

# Social Infrastructure Business

November 30, 2023

Corporate Senior Executive Vice President and Co-COO (Executive Officer)

Masakazu Yamashina

1. Overview of Social Infrastructure Business
2. Performance Trends and Mid-term Management Plan
3. Social Infrastructure Business Landscape
4. Key Measures for FY2026/3 Targets

# 1. Overview of Social Infrastructure Business

# Overview of Social Infrastructure Business

**Provide social value with deep domain knowledge of Telecommunications, Aerospace and National Security and NEC's technological capabilities**

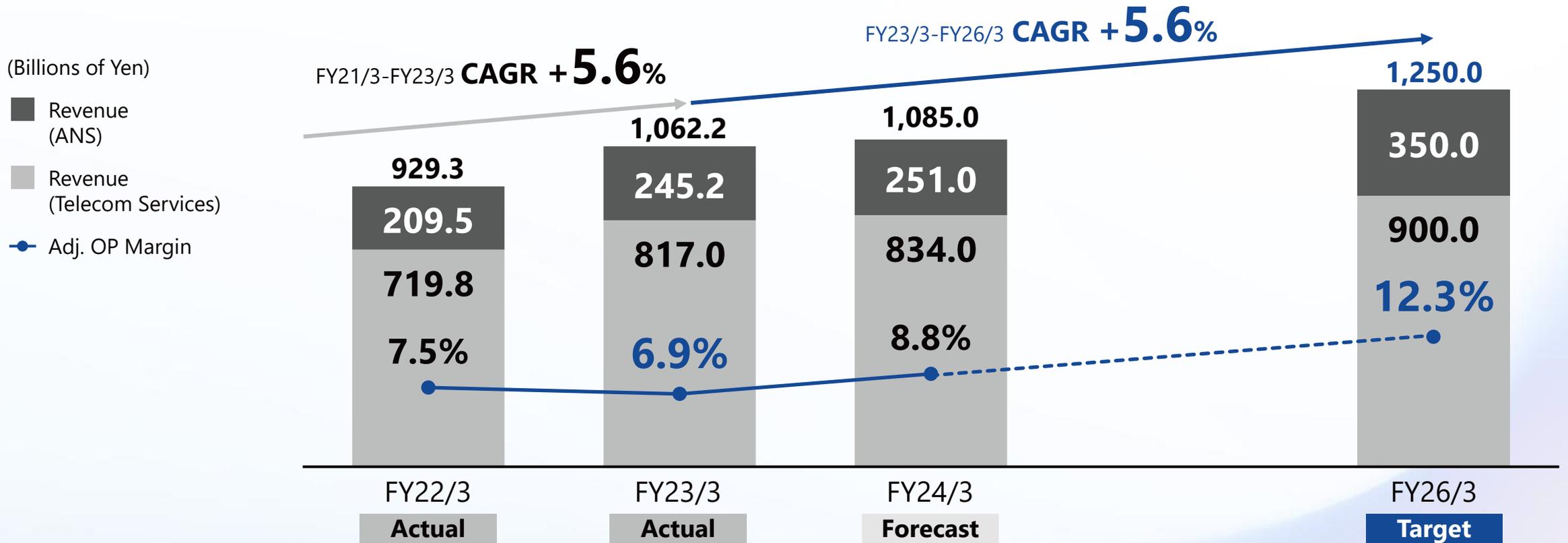
<b>Telecom Services</b>	Tele-communications	<b>Telecommunications System</b>	<b>Domestic Telecom Operators</b> <b>Overseas Telecom Operators</b>		
		<b>OSS/BSS*</b>			
		<b>IT Infrastructure/Business Service Applications</b>			
		<b>Submarine Cables Systems</b>			
<b>ANS</b> (Aerospace and National Security)	<b>Aviation</b>	<b>Air Traffic Control System</b>	<b>MLIT · Civil Aviation Bureau</b>		
	<b>Space</b>	<b>Satellites/Related Ground Systems/ Satellite Operation Services</b>	<b>JAXA</b>	<b>Cabinet Office</b>	<b>Cabinet Secretariat</b>
	<b>Defense</b>	<b>IT/Network/Sensor System</b>	<b>Ministry of Defense</b>	<b>Related Organizations</b>	

\* Operations Support Systems/Business Support Systems

## 2. Performance Trends and Mid-term Management Plan

# Performance Trends and Mid-term Management Plan

**Transform into a highly profitable business by reviewing the cost structure and the business model**



# 3. Social Infrastructure Business Landscape

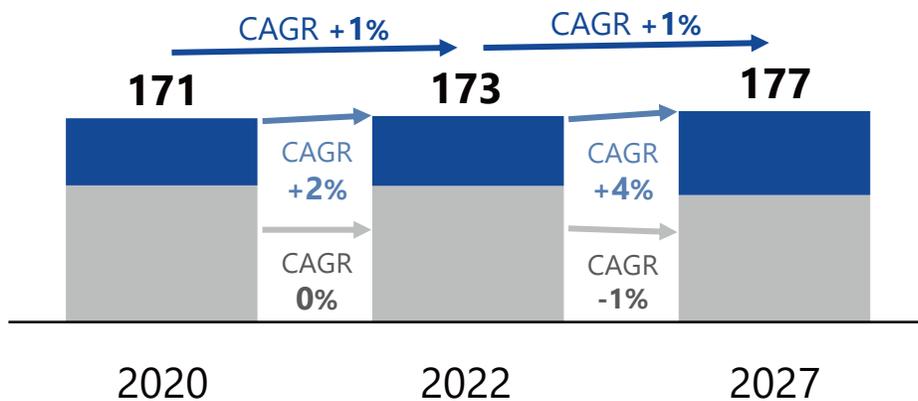
# Social Infrastructure Business Landscape

## Telecom Services

- Software market size is expanding (infrastructure Softwareization & OSS) while investments in network infrastructure is sluggish
- Delay of Open RAN market start up

