Global Business

Akihiko Kumagai, Senior Executive Vice President
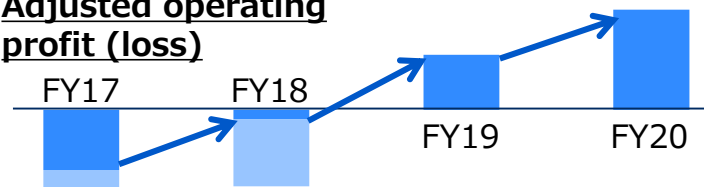
Mid-term Management Plan Target

Profitable Growth
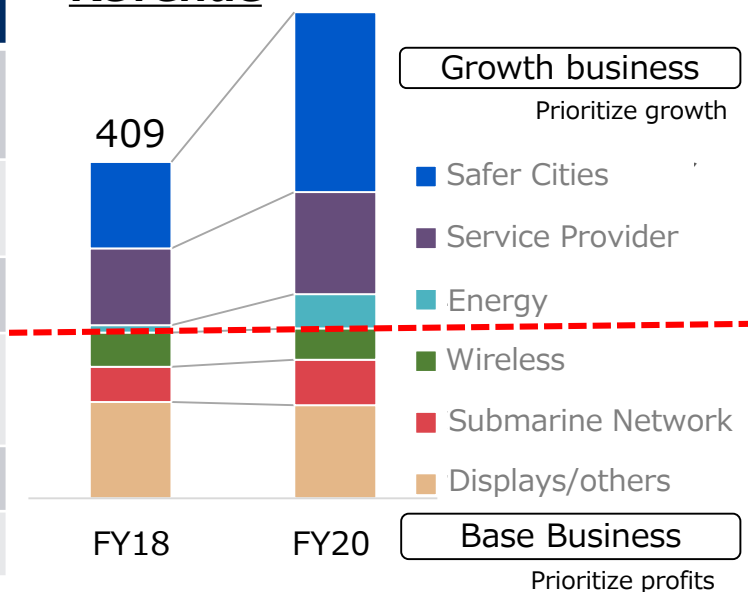
FY2020 Target : Adjusted operating margin 5%

Adjusted operating profit (loss)

FY17   FY18   FY19   FY20

Main business	Main products
Safer Cities	Public safety solutions, Digital government platform
Service Provider	Software services Optical/IP network
Energy	Energy Storage System
Wireless	Mobile backhaul (PASOLINK)
Submarine Network	Submarine cable
Displays	Displays, Projectors

Revenue ¥570-600bn

409

Growth business
Prioritize growth

■ Safer Cities
■ Service Provider
■ Energy
■ Wireless
■ Submarine Network
■ Displays/others

