

**Our work to achieve our Purpose—
work that combines strategy and
culture—will show the world that
NEC delivers on its promises.**



Takayuki Morita
President and CEO



Resolving Long-running Issues

In May 2021, the NEC Group unveiled its NEC 2030VISION and its Mid-term Management Plan 2025, which covers the period from fiscal 2022 to fiscal 2026. Working on measures that derive from both over the past year has given me renewed confidence in our long-term goals and where our medium-term efforts are leading us.

In 2018, when I was CFO of NEC, I was breaking down our progress with the Mid-term Management Plan 2020 to an investor, and I can recall his reaction like it was yesterday. He said to me, quite frankly, "you have been unable to deliver on any plans so far, so there is no reason to trust this one." That episode made me deeply aware of the weight my words held when I communicated something to the market, and I realized that we needed a specific and convincing message to regain this trust going forward. By the end of the Mid-term Management Plan 2020, we achieved record-high profits and exceeded targets set under the plan. However, the previous plans had missed their targets, and behind these misses were long-running issues for NEC.

Around the 2000s, NEC's net sales and operating profit began to decline. We responded by trying to be at the top in every area we had expanded to by that time—semiconductors, computers, mobile phones, large storage batteries, to name a few. We ended up withdrawing from areas we could not expect success. We had neglected to make a close examination of success scenarios, which would have required us to ascertain the competitive environment and our strengths and anticipate the type of investments needed as well as the timing and degree of returns according to the type of business and product life cycles. We should have used this information to narrow down our efforts to a few priority fields. Put more simply, we had not taken the care to integrate our business strategy with our financial strategy. This has been an important issue for us to tackle.

One of NEC's fundamental challenges has been converting its superior technology into value. NEC has built up a collection of extremely unique technologies in the process of building and operating numerous mission-critical core systems in Japan. We currently possess technologies in areas such as security, biometrics, and AI that can compete on the global stage. These technologies and others, refined over a 120-year history, are invaluable assets. However, if we cannot commercialize them in a way that creates social value and generates profits, we will no longer be able to develop technology; and if we rely on customers to convert technology into value for us, then NEC has no reason for being.

We have had other issues as well. For instance, each business unit pursued short-term profits, even if it meant losing out on profits over the long term. Moreover, these divisions followed a period-centric and unit-centric approach to profit and loss that stressed unit profits over overall value for NEC. In addition, we have been lacking the ability to take action.

The NEC 2030VISION and the Mid-term Management Plan 2025 incorporate our awareness of these issues to create a concrete and logical message of growth that we can convey to investors.

Seizing the Future Together

The Mid-term Management Plan 2025 serves as NEC Corporation's commitment to shareholders as a company entrusted with management of the NEC Group to deliver results within a certain time frame. Needless to say, this calls for proper accounting. To make good on our promises when the future is unclear requires a clear understanding of our direction from a long-term perspective and measures that will achieve our goals. Because of this, we have switched from a three-year plan to a five-year plan. It takes at least five years of operating a business to recover an investment, so a five-year period also makes sense when trying to eliminate the aforementioned period-centric approach to profit and loss.

On the other hand, the NEC 2030VISION is rooted in efforts that are not bound by the same time constraints. While the year "2030" is in the name, this time frame is not set in stone. There is a good reason for this. When you apply the constraints of time and resources to your understanding of technological changes or the degree to which you can demonstrate your capabilities and create social value, you also place constraints on the scale and boldness of your ideas.

In the 2010s, NEC was in a life-or-death situation. The management team, myself included, found ourselves in discussion after discussion regarding NEC's reason for being. We determined that our reason for being was "the creation of the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential." In 2013, we declared our intention to become a Social Value Innovator. In April 2020, we redefined the NEC Group's common set of values that form the basis for how the Group conducts itself as the NEC Way. We also set this reason for being as the NEC Group's Purpose, under the brand statement "Orchestrating a brighter world." Major social changes brought on by COVID-19, environmental problems, and emerging geopolitical risks have reaffirmed the validity of this Purpose, but in addition to employees, who are a given, we need to get customers, business partners, and society as a whole onboard so that we can "seize the future together" and bring this Purpose to fruition. The NEC 2030VISION provides a logical, plausible, and specific presentation of NEC's vision for future society. The direction of the NEC 2030VISION was determined by three beacons—"Environment," "Society," and "Life"—and fueled by the strengths we have utilized to support social infrastructure around the world. Furthermore, as a signatory to the UN Global Compact, we believe achieving this vision will help achieve the SDGs set by the United Nations.

