

## Network Infrastructures Business Webinar Briefing Q&A

NEC Networks & System Integration Corporation

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### Questions and Answers

#### Questioner A

Q: Regarding the impact of lowered cellphone fees, you said that it would not be a risk but an opportunity. I suspect that it will generally have a negative impact. Tell us how you will reap a benefit from it.

A: It is anticipated that carriers will work to increase the efficiency of maintenance and operation costs after the reduction of fees while the construction of telecommunications infrastructure will be as planned. Possible actions include the introduction of automation to reduce expenses and the concentration of outsourcing in corporate partners capable of efficient operations. In this, we believe there will be an opportunity to grow our business by leveraging our understanding of their business, our ability to provide systems and the structure of our operations.

#### Questioner B

Q: You mentioned that the next medium-term management plan would aim to develop businesses of between 30 and 40 billion yen in priority areas. Am I right to understand that your goal is to increase net sales by 30 to 40 billion yen? What impact will this have on profitability?

A: We will strive to boost sales in priority areas. However, sales will fall in some existing areas. We will take both into account in the development of a business plan. Regarding profitability, we believe that we can improve the sales mix by increasing the percentage of DX-related businesses in place of the construction businesses.

Q: I feel that you will have more opportunities to work with NEC in businesses related to the Super City concept. What is your thinking on this?

A: We are increasing our collaboration in the field of social and public infrastructure field, including local 5G networks, through discussions built upon the idea that it is vital for our operations to benefit both companies. We believe that NEC's knowledge and expertise will be utilized broadly in the active use of AI and other DX technologies.

#### Questioner C

Q: Will KNSI not be engaging in businesses for companies other than KDDI? Do you have an idea that the local 5G, DX utilization and other businesses will be run by KNSI?

A: KNSI is a company doing business exclusively for KDDI. We believe that it will engage in joint projects involving KDDI and SoftBank, but nothing else is planned. We will push ahead with utilization of DX in the context of increasing KDDI's business efficiency.

#### Questioner D

Q: It is said that for the introduction of offshore wind power generation and other renewable energy power generation it is necessary to strengthen the connection to the power grid. Today, media are reporting about a policy for the strengthening of transmission networks using submarine cables. I suspect that constructors affiliated with wire companies will also be engaging in installation in this sector. Will this be a business opportunity for NESIC enabling you to leverage your knowledge in the submarine network field?

A: As you said, we think that there is an opportunity for us to utilize our know-how in the marine business in the area of offshore wind power generation. We are working to analyze this market and operations. We are paying attention to it as, in addition to cable installation, we may be able to provide monitoring network and many other services.

#### Questioner E

Q: You explained that you would expand the scale of business by 30 billion yen in priority areas in the medium-term future while at the same time expected some decreases in existing businesses. I feel that fire fighting, disaster prevention and other businesses will stay strong. What businesses do you expect to shrink?

A: One example is that the replacement of CATV cable with fiber-optic cable is approaching a final stage. We are considering moving into the area of utilization, but I think that the infrastructure business related to this will peak out. We also estimate that the infrastructure business related to broadcasting will be weak due to the online distribution of content. We need to identify the areas where business will diminish and the impact of this.

Q: Is there any risk that the collaboration with NEC will negatively impact other businesses?

A: None. As an independent company, we will run our business to make sure that there will be no such impact.

#### Questioner F

Q: You said that you would increase the number of 5G engineers to four times the current number. According to your plan, how much will the entire network infrastructure business staff grow?

A: At the moment, we are unable to give you specific figures for the staffing plan for the next three to four years. Basically, the key point will be internal education to develop engineers. We recruit approximately 50 new engineers each year and also hire mid-career and experienced personnel. In addition, we will provide transitional education to existing employees to secure the necessary number of engineers.

After the ubiquitization of local 5G and other technologies, price competition may intensify. We believe it is important to not only increase engineers but also streamline processes so they can be done by a smaller number of engineers. We aspire to employ around 400 5G-

related engineers companywide.

Questioner G

Q: Currently, SoftBank is planning to operate a business under the private 5G concept. NTT DOCOMO and KDDI may follow suit. How do you, NESIC, view this move in terms of business opportunities and other aspects?

A: The services that will eventually be offered by carriers to end users will be vital. So as for our business opportunities regarding private 5G, a collaborative business model with carriers in the service area is a possibility.

In terms of its impact on our local 5G business, we understand that it is difficult for carriers to construct new base stations for the purpose of providing private 5G services for profitability reasons. In other words, we suspect their basic position will be to operate private 5G services within areas covered by active 5G base stations. From this perspective, we believe that our local 5G business will have advantages in some domains.

Questioner H

Q: From your perspective, what progress have your principle customers made in core network virtualization? As more and more core networks are virtualized, the hardware unit price will fall. Companies are engaging in system integration (SI) mainly for control by software. Will the dropping unit price impact profitability or the unit price of your SI business?

A: We believe that the virtualization of core networks is still underdeveloped. Basically, we are not engaged in the sale of goods, so it will have little direct impact and it will not affect the profitability or the unit price of our SI business. Rather, virtualization will provide an opportunity for the growth of our business, since we are capable of providing support based on our deep knowledge of carriers' businesses.

Questioner I

Q: In your response to the earlier question about the impact of the carriers lowering their cellphone fees, you said that construction of telecommunication infrastructure would be as planned. Does this mean that it will increase as planned, decrease as planned or stay flat as planned?

A: We believe that it will increase as planned. Individual carriers have 5G base station construction targets that they promised the Ministry of Internal Affairs and Communications. We hear that they are ahead of their construction schedule. Therefore, we believe that the reinforcement of networks supporting these base stations will increase in proportion to the base stations.

Q: Have there already been price reduction requests from carriers regarding maintenance? Or are they what you anticipate? Regarding this, what companies will be your competitors?

A: The move towards the reduction of maintenance service charges is still a matter of speculation. However, we feel that it is gradually becoming more likely. Competitors will

include the communications constructors and system integrators in field service and network system integrators in the operations within centers. In the future, more and more systems will be open. Then, our advantages in our ability to efficiently provide multi-vendor services will be fully displayed in more extensive areas.

Questioner J

Q: On one hand, we can imagine that NESIC would have an advantage in local 5G services because of its two facets of network construction and the provision of solutions. On the other hand, solution providers may contract network constructors. How will you operate in this business to ensure an advantage?

A: 5G is classified as a radio technology. When constructing a network, highly technical skills are necessary to apply for a license, deal with radio wave interference and coordinate with neighboring operators. With our proven skills and track record, we are confident that we have a competitive edge.

In the solutions business, we will target the markets we are strong in. In the network infrastructure business, targets include local governments and CATV operators, for example. In the digital solution business, we will focus on utilization in offices and on providing solutions in the domain of work style innovation. In other domains where special business expertise is needed, such as factory automation and remote medicine, we believe we will need to operate businesses in collaboration with system integrators and system companies with technical knowledge in these fields.

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