

Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022

(From April 1, 2021 to December 31, 2021)

Financial Results Briefing Materials

January 31, 2022

Digital Arts Inc. (Securities Code: 2326)

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Material on Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022

# **Consolidated Results Highlights**

#### **Key Points**



Business has grown steadily, with the acquisition of projects due to the rapid spread of teleworking in the enterprise sector market, and GIGA school projects and local government projects in the public sector market.

- (1) Record high in consolidated net sales for the first three quarters 6,686 million yen (up 40.7% year on year).
- (2) Record high in consolidated operating profit for the first three quarters ever 3,024 million yen (up 53.3% year on year).

### **Consolidated Results Highlights**



Contracts	6,465 million yen	<ul> <li>Orders increased in the enterprise sector market, thanks to an increase in the number of cloud service users along with the increasingly common practice of teleworking and growth in new customers for DAC.</li> </ul>	
	(down $\triangle$ 1,096 million yen or $\triangle$ 14.5% year on year).	<ul> <li>Orders increased in the public sector market, with strong orders from public agencies and local governments, excluding projects related to the GIGA School Concept.</li> </ul>	
Net sales	6,686 million yen	<ul> <li>Orders increased in the enterprise sector market, thanks to an increase in the number of cloud servi users along with the increasingly common practice of teleworking and growth in new customers for Date</li> </ul>	
	(up +1,935 million yen or + 40.7% year on year).	<ul> <li>In the public sector market, substantial increase due to the recording of sales from GIGA School Concept projects and orders for public agency and local governments projects.</li> </ul>	
	0.004	In cost of goods, server expenses increased due to growth in cloud service users	
Operating profit	3,024 million yen (up + 1,051 million yen or + 53.3% year on year).	<ul> <li>SG&amp;A expenses increased mainly due to online events held for partners and press advertising. The amount of First-half bonuses to be paid increased.</li> </ul>	

# **Consolidated Results Summary (First Three Quarters of the Year)**



(Million yen)	First 3 Quarters FY March 2021	First 3 Quarters FY March 2022	Change YoY	FY March 2022 Full-Year Forecast	Progress Vs Full- year Forecast
Contracts	7,562	6,465	△14.5%	-	
Net sales	4,750	6,686	+40.7%	9,000	74.3%
Cost of goods sold	1,362	1,940	+42.4%	2,700	71.9%
Gross profit	3,388	4,746	+40.1%	6,300	75.3%
Selling, general and administrative expenses	1,414	1,721	+21.7%	2,300	74.9%
Operating profit	1,973	3,024	+53.3%	4,000	75.6%
Operating margin	41.5%	45.2%	_	44.4%	_
Ordinary profit	1,982	3,027	+52.7%	4,000	75.7%
Profit attributable to owners of parent	1,363	2,081	+52.7%	2,770	75.1%
EBITDA	2,660	3,736	+40.4%	-	

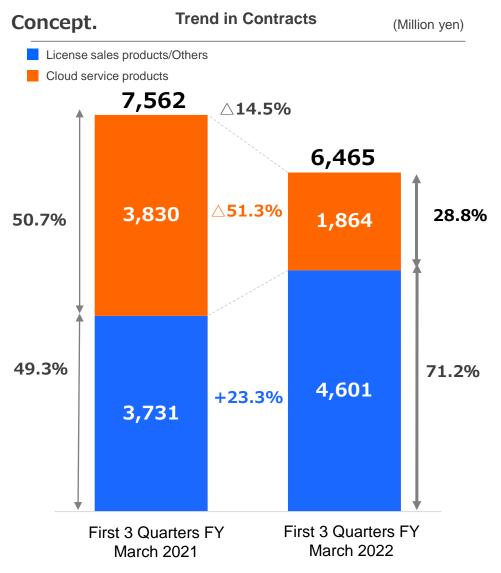
<sup>\*</sup> Financial Forecast is the consolidated financial forecast announced on October 29, 2021.

<sup>\*</sup> EBITDA = Operating profit + Depreciation + Tax expenses included in operating expenses

#### **Trend in Consolidated Contracts**



#### Consolidated contracts increased steadily, excluding the impact of the GIGA School

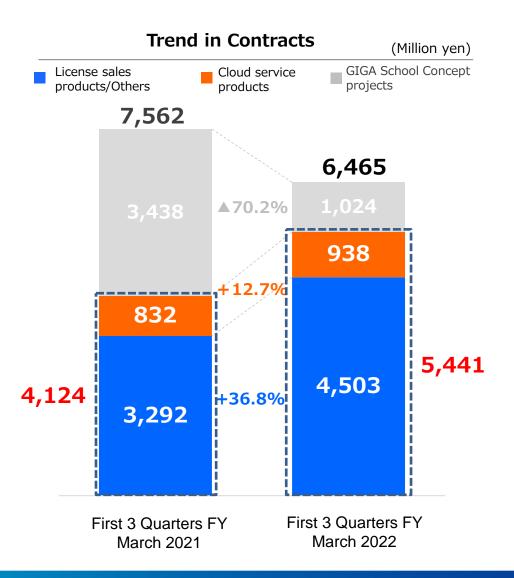


- Consolidated contracts totaled 6,465 million yen, down 14.5% year on year. Steady progress continued, excluding the impact of projects from the GIGA School Concept carried on from the previous year. (For details, see page 8.)
- The contract term for GIGA School Concept projects covers several years, and many contracts are to be renewed in three to five years. (For details, see page 11.)
- For the period under review, GIGA School Concept projects, in which cloud service products had constituted a large majority, decreased and shifted to projects from public agencies and local governments with license sales products. Accordingly, the cloud ratio contracted.

