NEC Way

Purpose

Orchestrating a brighter world

NEC creates the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential.

Principles

The Founding Spirit of "Better Products, Better Services" Uncompromising Integrity and Respect for Human Rights

Relentless Pursuit of Innovation

Code of Values


Code of Conduct

1. Basic Position
2. Respect for Human Rights
3. Environmental Preservation
4. Business Activities with Integrity
5. Management of the Company’s Assets and Information Consultation and Report on Doubts and Concerns about Compliance

The NEC Way is a common set of values that form the basis for how the entire NEC Group conducts itself.

Within the NEC Way, the “Purpose” and “Principles” represents why and how as a company we conduct business, whilst the “Code of Values” and “Code of Conduct” embodies the values and behaviors that all members of the NEC Group must demonstrate.

Putting the NEC Way into practice we will create social value.

Editorial Policy

NEC has published integrated annual reports containing both financial and non-financial information since 2013. Starting in 2018, having defined its materiality, NEC has changed the name of the report to the “Integrated Report.”


Business Strategy and Vision describes the progress of the Mid-term Management Plan 2020 and our initiatives to create value based on the NEC Way, such as implementation of our priority themes from an Environmental, Social and Governance (ESG) perspective, or “materiality.” Business Activities includes a message from the CFO and introduces the management strategies for each of our segments. Management Foundation introduces the Company’s initiatives in support of sustainable management.

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

Reporting Period

April 1, 2019 to March 31, 2020 (hereinafter referred to as “Fiscal 2020.” Any other fiscal years are referred to similarly. This report also includes information obtained after this reporting period.

Scope of Report

NEC Corporation and its consolidated subsidiaries

Reference Guidelines

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

Other Related Information

• Earnings Releases/Annual Securities Report
• Corporate Governance Report
• Sustainability Report
• Information Security Report

NEC is a signatory to the United Nations Global Compact.

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What’s NEC

- **Establishment**: 1899
- **Number of employees**: Approximately 110,000
- **Revenue**: 3,095.2 billion yen
- **Market capitalization**: Approximately 1.5 trillion yen
- **Owner’s equity ratio**: 29.2%
- **R&D expenses**: 109.8 billion yen
- **Number of cases of serious involvement with cartels and/or bid-rigging**: 0 cases
- **Ratio of male and female hires**: Male 73.3%, Female 26.7%
- **Ratio of female managers**: 7.8%
- **Ratio of employees returning after childcare leave**: 97.5%
- **Ratio of employees with disabilities**: 2.38%
- **Number of patents**: Approximately 47,000
- **Technological capabilities**: Global No. 1

*1 For NEC Corporation on a standalone basis  
*2 Actual results for the fiscal year ended March 31, 2020  
*3 As of March 31, 2020  
*4 Ratio of employees returning to work who started childcare leave in fiscal 2018  
*5 Based on the Act on Employment Promotion etc. of Persons with Disabilities as of June 1, 2020  
*6 Ranked 1st five times in benchmark testing held by the U.S. National Institute of Standards and Technology (NIST)  
*7 Ranked 1st eight times in benchmark testing sponsored by NIST  
*8 Ranked 1st in benchmark testing sponsored by NIST
Nippon Electric Company, Ltd. (NEC) was established in 1899 as Japan’s first joint venture with a foreign-owned company. In keeping with its founding spirit of “Better Products, Better Service,” NEC has continued to provide services using its distinctive technologies in addition to ICT equipment such as telecommunication equipment and computers.

Establishment of Nippon Electric Company

The Founding Spirit of “Better Products, Better Services”

Create customer satisfaction and pleasure by consistently providing better products and services.

C&C Announced

The integration of computers and communications

The aspiration of enabling people throughout the world to connect anytime, anywhere, and with anyone, is aligned with the SDGs aspiration to “leave no one behind.”

Transformation into a Social Value Innovator

As the value expected by customers and society changed from our tangible technologies and products to the intangible creation of value, we responded under Mid-term Management Plan 2015 by declaring our intention to transform into a Social Value Innovator.

NEC Way

To mark the 120th anniversary of its founding, in 2020 we defined our “Purpose” within the NEC Way as “NEC creates the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential.”

NEC will redouble its business activities inspired by social issues, aiming to contribute to the achievement of the Sustainable Development Goals (SDGs) in 2030.

1899 1977 2013 2020

Network

1899 Nippon Electric Company, Ltd. established
1928 Transmitted scenes of Imperial Coronation Ceremony of Emperor Hirohito
1964 International satellite TV broadcast of the Tokyo Olympics
1970 Japan’s first satellite, Osumi
1979 Started manufacturing optical submarine relay equipment
1984 Developed the first domestically produced optical character recognition (OCR) system
1992 The ACOS Series 77 mainframe computer family is announced
1997 Started manufacturing optical submarine relay equipment
2007 Ultra-computer technology development system PACS/UNIC insures the global market share
2010 Asteroid explorer “Hayabusa” successfully returned to Earth
2015 Submarine cable installation over 250,000 km, enough to circle the earth six times
2016 Asteroid explorer “Hayabusa 2” reached the asteroid Ryugu
2020 Started quantum computing application services

IT

1954 Begins research into computers
1960 Fully automated postal sorting system
1974 The ACOS Series 77 mainframe computer family is announced
1982 The PC-9801 personal computer is announced
2002 The Earth Simulator, the world's fastest supercomputer system for resolving global environmental problems, is completed
2011 Built ICT infrastructure for multiple stadiums used in the 2018 World Cup
2015 Contributed to implementation of the Individual Number System

AI

1960 Started development of optical character recognition (OCR)
1971 Fully automated postal sorting system
1984 Received an order in the U.S. for fingerprint matching services
2004 No. 1 in fingerprint authentication
2016 Biometric solutions adopted by 70 countries
2018 Formulated the AI technology brand, “NEC the WISE”
2019 Entered the drug discovery business specializing in advanced immunotherapy

Principles

1899 1977 2013 2020

Purpose

Create customer satisfaction and pleasure by consistently providing better products and services.

The aspiration of enabling people throughout the world to connect anytime, anywhere, and with anyone, is aligned with the SDGs aspiration to “leave no one behind.”

NEC’s Value Creation Journey

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NEC’s strengths developed to date

* Ranked 1st eight times in task assessment sponsored by the U.S. National Institute of Standards and Technology (NIST)
* Ranked 1st five times in task assessment sponsored by NIST

NEC Corporation   Integrated Report 2020

NEC Corporation   Integrated Report 2020
Message from the President

Today, people around the world are facing a time of great change. As the old era gives way to the new, NEC is transforming for the future in order to lead society into a new age.

Let me begin by expressing my condolences to those who have lost loved ones to the COVID-19 pandemic, and my wishes for a speedy recovery to those who are currently affected by the virus. I would also like to express my heartfelt gratitude and respect to all those working at medical institutions and other medical professionals around the world who are placing themselves at risk on the front lines to provide medical care. I pray for a speedy end to the pandemic.

The COVID-19 pandemic has significantly altered our perceptions of how society and our lives should be, including lifestyles and our government and economic systems. Right now, almost everyone around the world is having to deal with this great trial, and through this shared experience we have come to see the pandemic as the problem of our age. This is the first such significant event in the recent years of globalization. I have a strong sense that NEC’s true value as a Social Value Innovator is being tested as we struggle to face up to these tremendous challenges, to overcome them, and to realize an even more sustainable society. In order to further hone the strengths that it has built up over the past 120 years, NEC will strive to achieve even greater change and evolution.

Looking back on the Company’s journey to date, NEC has demonstrated its own unique approach in each era, from the founding spirit of “Better Products, Better Service,” to “C&C (the integration of computer and communications)” in 1977, followed by “Orchestrating a brighter world” in 2013. The common thread running through all these concepts is NEC’s constant commitment to providing better value to society.

However, while NEC’s growth over the first 100 years of its history was driven by its ability to lead social change from the forefront, for the past 20 years NEC itself has been under pressure to change amid intensifying competition. This era has been one of great upheaval, and one that has challenged NEC’s existence.

Even as society continues to change day by day, moment by moment, we marked the 120th anniversary of our founding in April 2020 by redefining the NEC Way, which sets out NEC’s reason for existence. The NEC Way articulates NEC’s “Purpose” and “Principles” as a company as well as the expected behaviors, the Code of Values and Code of Conduct that all of the members comprising the NEC Group are expected to demonstrate.

In redefining the NEC Way, our emphasis was on clearly stating the purpose of the NEC Group’s existence. As such, we distilled the essential concepts for us as a company into two themes, our Purpose and our Principles.
**NEC Way**

**Purpose**

The core tenets of our Purpose are “safety, security, fairness and efficiency,” and “promoting a more sustainable world where everyone has the chance to reach their full potential.” NEC’s Purpose is to solve the kind of global social issues represented by the United Nations Sustainable Development Goals (SDGs), and to provide people not only with safety and security, but also fairness and efficiency. In any era or situation, the NEC Group is committed to coexisting with the global environment, enabling people to fully express their latent potential, and creating a sustainable society premised on deep mutual understanding.

**Code of Values**

**Principles**

* Please see the following URL for details.

The NEC Way also sets out three Principles, which we should observe in our conduct as an organization: 1) “Better products, better services,” our founding spirit under which we will pursue 2) “uncompromising integrity (high ethical standards and honesty) and respect for human rights” as the foundation for building trust with society, and the pursuit of 3) “innovation” that goes beyond technological innovation through dialogue and co-creation (Orchestrating) with our stakeholders, in order to create value that solves social issues. In addition, in 2005 NEC became a signatory to the United Nations Global Compact (UNGC), a global initiative aimed at sustainable growth for society and companies. We now promote corporate activities based on the Compact’s 10 principles pertaining to the four fields of human rights, labor, the environment, and anti-corruption.

These are the considerations that have been incorporated into the redefined NEC Way, and we believe that we can contribute to the achievement of the SDGs by putting the NEC Way into practice.

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**Towards Achieving the Mid-term Management Plan 2020**

The Mid-term Management Plan 2020 was formulated as the first step toward a dramatic transformation for the future. In the plan, we set out three themes: “Reform of profit structure,” “Achievement of growth,” and “Restructuring of execution capabilities,” and plotted a course to set the NEC Group on a growth trajectory, envisaging fiscal 2019 as a year for “changing gears,” fiscal 2020, the fiscal year under review, as a year for “turning around,” and the final fiscal year, fiscal 2021, as the year for “taking the offensive.”

**Mid-term Management Plan 2020 Targets and Results**

<table>
<thead>
<tr>
<th></th>
<th>FY2018/3 Results</th>
<th>FY2019/3 Results</th>
<th>FY2020/3 Results</th>
<th>FY2021/3 Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,844.4</td>
<td>2,913.4</td>
<td>3,095.2</td>
<td>3,030.0</td>
</tr>
<tr>
<td>Operating profit</td>
<td>63.9</td>
<td>57.8</td>
<td>127.6</td>
<td>150.0</td>
</tr>
<tr>
<td>(Operating profit ratio)</td>
<td>2.2%</td>
<td>2.0%</td>
<td>4.1%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Adjusted operating profit</td>
<td>72.5</td>
<td>69.9</td>
<td>145.8</td>
<td>165.0</td>
</tr>
<tr>
<td>(Adjusted operating profit ratio)</td>
<td>2.5%</td>
<td>2.4%</td>
<td>4.7%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Net profit attributable to owners of the parent</td>
<td>45.9</td>
<td>39.7</td>
<td>100.0</td>
<td>90.0</td>
</tr>
<tr>
<td>Adjusted net profit</td>
<td>50.3</td>
<td>47.0</td>
<td>111.2</td>
<td>99.0</td>
</tr>
<tr>
<td>Free cash flows*</td>
<td>115.8</td>
<td>-12.4</td>
<td>177.8</td>
<td>150.0</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>5.3%</td>
<td>4.6%</td>
<td>11.3%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

Note: Forecasts and targets as of July 31, 2020

* Excluding M&A portion

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**Reform of the Profit Structure**

First, I will talk about our progress on “Reform of profit structure.”

In efforts to reduce our selling, general and administrative (SG&A) expenses, in fiscal 2019 we implemented a voluntary early retirement plan and reorganized production bases with a view to establishing a strong profit structure able to support continuous investment for transformation.

In reforming our profit structure, in fiscal 2019 we achieved profitability in the wireless backhaul business, which had been one of our challenges, while also completing the sale of the electrode business during the same fiscal year. Furthermore, in the energy business, we have been aiming to engage in partnering that will lead to improved earnings. This was always going to require some time to achieve, but with the added impact of the COVID-19 pandemic we believe we cannot delay partnering any longer. We have now decided to stop receiving new orders at NEC Energy Solutions, and to continue only with executing our guarantee obligations, such as completion and maintenance of contracted projects.

**SG&A reduction**

- Voluntary early retirement and production base reorganization: Completed in fiscal 2019

**Business structure reforms**

- Wireless backhaul business: Achieved profitability in fiscal 2020
- Energy business: Decided to stop receiving new orders
- Electrode business: Completed sale in fiscal 2019

*NEC Initiatives for Contributing to the Achievement of the SDGs

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**Message from the President**

**FY2018/3 Results**

**FY2019/3 Results**

**FY2020/3 Results**

**FY2021/3 Targets**

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**NEC Corporation Integrated Report 2020**
Achievement of Growth

With regard to “Achievement of growth,” in international business we have seen steady progress in the post-merger integration of acquired companies Northgate Public Services Limited (NPS) in the United Kingdom and KMD Holdings ApS (KMD) in Denmark. We will also work to generate greater value by initiating further M&As through NPS and KMD, in addition to the generation of synergies.

In Japan, we have been taking steps to realize commercial services using 5G. As a key strategy, we have been working to progress the 5G business through co-creation with other companies rather than doing everything ourselves. Examples include the capital and business alliance we concluded with NTT Corporation for joint research and development and the global rollout of ICT products utilizing innovative optical and wireless technologies, and the agreement we signed with Rakuten Mobile, Inc. to jointly develop the containerized standalone 5G core network.

Restructuring of Execution Capabilities

With regard to “Restructuring of execution capabilities,” we have adopted a two-pronged approach of reinforcing business development capabilities and transforming NEC’s culture.

In reinforcing business development capabilities, we will break away from the closed innovation mindset, which has been an issue for us, and create new value beyond existing frameworks in order to accelerate monetization of the latest technologies. In addition, we have decided to enter the drug development business. Together with our work using the latest technologies in the medical system business, we are driving value creation in the healthcare domain.

In our initiatives for transforming NEC’s culture, we are targeting the following measures under Mid-term Management Plan 2020 to enable employees to maximize their capabilities and realize an organization with the capacity to carry out actions to completion: “define management’s responsibilities and authority more clearly,” “encourage innovative actions and challenges,” and “accelerate diversification of the NEC Group.”

By fully committing to the three themes of Mid-term Management Plan 2020 in this way, we are working toward its successful conclusion. During the fourth quarter of fiscal 2020, we encountered disruptive changes in the business environment due to the COVID-19 pandemic, but we were able to limit the impact on our financial results. As a result, in our full-year financial results, all reportable segments achieved year-on-year revenue growth, and we achieved record high profit for the first time since 1997, 23 years ago. I consider these results to be not only due to favorable market trends; they also reflect the alignment of NEC’s initiatives to date, including initiatives under Mid-term Management Plan 2020, with changes in the operating environment of our customers and their needs.

Creating Value Unique to NEC amid New Social Changes

In fiscal 2021, the final year of Mid-term Management Plan 2020, growing concerns of a potential slowdown in the overall economy due to the impact of the pandemic will be offset by new demand arising from the change to a “new normal” going forward. At NEC, we will consider the future together with society and our customers, and ensure continuity in the new environment by promoting digital transformation (DX). At the same time, I believe that we can realize a transformation for our customers that will enable them to continue creating value.

NEC will take steps to adapt to the new normal by adopting the dual perspectives of both people and society.

In changes involving people, the need for movement and personal interaction is being reconsidered with a view to preventing the spread of infection, and new approaches to various social activities, such as workstyles, are being introduced in a move to create new customs and living patterns that will provide a higher level of safety and security in the activities and lifestyles of people everywhere. Moreover, in changes in society,
we aim to create even safer, more efficient and fairer social services. There is a need to keep society moving even under difficult circumstances by realizing automation of work using artificial intelligence and realizing overall optimization. There is also a need to effect change in a way that considers not only economic efficiency, but also business continuity.

