

\Orchestrating a brighter world

**NEC**



# Annual Report 2016

Year ended March 31, 2016

# Orchestrating a brighter

## Self-help to create a dependable self



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

As a Social Value Innovator, and to continue creating value for our customers into the future, each of us at NEC needs to demonstrate the spirit of self-help, displaying the appropriate initiative, thought, and behavior to meet the expectations of society and customers. In this process, we will continue to engage in dialog with a variety of stakeholders and build relationships of trust. With these principles established as part of our corporate culture, constructing a business model that allows us to continue to create value is essential.

Based on my strong belief that in managing the NEC group we should practice "Self-help to create a dependable self," I hope we can establish an NEC that continues to create value for the next 100 years and beyond.

July 2016



Takashi Niino  
President and CEO

# world

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## Editorial Policy

Since 2013, NEC has published integrated annual reports that provide both financial and non-financial information.

Annual Report 2016 contains six chapters: Profile, Business Model: The Social Value That the NEC Group Aims to Create, Commentary on Management Strategy, Business Activities for Social Value Creation, Business Foundation to Support Value Creation, and Corporate Data.

Chapter I presents a message from the President and a profile of NEC. In Chapter II, we present a concise explanation of the value we provide, our strengths and other matters based on worldwide megatrends. Chapter III presents commentary from the President as well as the CFO concerning our approach to medium- to long-term value creation and details about the Mid-term Management Plan 2018. Chapter IV introduces examples of our businesses activities for social value creation in addition to an overview of each segment and our domestic and overseas business structure. Chapter V introduces the management foundation that supports NEC's medium- and long-term efforts to improve corporate value, including corporate governance and environmental initiatives such as ESG-related information.

By incorporating the opinions of the International Integrated Reporting Council (IIRC), institutional investors and various other stakeholders, and reflecting their opinions in its reporting, NEC will continue to provide clearer and more useful information going forward.

## Reporting Period

April 1, 2015 to March 31, 2016 (hereinafter referred to as "Fiscal 2016"). Any other fiscal years would be referred similarly. This report also includes information obtained after this reporting period.

## Scope of Report

NEC Corporation and its Consolidated Subsidiaries

## Reference Guidelines

- ISO 26000
- Global Reporting Initiative (GRI)  
"Sustainability Reporting Guidelines 4.0"
- United Nations Global Compact



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

NEC is a signatory to the United Nations Global Compact.

## 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 (As of July 2016)



FTSE4Good Global Index



ETHIBEL PIONEER & EXCELLENCE



Morningstar Socially Responsible Investment Index



MSCI Global Sustainability Indexes  
2016 Constituent  
MSCI Global  
Sustainability Indexes

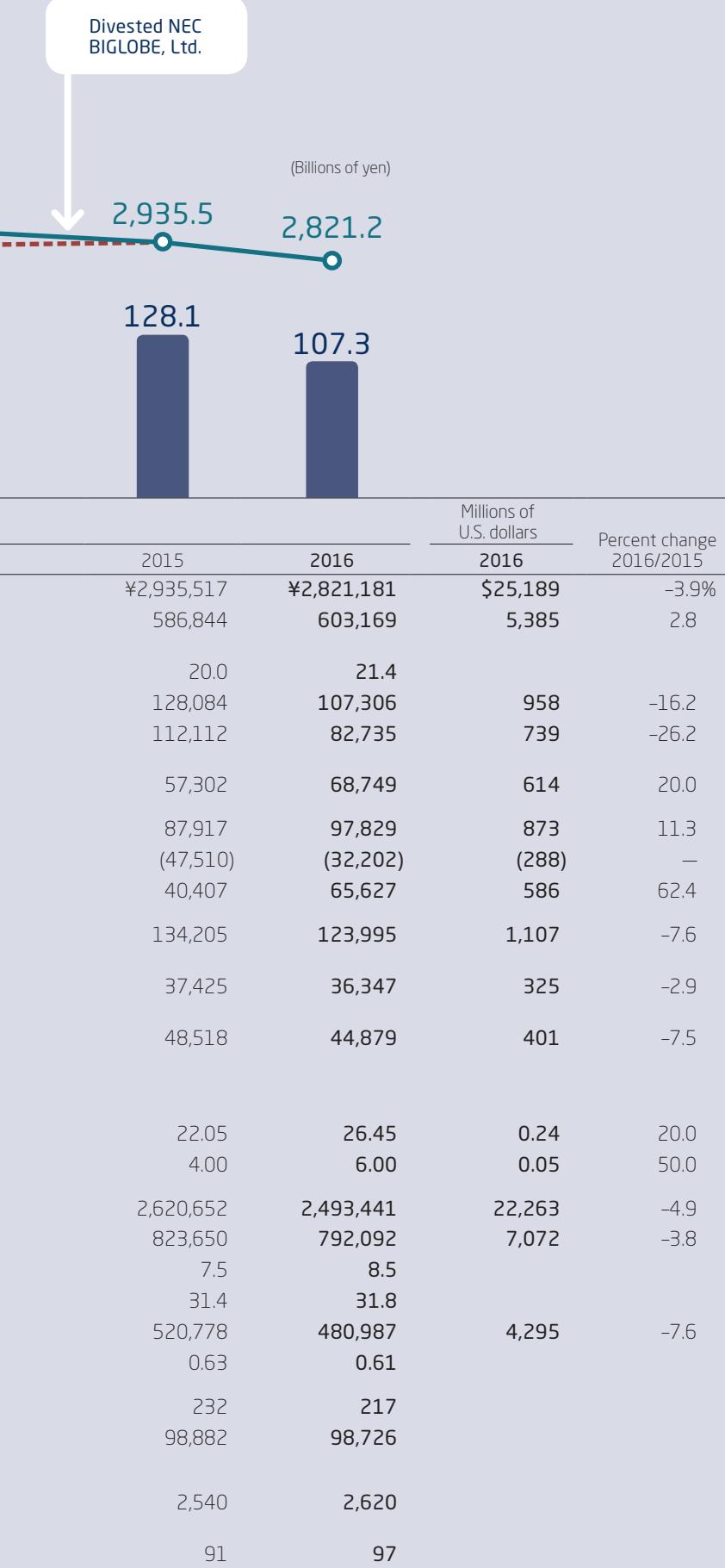
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# Performance Highlights (Japanese GAAP)

NEC Corporation and Consolidated Subsidiaries  
For the fiscal years ended or at year-end of March 31,  
2010, 2011, 2012, 2013, 2014, 2015 and 2016



	Millions of yen				
	2010	2011	2012	2013	2014
Net sales .....	¥3,583,148	¥3,115,424	¥3,036,836	¥3,071,609	¥3,043,114
Overseas sales .....	712,886	479,349	481,492	483,118	569,172
Percentage of international sales to consolidated net sales (%) .....	19.9	15.4	15.9	15.7	18.7
Operating income .....	50,905	57,820	73,742	114,647	106,193
Ordinary income .....	49,429	41	42,050	92,024	69,152
Profit (loss) attributable to owners of the parent .....	11,428	(12,518)	(110,267)	30,434	33,742
Cash flows from operating activities .....	134,816	33,660	83,857	143,748	94,124
Cash flows from investing activities .....	(41,241)	(146,244)	(49,706)	(101,742)	(38,893)
Free cash flows .....	93,575	(112,584)	34,151	42,006	55,231
R&D expenses .....	275,970	176,514	161,968	151,676	142,723
Capital expenditures (property, plant and equipment) .....	83,098	52,850	41,980	45,614	98,708
Depreciation (property, plant and equipment) .....	111,167	62,097	53,306	51,167	45,167
Per share data (in yen and U.S. dollars):					
Profit (loss) attributable to owners of the parent .....	5.04	(4.82)	(42.44)	11.71	12.99
Cash dividends .....	4.00	0.00	0.00	4.00	4.00
Total assets .....	2,937,644	2,628,931	2,557,570	2,580,966	2,505,329
Owner's equity .....	790,904	757,054	656,956	710,666	695,949
Return on equity (%) .....	1.6	—	—	4.5	4.8
Owner's equity ratio (%) .....	26.9	28.8	25.7	27.5	27.8
Interest-bearing debt .....	729,548	675,798	692,734	603,451	575,151
Debt-equity ratio (times) .....	0.92	0.89	1.05	0.85	0.83
Number of consolidated subsidiaries .....	310	283	265	270	258
Number of employees .....	142,358	115,840	109,102	102,375	100,914
CO <sub>2</sub> emissions reduction by providing IT solutions (thousand tons) .....	1,900	2,120	2,310	2,980	2,290
Improvement in energy efficiency of products (%) .....	44	53	66	64	75



## Key Management Measures

- Measures to optimize business portfolio
- Measures to grow business and strengthen financial foundation

### Fiscal year ended March 31, 2011

- Made NEC Electronics Corporation, a semiconductor business currently Renesas Electronics Corporation, into an equity-method affiliate

### Fiscal year ended March 31, 2012

- Made the consumer PC business into an equity-method affiliate
- Acquired Global View S.A., a video surveillance services business in Argentina

### Fiscal year ended March 31, 2013

- Acquired the business support system business of U.S.-based Convergys Corporation
- Acquired the IT service business of Australia-based CSG Limited
- Made NEC TOKIN Corporation into an equity-method affiliate

### Fiscal year ended March 31, 2014

- Divested all of NEC's stakes in NEC Mobiling, Ltd., currently MX Mobiling Co., Ltd., a mobile phone sales business
- Stopped the development of new smartphones in mobile phone business

### Fiscal year ended March 31, 2015

- Divested all of NEC's stakes in NEC BIGLOBE, Ltd., currently BIGLOBE Inc., an internet service provider in March, 2014
- Made NEC Fielding, Ltd., providing operation and maintenance service for IT systems, into a wholly owned subsidiary
- Established NEC Solution Innovators, Ltd. in a reorganization of seven software development subsidiaries
- Established NEC Platforms, Ltd. in a reorganization of four hardware development and manufacturing subsidiaries
- Established NEC Management Partner, Ltd. in a reorganization of four back office operation subsidiaries
- Completed acquisition of an energy storage system business for electric power companies and established NEC Energy Solutions, Inc. in North America

### Fiscal year ended March 31, 2016 (fiscal year under review)

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

Notes:

1. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥112 = U.S.\$1.
2. Profit (loss) attributable to owners of the parent per share is calculated based on the weighted-average number of shares outstanding during each period.
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. Improvement in energy efficiency of products is based on a comparison with the fiscal year ended March 31, 2006.

# At a Glance

NEC Corporation and Consolidated Subsidiaries

Net sales, operating income (loss), and composition of sales are financial results for the fiscal year ended March 31, 2016 (Japanese GAAP).

## Public Business



Net sales

766.8 billion yen

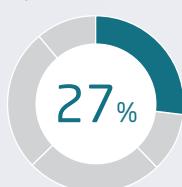
Operating income

57.5 billion yen

Main customers

Government, public, healthcare, finance and media

Composition of sales



### Focus businesses

- Infrastructure preparation towards the year 2020
- Cyber security

## Enterprise Business



Net sales

300.7 billion yen

Operating income

22.2 billion yen

Main customers

Manufacturing, retail and services

Composition of sales



### Focus businesses

- IT services business for retail
- Manufacturing Co-Creation Program

## Telecom Carrier Business



Net sales

698.9 billion yen

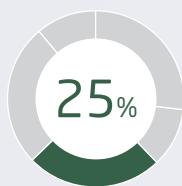
Operating income

45.6 billion yen

Main customers

Telecom carriers

Composition of sales



### Focus businesses

- Business expansion based on TOMS<sup>\*1</sup>, SDN<sup>\*2</sup>/NFV<sup>\*3</sup>
- Enhancing development to maintain competitiveness for 5G

\*1 TOMS: Telecom Operations and Management Solutions

\*2 SDN: Software-Defined Networking

\*3 NFV: Network Functions Virtualization

## System Platform Business



Net sales

728.5 billion yen

Operating income

37.5 billion yen

Composition of sales



### Focus businesses

- Maximizing the profit of existing businesses
- Establishing an IoT<sup>\*4</sup> platform focused on safety and retail
- Strengthening key business areas

\*4 IoT: Internet of Things

## Others



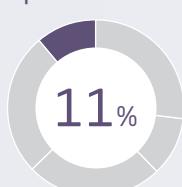
Net sales

326.2 billion yen

Operating loss

-8.9 billion yen

Composition of sales



### Focus businesses

- International safety business

## 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: Social Security and Tax, Fingerprint Identification, Air Traffic Control, Satellite Communications/Earth Observation, Outdoor Communication

- Public: Local Government, School/Education, Postal Tracking, Firefighting Command, Firefighting Emergency Radio Systems, Disaster Prevention, Traffic Control, Railroad Communication, Infrastructure Surveillance/Energy Management
- Healthcare: Electronic Medical Record, Regional Healthcare Information Network
- Finance: Banking, Business Branch Systems
- Media: TV Program Production/News Production/Transmission Systems, Digital TV Transmitters

## Major Consolidated Subsidiaries

- NEC Facilities, Ltd.  
NEC Engineering, Ltd.  
NEC Network and Sensor Systems, Ltd.  
NEC Space Technologies, Ltd.  
Nippon Avionics Co., Ltd.

## Major Products and Services

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

## Examples of Solutions by Business Sector/Industry

- Manufacturing: Global SCM, Product Lifecycle Management, Production Management, Sales Management
- Retail and Services: Retail Systems for Stores and Head Offices, Logistics Management

## Major Consolidated Subsidiaries

- ABeam Consulting Ltd.

## Major Products and Services

### ● Network Infrastructure

Core Network, Mobile Phone Base Stations, Submarine Systems (Submarine Cable Systems, Ocean Observation Systems), Optical Transmission Systems, Routers/Switches, Mobile Backhaul ("PASOLINK")

### ● Services & Management

Telecom Operations and Management Solutions (TOMS), Services/Solutions

## Major Consolidated Subsidiaries

- NEC Network Products, Ltd.  
NEC Communication Systems, Ltd.  
OCC Corporation  
NEC Networks & System Integration Corporation  
Netcracker Technology Corporation

## 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

### ● Enterprise Network Solutions

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

### ● Services

Data Center Infrastructure, Maintenance and Support

## Major Consolidated Subsidiaries

- NEC Platforms, Ltd.  
NEC Fielding, Ltd.  
NEC Display Solutions, Ltd.  
NEC Embedded Products, Ltd.

## Major Products and Services

### ● Safety

Biometric Solutions (such as Face Recognition, Fingerprint Identification), Surveillance

### ● Smart Energy

### ● Lighting Equipment

## Major Consolidated Subsidiaries

- NEC Energy Devices, Ltd.  
NEC Energy Solutions, Inc.  
NEC Lighting, Ltd.  
NEC Nexsolutions, Ltd.  
NEC Management Partner, Ltd.

# The Social Value That the NEC Group Aims to Create

Building upon our corporate brand statement "Orchestrating a brighter world," NEC is committed as a social value innovator to providing value that leverages the power of ICT. In setting our direction for this, we first analyzed worldwide economic, social, and technological trends, narrowing them down to six megatrends. Viewed from the long-term perspective, these are the issues that will likely confront countries, companies, communities and people for the next 20 or 30 years. Based on these megatrends, we established seven themes for social value creation, taking advantage of our strengths in ICT. To maintain our own sustainable development while simultaneously achieving a sustainable society, NEC is committed to providing social value centered on these seven themes.

## 6 Megatrends (Material Issues)

01

Chain of resource  
and environmental  
issues



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

**Quality of Life**

02

Growth in emerging  
countries and their  
new challenges



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

03

Search for  
mature society  
models



In advanced countries, low birthrates, aging of populations, and the deterioration of facilities will encourage reform of the current legal and social systems.



04

Increase in power  
and influence  
of individual



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

05

Deconcentration  
of power



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

**Work Style**

06

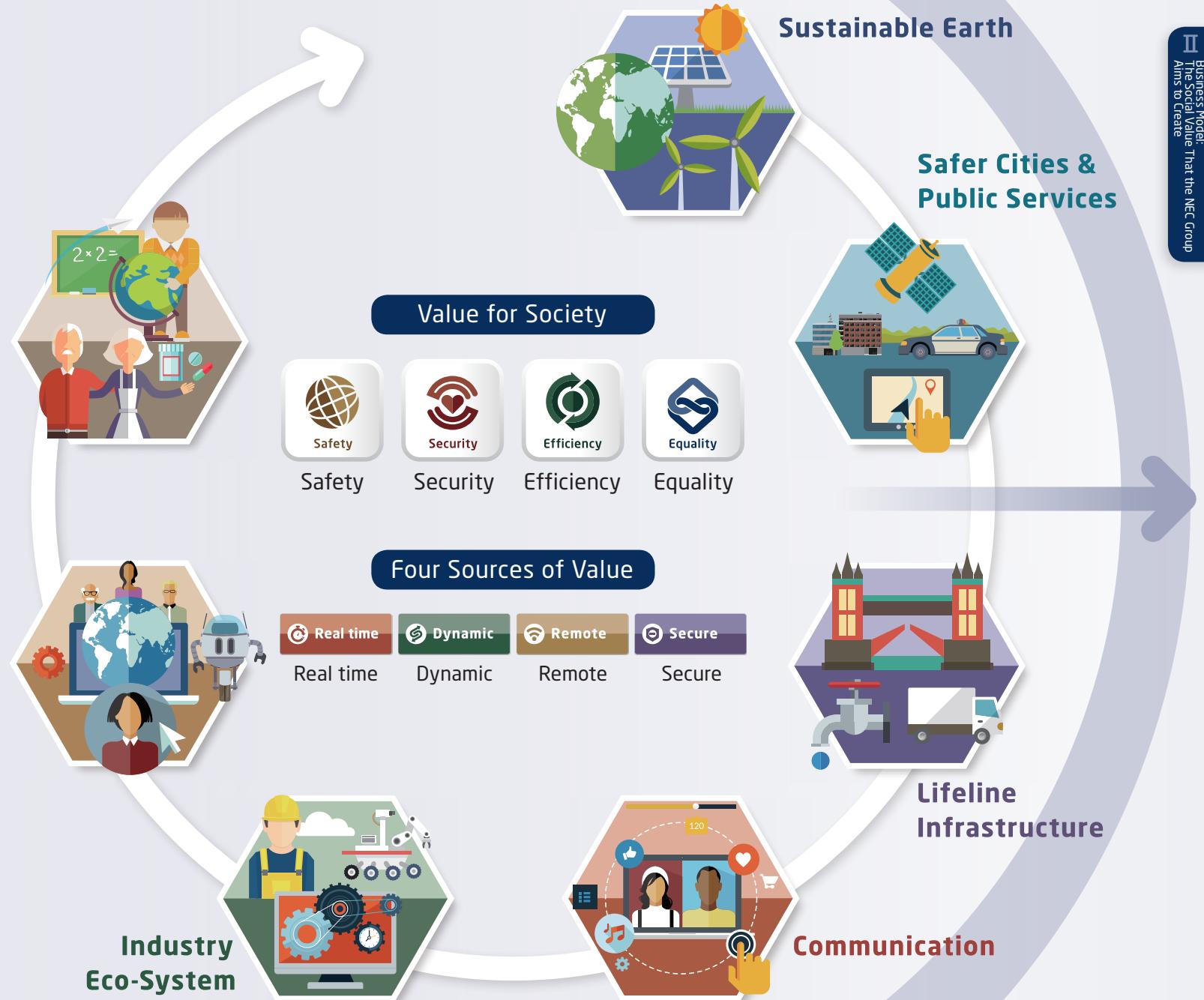
Diversified threats  
and needs for  
safety and security



