

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 Fiscal Year ended March 31, 2019**

(Rounded down to the nearest million yen.)

(1) Net Sales and Incomes

(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/19	277,949	3.7	12,774	15.5	13,023	18.9	8,885	20.8
FY ended March/18	267,939	3.9	11,057	10.9	10,957	9.8	7,357	12.3

(Note) Comprehensive income : FY Mar.2019 : ¥9,383 million (7.7%) ; FY Mar.2018 : ¥8,712 million (51.4%)

	Profit per share (¥)	Profit per share (diluted) (¥)	Return on equity (%)	Ordinary income/ Total assets (%)	Operating income/ Net sales (%)
FY ended March/19	179.02	—	8.7%	6.1%	4.6%
FY ended March/18	148.23	—	7.6%	5.4%	4.1%

(Reference) Equity in earnings (losses) of affiliates : FY Mar.2019 : ¥23million ; FY Mar.2018 : (¥25million)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
31-Mar-19	216,171	107,608	48.5	2,113.19
31-Mar-18	207,643	101,732	47.9	2,004.04

c.f. Owner's equity: 31/3/2019 ¥104,888million ; 31/3/2018 ¥99,473million

(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/19	8,396	(5,604)	(5,615)	54,354
FY ended March/18	4,779	(2,802)	(4,366)	57,281

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 3/2018	—	37.00	—	37.00	74.00	3,673	49.9	3.8
FY ended 3/2019	—	38.00	—	40.00	78.00	3,871	43.6	3.8
FY ending 3/2020 (Projected)	—	40.00	—	40.00	80.00		44.6	

3. Financial Forecasts for Fiscal Year ending March 31, 2020

(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 9/2019	130,000	6.1	2,700	2.6	2,900	0.0	1,600	(16.3)	32.24
FY ending 3/2020	295,000	6.1	13,000	1.8	13,100	0.6	8,900	0.2	179.31

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, 2019

During the fiscal year ended March 31, 2019 (the period from April 1, 2018, to March 31, 2019), the Japanese economy continued a moderate recovery amid improvement in employment and income conditions. However, there were worrying trends in areas such as trade and associated fluctuations in the financial and capital markets and, recently, weakness in some aspects of exports and production have also been evident.

Under these 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 stepped up 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), Robotic Process Automation (RPA) and data analysis, has been rising. In the telecom carrier business, investment in network infrastructure 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. Meanwhile, effects have been observed from investments in firefighting commander systems, as the year was 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 year under review:

Net sales	¥277,949 million	3.7%	increase year on year
Operating income	¥12,774 million	15.5%	increase year on year
Ordinary income	¥13,023 million	18.9%	increase year on year
Net income attributable to owners of the parent	¥8,885 million	20.8%	increase year on year
< Reference >			
Orders received	¥284,739 million	1.1%	decrease year on year

Net sales increased 3.7% year on year, to ¥277,949 million. The result reflected 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 remained mostly flat, edging down 1.1% year on year, to ¥284,739 million, reflecting an expansion in orders for ordinary enterprises centered on hotel and other service providers and finance companies as well as orders for telecom carriers, in addition to large-scale orders received overseas, despite the negative effects associated with a fall in reaction to orders for large projects received in the previous fiscal year and the cancellation of orders for mega solar projects.

Looking at profits, operating income rose 15.5% year on year, to ¥12,774 million, ordinary income grew 18.9% year on year, to ¥13,023 million, and net income attributable to owners of the parent expanded 20.8% year on year, to ¥8,885 million, respectively. These results reflected, in addition to net sales expansion, 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
Fiscal 2019.3	122,775	70,529	77,260	7,383	277,949
Fiscal 2018.3	110,887	64,902	85,192	6,957	267,939
Increase (decrease)	11,888	5,627	(7,932)	426	10,009
Ratio of increase (decrease) (%)	10.7	8.7	(9.3)	6.1	3.7

Reference: Orders received by business segment					(Million yen)
	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
Fiscal 2019.3	122,456	73,020	80,285	8,976	284,739
Fiscal 2018.3	125,826	68,543	87,046	6,414	287,831
Increase (decrease)	(3,369)	4,477	(6,761)	2,562	(3,091)
Ratio of increase (decrease) (%)	(2.7)	6.5	(7.8)	39.9	(1.1)

1. Enterprise Networks business

As ICT investment in work-style reform remained active, sales for almost all of the sectors expanded centering on work-style innovation related business. As a result, net sales increased 10.7% year on year, to ¥122,775 million.

2. Carrier Networks business

Net sales for the business rose 8.7% year on year, to ¥70,529 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 9.3% year on year, to ¥77,260 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	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, 2020

In the fiscal year ending March 31, 2020, the Japanese economy is expected to continue a modest recovery due mainly to the effect of government stimulus measures and improvement in the employment and income conditions. However, there is concern that factors such as trade issues and associated fluctuations in financial and capital markets could cause a downturn in the Japanese economy.

