

Message from the President

I will transform NEC's culture and mindset to survive in an era of dramatic change



Takashi Niino
President and CEO

July 2019

- 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)

Continue Providing Value as a Social Value Innovator

NEC was founded in 1899 and marked its 120th anniversary on July 17, 2019. Over these 120 years, the value that customers and society have expected from us has been constantly changing. We have survived because of our efforts to engage in solving issues facing customers and society, providing better value by making use of our strong technological capabilities based on our founding spirit of "Better Products, Better Service." NEC has demonstrated its own approach to each era, adopting the concept of "C&C (the integration of computer and communications)" in 1977, followed in 2014 by "Orchestrating a brighter world." The common thread running through all these concepts is NEC's constant commitment to providing better value to society.

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. In addition, in July 2018, we declared our agreement with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Environmental issues around the world are growing increasingly severe, and the solutions will be costly. NEC will work actively to resolve these issues, considering both risks and opportunities.

Moreover, to maximize the economic and social value that we create, in 2018 we defined our 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. To promote the sustainable growth of society and NEC, we engage in dialogue with diverse stakeholders, including customers, and promote initiatives together with them with a view to contributing to the achievement of the Sustainable Development Goals (SDGs) set by the United Nations.

SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



* NEC Initiatives for Contributing to the Achievement of the SDGs

[URL https://www.nec.com/en/global/sdgs/](https://www.nec.com/en/global/sdgs/)

Towards Achieving the Mid-term Management Plan 2020

Now I will discuss our progress on the three themes of the Mid-term Management Plan 2020, which was formulated in January 2018 with targets for fiscal 2021. The three themes are "Reform of profit structure," "Achievement of growth," and "Restructuring of execution capabilities."

Mid-term Management Targets

(Billions of yen)	FY2018/3 Results	FY2019/3 Results	FY2020/3 Forecasts	FY2021/3 Targets
Revenue	2,844.4	2,913.4	2,950.0	3,000.0
Operating profit	63.9	58.5	110.0	150.0
(Operating profit ratio)	2.2%	2.0%	3.7%	5.0%
Adjusted operating profit	72.5	69.9	125.0	165.0
(Adjusted operating profit ratio)	2.5%	2.4%	4.2%	5.5%
Net profit attributable to owners of the parent	45.9	40.2	65.0	90.0
Adjusted net profit	50.3	47.0	74.0	99.0
Free cash flows	115.8	-12.4	65.0	100.0
Return on equity (ROE)	5.3%	4.6%	—	10%

Note: Forecasts and targets are as of April 26, 2019

Reform of Profit Structure

First, regarding our progress on "Reform of profit structure," NEC needs to constantly take the lead in transforming itself in order to be company that anticipates social changes and leads the new era. In reforming our profit structure, we have been working to reduce selling, general and administrative (SG&A) expenses and to reform our business structure.

To reduce SG&A expenses, during fiscal 2019 we implemented voluntary early retirement and a reorganization of production bases. The reason for these measures is that NEC has a relatively high level of SG&A expenses compared with other companies, and we were strongly aware of the danger of missing the wave of change in the market environment and being eliminated. To build up a strong profit structure able to support continuous investment for transformation, we will continue working to reduce fixed costs and promoting improvements in our business structure to make it globally competitive.

In business structure reforms, we are promoting transformation of the wireless solutions business, the energy business, and the electrode business. In the wireless solutions business, we worked to improve profitability as our top priority by implementing structural reforms, selecting orders, and unifying models. We also aimed to reduce R&D costs through collaboration with Ceragon Networks Ltd. Through these initiatives, we aim to achieve profitability in fiscal 2020, and to continue business advancements. In the energy business, we secured orders that match the scale of a top global group, but we continued to encounter issues with profitability. Going forward, we will execute profit improvement measures and seek to form partnerships in fiscal 2020. The sale of the electrode business was also completed during fiscal 2019 as planned.

SG&A reduction	Voluntary early retirement	Conducted in December 2018
	Reorganization of production bases	Concentrated production bases, ended operations at Tsukuba Research Laboratories, optimizing international bases
	Cost-cutting	Optimization of real estate expenses
Business structure reforms	Wireless solutions business	Collaboration with Ceragon Networks Ltd./selection of orders and model unification
	Energy business	Profitability a continuing issue despite expansion in orders
	Electrode business	Sold the shares of NEC Energy Devices, Ltd. and Automotive Energy Supply Corporation

Achievement of Growth

Next, we turn to "Achievement of growth." Under NEC Safer Cities, we acquired KMD Holding ApS (KMD), the largest IT company in Denmark. KMD has the top share in the local and central government solutions market in Denmark, which is one of the most advanced countries in terms of digital government. By incorporating KMD's superb recurring business model and world-leading expertise in digitization of government, capitalizing on synergies with Northgate Public Services Limited (NPS), which was acquired in fiscal 2018, and expanding the value we provide through additional M&As through NPS and KMD, we will accelerate our growth towards our fiscal 2021 target for international revenue of 200 billion yen and an operating profit ratio of 5%.

At the same time, in Japan we have leveraged our major strength in facial recognition technology in a growing number of model cases, such as a solution that enables airline passengers to move through the stages from check-in to boarding using only facial recognition for authentication, and smooth authentication procedures for entry into international sports event venues. These initiatives will help to drive further growth from fiscal 2020 onward.

In the field of 5G, we are proceeding with joint development of base station equipment with Samsung Electronics Co., Ltd. aiming at realizing commercial services. We have been in discussions with Samsung Electronics with an eye to expanding our solutions beyond Japan to the global market. As we move forward, we will look to expand our business through joint proposals to global carriers.