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

# Orchestrating a brighter

## The Seven Themes for Social Value Creation



# world

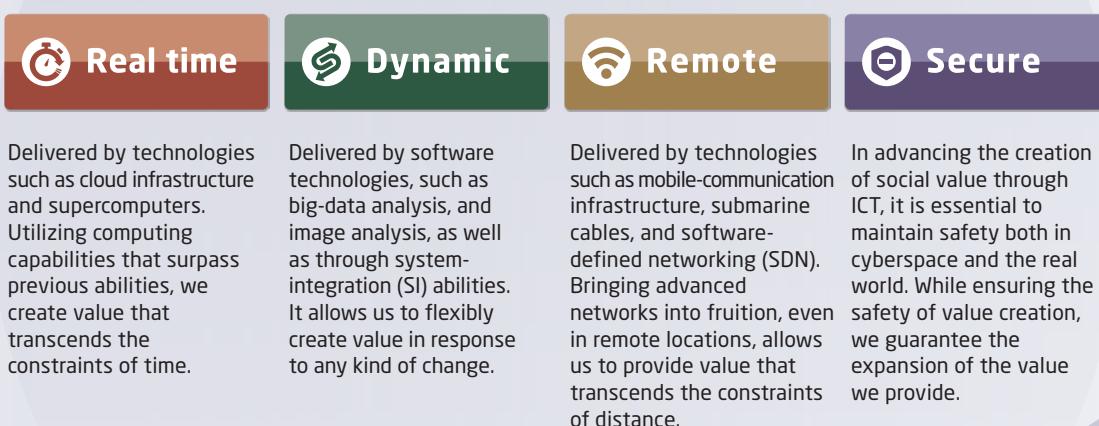
## Value for Society

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



## Four Sources of Value

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



# One-to-Many

## Tackling the fundamental issues of our customers and society

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

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

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

# Working in Concert with Stakeholders to Find Solutions to Social Issues

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



## Working with Our Customers to Resolve Issues Together

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

## Aiming to Resolve Social Issues as a Member of Local Communities

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



Signing Ceremony for the Reconstruction Cooperation Agreement, November 2015  
(Left: General Manager of NEC Tohoku Branch Division, Right: Minamisanriku Mayor)

## Improving Corporate Value via Dialogs with Shareholders and Investors

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





## Engaging in Responsible Corporate Activities with Suppliers

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

\*PMR = Process Management Review



## Organizational Revitalization via Dialogs with Employees

The opinions of our employees serve as an essential gauge to indicate whether we are fostering an organizational culture that they are happy to be a part of. At NEC, we conduct a "One NEC Survey" annually to identify the factors that motivate employees as well as those that need improvement. For the fiscal 2016 Japan survey, responses were obtained from 64,825 employees, making the response rate about 83%. More than 70% of the respondents expressed positive opinions about their degree of trust in their co-workers, their desire to contribute to customers, and their loyalty to NEC. However, only 40% to 50% of the employees had positive opinions about career opportunities, evaluation systems, and work processes. NEC also holds regular labor-management council meetings in Japan and overseas to brief labor unions on management policies and hear the opinions of employees directly.



## The Social Sector: Dialogs with CSR Review Forum-Japan

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

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

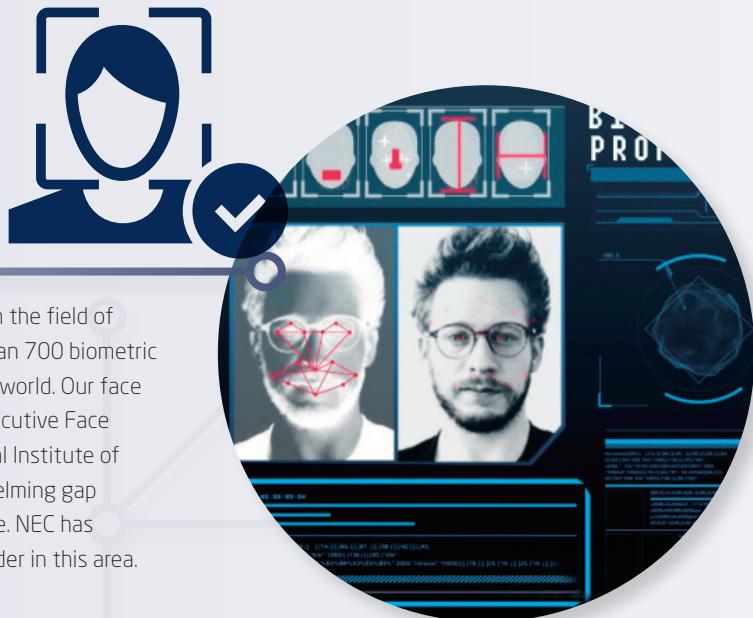


# NEC's Distinctive ICT Underpinning Social Value Creation

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

## The World's No.1 Face Recognition Technology

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



## The World's First AI Technology to Support Big Data Analysis

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



## SDN Architecture: More Flexible and Efficient Networks



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

\* As of May 2016

## Cyber Security Technology with Support from Agencies Worldwide and a Proven Track Record



NEC provides safe and secure ICT environments based on its "security-by-design" concept that requires strong security from the planning and design phases. We are also developing advanced technologies to help protect against increasingly sophisticated cyberattacks, including AI-driven measures against unknown attacks. Moreover, the cooperative ties we have forged with INTERPOL and other agencies have allowed NEC to collect and analyze threat intelligence from around the world to help strengthen cyber security globally.

# Message from the President



NEC Corporation is working to improve management speed, enhance execution power, and pursue group business management in preparation for the large changes that will take place in the future.

## Takashi Niino

President and CEO

September 1954	Born in Fukuoka Prefecture, Japan
March 1977	Graduated from the Faculty of Engineering of Kyoto University
April 1977	Joined NEC Corporation
April 2008	Senior Vice President,
April 2010	Executive Vice President
June 2011	Executive Vice President and Member of the Board
April 2012	Senior Executive Vice President and Member of the Board
April 2016	President and CEO (Representative Director) (to present)

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

## Message from the President

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## Mid-term Management Plan 2018

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Evolving Our Corporate Culture	→ Page 22

## Introduction

Ever since its establishment in 1899, NEC has strived to maintain high ethical standards, create products and services that provide value to our customers, and become a company trusted and chosen by all of its stakeholders, including customers, under our motto of "Better Products, Better Services." This philosophy is alive and well today as a part of The NEC Way, a cohesive framework that outlines the NEC Group's management practices and operations such as the NEC Group Corporate Philosophy and NEC Group Vision. By implementing The NEC Way we ensure continual development of the NEC Group and contribute to a sustainable society by working to



**NEC Group Corporate Philosophy:** NEC strives through "C&C" to help advance societies worldwide toward deepened mutual understanding and the fulfillment of human potential

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

**NEC Group Core Values:** Passion for Innovation, Self-help, Collaboration, and Better Products, Better Services

create social value under the brand message,  
"Orchestrating a brighter world."

NEC is working to realize "an information society friendly to humans and the earth" as asserted in the NEC Group Vision, based on NEC's Corporate Philosophy. With the belief that NEC, as an enterprise, must contribute to the well-being of society, everyone at NEC values ethics and is committed to meeting compliance standards in daily business operations by practicing the NEC Group Core Values. In doing so, the NEC Group aims to solve social and environmental issues that affect people's lives.

In 2005, NEC became a signatory to the United Nations Global Compact (UNGCG). Based on this

commitment, NEC is promoting corporate business activities in compliance with the ten principles in the areas of human rights, labor, the environment, and anti-corruption based on the UNGC framework. NEC is working to solve social issues by providing value in the four areas of safety, security, efficiency and equality. This is aimed at creating a sustainable society and making contributions to building a peaceful and just society, which is the stated goal of "Transforming Our World: the 2030 Agenda for Sustainable Development" (SDGs\*) adopted by the United Nations in 2015.

\* SDGs: Sustainable Development Goals

## Review of Mid-term Management Plan 2015

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

Comparing the operating income target and results for the fiscal year under review shows a major gap between the two for the telecom carrier business and smart energy business. I believe this is because both businesses had excessive expectations for their markets and lacked the execution power to achieve our targets.

Meanwhile, looking at the results from the previous four years, we achieved operating income of ¥100

billion or higher, and net income grew slowly but steadily. Additionally, we lowered our debt-equity ratio (on a net basis) steadily, which I believe shows the strengthening of our profitability and the progression of our financial strength.

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

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

## NEC's Challenges

We set out three years ago to devote our energies to "Solutions for Society," and our goal of finding solutions to social issues through ICT as a social value innovator remains the same today. I know that NEC has the necessary technical and human assets to create value in this growth field. However, one of

the reasons we did not achieve our targets was that measures to address various risks were not included in our action plans in the essential planning stage of the PDCA cycle. Another challenge was that we were unable to create new value fast enough to stay ahead of the rapid changes in the market.

## Management Policy

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

First, from the perspective of improving management speed, we will clarify decision making for the corporate, business unit and business division levels, and also quickly implement the PDCA cycle to achieve continual improvements. In order to accelerate the pace of execution after decisions are made, we will ensure thorough discussion takes place and that business is executed with alignment among all those involved. Also, in the arena of new value creation, it is essential that our organizations are closely intertwined both vertically and horizontally and work closely together. In order to do this, from the perspective of enhancing execution power, firstly

we will clarify each person's authority and responsibility in new business creation. Also, we will always consider potential partnerships to speed up execution. Until now, NEC's culture has been strongly inclined to go it alone, believing that our own technologies and know-how would be enough. However, we will now work to change this mindset.

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

### Enforcement of compliance / Evolution of corporate culture

Instill and build corporate ethics and compliance as group-wide corporate culture  
Strengthen capability to continuously create value, and establish system based on "HR philosophy"

#### Improve management speed

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

#### Enhance execution power

- Clearly define authority / responsibility within the complex businesses
- Select business partners based on strong capability to navigate the market

#### Group business management

- Pursue the "Best" for the whole NEC Group.
- Transform the work style of the 200 group companies and 100,000 employees, and optimize resource allocation

# Mid-term Management Plan 2018

## Market Environment and Risks/Opportunities

NEC's forecast for the future macro environment indicates that Europe and North America will see stable growth, while emerging countries' growth will slacken, especially in resource-rich countries. Japan will continue to see low growth. In contrast, in the ICT market, general awareness of artificial intelligence (AI) and the Internet of Things (IoT) will grow and it will become

reality where people, things, and phenomena are connected securely in various aspects of our lives. In other words, the importance of Solutions for Society will continue to grow. The values of safety, security, efficiency and equality that NEC provides will become of greater use around the world and will serve as a tailwind propelling NEC's business strategy forward.

## Framework of Mid-term Management Plan 2018

Under the new Mid-term Management Plan, we will usher in in-house reforms based on the various challenges we face and continue to further strengthen our focus on Solutions for Society. With regards to this, our management policy is largely broken down into inward efforts and outward efforts.

Inward efforts will focus on reorganizing the profit structure, with the goal to generate a 5% operating income ratio as the very minimum. To accomplish this, we will reform underperforming businesses and unprofitable projects, promote our Business Process Optimization Project, and optimize development and manufacturing functions.

For our outward efforts, we will work to get back on a growth track. This will be achieved by globalizing Solutions for Society

after reconfiguring the business perspective of our four focus businesses, which until now have been based on technical assets, and focusing management resources on the three business areas of Safety, Global Carrier Network and Retail IT Service.

The Mid-term Management Plan targets for the fiscal year ending March 31, 2019 (under International Financial Reporting Standards [IFRS]) are net sales of ¥3,000 billion, operating income of ¥150 billion (operating profit ratio of 5%), profit attributable to owners of the parent of ¥85 billion, free cash flows of ¥100 billion, and ROE of 10%. We will now work diligently to achieve these targets, which represent the absolute minimum to be attained.

## Mid-term Management Policies

### Implement reforms to address challenges and continued focus on Solutions for Society

#### Reorganization of profit structure

– establish profit structure for generating 5% operating profit ratio –

- Reform underperforming businesses and unprofitable projects
- Business process optimization project
- Optimization of development and manufacturing functions

#### Getting back on the track to growth

– globalization of Solutions for Society –

- Focus on key businesses
  - Safety business
  - Global carrier network business
  - Retail IT service business

## Mid-term Management Targets

(Billions of Yen)	FY2016/3 JGAAP	FY2016/3 IFRS	FY2019/3 Target IFRS
<b>Net sales</b>	2,821.2	2,824.8	3,000.0
<b>Operating income</b>	107.3	91.4	150.0
(Operating income ratio)	3.8%	3.2%	5%
<b>Profit attributable to owners of the parent</b>	68.7	75.9	85.0
<b>Free cash flow</b>	65.6	—	100.0
<b>Return on equity (ROE)</b>	8.5%	—	10%

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

## Reorganization of Profit Structure

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

First, NEC will reform underperforming businesses and unprofitable projects. Initially, this will involve making improvements to the smart energy business where we recorded a significant loss in the fiscal year under review. Our target is to improve profits by ¥24 billion in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). We carried out asset impairments of around ¥10 billion in the fiscal year under review, so that actual improvement in profits will be around ¥14 billion. In April 2016, NEC reorganized the smart energy business as a business division under direct control of Corporate and executed management structure reforms. In addition to optimizing the scale of its resources by minimizing operations, NEC will continue to transform its business portfolio and shift its business model towards system integration and service business. We will make efforts to curtail unprofitable projects, with the target to improve profits by ¥13 billion in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). This past year the public business and international business saw increases in unprofitable projects, but the enterprise business successfully eliminated unprofitable projects through risk assessments prior to the contract and careful management at key project milestones. NEC will laterally deploy this know-how of profitability control across the entire NEC Group to reduce these projects. In addition, NEC will focus on strengthening its project management capabilities and PMO\* functions. The management for global affiliates will be urgently reinforced in an effort to improve profitability control.

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

visualization and standardization of operations and process reform, NEC has striven to streamline its Administrative Staff operations by 30%. We have already achieved ¥5 billion of this target in the fiscal year under review, so now we will work to achieve the remaining ¥25 billion over the next three years. Specifically, NEC will expand the consolidation of Administrative Staff operations to 16 of its largest Group companies to accelerate process reform along with visualization and standardization. Workforce reduction of 30% should be delivered through curbing supplemental staff and shifting personnel to other operations. We will consolidate IT operation management, including order operations and mission-critical systems to thoroughly streamline costs, with the target of ¥10 billion in cost savings in the fiscal year ending March 31, 2019 (compared to the fiscal year under review).

The third key area is optimization of development and manufacturing functions. We will further accelerate the integration of these functions within the Group in an effort to realize ¥10 billion in cost savings in the fiscal year ending March 31, 2019 (compared to the fiscal year under review). NEC has a track record of successful cost reduction through integration of subsidiaries, such as NEC Network Products, Ltd., combining three subsidiaries engaged in network related hardware businesses; NEC Solution Innovators, Ltd., merging seven software subsidiaries; and NEC Platforms, Ltd., combining four subsidiaries engaged in IT hardware businesses. NEC will continue with similar initiatives in the future to achieve even greater effects. For the optimization of hardware development and production, NEC will integrate development processes and development environments. In the software segment, NEC will pursue the optimal allocation of resources flexibly, regardless if a subsidiary is engaged in IT-related or network-related software.

\* PMO: Project Management Office

## Getting Back on the Track to Growth

Under the Mid-term Management Plan 2015, we made strong progress in terms of company-wide strategic investments primarily in the Big Data, Cloud, Safety/Cyber Security and SDN domains. Sales from these four domains in the fiscal year ended March 31, 2014 totaled about ¥120 billion, but in the fiscal year under review this amount nearly doubled to about ¥230 billion. This growth far outpaces that of the market. Over the past three years, these domains have not only contributed to sales, they have helped us to reinforce our technical assets.

IoT will play an integral role in the world of tomorrow. For this reason, a variety of businesses will be created atop the platform of IoT. This will involve a series of processes spanning from

visualizing a wide range of data on the real world in the cyber world, to analyzing this data and predicting the near future, which result in providing value to the real world through necessary controls and guidance. This same series of processes will be found in every form of business in the future. It will be critical to produce various forms of value within this flow of processes and the four domains we have focused on strengthening will serve as very important assets for us going forward.

Under the Mid-term Management Plan 2018, we will commit management resources to the three businesses of Safety, Global Carrier Network and Retail IT Service, while also being mindful of IoT platforms and the seven themes of value creation.

The sales goal for each of these three focus businesses in the fiscal year ending March 31, 2019 is ¥142 billion for the Safety business (3.4 times compared to the fiscal year under review), ¥210 billion

for the Global Carrier Network business (1.8 times compared to the fiscal year under review), and ¥160 billion for the Retail IT Service business (1.2 times compared to the fiscal year under review).

## Focus Business Safety Business

Studies indicate that the world's population will increase 1.3 times to more than 9 billion people by the year 2050. The population of people living in cities will increase 1.8 times, causing urban issues such as rush hour overcrowding, traffic congestion, deterioration of public safety, and pollution to grow worse. For this reason, we believe there will be growing demand for the Safety business, which will underpin people's safe and secure lives in the future.

NEC maintains some of the most advanced face and fingerprint recognition technologies in the world, while it has also established a high level of expertise in security operation center operations, winning a broad range of bids from governments and other companies in the process. We will utilize these strengths to contribute to even greater safety and security by understanding events and phenomena in real time. The targets of these efforts will be major cities in APAC, the Middle East, Africa, and Latin America, as well as important facilities such as government institutions or airports. To achieve this, we will need to further enhance our global delivery capability through partnerships. Under the Mid-term Management Plan 2015, we established the Global Safety Division (GSD) in Singapore. Under the Mid-term Management Plan 2018, we will further strengthen GSD and enhance the business globally.

