

Orchestrating a brighter world

NEC



# Integrated Report 2018

Year ended March 31, 2018

# Orchestrating a brighter world



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#### Editorial Policy

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

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

Business Strategy and Vision describes the newly formulated the Mid-term Management Plan 2020 and priority themes from an Environmental, Social and Governance (ESG) perspective, or "materiality." Business Activities includes a message from the CFO along with an overview from each of our segments and an introduction of our international business execution structure. Management Foundation introduces the Company's initiatives in support of sustainable management, such as corporate governance and environmental management promotion.

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

#### Reporting Period

April 1, 2017 to March 31, 2018 (hereinafter referred to as "Fiscal 2018." Any other fiscal years would be referred to similarly)

This report also includes information obtained after this reporting period.

#### Scope of Report

NEC Corporation and its Consolidated Subsidiaries

#### 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 "Guidance for Collaborative Value Creation"

#### Other Related Information

- Earnings Releases/Annual Securities Report
- Corporate Governance Report
- Sustainability Report
- Annual Environmental Report
- Information Security Report



NEC is a signatory to the United Nations Global Compact.



## Message from the President

# To restore NEC's strength, now is the time to transform ourselves and start the journey of development and growth



July 2018

Takashi Niino  
President and CEO

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

## NEC's Role as a Social Value Innovator

Since its establishment in 1899, NEC has been creating products and services of value to customers under the motto of "Better Products, Better Services." I believe NEC's enduring commitment since its foundation to utilize its powerful technical capabilities to provide better value to customers and society is the reason that it has been accepted by society for 119 years. This approach has been passed down to us in the NEC Way, which encapsulates the NEC Group's management philosophy, vision and business framework. The NEC Way guides all of us at NEC.

Meanwhile, the value that customers and society expect from us is constantly changing. Up until now, our technologies and products have been a sufficient source of value, but customers and society are now requiring increasingly diverse sources of value. To remain an essential company in the eyes of society in the years to come, we must create new value by constantly keeping our finger on the pulse of what it consists of.

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

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

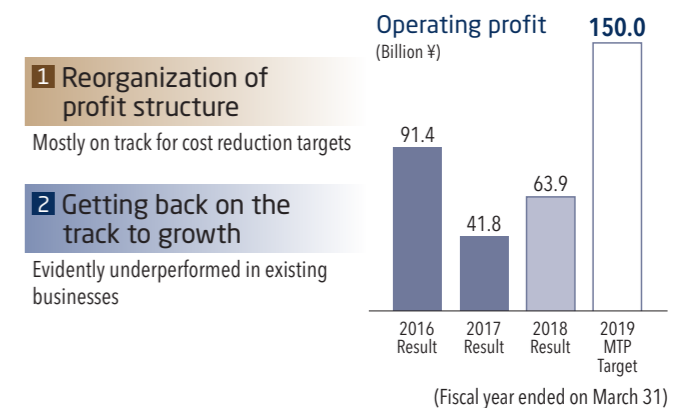
In 2005, NEC became a signatory to the United Nations Global Compact (UNGC), a global initiative aimed at sustainable growth for society and companies. In our corporate activities we now observe the compact's 10 principles pertaining to the fields of human rights, labor, the environment, and anti-corruption.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

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

## Review of the Mid-term Management Plan 2018

The Mid-term Management Plan 2018 covered the three years from fiscal 2017 to fiscal 2019. Under this plan, we worked to transform NEC into a social value innovator through reorganization of our profit structure and getting back on the track to growth. In our efforts in reorganizing the profit structure, we have made steady overall progress through to fiscal 2018; however, with getting back on the track to growth, significant underperformance in our existing businesses, which were meant to support the Company over the short term, left us unable to realize our operating profit target of ¥150.0 billion. In light of this situation, we revised our targets before the completion of the plan and formulated a new mid-term management plan in January 2018.

### Mid-term Management Plan 2018



## Issues Facing NEC

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

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

## Overcoming Issues Requires a Cultural Transformation

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

rapidly to changes in global society and leverage our capabilities to the fullest.

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

## My Commitment as CEO

NEC has come to a point where it is truly imperative to make major changes. If we do not change, NEC will not survive. With this sense of crisis, I will pour every effort as CEO into changing NEC. To enable NEC to continue developing and growing sustainably with society,

we must discern what is truly necessary, be prepared to break from our conventional ways of thinking, and drive transformation that will restore NEC's strength.

## Overview of the Mid-term Management Plan 2020

### Main Points of the Mid-term Management Plan 2020

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

of ¥90.0 billion, free cash flow of ¥100.0 billion, and ROE of 10%. To realize these targets, we have established three mid-term management policies: reform of profit structure, achievement of growth, and restructuring of execution capabilities.

### Mid-term Management Targets

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

\* M&A excluded

(Note) Forecasts and targets as of January 30, 2018

### Mid-term Management Policies

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

#### Reform of profit structure

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

#### Achievement of growth

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

#### Restructuring of execution capabilities

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

## 1 Reform of Profit Structure

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

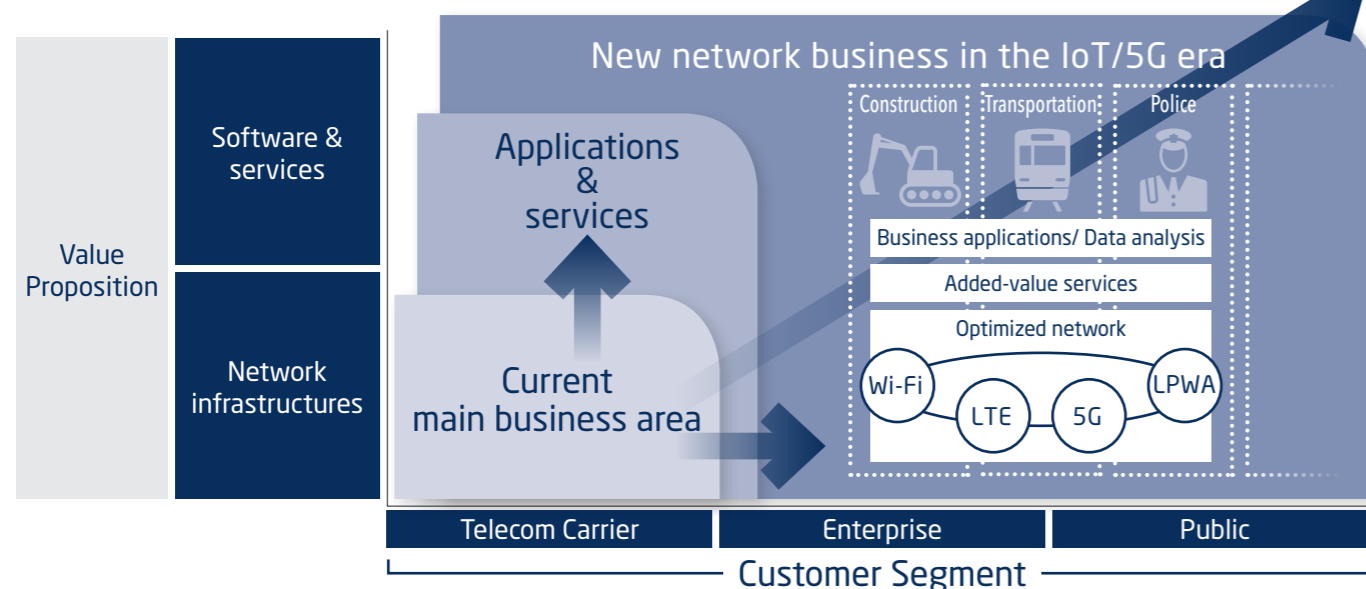
With regard to SG&A expenses, in fiscal 2019 we will carry out structural reforms targeting 3,000 personnel working in back office functions and the hardware business in Japan. We will look to streamline fixed property, IT, and marketing costs, aiming to bring the SG&A expense ratio down to 20% or less,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

With regard to our business structure, we will resolutely implement reforms to improve profitability in the Telecom Carrier business<sup>\*1</sup> and the Energy business. In the Energy business, we have made the decision to sell the electrode business and to discontinue development and production of small-scale storage batteries. We

aim to achieve growth by concentrating our previously multi-directional operations anew in the energy system integration (SI) business centered on NEC Energy Solutions, Inc.

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

### Reform of Business Structure: Telecom Carrier Business



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

<sup>\*1</sup> With an organization change on April 1, 2018, the business for international customers was transferred to the Global business and business for customers in Japan was renamed the Network Services business.  
<sup>\*2</sup> TOMS: Telecom Operations and Management Solutions

## 2 Achievement of Growth

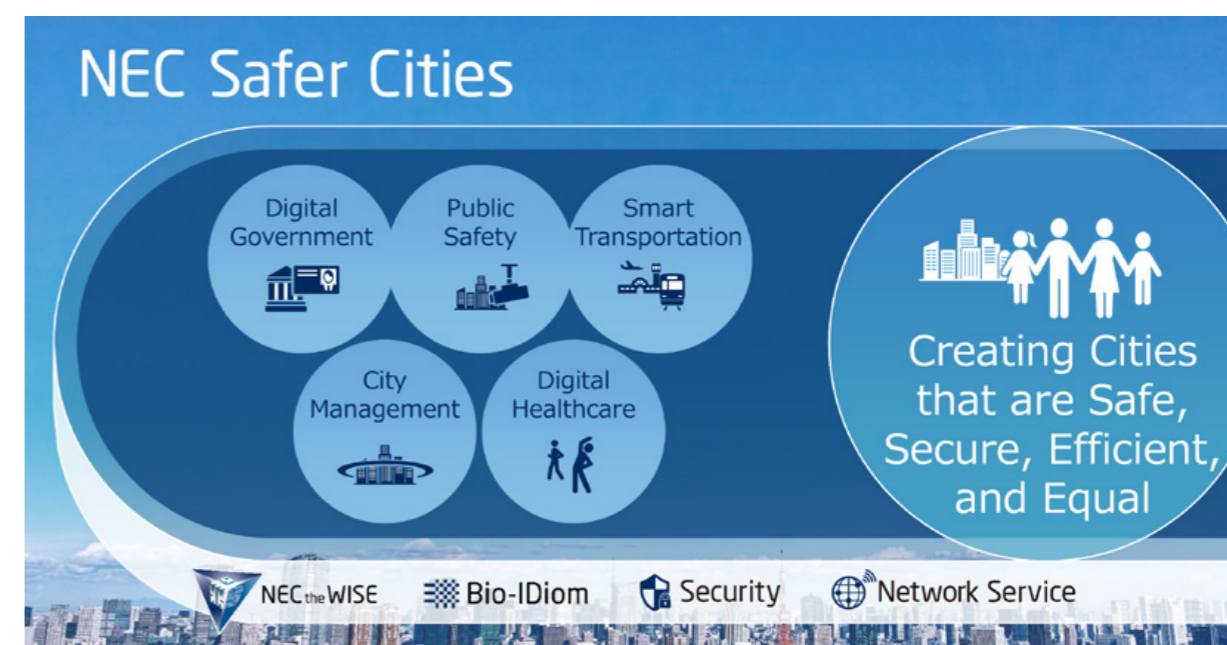
To achieve growth, NEC will focus on two areas based on its strengths in artificial intelligence (AI), biometrics, security, and network services.

The first area is NEC Safer Cities. Here, we will expand the

development of platforms that enable people to live abundantly in and outside of Japan, including public safety, digital government, and smart transportation.

### Achievement of Growth: NEC Safer Cities

#### Realizing NEC Safer Cities that utilize biometrics and AI technologies



The second is NEC Value Chain Innovation. In this area, we will work on initiatives for the formation of sustainable smart supply chains. We will promote initiatives for realizing food supply and demand optimization, cashless transactions, non-stop factories and plants, as well as the provision of technologies such as AI, IoT, and networks.

By focusing on these two areas, NEC aims to achieve revenues of ¥3,000 billion in fiscal 2021. Looking at revenues in Japan and internationally, we expect most of the increase from fiscal 2018 to fiscal 2021 to be realized outside of Japan, with domestic revenues remaining stable over this period. This projection is based on an expectation of growth opportunities in Japan related to infrastructure preparation for the Olympic and Paralympic Games Tokyo 2020 and digital government, offset by an expected contraction of our existing businesses.

Meanwhile, in our global domain, we plan to grow revenues mainly in the safety business, expanding the business domain from areas such as criminal investigation and immigration control to include administrative platforms and citizen services, among others. To accelerate growth in the global domain, we acquired U.K. company Northgate Public Services Limited in January 2018 and we will actively continue to pursue M&As in this vein.

To achieve rapid growth, NEC shifted to a dedicated operating structure for its global business in April 2018 and appointed external personnel with abundant global business experience and performance history to take charge. Through this appointment, we seek to examine whether our approach to date has been on the right path, and to drive our transformation from a wider perspective, giving consideration to how we might overcome the obstacles that have defied our efforts up to now.

### 3 Restructuring of Execution Capabilities

The final policy of the Mid-term Management Plan 2020, restructuring of execution capabilities, is the most important one in my view. Specifically, we will seek to strengthen business development capabilities and build an organization with the capacity to carry out actions to completion. In strengthening our business development capabilities, we will break away from the closed innovation mindset to promote solutions development via co-creation with our customers and business partners, aiming to create new social value beyond existing frameworks. This approach is aimed at addressing NEC's existing task of anticipating customer needs and accelerating monetization of competitive technologies.

In our effort to break away from the close innovation mindset, we have already seen results from initiatives such as open research and solution development, incubation through diverse schemes, and software product delivery services. In April 2018, we announced the establishment of dotData, Inc. in the U.S. to develop and sell software

that automates data science processes using AI in the field of big data utilization, and analytic work that requires large amounts of time to process manually.

With regard to solutions development via co-creation, we will step up our initiatives by expanding our bases for co-creation and trials in Japan and Singapore into other regions. In June 2018, we announced the establishment of NEC X, Inc. in the U.S. to serve as an incubator for accelerating the commercialization of our core technologies. NEC X, Inc. aims to create an ecosystem centered on the advanced technologies of NEC's talent and research laboratories and to accelerate new business development through open innovation.

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

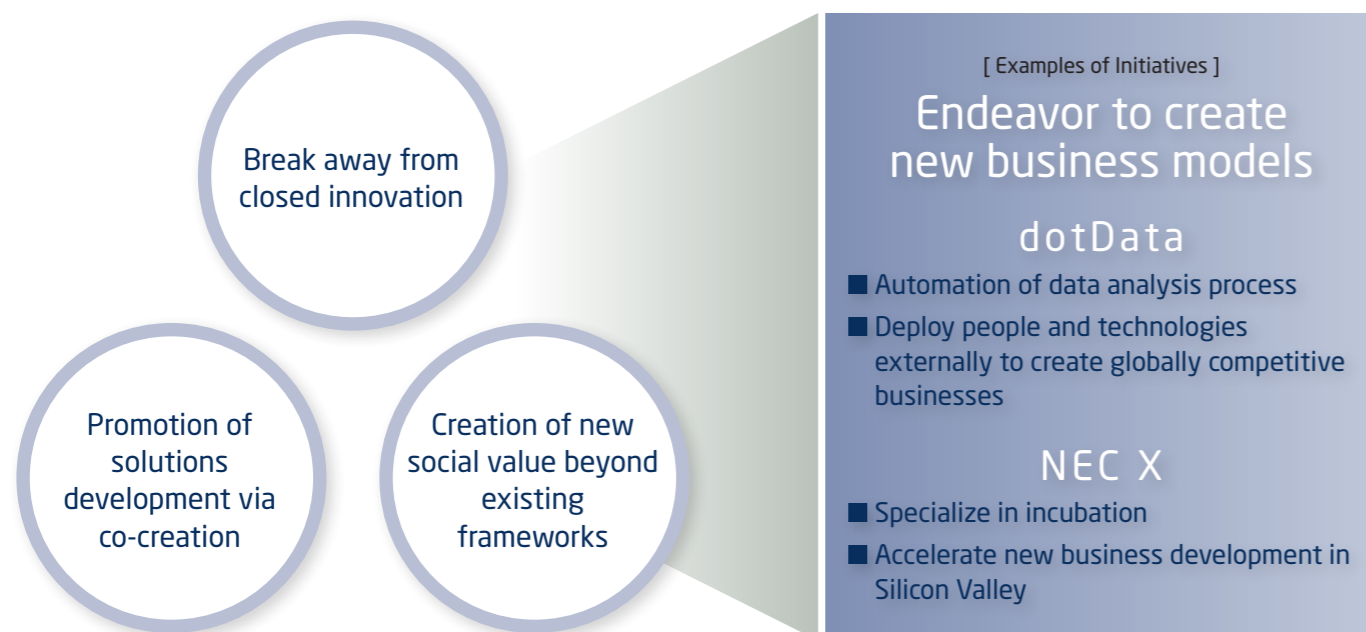
In order to realize an organization with the capacity to carry out actions to completion, we will introduce structures to allow us to complete execution quickly while enabling employees to maximize their capabilities, thereby enhancing NEC's execution capability.

Specifically, we will define management's responsibilities and authority more clearly to strengthen their commitment to results. We will also introduce a new evaluation and compensation system for rewarding those who take action and actively hire and appoint

human resources with diverse skills into executive and other positions. These measures will enhance our execution capability while firmly establishing a culture that encourages innovative actions and challenges.

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

#### Strengthening of business development capability



#### Restructuring of Execution Capabilities

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

Restructuring to enable employees to maximize their capabilities

Define the management's responsibilities and authorities more clearly

Encourage innovative actions and challenges

Accelerate diversification of the NEC Group

It is important that this transformation in our corporate culture ultimately creates an environment where NEC Group employees can move into action. I believe communication is important to enable every employee to undertake this transformation willingly, and I will

actively share my ideas about the transformation with them. I have therefore instituted dialogue sessions where I can personally share my ideas with NEC Group employees, and I will continue to hold these sessions going forward.

