

Financial Results for the Fiscal Year Ended March 2019

May 8, 2019

Yushi USHIJIMA, President

NEC Networks & System Integration Corporation
(TSE: 1973, NESIC)

Agenda

1. Financial Summary

- FY 2019/3 Financial Results
- FY 2020/3 Forecasts
- Dividend Plan

2. Medium-Term Management Plan (~FY 2022/3)

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1. Financial Summary

- FY 2019/3 Financial Results**
- FY 2020/3 Forecasts**
- Dividend Plan**

2. Medium-Term Management Plan (~FY 2022/3)

FY2019/3 Summary

Sales and profits grew. Net income reached a record high.

Result reflects effect of increased sales and improvement in profitability despite expenditure for growth (approx. ¥2 bn).

- Orders received: Orders for general companies and telecom carriers expanded, offsetting the negative impact (around ¥28 bn) of mega solar projects. (Excl. impact of mega solar projects: + 9 %)

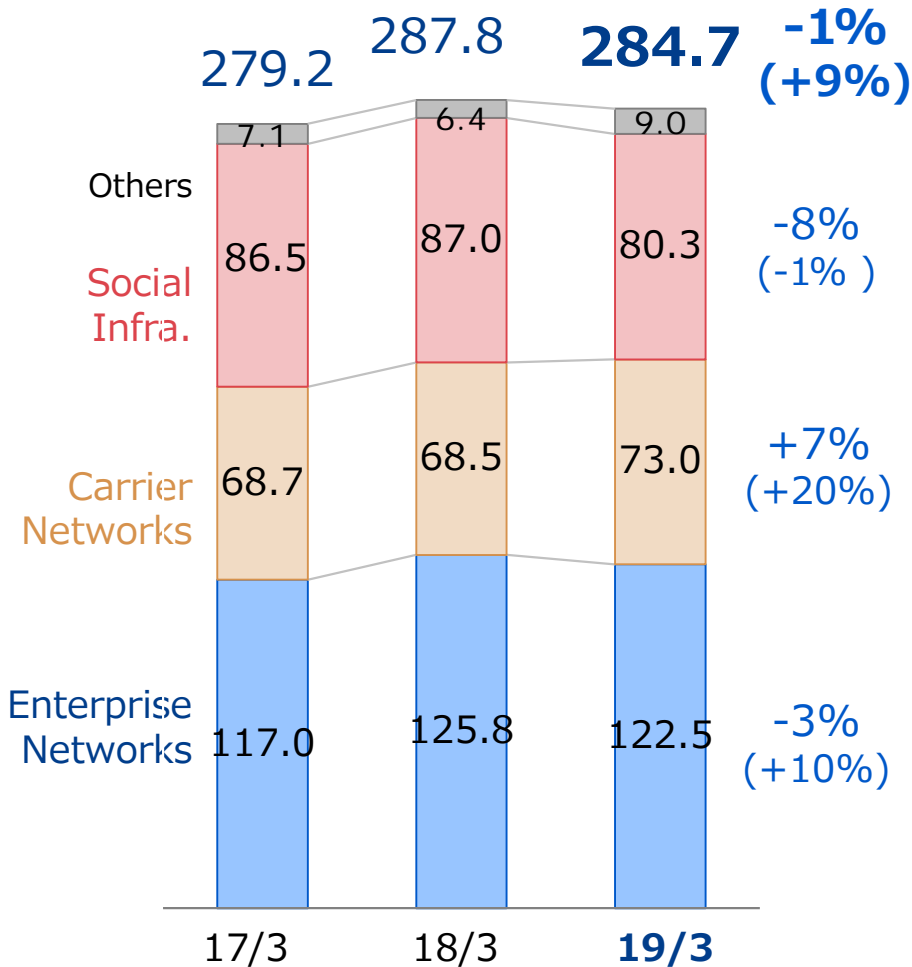
(¥ Bn.)

	FY2018/3	FY2019/3	Change	Forecasts as at Jan 30, 2018
Orders received	287.8	284.7	-1%	290
Sales	267.9	277.9	+4%	280
Gross margin	16.5%	17.2%	+0.7pt	—
Operating income	11.1	12.8	+1.7	12.0
(to sales)	(4.1%)	(4.6%)	+0.5pt	(4.3%)
Net income	7.4	8.9	+1.5	7.5
attributable to owners of the parent				
(to sales)	(2.7%)	(3.2%)	+0.5pt	(2.7%)
ROE	7.6%	8.7%	+1.1pt	
Free cash flows	2.0	2.8	+0.8	

FY2019/3 Orders Received by Segment

(¥ Bn.)

() shows growth rate without solar PJ's orders



Enterprise Networks

- Work-style innovation-related business continued to expand.
 - The number of office visitors increased 41% yoy. (Reached a record high on an year basis, topping 10,000)
- Projects for financial customers were concentrated in the current fiscal year.

Carrier Networks

- Orders from telecom carriers, mainly for base stations, increased.
- Orders from non-carriers, particularly those from hotels, increased.

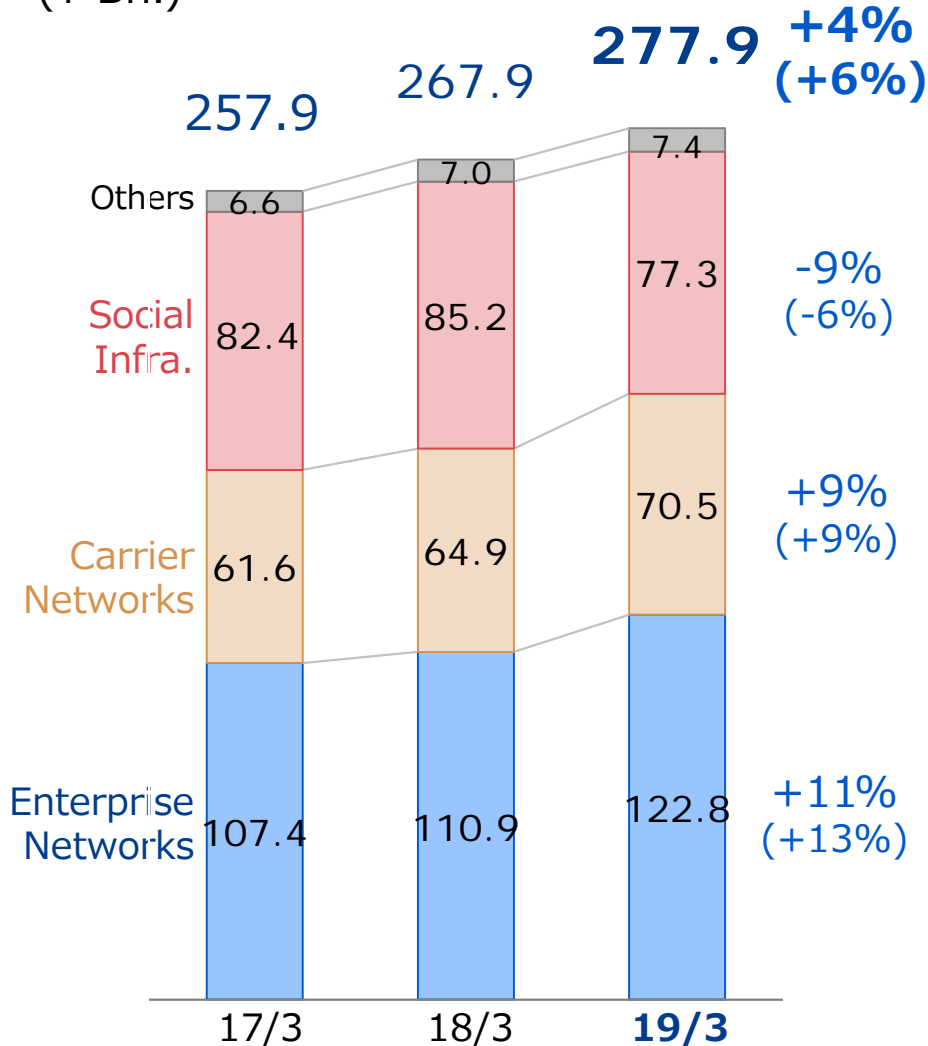
Social Infrastructures

- Orders decreased primarily due to the negative impact of the mega-solar business and a reaction to increased orders for domestic large-scale public projects in the previous fiscal year, despite orders for overseas large-scale projects (approx. ¥10 bn).