#### **Trend in Consolidated Contracts**



#### Brisk contract amount excluding the impacts of GIGA School Concept projects

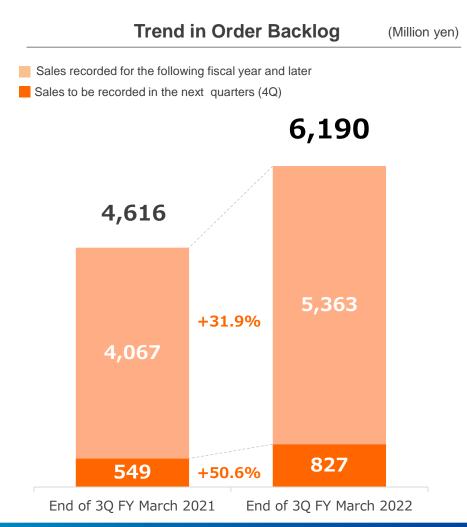


- Contract amount rose considerably by 32% or 1,317 million yen year on year from 4,124 million yen to 5,441 million yen in the public sector market, excluding the impact of GIGA School Concept projects (3,438 million yen in previous year and to 1,024 million year in the year under review).
- In the enterprise sector market, contract amount grew with excellent sales of i-FILTER and m-FILTER for businesses as a result of online seminars and other promotional measures and with new customers captured for DAC.
- Contract amount for i-FILTER and m-FILTER jumped hugely following a steady gain of projects from public agencies and local governments in the public sector market.

### Trend in Order Backlog



The order backlog grew to 6,190 million yen, reflecting expansion in the contract share of cloud service products.

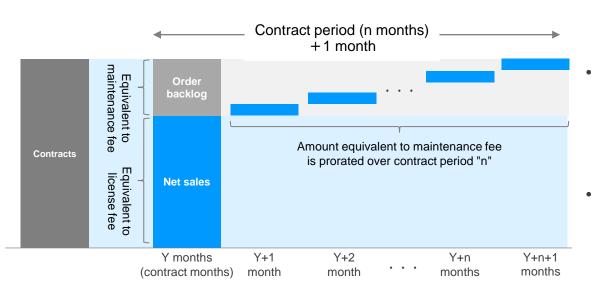


- Cloud service products cause net sales
   deferred to the next fiscal year or later (order
   backlog) to go up because the amount of sales
   recorded in the short period is small. (See
   Supplement on p.10.11.)
- Since the contracts for cloud service products
  are renewable at fixed prices (whereas the
  renewal price for license sales products is half
  the contract price for the first year), this
  recurring revenue business model creates
  a stable profit base.

#### Supplement) Method of recording sales by product

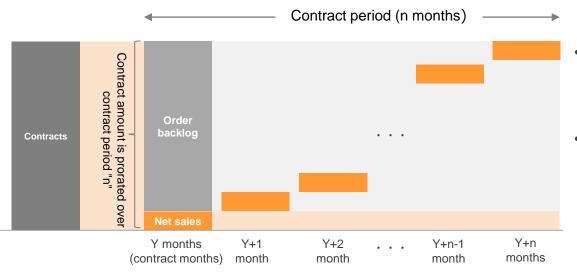


License sales products



- License fees make up a large proportion of the contract amount. This portion is recorded in a lump sum as sales in the month when the contract is obtained.
- Amount equivalent to maintenance fee is recorded on a pro rata basis over the contract period.

Cloud service products



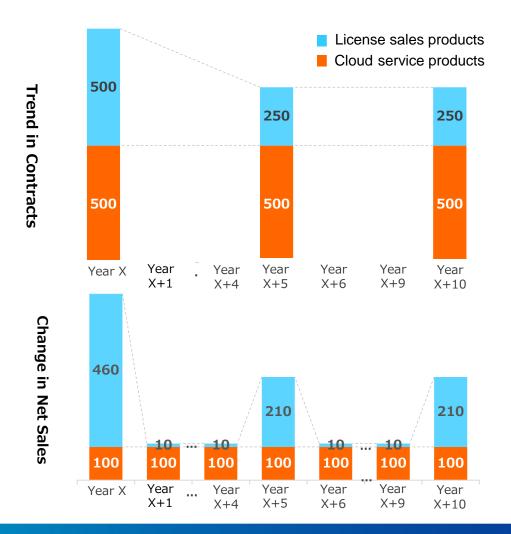
- Contract amount is recorded as sales on a pro rata basis over the contract period (split into equal monthly amounts).
- As the contract amount of cloud service products rises, the contract amount that is deferred (order backlog) increases.

## Supplement) Relationship between contract amount and sales by product



Many projects in the public sector market are multi-year contracts, such as five-year contracts. License sales products and cloud service products both earn from contract



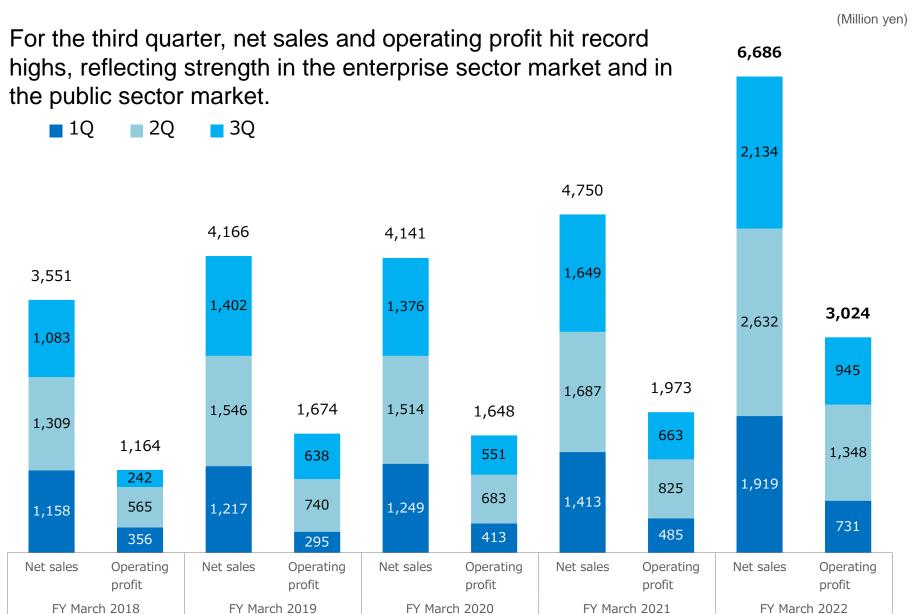


The diagrams on the left show the relationships between the contract amount and sales in license sales products and cloud service products on the assumption of a five-year contract with an amount of 500 million yen.

- In a multi-year contract for cloud service products, there is a large gap between the contract amount and sales. The order backlog is high.
- For license sales products, a high percentage of sales is recorded at the time of contract conclusion. The amount of contract renewal is half the amount of the initial contract. That means a small gap between the contract amount and sales and a very limited order backlog.

