People around the world today face a host of global challenges: terrorism and cybercrime that threaten their everyday security; environmental issues such as intensification of natural disasters due to climate change; scarcity of energy, food and water resources; population growth in developing countries, aging populations in developed countries, burgeoning urban populations and widening interregional disparities.

NEC is committed to resolving these challenges with its ICT assets, especially AI and IoT technologies, and new business models developed collaboratively with customers and partners. Through these activities, NEC will create social value in the form of safety, security, efficiency and equality, all of which are prerequisites for an abundant society for all people, in the aim of realizing a bright, hope-filled future in concert with people and countries across the globe.

This mission is embodied in NEC’s Brand Statement: Orchestrating a brighter world.
### Performance Highlights

**NEC Corporation and Consolidated Subsidiaries**

For the fiscal years ended or year-end as of March 31

#### Revenue

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</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>¥3,583,148</td>
<td>¥3,115,424</td>
<td>¥3,036,836</td>
<td>¥3,071,609</td>
<td>¥3,043,114</td>
<td>¥2,935,517</td>
<td>¥2,821,181</td>
<td>¥2,824,833</td>
</tr>
</tbody>
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#### For the fiscal years ended or year-end as of March 31

<table>
<thead>
<tr>
<th>Performance Highlights</th>
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<tbody>
<tr>
<td>Improvement in energy efficiency</td>
</tr>
<tr>
<td>International revenue</td>
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<tr>
<td>International revenue ratio (%)</td>
</tr>
<tr>
<td>Operating profit</td>
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#### Key Management Measures

- **Fiscal year ended March 31, 2011:**
  - Divested NEC Electronics Corporation, a semiconductor business currently Renesas Electronics Corporation, into an equity-method affiliate
  - Acquired Global Vane S.A., a video surveillance services business in Argentina

- **Fiscal year ended March 31, 2012:**
  - Divested the consumer PC business into an equity-method affiliate
  - Acquired NEC Energy Solutions, Inc. in North America

- **Fiscal year ended March 31, 2013:**
  - Acquired the business support system business of U.S.-based Convergys Corporation
  - Acquired the IT service business of Australian-based ESI Limited

- **Fiscal year ended March 31, 2014:**
  - Divested all of NEC’s stakes in NEC Mobility Ltd., currently MM Mobile Co., Ltd., a mobile phone sales business
  - Stopped the development of new smartphones

- **Fiscal year ended March 31, 2015:**
  - Divested all of NEC’s stakes in NEC BIGLOBE Ltd., currently BIGLOBE Inc., an internet service provider in March
  - Made NEC Building, Ltd., providing operation and maintenance of 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
  - Established NEC Management Partner, Ltd. in a reorganization of four back office operation subsidiaries
  - Completed acquisition of an energy storage system business for electric power companies and established NEC Energy Solutions, Inc. in North America

- **Fiscal year ended March 31, 2016:**
  - Transferred administrative staff functions and shared IT assets from NEC to NEC Management Partner, Ltd. (Business Process Optimization Project)

- **Fiscal year ended March 31, 2017 (fiscal year under review):**
  - Acquired Brazilian IT security company Arcan Informática S.A.
  - Consolidated Japan Aviation Electronics Industry, Limited

#### Notes:

1. Net profit (loss) attributable to owners of the parent per share is calculated based on the weighted-average number of shares outstanding during each period.
2. Owner’s equity = equity attributable to owners of the parent
3. The debt-equity ratio is calculated by dividing interest-bearing debt by owner’s equity
4. Improvement in energy efficiency of products is based on a comparison with the fiscal year ended March 31, 2016.
At a Glance
NEC Corporation and Consolidated Subsidiaries
Revenue, operating profit (loss), and composition of revenue for the fiscal year ended March 31, 2017 (IFRS).

(Notes) Figures for revenue, operating profit (loss), and composition of revenue for the fiscal year ended March 31, 2017 are restated to conform with the new segments, which have not been audited by the accounting auditors.

**Public Business**
- **Revenue**: 766.2 billion yen
- **Operating profit**: 33.2 billion yen
- **Composition of revenue**: 29% Public Solutions, 15% Telecom Carrier Business, 23% System Platform Business, 27% Others

**Public Solutions**
- **Main customers**: Public healthcare and regional industries
- **Key Initiatives**: Expansion of applicable fields for My Number system utilization, creation for regional revitalization through industry, government and academic partnerships
- **Examples of Solutions by Business Sector/Industry**: Healthcare: Telehealthcare, Regional Healthcare Information Network

**Telecom Carrier Business**
- **Revenue**: 600.4 billion yen
- **Operating profit**: 18.1 billion yen
- **Composition of revenue**: 23% Government and media, 23% Manufacturing, retail and services, and finance

**System Platform Business**
- **Revenue**: 719.8 billion yen
- **Operating profit**: 29.6 billion yen
- **Composition of revenue**: 27% Network Infrastructure, 26% Enterprise Network Solutions, 26% Network Infrastructure

**Others**
- **Revenue**: 170.0 billion yen
- **Operating profit**: -20.0 billion yen
- **Composition of revenue**: 6% Security, 6% Smart Energy, 6% Other

**Key Initiatives**
- **Maximizing the profit of existing businesses**: Expansion of new business areas
- **Strengthening key business areas**: Acceleration of development and service proposal

**Examples of Solutions by Business Sector/Industry**
- **Public Solutions**: Telecom Operations and Management Solutions (TOMS), Enterprise Network Solutions
- **Telecom Carrier Business**: Software-Defined Networking (SDN), Network Functions Virtualization (NFV)
- **System Platform Business**: Internet of Things (IoT), 5G
- **Others**: Biometric Solutions (such as Face Recognition, Fingerprint Identification), Surveillance

**Major Products and Services**
- **Public Solutions**: Systems Integration, Telecom Operations and Management Solutions (TOMS, Services & Management)
- **Telecom Carrier Business**: Network Infrastructure, Telecom Operations and Management Solutions
- **System Platform Business**: Software-Defined Networking (SDN), Network Functions Virtualization (NFV)
- **Others**: Biometric Solutions (such as Face Recognition, Fingerprint Identification), Surveillance

**Major Consolidated Subsidiaries**
- **NEC Corporation**: NEC Networks & System Integration, NEC Facility Services, NEC Management Partner, Ltd.
- **NEC Lighting, Ltd.**: NEC Display Solutions, Ltd.
- **NEC Energy Solutions, Inc.**: NEC Energy Devices, Ltd.
- **NEC Facilities, Ltd.**: NEC Facilities, Ltd.
- **NEC Display Solutions, Ltd.**: NEC Display Solutions, Ltd.
- **NEC Fielding, Ltd.**: NEC Fielding, Ltd.
- **NEC Platforms, Ltd.**: NEC Platforms, Ltd.
- **NEC Corporation**: NEC Corporation, NEC Corporation, NEC Corporation
- **NEC Management Partner, Ltd.**: NEC Management Partner, Ltd.
Message from the President

To remain an essential company in the eyes of society in 5 years, 10 years and beyond, NEC will create new value by always keeping abreast of what constitutes value for its customers and society.

NEC Corporation Corporate Philosophy:
NEC strives through ‘C&C’ to help advance societies worldwide toward deeper mutual understanding and the fulfillment of human potential

NEC Group Vision:
To be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth

NEC Group Core Values:

Takashi Niino
President and CEO

September 1954  Born in Fukuoka Prefecture, Japan
March 1977  Graduated from the Faculty of Engineering of Kyoto University
April 1997  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)
Renewed Focus on Compliance

Over the course of conducting business activities, NEC was notified by the Japan Fair Trade Commission of a violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade ("Antimonopoly Act") with respect to transactions with Tokyo Electric Power Co., Inc. (currently Tokyo Electric Power Company Holdings, Inc.) on telecommunication equipment for electric power systems, in July 2016. In February 2017, NEC also received Cease and Desist Orders and Surcharge Payment Orders from the Japan Fair Trade Commission for activities in violation of the Antimonopoly Act with respect to transactions for wireless digital emergency firefighting equipment, and with respect to transactions for hybrid optical communication equipment and equipment for transmission lines for Chubu Electric Power Co., Inc.

Compliance is one of the NEC Group’s top management priorities. The NEC Group has a long history of diligently implementing and continuously operating internal control systems. We sincerely regret and have self-reflectively deeply on the repeated violations of the Antimonopoly Act. In response, we are endeavoring to reinforce our entire Group workforce’s compliance mindset by repeatedly reminding all personnel about compliance-related matters, revising our fair trading education curriculum and methods, and stepping up internal reviews and monitoring of fair-trade compliance. These measures are not merely a one-off response. Going forward, we will endeavor to prevent recurrences of violations of the Antimonopoly Act by continuously improving our compliance regime in the aim of regaining trust.

NEC’s Challenge

We have long been expanding our operations by developing and supplying products and services of value to our customers. In the past, our business units’ technologies and products were so valued by customers that we were able to grow simply by upgrading our operations. With domestic markets already highly competitive. We must improve our profitability. I believe NEC aspires to be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth. Current profits, however, are still insufficient for NEC to be globally competitive. We must improve our profitability. I believe there are three keys to doing so.

The third is our mindset vis-à-vis global operations. For NEC to survive in an era of digital transformation, it must swiftly change not only its business models but also everything from its employees’ individual mindsets to its corporate culture. Given such a reality, I believe my most important roles as CEO is to determine the direction of NEC’s evolution and advancement, and foster a culture in which NEC thrives, organizationally and in terms of human resources and its business processes.

High-speed Management and the CEO’s Role

Society and customers have been changing at a dizzying pace in recent years. If asked how well NEC’s businesses are adapting to such change, I cannot deny that we lagged in certain areas. To avoid falling behind, and to keep abreast of societal changes and regain leadership stature, NEC must visibly step up its management speed. To do so with a sense of urgency, we have delegated authority to eight C-suite officers tasked with addressing nine issues that require action across internal organizational boundaries. As CEO, I of course assume responsibility for the final outcomes, but a CEO cannot realistically make every decision. The other C-suite officers must make decisions to the extent possible within the range of their respective responsibilities and authority. This initiative is not confined solely to C-suite officers. Our C-suite officers were appointed in the hope they would serve as in-house exemplars of transformation by changing and evolving themselves. I hope that such a transformational spirit is ultimately instilled in each and every front-line employee and pervasively embedded into NEC’s culture. I believe that fostering a culture of thinking for oneself and proactively taking action will revitalize our organization and resulting in faster management speed.

For NEC to survive in an era of digital transformation, it must swiftly change not only its business models but also everything from its employees’ individual mindsets to its corporate culture. Given such a reality, I believe my most important roles as CEO is to determine the direction of NEC’s evolution and advancement, and foster a culture in which NEC thrives, organizationally and in terms of human resources and its business processes.

In Pursuit of Improved Profitability

NEC aspires to be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth. Current profits, however, are still insufficient for NEC to be globally competitive. We must improve our profitability. I believe there are three keys to doing so.

The first is to robustly internal efforts. We must thoroughly reduce and eliminate waste arising from unprofitable projects and other inefficiencies. The second is to ensure adequate profits from domestic operations. With domestic markets already highly mature, we assume that our domestic revenue will remain largely unchanged. Customers, by contrast, are constantly changing. Domestic business models likewise are changing dramatically. Amid such an environment, the key issue for NEC is how to transition existing businesses to sufficiently profitable business models.

The third is our mindset vis-à-vis global operations. Future revenue growth is contingent on expansion of our global operations. Such expansion has been a key priority of our mid-term management plans to date. We must bear in mind, however, that we cannot inflexibly cling to...
on to the success of our domestic business models when expanding operations globally. In running a global business, we must first forget the values and sense of time we have cultivated in our domestic operations and then develop a business model that will generate sufficient sales and profits globally. After deciding which aspects of our key business areas (for example, Safety, SDN/NFV) to target, we aim to expeditiously move forward by pursuing alliances and/or where feasible M&As.

Maximizing Corporate Value Through Co-creation

Digital transformation is driving society toward a major turning point. We see this development as not a mere trend but a watershed event consequential enough to change economies’ industrial structure. As digital transformation continues to progress, new business models and arrangements will emerge. As they do, what NEC is capable of accomplishing on an individual basis will progressively shrink in scope. Going forward, the issue of how to collaborate with customers and various other stakeholders to maximize the value NEC provides will become increasingly important. NEC will engage in an ethical manner such co-creation more proactively than in the past, not only in Japan but also globally.

Lastly, I want to reiterate that all NEC personnel must act fairly and ethically with a bona fide compliance-first mindset. By doing so consistently we will enhance our trust of all stakeholders.

Given NEC’s current situation, we cannot afford to prioritize any of these three keys over the others. We must simultaneously forge ahead on all three fronts. NEC has long been pursuing a 5% operating margin as one of its targets. This target is now imbued with a sense of critical urgency: if we do not achieve it soon, NEC may not have a future. I am determined to first expeditiously achieve our 5% operating margin target and then further boost our operating margin to a globally competitive level.

July 2017

Takashi Niino
President and CEO

Mid-term Management Plan 2018 Progress and Formulation of Next Mid-term Management Plan

In fiscal 2017, we reluctantly lowered our revenue and profit forecasts in response to multiple factors, including delivery delays that pushed back substantial revenue beyond the fiscal year-end. Failure to land expected orders, sluggish growth in overseas operations and a falloff in hardware sales. Revenue and profits ended up falling short of our initial forecasts.

