Network Services Business

Atsuo Kawamura, Executive Vice President
Business Performance from FY2018 to FY2020

- **Core Businesses**
  - 4G base stations/cores
  - Carrier optic/IP transmission devices
  - Network service PF

- **Focus Businesses**
  - Maintenance and operation services
  - 5G
  - Industrial network services

- **Aim to expand the revenue composition of focus businesses to 20% and achieve 7% operating margin**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (¥100mn)</th>
<th>Adjusted Operating Margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY18</td>
<td>4,407</td>
<td></td>
</tr>
<tr>
<td>FY19</td>
<td>4,827</td>
<td>6%</td>
</tr>
<tr>
<td>FY20 (Forecast)</td>
<td>4,800</td>
<td>7%</td>
</tr>
</tbody>
</table>

- **Execution of structural improvement** resulted in temporary deterioration of operating margin
- **Improvement of Core Businesses and Structural Reform** improved operating margin
- **Launch of Focus Businesses** will offset declines in core businesses and maintain revenue / operating margin

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FY2019 Results

- Improvements in core businesses (including one-time large projects) and the effects of structural improvements led to an increase in operating profit

(¥100mn)

<table>
<thead>
<tr>
<th>FY18 Adjusted Operating Profit</th>
<th>+30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses on specific projects executed in FY19</td>
<td>▲60</td>
</tr>
<tr>
<td>Increased demand in core businesses and one-time large projects</td>
<td>+112</td>
</tr>
<tr>
<td>Improved investment efficiency in core businesses</td>
<td>+40</td>
</tr>
<tr>
<td>Increased investment in focus businesses</td>
<td>▲20</td>
</tr>
<tr>
<td>Revenue expansion in focus businesses</td>
<td>+36</td>
</tr>
<tr>
<td>FY18 structural improvement costs/effects</td>
<td></td>
</tr>
<tr>
<td>• Decrease in one-time cost of structural improvement in FY18</td>
<td></td>
</tr>
<tr>
<td>• Profit increase from structural improvements in FY19</td>
<td></td>
</tr>
</tbody>
</table>

- Absence of losses on specific projects executed in FY18

<table>
<thead>
<tr>
<th>FY19 Adjusted Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>306</td>
</tr>
</tbody>
</table>

- Temporary losses
- Core business improvement / One-time large projects
- Structural improvement / Expansion of focus businesses

<table>
<thead>
<tr>
<th>FY18 Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,407</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,827 (+9% YoY)</td>
</tr>
</tbody>
</table>
### Summary of Business in FY2019

<table>
<thead>
<tr>
<th>Core Businesses</th>
<th>Key Achievements</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Expanded fixed network-related revenues in preparation for 5G launch</td>
<td>- Completion of one-time large projects</td>
<td></td>
</tr>
<tr>
<td>- Completed major IT projects</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Focus Businesses</th>
<th>Key Achievements</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance and Operation Services</td>
<td>- Started process reform project aimed at operational efficiency</td>
<td>- Expansion of business beyond traditional maintenance</td>
</tr>
<tr>
<td>- Won the project of next-generation payment system using packages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5G</td>
<td>- Started shipments of 5G devices to NTT DoCoMo and Rakuten</td>
<td>- Scale expansion of 5G business</td>
</tr>
<tr>
<td>- Started providing cloud-native 5G-core</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Created ecosystem towards secure 5G</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Network Services</td>
<td>- Entered the local 5G businesses</td>
<td>- Transition to the phase of specific uses</td>
</tr>
<tr>
<td>- Started sales of Smart Connectivity solutions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FY2020 Outlook

- Expand investments in 5G and other focus businesses

(¥100mn)

<table>
<thead>
<tr>
<th>FY19 Adjusted Operating Profit</th>
<th>FY20 Adjusted Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>306</td>
<td>320</td>
</tr>
</tbody>
</table>

**FY19**

- **Revenues**: 4,827
- **Adjusted Operating Profit**: 306
- **One-time losses**: Completion of large IT projects, Acceleration in change of generation

**FY20 (Estimate)**

- **Revenues**: 4,800 (-1% YoY)
- **Adjusted Operating Profit**: 320

**Increased investment efficiency in core businesses**

- **Increased investments in focus businesses**

**Absence of one-time large projects in FY19 and decreased revenues from core businesses**

- **Completion of one-time large projects/Reductions in core businesses**
- **Expansion of focus businesses**