### **Quarterly Trend in Net sales, Operating profit**





# Consolidated Cost of Goods Sold and Selling, General and Administrative Expenses

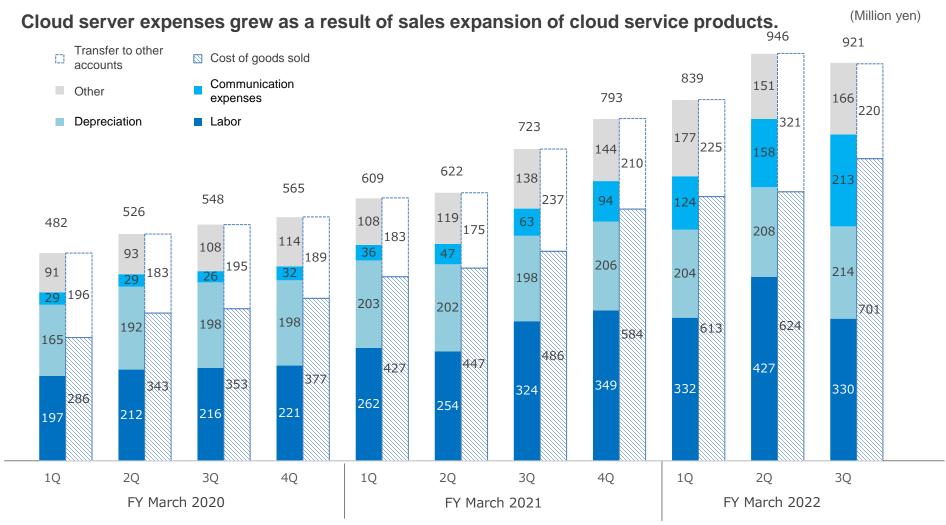


(Million yen)	First 3 Quarters FY March 2021	First 3 Quarters FY March 2022	Change YoY	Main Factors for Change
Cost of goods sold	1,362	1,940	+577	
Labor	842	1,090	+248	DAC increased consultants Bonuses to be paid to employees increased due to sales growth.
Depreciation	604	627	+23	
Communication expenses	139	495	+356	Service expenses increased as a result of sales expansion of cloud products.
Other	373	494	+121	Outsourcing expenses soared after DAC obtained more orders.
Transfer to other accounts	△597	△768	△170	Transfer to software in progress increased as a result of the increase in development projects
Selling, general and administrative expenses	1,414	1,721	+306	
Personnel expenses	792	1,032	+240	Bonuses to be paid to employees increased due to sales growth.
Advertising expenses	111	169	+57	Increase due to online events held for partners and press advertising.
Other	510	519	+8	

#### **Quarterly Trend in Consolidated Cost of Goods Sold**



Following the sales hike, full-year bonuses to be paid are expected to reach the upper limit. For the first half, the bonuses paid surged massively while the bonuses to be paid for the third quarter dropped.

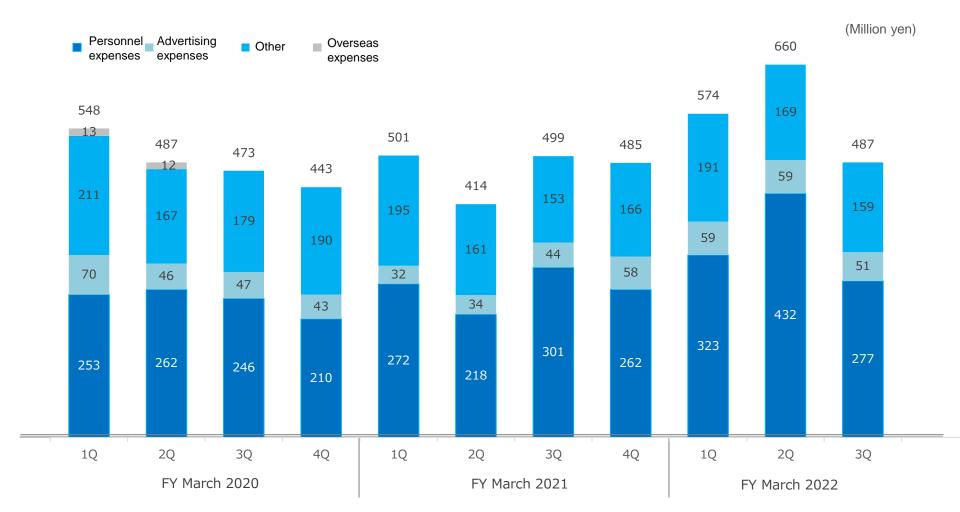


# **Quarterly Trend in Consolidated Selling, General and Administrative Expenses**



Following the sales hike, full-year bonuses to be paid are expected to reach the upper limit. For the first half, the bonuses paid surged massively while the bonuses to be paid for the third quarter dropped.

Advertising expenses increased due to online events held for partners and ads placed on newspapers.



#### **Summary of Consolidated Balance Sheet**



Capital efficiency was good, with year-on-year improvement in both ROE and ROA.

Although the equity ratio fell due to an increase in advances received, financial health has

improved further.

(Million yen)	As of end of 3Q FY March 2021	As of end of FY March 2021	As of end of 3Q FY March 2022	Change from end of FY March 2021
Current assets	9,810	12,725	15,959	+25.4%
(Cash and deposits)	8,597	11,382	14,255	+25.2%
Non-current assets	2,095	2,130	2,274	+6.8%
Total assets	11,906	14,856	18,233	+22.7%
Current liabilities	2,498	4,743	6,857	+44.6%
(Advanced received)	1,609	3,370	5,644	+67.4%
Non-current liabilities	49	50	50	+0.1%
Equity capital	9,336	10,041	11,297	+12.5%
Net assets	9,358	10,062	11,325	+12.6%
Equity ratio	78.4%	67.6%	62.0%	-
ROE	15.2%	22.0%	19.5%	-
ROA	12.0%	16.0%	12.6%	-



Material on Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022

# Non-consolidated Results Highlights

#### **Summary of Non-consolidated Results(First Three Quarters)**



(Million yen)	First 3 Quarters FY March 2021	First 3 Quarters FY March 2022	Change YoY	FY March 2022 Full-Year Forecast	Full year Achievem ent rate
Contracts	7,005	5,706	△18.5%	-	
Net sales	4,219	5,928	+40.5%	7,850	75.5%
Cost of goods sold	918	1,312	+42.9%	1,800	72.9%
Gross profit	3,301	4,615	+39.8%	6,050	76.3%
Selling, general and administrative expenses	1,366	1,635	+19.6%	2,150	76.1%
Operating profit	1,934	2,980	+54.1%	3,900	76.4%
Operating margin	45.8%	50.3%	-	49.7%	-
Ordinary profit	1,946	2,986	+53.4%	3,900	76.6%
Profit	1,348	2,063	+53.0%	2,690	76.7%

<sup>\*</sup> Financial Forecast is the non- consolidated financial forecast announced on October 29, 2021.



