Orchestrating a brighter world

Reporting Period
April 1, 2017 to March 31, 2018
(hereinafter referred to as “Fiscal 2018.” 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

Editorial Policy
NEC has published integrated annual reports containing both financial and non-financial information since 2013. This year, having defined its materiality in July 2018 in line with the Mid-term Management Plan 2020, NEC has changed the name of the report to the “Integrated Report.”

The Integrated Report 2018 comprises four chapters respectively entitled Business Strategy and Vision, Business Activities, Management Foundation, and Corporate Data:

Business Strategy and Vision describes the newly formulated Mid-term Management Plan 2020 and priority themes from an Environmental, Social and Governance (ESG) perspective, or “materiality.” Business Activities includes a message from the CFO along with an overview from each of our segments and an introduction of our international business execution structure.

Management Foundation introduces the Company’s initiatives in support of sustainable management, such as corporate governance and environmental management promotion.

NEC will keep endeavoring to provide increasingly transparent and continuous information while incorporating feedback from institutional investors and various other stakeholders.

Reference Guidelines
• ISO 26000
• GRI Standards
• United Nations Global Compact
• International Integrated Reporting Council’s “International Integrated Reporting Framework”
• Japan’s Ministry of Economy, Trade and Industry’s “Guideline for Collaborative Value Creation”

Other Related Information
• Earnings Release/Annual Securities Report
• Corporate Governance Report
• Sustainability Report
• Annual Environmental Report
• Information Security Report

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Since its establishment in 1899, NEC has been creating products and services of value to customers under the motto of “Better Products, Better Services.” I believe NEC’s enduring commitment since its foundation to utilize its powerful technical capabilities to provide better value to customers and society is the reason that it has been accepted by society for 119 years. This approach has been passed down to us 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 expect from us is constantly changing. Up until now, our technologies and products have been a sufficient source of value, but customers and society are now requiring increasingly diverse sources of value. To remain an essential company in the eyes of society in the years to come, we must create new value by constantly keeping our finger on the pulse of what it consists of.

To express this resolution 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 who combines them with diverse knowledge and ideas in collaboration with people around the world, this is our aim. As a social value innovator, we will continue to provide value in the form of safety, security, efficiency and equality, which are prerequisites for all people, and an abundant society by leveraging our strengths. This is our approach to sustainability and our vision for the Company.

In 2005, NEC became a signatory to the United Nations Global Compact (UNGC), a global initiative aimed at sustainable growth for society and companies. In our corporate activities we now observe the compact’s 10 principles pertaining to the fields of human rights, labor, the environment, and anti-corruption. As part of efforts in “Orchestrating a brighter world,” I am confident that NEC can also contribute to the achievement of the Sustainable Development Goals (SDGs) adopted by the UN in 2015.

In addition, with the formulation of the Mid-term Management Plan 2020, NEC has defined its materiality—priority management themes from an ESG perspective. This outlines the approach to social value creation that we have practiced since our foundation and connects our business strategies with ESG initiatives as a new declaration to our various stakeholders of our commitment to achieving the mutual growth of NEC and society.

Review of the Mid-term Management Plan 2018

Reorganization of profit structure

Mostly on track for cost reduction targets

Getting back on the track to growth

Evidently underperformed in existing businesses

NEC’s Role as a Social Value Innovator

To restore NEC’s strength, now is the time to transform ourselves and start the journey of development and growth.
Issues Facing NEC

I have always felt that NEC has had an issue with a lack of speed in responding to changes in society and the markets. This has some bearing on why we haven’t managed to grow the businesses that we had positioned as growth areas in the past. NEC has not moved on from the approaches and culture of an era where technology itself represented value. I feel that the persistence of old structures and systems inside the Company has been a hindrance to new initiatives.

Another issue is a lack of execution capability to carry out declarations and decisions to completion. The root cause of these issues is the absence of a culture of commitment as well as a lack of well-defined consequences or rewards at NEC. I am painfully aware that while these fundamental issues have been recognized at NEC for some time, we have made little progress in improving them. I am deeply aware of my responsibility in this regard as CEO.

Overcoming Issues Requires a Cultural Transformation

How then can these issues be overcome? How can we become a company that tackles its own targets quickly and carries them out to completion? The only way is to engage with a host of issues, including organizations, systems, human resources, and work styles, reviewing them from scratch in order to change NEC’s culture. The value of NEC lies in its approach of striving to provide better value to our customers and society with our founding spirit of “Better Products, Better Services.” While retaining this value, we must build the methods, structures, and culture that will enable us to respond rapidly to changes in global society and leverage our capabilities to the fullest.

I have been highlighting that NEC needs to change for some time. However, while we may recognize the necessity, when we set about making changes, we come up against obstacles and find ourselves at an impasse. I think this is because we have tried to transform by our own efforts alone. This time, I will make use of external powers as well in order to execute changes thoroughly.

My Commitment as CEO

NEC has come to a point where it is truly imperative to make major changes. If we do not change, NEC will not survive. With this sense of crisis, I will pour every effort as CEO into changing NEC. To enable NEC to continue developing and growing sustainably with society, we must discern what is truly necessary, be prepared to break from our conventional ways of thinking, and drive transformation that will restore NEC’s strength.

Main Points of the Mid-term Management Plan 2020

The Mid-term Management Plan 2020 has set the following mid-term targets as a level to be achieved in order to be a sustainable company: revenue of ¥3,000.0 billion, operating profit of ¥150.0 billion (5% operating profit ratio), net profit attributable to owners of the parent of ¥90.0 billion, free cash flow of ¥100.0 billion, and ROE of 10%.

To realize these targets, we have established three mid-term management policies: reform of profit structure, achievement of growth, and restructuring of execution capabilities.

Mid-term Management Targets

<table>
<thead>
<tr>
<th>(Billion ¥)</th>
<th>FY2017/3 Results</th>
<th>FY2018/3 Results</th>
<th>FY2021/3 Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,665.0</td>
<td>2,844.4</td>
<td>3,000.0</td>
</tr>
<tr>
<td>Operating profit</td>
<td>41.8</td>
<td>63.9</td>
<td>150.0</td>
</tr>
<tr>
<td>(Operating profit ratio)</td>
<td>1.6%</td>
<td>2.2%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Net profit attributable to owners of the parent</td>
<td>27.3</td>
<td>45.9</td>
<td>90.0</td>
</tr>
<tr>
<td>Free cash flows*</td>
<td>99.0</td>
<td>115.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>3.4%</td>
<td>5.3%</td>
<td>10%</td>
</tr>
</tbody>
</table>

* M&A excluded

(Notes: Forecasts and Targets as of January 30, 2018)

Mid-term Management Policies

Implement fundamental reform of profit structure, including reduction of fixed costs, to be able to carry out investments needed to get back on the track to growth.

Reform of profit structure
- SG&A expenses (Personnel expense reduction/cost cutting)
- Business structure (Telecom carrier business/ Energy business)
- Production system

Achievement of growth
- Japan
  - Securely capture growth opportunities in Japan market
  - Shift to service business
- Global
  - Focus on safety business as the growth engine
  - Reorganize global structure supporting growth

Restructuring of execution capabilities
- Pursuing the creation of customer value by leveraging the latest technologies
- Restructuring of personnel system to enable employees to maximize their capabilities
Reform of Profit Structure

For the reform of profit structure, we will take steps to fundamentally reform our profit structure, including reduction of fixed costs, in order to carry out investments needed to get back on the track to growth. Through three reforms targeting selling, general and administrative (SG&A) expenses, business structure, and our production system, we will create a structure capable of succeeding globally.

With regard to SG&A expenses, in fiscal 2019 we will carry out structural reforms targeting 3,000 personnel working in back office functions and the hardware business in Japan. We will look to streamline fixed property, IT, and marketing costs, aiming to bring the SG&A expense ratio down to 20% or less, and we will work to improve the profit structure so that we can continue the necessary investments required to transform our business model.

With regard to our business structure, we will resolutely implement reforms to improve profitability in the Telecom Carrier business*1 and the Energy business. In the Energy business, we have made the decision to sell the electrode business and to discontinue development and production of small-scale storage batteries. We aim to achieve growth by concentrating our previously multi-directional operations anew in the energy system integration (SI) business centered on NEC Energy Solutions, Inc.

The Telecom Carrier business is facing extremely rapid market changes, which have dramatically reshaped the state of the business up to now. First, in the network infrastructure area, we will strive to improve profitability. In Japan, we will optimize resources in accordance with revenue scale, while internationally we will look at withdrawing from and scaling down low-profit businesses. Meanwhile, the software and services area will be strengthened as a growth area. In Japan, we will accelerate the shifting of skills and partnering in order to adapt to changes in our customers’ investments and expand our provision of services to telecom carriers. We will also grasp diversifying network needs and accelerate our business development for non-telecom carriers. Outside of Japan, we will position software and services as a key area and expand our business, revising our strategy and business structure and setting our strong TOMS*2 business as a core driver.

Achievement of Growth

To achieve growth, NEC will focus on two areas based on its strengths in artificial intelligence (AI), biometrics, security, and network services. The first area is NEC Safer Cities. Here, we will expand the development of platforms that enable people to live abundantly in and outside of Japan, including public safety, digital government, and smart transportation.

Achievement of Growth: NEC Safer Cities

Realizing NEC Safer Cities that utilize biometrics and AI technologies

Regarding the production system, we will standardize production processes and systems for all factories worldwide and reorganize the global value chain to achieve further efficiency gains and downsize back-office personnel.

*1 With an organization change on April 1, 2018, the business for international customers was transferred to the Global Business and Business for customers in Japan was renamed the Network Services business.
*2 TOMS: Telecom Operations and Management Solutions
The final policy of the Mid-term Management Plan 2020, restructuring of execution capabilities, is the most important one in my view. Specifically, we will seek to strengthen business development capabilities and build an organization with the capacity to carry out actions to completion. In strengthening our business development capabilities, we will break away from the closed innovation mindset to promote solutions development via co-creation with our customers and business partners, aiming to create new social value beyond existing frameworks. This approach is aimed at addressing NEC’s existing task of anticipating customer needs and accelerating monetization of competitive technologies.

In our effort to break away from the close innovation mindset, we have already seen results from initiatives such as open research and solution development, incubation through diverse schemes, and software product delivery services. In April 2018, we announced the establishment of dotData, Inc. in the U.S. to develop and sell software that automates data science processes using AI in the field of big data utilization, and analytic work that requires large amounts of time to process manually. With regard to solutions development via co-creation, we will step up our initiatives by expanding our bases for co-creation and trials in Japan and Singapore into other regions. In June 2018, we announced the establishment of NEC X, Inc. in the U.S. to serve as an incubator for accelerating the commercialization of our core technologies. NEC X, Inc. aims to create an ecosystem centered on the advanced technologies of NEC’s talent and research laboratories and to accelerate new business development through open innovation.

In addition, we will strengthen our relations with governments, international institutions, and standardization bodies with a view to creating new social value as we strive to anticipate the future needs of society and our customers.

**Restructuring of Execution Capabilities**

The target operating profit ratio of 5% under the Mid-term Management Plan 2020 is not NEC’s final goal. We consider this 5% margin to be only the starting point that will enable us to compete globally as a social value innovator. This is another reason why we must first complete the reform of profit structure in fiscal 2019, as it is the first step towards getting back on the track to growth.

In order to realize an organization with the capacity to carry out actions to completion, we will introduce structures to allow us to complete execution quickly while enabling employees to maximize their capabilities, thereby enhancing NEC’s execution capability.

Specifically, we will define management’s responsibilities and authority more clearly to strengthen their commitment to results. We will also introduce a new evaluation and compensation system for rewarding those who take action and actively hire and appoint human resources with diverse skills into executive and other positions. These measures will enhance our execution capability while firmly establishing a culture that encourages innovative actions and challenges.

To realize these initiatives, in April 2018 we launched the NEC Group Culture Transformation Division, appointing a professional from outside NEC to execute human resource system and culture reforms.

**Restructuring of Execution Capabilities**

**Organization with the capacity to carry out actions to completion**

- Define the management’s responsibilities and authorities more clearly
- Encourage innovative actions and challenges
- Accelerate diversification of the NEC Group

It is important that this transformation in our corporate culture ultimately creates an environment where NEC Group employees can move into action. I believe communication is important to enable every employee to undertake this transformation willingly, and I will actively share my ideas about the transformation with them. I have therefore instituted dialogue sessions where I can personally share my ideas with NEC Group employees, and I will continue to hold these sessions going forward.

**Starting the Transformation Process to Achieve the Mid-term Management Plan 2020**

The target operating profit ratio of 5% under the Mid-term Management Plan 2020 is not NEC’s final goal. We consider this 5% margin to be only the starting point that will enable us to compete globally as a social value innovator. This is another reason why we must first complete the reform of profit structure in fiscal 2019, as it is the first step towards getting back on the track to growth.