FY18   FY20

Base Business
Prioritize profits

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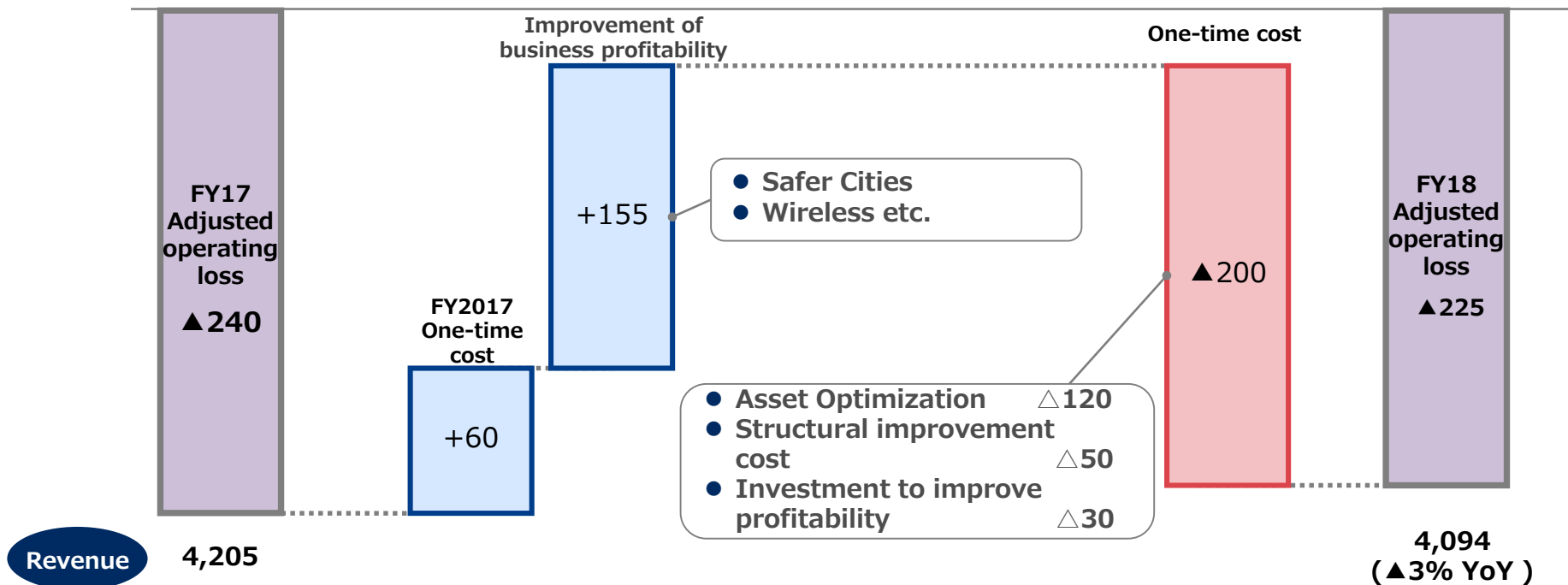
FY2018 Results

■ **Significant improvement in operational profitability excluding one-time cost ; on track for positive profit in FY19**

(¥100mn)

Improvement of business profitability

One-time cost

FY17 Adjusted operating loss

▲240

FY2017 One-time cost

+60

+155

- Safer Cities
- Wireless etc.

▲200

- Asset Optimization △120
- Structural improvement cost △50
- Investment to improve profitability △30

FY18 Adjusted operating loss

▲225

Revenue

4,205

4,094 (▲3% YoY)

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Summary of FY2018

Key Achievements

- **Securing future growth**
  - ・**M&A**   **Acquisition of KMD (Revenue: ¥90bn)**
                        Synergy with NPS (London Metropolitan Police orders)
  - ・**Order increase   +21% YoY**
                        Submarine NW, Services Provider (NetCracker), Energy