**Market Size of Global Telecommunication** (NEC Estimate)

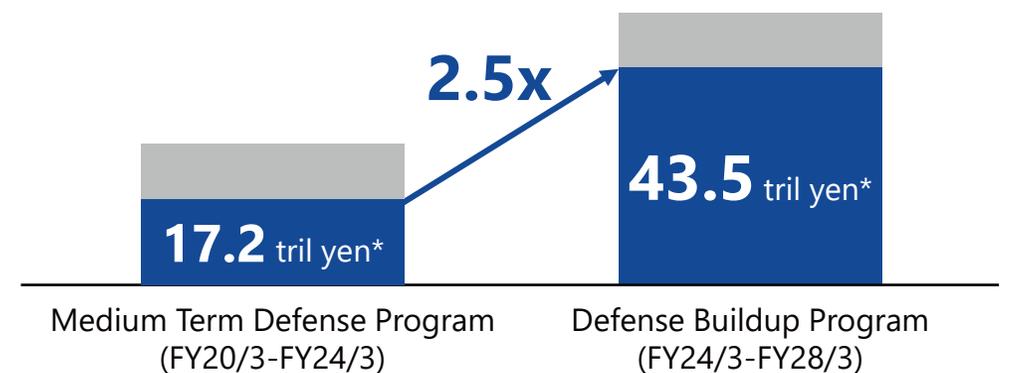
(B\$) ■ Operation management system ■ Network Infrastructure



## ANS

- Increasing mid- to long-term demand by integration of Space Policy and National Security Policy
- Double in defense budget (material expenses) by Defense Buildup Program
- Margin improved by measures to maintain and strengthen defense production and technology base

**Buildup Program**



\* Contract amount related to newly required business (material expenses)

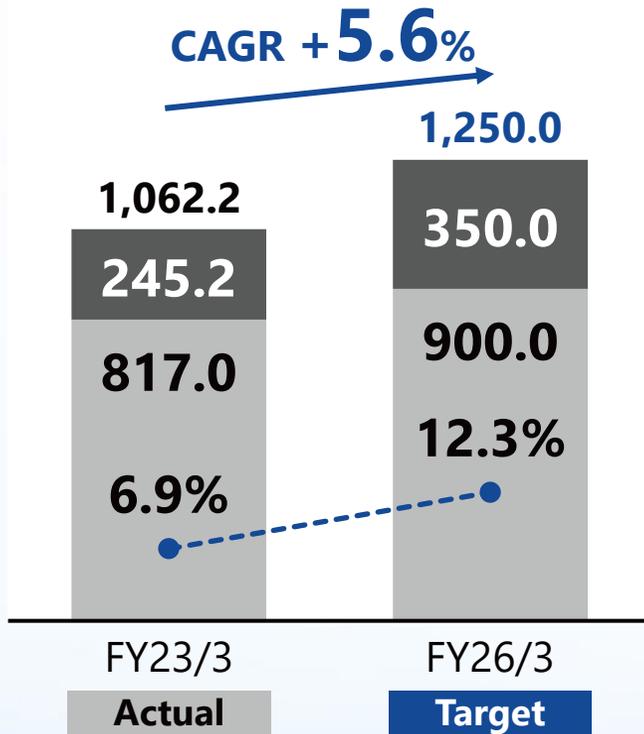
Source: Ministry of Defense "Medium Term Defense Program (FY2019-FY2023)". "Defense Buildup Program".

## 4. Key Measures for FY2026/3 Targets

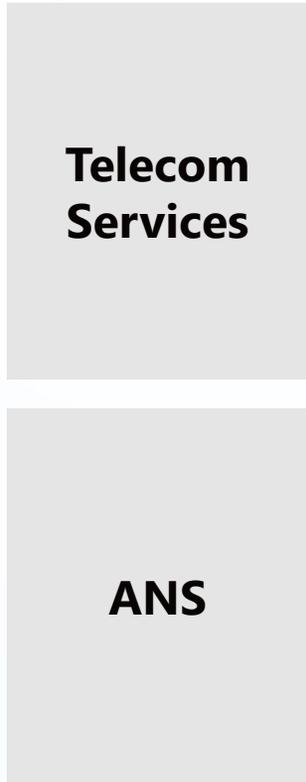
# Key Measures for FY2026/3 Targets

(Billions of Yen)

■ Revenue (ANS) ■ Revenue (Telecom Services)  
 ● Adj. OP Margin



**FY23/3-FY26/3**  
 Adj. OP CAGR  
**+27.8%**



- Review of Global 5G strategy
- Shift to high-value added business (focus on DX solutions)
- Improve profitability & expand software business

- Increase Revenues and improve profitability
- Strengthen Resources

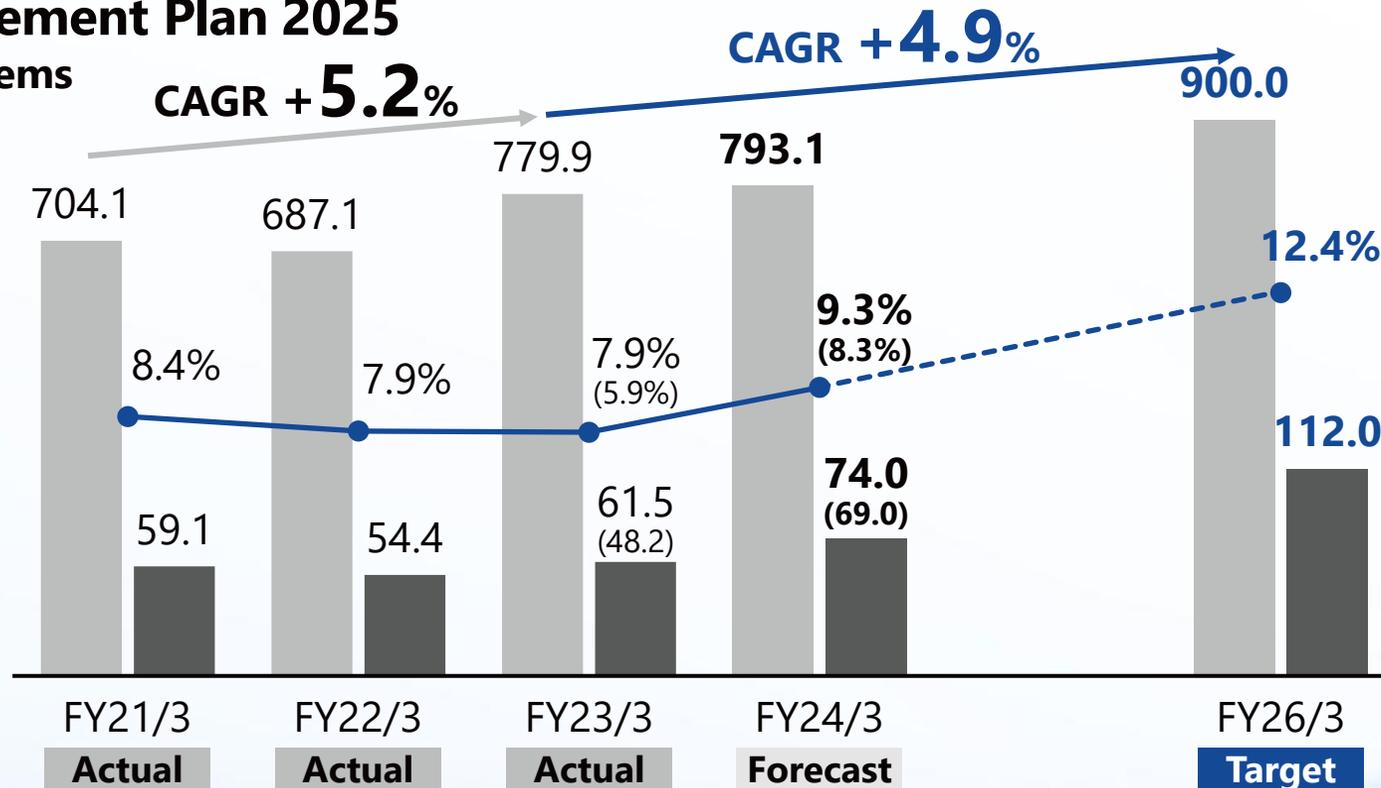
# Telecom Services: Mid-term Management Plan 2025