To respond to these changes in people and society, digital capabilities are going to be even more essential than before, and factors such as remote, online, non-contact, automation and labor-saving, and visualization and reliability will assume greater importance. In fact, dramatic changes have started taking place in the few months since the pandemic started, such as a surge in the introduction of remote working at companies all over the world and acceptance of remote healthcare. I believe that NEC is well placed to help society and its customers to realize DX by combining its strengths in networks, IT, AI, and security technologies to provide “Social and Lifestyle DX—NEC Safer Cities” and “Corporate and Industrial DX—NEC Value Chain Innovation.”

The networks that underpin the realization of DX – that is to say the infrastructure that supports the enormous flow of data traffic originating from people and things – will become extremely important. Increases in the capacity and sophistication of telecommunication infrastructure are expected, and calls for ensuring the safety and reliability of networks as mission-critical infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting development of the 5G next-generation communication infrastructure have grown even louder. We are promoting develop
Within its statement of Purpose, NEC has committed itself to creation of the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential. Guided by our principles: Better Products, Better Services, Uncompromising Integrity and Respect for Human Rights, and Relentless Pursuit of Innovation, we will invest capital in building up our strengths, including the implementation of our “materiality”—priority management themes from an ESG perspective. We will also contribute to achieving the Sustainable Development Goals (SDGs) through the creation of economic and social value.
The global COVID-19 pandemic has had a huge impact on our lives and economic activity. Even now, local and national governments all over the world are engaged in crisis management, while medical professionals are making every effort to treat and prevent infections. Consumers are leading their own lives and corporations are conducting their business activities under numerous restrictions.

The status, values and behavior patterns of society have already changed, and new values are going to be created, forming a “new normal.” We must accept the new world and change our own behavior.

Since its foundation, the NEC Group has constantly acted as a Social Value Innovator, seeking through its actions to promote human safety and security, social fairness, and economic efficiency. In response to the current crisis, we will aspire to realize the “more sustainable world where everyone has the chance to reach their full potential” cited in the NEC Group’s Purpose, as we create new social value that corresponds to the new normal through digital transformation (DX), which is now more important than ever.

The NEC Group has cultivated end-to-end capabilities over many years. These include network technologies such as local 5G, which is essential for realizing DX, as well as cutting-edge core technologies such as world-class biometric technologies and various unique AI technologies. Through these technologies, we are providing solutions such as NEC Safer Cities, which realizes DX in the social and lifestyle domain, and NEC Value Chain Innovation, which brings DX to enterprise and industry, and we have already established a considerable track record.

## Changes under the New Normal

Changes under the new normal are sparking a digital shift that is accelerating through the whole of society. Society and companies are being called upon to act with greater speed to realize DX that responds to these changes.

### Personal Changes

- The need for transportation and face-to-face meetings is being questioned
- The convenience of a different set of activities from the past
- Remote work style and lifestyle and a focus based on own values

### Societal Changes

- Changes in the balance between human and machine accelerates so that people can exercise their full potential
- Need for safety and fair social services stronger than ever
- Achieving social optimization by enhancing visualization of all things

### Digital connection which transcends physical boundaries

- Increase in digital consumption
- 49% increase in internet traffic
- More than 300 million participants in online conferences

### Digital shift in various settings

- Lifestyle
- Workstyle
- Business style

### 5 themes aimed at achieving DX for change

- Remote
- Online
- Touchless
- Automation
- Transparency/Trust

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Remote</td>
<td>People live up to their true potential</td>
</tr>
<tr>
<td>Online</td>
<td>Services and experiences not limited by time or place, through digital contact</td>
</tr>
<tr>
<td>Touchless</td>
<td>Sanitary and safe lifestyle</td>
</tr>
<tr>
<td>Automation</td>
<td>Use of digital technology which has transparency and trust in the society</td>
</tr>
</tbody>
</table>

## NEC’s Strengths Enabling the Realization of DX

The NEC Group is grasping the social issues and the changes required to respond to the new normal quickly and accurately, and providing the solutions for them. In this way, we will accelerate DX and create social value in the new normal.

To achieve these aims and to support an increasingly sophisticated digital society going forward, we will further refine the research, development, and implementation of the core technologies we have cultivated over many years and provide customers with end-to-end solutions such as NEC Safer Cities and NEC Value Chain Innovation. With this in mind, NEC will gather all of the capabilities of the Group, as well as focusing its efforts on the development and strengthening of human resources specializing in digital technologies.

 NEC Safer Cities


## Solutions Provided

<table>
<thead>
<tr>
<th>Solutions Provided</th>
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</thead>
<tbody>
<tr>
<td>NEC Safer Cities</td>
</tr>
<tr>
<td>NEC Value Chain Innovation</td>
</tr>
</tbody>
</table>

## Initiatives for further Acceleration of DX

Providing Value Inspired by Social Issues

### Value Proposition

**Response to the new normal**

### Solutions Provided

<table>
<thead>
<tr>
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<tr>
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<tr>
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</table>

## End-to-End Capabilities

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Consulting</td>
</tr>
<tr>
<td>Implementation</td>
</tr>
<tr>
<td>Operation</td>
</tr>
</tbody>
</table>

### Starting Point:

Social Challenges in Shifting Towards New Normal (examples)

- Remote
- Online
- Touchless
- Automation
- Transparency/Trust
DX for Society and Daily Life—NEC Safer Cities

NEC i:Delight - Providing a Unified Customer Experience across Multiple Touchpoints through a Biometric ID, Such as Face and Iris Recognition

NEC i:Delight revolutionizes the customer experience by streamlining physical and digital identities into a trusted ecosystem, creating an unified experience. With contactless solutions that make touchpoints touchless, NEC i:Delight shapes personalized experiences that are safe, secure and hygienic, while being completely contactless. Each individual exercises autonomous control over their own personal ID and data, while connecting to multiple corporates and local government services to access them.

Start of Trials for Next-Generation Online Medical Care at Saiseikai Central Hospital and Saiseikai Kumamoto Hospital

At Saiseikai Central Hospital, NEC is conducting trials of an operating system that provides integrated online medical services, from medical treatment, billing, and prescription issuance. The system makes use of existing electronic medical records, ordinary medical information and online medical information to centrally manage medical examinations through a video telemedicine system.

At Saiseikai Kumamoto Hospital (which is a core regional hospital), NEC will conduct a trial with other relevant medical institutions of a system that links patients’ electronic medical records and uses a video telemedicine system to conduct conferences on admission preparation, hospital transfer, discharge, and on-line follow up.

DX for Enterprise and Industry—NEC Value Chain Innovation

Demand and Supply Optimization Platform
Reducing Food Loss with AI-Powered Demand Forecasting

The Supply and Demand Optimization Platform enables food manufacturers to optimize inventory and production, food wholesalers and distributors to optimize inventory and enhance resource efficiency, and food retailers to optimize order planning. The platform contributes to reducing food loss by optimizing demand and supply across the entire food value chain.

NEC SMART STORE
Providing a Quick, Comfortable Shopping Experience Touching Only Products from Store Entry through to Completion of Payment

At a cashless Smart Store that opened in the NEC head office building, customers simply pick out the products they wish to purchase and then payment is processed as they walk out of the store, without the need to queue at the checkout. Automated payment of minutes consuming caused by checkout queues and enables staff to operate with a smaller staff, loading the creation of stores that are comfortable and safe for both customers and staff. Moreover, with current concerns over physical contact with people and objects, the Smart Store ensures safety and security for customers and staff by reducing customer interaction time and infection risk.

Comprehensive Logistics Visualization Platform to Enable Real-Time Tracking of Containers in Transit

DMDiX** of India and NEC established a joint venture that provides logistics visualization services. More businesses are adopting RFID tags to containers to maintain tracking of goods from the time they are unloaded to a loading port in Mumbai, reducing time data through RFID readers/ writers, and capturing the data to the cloud. It enables operators to grasp position changes about containers in real time by linking with other systems such as port container management information systems. This has resulted in shorter transit lead times, reduced inventories, and more accurate production plans, while also helping to reduce use of fossil fuels by reducing inefficient transportation.

Networks Supporting the Realization of DX

Konica Minolta and NEC Strengthen Cooperation to Promote DX by Utilizing Local SG

NEC will collaborate as a partner to promote DX utilizing SG in the fields of imaging and IT/ICT technologies, working styles, healthcare, and manufacturing. As a first step, NEC will establish small SG verification environments in the brand new Takahata building of Konica Minolta Inc’s development base. Konica Minolta will combine its imaging and IT/ICT technology with variety of assets, including office equipment and medical equipment, as well as NEC’s SG and IoT technologies. Through these efforts, they will increase the value added to industrial optical systems, medical equipment, and office equipment, thereby contributing to the achievement of Society 5.0 and SDGs.

Start of Trials for Next-Generation Online Medical Care at Saiseikai Central Hospital and Saiseikai Kumamoto Hospital

At Saiseikai Central Hospital, NEC is conducting trials of an operating system that provides integrated online medical services, from medical treatment, billing, and prescription issuance. The system makes use of existing electronic medical records, ordinary medical information and online medical information to centrally manage medical examinations through a video telemedicine system.

At Saiseikai Kumamoto Hospital (which is a core regional hospital), NEC will conduct a trial with other relevant medical institutions of a system that links patients’ electronic medical records and uses a video telemedicine system to conduct conferences on admission preparation, hospital transfer, discharge, and on-line follow up.

Reducing Food Loss with AI-Powered Demand Forecasting

NEC is supporting the reduction of food waste in India by improving the forecasting of food demand through the integration of AI technology. By analyzing data on past sales and market trends, the system can accurately predict future demand, allowing for more efficient inventory management and reduced waste.

Rakuten Mobile, Inc.
Supporting a Fully Virtualized Cloud Native Mobile Network

Rakuten Mobile, Inc., the second-largest wireless carrier in Japan, is utilizing NEC’s virtualized Radio Access Network (vRAN) technology to expand its mobile network. By deploying NEC’s vRAN platform, Rakuten Mobile is able to rapidly and flexibly scale its network capacity, enabling the delivery of high-speed mobile services to its customers.

Increased Capacity of Optical Submarine Cable

NEC has launched the Digital Office Project for realizing new workstyles for the new normal era through DX. Focusing on the type of offices required for the new normal era, we have launched trials of various systems within NEC’s head office building, such as a giants entry system that uses advanced IoT (IoT) sensors and image analysis, as well as a cashless store that recognizes customers using wearables. We aim to begin providing solutions one by one during fiscal 2021.

Launch of Digital Office Project to Realize New Workstyles through DX

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Realizing Diverse Workstyles through Telework

NEC regards diverse workstyles as a means of realizing both the growth of the Company and personal growth and happiness. As part of this approach, we have introduced telework. Over 80% of NEC employees carried out telework under the state of emergency that was declared in Japan, preventing infection among employees and their families while enabling business continuity. Looking ahead, we will continue to place top priority on personal safety and peace of mind, while appropriately combining onsite and remote workstyles to increase employees’ quality of life and achieve further growth in our business.

Drug Development Using Cutting-edge AI

NEC is focusing on realizing advanced immunotherapy targeting cancer, infectious diseases, and autoimmune diseases through a new type of drug development method that requires advanced AI analysis. In January 2020, we initiated clinical trials of individualized cancer vaccines in Europe and the U.S., and in April 2020, we used the AI technology applied to cancer vaccine development to perform the genome analysis needed to design a vaccine for COVID-19 and published the results.

Initiatives for the Future

Networks Supporting the Realization of DX

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Initiatives for the Future

DX for Society and Daily Life—NEC Safer Cities

NEC i:Delight - Providing a Unified Customer Experience across Multiple Touchpoints through a Biometric ID, Such as Face and Iris Recognition

NEC i:Delight revolutionizes the customer experience by streamlining physical and digital identities into a trusted ecosystem, creating an unified experience. With contactless solutions that make touchpoints touchless, NEC i:Delight shapes personalized experiences that are safe, secure and hygienic, while being completely contactless. Each individual exercises autonomous control over their own personal ID and data, while connecting to multiple corporates and local government services to access them.

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Respecting Human Rights

In the Principles of the NEC Way, NEC has committed itself to “Uncompromising Integrity and Respect for Human Rights,” while the NEC Group Code of Conduct clearly requires that human rights be respected in all situations.

In addition, NEC has specified “Privacy policies and measures aligned with societal expectations” as a theme in its “sustainability”-priority management themes from an ESG perspective. As such, in addition to compliance with laws and regulations, NEC also plans to develop and supply products and services that meet the range of privacy needs arising from cultural differences in various countries and regions and that are sensitive to human rights issues such as discrimination. Through such means, NEC will strive not only to minimize adverse impacts on society but also to maximize social value.

NEC is working to increase the effectiveness of its activities for solving human rights issues. We have set targets and KPIs for our activities, and seek to manage the status of our progress and conduct transparent reporting. To this end, since 2016 we have been promoting human rights due diligence, using the Sustainability Promotion Office as a secretariat.

For local subsidiaries, in the Europe, the Middle East, and Africa (EMEA) region, we have established a quarterly review process to monitor the status of progress on human rights and health and safety initiatives for directors and employees of subsidiaries of NEC Europe and their business partners and where violations can be considered and acted upon. In addition, the status of this process is reported to the Board of Directors of NEC Europe once a year.

In fiscal 2020, we created a list of human rights issues to consider in management decision making or business activities by referring to the human rights risk data of an international NGO, Business for Social Responsibility (BSR), focusing on the latest risk examples in the ICT industry and the inherent challenges for the industry that are expected going forward. Within this list, we identified the potential risks shown below.

Based on the list, discussions were held between representatives from international NPOs and international institutions, legal experts, NEC Corporation officers, and responsible managers of relevant divisions. As a result, we identified “new technologies and human rights (AI and human rights)” and “labor issues in global supply chains” as issues to be carefully monitored, and we are promoting related initiatives.

Furthermore, in response to the COVID-19 pandemic, we will also treat increased vigilance regarding employee health and safety as an important issue going forward.

Increasing the Effectiveness of Activities for Solving Human Rights Issues

For further information, please refer to Sustainability Report 2020 “Respecting Human Rights.”

Potential Risks That NEC Should Address

General issues
- Access to aid and climate change

Issues related to customers and local communities
- Privacy and data protection, right to life and safety, non-discrimination and freedom of movement, speech, expression, and assembly, children’s rights

Issues related to the supply chain
- Supplier labor standards, forced labor and modern slavery, child labor, procurement of materials from conflict zones and high risk areas, environmental impact, and fair business practices and anti-corruption

Issues related to employees
- Working environment, health and safety, rights to collective bargaining and freedom of association, non-discrimination and equal opportunity, privacy and information security, youth employment

In April 2019, NEC formulated the “NEC Group AI and Human Rights Principles” (“Companywide principles”) to guide our employees to recognize respect for human rights as the highest priority in our business operations in relation to social implementation of AI and utilization of biometrics and other data (“AI utilization”). Since then, we have promoted initiatives to incorporate this way of thinking into relevant businesses.

In addition to the above, NEC has established the Digital Trust Advisory Council. Our aim is to incorporate diverse opinions from external experts who have specialized knowledge, and use those opinions to strengthen our ability to deal with new issues arising from AI utilization. In fiscal 2020, we held the Advisory Council twice in Japan, and consulted with external experts (a lawyer, a member of an NPO, an academic, and a consumer) on the impacts to be grasped and measures to deal with them, as well as our initiatives to promote business operations with respect for human rights.

Initiatives to Promote Business Operations in Relation to AI Utilization with Respect for Human Rights

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For further information, please refer to Sustainability Report 2020 “Respecting Human Rights.”

Strengthening Initiatives to Respect Human Rights in Procurement Activities

We held a dialogue with experts to hear their opinions and advice regarding initiatives for respecting human rights in the supply chain and points to bear in mind.

The experts agreed with NEC Corporation’s concept for procurement activities that incorporate “collaborating” with suppliers to solve issues and “co-creating” to create social value through business. They also commented that addressing human rights issues would also lead to collaboration and co-creation.