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

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

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

## Approach to the Creation of Value and Initiatives

# Orchestrating a brighter world

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

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

2020 Growth Focus to Create Social Value



### Engines of Change



### Priority Management Themes from an ESG Perspective—Materiality

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

- 1 Sustainable Growth Enablers  
We will engage on these themes to minimize risks to NEC and society, and to maximize the social value that NEC generates.
- 2 Engines of Change  
We will engage in these themes as engines for maximizing economic value and social value as well as minimizing risks to NEC and society.
- 3 2020 Growth Focus to Create Social Value  
The growth areas of the Mid-term Management Plan 2020 are defined as the themes that management should place priority on from ESG perspectives.

### Sustainable Growth Enablers



### Social Issues

Global megatrends, SDGs, etc.

Materiality Identification Process		
1	Tentatively define materiality and carry out dialogues with experts	NEC tentatively identified themes making reference to ISO26000, the GRI Standard, the SDGs, and others, then carried out dialogues with experts.
2	Incorporate ESG perspectives into the Mid-term Management Plan 2020	NEC announced that it would establish priority management themes and KPIs from the ESG perspectives in the first half of fiscal 2019.
3	Set up non-financial indicators	NEC examined indicators for quantifying contributions to society as much as possible.
4	Hold dialogues with experts on our materiality and indicators	Dialogues were held on human resource development, privacy and climate change, as well as overall materiality.
5	Report materiality and indicators to the Board of Directors and define materiality	The Chief Strategy Officer (CSO) in charge of corporate strategy reported to the Board of Directors.
Confirm progress through the PDCA cycle of the Mid-term Management Plan		

## Vision for the Company and Non-Financial Indicators

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

Materiality	Company Vision and Initiatives	Main Non-financial Indicators and Targets
<b>Sustainable Growth Enablers</b>		
<b>Governance and compliance</b> p.39, 43	NEC trusted by society <ul style="list-style-type: none"> <li>Ensure compliance</li> <li>Response on human rights issues and maintain and improve quality</li> </ul>	<ul style="list-style-type: none"> <li><b>Indicator:</b> Number of cases of involvement with serious cartels and/or bid-rigging</li> <li><b>Target for fiscal 2019:</b> 0 (zero)</li> </ul>
<b>Environmental action with a particular focus on climate change</b> p.51	Contribute to worldwide reduction in greenhouse gas emissions together with the efforts our customers and society are making to address climate change <ul style="list-style-type: none"> <li>Effectively reduce CO<sub>2</sub> emissions associated with NEC's business activities to zero by 2050</li> <li>Provide products and services that address environmental issues, primarily climate change</li> </ul>	<ul style="list-style-type: none"> <li><b>Indicator:</b> Rate of contribution to CO<sub>2</sub> emission reductions across the whole supply chain</li> <li><b>Target for fiscal 2021:</b> 5 times</li> </ul>
<b>Sustainably and socially literate human resources</b> p.50	Deliver products and services that will be accepted by society, including our customers <ul style="list-style-type: none"> <li>Develop personnel who are capable of sensing the needs of society and discovering potential issues, and of working swiftly to solve issues</li> <li>Foster an organizational culture that can take on a diverse range of values and continuously create social value</li> </ul>	<ul style="list-style-type: none"> <li><b>Indicator:</b> Rate of employees who have a strong sense that NEC is changing to create social value by accepting a diverse range of values</li> <li><b>Target for fiscal 2019:</b> To review the questions in the opinion survey among NEC Group employees and set a specific target number for fiscal 2021</li> </ul>
<b>Privacy policies and measures aligned with societal expectations</b> p.49	Develop and provide products and services that are responsive to differences in privacy needs between different countries and regions due to cultural perspectives and are sensitive to human rights issues, such as the challenge of discrimination that could potentially be furthered through the usage of AI <ul style="list-style-type: none"> <li>Clarify position on respect for human rights such as privacy in NEC's business activities</li> </ul>	<ul style="list-style-type: none"> <li><b>Indicators:</b> <ol style="list-style-type: none"> <li>To have discussions with multi-stakeholders regarding sensitive cases from human rights or privacy perspectives</li> <li>Number of cases incorporated in areas such as R&amp;D, product development and proposals for services, based on the "Human Rights by Design*" concept</li> </ol>                     * Incorporation of the approach of respect for human rights (privacy, fairness, etc.) into each process in the value chain                 </li> <li><b>Target for fiscal 2019:</b> <ol style="list-style-type: none"> <li>Carry out once per quarter</li> <li>Set the specific target number for fiscal 2021</li> </ol> </li> </ul>
<b>Security to maximize ICT possibilities</b> Information Security Report	Provide an environment that allows customers and society to securely use ICT <ul style="list-style-type: none"> <li>Promote efforts to minimize risks in the fields of "Information Security" and "Cyber Security" in particular</li> </ul>	<ul style="list-style-type: none"> <li><b>Indicators and targets:</b> <ol style="list-style-type: none"> <li>Minimize the effects of major security incidents by ensuring that we enhance cyber security measures while also enhancing information security measures in order to prevent leakage of information</li> <li>Promote products and services that incorporate security measures and case studies taken from the NEC Group's own information security practices as a reference</li> </ol> </li> </ul>

### Engines of Change

<b>Dialogue and co-creation with our stakeholders</b> p.15	Through dialogues with stakeholders, develop insights into the issues customers and society face and their opinions regarding NEC's activities, while developing partners with whom to engage in the co-creation of value	No indicator set
<b>Innovation management</b> p.17	Even if technologies demanded keep changing as society changes, provide value through technologies as needed by society in the form of products and services	No indicator set

### 2020 Growth Focus to Create Social Value

<b>NEC Safer Cities</b>	As populations rapidly concentrate in urban areas, new value is created through economic growth and the diversification of life and culture; at the same time, cities also face a wide range of social challenges, such as increasing levels of crime and terrorism. NEC will contribute to realizing safe, secure, efficient and fair cities where individuals can exhibit their potential to the full and live better lives, by utilizing cutting-edge technology such as biometric authentication, AI, and the IoT.	For example, by having a wider range of our customers use NEC products and services such as biometric authentication solutions and AI-based crime/disaster-prevention systems and providing these to a larger number of organizations, NEC will ensure that the social value we provide will be amplified in terms of both quantity and quality. For fiscal 2021, NEC will focus on expansion of our international sales and aims to increase our international sales to ¥200 billion.
<b>NEC Value Chain Innovation</b>	Our society faces various kinds of social issues, such as food waste, labor shortages, changes in consumption patterns, and diversifying threats. NEC will develop cutting-edge technologies and promote co-creation with customers in order to connect people, goods, and processes, reaching across the boundaries between enterprises and industries to create new value. In doing so, NEC will support a more sustainable planet, sustainable growth for companies, a society where people can live in abundance, and a brighter world for the future.	For example, NEC aims to amplify the social value we provide by developing and supplying larger numbers of services, such as promoting NEC Value Chain Innovation, which aims to optimize the demand-and-supply balance. For fiscal 2021, we have set out a goal of expanding our domestic sales to ¥85 billion in growth fields including NEC Value Chain Innovation.

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

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

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

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

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

Going forward, we will promote educational activities on the SDGs within the Company to ensure that the SDGs are used proactively for expanding the fields where NEC can contribute and as indicators for measuring the social value that is generated by NEC's business.

### Fields that NEC Contributes to SDGs

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
<b>NEC Safer Cities</b>	1.4		3.8	4.a		6.4		8.3	9.3 9.a	10.7	11.2 11.3 11.7 11.b			14.1		16.6 16.a	17.16
<b>NEC Value Chain Innovation</b>		2.1 2.4 2.a 2.c	3.6				7.2 7.3	8.1 8.2 8.8	9.1 9.3 9.4		11.2	12.2 12.3	13.3				17.16
<b>Dialog and co-creation with our stakeholders</b>			3.8	4.3 4.4 4.a				8.1 8.2 8.3 8.8	9.1 9.4		11.2 11.3 11.b	12.8	13.3			16.6 16.7 16.a	17.16 17.17
<b>Innovation management</b>			3.6 3.8 3.b		5.2		7.3	8.1 8.2 8.3 8.8	9.1 9.3 9.4 9.5 9.a	10.5	11.2 11.3 11.b	12.2 12.3 12.5	13.1	15.2		16.1 16.2 16.6 16.9 16.a	17.6
<b>Sustainably and socially literate human resources</b>				4.3 4.4 4.5 4.a	5.1 5.5			8.3 8.5 8.7	9.2	10.2 10.3			13.3			16.5	17.16
<b>Privacy policies and measures aligned with societal expectations</b>					5.2			8.7	9.5							16.1 16.9 16.10	17.16
<b>Security to maximize ICT possibilities</b>									9.5		11.1 11.7					16.1 16.3	17.16
<b>Environmental action with a particular focus on climate change</b>	1.5	2.4	3.d			6.4	7.2 7.3 7.a 7.b		9.4		11.5 11.b		13.1 13.3	14.2 14.5	15.1 15.4 15.5		17.16
<b>Governance and compliance</b>					5.1 5.2 5.5			8.5 8.7 8.8		10.2 10.3		12.7				16.1 16.2 16.5 16.6	17.16

Figures in the table are the target numbers of the SDGs. Further information can be found on the United Nations website.

<https://www.un.org/sustainabledevelopment/>



## Dialogue and Co-Creation with Our Stakeholders

The meaning of value is constantly changing for our customers and society. To provide products and services that deliver real value, NEC must incorporate processes for dialogue and co-creation with stakeholders into its corporate activities.

Through dialogue with our stakeholders, we will develop insights into the issues our customers and society face and their opinions regarding NEC's activities, while developing partners with whom to engage in co-creation. By connecting these activities to value, we aim to realize NEC's goal of "Orchestrating a brighter world."

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

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

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



Representative Director and Chairman of the Board  
Nobuhiro Endo at the World Economic Forum

### Amplifying Social Value through Open Innovation

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

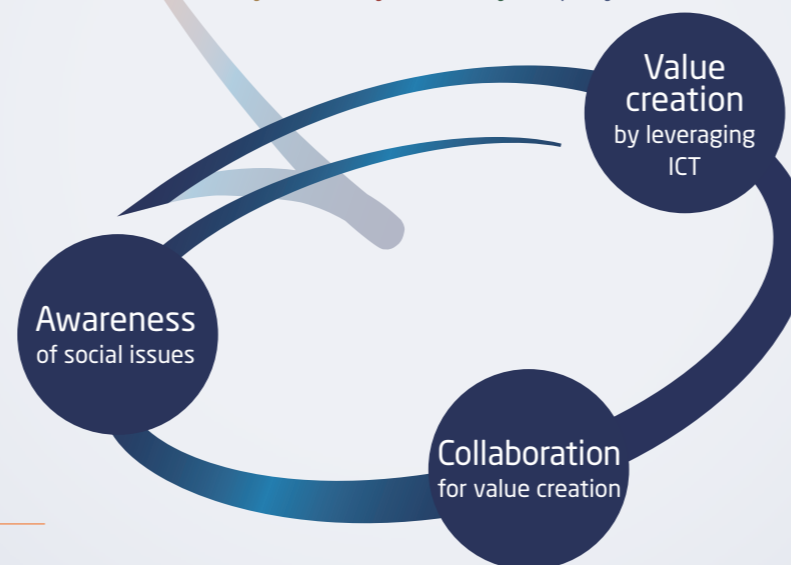
The new company was founded by a leader in the development of cutting-edge core technologies as a strategic carve-out scheme by NEC to create globally competitive products. The start-up will reinforce business development while acquiring external capital.



(Photograph from left)  
Senior Vice President, Osamu Fujikawa  
CEO & Founder of dotData, Dr. Ryohei Fujimaki  
Executive Director, Hideto Mori

## Orchestrating a brighter world

Social values achieved by co-creating with customers



### Practicing Responsible Procurement with Suppliers

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

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

### Pro Bono Initiatives to Contribute to Regional Revitalization

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

In fiscal 2018, we assisted i local, Inc., (Sanriku Sekken Koubo KURIYA), a local soap manufacturer and seller in Onagawa town, Miyagi Prefecture by analyzing its operational processes and then introducing a new operation system.

NEC also has been engaged in Tohoku reconstruction support activities through the NEC "TOMONI" Project since 2011. The project supports employees in volunteer activities in the areas affected by the Great East Japan Earthquake. In 2015, NEC concluded a reconstruction cooperation agreement with the town of Minamisanriku and is conducting various support activities such as a monthly "Fukkou Ichi" market to assist the recovery.



Meeting in Onagawa town

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

NEC actively engages in investor relations (IR) activities, including meetings with shareholders in Japan and internationally, quarterly financial result briefings and business briefings conducted mainly by its CEO, CFO and Investor Relations (IR) Office, a department within the Corporate Strategy Division. Meanwhile, IR staff proactively relay shareholder and investor feedback to management, and periodically report to the Board of Directors. In fiscal 2018, NEC strove to increase opportunities for dialogue in conjunction with the announcement of the Mid-term Management Plan 2020 and continued to hold ESG meetings with institutional investors specializing in the environmental field.



Small meeting with the President of NEC

# Innovation Management

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

## R&D Strategy

At NEC, the Chief Technology Officer (CTO) is responsible for overall technology development, optimizing development investment company-wide, and drawing up an open innovation strategy.

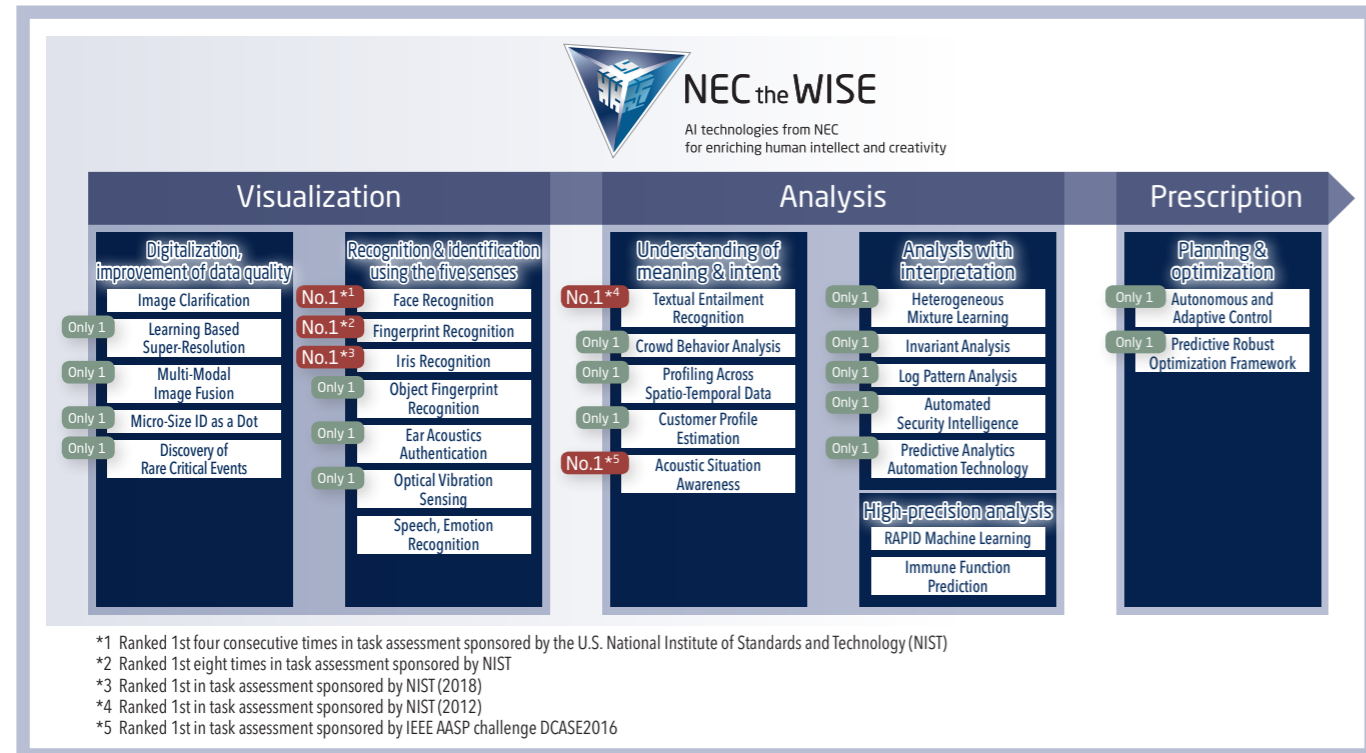
R&D is a source of technological development. NEC's basic approach to R&D is to deliver value to society as quickly as possible by identifying the best solutions we should create for the social issues

presented in the SDGs and other guidelines, then efficiently and rapidly aligning the necessary technology assets to realize them. These technology assets include NEC's No.1/Only 1 core technologies that have been refined to a high level based on technology trends, as well as technologies produced through open innovation.

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

"Bio-IDiom" is our comprehensive brand for biometric authentication products, launched in April 2018. It covers six biometric authentication technologies for face, iris, fingerprint and palmprint, finger vein, voice, and ear acoustic. One of NEC's strengths is in multimodal authentication, which combines multiple biometric authentication

technologies to achieve higher accuracy. By combining these technologies with the "crowd behavior analysis" of the "NEC the WISE" AI technology group, and others, we can create completely new value. NEC will continue to invest intensively in world-leading biometric authentication and AI technologies.



