

Q&A at Small Group Meetings on Medium-Term Management Plan *Shift up 2024*

May 30 & June 9, 2022

NEC Networks & System Integration Corporation

<Common to all segments>

Q: With regard to the key businesses in individual segments, what are their current sizes?

What are their respective target sizes you will aim to achieve and what growth rates are targeted during the period of the medium-term management plan?

A: The DX Solutions (DXS) Business has two key domains. One is data utilization and recurring, and the other is expansion of markets served. For these domains, we will aim for net sales of 30 billion yen and 10 billion yen, respectively, or total net sales of 40 billion yen, for the fiscal year ending March 31, 2025. For the previous fiscal year ended March 31, 2022, these two domains achieved approximate net sales of 15 billion. This means that we are aim to more than double this figure.

For the Network Solutions (NWS) Business, we set a goal of increasing its net sales by 15 billion yen during the period from the previous fiscal year to the fiscal year ending March 31, 2025. Multi-connectivity centered on local 5G and social infrastructure have nearly 50:50 shares. For the carrier business, we have no plan to attain any major growth. While we will work to expand operation services, investments in 5G will peak during the period of the medium-term management plan.

For the Environmental & Social Solutions (ESS) Business, we will increase net sales in the digital town business to 20 billion yen for the fiscal year ending March 31, 2025. As for actions towards green society, that consists of the demand market and the supply market, we will grow this business to another 20 billion yen. We aim to expand these new businesses from around 2.5 billion yen in the previous fiscal year to 40 billion yen in total. **Corrected a figure.*

Q: What are your targets in separate segments for the ratio between systems integration / construction and services?

A: We do not simply aim to shift to a service model. We are striving for hybrid business expansion. This means that we will build recurring relationships with customers through services and that in this process we will expand both the systems integration / construction business and the service business. Therefore, we do not have any target of raising the ratio of services itself. We think that the ratio of services will rise from the traditional low level as the greater scale of the service business expands systems integration / construction.

In DXS, the service ratio is already above 50%. We expect that it will slightly expand to

around 60% in the period of the medium-term management plan. Because DX is a service-centered business, we will bolster it, adding operation and maintenance services.

In NWS, the ratio of services is low at 20% to 30% at present. We will increase problem-solving businesses such as operation services using DX in a bid to raise the ratio to more than 30%.

In ESS, service businesses including maintenance account for around 25%, and basic construction-related businesses make up around 60%. No major change in their business sizes is envisioned in the medium-term management plan. We will seek to win a greater number of high-margin projects such as the introduction of smart solutions to local communities, public DX and environmental solutions, irrespective of the distinction between systems integration and construction and services.

Q: What is your view on profit margin improvement in individual segments? I imagine that two key actions will be to increase cost efficiency and to increase additional value. How will each produce an effect?

A: In DXS, we will continue our cost-cutting efforts. But we will improve profitability, mainly introducing new software-as-a-service (SaaS) and other solutions from overseas ahead of the competition and combining them with our services to create our original DX services with high margins. In addition, we will replace our conventional labor-intensive business model of product systems integration with a common platform to move to a business that will increase both size and profitability.

In NWS, profit margins surged in the previous fiscal year and earlier. This was due mainly to internal efforts to strengthen project management. In this manner, it will be difficult to attain massive additional improvements. In the period of the medium-term management plan, we will try to increase profitability by shifting to high value-added projects with a focus of solving customers' problems.

In ESS, we will build more sophisticated foundations for maintenance and construction with the use of DX, aiming to improve the profitability of basic projects. In addition, we will aim to earn sales of 40 billion yen through the digital town business and the actions towards green society. These domains are expected to produce higher profitability. We will work on them to improve our profit margin.

<DXS Business>

Q: You explain that you will strengthen consulting under the current medium-term management plan. I understand that you proposed improvements suited to individual customers and provided solutions. What is the difference between your conventional actions and the consulting that you will address?

A: In the past, our business evolved and expanded from construction and replacement of communications infrastructure to workstyle innovation. However, our past business focused on responding to customers' apparent needs. Going forward, we will use big data to identify customers' issues before they surface, along with offer proposals. We will step up the business, always partnering with customers. We will increase consulting on how to serve customers by means of DX. We will be proactive in approaching customers.