## Focus Business Global Carrier Network Business

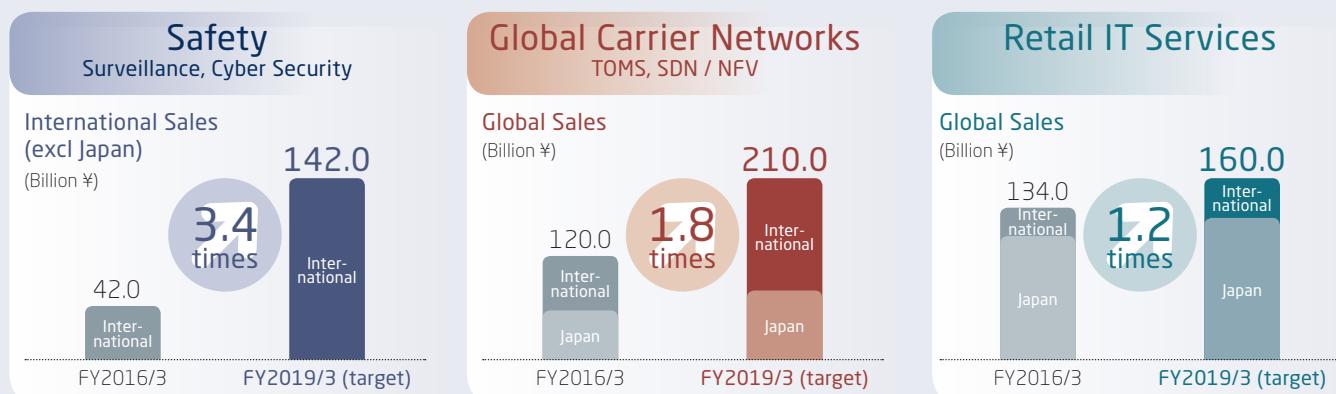
By the year 2020, the amount of computerized information is expected to increase about 10 times that of today (44 trillion gigabytes). All new businesses utilizing IoT, such as smart factories, connected cars, connected homes and smart logistics, will be underpinned by information communication services.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

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

## Focus Business Retail IT Service Business

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

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



## Evolving our Corporate Culture

Since its founding, NEC's corporate culture has been embodied by our emphasis on technology and our employees' strong work ethic and commitment to complete work. We should value these traits as integral parts of our corporate DNA, but we need to transform ourselves if we expect to produce value and address the environmental changes taking place globally. As our main policy under the Mid-term Management Plan 2015 was to focus on Solutions for Society, we created the corporate brand message "Orchestrating a brighter world" and the booklet, "NEC Group Vision," which describes our future vision and direction. These were shared extensively within and outside the company. Next, we began more thorough communication among top management and also started activities to foster a shared understanding of NEC's vision for the future, in order to practice "team-based management." This aims to deliver value with common goals and directions shared by each organization of the NEC Group, instead of having each organization act independently. NEC has gradually

expanded the scope to include executives and then general managers, etc. in an effort to foster this culture internally. We also commenced activities to further establish this business model approach and actions with customers for value creation. These initiatives were executed with the goal of building a foundation for growth in the first stage of our transformation efforts.

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

## Orchestrating a brighter world



**NEC's advantages and corporate culture - cultivated since its establishment**

**DNA**

# Message from the CFO

NEC will commit to improving its enterprise value placing the focus of its capital policy on increasing shareholder returns, while expanding investments in growth business areas and enhancing the financial foundation.

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

Isamu Kawashima



## Fiscal 2016 Performance

The NEC Group recorded consolidated net sales of ¥2,821.2 billion for fiscal 2016, a decrease of ¥114.3 billion or 3.9% year on year. While the Enterprise business saw an increase in sales, there were decreases in the sales of the Public and Telecom Carrier businesses. In addition, sales of Others declined due to deconsolidation of the logistics service business. Regarding profitability, consolidated operating income declined by ¥20.8 billion year on year to ¥107.3 billion, mainly due to the decline in gross profit as a result of a drop in sales despite our efforts to

reduce selling, general and administrative expenses. Profit attributable to owners of the parent was ¥68.7 billion, a year-on-year improvement of ¥11.4 billion, mainly due to a tax expenses decrease from the debt waiver for NEC Mobile Communications Ltd. As a result, return on equity (ROE) was 8.5%, a 1.0 percentage point improvement from the previous fiscal year. NEC attained the target for profit attributable to owners of the parent, and a dividend of ¥6 per share was issued as announced at the beginning of the period.

(Billion ¥)	FY2015/3	FY2016/3
Net sales	Results	Initial Forecasts
Overseas sales	2,935.5	3,100.0
Overseas sales ratio	586.8	603.2
Operating income	20.0%	21.4%
Operating income ratio	128.1	135.0
Profit attributable to owners of the parent	12.8%	107.3
Return on equity (ROE)	57.3	65.0
	4.4%	3.8%
	7.5%	68.7
		8.5%

FY2015/3		FY2016/3
Results	Initial Forecasts	Results
2,935.5	3,100.0	2,821.2
586.8	603.2	603.2
20.0%	21.4%	21.4%
128.1	135.0	107.3
12.8%	107.3	107.3
57.3	65.0	68.7
4.4%	3.8%	3.8%
7.5%	68.7	8.5%

## Fiscal 2016 Financial State

Total assets were ¥2,493.4 billion as of March 31, 2016, a decrease of ¥127.2 billion compared with the end of the previous fiscal year. Current assets as of March 31, 2016 decreased by ¥49.5 billion compared with the end of the previous fiscal year to ¥1,527.3 billion as a result of collection in accounts receivable-trade. Noncurrent assets as of March 31, 2016 decreased by ¥77.7 billion compared with the end of the previous fiscal year to ¥966.2 billion due to declines in retirement benefit assets and goodwill.

Total liabilities as of March 31, 2016 decreased by ¥95.5 billion compared with the end of the previous fiscal year to ¥1,640.9 billion, mainly due to declines in trade notes and accounts payable and interest-bearing debt. The balance of interest-bearing debt amounted to ¥481 billion, a decrease of ¥39.8 billion from the end of the previous fiscal year. The debt-equity ratio as of March 31, 2016 was 0.61, an improvement of 0.02 percentage points

compared with the end of the previous fiscal year. The balance of net interest-bearing debt as of March 31, 2016, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash equivalents, amounted to ¥288.7 billion, a decrease of ¥51 billion compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2016 was 0.36, an improvement of 0.05 percentage points compared with the end of the previous fiscal year.

Total net assets decreased by ¥31.7 billion compared with the end of the previous fiscal year to ¥852.5 billion as a result of declines in remeasurements of defined benefit plans and foreign currency translation adjustment, despite recording profit attributable to owners of the parent.

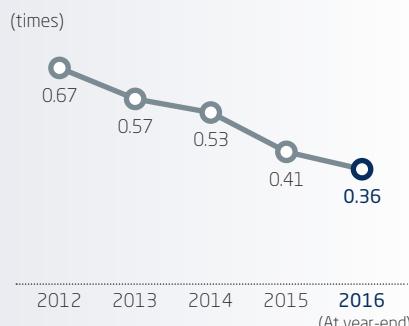
As a result, the owner's equity as of March 31, 2016 was ¥792.1 billion and the owner's equity ratio was 31.8%, an improvement of 0.4 percentage points compared with the end of the previous year.

Net cash inflows from operating activities for the fiscal year ended March 31, 2016 were ¥97.8 billion, an improvement of ¥9.9 billion compared with the previous fiscal year, mainly due to improved working capital.

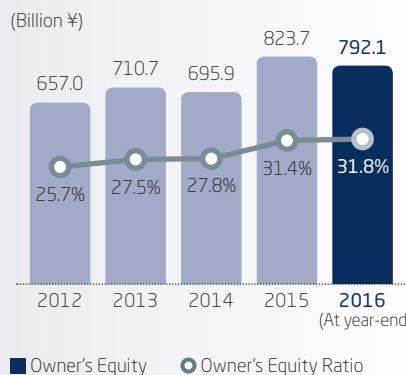
Net cash outflows from investment activities for the fiscal year ended March 31, 2016 were ¥32.2 billion, a decline of ¥15.3

billion compared with the previous fiscal year. This was mainly due to decreased outflows for business acquisitions. As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investment activities for the fiscal year ended March 31, 2016 totaled cash inflows of ¥65.6 billion, an increase of ¥25.2 billion year on year.

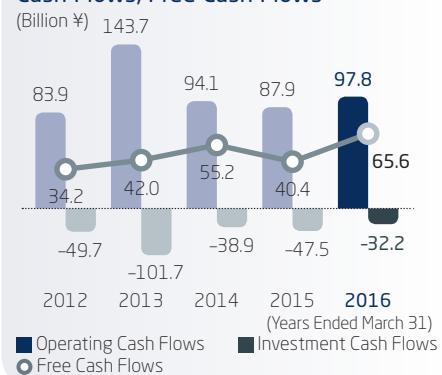
#### Net Debt-Equity Ratio



#### Owner's Equity, Owner's Equity Ratio



#### Operating Cash Flows, Investment Cash Flows, Free Cash Flows



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

NEC decided to adopt the International Financial Reporting Standards (IFRS) from the fiscal year ending March 31, 2017. Under the Mid-term Management Plan 2018 announced in April 2016, NEC targets to achieve an average sales growth of 2% per annum and an increase in operating income by approx. ¥60 billion to ¥150 billion, which is 1.6 times the current level over three years for the fiscal year ending March 2019. As for the management policy, in terms of income, NEC will first undertake reorganization of its earnings structure, implementing various enterprise-wide measures to achieve an operating income ratio of 5% and an ROE

of 10% for the fiscal year ending March 2019. Then, with regard to growth, NEC will get back on the track to growth and achieve a new sales target exceeding ¥3 trillion, concentrating on three focus businesses which have been newly defined.

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

## Capital Allocation

Under the Mid-term Management Plan 2018, NEC will commit to the improvement of corporate value while expanding investments in growth business areas and enhancing its financial foundation, placing the focus of its capital policy on shareholders' returns. We set profit attributable to owners of the parent of ¥85 billion as a target for the fiscal year ending March 2019 through resolving issues for growth and promoting operational efficiency. We also aim to achieve free cash flows of ¥100 billion by creating cash through improvement of

the cash conversion cycle (CCC) as well as accumulation of profits.

For growth-oriented investments, we have secured a ¥200 billion framework for inorganic strategy including M&A, and allocate investments to accelerate the growth of our three focus businesses. With regard to enhancement of the financial foundation, we will aim for an increased dividend from the current annual dividend of ¥6 for shareholders' return, making conscious effort to achieve the net debt-equity ratio of 0.5 as of March 31, 2019.

## Capital Allocation

### Aiming for shareholder returns while expanding investment in growth business areas and enhancing the financial foundation

Net income  
FY2019/3 (Target):  
¥85 billion

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

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

- Compress operating capital by promoting CCC improvement

Investment  
for growth

Secure ¥200 billion  
framework for inorganic  
strategy

Enhancement of  
financial foundation

Net D/E Ratio around 0.5  
times <End of FY2019/3>

Shareholder returns

Aim for increased dividend  
from ¥6 (annual dividend)

# Initiatives on the Themes of Social Value Creation

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

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

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

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

## Overview of SDGs

The SDGs include a total of 17 goals and 169 targets.

NEC promotes corporate activities that respect ten principles regarding human rights, labour, the environment, and anti-corruption, based on the UN Global Compact signed in 2005.

As a company that provides social value on a global scale, NEC promotes business activities that recognize the 17 goals and 169 targets of the SDGs.





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

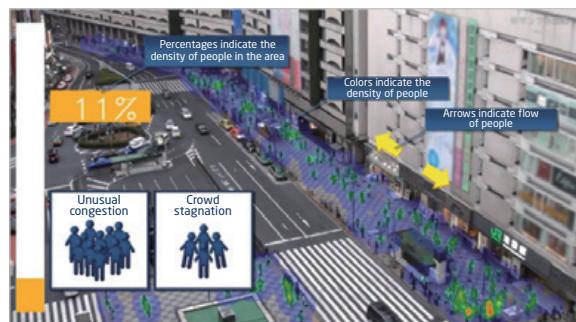
In cities where populations are becoming concentrated and globalization is taking place, the risk of safety being threatened with a cyber attack is also increasing. There is also a need to prepare for natural disasters, which occur around the world on a daily basis. By developing early warning systems for crime and disasters, NEC will contribute to the realization of an administrative foundation in which the appeal of regions can be exhibited by making use of the power of the region's people in addition to the fields of industry, government, and academia.

### Initiatives in Conjunction with Toshima City, Tokyo The World-first\* Total Disaster Prevention System with "Crowd Behavior Analysis Technology"

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

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

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



The crowd behavior analysis technology enables to perform highly precise analyses and issues an alert if predetermined threshold levels are exceeded. Without overlooking, initial response can be delivered timely.

### Initiatives in Conjunction with the City of Tigre, Argentina NEC "Face Recognition Technology" Incorporated into the Monitoring System to Detect Suspicious Activities

NEC provides the world's best\*<sup>1</sup> face recognition technology, which is adopted in the urban surveillance system in the City of Tigre, Argentina for urban security. The video feeds from network cameras installed in railway



Operation center that integrates the urban surveillance system in the City of Tigre, Argentina. NEC ICT solutions are actively used to improve safety.

and river stations are checked against a massive database of enrolled photos in real time, to allow prosecutors, judicial institutions, and public welfare organizations to search for missing persons.

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

\*<sup>1</sup> Rated No. 1 based on benchmarks by the National Institute of Standards and Technology (NIST).



## Building and Developing Safe and High-Efficiency Lifelines

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

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

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

The SDN/NFV solutions of NEC utilize virtualization technologies that enable the overall network system to be dynamically rebuilt, which provides high cost-effectiveness and flexibility.

NEC and Telefónica, one of the world's leading telecom carriers, completed the first phase of a pre-commercial trial for vCPE\*2 for residential users in the network of Telefónica's Brazilian affiliate, Telefónica Brasil (Vivo), NEC's vCPE solutions will enable network functions such as IP address allocation, security and others to be shifted away from the residential gateways and towards Telefónica Brasil's own network. This will improve Telefónica Brasil's broadband access network service through better and

stronger operability and safety, as well as network simplification. It also enables various services to be provided to the end user, which leads to increased convenience and customer satisfaction.

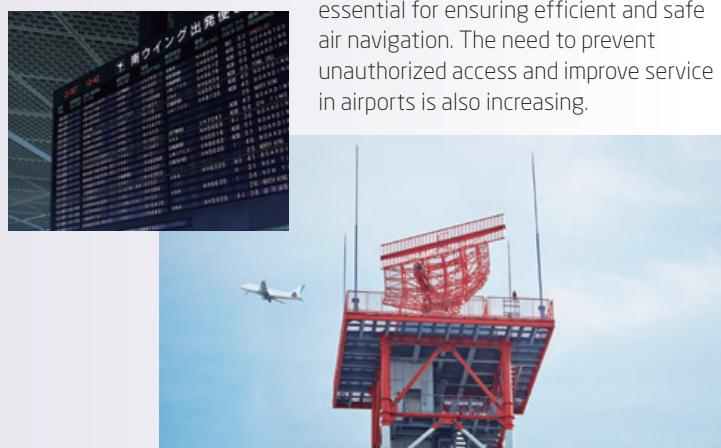


Operation and maintenance of the broadband access network services has improved and the creation of new services for end users on various household terminals is expected.

\*2 vCPE: virtualized Customer Premises Equipment

### NEC Airport Solutions Provided for More Than 50 Years

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



Flight information display at Narita International Airport (top left)  
Airport monitoring radar (bottom right)

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

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



## Supporting a World Recreated with New Bonds of Industries and ICT

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

### Initiatives in Conjunction with Yamato System Development Co., Ltd. Improving the Efficiency of Manpower and Time for Inspection Work

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

NEC took this opportunity to create labor saving mechanisms using its well-proven image recognition technologies and gravimeters, by developing an image and gravimeter inspection system that instantly detects product types and numbers, reducing the burden of inspection work performed by workers. Furthermore, with YSD's know-how in logistics and inspection, as well as their system integration function for warehouse management system, a total management of product master, shipping instruction data, inspection results and the like is now made possible. This inspection support

system, an industry first for logistics, is aimed at optimizing the inspection work at YSD and achieving a 20% reduction in overall costs, realizing highly accurate shipping quality, to support a society that allows its citizens to live comfortably.



Realizing high efficiency and cost reduction by introducing inspection support system to the YSD warehouse located in "Haneda Chronogate," Yamato group's total logistics terminal, and contributing to a comfortable lifeline.

### Initiatives in Conjunction with Kagome Co., Ltd. Utilizing ICT for Increased Crop Yields and Agricultural Efficiency

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

NEC and Kagome Co., Ltd. agreed to collaborate on



Tests conducted in tomato fields in Portugal

developing cultivation technology that utilizes ICT for processing tomatoes, and since March 2015 the companies have been conducting tests in tomato fields at a Portuguese subsidiary based on the results of virtual field simulations generated in a computer according to data collected by various sensors about the agricultural environment.

These tests enabled NEC and Kagome to analyze the factors that affect crop yields and identify the optimal cultivation method for each field, while also providing accurate predictions of yields and the proper time for harvesting.



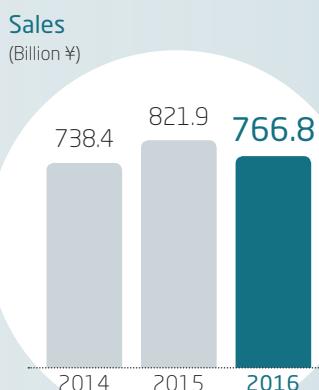
# Review of Operations

## Public Business

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

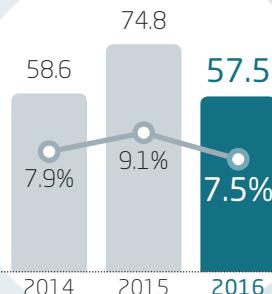


Executive Vice President **Tomonori Nishimura**



### Operating Income, Operating Income Ratio

(Billion ¥)  
■ Operating Income    ● Operating Income Ratio



Operating income worsened by ¥17.2 billion year-on-year, to an operating income of ¥57.5 billion, mainly owing to decreased sales and an increase in loss-making projects.

