

**Q&A Regarding Financial Results for the Second Quarter of
the Fiscal Year Ending March 31, 2022**

Date/Time: October 29, 2021 16:30-17:30 JST
Location: Live audio streamed from NEC Headquarters, Tokyo
Presenter: Osamu Fujikawa, Executive Vice President and CFO

Questioner A

Q: What was the order trend for IT services in Japan in the second quarter and what is the outlook for the second half? Also, digital transformation (DX) consulting seems to be strong at other companies. What were orders like at ABeam Consulting?

A: Orders in IT services in the second quarter remained firm, mainly from the financial and manufacturing sectors. Orders from the financial sector rose just over 10% year on year, while those in the manufacturing sector were up around 5%. Orders in the public and healthcare sectors also remained strong. Meanwhile, there are still no signs of a recovery in market conditions for orders from SMEs and local businesses. In orders from central government agencies, NEC received a large order for the GIGA School Project in the second quarter of the previous fiscal year. Therefore, excluding the reversal impact of this order, orders from central government agencies were mostly unchanged year on year in the first half, with a slight decline in the second quarter. Turning to orders from the distribution and service sectors, there was a large project in the previous fiscal year. Excluding the reversal impact of this project, orders from the distribution and service sectors have been increasing. ABeam Consulting has won large projects, so orders have increased by around 10% both in the first and second quarters.

Q: There have been no signs of a recovery in market conditions for orders from SMEs and local businesses in regional areas of Japan. Does this mean that orders have been mostly flat from the level they had decreased to in the previous fiscal year? Or have they worsened further?

A: Orders were mostly the same as in the previous fiscal year and have not worsened.

Q: In the Global segment, performance was strong even when excluding the removed

portions of the display and energy businesses, led by growth in Digital Government / Digital Finance (DG/DF) and service provider solutions. In the Global segment, the outlook for adjusted operating profit for the second half should be mostly unchanged, even when considering strategic expenses of around ¥1.5 billion projected on a full-year basis. Why did DG/DF and service provider solutions perform well, and will this strong performance continue in the second half?

A: The Global segment has grown steadily as initially planned. DG / DF has remained firm, and KMD and Avaloq are performing as planned. Netcracker has been doing extremely well and is contributing to the Global segment's improved business results.

Q: In the Global segment, do you anticipate risk factors such as components shortages in the second half?

A: The three companies NEC acquired and Netcracker are all services companies in the software domain, so they were not fundamentally affected by shortages of components, such as semiconductors, in the first half. Therefore, as long as current conditions remain in place, we believe that there will be no problems in the second half.

Questioner B

Q: How did NEC perform in terms of adjusted operating profit in the second quarter compared with its internal target? Also, NEC said that the components shortage had an impact of reducing profitability by ¥3.0 billion in the second quarter. What impact do you expect the components shortage to have in the second half? Will the impact be greater than in the first half? Or will it not be as large due to countermeasures?

A: In the ordinary course of business, adjusted operating profit in the second quarter exceeded our internal target by around ¥2.5 billion. However, we did not anticipate the negative impacts of ¥3.0 billion from unprofitable projects, ¥1.5 billion from an allowance related to the sale of the energy business, and ¥3.0 billion from the components shortage. The net effect of these factors was a shortfall of around ¥5.0 billion in adjusted operating profit against our internal target. The impact of the components shortage in the first half is planned to be absorbed in the second half. In the second half, we should manage to mitigate the impact through measures such as switching to alternative products, making design changes, and shifting to the cloud, in addition to securing components. We estimate that the components shortage will account for 60% of the impact, while the remaining 40% will be attributable to surging prices. To address the 40% impact from price increases, we will ask our customers for their cooperation with our

efforts to optimize prices.

Q: What were orders like in the second quarter, excluding special factors?

A: Let me illustrate with some examples. In the Enterprise segment, orders increased by 2% year on year, excluding the impact of NEC Facilities, Ltd., which received an order for a large project in the previous fiscal year. In the Network Services segment, orders were up 7% year on year, excluding NEC Networks & System Integration Corporation impact, which benefited from the GIGA School Project in the previous fiscal year.

Questioner C

Q: What were the specific components of the year-on-year increase of ¥13.0 billion in strategic expenses in the first half? In which fields will NEC deploy strategic expenses in the second half?

