

(i) Business results

During the fiscal year ended March 31, 2023 (the period from April 1, 2022 to March 31, 2023), the Japanese economy showed signs of an economic normalization as restrictions on activities imposed because of the COVID-19 pandemic were relaxed. However, with rising resource and energy prices connected with rapid fluctuations in foreign exchange rates and the prolonged conflict in Ukraine, the outlook has remained uncertain.

Under these economic conditions, in the business domain where NEC Networks and System Integration Corporation (hereinafter "NESIC") operates, customers' willingness to invest varied from strong to weak depending on the sector, reflecting rising procurement costs due to the weak yen and the impact of shortages of semiconductors and other materials and components. Overall, however, investments showed steady trends.

There continued to be brisk demand for workstyle innovation in the enterprise market triggered by the introduction of teleworking as a COVID-19 control measures. At the same time there was a shift of investments to "new normal" workstyles not bound to specific locations such as offices or homes utilizing cutting-edge technologies such as cloud computing, artificial intelligence (AI), the Internet of Things (IoT), robotic process automation (RPA) and other digital transformation (DX) technologies. Among telecom carriers, while moves to curb capital investment have been spreading to the core-network field, there has been growing demand in the areas of cost reductions and operational streamlining through the utilization of DX and other innovations. For national and local governments and public interest-related organizations, trends aimed at workstyle innovations materialized at national and local governments. At the same time, we began to see actions to develop digital infrastructure in community development, such as the Digital Garden City Nation concept.

Under this market environment, in May 2022 the NESIC Group announced "Shift up 2024," its new medium-term management plan. To realize a Sustainable Symphonic Society and enhance the value provided to society, in the era of DX and beyond-5G next-generation networks, the new plan focuses on the shift to a new business model of spiral growth in tandem with customers, based on consultation from the customer perspective that leverages expertise informed by NESIC's self-implementation track record and familiarity with customer operations.

In the DX field, to evolve the workstyle innovation-related business NESIC has pursued since 2007 into a service that leads to further improvements in management and business strength on the part of customers, NESIC has worked on workstyle and process reforms that produce innovation through the active utilization of DX technologies, and has used the technologies, expertise and other strengths gained from those efforts to engage in proposal activities and strengthen its service development. In addition, to address the growing demand to promote DX at the national and local government levels as well as enterprise customers, NESIC has worked with partner companies to progressively release services compatible with the closed networks of local governments, and strengthened its response to these growing needs by opening problem-solving showcases that enable customers to experience solutions by seeing them first-hand. For telecom carriers, we have utilized our knowledge of customer business processes to provide DX services that lead to operational streamlining, such as business automation services driven by DX technologies, as part of efforts to expand the domain in which we operate.

In the next-generation network domain including 5G, NESIC has strengthened its response to the field of base station infrastructure sharing utilizing local 5G, and also built new partnerships associated with 5G technologies and products including investments in an overseas company and a venture company from the University of Tokyo, in an effort to enhance its ability to propose services. At Shin-Kawasaki Technical-Base, the hub of NESIC's technology efforts, NESIC has obtained a commercial station license for local 5G (sub-6 band) and further strengthened its 5G business structure, including the enhanced

development of engineers utilizing local 5G environments.

On the issue of climate change, which is growing in importance as a social issue, NESIC has reviewed all of its businesses from the perspective of climate change action, and declared its intent to strengthen businesses that address climate change by combining the various environmental services and expertise it has cultivated to date. Other efforts include the establishment of a capital and business alliance with a storage battery development start-up. In June 2022, NESIC began disclosures based on the TCFD framework it expressed support for in December 2021. Also note that in April 2022, the Carbon Neutral Promotion Division was established as a companywide organization tasked with driving these efforts.

To further accelerate these in-house and co-creation practices along with initiatives to address climate change, in March 2023 NESIC relocated to a new head office building as an opportunity to utilize sophisticated networks such as local 5G and verify DX solutions, and has since been making preparations for new initiatives.

