

Questioner 1

Q1

Regarding the unprofitable project that arose in the Public & Social Infrastructure Segment, I would like to ask about the amount of loss, details of the project, and the possibility of the effects lasting in the future.

A1

The unprofitable project arose in the Public & Social Infrastructure Segment, and the loss amounted to approximately 7 billion yen. The project is to shift the platform of the client's entire information system from the current on-premise environment provided by another company to a public cloud environment by utilizing a new product in a short period. This is a challenging project requiring high technological capabilities and a large-scale development structure. In this project, we identified issues as a result of verification test on the actual environment after the process was underway, so we overhauled the original plan and made additional provisions to the extent reasonably estimable. Moreover, we have established a company-wide committee to promote projects and resolve these issues. Through these efforts, we are working hard to complete projects.

Q2

Regarding the amount of new orders received by the Overseas Segment, you have disclosed cumulative figures for the period from April 1 to September 30, 2022. Please explain the results in the second quarter alone excluding the impact of foreign exchange rates and temporary effects such as M&As.

A2

Due to the reclassification of segments associated with the organizational restructuring, the results for a single accounting period cannot be calculated via simple subtraction, so we can only provide cumulative figures.

For the period from April 1 to September 30, 2022, the amount of new orders received by the Overseas Segment increased by 127.7 billion yen from the same period of the previous year. This figure includes gains from foreign exchange differences of 60.9 billion yen, achieving year on year growth even after excluding the impact of foreign exchange rates. A breakdown includes the positive impact of M&As, and the amount of new orders received steadily grew year on year despite a reactionary decline due to the absence of large-scale projects acquired in the previous fiscal year.

Q3

My understanding is that the amount of new orders received by the Overseas Segment was high in the second quarter because the segment won a large-scale project in Europe. Please

explain the background of this.

A3

The strong results in the second quarter were not due to the receipt of a large-scale project, but they were attributable to the receipt of many orders for small projects.

The business in Europe has been strong mainly in Spain so far, but this fiscal year, we have received orders not only in Spain but also in all areas where we excel in various European countries while the sales have also increased. Our business in Europe is quite strong.

Questioner 2

Q1

This year, you plan to increase strategic investment by 15 billion yen from the previous year. Please explain details of the plan, effects that you anticipate and the timing of them appearing.

A1

We have spent about 10 billion yen on strategic investment for the period from April 1 to September 30, 2022, up nearly 4.2 billion yen from the same period of the previous year when approximately 5.8 billion yen was spent on such investment. As for the details, we have invested mainly to strengthen our competitiveness in Japan and other countries globally. Especially in major areas of digital technologies used by many companies, including cloud, data and intelligence, and cybersecurity, we have been developing assets and human resources.

Considering that these are investments in mainstream technology fields, we believe that they are also quite effective for our clients having business with us recently.

Q2

I would like to confirm PMI and other costs associated with the business combination with NTT Ltd. and its synergies again. While NTT Ltd. plans to spend nearly 38 billion yen on a structural reform throughout this fiscal year, do you think that the company will need to continue to reduce personnel and take other measures for the structural reform after the combination with NTT DATA? I would like to ask about the situation that became evident over the first month of the business combination as well as NTT DATA's management policy in the second half and after.

A2

We expect to spend approximately 11 billion yen including PMI and other costs related to the business combination with NTT Ltd. this fiscal year, and this figure considers a modest positive impact of synergies on the income too.

As for the business situation of NTT Ltd. until the second quarter, the sales of the communications equipment sale and maintenance business declined, whereas added-value services such as data centers and managed services were robust both in the first and second

quarters, along with the positive impact of foreign exchange rates. NTT Ltd.'s structural reform costs amounted to approximately 44 billion yen in the previous year and are expected to be nearly 38 billion yen this fiscal year. The company is currently working to consolidate or withdraw from loss-making centers and businesses; reduce costs and selling, general, and administrative expenses; and increase the efficiency of headquarters functions, among other measures, and these initiatives have progressed largely as planned. They will certainly promote PMI with NTT DATA to achieve the full-year plan.

For more details about the PMI plan, top-level executives responsible for the Overseas Segment including NTT Ltd. have just started discussing this issue following the launch of NTT DATA, Inc. on October 1. The plan could be reviewed as needed in the future, but at this moment, the costs and synergies are expected to be the same as the original plan.

