

Public Infrastructure Business

September 15, 2021

Noritaka Taguma, Executive Vice President

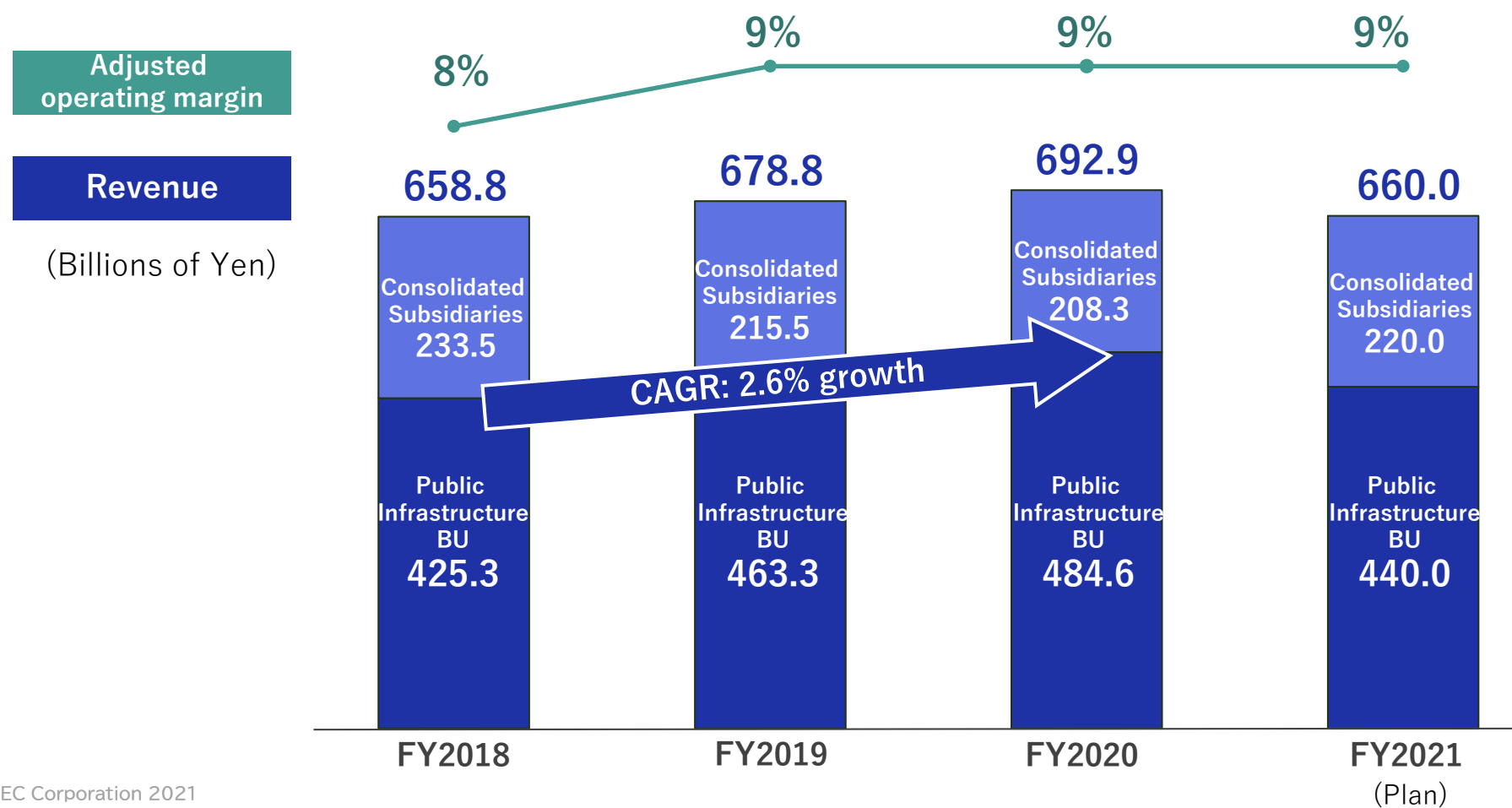
\Orchestrating a brighter world

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.

