

These financial statements have been prepared in accordance with accounting principals generally accepted in Japan.

NEC Networks & System Integration Corporation

Stock exchange listing: Tokyo

Code number: 1973

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

1. Consolidated Results for the First Quarter (April 1, 2018 to June 30, 2018)
of Fiscal Year ending March 31, 2019

(Rounded down to the nearest million yen.)

(1) Net Sales and Income

	Net sales (¥ million)	Year-on-year change (%)	Operating income	Year-on-year change (%)	Ordinary income	Year-on-year change (%)
3 months ended June 2018	55,455	4.3	-328	—	-340	—
3 months ended June 2017	53,147	0.9	-688	—	-729	—

	Net income attributable to owners of the parent (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
3 months ended June 2018	-205	—	-4.15	—
3 months ended June 2017	-626	—	-12.63	—

c.f. Comprehensive income: 1Q/FY Mar 2019: ¥-100 million (- %); 1Q/FY Mar 2018: ¥-446 million (-%)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
30/Jun/2018	191,034	99,778	51.0	1,964.47
31/Mar/2018	207,643	101,732	47.9	2,004.04

c.f. Owner's equity: 30/Jun/2018: ¥97,509 million; 31/Mar/2018: ¥99,473 million

2. Dividends

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended Mar. 2018	—	37.00	—	37.00	74.00
FY ending Mar. 2019	—	38.00 ※	— ※	38.00 ※	76.00 ※

※ Forecasts

Note: Revisions to projected dividends for the quarter under review: no

3. Financial Forecasts for Fiscal Year ending March 31, 2019 (April 1, 2017 to 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 per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
6 months ending Sep. 2018	124,000	3.4	2,000	-20.5	2,000	-24.2	1,300	-19.5	26.19
FY ending Mar. 2019	280,000	4.5	11,500	4.0	11,500	5.0	7,500	1.9	151.10

Note: Revisions to projected results for the quarter under review: no

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 1Q for the Fiscal Year Ending March 31, 2019

During the first quarter of the fiscal year ending March 31, 2019 (the period from April 1, 2018 to June 30, 2018), the Japanese economy continued its moderate recovery, supported by policy effects accompanied by improvements observed in employment and income conditions, despite worrying trends in areas such as trade and associated fluctuations in financial and capital markets.

Under those economic conditions, disparities were observed in different segments of the information and communication technology (ICT) market, the business domain where NEC Networks & System Integration Corporation (hereinafter “the Company”) operates.

In the corporate market, executives kept viewing the effects of investment critically. However, corporate spending for enhancing business administration and competitiveness, including investment in work style reforms, stayed strong. In addition, interest in the fields of cutting-edge technologies, including DX (Digital transformation) such as artificial intelligence (AI), the Internet of things (IoT) and data analysis, rose. In the telecom carrier business, investment in network infrastructure centered on mobile base stations showed a recovery. In the central government, local governments and public interest, investment in improving urban infrastructure such as broadcasting remained steady. In the meantime, competitive conditions, which remained severe in certain segments, and the transitional period for investment in firefighting commander systems showed effects. Moreover, demand for building mega solar power plants remained brisk in the wake of the revision of the Feed-In Tariff (FIT) Act . Signs of recovery, including the resumption of capital spending postponed in certain areas due to crude oil market conditions, appeared overseas.

In this market environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) continued to step up their initiatives in businesses related to work style innovation, including “EmpoweredOffice *,” in response to a growing trend to change work styles. At the same time, the Group developed new solutions in the field of DX technologies and verified them through demonstration experiments. The Group proactively invested in venture enterprises through the CVC (*5) Fund established in January 2018 to ensure growth, too. Meanwhile, the Group bolstered its systems to expand businesses for telecom carriers whose capital spending is expected to recover, taking steps including the rebuilding of a base station construction system. In addition, the Group steadily advanced the construction of mega solar power plants through large projects under a Company-wide project management system.

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

review:

Net sales	¥55,455 million	¥2,307million	increase year on year
Operating income (loss)	(¥328 million)	¥360million	improve year on year
Ordinary income (loss)	(¥340 million)	¥389million	improve year on year
Net income (loss) attributable to owners of the parent	(¥205 million)	¥420million	improve year on year

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Orders received	¥66,213 million	¥1,921million	increase year on year
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Net sales increased 4.3% year on year, to ¥55,455 million. The result reflected growth in sales achieved in the Enterprise Networks business and Carrier Networks business, centered on key areas under the Group's medium-term business strategy (covering the period from the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2019) such as work style innovation and mega solar power plants. Orders received grew 3.0% year on year, to ¥66,213 million, due to the recovery of capital spending on network infrastructure among telecom carriers and strong results posted for companies focused on hotel and other service industry. They offset the effects of the cancellation of maintenance contracts associated with large projects for mega solar power plants ordered to the Company in the fiscal year ended March 31, 2017.