FY2019/3 Net Sales by Segment

(¥ Bn.)

() shows growth rate without solar PJs sales



Enterprise Networks

- Expansion across almost all of the sectors centering on work-style innovation related business
 - Sales of EmpoweredOffice: +9%

Carrier Networks

- Sales for both telecom carriers and non-carriers remained solid.

Social Infrastructures

- Business related to mega-solar plants (civil engineering) and overseas sales declined
- Sales for broadcasting/cable TV businesses increased.

FY2019/3 Operating Income by Segment

(¥ Bn.)

Total

10.0
(3.9%)

11.1
(4.1%)

12.8
(4.6%)

+1.7
(+0.5pt)

Enterprise Networks

- Income increased with higher sales, an improved sales-mix and reduced cost.
- Active used growth expenditures centering on DX technologies (cloud, RPA, AI...).

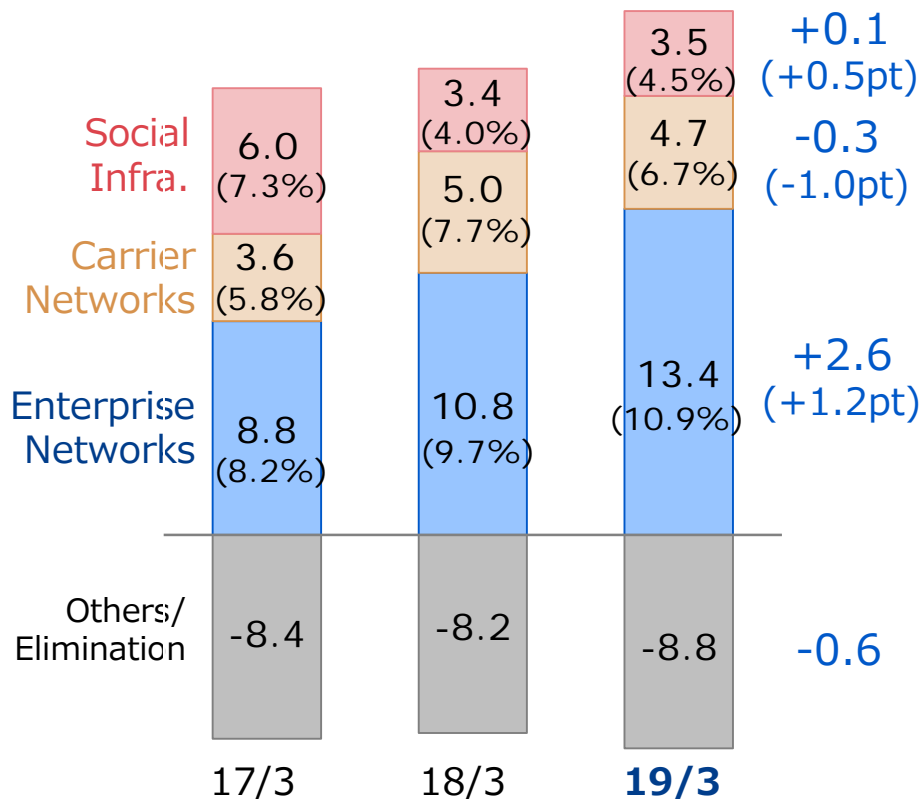
Carrier Networks

- Income decreased, largely due to increased growth expenditures, including the launch of new businesses and the establishment of a new JV for base stations.

Social Infrastructures

- Income increased, reflecting improvement in profitability through fixed cost reductions and improved efficiency.

(): to sales



Aim for steady growth in sales and profits in the first fiscal year of the new Mid-Term Management Plan.

- Expansion in work-style innovation-related business and business with telecom carriers despite macroeconomic uncertainty
- Further acceleration of investment for growth

(¥bn.)

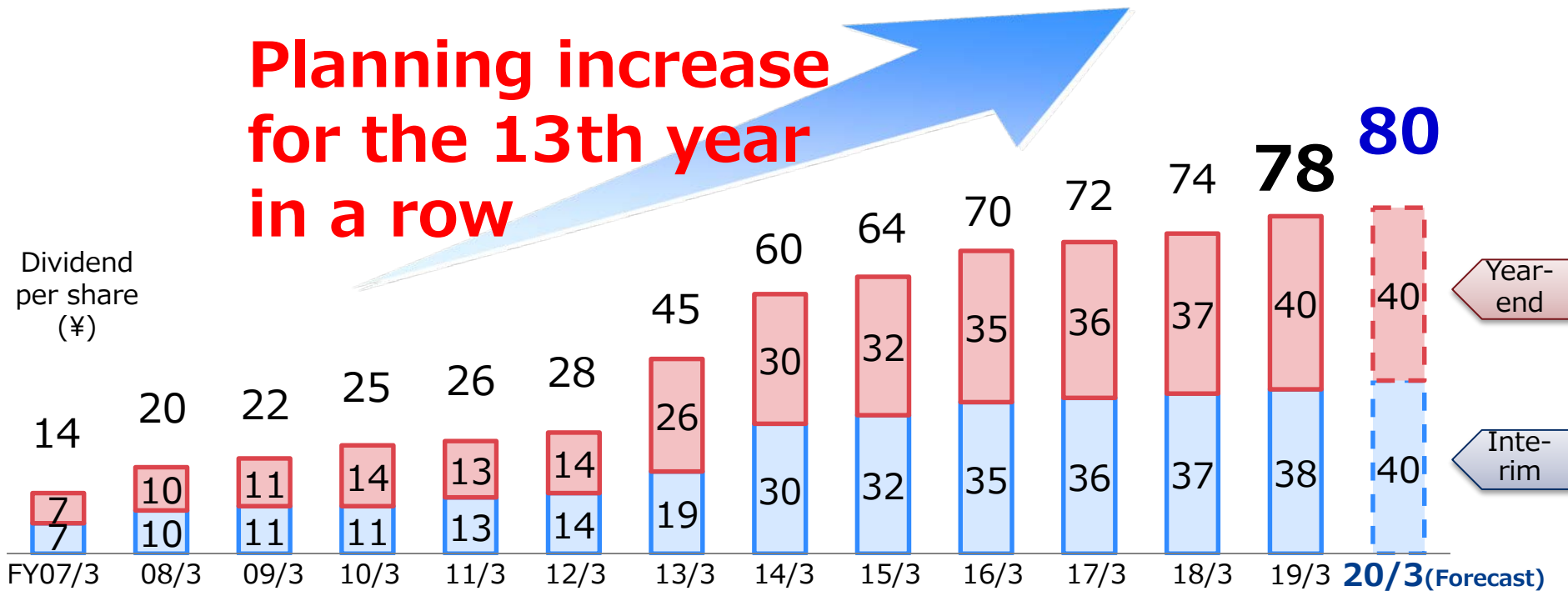
	FY19/3	FY20/3 Forecasts	Change
Orders received	284.7	295	+ 4%
Net sales	277.9	295	+ 6%
Operating income	12.8	13.0	+0.2
(to sales)	(4.6%)	(4.4%)	-0.2pt
Net income	8.9	8.9	+0.0
attributable to owners of the parent			
(to sales)	(3.2%)	(3.0%)	-0.2pt

Dividend Plan

Increasing the corporate value through growth investment and continuing to increase shareholder return based on stable dividend at the same time.

