

Orchestrating a brighter world

NEC



# Annual Report 2017

Year ended March 31, 2017

# Orchestrating a brighter world

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

NEC is committed to resolving these challenges with its ICT assets, especially AI and IoT technologies, and new business models developed collaboratively with customers and partners.

Through these activities, NEC will create social value in the form of safety, security, efficiency and equality, all of which are prerequisites for an abundant society for all people, in the aim of realizing a bright, hope-filled future in concert with people and countries across the globe.

This mission is embodied in NEC's Brand Statement: Orchestrating a brighter world.

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## Editorial Policy

NEC has published integrated annual reports containing both financial and non-financial information since 2013.

Annual Report 2017 comprises six chapters respectively entitled Profile, Commentary on Management Strategy, Business Model, Business Activities for Social Value Creation, Initiatives Supporting Sustainable Management, and Corporate Data.

Chapter I profiles NEC. Chapter II provides commentary from the President and CFO concerning our approach to enhancing corporate value over the medium/long term and revision of Mid-term Management Plan 2018. Chapter III highlights our strengths, the value we offer and examples of our social value creation initiatives. Chapter IV provides an overview of each of our segments and information on our overseas operations. Chapter V discusses corporate governance and other ESG initiatives that support sustainable management, including environmentally.

NEC will keep endeavoring to provide increasingly transparent and useful information in response to guidance from the International Integrated Reporting Council (IIRC) and feedback from institutional investors and various other stakeholders.

## Reporting Period

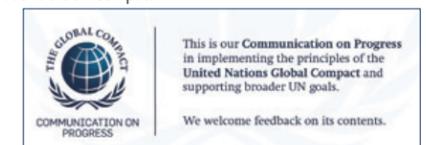
April 1, 2016 to March 31, 2017 (hereinafter referred to as "Fiscal 2017." Any other fiscal years would be referred to similarly) This report also includes information obtained after this reporting period.

## 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



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

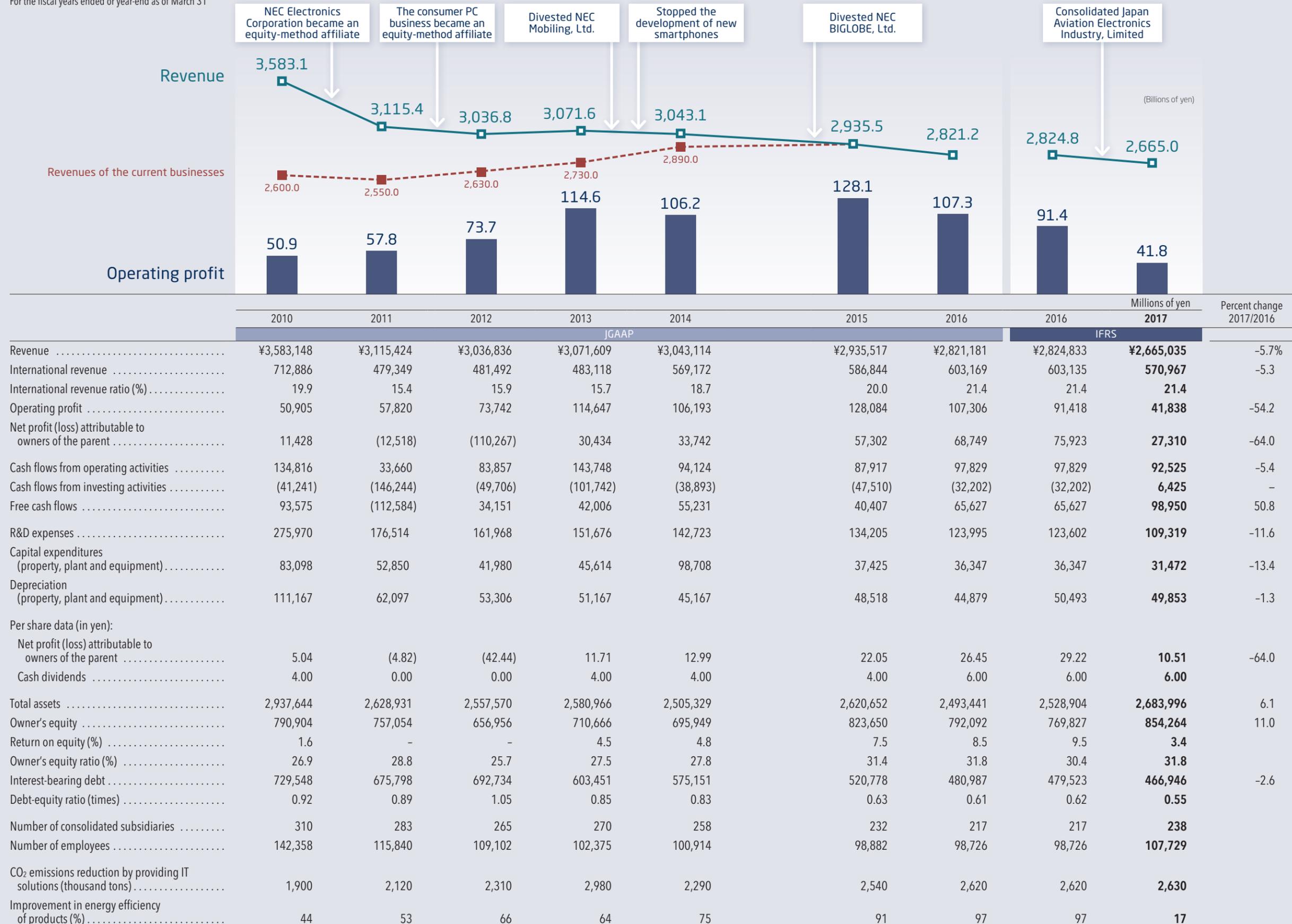
## Evaluation by External Parties (As of July 2017)



MSCI ESG Leaders Indexes THE INCLUSION OF NEC Corporation IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF NEC Corporation BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

## Performance Highlights

NEC Corporation and Consolidated Subsidiaries  
For the fiscal years ended or year-end as of March 31



## 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

## 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

## 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

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

## Fiscal year ended March 31, 2017 (fiscal year under review)

- Acquired Brazilian IT security company Arcon Informatica S.A.
- Consolidated Japan Aviation Electronics Industry, Limited

- Notes: 1. Net profit (loss) attributable to owners of the parent per share is calculated based on the weighted-average number of shares outstanding during each period.  
2. Owner's equity = equity attributable to owners of the parent  
3. The debt-equity ratio is calculated by dividing interest-bearing debt by owner's equity.  
4. Improvement in energy efficiency of products is based on a comparison with the fiscal year ended March 31, 2006.

# At a Glance

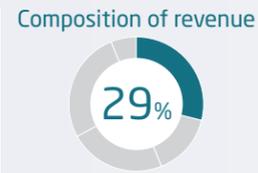
NEC Corporation and Consolidated Subsidiaries  
Revenue, operating profit (loss), and composition of revenue are financial results for the fiscal year ended March 31, 2017 (IFRS).

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

## Public Business



Revenue **766.2** billion yen  
Operating profit **33.2** billion yen



### Major Products and Services

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

### Public Solutions

Main customers  
Public, healthcare and regional industries

#### Key Initiatives

- Expansion of applicable fields for My Number system utilization
- Business creation for regional revitalization through industry, government and academic partnerships

#### Examples of Solutions by Business Sector/Industry

- Public: Firefighting Command, Firefighting Emergency Radio Systems, Disaster Prevention, Traffic Control, Railroad Communication, Local Government
- Healthcare: Electric Medical Record, Regional Healthcare Information Network
- Regional industries: Backbone service

#### Major Consolidated Subsidiaries

NEC Nexsolutions, Ltd.

### Public Infrastructure

Main customers  
Government and media

#### Key Initiatives

- Infrastructure preparation towards year 2020
- Expansion of cyber-security business

#### Examples of Solutions by Business Sector/Industry

- Government: Social Security and Tax, Fingerprint Identification, Air Traffic Control, Satellite Communications/Earth Observation, Outdoor Communication, School/Education, Postal Tracking, Infrastructure Surveillance/Energy Management
- Media: TV Program Production/News Production/Transmission, Digital TV Transmitters

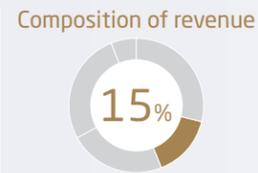
#### Major Consolidated Subsidiaries

NEC Facilities, Ltd.  
NEC Network and Sensor Systems, Ltd.  
NEC Space Technologies, Ltd.  
Nippon Avionics Co., Ltd.  
Japan Aviation Electronics Industry, Limited

## Enterprise Business



Revenue **408.6** billion yen  
Operating profit **39.7** billion yen



Main customers  
Manufacturing, retail and services, and finance

#### Key Initiatives

- Acceleration of overseas development of IT services business for retail and public transportation sectors
- Promotion of manufacturing co-creation program
- Promotion of FinTech service creation

### 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
- Finance: Banking, Business Branch Systems, Insurance and Securities Infrastructure, Insurance and Securities Channel

#### Major Consolidated Subsidiaries

ABeam Consulting Ltd.

## Telecom Carrier Business



Revenue **600.4** billion yen  
Operating profit **18.1** billion yen



Main customers  
Telecom carriers

#### Key Initiatives

- Business expansion based on TOMS\*1, SDN \*2/NFV\*3
- Acceleration of development and service proposal ahead of full-scale 5G adoption

\*1 TOMS: Telecom Operations and Management Solutions  
\*2 SDN: Software-Defined Networking  
\*3 NFV: Network Functions Virtualization

### 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

OCC Corporation  
NEC Networks & System Integration Corporation  
Netcracker Technology Corporation

## System Platform Business



Revenue **719.8** billion yen  
Operating profit **29.6** billion yen



#### Key Initiatives

- Maximizing the profit of existing businesses
- Acceleration of establishing an IoT\*4 platform
- Strengthening key business areas

\*4 IoT: Internet of Things

### 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.

## Others



Revenue **170.0** billion yen  
Operating loss **-20.0** billion yen



#### Key Initiatives

- Sales expansion in international safety business

### Major Products and Services

- Safety  
Biometric Solutions (such as Face Recognition, Fingerprint Identification), Surveillance
- Smart Energy  
Electrodes / Energy Storage
- Lighting Equipment

#### Major Consolidated Subsidiaries

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

## Message from the President

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



### 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)

## Aiming to Remain an Essential Company in Society's Eyes

Since its inception in 1899, NEC has been ethically creating products and services of value to customers under the motto "Better Products, Better Services." We are committed to remaining a company of choice and trusted by customers and all other stakeholders. This commitment has been captured in the NEC Way, which encapsulates the NEC Group's management philosophy, vision and business framework. The NEC Way guides all of us at NEC.

Meanwhile, the value that customers and society seek and expect from NEC is constantly changing. Whereas by itself our technologies and products were once a sufficient source of value, customers and society are now tapping into increasingly diverse sources of value. To remain an essential company in the eyes of society in 5 years, 10 years and beyond, we must create new value by constantly keeping our finger on the pulse of what it constitutes. Such an approach is absolutely imperative.

To express this mindset both internally and externally, we adopted "Orchestrating a brighter world" as our Brand Statement in 2014. This Brand Statement reflects NEC's determination to realize bright, hope-filled societies and ways of life as a leading integrator that possesses both computing and network technologies and combines them with diverse knowledge and ideas in collaboration

with people around the world. Guided by the NEC Way, we have chosen the path of creating social value in the form of safety, security, efficiency and equality, all of which are prerequisites for all people, and an abundant society, in the aim of orchestrating a brighter world. To achieve this aim, we have identified the seven themes for social value creation, in which we can help resolve social issues by leveraging our strengths. Continuously providing value as a social value innovator is our approach to sustainability.

Interest is growing globally in building sustainable societies has led to the emergence of international societal frameworks such as the United Nations Global Compact (UNGC), a set of sustainability guidelines for companies. The UNGC encompasses 10 principles pertaining to human rights, labor, the environment and anti-corruption. As a UNGC signatory since 2005, NEC conducts its business activities in compliance with these 10 principles.

In 2015, the UN adopted Sustainable Development Goals (SDGs) that coincidentally have much in common with NEC's seven social value-creation themes. We believe that by continuing to create social value, NEC will also contribute to the achievement of the SDGs.



#### 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," "Better Products, Better Services"

## Renewed Focus on Compliance

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

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

## NEC's Challenge

We have long been expanding our operations by developing and supplying products and services of value to our customers. In the past, our business units' technologies and products were so valued by customers that we were able to grow simply by upgrading our technologies and products. The more we did so, the more our operations grew. Today, however, customers and society's needs and wants have evolved and are diversifying so much that we can no longer grow our operations merely by virtue of the technologies or products alone.

To adapt to such change, NEC must mount company-wide efforts that transcends internal organizational boundaries and identify how and where to provide value by innovatively deploying its diverse assets in synergistic

combinations. This is the biggest change in NEC's history. Building the pillars that will drive NEC's next growth phase in response to this change is the greatest challenge currently facing NEC.

To surmount this challenge, we have designated key business areas in our mid-term management plans and have been allocating resources in pursuit of business expansion. While our efforts are starting to bear fruit in certain areas, we have yet to achieve full-fledged expansion in any of the key business areas. We have so far been unable to build the pillars of globally competitive businesses that will drive our next phase of growth.

How do we successfully navigate this challenge? I believe the key to this is management speed.

## High-speed Management and the CEO's Role

Society and customers have been changing at a dizzying pace in recent years. If asked how well NEC's businesses are adapting to such change, I cannot deny that we lagged in certain areas. To avoid falling behind, and to keep abreast of societal changes and regain leadership stature, NEC must visibly step up its management speed.