(Fiscal year ended on March 31)

## Strengths

- Strong track record in delivering products and systems that support social infrastructure over many years—such as satellites, outdoor communication systems, firefighting emergency radio systems, and broadcasting systems—cultivating high credibility and advanced technologies during this process. Remarkably high market share in Japan.
- System integration capabilities and project management skills developed in the implementation of large-scale, mission-critical IT systems to governmental agencies, public institutions, and financial institutions.
- Unique products and solutions born from our strengths in three technology areas: sensor, network and information technologies. (Notably, world-leading face recognition and fingerprint recognition technologies, Big Data analysis, etc.)

## Market Environment (Risks and Opportunities)

### Risks

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

### Opportunities

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

## Fiscal 2016 Main Accomplishments

We focused efforts to support the introduction of the Social Security and Tax Number ("My Number") System, mainly for the national and local governments, and related sales increased greatly from ¥10 billion the previous fiscal year to ¥42 billion.

"My Number" System  
Fiscal year ended March 2016  
**¥42 billion**  
Fiscal year ended March 2015  
**¥10 billion**

For the My Number System, in addition to completing the implementation of the Intermediate Server Platform that is the foundation of the overall system, we also delivered a face recognition system for counters at local public bodies across the country to be used for confirming the identity of residents when handing over their individual number cards. NEC will conduct business so that we can make contributions at many levels, such as enhanced security for and expanded private-sector usage of the My Number System.

There was a peak of large-scale demand as we approached the May 2016 installation deadline for the digitization of firefighting emergency radio systems. NEC

leveraged its No. 1 domestic position in this domain to successfully implement systems at many local governments.

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

## Initiatives in the Medium- to Long-Term

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

(Billion ¥)

- Net Sales
- Operating Income
- Operating Income Ratio

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



Growth in the focus businesses

- Infrastructure preparation towards the year 2020
- Cyber security

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

prevention support systems that analyze landslide risk level using sensors.

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

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

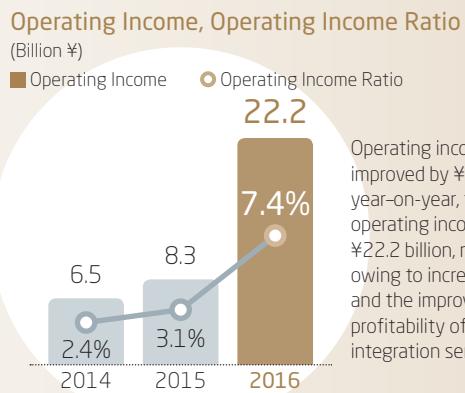
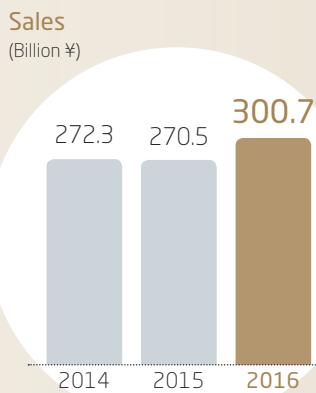
# Review of Operations

## Enterprise Business

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



Executive Vice President **Chikara Ishii**



(Fiscal year ended on March 31)

### Strengths

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

### Market Environment (Risks and Opportunities)

#### Risks

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

#### Opportunities

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

## Fiscal 2016 Main Accomplishments

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

The operating income ratio has improved to **7.4%**

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

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

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

**Quality of Life** NEC assisted Gunze Limited with IoT technology in developing the clothing-type wearable system that measures biological data just by wearing it.. NEC also implemented the "Kumamon no IC CARD" system that can be used at public transportation and commercial facilities in Kumamoto Prefecture.

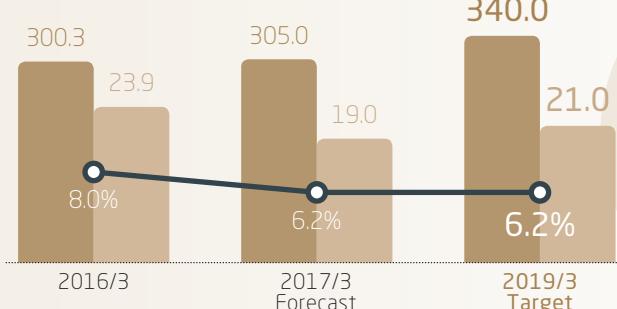
## Initiatives in the Medium- to Long-Term

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

(Billion ¥)

- Net Sales
- Operating Income
- Operating Income Ratio

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



In the enterprise business, the three years of the Mid-term Management Plan 2018 are positioned as a period to solidify a foundation for future growth. During this period we are building a business foundation for SI model transformation and global deployment, and also creating new value through IoT. As for business domains, we are focusing efforts on NEC's strengths including the IT service business for the retail industry and manufacturing co-creation\*, and are working for business expansion primarily in these areas. In the IT service business for the retail industry, we are adding new value to the expertise we have already accumulated through providing IT services to retail business operators in Japan over the

past 40 years, striving to accelerate horizontal deployment on the global stage with an eye towards developments in other industries as well. For manufacturing co-creation, we are combining the expertise we developed in our own manufacturing innovation and SCM reforms for global businesses with cutting-edge technologies such as IoT and AI. In this way, we are working to expand the value we offer and move into new business domains.

Growth in the focus businesses

- IT services business for retail
- Manufacturing Co-Creation Program

\* Manufacturing co-creation: Collaboration program where NEC offers enhanced solutions based on its own production innovation expertise through facilitating information exchange between customers, executing joint research or conducting Proof of Concept projects, etc.

# Review of Operations

## Telecom Carrier Business

We provide telecom carriers with network control platform systems and operating services for operations management, along with equipment for network implementation. NEC's wealth of experience in large-scale network implementation and strong technical capabilities contribute to the development of highly reliable communications networks.



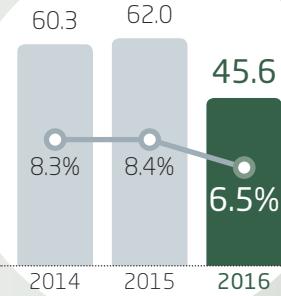
Executive Vice President **Shunichiro Tejima**



In the telecom carrier business, sales were ¥698.9 billion, a decrease of 5.6% year-on-year, mainly due to decreased domestic sales, despite increased international sales of submarine cable systems and Telecom Operations and Management Solutions (TOMS).

### Operating Income, Operating Income Ratio

(Billion ¥)  
■ Operating Income    ● Operating Income Ratio



Operating income worsened by ¥16.4 billion year-on-year, to an operating income of ¥45.6 billion mainly due to decreased sales and loss-making international projects.

(Fiscal year ended on March 31)

## Strengths

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

- Industry-leading achievements in SDN/NFV, latest network technologies, with technological development and commercial deployment, such as virtualized Evolved Packet Core (vEPC).

## Market Environment (Risks and Opportunities)

### Risks

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

### Opportunities

The market for SDN/NFV and TOMS is expected to expand even further in the future. These technologies contribute to network transformation through outcomes such as faster delivery of services, optimization of network resources and reduced operating costs for telecom carriers.

We expect more business opportunities with the planned commercial deployment of the 5G next-generation mobile telecommunications standards, starting mainly from the Japanese and Asian markets, towards 2020.

## Fiscal 2016 Main Accomplishments

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



NEC expanded its TOMS business through Netcracker Technology Corporation, a subsidiary of NEC. We received Operation Support System (OSS) orders from América Móvil, S.A.B. de C.V., a Mexican company that is the largest mobile telecom carrier in Latin America, and PT Indosat Tbk a major Indonesian telecom carrier.

Rapid future expansion is expected for SDN/NFV, and NEC was awarded orders including a virtualized mobile core for commercial networks to NTT DOCOMO, INC. Together with Spanish company Telefónica, S.A., we

successfully conducted the world's first Proof of Concept project utilizing a commercial network related to virtualized Customer Premises Equipment (vCPE).

In existing business areas, we expanded our global business through orders for large-scale projects such as SACS, the world's first submarine optical cable system for the South Atlantic, as well as increases including mobile backhaul and optical transmission devices.

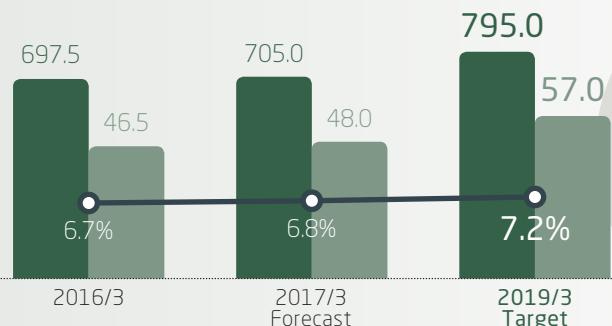
## Initiatives in the Medium- to Long-Term

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

(Billion ¥)

- Net sales
- Operating income
- Operating Income Ratio

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



### Growth in the focus businesses

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

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

We are carrying out Proof of Concept projects together with leading telecommunications providers for the next generation mobile telecommunications standard, 5G. We are also engaging in advanced development for 5G to achieve the high speed, high capacity, and low video compression delay times required of networks for new services in the IoT era, including high-definition video delivery (such as 8K and 4K) and autonomous driving.

In this way, by offering high-value-added networks around the world—made more sophisticated with new technologies—that are safe, secure, and efficient, we will help resolve social issues and assist in the development of the NEC Group.

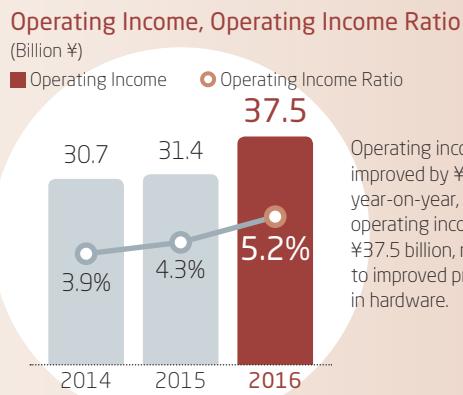
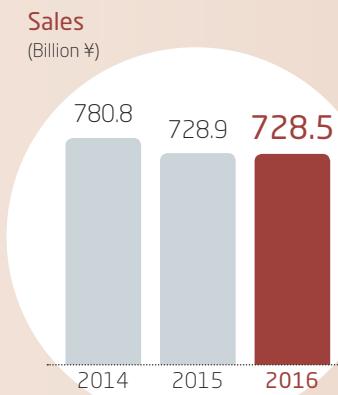
# Review of Operations

## System Platform Business

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



Executive Vice President **Kimihiko Fukuda**



(Fiscal year ended on March 31)

### Strengths

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

### Market Environment (Risks and Opportunities)

#### Risks

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

#### Opportunities

An upward trend for SDN, cloud services, Big Data, and the security market is evident, and the IoT market is expected to develop further. These areas are business opportunities for NEC, but at the same time, many competitors—including those entering the market from other industries—are making increasingly rapid movements to establish positions in the IoT field, so rapid deployment is necessary.

## Fiscal 2016 Main Accomplishments

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

Achieved the  
No.1  
share for the  
20th  
consecutive year in  
the Japanese  
PC server market

In the fiscal year under review, we worked to enhance our products in growth areas such as cloud platforms and SDN. Regarding cloud services, we opened the NEC Kobe Data Center, as our flagship data center in western Japan. Our other initiatives included strengthening the security of the cloud platform service, "NEC Cloud IaaS".

In terms of SDN for enterprises, we have reliably expanded our deliveries, helping customers strengthen their management foundation and enhance their competitiveness.

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

\* Source: CY1996-2015 Japan x86 server (shipment, revenue)  
Source: IDC Japan, Japan Quarterly Server Tracker CY16Q1  
Note: IDC declares a statistical tie in the server market when there is less than one percent difference in the revenues or the unit shipment of two or more vendors.

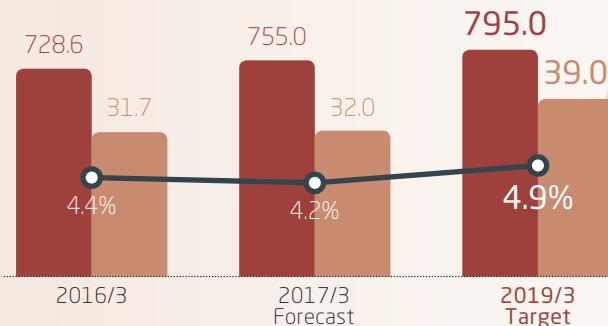
## Initiatives in the Medium- to Long-Term

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

(Billion ¥)

- Net sales
- Operating income
- Operating Income Ratio

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



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

In our Mid-term Management Plan 2018, we are striving to enhance our profitability in the system platform business, first by optimizing existing businesses. Specifically, we are working to maximize profit through comprehensive measures, including optimizing development costs, cutting costs, adding high value to products, and strengthening our sales structure.

In addition, we are making efforts to establish an IoT platform in order to enhance the value provision of the system platform business. To that end, we are aiming to develop unique solutions and services based on the technologies that are our strengths, such as image analysis and security. We are also striving to provide

customers with common platforms in a timely manner with such high quality that can only be offered by NEC, including networks. While it is expected that the IoT platform will be deployed horizontally in various industries, first we will devote resources to boost the Safety business and the Retail IT Service business, in line with the Mid-term Management Plan 2018.

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

# Business Structure in Japan

Senior Executive Vice President  
In charge of Corporate Sales and Sales Operations Unit

**Manabu Kinoshita**



## Providing Solutions That Harness the Comprehensive Strengths of One NEC through a Nationwide Sales Network

NEC's domestic sales network consists of 64 branch offices and sites nationwide. NEC's approach is to leverage all of the capabilities of One NEC, integrating the solution assets of each business unit and affiliated company and to present solutions for realizing

advanced social infrastructure utilizing ICT. We provide these solutions for a wide range of customers including telecom carriers, the government, governmental agencies, local governments, public institutions and the private sector.

## Creating New Value by Cultivating Market Needs

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

business opportunities arising from usage of the My Number System in the private sector and preparing for the increase in in-bound visitors and infrastructure development in the run up to the year 2020. At the same time, we will accelerate new business creation for markets where strong growth is anticipated given the future expansion of IoT, such as smart factories and others, using these new businesses as drivers for the growth of the entire company.

Cooperation between sales partners is another key point that sustains our business in Japan. In addition to our conventional hardware, we will provide competitive, high-value-added products and services in new domains, such as Cloud and SDN, among others, expanding sales of both. We will also work together with sales partners to co-create new value, such as through solutions embedded within customers' products.

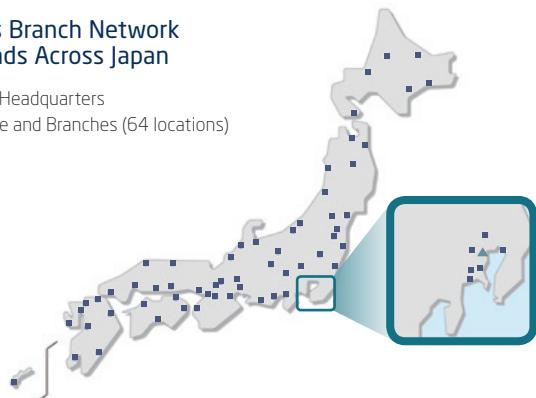
## Enhancing Sales Capabilities to Solve the Essential Issues Customers Face

NEC will quickly respond to market changes and is developing the frontline capabilities of employees to think and act on their own in order to contribute even more to customers in these new fields. We aim to create new value to tackle essential issues that society and customers face. To this end, we carefully examine customers' business issues, and connecting these with our technology assets in creating new value for the customers. We are transforming the way our sales force thinks and investing in the development of each sales force in improving multi-faceted analytical capabilities on market environments and customer challenges and in having extensive knowledge on leading edge technologies and solution assets in the company.

Going forward, domestic business teams will work on creating new social value as a point of customer contact in the field, and contributing to the development of a society in which people can live more prosperous lives.

### NEC's Branch Network Spreads Across Japan

- ▲ NEC Headquarters
- Office and Branches (64 locations)



For further details about NEC branch offices and their locations, please visit the following URL:

**URL** <http://jpn.nec.com/profile/branch.html> (Japanese only)

# International Business Structure



Executive Vice President and CGO (Chief Global Officer) **Takayuki Morita**

## Looking Back on Mid-term Management Plan 2015

In the Mid-term Management Plan 2015, NEC had the management policy to create a foundation for growth globally by focusing on Asia and promoting “locally-led” businesses. During the period, we were able to steadily expand our global business, while also recording concrete results such as growing the safety business, which includes

biometrics, cyber security, and video analytics, providing managed services for public institutions, delivering retail IT services, and conducting more than 50 SDN/NFV Proof of Concept projects with service providers globally.

## Globalization of “Solutions for Society”

Under the Mid-term Management Plan 2018, our new three-year plan, we will seek to further increase sales from the global business. This plan positions Safety business, Global Carrier Network business and Retail IT Services as NEC’s three key businesses. The growth of these businesses in the global market is key to achieving the Mid-Term Management Plan 2018. Therefore, we are focusing efforts on enhancing NEC’s competitiveness in these fields and globalizing “Solutions for Society.”

This will require a quicker pace of management, including decision-making and execution at the global level, enhanced execution power, including the use of multi-faceted partnering, and maximizing NEC Group’s assets around the world as One NEC to harness the full capabilities of the NEC Group.

Buoyed by the tailwind of rising awareness in the global business by each business unit fostered throughout the three-year period of the Mid-term Management Plan 2015, as CGO I will work on addressing the company-wide issues we face in expanding “Solutions for Society” globally. Additionally, I will pursue partnerships with the governments of various nations, international institutions, and local companies, in addition to business alliances

and M&A, in order to enhance NEC’s presence globally. From the standpoint of harnessing the NEC Group’s comprehensive strengths, we will actively move forward with regional collaboration and collaboration between business units that will enable us to deliver more complete and comprehensive solutions.

Under the Mid-term Management Plan 2018, global business will become the key to NEC’s growth. Knowing that global growth will pave the way for the future of NEC, we will devote efforts to expanding the global business.





### Toshiya Matsuki

Executive Vice President  
of NEC Corporation  
In charge of the Global  
Business Unit

NEC is working to grow globally while leveraging the strengths of its businesses in each market by locating regional headquarters in North America, Central and South America, EMEA (Europe, the Middle East and Africa), Greater China, and APAC (the Asia/Pacific).