- Taking DOE (dividend on equity ratio) into account.
- FY19/3 Year-end dividend of ¥40 per share, an increase of ¥2 from the plan (annual dividend of ¥78)
- FY20/3: Planning increased dividend of ¥80 per share

**Planning increase
for the 13th year
in a row**



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2. Medium-Term Management Plan (~FY 2022/3)

1. Review of the Previous Medium-Term Plan

Policy and Target of the Previous Medium-Term Plan

Basic policy

Top line expansion

- Further growth through the enhancement of services, infrastructure, and global business

Strengthening business capabilities

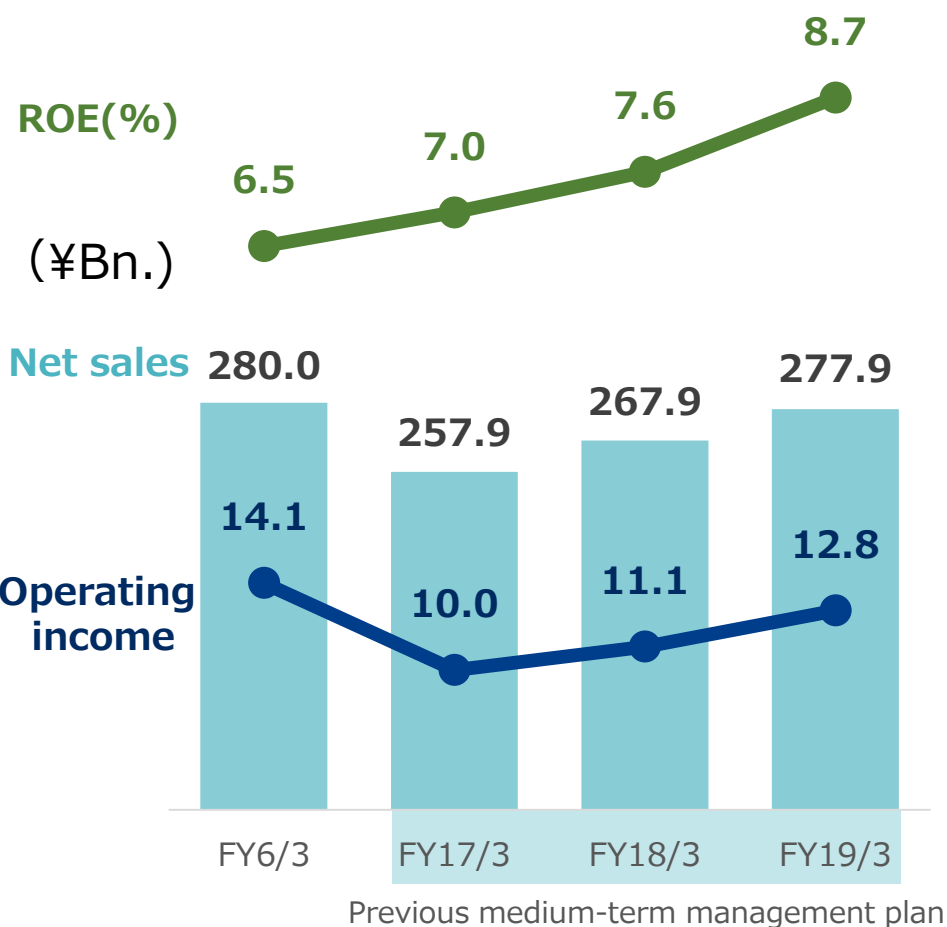
- Strengthening the business base that will support growth
(Improving the structure in strategic areas; expanding investment in human resources and business)
- Improving business efficiency
(Cutting costs; strengthening SCM)

Medium-term targets

- | | |
|--------------------|-----------|
| ● Sales | ¥300 Bn. |
| ● Operating income | ¥16.5 Bn. |
| ● Operating margin | 5.5% |
| ● ROE | 10% |

Review of Previous Medium-Term Plan

The targets were not achieved because growth did not keep up with a fall in the existing biz (Carrier NW & Social Infra.) in the first year of the plan



Sluggish growth in the top line

- Though enterprise area grew, it was not sufficient to offset a fall in existing businesses.

Profitability improved.

- Gross margin improved to over 17% (a record level).
ROE improved more than 2 pts from FY16/3.
- The profitability of large-scale projects is a challenge.

Positive Results in the strengthening of business bases

- Launched business schemes that will lead to the next step

2. Basic Policy & Targets of the New Medium-Term Plan

Vision for 2030

Vision for 2030

NESIC will contribute to the achievement of SDGs by going ahead toward the vision

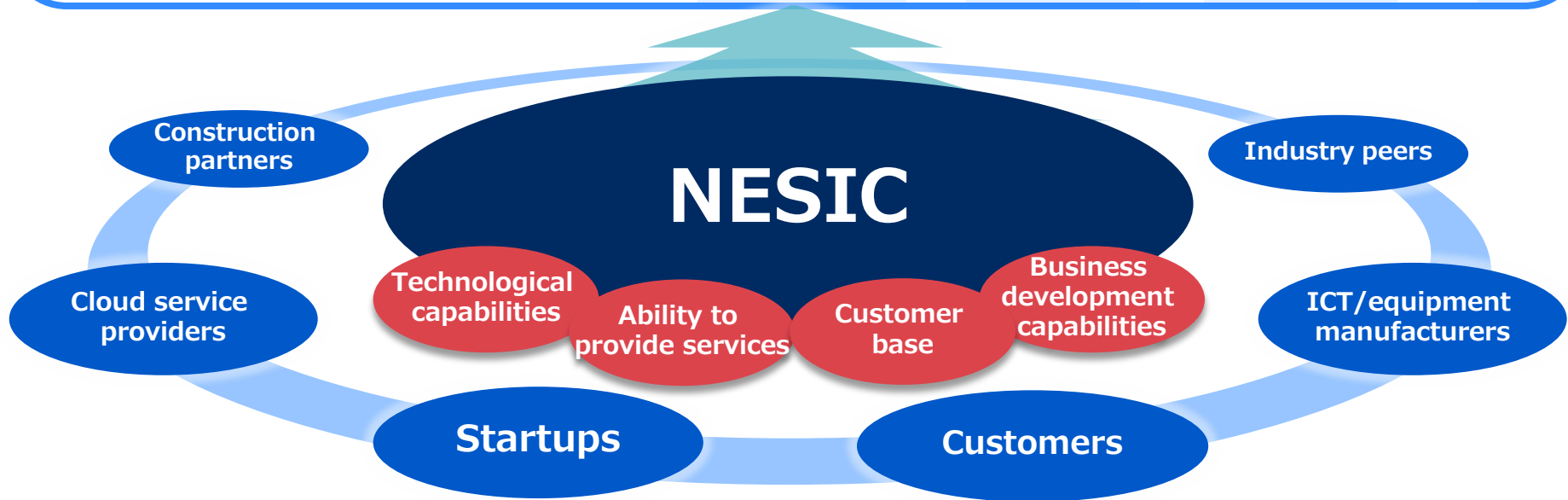


Social
vision to
realize

More comfortable and convenient communications society

Our
future
vision

Orchestrator who produces a new value chain leveraging our strengths, in collaboration with partners



To become a company that exerts its presence with high competitiveness and earnings power.

