

# Annual Report 2013

Year ended March 31, 2013



## Transforming into a Social Value Innovator



NEC aims to transform into a “Social Value Innovator” to realize an affluent and equitable society which makes efficient use of resources and whose members are safe and personally secure.



## Solutions for Society

- Supporting the advancement of social infrastructure and systems throughout the world via information and communications technology (ICT)
- Create new business models with the understanding that social problems provide an opportunity for growth



**Transformation  
into a Social Value  
Innovator**

# Contents

## I Business Report/Management Policies

- 03 Message from the President
- 07 Mid-term Management Plan 2015
- 15 Performance Highlights
- 17 At a Glance
- 19 Review of Operations
- 27 R&D and Intellectual Property Strategy

## II Sustainable Development

- 29 Management Approach to Sustainable Development
- 31 Build Reliable Information and Communications Infrastructure
- 33 Address Climate Change and Environmental Preservation
- 35 Establish a Safe and Secure Society
- 37 Include Everyone in the Digital Society
- 39 Earn Customer Trust
- 40 Empower Our People
- 41 Strengthen Risk Management and Enforce Compliance
- 42 Stakeholder Engagement

## III Management System

- 43 Corporate Governance
- 45 Directors and Corporate Auditors
- 47 Business Execution Structure

## IV Corporate Data

- 50 Financial Section
- 59 Non-Financial Section
- 60 Corporate Overview

## Editorial Policy

To date, NEC has published financial information in its Annual Report and non-financial information (disclosure of sustainability activities) in its CSR Report.

However, due to growing interest in non-financial information among stakeholders in recent years, the need for integrated corporate disclosure of financial and non-financial information has been increasing.

Against this backdrop, NEC has decided to publish an integrated annual report that provides both financial and non-financial information.

NEC will continue striving to provide clearer and more useful information going forward based on feedback obtained from stakeholders and international developments.

### Reporting Period

April 1, 2012 to March 31, 2013

(This report also includes some information from after this reporting period.)

### Scope of Report

NEC Corporation  
and Consolidated Subsidiaries

### Reference Guidelines

- International Integrated Reporting Council (IIRC)  
“Consultation Draft of the International <IR> Framework”
- Global Reporting Initiative (GRI)  
“Sustainability Reporting Guidelines 3.1”
- United Nations Global Compact
- ISO 26000

### Other Related Information

- Earnings releases/annual securities report
- Corporate Governance Report
- Corporate Social Responsibility (CSR)
- Annual Environmental Report
- Information Security Report
- Social Contribution Activities

### EVALUATION BY EXTERNAL PARTIES

- Global 100 Most Sustainable Corporations in the World



- Dow Jones Sustainability Asia Pacific Index, RobecoSAM Bronze Class



- FTSE4Good Global Index



- ETHIBEL EXCELLENCE



- MS-SRI Morningstar Socially Responsible Investment Index



- oekom rated as Prime



## MESSAGE FROM THE PRESIDENT



**Nobuhiro Endo**  
President, NEC Corporation

In the previous fiscal year (fiscal 2012, the year ended March 31, 2012), NEC unavoidably posted a consolidated net loss of ¥110.3 billion, including business structure improvement expenses. Our bottom line was affected by major upheavals in the economic environment due to the fiscal crisis in various European countries, along with the impact of the Great East Japan Earthquake and the flooding in Thailand. These factors were compounded by the review of deferred tax assets reflecting tax reforms in Japan and deterioration in our financial results for fiscal 2012.

Against this backdrop, in the fiscal year under review (fiscal 2013), we initiated structural reforms directed at transforming NEC into a profitable enterprise. At the same time, the NEC Group reviewed its business portfolio and strove to implement reforms designed to transform itself into a stable cash flow-driven enterprise with four core businesses, namely the IT Services business, Carrier Network business, Social Infrastructure business and Energy business.

Looking first at structural reforms, the NEC Group reduced its workforce by approximately 10,000 headcount as originally planned. The mobile phone business and the platform business streamlined their development and production structures. In addition, NEC implemented measures such as wage reductions for officers and employees. These initiatives yielded a positive impact of ¥40.0 billion on operating income as planned. Regarding the NEC Group's business portfolio review, for the electronic components business, NEC formed a capital and business alliance with a U.S.-based company, resulting in the deconsolidation of NEC TOKIN Corporation. Moreover, Renesas Electronics Corporation, an NEC equity-method affiliate, decided to accept an infusion of capital via a third party share allotment to the Innovation Network Corporation of Japan and eight private enterprises. As a result, NEC plans to exclude Renesas Electronics from treatment as an equity-method affiliate.

In terms of focusing on its four core businesses, the NEC Group worked to build a foundation for

growth through concentrated investment in these four fields: the IT Services area in the IT Solutions business, Carrier Network business, Social Infrastructure business and Energy business. To this end, the NEC Group actively implemented measures such as business acquisitions and

forming alliances with other companies for expanding business on a global scale.

As a result, we have transformed NEC into an enterprise that can generate profits to enable dividend payments even with the current level of net sales of ¥3 trillion.

## Fiscal 2013 Performance

In fiscal 2013, the NEC Group recorded consolidated net sales of ¥3,071.6 billion, an increase of ¥34.8 billion, or 1.1% year on year. This increase was mainly due to increased sales from the IT Solutions business, the Carrier Network business and the Social Infrastructure business, primarily reflecting a recovery in domestic IT investment, as well as higher demand from network-related fields and from earthquake reconstruction and disaster prevention measures. Sales growth was partly offset by decreased sales from the Personal Solutions business, primarily due to the deconsolidation of the PC business for individual customers and lower mobile phone sales volume. Regarding profitability, consolidated operating income improved by ¥40.9 billion year on year, to ¥114.6 billion, mainly due to

increased sales, as well as the steady execution of structural reforms, an improved cost-of-sales ratio and streamlined selling, general and administrative expenses. Consolidated net income was ¥30.4 billion, an improvement of ¥140.7 billion compared to the net loss recorded in the previous fiscal year, when the bottom line was impacted by a review of deferred tax assets. This improvement was mainly due to the higher operating income, improved equity in earnings (losses) of affiliates, and lower business structure improvement expenses.

Although consolidated net sales fell below our initial target, we surpassed all of our primary initial earnings targets. Consequently, we decided to resume a dividend payment of ¥4 per share as promised at the beginning of fiscal 2013.

(Billion ¥)	FY2011/3	FY2012/3	FY2013/3	
	Results	Results	Initial plan	Results
Net sales	3,115.4	3,036.8	3,150.0	<b>3,071.6</b>
Overseas sales	479.3	481.5		<b>483.1</b>
Overseas sales ratio	15.4%	15.9%		<b>15.7%</b>
Operating income	57.8	73.7	100.0	<b>114.6</b>
Operating income ratio	1.9%	2.4%	3.2%	<b>3.7%</b>
Net income (loss)	-12.5	-110.3	20.0	<b>30.4</b>
Return on equity (ROE)	—	—		<b>4.5%</b>

## Mid-term Management Plan 2015

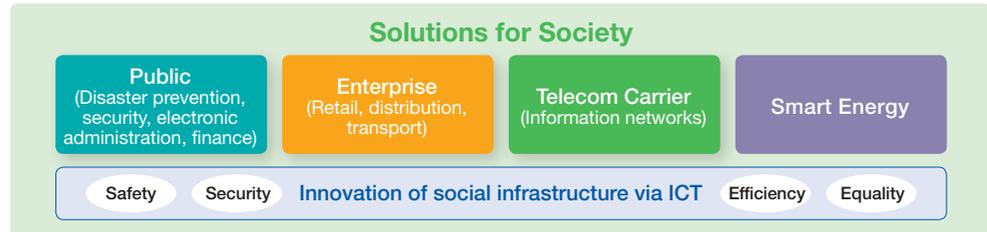
Fiscal 2013 was the final year of our Mid-term Growth Plan “V2012.” Under “V2012,” we targeted net sales of ¥4 trillion, an operating income ratio of 5% and an overseas sales ratio of 25% for fiscal 2013 as goals necessary to executing sound business operations. However, we were unable to lay the groundwork for global growth, partly because a large overseas M&A initiative fell through

in the IT field. Taking heed of the lessons learned from this experience, we formulated “Mid-term Management Plan 2015” in April 2013, which sets forth our management policies and business targets for the three-year period through fiscal 2016.

Demand for resources such as energy and food is projected to increase in step with the world’s growing population, as well as the increasing rate of

## NEC's Concept of "Innovative Social Infrastructure"

For People to Live and Thrive in Society

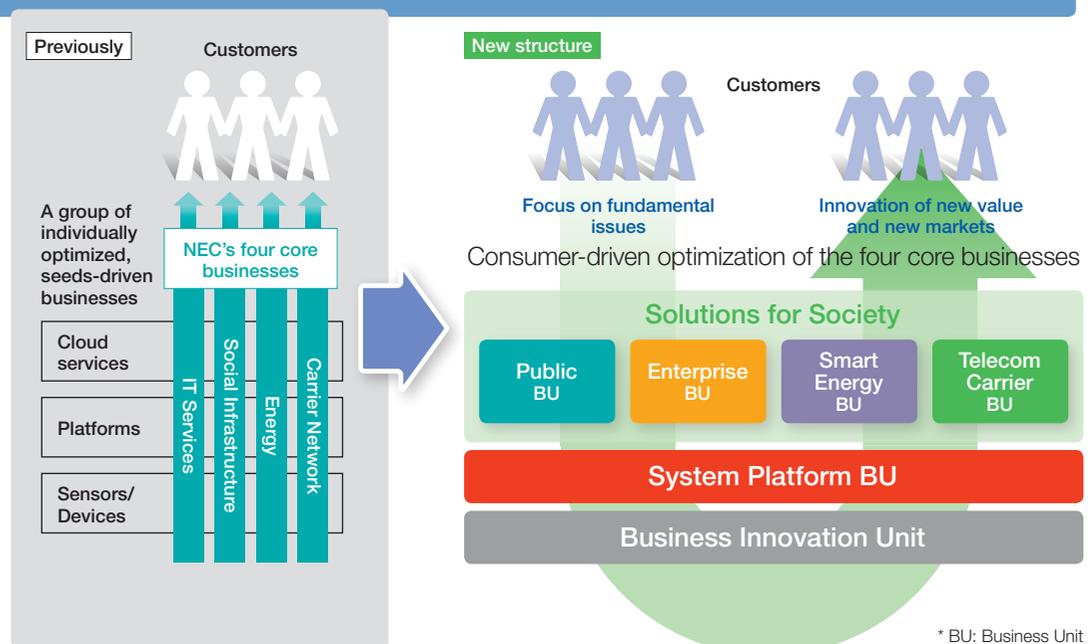


urbanization. Considering these and other developments in society, the NEC Group is focusing on its "Solutions for Society." Here, we will leverage our strengths in information and communications technology (ICT) to provide new social infrastructure in order to realize a society that is safe, secure, efficient and fair, where people can lead prosperous lives.

Specifically, we will focus business resources on fields based on three customer sectors, namely the public, enterprise and telecom carrier sectors, as well as the smart energy sector, which is expected to grow going forward. The public sector mainly

covers disaster prevention, security, electronic administration, and finance infrastructure. The enterprise sector mainly covers retail, distribution infrastructure, and transport. The telecom carrier sector includes information networks and related service businesses. By harnessing ICT, NEC already provides infrastructure that is essential to our daily lives—infrastructure needed for people to live and thrive. Looking ahead, we will actively work to create new value to solve issues facing society, by focusing on the NEC Group's strengths in technology and expertise related to networks, IT platforms, and a diverse array of sensors and

## Implementing "Mid-term Management Plan 2015" Under a New Customer-Driven Organization



\* BU: Business Unit

devices, while tapping into technologies and expertise outside the Group as well.

In order to accelerate our focus on the “Solutions for Society” and steadily execute “Mid-term Management Plan 2015,” NEC implemented a major reorganization in April 2013. Up to fiscal 2013, NEC’s organization was driven by the technologies and expertise, products, services and other assets held by the Company. However, we have reorganized the Company into a structure driven by

markets and customers. We have adopted a structure that will allow us to focus on the fundamental issues faced by customers, and provide solutions that create new value grounded in the strengths of our core ICT assets. NEC will continue to press on with the selection and concentration of its operations based on the “Solutions for Society,” with the aim of improving corporate value.

## Toward Achieving “Mid-term Management Plan 2015” and Sustainable Development

As the first year of “Mid-term Management Plan 2015,” fiscal 2014 is a crucial year for the NEC Group. The outlook for the Japanese economy calls for gradual yet steady growth as economic sentiment recovers. On the other hand, there are some lingering uncertainties such as weak growth in external demand associated with stagnant European economies. Looking at the business environment surrounding NEC, although domestic IT investment is on a recovery path, capital expenditures by telecom carriers are projected to decline mainly in existing fields. Instead, the markets for Telecom Operations & Management Solutions (TOMS) and Software-Defined Networking (SDN) are expected to expand in the near term. Furthermore, in the social infrastructure field, Japan’s economic and fiscal policies have progressed steadily following the change in government, and we have been seeing a string of vigorous developments on projects in the smart energy field.

In these circumstances, NEC will focus on the “Solutions for Society,” with the view to achieving the management goals set forth in “Mid-term Management Plan 2015.” Our goal is to create a foundation for growth that will enable us to compete globally. And through the execution of the “Solutions for Society,” NEC will support innovation in social infrastructure around the world, while helping to solve issues faced by society. In the process, we will drive NEC’s transformation into a

social value innovator.

From a sustainable development perspective, NEC became a signatory to the United Nations Global Compact (UNGC) in 2005. Accordingly, NEC will continue to strive to conduct corporate business activities in compliance with the 10 principles in the areas of human rights, labor, the environment, and anti-corruption based on the UNGC framework. At the same time, NEC will promote diversity as an integral part of its management strategy, in order to put an environment in place where various people can succeed globally. NEC’s vision is “To be a leading global company leveraging the power of innovation to realize an information society friendly to humans and the earth.” To realize this vision, NEC will continue to create new forms of value by listening sincerely to the requests and expectations of all stakeholders, while staying attuned to changes in society’s values and signs of emerging issues. In doing so, we seek to make the NEC Group an enterprise that is respected by all stakeholders.

We look forward to your continued understanding and support as we endeavor to reach our goals.

June 2013



Nobuhiro Endo  
President, NEC Corporation

# MID-TERM MANAGEMENT PLAN 2015

In April 2013, we announced NEC's "Mid-term Management Plan 2015" covering the three-year period to March 2016. Under the plan, we will focus on "Solutions for Society" that leverage information and communications technologies (ICT) to deliver advanced social infrastructure as part of contributing to the creation of a society that is safe, secure, efficient and fair. We also aim to expand our business over the medium to long term and improve profitability based on the plan.

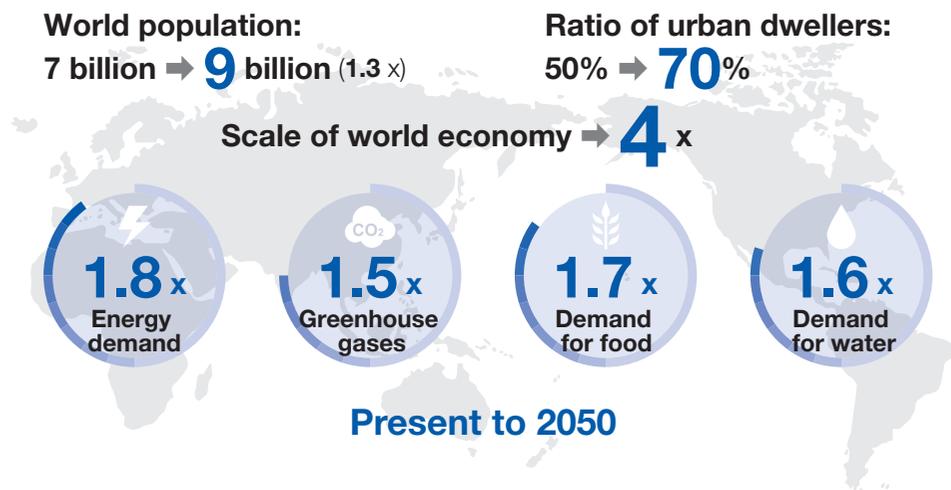
## Market Environment Outlook and Long-term Prospects

Whilst the government's economic policies are expected to revitalize the Japanese ICT market, stimulating demand for consumer goods in particular, slow growth in NEC's domestic market is unavoidable over this three-year period because more time is required for public investment and corporate capital spending to recover. Overseas, although prospects remain uncertain in European markets amid sluggish economic growth, we expect strong economic growth to continue in emerging markets.

In terms of the long-term perspective to 2050, the global population is forecast to increase from 7 billion to 9 billion. As this happens, the ratio of urban dwellers is projected to rise from 50% to 70% as

urbanization progresses. The shift to city living will boost demand for energy, food, water and resources faster than population growth, which will contribute to rapid economic growth. Emerging markets and developing countries will drive the expansion of the world economy, rivaling the economic scale of the developed world by about 2032. By 2050, the global economy is expected to be four times the size it is today. However, rapid economic growth is also expected to create social issues related to urbanization and population increases. Innovative social infrastructure will be needed to enable people to lead safe and secure lives while making efficient use of resources. In this way, efficient social infrastructure to sustain population increase mainly in cities will become increasingly vital if humanity is to build a sustainable society.

## The Future World Economy



(\*Prepared by NEC based on materials published by the UN, FAO, OECD, PWC, IMF, etc.)

## Outline of Mid-term Management Plan 2015

In line with these market conditions and the long-term outlook, we have formulated the following three plan policies for the period to March 2016 to

tap aggressively into demand for advanced social infrastructure using ICT.

The first is to "focus on Solutions for Society." Based on extensive discussions at management

## Mid-term Management Policy

### (1) Focus on Solutions for Society

#### Transformation into a “Social Value Innovator”

- Focus management resources on businesses that advance social infrastructure through ICT
- Create new business models with the understanding that social problems provide an opportunity for growth

### (2) Focus on Asia, Promotion of “Locally-led” Businesses

#### Create a foundation for growth as a company able to compete globally

- Focus on emerging and developing countries, in particular in Asia
- Realize increased sensitivity to local needs, increased business speed

### (3) Stabilize Our Financial Foundation

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

Quickly achieve an operating income ratio of **5%** and an overseas sales ratio of **25%**

level during the formulation of “Mid-term Management Plan 2015” about which business domains offered the greatest opportunity to grow and contribute by leveraging the potential of the NEC Group, we have decided to focus management resources on businesses that will create more efficient and highly advanced social infrastructure through ICT, particularly in emerging markets. We will transform NEC into a “Social Value Innovator,” creating internal growth by focusing on business activities that develop solutions to key social issues including energy management. Our belief is that creating new value in this way will support a society that is safe, secure, efficient and fair for everyone.

The second policy is to “focus on Asia” while also “promoting locally led businesses.” We plan to maintain a strong presence in Japan, which still accounts for about 84% of sales, but recognize the need to create a foundation for growth so that we can compete globally. We aim to expand our business in emerging and developing countries in

Asia, where there is strong demand for advanced social infrastructure, while creating a framework to support increased sensitivity to local needs as a means of supporting the rapid development of locally led businesses. This stronger base of overseas operations will be a platform to support our global expansion over the long term.

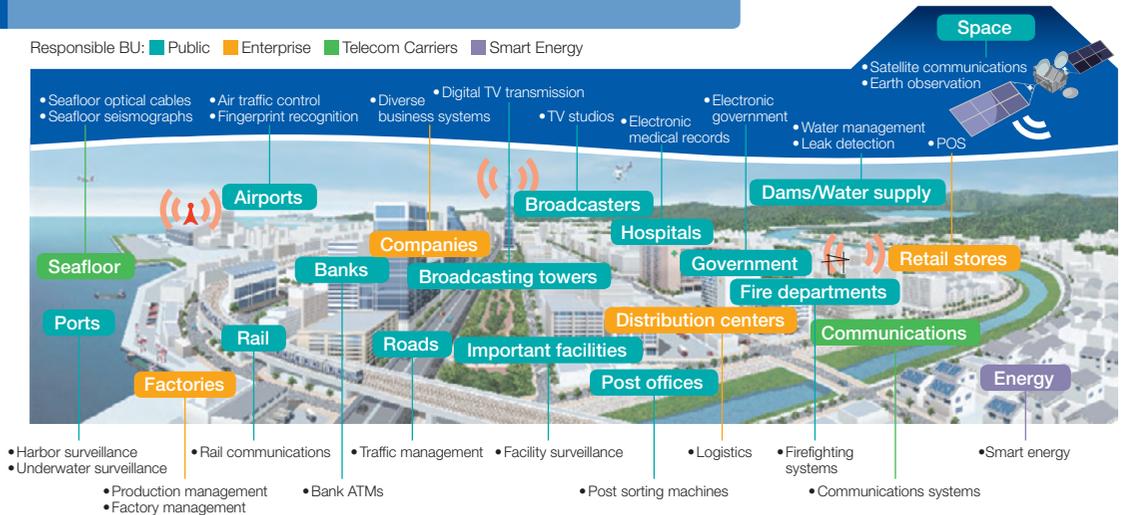
The third policy is to “stabilize NEC’s financial foundation.” To support global growth, we plan to enhance cost competitiveness while reinforcing the earnings base to increase net income and create annual free cash flows (FCF) of at least ¥100 billion. We are also using hybrid finance to bolster our financial reserves and make NEC financially strong enough to cope with changing market conditions.

Based on these policies, we have set plan targets for the fiscal year ending March 2016 of ¥3,200 billion in net sales, ¥150 billion in operating income, ¥60 billion in net income, ¥100 billion in FCF, and ROE of 10%. In addition, we aim to achieve an operating income ratio of 5% and overseas sales ratio of 25% as quickly as possible.

