

## CFO Message



### Osamu Fujikawa

Corporate Executive Vice President and  
CFO (Representative Executive Officer),  
Member of the Board

## Entering the Final Year of Mid-term Management Plan 2025

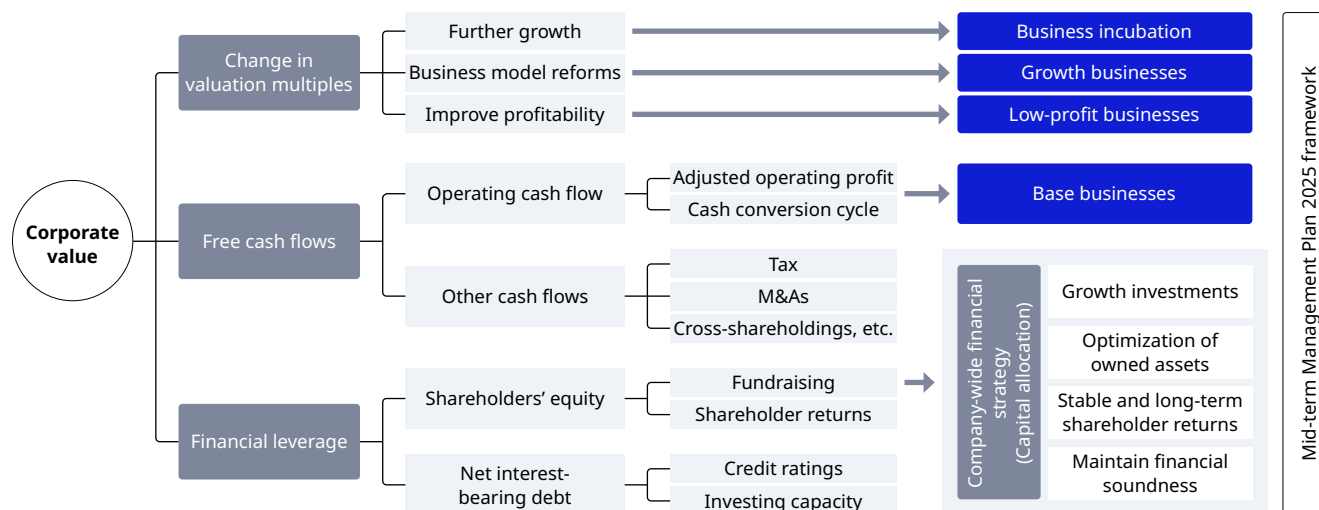
Five years have passed since my appointment as CFO, and the Company has now entered the final year, and final phase, of Mid-term Management Plan 2025.

Under this plan, our basic policy is to continuously generate cash through business activities as a source of growth, and to enhance corporate value by maximizing long-term profit and optimizing short-term profit through appropriate capital allocation. In turn, this cycle serves as the foundation for sustainable value creation. In fiscal 2025, the fourth year of the plan, both the IT services and social infrastructure businesses saw an increase in sales. In addition, non-GAAP operating profit was ¥311.3 billion, and adjusted operating profit was ¥287.2 billion, exceeding our initial expectations at

the beginning of the fiscal year. This was due to a rise in profit resulting from increased sales driven by strong demand, as well as efforts to improve profit margins since the announcement of our mid-term management plan. In fiscal 2026, we plan to increase non-GAAP operating profit by ¥20 billion from the mid-term management plan target of ¥300 billion. This reflects our continued efforts to capture business opportunities amid strong demand and to improve profit margins. The currently foreseeable risks have been factored into our earnings forecast, and we are firmly committed to achieving this target as the baseline for fiscal 2026.

While revenue and non-GAAP operating profit are important indicators, we also need to improve our valuation multiples, generate stable free cash flows, and optimize financial leverage if we are to achieve our ultimate goal of enhancing corporate value. We are also working to create a scenario for

### Logic Tree for Improving Corporate Value





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improving corporate value, set clear milestones in our logic tree, incorporate them into our action plan, and review them regularly.

