

Questioner 1

Q1

Please explain the impact of foreign exchange rates on the company's overall operating income for the first quarter.

A1

Operating income increased by 10.3 billion yen over the previous year. Foreign exchange gains accounted for 1.5 billion yen of the increase. By segment, the foreign exchange gain of the North America Segment was approximately 1.1 billion yen and that of the EMEA & LATAM Segment was approximately 400 million yen. (See Page 6 of the "Company Presentation")

Q2

As for new orders received in Japan, the Public & Social Infrastructure Segment and the Financial Segment both reported year-on-year decrease. I would like to know about the recent business environment. While the Enterprise & Solutions Segment seems to be doing well, could you separately explain the situation of the payment service business and that of other businesses?

A2

In the first quarter, new orders received in the Public & Social Infrastructure Segment decreased by 18 billion yen from the previous year. Since we expect a decrease of 65.3 billion yen in the FY2022 forecasts, some might have concern that the order acceptance environment is getting worse. However, this decrease is due to fewer orders received than in the first and second quarters of the previous year when the segment won large-scale projects and we already included it in the FY2022 forecasts. Conversely, net sales for the first quarter increased by 6 billion yen from the previous year due to the steady sales from order backlog.

Likewise, the Financial Segment reported a year-on-year decline in new orders received for the first quarter due to fewer orders received in this quarter than in the first quarter of the previous year when the segment received a large-scale project. Nevertheless, the segment aims to achieve year-on-year growth of 51.5 billion yen in the current year by steadily winning projects for banks and others. Net sales for the first quarter increased by 17.2 billion yen year-on-year mainly due to sales from the abovementioned large-scale projects.

In the Enterprise & Solutions Segment, new orders received has been strong especially for the manufacturing industry. Net sales have been strong especially for the manufacturing industry and the retail and service sectors, and the segment remains strong on the whole along with the expansion in the scale of the payment service. I will explain the situation of the payment service with the number of transactions. The results for FY2021 were better than those for

FY2019 prior to the pandemic, and those for the first quarter of FY2022 were better than those for the same quarter of the previous three years including FY2019 before the pandemic started. By business category, the performance has been improving in a wide range of categories such as supermarkets, shopping centers, and e-commerce. We aim to correctly understand the clients' needs for digitalization in the manufacturing and retail sectors and continue to expand the scale of the payment service going forward.

Q3

This year's overall net sales are certain to increase due to sales from order backlog. I wonder if there is a concern that the amount of order backlog drops from the previous year, affecting next year's net sales.

A3

As of the end of the first quarter, the total amount of order backlog of the entire company including both domestic and overseas segments increased by approximately 100 billion yen from the beginning of the year, and we believe that we are successfully accumulating orders that will turn into sales next year. Sales from approximately 40% of the order backlog are expected to be reported in the current year and the remaining will be reported next year or after. Sales from order backlog in the current year have not caused a decline in the entire amount of order backlog.

Q4

As for NTT Ltd., please explain your estimate of the period when the combination and other costs occur and of the timing when the costs will peak. While NTT Ltd. plans to spend 38 billion yen on a structural transformation this fiscal year, I would like to know your view on the necessity of such additional structural transformation when the combination with NTT DATA is about to happen.

A4

The combination cost will occur from the second half of FY2022, with the estimated amount of approximately 10–20 billion yen a year. We expect the combination cost will peak from FY2023 to FY2024. Given that considerable costs were needed when NTT DATA combined the Dell Services division in the past, we believe the estimate of the latest combination cost would be reasonable considering the size of NTT Ltd. The combination processes are expected to complete around FY2025, the final year of the Medium-Term Management Plan, and we expect the synergy effects worth approximately 30 billion yen to appear by FY2025.

As for the progress of NTT Ltd.'s structural transformation and its effects, we will closely examine them after the combination, including the necessity to implement additional reforms.

Questioner 2

Q1

As for new orders received for the first quarter, you have said that the year-on-year decline in the Public & Social Infrastructure Segment and the Financial Segment is within the scope of your assumptions, while new orders received increased in overseas segments, mainly in the EMEA & LATAM Segment. I would like to confirm whether the company's overall new orders received are in line with your plan or not. Also, please explain your future prospects for overseas segments based on changes in the external environment such as the economic situation.

A1

Since foreign exchange rates have a significant impact, their effects must be excluded when considering these figures. However, the results for new orders received meet or exceed both our domestic and overseas expectations.

Currently, the North America Segment places particular emphasis on increasing profitability and selects orders to accept based on the gross margin ratio when receiving new orders or renewing existing project contracts. We have not pushed ourselves too hard to increase new orders received, but instead, the gross margin ratio of new orders received in the first quarter increased.

