4. Business Results

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

During the fiscal year ended March 31, 2022 (the period from April 1, 2021 to March 31, 2022), the outlook for the Japanese economy was still uncertain. Although there were continuing signs of a recovery on the whole, there were differences between strong and weak sectors. The COVID-19 pandemic continued to greatly impact the economy in Japan and overseas. While a wide array of infection control measures were implemented and vaccination was accelerated to mitigate the pandemic, new variants have spread. In addition, shortages of semiconductors and various materials had an increasing impact on the supply chain. The global situation is increasingly uncertain as the Russia-Ukraine situation deteriorates.

Given these economic conditions, there was a strong drive for investment as a whole in the business domain where NEC Networks and System Integration Corporation (hereinafter "NESIC") operates. Meanwhile, shortages of semiconductors and materials delayed product procurement in some areas in recent periods.

There was continuously brisk demand for workstyle innovation in the enterprise market triggered by COVID-19 control measures including teleworking. At the same time there was a shift of investment destinations to "new normal" 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)1 technologies. 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. 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, such as roads and airports, was seen, and the system investment for the sophistication of urban infrastructure such as firefighting, disaster prevention, 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.

In the Medium-Term Management Plan announced in May 2019, Beyond Borders 2021, we aimed to be a “communication services orchestrator” that would produce new value for society using our strengths and in collaboration with our partners. We saw the resolution of social issues and the wave of technological innovation as opportunities to expand business and focused on a transition to a new business model and the creation of new business towards the digital and 5G era.

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. In October 2019, we downsized our head office and began distributed work practices utilizing teleworking and satellite offices. Proposals leveraging this system and our strengths in technologies and expertise enabled us to step up our efforts to serve enterprises as well as national and local governments to answer their workstyle innovation needs.

In addition, we have been utilizing 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. NESIC has been recognized as a DX certified operator by the Ministry of Economy, Trade and Industry's DX Certification initiative in recognition of its companywide action to acceleration of DX through the activities mentioned above.

In the 5G business, we worked to build closer strategic partnerships with telecom carriers. In November 2020, we established the Basic Technology Development Center as a place to cultivate human resources, to evaluate and verify new technologies and to create new services. It obtained a full local 5G experimental radio wave transmitter license. Using the facility, we further accelerated demonstration trials with a view toward commercialization to accelerate the creation of services for workstyle innovation and the development of pleasant and fulfilling communities using local 5G technologies. In addition, we accelerated preparation for the future full-scale investment in 5G technologies. For example, we constructed new partnerships related to 5G technologies to increase our ability to provide services. 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 posted the following consolidated results for the fiscal year under review:

Net sales	¥310,334 million	8.5%	decrease year on year
Operating income	¥23,181 million	9.3%	decrease year on year
Ordinary income	¥23,550 million	7.6%	decrease year on year
Net income attributable to owners of the parent	¥15,021 million	4.6%	decrease year on year
＜Reference＞			
Orders received	¥336,759 million	0.0%	decrease year on year

Net sales decreased 8.5% year on year, to ¥310,334 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 information and communication technology (ICT) services related to workstyle innovation based on DX technologies and infrastructure development for telecom carriers. Orders received were ¥336,759 million yen, almost unchanged from the previous fiscal year. Orders in areas related to DX /workstyle innovation and those from telecom carriers increased and we actively worked in the transportation, traffic and other sectors where investments were sluggish in the previous fiscal year. This compensated for a major reactionary decline in orders related to GIGA school projects.

Operating income was down 9.3% year on year to ¥23,181 million, ordinary income down 7.6% to ¥23,550 million and net income attributable to owners of the parent down 4.6% to ¥15,021 million. These figures were impacted by shortages of semiconductors and materials and the posting of losses due to the stagnation of a project due to the political unrest in Myanmar. On the other hand, while increasing our resources for new business creation with the goal of future growth, we made continued progress increasing the strength of our business through the shift of the business model from systems integration based on hardware products to providing higher value-added solutions using DX technologies and through rigid cost-cutting measures including improved resource efficiency and stricter project management.