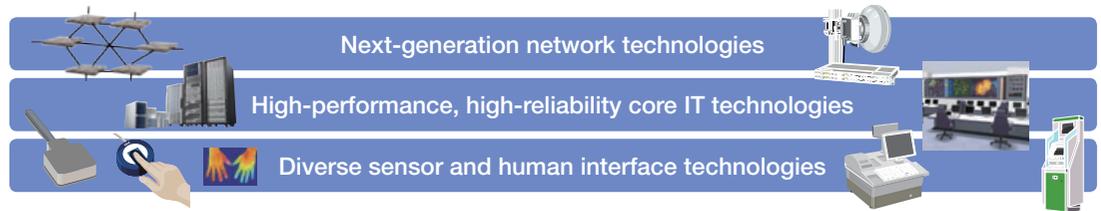
### Fiscal 2013 Results and Fiscal 2016 Management Targets

(Billion ¥)	FY2013/3 Results	FY2016/3 Targets
Net sales	3,071.6	3,200.0
Operating income	114.6	150.0
Net income	30.4	60.0
Free cash flows	42.0	100.0
ROE	4.5%	10%

## NEC's Solutions for Society



## NEC ICT supporting social infrastructure and systems



### Management Strategy

NEC's three concrete strategies in line with its mid-term management policy are as follows:

#### (1) Focus on Solutions for Society

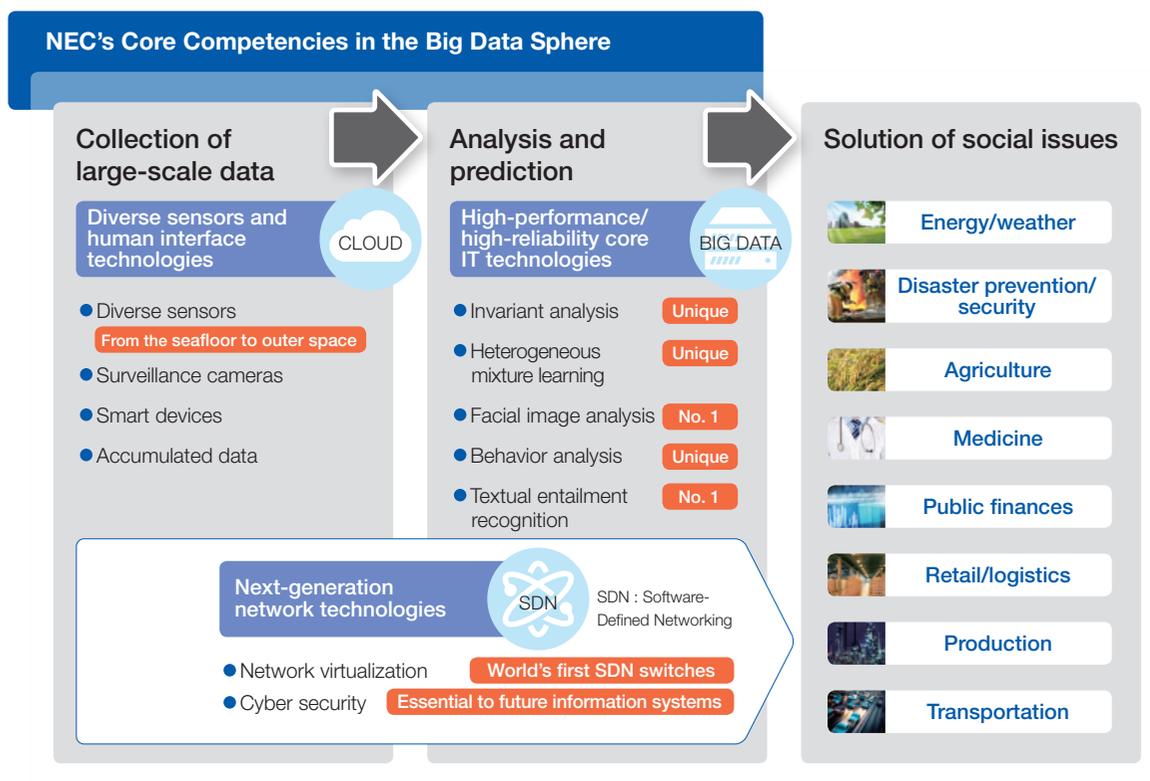
NEC already supplies many types of advanced ICT-based social infrastructure, including traffic management, firefighting and disaster prevention systems, water resource management systems, seafloor seismographs and systems for electronic medical records. These systems are designed using our range of original sensing, next-generation networking and IT platform technologies, which operate in environments ranging from the seafloor to outer space. While much of this infrastructure is not readily visible to consumers, it nonetheless plays an essential role in modern everyday life.

The value delivered by this social infrastructure will become more advanced in the future as the information used by these systems increases in volume and complexity, taking society into the

increasingly important domain of so-called "Big Data." NEC possesses many original and highly competitive ICT assets in this domain, including advanced sensing, human interface and cloud technologies for gathering data; advanced IT platform technologies for high-performance analysis of the data collected; next-generation network technologies such as SDN to support the transmission of huge quantities of data; and technology related to cyber security, a social issue that has recently gained prominence. Our aim is to fully leverage our ICT assets to help address a range of social issues and create new value.

Yet this wide range of social issues cannot be addressed using our ICT assets alone. As a result, we plan to promote increased partnering with firms in other sectors and open innovation. By also collaborating more closely with financial institutions, we aim to make NEC more competitive and to deliver enhanced value to customers.

Below we look in more detail at the "Solutions for



Society” across business domains.

Within “Solutions for Society” businesses, our aim is to generate sales of approximately ¥1,400 billion in the fiscal year ending March 2016 from operations in the Public, Enterprise and Smart Energy domains, which would represent an increase of approximately ¥300 billion from the fiscal year ended March 2013, mainly from smart energy and safety applications. Going forward, as demand for advanced social infrastructure continues to grow worldwide, we will make NEC more competitive and develop new markets by seeking to integrate products and technologies within social infrastructure and smart energy operations with the NEC Group’s SI and services expertise and a wide range of customer bases.

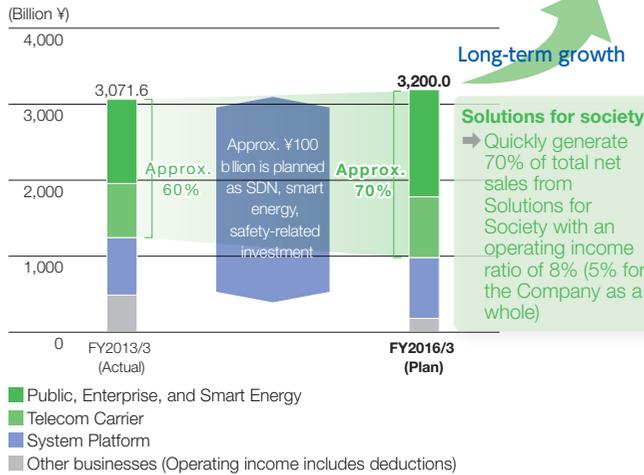
In the Telecom Carrier domain, a critical goal is to steadily seize business opportunities arising from the changes in business environment facing carriers due to rapid growth in data traffic and changes in services and applications as a result of the spread of smartphones, tablets and other smart devices. In response, we are expanding in the Telecom Operations & Management Solutions (TOMS) area based on the strong global track record of Group

subsidiary, U.S.-based NetCracker Technology Corp., while also building a stronger presence in the field of SDN as a way of helping carriers achieve greater cost efficiencies using network virtualization technology. We plan to develop related solutions capabilities by integrating IT and network technologies. In SDN, in particular, discussions with experts in the field in Europe and the U.S. suggest that this concept is now close to mainstream acceptance. By steadily taking advantage of these business opportunities, we aim to grow sales in this domain to approximately ¥800 billion in the fiscal year ending March 2016.

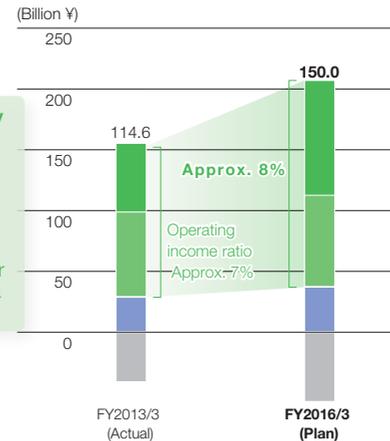
In the System Platform domain, our focus is on providing platforms to support “Solutions for Society” based on the delivery of bundles that contain all of the specialized terminals, software and infrastructure services required by corporate users, including server and storage applications. Higher cost competitiveness and product quality are essential to remain globally competitive in this sector. In addition, the trend is shifting from sales of discrete products toward the delivery of vertically integrated solution platforms. We will make NEC more competitive by driving this transformation. We

## Long-term Growth and Profitability with Solutions for Society as the Driving Force

### NET SALES



### OPERATING INCOME



\* Projected figures are as of April 26, 2013. Fiscal 2013 figures of Solutions for Society are approx.

are also focusing on the enhancement of partnering and the expansion of OEM sales to support the growth in global sales volumes. Based on these initiatives, our aim is to increase sales in this domain to approximately ¥800 billion in the fiscal year ending March 2016.

By focusing on developing businesses based on “Solutions for Society,” we plan to expand the scale of our operations and improve profitability over the long term. In the fiscal year ended March 2013, sales from existing Solutions for Society were roughly ¥1,800 billion, or 60% of total consolidated

net sales. Our aim is for this figure to rise to around 70% in the fiscal year ending March 2016, with these operations providing a reliable base of earnings to help us achieve a 5% consolidated operating income ratio. We also plan to invest about ¥100 billion during the three-year plan period in the critical sectors of SDN, smart energy and safety, since our forecast is for these markets to enter a full-fledged expansion phase after this three-year plan period. These areas are positioned to be a key source of NEC’s long-term growth.

## Smart Energy Business Activities

Demand for energy is expected to increase in step with population growth going forward. NEC is focusing on the smart energy business to solve this social issue by efficiently utilizing resources. In fiscal 2013, the NEC Group began mass production of small-scale energy storage systems for homes at NEC Computertechno, Ltd.’s Kofu factory. In addition, the NEC Group received an order from Italian company Enel Distribuzione S.p.A. to provide a 2 MWh lithium-ion energy storage system for field trials. This is one of the highest capacity systems in Europe of its type. In these and other ways, the NEC

Group steadily pressed forward with initiatives aimed squarely at future business expansion. Furthermore, in April 2013, NEC established ONE Energy Corporation with ORIX Corporation and EPCO Co., Ltd. The new company has begun to provide energy services for homes by renting out energy storage systems.

Under “Mid-term Management Plan 2015,” we plan to focus on Solutions for Society. In addition to the above activities, we are pursuing efforts to integrate our strong storage battery technology and ICT to create new energy service businesses. By using ICT

to build frameworks for operating storage batteries and other energy components, we will work to develop solutions to enable self-sufficient, decentralized and diversified supplies of energy as part of contributing to a more robust energy infrastructure.

Going forward, we remain focused on expanding NEC’s smart energy business by developing better solutions through alliances with major partners in Japan and overseas, together with the development of related sales channels.

## (2) Focus on Asia, Promotion of “Locally-led” Businesses

One of the goals of the Mid-term Growth Plan “V2012” formulated by NEC in February 2010 was to achieve significant growth in sales outside Japan. Our operations in emerging markets did expand over the course of the plan, but the goal of growing significantly faster than the market was not achieved. In light of this, rather than targeting a certain level of growth in global terms, the “Mid-term Management Plan 2015” strategic goals for overseas development are (1) to focus on Solutions for Society in Asia, a region projected to grow significantly as urbanization continues, and where we have already established a business base in sectors such as safety and value in the NEC brand, and (2) to focus on reinforcing and promoting locally led businesses with wider regional development potential that address specific local needs, based on the creation of common platforms.

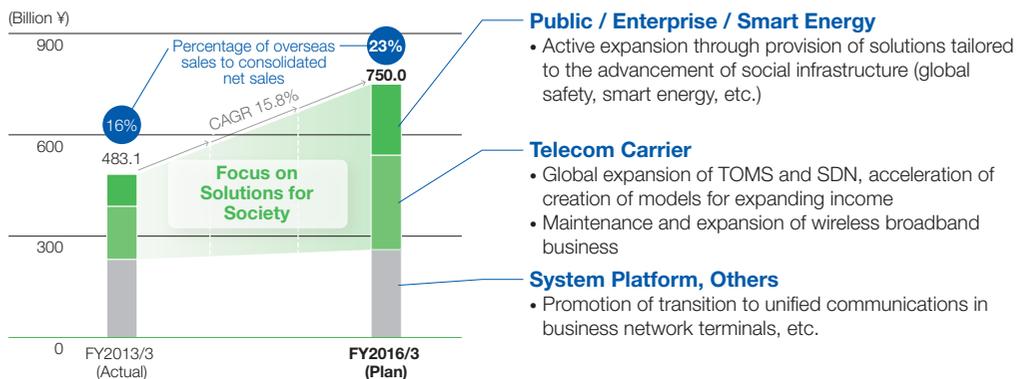
The focus on Asia was selected as one of the axes of the global development of Solutions for Society because markets across the region are growing rapidly and demand for more advanced social infrastructure is strong. Moreover, NEC has competitive local subsidiaries in the region. We plan to expand our business in Asia by targeting

urbanization-driven demand growth in domains such as safety and smart energy. In the safety domain, we are focusing on social ID solutions using biometrics such as fingerprint recognition, an area where NEC has established a track record in Asia already. Other areas of business development include surveillance systems for important buildings, cyber security, and overseas marketing of disaster prevention systems previously developed for the Japanese market. In the area of cyber security, which has become an essential component of IT systems, we have sought to boost our competitiveness based on close collaboration with INTERPOL and the acquisition of Cyber Defense Institute, Inc. In the area of smart energy, we are focusing on creating new energy services by combining ICT with storage battery technology, where NEC has specific strengths. By partnering with companies with significant expertise in these fields, we aim to cater to increasing demand for solutions in Asia and the rest of the world.

In developed countries, we are shifting from a product export model to new business structures and models. A specific area of focus is TOMS and SDN for telecom carriers, both of which are expected to be long-term market growth drivers. As a global leader in this area, we are leveraging our

### Focus on Solutions for Society, Quickly Generate 25% Overseas Sales Ratio

#### OVERSEAS SALES



(1) Focus on Asia  
(Emerging/developing countries)

(2) Promotion of “locally-led” businesses

\* Projected figures are as of April 26, 2013

technical advantages to work with partners such as Spanish carrier Telefónica S.A. on the development of SDN solutions. Going forward, through the early commercialization of business, we aim to establish a leading position in solutions to help improve the operating efficiency of carriers.

As part of strengthening and promoting locally led businesses, we are shifting to a system based on each regional headquarters taking the lead in assessing local requirements for advanced social infrastructure to enable a faster market response from development to marketing. Over the long term, our aim is for each regional headquarters to act independently and provide mutual support for business development using local strengths. In April 2013, to support this business model, we created the Global Safety Division (GSD) based in

Singapore. The NEC Group's first divisional headquarters established outside Japan, the GSD will function as a control base for our global business development in the safety field. We already have a strong track record in Singapore and have established customer channels in areas such as fingerprint and facial recognition and video surveillance. Besides driving the development of our strengths in these areas, the GSD will also oversee development of common solutions in regions outside Asia and provide assistance for safety-related development projects worldwide.

NEC's overseas sales in the fiscal year ended March 2013 were ¥483.1 billion. Based on these initiatives, we aim to increase overseas sales to ¥750 billion in the fiscal year ending March 2016, in the process raising the overseas sales ratio to 25%.

## SDN Will Revolutionize Networks

Under "Mid-term Management Plan 2015," NEC is focused on development of Software-Defined Networking (SDN), a new concept that is set to revolutionize conventional network technology.

SDN uses software to enable flexible control of network structure and function. This allows carriers and corporate customers to make more efficient use of systems and networks that have increased in scale, complexity and diversity, which consequently leads to lower capital spending as well as reduced running and maintenance costs. Another benefit of SDN is the greater ease of

allocating network resources in an emergency, enabling a carrier to assign priorities to the use of services such as telephony, email, music and video. Moreover, it can also help automate the process of expanding or modifying the network, something that has traditionally required human labor. This promises to reduce the time needed to provide new services substantially. Together these benefits provide new value that cannot be realized through conventional network set-ups, while also boosting customers' competitiveness.

NEC began R&D in 2008 on network

control technologies for realizing SDN based on the "OpenFlow" standard. Having launched the world-first UNIVERGE PF Series for datacenters and corporate applications in 2011, NEC is a global leader in this particular field. Going forward, we plan to build on our technical expertise by expanding our presence to include products and services for carriers. We plan to grow this business aggressively by using our IT and network assets to start providing full solutions as well as discrete products.

### (3) Stabilize the Financial Foundation

If we are to implement successfully the growth strategies outlined above based on NEC focusing on Solutions for Society alongside global development, it is essential that we reinforce our cost competitiveness further. We have striven to reduce the cost base for every NEC product and service on a continuous basis. In the year under review, we also undertook structural reforms aimed at improving earnings. Going forward, we plan to broaden the scope of efforts to ensure success in a fiercely competitive global marketplace. We aim to reinforce procurement capabilities and optimize our production by upgrading our global supply chain management (SCM) set-up. We will also make greater use of offshore resources, especially in China and India, rationalize shared costs across the NEC Group and seek to enhance project management and quality management. Overall, we

plan to reduce costs by ¥30 billion through this program by the fiscal year ending March 2016.

After the significant net loss that NEC recorded last year, one of the most critical issues we face is to strengthen our financial base. This basically means boosting net income and increasing cash flow. In terms of the latter, we plan to increase earnings steadily. We are also focused on compressing the number of days in the cash conversion cycle (CCC) so that we can increase the efficiency of working capital across the entire NEC Group. The aim is to construct a stable earnings base that generates at least ¥100 billion in annual free cash flows. In May 2013, we issued ¥130 billion in hybrid finance to bolster our financial reserves against unexpected developments and to provide more funds for investing in target domains such as SDN and smart energy.



### Conclusion

NEC has more than a century of experience and expertise. We formulated “Mid-term Management Plan 2015” based on the idea that this three-year period would help construct the base for the company’s next 100 years of growth. Our goal in these three years is to transform NEC into a “Social

Value Innovator” capable of contributing to society over the next century. This will entail cultivating a strong internal culture of value creation for the benefit of society, which in turn will help NEC to grow and become more profitable. We ask our shareholders for their continued understanding and support.

# PERFORMANCE HIGHLIGHTS

NEC Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2009, 2010, 2011, 2012 and 2013

Financial indicators	Millions of yen			
	2009	2010	2011	2012
<b>For the year:</b>				
Net sales	¥4,215,603	¥3,583,148	¥3,115,424	¥3,036,836
Overseas sales	934,469	712,886	479,349	481,492
Percentage of overseas sales to consolidated net sales (%)	22.2	19.9	15.4	15.9
Operating income (loss)	(6,201)	50,905	57,820	73,742
Ordinary income (loss)	(93,171)	49,429	41	42,050
Net income (loss)	(296,646)	11,428	(12,518)	(110,267)
Cash flows from operating activities	27,359	134,816	33,660	83,857
Cash flows from investing activities	(173,167)	(41,241)	(146,244)	(49,706)
Free cash flows	(145,808)	93,575	(112,584)	34,151
R&D expenses	346,529	275,970	176,514	161,968
Capital expenditures (property, plant and equipment)	103,142	83,098	52,850	41,980
Depreciation (property, plant and equipment)	133,624	111,167	62,097	53,306
Per share data (in yen and U.S. dollars):				
Net income (loss)	(146.64)	5.04	(4.82)	(42.44)
Diluted net income	—	4.91	—	—
Cash dividends	0.00	4.00	0.00	0.00
<b>At year-end:</b>				
Total assets	3,075,378	2,937,644	2,628,931	2,557,570
Owner's equity	641,654	790,904	757,054	656,956
Return on equity (%)	—	1.6	—	—
Owner's equity ratio (%)	20.9	26.9	28.8	25.7
Interest-bearing debt	925,163	729,548	675,798	692,734
Debt-equity ratio (times)	1.44	0.92	0.89	1.05
Number of consolidated subsidiaries	328	310	283	265
<b>Non-financial indicators</b>				
Number of employees	143,327	142,358	115,840	109,102
Ratio of outside directors to all directors (%)	33.3	33.3	33.3	38.5
Response rate of employees' survey (%)	76	79	82	82
CO <sub>2</sub> emissions reduction by providing IT solutions (thousand tons)	1,890	1,900	2,120	2,310
Improvement in energy efficiency of products (%)	45	44	53	66
Greenhouse gas emissions (thousand tons)	1,694	1,148	527	492
Greenhouse gas emissions by GHG Protocol scopes (thousand tons)				
Scope 1	—	—	—	—
Scope 2	—	—	—	—
Scope 3	—	—	—	—

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥94 = U.S.\$1.

2. Net income (loss) per share is calculated based on the weighted-average number of shares outstanding during each period.

3. Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.

4. The debt-equity ratio is calculated by dividing interest-bearing debt by owner's equity.

5. The ratio of outside directors to all directors applies to NEC Corporation.

6. The response rate of employees' survey applies to NEC Corporation and its domestic consolidated subsidiaries.

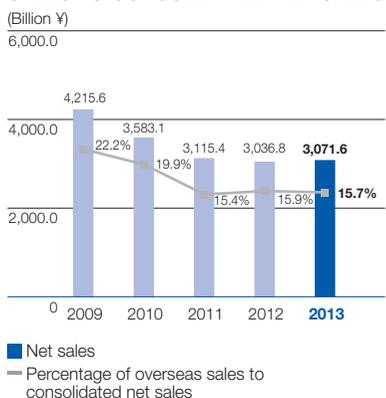
7. Improvement in energy efficiency of products is based on a comparison with the year ended March 31, 2006.

8. Until the year ended March 31, 2012, greenhouse gas emissions represented the sum of greenhouse gas emissions under GHG Protocol Scopes 1 and 2.

