# Business Strategy

## IT Services

### Business Overview

Advances in technology have led to growing expectations and demand for ICT systems to play a role in resolving the problems faced by society and businesses, rather than simply being a tool for improving efficiency. Companies are working to reform their business models and implement data-driven management, while government and public organizations are making efforts to digitize administration to improve user convenience and streamline operations. NEC has been installing mission-critical systems for a large base of customers, mainly in Japan, for many years. In addition to our long-cultivated system development capabilities and knowledge of our customers' industries and operations, we also utilize the latest technologies in AI, security, and networks to provide optimal solutions for our customers.

In addition, our overseas IT services business is centered on the digital government / digital finance domains. Building on the customer bases and software of the three European companies we acquired between 2018 and 2020, we aim to promote the autonomous growth of each company while expanding regional development by leveraging NEC's sales and support systems in Japan and elsewhere in Asia.

### Initiatives and Progress under Mid-term Management Plan 2025

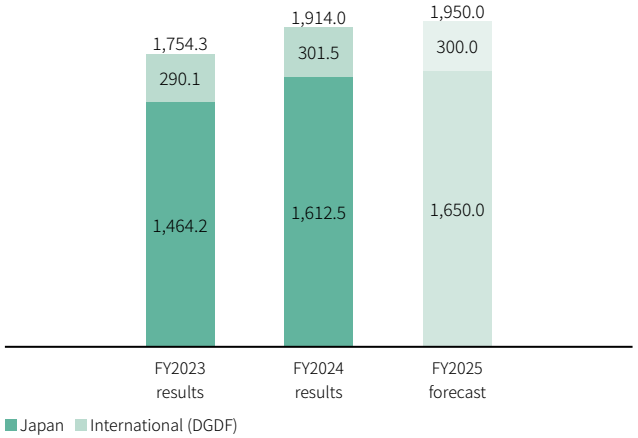
In Japan, the IT services business has made steady progress by capturing the strong demand for DX, and we foresee continued growth. Demand for modernization (replacement) is particularly strong and growing in areas where NEC can make full use of the know-how it has amassed to date. In addition, we have also made solid progress in improving profitability, which is a key issue under Mid-term Management Plan 2025, by implementing measures such as the system integration model reform and strengthening of risk management through NEC BluStellar. We have also been working to meet strong demand for human resources by aiming to secure more than 10,000 DX specialists by fiscal 2026, and already achieved this goal ahead of schedule at the end of fiscal 2024. Starting in fiscal 2025, we have been further strengthening our efforts by introducing a job-based human resource management system among other measures, and by securing engineering resources across the NEC Group.

Abroad, it is taking longer than initially expected to expand synergies with the three European companies. Meanwhile, Avaloq Group AG's software business in the DF domain is seeing progress in the Asia-Pacific region by utilizing NEC's sales channels and is also expanding to customers in Japan. We expect to see profitability improve at an accelerated pace going forward, as steady progress is being made in reducing development costs through the sharing of offshore resources, implementing portfolio transformation such as the sale of KMD Holding A/S' low-profit business, and launching Avaloq's software as a service (SaaS) model.

For details on the initiatives and progress of Mid-term Management Plan 2025, please refer to the NEC IR Day materials.

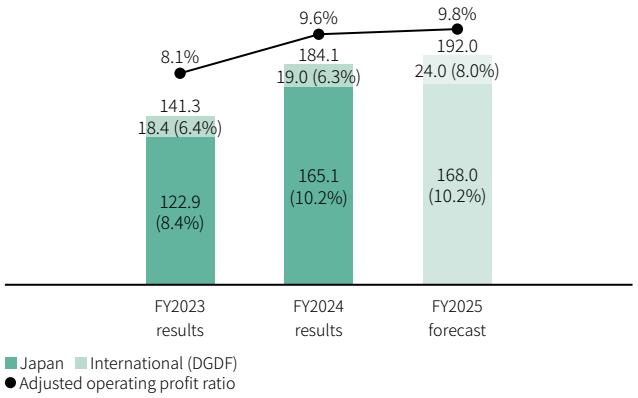
### Revenue

(Billions of yen)