In the first quarter, the EMEA & LATAM Segment received orders worth 190 billion yen, an increase of 60 billion yen from the previous year. Excluding the foreign exchange gains of 8.6 billion yen, the segment achieved organic growth of slightly more than 50 billion yen. By country, both new orders received and net sales have been strong in Spain, the United Kingdom, Brazil, etc.

Regarding prospects for the future, we are currently concerned about a recession brought on by global inflation, fluctuations in foreign exchange rates, interest rate movements overseas, etc. We are also aware of the growing social uncertainties caused by rising resource prices, a scarcity of energy, and a shortage of semiconductors.

Particularly, the Federal Reserve Board has taken aggressive interest rate measures in response to the especially serious inflation that has been occurring in North America. Given this, we acknowledge the likelihood that concerns about the recession and inflation may intensify simultaneously. Although it has not been confirmed yet, businesses may be currently cautious to make IT investments because the business environment for them may be deteriorating. Therefore, we would like to keep examining the situation closely in the future.

According to a local affiliate's report, there has been an unprecedented rise in inflation throughout Europe. Surging labor expenses could have an impact on NTT DATA's business, and our client companies might change their behaviors. Nevertheless, we currently do not anticipate a sharp decrease in IT investment in Europe, which is similar situation in North America. A

research firm recently announced its latest prediction for the growth rate of the IT service market in 2022, which showed a modest decrease from the previous projection but is still expected to reach 6 percent level. Thus, we do not believe that the changes in the economic situation are huge enough to affect our company's business.

Q2

My recognition is that operating income is expected to exceed the market consensus. I would like you to explain your view on net sales and operating income for the first quarter in terms of your company plan.

A2

Net sales increased at a faster pace than originally expected. Even after excluding foreign exchange gains of 31.3 billion yen from the year-on-year increase of 86.5 billion yen, net sales still increased slightly by more than 50 billion yen. The situation seems to be favorable.

Operating income increased by 10.3 billion yen over the previous year, primarily due to increased sales brought on by the business expansion. The breakdown of factors for the income growth is as follows: an increase of approximately 2 billion yen due to the improved gross margin ratio as a result of an improved cost ratio; an increase of approximately 5 billion yen due to increased sales from domestic businesses; and an increase of approximately 3 billion yen due to increased sales from overseas businesses. The 3 billion-yen increase in overseas businesses includes foreign exchange gains of 1.5 billion yen. These results are better than the initial forecasts.

Questioner 3

Q1

Please explain the structural transformation costs for the EMEA & LATAM Segment in the first quarter and its actual results, as well as the forecasts for the second quarter and after. I would like to know whether there will be any changes to your annual plan.

A1

We plan to spend roughly 7 billion yen on the structural transformation for the EMEA & LATAM Segment this year, with the first quarter accounting for approximately 2 billion yen of that total. The remaining 5 billion yen will be spent as scheduled, and there are no changes to our annual plan. On an annual basis, we incurred approximately 2 billion yen in structural transformation expenditures in the first quarter of the previous year, which was offset.

Moreover, EBITA for the EMEA & LATAM Segment in the first quarter grew 3.2 billion yen from the previous year and achieved organic income growth of approximately 3 billion yen excluding foreign exchange gains of approximately 400 million yen. Of the growth, we believe that the increase of approximately 2 billion yen came from increased sales and the increase of 1 billion yen came from the effects of the structural transformation. The profitability is expected to improve by roughly 5 billion yen throughout the year, including the effects of the structural transformation.

Q2

Please explain the types of projects that you have received overseas so far and projects that are growing particularly. Also, I would like to know about the employment situation of personnel and the changes in the turnover rate.

A2

The North America Segment is attempting to increase the number of highly profitable projects specialized for digital transformation (DX). In an effort to hasten the digital shift, we intend to increase the proportion of DX projects to the total orders received in FY2022, and thus far, we have done very well. In sectors including finance, insurance, and life science, performance has been strong.

Looking at the EMEA & LATAM Segment by country, sales have grown significantly in Spain, Brazil, and the United Kingdom. The financial, public & infrastructure, and other business sectors in Spain; the financial, automotive, and other manufacturing sectors in Latin American countries including Brazil; and the telecom and media industries in the United Kingdom have all done well. In Europe, the number of digital projects has been increasing, as is the case with North America. We won a digitalization project in the field called ACES for an automaker. In Spain, we also won

multiple DX projects for civil services in various channels.

