash flow from these two viewpoints of income and growth. NEC will make company-wide efforts to achieve the target for the upcoming fiscal year and get back on the track to growth this year with its eyes set on the policies/targets under the new Mid-term Management Plan.

Capital Allocation

Under the Mid-term Management Plan 2018, NEC will commit to the improvement of corporate value while expanding investments in growth business areas and enhancing its financial foundation, placing the focus of its capital policy on shareholders’ returns, set profit attributable to owners of the parent of ¥185 billion as a target for the fiscal year ending March 2019 through resolving issues for growth and promoting operational efficiency. We also aim to achieve free cash flows of ¥100 billion by creating cash through improvement of the cash conversion cycle (CCC) as well as accumulation of profits. For growth-oriented investments, we have secured a ¥200 billion framework for inorganic strategy including M&A, and allocate investments to accelerate the growth of our three focus businesses. With regard to enhancement of the financial foundation, we will aim for an increased dividend from the current annual dividend of ¥6 for shareholders’ return, making conscious effort to achieve the net debt-equity ratio of 0.5 as of March 31, 2019.

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

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

Free cash flow FY2019/3 (Target): ¥100 billion

- Compress operating capital by promoting CCC improvement

Investment for growth

- Secure ¥200 billion framework for inorganic strategy

Enhancement of financial foundation

- Net DE Ratio around 0.5 times - End of FY2018/3

Shareholder return

- Aim for increased dividend from ¥6 (annual dividend)
Initiatives on the Themes of Social Value Creation

NEC utilizes its years of experience and unique strengths to focus on seven themes of social value creation in order to solve the challenges faced by customers and society.

These seven themes of social value creation were established based on six megatrends identified by analyzing trends in global economics, society, and technology, and they directly relate to the 17 Sustainable Development Goals (SDGs) adopted by the 193 member states at the UN Sustainable Development Summit.

For example, the “Sustainable Earth” theme of social value creation relates to “Goal 7: Affordable and Clean Energy” and “Goal 13: Climate Action” indicated in the SDGs. The themes of “Safer Cities & Public Services,” “Lifeline Infrastructure,” and “Communication” also relate to “Goal 9: Industry, Innovation and Infrastructure” and “Goal 11: Sustainable Cities and Communities.” Furthermore, the theme of “Industry Eco-System” relates to “Goal 8: Decent Work and Economic Growth,” in addition to Goal 9. Finally, the themes of “Work Style” and “Quality of Life” relate to Goal 8 and “Goal 16: Peace, Justice and Strong Institutions.”

Of these seven themes of social value creation, NEC initiatives for “Safer Cities & Public Service,” “Lifeline Infrastructure,” and “Industry Eco-System” are described here, and these all relate to “Goal 9: Industry, Innovation and Infrastructure” indicated in the SDGs.

Overview of SDGs

The SDGs include a total of 17 goals and 169 targets. NEC promotes corporate activities that respect ten principles regarding human rights, labour, the environment, and anti-corruption, based on the UN Global Compact signed in 2005. As a company that provides social value on a global scale, NEC promotes business activities that recognize the 17 goals and 169 targets of the SDGs.

Initiatives in Conjunction with Toshima City, Tokyo

The World-first* Total Disaster Prevention System with “Crowd Behavior Analysis Technology”

The Great East Japan Earthquake struck the country in March 2011. On the day of the disaster, Toshima city was not able to make swift decisions since there was no way to promptly gather and grasp the information related to the disaster and the situations of the stranded commuters. Thus, Toshima city decided to implement NEC’s “comprehensive disaster control system” which provides integrated management for collecting, managing and distributing disaster information.

The city installed 51 disaster prevention cameras in the emergency relief centers near major transport facilities, and on major roads to collect real-time information on damage caused by natural disasters. NEC’s indigenous AI “crowd behavior analysis technology” detects overcrowding or stagnation on disaster prevention camera footage. In addition, emergency alerts, accidents, relief center preparation and other information can be compiled centrally on a geographical information system, and then displayed visually using maps.

NEC provides real-time data collection and integrated visual representation of the overall situation to enable Toshima city to make swift decisions, distribute pertinent information, and formulate measures to help stranded commuters, thereby contributing to disaster-resilience.

NEC “Face Recognition Technology” Incorporated into the Monitoring System to Detect Suspicious Activities

NEC provides the world’s best*1 face recognition technology, which is adopted in the urban surveillance system in the City of Tigre, Argentina for urban security.

The video feeds from network cameras installed in railway and river stations are checked against a massive database of enrolled photos in real time, to allow prosecutors, judicial institutions, and public welfare organizations to search for missing persons.

Unique technologies such as detection of double riding on a motorcycle, a common method of purse-snatching, behavior detection for spotting suspicious behavior and vehicles, license plate recognition to identify suspicious or stolen vehicles, and advanced solutions such as crime area mapping to plot the locations of past crimes on a map for better visualization also contribute to crime reduction across the city.

*1 Ranked No. 1 based on benchmarks by the National Institute of Standards and Technology (NIST).
Building and Developing Safe and High-Efficiency Lifelines

Production and infrastructure are becoming increasingly diverse and complex with the global progress of urbanization. Social infrastructure from now on must flexibly respond to demographic and technical changes, and the growing risks of major disasters. NEC continues to ensure safe and efficient supply of valuable resources by providing infrastructure that operates 24/7, alleviating regional and time disparities with flexible and sophisticated ICT systems.

Advanced SDN/NFV Solutions from NEC to Flexibly Respond to Increasingly Diverse and Complex Social Infrastructure

The progression of the IoT leads to diversifying demands for communication environments, including the need for secure networks and bandwidth guaranteed networks. For telecommunications providers, this means a large investment is required to build the networks that will meet these diverse needs, and delays can easily lead to lost opportunities.

The SDN/NFV solutions of NEC utilize virtualization technologies that enable the overall network system to be dynamically rebuilt, which provides high cost-effectiveness and flexibility. NEC and Teléfonica, one of the world’s leading telecom carriers, completed the first phase of a pre-commercial trial for vCPE*2 for residential users in the network of Teléfonica’s Brazilian affiliate, Teléfonica Brasil (Vivo). NEC’s vCPE solutions will enable network functions such as IP address allocation, security, and others to be shifted away from the residential gateways and towards Teléfonica Brasil’s own network. This will improve Teléfonica Brasil’s broadband access network service through better and stronger operability and safety, as well as network simplification. It also enables various services to be provided to the end user, which leads to increased convenience and customer satisfaction.

NEC Airport Solutions Provided for More Than 50 Years

As demand for air transportation increases year after year, it leads to excessively dense and crowded airports and air routes, a highly reliable system that is resilient to failure is essential for ensuring efficient and safe air navigation. The need to prevent unauthorized access and improve service in airports is also increasing.

Over the past fifty years, NEC has provided airport solutions to more than 50 countries and regions across the world, with a focus on Japan and other parts of Asia. For example, NEC’s air traffic control radar uses the latest semiconductor circuit technology and signal processing technology to accurately detect aircraft.

The ICT system that operates the Tom Jobim (Galeão) international airport in Brazil is one such example. This comprehensive system contributes to safe and efficient airport management by providing a security camera system for preventing unauthorized entry, an entry/exit control system, displays for showing flight information, communication tools to enable employees to efficiently contact each other, a wireless Internet environment, and a fire alarm system.

Supporting a World Recreated with New Bonds of Industries and ICT

The IoT connects people, tangible objects, and intangible objects together to enable a highly productive and efficient value chain with the real-time visualization of production and sales processes. User consumption patterns and needs are also diversifying, with the consumption of intangible objects becoming more important than physical products, and users preferring to share things rather than own them. In order to respond to this trend, NEC will realize a next-generation industry eco-system through new digital platforms.

Initiatives in Conjunction with Yamato System Development Co., Ltd.

Improving the Efficiency of Manpower and Time for Inspection Work

The logistics outsourcing business handles a large amount of pamphlets and manuals without barcodes and product identification information; in order to maintain high shipping quality, it is necessary to conduct visual and manual product inspection daily. Hence, Yamato System Development Co., Ltd. (YSD) was seeking solutions to improve efficiency in terms of manpower and time.

NEC took this opportunity to create labor saving mechanisms using its well-proven image recognition technologies and gravimeters, by developing an image and gravimeter inspection system that instantly detects product types and numbers, reducing the burden of inspection work performed by workers. Furthermore, with YSD’s know-how in logistics and inspection, as well as their system integration function for warehouse management system, a total management of product master, shipping inspection data, inspection results and the like is now made possible. This inspection support system, an industry first for logistics, is aimed at optimizing the inspection work at YSD and achieving a 20% reduction in overall costs, realizing highly accurate shipping quality, to support a society that allows its citizens to live comfortably.

Initiatives in Conjunction with Kagome Co., Ltd.

Utilizing ICT for Increased Crop Yields and Agricultural Efficiency

In order to respond to the worldwide challenges of climate change and food security, NEC aims to utilize the IoT to provide value to the various operators in the food and agricultural supply chain that cover everything from agricultural materials to production, processing, and distribution. This will help achieve the production reforms needed to meet the increasing demand for food all over the world and its fair distribution; while contributing to the realization of a safe and secure food environment everywhere.

NEC and Kagome Co., Ltd. agreed to collaborate on developing cultivation technology that utilizes ICT for processing tomatoes, and since March 2015 the companies have been conducting tests in tomato fields at a Portuguese subsidiary based on the results of virtual field simulations generated in a computer according to data collected by various sensors about the agricultural environment. These tests enabled NEC and Kagome to analyze the factors that affect crop yields and identify the optimal cultivation method for each field, while providing accurate predictions of yields and the proper time for harvesting.

*1 vCPE: virtualized Customer Premise Equipment

*2 vCPE: virtualized Customer Premise Equipment
Fiscal 2016 Main Accomplishments

We focused efforts to support the introduction of the Social Security and Tax Number ("My Number") System, mainly for the national and local governments, and related sales increased greatly from ¥1.0 billion the previous fiscal year to ¥4.2 billion.

For the My Number System, in addition to completing the implementation of the Intermediate Server Platform that is the foundation of the overall system, we also delivered a face recognition system for counters at local public bodies across the country to be used for confirming the identity of residents when handing over their individual number cards. NEC will conduct business so that we can make contributions at many levels, such as enhanced security for and expanded private-sector usage of the My Number System. There was a peak of large-scale demand as we approached the May 2016 installation deadline for the digitization of firefighting emergency radio systems. NEC leveraged its No. 1 domestic position in this domain to successfully implement systems at many local governments.

The deployment of new solutions for future growth is proceeding. Surveillance—such as a crowd behavior analysis solution, powered by NEC’s image recognition and Big Data analysis technologies—is being progressively introduced to ensure safety around train stations and other places where many people gather. The Cyber Security Factory’s security monitoring services and emergency response services upon anomaly detection are already being employed by more than 100 entities.

Initiatives in the Medium- to Long-Term

Net Sales, Operating Income, Operating Income Ratio (IFRS) (Billion ¥)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales</th>
<th>Operating Income</th>
<th>Operating Income Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>771.6</td>
<td>71.0</td>
<td>9.2%</td>
</tr>
<tr>
<td>2017</td>
<td>735.0</td>
<td>69.0</td>
<td>9.4%</td>
</tr>
<tr>
<td>2019/3</td>
<td>780.0</td>
<td>69.0</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

* Figures are currently not audited and subject to change upon audit completion during FY2017/3.

Net Sales and Operating Income have been growing at a rate of annually 4% and 7% respectively. The sales target for the fiscal year ending March 2019 moderately increased a 0.4% annual growth rate compared to the fiscal year under review. This is because we anticipate decreased sales of large projects, such as the digital firefighting emergency radio systems, while expecting growth focused on the area of public safety that contributes to a safe and secure society. At present, it is expected there will be infrastructure improvement and safety enhancements for safe and secure urban development towards the year 2020. NEC will contribute to this through offering immigration control systems and new-style security services which leverage its unique crowd behavior analysis technology and the world’s leading face recognition technology, and disaster prevention support systems that analyze landslide risk level using sensors.

