

## Q&A Regarding Mid-term Management Plan 2030 Presentation

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Presenters: Takayuki Morita, President and CEO (Representative Executive Officer), Member of the Board; Kunikazu Amemiya, Corporate Senior Executive Vice President and CFO (Representative Executive Officer); Ikuo Matsuhashi, Chief Strategy Officer and Managing Director, Corporate Strategy and Sustainability Promotion Division

### **Questioner A**

Q: Going forward, how will you strengthen collaboration with ABeam on the improvement in NEC BluStellar margins shown on page 18 of the presentation materials? Also, have you factored the positive effects of AI-driven development into the improvement in the SG&A ratio, and what is the timeline for these effects to emerge?

A: One of the cases we envision is for ABeam to use NEC's AI platforms, including Anthropic's, to provide customers with AI implementation, utilization, and deployment. It will also be important for us to share these AI implementation technologies with companies such as Netcracker and Avaloq.

In addition, we have reflected AI utilization in our plan to improve the SG&A ratio. We started applying AI in FY26/3. In FY27/3, several initiatives will enter the phase of verifying their practical benefits, and we have set targets and are working on them in earnest. We expect the benefits to fully emerge from FY28/3 onward.

Q: Could you please explain the incentives for consultants, primarily at ABeam, to sell the AI platform?

A: The AI platform combines NEC's proprietary technology and IP licenses from NEC's global partners. The greatest incentive is the ability to leverage our global contract terms with companies such as Microsoft, SAP, ServiceNow, Google, AWS, and Anthropic. Additionally, we are working as one with ABeam on "Client Zero" activities, where we deploy our internal use cases to clients. We believe that these activities will make the relationship between the two companies stronger than ever.

Q: Looking at page 30 of the presentation materials, I have the impression that it will be quite challenging to raise the non-GAAP operating income margin for Telecom Services to the upper teens. Could you discuss the improvement measures?

A: Growth will be driven mainly by IT-related areas within Telecom Services, including Netcracker and domestic businesses such as billing. We believe profitability will increase further when CSG Systems, which already has a margin in the upper teens, joins us. If we execute synergies and efficiency improvements with CSG Systems, a 20% profit margin is not out of reach.

Meanwhile, for network infrastructure, we implemented large-scale structural reforms in FY26/3 and are shifting from a hardware-centric approach to software. We believe a profit margin in the mid-teens is the minimum level necessary for continuing this business and is fully achievable. We are not imposing large top-line quotas. Our goal is well within reach if the market normalizes.

### **Questioner B**

Q: Regarding ANS on page 30, it appears that you aim to expand the market share of the Submarine Network business to 35%. Meanwhile, the remaining revenue growth for Aerospace and Defense seems very low, in the low single digits. Are you facing any capacity issues? Also, please tell us the projected revenue scale for the Submarine Network business five years from now.

A: This outlook assumes that the current defense budget levels will continue. We have not factored in elements dependent on the external environment, such as an expansion of the defense budget or the defense equipment market. Furthermore, because defense involves many multi-year contracts, revenue tends to be smoothed out, so the plan does not assume sizable top-line growth. However, our outlook is conservative, and we expect potential upside. For Aerospace and Defense, expansion of factories and capacity, including capital investment, is factored into the plan. While the market outlook has some uncertainties, we see a high likelihood of upward revisions. In the Submarine Network business, we anticipate annual revenue of ¥150.0 billion.

### **Questioner C**

Q: You have estimated growth investment capacity of up to ¥1.2 trillion to ¥1.3 trillion by the end of FY31/3. What kind of investments are you planning, including by field and region?