FY2018 - FY2021 Results

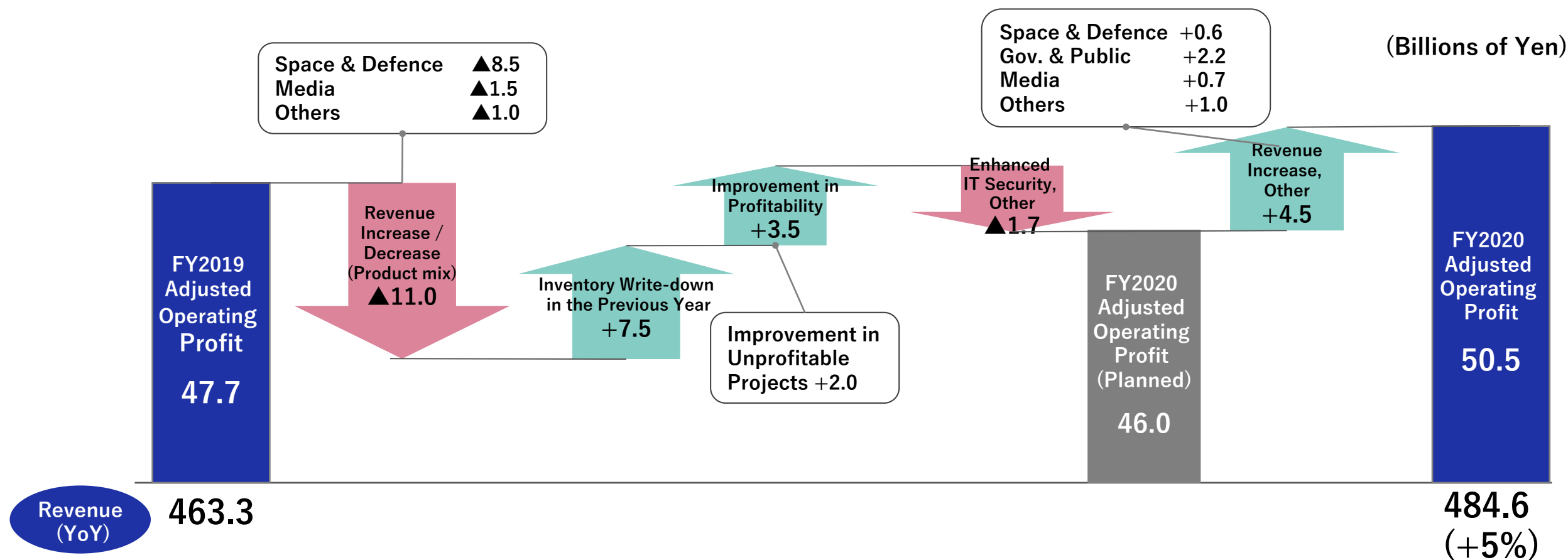
~FY2020 : Exceeded the figures in the FY2020 mid-term management plan for both revenue and adjusted operating profit

FY2021 : Revenue and profit are expected to decrease, due to the incorporation of supplemental budget in FY2020 (details to be explained later)



FY2020 Results

Adjusted operating profit exceeded the original plan by 4.5 billion JPY (up 2.8 billion JPY from the previous year), due to revenue increase from the supplemental budget, etc.



FY2020 Results -Sector Summary-

Gov.
& Public



- **Revenue drastically increased** due to the supplemental budget including GIGA School etc., in addition to strong demand for IT system
- Maintained **high profitability**

Space
& Defence



- **Revenue increased** in the space domain, due to obtaining large projects
Unprofitable projects reduced, which led to **improved profitability**
- **Revenue and profit declined** in the defence domain, between the next large projects

Media

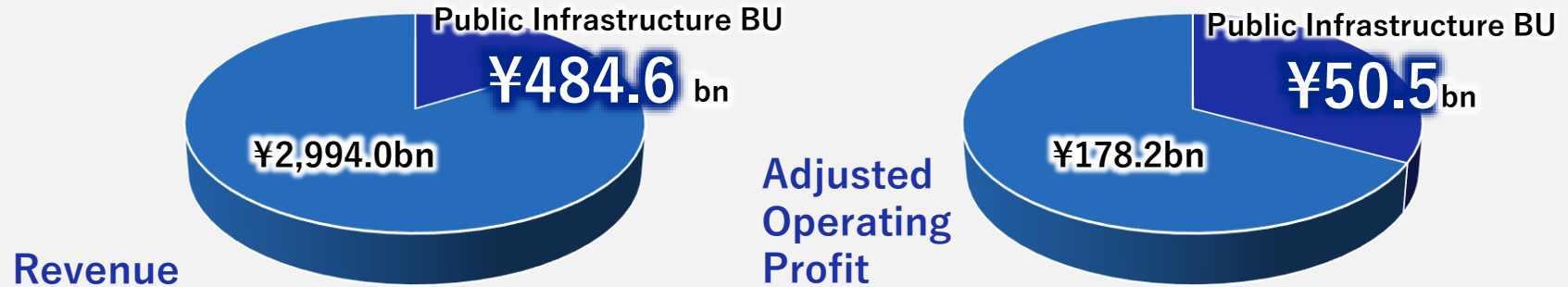


- **Revenue declined** due to the completion in large projects regarding facility renovation for broadcasting stations
- **Profitability improved** due to continued improvements in quality control, etc.

