

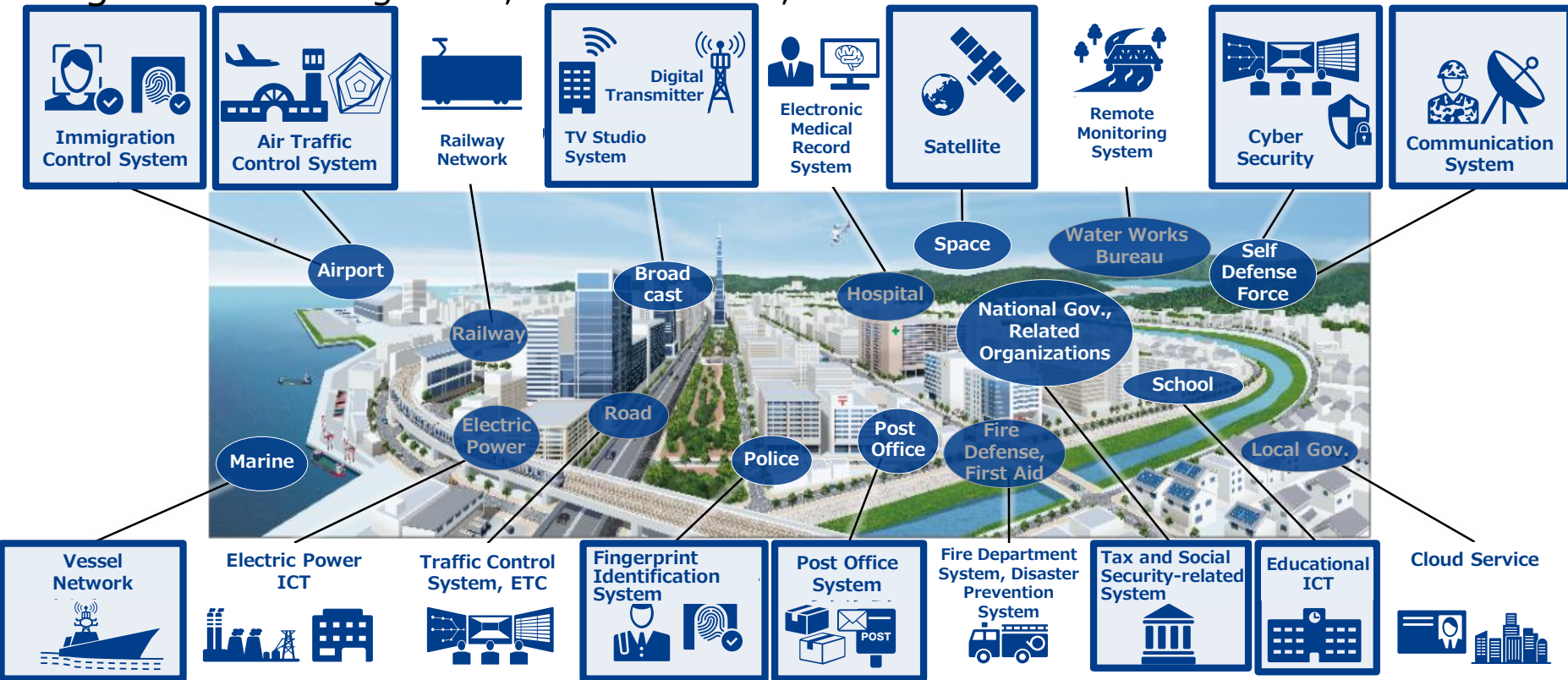
Public Infrastructure Business

Noritaka Taguma, Executive Vice President

Overview of the Public Infrastructure Business