## Major Research Achievements

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

## Intellectual Property Strategy

At NEC, because intellectual property is regarded as an essential business resource supporting the group's competitiveness and stability, as well as for contributing to co-creation with our customers, we strive to strengthen and protect not only our patents and know-how but also the designs and trademarks that support our global brand.

To create and develop social value, we are not only building IP-based barriers to entry and securing competitive advantage, but also building and using our IP portfolio to strengthen and protect collaborations with customers and partners.

NEC owns some 51,000 patents worldwide (including approximately 22,000 Japanese patents) as of March 2018.

For further information, please refer to Sustainability Report 2018 "Innovation Management"

# Message from the CFO



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

## Performance in Fiscal 2018

The NEC Group recorded consolidated revenue of ¥2,844.4 billion for fiscal 2018, an increase of ¥179.4 billion (6.7%) year on year. This increase was mainly due to increased sales in the Public business. Operating profit improved by ¥22.0 billion year on year to ¥63.9 billion, mainly due to the increase in consolidated revenue. Net profit attributable to owners of the parent was ¥45.9 billion, an increase of ¥18.6 billion year on year. As a result, return on equity (ROE) was

5.3%, improving by 1.9 percentage points from the previous fiscal year. Although net profit attributable to owners of the parent was higher than planned, in consideration of capital requirements for achieving the Mid-term Management Plan 2020, NEC declared an annual dividend of ¥60 per share of common stock as announced at the beginning of the fiscal year.

\* On October 1, 2017 the Company changed the number of shares per share unit from 1,000 shares to 100 shares and carried out a share consolidation of the Company's shares with a ratio of 10 shares to 1 share.

(Billion ¥)	FY2017/3		FY2018/3	
	Results	Initial Forecasts	Results	Results
<b>Revenue</b>	<b>2,665.0</b>	<b>2,800.0</b>	<b>2,844.4</b>	
International revenue	571.0		740.2	
International revenue ratio	21.4%		26.0%	
<b>Operating profit</b>	<b>41.8</b>	<b>50.0</b>	<b>63.9</b>	
Operating profit ratio	1.6%	1.8%	2.2%	
<b>Net profit attributable to owners of the parent</b>	<b>27.3</b>	<b>30.0</b>	<b>45.9</b>	
<b>Return on equity (ROE)</b>	<b>3.4%</b>		<b>5.3%</b>	

(Billion ¥)	FY2017/3	FY2018/3
<b>Total assets</b>	<b>2,684.0</b>	<b>2,821.4</b>
Current assets	1,508.7	1,640.3
Non-current assets	1,175.3	1,181.0
<b>Total liabilities</b>	<b>1,667.9</b>	<b>1,767.1</b>
Interest-bearing debt	466.9	520.7
D/E ratio	0.55	0.59
Net D/E ratio	0.27	0.20
<b>Total equity</b>	<b>1,016.1</b>	<b>1,054.3</b>
<b>Equity attributable to owners of the parent</b>	<b>854.3</b>	<b>880.8</b>
Equity attributable to owners of the parent ratio	31.8%	31.2%

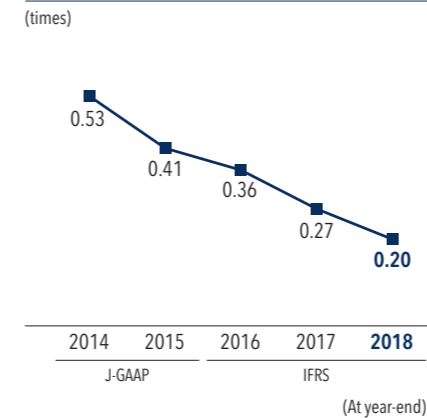
## Plan for Fiscal 2019

We regard fiscal 2019 as the first step on our envisaged growth trajectory for fiscal 2021 and beyond. We will execute structural reforms and consolidate our base for realizing transformation.

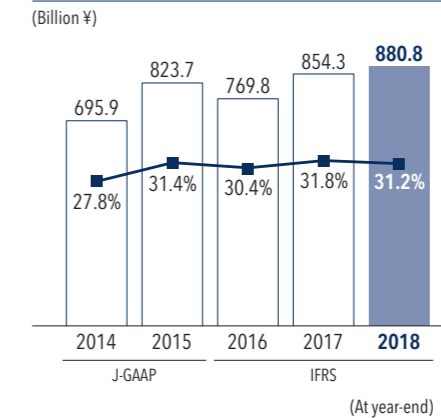
We are planning to achieve consolidated revenue of ¥2,830.0 billion, approximately level year on year, as expected declines in the System Platform Business and Network Services Business are offset by an increase in the Global Business. We anticipate consolidated

operating profit of ¥50.0 billion after factoring in restructuring costs of ¥40.0 billion, growth investments, and others. Our planned net profit attributable to owners of the parent is ¥25.0 billion. For annual dividends, we regret to announce a decrease in the dividend to ¥40 per share of common stock due to a projected year-on-year decline in net profit.

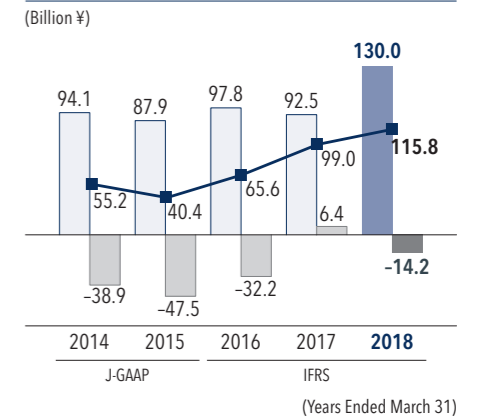
### Net Debt-Equity Ratio



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



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



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

Over the past few years, NEC has been actively working to strengthen its financial structure, such as its cash conversion cycle. As a result of these efforts, we have succeeded in building a more stable financial base, as shown by marked improvements in indicators such as our free cash flow and net D/E ratio.

We will maintain this financial base while allocating our current cash reserves to strengthening our earning capability in preparation for realizing the Mid-term Management Plan 2020 and growth beyond that. Specifically, we will improve our profit structure even further by executing structural reforms. In addition, we will execute growth investments such as M&As aimed at developing new businesses and increasing operating cash flow.

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

As CFO, I will work to lift our earning capability and increase our corporate value over the long term.

# Performance Highlights

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



	2010	2011	2012	2013	2014	2015	2016	2016	2017	2018
	JGAAP						IFRS			
Revenue	¥3,583,148	¥3,115,424	¥3,036,836	¥3,071,609	¥3,043,114	¥2,935,517	¥2,821,181	¥2,824,833	¥2,665,035	<b>¥2,844,447</b>
International revenue	712,886	479,349	481,492	483,118	569,172	586,844	603,169	603,135	570,967	<b>740,179</b>
International revenue ratio (%)	19.9	15.4	15.9	15.7	18.7	20.0	21.4	21.4	21.4	<b>26.0</b>
Operating profit	50,905	57,820	73,742	114,647	106,193	128,084	107,306	91,418	41,838	<b>63,850</b>
Net profit (loss) attributable to owners of the parent	11,428	(12,518)	(110,267)	30,434	33,742	57,302	68,749	75,923	27,310	<b>45,870</b>
Cash flows from operating activities	134,816	33,660	83,857	143,748	94,124	87,917	97,829	97,829	92,525	<b>129,981</b>
Cash flows from investing activities	(41,241)	(146,244)	(49,706)	(101,742)	(38,893)	(47,510)	(32,202)	(32,202)	6,425	<b>(14,231)</b>
Free cash flows	93,575	(112,584)	34,151	42,006	55,231	40,407	65,627	65,627	98,950	<b>115,750</b>
R&D expenses	275,970	176,514	161,968	151,676	142,723	134,205	123,995	123,602	109,319	<b>108,093</b>
Capital expenditures (property, plant and equipment)	83,098	52,850	41,980	45,614	98,708	37,425	36,347	36,347	31,472	<b>45,391</b>
Depreciation (property, plant and equipment)	111,167	62,097	53,306	51,167	45,167	48,518	44,879	50,493	49,853	<b>63,831</b>
Per share data (in yen):										
Net profit (loss) attributable to owners of the parent	5.04	(4.82)	(42.44)	11.71	12.99	22.05	26.45	29.22	10.51	<b>176.54*</b>
Cash dividends	4.00	0.00	0.00	4.00	4.00	4.00	6.00	6.00	6.00	<b>60.00*</b>
Total assets	2,937,644	2,628,931	2,557,570	2,580,966	2,505,329	2,620,652	2,493,441	2,528,904	2,683,996	<b>2,821,351</b>
Owner's equity	790,904	757,054	656,956	710,666	695,949	823,650	792,092	769,827	854,264	<b>880,833</b>
Return on equity (%)	1.6	-	-	4.5	4.8	7.5	8.5	9.5	3.4	<b>5.3</b>
Owner's equity ratio (%)	26.9	28.8	25.7	27.5	27.8	31.4	31.8	30.4	31.8	<b>31.2</b>
Interest-bearing debt	729,548	675,798	692,734	603,451	575,151	520,778	480,987	479,523	466,946	<b>520,743</b>
Debt-equity ratio (times)	0.92	0.89	1.05	0.85	0.83	0.63	0.61	0.62	0.55	<b>0.59</b>
Number of consolidated subsidiaries	310	283	265	270	258	232	217	217	238	<b>303</b>
Number of employees	142,358	115,840	109,102	102,375	100,914	98,882	98,726	98,726	107,729	<b>109,390</b>
CO <sub>2</sub> emissions reduction by providing IT solutions (thousand tons)	1,900	2,120	2,310	2,980	2,290	2,540	2,620	2,620	2,630	<b>4,220</b>
Improvement in energy efficiency of products (%)	44	53	66	64	75	91	97	97	17	<b>35</b>

## Key Management Measures

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

### Fiscal year ended March 31, 2011

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

### Fiscal year ended March 31, 2012

- 2 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
- Acquired the IT service business of Australia-based CSG Limited

### Fiscal year ended March 31, 2014

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

### Fiscal year ended March 31, 2015

- 5 Divested all of NEC's stakes in NEC BIGLOBE, Ltd., currently BIGLOBE Inc., an internet service provider in March, 2014
- Established NEC Management Partner, Ltd. in a reorganization of four back office operation subsidiaries
- Completed acquisition of an energy storage system business for electric power companies and established NEC Energy Solutions, Inc. in the U.S.

### Fiscal year ended March 31, 2016

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

### Fiscal year ended March 31, 2017

- 6 Consolidated Japan Aviation Electronics Industry, Limited

### Fiscal year ended March 31, 2018 (The fiscal year under review)

- Acquired U.K. company Northgate Public Services Limited

### Fiscal year ending March 31, 2019

- Established dotData, Inc. in the U.S.
- Established NEC X, Inc. in the U.S.

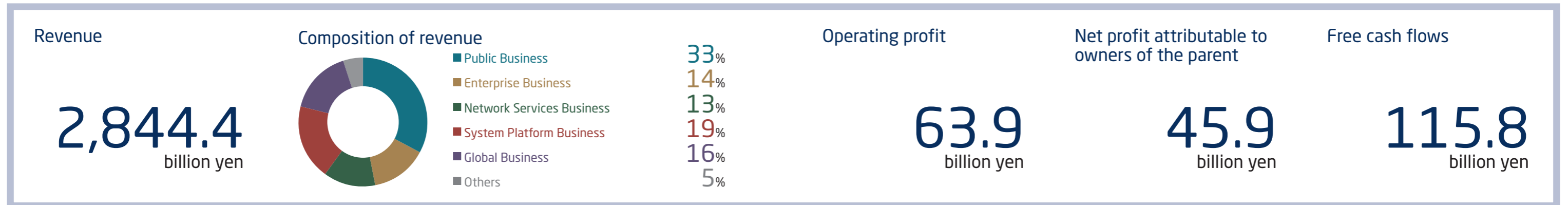
Notes: 1. Net profit (loss) attributable to owners of the parent per share is calculated based on the weighted-average number of shares outstanding during each period.  
2. Owner's equity = equity attributable to owners of the parent  
3. The debt-equity ratio is calculated by dividing interest-bearing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

\* The amounts reflect a share consolidation (with a ratio of 10 shares to 1 share) that took effect on October 1, 2017

# At a Glance

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

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



## Public Business

Revenue  
**933.1** billion yen

Operating profit  
**53.2** billion yen

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

### Public Solutions

#### Examples of Major Customers and Main Solutions

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

#### Major Consolidated Subsidiaries

- NEC Nexsolutions, Ltd.

### Public Infrastructure

#### Examples of Major Customers and Main Solutions

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

#### Major Consolidated Subsidiaries

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

## Enterprise Business

Revenue  
**408.7** billion yen

Operating profit  
**35.7** billion yen

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

#### Examples of Major Customers and Main Solutions

- Manufacturing:** Global SCM, Product Lifecycle Management, Production Management, Sales Management
- Retail and Services:** Retail Systems for Stores and Head Offices, Logistics Management
- Finance:** Banking, Business Branch Systems, Insurance and Securities Infrastructure, Insurance and Securities Channel

#### Major Consolidated Subsidiaries

- ABeam Consulting Ltd.

## Network Services Business

Revenue  
**377.6** billion yen

Operating profit  
**17.3** billion yen

- Major Products and Services
- Network Infrastructure: Core Network, Mobile Phone Base Stations, Optical Transmission Systems, Routers/Switches
  - Systems integration (systems implementation, consulting)
  - Services & Management: OSS<sup>\*1</sup>/BSS<sup>\*2</sup>, Services/Solutions

\*1 OSS: Operation Support System  
 \*2 BSS: Business Support System

#### Major Consolidated Subsidiaries

- NEC Networks & System Integration Corporation

## System Platform Business

Revenue  
**531.7** billion yen

Operating profit  
**30.0** billion yen

- Major Products and Services
- Hardware:** Servers, Mainframes, Supercomputers, Storage, Business PCs, POS, ATMs, Control Equipment, Wireless LAN Routers
  - Software:** Integrated Operation Management, Application Servers, Security and Database Software
  - Enterprise Network Solutions:** IP Telephony Systems, WAN/Wireless Access Equipment, LAN Products
  - Services:** Maintenance Services

#### Major Consolidated Subsidiaries

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

## Global Business

Revenue  
**453.7** billion yen

Operating loss  
**-28.0** billion yen

- Major Products and Services
- Safety:** Biometric Solutions (such as Face Recognition, Fingerprint Identification), Surveillance
  - Software Services for Service Providers (OSS/BSS, SDN<sup>\*3</sup> / NFV<sup>\*4</sup>):**
  - Network Infrastructure:** Submarine Systems (Submarine Cable Systems, Ocean Observation Systems), Mobile Backhaul
  - System Devices:** Displays, Projectors
  - Energy Storage Solutions**

\*3 SDN: Software-Defined Networking  
 \*4 NFV: Network Functions Virtualization

#### Major Consolidated Subsidiaries

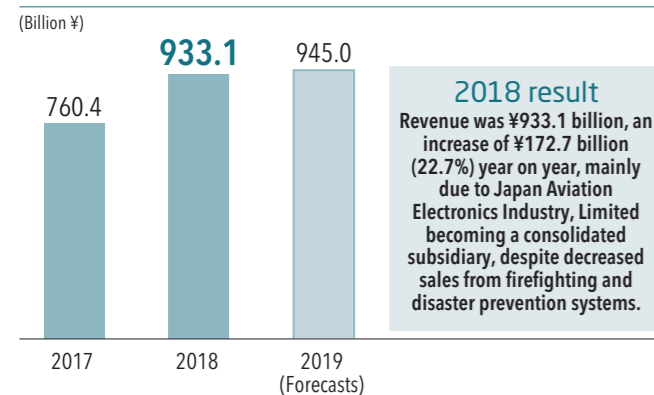
- NEC Display Solutions, Ltd.
- OCC Corporation
- NEC Energy Solutions, Inc.
- Netcracker Technology Corporation
- Northgate Public Services Limited

## Review of Operations

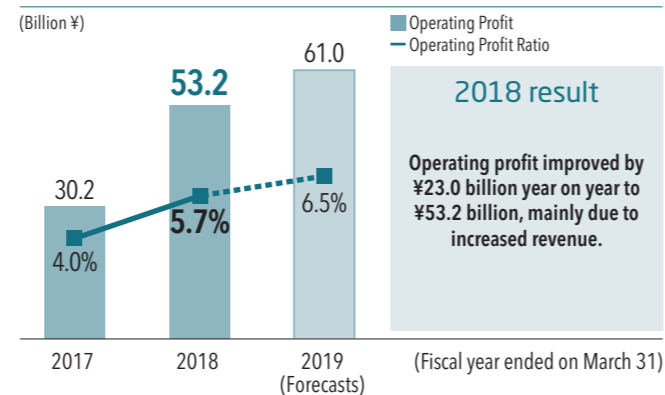
### Public Business

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

#### Revenue



#### Operating Profit, Operating Profit Ratio



### Public Business Comprised of Two Areas

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

Based on the new organization established in April 2017, the "Public Solutions" considers both the local needs and the required policy seeds. In this area NEC works together with regional stakeholders, such as local governments, universities, and businesses, to accelerate the development of new regional businesses, such as smart cities and utilization of the Social Security and Tax Number System ("My Number"), and health care. Based on our many years of achievements gained in supporting government agencies, the "Public Infrastructure" further improves the social infrastructure we provide to support a safe and comfortable lifestyle for everyone.

### Public Business – SWOT Analysis

#### STRENGTHS

- Strong track record gaining high credibility, advanced technologies in the process, and high market share in Japan in delivering products and systems that support social infrastructure – such as systems for governmental organizations, broadcasters, power companies, as well as in cyber-security –
- Ability to propose concepts for customers' future based on "domain knowledge," specifically operational expertise and deep understanding of database construction acquired through many years of working with customers.
- Provision of vertically integrated solutions with the "NEC the WISE" lineup of AI technologies, "Bio-IDiom" biometrics, IT and networks including security, and full-layer ICT including sensing technology.