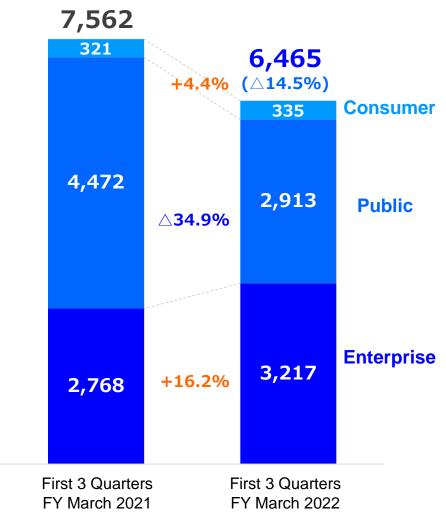
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## By Market

#### **Consolidated Contract Amount by Market**



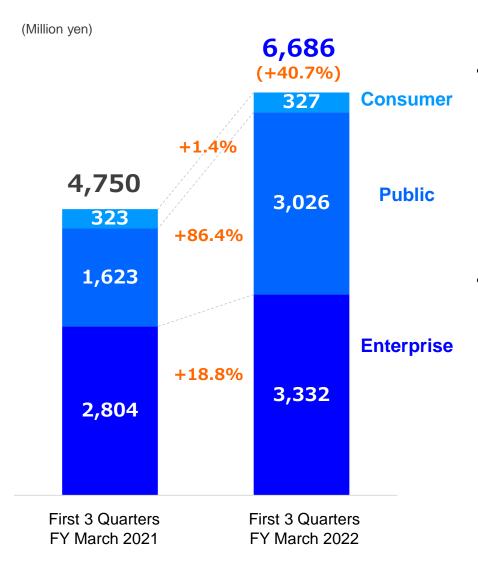
(Million yen)



- In the enterprise sector market, the contract amount was up 449 million yen, or 16.2%, given an increase in orders received for the i-FILTER and m-FILTER series and the expansion of DAC as a result of the growth of teleworking.
- In the public sector market, the contract amount was down 1,559 million yen, or 34.9%, due to the impacts of GIGA School Concept projects (3,438 million yen in previous year and 1,024 million yen in current year) despite more orders received from public agencies and local governments than expected.

#### **Consolidated Net sales by Market**



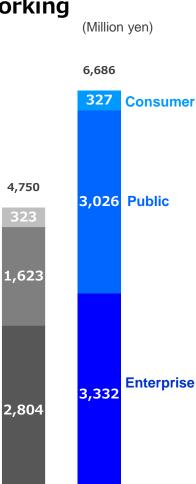


- In the enterprise sector market, net sales were up 528 million yen, or 18.8%, due to an increase in orders received for the i-FILTER and m-FILTER series as a result of an increase in telecommuting and the growth of DAC.
- In the public sector market, net sales were up 1,403 million yen, or 86.4%, orders received from public agencies and local governments exceeded the forecast level, in addition to posted sales of GIGA School Concept projects that lasted from the previous fiscal year.

#### **Trend in Consolidated Net Sales by Market**



Record sales for three quarters were achieved in both the enterprise sector and public sector markets thanks to the increase in teleworking and advances in ICT education in schools.



3Q

3,518

1,523

1,740

FY Mar 2012 FY Mar 2013 FY Mar 2014 FY Mar 2015 FY Mar 2016 FY Mar 2017 FY Mar 2018 FY Mar 2019 FY Mar 2020 FY Mar 2021 FY Mar 2022

30

2,747

1,014

1,483

3Q

2,325

265

826

1,233

3Q

2,124

266

750

1,108

3Q

1,975

223

769

982

3Q

1,888

206

758

923

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1,655

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3,551

1,247

2,031

3Q

4,141

345

1486

2309

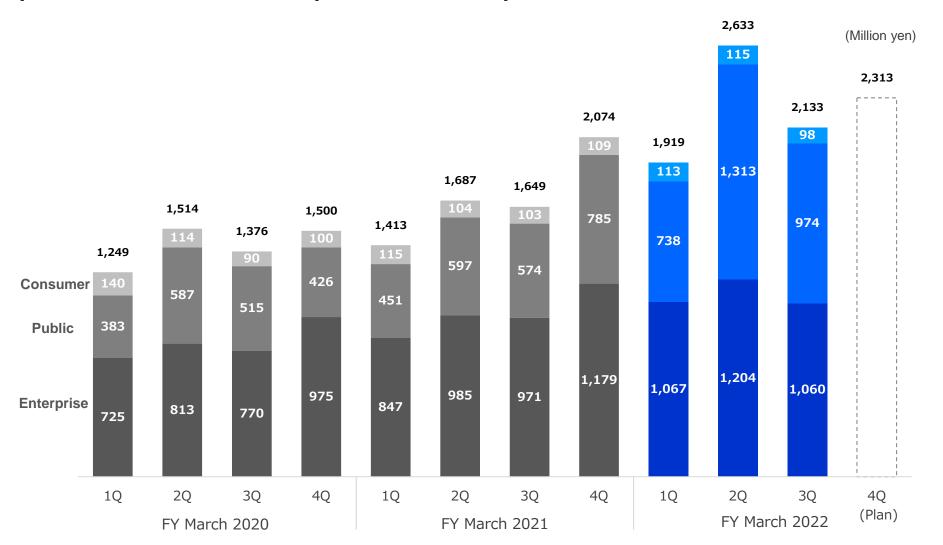
3Q

3Q

#### **Quarterly Trend in Consolidated Net Sales by Market**



Net sales for the three quarters reached a record high, bolstered by strong performances in the enterprise sector and public sector markets.