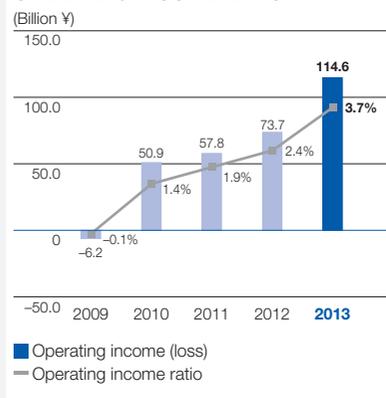
In the year ended March 31, 2013, greenhouse gas emissions for GHG Protocol Scopes 1, 2 and 3 are shown separately (See note on page 59).

	Millions of U.S. dollars	Percent change 2013/2012
<b>2013</b>	<b>2013</b>	
¥3,071,609	\$32,677	1.1%
483,118	5,140	0.3
15.7		
114,647	1,220	55.5
92,024	979	118.8
30,434	324	-
143,748	1,529	71.4
(101,742)	(1,082)	-
42,006	447	23.0
151,676	1,614	-6.4
45,614	485	8.7
51,167	544	-4.0
11.71	0.12	-
-	-	-
4.00	0.04	-
2,580,966	27,457	0.9
710,666	7,560	8.2
4.5		
27.5		
603,451	6,420	-12.9
0.85		
270		
<b>2013</b>		Percent change 2013/2012
102,375		
45.5		
84		
2,980		29.0
64		
-		
76		
389		
7,670		

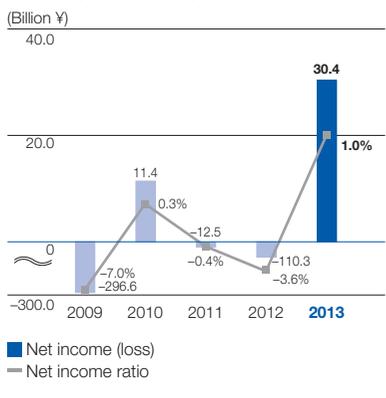
### NET SALES, PERCENTAGE OF OVERSEAS SALES TO CONSOLIDATED NET SALES



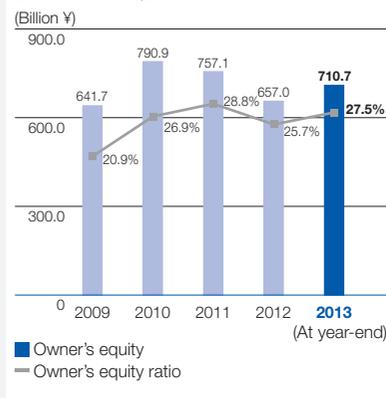
### OPERATING INCOME (LOSS), OPERATING INCOME RATIO



### NET INCOME (LOSS), NET INCOME RATIO



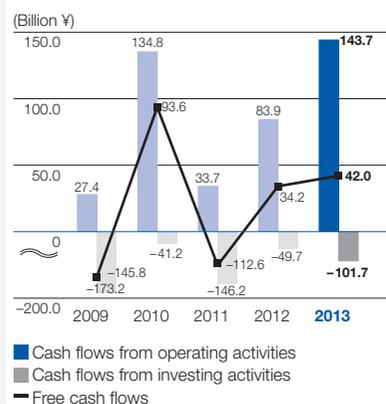
### OWNER'S EQUITY, OWNER'S EQUITY RATIO



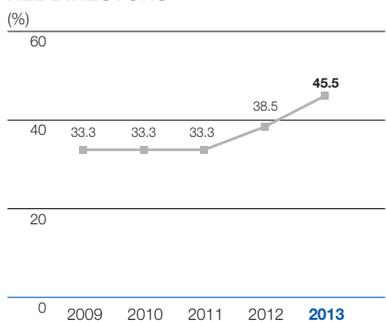
### CAPITAL EXPENDITURES



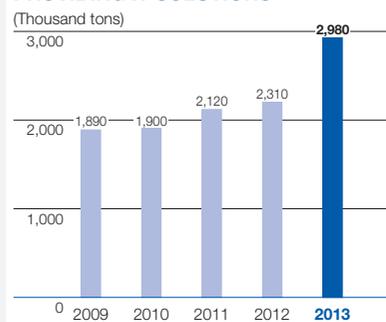
### CASH FLOWS



### RATIO OF OUTSIDE DIRECTORS TO ALL DIRECTORS



### CO<sub>2</sub> EMISSIONS REDUCTION BY PROVIDING IT SOLUTIONS



# AT A GLANCE

NEC Corporation and Consolidated Subsidiaries

From April 1, 2013, NEC has reclassified its segments. Figures are based on the new segment classification.

Net sales, operating income and the net sales ratio for the fiscal year ended March 31, 2013 have been reclassified to conform to the new segment presentation.

The segment results following the change have not been audited by the accounting auditors.

## PUBLIC BUSINESS

### NET SALES

680.7 billion yen

### OPERATING INCOME

49.0 billion yen

### MAIN CUSTOMERS

Government, public, healthcare, finance and media

### COMPOSITION OF SALES



### MAJOR PRODUCTS AND SERVICES

- Systems Integration (Systems Implementation, Consulting), Maintenance and Support, Outsourcing/Cloud Services, System Equipment

### EXAMPLES OF SOLUTIONS BY BUSINESS SECTOR/INDUSTRY

- Government: Systems for Central Government Ministries, Aerospace and Defense Systems (Air Traffic Control Systems, Satellite Systems, Uncooled Infrared Sensors)

## ENTERPRISE BUSINESS

### NET SALES

251.6 billion yen

### OPERATING INCOME

5.5 billion yen

### MAIN CUSTOMERS

Manufacturing, retail and services

### COMPOSITION OF SALES



### MAJOR PRODUCTS AND SERVICES

- Systems Integration (Systems Implementation, Consulting), Maintenance and Support, Outsourcing/Cloud Services

## TELECOM CARRIER BUSINESS

### NET SALES

709.3 billion yen

### OPERATING INCOME

71.6 billion yen

### MAIN CUSTOMERS

Telecom carriers

### COMPOSITION OF SALES



### MAJOR PRODUCTS AND SERVICES

- Network Infrastructure  
Backbone Network Systems (Optical Transmission Systems, Submarine Cable Systems, Routers/Switches), Access Network Systems (Wireless Broadband Access (Mobile Phone Base Stations), Mobile Backhaul ("PASOLINK"), Broadband Access (FTTx))

## SYSTEM PLATFORM BUSINESS

### NET SALES

744.4 billion yen

### OPERATING INCOME

32.7 billion yen

### COMPOSITION OF SALES



### MAJOR PRODUCTS AND SERVICES

- Hardware  
Servers, Mainframes, Supercomputers, Storage, Business PCs, Tablet Devices, POS, ATMs, Control Equipment, Wireless LAN Routers, Displays, Projectors
- Software  
Integrated Operation Management, Application Servers, Security and Database Software

## OTHERS

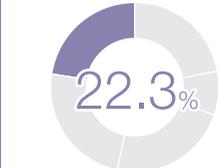
### NET SALES

685.7 billion yen

### OPERATING INCOME

16.9 billion yen

### COMPOSITION OF SALES



### MAJOR PRODUCTS AND SERVICES

- Smart Energy  
(Electrodes/Energy Storage Systems, Energy Management Systems, EV/PHV Charging Infrastructure, Solutions for Utilities)
- Smartphones and Mobile Phones
- "BIGLOBE" Internet Services
- Lighting Equipment

- Public: Local Government Systems, Train Radio Systems, Fire and Disaster Prevention Systems (Fire-fighting Command Systems, Disaster Prevention Radio Systems)
- Healthcare: Electric Medical Record Systems, Regional Medical Care Cooperation Systems
- Finance: Bank Settlement Systems, Business Branch Systems
- Media: Systems for Broadcasters, Digital Terrestrial TV Transmitters, Studio Systems

**MAJOR CONSOLIDATED SUBSIDIARIES**

NEC Engineering, Ltd.  
 NEC TOSHIBA Space Systems, Ltd.  
 NEC Network and Sensor Systems, Ltd.  
 Nippon Avionics Co., Ltd.



**EXAMPLES OF SOLUTIONS BY BUSINESS SECTOR/INDUSTRY**

- Manufacturing: Production Management Systems, Sales Management Systems
- Retail and Services: Retail Systems for Stores and Head Offices, Distribution Management Systems

**MAJOR CONSOLIDATED SUBSIDIARIES**

ABeam Consulting Ltd.



■ Services & Management

Telecom Operations & Management Solutions (TOMS), Network Operation Support Systems (OSS), Business Support Systems (BSS), Network Control Platform Systems, Network Service Delivery Platform Systems

**MAJOR CONSOLIDATED SUBSIDIARIES**

NEC Network Products, Ltd.  
 NEC Communication Systems, Ltd.  
 NEC Networks & System Integration Corporation  
 NetCracker Technology Corp.



■ Enterprise Network Solutions

IP Telephony Systems, WAN/Wireless Access Equipment, LAN Products

■ Services

Data Center Infrastructure, Maintenance and Support

**MAJOR CONSOLIDATED SUBSIDIARIES**

NEC Infrontia Corporation  
 NEC Computertechno, Ltd.  
 NEC Access Technica, Ltd.  
 NEC Display Solutions, Ltd.  
 NEC Embedded Products, Ltd.  
 NEC Fielding, Ltd.



**MAJOR CONSOLIDATED SUBSIDIARIES**

NEC Energy Devices, Ltd.  
 NEC CASIO Mobile Communications, Ltd.  
 NEC BIGLOBE, Ltd.  
 NEC Lighting, Ltd.  
 NEC Nexsolutions, Ltd.



# REVIEW OF OPERATIONS

## PUBLIC BUSINESS

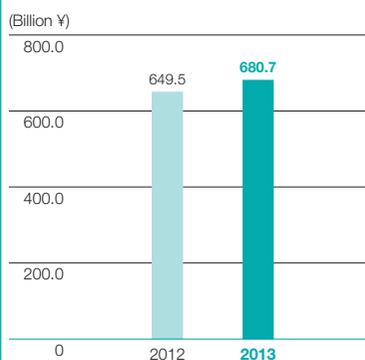
NEC provides safe, secure and efficient social solutions for domestic and foreign governments, governmental agencies, public institutions, financial institutions and other organizations by combining its distinctive technology assets, including networking and sensing technologies, with broad systems integration expertise and customer assets.

**Tomonori Nishimura**

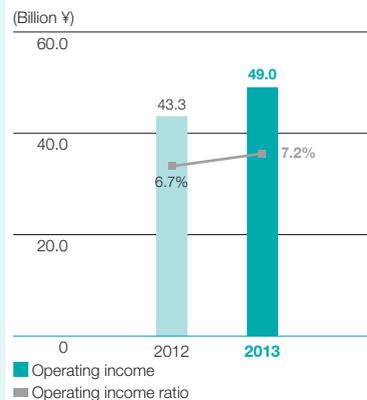
Executive Vice President



### SALES



### OPERATING INCOME, OPERATING INCOME RATIO



### Fiscal 2013 Performance and Main Accomplishments

Business segment sales increased 4.8% year on year to ¥680.7 billion. This increase mainly reflected steady growth in fire and disaster prevention systems, and aerospace and defense systems.

Operating income improved ¥5.8 billion to ¥49.0 billion, mainly reflecting increased sales and cost reductions.

In fiscal 2013 in the government agency sector, NEC won an order through DSN Corporation, a special purpose company NEC invested in, for a Program to Upgrade and Operate X-Band Satellite Communications Functions. This project is the first satellite private finance initiative (PFI) in Japan. Through a similar PFI scheme, QZS System Services Inc., another special purpose company invested in by NEC, won an order for operating a quasi-zenith satellite system. Furthermore, a “Bird Position Detection Solution,” which helps to reduce the threat of collision between birds and aircraft during takeoff and landing, contributing to safe and secure airport operations, was adopted by Tokyo International Airport (Haneda Airport). Moreover, in the safety

business, NEC and INTERPOL signed a partnership agreement for strengthening measures to fight increasingly complex and sophisticated cybercrime. The two partners will work together on state-of-the-art cyber security measures.

In the public services sector, sales remained strong in the fire and disaster prevention area on the back of continued high demand due to regional enlargement and digitization of wireless communication networks. NEC also steadily built on its track record in the integration of cloud computing platforms and provision of services for local governments, schools, libraries and other customers. In addition, NEC implemented a new traffic management system that enables the real-time provision of traffic information thanks to the high-speed processing of Big Data for the Shin-Tomei Expressway operated by Central Nippon Expressway Company Limited. And NEC delivered a new train wireless system to Odakyu Electric Railway Co., Ltd. that uses software-defined radio technologies to facilitate flexible operations.

In the medical sector, NEC helped to implement and operate the Tsukuba Pediatric Allergy Information Network (T-PAN), which has been developed by Tsukuba Medical Center Hospital to share medical information between partner medical institutions and patient families, as part of the efforts to develop regional medical networks.

In the financial sector, we provided sales support systems compatible with smartphones and other smart devices, an area of increasing need among financial institutions, to over 30 credit unions nationwide. For the media industry, we delivered digital transmitters for Mobacas, a new multimedia broadcasting service for smartphones, to Japan Mobilecasting, Inc. and NEC delivered transmitters for digital television broadcasting to commercial broadcasters in Myanmar, building on NEC's track record at home and abroad.



NEC's digital train wireless system for Odakyu Electric Railway



Portable DNA analyzer (prototype)

### For Further Growth

With the ICT market in Japan still recovering, sharp growth is not expected for the foreseeable future. At the same time, economic growth led by emerging countries is expected to continue going forward and, in developed countries, new demand will likely be created from structural changes driven by new trends. Responding effectively to globalization, structural changes and new markets will become even more important in the years to come.

NEC will look to capitalize on such changes and steadily carry out business centered on customers in Japan, while also actively branching out globally using strengths stemming from its cumulative experience and expertise. For the government and governmental agencies, we will seek to meet demand for integration of new systems and upgrading systems associated with establishment of the common number, or “my number,” law, by actively making related system proposals. In the area of aerospace and defense systems, a new satellite assembly plant will be constructed on the premises of the Fuchu Plant to augment capacity. Leveraging its track record of past involvement in integration of numerous satellites, NEC will work to further develop Japan's satellite infrastructure, which makes possible environmental protection, resource development and provision of positioning data on a global scale, as well as capture satellite demand in emerging countries in Asia and other parts of the world.

In the fire and disaster prevention domain, we will steadily meet domestic demand while developing globally, particularly in the Asia-Pacific region. We have already received an order for a disaster prevention and emergency information cloud system in Taiwan and will continue to focus on consultative sales going forward.

In addition, we are also actively committed to creating new businesses that are not extensions of existing ones. To create new social infrastructure utilizing ICT, we continue to move ahead with developing and commercializing a failure sign monitoring system for large-scale plants capable of analyzing the signs of failure in large facilities and identifying unsound conditions in facilities before failure occurs. This is made possible by using data collected through many sensors installed at factories and power stations, and represents an effort to provide new value through utilization of Big Data. Further, NEC has partnered with the Swiss firm Gutermann AG, a global leader in advanced leak detection technologies, to develop and market solutions for effective use of water resources as a part of its smart city business.

Safety is an area where growth is expected globally going forward. In a move to strengthen cyber security, NEC has acquired a 100% stake in Cyber Defense Institute, Inc., which boasts industry-leading technologies in system security vulnerability diagnostics. And, in collaboration with Cyber Security Factory, an organization established in November 2012 that assists with the installation and operation of cyber security measures for government agencies and the private sector, NEC intends to develop even more advanced cyber security solutions. Portable DNA analyzers are another safety and security product NEC is currently developing. They will help accelerate crime investigations and reduce crime. Joint assessments are underway with Japan's National Research Institute of Police Science and New Zealand's Institute of Environmental Science & Research Limited, and we intend to accelerate the process to commercialization.

## ENTERPRISE BUSINESS

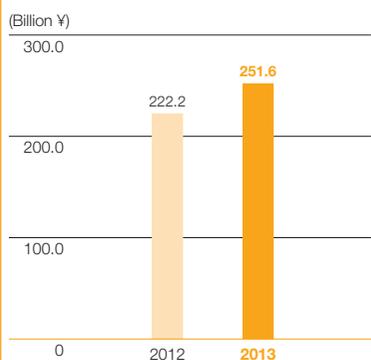
NEC provides IT solutions to meet private-sector demand, centering on manufacturing and retail/services, while launching new services to help create new value for customers. We intend to accelerate development in retail/distribution infrastructure in particular, both in Japan and overseas, as it will be a growth field going forward.

**Manabu Kinoshita**

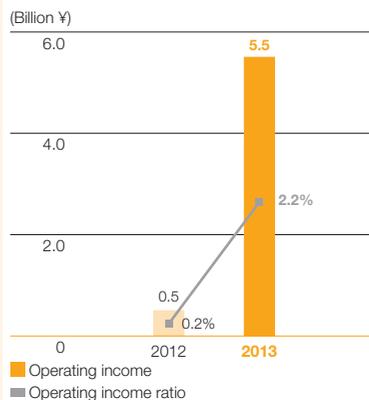
Executive Vice President



### SALES



### OPERATING INCOME, OPERATING INCOME RATIO



### Fiscal 2013 Performance and Main Accomplishments

Business segment sales increased 13.2% year on year to ¥251.6 billion. This increase mainly reflected steady growth in sales to manufacturing and retail/services sectors.

Operating income improved ¥4.9 billion year on year to ¥5.5 billion, mainly due to higher sales.

In fiscal 2013 for the manufacturing sector, drawing on its experience in overhauling core systems, NEC implemented a common IT platform for Asahi Group Holdings, Ltd. NEC also provided a system for managing contracted sales by pharmaceutical companies through wholesale channels to multiple companies in the form of a hybrid system that combines cloud services and system integration

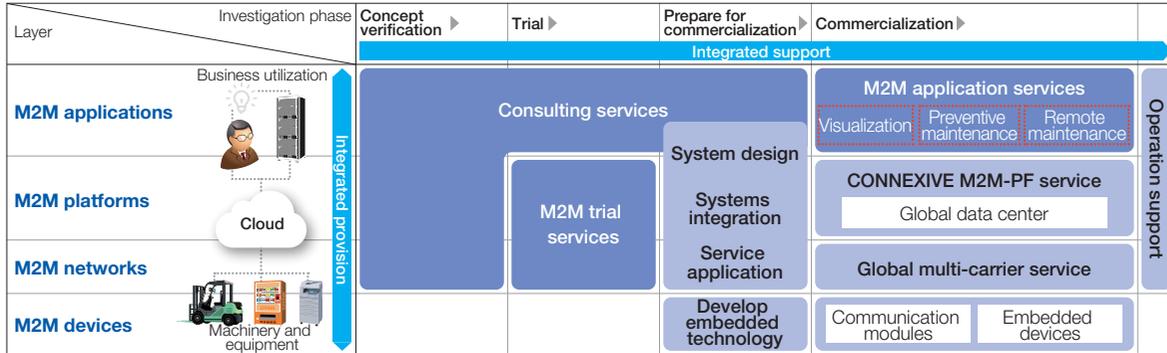
features.

For the retail/services sector, NEC implemented a new distribution system for real-time tracking and management of the inventory of main ingredients used by Mister Donut, which is managed by DUSKIN CO., LTD., and began providing a cloud service for Toyo Logistics Co., Ltd. that enables the company to efficiently verify the position of cargo in transport, inventory availability and other status information. NEC also focused on proposals for solutions utilizing smart devices such as tablet terminals and received orders for an IT platform for Lawson, Inc. to improve the administrative efficiency of store trainers and for a customer service support system for Kojima Co., Ltd.

In addition, steady progress was made on initiatives for expanding new business domains. As a part of efforts to bolster Big Data-related businesses, NEC launched machine-to-machine (M2M) utilization solutions for customers in manufacturing and other sectors for when they begin business activities using M2M technologies. The solution provides end-to-end support for business development through integrated services that are needed at different stages, from planning to commercialization. NEC has begun supplying the solution to machinery manufacturers.

Furthermore, utilizing its manufacturing know-how, NEC provided comprehensive assistance for production innovations at NEPON Inc., helping the company reinforce its business base by reducing inventory and improving cash flow. Going forward, NEC will continue working in this way to create value together with customers.

### Overview of M2M Utilization Solutions for Manufacturers



⋮ Planned for expansion

#### For Further Growth

The domestic market is starting to revitalize around consumer goods thanks to the government’s economic policies, but corporate IT investment is still recovering. At the same time, interest is mounting in Big Data, smart devices, cloud services and other solutions that help customers bolster their competitiveness and reduce costs.

Under this business environment, NEC will work to secure steady sales in its existing systems integration business and boost profitability through rigorous project management. In addition, in Big Data-related areas, NEC will focus on increasing sales of M2M utilization solutions for manufacturers to help customers using M2M improve services, streamline business processes and boost sales. Moreover, in retail/distribution infrastructure, where growth is anticipated, NEC intends to leverage the assets of the NEC Group to promote global business expansion and create new businesses utilizing smart devices.

Specifically, global business expansion will be driven by the Regional Retail Business Support Center (RBSC) established at NEC Asia Pacific Pte Ltd an NEC

subsidiary in Singapore, in May 2013. By standardizing total solutions covering sales management, ordering, inspection and inventory, and store and product management, which NEC has provided to major Japanese retailers, and rolling them out from the RBSC globally, NEC will make highly detailed, locally oriented solutions proposals to retailers with multi-store operations in the Asia-Pacific region, including convenience store and drug store chains.

Additionally, NEC will accelerate development and sales of new services that generate innovation, including mobile POS and online-to-offline, or O2O, services that utilize smart devices. As part of these efforts, NEC launched integrated e-money solutions, which provide systems needed for issuing and using prepaid e-money through an integrated cloud service, and will work to expand this business both in Japan and overseas. Further, harnessing O2O NEC will focus on development of O2O Cloud Services, which connect with smart devices and help users locate stores and make purchase decisions.