To do so with a sense of urgency, we have delegated authority to eight C-suite officers tasked with addressing nine issues that require action across internal organizational boundaries. As CEO, I of course assume responsibility for the final outcomes, but a CEO cannot realistically make every decision. The other C-suite officers must make decisions to the extent possible within the range of their respective responsibilities and authority.

This initiative is not confined solely to C-suite officers. Our C-suite officers were appointed in the hope they would serve as in-house exemplars of transformation by

changing and evolving themselves. I hope that such a transformational spirit is ultimately instilled in each and every front-line employee and pervasively embedded into NEC's culture. I believe that fostering a culture of thinking for oneself and proactively taking action will revitalize our organization and resulting in faster management speed.

For NEC to survive in an era of digital transformation, it must swiftly change not only its business models but also everything from its employees' individual mindsets to its corporate culture.

Given such a reality, I believe my most important roles as CEO is to determine the direction of NEC's evolution and advancement, and foster a culture in which NEC thrives, organizationally and in terms of human resources and its business processes.

CGO : Chief Global Officer	CHRO : Chief Human Resources Officer	CSO : Chief Strategy Officer
CFO : Chief Financial Officer	CIO : Chief Information Officer	CMO : Chief Marketing Officer
CTO : Chief Technology Officer	CISO : Chief Information Security Officer	CCO : Chief Compliance Officer

## In Pursuit of Improved Profitability

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

The first is to redouble internal efforts. We must thoroughly reduce and eliminate waste arising from unprofitable projects and other inefficiencies.

The second is to ensure adequate profits from domestic operations. With domestic markets already highly

mature, we assume that our domestic revenue will remain largely unchanged. Customers, by contrast, are constantly changing. Domestic business models likewise are changing dramatically. Amid such an environment, the key issue for NEC is how to transition existing businesses to sufficiently profitable business models.

The third is our mindset vis-à-vis global operations. Future revenue growth is contingent on expansion of our global operations. Such expansion has been a key priority of our mid-term management plans to date. We must bear in mind, however, that we cannot inflexibly cling to

on to the success of our domestic business models when expanding operations globally. In running a global business, we must first forget the values and sense of time we have cultivated in our domestic operations and then develop a business model that will generate sufficient sales and profits globally. After deciding which aspects of our key business areas (for example, Safety, SDN/NFV) to target, we aim to expeditiously move forward by pursuing alliances and/or where feasible M&As.

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

## Maximizing Corporate Value Through Co-creation

Digital transformation is driving society toward a major turning point. We see this development as not a mere trend but a watershed event consequential enough to change economies' industrial structure. As digital transformation continues to progress, new business models and arrangements will emerge. As they do, what NEC is capable of accomplishing on an individual basis will progressively shrink in scope. Going forward, the issue of how to collaborate with customers and various

other stakeholders to maximize the value NEC provides will become increasingly important. NEC will engage in an ethical manner such co-creation more proactively than in the past, not only in Japan but also globally.

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

July 2017



Takashi Niino  
President and CEO



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

## Review of Mid-term Management Plan 2018

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

Below I review our challenges and accomplishments in fiscal 2017 in terms of our Mid-term Management Plan 2018 and explain our intentions in terms of formulating our next mid-term management plan.

### Challenges

Fiscal 2017 proved to be a challenging year that exposed NEC's shortcomings in bold relief. Our fiscal 2017 operating performance fell far short of our initial forecasts, which we revised downward in January 2017. In my assessment, the biggest factor behind the shortfall were deficiencies in management execution capabilities in terms of responding to changes in market environments and customer trends.

Our Mid-term Management Plan 2018 was initially predicated on predominately overseas revenue growth in the aforementioned three key businesses and flat revenue in our predominantly domestic existing businesses. However, the existing businesses missed their targets and we

encountered delays, mostly overseas, in ramping up the three key businesses. Consequently we had failed to achieve revenue growth.

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

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

## Looking Back at the 1st Year of the Mid-term Plan - Challenges

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

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

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

#### Profitability deteriorated in certain business areas

- Dip in Telecom Carrier business : Need to flexibly allocate resources to focus business areas for optimization, accelerate development of 5G technology targeting the shipment of commercial prototypes in FY19/3
- Slow recovery in the energy business : Loss from operations (excluding one-time costs) decreased. Expect sales growth and profitability improvements, mainly in the large ESS and electrode business
- Booked new unprofitable projects : Accelerate deployment of project management know-how from system integration/services throughout the company during FY18/3

#### Governance, Compliance

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

- Booked provision for contingent loss (FY17/3), Anticipate an influence from the nomination suspension (FY18/3)

## Accomplishments

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

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

To getting back on the track to growth, we focused on growing our safety, global carrier network and retail IT service

businesses, all of which we have designated as key businesses, in the aim of globalizing our Solutions for Society.

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

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

## Next Mid-term Management Plan

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

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

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

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

## Looking Back at the 1st Year of the Mid-term Plan - Achievements

### Stable progress in the business process optimization project

#### Reorganization of Profit Structure

- Business process optimization project : Improved efficiency of back-office operations and reduced expenses/IT-related costs by approximately ¥14.0 billion YoY (in line with expectations)
- Optimization of development and manufacturing functions : Integrated subsidiaries of hardware development and production as well as software development

#### Getting Back on the Track to Growth

- Safety : Ranked as #1 at face in video evaluation (4th consecutive win including previous benchmark tests of still image face authentication technologies)
- SDN/NFV : Acquired 10 commercial deployment orders from major operators in Europe, the Middle East, North America, etc. Pipeline expanded 1.6x in half a year, as sales to grow 1.5x YoY in FY18/3
- Retail IT Service : Selected by 7-Eleven, Inc. to provide and maintain POS system
- AI & IoT : Enhanced partnership with academic institutions and commercial partners

## Key Management Agenda

### Discuss new mid-term management plan during 2017

Accelerate management speed	Change the process of mid-term and annual plan formulation Enhance corporate functions ■ Empower Chief Officers under clear definition of roles, authorities and responsibilities
Management policy	Improve profitability of business in Japan, including transformation of underperforming businesses Pursue further opportunities in addition to the 3 focus areas, while fundamental policy of international growth unchanged
Set new financial target	Establish structure to generate 5% operating profit margin ■ Portfolio management with discipline

# Message from the CFO

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



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

## Fiscal 2017 Performance

The NEC Group recorded consolidated revenue of ¥2,665.0 billion for fiscal 2017, a decrease of ¥159.8 billion yen (5.7%) year-on-year. This decrease was mainly due to decreased sales in the Telecom Carrier business and the Public business. Regarding profitability, operating profit worsened by ¥49.6 billion year-on-year, to an operating profit of ¥41.8 billion, mainly due to a decrease in gross profit caused by a decline in revenue, despite efforts to reduce selling, general and administrative expenses. Net profit attributable to owners of the parent was a profit of

¥27.3 billion, worsening by ¥48.6 billion year-on-year. This was primary due to the worsening of income before income taxes and increased income taxes. As a result, return on equity (ROE) was 3.4%, a 6.1 percentage point worse than the previous fiscal year. Although the profit attributable to owners of the parent for fiscal 2017 was less than planned, NEC secured profit over the total amount of dividends. As a result, NEC declared an annual dividend of ¥6 per share of common stock, the same value as announced at the beginning of fiscal 2017.

(Billion ¥)	FY2016/3		FY2017/3	
	Results	Initial Forecasts	Results	Results
<b>Revenue</b>	<b>2,824.8</b>	<b>2,880.0</b>	<b>2,665.0</b>	
International Revenue	603.1		571.0	
International Revenue Ratio	21.4%		21.4%	
<b>Operating Profit</b>	<b>91.4</b>	<b>100.0</b>	<b>41.8</b>	
Operating Profit Ratio	3.2%	3.5%	1.6%	
<b>Net profit attributable to owners of the parent</b>	<b>75.9</b>	<b>50.0</b>	<b>27.3</b>	
<b>Return on equity (ROE)</b>	<b>9.5%</b>		<b>3.4%</b>	

## Fiscal 2017 Financial State

Total assets were ¥2,684.0 billion as of March 31, 2017, an increase of ¥155.1 billion as compared with the end of the previous fiscal year. Current assets as of March 31, 2017 increased by ¥55.4 billion compared with the end of the previous fiscal year to ¥1,508.7 billion, mainly due to an increase of cash and cash equivalents. Non-current assets as of March 31, 2017 increased by ¥99.7 billion compared with the end of the previous fiscal year to ¥1,175.3 billion, mainly due to increases in property, plant and equipment, net, as well as other non-current assets.

Total liabilities as of March 31, 2017 decreased by ¥23.8 billion compared with the end of the previous fiscal year, to ¥1,667.9 billion. This was mainly due to a decrease in defined benefit liabilities. The balance of interest-bearing debt amounted to ¥466.9 billion, a decrease of ¥12.6 billion as compared with the end of the previous fiscal year. The debt-equity ratio as of March 31, 2017 was 0.55 (an improvement of 0.07 points as compared with the end of the previous fiscal year). The balance of net interest-bearing debt as of March 31, 2017, calculated by offsetting the balance of interest-bearing debt with the balance of cash and cash

equivalents, amounted to ¥227.0 billion, a decrease of ¥60.2 billion as compared with the end of the previous fiscal year. The net debt-equity ratio as of March 31, 2017 was 0.27 (an improvement of 0.10 points as compared with the end of the previous fiscal year).

Total equity was ¥1,016.1 billion as of March 31, 2017, an increase of ¥178.8 billion as compared with the end of the previous fiscal year, mainly due to an increase of non-controlling interests and other components of equity.

As a result, total equity attributable to owners of the parent (total equity less non-controlling interests) as of March 31, 2017 was ¥854.3 billion, and the ratio of equity attributable to owners of the parent was 31.8% (an improvement of 1.4 percentage points as compared with the end of the previous fiscal year).

Net cash inflows from operating activities for fiscal 2017 were ¥92.5 billion, a worsening of ¥5.3 billion as compared with the previous fiscal year.

Net cash inflows from investing activities for fiscal 2017 were ¥6.4 billion, an increase of ¥38.6 billion as compared with the previous fiscal year. This was mainly due to an increase in proceeds from the sale of investments in affiliated companies and acquisition of subsidiaries, net of cash acquired.

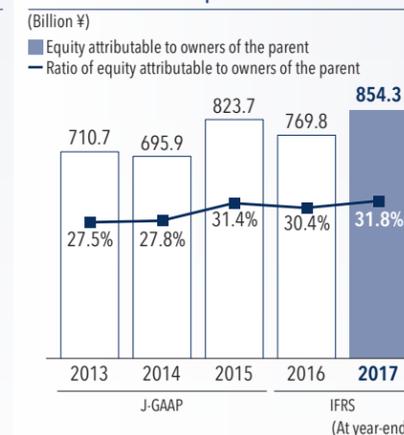
As a result, free cash flows (the sum of cash flows from operating activities and investing activities) for fiscal 2017 totaled a cash inflow of ¥99.0 billion, an improvement of ¥33.3 billion year-on-year.

Although total equity's growth and the improvement in cash flows were partly attributable to one-time factors such as the sale of equity holdings, we maintained a sound financial foundation in fiscal 2017.

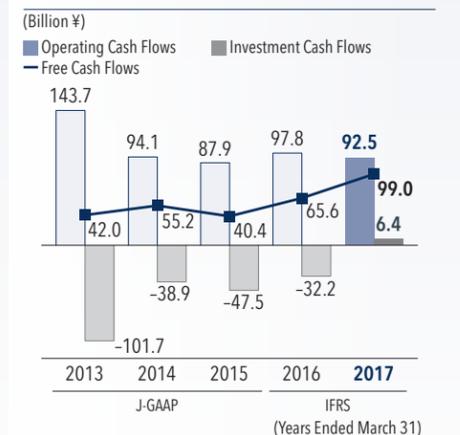
### Net Debt-Equity Ratio



### Equity attributable to owners of the parent, Ratio of equity attributable to owners of the parent



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



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

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

For fiscal 2018, our revenue target is ¥2,800 billion. Although we face a top-line headwind in the form of suspension of our eligibility to bid on public contracts in conjunction with the Cease and Desist Orders and Surcharge Payment Orders from the Japan Fair Trade Commission, we

aim to achieve our revenue target by expanding our three key businesses (Safety Business, Network Business for Global Carriers, IT Service Business for Retail) and adding new revenue from newly consolidated subsidiary Japan Aviation Electronics Industry, Limited. We set our fiscal 2018 targets for operating profit and net profit attributable to owners of the parent at ¥50 billion and ¥30 billion, respectively, factoring in strategic investments and restructuring costs. We plan to achieve these targets through a combination of offensive and defensive action. Offensively, we will execute restructuring and strategic investments in pursuit of growth as planned. Defensively, we will improve operating efficiency and unprofitable projects' profitability. By doing so, and continuing to pay annual dividends of ¥6 per share\*, we intend to regain your trust.

\* Assuming the share consolidation is achieved on October 1, 2017, an annual dividend per share of common stock will be ¥60.

# Our History

Guided by the motto, "Better Products, Better Service," NEC has pursued and provided better products and services to customers since its founding in 1899. Through the years, NEC has successfully risen to the challenges of a wide range of innovation to create social value. These challenges have included everything from the electrograph, the basic technology behind fax machines, to terrestrial stations for satellite communication that support international television broadcasting. At the same time, the demands of both society and customers today are diversifying. In order to provide value to society and customers alike, NEC must combine the varied assets it possesses, demonstrate ingenuity, and think outside the box about the fields it should enter and the value it will provide. With that said, our desire to provide better value to customers and society is a universal one that bridges every era. With "Orchestrating a brighter world" as our brand statement, we at NEC, taking advantage of dialogue and co-creation with our many stakeholders, remain committed to creating value well into the future.



