Guided by the NEC Group Vision 2017, NEC aims “to be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth.” In February 2010, the NEC Group set its medium-term policy of realizing the NEC Group Vision 2017 through customer-driven solutions leveraging its competitive strengths in the integration of IT and network. Accordingly, the NEC Group formulated its Mid-Term Growth Plan “V2012—Beyond boundaries, Toward our Vision.”

In fiscal 2012, the “V2012” plan’s second year, the global economy showed signs of a slowdown in the pace of economic recovery, mainly due to the financial market turmoil accompanying the spread of the European debt crisis, the flooding in Thailand, interest rate hikes in China, India and certain other countries aimed at taming inflation, and slow improvement in employment and consumer spending in the U.S.
The Japanese economy remained in a challenging condition, mainly due to the impact of the global economic slowdown, the persistently strong yen and the flooding in Thailand. However, there were some signs of recovery from the downturn caused by the Great East Japan Earthquake.

In this business environment, as in fiscal 2011, NEC continued to advance the three key initiatives of the “V2012” plan: Focus on the “C&C Cloud Strategy,” expand global business, and create new businesses. As we pursued these measures, we also strove to speedily address shifts in the business environment.

Focus on “C&C Cloud Strategy”
In fiscal 2012, NEC actively worked to provide secure and reliable cloud services by enhancing the range of its cloud services tailored to each type of operation in government, manufacturing and retail distribution sectors. In addition, NEC has obtained technologies and expertise by shifting its own core IT systems to a cloud environment. Harnessing these strengths, NEC provided cloud-based services underpinning customers’ core operation systems, such as the global accounting system for Sanden Corporation. NEC also began providing the CONNEXIVE solution to realize services using M2M*1 (Machine to Machine) communications technology, which is designed to integrate various sensors and devices over a network.

Another priority was to expand sales of cloud services on a global basis. To this end, NEC worked to establish business and customer bases through collaboration with local IT companies such as the Neusoft Corporation Group of China and the STEE Group of Singapore.

For telecom carriers, NEC continued to provide communication infrastructure for high-speed,
large-capacity LTE-based mobile communication services to NTT DOCOMO, INC., as in the previous fiscal year. In fiscal 2012, NEC began providing this infrastructure to KDDI Corporation as well. Additionally, NEC entered into an agreement with Cisco Systems, Inc. of the U.S. for collaboration on the deployment and sale of commercial LTE networks targeting global markets.

Expand Global Business
In fiscal 2012, NEC promoted business development driven by local leadership primarily through regional management companies (regional headquarters) in five regions, namely North America, Greater China, APAC (Asia Pacific), EMEA (Europe, Middle East, and Africa) and Latin America. NEC also worked to expand businesses such as submarine cable systems and the PASOLINK ultra-compact microwave communications system. In the Carrier Cloud business, NEC builds platforms needed by telecom carriers to provide cloud-based services to subscribers and provides related operational support. Here, NEC began providing services to telecom carriers in such countries as Thailand, Belarus and Argentina. In fiscal 2012, NEC reported overseas sales of ¥481.5 billion, representing 15.9% of consolidated net sales.

Furthermore, NEC acquired Global View S.A., a company with a strong track record in video surveillance services in Argentina, with the view to accelerating global business expansion of the public safety business. Moreover, NEC entered into an agreement with Convergys Corporation of the U.S. on the acquisition of its business support systems (BSS) operations for telecom carriers. The purpose of this acquisition is to enhance NEC’s services for telecom carriers, primarily those overseas. BSS operations provide billing management, customer support and other services to telecom carriers.