Combination of Strategy and Culture

Ever since I was young, I have always tried to express myself frankly and honestly. Of course, such candor can sometimes backfire and cause things to run awry, but I believe there are many more cases where the ambiguity of things left unsaid creates distrust. After over 50 M&As and other dealings that include business transfers and the establishment and dissolution of joint ventures, I believe all the more that the act of internalizing the other party's point of view and honestly stating whether you believe something is correct or not goes a long way toward building mutual trust, and this is true regardless of the nationality. Now that I am a part of senior management, I try to maintain this same frankness with employees.

It goes without saying that business and financial strategies are an important part of corporate management, but it is just as important to have a corporate culture that creates, supports, and retains highly driven personnel. These personnel are the source of our growth potential, and each and every one of them, as well as management, needs to be in alignment with NEC's forward vector to ensure that it can become a Social Value Innovator that takes advantage of its superior technology. It is for this reason that the Mid-term Management Plan 2025 is focused on combining culture and strategy, and it is through such efforts that it gives life to the shared values laid out in the NEC Way.

Human Resources and Engagement Score

On the point of culture, we have placed our focus on communication with employees and have positioned the engagement score as a key performance indicator (KPI), and are aiming for a score of 50% by fiscal 2026. To that end, we have held two-way town hall meetings that any employee can take part in. At these meetings, I give my honest opinions, delivered in my own

words, on a variety of topics, such as what kind of company I would like NEC to become, and how I try to carry myself. I also try to keep my speeches as short as possible so that most of the time can be devoted to fielding questions. Some of the questions are hard to answer, but I try to be forthright and express my thoughts on any question that comes my way. It is difficult to mobilize all employees in the same direction, but I feel that the number of employees taking our words to heart and making a sincere attempt to understand this direction is gradually rising. In fiscal 2022, we held 10 such meetings in Japan, with over 10,000 participants each time, and 26 times abroad. Our engagement score reached 35%, a 10-point increase from the previous fiscal year, which is a good start on the path toward our fiscal 2026 goal.

In addition to these dialogues, we are also working to devise ways to shift culture. This includes efforts to bolster diversity as a source of innovation, implement workstyle reforms supporting diverse talent, and enhance talent management by cultivating leaders and DX talent.

I have heard that NEC used to embrace the phrase “silence is golden.” However, I would like to instill a culture of “speaking up,” where people can express their opinions honestly, act on their own initiative, and receive their due recognition, as this will increase NEC’s ability to take action.

Integrating Our Business and Financial Strategies

The integration of our business and financial strategies is clearly set as a policy within the Mid-term Management Plan 2025 in recognition of its importance. I have also set a financial policy of maximizing long-term profit and optimizing short-term profit. This policy is based on my experience in handling several M&As, in which corporate value is a measure of the lifetime cash flow of a business.

When it comes to pulling ahead of international competition and increasing the value of our businesses in the long term, I consider M&As to be one of the most important tools at our disposal. They serve as a complement to NEC’s assets, customer base, know-how, and other aspects of the Group. Under the previous mid-term management plan, we invested over ¥450.0 billion in M&As, acquiring three European companies including KMD Holding A/S (KMD), Denmark’s largest IT company. Since M&As are not an objective in and of themselves, we have not set a specific investment cap. Instead, our policy is to maintain the capacity to make investments on the same scale by continuously generating free cash flow. When we conduct M&As, we are also careful to select candidates that are in line with our investment strategy and show the potential to generate cash. In keeping with these policies, we have set EBITDA growth as a particularly important KPI for the Company. In addition, we will prioritize the allocation of management resources toward growth businesses—including Digital Government/Digital Finance, global 5G, core DX, and businesses primed to be future pillars of NEC—and thereby spur sales and profit growth worldwide, including Japan. Growth businesses need upfront investments to become future pillars of a company. Since the amount of time to recover this investment differs from business to business, our policy is to make optimal investments that will generate the maximum amount of profit from a long-term perspective, and then monitor these investments using internal rate of return (IRR) and other KPIs that match the particular business.