Medium- to Long-Term Environmental Recognition

The business environment will change dramatically due to social issues and technological innovations

Opportunities

Threats

Diversification and leveling of earnings opportunities

Digitalization

Changes in the existing SI model

Creation of new business opportunities

5G

Contraction of the construction business

Higher productivity and outsourcing needs of operation at customers

Labor shortage

Securing of human resources and succession of technologies

Accelerating shift to a new business model and strengthening it to keep up with business opportunities provided by digital & 5G

Business creation capabilities

Pioneer of work-style innovation
Usage of technologies by our own practice
Collaboration with various partners

Nationwide business capabilities

Sales, SEs as well as on-site capabilities such as construction
Nationwide support services network (approx. 400 bases)

Technological capabilities & credibility

From social infra. to cutting edge services
Multi-vendor products & services

The “Only 1” position

to provide new technologies promptly as a total service
in the coming Digital & 5G age

Strengthen expertise and competitiveness by enhancing our competence.

Growth Strategies with “NESIC × Digital × 5G” (Overview)

**Digital
solutions**

Nationwide
business
capabilities

Technological
capabilities
& credibility

Business
creation
capabilities

**Business innovation
services**

DX platform

**Cloud shift and cloud SI
(Self practice and modeling)**

5G migration & network virtualization

Local 5G (5G of private networks)

**Automization and BPO
of operation**

**Toward “Communication services
Orchestrator”**

5G infrastructure

Beyond Borders

To go beyond every border and barrier such as market borders, technological barriers, competitive barriers, organizational borders, ability borders or performance borders.

**Move up to a next stage with
“Creation,” “Change” and “Challenge.”**

Management Targets (FY2022/3)

- Make a shift to the top line over the ¥300 bn
- Shift profitability to the industry level (FY22/3 is a check point).

(¥ Bn.)	FY2019/3 Results	FY2022/3 Targets	(Reference) Record-high
Net sales	277.9	310	292.2 (FY2015/3)
Operating income	12.8	20	16.2 (FY2015/3)
(Operating margin)	4.6%	6.5%	5.5% (FY2015/3)
ROE	8.7%	10% or more	9.6% (FY2014/3)

Positioning of Medium-Term Plan toward Vision for 2030

Vision for 2030

Social
vision to
realize

More comfortable and convenient communications society

Our
future
vision

**Orchestrator who produces a new value chain leveraging
our strengths, through collaboration with partners**



2030

Changes in
society
/technology

5G, digital, cloud first, SDGs, etc.

Positioning of the medium-term management plan to the FY22/3

Strengthen growth power and earnings power by strengthening the business structure and constitution in anticipation of environmental changes in five and ten years' time.

- Strengthening of competitiveness in existing businesses
- Creation of new businesses and revenue sources
- Renewal of record-high performance

2019

2021

- Strengthening of competitiveness and growth power for the Digital & 5G age
- Strengthening of the base, schemes and structure to create advanced technologies and new businesses
- Acceleration of innovation through All-NESIC



Shifting to sustainable profit growth.

Measures (Strengthening of Growth Power)

Started-up DX business and launched advanced services

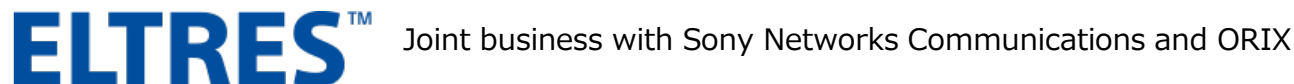
- Promotion of collaboration with advanced companies



- Announcement of “intelligence DX” concept
 - Development and launch of services such as CPaaS “Communication Connect”

Promoted new business schemes/partnership

- Establishment of K&N System Integrations  Joint venture with KDDI
- Entry into LPWA business



Created a foothold for establishing 5G technologies

- Participation in 5G!Pagoda (5G international standardization project through Japan-EU partnership)

*CPaaS (Communication Platform as a Service)

*Company names, product names and service names stated are trademarks or registered trademarks of companies.

Measures (Strengthening of Competence)

**Conducted reorganization
to strengthen medium- to long-term growth power**

Three Business Units to exert expertise and competitiveness

**Digital Solutions
Business Unit**

Consolidated SI service functions for enterprises and related SE & ICT platforms
Strengthening of digital business development, including workstyle innovation

**Network
Infrastructures
Business Unit**

Integrated SI functions in the network area with high public nature
Strengthening of readiness for network sophistication, including social infrastructures

**Engineering & Support
Services Business Unit**

Consolidated business assets for the development of businesses nationwide
Realization of high project quality and highly efficient productivity

Measures (Strengthening of Competence)

Strengthening of digital business creation and collaboration capabilities

Consolidated advanced technologies and business creation functions

Business Design Operations Unit

Started up with
120 people

Company-wide
technological
strategy

Planning of
new businesses

Partnership
& alliance

<Areas to strengthen in the medium term>

DX business, work-style innovation business, CAMBRIC technologies, image recognition and analysis, 5G services, and discontinuous new businesses creation

Enhancement of
human resources
(specialists)

DX & software technologies
Business development, consulting

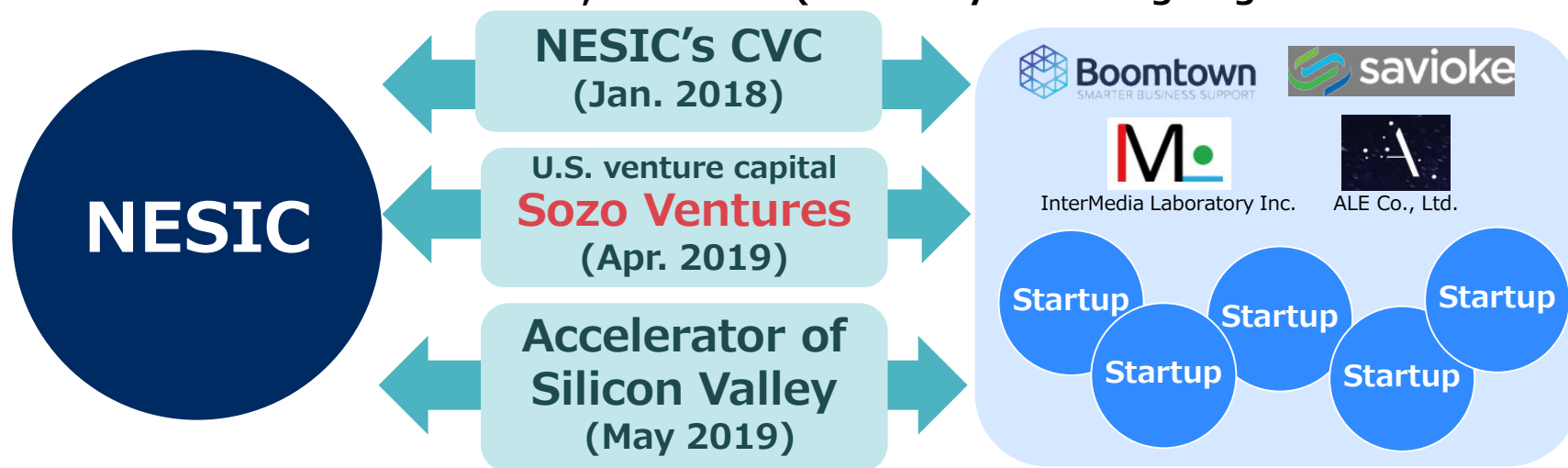
20 people → **60**

Measures (Acceleration of Collaboration with Partners)