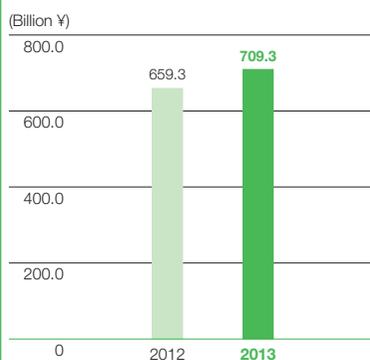
## TELECOM CARRIER BUSINESS

NEC supplies equipment required for network implementation to telecom carriers, 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.

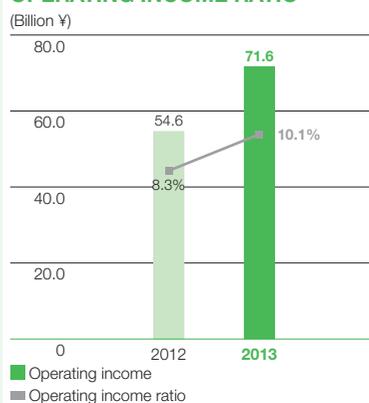
**Shunichiro Tejima**  
Executive Vice President



### SALES



### OPERATING INCOME, OPERATING INCOME RATIO



### Fiscal 2013 Performance and Main Accomplishments

Business segment sales increased 7.6% year on year to ¥709.3 billion. This increase mainly reflected steady growth in domestic business and the consolidation of the business support systems operations of U.S.-based Convergys Corporation.

Operating income improved ¥16.9 billion year on year to ¥71.6 billion, mainly due to higher sales.

In fiscal 2013, NEC provided network infrastructure and built systems to respond to data traffic growth driven

by the uptake of smartphones in Japan. NEC steadily converted these business opportunities into sales.

In international markets, while difficult business conditions continued due to a strong yen and a sluggish European economy, NEC moved ahead with the steady execution of its existing Asia Submarine-cable Express system and South-East Asia Japan Cable projects. In the mobile backhaul business, NEC worked to expand sales to telecom carriers in international markets, including Poland's Polkomtel, Telenor of Norway, and Tele2 Sverige AB of Sweden.

In terms of the services & management business, the NEC Group completed the acquisition of the business support systems (BSS) operations of U.S.-based Convergys Corporation in May 2012, and integrated this business with the operation support systems (OSS) operations of NetCracker Technology Corp., an NEC subsidiary, making it possible to provide telecom operations and management solutions (TOMS). As a result of active efforts to expand sales under this new structure, the NEC Group won an order to supply operation support systems from KDDI CORPORATION, and began providing TOMS to Europe's largest power transmission company Réseau de transport d'électricité (RTE) of France and U.S. telecom carrier Sprint Nextel Corporation (currently Sprint Corporation).



A wireless outdoor unit, the smallest and lightest of its kind in the world, for ultra-compact microwave communications systems (iFASOLINK)



NEC has received an order for a core optical transmission network in Myanmar

### For Further Growth

The environment for business targeting telecom carriers is expected to be marked by an ongoing increase in data traffic, and in the mid-term, the global need for network infrastructure is trending upward. At the same time, in the near term no significant increase is forecast in capital investments by carriers, meaning that for the time being, growth is expected to remain moderate in this market.

Under this operating environment, NEC will continue to focus mainly on wireless broadband access, submarine cable systems and mobile backhaul, as it works to increase sales.

In wireless broadband access, in addition to meeting domestic demand for LTE networks, NEC will focus on efforts to build on its track record overseas, including a joint project with Sumitomo Corporation to build infrastructure in Myanmar, which is now receiving Official Development Assistance (ODA) from Japan. In submarine cable systems, NEC will steadily seize demand for the shift to broadband networks, working to execute existing projects and capturing new deals. In the mobile backhaul business, NEC aims to expand market share through expanded sales of new products and by promoting cost reductions to enhance cost competitiveness.

In addition to these efforts, NEC will focus on expansion of TOMS and SDN, core businesses for future growth. As network infrastructure scales up and becomes increasingly complex, the need to streamline operations management and reduce costs has become a major issue. As a result, telecom carriers are looking to TOMS and SDN solutions as a means of resolving those issues.

In the TOMS business, NEC is building on the global track record of NetCracker Technology Corp. to expand sales to telecom carriers as one of the top providers of complete OSS and BSS. At the same time, NEC will expand this business by working to offer these solutions to companies other than telecom carriers, including those in the electric power and logistics industries. In the SDN business, NEC is already building on its lead in development, having begun collaboration with Spain's Telefónica S.A. in solutions development, and in a joint evaluation project with Portugal Telecom, and accelerating its efforts to quickly bring practical applications to the world's advanced carrier markets. NEC will further work to deploy those achievements in emerging nations, expanding the business globally.

## SYSTEM PLATFORM BUSINESS

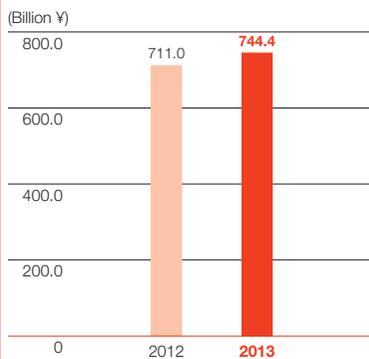
NEC provides products for business, ranging from terminals to network equipment, computer equipment, software products and service platforms, and solutions and services based on them. NEC's solution platforms, which organically fuse these products and solutions and services, reduce labor and improve efficiency in customers' businesses, and at the same time, create new value based on ICT.

**Shinichi Shoji**

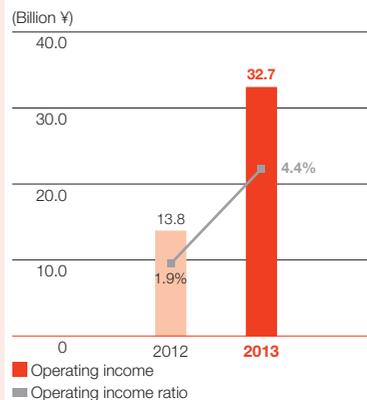
Executive Vice President



### SALES



### OPERATING INCOME, OPERATING INCOME RATIO



### Fiscal 2013 Performance and Main Accomplishments

Business segment sales increased 4.7% year on year to ¥744.4 billion. This increase mainly reflected growth in hardware and software sales due to large projects.

Operating income improved ¥18.9 billion year on year to ¥32.7 billion. This improvement was mainly due to higher sales and structural reforms.

In fiscal 2013, NEC expanded its hardware product lineup, offering models in its PC server "Express5800 series" with enhanced server integration and virtualization capabilities, as well as models capable of operating at room temperatures of 40°C, contributing to energy savings at data centers and corporations. Solid sales of these products enabled NEC's PC server

"Express5800 series" to achieve the No. 1 share\* in the Japanese market for the 17th consecutive year. In mainframes, NEC released a successor product featuring significant improvements in performance and reductions in power consumption over previous models. NEC won an order for Sumitomo Mitsui Banking Corporation's next core banking system. Sales of corporate PCs and other products were also steady.

In software, NEC worked to provide system software such as NEC's core cloud platform software "WebSAM" and scale out database software for Big Data "InfoFrame Elastic Relational Store." In addition, NEC bolstered its product lineup in the security domain and in terms of virtualization.

In enterprise network solutions, NEC delivered a system to Kanazawa University Hospital utilizing NEC's own network technology "programmable flow," based on its "OpenFlow" technology. This delivery was important in the context of NEC's focus on SDN. The technology has also been deployed as a part of NTT Communications Corporation's cloud service platform, and NEC continues to steadily add to its track record. NEC also continued to expand and enhance the functionality of its "UNIVERGE PF series," which also utilizes programmable flow technology, making it possible to respond to a wider range of users and business needs.

In other news, the NEC Tokyo 3rd Data Center and the NEC Kyushu Data Center came online in fiscal 2013, enhancing NEC's services business.

**Supporting Customer Management Innovation with NEC Solution Platforms**



**Introduction speed**  
Platform development time  
**Reduced by up to 60%\***

**Cost**  
Introduction cost  
**Reduced by up to 40%\***

**Reliability**  
Integration and operational know-how  
**Approx. 5,000 projects**

\*Maximum benefit from within the lineup

**For Further Growth**

There is a strong trend toward commoditization among the products offered in the system platform business, making cost competitiveness essential for these products. Under these conditions, NEC will work to reduce costs in order to maintain competitiveness, while also continuing efforts to enhance customer competitiveness by creating new value through the use of ICT.

Efforts to reduce costs will focus in particular on basing the manufacture of server and device hardware on common platforms. This should reduce development and parts costs, leading to a level of cost competitiveness that will enable NEC to survive against global competition.

Additionally, NEC will move away from providing products and services on an individual basis, promoting a shift toward offering an integrated mix of products and service platforms, as it works to create new value for its customers. One effort to realize this concept began with the launch of "NEC Solution Platforms," a group of products that provides vertical integration of system components optimized for specific industries and applications. In addition to the initial 10 models,

which offer optimal combinations of hardware, software, and network products in high-demand areas such as Big Data and cloud service platforms, and packages designed for specific industries and applications, NEC will continue to expand its lineup of models in response to customer needs.

Further, as a response to advanced technology, NEC will continue its focus on the SDN field, building on its extensive track record in both IT and networks to steadily add to its portfolio of achievements in data centers at home and abroad, and in corporate networks and elsewhere.

NEC was also the first to develop "ExpEther" technology, which enables efficient, low-cost system scalability and data transfer acceleration in response to increases in data volume, and is working with partners worldwide to promote its use.

Through these efforts, NEC is working to provide platforms for Solutions for Society, and deliver new value to its customers.

\* Source: CY1996–2012 Japan x86 Server Market (Unit, Factory Revenue (Yen)), IDC, Worldwide Quarterly Server Tracker, 2013Q1



"UNIVERGE PF series" programmable flow switches

# R&D AND INTELLECTUAL PROPERTY STRATEGY

NEC is promoting R&D activities that are closely linked to intellectual property and standardization strategies with the aim of creating an ongoing stream of innovation to significantly develop current businesses alongside fresh innovation as the source of future businesses.

## Main Research Domains and R&D Strategy

NEC aims to realize a society that is safe, secure, efficient and fair by promoting the development of “Solutions for Society” under the “Mid-term Management Plan 2015.” R&D activities at NEC focus not only on generating technical innovation to help current businesses supply “Solutions for Society,” but also on creating original, innovative technologies for future businesses that can provide new social value. Success in R&D helps support the sustainable development of NEC.

NEC is working to accelerate those R&D activities that can make vital contributions in business domains related to “Solutions for Society,” including Big Data analysis, SDN, safety and smart energy. Efforts are also focusing on reinforcing the originality and competitive edge provided through R&D programs involving technical assets such as Big

Data analytics technologies (such as Invariant Analyzer\*, heterogeneous mixture learning and text mining), network virtualization technologies, and sensing technologies for environments from the deep sea to space. In addition to developing these technical assets, NEC’s R&D activities also seek to create highly innovative technologies that push the envelope and redefine the state of the art.

From a strategic perspective, NEC aims to maximize the commercial potential of R&D activities focusing on such domains by seeking to create new value through the active promotion of programs directed at expanding the range of applications for technologies already developed in-house.

For instance, NEC is developing ways of improving the performance of corporate systems or carrier networks by combining security technologies with

## Targeting R&D Domains to Support Business Development

Targeted R&D domains	R&D directly connected to business	R&D for new business creation
Big Data analytics	Processing and analysis of large-scale complex information Text mining, entailment recognition	Creation of customer value through predictions and forecasts Heterogeneous mixture learning, System Invariant Analysis Technology (SIAT)
SDN (Software-Defined Networking)	Developing more efficient corporate ICT infrastructure OpenFlow	Advanced enterprise systems and carrier networks ExpEther+SDN, Broadband Remote Access Server (BRAS)
Real-world data and processing	Real-world information sensing and recognition Facial recognition, subject recognition	Real world optimization based on deep understanding and actuation Behavioral analysis, large-scale video surveillance
Security	Minimization of system security risks Encryption technology, autonomous security	Value maximization via safe data usage Data anonymity, concealment process
Smart energy	Efficient use of electric power Lithium-ion rechargeable batteries, energy management systems (BMU, PCS)	Combining energy efficiency and quality of life Power/heat-integrated EMS, energy usage prediction and control
Smart business	More efficient system integration Model-based systems integration	Analytics-based customer business optimization Data store sizing, battery capacity optimization

\* Invariant Analyzer is an analytics-based technology that extracts and models the relationships within large amounts of data to enable the detection of behavior that is anomalous with the model, thus allowing discovery of potential performance issues.

SDN. Other examples of original R&D programs with global development potential include joint research with Imperial College London in the U.K. on the use of ICT in managing “smart” systems to make more efficient use of water resources, and a collaborative research program with SRM University of India into more efficient electricity usage.

NEC also continues to focus on creating new value in partnership with customers. By undertaking R&D activities from more of a customer-oriented perspective, NEC seeks to grasp underlying

customer needs and create timely R&D outcomes based on a “Global Open Innovation” approach, thereby maximizing value via the parallel development of such results.

Through its R&D programs, NEC aims to contribute to development of “Solutions for Society” as outlined in the “Mid-term Management Plan 2015,” and to create new value to help realize “an information society friendly to humans and the earth” described in the NEC Group Vision 2017.

## Main R&D Achievements in Fiscal 2013

### **Heterogeneous mixture learning technology for automatic detection of recurring patterns within Big Data**

Technology for making highly accurate predictions and anomaly detection based on automatic extraction of regular patterns contained in large amounts of data (a task difficult for humans)

### **High-speed, highly scalable compound event processing technology for analyzing the complexity within Big Data**

Technology for efficient collection and processing of large amounts of data taken from sensors and terminals to support the delivery of real-time analytics services

### **Sensing technology for rapid qualitative differentiation of at least 100 products**

Combining image recognition technology for large numbers of products at one time with technology to detect items located in difficult-to-view areas, this technology is applicable to inventory management and demand forecasting solutions

### **Image sharpening technology for distant objects or viewing at night or under other poor visibility conditions**

Round-the-clock real-time monitoring technology based on enhancing clarity of wide-area surveillance images for distant objects or under night or other poor visibility conditions

### **Joint development with Tohoku University into new device for generating electricity from easily accessible heat sources**

Development of new thermoelectric device for power generation based on the “spin Seebeck effect,” using coatings applied to various heat sources

## Intellectual Property Strategy

The NEC Group owns approximately 65,000 patents worldwide, including approximately 23,000 patents in Japan (as of March 2013). NEC positions intellectual property as “the important management resources for the NEC Group’s business competitiveness and stability,” and is working to strengthen its intellectual property capability. Specifically, NEC is concentrating on establishing a global patent portfolio, to support quickly achieving an overseas sales ratio of 25% as targeted in “Mid-term Management Plan 2015.” In such areas as SDN and smart energy in particular, NEC is carrying out Group-wide strategic patent projects on a global basis to obtain strong patents and patents

that are being utilized.

Furthermore, NEC believes that participating in standardization initiatives will help create and expand businesses, and will also contribute to the stable offering of products and services. In addition to pursuing a business model that utilizes standardization, NEC is engaged strategically in standardization activities by actively participating in standards organizations both in Japan and overseas. Also, as part of external engagements with intellectual property, NEC is actively pursuing licensing activities to reduce business risks and expand business opportunities.

# MANAGEMENT APPROACH TO SUSTAINABLE DEVELOPMENT

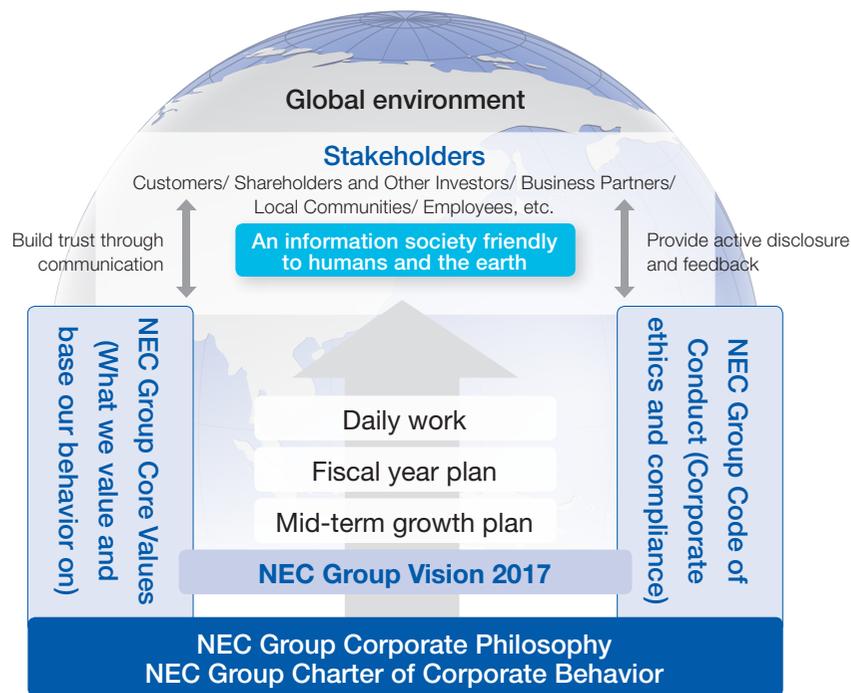
At NEC, we consider CSR initiatives to be inseparable from corporate activities. We aim to ensure the sustainable development of society and the NEC Group by implementing The NEC Way.

Recognizing that enterprises exist within society, we are working to realize “an information society friendly to humans and the earth” which is asserted in the NEC Group Vision 2017 based on NEC’s Corporate Philosophy. The critical elements in achieving this include individual employees ensuring full compliance in daily business activities as part of implementing the NEC Group Core Values, and efforts by the NEC Group to contribute to addressing issues that affect both customers and society as a whole. Our important responsibilities also include ensuring full accountability through the active disclosure of information on the results of our CSR initiatives and related issues, and communicating with stakeholders to improve our corporate activities and build relationships of trust.

In realizing the NEC Group Vision, we have designated seven themes of particular interest to society that we have prioritized in our plans. The following section (pages 31 to 41) outlines four “Initiatives for Solving Issues Faced by Society and Addressing People’s Needs through Business Activities” and three “Initiatives for Internal Management in Support of Business Activities.”

Under “Mid-term Management Plan 2015,” we aim to transform NEC into a “Social Value Innovator.” By creating both social value and corporate value, we aim to achieve growth by addressing issues of real importance to society. Celebrating our 114th anniversary in 2013, we see this as establishing a sound basis for the next century of NEC’s growth. In realizing the “Mid-term Management Plan 2015” and the NEC Group Vision 2017, we aim to create a society that is safe, secure, efficient and fair. This will enable us to create new value continually to support the sustainable development of society and of the NEC Group.

## Sustainable Development of Society and the NEC Group through The NEC Way



\* The NEC Way is a cohesive framework that organizes the NEC Group’s business activities, including the NEC Group Corporate Philosophy, the NEC Group Vision 2017, the NEC Group Core Values, the NEC Group Charter of Corporate Behavior, and the NEC Group Code of Conduct.

## NEC's Seven CSR Initiatives

### Initiatives for Solving Issues Faced by Society and Addressing People's Needs through Business Activities

#### Address climate change and environmental preservation

Human activities are now recognized worldwide as a cause of climate change in the form of global warming. The significant link between economic activities and CO<sub>2</sub> emissions has become a particularly serious social issue.

➔ NEC is not only reducing internal CO<sub>2</sub> emissions, but also working to supply IT-driven solutions that help to lower CO<sub>2</sub> emissions across society. Efforts are also directed at preserving ecosystems and biodiversity, as well as promoting recycling and conservation of resources.

#### Establish a safe and secure society

Global society faces various safety and security issues, including addressing natural disasters, responding to burgeoning healthcare and medical needs, enhancing information security and ensuring human security.

➔ By harnessing cutting-edge IT and network solutions, NEC aims to help establish a society where people can lead safer and more secure lives.

#### Include everyone in the digital society

The digital society will highlight economic and digital divides that prevent some people from deriving benefits from its realization of convenient, affluent lifestyles.

➔ Through the application of information and network technologies, NEC will remain a good corporate citizen by helping to ensure that the benefits of the digital society enhance the lives of all people irrespective of their circumstances, including seniors, people with disabilities and citizens of developing nations.

### Build reliable information and communications infrastructure

NEC aims to solve various social issues, including addressing climate change and environmental preservation, establishing a safe and secure society, and including everyone in the digital society. Highly reliable information and communications infrastructure is essential to achieving this goal.

➔ NEC seeks to apply innovation to develop highly reliable information and communications infrastructure to support "an information society friendly to humans and the earth."

### Initiatives for Internal Management in Support of Business Activities

#### Earn customer trust

NEC considers customer value from a social perspective and seeks to work with customers to find solutions to social issues. Accomplishing this goal requires strong customer relationships built on trust. NEC is continually focused on building customer trust through initiatives targeting increased customer satisfaction (CS), quality and security.

#### Empower our people

NEC is working to promote quality workplaces that respect diversity, and to cultivate human resources on a global basis. Programs to maintain the health and safety of employees are ongoing. NEC also encourages employees to participate in local volunteer activities to promote greater consideration of the relationship with society and sensitivity to social needs.

#### Strengthen risk management and enforce compliance

NEC must strengthen risk management and compliance practices to ensure that business management is always sound from the standpoint of society. To this end, we will develop more secure internal systems and procedures across the NEC Group, and strengthen supply chain initiatives.

# BUILD RELIABLE INFORMATION AND COMMUNICATIONS INFRASTRUCTURE

NEC has built highly reliable information and communications infrastructure based on ICT for many years, so it can help establish a society where people can lead safer, more secure and comfortable lives.

Here, we present traffic management systems for expressways that underpin the foundation of the transportation network.