On the other hand, non-growth businesses are positioned as base businesses. These businesses are divided into high- and medium-profit businesses and low-profit businesses. The former can use their earnings to cover their investment needs and allocate any surplus funds to growth businesses, whereas the latter need to reform their earnings structure. For these base businesses, we are pursuing capital efficiency and have set ROIC as an important indicator for monitoring this pursuit. We are also trying to achieve an operating profit ratio of 7% or higher, on par with top-tier companies in the industry. To that end, we established a 7% hurdle rate for

16 low-profit businesses and are working to improve the profitability of these businesses under the leadership of the CFO. If we determine that a business will have difficulties achieving an improvement plan, we will explore other options, such as further structural reforms, exit strategies, alliances and integrations, and then make a decision about the future of the business. As someone with a bird’s-eye view of our business, I believe that making these tough decisions is my responsibility.

Converting Technology into Value

Over the course of the previous mid-term management plan, NEC took steps to address its inability to convert technology into value. As part of this effort, we established dotData, a business based in Silicon Valley that specializes in software that utilizes AI to automate data analysis processes. Also based in Silicon Valley is NEC X, Inc., a business incubator that leverages NEC’s technology to work with start-up accelerators and establish new businesses. Yet another example is BIRD INITIATIVE, a collaborative R&D business aimed at spawning new businesses. Under the Mid-term Management Plan 2025, we have defined a model for growth that will see us generate strong profits and cash by converting our strengths in the form of R&D and high-quality implementation capabilities into customer value, which we will do by establishing common infrastructures based on our greatest strength, technology. To bridge the gap between R&D and creating business, we integrated the R&D Unit and the Business Innovation Unit to establish the Global Innovation Unit. This move has helped increase collaboration and strengthen ties between the R&D Division and the New Business Division, which serves to speed up the creation of businesses capable of becoming future pillars. In particular, we aim to commercialize AI-based drug discovery, agriculture, and healthcare—areas that have a social impact.

To convert our technological strength into more significant social value, we need to move beyond merely enabling better business. Instead, we need to look to ways to be an active participant in this business. This could mean, for example, creating systems to grow crops in the case of agriculture, or systems for mass-producing drugs in the case of drug discovery. Of course, these plans have been formulated on the premise of working with partners as opposed to working with NEC’s assets alone, and I believe that this will help diversify our sources of revenue.

Business Strategy for Growth Businesses

One of our growth businesses, Digital Government/Digital Finance, requires high levels of credibility and compliance with laws and regulations. This is something that would be difficult for mega-platformers working on a global scale, but this is an area where we can use our ability to handle mission-critical social infrastructure in different countries to our advantage.

With the establishment of the Japanese government’s Digital Agency in September 2021, there has been an uptick in efforts by both the private and public sector to resolve social issues, such as attempts to popularize and promote the use of the “My Number” identification system. NEC will make full use of its experience and resources to contribute toward the digitalization of government. We are working to pool the management resources of two Europe-based leaders in digital government, NEC Software Solutions UK (formerly Northgate Public Services [UK] Limited; hereinafter SWS) and KMD Holding A/S (KMD), and create various synergies with the NEC Group. For example, KMD, which we acquired in fiscal 2019, has played a central role in the digitalization of government in Denmark, a front-runner in digital governments. The experience and know-how of both these companies, combined with NEC’s biometrics and security capabilities, can go a long way toward the digitalization of Japan and other countries. In fiscal 2022, we have

NEC's Past, Present, and Future

Message from the President

continued with our strategy, which includes the acquisition of pioneering projects connected to the Digital Agency in Japan, the completion of post-merger integration for Avaloq Group AG (Avaloq) abroad, and bolt-on acquisitions for SWS.

As for global 5G, the competitive environment in the network business has undergone major changes as mobile telecommunications standards have evolved from 2G to 3G to 4G. Now as 5G, the fifth generation of these standards, spreads worldwide, Open RAN is expected to become mainstream. Open RAN allows different vendors to interconnect devices via a common standard, which in turn allows for the rapid construction of networks at low cost.

