

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

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

1. Consolidated Results for the First Nine Months (April 1, 2018 to December 31, 2019)
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 (%)
9 months/FY Mar 2019	190,986	3.3	6,283	41.4	6,521	45.9
9 months / FY Mar 2018	184,926	3.1	4,443	28.6	4,471	24.4

	Net income attributable to owners of the parent (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
9 months/FY Mar 2019	4,296	43.2	86.56	—
9 months/ FY Mar 2018	3,001	40.7	60.46	—

c.f. Comprehensive income: 9 Months/FY Mar 2019: ¥4,821 million (32.0%); 9 Months/FY Mar 2018: ¥3,652 million (56.0%)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
31/Dec/2018	198,516	103,046	50.6	2,023.14
31/Mar/2018	207,643	101,732	47.9	2,004.04

c.f. Owner's equity: 31/Dec/2018: ¥100,419 million; 31/Mar/2018: ¥99,473 million

2. Dividends

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

※ Forecasts

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

3. Financial Forecasts for Fiscal Year ending March 31, 2019 (April 1, 2018 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)	(%)	(¥)
FY ending Mar. 2019	280,000	4.5	120,000	8.5	12,000	9.5	7,500	1.9	151.10

Note: Revisions to projected results for the quarter under review: yes

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 First Nine Months for the Fiscal Year Ending March 31, 2019

During the first Nine Months of the fiscal year ending March 31, 2019 (the period from April 1, 2018, to December 31, 2018), the Japanese economy continued a 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 enterprises market, companies maintained a high level of investment in management improvements, such as work-style innovation and strengthening their competitiveness, and revived capital expenditure in response to rising inbound tourism. In addition, interest in cutting-edge technologies, including DX (digital transformation) such as artificial intelligence (AI), the Internet of things (IoT), and data analysis, has been rising. In the telecommunications carrier business, investment in network infrastructure centering on mobile base stations showed a recovery. In the central and local government and public interest-related markets, investment in improving urban infrastructure such as broadcasting and CATV remained active. On the other hand, effects have been observed from investments in firefighting commander systems, which have entered a transitional period. Overseas markets showed signs of recovery, including an increase in demand for telecommunication facilities in ASEAN regions in response to improvements in urban infrastructure, as well as the resumption of capital expenditure which had been postponed in some regions due to the impact of factors such as crude oil prices.

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 has proactively proceeded with growth investment such as R&D and verification of new solutions, including a verification test for the DX technology field, as well as investment in venture enterprises through the CVC fund established in January 2018. We also responded actively to demand for improvements in network infrastructure in step with to hotel construction, which has been more active in recent years. In addition, the Group bolstered its systems to expand businesses for telecommunications carriers whose capital spending is expected to recover, which included the establishment of a new company jointly with KDDI Corporation and the rebuilding of a base station construction system. The Group also stepped up initiatives to expand operations including an effort, jointly with Sony Network Communications Inc. and ORIX Corporation, to launch a business for a new standard of low-power wide-area (LPWA) networks. The LPWA is expected to expand rapidly in the future with their application to the IoT.

As a result, the Group posted the following consolidated results for the First Nine Months for the fiscal year under review:

Net sales	¥190,986 million	3.3%	increase year on year
Operating income	¥6,283 million	41.4%	increase year on year
Ordinary income	¥6,521 million	45.9%	increase year on year
Net income attributable to owners of the parent	¥4,296 million	43.2%	increase year on year
< Reference >			
Orders received	¥207,452 million	2.9%	increase year on year

Net sales increased 3.3% year on year, to ¥190,986 million. The result reflected a growth in sales achieved in the Enterprise Networks business and the Carrier Networks business centered on fields related to work-style innovation and the development of networks for hotels and other service providers. Orders received grew 2.9% year on year, to ¥207,452 million, reflecting strong results posted for hotel and other service providers and ordinary enterprises centered on finance companies, despite negative effects associated with developments such as a fall in reaction to orders for large projects received in the previous fiscal year and the cancellation of orders for projects linked with the construction and maintenance of mega solar power plants.

Looking at profits, operating income rose 41.4% year on year, to ¥6,283 million, ordinary income grew 45.9% year on year, to ¥6,521 million, and net income attributable to owners of the parent expanded 43.2% year on year, to ¥4,296 million, respectively. These results reflected an increase in the ratio of projects with high added value to net sales and improved cost effectiveness in the Enterprise Networks business, together with a substantial improvement in the cost of sales ratio due mainly to cost cutting effects in the Social Infrastructures business, although proactive investment in growth was made.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
9M Fiscal 2019.3	85,717	48,673	52,092	4,502	190,986
9M Fiscal 2018.3	78,960	45,864	55,450	4,650	184,926
Increase or (decrease)	6,756	2,809	(3,358)	(147)	6,059
Ratio of increase/(decrease) (%)	8.6	6.1	(6.1)	(3.2)	3.3

