



**Move toward
the next step**

ANNUAL REPORT 2021

NEC Networks & System Integration Corporation

Move toward the next step

NEC Networks & System Integration Corporation (NESIC) is working to become a communication services orchestrator that finds solutions to social issues rooted in communication. Each and every member of NESIC is committed to the challenge of creating value that only it can provide, and we intend to utilize the expertise and experience we have developed through our various customer-centric solution, including work-style reforms through self-implementation at NESIC, as footholds to help us take further leaps forward in our next stage of evolution.



Work-Style Design Group
Empowered Business Promotion Division
Business Design Operations Unit
Chizue Igarashi

Proposing New Work Styles

Since the future demands hybrid work styles that integrate the real with the virtual, I hope to create an environment that allows everyone to flourish using both methods, and make this environment available to society.



2nd Marketing & Sales Department
Manufacturing & Process Solutions Marketing & Sales Division
Marketing & Sales Operations Unit
Shuntaro Konno

New Value from Co-Creation

We intend to tackle customer issues by creating new teams aligned with our organization that work together with customers to prompt both co-creation and solutions to these issues, allowing us to create unprecedented value unique to the Company.



Accounting & Finance Group
Corporate Finance & Controller Division
Emina Ogawa

Operational Reforms Create Time, which Creates New Value

I would like to promote operational reforms in our internal departments, such as our decision to go paperless and the standardization of our processes and procedures—changes that will grant us the time to create new value and enrich lifestyles.



2nd Systems Department
Public Solutions Division
Network Infrastructure Business Unit
Vannia Cuadra

Supporting Safe and Secure Community Development with Disaster Prevention Technology

We will help build a safe and secure society by leveraging digital transformation (DX) technology to establish more sophisticated fire and ambulance emergency network systems, alongside other activities that will raise the level of disaster prevention and mitigation by local governments. In the future I also hope to expand the scope of these activities outside of Japan.

Utilizing DX to Realize Smart Cities

We are taking advantage of NESIC's unique technological capabilities in both DX and infrastructure to solve problems—not only those facing Japan, but also those in various regions and cities around the world—aiming to realize a sustainable society.



2nd Solutions Department
Enterprise Solutions Division
Digital Solutions Business Unit
Yuki Ono

Wireless Networks as the Foundation for Building a Better Society

We are proposing wireless networks as a means to improve work efficiency in a variety of places, from nursing care facilities on a national scale to small kindergartens. In this way, we will provide value that only our company, with its nationwide business base, can provide.



Global Systems Division
Engineering & Support Services Business Unit
Shinichi Tomi

OUR VISION

NEC Networks & System Integration Corporation Group Statement

The NEC Networks & System Integration Corporation Group enables communities throughout the world to enjoy a safe, secure, and plentiful tomorrow by continually facilitating more welcoming and convenient communications, and supporting a connected society, from the floor of the ocean to the far reaches of outer space, with proven technologies and reliable services cultivated over many years.

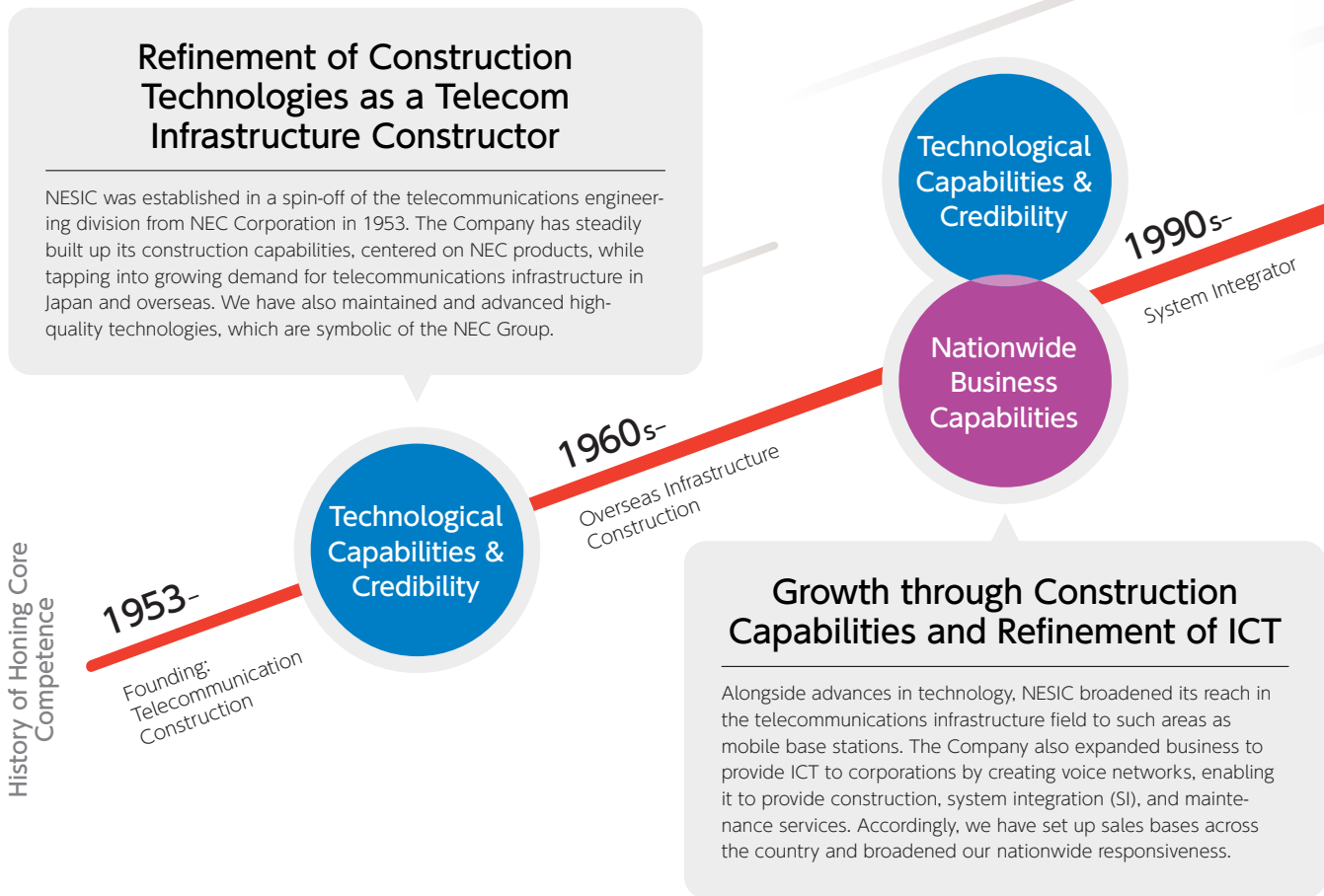
Corporate Message

Re-designing your Communication

The NEC Networks & System Integration Corporation Group Statement and Corporate Message were crafted based on the NEC Way with discussions involving all employees.

Our History

NESIC has been creating and refining new strengths while looking to the future. We have continued to change and grow, adding new strengths in tune with the times to our core business of innovating and developing communications. Starting from a foundation in construction technology, NESIC has obtained information communication technology (ICT) and built a unique position as a systems integrator with construction capabilities. In recent years, the Company has gained the ability to create new kinds of solutions that combine its accumulated technological capabilities and know-how gained through self-implementation and co-creation with partners. Leveraging these advantages, NESIC aims to realize an inclusive and sustainable society created through communications as a communication services orchestrator that solves social issues.



Main Initiatives 1950-1990

- Nippon Electric Installation Company established in a spin-off from NEC Corporation
- Conducted first overseas project (construction and installation of switching equipment in the Philippines)
- Constructed the first television broadcasting facility **A**
- Constructed satellite telecom infrastructure for the 1968 Olympic Games, in Mexico City **B**
- Constructed microwave telecom infrastructure for five Central American countries (simultaneous construction in multiple countries)
- Acquired special construction business and general construction business licenses for seven categories of construction business
- Established the first overseas affiliate, in Brazil



- Changed the company name to NEC System Integration & Construction, Ltd.
- Listed on the Tokyo Stock Exchange
- Strengthened sales structure for private sector by creating a specialized division
- Reinforced nationwide network by setting up a business unit for regional sales
- Business for New Common Carriers (NCCs) took on significant scale and received major orders from new private communications companies
- Constructed communications equipment on Mt. Everest (enabling broadcast from the peak of Mt. Everest for the first time)
- Expanded the enterprise system integration business **C**
- Established S-iDC (Strategic Internet Data Center), NESIC's first data center



Net Sales

Over **¥10** billion
1974

Over **¥100** billion
1989

Over **¥200** billion
1997

Changes in the Business Environment

1950s

Reconstruction after World War II
Era of construction in broadcasting and telecommunications infrastructure

1960s-1970s

Increase in international communications and satellite communications
Expansion in demand for telecommunications infrastructure construction worldwide

1980s-1990s

Telecom liberalization
Birth of NCC

2010s-
Solution Provider

Technological
Capabilities &
Credibility

2020s-

Toward Becoming a
Communication Services
Orchestrator

Nationwide
Business
Capabilities

Business
Creation
Capabilities

Creation of New Businesses through Technological Capabilities and Nationwide Responsiveness

NESIC has reinforced its strengths by building a full-service network of about 400 support and service bases across Japan through aggressive M&As, including a merger in 2007 with NEC Telenetworks Co., Ltd., a company with strength in the service field, and turning Q&A Corporation, which operates contact centers, into a subsidiary in 2013. Furthermore, NESIC has greatly expanded the products and services it offers, including through turning the innovative technologies of startups into services while advancing co-creation with partners, as well as creating EmpoweredOffice work-style innovation solutions and other new businesses that leverage its unique technological capabilities.

Main Initiatives 2000 -2020

- Changed the company name to NEC Networks & System Integration Corporation
- Launched EmpoweredOffice work-style innovation solutions business and implemented it internally in certain sections **D**
- Established nTOC (Network Total Operation Center) **E**
- Practiced EmpoweredOffice in all sections upon transfer of head office to Bunkyo Ward Tokyo (Iidabashi Head Office)
- Implemented initiatives in high-speed mobile networks and next-generation roadcasting
- NESIC's industry sector classification in the stock market changed from "construction" to "information & communication"
- Established sDOC (Service Delivery Operations Center) **F**



- Launched MVNO service for IoT
- Introduced telework system Companywide (spawned from a "Women's Project Experiment" idea created by female employees)
- Established CVC Fund to create new businesses through open innovation with startup firms
- Established K&N System Integrations Corporation as a joint venture in mobile infrastructure construction **G**
- Launched joint business in low-power, wide-area (LPWA) communications protocol for IoT
- Entered onshore fish farming business utilizing ICT
- Realigned head office to challenge itself to new work styles including distributed work locations



D EmpoweredOffice

E 
Network Total Operation Center

F 
Service Delivery Operation Center

G 

Over **¥300** billion
2020

2000s

Advance of internet protocol (IP) and broadband networks
Integration of communications and broadcasting

2010s

Expansion of the use of cloud
IoT and Fourth Industrial Revolution

Our Competence



Our business is characterized by the fact that we provide comprehensive services ranging from the introduction of systems to installation and day-to-day support to a wide range of customers, including enterprises, telecom carriers, government agencies, and social infrastructure providers. We have cultivated our unique strengths through the pursuit of customer first in all of our businesses.

TECHNOLOGICAL CAPABILITIES & CREDIBILITY

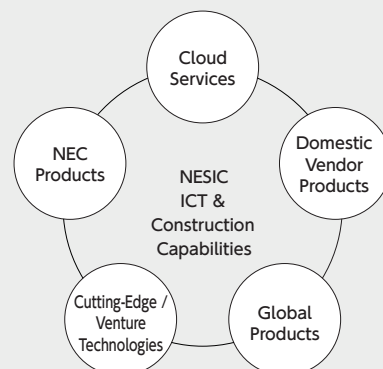
NESIC has built a unique position as a system integrator with construction capabilities by fusing together its ICT, which is kept in tune with the changing times, with its telecommunications construction technologies, which have been accumulated since its founding. NESIC has a wide range of technological capabilities centered on communications, from ICT services for corporations, to mission critical communications infrastructure for public use such as the networks of telecom carriers and fire and ambulance emergency network systems. The technological capabilities we have accumulated to satisfy the stringent requirements and expectations of customers of the NEC Group are also utilized in services and various vendor products inside and outside Japan in tune with the needs of other customers. These capabilities are also being used for cloud-based services, which many companies have begun to adopt lately, and cutting-edge / venture technologies, and have led to the provision of optimal solutions for customers.

As society becomes more pleasant and convenient with "Digital x 5G," NESIC's technological capabilities in telecommunications infrastructure, which require high reliability, will remain a source of its competitiveness, along with its know-how in digital services.

Technological Capabilities for Integrating Diverse Products and Services



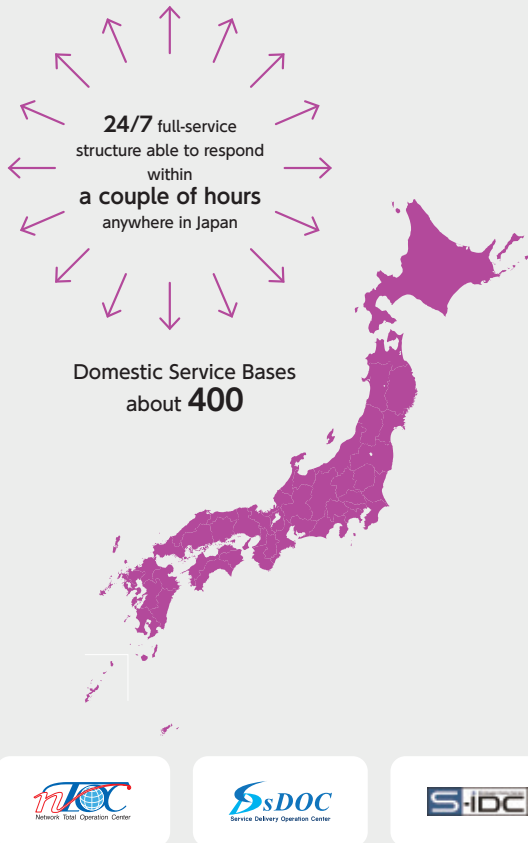
Provision of optimal solutions



NATIONWIDE BUSINESS CAPABILITIES

In order to support infrastructure that underpins safety and security in society and the networks of telecom carriers, including the salespeople and systems engineers who respond to customers across the country, we have put into place a service network with about 400 locations in Japan, in addition to help desk services for network servers and security; operation centers that collectively address needs for network operation, monitoring, and maintenance services; and comprehensive technical centers able to provide one-stop services from technology assessments to repairs with logistics functions. Our 24/7 full-service structure is able to dispatch people and deliver products within two hours anywhere in Japan—a unique strength that underpins the development of society for creating welcoming and convenient lifestyles.

Full-Service Structure that Supports Mission Critical Communications Infrastructure



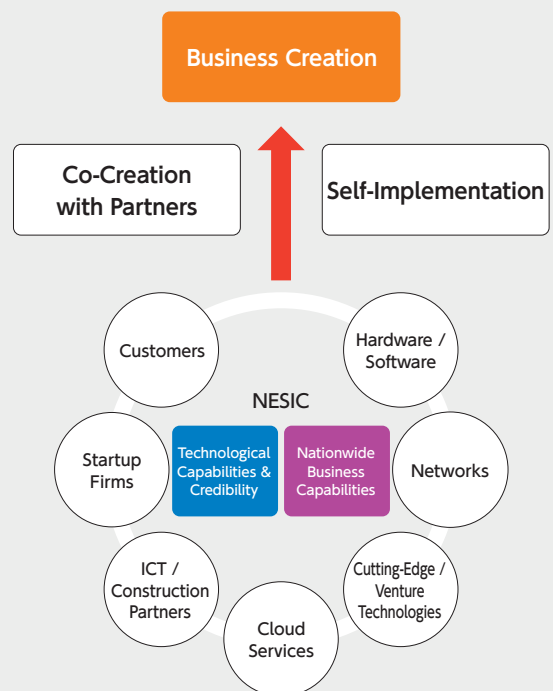
BUSINESS CREATION CAPABILITIES

At the root of our corporate culture is our ambition to play a direct role in solving issues for our customers and in society as a whole. We have never stopped changing, constantly taking on new business challenges with the aim of solving such issues.

We develop solutions while co-creating with partners, such as startup firms that have cutting-edge technologies, and various vendors of hardware and software. Before providing these solutions to customers, we put them into practice first ourselves and at partner firms in order to evaluate and verify their ease of use and effectiveness. The know-how gained from this allows us to offer optimal solutions to our customers. These initiatives translate into a capacity to create new businesses in a way that only NESIC can accomplish.

With all eyes on the coming Digital x 5G era, NESIC will strengthen its business creation capabilities in order to provide new services that leverage its technological capabilities and expertise in both fields.

Creation of Business through Co-Operation and Self-Implementation with Our Partners



Increasing Sustainability of Strengths

NESIC takes various measures to maintain and improve its strengths in technological capabilities & credibility, nationwide business capabilities, and business creation capabilities.

Strengthening Technological Capabilities & Credibility

Training of personnel in 5G

In November 2020, the Shin-Kawasaki Technical-Base (Kawasaki City) was established to facilitate training and the technical verification and assessment of cutting-edge technologies (wireless, virtualization, slicing, etc.) in multivendor environments.

Target: Quadruple the number of 5G-related engineers by the fiscal year ending March 31, 2022

Results: Increase of 2.8x year on year

(from 100 engineers at the end of March 2020 to 278* at the end of March 2021)
* Includes business partners

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Number of employees who obtained core technical qualifications

Managing engineer or technical supervisor qualifications:
Approx. 1,400

Employees with advanced ICT qualifications:
Approx. 800

Enhancing information security

Countering cybersecurity risks is one of the most important issues for management to address, and a variety of initiatives are constantly being taken in this regard.

NESIC joined the Nippon CSIRT Association to reinforce its crisis management structure for countering cybersecurity risks that have become more advanced and detrimental lately. On October 1, 2020, NESIC built and began operating the NESIC-CSIRT*2, which uses the Company's SOC*1, of which security services are already being offered to customers.

*1 SOC: Security Operation Center

Organization that detects and analyzes cyberattacks, and advises on how to respond, with 24/7 monitoring of networks and devices

*2 CSIRT: Computer Security Incident Response Team

A team dedicated to handling information security problems within an organization by responding to security incidents, preventing accidents, and improving the quality of security.



Maintaining Nationwide Business Capabilities

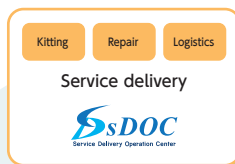
Approximately 400 bases nationwide

Nationwide sales, systems engineers and systems integrators, and maintenance structure

NESIC has approximately 400 maintenance service bases across Japan that support social infrastructure, in addition to sales personnel and systems engineers who help customers across the country.

nTOC Network Total Operation Center

Help desk for networks, security and business systems
24/7 operations, monitoring, and maintenance services



sDOC Comprehensive Technical Centers

One-stop center for technical evaluation, maintenance, and repairs, in addition to 24/7 logistics functions

S-IDC Data Center

Provides convenient and stable services with three-region mutual backups in Tokyo, Osaka, and Yamanashi

Reinforcing Business Creation Capabilities

- Advance inclusion & diversity (I&D)*
- Pursue well-being of employees
- Update work environments and frameworks for fostering innovation

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* NESIC uses the expression inclusion & diversity, with inclusion coming before diversity, based on the belief that the value of diversity can only be achieved with inclusion.

□ Co-creation with partners

We are accelerating co-creation with partners by leveraging our ability to identify customer needs ahead of time.

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An Example of Co-creating Innovation with A Domestic Venture Company

Challenging new work styles with virtual workplaces

The COVID-19 pandemic has drastically changed traditional work styles, when going to the office and meeting people face to face was normal, prompting the spread of telework / remote work over the internet from home or anywhere else outside the office. Meanwhile, new problems have begun to surface, such as lower quality communications and management, as well as a decline in the sense of belonging to the company.

Against this backdrop, NESIC, along with Synamon, Inc. (headquarters: Shinagawa, Tokyo; Representative Director Wataru Takehi), launched in December 2020 a joint demonstration of a virtual workplace that combines real and virtual workplaces, with the objective of creating new work styles that drive co-creation and new ways of communicating.

Synamon is a Japanese venture firm that offers virtual reality (VR) collaboration services for business settings. This co-creation was realized through venture sourcing and collaboration sessions by using a platform designed to promote matching and open innovation between large companies and venture companies.









Since 2007, NESIC has accumulated extensive knowledge, experience, and know-how, through the self-implementation of EmpoweredOffice and distributed work practices before proposing solutions to its customers. By combining this with Synamon's virtual technologies, we aim to create collaborative spaces not bound to time, distance, or location, creating environments that facilitate co-creation by nurturing a sense of unity among team members and allowing workers to think and act on their own, in addition to solving issues that arise when working online.

While deploying the advanced technologies of venture firms, NESIC will strive to spur innovation in new work styles that is several steps ahead of the current ways of working.



Group work that is difficult in remote environments can be accomplished in virtual reality

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Editorial Policy

NESIC has published its ANNUAL REPORT as an integrated report since 2016.

For this report, NESIC reports on a wide range of corporate activities, including its business strategy for the creation of social value and for our growth over the medium to long term, as well as the initiatives it pursues for that strategy to succeed. In ANNUAL REPORT 2021 we introduce our initiatives aimed at resolving social issues through communication and to continue to create new value, and lay out our steady progress toward the Digital x 5G era.

With the aim of furthering everyone's understanding of the NESIC Group, we endeavor to disclose highly valuable information while making iterative improvements based on feedback we receive through dialogue with investors and other stakeholders. Accordingly, we request your feedback after reading this report.

Full details, including details on our financial results and medium-term business strategy, are available on the "Investor Relations" section of our website. In addition, the "CSR" section of our website provides more detail on our initiatives related to corporate social responsibility.

Period Covered

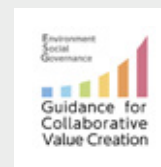
April 1, 2020 to March 31, 2021 (Certain information related to the period following that noted above is also included.)

Scope of Report

NEC Networks & System Integration Corporation and consolidated subsidiaries

Guidelines

- International Integrated Reporting Council (IIRC) (Current VRF*) Integrated Reporting Framework
- Global Reporting Initiative (GRI Standard)
- SASB (Current VRF*) Materiality Map
- ISO 26000 (Guidance on social responsibility)
- Guidance for Collaborative Value Creation
- * Value Reporting Foundation



Contact

- Investor Relations
<https://www.nesic.co.jp/english/ir/>
Responsible department: IR Group of the Corporate Finance & Controller Division

- CSR-Related Information
<https://www.nesic.co.jp/english/csr/>
Responsible department: Corporate Communications Division

Disclaimer

This report contains forecasts, outlooks, targets, plans, and other forward-looking statements concerning the business performance, financial condition, and other aspects of the management of the NEC Networks & System Integration Corporation Group. These forward-looking statements are based on information NEC Networks & System Integration Corporation had as of the time this report was prepared and on certain premises judged to be reasonable. These judgments and premises, by their nature, are subjective and characterized by uncertainty. Furthermore, forward-looking statements are not guarantees of future results and actual performance could be greatly affected by various factors.

Note: Company names, product names, and logos are contained in this report
Note: Department names and job titles are accurate as of September 30, 2021.

About the Cover

The cover of this report was designed to reflect the opinions of NESIC. For this edition, the cover expresses the determination to move forward as a unified Group and accelerate co-creation with a variety of stakeholders, aiming to reach its ideal standing in society. From the very beginning of this report, in which employees talk about the value unique to NESIC, it expresses NESIC's stance, to look forward and take on the challenge of a developing a sustainable society while achieving its own sustainable growth.



INNOVATION BASE

We will continue to help address the issues of society through communications and the enhancement of our unique added value.

Yushi Ushijima
President

Q Please share with us your overall assessment of FY2021/3.

A We achieved the targets set out in our Beyond Borders 2021 medium-term management plan (FY2020/3 to FY2022/3) a year ahead of schedule by addressing social issues and reinforcing our business capabilities.

The fiscal year ended March 31, 2021 was a year in which the world was hit hard by the effects of the COVID-19 pandemic. We saw our lifestyles and social norms take a drastic shift as we battled against this new virus. The rise of telework started to raise questions about our conventional work style, which has been accepted without question until now, as a wave of new technologies such as Zoom began to have a major influence on the business scene.

Amid such unprecedented changes in society, the value we can offer to society

became even clearer to us at NESIC, where resolving the issues of society through communications is our trademark, and this translated into our successful results over the past year. We played a leading role in society in terms of work-style innovation, for which we began carrying out self-implementation in 2007. In particular, our efforts from 2019 to introduce a new type of work style in the form of distributed work, which makes comprehensive use of digital technology, began to pay dividends, as we were able to steadily address the demand for DX in line with social issues such as the work styles in this new normal we are living today. We also reaped the benefits of the front-loaded demand for the GIGA School Program, a government-funded program that promotes the use of ICT in education. As a result, we renewed our previous record highs by a significant margin and achieved the targets



in our Beyond Borders 2021 medium-term management plan a year in advance.

On the earnings front, we made significant strides with the strengthening of our business capabilities. In particular, I believe the reorganization, which took place alongside the launch of Beyond Borders 2021 in April 2019, paid off in a major way. The transformation from a market-specific organization to a technology- and function-specific organization in order to optimize the entire corporate structure has allowed us to centralize and make more efficient use of resources, thereby strengthening our organization. Moreover, by embracing DX to energize our self-implementation of work-style innovation even further, we not only strengthened our ability to address social issues through self-implementation but were also able to enhance productivity. As our entire organization unites as one to tackle new social issues, the fact that we

were able to strengthen our business structure beyond our expectations was a tremendously positive sign, giving me a renewed appreciation for the true potential of our employees.

Q What is NESIC's stance on the road ahead to 2030?

A "Helping address the issues of society through communications" is our uncompromising stance here at NESIC.

Along with the emergence of pandemics, the drastic population growth, climate change, and the resulting destruction of ecosystems and food shortages, as well as a variety of other issues that cast doubt on the sustainability of our planet and the prosperity of its future have come to light in recent years. In Japan, we cannot disregard the existence of issues such as labor

shortages stemming from demographic changes as well as torrential rainfall, earthquakes, and other natural disasters. As we proceed ahead to 2030, new social issues will likely emerge one after another and our social structure and lifestyles will undergo major changes.

The rapid evolution of technologies will play a significant role in addressing such social issues. Staying ahead of the competition in taking full advantage of such technologies to help address the issues of society through communications reflects our unique stance here at NESIC.

The current medium-term management plan was formulated to serve as the first step on our road to 2030, the target year for the Sustainable Development Goals (SDGs). In tandem with our current medium-term management plan, we established our new vision for society, “An inclusive and sustainable society created through communications,” as well as “Initiatives to provide value to society

through 2030,” and “Initiatives for growth at NESIC,” our two frameworks for the materiality issues that must be addressed throughout the Group. Communication is an essential element of our lifestyles and the key to resolving all of the issues surrounding society. Two years have passed since identifying our current materiality issues and materiality itself has gradually been embedded into our organization. However, each employee must be able to form a concrete image of how they can address such materiality issues through their own actions. To that end, I hope to deliver a more in-depth message to our employees.

Q Please describe your road map to growth toward 2030 and the progress made to date.

A We will embrace the world of Digital x 5G and address a wide range of issues throughout society.

Our strategy looking ahead to 2030 is to bring Digital x 5G into fruition. Through the fusion of widely spreading digital technology and high-speed network infrastructure representing 5G, we will address our materiality issues of “Creating work environments in which everyone can take initiative,” “Developing pleasant and plentiful communities with cutting-edge technologies,” and “Providing robust services that underpin safety and security in evolving society.”

As I mentioned earlier, our current Beyond Borders 2021 medium-term management plan is the first step on our long-term road map toward reaching our 2030 goal. In order to thrive in the coming Digital x 5G era, we are honing our strengths with an eye on digital services and 5G infrastructure, and are making headway towards addressing our materiality issues.

In the digital area, orders related to DX grew dramatically, particularly through the introduction of Zoom to facilitate the needs for telework amid the COVID-19 era,



I truly believe that we can contribute to resolving a wide range of social issues.

while the customer base continued to expand for small and medium-sized business (SMB) clients, which were not a part of our target market until now. In response to this growing demand, we also established systems for inside sales and customer support portals that facilitate solutions to social issues for a wider range of customers. In the area of 5G, we strengthened our partnerships with telecom carriers, while proceeding with preparations for full-scale 5G investment by expanding our business into value-added sectors and establishing a relationship of trust with new telecom carriers. Moreover, in terms of local 5G, which is nearing practical use, we are stepping up the pace of trial operations based on the significance of creating and horizontally rolling out effective services on commercialization. When accelerating our trial operations, we homed in on the areas where we could provide value to society by leveraging our strengths in work-style innovation and community building.

In our next medium-term management plan (FY2023/3 to FY2025/3), along with our achievements up to that point, we will successfully execute our Digital x 5G strategy to provide solutions to an even wider range of social issues and thereby continue to solidify our foundation for realizing sustainable growth.

Q What is your approach to differentiating yourself from your many competitors in both the digital and 5G fields?

A The know-how we have accumulated through self-implementation is unique to NESIC and is what differentiates us from the competition.

Our raison d'être is the ability to create user-friendly, high-value-added services by uniting the products, services, and cutting-edge technologies of our various business partners. This is the reason why we call ourselves a "Communication services orchestrator." And our multi-cloud service

platform, which links a range of cloud-based services rather than utilizing them individually, allows users to experience what true convenience is all about. As new cutting-edge venture technologies make their way onto the scene, the ability to utilize the latest and optimal technologies to offer timely solutions in line with market changes and customer needs is a major strength of NESIC, a company that does not have its own specific products or services.

In order to provide such customer-centric services, we have continued to place emphasis on "self-implementation," which has become a very part of our DNA. Our work-style innovation, which we began undertaking in 2007 based on our spirit of sparing no effort on behalf of our customers, also underwent our unique process of being put into practice in-house, fully tested, and assessed in terms of advantages and disadvantages before being offered as a solution to customers. We are also working to expedite our self-implementation and accumulation of know-how with partners. In 2019, we began implementing distributed work, whereby employees work individually at an office located near their homes through the use of cutting-edge digital technology to eliminate the drawbacks associated with remote work, such as lack of communication. Moreover, in pursuit of "The best staff in Japan," such staffing divisions as human resources, procurement, and accounting personnel have been reforming business processes from scratch, and the know-how gained through these efforts are provided in the form of solutions to our customers. Through the consulting activities of our staffing divisions, which share similar issues as our customers, we offer solutions that are slightly different from our competitors, resonate with our customers, and are unique to NESIC, a company that has instilled self-implementation into its own corporate culture. As we move forward, we will continue to self-implement by staying one or two steps ahead of society and

work to fine-tune our strengths in this area. In the areas of telecommunications and social infrastructure, we will draw on the strengths of our self-implementation capabilities, which are built on the extensive knowledge of our customers' businesses, accumulated through the development and operation of networks in lieu of our customers, to expand our business into value-added services.

Another distinctive trait of ours is the ability to become a hybrid-style business, which leverages its conventional strengths in systems integration and network infrastructure development while expanding the range of cloud-based services. Digital x 5G, which stems from the fusion of system integration and development of digital services and 5G infrastructure, is certainly an area where such strengths will play an instrumental role. For instance, in local 5G, our ability to provide a comprehensive range of solutions that span the development of infrastructures such as base stations and core networks and the provision of services on such infrastructures is a trademark of ours. Our multi-cloud services are built to link not only cloud-based services but also conventional networks, including voice networks and video networks such as river surveillance cameras. This is an exceptional strength of ours and an element of our business that differentiates us from our competitors, and is imperative to the building of communities.

Leveraging our self-implementation capabilities, we will continue to develop recurring relationships with our customers as an indispensable partner and transition to a one-of-a-kind and unparalleled hybrid-style business. In so doing, we will deliver unique added value, bolster our competitiveness, and enhance our earnings potential.

Q How will you go about strengthening the foundation for steadily executing your strategies?

A We must continue to improve the well-being of our employees and remain committed to our goal of becoming an attractive company.

"Initiatives for growth at NESIC," one of our pillars for materiality, serves as a guideline for strengthening the foundation necessary for successfully executing our strategies. "Sound and highly transparent management," "Strengthen innovation capabilities to create new value," and "Create a culture where employees can take initiative," the three themes comprising this materiality framework, are closely linked to one another.