- **Improving profitability**
  - ・**Safer Cities: Positive profit achieved**
  - ・**Wireless: On track for positive profit in FY2019**
  - ・**Structural reform/impairment:**
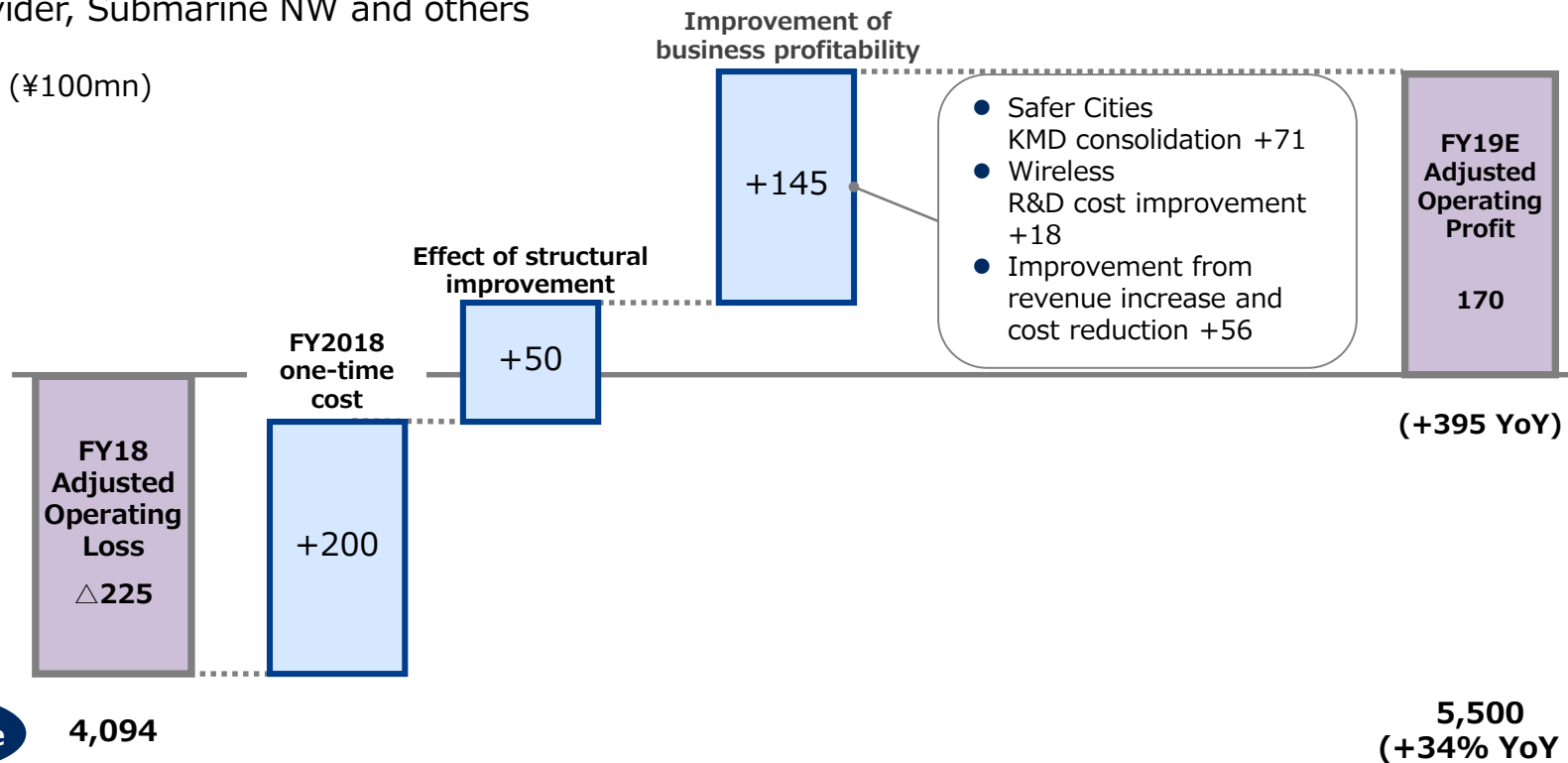   **Annual impact of +¥5bn from FY2019**

Challenge

- **Displays: Intensified competition in North American Market**

- **Energy: Profitability improvement**

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FY2019 Outlook

■ Out of ¥39.5bn profit increase, ¥33.9bn comes from the measures implemented in FY2018

■ Remaining ¥5.6bn to be achieved by top line growth from orders accumulated in 2018 in Service Provider, Submarine NW and others

Unit : (¥100mn)

Improvement of business profitability

+145

- Safer Cities
  KMD consolidation +71
- Wireless
  R&D cost improvement +18
- Improvement from revenue increase and cost reduction +56

FY19E Adjusted Operating Profit

170

Effect of structural improvement

+50

FY2018 one-time cost

+200

(+395 YoY)

FY18 Adjusted Operating Loss

△225

Revenue   4,094

5,500
(+34% YoY)

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FY2019 Focused Initiatives

Measures to improve profitability (+14.5bn)

- **Safer Cities**
  - **· Steady PMI of KMD (consolidation of KMD) ***
  - **· Airport ID Business startup/ increase of service business**

- **Service Provider**
  - **· Sales conversion of large orders received in 2018 (NetCracker OSS/BSS business)**

- **Wireless**
  - **· Continue selective order taking prioritizing profitability**
  - **· Leverage R&D co-development agreement with Ceragon ***

- **Submarine network**
  - **· Profit increase through increased revenue from backlogs built in 2018**
  - **· Productivity growth through increased volume**