In the ICT market, which is the Company's business domain, there is concern that a downturn in the Japanese economy will make businesses less willing to invest in ICT. Nonetheless, increased appetite for investment in areas related to workstyle innovation and expansion of

investment in base stations and other network infrastructure among telecom carriers are forecast. However, in the central and local government and public interest-related markets, no major investment themes can be expected and, with competition remaining fierce, demand is expected to remain weak.

Under these conditions, in the fiscal year ending March 31, 2020, the Company expects to post net sales of ¥295 billion by strengthening initiatives in areas related to workstyle innovation and business for telecom carriers.

Looking at profits, the Company expects to record operating income of ¥13 billion, ordinary income of ¥13.1 billion and net income attributable to owners of the parent of ¥8.9 billion through the effect of increased sales and the promotion of further improvements in efficiency, despite actively making further investments in growth, including strengthening its response to DX and other cutting-edge technologies and the development of human resources in anticipation of future medium and long-term growth.

Net sales	¥295 billion	6.1% increase year on year
Operating income	¥13.0 billion	1.8% increase year on year
Ordinary income	¥13.1 billion	0.6% increase year on year
Net income attributable to owners of the parent	¥8.9 billion	0.2% increase year on year

(3) Profit Distribution Policy and Dividends for the Fiscal Year Ended March 2019 and the Fiscal Year Ending March 2020

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, we decided that since net income attributable to owners of the parent exceeded our forecast and that, as a result, owner' equity also increased more than anticipated, we would revise our year-end dividend for the fiscal year ended March 31, 2019 to ¥40.00 per share, which is ¥2.00 increase from our previous forecast. This combined with the interim dividend already paid brings our annual dividend to ¥78.00 per share, which is an increase of ¥4.00 from the previous year.

The dividend per share for the fiscal year ending March 31, 2020 is expected to be ¥40.00 for both the interim and year-end periods, increasing our annual dividend to ¥80.00.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and cash equivalents	57,281	54,354
Notes and accounts receivable	103,911	106,553
Electronically recorded obligations	494	606
Purchased goods, materials and supplies	2,379	6,354
Work in process	5,858	6,827
Other	5,414	6,423
Allowance for doubtful accounts	(121)	(82)
Total current assets	<u>175,218</u>	<u>181,036</u>
Non-current assets		
Property and equipment		
Buildings and structures	9,763	10,033
Accumulated depreciation	(5,849)	(6,205)
Buildings and structures (net)	<u>3,914</u>	<u>3,828</u>
Machinery and vehicles	182	173
Accumulated depreciation	(150)	(142)
Machinery and vehicles (net)	<u>31</u>	<u>30</u>
Furniture and fixtures	14,826	15,016
Accumulated depreciation	(11,358)	(11,774)
Furniture and fixtures (net)	<u>3,467</u>	<u>3,242</u>
Land	2,410	2,410
Construction in progress	222	499
Other	258	392
Accumulated depreciation	(212)	(187)
Other (net)	45	204
Total property and equipment	<u>10,093</u>	<u>10,217</u>
Intangible assets		
Goodwill	1,394	1,146
Other	3,990	5,088
Total intangible assets	<u>5,384</u>	<u>6,234</u>
Investments and other assets		
Investment securities	516	635
Asset for retirement benefits	444	364
Deferred tax assets	12,714	13,600
Other	3,309	4,144
Allowance for doubtful accounts	(37)	(62)
Total investments and other assets	<u>16,947</u>	<u>18,682</u>
Total non-current assets	<u>32,425</u>	<u>35,134</u>
Total assets	<u>207,643</u>	<u>216,171</u>
Liabilities		
Current liabilities		
Notes and accounts payable	39,574	40,274
Electronically recorded obligations	728	807
Short-term bank loans	4,086	2,284
Current installments of long-term debt	3,171	231
Accrued income taxes	3,768	3,175
Accrued consumption taxes	2,415	2,185
Advanced received	3,811	6,290
Accrued bonuses to directors and corporate auditors	102	117
Accrued warranty on products	116	113
Accrued losses on sales contracts	557	1,980
Other current liabilities	14,541	14,868
Total current liabilities	<u>72,874</u>	<u>72,328</u>
Long-term liabilities		
Long-term debt	842	3,896
Liabilities for retirement benefits	30,428	30,609
Other liabilities	1,765	1,729
Total long-term liabilities	<u>33,037</u>	<u>36,234</u>
Total liabilities	<u>105,911</u>	<u>108,562</u>
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,655	16,659
Retained earnings	74,357	79,520
Treasury stock, at cost	(276)	(279)
Total shareholders' equity	<u>103,858</u>	<u>109,022</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	42	31
Foreign currency translation adjustments	(374)	(471)
Accumulated adjustments for retirement benefits	(4,053)	(3,694)
Total accumulated other comprehensive income	<u>(4,385)</u>	<u>(4,134)</u>
Non-controlling interests	2,258	2,719
Total net assets	<u>101,732</u>	<u>107,608</u>
Total liabilities and net assets	<u>207,643</u>	<u>216,171</u>

