

## Message from the President

# NEC will continue to change so that it can keep its promises and continue to exceed expectations.

### Preface

Three years have passed since I was appointed president and CEO of NEC Corporation. In this capacity as leader of the organization, I have actively engaged in dialogue with employees, customers, business partners in Japan and overseas, government officials from various countries, and investors. It may seem obvious, but communication is the most simple and effective way of getting to know and understand one another's ideas. As part of this, I actively participate in international conferences and discuss my ideas in my own words. This not only allows me to keep up with the latest information on world-leading organizations and talent but also allows NEC to be seen as a member of that network. The relationships that can be built through communication are extremely valuable.

This is my fourth time writing a message for NEC's integrated report. I view this as a key opportunity to communicate my thoughts to our stakeholders, and I have written this message in the hope that it will help readers to better understand and become more familiar with NEC's management. I would like to thank all of you for taking the time to read this message.



## Message from the President

## Keeping Our Promises

“Why should I believe in your company?” With these words, documents pertaining to a previous mid-term management plan were hurled in front of me. This happened in 2018, when, as the CFO of NEC, I was giving a presentation to an investor about Mid-term Management Plan 2020. At the time, NEC had not been able to keep the promises it had made to the market in its mid-term management and annual business plans. In response to the investor’s question, I explained that one of the three management policies in the management plan was to restructure our execution capabilities. I believe the investor likely lost patience with me at this point.

Unfortunately, in the past, NEC was seen by both the market and wider society as a company that could not keep its promises, and I am sure our employees felt the same way. When I was cast aside by this investor, I came to the realization that companies that cannot keep their promises will not even be listened to, let alone trusted. The incident with the investor is etched into my memory. Over the three years since becoming president and CEO, I have held town hall meetings every month without fail, often introducing this incident as a clear reminder of the importance of keeping promises and earning trust.

Currently, NEC is successfully achieving the milestones it promised to the market in Mid-term Management Plan 2025. Although we have made some revisions to our initial plans for individual projects, we are making strong progress overall. The outlook remains uncertain, with international affairs and financial markets difficult to predict, but even so, I have no doubt that there is a path to achieving the goals set forth in Mid-term Management Plan 2025. This gives me confidence as a leader, while at the same time reminding me of my responsibility to move forward without losing sight of our goals.

## Business Trajectory

In business fields where we are performing well, we will further refine our winning strategies and boldly explore new business opportunities. We are looking forward to reaping the benefits of strong domestic digital transformation (DX) demand, and securing more projects and improving profit levels in the aerospace and national security (ANS) field. Meanwhile, in business fields where performance has been less favorable, we are making headway in turning around low-profit businesses one by one. The 5G business, which had been a source of concern, has seen delays in the arrival of investment for the transition from 4G, so we have had to significantly revise our initial strategy to reduce cash outflows and wait for the tide to turn. The PASOLINK mobile backhaul business, once a mainstay of our overseas operations, merged with another company and is on a sound footing while continuing to provide support to NEC’s customers. In the digital government / digital finance (DGDF) field, three Europe-based NEC companies are contributing to profits, but we believe there is still room for growth by further leveraging NEC’s resources and drawing out synergies for business development. We are strengthening communication between the headquarters and employees at each of our sites through dialogues and meetings. Through these efforts, we are obtaining information from the front lines, such as winning strategies and a sense of the issues they face, which we will then use to make concrete improvements.

In the long term, our goal as a global corporation should be to earn half of our profits domestically and half overseas. This is also a prerequisite for our ability to repeat the cycle of generating stable profits and reinvesting them in the Company to create new value. I believe that capital efficiency and profit growth are important for improving corporate value, but achieving global growth organically is inefficient because it

takes time. M&As are a powerful tool for addressing this issue, and we are currently in the process of rebuilding our strategy from the ground up to determine how we should proceed with growth investments.

## Not Becoming Idle in Tailwinds

Under Mid-term Management Plan 2025, we have been implementing corporate reforms on the two axes of strategy and culture, requiring a lot of effort from our employees and sometimes having to also ask our customers for their cooperation. As a result, we have achieved record profits on the adjusted operating profit level, and are now a company with a sound financial structure, with total equity exceeding ¥2 trillion. If we compare our share price in fiscal 2013, which was below ¥1,000, with the current share price, which is just over ¥10,000, our valuation has increased more than tenfold at the time I am writing this message. I am confident that taking this path of reform was the right thing to do, and I think our employees feel the same way.