Know-how in using digital technologies was accumulated in line with the expansion of the DX business. We aspire to change from past proposing activities with a focus on technologies into proposals from three problem-solving perspectives, namely CX (corporate transformation), BX (business transformation) and GX (green transformation). The medium-term management plan reflects this notion.

Q: You will also be focusing on smart factory in the current medium-term management plan. I imagine that NESIC's strength will be obscure in this and that it will thus differ from workstyle innovation, in which you can differentiate yourselves through self-implementation. In what areas do you have strength and where can you achieve differentiation? Are there any sectors within the manufacturing sector in which you have particular strength?

A: We have business relationships with a large number of manufacturers. We hear their needs for changing workstyles on the shop floor. In the past, we actually won orders from other companies engaging mainly in consulting, since we had an understanding about customers' business processes and knowledge on practical operations. It is sometimes said that the advent of cloud computing and the need to connect to external networks has democratized information and communication technologies (ICTs). For the purpose of differentiation, we will make good use of this cloud computing and combine our capacity to provide secure ICTs with our expertise in process innovation. Apart from workstyle innovation on the shop floor, there is demand for supply chain management (SCM) systems for receiving and placing orders and other functions in the manufacturing industry. Factories have large site areas. Taking advantage of this, we will respond to demand for carbon neutrality.

Within the manufacturing industry, we currently serve a relatively large number of customers in the processing sector. We will work to increase the number of customers in other sectors through partnerships and other measures.

Q: I think that the DXS business includes not only priority areas but also existing businesses related to LAN, WAN, voice and others and subsidiaries' businesses. What is your view on these for the period of the medium-term management plan?

A: We expect sales of existing businesses, including LAN, WAN and voice, to shrink from approximately 60 billion yen in the previous fiscal year to around 50 billion yen for the fiscal year ending March 31, 2025. That reflects consideration of the impact of the shift to service businesses and falling unit prices.

On the other hand, we project that sales of subsidiaries' businesses will grow from around 30 billion yen in the previous fiscal year to approximately 35 billion yen. Synergy with the Q&A Group is advancing. We contract with it to perform helpdesk and other functions at the time of conducting a spiral-type business. That way, we will be able to grow together. Nichiwa plays a function as a sales company. We will expand its operation from Hyogo Prefecture, where it is strong, to neighboring regions and from computer-centered business to voice-related domains.

Q: Amid growing concern about inflation, what is your forecast of its impact on ICT investments in the corporate sector?

A: At the moment, we are receiving increasing inquiries on DX. There are strong needs, particularly for security-related foundations essential to SaaS. In fact, we are unable to respond swiftly because of the shortage of semiconductors and materials.

However, it is quite possible that customers may take a prudent attitude towards investment. We will pay attention, rather than being optimistic.

Q: The security business is of growing significance. What is the current size of NESIC's security business? And what is your target size?

A: We have set a target of around 10 billion yen in net sales for the security business in the DXS segment for the fiscal year ending March 31, 2025. This means that we are to increase the figure to around three times the level marked in the previous fiscal year.

Q: In DXS, is the introduction of Symphonict a prerequisite to the industry business and the public business? If it is, will the initial cost be affordable?

A: It is not that we will sell Symphonict itself. We will link the voice service, the security service and others on Symphonict with customers' equipment. In the past, we offered numerous services related to offices and workstyles. We will take a market perspective and expand our business to workstyles in factories and local governments.

<NWS Business>

Q: I understand from the financial forecasts for the fiscal year ending March 31, 2023 that growth will be faster in the second half of the medium-term management plan period. What will drive the acceleration?

A: We do not forecast growth in carrier infrastructure given a peaking of 5G. It is local 5G

and social infrastructure that we expect to grow in the second half. With regard to social infrastructure, we anticipate a full-scale introduction of offshore wind power generation.

Q: Some speculate that 5G facilities for carriers may hit a peak without capital expenditures at the expected level. How will you address that situation?