With the ever increasing threat of cybercrime, we are accelerating our responses to the government’s initiative of Local Government Information System Strength Improvement Model through the Cyber Security Factory’s security monitoring service, as well as network implementation and information leakage prevention leveraging SDN technology, where NEC has a broad range of experience in Japan.

Moreover, we are also making efforts in advanced fields such as FinTech that fuses finance and ICT and increasingly sophisticated medical care utilizing ICT. In this way, we are striving to create new value.

Review of Operations

Public Business

In the public business, we provide safe, secure and efficient social solutions for Japanese and foreign governments, governmental agencies, local governments, public institutions, financial institutions and other organizations by combing our distinctive technology assets, including network and sensor technologies and analysis technology, with a broad expertise in systems integration.

Executive Vice President
Tomonori Nishimura

Risks Environment (Risks and Opportunities)

Risks
Due to the nature of the Japanese ICT infrastructure business, our performance may be impacted by fluctuations of large-scale public investment. Accordingly, we are reviewing the deployment of personnel and other resources in order to balance the needs between periods of high demand and slow periods.

Opportunities
The infrastructure development process is underway for the expanded usage of the Social Security and Tax Number System ("My Number"), and brisk activity is predicted in the future. In addition to this Public Sector infrastructure development business, we expect to expand into medical care and financial institutions as well as other areas in the private sector. It is also expected that investment will be stimulated for the safe, secure, and efficient operation of international events towards the year 2020.
Review of Operations

Enterprise Business

NEC provides IT solutions in manufacturing and retail/services in the private sector, launching new services to help create new value for customers. In particular, we are accelerating development in the total supply chain management (SCM) business for manufacturing, logistics, retail and services worldwide as it will be a growth field going forward.

Business Activities for Social Value Creation

Chikara Ishii
Executive Vice President

Sales (Billion ¥)

2014 2015 2016

272.3 270.5 300.7

In the enterprise business, sales were ¥300.7 billion, an increase of 11.2% year-on-year, mainly due to increased sales from large-scale projects for the retail/services sector and manufacturing industries.

Operating Income, Operating Income Ratio (Billion ¥)

2014 2015 2016

Operating income improved by ¥2.8 billion year-on-year, to an operating income of ¥22.2 billion mainly owing to increased sales and the improved profitability of system integration services.

The operating income ratio has improved to 7.4%.

Strengths

- The trust and expertise we have accumulated over 40 years in providing IT services to domestic retail business operators, such as convenience stores, supermarkets, and drug stores.
- The knowledge and expertise we have developed in manufacturing innovation at our own plants as a company in the manufacturing industry, as well as SCM transformation for global corporations.

Market Environment (Risks and Opportunities)

Risks

There is a great deal of competition in the IT market for the domestic private sector. Intense price competition is continuing so ensuring profit in this field is a challenge. Moreover, the adoption of cloud services is being accelerated, such as the expanded usage of Paas and Iaas, so we anticipate a gradual decline for existing solutions.

Opportunities

Urbanization is progressing across the world, and it is expected that Japanese business models can be applied to convenience stores and logistics industries internationally. Markets are also being started using IoT, providing opportunities to establish a new growth foundation.

Fiscal 2016 Main Accomplishments

Net Sales, Operating Income, Operating Income Ratio (IFRS) (Billion ¥)

2016/3 2017/3 2018/3

Operating Income Operating Income Ratio

Net Sales

300.3 305.0 340.0

31.9 21.0

10.4% 6.2%

19.0 2017/3 Forecast

2016/3 Target

21.0

6.2%

* FY2016/3 IFRS figures are currently not audited and subject to change upon audit completion (FY2017/3).

In the enterprise business, the three years of the Mid-term Management Plan 2018 are positioned as a period to solidify a foundation for future growth. During this period we are building a business foundation for IoT model transformation and global deployment, and also creating new value through IoT. As for business domains, we are focusing efforts on NEC’s strengths including the IT service business for the retail industry and manufacturing co-creation, and are working for business expansion primarily in these areas. In the IT service business for the retail industry, we are adding new value to the expertise we have already accumulated through providing IT services to retail business operators in Japan over the past 40 years, striving to accelerate horizontal deployment on the global stage with an eye towards developments in other industries as well. For manufacturing co-creation, we are combining the expertise we developed in our own manufacturing innovation and SCM reforms for global businesses with cutting-edge technologies such as IoT and AI. In this way, we are working to expand the value we offer and move into new business domains.

Initiatives in the Medium- to Long-Term

Growth in the focus businesses

IT services business for retail

Manufacturing Co-Creation Program

To improve profitability, we worked to expand business models presupposed on 0 horizontal deployment and enhance upstream processes, including consulting. Profitability has been steadily improving, although partially supported by increased sales of large-scale projects.

Manufacturing

NEC implemented a Product Lifecycle Management (PLM) system for CHRONON Corporation for the globally integrated management of its product technology information. NEC also started offering NEC Industrial IoT, a solution that leverages the IoT to support next-generation manufacturing, and delivered Head Office Plant network infrastructure utilizing SDN for construction machinery manufacturer Takeuchi Mfg. Co., Ltd.

Logistics

NEC launched an image and weight inspection solution, the first in the industry that utilizes image recognition technology to conduct automatic inspections of three-dimensional products. NEC also established a joint venture company with Delhi Mumbai Industrial Corridor Development Corporation Limited for providing logistics visualization services in India.

Retail

NEC helped Seven & i Holdings Co., Ltd. improve its customer service by installing chargers for EV and PHV at approximately 40 locations across Japan. In collaboration with SOHGO SECURITY SERVICES CO., LTD., NEC began offering a cloud-based security camera service at Seven-Eleven Japan Co., Ltd. stores.

Quality of Life

NEC assisted Gunze Limited with IoT technology in developing the clothing-type wearable system that measures biological data just by wearing it. NEC also implemented the “Kumaninetsu IC CARDS” system that can be used at public transportation and commercial facilities in Kumamoto Prefecture.
**Telecom Carrier Business**

We provide telecom carriers with network control platform systems and operating services for operations management, along with equipment for network implementation. NEC’s wealth of experience in large-scale operating services for operations management, along with equipment for global vendors, as the market becomes more borderless.

**Review of Operations**

**Strenghts**

- Track records of delivering: fixed and mobile telecom products; IP systems in Japan; and an accumulation of technology know-how.
- Successful delivery of management and operations support for more than 200 telecom carriers worldwide in the TOMS area.

**Market Environment (Risks and Opportunities)**

**Risks**

- There is a risk of telecom carriers curtailing capital investment in the domestic market. In addition, there is a possibility of intensified competition, including from global vendors, as the market becomes more borderless.

**Opportunities**

- The market for SDN/NFV and TOMS is expected to expand even further in the future. These technologies contribute to network transformation through outcomes such as faster delivery of services, optimization of network resources and reduced operating costs for telecom carriers.
- We expect more business opportunities with the planned commercial deployment of the 5G next-generation mobile telecommunications standard, starting mainly from the Japanese and Asian markets, towards 2020.

**Fiscal 2016 Main Accomplishments**

- We increased our results for the introduction of TOMS and SDN/NFV, our major focus business over the medium- to long-term.
- We expanded our global business with large-scale project orders received in existing business fields, etc.

**Initiatives in the Medium- to Long-Term**

**Net Sales, Operating Income, Operating Income Ratio (IFRS)**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Sales (Billion ¥)</th>
<th>Operating Income (Billion ¥)</th>
<th>Operating Income Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>560.3</td>
<td>60.3</td>
<td>10.8%</td>
</tr>
<tr>
<td>2015</td>
<td>546.0</td>
<td>62.0</td>
<td>11.4%</td>
</tr>
<tr>
<td>2016</td>
<td>456.1</td>
<td>45.6</td>
<td>9.9%</td>
</tr>
</tbody>
</table>

(Fiscal year ended on March 31)

**Business expansion in the global market through offerings with a global competitive edge, such as TOMS and SDN/NFV, is the key for medium- to long-term growth in the telecom carrier business. We have the customer base and ability to provide TOMS solutions, and an established track record in commercialization of SDN/NFV. We will contribute to the swift realization of new services for telecom carriers by continually enhancing IT network integrated solutions, combining TOMS and SDN/NFV.**

**Forecasts**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Sales</th>
<th>Operating Income</th>
<th>Operating Income Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/3</td>
<td>697.5</td>
<td>66.5</td>
<td>9.8%</td>
</tr>
<tr>
<td>2017/3</td>
<td>705.0</td>
<td>67.0</td>
<td>9.5%</td>
</tr>
<tr>
<td>2019/3</td>
<td>795.0</td>
<td>72.0</td>
<td>9.2%</td>
</tr>
</tbody>
</table>

* FY2016/3 IFRS figures are currently not audited and subject to change upon audit completion during FY2017/3.

**Growth in the focus businesses**

- **Business expansion based on TOMS, SDN/NFV**
- **Enhancing development to maintain competitiveness for 5G**

**NEC Corporation Annual Report 2016**

Executive Vice President

Shunichiro Tejima
**System Platform Business**

In the system platform business, we provide products for business, ranging from terminals to network and computer equipment, software products and service platforms, as well as solutions and services based on them. We deliver labor-saving and efficient platforms for customers, while at the same time creating new value based on ICT.

*Executive Vice President  Kimihiko Fukuda*

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**Review of Operations**

**Fiscal 2016 Main Accomplishments**

We achieved the No. 1 share for the 20th consecutive year in the domestic PC server market*. As the vendor with the top share, we will strive to further improve customer satisfaction by continuing to provide products while listening sincerely to customer requests.

In the fiscal year under review, we worked to enhance our products in growth areas such as cloud platforms and SDN. Regarding cloud services, we opened the NEC Kobe Data Center, as our flagship data center in western Japan. Our other initiatives included strengthening the security of the cloud platform service, “NEC Cloud IaaS.” In terms of SDN for enterprises, we have reliably expanded our deliveries, helping customers strengthen their management foundation and enhance their competitiveness.

Furthermore, to create the future IoT platform, we have determined that we will strengthen our development system for enhancing the ICT platform product business that upholds our IoT solutions, and will aim to accelerate development and business expansion from the next fiscal year.

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**Net Sales, Operating Income, Operating Income Ratio (IFRS)**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Sales (Billion ¥)</th>
<th>Operating Income (Billion ¥)</th>
<th>Operating Income Ratio (IFRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/3</td>
<td>728.6</td>
<td>31.7</td>
<td>4.4%</td>
</tr>
<tr>
<td>2017/3</td>
<td>750.6</td>
<td>32.0</td>
<td>4.2%</td>
</tr>
<tr>
<td>2018/3 Target</td>
<td>795.0</td>
<td>39.0</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

* Source: CY16/17 Japan x86 Server Tracker (Takaya, 2016Q1)

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**Initiatives in the Medium- to Long-Term**

- **Growth in the focus businesses**
  - Maximizing the profit of existing businesses
  - Establishing an IoT platform focused on safety and retail
  - Strengthening key business areas

In our Mid-term Management Plan 2018, we are striving to enhance our profitability in the system platform business, first by optimizing existing businesses. Specifically, we are working to maximize profit through comprehensive measures, including optimizing development costs, cutting costs, adding high value to products, and strengthening our sales structure. In addition, we are making efforts to establish an IoT platform in order to enhance the value provision of the system platform business. To that end, we are aiming to develop unique solutions and services based on the technologies that are our strengths, such as image analysis and security. We are also striving to provide customers with common platforms in a timely manner with such high quality that can only be offered by NEC, including networks. While it is expected that the IoT platform will be deployed horizontally in various industries, first we will devote resources to boost the Safety business and the Retail IT Service business, in line with the Mid-term Management Plan 2018.

Moreover, we will make efforts to clarify the value by defining practical use cases by customer segments—and also maximize value for customers—regarding the growth fields in which we have refined our strengths in the Mid-term Management Plan 2015: the cloud services, SDN, Big Data, and security.