Moreover, with regard to issues such as the difficulty of identifying issues facing workers through audits and the delay in establishing a legal framework for increasing individual business owners in the ICT field, the experts suggested that improvements could be made through dialogue and engagement, and that it was important to explore approaches for dealing with owners.

The international community is calling for greater transparency, and as such, in July 2020, we reviewed our existing CSR Procurement Guidelines and renamed them the Guidelines for Responsible Business Conduct in Supply Chains. We have also distributed a declaration to over 7,000 suppliers as of August 2020, seeking their compliance with the guidelines.

Through these Statements of Agreement, we will further promote responsible procurement activities, including respect for human rights.

For further information, please refer to Sustainability Report 2020 “Strengthening Initiatives to Respect Human Rights in Procurement Activities.”

*This dialogue was held in February 2020.

Asako Nagai
Programme Officer, ILO Office for Japan

Daisuke Takahashi
Senior Vice President and CSCO, NEC Corporation

Shigeki Shimizu
General Manager, Purchasing Division, NEC Corporation

Toshiyuki Nakamura
Head of Global ESG, NEC Corporation

*This dialogue was held in April 2020.

For further information, please refer to Sustainability Report 2020 “Strengthening Initiatives to Respect Human Rights in Procurement Activities.”

Photograph from left:
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Assistant General Manager, Purchasing Division, NEC Corporation

Kazuhiko Okawa
General Manager, Purchasing Division, NEC Corporation

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Sustainably and Socially Literate Human Resources

NEC considers its officers and employees to be its greatest management resource. Based on the NEC Way, we are working to develop human resources and an organizational culture that 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.

“Sustainably and socially literate human resources” are one aspect of NEC’s “materiality”—priority management themes from an ESG perspective. We have implemented various measures organized by role and theme while making strategic investments.

Aiming to Be a Competitive Global Organization

As society continues to change, we need to identify clear goals and outline approaches that leverage our strengths: being agile, never missing an opportunity, and embracing risk even if it means failure. This requires each individual to take ownership of their work and drive relentlessly towards their end goal, resolving challenges as they arise with passion and determination. In addition, to create a foundation for this kind of attitude, we believe it is important that we firmly establish an organizational style and culture where all employees can participate actively and grow based on this stance, helping one another to attain higher levels of achievement without being concerned over confrontations or status.

NEC has defined this ideal for human resources in its Code of Values of the NEC Way, aiming to create strong individuals and strong teams.

In addition, in November 2019 we formulated a new HR policy, “NEC, for those who seek challenge,” aimed at clarifying our ideas on a string of measures for transforming our people and our organization so that they can continue to compete successfully in the global arena.

Reforming Evaluation and Development to Strengthen Execution Capabilities

In working toward the Mid-term Management Plan 2020 theme of “strengthening execution capabilities,” we are reforming the evaluation system in fiscal 2019. To further fortify management’s commitment to business performance, we introduced a system that links bonuses to the level of achievement of annual key performance indicators (KPIs) that are clearly defined for both the short and medium terms based on role and responsibility. In fiscal 2021, we will incorporate organizational and human resource development through practical implementation of the NEC Way into the job descriptions of all officers. We will also incorporate the implementation of materiality themes into the descriptions for in-house directors, aiming to strengthen our execution capabilities starting with our officers.

For employees, in fiscal 2019 we introduced a system of nine blocks and multifaceted evaluation to give a fair evaluation of both performance and behavior. We are also aiming to achieve better performance management and support for team member growth by ensuring one-on-one meetings between supervisors and their team members.

NEC Corporation has extended internal job postings, previously organized by role and theme with a high sense of ethical values and a deep understanding of the essential issues faced by customers and society.

NEC Corporation is systemizing skill maps by job category and position. By clearly showing employees which skills are required for each position, they can find positions close to their own envisaged careers, or check the role, responsibilities, and required skills of a position. By evaluating the status of their skills with a skill assessment, they can continuously develop their capabilities with the support of their supervisors.

The NEC School for Social Value Creation was established in fiscal 2017 as a training program for nurturing the next generation of leaders. This executive-level program provides opportunities for participants to engage in dialogue with various stakeholders and gain practical experience at domestic and international sites. Based on this dialogue and experience, the participants create business ideas and business models for realizing social value. At training programs for frontline leaders, participants study and create ideas and business models for realizing social value. At training programs for frontline leaders, participants study and create ideas and business models for realizing social value.

Developing the Next Generation of Leaders

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In my first winter in this job, I spent a week at NEC Laboratories America, where I had discussions with researchers working at the cutting edge of machine learning. I reflected the results of these discussions in our development work, so it was a very valuable experience. I began working concurrently in the research lab in my third year, and also joined the quantum computer project, which led to my involvement in various departments in NEC as well as ventures and meetings in Japan and abroad.

NEC gives meaningful work assignments to young workers, and there is an atmosphere of wanting to change the current state of things. I think that another strength of NEC is its approach of thoroughly studying issues on site then coordinating with research labs to enhance its technologies.

I hope that the integration of AI and quantum computers contributes to the realization of social values such as safety, security, fairness and efficiency that NEC seeks to provide.

For further information, please refer to Sustainability Report 2020 “Human Resources Development and Training.”

In April 2020, certain personnel with high levels of expert knowledge and ability in certain fields outside of technology and research, and who contribute to the Company’s business through their ability to make an impact in and outside the Company, were appointed to a new officer class professional position called “Corporate Executive.” We are also promoting the development of professional human resources outside the Company, and in April 2019 we opened the NEC Academy for AI. The academy is a place for learning and practice where we are developing professionals in the AI field who can solve social issues.

Cultivating and Acquiring Professionals

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I want to bridge the business divisions and research labs to create synergies.

I am currently in charge of the quantum computer project, while also working in the AI Analytics Division. My aim is to merge AI and quantum computing, and to start up a business.

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Natsuko Yoshida  AI Platform Division NEC Corporation
Promotion of Understanding of LGBT People

Promoting Inclusion and Diversity

To promote the cultivation of “socially literate human resources,” it is important to create a culture in which employees can understand, respect, and empathize with diverse voices and perspectives. NEC Corporation is promoting inclusion and diversity (I&D) from various perspectives, including promotion of global recruitment of human resources, promotion of women’s career advancement and active participation in the workplace, promotion of employment of people with disabilities, and promotion of understanding of LGBT (lesbian, gay, bisexual, and transgender) people.

Goals of I&D

To transform the organization structure and culture into one that transforms individual differences into strengths, responds with agility to change, and continues to compete strongly and win.

Promoting Global Recruitment of Human Resources

To achieve global business expansion, we are working to recruit various non-Japanese individuals in our research, technology, sales, and corporate administration departments. Through these efforts, we strive to increase the quality of our workforce and promote diversity in each department. We are also working proactively to recruit employees of subsidiaries outside of Japan to work at NEC Headquarters and to facilitate interactions with these personnel and develop high-level human resources. We also make efforts to create a comfortable working environment for employees who need to make religious observances. For example, in March 2020, we opened a prayer room in the Head Office building.

Promoting Employment of People with Disabilities

Guided by the principle of “do what you can do on your own, and help each other for things you cannot,” we have been proactively developing skills and improving conditions for people with disabilities.

In January 2020, NEC become a signatory to The Valuable 500 initiative for promoting active participation of people with disabilities in the workplace, which was launched at the World Economic Forum annual meeting in Davos. By supporting people with disabilities through employment and contributing to society through support for parapets, we will provide safety, security, fairness, and efficiency. In doing so, we aim to enable people with disabilities to enjoy a rich range of social activities.

Promoting Women’s Career Advancement and Active Participation in the Workplace

We have been working to increase women’s career awareness through various measures. These include a seminar for employees returning from childcare leave and discussions and study sessions hosted by the voluntary association of female members of NEC’s management. In fiscal 2020, we selected promising female employees from a wide range of ranks to begin career development through training assignments at other companies, assessments and coaching from in-house career coaches, group mentoring, and female networking, among other activities.

Promotion of Understanding of LGBT People

In fiscal 2020, sessions were held for all officers, including the President, designed to foster understanding of LGBT, with lectures provided by the people involved. In addition, a group of members primarily from the People and Organization Development Division started activities as LGBT allies* with a public face, who provide direct responses to inquiries and consultation requests from LGBT people. In October 2019, we revised internal regulations to make provision for LGBT employees. We added “a person who is a de facto marriage partner or in a partner relationship” to the definition of “spouse” in order to give de facto marriage partners, including same-sex marriage partners, equal treatment to legally married couples.

* Ally: A supporter who understands the situation of LGBT individuals.

From October 2019, NEC Corporation abolished core time and introduced a flex time system without core time (super flex), aiming to transition to a style of working that is devised by the members of each team in line with the business and the situation of the members, rather than following a uniform style presented by the Company. By combining this system with telework, we encourage individual employees to design their work hours and locations autonomously, aiming to enable individuals and teams to achieve better productivity.

Furthermore, in July 2020 we published the Work Style Design Book to serve as a reference for individuals and teams when thinking about their future careers as they continue to adopt these new workstyles going forward.

NEC aims to continue growing as a company that is the preferred choice of society, and as an attractive company where every employee can palpably feel a sense of personal growth and happiness from working there.

Response to the COVID-19 Pandemic

As the impact of the COVID-19 pandemic becomes prolonged, causing significant changes in social activity, NEC considers its top priority to be ensuring the personal safety and security of its employees and their families. NEC Corporation and its consolidated subsidiaries in Japan and abroad have implemented countermeasures to prevent infection. These include rigorously implementing temperature checks of all employees each morning, enforcing handwashing and mouth rinsing, staggering shifts and encouraging teleworking, utilizing web conferencing, and ensuring that people do not come to work when feeling unwell. We are also promoting telework even further by encouraging work at home whenever possible.

At NEC Corporation, we have been promoting telework since 2018 by creating work systems and environments that enable all employees to work from home. Therefore, we have been able to continue our operations without major disruption even under the current circumstances.

At the front lines of research and development, it was common for researchers to go abroad to engage in face-to-face discussion. Now, the use of common communication tools has enabled many researchers in related fields to participate in simultaneous, dynamic discussions. Moreover, the new research style is helping to accelerate the development of solutions through efficient sharing of daily research results and rapid progress through discussion and analysis, enabling them to reach agreement more quickly.

Autonomous Design of Working Time and Location

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Overview of Risks and Opportunities

The TCFD recommends we evaluate the issues related to climate change-induced risks and opportunities, such as transition risks arising from changes in regulations and markets, and physical risks associated with disasters and weather phenomena. As NEC has had the experience of having to suspend plant operations in Thailand due to flooding in the past, we are strengthening our response initiatives through our business activities. For further details on our disclosure of information based on the TCFD recommendations, please refer to our Sustainability Report 2020 “Feature: Response to Climate Change and the TCFD.”

<table>
<thead>
<tr>
<th>Type</th>
<th>Time Frame</th>
<th>Summary</th>
<th>Main Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical risk (acute/chronic)</td>
<td>Short term</td>
<td>Increase in business expenditures for the impact of abnormal weather and countermeasures</td>
<td>Resealue data center disaster countermeasures based on actual records of disaster damage in Japan, and strengthen countermeasures such as capital expenditure if necessary.</td>
</tr>
<tr>
<td>Transition risk (Market)</td>
<td>Medium term</td>
<td>Decrease in earnings caused by declining demand for products and services due to an increase in concerns among stakeholders</td>
<td>Acquire SBT designation and promote initiatives to expand renewable energy to achieve them. Periodically survey major customers' climate change countermeasures.</td>
</tr>
<tr>
<td>Transition risk (governmen policy and laws)</td>
<td>Medium term</td>
<td>If NEC fails to achieve goals due to an increase in greenhouse gas emissions pricing due to the introduction of carbon pricing, it will incur expenses</td>
<td>Discuss and decide on countermeasures to minimize risk in the Business Strategy Council. Expand efficient use of energy and introduction of renewable energy towards achieving the SBT goals.</td>
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The TCFD recommends we evaluate the issues related to climate change-induced risks and opportunities, such as transition risks arising from changes in regulations and markets, and physical risks associated with disasters and weather phenomena. As NEC has had the experience of having to suspend plant operations in Thailand due to flooding in the past, we are strengthening our response initiatives through our business activities. For further details on our disclosure of information based on the TCFD recommendations, please refer to our Sustainability Report 2020 “Feature: Response to Climate Change and the TCFD.”

Overview of Risks

- **Physical risk (acute/chronic)**: Physical risks from the standpoint of our business continuity plan (BCP). Also, on the issue of carbon pricing, the introduction of which is being considered in various countries, we assess the potential impact it would have on business performance when such systems are adopted. As for opportunities, our current ICT-driven business lineup features a wealth of products, software, and services that provide corporate opportunities for climate change engagement. As such, we believe we can contribute widely to global climate change response initiatives through our business activities.

- **Transition risk (Market)**: Decrease in earnings caused by declining demand for products and services due to an increase in concerns among stakeholders. Acquire SBT designation and promote initiatives to expand renewable energy to achieve them. Periodically survey major customers’ climate change countermeasures.

- **Transition risk (governmen policy and laws)**: If NEC fails to achieve goals due to an increase in greenhouse gas emissions pricing due to the introduction of carbon pricing, it will incur expenses. Discuss and decide on countermeasures to minimize risk in the Business Strategy Council. Expand efficient use of energy and introduction of renewable energy towards achieving the SBT goals.

For further details on our disclosure of information based on the TCFD recommendations, please refer to our Sustainability Report 2020 “Feature: Response to Climate Change and the TCFD.”

**Aiming to Reduce NEC Corporation’s CO₂ Emissions to “Effectively Zero” by 2050**

In July 2017, we formulated our climate change countermeasure guidelines up to 2050 in order to strengthen NEC’s sustainable management base and promote creation of a sustainable society together with our customers. In accordance with these guidelines, we aim to reduce CO₂ emissions associated with NEC’s business activities (Scope 1 and Scope 2) to effectively zero by 2050.

**Course of Action for Climate Change Towards 2050**

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

**NEC’s Initiatives Toward Achieving the SBTs**

In December 2017, NEC committed to making science-based targets (SBTs) for its greenhouse gas emission reduction targets, aiming to achieve the so-called 2°C target of the Paris Agreement. Subsequently, these targets were designated as SBTs by the

Science Based Targets Initiative on October 31, 2018. In fiscal 2020, our targets were categorized under the new standard, “well below 2°C.”

**The NEC Group’s SBTs**

- **Scope 1 + 2**[^1]: Reduce greenhouse gas emissions by 33% compared with FY2018 by FY2031
- **Scope 3**[^2]: Reduce greenhouse gas emissions from products sold by 34% compared with FY2018 by FY2031

[^1]: Total of Scope 1 (direct greenhouse gas emissions from sources that are owned or controlled by the Company), and Scope 2 (indirect greenhouse gas emissions from consumption of purchased electricity, heat or steam)
[^2]: Scope 3 (other indirect emissions covering corporate upstream and downstream processes not included in Scope 1 + Scope 2)
Since 2016, we have continued to engage with our stakeholders and to hold dialogues with external professionals. We explain our environmental activities to gain their understanding. Also, we learn from experts' insights and their information on ESG investors' needs in order to improve our initiatives and information disclosure.

In March 2020, we held discussions with external professionals with expertise in sustainable management, information disclosure, and responsible investment, to address the question: What is necessary to make “environmental action with a particular focus on climate change” into a core driver of sustainable growth? The dialogue session was attended by the Executive Vice President and CDO of NEC Corporation, the Senior Vice President and CSCO (executive officer in charge of promoting environmental management), and officers from the Environmental Promotion Division and Corporate Communications Division.

Going forward, we will further enhance our activities by taking into consideration the opinions of those experts, who advised us to “visualize” targets for environment-related activities, present a “long-term vision” for the future, focus on other environmental issues outside of climate change, such as circular economies, and that they expected NEC to show leadership in creating new markets.

NEC’s climate change initiatives and information disclosure in fiscal 2020 were recognized by its listing on the “A List” of companies holding the highest rating in the CDP* “Climate Change” division.

* CDP: An international nonprofit organization that operates a global information disclosure system for investors, companies, municipalities, and countries, and regions to manage environmental impacts. In fiscal 2020, over 9,400 companies and data disclosed information through the CDP.

