

NEC Networks &amp; System Integration Corporation

Stock exchange listing: Tokyo  
Code number: 1973

http://www.nesic.co.jp/english/index.html

**1. Consolidated Results for the Fiscal Year ended March 31, 2018**

(Rounded down to the nearest million yen.)

**(1) Net Sales and Income**

(Percentages represent change compared with the same period of the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)	Net income attributable to owners of the parent (¥ million)	Year-on-year change (%)
FY ended March/18	<b>267,939</b>	<b>3.9</b>	<b>11,057</b>	<b>10.9</b>	<b>10,957</b>	<b>9.8</b>	<b>7,357</b>	<b>12.3</b>
FY ended March/17	257,912	-7.9	9,974	-29.3	9,975	-29.4	6,549	9.2

(Note) Comprehensive income : 31/3/2018 : ¥8,712 million (51.4%) ; 31/3/2017 : ¥5,753 million (61.9%)

	Profit per share (¥)	Profit per share (diluted) (¥)	Return on equity (%)	Ordinary income/ Total assets (%)	Operating income/ Net sales (%)
FY ended March/18	<b>148.23</b>	—	<b>7.6%</b>	<b>5.4%</b>	<b>4.1%</b>
FY ended March/17	131.94	—	7.0%	5.1%	3.9%

(Reference) Equity in earnings (losses) of affiliates (million) : 31/3/2018 : ¥-25million ; 31/3/2017 : —

**(2) Financial Position**

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
<b>31-Mar-18</b>	<b>208,050</b>	<b>101,732</b>	<b>47.8</b>	<b>2,004.04</b>
31-Mar-17	197,469	96,674	47.9	1,906.03

c.f. Owner's equity: 31/3/2018 ¥99,473million ; 31/3/2017 ¥94,611million

**(3) Cash Flows**

	Net cash provided by (used in) operating activities (¥ million)	Net cash provided by (used in) investing activities (¥ million)	Net cash provided by (used in) financing activities (¥ million)	Cash and cash equivalents at end of year (¥ million)
FY ended March/18	<b>4,779</b>	<b>(2,802)</b>	<b>(4,366)</b>	<b>57,281</b>
FY ended March/17	22,634	(2,697)	(4,144)	59,648

**2. Dividends**

	Dividends per share (¥)					Total dividends paid (full year)	Payout ratio (consolidated ) (%)	Dividends/ Net assets (consolidated)
	1st quarter	Interim	3rd quarter	Year-end	Full year			
FY ended 3/2017	—	36.00	—	36.00	72.00	3,573	54.6	3.8
<b>FY ended 3/2018</b>	—	<b>37.00</b>	—	<b>37.00</b>	<b>74.00</b>	<b>3,673</b>	<b>49.9</b>	<b>3.8</b>
FY ending 3/2019 (Projected)	—	38.00	—	38.00	76.00		50.3	

**3. Financial Forecasts for Fiscal Year ending March 31, 2019**

(Percentages represent change compared to the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income attributable to owners of the parent per share (¥)
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	
6 Months ending 9/2018	124,000	3.4	2,000	(20.5)	2,000	(24.2)	1,300	(19.5)	26.19
FY ending 3/2019	280,000	4.5	11,500	4.0	11,500	5	7,500	1.9	151.10

**Cautionary Statement**

Forecasts 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.

## 4. Business Results

### (1) Business Results for the Fiscal Year Ended March 31, 2018

During the fiscal year ended March 31, 2018 (the period from April 1, 2017 to March 31, 2018), the Japanese economy continued to experience a moderate recovery, supported by the effects of various policies and a moderate increase in capital spending together with improvements in corporate earnings and employment.

In the fields of information and communication technology (ICT) , in which NEC Networks & System Integration Corporation (“the Company”) operates, differences were observed in each field under these economic conditions.

First, in the corporate market, while corporate managers continued to hold critical views on the effects of investment, there was active investment for enhancing business management and competitiveness, including investment in work style innovation. In the telecom carrier business, restraints on capital spending for network infrastructure have bottomed out and signs of a modest recovery have have begun to emerge. In the central and local governments as well as the public interest market, investment in improvements in safety and security and other urban infrastructure remained healthy ; however, the competitive environment remained harsh in part, showing weakness. In addition, following the revision of the Feed-In Tariff (FIT) Act , demand for the construction of solar power generation plants has become brisk. Overseas, meanwhile, particularly in Asia, there is demand for the construction of infrastructure such as mobile communications networks; however, there was weakness in some areas where there were delays in projects.