A: Strategic expenses were increased by ¥7.0 billion in global 5G, ¥2.0 billion in core DX, ¥2.0 billion in internal DX and ¥2.0 billion in human resources, etc., compared with the previous fiscal year. Expenses were allocated to developing base stations and conducting overseas sales activities in global 5G; developing new products and strengthening the sales organization in core DX; conducting Transformation Office activities in internal DX; and recruiting talented human resources in human resources, etc. We plan to deploy strategic expenses in similar ways in the second half.

Q: What is your forecast of the amount of the impact of semiconductor shortages in the second half? Do you expect the impact to continue next fiscal year onward?

A: We need to assess the effect of countermeasures to determine the amount of the impact in the second half. We will update you when we announce our third-quarter earnings. Our full-year financial forecasts have not been revised from our initial forecasts. Please know that the impact will not be large enough to change our forecasts. In addition, we will contain the impact by implementing countermeasures based on the assumption that the components shortage may last for a long time.

Questioner D

Q: What impact did the semiconductor shortage have on revenue in the first half? Will NEC be able to absorb the negative impact of ¥3.0 billion in the second half?

A: The impact on sales was approximately ¥10.0 billion. With around 60% of the negative impact caused by delays in sales, NEC was unable to recognize those sales in the first half. As shipments pick up in the second half, NEC will recognize sales and profits on this business. We believe that the impact of ¥3.0 billion from surging components prices can be absorbed by optimizing the sales prices of the products we have not shipped yet.

Q: What kind of alternative components will be part of your countermeasures?

A: Initially, the impact was centered mostly on semiconductors. However, the impact has spread to general components as COVID-19 caused the closure of factories in Southeast Asia. With the exception of specialty components, we will work to shift to alternative components at the earliest opportunity. For items that are difficult to procure at the component level, we will shift to items that are replaceable as products. For example, storage-related and similar products will be shifted to items that can be shipped. For database servers, we have also newly made cloud-shift products available and have strengthened our internal organization. While what we offer will depend on the customer, we are developing a lineup of cloud-shift services and are considering countermeasures and conducting follow-up for each individual project.

Q: The Government of Japan has established the Digital Agency. What impact do you think it will have on NEC's earnings in the current fiscal year?

A: NEC will conduct various activities over the medium term, so that it can capture opportunities to accelerate the digitalization of government. We do not expect these activities to have a large impact on our earnings in the current fiscal year. Business opportunities are expected to arise from the digitalization of procedures, the development of new systems and the shift to the cloud, as well as the upgrade and replacement of existing systems in response to those changes. We will seek to capture those opportunities.

Questioner E

Q: When did NEC begin implementing measures to tackle the components shortage, and to what extent have you completed those measures as of the end of the first half? What is your outlook for these measures?

A: From midway through the first half, we began to ask customers for their cooperation with our efforts to optimize sales prices following the surge in prices for the components of certain network products and other items. We also offered proposals to customers on switching to convertible products and related changes. As of September 30, we carefully reassessed the extent of the Company-wide impact and enhanced our measures accordingly. These enhanced measures have already been put in place since October as part of our efforts to minimize the impact as much as possible. With regard to the growing components shortage in the second half, we have been working since the first half to secure components, considering the need to secure first-half shipments, as well as shipments from the second half onward. Network equipment is being shipped as planned. However, we have been impacted through our inability to fulfill the greater-than-anticipated requests we had received from customers at the beginning of the fiscal year. In these ways, we remain hard at work procuring components according to demand, and we are implementing countermeasures while monitoring individual circumstances.

Q: In your segment results for the second quarter, what were the main reasons for the year-on-year changes in adjusted operating profit for Global, Others and Adjustment and were there any special factors?

A: First, in the Global segment, a recovery in market conditions for Netcracker and in other areas had a positive impact of around ¥4.0 billion and winding down the display and energy businesses had a total positive impact of around ¥4.0 billion. In terms of special factors, an allowance for loss on sale of shares in the energy business had a negative impact of ¥1.5 billion, while the start of consolidation of Avaloq had a positive impact of around ¥1.5 billion. In Others, there was a negative impact of ¥3.0 billion year on year from a components shortage in the system platform business, a positive impact of around ¥1.4 billion due to a recovery in market conditions at a subsidiary, and a negative impact of ¥0.5 billion from strategic expenses on core DX. In Adjustment, there was a negative impact of around ¥1.5 billion year on year from strategic investments related to internal DX and human resources, and in other areas, a total negative impact of approximately ¥4.3 billion from miscellaneous costs.

Q: Will earnings growth at Netcracker continue in the second half? Or was it temporary?

