Public Business

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

Fiscal 2015 Main Accomplishments

In addition to responding to large projects and special demand, NEC strengthened technologies and productivity in growth areas and developed solutions to return concrete results.

- Strengthening Technical Capabilities and Productivity
- Expanded investment in urban infrastructure centered on emerging countries/Measures against degradation of infrastructure
- Launched in the public business, we provide safe, secure and efficient social solutions for domestic and foreign governments, governmental agencies, local governments, public institutions, financial institutions and other organizations by combining our distinctive technology assets, including network and sensor technologies and analysis technology, with a broad expertise in systems integration.

Fiscal 2015 Performance

In the public business, sales were ¥621.3 billion, an increase of 12.3% year on year, due to large projects for government agencies including a field communication system, and high demand in wide-area disaster prevention digitization of firefighting emergency radio system. Operating income improved ¥16.2 billion year on year to ¥74.8 billion, mainly owing to increased sales.

For Future Growth

- Active investments in preparation for the introduction of the National ID number system and hosting of the Tokyo 2020 Olympic and Paralympic Games
- Expanded investment in urban infrastructure centered on emerging countries/Measures against degradation of infrastructure

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Medium- to Long-Term Value Creation

The public business is largely related to social infrastructure, and the projects are characterized by long life cycle. As a result, it is important to conduct business development with future outlook in an early state to deliver medium- to long-term growth. To this end, we initiated the development of a Water Leak Detection Service for a local government in the state of Texas, U.S.A., which then led to initiatives such as conducting joint research on social infrastructure projects with Texas State University in fields other than detection of water leaks; we will expand growth on a global scale by steadily commercializing these initiatives and continuing activities that produce results.

Going forward, NEC will proactively propose solutions incorporating cutting-edge technology in response to market opportunities, including the Tokyo 2020 Olympic and Paralympic Games. Furthermore, we will accelerate the transformation as a service provider in the ICT field for global development, while focusing on developing business models that are competitive in the international market.
**Enterprise Business**

NEC provides IT solutions in manufacturing and retail/services in the private sector, launching new services to help create new value for customers.

In particular, we are accelerating development in the total supply chain management (SCM) business for manufacturing, retail and logistics worldwide as it will be a growth field going forward.

Chikara Ishii  
Senior Vice President

**Fiscal 2015 Performance**

In the enterprise business, sales decreased 0.7% year on year to ¥270.5 billion. While sales to the retail and services showed solid growth, sales to the manufacturing sector decreased.

Operating income improved by ¥1.8 billion year on year to ¥8.3 billion, owing to cost reduction and the improved profitability of system integration services, despite reduced sales.

**Fiscal 2015 Main Accomplishments**

NEC provides "NEC Global Enterprise Solutions," an integrated solution based on our strong track record in Japan and prominent services. In fiscal 2015, NEC expanded its sales and services globally in addition to Japan.

- **To Create**  
  Supported Pioneer Corporation for a project to renew the global SCM system
  Provided cloud based PLM*1 service "Obbligato for SaaS" for a Thai automotive component and harvesting machinery manufacturer

- **To Transport**  
  Launched global sales of the Logistics Visualization System software that enables transparent logistics process
  Provided Yamaha System Development Co., Ltd. with a system to support product inspection, which utilizes image recognition technology
  Launched a project to integrate the traffic fare system in Dhaka, Bangladesh

- **To Sell**  
  Enhancement of chain store solutions for retailers worldwide: Cost-effective touch screen POS and software
  Provided cloud based PLM*1 service "Obbligato for SaaS" for a Thai automotive component and harvesting machinery manufacturer
  Renewed the management system for the Universal Express® Pass of Universal Studios Japan®

*1 PLM: Product Lifecycle Management
*2 NEC is an official marketing partner of Universal Studios Japan®

**For Future Growth**

**OPPORTUNITIES**

- Recovery in IT investment in Japan as domestic corporate business performance improves
- Japanese business models for convenience stores and retail services to be further deployed in the international markets

**THREAT FACTORS**

- Cost competition to intensify in Japan

**Business Environment**

In Japan, IT investments are expected to improve with recovery in the performance of domestic companies though some industries show weaker momentum than others. It is notable that IT investments that contribute to a customer’s business growth or to create new business for customers have gained vigor. Furthermore, projects are targeted to expand for enterprise SDN, which has already entered a period of widespread adoption, and security, in addition to Big Data utilization and cloud-based services. That said, the IT market for private sector demand in Japan is highly competitive, and slips easily into price competition. As a result, securing profits remains a challenge in these fields.

Globally, there are opportunities to broaden business with Japanese companies making inroads to emerging countries, or an expansion in local markets.