**2002**

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

**2003**

Constructs one of the world's largest mission-critical systems, the i-mode gateway system "CiRCUS"

**2007**

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

**2010**

Asteroid explorer "HAYABUSA" successfully returns to Earth

**2012**

Delivery of broadcasting equipment to Tokyo Skytree

**2014**

Formulation of brand message "Orchestrating a brighter world"

**Orchestrating a brighter world**

**1899**

Nippon Electric Company, Limited is established



**1928**

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



**1954**

Begins research into computers



**1956**

Produces first domestic-made XB switching system

**1958**

Develops fully transistorized NEAC-2201 computer



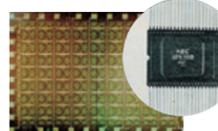
**1964**

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



**1968**

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



**1970**

Produces Osumi experimental satellite

**1971**

The NS-100 fully automated postal sorting system is developed



**1974**

The ACOS Series 77 mainframe computer family is announced

**1977**

"C&C" or the integration of computer and communications technologies is first announced at INTELCOM '77



**1979**

The PC-8001 personal computer is announced

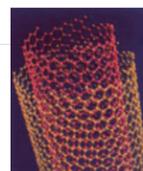
**1985**

The SX-2 supercomputer demonstrates the world's fastest performance



**1991**

A unique graphite crystal is discovered and named "carbon-nanotubes"



# The NEC Group's Vision of Social Value Creation

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



## One to Many

Addressing fundamental issues for our customers and society

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

# Social Value Creation Process

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



Senior Vice President, in charge of the Business Innovation Unit **Osamu Fujikawa**

## Orchestrating a brighter world

Social values achieved by co-creating with customers



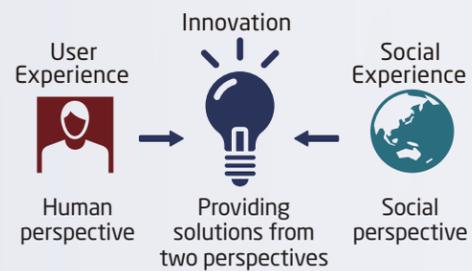
NEC creates social value through the following three-stage process.

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

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

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

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



### NEC Social Value Design™

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

## Dialogue and Co-creation with Diverse Stakeholders

### Aiming to Resolve Social Issues as a Member of International Society

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

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

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



Nobuhiro Endo, Chairman of the Board (right) with the WFP's then-Executive Director Ertharin Cousins

### Dialogue with Shareholders and Investors is Conducive to Corporate Value Enhancement

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

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



Environmentally themed IR meeting

### Practicing Corporate Responsibility Together with Suppliers

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

\*PMR: Process Management Review



Conducting an assessment at a supplier's plant

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

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

The workshops allow participants to virtually experience the importance and difficulty of weighing both positive and negative impacts on every value chain in running a business. Some participants have reported gaining new insights into their jobs' societal significance by thinking about how their jobs can add value to and contribute to a sustainable society.



SDGs Workshops

# Innovation Management

NEC believes that innovation is the key to continually adding value to society, and continuously invests 4-5% of its revenue in R&D. NEC proactively embraces open innovation in addition to intensively investing in its technological strengths. In fiscal 2017, NEC launched a new AI technology brand, NEC the WISE, and initiated four major research collaborations with universities and public research institutions as part of its intensive investment program.



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

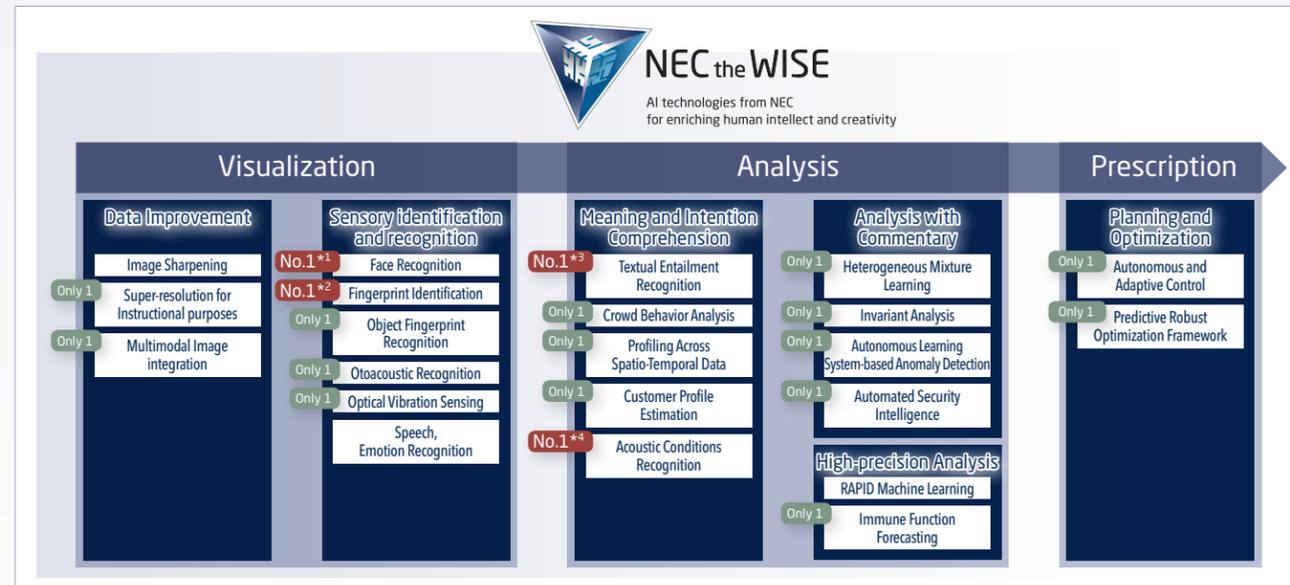
## Intensive Investment in Technological Strengths and Proactive Open Innovation

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

NEC has long been developing advanced AI technologies. In July 2016, NEC aggregated its AI technology portfolio under the NEC the WISE brand name to better solve customers' issues by optimally combining technologies.

Additionally, NEC is enhancing its design capabilities with respect to ICT platforms that capitalize on its strengths in both computing and communication technologies to solve real-world issues subject to power supply and/or communication bandwidth constraints.

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



\*1 Ranked 1st four consecutive times in task assessment sponsored by the U.S. National Institute of Standards and Technology (NIST).  
 \*2 Ranked 1st five times in task assessment sponsored by the U.S. National Institute of Standards and Technology (NIST).  
 \*3 Ranked 1st in task assessment sponsored by the U.S. National Institute of Standards and Technology (NIST)(2012).  
 \*4 Ranked 1st at international acoustic detection contest DCASE2016 (2016)

## Intellectual Property Strategy

NEC treats its intellectual property (IP) as an important management resource that contributes to its Group's competitiveness and operational stability. NEC strengthens and protects not only its patents and know-how but also the trademarks and designs that underpin its global brands.

In the core Solutions for Society businesses, building an all-encompassing IP portfolio inclusive of customers and partners'

businesses is an important priority. NEC is accordingly creating, building and utilizing an IP portfolio to not only erect IP-based barriers to entry and secure competitive advantage but also strengthen and protect collaborations with customers and partners.

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

## Major Business Achievements

Business track record	No.1/Only 1 technology
Marketed "Landslide Prediction System"	Technology to estimate the landslide risks
Marketed AI software that analyzes a video image from a surveillance camera and searches for a particular person quickly and with high-precision	High-speed Profiling Across Spatio-Temporal Data
Provided the Australian government with a biometric system Delivered a face recognition system for immigration checks at a major airport in the US	No.1*1 Face Recognition
Delivered an automatic determination system for babies and real faces	Liveness Authentication
Started jointly an operation support service for thermal electric power generation	Only 1 Invariant Analysis
Started laying a Trans-South Atlantic undersea optical cable	World first 100-GB Optical Transmission
Collaborated with the security company to provide a new security system Provided a cloud-type security camera service for the distribution company	No.1*1 Face Recognition Light Encryption
Renewed the contact center operations marketed "Auto Response Solution"	No.1*3 Textual Entailment Recognition
More than 1 billion people registered with the Unique ID System in India	No.1*1,2 Fingerprint, Face Recognition

## R&D Strategy

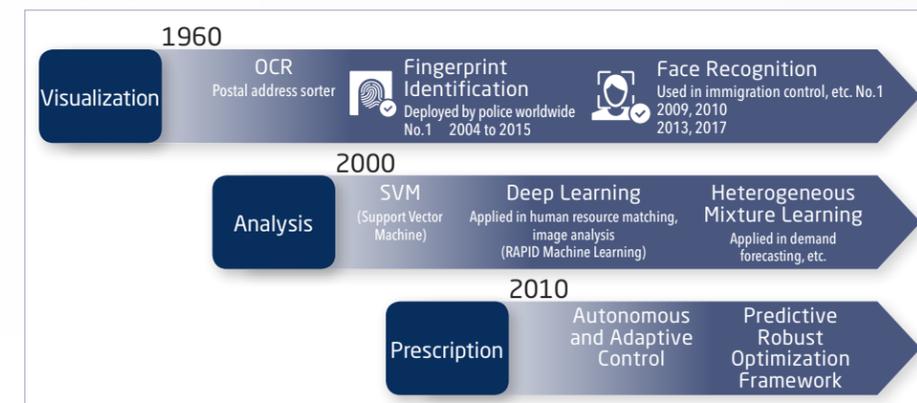
R&D drives technological development. Through R&D, NEC identifies solutions best-suited to resolve social issues and refines its "No. 1/Only 1" core technologies required to realize those solutions in light of technological trends. By so doing, NEC aims to provide value in the form of Safety, Security,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

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

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



**Motoo Nishihara**  
Senior Vice President, in charge of the Central Research Laboratories



History of NEC's Initiatives in AI

improvements in information processing power and communication throughput engineered by NEC.

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

# Social Value Creation Initiatives

NEC is focusing on seven social value creation themes in light of six megatrends identified through analysis of global economic, societal and technological trends. Capitalizing on its long track record and unique strengths, NEC is endeavoring to resolve challenges facing its customers and society, focusing on the seven themes in particular.

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

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

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

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



## Safer Cities & Public Services

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

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

#### Trial of NEC's Public Safety Solutions



Conducted during G7 summit in Japan

#### Cutting-Edge Security System Preventing Dangers

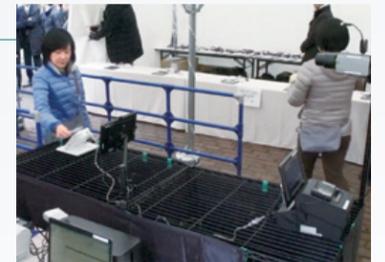
Working with Japan's National Police Agency, NEC deployed public safety technologies to help prevent accidents and hazards in certain areas of Tokyo during the May 2016 G7 Ise-Shima Summit. The technologies included real-time monitoring of crowd congestion with proprietary crowd behavior analysis technology\* and automatic detection of suspicious stray objects using imagery from pre-existing surveillance cameras.

\* Crowd behavior analysis technology: proprietary NEC technology that detects crowd congestion and changes in crowd behavior



#### Supporting International Cultural Exchange and Community Events with ICT Supporting Safe and Secure Event Management

At the Chichibunomiya Minato Rugby Festival 2017 held at Chichibunomiya Rugby Stadium, NEC provided secure identity authentication with facial recognition in addition to conventional ID cards. NEC also helped to ensure that the event ran smoothly and securely by optimally positioning volunteer staff. For example, by giving volunteers written instructions on their roles at the time of identity authentication, NEC enabled event sponsors to reduce the time required for volunteer check-in by 80% in comparison to manual check-in.



#### Unique Identification Authority System in India



#### Supporting a national project in India through advanced recognition technologies

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

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

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

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





### Lifeline Infrastructure

#### Building and Developing Safe and High-Efficiency Lifelines

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

#### Non-stop Development of Industrial Infrastructure



Aiming to Enhance Stability, Safety and Efficiency

#### Deploying Digital Data in Plant Operations

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

JGC Corporation and NEC are working together to resolve this challenge by synergistically combining JGC's plant construction know-how with NEC's "System Invariant Analysis Technology," a form of AI.

System Invariant Analysis Technology detects signs of abnormalities in plant operations based on correlations among various sensors installed throughout the plant. Such abnormalities are treated as a sign of impending malfunction and promptly addressed. Early rectification of deviations from the norm prevents emergency plant stoppages and helps to alleviate environmental burdens.



#### Laying the Groundwork for IoT Ubiquity



#### Indonesia Global Gateway (IGG) Submarine Cable

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



Once IGG is completed, this cable system will not only enhance connectivity between the major cities of Indonesia but it will bridge two other International submarine cables being built by NEC, namely the SEA-US submarine cable system connecting Indonesia to the U.S. and SEA-ME-WE5 submarine cable system connecting Singapore to Europe through the Middle-East. The IGG will empower Indonesia's domestic communication networks, while transforming Indonesia into an international communication hub.



### Industry Eco-System

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

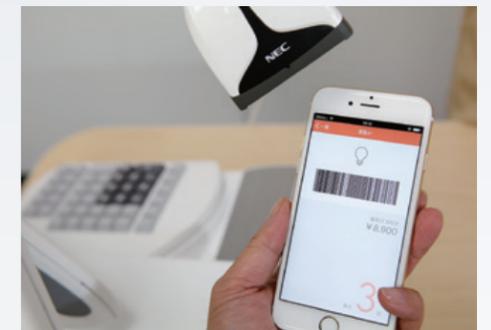
Organic integration of people, things and processes through IoT, the rapid digitalization of production and sales activities, the emergence of new business offerings in response to diversified consumer experiences and high-level needs, and many other factors are driving ongoing structural changes in our industries. NEC is delivering next-generation eco-systems for industry through the creation of new digital platforms.