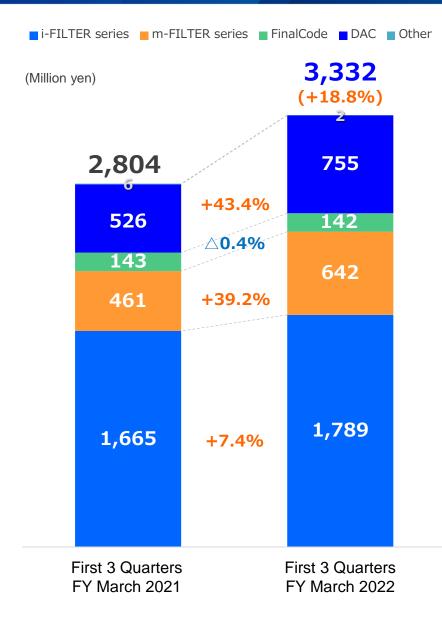


Material on Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022

## **Enterprise Sector**

#### **Net Sales in Enterprise Sector Market by Product**



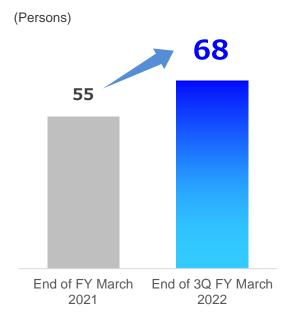


- Sales of the i-FILTER series remained strong, rising 123 million yen, or 7.4%, in response to growing corporate demand for cybersecurity due to increased teleworking.
- Sales of the m-FILTER series were strong (up 180 million yen or 39.2%), owing to rising demand for mail security and PPAP problem-solving.
- DAC made good progress acquiring new clients and achieved substantial sales growth (up 228 million yen or 43.4%), reflecting growing DX needs and demand for security measures among enterprises.

#### Net Sales Growth and Expansion of DAC on a Nonconsolidated Basis

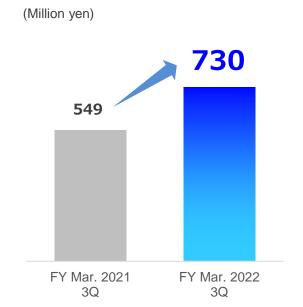


#### **Number of consultants**



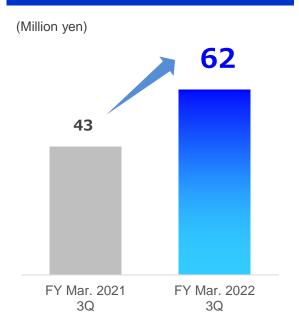
 DAC actively hired talent, focusing on those from leading consulting firms and leading systems integrators.

#### Consulting sales\*



- Consulting sales grew 133% year on year, reflecting the development of new clients.
- DAC steadily met DX demand and demand for cyber security measures.

#### Solution sales\*



 Sales of solutions incorporating Digital Arts products also soared, increasing 142% year on year.

<sup>\*:</sup> DAC's non-consolidated net sales

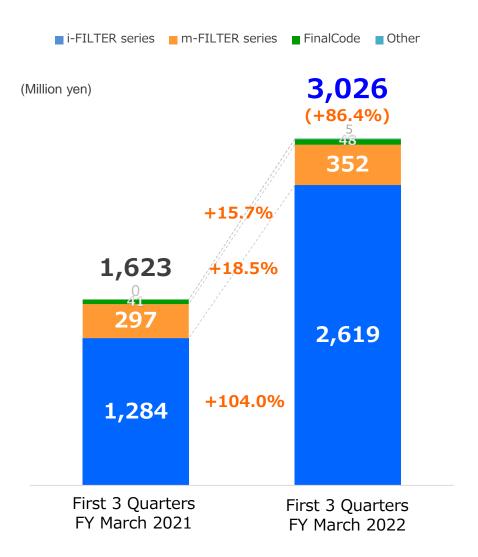


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## **Public Sector**

#### **Net Sales of Public Sector Market by Product**



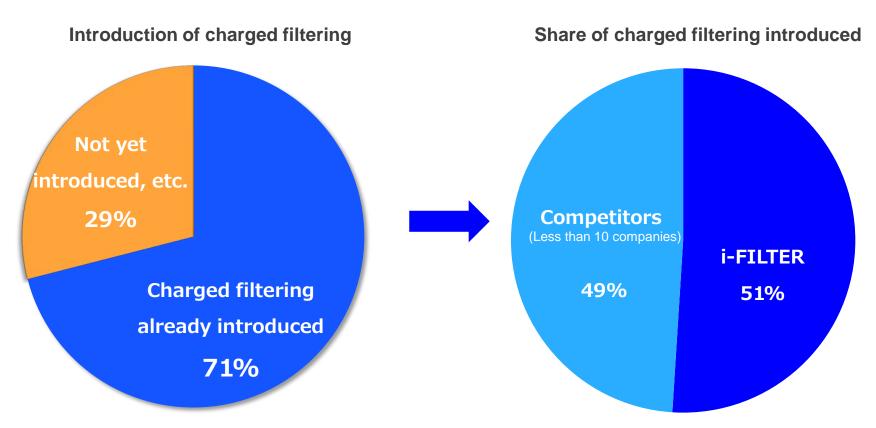


Sales of the i-FILTER series grew substantially, rising 1,335 million yen, or 104%, thanks to orders for public agency and local government projects and GIGA School Concept projects ongoing since the previous fiscal year.

#### **GIGA School Concept**



#### GIGA School Status\*1



- The proportion of Boards of Education which have adopted paid-for filtering increased from 59% at the end of the previous fiscal year to 71%.

- i-FILTER's share grew from 46% at the end of the previous fiscal year to 51%.
- Contracts increased from 5.3 billion yen at the end of the previous fiscal year to 6.3 billion yen.