### Adjusted Operating Profit

(Billions of yen)



## IT Services in Japan

### Strengths

- Customer base, industry, and business know-how cultivated over many years
- Systems and resources that can consistently meet customers' DX needs from upstream consulting to implementation, operation, and maintenance
- A wealth of use cases:
  Proven track record in mission-critical system operation, as well as leading-edge DX cases that NEC has implemented and amassed by using itself as a testing ground
- An abundance of DX talent:
  More than 10,000 DX specialists
  Training programs aimed at increasing the number of DX specialists

### Strategy

#### Consistent Value Creation from Consulting through to Building and Operation

As the scope of ICT applications expands, the need to view their use from a management perspective is becoming increasingly important. At the same time, there are many cases where, despite having formulated an articulate vision, the actual system introduction and practical application stages do not go smoothly. Together with ABeam Consulting Ltd., a company that boasts some of the best consulting resources in Japan, NEC provides consistent value based on its proven track record and collaboration between engineers. We are also working to create model cases for DX by forming strategic partnerships with leading companies in various industries.

#### Business Model Reform via Common Platforms

Products, services, and assets that were previously developed in an individually optimized manner for each industry and customer have now been developed and systemized as NEC BluStellar, a common platform in the form of a menu of services based on NEC's own technologies and expertise. This not only enables greater speed but also contributes to improving both the efficiency of service deliveries and profitability through a business model shift to a value-pricing method.

#### Contributions toward the Digitalization of Government

NEC will leverage its years of experience and know-how to standardize and streamline public administration services, improve convenience for the public, provide a digital infrastructure, and help to expand the use of Japan's Individual Number System (My Number Card). In the digitalization of government, both a high level of security quality is required, as well as speed, flexibility, and productivity for the implementation of systems, and we will ensure an optimum balance of such factors in compliance with government guidelines. In Denmark, a country at the forefront of government digitalization, NEC is working with KMD, a company that has supported such efforts, and is actively proposing solutions based on KMD's expertise in breaking down the digital divide and resolving digitalization issues.

#### Seizing of New Business Opportunities

We are working to seize IT-based business opportunities that have become viable as a result of technological advances. Specifically, we will lead social change through new solutions for social issues, using cutting-edge AI and network technologies in areas such as smart city projects aimed at realizing the Digital Garden City National Concept, and mobility projects that coordinate transportation infrastructure and mobility to realize a safe and secure transportation society.

**NEC BluStellar: NEC's Value Creation Model**
(in Japanese only)

NEC BluStellar

Leveraging NEC's advanced knowledge across industries backed by a proven track record and cutting-edge technology honed through years of development and operation, NEC BluStellar is a business brand that creates value to lead customers into the future by realizing business model innovation and resolving social and customer management issues.

## Digital Government / Digital Finance

### Strengths

- Customer base of the three acquired companies and the knowledge gained from their respective track records of delivering results

  NEC Software Solutions UK Limited (SWS): Provides tax collection and social security benefit systems for 45% of local governments in the United Kingdom

  KMD Holding A/S (KMD): Over 50% market share in administrative solutions for local governments in Denmark, which is at the forefront of the digitalization of government

  Avaloq Group AG: Top market share in Europe and second in the Asia-Pacific region for core banking systems for wealth management

- AI and biometric authentication technology for realizing advanced solutions

### Strategy

**Geographical Expansion of Business Areas**

We will be rolling out the software of SWS and KMD, which have a strong track record of delivering results in the United Kingdom and Denmark—two digitally advanced countries—and the expertise in promoting government digitalization, to the Asia-Pacific region and Japan, where NEC has selling power. We will also accelerate sales in the Japanese market and beyond by expanding the value provided through Avaloq's innovative solutions in the wealth management domain and its strategic partnership with BlackRock, Inc.

**Business Portfolio Transformation**

We aim to improve profitability by focusing more closely on the software businesses of the three European companies and promoting a shift to an SaaS model. We will also continue to work on carve-outs of low-profit businesses, as well as bolt-on M&As to expand our business domains and customer base.