At NESIC, our employees are our most important asset. As society's expectations of IT companies diversify in tune with the rapid evolution of technology, we must continue to innovate like no other. And, in order to do so, we must nurture a corporate culture that embraces new challenges without the fear of failure or change. The efforts of each individual to challenge and succeed as a result will contribute to their sense of fulfillment. An attractive company that offers a comfortable work environment will be able to lure new employees, which will enhance its ability to provide better services and raise the level of customer satisfaction. A virtuous cycle that ensures a greater sense of fulfillment in employees will begin to take shape in such an environment. For example, our staffing divisions also serve as consultants for our customers, through which they contribute to our profit growth rather than simply functioning as a cost center. I believe this contributes to a greater sense of fulfillment in the employees of these divisions. We are also starting to see a virtuous cycle take shape across our organization, with the success of the staffing divisions in attracting exceptionally talented personnel serving as a prime example. According to our many

employees who are assigned to our customers on-site in support of their operations, the flexible and innovative work styles we have in place at our headquarters are difficult to implement in their current work setting. However, through the establishment of specialized divisions such as the Corporate Culture Design Office and the Well-Being Promotion Office, alongside conducting effective communication and putting the right systems in place, we are working unstintingly to create a workplace environment that brings out the best in each individual, ensures a sense of fulfillment, and all employees can take pride in.

Q Please offer your perspective on sustainable increases in corporate value.

A We will aim to become a company that constantly strives to evolve with speed and agility, similarly to the likes of venture companies.

In order to address social issues from a broader perspective and constantly grow with our sights set on the future, I always envision the type of company we want to be from the ground up without being satisfied with the status quo and constantly striving to achieve that goal as quickly as possible. Failure is not when the result of your hard work and the decision to take on new challenges does not go according to plan. Rather, failure is when you decide not to challenge yourself at all.

Even if we were to expand into a large enterprise, I still want NESIC to think and act like a newly established venture company. Whether it is a member of management or a junior employee, head office staff or front-line personnel, I want each individual to reflect on and discuss the type of company we must become to fulfill our role in society. If we are able to do that, I believe we will outpace the changes taking place in our business environment and become a solid organization. And based on such a mindset, we will aim to



We will embrace new challenges together as a group by taking our “Action!” theme to heart.

become the “No. 1 communications company.” As we speak, discussions on the next medium-term management plan involving diverse personnel, from our junior employees to highly experienced staff, are already underway across the entire organization to decide our future direction as a company.

In 2021, we will take our “Action!” theme to heart as we leap forward from our stage of preparation to our stage of execution.

Through telework and other remote working environments, face-to-face interactions at the office, a hybrid-type work setting that combines on-site and digital work styles, and a variety of other opportunities to engage in communication with coworkers, I would like to see everyone join forces to plan our course of action toward new social issues and our next step going forward as an organization.

Our Connection to Daily Life

NESIC Contributes to a Safe, Secure, and Plentiful Tomorrow in Various Contexts of Daily Life.

1 Broadcasting

Construction, operation, and maintenance of digital TV broadcasting facilities, relay stations, and studio facilities, as well as installation of fiber-optic cable for cutting-edge 4K and 8K broadcasting



2 Work-Style Innovation

By bringing together various cloud-based tools and applying cutting-edge technologies, we create an environment that allows people to work from any location, such as home or satellite offices, by merging the real and the virtual, a place where people can co-create as a team that transcends organizational and corporate boundaries, and a way of working that generates innovation by solving the issues of communication, management, and administrative work.



3 Airports

Visual Docking Guidance Systems (VDGS), air traffic control systems, airport information, and a broad array of other services



4 Hotels

Comprehensive hotel solutions such as telephones and switching equipment, room management systems, and systems for providing guests with information



5 Mobile Communications Network

Installation of mobile base stations indispensable for daily communication via smartphone and flip phone, and overall network support, together with system integration of core networks



6 Fire-Fighting & Ambulance

Construction of command systems and radio systems enabling rapid responses to 119 emergency calls, and the provision of multilingual call center services



7 Railways & Roads

Support for public transportation by constructing and maintaining telecommunications networks and other systems for railway and highway traffic control



8 Disaster Prevention

Warning systems that provide information at times of emergency (earthquake, tsunami, typhoon, etc.) via simultaneous announcements over disaster prevention communication systems for greater safety and security in daily life



9 Shops & Public Facilities

Creation of convenient user environments for customers including Wi-Fi networks, information distribution systems, and value-added video services



NESIC utilizes its strengths in technological capabilities & credibility, nationwide business capabilities, and business creation capabilities to provide customers with total solutions that help increase their productivity and resolve their issues.

10 Plants

Provision of IoT systems able to detect and manage the location of people and things in real time at plants and other production sites



11 Oceans

Installation of submarine cables that support international communication, and support for earthquake warning systems by integrating submarine seismometers



12 Space

Supports communication and operational control with various artificial satellites and spacecraft, including asteroid exploration



13 Local Governments & Education

Provision of networks to local governments that support convenient and worry-free lifestyles, including its resident protection service, and ideas for invigorating regions, such as tourist information services. Provision of venues for learning by helping schools with IT deployments and assisting online classrooms



14 Network Total Operation Centers

24/7 customer network support ranging from security monitoring to network operation

15 Comprehensive Technical Centers

Comprehensive technical services ranging from distribution control functions that run 24/7, to new-technology evaluation and SI, and maintenance and repair

16 Data Centers

Keeping of customers' IT assets in secure, robust environments, and provision of wide-ranging operation, outsourcing, and cloud services

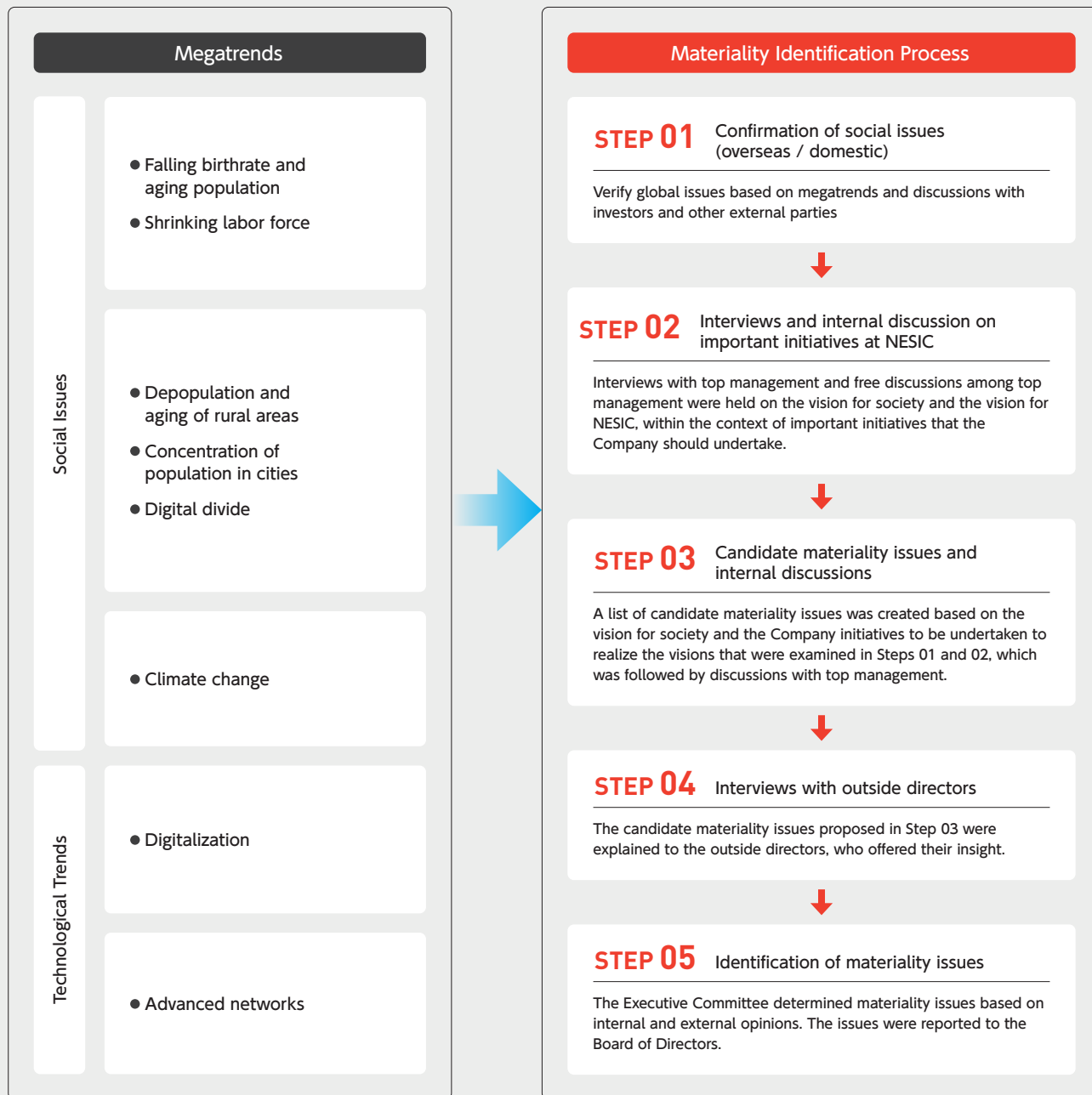
17 Contact Centers

ICT system failure response, help desk, and other support services for customer system administrators and system users, and interpretation services in multiple languages

■ NESIC's service platform

Materiality

Along with the medium-term management plan Beyond Borders 2021 that was unveiled in May 2019, NESIC has identified six materiality issues as key initiatives for contributing to the sustainable development of society and realizing sustainable growth itself. Thereafter, viewing the COVID-19 pandemic as a major paradigm shift, NESIC is reaffirming its roles and responsibilities in society in this “new normal.” Discussions were held with management to share a Companywide image of initiatives to make materialities more concrete. As an indicator of progress toward realizing three materialities related to the “Initiatives to provide value to society through 2030,” NESIC is setting targets for increasing the number of disclosures about specific examples of initiatives.



Initiatives for growth at NESIC

To continue growing as a company through such value creation efforts, NESIC must further strengthen its own business foundation. To this end, the Company has selected the following three priority initiatives. We believe communication, such as through co-creation and dialogue, is important for our own growth as a company.

Sound and highly transparent management

- Strengthen governance through dialogue with stakeholders
- Promote compliance with an eye on diversity



Initiatives to provide value to society through 2030

NESIC has selected three initiatives to prioritize in its provision of value to society via communications through 2030.

Create work environments in which everyone can take initiative

We aim to provide environments where everyone, regardless of age, gender, or nationality, can work proactively and to the best of their abilities without regard to location.

Develop pleasant and plentiful communities with cutting-edge technologies

We aim to help develop communities, such as smart cities, where people can lead exciting and fulfilling lives with safety and convenience, and where various information services are provided on robust communication platforms using the latest mobile technologies, etc.

Provide robust services that underpin safety and security in evolving society

We will support the development and advancement of ICT essential for economic growth by creating safe and secure services that offer high quality and national reach.

Vision for Society An inclusive and sustainable society created through communications

Initiatives to Provide Value to Society through 2030

- Create work environments in which everyone can take initiative
- Develop pleasant and plentiful communities with cutting-edge technologies
- Provide robust services that underpin safety and security in evolving society



Initiatives for Growth at NESIC

Sound and highly transparent management

- Strengthen governance through dialogue with stakeholders
- Promote compliance with an eye on diversity

Strengthen innovation capabilities to create new value

- Promote a culture that encourages change and embrace of new challenges
- Accelerate co-creation and the use of various services in our own business practices to better understand the customers' point of view

Create a culture where employees can take initiative

- Improve the well-being of employees
- Encourage frank and open discussions, and enhance the corporate culture as a facilitator of self-growth

Strengthen innovation capabilities to create new value

- Promote a culture that encourages change and embrace of new challenges
- Accelerate co-creation and the use of various services in our own business practices to better understand the customers' point of view

Create a culture where employees can take initiative

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Create work environments in which everyone can take initiative

Vision for Society
An inclusive and sustainable society
created through communications

Create work environments in
which everyone can take initiative

Utilizing the know-how it has accumulated through self-implementation since 2007 and digital technologies, NESIC provides solutions for work styles in the new normal, such as the realization of co-creation environments and business processes that lead to stronger capabilities for innovation.

Our unique approach to proposing solutions is to have employees in staffing divisions going through trial and error to solve their own issues, and then sharing their experience with customers to help solve their problems.

Initiatives to realize this materiality (number of new releases)

Provision of new services
10 PoC

Experiments
12 PoC

September 2020 to August 2021

Start of hybrid work demonstration experiment combining real and virtual work styles

Creating work styles for the new normal that drive innovation

From our July 20, 2021, news release

With the objective of driving innovation, NESIC has defined the concept of how to work in the new normal era and has started demonstrations that embody the concept.

As a result of telework spreading during the pandemic, work efficiency and productivity has improved at companies. Turning to the people who work at companies, however, various distortions have become apparent from prolonged teleworking, such as growing unease about communications and work styles. These distortions have an impact on personnel training and the ability to innovate, which are essential to corporate growth, and as such, they may become serious management issues at many companies in the near future.

The concepts behind the new work styles proposed by NESIC recognize that the issues faced by its customers are not simply related to work styles, but influence the core of corporate management. By applying our expertise to merge telework and office work together, we aim to make innovation a constant factor that is central to corporate growth.

Concepts behind new work styles

- Transform the nature of communities inside companies into one that promotes growth in human resources
- Form teams of people with the same objectives and issues that transcend organizational and company boundaries
- Create innovation in co-creation spaces that highly integrate digital and real spaces

To bring these concepts to fruition, NESIC is conducting the following demonstration experiments in hybrid work systems:

- Support training of young employees in hybrid work environments
- Contribute to business expansion by stimulating information sharing and support cross-organizational teams to create new activities
- Establish virtual offices that are globally connected across organizations, companies, and national borders, and create speedy innovation through co-creation by using these offices
- Creation of co-creation discussion areas with customers that bring together people, places, and digital technologies, and the promotion of value creation that goes beyond physical office spaces
- Construction of the optimal work environment that supports activities of office workers and teleworker teams at the Nihonbashi Innovation-Base

NESIC is contributing to realize “Create work environments in which everyone can take initiative,” by realizing hybrid work styles that drive innovation through invigorating discussions, while leveraging the benefits of telework that make it easier for people to juggle work with childrearing and caregiving.

Develop pleasant and plentiful communities with cutting-edge technologies

Vision for Society
An inclusive and sustainable society
created through communications

Develop pleasant and
plentiful communities with
cutting-edge technologies

Combining the latest in digital technologies with high-speed network infrastructure such as 5G, we will work with our partners to solve various issues in local communities and contribute to the development of smart cities and other new-age towns, thereby realizing more affluent lives for people.

Initiatives to realize this materiality (number of new releases)

Provision of new services
5 PoC

Experiments
3 PoC

September 2020 to August 2021

Demonstration experiment using street lights equipped with ICT functions at Shinshu Sky Park

Aiming to create exciting, plentiful, and attractive communities with DX technology

From our April 20, 2021, news release

From April 2021 to March 2022, NESIC, along with GIGA PRIZE Co., Ltd., Secual, Inc. and TOYBOX Shinshu Sky Park Service Center, are conducting a demonstration experiment of DX services that utilize data obtained from street lights equipped with ICT functions at Shinshu Sky Park (Matsumoto City, Nagano Prefecture) with the intention of creating an exciting, plentiful, and attractive community.

This demonstration experiment aims to solve issues of creating communities where residents can enjoy a prosperous life in safety and security. The project will provide a variety of services by adding various functions to the street lights used as infrastructure to illuminate the city, such as disaster prevention and crime prevention tools, and regional networks that function as communication infrastructure to the city. This demonstration experiment entailed the installation of Secual Smart Poles as street lights equipped with ICT functions within the Shinshu Sky Park, an area where local residents can rest and interact. The objectives are as follows:

1 Ensure safety and security for park visitors
Conditions within the park can be monitored in real time using networked cameras installed on the street lights. The videos are analyzed with AI technology to detect intrusions, analyze congestion, and attributes to prevent crime within the park. It is also possible to ensure the safety of park visitors as a countermeasure against COVID-19 by detecting congestion based on the number of park visitors and the status of their stay.

2 Increase satisfaction of park visitors
By changing the color of lighting in accordance with the weather, season, and time of day, the park becomes even more pleasant. Through collaboration with sports events and local events held within the park, we aim to provide a park environment that visitors can fully experience with all their senses, and encourages them to come back again. Free Wi-Fi through wireless access points offers park visitors connections to the internet.

3 Increase efficiency of management operations
We aim to increase management efficiency by unifying management and visualizing the status of street lights. The networked cameras can also be used for the management office to monitor conditions within the park. We aim to increase work efficiency by enabling the monitoring of wider areas without having to make the rounds in person.

We will continue to pursue the creation of a fun, prosperous, and attractive community by combining the knowledge gained from the demonstration experiments with various communication methods in an optimal way.

Provide robust services that underpin safety and security in evolving society

Vision for Society

An inclusive and sustainable society created through communications

Provide robust services that underpin safety and security in evolving society

NESIC contributes to the realization of a sustainable society by constructing and maintaining safe and secure ICT infrastructure that is highly resilient to natural disasters, such as heavy rainfall, earthquakes, and strong winds, by utilizing the latest digital technologies, backed by its reliable infrastructure construction capability and service bases across the country cultivated over many years.

Initiatives to realize this materiality (number of new releases)

Provision of new services

10 PoC

Experiments

6 PoC

September 2020 to August 2021

Launch of building degradation diagnostic services with drones in partnership with MS&AD InterRisk Research Institute & Consulting, Inc.

From our January 20, 2021, news release

In a partnership with MS&AD InterRisk Research Institute & Consulting, Inc., in January 2021, NESIC started to provide a jointly developed service for diagnosing building degradation with drones.

In this service, aerial images taken by NESIC using drones are analyzed based on the building deterioration evaluation methodologies owned by MS&AD InterRisk Research Institute, Inc. and the deterioration status of the buildings are diagnosed. The service facilitates the verification of degradation in parts of buildings that are hard to visually inspect by a person, such as the rooftops, external walls, and solar panels installed on structures.

In recent years, large-scale typhoons have caused damage to the roofs and external claddings of buildings. To reduce the damage to buildings caused by strong winds, it is important to identify any degraded areas at an early stage and conduct preventative maintenance and repairs. However, it is hard to visually inspect rooftops and external sides of buildings in high places, so degradation inspections are not carried out on a regular schedule, resulting in inadequate preventative maintenance in some cases. This situation could lead to higher costs with repeat partial repairs every time they are damaged, compared with a planned large-scale fix.

Solar power systems, which have become more prevalent in recent years, can be damaged, leading to fires sparked by rooftop solar panels or lower output due to partial damage to the panels. To reduce damage, it is necessary to periodically inspect the panels, but they are installed in high places or over a broad area. This makes visual inspection with conventional equipment inefficient, and harder to find defects. In light of this situation, NESIC started to provide services to look for degradation by using drones to take pictures of hard-to-view areas.

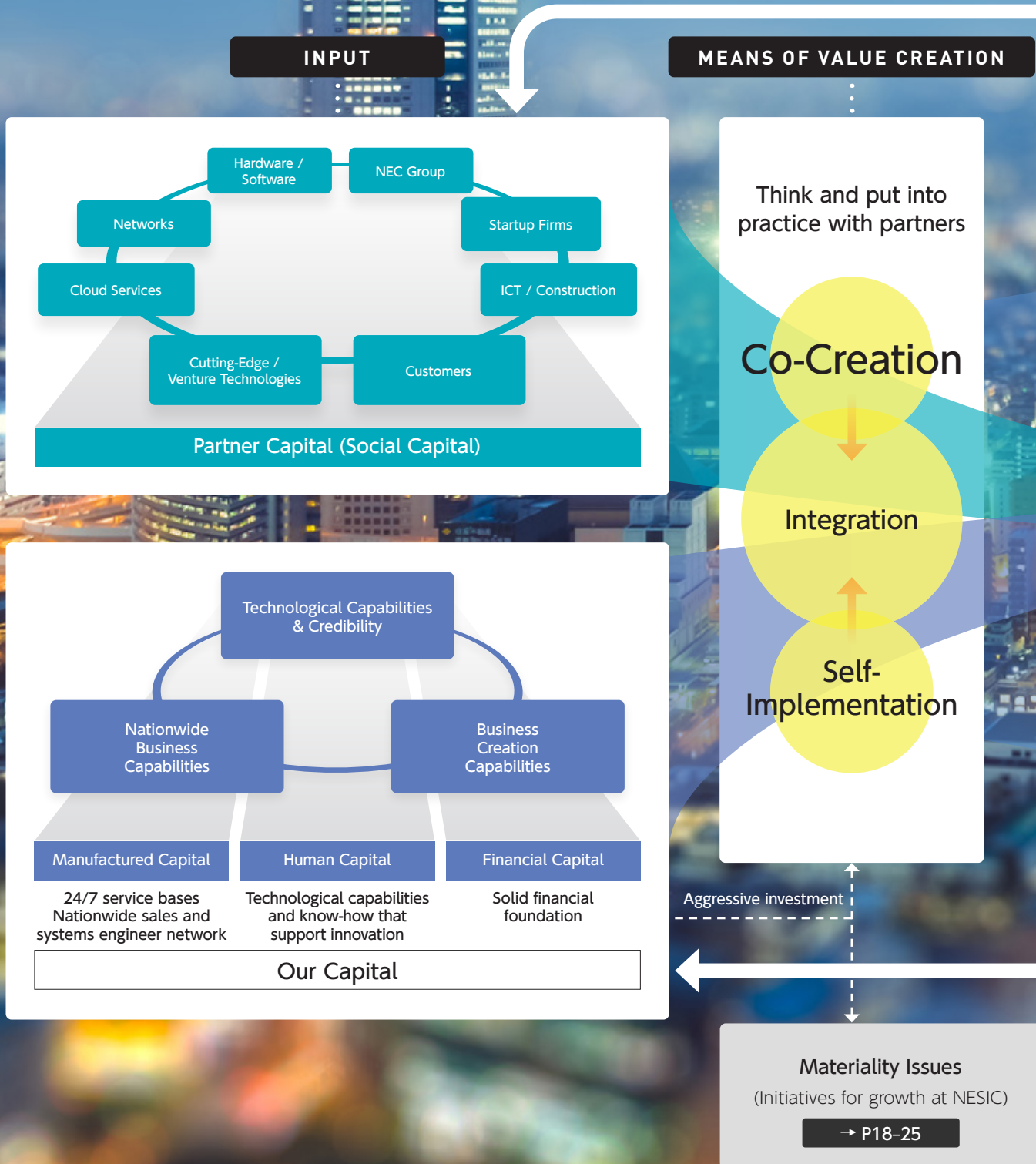
Using this service, inspections with the drones and Zoom video conferencing software allow remotely located administrators, in addition to on-site workers, to view the aerial images in real time on PCs, tablets, or smartphones.

In the future, we will further simplify this service by utilizing AI and other technologies, and will widely expand this service both in Japan and overseas. Through this service, we support safety and security in society by increasing the efficiency of and saving labor in diagnosis work for verifying degradation in buildings.

Value Creation Model

NESIC's vision for society is "An inclusive and sustainable society created through communications." To realize this vision for society, we have established a value creation model based on co-creation and putting ideas into practice with partners, integrating various technologies, and providing them to customers as easy-to-use solutions.

NESIC creates new businesses and services through its value proposition model, and will provide value to society in core areas through 2030, namely "Create work environments in which everyone can take initiative," "Develop pleasant and plentiful communities with cutting-edge technologies," and "Provide robust services that underpin safety and security in evolving society."



To continue providing this value to society, “Strengthening our innovation capabilities to create new value,” as well as “Creating a culture where employees can take initiative,” are of particular importance to our own growth, starting with “Sound and highly transparent management.”

By sustaining this value creation model, we intend to contribute to the development of society and achievement of SDGs, while aiming to enhance our corporate value over the long term.



Sound and highly transparent management

Strengthen innovation capabilities that create new value

Create a culture where employees can take initiative

Risk and Opportunity

NESIC will constantly monitor risks and opportunities in these rapidly changing times with the aim of flexibly adapting to change and sustaining growth.

	Megatrends	Opportunities for NESIC	Risks for NESIC
Social Issues	<ul style="list-style-type: none"> ● Falling birthrate and aging population ● Shrinking labor force 	<ul style="list-style-type: none"> ● Changes in work styles at enterprises ● Stronger needs for work-style innovation in local governments ● Growth in DX in educational settings ● Digital shift in community development ● Needs for work anywhere, including workcation in outlying areas 	<ul style="list-style-type: none"> ● Decline in productivity ● Problems securing personnel and passing along technology
	<ul style="list-style-type: none"> ● Depopulation and aging of regions ● Concentration of population in cities ● Digital divide 		
Technological Trends	<ul style="list-style-type: none"> ● Climate change 	<ul style="list-style-type: none"> ● Digital shift in community development and corporate activities with stronger awareness of need for resilience 	<ul style="list-style-type: none"> ● Disruption to supply chains due to natural disasters ● Impact on BCP
	<ul style="list-style-type: none"> ● Digitalization 	<ul style="list-style-type: none"> ● Diversification and stabilization of income opportunities ● Stronger needs for security-related business ● Growing needs for data-driven business 	<ul style="list-style-type: none"> ● Change in legacy or conventional systems integration model ● Data security breaches ● Privacy protection failures
	<ul style="list-style-type: none"> ● Advanced networks 	<ul style="list-style-type: none"> ● Expand business related to Digital x 5G 	
		<ul style="list-style-type: none"> ● Expand business related to high-speed communications (5G, etc.) 	<ul style="list-style-type: none"> ● Changes or contraction in existing network construction business model for telecom carriers

Initiatives at NESIC

- Provide solutions to enterprises for work-style innovation (→P21)
- Provide solutions to local governments for work-style innovation
- Support for ICT infrastructure development for educational settings
- Accelerate work-style innovation through self-implementation (→P21)
- Improve employee skills and engagement by promoting their well-being and I&D
- Expand solutions related to community development (→P23)
- Provide solutions for remotely supporting ICT infrastructure (maintenance, operations, and security) as lifelines

NESIC aims to improve the well-being and capacity for innovation of its employees by putting into practice work-style innovation with the latest digital technologies in its own operations. Based on the outcomes of its own trials with new technology, the Company creates invigorating work environments by making these digital technologies accessible to anyone, anywhere, and then offers these solutions to society. NESIC will co-create with its partners with the aim of creating communities, such as smart cities where people can lead exciting and abundant lifestyles, through digital services paired to the latest high-speed communications infrastructure, such as 5G.

- Provide solutions for disaster prevention and mitigation (→P25)
- Provide environmentally friendly solutions by using DX
- Implement hybrid work
- Respond to climate change based on TCFD recommendations

NESIC places an emphasis on the risks and opportunities presented by climate change. NESIC is keen to reduce environmental impact through work styles for the new normal, and help create resilient communities that prevent and minimize the impact from risks such as natural disasters. We are also taking steps to address climate change in line with TCFD recommendations.

- Shift to solution and service provision business model using DX technologies (→P32)
- Provide security solutions
- Strengthen in-house information security (→P6)

With the accelerated use of digital technologies like AI and IoT as a tailwind, NESIC is transitioning its business model from one focused on systems integration of products to a recurring solutions and service model centered on digital technologies. While putting new ideas into practice in-house, NESIC provides safe and reliable services from its own service platforms that emphasize information security, the foundation of a digital society.

- Provide Digital x 5G solutions (→P32, 40)

One of NESIC's unique features is its strength in both digital services and 5G infrastructure. The Company has accumulated know-how in the construction of advanced ICT infrastructure, including networks for telecom carriers. Integrating this know-how and its ability to develop businesses with its accumulated experience and co-creation with partners, with Digital x 5G as a medium- to long-term growth driver, NESIC strives to help solve social issues by addressing everything from information infrastructure to services.

- Provide support for 5G technology testing (→P6, 33)
- Training of 5G engineers (→P6, 33)
- Expand business into value-added areas by forging partnerships with telecom carriers and using DX

To latch onto business opportunities from the proliferation of 5G, NESIC is moving to expand into high-value-added business domains while reinforcing its long-term relationships of trust with telecom carriers. At the same time, we will accelerate initiatives in testing to commercialize services for solving social issues with local 5G. The Company is setting up bases for training 5G personnel and verifying 5G technologies in a push to strengthen its business foundation.

Achievements and Issues in the Previous Medium-Term Management Plan

In the previous medium-term management plan, from the fiscal year ended March 31, 2017 through the fiscal year ended March 31, 2019, NESIC did not achieve its management targets due to the delay in responding to rapid deterioration in the business environment. However, we took steps to make a strong start to the current medium-term management plan, including improving profitability and return on equity (ROE), as well as launching the DX businesses and accelerating co-creation with partners.



Launching full-scale efforts for Digital x 5G

Digit

Overview of current medium-term management plan
Beyond Borders 2021



Digital Technology
5G Network

STEP 1

Current Medium-Term Management Plan

(from the fiscal year ended March 31, 2020 to the fiscal year ending March 31, 2022)

Growth in digital area, centered on work-style innovation

NESIC is starting the challenge of creating completely new work styles with distributed work, leveraging DX technology, in an initiative to promote innovation and solve social issues in Japan, such as overconcentration in Tokyo. This initiative allowed the Company to address demand for telework during the pandemic. As a partner for our customers, we increased added value by providing cutting-edge cloud-based services and by starting to offer platform services as the basis for contributing to the enhancement of our customers' competitiveness by integrating these cloud-based services in multiple ways.

Preparing for the full-scale penetration of 5G

For telecom carriers, NESIC is building on its relationships of trust ahead of full-scale investment in 5G. In the Local 5G, NESIC is focusing on areas where it can leverage its comprehensive capabilities (full-stack systems integration capabilities), which range from infrastructure including base stations and core networks to services for enterprises. We have begun full-scale demonstration experiment, focusing on areas where we have expertise, such as work-style innovation and services for local governments. We are accelerating the training of personnel fluent in 5G and technical verifications at newly established technology base.

An inclusive and sustainable society created through communications



Future Steps

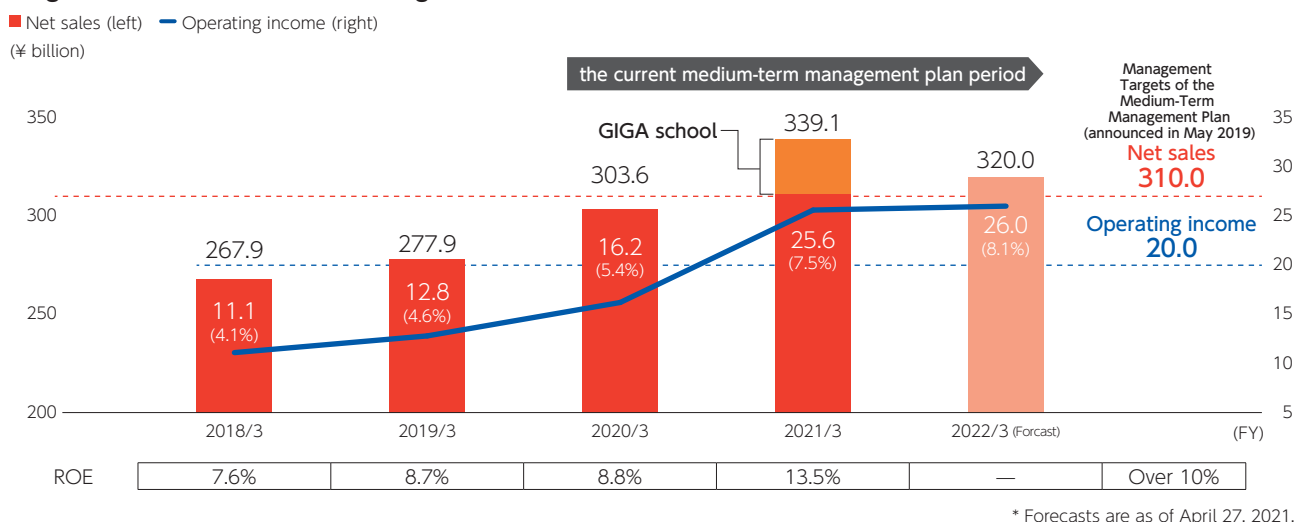
Toward its vision of “An inclusive and sustainable society created through communications,” NESIC will expand the value of co-creation only it can provide, and by establishing a “Strong NESIC,” the Company aims to more broadly and deeply distribute the value it provides.