In this market environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) stepped up their actions for business related to work style reform, including “EmpoweredOffice ,” and new technologies and themes such as robotics and digital transformation in response to the growing momentum of work style reforms. Needs for teleworking, in particular, have been growing recently, and in July 2017, the Company introduced teleworking throughout the organization based on the results of an internal field trial that had been underway since 2015. At the same time, the Company implemented actions to increase sales. Customer outreach was also strengthened, specifically the renewal of the showroom at the head office, EmpoweredOffice Center, and offices for sales and SE by incorporating the advanced technologies and services. In addition, the CVC fund was established in February 2018 to step up the actions for the creation of new business through open innovation with venture enterprises. In addition, the Group bolstered its overseas business, in particular offering both the expertise it has developed through its abundant achievements with domestic telecom carriers and its high quality construction knowhow

developed with domestic telecom carriers to overseas telecom carriers. Meanwhile, in projects for the construction of large mega-solar power generation plants, orders for which were received during the previous fiscal year, construction proceeded steadily under the company-wide project management system.

As a result, the Group posted the following consolidated results for the year under review:

Net sales	¥267,939 million	3.9%	increase year on year
Operating income	¥11,057 million	10.9%	increase year on year
Ordinary income	¥10,957 million	9.8%	increase year on year
Net income attributable to owners of the parent	¥7,357 million	12.3%	increase year on year
< Reference >			
Orders received	¥287,831 million	3.1%	increase year on year

Net sales increased 3.9% year on year, to ¥267,939 million. This was caused by growth in sales of services for telecom carriers in the Carrier Networks business, the contribution to sales of projects for the construction of large mega-solar power generation plants, orders for which were received in the previous fiscal year, and increased sales in the key areas under the medium-term business strategy (announced in May 2016), including the area related to work style innovation. Orders received increased 3.1% year on year, to ¥287,831 million, due mainly to the new orders received for the construction of large mega-solar power generation plants and growth in orders for central and local governments with a large projects acquisition in the social infrastructures segment.

On the profit front, operating income increased 10.9% year on year, to ¥11,057 million, ordinary income grew 9.8% year on year, to ¥10,957 million, and net income attributable to owners of the parent rose 12.3% year on year, to ¥7,357 million. This was a result primarily of an improved sales mix and continuous cost structural reforms in the Enterprise Networks business and Carrier Networks business, which offset a decline in the Social Infrastructures business segment due to a higher cost of sales ratio and an increase in selling, general and administrative expenses.

Operating results by business segment were as follows: Operating results by business segment were as follows:

**Net sales by business segment**

(Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
<b>Fiscal 2018.3</b>	110,887	64,902	85,192	6,957	267,939
Fiscal 2017.3	107,366	61,579	82,362	6,602	257,912
Increase (decrease)	3,520	3,322	2,830	354	10,027
Ratio of increase (decrease) (%)	3.3	5.4	3.4	5.4	3.9

**Reference: Orders received by business segment**

(Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
<b>Fiscal 2018.3</b>	125,826	68,543	87,046	6,414	287,831
Fiscal 2017.3	116,958	68,675	86,546	7,060	279,241
Increase (decrease)	8,867	(132)	500	(645)	8,590
Ratio of increase (decrease) (%)	7.6	(0.2)	0.6	(9.1)	3.1

1. Enterprise Networks business

ICT investment in work style reform remained active and EmpoweredOffice, an office innovation solution business, achieved growth. In addition, the electric facilities in the project received in the previous fiscal year for the construction of large mega-solar power generation plants contributed to the sales. As a result, net sales increased 3.3% year on year, to ¥110,887 million.

2. Carrier Networks business

Sales rose 5.4% year on year, to ¥64,902 million, thanks to the expansion of business for telecom carriers and the contribution of the panel works to sales in the project for the construction of large mega-solar power generation plants for which orders were received in the previous fiscal year.

3. Social Infrastructures business

Sales climbed 3.4% year on year, to ¥85,192 million, reflecting the contribution of civil engineering and development in the project for the construction of large mega-solar power generation plants, which were received in the previous fiscal year, offsetting a decrease in sales in the overseas business.

\*EmpoweredOffice:

EmpoweredOffice is our office innovation solution. It combines our strengths in ICT and facility installation to enable more intellectual and creative styles of work through process reforms. It also proposes new methods and places of work that enable customers to fulfill their social responsibilities, such as the strengthening of security and environmental responsiveness.