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**Strengths**

- Unique technologies in the fields of SDN, cloud services, Big Data, and security (global best of breed technologies, such as image recognition technology, advanced Big Data analysis technology, vector computing technology, etc.)
- Dependability and quality developed in the fierce competitive environment in Japan
- Comprehensive strength of having a wide range of assets to build the IoT platform, including cloud services, networks, sensors and other devices.

**Market Environment (Risks and Opportunities)**

**Risks**

The hardware market is expected to shrink continuously, and competition is getting tough in the market. For that reason, there is the risk that sales and profit of “products selling” such as general-purpose hardware, will be depressed.

**Opportunities**

An upward trend for SDN, cloud services, Big Data, and the security market is evident, and the IoT market is expected to develop further. These areas are business opportunities for NEC, but at the same time, many competitors—including those entering the market from other industries—are making increasingly rapid movements to establish positions in the ICT field, so rapid deployment is necessary.
Providing Solutions That Harness the Comprehensive Strengths of One NEC through a Nationwide Sales Network

NEC’s domestic sales accounts for about 80% of its total sales and underpins the business foundation of the entire Company. Nevertheless, the Mid-term Management Plan 2018 has established a forecast that domestic sales in the fiscal year ending March 2019 will remain largely unchanged from the current fiscal year. This is because existing businesses will decline in size due to a number of factors, including telecommunications curtailing capital investment and the peak for firefighting emergency radio systems of local authorities, which had grown at a robust rate over the previous several years. However, NEC believes these market changes represent a business opportunity. Toward that end, we will focus on winning orders in fields including SDN, Big Data, cloud services, and cyber security, each being one of our areas of strength. We will also work to increase orders through well-timed efforts, including enhancing sales capabilities.

Creating New Value by Cultivating Market Needs

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Enhancing Sales Capabilities to Solve the Essential Issues Customers Face

NEC will quickly respond to market changes and is developing the frontline capabilities of employees to think and act on their own in order to contribute even more to customers in these new fields. We aim to create new value to tackle essential issues that society and customers face. To this end, we carefully examine customers’ business issues, and connecting these with our technology assets in creating new value for the customers. We are transforming the way our sales force thinks and investing in the development of each sales force in improving multi-faceted analytical capabilities on market environments and customer challenges and in having extensive knowledge on leading edge technologies and solution assets in the company. Going forward, domestic business teams will work on creating new social value as a point of customer contact in the field, and contributing to the development of a society in which people can live more prosperous lives.
North America

NEC Corporation of America provides solutions that improve the way people live, work and communicate by leveraging our Smart Enterprise platform focused on improving safety, security and operational efficiency. In the fiscal year under review, we secured significant, long-term biometrics contracts with the U.S. Department of Homeland Security and other federal government agencies. Additionally, we strengthened our presence within the Federal Government by adding a new office and biometrics showcase in Washington, D.C. We also integrated our Networks and IT business units to better align our technology offerings with the needs of our customers. Meanwhile, our Retail solutions team added a significant technology services contract with a major convenience store retailer in North America.

Central and South America

NEC Latin America is rooted in Central and South America and deploys its business to meet the needs of the region. Specifically, we are working to solve customer issues in the fields of security and elimination of the digital divide.

In the fiscal year under review, we dedicated efforts to expanding the public safety business, providing security solutions for national ID programs as well as airports, ports, and railways in various countries. We will continue with our efforts of focusing on the No. 1 value provider of security solutions in the region.

Achieving further development in the region will require better innovation and productivity. In addition to existing businesses, we will work with customers in the Proof of Concept stage to create new value in healthcare, agriculture and retail, and contribute to society in the process. We will continue to build up cooperation with customers and partners, and devote our energies toward achieving a society where people can live brighter, more prosperous lives.

Greater China

NEC (China) is developing social infrastructure platforms in the Greater China Region, including Hong Kong and Taiwan, that deliver value in the areas of safety, security, efficiency and equality.

During the fiscal year under review, we supplied a number of services and solutions to customers in the Greater China Region, including face recognition and access control systems, cyber security solutions, building energy management systems (BEMS), dealer management systems (DMS), Mobile Backhaul (PKSO, BM), optical telecommunications equipment, and display-related products. Also, taking the local business reality, we are working jointly with customers on Proof of Concepts for airports, healthcare and air pollution countermeasures in order to create value for customers.

Our goal is to quickly commercialize these ventures.

EMEA

NEC Europe has business operations in 115 countries across Europe, Russia, the Middle East and Africa. We will seek to further grow our business in the Middle East, Africa, and Russia, which has high growth and in Europe, which is driving technology trends, so as to meet the diverse needs of these markets through focus and selection.

In the fiscal year under review, we made an equity investment in XON Holdings Proprietary Limited, an ICT solutions firm in South Africa, with the goal of accelerating our business expansion in Africa. We were also able to greatly increase orders for face recognition systems, mainly in the Middle East and Africa, after making enhancements in the “Solutions for Society.” In Europe, we commenced partnerships with governments aimed at realizing smart cities. Also in Europe and Russia, we reinforced relationships with major telecom carriers in the network business especially in Europe, where we succeeded in capturing global service agreements. We were able to step up sales of enterprise SDN, a field with growing demand.

The Middle East, Africa, and Russia are expected to see rapid growth going forward, and NEC Europe will again focus on these regions in the next fiscal year. NEC Europe will continue to increase sales by expanding its “Solutions for Society,” while also improving the profitability of existing business, in an effort to achieve stable earnings.

APAC

NEC Asia Pacific is deploying business within the 10 nations of ASEAN as well as in India and Oceania, where growth is particularly robust. We are promoting “Solutions for Society” using ICT for each of the governments and companies in the region. Through collaboration with NEC Laboratories Singapore and the Global Safety Division in Singapore, we are building innovative business models and pursuing business development closely in tune with local needs.

In the fiscal year under review, we set up a Cyber Security Factory in Singapore to reinforce our global security monitoring network. In the safety business, we won orders for a biometrics system (fingerprint and face recognition) for the Government of Australia and a fingerprint recognition system for the Philippine National Police, ensuring we will make positive contributions toward the realization of safe and secure societies. In the next fiscal year, we will focus on further business growth mainly centered on the safety business, new business for global carriers, and IT service business for retail positioned as core businesses under the Mid-term Management Plan 2016 and lead NEC’s global businesses forward.
Corporate Governance

In recognition of the fact that reliable corporate governance is essential to the continuous creation of social value and the maximization of corporate value, NEC is committed to strengthening its corporate governance practices through (1) assurance of transparent and sound management, (2) realization of prompt decision making and business execution, (3) clarification of accountability and (4) timely, appropriate and fair disclosure of information.

Main Initiatives for Strengthening Corporate Governance

1. Instituting Corporate Officer System
   NEC instituted a corporate officer system in April 2000 and worked to delegate authority from the Board of Directors to corporate officers with the aim of separating management supervision from business execution and expediting business execution based on prompt decision making.

2. Reducing the Number of Directors
   The number of Directors was reduced to streamline the Board of Directors. The aim is to ensure even greater management through greater discussion at meetings of the Board of Directors and to deliver prompt decisions making.

3. Appointing Multiple Outside Directors
   NEC added an Outside Director in June 2001 for a total of two Outside Directors in order to strengthen the supervisory functions of the Board of Directors. The number of members has increased and the system of three Outside Directors has continued since its inception in June 2007.

4. Shortening Directors’ Terms
   In June 2004, the term of Directors was shortened from two years to one year in order to clarify their responsibility for management.

5. Establishing a Nomination and Compensation Committee
   The committee has been established to ensure the transparency, validity and objectivity of the nomination and remuneration of Directors. The committee is made up of five members, including three Outside Directors, one of whom is appointed as the chairman.

6. Instituting the Chief Officer Position
   The chief officer position was instituted in July 2011, for the purpose of developing company-wide strategy and leading business units in the promotion of the company’s business, towards realization of the NEC Group’s vision. In the Board of Directors, chief officers carry out the function of overseeing business execution by each business unit from a company-wide perspective.

Board of Directors
   The Board of Directors holds regular meetings once a month in principle and extraordinary meetings as necessary to determine important matters related to business execution, including business realignment, funding plans and financing and investment, as well as matters concerning business plans.

Fiscal 2016 Status
   In addition to receiving Chief Officers’ activity reports and management plans and progress reports for each business segment, the Board of Directors actively discussed initiatives for the strengthening of corporate governance, reform of underperforming businesses and the Business Process Optimization Projects. A broad range of advice was given by Outside Directors, in particular, tapping into their own extensive experience in activities as corporate management and based on their deep insights.

Executive Committee
   The Executive Committee discusses important NEC Group management issues such as policies and strategies. This committee extensively discusses matters of particular importance prior to putting them forward to the meetings of the Board of Directors for approval. In doing so, the committee enhances the deliberations and ensures appropriate decision making.

Overview of the Corporate Governance Structure

Business Progress Committee
   The Business Progress Committee deliberates and reports on matters related to the status of the NEC Group’s business execution, such as monitoring progress with respect to meeting budgets approved by the Board of Directors, with the aim of sharing management information and promoting execution efficiency.

Nomination and Compensation Committee
   The Nomination and Compensation Committee deliberates on (i) nomination of Directors, Representative Directors and Audit & Supervisory Board Members (KANSAYAKU) (“A&SBMs”), the chairman of the Board, and the president and (ii) the structure and the level of remuneration for Directors, representative Directors and corporate officers from an objective perspective. The committee reports the results of its deliberations to the Board of Directors.

Audit & Supervisory Board (KANSAYAKU-KAI) (“A&SB”)
   The A&SB holds regular meetings once a month and extraordinary meetings as necessary, decides on audit policies, standards, and annual audit plans, etc. and receives status reports on audits from each Audit & Supervisory Board Member (KANSAYAKU) (“A&SBMs”).
Continued Strengthening and Improvement of the System

NEC adopts the Company with Audit & Supervisory Board Members (KANSAIYAKU) corporate structure to provide a double-check process: the Board of Directors oversees business execution and the A&SB audits the legitimacy and appropriateness of NEC’s decision making or further strengthens its corporate structure by utilizing the combination of a corporate officer system, multiple Outside Directors, and the Nomination and Compensation Committee, which we established voluntarily and is comprised of a majority of Outside Directors. In this way, we separate management supervision from business execution while striving to ensure management transparency and soundness.

NEC believes that its corporate governance is functioning adequately under the current system described above. However, NEC realizes the importance of further strengthening its corporate governance in order to focus on “Solutions for Society” and to strive to create social value and maximize corporate value. NEC has mainly carried out the following initiatives in light of Japan’s Corporate Governance Code that took effect from June 2015:

- In fiscal 2016, each Director and A&SBM answered a questionnaire and was interviewed about the role, composition and operation of the Board of Directors, and the Board of Directors discussed its effectiveness based on the results of such questionnaires and interviews. As a result of the discussion above, it has been evaluated that in terms of decision making for NEC’s important business execution, business strategies and business plans, the Board of Directors is structured and operated to facilitate active discussions, and the Board of Directors has been functioning appropriately as a whole. Meanwhile, it has been confirmed that the Board of Directors needs to narrow down the matters and clarify the key points to be discussed at the Board of Directors, in order to further enhance deliberations at the Board of Directors and to more appropriately indicate the strategic business direction of NEC. Based on the results of the analysis on the evaluation on the effectiveness of the Board of Directors, NEC will continually make the deliberations at the Board of Directors more active.

Further, in June 2016, NEC adopted the NEC Corporate Governance Guidelines, which set out the basic framework and policy of NEC’s corporate governance system to help strengthen the relationship with stakeholders, thereby contributing to sustainable growth and the increase in corporate value.