Reference: Orders received by business segment

(Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
9M Fiscal 2019.3	87,535	54,280	59,686	5,950	207,452
9M Fiscal 2018.3	84,879	46,528	65,466	4,790	201,665
Increase or (decrease)	2,656	7,751	(5,780)	1,160	5,787
Ratio of increase/(decrease) (%)	3.1	16.7	(8.8)	24.2	2.9

1. Enterprise Networks business

Net sales for the business grew 8.6% year on year, to ¥85,717 million backed by sustained firm investment in ICT related to work-style reforms, growth posted by EmpoweredOffice, a work-style innovation solution, and contributions made by consolidated subsidiaries.

2. Carrier Networks business

Net sales for the business rose 6.1% year on year, to ¥48,673 million, reflecting the growth in business for telecommunications carriers and non-carrier businesses such as network development for service industries.

3. Social Infrastructures business

Net sales for the business decreased 6.1% year on year, to ¥52,092 million, as a reactionary fall in civil engineering for development in large projects for constructing mega solar power plants and decreased sales in businesses for overseas markets offset growth in the broadcasting and CATV segment.

***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	<p>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.</p> <p>Systems integration of large-scale, wide-area, carrier-grade ICT platforms and data centers and related operations, monitoring services</p> <p>Development, manufacturing, sales and systems integration of network equipment and other equipment.</p>
Social Infrastructure	<p>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</p>
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.

As noted above, macroeconomic conditions remain uncertain. However, the ratio of projects with high added values to net sales is rising and an improvement in the cost of sales ratio mainly reflecting enhanced cost efficiency is advancing faster than anticipated in the Enterprise Networks business. Taking those factors into consideration, the Group is revising its consolidated business forecasts for the fiscal year ending March 31, 2019 to operating income of ¥12 billion and ordinary income of ¥12 billion, increasing the figures by ¥500 million, respectively. The Group keeps its forecasts for net sales and net income attributable to owners of the parent unchanged from its previous forecasts.

Net sales	¥280 billion	4.5% increase year on year
Operating income	¥12.0 billion	8.5% increase year on year
Ordinary income	¥12.0 billion	9.5% 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 December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	57,281	54,251
Notes and accounts receivable	103,911	84,877
Electronically recorded monetary claims	494	744
Purchased goods, materials and supplies	2,379	6,975
Work in process	5,858	11,575
Other	5,414	6,452
Allowance for doubtful accounts	(121)	(77)
Total current assets	<u>175,218</u>	<u>164,798</u>
Non-current assets		
Property and equipment	10,093	10,246
Intangible assets		
Goodwill	1,394	1,208
Other	3,990	5,125
Total intangible assets	<u>5,384</u>	<u>6,333</u>
Investments and other assets		
Deferred tax assets	12,714	12,535
Other	4,270	4,667
Allowance for doubtful accounts	(37)	(64)
Total investments and other assets	<u>16,947</u>	<u>17,138</u>
Total non-current assets	<u>32,425</u>	<u>33,718</u>
Total assets	<u>207,643</u>	<u>198,516</u>
Liabilities		
Current liabilities		
Notes and accounts payable	39,574	33,273
Electronically recorded obligations	728	857
Short-term bank loans	4,086	2,792
Current installments of long-term debt	3,171	3,231
Accrued income taxes	3,768	494
Accrued bonuses to directors and corporate auditors	102	27
Accrued warranty on products	116	106
Accrued losses on sales contracts	557	1,369
Other current liabilities	20,768	20,135
Total current liabilities	<u>72,874</u>	<u>62,288</u>
Long-term liabilities		
Long-term debt	842	954
Liabilities for retirement benefits	30,428	30,472
Other liabilities	1,765	1,753
Total long-term liabilities	<u>33,037</u>	<u>33,181</u>
Total liabilities	<u>105,911</u>	<u>95,469</u>
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,655	16,659
Retained earnings	74,357	74,930
Treasury stock, at cost	(276)	(278)
Total shareholders' equity	<u>103,858</u>	<u>104,434</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	42	8
Foreign currency translation adjustments	(374)	(430)
Accumulated adjustments for retirement benefits	(4,053)	(3,592)
Total accumulated other comprehensive income	<u>(4,385)</u>	<u>(4,014)</u>
Non-controlling interests	2,258	2,626
Total net assets	<u>101,732</u>	<u>103,046</u>
Total liabilities and net assets	<u>207,643</u>	<u>198,516</u>

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

(Millions of yen)