Progress of the Medium-Term Management Plan Beyond Borders 2021

Quantitative Progress

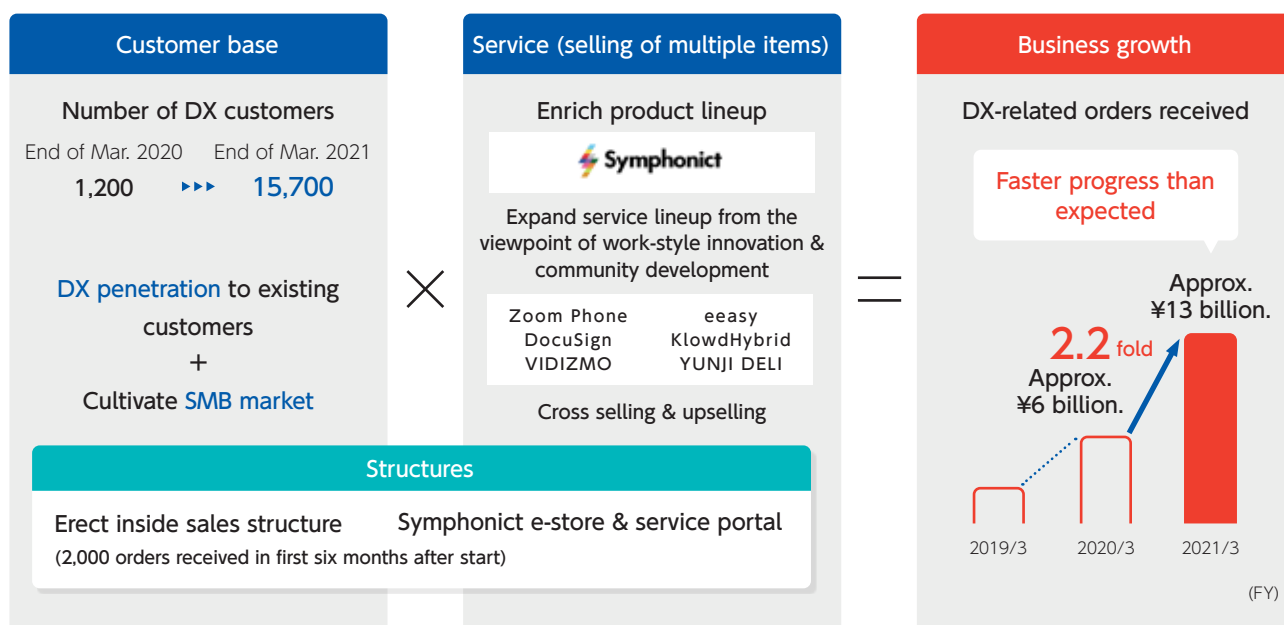
- Big jump to new record performance and front-loaded achievement of medium-term target
- Proactively acquired GIGA school demand, strategic areas grew such as DX field
- Strengthening of business capabilities (profitability) progressed much faster than expected

Progress of the Medium-Term Management Plan



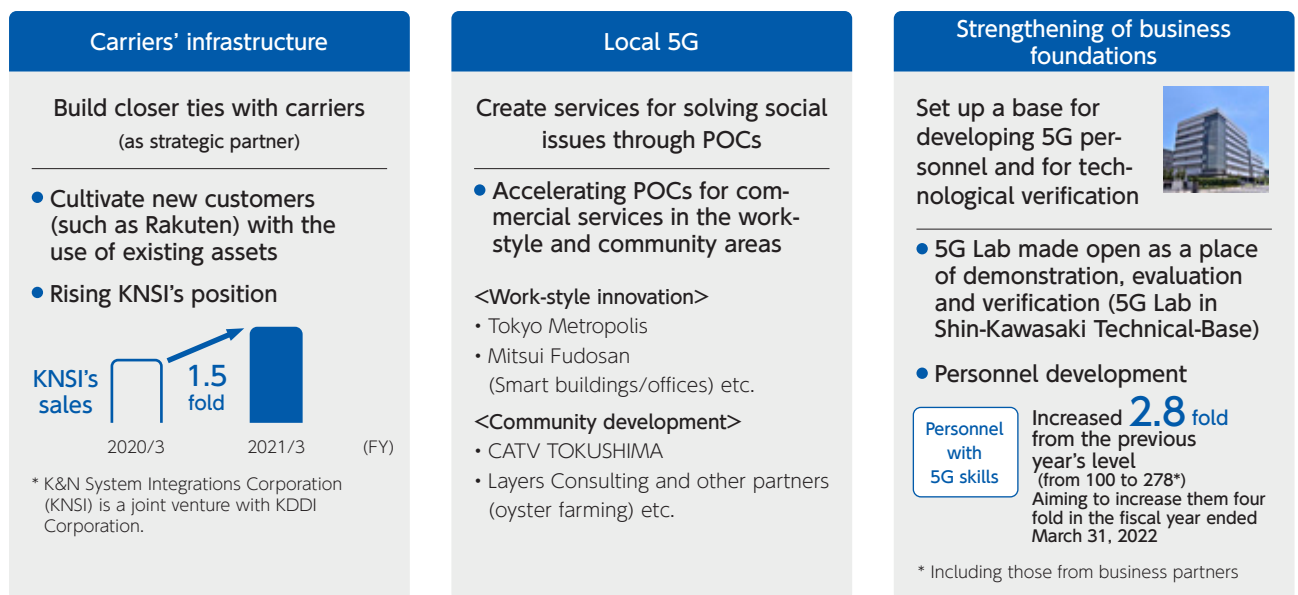
Progress on Growth Strategy: Digital Area

Due to the impact of the COVID-19 pandemic, the trend toward digitalization has accelerated beyond our initial expectations and, as a result, NESIC has seen a clearer shift in its business from a product SI model to a solution service model that utilizes DX technologies. Our businesses using DX technologies have expanded rapidly by tapping into the needs of our customers for the new normal work style and, in addition to penetrating existing customers, we have succeeded in cultivating the small and medium-sized businesses (SMB) market, which we had not previously targeted. We also worked to create promising new solution services through our self-implementation and co-creation implementation, which led to better-than-expected progress, including a doubling of DX-related orders from the previous fiscal year.



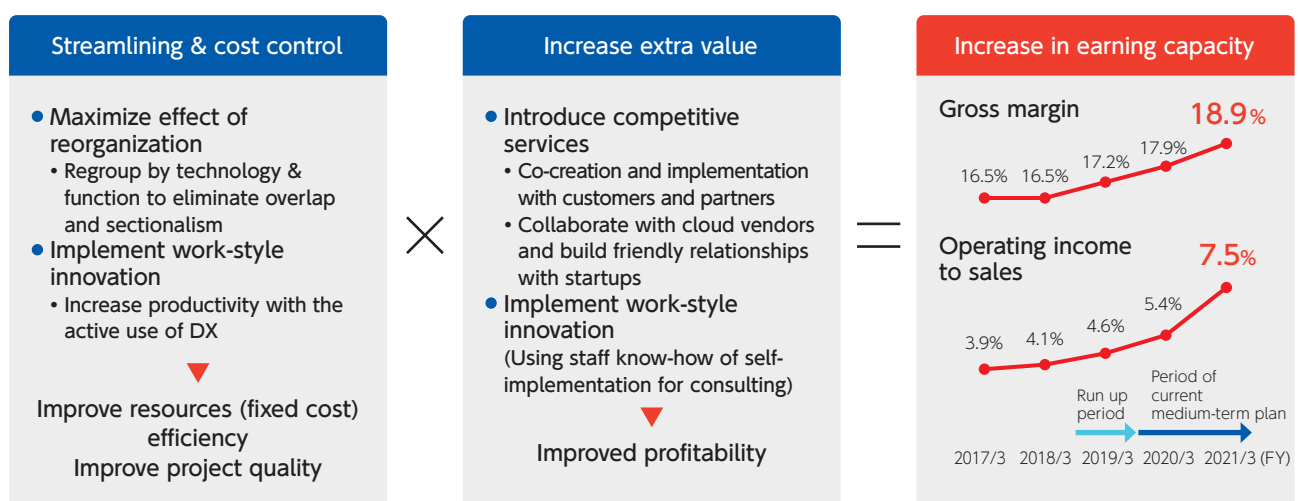
Progress on Growth Strategy: 5G Area

In the current medium-term management plan, the 5G area, another pillar of the growth strategy that is positioned as a preparation period for full-scale implementation, progressed as planned. For telecom carriers, it is important to strengthen our position as a strategic partner. From this perspective, NESIC was able to build trusting relationships with new customers by leveraging its existing assets, while KNSI*1 made progress not only in expanding its market share in the base station field, but also in capturing new areas with high added value. In the area of local 5G, which has high market potential, we have accelerated the field trials of utilization models mainly in the areas of work-style innovation and community development, where we have competitive advantages. In terms of human resources, we have established the Basic Technology Center and the 5G Lab, and are using them to develop personnel in the 5G area.



Progress on Growth Strategy: Strengthen Business Capabilities

NESIC has made progress in strengthening its business capabilities in terms of both cost efficiency and added value. The reorganization implemented in April 2019 has been effective in strengthening business execution capabilities and streamlining resources, and the use of digital technologies is contributing to productivity improvements in the work-style innovation that we are implementing. In addition, our co-creation and self-implementation have not only led to the creation of high-value-added services, but also to the strengthening of consulting capabilities through the use of the know-how gained from these efforts. For example, based on the results of their own trial and error, our staff members provide consulting services on how to improve the efficiency of staff work, which is an issue for many customers, and this has generated a high level of empathy among customers. Our unique approach of co-creation and implementation has greatly contributed to strengthening our business capabilities.



Financial and Capital Strategy



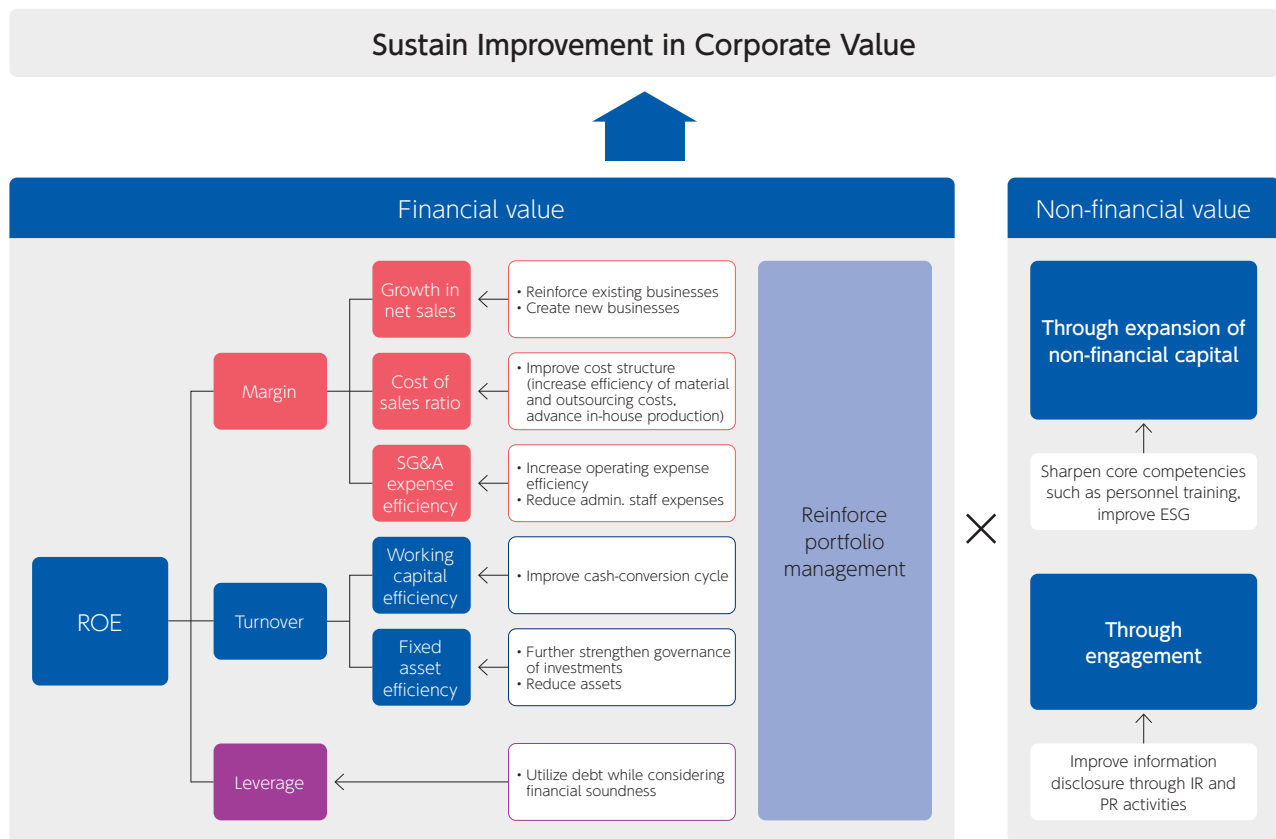
NESIC aims to achieve sustainability management through the organic integration of financial value, non-financial value / ESG.

Hiroyuki Sekizawa
Senior Vice President and Member of the Board

Approach to Sustainable Shareholder Value / Corporate Value Enhancement

In order to achieve sustainable growth, NESIC believes in the importance of integrating “maximizing financial value,” such as sales and profit growth and capital efficiency, with “strengthening non-financial value,” focusing on materiality, which consists of initiatives to provide value to society and initiatives for growth at NESIC. We are

reinforcing our efforts based on the idea that a virtuous cycle of corporate value expansion, from non-financial to financial, and then back to non-financial enhancement, as well as the correct recognition of this by our stakeholders, will lead to the sustainable enhancement of corporate value and shareholder value.



×

Progress on Maximizing Financial Value Focused on Improving ROE

NESIC has positioned ROE as a key performance indicator (KPI) for the objective of increasing shareholder value while constantly realizing and expanding returns in excess of the cost of capital. To integrate this ROE benchmark in actual business activities, we are developing measures to increase the profit margin on sales and asset efficiency, which are components of ROE, in our business divisions and implementing the PDCA cycle. In order to consistently increase ROE and expand profits, a key task for management is to constantly optimize the business portfolio with an eye on capital efficiency.

In the fiscal year ended March 31, 2021, orders received, net sales, and all profit items significantly surpassed the previous year's record high performance, thanks to the expansion of our focus areas such as DX services and infrastructure development for telecom carriers, the proactive response to the GIGA School Program, where investments were concentrated, as well as significant progress in strengthening business capabilities and a decrease in loss reserves for unprofitable projects. ROE improved significantly from 8.8% to 13.5%, achieving all the Company's financial targets in the medium-term management plan one year ahead of schedule.

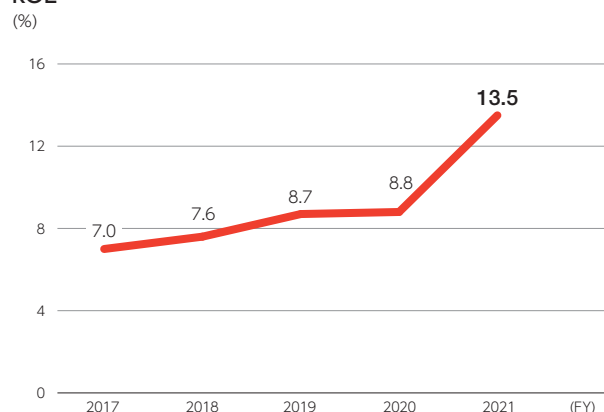
In particular, the profit margin on sales is showing results in terms of both cost efficiency and the added value of the services provided, which is making a significant contribution to the improvement of ROE. In terms of cost efficiency, the organizational reform led to increased efficiency of fixed costs through the flexible use of resources, improved the quality of projects by promoting of the cross-deployment of knowledge, and reduced additional costs.

At the same time, as a part of measures to prevent the spread of COVID-19, the Company accelerated investment in work-style and business process reforms, including the use of DX technology to improve the efficiency of work and communication and the digital signatures, which we have been working on for some time, in order to improve productivity throughout the Company, from the front line to the staff. As an effort to increase added value, we have succeeded in introducing competitive services through co-creation with cloud vendors and startups. We are strengthening our proposal capabilities and adding value by optimally combining these services to address various issues through self-implementation and co-creation practices with customers and partners.

In the staffing divisions, we have moved forward with new ways of working during/after the pandemic, going through investments and the trial-and-error process of deployments. By sharing issues and solutions with

customers, NESIC has gained recognition as a strategic partner, which has begun to contribute to new orders and improving profitability (→ P42-43). As a result of these initiatives, the gross profit margin improved by 1.0 percentage points year on year, and the operating margin rose a solid 2.1 percentage points to 7.5%, far exceeding the 6.5% target outlined in the medium-term management plan.

ROE



In the fiscal year ending March 31, 2022, the Company expects orders and net sales to decline in a snapback from GIGA school-related demand. However, we aim to sustain growth in profits by further increasing profitability through improvements in the sales mix and value added, driven by growth in priority fields of DX / work-style innovation and 5G / telecommunications infrastructure.

With the aim of improving asset efficiency, NESIC is keen to improve the cash conversion cycle (CCC) in a bid to increase the efficiency of working capital. The Company worked to strengthen systems and structures, such as adding CCC improvement activities to internal performance evaluations, while seeking out early returns by concentrating activities on problematic areas and cross-deploying know-how gained through these efforts. In order to consistently show results, it is imperative that each and every employee on the front lines engage in activities without holding back. For this reason, we also promoted understanding of CCC through educational activities and the publication of five comics in the current fiscal year that can be easily learned using Slack. As a result of these initiatives, CCC was 88 days in the fiscal year ended March 31, 2021, an improvement of five days compared with the previous fiscal year. The Company's cash flow tends to fluctuate considerably depending on the timing of payments and receipts for large projects.

Financial and Capital Strategy

NESIC is making concerted efforts to smooth out these fluctuations by strengthening CCC initiatives and expanding its service-oriented business model, which will reduce variability in sales and receipts. While aggressively investing in businesses for the Digital x 5G era, NESIC is also strengthening its criteria for investment decisions and evaluating progress after investments are made.

To optimize the business portfolio, we have set a hurdle rate that takes into account the weighted average cost of capital (WACC) and the current ROE, and analyzing and evaluating each business from the perspective of return on invested capital (ROIC) and growth potential. For those businesses where issues are identified, we are taking measures such as drastically reviewing the organizational functions of the business units. NESIC started out in the construction and installation of large-scale telecommunications infrastructure, which has already become legacy systems. Since then, the Company has grown by changing and expanding business domains in tune with the times, including the DX and 5G fields, a central focus today. NESIC aims to optimize its business portfolio by constantly analyzing and fixing issues, with the aim of rapidly making decisions that lead to sustained growth even in a business environment where the pace of change is accelerating.

NESIC has the responsibility to always provide highly reliable services, starting with the construction of public infrastructure for national and local governments, as well as for telecom carriers, and this requires a sound financial foundation. To prepare for sudden requirements for funds, our basic policy is to keep cash on hand that is equivalent to about two months of net sales. We maintained this level by expanding profits while investing for growth in the fiscal year ended March 31, 2021. If the need for funds arises, such as for a major investment, the Company prioritizes the use of loans to the extent that financial soundness is not eroded, while considering shareholder value, in addition to the use of cash equivalents in amounts that exceed two months of net sales.

Cash Conversion Cycle

(day)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Improvement
CCC	93	88	5
Accounts receivable turnover (days)	129	126	3
Inventory turnover (days)	16	12	4
Trade payables turnover (days)	52	50	-2

Progress in Efforts to Enhance Non-Financial Value / ESG Management, Centered on Materiality Issues

The importance of non-financial value and environment, social, and governance (ESG) has increased in recent years. By taking the perspective of solving social issues, NESIC will be able to not only expand its businesses with value-added solutions, but also motivate its employees and create a sense of unity in the organization, which will lead to stronger competitive advantages and enable the Company to achieve sustainable management that grows in tune with society. The pandemic has made me even more convinced of these ideas. We believe increasing non-financial value and strengthening ESG will reduce future risk for the Company and society as a whole, and lead to greater corporate value through business expansion and lower cost of capital.

NESIC's long-term vision for society is "An inclusive and sustainable society created through communications," and has identified materiality issues for 2030 (→ P18-19). The Company is proactively reinforcing technological capabilities and training personnel that support innovation and promoting the well-being, health, and I&D of its employees, while creating solutions for social needs and expanding businesses. In light of the demands of capital markets regarding the environment and against the backdrop of climate change approaching crisis proportions, NESIC is reviewing its priorities again with the aim of reducing not only its own environmental footprint, but also those of its partners, across the entire supply chain,

from procurement to logistics, construction / SI and maintenance. Furthermore, NESIC is proactively contributing through the creation of solutions that help its customers solve environmental problems. In this way, we intend to promote comprehensive climate change measures in line with TCFD recommendations and enhance disclosure (→ P50-51).

NESIC believes that strengthening its non-financial value and ESG from a materiality issue standpoint will lead to growth in net sales and higher ROE as a driver of business expansion. If we do not properly disclose these changes, however, NESIC will not be able to accurately convey its achievements to stakeholders, including shareholders and investors. While deliberating over the next medium-term management plan, NESIC intends to disclose non-financial KPIs for improving engagement with stakeholders. In terms of engagement, we conducted proactive IR activities and met with nearly 1.5 times as many investors and analysts as in the previous fiscal year, and I also had discussions with many investors. I myself have made it a point to have conversations with more investors (→ P55). We will continue to strive to enhance our corporate value by strengthening constructive dialogue and information dissemination with our shareholders, investors, and other stakeholders in an integrated financial and non-financial manner.

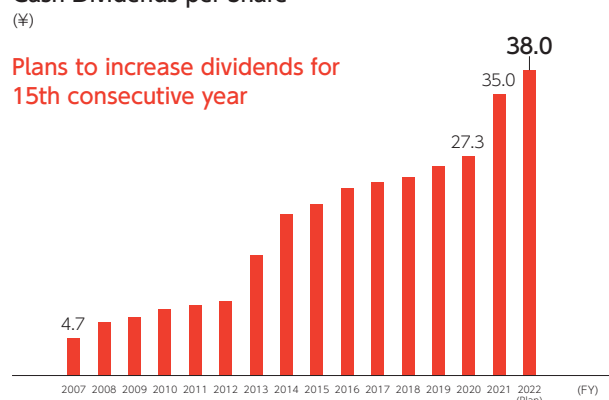
Shareholder Returns

While securing funds for investment in growth based on a sound financial base and comprehensively taking into account consolidated business performance, free cash flow, and shareholders' expectations, NESIC will continue to pay stable dividends to our shareholders who support us over the long term by emphasizing the dividend on equity (DOE) as a dividend indicator rather than the dividend payout ratio, which is dependent on short-term business performance.

In the fiscal year ended March 31, 2021, NESIC has raised the DOE, which we use as a reference index, from 3.8% to 4.5%, taking into account the fact that we have strengthened our business capabilities and raised our profit level. As a result, the annual dividend for the fiscal year ended March 31, 2021, increased to ¥35 per share. For the fiscal year ending March 31, 2022, we plan to raise the dividend for the 15th consecutive year to ¥38 per share. Decisions on share buybacks will be made based on a comprehensive review of investment in growth and share price, as well as the cost of capital and expansion of shareholder value.

In terms of shareholder return, NESIC believes it is important to increase total shareholder return (TSR), and we are paying close attention to it. TSR is currently improving significantly, but the Company will continue to work towards continuous improvement by further enhancing financial and non-financial value and strengthening engagement.

Cash Dividends per Share*

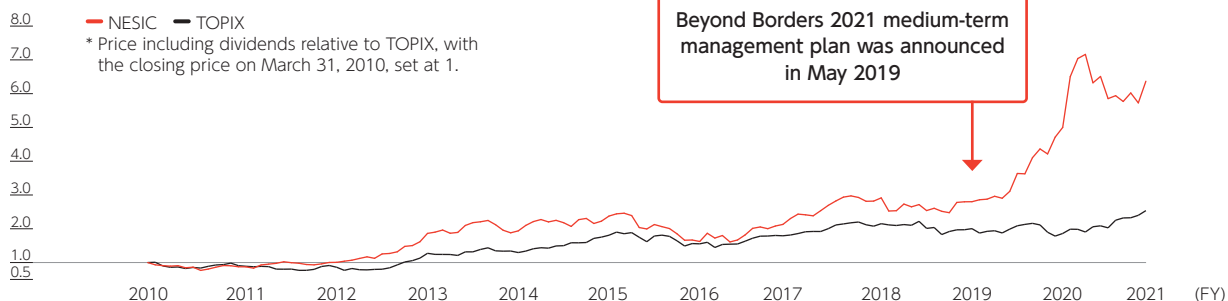


* Figures prior to the fiscal year ended March 31, 2020, have been adjusted to reflect the three-to-one stock split on June 1, 2020.

* Estimates as of April 27, 2021.

Total Shareholder Return (TSR)

(Times)



* Total shareholder return (TSR): Total shareholder return, including capital gains and dividends

* Method for calculating TSR: NESIC: Cumulative dividends paid and changes in share price; TOPIX: Calculation by share price index with dividends (prepared by NESIC based on Bloomberg data)

Outside Evaluations



JPX-Nikkei 400



SNAM Sustainability Index



Certified Health and Productivity Management Organization 2021



Top Hundred Telework Pioneers



"Platinum Kurumin" certification mark



Highest-grade "Eruboshi" certification



SUSTAINA ESG AWARDS 2021 GOLD CLASS Overall Category



SUSTAINA ESG AWARDS 2021 SILVER Industries

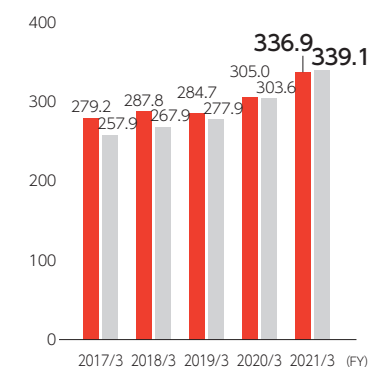
Financial & Non-Financial Highlights

Financial Data

Orders Received / Net Sales

In addition to the expansion of DX-related and telecom businesses, the GIGA school projects contributed to record highs in both orders and sales.

(¥ billion)

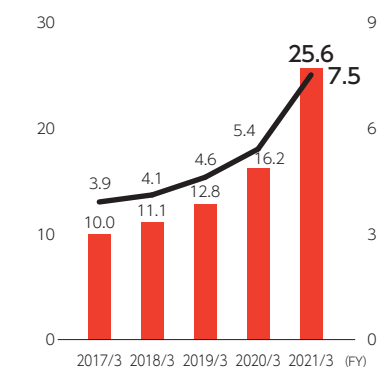


■ Orders received ■ Net sales

Operating Income / Operating Margin

In addition to the increase in sales, we achieved record income and a significant improvement in operating margin due to improved business capabilities in terms of both cost efficiency and added value in our businesses.

(¥ billion / %)

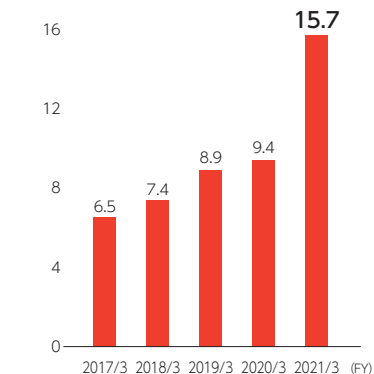


■ Operating income (left)
— Operating margin (right)

Net Income Attributable to Owners of the Parent

In addition to the increase in operating income, net income attributable to owners of the parent also reached a new record high due to a decrease in extraordinary losses such as impairment losses associated with the closure of a training center.

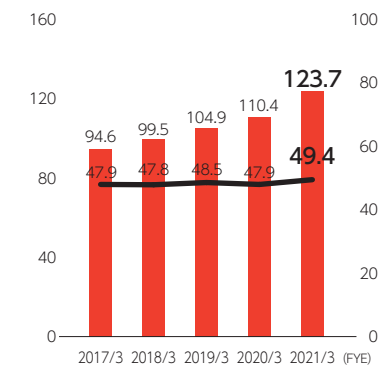
(¥ billion)



Owner's Equity / Owner's Equity Ratio

With an owner's equity ratio of 49.4%, we will maintain a solid financial base as a company that supports the infrastructure of society.

(¥ billion / %)

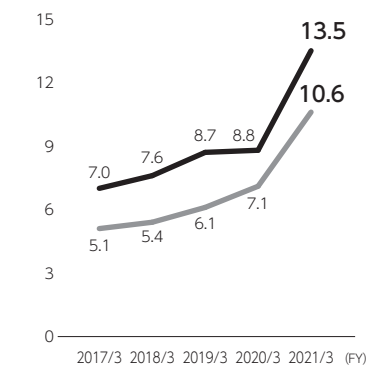


■ Owner's equity (left)
— Owner's equity ratio (right)

ROE / ROA

As a result of the improvement in profitability and working capital efficiency through the strengthening of business capabilities, capital efficiency has improved, with ROE exceeding the medium-term management plan target of 10%.

(%)

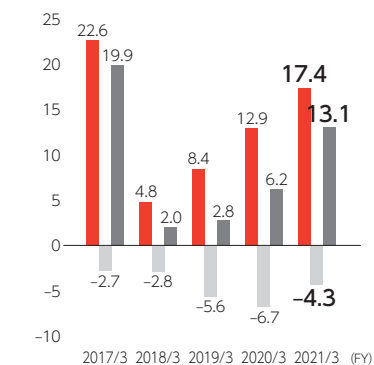


— ROE
— ROA

Net Cash Provided

Free cash flows increased mainly due to increased profits. We are also focusing on improving working capital efficiency to reduce fluctuations caused by large projects.

(¥ billion)

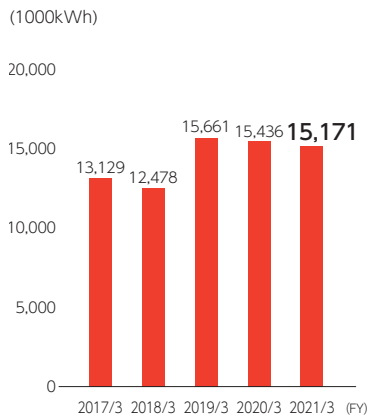


■ Net cash provided by (used in) operating activities
■ Net cash provided by (used in) investing activities
■ Free cash flows

Non-Financial Data [Non-consolidated]

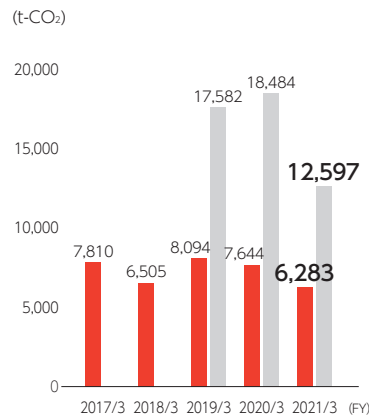
Power Consumption

We are conscious of the need to protect the global environment and are working to reduce our power consumption.



Greenhouse Gas Emissions

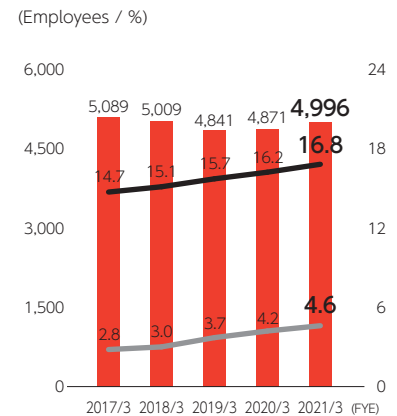
We are working to reduce greenhouse gas emissions in order to contribute to the realization of a low-carbon society.



■ Scope 1+2 ■ Scope 3*
* Scope 3: Figures for categories 4, 6, and 7; only data for the fiscal year ended March 31, 2019 and beyond are disclosed.

Number of Employees / Ratio of Women / Ratio of Women in Management Positions

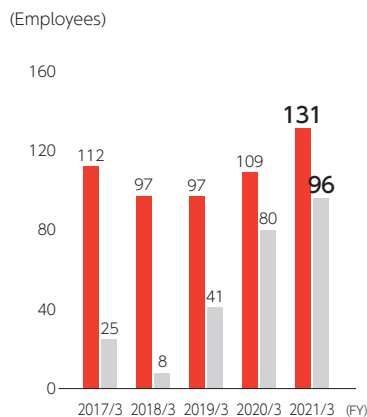
The ratio of women employees and managers is on the rise, and the field of women activities is expanding.



■ Number of employees (left) — Ratio of women (right)
— Ratio of women in management positions (right)

Number of New Graduate Hires / Number of Mid-Career Hires

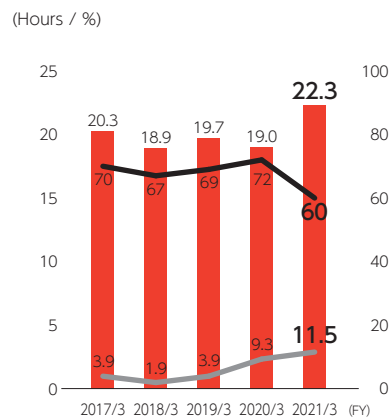
Both the number of new graduates and experienced workers hired has increased, and a diverse range of human resources are working across generations.



