

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 Quarter (April 1, 2019 to June 30, 2019)
of Fiscal Year ending March 31, 2020

(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 2019	60,537	9.2	-178	—	-251	—
3 months ended June 2018	55,455	4.3	-328	—	-340	—

	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 2019	21	—	0.43	—
3 months ended June 2018	-205	—	-4.15	—

c.f. Comprehensive income: 1Q/FY Mar 2020: ¥188 million (- %); 1Q/FY Mar 2019: ¥-100 million (-%)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
30/Jun/2019	201,408	105,787	51.2	2,076.83
31/Mar/2019	216,171	107,608	48.5	2,113.19

c.f. Owner's equity: 30/Jun/2019: ¥103,083 million; 31/Mar/2019: ¥104,888 million

2. Dividends

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended Mar. 2019	—	38.00	—	40.00	78.00
FY ending Mar. 2020	—	40.00 ※	— ※	40.00 ※	80.00 ※

※ Forecasts

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

3. Financial Forecasts for Fiscal Year ending March 31, 2020 (April 1, 2019 to 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 per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
6 months ending Sep. 2019	130,000	6.1	2,700	2.6	2,900	0.0	1,600	-16.3	32.24
FY ending Mar. 2020	295,000	6.1	13,000	1.8	13,100	0.6	8,900	0.2	179.31

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, 2020

During the first quarter under review (the period from April 1, 2019 to June 30, 2019), the Japanese economy continued its moderate recovery amid improvement in the employment and income conditions. However, there were worrying trends in areas such as trade and associated fluctuations in the financial and capital markets, and weakness in some aspects of exports and production have also been evident recently.

Under these economic conditions, each segment of the information communication technology (ICT) market, the business domain where NEC Networks & System Integration Corporation (hereinafter “the Company”) operates, generally remained strong.

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 has remained at a high level, including DX such as the cloud, artificial intelligence (AI), the Internet of Things (IOT) and Robotic Process Automation (RPA). Capital investment for enhancing telecommunication quality in the telecom carrier business and investment in sophisticated urban infrastructures by the central and local government and public interest-related companies such as the firefighting and disaster prevention areas and the broadcasting and CATV fields all continued.

In this market environment, the Company and its consolidated subsidiaries (hereinafter “the Group”) actively stepped up investments in the work-style innovation area, the enhancement of communications infrastructures associated with the new construction or reconstruction of hotels in response to increasing numbers of inbound tourists, and projects such as firefighting and disaster prevention systems and broadcasting and CATV.

Moreover, in May 2019 the Company announced “Beyond Borders 2021,” its Medium-Term Management Plan, with a view to changes in the environment over the next 10 years. We aim to be a “communication service orchestrator” that produces new social value in collaboration with our partners, utilizing the strengths of the Group. We also plan to accelerate a shift to a new business model and new business creation based on digital and 5G, regarding the resolution of social issues and a wave of technological innovation as an opportunity for business expansion.

Under this concept, our business units were reorganized in line with business areas of focus in April 2019 with the aim of demonstrating technical expertise or competitiveness. At the same time, our organizational capability for future growth was reinforced by consolidating advanced technologies and business creation functions under newly established Business Design Operations Unit. In addition, we developed a new services combining the work-style innovation solution “EmpoweredOffice(※)” and DX technology and self-practiced proactively. We also accelerated co-creation with our partners

to discover cutting-edge solution services such as investment in a US venture fund and the facilitation of partnerships with global venture capitals/accelerators.

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

Net sales	¥60,537 million	¥5,082million increase year on year
Operating income (loss)	(¥178 million)	¥150million improve year on year
Ordinary income (loss)	(¥251 million)	¥ 89million improve year on year
Net income (loss) attributable to owners of the parent	¥21 million	¥227million improve year on year
< Reference >		
Orders received	¥74,115 million	¥7,902million increase year on year

Net sales increased 9.2% year on year, to ¥60,537 million. This result reflected significant growth in the Digital Solutions business centered on business related to work-style innovation and the development of networks for hotels and other service providers. In line with net sales, orders received also increased 11.9% year on year, to ¥74,115 million. This result reflected the expansion of all segments, including the expansion of firefighting and disaster prevention systems and the broadcasting and CATV fields in addition to the expansion of work-style innovation-related business and network establishment for service providers.