**Improvements in Development and Operational Efficiency**

We will pursue cost synergies by engaging in procurement across the NEC Group as a whole. We also aim to improve productivity and sharpen our competitive edge through the mutual utilization of assets, such as through offshore development systems.

**The Three European Companies**

| NEC Software Solutions UK Limited (SWS) | KMD Holding A/S (KMD) | Avaloq Group AG |
|---|---|---|
| NEC Software Solutions UK | KMD An NEC Company | avaloq An NEC Company |
| SWS is an IT services company based in the United Kingdom. The company features a strong customer base and a shared business platform that can be used for a variety of sectors, including policing, tax collection, social security benefits, and public housing management. | KMD is Denmark's largest IT company with a strong customer base in the government and municipal sectors and wide-ranging platforms, which it has leveraged to support digitalization of the Danish government. | The Swiss software company Avaloq primarily engages in recurring business from the provision of software to financial institutions via an SaaS business model. The company holds the top market share in Europe and ranks second in the Asia-Pacific region. |
| Acquired in 2018 | Acquired in 2019 | Acquired in 2020 |

# Social Infrastructure

## Business Overview

NEC has long been contributing to society through its Social Infrastructure business utilizing cutting-edge technology.

We have been involved in the telecom services industry since our founding, and in addition to providing infrastructure such as fixed-line and wireless telecommunications equipment and submarine cables for telecommunications carriers, we also provide a wide range of services, including facility management and billing management software that is necessary for telecommunications carrier operations. In recent years, network connections have gone beyond the scope of smartphones and computers to include a variety of sensors, home appliances, automobiles, medical devices, and other items, and are truly underpinning the foundation of today's digital society. In addition, as network traffic increases, the environmental impact of the increased power consumption of telecommunications equipment is becoming an issue that must be addressed, and we are working on solutions to ensure that telecommunications carriers can operate their businesses efficiently and flexibly.

Utilizing IT systems, sensors, and network technologies, the Aerospace and National Security (ANS) business provides equipment and systems, primarily to government agencies, in the ANS domains. Specifically, we provide satellites and ground systems for controlling them, as well as radar equipment, and secure communications equipment. In recent years, there has been growing optimism about the use of new technologies in interdisciplinary fields, such as the use of space data, for example, using data collected from satellites to monitor disasters and reduce damage, such as through rapid recovery and relief activities, and the construction of optical networks in space that connect satellites.

Leveraging the advanced technological capabilities we have amassed to date, we will contribute to resolving issues through a wider range of applications in both the private and public sectors.

## Initiatives and Progress under Mid-Term Management Plan 2025

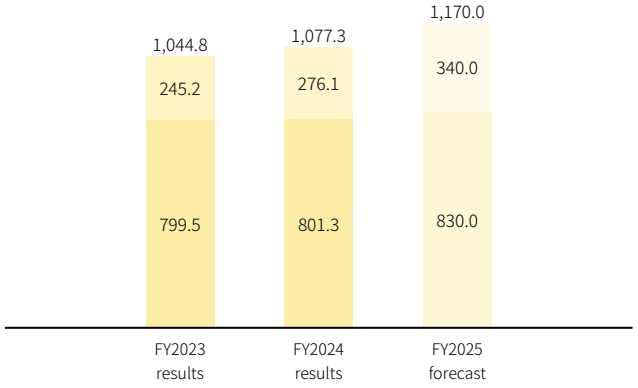
In the Telecom Services business, we have positioned the global 5G business, including in Japan, as a growth business under Mid-term Management Plan 2025. Investment from telecommunications carriers in 5G has fallen short of initial expectations. As such, starting in fiscal 2024, we promoted a shift in our operations to prioritize profitability by reducing upfront costs for overseas expansion. We will shift to virtualized base stations (vRAN), which are expected to expand in popularity in the coming years, and will also leverage partnerships such as that with OREX SAI, INC. to develop our business as a more efficient and profitable business model.

In the ANS business, medium- to long-term demand is increasing more than initially expected when Mid-term Management Plan 2025 was formulated, due to an increase in the government's defense budget in accordance with Japan's Medium-Term National Defense Program and the integration of space policy and national security policy. Leveraging the advanced technological capabilities we have cultivated to date, we will firmly seize new business opportunities and link them to businesses expansion.