FY2020 Summary

Key Achievements

Achieved targets and contributed to overall company results



Acquisition of important projects

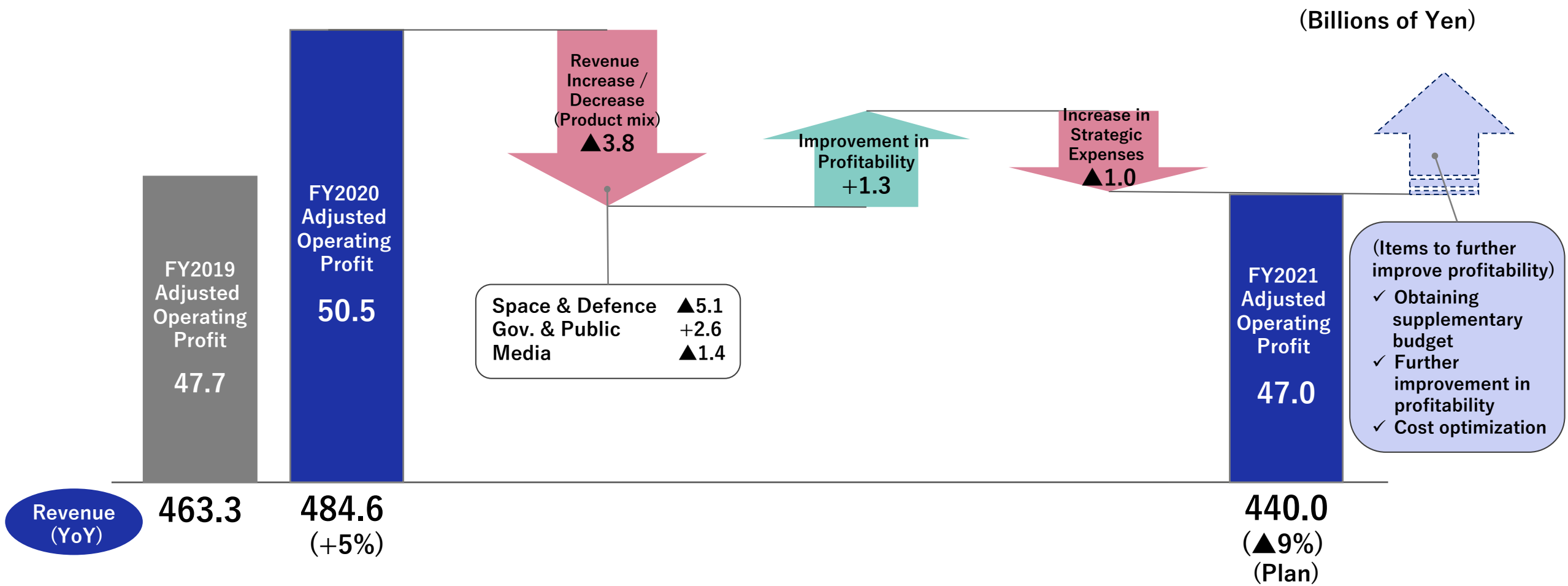


Challenges

While unprofitable projects are reduced, further efforts are required
Although high profitability is maintained, there is room to improve capital efficiency

FY2021 Outlook

Revenue and profit are expected to decrease, due to the supplemental budget in FY2020 and declining revenue in the defence domain, etc. However, revenue and profit are expected to exceed the original plan by an additional improvement in revenue and an increase of sales in practice



FY2021 Outlook -Sector Summary-

Gov. & Public



- Due to stable demand for IT system upgrades, **revenue and profit are planned to increase**, excluding impact from the supplemental budget of the previous year
- Acceleration of initiatives to further strengthen capabilities for Digital Government

Space & Defence



- In the space domain, revenue is trending upward due to the acquisition of new projects. In addition, profit is expected to increase, due to the decrease in unprofitable projects
- In the defence domain, **revenue and profit are expected to decrease**, due to the stagnation of large projects. On the other hand, **profitability is expected to be maintained, while capital efficiency is planned to be improved**

Media



- **Decline in revenue and profit** is planned, due to the completion of large projects
- Strengthen the initiatives to obtain large projects in the next fiscal year or ahead, to integrate broadcasting and media, and to standardize existing systems

FY2021 Business Strategy

Business Strategy

- Aim to maintain operating profit in the FY2019 levels, and challenge for profit increase through further profitability improvement

Revenue ¥ **440.0** bn  Increase Adjusted Operating Profit ¥ **47.0** bn  Increase