<sup>\*1 :</sup> According to our survey of 1,741 boards of education (December 2021)

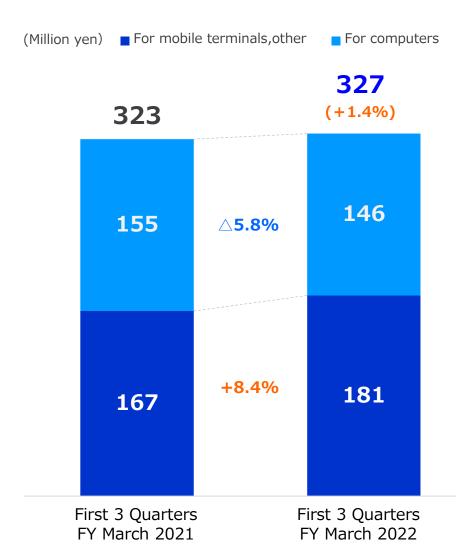


Material on Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022

## **Consumer Sector**

#### **Net Sales of Consumer Sector Market by Product**





- In products for computers, sales of multiple-year package products and i-FILTER® for Multi-Device, which can be available on multiple terminals, remained strong.
- Sales of products for mobile terminals remained strong due to a continuous increase in the number of young smartphone users.



Material on Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022

# Full-Year Financial Forecast for Fiscal Year Ending March 31, 2022

## Comparison between Results for Previous Fiscal Year and Forecasts for Fiscal Year Ending March 31, 2022 (Consolidated)



(Million yen)	FY March 2021 Full-Year Results	FY March 2022 Full-Year Forecasts	Change	% Change
Net sales	6,825	9,000	+2,175	+31.9 %
Cost of goods sold	1,946	2,700	+754	+38.7 %
Gross profit	4,878	6,300	+1,422	+29.2 %
Gross profit margin	71.5%	70.0%	_	_
Selling, general and administrative expenses	1,900	2,300	+400	+21.0 %
Operating profit	2,977	4,000	+1,023	+34.3 %
Operating margin	43.8%	44.4%	_	_
Ordinary profit	2,991	4,000	+1,009	+33.7 %
Profit attributable to owners of parent	2,059	2,770	+711	+34.5 %

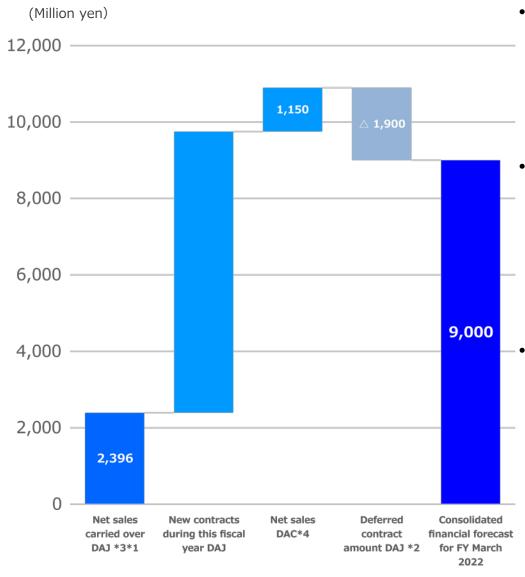
## Comparison between Results for Previous Fiscal Year and Forecasts for Fiscal Year Ending March 31, 2022 (Non-consolidated)



(Million yen)	FY March 2021 Full-Year Results	FY March 2022 Full-Year Forecasts	Change	% Change
Net sales	6,074	7,850	+1,776	+29.2 %
Cost of goods sold	1,273	1,800	+527	+41.4 %
Gross profit	4,801	6,050	+1,249	+26.0 %
Gross profit margin	79.0%	77.1%	_	_
Selling, general and administrative expenses	1,854	2,150	+296	+26.0 %
Operating profit	2,947	3,900	+953	+32.3 %
Operating margin	48.5%	49.7%	_	_
Ordinary profit	2,964	3,900	+936	+31.6 %
Profit	2,044	2,690	+646	+31.6 %

#### **Status of Consolidated Net Sales**





- Net sales carried over will increase due to the impact of the amount of contracts acquired in the public sector market the previous fiscal year in connection with the GIGA School Concept.
- New contracts of DAJ are expected to amount to 7,354 million yen due to expansion of sales to the enterprise sector market and orders received for the public sector market in connection with the GIGA School Concept.
- As in the previous fiscal year, DAC will increase the number of consultants and is expected to continue growing through the acquisition of new clients.

<sup>\* 1:</sup> Sales recorded from the order backlog of contracts acquired in previous fiscal years

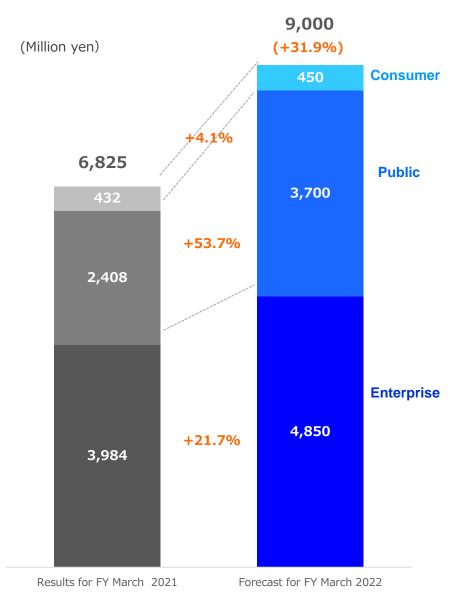
<sup>\*2 :</sup> Sales deferred to subsequent fiscal years (order backlog)

<sup>\*3 :</sup> DAJ = Digital Arts Inc.

<sup>\*4 :</sup> DAC = Digital Arts Consulting Inc.

#### **Status of Consolidated Net Sales**





- We will further develop existing clients by promoting the cross-utilization of Digital Arts products as security measures for enterprises and acquire new clients by strengthening products.
- We will gain new customers for DAC to achieve growth.
- Part of the amount of contracts acquired the previous fiscal year in the public sector market in connection with the GIGA School Concept will be deferred and recognized as sales in FY March 2022.
- We will expand our market share in the latter half of the GIGA School Concept and win orders by meeting needs for enhancement of the resilience of municipal information systems.

# Consolidated Cost of Sales and Selling, General and Administrative Expenses



(Million yen)	Results for FY March 2021	Forecast for FY March 2022	Change YoY	Main Factors for Change		
Cost of goods sold	1,946	2,700	+38.7%			
Labor	1,192	1,480	+24.1%	DAC increased consultants		
Depreciation	810	850	+4.8%	Depreciation of software for cloud products will start.		
Communication expenses	240	600	+150.0%	Cloud server expenses will rise as a result of sales expansion of cloud products.		
Other	511	570	11.5%			
Transfer to other accounts	△808	△800	△1.0%			
Selling, general and administrative expenses	1,900	2,300	+21.0%			
Personnel expenses	1,055	1,330	+26.1%	Personnel expenses will rise, reflecting the employment of new graduates.		
Advertising expenses	168	200	+19.0%	Advertising in newspapers and other media will increase.		
Other	677	770	+13.6%	Assuming that the effects of COVID-19 will lessen, travel expenses will increase. Server expenses will increase as a result of cloud products trials.		