While NESIC has pursued these initiatives aimed at sustainable growth, in the fiscal year under review we were impacted by factors such as lengthened lead times from the receipt of orders to the recording of sales in part due to semiconductor and materials shortages and the accompanying impact on cash flow, and rising costs of the products and services procured from overseas due to the rapid depreciation of the yen.

As a result, the Group posted the following consolidated results for the fiscal year under review:

Net sales	¥320,802 million 3.4% increase year on year
Operating income	¥22,751 million 1.9% decrease year on year
Ordinary income	¥22,970 million 2.5% decrease year on year
Net income attributable to owners of the parent	¥13,813 million 8.0% decrease year on year
<Reference>	
Orders received	¥356,043 million 5.7% increase year on year

Net sales increased in part due to ICT services related to DX technology-driven workstyle innovation despite a decline in sales to telecom carriers due to curbs on capital investment. In addition, there was an impact due to lengthened lead times from the receipt of orders to the recording of sales in part due to semiconductor and materials shortages, this trend started to show signs of gradually abating at the end of the fiscal year. As a result, net sales increased 3.4% year on year to ¥320,802 million. Orders from telecom carriers were sluggish but strong growth in orders was achieved across all segments driven by the DX and the beyond 5G network area that is our focus. As a result, orders increased 5.7% year on year to ¥356,043 million.

On the profit front, despite the partial reversal on accrued losses on sales contracts recorded for a project in Myanmar and progress with initiatives such as improved added value and efficiency of services provided based on the medium-term management plan, due to a deteriorating sales mix owing to a temporary increase in projects based on equipment sales with low added value, the impact of soaring procurement costs from the rapid depreciation of the yen, the posting of losses in a telecom infrastructure project in Thailand and an increase in SG&A expenses associated with the strengthening of resources related to new business creation for future growth, operating income fell 1.9% year on year to ¥22,751 million, ordinary income declined 2.5% year on year to ¥22,970 million, and net income attributable to owners of the parent dropped 8.0% year on year to ¥13,813 million.

Operating results by business segment were as follows:

Net sales by business segment (Million yen)

		DX Solutions Business	Network Solutions Business	Environmental & Social Solutions Business	Other	Total
Net sales	Fiscal 2023.3	114,244	79,217	119,241	8,099	320,802
	Fiscal 2022.3	107,971	81,874	115,033	5,455	310,334
	Increase or (decrease)	6,273	(2,656)	4,207	2,643	10,468
	Ratio of increase/(decrease) (%)	5.8	(3.2)	3.7	48.5	3.4

Reference: Orders received by business segment (Million yen)

		DX Solutions Business	Network Solutions Business	Environmental & Social Solutions Business	Other	Total
Orders received	Fiscal 2023.3	122,651	92,107	132,653	8,630	356,043
	Fiscal 2022.3	119,454	84,339	128,682	4,282	336,759
	Increase or (decrease)	3,197	7,768	3,971	4,347	19,284
	Ratio of increase/(decrease) (%)	2.7	9.2	3.1	101.5	5.7

1. DX Solutions Business (¥114,244 million, up 5.8% year on year)

Although conventional services such as PBX-related service decreased, in addition to service businesses including DX technology-driven workstyle innovation that is our focus, SI and construction projects expanded thanks to a partial resolution of semiconductor and material shortages from the fourth quarter, with net sales improving 5.8% year over year to ¥114,244 million.

2. Network Solutions Business (¥79,217 million, down 3.2% year on year)

Despite an increase in the submarine network business, net sales declined in part due to telecom carriers curbing capital investment, falling 3.2% year on year to ¥79,217 million.

3. Environmental & Social Solutions Business (¥119,241 million, up 3.7% year on year)

Performance improved in the area of SI and construction, including kitting projects for ICT equipment and overseas telecom infrastructure projects, with net sales improving 3.7% year on year to ¥119,241 million.

