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

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| Date/Time: | Thursday January 30, 2025, 17:30-18:30 JST |
| Format: | Live online streaming from NEC Headquarters, Tokyo |
| Presenter: | Osamu Fujikawa, Corporate Executive Vice President and CFO (Representative Executive Officer) |

**Questioner A**

Q:

*In Telecom Services, it looks like the contributions from marginal profit, profitability change, etc. and cost reductions, including development expenses, grew in Q3 compared to 1H FY25/3. Please share your outlook for the future.*

A:

Cost reductions are progressing in line with our initial plans. Although we will continue to make improvements in the next fiscal year, there will not be any big jumps forward. In regard to marginal profit and profitability change, etc., there was a big contribution from the IT domain, with both domestic and Netcracker Technology Corporation operations performing strongly. The contribution to profit margins was also high and we expect this to continue.

Q:

*When making changes to business segments last July, you explained that IP-related revenue would be recorded in the Others, so why do these results include the recording of ¥21.0 billion of IP-related revenue under Telecom Services?*

A:

These are revenues related to IP that have been consistently handled by the Telecom Services business, so they have been recorded under Telecom Services.

Q:

*The Q3 results include a large one-off loss associated with quality issue resolution for submarine systems. Is this part of efforts to enhance business structure in order to realize cost reductions and profit improvements in the future?*

A:

The loss associated with quality issue resolution is the result of a deterioration in cost price caused by the effects of rising materials and ship chartering costs, as well as schedule delays due to factors including operational trouble that is beyond our control. The quality issues caused by the delays have been resolved, and we are forming new agreements that factor in the cost of risk countermeasures, so we expect profit margins to rise as we switch to these new agreements.

**Questioner B**

Q:

*In Domestic IT Services, I think the decline in enterprise revenue is a rebound from the previous year's results in NEC Facilities, so please share the revenue growth rate excluding NEC Facilities. Also, the improvement in profit for the overall Domestic IT Services seems to go beyond the effects of revenue increases, so please explain if there are any additional temporary factors.*

A:

The revenue growth rate for Enterprise excluding NEC Facilities was steady at +3% for Q3 (three-month period) and +7% for the nine months up to December 31. One of the main factors driving the improvement in profit margins for overall Domestic IT Services is BluStellar. In the nine months up to December 31, its profit margin improved by 2-3%. This is the result of efforts such as product portfolio revisions, value-based pricing, and transitioning to a scenario-focused business model. Within Domestic IT Services, BluStellar's sales are only about one third of those associated with our base business, but BluStellar's profit margin is higher and its contribution to profits is growing.

**Questioner C**

Q:

*What is your outlook for domestic IT demand in 2025?*

A:

In Public, orders have increased by more than 30% year-on-year, and we do not expect this trend to change in Q4. As of the end of December, our order backlog for overall Domestic IT Services had increased by 7% year on year, and we think this growth will continue. In Enterprise, some large projects in the finance and logistics sectors will also contribute to business results in FY26/3. In Manufacturing, the process of selecting orders based on profitability led to a negative result in the previous fiscal year, but for the current fiscal year, performance has been steady. We have received high-margin orders that involve consulting and the use of standardization platforms, and we are now seeing solid results. Overall, we see no major changes from current trends and expect results to remain on a positive trajectory.

**Questioner D**

Q:

*You set the target of achieving sales of ¥50.0 billion for generative AI by the end of FY25/3, so what is your current progress toward this target? Also, it is being said that China's DeepSeek is having an impact on the way development and investment is being carried out, so has it affected NEC's AI strategy?*

A:

As part of our efforts to revise BluStellar's product portfolio, we are investing in AI as a growth area, and in August 2024, we integrated organizations to accelerate business development. In regard to DeepSeek, the most important point concerning generative AI is how it is applied and in what fields. In addition to NEC cotomi, we use generative AI in a way that is appropriate for each specific situation, so there has been no impact on our overall approach.

**Questioner E**

*Q: Amid the continuing shortage of IT engineers, it was revealed that in the current round of spring wage negotiations, the Japanese Electrical, Electronic and Information Union is requesting a record ¥17,000 increase in base monthly wages. How are you planning to approach wage increases?*

A:

The labor market is becoming more fluid, and competition for IT personnel is particularly fierce, including from foreign-owned companies and companies in other industries. In the current fiscal year, NEC fully transitioned to a job-based human resource management system to raise our competitiveness on a global scale and create environments that enable us to secure and retain exceptional talent, including providing market competitive compensation that is tailored to individuals based on their expected role and performance. Amid ongoing inflation, we think it is a company's duty to respond accordingly through substantive wage increases.

**Questioner F**

Q:

*Please explain the factors behind the considerable growth in Aerospace and National Security's*

*(ANS) Q3 revenue and profit margin and whether you see this trend continuing.*

A:
In Q3, there was a contribution from a big project with the space-related business, but even excluding this, sales grew over 30%, primarily in the defense sector. The adjusted operating profit has been boosted not only by increases in revenue and profit, but also by efforts to curb SG&A and development expenses, so we have revised our FY25/3 profit margin forecast upward to 10%. We are expecting demand to remain steady in the next fiscal year and beyond, so we think there is potential for the current trend to continue.

Q:
*Please explain the risks you anticipate in ANS and how you will counter them.*

A:
We do not think there is any significant risk regarding the capturing of projects. In FY24/3 we increased the resources of the business by a considerable amount, and this shifting of resources continued into the current fiscal year, leading to the capture of projects. In ANS, risk countermeasures are an important consideration in both the aerospace and defense sectors, so we have established a project management approach which aims to improve quality by using lessons from past projects, and we are currently practicing thorough management.