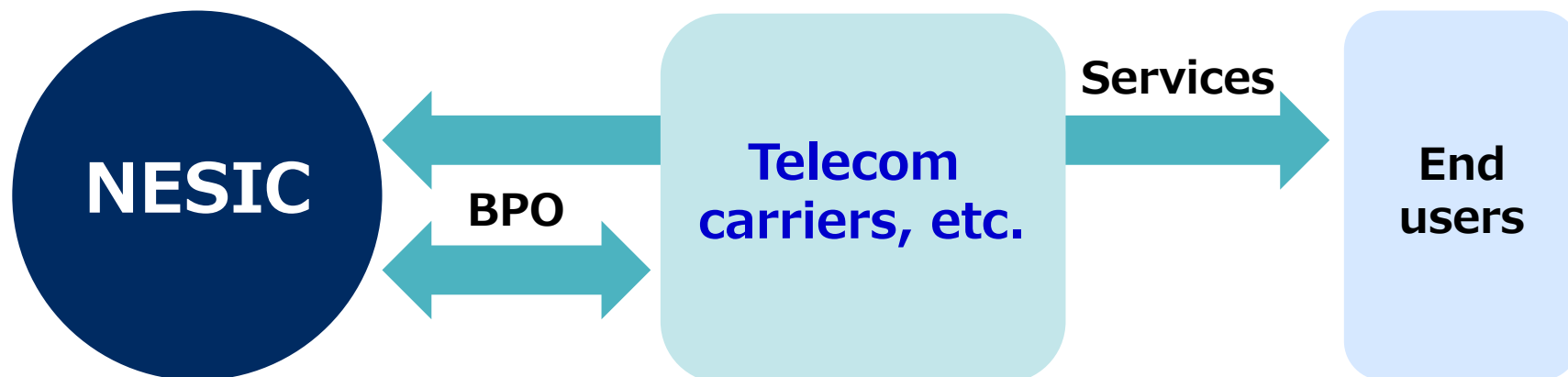
Collaboration for business creation (with startups)

Introduction to the Japanese market
Function and business collaboration, etc.

Business collaboration with promising startups
(Discovery of cutting-edge solution & services)

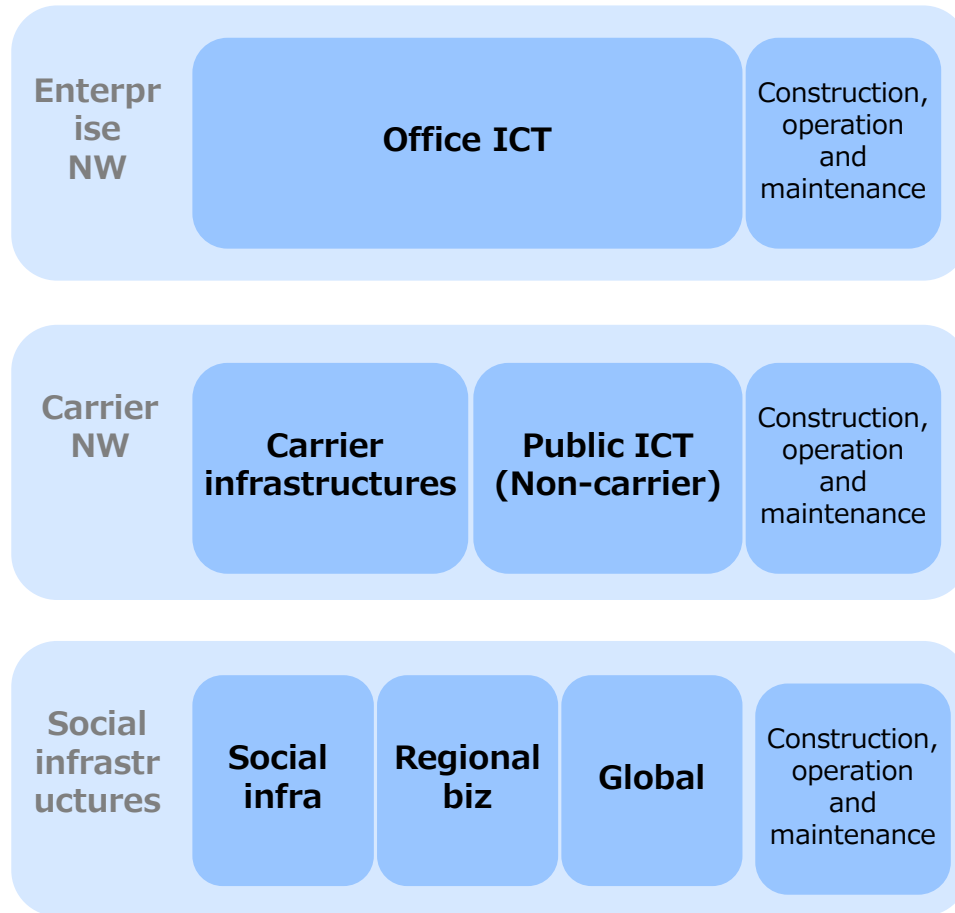


Collaboration for the expansion of the top line (with telecom carriers , etc.)

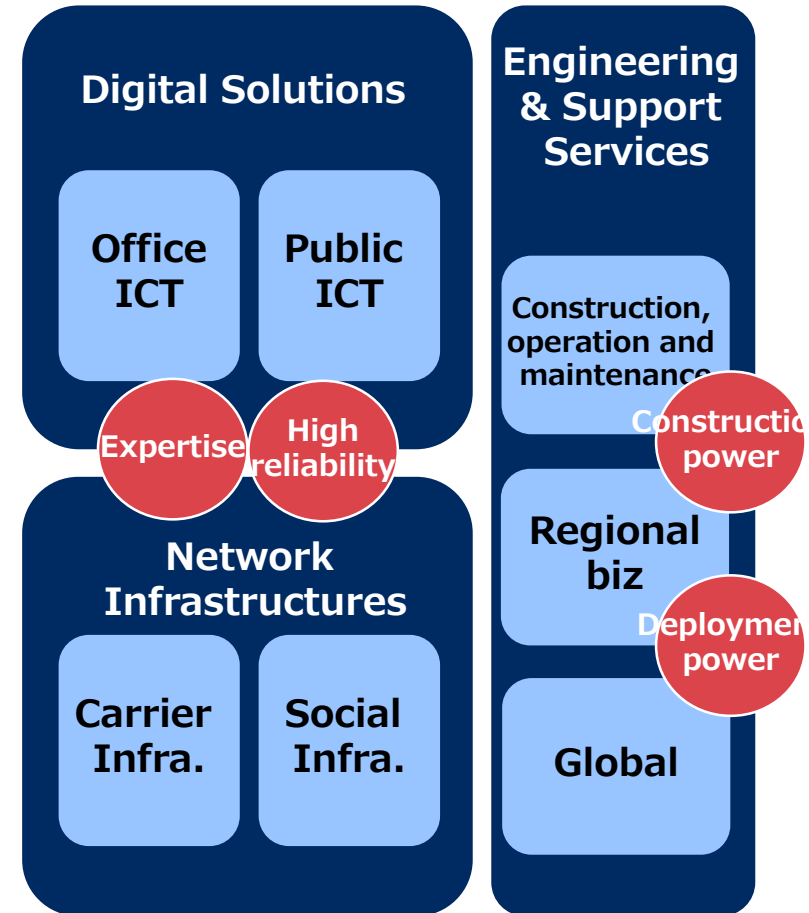


New Business Segments according to Reorganization

Old segments



New segments



3. Strategy by Business Segment

1. Digital Solutions Business

Market trends

Domestic IT market

2018
¥16.5
trillion

2022
¥18.5
trillion

Cloud shift

Cloud SI: **¥4.9 trillion**

Public cloud: **¥1.5 trillion**

Wireless shift

Number of IoT terminals: **20 bn units**

Growth rate of domestic 5G:

Twice the global average

Digital shift

IoT **¥3.2 trillion**, AI **¥1.1 trillion**

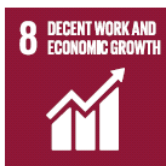
BigData **¥1.5 trillion**

Strategies

Sales: ¥101 bn. → **¥110 bn.**
OP: ¥8.5 bn. → **¥11 bn.**
FY19/3 → FY22/3

- **Enhance EmpoweredOffice using digital tech.**
 - Evolve to provide business innovation with work-style + DX.
 - Expand competitiveness with the DX platform
- **Accelerate the business process reform biz.**
 - Further practice for modelling and consulting.
- **Business development by collaboration with partners.**
 - Accelerate the commercialization of cutting-edge tech.
 - Promote alliance in both development and market deployment.