<Outline of Business Segments>

Business Segment	Descriptions of Main Businesses
DX Solutions Business	Mainly system integration related to ICT platform and outsourcing/cloud services for business of enterprises and other customers and provision of solutions/services that are helpful for customers' business transformation by using cutting-edge/digital technologies, and contact center services
Network Solutions Business	A business primarily aimed at telecom carriers as well as social infrastructure operators for space, marine or broadcasting, etc., that require specialized technologies, involving the provision of system integration and services related to highly public network infrastructure that requires reliability, as well as the development/manufacture and sales of network equipment, and provision of system integration
Environmental & Social Solutions Business	A business primarily aimed at construction for providers of social and public services, companywide service infrastructure, which includes the maintenance and operation of various ICT systems and services provided by NESIC, and the provision of support services including technical services utilizing that infrastructure, in addition to the construction of network infrastructure by the Group's local subsidiaries overseas
Other	Mainly the purchase and sale of ICT equipment

Due to a reorganization implemented on April 1, 2022, NESIC transformed its reporting segments, namely the Digital Solutions Business, Network Infrastructure Business and Engineering and Support Service Business, into three business domains: DX Solutions Business, Network Solutions Business and Environmental & Social Solutions Business.

Information on reporting segments for the previous fiscal year has also been rearranged and disclosed to reflect the changes due to this reorganization.

(ii) Outlook

We forecast that consolidated results in the fiscal year ending March 31, 2024 (April 1, 2023 to March 31, 2024) will be as shown below.

Net sales	¥340.0 billion	6.0% increase year on year
Operating income	¥24.0 billion	5.5% increase year on year
Ordinary income	¥24.0 billion	4.5% increase year on year
Net income attributable to owners of the parent	¥14.0 billion	1.4% increase year on year

In the fiscal year ending March 31, 2024, despite concerns that uncertainty in the global situation and its associated impacts including soaring raw materials prices will continue, we expect the impacts of semiconductor and component shortages to gradually be resolved in addition to softened exchange rate fluctuations from the latter half of the fiscal year ended March 31, 2023. Looking at the domains in which NESIC operates, we believe that it will take time for telecom carriers to recover from curbs on investment, but foresee that demand for ICT will continue to be strong overall, including in the areas of DX and workstyle innovation.

In light of the business environment described above, we have prepared the consolidated financial forecast for the fiscal year ending March 31, 2024. According to the forecast, we

will continue to engage in proactive growth-oriented investment and incur costs, including the development of new mission-critical systems to strengthen data management and accelerated demonstration testing utilizing the new head office building we relocated to in March 2023. At the same time, we will accelerate initiatives aimed at the field of DX and next-generation networks such as 5G, create new markets by combining both fields, and improve the value provided to customers with consulting as the starting point. Through these efforts, we aim to increase both sales and profits by enhancing growth and earnings capabilities.

Also note that the NESIC Group's financial results tend to show higher sales and profits at the end of the fiscal year, in part due to SI and construction work for providers of social and public services, with profits weighted toward the second half of the year.

(iii) Profit Distribution Policy and Dividends for the Fiscal Year Ended March 2023 and the Fiscal Year Ending March 2024

We view the distribution of a reasonable share of profits to shareholders as one of our top management priorities, and make every effort to reinforce the Company's management foundation, strengthen its financial standing, and increase its earning capacity. While we also place a great deal of importance on increasing our corporate value through growth by accelerating strategic investment such as M&A, strengthening the business foundation and creating new businesses that will allow us to expand our future areas of focus, we strive to continually meet the expectations of our shareholders in our profit distribution.

In keeping with this approach, the Company decided that dividends per share for the fiscal year ended March 31, 2023 would be ¥23.00, as previously forecast. This combined with the interim dividend already paid brings our annual dividend to ¥46.00 per share, which is an increase of ¥3.00 from the previous year.

For the fiscal year ending March 31, 2024, we will pay more dividends per share: an annual dividend of ¥49.00 a share, an interim dividend of ¥24.50 and a year-end dividend of ¥24.50.

	Dividends per share (¥)		
	Interim	Year end	Total
FY March 2023	23.00	23.00	46.00
FY March 2024 (Forecast)	24.50	24.50	49.00