- **Energy**
  - **· Improve profitability towards 2020 through partnership strategies**

* The total effects of the measures implemented in FY2018: ¥8.9bn

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To Achieve Mid-term Management Plan

▌ Financial Target (FY2020)

Revenue	¥570bn - ¥600bn
Adjusted Operating Margin	5%

▌ Measures

(1) **Safer Cities Business**
- **Secure growth/profitability through Airport ID Business**
- **Increase synergy with NPS/KMD**
- **Intensive approach to Indian market**

(2) **Service Provider Business**
- **Expand software services business in response to DX demand**
- **Develop foundation of 5G network business**

(3) **Energy Business**
- **Enhanced profitability by reducing costs, shifting to services business, and partnering (Profitability achieved in FY2020)**

DX: Digital transformation

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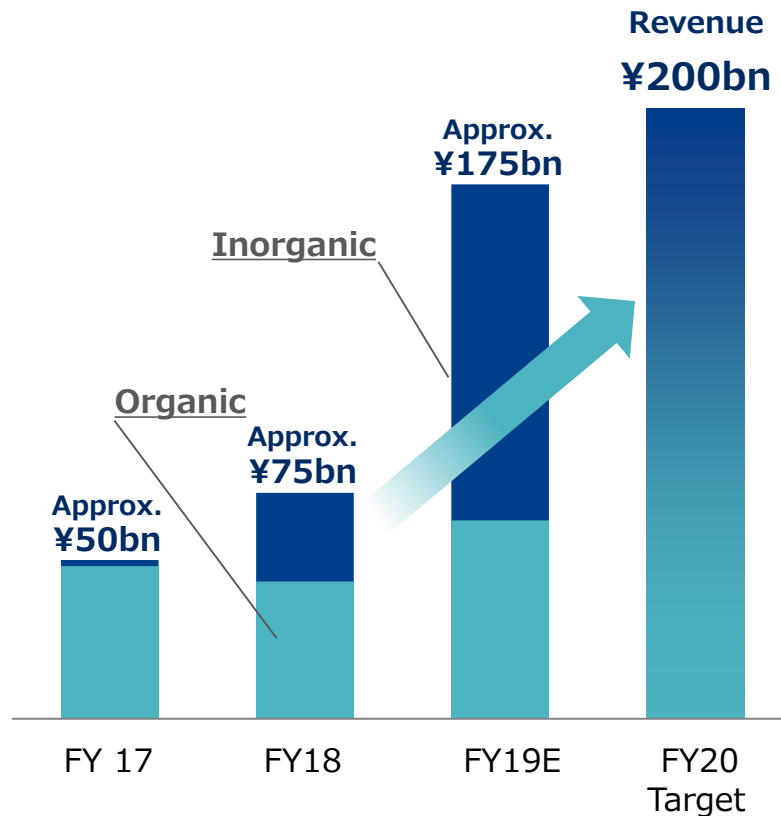
Safer Cities Business Strategy

Revenue Target for FY20: ¥200bn

● Organic

- Secure growth & profitability with Airport ID business and expansion to other industries
- Intensive approach to Indian market

● Inorganic

- Maximize synergy among NPS, KMD & NEC
  - Collaboration in strategic projects
  - Promote additional M&As
 - Cost reduction through utilization of development center in India

Revenue
¥200bn

Approx.
¥175bn

Inorganic

Approx.
¥75bn

Organic

Approx.
¥50bn

FY 17   FY18   FY19E   FY20 Target

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Airport ID Business

▌ Solution focusing on Door to Door CX for travelers (Add value to travelers and airport operators)

▌ Expanding scope of application to other industries (Stadium, Hospitality, etc.)