#### WEAKNESSES

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

#### OPPORTUNITIES

- The Japanese government's "Digital Government action plan" will drive the creation of a common platform for government, and wider use of the My Number System is being examined.
- Expectations for safe, secure, efficient administration of the Olympic and Paralympic Games Tokyo 2020 and further investment to respond to increasing number of tourists visiting Japan.
- Cyber-attacks pose a growing threat around the world, gaining attention and increasing demand for reinforcement of systems and monitoring services for cyber security.
- We expect increased investment toward utilization of ICT across a variety of domains, such as health care and education.

#### THREATS

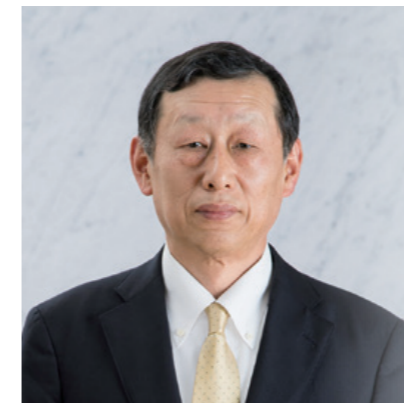
- Competition for orders is intensifying, increasing the number of projects with difficult requirements in cost and delivery. As a result, constant improvement of quality and cost competitiveness is necessary.
- We need a new business structure that can cope with changes in the market environment, such as a shift in the industry itself with the trend towards broadcasting via IP and transformation of the viewer rating and advertising model.



## Public Solutions Business

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

Executive Vice President  
Chikara Nakamata



## Public Infrastructure Business

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

Executive Vice President  
Kazuhiro Takada

### Expanding the Business Domain to Solve Social Issues

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

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

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

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

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

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

#### Examples of Initiatives

<p><b>Healthcare:</b> Real time endoscope diagnosis support system using AI</p>	<p>National Cancer Center Japan and NEC announced the development of a real time endoscopy diagnosis support system using AI in July 2017. We aim to prevent failure to diagnose bowel cancers and precancerous lesions (neoplastic polyps in the bowel) during endoscopy examinations of the bowel by discovering them in real time during the endoscopy.</p>
<p><b>Digital Government:</b> Contributing to Wider Use of My Number Cards among Local Governments</p>	<p>NEC's system was adopted for the pioneering use of My Number cards as employee identification cards by the Tokushima prefectural government. The system manages room access based on My Number cards to provide secure staff access management within designated areas at government buildings. Meanwhile, in Chiba City, NEC has built a library system that allows patrons to borrow books by simply swiping their My Number card at the library counter. Through initiatives such as these, NEC will contribute to wider use of My Number cards.</p>

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

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

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

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

Through these improvements to our earnings, we will secure funds for investments that we will be focused on advanced

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

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

#### Examples of Initiatives

<p><b>NEC Iris Recognition Technology Ranked First in Accuracy Evaluation by U.S. National Institute of Standards and Technology</b></p>	<p>In April 2018, NEC's iris recognition technology achieved the highest matching accuracy evaluation in an evaluation test performed by the U.S. National Institute of Standards and Technology (NIST), a world-leading authority. Furthermore, in past testing performed by NIST, NEC's facial recognition was ranked first four consecutive times, and its fingerprint recognition has ranked first eight times in total.</p>
<p><b>Contributing to 4K and 8K Broadcasts in Japan and Internationally</b></p>	<p>NEC is contributing to the construction of television master control equipment *1 for a BS4K trial broadcast scheduled to commence in December 2018. Major broadcasters in countries around the world are conducting trial testing of 4K and 8K broadcasts. NEC has been the technical partner for trial testing of an 8K terrestrial broadcast by Brazilian broadcaster TV GLOBO, and NEC's codecs*2 have been used in 4K broadcast trials by BBC of the U.K. and TV Station of South Korea.</p> <p>*1 Television master control equipment: A system for compiling broadcast data, including programs and commercials, and outputting it according to a program *2 Codec: Image compression and decompression equipment</p>

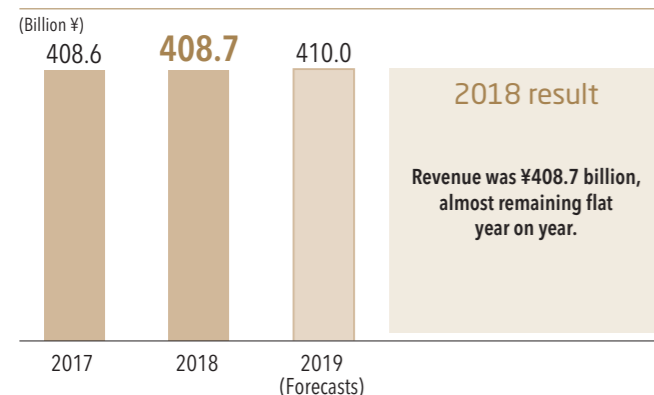
# Enterprise Business



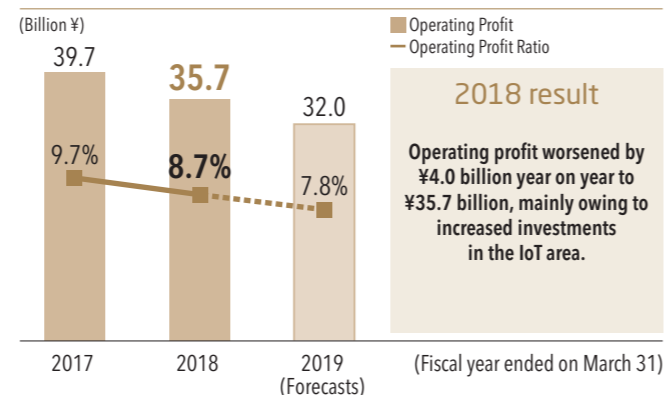
Our society faces various kinds of social issues, such as food waste, labor shortages, changes in the consumption environment, and diversifying threats in both real society and cyber space. NEC will develop cutting-edge technologies and promote co-creation with customers in order to connect people, goods,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

Executive Vice President  
Hiroshi Kodama

## Revenue



## Operating Profit, Operating Profit Ratio



## Enterprise Business – SWOT Analysis

### STRENGTHS

- Reliability and achievements cultivated over many years of providing IT services to domestic clients in the manufacturing, retail and service, and financial industries
- Ability to integrate technology and business to create value and respond bimodally to customers' needs in business development and solutions development scenarios
- The knowledge and expertise we have developed in manufacturing innovation at our own plants as a company in the manufacturing industry, as well as SCM transformation for global corporations

### OPPORTUNITIES

Our society faces various kinds of social issues, such as global food waste and energy consumption, as well as changes in the human resources environment due to labor shortages, diversification of consumption patterns, including an emphasis on customer experience and a shift towards cashless societies, and fraudulent transactions involving internet banking. AI, IoT, and other advanced digital technologies are increasingly expected to provide solutions for these social issues.

### WEAKNESSES

- Need to strengthen initiatives that will impact society positively across the boundaries between enterprises and industries
- In order to achieve further growth, need to transform to a business model that makes use of knowledge and resources accumulated for each industry and client and consolidates them across the organization

### THREATS

Although the private sector market in IT is expanding, the acceleration in adoption of cloud computing and the penetration of AI and IoT are bringing dramatic change to NEC's business environment in terms of customers' investment fields and competitors. We expect a decrease in existing solutions businesses in the medium term, and new business model creation and the capability to support customers' digital transformation will be increasingly important for achieving growth.

# Shift to a Recurring Income Stream Model through Co-creation

## Initiatives in the Medium- to Long-Term

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

## Initiatives in Fiscal 2018 to Realize our Goals

Social Issues	Accomplishments in Fiscal 2018
Optimization of Supply and Demand	<ul style="list-style-type: none"> <li>■ NEC announced the "Demand and Supply Optimization Platform." Through this solution, NEC will contribute to the optimization of demand and supply and reduction of food loss and waste by increasing accuracy in forecasting through the use of white box AI for sharing and utilizing inventory and sales data among all companies comprising the value chain. In this project, NEC collaborates with the Japan Weather Association (JWA), combining the weather data and data analysis technologies of JWA with NEC's technology to create social value together.</li> <li>■ NEC worked with Seven-Eleven Japan Co., Ltd. to use image data from cameras of store terminals to improve ordering accuracy, and bolster security using face recognition technology while enhancing the convenience. NEC will keep contributing to labor-saving, sophisticated solutions using AI to forecast product demand and IoT to ensure stable operations of all store equipment.</li> </ul>
Realizing a Safe, Comfortable Society	Sumitomo Electric Industries, Ltd. and NEC have begun collaborating by using Sumitomo Electric's rich range of in-vehicle products and technologies as well as expertise in traffic infrastructure together with NEC's cutting-edge technologies in security, AI, IoT, and cloud services. The two companies will take full advantage of their strengths to develop products with advanced security and to expand mobility business.
Preventing Diversifying Cyber Space Threats and Digital Fraud	NEC has provided Japan Exchange Regulation with deep learning technology for market surveillance operations, which is used in the initial investigation of suspicious transactions. NEC is conducting test demonstrations with several securities companies aiming to prevent digital fraud, and will help to realize efficient, sophisticated market surveillance operations.
Realizing a Highly Efficient Society through ICT	Japan Airlines Co., Ltd. and NEC conducted test demonstrations using AI to perform predictive analysis for the purchase of airline tickets. These tests confirmed the effectiveness of NEC's Predictive Analytics Automation Technology towards resolving the issues of a scarcity of data scientists with advanced analytical skills and uncertainty as to how best to utilize the enormous amounts of data.



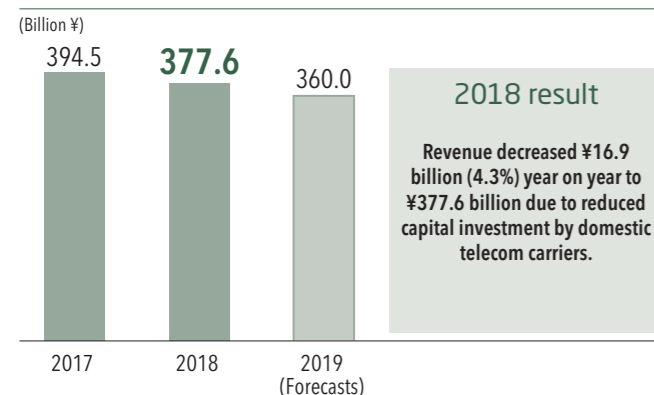
# Network Services Business



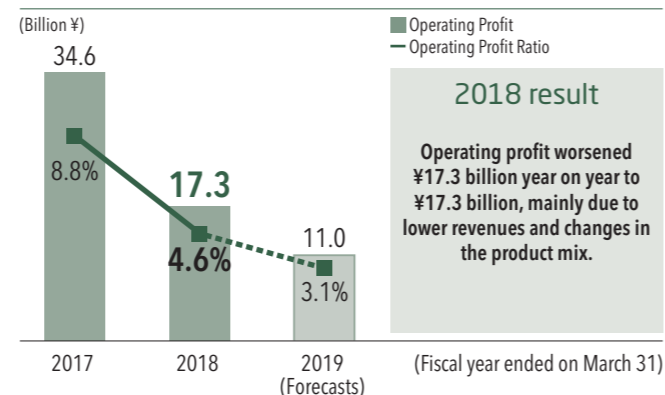
As a partner supporting digital transformation of all industries, we will create new social value by working with various customers to co-create business. NEC's total capability in networks and IT will enable us to expand the value we provide from network infrastructure to services, as we contribute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

Executive Vice President  
Atsuo Kawamura

## Revenue



## Operating Profit, Operating Profit Ratio



## Network Services Business – SWOT Analysis

### STRENGTHS

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

### WEAKNESSES

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

### OPPORTUNITIES

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

### THREATS

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

# Providing Network Services That Can Support Digital Transformation

## Initiatives in the Medium- to Long-Term

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

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

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

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

- Security:** By combining AI for abnormality detection through image analysis with 5G's characteristic ultra-high speed, large capacity, low latency communications, NEC is taking steps to create a safe, secure society through trials for realizing security services for preventing crimes and accidents.
- Construction:** NEC is working to solve issues at construction sites, such as a shortage of engineers and workers, by conducting trials of advanced construction technologies such as unmanned construction machinery and real-time remote construction using 5G.
- Healthcare:** Local government and telecom carrier with NEC conducted field trials of remote medical examinations using large-capacity 5G transmission to connect local medical institutions with a medical university, enabling them to communicate in real time and share images taken by a 4K close-up camera, high-definition echocardiographic video and MRI images. The trial is part of efforts to realize a society where everyone has equal access to healthcare.

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

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

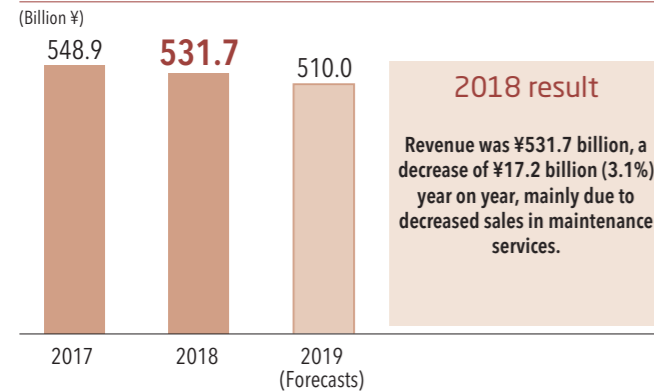
# System Platform Business



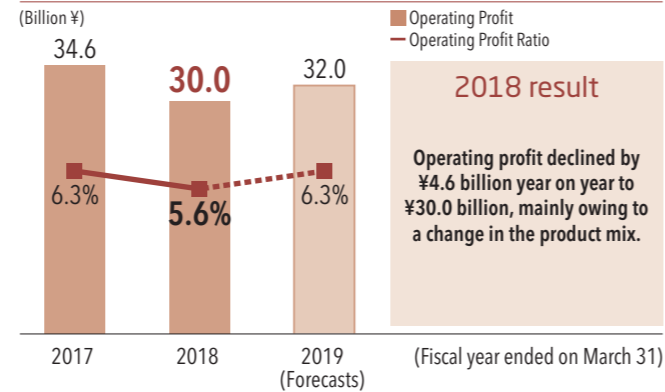
There is a growing move towards proactively using ICT for operational innovation, such as work style transformation, and operational expansion to capture increasing demand from inbound tourism. NEC is directly experiencing these global trends as it constantly reviews its platforms to strengthen products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

Executive Vice President  
Kimihiko Fukuda

## Revenue



## Operating Profit, Operating Profit Ratio



## System Platform Business – SWOT Analysis

### STRENGTHS

- Reliability and high quality cultivated under an intensely competitive domestic market; high share in Japan for IT platform products
- Distinguished group of technologies\*, including AI, IoT image analysis and security

\* Image recognition technology including face recognition, heterogeneous mixture learning, textual entailment recognition technology, etc.

### WEAKNESSES

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

### OPPORTUNITIES

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

### THREATS

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

# Providing Platforms to Support Business Innovation through Digitalization

## Initiatives in the Medium- to Long-Term

In System Platform Business, there is a need to transform the conventional business model. We aim to do more than simply streamline customers' business operations by providing highly reliable ICT products; we will work to increase the capabilities of our customers and contribute to solving their issues by providing NEC's solutions and services as a comprehensive package.

The key to realizing this transformation is to leverage NEC's strengths, such as AI, IoT image analysis, and cyber security, to establish platforms that provide unique value. To achieve this, the System Platform Business will first pursue maximization of profit by increasing efficiency in every aspect of its existing businesses and reforming its cost structure through operational reforms. We will then focus our management resources on areas such as AI, IoT image analysis, and security and concentrate on developing a platform lineup to support digitalization. In this way, we will realize a business portfolio aligned with the needs of today.

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

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

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

In fiscal 2019 and beyond, we expect the System Platform Business to continue facing a harsh business environment, but we will streamline our existing businesses while strengthening and expanding our focus businesses.

\* CY1996-2017 Japan Product Category: x86 server, Units  
Source: IDC Quarterly Server Tracker 2018Q1

Note: IDC declares a statistical tie in the server market when there is less than one percent difference in the revenues or the unit shipment of two or more vendors.