■ Number of new graduate hires
■ Number of mid-career hires

Average Monthly Overtime (Per Employee) / Ratio of Paid Leave Per Person / Ratio of Male Employees Taking Paternity Leave

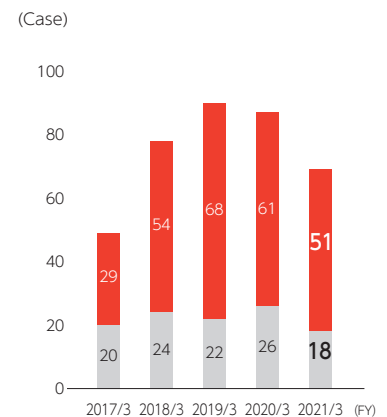
We are striving to realize efficient and effective work styles to improve work-life balance.



■ Average monthly overtime (per employee) (left)
— Ratio of paid leave per person (right)
— Ratio of male employees taking paternity leave (right)

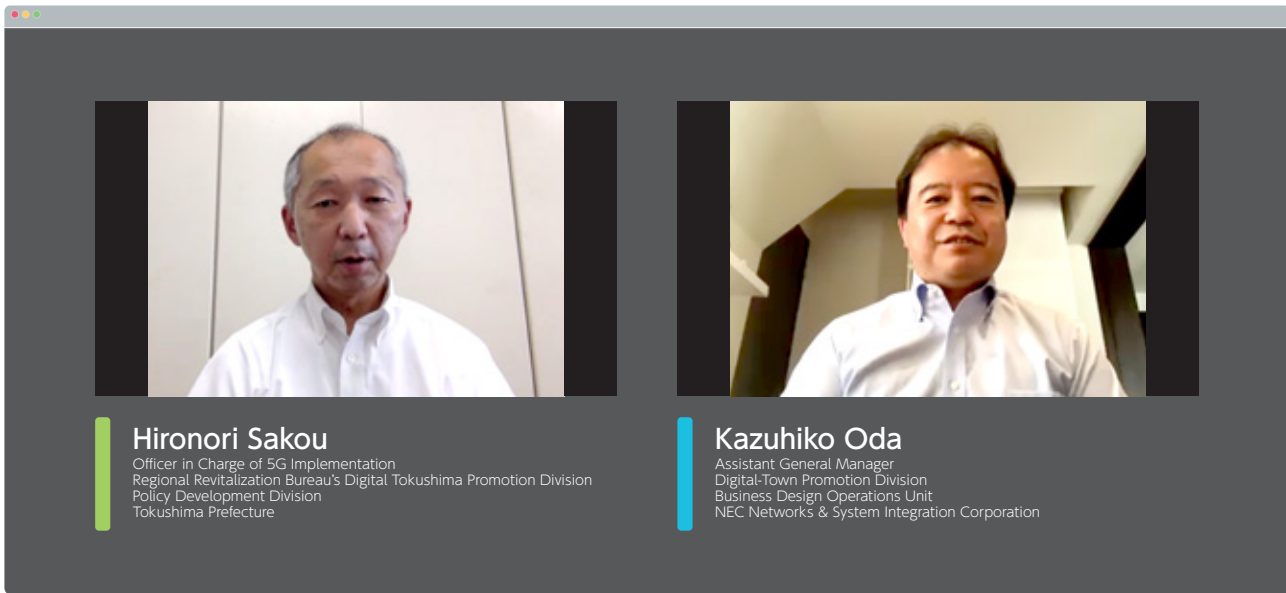
Number of Grievance Reporting (Sexual Harassment and Human Relations / Corporate Ethics)

We have set up hotlines for sexual harassment, human relations, and corporate ethics, in an effort to ensure transparency and sound management.



■ Sexual harassment and human relations
■ Corporate ethics

Resolving Social Issues through Local 5G



Through co-creation with partners, NESIC is working to deliver greater value in the areas of work-style innovation and community development. In Tokushima Prefecture, a local 5G Sub 6 band (4.7 GHz band) system has been established through a collective effort with CATV TOKUSHIMA, Inc., the first such system to be developed by a local government in Japan. Based on “Tokushima 5G Revolution,” local 5G is being utilized in the business activities of the Tokushima Prefectural Government Office as well as in the healthcare, disaster-prevention, and agricultural fields. In this special feature, we will discuss NESIC’s co-creation initiatives with Tokushima Prefecture for resolving the issues of its region.

Development of the First Major Local 5G Infrastructure in Japan by a Local Government

Mr. Sakou ■ In 2002, Tokushima Prefecture set out to establish optical fiber networks based on its declaration of the prefecture-wide CATV Network Scheme and has since developed one of the finest optical fiber networks in Japan. With the aim of resolving such issues as the declining birthrate, aging population, and large-scale natural disasters, we are integrating new technology in the form of 5G and the network

infrastructure that has been widely adopted throughout our prefecture in an effort to proceed further ahead with the Tokushima 5G Revolution. In terms of establishing a local 5G environment within Tokushima Prefecture, NESIC has appropriately taken the lead in developing networks, selecting the appropriate devices in line with the situation, and carefully establishing the necessary systems, and I sincerely appreciate that.

Oda ■ That is great to hear. I am truly honored to be able to contribute to the development of a local 5G

environment that is unprecedented in scale for a local government. In order to implement local 5G throughout society, it is imperative that comprehensive and continuous support is provided for a range of areas, from acquiring 5G licenses through to establishing the infrastructure, developing and testing devices, and ensuring their operation and maintenance, through a proper understanding of federal rules and regulations and the particular circumstances of each government body. Through the recognition of our wealth of experience and know-how in such areas, I hope



We will strive to resolve the issues of our region by continuing to expand our use of local 5G and pushing forward with the Tokushima 5G Revolution.

Mr. Sakou



NESIC has been able to earn the acknowledgment of Tokushima Prefecture as a partner alongside CATV TOKUSHIMA.

Approach to Resolving Regional Issues

Mr. Sakou ■ With local 5G base stations already established in 10 locations within our prefecture (as of August 2021), we will turn our attention to gradually putting them into action so that we can begin addressing the issues of our region. Among such regional issues we have high hopes for is the medical field. Telemedicine, which makes use of local 5G, has been gaining recognition in recent years. This is due to the uneven distribution of medical resources to local regions, which is becoming a serious issue. We will funnel our efforts into seeking solutions to this issue and do whatever we can to ensure that the residents of these regions, including remote areas, are able to receive equal medical treatment. In addition, the establishment of a connected medical environment, such as for the sharing of medical data between hospitals, through the use of local 5G, must be placed at the top of our agenda from the viewpoint of preparing for large-scale natural disasters.

Oda ■ When we first heard about Tokushima Prefecture's intentions for the establishment and use of local 5G, this system was just starting to make its mark and topics that looked ahead to the future, such as telemedicine and automated driving, were often taking precedence in discussions. Because of that, we first took note of



We look forward with great anticipation to NESIC's continuous support as we look to implement local 5G in a variety of settings.

Mr. Sakou



what Tokushima Prefecture wanted to accomplish and the issues that it was trying to address, which informed our approach to resolving these issues. By teaming up with CATV TOKUSHIMA and conducting a series of tests on local 5G, we explored methods for the effective use of local 5G in a variety of fields through co-creation.

Mr. Sakou ■ There are a number of other issues we must address as well. If we look at disaster prevention for instance, the abnormal weather in recent years has triggered the occurrence of numerous floods. While we moved quickly to install river monitoring cameras connected to local 5G, I believe we will see a growing need for disaster prevention systems that make use of drones in the years ahead. Moreover, we would like to establish an infrastructure that supports the lifestyles of residents through reliance on 5G environments, such as the promotion of smart agriculture, which makes use of AI and drones in the agricultural, forestry, and fishery sectors, as well as the automation of production lines in the manufacturing sector.

Oda ■ While 5G and local 5G are generating exposure for such technological features as high speed and large capacity, ultra-low latency, and concurrent connections, we must first ensure the reliability and stability of their operations if they are to become firmly established as an infrastructure that supports the lifestyles of residents, as you just mentioned. We look forward to continuing to contribute to the growth of Tokushima Prefecture on the back of our long-cultivated ability to develop highly reliable network infrastructures.

Direction Going Forward

Mr. Sakou ■ As the local 5G environment takes shape in Tokushima Prefecture, our focus next year will be on implementing it in more specific settings. To that end, it is essential to develop content that meets the needs of each municipality in the prefecture. I look forward with great anticipation to NESIC's continuous support in this regard.

Oda ■ We will gladly continue to help promote Tokushima 5G Revolution through the concerted efforts of our entire organization. In conjunction, we will draw on the establishment of the local 5G Sub 6 band system in Tokushima Prefecture as a model case for rollouts to other local governments as well as to "Develop pleasant and plentiful communities with cutting-edge technologies" and "Provide robust services that underpin safety and security in evolving society," two of NESIC's key materiality initiatives. On behalf of NESIC, I would like to thank you for your time today.



Through "co-creation," we will verify effective ways to use local 5G and help it become a fundamental part of people's lives.

Oda



Banding Together as an Organization to Help Resolve the Issues of



At NESIC, the members of our staffing division along with representatives from the sales and business operations units visit and help address the issues of our clients by drawing on their self-implementation experiences. In this section, we will discuss NESIC's collective efforts for co-creation with Sumitomo Wiring Systems, Ltd. toward the digitalization of its operations and renewal of its office environment.

Delivering Unique Value through Self-Implementation

Mr. Kobayashi ■ Our relationship with NESIC has been inseparable thanks to its multifaceted support over the years in the development of ICT infrastructure, ranging from the adoption of the telephone exchange to the



implementation of teleconferencing systems, as well as solutions integrating telephones and such telecommunications infrastructure. This time, with the goal of digitalizing the operations of our entire organization, we at the IT Management Division took the lead by engaging in trial experiments with the support of NESIC in identifying issues and devising solutions to such issues.

Mr. Yada ■ From a nontangible aspect, we were able to develop a system for completing paperless contract agreements with business partners through the adoption of the DocuSign digital signature system. This has eliminated the need to come to the office simply

for the sake of a signature and is a tremendous step on our road to work-style innovation.



Mr. Nakayama ■ We are truly encouraged by NESIC's ability to respond flexibly and immediately to our issues, which it strives to resolve in earnest at all times in light of the rapid changes

Our Clients



Taiyo Watanabe

Manager
Staff Innovation Promotion Division
NEC Networks & System
Integration Corporation

taking place in society due to such factors as the COVID-19 pandemic.

Watanabe ■ I am delighted to hear that. We are glad that you identified with our approach to work-style innovation and to be able to help your company go paperless and renew your office environment. Although I am a member of the Staff Innovation Promotion Division, one of the staffing divisions within NESIC, I was fully inspired to work together with the members of the sales units and Sumitomo Wiring Systems, Ltd. in keeping with our policy of banding together as an organization to address the needs of our clients. In order to digitalize operations, there were hurdles to overcome in the form of establishing internal rules and adopting a digital signature system. However, we worked to alleviate such burden by sharing the issues we uncovered through our self-implementation.

Mr. Yada ■ During the implementation process, the fact that we were able to directly consult with NESIC's staff, who have actually partaken in legal compliance, the setting of internal rules, and the establishment of operations, allowed us to consider taking specific measures that were based on facts and experience.

Mr. Nakayama ■ When I was able to visit and get a first-hand look at NESIC's headquarters, what I saw was an office that was highly functional, conducive to open communication, and tailored to the next generation.



From a tangible point of view, the ideas we receive from NESIC on ways to improve our office environment based on its track record and experience are very detailed and highly reliable, including for office solutions to telework-related issues.

Watanabe ■ Our strength as a company is exactly what you just mentioned, the ability to share the know-how we have accumulated through self-implementation with our clients. We at the staffing divisions in particular share not only the merits of our self-implementation results but also the drawbacks and challenges that came to light. In this manner, we strive to provide solutions from the perspective of the user, which I believe is a value unique to NESIC.

Embracing Co-Creation toward Further Growth

Mr. Kobayashi ■ Sumitomo Wiring Systems celebrated the 100th anniversary of its founding in 2017 and is embarking on its journey toward the next 100 years. In order to grow our company even further in the years ahead, we at the IT Management

Division will be counted on to play a more significant role than ever with emphasis on DX. An important mission to fulfill going forward is the promotion of "offensive IT," entailing the active proposal of solutions toward improving operating efficiency and other matters through the use of digital technology, in place of the conventional "defensive IT," which caters to the needs of the business divisions, as well as the establishment of a robust business foundation that underpins global business growth.

Mr. Yada ■ At Sumitomo Wiring Systems, we are committed to resolving the issues of society through our business activities in accordance with our eight priorities for corporate social responsibility (CSR) activities. Having said that, it is important that each member of our organization continues to contribute to social issues in their respective ways through their business activities without taking on overwhelming challenges from the get-go. The work-style innovation initiatives we are promoting with NESIC will certainly contribute to the realization of the SDGs.

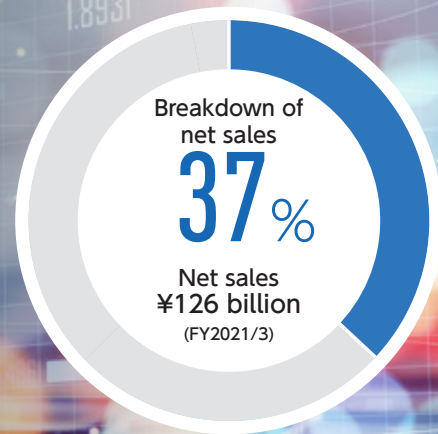
Watanabe ■ As a member of the corporate staff, I believe we can provide value to society by taking the initiative in ambitiously pursuing new styles of working on our own and sharing the outcomes with those outside our organization. By moving quickly to uncover issues that have yet to be identified by Sumitomo Wireless Systems and being the first to offer solutions to such issues, I hope we can contribute to developing the foundation necessary for its next 100 years. On behalf of NESIC, I would like to thank everyone for their time today.



Digital Solutions Business

Business Overview

The Digital Solutions Business offers systems and services for ICT, such as corporate networks and IT, that are essential for business. Using cutting-edge digital technologies, such as AI, the IoT, and robotic process automation (RPA), NESIC proposes work styles that lead to higher productivity and the evolution of businesses, as well as work styles that allow employees to work anywhere and anytime. We support diverse, advanced, and new normal ways of working in response to social issues, such as balancing childcare or nursing care while working to the best of their ability, in addition to addressing the social issue of preventing the spread of COVID-19 and other infectious diseases.



Seiji Shiga

Senior Vice President
Executive General Manager,
Digital Solutions Business Unit

Opportunities / Threats

- Expanding demand for DX and the work-style innovation for “With/after-Covid-19.”
- Shifting needs from product SI to a service-provision model that utilizes cloud services

Strengths / Feature

- Extensive customer base and track record cultivated through premises-based switching systems (PBX) and network systems
- Capabilities to apply the high level of technology and service infrastructure required to the NEC Group, to systems and services on a multi-vendor basis
- Know-how cultivated through Companywide self-implementation related to DX and work-style innovation

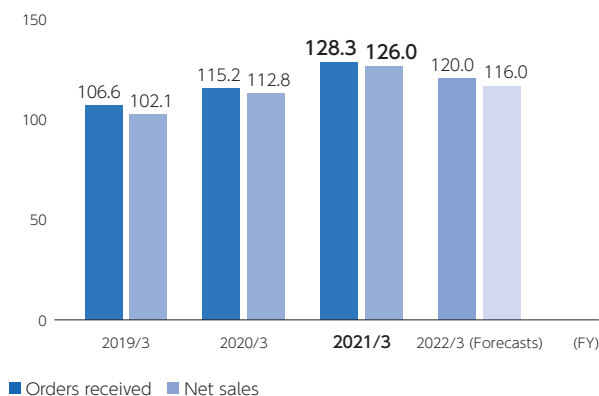
Review of Fiscal Year Ended March 31, 2021

In the fiscal year ended March 31, 2021, the Digital Solutions Business made clear progress in strengthening the DX domain. Net sales rose by 12% year on year to ¥126.0 billion, despite a decrease in demand for replacement of less urgent ICT equipment due to the impact of the COVID-19 pandemic. The main reasons for this increase were the expansion of the demand for Internet environment enhancement and DX / work-style innovation against the backdrop of the spread of telework, as well as the inclusion of GIGA

school demand at a consolidated subsidiary. Operating income increased by ¥2.1 billion from the previous fiscal year to ¥13.8 billion due to increased sales and cost reductions through SI process improvements. The operating margin also improved by 0.6 percentage points due to growth in the highly profitable services business and the expansion of the DX domain centered on cloud computing services, such as Zoom and Box, the core of our work-style innovation services.

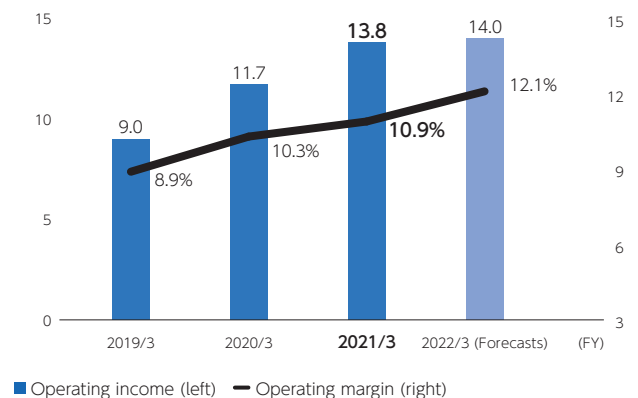
Orders Received / Net Sales

(¥ billion)



Operating Income / Operating Margin

(¥ billion / %)



* Forecasts are as of April 27, 2021.

Initiatives for Fiscal Year Ending March 31, 2022

In the fiscal year ending March 31, 2022, we expect net sales to decline because of the absence of sales from the GIGA School Program in the previous fiscal year of nearly ¥15 billion, but we aim to increase profits by expanding more profitable DX and work-style innovation businesses and BPO business operated by ICT. Utilizing the know-how we have accumulated through our self-implementation and co-creation implementation in the area of work-style innovation, we aim to strengthen consultation capabilities with the strength of

our on-site capabilities and expand high value-added services that contribute to the enhancement of customers' business value. Through these efforts, we will establish our position as a partner that earns empathy and the trust of our customers, and expand our businesses by building a "recurring" relationship not only in the area of work-style innovation, but also in a variety of other businesses such as ICT infrastructure renewal and proposals for security measures.

For the Future

Currently, there is a trend toward cloud computing in the IT field. In anticipation of this trend, we have been working to shift to a solution service delivery model that utilizes DX technology.

These efforts have led to the capture of demand related to the new normal work style, which has rapidly expanded in the wake of COVID-19 pandemic. At the same time, expectations for the social value created by NESIC are increasing further.

We have been serving many customers for a long time with our SI capability to comprehensively optimize the

technology, cost, and quality of ICT infrastructure. Based on this capability, we will expand high value-added services such as a multi-cloud service, which is one of our new strengths, consultation that utilizes our self-implementation and on-site support, offerings for the optimization of ICT facilities through AI analysis of various operational information data, and business process improvement that strengthens customers' businesses. We will continue to strengthen our relationship as a trusted partner to our customers and work to solve more social issues.

Network Infrastructures Business

Business Overview

The Network Infrastructures Business builds systems and provides services for public use network infrastructure, which requires the latest technology and high reliability, including networks for telecom carriers and ICT infrastructure that supports society, such as national and local governments, as well as broadcasters. We contribute to providing safe and comfortable daily lives.



Kazuhiko Takeuchi

Senior Vice President and Member of the Board
Executive General Manager,
Network Infrastructures Business Unit

Opportunities / Threats

- Ongoing investment to expand 5G area
- Breaking free from vendor lock-in through openness and virtualization
- Accelerating the development of social infrastructure to realize Society 5.0 and Super Cities

Strengths / Feature

- Multivendor SI capabilities that leverage the NEC Group's overwhelming communications technological capabilities
- Wide range of wireless technologies from Wi-Fi to satellite communications
- A broad customer base in social infrastructure and ability to understand customers' operations acquired through many years of maintenance and operation

Review of Fiscal Year Ended March 31, 2021

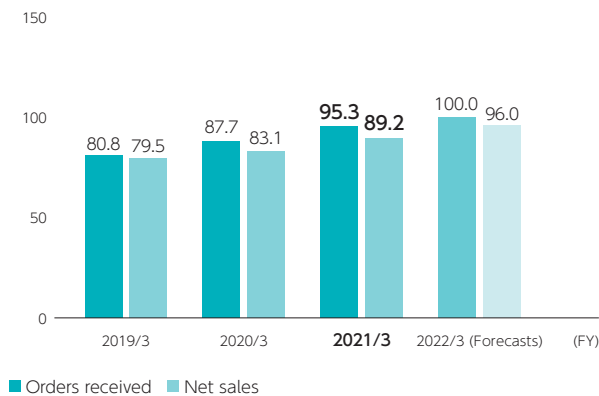
In the fiscal year ended March 31, 2021, we were able to deliver results in terms of both business growth, mainly for telecommunications carriers, and the preparation for future business opportunities. For telecom carriers, business expanded steadily as we built trusting relationships with a new carrier by leveraging such accumulated assets as technological know-how. At KNSI*, in addition to expanding the base station construction business, we were able to expand our businesses into new areas by being entrusted with high

value-added operations based on our achievements and strengthened relationships. Operating income also increased and profitability improved, despite increased investment in growth such as the establishment of a new 5G Lab and human resource development, due to the expansion of high value-added businesses and sales growth with a muscular profit structure.

* KNSI: K&N System Integrations, Inc., a joint venture with KDDI Corporation

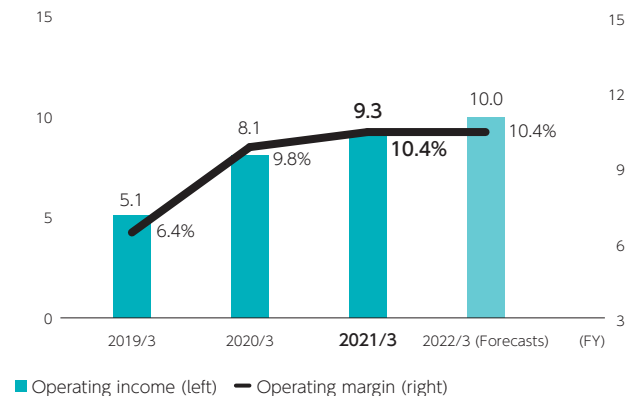
Orders Received / Net Sales

(¥ billion)



Operating Income / Operating Margin

(¥ billion / %)



* Forecasts are as of April 27, 2021.

Initiatives for Fiscal Year Ending March 31, 2022

In the fiscal year ending March 31, 2022, we expect the business environment to remain strong in both the telecom carrier and social / public infrastructure sectors, even as the COVID-19 pandemic continues. We aim to maintain our growth trend by expanding our business based on the results of strengthening ties with telecom carriers in the previous fiscal year, strengthening our efforts in the 5G business including local 5G, and proactively responding to demand for

social infrastructure development such as the conversion of CATV to fiber-to-the-home (FTTH) to eliminate the digital divide. The current medium-term business plan is positioned as a preparation period for the future, and we will continue to invest aggressively in 5G and DX human resource development, but we will also aim for sustainable profit growth by expanding sales while maintaining profitability.

For the Future

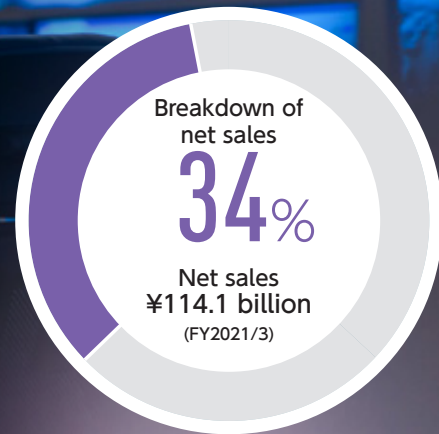
The Network Infrastructures Business is engaged in a wide range of highly public businesses, including networks for telecom carriers and fire-fighting and disaster prevention systems, and is in contact with many social issues, such as community development and the realization of a safe and secure society. We are aiming to expand businesses by leveraging our ability to solve these social and customer issues. To achieve this, it is essential to create new customer value. By combining our advanced technological capabilities in the

telecommunications infrastructure field and customer business know-how with the Companywide DX platform, we will create DX services and promote the servitization of existing businesses. We will also make preparations for the 5G field, including local 5G, to seize future business opportunities and take on the challenge of new businesses that solve social issues through Digital x 5G, a combination of DX and 5G, to achieve sustainable growth in both society and businesses.

Engineering & Support Services Business

Business Overview

The Engineering & Support Services Business provides maintenance, operating and monitoring, outsourcing, and other support services as well as construction for our ICT systems and services. Our overseas business, which centers on the construction of ICT infrastructure, and our regional businesses in East and West Japan are also included in this business. To protect social and public infrastructure, NESIC has built a 24/7 full-service structure able to respond within a couple of hours anywhere in Japan, including operation centers that take an integrated approach to network management and security monitoring, and comprehensive technical centers in charge of logistics and technical services. In this way, we support the provision of social value throughout the Company.



Hiroshi Nagao

Senior Vice President
Executive General Manager,
Engineering & Support Services Business Unit

Opportunities / Threats

- Increasing investment in ICT for the realization of a green society, digitalization in local governments, and disaster prevention and mitigation
- Shrinkage of legacy system maintenance due to shift from product SI business to cloud services

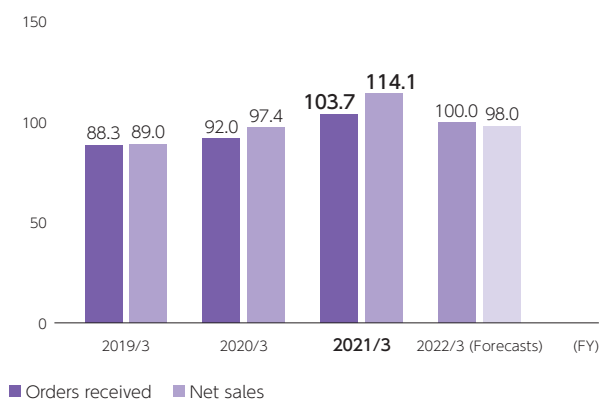
Strengths / Feature

- A nationwide support service system that can handle everything from enterprise to mission-critical telecommunications infrastructure
- Our 24/7 full-service structure
- Nationwide response within two hours by approximately 400 locations
- Japan's leading nationwide construction resource

Review of Fiscal Year Ended March 31, 2021

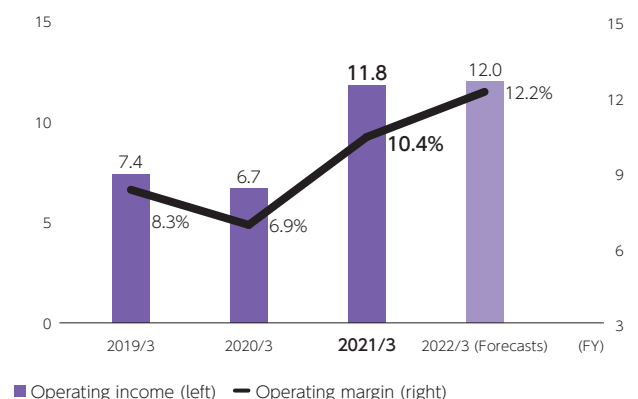
In the fiscal year ended March 31, 2021, the Engineering & Support Services Business saw significant growth in both sales and profits, due in part to temporary demand related to the GIGA school projects. Net sales increased substantially despite the impact of the COVID-19 pandemic, which caused some customers to halt their investments. The reasons for this increase are the proactive response to the GIGA School Program concentrated in the current fiscal year.

Orders Received / Net Sales (¥ billion)



In addition to the increase in net sales, operating income increased by a provision for losses on unprofitable projects of approximately ¥1 billion, an improvement of approximately ¥3 billion from the previous fiscal year. The remaining unprofitable loss related to the construction projects for mega-solar power plants remained as an issue. However, the construction work has made significant progress and we are accelerating our efforts to complete the projects.

Operating Income / Operating Margin (¥ billion / %)



* Forecasts are as of April 27, 2021.

Initiatives for Fiscal Year Ending March 31, 2022

For the fiscal year ending March 31, 2022, net sales are expected to decrease due to absence of approximately ¥25 billion from temporary demand related to the GIGA School Program and mega-solar projects in the previous fiscal year. However, we believe that we will be able to recover to some extent by taking in projects that were halted in the previous fiscal year and by reallocating resources that were concentrated on GIGA schools to local public projects. In terms of

operating income, as in the case of net sales, there will be a reaction to the GIGA School Program. However, since this business has a high equipment sales ratio and was less profitable than other businesses, we aim to secure profits higher than in the previous fiscal year by expanding sales in other areas and improving the sales mix through the completion of the mega-solar projects.

For the Future

The Engineering & Support Services Business is a business that supports the entire company by consolidating construction resources in addition to a nationwide support service base. Our main goal is to improve profitability by efficiently deploying construction resources that have been concentrated in this segment, and by improving project quality and working to imbue multiple skills in our employees. The results of these efforts contributed to the improvement in profitability in the previous fiscal year. We will utilize the Basic Technology Development Center completed in November 2020 to train our engineers and further strengthen our business capabilities.

Expectations for digital technology have increased greatly in preparation for the new normal life style. With the start of investment in 5G, the realization of our strategy of Digital x 5G will begin to take shape. While the role of the Engineering & Support Services Business is to firmly support Digital x 5G as the foundation of the entire company, we are also determined to expand the value we provide to society in the regional areas we are in charge of, including municipal DX and smart cities in the region.

Environment



Continuously working to reduce the environmental footprint of its business activities, NESIC aims to realize a sustainable society by helping to reduce environmental burdens and mitigate climate change while solving issues for its customers, such as by providing solutions and services in tune with the environment.

Environmental Policy

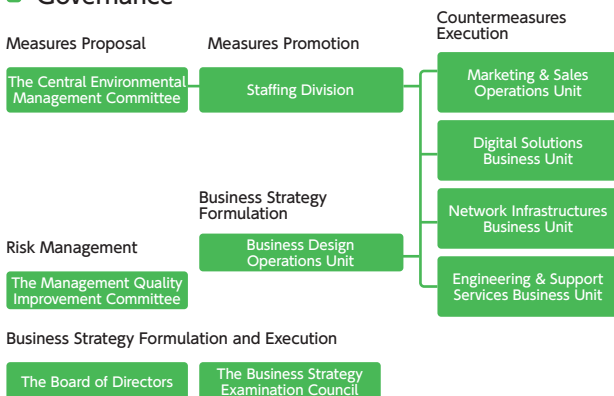
The NESIC Group contributes to the realization of “An inclusive and sustainable society created through communications” by working to reduce the environmental impact and the impact of climate change through all of its business activities.

1. In providing ICT solutions and services, we recognize that each stage of the life cycle has environmental impact, and will endeavor to reduce environmental impact by conserving resources, saving energy, and preventing environmental pollution from waste.
2. We will comply with laws, regulations, and agreements related to the environment, as well as agreements with stakeholders, and manage activities, solutions, and services with the potential to impact the environment.
3. We will disclose our environmental initiatives to a wide range of stakeholders.
4. We will contribute to protect the environment by raising awareness of the environment among all employees and taking steps to mitigate climate change and preserve biodiversity.
5. We will strive to continuously improve our environmental management system and enhance our environmental performance by setting targets and implementing activities to reduce our environmental impact.

Initiatives to Address Climate Change

NESIC has formulated a policy to address climate change for the purpose of advancing sustainable management and realizing a sustainable society. We are engaged in activities to control risks associated with climate change, and also to create and tap into opportunities. The Company will augment its disclosures of information about these activities based on TCFD recommendations.

Governance



Risk Management

The Management Quality Improvement Committee identifies risks related to climate change and shares these risks with the Central Environmental Management Committee, the entity that debates the Company’s environmental activities. The Business Strategy Examination Council, the body that debates the Company’s business strategies and policies

based on them, discusses and clarifies measures, which are reported to the Board of Directors based on the Corporate Governance Code.