**NEC’s Issues and Responses**

On the basis of this business environment, NEC is responding with ongoing efforts to reduce costs through cost management to improve profitability of the Enterprise Business. In addition, we continue to establish the competitive "Solutions for Society" by accelerating the value chain innovations of "to create, transport and to sell" to deliver the "Solutions for Society" closest to people’s lives and lifestyles. Furthermore, in addition to expanding SDN solutions to accelerate business development in the SDN market, NEC is leveraging its unique technologies to focus on growth areas: security solutions such as measures against targeted attacks, information leaks and corporate response to the Social Security and Tax Number Systems; failure sign monitoring systems and demand forecasts using Big Data; and cloud services catered to customers’ needs.

In expanding global business, NEC sets "NEC Global Enterprise Solutions," a set of strong solutions with prominent track records in Japan, as its core solutions. With it, we will move ahead to grow in Asian market.

**Medium- to Long-Term Value Creation**

Improving profitability is the key factor for the medium- to long-term growth of the Enterprise Business. NEC is approaching this by shifting the business model of the Enterprise Business. This includes that in addition to increasing the ratio of upstream processes such as consulting in the systems integration business, we will move ahead with packaging and toward cloud-based services centered on growth areas. This will entail converting the traditional customization model to a business model promised on horizontal development.

Globally, NEC will further expand "NEC Global Enterprise Solutions" and strengthen the business by leveraging the expertise of Regional Business Support Centers (RBSC) in global development. We aim to broaden target regions and industries, and create new businesses in the international market.
**Telecom Carrier Business**

In the telecom carrier business, we supply equipment mainly to telecom carriers for network implementation, along with network control platform systems and operating services. NEC’s wealth of experience in large-scale network implementation and strong technical capabilities contribute to the development of highly reliable communications networks.

Shunichiro Tejima
Executive Vice President

**Fiscal 2015 Performance**

In the telecom carrier business, sales were ¥740.2 billion, an increase of 2.1% year on year, thanks to increased international business through submarine cable systems and mobile backhaul even as Japanese sales were flat.

Operating income improved ¥4.6 billion year on year, to ¥62.0 billion owing to increased sales and streamlined costs, despite accelerated investment in growth fields such as software-defined networking (SDN) and Telecom Operations & Management Solutions (TOMS).

**Fiscal 2015 Main Accomplishments**

- *SDN/NFV*
  - Shown off the global structure in the SON/NFV field for telecom carriers with NetCracker Technology Corp.
  - Worked together with a leading South Korean telecom carrier, KT Corporation in the SON field
  - Implemented UMTS trials with the Telekom Austria Group
- **TOMS**
  - Received an order for an operational support system from major Australian telecom carrier Singtel Optus Pty Limited
  - Concluded an UMTS development project for the main service division of Telecoms Ltd and jointly explored further expanding the scope of next-generation TOMS and MANO
- **Submarine Cable Systems**
  - Won an order for the FASTER submarine cable system linking Japan and the U.S.
  - Won an order for the SEA-U, submarine cable system linking Southeast Asia and the U.S.
  - Concluded a contract for SACs, the world’s first submarine cable system for the South Atlantic
- **Japan**
  - Delivered LTE-A base stations
  - Coordinated with NTT DOCOMO, INC. on 5G testing

* NFV: Network Functions Virtualization

**For Future Growth**

**OPPORTUNITIES**

- Expansion of global communications infrastructure market in the emerging nations
- Strong need to reduce capital investments and operating costs as communications infrastructure becomes more complex

**THREAT FACTORS**

- Maturation of the Japanese market and increased competition from global vendors

**Business Environment**

The environment for business targeting telecom carriers is expected to be severe in Japan by a matured market in which we expect to see a decrease in investments in network infrastructure. Furthermore, we expect that competition will intensify as markets become increasingly borderless.

Globally, however, the market is expected grow particularly in emerging countries, backed by a steady increase in needs for network infrastructure. In addition, services such as TOMS, which contributes to reducing customers’ operating costs, are expected to grow.

Moreover, while the market launch of SON/NFV is delaying, telecom operators are working steadily in commercial application of the service, which is expected to trigger significant changes in the telecom carrier business.

**NEC’s Issues and Responses**

Amid such an operating environment, NEC will firmly maintain its domestic advantage in the intensifying global competition by promptly providing network devices with advanced technologies to our customers. In the international market, we will grow in existing businesses such as submarine cable systems and mobile backhaul in response to the need for infrastructure expansion. Furthermore, we have positioned TOMS and SON/NFV as focus areas.

**Medium- to Long-Term Value Creation**

Medium- to long-term growth in the telecom carrier business relies on an extension of steady growth in TOMS and the rapid commercialization of SON/NFV. We expect to see demand in the TOMS market to grow in response to advancing network operation controls going forward. NEC will expand business with its subsidiary NetCracker Technology Corp.

