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

Date/Time: Wednesday, October 29, 2025, 16:30-18:00 JST
Format: Live online streaming from NEC Headquarters, Tokyo
Presenter: Takayuki Morita, President and CEO (Representative Executive Officer), Member of the Board
Masakazu Yamashina, Corporate Senior Executive Vice President and Co-COO (Executive Officer)
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Questioner A

Q: Is the revenue in the Aerospace and National Security (ANS) business a one-off factor from a large project or is it recurring?

A: The ANS business has maintained a strong performance thanks to projects acquired up to the previous fiscal year, and further upside is anticipated. This business has a recurring nature based on many orders for projects that span multiple years, and with increasing orders for air traffic control systems and other areas, performance is expected to exceed the initial forecast. While the overall ANS forecast was not revised upward due in part to risk in the submarine systems business, ANS has continued to perform very strongly.

Q: Do you have KPIs for cost reductions achieved using AI?

A: Although specific KPIs have not been disclosed, we aim to make NEC itself an AI-native organization during the next Mid-term Management Plan. To this end, we are targeting an improvement in the operating profit margin of at least three percentage points over the next five years in G&A domains.

Questioner B

Q: In Domestic IT Services, please give us a quantitative breakdown of order trends excluding reactionary decreases from large projects, as well as the factors behind profit growth in Q2.

A: Enterprise orders declined in 1H, but are expected to recover in 2H and be at or above the level of the previous fiscal year on a full-year basis. Of the 5.3% profit improvement in 1H, just under 1% was attributable to one-off factors (absence of structural reform costs and gain on sale of business). Of the remaining roughly 4%, we estimate that around 3% came from profit improvement initiatives, revenue growth, structural reform effects, and contributions from BluStellar.

Q: Please explain in detail the complementary nature of, and synergies with, the acquired company CSG Systems International, Inc.

A: In the Business Support Systems (BSS) business, CSG Systems' customer base is highly complementary, with almost no overlap with that of Netcracker. We expect significant revenue synergies through cross-selling, leveraging CSG Systems' strengths in customer experience (CX) and payment fields and Netcracker's OSS and SI capabilities. Specifically, when CSG Systems provides BSS solutions, it currently partners with external companies for the SI portion, but going forward, it will be able to utilize Netcracker's SI capabilities.

Q: What are your current assumptions for purchase price allocation (PPA) and amortization periods, which underlie the increase in non-GAAP net profit?

A: Although the details are still under consideration, we are assuming an amortization period of 15 years and a total of approximately ¥380.0 billion of intangible assets and goodwill. We estimate that roughly half of these assets will be subject to amortization.

Questioner C

Q: How do you view the time lag in business contribution from AI-related demand?

A: AI will be incorporated into overall solutions rather than provided on a standalone basis, and it will contribute significantly to improving profit margins. For example, when we make proposals to customers using BluStellar's scenario-based approach, we propose ways to use AI to achieve efficiency gains and top-line growth. While we are making progress on incorporating AI into traditional SI, we recognize that AI-native business process transformation will take time, and it is currently being addressed.

Questioner D

Q: Could you please discuss your strategy for competing again in the global market through this acquisition?

A: Digital Government/Digital Finance (DGDF), which is centered in Europe, and Netcracker and CSG Systems in the U.S. are all software businesses. Our strategy is to secure the top share of the specific industry segments of Digital Government/Digital Finance, and OSS/BSS, rather than in general-purpose fields. CSG Systems has an EBITDA margin of around 23%, and we expect improvements in both profitability and growth.

Questioner E

Q: I've heard that you have had an interest in CSG Systems from before. Why did you decide to acquire the company at this time?

A: The background to the acquisition was NEC's improved financial base, with over ¥500.0 billion in strategic investment capacity. In our global strategy, the scale of the U.S. market carries significant importance, and the strategic value of telecom services and broadband is improving with the progress of digital transformation (DX). These factors led to the decision to proceed with the acquisition at this time.

Q: What are your views on projects in defense, telecommunications, and space development under the national policies of the new Japanese administration?

A: We will support Japan's digital infrastructure in all areas, including the AI, submarine systems, and satellite constellation businesses. Our satellite constellation with JAXA and SOC (cybersecurity) with KDDI will contribute to economic security, and the satellite constellation business may involve over ¥1 trillion in investment. Therefore, we intend to promote these initiatives not on a standalone basis, but in cooperation with the government and other partners.