## Generating Cash

In fiscal 2025, free cash flows totaled ¥213.2 billion, a year-on-year increase of ¥18 billion. Cash flows from operating activities increased significantly, due to a rise in adjusted operating profit, and our continued efforts to shorten our cash conversion cycle (CCC). In fiscal 2026, we plan to generate free cash flows of ¥290.0 billion due to the rise in adjusted operating profit and other factors. In recognition of this profitability and our strengthened ability to generate cash flows, in June 2025, NEC's issuer rating was raised from "A" to "A+" by Rating and Investment Information, Inc. We will continue to increase profits by improving the profitability of our businesses, while enhancing asset efficiency and cashing out our assets to promote the generation of cash.

### Generating Cash by Improving the Profitability of Our Businesses

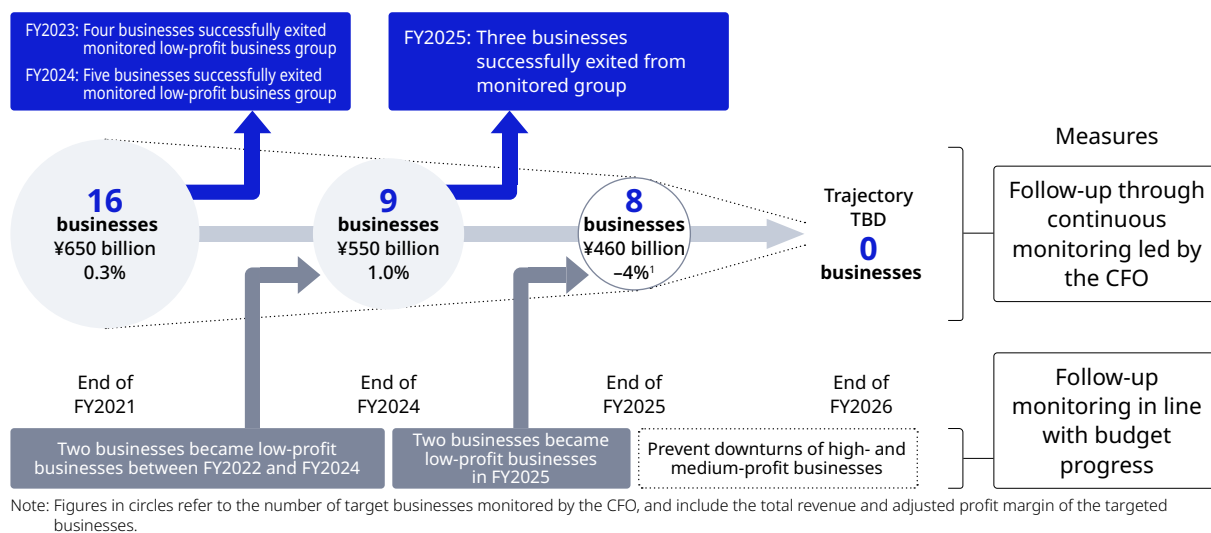
To increase business profits, it is important to improve the profitability of base businesses in parallel with the development of growth businesses. I am taking a hands-on approach to monitoring the improvement of low-profit businesses. Businesses that do not meet the set hurdle rate are defined as low-profit businesses. I am working with the relevant business units to identify structural issues related to profitability and formulate improvement plans, and regularly monitor the progress of these initiatives. As of the end of fiscal 2025, many of the 12 businesses that successfully exited the group of monitored low-profit businesses achieved improvements in profitability. In addition, for businesses that are deemed unlikely to achieve the hurdle rate by fiscal 2026, we have implemented significant structural reforms, such as transferring the business to another company. While considering options such as this, the direction of all low-profit businesses will be determined by the end of March 2026, taking into

account future business growth potential. In addition, to prevent high- and medium-profit businesses from becoming low-profit businesses, we will work to improve profit margins on a permanent basis through early detection and improvement of businesses that may present issues when carrying out the annual budget.