Strategies, Metrics, and Targets

Action1 Risk controls	Action2 Creation and acquisition of opportunities
I. NESIC aims to reduce CO ₂ emissions in its business activities by 55% by 2030, compared with the level in the fiscal year ended March 31, 2020. This is a midway target on the path to achieving net zero emissions by 2050.	III. NESIC will reduce the environmental impact caused by the business activities of its customers by providing its products and services, thereby indirectly helping mitigate climate change.
II. NESIC will rapidly implement measures to use alternatives that impact the environment less. (Switch to renewable energy sources of electricity for its business locations, switch to electric work vehicles, etc.)	IV. The Business Strategy Examination Council and the Central Environmental Management Committee vigorously debate measures in I-III above, and report to the Board of Directors based on the Corporate Governance Code. Details are also proactively disclosed.

The financial and non-financial highlights contain data on electricity consumption and greenhouse gas emissions (→ P39)

Environmental Contributions by Solving Customer Issues

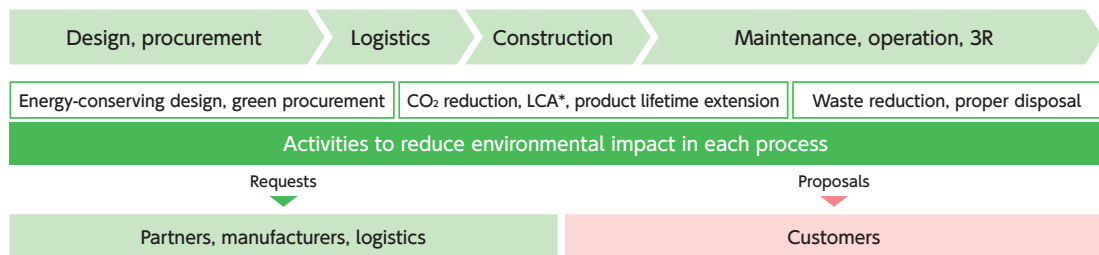
NESIC directly contributes to reducing environmental impacts through its own business activities and indirectly reduces environmental load by providing solutions that help our customers solve their issues. While promoting full use of ICT by customers, NESIC aims to enhance its corporate value by developing businesses that contribute to reducing environmental burdens through the co-creation of a sustainable society with its customers.



Reduce Environmental Impact through Its Own Business Activities

NESIC is engaged in a variety of initiatives based on its Environmental Policy to reduce the burden of its business activities on the environment. On helping to reduce environmental burdens, in addition to taking steps to address climate change and conserve resources, the Company conducts procurement activities in accordance with the Green Procurement Guidelines. Also, the Company asks its suppliers to cooperate with the NEC Group on sustainable management based on NEC's Guidelines for Responsible Business Conduct in Supply Chains, and collects and recycles NEC-made information communications equipment (National Permit System).

Reduce Environmental Load across Supply Chain



* LCA: Life Cycle Assessment

TOPICS

Paperless initiatives with the introduction of DocuSign

For signing and impressing seals on contracts and the reports of partner companies, NESIC has introduced DocuSign eSignature (DocuSign), an electronic contract signing service provided by DocuSign, Inc. By using DocuSign to leave evidence of intentions in electronic files, we are reducing the consumption of paper resources by eliminating the need for conventional paper stamps. It is also unnecessary for someone to be in the office to press stamps to documents, facilitating telework and eliminating the need to travel. Utilizing the know-how we have gained using this in-house, we can confidently provide the service to our customers.

→ P42-43 Special Feature 02 Co-Creation Discussion

Utilization of immersion cooling systems and proof-of-concept for the realization of compact data centers through collaboration among three companies

KDDI Corporation, Mitsubishi Heavy Industries, Ltd., and NESIC have teamed together to conduct trials of compact data centers that use immersion cooling systems to cool servers with liquids, as an attempt at reducing power consumption and CO₂ emissions in data centers to protect the global environment, with the objective of rolling out the compact data centers in Japan in the fiscal year ending March 31, 2023. We estimate the compact data centers will consume 35% less electricity, and this achievement would help solve the issue of lowering power consumption in data centers, thereby reducing environmental load by restricting CO₂ emissions.



Human Resource and Organizational Strategy to Sustainably Drive Innovation

Our employees are the most important business resource here at NESIC. We strive to have work environments where diverse employees can work without worry and apply their unique skills to the best of their ability and accelerate co-creation, innovation, and new value creation. With innovation at stake, our employees communicate more effectively in our atmosphere of I&D and well-being for everyone. Through these activities, our diverse employees are free to express themselves and bounce ideas off each other, making our offices an invigorating, exciting, and pleasurable place to work, which leads to more innovation and the creation of new value, while constantly improving engagement and establishing a virtuous cycle. The entire Company is taking on the challenges of this initiative under the leadership of the president, who personally conveys information to employees.

Action! Lighting a fire in the hearts of each and every one of us

Co-creating value and driving innovation



Taking on challenges only NESIC can do
Giving and receiving gratitude

Preparing Environments and Frameworks for Innovation

• Promoting autonomous work styles

In addition to encouraging employees to engage in working at home and distributed work, NESIC has newly introduced a super flex system and hourly based paid leave system that allows employees to work as they see fit without having core work hours.

• One-on-one meetings

In the fiscal year ending March 31, 2022, NESIC introduced one-on-one meetings between managers and their subordinates to improve problem-solving skills and business execution capabilities, while also maintaining relationships of trust between managers and subordinates and increasing the motivation of subordinates, as more employees are allowed to work more autonomously than before with teleworking and a super flex system in place. Prior to its introduction, the Company had provided training to managers to improve their one-on-one communications skills, with a 96% participation rate.

• Strengthen personnel trained in 5G and core technologies as cornerstones for innovation

→ P6, 33

• Human Resource system that supports career advancement

System	Outline
Internal Job Posting System	This system allows employees to apply for internal jobs on their own, responding to internal needs for personnel resulting from moves into new business fields and greater focus on priority businesses.
Job Challenge System	This system encourages employees to take on new roles (new sections), mainly through skills development and career formation.
Position Entry System	This system allows employees to apply for desired positions within the Company.
Career Reviews	These reviews of work-related interests, aptitude, and desires for transfers of employees are used by their managers in career development and personnel training processes.

Aiming to Be No. 1 in Communications

- **Timely dissemination of information through the SNS note**
The Company has distributed SNS note since April 2020 as a timely public disclosure of information, and an internal newsletter for employees. NESIC has published a total of 59 articles as of September 31, 2021, introducing a wide range of topics, from the Company's measures to employee activities.
- **Psychological Safety Seminar held**
NESIC held a seminar about the importance of psychological safety, designed to encourage frank and open discussions among the approximately 700 employees who participated.

- **Invigorating internal discussions with Slack**
We extensively use Slack software to encourage internal communications across organizational boundaries.
- **Dissemination of internal information through "Ushijima Radio" talk show and "Ushitube" videos, with the president as a personality**
We are distributing talks between President Ushijima and guest employees. Furthermore, we are working on adding new contents such as live streaming of the president answering employees' opinions and questions, and on-site introductions.

I&D Promotion

- **Acceleration of in-house initiatives and promoting deeper level of I&D, centered on I&D Promotion Committees**
In addition to promoting gender and age diversity, we also promote I&D in terms of individuality and to communicate our sense of values on deeper levels of diversity.
- **Introduction of mentor system (support for career advancement of female employees)**
Mentors, or employees who have a wealth of knowledge and business experience, are paired with mentees (inexperienced employees) to help solve issues related to the career progression of female employees and address workplace and other concerns, with the aim of fostering an organizational culture that empowers female employees.

- **I&D dialogue event held**
An event was held for employees to exchange opinions with Outside Director Muramatsu who understands I&D in great detail to better understand the importance of I&D and open up discussion.
- **Creation of I&D Portal on internal website**
NESIC disseminates information about I&D, introducing employees with unique personalities and information about I&D-related events.

- **Ratio of women in management positions**
2026 target: **10%** (4.6% as of March 31, 2021)
- **Agreement with Challenge 203030 ***

* A challenge set up by Keidanren for companies to have at least 30% women in board member positions by 2030

Pursuit of Well-Being of Employees

- **Creation of Well-being Promotion Office (April 2021)**
The Well-being Promotion Office aims to achieve "Improve the well-being of all employees," one of the Company's materiality issues. It formulates Companywide policies and strategies for the well-being of employees, monitors progress, and follows through with a PDCA cycle.
- **Fostering of culture that respects and praises each other with "Compliment someone sessions"**
Praising and expressing gratitude to each other is a fundamental element of how employees work autonomously and co-create together. We are promoting "Compliment someone sessions," at round-table meetings and Slack, and the "Good Job" posting event we held on Slack drew almost 1,500 "compliments" and "messages of gratitude" in nine months.

- **Dialogue with expert on topic of well-being**
Professor Takashi Maeno (Keio University), a thought leader on the well-being of employees, and President Ushijima held a dialogue together on the topic of the well-being of employees. In addition, Outside Director Muramatsu, who knows sustainability very well, and President Ushijima discussed the Company's policies in this context.



Dialogue with experts

- **Ratio of employees taking paid leave**
2026 target **100%**
(60% in fiscal year ended March 31, 2021)

Communications with Stakeholders

Communications with Customers

Main Initiatives

● Customer Satisfaction Survey

Through regular annual surveys and evaluations of the solutions and services we provide, we identify our strengths and weaknesses in dealing with customers, which we use to make improvements and strengthen our communication with them.

<Results of latest survey>

In the latest customer satisfaction survey, ratings improved from the previous year on almost all questions, with more than 93% of customers marking “satisfied” as their reply. The score improved substantially for “ability to provide as a strategic partner,” which has been designated by the Company as a priority area for improving customer satisfaction.

● Customer Satisfaction Awards

NESIC aims to create a virtuous cycle for improving customer satisfaction by presenting awards to employees in a bid to increase their motivation and encourage best practices. The award is given to cases in which the Company’s response, solutions and services are highly evaluated by customers and contribute to the SDGs

Examples of Customer Satisfaction Awards

○ Contribution to solving customer-specific issues

NESIC enhanced the communications platforms within emergency healthcare centers for core regional medical institutions in mountainous areas of Japan, and also built new communications platforms in response to the pandemic.

NESIC communicated with customers many times through online meetings and other means, and came up with a plan to solve communications issues and ensure reliable communications systems for hospitals that receive medical helicopters that serve mountainous areas where mobile phone service is unreliable. The proposal became larger in scale than originally planned to include communications with a new PCR test building, but our proposal was adopted with an understanding of its significance and effectiveness.

NESIC has been thanked by its customers for making a significant contribution to the sustained health and welfare of local residents.

Communications with Suppliers

For the project orders it receives, NESIC utilizes labor suppliers who subcontract for on-site work, such as installation and construction, as well as suppliers of hardware and software for system integration projects.

These suppliers are important stakeholders who are essential to our business execution. While communicating with suppliers through business trend briefings, visits, and surveys, we are strengthening the cooperation structure throughout the supply chain with the objective of contributing to SDGs. In this way, our procurement activities are sustainable and fair.



Business trend briefing for suppliers held online

Main Initiatives for Suppliers

- Hold business trend briefings (once a year)
- Letter of appreciation ceremony (held once a year)
- Share business information at New Year meeting (once a year)
- Hold safety conferences (four times a year)
- Hold Companywide safety conference (once a year)
- Product matching fair with key partners (held once a year)

Communications with Shareholders and Investors

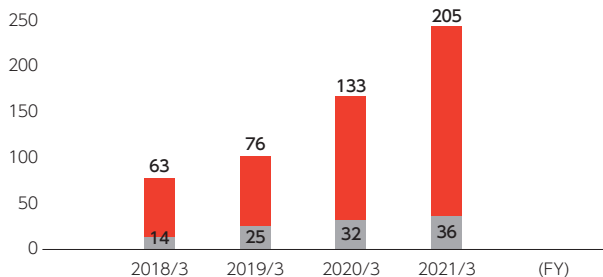
NESIC has a disclosure policy of explaining its business conditions and management policies to shareholders and other stakeholders in an accurate and timely manner. Management periodically engages in dialogue with shareholders and investors on capital markets in Japan and overseas, including through briefings and interviews.

In dialogue with participants in capital markets, in addition to dialogue by the investor relations section, we regularly set up briefings for investors, individual meetings, and other opportunities for dialogue with the president and other senior management, as well as engagement with investors responsible for ESG in cooperation with the department in charge of sustainability. To further understanding of our core businesses, we have held briefings led by executives in charge of business units since the fiscal year ended March 31,

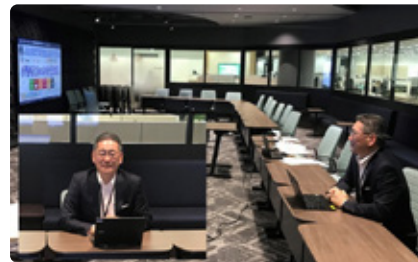
2020. In the fiscal year ended March 31, 2021, discussions covered the Network Infrastructures Business, which looks promising in terms of 5G and smart cities. To prevent the spread of COVID-19, NESIC was among the first companies to hold online meetings and briefings, starting with the Digital Solutions Business briefing it held in March 2020 (along with an Nihonbashi Innovation Base tour). The number of engagements with market participants increased significantly thanks to the higher efficiency of online meetings, as well as the growing interest of capital market participants in the Company's core businesses. The opinions and requests received from these meetings are reported to all executives, including independent directors and auditors, from the investor relations section, and reflected in efforts to strengthen management and improve corporate value.

Number of IR meetings (excluding large-scale meetings)

(cases)



■ Management response



Online briefing for Network Infrastructures Business
(Kazuhiko Takeuchi
Senior Vice President and Executive General Manager)

Examples of Opinions Received at Meetings with Investors and NESIC's Responses

Opinion

- Regarding the environment, the sector has a relatively small impact in terms of environmental risks, so publishing information on the website should be sufficient. However, the integrated report is a good medium for discussing the environmental value that NESIC provides.

Responses to these opinions:

New pages were added for environment-related information (→ P50-51), discussing the Company's initiatives to address climate change and other environmental issues. Page 8 features a QR code that links to the Company's website, making it easier to access information about the environment and other topics on the website.

Opinion

- Please disclose the state of progress on materiality issues in the context of medium- to long-term aims.

Responses to these opinions:

Regarding the three materiality issues identified in "Initiatives to provide value to society through 2030," NESIC disclosed figures for initiatives featured in external releases of information as one management indicator for realizing each materiality issue, based on an examination of KPIs to specifically measure progress (→ P20-25).

Roundtable Discussion between Outside Directors

NESIC's three outside directors sat down to share their thoughts on the performance of the Company in the fiscal year ended March 31, 2021, and on the issues to be addressed going forward.

Outside Director

Michiko Ashizawa

- October 1996: Joined International Department, Century Audit Corporation (currently KPMG AZSA LLC)
*Resigned in May 2001
- September 2003: Joined Industrial Revitalization Corporation of Japan
*Resigned in January 2006
- February 2006: Joined Advantage Partners LLP (currently Advantage Partners, Inc.)
*Resigned in January 2007
- April 2013: Associate professor in Faculty of Liberal Arts (currently the School of Economics and Business Administration) at Yokohama City University (present position)
Associate Professor in Graduate School of International Management at Yokohama City University (present position)
- September 2016: Part-time instructor in Graduate School of Business Administration at Keio University (present position)
- June 2018: Outside director of the Company (present position)

Review of the Fiscal Year Ended March 31, 2021

Ashizawa It was a year in which the Company's initiatives that began even prior to COVID-19 flourished due to the needs of society in this era. The accumulation of know-how through the implementation of work-style innovation in-house and the fact that NESIC is identified as the first company to discover Zoom were, I believe, the reasons why the Company was able to expand its customer base. Also, the breakdown of its vertical organization structure by means of the reorganization and the promotion of interdepartmental cooperation have enhanced operating efficiency and facilitated a range of high-value-added solutions. The outcomes of such efforts enabled the Company to realize the targets set out in its medium-term management plan a year ahead of schedule.

Muramatsu When COVID-19 first emerged, NESIC discussed measures it was going to take to address the risks involved. However, a risk management structure was already in place to ensure the continuation of business operations by way of its self-implementation of work-style innovation. So instead, the Company quickly turned

its attention to how they could take advantage of the potential business opportunities, which was a major turning point. Under the new normal, the efforts of the younger employees at NESIC have injected tremendous energy into the organization, adding to my faith in the Company's ability to adapt successfully to the changes taking place in its business environment.

Yoshida Based on my first year here as an outside director, I have been greatly impressed with the level of transparency in providing information to the outside directors and because of this, I have been able to get a grasp of business activities and management issues rather quickly. Discussions at the Board of Directors' meetings are held in an open and lively manner within a positive atmosphere. What has impressed me the most is the efforts of each individual to firmly reflect on the type of company they want NESIC to become, its roles and responsibilities as a company, and the contributions that can be made to society through its business activities. I believe the Company's success over the course of this year stems from its emphasis on the importance of realizing an "An inclusive and sustainable society created

Outside Director

Kuniko Muramatsu

November 2003: Officer, Ethics Office, Texas Instruments Japan Limited

* Resigned in September 2009

October 2009: Chief researcher, Business Ethics Research Center

January 2010: Representative director, Wellness Systems Institute Co., Ltd. (present position)

April 2016: Chair of the board, NPO GEWEL

* Resigned in March 2019

April 2018: Senior researcher, Business Ethics Research Center (present position)

June 2019: Outside director of the Company (present position)

Outside Director

Mamoru Yoshida

June 2009: Officer, Panasonic Corporation
Vice president, Panasonic AVC Networks Company, in charge of Consumer Business

June 2012: Director, managing executive officer, Panasonic Corporation
President, Panasonic AVC Networks Company

April 2013: Director, managing executive officer, chief technology officer (CTO), Panasonic Corporation

April 2015: Director, managing executive officer, Panasonic Corporation
Senior vice president, Appliances Company; president, Air-con Company, in charge of TV Business

June 2015: Managing executive officer, Panasonic Corporation
Senior vice president, Appliances Company; president, Air-con Company, in charge of TV Business

June 2016: Senior audit & supervisory board member, Panasonic Corporation (resigned in June 2020)

June 2020: Outside director of the Company (present position)

through communications." It is rewarding to know that NESIC certainly has the potential for even further growth going forward.

Advancement of Digital x 5G

Ashizawa In regard to Digital x 5G, what stood out to me the most was the number of local 5G trial operations held through co-creation with partners, such as with Tokyo Prefecture for use in its promotion of new work styles and with Tokushima Prefecture for use in health-care, disaster prevention activities, and a wide range of other areas.

Muramatsu By means of Digital x 5G, it looks like these trial operations will lead to the realization of the Company's three "Initiatives to provide value to society through 2030" (→ pages 20-25).

Yoshida This is a good example of the Company demonstrating its strengths in being able to provide solutions for a wide range of customer needs, from 5G infrastructure through to digital services. Meanwhile, digital

technology and 5G are topics of discussion throughout the entire industry and not only within the Company. The type of technologies to utilize, the areas to deploy them in, and the type of solutions to generate through such technologies, as well as the approach that must be taken to create areas that will most certainly succeed through Digital x 5G, no matter how small the market, are key issues that management will need to address.

Ashizawa Rather than confining itself to such specific themes as disaster prevention and mitigation, the Company can address a wider range of issues in each region by making full use of its collaboration with customers and partners. This is made possible through NESIC's commitment as a multivendor and the instilling of co-creation into its corporate culture.

Muramatsu That is certainly a strength of NESIC. The fact that the Company offers multivendor services provides customers with more incentive to engage in co-creation. Moreover, the Company is backed by NEC's strong reputation for technological capabilities, which certainly adds to the positive synergy.

Yoshida In terms of 5G, the Company has NEC's state-of-the-art technology at its disposal. As such, the Company can focus on making full use of such technology with its customers, rather than having to develop its own core technology. That said, it is essential that the Company maintains and strengthens its relationship with the customers it acquired through the influence of Zoom and continues to expand its business by ensuring the highest levels of quality and efficiency.

Protection of Minority Shareholders

Ashizawa While there are a number of advantages to being an NEC Group subsidiary, there is also the risk of undermining the interests of minority shareholders, as reflected in the issues surrounding the revised Corporate Governance Code. Discussions must be carried out with a view to enhancing corporate value for the benefit of all stakeholders and this information must be explained in detail to those outside the organization. Accordingly, the details of the Company's transactions with NEC, which has reported on them separately to date, were compiled and reported together and reconfirmed for their appropriateness from the perspective of minority shareholders.

Muramatsu It is imperative that the Company continues to strengthen its monitoring function from the perspective of minority shareholders and enhance the quality of its governance. As an outside director, my top priority is to always voice my opinions in a strict manner and I believe I have been doing just that; however, our discussions over this past year were particularly intense.

Yoshida In regard to the protection of minority shareholders, I will draw on my managerial background at a major electronics manufacturer to continue to promote lively discussions on how the Company can exploit its synergies as a member of the NEC Group and maximize value for its minority shareholders.

Promotion of Diversity

Ashizawa The discussions at the Board of Directors' meetings are very lively indeed. I believe an effective governance system is in place, as outside directors are



Discussions must be carried out with a view to enhancing corporate value for the benefit of all stakeholders.

able to freely express their views and offer advice, which is promptly taken into consideration in the Company's decisions. On the other hand, issues remain in terms of diversity from the perspective of not only gender equality but also concerning the age and background of employees and a variety of other areas.

Muramatsu I fully agree. Diversity is not an issue with us three outside directors due to our varying expertise and backgrounds. However, diversity must be embraced even more throughout the entire organization if the Company is to continue innovating with cutting-edge technology. The details of its evaluation system, employee development targets, and other elements of its human resource strategy must be communicated more clearly. I hope to share more insight in this area along the path to formulating the next medium-term management plan. Also, rather than setting uniform rules throughout the entire organization, I believe the Company must work to emphasize the specific nature of each business.

Yoshida Employee diversity is not about going out of your way to hire individuals for the sake of reaching diversity-related targets. Rather, it is about undergoing a process of putting the proper framework in place, developing employees, and providing an extensive range of opportunities from a diversity point of view. Similarly with the Board of Directors, a system should not be in place simply for the sake of form. Rather, a system that is optimally designed to generate sustainable increases in corporate value must be pursued and this needs to be explained clearly to those outside the organization.

Ashizawa This is a topic that garners a lot of attention at the Board of Directors' meetings. My belief is that it is important to boldly take on new challenges from a formal aspect in order to win out in the face of competition in a rapidly changing industry. Changes may arise naturally, and can also enhance autonomy and motivation. From the perspective of employee autonomy, I am closely monitoring the activities of the Corporate Culture Design Office and the Well-Being Promotion Office. These organizations, which were formed through the ideas of the Company's younger employees, are conveying the free-wheeling thinking of such employees to the rest of the Company through their own expressions.

Becoming a No. 1 Communications Company

Muramatsu Last year, I indicated that the Company needs to communicate information on the social significance of its business activities, and this is starting to take shape. President Ushijima's strong message on transforming the corporate culture toward becoming the No. 1 communications company has firmly permeated throughout the Group. I have had the opportunity to freely interact with employees in a variety of departments and positions and was impressed by the atmosphere, where people could openly and frankly exchange opinions.



The right framework and programs must be in place to enable all employees to reach their full potential.

I came to realize that a culture of spontaneously spurring change through the efforts of each employee is being cultivated here at NESIC.

Ashizawa The Company is transitioning from a pyramid organizational structure, in which decisions take a while to be made, to a flat organizational structure, in which actions are autonomously taken by those on the front lines. Through such means, the Company's commitment to adapt quickly to the rapid changes taking place in the digital domain is quite noticeable.

Yoshida Both of you are absolutely right. As President Ushijima is already aware, if the business continues to grow at this rate, the frontline employees will be preoccupied with fulfilling their own tasks, without any leeway for dealing with new things on their own. For that reason, the Corporate Culture Design Office was established specifically to handle such issues. Also, the next medium-term management plan will be formulated through the participation of various individuals, including NESIC's younger employees, which I am looking forward to.

The Future of NESIC

Ashizawa Narrowing down its areas of strength while continuing to thrive as a business is no easy task to say the least. In particular, it is difficult to determine the turning point of changes in the market environment simply through the eyes of the Company's earnest and devoted frontline employees. Moreover, the message the Company is trying to send to its customers may become obscured. I will offer my views by constantly being aware of how NESIC is perceived by those outside the Company and by taking a step back from a comprehensive perspective.

Muramatsu From a comprehensive point of view, a more proactive stance must be taken toward the disclosure of ESG information and management decision-making. For instance, the thought processes behind disclosing information in accordance with the TCFD and conducting scenario analyses can be utilized in other types of decisions that must be made from a long-term

perspective. In terms of the onshore fish farming business, the way you perceive long-term risks and opportunities may differ from an ESG perspective. Offering views that differ from those on the front lines is our role as outside directors.

Yoshida Today, DX is being driven by advances in IT and movement to the cloud as the new normal takes shape. However, the use of data to enhance value and human-centered activities will become even more important as we proceed. And, as embodied in its approach to materiality, it is reassuring to see the Company change for the better for the sake of its employees. Due to the demands of busy schedules, there is the risk of being satisfied with our current ways. It is important that the Company sows the seeds from a variety of angles for its growth three or five years down the line.

Ashizawa The next medium-term management plan will be unveiled next year. While it is difficult to accurately foresee the future three years from now, the sharing of NESIC's ambitious vision of "An inclusive and sustainable society created through communications" and the efforts of each individual to swiftly take action will translate into the further growth of the business. I believe the source of inspiration for that is a free and open culture where even the Company's younger employees are able to contribute, so I hope efforts are made to continue to refine this area.

Muramatsu In order to create innovation through diversity, the existence of a workplace environment where every individual, regardless of age, is able to demonstrate their full potential is a must. The realization of ICT that is easy to use and convenient for people of all generations will not only benefit the Company but also help resolve the social issues of Japan as a whole. I have high hopes for the future in that respect.

A more proactive stance must be taken toward the disclosure of ESG information and management decision-making.



Corporate Governance

Basic Approach to Corporate Governance

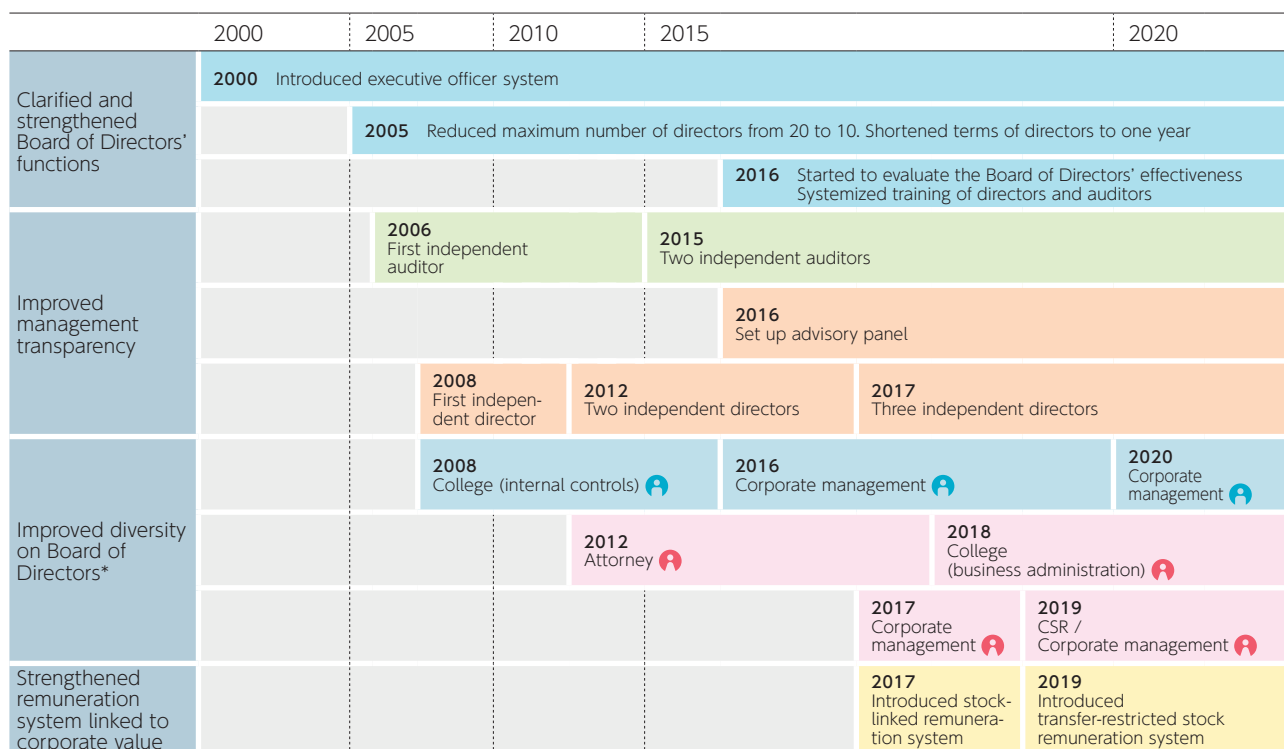
We believe that enhancing corporate governance is critical for NESIC to realize an affluent society with vibrant communication and for sustaining increases in corporate value.

NESIC is able to benefit dually from being a member of the NEC Group and being a listed company on the stock exchange (→ P65). We are therefore well aware of the importance of protecting the rights of general shareholders. Starting with the appointment of independent auditors in 2006, we have been increasing the number of independent directors and auditors. The ratio of independent outside directors is currently one-third of the total number of directors. Candidates for the position of director are nominated with due consideration paid to diversity, such as their experience, knowledge, specialization, and gender. This structure facilitates lively discussions at meetings of the Board of Directors, and also decision-making based on its own

business interests as an independent company. NESIC has adopted a Board of Corporate Auditors for the purpose of strengthening management supervisory functions. NESIC has also set up Advisory Panel for Nominations and Remuneration with independent outside directors representing a majority of members, one of whom chairs the panel. In the fiscal year ended March 31, 2021, with the aim of further improving transparency in management, NESIC formulated a policy for deciding the details of director remuneration and clarified the remuneration amounts and the decision-making process (→ P63-64).

Starting with business execution that prioritizes compliance first and foremost, NESIC will examine and build an optimal corporate governance structure while listening to market demands.

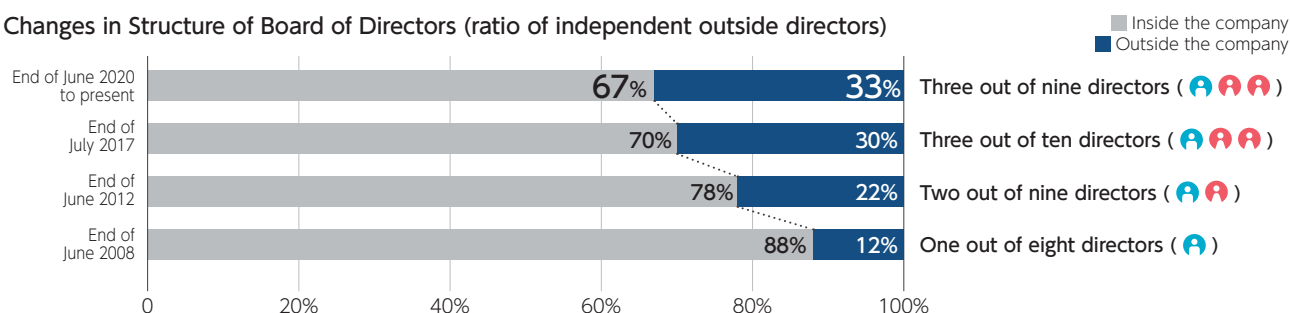
History of Reinforcing Corporate Governance



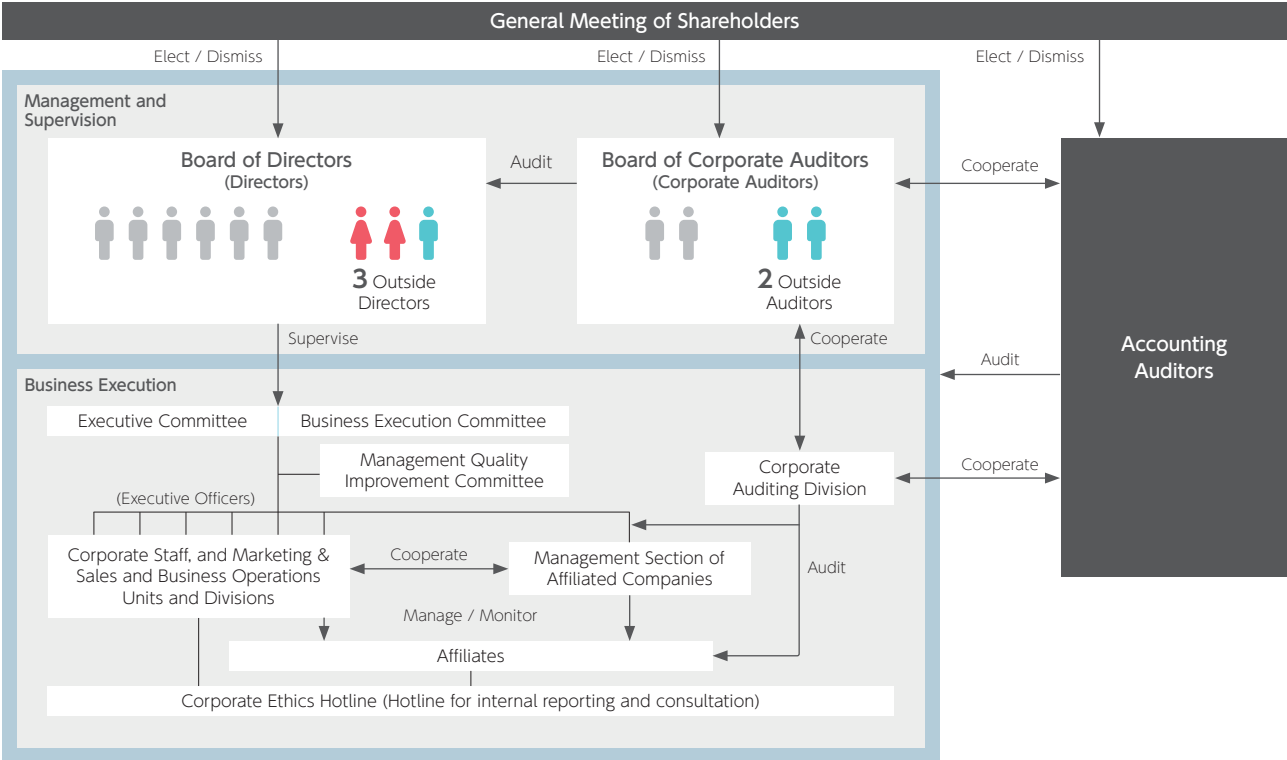
* Only for independent outside directors

♂ Male ♀ Female

Changes in Structure of Board of Directors (ratio of independent outside directors)



NESIC's Business Execution, Management Oversight, and Internal Control Framework



1 Directors and Board of Directors

As the principal decision-making authority within the Company, the Board of Directors makes decisions on important matters based on the procedural rules of the Board of Directors, and it is also positioned as a venue for deepening discussions about the broader direction of corporate strategy, including the medium-term business plan. NESIC endeavors to strengthen the management structure by setting the terms of directors to one year and clarifying the management responsibilities of each director.