GLOBAL BUSINESS ACTIVITIES / ACHIEVEMENTS

- Collaboration with Royal Philips Electronics on digital pathology systems
- Launch of SaaS business application store with Mobile TeleSystems OJSC
- Postal automation system for Swiss Post
- Femtocell systems for Kuwait Zain
- Launch of PASOLINK production in India
- Acquisition of activation business from India Subex by NetCracker
- Partnership on cloud services with Trimax IT Infrastructure & Services Limited of India
- Establishment of NEC Mobile Network Excellence Center in India
- Establishment of NEC Africa Ltd.
- Collaboration with Neusoft Corporation on cloud services for Beijing P.G.F. Logistics Co., Ltd., in China
- Collaboration with Jointown Pharmaceutical Group Co., Ltd., on pharmaceutical logistics management solutions
- Alliance with Korea’s Shinsegae I&C Co., Ltd. and NICE Information Service Co., Ltd. for cloud service models that analyze customer information
- SaaS cloud service for the Amata Industrial Estate, Thailand
- Collaboration with Singapore STEE on cloud services
- Advanced Postal automation systems for POS Malaysia Berhad
- POS system for Alfamart, an Indonesian retailer
- Submarine cable system project: Asia Pacific Gateway
- Submarine cable system project: South-East Asia Japan Cable (SJC)
- Submarine cable system project: Maldives
- PASOLINK: NEC won more than 200,000 orders for the “iPASOLINK” series on a cumulative basis as of May 2012
- Digital signage solutions for UNIQLO (Fast Retailing Co., Ltd.)
- Collaboration with Cisco Systems, Inc. to build commercial LTE networks
- Acquisition of the BSS business of U.S.-based Convergys Corporation
- Programmable Flow for Genesis Hosting Solutions
- Participation in smart city development in Brazil
- Establishment of NEC Latin America S.A.
- Acquisition of Global View S.A. of Argentina
- SaaS-based cloud services in Argentina with Telefónica S.A.
Create New Businesses
In fiscal 2012, NEC worked together with Nissan Motor Co., Ltd. to ensure steady mass production and shipments of electrodes for automotive lithium-ion rechargeable batteries, a key component of these batteries. In addition, NEC strove to actively conduct trials aimed at enhancing the practicality and reliability of electric vehicle (EV) charging infrastructure, along with promoting related standardization, in support of greater uptake of this infrastructure. NEC also commenced sales of cloud-based charging systems that reduce the workload of charging station operators through the provision of cloud-based remote control and monitoring of charging stations. For the household sector, NEC began offering a Home Energy Management System (HEMS) that makes household power consumption and electricity charges more visible using cloud-based services. NEC also launched sales of small-scale energy storage systems enabling households to conserve power consumption.

NEC also worked toward achieving new city development initiatives utilizing information and communications technology (ICT). To this end, NEC actively implemented a range of measures in collaboration with various partners worldwide, including participation in a smart city development planned in a major Brazilian city, with the view to build a new energy efficient society.

In addition to implementing these measures to achieve the key initiatives of “V2012,” NEC made progress on other fronts to enhance the competitiveness of its businesses. In the electronic component business, NEC TOKIN Corporation reached an agreement on forming a capital and business alliance with KEMET Corporation of the U.S. In addition, NEC integrated the domestic PC business with Lenovo Group Limited.

NEW BUSINESS ACTIVITIES (SMART ENERGY)

- Launched cloud-based small-scale energy storage system
- Co-development of intelligent distribution panel with Seven-Eleven Japan Co., Ltd.
- Development and field trials of distributed energy management and control system technology using storage batteries with ORIX Corporation
- Launched ultra-low power magnetic sensors for water and gas meters
- Launched cloud-based quick chargers and charging systems
- Launched Home Energy Management System (HEMS)
- Began demonstration project for Battery and Charger Integration Systems for next generation service stations as part of Yokohama City’s “Yokohama Smart City Project”
- Developed new technology which more than doubles the life of manganese Li-ion rechargeable batteries
- Developed new power grid to easily introduce renewable energy with the University of Tokyo and the National Institute of Advanced Industrial Science and Technology
- Strategic partnership with Enel Distribuzione S.p.A. on the development of the Next-Generation Smart Grid system
- Surveyed the deployment of energy management technologies for mobile phone base stations in India
- Established “Smart City Promotion Office”
- Participated in “Smart City Project”
- Participated in smart city development in Brazil
- Basic research to realize green township in Malaysia
- Feasibility study of smart community for overseas market in Indonesia