So, on paper, it looks like the Company is doing well, but is that really the case? It appears that the share price, which had been discounted, may now be returning to normal. At a recent town hall meeting, I told employees that, although things may look good on the surface, if you take a closer look at individual details, it is likely that you will find something that makes you think “hmm, that’s a little strange” or “I wonder if this is okay the way it is.” If we overlook such things and think that everything must be fine since the share price is good and our performance is strong, these issues will build up and eventually become irreversible.

One good example is profit. In the past, NEC only sought to increase its top line, and profit was secondary. It looked

Message from the President

good if revenue and share prices were strong. But what about profit? NEC had a semiconductor business with an extremely short investment cycle but was unable to make a stable profit and allocate investment appropriately. This led to a major overhaul of the Company's business portfolio and the departure of many of its employees. While we have been able to turn around several low-profit businesses, the fact remains that our profit margins are still lower than those of our competitors. We are still far from satisfied.

I often say to our employees, "If you cannot get a fair price from the customer, then do not hesitate to turn down such projects." This approach would have been unheard of at the NEC of the past, when we were too accommodating of our customers. Looking to improve profitability, we have been using a system to visualize profitability into data form since 2023. Management can now see data on profit margins from the get-go—information previously only available to those working on the front lines. If we can make this a success, we expect not only to improve profitability itself but also to change how our employees think about profit. We are gradually seeing positive results, and would like to expand the scope of the system's application to maximize its benefits.

**Not Losing Sight of Long-term Goals**

We are now in the fourth year of Mid-term Management Plan 2025. Members of the media often ask me how NEC is progressing against the goals of the plan, comparing it to climbing a mountain. This is a difficult question to answer, because, although reaching the summit of a mountain is a clear goal in itself, achieving what we have set forth in our management plan is not our only goal. I say to our employees that the way to approach profit is to maximize long-term profit and

optimize short-term profit. Taking a long-term perspective, being clear about what we are aiming for, and thinking about and acting on what we need to do now in order to achieve our goals is important.

Which actions you choose when taking this kind of long-term perspective can dramatically change the future that follows. If you become idle and leave your sail up in a tailwind, you will never reach your goal. Sometimes you have to fold your sails or change course by reading the wind. From my time as CFO to the present, I feel that by making changes to both systems and culture, we have gradually been able to cast our sights further ahead. We are steadily achieving the goals of Mid-term Management Plan 2025 in order to continue delivering value to all of our stakeholders over the long term. We would like to ask our stakeholders to evaluate us from a long-term perspective and to continue moving forward with us.

**125 Years and Beyond: Continuing to Change**

In 2024, thanks to the support of its stakeholders, NEC celebrated its 125th anniversary. Founded by Kunihiro Iwadare, who earned recognition from Thomas Edison and contributed to the development of modern industrial technology, the Company has supported the development of telecommunications in Japan and contributed to the integration of communications and computing on the global stage. And now, with DX at our core, we are evolving into a company that creates new social value with advanced technology. I am proud of this history that our predecessors have worked to build.

Some of the things that have surprised me most since becoming CEO are the opportunities I have had to meet with people. Whether in Japan or overseas, whenever I have met people, I have been received with trust and respect. It is not

uncommon for NEC to be the only Japanese company, or one of only a few, to be invited to participate in face-to-face interviews or to speak at important international conferences.

For example, I recently was invited to meet with a senior official from the United States. As it was the first time we had met, I tried giving a brief introduction of NEC, but it turned out that he already knew about us, and he even talked to me about the expectations he had for us and about some of our smaller business projects. For me, this encounter represented the value that NEC has created through its 125 years of business, and it also reaffirmed my belief that we are still needed in the current day and age.

That said, I am not sentimental about this 125-year history. To me, it is no more than a number. What is important for us now is not to look back on the past, but to continue to create the future for the next five to 10 years. And we want the world to continue to see NEC as a company that makes a difference and is essential for society.

I was once asked by an employee what I, as a member of management, felt was the biggest risk for the Company. I immediately answered that the biggest risk was employees thinking that we can just carry on as we are. People have a natural tendency to become complacent. If you stand still and stop thinking, then it's all over. Far from just maintaining the status quo, you'll end up falling behind and being left behind by the times. It is people who drive a company forward. When NEC was facing financial difficulties, it was held back by the logic and old ways of thinking of each organization, and the employees were unable to see themselves from an objective standpoint, and so were unable to change.

