

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

Date/Time: January 31, 2022 16:30-17:30 JST
Location: Live audio streamed from NEC Headquarters, Tokyo
Presenters: Takayuki Morita, President and CEO (Representative Director)
Osamu Fujikawa, Executive Vice President and CFO

Questioner A

Q: NEC reported that Global 5G and Digital Government / Digital Finance (DG/DF) performed well. Please discuss the Global 5G pipeline and quantitative data such as revenue forecasts for the fiscal year ending March 31, 2023? Could you provide the same information for DG/DF?

A: With global 5G, we are now moving forward with discussions encompassing matters such as development and shipments. Business forecasts for the fiscal year ending March 31, 2023 will be firmed up from here on. It might be helpful to note that NEC had 3 commercial project customers as of IR Day held in September 2021, but now that number has increased to 5 companies, marking the addition of 2 companies. While there were 12 companies undergoing trials as of IR Day, we are now in discussions with 22 companies, including those in Europe and the Americas, and India. We had around 20 prospects as of IR Day, but we are now in discussions with more than 30 companies.

For the current fiscal year, DG/DF is forecasted to generate revenue of ¥230.0 billion and adjusted operating profit of ¥14.0 billion, however, we expect DG/DF to surpass these forecasts by around 10%. Although we have yet to formulate our business forecasts for next fiscal year, 70% of DG/DF revenue is recurring, so we can expect to continue to surpass our forecasts. Avaloq Group AG (Avaloq) has recently been making progress on capturing orders in regions where NEC has long been strong, such as the Philippines and Taiwan. We are also building a track record in DG-related areas. Notably, software held by NEC Software Solutions UK and KMD Holdings ApS (KMD) has started to be sold in markets such as Australia.

Questioner B

Q: What was the trend in orders for domestic IT services by sector in quantitative terms, excluding hardware?

A: To be precise, we do not have quantitative data on IT service orders excluding hardware. However, we roughly estimate that such orders rose by around 5% year on year in the third quarter (three-month period) and by around 3% for the nine-month period from April to December 2021. By sector, the Enterprise segment saw generally steady orders in the finance, manufacturing and retail sectors. Orders in the healthcare sector were also fairly strong, while orders in the telecommunications sector were mostly unchanged year on year. In the public sector, orders were steady, excluding large projects in the previous year. The recovery in market conditions for small and medium-sized enterprises has been soft.

Q: What is the current situation with unprofitable projects?

A: There were unprofitable projects of ¥3.4 billion in the third quarter. This amount breaks down into ¥1.0 billion for the space business in public infrastructure, and ¥1.8 billion for projects attributable to country risk at a consolidated subsidiary. For the nine months ended December 31, 2021, unprofitable projects amounted to ¥7.7 billion, worsening by ¥2.6 billion year on year. We do not expect any more unprofitable projects to occur in the fourth quarter.

Q: The nine-month result for strategic expenses shows an increase of ¥20.0 billion, relative to the full-year forecast of an increase of ¥32.0 billion. This progress appears to be a little slow. Could strategic expenses be pushed back to next fiscal year, without being exhausted in the fourth quarter?

A: Progress on the use of strategic expenses has been mixed depending on the field. In Global 5G, the nine-months result for the year on year increase of strategic expenses was ¥11.0 billion in comparison with a ¥12.0 billion increase budgeted for the full year. These strategic expenses were increased because we decided that investment should be accelerated further as we captured more international projects than initially anticipated in the first half of the fiscal year. While we have steadily invested strategic expenses in areas where growth can be expected, in the base business and related areas, we have restricted strategic expenses to projects where they can be more effective. Overall, the increased amount of strategic expenses are forecasted to remain within the limit of ¥32.0 billion.

Q: Several days ago, NEC announced the acquisition of Blue Danube Systems, Inc. of the U.S., with a view to enhancing the Global 5G business. What is your intention for this acquisition? Also, does NEC plan to make any similar acquisitions in the future?

A: The purpose of this acquisition is to obtain development resources. In the international 5G

RAN (Radio Access Network) business, there is a need to support a wider range of frequencies. For bandwidths that do not bring out 5G's advantages very effectively, we still sometimes address the situation by procuring bandwidth externally. However, looking ahead, we must continue to support high frequency bands, address specifications that fit the North American market, and secure local engineering resources. The primary objective of the acquisition was to obtain these sorts of technology resources. Going forward, NEC may possibly conduct acquisitions as appropriate, together with forming alliances and business partnerships.

Questioner C

Q: The Omicron variant of COVID-19 has been spreading rapidly. What is the current impact on NEC and what is your outlook for the impact going forward?

A: The market environment in Europe and the Americas has been affected by the growing spread of the Omicron variant, but economic conditions are returning to normal. We have learned how to proceed with business during the COVID-19 pandemic through our activities so far. This has been one factor behind the upward forecast revisions we have announced. Moving forward, unless we face lockdowns and have no choice but to suspend operations, the impact of the Omicron variant should remain manageable under the current circumstances. Excluding strategic expenses, NEC has nearly returned to conditions before the COVID-19 pandemic in numerical terms, indicating that we have been able to manage the impact of the pandemic.

Questioner D

Q: How much longer do you expect the component procurement shortages to continue? Also, what kinds of components are in short supply? Has the situation changed since the second quarter?

A: The components in short supply have been changing. Initially, we faced shortages of advanced components. We can now expect the adverse impact of those shortages to be alleviated as we have taken steps such as adjusting delivery schedules with customers. Currently, commodity components are in particularly tight supply. While it is difficult to predict how things will go in the future, looking at major changes in supply and demand so far, we believe that conditions will return to normal within 2022. Besides just the production side, the intermittent suspension of operations at certain plants and logistics disruptions will also have an impact, so I believe it will take around one more year for things to settle down. This may be wishful thinking, but I'm hoping for conditions to settle down a little,

before autumn.

