

4. Business Results

(1) Business Results for the Fiscal Year Ended March 31, 2021

During the fiscal year ended March 31, 2021 (the period from April 1, 2020 to March 31, 2021), the Japanese economy declined sharply as a state of emergency was declared in April amid the COVID-19 pandemic. There were temporarily signs of recovery after the rescission of the declaration towards the end of May, but a state of emergency was declared again in January this year. The recovery was weak. Business sentiment is recovering primarily in the manufacturing industry, but it is still unknown when the pandemic will subside. The future of the domestic economy and overseas economies remains uncertain.

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 grew rapidly, including digital transformation (DX), such as cloud computing, artificial intelligence (AI), Internet of Things (IoT) and robotic process automation (RPA). However, client companies' investment was weak due to the deteriorated financial performance and other concerns. They 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. In the second half of the fiscal year under review, investment began in 5G, including investment for setting up base stations. 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 delays in a few projects. In the educational market, ICT investment needs increased rapidly as remote (online) classes and edutech expanded. In particular, investments related to the GIGA school initiative were concentrated in the fiscal year under review. Overseas business was affected by tougher immigration regulations due to COVID-19.

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,” announced 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.

Under this concept, we actively used DX technology. In the work-style innovation business, which we started in 2007, we implemented new working styles that will generate innovation ahead of the times to provide a variety of solutions for work-style innovation using the achievements we make in our own practice. As part of this initiative, from October 2019, we distribute head office staff to satellite offices near Tokyo, within 30 minutes from their homes. During the fiscal year 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 operations 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) created jointly with our partners such as increasing the efficiency of operation and communication, and digitizing approval procedures. Meanwhile, we started inside sales. We communicate with customers about cloud-based services by telephone or over the Internet. In this

way, we started to develop the small and medium business (SMB) market, which our business domain had not covered. In the 5G business, in November 2020, we established the Basic Technology Development Center as a place to cultivate human resources, evaluate and verify new technologies and create new services, and in the center, 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 focus on areas where we can take advantage of our strengths, including CATV, disaster prevention and disaster mitigation, and are proceeding with trial experiments and proposition activities. We have already advanced trial experiments in areas such as regional invigoration and disaster prevention, with CATV providers playing a central role. 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 Digital x 5G era. We will continue to accelerate our business development, taking advantage of our strengths in building infrastructure, such as base stations in the 5G area and core networks, and digital services for enterprises.

As a result, the Group marked a record high in all items and posted the following consolidated results for the fiscal year under review:

Net sales	¥339,109 million	11.7%	increase year on year
Operating income	¥25,563 million	57.4%	increase year on year
Ordinary income	¥25,493 million	60.0%	increase year on year
Net income attributable to owners of the parent	¥15,745 million	67.1%	increase year on year
<Reference>			
Orders received	¥336,877 million	10.5%	increase year on year

Net sales increased 11.7% year on year, to ¥339,109 million. This result reflected increased sales in all segments, with a significant contribution of sales related to GIGA school, investment in which was concentrated in the fiscal year under review, and increased sales from fields we focus on, including ICT services related to work-style innovation using DX technology and infrastructure building for telecom carriers. Orders received increased 10.5% year on year, to ¥336,877 million. This result reflected orders for GIGA school projects and the expansion of orders in the businesses related to DX and work-style innovation on the back of demand for teleworking and orders for services for telecom carriers.

Profit increased thanks to an increase in net sales, and a decrease in the provision for loss for unprofitable projects in the Engineering & Support Services business in addition to progress in profitability improvement through the expansion of high value-added services, 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 57.4% year on year, to ¥25,563 million, and ordinary income increased by 60.0%, to ¥25,493 million. Net income attributable to owners of the parent increased by 67.1%, to ¥15,745 million. Income at all levels hit a record high.

