

Financial Results for the 1Q for the FY ending March 2020

July 31, 2019

NEC Networks & System Integration
Corporation

(TSE: 1973, NESIC)

1Q FY2020/3 Summary

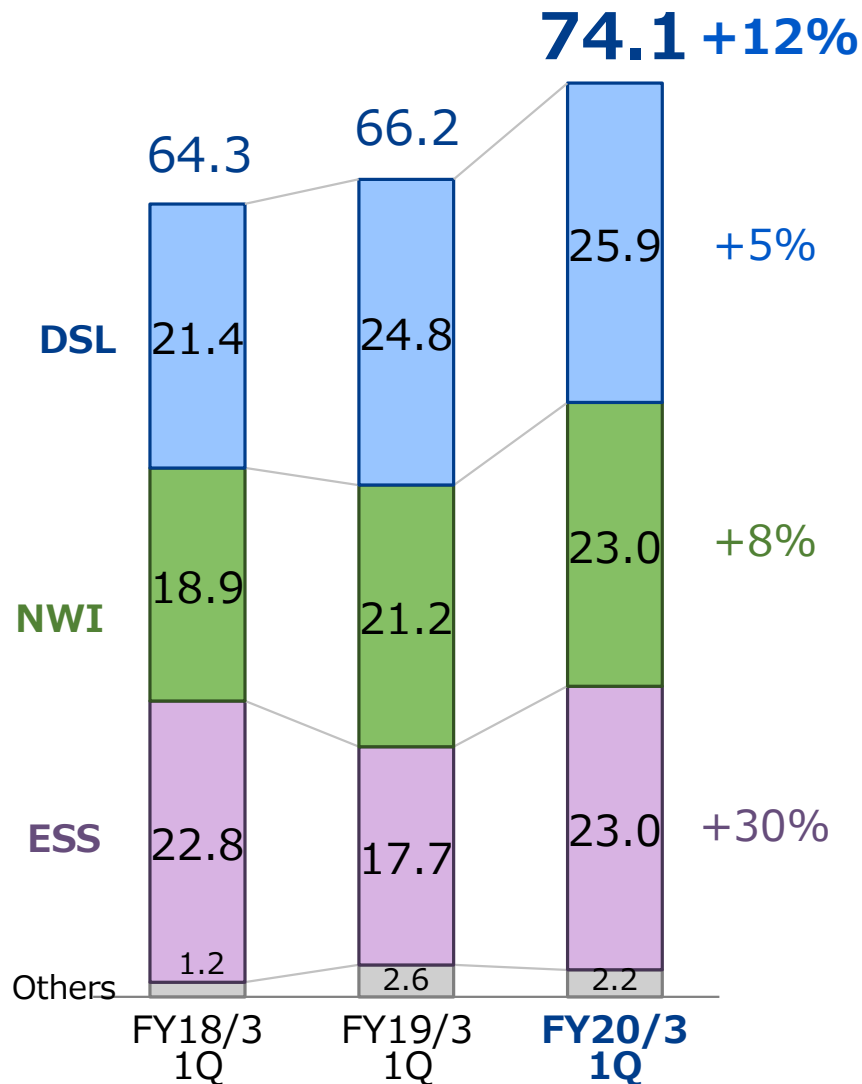
- Orders & Sales: Progressed steadily toward the full-year target
- Operating income/loss: Remained flat due to an unprofitable project(*), despite an improvement in profitability * Mega solar project
- Net income/loss: Turned to positive with DTA despite extraordinary losses
Attributable to owners of the parent

	1Q FY19/3	1Q FY20/3	Change	(¥ Bn.)
Orders Received	66.2	74.1	+12%	
Net Sales	55.5	60.5	+4%	
Operating Income(Loss)	(0.33)	(0.18)	+0.15	
(to Sales)	-	-	-	
Net Income(Loss) attributable to owners of the parent	(0.21)	0.02	+0.23	
(to Sales)	-	(0.0%)	-	
Free Cash Flows	19.0	15.4	3.6	

Including extraordinary losses (-2.2) and an impact of review of the recoverability of deferred tax assets (+1.6)

1Q FY2020/3 Orders Received by Segment

(¥ Bn.)



