

# Question & Answer

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## Questioner 1

### Q&A Session 1

**Q:** Regarding the glitch in the Zengin (data telecommunication) system that occurred on October 10, I heard about compensation for losses due to disrupted money transfers. Kindly tell me the impact of the incident on the business performance of NTT DATA.

I also saw through an announcement in September that you had informally received an order for Zengin-net's next system upgrade. Concerning this, are there any risk factors for H2 and the next fiscal year, such as an effect on the projected profit margins and cost increase from initial estimates at the time of the bidding owing to the implementation of more verifications and testing processes?

I think your Company is practically a primary vendor. Were you actually involved in the system in question or is it any of your partner vendors that was actually involved? Could you give me any suggestions?

**A:** With regard to the direct cause in the system, our Company was actually in charge of the part and other vendors have nothing to do with it.

Regarding the direct impact of the incident on our performance, including damage compensation for affected banks and customers, we think it will be determined after discussing with the Japanese Banks' Payment Clearing Network (Zengin-net) regarding how to ultimately cope with the incident. For now, I cannot give you the total amount, but we will sincerely provide compensation based on the contract with the Zengin-net, in principle.

Concerning an impact on the next system as well, we do not have an answer at this stage. In the future, we might increase testing processes according to the latest incident. Nevertheless, I cannot say whether there will be significant additional burdens on the currently planned overall process or not.

**Q:** But at least you will need to fix the glitch, and this will incur additional cost. Am I correct?

**A:** We know the direct cause of the system glitch. We will not only address the direct cause but also work together with the Zengin-net to discuss and implement comprehensive measures such as recurrence prevention measures. Nonetheless, we do not anticipate that significant additional costs will be incurred for recovery from the incident at this moment.

**Q:** I understand.

## **Questioner 2**

### **Q&A session 1**

**Q:** Regarding the Zengin-net issue, will additional costs other than compensation, for instance, the cost for SEs, not be so high? I heard that you plan to have 600 staff involved in comprehensive inspection operations. I assume that it will not cause serious damage even if the operations take one or two months to complete. Am I right?

**A:** Yes, you are right. The inspection team will comprise approximately 600 members including officials from NTT DATA Group's Quality Assurance Department, engineers, and officials from the operating company who are in charge of systems concerned. We are going to comprehensively inspect 100–200 systems prior to the end of this fiscal year and the scale will not be so large.

**Q:** If the 600 staff are dedicated to the comprehensive inspection operations, will there be any opportunity loss or will you outsource other operations?

**A:** Most of the 600 members, including those from the Quality Assurance Department, are tasked with promoting the operations, and relevant business divisions will make efforts so that other businesses will not be impacted.

**Q:** I see. Thank you.

### **Q&A session 2**

**Q:** What is your view on net sales in North America? Did the net sales slow down when compared to Q1? Would you provide specific information on the region?

**A:** Concerning the Q2 results, the YoY decrease has become larger. As for the winning of orders that have been delayed that I explained in the company presentation, three or four of them are for projects worth over JPY10 billion, and many include processes from application development to consulting. The situation is tough not only for our Company but also for the entire market. The winning of multiple projects have been delayed, and these projects have larger lot sizes than those of Q1.

**Q:** You did not lose those projects, did you?

**A:** They are mostly just delayed. They have been pushed back to Q3 or later, and we want to win them within this fiscal year.

**Q:** In that case, as your plan is to achieve a YoY growth in new orders received for the full year, am I right to assume that you are hoping that the situation will get better around Q3?

**A:** Yes, we think that way.

**Q:** Thank you.

### Questioner 3

#### Q&A session 1

**Q:** First, I would like to know about the sales of NTT Ltd.

Especially, regarding the sales of Telecommunications Terminal and Network Equipment, I am sure that there was a problem in procuring from Cisco. I would also like to ask your standpoint on whether the procurement environment is finally getting better or not.

**A:** First, the data center business reported sales growth, which excludes the effect of the transfer of data centers in Hong Kong from NTT Ltd. Group to NTT Communications Group. There is a quite strong demand from hyperscalers. The number of projects that are related to generative AI is slightly increasing and sales are growing steadily. We disclosed EBITDA of the data center business in the company presentation material, and we secured certain margins of EBITDA.

Then, the network business remains almost unchanged, excluding the effect of the transfer of businesses in China and Hong Kong. The managed services business recorded growth even when the effect of the transfer is included.