### Generating Cash Flow by Improving Capital Efficiency

As part of our efforts to improve capital efficiency, we have been working on shortening our CCC since the previous mid-term management plan. As of March 31, 2025, we had shortened our CCC by eight days from the end of the previous fiscal year to 60 days, mainly due to an increase in advance and interim payments for long-term projects. We are engaged in ongoing efforts to strengthen working capital management while preparing for potential risks in response to changes in the business environment.

NEC's ROIC was 6.6% in fiscal 2025 and we project it to be 7.3% in fiscal 2026, bringing it to a level that exceeds the cost

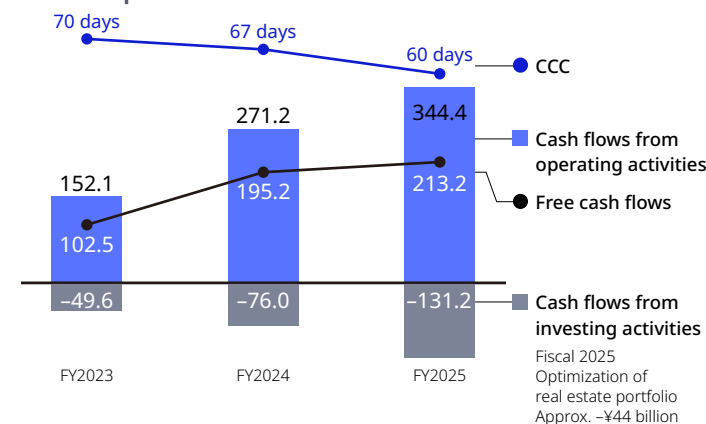


<sup>1</sup> Includes temporary cost increases in the marine systems business

### Free Cash Flows

(Billions of yen)

#### Significant Improvement in Working Capital Due to Establishment of CCC Improvement Activities





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of capital. We will continue to actively pursue growth investments, including M&As, while keeping capital efficiency in mind and managing it appropriately.

## Generating Cash by Cashing Out Assets

We are also continuing to generate cash by cashing out assets. In April 2020, we set guidelines for eliminating cross-shareholdings. All cross-shareholdings possessed by NEC are subject to comprehensive annual review by the Board of Directors, in which the Board clarifies the strategic value of each holding and considers returns in terms of capital cost and other perspectives. If the Board accepts the rationale for a holding, it is kept; if not, it is sold. We have reduced our cross-shareholdings in listed companies (excluding deemed holdings) by 80% from the end of fiscal 2020 to the end of fiscal 2025. For the remaining cross-shareholdings, we continue to promote the generation of cash through the cashing

out of such assets while assessing the significance of retaining them. As for non-listed stocks, there are some that will take time to eliminate due to the circumstances that surrounded them from the time of investment, but we have reduced holdings in unlisted companies by more than half in the period from the end of fiscal 2020 to the end of fiscal 2025. In addition to cross-shareholdings, we also assess the significance of continuing to hold real estate and other assets and actively promote the optimization of NEC's portfolio.

## Capital Allocation

Through the aforementioned measures, we aim to generate ¥1.3 trillion in operating cash flow over the five-year period from fiscal 2022 to fiscal 2026. There is no change to our basic capital allocation policy under Mid-term Management Plan 2025, which gives top priority to actively investing in