Fiscal 2017 proved to be a challenging year that exposed NEC’s shortcomings in bold relief. Our fiscal 2017 operating performance fell far short of our initial forecasts, which we revised downward in January 2017. In my assessment, the biggest factor behind the shortfall were deficiencies in management execution capabilities in terms of responding to changes in market environments and customer trends. Our Mid-term Management Plan 2018 was initially predicated on predominately overseas revenue growth in the aforementioned three key businesses and flat revenue in our predominantly domestic existing businesses. However, the existing businesses missed their targets and we encountered delays, mostly overseas, in ramping up the three key businesses. Consequently we had failed to achieve revenue growth.

Operation profit fell sharply from the previous fiscal year, largely as a result of earnings deterioration in the Telecom Carrier and Smart Energy businesses, and unprofitable social infrastructure projects.

Additionally, we provisioned reserves for contingent losses after being found in violation of the Antimonopoly Act, as well as ordered to cease and desist and fined by the Japan Fair Trade Commission in fiscal 2017 in connection with three matters for which we had been under JFTC investigation.

Lack of execution by management team responding to changes in market environments and customer movements

Financial targets for existing businesses not achieved, while results for new businesses delayed

- Could not execute growth strategy well enough in 3 focus business areas, mainly in the international market

Profitability deteriorated in certain business areas

- Dip in Telecom Carrier business: Need to flexibly allocate resources to focus business areas for optimization, accelerate development of 5G technology targeting the shipment of commercial prototypes in FY19/3

- Slow recovery in the energy business: Loss from operations (excluding one-time costs) decreased. Expect sales growth and profitability improvements, mainly in the large ESS and electrode business

- Booked new unprofitable projects: Accelerate deployment of project management know-how from system integration/services throughout the company during FY18/3

Governance, Compliance

Received the cease and desist orders and the orders for payment of surcharge

- Booked provision for contingent loss (FY17/3), Anticipate an influence from the nomination suspension (FY18/3)
Looking Back at the 1st Year of the Mid-term Plan - Achievements

While fiscal 2017 left us with much to reflect upon, we also started to make progress on certain fronts. Fiscal 2017 being our Mid-term Management Plan 2018’s initial year, we focused on implementing the plan’s two management policies: reorganization of profit structure and getting back on the track to growth.

First, reorganization of profit structure, we (1) took remedial action toward underperforming businesses and unprofitable projects, (2) implemented the business process optimization project and (3) worked on optimizing development and manufacturing functions in the aim of realizing a 5% operating margin. Of these three initiatives, the business process optimization project has progressed as planned. In fiscal 2017, it yielded some ¥14 billion in year-over-year cost savings, largely from improvement in operational and IT cost efficiency. Meanwhile, we made steady progress toward realizing ¥10 billion of fiscal 2019 cost savings from optimization of our development and manufacturing functions by reorganizing and merging our domestic hardware development and production subsidiaries and also our domestic software development subsidiaries effective April 1, 2017.

To getting back on the track to growth, we focused on growing our safety, global carrier network and retail IT service businesses, all of which we have designated as key businesses, in the aim of globalizing our Solutions for Society.

In the safety business, our video face recognition technology was ranked first in a benchmark performance test conducted by the U.S. National Institute of Standards and Technology (NIST), including previous benchmark tests of still image face recognition, NEC has won four consecutive top rankings in NIST benchmark tests of face recognition technologies. We believe we have firmly established a competitive advantage in the face recognition field. The global carrier network business landed 10 contracts for commercial SDN/NFV projects from major telecom carriers in Europe, the Near/Middle East and North America. Pipeline of network projects under negotiation also has been steadily growing. We intend to parley telecom carriers’ growing push to upgrade their networks into expansion of our network business. In the retail IT service business, we were awarded an order and maintenance contract from 7-Eleven, Inc., for a POS system for around 8,600 stores in the US and Canada.

Lastly, we proactively pursued alliances and collaborations with other companies and academic institutions in pursuit of future business expansion in the AI and IoT realms, both of which are crucial for diversifying our Solutions for Society.

In 2013, we decided to focus on Solutions for Society with the aim of becoming a social value innovator that solves social issues through information and communication technologies. This goal remains unchanged today, underscoring the significance of NEC’s continued existence and growth within society.

To realize this goal, however, we ourselves must personally continue to change faster than the rapidly evolving markets. In preparing our next mid-term management plan, we intend to first revise our mid-term and annual planning processes with the aim of expediting the transition from strategy formulation to execution. Additionally, to upgrade corporate functions, we will accelerate decision-making by progressively delegating authority to C-suite officers and clearly delineating their roles, responsibilities and authority.

Next Mid-term Management Plan

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Our primary focus in terms of management policy is reforming underperforming domestic operations and otherwise improving domestic profitability while devising specific measures to accelerate overseas growth in our three key businesses. As our primary management objective, we will focus on establishing a profit structure that ensures a 5% operating margin through disciplined management of a well-diversified portfolio of businesses.

We are currently in the process of formulating specific quantitative targets for our next mid-term management plan. Suffice it to say for now that we intend to set responsibly attainable targets that are credible to various stakeholders.

Key Management Agenda

Set new financial target

Establish structure to generate 5% operating profit margin

Portfolio management with discipline

Pursue further opportunities in addition to the 3 focus areas, while otherwise improving domestic profitability while devising specific measures to accelerate overseas growth in our three key businesses.

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We are currently in the process of formulating specific quantitative targets for our next mid-term management plan. Suffice it to say for now that we intend to set responsibly attainable targets that are credible to various stakeholders.
Message from the CFO

We aim to enhance corporate value by investing in growth businesses, further solidifying our financial foundation and keeping a commitment to shareholder returns at the center of our capital policies.

Executive Vice President, CFO (Chief Financial Officer) and Member of the Board

Isamu Kawashima

Fiscal 2017 Performance

The NEC Group recorded consolidated revenue of ¥2,665.0 billion for fiscal 2017, a decrease of ¥159.8 billion yen (5.7%) year-on-year. This decrease was mainly due to decreased sales in the Telecom Carrier business and the Public business. Regarding profitability, operating profit worsened to ¥49.6 billion year-on-year, to an operating profit of ¥41.8 billion, mainly due to a decrease in gross profit caused by a decline in revenue, despite efforts to reduce selling, general and administrative expenses. Net profit attributable to owners of the parent was a profit of ¥27.3 billion, worsening by ¥48.6 billion year-on-year. This was primarily due to the worsening of income before income taxes and increased income taxes. As a result, return on equity (ROE) was 3.4%, a 6.1 percentage point worse than the previous fiscal year. Although the profit attributable to owners of the parent for fiscal 2017 was less than planned, NEC secured profit over the total amount of dividends. As a result, NEC declared an annual dividend of ¥6 per share of common stock, the same value as announced at the beginning of fiscal 2017.

Fiscal 2017 Financial State

Total liabilities were ¥2,684.0 billion as of March 31, 2017, an increase of ¥155.1 billion as compared with the end of the previous fiscal year (¥2,528.9 billion). This was mainly due to an increase of non-current assets. As of March 31, 2017, this increase of ¥55.4 billion compared with the end of the previous fiscal year, mainly due to an increase of non-controlling interests and other components of equity.

The NEC Group recorded profits of ¥41.8 billion, mainly due to a decrease in gross profit caused by a decline in revenue, despite efforts to reduce selling, general and administrative expenses. Net profit attributable to owners of the parent was a profit of ¥27.3 billion, worsening by ¥48.6 billion year-on-year. This was primarily due to the worsening of income before income taxes and increased income taxes. As a result, return on equity (ROE) was 3.4%, a 6.1 percentage point worse than the previous fiscal year. Although the profit attributable to owners of the parent for fiscal 2017 was less than planned, NEC secured profit over the total amount of dividends. As a result, NEC declared an annual dividend of ¥6 per share of common stock, the same value as announced at the beginning of fiscal 2017.

Revision of Mid-term Management Plan 2018 and Fiscal 2018 Initiatives

Our fiscal 2017 operating performance fell far short of our Mid-term Management Plan 2018’s targets for its initial fiscal year. Our fiscal 2017 performance was hurt by deficiencies in management speed and execution capabilities in terms of adapting to changes in the business environment and customer trends. In fiscal 2018, we will formulate our next mid-term management plan in pursuit of growth overseas and improvement of profitability, including the reform of underperforming businesses. Fiscal 2018 is thus an important year for further solidifying our foundations heading into fiscal 2019, the first year of our next mid-term management plan.

For fiscal 2018, our revenue target is ¥2,800 billion. Although we face a top-line headwind in the form of suspension of our eligibility to bid on public contracts in conjunction with the Grant and Dressi Orders and Surcharge Payment Orders from the Japan Fair Trade Commission, we plan to achieve these targets through a combination of offensive and defensive action. Offensively, we will execute restructuring and strategic investments in pursuit of growth as planned. Defensively, we will improve operating efficiency and unprofitable projects’ profitability. By doing so, and continuing to pay annual dividends of ¥6 per share*, we intend to regain your trust.

* Assuming the share consolidation is achieved on October 1, 2017, an annual dividend per share of common stock will be ¥3.
Our History

Guided by the motto, “Better Products, Better Service,” NEC has pursued and provided better products and services to customers since its founding in 1899. Through the years, NEC has successfully risen to the challenges of a wide range of innovation to create social value. These challenges have included everything from the electromagnet, the basic technology behind fax machines, to terrestrial stations for satellite communication that support international television broadcasting.

At the same time, the demands of both society and customers today are diversifying. In order to provide value to society and customers alike, NEC must combine the varied assets it possesses, demonstrate ingenuity, and think outside the box about the fields it should enter and the value it will provide.

With that said, our desire to provide better value to customers and society is a universal one that bridges every era. With “Orchestrating a brighter world” as our brand statement, we at NEC, taking advantage of dialogue and co-creation with our many stakeholders, remain committed to creating value well into the future.

1899
Nippon Electric Company, Limited is established

1928
NE-Type phototelegraphic equipment transmits scenes of Imperial Accession Ceremony of Emperor Hirohito between Kyoto to Tokyo

1954
Begins research into computers

1956
Produces first domestic-made KB switching system

1958
Develops fully transistorized NEAC-2201 computer

1964
Trans-Pacifc TV broadcasts of the 18th Olympiad in Tokyo are successfully implemented using NEC-supplied ground facilities for satellite communications

1968
Develops 144-bit high-speed N-channel MOS (Metal Oxide Semiconductor)/IC memory

1970
Produces Osumi experimental satellite

1971
The NS-100 fully automated postal sorting system is developed

1974
The ACOS Series 77 mainframe computer family is announced

1977
“C&C” or the integration of computer and communications technologies is first announced at INTELCOM ’77

1979
The PC-801 personal computer is announced

1985
The SX-2 supercomputer demonstrates the world’s fastest performance

1991
A unique graphite crystal is discovered and named “carbon-nanotubes”

2002
The Earth Simulator, the world’s fastest supercomputer system for resolving global environmental problems, is completed

2003
Constructs one of the world’s largest mission-critical systems, the i-mode gateway system “CiRCUS”

2007
Ultra compact microwave communications system PASOLINK secures top global market share

2010
Asteroid explorer “HAYABUSA” successfully returns to Earth

2012
Delivery of broadcasting equipment to Tokyo Skytree

2014
Formulation of brand message “Orchestrating a brighter world”
In 2014, NEC devised seven themes for “social value creation” based on six “megatrends” that the company identified by taking a wide range of perspectives into consideration, including the environment, society, industry and daily lifestyles. In relation to this, NEC aims to provide for a more fulfilled society and a brighter future through services that promote safety, security, efficiency and equality. This is in addition to creating innovative value together with customers and stakeholders, while maximizing the company’s real-time, dynamic, remote and secure capabilities backed by its information and communications technologies (ICT) and integration skill.

The NEC Group’s Vision of Social Value Creation

Six Megatrends

01 Chain of resources and environmental issues
02 Growth in emerging countries and their new challenges
03 Search for innovative society models
04 Increase in power and influence of individuals
05 Decentralization of power
06 Decentralized threats and needs for safety and security

The Seven Themes for Social Value Creation

Quality of Life

Safety

Security

Efficiency

Equality

The NEC Group’s Vision of Social Value Creation

Value for Society

Sustainable Earth

Safer Cities & Public Services

LifeLine Infrastructure

Orchestrating a brighter world

One to Many

Addressing fundamental issues for our customers and society

To contribute to the resolution of social issues across global markets, NEC must create society-wide value and embed a “One to Many” business model in its corporate culture. NEC is committed to expeditiously providing ever greater value to its customers and society by capitalizing on its ICT assets and wealth of experience to thoroughly fulfill customers’ wants and needs and meet society’s expectations.
Social Value Creation Process

Resolving customers’ and society’s fundamental challenges and building relationships of trust are important elements of value-additive innovation. NEC aims to create social value in the form of Safety, Security, Efficiency and Equality through dialogue and co-creation with its customers and various other stakeholders.

NEC creates social value through the following three-stage process.

1. Awareness of fundamental issues of customers and society
2. Collaboration for generating value such as open innovation
3. Value creation that leverages leading-edge ICT including AI and IoT

As part of this process, NEC also uses NEC Social Value Design™, a design model for creating value for customers and society from societal, cultural, industrial and other perspectives.

Creating new social value requires a vision of how society should be or what the future should look like from both micro and macro standpoints. The former of which zooms in on factors such as people’s lifestyles and behavioral patterns while the latter zooms out to a city-wide, national or global scale.

This social value creation process involves dialogue and co-creation with a wide range of stakeholders.

