

4. Business Results

(1) Business Results for the 1Q for the Fiscal Year Ending March 31, 2022

During the first quarter under review (the period from April 1, 2021 to June 30, 2021), the Japanese economy remained under uncertain circumstances. A state of emergency was repeatedly declared and that the end of the COVID-19 pandemic was still not in sight. With different anti-infection measures in place and a vaccination campaign underway, the economy showed signs of an overall recovery. However, the trend of infections has a significant impact on the Japanese and overseas economic situations. They differed in severity depending on the industrial sector.

Under these economic conditions, in the information and communication technology (ICT) market, the business domain where NEC Networks & System Integration Corporation (hereinafter "NESIC") operates, the impact of COVID-19 produced varying impacts, with some areas more affected than others. On the whole, NESIC attained solid results.

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. Investments in new work styles using cutting-edge technologies for the New Normal era were actively made. These technologies include cloud computing, artificial intelligence (AI), Internet of Things (IoT), robotic process automation (RPA) and other kinds of digital transformation (DX). Among telecom carriers, capital investment was robust in migration to the fifth generation (5G) cellular networks and improvement in communication quality. Their 5G investments started, including the installation of base stations. For central and local governments and public interest-related organizations, investments in realization of the GIGA school initiative were finished after intensive investments in the previous fiscal year. However, they continued to invest in systems for sophisticated urban infrastructure, such as firefighting and disaster prevention, broadcasting, video transmission and community antenna television (CATV). Outside Japan, immigration control and other restrictions are still tight amid the spread of COVID-19 infections.

In this market environment, the NESIC Group took positive actions mainly in the area of work style innovation based on DX technologies and in business fields we focused on, such as investments in infrastructure construction for telecom carriers with a view to 5G services.

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 will make active use of DX technologies. In the work-style innovation business, which we started in 2007, we will aim to implement new working styles that will generate innovation ahead of the times to provide a variety of solutions for work-style innovation based on the achievements we make in our own practice. As part of this initiative, since October 2019, we have been distributing head office staff to satellite offices near Tokyo, within 30 minutes of their homes. At present, we are carrying out business operations centering on telecommuting with the use of the system and technology for distributed working as measures to prevent the spread of COVID-19. Capitalizing on our strength in offering proposals for sharing with customers our new workstyle expertise based on this practice, we actively promoted introduction of New Normal work styles and teleworking with the use of DX technologies. In addition, we utilized DX technologies and carried out co-creation with partners to speed up the development of solutions for new workstyles with high efficiency and creativity matched with remote and online working. In the 5G business, we worked to build closer ties in the form of strategic partnerships with telecom carriers. 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. It newly obtained a license for a local 5G experimental radio station. We bolstered the structure in preparation for future full-scale investments in 5G technologies. 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 in digital services for enterprises.

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

Net sales	¥67,662 million	0.4%	increase year on year
Operating income	¥2,950 million	192.5%	increase year on year
Ordinary income	¥3,045 million	223.4%	increase year on year
Net income attributable to owners of the parent	¥1,653 million	405.8%	increase year on year

<Reference>

Orders received	¥83,717 million	0.8%	decrease year on year
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Net sales increased 0.4% year on year, to ¥67,662 million. While mega-solar projects saw sales drop, sales rose in ICT services related to workstyle innovation based on DX technologies, infrastructure construction for telecom carriers and other businesses we focused on. Orders received were down 0.8% year on year to ¥83,717 million. A plunge in reaction to GIGA school projects that concentrated in the previous fiscal year was covered mainly by the business of DX and workstyle innovation and infrastructure construction for telecom carriers.

Profit increased. Business model innovation advanced from network systems integration based on hardware products to the offering of solution services with DX technologies with a focus on solving customers' issues, which increased higher value-added businesses with higher profitability, while continued stringent measures to improve profitability through resource efficiency improvement and tight project management also produced a positive effect. Operating income rose 192.5% year on year to ¥2,950 million, ordinary income up 223.4% to ¥3,045 million and net income attributable to owners of the parent jumped 405.8% to ¥1,653 million. We thus marked record-high first quarter income figures.

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
1Q Fiscal 2022.3	25,317	19,851	19,860	2,633	67,662
1Q Fiscal 2021.3	26,819	16,610	20,841	3,098	67,369
Increase or (decrease)	(1,501)	3,240	(981)	(465)	292
Ratio of increase/(decrease) (%)	(5.6)	19.5	(4.7)	(15.0)	0.4

Reference: Orders received by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services business	Other	Total
1Q Fiscal 2022.3	30,428	26,937	24,719	1,631	83,717
1Q Fiscal 2021.3	34,036	25,398	22,152	2,771	84,359
Increase or (decrease)	(3,608)	1,538	2,567	(1,140)	(641)
Ratio of increase/(decrease) (%)	(10.6)	6.1	11.6	(41.1)	(0.8)

1. Digital Solutions Business :

Corporate customers reduced system replacements while ICT services related to workstyle innovation based on DX technologies we focus on expanded. Net sales were down 5.6% year on year to ¥25,317 million, impacted by the removal of a group company from consolidation in the second quarter of the previous year.

2. Network Infrastructures Business :

Net sales increased 19.5% year on year to ¥19,851 million. In particular, sales from telecom carriers expanded.

3. Engineering Support Services Business :

Net sales dropped 4.7% year on year to ¥19,860 million. It is due to a decline 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

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

In circumstances under which there is no prospect of seeing the end of the COVID-19 pandemic, in the enterprises market, demand for DX and workstyle innovation including teleworking is growing in our business domain. A business model shift is expected to advance from network systems integration based on hardware products to the offering of solution services with the use of DX technologies for resolving customers' issues. Telecom carriers are beginning to make capital investments towards 5G. As we build stronger trust with these customers, the area that we can cover is growing and that brings us new business opportunities. Accordingly, higher value-added and profitable businesses are growing in the quarter under review. Profitability is improved to a higher level than expected.

Under these circumstances, the consolidated financial forecast for the first half of fiscal year ending March 31, 2022 has been revised upward, in light of the progress until the quarter under review, to net sales of ¥147.0 billion, operating and ordinary income of ¥8.7 billion each, and net income attributable to owners of the parent of ¥5.5 billion.

The full-year financial forecasts have been kept on hold from the announced figures shown below, in view of factors for uncertainty in the exterior environment, such as the impact of COVID-19 and concern about ICT products in short supply due to shortage of semiconductors. If we deem it necessary to revise the forecast in the future, we will swiftly announce the revision.

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