Now is the time when NEC must make dramatic changes if it is to be regarded by society as a sustainable company. We are determined to break from our conventional ways of thinking, discern what is really necessary, and drive a transformation that will restore NEC’s strength.
Approach to the Creation of Value and Initiatives

Priority Management Themes from an ESG Perspective
Support NEC’s Growth, Society’s Development and Maximize Value

Since its foundation, NEC has conducted business with consideration for the environment and society, aiming to achieve sustainable development for society and the NEC Group. In formulating our Mid-term Management Plan 2020, we identified “materiality” comprising of new priority management themes for sustainable management from environmental, social, and governance (ESG) perspectives in order to connect our non-financial initiatives more closely with our business strategies so that they can be translated into growth not only for NEC but for society. NEC identified candidate themes making reference to global megatrends, the sustainable development goals (SDGs), and other items that the company is observing to achieve its goal of “Orchestrating a brighter world.” We then conducted dialogues with external experts in the fields of sustainable management, civil society, and medium- to long-term investment, to determine themes with a strong awareness of connecting them to our mid-term management plan. By working through a PDCA cycle for the mid-term management plan, we will check on the progress of our initiatives as we move forward.

Priority Management Themes from an ESG Perspective—Materiality

We identified nine priority management themes based on issues that have a powerful impact on both NEC and society, arranging them in three layers.

1. Sustainable Growth Enablers
   - We will engage on these themes to minimize risks to NEC and society, and to maximize the social value that NEC generates.

2. Engines of Change
   - We will engage in these themes as engines for maximizing economic value and social value as well as minimizing risks to NEC and society.

3. 2020 Growth Focus to Create Social Value
   - The growth areas of the Mid-term Management Plan 2020 are defined as the themes that management should place priority on from ESG perspectives.

Materiality Identification Process

1. Tentatively define materiality and carry out dialogues with experts
2. Incorporate ESG perspectives into the Mid-term Management Plan 2020
3. Set up non-financial indicators
4. Hold dialogues with experts on our materiality and indicators
5. Report materiality and indicators to the Board of Directors and define materiality
6. Confirm progress through the PDCA cycle of the Mid-term Management Plan

For further information, please refer to Sustainability Report 2018 “Priority Management Themes from an ESG Perspective—Materiality.”
Vision for the Company and the Non-Financial Indicators

For each of the following nine themes, NEC has established a vision for the Company and non-financial indicators for measuring progress.

### Sustainable Growth Enablers

- **Goveriance and compliance**
  - NEC trusted by society
  - Ensuring compliance
  - Respondent on human rights issues and maintain and improve quality
  - Indicator: Number of cases of involvement with serious cartels
  - Target: zero

- **Environmental action with a particular focus on climate change**
  - Contribute to worldwide resolution in greenhouse gas emissions together with the efforts our customers and society are making to address climate change
  - Indicator: Rate of contribution to CO2 emission reductions across the whole supply chain
  - Target: 5% above

- **Sustainably and socially literate human resource**
  - Deliver products and services that will be accepted by society, including our customers
    - Developing personnel who are capable of sensing the needs of society and discovering potential issues, and of working swiftly to solve issues
    - Foster an organizational culture that can take on a diverse range of values and continually create social value
  - Indicator: Rate of employees who have a strong sense that NEC is changing to create social value by adopting a diverse range of values
  - Target for fiscal 2021: 5 times

### Engines of Change

- **Privacy policies and measures aligned with societal expectations**
  - Developing and provide products and services that are responsive to differences in privacy needs between different countries and regions due to cultural perspectives and as sensitive to human rights issues, such as the challenge of discrimination that could potentially be heightened through the usage of AI
  - Indicator: Share of customers that are satisfied with our privacy policies and measures
  - Target for fiscal 2019: 75%

- **Security to maximize ICT possibilities**
  - Provide an environment that allows customers and society to securely use ICT resources
    - Establish and develop security measures to protect against various types of risks
    - Indicator and target:
      - 1. Enhance cyber security measures while also enhancing information security practices as a reference
      - 2. Enhance security measures to protect against sensitive data
  - Target for fiscal 2021: 95%

### 2020 Growth Focus to Create Social Value

- **NEC Safer Cities**
  - As populations rapidly concentrate in urban areas, new value is created through urban growth and the decentralization of life and culture, at the same time, concern over crime and security is increasing. NEC will contribute to realizing safe, secure, efficient and fair cities where people can live in abundance and a brighter world for the future.
  - Indicator: Number of cities where NEC has provided products and services
  - Target: 200

- **NEC Value Chain Innovation**
  - The world faces various kinds of social issues, such as food waste, labor shortages, changes in consumption patterns, and diverse threats. NEC will develop cutting-edge technologies and provide new ideas to customers in order to connect people, goods, and services, making our society a part of the globalization and a brighter world for the future.
  - Indicator: Number of business cases
  - Target: 100

### NEC Initiatives for Contributing to the Achievement of the SDGs

Since information and communications technology (ICT) has the potential for responding to a variety of issues, we believe that we can contribute in various ways to all the goals outlined in the SDGs by engaging in dialogues and co-creation with customers and stakeholders.

For example, looking only at the targets among the areas defined as growth fields in the Mid-term Management Plan 2020, “NEC Safer Cities” and “NEC Value Chain Innovation,” there are various SDGs initiatives to which NEC wishes to contribute on its own, namely No. 3, No. 7, No. 8, No. 9, No. 11, No. 12, No. 16, and No. 17. There are a large number of targets that could potentially be set out as goals.

Meanwhile, it has been pointed out by some external experts that narrowing down the range of SDGs to pursue brings the risk of narrowing the scope of our business expansion and the possible range of social value that could be delivered by our products and services as well.

To demonstrate NEC’s approach of contributing to the SDGs on a wider basis, we have categorized the targets of maturation into the two following areas: “Targets to which NEC wishes to contribute on its own initiative and/or positively,” and “Targets to which NEC is able to contribute or wishes to contribute in the future,” for each of the SDGs.

### Fields that NEC Contributes to SDGs

<table>
<thead>
<tr>
<th>Targets to which NEC wishes to contribute on its own initiative and/or positively</th>
<th>Targets to which NEC is able to contribute or wishes to contribute in the future</th>
</tr>
</thead>
<tbody>
<tr>
<td>7: Affordable and clean energy</td>
<td>7: Affordable and clean energy</td>
</tr>
<tr>
<td>8: Decent work and economic growth</td>
<td>8: Decent work and economic growth</td>
</tr>
<tr>
<td>9: Industry, innovation, and infrastructure</td>
<td>9: Industry, innovation, and infrastructure</td>
</tr>
<tr>
<td>11: Sustainable cities and communities</td>
<td>11: Sustainable cities and communities</td>
</tr>
<tr>
<td>12: Responsible consumption and production</td>
<td>12: Responsible consumption and production</td>
</tr>
<tr>
<td>13: Climate action</td>
<td>13: Climate action</td>
</tr>
<tr>
<td>14: Life below water</td>
<td>14: Life below water</td>
</tr>
<tr>
<td>15: Life on land</td>
<td>15: Life on land</td>
</tr>
<tr>
<td>16: Peace and justice, strong institutions</td>
<td>16: Peace and justice, strong institutions</td>
</tr>
<tr>
<td>17: Partnerships for the goals</td>
<td>17: Partnerships for the goals</td>
</tr>
</tbody>
</table>

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**Source:** NEC Corporation: Integrated Report 2018

**NOTE:** The list above is not exhaustive; there are likely other SDGs that NEC could contribute to.
The meaning of value is constantly changing for our customers and society. To provide products and services that deliver real value, NEC must incorporate processes for dialogue and co-creation with stakeholders into its corporate activities. Through dialogue with our stakeholders, we will develop insights into the issues our customers and society face and their opinions regarding NEC’s activities, while developing partners with whom to engage in co-creation. By connecting these activities to value, we aim to realize NEC’s goal of “Orchestrating a brighter world.”

**Orchestrating a brighter world**

Social values achieved by co-creating with customers

Value creation by leveraging ICT

**Participating Actively in International Community Networks and Aiming to Solve Social Issues**

NEC introduced its safety solutions, including facial recognition demonstration, at the World Economic Forum Annual Meeting in Davos, Switzerland in January 2018, as well as at various meetings, individual interviews, and receptions. We conducted lively exchanges of opinions with key members of various national governments, executives of international institutions, and CEOs of global corporations on themes such as contributing to the achievement of the SDGs and public safety.

NEC will leverage the global connections it has created at Davos in order to deepen its ongoing dialogue with various stakeholders going forward.

**Amplifying Social Value through Open Innovation**

In April 2018, NEC announced the establishment of dotData, Inc., a new venture company in Silicon Valley for developing and selling software that automates data science processes using artificial intelligence (AI). dotData, Inc. will accelerate and democratize data science using Big Data in enterprise organizations.

The new company was founded by a leader in the development of cutting-edge core technologies as a strategic carve-out scheme by NEC to create globally competitive products. The startup will reinforce business development while acquiring external capital.

**Practicing Responsible Procurement with Suppliers**

NEC has formulated the NEC Group Procurement Policy based on the international ISO 26000 social responsibility guidance standard and ISO 20400 sustainable procurement guidance standard. It works together with its suppliers to conduct procurement with an awareness of six key supply-chain risk factors (human rights, labor and occupational safety, fair trade, the environment, information security, and product quality and security).

For example, information security is one of NEC’s priority management themes from an ESG perspective and we have taken steps to thoroughly strengthen management in this regard, including at our suppliers. In fiscal 2018, we held seminars for suppliers’ management to explain our measures at 13 locations in Japan, with around 1,500 companies participating. In addition, we conducted documentation inspections to confirm the status of suppliers’ initiatives among other efforts aimed at working with suppliers to strengthen information security.

**Pro Bono Initiatives to Contribute to Regional Revitalization**

NEC promotes pro bono activities in which employees use their professional skills to help solve social issues as part of the NEC Group’s social contribution initiative, the “NEC Make-a-Difference Drive.”

In fiscal 2018, we assisted local, Inc., (Sankoku Sekken Koubo KURIN), a local soap manufacturer and seller in Onagawa town, Miyagi Prefecture by analyzing its operational processes and then introducing a new operation system. NEC also has been engaged in Ishikawa reconstruction support activities through the NEC “TOMONI” Project since 2011. The project supports employees in volunteer activities in the areas affected by the Great East Japan Earthquake. In 2015, NEC concluded a reconstruction cooperation agreement with the town of Minamisanriku and is conducting various support activities such as a monthly “Fukkou Ichi” market to assist the recovery.

**Dialogue with Shareholders and Investors Is Conducive to Corporate Value Enhancement**

NEC actively engages in investor relations (IR) activities, including meetings with shareholders in Japan and internationally, quarterly financial result briefings and business briefings conducted mainly by its CEO, CFO and Investor Relations (IR) 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 2018, NEC drove to increase opportunities for dialogue in conjunction with the announcement of the Mid-term Management Plan 2020 and continued to hold ESG meetings with institutional investors specializing in the environmental field.

**Social values achieved by co-creating with customers**

Value creation by leveraging ICT

Awareness of social issues

Collaboration for value creation

**NEC Corporation Integrated Report 2018**
Innovation Management

Over the years since NEC was founded, we have cultivated our technologies based on NEC’s motto of “Better Products, Better Services.” In a society that is constantly changing, the technologies in demand keep changing as well; by implementing appropriate innovation management in response to the changes of the times, we can continue to provide the technologies that society demands as products and services and contribute to social value creation. NEC continuously allocates approximately 4% of its revenue to R&D, concentrating its investment in No.1/Only 1 core technologies that are needed for social value creation. NEC will engage proactively in open innovation globally to accelerate the monetization of competitive technologies.

R&D Strategy

At NEC, the Chief Technology Officer (CTO) is responsible for overall technology development, optimizing development investment company wide, and drawing up an open innovation strategy. R&D is a source of technological development. NEC’s basic approach to R&D is to deliver value to society as quickly as possible by identifying the best solutions we should create for the social issues presented in the SDGs and other guidelines, then efficiently and rapidly aligning the necessary technology assets to realize them. These technology assets include NEC’s No.1/Only 1 core technologies that have been refined to a high level based on technology trends, as well as technologies produced through open innovation.

“Bio-IDiom” and “NEC the WISE” Support Growth Areas in the Mid-term Management Plan 2020

“Bio-IDiom” is our comprehensive brand for biometric authentication products, launched in April 2018. It covers six biometric authentication technologies for face, iris, fingerprint and palmprint, finger vein, voice, and ear acoustic. One of NEC’s strengths is in multimodal authentication, which combines multiple biometric authentication technologies to achieve higher accuracy. By combining these technologies with the “crowd behavior analysis” of the “NEC the WISE” AI technology group, and others, we can create completely new value. NEC will continue to invest intensively in world-leading biometric authentication and AI technologies.

