

## Message from the President

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



Takashi Niino  
President and CEO

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- 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)

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

The COVID-19 pandemic has significantly altered our perceptions of how society and our lives should be, including lifestyles and our government and economic systems. Right now,

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

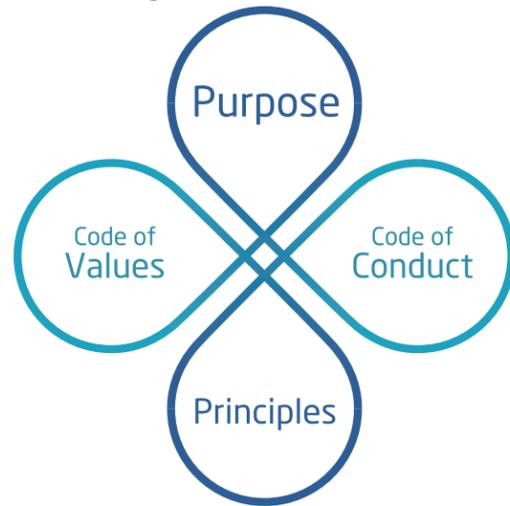
### NEC as a Social Value Innovator, Past and Present

Looking back on the Company's journey to date, NEC has demonstrated its own unique approach in each era, from the founding spirit of "Better Products, Better Service," to "C&C (the integration of computer and communications)" in 1977, followed by "Orchestrating a brighter world" in 2013. The common thread running through all these concepts is NEC's constant commitment to providing better value to society. However, while NEC's growth over the first 100 years of its history was driven by its ability to lead social change from the forefront, for the past 20 years NEC itself has been under pressure to change amid intensifying competition. This era has been one of great upheaval, and one that has challenged NEC's existence.

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

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

## NEC Way



\* Please see the following URL for details.

<https://www.nec.com/en/global/about/the-nec-way.html>

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

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

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



\* NEC Initiatives for Contributing to the Achievement of the SDGs

<https://www.nec.com/en/global/sdgs/>

## Towards Achieving the Mid-term Management Plan 2020

The Mid-term Management Plan 2020 was formulated as the first step toward a dramatic transformation for the future. In the plan, we set out three themes: “Reform of profit structure,” “Achievement of growth,” and “Restructuring of execution capabilities,” and plotted a course to set the NEC Group on a

growth trajectory, envisaging fiscal 2019 as a year for “changing gears,” fiscal 2020, the fiscal year under review, as a year for “turning around,” and the final fiscal year, fiscal 2021, as the year for “taking the offensive.”

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

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

\* Excluding M&A portion

Note: Forecasts and targets as of July 31, 2020

### Reform of the Profit Structure

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

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

In reforming our profit structure, in fiscal 2019 we achieved profitability in the wireless backhaul business, which had been one of our challenges, while also completing the sale of the

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

<b>SG&amp;A reduction</b>	<b>Voluntary early retirement and production base reorganization</b>	Completed in fiscal 2019
<b>Business structure reforms</b>	<b>Wireless backhaul business</b>	Achieved profitability in fiscal 2020
	<b>Energy business</b>	Decided to stop receiving new orders
	<b>Electrode business</b>	Completed sale in fiscal 2019

### Achievement of Growth

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

In Japan, we have been taking steps to realize commercial services using 5G. As a key strategy, we have been working to

progress the 5G business through co-creation with other companies rather than doing everything ourselves. Examples include the capital and business alliance we concluded with NTT Corporation for joint research and development and the global rollout of ICT products utilizing innovative optical and wireless technologies, and the agreement we signed with Rakuten Mobile, Inc. to jointly develop the containerized standalone 5G core network.

Japan	Focus on NEC Safer Cities and NEC Value Chain Innovation	Offer solutions for solving social issues as services through partnering with customers
	5G	Co-creation with NTT Corporation and Rakuten Mobile, Inc.
International	NEC Safer Cities	Acquisition of NPS and KMD

### Restructuring of Execution Capabilities

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

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

In our initiatives for transforming NEC's culture, we are targeting the following measures under Mid-term Management Plan 2020 to enable employees to maximize their capabilities

and realize an organization with the capacity to carry out actions to completion: "define management's responsibilities and authority more clearly," "encourage innovative actions and challenges," and "accelerate diversification of the NEC Group." With regard to "define management's responsibilities and authority more clearly," we are revamping our evaluation system for executive officers and re-clarifying their responsibilities and authority, and we have moved to one-year terms of office to make executive officers more responsible for results. To promote "encourage innovative actions and challenges," we have been introducing a new evaluation and compensation system that rewards those who take action, while actively hiring and appointing human resources with diverse skills to executive and other positions to accelerate diversification of the NEC Group.