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

(Millions of yen)

	FY Mar/2018	FY Mar/2019
Net sales	267,939	277,949
Cost of sales	223,674	230,268
Gross profit	44,265	47,681
Selling, general and administrative expenses	33,208	34,906
Operating income	11,057	12,774
Non-operating income		
Interest income	35	40
Dividend income of insurance	197	193
Insurance income	41	70
Other	161	256
Total non-operating income	435	560
Non-operating expenses		
Interest expenses	127	95
Loss on disposal of property and equipment	120	53
Foreign exchange losses	51	43
Business reconstruction expenses for subsidiaries	56	-
Other	179	119
Total non-operating expenses	535	312
Ordinary income	10,957	13,023
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	11,279	13,023
Income taxes - current	4,548	4,894
Income taxes - deferred	(790)	(1,052)
Income taxes	3,757	3,842
Net income	7,521	9,180
Net income attributable to non-controlling interests	164	295
Net income attributable to owners of the parent	7,357	8,885

(Millions of yen)

(Millions of yen)

	FY Mar/2018	FY Mar/2019
Net income	7,521	9,180
Other comprehensive income		
Net unrealized holding loss on other securities	7	(11)
Foreign currency translation adjustments	81	(143)
Adjustments for retirement benefit	1,101	359
Share of other comprehensive income of associates accounted for using equity method	0	(1)
Total other comprehensive income	1,190	203
Comprehensive income	8,712	9,383
Comprehensive income attributable to:		
Owners of the parent	8,486	9,136
Non-controlling interests	225	247

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY Mar/2018	FY Mar/2019
Cash flows from operating activities		
Net income before income taxes	11,279	13,023
Depreciation and amortization	2,526	2,764
Amortization of goodwill	251	247
Increase (decrease) in allowance for doubtful receivables	12	(11)
(Increase) decrease in asset for retirement benefit	310	251
Increase (decrease) in liability for retirement benefits	872	517
Increase (decrease) in accrued bonuses to directors and corporate auditors	34	14
Increase (decrease) in accrued warranty on products	(7)	(2)
Increase (decrease) in accrued losses on sales contracts	(90)	1,422
Interest and dividend income	(46)	(58)
Interest expense	127	95
(Increase) decrease in notes and accounts receivable	(13,061)	(2,934)
(Increase) decrease in inventories	266	(4,951)
Increase (decrease) in notes and accounts payable	3,801	824
Increase (decrease) in accrued consumption taxes	451	(236)
Other, net	1,874	2,960
Subtotal	8,604	13,927
Interest and dividend income received	47	58
Interest paid	(127)	(95)
Income taxes paid	(3,744)	(5,495)
Net cash provided by (used in) operating activities	4,779	8,396
Cash flows from investing activities		
Purchase of property and equipment	(1,628)	(1,922)
Proceeds from sale of property and equipment	386	5
Purchase of intangibles	(1,532)	(2,578)
Proceeds from sale of intangibles	11	15
Purchase of investment securities	(27)	(162)
Loans receivable made	(2)	-
Collection of loans receivable	3	1
Proceeds from sales of investments in affiliates	74	-
Other, net	(87)	(962)
Net cash used in investing activities	(2,802)	(5,604)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	(111)	(1,750)
Repayments of long-term debt	(171)	(3,186)
Proceeds from long-term debt	-	3,300
Net (increase) decrease in treasury shares	(4)	(2)
Dividends paid to shareholders	(3,620)	(3,717)
Dividends paid to minority shareholders of subsidiaries	(23)	(27)
Proceeds from share issuance to non-controlling shareholders	-	245
Other, net	(435)	(474)
Net cash provided by used in financing activities	(4,366)	(5,615)
Effect of exchange rate changes on cash and cash equivalents	22	(104)
Net increase (decrease) in cash and cash equivalents	(2,366)	(2,927)
Cash and cash equivalents at beginning of period	59,648	57,281
Cash and cash equivalents at end of period	57,281	54,354

(4) Segment Information

Business Segment

Year ended March 31, 2019

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	122,456	73,020	80,285	8,976	---	284,739
Sales						
(1) Sales to third	122,775	70,529	77,260	7,383	---	277,949
(2) Intersegment sales	---	---	---	---	---	---
Total	122,775	70,529	77,260	7,383	---	277,949
Operating income (loss)	13,408	4,714	3,454	276	(9,078)	12,774

Year ended March 31, 2018

(Millions of yen)

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