Businesses are living entities that change. There is no such thing as an optimal state for a company. If a company is bound by past successes, it will never be able to change. As Charles Darwin's theory of evolution states, history has shown us that only those who can adapt to the changing times will survive, and only those who create changes in the times will

Message from the President

prosper. NEC's predecessors changed the technology they used in line with the changing times, and also changed the course of the Company, providing new value to society. This is perhaps the main reason why the Company has been able to continue to exist for 125 years.

In every era, it has been said that we are living in times of incredible change. In other words, change has characterized every era. When leading NEC, I am always thinking about what I need to change. Perhaps the one way in which I follow in the footsteps of my predecessors is by both changing myself and inspiring change in others.

**Lively Discussion among Members of Senior Management**

The senior management that determines the direction of NEC is also changing. In 2023, we followed the lead of several companies we had been keeping an eye on, and transitioned from a Company with an Audit & Supervisory Board to a Company with a Nominating Committee, etc., with the aim of further ensuring sound corporate management. Under the supervision of the Board of Directors, which has been greatly strengthened by the addition of outside directors, NEC has adopted a fast-moving management system by transferring authority to executive officers. The number of outside directors with experience in global management has increased, bringing with them constructive opinions on capital allocation, Group management, M&As, mid-term management plans, and other issues.

To digress a little, the seating order at Board meetings, which used to have inside and outside directors sitting separately, was changed to an alternate seating pattern at the suggestion of an outside director. The Boardroom table, which

used to be very large, was changed to a smaller-sized table so that directors could be in closer proximity to one another. As a result of these measures, I feel that our discussions have become more lively than ever. It is crucial to have a system in place that allows diverse members from different backgrounds to share their ideas, feel at ease with one another, integrate as a team, and be able to discuss matters from a shared perspective.

**Are Employees Happy?**

This is another story from when I was CFO. I was once asked by an investor from the United Kingdom whether our employees were happy, which really stopped me in my tracks. I had never really thought about it before, and the question left a very deep impression on me. Now, as president of NEC, I realize more than ever the importance of ensuring that our employees are happy and that they feel rewarded in their work.

In fiscal 2019, we received a score\* of 19% in our first ever employee engagement survey. I was shocked by how low the figure was. By fiscal 2024, this score had risen to 39%, above the top level for companies in Japan. I think the reason for this is that NEC has been revitalized and energized through the changes we have made, and that this has been recognized by people outside the Company. We are still, however, only halfway toward the 50% target we promised in Mid-term Management Plan 2025. As such, we will continue to communicate with our employees as we strive to become a world-class company.

When it comes to increasing awareness of NEC's Purpose and reforming its corporate culture, I make a particular effort to be consistent in communicating the substance and essence of our message, even if the words or analogies used change.

We have held more than 40 town hall meetings, an initiative that I introduced at the time I was appointed president, and the number of participants has increased by several thousand since the first meeting, with roughly 10,400 employees attending each meeting since the beginning of this fiscal year. At first, I may have only reached a few people. However, the more these meetings are held, the more the message will spread, just as when damp firewood slowly dries out and catches fire, the surrounding damp firewood also dries out and the fire spreads.

In terms of communicating with those outside of NEC, I am also actively involved in speaking at international events and am often interviewed by global media. This helps to attract the attention of our global employees. I am also expanding the scope of my activities beyond conventional channels, by appearing in online video media watched by younger



Message from the President

generations and sending out messages via recruitment services. On LinkedIn, I regularly post up-to-date information about my activities and interviews with external partners. I also see these external communications as an opportunity to deliver messages to our employees and their families.

In fiscal 2025, it is more important than ever to listen to our employees and clearly convey our messages. We have implemented job-based human resource management at NEC. Change is always accompanied by uncertainty, and so I also receive negative feedback at times. However, it is necessary for us to change and for each organization to achieve its goals. Change is also a way to create systems that will allow employees to work happily and feel more rewarded. I want our employees to understand the purpose of these changes and see them as an opportunity to improve themselves and grow, and as a company, we want to create various opportunities for our employees to do so.