NEC Social Value Design™

NEC Social Value Design represents NEC’s original way of creating value through co-creation with customers. NEC Social Value Design leads to innovations for business and future society by focusing on two perspectives: User Experience—considering how to improve the value of human experience, and Social Experience—considering the way society should be.

Dialogue and Co-creation with Diverse Stakeholders

Aiming to Resolve Social Issues as a Member of International Society

During the 2014 Ebola outbreak in western Africa, scarcity of information on the supply of and demand for supplies and inadequate coordination between the public and private sectors resulted in duplication of aid and other inefficiencies in aid efforts. In response, the Global Pandemic Supply Chain (PSC) Network was formed at the 2015 World Economic Forum to coordinate various organizations’ emergency response efforts during pandemics.

NEC hosted a PSC Network conference at its headquarters in October 2016. At the two-day event, representatives of the UN World Food Program (WFP) and other international institutions, universities, private-sector corporations, NGOs and US and Japanese government officials discussed monitoring of corrective measures’ progress, simulation-based planning during communicable disease outbreaks and stockpiling of food and medicines.

The conference prompted the Japanese government to seed the PSC Network with a US$1 million donation. In response, NEC announced plans to develop a supply chain information management platform together with the WFP.

NEC actively engages in investor relations (IR) activities, including meetings with shareholders, quarterly financial result briefings and business briefings conducted mainly by its CEO, CFO and Investor Relations Office, a department within the Corporate Strategy Division. Meanwhile, IR staff proactively relay shareholder and investor feedback to management, and periodically report to the Board of Directors. In fiscal 2017, NEC held its first environmentally themed IR meeting with institutional investors.

For details, see Promoting Environmental Management to Realize a Sustainable Earth on p. 53.

Practicing Corporate Responsibility Together with Suppliers

NEC has formulated an NEC Group Procurement Policy based on the ISO 26000 social responsibility guidance standard and works together with its suppliers to address six key supply chain risk factors (human rights, labor and occupational safety, fair trade, the environment, information security, and product quality and safety). In addition to co-creating with suppliers through on-site CSR PMR® assessments of occupational safety/health and human rights compliance, NEC has been engaged in ongoing dialogue with the nonprofit CSR Review Forum since 2011. NEC is applying what it has learned from such dialogue to deepen its understanding of socially responsible procurement and improve its PDCA cycle.

Rethinking Business Activities’ Economic, Social and Environmental Impacts from the Standpoint of the UN’s SDGs

Customers and society’s fundamental challenges come into clearer focus through efforts to identify and resolve them. NEC has hosted SDGs Workshops coordinated by Mr. Minoru Matsuzaki, a CSR advisor with Caux Round Table Japan, an NGO, to provide opportunities for its employees to learn about social issues and think about how to best address them.

The workshops allow participants to virtually experience the importance and difficulty of weighing both positive and negative impacts on every value chain in running a business. Some participants have reported gaining new insights into their jobs’ societal significance by thinking about how their jobs can add value to and contribute to a sustainable society.
**NEC believes that innovation is the key to continually adding value to society, and continuously invests 4-5% of its revenue in R&D. NEC proactively embraces open innovation in addition to intensively investing in its technological strengths. In fiscal 2017, NEC launched a new AI technology brand, NEC the WISE, and initiated four major research collaborations with universities and public research institutions as part of its intensive investment program.**

### Intellectual Property Strategy

NEC treats its intellectual property (IP) as an important management resource that contributes to its Group’s competitiveness and operational stability. NEC strengthens and protects not only its patents and know-how but also the trademarks and designs that underpin its global brands. In the core Solutions for Society businesses, building an all-encompassing IP portfolio inclusive of customers and partners’ businesses is an important priority. NEC is accordingly creating, building and utilizing an IP portfolio to not only erect IP-based barriers to entry and secure competitive advantage but also strengthen and protect collaborations with customers and partners.

NEC owns some 53,000 patents (including approximately 23,000 Japanese patents) as of March 2017.

### Major Business Achievements

**Business track record**

<table>
<thead>
<tr>
<th>No.1/Only 1 technology</th>
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<tbody>
<tr>
<td>Technology to estimate the landslide risks</td>
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<tr>
<td>Profiling Across Spatio-Temporal Data</td>
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<td>Face Recognition</td>
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<td>Liveness Authentication</td>
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<td>Invariant Analysis</td>
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<td>100 GB Optical Transmission</td>
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<td>Face Recognition</td>
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<td>Light Encryption</td>
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<td>Textual Entailment Recognition</td>
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<tr>
<td>Fingerprint, Face Recognition</td>
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</tbody>
</table>

**No.1*1 technology**

- Marketed “Landslide Prediction System”
- Marketed AI software that analyzes a video image from a surveillance camera and searches for a particular person quickly and with high precision

**Only 1*4 technology**

- Provided the Australian government with a biometric system
- Delivered a face recognition system for immigration checks at a major airport in the US
- Delivered an automated determination system for babies and real faces
- Started jointly an operation support service for thermal electric power generation
- Started laying a Trans-South Atlantic undersea optical cable
- Collaborated with the security company to provide a new security system
- Provided a cloud-type security camera service for the distribution company
- Renewed the contact center operations marketed “Auto Response Solution”
- More than 1 billion people registered with the Unique ID System in India

### Intensive Investment in Technological Strengths and Proactive Open Innovation

To gain competitive advantage, NEC invests intensively in its distinctive technological strengths, most notably data analysis and real-world visualization technologies.

NEC has long been developing advanced AI technologies. In July 2016, NEC aggregated its AI technology portfolio under the NEC the WISE brand name to better solve customers’ issues by optimally combining technologies. Additionally, NEC is enhancing its design capabilities with respect to ICT platforms that capitalize on its strengths in both computing and communication technologies to solve real-world issues subject to power supply and/or communication bandwidth constraints.

With its in-licensing of external technologies essential to expansion of added value, NEC is an active practitioner of open innovation. NEC embraces open innovation in pursuit of diverse collaborations that extend beyond technology alone. One such example is the NEC University of Tokyo Strategic Partnership Agreement for Future AI Research and Education. NEC is forging ahead with comprehensive co-creation that runs the gamut from basic research to sharing of visions or themes regarding how research results can be applied within society, to social receptivity testing and human resource development.

### Innovation Management

**NEC Corporation**

Executive Vice President, CTO (Chief Technology Officer) and Member of the Board

Katsumi Emura

**Intellectual Property Strategy**

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NEC owns some 53,000 patents (including approximately 23,000 Japanese patents) as of March 2017.

### R&D Strategy

**R&D drives technological development. Through R&D, NEC identifies solutions best-suited to resolve social issues and refines its “No. 1/Only 1” core technologies required to realize those solutions in light of technological trends. By so doing, NEC aims to provide value in the form of Safety, Security, Efficiency and Equity. NEC is proactively utilizing global open innovation throughout its R&D operations with the aim of timely commercialization of technologies under development.**

NEC has been expanding its NEC the WISE face recognition, heterogeneous mixture learning and predictive robust optimization technologies’ scope of application by amassing technologies and building a track record of performance over decades.

For example, face recognition has its roots in image analysis technologies. In the early 1960s, the only available image analysis technology was optical character recognition (OCR) capable of recognizing standardized characters only. Subsequent refinements enabled recognition and comparison of large volumes of non-standardized still images, as exemplified by fingerprint recognition. Today’s technologies are capable of recognizing and comparing moving images. This technological advancement was driven by not only increasingly sophisticated recognition algorithms but also major improvements in information processing power and communication throughput engineered by NEC.

To continue improving “No. 1/Only 1” core technologies into the future, NEC is hiring and training diverse personnel. While aggressively hiring top-caliber talent at its overseas research facilities in five locations around the world, NEC is also stepping up recruitment of doctorate-degree holders and graduates of globally top-ranked universities in Japan.

**History of NEC’s initiatives in AI**

- **1960**
  - OCR
    - Print under control
  - Fingerprint Identification
    - Deployed by police worldwide (No. 1 2004-2015)
  - Face Recognition
    - Had a competitive edge, etc. No. 1 2005-2010

- **2000**
  - SVM
    - Applied in demand forecasting, etc.
  - Deep Learning
    - Applied in language modeling
  - Heterogeneous Mixture Learning
    - Applied in automated learning, etc.

- **2010**
  - Autonomous and Adaptive Control
    - Applying co-creation that runs the gamut from basic research to sharing of visions or themes regarding how research results can be applied within society, to social receptivity testing and human resource development.
  - Predictive Robust Optimization Framework
NEC is focusing on seven social value creation themes in light of six megatrends identified through analysis of global economic, societal and technological trends. Capitalizing on its long track record and unique strengths, NEC is endeavoring to resolve challenges facing its customers and society, focusing on the seven themes in particular.

NEC’s social value creation themes are similar to the Sustainable Development Goals (SDGs) adopted by the UN in 2015 in that both involve goals rooted in social issues and otherwise have much in common with each other.

To quantitatively measure the extent to which it is providing value deemed necessary by society and its customers as a social value innovator, NEC is attempting to quantify the social impact of selected initiatives corresponding to its seven social value creation themes, using the SDGs as a model. Examples of the metrics NEC is using to do so include reduction in crime rates, improvement in operating efficiency and percentage reduction in food spoilage losses in distribution channels.

Sharing targets with customers and the general public is important to maximize the value that customers and society are seeking. NEC expects dialogue and co-creation with diverse stakeholders to become increasingly important as a means of sharing targets.

Examples of the fruits of such dialogue and co-creation are presented below.

### Social Value Creation Initiatives

#### Building and Developing Safe and Secure Urban and Administrative Foundations

As globalization and the concentration of populations in cities progress, new safety risks from cyber attacks are increasing. In addition to detecting potential crimes and disasters before they occur, NEC will contribute to the realization of a administrative platform that demonstrates regional appeal by making use of the power of local residents in addition to support from industry, government, and academia.

### Trial of NEC’s Public Safety Solutions

**Unique Identification Authority System in India**

Conducted during G7 summit in Japan

Cutting-Edge Security System Preventing Dangers

Supporting International Cultural Exchange and Community Events with ICT

Supporting Safe and Secure Event Management

Supporting a national project in India through advanced recognition technologies

India continues to exhibit rapid development spurred by its high economic growth. In order to equally provide education, healthcare, social welfare, and other social services to all residents, a Unique Identification Authority System for identifying each and every citizen has been launched in this country with a population of more than 1.2 billion.

Central to this initiative is an unprecedented, large-scale biometrics system for distinguishing 1.2 billion people, which is equivalent to approximately one-sixth of the world’s population.

The system collects biometric data, including fingerprint, face and iris data, and combines it to match and identify individuals. This enables issuing a unique ID to each and every citizen throughout India.

NEC built a highly reliable system by utilizing the latest technologies in the continuously evolving field of biometrics, such as Face Recognition and Fingerprint Identification. NEC strongly supports the building of societies where people around the world can receive equal treatment and live in prosperity.
**Lifeline Infrastructure**

Building and Developing Safe and High-Efficiency Lifelines

Global urbanization is accelerating the diversity and complexity of production and daily life infrastructures. Using advanced and flexible ICT systems to reduce differences between regions and time zones and realize 24/7/365 uninterrupted infrastructures, NEC is continuing to provide important resources safely and efficiently.

**Non-stop Development of Industrial Infrastructure**

Aiming to Enhance Stability, Safety and Efficiency

Deploying Digital Data in Plant Operations

Oil refineries, natural gas plants and other such industrial facilities face the issue of how to operate safely and efficiently with aging infrastructure and workforces.

JGC Corporation and NEC are working together to resolve this challenge by synergistically combining JGC's plant construction know-how with NEC's "System Invariant Analysis Technology," a form of AI. System Invariant Analysis Technology detects signs of abnormalities in plant operations based on correlations among various sensors installed throughout the plant. Such abnormalities are treated as a sign of impending malfunction and promptly addressed. Early rectification of deviations from the norm prevents emergency plant stoppages and helps to alleviate environmental burdens.

**Laying the Groundwork for IoT Ubiquity**

Indonesia Global Gateway (IGG) Submarine Cable

NEC is engaged in the Indonesia Global Gateway (IGG) project, a large-capacity optical submarine cable connecting nine cities of Indonesia with Singapore. NEC signed a contract with PT Telekomunikasi Indonesia, the country's largest telecommunications carrier, to lay cables totaling 5,300 km in length. The cable, which is expected to be ready for service in the first half of 2018, features the latest 100Gb/s DWDM (Dense wavelength Division Multiplexing) technology and has an initial design transmission capacity of 32Tb/s.

Once IGG is completed, this cable system will not only enhance connectivity between the major cities of Indonesia but it will bridge two other International submarine cables being built by NEC, namely the SEA-US submarine cable system connecting Indonesia to the U.S. and the SEA-ME-WE5 submarine cable system connecting Singapore to Europe through the Middle-East. The IGG will empower Indonesia's domestic communication networks, enhance connectivity between the major cities of Indonesia but it will bridge two other International submarine cables being built by NEC, namely the SEA-US submarine cable system connecting Indonesia to the U.S. and the SEA-ME-WE5 submarine cable system connecting Singapore to Europe through the Middle-East. The IGG will empower Indonesia's domestic communication networks, connecting nine cities of Indonesia with Singapore. NEC's "System Invariant Analysis Technology," a form of AI. System Invariant Analysis Technology detects signs of abnormalities in plant operations based on correlations among various sensors installed throughout the plant. Such abnormalities are treated as a sign of impending malfunction and promptly addressed. Early rectification of deviations from the norm prevents emergency plant stoppages and helps to alleviate environmental burdens.