In addition to our basic views and policy on corporate governance disclosed in our Annual Securities Report and Corporate Governance Report, we disclosed our policy on (i) active deliberations at the Board of Directors, (ii) oversight by the Nomination and Compensation Committee of succession planning for the President, (iii) appropriate measures to ensure the exercise of shareholders’ voting rights at the General Meetings of Shareholders, (iv) supporting system for Directors and/or A&SBMs and (v) challenges surrounding sustainability in these Guidelines, which systematically show the status of NEC’s corporate governance.

Going forward, we aim to achieve more effective corporate governance, which we will continually strive to strengthen and improve.

Early Disclosure of the Notice of Shareholders’ Meeting

NEC Director and A&SBM answered a questionnaire and was interviewed about the role, composition and operation of the Board of Directors, and the Board of Directors discussed its effectiveness based on the results of such questionnaires and interviews. As a result of the discussion above, it has been evaluated that in terms of decision making for NEC’s important business execution, business strategies and business plans, the Board of Directors is structured and operated to facilitate active discussions, and the Board of Directors has been functioning appropriately as a whole.

Revision of Criteria for Matters to Be Discussed by the Board of Directors

In order to improve the functions of the Board of Directors, NEC has conducted an analysis and evaluation on the effectiveness of the Board of Directors. In fiscal 2016, each Director and A&SBM answered a questionnaire and was interviewed about the role, composition and operation of the Board of Directors, and the Board of Directors discussed its effectiveness based on the results of such questionnaires and interviews. As a result of the discussion above, it has been evaluated that in terms of decision making for NEC’s important business execution, business strategies and business plans, the Board of Directors is structured and operated to facilitate active discussions, and the Board of Directors has been functioning appropriately as a whole. Meanwhile, it has been confirmed that the Board of Directors needs to narrow down the matters and clarify the key points to be discussed at the Board of Directors, in order to further enhance deliberations at the Board of Directors and to more appropriately indicate the strategic business direction of NEC. Based on the results of the analysis on the evaluation on the effectiveness of the Board of Directors, NEC will continually make the deliberations at the Board of Directors more active.

Overview of NEC Corporate Governance Guidelines

For further details on the corporate governance of NEC Corporation, please visit the following URL: http://jpn.nec.com/profile/en/governance.html


Communication is Fundamental

Corporate Governance is ultimately for the sake of improving efficiency, maintaining soundness, and ensuring transparency for achieving these ends.

The basis for corporate governance is putting in place an environment in which each employee can play an active and energetic role through smooth communication. This is the prime mission of organizations’ leaders. Thoroughly communicating to share organizational strategies and information allows each employee to fully demonstrate their skills and fulfill their individual roles. As a result, each employee can have a sense of personal achievement and can contribute to realizing the organization’s targets.

Communication is also fundamental for ensuring thorough compliance. I believe that an organization that achieves smooth communication vertically and horizontally, where compliance violations do not occur. If, by chance, a violation should occur, proper communication ensures that top management is promptly informed and appropriate steps for resolution are quickly taken. To achieve smooth communication, it is important that leaders personally communicate policies and strategies of the Business, gain member’s understanding, listen to their input, and reflect that input in strategies of the organization. Continually implementing these steps leads to an organization with a positive atmosphere. To that end, daily awareness is important, as is keeping up constant communication, and it starts with a daily greeting every morning.

I believe that a good company is one in which every employee can work actively and energetically. I have high expectations that all NEC employees will be able to work in this way under a sound governance system.

Messages from an Outside Director and an Audit & Supervisory Board Member

Takeshi Kikuchi

Implement Compliance Management and Expand Business

I was appointed outside A&SBM just after the Corporate Governance Code was enacted in June 2015. A little more than one year has passed since then.

What is characteristic of NEC is that discussions in meetings of the Board of Directors, and the comments of Outside Directors in particular, are extremely vigorous, with six Inside Directors and five Outside Directors, questions and opinions voiced by Outside Directors are outspoken and range across the topics of overall management policies, strategies and business plans, the Board of Directors is structured and operated to facilitate active discussions, and the Board of Directors has been functioning appropriately as a whole. Meanwhile, it has been confirmed that the Board of Directors needs to narrow down the matters and clarify the key points to be discussed at the Board of Directors, in order to further enhance deliberations at the Board of Directors and to more appropriately indicate the strategic business direction of NEC. Based on the results of the analysis on the evaluation on the effectiveness of the Board of Directors, NEC will continually make the deliberations at the Board of Directors more active.

Takeshi Kikuchi

Overview of NEC Corporate Governance Guidelines

Chapter 1 General Provisions

Purpose of these Guidelines

Corporate Philosophy and Business Strategies

Basic Views on Corporate Governance

Chapter 2 Corporate Governance System

Board of Directors

Nomination and Compensation Committee

Main Committees in Business Execution

Audit & Supervisory Board (A&SB)

Chapter 3 Relationship with Stakeholders

Compliance Hotline, Supporting System for Directors and/or A&SBMs

Relationship with Shareholders

Relationship with Other Stakeholders

Chapter 4 Disclosure

Basic Policy

Information Disclosure Structure

Please see the following URL for details on the contents of these Guidelines:


From this perspective, and from an outside perspective, I will continue to do my utmost so that NEC can appropriately manage and avoid risks, fulfill compliance responsibilities, and achieve business growth.

Outside Audit & Supervisory Board Member (KANSAIYAKU)
Directors and Audit & Supervisory Board Members

(as of June 27, 2016)

**Directors**

- **Takeshi Kuribe**
  - President and Chief Executive Officer
  - President of the Board, Suntrust/Mizuho Banking Corporation
  - Member of the Board, Suntrust/Mizuho Financial Group Inc.
  - Member of the Board of Directors

- **Hitoshi Ogiwa**
  - Member of the Board
  -Member of the Board of Directors

- **Motoyuki Oka**
  - Member of the Board
  - Senior Advisor, Sumitomo
  - Director of Corporate Finance Division

- **Kunio Nogi**
  - Member of the Board
  - Member of the Board of Directors

- **Katsumi Emura**
  - Executive Vice President
  - Chief Technology Officer
  - Member of the Board

**Audit & Supervisory Board Members (KANSAyuKAI)**

- **Fuji Okada**
  - Audit & Supervisory Board Member (Full-time)
  - Has experience in financial management and the legal and internal control division for many years.

- **Tetsuya Fujitaka**
  - Audit & Supervisory Board Member (Full-time)
  - Has experience in accounting for many years and experience as a former General Manager of Corporate Finance Division.

- **Kyoko Okumiya**
  - Audit & Supervisory Board Member
  - Attorney at Law
  - Has experience and professional insight as an attorney at law.

- **Takeshi Kikuchi**
  - Audit & Supervisory Board Member
  - Attorney at Law
  - Has experience and professional insight as an attorney at law in the field of IT and other fields.

- **Kazuyasu Yamada**
  - Audit & Supervisory Board Member
  - Certified Public Accountant
  - Has experience in auditing in the fields of manufacturing and finance and has obtained considerable expertise in finance and accounting.

**Board of Directors**

- **Chairman of the Board**
  - Takeshi Kikuchi

**Cabinet structure**

- **5 Audit & Supervisory Board Members**
  - 3 Independent Audit & Supervisory Board Members
  - 2 Audit & Supervisory Board Members (KANSAyuKAI)

**Notes**

1. NEC has notified the Tokyo Stock Exchange of its four independent Directors and three independent Audit & Supervisory Board Members (KANSAyuKAI).
2. Independent Directors: Mr. Katsumi Emura, Ms. Kyoko Okumiya, Mr. Takeshi Kikuchi, Mr. Kazuyasu Yamada.
3. Independent Audit & Supervisory Board Members: Mr. Katsumi Emura, Ms. Kyoko Okumiya, Mr. Takeshi Kikuchi, Mr. Kazuyasu Yamada.
4. Attendance at meetings: the number of meetings attended (or attendances of the Board of Directors or meetings of the Audit & Supervisory Board) out of the number of the meetings held in the fiscal year ended March 31, 2016.

For further details on the Directors and Audit & Supervisory Board Members of NEC Corporation, please visit the following URLs:

**Directors**

http://www.nec.com/en/global/about/executives/directors.html

**Audit & Supervisory Board Members (KANSAyuKAI)**

http://www.nec.com/en/global/about/executives/auditors.html

For further details on the Directors and Audit & Supervisory Board Members of NEC Corporation, please visit the following URLs:

- Directors:
- Audit & Supervisory Board Members (KANSAyuKAI):
At NEC, the chairman, the president, chief officers, corporate officers in charge of business units and other officers interact actively in exchanging information and discussion to enhance management speed and to execute business from a companywide perspective.

**Business Foundation to Support Value Creation**

**Nobuhiro Endo**
Chairman of the Board
Achieving Sustainable Growth through ICT
With high expectations for ICT’s contributions to solving the problems of human society, NEC will make continuous efforts to improve our computing expertise, network building know-how and solutions capabilities, to utilize the full potential of these, we will also devote efforts to training our employees, and, under an ethical corporate culture, to contribute to realizing a society in which people can live more abundant lives.

**Tomotomi Nishimura**
Executive Vice President
In charge of the Public Business Unit
Expanding Business Domains toward Building a Safe and Secure Society
“We want to bring happiness to the people of the world.” To achieve that end, we are striving to gain a deeper understanding of social structures and to grow as a business that is able to contribute globally to ICT services embedded in customers’ business domains.

**Takayuki Morita**
Senior Executive Vice President
In charge of the Corporate Sales and Sales Operations Unit
Growing Order Numbers through Customer-Centric Value Proposals
Through value proposals leveraging our technologies and co-creation with customers and sales partners, NEC is driving toward company-wide growth while fostering the forefront capabilities of thinking and acting on their own in order to quickly respond to market changes.

**Kimihiko Fukuda**
Executive Vice President
In charge of the System Platform Business Unit
Providing Platforms with Value
By developing “Solutions for Society,” NEC strives to globally provide our robust ICT platforms with recognized value. NEC will continue contributing to business growth that is mutually beneficial for our customers and for us.

**Shunichiro Tejima**
Executive Vice President
In charge of the Telecom Carrier Business Unit
Achieving Global Growth
Taking advantage of the business opportunities emerging from the ICT expansion and the diversification of ICT’s IT and network technologies, we are building safer, secure, and efficient, high-value-added network solutions sophisticated by software. Through these efforts, we are dedicated to resolving social challenges as well as to the further development of NEC Group.

**Takaki Shimizu**
Executive Vice President and CMO (Chief Marketing Officer)
In charge of the Business Innovation Unit
Implementing Innovations and Reforming Marketing
Through new business creation, and by instilling the culture of creating internal business frameworks, etc., we are transforming NEC into an innovative company. Additionally, we are proceeding to innovate our marketing processes with digital marketing and other approaches, while striving to improve ROA.

**Isamu Kawashima**
Executive Vice President and CFO (Chief Financial Officer)
Strengthening the Profit Structure and Expanding Key Businesses
NEC will establish the foundation for business expansion by addressing underperforming businesses, maintaining and bolstering a stable financial foundation, and supporting strategic growth with our financial strength.

**Katsumi Emura**
Executive Vice President and CTO (Chief Technology Officer)
Proposing and Implementing Company-wide Technology Strategies that Contribute to Growth
By leveraging our strong core technologies, NEC is predicting the future society and communicating a vision of new social value that we will create. In order to achieve that vision, we will take full advantage of strong technology assets, to create NEC’s original “Solutions for Society” and contribute to providing maximum value.

**Kazuhiko Sakai**
Executive Vice President
In charge of the System Integration, Services & Engineering Operations Unit
Establishing a Services Business Foundation and Executing a Global System Integration Rollout
In order to roll out new service businesses, such as the IoT, with speed and global scope, NEC is driving toward business growth while utilizing open innovation and establishing a shared, company-wide business foundation.

**Toshiya Matsuki**
Executive Vice President
In charge of the Global Business Unit
Contributing to Customers through Social Solutions and Strengthening Profitability in the Global Marketplace
We are striving to accelerate the rollout of our “Solutions for Society” with our safety business, which utilizes NEC’s world-leading security technologies, and our network business, which is backed by a rich track record as the foundations for business. At the same time, we are striving to solve social issues and improve business profitability.