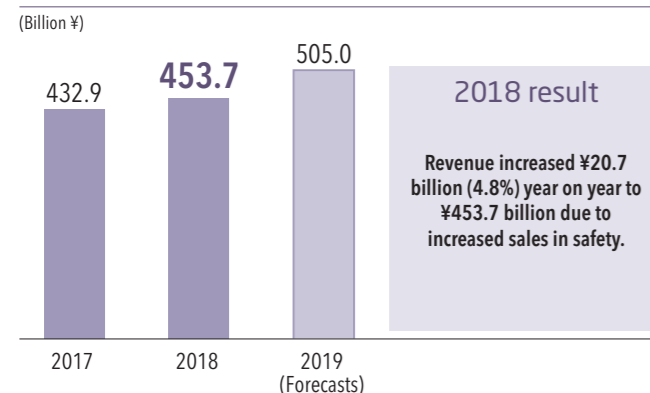
## Global Business



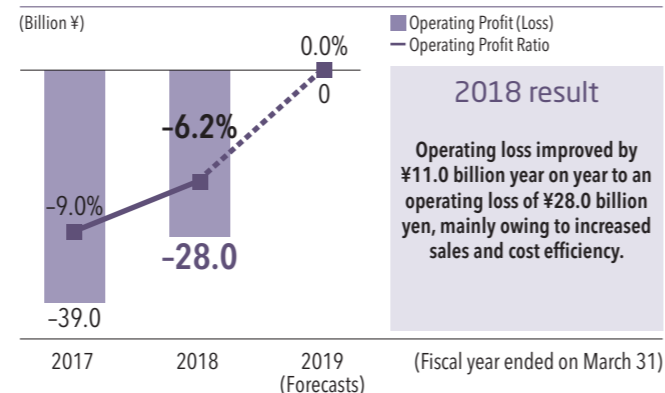
To accelerate the growth of global business, NEC business divisions that are primarily tasked with expanding in global markets were newly incorporated into the Global Business Unit, which was launched in April 2018. The dedicated global structure will improve management speed and strengthen links between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

Senior Executive Vice President  
Akihiko Kumagai

### Revenue



### Operating Profit (Loss), Operating Profit Ratio



## Global Business – SWOT Analysis

### STRENGTHS

- Safety business: Integrated systems that fuse world-leading biometric authentication technology with urban surveillance operation expertise and analysis technologies (status recognition, crowd behavior analysis, indication detection, etc.), and enable not only past event analysis but also the ability to grasp phenomena in real time.
- Software services for service providers: In addition to product competitiveness and track records at Netcracker Technology Corporation, product capabilities and advanced solutions provided through links with SDN/NFV.
- Strong presence and adoption results in the markets for network equipment (mobile backhaul), submarine cable, displays and projectors, and unified communications products.

### OPPORTUNITIES

- Expanding opportunities to realize solutions through ICT, such as skilled labor shortages in advanced countries and emergence of social issues due to rapid urbanization in emerging countries.
- Expansion in demand for safety solutions in countries where there is growing interest in safety and security.
- Expansion in demand for software services for service providers following advancement of network services.
- The smart energy market is expected to expand following the spread of renewable energy use, bringing growth in business opportunities in Europe and North America.

### WEAKNESSES

- Need to strengthen the structure to enable expansion of the scope for providing value in the area of safety to customers beyond governments and police in the domains requiring safety, security, efficiency and equality.
- Need to accelerate shift of business model from equipment sales to a solutions business.

### THREATS

- Aggressive approach by emerging-market vendors and others in the field of biometric authentication.
- Intensified competition in the field of software services for service providers due to the rise of the network virtualization market.
- Though our mobile backhaul business is in the global market leaders group, price competition is increasing due to market maturity.

## Expansion of Safety Business and Profit Structure Reforms of Issues Businesses

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

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

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

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

In submarine cable, displays and projectors, and unified communications product business, we aim to maintain and expand our industry presence and business scale, including examining new business models.

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

## International Business Structure

(As of July 1, 2018)

### Strengthening Our Ability to Provide Solutions for Society in Countries and Regions around the World

NEC will work to strengthen its local proposal and service provision capabilities, enabling it to provide advanced technologies such as biometric authentication as solutions for individual customers. We will expand our network of five regional headquarters and local subsidiaries in each country and region, while strengthening our links with Netcracker Technology Corporation and Northgate Public Services Limited, which was acquired in January 2018. Particularly, in the safety business we will continue to accelerate our business expansion utilizing M&As, aiming to contribute to solutions and social value creation for even more customers worldwide.



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

#### North America



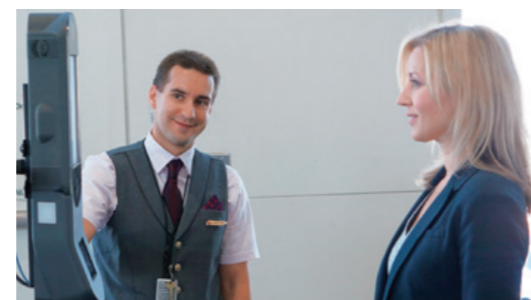
**Masahiro (Mark) Ikeno**  
President & CEO  
NEC Corporation of America

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

In the fiscal year ended March 31, 2018, we accelerated our strategic pivot toward digital transformation and delivering solutions to enhance the customer experience across industries. As a result, while continuing to supply traditional customers among law enforcement and federal agencies, we expanded our biometric solutions footprint in airports, stadiums, theme parks, hotels, casinos, and other spaces.

In the coming year, we will focus on customer

experience solutions along with the enterprise architecture and core ICT technology that has evolved to support them. In doing so, we will create new business opportunities as we transition from the realm of content processing to context processing.



An example of easing the flight boarding process using optional facial recognition technology

#### Central and South America



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

NEC Latin America has its businesses strongly aligned with the needs of Central and South America and is promoting business based on deep ties with the local community. Here in the Latin America/Caribbean area, there is a demand for environments that enable people to live more safely and securely. In order to fulfill these demands, technology such as biometrics plays an extremely important role in cities with efficiency and equality.

In the fiscal year ended March 31, 2018, we utilized various biometrics technologies to provide solutions and add value to police and border control systems in Mexico, Costa Rica and Argentina. NEC Latin America will continue

to collaborate with its customers and partners to orchestrate a brighter world for the people of Central and South America.



An immigration e-gate that uses biometrics

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



**Hironobu Kurosaki**  
President & CEO  
NEC Europe

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

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

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



A police vehicle fitted with a facial recognition system

#### China/East Asia



**Takeshi Tsukamoto**  
President  
NEC (China)

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

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

NEC also provides Bus Rapid Transit (BRT) systems for monitoring, management and payment in various regions including India and Hong Kong, where its development center is located. Through these and other activities, we will continue to contribute to realizing an affluent society.



Image recognition self-checkout POS system

#### APAC (Asia Pacific)



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

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

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

In the fiscal year ending March 31, 2019, we will

further accelerate the development of innovative solutions by capitalizing on our regional assets such as the Advanced Centre for Experimentation, which was established in 2017 in Singapore, to realize "NEC Safer Cities" together with our customers.

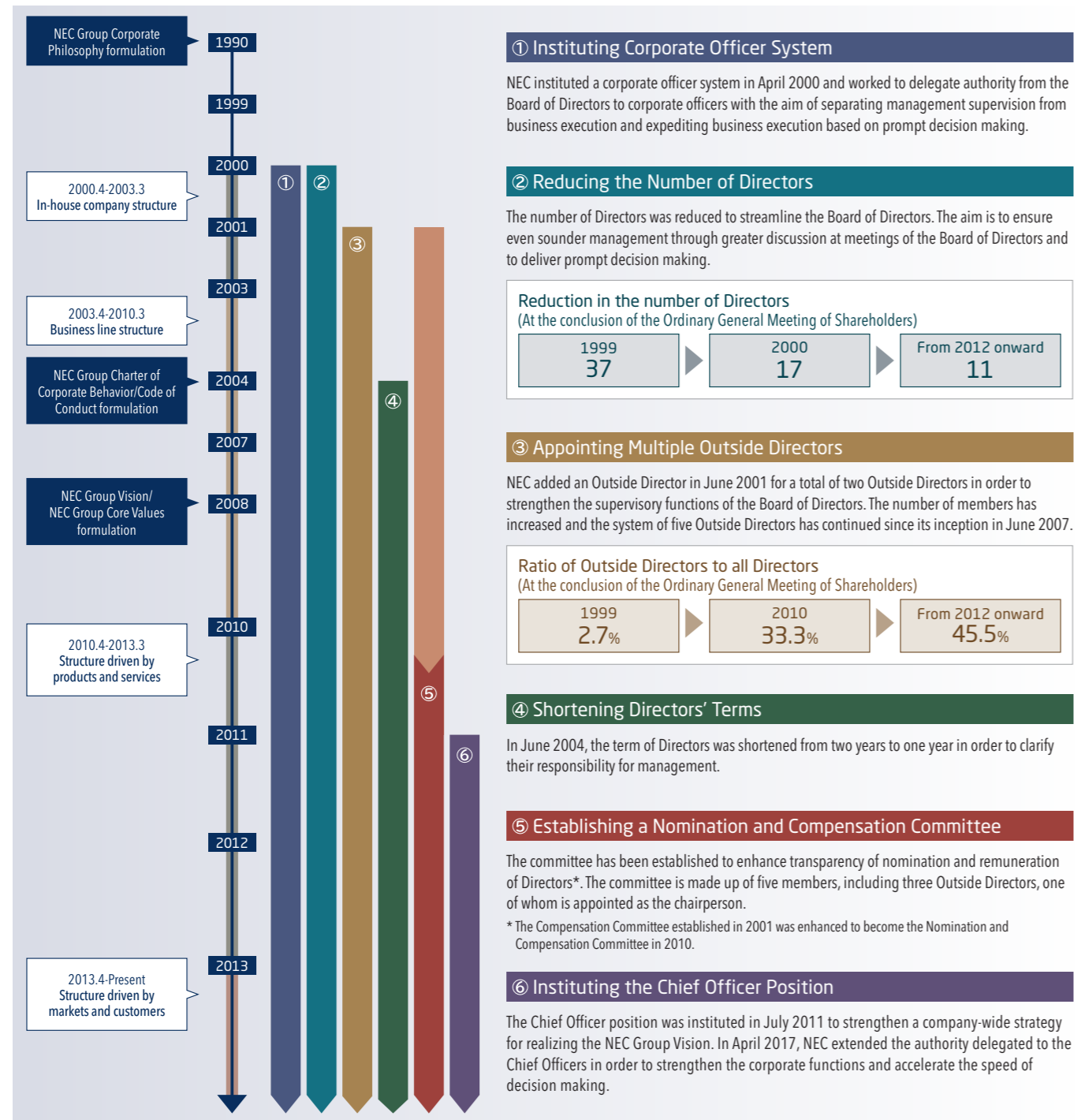


People using the BRT system provided to Surat City

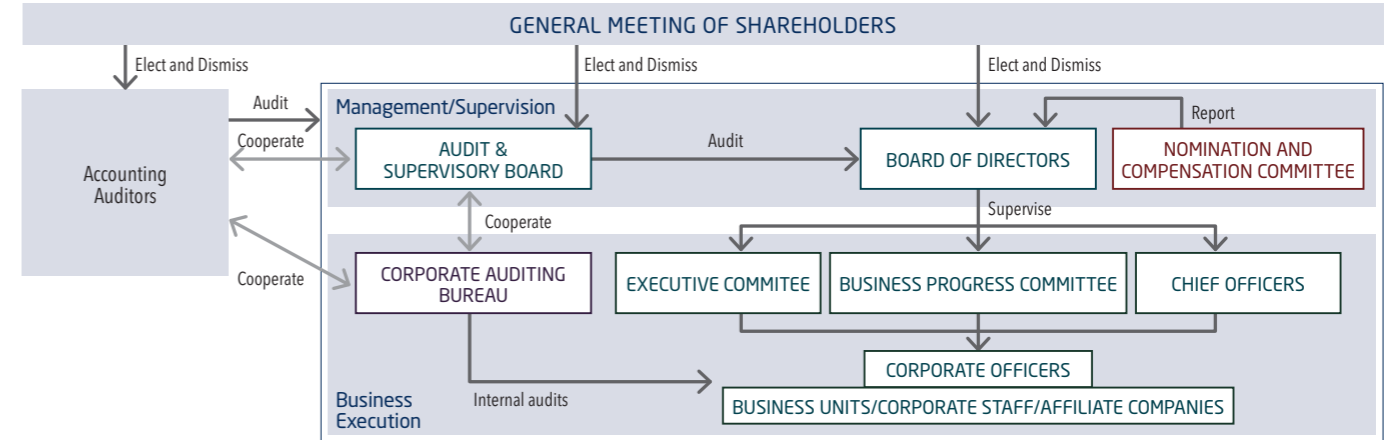
# Corporate Governance

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

## Main Initiatives for Strengthening Corporate Governance



## Overview of the Corporate Governance Structure



	Purpose and Activities	Members	Number of Meetings in Fiscal 2018
<b>Board of Directors</b>	The Board of Directors holds regular meetings basically once a month and extraordinary meetings as necessary to determine important matters related to business execution, including business realignment, funding plans and financing and investment, as well as matters concerning business plans. <b>Main Matters Discussed in Fiscal 2018</b> 1. Mid-term Management Plan 2020 2. Activity reports from Chief Officers 3. Management plans and progress reports for each business segment 4. Introduction of a performance-linked stock compensation plan 5. Sale of the electrode business 6. Acquisition of U.K.-based company Northgate Public Services Limited	11 Directors 6 Inside Directors 5 Outside Directors (of which 4 are independent Directors)	13 times Attendance rate of Outside Directors: 95.4% Attendance rate of Outside A&SBMs: 100%
<b>Executive Committee</b>	The Executive Committee discusses important NEC Group management issues such as policies and strategies. This committee extensively discusses matters of particular importance prior to putting them forward to the meetings of the Board of Directors for approval. In doing so, the committee enhances the deliberations and ensures appropriate decision making.	Around 20 corporate officers	18 times
<b>Business Progress Committee</b>	The Business Progress Committee deliberates and reports on matters related to the status of the NEC Group's business execution, such as monitoring progress with respect to meeting budgets adopted by the Board of Directors, with the aim of sharing management information and promoting business execution efficiency.	Corporate officers and general managers of business units etc.	11 times
<b>Nomination and Compensation Committee</b>	The Nomination and Compensation Committee deliberates on (i) nomination for Directors, representative Directors and Audit & Supervisory Board Members (KANSAYAKU) ("A&SBMs"), the Chairman of the Board, and the President and (ii) the structure and the level of compensation for Directors, representative Directors and corporate officers with taking the business result of NEC and other conditions into account and from an objective perspective. The committee reports the results of its deliberations to the Board of Directors. <b>Main Matters Discussed in Fiscal 2018</b> 1. Nomination for Directors and A&SBMs 2. Succession planning for the President 3. Stock compensation plan for Directors	5 Directors Outside Directors: Takeshi Kunibe, Motoyuki Oka (Chair), Kaoru Seto Inside Directors: Nobuhiro Endo, Takashi Niino	6 times
<b>Audit &amp; Supervisory Board (KANSAYAKU-KAI) ("A&amp;SB")</b>	The A&SB holds regular meetings basically once a month and extraordinary meetings as necessary, decides on audit policies, standards, annual auditing plan and other matters, and receives status reports on audits and on other matters from each A&SBM.	5 A&SBMs 2 Inside A&SBMs 3 Outside A&SBMs (All are independent A&SBMs)	16 times Attendance rate of Outside A&SBMs: 100%

## Continued Strengthening and Improvement of the System

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

NEC believes that its corporate governance is functioning adequately under the current system described above. However, NEC is focusing its efforts on enhancements and improvements of this system in order to realize more effective corporate governance responding to changes in the business environment.

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

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

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

#### ■ Procedure of the analysis and evaluation

##### (1) Questionnaire

In Fiscal 2018, NEC sent a questionnaire regarding the role, composition and operation of the Board of Directors to all Directors and A&SBMs, and all of them answered the questionnaire. Before sending the questionnaire, NEC improved the questionnaire by adding questions for free descriptive answers and questions for evaluation of achievement of the measure introduced in the previous fiscal year based on the result of the analysis and evaluation conducted in the previous fiscal year so that evaluation and opinions of Directors and A&SBMs could be reflected more adequately on their answers to the questionnaire.

##### (2) Discussion based on the result of the analysis and evaluation

After analyzing the effectiveness of the Board of Directors based on the result of the questionnaire, NEC reported such result to the Board of Directors in March 2018. In the said Board of Directors, all Directors and A&SBMs discussed the improvement for the Board of Directors from the viewpoint of the reinforcement of the function and governance system of the Board of Directors, the best practice to discuss the management strategy and a method for decision making

and the clarification of management policy looking ahead to the future vision of NEC.

#### ■ Summary of the results of the analysis and evaluation for Fiscal 2018

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

#### ■ Future challenges

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

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

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

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

### Remuneration System

	Monthly remunerations	Bonuses (short term incentive)	Stock compensation (mid-and long-term incentive)
Inside Directors	○	○	○
Outside Directors	○	—	—
A&SBMs	○	—	—

### Remuneration for Directors

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

Neither bonuses nor stock compensation are paid to Outside Directors, from the viewpoint of securing their independence from NEC because NEC expects that Outside Directors play a leading role in supervision over business execution.

#### ■ The fixed monthly remunerations

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

\*1 The maximum monthly remuneration for Directors is 65,000,000 yen (approved at the 153rd Ordinary General Meeting of Shareholders held on June, 27 1991).

#### ■ The bonuses

The bonuses are calculated by, adding to the standard amount determined for each positions of Directors, evaluation, under certain rules, of the contribution by Director to the business results during previous fiscal year.

$$\text{Standard amount for each Director position} \times \text{Evaluation of performance of duties (calculated by revenue, operating profit and others)} = \text{Bonus}$$

#### ■ The stock compensation

NEC shares will be granted after the expiry of period of Mid-term Management Plan in accordance with the Directors' titles and the level of the achievement of Mid-term Management Plan.

$$\text{Number of granting shares based on the applicable Directors' titles} \times \text{Performance-based allotment rate} = \text{Stock compensation}$$

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

### Remuneration for Audit & Supervisory Board Members

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

#### ■ The fixed monthly remunerations

The fixed monthly remunerations are determined depending on whether he or she is a full-time A&SBM or not, to the extent of the maximum amount \*2 approved at the General Meeting of Shareholders.

\*2 The maximum monthly remuneration for A&SBMs is 12,000,000 yen (approved at the 170th Ordinary General Meeting of Shareholders held on June 23, 2008).

