

**Q&A at IR Briefing for Financial Results for the First Quarter
of Fiscal Year Ending March 31, 2022**

July 29, 2021

NEC Networks & System Integration Corporation

Questioner A

Q: Is the DX business more profitable than traditional businesses? Quantitatively, could you explain the status of the business?

A: In the first quarter of the current year, the amount of DX-related orders received came to a little bit less than 5 billion yen on a company-wide basis, including approximately 3 billion yen from the digital solutions business (hereinafter "DSL"). The profitability of the DX business is higher than the company-wide average. We are expecting to achieve a gross profit ratio of nearly 30% in ordinary projects, excluding strategic projects in particular.

Q: Is there a shortage of consulting staff members who can deal with DX at the present time? Also, what are your advantages over competitors?

A: As shown in the presented example, the number of administrative staff members engaged in consulting is still about 10 and the service is implemented on a small scale. We will strengthen it, going forward. We use our services thoroughly and provide consulting services based on the results we have accomplished through these implementations, including information gained about what went wrong. These proposals that we offer based on our experience work to our advantage because our customers empathize with them.

Q: Regarding the potential of the DX business, I think that the number of implementations and the number of services you can provide will lead to growth going forward. What are your thoughts?

A: The market has a lot of potential. So, as you pointed out, having a lineup of services is important. In addition, one strength that we possess is the ability to proactively launch new services without worries because we do not engage in the development of our own products or services. Therefore, we have confidence in the lineup of SaaS-related services. Further, we will maintain good relationships with startups by taking advantage of U.S.-stationed members to cultivate new services. We cannot implement services as swiftly as expected if we implement them only ourselves. Therefore, we have been focusing our efforts on our own implementation as well as joint creation and implementation with customers and partners, the results of which can be applied to other projects.

Q: You are aiming to increase DX-related orders from 13 billion yen in the previous year to 30 billion yen in the current year. Is it possible to expand orders at this pace going forward?

A: Yes, we expect high growth in DX-related orders. Our strategy is based on the idea of making DX a starting point and achieving the growth of overall businesses in a hybrid style including SI business, as well as DX.

Questioner B

Q: You explained that the amount of orders received increased approximately 6.5 billion yen, not inclusive of those due to special factors such as GIGA school projects and the deconsolidation of an affiliate. Please break down the increase for us.

A: On a segment-by-segment basis, in DSL, there was a decrease of 6.0 billion yen due to special factors, including a decrease of 1.5 billion yen due to the deconsolidation of an affiliate and a decrease of 4.5 billion yen in GIGA school projects in reaction to orders received in the first quarter of the previous year. Orders received increased approximately 2.5 billion yen due to other factors. These factors included an increase of approximately 1.0 billion yen related to DX and an increase of approximately 1.0 billion yen recorded by subsidiaries, such as orders received for contact center operations regarding vaccination programs.

In the Network Infrastructures (NWI) business, there was a decrease of approximately 3.0 billion yen in reaction to large-scale orders received for the submarine seismometer system in the first quarter of the previous year, which was more than offset by an increase of 3.0 to 4.0 billion yen in orders received for the telecommunication carrier business and an increase of approximately 1.0 billion yen for social and public infrastructure.

In the Engineering and Support Services business (ESS), there was a special factor-related decrease of 1.5 billion yen in GIGA School projects in reaction to orders received in the first quarter of the previous year. Even so, there was progress in the airport project which had been suspended in the previous year, and orders related to other construction work in Japan including those for roads increased.

Q: Your analysis showed a positive impact of about 1.4 billion yen due to profitability improvement. What initiatives contributed to this?

A: Our business capabilities improved significantly in the previous year thanks to efficiency improvements. We are working to improve profitability in the current year with a focus on incorporating added value through the provision of DX-based services and other services. In addition, we are working internally to increase awareness of profitability. For example, because we made profits one of the priority evaluation indicators, sales departments, which traditionally paid attention to the amount of orders received, began to acquire orders while keeping profitability in mind. We think that change in their way of thinking is

also having a positive impact.

Questioner C

Q: What is the change in the percentage of DSL services?

A: Sales from services remained almost flat due to the impact of the deconsolidation of an affiliate. Excluding this factor, they rose from 51% for the first quarter of the previous year to 57% in the first quarter of the current year.

Q: It appears that there was a significant improvement in the profitability of DSL and increased profitability in the SI business. Could you explain more about the factors that contributed to the improved profitability? Also, what are your views on its consistency?

A: As you pointed out, improvements in the profitability of the SI business contributed to the improved profitability, as well as the impact of an increase in the service ratio. As shown in today's presentation, we shared our expertise, even including the failures we experienced internally, with our consulting customers. This approach encouraged customers to strongly empathize with our initiatives and increased the number of projects for which we received orders without competition. In other words, the increase in the profitability reflects the progress in the improvement of sales mix, including the efforts to incorporate added value. This is the direction we wish to move in according to our strategies. So we will continue this approach.