## Traffic Management Systems for Ensuring the Safety and Security of Expressways

### Leveraging Years of Expertise and Advanced Technological Prowess to Build Expressways with Customers

The Shin-Tomei Expressway opened in April 2012. The new route has dispersed traffic and eased congestion between Tokyo and Nagoya, contributing to more efficient and safer driving.

NEC delivered a traffic control system to Central Nippon Expressway Company Limited (NEXCO Central) for the new expressway.

NEC has supplied traffic management systems to expressway operators since 1984. Deliveries have been for the Tomei Expressway, the Meishin Expressway, the Hokuriku Expressway, the Tohoku and Joban Expressways, and the Chuo Expressway. Our traffic management systems are the fruit of this expertise and advanced technological capabilities and tackling various systems operations challenges in the field with customers.



Road information boards at the turnoff for the Shin-Tomei Expressway



Tomei Expressway and Shin-Tomei Expressway  
(Excerpt from NEXCO Central's website)

### Systems That Drivers and Operators Can Trust

Japan has a nationwide network of expressways: social infrastructure that is essential for trucks to transport massive volumes of cargo and for passenger cars to travel efficiently. Traffic management systems function around the clock, 365 days a year so drivers using these expressways can travel safely, securely, and comfortably.

NEXCO Central has positioned the provision of real-time traffic information as a pivotal concept in the development of new traffic management systems. On the Tomei Expressway, the collection of road data and the supply of traffic information is at roughly five-minute intervals. By realizing the concept of reducing the interval to about one minute, or five times quicker than today, more realistically reliable information can be obtained with few time lags.

It is essential to build a comprehensive information environment in which personnel at expressway control centers housing traffic control systems can accurately assess road conditions based on information gathered in real time, with information being quickly shared and confirmed in the center. A vital priority is to make networks more robust and highly reliable so systems can remain operational even after major disasters.



Traffic information is provided by information terminals at service areas

### Facilitating Real-time Information Provision with High-speed Processing of Big Data

Expressways already deploy traffic counters, rain, wind, and other weather information sensors, seismographs, boards that inform drivers about traffic conditions, and other facilities.

The Shin-Tomei Expressway offers vastly improved equipment for inputting and outputting information. For example, traffic counters are positioned at intervals of one kilometer, compared with two-kilometer intervals on the Tomei Expressway. Furthermore, data are collected every minute on the Shin-Tomei and Tomei expressways. For this, much greater processing power is required.

NEC's Big Data processing technologies process the huge amounts of collected data, delivering information almost in real time to drivers through road information boards, highway radio transmissions, Vehicle Information and Communication System (VICS\*)-enabled car navigation systems, service area information terminals, and other means.

### A Grandstand View of Tomei and Shin-Tomei Expressways' Road Conditions on a Giant Screen

At its Tokyo control center, NEXCO Central installed a 4 meter by 18 meter display that comprises 64 46-inch LCDs.

Screens show conditions on the Tomei Expressway,



The giant screen at the control center

Shin-Tomei Expressway, and related highways that the center controls. They also show at a glance and in real time where accidents, congestion, weather changes, earthquakes, or other phenomena have occurred.

Traffic controllers keep tabs on constantly changing information on screens, issuing accident response and traffic restriction instructions as needed to locations.

### Quick and Stable Collection, Processing and Provision of Various Information via Optical IP Networks

The speed of networks underpinning new traffic management systems has been accelerated using optical IP technologies so they can gather, process, and rapidly deliver vast amounts of information.

Furthermore, innovations in network structure create a framework in which communications remain stable even if failures occur.

We are also constructing backup systems so that if the Tokyo control center goes down in a major disaster, counterpart centers can take over its tasks.

### Aiming to Realize Safe, Secure and Comfortable Transportation Infrastructure

It is said that effectively harnessing Big Data and networks can contribute to resolving various issues arising from motorization, including increases in traffic accidents, congestion, and air pollution. NEC will take even more advantage of its expertise in using such tools to pursue the challenge of creating new value and thereby contribute to the realization of safe, secure, and comfortable transportation infrastructure.

\* VICS (Vehicle Information and Communication System): An information and communication system that communicates congestion, traffic restrictions and other road traffic information in real time and displays text and graphics on car navigation systems and other in-vehicle devices.

# ADDRESS CLIMATE CHANGE AND ENVIRONMENTAL PRESERVATION

As a medium- to long-term environmental management plan to contribute to the realization of the NEC Group Vision 2017, NEC developed an action plan in June 2010 called the NEC Group Environmental Management Action Plan 2017/2030. Under the plan, NEC is tackling three key themes—low carbon, ecosystem and biodiversity preservation, and resource recycling and conservation.

## Promoting the NEC Group Environmental Management Action Plan 2017/2030

NEC has set the target of reducing total CO<sub>2</sub> emissions by 15 million tons by fiscal 2018 through the provision of IT solutions that reduce the environmental impact of customers and society, with the aim of realizing a low-carbon society. In fiscal 2013, NEC helped to reduce an additional 2.98 million tons of CO<sub>2</sub> emissions. This represented total CO<sub>2</sub> emission cuts of 7.41 million tons over 3 years from fiscal 2011, so NEC is thus proceeding at a pace ahead of its target, and will continue focusing on these activities.

By fiscal 2018, NEC aims to lower CO<sub>2</sub> emissions at product usage stages by 80% from fiscal 2006 levels through improvements to the energy efficiency of its products. In fiscal 2013, the reduction was 64%. A good example is NEC's Eco Symbol Star-approved, digital terrestrial TV transmitters for TOKYO SKYTREE®, which incorporate an ultrahigh efficiency water-cooled power amplifier. These transmitters consume more than 40% less electricity than conventional counterparts.

From the perspective of ecosystem and biodiversity preservation, NEC has been developing biodiversity conservation solutions that draw on the NEC Group's

advanced technologies and products. In the year under review, NEC started disseminating information on three solutions that contribute to ecosystem and biodiversity preservation.

NEC is employing its NeCycle™ bioplastic in products to encourage the widespread use of this material, as an initiative for promoting recycling and conservation of resources.

### Strengthening Scope 3 Compliance

Since fiscal 2013, NEC has been reinforcing adherence to the Scope 3 Standard under the Greenhouse Gas Protocol, with the aim of cutting overall CO<sub>2</sub> emissions in its supply chain. In fiscal 2013, NEC obtained validations from third-party institutions and confirmed calculation techniques based on the results of the previous term in building a framework to collect information. The NEC Group generated a Scope 3 percentage of 94% for fiscal 2013 against a Scope 1 and 2 aggregate of 6%. Looking ahead, NEC will improve the energy-saving performance of its products, and at the same time work to reduce overall CO<sub>2</sub> emissions in its supply chain.

## Biodiversity Preservation Programs at the Abiko Plant

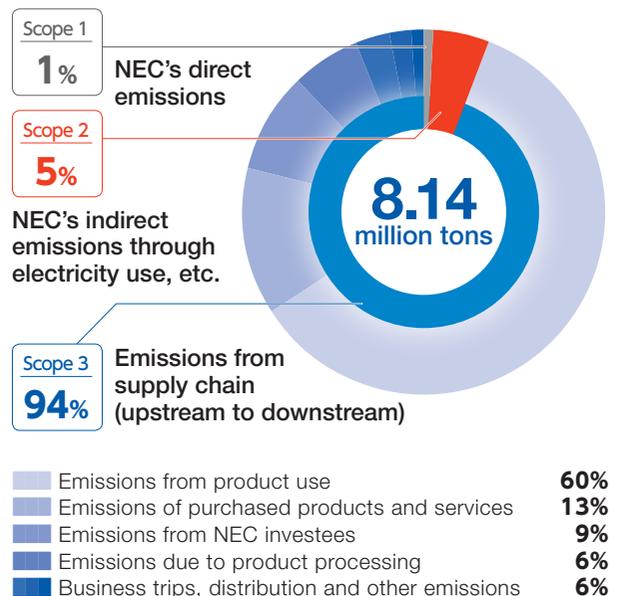
NEC's Abiko Plant is located in a rich natural environment, centered on four ponds. The area around the ponds is home to a brook damselfly (*Coperata tokyoensis*), which is an endangered species. Also inhabiting the ponds are exotic fish that threaten native species and are upsetting the environmental balance.

NEC collaborated with the Teganuma Pond Aquatic Life Research Society in completely draining one of the ponds to remove

numerous exotic fish. Employees and their families took part in an initiative to set up a biotope to protect the brook damselfly. Around 300 people participated in four flora and fauna observation events.



A brook damselfly



## Japan's First Fixed Home Energy Storage System Rental Service\* Begins

Since the Great East Japan Earthquake, there has been a great need for stable electricity supplies, distributed power to address electricity output fluctuations, and to secure emergency power supplies. The uptake of battery storage systems is extremely desirable in this context. Regular households also increasingly need to use less electricity as well as to secure access to power in disasters or outages.

To accommodate such social expectations, NEC joined forces with ORIX Corporation and EPCO Co., Ltd. to establish ONE Energy Corporation, which harnesses the expertise and strengths of all three partners. ONE Energy has launched a service employing a fixed lithium-ion battery storage system. This setup offers new lifestyle alternatives to households by enabling them to “skillfully store and wisely use electricity.”

ONE Energy offers a new energy service that includes fixed monthly rental charges and simulations of installation benefits.

Users of this service can store cheaper off-peak midnight electricity that can be consumed during the day, curbing their power bills, while securing emergency power supplies.

In addition, the operational status of the battery storage system is constantly monitored remotely through cloud services. ONE Energy offers proper support for each user such as replacing batteries if performance deteriorates. A smart house app lets users visualize home energy usage by

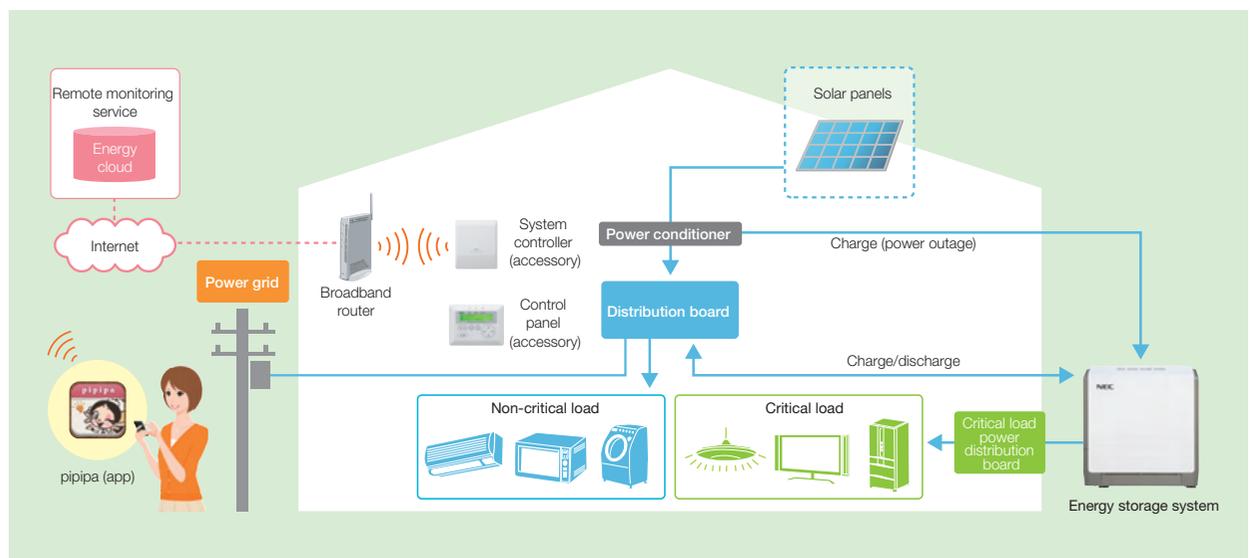


Joint press conference by ORIX, NEC and EPCO

enabling them to check power savings through their smartphones and to be supplied with services such as power savings forecasts and power saving options.

In the future, ONE Energy may explore the provision of more new energy services such as networking smart houses so it can supply low-cost electricity, and buying and trading surplus electricity.

Through these sorts of activities, NEC will promote the uptake of battery storage systems to contribute to the realization of an energy-efficient society.



\* As of April 2013, SVP JAPAN Co., Ltd. survey

# ESTABLISH A SAFE AND SECURE SOCIETY

Global society faces various issues, including addressing natural disasters, responding to burgeoning healthcare and medical needs, enhancing information security and ensuring human security.

Here, we spotlight how we are helping establish a society where people can lead safer and more secure lives. Examples include an inter-public facilities hotline system and an ICT system for World Cup stadiums.

## Ensuring an Information Exchange Network in Disaster-hit Regions with a Robust Inter-public Facilities Hotline System

The Great East Japan Earthquake damaged the public network in Rikuzentakata City, Iwate Prefecture, causing communication difficulties stemming from cable severances and extreme line overloads. This greatly affected communications between elementary and junior high schools and other public facilities that served as shelters.

After disasters and other emergencies occur, fax-based communications become vital for evacuee rosters, and sharing handwritten maps and messages, and providing visual information that is difficult to convey orally.

NEC delivered a robust disaster hotline system for communications between Rikuzentakata City's elementary and junior high schools and other public facilities. The system combines an IP announcement broadcasting system with the existing public network. This setup has established proper phone and fax communication between local public facilities even if a disaster occurs.

So that school staff can use it without confusion during emergencies, the system functions as a regular contact network between elementary and junior high schools.

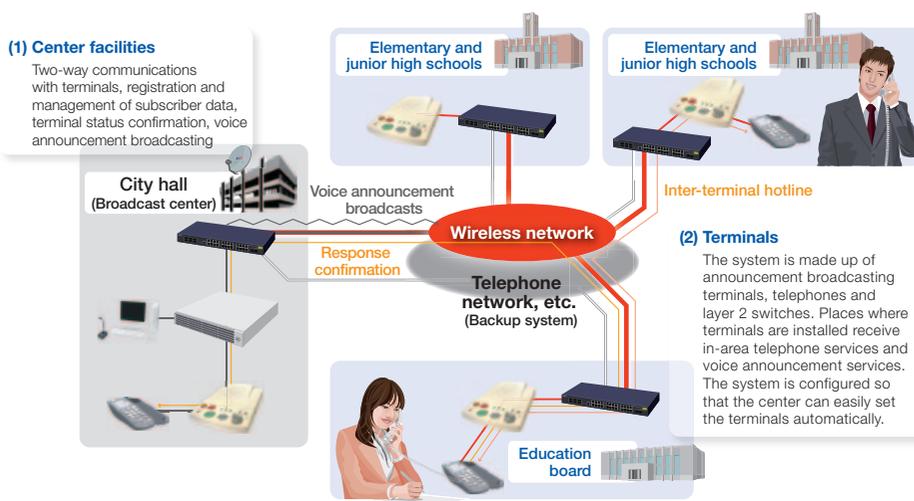


Network equipment is installed on an elementary school building

Municipalities around Japan have drawn from the experience of the Great East Japan Earthquake in reinforcing and rebuilding means of conveying and sharing information that is vital in disasters. Schools and other public facilities not only secure the safety of students and staff but also function as disaster centers and shelters for residents, making it essential to maintain more robust information and communications infrastructures.

NEC will take advantage of its advanced wireless technologies, disaster information systems, and other know-how to promote the use of this system going forward. NEC will also propose the system to hospitals, nursing care facilities, and community centers, as well as to elementary and junior high schools around Japan that serve as disaster refuges, thereby contributing to community safety and security.

### Overview of an Inter-public Facilities Hotline System



## NEC Technologies Play a Part at the World Cup

The next World Cup, a quadrennial event, will be held at 12 stadiums throughout Brazil in 2014. The construction of stadiums and other tournament preparations are proceeding rapidly. NEC is deeply involved in related projects.

NEC is working on ICT systems at 4 of the 12 official stadiums, as well as 1 training center.

These stadiums incorporate state-of-the-art design and technologies, and are leading examples in Latin America of facilities that factor in sustainability and environmental protection.

NEC's comprehensive setup includes a voice and data communications infrastructure, as well as large screens, digital signage, security solutions, audio systems, and building management systems. The employment of such ICT systems will greatly enhance spectator safety and comfort and make it possible for entire families to enjoy watching matches with peace of mind.

Brazil is taking advantage of its remarkable economic growth and World Cup hosting to undertake smart city initiatives, starting with areas around the tournament stadiums. NEC will also be deeply involved in this major project, establishing smart services encompassing IT, network infrastructure, and other elements, thereby helping to create a safer and more secure society.



Itaipava Arena Pernambuco under construction

## NEC Internet Safety Classes

NEC inaugurated NEC Internet Safety Classes in 1999 as part of its social contribution initiatives, the goal being to ensure that children can use the Internet safely and securely. NEC conducts the classes in collaboration with NPO Eparts, to help safeguard children from online dangers.

By using computers to write on bulletin boards or on chat sites, children learn how to deal with the leakage of personal information and with character assassination and other forms of online bullying. They also learn from

case study simulations of computer virus infections, phishing, and other issues, and how to protect themselves.

A total of 417 children took part in 9

classes nationwide in the year under review (since the inauguration of this program, about 25,000 children have attended a total of 200 classes).



# INCLUDE EVERYONE IN THE DIGITAL SOCIETY

NEC aims to ensure that all people on earth are included in the digital society by helping to solve social issues through ICT.

The section presents the challenges of resolving poverty in India, the efforts of NEC Africa (Pty) Ltd. to tackle social issues, and solutions for managing elderly care facilities to overcome looming issues as China's population ages.

## Viewing the Solution of Social Issues as a Growth Opportunity, Creating New Business Models

### Using Japanese Technology to Help Solve Poverty in India

NEC is proceeding with trials toward commercializing an agricultural business in India with two aims. One is to help impoverished women in rural India to escape poverty by generating incomes from cultivating top-quality Japanese strawberries. The other is to establish support for agriculture as a business for NEC.

The business partners in this initiative are the Institute of Cultural Affairs Japan, an NPO that is helping to improve living standards in rural India, and GRA Inc., an agricultural production organization that helped the town of Yamamoto in Miyagi Prefecture revive the cultivation of high-quality strawberries by using ICT after it was devastated by the Great East Japan Earthquake. A test facility in western India has started steady shipments of strawberries.

As well as providing equipment, NEC is supplying information that is essential for developing cultivation expertise through cloud services.

### Fusing Simple Production Facilities and Advanced Cultivation Expertise

This project is using a Yamamoto strawberry variety that is renowned for its deliciousness and high quality. The strawberries are grown using a nutriculture system in fully enclosed greenhouses to reduce vulnerability to disease and insect damage and minimize the use of agrochemicals. The greenhouses use simple cooling devices incorporating water

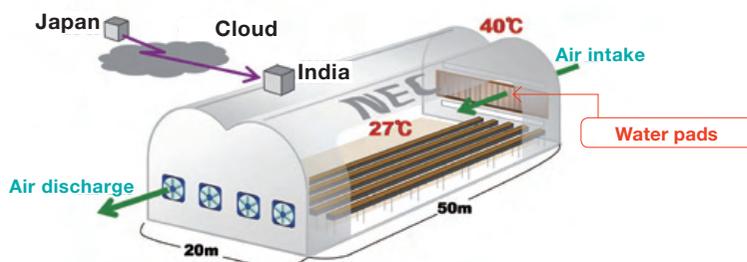
pads to maintain proper temperatures. Instead of soil, the growing beds comprise coco peat, from crushed coconut shells. A cloud service setup was deployed so villages could swiftly obtain cultivation guidance remotely directly from agricultural technique specialists in Yamamoto when unsure about decisions on cultivation methods. Using cloud services to easily link simple production facilities and advanced cultivation expertise has enabled rural women to grow high-quality strawberries without needing their own expertise.

### Solving Social Issues While Creating New Markets

In India, agricultural produce has to go through many intermediaries before shipping to market. Such an approach damages a lot of produce, resulting in large distribution losses. NEC resolved this problem by using ICT to manage cultivation, thereby ensuring planned harvesting of produce and stabilizing quality, and using direct contracts to enable direct deliveries to luxury hotels in urban areas. The hotels can thereby consistently sell fresh and tasty strawberries to wealthy customers.

NEC derives two types of value from supporting the development of markets for high-quality produce through its agricultural solutions. The first is that this approach is a means to people escaping from poverty. The second is that creating new markets can generate new business opportunities for NEC.

NEC will continue to focus on this project as an initiative for creating a new business model based on special local needs.



## NEC Africa Established to Develop Business in Africa in Earnest

NEC sees Africa as an important market and is thus strengthening business development there. NEC also took part in the Tokyo International Conference on African Development (TICAD), which was held in Yokohama, Japan, in June 2013 and was attended by more than 50 African nations. This is one way in which NEC is working to raise its presence in Africa.

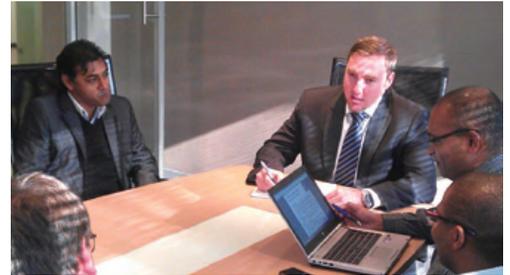
NEC's activities in Africa date back to the 1960s, when it delivered phone exchange equipment, microwave communications facilities, and broadcasting equipment. From the 1990s, NEC began supplying national ID systems employing fingerprint identification technologies. In recent years, NEC has been using monitoring and access control systems employing facial recognition techniques and other new technologies to contribute to safety in African nations.



National ID system

NEC established NEC Africa (Pty) Ltd. in the Republic of South Africa to oversee sub-Saharan businesses, and this company began operations in December 2011. In fiscal 2013, NEC set up the NEC Nairobi branch office in Kenya and NEC West Africa Limited in Nigeria to reinforce business development throughout the sub-Saharan region.