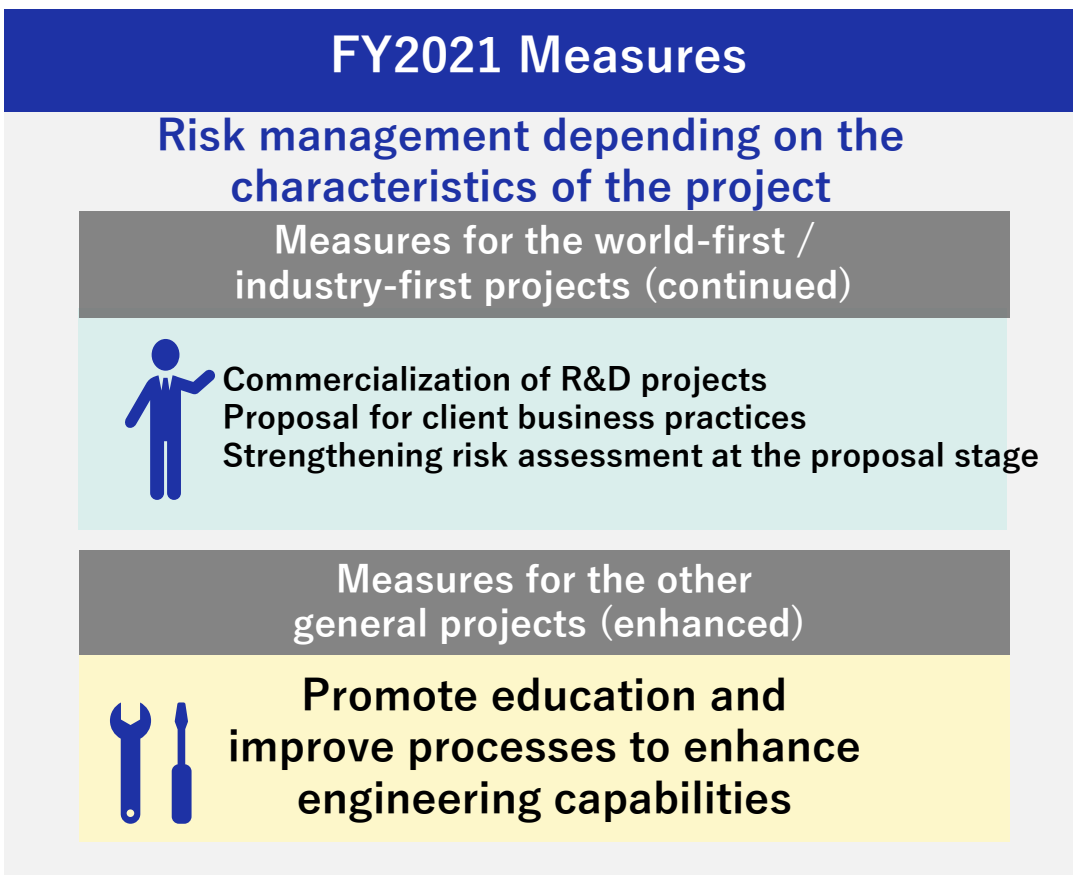
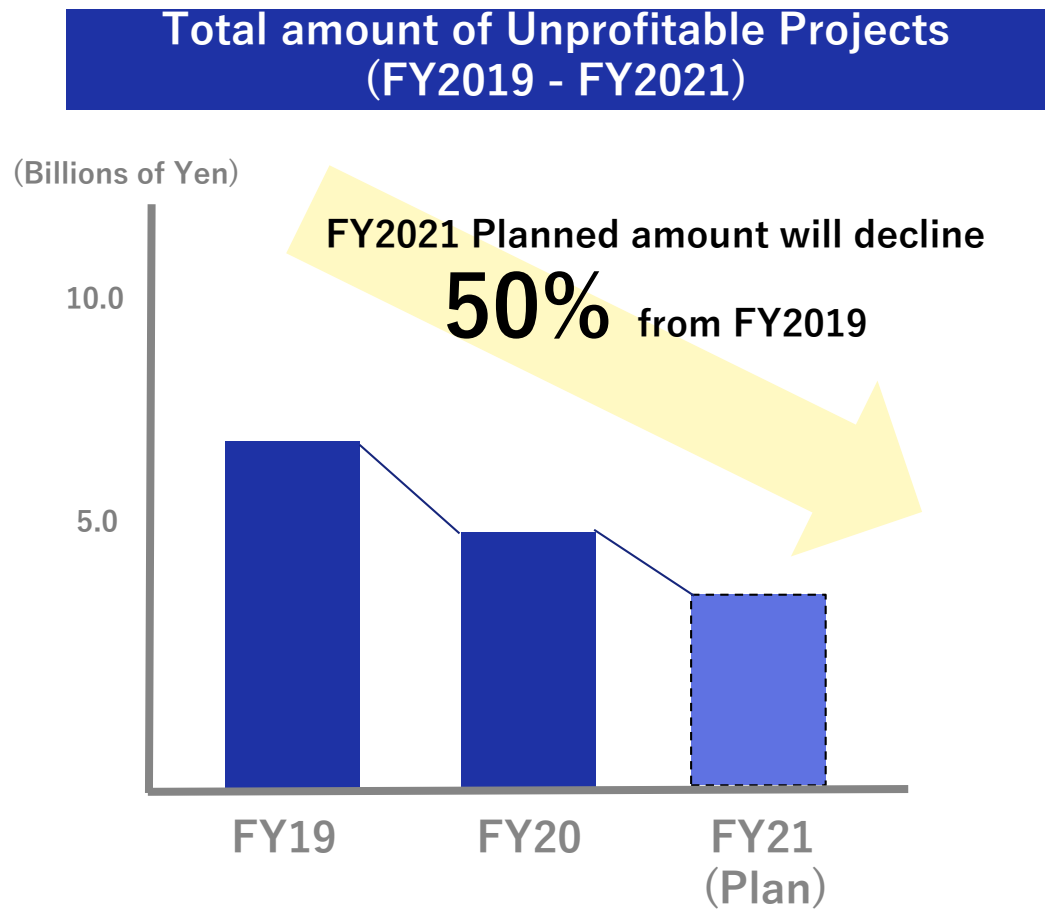
- Enhance the quality of management
(ROIC management / expansion of recurring business, etc.)