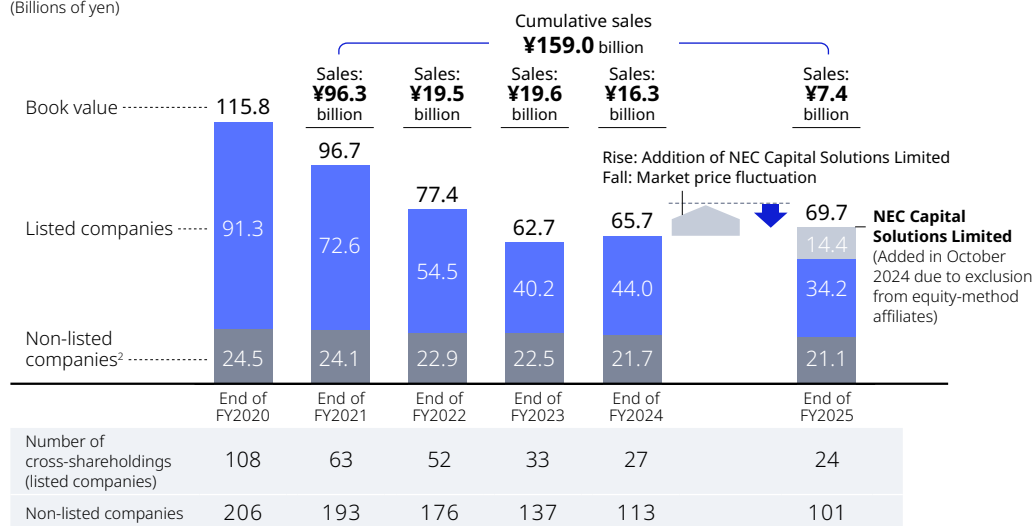
growth areas while maintaining financial soundness, and aims to deliver stable dividend increases.

For growth investments, we will apply a new cash ROIC evaluation as a standard for accurately evaluating the earning power of M&A projects. It is difficult to clearly determine prior to an acquisition whether an intangible asset will be subject to amortization or recognized as goodwill. Therefore, we apply the cash ROIC evaluation to our decision-making when looking into acquisitions. In principle, we aim to exceed the weighted average cost of capital (WACC) within five years following an acquisition, thereby establishing clear financial discipline. We believe that setting this five-year time frame is effective in evaluating the legitimacy of M&As, particularly in assessing the synergies generated and the potential for subsequent growth.

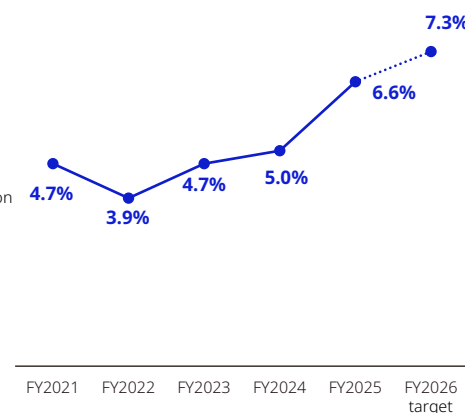
We will use the level of financial soundness currently evaluated by credit rating agencies as a guideline to be maintained

## Sales of Investment Securities (excluding deemed holdings)

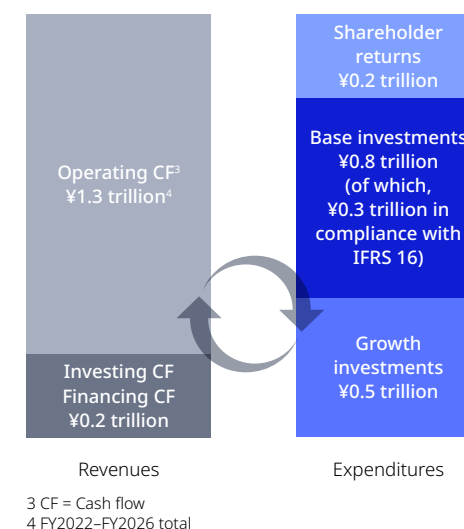
(Billions of yen)

<sup>2</sup> Excluding alliance companies

## ROIC



## Profit Cycle and Capital Allocation





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over the medium term. Our basic policy regarding dividends is to steadily increase them. The rapidly changing external business environment presents an abundance of investment opportunities for business expansion. We will maximize returns to our shareholders by translating these investment opportunities into increased earnings, and through capital gains from increased corporate value and stable dividends. We will also make flexible decisions regarding acquisition of treasury stock, considering factors such as growth investment plans and the level of surplus funds.