CDP* Climate Change “A List”

NEC has been promoting the Smart City Takamatsu project in collaboration with Takamatsu City since fiscal 2018. Within the project’s framework for leveraging ICT and other advanced technologies for urban development, we are also pursuing initiatives for rapid information sharing to support disaster prevention across wide areas. Under this initiative, various disaster prevention data that had existed separately are collected and aggregated, then converted into a standardized form of unified data so that wide area disaster prevention information can be integrated and displayed on the Takamatsu City Dashboard. This leads to faster information sharing among disaster response personnel and multiple local governments by helping them to quickly gain a comprehensive understanding of circumstances. Furthermore, we are also directing our attention to flood control support measures. Recent torrential rainfall has caused flooding of small and medium-sized rivers in urban areas, resulting in heavy damage. To address this, we are conducting research on river water level prediction using AI, which is expected to contribute to ensuring earlier evacuations of residents in affected areas in the future.

Example of Climate Change Countermeasures: Disaster Prevention Initiatives at Smart City Takamatsu

Examples of Resource Recycling: Development Support for AI-based Analysis Technology for Microplastics

The problem posed by plastic waste has grown into a global environmental issue. In some cases, the failure to properly dispose of plastic waste results in the plastic being carried away by the wind and rainwater into rivers, and eventually into the oceans. The plastic that has entered the oceans is exposed to ultraviolet rays and other elements that in due course break it down into small particles of 5 mm or less called microplastics. These microplastics continue to exist in the oceans for a considerably long time without decomposing.

With our ICT solutions, NEC is supporting the Japan Agency for Marine-Earth Science and Technology (JAMSTEC) in the development of microplastics-related technologies. Specifically, we are building a system for automatically measuring the size and classifying the shape of fine microplastics through observation with a fluorescence microscope and by utilizing AI. In the future, it is expected that such analytical technology will become established and see widespread deployment, and advancements in the elucidation of the actual situation of marine microplastics will lead to assessments of specific environmental pollution risks, reviews of emissions regulations, and actions in other areas.

Note: The above activities were carried out with support from the Environmental Research and Technology Development Fund (SII-2) of the Environmental Restoration and Conservation Agency.

For further details, please refer to our Sustainability Report 2020: “Environmental Action with a Particular Focus on Climate Change”
Innovation Management

NEC has adopted “Relentless Pursuit of Innovation” as one of the Principles of the NEC Way. This “innovation” represents not only technological innovation, but also changes in business models and creation of new value that impacts the economy and society. From yesterday to today and from today to tomorrow, our efforts in pursuit of a better society and corporation, in conjunction with our endeavors to co-create with a diverse range of stakeholders, leads to innovation.

NEC has been and will remain passionate about innovation, and will continue to innovate in society by making full use of cutting-edge technologies, extensive knowledge, diverse experiences, and original ideas. As a major part of this, we focus on explaining our initiatives to strengthen our technological capabilities and to pursue innovation through commercialization as the keys for continued provision of value to society.

Concentrated Investment in No.1/Only 1 Core Technologies

With regard to strengthening our technologies, under the direction of our Chief Technology Officer (CTO), we have formulated a technology strategy for the next stage of growth. We will continuously allocate approximately 4% of our revenue to R&D and make concentrated investments in NEC’s proprietary No.1/Only 1 core technologies.

We are concentrating investment in two areas of technology: data science and ICT platforms.

- In the area of data science, we are developing AI technologies that contribute to the creation of new value by carrying out visualization, analysis and prescription for the real world.

- In the area of ICT platforms, we are developing computing and network technologies that can adapt dynamically and in real-time to changes in the real world, and security technologies that allow social systems to operate securely and stably.

As part of these efforts, we will continue to strengthen “NEC the WISE” as a cutting-edge AI technology brand, along with our “Bio-IDiom” brand for biometric authentication products.

In April 2019, we established a new brand, “NEC Smart Connectivity,” that leverages NEC’s strengths in network technologies. In addition to technologies for visualization, analysis and control/guidance of the real world, networks that connect a large volume of data will also play a significant role in providing value to customers going forward.

At NEC Corporation, because intellectual property is regarded as an essential business resource supporting our 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 knowhow but also the designs and trademarks that support our global brand.

Tackling Social Issues

Contributing to the Improvement of Lifestyle Habits of India’s Bihar Residents

In February 2020, the Government of Bihar (Republic of India), NEC Corporation, and NEC Technologies India Private Limited concluded a memorandum of understanding (MOU) on collaboration in the area of preventive healthcare services.

This collaboration is aimed at promoting the health and wellness of citizens in the state of Bihar, India. The three parties will collaborate to offer periodic, home-visit health check, and encourage citizens to change their lifestyle habits.

For the first part of this project, a pilot trial was conducted in February 2020. In this pilot, community healthcare workers known as Accredited Social Health Activists (ASHA), who are appointed by the Government of Bihar, provided complementary door-to-door health checks for approximately 4,200 citizens in the state and offered advice for improving lifestyle habits. Citizens with the need to make considerable improvements to their lifestyle habits are arranged for consultation with an Auxiliary Nurse Midwife, a village-level health worker, for further examination of blood pressure and blood glucose levels.

NEC developed and provided a health application capable of showing each citizen’s health status and providing advice according to the data recorded by ASHAs. NEC also provided android tablet devices, measuring equipment and training for the ASHAs. Furthermore, we analyzed the collected data from various perspectives and provided the analysis to the Bihar state government in the form of a health status dashboard, which was extremely well-received.

Going forward, while continuing to promote job creation and vocational training for ASHA workers, we aim to contribute to the creation of social and economic value by also providing solutions that will allow the state government to use medical examination data for decision making to prevent an increase in social welfare costs.

Aggressive Push to Commercialize Technologies

We are actively promoting a transition into new business models that transcend existing business frameworks and the development of business from NEC’s core technologies.

Inspired by social issues and our core technologies, we will formulate hypotheses about issues, undertaking “business exploration” to promote development of business models through practical field testing and “business development” to implement new business models and realize high social value and sustainable growth. Among these activities, we not only establish business within NEC, but also promote business development activities through various schemes that include spin-outs and carve-outs.

In May 2019, we announced our full-scale entry into the drug development business with a focus on advanced immunotherapies, such as for the treatment of cancer, where we can leverage the strengths of our “NEC the WISE” brand. As a first step, we developed an investigational drug jointly with Transgene SA (head office: Strasbourg, France) and became the first Japanese company to begin clinical trials in Europe and the U.S. for personalized neoantigen* vaccines for head & neck cancer and ovarian cancer.

The 18th Ordinary General Meeting of Shareholders, held in June 2019, approved an amendment to the Articles of Incorporation, establishing a new objective: “To manufacture, sell or otherwise dispose of, medicines, quasimedicines, reagents, and other chemical products, and to provide medical support services and medical testing services” (Article 2 (5)). We will expand the social solution business by further promoting the medical system business and the drug development business using cutting-edge technologies.

* Neoantigen: Newly generated cancer antigens associated with genetic mutations in cancer cells. Neoantigens are not expressed in normal cells, but are found only in cancer cells, many of which vary from patient to patient.

Innovation Management

Innovation Management
Message from the CFO

Optimizing short-term profit and maximizing long-term profit to grow and enhance corporate value through appropriate capital allocation

Takayuki Morita
Senior Executive Vice President
CFO (Chief Financial Officer) and Member of the Board (Representative Director)

We are currently making steady progress toward achieving our targets under Mid-term Management Plan 2020. An important issue is capital allocation.

With regard to the cash we generate, it is important to think about long-term business results when considering its allocation. Focusing excessively on short-term profit may lead to reduced opportunities for investment in development as well as expenses for sales expansion based on a shortsighted outlook, which is not advisable. Since my appointment as CFO, I have promoted the view within the Company that in conducting management, short-term profit is to be optimized and long-term profit is to be maximized.

I will explain our initiatives to generate cash and our approach to capital allocation, also touching on the impact of the COVID-19 pandemic.

Cash Generation

Improving profitability and increasing asset efficiency are both important for generating cash to fund the abovementioned capital allocation. Another way to generate cash is to monetize assets.

Improving Profitability

We are strengthening our profit structure so that we can continue making the investments needed to survive amid global competition. In fiscal 2019, we carried out structural reforms that reduced fixed expenses, the effect of which was reflected in our profit levels for fiscal 2020.

In terms of business portfolio reform, we decided to deconsolidate NEC Display Solutions Ltd. and convert it to a joint venture in an agreement with Sharp Corporation in March 2020. Then, in June 2020, we decided to stop accepting new orders in our global energy business. By continuing to focus on our core businesses, we will increase profitability.

Unprofitable projects weigh down on profits. Currently, we are making improvements in this area with the aim of reducing the losses from these projects from a level of more than 10.0 billion yen to less than half of that. Projects may become unprofitable if they are investments in new domains or in novel projects, or if risks have materialized due to inappropriate project management. By conducting more stringent checks from a legal standpoint, we have managed to reduce the level of unprofitable projects to a certain extent. We can improve further by strengthening early detection of risks in the upstream stages of the projects.

Increasing Asset Efficiency

In an effort to increase asset efficiency, we are promoting companywide CCC improvement measures such as implementing prepayment negotiations, ensuring appropriate cycle times and optimizing inventory levels. In fiscal 2020, we conducted a pilot project in four divisions and managed to introduce improvement measures worth over 10.0 billion yen. From fiscal 2021, we will build a cross-divisional team of several hundred people to expand these activities companywide.

Monetizing Assets

In April 2019, we decided, in principle, to eliminate cross-shareholdings. The method and timing of the sale of these shareholdings has been the subject of careful consideration. I aim to complete the sale of shares totaling at least 50.0 billion yen over the coming year or so. Cross-shareholdings will be held only when the Board of Directors has accepted the rationality of the shareholdings, having clarified their strategic value and considered the return from a capital cost perspective.

In addition to cross-shareholdings, we are also actively monetizing available-for-sale assets.
We are making good progress with Mid-term Management Plan 2020, and steadily executing measures aimed at achieving the final-year target of an operating profit ratio of 5%. In our next mid-term management plan, we will target an even higher operating profit ratio.

To do so, we believe it will be important to allocate capital appropriately, seeking a balance between a sound financial structure, shareholder returns, and growth investments.

Ensuring a Sound Financial Structure

With regard to ensuring a sound financial structure, I believe that our balance sheet is sufficiently stable. Taking our D/E ratio and net debt/EBITDA ratio as indicators of soundness, we will allocate capital to increasing financial soundness in parallel with making growth investments with a view to raising our credit rating.

Shareholder Returns

Turning to shareholder returns, our target for the dividend payout ratio is around 30% of the average profit over the past five years. Our policy is to realize stable dividend payments to meet shareholder expectations. At the moment, we don’t plan to conduct any share buybacks. Given NEC’s current business environment, we believe that we can create greater corporate value by making growth investments such as M&As, and that increasing corporate value will result in a better return to shareholders.

Review of Fiscal 2020 and Financial Management in Fiscal 2021

In fiscal 2020, we achieved tremendous year-on-year gains in both revenue and operating profit as we reaped the benefits of a series of structural reforms conducted in fiscal 2019, and each segment made improvements. Looking back over the past two years, we made advance payments for expense and structural reforms once we were sufficiently sure of achieving our internal targets. These payments totaled 15.0 billion yen in fiscal 2019 and 27.0 billion yen in fiscal 2020. We are now carrying out measures related to proposed investments for fiscal 2021 onward, improvements to the profit structure, and optimizing our assets. Net profit totaled 100.0 billion yen, its highest level in 23 years, mainly due to improved operating profit and tax effects from completing procedures related to previously liquidated corporations. As a result, the year-end dividend increased from the initial forecast of 30 yen per share by 10 yen to 40 yen, for an annual dividend of 70 yen per share.

Free cash flow improved by 190.3 billion yen year on year, resulting in positive cash flow of 177.8 billion yen. This partly reflects special factors, such as an increase of around 36.0 billion yen due to changes in IFRS 16 (Leases). However, other factors included an improvement of 75.9 billion yen in adjusted operating profit (loss) and an improvement of about 36.0 billion yen in working capital due to enhanced asset efficiency. In particular, we attribute the improvement in the balance of operating income and expenditure to the gradual emergence of effects from the aforementioned CCC improvement measures.


As I have explained, in fiscal 2020, the second year of Mid-term Management Plan 2020, we conducted investments for the future and increased our financial soundness, while achieving results that exceeded our plan for the year. In the coming fiscal year, we will strive to achieve the final year targets of Mid-term Management Plan 2020.

In these times of dynamic change in the business environment, epitomized by the recent COVID-19 pandemic, revenue levels may change rapidly and the cash outlook can easily become unclear. In such a crisis, we need to hold more ready cash on hand than in ordinary times to counter the risk of a deterioration in liquidity, thereby minimizing risk to management. We will ensure sufficient liquidity on hand by steadily procuring funds and liquidating assets. Our overseas subsidiaries have therefore secured borrowing facilities from banks in Japan and overseas to provide greater leeway than usual in preparation for a worst-case scenario.

In other developments, a long-standing issue over restrictions on transactions of the Company’s common stock in the United States (an order received under Section 12(j) of the U.S. Securities Exchange Act of 1934) was resolved. The restriction was lifted in June 2020. We will now communicate more actively with stakeholders in the U.S. investment market, aiming to further increase our corporate value. We will continue to realize long-term value creation and increases in corporate value through appropriate capital allocation going forward.


Message from the CFO

I have explained NEC’s basic policy for capital allocation and the generation of cash to fund it. Now I will review our financial results for fiscal 2020 while explaining our initiatives for achieving our targets for fiscal 2021, the final year of Mid-term Management Plan 2020.

Free Cash Flows (Billions of yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Free Cash Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-84.0</td>
</tr>
<tr>
<td>2015</td>
<td>-12.4</td>
</tr>
<tr>
<td>2016</td>
<td>-14.2</td>
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<tr>
<td>2017</td>
<td>-84.0</td>
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<tr>
<td>2018</td>
<td>-64.3</td>
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<tr>
<td>2019</td>
<td>-115.8</td>
</tr>
<tr>
<td>2020</td>
<td>-261.9</td>
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<td>2020</td>
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### Performance Highlights

**Revenue**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (Billions of yen)</th>
</tr>
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<tbody>
<tr>
<td>2011</td>
<td>3,115.4</td>
</tr>
<tr>
<td>2012</td>
<td>3,036.8</td>
</tr>
<tr>
<td>2013</td>
<td>3,071.6</td>
</tr>
<tr>
<td>2014</td>
<td>3,043.1</td>
</tr>
<tr>
<td>2015</td>
<td>2,935.5</td>
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<tr>
<td>2016</td>
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<tr>
<td>2019</td>
<td>2,913.4</td>
</tr>
<tr>
<td>2020</td>
<td>3,095.2</td>
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</tbody>
</table>

### Operating profit

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating profit (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>73.7</td>
</tr>
<tr>
<td>2012</td>
<td>73.7</td>
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<tr>
<td>2013</td>
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<tr>
<td>2014</td>
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<tr>
<td>2015</td>
<td>128.1</td>
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<tr>
<td>2016</td>
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<td>2017</td>
<td>41.8</td>
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<tr>
<td>2018</td>
<td>63.9</td>
</tr>
<tr>
<td>2019</td>
<td>58.5</td>
</tr>
<tr>
<td>2020</td>
<td>127.6</td>
</tr>
</tbody>
</table>

### Key Management Measures

1. **Measures to optimize business profiles**
2. **Measures to grow business and strengthen financial foundation**

### Fiscal year ended March 31, 2011

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

### Fiscal year ended March 31, 2012

- **Made the consumer PC business into an equity-method affiliate.**

### Fiscal year ended March 31, 2013

- **Acquired the business support system business of U.S.-based Convergys Corporation.**

### Fiscal year ended March 31, 2014

- **Divested all of NEC's stakes in NEC Mobiled., currently NRX Mobility Co., Ltd., a mobile phone sales business.**

### Fiscal year ended March 31, 2015

- **Divested all of NEC's stakes in NEC BIGLOBE, Ltd., currently BIGLOBE Inc., an internet service provider in March, 2014.**

### Fiscal year ended March 31, 2016

- **Transformed administrative staffs 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 dotData, Inc. in the U.S.**
- **Established NECX, Inc. in the U.S.**
- **Acquired Danish company iWeld Holding ApS**
- **Sole of shares in electrode business**

### Fiscal year ended March 31, 2020 (The fiscal year under review)

- **Sole of shares in Nippon Axions Co., Ltd.**
- **Decided to convert NEC Display Solutions Ltd. into a joint venture.**

**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. Dividend payout ratio = Dividends per share / Net profit (loss) attributable to owners of the parent per share
3. The debt-equity ratio is calculated by dividing interest-bearing debt by shareholders' equity.
4. Improvement in energy efficiency of products is based on a comparison with the fiscal year ended March 31, 1996.
5. *The amount reflects a share consolidation (with a ratio of 10 shares to 1 share) that took effect on October 1, 2017.*
Solving Social Issues by Providing Value beyond the Conventional Scope of an ICT Vendor

Japan is facing social issues arising from declining birthrates and an aging population, increasing social security costs, a declining work force, and a slump in consumption. NEC’s task is to grasp these issues and address them firmly, then contribute to realizing a sustainable society. Using our accumulated experience, AI and biometrics technologies, and co-creation, we will provide value beyond the conventional scope of an ICT vendor. In this way, we will contribute to realizing sustainable growth and achieving the companywide profit targets.