	FY Mar/2018 1Q-3Q (9 months ended Dec. 2017)	FY/Mar 2019 1Q-3Q (9 months ended Dec. 2018)
Net sales	184,926	190,986
Cost of sales	155,782	159,256
Gross profit	29,143	31,729
Selling, general and administrative expenses	24,700	25,446
Operating income	4,443	6,283
Non-operating income		
Interest income	24	30
Insurance income	197	193
Other	148	223
Total non-operating income	370	447
Non-operating expenses		
Interest expenses	87	77
Other	254	131
Total non-operating expenses	342	208
Ordinary income	4,471	6,521
Extraordinary income		
Gain on sale of non-current assets	283	-
Gain on sale of investment in affiliates	38	-
Total extraordinary income	322	-
Income before income taxes	4,793	6,521
Income taxes	1,662	2,052
Net income	3,130	4,469
Net income attributable to non-controlling interests	129	172
Net income attributable to owners of the parent	3,001	4,296

(Millions of yen)

	FY Mar/2018 1Q-3Q (9 months ended Dec. 2017)	FY/Mar 2019 1Q-3Q (9 months ended Dec. 2018)
Net income	3,130	4,469
Other comprehensive income		
Net unrealized holding loss on other securities	22	(34)
Foreign currency translation adjustments	49	(72)
Adjustments for retirement benefit	450	460
Share of other comprehensive income of entities accounted for using equity method	-	(1)
Total other comprehensive income	522	352
Comprehensive income	3,652	4,821
Comprehensive income attributable to:		
Owners of the parent	3,480	4,666
Non-controlling interests	172	154

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY Mar/2018 1Q-3Q (9 months ended Dec. 2017)	FY/Mar 2019 1Q-3Q (9 months ended Dec. 2018)
Cash flows from operating activities		
Net income before income taxes	4,793	6,521
Depreciation and amortization	1,906	1,977
Amortization of goodwill	190	185
Increase (decrease) in allowance for doubtful receivables	1	(16)
(Increase) decrease in asset for retirement benefit	228	190
Increase (decrease) in liability for retirement benefits	743	549
Increase (decrease) in accrued bonuses to directors and corporate auditors	(49)	(74)
Increase (decrease) in accrued warranty on products	(7)	(9)
Increase (decrease) in accrued losses on sales contracts	(116)	812
Interest and dividend income	(32)	(46)
Interest expense	87	77
(Increase) decrease in notes and accounts receivable	8,747	18,718
(Increase) decrease in inventories	(3,229)	(10,316)
Increase (decrease) in notes and accounts payable	(4,363)	(6,135)
Increase (decrease) in accrued consumption taxes	(228)	(968)
Other, net	730	431
Subtotal	<u>9,400</u>	<u>11,895</u>
Interest and dividend income received	32	46
Interest paid	(85)	(74)
Income taxes paid	(3,682)	(5,465)
Net cash provided by (used in) operating activities	<u>5,665</u>	<u>6,402</u>
Cash flows from investing activities		
Purchase of property and equipment	(1,115)	(1,514)
Proceeds from sale of property and equipment	384	4
Purchase of intangibles	(1,195)	(2,300)
Proceeds from sale of intangibles	11	17
Purchase of investment securities	(25)	(148)
Loans receivable made	(1)	-
Collection of loans receivable	2	1
Other, net	(36)	(438)
Net cash used in investing activities	<u>(1,974)</u>	<u>(4,379)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	(125)	(1,296)
Repayments of long-term debt	(128)	(128)
Proceeds from long-term debt	-	300
Net (increase) decrease in treasury shares	(3)	(2)
Dividends paid to shareholders	(3,615)	(3,712)
Dividends paid to minority shareholders of subsidiaries	(17)	(27)
Proceeds from share issuance to non-controlling shareholders	-	245
Other, net	(332)	(351)
Net cash provided by used in financing activities	<u>(4,222)</u>	<u>(4,973)</u>
Effect of exchange rate changes on cash and cash equivalents		
	10	(79)
Net increase (decrease) in cash and cash equivalents	<u>(520)</u>	<u>(3,030)</u>
Cash and cash equivalents at beginning of period	<u>59,648</u>	<u>57,281</u>
Cash and cash equivalents at end of period	<u>59,127</u>	<u>54,251</u>

(4) Segment Information

Business Segment Information

1Q-3Q of fiscal March 2019 (9 months ended December 2018)

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	85,717	48,673	52,092	4,502	-	190,986
(2) Intersegment sales	-	-	-	-	-	-
Total	85,717	48,673	52,092	4,502	-	190,986
Operating income (loss)	8,298	3,070	1,202	220	(6,508)	6,283

1Q-3Q of fiscal March 2018 (9 months ended December 2017)

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	78,960	45,864	55,450	4,650	-	184,926
(2) Intersegment sales	-	-	-	-	-	-
Total	78,960	45,864	55,450	4,650	-	184,926
Operating income (loss)	6,897	2,912	640	204	(6,212)	4,443