<Outline of Business Segments>

Business Segment	Descriptions of Main Businesses
Enterprise Networks	Service integration of ICT solutions, mainly for the enterprises market Total office solutions based on ICT with securities or environmental solutions and related operation/monitoring services, as well as outsourcing services using our own contact centers and data centers
Carrier Networks	Service integration mainly for telecom carriers' ICT platforms (from mobile communications base stations to core networks), including systems integration, installation, and related services such as operations and monitoring. Systems integration of large-scale, wide-area, carrier-grade ICT platforms and data centers and related operations, monitoring services Development, manufacturing, sales and systems integration of network equipment and other equipment.
Social Infrastructures	Service integration of ICT infrastructure for governments and public utilities (broadcasters, electric power companies, etc.), such as systems integration, installation, operation, and monitoring, and operations in markets other than the Tokyo, Nagoya, and Osaka areas. Overseas subsidiaries
Others	Mainly sales of purchased equipment

(2) Outlook for the Fiscal Year Ending March 31, 2019

The Japanese economy is expected to show a tendency of a moderate recovery for the fiscal year ending March 31, 2019, mainly due to the effects of the government's economic measures and the improvement of employment and income conditions. However, there also remains a risk of downward pressure on the domestic economy such as sharp changes in foreign exchange and a fear of an overseas economic downturn.

In the ICT field in which the Company operates, favorable conditions are generally expected with an increase in companies' investment appetite centered around work style reform and the recovery of capital spending on network infrastructure mainly in the base stations among telecom carriers. On the other hand, in central and local governments and the public interest market, investment in broadcasting, CATV, disaster prevention, etc. is expected to increase with low investment in some areas where fierce competition will continue and in the off-demand season of projects. In addition, overseas business conditions will remain both favorable and

unfavorable, as in the fiscal year ended March 31, 2018.

In the fiscal year ending March 31, 2019, the Company forecasts that sales will increase 4.5%, to ¥280 billion, due to the strengthening of the actions for the business under focus in the medium-term business strategy, especially the business related to work style innovation, and the business directed at telecom carriers with the expectation of the recovery of capital spending as well as the steady conduct of the large-scale projects whose orders were received in the previous fiscal year.

In the Enterprise Networks business, the Company will seek to actively expand the business, taking advantage of customers' increasing willingness to make ICT investments relating to work style reform. We will also continue to step up the actions for AI and other advanced technologies and services.

In the Carrier Networks business, the Company will strengthen the actions for the business directed at telecom carriers, especially the works for base stations on which capital spending is recovering. At the same time, the Company will step up the business activities directed at overseas telecom carriers as well as in the business and public sectors by making the most of our assets for domestic telecom carriers. In addition, we will take active actions in the IoT and other fields where future growth is expected, including the creation and proposal of new value-added services.

In the Social Infrastructures business, we will work actively on the business that is expected to experience steady investment, such as broadcasting/CATV and disaster prevention, with differences in the business conditions by field.

On the profit front, the Company will make active investments for growth, including response to digital transformation and other new technologies and the development of human resources, with an eye toward future growth in the medium to long term. Given the effects of the improvement of Social infrastructures business and an increase in earnings, among other factors, operating income and ordinary income are both forecast to increase to ¥11.5 billion year on year, and net income profit attributable to owners of the parent is expected to increase to ¥7.5 billion year on year.

Net sales	¥280 billion	4.5% increase year on year
Operating income	¥11.5 billion	4.0% increase year on year
Ordinary income	¥11.5 billion	5.0% increase year on year
Net income attributable to owners of the parent	¥7.5 billion	1.9% increase year on year

### (3) Profit Distribution Policy and Dividends for the Fiscal Year Ended March 2018 and the Fiscal Year Ending March 2019

We view the distribution of a reasonable share of profits to shareholders as one of our top management priorities, and make every effort to reinforce the Company's management foundation, strengthen its financial standing, and increase its earning capacity. While we also place a great deal of importance on increasing our corporate value through growth by accelerating strategic investment in M&A, strengthening the business foundation and creating new businesses that will allow us to expand our future businesses that will be areas of focus, we strive to continually meet the expectations of our shareholders in our profit distribution.

On that basis, in line with forecasts made previously, we have decided to increase our

year-end dividend to ¥37 per share and our annual dividend to ¥74 per share for the fiscal year ended March 2018, rising ¥2 from the previous fiscal year.

