

4. Business Results

(1) Business Results for the First Nine Months for the Fiscal Year Ending March 31, 2021

During the first nine months under review (the period from April 1, 2020 to December 31, 2020), the Japanese economy was faced with an inevitable, sharp decline due to the impact of the COVID-19 pandemic, which led to the government's declaration of a state of emergency in April. Although the economy showed signs of temporary recovery after the lifting of the state of emergency at the end of May, the Japanese economy remains severe, including the new wave of COVID-19 infections starting November.

Under these economic conditions, the COVID-19 pandemic differently affected the information and communication technology (ICT) market, the business domain where NEC Networks & System Integration Corporation (hereinafter "NESIC") operates, with the impact emerging in some areas.

In the enterprises market, companies maintained a high level of investment in workstyle innovation, such as the introduction of teleworking in the wake of measures against the COVID-19 pandemic. Interest in cutting-edge technologies also remained high, including digital transformation (DX), such as cloud computing, artificial intelligence (AI), Internet of Things (IoT) and robotic process automation (RPA). However, companies took a more rigorous approach to their investments due to the deteriorated financial performance and other concerns and postponed non-urgent ICT investments such as system replacement. Meanwhile, capital investment by telecom carriers remained robust for migration to 5G and enhancements on the quality of telecommunications. Central and local governments and public interest-related organizations continued their system investment in sophisticated urban infrastructure, such as firefighting and disaster prevention and broadcasting, video transmission and CATV, although there was some impact such as project delay. The ICT investment needs for the educational market such as GIGA school initiative and remote (online) classes also rapidly increased.

In this market environment, the NESIC Group actively engaged in projects that emerged in the workstyle innovation business, ICT investment for the educational market and infrastructure development investment for telecom carriers.

Under the Medium-Term Management Plan, "Beyond Borders 2021," established in May 2019, we aim to be a "communication services orchestrator" that produces new social value using our strengths and in collaboration with our partners. We consider solving social issues and a wave of technological innovation as an opportunity for business expansion and are focusing on a shift to a new business model and business creation based on digital and 5G communication.

Based on this concept, we have been practicing distributed work since October 2019 in our workstyle innovation-related business, in which we have been engaged since 2007. The head office space has been reduced and head office staff members are separately assigned to satellite offices in the suburban areas of Tokyo that are within 30 minutes from their homes. The purpose is

for our staff to experience workstyles that help create innovation for the future and provide our customers with a variety of solutions for workstyle innovation through the outcomes of the initiatives by using DX technology. During the first nine months under review, we carried out business using telecommuting following the state of emergency in April by using this system and technology. As measures to prevent the spread of COVID-19, a recent social issue, we shared our workstyle expertise with our customers and promptly responded to the introduction of distributed work and building platforms for teleworking, remote and online classes, and other settings. In addition, we used the DX technology to implement a variety of initiatives and accelerate solution development corresponding to new workstyle (workstyle in the New Normal era) created jointly with our partners such as increasing the efficiency of operation and communication, and digitizing approval procedures. In November 2020, we also established the Basic Technology Development Center as a place to cultivate human resources, evaluate and verify new technologies and create new services, and set up the 5G Laboratory with real 5G equipment and facilities able to verify services. In these bases, we will strengthen the development of engineers in the 5G area, where the future market expansion is expected, and develop and verify new services using 5G through co-creation with our customers and partners. In the local 5G area with market potential, we are proceeding with trial experiments and proposition activities in areas including CATV, disaster prevention and disaster mitigation, and have already advanced trial experiments in areas such as regional invigoration and disaster prevention, mainly with CATV providers. In addition, we are conducting joint trial experiments with Mitsui Fudosan Co., Ltd. to establish smart buildings using local 5G and to provide new workstyle services for the coming Digital x 5G era. In the 5G area, we will continue to accelerate our business development, taking advantage of our strengths in the infrastructure, such as base stations and core networks to services for enterprises.

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

Net sales	¥233,469 million	9.1%	increase year on year
Operating income	¥13,803 million	68.2%	increase year on year
Ordinary income	¥13,856 million	69.0%	increase year on year
Net income attributable to owners of the parent	¥8,358 million	94.5%	increase year on year

<Reference>

Orders received	¥253,488 million	17.8%	increase year on year
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Net sales increased 9.1% year on year, to ¥233,469 million. This result reflected increased sales in all segments, with the expansion of ICT services related to workstyle innovation using DX technology and infrastructure development for telecom carriers, in addition to GIGA school projects' contribution to sales and the domestic construction business particularly for the mega-solar projects. Orders received increased 17.8% year on year, to ¥253,488 million. This result

reflected GIGA school projects' significant contribution to orders received, expansion of demand for teleworking in the businesses related to DX and workstyle innovation, and services for telecom carriers.

