

Q&A Regarding Financial Results for the First Quarter of the Fiscal Year
Ending March 31, 2026

Date/Time:	Tuesday July 29, 2025, 16:30-17:30 JST
Format:	Live online streaming from NEC Headquarters, Tokyo
Presenter:	Osamu Fujikawa, Corporate Executive Vice President and CFO (Representative Executive Officer)

Questioner A

Q:

Please tell us by how much Q1 results exceeded plan targets, the factors behind improved profit margins in Domestic IT Services, and whether the improvement can be sustained.

A:

Results came in about ¥10.0 billion above our expectations, breaking down into ¥8.0 billion from the increased share of highly profitable projects and cost improvement mainly at subsidiaries in Domestic IT Services and ¥2.0 billion from frontloaded Telecom Services projects.

Year-on-year improvement adjusted for one-off factors in Domestic IT Services was an approximate ¥7.0 billion increase in revenue-linked profit and ¥3.5 billion from profit margin improvement for a total of approximately ¥10.5 billion, with around a 2% improvement in profitability in real terms.

Regarding whether the improvement can be sustained, BluStellar's profit margin improved 2.1 % year on year and it is changing to a profit-focused business model. On a companywide basis, data visualization has also had an effect on improving low-profit projects. We think that we are seeing substantive improvement in profit as a result of initiatives addressing not only one factor, but multiple factors, and expect this trend to continue in Q2 onward.

Q:

What are the factors contributing to profit growth on flat revenue in Telecom Services and what is your outlook for the business? Can you also tell us what is happening with submarine cables in the Aerospace and National Security (ANS) business?

A:

Telecom Services are contributing to profit growth through efforts to reduce development

expenses and other costs. Although fixed-line and core projects were frontloaded in Q1 due to customers spreading their investment throughout the year, projects are evenly distributed year-round. Although we are aware that submarine cables remain a risk factor, there were no additional costs arising in Q1.

Questioner B

Q:

In your media briefing, you mentioned that your next Mid-term Management Plan will be a five-year plan targeting a non-GAAP operating profit margin of around 15%, your aim of future market capitalization, and that you will aim for top world market share of submarine cables in partnership with the Ministry of Economy, Trade and Industry. When are you planning a briefing for capital market participants?

A:

We have not finalized the schedule for presenting our next Mid-term Management Plan. However, responsible representatives are scheduled to speak at our IR Day in November on topics including how BluStellar will contribute in the medium term and about national security-related businesses, based on our outlook for the next Mid-term Management Plan and beyond.

Questioner C

Q:

Please give us a breakdown of orders by sector.

A:

I will explain on the basis of orders adjusted for large projects and one-off factors. Public orders grew approximately 20%, showing strength in all areas. Enterprise orders were flat overall, increasing a solid 2% in Manufacturing and 3% in Retail/Services, but declining in Finance. Order trends remain brisk due to demand related to modernization and DX.

Questioner D

Q:

In your opinion, what is the likelihood of achieving your full-year forecast, taking the impact of U.S. tariffs into consideration?

A:

Our plan targets for FY3/26 have been set at the lowest level in view of factors like the impact of tariffs and submarine systems business risk. Although we are monitoring the effect of tariffs on capital investment trends, we are yet to see any major impact.

Questioner E

Q:

What was the year-on-year change in the order backlog of Domestic IT Services?

A:

At the end of Q1, the order backlog was up around 13% versus a 16% YoY increase as of the end of March 2025. The annual sales plan calls for an approximate 4% year-on-year decline, so we can say that a 13% increase is well ahead of target.

Questioner F

Q:

Enterprise orders were flat year on year adjusted for large projects. Did capital investment cutbacks and order selection play a part in this? Also, can we expect above-market growth in the full year?

A:

We are selective with orders for projects that are not very profitable. Some manufacturers had been expected to hold back on investment due to concerns over the economic situation, but this trend has settled down and we are watching developments closely. In contrast, DX-related investment remains a high priority and we are not seeing major changes in investment trends.

Regarding our full-year outlook, large projects are concentrated in 2H, so we also expect Enterprise orders to recover in 2H.

Questioner G

Q:

In which areas of the defense sector are you seeing investment?

A:

One area is satellite constellations, which I think is growing in importance in relation to defense. The other is cybersecurity, which begins in the defense sector and spreads to the private sector. We move ahead with the defense-related business strategically and in collaboration with the government.

Questioner H

Q:

What is the reason for the sharp increase in ANS revenue? Is it because of a substantial

order backlog or a large project? We also note that Public orders in Q1 increased year on year despite a large order in 1H FY3/25. Please provide some more details.

A:

ANS orders began to increase two years ago and have been gradually contributing to revenue and profit according to plan. We expect this trend to continue in Q2 onward. Public orders in Q1 were due to robust demand for standardization among local governments, and in firefighting and disaster prevention. Although demand is expected to settle down going forward, central government and SMEs are both showing strong growth and taking over as the new growth areas.

Questioner I

Q:

The Ministry of Defense is procuring more equipment from the U.S. Is this a cause for concern that the production of defense equipment by Japanese companies will decline? My understanding is that the satellite constellation and cybersecurity businesses should be established in Japan. What is your view?

A:

We think there will be a clear distinction between equipment procured from the U.S. and equipment made in Japan, because some items cannot be procured overseas for national security reasons.

We believe the importance of satellite constellations and cybersecurity from a national security perspective will be considered in depth. These fields will be discussed extensively, because protection of domestic infrastructure such as network infrastructure and submarine cables has a huge impact on emergency preparedness.

Questioner J

Q:

Please tell us your demand outlook for Telecom Services and how you see the future of the business.

A:

Demand for mobile infrastructure has turned down slightly, but investment in fixed networks is increasing. Demand in the IT Services area has also been robust. We plan to allocate resources to areas that we think are most likely to grow.