: Public Infrastructure Business Domains

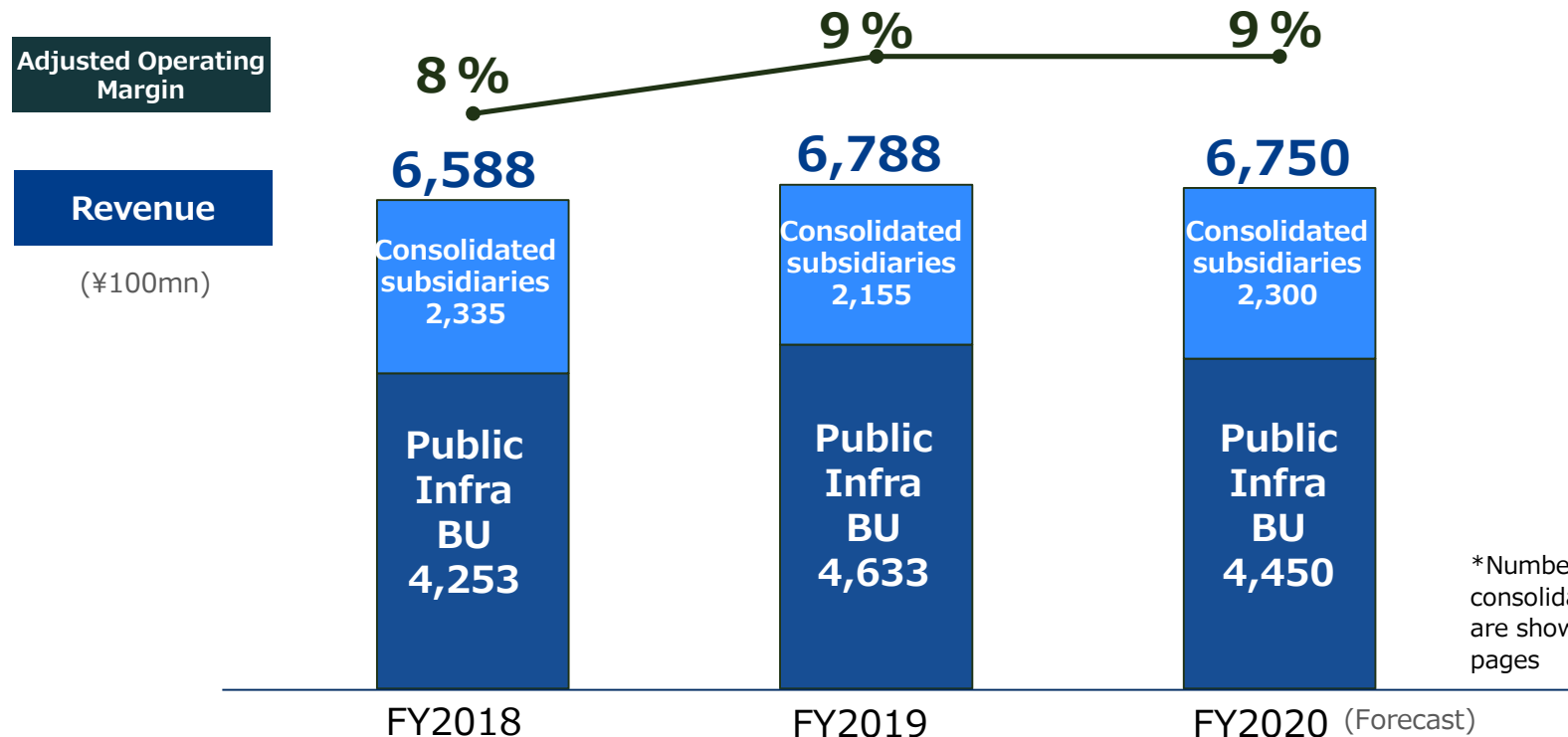
■ Responsible for products and system integration / services for Japanese government agencies, broadcasters, etc.