**Susumu Makihara**
Executive Vice President
In charge of Personnel and General Affairs
Making Diversity the Driver of Growth
For NEC to expand its Solutions for Society globally, we must rally diverse human resources and be a company where employees can work energetically. Therefore, we are striving to hire a more diverse workforce, build systems, frameworks, and cultures that support them, and strengthen leadership that leverages diversity.

**Chikara Ishii**
Executive Vice President
In charge of the Enterprise Business Unit
Establishing a Foundation for Growth as a Base for Providing Value
We are striving to expand and enhance how we provide value, focusing on value chain innovation that connects capabilities “to create,” “to transport,” “to sell” and “to live,” while striving to increase projects for a global market. We will work to maximize business value with a focus on providing value for customers in manufacturing, logistics, and service industries.

For further details on the corporate officers of NEC Corporation, please visit the following URL:

Human Rights and Diversity

The NEC Group Human Rights Policy was formulated based on the International Bill of Human Rights and the Guiding Principles on Business and Human Rights (UNGPs). NEC strives to respect human rights, including those of women, the disabled, and the LGBT* community, in all of its corporate activities. NEC also views the cultivation of an environment and culture that enable diverse human resources to bring out the most of their ability to be an important management strategy. The company therefore focuses on efforts to promote diversity, such as achieving work-life balance with different working styles.

Participation in the World Assembly for Women in Tokyo (WAW! 2015)

Nobuhiro Endo (then president of NEC) attended a high-level roundtable of the international World Assembly for Women in Tokyo (WAW! 2015), a symposium held by the Ministry of Foreign Affairs in August 2015. He discussed work-life management with foreign heads of state, executives of global IT companies, and other attendees.

As part of those discussions, Mr. Endo explained the importance of a system that enables a diverse range of people, not only women, to make choices themselves in order to make work something of value. He also explained that, to create systems that enhance diversity, NEC promotes the shortening of work hours, simplification of work processes, and sharing of information. This enables a working environment in which employees can substitute for each other at any time.

Reforming Working Styles and Achieving Work-Life Balance

At NEC, labor and management cooperate to implement flexible working styles, prevent overwork, and promote time off from work. The status of these efforts is confirmed by labor-management committees in each business unit and office to shorten work hours and ensure employee health while also promoting time off from work. In addition, to respond to changes in the business environment and the diversifying needs of employees, we have expanded the range of employees allowed to work from home and created a corporate culture that allows diverse human resources to bring out the most of their ability to be an important management strategy. The company therefore focuses on efforts to promote diversity, such as achieving work-life balance with different working styles.

As a result of those discussions, a proposal called Designing New and Flexible Working Styles Utilizing Information and Communications Technology (ICT) was included in the WAW! 2015 report. It was also registered as a United Nations document.

Also as a result of those discussions, a proposal called Designing New and Flexible Working Styles Utilizing Information and Communications Technology (ICT) was included in the WAW! 2015 report. It was also registered as a United Nations document.

NEC Group Efforts for LGBT* Rights

The creation of new innovations requires a corporate culture that enables diverse human resources to fully utilize their individualities and personalities to propose diverse ideas and opinions. The NEC Group Human Rights Policy formulated in April 2015 explicitly prohibits discrimination and acts that impair individual dignity based on someone’s sexual identity or sexual orientation in addition to race or creed. This declaration has been made for both inside and outside the company.

NEC is proceeding with the three efforts below after having had several discussions with ReBit, an NPO whose mission is to engage in education promotion projects that will allow LGBT children to become the adults they want to be. ReBit is also a supporting target in the NEC Social Entrepreneurship School, which assists the startups of young social entrepreneurs.

(1) CSR Promotion and Social Contributions Office held an event for LGBT student job seekers. The goals of this event were to both create a corporate culture that allows diverse human resources to utilize their individualities and personalities to propose various ideas and to eliminate the unease felt by LGBT job seekers.

(2) Human Resources Development Division held three LGBT study sessions (regarding basic understanding and discussions) featuring instructors from ReBit. Approximately 120 employees attended from the Human Resources Development Division, General Affairs Division, Human Rights Hotline Desk, and Health Care Division.

(3) The Human Rights Hotline Desk established at each company in the NEC Group has been accepting queries regarding LGBT issues since April 2016.

Enabling employees with a hearing disability to conduct discussions and give presentations also contributes to cross-department networking while providing an opportunity to expand knowledge and knowhow.

NEC will continue to promote the creation of a workplace that enables all employees to work actively. We will do this based on the idea that ICT includes technologies that aid communication and contribute to closing the information gap.

Assisting the Self-Empowerment of NEC Group Employees with a Hearing Disability

From this fiscal year, bi-monthly study sessions for expanding knowledge about NEC have been held for NEC Group employees with a hearing disability. This effort was started based on the comment of an employee who was in charge of guiding a customer with a hearing disability similar to his own at the annual C&C User Forum & iEXPO held by NEC. That employee said “I would like to expand my knowledge about my company’s business on a regular basis rather than just before an event, but I do not have many opportunities to do so.”

These study sessions were held four times this fiscal year for a total of 200 participants. The sessions focused on important themes for expanding knowledge about the NEC Group, such as barrier-free efforts at NEC, brand strategy, how to read management indices, and NEC products and solutions.

The content of the sessions’ lectures is communicated via sign language. And information accessibility is also guaranteed using ICT, such as projecting a summary of the content on a screen and installing an audio induction loop (a device that makes it easier to hear with a hearing aid).

Business Foundation to Support Value Creation

C&C User Forum & iEXPO held by NEC. That employee said “I would like to expand my knowledge about my company’s business on a regular basis rather than just before an event, but I do not have many opportunities to do so.”

* NEC Corporation only

Nobuhiro Endo (then president) explaining NEC’s efforts

A summary of the lecture is projected on a display next to a sign-language interpreter.
Environmental Management and Responsibility at NEC

Two international agreements regarding the conservation of the natural environment were made in 2015. One was the Sustainable Development Goals (SDGs) of the United Nations. The other was the Paris Agreement made at the 21st Session of the Conference of the Parties to the United Nations (UN) Framework Convention on Climate Change (COP21). Both economics and the global environment are essential for achieving these agreements’ goals. The main goal of environmental management focused on by NEC is to solve the various issues around the world to enable society to develop. NEC will continue to create maximized solutions for the targets the world aims for in order to provide the benefits provided by safety, security, efficiency, and equality.

The Evolving Environmental Management of NEC

The environmental activities of NEC started in earnest in 1970, when a dedicated environmental organization was established. The president at the time had a strong awareness of corporate responsibility regarding the environment and declared both internally and to the public that NEC would actively pursue the responsibility regarding the environment and declared both.

The NEC Environmental Management Vision 2010 announced in 2003 set forth a meaningful environmental vision. Since then, NEC has promoted the contributions that ICT can make to reducing the CO2 emissions of society as a whole. In 2009, this vision was expanded to include efforts to protect ecosystems, biodiversity, and the recycling and conservation of resources. Moreover, 2014 saw the formulation of long-term goals to enhance climate-change measures. We are therefore proceeding with environmental management that is an inseparable part of our business.

Environmental Efforts

NEC works to reduce the environmental impact of its business activities throughout the entire supply chain and strives to create social value from an environmental perspective via solutions to customers.

Implementing Climate Change Measures for Both Mitigation and Adaptation

NEC investigates what kind of social value its unique technologies and solutions can provide to further enhance conventional environmental management by focusing on mitigation. Last fiscal year, climate-change adaptation was added to our main pillars of environmental management. NEC believes that collecting data on the ever-changing status of everything, including the environment and social infrastructure, and performing big-data analysis enable major changes to be predicted and help lead to appropriate measures. These activities contribute to achieving a safe and secure society. Comprehensive value can also be provided to address the global problem of climate change by promoting adaptation via our social-solution business while further reducing CO2 emissions.

Progress of Environmental Activities at NEC

The Cloud

Overview of ICT Contributions to Climate-Change Adaptation

Evolution in Environmental Management

With the growing prevalence of the IoT, the overall environmental impact of society is being reduced with more efficient distribution and less waste due to the improved accuracy of supply and demand. This has a great effect on mitigation. NEC is creating the Kobe Data Center with energy-saving capabilities that are among the best in the world. It will start operations in the next fiscal year, climate-change adaptation was added to our main pillars of environmental management by focusing on mitigation. Last fiscal year, climate-change adaptation was added to our main pillars of environmental management. NEC believes that collecting data on the ever-changing status of everything, including the environment and social infrastructure, and performing big-data analysis enable major changes to be predicted and help lead to appropriate measures. These activities contribute to achieving a safe and secure society. Comprehensive value can also be provided to address the global problem of climate change by promoting adaptation via our social-solution business while further reducing CO2 emissions.

**Overview of ICT Contributions to Climate-Change Adaptation**

- The Cloud

**Monitoring & Analysis**

- Monitoring data

**Optimizing resource usage (eliminating waste), preparing for crises**

**Overview of ICT Contributions to Climate-Change Adaptation**

- The Cloud

**Monitoring & Analysis**

- Monitoring data

**Optimizing resource usage (eliminating waste), preparing for crises**

**Environmental Actions**

- Recycling system (since 1985)
- Dedicated department established (1970)
- Environmental audit system (since 1973)

**Efforts in all business areas**

- Environmental impact/carbon
- All products made environmentally friendly
- Expanded contributions via business
- Environmental Management Vision 2010 formulated (2009)
- Climate change measures enhanced (2014)

**Climate-Change Adaptation**

- Increased population
- Food scarcity
- Water scarcity
- Increased CO2
- Energy scarcity
- Increased natural disasters

**Climate-Change Adaptation**

- Increased population
- Food scarcity
- Water scarcity
- Increased CO2
- Energy scarcity
- Increased natural disasters

**Evolution in Environmental Management**

With the growing prevalence of the IoT, the overall environmental impact of society is being reduced with more efficient distribution and less waste due to the improved accuracy of supply and demand. This has a great effect on mitigation. NEC is creating the Kobe Data Center with energy-saving capabilities that are among the best in the world. It will start operations in the next fiscal year, and further reduce the power consumption of ICT.

In terms of adaptation, NEC is proceeding with the introduction of disaster-prevention systems (particularly in Asia) to deal with natural disasters, which are becoming more severe due to climate change. These systems contribute to creating a society in which people can live safely and securely. Moreover, utilizing SX-ACE vector supercomputers is expected to help solve global environmental problems, shed light on the mechanisms that cause tectonic activity and earthquakes, and predict and deal with natural disasters. Such efforts enable NEC to steadily increase the value that it provides in terms of both mitigation and adaptation. NEC is also proceeding with the reduction of environmental impact throughout its entire supply chain. For example, energy savings of approximately 50% were achieved when renovating Building 9 of the NEC Tamagawa Plant by adopting a state-of-the-art ICT solution for saving energy and electricity. This knowledge on saving energy has also enabled NEC to both help its business partners save energy and to provide solutions that reduce the environmental impact of its customers.
Innovation Management

To solve global social issues, NEC focuses its investments on the technologies and fields that are sources generating new customer value. In addition, NEC promotes open innovations to strengthen core technologies and cultivate future technologies and cooperates with external research institutes that have leading technologies. Moreover, a chief technology officer (CTO) position was established in April 2016 to link these technology strategies with business strategies and implement them on a company-wide level. The CTO optimizes NEC's overall development investments, conducts planning and process design for open-innovation strategies with external entities, and carries out technology development that is more strategic.

Policy

NEC's research and development efforts go through a process of carefully selecting solutions that will be able to provide high value. This approach thoroughly hones the 'No. 1/Only 1 core' technology required to deliver the solutions via co-creation with partners and customers. NEC then verifies the value.

To conduct such R&D, NEC has established a Technology Strategy Committee with the CTO as the chair. This committee debates technology strategy on a company-wide level to make effective and efficient use of the R&D investments, which are 4 to 5% of NEC sales. The CTO is responsible for both selecting the core technologies that NEC should focus its investments on and promoting open innovation.