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
Fiscal 2021.3	125,960	89,232	114,089	9,827	339,109
Fiscal 2020.3	112,758	83,109	97,434	10,314	303,616
Increase or (decrease)	13,201	6,122	16,655	(487)	35,493
Ratio of increase/(decrease) (%)	11.7	7.4	17.1	(4.7)	11.7

Reference: Orders received by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services business	Other	Total
Fiscal 2021.3	128,301	95,338	103,718	9,518	336,877
Fiscal 2020.3	115,179	87,727	92,039	10,031	304,978
Increase or (decrease)	13,121	7,610	11,678	(512)	31,898
Ratio of increase/(decrease) (%)	11.4	8.7	12.7	(5.1)	10.5

1. Digital Solutions Business (¥125,960 million, up 11.7% year on year)

Net sales increased 11.7% year on year, to ¥125,960 million, reflecting expansion of ICT services related to workstyle innovation using DX technology and GIGA school projects at a subsidiary.

2. Network Infrastructures Business (¥89,232 million, up 7.4% year on year)

Net sales rose 7.4% year on year, to ¥89,232 million, reflecting expansion of services for telecom carriers.

3. Engineering Support Services Business (¥114,089 million, up 17.1% year on year)

Net sales rose 17.1% year on year, to ¥114,089 million, reflecting sales from local GIGA school projects and an increase in sales from mega-solar projects.

<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

There were inter-segment transfer of some businesses and other changes in April 2020. Segment information for the FY 2020/3 has been recalculated to reflect the change in the content of business segments.

(2) Outlook for the Fiscal Year Ending March 31, 2022

We forecast that consolidated results in the fiscal year ending March 31, 2022 (April 1, 2021 to March 31, 2022) will be as shown below.

Net sales	¥320 billion	5.6% decrease year on year
Operating income	¥26.0 billion	1.7% increase year on year
Ordinary income	¥26.0 billion	2.0% increase year on year
Net income attributable to owners of the parent	¥16.0 billion	1.6% increase year on year

As COVID-19 variants are spreading, the outlook for the COVID-19 pandemic remains uncertain. However, as vaccinations have started and the level of social and economic activities is rising in stages, while measures to prevent the spread of COVID-19 are being taken, we expect that the economy will recover gradually. In our business domain, while there are concerns that customer companies will continue to curb non-urgent ICT investments in the enterprises market, in the work-style innovation-related services, demand related to new ways of working (ways of working in the new normal), which involves digital transformation and telework, will likely continue to expand. In the

services for telecom carriers, capital expenditures for 5G communication services are expected to expand. In the services for central and local governments and public interest-related organizations, GIGA school projects, which were concentrated on in the previous fiscal year, will run its course. Meanwhile, investments to use the GIGA school network environment at educational institutions are expected to gradually emerge. Investment in disaster prevention and mitigation is likely to be firm. As stated above, although we will need to carefully monitor the effects of COVID-19, we expect that the overall business environment will continue to be good.

In this environment, while monitoring the risk of a slowdown in investment due to COVID-19, we will seize market opportunities, including ways of working in the new normal and 5G, and will provide additional services to the new customers that we gain in the previous year.

In the fiscal year ending March 31, 2022, net sales are expected to fall chiefly because sales from GIGA school projects, which were concentrated in the previous fiscal year, will decline and large mega-solar power plant construction projects have almost been completed. However, we aim to increase income from the year-earlier level by expanding income in more profitable fields, including work-style innovation-related services and services for telecom carriers, and continuing to enhance project management and cost management.

(3) Profit Distribution Policy and Dividends for the Fiscal Year Ended March 2021 and the Fiscal Year Ending March 2022

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.

On that basis, we will revise our year-end dividend for the fiscal year ended March 31, 2021 to ¥21.00 per share, which is a ¥6.00 increase from our previous forecast, because the income level increased and owners' equity increased more than anticipated as a result of net income attributable to owners of the parent which exceeded our forecast. This combined with the interim dividend already paid brings our annual dividend to ¥35.00 per share, which is an increase of ¥7.67 from the previous year.

For the fiscal year ending March 31, 2022, we will pay more dividends per share: an annual dividend of ¥38.00 a share, an interim dividend of ¥19.00 and a year-end dividend of ¥19.00.

	Dividends per share (¥)		
	Interim	Year end	Total
FY March 2021	14.00	21.00	35.00
FY March 2022 (Forecast)	19.00	19.00	38.00