Key Initiatives

- Promote transformation of social systems
- Incorporation of supplementary budget
- Implementation of ROIC management ahead of the efforts of the entire company
- Continue further control to decrease unprofitable projects

Measures to Decrease Unprofitable Projects

Continue further efforts to decrease unprofitable projects by implementing risk management measures depending on the characteristics of the project



To Achieve the Mid-term Management Plan

FY2025 Numerical Targets

Revenue
CAGR
(FY20 - FY25)

Approx. **0-1%**

Adjusted
Operating
Margin

Approx. **10%**

ROIC Targets

Approx. **9%**

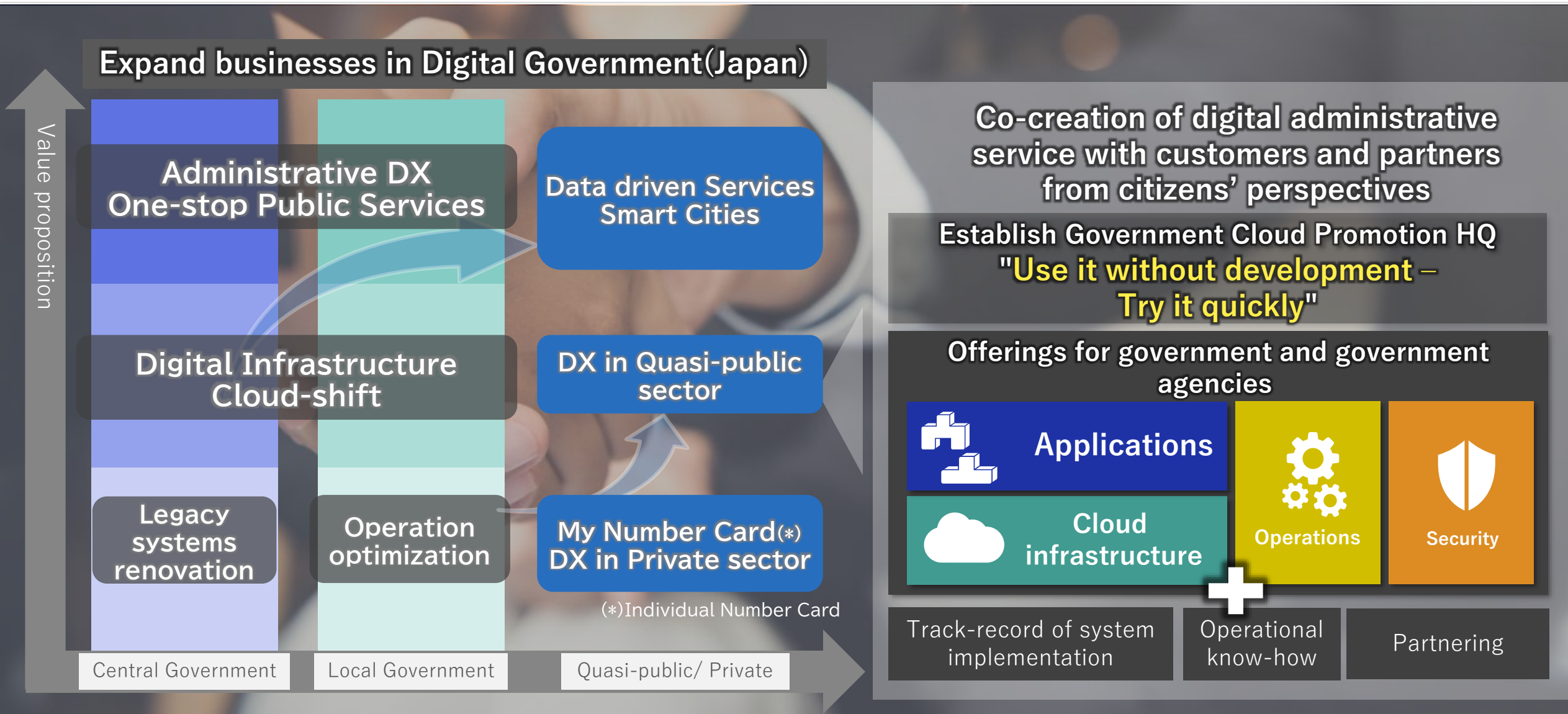
Strategies to Achieve Targets

- Business Expansion into New ICT Domains
- Implement ROIC management

Business Expansion into New ICT Domains



Adjustment Offerings to Achieve Digital Government



Contribution to the Transformation of the Aviation Industry

Changes for the globally competitive aviation industry



Achievements and Future Actions

Airspace traffic control & radar technology



Airports & airline systems



Assets & advanced technology



DX offerings



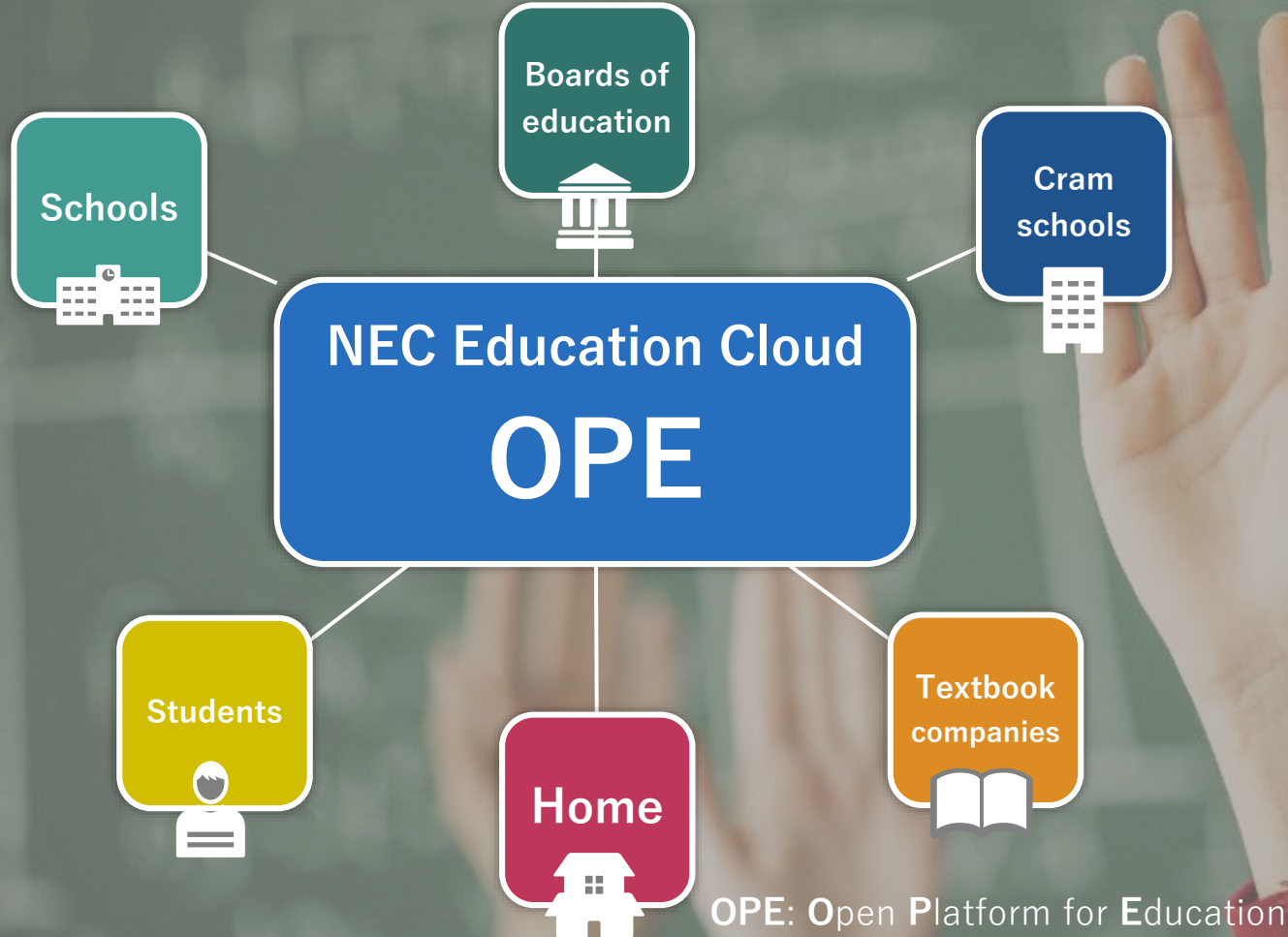
Accelerate policy proposals, strengthen partnerships, and promote solutions for social issues

