

NEC IR Day 2026 – Social Infrastructure Q&A

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Questioner A

Q: How far can NEC's capacity can keep up with strong demand in the defense business? Since the revenue plan for the defense business in Mid-Term Management Plan 2030 does not appear particularly strong, could you explain the assumptions behind the plan? Also, how much expansion in orders will you be able to handle through capacity expansion during the Mid-Term Management Plan 2030 period? Will large costs be incurred up front as you add floor space?

A: We are already expanding floor space and increasing personnel, and we plan to significantly expand floor space over the next year or two, so there is no problem on this point. In addition, we are steadily reassigning people internally while also conducting mid-career hiring, and we have taken sufficient measures to handle new demand. The publicly disclosed central government contract portion is currently on the scale of ¥300.0 billion, but we are expanding capacity targeting a scale of ¥400.0 billion.

On the cost side, we intend to lower costs by further advancing efficiency and digital transformation (DX). While there will be cost increases accompanying revenue expansion, we will carry this out efficiently within the range of profit growth.

Q: While the 35% market-share target for the submarine systems business has a tailwind from government support, I think achieving it will be difficult unless you own your own cable-laying ships. What are your thoughts on owning cable-laying ships and the possibility that costs will be incurred up front? With the industry as a whole expected to face a shortage of cable-laying vessels, is NEC in a position to secure them?

A: The assets necessary to achieve a 35% share are factory production capacity and cable-laying capacity. Competitors own seven to eight ships, including maintenance ships. We estimate that over the next five years we will need up to around five ships in total, combining owned and chartered vessels. The point of owning our own cable-laying ships is that we want to be in control of the cable-laying work. Owning ships also enables us to accumulate construction know-how, and we are aiming to secure profitability as well.

The industry as a whole, is expected to face a shortage of cable-laying ships. Around 2033, many ships will age, so the market value of the ships themselves is also expected to rise. Within that context, we believe a 35% market share is well within reach. We estimate that the market size will grow from the current ¥300.0 billion to ¥500.0 billion per year over the next five to six years. However, since market growth is unstable and highly volatile, although I said up to five ships, we will likely make decisions on a case-by-case basis while assessing how the market grows.

Questioner B

Q: Could you tell us your view on the scenario where the Japanese government raises defense

spending as a percentage of GDP? Also, please explain the upside in the space business.

A: For defense, our plan assumes the current 2% of GDP, but since there is talk of an increase to 3.5%, we always take that possibility into account in considering how to handle personnel planning and securing locations. We are therefore running simulations so that we can respond immediately even if it becomes 3.5% a year from now. To be honest, we do not know how large the business would become if defense spending were increased; it would depend on the content of the defense budget. In addition, there is a possibility of forming alliances with overseas partners, and we could play a trading-company-like role. We are examining every possibility, including a doubling of defense spending at the maximum.

Regarding optical communications in space, if we obtain cooperation, including from the government, as we anticipate, we think it will fall within the next mid-term plan. We assume that large-scale services will begin from FY2033/3, and we expect to invest and secure funding by then, making a significant contribution to business results. Until then, we will build the foundation while conducting demonstration experiments and also obtaining funding from government agencies.

Q: Regarding the rollout of cybersecurity services, could you tell us how much demand has materialized at present and what your outlook is going forward?

A: We have already rolled out cybersecurity services. We are giving top priority to the government first, then considering how to proceed with the 257 critical-infrastructure operators in connection with the Active Cyber Defense (ACD) Act, followed by large enterprises and globally operating companies other than those 257, and then small and medium-sized enterprises. We are currently making preparations to support globally operating companies, aiming to be able to execute everything from April 2027.

Questioner C

Q: If AI is adopted as domestic defense equipment, will NEC's business opportunities expand?