Questioner 3

Q1

I would like to ask when you start the service for the unprofitable project. Am I correct assuming that the service will start by the end of this fiscal year?

A1

We plan to start the service in a phased manner within this fiscal year. Please allow me to refrain from commenting on specific timings.

Q2

Following the latest change in segments, will you be able to release results based on the new segments for the first and second quarters of the previous and current fiscal years, respectively?

A2

For now, we have not released quarterly results, but we will make efforts to release the information in the future.

Questioner 4

Q1

Please explain the rough size of the unprofitable project.

A1

As I mentioned earlier, the project covers the platform of the client's information system, which is large and used by several tens of thousands of users. With this fact in mind, I would like you to imagine the size of the project.

Q2

As for new orders received, the overall Overseas Segment including Europe was strong while the amount of new orders received in North America for the second quarter seems to have declined by around 20% from a year earlier after excluding the impact of foreign exchange rates. Please explain the background of the decline and your view on the future.

A2

In North America, the amount of new orders received declined year on year after excluding the impact of foreign exchange rates, but this is a reactionary decline due to the absence of large-scale orders that we won in the previous fiscal year, just like the Public and Social Infrastructure Segment in Japan. Moreover, in North America, we focus on the profitability ratio and aim for quality growth while promoting business and sales activities mainly in the consulting and digital businesses. These businesses have been going quite well and the sales have increased. As a result of the efforts, the gross margin of projects received in North America in

the first half of this fiscal year grew by about 1 point from the same period of the previous year. Since we are shifting to consulting and digital businesses, the projects that we contract tend to be smaller. Meanwhile, since the average project period becomes shorter, more and more new orders received turn into sales in the same year.

Questioner 5

Q1

Many people voice concern over the uncertainty surrounding the future business environment of international IT services. What factors do you expect will become a cause of concern for the second half of this year and the next fiscal year?

A1

As for the Overseas Segment, we believe IT and digital investments have been going well both in North America and Europe. Besides the demand for renewing existing systems, there are very strong needs for automation systems using digital technology, the provision of new services and solutions, the creation of business models, etc. Given these, we think the state of the overall IT service industry is robust, including in Japan.

Amid such a situation, a challenge facing NTT DATA is a surge in labor costs to hire IT and digital talent. We will pass increased costs to prices in the digital field where it is relatively easy to do that while making efforts to cut costs by improving the efficiency of system development and using offshore and nearshore centers. As for another challenge of an IT talent shortage, we have been trying to acquire skilled personnel through M&As, promote the so-called campus hiring to recruit new graduates and enhance training for them in cooperation with educational institutions and strengthen digital training for the existing human resources.

Q2

Is the number of modernization projects that involves a migration to cloud, like the unprofitable one that occurred in Japan this fiscal year, increasing in overseas countries?

A2

The number of cloud migration projects is on a rise globally. The tendency is reflected in the sales growth of Amazon and Microsoft, which are global cloud vendors.

Q3

The operating income of the entire company for the second quarter declined even after excluding the loss from the unprofitable project. Please explain the reason for this.

A3

The decline is attributable mainly to the increased strategic investment costs and an increase in selling, general and administrative expenses due to prior investments by respective segments and other reasons. Throughout the year, we plan to increase strategic investment by approximately 15 billion yen from the previous year. Since we will continue to make a strategic investment in the second half of this year and after, this will cause a decline in the operating income. However, we also expect an increase in the operating income due to sales growth and we would like to operate the business to achieve year on year income growth overall.

Questioner 6

Q1

The unprofitable project caused a large amount of loss. If there are any technical specificities of the project or its current system, please explain them.

A1

In the recent unprofitable project, we had unexpected issues in a phase to run a migration test on a real equipment. The project was to shift from the current on-premise environment of another company to a public cloud environment by utilizing a new product in a short period. During the migration test phase using actual data, several technical issues were discovered.

The first issue involved a function necessary to migrate data from the current system to the public cloud, as the test using the currently used equipment proved that the performance of the function was much poorer than the designed value. To address the issue, we are currently improving the function's performance and taking other measures. Second, we found that the variation of data to be migrated is more complex than expected because a wide variety of access controls exists according to operational requirements. To address the issue, we had to take additional measures.

Q2

I wonder those issues were caused by the current system, not by NTT DATA.

A2

Concerning the project, we were unable to conduct the verification test with actual data on the currently used equipment at an early stage due to circumstances, and we should learn lessons from the experience. We are currently working to complete the project while building a cooperative relationship with the client, including current vendors.

