

Financial Results for the 1H ending March 2018

November 1, 2017

Yushi USHIJIMA, President

NEC Networks & System Integration Corporation

(TSE: 1973, NESIC)

Yushi USHIJIMA

1984: Joined NESIC

⇒ Mainly involved in sales
& marketing strategy

Part of the creation of
the EmpoweredOffice business

2014: Member of Board of Directors of NESIC

Managed Q&A Corporation,
a newly acquired subsidiary
as EVP, then as President & CEO

2017: President of NESIC



My Mission

Group-Wide Reform for Further Growth

Towards Regrowth

- **Strong and attractive company**
- **Attractive, new cutting-edge businesses**
- **Communication**



Strength will emerge as profit

Agenda

I. Results for 1H FY2018/3

II. Forecasts for FY2018/3

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II. Forecasts for FY2018/3

1H FY2018/3 Summary

Operating income increased yoy, offsetting the decrease in 1Q.

- Gross margin improved (+0.7 pt) thanks to continuous cost structure reforms, making up for the impact of the unprofitable projects posted in 1Q.
- Orders decreased yoy in reaction to the large projects received in 2Q of the previous fiscal year (about ¥13 bn.).

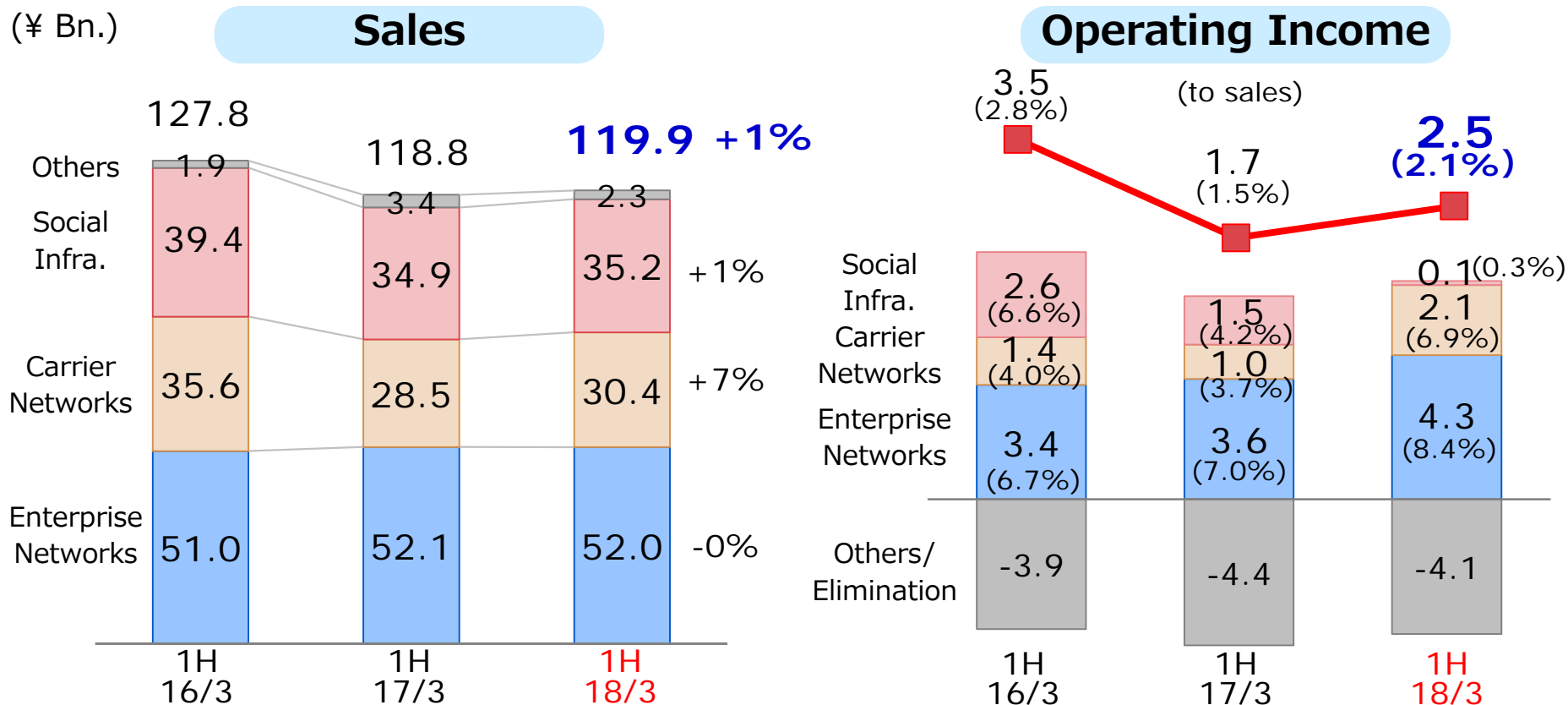
	1H FY2017/3	1H FY2018/3	Change	1H Forecasts as at Jul.31	(¥ Bn.)
Orders received	144.4	128.7	-11%	140	
Sales	118.8	119.9	+1%	120	
(Gross margin)	15.2%	15.9%	+0.7pt	-	
Operating income	1.7	2.5	+0.8	2.0	
(to sales)	(1.5%)	(2.1%)	+0.6pt	(1.7%)	
Net income attributable to owners of the parent	1.0	1.6	+0.6	1.1	
(to sales)	(0.9%)	(1.3%)	+0.4pt	(0.9%)	

