

**Q&A Regarding Financial Results for the First Quarter of the Fiscal Year Ending  
March 31, 2025**

Date/Time: Tuesday, July 30, 2024, 16:00-17:00 JST  
Format: Live online streaming from NEC Headquarters, Tokyo  
Presenter: Osamu Fujikawa, Corporate Executive Vice President and CFO  
(Representative Executive Officer)

**Questioner A**

Q :

*What was the year-on-year change in Q1 orders for Aerospace and National Security (ANS)? Also, can ANS achieve a profit margin of 15% with corporate expenses allocated to every segment?*

A :

We had extremely strong figures in our Q1 orders, which grew by approximately 1.5 times year on year. We are experiencing continued strong demand and we have made better progress than we expected at the start of the fiscal year. If we can arrange the necessary resources, then full-year performance should also come in higher than expected. Profit margins are steadily improving, and with a forecast for incremental improvement through the year, we are aiming to achieve a year-on-year increase of two percentage points for now.

Q :

*Could you explain the loss of ¥9.8 billion recorded as equity method investment profit/loss?*

A :

This was due to the transfer of a portion of the shares of NEC Capital Solutions Corporation, announced on July 12.

**Questioner B**

Q :

*Could you tell us the factors behind the ¥7.0 billion improvement in adjusted operating profit in Telecom Services, as well as the likelihood of this continuing in Q2 and onward?*

A :

We have planned a ¥10.0 billion improvement over the full year through streamlining, including development costs and resource shifts. We realized an improvement of around ¥5.0 billion in Q1. The remaining ¥2.0 billion of improvement was attributable to profit growth at NEC Networks & System Integration Corporation and the deconsolidation of the Wireless backhaul business.

### Questioner C

Q :

*Are you concerned about any risks in relation to orders for Domestic IT Services going forward? Also, could you tell us about the level of backlog orders?*

A :

We don't see any major risks. The Public field is performing strongly at the moment. In addition to large-scale projects, we are also performing favorably on system standardization projects for local governments.

The Enterprise field is performing steadily overall, with no negative factors. Also, the financial field is performing favorably if we exclude the impact of a large-scale accounting project from the previous fiscal year. In the Manufacturing field and the Retail / Services field, we are also seeing favorable performance overall. ABeam Consulting is also performing well in capturing digital transformation (DX) projects. The order backlog buildup is 4% higher year on year.

### Questioner D

Q :

*What are the factors behind the 0.4 percentage point decrease in the profit margin for Domestic IT Services year on year?*

A :

Structural reform expenses and a change in the timing of bonuses at a subsidiary resulted in a one-time increase in expenses of around ¥3.0 billion. Excluding these special factors, profit increased by ¥2.0–3.0 billion, and the profit margin has improved by 0.5 percentage points. Moreover, taking into account the increase in investment in generative AI and the impact of a highly profitable project in the previous fiscal year, in real terms, the profit margin has improved by approximately one percentage point. The impact from the increase in personnel expenses and procurement costs has been passed through to sales prices.

### Questioner E

Q :

*Could you provide details on the structural reform of Domestic IT Services?*

A :

The reform results from a decision by a business partner in the Cross-Industry field to discontinue services. This is a one-time effect, and will not occur in Q2 onward.

Q :

*How much higher is the profitability of BluStellar compared to an ordinary IT service business?*

A :

In terms of profitability, we have switched our approach to presenting pricing from a

person-month model to a value provision model, by presenting offerings that resolve customers' management issues starting from a consulting perspective. In addition, by reducing customization, we will be able to provide value more quickly to customers, and will capture high earnings.

**Questioner F**

Q :

*Could you tell us about the impact inside NEC of the recent Microsoft system fault? Also, what kind of initiatives are you taking to prepare for system faults, including cybersecurity?*

A :

Only a few devices inside the Company were affected, and there was no impact on our business. There were no major problems with customers, and we were able to deal with them individually. NEC has taken steps to bolster its cybersecurity business by establishing a new system centered on Noboru Nakatani, who recently joined us as our Chief Security Officer (CSO). We ourselves will be the example of implementing this system, and we will propose this example to our customers. We believe that Japan will move to strengthen its security going forward.

**Questioner G**

Q :

*In International DGDF (Digital Government/Digital Finance), excluding KMD's structure reform expenses, adjusted operating profit would have been improved by ¥5.0 billion. Have there been any changes that would allow you to expect continued improvement going forward?*

A :

The effects of profitability improvement measures that we have undertaken to date are beginning to emerge. By executing projects that have sufficiently been accumulated, we aim to achieve our annual plan. Avaloq has set up the structure for a recurring revenue-type business, and is expected to stably increase its earnings. We are also making progress in our alliance with BlackRock, which was announced as strategic partner in 1H FY3/24.