Business Environment and New Market Opportunities

Business model reforms driven by AI and IOT (DX) are 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 our business into new domains inspired by social issues for our sustainable growth.

In Japan, the COVID-19 pandemic has exposed and drawn attention to issues with the systems of national and local governments, as well as medical institutions and small- to medium-sized enterprises (SMEs), as well as delays in their digitalization. We view this as an opportunity for us to contribute to the development of safe, secure, fair, and efficient social infrastructure using advanced ICT such as AI, IOT, and biometrics.

Providing Social Infrastructure to Realize Advanced Local Communities

Countermeasures against COVID-19 have helped to increase awareness of the concepts of remote, touchless, and resilience in every area of society. We will also accelerate our response to DX in the public business domain.

Contributing to the Realization of Digital Government

In order to contribute to the realization of digital government in Japan, we will accelerate the creation of services that offer users true convenience, using national infrastructure such as the system supporting the Social Security and Tax Number System ("My Number") and advanced technologies such as AI and biometrics.

Digital Healthcare Using ICT

In the area of healthcare, we will use advanced ICT to contribute to solutions for critical issues, such as ensuring safety and security on the frontlines of medical care and overcoming labor shortages. These technologies include image diagnostic support using AI and remote/touchless solutions that help to prevent infections from occurring and spreading inside hospitals. In this way, we aim to realize a healthy, long-lived society where people can live vibrant lives.

Helping to Create Resilient Cities

To address diseases such as COVID-19 as well as natural disasters that occur each year, we will contribute to the creation of resilient cities by utilizing advanced technologies in our Social Infrastructure Business, which includes disaster prevention, fire service, transportation, and electricity.

Toward Realizing a Safe and Secure Olympic and Paralympic Games Tokyo 2020

For the Olympic and Paralympic Games Tokyo 2020 (Tokyo 2020 Games), we aim to make sure that the event runs safely, securely, and smoothly by providing advanced public safety products that utilize biometrics and behavior detection and analysis, along with private network radio systems.

The Tokyo 2020 Games have been postponed for one year due to the impact of COVID-19, and providing a safe and secure environment is the highest priority for running the event. Given the situation, NEC will continue to utilize advanced technologies to ensure that the Tokyo 2020 Games are safe, secure, and successful.

STRENGTHS

- Strong track record, high credibility, advanced technologies, and high market share in Japan for systems and cyber security in governmental organizations, local governments, and power companies.
- Ability to propose customers’ future concepts based on “domain knowledge,” specifically operational expertise and deep knowledge of data through longtime deals.
- Provision of vertically integrated solutions for full-layer IT with the “NEC the WISE” lineup of AI technologies, “Bio-IDiom” biometrics, IT, networks, and sensing technologies including security.

OPPORTUNITIES

- Acceleration of digitalization in government services and the medical field due to lifestyle and business style changes caused by the COVID-19 pandemic.
- Even greater expectation for safe and secure running of the Tokyo 2020 Games, despite their postponement due to the COVID-19 pandemic.
- System generation change and innovation in the Social Infrastructure Business (electric power, roads, etc.).
- Expansion in demand for strengthening of systems and monitoring services for cyber security.

WEAKNESSES

- There is a high proportion of large-scale projects in Japan, with fewer projects that provide regular income streams, such as in services, meaning that demand volatility can have a significant impact.

- Countermeasures: Transform the business model to focus on capturing service projects, thereby raising the ratio of regular income projects.

- 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.

- Countermeasures: Further accelerate measures such as enhancement of risk management and visualization and standardization of development. Minimize additional costs.

- Countermeasures: Rigorously differentiate products in terms of functionality and performance while constantly improving cost competitiveness and quality.

- Countermeasures: Execute business strategies that anticipate changes in existing business fields.

- Countermeasures: Focus on developing and providing solutions needed for the new normal.

- Countermeasures: Possibility that digitalization may prompt an increase in market entries from other companies and other industries.

- Countermeasures: Monitor and adapt business strategies to anticipate changes in existing business fields.

- Countermeasures: Deterioration of the economic environment due to the COVID-19 pandemic and curbs on ICT investment due to downturn in customers’ performance.

THREATS

- Countermeasures: Focus on developing and providing solutions needed for the new normal.

- Countermeasures: Rigorously differentiate products in terms of functionality and performance while constantly improving cost competitiveness and quality.

- Countermeasures: Possibility that digitalization may prompt an increase in market entries from other companies and other industries.

- Countermeasures: Monitor and adapt business strategies to anticipate changes in existing business fields.

- Countermeasures: Deterioration of the economic environment due to the COVID-19 pandemic and curbs on ICT investment due to downturn in customers’ performance.

- Countermeasures: Focus on developing and providing solutions needed for the new normal.
Contributing to Achievement of the Mid-term Management Plan 2020 by Stable Earnings

In the Public Infrastructure Business Unit, we support the stable running of mission critical operations for governments, governmental agencies including national security, and broadcasters using ICT. By supporting these key national infrastructure entities, we will maintain stable earnings. However, as our businesses have an inherent tendency to take up the challenge of world-leading or industry-leading technologies, unprofitable projects can result. To minimize this possibility, we will further strengthen the risk evaluation process in fiscal 2021 to ensure stable profits, and contribute to achieving our companywide targets under the Mid-term Management Plan 2020.

Continuous Investment to Contribute to Realizing a Sustainable Society

Continuous technology development is essential to the ongoing provision of new value that supports key national infrastructure. The technologies that we have cultivated include biometric authentication - developed in the law enforcement and justice fields and offering world-leading accuracy; cutting-edge cybersecurity technologies - developed through our efforts in the field of national security; and space-related technologies - developed for use in carrying out missions in uncharted places in the harsh environment of space (used in Hayabusa 2). These Public Infrastructure Business Unit technologies are currently applied in projects in various fields, representing NEC. We will cooperate with the Research and Development Unit to promote technology development that secures a competitive advantage in technology for the future, and contributes to the realization of a sustainable society by supporting key social infrastructure.

Towards Mid- to Long-term Business Growth

The Japanese Government’s Digital Government Action Plan is a sign of accelerating transformation in government agencies, which are our customers, as well as the broadcasting and media sectors. In addition to digitalization, we will also venture into the development of systems related to society overall, helping to increase productivity of Japan by proposing future concepts for customers’ operations. Our strengths in this area are the customer expertise, various technologies, and assets that we have accumulated over many years. With these strengths, we have been providing digital education materials through the NEC Education Cloud, digitalizing year-end tax adjustment procedures, and so on. Looking ahead, we will continue to try out new ideas and challenges as we work to transform the structure of social systems and create new social value with our customers.

Finally, in April 2020 we announced that we had received an order for an Earth observation satellite system for Vietnam. This is also a practical example of our materiality, NEC Corporation’s nine priority management themes, one of which is “Environmental action with a particular focus on climate change.” We will continue to provide social value through practical implementation of our materiality based on the SDGs.

STRENGTHS

- Strong track record, high credibility and advanced technologies for systems and cyber security in governmental organizations and broadcasters.
- Ability to propose solutions to customers’ issues and future concepts based on expertise and knowledge of data through longtime deals.
- Provision of vertically integrated solutions with the “NEC the WISE” lineup of AI technologies, “Bio-IDiom” biometrics, IT and networks and sensing technologies including security.

WEAKNESSES

- Susceptibility to volatility of demand due to fewer projects that provide regular income.
  - Countermeasures: Attempt to promote recurring and subscription-based businesses.
- Need for continuous investment to develop advanced technology and maintain quality.
  - Countermeasures: Increase ability to recover long-term investments.

OPPORTUNITIES

- Expansion in ICT demand due to the Digital Government Action Plan, such as the Government Cloud and Giga School concepts.
- System generation change in the Social Infrastructure Business (broadcasting, law enforcement, etc.).
- Expansion in demand for strengthening of systems and monitoring services for cyber security countermeasures.

THREATS

- New business trend represented by IP broadcasting and transformation of the viewer rating and advertising models.
  - Countermeasures: Regularly review business plans looking 5 and 10 years ahead.
- Contraction of the existing ICT market.
  - Countermeasures: Acquire strengths through investment in new themes and expand new business domains by proposing digital transformation to customers.

Revenues (Billions of yen)  

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Adjusted Operating Profit</th>
<th>Adjusted Operating Profit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>658.8</td>
<td>50.8</td>
<td>7.7%</td>
</tr>
<tr>
<td>2020</td>
<td>678.8</td>
<td>64.2</td>
<td>9.5%</td>
</tr>
<tr>
<td>2021 (Forecast)</td>
<td>675.0</td>
<td>62.0</td>
<td>9.2%</td>
</tr>
</tbody>
</table>

Review of Operations  
Public Infrastructure Business
Solving Social Issues with VCI

Society and corporations face various kinds of social issues, such as food waste, labor shortages, changes in the consumption environment, and diversifying threats in both real and cyber-space, not to mention adapting to the new normal that has been brought on by the COVID-19 pandemic. To solve these social issues, we will utilize cutting-edge digital technologies and promote co-creation with customers in order to connect people, goods, and processes, reaching across the boundaries between enterprises and industries to provide NEC Value Chain Innovation (VCI) that will create new value.

Expanding Offerings to Convert to a Service-Type Business Model

The digital shift in the Japanese IT market is accelerating, and we expect the imminent arrival of an era where digital technology is used by the majority of businesses. Looking ahead to this change, we will respond quickly by establishing offerings for customers of all business fields. Then, we will strengthen the value provided by VCI through co-creation.

We also recognize that service-type businesses such as subscription businesses are going to become mainstream, and customer demand is increasing. We will allocate resources to SE, including service staff, and promote the development of service provision-type human resources, converting our business model to handle service provision-type business and transforming our organization into one that can support new business structures.

Capturing Demand in the New Normal and Accelerating VCI Business Development

Since the formulation of the Mid-term Management Plan 2020, we have steadily implemented initiatives to maintain our existing business domains, while concentrating investment in transformation for growth, conducting cost structure reforms, and setting up for the VCI business. These initiatives have produced steady growth in revenue and operating profit, and our business structure has also been transformed in line with the digital shift of the market.

In fiscal 2021, we will continue to invest in expanding offerings needed for accelerating proposal- and co-creation-type businesses for relevant markets, as we move to capture new demand for the new normal, such as remote, online, touchless, automation, and transparency/trust. In addition, by strengthening our coordination with the companywide DX strategy, we will increase the speed of our market response and bolster our competitiveness.

Moreover, in our existing business domains, we will strive to strengthen management and secure profits, while shifting human resources into digital domains, while keeping an eye on market changes.

We will respond to new demand from society and customers in the new normal, with a primary focus on VCI, and move forward together with customers and business partners, combining our capabilities with theirs as a company that solves social issues.

STRENGTHS

- Reliability and achievements cultivated over many years of providing IT services to domestic clients in the manufacturing, retail and service, and financial industries.
- Integration of advanced technologies and business to create customer value through modernization and VCI.

WEAKNESSES

- Need to supplement know-how assets to swiftly realize solutions for social issues.
  - Countermeasures: Strengthen co-creation with external partners across company and industry boundaries.
- Need to secure digitally capable human resources to respond to new domains.
  - Countermeasures: Strengthen human resource shift and recruitment in response to market changes.

OPPORTUNITIES

- ICT expected to play a wider role in solving various social issues, such as food waste and labor shortages.
- Expansion in new business opportunities arising from changes in workstyles and lifestyles.

THREATS

- Change in customers’ fields of investment due to acceleration of digitalization.
  - Countermeasures: Create new business models and strengthen DX support capabilities.
- Intensifying competition due to market entry of companies from other industries and internationally, etc.
  - Countermeasures: Increase market response speed and value provision by strengthening internal collaboration and co-creation with external partners.
Providing Innovative Forms of Connection to Support DX

All of society is currently undergoing a huge digital shift. We are promoting global development, aiming to build a globally competitive eco system centered on the shift to open systems. In the 5G domain, we will provide integrated telecommunications infrastructure such as mobile systems, optical systems, and network management systems. In addition, as security becomes more important, NEC will promote secure networks that use its original security technologies to enable management of everything from supply chains to network equipment.

As one of these initiatives, in June 2020 NEC and NTT Corporation announced an alliance for joint research and development of advanced technologies and products, primarily optical and wireless products. Going forward, the two companies will contribute to enhancing the industrial competitiveness of Japan and further ensuring safe and reliable communication infrastructure, playing leading roles in working with numerous communication equipment vendors. Furthermore, the two companies will jointly develop cutting-edge technologies and globally competitive products that originate in Japan by utilizing both companies' strengths. The collaboration will also encompass the formation of an optimal sales framework that will facilitate the roll-out of such technologies and products to the global market.

Meanwhile, for industrial customers we will provide a wide range of solutions, from management of a vast amount of data and IDs to solutions that change data into value by linking the real world with the cyber world. Moreover, through co-creation activities with diverse customers we will create new businesses and services that utilize local 5G, reforming industrial processes through automation and autonomization, and a shift to remote operations, thereby helping customers to optimize their business processes. Through these initiatives, we will provide connections that support DX and contribute to social transformation.

Initiatives of the Network Services Business in the Digitalization Era

The digital shift in workstyles and lifestyles is advancing rapidly, driven by the arrival of the 5G/loT era. The industrial world is also stepping up the pace of digital transformation (DX) aimed at using AI, IoC and cloud computing to streamline management and capture new business. In this environment, connecting people, things and contexts with data securely and flexibly is more important than ever, and demand for this is growing. NEC will lead DX by maximizing the “connection value” it has cultivated through its telecommunications-related businesses since its foundation. By providing the ability to connect widely throughout society, we will contribute to the realization of new business creation, a safe and secure society, and better lifestyles.

Further Development of the Network Services Business

For 5G and beyond, networks will need to be flexible enough to handle a diverse range of services and multiple frequencies. The key to achieving this is shifting to open and virtualized systems. We are actively promoting the provision of equipment capable of supporting this shift, and in July 2019 we started shipping 5G base stations for NTT DOCOMO INC. which are compliant with O-RAN front-haul interface specifications. We are also accumulating a track record in the domestic market; for example, by supporting cutting-edge technologies and globally competitive products that originate in Japan by utilizing both companies' strengths. The collaboration will also encompass the formation of an optimal sales framework that will facilitate the roll-out of such technologies and products to the global market.

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STRENGTHS

- One of the best track records in Japan and accumulated expertise in delivering networks and IT systems for telecom carriers and companies.
- Large-scale mission critical system construction capabilities cultivated in projects for telecom carriers and core technologies in the network domain, such as 5G.
- Promotion of the shift to opens systems such as O-RAN and promotion of cloud native networks using the network virtualization footprint.
- Securing safety through end-to-end security, including secure development and supply chains.

WEAKNESSES

- Insufficient product variation in building 5G product portfolio.
- Low price competitiveness in the commodity domain.
- Insufficient assets in business development for industry, such as industrial devices for construction machinery, devices, and business operation apps.