FY2021

Obtain orders to develop platforms for data connectivity

Generation of Recurring Business in OPE (Smart School Business)

Promotion of educational digital-transformation and realization of fulfilling learning experiences with the NEC Education Cloud "OPE"



Business Results for Promoting Smart Schools

Employed in approx. **5,000** schools throughout Japan

1.5 million IDs issued for students (FY2021 target: 3.0 million IDs)

Establish a new business model with OPE at its core

Through collaboration with **KMD**, also consider the Northern European model of advanced digital learning

Introduction of ROIC Management

FY2025 Mid-term Management Plan*

* Plan with the entire company

Change to management that focuses not only on profit/loss but also capital efficiency



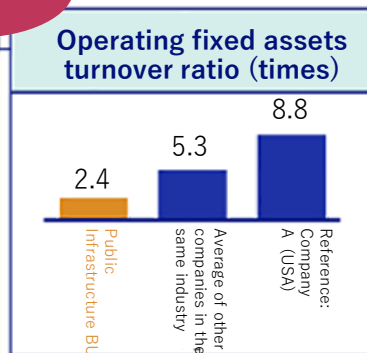
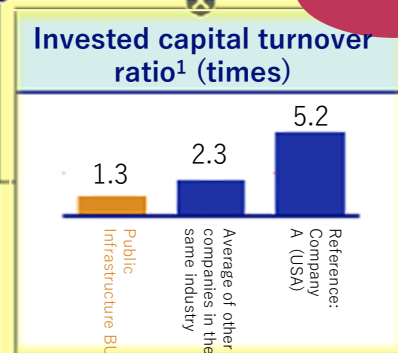
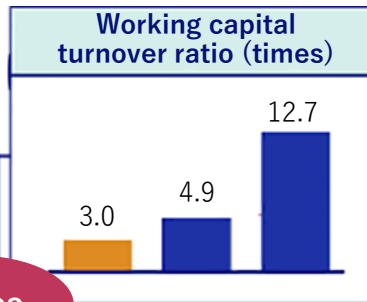
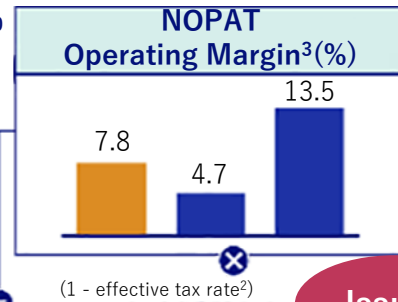
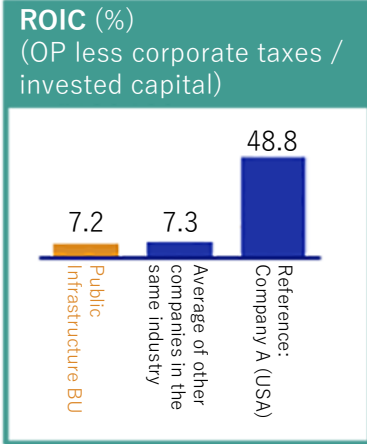
Three reasons why Public Infrastructure BU implement ROIC management ahead of other BUs

Status Analysis and ROIC Mid-term Plan Targets

Analysis of Current Situation

While maintaining a high level of profitability, **capital efficiency** was at a **low level** compared to the other companies

