<u>**NEC IR Day 2021 Public Infrastructure Business Q&A**</u>

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Location: Livestream broadcast from NEC Headquarters, Tokyo
Presenter: Noritaka Taguma, Executive Vice President

Questioner A

Q Looking at the targets for fiscal 2025, the plan is for level revenues, while the operating margin is not improving much compared with other segments. I expect that this factors in lost business, but could you explain the reason why revenue is not expected to grow significantly and why the improvement in the operating margin is limited?

A: The domains that the Company works in are businesses that operate in parallel with Japan's tax revenue and national power. We are aiming to maintain revenues and operating margins despite long-term flat growth or even decline in Japan's tax revenue. As you have pointed out, these targets reflect the impact of changes in business opportunities and risks. On the other hand, while maintaining these figures, one of the points in our Mid-Term Management Plan is to further increase management quality. To this end, the key themes in the new Mid-Term Management Plan are increasing the return on invested capital (ROIC) and ROIC management.

Q: One of the impacts of the promotion of digital government by the Digital Agency is likely to be a decrease in on-premises demand and an increase in common platform demand. Does your projection for level growth reflect all of these factors?

A: As you have pointed out, there are both downside and upside impacts. For the downside, we envisage the main issue being the reduction of budgets as system integration progresses, rather than the transition from on-premises to cloud, and we therefore need to capture integration business. On the other hand, upsides include the emergence of new budgets allocated to the ICT domain, such as streamlining government operations and use of private sector operators. We aim to firmly capture these businesses.

Questioner B

Q: How much of an impact is the establishment the Digital Agency having on orders? Also, could you say when you expect changes to appear in your actual business?

A: Within digital government, in the domains that are in the purview of the Public Infrastructure segment we have set a numerical target in the first half of 100.0 billion yen per year. These figures include digital government domains that aren't related to the establishment of the Digital Agency. There are several impacts from the Digital Agency, one of which is emergence of new purchasing concepts such as agile and raw code. These forms of contract are already in use in the private sector, and the way in which they would be realized in Japan's government domain was already an issue on which we had made several proposals prior to the establishment of the Digital Agency.

On the other hand, we have a wide ranging track record and expertise, having started up a LAN project for the IT Office (the predecessor of the Digital Agency) and a common platform for the Ministry of Internal Affairs and Communications. As such, we have an opportunity because we should be able to link these to adjacent domains. Direct procurement by hyperscalers is also expected to increase, and we will seize this as an opportunity and respond. The period of the impact has already started. We have received various requests from projects of the predecessor of the Digital Agency, and we will respond to each individual project.

Q: As the overall market scale contracts, what do you think will happen to NEC's market share?

A: Even if the overall market scale contracts, we think that we must still increase our market share, and we are preparing to do this in various ways. Specifically, our past track record in realizing super mission critical systems up until now will continue to be necessary in the digital government domain going forward, so this is one of our strengths. In addition, we aim to make use of NEC's strengths, such as technological capabilities, including security, the ability to draw on previous examples globally, including KMD and so forth, and our strategic partnerships with AWS, Microsoft, and others.