Business Performance from FY2018 to FY2020

FY2019: Increased in revenue and profit from FY2018's across all business domains

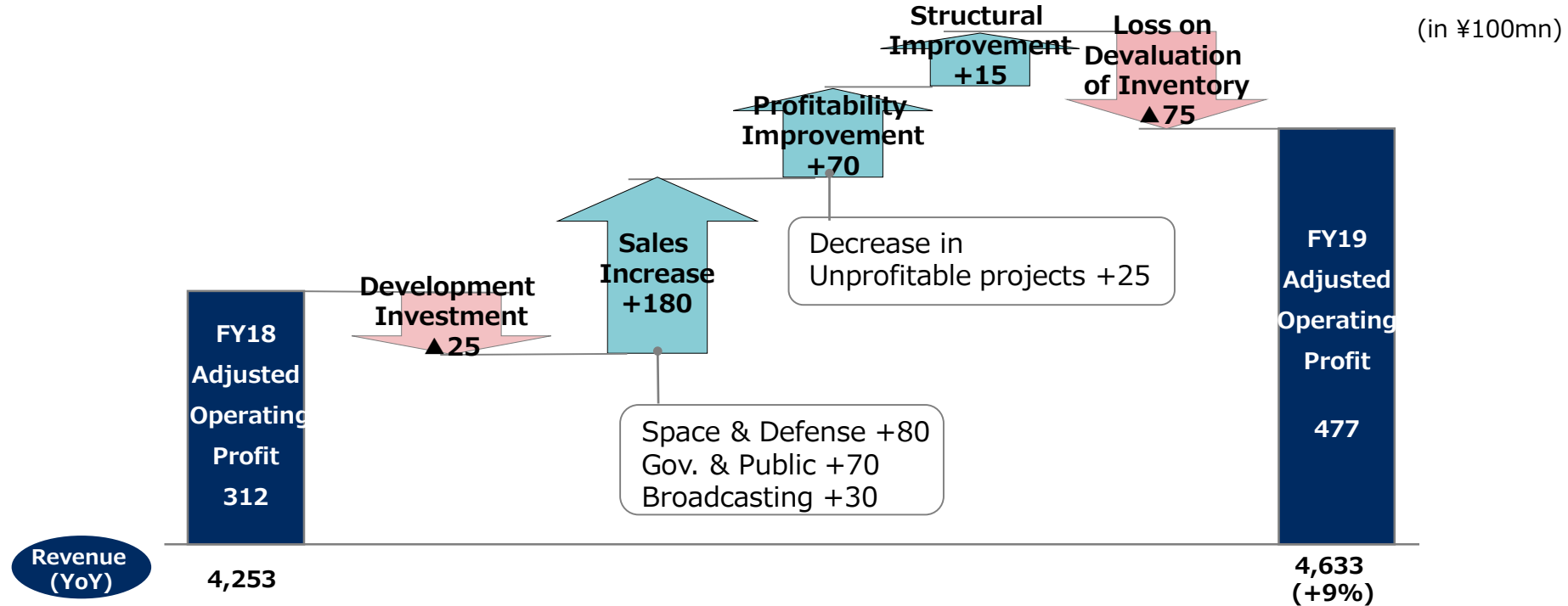
FY2020: Expected to decrease in revenue due to reductions of large contracts in the space and defense domains, but adjusted margin is on a level with FY2019's.



*Numbers excluding consolidated subsidiary are shown on following pages

FY2019 Results

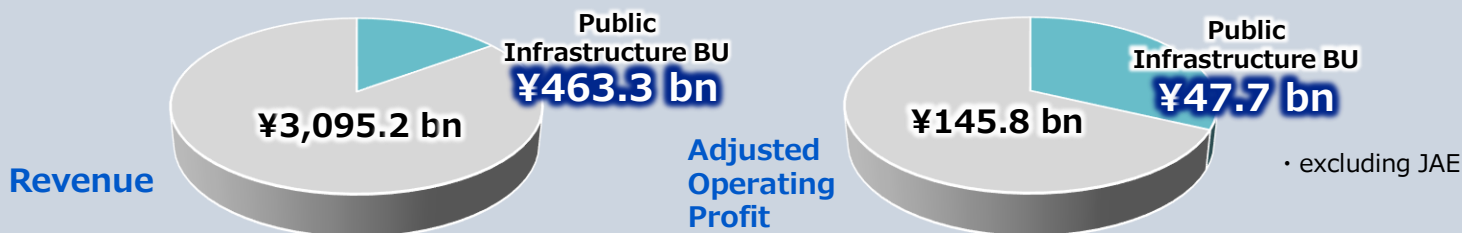
Recorded ¥7.5 billion as loss on devaluation of inventory, but sales increase and profitability improvement led to ¥16.5 billion profit increase