1H FY2018/3 Sales/Operating Income by Segment

Sales: Grew yoy due to an increase in the Carrier Networks Business.

- Social Infrastructures Business remained flat thanks to the contribution of the solar power generation plant projects.

Operating Income: Increased yoy thanks to the Enterprise Networks Business and the Carrier Networks Business making up for the reduction in the Social Infrastructures Business.

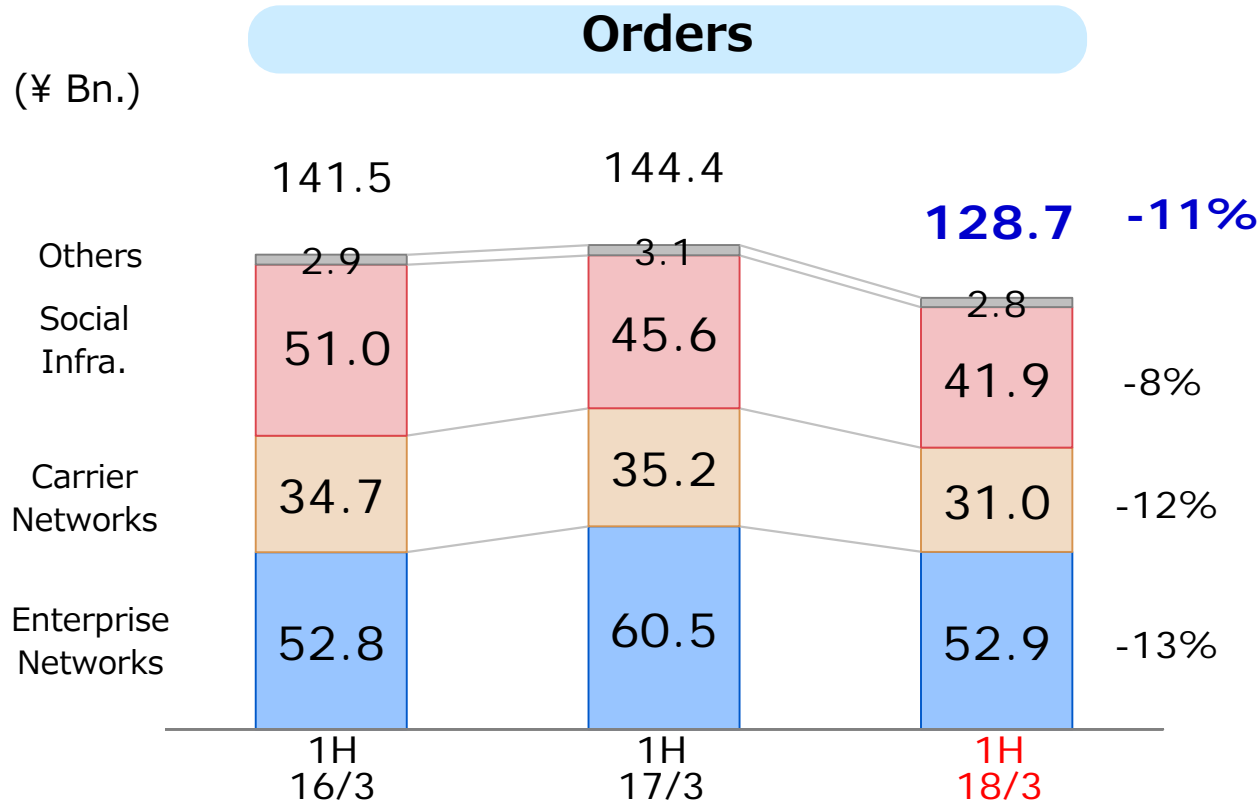


1H FY2018/3 Orders Received by Segment

Decreased yoy in reaction to the large-scale solar power generation plant projects received in the previous fiscal year.