● DSL (Digital Solutions)

- Mainly work-style innovation-related business expanded.
- Orders for hotels remained at a high level.

● NWI (Network Infrastructures)

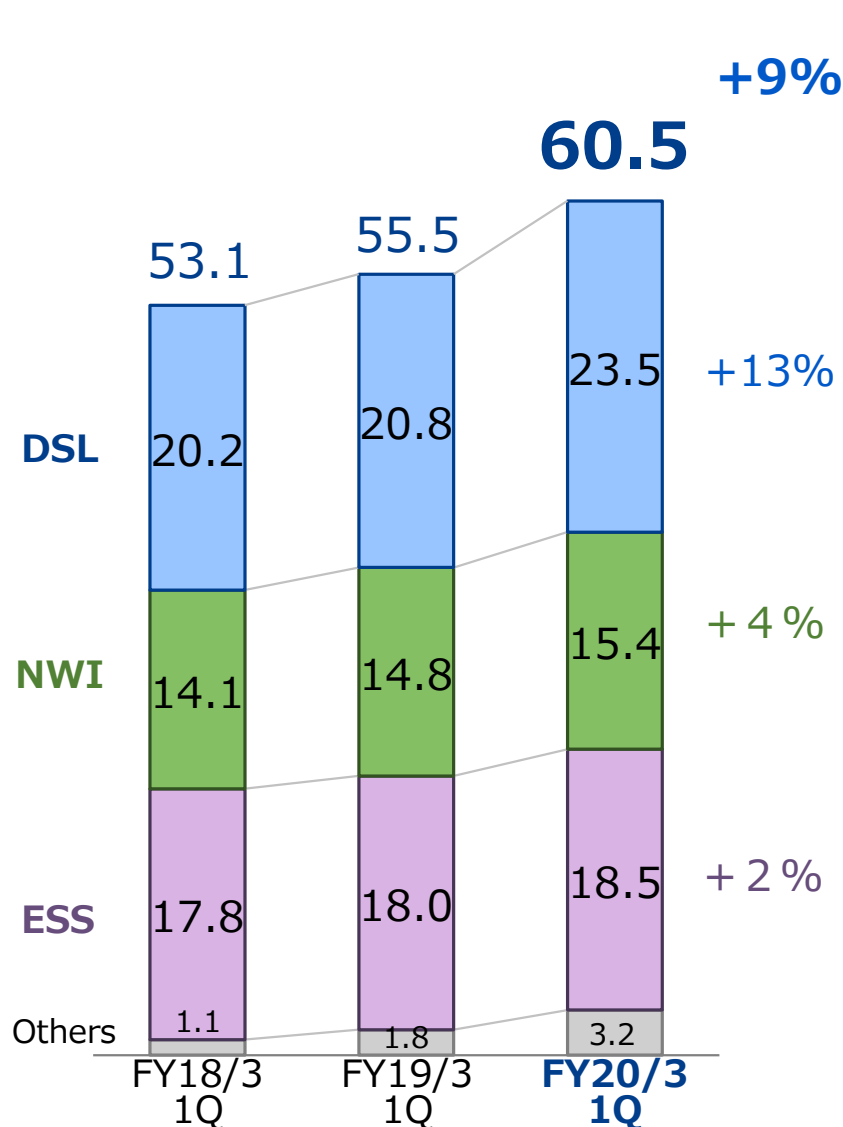
- Social infrastructure expanded (fire fighting system, broadcast/CATV).
- Business for telecom carriers was postponed.

● ESS (Engineering & Support Services)

- In addition to a reactive increase in the cancellation of order receipts from the previous fiscal year, regional construction business expanded.

1Q FY2020/3 Net Sales by Segment

(¥ Bn.)



● **DSL (Digital Solutions)**

- Work-style innovation-related business continued to expand.
- Network installation for hotels expanded.