2 Corporate Auditors and Board of Corporate Auditors

The Board of Corporate Auditors decides auditing policies and reports on the audits performed by individual auditors. Corporate auditors participate in meetings of the Board of Directors and other important meetings, review important documents related to final decisions, and listen to reports on business execution by directors and employees. This system is able to adequately monitor the directors as they perform their duties.

3 Executive Officers, Executive Committee, and Business Execution Committee

The Company has adopted an executive officer system to clearly demarcate the supervisory function and the business execution function. NESIC has also formed the Executive Committee to discuss policies pertaining to key management and operating issues, consisting of mainly executive officers at senior vice president level and higher and corporate auditors. The Business Execution Committee was set up to monitor the progress of and report on significant matters concerning business execution. NESIC continues to strengthen management functions.

Advisory Panel for Nominations and Remuneration

Members: Three independent outside directors (one of whom chairs the panel) and one representative director are members on the panel.
 Purpose: Enhance transparency of nomination of directors and auditors and director remuneration
 Description: Following sufficient discussion, the panel gives its opinions to the Board of Directors about the fairness of procedures for nominating candidates for director and auditor, and whether policies and procedures for deciding remuneration are adequate. The Board of Directors decides on nominations and remuneration after considering the opinions of the advisory panel.

Agenda Items of Board of Directors

Board of Directors meetings are held once a month in principle. Each meeting of the Board of Directors takes approximately two to three hours each time (five to six hours in total if a pre-meeting briefing attended by independent directors and independent auditors is included) for active discussions. In the fiscal year ended March 31, 2021, in addition to matters of legal importance in decision-making, the Board of Directors deliberated upon and received reports about progress on the medium-term management plan, initiatives in sustainability, reviews of director remunerations, and the evaluation of the effectiveness of the Board of Directors.

Example
 In the fiscal year ended March 31, 2021, in response to the comments received from independent directors in the previous fiscal year, such as the need to strengthen I&D and to foster a cross-divisional organizational culture in the previous fiscal year, the Board of Directors reported on the results of our sustainability improvement activities (such as strengthening internal penetration by opening the I&D portal, introducing a mentor system, and invigorating cross-organization dialogue by using Slack) and discussed future issues and initiatives.

Independent Outside Directors and Auditors

To further strengthen its corporate governance, since 2006, NESIC has sequentially nominated qualified independent directors and auditors who do not have any conflicts of interest with general shareholders. NESIC has a total of five independent directors and auditors, comprising three directors (out of nine directors) and two auditors (out of four auditors), who satisfy the requirements for independent directors and auditors, as defined by the Tokyo Stock Exchange. One third of its directors are independent outside directors and over 20% are women.

The independent outside directors and auditors have diverse knowledge and experience in corporate management, accounting, business management, sustainability management, corporate governance, and risk management.

Independent outside directors provide advice and make decisions from the perspective of an outsider, while independent outside auditors conduct audits of business execution by directors from a fair and objective standpoint as an outsider. Both independent outside directors and auditors function adequately in providing highly effective supervision of the business execution side.

Name	Reason for Nomination	Main Concurrent Positions	Attendance during FY2021/3	
			Board of Directors	Board of Corporate Auditors
Michiko Ashizawa	Michiko Ashizawa has the ability to provide appropriate advice and proposal to the Company's management from an objective standpoint, backed by her specialized knowledge in business administration. She is expected to continue to supervise management toward improvements in the Company's corporate value.	<ul style="list-style-type: none"> Associate Professor, School of Economics and Business Administration, Yokohama City University Associate Professor, Graduate School of International Management, Yokohama City University Part-Time Instructor, Graduate School of Business Administration, Keio University Outside Director (audit and supervisory committee member), Netyear Group Corporation Outside Auditor, NHK Spring Co., Ltd. 	13/14	—
Kuniko Muramatsu	Kuniko Muramatsu provides appropriate advice for the Company's management from an objective standpoint, backed by her experience in corporate management, global insight, and advanced knowledge of ESG matters, such as sustainability management, and the promotion of compliance and diversity. She continues to supervise management toward improvements in the Company's corporate value.	<ul style="list-style-type: none"> Representative Director, Wellness Systems Institute Co., Ltd. Senior Researcher, Business Ethics Research Center Outside Director, YOKOWO CO., LTD. Outside Director, Kyushu Railway Company 	14/14	—
Mamoru Yoshida	Mamoru Yoshida provides appropriate advice and supervises the Company's management from an objective standpoint, backed by his extensive experience in business management, technology management, manufacturing, marketing, and new business creation. He continues to supervise management toward improvements in the Company's corporate value.	—	11/12	—
Yuji Kikuchi	Yuji Kikuchi has specialized knowledge of the Companies Act and corporate governance as an attorney. He is expected to supervise business execution from a fair and objective standpoint as an outsider through his extensive knowledge and experience.	<ul style="list-style-type: none"> Partner, Tokyo Hatchobori Law Office Outside Director, Kri Neochem Co., Ltd. 	14/14	14/14
Masayuki Horie	Masayuki Horie possesses deep insight on internal controls and IT risk management in corporate management as a university professor. He has the ability to monitor the business execution of directors from a fair and objective standpoint as an outsider, backed by his knowledge and experience.	<ul style="list-style-type: none"> Professor, College of Commerce, Nihon University Outside Auditor, INTELLIGENT WAVE INC. 	14/14	14/14

Notes: 1. Mamoru Yoshida's attendance at the Board of Directors meetings is for after her appointment as director at the 88th General Meeting of Shareholders held on June 24, 2020.
2. Main concurrent positions as of June 24, 2021.

Invigorating Discussions by Board of Directors / Support System for Independent Directors and Auditors to Fully Function

We recognize the importance of having all members of the Board of Directors, including outside directors, endeavor to reach decisions based on the Company's own management from the standpoint of protecting minority shareholders in a venue conducive to raising questions and having constructive dialogues. We are therefore taking the following steps to strengthen systems that support active deliberation at the Board of Directors' meetings.

Before meetings of the Board of Directors are convened, NESIC distributes briefing materials to participants beforehand and holds pre-meeting briefings each month (lasting about three hours) for independent directors and auditors with the aim of enhancing deliberations by the Board of Directors. At these briefings, participants receive explanations of the agenda items before the Board of Directors and are updated on the Company's current business execution. In addition to these venues for independent directors and

auditors to engage with the Company, NESIC creates opportunities for information to be exchanged among only the independent directors and auditors. Advice for the Company's management that was discussed at these exchanges is then passed onto the Representative Director and reflected in the Company's management.

Moreover, to further improve their skills, all directors and auditors are given opportunities to receive the necessary information and gain knowledge to advise management. In the fiscal year ended March 31, 2021, three training sessions were held about business strategy and improvements to the corporate culture. Independent directors and auditors have adequate access to information about the Company's history, business outline, financial data, business strategies, business environment, competitive landscape, and internal organizations.

Policies and Procedures for Nominating Directors

Nomination Policies and Procedures

When nominating candidates for director or auditor, NESIC's Board of Directors makes decisions after a comprehensive evaluation based on finding the right person for the job, taking into account the desired qualifications shown below, while seeking people who can contribute to the Company's business development with a combination of essential skills and experiences needed to lead.

Headed by an independent outside director, the advisory panel's members, which consist mainly of independent outside directors, discuss nominations and voice their opinions. The Board of Directors deliberates on the agenda for nominating

directors, and the Board of Auditors deliberates and consents to the nomination of corporate auditors, which are submitted for approval by the General Meeting of Shareholders.

Dismissal Policies and Procedures

On dismissing a director, NESIC Board of Directors explains the reasons for their dismissal to the advisory panel, which mainly consists of independent outside directors, in the event that a director is not adequately carrying out their duties. After receiving suitable advice, the Board of Directors makes a decision and moves to dismiss the director, which requires approval by the General Meeting of Shareholders.

Director Remuneration

Basic Policy on Director Remuneration

To maintain competitiveness in the industry and provide incentives to improve performance, remuneration for the Company's directors is based on an appropriate compensation structure that takes into account their responsibilities and achievements and is closely linked to the Company's business performance. At the 89th General Meeting of Shareholders held on June 24, 2021, investors approved a resolution to review the compensation structure for directors, recognizing the necessity of maintaining appropriate levels of remuneration in order to further strengthen corporate governance and secure talented personnel.

Decision-Making Methods and Process for Remuneration

<Method for calculating remuneration>

- Fixed compensation (monthly compensation)

Fixed compensation is paid each month as a salary in amounts based on basic remuneration commensurate with rank, duties, and responsibilities, plus consideration for the individual performance of each director.

- Performance-linked compensation (bonuses)

Bonuses are paid at a certain time every year in amounts decided for each individual based on their rank and evaluation of performance. Growth in net sales and operating income is used in this calculation because they are key indicators for achieving the Company's medium-term management plan. The base amount is equivalent to 40% of the bonus paid in the previous fiscal year multiplied by year-on-year growth in net sales, and 60% of the bonus paid in the previous fiscal year multiplied by year-on-year growth in operating income.

Indicator	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Year-on-year growth
Net sales (¥ billions)	303.6	339.1	111.7%
Operating income (¥ billions)	16.2	25.6	157.4%

- Non-monetary compensation (stock compensation)

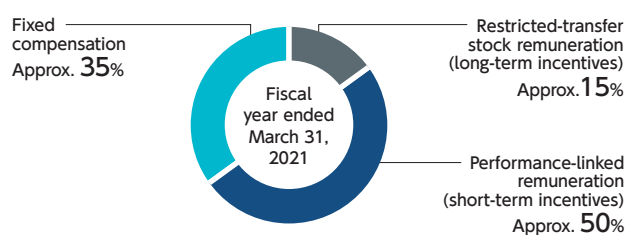
At a certain time each year, directors receive restricted-transfer stock remuneration based on their rank with the objective of providing incentive for constantly improving the Company's corporate value and aligning the values of directors with those of shareholders.

<Decision-making process>

At the Board of Directors meeting held in February 2021, NESIC passed a resolution governing how to decide the particulars of remuneration for each director. Based on this decision-making policy, the advisory panel debated how to determine remuneration in the fiscal year ended March 31, 2021, and issued an opinion, which was taken up and discussed at a Board of Directors' meeting held later. The Representative Director, who is delegated by the Board of Directors decided the allocation of fixed compensation and bonuses. For stock-based remuneration, the Board of Directors decided the number of shares to be allocated to each director based on their rank.

Breakdown of Director Remuneration (excluding directors in non-executive positions)

(Fiscal year ended March 31, 2021)



Remuneration for directors in non-executive positions is a fixed amount not linked to the Company's performance in light of their role of supervising business execution.

Director and Auditor Remuneration in Fiscal Year Ended March 31, 2021

	Total remuneration (¥ million)	Breakdown of total remuneration (¥ million)			Number of eligible directors (people)
		Fixed compensation (monthly)	Performance-linked compensation (bonuses)	Non-monetary compen- sation (stocks)	
Directors	218	95	98	24	13
Outside directors	24	24	-	-	4
Auditors	44	44	-	-	5
Outside auditors	10	10	-	-	2
Total	262	139	98	24	18
	34	34	-	-	6

Notes: 1. Directors who also serve as employees do not receive a salary (including bonus) as an employee.
2. Includes four directors and one auditor who retired as of the 88th General Meeting of Shareholders held on June 24, 2020.
3. Directors (excluding directors in non-executive positions) receive bonuses as performance-linked compensation and stock with transfer restrictions as non-monetary compensation.

Evaluation of the Board of Directors' Effectiveness

To improve the functions of the Board of Directors, since the fiscal year ended March 31, 2016, NESIC has evaluated and examined the effectiveness of the Board of Directors. Below, we summarize the results of the effectiveness evaluation and the process of analysis conducted in the fiscal year ended March 31, 2021.

Improvement Activities Undertaken
in Fiscal Year Ended March 31, 2021

In the evaluation of the effectiveness of the Board of Directors for the fiscal year ended March 31, 2020, issues were identified that included clarifying roles in determining the direction of business strategy, updating environments for risk-taking, creating opportunities for training and educating directors and auditors, and the exchanging information among independent outside directors and auditors. To address these issues, NESIC proceeded with measures to enhance and accelerate the provision of information to enable more in-depth discussions on business strategies and the examination of risk verification and countermeasures at the Board of Directors meetings, held training sessions (three times) to enhance awareness of business strategies and improve the corporate culture, and created venues for independent outside directors and auditors to exchange information.

Effectiveness Evaluation

in Fiscal Year Ended March 31, 2021

(1) Analysis and evaluation process

The evaluation of the Board of Directors' effectiveness for the fiscal year ended March 31, 2021, consisted of a questionnaire given to all directors and auditors, and individual interviews based on the results of the questionnaire. The questionnaire and individual interviews served to clarify the roles and primary functions of the Company's Board of Directors, and elicited opinions about the issues and

improvement measures needed to realize these roles and functions. Based on the outcome of this process, specific measures for improvement are discussed in pre-meeting briefings and meetings of the Board of Directors.

(2) Summary of results of evaluation

The summary of the evaluation of the Board of Directors' effectiveness in the fiscal year ended March 31, 2021 is as follows:

- The Board of Directors makes decisions that are important to business execution, and vigorously discusses Companywide business strategies and other important matters and engages in appropriate supervision of business execution.
- The Board of Directors is able to conduct the necessary debates about important matters to fulfill its responsibilities.
- Issues identified in the effectiveness evaluation in the fiscal year ended March 31, 2020, namely clarifying roles in determining the direction of business strategy, updating environments for risk-taking, opportunities for training and educating directors and auditors, and exchanging information among independent outside directors, have been improved upon with measures that were executed as planned.

As a result, it was found that the Board of Directors is being appropriately and effectively operated overall.

(3) Future measures

To further improve the operations of the Board of Directors, the following improvement measures are being taken during the fiscal year ending March 31, 2022.

- Formulate annual agenda for discussions, review methods for managing agenda items in light of the roles and functions of the Board of Directors and review curriculum for director and auditor training

- Review role of Board of Directors in process for formulating the next medium-term management plan, discuss issues for the next medium-term management plan and long-term issues for improving corporate value
- Provide information to facilitate appropriate supervision of business execution and decision-making and update support systems (multiple discussions of important matters, augment pre-meeting briefings, better formatting of documents, off-site meetings, etc.)

Supplemental Information

Period for evaluation of effectiveness (fiscal year ended March 31, 2021)

Questionnaire and interviews for each director and auditor:	from February to March, 2021
Effectiveness evaluation report for fiscal year ended March 31, 2021	
Discussion of measures for fiscal year ending March 31, 2022 (by the Board of Directors):	April 2021

Relationship with Parent Company

As a member of the NEC Group, NESIC benefits greatly from being in charge of system integration and maintenance services among the services provided by NEC Group companies, and from being able to tap into recognition of the NEC brand and having access to business resources, such as technological capabilities and human resources. In addition to the field of 5G, which has drawn attention of late, NEC has exceptional technological capabilities in the digital realm, including facial recognition technology, which NESIC can actively deploy more than ever to increase corporate value.

With that said, however, NESIC is an independent listed company that engages in business while making business decisions on its own accord. This translates into credibility as a listed company from our customers and business partners, while improving the morale of our employees and making it easier to hire talented human resources. With a wide range of products and services that go beyond NEC products, NESIC is able to create value added by providing solutions in tune with the needs of its customers and society. Independent businesses generate over

70% of net sales. In particular, one of NESIC's unique strengths is its provision of the NEC Group's relentless focus on quality to the development of multivendor services. Business transactions with the parent company are decided based on proper negotiations while referencing prevailing market prices. Terms and conditions are on equal ground with other business partners and to avoid conflicts of interest, the Board of Directors verifies all business transactions with the NEC Group. As a listed company, NESIC engages in dialogue with shareholders and investors to keep their opinions and expectations in mind when managing business. We believe this effort makes the Company stronger and leads to higher corporate value.

In order to benefit from these advantages as a member of the NEC Group and as a listed company, NESIC must have systems in place for protecting the rights of general shareholders. With this in mind, the Company is strengthening its corporate governance structure by, for example, enhancing the composition of its independent directors and auditors, as noted above.

Shares Held for Strategic Reasons

NESIC may own shares in other companies for the purpose of building, maintaining, and strengthening business ties and relationships.

Shares held for strategic reasons are examined in detail every year by the Board of Directors in terms of whether the purpose of owning these shares is appropriate, and whether the gains and risks from owning these shares align with their cost of capital. Based on the outcome of this examination, stocks that are determined to have inadequate reasons for holding onto become candidates for divestiture and reduction.

In the fiscal year ended March 31, 2021, the Board of Directors meeting held on May 2020 received reports and debated the status of strategic shareholdings.

Regarding the execution of voting rights for these strategic shareholdings, management decides whether to vote in approval or disapproval of proposed matters based on a comprehensive evaluation of whether it contributes to medium- to long-term improvements in the company in which it holds shares and the corporate value of the NESIC Group.

Strategic shareholdings (as of March 31, 2021)

Four listed companies	¥68 million
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Directors & Corporate Auditors (As of June 24, 2021)

Directors



Yushi Ushijima
President



Osamu Noda
Senior Vice President
and Member of the
Board



Hiroyuki Sekizawa
Senior Vice President
and Member of the
Board



Kazuhiko Takeuchi
Senior Vice President
and Member of the
Board



Michiko Ashizawa
Member of the Board
(Outside Director)



Kuniko Muramatsu
Member of the Board
(Outside Director)



Mamoru Yoshida
Member of the Board
(Outside Director)



Junji Ashida
Member of the Board



Toru Kawakubo
Member of the Board

Corporate Auditors



Naoki Iwasaki
Corporate Auditor
(Full-Time)



Yohei Otani
Corporate Auditor
(Full-Time)



Yuji Kikuchi
Corporate Auditor
(Outside Auditor)



Masayuki Horie
Corporate Auditor
(Outside Auditor)

Main background and specializations that NESIC expects of outside directors and outside auditors

		Business administration and planning	Finance and accounting	Legal affairs	Internal controls and risk management	CSR	Technological standpoint / New businesses	Diversity
Outside Directors	Michiko Ashizawa							
	Kuniko Muramatsu							
	Mamoru Yoshida							
Outside Auditors	Yuji Kikuchi							
	Masayuki Horie							

* This table does not show all of the knowledge of the outside directors and outside auditors. It highlights their backgrounds and specializations with an emphasis on the oversight functions of outside members.

Stock Information (As of March 31, 2021)

Number of Shareholders	23,135
Common Stock Authorized	300,000,000 shares*
Issued	149,321,421 shares*
Trading Unit	100 shares

* On June 1, 2020, NESIC conducted a three-for-one common stock split. On this date, the total number of issuable shares increased by 200,000,000 shares and the total number of shares issued increased by 99,547,614 shares.

Major Shareholders (Top 10)

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding *2
NEC Corporation	57,320	38.49
Custody Bank of Japan, Ltd. (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	19,200	12.89
The Master Trust Bank of Japan, Ltd. (Trust account)	8,352	5.61
Custody Bank of Japan, Ltd. (Trust account)	5,599	3.76
Sumitomo Realty & Development Co., Ltd.	3,600	2.42
Employees' Stock Ownership Plan	1,857	1.25
THE BANK OF NEW YORK MELLON 140044	1,807	1.21
GOVERNMENT OF NORWAY	1,672	1.12
Custody Bank of Japan, Ltd. (Trust account 9)	1,617	1.09
JPMC GOLDMAN SACHS TRUST JASDEC LENDING ACCOUNT	1,501	1.01

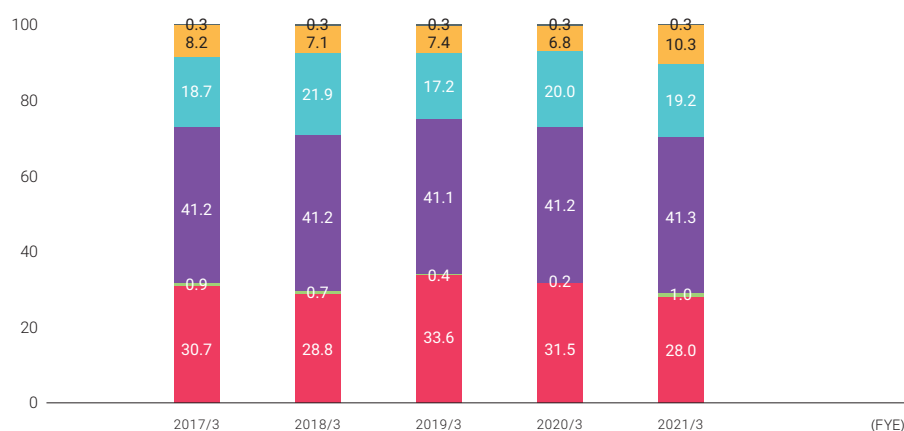
Notes:

*1 Shares held by Custody Bank of Japan, Ltd. (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2021 was 51.42%.

*2 The percentage of total shares outstanding is calculated based on the number of shares excluding treasury stock (390,930 shares) and shares that are in the company's name in the shareholder registry but are not substantially owned (300 shares).

Breakdown of Shareholders by Type

(%)



■ Financial institutions ■ Investment securities firms ■ Other institutions
 ■ Foreign entities (institutions, individuals) ■ Individuals and others ■ Treasury stock

Corporate Overview (As of March 31, 2021)

Name	NEC Networks & System Integration Corporation
Head Office	Iidabashi First Tower, 2-6-1 Koraku, Bunkyo-ku, Tokyo 112-8560, Japan
Established	December 1, 1953
Registered as a Stock Company	November 26, 1953
Capital	¥13,122,000,000
Number of Employees	4,996 (Non-consolidated), 7,537 (Consolidated)
Fiscal Year	April 1-March 31
Ordinary General Shareholders Meeting	Annual meeting held in June
Listing	Tokyo Stock Exchange, First Section
Ticker Code	1973
Accounting Auditor	KPMG AZSA LLC
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

Major Consolidated Subsidiaries

Japan

- NEC Magnus Communications, Ltd.
- NICHIIWA Co.
- NEC Net Innovation, Ltd.
- NESIC advanced aquaculture, Inc.
- NetsForest RAS Technologies, Inc.
- Q&A Corporation
- K&N System Integrations Corporation
- NEC Networks & System Integration Services, Ltd.

Overseas

- NESIC BRASIL S/A
- NESIC (Thailand) Ltd.
- NESIC PHILIPPINES, INC.
- Networks & System Integration Saudi Arabia Co. Ltd.
- ICT Star Group Myanmar Co., Ltd.

Outside Evaluations



JPX-Nikkei 400



SNAM Sustainability Index



Certified Health and Productivity Management Organization 2021



Top Hundred Telework Pioneers



"Platinum Kurumin" certification mark



Highest-grade "Eruboshi" certification



SUSTAINA ESG AWARDS 2021 GOLD CLASS Overall Category



SUSTAINA ESG AWARDS 2021 SILVER Industries

Editorial Postscript

As the issues surrounding sustainability become increasingly prominent due to the COVID-19 pandemic, companies are required more than ever to incorporate sustainability into their core management practices. In this integrated report, we have added a new page on the environment, enhanced the disclosure of ESG information including our response to climate change, attempted to disclose the progress of our efforts to provide value to society toward 2030, and made other improvements to disseminate information with higher value based on the demands of society and the opinions of our stakeholders.

We will continue to aim for a "An inclusive and sustainable society created through communications," and steadily move forward to the next medium-term management plan and beyond.

Next step

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CONSOLIDATED TEN-YEAR SUMMARY

	FY2012/3	FY2013/3	FY2014/3	FY2015/3
Performance Indicators (Millions of yen)				
Orders received	¥215,373	¥241,271	¥280,071	¥299,097
Net sales	204,658	235,716	270,326	292,164
Gross profit	32,079	37,182	44,690	48,110
Operating income	9,747	12,483	14,418	16,158
Operating income to net sales (%)	4.8	5.3	5.3	5.5
Net income attributable to owners of the parent	4,474	7,246	8,257	7,791
Financial Condition (Fiscal year-end) (Millions of yen)				
Total assets*2	¥149,130	¥167,472	¥189,059	¥201,904
Net assets	80,074	85,974	89,166	94,173
Owner's equity	79,503	85,266	87,514	92,559
Performance Indicators (Millions of yen)				
Cash flows from operating activities	¥18,595	¥(1,723)	¥23,313	¥ 2,460
Cash flows from investing activities	(2,648)	(3,429)	(5,504)	(3,929)
Free cash flows	15,946	(5,152)	17,809	(1,469)
Cash flows from financing activities	(3,979)	(2,066)	(3,824)	(4,127)
Cash and cash equivalents at end of year	37,456	30,315	44,434	38,951
Per-Share Indicators (Yen)*3				
EPS	¥ 29.99	¥ 48.57	¥ 55.35	¥ 52.24
BPS	532.92	571.58	586.68	621.53
Cash dividends	9.33	15.00	20.00	21.33
Key Indicators (%)				
ROE*4	5.7	8.8	9.6	8.7
ROA*5	6.3	7.7	8.2	8.3
Owner's equity ratio	53.3	50.9	46.3	45.8
DOE ratio	1.8	2.7	3.5	3.5
Payout ratio	31.1	30.9	36.1	40.8
Other				
Number of employees	5,936	6,024	7,164	7,260
Number of shares outstanding (FYE)	49,773,807	49,773,807	49,773,807	49,773,807

*1 U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥110.71 = US\$1.00 as of March 31, 2021.

*2 Partial revisions to accounting standards for tax-benefit accounting (Corporate Accounting Standard No. 28, February 16, 2018) have been adopted from the fiscal year ended March 31, 2019. Accordingly, the figures for the fiscal year ended March 31, 2015 to the fiscal year ended March 31, 2018 have been retroactively adjusted to comply with this revision.

*3 On June 1, 2020, NESIC conducted a 3-for-1 common stock split. Per share indicators are calculated on the assumption that the stock split was conducted at the beginning of the fiscal year ended March 31, 2012.

*4 ROE (Return on Equity): Net income attributable to owners of the parent / Owner's equity during the term [Average of owner's equity at the beginning of the term and at the end of the term] x 100

*5 ROA (Return on Assets): Ordinary income / Total assets during the term [Average of total assets at the beginning of the term and at the end of the term] x 100

FY2016/3	FY2017/3	FY2018/3	FY2019/3	FY2020/3	FY2021/3	
					(Thousands of U.S. dollars) *1	
¥274,946	¥279,241	¥287,831	¥284,739	¥304,978	¥336,877	\$3,042,877
279,961	257,912	267,939	277,949	303,616	339,109	3,063,038
45,162	42,585	44,265	47,681	54,374	63,929	577,445
14,111	9,974	11,057	12,774	16,245	25,563	230,900
5.0	3.9	4.1	4.6	5.4	7.5	—
5,996	6,549	7,357	8,885	9,422	15,745	142,218
					(Thousands of U.S. dollars) *1	
¥196,505	¥197,386	¥207,643	¥216,171	¥230,244	¥250,338	\$2,261,204
94,397	96,674	101,732	107,608	113,510	127,117	1,148,197
92,738	94,611	99,473	104,888	110,366	123,682	1,117,170
					(Thousands of U.S. dollars) *1	
¥ 9,435	¥22,634	¥ 4,779	¥ 8,396	¥12,935	¥17,383	\$157,013
(2,822)	(2,697)	(2,802)	(5,604)	(6,726)	(4,289)	(38,740)
6,613	19,936	1,976	2,791	6,208	13,093	118,263
(1,402)	(4,144)	(4,366)	(5,615)	(2,300)	(2,388)	(21,569)
43,889	59,648	57,281	54,354	58,321	68,426	618,065
					(U.S. dollars) *1	
¥ 40.26	¥ 43.98	¥ 49.41	¥ 59.67	¥ 63.28	¥105.73	\$0.95
622.75	635.34	668.01	704.40	741.12	830.47	7.50
23.33	24.00	24.66	26.00	27.33	35.00	0.31
6.5	7.0	7.6	8.7	8.8	13.5	—
7.1	5.1	5.4	6.1	7.1	10.6	—
47.2	47.9	47.8	48.5	47.9	49.4	—
3.8	3.8	3.8	3.8	3.8	4.5	—
57.9	54.6	49.9	43.6	43.2	33.1	—
7,464	7,572	7,657	7,743	7,818	7,537	—
49,773,807	49,773,807	49,773,807	49,773,807	49,773,807	149,321,421	—

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2021	2021
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 58,321	¥ 68,426	\$ 618,065
Notes and accounts receivable (note 23)	112,358	123,313	1,113,837
Electronically recorded monetary claims	728	1,256	11,344
Inventories (note 6)	13,158	11,509	103,956
Other current assets	7,359	7,388	66,732
Allowance for doubtful accounts	(77)	(87)	(785)
Total current assets	191,847	211,806	1,913,160
Non-current assets:			
Property and equipment			
Land	1,429	1,507	13,612
Buildings and structures	9,930	10,881	98,283
Machinery, equipment and vehicles	161	249	2,249
Tools, furniture and fixtures	15,400	15,900	143,618
Construction in progress	482	890	8,039
Other	605	671	6,060
Accumulated depreciation	(19,067)	(19,255)	(173,922)
Property and equipment, net	8,942	10,845	97,958
Intangibles, net of accumulated amortization (note 7)	5,847	4,908	44,332
Investments and other assets			
Investment securities (notes 4 and 5)	1,454	1,973	17,821
Asset for retirement benefits (note 10)	168	313	2,827
Deferred tax assets (note 9)	16,520	15,198	137,277
Other assets (note 23)	5,519	5,347	48,297
Allowance for doubtful accounts	(56)	(54)	(487)
Total investments and other assets	23,606	22,777	205,735
Total non-current assets	38,397	38,531	348,035
Total assets	¥230,244	¥250,338	\$2,261,204

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2021	2021
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (note 8)	¥ 4,632	¥ 6,360	\$ 57,447
Current installments of long-term debt (note 8)	298	3,298	29,789
Notes and accounts payable (note 23)	41,666	44,188	399,132
Electronically recorded obligations	1,441	2,649	23,927
Advances received (note 23)	6,181	7,708	69,623
Accrued income taxes (note 9)	3,580	5,954	53,780
Accrued bonuses to directors	139	159	1,436
Accrued warranty on products	105	83	749
Accrued losses on sales contracts (note 6)	2,159	512	4,624
Provision for compensation for damage	1,326	711	6,422
Provision for office transfer cost	218	6	54
Other current liabilities	18,376	19,841	179,215
Total current liabilities	80,128	91,474	826,248
Non-current liabilities:			
Long-term debt (note 8)	3,764	466	4,209
Liability for retirement benefits (note 10)	31,215	29,233	264,050
Other liabilities (notes 9 and 11)	1,625	2,046	18,480
Total non-current liabilities	36,605	31,745	286,740
Total liabilities	116,734	123,220	1,112,997
Shareholders' equity (note 12):			
Common stock:	13,122	13,122	118,525
Authorized 300,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2020 and 149,321,421 shares at March 31, 2021			
Capital surplus	16,664	16,680	150,663
Retained earnings	84,972	96,589	872,450
Treasury stock, at cost; 134,067 shares at March 31, 2020 and 390,930 shares at March 31, 2021	(271)	(266)	(2,402)
Total shareholders' equity	114,488	126,125	1,139,237
Accumulated other comprehensive income:			
Net unrealized holding gains on available-for-sale securities (note 4)	30	169	1,526
Deferred gains or losses on hedges	25	—	
Foreign currency translation adjustments	(392)	(533)	(4,814)
Accumulated adjustments for retirement benefits (note 10)	(3,783)	(2,080)	(18,787)
Total accumulated other comprehensive income	(4,121)	(2,443)	(22,066)
Non-controlling interests	3,143	3,435	31,027
Total net assets	113,510	127,117	1,148,197
Total liabilities and net assets	¥230,244	¥250,338	\$2,261,204

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

* The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. The number of common stock and treasury stock as stated above as of March 31, 2020 do not take the stock split into account.