Summary of Business in FY2019

Key Achievements

- Plans achieved, contributing to company's performance



- Major projects acquired / completed



Source: Ministry of Defense & JASDF websites
(<https://www.mod.go.jp/asdf/okinoerabujima/index.html>)

Challenges

Minimization of impacts of unprofitable projects

FY2018-19 Results -Sector Summary-

Gov. & Public



- **Increased in revenue** due to the expansion of projects combining information technology and Network technology
- Maintained high profitability

Space & Defense



- **Profit loss continued** in the space domain because of outstanding unprofitable projects
- **Revenue increased** in the defense domain owing to large contracts, **reducing unprofitable projects and improving profitability**

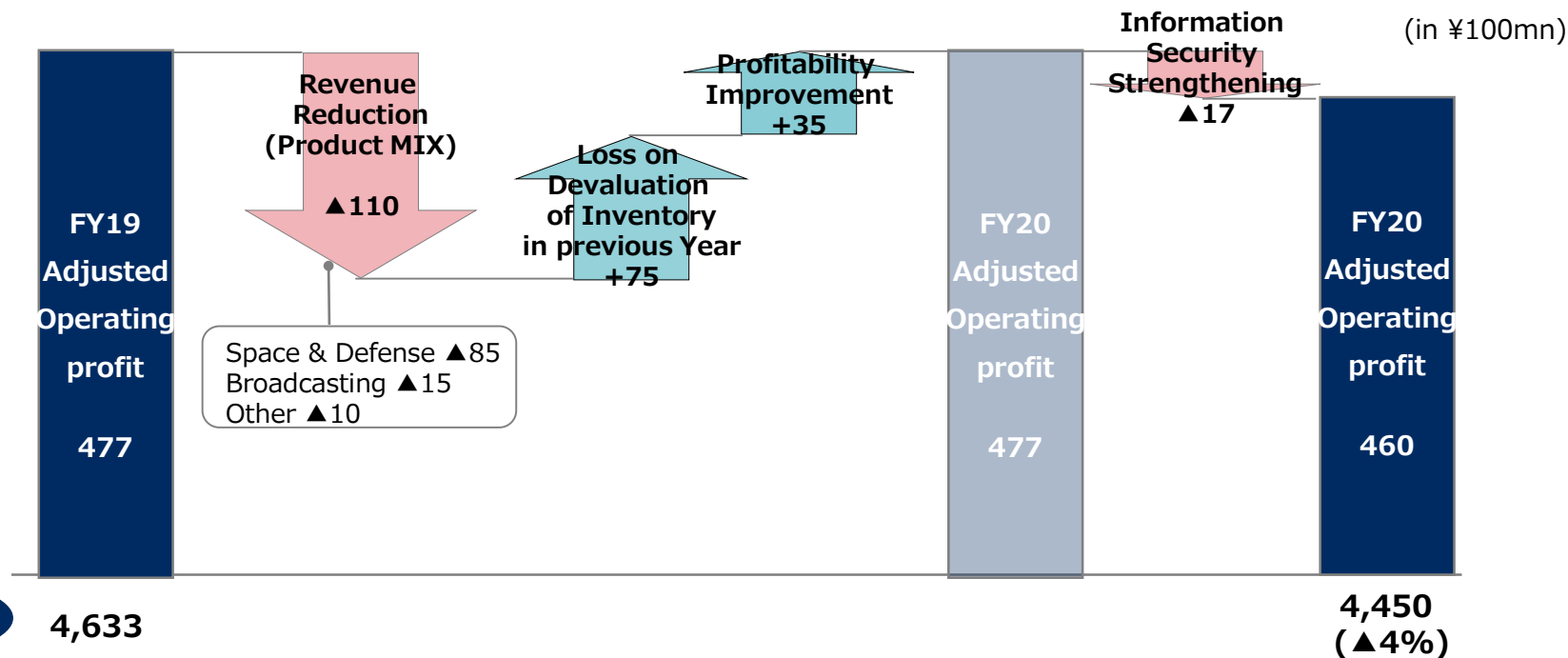
Broadcasting



- **Revenue was flat**
- **Improved profitability** due to implementation of process improvements such as quality management strengthening

FY2020 Outlook

Improvement of profitability - including the off-set of inventory devaluation in the previous year- will offset the decrease in profits due to reduced revenue, and maintain the level of FY2019. Will invest in information security strengthening.