Africa is ethnically and linguistically diverse, making it important to ensure mutual understanding. NEC will focus on helping build communications infrastructure that will promote this communication, and on building secure and safe social foundations such as biometrics identification. In addition, NEC will contribute to the region by fostering local human resources.



The president of NEC Africa meets with his staff

## Helping China's Elderly Lead Graceful Lives

People aged 65 or over account for 8.5% of China's population. Estimates suggest that they will represent 11.7% of the total by 2020, making China an aging nation. There is an urgent need therefore to ensure safe and secure lifestyles for elderly citizens.

NEC is supplying comprehensive administrative solutions to the Huichen Senior Service Group, a leading elderly care entity in China. The solutions are designed to improve the efficiency of facilities management and nursing care operations drawing on ICT, sensors, and tablets and provide high-quality elderly care services.

Nursing home residents use an all-purpose card (a card key incorporating a contactless IC chip) to access all services and facilities. The card can be used for entry and exit management, location checks, and facility service guide displays, and facility usage records. Caregivers can use

tablets to check resident medical records and prescription information, manage diets, and place orders. Goals down the track include providing remote diagnoses by checking digitized medical information.

NEC will continue helping to create improved lifestyles for China's elderly in the digital society.



The wireless system control room of the Huichen Senior Service Group

# EARN CUSTOMER TRUST

Since its founding in 1899, NEC has been developing a corporate culture under the motto “Better Products, Better Services,” in which we create products and services that are more valuable to customers, and in which every one of us understands, considers, and quickly responds to what our customers expect in order to make NEC a company that is trusted and chosen by customers.

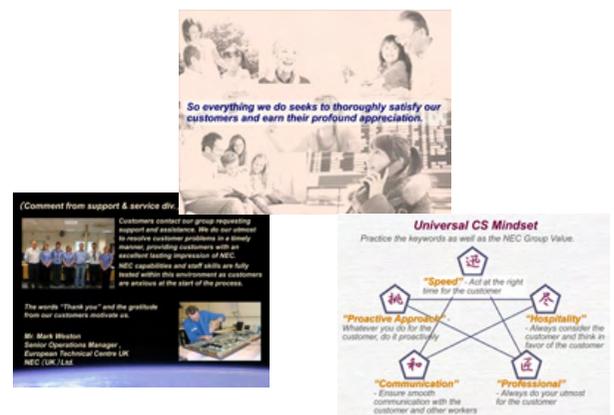
## CS Training for All NEC Group Employees

It is crucial to ensure that all employees adhere to the spirit of the “Better Products, Better Services” motto so NEC can realize its goal of being a leading global company under the NEC Group Vision 2017. In fiscal 2013, NEC reinforced and expanded its education and awareness programs to entrench recognition of the importance of customer satisfaction (CS).

Through these education and awareness programs, NEC considered what was necessary for CS and encapsulated this in the Universal CS Mind, whose five keywords—speed, communication, hospitality, proactiveness, and professionalism—express the key points for raising customer satisfaction. These are based on past success stories, and customer feedback.

At NEC, around 52,000 employees have undertaken this training to date, not only in Japan, but also in the

Asia-Pacific, Europe, the Middle East, and Africa, North America, and Latin America.



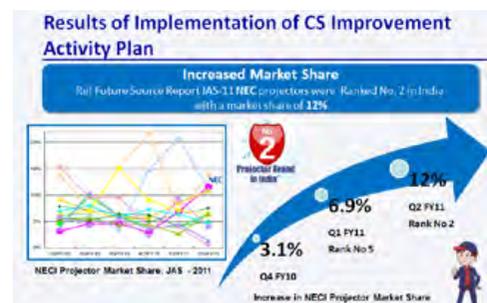
NEC conducts CS training globally to instill in employees the importance of customer satisfaction

## Improvements in India Based on CS Surveys

NEC India Pvt. Ltd. handles IT and network solutions, as well as projectors, monitors, and other products. This subsidiary has made NEC a leading projector brand in India despite numerous companies entering that field, intensifying local competition.

In 2011, NEC India conducted its first customer satisfaction survey of these products, with 46% of respondents saying they were “dissatisfied.” The company thereafter set about identifying the causes of such dissatisfaction and in 2012 increased the number of service centers from 6 to 66. It also worked on improving its activities, such as by shortening replacement part delivery times, and undertaking quick response initiatives to resolve customer inquiries. These efforts translated into a drop in “dissatisfied” customers to 14% and far better customer satisfaction in the fiscal 2013 survey. Many customers also expressed their thanks.

NEC will continue working to raise employee awareness of customers and will strive group-wide to contribute to greater levels of customer satisfaction through its CS No. 1 initiatives, thereby becoming the corporate entity preferred by customers.



NEC's projector market share in India

# EMPOWER OUR PEOPLE

Employees embody the NEC Group Core Values and drive the NEC Group Vision 2017. As employees are contributors to “One NEC” cohesiveness, we undertake various initiatives to foster globally active human resources.

## Developing Global Professionals

To further support its global growth from the personnel side, in fiscal 2011 the NEC Group began building a framework for developing professionals based on what is optimal for the global organization. NEC has set out a global standard human resources and skills framework, intended to provide a common global scale for gauging human resources. The system involves use of a Web-based SaaS-style human resource and skill management tool to improve the visibility of personnel at overseas subsidiaries with professional skills, and their utilization across the global organization.

In fiscal 2013, NEC targeted overseas subsidiaries that engage mainly in systems integration and software development. NEC Telecom Software Philippines, Inc. was among Group companies that began deploying this framework. In fiscal 2014, NEC plans to expand this program, primarily targeting entities in the Asia-Pacific and greater China regions, and also expand the number of personnel targeted for the program.

## Communication with Employees —One NEC Survey—

Every year, the NEC Group conducts the One NEC Survey, an opinion survey targeting the employees of the NEC Group companies. The company uses the survey materials to identify issues and devise action plans for conducting Group-wide management and performing evaluations based on the NEC Group Vision 2017 and Core Values. The survey materials are also used to comprehensively understand employee thinking at each Group company about the company, workplaces, duties and other matters, and consider the need and direction for personnel initiatives and measures to revitalize the organization.

The fiscal 2013 survey, conducted in July through September 2012, obtained responses from 84% of the 54,347 employees polled. The survey identifies the extent to which each employee “embraces core values” and “feels motivated,” and aims to identify key factors in improving those attributes. NEC publishes the results on its intranet and feeds them back to each organization of the NEC Group to reinvigorate the organization and help materialize mid-term management plans.

## Employees’ Global Social Contribution Activities —NEC Make-a-Difference Drive (MDD)—

In the “NEC Make-a-Difference Drive” (MDD), NEC Group employees around the world volunteer to take part in various activities that make a valuable social contribution to their local communities. This helps employees to discover something new on a personal level, while helping to cultivate stronger group cohesiveness as “One NEC” and a corporate mindset of high social commitment. In turn this helps NEC to achieve the goal of creating enhanced corporate value. This program was inaugurated in 1999. In fiscal 2013, around 127,407 participants on a cumulative basis donated a total of 124,861 hours of their time in 17 countries.



An IT classroom for children at NEC Infrontia Thai Limited

# STRENGTHEN RISK MANAGEMENT AND ENFORCE COMPLIANCE

The NEC Group believes that compliance is essential for a company to coexist with society and fulfill the expectations of stakeholders. The NEC Group is working to strengthen risk management and compliance practices through ongoing activities to raise awareness, the establishment of internal consultation and reporting systems, the selection of priority risks, and other activities\*. In this section, the NEC Group introduces some activities to achieve global business expansion.

## Promoting Fair Trading

Countries around the world have enhanced enforcement of competition laws and anti-bribery regulations in recent years. Since 2008, NEC has encouraged overseas companies within the NEC Group to establish Competition Policy. NEC has for some time had a compliance manual to accommodate the Antimonopoly Act of Japan. It additionally formulated a Competition Law Compliance

Policy in October 2011 mindful of complying with overseas competition laws as well. NEC has also established the Rules for Contacts with Competitors and the Basic Rule on Anti-bribery. The NEC Group will continue to pursue fair trade going forward, including through training for its employees worldwide.

## On-site CSR Assessment in Supply Chains

To date, NEC has used its Supply-Chain CSR Check Sheet in conducting written surveys of overall CSR activities to encourage CSR initiatives among suppliers.

In fiscal 2013, NEC prioritized human rights and occupational health and safety, areas which written surveys had revealed as insufficient, in launching the CSR-PMR (CSR Process Management Review) assessment. This on-site CSR assessment program is designed to improve suppliers'

management practices. NEC chose one domestic and one Chinese manufacturing contractor to conduct a trial of this multi-faceted assessment, which included interviews with their employees.

A key feature is that assessments are not consigned to external auditors or other third parties, but are conducted by trained in-house employees who visit supplier sites for direct observations and discussions. Assessments are not unilateral, but are based on NEC and suppliers mutually understanding one another's circumstances in keeping with a commitment to the concept of Co-Capacity Building in CSR, which seeks to raise respective CSR capabilities.

Before instituting the program, NEC exchanged views with several non-government organizations and experts and confirmed the appropriateness of methodologies and tools. NEC will continue leveraging CSR-PMR to promote CSR initiatives in its supply chain.



A meeting with NGO experts in Hong Kong.

\* Please visit the internal control (compliance and risk management) link below for further details.

<http://www.nec.com/en/global/csr/>

# STAKEHOLDER ENGAGEMENT

As it endeavors to transform itself into a Social Value Innovator, NEC is working to improve its CSR activities based on stakeholder engagement, as emphasized in the ISO 26000 international standard for social responsibility. In this section, NEC highlights dialogue with people in Great East Japan Earthquake-damaged areas in the third year of reconstruction and presents a consumer issues case study from discussions with NPOs who are experts on core subjects of ISO 26000.

## Dialogue with Miyagi Prefecture's Minamisanriku Town —Toward the Third Year of Restoration

In fiscal 2013, the NEC Group continued initiatives to support restoration from the Great East Japan Earthquake.

Some employee volunteers "voiced their concerns whether our activities are truly useful for the people in disaster affected areas." Others asked, "What do local people really need?"

So, in February and March 2013, a full two years after the disaster, more than 100 local residents and NEC Group employees gathered in two dialogue sessions about how restoration efforts might unfold in the third year.

One opinion from a resident was that, "Very often our discussions among ourselves don't go beyond the ideas stage. I get the impression that things become more feasible when we talk with companies." Another said that, "When we locals talk among ourselves we tend to hold back, but when people from companies participate in discussions, we can

speak frankly." One view from attending employees was that, "I'd like to move forward by matching the support we can offer in volunteer activities and in areas in which it would be best to take part as a business." Another opinion from an NEC person was that, "We learned what people want from us through these discussions."

Looking ahead, the NEC Group will work as one to continue to assist with recovery efforts in the disaster-affected regions.



Dialogue in Minamisanriku Town, Miyagi Prefecture

## Dialogue with an NPO (CRF) for Transforming into a Social Value Innovator

In May 2013, NEC held a dialogue with the representatives of CSR Review Forum—Japan (CRF), an alliance of civil organizations. The gathering covered consumer issues, a core subject of ISO 26000, in discussing how BtoB entities like NEC can create social value that reflects the perspectives of consumers.

The session drew on a case study in which NEC collaborated with a customer (an airport authority) to design an airport flight information system from the perspectives of general users. The system earned considerable praise from the customer. Participants from CRF and NEC's Universal Design, customer satisfaction, information security, and think tank units exchanged opinions on the importance of consumer perspectives.

One opinion from the CRF participants was that NEC's aim to boost competitiveness by combining its marketing and technological capabilities with consumer and social design perspectives would be the key to becoming a Social Value Innovator under the "Mid-term Management Plan 2015." CRF said that it looked forward to NEC deploying this approach company-wide.



Dialogue with CRF

# CORPORATE GOVERNANCE

(As of June 24, 2013)

In recognition of the fact that reliable corporate governance is essential to 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.

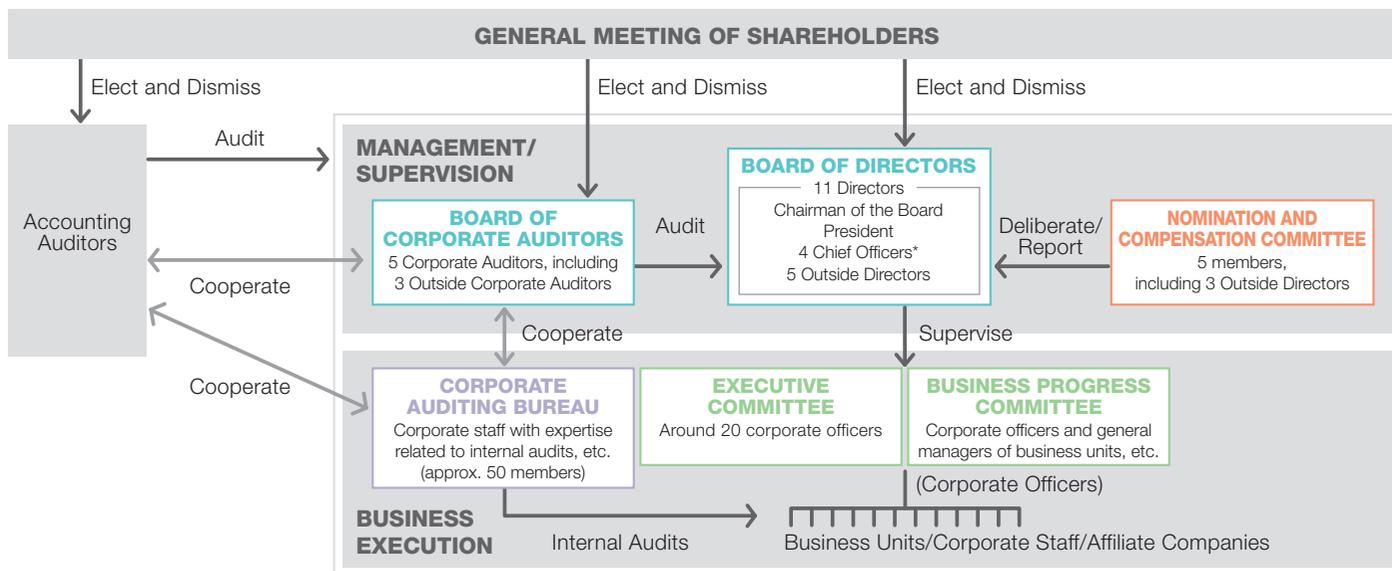
## Corporate Governance Structure

NEC has adopted the corporate auditor system of corporate governance, as illustrated in the chart below.

NEC has introduced a corporate officer system to separate management supervision from business execution and implement business operations based on prompt decision making. This has involved transferring substantial authority for business execution from the Board of Directors to corporate officers. The total number of directors was reduced from 13 to 11 at the Ordinary General Meeting of Shareholders held on June 22, 2012. NEC has also strengthened the supervisory functions of the Board of Directors by ensuring

that 5 of the 11 directors are outside directors. Furthermore, NEC has been working to improve transparency of personnel matters of directors and corporate auditors and remuneration of directors and corporate officers by making decisions on such matters based on the results of discussions by the Nomination and Compensation Committee. NEC has also put in place personnel and systems to reinforce the functions of the corporate auditor's audit, while encouraging closer cooperation among NEC's corporate auditors, internal auditing division and accounting auditors.

<http://jpn.nec.com/profile/en/governance.html>



\* NEC has formulated a company-wide strategy for realizing the NEC Group Vision 2017. To this end, NEC appointed chief officers in July 2011 to lead business unit operations and promote business development.

## Independence of Outside Directors and Outside Corporate Auditors

NEC appoints outside directors primarily for the purpose of (i) strengthening the supervisory functions over business execution; (ii) obtaining a broad range of advice on corporate management; and (iii) enhancing accountability for management. Also NEC appoints outside corporate auditors to conduct audits from a neutral and objective perspective. NEC appoints outside directors and outside corporate auditors based on consideration of the following factors: candidates who possess outstanding personal character and knowledge, as well as high ethical standards; candidates who

sympathize with the NEC Group Corporate Philosophy, and are able to act with strong will to achieve it; and candidates who possess the experience, knowledge and other qualifications shown on the table on the following page. The Board of Directors is structured so as to ensure the independence of the outside directors, while the independence of each outside corporate auditor is ensured. The independence of these officers is determined based on criteria for independence stipulated by the Tokyo Stock Exchange. Furthermore, since June 2004 the term of directors has been set at one year in order to clarify their responsibility for management every fiscal year.

## REASON FOR APPOINTMENT OF OUTSIDE DIRECTORS AND OUTSIDE CORPORATE AUDITORS AND ATTENDANCE AT MEETINGS

Position	Name	Reason for appointment	Attendance at meetings in fiscal 2013 (times)	
			Board of Directors	Board of Corporate Auditors
Outside Directors	Takeshi Kunibe	Extensive experience and deep insight as a bank manager	12/14	—
	Hitoshi Ogita	Extensive experience and deep insight in management of a manufacturing company	11/12	—
	Kaori Sasaki	Wide range of knowledge on marketing and perspective of consumers	10/12	—
	Motoyuki Oka	Extensive experience and deep insight in management of a general trading company, including the management of overseas firms	Inaugurated in June 2013	
	Kunio Noji	Extensive experience and deep insight in management of a manufacturing company		
Outside Corporate Auditors	Satoshi Itoh	Extensive audit experience and specialized financial and accounting knowledge as a certified public accountant over many years	12/14	15/15
	Ryoji Nakagawa	Extensive experience and deep insight as a former Supreme Court judge and a lawyer	14/14	15/15
	Hideo Yamada	Experience in teaching and research in the fields of corporate finance and accounting at universities and other institutions as an expert in corporate management strategy	14/14	15/15

### Remuneration for Directors and Corporate Auditors

For the purpose of continuously improving corporate value and strengthening its competitiveness, NEC's basic policy on the remuneration for directors and corporate auditors is to establish a remuneration level and structure appropriate for a global company. This policy is designed to enable NEC to secure excellent human resources while providing additional incentive for directors and corporate auditors to improve the performance of the NEC Group.

Remuneration for directors is determined by resolution of the Board of Directors based on the results of deliberations

of this remuneration by the Nomination and Compensation Committee, of which the majority of members are outside members. Remuneration for corporate auditors is determined through discussions within the Board of Corporate Auditors. The level of the remuneration is determined based on the result of a third party's investigation regarding the remuneration of other companies whose business content and scale are similar to those of the Company, in order to ensure the objectiveness and properness of remuneration for directors and corporate auditors.

### COMPOSITION OF REMUNERATION FOR DIRECTORS AND CORPORATE AUDITORS

Remuneration type	Determination process
Monthly remuneration (fixed)	Determined according to position to the extent of the maximum amount approved at the General Meeting of Shareholders.
Bonus (linked to the business results)*	Calculated by adding an amount determined based on key indicators (net sales, operating income, etc.) of the NEC Group's consolidated business performance for the previous fiscal year to a standard amount prescribed based on position.

\* Remuneration for outside directors and corporate auditors is only fixed monthly remuneration and does not include bonuses linked to business results.

### Internal Control Systems

NEC has established and implemented its internal control systems based on the basic policy for maintenance of the systems to ensure the properness of the Company's operations as provided in the Company Law (the "Policy"). NEC assessed the status of the implementation of its internal control system for fiscal 2013 and confirmed that it has

### AMOUNTS OF REMUNERATION FOR FISCAL 2013

	Fixed remuneration		Bonus	
	Headcount	Total remuneration	Headcount	Total remuneration
Directors (of which, Outside Directors)	15 (7)	¥266 million (¥ 54 million)	6 —	¥93 million —
Corporate Auditors (of which, Outside Corporate Auditors)	5 (3)	¥ 80 million (¥ 32 million)	— —	— —

Notes: 1. The above headcount includes 4 directors who retired at the close of the 174th Ordinary General Meeting of Shareholders held on June 22, 2012.  
2. The total amount of bonus in the table above was approved at the 175th Ordinary General Meeting of Shareholders.  
3. The maximum monthly remuneration for directors is ¥65,000,000 (approved at the 153rd Ordinary General Meeting of Shareholders held on June 27, 1991).  
4. The maximum monthly remuneration for corporate auditors is ¥12,000,000 (approved at the 170th Ordinary General Meeting of Shareholders held on June 23, 2008).

established and implemented its internal control system properly based on the Policy.

The Basic Policy on Internal Control Systems is disclosed on NEC's corporate website.

<http://jpn.nec.com/profile/en/internalcontrol.html>

For details on internal control activities (risk management and compliance), please refer to page 41.