#### Co-creation with Customers in the FinTech Space



#### Creating New Value by a FinTech Joint Venture with SMBC

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



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

#### Initiative to Improve Agricultural Productivity and Eradicate Poverty and Hunger



#### Facilitating FAO Farmer Assistance Project with e-Money Technology

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



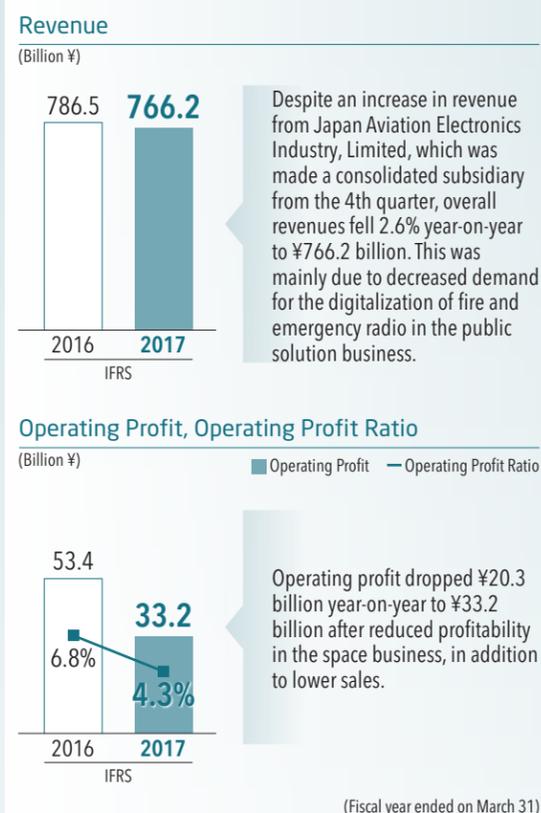
To resolve these issues, NEC partnered with local companies to build economic infrastructure that utilizes e-money technology. The infrastructure has facilitated smooth distribution of agricultural supplies while also enabling the FAO to provide more effective guidance on improving crop yields based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

NEC will continue to endeavor to resolve local social issues through global co-creation activities, thereby contributing to customers and society's sustainable growth.

## 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 and other organizations by combining our distinctive technology assets, including network, sensor and analysis technologies, with a broad expertise in systems integration.



### Strengths

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

### Weaknesses

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

### Market Environment (Risks and Opportunities)

#### Risks

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

#### Opportunities

- Looking toward the year 2020, we anticipate active investment for the safe, reliable, and efficient operation of major international events.
- Cyber attacks pose a threat recognized around the world, gathering attention and increasing demand for reinforcement of systems and monitoring services for cyber security.
- We expect increased investment toward utilization of ICT across a variety of fields, including application in fields such as health care.
- As part of efforts toward regional revitalization, local areas across Japan are beginning projects aimed at the creation of smart cities and city development that makes use of public and private data.

### Public Business Comprised of Two Areas

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

Based on the new organization established in April 2017, the "Public Solutions" considers both the local needs and the required policy seeds. This area works together with regional

stakeholders, such as local governments, universities, and businesses, to accelerate the development of new regional businesses, such as smart cities and utilization of the Social Security and Tax Number System ("My Number"), and health care. Based on our many years of achievements gained in supporting government agencies, the "Public Infrastructure" further improves the social infrastructure we provide to support a safe and comfortable lifestyle for everyone.

## Public Solutions Business

We provide IT and network systems for local governments and medical institutions, domestically and overseas, and also oversee our local branches across Japan to develop business with close ties to each region.



Executive Vice President Chikara Nakamata

### Fiscal 2017 Main Accomplishments

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

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

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

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

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

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

As use of the My Number system increases, we believe there will be an expansion of infrastructure and use of the My Number card, along with promotion of public-private partnerships from expanded use of public and private data. We are working toward the creation of these new markets. In particular, in the area of health care, we expect the realization of effective and efficient health care services through

connection with various types of health and medical information. We anticipate that this will become an area of focus for us in the future.

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

## Public Infrastructure Business

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



Executive Vice President Kazuhiro Takada

### Fiscal 2017 Main Accomplishments

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

With the year 2020 in mind, we are steadily improving our solutions for realizing safe and secure city development. With improvements to the crowd behavior analysis technology within our state-of-the-art AI technology group, "NEC the WISE," we have developed technology capable of predicting and estimating crowd sizes and flow with high accuracy and in real time using security cameras. Additionally, in conjunction with the G7 Ise-Shima Summit held in May 2016, we conducted a Proof of Concept project, in collaboration with the Tokyo Metropolitan Police Department, of an advanced security system that performs real-time detection of crowd size and automatically detects suspicious objects using security cameras.

Watching over society  
for safety and  
peace of mind  
**24 hours a day**

In addition to the "Cyber Security Factory," our main facility in Japan, we have established security monitoring facilities in Austria and North America, making use of the time difference to build a 24-hour monitoring system.

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

In order to realize safe and reliable city development in preparation for the year 2020, we expect safety improvements and development of infrastructure such as authentication systems to prevent suspicious persons from entering critical facilities, and surveillance systems to protect the safety of pedestrians. Using NEC's facial recognition technology, which has demonstrated the world's top level of accuracy for both video and still images, and our proprietary AI technology, we will contribute to safe and reliable city development with our immigration control systems and a new means of security services.

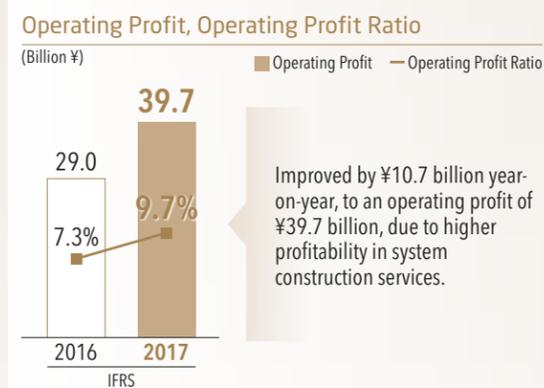
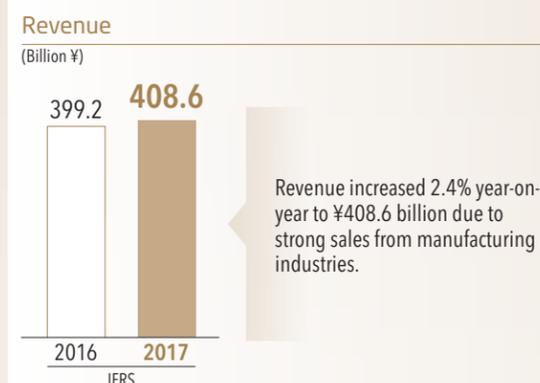
Cyber security is an important area in which we expect market growth over the medium to long term. We will continue to be proactive in expanding our business in this area. Specifically, we are focusing on our steadily expanding security monitoring service and cyber-defense training services for domestic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

## Enterprise Business

NEC provides IT solutions in manufacturing, retail and services, and finance in the private sector, helping customers to launch new services. We will resolve social issues and create value for customers through value chain innovation utilizing ICT assets such as IoT and AI.



Executive Vice President  
Chikara Ishii



(Fiscal year ended on March 31)

## Fiscal 2017 Main Accomplishments

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

There is also a trend of increased provision of services that make use of advanced ICT, such as IoT and AI. For the manufacturing industry, we launched our "Visual Manufacturing Solution," which realizes next-generation innovation in production using IoT. We also provided a "Warehouse Product Inspection System" for the logistics company of the KADOKAWA Group.

In addition, we are also moving forward with efforts to cooperate with our clients, such as our collaboration with DENSO Corporation, which began in the fiscal year ended March 31, 2017, in the fields of advanced driver assistance, automated driving, and manufacturing. We also established breees corporation, a joint venture with Sumitomo Mitsui Banking Corporation, to commercialize FinTech services that combine financial services with IT.

Operating profit ratio improved to  
**9.7%**

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

## Strengths

- Reliability and achievements cultivated over many years of providing IT services to domestic clients in the manufacturing, retail and service, and financial industries.
- 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.

## Weaknesses

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

## Market Environment (Risks and Opportunities)

### Risks

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

### Opportunities

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

## Initiatives in the Medium- to Long-Term

The three years starting from the fiscal year ended March 31, 2017 have been positioned as a period of solidifying a base for growth in the Enterprise Business. Efforts are under way to transform the SI model, to establish a business foundation geared toward global expansion, and to create new value through IoT. As part of our work to build this system, we are promoting the creation of a business execution system based on horizontal development, encouraging the consolidation of technology assets and resources for each area by strengthening collaboration with other departments.

For areas of business, we are focusing on NEC's strengths: the IT service business for retailers, manufacturing co-creation\*, and the creation of new services for financial institutions. We are looking to expand our business with these areas at the core. In the IT service business for retailers, we are adding to the know-how we have accumulated from 40 years of providing IT services to domestic retailers, strengthening new solutions to enable safe, secure and

efficient store management for 24 hours a day, 365 days a year as well as to further improve consumers' experience. We are looking ahead to apply these ideas to other industries as we aim for global expansion of our business. In manufacturing co-creation, we are combining cutting-edge technologies, like IoT and AI, together with our own manufacturing innovations and knowledge gathered from reforming SCM for global companies as part of efforts to increase the value provided by NEC and to expand into new areas of business. In addition, with the transfer of business for financial institutions to the Enterprise Business as of April 2017, we are aiming to enhance NEC's lineup of financial settlement and other solutions by reinforcing collaboration with the retail and service industries in the area of FinTech.

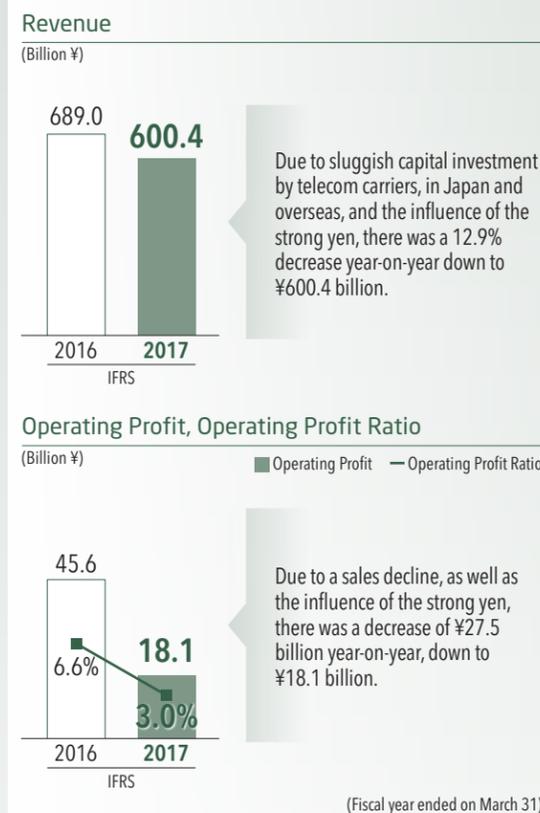
\* Manufacturing co-creation: Collaboration program where NEC offers enhanced solutions based on its own production innovation expertise through facilitating information exchange between customers, executing joint research or conducting Proof of Concept projects, etc.

# Telecom Carrier Business

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



Executive Vice President  
Atsuo Kawamura



## Fiscal 2017 Main Accomplishments

We worked toward expansion of business in the fields of TOMS and SDN/NFV, working along with Netcracker Technology Corporation, a subsidiary of NEC on the systemization of solutions that support rapid adoption SDN/NFV by telecom carriers. In addition, we secured 10 commercial projects for vEPC and vCPE from major global telecom carriers in Europe, the Middle East, and North America.

For the commercialization of 5G, we developed a massive-element Active Antenna System (AAS) that achieves efficient transmission using high frequency bands. In addition, we jointly conducted a Proof of Concept project with NTT DOCOMO for Massive MIMO (Multiple Input Multiple Output), a core technology for realizing high quality 5G transmission with high speed and capacity.

In our existing business areas, we finished construction of the "Asia Pacific Gateway (APG)," a high-capacity optical submarine cable that links 11 countries and territories between Japan and Singapore. We handed the completed cable over to a consortium of 13 companies from Japan, the US, and Asia.

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

Expanded introduction of **TOMS** and **SDN/NFV**; Conducting Proof of Concept projects and developing technology for the commercialization of **5G**.

- Increasing our results for the introduction of TOMS and SDN/NFV, our major focus business over the medium-long term.
- Developing core technologies to commercialize 5G and conducting Proof of Concept projects with clients.

## Strengths

- Track record of delivering for telecom carriers: fixed and mobile telecom products; IT system in Japan; and an accumulation of technology know how.
- Successful delivery to over 250 telecom carriers worldwide in the TOMS area.
- Industry-leading solutions in SDN/NFV, such as vEPC\*1 and vCPE\*2, which combine operations and services.

## Weaknesses

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

\*1 vEPC: virtualized Evolved Packet Core  
\*2 vCPE: virtualized Customer Premises Equipment

## Market Environment (Risks and Opportunities)

### Risks

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

### Opportunities

Commercial deployment of SDN/NFV has begun. These technologies contribute to network transformation through outcomes such as faster delivery of services, optimization of network resources, and reduced operating costs for telecom carriers. Also, we expect demand for TOMS to continually increase. Additionally, we anticipate expanded business opportunities through the commercialization of the 5th generation mobile communications system (5G).