As for other IT infrastructure, the situation of the existing telephone conference service, which has been operated by Arkadin and other companies, is pretty bad and the declining trend in sales is becoming more obvious.

Finally, the sales of Telecommunications Terminal and Network Equipment decreased. This decrease is even larger when the impact of foreign exchange rates is excluded. The business also has been impacted by the transfer to Hong Kong and a change in accounting treatment of software, but the sales recorded a decline even after these effects are excluded.

As for your question about the recovery status of the supply chain, we had order backlog worth approximately USD1,200 million at the year-end period; however, the amount decreased to approximately USD800 million by now. The effect of the delay in procurement has been eased in comparison to before. Nevertheless, considering that a relatively large number of projects stay in backlog, we believe the effect of the supply chain recovery will emerge in full scale in H2 or later. We are working on shifting to comprehensive projects that include maintenance construction with relatively high margins.

**Q:** Thank you. Was the sales decrease of telecommunications equipment due to the supply chain or the shrinking demand owing to client circumstances? What do you suggest?

**A:** Well, as an overall trend, the sales have been decreasing to a greater or lesser extent.

**Q:** I see.

#### Q&A session 2

**Q:** My second question is about PMI cost. You seem to have made little progress against this year's JPY19 billion plan. Of the amount to be recorded for H2, how much can you decide to spend flexibly? I heard the spending will peak in the next fiscal year. About how much will be added to the JPY19 billion? Could you give me some guidance on these issues and their backgrounds?

**A:** In terms of the business integration, there are many measures we have to work on. For that, actual timing of spending might be pushed toward later this fiscal year. Nevertheless, the spending is absolutely necessary,

and we will not cancel the spending just because we want to achieve profits in the full-year forecasts. However, depending on the timing, we might also end up not being able to make some expenditure within this fiscal year. We have not decided the scale of expenditures for the next fiscal year. As we announced the other day, we carefully decided leaders for respective regions and units and are attempting to formulate plans for FY2024. When we estimated synergies worth JPY30 billion for FY2025, we also expected that expenditures in FY2024 would be larger than in FY2023, considering that the FY2024 will be impacted the most by the actual start of the integration of regional branches. Of course, we would like to decide how to spend the money considering the direction of overall profits. We selected leaders now because we wanted them to be responsible for managing businesses toward FY2024 and FY2025.

**Q:** Based on your initial explanation, how much do you expect to spend on the business integration in FY2024?

**A:** We explained that the integration cost would be JPY10–20 billion. As we will review the estimates going forward, there might be some changes, such as a slight increase from JPY20 billion in FY2024 and a decrease in FY2025.

**Q:** I understand very well.

## **Questioner 4**

### **Q&A session 1**

**Q:** You have explained integration expenses for FY2024 and FY2025. There are restructuring costs used for NTT Ltd. and EMEA and LATAM among other temporary expenditures than integration expenses. It seems that the presentation material indicates that you will complete the expenses in FY2023. Are there any changes to the outlook?

**A:** Regarding restructuring costs of EMEA and LATAM, some integration activities took place in EMEA slightly before, so we spent the expenses on them. Hence, we will complete spending on them this fiscal year. NTT Ltd. is a company established via the integration between NTT Communications and Dimension Data, and current President Abhijit Dubey took office as the president of the company. They have been strengthening operational efficiency for several years.

Moreover, as announced the other day, we will adopt a new structure that comprises the three regions, Business Solutions in charge of SAP business, and Global Technology Service, in April 2024. Thus, I do not think that we will deal with spending specific to NTT Ltd. in the future.

Nevertheless, kindly note that we will continue our routine efforts to enhance profitability, so temporary expenditures will not be reduced to zero, moving forward.

**Q:** Thank you.

### **Q&A session 2**

**Q:** I have one more question. As for the order acceptance environment in EMEA and LATAM, could you explain industry-specific and region-specific situations?

**A:** New orders received in EMEA and LATAM slightly decreased when the impact of foreign exchange rates is excluded; however, we believe that they are progressing relatively well. By region, they are strong especially in Spain and South America while seeing a YoY decrease in the United Kingdom and Italy. If the current situation continues, we think the annual plan can be exceeded.

**Q:** As for H2 of the previous year, new orders received, both in Q3 and Q4, increased by approximately 20%, excluding the impact of foreign exchange rates. Comparing with that, I think the hurdle is slightly high, but you think for now that it would be possible to be as good as those periods. Is this right?