Material on Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022

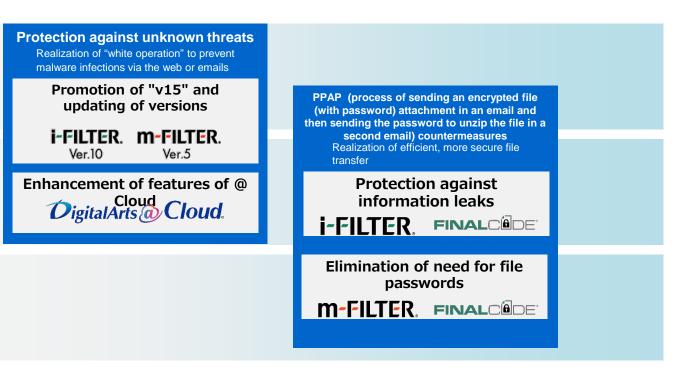
# FY03/22 Initiatives

# FY03/22 Initiatives



We will enhance products and functions to meet customers' needs for security measures in more extensive areas to expand sales of existing products.





# Protection against unknown threats



We will accelerate the spread of White Operation in the enterprise sector and public sector markets.

We will boost sales of solutions for protection against unknown threats with no reported cases of malware infection and damage.

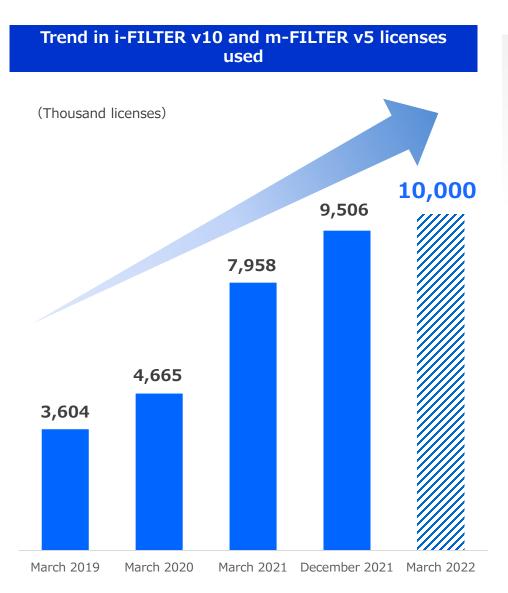






# **Penetration of "White Operation"**





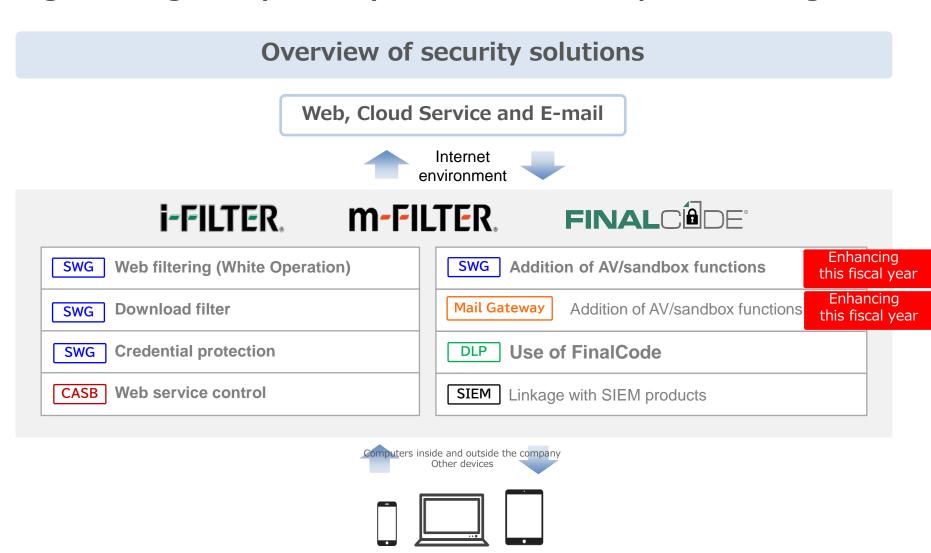


We will accelerate the spread of
White Operation by continuously
enhancing products and functions
with the aim of increasing the number
of licenses to 10 million by the end of
this fiscal year.

### Overview of DigitalArt's gateway security solutions



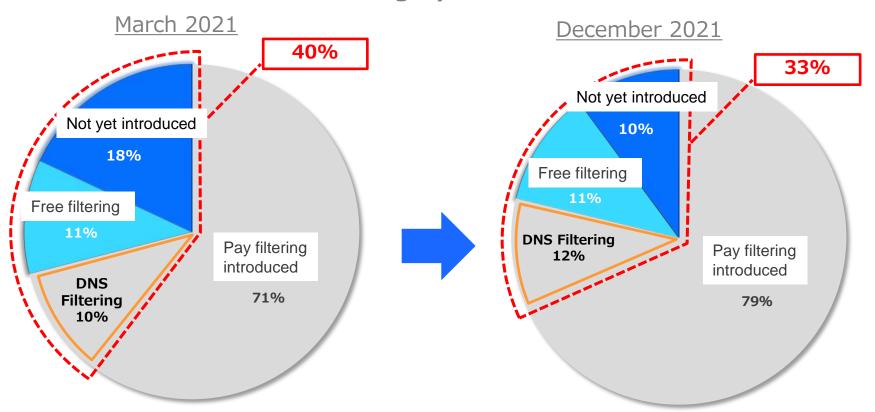
#### DigitalArt's gateway security solutions based on product linkage



# **Acceleration of GIGA School Concept**



#### Introduction of filtering by Boards of Education\*1



- We will target local Boards of Education that have yet to introduce any filtering or those which have introduced free filtering and DNS filtering in an effort to win orders.
- We will step up sales activities for winning projects for providing devices for teachers and High School GIGA School projects for which revised budgets and temporary subsidies are provided.

