Business Overview

NEC's Business Model

Social Value Goals under the Mid-term Management Plan 2025

Expand the value we provide to help realize prosperous local societies

- Achieve continued growth while transforming our business model
- Help resolve social issues by providing value beyond existing frameworks

Achievements and Issues to be Addressed under the Mid-term Management Plan 2020

Achievements
- Improved operating profit ratio with measures that included reducing unprofitable projects
- Reviewed and implemented strategies in response to sudden changes in the external environment (COVID-19, etc.)

Issues
- Increase profitability of business through business profitability analysis, followed by improvement measures
- Help resolve social issues by taking on challenges that create new social value

Business Opportunities and Key Measures for the Medium to Long Term

Business Opportunities
- Accelerated digitalization due to lifestyle and workstyle changes
- Increased expectations for ICT to resolve social issues

Transforming Our Business Model

We aim to transform our business model to provide new value to customers and society while also spurring our own business growth. More specifically, we will utilize the know-how gained from promoting our existing packaging business to provide new offerings. As we develop assets in digital government, digital healthcare, city management, public safety and transportation, we are developing mechanisms and systems for these assets. On top of ensuring high quality in a stable manner, we plan to increase speed of delivery, which will increase the value we provide to customers and help raise business profitability.

Public Solutions Business

Achievements and Issues to be Addressed under the Mid-term Management Plan 2020

Achievements
- Increased expectations for ICT to resolve social issues
- Accelerated digitalization due to lifestyle and workstyle changes in the external environment (COVID-19, etc.)

Issues
- Expanding role of ICT in the transformation of social systems
- Expansion of new business areas due to the promotion of digital governments

Business Opportunities
- Expanding Business Domains to Resolve Social Issues
  The COVID-19 pandemic has caused significant changes in the way we conduct business and live our lives. This applies to NEC as well, and we are taking steps to go beyond the conventional boundaries of an ICT vendor and promote co-creation and connection building with customers and business partners. This is part of a move to transform and create further social value.
  To that end, we will stand at the forefront of the various issues gripping Japan, such as rising social security costs and a shrinking labor force, and muster a firm response, leveraging the trust and track record we have built up to date delivering the latest systems in public, medical and local industry fields, as well as our cutting-edge technology. At the same time, we will also work to create services with true value from the consumer’s perspective. In addition, we will utilize our extensive track record and society’s trust in us, as well as our advanced technologies to tackle environmental problems and natural disasters, the latter of which are increasing in intensity and frequency, and help resolve customer and social issues.

Public Infrastructure Business

Achievements and Issues to be Addressed under the Mid-term Management Plan 2020

Achievements
- Exceeded targets put forth for each fiscal year of the Mid-term Management Plan 2020
- Achieved horizontal expansion of technological assets and launched new value creation endeavors in the fields of government, education, broadcasting, and security

Issues
- Increase efforts to reduce unprofitable projects despite such projects being on a downward trend
- Increase efficiency and sustainability

Business Opportunities
- Expanding Business in New ICT Fields
  “Toward a proud society. Toward a proud future.” This is the vision that the Public Infrastructure Business Unit put forth during the formulation of the Mid-term Management Plan 2025. Our goal is to realize a society in which all people can enjoy prosperity. To this end, we will combine NEC’s technologies, products, and solutions and work with partner companies to create new social value. Over the past year, we have embarked on new initiatives.
  These include promoting OPE, NEC’s education cloud service, and digital education that provides one terminal for each person. We are also looking into creating new value in the aviation industry utilizing data linkage. As we continue to build and operate public infrastructure, we will also work to create new value at the same time.
  By taking on this challenge, we will transform the structure of public systems themselves, creating a society that both we and our customers can take pride in.

* OPE: Open Platform for Education

Introducing of ROIC-based Management

The Public Infrastructure Business Unit supports customer operations in sectors such as government offices, broadcast stations, and security by facilitating the stable operation of super mission-critical ICT systems. We are maintaining stable revenue levels and stable operating profit ratios amid high technical demand and several large-scale projects. In a move to increase “quality of management” even further, the Public Infrastructure Business Unit, with its various characteristics, will adopt a pioneering role, taking on ROIC-based management from fiscal 2022. This initiative will involve measures tailored to the characteristics of each business that, instead of only maintaining high profitability, are also intended to increase capital efficiency, thereby improve corporate and business value in a sustainable manner.
NEC’s Business Model

Business Overview

Social Value Goals under the Mid-term Management Plan 2025

Provide value and create new business opportunities that will meet customer and market demand

- Enhance efforts toward DX that will go beyond the boundaries of companies and industries to resolve social issues
- Leverage NEC’s strengths and its partnerships with customers to promote the co-creation of growth businesses

Ramping Up Initiatives in Growth Fields

To respond to market needs in light of the rapid changes taking place in society, we have taken steps to develop solutions and services for customers in the manufacturing, retail/service, and financial industries. Taking this further, we plan to ramp up and expand efforts toward DX that will go beyond the boundaries of companies and industries to resolve social issues.