Looking at profits, operating income improved ¥150 million year on year, to negative ¥178 million, and ordinary income improved ¥89 million, to negative ¥251 million. These results reflected the fact that the Digital Solutions business and the Network Infrastructures business posted higher income due to higher net sales and ongoing reduced costs, despite lower income in the Engineering & Support Services business due to an unprofitable mega solar project. Net income attributable to owners of the parent improved ¥227 million year on year, to ¥21 million. This result reflected the posting of an impairment loss resulting from the decision to close down a training facility and a review of the recoverability of deferred tax assets.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services	Other	Total
1Q Fiscal 2020.3	23,470	15,355	18,468	3,243	60,537
1Q Fiscal 2019.3	20,791	14,831	18,028	1,803	55,455
Increase or (decrease)	2,679	524	439	1,439	5,082
Ratio of increase/(decrease) (%)	12.9	3.5	2.4	79.8	9.2

Reference: Orders received by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services	Other	Total
1Q Fiscal 2020.3	25,946	22,993	22,986	2,188	74,115
1Q Fiscal 2019.3	24,765	21,202	17,686	2,558	66,213
Increase or (decrease)	1,180	1,791	5,299	(369)	7,902
Ratio of increase/(decrease) (%)	4.8	8.4	30.0	(14.4)	11.9

1. Digital Solutions business

Sales for the work-style innovation related field and the development of networks for hotels expanded. As a result, net sales increased 12.9% year on year, to ¥23,470 million.

2. Network Infrastructures business

Sales for telecom carriers increased due to the contribution of product sales at a consolidated subsidiary, and sales for social infrastructures also grew. As a result, net sales for the business increased 3.5% year on year, to ¥15,355 million.

3. Engineering & Support Services business

Net sales for the business increased 2.4% year on year, to ¥18,468 million, as the office facility engineering or services business expanded despite a fall in large projects for constructing mega solar power plants.

*EmpoweredOffice:

Work-style innovation solution to propose business process innovation to a more intelligent and creative work-style by combining our strengths, ICT with facility construction capabilities

<Outline of Business Segments>

Business Segment	Descriptions of Main Businesses
Digital Solutions	Mainly system integration related to ICT platform and outsourcing/cloud services for business of enterprises and other customers and provision of solutions/services that are helpful for customers' business transformation by using cutting-edge/digital technologies , and contact center services
Network Infrastructures	Mainly centered on telecom carriers, central and local governments and social infrastructures service providers, provide system integration/services related to network infrastructures of a public nature with the required high reliability, and the development/manufacture and sales of network equipment, and provide system integration.
Engineering & Support Services business	Construction business in Japan and abroad, provision of support services such as maintenance and operations/monitoring related to ICT systems/services provided by the Company and operations of company-wide service infrastructures, in addition to technical support using these.
Others	Sales of purchased equipment

The Company implemented a reorganization on April 1, 2019. In association with the organizational change, there were changes in the reportable segments in the first quarter under review from the Enterprise Networks business, the Carrier Networks business and the Social Infrastructures business to the Digital Solutions business, the Network Infrastructures business, and the Engineering & Support Services business.

Information on reportable segments related to the first quarter of the previous fiscal year was reclassified for disclosure to reflect the changes in this event.

(2) Outlook for 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 improvements in the employment and income conditions. However, there are concerns such as trade issues and the downward trend of overseas economies, and a risk that could result in a downturn of the Japanese economy remains.

In this business environment, there are no changes to the full-year forecasts of consolidated financial results for the fiscal year ending March 2020 from the initial forecast because other businesses have remained stronger than expected, except for the unprofitable mega solar project.

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

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and cash equivalents	54,354	67,948
Notes and accounts receivable	106,553	73,282
Electronically recorded monetary claims	606	786
Purchased goods, materials and supplies	6,354	6,583
Work in process	6,827	9,026
Exc Other	6,423	7,490
Allowance for doubtful accounts	(82)	(82)
Total current assets	<u>181,036</u>	<u>165,034</u>
Non-current assets		
Property and equipment	10,217	8,316
Intangible assets		
Goodwill	1,146	1,084
Other	5,088	4,963
Total intangible assets	<u>6,234</u>	<u>6,047</u>
Investments and other assets		
Deferred tax assets	13,600	16,118
Other	5,144	5,951
Allowance for doubtful accounts	(62)	(61)
Total investments and other assets	<u>18,682</u>	<u>22,008</u>
Total non-current assets	<u>35,134</u>	<u>36,373</u>
Total assets	<u>216,171</u>	<u>201,408</u>
Liabilities		
Current liabilities		
Notes and accounts payable	40,274	30,301
Electronically recorded obligations	807	907
Short-term bank loans	2,284	2,680
Current installments of long-term debt	231	231
Accrued income taxes	3,175	362
Accrued bonuses to directors and corporate auditors	117	29
Accrued warranty on products	113	119
Accrued losses on sales contracts	1,980	2,690
Accrued office transfer cost	-	405
Other current liabilities	23,344	21,989
Total current liabilities	<u>72,328</u>	<u>59,718</u>
Long-term liabilities		
Long-term debt	3,896	3,838
Liabilities for retirement benefits	30,609	30,548
Other liabilities	1,729	1,515
Total long-term liabilities	<u>36,234</u>	<u>35,901</u>
Total liabilities	<u>108,562</u>	<u>95,620</u>
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,659	16,659
Retained earnings	79,520	77,556
Treasury stock, at cost	(279)	(280)
Total shareholders' equity	<u>109,022</u>	<u>107,058</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	31	30
Foreign currency translation adjustments	(471)	(449)
Accumulated adjustments for retirement benefits	(3,694)	(3,556)
Total accumulated other comprehensive income	<u>(4,134)</u>	<u>(3,975)</u>
Non-controlling interests	2,719	2,704
Total net assets	<u>107,608</u>	<u>105,787</u>
Total liabilities and net assets	<u>216,171</u>	<u>201,408</u>