Under the Mid-term Management Plan 2018, NEC will speed up the global expansion of its "Solutions for Society" and work toward enhancing earnings power with a focus on its three key businesses. The safety business greatly increased sales during the three-year period of the Mid-term Management Plan 2015, with efforts concentrated around the Global Safety Division (GSD) in Singapore. Starting the upcoming fiscal year, we will integrate operations with our domestic business unit with a track record in developing biometrics technologies and mission-critical systems such as fingerprint recognition systems for police. By enhancing our solutions proposal and delivery capabilities, we will work to further expand the scale of our business. In the network business for global carriers, we will accelerate the expansion of SDN/NFV solutions through a cooperation with Netcracker Technology Corporation, our subsidiary. For the IT service business for retail, we will utilize regional business support centers located in major areas such as Asia and North America to further increase sales. We will further expand the managed service business, a core business in Australia and Singapore and expand it to neighboring countries.

As a means to enhancing our earnings power, we will practice the approach of "One-to-Many" and horizontally roll out best practices globally in an effort to boost both sales and profits. At the same time, we will pursue the optimization of local operations, including thoroughly managing project risks.

### North America



### Shinsuke Takahashi

President & CEO of  
NEC Corporation of  
America

NEC Corporation of America provides solutions that improve the way people live, work and communicate by leveraging our Smart Enterprise platform focused on improving safety, security and operational efficiency.

In the fiscal year under review, we secured significant, long-term biometrics contracts with the U.S. Department of Homeland Security and other federal government agencies. Additionally, we strengthened our presence within the Federal Government by adding a new office and biometrics showcase in Washington, D.C. We also integrated our Networks and IT business units to better align our technology offerings with the needs of our customers. Meanwhile, our Retail solutions team added a significant technology services contract with a major convenience store retailer in North America.

In the coming few years, we see abundant opportunity for our identity solutions in our global safety business, including airports, stadiums and other public venues. Additionally, high consumer confidence in America means that our IT service business for retail can offer opportunity for enhanced security and efficiency as many retailers enter a technology refresh period.



### Central and South America



### Masazumi Takata

President & CEO of  
NEC Latin America

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

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

Achieving further development in the region will require better innovation and productivity. In addition to existing businesses, we will work with customers in the Proof of Concept stage to create new value in

healthcare, agriculture and retail, and contribute to society in the process. We will continue to build up cooperation with customers and partners, and devote our energies toward achieving a society where people can live brighter, more prosperous lives.



## EMEA (Europe, the Middle East and Africa)



**Masahiro Ikeno**

President & CEO of  
NEC Europe

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

In the fiscal year under review, we made an equity investment in XON Holdings Proprietary Limited, an ICT solutions firm in South Africa, with the goal of accelerating our business expansion in Africa. We were also able to greatly increase orders for face recognition systems, mainly in the Middle East and Africa, after making enhancements in the "Solutions for Society." In Europe, we commenced partnerships with governments aimed at realizing smart cities. Also in Europe and

Russia, we reinforced relationships with major telecom carriers in the network business especially in Europe, where we succeeded in capturing global service agreements. We were able to step up sales of enterprise SDN, a field with growing demand.

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



## Greater China



**Naoki Yoshida**

President of  
NEC (China)

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

During the fiscal year under review, we supplied a number of services and solutions to customers in the Greater China Region, including face recognition and bus operation systems, cyber security solutions, building energy management systems (BEMS), dealer management systems (DMS), Mobile Backhaul (PASOLINK), optical telecommunications equipment, and display related products. Also, taking the lead regionally, we are working jointly with customers on Proof of Concepts for airports, healthcare and air pollution countermeasures in order to create value for customers. Our goal is to quickly commercialize these ventures.

Our future business expansion in the Greater China Region will depend on our collaboration with partners in the region. We already have promising partnerships in place in each business segment and now we will work toward strengthening our relationships and expanding our businesses.

We also serve as an offshoring hub for software development. This places us in a position to contribute to NEC's business expansion in the Greater China Region as well as our growth in global markets, including Japan.



## APAC (Asia/Pacific)



**Tetsuro Akagi**

Senior Vice President of  
NEC Corporation,  
CEO of NEC Asia Pacific

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

In the fiscal year under review, we set up a Cyber Security Factory in Singapore to reinforce our global security monitoring network. In the safety business, we won orders for a biometrics system (fingerprint and face recognition) for the Government of Australia and a fingerprint recognition system for the Philippine National

Police, ensuring we will make positive contributions toward the realization of safe and secure societies.

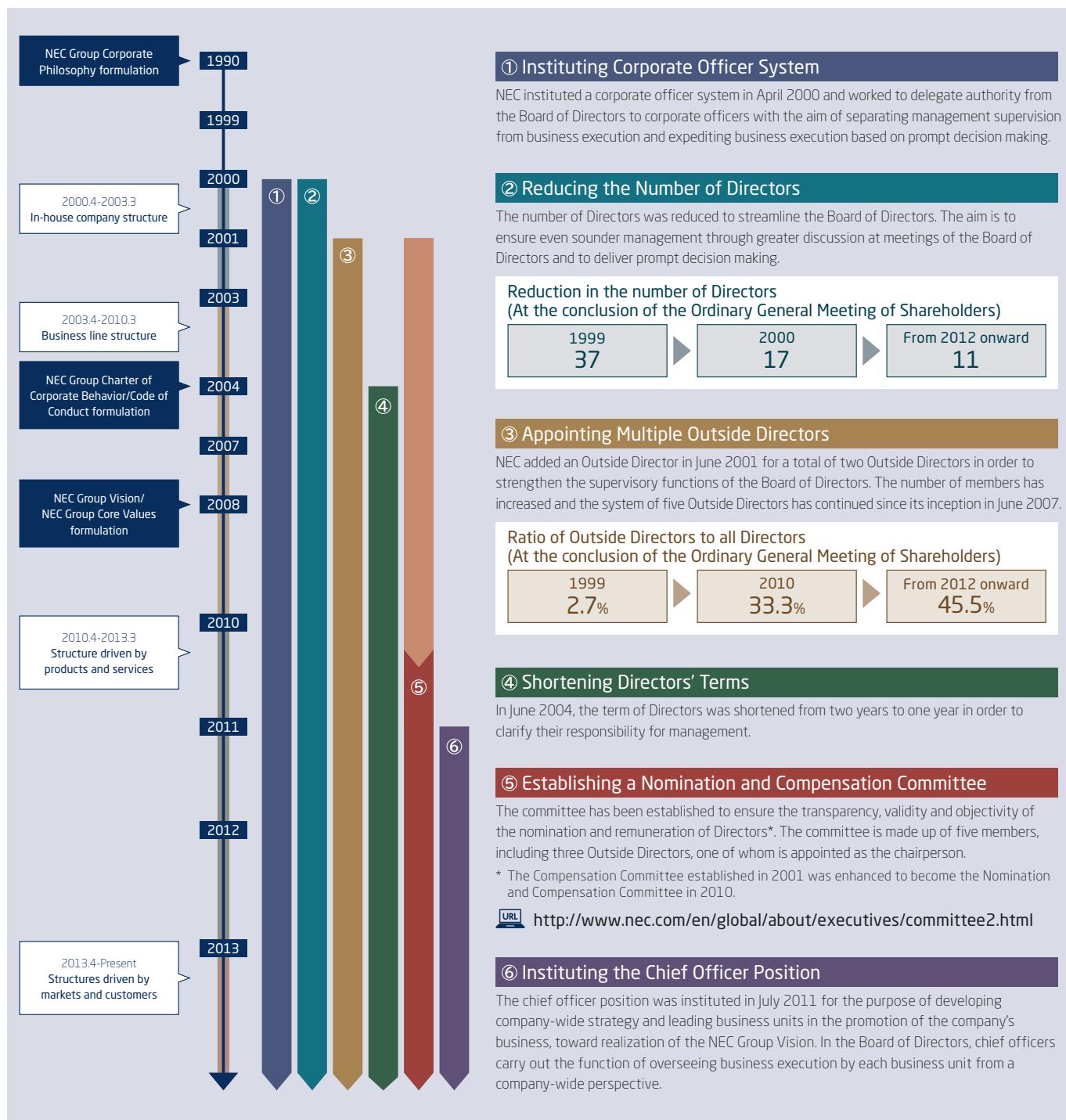
In the next fiscal year, we will focus on further business growth mainly centered on the safety business, network business for global carriers and IT service business for retail positioned as core businesses under the Mid-term Management Plan 2018 and lead NEC's global businesses forward.



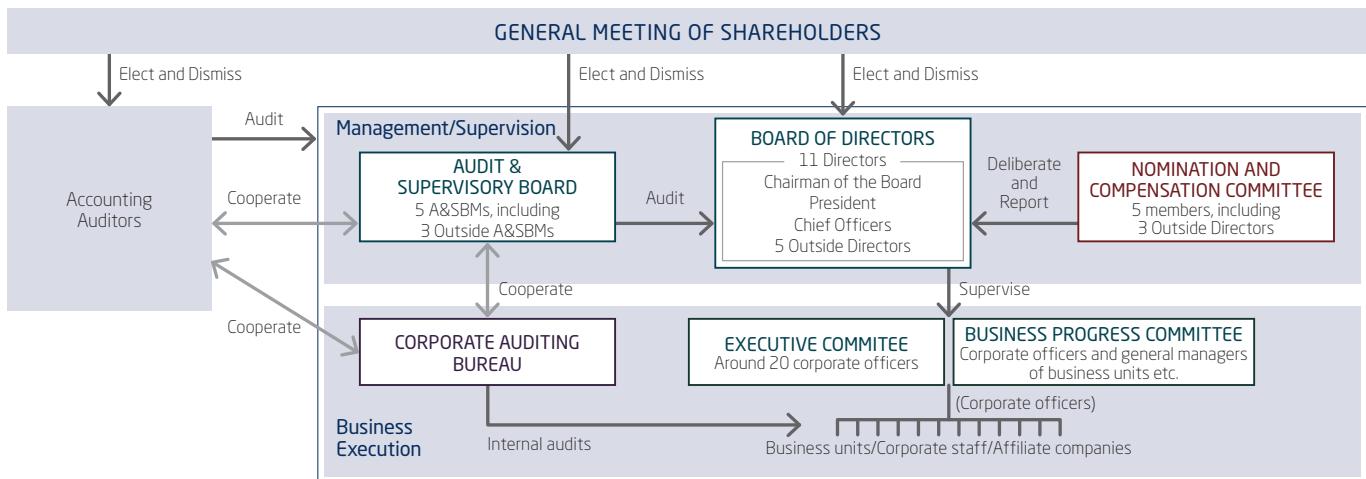
# Corporate Governance

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

## Main Initiatives for Strengthening Corporate Governance



# Overview of the Corporate Governance Structure



## Board of Directors

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

### Fiscal 2016 Status

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

## Executive Committee

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

## Business Progress Committee

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

## Nomination and Compensation Committee

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

## Audit & Supervisory Board (KANSAYAKU-KAI) ("A&SB")

The A&SB holds regular meetings once a month and extraordinary meetings as necessary, decides on audit policies, standards, and annual audit plans, etc. and receives status reports on audits from each Audit & Supervisory Board Member (KANSAYAKU) ("A&SBM").

<b>Form of Organization</b>	Company with the Audit & Supervisory Board Members (KANSAYAKU)	
<b>Chair of the Board of Directors</b>	Chairman of the Board	
<b>Directors</b>	<b>No. of Directors</b>	11 (of which Outside Directors: 5)
	<b>Term</b>	1 year
<b>Audit &amp; Supervisory Board Members (KANSAYAKU) ("A&amp;SBMs")</b>	<b>No. of A&amp;SBMs</b>	5 (of which Outside A&SBMs: 3)
	<b>Term</b>	4 years
<b>Independent Directors/Independent A&amp;SBMs</b>	No. of Independent Directors: 4, No. of Independent A&SBMs: 3	
<b>Policy regarding Incentive Payments to Directors</b>	Remuneration and bonuses linked to business results* <sup>1</sup>	
<b>Remuneration*<sup>2</sup> (For Fiscal 2016)</b>	<b>Directors</b>	Total amount of remuneration: ¥363 million for a headcount of 11 (of which, Outside Directors: 5, Total remuneration: ¥60 million)
	<b>A&amp;SBMs</b>	Total amount of bonus: ¥37 million for a headcount of 6 Total amount of remuneration: ¥96 million for a headcount of 6 (of which, Outside A&SBMs: 4, Total remuneration: ¥36 million)* <sup>3</sup>

\*1 Director bonuses are linked to the NEC Group's performance to assure performance incentives. Bonuses are not paid to Outside Directors in order to help ensure their independence.

\*2 NEC does not disclose remuneration per individual. For NEC's basic remuneration policies and systems, please refer to the Business Report in the notice of the 178th Ordinary General Meeting of Shareholders and Corporate Governance Report.

\*3 The above headcount includes 1 A&SBM who retired at the close of the 177th Ordinary General Meeting of Shareholders held on June 22, 2015.

## Continued Strengthening and Improvement of the System

NEC adopts the Company with Audit & Supervisory Board Members (KANSAYAKU) corporate structure to provide a double-check process: the Board of Directors supervises business execution and the A&SB audits the legitimacy and appropriateness of NEC's decision making or activities. We have established a hybrid structure by utilizing the combination of a corporate officer system, multiple Outside Directors, and the Nomination and Compensation Committee, which we established voluntarily and is comprised of a majority of Outside Directors. In this way, we separate

management supervision from business execution while striving to ensure management transparency and soundness.

NEC believes that its corporate governance is functioning adequately under the current system described above. However, NEC realizes the importance of further strengthening its corporate governance in order to focus on "Solutions for Society" and to strive to create social value and maximize corporate value.

NEC has mainly carried out the following initiatives in light of Japan's Corporate Governance Code that took effect from June 2015.

### Early Disclosure of the Notice of Shareholders' Meeting

NEC posted the notice of the 178th Ordinary General Meeting of Shareholders held on June 22, 2016 on its website prior to the date of sending it out (May 31, 2016).

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

In the interest of strengthening the Board of Directors' supervision functions and speeding up business execution, we have revised the criteria for matters to be discussed by the Board of Directors in order to expand the authority delegated to corporate officers from the Board of Directors with respect to business execution.

### Evaluation on the Effectiveness of the Board of Directors

In order to improve the functions of the Board of Directors, NEC has conducted an analysis and evaluation on the effectiveness of

the Board of Directors. In fiscal 2016, each Director and A&SBM answered a questionnaire and was interviewed about the role, composition and operation of the Board of Directors, and the Board of Directors discussed its effectiveness based on the results of such questionnaires and interviews. As a result of the discussion above, it has been evaluated that in terms of decision making for NEC's important business execution, business strategies and business plans, the Board of Directors is structured and operated to facilitate active discussions, and the Board of Directors has been functioning appropriately as a whole.

Meanwhile, it has been confirmed that the Board of Directors needs to narrow down the matters and clarify the key points to be discussed at the Board of Directors, in order to further enhance deliberations at the Board of Directors and to more appropriately indicate the strategic business direction of NEC. Based on the results of the analysis and evaluation on the effectiveness of the Board of Directors, NEC will continually make the deliberations at the Board of Directors more active.

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

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

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

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

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

### Overview of NEC Corporate Governance Guidelines

Chapter 1	General Provisions	Purpose of these Guidelines Corporate Philosophy and Business Strategies Basic Views on Corporate Governance
Chapter 2	Corporate Governance System	Board of Directors Nomination and Compensation Committee Main Committees in Business Execution Audit & Supervisory Board (A&SB) (KANSAYAKU-KAI) Compliance Hotline, Supporting System for Directors and/or A&SBMs
Chapter 3	Relationship with Stakeholders	Relationship with Shareholders Relationship with Other Stakeholders
Chapter 4	Disclosure	Basic Policy Information Disclosure Structure

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

 [http://jpn.nec.com/profile/en/pdf/nec\\_governance\\_20160601.pdf](http://jpn.nec.com/profile/en/pdf/nec_governance_20160601.pdf)

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

## Communication is Fundamental

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

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

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

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

Outside Director  
**Motoyuki Oka**



## Implement Compliance Management and Expand Business

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

What is characteristic of NEC is that discussions in meetings of the Board of Directors, and the comments of Outside Directors in particular, are extremely vigorous. With six Inside Directors and five Outside Directors, questions and opinions voiced by Outside Directors are outspoken and range across the topics of overall management policies, finances, marketing, and the handling of individual projects. A wealth of information is shared in meetings of the A&SBM, stemming from intimate connections with the Internal Auditing Division, and many fruitful discussions are held. I think that NEC management sufficiently follows the general tenets of the Corporate Governance Code.

It is not necessarily easy to share this level of debate and spread these results across all of the companies in a large, consolidated Group with some 100,000 employees. In order to do so, efforts are moving forward in NEC's Internal Control system to build out a framework to communicate messages inside the Group, offer training, ensure the availability of reporting systems when trouble occurs, and to quickly discover and work to prevent compliance-related issues.

In order to achieve the targets of the Mid-term Management Plan 2018 announced in April 2016, growing international sales will be essential. International business is accompanied by risks from competition laws, bribery, corruption and other issues of which we must be especially vigilant under foreign laws and regulations.

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

Outside Audit & Supervisory Board Member (KANSAYAKU)  
**Takeshi Kikuchi**



# Directors and Audit & Supervisory Board Members

(As of June 22, 2016)

## Directors



**Nobuhiro Endo**

Chairman of the Board (Representative Director)  
Mr. Endo has been engaged in the management of NEC as President (Representative Director) since 2010 and as Chairman of the Board (Representative Director) since April 2016.



**Takeshi Kunibe**

Member of the Board  
President and Chief Executive Officer, Sumitomo Mitsui Banking Corporation  
Director and Member of the Board of Directors, Sumitomo Mitsui Financial Group, Inc.

Mr. Kunibe has extensive experience and deep insight with management of a bank.

- Attendance at meetings of the Board of Directors: 12 out of 12



**Takashi Niino**

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

After being engaged in the management of the financial solutions business and the NEC Group's management strategies, Mr. Niino has been engaged in the management of NEC as President (Representative Director) and CEO since April 2016.



**Hitoshi Ogita**

Member of the Board  
Adviser to the Board, Asahi Group Holdings, Ltd.

Mr. Ogita has extensive experience and deep insight with management of a manufacturing company.

- Attendance at meetings of the Board of Directors: 12 out of 12



**Takayuki Morita**

Executive Vice President,  
CGO (Chief Global Officer) and  
Member of the Board

After being engaged in the management of NEC's M&A and global business, Mr. Morita is now in charge of global business strategy.



**Kaori Sasaki**

Member of the Board  
President and CEO, UNICUL International, Inc.  
President and CEO, ewoman, Inc.

Ms. Sasaki has a wide range of knowledge on marketing and perspective of consumers.

- Attendance at meetings of the Board of Directors: 12 out of 12



**Takaaki Shimizu**

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

After being engaged in the management of the government and public solutions business and IT solutions business, Mr. Shimizu is now in charge of marketing and business innovation strategies.