Looking even further into the future, we are also promoting efforts to help realize a sustainable society. These efforts will not be done on our own. Instead, we will work with our customers and business partners and devise a medium- to long-term plan that utilizes all of our strengths and, when implemented, will result in the co-creation of value.

Achievements and Issues to be Addressed under the Mid-term Management Plan 2020

Achievements

- Developed solutions and services aimed to accelerate DX, and promoted the creation of DX-related offerings
- Established a solid business foundation that can maintain a stable operating profit ratio of 10%

Issues

- Shift to a business structure that is not affected by changes in the macro environment
- Continue to increase profitability

Business Opportunities and Key Measures for the Medium to Long Term

- Increasing Profitability of the SI Services Business
  The system integration services business is at the heart of the Enterprise Business, and we will go forward with plans to implement modeling and create new offerings for it. These measures will improve productivity, quality, and delivery speed; at the same time, we will shift toward the type of business that creates value, boosting profitability as a result. Along with these measures, we will also enhance our efforts to cultivate human resources who specialize in consulting necessary for business and those with a high level of expertise in DX.

- Improving Management Efficiency
  To establish a sustainable profit growth cycle, we will set up and reinforce a system for monitoring business profitability while working to improve the asset efficiency of our business investments by reducing the number of days in our cash conversion cycle along with other efforts. Also, we will continue to invest resources generated through this process in growth businesses to further refine our strengths and raise our competitiveness.

Business Opportunities

- Greater expectations for ICT as a means to solve a variety of social issues, such as environmental problems, decarbonization, and labor shortages
- More new business opportunities and acceleration of ICT use in markets as a result of COVID-19

- Ramping Up Initiatives in Growth Fields

The rise of 5G and the IoT has sped up the digital shift. DX is also accelerating on a new level as the industrial world harnesses it to achieve new business and promote effective management utilizing AI, the IoT, the cloud, and other tools. In consideration of these conditions, we aim to expand business based on the following three pillars.

- Leading the Shift to Open Systems and Promoting the Global 5G Business
  The current telecom carrier market demands a flexible response to a variety of needs, and open and virtual systems are expanding into network domains, driven by IT. Telecom operators are turning toward investing in next-generation communications and DX in the wake of 5G. NEC will take advantage of these market conditions and assume a leading role in the Open RAN market, setting up a system for operations that will allow the Company to leverage mobile telecommunications infrastructure to provide value globally. We will also expand our Global 5G Business, backed by two of NEC’s strengths, wireless technology and system integration.

- Optimizing Overall Management for Domestic Carriers and Expanding Business in Value-added Fields

In addition to our efforts to make solid business contributions that meet customer expectations, we are also working to optimize overall management and expand business in value-added fields. The former is rooted in our track record of supporting commercial networks and takes advantage of our customer engagement, whereas the latter takes advantage of modernized information platforms and other forms of innovation.

- Expanding Business to Support DX in Industrial and Public Sectors

To expand business, we will integrate telecommunications with IT to get a grasp on social changes, and use NEC’s comprehensive capabilities to provide industries with end-to-end solutions centered on local networks and data distribution.

Telesystem Services Business

Social Value Goals under the Mid-term Management Plan 2025

Contribute to the digital transformation of society as a whole by maximizing the communications-related value rooted in 5G

- Promote open systems as a way to expand 5G as a form of social infrastructure
- Maximize value for customers by modernizing carrier operators and providing DX support
- Contribute to the development of DX among industries by integrating networks and IT

Achievements and Issues to be Addressed under the Mid-term Management Plan 2020

Achievements

- Expanded 5G businesses via a full-scale launch of commercial 5G networks with domestic carriers
- Maintained profitability by retaining the top position in telecom-related business
- Developed NEC Smart Connectivity and established a co-creation system

Issues

- Expand footprint and portfolio in software domains (core, RIC, etc.) in order to expand 5G business globally
- Establish a customer profit model using end-to-end solutions in the NEC Smart Connectivity business

Business Opportunities and Key Measures for the Medium to Long Term

- Expansion of global opportunities from the full-scale launch of the 5G market and development of open systems
- Optimization of overall management for domestic carriers and expansion of business in value-added fields
- Expansion of business opportunities to support DX in industrial and public sectors

The rise of 5G and the IoT has sped up the digital shift. DX is also accelerating on a new level as the industrial world harnesses it to acquire new business and promote effective management utilizing AI, the IoT, the cloud, and other tools. In consideration of these conditions, we aim to expand business based on the following three pillars.