- The business condition for telecom carriers in the Carrier Networks Business improved.

*The decrease in orders was attributable to the reaction to the solar power projects and the large-scale (two-year) maintenance in the previous fiscal year.



1H FY2018/3 Enterprise Networks Business

Sales: Remained unchanged yoy.

Work-style innovation-related sales expanded.

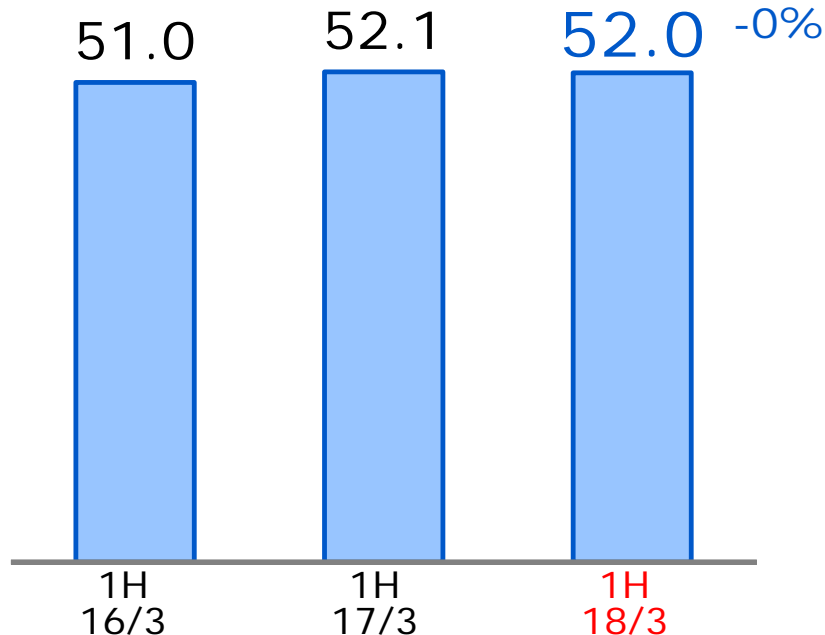
- Sales of EmpoweredOffice: +3%

Operating income: Increased yoy,

driven by the improvement in the cost ratio

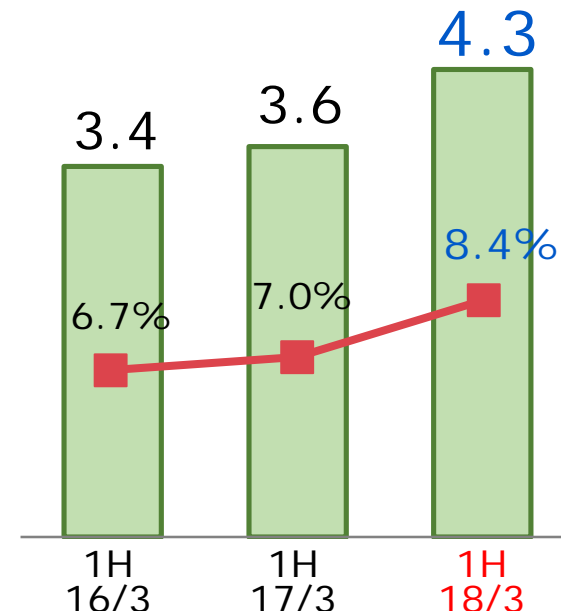
(¥ Bn.)

Sales



Operating Income

[—■— To sales]