**Improve profitability by reviewing cost structure, cost reduction in hardware business, and shift to software business**

## Mid-term Management Plan 2025 excl. extraordinary items

(Billions of Yen)

- Revenue
- Adj. OP (incl. extraordinary items)
- Adj. OP Margin (incl. extraordinary items)



**FY23/3-FY26/3**

Adj. OP CAGR  
**+22.1 %**

**FY21/3-FY23/3**

Adj. OP CAGR  
**+2.0 %**

Major extraordinary items: 5G-related accounting treatment (loss control/allowance for inventory diversion, impairment of goodwill on acquired companies, etc.), businesses planned to be carved out, income from major patents

# Telecom Services: Growth

Strengthen product competence and expand market share (Orders CAGR 8.5%)

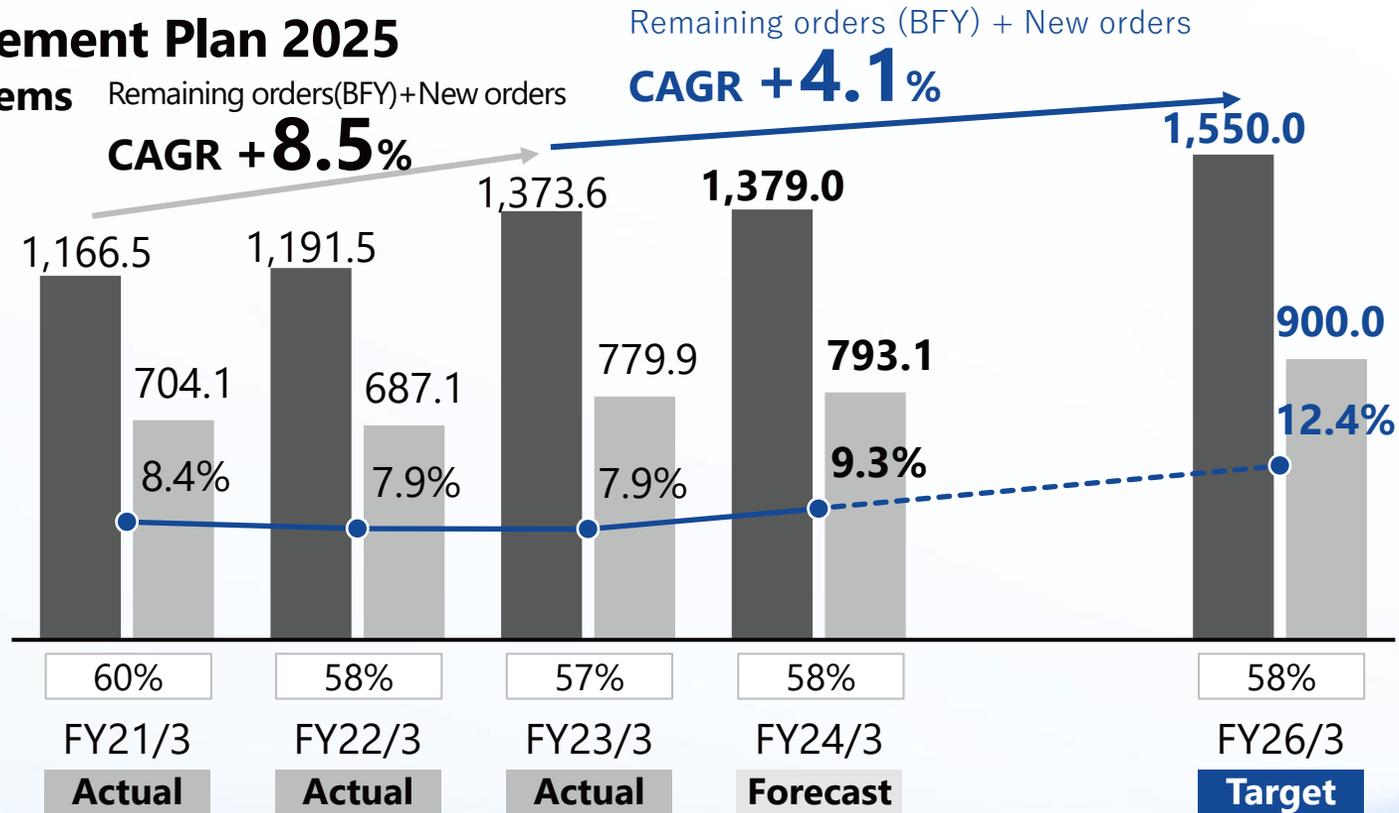
NEC continuously exceeding its market share rate than market growth rate

## Mid-term Management Plan 2025

excl. extraordinary items

(Billions of Yen)