A: With respect to carriers' investment in 5G facilities, we have the same view that you mentioned. Our plan is therefore based on the assumption that capital investment will peak. Meanwhile, communication traffic is increasing constantly. We expect that carriers will continue investing in strengthening and optimizing optical networks. We will focus on sales efforts in these areas. In addition, after lowering communication charges, carriers are more eager to cut costs. We regard this as a business opportunity. We will work to boost sales in domains including DX for streamlining operations. In addition, the shift to open networks that leads to cost cutting will gather momentum. We will play a leading role in it to maintain the size of our carrier infrastructure business.

Q: What is your assumption for carriers' 5G investments concerning base stations, core networks and other areas at the time of preparing the medium-term management plan?

A: Our base station business is very limited. It accounts for a very small share of total revenue. Most of its business fall under the category of core networks including access. We do not expect that carriers' investment will fall considerably in this category, since we understand that carriers still have a great interest in boosting their capacity.

Q: For example, KDDI said that it would cut its investment from the current fiscal year. Softbank also announced that it would reduce investments by 20% for the next fiscal year. Shouldn't you be thinking about the risk of a massive decline in carriers' investments?

A: We do not deny that our results are partly linked with carriers' investments. However, our business is not confined to actions for capital investments. We also deal with operations and other areas close to carriers' own business. We will work to increase revenue in these areas. We will do so to ensure that the business will not be severely impacted by a slide in capital investment.

Q: What is your service orientation for individual carriers in NWS?

A: For KDDI, we are aware that a joint venture with it, K&N System Integrations Corporation, has an increasing presence in the KDDI Group. At the beginning, base stations were at the heart of our services. We will deal not only with them but also with network operation and maintenance that have traditionally been done internally by customers and with reforms in customers' business processes with the use of our DX

expertise. We will thus expand the range of services.

Our services for Rakuten and Softbank compete with communication constructors in limited areas. We will work on those domains where we have an edge.

Q: Will changes in virtualization and other technologies be helpful or a risk to NESIC?

A: We think that they have both aspects. If we do nothing, they will act as risks. Meanwhile they are opportunities to see new products and service vendors involved. For us, they will also be opportunities of moving to a stronger position through co-creation with these vendors. In the past, there were vendors under the umbrella of carriers. Our position was to implement systems integration for their devices. The shift to open networks means that many different products and services may be involved, and we expect that it could change the business model. For example, systems integrators with business know-how must propose optimal solutions through consulting. We are working hard to develop engineers with expertise in virtualization.

Q: It seems that you think that demand for local 5G is still weak, even though it is a growth driver. What do you think about its growth potential?

A: Local 5G is a network solution with attractive features including a high security level and a high communication speed. However, its high price is an obstacle to demand growth. There are mixed market forecasts. Some show optimism while others pessimism. It is actually difficult to predict. We hope to create markets as a leader in this field. Since it is based on technologies for carriers, its services tend to be bulky. Our engineers in NWS and other segments are working on standardizing them to make it easier to propose them to customers. We believe that the business will expand if the price falls. We will combine the portion we offer with the portion procured from outsiders to stimulate the market as a price leader. We will develop it into a multi-connectivity business in the NWS segment that will earn tens of billions of yen.

Q: You explained that you will move into offshore wind power generation. What is your point of differentiation? I hear that pricing is challenging in the area of construction. Does it have any impact on you?

A: We have strength in cable landing and prior seafloor surveys cultivated in the domain of submarine communication. It is unique in the sense that competition is limited. That is why we are not involved in the price war. Rather, we receive a large number of inquiries. We will combine it with DX and IT to expand the business.

<ESS Business>

Q: The slide on promotion of the digital town business in the ESS Business mentioned

onshore fish farming as an example of industrial development and business creation.

How is it positioned in the strategy centering on digital solutions?

A: We aim to develop industries through innovation based on the use of digital technologies in operations and industries where human labor has traditionally played a central role. We ourselves have no know-how in onshore fish farming that we are currently working on. In collaboration with a partner who is strong in this area, we will use digital technologies in which we excel to massively increase productivity and to generate innovation in this industry.

Q: Would you give us any specific examples of the actions towards a Green Society?