Major Research Achievements

<table>
<thead>
<tr>
<th>Core Technology</th>
<th>Achievement</th>
<th>Client/Fields to develop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invariant Analysis</td>
<td>Provided invariant analysis technology for use in satellite and aerospace industries</td>
<td>Lockheed Martin Corporation</td>
</tr>
<tr>
<td>Autonomous Learning System-based Anomaly Detection</td>
<td>Launched a security anomaly detection service capable of unknown cyber-attack response</td>
<td>System operations, etc.</td>
</tr>
<tr>
<td>Face Recognition</td>
<td>Provided face recognition system for improving services for VIP customers</td>
<td>OCBC Bank, Singapore</td>
</tr>
<tr>
<td>Face Recognition</td>
<td>Launched access control solution based on using walk-through face recognition</td>
<td>Commercial facilities, event management, etc.</td>
</tr>
<tr>
<td>Face Recognition</td>
<td>Forged business collaboration with Japan Weather Association to optimize supply and demand across entire value chain</td>
<td>Food manufacture, food wholesaling, logistics, retail, etc.</td>
</tr>
<tr>
<td>Heterogeneous Mixture Learning</td>
<td>Established dotData, Inc. in the U.S. to automate data analysis processes</td>
<td>Data analytics, etc.</td>
</tr>
<tr>
<td>Predictive Analysis Automation</td>
<td>Commercialized product that performs diverse log analysis, anomaly detection, and causal analysis</td>
<td>Data analytics, etc.</td>
</tr>
<tr>
<td>Log Pattern Analysis</td>
<td>Accelerated the execution of statistical AI learning process by more than 50 times compared to conventional technology using data processing for vector computers</td>
<td>Data analytics, etc.</td>
</tr>
<tr>
<td>Machine Learning Data Processing for Vector Computer</td>
<td>Established the world’s fastest blockchain technology, capable of over 100,000 transactions per second</td>
<td>Financial and various other transactions and information sharing</td>
</tr>
<tr>
<td>High-speed Blockchain</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Intellectual Property Strategy

At NEC, because intellectual property is regarded as an essential business resource supporting the group’s competitiveness and stability, as well as for contributing to co-creation with our customers, we strive to strengthen and protect not only our patents and know-how but also the designs and trademarks that support our global brand. To create and develop social value, we are not only building IP-based barriers to entry and securing competitive advantage, but also building and using our IP portfolio to strengthen and protect collaborations with customers and partners. NEC owns some 51,000 patents worldwide (including approximately 22,000 Japanese patents) as of March 2018.
Message from the CFO

Performance in Fiscal 2018

The NEC Group recorded consolidated revenue of ¥2,844.4 billion for fiscal 2018, an increase of ¥179.4 billion (6.7%) year on year. This increase was mainly due to increased sales in the Public business. Operating profit improved by ¥22.0 billion year on year to ¥63.9 billion, mainly due to the increase in consolidated revenue. Net profit attributable to owners of the parent was ¥45.9 billion, an increase of ¥18.6 billion year on year. As a result, return on equity (ROE) was 5.3%, improving by 1.9 percentage points from the previous fiscal year. Although net profit attributable to owners of the parent was higher than planned, in consideration of capital requirements for achieving the Mid-term Management Plan 2020, NEC declared an annual dividend of ¥60 per share of common stock as announced at the beginning of the fiscal year.

Plan for Fiscal 2019

We regard fiscal 2019 as the first step on our envisaged growth trajectory for fiscal 2021 and beyond. We will execute structural reforms and consolidate our base for realizing transformation. We are planning to achieve consolidated revenue of ¥2,830.0 billion, approximately level year on year, as expected declines in the System Platform Business and Network Services Business are offset by an increase in the Global Business. We anticipate consolidated operating profit of ¥50.0 billion after factoring in restructuring costs of ¥40.0 billion, growth investments, and others. Our planned net profit attributable to owners of the parent is ¥25.0 billion. For annual dividends, we regret to announce a decrease in the dividend to ¥40 per share of common stock due to a projected year-on-year decline in net profit.

Strengthening Earning Capability to Realize the Mid-term Management Plan 2020

Over the past few years, NEC has been actively working to strengthen its financial structure, such as its cash conversion cycle. As a result of these efforts, we have succeeded in building a more stable financial base, as shown by marked improvements in indicators such as our free cash flow and net D/E ratio. We will maintain this financial base while allocating our current cash flow to strengthening our earning capability in preparation for realizing the Mid-term Management Plan 2020 and growth beyond that. Specifically, we will improve our profit structure even further by executing structural reforms. In addition, we will execute growth investments such as M&As aimed at developing new businesses and increasing operating cash flow.

With regard to M&As, we will maintain the investment budget of ¥200.0 billion set under Mid-term Management Plan 2018. NEC acquired Northgate Public Services Limited in January 2018, and we will continue to examine further M&As to follow this. We will endeavor to execute deals that will increase our earnings, as well as enabling us to leverage NEC’s existing strengths, in areas such as biometrics and AI. For investments in excess of our total ¥200.0 billion budget, we intend to give careful consideration to our financial structure based on our cash flow status before executing them.

As CFO, I will work to further strengthen our earning capability and increase our corporate value over the long term.
### Performance Highlights
NEC Corporation and Consolidated Subsidiaries
For the fiscal years ended or year-end as of March 31

#### Key Management Measures

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Operating profit</th>
<th>Net profit (loss) attributable to owners of the parent</th>
<th>Per share data (in yen):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions of yen</td>
<td>Millions of yen</td>
<td>Millions of yen</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Revenue</td>
<td>¥3,583,148</td>
<td>¥3,115,424</td>
<td>¥3,036,836</td>
</tr>
<tr>
<td>International revenue</td>
<td>712,886</td>
<td>479,349</td>
<td>481,492</td>
</tr>
<tr>
<td>International revenue ratio (%)</td>
<td>19.9</td>
<td>15.4</td>
<td>15.9</td>
</tr>
<tr>
<td>Operating profit</td>
<td>50,905</td>
<td>57,820</td>
<td>73,742</td>
</tr>
<tr>
<td>Net profit (loss) attributable to owners of the parent</td>
<td>11,428</td>
<td>(12,518)</td>
<td>(10,267)</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>134,816</td>
<td>33,660</td>
<td>(146,244)</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(41,241)</td>
<td>(41,244)</td>
<td>(49,706)</td>
</tr>
<tr>
<td>Free cash flows</td>
<td>93,575</td>
<td>176,514</td>
<td>161,968</td>
</tr>
<tr>
<td>R&amp;D expenses</td>
<td>275,970</td>
<td>176,514</td>
<td>161,968</td>
</tr>
<tr>
<td>Capital expenditures (property, plant and equipment)</td>
<td>83,098</td>
<td>52,850</td>
<td>41,980</td>
</tr>
<tr>
<td>Per share data (in yen):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit (loss) attributable to owners of the parent per share</td>
<td>5.04</td>
<td>(4.82)</td>
<td>11.71</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>4.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total assets</td>
<td>2,937,644</td>
<td>2,628,931</td>
<td>2,557,570</td>
</tr>
<tr>
<td>Owner’s equity</td>
<td>790,904</td>
<td>757,054</td>
<td>656,956</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>16.0</td>
<td>15.4</td>
<td>15.9</td>
</tr>
<tr>
<td>Owner’s equity ratio (%)</td>
<td>26.9</td>
<td>25.7</td>
<td>27.5</td>
</tr>
<tr>
<td>Debt-equity ratio (times)</td>
<td>0.63</td>
<td>0.61</td>
<td>0.55</td>
</tr>
<tr>
<td>Number of consolidated subsidiaries</td>
<td>310</td>
<td>283</td>
<td>265</td>
</tr>
<tr>
<td>Number of employees</td>
<td>142,358</td>
<td>115,840</td>
<td>109,102</td>
</tr>
<tr>
<td>CO₂ emissions reduction by providing IT solutions (thousand tons)</td>
<td>1,900</td>
<td>2,120</td>
<td>2,310</td>
</tr>
<tr>
<td>Improvement in energy efficiency of products (%)</td>
<td>44</td>
<td>53</td>
<td>66</td>
</tr>
</tbody>
</table>

#### 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 total borrowing (debt) by owner’s equity.
4. Improvement in energy efficiency of products is based on a comparison of products currently in use with those in use prior to the fiscal year ended March 31, 2016.

#### Performance Highlights

- **Fiscal year ended March 31, 2011**
  - Made NEC Electronics Corporation, a semiconductor business currently Renesas Electronics Corporation, into an equity-method affiliate
  - Made the consumer PC business into an equity-method affiliate

- **Fiscal year ended March 31, 2012**
  - 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, 2013**
  - Divested all of NEC’s stakes in NEC-Mobiling, Ltd., currently NECS Mobility 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
  - Established NEC Management Partner, Ltd. in a reorganization of NEC’s back office operation subsidiaries
  - Completed acquisition of an energy storage system business for electric power companies and established NEC Energy Solutions, Inc. in the U.S.

- **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**
  - Consolidated Japan Aviation Electronics Industry, Limited

- **Fiscal year ended March 31, 2018**
  - Acquired U.K. company Northgate Public Services Limited

- **Fiscal year ended March 31, 2019**
  - Established debica, Inc. in the U.S.
  - Acquired NEC India in the U.S.
### At a Glance

NEC Corporation and Consolidated Subsidiaries

Revenue, operating profit (loss), and composition of revenue and financial results for the fiscal year ended March 31, 2018 (IFRS).

#### Revenue

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenue (billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Business</td>
<td>933.1</td>
</tr>
<tr>
<td>Enterprise Business</td>
<td>408.7</td>
</tr>
<tr>
<td>Network Services Business</td>
<td>377.6</td>
</tr>
<tr>
<td>System Platform Business</td>
<td>531.7</td>
</tr>
<tr>
<td>Global Business</td>
<td>453.7</td>
</tr>
</tbody>
</table>

#### Composition of Revenue

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Business</td>
<td>33%</td>
</tr>
<tr>
<td>Enterprise Business</td>
<td>14%</td>
</tr>
<tr>
<td>Network Services Business</td>
<td>13%</td>
</tr>
<tr>
<td>System Platform Business</td>
<td>19%</td>
</tr>
<tr>
<td>Global Business</td>
<td>16%</td>
</tr>
<tr>
<td>Others</td>
<td>5%</td>
</tr>
</tbody>
</table>

#### Operating Profit

<table>
<thead>
<tr>
<th>Category</th>
<th>Operating Profit (billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Business</td>
<td>35.7</td>
</tr>
<tr>
<td>Enterprise Business</td>
<td>17.3</td>
</tr>
<tr>
<td>Network Services Business</td>
<td>17.3</td>
</tr>
<tr>
<td>System Platform Business</td>
<td>30.0</td>
</tr>
<tr>
<td>Global Business</td>
<td>30.0</td>
</tr>
</tbody>
</table>

#### Net Profit Attributable to Owners of the Parent

<table>
<thead>
<tr>
<th>Category</th>
<th>Net Profit Attributable to Owners of the Parent (billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Business</td>
<td>63.9</td>
</tr>
<tr>
<td>Enterprise Business</td>
<td>45.9</td>
</tr>
<tr>
<td>Network Services Business</td>
<td>45.9</td>
</tr>
<tr>
<td>System Platform Business</td>
<td>45.9</td>
</tr>
<tr>
<td>Global Business</td>
<td>45.9</td>
</tr>
</tbody>
</table>

#### Free Cash Flows

<table>
<thead>
<tr>
<th>Category</th>
<th>Free Cash Flows (billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Business</td>
<td>115.8</td>
</tr>
<tr>
<td>Enterprise Business</td>
<td>45.9</td>
</tr>
<tr>
<td>Network Services Business</td>
<td>30.0</td>
</tr>
<tr>
<td>System Platform Business</td>
<td>-28.0</td>
</tr>
<tr>
<td>Global Business</td>
<td>-28.0</td>
</tr>
</tbody>
</table>

(Note) Figures for revenue, operating profit (loss), and composition of revenue for the fiscal year ended March 31, 2018 are restated to conform with the new segments, which have not been audited by the accounting auditors.
Public Business

In the Public Business, we provide safe, secure and efficient social solutions for 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.

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. In this area NEC 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.

Review of Operations

Public Business

Revenue was ¥933.1 billion, an increase of ¥172.7 billion (22.7%) year on year, mainly due to Japan Aviation Electronics Industry, Limited becoming a consolidated subsidiary, despite decreased sales from firefighting and disaster prevention systems.

Operating profit improved by ¥23.0 billion year on year to ¥53.2 billion, mainly due to increased revenue.

Public Business — SWOT Analysis

STRENGTHS

- Strong track record gaining high credibility, advanced technologies in the process, and high market share in Japan in delivering products and systems that support social infrastructure – such as systems for governmental organizations, broadcasters, power companies, as well as in cyber-security –

- Ability to propose concepts for customers’ future based on “domain knowledge,” specifically operational expertise and deep understanding of database construction acquired through many years of working with customers.

- Provision of vertically integrated solutions with the “NEC the WISE” lineup of AI technologies, “Bio-IDiom” biometrics, IT and networks including security, and full-layer ICT including sensing technology.

WEAKNESSES

- While there is a high proportion of large-scale projects in Japan, there are fewer projects which provide 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 can have an impact on business results.

OPPORTUNITIES

- The Japanese government’s “Digital Government action plan” will drive the creation of a common platform for government, and wider use of the My Number System is being examined.

- Expectations for safe, secure, efficient administration of the Olympic and Paralympic Games Tokyo 2020 and further investment to respond to increasing number of tourists visiting Japan.

- Cyber-attacks pose a growing threat around the world, gaining 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 domains, such as health care and education.

THREATS

- Competition for orders is intensifying, increasing the number of projects with difficult requirements in cost and delivery.