Co-creation with Customers in the FinTech Space

Creating New Value by a FinTech Joint Venture with SMBC

Sumitomo Mitsui Banking Corporation (SMBC) and NEC have established a joint venture company "brees corporation" that will offer a new Convenience Store Payment service that allows customers to pay utility bills and online shopping purchases at convenience stores using their smartphones rather than conventional payment slips. Users of the new service, available from 2017, will be able to upload barcodes on payment slips to their smartphones and make payments by scanning the screens at convenience stores. This not only contributes to improving the efficiency of payment processing for convenience stores, but also reduces the costs involved in printing and transporting payment slips for merchants. Users of the service also enjoy the benefit of not having to carry around slips of paper, which, if forgotten, could lead to late payments.

Going forward, brees aims to collaborate with major convenience stores and other retail companies, as well as venture startups, to continue creating new value.

Initiative to Improve Agricultural Productivity and Eradicate Poverty and Hunger

Facilitating FAO Farmer Assistance Project with e-Money Technology

In Mozambique, where 70% of the population lives in rural areas, improvement in agricultural productivity is a key issue for national development. One means of improving agricultural productivity is widespread distribution of high-quality seeds, seedlings and fertilizer to farmers. The UN's Food and Agriculture Organization (FAO) has been endeavoring to improve Mozambique’s agricultural productivity by distributing vouchers that partially subsidize farmers’ purchases of seeds, seedlings and fertilizer. Once the vouchers had been used by farmers at agricultural supply stores, the FAO previously collected them and reimbursed the merchants for the vouchers’ value. However, given the vast expanse of Mozambique’s rural regions, collection of paper vouchers and reimbursement of merchants took a long time. Long delays between voucher redemption and reimbursement led to a problematic situation that tied up agricultural supplies and merchants’ working capital, with no means to accurately assess by whom and for what purposes the vouchers were being used.

To resolve these issues, NEC partnered with local companies to build economic infrastructure that utilizes e-money technology. The infrastructure has facilitated smooth distribution of agricultural supplies while also enabling the FAO to provide more effective guidance on improving crop yields based on individual farmers’ purchase histories. Mozambique’s agricultural productivity has consequently improved. The improvement has been accompanied by growth in farmers’ incomes also. The infrastructure has facilitated smooth distribution of agricultural supplies while also enabling the FAO to provide more effective guidance on improving crop yields based on individual farmers’ purchase histories. Mozambique’s agricultural productivity has consequently improved. The improvement has been accompanied by growth in farmers’ incomes also.

NEC will continue to endeavor to resolve local social issues through global co-creation activities, thereby contributing to customers and society’s sustainable growth.
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 and other organizations by combining our distinctive technology assets, including network, sensor and analysis technologies, with a broad expertise in systems integration.

Public Business Comprised of Two Areas

Public business consists of “Public Solutions,” which is responsible for business involving regional sales functions and local governments in Japan, the “Public Infrastructure,” which takes charge of business involving government organizations and enterprises supporting national and social infrastructure.

Based on the new organization established in April 2017, the “Public Solutions” considers both the local needs and the required policy seeds. This area works together with regional stakeholders, such as local governments, universities, and businesses, to accelerate the development of new regional businesses, such as smart cities and utilization of the Social Security and Tax Number System (“My Number”), and health care. Based on our many years of achievements gained in supporting government agencies, the “Public Infrastructure” further improves the social infrastructure we provide to support a safe and comfortable lifestyle for everyone.

Revenue
(Billion ¥)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>786.5</td>
</tr>
<tr>
<td>2017</td>
<td>766.2</td>
</tr>
</tbody>
</table>

Operating Profit, Operating Profit Ratio
(Billion ¥)

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Profit</th>
<th>Operating Profit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>53.4</td>
<td>6.5%</td>
</tr>
<tr>
<td>2017</td>
<td>33.2</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Despite an increase in revenue from Japan Aviation Electronics Industry, Limited, which was made a consolidated subsidiary from the 4th quarter, overall revenues fell 2.6% year-on-year to ¥766.2 billion. This was mainly due to decreased demand for the digitalization of fire and emergency radio in the public solution business.

Review of Operations

Operating profit dropped ¥20.3 billion year-on-year to ¥33.2 billion after reduced profitability in the space business, in addition to lower sales.

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Market Environment (Risks and Opportunities)

Strengths

- Strong track record in delivering products and systems that support social infrastructure – such as systems for domestic and foreign governmental organizations, broadcasting companies, and power companies, as well as cyber-security – gaining high credibility and advanced technologies during this process. High market share in Japan.
- System integration capabilities developed in the implementation of large-scale mission-critical IT systems for governmental agencies and public institutions.
- Unique products and solutions born from our strengths in three technology areas: networks, sensors, and data analysis technologies. (Face recognition and fingerprint recognition technologies, Big Data analysis, etc.)

Weaknesses

- While there is a high proportion of large-scale projects, there are fewer projects with regular income streams, such as in services, leading to exposure to risk from demand volatility.
- Additional costs result from the complexity of project management for large-scale projects and the issues inherent in system development using cutting-edge technology. These costs have an impact on business results. It is necessary to minimize risks with appropriate project management.

Risks

- Competition is intensifying, increasing the number of projects with difficult requirements in cost and delivery. As a result, constant improvement of quality and cost competitiveness is necessary.
- Due to the large-scale demand cycle for the implementation of fire and emergency radio and preparation of infrastructure for the “My Number” system, ICT investments by national and local governments are expected to remain relatively low. Moving forward, it will be necessary to develop new markets by uncovering new demand through improvement of our solutions.

Opportunities

- Looking toward the year 2020, we anticipate active investment for the safe, reliable, and efficient operation of major international events.
- Cyber attacks pose a threat recognized around the world, gathering attention and increasing demand for reinforcement of systems and monitoring services for cyber security.
- We expect increased investment toward utilization of ICT across a variety of fields, including application in fields such as health care.
- As part of efforts toward regional revitalization, local areas across Japan are beginning projects aimed at the creation of smart cities and city development that makes use of public and private data.
Public Solutions Business
We provide IT and network systems for local governments and medical institutions, domestically and overseas, and also oversee our local branches across Japan to develop business with close ties to each region.

Fiscal 2017 Main Accomplishments
With business this year related to the My Number system remaining steady, mainly through improvements to mission-critical systems and reinforcement of security for local governments, the infrastructure development business has reached a turning point. With efforts such as the launch of sales for “My Number Card Solutions,” which support the creation of services and businesses that make use of the My Number card, we are further promoting business as we look towards the expanded use of the My Number system.

In the area of disaster prevention systems, we launched our Landslide Prediction System, which visualizes the risk of landslides by detecting the moisture content of earthen surfaces. In addition, we carried out joint testing of a landslide simulation system based on this technology along with Thailand’s National Disaster Warning Center, confirming the efficacy of the system in a forecasting Proof of Concept project conducted in a landslide-prone area in the northern province of Chiang Mai. Demand is growing for advanced disaster prevention systems, especially overseas, and we will continue to focus on expanding our business in the global market.

Initiatives in the Medium- to Long-Term
Over the past several years, NEC has led the market in infrastructure development for the My Number system, centered mainly on national and local governments. We have been engaged with several systems, starting with the “intermediate server platform” that serves as the foundation of the entire My Number system.

As use of the My Number system increases, we believe there will be an expansion of infrastructure and use of the My Number card, along with promotion of public-private partnerships from expanded use of public and private data. We are working toward the creation of these new markets. In particular, in the area of health care, we expect the realization of effective and efficient health care services through connection with various types of health and medical information. We anticipate that this will become an area of focus for us in the future.

In the area of regional revitalization, we have begun efforts in a variety of regions toward co-creation of local communities by industry, government, and academia. For a new kind of city development using public and private data, we are working to create new business by providing data linkage and utilization services, as well as an IoT platform that serves as a mechanism to sense, gather, and use a variety of data within a city or town. We are realizing regional coordination through the use of ICT, and thereby contributing to regional revitalization and the resolution of social issues.

Cumulative sales related to My Number
¥100 billion
(From the fiscal year ended March 31, 2015 to the fiscal year ended March 31, 2017)

We have focused on infrastructure development for the My Number system for the government agencies and local governments, achieving cumulative sales of about ¥100 billion over the three years since the fiscal year ended March 31, 2015.

Public Infrastructure Business
We provide social infrastructure that allows for everyone to have a safe and comfortable lifestyle, in the form of large-scale mission critical systems and network systems for domestic and foreign governmental agencies, local governments, broadcasting stations, and power companies.

Fiscal 2017 Main Accomplishments
In the area of cyber security, we are contributing to strengthening the security of government institutions through technologies that are unique to NEC, such as through support contracts for the “Cyber Defense Exercise with Recurrence” (CYDER). Put on for local governments in 11 regions around Japan by the National Institute of Information and Communications Technology (NICT). Outside of Japan, we have carried out cyber defense exercises in ASEAN countries and approved the acquisition of Brazilian security firm Arc Logistica Informatica S.A., carrying on our efforts to strengthen our global position.

In the area of regional revitalization, we have begun efforts toward co-creation of local communities by industry, government, and academia. Specifically, we are focusing on our steadily expanding business in this area. Particularly, we are working to realize growth through NEC’s unique solutions development, which combines product technologies with systems integration capabilities.

Initiatives in the Medium- to Long-Term
Cyber security is an important area in which we expect market growth over the medium to long term. We will continue to be proactive in expanding our business in this area. Specifically, we are focusing on our steadily expanding security monitoring service and cyber defense training services for domestic and foreign government agencies. Furthermore, we are working to realize growth through NEC’s unique solutions development, which combines product technologies with systems integration capabilities.

Executive Vice President Chikara Nakamata

Executive Vice President Kazuhiro Takada
Weaknesses

- In order to achieve further growth, we will transform to a business model that makes use of knowledge and resources accumulated for each industry and client and consolidates them across the organization.

Market Environment (Risks and Opportunities)

Risks

- The market in IT for domestic private firms has many competitors, and competition on price continues to be intense. The question of how to secure profits in this area is an issue. Furthermore, we expect a decrease in existing business in the medium term due to rapid adoption of cloud computing in Japan.

Opportunities

- A market that utilizes IoT has been created, and we expect the establishment of a new foundation for growth. The expectations for and role of ICT are expanding as a solution, both for global problems, such as food waste and energy consumption, as well as for social issues like changes in the human resources environment due to a shortage of labor.

Fiscal 2017 Main Accomplishments

We have accelerated development, both in Japan and abroad, of value chain innovation for our total SCM that connects manufacturing, logistics, retail and quality of life. In the IT service business for retailers, we strengthened solutions that provide new value, such as an omni-channel environment, where goods can be purchased, regardless of sales and distribution channels. Furthermore, 7-Eleven, Inc. (the United States-based company of 7-Eleven) selected NEC as a vendor to provide point-of-sale (POS) systems and maintenance services for approximately 8,600 stores throughout the US and Canada.

Since the Enterprise segment was established in fiscal year ended March 31, 2014, we have continually worked toward improving profitability through efforts such as strengthening upstream processes, like consulting, and thorough control of risks. We have steadily accumulated results each year, and in the fiscal year ended March 31, 2017, the operating profit ratio in this segment reached 9.7%.

Revenue

Operating profit ratio improved to 9.7%
Telecom Carrier Business

We provide network control platform systems and operating services for operations management, along with equipment for network implementation. NEC’s wealth of experience in large-scale network implementation and strong technical capabilities help us contribute to the resolution of social issues by providing safe, reliable, and efficient high-value-added networks for the age of IoT through the creation of value with our clients and business partners.

Strengths

- Track record of delivering for telecom carriers: fixed and mobile telecom products, IT system in Japan, and an accumulation of technology know-how.
- Successful delivery to over 230 telecom carriers worldwide in the TOMS area.
- Industry-leading solutions in SDN/NFV, such as vEPC*1 and vCPE*2, which combine operations and services.

Weakenesses

- Business model in the international market is dependent mainly on equipment business.
- Business structure is easily impacted by restrained capital investment in the domestic business.

Risks

There is risk of Japanese telecom carriers further curtailing capital investment, and there is the possibility of intensified competition as the market becomes more borderless.

Opportunities

Commercial deployment of SDN/NFV has begun. 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. Also, we expect demand for TOMS to continually increase. Additionally, we anticipate expanded business opportunities through the commercialization of the 5th generation mobile communications system (5G).

Initiatives in the Medium- to Long-Term

Business expansion for TOMS and SDN/NFV is the key for medium-to long-term growth in the telecom carrier business. With a tailwind in the market environment, momentum for deploying TOMS and SDN/NFV is increasing among the global telecom carriers. Within those conditions, NEC is contributing to larger profits and reduced capital investment and operational costs for our customers by creating value through the continuous improvement of solutions that integrate networks with IT, such as AI and linking TOMS with SDN/NFV.

For 5G, we are accelerating the development of features such as high speed and capacity, low latency, and multiple simultaneous connections, which will be required for networks for new services in the age of IoT, such as transmission of 4K and 8K high-definition video and automated autonomous driving. Sales will steadily improve with the timely introduction of these products and services to the market.

In this business, we contribute to business transformation through co-creation with our customers, actively proposing value to those customers in new areas while working to maintain and expand our existing businesses. We will keep our awareness of the constantly changing market as we continue to work toward providing rich communications that support diversity and the creation of social value.