A: An example of power conservation measures in the demand market is that we are conducting a demonstration trial of liquid immersion-cooled small data centers, an area in which future demand is expected. It is showing some positive effect on power consumption efficiency. On the basis of the idea that it may be applied to large data centers, we are thinking of conducting a trial on them. We will also meet the needs for energy conservation for stadiums, for instance with lighting from Musco Sports Lighting, LLC. For buildings, our smart building solutions using our original building management system are promising.

For the supply market, we have mainly provided systems integration and construction for equipment. Going forward, we will step up managed services for microgrids and other areas in collaboration with local governments and regional electric power companies.

Q: What is behind the target of a greater increase in the profit margin for the ESS segment than for the other two segments? What factors are responsible for this other than the remediation of unprofitability in Myanmar in the previous fiscal year?

A: We will boost profitability by increasing the productivity of construction in the existing business with the use of DX and by expanding services in urban development, environmental and other high value-added areas.

Q: In connection with ESS, you said that you had signed a comprehensive collaboration agreement with a local government seeking zero carbon. What will your future actions be after this move?

A: It is a comprehensive agreement with the municipal government of Sukumo City in Kochi Prefecture. We will produce positive results from it as a leading model of energy management and local production for local consumption and later introduce it to customers across the country.

<Companywide>

Q: You explained that DX orders you received increased from 6 billion yen in the fiscal year ended March 31, 2020 to 27.5 billion yen in the fiscal year ended March 31, 2022. What is the target on DX orders under the current medium-term management plan?

A: Under the plan, we will strive to about double companywide DX orders in the fiscal year ending March 31, 2025.

Q: Will Symphonict sales be recorded in the DXS segment?

A: Symphonict is our DX brand. We will push ahead with the use of DX across the group and it is concerned with all segments.

Q: How will the Symphonict platform be perceived to customers? Is it something they will mean to introduce? Or is it something that will come to them together with Zoom or other services? Will you advertise the Symphonict platform emphatically in the process of strengthening consulting services?

A: The common platform is one of the differentiating factors of Symphonic as a brand for DX services. At the time of consulting, we will stress in our consulting that the services will be offered on this platform. However, we gain some customers through services and some customers have little knowledge about the Symphonict platform. We hope to expand the business in both aspects.

Q: What is your stance on investment during the period of the medium-term management plan? Investments in business model innovations seem to be costly in the short term. Have they already been completed under the past medium-term management plan?

A: Under the previous medium-term management plan, we invested 5 to 6 billion yen per year in growth. Given that there are new areas to be addressed, we will continue to invest actively. We have earmarked 30 billion yen for growth under the current medium-term management plan. We will focus particularly on investing in DX, consulting and other personnel. We will also invest in strengthening demonstration trials, including replacing internal ICT platforms and relocating to a new head office building.

Q: You explained that the global business will expand in earnest under the next medium-term management plan. What is your thinking behind this?

A: We had an aspiration to re-expand the global business for accelerating our growth, and we regarded the previous medium-term management plan as a period for preparation. However, the pandemic prevented us from making sufficient preparations, and we will again make preparations under the current medium-term management plan.

We will take two approaches for the preparations regarding the global business. One is about the existing project-type business mainly run by local subsidiaries. We will specialize in wireless technologies and other areas where our strengths can be utilized. The other is about the domains for growth, such as DX and cloud computing. In these domains, we are currently developing resources in North America. However, services themselves are borderless. We will prepare for business expansion beyond national boundaries in the future.

Q: The orientation of the new medium-term management plan is somewhat close to that of NEC. What do you think is your desirable distance from NEC?

A: The medium-term management plan is a result of our independent discussion and preparation. We believe that the closeness reflects the fact that the plan has been prepared in view of market needs. The difference between NEC and us lies in the markets in which we specialize. NEC is strong in large mission-critical customers, whereas we excel in small customers for whom a faster response is needed. We see the two companies as thus coexisting.

We believe that our relationship gives us easy access to NEC's outstanding technologies in the case of our introduction of cutting-edge technologies for doing business. We will make active use of it to offer appropriate services to customers.

*This material is a summary of questions and answers exchanged between the Company and sell-side analysts at two meetings held separately on May 30 and June 9. To help readers gain a better understanding, the content has been edited by omitting overlapping questions and rearranging the order of the questions