For telecom carrier SON/NFV, we believe that obtaining rapid commercialization results will expand business opportunities among global telecom carriers. To this end we will actively move forward with proposal and field tests for Telefonica Brasil, S.A. and other global carriers.

Furthermore, in preparation for the full-scale commercialization of SON/NFV for telecom carriers going forward, we have collaborated with NetCracker Technology in strengthening the global sales expansion network for SON/NFV solutions. Looking ahead, NetCracker Technology has been delivering to more than 250 companies in 58 countries, utilizing solution selling methods cultivated by marketing TOMS to accelerate proposal activities directed at telecom carriers across the globe.
In the system platform business, we provide products for business, ranging from terminals to network and computer equipment, software products and service platforms, as well as solutions and services based on them. Our solution platforms, which organically combine these products, solutions and services, reduce labor and improve efficiency for customers, while at the same time creating new value based on ICT.

Shinichi Shoji
Executive Vice President

Fiscal 2015 Performance

In the system platform business, sales were ¥728.9 billion, a decrease of 6.6% year on year, due to the special demand for corporate PCs that occurred in the previous fiscal year and the reduction in enterprise networks.

Operating income was ¥31.4 billion, an increase of ¥0.7 billion year on year due mainly to structural reforms in enterprise networks and integration of NEC Fielding, Ltd. in spite of the rapid devaluation of the yen.

Fiscal 2015 Main Accomplishments

We strengthened the business in growth areas such as cloud platforms and SDN, as well as business related profit structures.

- Reinforcing Profitability
  The new company NEC Platforms, Ltd., integrated development and production functions of subsidiaries to strengthen production capabilities and improve business operations by making NEC Fielding, Ltd., a wholly owned subsidiary

- Growth Areas
  Based on development of the next-generation vector supercomputer aiming for performance more than 10 times greater than existing models, Commercialized operations at NEC Cloud IaaS/Kanagawa Data Center
  Strengthened SDN strategies for the private sector, government agencies and data center operators (reinforced the "NEC SDN Solutions" System)

- Existing Areas
  Achieved the leading share in 2014 enterprise telephony equipment market in Japan and the third largest share worldwide**
  The "Express5800 series" PC server lineup achieved the No. 1 share*2 in the Japanese market for the 19th consecutive year

*1 Source: Gartner, Market Share Enterprise Telephony Equipment, Worldwide 2014, 17 March 2015 (Privatel Licensee basis)

*2 Source: CY1996-2014 Japan x86 Server Market (Unit, Factory Revenue (Yen))

Operating Income Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Income Ratio</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>15.5%</td>
</tr>
<tr>
<td>2014</td>
<td>16.7%</td>
</tr>
<tr>
<td>2015</td>
<td>16.4%</td>
</tr>
<tr>
<td>2016</td>
<td>15.9%</td>
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</tbody>
</table>

Graph created by NEC, based on research by Gartner

For Future Growth

Business Environment

The environment encompassing the system platform business has become increasingly harsh in recent years with customer’s seeking lower costs particularly in the general-purpose hardware. Added to that, costs rose in the latter half of fiscal 2015 due to the rapid yen depreciation, which is expected to continue through fiscal 2016.

On the other hand, the market is expected to grow in areas that can strengthen competitiveness and cost reductions for customers. These include cloud platforms, SDN, Big Data and security, and advanced information processing platforms supporting the enormous amounts of digital data generated by the popularization of the IoT (internet of Things) going forward.

For Next Growth

- Accelerate creation of new services in growth areas such as Big Data and cloud services
- Create solution platforms in preparation for the IoT
- Maintain cost competitiveness through further cost reductions and development cost efficiency

NEC’s Issues and Responses

To provide strong ICT assets as a foundational business and support business units in promoting the “Solutions for Society” amidst such an operating environment, the System Platform Business Unit will streamline costs and expenses by standardizing parts used in various types of hardware. Moreover, we are reforming the development and production framework to sparc cost competitiveness and maintain our position in the existing market.

Medium- to Long-Term Value Creation

The general-purpose market is expected to become fierce in competition going forward. For the system platform business to deliver significant value over the medium- to long-term in this environment, NEC is reforming its business models from providing various types of hardware, software and components parts, to providing the combination of these items as solutions.

NEC has proprietary technology and expertise in Big Data engines with vector supercomputers, virtualized platforms evolving SDN and edge computing, NEC will leverage these strengths going forward as we strive to take the lead in the upcoming IoT age. Furthermore, we will integrating these three strengths and accelerate creation of solution platforms that provide higher added-value.