- We need a new business structure that can cope with changes in the market environment, such as a shift in the industry itself with the trend towards broadcasting via IP and transformation of the viewer rating and advertising model.
Public Solutions Business

Japan is facing social issues arising from declining birthrates and aging population, increasing social security costs, a declining work force, and reduced spending and economic power. NEC's job is to grasp these issues and address them firmly and create sustainable social value. Using our accumulated experience, the latest AI and biometrics technologies, and co-creation, we will tackle these issues as a leader in providing value across industry boundaries.

Expanding the Business Domain to Solve Social Issues

Initiatives in the Medium- to Long-Term

In the environment surrounding the Public Solutions Business, the market in Japan continues to be brisk, with business model changes driven, in particular, by AI and IoT developing on a scale that far exceeds the traditional scope of ICT vendors. Meanwhile, the traditional ICT market is contracting, and we need to expand its opportunities in business domains for solving social issues.

In this environment, the Japanese government’s “Digital Government action plan” is promoting a review of government which itself is predicated on digital technology and with a focus on increasing convenience for citizens and business operators. In the government sector and various areas where the government interacts with the private sector, NEC will help to realize “Digital Government action plan” by working to create highly convenient services from a user perspective by leveraging the My Number System and biometrics.

In the area of health care, NEC will contribute to dealing with labor shortages and managing social security costs, for example by developing an endoscopy diagnostic support system that uses AI driven image analysis technology and an electronic medical record system intended for use with medical data. In this way, we will help to realize a healthy, long-lived society where individually tailored, high-quality healthcare and medical services can be provided to people easily.

In the lead up to the Olympic and Paralympic Games Tokyo 2020, we will ensure safety and security by providing public safety-related solutions such as biometrics and behavior detection and analysis, as well as providing wireless networks for administration use and urban operation centers.

We will focus our efforts on these areas of digital government, healthcare, and public safety, as we build infrastructure to support abundant living for people.

Examples of Initiatives

| Healthcare: Real time endoscopy diagnosis support system using AI |
|------------------------|--------------------------|
| National Cancer Center Japan and NEC announced the development of a real-time endoscopy diagnosis support system using AI driven image analysis technology and an electronic medical record system intended for use with medical data. In this way, we will help to realize a healthy, long-lived society where individually tailored, high-quality healthcare and medical services can be provided to people easily. |

| Digital Government: Contributing to wider use of My Number Cards among Local Governments |
|------------------------|--------------------------|
| NEC’s system was adopted for the pioneering use of My Number cards as employee identification cards by the Fukushima prefectural government. The system manages room access based on My Number cards to provide secure staff access management within designated areas of government buildings. Meanwhile, in Chiba City, NEC has built a library system that allows patrons to borrow books by simply swiping their My Number card at the library counter. Through initiatives such as these, NEC will contribute to wider use of My Number cards. |

Public Infrastructure Business

In this area, NEC supports stable operation of key national infrastructure. The experience and trust we have cultivated over the years ensure stable profits in excess of company-wide targets. These profits are continuously invested in advanced technologies including biometric technologies, such as facial recognition, and space-related technologies, such as “Hayabusa 2.”

Creation of Stable Earnings and Investment in Advanced Technologies to Prepare for the Future

Initiatives in the Medium- to Long-Term

We have a duty to support the stable running of mission critical operations in the field of security using ICT for customers including governments, governmental agencies, broadcasters and power companies. By supporting key national infrastructure over the long term, we will ensure stable profitability. Under the Mid-term Management Plan 2020, we will generate stable operating profits in excess of company-wide targets as an earnings base for the whole company.

To further capture earnings, we will undertake a transformation towards a profitable structure by increasing cost efficiency, including cost reductions. In the space business solutions which faced profitability issues, we achieved a profit in fiscal 2018 by implementing cost structure reforms and business portfolio selection and concentration.

Through these improvements to our earnings, we will secure funds for investments that we will be focused on advanced technologies—the supporting core of our business. Specifically, investment targets include biometrics technology, such as fingerprint, facial, and iris recognition that offer world-leading accuracy, satellite-related technologies for carrying out missions in uncharted places in the harsh environment of space, such as “Hayabusa 2,” and cyber security technologies including the security field. Continuous investments will enable us to strengthen our competitive advantages in the future and our ability to create value.

To support business expansion over the medium to long term, we will leverage our advanced technologies to provide solutions for the Olympic and Paralympic Games Tokyo 2020. These will include cyber security, security ICT such as image analysis and accident prediction solutions, rigorous and efficient border control using biometrics, and 4K and 8K broadcasting systems.

Examples of Initiatives

| NEC Iris Recognition Technology Ranked First in Accuracy Evaluation by U.S. National Institute of Standards and Technology |
|------------------------|--------------------------|
| In April 2018, NEC’s iris recognition technology achieved the highest matching accuracy evaluation in an survey test performed by the U.S. National Institute of Standards and Technology (NIST), a world-leading authority. Furthermore, in past testing performed by NIST, NEC’s local recognition was ranked first for four consecutive times, and its fingerprint recognition has ranked first eight times in total. |

| Contributing to 4K and BKBroadcasts in Japan and Internationally |
|------------------------|--------------------------|
| NEC is contributing to the construction of television master control equipment *1 for a 4K trial broadcast scheduled to commence in December 2018. Major broadcasters in countries around the world are conducting trial testing of 4K and BK broadcasts. NEC has been the technical partner for trial testing of an BK terrestrial broadcast by Brazilian broadcaster TV Globo, and NEC’s codecs*2 have been used in 4K broadcast trials by BBC of the U.K. and TV Station of South Korea. |

*1 Television master control equipment: A system for sampling broadcast data, including programs and commercials, and outputting image data according to a program. |
*2 Codec: Image compression and decompression equipment.
Enterprise Business

Our society faces various kinds of social issues, such as food waste, labor shortages, changes in the consumption environment, and diversifying threats in both real society and cyber space. NEC will develop cutting-edge technologies and promote co-creation with customers in order to connect people, goods, and processes, reaching across the boundaries between enterprises and industries to draw out the potential of society and create new value across the entire value chain. To realize this goal, we will work rapidly to transform our business into a recurring income stream model.

Executive Vice President
Hiroshi Kodama

Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019 (Forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Billion ¥)</td>
<td>408.6</td>
<td>408.7</td>
<td>410.0</td>
</tr>
</tbody>
</table>

Operating Profit, Operating Profit Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019 (Forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Billion ¥)</td>
<td>39.7</td>
<td>35.7</td>
<td>32.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019 (Forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>9.7%</td>
<td>8.7%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Shift to a Recurring Income Stream Model through Co-creation

Initiatives in the Medium- to Long-Term

The period through to fiscal 2021 has been positioned as a period of solidifying a base for future growth in the Enterprise Business. Throughout this period, NEC will offer solutions for solving social issues as services through partnering with customers, thereby transforming its business model into a recurring income stream model. Towards this goal, we have been working to establish common business platforms, refine the value of existing businesses where we have strengths, develop human resources, and prepare and strengthen co-creation programs with customers and partners.

Initiatives in Fiscal 2018 to Realize our Goals

<table>
<thead>
<tr>
<th>Social Issues</th>
<th>Accomplishments in Fiscal 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimization of Supply and Demand</td>
<td>NEC announced the “Demand and Supply Optimization Platform.” Through this solution, NEC will contribute to the optimization of demand and supply and reduction of food loss and waste by improving accuracy in forecasting through the use of white box AI for sharing and utilizing inventory and sales data among all companies comprising the value chain. In this project, NEC collaborates with the Japan Weather Association (JWA), combining the weather data and data analysis technologies of JWN with NEC’s technology to create social value together.</td>
</tr>
<tr>
<td>Preventing Diversifying Cyber Space Threats and Digital Fraud</td>
<td>NEC has provided Japan Exchange Regulation with deep learning technology for market surveillance operations, which is used in the initial investigation of suspicious transactions. NEC is conducting test demonstrations with several securities companies aiming to prevent digital fraud, and will help to realize efficient, sophisticated market surveillance operations.</td>
</tr>
<tr>
<td>Realizing a Safe, Comfortable Society</td>
<td>Sumitomo Electric Industries, Ltd. and NEC have begun collaborating by using Sumitomo Electric’s rich range of in-vehicle products and technologies as well as expertise in SC/SM infrastructure together with NEC’s cutting-edge technologies in security, AI, IoT, and cloud services. The two companies will take full advantage of their strengths to develop products with advanced security and to respond to mobility business.</td>
</tr>
<tr>
<td>Realizing a Highly Efficient Society through ICT</td>
<td>NEC has conducted test demonstrations with several securities companies aiming to prevent digital fraud, and will help to realize efficient, sophisticated market surveillance operations.</td>
</tr>
</tbody>
</table>
Network Services Business

As a partner supporting digital transformation of all industries, we will create new social value by working with various customers to co-create business. NEC’s total capability in networks and IT will enable us to expand the value we provide from network infrastructure to services, as we contribute to realizing a society where people, things, and contexts are richly connected.

Executive Vice President
Atsuo Kawamura

Revenue
(Billion ¥)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019 (Forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>394.5</td>
<td>377.6</td>
<td>360.0</td>
</tr>
</tbody>
</table>

Operating Profit, Operating Profit Ratio
(Billion ¥)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019 (Forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>34.6</td>
<td>17.3</td>
<td>11.0</td>
</tr>
<tr>
<td></td>
<td>8.8%</td>
<td>4.5%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Network Services Business – SWOT Analysis

STRENGTHS

- Among the best in Japan in terms of track record and accumulated expertise for delivering networks and IT systems for telecom carriers.
- Core technologies in the network area such as 5G, mobile, optical IP and IT, and network system integration capabilities utilizing these technologies.

WEAKNESSES

- Easily impacted by market trends in capital investment.
- Delay in expanding from business centered on network infrastructure equipment to software/application service area.

OPPORTUNITIES

- As traffic expands with sophistication of services, telecom carriers have increasing needs to improve the sophistication and efficiency of their infrastructure.
- Expected expansion of business opportunities due to connection of people, things, and contexts with the digital transformation at companies, including operation reforms.

THREATS

- Capital investment by Japanese telecom carriers is in a low season awaiting full-scale investment in 5G.
- Possibility that overseas vendors will further increase their share of the domestic market in the commodities area.

Providing Network Services That Can Support Digital Transformation

Initiatives in the Medium- to Long-Term

Recently, a host of industries have been promoting the use of new technologies such as AI and the IoT to resolve increasingly serious social issues such as environmental problems and labor shortages. The digital transformation is accelerating in the form of new business creation through the use of technology and work style reform through management.

NEC has been contributing to the evolution of telecommunications infrastructure by providing telecom carriers with network control platform systems and services for operations management, along with equipment for network implementation.

Now, in the age of IoT, where everything is connected wirelessly, NEC is leveraging its strengths, including in sophisticated wireless technologies developed in the telecom carrier market, to realize flexible, efficient networks that can support digital transformation and networks that can comfortably handle huge data volumes from 5G high-speed, large capacity, ultra-low latency, multiple device connections. We are also working to automate and simplify service operations, provide solutions for efficiently operating networks, and to provide service platforms that will enable and optimize networks and IT environments for flexibly handling various 5G era services. By utilizing these, NEC will co-create sophisticated services with telecom carriers and partners from various industries by combining intelligent networks and advanced IT.

Recently, NEC and a major Japanese telecom carrier agreed on the provision of 5G base station equipment aiming for the commercialization of 5G services. NEC is also working in the following domains on co-creation products with partners from various industries in preparation for the 5G era.

Security: By combining AI for abnormality detection through image analysis with 5G’s characteristic ultra-high speed, large capacity, low latency communications, NEC is taking steps to create a safe, secure society through trials for realizing security services for preventing crimes and accidents.

Construction: NEC is working to solve issues at construction sites, such as a shortage of engineers and workers, by conducting trials of advanced construction technologies such as unmanned construction machinery and real-time remote construction using 5G.

Healthcare: Local government and telecom carrier with NEC conducted field trials of remote medical examinations using large-capacity 5G transmission to connect local medical institutions with a medical university, enabling them to communicate in real time and share images taken by a 4K close-up camera, high-definition echocardiographic video and MRI images. The trial is part of efforts to realize a society where everyone has equal access to healthcare.

Through these efforts, NEC will create new value for society by co-creation with telecom carriers and partners from various industries to prepare for the 5G era.

Looking ahead, NEC will provide richly connected value to contribute to the successful digital transformation of society and our customers.
System Platform Business

There is a growing move towards proactively using ICT for operational innovation, such as work style transformation, and operational expansion to capture increasing demand from inbound tourism. NEC is directly experiencing these global trends as it constantly reviews its platforms to strengthen products and services centered around AI, IoT image analysis, and security.

Executive Vice President
Kimihiko Fukuda

Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>(Billion ¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>548.9</td>
</tr>
<tr>
<td>2018</td>
<td>531.7</td>
</tr>
<tr>
<td>2019 (Forecasts)</td>
<td>510.0</td>
</tr>
</tbody>
</table>

Revenue was ¥531.7 billion, a decrease of ¥17.2 billion (3.1%) year on year, mainly due to decreased sales in maintenance services.