OCCUPORTUNITIES

- Diversification and sophistication of needs for networks due to 5G, increase in telecom carriers seeking to shift to open systems.
- Increased expectations of domestic vendors for 5G as a core infrastructure, earlier 5G investment by telecom carriers supported by government policy.
- Expansion of business opportunities due to connection of people, things and contexts with digital transformation at companies, including operational reforms.
- Growth in demand for network infrastructure associated with the increase in services delivered via networks in the new normal.

THREATS

- Resistance to shift to open systems among global mega vendors.
- Insufficient global track record/footprint.

Review of Operations  Network Services Business
Global Business

Transformation into a True Global Company—Business Model Transformation to Realize Profitable Growth

Akihiko Kumagai
Senior Executive Vice President

Our Vision for the Medium to Long Term

Realizing NEC Safer Cities based on the safety business is one of the growth drivers for the Global Business. While technological advances have made life more convenient, there is growing urgency to respond to global issues such as labor shortages, rapid urbanization, the risk of increased terrorism due to geopolitical factors, and the risk of pandemics such as COVID-19. In addition to the area of public safety, where NEC’s biometric authentication technologies have been used to provide safety and security, we will also expand our business in the field of digital government, where we aim to achieve fairness and efficiency by using asset management and payment platforms provided by our subsidiaries Northgate Public Services Limited in the U.K. and KMD Holding ApS in Denmark. Another growth driver is the business for service providers such as telecom carriers. Investment in 5G is going to accelerate worldwide going forward. NEC will leverage its track record as a leader in adopting this new technology in Japan. At the same time, NEC will expand its businesses by becoming a market disruptor that provides customers with new value, using its accumulated virtualization technology and strengths in open eco systems from collaboration with partners as a point of differentiation. Furthermore, with the shift to 5G technology in networks, investment will expand in the software and services fields, such as customer, fee, and operation management systems to increase their operational efficiency, flexibility and rapid response to new services based on digital transformation (DX). In addition to the strong competitive advantages of customer, fee, and operational management solutions offered by Netcracker Technology Corporation, we will offer new solutions that incorporate advanced virtualization technologies to meet the needs of the new era. Furthermore, we will contribute to bolstering networks by providing solutions such as submarine cables to handle the expanding volume of data traffic.

Toward Achieving the Mid-term Management Plan 2020

To realize growth in the Global Business, our No. 1 priority in fiscal 2020 is achieving profitability in our operations. By integrating the display business with Sharp Corporation, we aim to achieve growth and improve our earnings structure over the medium to long term. We also set about structural reforms in the energy business. Looking ahead, we aim to improve earnings in the safety business through business model reforms and to realize organic growth in the Service Provider and Submarine Cable Business to achieve our plan for fiscal 2021. We will combine NEC’s assets and leverage its strengths while taking steps to maintain our business scale and strengthen profitability through partnering and business model transformation, particularly in markets that are maturing or expecting to see intensifying increased competition.

In Closing

NEC will contribute to the realization of a safe, secure, fair, and efficient society by applying advanced AI and biometric authentication technologies and strengthening its capabilities through M&As and partnership activities, while always placing top priority on respecting human rights and observing the laws and regulations of each country. Furthermore, we will respond to the paradigm shift in government, economy, society and technology caused by the COVID-19 pandemic by contributing to the new normal of society through our safety and service provider businesses.

STRENGTHS

Safety Business: World-leading biometric authentication technology and analysis technologies (status recognition, crowd behavior analysis, indication-detection, etc.), and software platforms for the digital government field.

Service Provider Business: Product competitiveness capabilities and advanced position in solutions provided for customer, fee, and operational management systems, along with SI capabilities for constructing open eco systems with partners, and international sales networks and customer base.

Strong presence and track record in the markets for network equipment (wireless solutions), and submarine cable.

WEAKNESSES

Limited countries and regions in which we can provide solutions tailored to each customer, such as in the Safety Business.

Countermeasures: Create synergies between organizations and regions, and build efficient business structure.

Delay in shift of business model from equipment sales to a software and services business.

Countermeasures: Accelerate shift to software and services business utilizing the Group’s internal expertise and best practices.

OPPORTUNITIES

Expansion in demand for safety solutions in countries where there is growing interest in safety and security.

Increase in demand in the field of software services related to DX for service providers and the field of 5G.

Increase in investment in the network domain due to increase in data traffic volume.

THREATS

Aggressive approach by emerging market vendors and others in the field of biometric authentication and Service Provider Business.

Countermeasures: Strengthen continuous solutions to meet customer needs and differentiate through business model reform.

Intensifying price competition due to maturation of the market in the product business.

Countermeasures: Strengthen earning capability through partnering and business model reform.
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 Corporation 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

### Strengthening management and supervision functions
- **2001** Established Compensation Committee
- **2010** Established Nominating and Compensation Committee*1: Enhanced transparency of nomination and remuneration of Directors, etc.
- **2012** Rates of Outside Directors: 45.5% +
- **2019** Majority of Directors are non-executive

### Strengthen the execution structure
- **2011** Initiating Chief Officer position: Strengthened corporate strategies
- **2017** Strengthened corporate functions and accelerated the speed of decision making
- **2019** Clarified the responsibilities and authority of corporate officers: Adopted one-year mandate contracts
- **2019** Increased the role of performance-based stock compensation for executive Directors: Moved to a 1:1 ratio for fixed remuneration to performance-based remuneration

Overview of the Corporate Governance Structure

![Diagram of Corporate Governance Structure](image)

Management and Supervision

<table>
<thead>
<tr>
<th>Purpose, Activity, and Number of Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board of Directors</strong></td>
</tr>
<tr>
<td>- Main Initiatives for Strengthening Corporate Governance</td>
</tr>
<tr>
<td></td>
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<td></td>
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</tbody>
</table>

**Main Initiatives for Strengthening Corporate Governance**
- Strengthened management and supervision functions
- Strengthen the execution structure

**Management Policies**
- **Revised the NEC Way**
- **Revised the NEC Group Code of Conduct**
- **Report on sustainability and promotion activities (materiality, environment, human rights)**

**Management Strategy**
- **Corporate governance as an element of Management Plan 2019**
- **Corporate governance strategy**
- **Digital transformation strategy**
- **Corporate governance as an element of Management Plan 2020**

**Human Resource Measures**
- **Human resource policy and measures**
- **Advantages of cross-shareholding systems**

Management Policies: NEC Group Policy 2020

**Audit & Supervisory Board (KANSAIKU-KAI)” (“A&SB”)**

Main Initiatives in Fiscal 2020
- Creation of audit policy and plan
- Disclosures and checks of audit reports
- Matters regarding selection and dismissal of external auditors
- Confirmation of establishment and implementation of internal control systems
- Exchange of opinions with President regarding internal management issues
- Reviewing and reporting to the Board of Directors
- Evaluation of the effectiveness of the A&SB

**Main Initiatives for Strengthening Corporate Governance**

**Nomination and Compensation Committee**

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- Creation of audit policy and plan
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- Matters regarding selection and dismissal of outside auditors
- Confirmation of establishment and implementation of internal control systems
- Exchange of opinions with President regarding management issues
- Reviewing and reporting to the Board of Directors
- Evaluation of the effectiveness of the A&SB

**Corporate Governance**

NEC Corporation 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&SBM audits the legitimacy and appropriateness of NEC Corporation'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 Corporation believes that its corporate governance is functioning adequately under the system described above. However, we are focusing our efforts on enhancements and improvements of this system in order to realize more effective corporate governance responding to changes in the business environment.

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

NEC Corporation has conducted an analysis and evaluation of the effectiveness of the Board of Directors once a year to improve the function of the Board of Directors since fiscal 2016.

**Procedure of the analysis and evaluation**

In fiscal 2020, NEC Corporation conducted a questionnaire of all the Directors and A&SBMs, and conducted individual interviews based on the results. In the questionnaire and interviews, participants were asked mainly for their opinions regarding issues concerning the role, function, and operation method of the Board of Directors and points for improvement with a view to the kind of governance structure that NEC Corporation should aim for. In fiscal 2020 particularly, the focus was on asking for opinions based on the results of the effectiveness evaluation undertaken in the previous fiscal year. Participants were asked about the appropriateness of the themes of matters brought for discussion and the sufficiency of discussion based on perspectives that should be emphasized in deliberations in order to ensure high quality, in depth discussion in the Board of Directors with an emphasis on broad, companywide management strategies and governance perspectives. The results of the analysis and evaluation of these opinions were reported at the ordinary Board of Directors meeting in March, which deliberated on plans for improvement going forward.

To improve the analysis and evaluation process in fiscal 2020, NEC Corporation used a third-party institution for setting the questionnaire and interview questions, analyzing the results, and examining improvement measures, and so forth.

**Summary of the evaluation result**

A summary of the evaluation of the effectiveness of the Board of Directors for fiscal 2020 is as follows:

- In the Board of Directors, it can be evaluated that appropriate supervision of business execution has been conducted with lively discussion regarding decision making on important business execution and other important matters of medium- to long-term management strategy.
- Overall, the Board of Directors had discussions based on important perspectives for fulfilling its responsibility.

- With regard to discussions with an emphasis on broad, companywide management strategies and governance, which was identified as an issue in the effectiveness evaluation for fiscal 2019, there was an overall improvement due to initiatives such as reviewing the themes of discussion, and
- The governance structure has room for improvement in terms of the composition of the Board of Directors and its operation.

**Initiatives going forward**

NEC Corporation will conduct the following initiatives to make discussions more effective based on the clarified role expected of Outside Directors by results of the effectiveness evaluation:

- To further deepen discussions from a broad, companywide perspective, NEC Corporation will continue to consider how to set discussion themes and to report on medium- to long-term strategy, collateral risk, and group-wide synergies, and governance;
- Regarding Business-unit reporting, NEC Corporation abolished reports that were uniformly implemented by all Business units, and set important themes that should be discussed under the perspective of group strategies by the President so that discussions can be conducted based on knowledge of the specialized field of each Outside Director.

**Evaluation of the effectiveness of the Nomination and Compensation Committee**

In the questionnaire and individual interviews about the effectiveness of the Board of Directors, NEC Corporation asked for opinions from Directors and A&SBMs to clarify challenges and improvements for the Nomination and Compensation Committee.

In summary, the results show that the composition of the Nomination and Compensation Committee can generally be evaluated as appropriate. However, some questions pointed out in the evaluation of the operation with regard to securing discussion time appropriate to the themes for discussion by the Nomination and Compensation Committee, and using prior explanations to make its meetings more efficient. Going forward, NEC Corporation will work to improve the guidance in accordance with the priorities of the responses pointed out.

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

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

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**Remuneration System**

<table>
<thead>
<tr>
<th>Directors</th>
<th>Inside</th>
<th>Executive</th>
<th>(a) Basic remuneration (Including (b) Stock compensation)</th>
<th>(c) Bonuses</th>
<th>(d) (c) – (b) Stock compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive</td>
<td>Inside</td>
<td>(a) Basic remuneration (Including (b) Stock compensation)</td>
<td>(c) Bonuses</td>
<td>(d) (c) – (b) Stock compensation</td>
<td></td>
</tr>
<tr>
<td>A&amp;SBMs</td>
<td>Inside and Outside</td>
<td>(a) Basic remuneration</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ratio of performance-based remuneration and other remuneration for Executive Directors is set at 1:1 in order to serve as an incentive to improve performance (Ratio of basic remuneration : Bonuses : Stock compensation = 5:3:2).

The ratio of bonuses and the performance-based stock compensation is calculated based on a standard amount before reflecting the degree of achievement of the performance targets.
Basic remuneration
Basic remuneration is fixed, monthly payments that do not exceed the limit* established by resolutions of the General Meetings of Shareholders, and is determined separately for each job title and for Inside Directors and Outside Directors.

President
Executive Vice President and Member of the Board
Senior Executive Vice President and Member of the Board

(a) The performance indicators for this component are the NEC Group’s consolidated revenues, operating income and free cash flows in the applicable fiscal year. These indicators were selected taking into account their importance concerning the NEC Group’s management strategies and suitability in determining the achievement level of performance targets.
(b) The performance indicators for this component are bonus indicators and mid-term plan indicators.

Bonnies
Bonnies serve as short-term incentives to achieve performance targets in each fiscal year for the sustained growth of the NEC Group. Executive Directors are eligible to receive these bonuses. The limit for total payments of these bonuses is determined by a resolution of the General Meetings of Shareholders. Individual bonus payments are determined by adjusting the standard bonus amount determined for each job title of Directors to reflect the achievement level of performance targets.

The number of bonuses is set between 0% and 200% of the standard amount determined for each job title, based on the achievement level of performance targets.

The number of shares granted for the compensation is set between 0% and 100% of the standard number of shares determined for job title, based on the achievement level of performance targets.

(b) The fixed stock compensation further clarifies the link between remuneration for Directors and the value of NEC Corporation’s shares by increasing the ratio of stock compensation in the remuneration for Directors, and encourages Directors to operate the business with a higher consciousness of NEC Corporation’s share price by sharing shareholders not only the benefits of rising share prices but also the risks associated with falling share prices.

In these stock compensation systems, the shares are granted after three years from the beginning of the applicable period.

Under the stock compensation system, clawback and malus provisions have been included. These enable NEC Corporation to take action in cases where compliance breaches or inappropriate accounting treatment (including the submission of amended reports and amendment of past financial statements) have been confirmed. In such cases, after deliberation by the Nomination and Compensation Committee and a resolution by the Board of Directors, NEC Corporation may withhold all or part of the rights to receive a grant of NEC Corporation’s shares prior to the grant of NEC Corporation’s shares, or after the grant of NEC Corporation’s shares, NEC Corporation may demand the return of all or part of the granted shares of NEC Corporation (including an amount of cash equivalent to NEC Corporation’s shares as liquidated and disposed of paid instead of the NEC Corporation’s shares).

Remuneration for A&SBMs
Remuneration for A&SBMs is only basic remuneration and does not include bonuses linked to the business results because the responsibility of A&SBMs is to audit execution of Directors’ duties. Basic remuneration is a fixed monthly payment determined based on whether the recipient is a full-time A&SBM or not, to the extent of the annual remuneration amount approved at the 181st Ordinary General Meeting of Shareholders held on June 24, 2019. Executive Directors are eligible to receive these bonuses. The limit for total payments of these bonuses is determined by a resolution of the General Meetings of Shareholders. Individual bonus payments are determined by adjusting the standard bonus amount determined for each job title of Directors to reflect the achievement level of performance targets.

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Remuneration for A&SBMs is only basic remuneration and does not include bonuses linked to the business results because the responsibility of A&SBMs is to audit execution of Directors’ duties. Basic remuneration is a fixed monthly payment determined based on whether the recipient is a full-time A&SBM or not, to the extent of the annual remuneration amount approved at the 181st Ordinary General Meeting of Shareholders held on June 24, 2019.

For further details on the corporate governance of NEC Corporation, please visit the following URL:
https://www.nec.com/en/global/about/governance.html

Amounts of Remuneration for Fiscal 2020

<table>
<thead>
<tr>
<th>Inside Directors</th>
<th>Outside Directors and A&amp;SBMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration Bonuses Stock Compensation Total Remuneration</td>
<td></td>
</tr>
<tr>
<td>432,217</td>
<td>796,155</td>
</tr>
<tr>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>96</td>
<td>-</td>
</tr>
</tbody>
</table>

* The annual remuneration is 144,000,000 yen (approved at the 181st Ordinary General Meeting of Shareholders held on June 24, 2019).
* The annual remuneration amount was 120 million yen. (basic remuneration: 90 million yen, stock compensation: 30 million yen).
* The annual remuneration amount was 110 million yen. (basic remuneration: 90 million yen, stock compensation: 20 million yen).

Note: 1. The number of Outside Directors inclusions are Directors non-renewed at the close of the 180th Ordinary General Meeting of Shareholders held on June 24, 2020.
2. The number of Outside Directors retirements are Outside Directors and Outside Directors.
3. The annual remuneration amount was 180,000,000 yen. (basic remuneration: 150 million yen, stock compensation: 30 million yen, bonuses: 2 million yen).
4. The amounts of stock compensation are the amounts recorded as expense during the fiscal year under review. The amounts recorded as expense in relation to the above stock compensation are the total of the amounts approved as expenses for the performance based stock compensation introduced at the 179th Ordinary General Meeting of Shareholders held on June 22, 2019, approved at the 180th Ordinary General Meeting of Shareholders held on June 24, 2020, and approved at the 181st Ordinary General Meeting of Shareholders held on June 24, 2021.