The dividend per share for the fiscal year ending March 2019 is expected to be ¥38 for both the interim and year-end periods, increasing our annual dividend to ¥76.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	59,648	57,281
Notes and accounts receivable	91,152	104,405
Purchased goods, materials and supplies	2,679	2,379
Work in process	5,815	5,858
Deferred tax assets	4,102	4,524
Other	5,694	5,414
Allowance for doubtful accounts	(92)	(121)
Total current assets	<u>168,999</u>	<u>179,742</u>
Non-current assets		
Property and equipment		
Buildings and structures	9,875	9,763
Accumulated depreciation	(5,726)	(5,849)
Buildings and structures (net)	<u>4,148</u>	<u>3,914</u>
Machinery and vehicles	187	182
Accumulated depreciation	(155)	(150)
Machinery and vehicles (net)	<u>32</u>	<u>31</u>
Furniture and fixtures	14,435	14,826
Accumulated depreciation	(10,854)	(11,358)
Furniture and fixtures (net)	<u>3,581</u>	<u>3,467</u>
Land	2,507	2,410
Construction in progress	382	222
Other	443	258
Accumulated depreciation	(375)	(212)
Other (net)	<u>67</u>	<u>45</u>
Total property and equipment	<u>10,719</u>	<u>10,093</u>
Intangible assets		
Goodwill	1,689	1,394
Other	2,871	3,990
Total intangible assets	<u>4,561</u>	<u>5,384</u>
Investments and other assets		
Investment securities	421	516
Asset for retirement benefits	324	444
Deferred tax assets	8,881	8,596
Other	3,612	3,309
Allowance for doubtful accounts	(51)	(37)
Total investments and other assets	<u>13,188</u>	<u>12,829</u>
Total non-current assets	<u>28,469</u>	<u>28,308</u>
Total assets	<u>197,469</u>	<u>208,050</u>
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	36,474	40,302
Short-term bank loans	4,069	4,086
Current installments of long-term debt	171	3,171
Accrued income taxes	2,964	3,768
Accrued consumption taxes	1,965	2,415
Advanced received	4,678	3,811
Accrued bonuses to directors and corporate auditors	67	102
Accrued warranty on products	123	116
Accrued losses on sales contracts	645	557
Other current liabilities	12,337	14,541
Total current liabilities	<u>63,498</u>	<u>72,874</u>
Long-term liabilities		
Long-term debt	4,014	842
Liabilities for retirement benefits	31,206	30,428
Other liabilities	2,075	2,172
Total long-term liabilities	<u>37,296</u>	<u>33,444</u>
Total liabilities	<u>100,795</u>	<u>106,318</u>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,652	16,655
Retained earnings	70,622	74,357
Treasury stock, at cost	(272)	(276)
Total shareholders' equity	<u>100,124</u>	<u>103,858</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	35	42
Foreign currency translation adjustments	(394)	(374)
Accumulated adjustments for retirement benefits	(5,154)	(4,053)
Total accumulated other comprehensive income	<u>(5,513)</u>	<u>(4,385)</u>
Non-controlling interests	2,062	2,258
Total net assets	<u>96,674</u>	<u>101,732</u>
Total liabilities and net assets	<u>197,469</u>	<u>208,050</u>



**(2) Consolidated Statements of Income and Comprehensive Income****(Consolidated Statements of Income)**

(Millions of yen)

	FY Mar/2017	FY Mar/2018
Net sales	257,912	<b>267,939</b>
Cost of sales	215,326	<b>223,674</b>
Gross profit	42,585	<b>44,265</b>
Selling, general and administrative expenses	32,611	<b>33,208</b>
Operating income	9,974	<b>11,057</b>
Non-operating income		
Interest income	38	<b>35</b>
Insurance income	190	<b>197</b>
Other	303	<b>202</b>
Total non-operating income	532	<b>435</b>
Non-operating expenses		
Interest expenses	85	<b>127</b>
Loss on disposal of property and equipment	100	<b>120</b>
Business reconstruction expenses for subsidiaries	112	<b>56</b>
Relocation expenses for subsidiaries	-	<b>60</b>
Other	232	<b>170</b>
Total non-operating expenses	532	<b>535</b>
Ordinary income	9,975	<b>10,957</b>
Extraordinary income		
Gain on sale of non-current assets	-	<b>283</b>
Gain on sale of investment in affiliates	-	<b>38</b>
Total extraordinary income	-	<b>322</b>
Extraordinary losses		
Shutdown expenses for subsidiaries	93	-
Total extraordinary losses	93	-
Income before income taxes	9,881	<b>11,279</b>
Income taxes - current	2,973	<b>4,548</b>
Income taxes - deferred	(16)	<b>(790)</b>
Income taxes	2,957	<b>3,757</b>
Net income	6,923	<b>7,521</b>
Net income attributable to non-controlling interests	374	<b>164</b>
Net income attributable to owners of the parent	6,549	<b>7,357</b>