Operating Profit, Operating Profit Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>(Billion ¥)</th>
<th>Operating Profit</th>
<th>Operating Profit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>34.6</td>
<td>6.3%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>30.0</td>
<td>5.6%</td>
<td></td>
</tr>
<tr>
<td>2019 (Forecasts)</td>
<td>32.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Operating profit declined by ¥4.6 billion year on year to ¥30.0 billion, mainly owing to a change in the product mix.

System Platform Business — SWOT Analysis

STRENGTHS

- Reliability and high quality cultivated under an intensely competitive domestic market, high share in Japan for IT platform products
- Distinguished group of technologies*, including AI, IoT image analysis and security
- Image recognition technology including face recognition, heterogeneous mixture learning, textual entailment recognition technology, etc.

WEAKNESSES

- Smaller business scale compared with global mega-vendors due to many areas being specialized for the Japanese market, leading to relatively lower profit margins
- A need to expand the proportion of software and services as a large proportion of the business comprise of conventional sales for standalone hardware

OPPORTUNITIES

- With the rapid advance of digitalization, an increase in customers’ use of AI in actual business is expected, and there are rising expectations for new value creation using AI technology
- As customers increasingly utilize data, they will need to respond to security risks such as increasingly sophisticated cyber-attacks and information leakages; increasing demand for advanced security is therefore expected

THREATS

- The advance of commoditization mainly of general products in the hardware domain is driving increased global competition
- In areas such as IoT image analysis and AI, more companies are entering the market, including those from other industries, making it necessary to establish points of differentiation

Providing Platforms to Support Business Innovation through Digitalization

Initiatives in the Medium- to Long-Term

In System Platform Business, there is a need to transform the conventional business model. We aim to do more than simply streamline customers’ business operations by providing highly reliable ICT products; we will work to increase the capabilities of our customers and contribute to solving their issues by providing NEC’s solutions and services as a comprehensive package. The key to realizing this transformation is to leverage NEC’s strengths, such as AI, IoT image analysis, and cyber security, to establish platforms that provide unique value. To achieve this, the System Platform Business will first pursue maximization of profit by increasing efficiency in every aspect of its existing businesses and reforming its cost structure through operational reforms. We will then focus our management resources on areas such as AI, IoT image analysis, and security and concentrate on developing a platform lineup to support digitalization. In this way, we will realize a business portfolio aligned with the needs of today.

Initiatives in Fiscal 2018 for Achieving Our Vision for the Medium to Long Term

In fiscal 2018, we made continuous efforts to improve our costs with a view to improving profits in a harshly competitive business environment. Specifically, we integrated five companies and departments, including NEC Network Products, Ltd., with NEC Platforms, Ltd. in April 2017 to streamline our production and development systems and took steps to implement sharing of materials procurement and resources.

Furthermore, on the business front, as an initiative to build platforms utilizing AI, we started providing a big data analysis platform that enables an integrated approach from data collection to accumulation, processing, and analysis. We also launched sales of the SX-Aurora TSUBASA platform, which can be used in new areas such as AI and big data analytics, resource exploration, image analysis, and security. In addition, we made efforts to maintain our position in existing product areas, achieving the No. 1 share of the domestic PC server market for the 22nd consecutive year*.

In fiscal 2019 and beyond, we expect the System Platform Business to continue facing a harsh business environment, but we will streamline our existing businesses while strengthening and expanding our focus businesses.
Expansion of Safety Business and Profit Structure Reforms of Issues Businesses

Initiatives in the Medium- to Long-Term

Realizing "NEC Safer Cities" based on the safety business is the main growth engine for the Global Business. Amid demand for responses to global issues such as labor shortages, rapid urbanization, geopolitical risk and the risk of spreading terrorism, NEC will continue to provide traditional solutions in public safety involving recognition and urban surveillance, while expanding its business scope to encompass digital government, where it will provide asset management and fee payment platforms to national and local governments, and smart transportation, where it will provide traffic congestion alleviation and public service improvements that will form the core of smart cities. Through these efforts, we will contribute to realizing a safe, secure, efficient and equal society.

Looking ahead, we will increase our presence globally by expanding the digital government sector from regions where we have a track record in the public safety field, such as Singapore, Hong Kong, North America, and Argentina, into the British Commonwealth and the United States using Northgate Public Services Limited, acquired in January 2018, as a base. In addition, we will make aggressive use of M&As and partnerships, aiming to achieve revenue of ¥200 billion by fiscal 2021.

In software service for service providers, investment aimed at increasing the sophistication of customer billing and operation management systems and for establishing new businesses utilizing digitalization and new technologies is accelerating. We will work with NEC's subsidiary Netcracker Technology Corporation, leveraging the high competitiveness and customer satisfaction of its charging and operation management solutions, and its multidisciplinary handling capabilities to provide diverse solutions utilizing our own track record in advanced virtualization in the field of SDN/NFV. In doing so, we will respond to customers who need to rapidly start up services associated with digital transformation and expand investments for operational streamlining and profit increase.

In submarine cable, displays and projectors, and unified communications product business, we aim to maintain and expand our industry presence and business scale, including examining new business models. In mobile backhaul, where we face challenges, we have assumed increasing price competition and market contraction. We are therefore implementing selection and concentration measures, including organizations, processes, and resources, and will carry out structural reforms to restore profitability with a view to securing profits even with a conservative revenue scale. In the same way, within smart energy, we will focus on Europe and North America, where liberalization of power networks is advanced while progressively optimizing our operations to improve profits.

Global Business — SWOT Analysis

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety business: Integrated systems that have world-leading biometric authentication technology with urban surveillance operation expertise and analysis technologies/status recognition, crowd behavior analysis, indication detection, etc., and available not only past event analysis but also the ability to group phenomena in real time.</td>
<td>Need to strengthen the structure to enable expansion of the scope for providing value in the area of safety to customers beyond governments and police in the domains requiring safety, security, efficiency and equality.</td>
<td>Expanding opportunities to realize solutions through ICT, such as skilled labor shortages in advanced countries and emergence of social issues due to rapid urbanization in emerging countries.</td>
<td>Aggressive approach by emerging-market vendors and others in the field of biometric authentication.</td>
</tr>
<tr>
<td>Software services for service providers. In addition to product competitiveness and track record at Netcracker Technology Corporation, product capabilities and advanced solutions provided through links with SDN/NFV.</td>
<td>Need to accelerate shift of business model from equipment sales to a solutions business.</td>
<td>Expansion in demand for safety solutions in countries where there is growing interest in safety and security.</td>
<td>Intensified competition in the field of software services for service providers due to the rise of the network virtualization market.</td>
</tr>
<tr>
<td>Strong presence and adoption results in the markets for network equipment (mobile backhaul), submarine cable, displays and projectors, and unified communications products.</td>
<td></td>
<td>Expansion in demand for software services for service providers following advancement of network services.</td>
<td>Though our mobile backhaul business is in the global market leaders group, price competition is increasing due to market maturity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The smart energy market is expected to expand following the spread of renewable energy use, bringing growth in business opportunities in Europe and North America.</td>
<td></td>
</tr>
</tbody>
</table>

Global Business

To accelerate the growth of global business, NEC business divisions that are primarily tasked with expanding in global markets were newly incorporated into the Global Business Unit, which was launched in April 2018. The dedicated global structure will improve management speed and strengthen links between local subsidiaries to provide real solutions for social issues.

Senior Executive Vice President
Akihiko Kumagai

Revenue
(Billion ¥)

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
<th>2019 (Forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>432.9</td>
<td>453.7</td>
<td>505.9</td>
</tr>
</tbody>
</table>

Revenue increased ¥20.7 billion (4.6%) year on year to ¥453.7 billion due to increased sales in safety.

Operating Profit (Loss), Operating Profit Ratio
(Billion ¥)

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
<th>2019 (Forecasts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit (Loss)</td>
<td>¥11.0 billion year on year to an operating loss of ¥28.0 billion due to increased sales and cost efficiency.</td>
<td></td>
</tr>
</tbody>
</table>

Operating loss improved by ¥11.0 billion year on year to an operating loss of ¥28.0 billion year, mainly owing to increased sales and cost efficiency.

(fiscal year ended on March 31)
### International Business Structure

**NEC Corporation of America**

President & CEO

Ikeno

Masahiro (Mark)

Vice President of the Global Business Unit

Toshiya Matsuki

Executive Vice President

NEC Corporation

**South America**

NEC Latin America has businesses strongly aligned with the needs of Central and South America and is promoting business based on deep ties with the local community. Here in the Latin America/Caribbean area, there is a demand for environments that enable people to live more safely and securely. In order to fulfill these demands, technology such as biometrics plays an extremely important role in cities with efficiency and equality. In the fiscal year ended March 31, 2018, we utilized various biometrics technologies to provide solutions and add value to police and border control systems in Mexico, Costa Rica and Argentina. NEC Latin America will continue to collaborate with its customers and partners to orchestrate a brighter world for the people of Central and South America.

**Central and South America**

Masazumi Takata

Senior Vice President

President & CEO

NEC Latin America

**NEC Corporation of America** has been focused on delivering solutions for society, especially in the areas of safety, security and operational efficiency for the North America market. This has traditionally included information and communications technology (ICT) for service providers, enterprises, and retail, as well as biometrics authentication solutions for government agencies.

In the fiscal year ended March 31, 2018, we accelerated our strategic pivot toward digital transformation and delivering solutions to enhance the customer experience across industries. As a result, while continuing to supply traditional customers among law enforcement and federal agencies, we expanded our biometric solutions footprint in airports, stadiums, theme parks, hotels, casinos, and other spaces. In the coming year, we will focus on customer experience solutions along with the enterprise architecture and core ICT technology that has evolved to support them. In doing so, we will create new business opportunities as we transition from the realm of content processing to context processing.

**North America**

Masahiro (Mark) Ikeno

President & CEO

NEC Corporation of America

**NEC Europe** promotes a sustainable society by providing solutions tailored to regional needs in Europe, the Middle East, Africa and Russia.

During the fiscal year ended March 31, 2018, NEC Europe received orders for biometrics systems from the South Wales Police in the UK and at various airports, as well as for smart city projects from local governments in the U.K. and Portugal. In the Middle East, we won contracts from major telecommunications operators in the UAE and Saudi Arabia, which further expanded our achievements in the network field. To accelerate our business expansion in Africa, we increased our investment in the South African company XON Holdings Proprietary Limited to make it a subsidiary. This has already resulted in the acquisition of a major project.

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

Hironobu Kurosaki

President & CEO

NEC Europe

Looking ahead, we will continue to contribute to enhancing social infrastructure in EMEA by providing cutting-edge technologies and solutions including biometrics and telecommunications solutions in the areas of safety, smart cities, and energy. Moreover, in response to emerging demand in the energy and data center areas in the Middle East and Africa, we will work with XON Holdings Proprietary Limited and regional partners to expand our business.

**China/East Asia**

Takeshi Tsukamoto

President

NEC (China) Co., Ltd.

NEC (China) Co., Ltd. provides solutions in security and retail as well as telecommunication and IT systems, tailored to meet the needs of local markets in China, Hong Kong/Macao, Taiwan, Korea, and South Korea.

In the area of security, NEC supplies biometrics systems, gate systems, and other solutions using fingerprint and facial recognition technology to national and regional police and airports, contributing to safe, stress-free movement. In the area of retail, NEC supplies cutting-edge solutions to retail stores such as convenience store chains, enabling unattended operation, and efficient ordering that helps to reduce food losses. In this way, NEC is contributing to solutions to social issues facing this region, which has a vast population.

**APAC (Asia Pacific)**

Tetsuro Akagi

Senior Vice President

NEC Corporation, CEO

NEC Asia Pacific

NEC Asia Pacific operates business in 14 countries across the Asia-Pacific region, helping to solve social challenges in each country by delivering advanced ICT solutions.

During the fiscal year ended March 31, 2018, in the field of public safety, NEC Asia Pacific received orders from multiple governments and law enforcement organizations in ASEAN for biometrics systems for use in criminal investigations, border control, and surveillance of critical infrastructures. In the area of transportation, we provided BRT systems to the Indian cities of Ahmedabad and Surat, bringing its track record of BRT solutions in India to four cities. We also won large-scale managed services contracts from multiple state governments in Australia and from a Singaporean government institution.

In the fiscal year ending March 31, 2019, we will further accelerate the development of innovative solutions by capitalizing on our regional assets such as the Advanced Centre for Experimentation, which was established in 2017 in Singapore, to realize “NEC Safer Cities” together with our customers.
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

1. Instituting Corporate Officer System
   NEC instituted a corporate officer system in April 2000 and worked to delegate authority from the Board of Directors to corporate officers with the aim of separating management supervision from business execution and expediting business execution based on prompt decision making.

2. Reducing the Number of Directors
   The number of Directors was reduced to streamline the Board of Directors. The aim is to ensure even more effective management through greater discussion at meetings of the Board of Directors and to deliver prompt decision making.

3. Appointing Multiple Outside Directors
   NEC added an Outside Director in June 2001 for a total of two Outside Directors in order to strengthen the supervisory functions of the Board of Directors. The number of members has increased and the system of five Outside Directors has continued since its inception in June 2007.

4. Shortening Directors’ Terms
   In June 2004, the term of Directors was shortened from two years to one year in order to clarify their responsibility for management.