A: Earnings continued to increase in the second quarter at roughly the same pace as in the first quarter. We believe this trend shows that demand is increasing in this domain. We expect demand continues to trend firmly going forward.

Questioner F

Q: In the second quarter, orders for hardware decreased by 12% year on year. Orders decreased in the previous fiscal year too, so I assume that the level of orders has dropped considerably. Even at NEC's competitors, I believe that the decrease in orders reflects the fact that companies have had to stop taking orders for hardware in some cases, partly due to the impact of the components shortage. Could you please confirm whether the components shortage has had an impact on hardware orders?

A: Hardware orders in the second quarter of the previous fiscal year include the GIGA School Project. Excluding the reversal decline from the project, hardware orders increased 30% year on year. For the first half, hardware orders were up just over 20%. Excluding the GIGA School Project, hardware orders have followed a firm recovery path.

Q: Has NEC had to stop taking hardware orders in some cases because it couldn't procure components?

A: We have been able to implement proper controls.

Q: Revenue in the Network Services segment in the second quarter decreased slightly year on year. However, adjusted operating profit was kept mostly unchanged from the previous year despite an increase in strategic expenses. Could you please comment on the reason for this improvement in profitability?

A: In the second quarter, there was an improvement of around ¥5.0 billion year on year due to increased sales of 5G base stations and an improved product mix. Meanwhile, we incurred strategic expenses of ¥4.0 billion for global 5G-related areas and ¥1.0 billion for base business-related areas, so the improvement in profitability was offset by the strategic expenses.

Questioner G

Q: Hardware orders, after adjusting for GIGA School, were extremely strong, up 30% year on year in the second quarter. Did anything specific contribute to this result?

A: Hardware orders reflect a recovery in orders from the weakness caused by the impact of COVID-19. Last year, hardware orders had been negatively impacted, but this impact was covered by GIGA School PCs. Business on an ordinary basis excluding GIGA School was weak in the previous year, but it has recovered from that weakness.

Q: Do you expect this increase in business on an ordinary basis to continue? Will demand for DX and other factors support growth into the second half?

A: It will depend on the impact of components. Considering that this may be an opportunity to advance the cloud shift, we are preparing to shift database and other products to the cloud. The shift of hardware to the cloud will reduce performance figures for hardware. However, overall earnings will increase with the shift to the cloud, so profits will not decrease. We will apply appropriate methods.

Q: Customers will be able to receive the same services over the cloud, even though they may be unable to replace their hardware with suitable alternatives. Is that how you will absorb the decrease in hardware?

A: That is correct.

Questioner H

Q: NEC identifies the core DX business as a growth business. What kind of results and momentum have you seen in the core DX business?

A: Things are proceeding very positively. In the consulting domain, tie-up projects with ABeam Consulting have been increasing. In the Digital Business Platform Unit, we have strengthened our consulting teams and increased personnel considerably. This area will lead to overall growth, including platform-related business, so we are enhancing our activities accordingly.

Q: How much growth is the core DX business likely to deliver in the second half?

A: We are forecasting core DX sales of ¥180.0 billion for the current fiscal year. Consulting

is performing firmly. In digital business platforms, we will strengthen collaborative relationships by fostering partnerships in the cloud domain, thereby pushing ahead with the cloud shift. To this end, we plan to increase strategic expenses by ¥5.0 billion. We believe that the current fiscal year is a period for growing the top line, to pave the way for growth in business and profits in the future.

Questioner I

Q: In the Public Infrastructure segment, adjusted operating profit increased by ¥3.8 billion year on year in the first half, despite some unprofitable projects. Does this mean that Japan Aviation Electronics Industry, Limited, a consolidated subsidiary, covered the impact of the unprofitable projects, and pushed up earnings further?

A: In the first half, Japan Aviation Electronics Industry posted an increase in earnings of ¥7.5 billion, after incurring an operational loss of ¥1.5 billion in the previous fiscal year. These add up to an increase of ¥9.0 billion. Meanwhile, we are now in a transition period for demand for unprofitable projects and broadcast and media. These factors emerged as negative impacts.

Q: Adjusted operating profit has been generally improving since the first quarter. Did Japan Aviation Electronics Industry underpin this improvement?

A: Looking only at the first half, growth at Japan Aviation Electronics Industry made a substantial positive contribution. The Public Infrastructure business is an operation with long cycles. A large project is expected in the second half. For this reason, we should be able to execute as planned on a full-year basis, even when including the impacts of unprofitable projects.