Questions & Answers at the Financial Results Briefing for the Third Quarter of the FY Ending March 31, 2024

January 30, 2024
NEC Networks & System Integration Corporation

QuestionerA

Q: What are the background and details of the increase in orders in the Network Solutions (NWS) segment for 3Q? Which drove the growth, the social infrastructure business or demand related to the banknote change (demand for ticket machines that accept the new banknote) captured by a manufacturing subsidiary? In terms of social infrastructure, what domains are growing?

A: The growth was largely driven by a manufacturing subsidiary, which captured new banknote-related demand. The remaining portion of the growth came from the social infrastructure business. Networks in the area of space and national security and the marine business are growing.

Q: Will the demand for ticket machines enjoyed by the manufacturing subsidiary continue in 4Q and beyond? What is your future outlook?

A: As there was some demand in the previous 4Q, we do not expect same level of impact in the coming 4Q as in 3Q. For the next fiscal year, I suppose there will be some demand although it will have some fluctuations.

Q: You reported that the Environmental & Social Solutions (ESS) business' earning capacity was increasing. What is behind this improvement? Is it an improvement in the sales mix or in profitability at the time of receiving orders? In addition, will it continue in the future?

A: Until the first half, the sales mix was poor because product projects constituted a large share. The sales mix is improving as the share of system integration projects gradually increases. In the order backlog, there are more highly profitable projects than in the past. We expect the GPM to rise in the future.

Questioner B

Q: What is your outlook for demand trends in the next fiscal year by business segment?

A: We expect that the market will stay solid for the DX Solutions (DXS) segment. The business for manufacturers is buoyant. The reactionary fall after the special demand enjoyed by the subsidiary running the contact center is not expected to be seen from 4Q. In the NWS segment, the business for carriers will remain adverse. Meanwhile, we anticipate that the social infrastructure business, such as the space and national security and marine businesses will begin full-scale operation. The manufacturing subsidiary

enjoyed high special demand responding to banknote renewal this fiscal year, but the demand will not drop sharply in the next fiscal year. It is unlikely that the segment overall will achieve massive growth in the next fiscal year. We think we will be able to manage it to prevent it from sinking.
As for the ESS segment, there are a large number of inquiries and prospective projects. While there will be ups and downs on a quarterly basis, we will be able to attain growth in the coming fiscal year.

Q: You have a large order backlog and your current performance is strong. What is your view on your operating income target of 34 billion yen for the next fiscal year, the final fiscal year of the medium-term management plan? You don't expect SG&A expenses to decrease for the next fiscal year, but do you think they will rise only modestly?
A: As you said, we have a substantial order backlog and we are receiving solid orders. We believe it is quite possible to increase sales. The GPM gradually improved quarter on quarter, and it rallied to the previous year's level in 3Q, when special factors are disregarded. For the next fiscal year, we will keep this trend. SG&A expenses rose significantly in the past two years. Expenses for the replacement of mission-critical systems will continue to be incurred and a hike in personnel expenses to meet social demand is inevitable. SG&A expenses will therefore not drop significantly, and in fact they may rise. However, as you remarked, we will strive to contain the increase. That said, we feel that the target of 34 billion yen for the next fiscal year is not completely unrealistic. We are currently discussing and preparing a plan for the next fiscal year.

Questioner C
Q: You mentioned that the improved GPM in the DXS segment was explained by the expansion in high value-added areas. Specifically what areas are they?
A: The DXS segment sees growth mainly in the manufacturing sector. Progress in cloud computing is bolstering demand for changes to network security. The growth rate is high overall in the strategic areas of this segment. The expansion in these strategic areas was a great help to improving GPM.

Q: Recently, a change occurred in the relationship between Japan Aviation Electronics Industry, Ltd. and its parent company, namely NEC Corporation. Is there any change at the moment in the relationship between NESIC and NEC?
A: There is no change. We understand that we succeeded in benefiting from two aspects of our status. As for the benefit from being a listed company, in addition to the advantages for recruitment and the positive impact on employees’ mindset, as a multi-vendor, we can undertake system integrations matched to customers' needs. Another benefit is from being an NEC Group company. In this regard, we will continue to make the most of the

advantage unique to members of the NEC Group, such as the utilization of the Group's assets. For example, it is an advantage to be able to working with NEC, which excels in the marine area and in the space and national security area, where demand is expected to grow.

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