## Initiatives in the Medium- to Long-Term

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

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

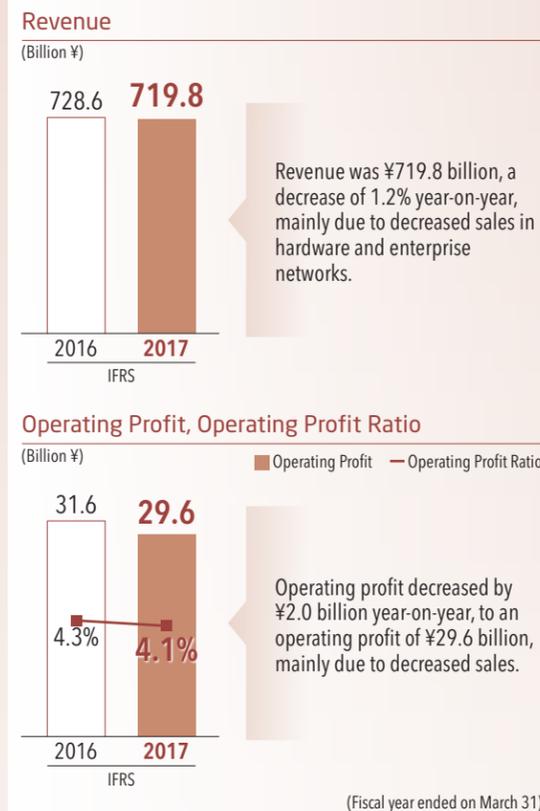
In this business, we contribute to business transformation through co-creation with our customers, actively proposing value to those customers in new areas while working to maintain and expand our existing businesses. We will keep our awareness of the constantly changing market as we continue to work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

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



Executive Vice President  
Kimihiko Fukuda



### Strengths

- Distinguished group of technologies\*<sup>1</sup>, including SDN, Big Data, the cloud, and security.
- Reliability and high quality cultivated under an intensely competitive domestic market; high share in Japan.
- Comprehensive capabilities with a wide range of assets necessary for building IoT platforms, from the cloud to devices such as networks and sensors.

\*1 The world's leading image recognition technology, including face recognition, advanced Big Data analysis technology, technology related to SDN, vector computing technology, etc.

### Weaknesses

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

### Market Environment (Risks and Opportunities)

#### Risks

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

#### Opportunities

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

### Fiscal 2017 Main Accomplishments

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

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

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

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

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

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

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

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

Achieved the  
**No. 1** share  
of the domestic  
PC server market  
for the **21st**  
consecutive year.

NEC achieved the No. 1 share of the domestic PC server market for the 21st consecutive year\*<sup>2</sup>. As the top vendor in the market, we will continue to listen in earnest to the requests of our customers as we continue to provide high quality products and aim to improve customer satisfaction even further.

\*2 CY1996-2016 Japan x86 server (shipment)  
Source: IDC Japan, Japan Quarterly Server Tracker CY17Q1  
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.

# International Business Structure

(As of July 1, 2017)

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

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

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



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

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



**Masahiro Ikeno**  
President & CEO  
NEC Europe

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

During the fiscal year ended March 31, 2017, a rise in safety and security needs triggered by acts of terrorism and other incidents doubled the order volume in the safety field, including solutions for airports and other vital infrastructure. In the telecom carrier business, we received orders for projects in the growth fields of TOMS and NFV from major carriers in Italy and Saudi Arabia, as we accelerated business development in this area. In terms of network business for the corporate sector, we expanded hospitality solutions, most notably for hotels.

With increasing demand for safety and other Solutions for Society expected to remain strong in the EMEA region, we will continue to accelerate business expansion in the

upcoming fiscal year. In Europe, we will realize a secure, safe and efficient society by promoting smart cities and other globally cutting-edge initiatives. In Russia, the Middle East and Africa, where high future growth is expected, we will provide solutions including communications and energy, contributing to both business expansion and the realization of a more abundant society.



## North America



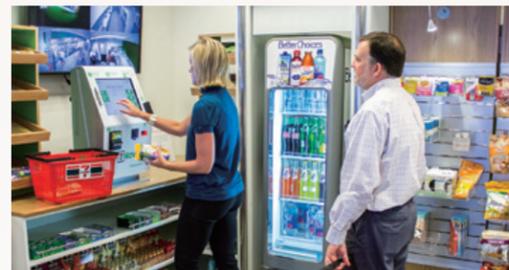
**Shinsuke Takahashi**  
President & CEO  
NEC Corporation of America

NEC Corporation of America continued to see success in our focused growth areas by engaging at a more strategic level with our customers.

We secured a major contract with 7-Eleven, Inc. to provide our point of sale technology in all North American stores. We also made progress with the federal government's border protection initiatives using our biometrics solutions, and won significant new contracts with key state law enforcement agencies.

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

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



## China/East Asia



**Naoki Yoshida**  
Senior Vice President  
NEC Corporation,  
President  
NEC (China)

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

Regarding security, we provide fingerprint identification, face recognition and other biometric identification systems and automated customs inspection systems (e-gate systems) to justice ministries, law enforcement agencies, airports and other entities in each country and region. In the field of retail, in addition to providing POS and IT systems primarily for convenience stores, we provide a highly rated around-the-clock maintenance request service covering stores for customers mainly in Taiwan. With respect to displays, we are broadly developing opportunities particularly in China in areas that include digital cinemas for movie theaters

and products for airports and subways as we expand business. Beyond this, in Hong Kong, as an advanced base in the bus/fleet (bus transportation system) field, we are providing technological support not only for the Hong Kong market but for NEC's global activities.

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



## Central and South America



**Masazumi Takata**  
Senior Vice President  
NEC Corporation,  
President & CEO  
NEC Latin America

NEC Latin America's business is strongly aligned with the region's needs, which drives us toward our goals and targets.

During the fiscal year ended March 31, 2017, our efforts to realize SDGs resulted in the winning of a biometrics project that helps provide students in Chile with fair access to meals, thereby contributing to the equality of society.

We also expanded our business by acquiring a local cyber security company that is one of the top players in our market for MSS, as we aim to be the No.1 value provider in Safer Cities utilizing a wide range of advanced assets from NEC.

For continuous growth, the region needs to boost innovation and productivity, which NEC Latin America aims to contribute to as we focus our efforts on new

business segments, especially in the retail, agriculture and Bus Rapid Transit (BRT) fields.

Going forward, NEC Latin America looks forward to achieving our goals as we continue supporting our customers, partners and the people of Latin America through the orchestration of a brighter world.



## APAC (Asia Pacific)



**Tetsuro Akagi**  
Senior Vice President  
NEC Corporation,  
CEO  
NEC Asia Pacific

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

During the fiscal year ended March 31, 2017, we took steps to further expand Solutions for Society, most notably in safety arena, while positioning telecom carrier business as our core field. Successes during the year include orders from a number of ASEAN countries for an e-passport system featuring biometric identification. We also won for face recognition systems from law enforcement agencies in various countries, such as the South Australia Police. Additionally, we provided an intelligent bus management system for City of Pune, India, delivered digital terrestrial

broadcasting equipment for a state broadcasting station in the Philippines, and conducted demonstration trials of a flood simulation system in Thailand. Through these efforts, NEC Asia Pacific contributed to building a sophisticated social infrastructure in countries across the region.

NEC Asia Pacific is committed to delivering innovative solutions to communities in the region and leading NEC's global business expansion.



# Initiatives Supporting Sustainable Management

NEC is advancing initiatives targeting ESG (Environment, Society, Governance), which is fundamental to sustainable management.

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



## Environment

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

## Society

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



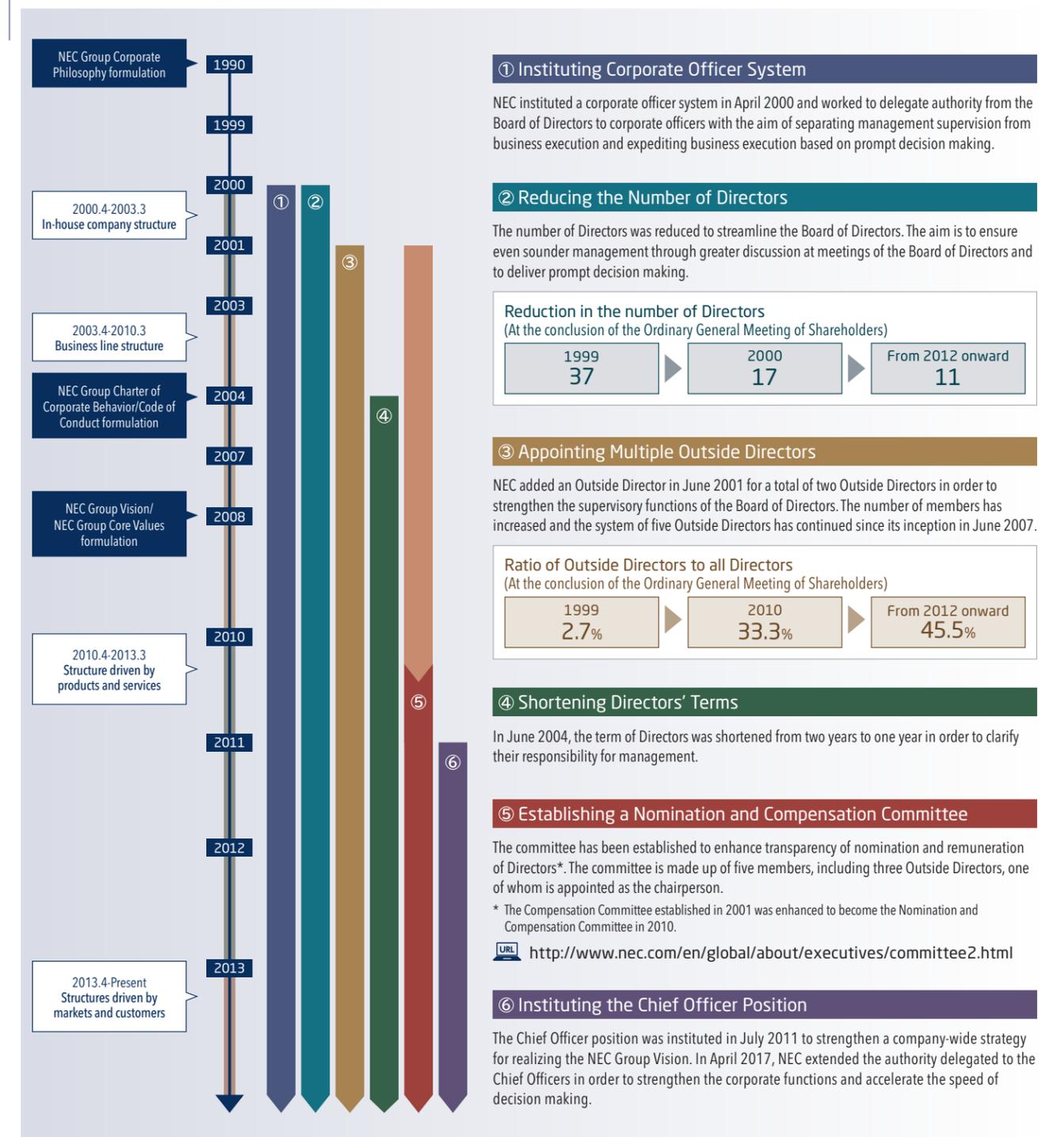
## Governance

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

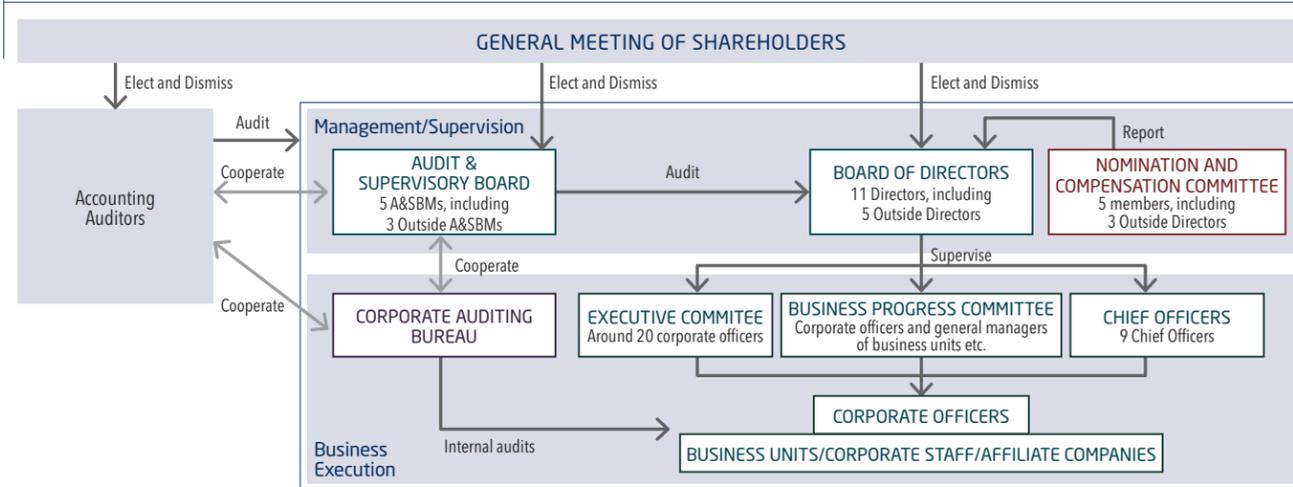
# Corporate Governance

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

## Main Initiatives for Strengthening Corporate Governance



## Overview of the Corporate Governance Structure



### Board of Directors

The Board of Directors holds regular meetings basically once a month 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 2017 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 matters such as optimization of development and manufacturing functions, as well as reform of underperforming businesses. In particular, a broad range of advice was given by Outside Directors, based on their own extensive experience in such roles as corporate management and their deep insight.

### 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 adopted 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 for 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 compensation for Directors, representative Directors and corporate officers with taking the business result of NEC and other conditions into account and 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 basically once a month and extraordinary meetings as necessary, decides on audit policies, standards, annual auditing plan and other matters, and receives status reports on audits and on other matters from each A&SBMs.