- +60

- ▲110

- ▲100

- ▲60

- +20
# Business Strategy for FY2020

## Business Strategy

<table>
<thead>
<tr>
<th>Core Businesses</th>
<th>Focus Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Provide networks and IT which support the expansion of 5G commercial services</td>
<td>● Capture demand for expansion of 5G backbone networks</td>
</tr>
<tr>
<td></td>
<td>● Expand IT systems using cloud and packages</td>
</tr>
</tbody>
</table>

## Focus Businesses

<table>
<thead>
<tr>
<th>Maintenance and Operation Services</th>
<th>5G</th>
<th>Industrial Network Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Transformation into a maintenance service business which supports value maximization</td>
<td>● Achieve diversified services and expand scale of the 5G business</td>
<td>● Provide solutions which create value from industrial data</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● Make operations visible and optimize business processes</td>
<td>● Capture demand from NTT DoCoMo and Rakuten Mobile’s full-scale efforts in the 5G market</td>
<td>● Accelerate creation of E2E solutions aimed to provide local 5G commercial services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Expand product portfolio and launch within the current fiscal year (open, SA, functional expansion, etc.)</td>
</tr>
</tbody>
</table>
Evolve into a Maintenance Service which Supports Value Maximization

- **Visualize tasks** within and between processes and propose **standardization and simplification**
- Reduce manual tasks through **digitalization** and **optimize the entire business process**

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**Knowledge**

- Concept Planning
- Overall Design Architecture
- Setting Areas for Digitalization
- Technology Design Architecture
- Implementation
- Operation & Maintenance

**Data**

- Knowledge Analysis

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**End-to-end capabilities adapted to the DX era**

Leverage strengths in elemental and cutting-edge technologies

- AI
- Biometrics
- Security
- Network
- IT
Business Expansion through 5G Solutions which Enable Diversified Services

**NEC Initiatives**

Realize 5G needs and strengthen competitiveness through the NEC ecosystem

1) Enhance global competitiveness:
   Strengths in wireless × virtualization skill

2) Promote openness:
   Adaptation to multiple vendors

3) Provide transparent products:
   Provide safety and security from product development to SCM

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**4G**

Increase network speed and volume through alliances with existing vendors

- Connectivity with existing products
- Vendor lock-in

**5G**

Flexible and efficient network design most suitable for use cases

- Flexible use of devices
- Efficient functional expansion

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Society 5.0

Optimal performance/functionality

Flexibility

Expansibility

Security

Miniaturization

Low Cost

Cloud Native

Cloud Native

Optimal performance/functionality

Flexibility

Expansibility

Security
Case: Fulfillment of 5G Needs and Enhancement of Competitiveness through Collaboration

NTT
- Joint development of global products based on open architecture
- Develop revolutionary elemental technology and products with a focus on optics and wireless
- Create global competitive advantages through synergies

Rakuten Mobile
- Support Rakuten Mobile in achieving complete cloud native network
- Provided competitive NEC assets to RCP*
- Global development based on RCP

Cisco
- Reinforce supply chain security for national defence and industrial infrastructure
- Combine fraud detection and block chain technology for verification of pre-shipping, building, and operating
- Aim for E2E monitoring/management of network devices by expanding partnership and applied technologies

* Rakuten Communications Platform

Press release, June 25, 2020

Expand partnership with Rakuten Mobile

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Providing Solutions for Creating Value from Industrial Data

1. Connect “individuals”
   - Enhance brand / loyalty
   - Large-scale ID Integration/Management
     - Personal ID Integration
     - Interaction
     - Education
     - Culture
     - Business
     - Work
     - Play
     - Home
   - Individual optimization services

2. Connect “information”
   - Enhance value of services provided
   - Data distribution
     - Distribution within Individual Economic Sphere
   - Revenue expansion and operating efficiency

3. Connect “different industries”
   - Create new services/profits
   - Foundation for data use
   - Cross-industrial leverage
   - Strengthened engagement

Service launched in FY19
Business of focus in FY20
Mid-to-long-term development

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Mid-to-long-term Challenges

Make the most of knowledge and know-how of core businesses for sustainable growth
- Strengthen client engagement and expand businesses
- Achieve network modernization

Make business process optimization a core business
- Achieve automation/advancement in various domains
- Expand service menu of maintenance operations

Expand 5G business with Beyond 5G in mind
- Create open system markets through collaboration with partners
- Achieve global competitiveness and highly transparent products

Full-scale development of NEC Smart Connectivity business
- Maximize value of telecom assets to disseminate network services
- Planar expansion of cross-industry data utilization business
Orchestrating a brighter world

NEC creates the social values of safety, security, fairness and efficiency to promote a more sustainable world where everyone has the chance to reach their full potential.