The fiscal year under review was the final fiscal year of the medium-term management plan announced in 2019. It set targets of ¥310,000 million in net sales, ¥20,000 million in operating profit, 6.5% in operating profit margin and higher than 10% in return on equity (ROE) for the fiscal year ended March 31, 2022. The results surpassed all of these targets.

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 2022.3	110,344	96,426	98,116	5,446	310,334
Fiscal 2021.3	125,960	89,232	114,089	9,827	339,109
Increase or (decrease)	(15,615)	7,193	(15,972)	(4,380)	(28,774)
Ratio of increase/(decrease) (%)	(12.4)	8.1	(14.0)	(44.6)	(8.5)

Reference: Orders received by business segment (Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services business	Other	Total
Fiscal 2022.3	121,729	100,889	109,927	4,213	336,759
Fiscal 2021.3	128,301	95,338	103,718	9,518	336,877
Increase or (decrease)	(6,572)	5,551	6,208	(5,305)	(118)
Ratio of increase/(decrease) (%)	(5.1)	5.8	6.0	(55.7)	(0.0)

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 12.4% year on year to ¥110,344 million reflecting the deconsolidation of a group company which had been consolidated until the first quarter of the previous year in addition to the impact of decreased net sales of a consolidated subsidiary related to GIGA school projects.

2. Network Infrastructures business
Net sales rose 8.1% year on year to ¥96,426 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 14.0% year on year to ¥98,116 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 although the transportation and traffic sector increased.

<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, 2023

We forecast that consolidated results in the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023) will be as shown below.

Net sales	¥330 billion	6.3% increase year on year
Operating income	¥26.0 billion	12.2% increase year on year
Ordinary income	¥26.0 billion	10.4% increase year on year
Net income attributable to owners of the parent	¥15.3 billion	1.9% increase year on year

For the fiscal year ending March 31, 2023, we foresee that demand will stay strong in the ICT market. On the other hand, uncertainties will linger due to the impact of COVID-19 and the shortages of semiconductors and other materials, the deterioration of global conditions, and other issues. In the enterprise market, demand for "new normal" workstyles based on digital technologies will continue to grow. This trend is expected to spread to the public sector. It is forecast that telecom carriers will make buoyant capital investments in full-scale 5G services. National and local governments and public interest-related organizations will invest solidly to increase the sophistication of urban infrastructure for purposes including disaster prevention. The DX of community development and other initiatives will gradually gain momentum.

In light of the business environment described above, we have formulated the consolidated financial forecast for the fiscal year ending March 31, 2023. According to the forecast, we will increase our growth power and earnings capability to increase net sales and income by accelerating efforts in the domains of DX and 5G and other next-generation networks, creating new markets that combine these domains and bolstering value based on consulting to be provided to customers amid concerns about the deterioration of foreign exchange rates, distribution and business confidence resulting from future changes in global circumstances.

(3) Profit Distribution Policy and Dividends for the Fiscal Year Ended March 2022 and the Fiscal Year Ending March 2023

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.

Regarding the dividends per share for the fiscal year ended March 31, 2022, from the perspective above, we will increase the year-end dividend per share ¥5.00 from the previous forecast to ¥24.00 to increase shareholder returns in view of equity capital being higher than forecast and good progress in the increase of the strength of the business. This combined with the interim dividend already paid brings our annual dividend to ¥43.00 per share, which is an increase of ¥8.00 from the previous year.

For the fiscal year ending March 31, 2023, we will pay more dividends per share: an annual dividend of ¥46.00 a share, an interim dividend of ¥23.00 and a year-end dividend of ¥23.00.

	Dividends per share (¥)		
	Interim	Year end	Total
FY March 2022	19.00	24.00	43.00
FY March 2023 (Forecast)	23.00	23.00	46.00