<b>Organization Form</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>Incentive Policies for Directors</b>		Performance-linked remuneration*1	
<b>Remuneration*2 (For Fiscal 2017)</b>	<b>Directors</b>	Total amount of remuneration:	¥337 million for a headcount of 13 (of which, Outside Directors: 5, Total remuneration: ¥60 million)*3
		Total amount of bonus:	¥0 for a headcount of 6
	<b>A&amp;SBMs</b>	Total amount of remuneration:	¥96 million for a headcount of 6 (of which, Outside A&SBMs: 4, Total remuneration: ¥36 million)*3

\*1 NEC introduces bonuses as short term incentive which is linked to single-year achievement, and stock compensation as mid- and long-term incentive which is linked to achievement of Mid-term Management Plan (no incentives are granted to Outside Directors).

\*2 NEC does not disclose remuneration per individual. NEC's basic remuneration policies and systems are also disclosed in the Business Report, the annual Securities Report and Corporate Governance Report.

\*3 The above headcount includes 2 Directors and 1 A&SBM who retired at the close of the 178th Ordinary General Meeting of Shareholders held on June 22, 2016.

## 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 is focusing its efforts on enhancements and improvements of this system in order to realize more effective corporate governance responding to changes in the business environment.

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

Since the fiscal year ended March 31, 2016, NEC conducted an analysis and evaluation of the effectiveness of the Board of Directors in order to strengthen the Board of Directors functions. Based on the conclusion of such analysis and evaluation, NEC updated the contents to be reported to the Board, improved the format of the meeting materials, made material distribution earlier and revised the plan of annual agenda during the fiscal year ended March 31, 2017.

#### Evaluation Method

NEC conducted the analysis and evaluation, in which each Directors and A&SBMs answered a questionnaire about the role, composition and operation of the Board of Directors, and the Board of Directors discussed its functional advancement based on the results of such questionnaires.

#### Evaluation Results and Issues Going Forward

It has been evaluated that in terms of the decision-making for NEC's important business execution, and business strategies/business plans, the Board is structured and operated to facilitate active discussions among the Directors, and the Board of Directors has been appropriately supervising the business execution. Meanwhile, it has been confirmed that the Board of Directors needs to further narrow down the matters to be discussed, to clarify the key points that should be discussed and to establish the system to reflect advices of Outside Directors on the business execution, in order to more appropriately indicate business strategic direction of NEC. Based on the results above, NEC will continually make the deliberations at the Board more active.

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

#### Introduction of a New Performance-linked Stock Compensation Plan

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

#### Remuneration System

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

#### Remuneration for Directors

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

[Links between Remuneration and NEC's Performance]

#### The Bonuses

Directors' Bonuses are calculated according to the certain indexes (Revenue, Operating profit and others) that NEC considers are important regarding the consolidated business results of the NEC Group during previous fiscal year.

#### The Stock Compensation

The number of NEC shares, which is calculated using the following formula, will be granted after the expiry of period of Mid-term Management Plan in accordance with the Directors' titles and the level of the achievement of Mid-term Management Plan.

$$\text{Number of granting shares based on the applicable Directors' titles}^{*1} \times \text{Performance-based allotment rate}^{*2}$$

\*1: Basic compensation x multiplying factors for titles of the applicable Directors / Average value of closing price of NEC shares on the Tokyo Stock Exchange in the fiscal year immediately preceding the evaluation period

\*2: The level of the achievement of consolidated revenue in the period of Mid-term Management Plan at the time of granting shares x 35% + The level of the achievement of consolidated operating profit in the period of Mid-term Management Plan at the time of granting shares x 35% + The level of the achievement of consolidated ROE in the final fiscal year of Mid-term Management Plan at the time of granting shares x 30%

$$\begin{matrix} \text{Consolidated Revenue} \\ \text{Achievement Level} \end{matrix} \times 35\% + \begin{matrix} \text{Consolidated Operating Profit} \\ \text{Achievement Level} \end{matrix} \times 35\% + \begin{matrix} \text{Consolidated ROE} \\ \text{Achievement Level} \end{matrix} \times 30\%$$

#### Remuneration for Audit & Supervisory Board Members

Remuneration for A&SBMs are only fixed monthly remunerations and do not include bonuses linked to the business results because the responsibility of A&SBMs is to audit execution of Directors' duty.

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

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

## Ensuring Compliance

For a company like NEC, which develops solutions for society, obtaining and maintaining the trust of society and its customers is of the utmost importance. To that end, compliance and ethical management are fundamentals at NEC, and we consider compliance to include not only legal compliance, but also compliance with the expectations and demands of society, such as social norms and common sense. Also, from the perspective of risk management, we have worked to minimize our compliance risks, such as competition law compliance, or risks stemming from bribery and fraud. However, in fiscal 2017, we received notification of three violations of Antimonopoly Act from the Japan Fair Trade Commission. We accept these facts solemnly and sincerely, and along with a renewed commitment to make compliance a top priority, we are strengthening our internal systems, education and awareness in order to prevent recurrences and restore trust. Each one of our officers and employees will act fairly and with integrity, working to conduct business activities with compliance as our top priority.

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

Based on our Competition Policy established in October 2011, NEC is striving to reduce the risk of being suspected of or becoming involved in a cartel or bid rigging, it has prepared rules for the prevention of cartels and bid rigging, and outlined regulations to restrict unnecessary contact with competitors.

In addition, NEC and its subsidiaries around the world have established anti-bribery system and rules, working to prevent bribery in relation to our business activities through efforts such as bribery risk

evaluations for businesses or work under our purview, and due diligence of appointed contractors. We have clarified our guidelines and procedures, as well as what to pay attention to when providing gifts, hospitality and travel expenses.

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

### Fostering a Corporate Culture that Makes Compliance a Top Priority

In addition to strengthening the above systems, NEC is working to foster a corporate culture where compliance is a top priority through education and awareness activities. Top-level executives, starting with the CEO, periodically release statements in their own words about the importance of compliance, and every year we hold the NEC Business Ethics Forum to raise awareness of compliance through lectures given by the CEO and external experts. Also, once every year we hold a Workplace Roundtable meeting at each workplace where employees are encouraged to think of

compliance as their own problem, and we are also providing information on compliance through our company intranet.

Propagating the importance of acting in accordance with the NEC Group Code of Conduct through training of new employees and promoted persons, we also carry out web training sessions on compliance once per year for all officers and employees. These are also conducted for all domestic subsidiaries, along with compliance training for our overseas subsidiaries.

### Aiming as an Organization to Never Again Violate the Antimonopoly Act

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

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

Further more, in hopes of preventing competition law violations, we have decided to promote personnel changes by moving employees who have dealt with the same customer for long periods to other areas, begin April 2017.

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

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

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

### Advancing self-transformation and achieving growth through innovation

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

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

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

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

Outside Director  
Kunio Noji



### View your own actions objectively for thorough compliance

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

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

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

Outside Audit & Supervisory Board Member (KANSAYAKU)  
Kazuyasu Yamada



# Directors and Audit & Supervisory Board Members

(As of June 22, 2017)

## 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  
Director President (Representative Executive Officer), 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: 11 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: 11 out of 12



**Isamu Kawashima**  
Executive Vice President, CFO (Chief Financial Officer) and Member of the Board (Representative Director)  
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.



**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



**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.



**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



**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.



**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: 9 out of 12



**Hajime Matsukura**  
Executive Vice President, CSO (Chief Strategy Officer) and Member of the Board  
After being engaged in the management of corporate strategies at the corporate departments and in the NEC Group's operational reform, Mr. Matsukura is now in charge of the NEC Group's corporate strategies.

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, 2017

## Audit & Supervisory Board Members (KANSAYAKU)



**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.



**Hajime Kinoshita**  
Audit & Supervisory Board Member (full-time)  
Mr. Kinoshita has experience being in charge of the legal and internal control division for many years.



**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: 17 out of 17



**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: 12 out of 12  
At meetings of the Audit & Supervisory Board: 17 out of 17

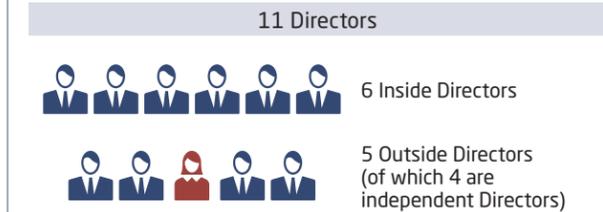


**Kazuyasu Yamada**  
Audit & Supervisory Board Member  
Certified Public Accountant  
Mr. Yamada has a lot of auditing experience as a Certified Public Accountant and professional insight in finance and accounting.  
• Attendance: At meetings of the Board of Directors: 10 out of 10  
At meetings of the Audit & Supervisory Board: 13 out of 13  
(Appointed in June 2016)

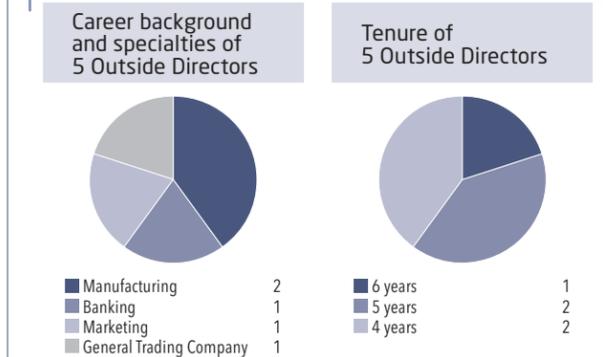
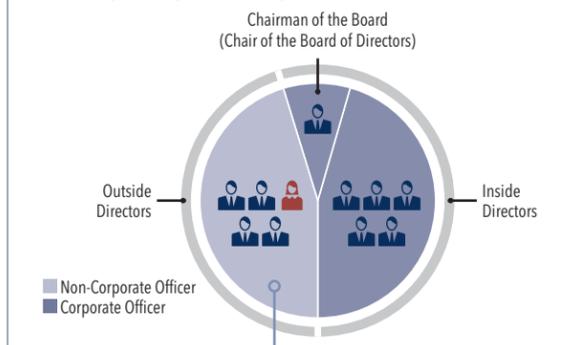
For further details on the Directors and Audit & Supervisory Board Members of NEC Corporation, please visit the following URLs:

- 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



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.



## Audit & Supervisory Board (KANSAYAKU-KAI)



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.

# Cross-company Corporate Strategy Promotion Framework

(As of July 1, 2017)

NEC introduced its Chief Officer System in 2011 in order to promote the execution of strategy that spans across the entire company. From April 2017, we have increased the number of Chief Officers and are promoting the delegation of authority to each of them to further improve the speed of our management.

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

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



## Manabu Kinoshita

Senior Executive Vice President

### Driving Company-wide Growth Through Customer-Oriented Social Value Innovation

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

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



## Norihiko Ishiguro

Senior Executive Vice President

### Becoming a Global Social Value Innovator

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



## Takayuki Morita

Executive Vice President and CGO (Chief Global Officer)

### Speedy Policy Development for Realizing Global Growth

NEC's biggest challenge is the realization of "growth." To meet that challenge, NEC must narrow its wide-ranging business portfolio down to businesses that can win in the global market, concentrating resources and prioritizing investment into those businesses. In addition to these kinds of organic policies, we will also boldly and speedily move forward with inorganic policies, such as co-creation with customers, partnering with governments, international organizations, and other companies, and even acquisition of other businesses, in order to achieve growth. As CGO, I will emphasize safety and security, SDN/NFV and IoT, and promote these policies to allow NEC to achieve growth as an industry leader.



## Isamu Kawashima

Executive Vice President and CFO (Chief Financial Officer)

### Reforming Cost Structure and Response to Underperforming Businesses while Redistributing Resources for Growth Areas

In fiscal 2017, new businesses failed to pick up as expected while existing businesses were on the decline. The emergence of underperforming businesses and problems with compliance also caused business performance to take a major downturn.

For the next fiscal year, we will reinforce compliance while also promoting reforms to our profit structure and solidifying the foundation for improved financial performance in fiscal 2018. From the financial side, we will support the execution of business with a balance of offense and defense through measures such as capital investment to realize growth strategies, and shifting resources as required to meet our goals.



## Katsumi Emura

Executive Vice President and CTO (Chief Technology Officer)

### Creation of Business Based on Technology that Leads to the Next Level of Growth for NEC

By envisioning the society of tomorrow and its issues, and carrying out a wider range of problem solving and value creation activities, we can aim for our own growth as well. We can create a competitive business by building a research and development strategy that is integrated with our business strategy, and thus further improve our own strengths.

In order to advance these efforts with a sense of speed, we will use NEC's technological strengths, such as image processing technologies like face recognition, AI technologies, named as "NEC the WISE," and security solutions, to drive collaboration with external parties. Promotion of strategic cooperation with other firms, large-scale collaboration with universities and research institutes, and the use of ventures, beyond what we have traditionally done, will lead to the creation of even greater value.



## Susumu Makihara

Executive Vice President and CHRO (Chief Human Resources Officer)

### Increasing Profitability and Getting on a Trajectory of Growth Based on Excellent Technology and Resources

The needs of the customer are constantly shifting due to changes in the structure of society and the evolution of technology. In order to deal with these changes, we support the transformation of NEC by encouraging the development of employee skills and promoting the optimal placement of human resources.

In addition, we also aim to improve productivity through changes in work style and to promote diversity. By changing our style of work through careful arrangement of our work environment, we can change NEC into a company where diverse human resources can play an active role. Through these efforts, we will improve the organizational capabilities of the NEC Group to achieve globalization.



## Kazuhiro Sakai

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

### Preparing ICT for the Realization of Digital Management

ICT will become even more important in the age of digital transformation. NEC is contributing to the sophistication of business management systems by expanding data utilization and supporting digital management based on business management infrastructure that it has improved over the years. It is also promoting the enhancement of ICT infrastructure that takes advantage of NEC's strengths, including AI, IoT, cloud, and security.