Q: You revised the earnings forecasts upward for the first half while at the same time leaving the full-year forecast unchanged. You explained that there would be uncertain factors in the second half in conjunction with the COVID-19 pandemic and the shortage of semiconductors. Am I correct in understanding that these risks still exist and have no impact at this point in time?

A. Your understanding is correct. They have not surfaced yet. Still, we believe they are risks that may be realized, and we must make decisions regarding them at some point in the future.

Questioner D

Q: What is the current status of the NWI segment in terms of the services it provides to Rakuten Mobile and KDDI?

A: We have achieved significant growth in the orders received from Rakuten Mobile, largely aided by service-oriented business deals in addition to conventional SI deals including on-the-spot physical adjustment work at base station facilities. While some of the orders received during the first quarter are related to one-time deals for the quarter alone, we expect to achieve continued growth of orders to be received going forward on the strength of the good business partnerships established with Rakuten Mobile.

Meanwhile, there has been consistent growth in the business of K&N System Integrations Corporation, a joint venture company established with KDDI. While we believe that we have acquired a certain market share that we expected in the base station construction business, we also aim to grow the network architecture business and other business areas with greater added value.

Q: When do you expect to see a peak in investment in 5G technology?

A: It will probably still be a while before we reach the peak. We expect that there will be significant growth in 5G investment when services using 5G technology begin to take off, aided by the introduction of local 5G services.

Q: Some companies continue to enable employees to work from home, while others want staff back in the office. Which model do you think would be more beneficial for NESIC?

A: We believe that both models would be beneficial for us in terms of our business. We expect that our hybrid work model will be expanded, combining the benefits of each model. We believe that the concept of an office, that the office's significance as a workplace, must change, given the argument that working in an office where people are able to have in-person discussions would be more beneficial than remote working when it comes to innovation. Our goal is to continue to leverage our business experience to develop and enhance our business proposals.

Questioner E

Q: The Company expects the profitability of the second quarter (2Q) to be more or less in line with the previous year. Given the recovery in 1Q and the continuing improvement expected in the coming months, I think your 2Q estimate is a little too conservative. Why do you estimate that your 2Q profitability will remain unchanged year on year?

A: The reasons for our 2Q profitability forecast include a reactionary plunge in giga-school project sales (- ¥6.0 billion), higher expenses for future growth (+ ¥0.5-0.6 billion), and the risk of semiconductor supply shortages. We think it will be challenging to maintain the pace of the preceding quarter in the recovery of profitability in 2Q because the profitability recovery in 1Q was exceptionally strong. Our goal is to continue to improve profitability, with the assumption that the forecast is the bottom.

Q: Please tell us about any current developments regarding your order intake.

A: As far as private-sector demand is concerned, regular IT investment demand remained stagnant through April. It appears that, at present, manufacturing sector demand has begun recovering. Demand from the retail and service sectors remain weak now, but they are expected to begin recovering in coming months. In the NWI segment, we will

continue to expand sales as we enjoyed robust sales for telecom carriers in 1Q. In the ESS segment, demand from airport facilities and other public works projects remained weak last year but is starting to recover this year. Overall, the business environment appears to be recovering in terms of order intakes.

Q: I understand that you have expanded DX business to a municipal government. What is the size of these deals? Do you think it will be possible for the Company to expand this business to other local municipalities?

A: The deal is approximately ¥1.5 billion. This DX deal is one of the most sophisticated municipal projects, proposing a new multicloud work style leveraging paperless digital technology and telecommuting. We believe that more municipalities will adopt policies encouraging this new workstyle across the country in coming years. Given this situation, we are hoping to grow and expand this business to other municipalities.

Q: Do you expect that the municipal DX business will be less profitable than other DX deals with private sector companies?

A: Municipal contracts are usually subject to public bidding. Sometimes, we engage in municipal business for a strategic reason. Our goal for municipal projects is to achieve profitability that is as high as with private sector companies.

Questioner F

Q: What is the reason for the ¥0.4 billion improvement expected in intercompany eliminations for the forecast of the first half of the year?

A: These intercompany eliminations will be related to administrative staff reforms as efforts are currently underway using DX technologies.

Q: My projection is that you will achieve an improvement of your sales mix in 2Q with the absence of the giga-school projects and mega solar deals alone. At the same time, you expect that 2Q profitability will remain unchanged year on year. Is this because you expect some significant negative factor to influence business?

A: No, we do not. We expect no significant event to occur that will negatively affect our business. While there are some uncertainties including semiconductor supply shortages, our goal is to continue to grow assuming that the 2Q forecast is the bottom-end of what we can achieve.