**Motoyuki Oka**

Member of the Board  
Senior Adviser, Sumitomo Corporation

Mr. Oka has extensive experience and deep insight with management of a general trading company including the management of overseas firms.

- Attendance at meetings of the Board of Directors: 12 out of 12



**Isamu Kawashima**

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

After being engaged in the management of accounting and financial affairs at the business units and overseas subsidiaries, Mr. Kawashima is now in charge of the NEC Group's accounting and financial strategies.



**Kunio Noji**

Member of the Board  
Chairman of the Board, Komatsu Ltd.

Mr. Noji has extensive experience and deep insight with management of a manufacturing company.

- Attendance at meetings of the Board of Directors: 11 out of 12



**Katsumi Emura**

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

After being engaged in the management of intellectual properties and Research and Development, Mr. Emura is now in charge of the NEC Group's technology strategy.

Notes: 1. NEC has notified the Tokyo Stock Exchange of its four independent Directors and three independent Audit & Supervisory Board Members ("A&SBMs").

Independent Directors: Mr. Hitoshi Ogita, Ms. Kaori Sasaki, Mr. Motoyuki Oka and Mr. Kunio Noji

Independent A&SBMs: Ms. Kyoko Okumiya, Mr. Takeshi Kikuchi and Mr. Kazuyasu Yamada

2. Attendance at meetings: the number of attendance at meetings (meetings of the Board of Directors or meetings of the Audit & Supervisory Board) out of the number of the meetings held in the fiscal year ended March 31, 2016

## Audit & Supervisory Board Members (KANSAYAKU)



**Fujio Okada**

Audit & Supervisory Board Member (full-time)

Mr. Okada has experience being in charge of the legal and internal control division for many years.



**Tetsuya Fujioka**

Audit & Supervisory Board Member (full-time)

Mr. Fujioka has accounting experience for many years and experience as former General Manager of Corporate Finance Division.



**Kyoko Okumiya**

Audit & Supervisory Board Member

Attorney at Law

Ms. Okumiya has a lot of experience and professional insight as an attorney at law.

- Attendance: At meetings of the Board of Directors: 12 out of 12
- At meetings of the Audit & Supervisory Board: 16 out of 16



**Takeshi Kikuchi**

Audit & Supervisory Board Member

Attorney at Law

Mr. Kikuchi has a lot of experience and professional insight as an attorney at law in the field of IT and other fields.

- Attendance: At meetings of the Board of Directors: 10 out of 10
- At meetings of the Audit & Supervisory Board: 12 out of 12

(Appointed in June 2015)



**Kazuyasu Yamada**

Audit & Supervisory Board Member

Certified Public Accountant

Mr. Yamada has a lot of auditing experience as a Certified Public Accountant and professional insight in finance and accounting.

(Appointed in June 2016)

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

Directors

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

Audit & Supervisory Board Members (KANSAYAKU)

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

## Board of Directors

11 Directors

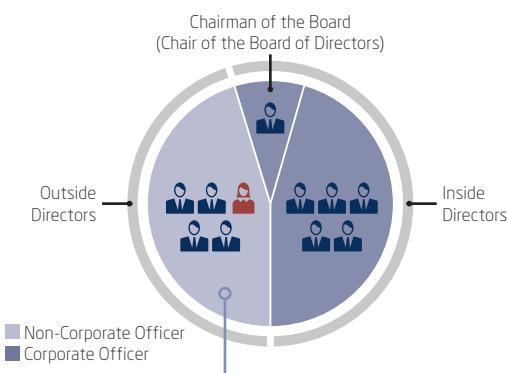


6 Inside Directors

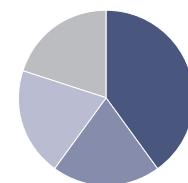


5 Outside Directors  
(of which 4 are independent Directors)

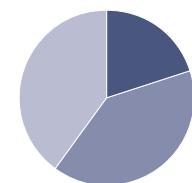
The Board of Directors makes important decisions regarding the Company's business execution, starting with deciding on its basic management policies. It also fulfills the responsibility of overall supervision of business execution, and therefore requires viewpoints based on broad knowledge, and the Board of Directors is comprised with consideration given to diversity in such factors as career background, specialties and gender.



Career background and specialties of 5 Outside Directors



Tenure of 5 Outside Directors



## Audit & Supervisory Board (KANSAYAKU-KAI)

5 Audit & Supervisory Board Members



2 Inside Audit & Supervisory Board Members



3 Outside Audit & Supervisory Board Members  
(All members are independent Audit & Supervisory Board Members)

NEC appoints as Audit & Supervisory Board Members personnel who have the knowledge and experience necessary for audits, such as considerable expertise in finance and accounting or experience as an attorney at law, and who strengthen the auditing functions of the Audit & Supervisory Board.

# Business Execution Structure

(As of July 1, 2016)

At NEC, the chairman, the president, chief officers, corporate officers in charge of business units and other officers interact actively in exchanging information and discussion to enhance management speed and to execute business from a companywide perspective.



**Nobuhiro Endo**  
Chairman of the Board

## Achieving Sustainable Growth through ICT

With high expectations for ICT's contributions to solving the problems of human society, NEC will make continuous effort to improve our computing expertise, network building know-how and solutions capabilities. Aiming to utilize them to the fullest, we will also devote efforts to training our employees, and, under an ethical corporate culture, to contribute to realizing a society in which people can live more abundant lives.



**Manabu Kinoshita**  
Senior Executive Vice President  
In charge of the Corporate Sales and Sales Operations Unit

## Growing Order Numbers through Customer-Centric Value Proposals

Through value proposals leveraging our technologies and through co-creation with customers and sales partners, NEC is driving toward company-wide growth while fostering the frontline capabilities of thinking and acting on their own in order to quickly respond to market changes.



**Tomonori Nishimura**  
Executive Vice President  
In charge of the Public Business Unit

## Expanding Business Domains toward Building a Safe and Secure Society

"We want to bring happiness to the people of the world." To achieve that end, we are striving to gain a deeper understanding of social structures and aim to grow as a business that is able to contribute globally to ICT services embedded in customers' business domains.



**Takayuki Morita**  
Executive Vice President and CGO (Chief Global Officer)

## Achieving Growth in the Global Market

NEC is proposing and executing strategies with an emphasis on boosting competitiveness in the three business areas of Safety, Global Carrier Networks, and Retail IT Service. Additionally, we are actively striving to solve global challenges across business units and liaising with international agencies in order to boost the presence of NEC.



**Shunichiro Tejima**  
Executive Vice President  
In charge of the Telecom Carrier Business Unit

## Achieving Global Growth

Taking advantage of the business opportunities emerging from the IoT expansion and orchestrating the diverse assets of NEC's IT and network technologies, we globally deliver our safe, secure and efficient, high value-added network solutions sophisticated by software. Through these efforts, we are dedicated to resolving social challenges as well as to the further development of NEC Group.



**Takaaki Shimizu**  
Executive Vice President and CMO (Chief Marketing Officer)  
In charge of the Business Innovation Unit

## Implementing Innovations and Reforming Marketing

Through new business creation, and by instilling the culture of creating internal business frameworks, etc., we are transforming NEC into an innovative company. Additionally, we are proceeding to renovate our marketing processes with digital marketing and other approaches, while striving to improve ROI.

**Isamu Kawashima**

Executive Vice President and CFO (Chief Financial Officer)

**Strengthening the Profit Structure and Expanding Key Businesses**

NEC will establish the foundation for business expansion by addressing underperforming businesses, maintaining and bolstering a stable financial foundation, and supporting strategic growth with our financial strength.

**Yasujiro Ryuno**

Executive Vice President, CIO (Chief Information Officer) and CISO (Chief Information Security Officer)

**Achieving an ICT Environment that Contributes to Business Growth**

To help NEC get back on the track to growth, we are accelerating the speed of business and pursuing ways to leverage ICT that contributes to growth. We are dedicating effort to realizing an ICT environment that supports diversifying work styles and co-creation with customers and partners.

**Katsumi Emura**

Executive Vice President and CTO (Chief Technology Officer)

**Proposing and Implementing Company-wide Technology Strategies that Contribute to Growth**

Leveraging our strong core technologies, NEC is predicting the future society and communicating a vision of new social value that we will create. In order to achieve that vision, we will take full advantage of strong technology assets, to create NEC's original "Solutions for Society," and contribute to providing maximum value.

**Susumu Makihara**

Executive Vice President

In charge of Personnel and General Affairs

**Making Diversity the Driver of Growth**

For NEC to expand its Solutions for Society globally, we must rally diverse human resources and be a company where employees can work energetically. Therefore, we are striving to hire a more diverse workforce, build systems, frameworks, and cultures that support them, and strengthen leadership that leverages diversity.

**Nobuhiro Odake**

Executive Vice President

In charge of the Supply Chain Management Unit

**Strengthening the One NEC Supply Chain Platform**

We are building out and strengthening a customer satisfaction-oriented supply chain from the perspective of One NEC. With the Group coming together as one unit, connected plants can create a multitude of products connected with customers and with which we can contribute to value creation through our "Solutions for Society."

**Toshiya Matsuki**

Executive Vice President

In charge of the Global Business Unit

**Contributing to Customers through Social Solutions and Strengthening Profitability in the Global Marketplace**

We are striving to accelerate the rollout of our "Solutions for Society" with our safety business, which utilizes NEC's world-leading recognition technologies, and our network business, which is backed by a rich track record, as the foundations for business. At the same time, we are striving to solve social issues and improve business profitability.

**Kimihiko Fukuda**

Executive Vice President

In charge of the System Platform Business Unit

**Providing Platforms with Value**

Through the development of "Solutions for Society," NEC strives to globally provide our robust ICT platforms with recognized value. NEC will continue contributing to business growth that is mutually beneficial for our customers and for us.

**Chikara Ishii**

Executive Vice President

In charge of the Enterprise Business Unit

**Establishing a Foundation for Growth as a Base for Providing Value**

We are striving to expand and enhance how we provide value, focusing on value chain innovation that connects capabilities "to create," "to transport," "to sell," and "to live," while striving to increase projects for a global market. We will work to maximize business with a base of providing value for customers in manufacturing, logistics, and service industries.

**Kazuhiro Sakai**

Executive Vice President

In charge of the System Integration, Services &amp; Engineering Operations Unit

**Establishing a Services Business Foundation and Executing a Global System Integration Rollout**

In order to roll out new service businesses, such as the IoT, with speed and global scope, NEC is driving toward business growth while utilizing open innovation and establishing a shared, company-wide business foundation.

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

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

# Human Rights and Diversity

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

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

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

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

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



Mr. Endo (then president) explaining NEC's efforts

## Reforming Working Styles and Achieving Work-Life Balance

At NEC, labor and management cooperate to implement flexible working styles, prevent overwork, and promote time off from work.

The status of these efforts is confirmed by labor-management committees in each business unit and office to shorten work hours and ensure employee health while also promoting time off from work. In addition, to respond to changes in the business environment and the diversifying needs of employees, we have expanded the range of employees allowed to work from home and to "bring your own device" (BYOD). This has not only contributed to creating a better work-life balance for employees, it has also led to increases in worker productivity.

The rate of taking paid leave at NEC Corporation\* for this fiscal year was 67.9%, which was slightly less than the previous year (68.4%). The average monthly overtime remained the same as last year at 17.4 hours.



Labor-management discussions on work-style reforms

\* NEC Corporation only

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

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

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

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

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

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



A summary of the lecture is projected on a display next to a sign-language interpreter

## NEC Group Efforts for LGBT\* Rights

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

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

- (1) CSR Promotion and Social Contributions Office held an event for LGBT student job seekers. The goals of this event were to both create a corporate culture that allows diverse human resources to utilize their individualities and personalities to propose various ideas and to eliminate the unease felt by LGBT job seekers.
- (2) Human Resources Development Division held three LGBT study sessions (regarding basic understanding and discussions) featuring instructors from ReBit. Approximately 120 employees attended from the Human Resources Division, General Affairs Division, Human Rights Hotline Desk, and Health Care Division.
- (3) The Human Rights Hotline Desk established at each company in the NEC Group has been accepting queries regarding LGBT issues since April 2016.



Human Resources Development Division holding a study session about LGBT



Explanation about LGBT by ReBit representative Mr. Yakushi

\* LGBT is a collective term for sexual minorities and stands for lesbian, gay, bisexual, and transgender (the latter being people who identify with a gender identity that differs from the person's sex at birth).

# Environmental Efforts

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

## Environmental Management and Responsibility at NEC

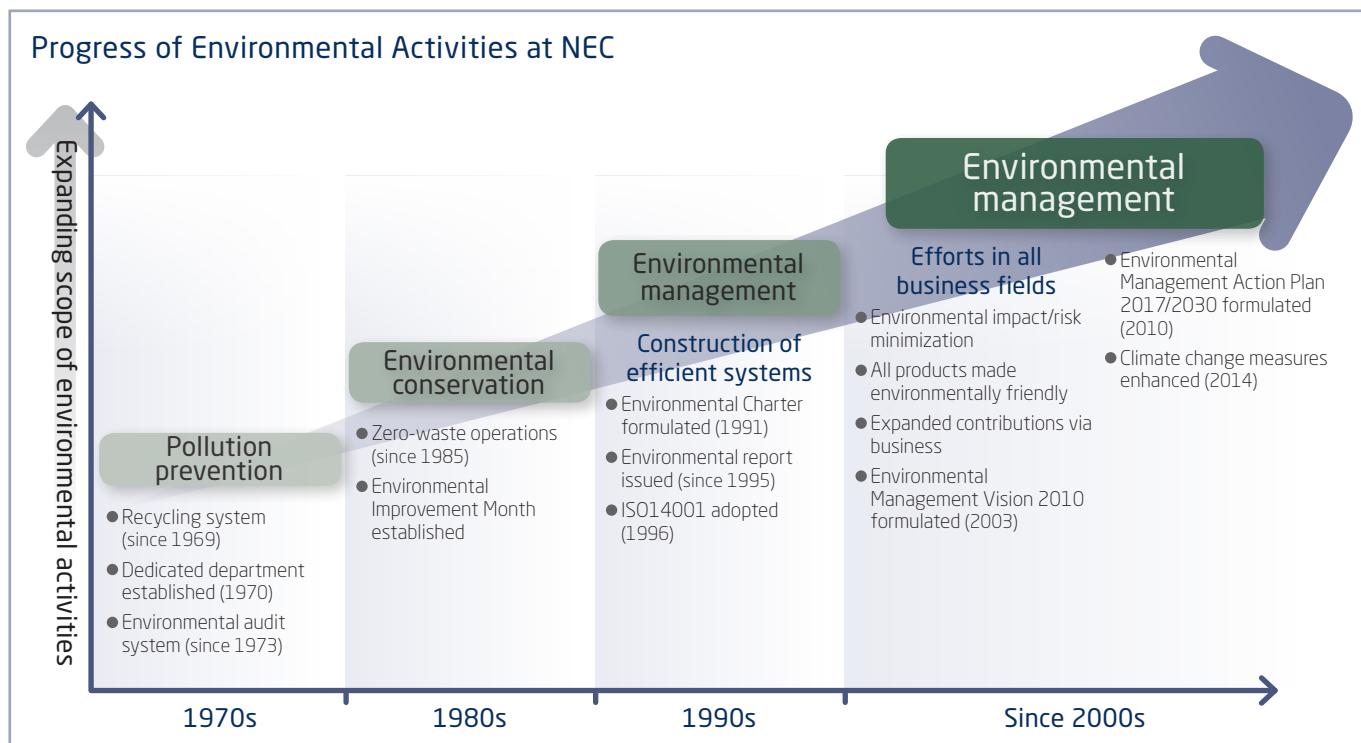
Two international agreements regarding the conservation of the natural environment were made in 2015. One was the Sustainable Development Goals (SDGs) of the United Nations. The other was the Paris Agreement made at the 21st Session of the Conference of the Parties to the United Nations (UN) Framework Convention on Climate Change (COP21). Both economics and the global

environment are essential for achieving these agreements' goals. The main goal of environmental management focused on by NEC is to solve the various issues around the world to enable society to develop. NEC will continue to create maximized solutions for the targets the world aims for in order to provide the benefits provided by safety, security, efficiency, and equality.

## The Evolving Environmental Management of NEC

The environmental activities of NEC started in earnest in 1970, when a dedicated environmental organization was established. The president at the time had a strong awareness of corporate responsibility regarding the environment and declared both internally and to the public that NEC would actively pursue the things it should do for the environment. That was an advanced idea for a company at the time. Since then, NEC has engaged in a wide range of activities while always looking one step ahead.

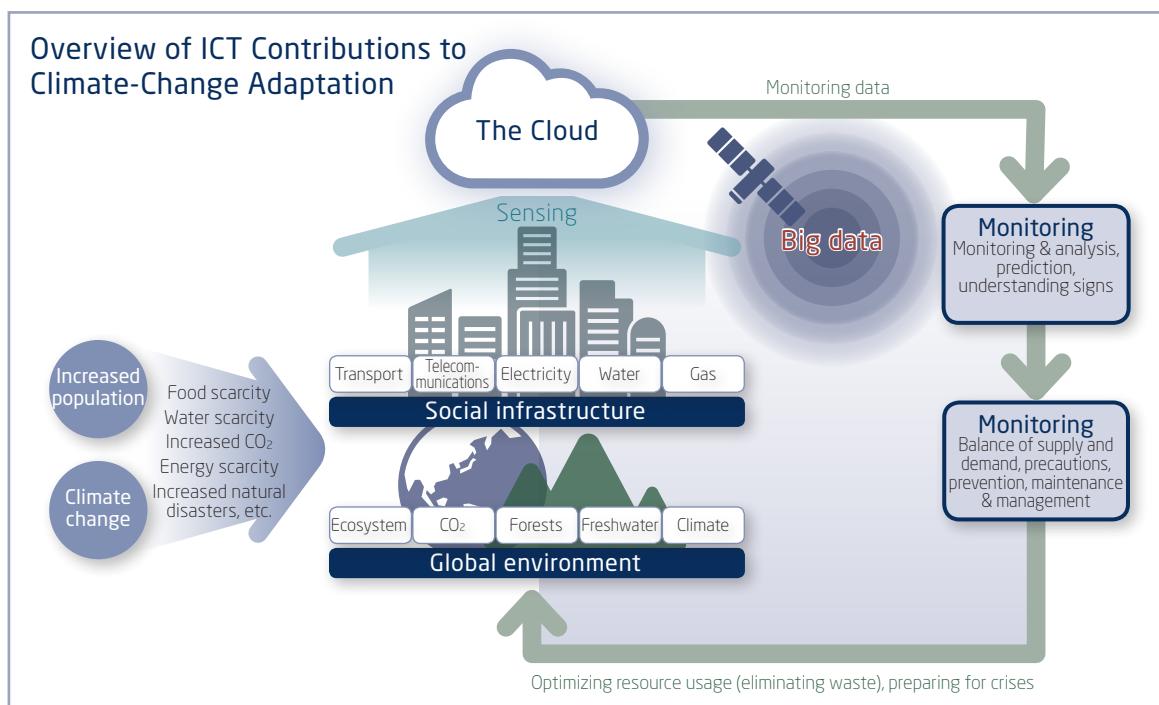
The NEC Environmental Management Vision 2010 announced in 2003 set forth a meaningful environmental vision. Since then, NEC has promoted the contributions that ICT can make to reducing the CO<sub>2</sub> emissions of society as a whole. In 2009, this vision was expanded to include efforts to protect ecosystems, biodiversity, and the recycling and conservation of resources. Moreover, 2014 saw the formulation of long-term goals to enhance climate-change measures. We are therefore proceeding with environmental management that is an inseparable part of our business.