To continue enhancing No. 1/Only 1 core technologies into the future, NEC actively recruiting the top human resources at research institutes overseas and increases the recruitment of PhD holders and graduates of top universities in Japan. Moreover, NEC strives to recruit and cultivate highly diverse human resources to broaden its horizons for the creation of new value. NEC also cooperates with IPA to conduct study abroad programs and overseas training in developing countries for its employees and thereby provide an opportunity to learn about other business mindsets.

In addition, NEC's Business Innovation Unit is responsible for creating new solutions and new business from the core technologies generated by the R&D. And this unit provides strategies for cross-departmental business fields and plans and promotes new business models that transcend the boundaries of existing business. It also standardizes activities for global service deployment.

Promoting Concentrated Investments and Open Innovation in Key Technologies and Fields

NEC concentrates its investments in research and development in the fields of data science and ICT platforms. Data science involves visualization, analysis, the control/guidance of the real world, and the development of AI technology to create new value. ICT platforms have computing and network technologies that can respond to changes in the real world dynamically and in real-time.

They also have security technologies for the stable and secure operations of social systems. NEC has many technological assets in these fields that are unique and superior. But, to further enhance competitiveness, NEC's data science researchers will be doubled by 2018 to strengthen AI technologies and create new technologies.

Concentrated Investments in Data Science and ICT Platforms

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ICT Platform

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Intellectual Property Strategies

NEC positions intellectual property (IP) as an important management resource that supports the business competitiveness and stability of the NEC Group. IP also strengthens the company's own intellectual property and protects its brand.

Looking ahead to global business expansion, NEC has established intellectual property centers in North America, Europe, and China to focus efforts on building a global patent network. And, in the field of "Solutions for Society," a strategic patent project has been rolled out across Group companies to promote the acquisition of strong and useful patents.

As of March 2016, the NEC Group held a total of approximately 53,000 patents in Japan and overseas (with 21,000 of those in Japan).

Major Business Achievements

<table>
<thead>
<tr>
<th>Business track record</th>
<th>Business strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology validation (solutions to social issues) achieved both in Japan and overseas</td>
<td>Only 1</td>
</tr>
<tr>
<td>Established face recognition technology development center and introduced face recognition solutions at airports in Brazil, etc.</td>
<td>Only 1</td>
</tr>
<tr>
<td>Built Comprehensive Disaster Control System in Toshima Ward, Tokyo</td>
<td>Only 1</td>
</tr>
<tr>
<td>Validating optimal water supply facilities management in cities and towns in the UK</td>
<td>Only 1</td>
</tr>
<tr>
<td>Delivered over 600 SDN systems globally</td>
<td>Only 1</td>
</tr>
<tr>
<td>Started offering NEC Industrial IoT, asset-generation manufacturing solution</td>
<td>Only 1</td>
</tr>
<tr>
<td>Started offering a solution for predicting demand for repair parts</td>
<td>Only 1</td>
</tr>
<tr>
<td>Released customer voice analysis solution</td>
<td>Only 1</td>
</tr>
<tr>
<td>NEC terrestrial broadcast test conducted with the largest commercial television broadcaster in Chile</td>
<td>Only 1</td>
</tr>
<tr>
<td>Heterogeneous mixture learning</td>
<td>Only 1</td>
</tr>
<tr>
<td>Predictive Robust Optimization Framework</td>
<td>Only 1</td>
</tr>
<tr>
<td>CyberWorkBench</td>
<td>Only 1</td>
</tr>
<tr>
<td>Cyber防御</td>
<td>Only 1</td>
</tr>
<tr>
<td>Invariant analysis</td>
<td>Only 1</td>
</tr>
<tr>
<td>Hybrid sensor</td>
<td>Only 1</td>
</tr>
<tr>
<td>Cyber fingerprint</td>
<td>Only 1</td>
</tr>
<tr>
<td>Secure computing</td>
<td>Only 1</td>
</tr>
<tr>
<td>Textual entailment recognition</td>
<td>Only 1</td>
</tr>
<tr>
<td>SDN</td>
<td>Only 1</td>
</tr>
<tr>
<td>Ultra high-resolution compression technology</td>
<td>Only 1</td>
</tr>
</tbody>
</table>
Ensuring Compliance

NEC considers compliance to include not only legal compliance, but also compliance with the expectations and demands of society, such as social norms and common sense. Also, from the perspective of risk management, ensuring compliance such as complying with laws on competition and preventing bribery is extremely important. NEC recognizes compliance as an important issue that relates to the very existence of a company and continues to promote company-wide efforts that include top management.

Reviewing and Enhancing Internal Systems for Implementing Fair Trade

NEC formulated Rules for Contacts with Competitors in 2011. They define the rules to prevent unnecessary contact with competitors. These rules have been strengthened and clarified based on the facts of on-site inspections conducted by the Japan Fair Trade Commission previous fiscal year and this fiscal year. More specifically, this entailed the addition and adjustment of matters regarding contact with competitors that require prior consultation. It also included the addition of precautions to reduce the risk of becoming involved in bid-rigging at the initiative of government agencies. Rules for the Prevention of Cartels and Bid-rigging was accordingly changed to Rules for the Prevention of Cartels and Bid-rigging. A manual on the rules was also created. It includes detailed information on matters that require prior consultation, how to respond when offered entry into a cartel or bid-rigging, and precautions for reducing the risk of becoming involved in bid-rigging at the initiative of government agencies.

Reviewing and Enhancing Internal Measures for Preventing Bribery

Anti-corruption such as preventing bribery is one of the ten principles of the UN Global Compact and a common concern around the world. NEC has formulated Basic Rules on Anti-bribery. They define a bribery-prevention system including basic actions to be taken by executives and employees to ensure that bribery is prevented in its business activities.

NEC has also created an Anti-Bribery Manual for Business Divisions based on the Basic Rules on Anti-bribery. The manual outlines the roles that the heads of business divisions play and specific methods for preventing bribery. It includes the methods of bribery risk evaluations and third-party due diligence implemented for NEC business operations. The rules and manual were revised this fiscal year in response to the latest guidance issued by government agencies.

Compliance Training and Awareness Building

In the additional to the systems above, NEC and its Japan subsidiaries have been conducting web training on compliance once a year for all executives and employees. Because ensuring global compliance has become more important than ever, this training was made multilingual (in English, Spanish, Portuguese, and Chinese) this fiscal year and is being conducted for overseas subsidiaries. The latest information regarding compliance is also shared with Group companies worldwide on NEC’s intranet.

Moreover, an NEC Business Ethics Forum is held annually to improve compliance awareness via lectures by external experts and messages from NEC’s president about the importance of compliance. The theme of this year’s forum was items that employees (including managers) have to take care of, mainly regarding competition laws. The training of new employees and stratified training, etc., are also utilized to ensure employees recognize the importance of working according to the NEC Group Code of Conduct.

Financial Section

57 Consolidated Balance Sheets
59 Consolidated Statements of Operations
60 Consolidated Statements of Comprehensive Income
61 Consolidated Statements of Changes in Net Assets
63 Consolidated Statements of Cash Flows

Notes:
1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥112 = U.S.$1.
2. Please refer to the separate publication “Annual Report 2016 (Financials)” for details of “Note XX” on pages 57 to 64.
### Consolidated Balance Sheets

**NEC Corporation and Subsidiaries**

**March 31, 2015 and 2016**

<table>
<thead>
<tr>
<th>Mills of Yen</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT ASSETS:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 19)</td>
<td>¥ 181,132  ¥ 192,323  $ 1,717,170</td>
</tr>
<tr>
<td>Short-term investments (Note 19)</td>
<td>¥ 1,972  ¥ 1,818  ¥ 16,232</td>
</tr>
<tr>
<td>Trade notes and accounts receivable (Note 19)</td>
<td>¥ 926,867  ¥ 874,496  ¥ 7,908,000</td>
</tr>
<tr>
<td>Inventories (Note 7)</td>
<td>¥ 241,146  ¥ 228,059  ¥ 2,036,241</td>
</tr>
<tr>
<td>Deferred tax assets (Note 13)</td>
<td>¥ 65,351  ¥ 79,418  ¥ 709,089</td>
</tr>
<tr>
<td>Other current assets (Notes 19 and 20)</td>
<td>¥ 163,098  ¥ 157,982  ¥ 1,410,554</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(¥ 5,151)  (¥ 6,837)  (¥ 61,045)</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>¥ 1,576,785  ¥ 1,527,259  ¥ 13,636,241</td>
</tr>
<tr>
<td><strong>PROPERTY, PLANT AND EQUIPMENT:</strong></td>
<td></td>
</tr>
<tr>
<td>Net of accumulated depreciation (Notes 21 and 22)</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>¥ 57,787  ¥ 57,189  ¥ 510,616</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>¥ 172,177  ¥ 168,001  ¥ 1,500,009</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>¥ 203,199  ¥ 19,516  ¥ 174,250</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>¥ 676,43  ¥ 66,265  ¥ 591,652</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>¥ 203,199  ¥ 20,823  ¥ 185,919</td>
</tr>
<tr>
<td><strong>Total property, plant and equipment</strong></td>
<td>¥ 336,115  ¥ 331,794  ¥ 2,962,446</td>
</tr>
<tr>
<td><strong>INVESTMENTS AND OTHER ASSETS:</strong></td>
<td></td>
</tr>
<tr>
<td>Investment securities (Notes 6 and 19)</td>
<td>¥ 157,079  ¥ 143,116  ¥ 1,277,821</td>
</tr>
<tr>
<td>Investments in affiliated companies (Note 19)</td>
<td>¥ 901,539  ¥ 91,626  ¥ 818,089</td>
</tr>
<tr>
<td>Goodwill</td>
<td>¥ 66,985  ¥ 46,123  ¥ 411,813</td>
</tr>
<tr>
<td>Software</td>
<td>¥ 943,94  ¥ 89,358  ¥ 797,839</td>
</tr>
<tr>
<td>Long-term loans receivable (Note 19)</td>
<td>¥ 39,424  ¥ 37,271  ¥ 332,777</td>
</tr>
<tr>
<td>Deferred tax assets (Note 13)</td>
<td>¥ 85,114  ¥ 114,316  ¥ 1,020,679</td>
</tr>
<tr>
<td>Net defined benefit asset (Note 19)</td>
<td>¥ 74,622  ¥ 23,634  ¥ 211,018</td>
</tr>
<tr>
<td>Other assets (Notes 19 and 20)</td>
<td>¥ 102,682  ¥ 93,020  ¥ 830,536</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(¥ 4,500)  (¥ 4,076)  (¥ 36,393)</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>¥ 708,754  ¥ 64,288  ¥ 5,664,177</td>
</tr>
<tr>
<td><strong>LIABILITIES AND NET ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES:</strong></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings (Notes 8 and 19)</td>
<td>¥ 289,988  ¥ 40,102  $ 358,054</td>
</tr>
<tr>
<td>Current portion of long-term debt (Notes 8 and 19)</td>
<td>¥ 106,267  ¥ 117,174  ¥ 1,046,196</td>
</tr>
<tr>
<td>Trade notes and accounts payable (Note 19)</td>
<td>¥ 466,677  ¥ 415,427  ¥ 3,709,170</td>
</tr>
<tr>
<td>Accrued expenses (Note 19)</td>
<td>¥ 160,070  ¥ 155,240  ¥ 1,386,071</td>
</tr>
<tr>
<td>Other current liabilities (Notes 10, 13, 19 and 20)</td>
<td>¥ 298,546  ¥ 284,099  ¥ 2,536,598</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>¥ 1,065,548  ¥ 1,012,042  ¥ 9,036,089</td>
</tr>
<tr>
<td><strong>LONG-TERM LIABILITIES:</strong></td>
<td></td>
</tr>
<tr>
<td>Long-term debt (Notes 8 and 19)</td>
<td>¥ 385,523  ¥ 323,711  ¥ 2,890,277</td>
</tr>
<tr>
<td>Net defined benefit liability (Notes 3 and 9)</td>
<td>¥ 228,096  ¥ 258,632  ¥ 2,309,214</td>
</tr>
<tr>
<td>Deferred tax liabilities (Note 18)</td>
<td>¥ 2,410  ¥ 1,891  ¥ 16,884</td>
</tr>
<tr>
<td>Other long-term liabilities (Notes 11, 19 and 20)</td>
<td>¥ 40,123  ¥ 44,672  ¥ 398,857</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>¥ 666,622  ¥ 628,906  ¥ 5,615,232</td>
</tr>
<tr>
<td><strong>COMMITMENTS AND CONTINGENT LIABILITIES</strong> (Notes 18, 20 and 21)</td>
<td></td>
</tr>
<tr>
<td><strong>NET ASSETS</strong> (Notes 12 and 24):</td>
<td></td>
</tr>
<tr>
<td><strong>SHAREHOLDERS’ EQUITY:</strong></td>
<td></td>
</tr>
<tr>
<td>Common stock:</td>
<td></td>
</tr>
<tr>
<td>Authorized — 7,500,000 thousand shares</td>
<td></td>
</tr>
<tr>
<td>Issued — 2,604,733 thousand shares in 2015 and 2016</td>
<td>¥ 397,199  ¥ 397,199  ¥ 3,546,420</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>¥ 148,04  ¥ 149,034  ¥ 1,330,661</td>
</tr>
<tr>
<td>Retained earnings (Note 8)</td>
<td>¥ 207,021  ¥ 265,404  ¥ 2,369,678</td>
</tr>
<tr>
<td>Treasury stock — at cost</td>
<td></td>
</tr>
<tr>
<td>5,916 thousand shares in 2015 and 6,059 thousand shares in 2016</td>
<td>(¥ 3,025)  (¥ 3,077)  (¥ 27,473)</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>¥ 748,889  ¥ 808,560  ¥ 7,219,896</td>
</tr>
<tr>
<td><strong>ACCUMULATED OTHER COMPREHENSIVE INCOME:</strong></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>¥ 47,285  ¥ 36,710  ¥ 327,767</td>
</tr>
<tr>
<td>Deferred gains or losses on hedges (Note 21)</td>
<td>¥ 271 (¥ 1,525)  (¥ 13,616)</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>¥ 12,795  ¥ 11,175  ¥ 10,491</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>¥ 139,62  ¥ 50,478  ¥ 450,696</td>
</tr>
<tr>
<td><strong>Total accumulated other comprehensive income</strong></td>
<td>¥ 73,761  ¥ 16,468  ¥ 147,081</td>
</tr>
<tr>
<td><strong>NON-CONTROLLING INTERESTS</strong> (Note 3)</td>
<td>¥ 60,542  ¥ 60,401  ¥ 539,295</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>¥ 884,192  ¥ 852,493  ¥ 7,611,545</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND NET ASSETS</strong></td>
<td>¥ 2,620,652  ¥ 2,493,441  ¥ 22,262,866</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.