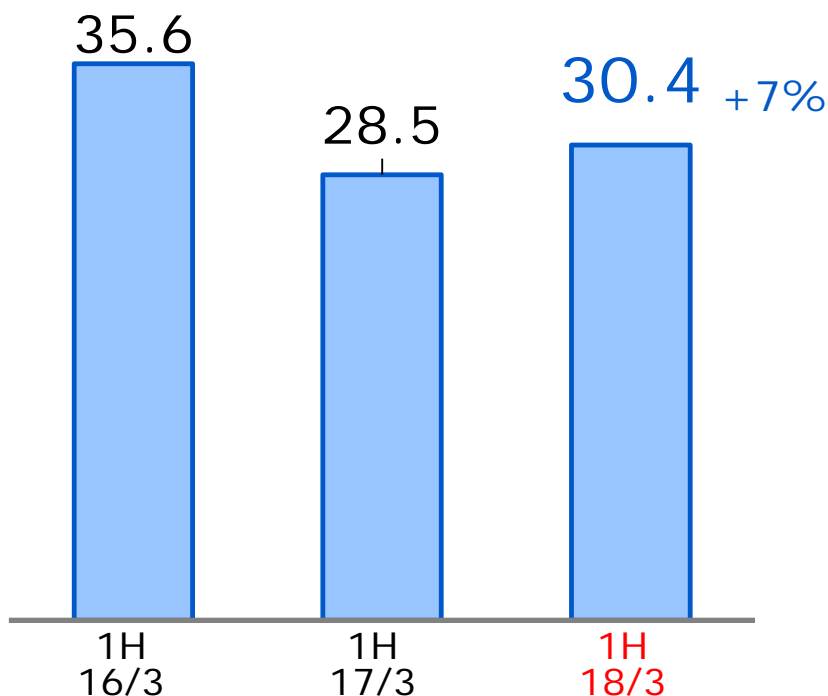
1H FY2018/3 Carrier Networks Business

Sales: Increased yoy due to expansion of sales to telecom carriers

Operating income: Increased due to the impact of cost structure reforms and increased sales

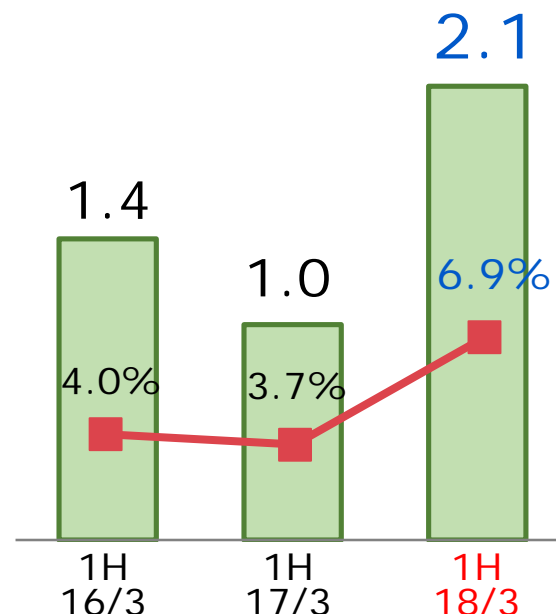
(¥ Bn.)

Sales



Operating Income

[—■— To sales]



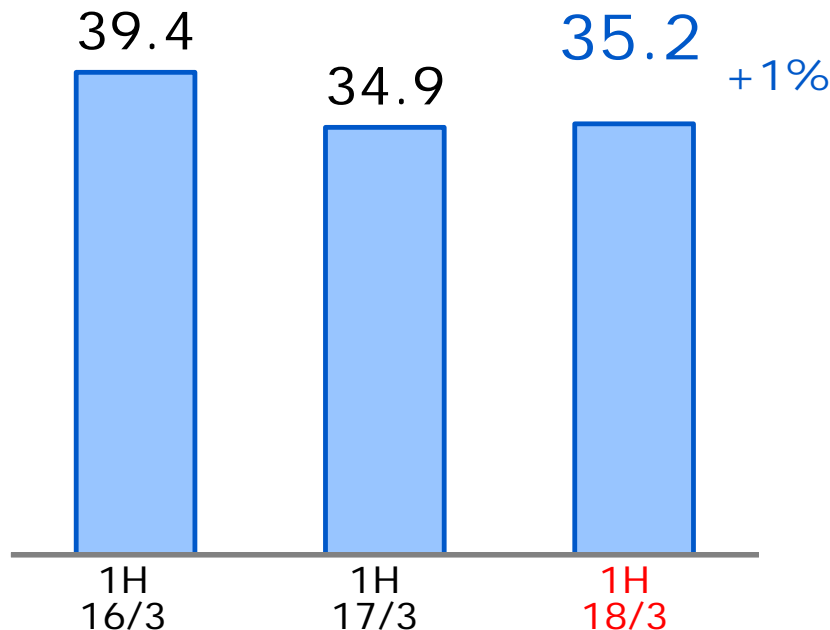
1H FY2018/3 Social Infrastructures Business

Sales: Remained flat thanks to the contribution of the large-scale solar power generation plant projects, despite decrease of the overseas sales.

Operating income: Declined due to higher expenses incurred for growth (securing resources, SGA), deterioration in the sales mix, and unprofitable projects in 1Q (overseas railroad projects).