Profit increased thanks to a decrease in the provision for loss for unprofitable projects in the Engineering & Support Services business in addition to progress in profitability improvement through an increase in net sales and resource efficiency, and thorough project management. This more than offset the investment in growth, such as new service development and human resource development. Accordingly, operating income rose 68.2% year on year, to ¥13,803 million, and ordinary income improved by 69.0%, to ¥13,856 million. Net income attributable to owners of the parent increased by 94.5%, to ¥8,358 million.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services business	Other	Total
9M Fiscal 2021.3	83,776	60,384	82,027	7,279	233,469
9M Fiscal 2020.3	80,727	56,006	68,605	8,694	214,032
Increase or (decrease)	3,049	4,378	13,422	(1,414)	19,436
Ratio of increase/(decrease) (%)	3.8	7.8	19.6	(16.3)	9.1

Reference: Orders received by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services business	Other	Total
9M Fiscal 2021.3	97,112	71,560	77,356	7,459	253,488
9M Fiscal 2020.3	82,855	62,363	63,012	6,982	215,214
Increase or (decrease)	14,256	9,196	14,343	477	38,273
Ratio of increase/(decrease) (%)	17.2	14.7	22.8	6.8	17.8

1. Digital Solutions business

Net sales increased 3.8% year on year, to ¥83,776 million, reflecting expansion of ICT services related to workstyle innovation using DX technology and GIGA school projects at a subsidiary.

2. Network Infrastructures business

Net sales rose 7.8% year on year, to ¥60,384 million, reflecting expansion of services for telecom carriers.

3. Engineering & Support Services business

Net sales rose 19.6% year on year, to ¥82,027 million, reflecting expansion of local GIGA school projects and mega-solar projects.

*EmpoweredOffice:

EmpoweredOffice is our office innovation solution. It combines our strengths in ICT and facility installation to enable more intellectual and creative styles of work through process reforms. It also proposes new methods and places of work that enable customers to fulfill their social responsibilities, such as the strengthening of security and environmental responsiveness.

<Outline of Business Segments>

Business Segment	Descriptions of Main Businesses
Digital Solutions	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 Infrastructures	Mainly centered on telecom carriers, central and local governments and social infrastructures service providers, provide system integration/services related to network infrastructures of a public nature with the required high reliability, and the development/manufacture and sales of network equipment, and provide system integration.
Engineering & Support Services business	Construction business in Japan and abroad, provision of support services such as maintenance and operations/monitoring related to ICT systems/services provided by the Company and operations of company-wide service infrastructures, in addition to technical support using these.
Others	Sales of purchased equipment

(2) Outlook for the Fiscal Year Ending March 31, 2021

The situation of the COVID-19 pandemic does not allow for optimism, given the re-issuance of a state of emergency in January 2021 following a sharp rise in the number of infections from the end of last year. While it is expected that demand for teleworking in the businesses related to DX and workstyle innovation will continue to expand in the enterprise area, the business domain where we operate, the reduction and postponement of non-urgent ICT investments by client companies are coming to the surface. In services for telecom carriers, given that the migration to 5G

communication systems is starting, we expect that capital investment will remain steady. In addition, in business for central and local governments and public interest-related organizations, platform development for GIGA school projects will begin in earnest.

Under the conditions described thus far, we revised our forecasts upward for the full-year consolidated results for the fiscal year ending March 31, 2021, in view of the progress up to the first nine months under review, as mentioned below. Although there is a concern that ICT investments will be increasingly limited by the prolonged COVID-19 pandemic, we are determined to focus on the proposal of a new workstyle in the New Normal era using DX technology, business expansion for telecom carriers, and the execution of GIGA school projects for which we received orders.

Net sales	¥333 billion	9.7% increase year on year
Operating income	¥22.0 billion	35.4% increase year on year
Ordinary income	¥22.0 billion	38.0% increase year on year
Net income attributable to owners of the parent	¥13.5 billion	43.3% increase year on year