Impact of COVID-19

Impact on Q1 Results

- Downturn in Space & Defense domains due to limited teleworking capability for information security
- Loss on operations and delayed progress
- Impact on Profit: ▲ ¥1.5 billion

Countermeasures

Outlook for this fiscal year

- Recover after Q2 by improving utilization rate, expense efficiency and reducing costs
- Obtaining the supplemental budget projects

Business Strategy for FY2020

Business Strategy

- Secure the same level of operating profit as FY2019 and invest with an eye on the next 5-10 years

Revenue **¥444.5** billion Adjusted Operating Profit **¥46** billion

- Minimization of the impact of COVID-19
- Respond to DX/New Normal strategy and generational changes of public systems

Focus Initiatives



- Initiatives to minimize unprofitable projects

Measures to Minimize Unprofitable Projects

Classifying the patterns of unprofitable projects, and promoting measures to enhance the quality of world/industry-first technologies

FY2019

FY2020

Measures to Minimize Unprofitable Projects and Improve Profitability

Continue to enforce improvement measures across supply chain for steady progress of profitability improvement



Cause of Unprofitability



Measures

Enhanced Measures

Continued to improve the quality of products through all supply chains

- Commercialization of R&D projects
- Proposals for client business practices
- Strengthening risk verification at proposal stage

Reduced by **25 % YoY**

Intend to reduce **50 % YoY**

Mid- to Long-term Issues & Outlook

Challenge to business expansion for keeping stable business scale

Market Share Trends of Public Infrastructure

-ICT domains of Gov. & Public, Space & Defense, and Broadcasting-

*Our estimates based on external survey



3 Strategies for Business Expansion

1 New Competitive Advantages

2 New Business Model

3 Transformation in Public Systems

Challenge to Business Expansion -1- New Competitive Advantages

Integrate existing strengths in ICT, sensors, domain knowledge, and policy proposal capabilities to improve competitiveness

BEFORE

Acquiring orders on a single capability



Sales Capability

OR



SI Capability

OR



Technical Capability

Related patent registrations

Over 5,000

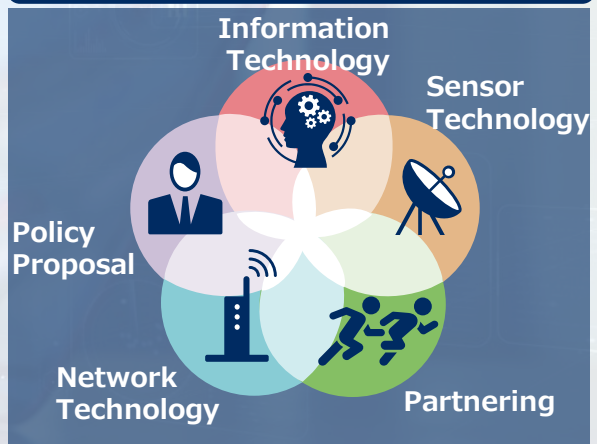
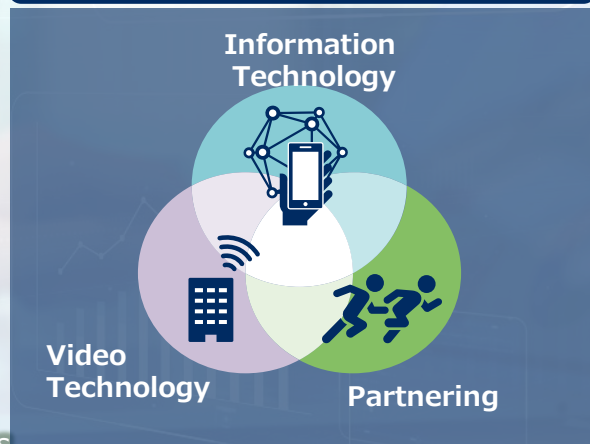
AFTER