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2021	2021
Net sales (note 23)	¥303,616	¥339,109	\$3,063,038
Cost of sales (notes 6 and 23)	249,242	275,179	2,485,583
Gross profit	54,374	63,929	577,445
Selling, general and administrative expenses (notes 15 and 16)	38,128	38,366	346,545
Operating income	16,245	25,563	230,900
Other income (expense):			
Interest income	38	22	198
Interest expense	(112)	(97)	(876)
Dividends income of insurance	117	142	1,282
Reward income	52	67	605
Mid cancellation income	—	97	876
Loss on disposal of non-current assets	(184)	(191)	(1,725)
Other, net	(218)	(111)	(1,002)
Subtotal	(307)	(69)	(623)
Ordinary Income	15,938	25,493	230,268
Extraordinary income			
Gain on sale of shares of subsidiaries and associates	—	228	2,059
Subtotal	—	228	2,059
Extraordinary loss			
Impairment loss (note 17)	1,788	—	—
Provision of allowance for compensation for damage (note 18)	1,253	976	8,815
Office transfer cost	372	—	—
Subtotal	3,415	976	8,815
Income before income taxes	12,522	24,745	223,511
Income taxes (note 9):			
Current	5,657	7,894	71,303
Deferred	(2,894)	465	4,200
Subtotal	2,763	8,360	75,512
Net Income	9,759	16,385	147,999
Net Income attributable to:			
Non-controlling interests	336	639	5,771
Owners of the parent	¥ 9,422	¥ 15,745	\$ 142,218
Per share information (note 12, 20):			
Net assets (basic)	¥741.12	¥830.47	\$7.50
Net income (basic)	63.28	105.73	0.95
Cash dividends	27.33	35.00	0.31

See notes to consolidated financial statements.

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2021	2021
Net Income	¥9,759	¥16,385	\$147,999
Other comprehensive income arising during the year (note 19):			
Net unrealized holding loss on available-for-sale securities	(1)	139	1,255
Deferred gains or losses on hedges	25	(25)	(225)
Foreign currency translation adjustments	185	(219)	(1,978)
Adjustments for retirement benefit	(89)	1,703	15,382
Share of other comprehensive income of entities accounted for using equity method	0	(0)	(0)
Total other comprehensive income arising during the year	120	1,598	14,434
Comprehensive income	¥9,879	¥17,983	\$162,433
Comprehensive income attributable to:			
Owners of the parent	¥9,436	¥17,423	\$157,375
Non-controlling interests	443	560	5,058

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	Numbers of shares of common stock (Thousands)	Millions of yen				Total
		Common stock	Capital surplus	Shareholders' equity		
				Retained earnings	Treasury stock	
Balance at April 1, 2019	49,773	¥13,122	¥16,659	¥79,520	¥(279)	¥109,022
Changes arising during the year:						
Cash dividends				(3,971)		(3,971)
Profit attribute to owners of the parent				9,422		9,422
Purchase of treasury stock					(4)	(4)
Disposition of treasury stock			5		11	16
Net changes in accounts other than shareholders' equity						
Total changes during the year	—	—	5	5,452	7	5,465
Balance at March 31, 2020	49,773	13,122	16,664	84,972	(271)	114,488
Changes arising during the year:						
Cash dividends				(4,169)		(4,169)
Profit attribute to owners of the parent				15,745		15,745
Purchase of treasury stock					(3)	(3)
Disposition of treasury stock			18		8	27
Change in scope of consolidation			(3)	41		37
Increase due to stock split	99,547					
Net changes in accounts other than shareholders' equity						
Total changes during the year	99,547	—	15	11,616	5	11,637
Balance at March 31, 2021	149,321	¥13,122	¥16,680	¥96,589	¥(266)	¥126,125

	Millions of yen						Total net assets
	Accumulated other comprehensive income						
	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Non-controlling interests	
Balance at April 1, 2019	¥31	¥ —	¥(471)	¥(3,694)	¥(4,134)	¥2,719	¥107,608
Changes arising during the year:							
Cash dividends							(3,971)
Profit attribute to owners of the parent							9,422
Purchase of treasury stock							(4)
Disposition of treasury stock							16
Net changes in accounts other than shareholders' equity	(1)	25	79	(89)	13	423	437
Total changes during the year	(1)	25	79	(89)	13	423	5,902
Balance at March 31, 2020	30	25	(392)	(3,783)	(4,121)	3,143	113,510
Changes arising during the year:							
Cash dividends							(4,169)
Profit attribute to owners of the parent							15,745
Purchase of treasury stock							(3)
Disposition of treasury stock							27
Change in scope of consolidation							37
Net changes in accounts other than shareholders' equity	139	(25)	(140)	1,703	1,677	292	1,969
Total changes during the year	139	(25)	(140)	1,703	1,677	292	13,607
Balance at March 31, 2021	¥169	¥ —	¥(533)	¥(2,080)	¥(2,443)	¥3,435	¥127,117

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2020	\$118,525	\$150,519	\$767,518	\$(2,447)	\$1,034,125
Changes arising during the year:					
Cash dividends			(37,656)		(37,656)
Net income			142,218		142,218
Purchase of treasury stock				(27)	(27)
Disposition of treasury stock		162		72	243
Change in scope of consolidation		(27)	370		334
Net changes in accounts other than shareholders' equity					
Total changes during the year	—	135	104,922	45	105,112
Balance at March 31, 2021	\$118,525	\$150,663	\$872,450	\$(2,402)	\$1,139,237

	Thousands of U.S. Dollars (note 3)						
	Accumulated other comprehensive income						
	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Non-controlling interests	Total net assets
Balance at April 1, 2020	\$ 270	\$ 225	\$(3,540)	\$(34,170)	\$(37,223)	\$28,389	\$1,025,291
Changes arising during the year:							
Cash dividends							(37,656)
Net income							142,218
Purchase of treasury stock							(27)
Disposition of treasury stock							243
Change in scope of consolidation							334
Net changes in accounts other than shareholders' equity	1,255	(225)	(1,264)	15,382	15,147	2,637	17,785
Total changes during the year	1,255	(225)	(1,264)	15,382	15,147	2,637	122,906
Balance at March 31, 2021	\$1,526	\$ —	\$(4,814)	\$(18,787)	\$(22,066)	\$31,027	\$1,148,197

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2021	2021
Cash flows from operating activities:			
Net income before income taxes	¥12,522	¥ 24,745	\$ 223,511
Depreciation and amortization	3,572	3,256	29,410
Amortization of goodwill	247	238	2,149
Impairment loss	1,788	—	—
Increase (decrease) in allowance for doubtful accounts	(13)	10	90
(Increase) decrease in asset for retirement benefits	208	(102)	(921)
Increase (decrease) in liability for retirement benefits	450	454	4,100
Increase (decrease) in accrued bonuses to directors	21	19	171
Increase (decrease) in accrued warranty on products	(8)	(21)	(189)
Increase (decrease) in accrued losses on sales contracts	178	(1,646)	(14,867)
Increase (decrease) in provision for compensation for damage	1,326	(615)	(5,555)
Interest and dividend income	(62)	(47)	(424)
Interest expense	112	97	876
(Increase) decrease in notes and accounts receivable	(5,719)	(12,908)	(116,592)
(Increase) decrease in inventories	29	1,645	14,858
Increase (decrease) in notes and accounts payable	2,010	3,799	34,314
Other, net	1,500	4,072	36,780
Subtotal	18,167	22,998	207,731
Interest and dividend received	62	47	424
Interest paid	(112)	(97)	(876)
Income taxes paid	(5,182)	(5,565)	(50,266)
Net cash provided by operating activities	12,935	17,383	157,013

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2021	2021
Cash flows from investing activities:			
Purchase of property and equipment	(3,004)	(3,025)	(27,323)
Proceeds from sale of property and equipment	19	11	99
Purchase of intangibles	(995)	(663)	(5,988)
Proceeds from sales of intangibles	0	0	0
Purchase of investment securities	(936)	(450)	(4,064)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(68)	—	—
Proceeds from sales of shares of subsidiaries and associates	—	330	2,980
Loans receivable made	(2)	(17)	(153)
Collection of loans receivable	1	1	9
Other, net	(1,741)	(477)	(4,308)
Net cash used in investing activities	(6,726)	(4,289)	(38,740)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	2,268	2,477	22,373
Repayments of long-term debt	(264)	(298)	(2,691)
Proceeds from long-term debt	200	—	—
Proceeds from sale and purchase of treasury stock, net	(4)	(3)	(27)
Dividends paid to shareholders	(3,965)	(4,162)	(37,593)
Dividends paid to non-controlling interest	(23)	(23)	(207)
Proceeds from share issuance to non-controlling interest	3	—	—
Other, net	(514)	(379)	(3,423)
Net cash used in financing activities	(2,300)	(2,388)	(21,569)
Effect of exchange rate changes on cash and cash equivalents	58	(66)	(596)
Net increase (decrease) in cash and cash equivalents	3,967	10,638	96,088
Cash and cash equivalents at beginning of year	54,354	58,321	526,790
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(532)	(4,805)
Cash and cash equivalents at end of year	¥58,321	¥ 68,426	\$ 618,065

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
March 31, 2020 and 2021

1. BASIS OF PREPARATION

NEC Networks & System Integration Corporation (the "Company") and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan. Its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Japanese Financial Instruments and Exchange Law and, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRSs.

As permitted by the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company has 18 subsidiaries (companies over which the Company can control their operations) as of March 31, 2021 (19 subsidiaries as of March 31, 2020) (the "Group").

(Changes in the scope of consolidation)

Q&A Works Co., Ltd. that had been included in the previous fiscal year's consolidated financial statements was excluded from the scope of consolidation because of decline in the ratio of voting rights held by the Company resulted from Q&A Works Co., Ltd.'s capital increase through third-party allocation in June 2020. Q&A Works Co., Ltd. is now included in affiliates accounted for using equity method from the current fiscal year.

The accompanying consolidated financial statements include the accounts of the Company and the significant companies controlled directly or indirectly by the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements of the 6 subsidiaries with year-end of December 31 have been used for consolidation. All material transactions that occurred in the period from such year-end to March 31, which is the Company's year-end, have been adjusted.

The difference between the carrying amount and the underlying net assets at fair value at the respective dates of acquisition is allocated to identifiable assets and liabilities based on fair market value at the dates of acquisition. The unallocated portion of the difference, which is recognized as goodwill, is amortized by the straight-line method over a period of up to 20 years in which the future benefit of each investment is expected.

The Company also has 3 affiliates accounted for using equity method.

If the year-end of affiliates differs from that of the Company, financial statements prepared by their year-end are utilized in consolidation.

(Changes in the scope of affiliates accounted for using equity method)

- (1) Q&A Works Co., Ltd. that had been included in the previous fiscal year's consolidated financial statements was excluded from the scope of consolidation because of decline in the ratio of voting rights held by the Company resulted from Q&A Works Co., Ltd.'s capital increase through third-party allocation in June 2020. Q&A Works Co., Ltd. is now included in affiliates accounted for using equity method from the current fiscal year.
- (2) Imagica Alobase Co., Ltd. that had been an affiliate accounted for using equity method was excluded from the scope of affiliates as a result of the Company's disposal of all the shares by sale in June 2020.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the foreign subsidiaries are translated into yen at the average exchange rates prevailing during the year, and, except for the components of shareholders' equity, the balance sheet accounts are translated at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments, except for the portion included in non-controlling interests, are presented as a separate component of net assets in the accompanying consolidated financial statements.

(c) Cash equivalents

Cash and cash equivalents include all highly liquid investments – generally with original maturities of three months or less – that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

(d) Investment securities

Marketable securities classified as available-for-sale securities are measured at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. Cost of securities sold is determined by the moving-average method. Investments to investment limited partnerships (that are regarded as securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act.), are recognized at an amount equivalent to the Company's percentage share of the net assets of such partnerships, based on the latest financial statements available at the reporting date stipulated in a partnership agreement.

(e) Inventories

Work in process is stated at the lower of cost or net selling value determined on a specific project basis. Purchased goods and materials are stated at the lower of cost or net selling value determined primarily by the moving-average method.

(f) Depreciation and amortization

Depreciation of property and equipment is principally computed by the straight-line method.

Significant renewals and improvements are capitalized. Maintenance and repair costs are charged to expense.

The useful lives of property and equipment are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 17 years
Tools, furniture and fixtures	2 to 20 years

Intangibles are amortized by the straight-line method over their estimated useful lives.

Software for sale is amortized based on projected sales volumes over the estimated effective periods (within 3 years). Software for internal use is amortized by the straight-line method over the estimated useful lives (within 5 years).

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(h) Accrued warranty on products

Accrued warranty on products is provided for at the estimated warranty cost.

(i) Accrued losses on sales contracts

Accrued losses on sales contracts are provided for in the amount of estimated losses for work in process at the balance sheet date. Among sales orders of the Company on hand at the balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order, such excess costs on sales contracts are accrued.

(j) Provision for compensation for damage

Provision for compensation for damage is provided for at the amount of estimated compensation for damage.

(k) Provision for office transfer cost

Provision for office transfer cost is provided for at the amount of estimated losses occurred in the process of office transfer.

(l) Leases

Leased assets under finance lease transactions that do not transfer ownership are depreciated by using the straight-line method over the lease term as their useful lives with zero residual value.

(m) Research and development costs

Research and development costs are charged to expense as incurred.

(n) Retirement benefits

Liability for retirement benefits is provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of services of the eligible employees. Actuarial gain or loss is amortized from the subsequent year that it occurs by the straight-line method within the average remaining years (10 to 18 years) of service of the employees. Past service costs are amortized beginning from the year it is incurred by the straight-line method within the average remaining years (12 to 18 years) of service of the employees.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit asset and liability and retirement benefit costs.

For lump-sum payment plans, the payment for voluntary retirement at fiscal year-end is deemed as retirement benefit obligation, and for annuity payment plans, the actuarial obligation on pension finance calculation in the recent years is deemed as the retirement benefit obligation.

(o) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(p) Derivative financial instruments

Derivatives are recorded at their fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is directly included in net assets.

Methods for significant hedge accounting

(i) Hedge accounting method

Deferral hedge accounting is applied. For forward exchange contracts, the allocation method is applied if the criteria for the allocation method are met.

(ii) Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts
Hedged items: Any monetary receivables and payables and planned trading transactions that are denominated in foreign currencies.

(iii) Hedging policy

The Company uses derivative transaction in accordance with internal policies to mitigate and avoid the foreign exchange fluctuation risk.

(iv) Hedging evaluation

Hedge effectiveness is evaluated by comparing the total changes in values of hedging instruments and hedged items for the periods from the commencement of hedge contracts to the evaluation dates. For forward exchange contracts which meet the criteria

for the allocation method, the evaluation of hedge effectiveness is omitted.

(q) Revenue recognition

The percentage-of-completion method is applied if the outcome of the construction activity can be estimated reliably, otherwise, the completed-contract method is applied. The percentage of completion as of the end of the reporting period is estimated based on the percentage of the cost incurred to the estimated total cost.

(r) Accrued bonuses to directors

The Company and its domestic consolidated subsidiaries provide accrued bonuses to directors based on the estimated amounts to be paid in respect of the year.

(s) Accounting for consumption taxes

Consumption taxes generally withheld upon sale, as well as those paid for purchases of goods or services, are recorded as a liability or an asset, and are excluded from relevant revenue, costs, or expenses.

(t) Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2020 to conform to the presentation for the year ended March 31, 2021.

“Insurance benefit” under “Other income (expense)” which was presented separately in the year ended March 31, 2020, are included in “Other, net” from the year ended March 31, 2021 due to a decrease in materiality. To reflect this change in presentation, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2020. As a result, the amount of ¥65 million of “Insurance benefit” and ¥195 million of “Other” in the year ended March 31, 2020 were reclassified into ¥261 million of “Other”.

“Foreign exchange loss”, “Loss on valuation of investment securities”, and “Compensation for damage” under “Other income (expense)” which were presented separately in the year ended March 31, 2020, are included in “Other, net” from the year ended March 31, 2021 due to a decrease in materiality.

To reflect this change in presentation, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2020 to conform to the presentation for the year ended March 31, 2021. As a result, the amount of ¥95 million of “Foreign exchange loss”, ¥116 million of “Loss on valuation of investment securities”, ¥108 million of “Compensation for damage”, and ¥159 million of “Other” under “Other income (expense)” in the year ended March 31, 2020 were reclassified into ¥479 million of “Other”.

(u) Significant accounting estimates

1. The percentage-of-completion method for revenue recognition
- (1) Carrying amounts in the current year’s consolidated financial statements
Carrying amounts in the consolidated financial statements
¥105,736 million (\$955,071 thousand)

- (2) Information on the nature of significant accounting estimates for identified items

Other information that assists users of financial statements in understanding the nature of the estimates Revenue is recognized by the percentage of completion method as of the end of the reporting period that is estimated based on the percentage of the cost incurred to the estimated total cost. Estimates and underlying assumptions are reconsidered if necessary and the effect of the changes to accounting estimates is recognized in the reporting period in which the amount can be estimated reliably. Also, the initial estimates may be changed due to the changes in original estimates and underlying assumptions of the future total cost such as design change or a natural disaster. Thus, the changes could materially affect the Company’s consolidated financial statements in future periods.

2. Accrued losses on sales contracts

- (1) Carrying amounts in the current year’s consolidated financial statements
Carrying amounts in the consolidated financial statements
¥512 million (\$4,624 thousand)

- (2) Information on the nature of significant accounting estimates for identified items

Other information that assists users of financial statements in understanding the nature of the estimates Among sales orders on hand at the balance sheet date and for projects in which the total estimated cost is expected to exceed the contract amount, such excess costs on sales contracts are accrued for future losses that would occur in the following fiscal years.

In estimation of accrued losses on sales contracts, the Company manages the risk control for each contract through the process of the projects and for projects in which the estimated cost is expected to exceed the contract amount, such excess costs on sales contracts are accrued. Also, the initial estimated accrued losses may possibly be revised due to the changes in estimates and underlying assumptions of the future total cost such as design change or a natural disaster. Thus, the changes could materially affect the Company’s consolidated financial statements in future periods.

(v) Accounting standards and guidance issued but not yet adopted

The following accounting standards and guidance were issued but not yet adopted.

1. “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 (revised 2020), March 31, 2020)
“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 (revised 2021), March 26, 2021)
“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 (revised 2020), March 31, 2020)

(1) Overview

International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) had jointly developed comprehensive accounting standards on revenue recognition and had issued “Revenue from Contracts with Customers” (which is called “IFRS 15” in IASB, and “Topic 606” in FASB) in May 2014, and IFRS 15 applies to an annual reporting period beginning on or after January 1 2018, and Topic 606 applies to an annual reporting period beginning after December 15, 2017. In these circumstances, the ASBJ has developed comprehensive accounting standards on revenue recognition and has issued the above accounting standard and implementation guidance.

The ASBJ followed two policies in developing a new revenue standard. Basically, incorporate all IFRS 15 requirements for international comparability as one of the benefits from conformity with IFRS 15, and consider additional alternative treatments where they would make application easier for the practice of business in Japan, within the extent of that would not significantly hinder international comparability.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

2. “Accounting Standard for Fair Value Measurement”

(ASBJ Statement No. 30, July 4, 2019)

“Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 (revised 2019), July 4, 2019)

“Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 (revised 2019), July 4, 2019)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 (revised 2020), March 31, 2020)

(1) Overview

International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) had issued mostly the same detailed guidance on measurement of fair value (which is called “IFRS 13 Fair Value Measurement” in IASB, and “Topic 820 Fair Value Measurement” of Accounting Standards Codification in FASB). In these circumstances, the ASBJ has achieved to ensure consistency with international accounting standards on guidance and disclosure related to fair value measurement, mainly of financial instruments and has issued the above accounting standard and implementation guidance.

The ASBJ utilized a unified measurement method as basic policy in developing accounting standard for fair value measurement to improve comparability of financial statements among companies in domestic and overseas. Basically, incorporate all IFRS 13 requirements for international comparability, and consider other treatments for individual items where they would make application easier for the practice of business in Japan, within the extent of that would not significantly hinder international comparability.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

Application of these new standard and guidance would not affect the consolidated financial statements.

(w) Changes in presentation method

(Adoption of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company and its subsidiaries adopted ASBJ Statement No. 31 “Accounting Standard for Disclosure of Accounting Estimates” (March 31, 2020) to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements.

The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

(x) Additional information

As for the influence by Novel Coronavirus Disease (hereinafter, the Disease), there was no significant impact to the Group in the year ended March 31, 2021. The Disease would have pervasive influence on economy and corporate activities and it is difficult to forecast how the Disease would spread further or when the situation would get resolved. Under this circumstance, the Group has made the accounting estimates such as recoverability of deferred tax assets on the assumption that the influence would not be material at the moment.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥110.71 = U.S.\$1.00, the approximate rate of exchange on March 31, 2021. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. INVESTMENT SECURITIES

The components of unrealized gain or loss on marketable securities classified as available-for-sale securities on March 31, 2020 and 2021 are summarized as follows:

March 31, 2020	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥116	¥ 80	¥ 35
Subtotal	116	80	35
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	39	58	(18)
Subtotal	39	58	(18)
Total	¥156	¥138	¥ 17

March 31, 2021	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥138	¥108	¥29	\$1,246	\$ 975	\$261
Subtotal	138	108	29	1,246	975	261
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	9	15	(5)	81	135	(45)
Subtotal	9	15	(5)	81	135	(45)
Total	¥148	¥124	¥24	\$1,336	\$1,120	\$216

Sales of securities classified as available-for-sale securities for the years ended March 31, 2020 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Proceeds from sales	¥1	¥23	\$207
Gain (Loss) on sales	0	(1)	(9)

Unlisted equity securities of ¥380 million and ¥336 million (\$3,034 thousand), investment partnership of ¥672 million and ¥1,019 million (\$9,204 thousand), corporate bond type bonds with stock acquisition rights of ¥108 million and ¥221 million (\$1,996 thousand) at March 31, 2020 and 2021, respectively, are not included in the above table because there is no market value thereof and future cash flows cannot be estimated therefor, thus, making it extremely difficult to measure the fair value.

Impairment loss recognized on investment securities during the fiscal year ended March 31, 2020, the Company recognized impairment losses of ¥0 million and ¥107 million on available-for-sale securities with and without market value, respectively. During the fiscal year ended March 31, 2021, the Company recognized

impairment losses of ¥0 million (\$0 thousand) and ¥44 million (\$397 thousand) on available-for-sale securities with and without market value, respectively.

Marketable securities whose fair value as at fiscal year-end has declined by 50% or more, the carrying value are reduced to its fair value, except in cases where the decline in fair value is expected to be recoverable. If the decline in their market value is between 30% and 50%, the carrying value are reduced to the amount that is necessary, except in cases where the decline in fair value is expected to be recoverable. Non-marketable securities are impaired if the net asset per share has declined by 50% or more due to deterioration of issuers' financial conditions.

5. INVESTMENT IN AN AFFILIATE

The aggregate carrying amount of investment in an affiliate as of March 31, 2020 and 2021 are ¥137 million and ¥247 million (\$2,231 thousand), respectively.

6. INVENTORIES

a) Inventories on March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Work in process	¥ 8,259	¥ 8,052	\$ 72,730
Purchased goods and materials	4,898	3,456	31,216
Total	¥13,158	¥11,509	\$103,956

b) Losses from revaluation of the lower of cost or net selling value included in cost of sales for the years ended March 31, 2020 and 2021 were ¥-37 million and ¥-76 million (\$-686 thousand), respectively.

c) Losses on sales contracts included in cost of sales for the years ended March 31, 2020 and 2021 were ¥1,511 million and ¥132 million (\$1,192 thousand), respectively.

d) Accrued losses on sales contracts and work in process corresponding to the loss contract are not offset in the accompanying consolidated balance sheets.

Work in process inventories corresponding to accrued losses on sales contracts on March 31, 2020 and 2021 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Work in process	¥36	¥31	\$280

7. GOODWILL

Goodwill on March 31, 2020 and 2021 is recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Intangibles, net of accumulated amortization	¥899	¥623	\$5,627

According to Article 32 of the "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (Accounting Practice Committee Statement No. 7 amended on November 28, 2014 by the Japan Institute of Certified Public Accountants), goodwill is amortized.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans and long-term debt are unsecured.

The weighted average interest rates of current installments of long-term debt for the years ended March 31, 2020 and 2021 were approximately 0.5% and 0.4% and those of long-term debt for the years ended March 31, 2020 and 2021 were approximately 0.4% and 0.5%, respectively.

The annual maturities of long-term debt on March 31, 2021 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2022	¥3,298	\$29,789
2023	264	2,384
2024	201	1,815
2025	—	—
2026 and thereafter	—	—

As of March 31, 2020 and 2021, the Group have entered contracts for committed credit lines totaling ¥8,000 million and ¥8,000 million (\$72,260 thousand), respectively with two domestic banks and have unused committed lines of credit amounting to ¥8,000 million and ¥8,000 million, respectively.

9. INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise, and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 30.6% and 30.6% for 2020 and 2021, respectively. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2020 and 2021 differed from the statutory tax rate for the following reasons:

	2020	2021
Statutory tax rate	30.6%	30.6%
Effect of:		
Expenses not deductible for tax purposes	1.5	0.6
Inhabitant tax per capita levy	1.2	0.6
Tax credit	(1.4)	(0.3)
Increase/(Decrease) in valuation allowance	(10.4)	1.3
Amortization of goodwill	0.2	0.1
Other, net	0.4	0.9
Effective tax rate	22.1%	33.8%

Tax effects of significant temporary differences and tax loss carry-forward that resulted in deferred tax assets or liabilities on March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,515	¥ 2,786	\$ 25,164
Social security contribution on employees' bonuses	352	389	3,513
Allowance for doubtful accounts	25	28	252
Accrued enterprise tax	297	417	3,766
Loss on revaluation of inventories	1,299	1,279	11,552
Unrealized profit on inventories	21	21	189
Accrued losses on sales contracts	656	153	1,381
Depreciation	331	298	2,691
Asset retirement obligations	368	494	4,462
Liability for retirement benefits	9,623	8,982	81,130
Stock dividends	106	106	957
Impairment loss on investment securities	62	63	569
Impairment loss on assets	539	539	4,868
Allowance for compensation for damage	406	217	1,960
Provision for office transfer cost	68	2	18
Tax loss carry-forward (Note 2)	1,159	1,126	10,170
Other	574	604	5,455
Subtotal	18,409	17,512	158,179
Valuation allowance on tax loss carry-forward (Note 2)	(352)	(623)	(5,627)
Valuation allowance on total deductible temporary differences and other	(976)	(960)	(8,671)
Subtotal (Note 1)	(1,328)	(1,584)	(14,307)
Total	17,081	15,927	143,862
Deferred tax liabilities:			
Asset for retirement benefits	(43)	(71)	(641)
Restoration cost for asset retirement obligations	(203)	(354)	(3,197)
Goodwill	(151)	(100)	(903)
Liability adjustment account	(134)	(126)	(1,138)
Other	(27)	(76)	(686)
Total	(560)	(729)	(6,584)
Net deferred tax assets	¥16,520	¥15,198	\$137,277

(Note)

1. Valuation allowance on tax loss carry-forward was increased by ¥256 million (\$2,312 thousand). The increase mainly results from reassessment of recoverability of deferred tax assets.

2. The amounts of tax loss carry-forward and related deferred tax assets by carry-forward period

	Millions of yen						Total
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	
March 31, 2020							
Tax loss carry-forward (*1)	¥ 5	¥ 10	¥ 2	¥35	¥759	¥ 346	¥1,159
Valuation allowance	(5)	(10)	(2)	(0)	(0)	(333)	(352)
Deferred tax assets	—	—	—	34	758	13	807(*2)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of yen

March 31, 2021	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Tax loss carry-forward ^(*)	¥ 10	¥ 1	¥ 5	¥ 748	¥ 0	¥ 360	¥1,126
Valuation allowance	(10)	(1)	(1)	(299)	(0)	(310)	(623)
Deferred tax assets	—	—	4	448	—	49	502 ^(**)

Thousands of U.S. dollars

March 31, 2021	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Tax loss carry-forward ^(*)	\$ 90	\$ 9	\$45	\$ 6,756	\$ 0	\$ 3,251	\$10,170
Valuation allowance	(90)	(9)	(9)	(2,700)	(0)	(2,800)	(5,627)
Deferred tax assets	—	—	36	4,046	—	442	4,534 ^(**)

(*) Tax loss carry-forward is after multiplying the statutory tax rate.

(**) Deferred tax assets of ¥807 million and ¥502 million (\$4,534 thousand) are recognized for tax loss carry-forward of ¥1,159 million and ¥1,126 million (\$10,170 thousand) for the years ended March 31, 2020 and 2021, respectively, which are after multiplying the statutory tax rate, of the consolidated subsidiaries.

As for the above tax loss carry-forward, valuation allowance has not been recognized for the part that deemed to be recoverable since future taxable income will be available.

10. RETIREMENT BENEFIT PLANS

The Company and its consolidated subsidiaries have funded or unfunded defined benefit plans and defined contribution plans.

Lump-sum or annuity payments are paid from the corporate defined benefit pension plans, all of which are funded based on the employees' job grade and length of service.

Lump-sum payments are paid from unfunded lump-sum payment plans based on the employees' job grade, performance and length of service.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit asset and liability and retirement benefit costs.

For lump-sum payment plans, the payment for voluntary retirement at fiscal year-end is deemed as retirement benefit obligation, and for annuity payment plans, the actuarial obligation on pension finance calculation in the recent years is deemed as the retirement benefit obligation.

The information for the Company's and the consolidated subsidiaries' defined benefit plans on March 31, 2020 and 2021 for the years then ended is as follows.

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Retirement benefit obligation at beginning of year	¥60,226	¥60,209	\$543,844
Service cost	2,604	2,844	25,688
Interest cost	528	519	4,687
Actuarial gain or loss	(426)	(345)	(3,116)
Benefits paid	(2,720)	(3,123)	(28,208)
Other	(2)	95	858
Retirement benefit obligation at end of year	¥60,209	¥60,199	\$543,753

(Note) The above table excludes certain plans that have adopted the simplified method.

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Plan assets at beginning of year	¥30,358	¥29,587	\$267,247
Expected return on plan assets	751	734	6,629
Actuarial gain or loss	(1,356)	1,539	13,901
Contributions paid by the employer	1,115	1,123	10,143
Benefits paid	(1,278)	(1,396)	(12,609)
Other	(2)	6	54
Plan assets at end of year	¥29,587	¥31,596	\$285,394

(Note) The above table excludes certain plans that have adopted the simplified method.

(3) Reconciliation of changes in liability for retirement benefits whose plans adopted the simplified method

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Liability for retirement benefits at beginning of year	¥376	¥424	\$3,829
Retirement benefit costs	103	(32)	(289)
Benefits paid	(39)	(44)	(397)
Other	(15)	(30)	(270)
Liability for retirement benefits at end of year	¥424	¥316	\$2,854

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded retirement benefit obligation	¥ 32,026	¥ 32,089	\$ 289,847
Plan assets	(30,018)	(32,089)	(289,847)
	2,007	0	0
Unfunded retirement benefit obligation	29,038	28,919	261,213
Net liability for retirement benefits	¥ 31,046	¥ 28,919	\$ 261,213
Liability for retirement benefits	¥ 31,215	¥ 29,233	\$ 264,050
Asset for retirement benefits	(168)	(313)	(2,827)
Net liability for retirement benefits	¥ 31,046	¥ 28,919	\$ 261,213

(Note) The above table includes certain plans that have adopted the simplified method.