For NEC, which was one of the first companies to commercialize Open RAN-compatible base stations and has successfully commercialized them in Japan, this shift presents a great opportunity to expand our business globally. In global 5G, we aim to leverage our alliances with NTT Corporation and Rakuten Mobile, Inc. to use our commercial achievements as a platform from which to take a leading position in Open RAN. In fiscal 2022, we were selected for multiple commercial projects in Europe and we will use these projects as footholds to expand globally.

In core DX there is a growing need for companies like NEC that provide comprehensive services, ranging from upstream consulting to downstream delivery. This trend has caused several companies to enter this field via the consulting route. In addition to the personnel of ABeam Consulting Ltd., NEC has over 5,000 personnel involved with DX in Japan, thanks to internal reshuffling. This is the largest number among domestic IT companies, and we have plans to increase this number to approximately 10,000 by fiscal 2026. We will use the interconnectivity of our organization to boost collaboration between our consulting wing and engineering wing, which will allow us to meet customer needs from end to end with a high-quality response. With the full force of our technologies related to security, biometrics and digital ID, AI and otherwise, and the full force of our resources, which allow us to provide services that flow seamlessly from the cloud to on-premises and back, we plan to quadruple the net sales achieved in fiscal 2021 to ¥570.0 billion. In fiscal 2022, consulting services provided through our connections with ABeam Consulting resulted in our acquiring projects with business partners. Furthermore, global strategic collaboration with partners such as AWS, Microsoft, and SAP continues to move forward, and this collaboration is helping us make steady progress toward a framework that will facilitate collaborative relationships with our customers.

Leaving No Doubt

In fiscal 2022, we stated our direction for the medium to long term loud and clear, and we have implemented a series of measures based on that statement. In the Olympics, there is an event called the triple jump, which is made up of three phases, a hop, a step, and a jump. Using this as an analogy for illustrating our progress, we have completed the “hop,” and have done so with vigor. Fiscal 2022 is when we embark on the second phase, the “step.”

Although we have made good progress qualitatively, the capital market still views NEC as one of many comprehensive electronics manufacturers. We possess an intangible asset, technology, but our technology is still seen as secondary to that of specialized IT vendors. As we move toward fiscal 2026, we are committed to improving corporate value by presenting shareholders and investors with a convincing story that backs up qualitative changes in growth and profitability with concrete results to ensure that we are no longer one of many. To that end, we intend to create catalysts that are both visible and will accelerate growth.

As these catalysts form the basis for growth, we are also working to increase credibility and dispel any doubt lingering among investors. To do this, we will develop and deploy a logic tree that leads us toward Group-wide numerical targets while also trying to reform management methods and mindsets. We will respond to increasingly complex risks by expanding the risks we deem material to include geopolitical risks, supply chain risks, and human rights risks. From there, we will strengthen resilience to this expanded list of risks.

On April 1, 2022, we reformed our business structure to de-fragment and de-stratify our organization. This updated structure is rooted in the strategy put forth in the Mid-term Management Plan 2025 and will better ensure sound execution of strategy overall. This update will increase the authority and responsibility of leaders and encourage greater commitment to management. At the same time, this structure will encourage commitment among leaders and help pinpoint young employees that can lead in the future. Fiscal 2023 will reap the benefits of these organizational reforms and lay the groundwork for further reforms in fiscal 2024.

I would like us to ramp up our efforts by ramping up our financial measurement methodologies as well as the non-financial measurement methodologies that form corporate value, as these efforts will raise sustainability and create a positive assessment of our corporate value overall. To further promote management for sustainability and to maintain our inclusion in ESG indices, we have set KPIs within the Mid-term Management Plan 2025 for each aspect of ESG—environment, society, and governance—and we are continuously working to improve our ESG performance by strengthening non-financial initiatives centered on materiality and highly transparent disclosure of information.

An Ever-changing NEC

In addition to the fight against COVID-19, the onset of new geopolitical risks is challenging the commonly held idea that globalization is inevitable. In times like these, NEC has proven its ability to band together as a group to respond to crisis by minimizing the impact of supply chain problems and performing other necessary tasks.

Over the past 120 years, NEC has faced many crises, but the driving force behind its survival over the next 100 years will be its superior technological capabilities and its power as an ever-changing group. It is with these strengths that we will make steady progress and achieve the goals of the Mid-term Management Plan 2025 and win the trust of all stakeholders, including shareholders and investors.

