4. Business Results

(1) Business Results for the First Nine Months for the Fiscal Year Ending March 31, 2022

During the first nine months under review (the period from April 1, 2021 to December 31, 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, including a vaccination campaign, the economy as a whole showed signs of a recovery. However, the progress of the pandemic is still significantly impacting the economic situation in Japan and overseas. In addition, the impact of the shortages of semiconductors and various materials on the supply chain is increasing and weighing on economic activity. The severity of the impact varies depending on the industrial sector.

Given these economic conditions, activity varied from area to area in the information and communication technology (ICT) market, the business domain where NEC Networks & System Integration Corporation (hereinafter "NESIC") operates. While there was a strong drive for investment as a whole, the COVID-19 pandemic impacted some areas and, in recent periods, the shortages of semiconductors and materials delayed product procurement.

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 the migration to fifth generation (5G) cellular networks and the improvement of communication quality. Their 5G-related 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 prevention, broadcasting, video transmission and community antenna television (CATV) has continued. Workstyle innovation in central and local governments has also become apparent. Outside Japan, circumstances remained uncertain. Due to measures and regulations combating COVID-19 and the political situations in some regions, investment plans and projects were postponed or delayed.

In this market environment, amid the reaction to the GIGA school-related special demand which greatly contributed to the results in the previous fiscal year, the NESIC Group was adversely impacted by the shortages of semiconductors and materials. This disrupted the procurement of products and materials necessary for systems integration and construction, resulting in a delay in recording sales. In Myanmar, construction was delayed and material procurement costs rose due to political instability. Meanwhile, we took positive actions in the main business domains we focus on, such as workstyle innovation based on DX technologies and infrastructure development for telecom carriers for 5G services, with a view towards continuous business growth.

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 a position as our customers' strategic partner through the proposal of solutions. We responded actively to our customers' needs for new ways of working that use DX technology and introduce teleworking. We also stepped up our efforts to answer needs of national and local governments for workstyle innovation. 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 conducted different demonstration trials aimed at the commercialization of local 5G services and took other actions to step up preparations 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 nine months for the fiscal year under review:

Net sales	¥218,824 million	6.3%	decrease year on year
Operating income	¥12,168 million	11.8%	decrease year on year
Ordinary income	¥12,516 million	9.7%	decrease year on year

Net income attributable to owners of the parent	¥7,685 million	8.0%	decrease year on year
＜Reference＞			
Orders received	¥243,522 million	3.9%	decrease year on year

Net sales decreased 6.3% year on year, to ¥218,824 million. Sales related to GIGA school projects and mega solar projects tumbled after their significant contribution in the previous year and another decrease in sales was due to delays in product procurement because of the semiconductor and materials shortages. On the other hand, sales rose in ICT services related to workstyle innovation based on DX technologies and infrastructure development for telecom carriers. Orders received were ¥243,522 million. We were able to confine the decline to 3.9% on a year-on-year basis, although this involved a significant reaction to the concentration of orders related to GIGA school projects in the previous fiscal year. This is explained by the steady expansion of businesses in the business domains we focus on, specifically DX, workstyle innovation and solutions for telecom carriers, and by a recovery in transportation, traffic and other areas where investments were stagnant in the preceding year.

Operating income was down 11.8% year on year to ¥12,168 million, ordinary income down 9.7% to ¥12,516 million and net income attributable to owners of the parent down 8.0% to ¥7,685 million. While increasing sales, general and administrative expenses to increase resources for new business creation aimed at future growth and other purposes, we made continued progress in increasing business strength through the business model shift from systems integration based on hardware products to the provision of high value-added solution services based on DX technologies and thorough cost cutting measures including the enhancement of resources efficiency and stricter project management. However, income figures dipped due to the semiconductor and materials shortages and a loss recorded after the stagnation of a project amid the political unrest in Myanmar.

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 2022.3	79,506	67,170	67,653	4,492	218,824
9M Fiscal 2021.3	83,776	60,384	82,027	7,279	233,469
Increase or (decrease)	(4,269)	6,786	(14,373)	(2,787)	(14,644)
Ratio of increase/(decrease) (%)	(5.1)	11.2	(17.5)	(38.3)	(6.3)

Reference: Orders received by business segment (Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services business	Other	Total
9M Fiscal 2022.3	89,496	71,301	79,346	3,377	243,522
9M Fiscal 2021.3	97,112	71,560	77,356	7,459	253,488
Increase or (decrease)	(7,616)	(259)	1,990	(4,081)	(9,966)
Ratio of increase/(decrease) (%)	(7.8)	(0.4)	2.6	(54.7)	(3.9)

1. Digital Solutions business

Although there was an expansion of ICT services related to workstyle innovation based on DX technologies that is our focus, net sales decreased 5.1% year on year to ¥79,506 million reflecting the deconsolidation of a group company which had been consolidated until the first quarter of the previous year and the impact of postponed sales associated with the shift to a highly profitable service-providing business model.

2. Network Infrastructures business

Net sales rose 11.2% year on year to ¥67,170 million, reflecting the considerable expansion of sales for telecom carriers and the growth of the social and public infrastructure sector despite the impact of delayed product procurement due to the shortages of semiconductors and materials.

3. Engineering & Support Services business

Net sales declined 17.5% year on year to ¥67,653 million due to decreased net sales related to mega solar and GIGA school projects and the impact of delayed product procurement due to the semiconductor and materials shortages.

<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

We have revised the consolidated financial forecast for the fiscal year ending March 31, 2022 as follows in light of a loss recorded due to the stagnation of a project during Myanmar's political unrest and the impact of delayed sales due to the semiconductor and materials shortages beyond expectations.

On the other hand, we have revised the forecast of orders upwards from the previous level of ¥330 billion to ¥335 billion, in view of buoyant business conditions anticipated mainly in the domains we focus on, such as demand in DX/workstyle innovation-related fields centered on teleworking and capital investment for 5G, and the progress made during the first nine months of the fiscal year.

Net sales	¥313 billion	7.7% decrease year on year
Operating income	¥22.5 billion	12.0% decrease year on year
Ordinary income	¥22.8 billion	10.6% decrease year on year
Net income attributable to owners of the parent	¥14.5 billion	7.9% decrease year on year