**A:** Yes.

**Q:** Thank you.

## Questioner 5

### Q&A session 1

**Q:** Especially, the Financial and Enterprise businesses did not see much income increase despite sales growth, and their profit margins did not improve. Please explain the causes for this. If the cause is due to the expansion of growth investment, I think growth is expected to slow down in H2. If you need to continue growth investment in the next fiscal year and beyond, is there a possibility of margins remaining stagnant in Japan for a while?

**A:** We plan to enhance margins of domestic businesses little by little throughout the year, and I recognize that we have made steady progress in this regard. Especially in the Public & Social Infrastructure business, we had an unexpected unprofitable project in Q2. However, even including the effect of the unexpected unprofitable project, I think we have been able to secure absolute profits.

In the Enterprise business, we are indeed preparing for consulting and other projects. Despite that, in Q2, we saw YoY income growth of JPY900 million and aim to increase income a little more over the year. In that sense, we believe that the situation is within our control.

**Q:** Regarding the Public business, I understand that the margin would improve, even in the presence of an unprofitable project, due to a YoY drop. In this fiscal year, the margin of the Financial business will be almost unchanged from the previous year and that of the Enterprise business is expected to decrease slightly, in accordance with your plans. You say that you have made steady progress against those plans probably because you do not expect much improvement in margins. Is there a possibility that this will continue in the next fiscal year? Your Company does not appear to stop growth investment, so you will need to make up for it by increasing sales. Is that correct?

**A:** Well, the situation might look like so, but we have implemented measures to increase margins of domestic businesses. For instance, as shown in the MMP, we are aiming to strengthen our consulting capabilities, turn our knowledge into assets and increase the margin of each project. We are never satisfied with the current levels, and we are considering measures to ensure the enhancement of margins, moving forward.

**Q:** I understand.

### Q&A session 2

**Q:** Second, I would like to ask about NTT Ltd. To achieve the target EBITA for H2, you will need to increase income by approximately JPY13–14 billion. Nonetheless, a few effects of sales growth exist in H1, except for the effect of the decreased restructuring costs. Considering this, I would like to know if there are any factors for income increase in H2. At the same time, I want to know if new orders received have increased YoY even when the impact of foreign exchange rates is excluded.

**A:** Considering that the definition of ‘new orders received’ by NTT DATA Group is different from the definition of ‘new orders received’ that has been managed by NTT Ltd., we do not have previous year’s records. Nevertheless, we think that new orders received in H1 of this fiscal year were considerably strong. As for the breakdown, we were able to win a long-term large-scale project in the data center business, which is a primary factor.

In H2, we are considering selling data centers. If the plan is realized, it will help increase income. Moreover,

top executives of NTT Ltd. are strongly aware of our commitment to profit; hence, we believe that they will carefully comply with our guidance, including the overall cost control.

We spent JPY17 billion on restructuring in H2 of FY2022. The remaining amount for FY2023 is JPY9.8 billion, and we now see an increase factor of JPY7.2 billion here.

**Q:** How much profit do you expect to make from selling data centers? Although you said you have won more and more data center-related projects, many of those projects are new projects, am I correct? Let me check this point at the end.

**A:** Those projects are all new projects.

With regard to profit from the sales of data centers, it depends on actual selling prices, making it difficult to answer the question. However, I think that the profit would be several billions of yen.

**Q:** Thank you for your detailed answers.

## Questioner 6

### Q&A session 1

**Q:** First, let me ask about the details of new orders received in the Public & Social Infrastructure business, which significantly increased. I read a government gazette, so I know that you received an order for a labor standards administration system project at the Ministry of Health, Labour and Welfare for approximately JPY30 billion. Considering that the increase is even larger in scale, I am guessing you also won the project for the renewal of the pension administration system. Is that correct?

**A:** Well, you are right. We believe that this information will be published in a government gazette shortly.

**Q:** Based on the fact, the next question is about domestic business growth strategy. As you explained in the PITON part of the company presentation, I presume that your Company is planning to introduce open systems and cloud to platforms and large-scale joint use systems, especially for the Public & Social Infrastructure sector and the Financial sector in the future. Is your expectation that you will be able to enhance the value of some existing legacy systems by introducing open systems and cloud and increase both sales and income by taking in peripheral areas? Or, is it that the introduction of open systems or cloud will cause a temporary sales decrease, but you will be able to turn around the decrease by taking in peripheral areas?

Will your current strategy allow you to directly enhance added value and increase income? Or are you expecting some obstacles? Could you share your view on this?

**A:** There are business opportunities to employ PITON in peripheral areas, and we plan to win such projects without fail. Hence, we do not think that there will be a temporary decrease.