**(Millions of yen)**

(Millions of yen)

	FY Mar/2017	FY Mar/2018
Net income	6,923	<b>7,521</b>
Other comprehensive income		
Net unrealized holding loss on other securities	4	<b>7</b>
Foreign currency translation adjustments	(38)	<b>81</b>
Adjustments for retirement benefit	(1,136)	<b>1,101</b>
Share of other comprehensive income of associates accounted for using equity method	-	<b>0</b>
Total other comprehensive income	(1,170)	<b>1,190</b>
Comprehensive income	5,753	<b>8,712</b>
Comprehensive income attributable to:		
Owners of the parent	5,398	<b>8,486</b>
Non-controlling interests	355	<b>225</b>

**(3) Consolidated Statements of Cash Flows**

(Millions of yen)

	FY Mar/2017	FY Mar/2018
Cash flows from operating activities		
Net income before income taxes	9,881	11,279
Depreciation and amortization	2,834	2,526
Amortization of goodwill	255	251
Increase (decrease) in allowance for doubtful receivables	54	12
(Increase) decrease in asset for retirement benefit	8	310
Increase (decrease) in liability for retirement benefits	810	872
Increase (decrease) in accrued bonuses to directors and corporate auditors	(31)	34
Increase (decrease) in accrued warranty on products	(66)	(7)
Increase (decrease) in accrued losses on sales contracts	242	(90)
Interest and dividend income	(50)	(46)
Interest expense	85	127
(Increase) decrease in notes and accounts receivable	13,463	(13,061)
(Increase) decrease in inventories	678	266
Increase (decrease) in notes and accounts payable	(2,640)	3,801
Increase (decrease) in accrued consumption taxes	(447)	451
Other, net	1,654	1,874
Subtotal	26,733	8,604
Interest and dividend income received	50	47
Interest paid	(85)	(127)
Income taxes paid	(4,063)	(3,744)
Net cash provided by (used in) operating activities	22,634	4,779
Cash flows from investing activities		
Purchase of property and equipment	(1,886)	(1,628)
Proceeds from sale of property and equipment	2	386
Purchase of intangibles	-688	-1,532
Proceeds from sale of intangibles	-	11
Purchase of investment securities	(9)	(27)
Proceeds from sale of investment securities	3	4
Loans receivable made	(1)	(2)
Collection of loans receivable	5	3
Proceeds from sales of investments in affiliates	-	74
Other, net	(122)	(92)
Net cash used in investing activities	(2,697)	(2,802)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	23	(111)
Repayments of long-term debt	(163)	(171)
Net (increase) decrease in treasury shares	(2)	(4)
Dividends paid to shareholders	(3,521)	(3,620)
Dividends paid to minority shareholders of subsidiaries	(14)	(23)
Other, net	(466)	(435)
Net cash provided by used in financing activities	(4,144)	(4,366)
Effect of exchange rate changes on cash and cash equivalents	(33)	22
Net increase (decrease) in cash and cash equivalents	15,758	(2,366)
Cash and cash equivalents at beginning of period	43,889	59,648
Cash and cash equivalents at end of period	59,648	57,281

**(4) Segment Information**

Business Segment

Year ended March 31, 2018

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
<b>Orders received</b>	<b>125,826</b>	<b>68,543</b>	<b>87,046</b>	<b>6,414</b>	---	<b>287,831</b>
<b>Sales</b>						
(1) Sales to third	110,887	64,902	85,192	6,957	---	267,939
(2) Intersegment sales	---	---	---	---	---	---
<b>Total</b>	<b>110,887</b>	<b>64,902</b>	<b>85,192</b>	<b>6,957</b>	---	<b>267,939</b>
<b>Operating income (loss)</b>	<b>10,797</b>	<b>5,021</b>	<b>3,399</b>	<b>263</b>	<b>(8,424)</b>	<b>11,057</b>

Year ended March 31, 2017

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
<b>Orders received</b>	<b>116,958</b>	<b>68,675</b>	<b>86,546</b>	<b>7,060</b>	---	<b>279,241</b>
<b>Sales</b>						
(1) Sales to third parties	107,366	61,579	82,362	6,602	---	257,912
(2) Intersegment sales	---	---	---	---	---	---
<b>Total</b>	<b>107,366</b>	<b>61,579</b>	<b>82,362</b>	<b>6,602</b>	---	<b>257,912</b>
<b>Operating income (loss)</b>	<b>8,823</b>	<b>3,569</b>	<b>6,029</b>	<b>246</b>	<b>(8,693)</b>	<b>9,974</b>