# DIRECTORS AND CORPORATE AUDITORS

(As of June 24, 2013)

## Directors



**Kaoru Yano**  
Chairman of the Board

April 1966 Joined NEC Corporation  
 June 1995 Member of the Board  
 June 1999 Executive Vice President and Member of the Board  
 June 2004 Senior Executive Vice President and Member of the Board (Representative Director)  
 April 2006 President (Representative Director)  
 April 2010 Chairman of the Board (Representative Director)  
 April 2012 Chairman of the Board



**Nobuhiro Endo**  
President (Representative Director)

April 1981 Joined NEC Corporation  
 April 2006 Senior Vice President  
 April 2009 Executive Vice President  
 June 2009 Executive Vice President and Member of the Board  
 April 2010 President (Representative Director)



**Takashi Niino**  
Senior Executive Vice President, CSO (Chief Strategy Officer), CIO (Chief Information Officer) and Member of the Board (Representative Director)

April 1977 Joined NEC Corporation  
 April 2008 Senior Vice President  
 April 2010 Executive Vice President  
 June 2011 Executive Vice President and Member of the Board  
 April 2012 Senior Executive Vice President and Member of the Board (Representative Director)



**Takeshi Kunibe** \*1  
Member of the Board  
President and Chief Executive Officer, Sumitomo Mitsui Banking Corporation (SMBC)

June 2003 Director, SMBC  
 October 2006 Managing Director, SMBC  
 June 2007 Director and Member of the Board of Directors, Sumitomo Mitsui Financial Group, Inc. (to present)  
 April 2009 Senior Managing Director and Member of the Board of Directors, SMBC  
 April 2011 President and Chief Executive Officer, SMBC (to present)  
 June 2011 Member of the Board, NEC Corporation (to present)



**Hitoshi Ogita** \*1  
Member of the Board  
Chairman of the Board and Representative Director, Asahi Group Holdings, Ltd. [Independent Director]\*3

March 1997 Director, Asahi Breweries, Ltd. (currently Asahi Group Holdings, Ltd.)  
 March 2000 Managing Corporate Officer, Asahi Breweries, Ltd.  
 March 2002 Senior Managing Corporate Officer, Asahi Breweries, Ltd.  
 September 2002 Corporate Officer and Vice President, Asahi Soft Drinks Co., Ltd.  
 March 2003 President and Representative Director, Asahi Soft Drinks Co., Ltd.  
 March 2006 President and Representative Director, Asahi Breweries, Ltd.  
 March 2010 Chairman of the Board and Representative Director, Asahi Breweries, Ltd. (to present)  
 June 2012 Member of the Board, NEC Corporation (to present)



**Kaori Sasaki** \*1  
Member of the Board  
President and CEO, ewoman, Inc. [Independent Director]\*3

July 1987 President and CEO, UNICUL International, Inc. (to present)  
 March 2000 President and CEO, ewoman, Inc. (to present)  
 June 2012 Member of the Board, NEC Corporation (to present)

## Corporate Auditors

Takao Ono	Corporate Auditor	Full-time	
Fujio Okada	Corporate Auditor	Full-time	
Satoshi Itoh*2	Corporate Auditor	Certified Public Accountant	[Independent Corporate Auditor]*3
Ryoji Nakagawa*2	Corporate Auditor	Attorney at Law	[Independent Corporate Auditor]*3
Hideo Yamada*2	Corporate Auditor	Professor, Waseda University, Graduate School of Commerce	[Independent Corporate Auditor]*3

**Junji Yasui**

Senior Executive Vice President,  
CSCO (Chief Supply Chain Officer) and  
Member of the Board (Representative Director)

April 1973 Joined NEC Corporation  
 April 2004 Senior Vice President  
 April 2008 Executive Vice President  
 June 2008 Executive Vice President and  
 Member of the Board  
 April 2012 Senior Executive Vice President  
 and Member of the Board  
 (Representative Director)

**Takaaki Shimizu**

Executive Vice President,  
CMO (Chief Marketing Officer) and  
Member of the Board

April 1978 Joined NEC Corporation  
 April 2010 Senior Vice President  
 July 2011 Executive Vice President  
 June 2013 Executive Vice President and  
 Member of the Board

**Isamu Kawashima**

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

April 1981 Joined NEC Corporation  
 April 2009 General Manager,  
 Corporate Controller Division  
 June 2011 Member of the Board  
 July 2011 Senior Vice President and  
 Member of the Board

**Motoyuki Oka** \*1

Member of the Board  
 Senior Adviser, Sumitomo Corporation  
 [Independent Director]\*3

June 1994 Director, Sumitomo Corporation  
 April 1998 Managing Director,  
 Sumitomo Corporation  
 April 2001 Senior Managing Director,  
 Sumitomo Corporation  
 June 2001 President and Chief Executive Officer,  
 Sumitomo Corporation  
 June 2007 Chairman of the Board of Directors,  
 Sumitomo Corporation  
 June 2012 Senior Adviser,  
 Sumitomo Corporation (to present)  
 June 2013 Member of the Board,  
 NEC Corporation (to present)

**Kunio Noji** \*1

Member of the Board  
 Chairman of the Board, Komatsu Ltd.  
 [Independent Director]\*3

June 1997 Director, Komatsu Ltd.  
 June 2001 Managing Director, Komatsu Ltd.  
 April 2003 Director and Senior Executive Officer,  
 Komatsu Ltd.  
 June 2007 President and CEO, Komatsu Ltd.  
 April 2013 Chairman of the Board, Komatsu Ltd.  
 (to present)  
 June 2013 Member of the Board,  
 NEC Corporation (to present)

\*1 Outside directors as stipulated in Item 15 of Article 2 of the Company Law of Japan

\*2 Outside corporate auditors as stipulated in Item 16 of Article 2 of the Company Law of Japan

\*3 NEC has notified the Tokyo Stock Exchange on which NEC has listed its shares of the independent directors and independent corporate auditors.

For further details on the directors and corporate auditors of NEC Corporation, please visit the following websites:

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

Corporate Auditors: <http://www.nec.com/en/global/about/executives/auditors.html>

# BUSINESS EXECUTION STRUCTURE

(As of June 24, 2013)

At NEC, the president, chief officers, corporate officers in charge of business units and other officers listed below regularly share information and discuss matters frankly with the aims of increasing management speed and promoting business from a company-wide perspective.



## President Nobuhiro Endo\*

### Senior Executive Vice Presidents

#### Takashi Niino\*

CSO (Chief Strategy Officer) and  
CIO (Chief Information Officer)  
In charge of Business Innovation Unit

#### Junji Yasui\*

CSCO (Chief Supply Chain Officer)  
In charge of Supply Chain Management Unit

## Executive Vice Presidents

#### Manabu Kinoshita

In charge of Corporate Sales and Sales Operations Unit and Enterprise Business Unit

#### Tomonori Nishimura

In charge of Public Business Unit

#### Takayuki Morita

In charge of Global Business Unit

#### Shunichiro Tejima

In charge of Telecom Carrier Business Unit

#### Takaaki Shimizu\*

CMO (Chief Marketing Officer)  
In charge of SI and Services Operations Unit

#### Shinichi Shoji

In charge of System Platform Business Unit

## Senior Vice Presidents

#### Takemitsu Kunio

In charge of Smart Energy Business Unit

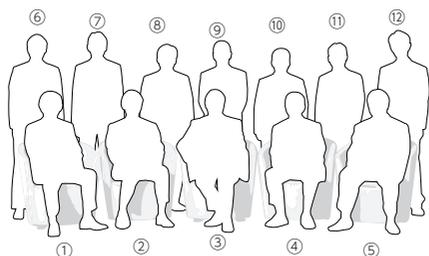
#### Katsumi Emura

In charge of Central Research Laboratories

#### Isamu Kawashima\*

CFO (Chief Financial Officer)

\* Member of the Board



- ①Takaaki Shimizu ②Takashi Niino ③Nobuhiro Endo  
④Junji Yasui ⑤Isamu Kawashima ⑥Manabu Kinoshita  
⑦Takayuki Morita ⑧Tomonori Nishimura ⑨Shunichiro Tejima  
⑩Takemitsu Kunio ⑪Shinichi Shoji ⑫Katsumi Emura

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

[URL http://www.nec.com/en/global/about/executives/svp.html](http://www.nec.com/en/global/about/executives/svp.html)

### **Takashi Niino** CSO and CIO In charge of Business Innovation Unit

The “Mid-term Management Plan 2015” has begun. The key to the success of this plan will lie in whether or not it can be implemented with the full understanding of all NEC Group employees. To accomplish this, the management team must be of a single mind and work along a common vector. Everyone from the president, to the various chief officers, to the executives in charge of the individual business units, will come together with a resolute commitment to achieve this plan.

### **Junji Yasui** CSCO In charge of Supply Chain Management Unit

The intent of the “Mid-term Management Plan 2015” is to focus on the Social Solutions business, bringing unwavering resolve to building the foundation for NEC’s business to continue for another 100 years. To accomplish this, this unit must move forward to build a stable financial base over the next three years by lowering costs, avoiding unprofitable projects, reducing operating expenses, and reducing inventory. By bringing together the strengths of the entire NEC Group, we aim to become a leading global company.

### **Manabu Kinoshita** In charge of Corporate Sales and Sales Operations Unit and Enterprise Business Unit

As we work to achieve the “Mid-Term Management Plan 2015,” cooperation across the NEC Group at the forefront of the market will become increasingly important. By strengthening collaboration with sales agencies and providing fresh, customer-centric proposals integrating all of the Group’s assets, we will endeavor to expand and lead the market for the Social Solutions business, while enhancing customer satisfaction.

In addition, given that promoting global business will sustain and expand the domestic business base, we will accelerate our global shift, focusing primarily on the growth areas of distribution and logistics. Through the creation of a new Social Solutions business, innovative SI, and greater collaboration with partners, we will establish a world-class, private-sector business foundation for the next 100 years.

### **Tomonori Nishimura** In charge of Public Business Unit

In the future, social infrastructure will not only require reliability and continuity, but will require solutions that offer superior usability and economic effectiveness. NEC’s mission is to be the first to anticipate new global needs, and bring about happiness for the people of the world. The NEC Group will work to provide high-value infrastructure solutions, both at home and abroad, for government, the public sector, finance, healthcare, media and other related institutions, and the people who use them.

### **Takayuki Morita** In charge of Global Business Unit

One key word critical to achieving the “Mid-Term Management Plan 2015” is “global.” How well NEC can extend its Social Solutions business geographically on a global basis will be an important point in the expansion of global business. Through more extensive dialog with customers, we will work to provide the bridge across which NEC’s assets can be deployed.

### **Shunichiro Tejima** In charge of Telecom Carrier Business Unit

Combining NEC’s strengths in IT and networks, we will provide the domestic and foreign carrier market with uniquely simple, flexible, high-quality systems and services built around SDN and TOMS. By contributing to more efficient telecommunications infrastructure and the creation of new added value for telecom carriers, we will work to expand our business and strengthen our position in the global market as a trusted partner of our customers.

### **Takaaki Shimizu** CMO In charge of SI and Services Operations Unit

As NEC works toward its goal of becoming the leading company in the Social Solutions business, all employees will act with one question in mind: “What can I do to achieve that goal?”

While many avenues must be pursued, including quality, cost, technical capabilities, new business development, and customer satisfaction (CS), all of it, in the end, comes down to uncovering what makes NEC unique. Our efforts will be driven by a determination to undertake the creation of new business with an eye on the next 100 years.

### **Shinichi Shoji** In charge of System Platform Business Unit

The System Platform Business Unit will continue to provide strong ICT assets as a foundational business supporting those sales and system engineers and business units promoting the Social Solutions business. Strong ICT assets are made possible through global cost competitiveness and superior quality, and through high added-value functionality only NEC can provide. By focusing on the evolution of each of these components, and further, incorporating them into solution-based platforms, we will continue to pioneer a new age.

### **Takemitsu Kunio** In charge of Smart Energy Business Unit

The “Mid-term Management Plan 2015” represents NEC’s aspirations to build a foundation for continued growth over the next 100 years. Through an organic combination of two areas in which NEC specializes—ICT and energy—the smart energy domain represents a new field for business growth that can be extended not only domestically, but globally as well. The goal is not just to provide hardware and software products, but to create business domains that also encompass related high-level services. Utilizing internal and external partnerships, we will work to achieve business growth.

### **Katsumi Emura** In charge of Central Research Laboratories

NEC’s Central Research Laboratories will continue to create powerful new technologies capable of supporting growth at NEC over the next 100 years. By creating unparalleled new technology in the fields of Big Data analysis, SDN, security, real-world data processing and smart energy, we will contribute to providing social infrastructure solutions and addressing the business issues of NEC’s customers. And by promoting a new approach to R&D, one in which we work closely on-site with our customers to resolve their issues openly, we will build a foundation for new business creation and global expansion.

### **Isamu Kawashima** CFO

NEC formulated its “Mid-term Management Plan 2015” having overcome the significant and painful loss of the previous fiscal year. Building the stable financial foundation needed to support this plan means enhancing owner’s equity through earnings growth and reducing interest-bearing debt through increased cash flow.

A growth strategy based on a stable financial foundation cannot be achieved without balancing these two. Rather than focusing on what has come before, by relishing the challenge of developing new activities, we will pave the way to future growth.

## Contents

- 51 Consolidated Balance Sheets
- 53 Consolidated Statements of Operations
- 54 Consolidated Statements of Comprehensive Income
- 55 Consolidated Statements of Changes in Net Assets
- 57 Consolidated Statements of Cash Flows

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥94 = U.S.\$1.

2. Please refer to the separate publication “Annual Report 2013 (Financials)” for details of “Note XX” on pages 51 to 58.

# CONSOLIDATED BALANCE SHEETS

NEC Corporation and Subsidiaries  
March 31, 2012 and 2013

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2013	2013
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 20) . . . . .	¥ 251,843	¥ 197,132	\$ 2,097,149
Short-term investments (Note 20) . . . . .	2,007	1,829	19,457
Trade notes and accounts receivable (Note 20) . . . . .	810,579	834,052	8,872,894
Inventories (Note 7) . . . . .	249,917	242,639	2,581,266
Deferred tax assets (Note 14) . . . . .	76,222	78,761	837,883
Other current assets (Notes 20 and 21) . . . . .	128,522	164,055	1,745,266
Allowance for doubtful accounts . . . . .	(4,653)	(4,662)	(49,596)
Total current assets . . . . .	1,514,437	1,513,806	16,104,319
<b>PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (Notes 3 and 8):</b>			
Land . . . . .	72,317	66,502	707,468
Buildings and structures . . . . .	134,618	124,283	1,322,160
Machinery and equipment . . . . .	35,445	25,586	272,191
Furniture and fixtures . . . . .	60,268	62,695	666,968
Construction in progress . . . . .	13,247	15,701	167,032
Total property, plant and equipment . . . . .	315,895	294,767	3,135,819
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 6 and 20) . . . . .	153,688	138,139	1,469,564
Investments in affiliated companies (Note 20) . . . . .	117,635	92,668	985,830
Goodwill (Note 18) . . . . .	75,969	93,895	998,883
Software . . . . .	121,541	114,088	1,213,702
Long-term loans receivable (Notes 5 and 20) . . . . .	836	44,019	468,287
Deferred tax assets (Note 14) . . . . .	96,476	97,570	1,037,979
Other assets (Notes 5 and 9) . . . . .	180,380	212,868	2,264,553
Allowance for doubtful accounts . . . . .	(19,287)	(20,854)	(221,851)
Total investments and other assets . . . . .	727,238	772,393	8,216,947
<b>TOTAL ASSETS . . . . .</b>	<b>¥2,557,570</b>	<b>¥2,580,966</b>	<b>\$27,457,085</b>

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2013	2013
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 8 and 20) . . . . .	¥ 126,981	¥ 56,587	\$ 601,989
Current portion of long-term debt (Notes 8 and 20) . . . . .	68,046	145,883	1,551,947
Trade notes and accounts payable (Note 20) . . . . .	466,177	458,724	4,880,043
Accrued expenses (Note 20) . . . . .	156,175	169,221	1,800,223
Other current liabilities (Notes 10, 14, 20 and 21) . . . . .	241,233	293,241	3,119,585
Total current liabilities . . . . .	1,058,612	1,123,656	11,953,787
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 8 and 20) . . . . .	497,707	400,981	4,265,755
Liabilities for retirement benefits (Note 9) . . . . .	182,735	178,868	1,902,851
Deferred tax liabilities (Note 14) . . . . .	3,040	2,231	23,734
Other long-term liabilities (Note 11) . . . . .	37,862	39,083	415,777
Total long-term liabilities . . . . .	721,344	621,163	6,608,117
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b> (Notes 19, 21 and 22)			
<b>NET ASSETS (Notes 12 and 25):</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock:			
Authorized – 7,500,000 thousand shares			
Issued – 2,604,733 thousand shares			
in 2012 and 2013 . . . . .	397,199	397,199	4,225,521
Capital surplus . . . . .	192,834	148,405	1,578,776
Retained earnings . . . . .	82,659	157,771	1,678,415
Treasury stock – at cost:			
6,321 thousand shares in 2012 and			
6,381 thousand shares in 2013 . . . . .			
	(2,939)	(2,946)	(31,340)
Total shareholders' equity . . . . .	669,753	700,429	7,451,372
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>			
Valuation difference on available-for-sale securities . . . . .	16,273	18,333	195,032
Deferred gains or losses on hedges . . . . .	(142)	(1,076)	(11,447)
Foreign currency translation adjustments . . . . .	(28,928)	(7,020)	(74,681)
Total accumulated other comprehensive income . . . . .	(12,797)	10,237	108,904
STOCK SUBSCRIPTION RIGHTS (Note 13) . . . . .	24	—	—
MINORITY INTERESTS . . . . .	120,634	125,481	1,334,905
Total net assets . . . . .	777,614	836,147	8,895,181
<b>TOTAL LIABILITIES AND NET ASSETS . . . . .</b>	<b>¥2,557,570</b>	<b>¥2,580,966</b>	<b>\$27,457,085</b>

# CONSOLIDATED STATEMENTS OF OPERATIONS

NEC Corporation and Subsidiaries  
Years Ended March 31, 2011, 2012 and 2013

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2011	2012	2013	2013
NET SALES . . . . .	¥3,115,424	¥3,036,836	<b>¥3,071,609</b>	<b>\$32,676,691</b>
COST OF SALES (Notes 3 and 9) . . . . .	2,199,973	2,128,920	<b>2,142,243</b>	<b>22,789,819</b>
Gross profit . . . . .	915,451	907,916	<b>929,366</b>	<b>9,886,872</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 3, 9 and 15) . . . . .	857,631	834,174	<b>814,719</b>	<b>8,667,223</b>
Operating income . . . . .	57,820	73,742	<b>114,647</b>	<b>1,219,649</b>
NON-OPERATING INCOME:				
Interest and dividends income . . . . .	5,445	6,108	<b>5,247</b>	<b>55,819</b>
Reversal of provision for contingent loss (Note 5) . . . . .	1,668	1,188	<b>2,971</b>	<b>31,606</b>
Foreign exchange gain, net . . . . .	—	—	<b>446</b>	<b>4,745</b>
Equity in earnings of affiliated companies, net . . . . .	—	—	<b>409</b>	<b>4,351</b>
Other non-operating income (Note 5) . . . . .	9,840	11,320	<b>6,504</b>	<b>69,192</b>
Total non-operating income . . . . .	16,953	18,616	<b>15,577</b>	<b>165,713</b>
NON-OPERATING EXPENSES:				
Interest expense . . . . .	6,614	5,446	<b>5,979</b>	<b>63,606</b>
Retirement benefit expenses (Note 9) . . . . .	12,057	11,867	<b>11,631</b>	<b>123,734</b>
Equity in losses of affiliated companies, net . . . . .	38,533	12,705	—	—
Foreign exchange loss, net . . . . .	1,488	2,672	—	—
Other non-operating expenses . . . . .	16,040	17,618	<b>20,590</b>	<b>219,043</b>
Total non-operating expenses . . . . .	74,732	50,308	<b>38,200</b>	<b>406,383</b>
Ordinary income . . . . .	41	42,050	<b>92,024</b>	<b>978,979</b>
SPECIAL GAINS (Note 16) . . . . .	28,270	28,375	<b>16,780</b>	<b>178,511</b>
SPECIAL LOSSES (Note 16) . . . . .	43,998	67,124	<b>39,525</b>	<b>420,479</b>
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS . . . . .	(15,687)	3,301	<b>69,279</b>	<b>737,011</b>
INCOME TAXES (Note 14):				
Current . . . . .	27,788	23,911	<b>30,724</b>	<b>326,851</b>
Deferred . . . . .	(36,584)	84,283	<b>(198)</b>	<b>(2,106)</b>
Total income taxes . . . . .	(8,796)	108,194	<b>30,526</b>	<b>324,745</b>
INCOME (LOSS) BEFORE MINORITY INTERESTS . . . . .	(6,891)	(104,893)	<b>38,753</b>	<b>412,266</b>
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES . .	5,627	5,374	<b>8,319</b>	<b>88,500</b>
NET INCOME (LOSS) . . . . .	¥ (12,518)	¥ (110,267)	<b>¥ 30,434</b>	<b>\$ 323,766</b>

	Yen			U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 24):				
Basic net income (loss) . . . . .	¥ (4.82)	¥ (42.44)	<b>¥ 11.71</b>	<b>\$ 0.12</b>
Diluted net income . . . . .	—	—	—	—
Cash dividends applicable to the year . . . . .	—	—	<b>4.00</b>	<b>0.04</b>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NEC Corporation and Subsidiaries  
Years Ended March 31, 2011, 2012 and 2013

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2011	2012	2013	2013
INCOME (LOSS) BEFORE MINORITY INTERESTS . . . . .	¥ (6,891)	¥(104,893)	<b>¥38,753</b>	<b>\$412,266</b>
OTHER COMPREHENSIVE INCOME (Note 17):				
Valuation difference on available-for-sale securities. . . . .	(5,941)	12,156	<b>2,096</b>	<b>22,298</b>
Deferred gains or losses on hedges . . . . .	11	(231)	<b>(845)</b>	<b>(8,990)</b>
Foreign currency translation adjustments . . . . .	2,470	(1,250)	<b>16,724</b>	<b>177,915</b>
Share of other comprehensive income of associates accounted for using equity method . . . . .	(3,975)	(476)	<b>5,690</b>	<b>60,532</b>
Total other comprehensive income . . . . .	(7,435)	10,199	<b>23,665</b>	<b>251,755</b>
COMPREHENSIVE INCOME . . . . .	¥(14,326)	¥ (94,694)	<b>¥62,418</b>	<b>\$664,021</b>
Comprehensive income attributable to				
owners of the parent . . . . .	¥(22,861)	¥(100,073)	<b>¥53,468</b>	<b>\$568,808</b>
minority interests. . . . .	8,535	5,379	<b>8,950</b>	<b>95,213</b>

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Corporation and Subsidiaries  
Years Ended March 31, 2011, 2012 and 2013

	Thousands				
	Outstanding number of shares of common stock	Shareholders' equity			
		Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, APRIL 1, 2010	2,604,733	¥397,199	¥192,843	¥ 216,439	¥(2,929)
Net income (loss)				(12,518)	
Cash dividends paid, ¥ 4 per share				(10,395)	
Purchases of treasury stock					(40)
Disposals of treasury stock			(6)		12
Change in equity in affiliates accounted for by equity method—treasury stock					23
Change of scope of equity method				(583)	
Net changes in items other than shareholders' equity during the year					
BALANCE, MARCH 31, 2011	2,604,733	397,199	192,837	192,943	(2,934)
Net income (loss)				(110,267)	
Purchases of treasury stock					(10)
Disposals of treasury stock			(3)		5
Change of scope of equity method				(17)	
Net changes in items other than shareholders' equity during the year					
BALANCE, MARCH 31, 2012	2,604,733	397,199	192,834	82,659	(2,939)
Deficit disposition			<b>(44,426)</b>	<b>44,426</b>	
Net income				<b>30,434</b>	
Purchases of treasury stock					<b>(11)</b>
Disposals of treasury stock			<b>(3)</b>		<b>4</b>
Change of scope of equity method				<b>252</b>	
Net changes in items other than shareholders' equity during the year					
BALANCE, MARCH 31, 2013	<b>2,604,733</b>	<b>¥397,199</b>	<b>¥148,405</b>	<b>¥ 157,771</b>	<b>¥(2,946)</b>

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2012	\$4,225,521	\$2,051,425	\$ 879,351	\$(31,266)
Deficit disposition		<b>(472,617)</b>	<b>472,617</b>	
Net income			<b>323,766</b>	
Purchases of treasury stock				<b>(117)</b>
Disposals of treasury stock		<b>(32)</b>		<b>43</b>
Change of scope of equity method			<b>2,681</b>	
Net changes in items other than shareholders' equity during the year				
BALANCE, MARCH 31, 2013	<b>\$4,225,521</b>	<b>\$1,578,776</b>	<b>\$1,678,415</b>	<b>\$(31,340)</b>

Conforming to separate financial statements, total amounts seem to be inconsistent with calculation in some cases.  
See notes to consolidated financial statements.