For details on the initiatives and progress of Mid-term Management Plan 2025, please refer to the NEC IR Day materials.

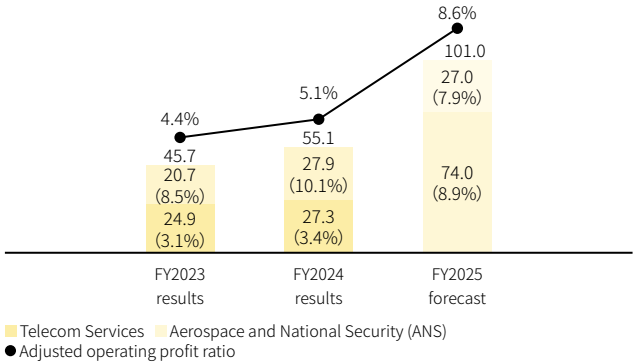
### Revenue

(Billions of yen)




### Adjusted Operating Profit

(Billions of yen)



## Telecom Services

### Strengths

- Assets and know-how based on track record of building and operating mission-critical systems
- Wide range of technologies and proposal capabilities
  Fixed and mobile networks, advanced optical communications technologies in submarine cables, software such as OSS/BSS

### Strategy

#### Transition to High-Value-Added Business Centered on the Software Domain

Amid the ongoing downward trend in investment from telecommunications carriers, we will respond to growing expectations for new technologies by shifting to open mobile communications networks and making them more software-based to achieve efficient and flexible network operations. To do so, we will focus on the following areas as we develop DX solutions for telecommunications companies.

- **Virtualization of telecom functions:** By providing vRAN, which delivers base station functionality through software on commodity platforms (on-premise, cloud) rather than dedicated hardware, it is possible to achieve flexible and rapid service changes and improve fault tolerance.
- **Advancing operational support through AI:** By incorporating AI into OSS previously provided by Netcracker Technology Corporation, we will achieve efficient management of network systems, which are becoming more complex due to factors such as the shift to open systems, and promote DX for telecommunications carriers. As the virtualization of base stations continues, system compatibility will increase even further.

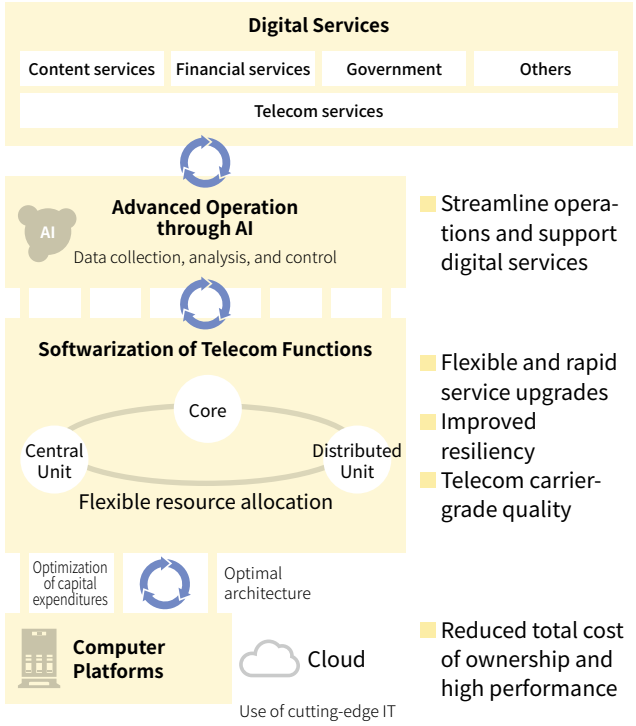
#### Initiatives to Realize Future Networks

Toward the realization of our Beyond 5G vision and the Innovative Optical and Wireless Network (IOWN) concept, we aim to expand our business on a global scale by advancing our business alliance with NIPPON TELEGRAPH AND TELEPHONE CORPORATION (NTT) and increase international competitiveness through joint development and research of products and technologies that will create new value. At the same time, we will contribute to the realization of carbon neutrality in the telecommunications industry as a whole through power efficiency and renewable energy solutions.