NEC Safer Cities	International	Acquisition of KMD Receipt of orders through the partnership between NPS and NEC
	Japan	Adoption of facial recognition system for "One ID" check-in procedures at Narita International Airport Adoption of authentication systems at international sports events
5G	Collaboration with Samsung Electronics	Agreement to provide base station equipment in Japan Discussing international expansion
	Rakuten	Selection as prime IT vendor, including OSS ^{*1} and BSS ^{*2} Finalized decision on provision of 3.7 GHz base station radio units
	Co-creation trial cases	AR for sports spectators, advanced emergency transport, remote operation of construction equipment, etc.
Others	SDN, OSS/BSS	Large-scale order from a tier 1 European carrier
	Submarine cable systems	Record high level of orders (over 100 billion yen in FY2019)
	Digital shift	Establishment of Digital Business Platform Unit and Cross-Industry Unit

*1 OSS: Operation Support System

*2 BSS: Business Support System

Restructuring of Execution Capabilities

Finally, with regard to "Restructuring of execution capabilities," we have adopted a two-pronged approach of reinforcing business development capabilities and transforming NEC's culture.

In reinforcing business development capabilities, we will break away from the closed innovation mindset, which has been an issue for us, and create new value beyond existing frameworks in order to accelerate monetization of the latest technologies. Our first step in this regard was the establishment of dotData, Inc., which develops and sells software that uses artificial intelligence (AI) to automate data analyzing processes for big data that would require a massive amount of time even for experienced data scientists. dotData is steadily achieving results, with over 20 companies now using its products on a commercial or trial basis. In addition, NEC has decided to enter into the drug development business. Together with our work using the latest technologies in the medical system business, we will drive value creation in the healthcare domain.

In our initiatives for transforming NEC's culture, we are targeting the following measures under the Mid-term Management Plan 2020 to enable employees to maximize their capabilities and realize an organization with the capacity to carry out actions to completion: "Define management's responsibilities and authorities more clearly," "Encourage innovative actions and challenges," and "Accelerate diversification of the NEC Group."

In our initiatives towards this transformation, we started by revamping our evaluation system for executive officers and re-clarifying their responsibilities and authority. We moved to

one-year mandate contracts to make executive officers more responsible for results. Another reason for the change was so that our executive officers could lead by example when we introduced a new evaluation system for employees.

To change the culture of a company such as NEC, I believe that each individual employee must accept the transformation and reflect it in their own actual conduct. To gain the acceptance of individual employees, I visited every workplace to conduct town-hall meetings with employees, shared my own thoughts about the transformation with them and listened to their opinions from the front line. I will continue to conduct this activity, following on from fiscal 2019, when we ran dozens of town-hall meetings worldwide, with over 10,000 employees participating. In the meetings, I felt that there are more issues to be dealt with on the front lines of our businesses around the world than I had originally thought, such as internally focused work hours, unclear allocation of responsibility, and lack of speed. In other words, if we attempt to change things, there are factors that impede us. Also, I thought that while many people are aware of issues, they are waiting for changes to happen around them. We must transform our culture into one that leads the way autonomously and takes action.

On the other hand, I was heartened by the many employees that I saw who had positive ambition, including young employees. We will draw on the opinions of individual employees on how we can make improvements, and promote a cultural transformation that will lead to the growth of NEC and its employees.

Define management's responsibilities and authorities more clearly	Encourage innovative actions and challenges	Accelerate diversification of the NEC Group
Strengthening of business development capabilities	dotData	Conducting trials with over 20 companies
	NEC X	New business development based in Silicon Valley
	Healthcare	Full-scale entry into drug development business
Enable employees to maximize their capabilities	Introduction of new evaluation system	Introduce for corporate officers then for employees
	Revamp executive officer system	Shift to one year mandate contracts
	Town-hall meetings with employees	Over 10,000 participants

Transformation is Essential to NEC's Survival

Looking back over 120 years since NEC's foundation, NEC grew for the first 100 years by riding the waves of social change. In the last 20 years, however, the situation has reversed, with NEC finding itself under pressure from huge changes. It is possible that the next 10 years, will bring even greater changes than the previous 120. NEC's strength lies in having technologies in both IT and networks, including AI, biometric authentication, security, and wireless. By blending these technologies, NEC can create unique value in the form of safety, security, efficiency, and equality through initiatives such as NEC Safer Cities and NEC Value Chain Innovation. However, to ensure that NEC can survive sustainably over the next 50 and 100 years, we must develop the ability to respond to change. Moreover, while responding to changes in society, NEC must build new core businesses that it can use to compete globally.

To create those new core businesses, we have established the Digital Business Platform Unit as an organization tasked with concentrating NEC's strong technologies such as AI, biometric authentication, and security, and deploying them in the market as new businesses. The reason we have included the word "digital" in the name of the unit is to express our determination that NEC itself will undergo a transformation in response to the steady changes in the world as the digital shift penetrates every part of society with increasing speed.

To create and deliver services and solutions of value to society with optimal timing, the creator must be deeply immersed in the market, understand what is needed, make, and then market it. In addition, rather than working top-down, each front-line individual must think and act with careful consideration. In other words, the NEC of the past will not survive. Our survival depends on transforming NEC's culture, developing the capability to respond to changes on the front lines, and acting quickly.

I see fiscal 2020 as the year for a comprehensive turnaround – not only in our business performance, but also in transforming NEC's culture. In fiscal 2019, we changed various systems and structures to create an environment that will enable this transformation. Fiscal 2020 is the year for transforming NEC's culture and mindset, setting the stage for achieving growth under the Mid-term Management Plan 2020 and beyond.



Dialogue with employees