A: At many sites, decisions have not yet been made on how actively AI may be used. NEC is working on demonstrations of what would happen if AI were actually utilized, in a simulated manner, and we have a structure in place to respond immediately if the government decides that AI may be actively used. In addition, in areas such as telecommunications we actively use AI in development, and we want to share the insights gained from that usage with the defense field as well, so as to engage with AI ahead of the wider world. We believe the use of AI will certainly expand, but whether information leaks externally when AI is developed is the leading concern for companies in the defense industry. We are working with NEC Central Research Lab to examine ways of using AI that will not cause problems. If that becomes possible, the defense industry will be able to use AI with confidence, and we believe the Ministry of Defense will be able to use it as well.

Q: For the telecom business, could you tell us how you will approach risk on the profit side, that is, whether you will accept a temporary decline in profit and push into growth, or proceed with business development gradually?

A: First, we are confident that, even without forcing an aggressive approach, the profit margin will improve over the Mid-Term Management Plan 2030 period, even though revenue will remain flat. On that basis, we will shift from the hardware business to the software business, that is, focus on

higher-margin areas. Our plan is to grow profit substantially even though revenue will not grow that much. On the offensive side, since software such as vRAN and mobile core has very high affinity with AI, we will create new value.

Questioner D

Q: According to the presentation materials, the contract with Australia initially covers 3 ships, but I understand the overall program involves around 11 ships. Will the remaining eight ships be built domestically? If they are built overseas, what impact will that have on NEC's business? Will you bring NEC's products overseas?

A: As far as we currently hear from the Ministry of Defense, the three ships will be built domestically from the standpoint of technology transfer. What follows is undecided, but ultimately we think construction will take place at Australian ports. The form of NEC's involvement at that point is undecided.

Questioner E

Q: You said the telecom business will enter a growth-oriented phase while raising profit margins going forward. Could you explain your strategy by region and by carrier?

A: Domestically, we will expand the business by making the most of our track record to date. Overseas, we will expand through the joint venture OREX SAI, and we have also begun a know-how business that provides global vendors and countries with the technologies and know-how we have cultivated in Japan. The know-how business in particular has high profit margins, and if we can broaden the target countries and customers, it can contribute to profit. We cannot give details about specific customers, but the know-how business is not for carriers; it is for vendors like ourselves. We have already launched it for countries and companies that deploy products made in Japan. As this increases, NEC's business can also expand. We are currently advancing several proposal activities.

Q: I think the defense business will also require investment, including in AI. Are there developments that will require large investments, and will you need to form alliances? If the rollout into domains other than ICT broadens, are there things NEC itself will need to change?

A: We are already collaborating with two venture capital firms in Europe and the U.S. These are in domains centered on space and defense. In addition, we are actively searching for domains outside defense that are likely to connect with AI, and we are considering investments in possibilities that could be utilized in various ways in defense and space in the future. Furthermore, as part of our efforts in physical AI, we intend to make decisions on alliances and acquisitions in areas adjacent to defense, although not directly related to it at present, or ultimately building things ourselves.

Questioner F

Q: Is the 4–6% revenue-growth plan for Aerospace and National Security (ANS) conservative or ambitious? President Morita commented that he sees revenue of ¥150.0 billion for the submarine systems business over the medium to long term, which implies low-single-digit growth for aerospace and defense. Considering the earlier point that central government procurement could expand to ¥400.0 billion, as well as overseas expansion, it appears there may be scope to exceed this target.

A: We believe that achieving ¥300.0 billion per year within the current Defense Buildup Program

was a fairly high bar. We will not know until the next program comes out, but assuming the same 2% of GDP as this time, there is also talk of using 10–20% of it for the economic security domain, outside of defense. In that scenario, it would be difficult to keep ¥300.0 billion in the same way, but for the past two years we have been examining how to maintain it, or to aim for ¥400.0 billion. If 10–20% is used for other economic security domains, we will aim to win projects in areas such as submarine cables, telecommunications, and cybersecurity. Note that the overseas portion is not included in Mid-Term Management Plan 2030 and will be additional upside.