Questioner E

Q: Could you please discuss the risk factors in the submarine systems business and your forecast for profit contribution beginning next fiscal year?

A: Previously, the main risk factors were vendor's liability in the event of cable breakage accidents and the risk of delay damages in past contracts. However, with contract revisions made since last year, we have shifted to sharing responsibility with customers for accidents not attributable to NEC. Although some risks materialized in 1H, they were offset by strong performance in ANS. While risks remain in 2H, we expect them to be covered by increased profits in ANS. With new projects also beginning to contribute to profit, we anticipate steady profit generation next fiscal year.

Q: Please tell us the financing structure for the CSG Systems acquisition (the mix of internal funding and borrowing) and its segment classification.

A: Although it is difficult to comment on the exact financing ratio, we financed the acquisition within our assumed capital allocation, using a combination of internal funding and borrowing, while maintaining our financial soundness. We expect our financial position to return to prior levels within 1-2 years. CSG Systems will be included in the same segment as Netcracker.

Questioner F

Q: Could you please discuss retention of CSG Systems' management team?

A: As CSG Systems is a listed company, we plan to carefully design and implement a retention program to ensure that employees, including management, remain with the company.

Q: How do you view the balance between growth investments and shareholder returns in your capital allocation?

A: We set our capital allocation policy at the start of Mid-Term Management Plan 2025 and have been executing the policy in line with an investment capacity of ¥500.0 billion. The management team's Long Term Incentive (LTI) is 100% linked to total shareholder return. We prioritize growth investments above all else and focus on maximizing shareholder returns, including capital gains. While we aim for steady dividend increases and will strategically consider share buybacks, growth investments remain our top priority.

Questioner G

Q: As part of U.S.-Japan trade negotiations, Japan agreed to a plan for approximately $500.0 billion of investment in the U.S. Could you please tell us whether there is potential for your involvement in this plan?

A: NEC sees business opportunities in U.S.-Japan joint development (such as quantum encryption) that is premised on economic security and security clearance. We are examining the matter with strong interest.

Questioner H

Q: As part of synergies with CSG Systems, how can BSS functions be strengthened and differentiated using NEC's AI technology?

A: Netcracker has already commercialized AI-enhanced BSS and has a proven track record in this area. We plan to embed AI capabilities into CSG Systems' SaaS solutions and apply AI technology in future modernization and renewal efforts to strengthen and differentiate these functions.

Questioner H

Q: Please tell us your short-term and long-term outlook for profitability improvement in Domestic IT Services. Also, will the extent of profitability improvement in Domestic IT Services be sustained from Q3 onward?

A: In the short term, the BluStellar business will contribute significantly to profit growth in Domestic IT Services, and the shift to a highly profitable business model will provide further growth potential. Over the long term, we believe we can target a profit improvement of around 5 percentage points.
As for sustainability from Q3 onward, while growth may moderate when compared to the strong performance in 2H of the previous fiscal year, overall, we expect performance to remain solid and above the previous year's level.

Q: CSG Systems' gross profit margin is falling below 50%. Can you be certain about improving profitability and achieving top-line growth?

A: We have secured sufficient gross profit margins with major customers and in the CX and payment fields. By complementing this with Netcracker, we will work to improve profitability and enhance the EBITDA margin.

Questioner I

Q: In applying AI to system development, have you experienced benefits such as shorter project periods and reduced overtime hours in downstream processes like coding and testing?

A: We have started applying AI to downstream processes such as coding and testing and are pursuing this as an internal project. The benefits vary by process.

Questioner J

Q: Could you tell us about the better-than-expected actual profit in 1H and the conservative 2H forecast? Should we view the 2H forecast as the minimum level?

A: In 1H, profit outperformed forecasts by about ¥20.0 billion in Domestic IT Services. As a result, the minimum level we need to achieve has risen. While our view remains conservative given the concentration of results in 2H and the need to prepare for risks, there is further upside if the factors behind the 1H outperformance continue and risk factors unwind. We have also been advancing forward-looking reform measures since the year before last, and we will consider continuously implementing these measures.

Q: What is your estimate of NEC's weighted average cost of capital (WACC), and what is your outlook for NEC's consolidated ROIC trend after the acquisition?

A: NEC's WACC is in the range of 6% to 7%. ROIC is expected to decline temporarily following the M&A, but we emphasize cash ROIC as a matter of financial discipline. In this acquisition, cash ROIC is projected to exceed WACC in less than five years, and ROIC contribution is expected to be realized early.