## Hajime Matsukura

Executive Vice President, CSO (Chief Strategy Officer)

### Improve Earning Power in the Workplace

We will redesign our company-wide strategy with the goals of accelerating our business model shift and increasing the value we provide. To that end, we need to be thorough in clarifying the appropriate allocation of resources, as well as responsibilities and authority. At the same time, we will thoroughly continue to have open and essential communication between management and the employees on site, until they can share their opinions and have a common sense of urgency.

Our goals are both to create an organization that constantly transforms itself without lagging behind market changes, and to improve earning power in the workplace.



## Makoto Enomoto

Senior Vice President, CMO (Chief Marketing Officer)

### Establishing a Brand Image Centered Around "Co-Creation" as a Suitable Transformative Partner in the Digital Age

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

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



## Shinobu Obata

Senior Vice President, CCO (Chief Compliance Officer)

### How to Establish a Corporate Culture of Compliance

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

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

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

# Human Rights and Diversity

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

## Measures to Protect Privacy

In recent years, new businesses have emerged from the collection and usage of data from a broad range of devices, through evolutionary advancements in IoT and other technologies. While these technologies may, on the one hand, benefit society, they can also open the way to violations of human rights from the consumer's standpoint.

Privacy protection in data usage is a particularly important human rights issue, and NEC works on it actively with governments, research institutes and ICT companies.

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

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



Meeting on protecting privacy as data is utilized

## Responding to the Modern Slavery Act

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

In September 2016, NEC Europe issued its first statement in reference to NEC Europe, its subsidiaries and supply chain working to be in accordance with Section 54 of the MSA.

Based on the goals of the MSA, NEC Europe conducts audits to assess risks in its supply chain, such as forced labor and human trafficking.

## Career Formation and Raising Awareness for Women

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

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



Scene from Summer Riko-Challe 2016

## Providing Society with More Individualized Services from a Female Perspective

President, Japan Society for Industrial and Applied Mathematics; Vice President, The Institute of Electronics, Information and Communication Engineers (IEICE); Member of the Science Council of Japan; Senior Engineer, NEC Security Research Laboratories

Kazue Sako

"I have been involved in encryption and security research since joining NEC. There is a co-creative effort gaining momentum globally around the creation of a secure, robust and fair networked society that respects privacy. Cryptography has emerged as a technology for protecting individual information, even from organizations that possess massive volumes of information or crunch large amounts of data. With blockchain technology, the aim is to realize both fairness and transparency without relying on a central authority.

Roughly half of the people in our world are women. Incorporating that perspective, we will provide services to society that are more closely tailored to individuals."



Participation in "Summer Riko-Challe 2016" as a senior female researcher

## Co-creation Activities with Customers Incorporating Diverse Perspectives

In October 2016, Mr. Daisuke Uehara, a silver medalist in Para ice hockey at the 2010 Paralympic Games in Vancouver joined NEC. By promoting branding and co-creation activities with customers that

leverage Mr. Uehara's insight as a Paralympian, NEC is taking steps to make society defined by diversity a reality.

## Paralympian Perspective Comes to NEC

"After giving a lecture at NEC on para-sports, I received a request from NEC helping NEC employees incorporate a Paralympian perspective in the run up to 2020. This culminated in me formally joining NEC. Many of our local government customers have some unease about the decision - what exactly should they be doing ahead of 2020? Would paralympians be looking to use local gymnasiums? I personally pay visits to these customers, doing my best to assist them in taking first steps in these directions.

While collaborating with regional headquarters and branches across Japan, my hope is to solve issues that local governments face for 2020 and beyond, and thereby build even friendlier relationships with them."

Tokyo Olympics and Paralympics Promotion Division, NEC

Daisuke Uehara



## Further Promotion of Environmental Management Contributing to the Realization of a "Sustainable Earth"



**Nobuhiro Odake**  
Executive Vice President  
In charge of the Supply Chain Management Unit

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

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

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

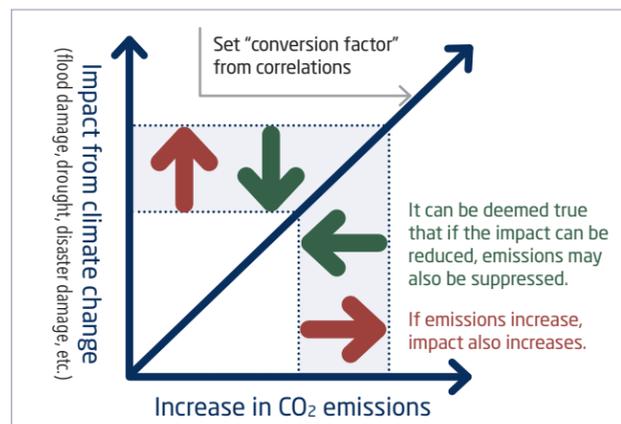
1. Contribution to "mitigation" of climate change
  - Reduction in emissions of customers and society through the provision of IT solutions
  - Improvement in product energy efficiency
2. Contribution to "adaptation" to climate change
  - Preparing for the impacts of climate change through the provision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

### Developing an Original Method to Quantitatively Evaluate "Adaptation" to Climate Change

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

In order to expand this kind of value in a controlled, goal-oriented manner, NEC has worked with the Waseda Environmental Institute to jointly develop a quantitative method for considering the reduction of

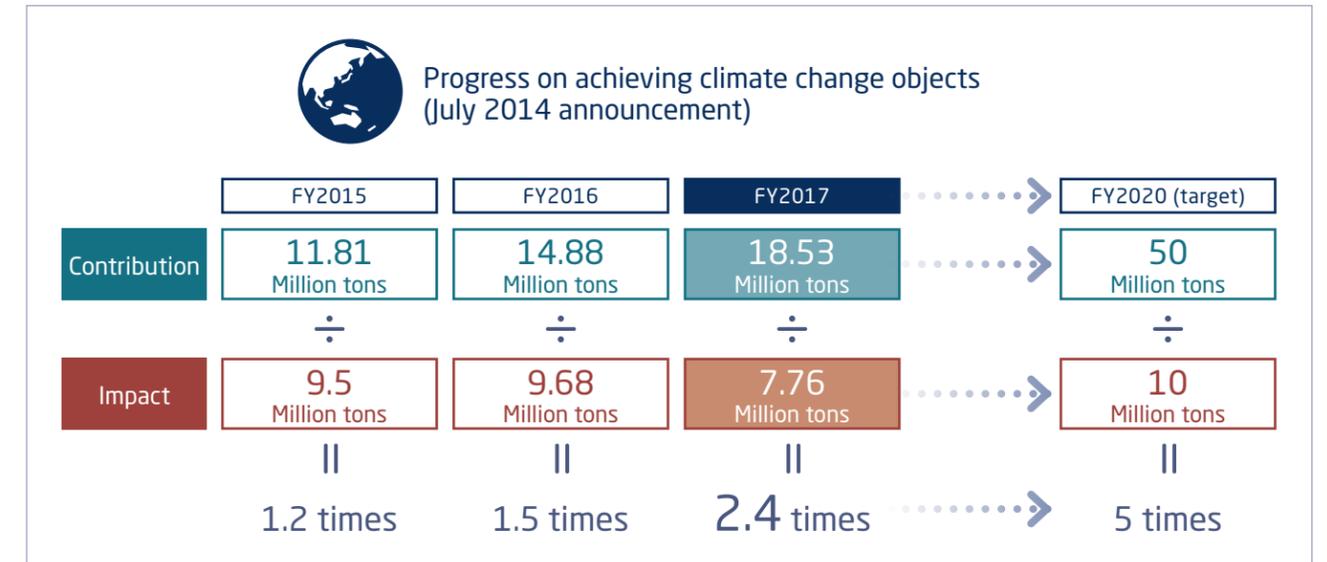
impact from climate change through IT solutions as equivalent to suppression of CO<sub>2</sub> emissions. By propagating these kinds of ideas, we are helping to further accelerate our "adaptation" to climate change.



### Aiming for Five Times the Value Provided Against Environmental Burden

By using these kinds of quantitative methods, NEC hopes to provide five times more value against the environmental impact of its supply chain by 2020. The results for fiscal 2016 were that we increased the

value we provided up to 2.4 times our environmental burden. We will continue to aim for our goal, promoting greater value provided and reducing the environmental impact of our supply chain.



### Improvements to Environmental Management through Dialogue with Our Stakeholders

#### Holding Meetings on ESG with Institutional Investors

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



IR Meeting

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

Along with Space-Time Insight, which has delivered numerous data analysis and visualization solutions, mainly to major European and US power companies, NEC and NEC Asia Pacific are participating in the Singapore Power Energy Advanced Research and Development (SPEAR), a next-generation power grid joint development project promoted by Singapore Power, which is Singapore's largest electricity company. In this project, we are investigating efficiency improvement of capital investment and maintenance based on big data analysis, real-time visualization and analysis of power failures, and advanced power failure management that accurately predicts expected recovery time.

Taking advantage of the experience we gain through this collaborative project, we will accelerate the creation of new technologies and solutions that combine ICT and energy, and will continue to further expand the smart energy business in the Asia-Pacific region.



Commemorative photo of participants

Trial using flood and landslide simulation system in Thailand

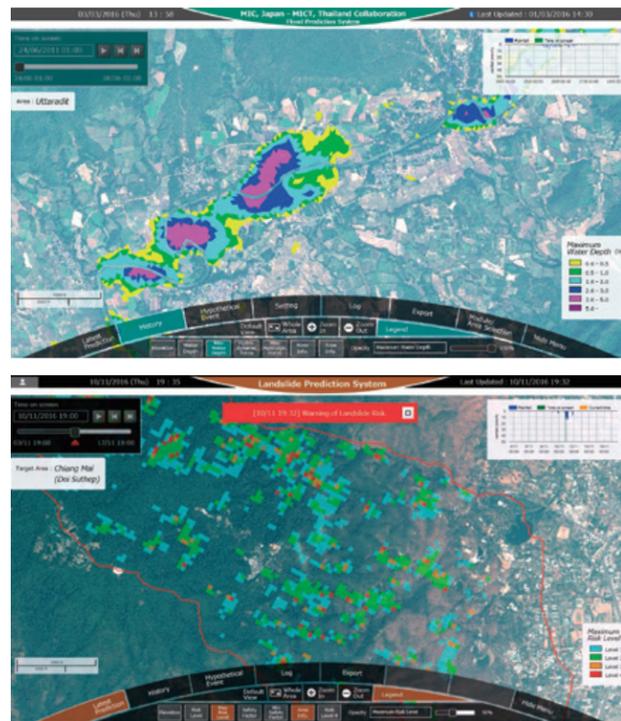
In collaboration with the National Disaster Warning Center (NDWC), NEC conducted a trial of its system to predict inundation areas and landslide hazard areas.

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

In these trials, NEC ran simulations based on various data such as weather, topography, river, and soil conditions to predict inundation areas, maximum flood levels, levels of landslide risk etc., for up to 7 days in advance, and then confirmed the effectiveness of the system.

Going forward, NEC will continue to promote the advancement and utilization of disaster prevention ICT for floods and landslides in Thailand, and utilize the experience and know-how gained from these trials to proactively engage in the proposal of this system to other Asian countries that frequently suffer damages from floods and landslides.

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



Simulation screen

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Note: Please refer to the separate publication "Annual Report 2017 (Financials)" for details of "Note XX" on pages 57 to 62.

# Consolidated Statements of Financial Position

NEC Corporation and Subsidiaries  
Years Ended March 31, 2016 and 2017

	Millions of yen	
	2016	2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 16) .....	¥ 192,323	¥ 239,970
Trade and other receivables (Note 15) .....	933,914	952,258
Inventories (Note 14) .....	211,992	205,855
Other financial assets .....	7,651	4,485
Other current assets .....	107,456	106,169
<b>Total current assets</b> .....	<b>1,453,336</b>	<b>1,508,737</b>
<b>Non-current assets</b>		
Property, plant and equipment, net (Notes 8 and 10) .....	343,323	419,078
Goodwill (Notes 9 and 10) .....	56,141	63,220
Intangible assets (Notes 9 and 10) .....	118,019	142,139
Investments accounted for using the equity method (Note 12) .....	90,346	68,132
Other financial assets .....	254,917	262,284
Deferred tax assets (Note 13) .....	196,019	156,622
Other non-current assets (Notes 10 and 21) .....	16,803	63,784
<b>Total non-current assets</b> .....	<b>1,075,568</b>	<b>1,175,259</b>
<b>Total assets</b> .....	<b>¥2,528,904</b>	<b>¥2,683,996</b>

See notes to consolidated financial statements.