Social issues to solve



Growth investment

¥3 bn. for 3 years

- Development and verification of the DX service business model.
- Development of cloud services/industry solutions

Evolution to work-style innovation that “**empowers business**” with EO x DX

Layer of past EO business

Office

Enhanced and empowered by ICT
(contribute to higher productivity
of organizations)

Communication tools

EmpoweredOffice



Empowering Business

NESIC's digital solutions that will
empower business
by taking one step further with DX.

Innovation

Utilization of
DX tech.

Activities

Consulting

Business/process reforms

Cloud collaboration
Image recognition
Behavior analysis, etc.

Communication tools

Tools

Place

EmpoweredOffice

2. Network Infrastructures Business

Market trends

- Virtualization and speed /capacity up is progressing toward pre-5G in 2021.

Server	Virtualization	Virtualization platform common to carriers
Network	Speed/capacity up 100/400G	Scalable NW (slice operation)
Wireless Base stations	NSA Pre-5G	SA Private-LTE
	By 2021	By 2023

NSA : Non-Standalone, SA : Standalone

- Marine market is buoyant, with an annual size of ¥200 bn. as international traffic in Asia is experiencing an upward trend
- Demand for disaster prevention and reduction

Strategies

Sales: ¥78 bn. → ¥105 bn.
OP: ¥5.4 bn. → ¥8.5 bn.

FY19/3
→FY22/3

- Concentrate the resources into 5G**
- Business cultivation via collaboration as a carrier partner, .**
(Expand the carrier service business)
- Strengthen the submarine communications and marine observation business globally.**
- Expand unique solutions and operation services by combining cutting-edge technologies such as 5G and DX in the social infrastructures market.**

Social issues to solve



Growth investment

¥4 bn. for 3 years

- Develop 5G-applied tech. & services by establishing 5G labo.
- Promote the development of services for the social infrastructures market.

Deepening the telecom carrier business



Full-fledged strengthening of the telecom carrier collaboration business



Participation in LPWA joint business



**Participation in a technology standardization consortium between Japan and the EU (PMO on the Japanese side)
Promotion of 5G verification and commercialization activities**

5G×NESIC

<Reference> 5 G Roadmap



Deployment of 5G in All Our Businesses

① Further cultivation of telecom carrier infra.

(Differentiation with multi-layer SI)

Base stations

- ✓ Improvement in construction quality
- ✓ Expansion of business field from construction to BPO

Optical transmission

- ✓ Expansion of vendor alliance
- ✓ Response to 5G migration

NW services control platform

- ✓ Virtualization migration
- ✓ Service infrastructure operation business

5G technologies & verification

③ Development and commercialization of 5G utilization services

- ✓ DX collaboration
- ✓ Public market (CATV/disaster prevention/smart city)
- ✓ Carrier collaboration business

② Local 5G

- ✓ Local governments
- ✓ Lifeline companies
- ✓ Factories, etc.

Reference 2019 Commencement of 5G pre-service
2020 Commercial service

Autumn 2019 Allocation of frequencies for local 5G

3. Engineering & Support Services Business

Market trends

- NESIC's on-site (maintenance and operation) biz is growing (FY15/3-19/3 CAGR: +1.7%) though the market is shrinking (in particular, high share in carriers, firefighting, PBX, etc.)
- Demand for TOKYO2020 and reconstruction of government office is expected.
- Environment and energy markets

2021 2023

FIT mega solar demand

Self consumption + Parallel establishment of storage cells

Solar sharing

Strategies

Sales: ¥91.5 bn. → ¥95 bn. FY19/3 → FY22/3
OP: ¥7.7 bn. → ¥10.5 bn.

- **Cultivate regional markets such as local governments.**
- **Initiatives for the environment and energy biz.** (Collaboration with post mega solar and storage cells, etc.)
- **Rebuild the global business system.**
- **Strengthen construction capabilities, develop engineers, and strengthen the nationwide maintenance system (SLA/function sharing).**

Social issues to solve



Growth investment

¥2 bn. for 3 years

- Establish a basic technology development center (strengthen technology and quality education).
- New services development and process reforms by DX.

Enhancement of Engineering and Maintenance Resources

**Further strengthening of basic technologies,
as source of our competitiveness**

**Establishment of a new core base to foster human resources
and strengthen project quality**

Basic Technology Development Center (tentative name)

2020
(planned)

Resource development

PM

SE

Field construction and maintenance engineers

Multi-skilled engineers

**System/technology verification
and evaluation**



Digital Solution

Network infra.

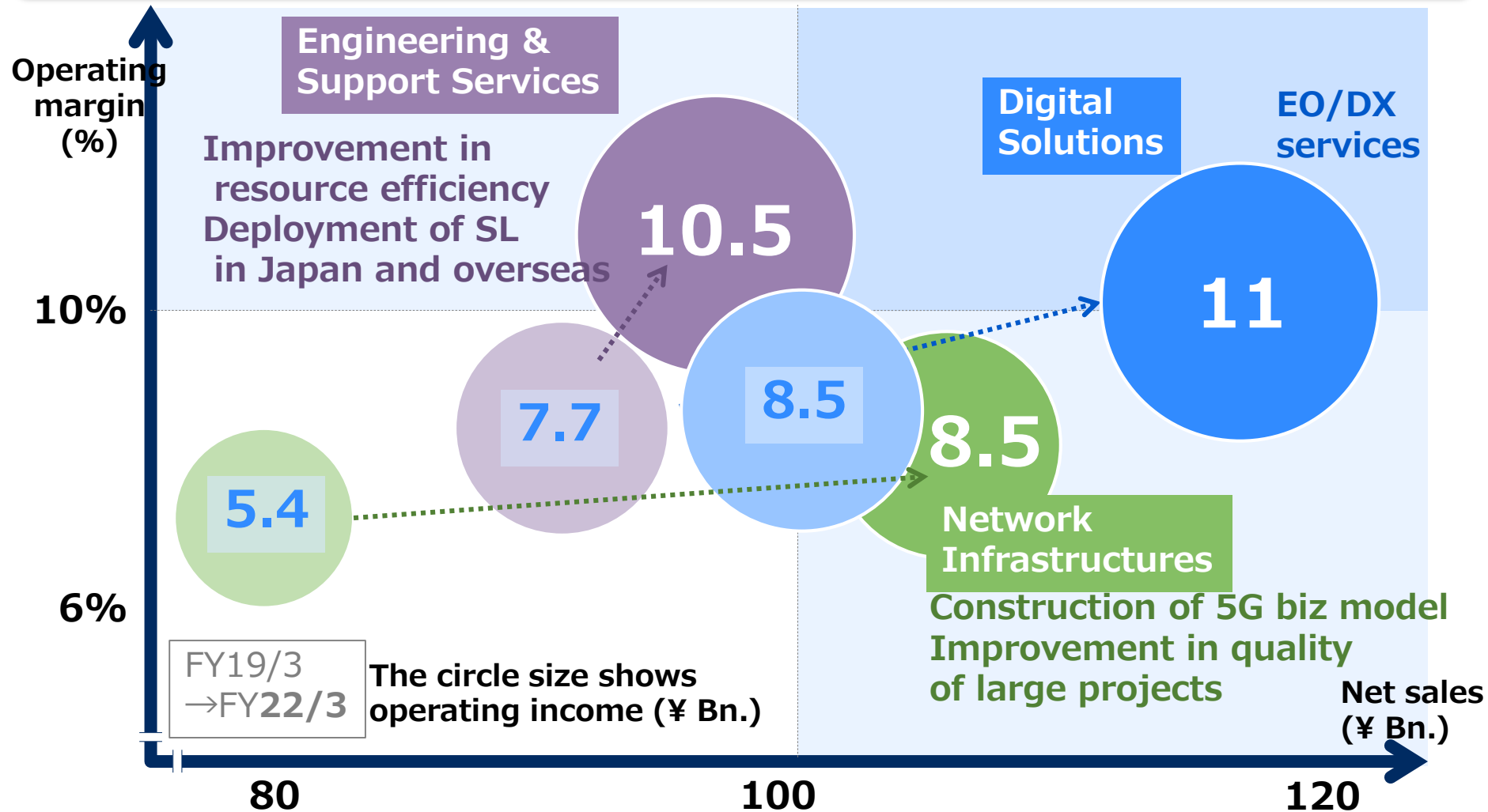
Strengthen project execution
capabilities of all NESIC

