

4. Business Results

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

During the first half under review (the period from April 1, 2021 to September 30, 2021), the circumstances surrounding the Japanese economy remained uncertain due to the COVID-19 pandemic, following the repeated declaration of states of emergency. With many measures in place to prevent infection underway, including a vaccination campaign, the overall economy showed signs of a recovery. However, the social developments surrounding COVID-19 still has a significant impact on the economic situation in Japan and overseas. In addition, the impact of the shortage of semiconductors on the supply chain is increasing and weighing on economic activity. The severity of the impact differed depending on the industrial sector.

In 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 the COVID-19 pandemic varied, with some areas more affected than others and the semiconductor shortage leading to product procurement delays. However, the ICT market as a whole has been strong.

In the enterprise market, companies maintained a high level of investment in workstyle innovation, including the introduction of teleworking in the wake of measures to prevent COVID-19 infection. Companies actively invested in new workstyles using cutting-edge technologies such as cloud computing, artificial intelligence (AI), Internet of Things (IoT), robotic process automation (RPA) and other digital transformation (DX) technologies, for the new normal caused by the COVID-19 pandemic. 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 national and local governments and public interest-related organizations, the investment in the realization of the GIGA school initiative which was concentrated in the previous fiscal year has settled. However, a recovery of investments in the transportation and traffic sector was seen, and the system investment for the sophistication of urban infrastructure such as firefighting, disaster preparedness, broadcasting, video transmission and community antenna television (CATV) has continued. Workstyle innovation in central and local governments has also become apparent.

In this market environment, the NESIC Group took positive actions in the main business domains we focus on, workstyle innovation based on DX technologies and infrastructure development for telecom carriers for 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.

Following this concept, in the workstyle innovation business we started in 2007, our goal will be to implement new workstyles that inspire innovation ahead of the times to provide a variety of innovative workstyle solutions based on our achievements in our own practices. We have been actively using DX technologies for that purpose. Since October 2019, we have downsized our head office, and have been distributing staff across satellite offices near Tokyo, within 30 minutes of their homes as part of this initiative. We have been carrying out business operations centered on telecommuting using this distributed system and technology to prevent COVID-19 infection. Leveraging our expertise in new ways of working based on our own

practices, we aim to establish our position as our customers' strategic partner by proposing solutions and we have actively responded to our customers' needs for new ways of working that use DX technology and introduce teleworking. In addition, we have been utilizing DX technologies and co-creation with our partners to accelerate the development of solutions for workstyles in the new normal that feature increased efficiency and creativity. We have also started a demonstration hybrid work experiment to enable us to leverage both "real" work environments in the office and "virtual" work environments that are remote or online. For the 5G business, we have strengthened our relationships with the telecom carriers that are our strategic partners to build closer ties with them. In November 2020, we established the Basic Technology Development Center to cultivate human resources, evaluate and verify new technologies and create new services. It obtained a license for a local 5G experimental radio station. We bolstered our infrastructure in preparation for the future full-scale investment in 5G technologies. We will continue to accelerate the development of our business, taking advantage of our strengths in building infrastructure, such as 5G base stations and core networks, and in digital services for enterprises.

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

Net sales	¥140,961 million	6.8%	decrease year on year
Operating income	¥7,621 million	13.2%	increase year on year
Ordinary income	¥7,889 million	16.4%	increase year on year
Net income attributable to owners of the parent	¥4,703 million	18.6%	increase year on year
<Reference>			
Orders received	¥165,922 million	6.7%	decrease year on year

Net sales decreased 6.8% year on year, to ¥140,961 million. The decrease was due to a decline in sales related to mega solar and GIGA school projects, which significantly contributed in the previous year, as well as delays in product procurement due to the semiconductor shortage. However, sales rose in our main businesses including ICT services related to workstyle innovation based on DX technologies and infrastructure development for telecom carriers. Orders received were ¥165,922 million, we were able to confine the decline to 6.7% as the year-on-year comparison. The decrease that was a reaction to the concentration of GIGA school projects in the previous fiscal year was almost recovered mainly by the expansion of businesses such as the DX and workstyle innovation fields and infrastructure development for telecom carriers.

Despite the impact of the decrease in net sales and increase in selling, general and administrative expenses associated with the reinforcement of resources related to the creation of new businesses for future growth, profit increased reflecting business model innovation moving forward from network systems integration based on hardware products to the provision of solution services using DX technologies focused on solving customer issues, which increased our businesses greater added value and higher profitability, while there was also a positive impact from the continued thorough measures to improve profitability through resource efficiency improvement and tight project management.

Operating income rose 13.2% year on year to ¥7,621 million, ordinary income increased 16.4% to ¥7,889 million and net income attributable to owners of the parent

increased 18.6% to ¥4,703 million, and we achieved record-high first half income figures.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services	Other	Total
1H Fiscal 2022.3	52,394	42,759	42,298	3,508	140,961
1H Fiscal 2021.3	56,712	38,083	51,551	4,858	151,205
Increase or (decrease)	(4,318)	4,676	(9,252)	(1,349)	(10,244)
Ratio of increase/(decrease) (%)	(7.6)	12.3	(17.9)	(27.8)	(6.8)

Reference: Orders received by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services	Other	Total
1H Fiscal 2022.3	62,164	49,632	51,872	2,252	165,922
1H Fiscal 2021.3	71,260	47,577	54,331	4,721	177,890
Increase or (decrease)	(9,096)	2,054	(2,458)	(2,468)	(11,968)
Ratio of increase/(decrease) (%)	(12.8)	4.3	(4.5)	(52.3)	(6.7)

1. Digital Solutions business

Although there was an expansion of the ICT services related to workstyle innovation based on DX technologies that is our focus, net sales decreased 7.6% year on year to ¥52,394 million reflecting the removal of a group company which had been consolidated until the first quarter of the previous year, from consolidation, and the impact of postponed sales associated with the shift to a service-providing business model.

2. Network Infrastructures business

Net sales rose 12.3% year on year, to ¥42,759 million, reflecting the expansion of both areas for the social and public infrastructure and for telecom carriers.

3. Engineering & Support Services business

Net sales declined 17.9% year on year to ¥42,298 million due to decreased net sales related to mega solar and GIGA school projects and the impact of the semiconductor shortage.

<Outline of Business Segments>

Business Segment	Descriptions of Main Businesses
Digital Solutions	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 business	Provision of 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 for telecom carriers, central and local governments and social infrastructures service providers.
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 our business domain a solid business environment is expected mainly in our areas of focus, such as demand in DX/workstyle innovation-related fields centered on teleworking and capital investment for 5G, however, there are some uncertain factors such as the impact of COVID-19 and the semiconductor shortage.

In light of the environment described above, we have not changed the consolidated financial forecast for the fiscal year ending March 31, 2022.

Net sales	¥320 billion	5.6% decrease year on year
Operating income	¥26 billion	1.7% increase year on year
Ordinary income	¥26 billion	2.0% increase year on year
Net income attributable to owners of the parent	¥16 billion	1.6% increase year on year