Guidelines on Officer Ownership of NEC Corporation Shares
NEC Corporation has established “Guidelines on Ownership of NEC Corporation Shares” for Directors and corporate officers regarding the holding of more than a certain number of shares.

for NEC Corporation’s shares by increasing the ratio of stock compensation in the remuneration for Directors, and encourages Directors to operate the business with a higher consciousness of NEC Corporation’s share price by sharing shareholders not only the benefits of rising share prices but also the risks associated with falling share prices.
Uncompromising Integrity and Respect for Human Rights

NEC subscribers to “Uncompromising Integrity and Respect for Human Rights” as one of the Principles of the NEC Way. Furthermore, NEC aims to establish compliance within its corporate culture by ensuring that each officer and employee treats compliance as his or her own responsibility and practices conduct in accordance with the NEC Group Code of Conduct.

In addition, our risk management activities include properly understanding risks that have an impact on our business and taking preventive measures efficiently and effectively, including against compliance violations. In fiscal 2020, we selected the four risks listed below as “Priority Risks” and devised measures to address them. For fiscal 2021, we identified the following risks: “risks regarding inadequate accounting processes at subsidiaries abroad,” “risks regarding management of confidential information,” “risks regarding privacy infringement related to new technologies” and “risks regarding harassment.” We are taking countermefasures against them.

Priority Risks in FY2020

1. Risks regarding labor management
2. Risks regarding human rights issues arising from new technology
3. Risks regarding bribery
4. Risks regarding information security

Risks Regarding Labor Management

At NEC, the workers union and management cooperate to implement flexible working styles, prevent overwork, and promote time off from work, while observing the relevant legal systems in each country. In April 2019, NEC Corporation and affiliated companies in Japan renewed their work hours management systems and took other steps to properly grasp work hours and rigorously manage overtime in line with the revision of the Labor Standards Act. We have put systems in place to enable early identification of potential risks and implementation of countermefasures as needed to prevent any incidents arising due to working hours.

For further information, please refer to the Sustainability Report 2020 “Creating a Diverse Work Style Environment.”

Risks Regarding Human Rights Issues Arising from New Technology

Since the formulation of the Companywide principles, we have promoted initiatives to incorporate this way of thinking into relevant businesses. Moreover, we hold web training and study sessions, along with discussions with experts, so that we can act appropriately with respect for human rights in business operations.

For further information, please refer to the Sustainability Report 2020 “AI and Human Rights.”

Risks Regarding Bribery

NEC Corporation has created an “Anti-Bribery Manual for Business Divisions, etc.” that stipulates the roles of general managers and specific methods for preventing bribery. These roles and methods include bribery risk assessment regarding the division’s business and operations and due diligence regarding third parties employed in the Company’s business activities. In fiscal 2020, we revised the manual and added a section that stresses the importance of continued monitoring due to the possibility of risks related to retained parties or partners changing with the passage of time.

For further information, please refer to the Sustainability Report 2020 “Promoting Fair Commercial Transactions.”

Risks Regarding Information Security

As information threats continue to evolve daily, information security, along with cyber security, has become one of NEC’s “materiality” – priority management themes from an ESG perspective, in our sophisticated IT-based society.

To protect information assets, NEC is taking the following approach: implementing anti-cyber attack measures, providing secure products, systems and services, and promoting information security in collaboration with business partners.

For further information, please refer to the Sustainability Report 2020 “Information Security and Cyber Security.”

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

How Societal Changes and NEC’s Reforms Affect the Future Outlook

The rapid spread of COVID-19 has had a major impact on the global economy, making it difficult to predict Japan’s future. People’s values and lifestyles are expected to change markedly. And in this context, the impact on NEC is a concern, but rather than focusing on the negative side, it is important to see this change as a tailwind and an opportunity for NEC to make significant contributions to society.

This is possible because NEC has constantly reinvented its corporate culture through many years of business structure and personnel reforms, and is endowed with a history of 120 years of steadily refining, diversifying, and cultivating technology. I believe another important factor is NEC’s adeptness in drawing on the valuable competencies of external experts, as evidenced by its recruitment of excellent managerial executives and the increase in the number and quality of outside directors. An external perspective is an indispensable and extremely important component in strengthening NEC Corporation through stronger governance, which is the foundation of management. Moreover, a succession plan should be formulated from a long-term perspective, to look ahead to the president for the next generation and beyond.

On this matter, all the outside directors are continuing to meet with executive officers to evaluate each person’s abilities, insights, personality, ethics, and other qualities. I believe such efforts indicate a bright outlook for NEC’s growth and social contributions going forward.

Auditing Practices Evolving to Change with the Times

One year has passed since I was appointed to serve as an outside corporate auditor of NEC. Compared to other companies, NEC’s business content is elaborate as it involves the leveraging of its cutting-edge technology and the Company itself is a complex organization consisting of a large number of business divisions and domestic and overseas Group subsidiaries. As such, it is difficult to tackle the task at hand with the approach of ordinary audits, so auditing methods have been refined through various resourceful initiatives. One of these is the close cooperation between three teams: the corporate auditors, audit firms, and internal audit departments.

In the exchange of views between audit firms and internal audit departments, one topic of keen interest has been the state of audits since COVID-19 began to spread. The execution of working remotely from a place set up for the purpose of daily work activities turned out to be more efficient than expected. On the other hand, discussions and ideas have tended to focus only on pinpoint issues. Also, it is easy for team members to overlook the careless mistakes of others in the process of working remotely, so we need to perform audits with that in mind. Furthermore, considering the limited opportunities for conducting actual inspections by visiting business divisions and subsidiaries and the increase in conducting hearings remotely, we are exploring the use of digital auditing to supplement conventional methods, which are based on experience and intuitions cultivated from a broad inventory of knowledge and human relationships. As an example of a customary digital audit, risks of accounting fraud and unprofitable projects can be systematically identified at an early stage through the analysis of financial data. Digital auditing is already being introduced, but in order to further promote and improve such audits, it is necessary to improve the accuracy of risk identification according to the characteristics of each company’s operations and the location of risks. The importance of determining sampling risk in dangerous areas based on experience and intuition remains unchanged, but it is expected that by combining this with methods using IT systems to comprehensively identify risk locations, the accuracy of auditing will undoubtedly improve in the future. I therefore expect to see increasing adoption of digital auditing going forward.

As an Outside Audit & Supervisory Board Member, I intend to do my best to contribute further to improving NEC’s governance. Thank you for your support and understanding.
Directors and Audit & Supervisory Board Members

(A As of July 1, 2020)

Directors

Nobuhiro Endo
Chairman of the Board
Mr. Endo has served as NEC’s President and Representative Director from 2011 and as Chairman of the Board (Representative Director) from April 2016. Since June 2019, he has served as Chairman of the Board (Non-executive Director).

Motoo Nishihara
President (Representative Director) and CEO of the NEC Corporation (Representative Director) and CEO since April 2016.

Takashi Niino
Senior Executive Vice President, CEO of the Financial Division and Member of the Board (Representative Director) He has extensive experience in the management of the financial division of NEC and the NEC Group’s management strategies. Mr. Niino has been engaged in the management of NEC as President (Representative Director) and CEO since April 2016.

Norihiko Ishiguro
Senior Executive Vice President, Director, President of the NEC Corporate Finance Division, and Member of the Board He has extensive experience in the fields of administration and diplomacy. Mr. Ishiguro has worked at the Ministry of Economy, Trade and Industry. In addition, he has been in charge of global business strategy and external relations as Senior executive vice President since October 2016.

Hajime Kinoshiba
Audit & Supervisory Board Member
Ms. Kinoshiba has extensive experience related to corporate management and a strong record of management at the Ministry of Economy, Trade and Industry. She has extensive knowledge in the fields of administration and diplomacy. Ms. Kinoshiba has attended and voted at meetings of the Audit & Supervisory Board: 12 of 12 (Appointed in June 2018).

Kaoru Seto
Member of the Board Special Adviser, President of the NEC Consulting Co., Ltd. Mr. Seto has extensive experience and deep insight as a manager of a logistics service company. • Attendance of meetings of the Board of Directors: 12 of 12 (Appointed in June 2018).

Noriko Ikki
Member of the Board President, Japan Institute for Women’s Empowerment & Diversity Management
Mr. Ikki has attended and voted at meetings of the Board of Directors: 12 of 12 (Appointed in June 2018).

Masatoshi Ito
Member of the Board Chairman of the Board, Ito-Gen Holdings Co., Inc. Mr. Ito has extensive experience in the management of a manufacturing company. • Attendance of meetings of the Board of Directors: 10 of 10 (Appointed in June 2019).

Jun Ohta
Member of the Board
Mr. Ohta has been in charge of strategic management and corporate strategy. Mr. Ohta has attended and voted at meetings of the Audit & Supervisory Board: 8 of 8 (Appointed in June 2018).

Kuniharu Nakamura
Member of the Board Director, President of the NEC Corporate Finance Division Mr. Nakamura has extensive experience and deep insight in the fields of administration and corporate strategy. • Attendance of meetings of the Board of Directors: 10 of 10 (Appointed in June 2019).

Isamu Kawasaki
Audit & Supervisory Board Member (Full-time)
Mr. Kawasaki has extensive experience in the financial industry and in corporate management. Mr. Kawasaki has attended and voted at meetings of the Audit & Supervisory Board: 16 of 16 (Appointed in June 2018).

Taeko Ishii
Audit & Supervisory Board Member
Ms. Ishii has a lot of experience and deep insight as an attorney at law in the fields of personnel affairs, labor and others. • Attendance: At meetings of the Board of Directors: 10 of 10 At meetings of the Audit & Supervisory Board: 16 of 16 (Appointed in June 2019).

Nobuo Nakata
Audit & Supervisory Board Member
Mr. Nakata has extensive experience and deep insight in the field of corporate law, M&A, and corporate governance. • Attendance: At meetings of the Board of Directors: 10 of 10 At meetings of the Audit & Supervisory Board: 16 of 16 (Appointed in June 2019).

Masami Nitta
Audit & Supervisory Board Member
Mr. Nitta has extensive experience in corporate management and professional insight as a Certified Public Accountant. (Appointed in June 2020).

Audit & Supervisory Board Members (KANSAYAKU)

The Board of Directors makes important decisions regarding the Company’s business execution, starting with decisions on basic management policies. It also fulfills the responsibilities of supervising business execution in accordance with law, and therefore requires viewpoints based on broad knowledge. The Board of Directors is formulated with consideration given to diversity in such factors as career background, specialist field, internationality and gender. The career background and specialties of the 5 Outside Directors are as follows.

Career background and specialties of 5 Outside Directors

Certified public accountant
Attorney at law
Attorney at law
Attorney at law, labor, etc.
Attorney at law

Career background and specialties include:
- Financial and accounting
- Corporate law and corporate governance
- Mergers and acquisitions
- International business
- General trading company
- Banking industry
- Consulting industry
- Logistics and transportation
- Manufacturing business
- Corporate strategy
- Personnel and human resources development
- Corporate legal and internal control division for many years
- Logistics and transportation
- Manufacturing business
- Corporate strategy
- Personnel and human resources development
- Corporate legal and internal control division for many years
- Manufacturing business
- Corporate strategy
- Personnel and human resources development
- Corporate legal and internal control division for many years

Notes: 1. NEC has notified the Tokyo Stock Exchange of its four independent Directors and three independent Audit & Supervisory Board Members (NKSAYAKU) at the NEC Corporation. Independent Directors: Mr. Kaoru Seto, Mr. Noriko Ikki, Mr. Kuniharu Nakamura, Independent Audit & Supervisory Board Members: Mr. Taeko Ishii, Mr. Nobuo Nakata, and Mr. Masami Nitta. 2. Attendance at meetings: the number of attendance at meetings of the Board of Directors or meetings of the Audit & Supervisory Board out of the number of the meetings held in the fiscal year ended March 31, 2020. 3. Directors whose attendance is not included attend all of the Board of Directors meetings held during the term of office, and NEC announces whether attendance is not included at all of the Board of Directors meetings and all of the Audit & Supervisory Board meetings held during the term of office.

For further details about 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

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Since 2019, the term of office for corporate officers has been set at one year and we have been reforming our management system, seeking to establish mission clarity and greater responsibility for results. Having corporate officers work with a sense of urgency to complete their respective missions, we aim to increase NEC’s executional capability.

Here, the vice presidents, chief officers, and business unit heads who are in charge of proposing and executing strategy from a company-wide perspective explain the issues in their respective areas of responsibility and their initiatives to solve them.

Norihiko Ishiguro
Senior Executive Vice President
Creating an Optimal Environment for Growth as a Global Social Value Innovator
Through negotiation and sales activities with governments around the world and international organizations and various companies, I am working to make the implementation of EU policies, and initiatives with whom we work to contribute to the realization of Society 5.0 and advancement of the Global. I also intend to work to establish a common environment that enables NEC to provide solutions for global and domestic issues. I see Social Value Innovator as a way to realize growth that helps humankind. I believe that we must maximize value for customers even more quickly than we do today, as well as increase employee satisfaction.

Akihiko Kagami
Senior Executive Vice President
Responding Quickly and Effectively to a Wide Variety of Country-Specific Needs is the Key to a Successful Global Business
I am going to accelerate diversity, especially the promotion of diverse talent to executive positions. People who are willing to change their mindset and who are able to effectively explain the issues in their respective areas of responsibility and their initiatives to solve them.

Chikara Ishii
Executive Vice President, CDO (Chief Digital Officer)
Creating New Social Value through Digital Transformation (DX)
Society needs to adapt and evolve rapidly in response to changes that are occurring on an unprecedented scale and with an extraordinary speed. To achieve effective use of digital technology, NEC will need NEC in mission-oriented use of our digital assets, such as AI and biometric authentication technologies, to promote the evolution of society and realize digital transformation.

Hajime Matsukura
Executive Vice President, CHRO (Chief Human Resource Officer)
Encouraging NEC People in Line with the NEC Way and Concentrating Our Abilities
In the field of Risk Management Planning (RMP), I will further accelerate reforms with regard to our corporate risk management. In addition, we will strengthen risk management by identifying the essential changes in society brought about by the spread of COVID-19. In order to realize transformation, we will strive to enhance NEC corporate value by promoting the NEC Way in our business and by contributing to society; in a manner that leads to a change in the mindset of each employee and foster a sense of pride.

Hiroshi Kodama
Executive Vice President, CDO (Chief Information Officer) and CCO (Chief Cybersecurity Officer)
President of Digital Business Platform Unit
Leading the Creation of a Digitally Inclusive Society
My goal is to make society where individuals can flourish due to the benefits of digitalization. I intend to lead our business using AI and biometric authentication technologies, to promote the evolution of society and realize digital transformation.

Motoo Nishihara
Executive Vice President, Head of Research & Development Unit
Enhancing Capabilities for Commercializing NEC Technologies
In April 2020, we established a research and development unit to create new businesses driven by NEC’s technology strengths. With the aim of accelerating commercialization, especially for some of NEC’s competitive advantages, I will enhance the development of new business models based on the work performed in this research and development unit.

Tomoyasu Nishimura
Executive Vice President, System Platform Business
Providing Excellent Platform Products to Support Customers’ Business Transformation
In order to achieve further transformation of the business process from the viewpoint of digital technologies, we will develop and support solutions based on various types of services, including NEC’s cloud platform and data services.

Yutaka Ukegawa
Senior Vice President, President of Cross Industry Unit
Developing New Businesses through Public-Private Partnerships and Cross-Industry Collaboration to Realize Society 5.0
With regard to the launch of new businesses through public-private partnerships and cross-industry collaboration for the realization of Society 5.0, the officer responsible for the business from business verification to business development and to public-private partnerships, I intend to promote collaborations with a broad range of stakeholders to create new businesses.