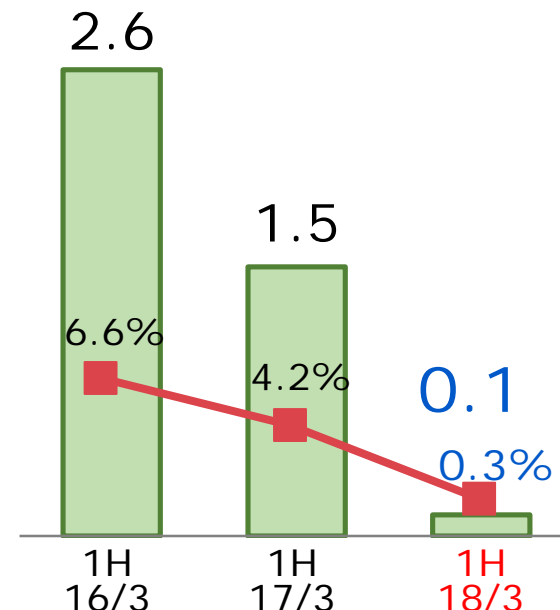
(¥ Bn.)

Sales



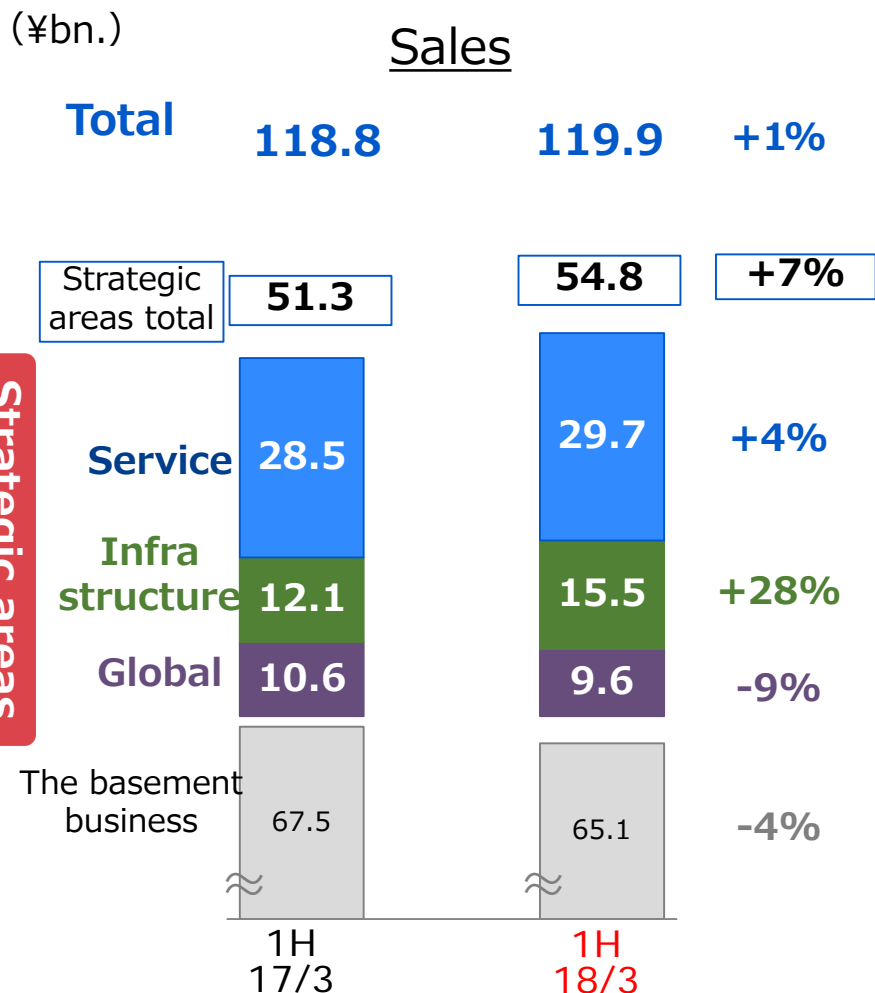
Operating Income

[—■— To sales]



Progress of the Strategic Areas for Midterm Plan

Sales expanded in the strategy business fields with different growth levels between them.



Service Business

※EmpoweredOffice, Cyber security, IoT/MVNO

- All of EmpoweredOffice, cyber security and IoT/MVNO expanded
- The seeds for future growth were steadily planted, primarily by initiating new services, including teleworking.