	Millions of yen	
	2016	2017
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables (Note 24) .....	¥ 503,375	¥ 497,051
Bonds and borrowings (Note 20) .....	155,454	118,915
Accruals .....	157,403	155,161
Other financial liabilities .....	13,555	12,507
Accrued income taxes .....	13,445	21,014
Provisions (Note 23) .....	40,318	52,210
Other current liabilities (Note 22) .....	137,135	145,683
<b>Total current liabilities</b> .....	<b>1,020,685</b>	<b>1,002,541</b>
<b>Non-current liabilities</b>		
Bonds and borrowings (Note 20) .....	318,435	342,854
Other financial liabilities .....	9,365	8,285
Defined benefit liabilities (Note 21) .....	297,756	264,272
Provisions (Note 23) .....	15,336	13,736
Other non-current liabilities (Note 22) .....	30,107	36,242
<b>Total non-current liabilities</b> .....	<b>670,999</b>	<b>665,389</b>
<b>Total liabilities</b> .....	<b>1,691,684</b>	<b>1,667,930</b>
<b>Equity</b>		
Share capital (Note 18) .....	397,199	397,199
Share premium (Note 18) .....	147,755	147,879
Retained earnings (Note 18) .....	223,883	235,601
Treasury shares (Note 18) .....	(3,077)	(3,101)
Other components of equity (Notes 18 and 21) .....	4,067	76,686
<b>Total equity attributable to owners of the parent</b> .....	<b>769,827</b>	<b>854,264</b>
Non-controlling interests (Note 11) .....	67,393	161,802
<b>Total equity</b> .....	<b>837,220</b>	<b>1,016,066</b>
<b>Total liabilities and equity</b> .....	<b>¥2,528,904</b>	<b>¥2,683,996</b>

## Consolidated Statements of Profit or Loss

NEC Corporation and Subsidiaries  
Years Ended March 31, 2016 and 2017

	Millions of yen	
	2016	2017
Revenue (Notes 6 and 25) .....	¥2,824,833	¥2,665,035
Cost of sales (Notes 14 and 28) .....	1,984,748	1,909,414
<b>Gross profit</b> .....	840,085	755,621
Selling, general and administrative expenses (Note 28) .....	725,960	698,413
Other operating income (loss) (Note 27) .....	(22,707)	(15,370)
<b>Operating profit</b> (Note 6) .....	91,418	41,838
Financial income (Notes 6 and 29) .....	11,703	38,420
Financial costs (Notes 6 and 29) .....	21,746	20,817
Share of profit of entities accounted for using the equity method (Note 6) .....	5,178	8,617
<b>Income before income taxes</b> .....	86,553	68,058
Income taxes (Note 13) .....	3,359	32,834
<b>Net profit</b> .....	¥ 83,194	¥ 35,224
<b>Net profit attributable to</b>		
Owners of the parent .....	75,923	27,310
Non-controlling interests .....	7,271	7,914
	¥ 83,194	¥ 35,224
<b>Earnings per share attributable to owners of the parent</b>		
Basic earnings per share (yen) (Note 31) .....	29.22	10.51
Diluted earnings per share (yen) (Note 31) .....	–	10.51

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

NEC Corporation and Subsidiaries  
Years Ended March 31, 2016 and 2017

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

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Equity

NEC Corporation and Subsidiaries  
Years Ended March 31, 2016 and 2017

	Millions of yen							
	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
<b>As of April 1, 2015</b>	¥397,199	¥147,415	¥158,356	¥(3,025)	¥ 121,160	¥ 821,105	¥ 66,534	¥ 887,639
Net profit	-	-	75,923	-	-	75,923	7,271	83,194
Other comprehensive income (Note 18)	-	-	-	-	(117,093)	(117,093)	(2,790)	(119,883)
<b>Comprehensive income</b>	-	-	75,923	-	(117,093)	(41,170)	4,481	(36,689)
Purchase of treasury shares (Note 18)	-	-	-	(56)	-	(56)	-	(56)
Disposal of treasury shares (Note 18)	-	(2)	-	4	-	2	-	2
Cash dividends (Note 19)	-	-	(10,396)	-	-	(10,396)	(2,214)	(12,610)
Changes in interests in subsidiaries	-	342	-	-	-	342	(1,408)	(1,066)
<b>Total transactions with owners</b>	-	340	(10,396)	(52)	-	(10,108)	(3,622)	(13,730)
<b>As of March 31, 2016</b>	¥397,199	¥147,755	¥223,883	¥(3,077)	¥ 4,067	¥ 769,827	¥ 67,393	¥ 837,220

	Millions of yen							
	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
<b>As of April 1, 2016</b>	¥397,199	¥147,755	¥223,883	¥(3,077)	¥ 4,067	¥769,827	¥ 67,393	¥ 837,220
Net profit	-	-	27,310	-	-	27,310	7,914	35,224
Other comprehensive income (Note 18)	-	-	-	-	72,619	72,619	(820)	71,799
<b>Comprehensive income</b>	-	-	27,310	-	72,619	99,929	7,094	107,023
Purchase of treasury shares (Note 18)	-	-	-	(26)	-	(26)	-	(26)
Disposal of treasury shares (Note 18)	-	(2)	-	3	-	1	-	1
Cash dividends (Note 19)	-	-	(15,592)	-	-	(15,592)	(2,386)	(17,978)
Subscription rights to shares	-	5	-	-	-	5	-	5
Changes in interests in subsidiaries	-	121	-	-	-	121	89,701	89,822
<b>Total transactions with owners</b>	-	124	(15,592)	(23)	-	(15,491)	87,315	71,824
<b>As of March 31, 2017</b>	¥397,199	¥147,879	¥235,601	¥(3,101)	¥76,686	¥854,264	¥161,802	¥1,016,066

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

NEC Corporation and Subsidiaries  
Years Ended March 31, 2016 and 2017

	Millions of yen	
	2016	2017
<b>Cash flows from operating activities</b>		
Income before income taxes	¥ 86,553	¥ 68,058
Depreciation and amortization (Note 6)	83,771	80,376
Impairment loss (Notes 6 and 10)	13,463	2,571
Increase (decrease) in provisions	(6,454)	12,302
Financial income	(11,703)	(38,420)
Financial costs	21,746	20,817
Share of (profit) loss of entities accounted for using the equity method	(5,178)	(8,617)
Decrease (increase) in trade and other receivables	47,897	22,201
Decrease (increase) in inventories	7,182	22,659
Increase (decrease) in trade and other payables	(49,602)	(31,666)
Others, net	(60,293)	(43,141)
Subtotal	127,382	107,140
Interest and dividends received	5,845	5,866
Interest paid	(10,007)	(8,646)
Income taxes paid	(25,391)	(11,835)
<b>Net cash provided by operating activities</b>	97,829	92,525
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(32,522)	(37,201)
Proceeds from sales of property, plant and equipment	2,746	2,676
Acquisitions of intangible assets	(8,316)	(7,888)
Purchases of available-for-sale financial assets	(892)	(4,117)
Proceeds from sales of available-for-sale financial assets	7,616	4,359
Purchase of shares of newly consolidated subsidiaries	-	(984)
Acquisitions of subsidiaries, net of cash acquired	36	11,220
Proceeds from sales of shares of subsidiaries	556	339
Disbursements for sales of shares of subsidiaries	(385)	-
Purchases of investments in affiliated companies	(4,380)	(162)
Proceeds from sales of investments in affiliated companies	204	23,698
Proceeds from collection of loans receivable	584	12,958
Others, net	2,551	1,527
<b>Net cash provided by / (used in) investing activities</b>	(32,202)	6,425
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term borrowings, net	14,790	15,228
Proceeds from long-term borrowings (Note 20)	4,059	204,082
Repayments of long-term borrowings (Note 20)	(15,827)	(240,127)
Proceeds from issuance of bonds (Note 20)	50,000	-
Redemption of bonds (Note 20)	(90,000)	(10,000)
Dividends paid (Note 19)	(10,368)	(15,592)
Dividends paid to non-controlling interests	(2,214)	(2,386)
Others, net	(522)	(86)
<b>Net cash used in financing activities</b>	(50,082)	(48,881)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(4,354)	(2,422)
<b>Net increase (decrease) in cash and cash equivalents</b>	11,191	47,647
<b>Cash and cash equivalents, at the beginning of the year</b>	181,132	192,323
<b>Cash and cash equivalents, at the end of the year (Note 16)</b>	¥ 192,323	¥ 239,970

See notes to consolidated financial statements.

## Non-Financial Section

NEC Corporation and Consolidated Subsidiaries  
For the years ended or at year-end of March 31, 2016 and 2017

	2016	2017	Units
<b>CO<sub>2</sub> emissions reduction by providing IT solutions</b> .....	2,620	<b>2,630</b>	Thousand tons
<b>Improvement in energy efficiency of products*1</b> .....	97	<b>17</b>	%
<b>Greenhouse gas emissions*2*3</b>			
Scope 1 .....	59	<b>54</b>	Thousand tons
Scope 2 .....	299	<b>296</b>	Thousand tons
Scope 3 .....	9,286	<b>7,410</b>	Thousand tons
<b>Energy usage*3</b>			
Electricity .....	5,689	<b>5,708</b>	Thousand GJ*4
Gas .....	1,070	<b>938</b>	Thousand GJ
Fuel (heavy oil and kerosene) .....	99	<b>131</b>	Thousand GJ
<b>Water usage*3</b> .....	2,294	<b>2,240</b>	Thousand m <sup>3</sup>
<b>Industrial waste*3</b>			
Emission volume (general waste + industrial waste) ..	35	<b>26</b>	Thousand tons
Resource reuse rate .....	87.2	<b>90.6</b>	%

	2016	2017	Units
<b>Number of employees by region Total</b> .....			
Japan .....	77,455	<b>80,478</b>	People
China/East Asia .....	4,058	<b>5,329</b>	People
Asia Pacific .....	7,678	<b>9,347</b>	People
EMEA .....	4,948	<b>5,406</b>	People
North America .....	2,495	<b>2,819</b>	People
Latin America .....	2,092	<b>4,350</b>	People
<b>Ratio of outside directors to all directors*5</b> .....	45.5	<b>45.5</b>	%
<b>Number of female managers*3*5</b> (As of April 1 of each year) .....	374	<b>368</b>	People
<b>Ratio of female managers*3*5</b> (As of April 1 of each year) .....	5.4	<b>5.5</b>	%
<b>Ratio of employees with disabilities*5</b> (As of June 1 of each year) .....	2.07*3	<b>2.04</b>	%
<b>Number of people of utilizing childcare leave*3*5</b> .....	395	<b>376</b>	People
<b>Number of people of utilizing nursing care leave*3*5</b> .....	19	<b>18</b>	People
<b>Average age of employees*3*5</b> .....	42.9	<b>43.1</b>	Years old
<b>Average length of employment*3*5</b> .....	18.6	<b>18.8</b>	Years
<b>Labor accidents and disasters*3*6</b>			
Frequency rate .....	0.25	<b>0.18</b>	
Severity rate .....	0.00	<b>0.00</b>	

\*1 Figures for 2016 are a comparison to March 2006 fiscal year products. Due to a revision in baseline comparison year, 2017 figures are a comparison to March 2014 fiscal year products.

\*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 External assurance received.

\*4 Gigajoules

\*5 Scope: NEC Corporation

\*6 Scope: NEC Corporation

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

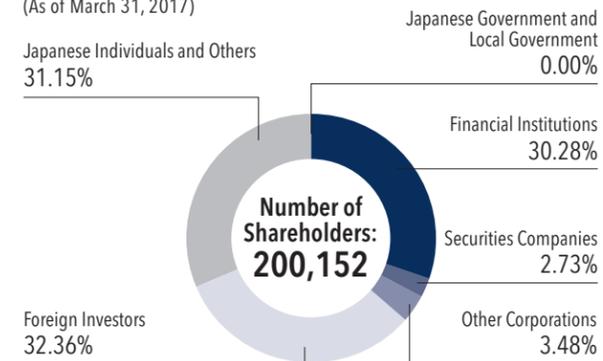
Severity rate: Number of lost working days divided by total working hours times one thousand

## 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>	107,729 (NEC Corporation and consolidated subsidiaries) (As of March 31, 2017)
<b>Total Number of Shares Issued</b>	2,604,732,635 shares (As of March 31, 2017)
<b>Stock Exchange Listing</b>	Tokyo (Securities Code: 6701)
<b>Shareholder Register Administrator</b>	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo

### Classification of Shareholders (Shareholding Ratio)

(As of March 31, 2017)



### Organization Chart



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

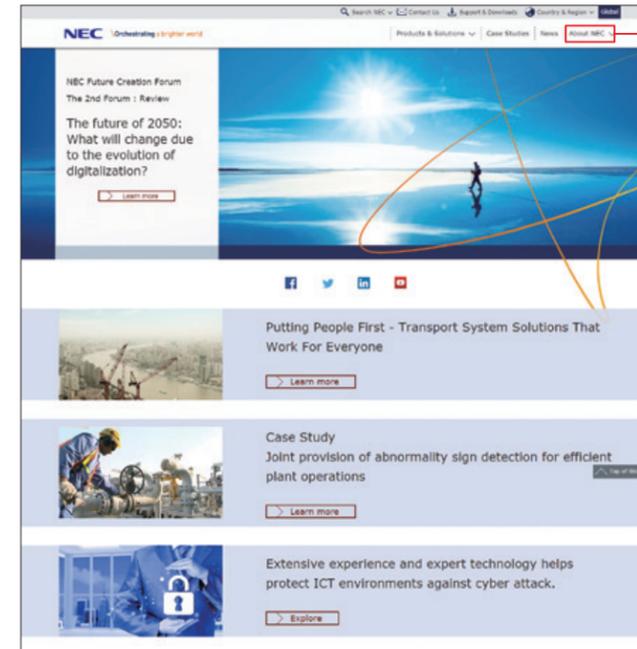
Name of Shareholders	Number of Shares Held (Thousands of Shares)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	123,516	4.75
The Master Trust Bank of Japan, Ltd. (Trust Account)	116,590	4.49
Nomura International (Hong Kong) Limited - Unclaimed Client Account	78,141	3.01
Japan Trustee Services Bank, Ltd. (Trust Account No.9)	59,617	2.29
Bnymsanv As Agent / Clients Lux Ucits Non Treaty 1	58,250	2.24
NEC Employee Shareholding Association	52,439	2.02
Japan Trustee Services Bank, Ltd. (Trust Account No.5)	50,513	1.94
Trust & Custody Services Bank, Ltd. (Trust Collateral Account)	42,833	1.65
Nippon Life Insurance Company	41,977	1.62
Japan Trustee Services Bank, Ltd. (Trust Account No.4)	41,414	1.59

Note: The shareholding ratio is calculated by excluding the number of treasury stock (6,086,347 shares).

The information contained in Annual Report 2017 is also available on NEC's website.

NEC home page

<http://www.nec.com>



**Corporate Social Responsibility**  
<http://www.nec.com/en/global/csr>

NEC discloses information concerning sustainable management 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



**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.

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

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