Improve competitiveness by combining several capabilities

Case

Online Video platform


Drone Control Business



Challenge to Business Expansion -2- New Business Model


Challenge to service-based business with higher profitability with a holistic view of customer value chains

SL supporting public work implementation

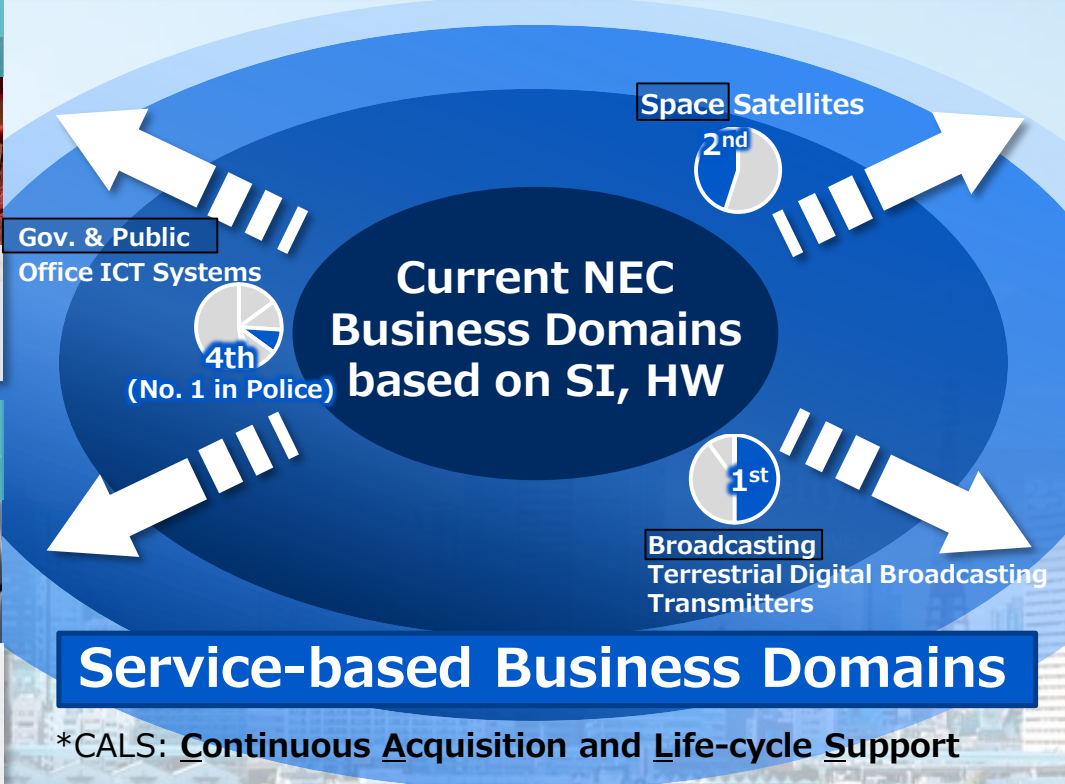


CALS-ASP Service
Work report receipt & management


Driver's license core system



Driver's License Renewal Service for the Elderly
Training school reservation management