Infrastructure Business

※Broadcasting/CATV, DP(Disaster prevention), Road/Railways, Mega solar

- The mega-solar business expanded.
- New mega-solar projects have been realized for 2H.

Global Business

※ Inbound, Outbound

- The Saudi business declined, whereas the Myanmar business was strong.

The seeds for the future were steadily planted in the growth strategy businesses.

- Initiatives for work-style innovation areas were strengthened.
 - ✓ Teleworking, AI, etc.
- New mega-solar projects will become manifest in the second half of the year.

The earning capability further strengthened.

- Gross margin improved in the Enterprise Networks Business and the Carrier Networks Business, leading to higher income.

I. Results for 1H FY2018/3

II. Forecasts for FY2018/3

Target the initial forecasts as a whole.

(¥bn.)

	FY17/3	FY18/3 Forecasts	Change
Orders Receipts	279.2	280	0%
Net Sales	257.9	270	+5%
Operating Income	10.0	10.5	+0.5
(to Sales)	(3.9%)	(3.9%)	0.0pt
Net income attributable to owners of the parent	6.5	6.7	+0.2
(to sales)	(2.5%)	(2.5%)	0.0pt

(Forecasts as at October 31, 2017)

Expansion of topline

- Re-accelerate the strategy businesses
 - Harvest the fruits
 - Work-style innovation, new market cultivation, new technology introduction

Recovery of the Social Infrastructures business

- Respond to mega-solar projects
- Pursue further cost cutting
 - Reduction in material cost and outsourcing expenses through in-house production, etc.

Priority Measures (Expansion of Topline)

Harvest the fruits in 2H from the seeds planted in 1H

Work-style innovation

**Pursue further innovation in earnest
with all employees participating**

Introduced new solutions

Collaboration work solution “Zoom” / RPA solution

Renewed EmpoweredOffice Center

New market cultivation

**Promoted initiatives in new market which will produce
results in 2H**

- Obtain new mega-solar projects
- Obtain large-scale projects for hotels and universities

Introduction of new technologies

Autonomous delivery robot “Relay”

Solutions using AI

Cyber security, automated help desk functions

Virtual network technology SD-WAN

Priority Measures (Expansion of Topline)

Expand work-style innovation business

- **All employees to participate in full-scale implementation of further work-style innovation**

- Teleworking system for all employees
- Participation in Teleworking Day including officers
 - > Extensive media exposure

▶ **Enhanced the brand of the Company; increases in office visitors and inquiries**

- **Renewal of EmpoweredOffice Center**

- Introduction of leading-edge technologies, including AI and face authentication
- Broader introduction by connection with branches

▶ **Inviting 1.5 times as many visitors as now and creating more business**

➡ **EmpoweredOffice sales to over ¥50 bn.**



An executive meeting using a teleworking system



Priority Measures (Expansion of Topline)

Introduce new technologies to expand SI and service

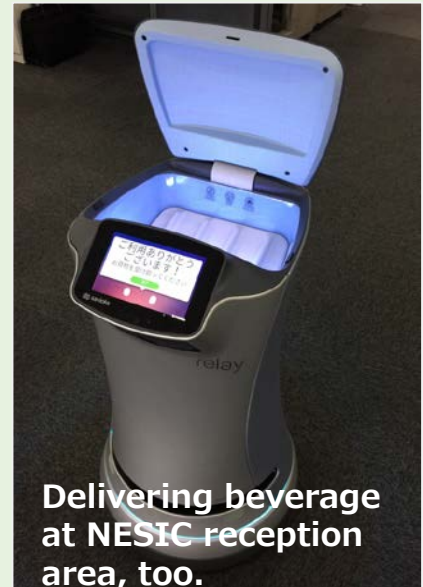
~Integration of advanced technologies of ventures and our ability to provide SI and services

Example

- Introduction of autonomous delivery robot “Relay” of Savioke at Shinagawa Prince Hotel

*Savioke, Inc: a manufacturer established in 2013, specializing in automatic delivery robots
Chosen among Top 50 Companies to Watch in 2016 of “Robotics Business Review” of the United States

- System to connect the robot to internal telephones, elevators, and automatic doors
 - …**Providing SI and operation service**
- ▶ Expanding business opportunities to hotels, offices, apartments, plants, hospitals, nursing-care facilities



➡ **Further discovery of new technologies and new products + NESIC service platform**
-> new solutions

Mega-Solar Business

- The X-Elio project (¥15.5 bn.) received in the previous fiscal year is proceeding steadily.