Strengthening business development capabilities	Monetization of the latest technologies	Value creation beyond existing frameworks with customers
	Healthcare	Full-scale entry into drug development business
Restructuring to enable employees to maximize their capabilities (culture transformation)	Define management's responsibilities and authority more clearly	Revamp executive officer system, one-year terms of office
	Encourage innovative actions and challenges	Introduce new evaluation system
	Accelerate diversification of the NEC Group	Hire and appoint diverse talent into executive and other positions

By fully committing to the three themes of Mid-term Management Plan 2020 in this way, we are working toward its successful conclusion. During the fourth quarter of fiscal 2020, we encountered disruptive changes in the business environment due to the COVID-19 pandemic, but we were able to limit the impact on our financial results. As a result, in our full-year financial results, all reportable segments achieved year-on-year

revenue growth, and we achieved record high profit for the first time since 1997, 23 years ago. I consider these results to be not only due to favorable market trends; they also reflect the alignment of NEC's initiatives to date, including initiatives under Mid-term Management Plan 2020, with changes in the operating environment of our customers and their needs.

### Creating Value Unique to NEC amid New Social Changes

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

NEC will take steps to adapt to the new normal by adopting the dual perspectives of both people and society. In changes involving people, the need for movement and personal interaction is being reconsidered with a view to preventing the spread of infection, and new approaches to various social activities, such as workstyles, are being introduced in a move to create new customs and living patterns that will provide a higher level of safety and security in the activities and lifestyles of people everywhere. Moreover, in changes in society,

we aim to create even safer, more efficient and fairer social services. There is a need to keep society moving even under difficult circumstances by realizing automation of work using artificial intelligence and realizing overall optimization. There is also a need to effect change in a way that considers not only economic efficiency, but also business continuity.

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

The networks that underpin the realization of DX - that is to say the infrastructure that supports the enormous flow of data traffic originating from people and things - will become extremely important. Increases in the capacity and sophistication of telecommunication infrastructure are expected, and calls for ensuring the safety and reliability of networks as mission-critical infrastructure have grown even louder. We are promoting development of the 5G next-generation communication standard that is driving these changes, and we have already started on development targeting the post-5G era.

To create new businesses with a medium- to long-term view, we have also made a full-scale entry into the drug discovery business focused on advanced immunotherapy using AI. However, with the recent COVID-19 pandemic, we have been applying the AI prediction technology that we use for development of individualized cancer vaccines to the task of genome analysis for the design of a vaccine for COVID-19, and have published analysis results. In contributing to society, our analysis of immunity data from individual optimization using AI will increase the range of treatment options, thereby offering hope, even for those affected by cancer or COVID-19.

While working to realize the DX of society and customers, NEC is also taking steps to create value through its own DX. To introduce two specific initiatives, the first is a trial of a multimodal biometric authentication system that integrates facial recognition technology with iris recognition technology at the gates of NEC's head office building. The trial test, which includes the 110,000 employees of the NEC Group, confirmed that the system can accurately identify people even when they are wearing a mask or sunglasses. We aim to offer the system for use in various applications; for example in cases where both hands are being used to carry something, or in situations that require identification in a hygienic way that avoids the use of indirect contact via a panel or card.

The second initiative is the NEC Smart Store, which has opened in the NEC head office. This store uses biometric identification to identify a customer entering the store, then automatically tallies their purchases without using a cash register. By reducing the number of people in stores, it is possible not only to avoid crowding around the register, but also to reduce the burden of register duty and risk of infection to store staff.

In addition, we are promoting remote working as part of workstyle reforms aimed at increasing productivity. Under the state of emergency declared in Japan, around 60,000 NEC Group employees engaged in remote working. We will continue to promote new workstyles like this going forward, aiming to reduce the number of employees in the office to around 30% of previous levels. In these and other ways, NEC's business activities are already changing.

 For details, please see Integrated Report 2020 page 17, "Feature: DX Initiatives in Response to the New Normal" For information about inhouse initiatives, please see page 23, "Sustainably and Socially Literate Human Resources."

While maintaining NEC's distinctive characteristics, in fiscal 2021 we will continue working to create a new business foundation that promotes medium- to long-term value creation such as this. To make NEC an even stronger company, we must focus on the future and engage in businesses that are one step ahead. NEC has clear strengths accumulated over 120 years, with a foundation in networks and IT, and extending to AI and security technologies. We will strive to combine these strengths to create businesses that bear NEC's distinctive qualities of maximizing economic and social value as a Social Value Innovator. This is the key to our growth going forward.

## First Step to Becoming a New NEC

In fiscal 2020, the 120th anniversary of our founding, we redefined the NEC Way and took steps toward getting NEC back on a path to growth. Then, at the end of the fiscal year, the world was suddenly enveloped in the COVID-19 pandemic and the management environment we faced was radically different from the one we envisaged when we formulated Mid-term Management Plan 2020 three years earlier. However, the expectations and demand for DX that NEC is working on have

definitely grown dramatically to a point beyond comparison with previous levels. To achieve new growth, I strongly feel that NEC must seize this moment to demonstrate its true value and meet expectations. To achieve sustainable growth over the next 100 years, NEC will increase its presence as a Social Value Innovator and demonstrate that presence to the world while supporting changes in people and society for a new era.