## Implementing Climate Change Measures for Both Mitigation and Adaptation

NEC investigates what kind of social value its unique technologies and solutions can provide to further enhance conventional environmental management by focusing on mitigation. Last fiscal year, climate-change adaptation was added to our main pillars of environmental management. NEC believes that collecting data on the ever-changing status of everything, including the environment and social infrastructure, and performing big-data analysis enable

major changes to be predicted and help lead to appropriate measures. These activities contribute to achieving a safe and secure society. Comprehensive value can also be provided to address the global problem of climate change by promoting adaptation via our social-solution business while further reducing CO<sub>2</sub> emissions.



## Evolution in Environmental Management

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

In terms of adaptation, NEC is proceeding with the introduction of disaster-prevention systems (particularly in Asia) to deal with natural disasters, which are becoming more severe due to climate change. These systems contribute to creating a society in which people can live safely and securely. Moreover, utilizing SX-ACE vector supercomputers is expected to help solve global

environmental problems, shed light on the mechanisms that cause tectonic activity and earthquakes, and predict and deal with natural disasters. Such efforts enable NEC to steadily increase the value that it provides in terms of both mitigation and adaptation.

NEC is also proceeding with the reduction of environmental impact throughout its entire supply chain. For example, energy savings of approximately 50% were achieved when renovating Building 9 of the NEC Tamagawa Plant by adopting a state-of-the-art ICT solution for saving energy and electricity. This knowledge on saving energy has also enabled NEC to both help its business partners save energy and to provide solutions that reduce the environmental impact of its customers.

# Innovation Management

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

## Policy

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

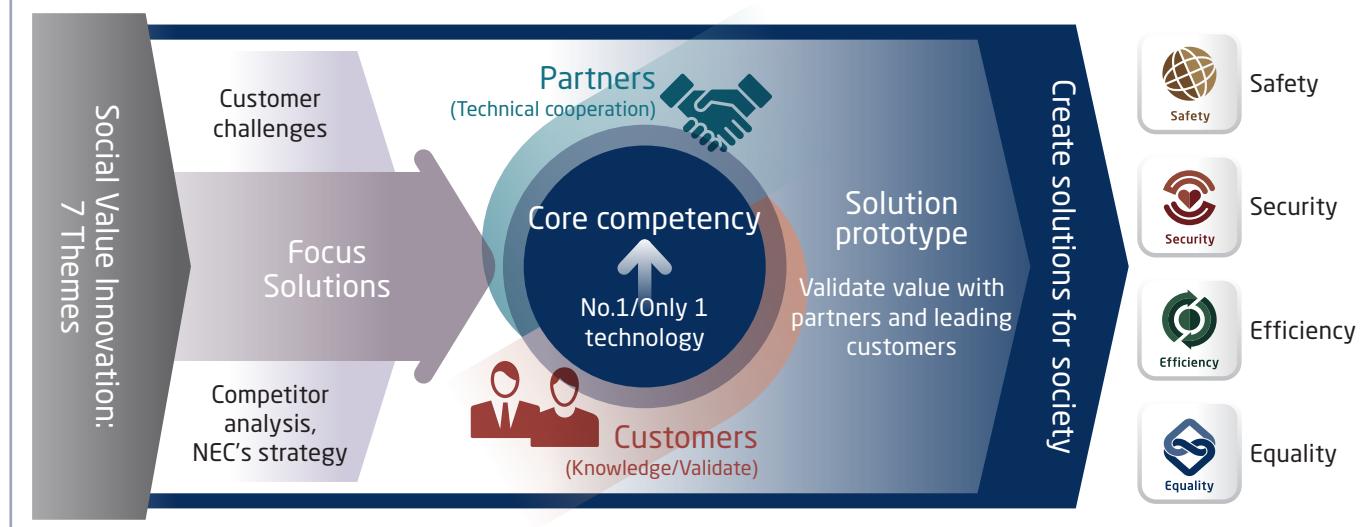
To conduct such R&D, NEC has established a Technology Strategy Committee with the CTO as the chair. This committee debates technology strategy on a company-wide level to make effective and efficient use of the R&D investments, which are 4 to 5% of NEC sales. The CTO is responsible for both selecting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

To continue enhancing No. 1/Only 1 core technologies into the future, NEC actively recruits the top human resources at research

institutes overseas and increases the recruitment of PhD holders and graduates of top universities in Japan. Moreover, NEC strives to recruit and cultivate highly diverse human resources to broaden its horizons for the creation of new value. NEC also cooperates with NPOs to conduct study abroad programs and overseas training in developing countries for its employees and thereby provide an opportunity to learn about other business mindsets.

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

### Research and Development Process at NEC

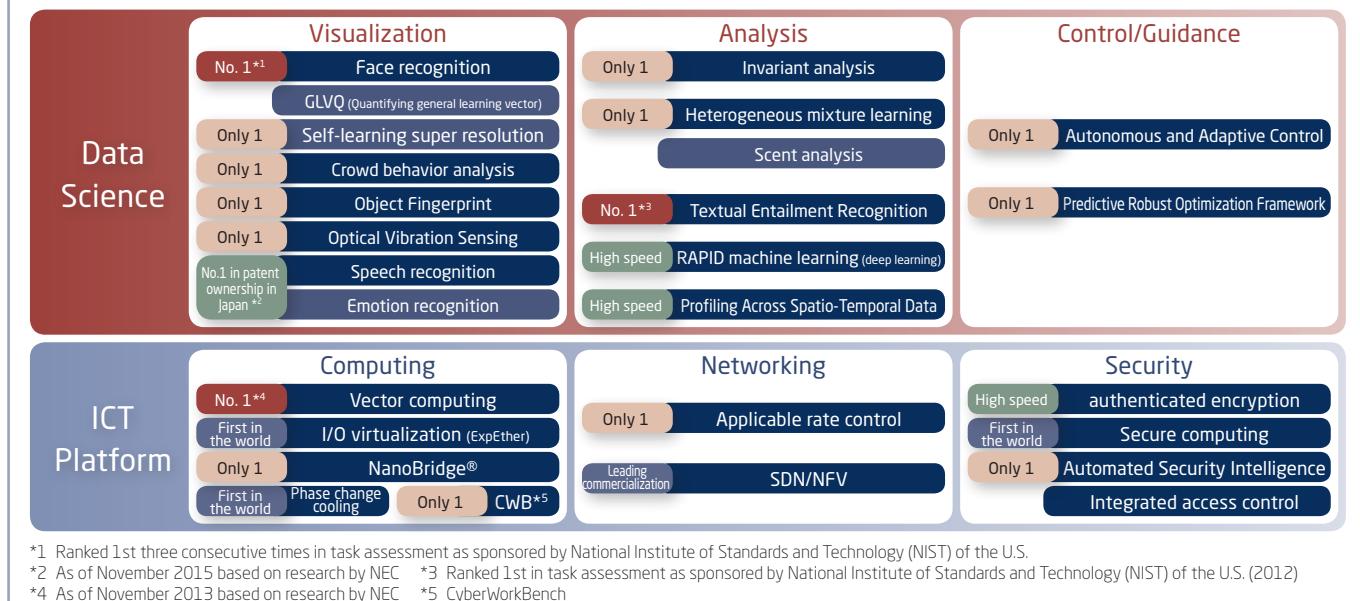


# Promoting Concentrated Investments and Open Innovation in Key Technologies and Fields

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

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

## Concentrated Investments in Data Science and ICT Platforms



## Intellectual Property Strategies

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

Looking ahead to global business expansion, NEC has established intellectual property centers in North America, Europe,

and China to focus efforts on building a global patent network. And, in the field of "Solutions for Society," a strategic patent project has been rolled out across Group companies to promote the acquisition of strong and useful patents.

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

## Major Business Achievements

### Business track record

- Technology validation of landslide risk estimation at local authorities both in Japan and overseas
- Established face recognition technology development center and introduced face recognition solutions at airports in Brazil, etc.
- Built Comprehensive Disaster Control System in Toshima Ward, Tokyo
- Validating optimal water supply facilities management in cities and towns in the UK
- Delivered over 600 SDN systems globally
- Started offering NEC Industrial IoT, a next-generation manufacturing solution
- Started offering a solution for predicting demand for repair parts
- Released customers' voice analysis solution
- 4K terrestrial broadcast test conducted with the largest commercial television broadcaster in Chile

### No.1/Only 1 technology

- |                           |  |
|---------------------------|--|
| Only 1                    | Data analysis technology                     |
| No. 1                     | Face recognition                             |
| Only 1                    | Crowd behavior analysis                      |
| Only 1                    | Hybrid sensor                                |
| Only 1                    | Predictive Robust Optimization Framework     |
| Leading commercialization | SDN  |
| Only 1                    | Object fingerprint                           |
| Only 1                    | Invariant analysis                           |
| Only 1                    | Heterogeneous mixture learning               |
| No. 1                     | Textual entailment recognition               |
| High speed                | Ultra high-resolution compression technology |

# Ensuring Compliance

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

## Reviewing and Enhancing Internal Systems for Implementing Fair Trade

NEC formulated Rules for Contacts with Competitors in 2011. They define the rules to prevent unnecessary contact with competitors. These rules have been strengthened and clarified based on the facts of on-site inspections conducted by the Japan Fair Trade Commission previous fiscal year and this fiscal year. More specifically, this entailed the addition and adjustment of matters regarding contact with competitors that require prior consultation. It also included the addition of precautions to reduce

the risk of becoming involved in bid-rigging at the initiative of government agencies. The name of these rules was accordingly changed to Rules for the Prevention of Cartels and Bid-rigging.

A manual on the rules was also created. It includes detailed information on matters that require prior consultation, how to respond when offered entry into a cartel or bid-rigging, and precautions for reducing the risk of becoming involved in bid-rigging at the initiative of government agencies.

## Reviewing and Enhancing Internal Measures for Preventing Bribery

Anti-corruption such as preventing bribery is one of the ten principles of the UN Global Compact and a common concern around the world.

NEC has formulated Basic Rules on Anti-bribery. They define a bribery-prevention system including basic actions to be taken by executives and employees to ensure that bribery is prevented in its business activities.

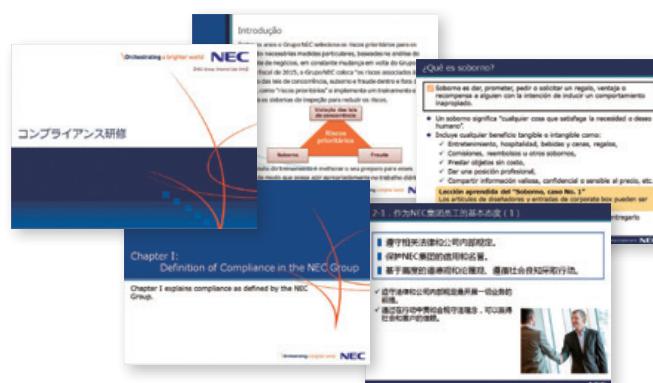
NEC has also created an Anti-Bribery Manual for Business Divisions based on the Basic Rules on Anti-bribery. The manual outlines the roles that the heads of business divisions play and specific methods for preventing bribery. It includes the methods of bribery risk evaluations and third-party due diligence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

## Compliance Training and Awareness Building

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

Moreover, an NEC Business Ethics Forum is held annually to improve compliance awareness via lectures by external experts and messages from NEC's president about the importance of compliance. The theme of this year's forum was items that employees (including managers) have to take care of, mainly regarding competition laws. The training of new employees and

stratified training, etc., are also utilized to ensure employees recognize the importance of working according to the NEC Group Code of Conduct.



# Financial Section

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

# Consolidated Balance Sheets

NEC Corporation and Subsidiaries  
March 31, 2015 and 2016

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2016	
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 19) .....	¥ 181,132	¥ 192,323	\$ 1,717,170
Short-term investments (Note 19) .....	1,972	1,818	16,232
Trade notes and accounts receivable (Note 19) .....	928,367	874,496	7,808,000
Inventories (Note 7) .....	241,146	228,059	2,036,241
Deferred tax assets (Note 13) .....	65,351	79,418	709,089
Other current assets (Notes 19 and 20) .....	163,968	157,982	1,410,554
Allowance for doubtful accounts .....	(5,151)	(6,837)	(61,045)
Total current assets .....	1,576,785	1,527,259	13,636,241
<b>PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (Notes 2f and 8):</b>			
Land .....	57,787	57,189	510,616
Buildings and structures .....	172,177	168,001	1,500,009
Machinery and equipment .....	20,189	19,516	174,250
Furniture and fixtures .....	67,643	66,265	591,652
Construction in progress .....	20,319	20,823	185,919
Total property, plant and equipment .....	338,115	331,794	2,962,446
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 6 and 19) .....	157,078	143,116	1,277,821
Investments in affiliated companies (Note 19) .....	90,153	91,626	818,089
Goodwill .....	66,985	46,123	411,813
Software .....	94,194	89,358	797,839
Long-term loans receivable (Note 19) .....	39,424	37,271	332,777
Deferred tax assets (Note 13) .....	85,114	114,316	1,020,679
Net defined benefit asset (Note 9) .....	74,622	23,634	211,018
Other assets (Notes 19 and 20) .....	102,682	93,020	830,536
Allowance for doubtful accounts .....	(4,500)	(4,076)	(36,393)
Total investments and other assets .....	705,752	634,388	5,664,179
<b>TOTAL ASSETS</b> .....	¥2,620,652	¥2,493,441	\$22,262,866

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2015	2016	2016
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings (Notes 8 and 19) .....	¥ 28,988	¥ 40,102	\$ 358,054
Current portion of long-term debt (Notes 8 and 19) .....	106,267	117,174	1,046,196
Trade notes and accounts payable (Note 19) .....	466,677	415,427	3,709,170
Accrued expenses (Note 19) .....	169,070	155,240	1,386,071
Other current liabilities (Notes 10, 13, 19 and 20) .....	298,546	284,099	2,536,598
Total current liabilities .....	1,069,548	1,012,042	9,036,089
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 8 and 19) .....	385,523	323,711	2,890,277
Net defined benefit liability (Notes 3 and 9) .....	228,686	258,632	2,309,214
Deferred tax liabilities (Note 13) .....	2,410	1,891	16,884
Other long-term liabilities (Notes 11, 19 and 20) .....	50,293	44,672	398,857
Total long-term liabilities .....	666,912	628,906	5,615,232
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Notes 18, 20 and 21)</b>			
<b>NET ASSETS (Notes 12 and 24):</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock:			
Authorized — 7,500,000 thousand shares			
Issued — 2,604,733 thousand shares in 2015 and 2016 .....	397,199	397,199	3,546,420
Capital surplus .....	148,694	149,034	1,330,661
Retained earnings (Note 3) .....	207,021	265,404	2,369,678
Treasury stock — at cost:			
5,916 thousand shares in 2015 and			
6,059 thousand shares in 2016 .....	(3,025)	(3,077)	(27,473)
Total shareholders' equity .....	749,889	808,560	7,219,286
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME:</b>			
Valuation difference on available-for-sale securities .....	47,385	36,710	327,767
Deferred gains or losses on hedges .....	(271)	(1,525)	(13,616)
Foreign currency translation adjustments .....	12,795	(1,175)	(10,491)
Remeasurements of defined benefit plans .....	13,852	(50,478)	(450,696)
Total accumulated other comprehensive income .....	73,761	(16,468)	(147,036)
<b>NON-CONTROLLING INTERESTS (Note 3)</b> .....			
Total net assets .....	884,192	852,493	7,611,545
<b>TOTAL LIABILITIES AND NET ASSETS</b> .....	¥2,620,652	¥2,493,441	\$22,262,866

# Consolidated Statements of Operations

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

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2015	2016	2016
<b>NET SALES</b>	¥3,043,114	¥2,935,517	¥2,821,181	\$25,189,116
<b>COST OF SALES (Note 9)</b>	2,128,457	2,039,499	1,978,757	17,667,473
Gross profit	914,657	896,018	842,424	7,521,643
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 14)</b>	808,464	767,934	735,118	6,563,554
Operating income	106,193	128,084	107,306	958,089
<b>NON-OPERATING INCOME:</b>				
Interest and dividends income	6,251	5,658	5,916	52,821
Equity in earnings of affiliated companies, net	2,719	8,126	4,562	40,732
Foreign exchange gain, net	593	4,468	—	—
Other non-operating income (Note 5)	8,672	8,240	7,498	66,947
Total non-operating income	18,235	26,492	17,976	160,500
<b>NON-OPERATING EXPENSES:</b>				
Interest expense	10,036	10,066	9,760	87,143
Foreign exchange loss, net	—	—	8,482	75,732
Settlement package and compensation for damage (Note 5)	3,836	2,554	7,220	64,464
Provision for contingent loss	11,452	5,872	4,745	42,366
Retirement benefit expenses (Note 9)	11,325	10,357	—	—
Other non-operating expenses (Note 5)	18,627	13,615	12,340	110,179
Total non-operating expenses	55,276	42,464	42,547	379,884
Ordinary income	69,152	112,112	82,735	738,705
<b>SPECIAL GAINS (Note 15)</b>	58,341	7,801	6,095	54,420
<b>SPECIAL LOSSES (Note 15)</b>	43,532	23,176	10,908	97,393
<b>PROFIT BEFORE INCOME TAXES</b>	83,961	96,737	77,922	695,732
<b>INCOME TAXES (Note 13):</b>				
Current	33,558	31,868	20,085	179,330
Deferred	8,808	8,944	(16,202)	(144,661)
Total income taxes	42,366	40,812	3,883	34,669
<b>PROFIT</b>	41,595	55,925	74,039	661,063
<b>PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>	7,853	(1,377)	5,290	47,233
<b>PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	¥ 33,742	¥ 57,302	¥ 68,749	\$ 613,830