Millions of Yen							
Total	Accumulated other comprehensive income			Total	Stock subscription rights	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments				
¥ 803,552	¥10,218	¥ 61	¥(22,927)	¥(12,648)	¥ 93	¥140,915	¥ 931,912
(12,518)							(12,518)
(10,395)							(10,395)
(40)							(40)
6							6
23							23
(583)							(583)
—	(6,051)	71	(4,363)	(10,343)	(60)	(22,561)	(32,964)
780,045	4,167	132	(27,290)	(22,991)	33	118,354	875,441
(110,267)							(110,267)
(10)							(10)
2							2
(17)							(17)
—	12,106	(274)	(1,638)	10,194	(10)	2,280	12,465
669,753	16,273	(142)	(28,928)	(12,797)	24	120,634	777,614
—							—
<b>30,434</b>							<b>30,434</b>
<b>(11)</b>							<b>(11)</b>
<b>1</b>							<b>1</b>
<b>252</b>							<b>252</b>
—	<b>2,060</b>	<b>(934)</b>	<b>21,908</b>	<b>23,034</b>	<b>(24)</b>	<b>4,847</b>	<b>27,857</b>
<b>¥ 700,429</b>	<b>¥18,333</b>	<b>¥(1,076)</b>	<b>¥ (7,020)</b>	<b>¥ 10,237</b>	<b>¥ —</b>	<b>¥125,481</b>	<b>¥ 836,147</b>

Thousands of U.S. Dollars (Note 1)							
Total	Accumulated other comprehensive income			Total	Stock subscription rights	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments				
\$7,125,031	\$173,117	\$ (1,511)	\$(307,745)	\$(136,139)	\$ 256	\$1,283,341	\$8,272,489
—							—
<b>323,766</b>							<b>323,766</b>
<b>(117)</b>							<b>(117)</b>
<b>11</b>							<b>11</b>
<b>2,681</b>							<b>2,681</b>
—	<b>21,915</b>	<b>(9,936)</b>	<b>233,064</b>	<b>245,043</b>	<b>(256)</b>	<b>51,564</b>	<b>296,351</b>
<b>\$7,451,372</b>	<b>\$195,032</b>	<b>\$(11,447)</b>	<b>\$ (74,681)</b>	<b>\$ 108,904</b>	<b>\$ —</b>	<b>\$1,334,905</b>	<b>\$8,895,181</b>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Corporation and Subsidiaries  
Years Ended March 31, 2011, 2012 and 2013

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2011	2012	2013	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before income taxes and minority interests. . . . .	¥ (15,687)	¥ 3,301	¥ <b>69,279</b>	\$ <b>737,011</b>
Depreciation . . . . .	90,614	83,058	<b>83,612</b>	<b>889,489</b>
Amortization of long-term prepaid expenses. . . . .	8,521	7,711	<b>6,748</b>	<b>71,787</b>
Impairment losses on property, plant and equipment, and other assets . . .	5,873	6,501	<b>21,949</b>	<b>233,500</b>
Amortization of goodwill . . . . .	12,983	12,660	<b>15,428</b>	<b>164,128</b>
Increase in allowance for doubtful accounts . . . . .	6,577	2,589	<b>591</b>	<b>6,287</b>
Decrease in product warranty liabilities . . . . .	(2,327)	(4,686)	<b>(1,183)</b>	<b>(12,585)</b>
Decrease in provision for loss on guarantees . . . . .	(10,412)	—	<b>—</b>	<b>—</b>
Increase (decrease) in provision for loss on construction contracts and others. . . . .	(4,320)	193	<b>7,987</b>	<b>84,968</b>
Increase in liabilities for retirement benefits . . . . .	6,942	6,855	<b>(3,939)</b>	<b>(41,904)</b>
Increase (decrease) in provision for business structure improvement . . . .	(2,826)	18,463	<b>(22,644)</b>	<b>(240,894)</b>
Decrease in provision for contingent loss . . . . .	(4,946)	(939)	<b>(3,575)</b>	<b>(38,032)</b>
Decrease in provision for loss on repurchase of computers . . . . .	(1,735)	(1,151)	<b>(1,143)</b>	<b>(12,160)</b>
Interest and dividends income . . . . .	(5,445)	(6,108)	<b>(5,247)</b>	<b>(55,819)</b>
Interest expense . . . . .	6,614	5,446	<b>5,979</b>	<b>63,606</b>
Equity in losses (earnings) of affiliated companies. . . . .	38,533	12,705	<b>(409)</b>	<b>(4,351)</b>
Loss (gain) on change in equity . . . . .	5,996	(18)	<b>(2,657)</b>	<b>(28,266)</b>
Gain on sales of property, plant and equipment . . . . .	(1,266)	(966)	<b>(1,569)</b>	<b>(16,691)</b>
Loss on retirement of property, plant and equipment . . . . .	—	—	<b>636</b>	<b>6,766</b>
Gain on sales of investment securities. . . . .	(2,492)	(1,357)	<b>(9,057)</b>	<b>(96,351)</b>
Loss on sales of investment securities . . . . .	8	11	<b>2</b>	<b>21</b>
Write-off of investment securities. . . . .	4,319	16,037	<b>804</b>	<b>8,553</b>
Gain on sales of investments in affiliated companies . . . . .	(2,299)	(15,376)	<b>(1,728)</b>	<b>(18,383)</b>
Loss on sales of investments in affiliated companies . . . . .	1,002	1,118	<b>880</b>	<b>9,362</b>
Loss (gain) on contribution of securities to retirement benefit trust . . . . .	(19,206)	—	<b>5,898</b>	<b>62,745</b>
Loss on disaster . . . . .	5,972	2,131	<b>—</b>	<b>—</b>
Gain on insurance claim . . . . .	—	(10,648)	<b>(1,625)</b>	<b>(17,287)</b>
Increase in trade notes and accounts receivable . . . . .	(478)	(88,216)	<b>(9,600)</b>	<b>(102,128)</b>
(Increase) decrease in inventories . . . . .	3,349	(150)	<b>5,496</b>	<b>58,468</b>
(Increase) decrease in accounts receivable, other. . . . .	(5,344)	15,591	<b>(2,792)</b>	<b>(29,702)</b>
Increase (decrease) in trade notes and accounts payable . . . . .	(10,380)	28,976	<b>(8,548)</b>	<b>(90,936)</b>
Others—net . . . . .	(46,130)	(7,690)	<b>22,267</b>	<b>236,883</b>
Sub total . . . . .	62,010	86,041	<b>171,840</b>	<b>1,828,085</b>
Interest and dividends received . . . . .	5,513	6,111	<b>4,481</b>	<b>47,670</b>
Interest paid . . . . .	(6,464)	(5,152)	<b>(5,928)</b>	<b>(63,064)</b>
Income taxes paid . . . . .	(27,399)	(22,650)	<b>(28,653)</b>	<b>(304,819)</b>
Proceeds from insurance income . . . . .	—	19,507	<b>2,008</b>	<b>21,362</b>
Net cash provided by operating activities . . . . .	¥ 33,660	¥ 83,857	¥ <b>143,748</b>	\$ <b>1,529,234</b>

See notes to consolidated financial statements.

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2011	2012	2013	2013
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment . . . . .	¥ (57,580)	¥ (39,772)	¥ <b>(46,012)</b>	\$ <b>(489,489)</b>
Proceeds from sales of property, plant and equipment . . . . .	3,768	4,759	<b>5,208</b>	<b>55,404</b>
Acquisitions of intangible assets . . . . .	(29,471)	(17,421)	<b>(14,556)</b>	<b>(154,851)</b>
Purchases of investment securities . . . . .	(1,259)	(1,977)	<b>(1,159)</b>	<b>(12,330)</b>
Proceeds from sales of investment securities . . . . .	3,767	1,999	<b>27,601</b>	<b>293,628</b>
Disbursements for acquisitions of shares of newly consolidated subsidiaries . . . . .	(1,572)	(2,345)	<b>(58,072)</b>	<b>(617,787)</b>
Proceeds from sales of shares of subsidiaries being excluded from the consolidation . . . . .	2,551	1,178	<b>553</b>	<b>5,883</b>
Disbursements for sales of shares of subsidiaries being excluded from the consolidation . . . . .	(1,738)	(4,308)	<b>(524)</b>	<b>(5,574)</b>
Purchases of investments in affiliated companies . . . . .	(59,615)	(358)	<b>(582)</b>	<b>(6,192)</b>
Proceeds from sales of investments in affiliated companies . . . . .	145	6,779	<b>1,151</b>	<b>12,245</b>
(Increase) decrease in short-term loans receivable, net . . . . .	1	(101)	<b>187</b>	<b>1,989</b>
Disbursements for loans receivable . . . . .	(46)	(475)	<b>(17,543)</b>	<b>(186,628)</b>
Collection of loans receivable . . . . .	200	294	<b>195</b>	<b>2,074</b>
Others—net . . . . .	(5,395)	2,042	<b>1,811</b>	<b>19,266</b>
Net cash used in investing activities . . . . .	(146,244)	(49,706)	<b>(101,742)</b>	<b>(1,082,362)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Increase (decrease) in short-term borrowings, net . . . . .	125,829	(85,998)	<b>(70,289)</b>	<b>(747,755)</b>
Proceeds from long-term borrowings . . . . .	6,167	191,760	<b>58,456</b>	<b>621,872</b>
Repayments of long-term borrowings . . . . .	(177,176)	(20,351)	<b>(82,996)</b>	<b>(882,936)</b>
Proceeds from issuance of bonds . . . . .	150,000	30,000	—	—
Redemption of bonds . . . . .	(19,835)	—	—	—
Redemption of convertible bonds . . . . .	—	(97,669)	—	—
Proceeds from stock issuance to minority shareholders . . . . .	1,866	—	—	—
Dividends paid . . . . .	(10,396)	(39)	<b>(4)</b>	<b>(42)</b>
Dividends paid to minority shareholders . . . . .	(3,302)	(3,211)	<b>(3,949)</b>	<b>(42,011)</b>
Others—net . . . . .	(78)	200	<b>(25)</b>	<b>(266)</b>
Net cash provided by (used in) financing activities . . . . .	73,075	14,692	<b>(98,807)</b>	<b>(1,051,138)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS . . . . .</b>				
AND CASH EQUIVALENTS . . . . .	(4,073)	(879)	<b>6,200</b>	<b>65,957</b>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .	(43,582)	47,964	<b>(50,601)</b>	<b>(538,309)</b>
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR . . . . .	330,548	203,879	<b>251,843</b>	<b>2,679,181</b>
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE OF SCOPE OF CONSOLIDATION . . . . .	(92,787)	—	<b>(4,110)</b>	<b>(43,723)</b>
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM MERGER . . . . .	9,700	—	—	—
CASH AND CASH EQUIVALENTS, AT END OF YEAR . . . . .	¥ 203,879	¥251,843	¥ <b>197,132</b>	\$ <b>2,097,149</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>				
Finance leases . . . . .	¥ 3,986	¥ 2,372	¥ <b>1,670</b>	\$ <b>17,766</b>
Contribution of securities to retirement benefit trust . . . . .	70,992	—	<b>26,437</b>	<b>281,245</b>
Assets acquired and liabilities assumed in merger (Note 18)				
Current assets . . . . .	42,652	—	—	—
Fixed assets . . . . .	3,523	—	—	—
Total . . . . .	¥ 46,175	¥ —	¥ —	\$ —
Current liabilities . . . . .	40,612	—	—	—
Long-term liabilities . . . . .	1,021	—	—	—
Total . . . . .	¥ 41,633	¥ —	¥ —	\$ —

# NON-FINANCIAL SECTION

NEC Corporation and Consolidated Subsidiaries  
For the years ended March 31, 2012 and 2013

	2012	2013	Units
<b>Number of employees by region Total</b> .....	109,102	<b>102,375</b>	People
Japan .....	86,488	<b>81,061</b>	People
Greater China .....	7,778	<b>6,023</b>	People
Asia Pacific .....	7,073	<b>6,789</b>	People
EMEA .....	3,208	<b>3,595</b>	People
North America .....	2,724	<b>2,835</b>	People
Latin America .....	1,831	<b>2,072</b>	People
<b>Ratio of outside directors to all directors</b> <sup>(1)</sup> .....	38.5	<b>45.5</b>	%
<b>Response rate of employees' survey</b> <sup>(2)</sup> .....	82	<b>84</b>	%
<b>Labor accidents and disasters</b> <sup>(3)</sup>			
Frequency rate .....	0.36	<b>0.14</b>	
Severity rate .....	0.03	<b>0.00</b>	
<b>CO<sub>2</sub> emissions reduction by providing IT solutions</b> .....	2,310	<b>2,980</b>	Thousand tons
<b>Improvement in energy efficiency of products</b> <sup>(4)</sup> .....	66	<b>64</b>	%
<b>Greenhouse gas emissions</b> <sup>(5)</sup>			
Scope 1 .....	—	<b>76</b>	Thousand tons
Scope 2 .....	—	<b>389</b>	Thousand tons
Scope 3 .....	—	<b>7,670</b>	Thousand tons
<b>Energy usage</b>			
Electricity .....	800	<b>710</b>	Million kWh
Gas .....	24	<b>22</b>	Million m <sup>3</sup>
Fuel (heavy oil and kerosene) .....	7.0	<b>5.6</b>	Thousand kl
<b>Water usage</b> .....	3,240	<b>2,950</b>	Thousand m <sup>3</sup>
<b>Industrial waste</b>			
Emission volume .....	28	<b>73</b>	Thousand tons
Resource reuse rate .....	75.4	<b>86.2</b>	%

## Notes

(1) Scope: NEC Corporation

(2) Scope: NEC Corporation and domestic consolidated subsidiaries

(3) Scope: NEC Corporation and domestic consolidated subsidiaries

Frequency rate: Number of deaths and injuries due to industrial accidents divided by total working hours times one million

Severity rate: Number of lost working days divided by total working hours times one thousand

(4) Compared with fiscal 2006

(5) Greenhouse gas refers to CO<sub>2</sub> (carbon dioxide), CH<sub>4</sub> (methane), N<sub>2</sub>O (nitrous oxide), HFCs (hydrofluorocarbons), PFCs (perfluorocarbons), SF<sub>6</sub> (sulphur hexafluoride), and NF<sub>3</sub> (Nitrogen trifluoride). Greenhouse gas emissions are calculated based on the following categories stated by the Greenhouse Gas Protocol (GHG Protocol).

Scope 1: Direct GHG emissions occur from sources that are owned or controlled by the company

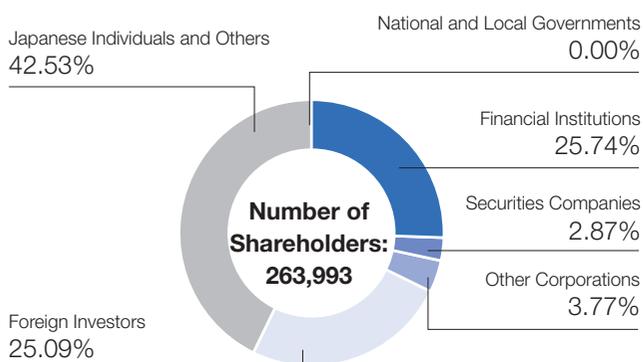
Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam

Scope 3: Other indirect emissions covering corporate upstream and downstream processes not included in Scope 2

# CORPORATE OVERVIEW

**Company Name** NEC Corporation  
**Address** 7-1, Shiba 5-chome, Minato-ku, Tokyo  
 108-8001, Japan  
**Established** July 17, 1899  
**Number of Employees**  
 102,375 (NEC Corporation and  
 consolidated subsidiaries)  
 (As of March 31, 2013)  
**Shares of Common Stock Issued**  
 2,604,732,635 shares (As of March 31, 2013)  
**Stock Exchange Listing**  
 Tokyo  
**Transfer Agent for Common Stock**  
 Sumitomo Mitsui Trust Bank, Limited  
 1-4-1, Marunouchi, Chiyoda-ku, Tokyo

**Composition of Shareholders** (Percentage of shares (%))  
 (As of March 31, 2013)



## Organization Chart



**Major Shareholders (Top 10)** (As of March 31, 2013)

Name of Shareholders	Number of Shares Held (Thousands of shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	113,708	4.37
Japan Trustee Services Bank, Ltd. (Trust Account)	107,319	4.13
SSBT OD05 Omnibus Account-Treaty Clients	80,361	3.09
NEC Employee Shareholding Association	52,955	2.04
Nippon Life Insurance Company	41,977	1.62
Sumitomo Life Insurance Company	41,000	1.58
Japan Trustee Services Bank, Ltd. (Trust Account No. 9)	40,030	1.54
Japan Trustee Services Bank, Ltd. (Trust Account No. 4)	30,566	1.18
State Street Bank and Trust Company 505225	25,955	1.00
Japan Trustee Services Bank, Ltd. (Trust Account No. 1)	23,832	0.92

Note: The shareholding ratio is calculated by excluding the number of treasury stock (6,573,266 shares).

#### **CAUTIONARY STATEMENTS:**

This annual report contains forward-looking statements pertaining to strategies, financial targets, technology, products and services, and business performance of NEC Corporation and its consolidated subsidiaries (collectively "NEC"). Written forward-looking statements may appear in other documents that NEC files with financial instruments exchanges or regulatory authorities, such as the Director of the Kanto Finance Bureau, and in reports to shareholders and other communications. NEC is relying on certain safe-harbors for forward-looking statements in making these disclosures. Some of the forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," "targets," "aims," or "anticipates," or the negative of those words, or other comparable words or phrases. You can also identify forward-looking statements by discussions of strategy, beliefs, plans, targets, or intentions. Forward-looking statements necessarily depend on currently available assumptions, data, or methods that may be incorrect or imprecise and NEC may not be able to realize the results expected by them. You should not place undue reliance on forward-looking statements, which reflect NEC's analysis and expectations only. Forward-looking statements are not guarantees of future performance and involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those in the forward-looking statements. Among the factors that could cause actual results to differ materially from such statements include (i) global economic conditions and general economic conditions in NEC's markets, (ii) fluctuating demand for, and competitive pricing pressure on, NEC's products and services, (iii) NEC's ability to continue to win acceptance of NEC's products and services in highly competitive markets, (iv) NEC's ability to expand into foreign markets, such as China, (v) regulatory change and uncertainty and potential legal liability relating to NEC's business and operations, (vi) NEC's ability to restructure, or otherwise adjust, its operations to reflect changing market conditions, (vii) movement of currency exchange rates, particularly the rate between the yen and the U.S. dollar, (viii) the impact of unfavorable conditions or developments, including share price declines, in the equity markets which may result in losses from devaluation of listed securities held by NEC, and (ix) impact of any regulatory action or legal proceeding against NEC. Any forward-looking statements speak only as of the date on which they are made. 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 NEC. NEC does not undertake any obligation to update or revise any of the forward-looking statements, whether as a result of new information, future events, or otherwise.

The management targets included in this annual report are not projections, and do not represent management's current estimates of future performance. Rather, they represent targets that management will strive to achieve through the successful implementation of NEC's business strategies.

Finally, NEC cautions you that the statements made in this annual report are not an offer of marketable securities for sale. Marketable securities may not be offered or sold in any jurisdiction in which required registration is absent or an exemption from registration under the applicable securities laws is not granted.

#### Trademarks

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

The information contained in this Annual Report is also available on NEC's website.

**NEC home page**

<http://www.nec.com>



**Corporate Social Responsibility (CSR) website**

<http://www.nec.com/en/global/csr>

NEC constantly strives to enhance the corporate social responsibility (CSR) information available on its website. The CSR section contains details of NEC's approach to CSR and activities based on seven CSR initiatives.

**Division in Charge**

CSR Promotion and Social Contributions Office,  
CSR and Environmental Management Promotion Division

**Investor Relations (IR) website**

<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.

**Division in Charge**

Investor Relations Office,  
Corporate Strategy Division

# NEC Corporation

7-1, Shiba 5-chome, Minato-ku, Tokyo 108-8001, Japan  
Telephone: +81-3-3454-1111



THE GLOBAL COMPACT  
WE SUPPORT

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact**.

We welcome feedback on its contents.