#### [ Process of Determination ]

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

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

#### [ Determination of the Level of Remuneration ]

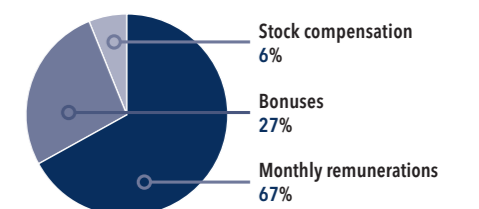
In order to ensure objectiveness and properness of the remuneration for Directors and A&SBMs, the level of the remuneration is determined on the result of the third party's investigation regarding the remunerations of other companies whose business contents and scale are similar to those of NEC.

#### [ Amounts of Remuneration for Fiscal 2018 ]

	Total amount by type			Total amount	Headcount
	Monthly remunerations	Bonuses	Stock compensation		
Inside Directors	281	113	26	420	7
Inside A&SBMs	60	—	—	60	3
Outside Directors and A&SBMs	96	—	—	96	8

Notes: 1. NEC does not disclose remuneration per individual.  
 2. The total amount of the stock compensation is the value posted during Fiscal 2018.  
 3. The headcount of Inside Directors includes one Director who retired at the close of the 179th Ordinary General Meeting of Shareholders held on June 22, 2017. Of these, six Directors are eligible to receive stock compensation.  
 4. The headcount of Inside A&SBMs includes one A&SBM who retired at the close of the 179th Ordinary General Meeting of Shareholders held on June 22, 2017.  
 5. NEC abolished its retirement allowance system for Directors and A&SBMs at the close of the 168th Ordinary General Meeting of Shareholders held on June 22, 2006.

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



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

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

## Ensuring Compliance and Risk Management

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

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

### Establishing “NEC Compliance Day”

In fiscal 2017, NEC Corporation received notification of three violations of the Antimonopoly Act from the Japan Fair Trade Commission. On November 18, we received an on-site inspection in regard to transactions for wireless digital emergency firefighting equipment. To keep these events fresh in mind and reconfirm the importance of compliance for each individual, we have decided to make November 18 “NEC Compliance Day.”

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

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

As part of NEC’s effort to ensure compliance, we annually conduct an online education course on compliance, and moreover, we conduct fair trading education including multiple case studies for employees mainly working in divisions undertaking public sector projects every year. In fiscal 2018, in addition to these education programs, NEC also worked to ensure compliance with the competition law by conducting 140 face-to-face education programs for employees of NEC Corporation and its domestic consolidated subsidiaries to

communicate the facts, including the background to the three bid-rigging incidents caused by NEC Corporation. Furthermore, we also conducted dialogue-based education for upper management personnel at sales divisions throughout Japan, mainly regional headquarters and branches. We conducted a discussion on the organizational management for practicing compliance and reconfirmed how we should behave.

### Measures to Prevent another Competition Law Violation

In fiscal 2018, NEC transferred and changed the employees who had long-term responsibility for the same governmental agency-related customers to prevent competition law violations. We also conducted special courses for employees who had not been able to be applied for their assignment reasons and so forth, confirming

important points of the competition law in person. In addition, we conducted internal audits, email monitoring, and other steps, identifying nascent infringements of the competition law and acting quickly to counter them in cases that will likely cause a risk.

 For further information, please refer to Sustainability Report 2018 “Compliance and Risk Management”

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

### Creating a competitive business model with a healthy sense of urgency

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

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

The Mid-term Management Plan 2020 which was introduced in Fiscal 2019 is an important step towards realizing this transformation. Given the rapid pace at which technology is evolving, it is vital that all NEC directors, corporate officers, and employees share a healthy sense of urgency and focus on swiftly achieving the mid-term management targets. I hope to see NEC push forward with its efforts to create social value under its brand message “Orchestrating a brighter world” by assembling knowledge and expertise from both internal and external sources.

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



Outside Director  
Takeshi Kunibe

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

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

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

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



Outside Audit & Supervisory Board Member (KANSAYAKU)  
Taeko Ishii

# Directors and Audit & Supervisory Board Members

(As of July 1, 2018)

## Directors



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



**Takeshi Kunibe**  
Member of the Board  
Director President (Representative Executive Officer), Sumitomo Mitsui Financial Group, Inc.  
Mr. Kunibe has extensive experience and deep insight with management of a bank.  
• Attendance at meetings of the Board of Directors: 11 out of 13



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



**Motoyuki Oka**  
Member of the Board  
Honorary Adviser, Sumitomo Corporation  
Mr. Oka has extensive experience and deep insight with management of a general trading company including the management of overseas firms.  
• Attendance at meetings of the Board of Directors: 13 out of 13



**Takayuki Morita**  
Senior Executive Vice President, CFO (Chief Financial Officer) and Member of the Board (Representative Director)  
After being engaged in the management of NEC's M&A and global business, Mr. Morita has been in charge of its global business strategy and in April 2018 was appointed as Representative Director and Senior Executive Vice President and Member of the Board.



**Kunio Noji**  
Member of the Board  
Chairman of the Board, Komatsu Ltd.  
Mr. Noji has extensive experience and deep insight with management of a manufacturing company.  
• Attendance at meetings of the Board of Directors: 12 out of 13



**Norihiko Ishiguro**  
Senior Executive Vice President and Member of the Board  
Mr. Ishiguro has extensive experience and a track record relating to industrial policy and a trade policy through working at the Ministry of Economy, Trade and Industry. In addition, he has been in charge of global business strategy and external relations as Senior Executive Vice President since October 2016.



**Kaoru Seto**  
Member of the Board  
Special Adviser, Yamato Holdings Co., Ltd.  
Mr. Seto has extensive experience and deep insight as a manager of a logistics service company.  
  
(Appointed in June 2018)



**Katsumi Emura**  
Executive Vice President, CTO (Chief Technology Officer) and Member of the Board  
After being engaged in the management of intellectual properties and Research and Development, Mr. Emura is now in charge of the NEC Group's technology strategy.



**Noriko Iki**  
Member of the Board  
President, Japan Institute for Women's Empowerment & Diversity Management  
Ms. Iki has abundant experience and deep insight in the fields of administration and diplomacy.  
  
(Appointed in June 2018)



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

Notes: 1. NEC has notified the Tokyo Stock Exchange of its four independent Directors and three independent Audit & Supervisory Board Members ("A&SBMs").  
Independent Directors: Mr. Motoyuki Oka Mr. Kunio Noji, Mr. Kaoru Seto and Ms. Noriko Iki  
Independent A&SBMs: Mr. Takeshi Kikuchi, Mr. Kazuyasu Yamada and Ms. Taeko Ishii  
2. Attendance at meetings: the number of attendance at meetings (meetings of the Board of Directors or meetings of the Audit & Supervisory Board) out of the number of the meetings held in the fiscal year ended March 31, 2018

## Audit & Supervisory Board Members (KANSAYAKU)



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



**Isamu Kawashima**  
Audit & Supervisory Board Member (full-time)  
Mr. Kawashima has experience as the person responsible for accounting and financial affairs of the Company for many years.



**Takeshi Kikuchi**  
Audit & Supervisory Board Member  
Attorney at Law  
Mr. Kikuchi has a lot of experience and professional insight as an attorney at law in the field of IT and other fields.  
• Attendance: At meetings of the Board of Directors: 13 out of 13  
At meetings of the Audit & Supervisory Board: 16 out of 16



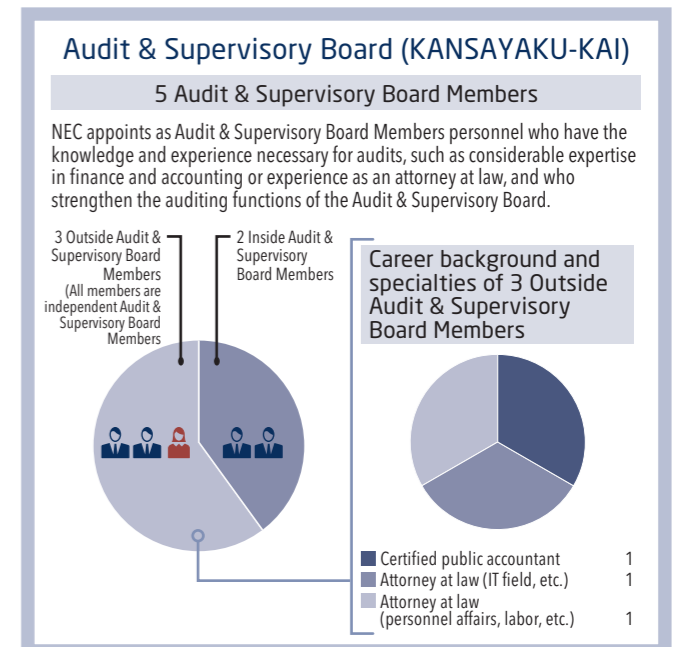
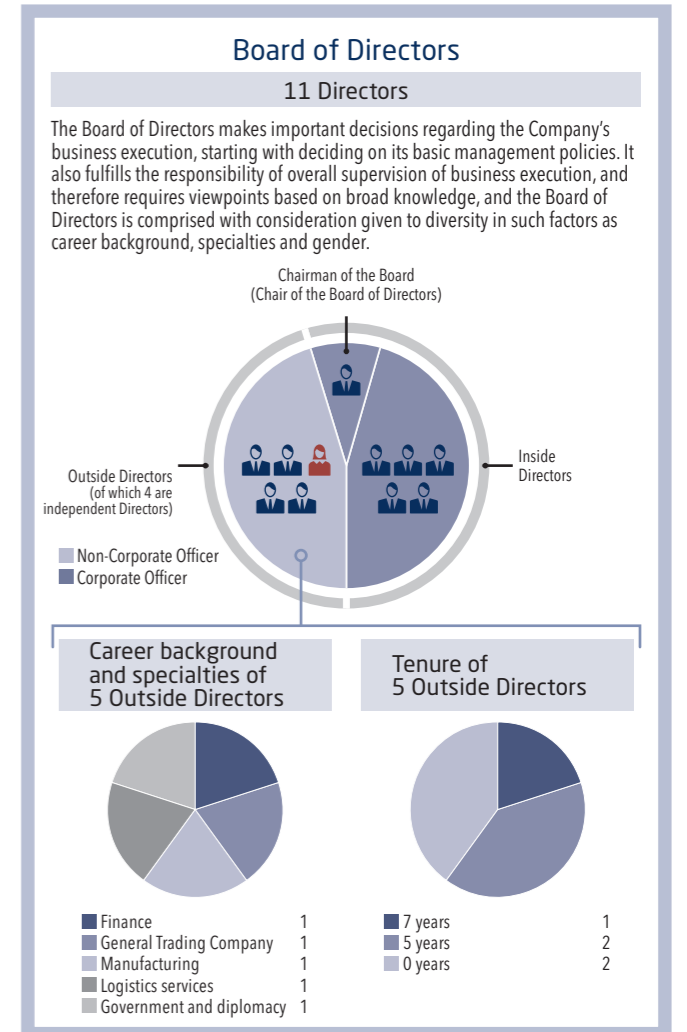
**Kazuyasu Yamada**  
Audit & Supervisory Board Member  
Certified Public Accountant  
Mr. Yamada has a lot of auditing experience as a Certified Public Accountant and professional insight in finance and accounting.  
• Attendance: At meetings of the Board of Directors: 13 out of 13  
At meetings of the Audit & Supervisory Board: 16 out of 16



**Taeko Ishii**  
Audit & Supervisory Board Member  
Attorney at Law  
Ms. Ishii has a lot of experience and deep insight as an attorney at law in the fields of personnel affairs, labor and others.  
  
(Appointed in June 2018)

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

- Directors  
<https://www.nec.com/en/global/about/executives/directors.html>  
Audit & Supervisory Board Members (KANSAYAKU)  
<https://www.nec.com/en/global/about/executives/auditors.html>





# Cross-company Corporate Strategy Promotion Framework

(As of July 1, 2018)

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



Norihiko Ishiguro

Senior Executive Vice President

## We will increase our presence and speed, realizing growth on a global level as a company that creates value for society

I will strive to increase NEC's presence further so that it can make an even greater contribution to solving the world's issues and grow even more as a global social value creation company. To this end, I will increase and proactively undertake PR and sales activities pitched at governments, local governments, and public institutions, international institutions, and local companies, both in Japan and internationally. At the same time, I will work to transform our organizational culture so that NEC can realize the fullest value for customers even faster than before.



Takayuki Morita

Senior Executive Vice President,  
CFO (Chief Financial Officer)

## Realizing an operating profit ratio of 5% by fiscal 2021

The greatest issue facing NEC today is strengthening its earning capability. As CFO, I will steadily promote the following three initiatives to achieve the Mid-term Management target of a 5% operating profit ratio: 1) resolute optimization of fixed costs, 2) execution of countermeasures for underperforming businesses with clear timeframes, 3) execution of growth investments, including M&A, to generate additional earnings.



Akihiko Kumagai

Senior Executive Vice President

## A culture of "playing offense"

In today's world, where huge amount of information fly back and forth, companies need to respond much faster than in the past, and it is critical to stay one step ahead at all times by taking proactive approaches. Particularly, in order to win in the global market where competition becomes tougher everyday and the needs from customers are diverse, we need to be proactive in proposing new solutions rather than waiting for requests from customers. I am committed to create a culture of taking risks and playing offense, with everyone working together.



Katsumi Emura

Executive Vice President,  
CTO (Chief Technology Officer)

## Taking a wide look at technology and building core competencies for the next generation of business growth

I intend to read the trends in society and technologies from a long-term perspective, then plan and execute multifaceted technology strategies to contribute to the next generation of NEC's growth. In businesses that utilize AI and data, we will create a competitive advantage by taking a wide look at our technological competencies, as well as social standing, intellectual property, standards, and rules. We will also leverage NEC's strengths in technology to strengthen ties with customers, and others such as academia, and venture companies. We will proactively advance these activities to maximize the social value that NEC provides.



Kazuhiro Sakai

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

## Establishing a digital management foundation

We are in an era where to survive companies must visualize their businesses through digitalization, and use that information as an asset to continuously transform and innovate their approach. As CIO and CISO, I will promote digitalization of business processes and workstyle reforms to establish a digital management foundation to support NEC as it shifts into a higher gear.



Hajime Matsukura

Executive Vice President,  
CSO (Chief Strategy Officer) and  
CHRO (Chief Human Resources Officer)

## Carrying out the Mid-term Management Plan 2020 to completion

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



Makoto Enomoto

Senior Vice President,  
CMO (Chief Marketing Officer)

## Establishing the NEC brand as an essential presence in the digital age

While treasuring our traditional NEC brand image of being trustworthy and familiar, NEC will prepare for an era where digital technology penetrates every part of society by positioning itself to realize a safe, secure, efficient, and equal society through the power of innovation.

I will promote end-to-end marketing and support NEC's transformation, responding quickly to market trends and customers' expectations to ensure that NEC is recognized and supported as an essential presence by all manner of stakeholders.



Motoo Nishihara

Senior Vice President in charge of  
the Central Research Laboratories

## Taking on the challenge of new global research and development to create robust businesses

Society is changing dramatically through AI and IoT. NEC's Central Research Laboratories is responsible for creating the next robust businesses and driving businesses going forward. Through our global research laboratory network, world-leading research personnel, and co-creation with global business partners, we will provide outstanding technological capabilities, business verification, and the necessary common platform.

By transforming R&D into an ecosystem-type structure, we will create key technologies to unlock one-to-many solutions that have unrivalled impact.



Shinobu Obata

Senior Vice President,  
CCO (Chief Compliance Officer)

## Further promoting compliance among Group employees in Japan and internationally

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



Osamu Fujikawa

Senior Vice President in charge of  
the Business Innovation Unit

## Strengthening business development capability by creating customer value using the latest technologies

Up to now, NEC has received high evaluations from the markets for its latest technologies, but has not shown a sense of urgency in developing them into businesses. As such, it has not reached its full growth potential. I will pursue various possibilities to create new business opportunities without being tied to existing paradigms and accepted ideas, involving inventive people from in and outside the Company in order to realize growth by promoting commercialization of core technologies.



Shigeki Shimizu

Senior Vice President,  
CSCO (Chief Supply Chain Officer)

## Realizing a sustainable global supply chain

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

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

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

## Business and Human Rights

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

### Dialogue with External Experts on Privacy Issues

The increased use of AI and IoT brings a risk of privacy infringements and negative impact on human rights in the form of discrimination.

Privacy is one of the Company's materiality issues, and in April 2018 we held a dialogue session based on the theme of "Privacy-related challenges for business."

During the dialogue, we heard opinions pointing out that "the flipside of technology is that there are ethical issues and NEC is called upon to communicate its stance," also that "it is important to include consideration of ethical issues in business and to develop these as competitive strengths." Furthermore, we heard a strong message that "the future era of manufacturing is one of QCD\*E", and people would like companies to change their values towards "E"thics and "E"cology

while considering whether they have properly prioritized human aspects ahead of technology, or whether they have put ethical perspectives on the back-burner."

\* QCD: Quality, Cost, Delivery



Dialogue with external experts

### Compliance with the UK Modern Slavery Act

NEC also complies with international rules and regulations on human rights. NEC issued the statement on the UK Modern Slavery Act on behalf of itself and its consolidated subsidiaries in 2017. The statement asserts that NEC Group companies respect human rights and will never accept

forced labor based on the NEC Group Charter of Corporate Behavior, the NEC Group Code of Conduct and the NEC Group Human Rights Policy. It also explains the various measures implemented to prevent modern slavery within the NEC Group organization and across its supply chain.

#### I Want to Contribute to Social Development in Africa

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

NEC has been helping to enhance telecoms networks in Africa. Having a telecoms environment has enabled the rapid spread of new services such as mobile money. When I see this startling pace of development in Africa, it really impresses me with the huge potential that ICT brings to society.