Looking at profits, operating loss improved ¥360 million year on year, to ¥328 million, the ordinary loss improved ¥389 million year on year, to ¥340 million, and the net loss attributable to owners of parent improved ¥420 million year on year, to ¥205 million. These results reflected factors such as the worsening of the cost of sales ratio in the Social Infrastructures business and the execution of proactive growth investment, which offset an improvement in the cost of sales ratio in the Enterprise Networks business that resulted primarily from positive changes in the sales mix, such as the increased weighting of projects with high added values, and efficiency enhancement.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
1Q Fiscal 2019.3	25,475	14,518	13,657	1,803	55,455
1Q Fiscal 2018.3	23,897	13,602	14,560	1,086	53,147
Increase or (decrease)	1,578	915	(903)	717	2,307
Ratio of increase/(decrease) (%)	6.6	6.7	(6.2)	66.0	4.3

Reference: Orders received by business segment

(Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
1Q Fiscal 2019.3	26,482	19,177	17,995	2,558	66,213
1Q Fiscal 2018.3	26,383	15,398	21,326	1,182	64,291
Increase or (decrease)	98	3,778	(3,331)	1,375	1,921
Ratio of increase/(decrease) (%)	0.4	24.5	(15.6)	116.4	3.0

1. Enterprise Networks business

ICT investment in work style reforms remained strong. EmpoweredOffice, a work style innovation solution, achieved growth, too. As a result, net sales for the business increased 6.6% year on year, to ¥25,475 million.

2. Carrier Networks business

Businesses for telecom carriers expanded. In addition, panel construction in large projects for building mega solar power plants made sales contributions. As a result, net sales for the business rose 6.7% year on year, to ¥14,518 million.

3. Social Infrastructures business

Net sales for the business decreased 6.2% year on year, to ¥13,657 million, due to a reactionary fall in civil engineering and development in large projects for constructing mega solar power plants and a sales decrease posted for overseas businesses.

*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 Infrastructure	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	Sales of purchased equipment

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

The Japanese economy is expected to show a moderate recovery, reflecting factors such as the effects of central government measures and improvements in employment and income conditions. However, the domestic economy continues to face downward pressure owing to factors such as concerns over a downturn in overseas economies under the effects of trade issues and other conditions.

In this economic environment, the Group is keeping its consolidated business forecasts for the fiscal year ending March 31, 2019 unchanged from its initial projections in view of consolidated business performance, which has fallen within the scope of its plans up to this point.

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

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of June 30, 2018
Assets		
Current assets		
Cash and cash equivalents	57,281	73,716
Notes and accounts receivable	103,911	67,164
Electronically recorded monetary claims	494	709
Purchased goods, materials and supplies	2,379	2,835
Work in process	5,858	7,660
Exc Other	5,414	5,883
Allowance for doubtful accounts	(121)	(112)
Total current assets	<u>175,218</u>	<u>157,858</u>
Non-current assets		
Property and equipment	10,093	10,298
Intangible assets		
Goodwill	1,394	1,332
Other	3,990	4,226
Total intangible assets	<u>5,384</u>	<u>5,558</u>
Investments and other assets		
Deferred tax assets	12,714	12,819
Other	4,270	4,537
Allowance for doubtful accounts	(37)	(37)
Total investments and other assets	<u>16,947</u>	<u>17,319</u>
Total non-current assets	<u>32,425</u>	<u>33,176</u>
Total assets	<u>207,643</u>	<u>191,034</u>
Liabilities		
Current liabilities		
Notes and accounts payable	39,574	26,780
Electronically recorded obligations	728	1,040
Short-term bank loans	4,086	3,474
Current installments of long-term debt	3,171	3,171
Accrued income taxes	3,768	385
Accrued bonuses to directors and corporate auditors	102	22
Accrued warranty on products	116	114
Accrued losses on sales contracts	557	1,049
Other current liabilities	20,768	22,333
Total current liabilities	<u>72,874</u>	<u>58,371</u>
Long-term liabilities		
Long-term debt	842	800
Liabilities for retirement benefits	30,428	30,397
Other liabilities	1,765	1,687
Total long-term liabilities	<u>33,037</u>	<u>32,884</u>
Total liabilities	<u>105,911</u>	<u>91,255</u>
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,655	16,655
Retained earnings	74,357	72,314
Treasury stock, at cost	(276)	(276)
Total shareholders' equity	<u>103,858</u>	<u>101,815</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	42	31
Foreign currency translation adjustments	(374)	(438)
Accumulated adjustments for retirement benefits	(4,053)	(3,899)
Total accumulated other comprehensive income	<u>(4,385)</u>	<u>(4,306)</u>
Non-controlling interests	2,258	2,269
Total net assets	<u>101,732</u>	<u>99,778</u>
Total liabilities and net assets	<u>207,643</u>	<u>191,034</u>