Makoto Enomoto
Senior Vice President, CMO (Chief Marketing Officer)
Increasing the NEC Group’s Integrity through Deeper Penetration of the Code of Conduct
The NEC Group established the Code of Conduct as one of the four elements constituting the NEC Way. I intend to promote the implementation of these principles on an individual basis. In this way, we intend to further accelerate, with the support of our customers, the expansion of NEC’s solutions.

Shinobu Obata
Senior Vice President, COO (Chief Legal and Compliance Officer)
Increasing the NEC Group’s Integrity through Deeper Penetration of the Code of Conduct
I will strive to encourage every member of our organizations not only to adhere to the rules of compliance, but also contribute to society as a good citizen of the corporate world with high ethical standards and integrity.

Osamu Fujikawa
Senior Vice President, President of Business Innovation Unit
Gaining Insight into Future Social Issues and Harnessing NEC’s Strong Assets to Develop Core Businesses for the Medium to Long Term
In 2019, in accordance with the Company’s medium to long-term vision, NEC entered the drug discovery business with the goal of developing unique and powerful therapeutic agents. It is my mission to promote research and development in this area and to develop new businesses for the future.

Shigeki Shimizu
Senior Vice President, CSCO (Chief Supply Chain Officer)
Achieving Sustainable Growth with Sustainable Supply Chains
This year, we will establish sustainable supply chain activities as a corporate initiative. We believe this is an opportunity to develop new partnerships and co-create value with stakeholders to address supply chain-related issues, and we appreciate our customers who are contributing to the sustainability of the industry.

For further details on NEC Corporation’s corporate officers, please visit the following URL: https://www.nec.com/en/global/about/executives/svp.html
### Consolidated Statements of Financial Position

<table>
<thead>
<tr>
<th>Million yen</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥2,963,222</td>
<td>¥3,123,254</td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables (Note 24)</td>
<td>¥428,596</td>
<td>¥440,881</td>
</tr>
<tr>
<td>Contract liabilties (Note 26)</td>
<td>184,059</td>
<td>195,132</td>
</tr>
<tr>
<td>Bonds and borrowings (Note 27)</td>
<td>138,678</td>
<td>154,992</td>
</tr>
<tr>
<td>Accruals</td>
<td>178,911</td>
<td>191,440</td>
</tr>
<tr>
<td>Other financial liabilities (Note 31)</td>
<td>47,085</td>
<td>47,085</td>
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<tr>
<td>Other financial liabilities (Note 31)</td>
<td>16,169</td>
<td>14,915</td>
</tr>
<tr>
<td>Accrued income taxes</td>
<td>8,296</td>
<td>12,624</td>
</tr>
<tr>
<td>Provisions (Note 23)</td>
<td>58,448</td>
<td>59,412</td>
</tr>
<tr>
<td>Other current liabilities (Note 25)</td>
<td>61,985</td>
<td>55,133</td>
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<tr>
<td><strong>Total current liabilities</strong></td>
<td>1,149,142</td>
<td>1,191,734</td>
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<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
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<tr>
<td>Bonds and borrowings (Note 27)</td>
<td>388,128</td>
<td>364,828</td>
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<tr>
<td>Leases (Notes 31 and 37)</td>
<td>—</td>
<td>108,514</td>
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<tr>
<td>Other financial liabilities (Note 31)</td>
<td>47,417</td>
<td>42,402</td>
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<tr>
<td>Net defined benefit liabilities (Note 22)</td>
<td>241,759</td>
<td>224,469</td>
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<tr>
<td>Provisions (Note 23)</td>
<td>24,803</td>
<td>12,349</td>
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<td>Other non-current liabilities (Note 25)</td>
<td>45,221</td>
<td>34,292</td>
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<td><strong>Total non-current liabilities</strong></td>
<td>415,268</td>
<td>390,864</td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td>1,564,410</td>
<td>1,582,598</td>
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<tr>
<td><strong>Owners of the parent</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital (Note 19)</td>
<td>397,199</td>
<td>397,199</td>
</tr>
<tr>
<td>Share premium (Note 19)</td>
<td>138,824</td>
<td>139,375</td>
</tr>
<tr>
<td>Retained earnings (Note 19)</td>
<td>354,582</td>
<td>436,361</td>
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<tr>
<td>Treasury shares (Note 19)</td>
<td>32,347</td>
<td>4,157</td>
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<tr>
<td>Other components of equity (Note 19)</td>
<td>(28,119)</td>
<td>(58,448)</td>
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<tr>
<td><strong>Total equity attributable to owners of the parent</strong></td>
<td>858,939</td>
<td>910,674</td>
</tr>
<tr>
<td>Non-controlling interests (Note 11)</td>
<td>200,242</td>
<td>203,949</td>
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<tr>
<td><strong>Total equity</strong></td>
<td>1,059,481</td>
<td>1,114,623</td>
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<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>1,923,992</td>
<td>2,093,222</td>
</tr>
</tbody>
</table>

### Consolidated Statements of Profit or Loss

<table>
<thead>
<tr>
<th>Million yen</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong> (Notes 6 and 26)</td>
<td>¥7,971,446</td>
<td>¥8,055,234</td>
</tr>
<tr>
<td><strong>Cost of sales</strong> (Notes 6 and 24)</td>
<td>2,083,517</td>
<td>2,207,675</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>5,887,929</td>
<td>5,847,559</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong> (Notes 27)</td>
<td>743,021</td>
<td>752,690</td>
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<tr>
<td><strong>Other operating expenses</strong> (Note 27)</td>
<td>(29,128)</td>
<td>(7,260)</td>
</tr>
<tr>
<td><strong>Operating profit</strong> (Note 6)</td>
<td>513,895</td>
<td>513,961</td>
</tr>
<tr>
<td><strong>Finance income</strong> (Notes 6 and 29)</td>
<td>23,989</td>
<td>8,477</td>
</tr>
<tr>
<td><strong>Finance costs</strong> (Notes 6 and 29)</td>
<td>8,377</td>
<td>15,444</td>
</tr>
<tr>
<td><strong>Share of profit of entities accounted for using the equity method</strong> (Notes 6 and 12)</td>
<td>5,916</td>
<td>3,347</td>
</tr>
<tr>
<td><strong>Profit before income taxes</strong></td>
<td>77,008</td>
<td>123,950</td>
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<tr>
<td><strong>Income taxes</strong> (Note 13)</td>
<td>23,575</td>
<td>11,280</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>53,533</td>
<td>112,170</td>
</tr>
</tbody>
</table>

### Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th>Million yen</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, at the beginning of the year</td>
<td>¥123,969</td>
<td>¥146,360</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>38,376</td>
<td>34,282</td>
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<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td>160,345</td>
<td>180,642</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisitions of property, plant and equipment</td>
<td>(4,497)</td>
<td>(16,372)</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td>12,947</td>
<td>11,714</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(8,494)</td>
<td>(16,372)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of bonds</td>
<td>50,011</td>
<td>43,970</td>
</tr>
<tr>
<td>Proceeds from long-term borrowings</td>
<td>9,681</td>
<td>9,406</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td>59,692</td>
<td>53,376</td>
</tr>
<tr>
<td><strong>Change in cash and cash equivalents</strong></td>
<td>123,943</td>
<td>123,943</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, at the end of the year</strong></td>
<td>¥278,314</td>
<td>¥359,252</td>
</tr>
</tbody>
</table>

---

**NEC Corporation**

Integrated Report 2020

**Financial Section**

Year Ended March 31, 2019 and 2020

### Consolidated Statements of Financial Position

<table>
<thead>
<tr>
<th>Million yen</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥2,963,222</td>
<td>¥3,123,254</td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables (Note 24)</td>
<td>¥428,596</td>
<td>¥440,881</td>
</tr>
<tr>
<td>Contract liabilties (Note 26)</td>
<td>184,059</td>
<td>195,132</td>
</tr>
<tr>
<td>Bonds and borrowings (Note 27)</td>
<td>138,678</td>
<td>154,992</td>
</tr>
<tr>
<td>Accruals</td>
<td>178,911</td>
<td>191,440</td>
</tr>
<tr>
<td>Other financial liabilities (Note 31)</td>
<td>47,085</td>
<td>47,085</td>
</tr>
<tr>
<td>Other financial liabilities (Note 31)</td>
<td>16,169</td>
<td>14,915</td>
</tr>
<tr>
<td>Accrued income taxes</td>
<td>8,296</td>
<td>12,624</td>
</tr>
<tr>
<td>Provisions (Note 23)</td>
<td>58,448</td>
<td>59,412</td>
</tr>
<tr>
<td>Other current liabilities (Note 25)</td>
<td>61,985</td>
<td>55,133</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>1,149,142</td>
<td>1,191,734</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds and borrowings (Note 27)</td>
<td>388,128</td>
<td>364,828</td>
</tr>
<tr>
<td>Leases (Notes 31 and 37)</td>
<td>—</td>
<td>108,514</td>
</tr>
<tr>
<td>Other financial liabilities (Note 31)</td>
<td>47,417</td>
<td>42,402</td>
</tr>
<tr>
<td>Net defined benefit liabilities (Note 22)</td>
<td>241,759</td>
<td>224,469</td>
</tr>
<tr>
<td>Provisions (Note 23)</td>
<td>24,803</td>
<td>12,349</td>
</tr>
<tr>
<td>Other non-current liabilities (Note 25)</td>
<td>45,221</td>
<td>34,292</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>415,268</td>
<td>390,864</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,564,410</td>
<td>1,582,598</td>
</tr>
<tr>
<td><strong>Owners of the parent</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital (Note 19)</td>
<td>397,199</td>
<td>397,199</td>
</tr>
<tr>
<td>Share premium (Note 19)</td>
<td>138,824</td>
<td>139,375</td>
</tr>
<tr>
<td>Retained earnings (Note 19)</td>
<td>354,582</td>
<td>436,361</td>
</tr>
<tr>
<td>Treasury shares (Note 19)</td>
<td>32,347</td>
<td>4,157</td>
</tr>
<tr>
<td>Other components of equity (Note 19)</td>
<td>(28,119)</td>
<td>(58,448)</td>
</tr>
<tr>
<td><strong>Total equity attributable to owners of the parent</strong></td>
<td>858,939</td>
<td>910,674</td>
</tr>
<tr>
<td>Non-controlling interests (Note 11)</td>
<td>200,242</td>
<td>203,949</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>1,059,481</td>
<td>1,114,623</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>1,923,992</td>
<td>2,093,222</td>
</tr>
</tbody>
</table>

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**NEC Corporation**

Integrated Report 2020
### Consolidated Statements of Changes in Equity

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Share capital</th>
<th>Share premium</th>
<th>Retained earnings</th>
<th>Treasury shares</th>
<th>Other comprehensive income</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of April 1, 2018</strong></td>
<td>¥3,971,199</td>
<td>¥138,704</td>
<td>¥265,879</td>
<td>¥(13,364)</td>
<td>¥880,833</td>
<td>¥173,452</td>
<td>¥1,054,285</td>
<td></td>
</tr>
<tr>
<td>Impact of changes in accounting policies</td>
<td>—</td>
<td>—</td>
<td>46,619</td>
<td>— (65,904)</td>
<td>(1,295)</td>
<td>—</td>
<td>(1,295)</td>
<td></td>
</tr>
<tr>
<td>Reconstructed beginning balance</td>
<td>397,199</td>
<td>138,704</td>
<td>330,498</td>
<td>(3,364)</td>
<td>16,511</td>
<td>879,568</td>
<td>173,452</td>
<td>1,050,030</td>
</tr>
<tr>
<td>Net profit</td>
<td>—</td>
<td>—</td>
<td>39,675</td>
<td>—</td>
<td>—</td>
<td>39,675</td>
<td>12,255</td>
<td>51,930</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(44,630)</td>
<td>(44,630)</td>
<td>106</td>
<td>(44,524)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>—</td>
<td>—</td>
<td>39,675</td>
<td>—</td>
<td>(44,630)</td>
<td>(4,955)</td>
<td>12,361</td>
<td>7,406</td>
</tr>
<tr>
<td>Purchase of treasury shares (Note 19)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(215)</td>
<td>—</td>
<td>(215)</td>
<td>—</td>
<td>(215)</td>
</tr>
<tr>
<td>Disposal of treasury shares (Note 19)</td>
<td>—</td>
<td>—</td>
<td>2</td>
<td>32</td>
<td>—</td>
<td>34</td>
<td>—</td>
<td>(34)</td>
</tr>
<tr>
<td>Cash dividends (Note 20)</td>
<td>—</td>
<td>(15,591)</td>
<td>—</td>
<td>(15,591)</td>
<td>(4,302)</td>
<td>(19,893)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Put option, written over shares held by a non-controlling interest shareholder</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>836</td>
<td>—</td>
<td>836</td>
<td>—</td>
</tr>
<tr>
<td>Changes in interests in subsidiaries (Note 19)</td>
<td>—</td>
<td>(718)</td>
<td>—</td>
<td>—</td>
<td>(718)</td>
<td>21,231</td>
<td>18,513</td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions with owners</strong></td>
<td>120</td>
<td>(15,591)</td>
<td>183</td>
<td>(15,654)</td>
<td>14,939</td>
<td>(725)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>As of March 31, 2019</strong></td>
<td>¥3,971,199</td>
<td>¥138,824</td>
<td>¥234,582</td>
<td>¥(3,247)</td>
<td>¥140,519</td>
<td>¥172,919</td>
<td>¥1,059,681</td>
<td></td>
</tr>
</tbody>
</table>

Note: The cumulative impact of changes in accounting policies is due to the application of IFRS 9, “Financial Instruments (2014)” and IFRS 15, “Revenue from Contracts with Customers.”

### Environmental foundation

**Environmental Action with a Particular Focus on Climate Change**

- **Scope 1** 517 thousand tons
- **Scope 2** 277 thousand tons
- **Scope 3** 7,150 thousand tons

### Social field

**Sustainably and Socially Literate Human Resources**

- **Number of employees who feel that the Company’s direction has changed toward creating social value**
  - 2019: 22%
  - 2020: 25%

- **Number of employees by region (total)**
  - 2019: 118,355 people
  - 2020: 123,280 people

- **Average length of employment**
  - 2019: 45.5 years old
  - 2020: 43.7 years old

### Privacy Policies and Measures Aligned with Societal Expectations

**Security to Maximize ICT Possibilities**

- We will prevent unauthorized use and abuse of computer systems.
- We will enter into agreements with and cooperate with other companies.

### Governance field

**Governance/Compliance**

- **Number of cases of infringement with serious nature and/or bid-rigging**
  - 2019: 0
  - 2020: 0

**Overall ESG**

- **NEC Safer Cities**
- **NEC Value Chain Innovation**

### Environment field

**Energy usage**

- **Scope 1** 5,173 GWh
- **Scope 2** 3,742 GWh
- **Scope 3** 1,285 GWh

**Water usage**

- **Scope 3** 2,700 thousand m³

**Waste management**

- **Scope 3** 2,506 thousand m³

**Greenhouse gas emissions**

- **Scope 1** 517 thousand tons
- **Scope 2** 277 thousand tons
- **Scope 3** 7,150 thousand tons

### Overview

- **2019**
  - Revenue: ¥1,059,681 million
  - Net Income: ¥1,826 million
  - Balance Sheet: ¥1,059,681 million

- **2020**
  - Revenue: ¥1,020,742 million
  - Net Income: ¥3,059 million
  - Balance Sheet: ¥1,020,742 million

- **2021**
  - Revenue: ¥1,034,925 million
  - Net Income: ¥3,280 million
  - Balance Sheet: ¥1,034,925 million

- **2022**
  - Revenue: ¥1,059,681 million
  - Net Income: ¥3,547 million
  - Balance Sheet: ¥1,059,681 million
The information contained in Integrated Report 2020 is also available on NEC’s website.

Sustainability

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. NEC cautions that these forward-looking statements, by their nature, involve a number of risks and uncertainties, some of which are beyond NEC’s control, and that the actual results may differ significantly from those expressed or implied.

Investor Relations

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. NEC cautions that these forward-looking statements, by their nature, involve a number of risks and uncertainties, some of which are beyond NEC’s control, and that the actual results may differ significantly from those expressed or implied.

Cautionary Statement with Respect to Forward-Looking Statements

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

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

- Risks related to the NEC Group’s pension assets and defined benefit obligations; and
- Potential failures in the products and services the NEC Group provides;