Fiscal 2017 Main Accomplishments

We worked toward expansion of business in the fields of TOMS and SDN/NFV working along with Netercorder Technology Corporation, a subsidiary of NEC on the systemization of solutions that support rapid adoption SDN/NFV by telecom carriers. In addition, we secured 13 commercial projects for vEPC and vCPE from major global telecom carriers in Europe, the Middle East, and North America.

For the commercialization of 5G, we developed a massive-element Active Antenna System (AAS) that achieves efficient transmission using high frequency bands. In addition, we jointly conducted a Proof of Concept project with NTT DOCOMO for Massive MIMO (Multiple Input Multiple Output), a core technology for realizing high quality 5G transmission with high speed and capacity. In our existing business areas, we finished construction of the “Asia Pacific Gateway (APG),” a high capacity optical submarine cable that links 11 countries and territories between Japan and Singapore. We handed the completed cable over to a consortium of 13 companies from Japan, the US, and Asia.

We also developed a solution that links PASOLINK with our lineup of AI Technologies “NEC the Wise” to quickly build and configure optimal networks by analyzing network information with AI, and efficiently operating those networks.

Review of Operations

NEC Corporation   Annual Report 2017

NEC Corporation   Annual Report 2017

NEC Corporation   Annual Report 2017

NEC Corporation   Annual Report 2017
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 integrated platforms based on them. We deliver labor-saving and efficient platforms for customers, while at the same time creating new value such as IoT platforms based on ICT as we contribute to the expansion of solutions for society.

**Strengths**
- Distinguished group of technologies**, including SDN, Big Data, the cloud, and security.
- Reliability and high quality cultivated under an intensely competitive domestic market, high share in Japan.
- Comprehensive capabilities with a wide range of assets necessary for building IoT platforms, from the cloud to devices such as networks and sensors.

**Weaknesses**
- Compared with global mega vendors, the scale of business is smaller due to many areas being specialized for the Japanese market, leading to relatively lower profits.
- In areas of growth, such as the cloud and SDN, we cannot fully utilize our own resources, and the expansion of our business is still in progress.

**Market Environment (Risks and Opportunities)**

**Risks**
- We expect a downward trend centered on our existing products and an increasingly competitive environment as progress toward the cloud and open systems continues. Furthermore, in areas such as IoT and AI, more companies will enter the market, including those from other industries.

**Opportunities**
- The markets for SDN and the cloud have grown considerably, and new needs, such as for a hybrid cloud and for vertically integrated infrastructure, are expanding. In addition, as markets launch in the future for IoT and AI, we expect expansion of areas that utilize ICT. On the other hand, development requires a much greater sense of speed than ever before in order to further strengthen our position in the market.

**System Platform Business**

**Revenue**

**Operating Profit, Operating Profit Ratio**

Revenue was ¥719.8 billion, a decrease of 1.2% year-on-year, mainly due to decreased sales in hardware and enterprise networks.

Operating profit decreased by ¥2.6 billion year-on-year, to an operating profit of ¥29.6 billion, mainly due to decreased sales.

**Fiscal 2017 Main Accomplishments**

In Fiscal 2017, we have worked toward improving products and services to expand business in areas where we expect market growth, with a focus on SDN and IoT.

In the area of SDN for enterprises, we are putting in effort to expand our list of services to promote the introduction of SDN for customers in all industries with the goal of expanding our SDN business even further. In addition, we are carrying out various policies to expand the use cases for SDN, and to promote its use “on-site” in locations other than an office by improving our co-creation activities with those who design and build infrastructure systems at sites such as factories and shops.

In regards to IoT, we began introducing our “Walkthrough Face Recognition System,” which is capable of recognizing faces without any need to stop in front of a camera, for use in managing entrances and exits from facilities or event venues. We also launched sales of our “Human Behavior Analysis Services,” which support marketing policies for a store by analyzing the behavior of customers using video footage from cameras inside the store. Through these efforts, we are strengthening our product lineup that makes use of our face recognition and image analysis technologies.

In terms of improving our cost competitiveness and as part of our gradual efforts to strengthen our domestic development and production systems, we launched a new company that unifies group-wide development and production of IT and network products. This company was formed by restructuring and integrating a total of five companies and departments, including NEC Platforms, Ltd. and NEC Network Products, Ltd.

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

In order to maximize value in the System Platform Business, it is essential to increase sales in key areas such as cloud platforms, SDN, Big Data, and security. To accomplish this, we must allocate resources to research and development, as well as capital investment, in order to become more focused and efficient. In particular, we will pursue greater profits by pushing for comprehensive improvements to our sales system, such as improving efficacy of our development costs, reducing costs, and increasing added value on our products for all of our existing businesses, which make up a large portion of the present System Platform Business.

Beyond that, we will be certain to link market growth with the expansion of our business by demonstrating our unique strengths in key areas with growing markets, such as SDN, Big Data, the cloud, and security.

In our IoT platform business, we will develop solutions and services that rotate around our competitive technologies, such as video analysis and security, and we will increase the value we provide to our customers. By providing high quality common platforms, including networks, with a sense of speed, we plan to contribute to the expansion of NEC’s IoT business and change the trajectory of its growth.
International Business Structure
(As of July 1, 2017)

NEC is working to grow globally while leveraging the strengths of its businesses in each market by locating regional headquarters in North America, Central and South America, EMEA (Europe, the Middle East and Africa), China/East Asia, and APAC (Asia Pacific). NEC has declared “Global Contributions through Solutions for Society” as a medium-term theme, striving for growth in key businesses and securing the profitability of core businesses.

The safety business’ track record includes several achievements during the fiscal year ended March 31, 2017. These include the delivery of a face recognition system for customs use at John F. Kennedy International Airport in the United States, and the adoption of a biometric identification system for government institutions in Australia. We have also steadily increased orders, accurately capturing rising global demand with respect to safety.

In the upcoming fiscal year, we will build on our concentration of resources in key fields and regions, investing strategically to quickly gain the pace of growth in key businesses. Beginning with the safety business, where we utilize technology benchmark tested by the U.S. National Institute of Standards and Technology (NIST), we will seek out business expansion with a focus not only on SDN/NFV (network functions virtualization), which telecom carriers have started to put into operation, but also on managed services, which are poised for growth in the APAC region.

North America
Shinsuke Takahashi
President & CEO
NEC Corporation of America

NEC Corporation of America continued to see success in our focused growth areas by engaging at a more strategic level with our customers. We secured a major contract with 7-Eleven, Inc. to provide our point of sale technology in all North American stores. We also made progress with the federal government’s border protection initiatives using our biometrics solutions, and won significant customs inspection contracts with key state law enforcement agencies.

A major SAP® HANA migration project with the Ladies Professional Golf Association (LPGA) highlighted our Infrastructure as a Service (IaaS) private cloud activity for the year. Finally, PASDUNK EX-Advanced launched in North America as a market leading broadband wireless alternative to fiber based data connections.

Central and South America
Masazumi Takata
Senior Vice President
NEC Corporation
President & CEO
NEC Latin America

NEC Latin America’s business is strongly aligned with the region’s needs, which drives us toward our goals and targets. During the fiscal year ended March 31, 2017, our efforts to realize SDGs resulted in the winning of a biometrics project that helps provide students in Chile with fair access to meals, thereby contributing to the equality of society. We also expanded our business by acquiring a local cyber security company that is one of the top players in our market for MSS, as we aim to be the No.1 value provider in Safe Cities utilizing a wide range of advanced assets from NEC.

For continuous growth, the region needs to boost innovation and productivity, which NEC Latin America aims to contribute to as we focus our efforts on new business segments, especially in the retail, agriculture and Bus Rapid Transit (BRT) fields. Going forward, NEC Latin America looks forward to achieving our goals as we continue supporting our customers, partners and the people of Latin America through the orchestration of a brighter world.

Overall, we see continued opportunity to become a strategic partner for digital transformation for more of our customers over the near term by leveraging the Internet of Things, analytics and artificial intelligence.

EAME (Europe, the Middle East and Africa)

Masahiro Ikeno
President & CEO
NEC Europe

NEC Europe promotes a sustainable society by providing solutions tailored to the diverse needs of more than 100 countries across Europe, Russia, the Middle East and Africa.

During the fiscal year ended March 31, 2017, a rise in safety and security needs triggered by acts of terrorism and other incidents doubled the order volume in the safety field, including solutions for airports and other vital infrastructure. In the telecom carrier business, we received orders for projects in the growth fields of TOMS and NFV from major carriers in Italy and Saudi Arabia, as we accelerated business development in this area. In terms of network business for the corporate sector, we expanded hospitality solutions, most notably for hotels. With increasing demand for safety and other Solutions for Society, we are expanding our business particularly in the EMEA region, we will continue to accelerate business expansion in the upcoming fiscal year. In Europe, we will realize a secure, safe and efficient society by promoting smart cities and other globally cutting-edge initiatives. In Russia, the Middle East and Africa, where high future growth is expected, we will provide solutions including communications and energy, contributing to both business expansion and the realization of a more abundant society.

China/East Asia
Naoki Yoshida
Senior Vice President
NEC Corporation
President
NEC (China)

As a regional headquarters, NEC (China) covers China, Hong Kong, Macau and Taiwan, as well as Korea. In this capacity, we are broadly involved in the region in fields that include security, retail and other solutions, along with communication systems, PBX/servers, and displays.

Regarding security, we provide fingerprint identification, face recognition and other biometric identification systems and automated customs inspection systems (e-gate systems) to justice ministries, law enforcement agencies, airports and other entities in each country and region. In the field of retail, in addition to providing POS and IT systems primarily for convenience stores, we provide a highly rated around-the-clock maintenance request service covering stores for customers mainly in Taiwan. With respect to displays, we are broadly developing opportunities particularly in China in areas that include digital cinemas for movie theaters and products for airports and subways as we expand business. Beyond this, in Hong Kong, as an advanced base in the bus/feet (bus transportation system) field, we are providing technological support not only for the Hong Kong market but for NEC’s global activities.

Go forward, NEC (China) will continue to promote business expansion particularly in the fast-growing Chinese market, while strengthening partnerships with some of the region’s most prominent companies to create new business.

APAC (Asia Pacific)
Tetsuro Akagi
Senior Vice President, CEO
NEC Asia Pacific

NEC Asia Pacific is responsible for the ASEAN, Southwest Asia and Oceania market, collectively recognized as one of the world’s fastest growing regions. Using ICT to contribute to development in each country, we conduct business each day in ways that ensure NEC Asia Pacific is a company that society needs.

During the fiscal year ended March 31, 2017, we took steps to further expand Solutions for Society, most notably in safety arena, while promoting telecom carrier business as our core field. Successes during the year include orders from a number of ASEAN countries for an e-passage system featuring biometric identification. We also won for face recognition systems from law enforcement agencies in various countries, such as the South Australia Police. Additionally, we provided an intelligent bus management system for City of Pune, India, delivered digital terrestrial broadcasting equipment for a state broadcasting station in the Philippines, and conducted demonstration trials of a flood simulation system in Thailand. Through these efforts, NEC Asia Pacific contributed to building an information society that society needs.

In the Philippines, we focused on helping the government in the implementation of the “Great City Leaders” program, which is to transform Manila from a congested city into a sustainable and competitive global city. As part of the program, NEC provided systems for flood management, real-time traffic monitoring, and the next generation police headquarters. NEC also provided the world’s first advanced ORC (On-Road Collector) system to the Manila Metropolitan Transport Corporation (MMDA) using the technology of NEC’s sister company, the Intelligent Transport System (ITS) solutions, will be implemented in the Assistant Secretary of the Bureau of Urban Water Supply and Sanitation.

NEC Asia Pacific continued to see success in its focused growth areas, meeting the needs of the world’s fastest growing region. NEC continues to expand business in the region, strengthening partnerships with some of the region’s most prominent companies to create new business.
Initiatives Supporting Sustainable Management

NEC is advancing initiatives targeting ESG (Environment, Society, Governance), which is fundamental to sustainable management. Aiming for the sustainable development of society and the NEC Group, NEC has defined essential themes that prioritize ESG initiatives while also aiming to improve management from a non-financial standpoint. However, it is essential to establish specific themes and targets for the ESG initiatives, to tie these more closely to management, and to promote sustainable management that maximizes the value NEC provides to society through its businesses as a Social Value Innovator. From the fiscal year under review, NEC has again outlined its ESG strengths and challenges, launching initiatives aimed at reestablishing the materiality of how these contribute to its selectivity and concentration in management resource allocation. Based on the information gained through dialogue with a diverse set of stakeholders, NEC will define its materiality by measuring the degree of impact it has on society.

Environment

In 1970, NEC launched an organization dedicated exclusively to responding to environmental problems, and has been proactively addressing a range of issues ever since. Leveraging the skills and expertise gained in the process has proven useful in resolving client and society issues. This is why NEC promotes programs designed to integrate this knowledge within its businesses. Among the issues addressed, climate change is seen as an area in which NEC’s businesses have a high degree of impact on society. For this reason, NEC announced that it will prioritize initiatives outlined in the “Environmental Management Action Plan 2020/2030,” a long-term action plan for environmental activities that seeks both to mitigate and adapt to climate change.

Society

NEC recognizes human rights as one of the most significant themes for society. Together with concern for the human rights of employees and suppliers, NEC is putting systems and mechanisms in place to protect the privacy of citizens when delivering services through ICT. NEC is also promoting the creation of diverse human resources. Fostering an environment from which diverse perspectives and ideas can emerge and foster innovation is an important management strategy. Furthermore, in order to put NEC’s most treasured value since its founding in 1899, “Better Products, Better Services,” into practice, it is prioritizing efforts to deliver even more improvement in customer satisfaction, quality and safety as a company responsible for social infrastructure delivered through ICT.