## Non-financial Strategies Linked to Corporate Value

Positioning non-financial strategies as an important foundation for sustainable growth, NEC not only discloses non-financial information in response to requests from external parties but also aims to utilize non-financial information for the sustainable enhancement of corporate value by further clarifying the link between non-financial strategies and financial aspects of the Company. In addition to working to reduce capital cost over the medium to long term from a risk management perspective, we will leverage the know-how we have developed through our in-house efforts to address issues such as climate change and cybersecurity to propose solutions to our customers, leading to expanded business opportunities and increased free cash flows. We have seen a rapid increase in the number of customer inquiries received on environment-focused management issues since 2021. In response, NEC fully leverages technologies such as sensing, AI, and security to visualize and analyze complex environmental issues and contribute to clarifying the challenges that need to be addressed. We are also working to further advance and apply causal analysis of indicators of corporate value and non-financial data initiatives. One such example is our efforts to achieve the target employee engagement

score of 50% set forth in Mid-term Management Plan 2025. In doing so, we have identified measures for people and culture transformation that are expected to have a particularly significant impact on each organization and are narrowing down our focus areas and working to improve our initiatives with efficiency and effectiveness as key themes. By using the data we have gathered in this way, we are incorporating non-financial indicators into data-driven management, leading to more advanced managerial practices. In 2024, we were included in the Dow Jones Best-in-Class World Index, a globally renowned ESG investment index. We view this as proof that in addition to the above initiatives, our ongoing efforts—including corporate governance reforms and our highly transparent information disclosure—have been recognized.

In July 2025, NEC issued a sustainability-linked bond via a public offering in the domestic corporate bond market. The issuance of the bond is an example of NEC using financing to show its strong commitment to one of its material issues (Fundamental Materiality), “Environmental Action with a Particular Focus on Climate Change (Decarbonization).” The SDGs-based financing initiatives are NEC’s Purpose put into practice, and they provide a way for us to engage in dialogue and co-creation with a variety of stakeholders related to our management of sustainability initiatives.

## Final Remarks

When I assumed my position as CFO, it came at a time when the Company was under exceptional operating conditions due to the COVID-19 pandemic. Since then, the Company has faced further changes in the business environment, such as a shortage of components, sudden exchange rate fluctuations, and geopolitical risks, and I have been compelled to make decisions to minimize the impact of such external factors. However, when faced with any change, I try to stay focused on results while being proactive and looking ahead to the future

rather than at the past. I like to begin by defining the ultimate goal in terms of specific outcomes and deadlines, then work backward to establish milestones at critical stages. Progress and timing are regularly reviewed, and corrective actions are taken if deviations arise. By repeating this process, we can create the figures we are striving to attain. This is where data can be a powerful asset. NEC launched the KFP (Management Finance Process) Project to make it possible to visualize Company-wide data in real time. When monitoring the profitability of a business and conducting on-site follow-ups, we can comprehensively present the data in real time, thereby giving those on the front lines a better understanding of the situation at hand and allowing them to take action independently. Ultimately, this creates a virtuous cycle through which profit margins actually rise.

From the time we announced Mid-term Management Plan 2025 until around fiscal 2023, the market had a negative view of our efforts to achieve the plan’s goals, and we received many strict words from investors on how to improve profits. However, since around fiscal 2025, when we began to be recognized as having nearly achieved the plan’s goals, I have begun to sense a growing anticipation for what lies ahead.

From the initial year of Mid-term Management Plan 2025 to the present, we have improved our problem-solving abilities and picked up speed by facing various challenges, thereby boosting our resilience as a company. Going forward, we will strive to overcome whatever unforeseen situations come our way and do everything it takes to achieve our goals.

We want to create social value and contribute to Japan and the rest of the world, while also ensuring that our employees can take pride in working for NEC. Through our next mid-term management plan, NEC will set its sights on becoming one of Japan’s top companies and a driving force to elevate Japanese companies to a top-tier global standing.