<u>4Questions & Answers at the Financial Results Briefing for the FY Ended March 31, 2024</u>

April 26, 2024
NEC Networks & System Integration Corporation

Questioner A

Q: What is your perception of the business environment in each segment?

A: In DX Solutions (DXS) we do not perceive a great deal of risk, and believe that centering on the workstyle DX, network security areas, the solid performance of the previous fiscal year will continue. For Network Solutions (NWS), we expect to see an expansion in the area of social infrastructure, but prospects for telecom carriers will mirror trends from the previous fiscal year and we assume the tough conditions will persist. We are responding in various ways including a shift of resources, but we believe what is more important is whether we can create new and unique value in the area of next-generation networks. Our stance is to tackle this by creating the market for ourselves rather than being swept along with a market expansion. While this hasn't been incorporated into our numbers, we are looking to launch these efforts as early as possible. In Environmental & Social Solutions (ESS), we do not expect any areas to experience major declines, and since we will also see progress such as upgrade demand for fire prevention systems increasing from this fiscal year, we will focus on those areas in which we can play to our strengths.

Q: Your progress with operating income is a year behind your medium-term target. Will you be able to aim of operating income of ¥34 billion in the next fiscal year (fiscal year ending March 31, 2026), which will be the first year of your next medium-term management plan? In addition, despite the forecast of ¥29 billion for the current fiscal year you mentioned that you had not given up on the operating income of ¥34 billion stated in the current medium-term management plan. Given that, in what areas do you see potential?

A: I would like to achieve that, but what I think is important is to close the gap between the forecast figure and our medium-term target while balancing resources and human resource development against our workload. In terms of the difference from our medium-term management plan and actual performance, the gap is mainly due to the downturn in business from telecom carriers and the rise in personnel expenses. However, given that we will launch a new and unique business in NWS and see room for expansion in DXS, we will continue with efforts to make various improvements. In particular, if we can create added value with DX we will able to expand profit at a greater rate than sales, and we are looking to make good on those initiatives.

Q: You have not been issuing forecasts for the first half of the year since the previous fiscal year. How should we consider the balance between the first and second halves for this current fiscal year?
A: NESIC's business is heavily weighted towards the second half of the year, the fourth quarter in particular, and we don't see that trend changing this fiscal year, but we will do our best to achieve results at an earlier stage.

Questioner B
Q: You mentioned that in the NWS segment you expected an expansion in the social infrastructure field and a decline in the telecom carrier field in the new fiscal year. At this stage, without prospects for capital investment what is your strategy towards telecom carriers?
A: One business operator who has made major investments in the past halting ongoing investments has had the biggest impact, and our telecom carrier business has become challenging in the immediate term. While we don't expect a future recovery here, we don't think the approaches of other telecom operators will change. For our part, we need to pursue new initiatives. For example, we believe that the white box approach* would allow NESIC to play to its strengths since it is not dependent on specific products, and this is an area we will work on. We will also focus on areas that are not dependent on investment from telecom carriers, and we also believe there are possibilities for collaboration with telecom carriers in the utilization of local 5G.

(* White box: a new approach to network products which separates hardware and software and allows users to freely customize their systems)

Q: Under "Others and elimination" you project an increase (worsening) of ¥2.5 billion for the current fiscal year. Is there a likelihood of this shrinking in the future?
A: Since we are developing a new mission-critical system based on SAP this fiscal year, this fiscal year coincides with those costs ballooning, and you can expect to see that number go down in the next fiscal year. On the other hand, we think it will be necessary to continue looking at wage increases going forward.

Questioner C
Q: Regarding your approach to sales forecasts for the current fiscal year, with the order backlog large and growing year on year, sales growth seems low. Does this mean that compared with the previous fiscal year you will narrow down the projects you are awarded to highly profitable ones, or does it mean there is some upside when the order

backlog is considered?

A: Basically, we want to increase sales from highly profitable projects. This is not something new; in the past we have sometimes secured projects by using equipment as a strategic entry point in order to build relationships with customers, and we think those kinds of opportunities will newly emerge this fiscal year. However, those prospects have not been included in our forecasts. Our basic approach will be to increase sales in high added-value fields and expand profit as a result.

Q: Regarding shareholder returns, this time you have raised the DOE level, but tell us more about your approach to shareholder returns, such as the dividend payout ratio and your feeling for the right level of DOE.

A: We consider DOE based on our basic policy of wanting to strengthen dividends to shareholders in a stable and long-term fashion. While DOE is our focus, we consider shareholder returns in a comprehensive manner, also taking the dividend payout ratio into account.

Questioner D

Q: You explained that the increase in personnel costs weighed heavily on the previous fiscal year. How do you see this impacting the new fiscal year? And what is the status of passing on these increased costs through prices?