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Nevertheless, the business environment surrounding NEC became even more challenging than initially anticipated. For this reason, NEC finished fiscal 2012 on a disappointing note in terms of business results. Operating income fell short of our initial ¥90 billion target, mainly reflecting the lack of competitiveness in smartphones, and the impact of the flooding in Thailand. Furthermore, we reviewed deferred tax assets in light of Japan's tax reforms and our business results for fiscal 2012. Consequently, for the second straight year, NEC recorded a net loss and decided to pay no annual dividend. As the president of NEC, I deeply regret these results.

<table>
<thead>
<tr>
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<th>FY2010/3</th>
<th>FY2011/3</th>
<th>FY2012/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Billion ¥)</td>
<td>Results</td>
<td>Results</td>
<td>Initial plan</td>
</tr>
<tr>
<td>Net sales</td>
<td>3,583.1</td>
<td>3,115.4</td>
<td>3,300.0</td>
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<tr>
<td>Overseas sales</td>
<td>712.9</td>
<td>479.3</td>
<td>481.5</td>
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<tr>
<td>Overseas sales ratio</td>
<td>19.9%*</td>
<td>15.4%</td>
<td>15.9%</td>
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<tr>
<td>Operating income</td>
<td>50.9</td>
<td>57.8</td>
<td>90.0</td>
</tr>
<tr>
<td>Operating income ratio</td>
<td>1.4%</td>
<td>1.9%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>11.4</td>
<td>-12.5</td>
<td>15.0</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>1.6%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

* 15.6% excluding the semiconductor business

2. Structural Reforms

NEC has so far striven to drive business expansion with the view to achieving its net sales target of ¥4 trillion in fiscal 2013. However, in light of the strong yen and other market factors and no likelihood of any sharp recovery in the economic environment or business conditions, we have decided to change our management policy. We are now making every effort to transform NEC into an enterprise that can generate stable operating income of more than ¥100 billion even with the current level of net sales of ¥3 trillion. In line with this, in fiscal 2012, NEC recorded an extraordinary loss of ¥40.5 billion for business structure improvement expenses, including personnel reductions.

NEC will first implement personnel reductions as part of structural reforms aimed at making NEC a solidly profitable enterprise. At the same time, NEC will press ahead with structural reforms of challenged business areas, such as the mobile phone business and the platform business.

NEC plans to reduce personnel by approximately 10,000 by the end of September 2012. These personnel should consist of around 7,000 staff members in Japan, including external contractors, and approximately 3,000 staff members overseas.

NEC will consider far-reaching structural reforms of its mobile phone business, such as outsourcing part of its domestic development and production to overseas companies. In the platform business, NEC will promote alliances and collaboration with other companies particularly in the fields of hardware including servers, with the aim of establishing a globally competitive business, while streamlining the NEC Group’s development and production operations.

As a result of implementing cost reductions in addition to these structural reforms, NEC is projecting a positive impact of ¥40.0 billion on operating income in fiscal 2013, compared with fiscal 2012.
In recent years, the retail distribution sector has been accelerating new initiatives utilizing ICT, such as developing multi-channel operations by linking brick-and-mortar stores with online shops and conducting effective marketing activities by analyzing purchasing behavior. This is in addition to utilizing ICT in core operation fields for purposes such as reducing costs and improving operating efficiency. In the retail distribution industry, given that sales methods to consumers can set companies apart from their competitors, there are particularly high hopes for market expansion in customer management, settlement and other domains.

For the retail distribution sector, NEC already supplies customers with traditional solutions underpinning core operations, such as ordering and procurement, inventory management and store operations, as a cloud-based service. Also, NEC already provides POS systems, electronic money platforms and other systems that provide an interface with consumers. Building on its track record of deliveries in Japan, NEC has established a growing global track record, highlighted by the delivery of POS systems to major convenience store operators in Indonesia and Mexico. Moreover, NEC has an extensive track record in integrating electronic money platform systems primarily in Japan. The technologies and expertise developed through this wealth of experience have become a significant source of strength for NEC.