Business Opportunities

- Expansion of 5G businesses via a full-scale launch of commercial 5G networks with domestic carriers
- Maintained profitability by retaining the top position in telecom-related business
- Developed NEC Smart Connectivity and established a co-creation system

Achievements

- Improved overall management for domestic carriers and expansion of business in value-added fields
- Expansion of business opportunities to support DX in industrial and public sectors

Network Services Business

Social Value Goals under the Mid-term Management Plan 2025

Contribute to the digital transformation of society as a whole by maximizing the communications-related value rooted in 5G

- Promote open systems as a way to expand 5G as a form of social infrastructure
- Maximize value for customers by modernizing carrier operators and providing DX support
- Contribute to the development of DX among industries by integrating networks and IT

Achievements and Issues to be Addressed under the Mid-term Management Plan 2020

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Global Business

Social Value Goals under the Mid-term Management Plan 2025
Become a true global company through profitable growth

- Become a thought leader through active investments in the growth areas of digital government (DG)/digital finance (DF) and submarine systems
- Transform the Company’s organization, systems, and culture to become one that is truly global

Achievements and Issues to be Addressed under the Mid-term Management Plan 2020

Achievements
- Completed portfolio switch, setting the foundation for profitable growth
- Improved profitability of the Global Business and brought adjusted operating profit into positive figures
- Digitalization in government and finance areas
- Greater demand for submarine cables due to increased global communications traffic

Issues
- Expand DG/DF globally and ramp up optimization of synergies
- Accelerate transformation to a services- and SaaS-based business model

Business Opportunities and Key Measures for the Medium to Long Term

- Digital Governments/Digital Finance—Utilizing Synergies to Accelerate Global Expansion
  We plan to capture the trend toward DX in Nordic and Commonwealth nations, Asia, and Japan and expand into government services, law enforcement, healthcare, aviation, transport, education, and financial fields. To accelerate this expansion, we will leverage NEC’s superior biometrics technology as well as its sales network in each country. We will also utilize synergies—product synergies that involve sharing software assets between three acquired companies to create a shared platform, and cost synergies that take advantage of NEC procurement capabilities and centralized software development resources.

- Submarine Systems—Strengthening Business Execution Capabilities to Respond to Market Expansion
  There is an urgent need to increase transmission capacity stemming from the increase in video content, remote work, and online learning. As a result, there has been a noticeable rise in direct investments in submarine cables, particularly among over-the-top (OTT) service providers. NEC will develop and enhance the functionality of new products that contribute to the expansion of transmission capacity and quality improvement ahead of other companies, aiming to increase its share not only in the Pacific Ocean, where NEC has a high market share, but also in the Indian Ocean and Atlantic Ocean. We will also continue to increase our business execution capabilities, which include production, cable installation, and quality control, in line with the expansion of business scale.

Relationship of Targets and Growth Businesses in FY2021 by Segment

Business Overview

Achievements and Issues to be Addressed under the Mid-term Management Plan 2020

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M&A Accomplishments and Future Direction

M&A accomplishments before FY2011 (≥10B JPY)

<table>
<thead>
<tr>
<th>Year / Amount*2</th>
<th>IRR**</th>
<th>EBITDA Margin</th>
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<tbody>
<tr>
<td>FY2009 430M USD**</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>FY2013 201.7M EUR</td>
<td>1%</td>
<td>5%</td>
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<tr>
<td>FY2014 309M JPY</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>FY2017 756.8M AUD</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>FY2018 626M GBP</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>FY2019 868M JPY</td>
<td>6%</td>
<td>14%</td>
</tr>
<tr>
<td>FY2020 552M EUR</td>
<td>10%</td>
<td>12%</td>
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</tbody>
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Recent M&A accomplishments (≥10B JPY)

<table>
<thead>
<tr>
<th>Year / Amount*2</th>
<th>IRR**</th>
<th>EBITDA Margin</th>
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<tbody>
<tr>
<td>FY2018 475M GBP</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>FY2019 8.0B DKK</td>
<td>12%</td>
<td>13%</td>
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* Other than the above 6 companies, 3 M&As were implemented from FY2005 (CSG, 2012, 227.5M AUD; A123, 2014, 100M USD; Avaloq, 2020, 2.05B CHF).
*2 Year refers to first FY; amount refers to total.
*3 Reference value (a) excludes corporate value; reference value (b) includes corporate value (computed from time of acquisition to present).
*4 430M USD for Netcracker is only for its stock acquisition cost. IRR is computed by including a loan from NEC to NC.