I am also asking employees to update their work styles. Having been subjected to various restrictions imposed by the COVID-19 pandemic, many are reassessing the benefits of meeting in person and the ways to maximize team strength for achieving organizational goals. NEC provided loose guidelines that employees should be in the office 40% of the time, and that each team should find the most suitable way of working. As a result, employees are now working in a way that integrates in-person and online activities more effectively than ever before, and we are receiving positive feedback that decisions are made more quickly, and that this system is more efficient. At the same time, employees have also raised concerns about the lack of available meeting rooms and the need for a better IT environment, and so we are working to build an environment in which employees can work more efficiently.

This new way of working is also becoming more widespread among the customers we support with DX. We capitalize on our organization by implementing initiatives as “client zero.” This is to reflect our own experiences in our proposals to customers and to learn from our new experiences to

provide value. We will continue to test new work styles within NEC through trial and error, and hope that the results will be beneficial to our customers.

\* In a survey conducted by global HR consulting company Kincentric; a score of 50% is roughly within the global top 25 percentile and is classed as Tier 1 level.

### Guiding Customers and Society through DX with NEC BluStellar

In May 2024, I made an important announcement for the NEC Group. I unveiled NEC BluStellar, a value creation model that will lead our customers into the future. NEC BluStellar is not something that can be created from scratch, nor is it the name of a product. It is the technologies, solutions, people, and organizations of NEC and its global partners. It is the collective name for the knowledge and experience we have gained through our own transformation as “client zero” and in assisting our clients in their DX efforts. This approach to the value creation process is extremely different from the NEC of the past, and represents our transformation from an ICT company to a company that creates social value.



NEC BluStellar is a constantly evolving concept. The knowledge and experience we gain as we transform ourselves and our customers will further increase the value provided by NEC BluStellar. A key theme for the future will be how to continue to expand NEC’s strengths with NEC BluStellar at our core.

### The Path to Victory for Generative AI

Among the elements that make up NEC BluStellar, one that has great potential is cotomi, our in-house developed generative AI. As the rest of the world focuses on large language models (LLMs) and many companies are announcing that they will begin their own development or utilize the world’s leading LLM, NEC announced in summer 2023 that it would develop and start industrial use of a proprietary finished product. Some of our customers that are already using our AI are seeing great results. We are proud to take the lead over our competitors in Japanese language-based generative AI, but we also feel that we face a challenge in that this has not been fully recognized. I believe it is important to accelerate R&D of generative AI and accumulate concrete results.

Going forward, we will enter a phase in which we will begin to integrate LLMs into our systems. In other words, LLMs will become a frontline tool for business and manufacturing and will demonstrate their true value in the real world. Therefore, it is essential to have the know-how to respond to the unique data and business structure of each industry, rather than a generic generative AI.

Early on in the development of cotomi, we focused on what kind of data to handle and how to ensure its governance. As such, we have been building up use cases with customers in a variety of industries. Any lead time we have in developing generative AI earlier than other companies could be gone in an instant, but the know-how of how to implement it in

Message from the President

individual industries is not something that is gained overnight. As a forerunner, we will apply cotomi and other generative AIs in real-world scenarios and contribute to the DX efforts of our customers and society.

**The Future of NEC**

Why does NEC exist and why are we indispensable to our customers and society? The answer to this can be found in our Purpose. By setting forth our aim to create 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, we have been able to push forward with reforms and get back on a growth path.

Over the next few years, we will begin to see a future where AI is a natural part of our lives. This will speed up the pace of change in both the business environment and society itself. The shape of global economic security may also undergo a dramatic change. How will NEC pursue the realization of its Purpose in such a world? Many people feel threatened by the thought of technology that surpasses human intellect, but if we approach it from a viewpoint of good will, humanity will surely be able to evolve in a brighter direction.

NEC is a company that handles technology properly. From international communications utilizing outer space and the ocean floor to AI, quantum technology, and national-level security technology, we offer systems and hardware with stable and reliable quality that support the day-to-day activities of the public and private sectors. In the coming era of AI, this rare global portfolio will become even more essential. If we follow the words in our Purpose, we will naturally become a trusted

partner that is chosen by customers all around the world.

When that time comes, harnessing the diversity of our 110,000 Group employees will be crucial. It is precisely because we boast such a diverse workforce that we can identify new possibilities, take on challenges without being bound by precedent, and create innovation in the world. The 110,000 employees in the Group form one NEC in the eyes of our

customers and society. To go beyond our customers' expectations and deliver even greater value, we must get to know and understand each other better. We use the phrase "OneNEC" within the Company, and I will continue to deepen communication so that these words become a reality. As I mentioned at the beginning of this message, communication may sound simple, but it really is the most effective way.