- Backlog (BFY) + New orders
- Revenue
- Adj. OP Margin
- Conversion rate



**FY23/3-FY26/3**

Revenue CAGR  
**+4.9%**

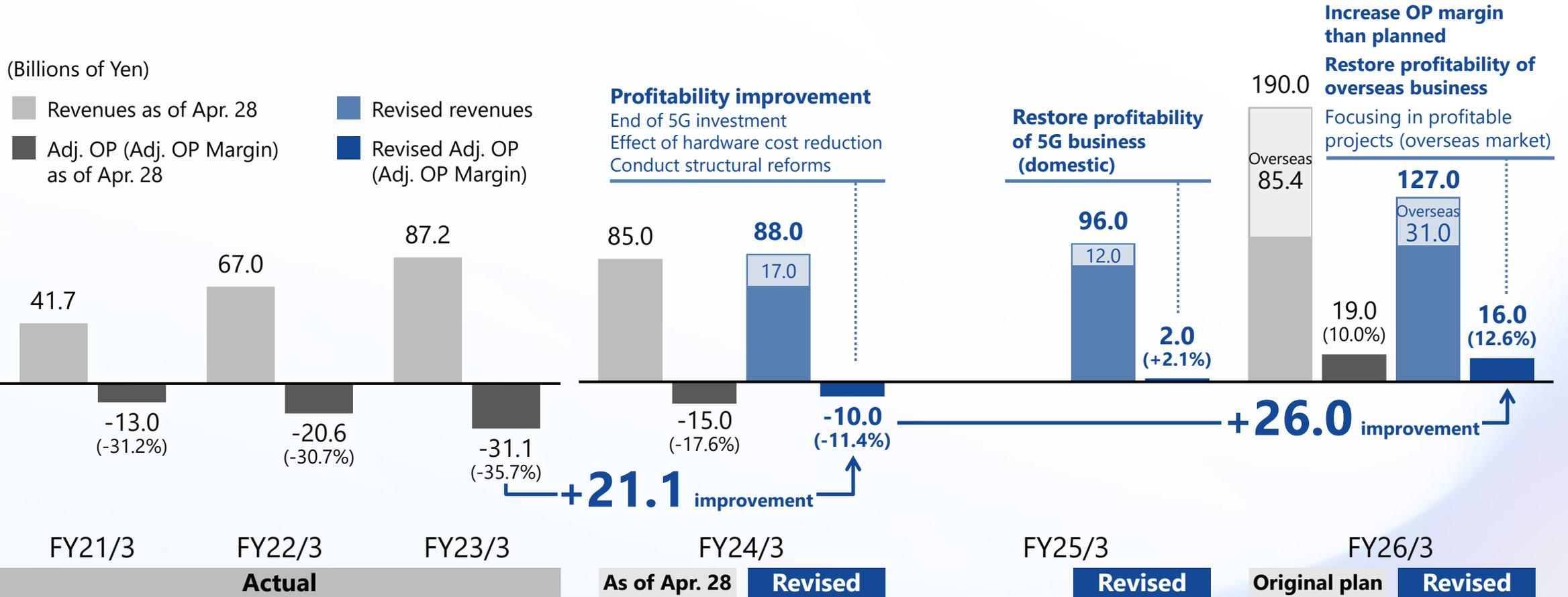
**FY21/3-FY23/3**

Revenue CAGR  
**+5.2%**

Major extraordinary items: major patent licenses, businesses expected to be carved out

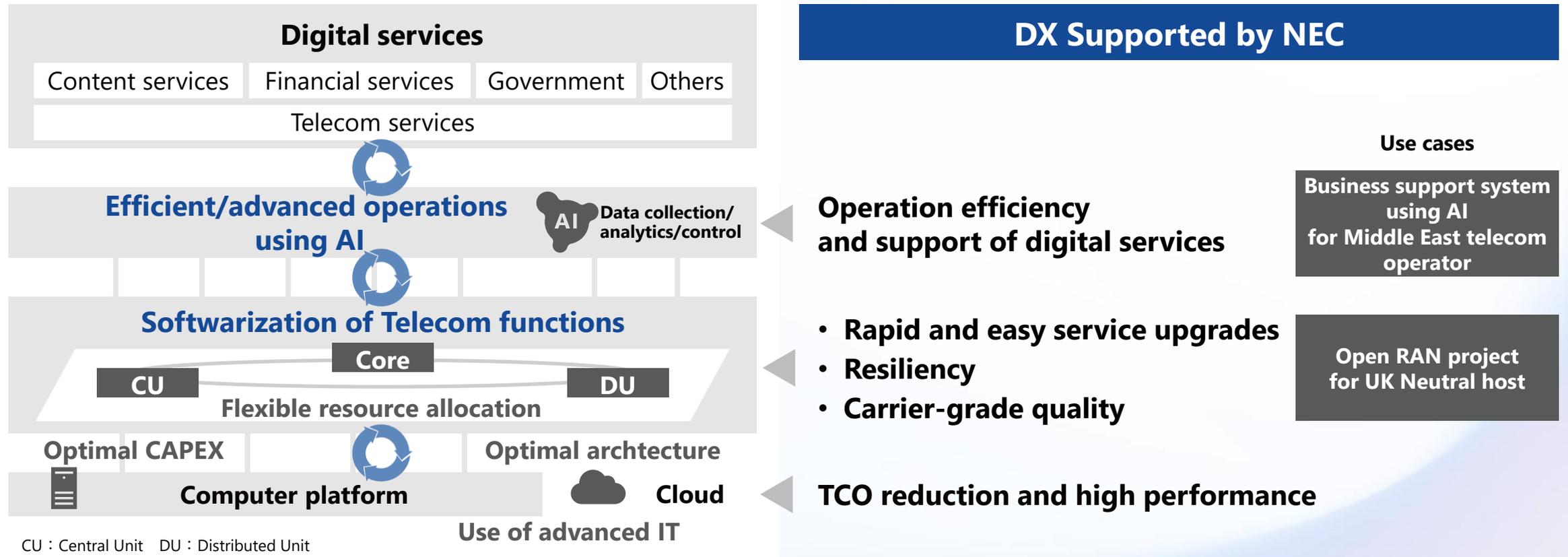
# Telecom Services: Review of the Global 5G Strategy

**Structural reforms of overseas business and focus on profitable projects**  
**Shift to high value-added software sectors : Ratio 36% to 51%**



# Telecom services: Shift to high-value added business (strengthen DX solutions)

**Promote the DX of digital service providers through software-based network functions and advanced operation management utilizing AI**