Quasi-zenith satellite system PFI



Satellite operation & positioning signal services

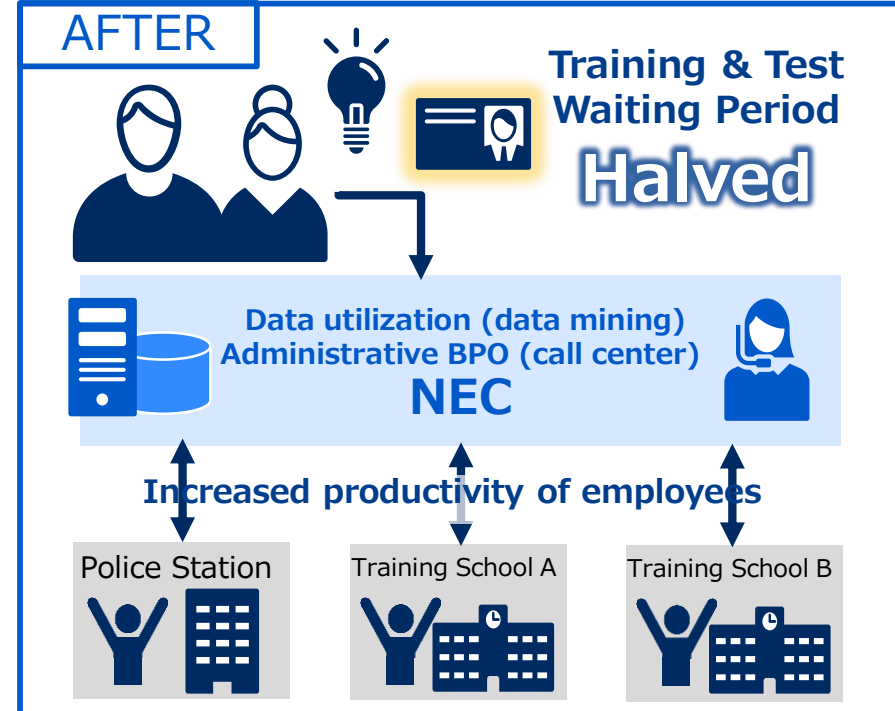
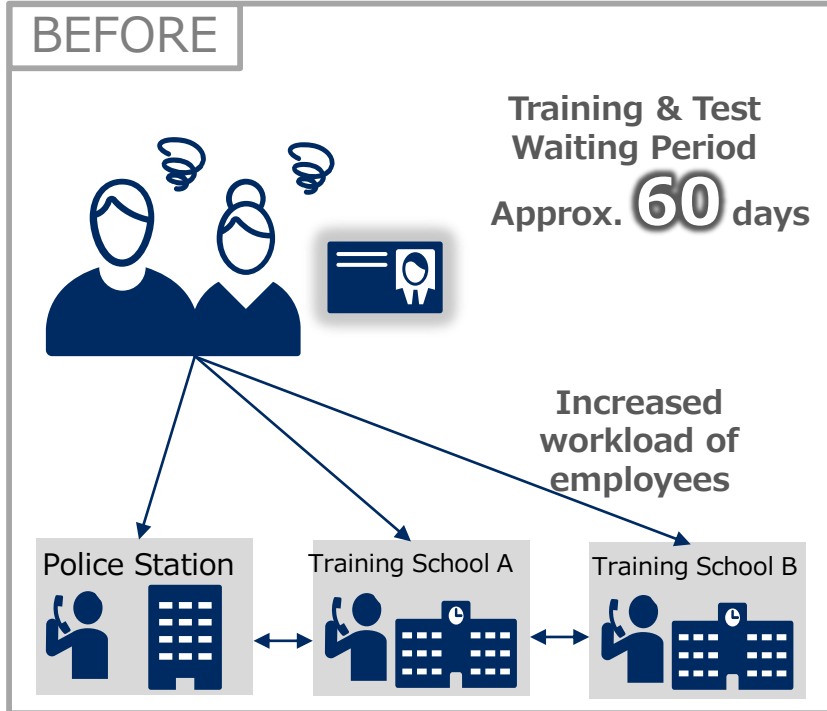
All broadcasting systems