**Strengthen project
management resources.**

From 850 people to **1,000**

Positioning of Each Segment

Realize profit growth by expanding the top line and improving management efficiency.



More than **¥13 bn**
for thee years

Enhancement of business
investment to accelerate growth

● Further practice and verification

- ◆ Accelerate innovations in our own business.
 - Create business through workstyle innovation co-creation
 - Actively utilize advanced technologies.

● Investment in growth/strategic areas

- ◆ Major investment areas
Digital/5G/new services development(social infra., etc.)

● Promote collaboration and alliances

- ◆ CVC and activities in North America.
- ◆ Alliances to strengthen business power.

◆ Human resources to support business growth

- Training of advanced resources for superior technologies and project execution
- Investment in business infra and schemes for a creative work environment

Further innovation of EmpoweredOffice

- ◆ Verification of DX and cutting-edge technologies
- ◆ Challenge for possibilities of brand new working style

Office realignment
Distributed offices
by function

DX-armed
practice, collaboration

Process &
institutional reforms



Office Realignment (Function Distribution, Multi-Location)

¥2 bn
(FY2020/3)

**Taking on the
challenge for
innovation**

Customers

Startups,
etc.

Innovation Base
(Nihonbashi)



**Creating new business
and promoting collaboration**

Carrying out business activities with new processes
Space for collaboration with customers

Strengthening
technological
and quality capabilities
and developing
human resources to
respond
to the needs of the
times

Service Base
(MSC, sDOC / Kansai sDOC)

Promoting support service businesses

Business promotion functions
Service platforms such as nTOC, SOC and sDOC

Technical Base
(Shin-Kawasaki R&D Center)



**Cultivating Engineers /
Evaluation and Verification**

Education / Training / Development / Evaluation

Business Base
(Tidabashi head office)



Deploying innovation in actual business

Head Office and admi. functions,
Company-wide hub functions

**Change working styles
reforming rules
and processes**

Activity Base
(Around 10 locations in the
Tokyo metropolitan area)

Telework / intensive work
expansion of zero-distance businesses
shared office business

<Reference> Image of Locations after Office Restructuring



Lastly

NESIC × Digital × 5G

**Digital
solutions**

Nationwide
business
capabilities

Technological
capabilities
& credibility

Business
creation
capabilities

**Business innovation
services**

DX platform

**Cloud shift and cloud SI
(Self practice and modeling)**

5G migration & network virtualization

Local 5G (5G of private networks)

**Automization and BPO
of operation**

**Toward "Communication services
Orchestrator"**

5G infrastructure

To the Next Stage of NESIC

- Based on the technology and expertise cultivated over many years, we will continue to evolve into the NESIC of a new era.



Beyond Borders

To go beyond every border and barrier such as market borders, technological barriers, competitive barriers, organizational borders, ability borders or performance borders.

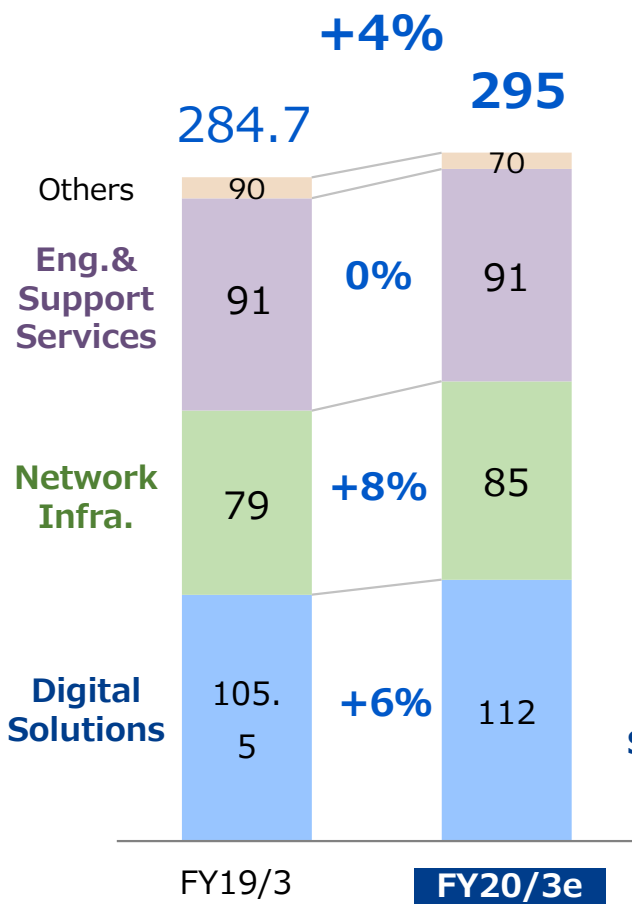
**Move up to a next stage with
“Creation,” “Change” and “Challenge.”**

APPENDIX

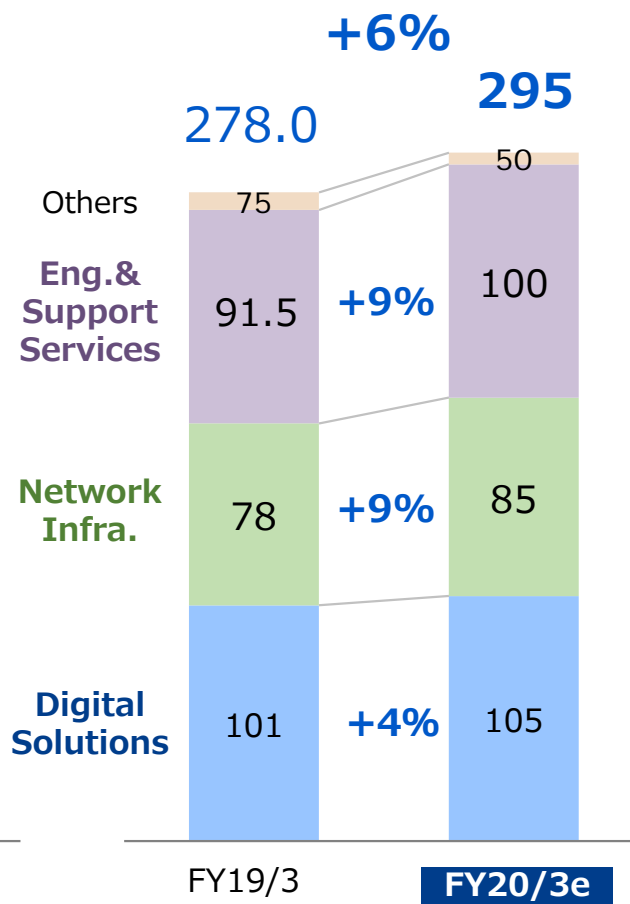
Results and Forecasts by New Segment (Rough Figures)

(¥ Bn.)