Meanwhile, we are currently focused on the safety business utilizing biometrics. I am working each day to try and make daily life safer and more secure for people using ICT, while giving consideration to human rights such as privacy.

Assistant Manager, Africa Business Development Office, Safer City Sales Division, NEC

Miho Hara



As a mother with one child, I work short hours and so I strive to make my work more efficient.

For further information, please refer to Sustainability Report 2018 "Respecting Human Rights" "Personal Information Protection and Privacy" "Dialogue Sessions on Materiality with Experts"

## Human Resource Development and Diversity

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

\* A philosophy that states our ideas and attitudes for human resources that will lead the creation of value for society based on the "NEC Group Values" and "NEC Group Code of Conduct."

### Dialogue with External Experts on the Theme of "Sustainably and Socially Literate Human Resources"

In April 2018, NEC held a dialogue session on its materiality theme, "Sustainably and socially literate human resources."

Participants evaluated NEC's human resource development policy highly, but also commented that "the program is lacking with regard to independent learning, and it would be desirable to develop human resources who are capable of taking responsibility for their own learning cycles." We also received a critical comment that "NEC should cultivate a corporate culture where people can take up new challenges

without fearing failure. Innovation does not come about through coercion." We responded by noting that "partly because NEC has mission critical solutions that support social infrastructure, there have been times when NEC's culture has felt as though it will not tolerate failure; however, recently the corporate culture has started to change, with top management beginning to talk more about their aspirations."

NEC will further accelerate its activities while confirming its own direction of creating value for society.

### Developing Human Resources Who Can Support Innovation

In our R&D divisions, in order to create solutions for society, we are actively promoting development of human resources who can take on advanced global issues and recruitment of experienced personnel with wide-ranging knowledge on social issues. We are also taking steps to stimulate personnel exchanges between operating divisions and research divisions in an effort to develop skills to promote commercialization of technologies.

In addition, we are aggressively recruiting people with the highest levels of skill in their industries, both in Japan and internationally. We will continue to encourage richly diverse human resources from various professional fields to engage in multidimensional discussions, respecting one another regardless of gender or nationality, as we transform our organization to enable it to generate great innovations.

#### We Should Not Stop by Just Experiencing Social Issues, We Need to Create Fields and Mechanisms that Takes It All the Way to Commercialization

At the Value Co-creation Center, when we decide on research themes, we start with social issues as a starting point, rather than technologies. Currently, we are working on the themes of urban congestion and aging infrastructure.

Having diversity within companies has become more and more important these days. My group also has members coming from diverse backgrounds. In my group, however, we have never tried to consciously push diversity. It is just that the human resources we gathered to achieve our goal happened to be a woman or someone with a foreign nationality. To me, diversity is not a goal in itself; it is merely a means to an end.

There are numerous training modules in NEC and at other companies that enable participants to experience social issues. However, the problem is that after they complete the training, they return to their ordinary lives and forget about what they have learned. In July 2018, NEC opened its sixth global research facility in India. Here, I want to create fields and mechanisms where employees not only experience social issues, but also conduct research and development to solve the social issues and ultimately commercialize them.

Head of NEC Laboratories India, Akihiko Iketani, Ph.D



For further information, please refer to Sustainability Report 2018 "Diversity and Inclusion" "Human Resource Development and Training" "Dialogue Sessions on Materiality with Experts"

## Promoting Environmental Management

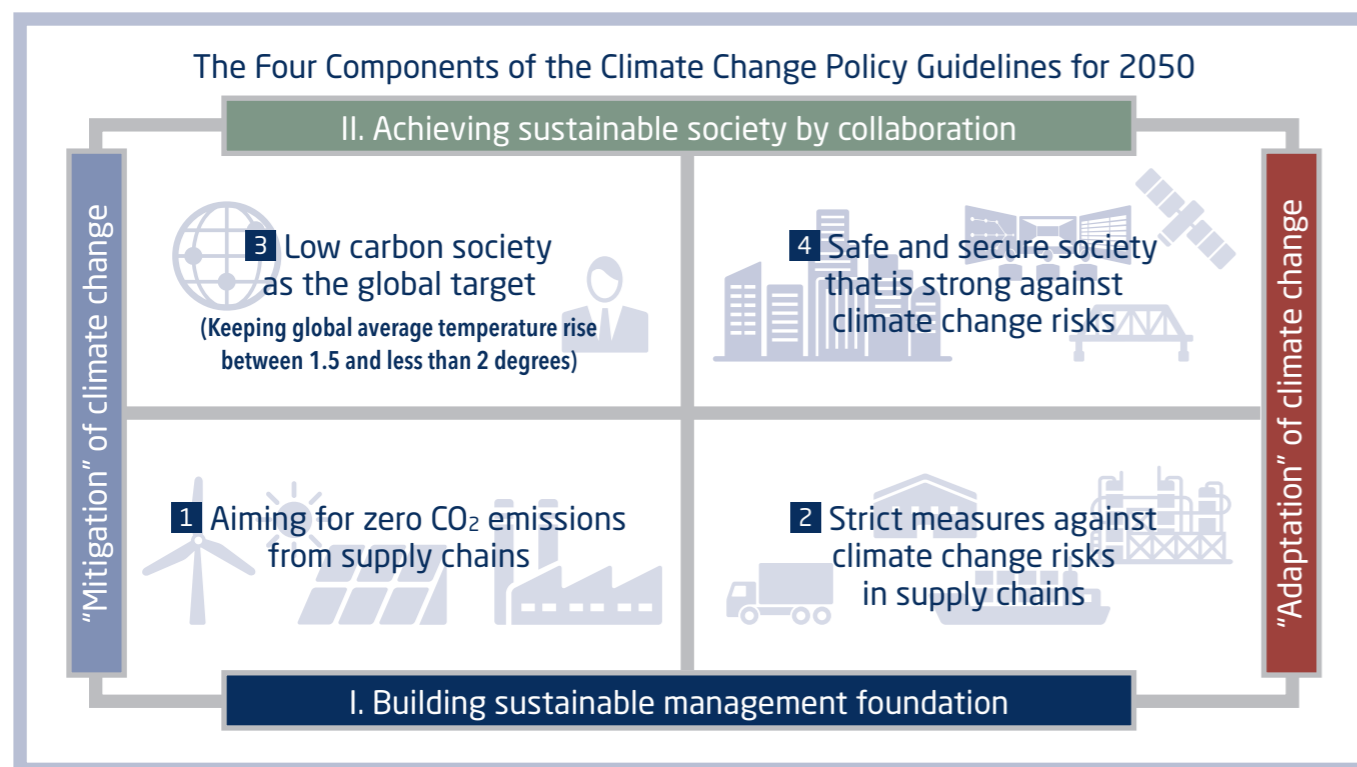
The negative effects that are brought about by climate change cover a range of different circumstances, such as an increasing number of natural disasters caused by abnormal weather conditions, depletion of water resources, and effects on the supply of and demand for food.

NEC has set “environmental action with a particular focus on climate change” as one of its “materiality,” the priority management themes from an ESG perspective. Since fiscal 2017, we have been focusing on measures to mitigate and adapt to climate change.

### Strengthening Climate Change Countermeasures

In fiscal 2018, NEC formulated guidelines on climate change measures from a long-term perspective up to 2050. Based on these guidelines, we aim to reduce CO<sub>2</sub> emissions linked to our business operations to effectively zero by 2050 as well as reduce CO<sub>2</sub> emissions

from the whole supply chain by cooperating with suppliers and partners. Through these efforts, NEC is contributing to reductions in greenhouse gases on a global scale.

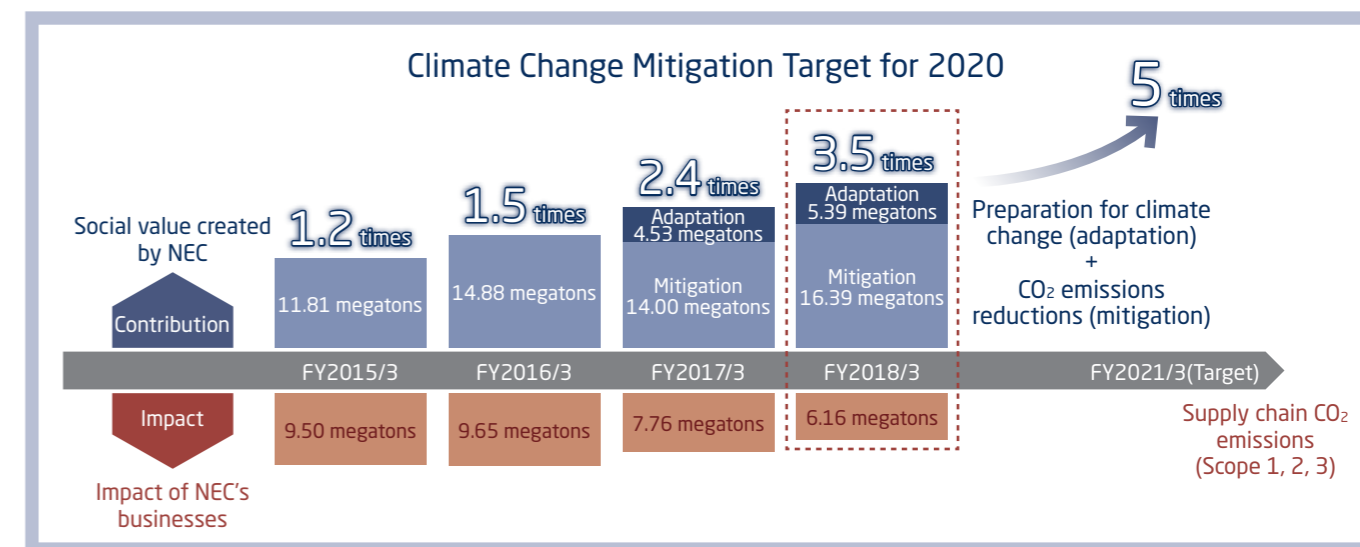


Furthermore, we are committed to achieving our CO<sub>2</sub> emission reduction targets by 2030 as Science Based Targets (SBT), and we are proceeding with the development of specific SBTs.

### Progress on “Environmental Management Action Plan 2020/2030”

In accordance with the Environmental Management Action Plan 2020/2030, NEC has set a goal of attaining a level of CO<sub>2</sub> reduction for society that is five times the total volume of CO<sub>2</sub> emissions from its

entire supply chain through the provision of NEC products and services by 2020. In fiscal 2018, NEC’s contribution to reducing CO<sub>2</sub> emissions was 21.78 megatons, 3.5 times its impact of 6.16 megatons.



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

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

#### IR Meetings related to ESG

Continuing from fiscal 2017, NEC held an IR meeting specializing in the “E” (environment) of ESG. A total of 13 institutional investors from 12 companies participated.

At the meeting, we gave an explanation of our progress on mid-term environmental management targets as well as our newly formulated guidelines on climate change measures looking ahead to 2050. We received wide ranging feedback and proposals, such as requests to clearly indicate how environmental activities connect with business competitiveness, or how we are trying to connect them. Looking ahead, we will hold regular IR meetings related to ESG to improve our ESG initiatives.

#### Dialogue with External Experts Regarding Climate Change

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

## Examples of Providing Environmental Value through Business

### DMIC logistic visualization solution in India

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

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

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

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

NEC approved this service as "ECO Symbol Star\*<sup>2</sup>" since we expect that the service will reduce approximately 170,000 t-CO<sub>2</sub>e emission annually in addition to shortening shipping lead times and to reducing shipping cost.



RFID easily attachable to container using magnets

### Energy efficiency in mobile phone base stations in India

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

Since the Indian government requests for green-industry, mobile base station companies in India are required to reduce fuel consumption by diesel generators, operation cost and CO<sub>2</sub> emissions simultaneously on the viewpoints of both business management and environmental issue.

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

As the result of NEC's application for the project, NEC was selected by NEDO to implement the demonstrational operation from September 2013 to March 2017. Through this operation, the energy management systems, which consisted of photovoltaic generation systems, lithium-ion rechargeable battery systems, remote monitoring of whole EMS systems, operation planning and battery charging/discharging control, were installed into 20 mobile phone base stations in India. Since the systems were confirmed to be able to reduce the annual CO<sub>2</sub> emissions to about 40% of their original level by the most suitable operation plan using the data acquired by the system itself, NEC approved this EMS system as "ECO Symbol Star."

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



Demonstration Project for Telecom Tower Sites in India

\*1 DMICDC: Delhi Mumbai Industrial Corridor Development Corporation Limited.

\*2 Eco Symbol Star: Assigned to NEC hardware, software, and service products that are environmental top runners. These products meet NEC's self-defined standards such as reducing CO<sub>2</sub> emissions by 50% or more compared to conventional products.

For further information, please refer to Sustainability Report 2018, "Environmental Management Initiatives" "Dialogue Sessions on Materiality with Experts"

## Corporate Data

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Note: Please refer to the separate publication "Integrated Report 2018 (Financials)" for details of "Note XX" on pages 55 to 57.

# Financial Section

(See notes to consolidated financial statements.)

NEC Corporation and Subsidiaries  
Years Ended March 31, 2017 and 2018

## Consolidated Statements of Financial Position

	Millions of yen			Millions of yen	
	2017	2018		2017	2018
<b>Assets</b>			<b>Liabilities and equity</b>		
<b>Current Assets</b>			<b>Liabilities</b>		
Cash and cash equivalents (Note 16) . . . . .	¥ 239,970	¥ 346,025	<b>Current liabilities</b>		
Trade and other receivables (Note 15) . . . . .	952,258	931,231	Trade and other payables (Note 24) . . . . .	¥ 497,051	¥ 512,115
Inventories (Note 14) . . . . .	205,855	220,254	Bonds and borrowings (Note 20) . . . . .	118,915	139,687
Other financial assets . . . . .	4,485	6,350	Accruals . . . . .	155,161	171,434
Other current assets . . . . .	106,169	112,543	Other financial liabilities . . . . .	12,507	9,835
Subtotal . . . . .	1,508,737	1,616,403	Accrued income taxes . . . . .	21,014	13,844
Assets held for sale (Note 17) . . . . .	–	23,932	Provisions (Note 23) . . . . .	52,210	45,621
<b>Total current assets</b> . . . . .	1,508,737	1,640,335	Other current liabilities (Note 22) . . . . .	145,683	158,840
			Subtotal . . . . .	1,002,541	1,051,376
			Liabilities directly associated with assets held for sale (Note 17) . . . . .	–	11,689
<b>Non-current assets</b>			<b>Total current liabilities</b> . . . . .	1,002,541	1,063,065
Property, plant and equipment, net (Notes 8 and 10) . . . . .	419,078	399,590	<b>Non-current liabilities</b>		
Goodwill (Notes 9 and 10) . . . . .	63,220	103,967	Bonds and borrowings (Note 20) . . . . .	342,854	376,383
Intangible assets (Notes 9 and 10) . . . . .	142,139	156,248	Other financial liabilities . . . . .	8,285	9,118
Investments accounted for using the equity method (Note 12) . . . . .	68,132	67,747	Defined benefit liabilities (Note 21) . . . . .	264,272	275,326
Other financial assets . . . . .	262,284	245,852	Provisions (Note 23) . . . . .	13,736	13,754
Deferred tax assets (Note 13) . . . . .	156,622	142,402	Other non-current liabilities (Note 22) . . . . .	36,242	29,420
Other non-current assets (Notes 10 and 21) . . . . .	63,784	65,210	<b>Total non-current liabilities</b> . . . . .	665,389	704,001
<b>Total non-current assets</b> . . . . .	1,175,259	1,181,016	<b>Total liabilities</b> . . . . .	1,667,930	1,767,066
			<b>Equity</b>		
<b>Total assets</b> . . . . .	¥2,683,996	¥2,821,351	Share capital (Note 18) . . . . .	397,199	397,199
			Share premium (Note 18) . . . . .	147,879	138,704
			Retained earnings (Note 18) . . . . .	235,601	265,879
			Treasury shares (Note 18) . . . . .	(3,101)	(3,364)
			Other components of equity (Notes 18 and 21) . . . . .	76,686	82,415
			<b>Total equity attributable to owners of the parent</b> . . . . .	854,264	880,833
			Non-controlling interests (Note 11) . . . . .	161,802	173,452
			<b>Total equity</b> . . . . .	1,016,066	1,054,285
			<b>Total liabilities and equity</b> . . . . .	¥2,683,996	¥2,821,351

## Consolidated Statements of Profit or Loss

	Millions of yen	
	2017	2018
Revenue (Notes 6 and 25) . . . . .	¥2,665,035	¥2,844,447
Cost of sales (Notes 14 and 28) . . . . .	1,909,414	2,046,853
<b>Gross profit</b> . . . . .	755,621	797,594
Selling, general and administrative expenses (Note 28) . . . . .	698,413	729,855
Other operating income (loss) (Note 27) . . . . .	(15,370)	(3,889)
<b>Operating profit</b> (Note 6) . . . . .	41,838	63,850
Financial income (Notes 6 and 29) . . . . .	38,420	29,553
Financial costs (Notes 6 and 29) . . . . .	20,817	11,568
Share of profit of entities accounted for using the equity method (Note 6) . . . . .	8,617	5,106
<b>Income before income taxes</b> . . . . .	68,058	86,941
Income taxes (Note 13) . . . . .	32,834	26,784
<b>Net profit</b> . . . . .	¥ 35,224	¥ 60,157
<b>Net profit attributable to</b>		
Owners of the parent . . . . .	27,310	45,870
Non-controlling interests . . . . .	7,914	14,287
	¥ 35,224	¥ 60,157
<b>Earnings per share attributable to owners of the parent</b>		
Basic earnings per share (yen) (Note 31) . . . . .	105.10	176.54
Diluted earnings per share (yen) (Note 31) . . . . .	105.10	176.54

Note: The Company implemented share consolidation with a ratio of 10 shares of common share to 1 share as of October 1, 2017. The basic earnings per share ("EPS") and diluted EPS on common share are calculated assuming that the share consolidation was carried out from the beginning of the fiscal year ended March 31, 2017 (April 1, 2016).