Online Video Platform for commercial/TV show material business

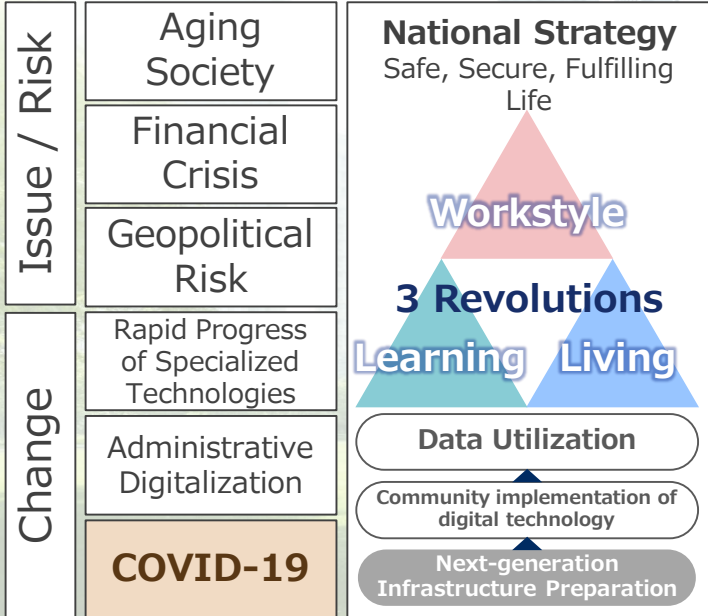
*CALS: Continuous Acquisition and Life-cycle Support

Improving administrative services for the increasing number of elderly drivers



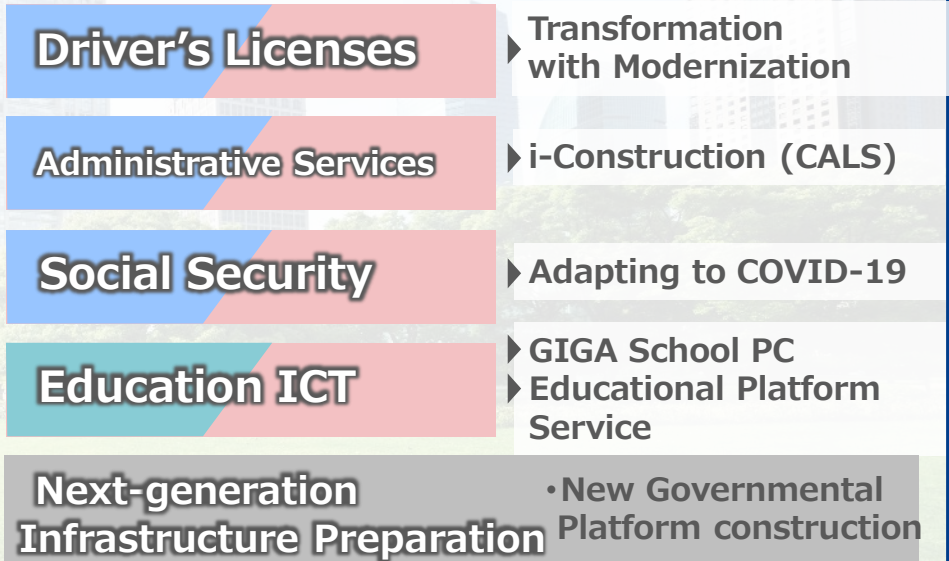
Accelerating a prosperous digital society where citizens can live safely and securely

Social Issues & Outlook



Digitalization Focus Operations

Living Learning Workstyle



Creating a safe and secure society in space and defense domain

Mid-to-Long Term Outlook

Defense

Realize strategy across domains
 Tackling to deal with new domain



Strengthening the
 Capabilities of
 Space & Cyber
 Electromagnetic
 Domain

Challenges

Need of collaboration
 with other countries
 on security

Expansion of
 Overseas
 Equipment

Catch up with other
 countries on the
 speed of policy-
 making

Lack of human
 resources in the
 events of financial
 crisis

Case of Technology Development -Space-

Policy Proposals

Optical
 Communi-
 cation

Sensor
 Technology

AI
 (Predictions
 & Analysis)

Quantum
 Signaling

SSA · SDA Capability

Satellite Manufacturing
 & Operation Capability

* SSA: Space Situational Awareness
 SDA: Space Domain Awareness

Summary

<Business Domain>

Public Infrastructure BU supports nation-critical infrastructure

<Performance Outlook>

Maintain top-of-the-industry level of profit

<Future Outlook>

Challenge to business expansion and maintain stable business platforms



\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.