	Yen			U.S. Dollars (Note 1)
	2014	2015	2016	2016
<b>PER SHARE OF COMMON STOCK (Note 23):</b>				
Basic earnings per share	¥12.99	¥22.05	¥26.45	\$0.24
Diluted earnings per share	—	—	—	—
Cash dividends applicable to the year	4.00	4.00	6.00	0.05

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

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

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2015	2016	2016
<b>PROFIT</b>	<b>¥41,595</b>	<b>¥ 55,925</b>	<b>¥ 74,039</b>	<b>\$ 661,063</b>
<b>OTHER COMPREHENSIVE INCOME (Note 16):</b>				
Valuation difference on available-for-sale securities .....	15,858	12,028	(10,418)	(93,018)
Deferred gains or losses on hedges .....	(253)	674	(30)	(268)
Foreign currency translation adjustments .....	4,450	11,218	(11,798)	(105,339)
Remeasurements of defined benefit plans .....	—	78,611	(63,674)	(568,518)
Share of other comprehensive income of associates accounted for using equity method .....	1,239	4,150	(6,120)	(54,643)
Total other comprehensive income .....	21,294	106,681	(92,040)	(821,786)
<b>COMPREHENSIVE INCOME</b>	<b>¥62,889</b>	<b>¥162,606</b>	<b>¥(18,001)</b>	<b>\$(160,723)</b>
Comprehensive income attributable to				
owners of the parent .....	¥54,917	¥160,309	¥(21,480)	\$(191,786)
non-controlling interests .....	7,972	2,297	3,479	31,063

# Consolidated Statements of Changes in Net Assets

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

	Thousands	Shareholders' equity			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2013 .....	2,604,733	¥397,199	¥148,405	¥157,771	¥(2,946)
Profit attributable to owners of the parent .....				33,742	
Cash dividends paid, ¥4 per share .....				(10,394)	
Purchases of treasury stock .....					(35)
Disposals of treasury stock .....				(2)	5
Change of scope of equity method .....				1,451	
Net changes in items other than shareholders' equity during the year .....					
BALANCE, MARCH 31, 2014 .....	2,604,733	397,199	148,402	182,570	(2,976)
Cumulative effects of changes in accounting policies .....				(22,458)	
Restated balance .....		397,199	148,402	160,112	(2,976)
Profit attributable to owners of the parent .....				57,302	
Cash dividends paid, ¥4 per share .....				(10,393)	
Purchases of treasury stock .....					(54)
Disposals of treasury stock .....				(2)	5
Change of scope of equity method .....				294	
Net changes in items other than shareholders' equity during the year .....					
BALANCE, MARCH 31, 2015 .....	2,604,733	397,199	148,694	207,021	(3,025)
Profit attributable to owners of the parent .....				68,749	
Cash dividends paid, ¥4 per share .....				(10,396)	
Purchases of treasury stock .....					(56)
Disposals of treasury stock .....				(2)	4
Change in treasury shares of parent arising from transactions with non-controlling shareholders .....				342	
Change of scope of equity method .....				30	
Net changes in items other than shareholders' equity during the year .....					
BALANCE, MARCH 31, 2016 .....	2,604,733	¥397,199	¥149,034	¥265,404	¥(3,077)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2015 .....	\$3,546,420	\$1,327,625	\$1,848,401	\$(27,009)
Profit attributable to owners of the parent .....			613,830	
Cash dividends paid, \$0.04 per share .....			(92,821)	
Purchases of treasury stock .....				(500)
Disposals of treasury stock .....			(18)	36
Change in treasury shares of parent arising from transactions with non-controlling shareholders .....			3,054	
Change of scope of equity method .....				268
Net changes in items other than shareholders' equity during the year .....				
BALANCE, MARCH 31, 2016 .....	\$3,546,420	\$1,330,661	\$2,369,678	\$(27,473)

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

Millions of Yen							
Total	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Non-controlling interests	Total net assets
¥700,429	¥ 18,333	¥ (1,076)	¥ (7,020)	—	¥ 10,237	¥125,481	¥836,147
33,742							33,742
(10,394)							(10,394)
(35)							(35)
3							3
1,451							1,451
—	15,959	(283)	5,499	(60,658)	(39,483)	(53,767)	(93,250)
725,195	34,292	(1,359)	(1,521)	(60,658)	(29,246)	71,714	767,663
(22,458)						(1,608)	(24,066)
702,737	34,292	(1,359)	(1,521)	(60,658)	(29,246)	70,106	743,597
57,302							57,302
(10,393)							(10,393)
(54)							(54)
3							3
294							294
—	13,093	1,088	14,316	74,510	103,007	(9,564)	93,443
749,889	47,385	(271)	12,795	13,852	73,761	60,542	884,192
68,749							68,749
(10,396)							(10,396)
(56)							(56)
2							2
342							342
30							30
—	(10,675)	(1,254)	(13,970)	(64,330)	(90,229)	(141)	(90,370)
¥808,560	¥ 36,710	¥ (1,525)	¥ (1,175)	¥ (50,478)	¥ (16,468)	¥ 60,401	¥852,493
Thousands of U.S. Dollars (Note 1)							
Total	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Non-controlling interests	Total net assets
\$6,695,437	\$423,080	\$ (2,420)	\$ 114,241	\$ 123,679	\$ 658,580	\$540,554	\$7,894,571
613,830							613,830
(92,821)							(92,821)
(500)							(500)
18							18
3,054							3,054
268							268
—	(95,313)	(11,196)	(124,732)	(574,375)	(805,616)	(1,259)	(806,875)
\$7,219,286	\$327,767	\$ (13,616)	\$ (10,491)	\$ (450,696)	\$ (147,036)	\$539,295	\$7,611,545

# Consolidated Statements of Cash Flows

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

	2014	2015	2016	Thousands of U.S. Dollars (Note 1) 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before income taxes .....	¥ 83,961	¥ 96,737	¥ 77,922	\$ 695,732
Depreciation .....	76,977	78,717	73,026	652,018
Amortization of long-term prepaid expenses .....	4,972	5,126	4,947	44,170
Impairment losses on property, plant and equipment, and other assets .....	15,934	8,932	10,645	95,045
Amortization of goodwill .....	17,085	16,814	11,839	105,705
Increase (decrease) in allowance for doubtful accounts .....	(4,163)	(11,030)	2,038	18,196
Decrease in product warranty liabilities .....	(1,220)	(979)	(3,288)	(29,357)
Increase (decrease) in provision for loss on construction contracts and others .....	(6,634)	(5,763)	1,971	17,598
Increase (decrease) in provision for business structure improvement .....	9,086	392	(7,518)	(67,125)
Increase in provision for contingent loss .....	10,476	787	672	6,000
Increase (decrease) in provision for loss on repurchase of computers .....	1,583	(464)	(1,687)	(15,063)
Interest and dividends income .....	(6,251)	(5,658)	(5,916)	(52,821)
Interest expense .....	10,036	10,066	9,760	87,143
Equity in earnings of affiliated companies .....	(2,719)	(8,126)	(4,562)	(40,732)
Gain on change in equity .....	(365)	—	—	—
Gain on sales of property, plant and equipment .....	(368)	(3,276)	(445)	(3,973)
Gain on sales of investment securities .....	(2,698)	(2,216)	(4,977)	(44,438)
Loss on sales of investment securities .....	23	10	21	188
Write-off of investment securities .....	1,738	1,044	104	929
Gain on sales of investments in affiliated companies .....	(53,923)	(1,706)	(673)	(6,009)
Loss on sales of investments in affiliated companies .....	64	—	138	1,232
(Increase) decrease in trade notes and accounts receivable .....	(22,680)	(74,822)	43,771	390,812
(Increase) decrease in inventories .....	24,327	(21,830)	7,693	68,688
Decrease in accounts receivable, other .....	3,380	5,665	5,245	46,830
Increase (decrease) in trade notes and accounts payable .....	(4,034)	16,668	(44,723)	(399,313)
Others—net (Note 5) .....	(26,937)	21,635	(48,621)	(434,116)
Subtotal .....	127,650	126,723	127,382	1,137,339
Interest and dividends received .....	6,216	5,721	5,845	52,187
Interest paid .....	(8,914)	(10,132)	(10,007)	(89,348)
Income taxes paid .....	(30,828)	(34,395)	(25,391)	(226,705)
Net cash provided by operating activities .....	¥ 94,124	¥ 87,917	¥ 97,829	\$ 873,473

See notes to consolidated financial statements.

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2015	2016	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment .....	¥(89,458)	¥(42,461)	¥(32,522)	\$ (290,375)
Proceeds from sales of property, plant and equipment .....	5,440	13,790	2,746	24,518
Acquisitions of intangible assets .....	(12,327)	(8,974)	(8,316)	(74,250)
Purchases of investment securities .....	(995)	(1,367)	(892)	(7,964)
Proceeds from sales of investment securities .....	14,907	8,729	7,616	68,000
Disbursements for acquisitions of shares of newly consolidated subsidiaries.....	(806)	(10,518)	—	—
Proceeds from acquisitions of shares of newly consolidated subsidiaries .....	116	—	36	321
Proceeds from sales of shares of subsidiaries being excluded from the consolidation .....	42,504	33	556	4,964
Disbursements for sales of shares of subsidiaries being excluded from the consolidation .....	—	(3,378)	(385)	(3,437)
Purchases of investments in affiliated companies .....	(27,693)	(7,127)	(4,380)	(39,107)
Proceeds from sales of investments in affiliated companies ...	26,515	—	204	1,821
(Increase) decrease in short-term loans receivable, net .....	(50)	63	498	4,447
Disbursements for loans receivable .....	(169)	(155)	(142)	(1,268)
Collection of loans receivable .....	247	907	584	5,214
Others—net .....	2,876	2,948	2,195	19,598
Net cash used in investing activities .....	(38,893)	(47,510)	(32,202)	(287,518)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Increase (decrease) in short-term borrowings, net .....	(26,745)	(2,275)	14,790	132,054
Proceeds from long-term borrowings .....	138,630	9,875	4,059	36,241
Repayments of long-term borrowings .....	(76,239)	(46,933)	(15,827)	(141,313)
Proceeds from issuance of bonds .....	—	—	50,000	446,429
Redemption of bonds .....	(70,000)	(20,000)	(90,000)	(803,571)
Dividends paid .....	(10,378)	(10,358)	(10,368)	(92,571)
Dividends paid to non-controlling interests .....	(5,218)	(2,579)	(2,214)	(19,768)
Others—net .....	(33)	243	(522)	(4,661)
Net cash used in financing activities .....	(49,983)	(72,027)	(50,082)	(447,160)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> .....				
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....	4,257	6,115	(4,354)	(38,875)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR ...	9,505	(25,505)	11,191	99,920
CASH AND CASH EQUIVALENTS, AT END OF YEAR .....	197,132	206,637	181,132	1,617,250
CASH AND CASH EQUIVALENTS, AT END OF YEAR .....	¥206,637	¥181,132	¥192,323	\$1,717,170
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>				
Finance leases .....	¥1,326	¥781	¥471	\$4,205

# Non-Financial Section

NEC Corporation and Consolidated Subsidiaries  
For the years ended or at year-end of March 31, 2015 and 2016

	2015	2016	Units
CO <sub>2</sub> emissions reduction by providing IT solutions .....	2,540	2,620	Thousand tons
Improvement in energy efficiency of products* <sup>1</sup> .....	91	97	%
Greenhouse gas emissions* <sup>2</sup>			
Scope 1 .....	58	59	Thousand tons
Scope 2 .....	337	299	Thousand tons
Scope 3 .....	9,098	9,286	Thousand tons
Energy usage			
Electricity .....	5,626	5,689	Thousand GJ* <sup>3</sup>
Gas .....	1,021	1,070	Thousand GJ
Fuel (heavy oil and kerosene) ....	86	99	Thousand GJ
Water usage .....	2,375	2,294	Thousand m <sup>3</sup>
Industrial waste			
Emission volume (general waste + industrial waste) ..	32	35	Thousand tons
Resource reuse rate .....	83.3	87.2	%

	2015	2016	Units
Number of employees by region Total .....	98,882	98,726	People
Japan .....	78,056	77,455	People
Greater China .....	4,882	4,058	People
Asia Pacific .....	6,926	7,678	People
EMEA .....	4,540	4,948	People
North America .....	2,502	2,495	People
Latin America .....	1,976	2,092	People
Ratio of outside directors to all directors* <sup>4</sup> .....	45.5	45.5	%
Number of female managers* <sup>4</sup> (As of April 1 of each year) .....	386	374	People
Ratio of female managers* <sup>4</sup> (As of April 1 of each year) .....	5.2	5.4	%
Ratio of employees with disabilities* <sup>4</sup> (As of June 1 of each year) .....	2.03	2.07	%
Number of people of utilizing childcare leave* <sup>4</sup> .....	388	395	People
Number of people of utilizing nursing care leave* <sup>4</sup> .....	16	19	People
Average age of employees* <sup>4</sup> ....	42.7	42.9	Years old
Average length of employment* <sup>4</sup> .....	18.5	18.6	Years
Response rate of employees' survey (Domestic) * <sup>5</sup> .....	84	83	%
Response rate of employees' survey (Overseas) * <sup>6</sup> .....	77	—	%
Labor accidents and disasters* <sup>7</sup>			
Frequency rate .....	0.27	0.25	
Severity rate .....	0.00	0.00	

\*1 Compared with fiscal 2006

\*2 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 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

\*3 Gigajoules

\*4 Scope: NEC Corporation

\*5 Scope: NEC Corporation and 27 domestic consolidated subsidiaries

\*6 Scope: Overseas subsidiaries in 30 countries overseen by the Global Business Unit.

The survey for employees at overseas subsidiaries is conducted every other year. It was not conducted during the fiscal year under review.

\*7 Scope: NEC Corporation

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

# Corporate Overview

<b>Company Name</b>	NEC Corporation
<b>Address</b>	7-1, Shiba 5-chome, Minato-ku, Tokyo 108-8001, Japan
<b>Established</b>	July 17, 1899
<b>Number of Employees</b>	98,726 (NEC Corporation and consolidated subsidiaries) (As of March 31, 2016)

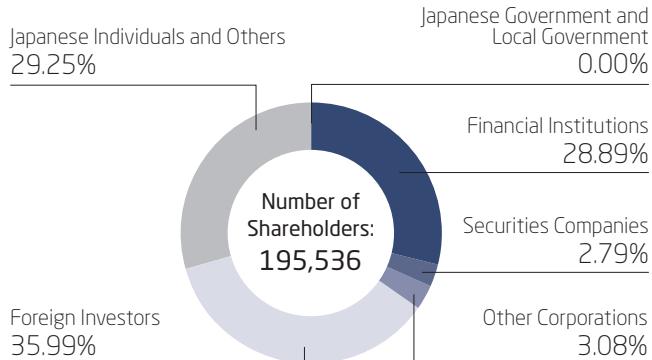
**Total Number of Shares Issued**  
2,604,732,635 shares (As of March 31, 2016)

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

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

## Classification of Shareholders (Shareholding Ratio)

(As of March 31, 2016)



## Organization Chart



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

Name of Shareholders	Number of Shares Held (Thousands of Shares)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	112,282	4.32
The Master Trust Bank of Japan, Ltd. (Trust Account)	109,174	4.20
The Chase Manhattan Bank, N.A. London Special Account No.1	75,831	2.92
NEC Employee Shareholding Association	50,626	1.95
Nippon Life Insurance Company	41,977	1.62
Japan Trustee Services Bank, Ltd. (Trust Account No. 4)	41,113	1.58
Sumitomo Life Insurance Company	41,000	1.58
Trust & Custody Services Bank, Ltd. (Trust Collateral Account)	38,765	1.49
Japan Trustee Services Bank, Ltd. (Trust Account No. 9)	37,321	1.44
Japan Trustee Services Bank, Ltd. (Trust Account No. 7)	36,115	1.39

Note: The shareholding ratio is calculated by excluding the number of treasury stock (5,995,679 shares).

## **Cautionary Statement with Respect to Forward-Looking Statements**

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

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

- Effects of economic conditions, volatility in the markets generally, and fluctuations in foreign currency exchange and interest rate
- Trends and factors beyond the NEC Group's control and fluctuations in financial conditions and profits of the NEC Group that are caused by external factors
- Risks arising from acquisitions, business combinations and reorganizations, including the possibility that the expected benefits cannot be realized or that the transactions may result in unanticipated adverse consequences
- Developments in the NEC Group's alliances with strategic partners
- Effects of expanding the NEC Group's global business
- Risk that the NEC Group may fail to keep pace with rapid technological developments and changes in customer preferences
- Risk that the NEC Group may lose sales due to problems with the production process or due to its failure to adapt to demand fluctuations
- Defects in products and services
- Shortcomings in material procurement and increases in delivery cost
- Acquisition and protection of intellectual property rights necessary for the operation of business
- Risk that intellectual property licenses owned by third parties cannot be obtained and/or are discontinued
- Risk that the NEC Group may be exposed to unfavorable pricing environment due to intensified competition
- Risk that a major customer changes investment targets, reduces capital investment and/or reduces the value of transactions with the NEC Group
- Risk that the NEC Group may be unable to provide or facilitate payment arrangements (such as vendor financing) to its customers on terms acceptable to them or at all, or risk that the NEC Group's customers are unable to make payments on time, due to the customers' financial difficulties or otherwise
- Risk that the NEC Group may experience a substantial loss of, or an inability to attract, talented personnel
- Risk that the NEC Group's ability to access the commercial paper market or other debt markets are adversely affected due to a downgrade in its credit rating
- Risk that the NEC Group may incur large costs and/or liabilities in relation to internal control, legal proceedings, laws and governmental policies, environmental laws and regulations, tax practice, information management, and human rights and working environment
- Consequences of natural and fire disasters
- Changes in methods, estimates and judgments that the NEC Group uses in applying its accounting policies
- Risk that the NEC Group may incur liabilities and losses in relation to its retirement benefit obligations

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **Trademarks**

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

The information contained in Annual Report 2016 is also available on NEC's website.

## NEC home page

<http://www.nec.com>



## Corporate Social Responsibility

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

NEC discloses corporate social responsibility (CSR) information in line with ESG issues and constantly strives to enhance presentation of this information on its website.

**Division in Charge** CSR Promotion and Social Contributions Office,  
Corporate Communications Division

## Investor Relations

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

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

**Division in Charge** Investor Relations Office,  
Corporate Strategy Division



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