Governance

In addition to enhancing management transparency, soundness and promptness, NEC is strengthening its corporate governance by clarifying its accountability and careful consideration of fairness in information disclosure. This is all in an effort to continuously create social value and maximize corporate value. In particular, NEC recognizes that compliance is indispensable to the promotion of sustainable management, and is striving for even more rigorous governance in order to infuse and embed compliance as the first priority into its corporate culture.

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 sounder management through greater discussion at meetings of the Board of Directors and to deliver prompt decision 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 Five Outside Directors has continued since its inception in June 2007.

4. Shortening Directors’ Terms

In June 2006, 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 enhance transparency of nomination and remuneration of Directors. The committee is made up of five members, including three Outside Directors, of whom is appointed as the chairperson.

6. Instituting the Chief Officer Position

The Chief Officer position was instituted in July 2011 to strengthen a company-wide strategy for realizing the NEC Group Vision. In April 2017, NEC extended the authority delegated to the Chief Officers in order to strengthen the corporate functions and accelerate the speed of decision making.

NEC Corporation Annual Report 2017

Initiatives Supporting Sustainable Management

NEC Corporation Annual Report 2017
Overview of the Corporate Governance Structure

General Meeting of Shareholders

Board of Directors

Executive Committee

Company Auditors

Corporate Governance

Business Execution

Executive Officers

Corporate Audit Committee

Nomination and Compensation Committee

Remuneration for Directors and Audit & Supervisory Board Members (KANSAYAKU)

Introduction of a New Performance-linked Stock Compensation Plan Based on the resolution at the 179th Ordinary General Meeting of Shareholders held on June 22, 2017, NEC introduced a new performance-linked stock compensation plan using a trust for its Directors (excluding Outside Directors) and corporate officers (“Beneficiaries”). The purpose of this plan is to clarify the link between the value of the shares based on NEC’s performance and remuneration of Beneficiaries. Under this plan, the Beneficiaries share with the shareholders not only the benefits deriving from future appreciation of share prices, but also the risks associated with a fall in the same. This is intended ultimately to enhance the awareness of the Beneficiaries with respect to making a contribution to an improvement in NEC’s mid and long-term performance and its corporate value.

Remuneration System

For the purpose of continuously improving corporate value and strengthening its competitiveness, NEC’s basic policy on the remuneration for Directors and A&SBMs is to set the level and system appropriate for a global company which enables NEC to secure excellent human resources and serves as an incentive to improve performance of the NEC Group.

Remuneration for Directors

Remuneration for Directors consists of fixed monthly remunerations and performance-linked bonuses, as short-term incentives, and performance-linked stock compensation as mid- and long-term incentive. Neither bonuses nor stock compensation are paid to Outside Directors, from the viewpoint of securing their independence from NEC because NEC expects that Outside Directors play a leading role in supervision over business execution.

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

http://www.nec.com/en/global/about/governance.html

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Ensuring Compliance

For a company like NEC, which develops solutions for society, obtaining and maintaining the trust of society and its customers is of the utmost importance. To that end, compliance and ethical management are fundamentals at NEC, and we consider 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, we have worked to minimize compliance risks, such as competition law compliance, or risks stemming from bribery and fraud. However, in fiscal 2017, we received notification of three violations of the Antimonopoly Act from the Japan Fair Trade Commission. We accept these facts solemnly and sincerely, and along with a renewed commitment to make compliance a top priority, we are strengthening our internal systems, education and awareness in order to prevent recurrences and restore trust. Each one of our officers and employees will act fairly and with integrity, working to conduct business activities with compliance as our top priority.

Strengthening Internal Systems and Awareness to Prevent Competition Law Violations and Bribery

Based on our Competition Policy established in October 2011, NEC is striving to reduce the risk of being suspected of or becoming involved in a cartel or bid rigging, it has prepared rules for the prevention of cartels and bid rigging, and outlined regulations to restrict unnecessary contact with competitors. In addition, NEC and its subsidiaries around the world have established anti-bribery system and rules, working to prevent bribery in relation to our business activities through efforts such as bribery risk evaluations for businesses or work under our purview, and due diligence of appointed contractors. We have clarified our guidelines and procedures, as well as what to pay attention to when providing gifts, hospitality and travel expenses.

Furthermore, each year we conduct group training with practical content on competition law violations and bribery prevention for sales representatives and SEs at NEC and some of its domestic subsidiaries. This training is held at our branches and offices across Japan.

Fostering a Corporate Culture that Makes Compliance a Top Priority

In addition to strengthening the above systems, NEC is working to foster a corporate culture where compliance is a top priority through education and awareness activities. Top-level executives, starting with the CEO, periodically release words about the importance of compliance, and every year we hold the NEC Business Ethics Forum to raise awareness of compliance through lectures given by the CEO and external experts. Also, once every year we hold a Workplace Roundtable meeting at each workplace where employees are encouraged to think of compliance as their own problem, and we are also providing information on compliance through our company intranet. Propagating the importance of acting in accordance with the NEC Group Code of Conduct through training of new employees and promoted persons, we also carry out web training sessions on compliance once per year for all officers and employees. These are also conducted for all domestic subsidiaries, along with compliance training for our overseas subsidiaries.

Aiming as an Organization to Never Again Violate the Antimonopoly Act

Even while undertaking these initiatives, we received certified notification of our violations of the Antimonopoly Act from the Japan Fair Trade Commission. Even now we are further strengthening our mechanisms to promote thorough awareness, so that we may become an organization that never again violates competition law through actions such as bid rigging.

In fiscal 2017, we submitted a pledge to eliminate bid rigging, with all officers and employees of NEC and its domestic subsidiaries declaring to do away with bid rigging practices.

In addition to that, from April 2017 to June 2017, we directly communicated over 100 times with our officers and employees in regard to the three certified violations of the Antimonopoly Act, detailing what happened within the Company, how the case was handled by human resources, and what should be learned from the incident. By having the Company directly communicate the facts, we have increased employees' acceptability of the events and awareness of compliance.

Effective April 1, 2017, NEC established the position of Chief Compliance Officer (CCO). Moving forward, the CCO will take the initiative to ensure that the lessons from these three violations are not forgotten within the Company, while promoting additional efforts to make compliance a fundamental part of our corporate culture.

Advancing self-transformation and achieving growth through innovation

Technology in fields, such as ICT, AI and IOT, is evolving at a pace far faster than we could have imagined. To meet these trends in a timely manner, it is important for NEC to continuously create customer value by honing its technology in these fields, sparking innovation, and developing new business models. As NEC competes on a global stage, simply responding to changes that happen is too slow, and offers no prospects for significant growth. Transforming itself is more important and essential.

On the one hand, NEC should closely examine what it considers its core technologies to be, and rigorously refine them until they are the best in the world. At the same time, in fields where NEC faces challenges, it is being asked to take steps to adopt external technologies and move away from overreliance on self-sufficiency, all while taking the initiative in open innovation.

From this perspective, I offer insights based on my own experience for the projects we discuss at meetings of the Board of Directors, doing my utmost to assist in the effort to speed up NEC growth strategies.

There is another vital role I play as an Outside Director. That is the ability to speak objectively from a position of fairness as an outside observer, thereby ensuring that corporate governance functions properly. In particular, I consider it the top priority to deeply embed the phrase “Compliance First” among NEC’s employees. Through the utilization of the Board of Directors, I fully expect NEC to quickly arrive at a growth trajectory predicated on the idea of “Compliance First.”

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

Kazuyasu Yamada

View your own actions objectively for thorough compliance

The word “integrity” is the basis of occupational ethics for professional accountants. Put simply, this word means, “don’t lie” and “don’t deceive.” While it may be nothing if not obvious to say this, most scandals that emerge happen because of a lack of integrity. Intentional criminal behavior aside, it is entirely possible for individuals, thinking they are acting in the interest of a client or the organization, to inadvertently violate rules, cover up facts or deceive others.

To prevent this, I think the most effective approach may be to have an individual objectively observe their decisions and actions. In other words, the idea is to have them consider the impact or likely outcome of their decisions and actions, and to be able to explain why this happened to someone else. The same thing applies to a company’s management. I definitely feel that deliberation by the Board of Directors, and particularly questions and guidance from the varied perspectives of the Outside Directors and Audit & Supervisory Board Members (“A&SBMs”), is crucial for boosting transparency. And if management objectivity and transparency are enhanced, employee awareness will be, as well. This, in turn, will lead each employee to see the actions they take in carrying out their duties each day more objectively.

A year has passed since my A&SBM appointment. As part of my duties, thinking of ways to address compliance and risk is never far from mind. With that said, as an Outside A&SBM, I strive to keep an objective viewpoint, and want to sidestep excessive risk avoidance in the hope that I can support rational risk taking and dynamic corporate activities.

Outsider & Supervisory Board Member (KAZUYASU YAMADA)
Directors and Audit & Supervisory Board Members

[As of June 22, 2017]

Directors

Nobuhiro Endo
Chairman of the Board (Representative Director)

Takeshi Niino
President (Representative Director) and CEO (Chief Executive Officer)

Hitoshi Ogita
Member of the Board

Makoto Okita
Executive Vice President, NEC Information Systems Company Limited

Kazuo Nago
Senior Advisor, NEC Corporation

Hajime Matsukura
Executive Vice President, NEC Energy Solutions Corporation

Takayaki Horita
Executive Vice President, NEC Financial Corporation

Katsumi Emura
Executive Vice President, NEC Digital Media Networks Company

Hajime Kinoshita
Audit & Supervisory Board Member (Full Time)

Tetsuya Fujikawa
Audit & Supervisory Board Member (Full Time)

Audit & Supervisory Board Members (KANSAYAKU-KAI)

Kazuyasu Yamada
Audit & Supervisory Board Member

Takeshi Kikuchi
Audit & Supervisory Board Member

Kazuyasu Yamada
Audit & Supervisory Board Member

Kazuyasu Yamada
Audit & Supervisory Board Member

Notes: 1. NEC has notified the Tokyo Stock Exchange of its four independent Directors and three independent Audit & Supervisory Board Members (KANSAYAKU). For details, see “List of Directors and Audit & Supervisory Board Members of NEC Corporation.”
2. For further details on the Directors and Audit & Supervisory Board Members of NEC Corporation, please visit the following URLs:

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 (KANSAYAKU-KAI):
http://www.nec.com/en/global/about/executives/auditors.html
NEC introduced its Chief Officer System in 2011 in order to promote the execution of strategy that spans across the entire company. From April 2017, we have increased the number of Chief Officers and are promoting the delegation of authority to each of them to further improve the speed of our management.

Specifically, we have appointed eight Chief Officers to cover nine themes representing efforts that go beyond the boundaries of our business units and Group companies. These officers determine the strategies for the areas they specialize in that extend beyond the framework of each business unit and Group company, and work to solve issues that affect the entire company.

Here, each of the Vice Presidents and Chief Officers, who are in a position to plan and execute cross-company strategies, will introduce the issues they face in their respective areas and their efforts to solve those issues.

Manabu Kinoshiata  
Senior Executive Vice President  
Driving Company-wide Growth Through Customer-Oriented Social Value Innovation

In order to solve increasingly complex social issues and continually contribute to society, the sales staff who are at the point of contact with our customers, must have a deep understanding of the market and make use of the technologies and strengths we have cultivated to create the future we are aiming for.

We will train our employees to be able to think in their feet, with the ability to quickly and appropriately grasp changes in the market and to think and act on their own. We will also offer value proposals that make use of our technology assets, AI, and make full use of the knowledge and solutions held by each business unit and related company, and also achieve co-creation with our customers and sales partners. Through these activities, we will drive company-wide growth and management with a sense of speed.

Nozhiro Ishiguro  
Senior Executive Vice President  
Becoming a Global Social Value Innovator

The building of safe and reliable cities and public services, and the formation of communication infrastructure that supports a thriving society, are some of the seven themes for social value creation presented by NEC. These themes are deeply connected to the SDGs, which are universal issues affecting developing and emerging countries around the world. Through PCI and sales activities global to national and local governments for each country, international organizations, and local companies, NEC is aiming to contribute to the solution of the world’s issues as a global Social Value Innovator.

Kazuhiko Sakai  
Executive Vice President, CIO (Chief Information Officer) and CISO (Chief Information Security Officer)  
Preparing IT for the Realization of Digital Management

IT will become even more important in the age of digital transformation. NEC is contributing to the sophistication of business management systems by expanding data utilization and supporting digital management based on business management information that has improved over the years. It is also promoting the enhancement of IT infrastructure that takes advantage of SDGs’ strengths, including AI, IoT, Cloud, and cybersecurity.

Makoto Enomoto  
Senior Vice President, CMO (Chief Marketing Officer)  
Establishing a Brand Image Centered Around “Co-Creation” as a Suitable Transformative Partner in the Digital Age

To realize our goal of becoming a sustainable company, we are working to improve the aspect of “co-creation” in addition to NEC’s reliable and friendly brand image. The CMO office actively overseas the story of “One NEC” from a company-wide perspective, and in doing so we improve our ability to disseminate information, supporting the side of our branding that makes NEC the “partner for transformation,” recognized by our customers.

In addition, we will quickly recognize market trends and the expectations of our customers, and incorporate these into our strategy with a sense of speed.