**NEC Corporation Annual Report 2016**

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**NEC Corporation Annual Report 2016**

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### Consolidated Statements of Operations

Nec Corporation and Subsidiaries  
Years Ended March 31, 2016, 2015 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET SALES</strong></td>
<td>¥3,043,114</td>
<td>¥2,935,517</td>
<td>¥2,821,881</td>
</tr>
<tr>
<td><strong>COST OF SALES</strong></td>
<td>2,128,457</td>
<td>2,096,499</td>
<td>1,978,757</td>
</tr>
<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>914,657</td>
<td>839,018</td>
<td>842,424</td>
</tr>
<tr>
<td><strong>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</strong></td>
<td>(806,464)</td>
<td>767,934</td>
<td>735,118</td>
</tr>
<tr>
<td><strong>OPERATING INCOME</strong></td>
<td>110,193</td>
<td>128,084</td>
<td>176,747</td>
</tr>
<tr>
<td><strong>NON-OPERATING INCOME:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>6,251</td>
<td>5,290</td>
<td>4,745</td>
</tr>
<tr>
<td>Equity in earnings of affiliated companies</td>
<td>2,719</td>
<td>8,126</td>
<td>7,220</td>
</tr>
<tr>
<td>Foreign exchange gain, net</td>
<td>593</td>
<td>4,468</td>
<td>4,745</td>
</tr>
<tr>
<td>Other non-operating income (Note 5)</td>
<td>8,672</td>
<td>8,240</td>
<td>7,498</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING INCOME</strong></td>
<td>18,235</td>
<td>12,652</td>
<td>12,106</td>
</tr>
<tr>
<td>**OPERATING EXPENSES: **</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>10,096</td>
<td>10,066</td>
<td>9,760</td>
</tr>
<tr>
<td>Foreign exchange loss, net</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Settlement package and compensation for damage (Note 5)</td>
<td>3,896</td>
<td>2,554</td>
<td>7,220</td>
</tr>
<tr>
<td>Provision for contingent loss</td>
<td>11,452</td>
<td>9,872</td>
<td>4,745</td>
</tr>
<tr>
<td>Retirement benefit expenses (Note 9)</td>
<td>11,325</td>
<td>10,957</td>
<td>–</td>
</tr>
<tr>
<td>Other non-operating expenses (Note 5)</td>
<td>18,627</td>
<td>13,615</td>
<td>12,340</td>
</tr>
<tr>
<td><strong>TOTAL NON-OPERATING EXPENSES</strong></td>
<td>55,276</td>
<td>42,464</td>
<td>42,547</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td>68,501</td>
<td>50,118</td>
<td>39,855</td>
</tr>
</tbody>
</table>

**PROFIT BEFORE INCOME TAXES** | 64,961  | 56,757  | 42,817  |

**INCOME TAXES** (Note 13):  
Current | 33,558 | 31,860 | 20,065  | 179,330 |
Deferred | 8,808  | 8,944   | 16,202  | (144,661) |
**TOTAL INCOME TAXES** | 42,366 | 40,812 | 36,267 | 3,769 |

**PROFIT** | 41,595 | 50,299 | 36,088 |

**PROFIT (LOSS) ATTRIBUTABLE TO NON- Controlling Interests** | 7,853 | (1,377) | 5,290 | 47,233 |

**PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT** | ¥33,742 | ¥51,922 | ¥30,848 | $612,850 |

**PER SHARE OF COMMON STOCK (Note 23):**  
Basic earnings per share | ¥12.99 | ¥22.05 | ¥26.45 | $0.24 |
Diluted earnings per share | – | – | – | 0.24 |
Cash dividends applicable to the year | ¥400 | ¥400 | ¥600 | 0.05 |

### Consolidated Statements of Comprehensive Income

Nec Corporation and Subsidiaries  
Years Ended March 31, 2016, 2015 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROFIT</strong></td>
<td>$41,595</td>
<td>$55,925</td>
<td>$74,039</td>
</tr>
<tr>
<td><strong>OTHER COMPREHENSIVE INCOME</strong> (Note 16):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>15,858</td>
<td>12,028</td>
<td>(10,418)</td>
</tr>
<tr>
<td>Deferred gains or losses on hedges</td>
<td>(253)</td>
<td>674</td>
<td>(93,018)</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>4,450</td>
<td>11,218</td>
<td>(11,798)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>–</td>
<td>76,611</td>
<td>(568,518)</td>
</tr>
<tr>
<td>Share of other comprehensive income of associates accounted for using equity method</td>
<td>1,239</td>
<td>415</td>
<td>(6,120)</td>
</tr>
<tr>
<td><strong>TOTAL OTHER COMPREHENSIVE INCOME</strong></td>
<td>21,294</td>
<td>106,681</td>
<td>(821,786)</td>
</tr>
<tr>
<td><strong>TOTAL COMPREHENSIVE INCOME</strong></td>
<td>$62,889</td>
<td>$162,606</td>
<td>$(162,723)</td>
</tr>
</tbody>
</table>

**COMPREHENSIVE INCOME** attributable to owners of the parent | $41,595 | $150,309 | $(21,480) |
**non-controlling interests** | 7,853 | 2,207 | 3,479 |
**TOTAL** | $49,448 | $152,516 | $(19,009) |

**PER SHARE OF COMMON STOCK (Note 23):**  
Basic earnings per share | ¥12.99 | ¥22.05 | ¥26.45 | $0.24 |
Diluted earnings per share | – | – | – | 0.24 |
Cash dividends applicable to the year | ¥400 | ¥400 | ¥600 | 0.05 |

**NOTES:** Warnings and consolidations financial statements
### Consolidated Statements of Changes in Net Assets

**NEC Corporation and Subsidiaries**

*Years Ended March 31, 2014, 2015 and 2016*

<table>
<thead>
<tr>
<th>Thousands of U.S. Dollars (Note 1)</th>
<th>Shareholders' equity</th>
<th>Accumulated other comprehensive income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Common stock</td>
<td>Capital surplus</td>
</tr>
<tr>
<td><strong>BALANCE, MARCH 31, 2013</strong></td>
<td>$3,546,420</td>
<td>$1,317,625</td>
</tr>
<tr>
<td>Profit attributable to owners of the parent</td>
<td>613,830</td>
<td>613,830</td>
</tr>
<tr>
<td>Cash dividends paid, ¥4 per share</td>
<td>(500)</td>
<td>(500)</td>
</tr>
<tr>
<td>Disposals of treasury stock</td>
<td>(18)</td>
<td>36</td>
</tr>
<tr>
<td>Change in treasury shares of parent arising from transactions with non-controlling shareholders</td>
<td>3,054</td>
<td>3,054</td>
</tr>
<tr>
<td>Change of scope of equity method</td>
<td>268</td>
<td>268</td>
</tr>
<tr>
<td>Net changes in items other than shareholders' equity during the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BALANCE, MARCH 31, 2014</strong></td>
<td>$3,546,420</td>
<td>$1,317,625</td>
</tr>
<tr>
<td>Profit attributable to owners of the parent</td>
<td>68,749</td>
<td>68,749</td>
</tr>
<tr>
<td>Disposals of treasury stock</td>
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<td></td>
</tr>
<tr>
<td>Change in treasury shares of parent arising from transactions with non-controlling shareholders</td>
<td>342</td>
<td>342</td>
</tr>
<tr>
<td>Change of scope of equity method</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net changes in items other than shareholders' equity during the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BALANCE, MARCH 31, 2015</strong></td>
<td>$3,546,420</td>
<td>$1,317,625</td>
</tr>
<tr>
<td>Profit attributable to owners of the parent</td>
<td>74,989</td>
<td>74,989</td>
</tr>
<tr>
<td>Cash dividends paid, $0.04 per share</td>
<td>(27,009)</td>
<td>(27,009)</td>
</tr>
<tr>
<td>Disposals of treasury stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in treasury shares of parent arising from transactions with non-controlling shareholders</td>
<td>342</td>
<td>342</td>
</tr>
<tr>
<td>Change of scope of equity method</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net changes in items other than shareholders' equity during the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BALANCE, MARCH 31, 2016</strong></td>
<td>$3,546,420</td>
<td>$1,317,625</td>
</tr>
</tbody>
</table>

**Note:**
Conforming to separate financial statements, total translated amounts seem to be inconsistent with calculation in some cases.