Orders

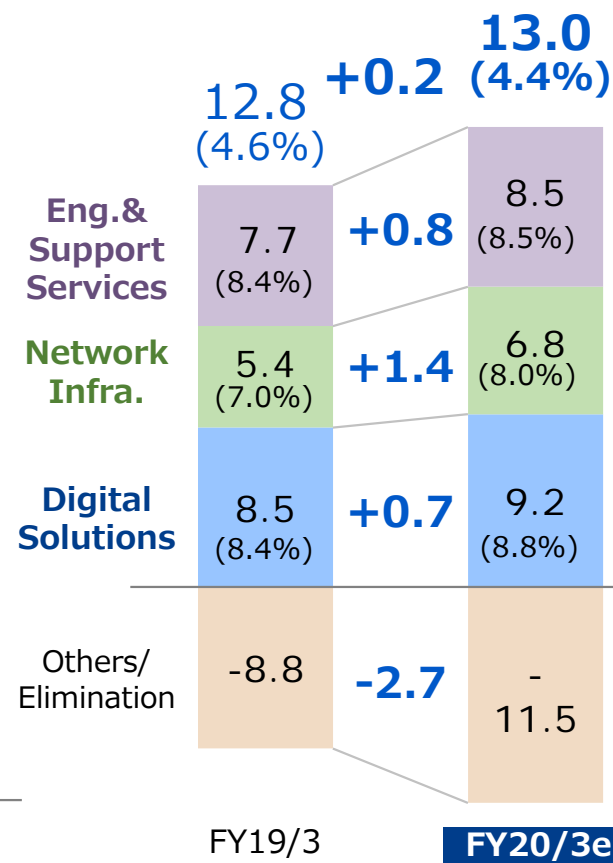


Sales



Operating Income

(): to sales



*The new segment figures shown here are numbers for reference by rough reclassification.

*Forecasts as at May 8, 2019

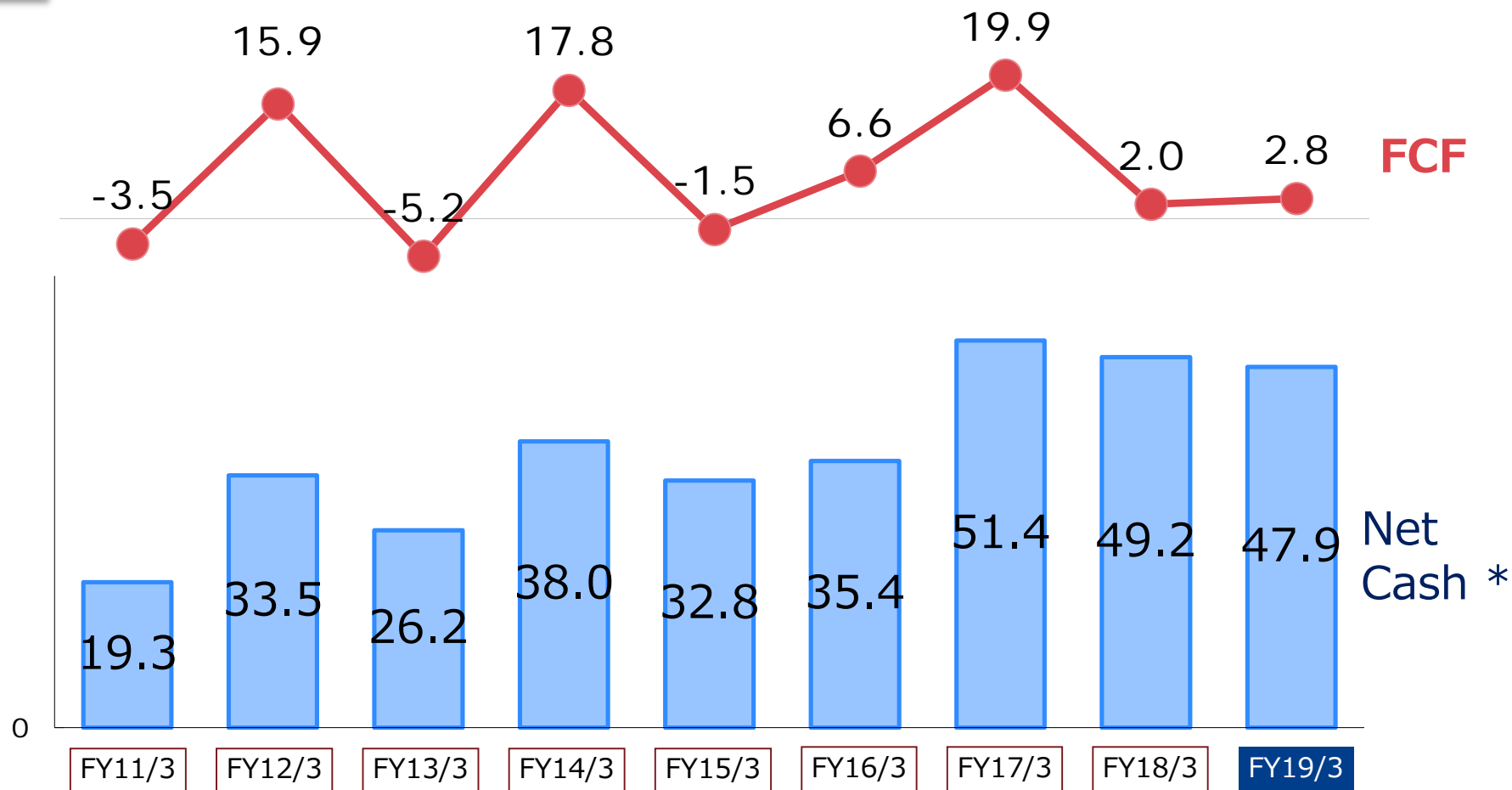
End of FY2019/3 (March 2019) Balance Sheet

		End of Mar/18	End of Mar/19	Diff.	(¥bn.)
	Cash and cash equivalents	57.3	54.4	-2.9	
	Notes & accounts receivable	104.4	107.2	2.8	
	Inventories	8.2	13.2	4.9	
	Others	5.3	6.3	1.0	
	Current Assets	175.2	181.0	5.8	
	Noncurrent Assets	32.4	35.1	2.7	
	Assets	207.6	216.2	8.5	
	Notes and accounts payable	40.3	41.1	0.8	
	Loans	8.1	6.4	-1.7	
	Others	57.5	61.1	3.6	
	Liabilities	105.9	108.6	2.7	
	Shareholders' equity	103.9	109.0	5.2	
	Accumulated other comprehensive income	-4.4	-4.1	0.3	
	Non-controlling interests	2.3	2.7	0.5	
	Net Assets	101.7	107.6	5.9	
	Liabilities & Net Assets	207.6	216.2	8.5	
	Owner's Equity Ratio	47.9%	48.5%	+0.6pt	

FY2019/3 Cash Flows

(¥bn.)

Operating CF	-1.6	+18.6	-1.7	+23.3	+2.5	+9.4	+22.6	+4.8	+8.4
Investing CF	-1.9	-2.6	-3.4	-5.5	-3.9	-2.8	-2.7	-2.8	-5.6



*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.

* From FY2020/3 business segments will be changed due to reorganization on April 1, 2019. The new segment figures shown in this presentation (FY2019/3 and FY2020/3 forecasts) are numbers for reference by rough reclassification

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 Networks & System Integration Corporation

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