A: We will not necessarily spend the entire amount. We will pursue growth and business opportunities that can be justified by cash ROIC, as well as capital investments for organic growth. For M&A in the IT Services domain, we will consider opportunities across all directions in Japan. However, we will also consider various approaches beyond acquisitions, such as investments in our own AI supercomputers to strengthen NEC BluStellar technology and securing data centers (including by building our own facilities) for sovereign clouds. Investment areas will also include consulting, space, defense, and communications. Overseas, potential investment opportunities include expansion of CSG and Netcracker in North America, expansion of digital finance in Europe, and expansion of ABeam's global capabilities.

### **Questioner D**

Q: How will you drive business growth in the new AI services domain, including your collaboration with Anthropic? Also, could you please explain your growth strategy for security?

A: We believe the AI services domain will evolve into a multi-AI environment, as no single AI can handle everything. Notably, we need a framework that can provide multi-AI solutions, especially in delivery to customers. We must have the capability to accommodate all major players such as Microsoft, OpenAI, Google, AWS, and Anthropic, as well as the ability to orchestrate them.

Furthermore, our policy for the security and safety domains is to pursue international standardization, centered on Cisco. Meanwhile, using a mix of different AIs internally is not efficient. Currently, our partnership with Anthropic is the core of our strategy for efficiency in the coding and software domains, as well as for security. In the security domain, partnerships with telecommunications carriers and data centers are necessary, including for physical security measures.

Q: Do you also see capital alliances with AI startups as a possibility?

A: First, with respect to capital alliances with startups, strengthening our AI implementation

capabilities in NEC BluStellar is very important. Based on economic rationale, we will consider a wide range of options, including acquisitions, capital participation, licensing, and business alliances. We do not see investment itself as mandatory; our focus is on results.

Given NEC's scale, our initiatives in economic security and AX (AI Transformation) will cover all directions in Japan, our core market. ABeam requires delivery capabilities to serve Japanese companies operating globally, so we will proceed with the recently announced joint venture with BearingPoint in the U.S. and advance further collaboration. In this collaboration, globally expanding our cybersecurity and CyIOC capabilities will also be a key factor.

Q: How will you increase shareholder returns and the dividend payout ratio?

A: As a corporate leader in a market with significant business opportunities, I firmly believe that shareholder returns should primarily come from increases in corporate value associated with the growth of business profits. We will execute share repurchases flexibly, but for the time being we have not positioned them as a continuous means of shareholder returns. Regarding dividends, we aim to steadily expand non-GAAP operating profit and increase dividends accordingly.

#### **Questioner E**

Q: The target profit margin for ANS is in the upper teens. Is this based on the scope for improvement already visible in the defense order backlog?

A: In the defense business, standard profit margins apply in some areas and do not apply in others. A change in that mix makes this target fully achievable. Furthermore, the profitability of the ANS space business has been improving year by year through strengthened project management and risk management. This is another major contributing factor.

Q: How did you consider Company-wide capital efficiency, such as ROIC and ROE? Could you please discuss your thinking regarding target levels?

A: Focusing solely on ROIC can create the temptation to improve efficiency through downsizing. Perspectives also vary depending on the industry. Given NEC's business model, it is important to continue growing non-GAAP operating profit over the long term. We believe ROE and ROIC will improve as a result. We use these indicators as tools to verify whether we are exceeding the cost of capital. Furthermore, we have verified that if Mid-term Management Plan 2030 is achieved, we will be able to secure both GAAP-based ROE and ROIC at levels that sufficiently exceed the cost of capital.

#### **Questioner F**

Q: What kind of questions are you receiving from overseas investors regarding concerns in the capital markets about replacement by AI? Also, do you believe the "Death of SaaS" could actually happen?

A: Since it is currently impossible to determine which companies will benefit, we believe people are discussing the prospects for the sector as a whole in general terms. The key to driving the use of AI is implementation capability, and we understand the question to be who can provide that capability and how they will become the winners. NEC will prepare thoroughly, with the aim of becoming one of the leaders.

We believe that Japanese and overseas companies face different environments in terms of the risk of being replaced by AI, and that both overseas and domestic investors understand this in a similar

way.