The overseas turnover rate remains high, but we have been promoting recruitment activities and have increased the number of employees by several thousands of people in total. We have been able to increase the number of employees by several thousand, particularly in Europe, where our business has been expanding. Moreover, we are increasing and enhancing software development centers for projects ordered from various countries.

Q3

Am I right in understanding that the combination process with NTT Ltd. will last until FY2025? Please explain how and when the 30 billion yen synergy effects from the combination will start to occur.

A3

The combination process will last until FY2025, and the combination cost is expected to reach the maximum amount from FY2023 to FY2024.

We divide the synergy effects into three categories, namely, "synergy to create new value" "Cross-selling synergy," and "cost reduction by the combination," and we believe that these synergy effects will separately appear gradually.

We expect that the "mutually complementary synergies" will appear relatively early. The cross-selling, in which NTT DATA offers its services, etc., for NTT Ltd.'s clients and vice versa, will help expand the business by approximately one-sixth of the total.

Next, the cost reduction by the combination is expected to be approximately one-third of the total, and the cost reduction effects for IT foundations and headquarters functions are expected to appear continuously.

We believe the general synergies will be the last to appear after a certain period of time and help the overall business by approximately half of the total. This is about NTT DATA and NTT Ltd. generating new value in new business fields by combining each other's capabilities, and we particularly focus on fields such as 5G, IoT, and Edge to Cloud.

Questioner 4

Q1

Will you disclose the information on the balance sheet related to NTT Ltd.?

A1

We are currently examining details of assets and liabilities.

Q2

Let me ask you about the profitability of the North America Segment. Its operating income grew 2 billion yen year-on-year, but 1.1 billion yen of the increase came from foreign exchange gains. Also, you reported a one-time income of about 1 billion yen. Given these, am I right in assuming that operating income did not increase from the previous year? Please explain it in addition to the full-year operating income forecasts.

A2

I would like to answer your question regarding the overseas profitability based on EBITA. EBITA in the North America Segment grew by 2.8 billion yen from the previous year. Of the increase, 1.6 billion yen came from foreign exchange gains, as you have mentioned in your question, along with the one-time income of approximately 1 billion yen. Income also grew by roughly 1.2 billion yen due to organic sales increase. Conversely, the segment reported a total loss of approximately 1 billion yen due to the enhancement of sales teams, the addition of incentives, and the impact of rising labor costs, which almost offset the organic growth in the first quarter. We invested money in sales teams to grow new businesses; hence, we anticipate that income will increase as a result of organic growth by the end of this year.

Questioner 5

Q1

Did NTT DATA have any new unprofitable projects in the first quarter?

A1

We did not have new major unprofitable projects in the quarter.

Q2

It seems to me that sales in the North America Segment remain almost the same as those of the previous year after excluding foreign exchange gains. Are the results just as you originally planned? I also would like to know whether the pandemic has impacted your business in the United States or not.

A2

Net sales increased by 24.5 billion yen from a year prior, including foreign exchange gains of 21.6 billion yen. Hence, if the gains are excluded, the net sales grew by approximately 3 billion yen. The breakdown of the 3 billion-yen increase is as follows: an increase of approximately 2 billion yen due to increased sales associated with the expanded consolidation through M&As since the last fiscal year offsetting the effects of the sale of a low-profit business to improve the profitability and an organic growth of approximately 1 billion yen. We believe that the business has been going on as planned and that we will be able to achieve year-on-year growth of 32.3 billion yen set in the full-year forecast.

Since North America is increasingly adapting to living with COVID-19, the pandemic has not had any particular impact on the business.

Questioner 6

Q1

My understanding is that you planned to increase strategic investment significantly from the previous year. Please explain updates on the progress in the first quarter and specific measures.

A1

We plan to make a strategic investment of roughly 32 billion yen this year, an increase of nearly 15 billion yen from the previous year. In the first quarter, we spent approximately 4.2 billion yen on strategic investment, an increase of approximately 1.6 billion yen from a year earlier, and we have begun making strategic investments as planned.

Specifically, we invest in four major areas. First, we invest in key technologies and make intensive investments in the globally common technology fields. We narrowed down investment

destinations to five areas of cloud, data and intelligence, cybersecurity, ADM (application development management), and EAS (enterprise application service).

Second, we invest in key industries and plan to invest in respective industries in which we have major clients all over the world, including the healthcare/life science, insurance, banking, automobiles, and telecommunications industries.

Third, we invest to enhance our consulting capabilities and asset business. Fourth, we make investments aimed at achieving social change, with an eye toward cross-industry collaborations and the realization of a sustainable society.