See notes to consolidated financial statements.
### Consolidated Statements of Cash Flows

**NEC Corporation and Subsidiaries**  
**Years Ended March 31, 2014, 2015 and 2016**

#### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before income taxes</td>
<td>¥ 83,962</td>
<td>¥ 96,737</td>
<td>¥ 77,922</td>
<td>$ 695,732</td>
</tr>
<tr>
<td>Depreciation</td>
<td>76,977</td>
<td>78,717</td>
<td>79,026</td>
<td>652,018</td>
</tr>
<tr>
<td>Amortization of long-term prepaid expenses</td>
<td>4,972</td>
<td>5,126</td>
<td>4,947</td>
<td>44,170</td>
</tr>
<tr>
<td>Impairment losses on property, plant, and equipment and other assets</td>
<td>15,934</td>
<td>8,992</td>
<td>10,645</td>
<td>95,045</td>
</tr>
<tr>
<td>Amortization of goodwill</td>
<td>17,065</td>
<td>16,814</td>
<td>11,839</td>
<td>105,705</td>
</tr>
<tr>
<td>Increase (decrease) in allowance for doubtful accounts</td>
<td>(4,163)</td>
<td>(11,030)</td>
<td>2,038</td>
<td>18,196</td>
</tr>
<tr>
<td>Decrease in product warranty liabilities</td>
<td>(1,220)</td>
<td>(979)</td>
<td>(3,288)</td>
<td>(29,352)</td>
</tr>
<tr>
<td>Increase (decrease) in provision for loss on construction contracts and others</td>
<td>(6,634)</td>
<td>(5,763)</td>
<td>1,971</td>
<td>17,598</td>
</tr>
<tr>
<td>Increase (decrease) in provision for business structure improvement</td>
<td>9,086</td>
<td>392</td>
<td>(7,518)</td>
<td>(67,125)</td>
</tr>
<tr>
<td>Increase in provision for contingent loss</td>
<td>10,476</td>
<td>787</td>
<td>672</td>
<td>6,000</td>
</tr>
<tr>
<td>Increase (decrease) in provision for loss on repurchase of computers</td>
<td>1,583</td>
<td>(464)</td>
<td>(1,687)</td>
<td>(15,063)</td>
</tr>
<tr>
<td>Interest and dividends income</td>
<td>(6,251)</td>
<td>(5,658)</td>
<td>(5,916)</td>
<td>(52,821)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>10,036</td>
<td>10,066</td>
<td>9,760</td>
<td>87,143</td>
</tr>
<tr>
<td>Equity in earnings of affiliated companies</td>
<td>(2,719)</td>
<td>(8,126)</td>
<td>(4,562)</td>
<td>(40,732)</td>
</tr>
<tr>
<td>Gain on change in equity</td>
<td>(365)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Gain on sales of property, plant and equipment</td>
<td>(368)</td>
<td>(3,276)</td>
<td>(445)</td>
<td>(3,973)</td>
</tr>
<tr>
<td>Gain on sales of investment securities</td>
<td>(2,698)</td>
<td>(2,216)</td>
<td>(4,977)</td>
<td>(44,438)</td>
</tr>
<tr>
<td>Loss on sales of investment securities</td>
<td>23</td>
<td>10</td>
<td>21</td>
<td>188</td>
</tr>
<tr>
<td>Write-off of investment securities</td>
<td>1,738</td>
<td>1,044</td>
<td>104</td>
<td>929</td>
</tr>
<tr>
<td>Gain on sales of investments in affiliated companies</td>
<td>(53,932)</td>
<td>(7,078)</td>
<td>(673)</td>
<td>(6,009)</td>
</tr>
<tr>
<td>Loss on sales of investments in affiliated companies</td>
<td>64</td>
<td>—</td>
<td>198</td>
<td>1,232</td>
</tr>
<tr>
<td>Increase (decrease) in trade notes and accounts receivable</td>
<td>(22,680)</td>
<td>(74,822)</td>
<td>43,771</td>
<td>390,812</td>
</tr>
<tr>
<td>Increase (decrease) in inventories</td>
<td>24,327</td>
<td>(21,890)</td>
<td>7,693</td>
<td>68,688</td>
</tr>
<tr>
<td>Decrease in accounts receivable, other</td>
<td>3,380</td>
<td>5,665</td>
<td>5,245</td>
<td>46,830</td>
</tr>
<tr>
<td>Increase (decrease) in trade notes and accounts payable</td>
<td>(4,034)</td>
<td>16,668</td>
<td>(44,723)</td>
<td>(399,313)</td>
</tr>
<tr>
<td>Others—net (Note 5)</td>
<td>(26,997)</td>
<td>21,635</td>
<td>(48,621)</td>
<td>(434,116)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>127,050</td>
<td>128,723</td>
<td>127,382</td>
<td>1,137,399</td>
</tr>
<tr>
<td><strong>Interest and dividends received</strong></td>
<td>6,216</td>
<td>5,721</td>
<td>5,845</td>
<td>52,187</td>
</tr>
<tr>
<td><strong>Interest paid</strong></td>
<td>(8,914)</td>
<td>(10,192)</td>
<td>(10,007)</td>
<td>(89,348)</td>
</tr>
<tr>
<td><strong>Income taxes paid</strong></td>
<td>(36,626)</td>
<td>(44,395)</td>
<td>(25,391)</td>
<td>(226,705)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>¥ 94,124</td>
<td>¥ 87,617</td>
<td>¥ 97,829</td>
<td>$ 873,477</td>
</tr>
</tbody>
</table>

See note to consolidated financial statements.

#### CASH FLOWS FROM INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of property, plant and equipment</td>
<td>¥ (89,458)</td>
<td>¥ (42,461)</td>
<td>¥ (32,522)</td>
<td>$ (290,375)</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td>5,440</td>
<td>13,790</td>
<td>2,746</td>
<td>24,518</td>
</tr>
<tr>
<td>Acquisition of intangible assets</td>
<td>(12,327)</td>
<td>(6,974)</td>
<td>(8,316)</td>
<td>(74,258)</td>
</tr>
<tr>
<td>Purchases of investment securities</td>
<td>(996)</td>
<td>(1,267)</td>
<td>(892)</td>
<td>(7,964)</td>
</tr>
<tr>
<td>Proceeds from sales of investment securities</td>
<td>14,807</td>
<td>8,729</td>
<td>7,616</td>
<td>68,000</td>
</tr>
<tr>
<td>Disbursements for acquisitions of shares of newly consolidated subsidiaries</td>
<td>(804)</td>
<td>(10,518)</td>
<td>—</td>
<td>321</td>
</tr>
<tr>
<td>Proceeds from acquisitions of shares of newly consolidated subsidiaries</td>
<td>116</td>
<td>—</td>
<td>36</td>
<td>1,821</td>
</tr>
<tr>
<td>Proceeds from sales of shares of subsidiaries being excluded from the consolidation</td>
<td>—</td>
<td>42,504</td>
<td>3%</td>
<td>556</td>
</tr>
<tr>
<td>Disbursements for sales of shares of subsidiaries being excluded from the consolidation</td>
<td>—</td>
<td>(3,378)</td>
<td>(885)</td>
<td>(3,437)</td>
</tr>
<tr>
<td>Purchases of investments in affiliated companies</td>
<td>(27,699)</td>
<td>(7,127)</td>
<td>(4,380)</td>
<td>(29,107)</td>
</tr>
<tr>
<td>Proceeds from sales of investments in affiliated companies</td>
<td>26,515</td>
<td>—</td>
<td>204</td>
<td>1,821</td>
</tr>
<tr>
<td>(Increase) decrease in short-term loans receivable, net</td>
<td>(50)</td>
<td>63</td>
<td>498</td>
<td>4,447</td>
</tr>
<tr>
<td>Disbursements for loans receivable</td>
<td>(169)</td>
<td>(55)</td>
<td>(142)</td>
<td>(1,268)</td>
</tr>
<tr>
<td>Collection of loans receivable</td>
<td>247</td>
<td>907</td>
<td>584</td>
<td>5,214</td>
</tr>
<tr>
<td>Others—net</td>
<td>2,876</td>
<td>2,948</td>
<td>2,195</td>
<td>19,598</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(38,869)</td>
<td>(47,510)</td>
<td>(32,202)</td>
<td>(287,518)</td>
</tr>
</tbody>
</table>

#### CASH FLOWS FROM FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (decrease) in short-term borrowings, net</td>
<td>(26,745)</td>
<td>(2,275)</td>
<td>14,790</td>
<td>132,054</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>136,600</td>
<td>9,875</td>
<td>4,059</td>
<td>36,241</td>
</tr>
<tr>
<td>Repayments of long-term borrowings</td>
<td>(76,299)</td>
<td>(46,993)</td>
<td>(15,827)</td>
<td>(242,312)</td>
</tr>
<tr>
<td>Proceeds from issuance of bonds</td>
<td>—</td>
<td>50,000</td>
<td>446,429</td>
<td></td>
</tr>
<tr>
<td>Redemption of bonds</td>
<td>(70,000)</td>
<td>(200,000)</td>
<td>(90,000)</td>
<td>(803,571)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(10,376)</td>
<td>(10,358)</td>
<td>(10,368)</td>
<td>(92,571)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(5,218)</td>
<td>(2,579)</td>
<td>(2,214)</td>
<td>(19,768)</td>
</tr>
<tr>
<td>Others—net</td>
<td>(33)</td>
<td>243</td>
<td>(522)</td>
<td>(4,661)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(49,068)</td>
<td>(72,027)</td>
<td>(50,082)</td>
<td>(447,160)</td>
</tr>
</tbody>
</table>

#### EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Finance leases</strong></td>
<td>¥ 1,326</td>
<td>¥ 781</td>
<td>¥ 471</td>
<td>$ 4,205</td>
</tr>
<tr>
<td><strong>Non-cash investing and financing activities</strong></td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
Corporate Overview

Company Name: NEC Corporation
Address: 7-1, Shibuya 5-chome, Minato-ku, Tokyo 108-8001, Japan
Established: July 17, 1899
Number of Employees: 98,726
(NEC Corporation and consolidated subsidiaries) (As of March 31, 2016)
Total Number of Shares Issued: 2,604,732,635 shares (As of March 31, 2016)
Stock Exchange Listing: Tokyo (Securities Code: 6701)
Shareholder Register Administrator: Sumitomo Mitsui Trust Bank, Limited
Shareholder Register Administrator: 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Classification of Shareholders (Shareholding Ratio)

Japanese Individuals and Others: 29.25%
Japanese Government and Local Government: 0.00%
Securities Companies: 28.69%
Financial Institutions: 26.89%
Other Corporations: 3.08%
Foreign Investors: 35.99%

Major Shareholders (Top 10) (As of March 31, 2016)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Number of Shares Held (Thousands of Shares)</th>
<th>Shareholding Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>112,282</td>
<td>4.32</td>
</tr>
<tr>
<td>The Maser Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>109,174</td>
<td>4.20</td>
</tr>
<tr>
<td>The Chase Manhattan Bank, N.A. London Special Account No.1</td>
<td>75,831</td>
<td>2.92</td>
</tr>
<tr>
<td>NEC Employee Shareholding Association</td>
<td>50,026</td>
<td>1.95</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>41,977</td>
<td>1.62</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account No.4)</td>
<td>41,133</td>
<td>1.58</td>
</tr>
<tr>
<td>Sumitomo Life Insurance Company</td>
<td>41,000</td>
<td>1.58</td>
</tr>
<tr>
<td>Trust &amp; Custody Services Bank, Ltd. (Trust Collateral Account)</td>
<td>38,765</td>
<td>1.49</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account No.9)</td>
<td>37,821</td>
<td>1.44</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account No.7)</td>
<td>36,115</td>
<td>1.39</td>
</tr>
</tbody>
</table>

Note: The shareholding ratio is calculated by excluding the number of treasury stock (5,095,679 shares).

Organization Chart

- President
- Board
- Business Innovation Unit
- System Integration, Services & Engineering Operations Unit
- Supply Chain Management Unit
- Corporate Sales and Sales Operations Unit
- Branch Offices
- Global Business Unit
- Regional Headquarters (RHQs)
- Public Business Unit
- Enterprise Business Unit
- Telecom Carrier Business Unit
- System Platform Business Unit
- Central Research Laboratories
- Corporate Staff

VI Governance

NEC Corporation Annual Report 2016
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 the 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 many 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 rates
- 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 and that the transactions may result in unexpected 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
- Deficits in products and services
- Shortages 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 an 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 customer's 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 is 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, taxes, and environmental policies, environmental regulations and environmental 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/or costs 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.

Trademarks

- NEC is a registered trademark of NEC Corporation in Japan and other countries.
- All other names may be trademarks of their respective owners.