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

(Millions of yen)

	1Q, FY March 2019 (3 months ended June 2018)	1Q, FY March 2020 (3 months ended June 2019)
Net sales	55,455	60,537
Cost of sales	47,417	51,801
Gross profit	8,037	8,736
Selling, general and administrative expenses	8,365	8,915
Operating income (loss)	(328)	(178)
Non-operating income		
Interest income	10	11
Dividends income of insurance	4	20
Other	71	64
Total non-operating income	86	97
Non-operating expenses		
Interest expenses	27	23
Compensation for damage	0	67
Other	71	79
Total non-operating expenses	99	169
Ordinary income (loss)	(340)	(251)
Extraordinary losses		
Impairment loss	-	1,788
Office transfer cost	-	405
Total extraordinary losses	-	2,194
Income (loss) before income taxes	(340)	(2,445)
Income taxes	(178)	(2,448)
Net income (loss)	(162)	2
Net income (loss) attributable to non-controlling interests	43	(18)
Net income (loss) attributable to owners of the parent	(205)	21

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

	1Q, FY March 2019 (3 months ended June 2018)	1Q, FY March 2020 (3 months ended June 2019)
Net income (loss)	(162)	2
Other comprehensive income		
Net unrealized holding loss on other securities	(11)	(0)
Foreign currency translation adjustments	(78)	48
Adjustments for retirement benefit	153	137
Share of other comprehensive income of associates	(2)	(0)
Total other comprehensive income	61	185
Comprehensive income (loss)	(100)	188
Comprehensive income (loss) attributable to:		
Owners of the parent	(127)	180
Non-controlling interests	26	8

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	1Q, FY March 2019 (3 months ended June 2018)	1Q, FY March 2020 (3 months ended June 2019)
Cash flows from operating activities		
Net income (loss) before income taxes	(340)	(2,445)
Depreciation and amortization	607	899
Amortization of goodwill	61	61
Impairment loss	-	1,788
Increase (decrease) in allowance for doubtful	(7)	(2)
Increase (decrease) in asset for retirement benefit	71	39
Increase (decrease) in liability for retirement benefits	146	109
Increase (decrease) in accrued bonuses to directors and	(80)	(88)
Increase (decrease) in accrued warranty on products	(2)	6
Increase (decrease) in accrued losses on sales contracts	493	710
Interest and dividend income	(22)	(29)
Interest expense	27	23
(Increase) decrease in notes and accounts receivable	36,362	33,164
(Increase) decrease in inventories	(2,262)	(2,427)
Increase (decrease) in notes and accounts payable	(12,446)	(9,881)
Increase (decrease) in accrued consumption taxes	(1,082)	(773)
Other, net	2,035	(1,565)
Subtotal	23,560	19,591
Interest and dividend income received	22	29
Interest paid	(24)	(20)
Income taxes paid	(3,224)	(2,718)
Net cash provided by (used in) operating activities	20,334	16,881
Cash flows from investing activities		
Purchase of property and equipment	(732)	(395)
Proceeds from sale of property and equipment	0	4
Purchase of intangibles	(242)	(203)
Proceeds from sale of intangibles	-	0
Purchase of investment securities	(111)	(397)
Collection of loans receivable	0	0
Other, net	(243)	(486)
Net cash used in investing activities	(1,329)	(1,477)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	(506)	369
Repayments of long-term debt	(42)	(57)
Net (increase) decrease in treasury shares	(0)	(0)
Dividends paid to shareholders	(1,824)	(1,973)
Dividends paid to minority shareholders of subsidiaries	(15)	(19)
Other, net	(108)	(128)
Net cash provided by used in financing activities	(2,498)	(1,810)
Effect of exchange rate changes on cash and cash equivalents	(71)	0
Net increase (decrease) in cash and cash equivalents	16,434	13,594
Cash and cash equivalents at beginning of period	57,281	54,354
Cash and cash equivalents at end of period	73,716	67,948

(4) Segment Information

Business Segment Information

First quarter of fiscal March 2020 (3 months ended June 2019)

(Millions of yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Sales						
(1) Sales to third parties	23,470	15,355	18,468	3,243	-	60,537
(2) Intersegment sales	-	-	-	-	-	-
Total	23,470	15,355	18,468	3,243	-	60,537
Operating income and loss	1,653	379	(165)	120	(2,166)	(178)

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

(Millions of yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Sales						
(1) Sales to third parties	20,791	14,831	18,028	1,803	-	55,455
(2) Intersegment sales	-	-	-	-	-	-
Total	20,791	14,831	18,028	1,803	-	55,455
Operating income and loss	1,142	64	517	52	(2,105)	(328)