5. Establishing a Nomination and Compensation Committee
   The committee has been established to enhance transparency of nomination and remuneration of Directors. The committee is made up of five members, including three Outside Directors, one of whom is appointed as the chairman. *The Compensation Committee established in 2001 was enhanced to become the Nomination and Compensation Committee in 2010.

6. Instituting the Chief Officer Position
   The Chief Officer position was instituted in July 2011 to strengthen a company-wide strategy for realizing the NEC Group Vision. In April 2017, NEC extended the authority delegated to the Chief Officers in order to strengthen the corporate functions and accelerate the speed of decision making.

Overview of the Corporate Governance Structure

- General Meeting of Shareholders
- Audit & Supervisory Board
- Board of Directors
- Compensation Committee
- Chief Officers
- Corporate Officers
- Corporate Staff/Affiliate Companies

Purpose and Activities

<table>
<thead>
<tr>
<th>Members</th>
<th>Number of Meetings in Fiscal 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Directors</td>
<td>13 times</td>
</tr>
<tr>
<td>Around 20 corporate officers</td>
<td>18 times</td>
</tr>
<tr>
<td>Corporate officers and general managers of business units etc.</td>
<td>11 times</td>
</tr>
</tbody>
</table>

Main Matters Discussed in Fiscal 2018

**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 financial strategy, and investments, as well as matters concerning business plans.

**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 and budget targets adopted by the Board of Directors, with the aim of sharing management information and promoting business 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-KAI/"A&SB"), 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 other matters from each A&SBM.
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.

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

The fixed monthly remunerations are only fixed monthly remunerations and Remuneration for Audit & Supervisory Board Members is to set the level and system appropriate for a global company which NEC enables to secure excellent human resources and serves as an incentive to improve performance of the NEC Group.

**Evaluation of the Effectiveness of the Board of Directors**

With external advices on a method of effectiveness evaluation of the Board of Directors, NEC has conducted an analysis and evaluation on the effectiveness of the Board of Directors once a year to improve the function of the Board of Directors since Fiscal 2016.

In Fiscal 2018, based on the result of the analysis and evaluation on the effectiveness of the Board of Directors conducted in the previous fiscal year, NEC improved the contents to be reported in the Board of Directors and the format of the meeting materials in order to narrow down the agenda to be discussed and clarify the point of discussion at the Board of Directors. Furthermore, NEC introduced a new mechanism in order to reflect opinions and advice of Outside Directors in the operation of business. Under this mechanism, NEC notified those opinions and advice to the relevant parties in NEC, and reported the progress to the Board of Directors.

<table>
<thead>
<tr>
<th>Procedure of the analysis and evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Questionnaire</td>
</tr>
<tr>
<td>(2) Discussion based on the result of the analysis and evaluation</td>
</tr>
</tbody>
</table>

**Summary of the results of the analysis and evaluation for Fiscal 2018**

In conclusion, it has been evaluated that in terms of the decision making for NEC’s important business execution and a method for discussion for management strategies and management plan, the Board of Directors is structured and operated to facilitate active discussion 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 improve a method for the discussion for future vision of NEC and strategies to improve corporate value of NEC for medium and long term, and a method for distributing information to Directors in order to ensure constructive discussion in the Board of Directors.

**Future challenges**

Based on the results above, by conducting the following countermeasure, NEC will continuously enhance and strengthen the Board of Directors function in order to deepen the Directors’ and A&SBMs’ understanding of the President’s vision for the future of NEC, and deliberation on the mid- and long-term management strategy.

- To arrange opportunities for sufficient discussion of a long-term management strategy;
- To improve the contents of information distributed to Directors in advance for discussion in the Board of Directors;
- To arrange opportunities for exchanging opinions among the Chairman of the Board, the President and the Outside Directors; In each Board of Directors, to report the recent important matters and topics by the President to other Directors; and
- To improve the format of the meeting materials.

**Remuneration for Directors**

Remuneration for Directors consists of fixed monthly remunerations and performance-linked bonuses as short-term incentive, and performance-linked stock compensation as medium 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.

**The fixed monthly remunerations**

The fixed monthly remunerations are determined according to the positions of Directors and the distinction of Inside Director and Outside Director, to the extent of the maximum amount *1 approved at the General Meeting of Shareholders.

- The maximum monthly remuneration for Directors is 63,000,000 yen (approved at the 153rd Ordinary General Meeting of Shareholders held on June 21, 1995).
- *2 The maximum monthly remuneration for A&SBMs is 12,300,000 yen (approved at the 170th Ordinary General Meeting of Shareholders held on June 23, 2008).

**Process of Determination**

Remuneration for Directors is determined by the resolution of the Board of Directors, based on the results of the deliberation from an objective viewpoint by the Nomination and Compensation Committee, the majority of the members of which are the Outside Directors (one of whom is the chairman).

Remuneration for A&SBMs is determined through discussions between A&SBMs.

- In order to ensure objectiveness and propriety of the remuneration for Directors and A&SBMs, the level of the remuneration is determined on the result of the third-party’s investigation regarding the remunerations of other companies whose business contents and scale are similar to those of NEC.

**Amounts of Remuneration for Fiscal 2018**

***Note:* NEC does not disclose remuneration per individual.

1. The total amount of the stock compensation is the value per unit (denominated in fiscal 2018).
2. The headcount of Inside Directors includes one Director who retired at the close of the 179th Ordinary General Meeting of Shareholders held on June 22, 2017. Of these, six Directors are appointed to receive stock compensation.
3. The headcount of Outside Directors includes one A&SBM who retired at the close of the 179th Ordinary General Meeting of Shareholders held on June 23, 2017.
4. NEC abolished its retirement allowance system for Directors and A&SBMs at the close of the 180th Ordinary General Meeting of Shareholders held on June 24, 2018.

**Composition of Remuneration for Inside Directors in Total** (Fiscal 2018)

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

https://www.nec.com/en/global/about/governance.html
Ensuring Compliance and Risk Management

NEC considers “compliance” to not only mean compliance with the law, but also in the wide sense to include compliance with socially accepted norms and common sense. Likewise, our “risk management” activities include properly understanding risks that have an impact on the company’s business, and taking preventive measures efficiently and effectively, including compliance violations.

NEC positions compliance at the foundation of management, and recognizes compliance and risk management as priority themes “Materiality” which are essential for corporate governance. We, including the top management, will continue to promote these company-wide efforts.

Establishing “NEC Compliance Day”

In the period around NEC Compliance Day, NEC Corporation and its domestic consolidated subsidiaries held workplace roundtable meetings on themes such as preventing fraudulent accounting and compliance with the competition law. These provided opportunities for individual employees to consider compliance themselves. On the day, the President, the Chief Compliance Officer (CCO) and all general managers (approximately 130 people) of NEC Corporation, and the Presidents of domestic consolidated subsidiaries communicated messages to employees reaffirming the importance of compliance.

Fostering a Corporate Culture that Makes Compliance a Top Priority through Face-to-Face and Dialogue-Based Educations

As part of NEC’s effort to ensure compliance, we annually conduct an online education course on compliance, and moreover, we conduct fair trading education including multiple case studies for employees, mainly working in divisions undertaking public sector projects every year. In fiscal 2018, in addition to these education programs, NEC also worked to ensure compliance with the competition law by conducting 110 face-to-face education programs for employees of NEC Corporation and its domestic consolidated subsidiaries to communicate the facts, including the background to the three bid-rigging incidents caused by NEC Corporation. Furthermore, we also conducted dialogue-based education for upper management personnel at sales divisions throughout Japan, mainly regional headquarters and branches. We conducted a discussion on the organizational management for practicing compliance and reconfirmed how we should behave.

Measures to Prevent another Competition Law Violation

In fiscal 2018, NEC transferred and changed the employee who had had long-term responsibility for the same governmental-agency-related customers to prevent competition law violations. We also conducted special courses for employees who had not been able to be applied for their assignment reasons and so forth, confirming important points of the competition law in person. In addition, we conducted internal audits, email monitoring, and other steps, identifying nascent infringements of the competition law and acting quickly to counter them in cases that will likely cause a risk.

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

Creating a competitive business model with a healthy sense of urgency

Today’s society is in the midst of a fundamental transformation that is being driven by technologies such as AI, IoT, and big data. Such a dramatic shift in our environment presents significant business opportunities for NEC, considering that its competitive advantages are derived from its cutting-edge technologies and top-tier talent pool.

With international competition becoming even more intense, it is no longer enough to develop the most advanced technologies. A company is also required to triumph over its competitors from a business standpoint. I have been an Outside Director of NEC for seven years, and during this time I have come to the conclusion that developing the ability to consistently convert technological prowess into revenue is a challenge which NEC should be focusing on. In order to achieve this goal, NEC would first need to acquire a clear understanding of current trends, how those trends are evolving, and customers’ latent needs. Using this understanding as the starting point, NEC would then move beyond its traditional boundaries and engage in dynamic third-party collaborations while establishing a competitive business model that will flourish on the global stage.

The Mid-term Management Plan 2020 which was introduced in fiscal 2019 is an important step towards realizing this transformation. Given the rapid pace at which technology is evolving, it is vital that all NEC directors, corporate officers, and employees share a healthy sense of urgency and focus on swiftly achieving the mid-term management targets.

I hope to see NEC push forward with its efforts to create social value under its brand message “Orchestrating a brighter world” by assembling knowledge and expertise from both internal and external sources.

I look forward to supporting NEC in realizing sustainable growth and increasing its corporate value in my role as an Outside Director.

Appointment as an Outside Audit & Supervisory Board Member at a time of transformation

I was appointed Outside Audit & Supervisory Board Member in June 2018. NEC is working to enable people to live in abundance by using advanced technologies. I feel strongly motivated to participate in NEC’s activities as a global corporation providing social value in the form of safety, security, efficiency and equality. I am also aware that I will need to prepare myself to grow further so that I can contribute not only in my own field of expertise, but also in the various areas covered by NEC’s diverse business activities.

I have worked for many years as an attorney at law specializing in labor law and have been involved in corporate legal affairs in the fields of personnel and labor. Over this time, the labor law field has continued to change in step with economic trends and social changes. Furthermore, as society undertakes workforce reforms going forward, Japan’s personnel and labor affairs are going to be radically transformed. As society changes at a dizzying pace, I believe the experience and knowledge that I have accumulated in the fields of personnel and labor will prove to be a strength.

NEC is taking steps to restructure execution capabilities under the Mid-term Management Plan 2020. These include introduction of a fair personnel evaluation and compensation system that rewards people who produce results and a sweeping transformation of the corporate culture. People are the foundation that supports a company’s organizations and technologies, and transforming personnel systems to achieve corporate growth requires serious and bold decisions. My strengths in the fields of personnel and labor will find use in risk management as NEC faces these huge changes. I plan to contribute to increasing corporate value by actively providing opinions from a legal perspective and an external perspective.
Directors and Audit & Supervisory Board Members

(April 1, 2018)

Directors

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

Takeshi Kunibe
President (Representative Director), CEO (Chief Executive Officer)
Mr. Kunibe has extensive experience and deep insight with management of a financial institution, and has been engaged in the management of NEC as President (Representative Director) and CEO since April 2016.

Motoyuki Oka
President (Representative Director), CFO (Chief Financial Officer)
Mr. Oka has extensive experience and deep insight with management of a general trading company, including the management of a financial institution.

Takashi Morita
Senior Executive Vice President, Executive Vice President, Chairman of the Board (Representative Director)
Mr. Morita has extensive experience and deep insight with management of a financial institution.

Nonihiko Ishiguro
Senior Executive Vice President, Executive Vice President, Member of the Board
Mr. Ishiguro has extensive experience and a track record relating to industrial policy and trade policy through working at the Ministry of Economy, Trade and Industry. In addition, he has been in charge of global business strategy and external relations as Chairman of the Board, Komatsu Ltd.

Kunio Noji
Member of the Board, Chairman of the Board, Kona Ltd.
Mr. Noji has extensive experience and deep insight with management of a manufacturing company.

Kaoru Seto
Member of the Board
Mr. Seto has extensive experience and deep insight as a manager of a logistics service company.

Katsumi Emura
Executive Vice President, CEO (Chief Technology Officer), Corporate Officer and Member of the Board
Mr. Emura has extensive experience and deep insight with management of the NEC Group’s technology strategy.

Hajime Matsukura
Executive Vice President, CEO (Chief Strategy Officer), CHRO (Chief Human Resources Officer) and Member of the Board
Mr. Matsukura has extensive experience in the management of corporate strategy at the corporate departments in the NEC Group’s operational structure. Furthermore, Mr. Matsukura is in charge of the NEC Group’s human resources strategy.

Audit & Supervisory Board Members (KANSAIKU-KAI)

Hajime Kinoshita
Audit & Supervisory Board Member (full-time)
Mr. Kinoshita has extensive experience and deep insight with management of the NEC Group, and has been engaged in the management of NEC as President (Representative Director) and CEO since April 2016.

Isamu Kawashima
Audit & Supervisory Board Member (full-time)
Mr. Kawashima has extensive experience and deep insight with management of the NEC Group, and has been engaged in the management of NEC as President (Representative Director) and CEO since April 2016.