#### Seizing Business Opportunities in the Area of Submarine Cables

The market for submarine cables as international communication lines to handle increasing global data traffic is growing, and investment by global service providers in addition to traditional telecommunications carriers is increasing. The Company will seize business opportunities by differentiating itself from competitors through advanced optical communications technology and its strong presence in the Asia-Pacific region.

#### DX Solutions Aimed at Telecommunications Carriers



## Aerospace and National Security

### Strengths

- Track record in mission-critical system operation
- Technological capabilities cultivated over many years, covering all areas, from the ocean floor to outer space; world-leading biometric authentication, AI, and cybersecurity technologies
- Consistent business structure from in-house development through to manufacturing, implementation operation, and maintenance

### Strategy

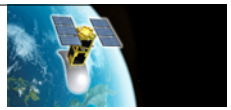
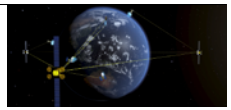
**Realizing a Safe and Secure Society by Making Extensive Use of AI from Outer Space to the Ocean Floor**

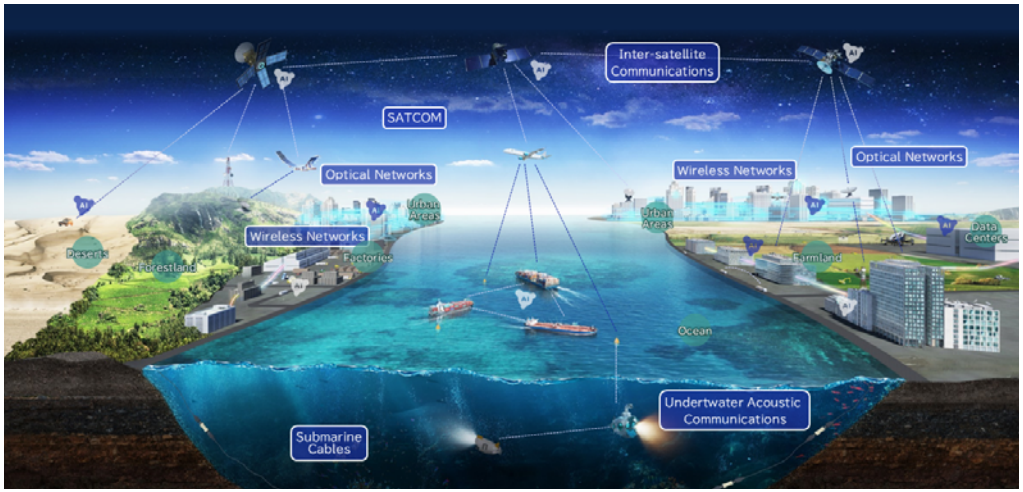
We aim to further advance our long-cultivated individual technologies, such as radio wave sensing, sound wave sensing, and covert communications. We will also work to build a next-generation telecommunications infrastructure in the converging fields of national security, outer space, and telecommunications, including an optical network in outer space.

**New Applications for Data Obtained from Outer Space**

We aim to provide solutions that utilize data acquired from satellites for a wider range of applications in both the public and private sectors, such as rapid recovery and disaster mitigation through the monitoring of disasters.

### Examples of Achievements

| | Aerospace | National Security |
|---|---|---|
| IT systems |  Air traffic control systems |  Command and control systems |
| Sensors |  Satellites | Warning and control radars |
| Networks |  Optical communications systems | Field communication systems |




### NEC's Vision for the Social Infrastructure Business

NEC has a wealth of knowledge and strong technological capabilities in the telecommunications industry, including large-scale network systems that form countries' national telecommunications infrastructures and submarine cables that connect the world, as well as in the field of aerospace and national security, including dedicated defense networks that can be drawn upon in times of disaster, optical communications technology that utilizes submarine cables, and underwater acoustic communications. We create and provide new social value by combining these strengths. We also aim to achieve network architecture that utilizes outer space, which we believe will change the world by enabling information to be shared in real time by anyone, anywhere, even in areas with few base stations or in mountainous regions.