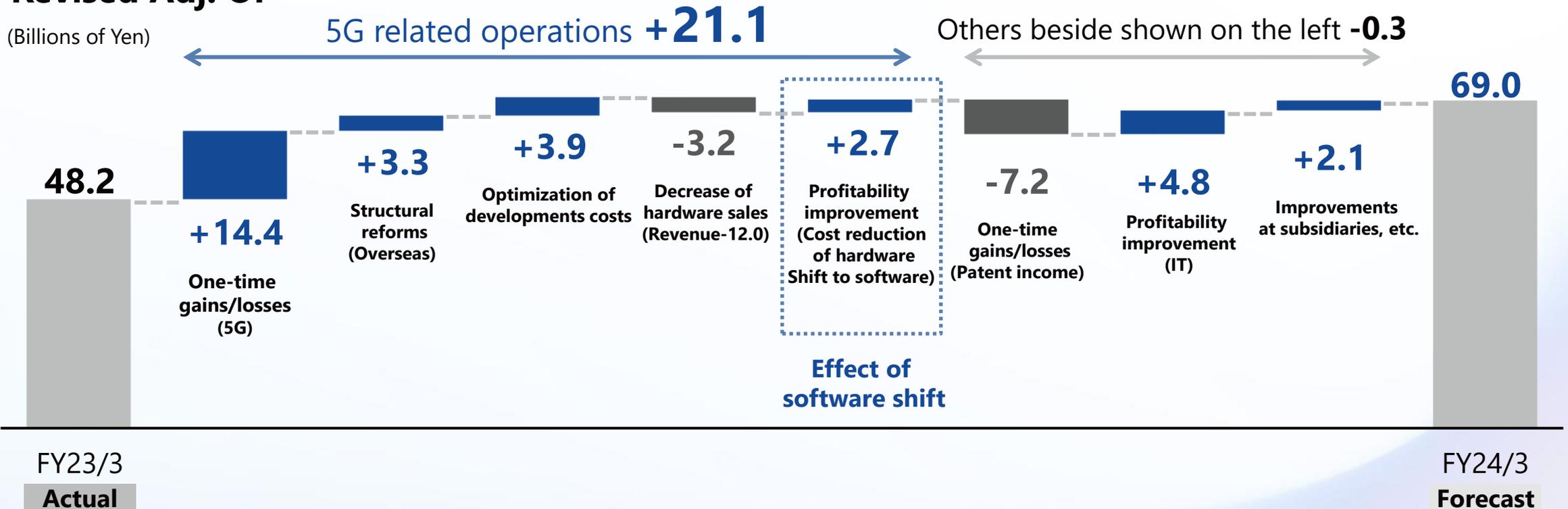


# Telecom service: Cost restructure and increase of software ratio (FY23/3-FY24/3)

**Increase profit by cost restructure of 5G business  
(reduction in one-time cost, optimization of SG/A and development cost)**

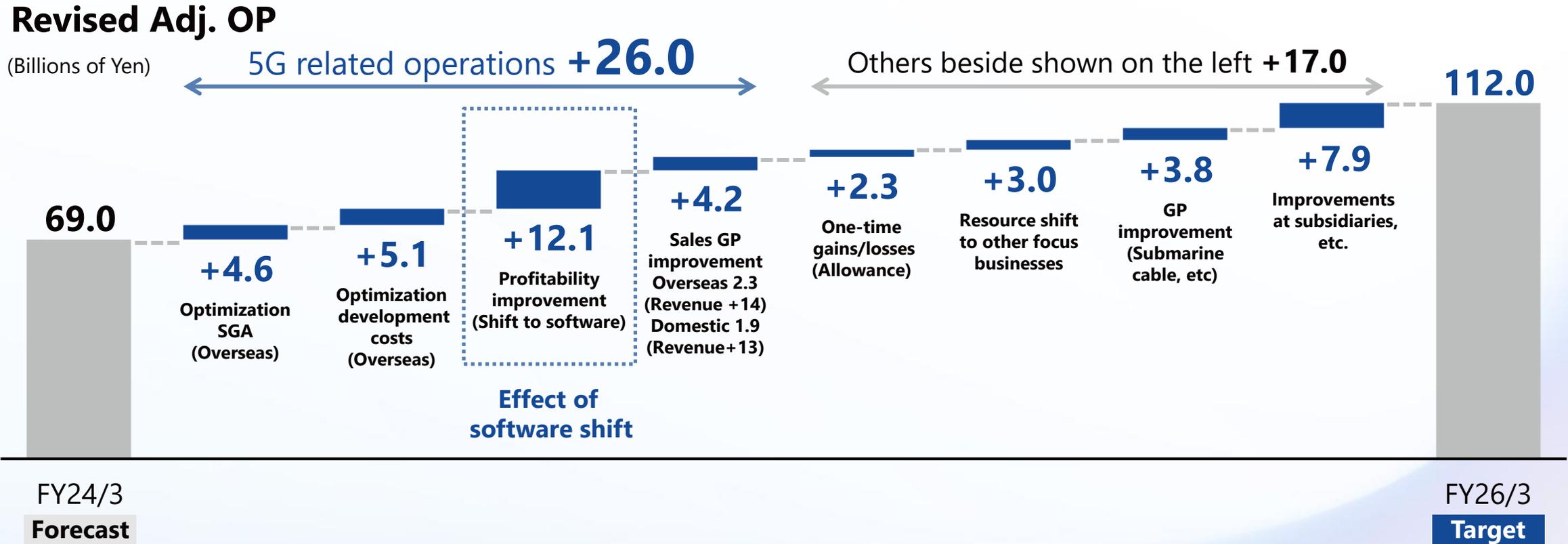
## Revised Adj. OP

(Billions of Yen)



# Telecom service: Cost restructure and increase of software ratio (FY24/3-FY26/3)

Increase profitability by shifting to software business and high-value added business