Shinbou Obata  
Senior Vice President, CCO (Chief Compliance Officer)  
How to Establish a Corporate Culture of Compliance

In fiscal 2017, NEC received certified notification from the Japan Fair Trade Commission for three violations on our part of the Anti-monopoly Act of Japan. The NEC Group has for a long time regarded compliance as a major issue for management and is one for which it has taken various measures. As Chief Compliance Officer, I will work to thoroughly prevent recurrence of such violations. In order to restore trust in NEC, we will reinforce compliance within our corporate culture, not allowing those incidents to be forgotten within the NEC Group.

For further details on the corporate officers of NEC Corporation, please visit the following URL: [http://www.nec.com/en/about/executives/sup.html](http://www.nec.com/en/about/executives/sup.html)
Human Rights and Diversity

The NEC Group Human Rights Policy was formulated as a declaration of NEC’s commitment to respect human rights in all of its corporate activities, and reject both child and forced labor in any and all circumstances. NEC also gives the utmost care to avoid any violation of human rights, including invasions of privacy, in the provision of its services. This commitment applies to the suppliers that comprise NEC’s supply chain and their employees. NEC strives for respect of human rights that encompasses the rights of women and persons with disabilities as well. NEC holds that the dynamic utilization of diverse human resources, and the incorporation of different perspectives and ideas, are essential to the creation of new value and innovation. NEC thus promotes diversity and inclusion with this view in mind.

Measures to Protect Privacy

In recent years, new businesses have emerged from the collection and usage of data from a broad range of devices, through evolutionary advancements in IoT and other technologies. While these technologies may, on the one hand, benefit society, they can also open the way to violations of human rights from the consumer’s standpoint. Privacy protection in data usage is a particularly important human rights issue, and NEC works on it actively with governments, research institutes and ICT companies.

Aiming to promote business that makes use of visual images, NEC has led the launch of an investigative project that calls for cooperation from 35 companies and research institutes to create rules that protect the privacy of the consumer. The rules drafted by this project were proposed to a working group established by the relevant ministry and agencies for reviewing how to treat visual images in terms of privacy protection. This led to the publication of an official guidebook on the use of visual images and the protection of privacy.

Furthermore, in April 2017, NEC launched the “Data Distribution Strategy Office.” It has been working in active cooperation with external experts to promote initiatives for personal data usage focusing on privacy such as strategy and solution planning, policy proposals and communication to related stakeholders.

Responding to the Modern Slavery Act

The Modern Slavery Act 2015 ("MSA") is one of the most important pieces of legislation regarding human rights in the UK. From the fiscal year ended March 31, 2017, NEC created opportunities in the UK and Japan for employees to learn about and debate the MSA, with the goal of deepening understanding of the law.

In September 2016, NEC Europe issued its first statement in reference to NEC Europe, its subsidiaries and supply chain working to be in accordance with Section 54 of the MSA. Based on the goals of the MSA, NEC Europe conducts audits to assess risks in its supply chain, such as forced labor and human trafficking.

In the rapidly changing world of ICT, increasing the number of human resources that generate diverse perspectives and ideas is a vital concern. With this in mind, NEC has proactively sought to hire more women from scientific backgrounds since 1980.

During the fiscal year under review, NEC held “Summer Riko-Challe 2016” (Science and Engineering Challenge 2016), a dialogue event for junior high and high school girls aimed at conveying the excitement of working in the computer science and engineering field. Through a showroom tour and conversations with female researchers and engineers, the event provided a great opportunity for participants to witness how R&D and product development contribute to society, and to feel how closely ICT affects their lives.

Co-creation Activities with Customers Incorporating Diverse Perspectives

In October 2016, Mr. Daisuke Uehara, a silver medalist in Para ice hockey at the 2010 Paralympics Games in Vancouver joined NEC. By promoting branding and co-creation activities with customers that leverage Mr. Uehara’s insight as a Paralympian, NEC is taking steps to make society defined by diversity a reality.

Paralympian Perspective Comes to NEC

“After giving a lecture at NEC on para sports, I received a request from NEC employees to incorporate a Paralympian perspective in the run up to 2020. This culminated in me formally joining NEC. Many of our local government customers have some unease about the decision – what exactly should they be doing ahead of 2020? Would paralympians be looking to use local gymnasiums? I personally pay visits to these customers, doing my best to assist them in taking first steps in these directions. While collaborating with regional headquarters and branches across Japan, my hope is to solve issues that local governments face for 2020 and beyond, and thereby build even friendlier relationships with them.”
Further Promotion of Environmental Management Contributing to the Realization of a “Sustainable Earth”

In line with the seven themes of social value innovation under the “Orchestrating a brighter world” campaign, NEC is promoting co-creation with customers and gaining recognition from them for providing great value toward solving environmental issues. That value has come to be incorporated into our business thinking. The kind of “environmental management” we should strive for would not simply work to preserve the Company’s environment, but would create a business on its own that contributes to the resolution of environmental issues. I believe we have come close to achieving this. Meanwhile, in 2015 the UN proposed its “Sustainable Development Goals (SDGs),” and a worldwide agreement on policy to combat climate change was reached in the Paris Agreement. In response to all of this, NEC aims to contribute to the realization of a “Sustainable Earth” as a sustainable company that is conscious of its coexistence with the planet. We have been working from 2016 on expanding value provided that focuses on measures to combat climate change.

Promotion of the “NEC Group Environmental Management Action Plan 2020/2030,” the Key to Our Measures Against Climate Change

NEC has devised the “NEC Group Environmental Management Action Plan 2020/2030” as a medium- to long-term target, positioning climate change as a high-priority theme (materiality) and working to resolve social issues pertaining to the environment. The three points on the right are our measures related to climate change.

1. Contribution to “mitigation” of climate change
   - Reduction of emissions from customers and society through the provision of IT solutions
   - Improvement in product energy efficiency
2. Contribution to “adaptation” to climate change
   - Preparing for the impacts of climate change through the provision of Solutions for Society
3. Reduction of emissions from business activities
   - Improvement in CO2 emission through efficiency of energy use during business activities
   - Conversion to renewable energy

Developing an Original Method to Quantitatively Evaluate “Adaptation” to Climate Change

NEC is developing and providing systems that support safe and secure lifestyles, such as preventative measures against natural disaster risks that increase from climate change, and effective evacuation guidance for times when disasters strike. One example is our “Flood and Landslide Simulation System,” which uses ICT such as NEC’s unique sensing and Big Data technologies to “visualize” the risks of landslides or flooding. Additionally, in regard to issues such as overstocking and losses from waste, which could also be considered modern-day food problems, NEC’s “Product Demand Forecasting Solution,” based on its independently developed heterogeneous mixture learning technology, can greatly reduce defects, overstocking, and waste losses by eliminating mismatches between manufacturing, distribution, and sales.

In order to expand this kind of value in a controlled, goal-oriented manner, NEC has worked with the Waseda Environmental Institute to jointly develop a quantitative method for considering the reduction of impact from climate change through IT solutions as equivalent to suppression of CO2 emissions. By propagating these kinds of ideas, we are helping to further accelerate our “adaptation” to climate change.

Aiming for Five Times the Value Provided Against Environmental Burden

By using these kinds of quantitative methods, NEC hopes to provide five times more value against the environmental impact of its supply chain by 2020. The results for fiscal 2016 were that we increased the value we provided up to 2.4 times our environmental burden. We will continue to aim for our goal, promoting greater value provided and reducing the environmental impact of our supply chain.

Improvements to Environmental Management through Dialogue with Our Stakeholders

In response to an increasing need among investors for ESG information, we are promoting greater understanding of our efforts in non-financial areas. As we grasp the ESG information requested by investors, we are aiming to improve our disclosure of information, and in July 2016, we held an IR meeting specializing in the “E” (environment) of ESG. 15 institutional investors from 13 companies participated in the meeting, leading to lively discussion with questions such as a request to more clearly show the connection between environmental activities and the management index, or what our future plans are for expanding the scale of our businesses related to SDGs. We received comments from participants that indicated they were better able to understand after hearing explanations in the directors’ own words, and that their impression of NEC improved after the meeting. We also received positive feedback expressing interest in participating in the next meeting.

Progress on achieving climate change objects (July 2014 announcement)

<table>
<thead>
<tr>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2020 (target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution</td>
<td>11.81 Million tons</td>
<td>14.88 Million tons</td>
<td>18.53 Million tons</td>
</tr>
<tr>
<td>Impact</td>
<td>9.5 Million tons</td>
<td>9.68 Million tons</td>
<td>7.76 Million tons</td>
</tr>
<tr>
<td>III</td>
<td>1.2 times</td>
<td>1.5 times</td>
<td>2.4 times</td>
</tr>
</tbody>
</table>

Holding Meetings on ESG with Institutional Investors

IR Meeting
Participation in SPEAR, a joint development project for a next-generation electricity network in Singapore

Along with Space-Time Insight, which has delivered numerous data analysis and visualization solutions, mainly to major European and US power companies, NEC and NEC Asia Pacific are participating in the Singapore Power Energy Advanced Research and Development (SPEAR), a joint development project for a next-generation electricity network in Singapore. In this project, we are investigating efficiency improvement of capital investment and maintenance based on big data analysis, real-time visualization and analysis of power failures, and advanced power failure management that accurately predicts expected recovery time. Taking advantage of the experience gained through this collaborative project, we will accelerate the creation of new technologies and solutions that combine ICT and energy, and will continue to further expand the smart energy business in the Asia Pacific region.

Trial using flood and landslide simulation system in Thailand

In collaboration with the National Disaster Warning Center (NDWC), NEC conducted a trial of its system to predict inundation areas and landslide hazard areas. Thailand is a country where floods are frequent. The flood of the Chao Phraya River in 2011 was a particularly damaging event, resulting in extensive damage to many industrial parks and urban areas, including Bangkok. This caused severe disruption of the global supply chain, and had a major impact not only on the Thai economy but also on the world economy. Further, landslides caused by heavy rain are also a frequent occurrence in Thailand, and because of the extensive human suffering and material damage they cause and their negative impact on logistics due to road closures. For these reasons, countermeasures to mitigate damage from floods and landslides have become critical issues.

In these trials, NEC ran simulations based on various data such as weather, topography, river, and soil conditions to predict inundation areas, maximum flood levels, levels of landslide risk etc., for up to 7 days in advance, and then confirmed the effectiveness of the system. Going forward, NEC will continue to promote the advancement and utilization of disaster prevention ICT for floods and landslides in Thailand, and utilize the experience and know-how gained from these trials to proactively engage in the proposal of this system to other Asian countries that frequently suffer damages from floods and landslides.

This trial is NDWC’s first disaster prevention cooperation project between Thailand and Japan. NEC conducted this trial in collaboration with the Embassy of Japan in Thailand as part of the “Research and study for the development of a flooding simulator in Thailand” project commissioned by Japan’s Ministry of Internal Affairs and Communications, and the “Research and study for the development of a landslide simulator in Thailand” project.
## Consolidated Statements of Financial Position

### NEC Corporation and Subsidiaries

#### Year Ended March 31, 2016 and 2017

### Assets

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents (Note 16)</td>
<td>¥ 192,323</td>
<td>¥ 239,970</td>
</tr>
<tr>
<td>Trade and other receivables (Note 13)</td>
<td>933,914</td>
<td>952,258</td>
</tr>
<tr>
<td>Inventories (Note 14)</td>
<td>211,992</td>
<td>205,855</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>7,651</td>
<td>4,485</td>
</tr>
<tr>
<td>Other current assets</td>
<td>107,456</td>
<td>106,169</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,453,336</td>
<td>1,508,737</td>
</tr>
</tbody>
</table>

### Non-current assets

| Property, plant and equipment, net (Notes 8 and 10) | 343,326 | 419,078 |
| Goodwill (Notes 9 and 10) | 58,141 | 63,220 |
| Intangible assets (Notes 9 and 10) | 118,019 | 142,139 |
| Investments accounted for using the equity method (Note 12) | 90,346 | 68,132 |
| Other financial assets | 254,917 | 262,284 |
| Deferred tax assets (Note 13) | 196,019 | 156,022 |
| Other non-current assets (Notes 10 and 21) | 16,803 | 63,784 |
| **Total non-current assets** | 1,075,568 | 1,175,259 |

### Total assets

| ¥2,528,904 | ¥2,683,996 |

See notes to consolidated financial statements.