Regarding the “Death of SaaS,” results have been unclear in some areas until now. Going forward, we believe that companies that can clearly deliver results in the form of solid outcomes will be the ones that survive.

#### **Questioner G**

Q: You formulated Mid-term Management Plan 2030 at a time when the predictability of AI-driven transformation is uncertain. As you look ahead over the next five years, could you share any areas of uncertainty in your forecast and any changes you are watching closely? For example, customers may seek to bring more of the transformation process in-house.

A: We believe that we have clarified the skills and capabilities NEC needs to have in place to implement AI in practice. The key is how quickly and to what extent we can put them into concrete form. Very few companies will be able to handle everything internally. They will be unable to achieve efficiency or scale, and it will be difficult for operating companies to ensure security and safety on their own, making partnerships essential. Since technology constantly evolves, we believe that specialists are absolutely necessary in this field.

Q: The alliance with Anthropic also gave me the impression that you are emphasizing speed. As a corporate leader, how do you view the AI era, and what changes do you sense?

A: Personal relationships are extremely important. For a company like ours, the key is the extent of our network with people who are taking action in response to global shifts and changes, as well as people in decision-making positions. I believe the ability to identify high-quality information about market changes will be a source of competitiveness for corporate leaders.

Q: Regarding the long-term management goal of raising the overseas profit ratio to 50%, as shown on page 22 of the presentation materials, I have the impression that 70% to 80% of revenue is generated domestically. Could you please tell us which areas will grow overseas?

A: The 50% target is also a message to the entire NEC Group. With Japan’s GDP falling below 10% of the global total, we will not be able to maintain competitiveness even in Japan unless our overseas profit ratio exceeds 50%. Within NEC’s current domains, the areas where we will expand earnings are AX for service providers, specifically the domains covered by CSG Systems and Netcracker. In the DGDF field, the relevant areas are AX for government-related areas and wealth management. Demand accompanying the global expansion of Japanese companies will also be important. We believe it is fully possible for these overseas businesses to achieve well over ¥100.0 billion in non-GAAP profit by 2030.

#### **Questioner H**

Q: How have you factored in price pressure resulting from the introduction of AI? Also, how much of NEC BluStellar’s revenue growth is attributable to AI?

A: Since we have explained that NEC BluStellar basically incorporates AI into everything, business across the entire NEC BluStellar domain will be driven by AI. In areas where AI is not yet fully incorporated, Netcracker, CSG Systems, and Avaloq are also moving rapidly to incorporate AI. Business opportunities arising from AI include secure cloud, data unification, and AI agent implementation, and security and safety governance will also be needed. We therefore

expect growth, including the top line.

We will need to change our sales approaches to address price pressure. Under the plan, we expect to pass on a certain level of cost reductions to customers while also reducing our own costs.

However, the true test will be the extent to which we can provide value-based systems and succeed in providing NEC BluStellar's scenario-based solutions.

Q: How much leverage is being considered in determining your growth investment capacity? Is it fair to assume that you have greater growth investment opportunities than your Japanese peers?

A: We are considering a certain amount of leverage. Please understand this as a relatively safe level, premised on maintaining a Single-A credit rating.

We believe it is only natural to pursue growth opportunities through M&A as well as organic growth. Times of great transformation involve risks, but they also present opportunities. We must proactively capture these opportunities.

**Questioner I**

Q: In addition to AI implementation, I expect the market for AI applications, service-based billing, and AI-driven traditional BPO to become larger than implementation itself. Does the plan include highly profitable businesses in which you implement AI for customers and then generate long-term cumulative revenue from monthly or annual fees through arrangements such as revenue sharing or replacing labor costs?

A: Naturally, we are considering this, and we are already winning a significant number of projects in AI BPO. We believe that highly profitable BPO services using AI can only be achieved by a company with secure cloud, "Data for AI" capabilities, an AI platform, and the ability to provide security, safety, and governance.