

## **NEC IR Day 2024 Social Infrastructure Business Q&A**

Date/Time: Monday, October 7, 2024 14:50-15:50 JST  
Format: Live online streaming from NEC Headquarters, Tokyo  
Presenter: Masakazu Yamashina, Corporate Senior Executive Vice President and Co-COO (Executive Officer)

### **Questioner A**

Q:

In the government's Defense Buildup Program, the budget will increase 2.5 times by FY28/3. What is your outlook for the budget after FY28/3?

A:

Considering recent geopolitical conditions, national security will continue to grow in importance. Therefore, we believe that the current trend will persist into the future.

Q:

What level of orders is anticipated by the resource strengthening plan for headcount and production capacity discussed today?

A:

The current plan is intended to catch up with current demand, so we will continue to consider strengthening our resources in FY27/3 and beyond. Since the defense business continues over a 5- to 10-year timeframe, we will move forward with these efforts from a medium- to long-term perspective.

### **Questioner B**

Q:

Regarding the sales expansion of software and OSS/BSS, the launch of the Open RAN market is behind schedule. Given these conditions, are you concerned that delays might also affect the software domain? Additionally, is the previously announced vRAN project for NTT DOCOMO, INC. already contributing to revenue?

A:

Revenue recognition for NTT DOCOMO, INC.'s project is scheduled to begin in the second half of the current fiscal year, with full-scale revenue recognition expected in FY26/3. The graph on page 15 of the presentation materials does not include NetCracker Technology Corporation and illustrates the vRAN and the OSS/BSS business for Japan. Therefore, we believe that the delayed launch of the overseas open RAN market will have no impact on this business.

Q:

What is your outlook for the overseas OSS/BSS revenue of NetCracker Technology Corporation?

A:

Revenue increased significantly from FY22/3 to FY23/3, but temporarily settled down in FY24/3 as international subsidies ended. Because strong orders have been received in the current fiscal year, we expect revenue to grow in the future.

Q:

You mentioned that there was a highly profitable project in FY24/3 within the Aerospace and National Security (ANS) business, and that the project was excluded from financial results. Could you please discuss the possibility of such a project reoccurring in the future?

A:

Given the background regarding how the project was received, this is not a project that will occur regularly.

### **Questioner C**

Q:

You noted that profitability will start to increase in telecom services beginning in the current fiscal year because of higher profits from software and services. Could you please discuss this from the perspective of orders as well? Also, how likely are you to achieve your targets?

A:

Page 15 of the presentation materials shows the ratio of software revenue in the global 5G domain. In addition, the international revenue of ¥12.0 billion for FY25/3, mentioned on page 14, includes our outlook for licensing business related to IP and expertise, for which we have already received some orders. Moreover, NetCracker Technology Corporation accounts for approximately half of the IT services for carriers shown on page 16, all of which are software. Considering our vRAN project for NTT DOCOMO, INC., we believe there is a high likelihood of achieving our target.

Q:

Hardware is forecast to decrease. Will changes in the product mix contribute to this decline, or will demand itself decrease?

A:

It is the former. While demand will not decrease, the decrease in hardware reflects NEC's policy. However, this does not mean we will discontinue the hardware business; we will continue to supply radio units (RUs) to the domestic market. Going forward, our strategy is to differentiate ourselves from major international vendors by contributing to the digital transformation (DX) of carriers, including a shift to low-cost construction through the provision of vRAN software. Meanwhile, internationally, we will transform our business model through measures such as considering whether to use internal plants or external facilities and providing technology licenses to manufacturing vendors.

#### **Questioner D**

Q:

How do you see the potential of Open RAN five years from now?

A:

We have been in discussions with international telecom operators. The current view is that the rollout of Open RAN will be delayed by four to five years when compared to our initial expectations. We believe that replacement due to past geopolitical factors will be difficult. Therefore, we will promote the value of raising construction efficiency through softwareization. We plan to support international expansion of Open vRAN primarily through OREX SAI, which we have started up with NTT DOCOMO, INC.

Q:

How do you see the potential of international markets in the defense business?

A:

We do not plan to take a leading role in international expansion. First, our main priority is to address domestic national security. We plan to steadily address international expansion based on national policies.

#### **Questioner E**

Q:

What kind of business model will emerge for vRAN for the domestic market? Additionally, could you please discuss any progress on the collaboration with NTT regarding the photoelectric fusion business? Have there been any changes in policy in connection with the shift to software?

A:

vRAN for the domestic market will be a multi-year business involving the licensing of usage rights and maintenance, rather than just one-time sales. We are positively working on the IOWN concept, and we plan to accelerate our technical competitiveness even more than before. We are also proactively advancing the optical communications business and discussing international expansion with NTT. The shift to software means that we will transform our business model, including royalties and support for the launch of factories, as well as changes in how compensation is received.