CX: Customer Experience

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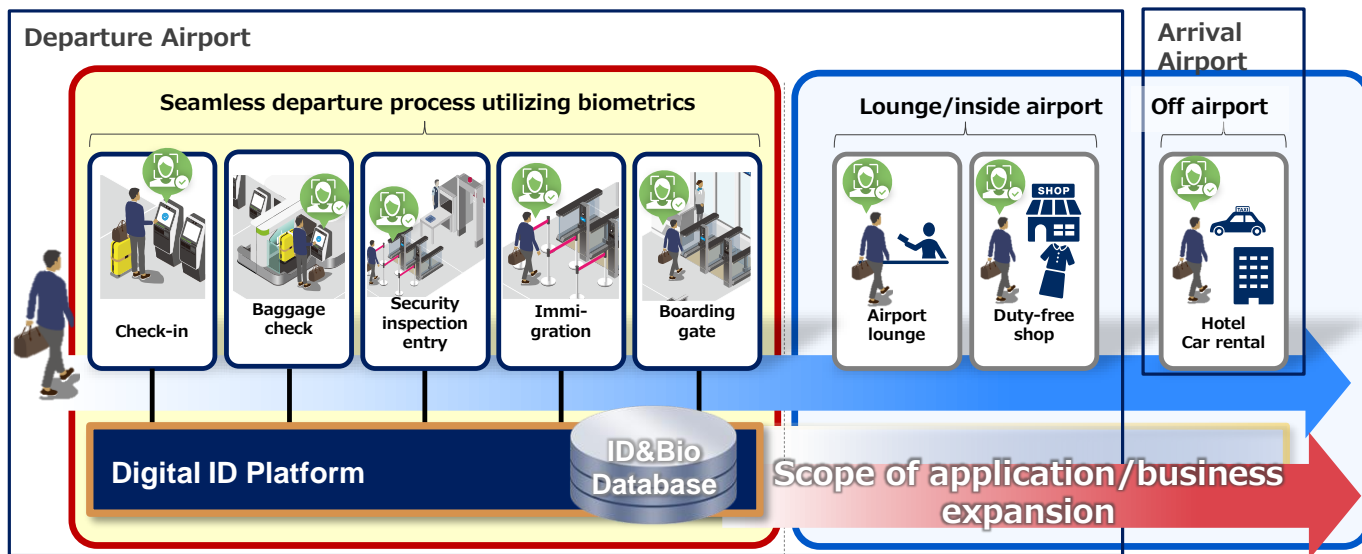
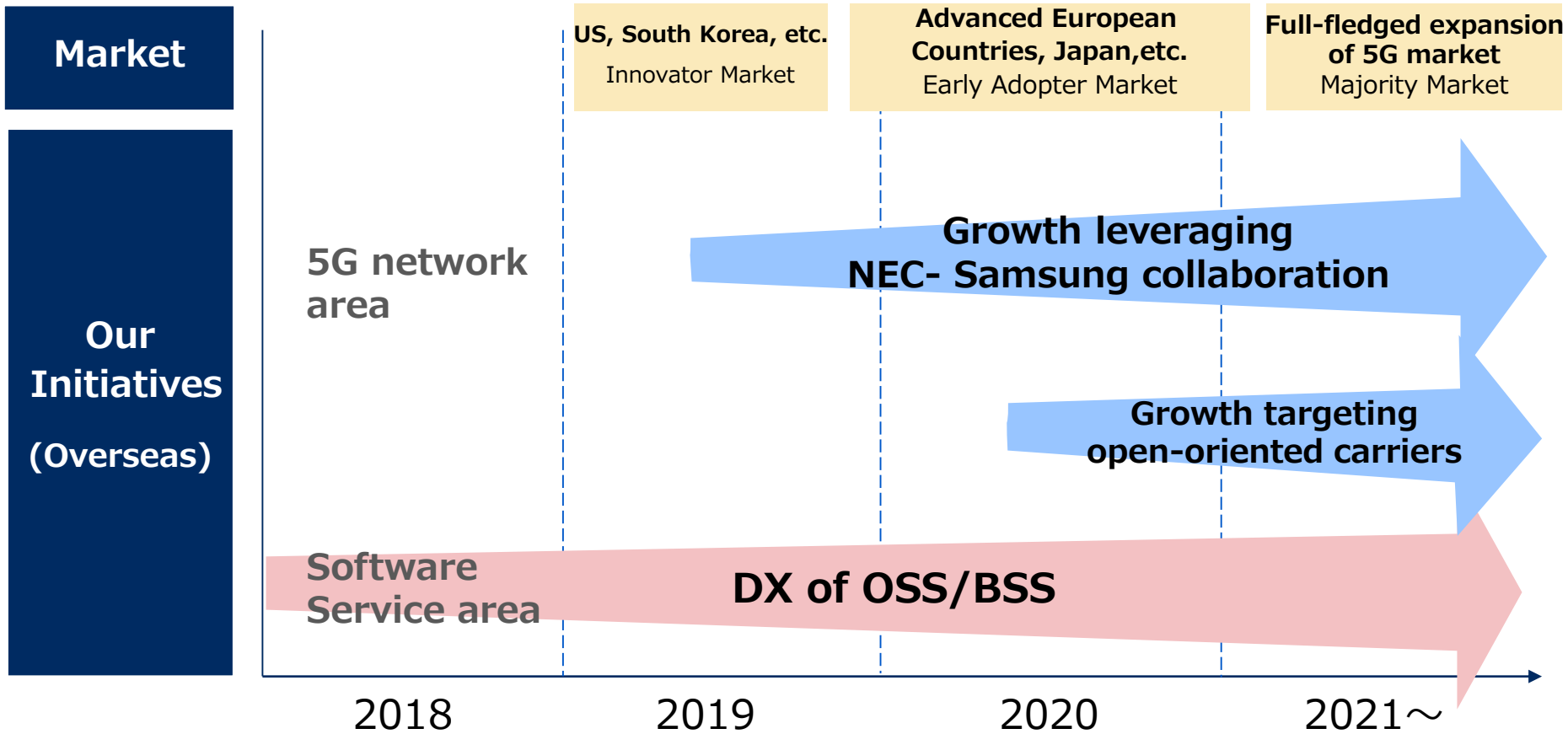## Accelerating software business growth and establishing foundation of 5G network business