Furthermore, NEC has provided new solutions harnessing cutting-edge technologies. For example, NEC has rolled out digital signage solutions that enable efficient marketing, and smart power distribution boards that enable efficient power consumption by making power usage in stores visible. Going forward, NEC seeks to develop solutions designed to offer more sophisticated added value to customers. For example, NEC plans to embed into POS systems a compact sensor that can estimate the age and gender of customers using its world-acclaimed face recognition technology.
volumes of diverse data. In this context, NEC will work to expand the services business based on its track record and expertise developed over the years, while focusing on measures in domains where large IT investment is anticipated, such as smartphone-related capital investment, financial sector realignment, and large systems upgrade and replacement projects. In addition, NEC aims to win orders for projects related to the recovery from the Great East Japan Earthquake, as well as for national ID system projects in Japan and in emerging countries.

Furthermore, NEC will strive to expand its overseas business by building global systems that are increasingly needed by Japanese companies moving into overseas markets. At the same time, NEC will enhance its overseas business foundations mainly through alliances and collaboration with other companies.

In addition to these measures, NEC will make upfront investment in future growth. Investments will be focused on further upgrading and expanding cloud services, rapidly enhancing technologies such as big data processing, and bolstering overseas business.

(2) Carrier Network Business
Demand is expanding for high-speed, large capacity communications systems on the back of burgeoning growth in data traffic driven by the popularization of smartphones. Business models are also changing rapidly. For example, telecom carriers are now providing their own cloud services. In this climate, NEC is working to increase sales of

In the Carrier Network business, NEC will continue to concentrate business resources in four areas: wireless broadband access, mobile backhaul, submarine cable systems, and services and management. In these areas, NEC can demonstrate its unique strengths, and high market growth is expected. Among the four areas, services and management involves providing telecom service providers with mainly software and consulting services designed to provide platforms for launching new services or reduce operation and management costs. It is an area that is expected to grow at a faster pace than the growth rate for capital investment in communication infrastructure equipment.

OSS/BSS* is expected to see particularly high growth overseas, because these systems enable the integrated operation and management of increasingly complex networks. From the standpoint of enhancing services and raising cost efficiency, demand is growing for the next-generation of products that will enable unified operations by integrating OSS and BSS.

Since the acquisition of NetCracker Technology Corp. in 2008, NEC has steadily increased sales centered on OSS operations. Through the latest acquisition of the BSS operations of Convergys Corporation, NEC now has a framework in place for providing total solutions that fuse the strengths of both companies.

Going forward, NEC will strive to increase sales by leveraging the product lineups of both companies. In parallel, NEC will provide services that fit the needs of the communications industry by establishing the next-generation of OSS/BSS solutions, as it endeavors to expand this business globally.

*A OSS/BSS (Operation Support Systems / Business Support Systems): Collectively refers to network operation support systems (OSS) and business support systems (BSS) including billing management and customer support management.
NEC positions the Social Infrastructure business, which helps to achieve a secure and reliable society, as one of its four core businesses. To develop advanced social infrastructure, it is crucial to cover the entire sequence of events from gathering data about the real world using sensing technology, to efficiently transmitting the gathered data over networks, and using the new added value created through the processing and analysis of such data to aid decision-making. NEC possesses core technologies in sensing, networking, information processing and other areas that underpin such infrastructure. NEC has also developed systems integration technology in the course of numerous large-scale systems integration projects. By taking full advantage of these assets, we believe that we can deliver social infrastructure solutions totally unique to NEC.