Questioner 7

Q1

Under the situation where there are factors for cost increases, such as a surge in labor costs, the profitability ratio of the Overseas Segment improved from the previous year and I wonder why. I also would like to ask about the prospects of achieving your original goal of an adjusted overseas EBITA margin at 7%.

A1

We think the improvement is due to the effects of the overseas business structural transformation that we have implemented for the past three or four years toward digital

transformation. Additionally, the margin of projects in the digital field can be set at a higher level compared to that of traditional fields, which we think is another reason for the improvement. At the same time, we have been working to reduce costs by using offshore and nearshore centers as well as to improve the efficiency of development. We believe these efforts contributed to improving the profitability ratio of the Overseas Segment.

The Mid-term Management Plan that started this fiscal year sets out a goal of adjusted overseas EBITA margin at 10% in fiscal 2025. Aiming to achieve this goal, we will further increase the profitability ratio in the future.

Questioner 8

Q1

The amount of new orders received by the Overseas Segment decreased from the previous year after excluding the impact of foreign exchange rates. Is this decline due to the effects of the selective acceptance of orders that you explained earlier, or is it a reactionary decline due to the absence of large-scale projects that you won in the previous fiscal year?

A1

There are two reasons for the decrease. One is a reactionary decline from an increase in the previous fiscal year when we received orders for multiple large-scale projects in North America. The other is, as you know, that we focus on profitability ratios and selectively accept orders mainly for renewal and other projects in North America.

As for North America, the amount of new orders received declined from the previous year after excluding the impact of foreign exchange rates, but this decline is within the scope of the plan. The number of projects in the pipeline has increased due to the strengthening of sales operations for consulting and digital businesses, and we will work to win contracts for those projects in the second half of this year and after.

Q2

Concerning the unprofitable project, you say that another vendor provided the current system. Please explain why you accepted the order for the project. As a prerequisite, I would like to know whether the client was your new client or whether the project involved a field that is new to your company.

A2

While the project came from one of our existing clients, the field is new to us. The project is to renew the platform of the client's information system and we accepted the order as a starter to expand into the digital and surrounding fields. Renewing the platform allows us to implement further automation on the platform, add new services, and provide advanced services using digital technology, which we believe help us expand the range of orders we will receive in the

future.

Questioner 9

Q1

Is this year's unprofitable project the same as the one that occurred in the fourth quarter of the previous fiscal year and resulted in the loss of about 3 billion yen in the Public & Social Infrastructure Segment?

A1

Yes, it is. We explained the effects of about 2.6 billion yen loss from the project in the fourth quarter of the previous fiscal year, and the main cause was the poor quality of the application at that time.

Q2

As for the operating income from April 1 to September 30, 2022, the item "Other" recorded a year on year loss of approximately 9.8 billion yen. Please explain other effects than that of an about 4.2 billion yen increase in strategic investment from the previous year.

(See page 7 of the Company Presentation materials)

A2

The decline is due to such reasons as the effects of accounting processes; prior spending on global reorganization; and minor income declines at group companies that are not within disclosure segments. The global reorganization costs are the costs incurred by the business combination with NTT Ltd., including advisory expenses.

Q3

The operating income for the second quarter fell 11.5 billion yen from a year earlier. There still is a difference for this year's decline even after excluding factors for the income decline of a loss of nearly 7 billion yen from the unprofitable project and an about 2.5 billion yen increase in strategic investment from the previous year. Please explain reasons for the decline.

A3

Let me explain the reasons why the operating income for the period from April 1 to September 30, 2022, declined by 1.2 billion yen from the same period of the previous year.

Factors for income increase include the increased income of around 12 billion yen due to sales growth; a temporary income increase of approximately 2 billion yen in North America; and gains from foreign exchange differences of approximately 3.3 billion yen. The total increase amounts to nearly 17 billion yen.

Factors for income decrease include the loss of approximately 6.3 billion yen caused by the unprofitable project compared to the previous year; an increase of approximately 4.2 billion yen

in strategic investment costs from the previous year; and the approximately 2 billion yen impacts of the absence of temporary income increase in the EMEA & LATAM Segment that was recorded in the previous year. In total, the decline amounts to approximately 12 billion yen.

The difference of approximately 5 billion yen in the income decline is due to minor declines in the TC&S Segment and from group companies that are not within disclosure segments and the abovementioned global reorganization costs, among other reasons.