- ▶ The land preparation phase has progressed and electric / panel installation is now starting. (as planned)



- New mega-solar projects have been realized for 2H.

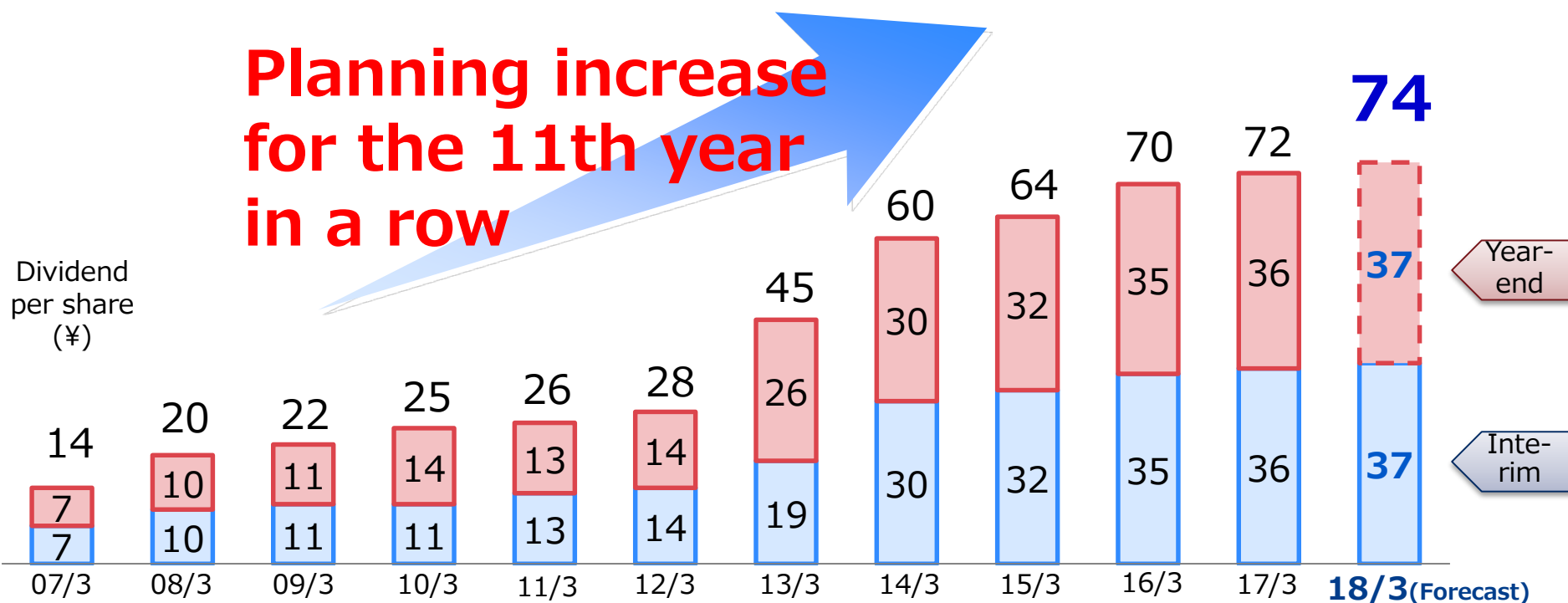
➡ Acquire new orders and improve profitability

- Step up proposal activities by strengthening collaboration with domestic financial institutions
- Pursue cost efficiency by making full use of the know-how in the execution of large-scale projects

Payment of interim dividend of ¥37 as planned at the beginning of the fiscal year