### Liabilities and equity

#### Liabilities

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables (Note 24)</td>
<td>¥ 629,776</td>
<td>¥ 947,051</td>
</tr>
<tr>
<td>Bonds and borrowings (Note 20)</td>
<td>135,454</td>
<td>118,915</td>
</tr>
<tr>
<td>Accruals</td>
<td>157,403</td>
<td>155,161</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>13,555</td>
<td>12,507</td>
</tr>
<tr>
<td>Accrued income taxes</td>
<td>13,445</td>
<td>21,014</td>
</tr>
<tr>
<td>Provisions (Note 23)</td>
<td>40,318</td>
<td>52,210</td>
</tr>
<tr>
<td>Other current liabilities (Note 22)</td>
<td>137,135</td>
<td>145,683</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>1,020,685</td>
<td>1,002,541</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-current liabilities</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds and borrowings (Note 20)</td>
<td>318,435</td>
<td>342,854</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>9,365</td>
<td>8,285</td>
</tr>
<tr>
<td>Defined benefit liabilities (Note 21)</td>
<td>297,756</td>
<td>264,727</td>
</tr>
<tr>
<td>Provisions (Note 23)</td>
<td>15,336</td>
<td>13,736</td>
</tr>
<tr>
<td>Other non-current liabilities (Note 22)</td>
<td>30,107</td>
<td>36,242</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>670,999</td>
<td>665,389</td>
</tr>
</tbody>
</table>

| **Total liabilities** | 1,691,684 | 1,667,930 |

#### Equity

| Share capital (Note 18) | 397,199 | 397,199 |
| Share premium (Note 18) | 147,755 | 147,879 |
| Retained earnings (Note 18) | 202,833 | 225,601 |
| Treasury shares (Note 18) | (3,077) | (3,101) |
| Other components of equity (Notes 18 and 21) | 4,067 | 76,686 |
| Total equity attributable to owners of the parent | 769,827 | 854,264 |
| Non-controlling interests (Note 11) | 67,393 | 161,802 |
| **Total equity** | 837,220 | 1,016,066 |

| **Total liabilities and equity** | ¥2,528,904 | ¥2,683,996 |
## Consolidated Statements of Profit or Loss

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (Notes 6 and 25)</td>
<td>¥2,824,833</td>
<td>¥2,665,035</td>
</tr>
<tr>
<td>Cost of sales (Notes 14 and 28)</td>
<td>1,984,748</td>
<td>1,909,414</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>840,085</td>
<td>755,621</td>
</tr>
<tr>
<td>Selling, general and administrative expenses (Note 28)</td>
<td>725,960</td>
<td>698,413</td>
</tr>
<tr>
<td>Other operating income/loss (Note 27)</td>
<td>(22,707)</td>
<td>(15,370)</td>
</tr>
<tr>
<td><strong>Operating profit (Note 6)</strong></td>
<td>91,418</td>
<td>41,838</td>
</tr>
<tr>
<td>Financial income (Notes 6 and 29)</td>
<td>11,703</td>
<td>38,420</td>
</tr>
<tr>
<td>Financial costs (Notes 6 and 29)</td>
<td>21,746</td>
<td>20,817</td>
</tr>
<tr>
<td>Share of profit of entities accounted for using the equity method (Note 6)</td>
<td>5,178</td>
<td>8,617</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>86,553</td>
<td>68,058</td>
</tr>
<tr>
<td>Income taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>¥83,194</td>
<td>¥35,224</td>
</tr>
<tr>
<td>Net profit attributable to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>75,923</td>
<td>27,310</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>7,271</td>
<td>7,914</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>¥83,194</td>
<td>¥35,224</td>
</tr>
<tr>
<td>Earnings per share attributable to owners of the parent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic earnings per share (yen) (Note 31)</td>
<td>29.22</td>
<td>10.51</td>
</tr>
<tr>
<td>Diluted earnings per share (yen) (Note 31)</td>
<td>–</td>
<td>10.51</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net profit</strong></td>
<td>¥83,194</td>
<td>¥35,224</td>
</tr>
<tr>
<td><strong>Other comprehensive income, net of tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that will not be reclassified subsequently to profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans (Notes 18 and 21)</td>
<td>(88,202)</td>
<td>56,276</td>
</tr>
<tr>
<td>Share of other comprehensive income of associates (Note 18)</td>
<td>(1,822)</td>
<td>534</td>
</tr>
<tr>
<td><strong>Total items that will not be reclassified to profit or loss</strong></td>
<td>(90,024)</td>
<td>56,810</td>
</tr>
<tr>
<td>Items that may be reclassified subsequently to profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange differences on translating foreign operations (Note 18)</td>
<td>(11,863)</td>
<td>(1,869)</td>
</tr>
<tr>
<td>Cash flow hedges (Note 18)</td>
<td>(30)</td>
<td>623</td>
</tr>
<tr>
<td>Available-for-sale financial assets (Note 18)</td>
<td>(13,841)</td>
<td>15,533</td>
</tr>
<tr>
<td>Share of other comprehensive income of associates (Note 18)</td>
<td>(4,125)</td>
<td>702</td>
</tr>
<tr>
<td><strong>Total items that may be reclassified subsequently to profit or loss</strong></td>
<td>(29,859)</td>
<td>14,989</td>
</tr>
<tr>
<td>Total other comprehensive income, net of tax</td>
<td>(119,883)</td>
<td>71,799</td>
</tr>
<tr>
<td><strong>Total comprehensive income</strong></td>
<td>¥36,689</td>
<td>¥107,023</td>
</tr>
<tr>
<td><strong>Total comprehensive income attributable to</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>(41,170)</td>
<td>99,929</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>4,481</td>
<td>7,094</td>
</tr>
<tr>
<td><strong>Total comprehensive income attributable to</strong></td>
<td>¥(36,689)</td>
<td>¥107,023</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
### Consolidated Statements of Changes in Equity

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Equity attributable to owners of the parent</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>Share premium</td>
<td>Retained earnings</td>
<td>Treasury shares</td>
</tr>
<tr>
<td>As of April 1, 2015</td>
<td>¥397,199</td>
<td>¥147,415</td>
<td>¥158,356</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income (Note 18)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of treasury shares (Note 18)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury shares (Note 18)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash dividends (Note 19)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in interests in subsidiaries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As of March 31, 2016</td>
<td>¥397,199</td>
<td>¥147,755</td>
<td>¥223,883</td>
</tr>
</tbody>
</table>

### Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Income before income taxes</th>
<th>Depreciation and amortization (Note 6)</th>
<th>Impairment loss (Notes 6 and 10)</th>
<th>Increase (decrease) in provisions</th>
<th>Financial income (Note 17)</th>
<th>Financial costs</th>
<th>Share of (profit) loss of entities accounted for using the equity method</th>
<th>Decrease (increase) in trade and other receivables</th>
<th>Decrease (increase) in inventories</th>
<th>Increase (decrease) in trade and other payables</th>
<th>Others, net (Note 20)</th>
<th>Subtotal</th>
<th>Interest and dividends received</th>
<th>Interest paid (Note 19)</th>
<th>Income taxes paid (Note 19)</th>
<th>Net cash provided by operating activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>¥ 86,553</td>
<td>¥83,771</td>
<td>¥13,463</td>
<td>¥4,852</td>
<td>¥34,842</td>
<td>¥12,302</td>
<td>¥4,217</td>
<td>¥22,011</td>
<td>¥22,659</td>
<td>¥31,666</td>
<td>¥2,164</td>
<td>¥107,340</td>
<td>¥8,464</td>
<td>(11,835)</td>
<td>¥92,525</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>¥ 68,058</td>
<td>¥80,376</td>
<td>¥2,571</td>
<td>¥12,302</td>
<td>¥34,842</td>
<td>¥22,659</td>
<td>¥31,666</td>
<td>¥2,164</td>
<td>¥92,525</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
Non-Financial Section
NEC Corporation and Consolidated Subsidiaries
For the years ended or at year-end of March 31, 2016 and 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>2017</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CO2 emissions reduction by providing IT solutions</strong></td>
<td>2,620</td>
<td>2,630</td>
<td></td>
</tr>
<tr>
<td><strong>Improvement in energy efficiency of products</strong></td>
<td>97</td>
<td>17</td>
<td>%</td>
</tr>
<tr>
<td><strong>Greenhouse gas emissions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scope 1</td>
<td>59</td>
<td>54</td>
<td>Thousand tons</td>
</tr>
<tr>
<td>Scope 2</td>
<td>299</td>
<td>296</td>
<td>Thousand tons</td>
</tr>
<tr>
<td>Scope 3</td>
<td>9,286</td>
<td>7,410</td>
<td>Thousand tons</td>
</tr>
<tr>
<td><strong>Energy usage</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>5,689</td>
<td>5,708</td>
<td>Thousand GJ*</td>
</tr>
<tr>
<td>Gas</td>
<td>1,070</td>
<td>938</td>
<td>Thousand GJ</td>
</tr>
<tr>
<td>Fuel (heavy oil and kerosene)</td>
<td>99</td>
<td>131</td>
<td>Thousand GJ</td>
</tr>
<tr>
<td>Water usage</td>
<td>2,294</td>
<td>2,240</td>
<td>Thousand m³</td>
</tr>
<tr>
<td><strong>Industrial waste</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emission volume (general waste + industrial waste)</td>
<td>35</td>
<td>26</td>
<td>Thousand tons</td>
</tr>
<tr>
<td>Resource reuse rate</td>
<td>87.2</td>
<td>90.6</td>
<td>%</td>
</tr>
</tbody>
</table>

**Labor accidents and disasters**

| Frequency rate               | 0.25     | 0.18     |
| Severity rate               | 0.00     | 0.00     |

* Figures for 2016 are a comparison to March 2006 fiscal year products. Due to a revision in baseline comparison year, 2017 figures are a comparison to March 2014 fiscal year products.

Scope 1: Direct CO2 emissions from sources that are owned or controlled by the Company
Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam
Scope 3: Other indirect emissions covering corporate upstream and downstream processes not included in Scope 2

Scope 1: Direct GHG emissions from sources that are owned or controlled by the Company
Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam
Scope 3: Other indirect emissions covering corporate upstream and downstream processes not included in Scope 2

Note: The severity rate is calculated by multiplying the number of lost working days (excluding short-term injuries with under 5 days) by 1,000 and dividing by total working hours.

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Corporate Overview

**Company Name**
NEC Corporation

**Address**
7-1, Shiba 5-chome, Minato-ku, Tokyo 108-801, Japan
July 17, 1899

**Established**
107,279

**Total Number of Shares Issued**
2,604,732,635 shares (As of March 31, 2017)

**Stock Exchange Listing**
Tokyo (Security Code: 6701)

**Shareholder Register Administrator**
Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku, Tokyo

**Classification of Shareholders (Shareholding Ratio)**

<table>
<thead>
<tr>
<th>Classification of Shareholders</th>
<th>Shareholding Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japanese Individuals and Others</td>
<td>31.15%</td>
</tr>
<tr>
<td>Other Countries</td>
<td>2.73%</td>
</tr>
<tr>
<td>Foreign Investors</td>
<td>32.36%</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>30.28%</td>
</tr>
<tr>
<td>Securities Companies</td>
<td>2.73%</td>
</tr>
<tr>
<td>Other Corporations</td>
<td>3.48%</td>
</tr>
</tbody>
</table>

**Number of Shareholders:** 200,152

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Major Shareholders (Top 10) (As of March 31, 2017)

<table>
<thead>
<tr>
<th>Name of Shareholders</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>123,516</td>
<td>4.75</td>
</tr>
<tr>
<td>The Master Trust &amp; Custody Bank of Japan, Ltd. (Trust Account)</td>
<td>116,590</td>
<td>4.49</td>
</tr>
<tr>
<td>Nomura International (Hong Kong) Limited - Unclaimed Client Account</td>
<td>78,141</td>
<td>3.01</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account No.9)</td>
<td>59,677</td>
<td>2.29</td>
</tr>
<tr>
<td>Brymman As Agent / Clients Lux UCITS Non Treaty 1</td>
<td>58,250</td>
<td>2.24</td>
</tr>
<tr>
<td>NEC Employees Shareholding Association</td>
<td>52,439</td>
<td>2.02</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account No.5)</td>
<td>50,513</td>
<td>1.94</td>
</tr>
<tr>
<td>Trust &amp; Custody Services Bank, Ltd. (Trust Collateral Account)</td>
<td>42,833</td>
<td>1.65</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>41,414</td>
<td>1.59</td>
</tr>
</tbody>
</table>

Note: The shareholding ratio is calculated by excluding the number of treasury stock (6,988,347 shares).
The information contained in Annual Report 2017 is also available on NEC's website.

NEC home page

http://www.nec.com

Corporate Social Responsibility


NEC discloses information concerning sustainable management in line with ESG issues and constantly strives to enhance presentation of this information on its website.

Investor Relations

http://www.nec.com/en/global/ir

Posted on the NEC Investor Relations (IR) website are IR presentation materials and other documents, NEC’s financial position and business results, stock and bond information, and much more. NEC constantly strives to enhance the disclosure on this website.

Cautionary Statement with Respect to Forward-Looking Statements

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

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

- Effects of economic conditions, volatility in the markets generally, and fluctuations in foreign currency exchange and interest 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 or that the transactions may result in unanticipated adverse consequences
- Developments in the NEC Group’s alliances with strategic partners
- Effects of expanding the NEC Group’s global business
- Risk that the NEC Group may fail to keep pace with rapid technological developments and changes in customer preferences
- Risk that the NEC Group may lose sales due to problems with the production process or due to failure to adapt to demand fluctuations
- Deficits in products and services
- Shortcomings in material procurement and increases in delivery cost
- Acquisitions and protection of intellectual property rights necessary for the operation of business
- Risk that intellectual property licenses owned by third parties cannot be obtained and/or are discontinued
- Risk that the NEC Group may be exposed to unfavorable pricing environment due to intensified competition
- Risk that a major customer changes investment targets, reduces capital investment and/or reduces the value of transactions with the NEC Group
- Risk that the NEC Group may be unable to provide or facilitate payment arrangements (such as vendor financing) to its customers on terms acceptable to them or at all, or risk that the NEC Group’s customers are unable to make payments on time, due to the customers’ financial difficulties or otherwise
- Risk that the NEC Group may experience a substantial loss of, or an inability to attract, talented personnel
- Risk that the NEC Group’s ability to access the commercial paper market or other debt markets 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, laws and governmental policies, environmental laws and regulations, tax practice, information management, and human rights and working environment
- Consequences of natural and other disasters
- Changes in methods, estimates and judgments that the NEC Group uses in applying its accounting policies
- Risk that the NEC Group may incur liabilities and losses in relation to its retirement benefit obligations
- The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Trademarks:

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