**NEC IR Day 2021 Global Business Q&A**

Date/Time: September 16, 2021 14:50–15:20 JST  
Location: Livestream broadcast from NEC Headquarter  
Presenter: Akihiko Kumagai, Senior Executive Vice President  
Accompanied by: Masakazu Yamashina, Executive Vice President

**Questioner A**

Q: You’ve explained that the Netcracker business improved profitability by shifting to cloud-based services, but that revenues have not grown. Can we take this to mean that you have already acquired the expected customer base in the OSS/BSS domain, and that since you do not expect to expand the customer base further, the business will maintain stable income with cloud-based business, but revenues will not grow?

A: Yes, that’s right. Around 250 corporate customers worldwide are using Netcracker, and basically it is not likely that we will see a dramatic increase above this. In this environment, we have focused mainly on increasing added value and improving profitability by shifting to cloud-based services as much as possible. At the same time, following the introduction of Open RAN in Global 5G, we may see demands emerge for revamping OSS/BSS. However, this kind of additional factor is not reflected in our plan figures at present.

Q: In the Service Provider Solution business, can we take it that factoring in the contraction of the legacy portion other than Netcracker, your main scenario is for total top-line growth of 1% to 3%, and there is upside potential from there?

A: Yes, that’s right.

**Questioner B**

Q: The Global Business overall seems to be in a good position, with a certain amount of progress on streamlining and a future direction beginning to emerge. Looking ahead, will the Global Business segment itself remain like this over the medium and long term? Or will its businesses be distributed to other appropriate business segments? Could you give an indication of where the segment is heading?

A: At this point, the direction has not been confirmed. However, our real vision is to become a true global company, and in all of our businesses, the domains that we must focus on
have become clear. Ideally in each business we want to be able to think globally, including Japan. This is the direction that we are aiming for in the long term.

Q: Could you explain the role of the newly established Global Communications Group?

A: For now, the group is mainly responsible for internal communications within the Global Business. The Global business has offices in countries around the world, with around 29,000 employees; but just over 500 of these are stationed in Japan. The remaining 28,000 plus are non-Japanese employees overseas. So naturally global communication is very important. Up until now, our dialogue with each office, sharing of strategies, and collection of information from each country have not been fully realized. To realize specialist global international communication, we created a group to take on this role, and set it up so that information can be communicated directly from me, and I can receive information from our overseas offices directly as well. In this way, we aim to boost the motivation of our entire team of over 28,000 employees in the Global Business segment.

Questioner C

Q: The Submarine Network business received over 100.0 billion yen in orders in fiscal 2020, but I think it is difficult to predict the timing of orders. When will the next major order be received? Also, you have built a relationship with GAFA in the Asia-Pacific region, and you said that you are considering expanding in other areas. When, specifically, are you thinking to do this, and can we expect any upside possibilities from such a move?

A: Each project in the Submarine Network business is extremely large in scale. Therefore, the scale of orders received in a year varies dramatically in each fiscal year. Looking at the trend to date, the amount of orders received tends to fluctuate between 50.0 billion to 100.0 billion yen per year. On the other hand, this business also has a highly transparent market, as we can see the next four to five years of our pipeline clearly. When we receive an order, the project starts about one year later, and takes about three years to complete on average. Furthermore, our customers include Google and Facebook, as well as Amazon. In the past, our main customers had been telecommunications providers, but over the past few years there has been growth in demand from GAFA companies wanting to set up their own cables, and this trend is expected to continue.

Q: We recognize that the Submarine Network business maintains a reasonable profit margin at present; is there room for further increase in profitability going forward?
A: We are taking steps to increase added value through technology differentiation based on adoption of multicore fibers, as well as improve construction and productivity, and we think there is plenty of room for improvement. Currently our profit margin is around 9%, but we are aiming to improve this to around 11% by fiscal 2025.

Questioner D

Q: During the period of the previous Mid-term Management Plan, you realized improved profitability in the Global Business and brought the segment into the black, as you said you would. However, it seems that on one point, you did not manage to grow the safety business. I am aware that the impact of COVID-19 caused investments in the airport sector to be postponed; however, what was your analysis of the factors that prevented the growth of the safety business? Also, based on that, could you tell us what kind of commitment you will make in the DG/DF domain and how you will monitor that going forward?

A: We recognize that what you have pointed out is an issue. The safety business was impacted by a delay in anticipated aviation projects due to COVID-19. A second factor was that we were unable to realized commercial synergies quickly in our global expansion. On the other hand, in terms of cost, we have made extremely good progress in synergies, namely, global procurement and concentration of operations in India. As a result, we improved profitability, and going forward, we will expand globally, focusing on commercial synergies to increase our top line. Accelerating our global expansion while leveraging NEC’s strengths is our biggest challenge, and our main focus, for example accelerating expansion of NEC Software Solutions UK Limited (formerly Northgate Public Services Limited) in the commonwealth areas and expanding Avaloq Group AG’s digital finance business in Asia and Japan. We will manage our progress in these areas with care.