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

(Millions of yen)

	1Q, FY March 2018 (3 months ended June 2017)	1Q, FY March 2019 (3 months ended June 2018)
Net sales	53,147	55,455
Cost of sales	45,517	47,417
Gross profit	7,629	8,037
Selling, general and administrative expenses	8,318	8,365
Operating income (loss)	(688)	(328)
Non-operating income		
Interest income	4	10
Exchange gain	26	-
Other	58	76
Total non-operating income	88	86
Non-operating expenses		
Interest expenses	27	27
Foreign exchange losses	-	30
Business reconstruction expenses for subsidiaries	31	-
Other	70	41
Total non-operating expenses	129	99
Ordinary income (loss)	(729)	(340)
Income (loss) before income taxes	(729)	(340)
Income taxes	(200)	(178)
Net income (loss)	(529)	(162)
Net income (loss) attributable to non-controlling interests	97	43
Net income (loss) attributable to owners of the parent	(626)	(205)

(Millions of yen)**(Millions of yen)**

	1Q, FY March 2018 (3 months ended June 2017)	1Q, FY March 2019 (3 months ended June 2018)
Net income (loss)	(529)	(162)
Other comprehensive income		
Net unrealized holding loss on other securities	10	(11)
Foreign currency translation adjustments	(26)	(78)
Adjustments for retirement benefit	99	153
Share of other comprehensive income of associates	-	(2)
Total other comprehensive income	83	61
Comprehensive income (loss)	(446)	(100)
Comprehensive income (loss) attributable to:		
Owners of the parent	(550)	(127)
Non-controlling interests	103	26

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	1Q, FY March 2018 (3 months ended June 2017)	1Q, FY March 2019 (3 months ended June 2018)
Cash flows from operating activities		
Net income (loss) before income taxes	(729)	(340)
Depreciation and amortization	686	607
Amortization of goodwill	63	61
Increase (decrease) in allowance for doubtful	(7)	(7)
Increase (decrease) in asset for retirement benefit	100	71
Increase (decrease) in liability for retirement benefits	341	146
Increase (decrease) in accrued bonuses to directors and	(47)	(80)
Increase (decrease) in accrued warranty on products	(9)	(2)
Increase (decrease) in accrued losses on sales contracts	114	493
Interest and dividend income	(10)	(22)
Interest expense	27	27
(Increase) decrease in notes and accounts receivable	31,235	36,362
(Increase) decrease in inventories	(979)	(2,262)
Increase (decrease) in notes and accounts payable	(10,233)	(12,446)
Increase (decrease) in accrued consumption taxes	(556)	(1,082)
Other, net	726	2,035
Subtotal	20,722	23,560
Interest and dividend income received	10	22
Interest paid	(25)	(24)
Income taxes paid	(2,451)	(3,224)
Net cash provided by (used in) operating activities	18,256	20,334
Cash flows from investing activities		
Purchase of property and equipment	(327)	(732)
Proceeds from sale of property and equipment	4	0
Purchase of intangibles	(586)	(242)
Purchase of investment securities	(1)	(111)
Loans receivable made	(0)	-
Collection of loans receivable	1	0
Other, net	(0)	(243)
Net cash used in investing activities	(911)	(1,329)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	(549)	(506)
Repayments of long-term debt	(42)	(42)
Net (increase) decrease in treasury shares	(1)	(0)
Dividends paid to shareholders	(1,773)	(1,824)
Dividends paid to minority shareholders of subsidiaries	(13)	(15)
Other, net	(107)	(108)
Net cash provided by used in financing activities	(2,487)	(2,498)
Effect of exchange rate changes on cash and cash equivalents	(10)	(71)
Net increase (decrease) in cash and cash equivalents	14,845	16,434
Cash and cash equivalents at beginning of period	59,648	57,281
Cash and cash equivalents at end of period	74,494	73,716

(4) Segment Information

Business Segment Information

First quarter of fiscal March 2019 (3 months ended June 2018)

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
Exchange gain	25,475	14,518	13,657	1,803	-	55,455
(2) Intersegment sales	-	-	-	-	-	-
Total	25,475	14,518	13,657	1,803	-	55,455
Operating income and loss	2,075	615	(954)	39	(2,105)	(328)

First quarter of fiscal March 2018 (3 months ended June 2017)

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	23,897	13,602	14,560	1,086	-	53,147
(2) Intersegment sales	-	-	-	-	-	-
Total	23,897	13,602	14,560	1,086	-	53,147
Operating income and loss	1,551	648	(907)	33	(2,014)	(688)