Consolidated Financial Results Briefing for the Second Quarter of Fiscal Year Ending March 2026 (October/31, 2025) Summary of Q & A

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Q1. The product cost for the second quarter increased significantly compared to the previous quarter. There was an explanation that this was due to the impact of mass production launch of a new product. I believe the main reason for revising the full-year forecast downward is largely due to the impact of this new product. If you look solely at the second quarter, was there also an impact from the shipments of Chinese telecommunications products being delayed from the first quarter to the second quarter?

A1. The downward revision to the full-year forecast is due to a higher product cost ratio associated with the initial stage of mass production for a new product, as well as an increase in R&D expense for advance development. Of these factors, we expect that the impact of the product cost ratio to be most significant in the third quarter, and to continue into the fourth quarter. The increase in the product cost ratio from the first quarter to the second quarter is due to both the impact of mass production launch of a new product, and the shipments of Chinese telecommunications products being delayed.

Q2. How will the product cost ratio change from the second quarter to the third quarter?

A2. We expect an improvement in the product cost ratio for the new product in mass production ramp up, from the second quarter to the third quarter. However, due to factors such as more-than-forecast volume of the new product, the overall product cost ratio in the third quarter is expected to be higher than in the second quarter.

Q3. It was previously stated that the company operates on a basis of 60% product cost ratio and 40% product gross margin. Do you expect to return to that level in the next fiscal year and beyond?

A3. We believe we should maintain the target of 60% product cost ratio and 40% product gross margin. However, we believe that it will be difficult to return to this target in the short term, while it depends on factors such as the status of new products entering mass-production and product mix. The product cost ratio is likely to remain at mid-60% range. We have already factored this situation to some extent into our outlook and medium-term targets.

Q4. Regarding the R&D expense, it is stated that aggressive investment exceeding initial forecast will be made in the current fiscal year. Will the expense increase further in the next fiscal year?

A4. This trend is likely to continue into the next fiscal year, as we continue to invest aggressively in initiatives such as establishing an open, flexible and easy-to-use chiplet design platform to address challenges in the chiplet era. We view this as a strategic move for our medium- to long-term growth and an important initiative to secure our future competitiveness, rather than a measure for a specific business project.

Q5. The company is facing an increase in the product cost ratio due to the rapid increase of production volume for a new product. I believe more products from your large-scale projects will enter mass production in the next fiscal year. Do you expect to see a similar impact? How do you plan to build on what you have learned?

A5. Even before mass production, it is crucial how you can shorten testing and verification time and make

improvements on engineering samples after tape out. Regarding the start-up of mass production for the large-scale projects, we plan to accelerate improvements in the cost ratio through measures including yield enhancement and establish a testing system quickly, assuming there will be significant volume from the early stage.

Q6. Regarding the new product for which you launched mass production this fiscal year, is the lifetime volume also expected to increase, as the customer has decided to incorporate the chip into more vehicle models?

A6. We currently only have a concrete forecast for this customer up to around the middle of next year, but we anticipate further volume expansion. However, the life cycle of the latest automotive products, especially those for ADAS HPC, will be shorter than that of traditional automotive products, which is an average of 5 to 7 years.

Q7. How is the North American Data Center business, which is planned for a mass production launch next fiscal year, progressing?

A7. We have completed the tape out in the second quarter, and the project is progressing almost on schedule. We expect the project to contribute to our net sales from the second half of the next fiscal year, and this outlook has not changed.

Q8. Large-scale projects for data center business present the challenge that they are difficult to secure profits while the level of sales is significantly high. For the project you secured, has the pricing been set to ensure a certain profit margin?

A8. Today, the gross margin on large-scale projects tends to be structurally low, compared to previous levels. But we have already factored this situation to some extent into our outlook and medium-term targets. Leveraging the experience we gained this fiscal year, we will steadily improve the cost ratio during the mass production ramp-up, so that the project will contribute to profits early on.

Q9. Regarding the preparation of the testing system for the ramp-up of the new product, can we consider that the costs incurred this time to be one-time CAPEX? Or do the costs occur each time a new mass production starts? Can the system be used for other products as well?

A9. The costs associated with preparing a testing system involve both CAPEX and one-time expenses. Regarding the test equipment, sometimes the OSATs cover the entire investment, and at other time our company shares the cost. Some of the testing equipment can be used for other products. For testing, technical improvements to shorten testing time, while maintaining optimal product quality, are also important. This also impacts cost ratio improvements, during the mass production ramp-up.

Q10. Please update us on the new design wins in the current fiscal year. After the end of the first half, how is the progress?

A10. It may be a little too early to tell our forecast for the design wins in this fiscal year. We aim to acquire design wins in a balanced manner, for Data Center & Networking, Automotive as well as other application markets, and achieve the same level as previous year.

Q11. Regarding the data center product that are currently under development, it was explained that sales are expected to expand, including to other new customers, once the tape-out is complete. Does this mean the product, developed for a specific customer, can be sold to others as well?

A11. The data center product currently under development is a CPU, so we believe that is possible. However, we cannot figure out such a possibility, until we have completed the evaluation of engineering samples after the tape-out, including the various testing processes. Therefore, it will take a while before we can make any decision.

Q12. Regarding the "Flexlets" which you have recently announced, what are the target applications and what time frame can we expect for availability?

A12. As traditional monolithic SoC designs face physical and economic limits—reticle size constraints, yield challenges, and thermal bottlenecks- the industry is turning toward chiplet-based design. However, many current chiplet solutions are derived from fixed-function ASSPs, limiting flexibility and customization. Socionext's Flexlets overcome this by offering a configurable library of chiplet designs at the RTL level. Unlike traditional approaches, Flexlets empower customers to tailor performance to their unique application needs – whether in high-performance computing, advanced networking, or next-generation automotive systems. Engineering samples of the initial Flexlet base designs, including Known Good Die (KGD), are currently in development. Socionext will initiate its first customer design this year and broaden design engagements beginning in Q2 calendar year 2026.

Q13. NRE revenue is down in this quarter compared to the same quarter of the previous fiscal year. Despite a significant increase in the proportion of leading-edge products, why hasn't the revenue increased? Is this a matter of the timing of revenue recognition?

A13. NRE revenue recognition this fiscal year will be higher in the second half. In particular, we expect significant NRE revenue in the fourth quarter, as multiple projects are scheduled for tape-out. As for the full-year revenue, in real terms, we believe it will be a slight increase.

Q14. Regarding the cost increase associated with the ramp-up of the new product, if it was due to demand exceeding the initial forecast, why can't you pass the cost increase on to the customer?

A14. We aim to respond to sudden increase in demand as much as possible to help strengthen our customers' competitiveness in the market. Based on this premise, we are going to ask customers for understanding and cooperation. Furthermore, when determining pricing, we believe it will be necessary to consider methods such as incorporating time-based factors in addition to volume-based pricing.

Q15. You have revised the full-year operating income forecast downward, but I do not think the cause is a decline in demand due to inventory adjustments, as we saw in the previous fiscal year. Looking at the demand from the second half of this fiscal year through next fiscal year, do you see any changes, such as areas that are showing growth?

A15. We expect that our sales in Automotive sector to grow significantly this fiscal year. But this is due to the mass production ramp-up of a specific project, and is distinct from macro-level trend of automotive industry. Looking at the overall demand, we do not think there has been any significant change from the initial forecast. While demand for certain existing products, such as those for measurement equipment, has increased due to the recent expansion of AI demand, their share in the overall demand is not so large. Orders for smart devices and industrial equipment have also returned to levels aligned with actual demand, following the end of the inventory adjustments. Therefore, we expect steady growth moving forward.