Q: NEC will implement various countermeasures to negate ¥19.0 billion of the gross impact of ¥27.0 billion on operating profit from component shortages. Which countermeasures will have a particularly large effect? Assuming that cost controls account for most of this effect, will the costs return next fiscal year? To the extent possible, could you please provide a breakdown of the ¥19.0 billion in countermeasures and discuss whether they will continue into the next fiscal year?

A: Cost controls represent ¥5.0 billion of the ¥19.0 billion in countermeasures. The remaining ¥14.0 billion represents measures such as design changes suitable for alternative materials, including the cloud, and optimizing sales prices.

Q: What is the order trend in the Global segment, excluding special factors?

A: Submarine cable projects have the greatest impact on changes in orders in the Global segment. Project orders can range from around ¥30.0 billion per project to ¥60.0 to ¥70.0 billion per project for large projects, and the order trend can vary substantially with the timing of receiving orders. In the third quarter, orders increased 112% year on year, excluding the Submarine systems and Display businesses, with NetCracker Technology Corp. (NetCracker) accounting for about half of this increase.

Q: Adjusted operating profit in the third quarter in the Global segment decreased year on year. Could you explain the background to this decrease?

A: The biggest factor in the third quarter was changes in NetCracker's profits due to the impact of a highly profitable project in the previous year. In addition, the Global segment as a whole was impacted by the sale of shares in the previous year. In the first half of the current fiscal year, NetCracker's business performance was extremely strong. As the number of NetCracker's projects rose substantially, additional human resources were secured, and costs increased in the third quarter. Please think of this as a period for developing human resources. This will lead to increases in revenue and profit from the fourth quarter onward and will act positively in response to demand growth. The Global segment is not concerned about the current situation and does not believe that it will have a negative impact over the long term.

Questioner E

Q: As part of changes to its business organization, NEC will substantially reduce the number of departments. What kinds of specific issues does NEC face and what kind of growth potential does it have for the future?

A: The business division system has remained in place since the times when NEC originally had telecommunications, computer, home electric appliance and semiconductor businesses. With the passage of time, each business division has become smaller and more granular. Currently, NEC has around 150 business divisions. In a competitive business environment, NEC has struggled to make decisions at the business division level on investing enough resources to prevail against the competition. The decision-making process also ends up straddling different business divisions. Through the integration of departments, one of our goals is to concentrate resources in one place for similar businesses and to reallocate resources speedily and closer to the frontlines. We will also achieve a speedy decision-making process by flattening the hierarchy and introducing a project-based organization in addition to the existing pyramid-shaped organization. This is not something that can be accomplished merely by creating organizations or frameworks, so the important thing will be to shift to execution from now on. It is imperative that we make more speedy decisions and implement frontline-driven measures, as we strengthen, share and concentrate the resources held throughout NEC to realize those priorities. From this perspective, we will strengthen the digital business platform and enhance our head office functions.

Q: Do you have any plans for asset sales or similar initiatives in the fourth quarter?

A: We are constantly considering the possibility of selling unnecessary assets. Examples of such asset sales include sales of investment securities, which affect cash flows, and sales of real estate, which are recorded as operating profit. Due partly to timing issues for such transactions, there is nothing that I can discuss at this time. We are considering several asset sales, but they are not large. However, these asset sales are not included in our assumptions for our full-year forecasts.

Q: Strategic expenses are to increase by ¥32.0 billion in the fiscal year ending March 31, 2022. What is your outlook for the level of strategic expenses for next fiscal year?

A: If the size of the company and its profits increase, then growth investments will also increase accordingly. For the fiscal year ending March 31, 2022, we projected a decline in full-year profits due to temporary cost increases, because of measures to accelerate the Mid-term Management Plan during the fiscal year. From the fiscal year ending March 31,

2023, we will offset the increase in strategic investments by firmly generating investment returns.

Questioner F

Q: What do you think of the current competitive environment for Global 5G? NEC has received orders for commercial projects from five companies, but each of those projects is currently in an initial phase. Will NEC drive growth in those projects in the future? Also, in which aspects, such as technology or price, are customers evaluating NEC positively?

A: Our highest goal for the current fiscal year is to win orders for commercial projects. We have won projects from five companies, including those obtained so far, and this marks significant progress. The orders for commercial projects we have received vary depending on whether the contract encompasses future business development or whether such development will be covered by separate contracts. If the current projects succeed, the size of these businesses will grow substantially.

NEC has been evaluated positively for the performance and reliability of its mobile phone base stations, including RUs (Radio Units). Our antenna technology for handling high frequencies, such as 5G Massive MIMO (Multiple Input Multiple Output), has earned particularly high marks from customers. Moreover, as with the Telefónica project, NEC has been evaluated highly for engineering capabilities that will allow it to provide integration services to address issues such as interoperability, total cost of ownership (TCO) and operations, which are said to be the main issues facing Open RAN. NEC has a track record of integration in 4G Open RAN for Telefónica in South America. This track record was a major reason why NEC was awarded the contract for the 5G project. NEC offers not only integration for Open RAN as a whole, but it also has proprietary software products for the 5G core. NEC also has operations support system (OSS) software for systems operation and management and business support system (BSS) software for implementing tasks such as billing management. NEC's ability to provide comprehensive communication systems was also evaluated positively by customers.

Q: NEC is strengthening its offerings in the core DX area. What progress is NEC making in terms of shifting from a traditional contractor role to offering products and services?

A: In core DX, we are working to strengthen our menu of offerings, such as modernization and authentication platforms, including facial authentication. In the core DX area, we are taking steps to secure human resources, in addition to building up our offering menu. We believe that these efforts will pave the way for future growth in orders.