**Q:** I see. You mean you think you will be able to increase both sales and income if you can win projects in peripheral areas, since introducing open systems to platforms will not cause a big loss for your Company?

**A:** Generally, the central government launched the Digital Agency, and we are sure that the government will make investments that are different from the past in order to provide various services for the public. In the financial sector, other than legacy systems, there are strong needs among financial institutions to enhance digital services for their customers, and we have received many inquiries concerning this area. Hence, we would like to ensure to win such projects to achieve overall growth.

**Q:** I understand.



## **Questioner 7**

### **Q&A session 1**

**Q:** Together with the introduction of open systems, I think depreciation will commence after the service launch in the next fiscal year. Is it possible that profits will not change so much temporarily?

If the development costs that had been recognized as assets begin to depreciate at the same time as the service launch and if sales are small at first, then the burden of depreciation could be relatively heavy at first in some cases. Don't you have any concerns regarding this?

**A:** I agree with your standpoint on the burden of depreciation. However, we plan to achieve sales from peripheral projects from the initial phase of introducing open systems. In this regard, we do not anticipate that the weight of depreciation will result in substantial deterioration of profits. I hope you would understand our intention of ensuring sales and generating profits for the entire Financial business.

## **Questioner 8**

### **Q&A session 1**

**Q:** My question is about the sales of data centers. Are you planning to sell data centers in regions where you have high market shares, in accordance with your global strategy in which you intend to be ranked among top 10 companies and have a market share of 2% in each country? Or will you invest in regions where you have low market shares? Please share with us if you have such regional strategies.

**A:** Regarding the sales of data centers, we are currently preparing a list of data centers to sell over the next three years or so. There are no obvious regional tendencies. In general, we decide not based on area strategies but on the situation of respective data centers.

**Q:** Won't you make decisions according to profitability indices such as IRR? If you plan to sell easier-to-sell data centers first, I think data centers with high IRR will be purchased first.

**A:** Of course, we also investigate how to guarantee an overall profit. Certainly, I believe somewhat matured data centers with high occupancy ratios are being added to the list, but we are very focused on how much profit the overall data center business can generate. We plan to continue the maintenance and management business even after selling data centers. Hence, we will not necessarily sell all the data centers with high IRR first.

**Q:** In that case, you anticipate that the ROIC of the data center business will not deteriorate after the planned sales, and rather, you will aim to increase it while attempting to find a balance, is that correct?

**A:** We are going to ensure an increase in the overall ROIC. In comparison to two major competitors, we are still on an early stage, and our ROIC level is low. However, we are aiming to find a way to increase the ROIC of the data center business even after selling data centers.

**Q:** Thank you.

## Questioner 9

### Q&A session 1

**Q:** I have a question regarding the control of interest-bearing debt. In May 2023, you said that you planned to cut debt by JPY100–200 billion a year and interest-bearing debt by JPY300–500 billion over the three years of the MMP.

Nevertheless, the assumption of foreign exchange rates has changed from your initial assumption. So, I wonder what KPIs you are using for the control now. For instance, you set a target of net debt-to-EBITDA ratio of 2.0x in the MMP. Hence, if the debt is within that range, is the actual amount just a rough indication to a certain extent?

**A:** As for a target, our target is a net debt-to-EBITDA ratio of 2.0x in 2025. However, this ratio is likely to be approximately 3.0x in this fiscal year, and the point is that how much we can reduce the ratio in FY2024 and FY2025. The major method to reduce it would be the sales of data centers. As I mentioned previously, we are discussing data centers to sell in 2024 and 2025. If we can complete the sales as planned over the three years, we believe that we can reduce the ratio to 2.0x to 2.5x.

**Q:** Thank you.

**A:** Let me explain financial expenses. In this fiscal year, we have refinanced floating-rate borrowings to fixed rates and engaged in yen-carry trades. It is us, NTT DATA Group, of course, that controls interest rates. We will discuss the amount, methods, timing, and other details by ourselves and promote these measures with responsibility. For instance, our Company Group has a net asset of JPY1.5 trillion. Moreover, we have approximately JPY200 billion in the foreign currency translation reserve, which refers to gains on net asset from foreign exchange differences related to investments that have been made thus far, in Q2. Therefore, although we have to take a certain level of foreign exchange risk in exchange for the benefit of reducing financial expenses through yen carry, I believe we are able to take a fair amount of foreign exchange risk on our balance sheet.

**Q:** Understood.