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Service cost	¥2,604	¥2,844	\$25,688
Interest cost	528	519	4,687
Expected return on plan assets	(751)	(734)	(6,629)
Net actuarial loss amortization	1,283	1,063	9,601
Past service costs amortization	(496)	(496)	(4,480)
Retirement benefit costs calculated by the simplified method	103	(32)	(289)
Other	(2)	(14)	(126)
Retirement benefit costs	¥3,269	¥3,149	\$28,443

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Past service costs	¥(496)	¥ (496)	\$ (4,480)
Actuarial gains and losses	352	2,948	26,628
Total	¥(143)	¥2,452	\$22,147

(7) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized prior service costs	¥(1,227)	¥ (731)	\$ (6,602)
Unrecognized actuarial gains and losses	6,650	3,701	33,429
Total	¥ 5,422	¥2,969	\$26,817

(8) Plan assets

(a) The components of plan assets

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Debt securities	¥13,845	¥13,681	\$123,575
Equity securities	3,972	4,914	44,386
General account	3,591	3,593	32,454
Alternative	7,904	9,200	83,099
Other	273	205	1,851
Total	¥29,587	¥31,596	\$285,394

(Note) Total plan assets include ¥220 million and ¥121 million (\$1,092 thousand) in a retirement benefit trust established for the corporate pension plan as of March 31, 2020 and 2021, respectively.
Alternative is mainly investment to hedge fund.

(b) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions on March 31, 2020 and 2021 (expressed as weighted averages) are as follows:

	2020	2021
Discount rate	0.9%	0.9%
Long-term expected rate of return	2.5%	2.5%
Expected increase rate of salary	4.1%	4.0%

The amounts to be paid by the Company and its consolidated subsidiaries to the defined contribution plans were ¥478 million and ¥495 million (\$4,471 thousand) for the years ended March 31, 2020 and 2021.

11. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations are based on estimated future restoration obligations related to leasehold contracts of head office and other facilities.

The obligations are calculated based on the estimated office rental period of 3 years to 20 years and a discounted rate of 0.0% to 2.2%.

The following table provides Company's total asset retirement obligations for the years ended March 31, 2020 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance, beginning of year	¥ 873	¥1,188	\$10,730
Obligations incurred by asset acquisition	423	576	5,202
Obligations settled	(64)	(193)	(1,743)
Accretion expense	8	8	72
Remeasurements	(52)	9	81
Others	—	(6)	(54)
Balance, end of year	¥1,188	¥1,582	\$14,289

12. SHAREHOLDERS' EQUITY

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal earnings reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal earnings reserve equals 25% of their respective stated capital. The Companies Act also

provides that additional paid-in capital and legal earnings reserve are available for appropriations by the resolution of the shareholders. The legal earnings reserve amounted to ¥546 million (\$4,931 thousand) as of both March 31, 2020 and 2021. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Cash dividends charged to retained earnings for the years ended March 31, 2020 and 2021 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

The movement of treasury stock is as follows:

	Shares	
	2020	2021
At beginning of year	138,615	134,067
Increase - purchase of odd lot shares	1,352	269,901
Decrease - sale of odd lot shares	5,900	13,038
At end of year	134,067	390,930

(Note) The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. The number of treasury stock as stated above as of March 31, 2020, do not take the stock split into account.

a) Dividends paid during the year ended March 31, 2020

The following was approved by the Board of Directors on April 26, 2019.

(a) Total dividends	¥1,985 million
(b) Cash dividends per common share	¥13.33
(c) Record date	March 31, 2019
(d) Effective date	May 31, 2019

The following was approved by the Board of Directors on October 29, 2019.

(a) Total dividends	¥1,985 million
(b) Cash dividends per common share	¥13.33
(c) Record date	September 30, 2019
(d) Effective date	December 3, 2019

(Note) The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Cash dividends per common share as stated above were calculated as if the relevant stock split was conducted at the beginning of the year ended March 31, 2020.

b) Dividends to be paid after March 31, 2020 although record date for payment falls within the year ended March 31, 2020

The following was approved by the Board of Directors on April 28, 2020.

(a) Total dividends	¥2,084 million
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥14.00
(d) Record date	March 31, 2020
(e) Effective date	June 3, 2020

(Note) The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Cash dividends per common share as stated above were calculated as if the relevant stock split was conducted at the beginning of the year ended March 31, 2020.

c) Dividends paid during the year ended March 31, 2021

The following was approved by the Board of Directors on April 28, 2020.

(a) Total dividends	¥2,084 million (\$18,823 thousand)
(b) Cash dividends per common share	¥14.00 (\$0.12)
(c) Record date	March 31, 2020
(d) Effective date	June 3, 2020

The following was approved by the Board of Directors on October 29, 2020.

(a) Total dividends	¥2,085 million (\$18,832 thousand)
(b) Cash dividends per common share	¥14.00 (\$0.12)
(c) Record date	September 30, 2020
(d) Effective date	December 2, 2020

(Note) The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Cash dividends per common share as stated above were calculated as if the relevant stock split was conducted at the beginning of the year ended March 31, 2020.

d) Dividends to be paid after March 31, 2021 although record date for payment falls within the year ended March 31, 2021

The following was approved by the Board of Directors on April 27, 2021.

(a) Total dividends	¥3,127 million (\$28,244 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥21.00 (\$0.18)
(d) Record date	March 31, 2021
(e) Effective date	June 3, 2021

13. CONTINGENT LIABILITIES

On March 31, 2020, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥0 million. On March 31, 2021, there is no amount to report.

14. LEASES

(1) Finance leases

Under finance leases that do not transfer ownership of the leased property to the lessee

Most of finance lease transactions are telecommunications equipment in Digital Solution Business, and capitalized lease assets and lease obligations in the balance sheet. Finance lease assets that do not deem to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with zero residual value.

(2) Operating leases

Future minimum operating lease payments after March 31, 2020 and 2021 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Due within one year	¥ 3,046	¥ 2,654	\$23,972
Due over one year	10,565	7,928	71,610
Total	¥13,612	¥10,583	\$95,592

15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Employees salary	¥16,553	¥18,053	\$163,065
Provision for bonuses to directors	144	146	1,318
Retirement benefit costs	1,180	1,004	9,068
Provision of allowance for doubtful accounts	—	4	36

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥720 million and ¥962 million (\$8,689 thousand) for the years ended March 31, 2020 and 2021, respectively.

17. IMPAIRMENT LOSS

The Company recognized an impairment loss on the following asset group for the year ended March 31, 2020.

Location	Use	Type	Millions of yen	Thousands of U.S. dollars
Isehara-city, Kanagawa Pref.	Training facilities	Land and Buildings, etc.	¥1,788	\$16,429

The Company conducts an impairment test by grouping the assets, mainly based on business segment classification, as a minimum unit that generates independent cash flows. As for the above assets, the Company reduced the carrying amount of the assets related to the determination of closing training facilities to the recoverable amount and recognized an impairment loss of ¥1,788 million as an extraordinary loss in consolidated statement of income. The details of impairment loss are ¥981 million for Land, ¥805 million for Buildings and Structures, and ¥2 million for Tools, furniture, and fixtures.

In addition, the recoverable amount is measured using net realizable value and the amount for Land and Buildings is based on a valuation conducted by an independent real-estate appraiser.

There is no amount to report for the year ended March 31, 2021.

18. PROVISION OF ALLOWANCE FOR COMPENSATION FOR DAMAGE

Provision of allowance for compensation for damage is provided for constructions based on the estimated loss amount reasonably calculated at the end of the current fiscal year.

19. OTHER COMPREHENSIVE INCOME

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net unrealized holding gains on available-for-sale securities:			
Unrealized holding gain (loss) arising during the year	¥ (2)	¥ 199	\$ 1,797
Reclassification adjustment for gain/loss realized in net income	0	2	18
Before tax amount	(2)	201	1,815
Tax effect	0	(62)	(560)
Net-of-tax amount	(1)	139	1,255
Deferred gains or losses on hedges			
Deferred gains or losses on hedges arising during the year	38	—	—
Reclassification adjustment for gain/loss realized in net income	—	(38)	(343)
Before tax amount	38	(38)	(343)
Tax effect	(13)	13	117
Net-of-tax amount	25	(25)	(225)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	185	(219)	(1,978)
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	185	(219)	(1,978)
Tax effect	(0)	—	—
Net-of-tax amount	185	(219)	(1,978)
Adjustments for retirement benefit:			
Adjustments for retirement benefit arising during the year	(930)	1,885	17,026
Reclassification adjustment for gain/loss realized in net income	786	567	5,121
Before tax amount	(143)	2,452	22,147
Tax effect	53	(748)	(6,756)
Net-of-tax amount	(89)	1,703	15,382
Share of other comprehensive income of entities accounted for using equity method			
Share of other comprehensive income of entities accounted for using equity method arising during the year	0	(0)	0
Total other comprehensive income	¥ 120	¥1,598	\$14,434

20. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2020	2021	2021
Net income per share	¥ 63.28	¥105.73	\$0.95
Net assets per share	741.12	830.47	7.50

(Note) The Company conducted a resolution to implement a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Net income per share and Net assets per share were calculated as if the relevant stock split were conducted at the beginning of the previous consolidated fiscal year ended March 31, 2020.

The basis of calculation for net income per share is as shown below.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net income attributable to owners of the parent	¥ 9,422	¥ 15,745	\$142,218
Amounts not attributable to common stock	—	—	—
Net income attributable to owners of the parent related to common stock	9,422	15,745	142,218
Average number of shares during the term (thousands of shares)	148,915	148,927	148,927

(Note) The Company conducted a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Average number of shares during the term was calculated as if the relevant stock split were conducted at the beginning of the previous consolidated fiscal year ended March 31, 2020.

21. FINANCIAL INSTRUMENTS

Conditions of Financial instruments

(1) Management policy

The Group makes short-term deposits or uses high-security financial instruments for fund management purposes.

The Group obtains funding for capital expenditure plans mainly through bank loans.

The Group utilizes derivative financial instruments to hedge various risks as described in detail below and does not enter derivatives for trading or speculative purposes.

(2) Financial instruments and risks

The notes, accounts receivable and electronically recorded monetary claims are exposed to credit risk of customers. Operating receivables and payables denominated in foreign currencies are exposed to foreign currency fluctuation risk.

Marketable and investment securities, except for short-term investments, are held for business and capital alliances with business associates and are exposed to stock market fluctuation risk.

Maturities of notes, accounts payable and electronically recorded obligations are within one year.

Debts are for funding capital expenditure, and their maximum maturities are 4 years and X years after the balance sheet date for the years ended March 31, 2020 and 2021, respectively. Part of the obligations has floating interest rates and is exposed to interest rate risk.

To hedge the foreign exchange rates fluctuation risk associated with operating receivables and payables denominated in foreign currencies, forward foreign exchange contracts are used.

Hedge accounting is applied for certain derivative transactions. Please refer to note 2 (p).

(3) Financial instruments risk management

1) Credit risk

To mitigate and quickly capture collectability issues, the Group regularly monitors customers' credit status, and performs due date controls and balance controls for each customer.

When the Group utilizes derivatives or deposits money and purchases securities for cash management purposes, to mitigate the counterparty risk, the counterparties to these transactions are financial institutions with high credit ratings.

2) Market risk

The Group comprehends foreign currency fluctuation risk by currency and by month, and to mitigate the risk, the Group enters a forward exchange contract for hedging the cash flow fluctuation risk associated with operating receivables and payables denominated in foreign currencies.

To mitigate the stock market fluctuation risk, the Group regularly monitors stock prices and financial status of its business associates and continuously considers whether the Group should hold the stock.

Derivative transactions entered by the Group are in accordance with policies and rules that provide for risk management, approvals, reporting and verifications.

3) Liquidity risk

To mitigate the liquidity risk, the Group prepares and updates its funds management plan on a timely basis, and maintains an appropriate level of liquidity through its cash and cash equivalents and unused committed lines.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which quoted market price is not available is calculated based on certain assumptions, and the fair value may differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note 22 DERIVATIVES does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At both March 31, 2020 and 2021, 24% and 22% of operating receivables were receivables from a certain major customer (NEC Corporation).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair value of financial instruments

The carrying amount on the consolidated balance sheets, fair value, and differences as of March 31, 2020 and 2021 are as follows.

Financial instruments, of which the fair value is extremely difficult to measure, are not included. (Please see (2) "Financial instruments of which the fair value is extremely difficult to measure")

March 31, 2020	Millions of yen		
	Carrying amount	Fair value	Differences
Assets:			
(1) Cash and cash equivalents	¥ 58,321	¥ 58,321	¥—
(2) Notes and accounts receivable	112,358		
(3) Electronically recorded monetary claims	728		
Allowance for doubtful accounts ^(*)	(17)		
	113,068	113,068	—
(4) Investments securities	156	156	—
Total	¥171,545	¥171,545	¥—
Liabilities:			
(1) Notes and accounts payable	¥ 41,666	¥ 41,666	¥—
(2) Electronically recorded obligations	1,441	1,441	—
(3) Short-term bank loans	4,632	4,632	—
(4) Current installments of long-term debt	298	298	—
(5) Long-term debt	3,764	3,763	(1)
Total	¥ 51,803	¥ 51,802	¥(1)
Derivative transactions ^(*)	¥ 37	¥ 37	¥—

March 31, 2021	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 68,426	¥ 68,426	¥—	\$ 618,065	\$ 618,065	\$—
(2) Notes and accounts receivable	123,313			1,113,837		
(3) Electronically recorded monetary claims	1,256			11,344		
Allowance for doubtful accounts ^(*)	(75)			(677)		
	124,495	124,495	—	1,124,514	1,124,514	—
(4) Investment securities	148	148	—	1,336	1,336	—
Total	¥193,069	¥193,069	¥—	\$1,743,916	\$1,743,916	\$—
Liabilities:						
(1) Notes and accounts payable	¥ 44,188	¥ 44,188	¥—	\$ 399,132	\$ 399,132	\$—
(2) Electronically recorded obligations	2,649	2,649	—	23,927	23,927	—
(3) Short-term bank loans	6,360	6,360	—	57,477	57,477	—
(4) Current installments of long-term debt	3,298	3,298	—	29,789	29,789	—
(5) Long-term debt	466	465	(0)	4,209	4,200	
Total	¥ 56,962	¥ 56,961	¥(0)	\$ 514,515	\$ 514,506	
Derivative transactions ^(*)	¥ 0	¥ 0	¥—	\$ 0	\$ 0	\$—

(*)1) Allowance for doubtful accounts are deducted from the above Notes and accounts receivable and Electronically recorded monetary claims.

(*)2) Derivative receivables and liabilities are on a net basis.

(Note 1) Fair value measurement of financial instruments, investment securities and derivative transactions

Assets:

- 1) Cash and cash equivalents
- 2) Notes receivable and accounts receivable
- 3) Electronically recorded monetary claims
The carrying amount approximates fair value because of the short maturity of these instruments.

4) Investment securities

The fair value of equity securities is calculated by the quoted market price. Please see note 4 INVESTMENT SECURITIES for information by category.

Liabilities:

- 1) Notes payable and accounts payable
- 2) Electronically recorded obligations
- 3) Short-term bank loans
- 4) Current installments of long-term debt
The carrying amount approximates fair value because of the short maturity of these instruments.
- 5) Long-term debt
Fair value of long-term debts is based on the present value of future cash flows discounted using the current borrowing rate for similar debt with comparable maturity.

Derivative transactions:

Please see note 22 DERIVATIVES.

(Note 2) Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unlisted equity securities	¥517	¥ 584	\$5,275
Investment partnership	672	1,019	9,204
Corporate bonds with equity purchase warrant	108	221	1,996

The above securities are not included in "Assets:(4) Investment securities", as market prices are not available and future cash flows cannot be estimated reliably. Thus, the fair value cannot be reasonably obtained.

(Note 3) Projected future redemption of monetary claims and securities with maturities on March 31, 2021

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 68,426	¥—	¥—	¥—
Notes and accounts receivable	123,313	—	—	—
Electronically recorded monetary claims	1,256	—	—	—
	¥192,996	¥—	¥—	¥—

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	\$ 618,065	\$—	\$—	\$—
Notes and accounts receivable	1,113,837	—	—	—
Electronically recorded monetary claims	11,344	—	—	—
	\$1,743,257	\$—	\$—	\$—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Note 4) The annual maturities of long-term debt and other interest-bearing debt on March 31, 2021

		Millions of yen					
		Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans		¥6,360	¥ —	¥ —	¥—	¥—	¥—
Long-term debt		¥3,298	¥264	¥201	¥—	¥—	¥—

		Thousands of U.S. dollars					
		Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans		\$57,447	\$ —	\$ —	\$—	\$—	\$—
Long-term debt		\$29,789	\$2,384	\$1,815	\$—	\$—	\$—

22. DERIVATIVES

The Company enters forward exchange contracts with major Japanese banks to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.

On March 31, 2020 and 2021, the disclosure of fair value information for derivatives are as follows:

(1) Derivatives that are not accounted for as hedges
For the year ended March 31, 2020

		Millions of yen			
		Contract amount		Fair value	Valuation gain/loss
Transaction type		Total	Over 1 year		
	Forward exchange contract				
Transactions out of market	Order to buy:				
	Euro	¥71	¥—	¥(0)	¥(0)
	British pound	¥10	¥—	¥(0)	¥(0)
	Total	¥82	¥—	¥(0)	¥(0)

For the year ended March 31, 2021

		Millions of yen			
		Contract amount		Fair value	Valuation gain/loss
Transaction type		Total	Over 1 year		
	Forward exchange contract				
Transactions out of market	Order to buy:				
	Euro	¥3	¥—	¥(0)	¥(0)
	British pound	¥1	¥—	¥(0)	¥(0)
	Total	¥5	¥—	¥(0)	¥(0)

		Thousands of U.S. dollars			
		Contract amount		Fair value	Valuation gain/loss
Transaction type		Total	Over 1 year		
	Forward exchange contract				
Transactions out of market	Order to buy:				
	Euro	\$27	\$—	\$(0)	\$(0)
	British pound	\$ 9	\$—	\$(0)	\$(0)
	Total	\$45	\$—	\$(0)	\$(0)

(Note) The fair value of forward exchange contracts is computed based on quotes from counterparties.

(2) Derivatives that are accounted for as hedges
For the year ended March 31, 2020

Method of hedge accounting	Transaction type	Main hedged item	Millions of yen		
			Contract amount		Fair value
			Total	Over 1 year	
Deferral hedge accounting for forecasted transactions as hedged item	Forward exchange contract Order to buy: U.S. dollar	Foreign currency denominated forecasted transactions	¥1,021	¥1,021	¥38
		Total	¥1,021	¥1,021	¥38

(Note) The fair value of forward exchange contracts is computed based on quotes from counterparties.
There is no derivative that are accounted for as hedges to report for the year ended March 31, 2021.

23. RELATED PARTY TRANSACTIONS

(1) The Company's balances with related parties and related transactions

NEC Corporation owned 51.48% and 51.42% of the Company's outstanding common stock as of both March 31, 2020 and 2021, respectively.

Balances with NEC Corporation on March 31, 2020 and 2021, and related transactions for the years then ended are summarized as follows:

Transactions	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Construction and maintenance of network system:			
Transactions:			
Sales	¥63,488	¥64,420	\$581,880
Balances:			
Accounts receivable	¥25,615	¥26,291	\$237,476
Advances received	¥ 482	¥ 852	\$ 7,695
Purchases of communication device:			
Transactions:			
Purchases	¥47,961	¥44,404	\$401,083
Balances:			
Accounts payable	¥11,936	¥11,649	\$105,220
Advance payments	¥ 476	¥ 454	\$ 4,100

24. SEGMENT INFORMATION

The reported segments of the Company are the business units for which the Company can obtain respective financial information separately for the Board of Directors to conduct periodic investigation to determine the distribution of management resources and evaluate their business results.

The “Digital Solutions Business,” “Network Infrastructures Business” and “Engineering & Support Services Business” are the Company’s reportable segments. The Company combines business segments which have similar economic characteristics into these reportable segments. The business segments are based on the operation headquarters by service lines, which are the units used for internal reporting for performance management.

The Digital Solutions Business mainly renders 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

The Network Infrastructures Business 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.

The Engineering & Support Services Business mainly renders 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.

Segment sales, income, assets and others are calculated by accounting methods like those employed to prepare the accompanying consolidated financial statements.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2020 and 2021 is summarized as follows:

	Millions of yen					
	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
March 31, 2020						
Sales:						
(1) Sales to third parties	¥ 112,758	¥ 83,109	¥ 97,434	¥ 10,314	¥ —	¥ 303,616
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 112,758	¥ 83,109	¥ 97,434	¥ 10,314	¥ —	¥ 303,616
Segment income	¥ 11,653	¥ 8,129	¥ 6,715	¥ 511	¥ (10,763)	¥ 16,245
Segment assets	¥ 44,667	¥ 48,662	¥ 54,176	¥ 2,266	¥ 80,470	¥ 230,244
Others:						
Depreciation and amortization	¥ 1,466	¥ 473	¥ 344	¥ 51	¥ 1,237	¥ 3,572
Purchases of property and equipment, and intangible assets	¥ 2,057	¥ 461	¥ 428	¥ 155	¥ 1,358	¥ 4,461
Investment to entities accounted for using equity method	¥ 99	¥ —	¥ 37	¥ —	¥ —	¥ 137

	Millions of yen					
	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
March 31, 2021						
Sales:						
(1) Sales to third parties	¥ 125,960	¥ 89,232	¥ 114,089	¥ 9,827	¥ —	¥ 339,109
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 125,960	¥ 89,232	¥ 114,089	¥ 9,827	¥ —	¥ 339,109
Segment income	¥ 13,763	¥ 9,291	¥ 11,813	¥ 794	¥ (10,098)	¥ 25,563
Segment assets	¥ 43,936	¥ 55,007	¥ 58,012	¥ 2,492	¥ 90,888	¥ 250,338
Others:						
Depreciation and amortization	¥ 1,424	¥ 444	¥ 334	¥ 42	¥ 1,009	¥ 3,256
Purchases of property and equipment, and intangible assets	¥ 2,220	¥ 1,101	¥ 444	¥ 124	¥ 1,369	¥ 5,260
Investment to entities accounted for using equity method	¥ 247	¥ —	¥ —	¥ —	¥ —	¥ 247

Thousands of U.S. dollars						
March 31, 2021	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	\$1,137,747	\$805,997	\$1,030,521	\$88,763	\$ —	\$3,063,038
(2) Intersegment sales	—	—	—	—	—	—
Total	\$1,137,747	\$805,997	\$1,030,521	\$88,763	\$ —	\$3,063,038
Segment income	\$ 124,315	\$ 83,921	\$ 106,702	\$ 7,171	\$ (91,211)	\$ 230,900
Segment assets	\$ 396,856	\$496,856	\$ 523,999	\$22,509	\$820,955	\$2,261,204
Others:						
Depreciation and amortization	\$ 12,862	\$ 4,010	\$ 3,016	\$ 379	\$ 9,113	\$ 29,410
Purchases of property and equipment, and intangible assets	\$ 20,052	\$ 9,944	\$ 4,010	\$ 1,120	\$ 12,365	\$ 47,511
Investment to entities accounted for using equity method	\$ 2,231	\$ —	\$ —	\$ —	\$ —	\$ 2,231

- (Note) 1. "Others" includes purchases of information and telecommunications equipment, etc., which are not included in the reported segments.
2. "Adjustments" of ¥-10,763 million and ¥-10,098 (\$-91,211 thousand) million in segment income for the years ended March 31, 2020 and 2021, respectively, are mainly administrative operation expenses.
3. "Adjustments" of ¥80,470 million and ¥90,888 (\$820,955 thousand) million in segment assets on March 31, 2020 and 2021, respectively, mainly consist of surplus funds (cash and deposits), land, long-term deposits and assets relating to the administrative operations of the parent company.
4. Segment income is adjusted with operating income in the consolidated statements of income.
5. "Purchases of property and equipment, and intangible assets" for the years ended March 31, 2020 and 2021 include long-term prepaid expenses and their amortization.

Information for the changes in reportable segments

The Company restructured certain business segment-types to optimize business efficiency and revision of allocation of business sources on controlling business performance in April 2020. Accordingly, the above sales, segment income are reclassified to conform on the practice in business management for the year ended March 31, 2021. Information on reportable segments related to the year ended March 31, 2020 was accordingly restated conforming to present disclosure to reflect the changes in this event.

Related information

Related segment information for the years ended March 31, 2020 and 2021 are as follows:

(1) Information by products and services

Please refer to the reported segment information.

(2) Geographical information

1) Sales

Disclosures are omitted because sales to Japanese customers are over 90% of sales in the consolidated statements of income.

2) Property and equipment

Disclosures are omitted because property and equipment located in Japan are over 90% of property and equipment in the consolidated balance sheets.

(3) Information by major customers

Customer name:	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
NEC Corporation			
Sales	¥68,110	¥69,630	\$628,940

The above sales are related to the "Digital Solutions Business", "Network Infrastructures Business" and "Engineering & Support Services Business".

Information of impairment loss on fixed assets by reported segments for the years ended March 31, 2020 and 2021

Due to the determination to close training facilities, the Company reduced the carrying amount of the corresponding assets to the recoverable amount and recognized impairment loss of ¥1,788 million for the year ended March 31, 2020. These facilities are included in "Adjustments" as corporate assets and not allocated to certain reportable segments. There are no amounts to report for the year ended March 31, 2021.

Information of amortization of goodwill and balances of goodwill by reported segments as of and for the years ended March 31, 2020 and 2021

	Millions of yen					
	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
March 31, 2020						
Amortization of goodwill	¥ 22	¥224	¥—	¥—	¥—	¥247
Balances of goodwill	¥104	¥794	¥—	¥—	¥—	¥899

	Millions of yen					
	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
March 31, 2021						
Amortization of goodwill	¥13	¥224	¥—	¥—	¥—	¥238
Balances of goodwill	¥54	¥569	¥—	¥—	¥—	¥623

	Thousands of U.S. dollars					
	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
March 31, 2021						
Amortization of goodwill	\$117	\$2,023	\$—	\$—	\$—	\$2,149
Balances of goodwill	\$487	\$5,139	\$—	\$—	\$—	\$5,627

Negative goodwill incurred by reported segments for the years ended March 31, 2020 and 2021

There are no amounts to report.

25. SUBSEQUENT EVENTS

There are no subsequent events to be disclosed.



Independent auditor's report

To the Board of Directors of NEC Networks & System Integration Corporation:

Opinion

We have audited the accompanying consolidated financial statements of NEC Networks & System Integration Corporation (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the Group's estimate of total costs in applying the percentage-of-completion method

The key audit matter	How the matter was addressed in our audit
In the consolidated financial statements, the Group recognized net sales of ¥339,109 million, which included the net sales of ¥105,736 million recognized using the percentage-of-completion method.	The primary procedures we performed to assess whether the Group's estimate of total costs in applying the percentage-of-completion method was reasonable included the following:

As described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (q) Revenue recognition" to the consolidated financial statements, the Group apply the percentage-of-completion method if the outcome of the construction activity can be estimated reliably. The percentage of completion as of the end of the reporting period is estimated based on the percentage of the cost incurred to the estimated total cost.

As described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (u) Significant accounting estimates, 1. The percentage-of- completion method for revenue recognition" to the consolidated financial statements, the Group recognizes revenue based on the percentage of completion as of the end of the reporting period that is estimated based on the percentage of the cost incurred to the estimated total cost. Therefore, the Group needs to reasonably estimate total costs when receiving an order and to change the estimated total costs in a timely and appropriate manner according to the changes in assumptions subsequent to the start of construction.

The estimate of total costs includes assumptions about work details and work hours. In a project, the work details and work hours may be changed due to facts found subsequent to the start of construction and changes in site conditions, and therefore the estimate of total costs involves uncertainty. Especially an estimate of work details and work hours for a project with a large contract amount may involve a high degree of uncertainty due to its characteristics about the size and construction period.

We, therefore, determined that our assessment of the reasonableness of the Group's estimate of total costs in applying the percentage-of-completion method was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of estimating total costs of a project. In this assessment, we focused our testing on the following:

- controls to ensure compliance with the internal rules about how to accumulate work hours of each activity, what information to be used, how to reflect the risk of any uncertainties, and how to estimate total costs; and
- controls to reflect any changes in circumstances that occur subsequent to the start of construction within the estimated total construction costs in a timely and appropriate manner.

(2) Assessment of the reasonableness of the estimated total costs

In order to assess the reasonableness of the Group's estimate of total costs, for projects that were material in contract amount, we:

- inquired of an appropriate responsible person regarding the degree of consideration about uncertainty in estimating total costs of a project in order to select assumptions with uncertainty to be reflected in the total costs, and inspected the related meeting materials;
- inquired of an appropriate responsible person regarding the basis of the selected assumptions with a high degree of uncertainty after considering the results of the above procedures, and assessed the reasonableness of the assumptions based on the results of inspection of the related documents that served as the basis of the assumptions; and
- inquired of an appropriate responsible person regarding the progress of a project in order to assess the appropriateness of the Group's judgment as to whether the total costs should be revised, including whether there were any facts found subsequent to the start of construction and changes in site conditions in light of remaining total costs, and inspected the minutes of the project status meetings that served as the basis for the Group's responses to our inquiries.

Reasonableness of the Group's estimate of total costs in recognizing accrued losses on sales contracts	
The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet, the Group recognized accrued losses on sales contracts of ¥512 million.</p> <p>As described in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (u) Significant accounting estimates, 2. Accrued losses on sales contracts" to the consolidated financial statements, among sales orders on hand at the balance sheet date, for projects in which the estimated total cost is expected to exceed and the contract amount, such excess costs on sales contracts are accrued for future losses that would occur in the following fiscal years.</p> <p>The amount of loss is estimated to be the total costs exceeding the contract amount, which is expected to incur in and after the next fiscal year. Therefore, the Group needs to reasonably estimate total costs when receiving an order and to change the estimated total costs including additional costs that may occur in the future in a timely and appropriate manner subsequent to the start of construction.</p> <p>The estimate of total costs includes assumptions about work details and work hours. In a construction project, the work details and work hours may be changed due to facts found subsequent to the start of construction and changes in site conditions, and therefore the estimate of total costs involves uncertainty. Especially an estimate of work details and work hours for a project with a large contract amount may involve a high degree of uncertainty due to its characteristics about the size and construction period.</p> <p>We, therefore, determined that our assessment of the reasonableness of the Group's estimate of total costs in recognizing accrued losses on sales contracts was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to assess whether the Group's estimate of total costs in recognizing accrued losses on sales contracts was reasonable included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of estimating total costs of a project. In this assessment, we focused our testing on the following:</p> <ul style="list-style-type: none"> • controls to ensure compliance with the internal rules about how to accumulate work hours of each activity, what information to be used, how to reflect the risk of any uncertainties, and how to estimate total costs; and • controls to reflect any changes in circumstances that occur subsequent to the start of construction within the estimated total costs in a timely and appropriate manner. <p>(2) Assessment of the reasonableness of the estimated total costs</p> <p>In order to assess the reasonableness of the Group's estimate of total costs, for projects where the contract amount was material and the profitability was low or negative, we:</p> <ul style="list-style-type: none"> • inquired of an appropriate responsible person regarding the degree of consideration about uncertainty in estimating total costs of a project in order to select assumptions with uncertainty to be reflected in the total costs, and inspected the related meeting materials; • inquired of an appropriate responsible person regarding the basis of the selected assumptions with a high degree of uncertainty after considering the results of the above procedures, and assessed the reasonableness of the assumptions based on the results of inspection of the related documents that served as the basis of the assumptions; and • inquired of an appropriate responsible person regarding the progress of a project in order to assess the appropriateness of the Group's judgment as to whether the total costs should be

	<p>revised, including whether there were any facts found subsequent to the start of construction and changes in site conditions in light of remaining total costs, and inspected the minutes of the project status meetings that served as the basis for the Group's responses to our inquiries.</p>
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Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If

we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ 西野 聡人 (SEAL)
Akira Nishino

Designated Engagement Partner
Certified Public Accountant

/S/長谷川 義晃 (SEAL)
Yoshiaki Hasegawa

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Certified Public Accountant

/S/村上 智昭 (SEAL)
Tomoaki Murakami

Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 24, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

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