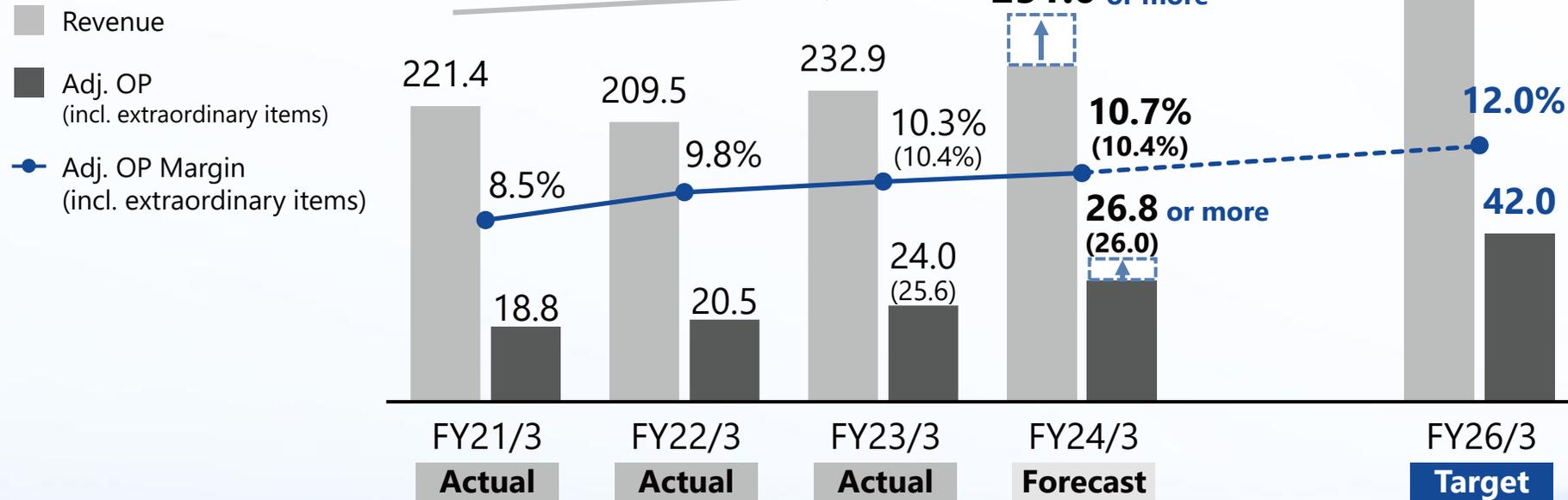
# ANS: Mid-term Management Plan 2025

**Sales growth based on defense budget increase (CAGR 14.5%)**

**Defense equipment profitability improvement resulting in +2% total profitability.**

## Mid-term Management Plan 2025 excl. extraordinary items

(Billions of Yen)



**FY23/3-FY26/3**

Adj. OP CAGR  
**+20.5 %**

**FY21/3-FY23/3**

Adj. OP CAGR  
**+13.0 %**

Major extraordinary items: accounting treatment (gains on reversal of loss control/inventory diversion, etc.)

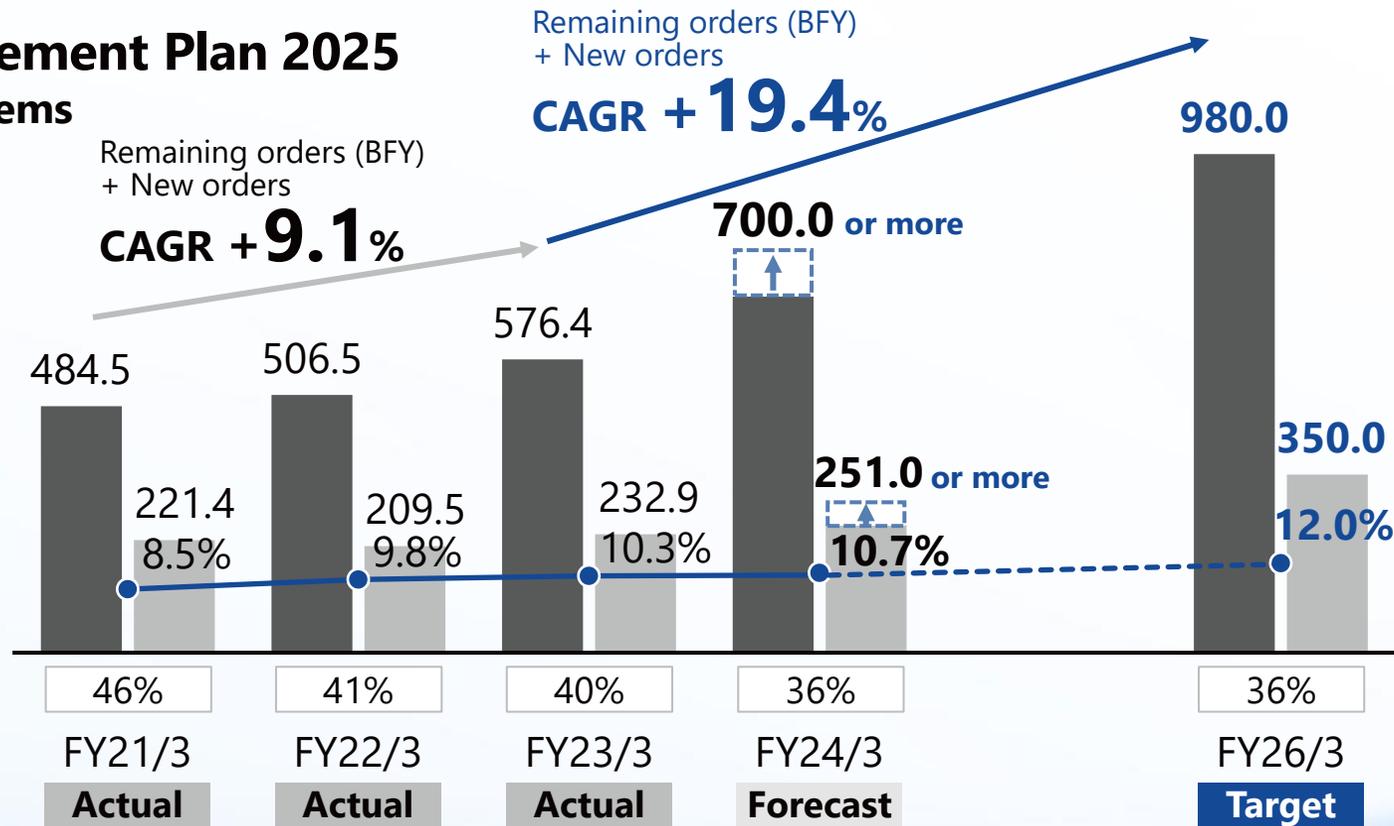
# ANS: Growth

**Supported by the increase in the defense budget, performance is expected to significantly exceed growth assumptions from up to FY23/3**