A: In the current fiscal year base personnel costs have increased over the previous year. Wages have been increased by around 5% on a union member basis, and together with wage increases for management, personnel costs are rising considerably. We hope these increases will boost employee motivation and also lead to improved business results. In terms of passing on higher costs through prices, we believe we have passed on these increases through sales prices in terms of reflecting sharp rises in the costs of materials due to the rising prices of goods, as well as the forex impacts. However, we recognized that the higher wages adopted in the new fiscal year have not yet been fully reflected in sales prices. As this not only affects SG&A expenses but also base costs, we want to handle these matters going forward, including through negotiations with customers.

Questioner E

Q: Regarding your per-segment forecast of operating income for the new fiscal year, you said that you planned to significantly improve operating margins particularly in DXS and ESS. Does this mean you will focus on projects with high profitability? Or does it mean you will be pursuing some other initiatives to make these improvements?

A: Our basic approach is to change the sales mix, such as by increasing sales from highly profitable projects. In the DXS segment that means increasing operations based on spiral-type business model. As I explained with the case study, in the initial stages it won't appear as the profitability has improved that much, but as the spiral continues, proposals that represent added value for customers will overlap, and we experience increased profitability. We hope to further accelerate these initiatives. For the ESS segment, while it will be important to secure highly profitable projects, we will also work to add DX elements within the business to improve added value and further enhance profitability.

Questioner F

Q: You announced a change in presidents in June. What was the background behind choosing Michitaka Ono, the president of your subsidiary K&N System Integrations Corporation ("KNSI"), as the new president, and what are the expectations for the new president?

A: The incoming president Ono has had experience in nearly every business of the NESIC and his management skills are highly rated. Additionally in recent years Mr. Ono has also thoroughly demonstrated his abilities as a business manager in KNSI, and we believe that appointing him president as a way to improve the future management of NESIC will further enhance our business operations.

Questioner G

Q: You mentioned that performance in the area of security has recently been strong. Can you elaborate?

A: Are involvement in the field of security is wide ranging, from networks to surveillance and physical security, but the kinds of projects we were referring to here relate to network security. As the places where people work are not longer limited to company premises, there are growing demands to revise the role of networks themselves and to revisit security measures. There is also an emerging demand for OT-type networks at factories, and in some cases a project calls for integrating more than ten individual networks at a given factory. This is an area in which we can leverage our strengths, such as by providing operation and monitoring at an SOC specifically designed for OT together with such projects.

Q: In the previous fiscal year there was not a lot of deviation from your forecast results, but before then there was continued instability for around two years. Should we prepare to see some degree of deviation going forward?

A: Over the past few years, we faced challenges in areas NESIC has not previously experienced, such as the inability to post sales due to material shortages, and the rapid fluctuations in the exchange rate. We understand that this caused inconvenience to stakeholders, especially since there were some significant deviations from our forecasts. We have now strengthened our structure so that such risks will not materialize, and we hope to continue to provide more accurate guidance going forward.

Questioner H

Q: You mentioned that you implemented structural reforms in the NWS segment. What exactly did you do, and what were the effects?

A: Our focus was on the reallocation of resources. We have been shifting resources away from the telecom carrier business which is undergoing a severe curbing of investment and directing them toward social infrastructure, where markets such as aerospace and national security are enjoying a resurgence. At this stage, the effects are limited to halting the growing deterioration of profits, but in the future we expect the effects to become more apparent, including an expansion of business in the areas where we have stepped up our efforts. In terms of NESIC overall, we have adopted a structure that better facilitates the mobility of personnel, and we are trying to develop a more agile company-wide structure enabling us to shift resources to other favorable areas even when challenging business conditions develop.

Questioner I

Q: I believe that a subsidiary in the NWS segment is seeing demand for ticket vending machines compatible with the new Japanese banknotes. Will there be a reactionary decline from that demand in the current fiscal year?

A: There will still be demand in the current fiscal and we expect any reactionary decline to be minimal. We expect a reactionary decline to develop beyond that, and we are in the process of considering and preparing how to anticipate that.

Questioner J

Q: Do you expect there is room for expanding the national security business? What impact would that have on profitability?

A: There are some unique areas we are pursuing, and in some cases the projects are equipment focused leading to a minimal contribution to profits. Currently the focus of the defense business is system integration projects being undertaken in coordination with NEC. Therefore, some aspects depend on the situation at NEC, but this is an area of growing demand, and we want to properly take advantage of that demand. In terms of profitability, the system integration field has not offered poor profitability in the past, and we are hopeful.

Questioner K

Q: It appears that investment in large-scale semiconductor plants and data centers is heating up. Will this benefit NESIC's business?

A: At this stage we have not seen a situation where any specific, special demand has emerged. However, with regard to data centers, we have been fielding business inquiries regarding immersion cooling technologies, which NESIC has been pursuing in collaboration with partners. This is not yet a major business, but we believe these areas of high added value have excellent future potential.

End