## Consolidated Statements of Comprehensive Income

	Millions of yen	
	2017	2018
<b>Net profit</b>	¥ 35,224	¥60,157
<b>Other comprehensive income, net of tax</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurements of defined benefit plans (Notes 18 and 21) . . . . .	56,276	3,368
Share of other comprehensive income of associates (Note 18) . . . . .	534	10
<b>Total items that will not be reclassified to profit or loss</b> . . . . .	56,810	3,378
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translating foreign operations (Note 18) . . . . .	(1,869)	(6,434)
Cash flow hedges (Note 18) . . . . .	623	(92)
Available-for-sale financial assets (Note 18) . . . . .	15,533	8,462
Share of other comprehensive income of associates (Note 18) . . . . .	702	1,520
<b>Total items that may be reclassified subsequently to profit or loss</b> . . . . .	14,989	3,456
<b>Total other comprehensive income, net of tax</b> . . . . .	71,799	6,834
<b>Total comprehensive income</b> . . . . .	¥107,023	¥66,991
<b>Total comprehensive income attributable to</b>		
Owners of the parent . . . . .	99,929	51,599
Non-controlling interests . . . . .	7,094	15,392
<b>Total</b> . . . . .	¥107,023	¥66,991

## Consolidated Statements of Cash Flows

	Millions of yen	
	2017	2018
<b>Cash flows from operating activities</b>		
Income before income taxes . . . . .	¥ 68,058	¥ 86,941
Depreciation and amortization (Note 6) . . . . .	80,376	96,037
Impairment loss (Notes 6 and 10) . . . . .	2,571	1,530
Increase (decrease) in provisions . . . . .	12,302	(7,450)
Financial income . . . . .	(38,420)	(29,553)
Financial costs . . . . .	20,817	11,568
Share of (profit) loss of entities accounted for using the equity method . . . . .	(8,617)	(5,106)
Decrease (increase) in trade and other receivables . . . . .	22,201	12,244
Decrease (increase) in inventories . . . . .	22,659	(16,115)
Increase (decrease) in trade and other payables . . . . .	(31,666)	17,036
Others, net . . . . .	(43,141)	(16,701)
Subtotal . . . . .	107,140	150,431
Interest and dividends received . . . . .	5,866	6,076
Interest paid . . . . .	(8,646)	(5,764)
Income taxes paid . . . . .	(11,835)	(20,762)
<b>Net cash provided by operating activities</b> . . . . .	92,525	129,981
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment . . . . .	(37,201)	(43,253)
Proceeds from sales of property, plant and equipment . . . . .	2,676	6,334
Acquisitions of intangible assets . . . . .	(7,888)	(10,134)
Purchases of available-for-sale financial assets . . . . .	(4,117)	(2,336)
Proceeds from sales of available-for-sale financial assets . . . . .	4,359	12,442
Purchase of shares of newly consolidated subsidiaries . . . . .	(984)	(23,110)
Acquisitions of subsidiaries, net of cash acquired . . . . .	11,220	5
Proceeds from sales of shares of subsidiaries . . . . .	339	228
Purchases of investments in affiliated companies . . . . .	(162)	(471)
Proceeds from sales of investments in affiliated companies . . . . .	23,698	21,997
Proceeds from collection of loans receivable . . . . .	12,958	25,466
Others, net . . . . .	1,527	(1,399)
<b>Net cash provided by / (used in) investing activities</b> . . . . .	6,425	(14,231)
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term borrowings, net (Notes 16 and 20) . . . . .	15,228	8,214
Proceeds from long-term borrowings (Notes 16 and 20) . . . . .	204,082	11,512
Repayments of long-term borrowings (Notes 16 and 20) . . . . .	(240,127)	(65,864)
Proceeds from issuance of bonds (Notes 16 and 20) . . . . .	–	100,000
Redemption of bonds (Notes 16 and 20) . . . . .	(10,000)	(40,000)
Dividends paid (Note 19) . . . . .	(15,592)	(15,586)
Dividends paid to non-controlling interests . . . . .	(2,386)	(4,258)
Others, net . . . . .	(86)	(1,257)
<b>Net cash used in financing activities</b> . . . . .	(48,881)	(7,239)
<b>Effect of exchange rate changes on cash and cash equivalents</b> . . . . .	(2,422)	(2,447)
<b>Net increase (decrease) in cash and cash equivalents</b> . . . . .	47,647	106,064
<b>Cash and cash equivalents, at the beginning of the year</b> . . . . .	192,323	239,970
<b>Decrease in cash and cash equivalents resulting from transfer to assets held for sale (Note 17)</b> . . . . .	–	(9)
<b>Cash and cash equivalents, at the end of the year (Note 16)</b> . . . . .	¥ 239,970	¥ 346,025

## Consolidated Statements of Changes in Equity

	Millions of yen							
	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
<b>As of April 1, 2016</b>	¥397,199	¥147,755	¥223,883	¥(3,077)	¥ 4,067	¥769,827	¥ 67,393	¥ 837,220
Net profit	-	-	27,310	-	-	27,310	7,914	35,224
Other comprehensive income (Note 18)	-	-	-	-	72,619	72,619	(820)	71,799
<b>Comprehensive income</b>	-	-	27,310	-	72,619	99,929	7,094	107,023
Purchase of treasury shares (Note 18)	-	-	-	(26)	-	(26)	-	(26)
Disposal of treasury shares (Note 18)	-	(2)	-	3	-	1	-	1
Cash dividends (Note 19)	-	-	(15,592)	-	-	(15,592)	(2,386)	(17,978)
Subscription rights to shares	-	5	-	-	-	5	-	5
Changes in interests in subsidiaries (Note 11)	-	121	-	-	-	121	89,701	89,822
<b>Total transactions with owners</b>	-	124	(15,592)	(23)	-	(15,491)	87,315	71,824
<b>As of March 31, 2017</b>	¥397,199	¥147,879	¥235,601	¥(3,101)	¥76,686	¥854,264	¥161,802	¥1,016,066

	Millions of yen							
	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
<b>As of April 1, 2017</b>	¥397,199	¥147,879	¥235,601	¥(3,101)	¥76,686	¥854,264	¥161,802	¥1,016,066
Net profit	-	-	45,870	-	-	45,870	14,287	60,157
Other comprehensive income (Note 18)	-	-	-	-	5,729	5,729	1,105	6,834
<b>Comprehensive income</b>	-	-	45,870	-	5,729	51,599	15,392	66,991
Purchase of treasury shares (Note 18)	-	-	-	(271)	-	(271)	-	(271)
Disposal of treasury shares (Note 18)	-	(5)	-	8	-	3	-	3
Cash dividends (Note 19)	-	-	(15,592)	-	-	(15,592)	(4,258)	(19,850)
Put option, written over shares held by a non-controlling interest shareholder	-	(2,113)	-	-	-	(2,113)	-	(2,113)
Changes in interests in subsidiaries (Note 11)	-	(7,057)	-	-	-	(7,057)	516	(6,541)
<b>Total transactions with owners</b>	-	(9,175)	(15,592)	(263)	-	(25,030)	(3,742)	(28,772)
<b>As of March 31, 2018</b>	¥397,199	¥138,704	¥265,879	¥(3,364)	¥82,415	¥880,833	¥173,452	¥1,054,285

## Non-Financial Section

NEC Corporation and Consolidated Subsidiaries  
For the years ended or at year-end of March 31, 2017 and 2018

	2017	2018	Units
<b>CO<sub>2</sub> emissions reduction by providing IT solutions</b>	2,630	4,220	Thousand tons
<b>Improvement in energy efficiency of products<sup>*1</sup></b>	17	35	%
<b>Greenhouse gas emissions<sup>*2*3</sup></b>			
Scope 1	54	56	Thousand tons
Scope 2	296	282	Thousand tons
Scope 3	7,410	5,820	Thousand tons
<b>Energy usage<sup>*3</sup></b>			
Electricity	5,708	5,685	TJ <sup>*4</sup>
Gas	938	984	TJ
Fuel (heavy oil and kerosene)	131	119	TJ
<b>Water usage<sup>*3</sup></b>	2,240	2,314	Thousand m <sup>3</sup>
<b>Industrial waste<sup>*3</sup></b>			
Emission volume (general waste + industrial waste)	26	42.6	Thousand tons
Resource reuse rate	90.6	91.0	%

	2017	2018	Units
<b>Number of employees by region Total</b>	107,729	109,390	People
Japan	80,478	79,642	People
China/East Asia	5,329	4,739	People
Asia Pacific	9,347	10,985	People
EMEA	5,406	6,636	People
North America	2,819	2,710	People
Latin America	4,350	4,678	People
<b>Ratio of outside directors to all directors<sup>*5</sup></b>	45.5	45.5	%
<b>Number of female managers<sup>*5*6*8</sup></b> (As of April 1 of each year)	368	372	People
<b>Ratio of female managers<sup>*5*6*8</sup></b> (As of April 1 of each year)	5.5	5.8	%
<b>Ratio of employees with disabilities<sup>*5</sup></b> (As of June 1 of each year)	2.04 <sup>*8</sup>	2.24	%
<b>Number of people utilizing childcare leave<sup>*5*6*8</sup></b>	376	358	People
<b>Number of people utilizing nursing care leave<sup>*5*6*8</sup></b>	18	32	People
<b>Average age of employees<sup>*5*6*8</sup></b>	43.1	43.4	Years old
<b>Average length of employment<sup>*5*6*8</sup></b>	18.8	19.0	Years
<b>Labor accidents and disasters<sup>*7*8</sup></b>			
Frequency rate	0.18	0.3717	
Severity rate	0.00	0.0019	

\*1 Comparison with products in the fiscal year ended March 31, 2014.

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

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

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

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

\*3 External assurance received. The scope of assurance includes NEC Corporation and consolidated subsidiaries subject to environmental governance.

\*4 TJ: Terajoule

\*5 Scope: NEC Corporation

\*6 Excluding corporate officers, advisors, and non-permanent employees

\*7 Scope: NEC Corporation

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

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

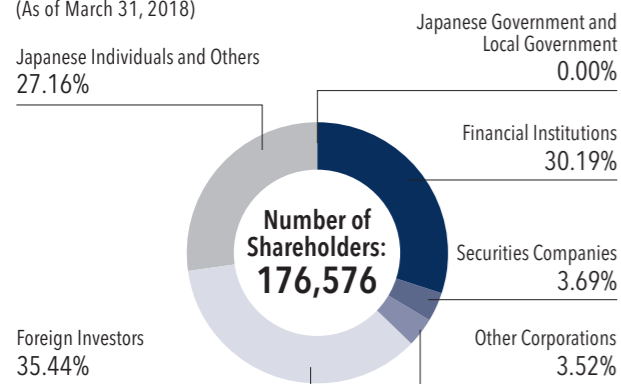
\*8 Externally assured figures.

# Corporate Overview

**Company Name** NEC Corporation  
**Address** 7-1, Shiba 5-chome, Minato-ku, Tokyo 108-8001, Japan  
**Established** July 17, 1899  
**Number of Employees** 109,390 (NEC Corporation and consolidated subsidiaries) (As of March 31, 2018)  
**Total Number of Shares Issued** 260,473,263 shares (As of March 31, 2018)  
**Stock Exchange Listing** Tokyo (Securities Code: 6701)  
**Shareholder Register Administrator** Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo

## Classification of Shareholders (Shareholding Ratio)

(As of March 31, 2018)

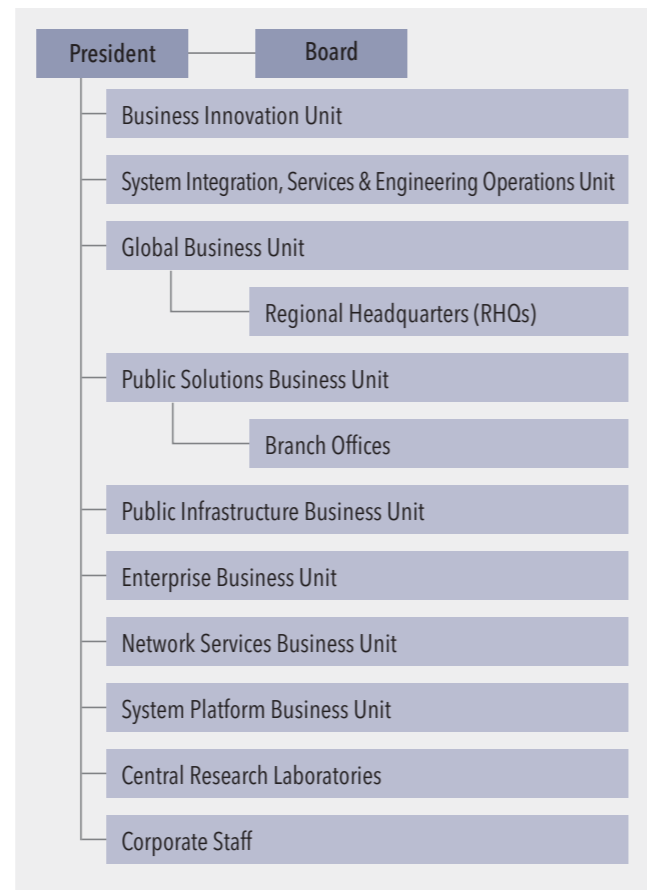


## Major Shareholders (Top 10) (As of March 31, 2018)

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

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

## Organization Chart

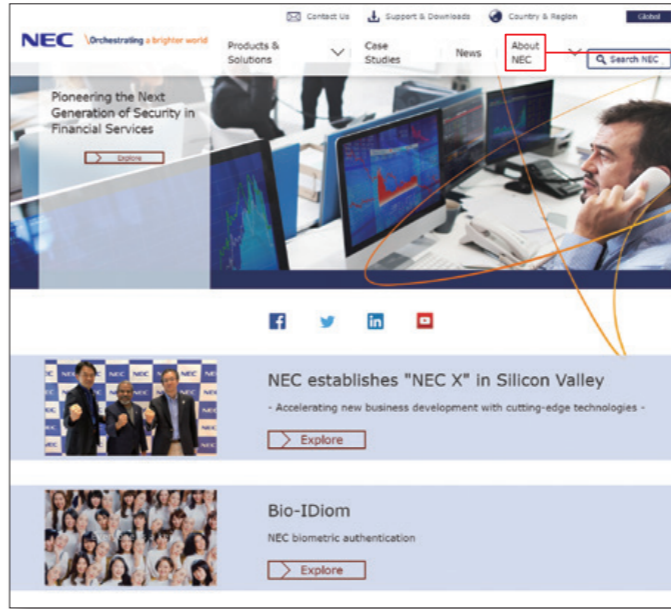


# Our History

<b>1899</b>	Nippon Electric Company, Limited is established	
<b>1928</b>	NE-Type phototelegraphic equipment transmits scenes of Imperial Accession Ceremony of Emperor Hirohito between Kyoto to Tokyo	
<b>1954</b>	Begins research into computers	
<b>1956</b>	Produces first domestic-made XB switching system	
<b>1958</b>	Develops fully transistorized NEAC-2201 computer	
<b>1964</b>	Trans-Pacific TV broadcasts of the 18th Olympiad in Tokyo are successfully implemented using NEC-supplied ground facilities for satellite communications	
<b>1968</b>	Develops 144-bit high-speed N-channel MOS (Metal Oxide Semiconductor) IC memory	
<b>1970</b>	Produces Osumi experimental satellite	
<b>1971</b>	The NS-100 fully automated postal sorting system is developed	
<b>1974</b>	The ACOS Series 77 mainframe computer family is announced	
<b>1977</b>	"C&C" or the integration of computer and communications technologies is first announced at INTELCOM '77	
<b>1979</b>	The PC-8001 personal computer is announced	
<b>1985</b>	The SX-2 supercomputer demonstrates the world's fastest performance	
<b>1991</b>	A unique graphite crystal is discovered and named "carbon-nanotubes"	
<b>2002</b>	The Earth Simulator, the world's fastest supercomputer system for resolving global environmental problems, is completed	
<b>2003</b>	Constructs one of the world's largest mission-critical systems, the i-mode gateway system "CiRCUS"	
<b>2008</b>	Broadcasting transmitters provided to 110 countries in total	
<b>2010</b>	Asteroid explorer "HAYABUSA" successfully returns to Earth	
<b>2014</b>	Formulation of brand message "Orchestrating a brighter world"	
	Ultra-compact radio communication system PASOLINK delivered to 150 countries in total	
<b>2016</b>	Submarine cable installation reaches over 250,000 km, enough to circle the earth six times	
	Biometric solutions adopted by 70 countries in total	

The information contained in Integrated Report 2018 is also available on NEC's website.

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



Sustainability  
<https://www.nec.com/en/global/csr/>

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

Division in Charge Sustainability Promotion Office, Corporate Communications Division

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

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

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

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

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

**Trademarks**

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

**Evaluation by External Parties (As of July 2018)**

 FTSE4Good	 oekom Corporate Rating Corporate Responsibility Prime rated by oekom research
 Euronext Vigeo World 120	 Ethibel Pioneer & Excellence
 STOXX Global ESG Leaders Index	 Morningstar Socially Responsible Investment Index
 MSCI ESG Leaders Indexes	<p>THE INCLUSION OF NEC Corporation IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF NEC Corporation BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.</p>

Investor Relations  
<https://www.nec.com/en/global/ir>

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

Division in Charge Investor Relations Office, Corporate Strategy Division





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