## Mid-term Management Plan 2025 excl. extraordinary items

(Billions of Yen)

- Backlog (BFY) + New orders
- Revenue
- Adj. OP Margin
- Conversion rate



### FY23/3-FY26/3

Revenue CAGR  
**+14.5%**

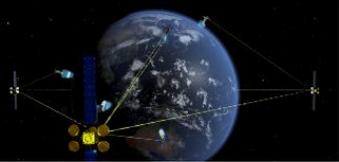
### FY21/3-FY23/3

Revenue CAGR  
**+2.6%**

# ANS: Increase Revenues and Improve Profitability

Expand ANS business with focus on Defense Buildup Program and Basic Plan on Space Policy

## ANS Track Record (Examples)

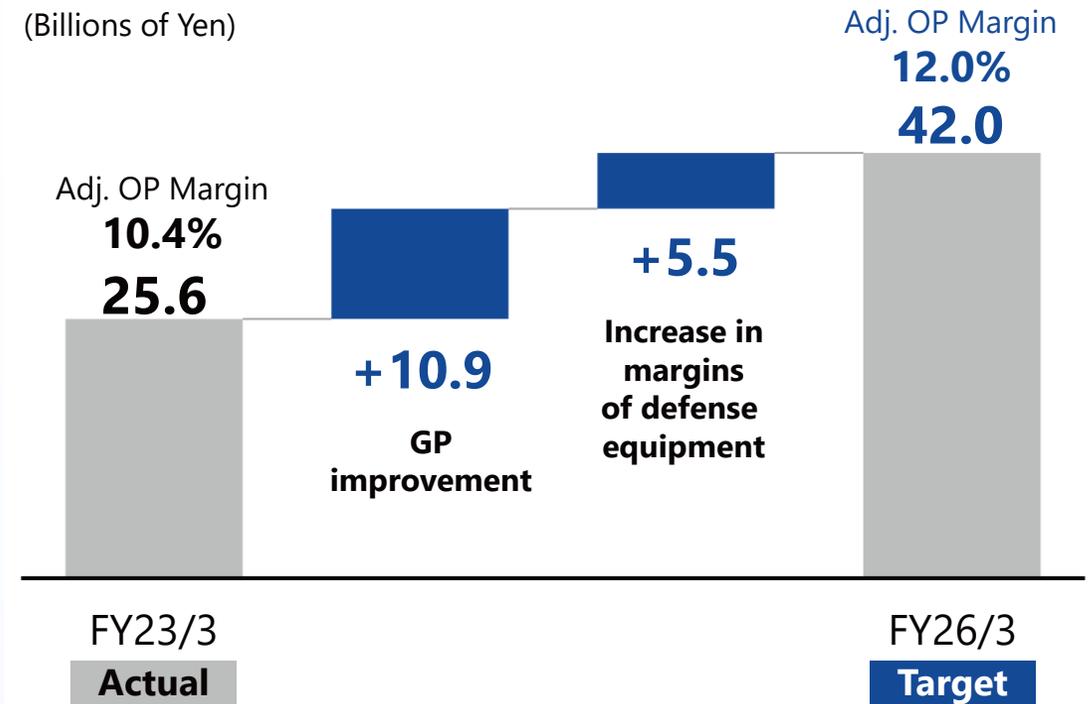
	Aerospace	Defense
IT	 <b>Air Traffic Control System</b>	 <b>Command and Control Systems</b>
Sensor System	 <b>Satellites</b>	 <b>Warning and Control Radar</b>
Network	 <b>Optical Communication Systems</b>	 <b>Field Communications Infrastructure</b>

\*1 Source: Japan Air Self-Defense Force website \*2 Source: Japan Ground Self-Defense Force website

## Improvement of Profitability

### Adj. OP Plan

(Billions of Yen)



# ANS: Strengthen Resources

## Increase resources to support business growth



### Increase headcount

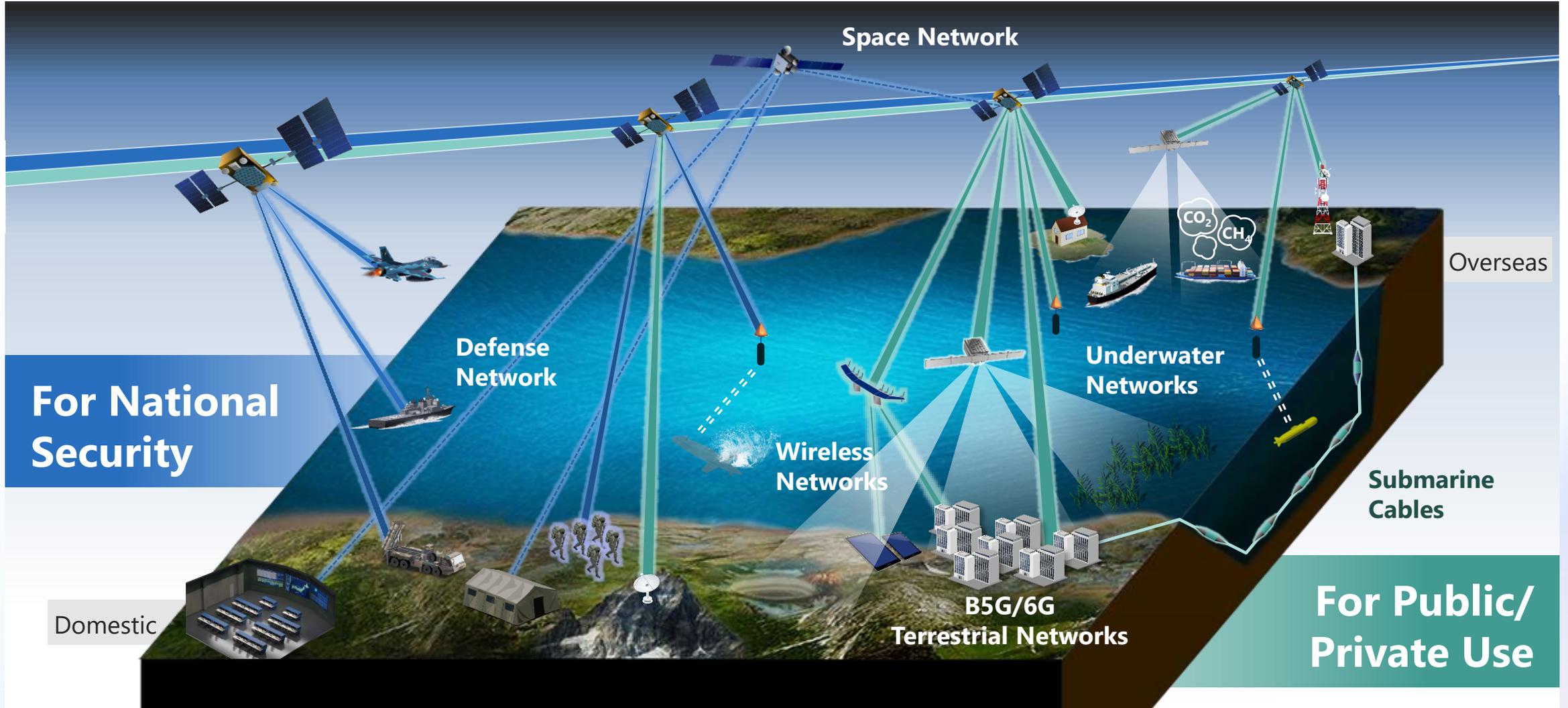
- Increase headcount by 430 during FY24/3
- Increase headcount by 1,000 by FY26/3