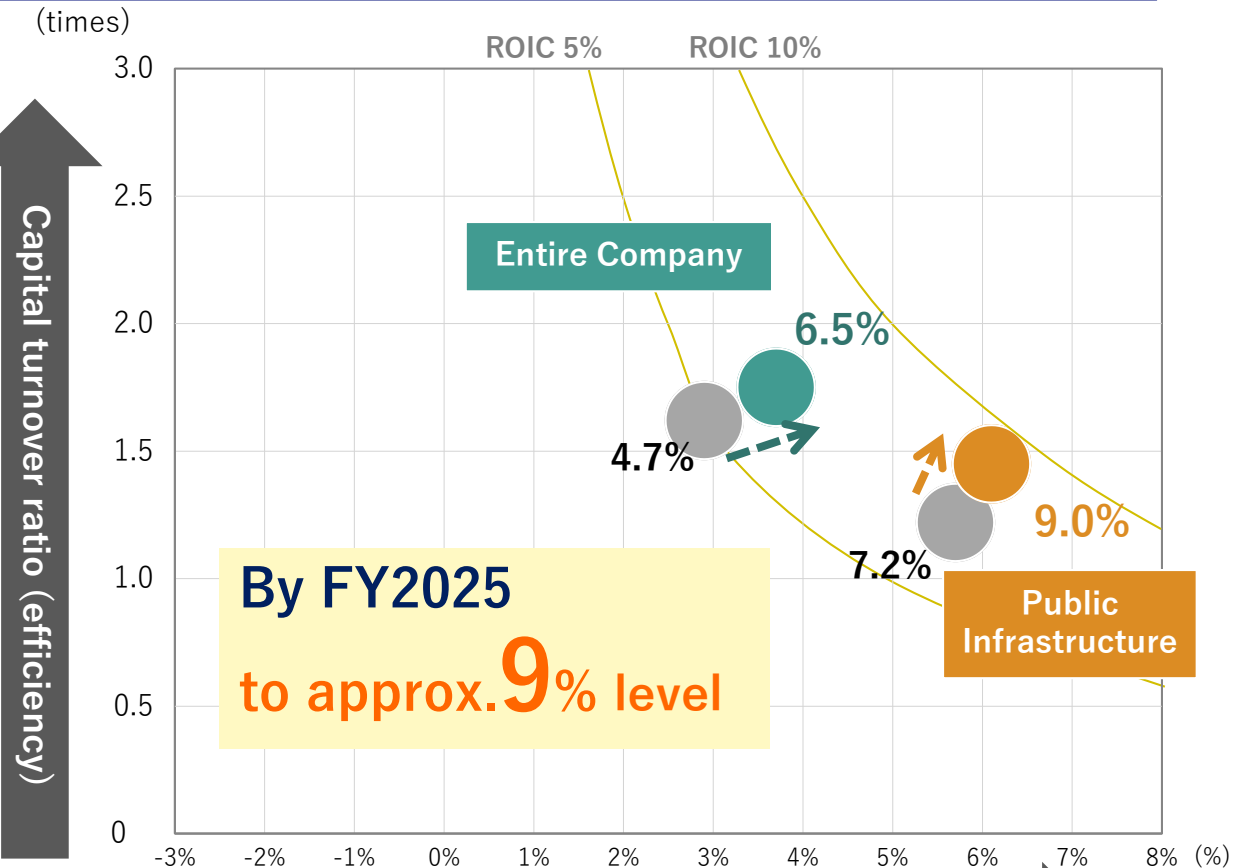
NEC: Average Results FY2018 - FY2020
Other Companies: Average Results FY2017 - FY2019



Issues

1 Invested capital excludes non-operating items (goodwill, funds for investment) and includes an amount corresponding to the share of the BU in the shared assets of the entire company
2 Effective tax rate is calculated uniformly at 30.62%
3 Operating profit after deducting the share of the BU in the shared expenses of the entire company
Source: Annual Securities Report of each company, Annual Report

Mid-term Plan Targets



ROIC Improvement Measures and PDCA Cycle by Business Domain

ROIC Improvement Measures by Business Domain



Gov. & Public

Implement capital efficiency measures in recurring businesses that are expected to expand, and maintain high ROIC



Defence

As focusing on improvement of capital efficiency, accelerating to obtain earlier deposits and improving SCM efficiency



Space

Enhancement in profitability is prioritized. Capital efficiency is improved by earlier deposits



Media

Implement measures for both profitability and capital efficiency through SCM optimization, including manufacturing subsidiaries

Perform the PDCA Process

ACTION

PLAN

☒ Analyse current situation for each business domain
Comparison to competitors



Implementation measures for ROIC management in the BU

☒ Formulate 2025 target figures / 2021 projected figures

Monthly check
Individual follow-up

☒ Formulate guidelines
Implement CCC improvement activities

CHECK

DO

Improvement of the supply chain

☒ Finished

Creating the society we can proudly present for the future

By providing values in creating safe, secure, fair, and efficient public infrastructure, we aim to contribute to realizing a society where all people can enjoy fulfilled lives.



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