<sup>\*1:</sup> Based on interviews with 651 school boards responsible for more than 3,000 pupils and students (According to our research)

# Measures to enhance resilience of municipal information systems



Procurement for security cloud projects and projects to enhance resilience will be completed by FY2022.

Procurement for municipalities will be carried out after completion of procurement for prefectures.

#### **Schedule for public-sector projects**

Targe	et	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Government	Central ministrie s and agencies					Introdu ction of ISMAP	Budget each pr	ing, biddi oject	ng, and pi	ocureme	nt for
Security cloud (SC) * Government cloud also needs to be considered.	Prefectu res	Revisi on of procur	Budget:	7,180 mil	lion yen	Revisi on of		lion yen	 		
Enhancement of resilience of municipalities * Government cloud also needs to be considered.	Prefectu res Municip alities	ement guideli nes	Budget:	16,440 m	illion yen	procur ement guideli nes					

# Measures to enhance resilience of municipal information systems



Based on the December 2020 revisions to the procurement guidelines, we must enhance efficiency and convenience, while maintaining information security, to meet the needs of the times including the digitization of government processes and increased teleworking.

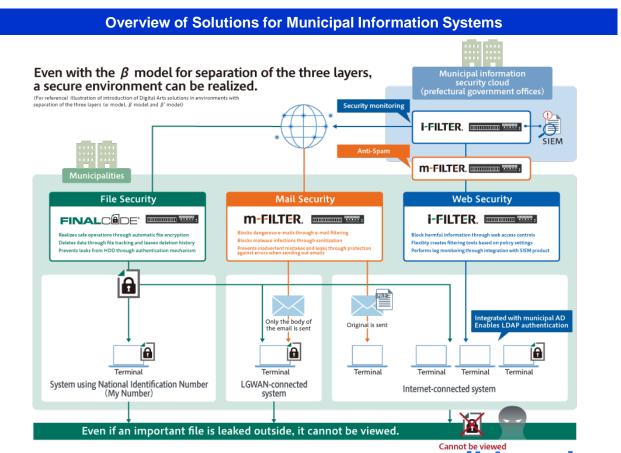
#### Outline of countermeasures

Review of "three layers of protection" (α model protection and above)

Remote access security (protection against malware, etc.)

Measures for shift away from PPAP (process of sending an encrypted file (with password) attachment in an email and then sending the password to unzip the file in a second email)

File encryption



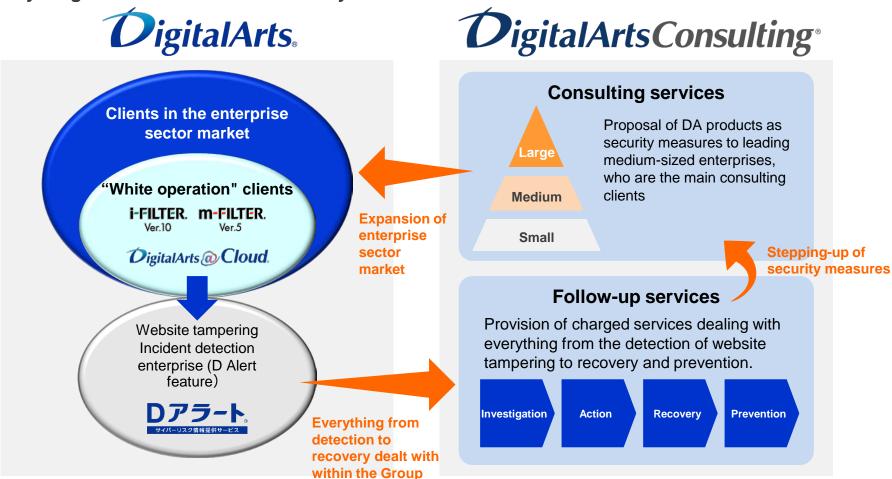
All solutions shown in the outline of countermeasures are possible using combinations of Digital Arts products.

# **Acceleration of Synergies within the Group**



We will expand the enterprise sector market by proposing DA products to DAC's consulting clients.

By combining the strengths of Digital Arts and DAC, we will offer one-stop shop solutions covering everything from "detection" to "recovery."



\*1 D-Alert has issued 869 reports for the current fiscal year. It notifies customers on a real-time basis to urge them to take security measures.

## **Acceleration of Synergies within the Group**



Expand the scope of value provided and the level of profit through DAC service, ensure continuous contact with E/U as the Group, and use it for product sales growth.

#### **Security education service** Educational content and workshops to help raise employees literacy Service starts at 500,000 yen QuickStart Able to address individual themes in Measures for i-FILTER@Cloud line with customer and industry other than Service for installing security at a needs products Sale level of recommended settings in a form appropriate for customer environments Service starts at 200,000 yen **Operation** and Released to corporate customers on September 1 maintenance Paid D Alert service **Building and** In the third quarter, support the GIGA School version and the The incident response service setting originated from "detection with D Alert" version with a feature to control harmful information. Investigations, initial response, and identification of causes involving terminals and devices for which Lic, a : Started providing DA product, is used are provided free of charge. : Scheduled for release in 4th quarter



Material on Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending March 31, 2022

# Return to Shareholders for Fiscal Year Ending March 31, 2022

# Return to Shareholders for Fiscal Year Ending March 31, 2022



We expected to pay a year-end dividend of **35** yen per share, but in overall consideration of the performance trends and financial position for the current fiscal year, we have divided to increase it by five yen per share, to **40** yen per share. That means an annual dividend forecast for the fiscal year ending March 31, 2022 of **70** yen per share, up **15** yen per share from the preceding fiscal year.

	Divid	Consolidated		
	2Q-end	Year-end	Annual	payout ratio
Year ended March 31, 2021	25.00	30.00	55.00	37.4%
Year ending March 31, 2022	30.00			
FY March 2022 (forecast)		40.00	70.00	35.5%

## **Notes on Descriptions**



Among the descriptions of plans, strategies and financial forecasts in this presentation material, those that are not historical facts are forward-looking statements.

They reflect judgments made by the management of Digital Arts Inc. on the basis of information currently available to it. They may be subject to considerable change depending on changes in the environment and other factors, and the Company does not in any way guarantee the achievement of the projections.

Digital Arts Inc. will disclose any significant changes that occur in the future as appropriate.

With some exceptions, the basic figures in this presentation are rounded down to the nearest million yen.

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