Takeshi Kikuchi
Audit & Supervisory Board Member (full-time)
Mr. Kikuchi has extensive experience and deep insight with management of the NEC Group, and has been engaged in the management of NEC as President (Representative Director) and CEO since April 2016.

Kazuyasu Yamada
Audit & Supervisory Board Member (full-time)
Mr. Yamada has extensive experience and deep insight with management of the NEC Group, and has been engaged in the management of NEC as President (Representative Director) and CEO since April 2016.

Taeko Ishii
Audit & Supervisory Board Member (full-time)
Mr. Ishii has extensive experience and deep insight with management of the NEC Group, and has been engaged in the management of NEC as President (Representative Director) and CEO since April 2016.

Notes: 1. NEC has notified the Tokyo Stock Exchange of its independent directors and three independent Audit & Supervisory Board Members (KANSAI-KAI). Independent Directors: Mr. Matsukura (Chair), Mr. Motoyuki, Mr. Takeshi Kunibe and Mr. Noriko Iki. Independent Audit & Supervisory Board Members: Mr. Takeshi Kunibe, Mr. Kanemasa Takahashi and Mr. Tadashi Hara.
2. Attendance at meetings: the number of attended or attended meetings of the Board of Directors or meetings of the Audit & Supervisory Board (out of the number of the meetings held in the prior fiscal year ended March 31, 2018).

Board of Directors

11 Directors

Outside Directors

Chairman of the Board

Corporate Officer

Non-Corporate Officer

Finance

1

General Trading Company

1

Manufacturing

1

Corporate Officers

1

Government and diplomacy

1

Trade Directors

3

Career background and specialties of 5 Outside Directors

7 years

2

5 years

1

3 years

1

Other

1

Audit & Supervisory Board Members

5 Audit & Supervisory Board Members

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

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

Directors

https://www.nec.com/en/global/about/executives/directors.html

Audit & Supervisory Board Members

https://www.nec.com/en/global/about/executives/auditors.html

Career background and specialties of 3 Outside Audit & Supervisory Board Members

Certified public accountant

1

Women in biz (FD, etc.)

1

Attorney at law

1

Government and diplomacy

1
NEC introduced its Chief Officer System in 2011 in order to promote a strategy that spans across the entire company. We have appointed Chief Officers to cover themes representing efforts that go beyond the boundaries of our business units and Group companies. Here, each of the Vice Presidents and Chief Officers, the head of the Central Research Laboratories, and the head of the Business Innovation Unit, who are in a position to plan and execute cross-strategy strategies, will introduce the issues they face in their respective areas and their efforts to solve those issues.

Hajime Matsukura
Executive Vice President, CIO (Chief Strategy Officer) and CHO (Chief Human Resources Officer)

Carrying out the Mid-term Management Plan 2020 to completion
I consider it my No.1 mission to achieve the Mid-term Management Plan 2020 with a sense of conviction, and to restore the trust of all of our stakeholders. To achieve this, the most important task is to transform NEC’s culture through reforms of the personnel evaluation and compensation system, and other means. To this end, we will only the business strategy and personnel strategy, and accelerate our efforts to create a strong business model and develop human resources.

Makoto Enomoto
Senior Vice President, CEO (Chief Marketing Officer)

Establishing the NEC brand as an essential presence in the digital age
While maintaining our traditional NEC brand image of being trustworthy and familiar, NEC will prepare for an era where digital technology penetrates every part of society by positioning itself to realize a safe, secure, efficient, and equal society through the power of innovation. I will promote end-to-end marketing and support NEC’s transformation, responding quickly to market trends and customers’ expectations to ensure that NEC is recognized and supported as an essential presence by all manner of stakeholders.

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

Taking on the challenge of new global research and development to create robust businesses
Social change is dramatically through AI and IoT. NEC’s Central Research Laboratories is responsible for creating the next robust businesses and driving business going forward. Through our global research laboratory network, world-leading research personnel, and co-creation with global business partners, we will provide outstanding technological capabilities, business verification, and the necessary commercial platform. By transforming R&D into an ecosystem type structure, we will create key technologies to unlock one-to many solutions that have unclaimed impact.

Shinobu Obata
Senior Vice President, CEO (Chief Compliance Officer)

Further promoting compliance among Group employees in Japan and internationally
The NEC Group has treated compliance as an important management priority for some time. Management has often declared that compliance is a top priority and has been promoting employee awareness through various measures. I aim to study and implement even more effective measures to further promote compliance among Group employees and firmly establish compliance as a part of the NEC Group’s corporate culture.

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

Strengthening business development capability by creating customer value using the latest technologies
Up to now, NEC has received high evaluations from the markets for its latest technologies, but has not shown a sense of urgency in developing them into businesses. As such, if we fail to fully realize that potential we will pursue various possibilities to create new business opportunities without being tied to existing positionings and accepted ideas, involving inventive people from in and outside the Company in order to realize growth by promoting commercialization of core technologies.

Shigeki Shimizu
Senior Vice President, CEO (Chief Supply Chain Officer)

Realizing a sustainable global supply chain
I will engage in co-creation with NEC’s partners and focus on streamlining and optimizing the entire supply chain through the delivery of our technology and solutions as value to customers. By contributing to further gains in quality and safety, I will contribute to driving NEC’s global business expansion by realizing environmentally friendly, sustainable supply chains.

For further details on the corporate officers of NEC Corporation, please visit the following URL: https://www.nec.com/en/global/about/executives/lsvp.html
Business and Human Rights

As a global company that operates its business globally, NEC believes that it is imperative for us to mitigate and prevent any negative impacts our corporate activities may have on human rights. Guided by this belief, NEC makes it clear that it endeavors to respect human rights under all circumstances in the NEC Group Charter of Corporate Behavior and the NEC Group Code of Conduct, which are the foundations of its corporate activities. The "NEC Group Human Rights Policy" states that NEC will promote initiatives on respecting human rights across the Company’s entire value chain by dialogue and consultation with its stakeholders and implementing human rights due diligence.

Dialogue with External Experts on Privacy Issues

The increased use of AI and IoT brings a risk of privacy infringements due diligence. The Group Human Rights Policy" states that NEC will promote initiatives on respecting human rights across the NEC Group Charter of Corporate Behavior and the NEC Group Code of Conduct, which are the foundations of its corporate activities. The "NEC Group Human Rights Policy" states that NEC will promote initiatives on respecting human rights across the Company’s entire value chain by dialogue and consultation with its stakeholders and implementing human rights due diligence.

Compliance with the UK Modern Slavery Act

NEC also complies with international rules and regulations on human rights. NEC issued the statement on the UK Modern Slavery Act on behalf of itself and its consolidated subsidiaries in 2017. The statement asserts that NEC Group companies respect human rights and will never accept forced labor based on the NEC Group Charter of Corporate Behavior, the NEC Group Code of Conduct and the NEC Group Human Rights Policy. It also explains the various measures implemented to prevent modern slavery within the NEC Group organization and across its supply chain.

I Want to Contribute to Social Development in Africa

During my student days, I participated in an internship at an African NGO and have wanted to contribute to the lives of Africans people ever since. Since joining the Company, I have been responsible for overall sales in the East African region. In my second year, I was posted to Nairobi in Kenya for on-the-job training, and there I learned sales skills such as proposing, negotiating, and responding flexibly through serving local customers.

NEC has been helping to enhance telecoms networks in Africa. Having a telecoms environment has enabled the rapid spread of new services such as mobile money. When I see the startling pace of development in Africa, it really impresses me with the huge potential that ICT brings to society. Meanwhile, we are currently focused on the safety business using biometrics. I am working each day to try and make daily life safer and more secure for people using ICT, while giving consideration to human rights such as privacy.

Human Resource Development and Diversity

NEC is aiming to develop human resources who are able to continuously create value for society, constantly acting from a customer-oriented perspective with a high sense of ethical values and a deep understanding of the essential issues faced by customers and society, based on the approach of "self-development", where employees consciously develop their own skills. In addition, we consider that promoting diversity and inclusion and fostering an organizational culture that can incorporate diverse perspectives and ideas will lead to new value creation and innovation. Based on these ideas, in April 2016 we formulated our "People Philosophy".

In April 2018, NEC held a dialogue session on its materiality theme, "Sustainably and socially literate human resources. Participants evaluated NEC’s human resource development policy highly, but also commented that "the program is lacking with regard to independent learning, and it would be desirable to develop human resources who are capable of taking responsibility for their own learning cycles." We also received a critical comment that "NEC should cultivate a corporate culture where people can take up new challenges without fearing failure. Innovation does not come about through coercion." We responded by noting that "partly because NEC has mission critical solutions that support social infrastructure, there have been times when NEC’s culture has felt as though it will not tolerate failure; however, recently the corporate culture has started to change, with top management beginning to talk more about their aspirations." NEC will further accelerate its activities while confirming its own direction of creating value for society.
Promoting Environmental Management

The negative effects that are brought about by climate change cover a range of different circumstances, such as an increasing number of natural disasters caused by abnormal weather conditions, depletion of water resources, and effects on the supply of and demand for food. NEC has set “environmental action with a particular focus on climate change” as one of its “materiality,” the priority management themes from an ESG perspective. Since fiscal 2017, we have been focusing on measures to mitigate and adapt to climate change.

In fiscal 2018, NEC formulated guidelines on climate change measures from a long-term perspective up to 2050. Based on these guidelines, we aim to reduce CO2 emissions linked to our business operations to effectively zero by 2050 as well as reduce CO2 emissions from the whole supply chain by cooperating with suppliers and partners. Through these efforts, NEC is contributing to reductions in greenhouse gases on a global scale.

Furthermore, we are committed to achieving our CO2 emission reduction targets by 2030 as Science Based Targets (SBT), and we are proceeding with the development of specific SBTs.

In accordance with the Environmental Management Action Plan 2020/2030, NEC has set a goal of attaining a level of CO2 reduction for society that is five times the total volume of CO2 emissions from its entire supply chain through the provision of NEC products and services by 2020. In fiscal 2018, NEC’s contribution to reducing CO2 emissions was 21.78 megatons, 3.5 times its impact of 6.16 megatons.

Promoting Environmental Management

The Four Components of the Climate Change Policy Guidelines for 2050

I. Building sustainable management foundation

1. Aiming for zero CO2 emissions from supply chains
2. Strict measures against climate change risks in supply chains
3. Low carbon society as the global target (Keeping global average temperature rise between 1.5 and less than 2 degrees)
4. Safe and secure society that is strong against climate change risks

II. Achieving sustainable society by collaboration

*Mitigation of climate change
*Adaptation of climate change

Climate Change Mitigation Target for 2020

Social value created by NEC
1.2 times Contribution
11.81 megatons
14.88 megatons
24.50 megatons
33.00 megatons

Impact of NEC’s businesses
9.50 megatons
9.65 megatons
7.76 megatons
6.36 megatons

Preparation for climate change (adaptation) + CO2 emissions reductions (mitigation)
5 times Fy2015/Fy2021
Supply chain CO2 emissions (Scope 1, 2, 3)

NEC conducted a dialogue between our personnel responsible for environmental management promotion and in charge of demand-supply optimization solution business promotion, and external experts with perspectives on sustainable management and the environment. The experts mentioned with regard to NEC’s desired environmental management, KPIs for environmental targets, and initiatives to connect these with operations, that “NEC should strategically conduct environmental management to find ways of connecting environmental issues to sales and increased brand value, and ways of developing human resources to achieve this,” and that “NEC needs to take a wide perspective, such as driving innovation by envisaging a future of limited electric power availability.” The knowledge that we obtained through these dialogues will be reflected in our initiatives on environmental management.

NEC holds dialogues with stakeholders, aiming to promote deeper understanding of its efforts in non-financial areas. We also seek to improve future initiatives and information disclosure by ascertaining opinions from external experts and the ESG information required by investors.

Progress on “Environmental Management Action Plan 2020/2030”

Improvements to Environmental Management through Dialogue with Our Stakeholders

Continuing from fiscal 2017, NEC held an IR meeting specializing in the “E” (environment) of ESG. A total of 13 institutional investors from 12 companies participated. At the meeting, we gave an explanation of our progress on mid-term environmental management targets as well as our newly formulated guidelines on climate change measures looking ahead to 2050. We received wide ranging feedback and proposals, such as requests to clearly indicate how environmental activities connect with business competitiveness, or how we are trying to connect them. Looking ahead, we will hold regular IR meetings related to ESG to improve our ESG initiatives.

IR Meetings related to ESG

Dialogue with External Experts Regarding Climate Change

Furthermore, we are committed to achieving our CO2 emission reduction targets by 2030 as Science Based Targets (SBT), and we are proceeding with the development of specific SBTs.
Examples of Providing Environmental Value through Business

DMIC logistic visualization solution in India

NEC and DMICDC*1 have established a joint venture company, DMICDC Logistics Data Service Limited. Since July 2016, it has provided the information service basis to visualize distribution infrastructure and to perform real-time searches based on positional information of containers being transported.

The joint venture company affixes RFID tags to shipping containers being loaded and unloaded at ports of Mumbai. It has also installed RFID reader/writers at locations such as port entrances and exits, toll plazas on the expressway, and inland container depots where customs inspections are carried out. The information is uploaded to the cloud and shared with other logistics systems.