To illustrate, NEC possesses a broad range of sensing technologies such as high-sensitivity infrared sensors that can image objects through the detection of infrared radiation, and high-sensitivity cameras that can take color pictures even in brightness settings as dim as starlight, as well as underwater sensors that can detect intruders based on underwater acoustics and other factors. NEC combines these sensors with technical advances such as video analysis technologies that detect people and behavior in real time based on NEC’s network technology and video surveillance technology. As a result, NEC is able to provide optimal solutions for the surveillance of key facilities that require a particularly sophisticated level of security, such as airports, railways, power plants and harbors.

By taking these solutions to an even higher level, NEC believes that it may be able to predict and forecast systems disruptions and incidents, as well as crime, in the future.

In the safety field, including facility surveillance and disaster prevention systems, NEC will accelerate the development of new solutions that integrate its technology assets, with the goal of developing smart social infrastructure worldwide in the coming years.

Creating a Safety Business Through a Multi-Faceted Combination of Technology Assets

NEC Corporation of the U.S. in order to enhance service operations for overseas telecom carriers. In addition to these measures, NEC plans to increase upfront investment in future growth, in such areas as next-generation operational support systems (OSS) and business support systems (BSS), carrier cloud, and OpenFlow technology.

(3) Social Infrastructure Business

In Japan, business opportunities are being spawned by developments including the rebuilding of social infrastructure systems in association with disaster...
NEC is focusing on the smart energy business, which will contribute to achieving a low-carbon society, with the aim of creating “an information society friendly to humans and the earth.” NEC’s greatest strength in this field is that it possesses both ICT, including computer, network and cloud technologies, and energy component technology, such as energy storage systems and charging systems for EV/PHV*1.

Leveraging this strength, NEC is working to create new businesses in public safety fields based on its business assets. Examples include surveillance systems for key facilities such as airports and harbors, and disaster prevention systems. Efforts will also be directed at strengthening the operating base with an emphasis on profitability, with the aim of driving the expansion of these businesses.

In April 2012, eyeing further business expansion going forward, NEC established the Smart Energy Business Operations Unit, which will centralize the Company’s assets related to development, manufacturing and sales in the smart energy domain, with the view to bolster business development capabilities and speed up business expansion. In July 2012, NEC began shipping a cloud-based small-scale energy storage system that is remotely supported 24/7, 365-days a year. Through these and other products, NEC will strive to create products and services that further integrate energy components and ICT.

To answer global needs for more efficient use of energy, NEC will accelerate the launch of the smart energy business, with the goal of helping to build a new energy-efficient society.

Toward the Full-Scale Expansion of the Smart Energy Business

In April 2012, eyeing further business expansion going forward, NEC established the Smart Energy Business Operations Unit, which will centralize the Company’s assets related to development, manufacturing and sales in the smart energy domain, with the view to bolster business development capabilities and speed up business expansion. In July 2012, NEC began shipping a cloud-based small-scale energy storage system that is remotely supported 24/7, 365-days a year. Through these and other products, NEC will strive to create products and services that further integrate energy components and ICT.

To answer global needs for more efficient energy usage, NEC will accelerate the launch of the smart energy business, with the goal of helping to build a new energy-efficient society.

* Plug-in hybrid vehicle

Cloud-based small-scale energy storage system fitted with rechargeable lithium-ion batteries
4. Restoring Trust and Improving Corporate Value

In fiscal 2013, emerging countries are expected to maintain high economic growth, despite concerns about economic weakness in developed countries centered on Europe. In Japan, market conditions are projected to recover gradually, primarily due to demand related to the recovery from the Great East Japan Earthquake. However, the prevailing foreign exchange rate levels are highly likely to persist for some time. In light of these factors, there are no prospects for any rapid recovery in market conditions. In this context, NEC’s first priority is to achieve its business forecasts and resume dividends by seeing structural reforms through to the very end. By doing so, we aim to restore the trust of shareholders and other investors.

Furthermore, NEC will focus on key fields centered on its four core businesses, with the aim of improving its corporate value. Efforts will be concentrated on creating and winning new business opportunities to drive global business expansion.

Looking ahead, NEC will continue to make every effort to “realize an information society friendly to humans and the earth.” We ask for your continued support and understanding as we endeavor to reach this goal.