- **Software Services**
  - DX-related demand from major telecommunications carriers is strong in preparation for 5G era (large scale orders of OSS/BSS increasing)
  - Double-digit YoY order growth in NetCracker

- **5G Network**
  - Start building business base, leveraging partnership / start building track-record in advanced 5G markets and geopolitically favorable markets
    - Develop business through NEC-Samsung collaboration
    - Develop business at open-oriented carriers, triggered by base station orders from Rakuten (Open vRAN)

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Timeline for 5G Era

Market			
	US, South Korea, etc. Innovator Market	**Advanced European Countries, Japan,etc.** Early Adopter Market	**Full-fledged expansion of 5G market** Majority Market

Our Initiatives

(Overseas)

5G network area

Growth leveraging NEC- Samsung collaboration

Growth targeting open-oriented carriers

Software Service area

DX of OSS/BSS

2018　　　　2019　　　　2020　　　　2021〜

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Energy Business Strategy

Improve profitability through cost reduction and shift to service business while maintaining Global Top 3 position

- **Improve gross margin of core business, Grid Storage System (GSS)**
  - Cost reduction by shifting to multiple sourcing of batteries
  - Formation and selection of high-profit projects by utilizing funds etc.

- **Improve profitability**
  - Expansion of software and services type business
  - Expansion of channel partner network for high-profit products such as ALM and UPS

- **Promote partnerships**
  - Considering partnering for strengthening profitability/competitiveness and market expansion

ALM: Advanced Lithium-ion Module,   UPS: Uninterruptible Power Supply

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Profitable Growth

FY2020 Target : Adjusted operating margin of 5%

To achieve Mid-term Management Plan 2020, accelerating Profitable Growth initiatives in the three businesses

(1) Safer Cities Business
   Launch and horizontal expansion of Airport ID business. Increase synergy with NPS/KMD

(2) Service Provider Business
   Focus on software service business at NetCracker

(3) Energy Business
   Improve profitability by reducing costs, shifting to service business, and partnering (positive profit in FY2020)

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