By this service, consignees and freight forwarders could obtain accurate positional information of their container in transit along the 1,500 km stretch between Delhi and Mumbai on a near real-time basis, just inputting the container number.

As the result, this service shortens shipping lead times, reduces inventory levels, improves the accuracy of production plans and also contributes to reduce the consumption of fossil fuel by realizing efficient transportation.

NEC approved this service as “ECO Symbol Star*2” since we expect that the service will reduce approximately 170,000 t-CO2e emission annually in addition to shortening shipping lead times.

Energy efficiency in mobile phone base stations in India

The number of base stations is expanding rapidly due to the sharp increase of mobile phone subscribers nationwide in India. However, there are many regions in India with fragile power supplies that suffer from frequent power outages and regions that are not supplied with power at all. In such regions, mobile telecom operators use diesel generators during power outage to operate base station continuously, therefore the burden of diesel fuel cost of the generator becomes a big financial problem.

Since the Indian government requests for greener industry, mobile base station companies in India are required to reduce fuel consumption by diesel generators, operation cost and CO2 emissions simultaneously on the viewpoints of both business management and environmental issue.

These issues were taken up for the energy related discussion between the governments of India and Japan (the India-Japan Energy Dialog), and the demonstration project by Japan’s New Energy and Industrial Technology Development Organization (NEDO) opened to the public in 2013.

As the result of NEC’s application for the project, NEC was selected by NEDO to implement the demonstrational operation from September 2013 to March 2017. Through this operation, the energy management systems, which consisted of photovoltaic generation systems, lithium-ion rechargeable battery systems, remote monitoring of whole EMS systems, operation planning and battery charging/discharging control, were installed into 20 mobile phone base stations in India. Since the systems were confirmed to be able to reduce the annual CO2 emissions to about 40% of their original level by the most suitable operation plan using the data acquired by the system itself, NEC approved this EMS system as “ECO Symbol Star”.

Through the 2-year-operation on the actual sites, we could acquire know-how needed as a business, like various knowledge for the operation. We are going to link these findings to develop specific business in India where more than 400,000 mobile phone base stations exist.

*1 DMICDC: Delhi Mumbai Industrial Corridor Development Corporation Limited

*2 ECO Symbol Star: Assigned to NEC hardware, software, and service products that are environmental top runners. These products meet NEC’s self-defined standards such as reducing CO2 emissions by 50% or more compared to conventional products.
### Consolidated Statements of Profit or Loss

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>¥2,045,725,000</td>
<td>¥2,184,447,000</td>
</tr>
<tr>
<td>Cost of sales (Notes 14 and 28)</td>
<td>¥1,991,615</td>
<td>¥2,046,815</td>
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<tr>
<td>Gross profit</td>
<td>¥54,110,000</td>
<td>¥37,632,000</td>
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<tr>
<td>Selling, general and administrative expenses (Note 29)</td>
<td>¥69,413,000</td>
<td>¥72,855,000</td>
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<tr>
<td>Other operating income (loss) (Note 27)</td>
<td>(15,370,000)</td>
<td>(8,889,000)</td>
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<tr>
<td>Operating profit (Note 4)</td>
<td>¥41,617,000</td>
<td>¥38,896,000</td>
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<tr>
<td>Financial income (Notes 6 and 29)</td>
<td>¥38,402,000</td>
<td>(29,553,000)</td>
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<tr>
<td>Financial costs (Notes 6)</td>
<td>¥20,817,000</td>
<td>¥15,106,000</td>
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<tr>
<td>Share of profit of entities accounted for using the equity method (Note 6)</td>
<td>(8,617,000)</td>
<td>22,201,000</td>
</tr>
<tr>
<td>(Increase) decrease in investments</td>
<td>—</td>
<td>12,244,000</td>
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<tr>
<td>(Increase) decrease in trade and other payables</td>
<td>31,466,000</td>
<td>17,836,000</td>
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<tr>
<td>Others, net</td>
<td>(4,141,000)</td>
<td>(16,701,000)</td>
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<tr>
<td>Net profit</td>
<td>¥32,834,000</td>
<td>¥26,794,000</td>
</tr>
<tr>
<td>Net profit attributable to owners of the parent</td>
<td>¥32,834,000</td>
<td>¥26,794,000</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>¥574,000</td>
<td>¥77,000</td>
</tr>
<tr>
<td>Income attributable to owners of the parent</td>
<td>¥33,408,000</td>
<td>¥27,561,000</td>
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</tbody>
</table>

### Consolidated Statements of Comprehensive Income

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-controlling interests (Notes 18 and 21)</td>
<td>¥11,568,000</td>
<td>¥11,568,000</td>
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<tr>
<td>Share of other comprehensive income of entities accounted for using the equity method (Note 28)</td>
<td>¥139,687,000</td>
<td>¥139,687,000</td>
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<tr>
<td>Remeasurements of defined benefit plans</td>
<td>¥107,023,000</td>
<td>¥107,023,000</td>
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<tr>
<td>Total other comprehensive income</td>
<td>¥246,793,000</td>
<td>¥246,793,000</td>
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<tr>
<td>Net profit attributable to owners of the parent</td>
<td>¥33,800,000</td>
<td>¥27,310,000</td>
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<tr>
<td>Non-controlling interests</td>
<td>¥574,000</td>
<td>¥77,000</td>
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<tr>
<td>Total comprehensive income attributable to owners of the parent</td>
<td>¥34,374,000</td>
<td>¥28,087,000</td>
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<tr>
<td>Non-controlling interests (Notes 18 and 21)</td>
<td>¥11,568,000</td>
<td>¥11,568,000</td>
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<tr>
<td>Income attributable to owners of the parent</td>
<td>¥45,942,000</td>
<td>¥39,655,000</td>
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</tbody>
</table>

### Financial Section (See notes to consolidated financial statements.)

NEC Corporation

#### Net cash flows from operating activities

- Increase (decrease) in trade and other payables: ¥8,214,000

#### Net cash flows from financing activities

- Proceeds from sales of bonds (Notes 16 and 20): ¥246,062,000

#### Net cash flows from investing activities

- Proceeds from sale of investments in affiliated companies: ¥47,647,000

#### Cash and cash equivalents, at the end of the year

- ¥2,399,970,000

#### Notes

- Revenue (Notes 6 and 25)
- Cost of sales (Notes 14 and 28)
- Gross profit
- Operating profit (Note 4)
- Financial income (Notes 6 and 29)
- Financial costs (Notes 6)
- Share of profit of entities accounted for using the equity method (Note 6)
- Remeasurements of defined benefit plans
- Total other comprehensive income
- Net profit attributable to owners of the parent
- Net cash flows from operating activities
- Net cash flows from financing activities
- Net cash flows from investing activities
- Cash and cash equivalents, at the end of the year
### Consolidated Statements of Changes in Equity

<table>
<thead>
<tr>
<th>Milton of yen</th>
<th>Equity attributable to owners of the parent</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>Share premium</td>
<td>Retained earnings</td>
<td>Treasury shares</td>
</tr>
<tr>
<td>As of April 1, 2016</td>
<td>¥397,199</td>
<td>¥147,355</td>
<td>¥223,881</td>
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<tr>
<td>Net profit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income (Note 18)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of treasury shares (Note 18)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of treasury shares (Note 18)</td>
<td></td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Cash dividends (Note 19)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in interests in subsidiaries (Note 11)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total transactions with owners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As of March 31, 2017</td>
<td>¥397,199</td>
<td>¥147,879</td>
<td>¥233,601</td>
</tr>
</tbody>
</table>
| Non-Financial Section

| | | | | | | | |
| Number of employees by region Total | 107,729 | 109,390 | People |
| Jagan | 80,478 | 79,642 | People |
| China/East Asia | 5,329 | 4,739 | People |
| Asia Pacific | 9,347 | 10,985 | People |
| EMEA | 5,406 | 6,636 | People |
| North America | 2,819 | 2,710 | People |
| Latin America | 4,350 | 4,678 | People |
| Ratio of outside directors to all directors** | 45.5 | 45.5 % |
| Number of female managers*** | 368 | 372 People |
| (As of April 1 of each year) | | | |
| Ratio of female managers*** | 5.5 | 5.8 % |
| (As of April 1 of each year) | | | |
| Ratio of employees with disabilities* | 2.04* | 2.24 % |
| (As of June 1 of each year) | | | |
| Number of people utilizing childcare leave** | 376 | 358 People |
| Number of people utilizing nursing care leave** | 18 | 32 People |
| Average age of employees** | 43.1 | 43.4 Years old |
| Average length of employment** | 18.8 | 19.0 Years |
| Labor accidents and disasters** | | | |
| Frequency rate | 0.18 | 0.3717 |
| Severity rate | 0.00 | 0.0019 |

* Comparison with products in the fiscal year ended March 31, 2014.
** Greenhouse gas refers to CO2 (carbon dioxide), CH4 (methane), N2O (nitrous oxide), HFCs (hydrofluorocarbons), PFCs (perfluorocarbons), SF6 (sulphur hexafluoride), and NF3 (nitrogen trifluoride).
*** Greenhouse gas emissions are calculated based on the following categories stated by the Greenhouse Gas Protocol (GHG Protocol). Scope 1: Direct emissions from sources that are owned or controlled by the Company. Scope 2: Indirect 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.
*1 Excluding corporate officers, advisors, and non-permanent employees.
*2 Scope: NEC Corporation.
*3 External assurance received. The scope of assurance includes NEC Corporation and consolidated subsidiaries subject to environmental governance.
*4 TJ: Terajoule
*5 Scope: NEC Corporation.
*6 Excluding corporate officers, advisors, and non-permanent employees.
Corporate Overview

Organization Chart

President

Board

Business Innovation Unit

System Integration, Services & Engineering Operations Unit

Global Business Unit

Regional Headquarters (RHOs)

Public Solutions Business Unit

Branch Offices

Public Infrastructure Business Unit

Enterprise Business Unit

Network Services Business Unit

System Platform Business Unit

Central Research Laboratories

Corporate Staff

Classification of Shareholders (Shareholding Ratio) (As of March 31, 2018)

Japanese Government and Local Government 0.00%

Financial Institutions 30.19%

Securities Companies 3.69%

Other Corporations 3.52%

Foreign Investors 35.44%

Japanese Individuals and Others 27.16%

Number of Shareholders 176,576

Organization Chart

Major Shareholders (Top 10) (As of March 31, 2018)

<table>
<thead>
<tr>
<th>Name of Shareholders</th>
<th>Number of Shares Held (Thousands of Shares)</th>
<th>Shareholding Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>13,625</td>
<td>5.24</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>12,780</td>
<td>4.92</td>
</tr>
<tr>
<td>Nomura International (Hong Kong) Limited - Unclaimed Client Account</td>
<td>7,814</td>
<td>3.01</td>
</tr>
<tr>
<td>Bnymsanv As Agent / Clients Lux Units Non Treaty 1</td>
<td>7,425</td>
<td>2.86</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account No.9)</td>
<td>7,193</td>
<td>2.77</td>
</tr>
<tr>
<td>Sumitomo Life Insurance Company</td>
<td>5,600</td>
<td>2.16</td>
</tr>
<tr>
<td>NEC Employee Shareholding Association</td>
<td>5,177</td>
<td>1.99</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account No 5)</td>
<td>4,944</td>
<td>1.90</td>
</tr>
<tr>
<td>State Street Bank West Client - Treaty 505234</td>
<td>4,890</td>
<td>1.88</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account No 4)</td>
<td>4,323</td>
<td>1.66</td>
</tr>
</tbody>
</table>

Note: The shareholding ratio is calculated by excluding the number of treasury stock (630,032 shares).

Our History

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-nanotube”

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”

2008
Broadcasting transmitters provided to 110 countries in total

2010
Asteroid explorer “HAYABUSA” successfully returns to Earth

2014
Formulation of brand message “Orchestrating a brighter world”

2016
Ultra-compact radio communication system PASOLINK delivered to 150 countries in total

Biometric solutions adopted by 70 countries in total
The information contained in Integrated Report 2018 is also available on NEC’s website.

NEC home page
https://www.nec.com

Sustainability
The above link offers further details of NEC’s approach to sustainable management based on ESG, “Sustainability Report 2018,” and related information.

Sustainability Promotion Office, Corporate Communications Division

Evaluation by External Parties
(Dec 31, 2017)
- FTSE4Good Index Series
- Ethibel Excellence

Investor Relations
https://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.

Investor Relations Office, Corporate Strategy Division

STOXX Global ESG Leaders Index
MSCI ESG Leaders Index
MSCI World Index
MSCI Japan Index
Morningstar Socially Responsible Investment Index

STOXX Europe 600
STOXX Europe 600 Risk Mitigation

Sustainability Promotion Office
Corporate Communications 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.

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 rates.

• 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.

• Risks that the NEC Group may fail to keep pace with rapid technological developments and changes in customer preferences.

• Risks that the NEC Group may lose sales due to problems with the production process or due to a failure to adapt to demand fluctuations.

• Risks that the NEC Group’s customers are unable to make payments on time, due to the customers’ financial difficulties or otherwise.

• Risks 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.

• Risks 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 man-made disasters.

• Changes in methods, estimates and judgments that the NEC Group uses in its accounting policies.

• Risks 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.