### Strengthen production capacity

- Construct new building in Fuchu, Tokyo, ANS's production center (to be completed in FY25/3)
- Expand floor space by 40,000 m<sup>2</sup> toward FY26/3

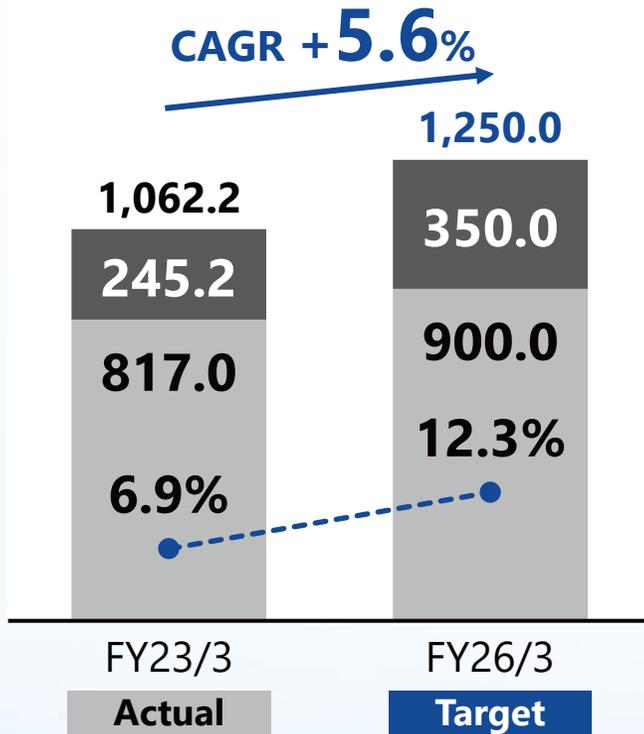
# Shift to high-value added business: Networks Connecting the World



# Summary

(Billions of Yen)

■ Revenue (ANS) ■ Revenue (Telecom Services)  
 ● Adj. OP Margin



**FY23/3-FY26/3**  
 Adj. OP CAGR  
**+27.8%**

**Telecom Services**

- Review of Global 5G strategy
- Shift to high-value added business (focus on DX solutions)
- Improve profitability & expand software business

**ANS**

- Increase Revenues and improve profitability
- Strengthen Resources

**▶ Mindset Shift**

\ Orchestrating a brighter world

**NEC**

# Cautionary Statement with Respect to Forward-Looking Statements

This material contains forward-looking statements regarding estimations, forecasts, targets and plans in relation to the results of operations, financial conditions and other overall management of the NEC Group (the "forward-looking statements"). The forward-looking statements are made based on information currently available to the Company and certain assumptions considered reasonable as of the date of this material. These determinations and assumptions are inherently subjective and uncertain. These forward-looking statements are not guarantees of future performance, and actual operating results may differ substantially due to a number of factors.

The factors that may influence the operating results include, but are not limited to, the following:

- adverse economic conditions in Japan or internationally;
- foreign currency exchange and interest rate risks;
- changes in the markets in which the NEC Group operates;
- the recent outbreak of the novel coronavirus;
- potential inability to achieve the goals in the NEC Group's medium-term management plan;
- fluctuations in the NEC Group's revenue and profitability from period to period;
- difficulty achieving the benefits expected from acquisitions, business combinations and reorganizations and business withdrawals;
- potential deterioration in the NEC Group's relationships with strategic partners or problems relating to their products or services;
- difficulty achieving the NEC Group's growth strategies outside Japan;
- potential inability to keep pace with rapid technological advancements in the NEC Group's industry and to commercialize new technologies;
- intense competition in the markets in which the NEC Group operates;
- risks relating to the NEC Group's concentrated customer base;
- difficulties with respect to new businesses;
- potential failures in the products and services the NEC Group provides;
- potential failure to procure components, equipment or other supplies;
- difficulties protecting the NEC Group's intellectual property rights;
- potential inability to obtain certain intellectual property licenses;
- the NEC Group's customers may encounter financial difficulties;
- difficulty attracting, hiring and retaining skilled personnel;
- difficulty obtaining additional financing to meet the NEC Group's funding needs;
- potential failure of internal controls;
- potentially costly and time-consuming legal proceedings;
- risks related to regulatory change and uncertainty;
- risks related to environmental laws and regulations;
- information security and data protection concerns and restrictions;
- potential changes in effective tax rates or deferred tax assets, or adverse tax examinations;
- risks related to corporate governance and social responsibility requirements;
- risks related to natural disasters, public health issues, armed hostilities and terrorism;
- risks related to the NEC Group's pension assets and defined benefit obligations; and
- risks related to impairment losses with regard to goodwill.

The forward-looking statements contained in this material are based on information that NEC possesses as of the date hereof. New risks and uncertainties come up from time to time, and it is impossible for NEC to predict these events or how they may affect the NEC Group. NEC does not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Note: In this presentation, the accounting periods of the fiscal years for March 31, 2022, 2023, and 2024 were referred as FY22/3, FY23/3, and FY24/3 respectively. Any other fiscal years would be referred similarly.