Q&A Regarding Financial Results for the Fiscal Year Ended March 31, 2025

Date/Time:	Monday, April 28, 2025, 16:30-17:30 JST
Format:	Live online streaming from NEC Headquarters, Tokyo
Presenter:	Takayuki Morita, President and CEO (Representative Executive Officer)
	Osamu Fujikawa, Corporate Executive Vice President and CFO (Representative Executive Officer)

Questioner A

Q:

Please explain the background to the growth in Domestic IT Services and BluStellar. I'm sure you have given conservative guidance on the plan for FY26/3, taking the macroeconomic environment into account. Could you please tell us the assumptions?

A:

In Public, we saw growth in both local government and central government. In Enterprise, manufacturing revenues increased, and although the finance and the retail & services sectors decreased from the previous fiscal year, demand remained strong. In Cross-Industry, fire fighting and disaster prevention performed well, as did transportation and media. Extremely strong performance by Abeam Consulting also contributed to the increase in revenue.

In profits, there was a contribution from BluStellar, whose sales methods and offerings have become more widespread, and we expect the effects to be continuous going forward. Profit also increased due to cost improvements, the acquisition of highly profitable projects, and the effect of reducing costs.

For the FY26/3 plan for Domestic IT Services, we are currently not able to read the macroeconomic situation. An increasing number of companies have avoided disclosing their FY26/3 plans, and we need to discern the impact on corporate capital investment for Q1 at least. On the other hand, the impact of IT on the competitiveness of customers' businesses has been increasing, so we do not envisage a slowdown across the board. In any case, our FY26/3 plan is based on the figures that we think we must achieve, even in the current situation.

Q:
Are you currently seeing investment restraint or suspension among customers in Japan? And have you factored contingencies into each segment?

A:
At present we cannot comment in detail on project delays and such. Companywide, we have made a certain level allowance this year, and our plan for IT Services also has risks factored in.

Q: *Could you please summarize the situation with ongoing greater-than-expected losses in submarine systems and comment on whether the impact will continue in FY26/3?*

A: We have experienced some unforeseeable events, such as the severing of submarine cables, and we recorded costs associated with these. Furthermore, we have made some proactive investments in facility enhancements and other additional investments. Existing contracts do include some risks, but for new projects, we are making contracts that take risk into consideration.

Questioner B

Q:

How many human resources are working in the Global 5G business, is it at the optimal level, and what is your inclination on structural reform?

A:

We integrated our development and production resources in Japan and overseas two years ago. Telecom Services has shifted around 1,500 personnel over this past year, which has improved costs, and we think it has optimized the level.

Q:

In Domestic IT Services, Q4 orders for the manufacturing sector grew by 1%, which seems low. Could you provide some explanation of the factors and your outlook?

A:

We have been selective with orders for the manufacturing sector since FY24/3 to avoid taking on low-profit projects, and in FY25/3 there was still some decrease due to this. However, excluding the impact of order selection, the figure for real year-on-year growth was close to 7%. For Domestic IT Services overall, comparing the effective order backlogs at the start of FY25/3 and FY26/3, we see a 16% increase, which shows that overall the segment has maintained good performance. Abeam Consulting also increased by 12%.

Questioner C

Q:

For ANS, what are the factors behind the planned increase in profit for FY26/3 being smaller than that of revenue?

A:

In the area of satellite constellations, we have acquired a grant from the JAXA

Space Strategy Fund, and we believe we need to make an upfront investment for the next major business opportunity. Excluding this investment, the profit level is expected to remain firm.

Q:

What kind of schedule is this going to have?

A:

We expect this to become an actual business around 2027–2028. If it does, then we envisage making an investment that is an order of magnitude larger. However, until we realize this business, we will invest at a level that does not hurt our business earnings, and we will request assistance from relevant parties including the government for any shortfall. Meanwhile, for private-sector services, we expect to partner with a telecommunications provider.

Questioner D

Q:

Could you share your views on your capacity for growth investment and the current investment environment?

A:

There has not been any significant change in our capacity for growth investment. We have introduced cash-based ROIC as a new metric for evaluating investments, and we will take a disciplined approach to conducting M&As. On the other hand, the M&A projects that this system is for are not happening all the time, so we will take a flexible approach while carefully examining the situation.

Questioner E

Q:

Given the current uncertainties, do you plan to continue increasing the number and pace of engineer hiring?

A:

If we can secure talented engineers, then we can take on more projects. So basically, we will continue to aggressively recruit talent.

Questioner F

Q:

In the second half of the Mid-term Management Plan 2025, earnings have increased significantly. Could you explain the key factors behind this success, any turning points, and the overall mood within NEC?

A:

The day after we announced the Mid-term Management Plan 2025 in 2021, our stock price dropped 14%. I believe the fact that we persevered and carried out structural reforms and upfront investments is now contributing to our current success. In FY26/3, we need to focus on building our starting platform for FY26/3 onward, while keeping in mind the direction and overall vision for the next mid-term management plan.

Questioner G

Q:

What kind of impact do you think tariffs will have on wage increases and capital investment?

A:

We are committed to implementing wage increases. It is essential to secure talented human resources by providing salaries and compensation that are competitive in the market, and we will therefore actively enhance this aspect, including the introduction of stock compensation. We have no particular plans to decrease capital investment.