- No change in year-end dividend planned

Planning increase for the 11th year in a row



Toward Strong & Attractive NESIC

**Dreams and
High
Aspirations**

Innovation

**Enhance
Our
Strengths**

(ref.) End of FY2017/9 (Sep. 2017) Balance Sheet

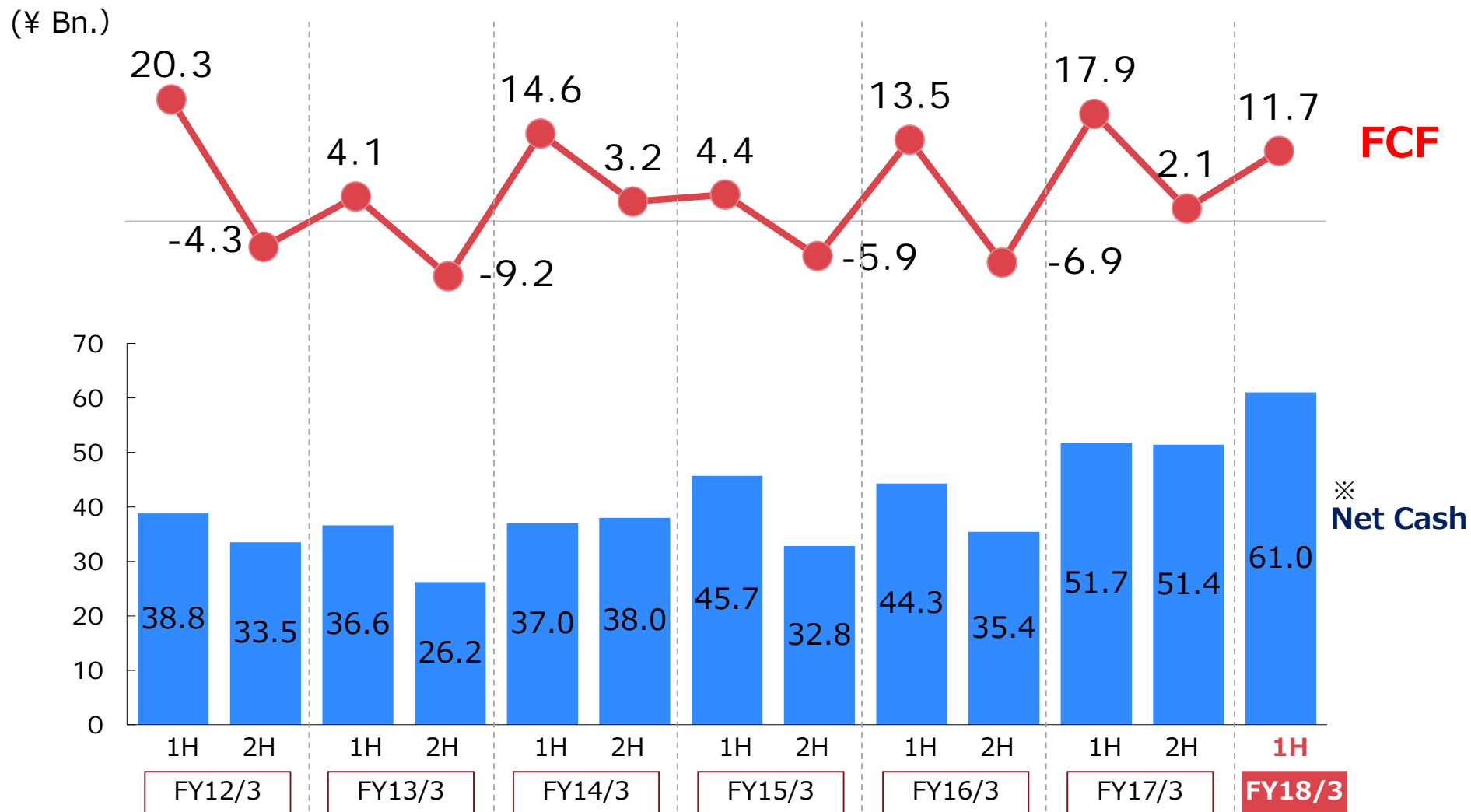
(¥ Bn.)

	End of 17/3	End of 17/9	Diff.
Cash and cash equivalents	59.6	69.2	9.6
Notes & accounts receivable	91.2	75.8	-15.3
Inventories	8.5	10.2	1.7
Others	9.7	9.4	-0.3
Current Assets	169.0	164.7	-4.3
Noncurrent Assets	28.5	28.2	-0.3
Assets	197.5	192.9	-4.6

Notes and accounts payable	36.5	32.4	-4.1
Loans	8.3	8.2	-0.1
Others	56.1	55.5	-0.6
Liabilities	100.8	96.0	-4.8
Shareholders' equity	100.1	100.0	-0.2
Accumulated other comprehensive income	-5.5	-5.3	0.3
Non-controlling interests	2.1	2.2	0.1
Net Assets	96.7	96.9	0.2
Liabilities & Net Assets	197.5	192.9	-4.6

Owner's Equity Ratio	47.9%	49.1%	+1.2pt
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(ref.) 1H FY2018/3 Cash Flows



*Net cash means an amount obtained by deducting loans payable from cash and cash equivalents

Cautionary Statement

Forecasts and targets of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.

Factors affecting results are not limited to the ones mentioned above.

Re-designing your Communication

NEC Networks & System Integration Corporation is committed to increasing customer value by redesigning future communications from the user's perspective.



NEC

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