● **NWI (Network Infrastructures)**

- Sales for both telecom carriers* and social infrastructure increased.

*Product sales increased.

● **ESS (Engineering & Support Services)**

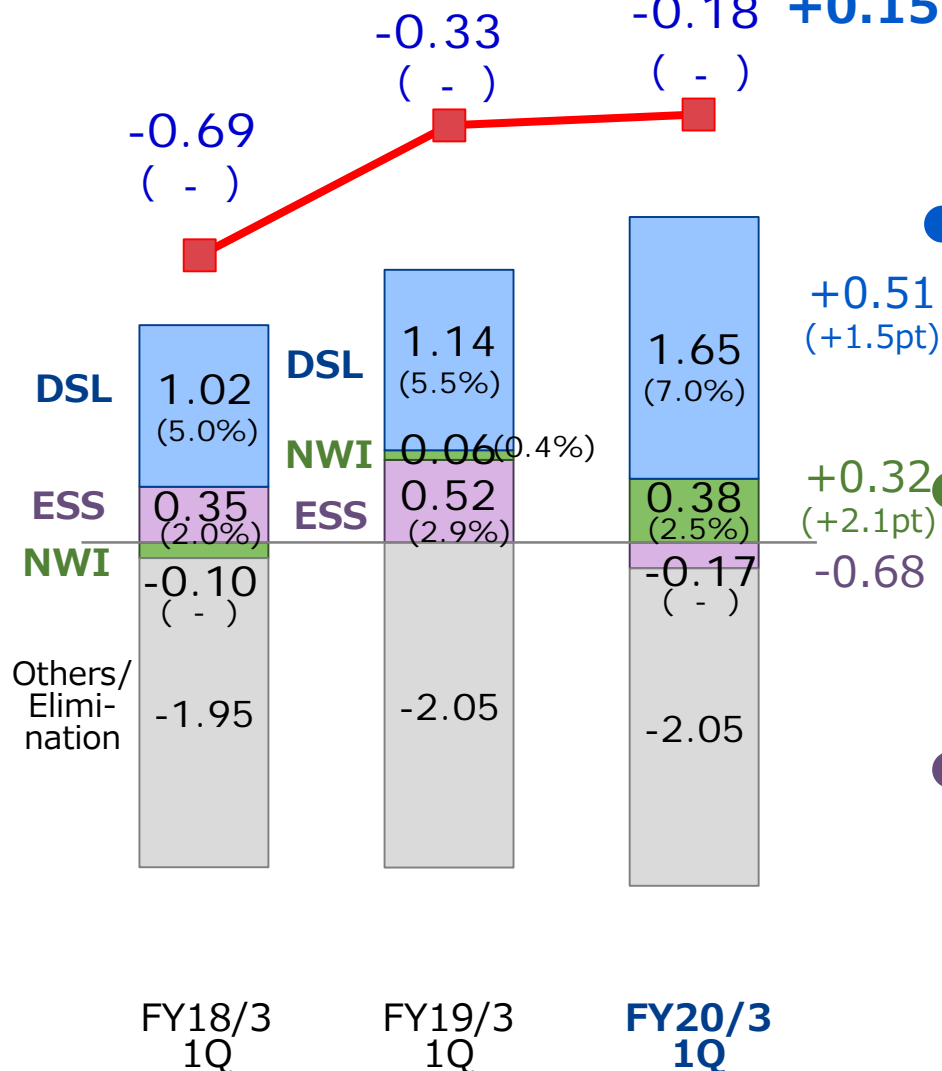
- Despite a decrease in mega solar business, the office facility engineering and service business expanded.

1Q FY2020/3 Operating Profit & Loss by Segment

(¥ Bn.)

Total

(YoY)



Despite an increase in the income of DSL and NWI, ESS decreased due to an unprofitable mega solar project

● DSL (Digital Solutions)

- Income increased due to higher sales and continuous cost reductions.

● NWI (Network Infrastructures)

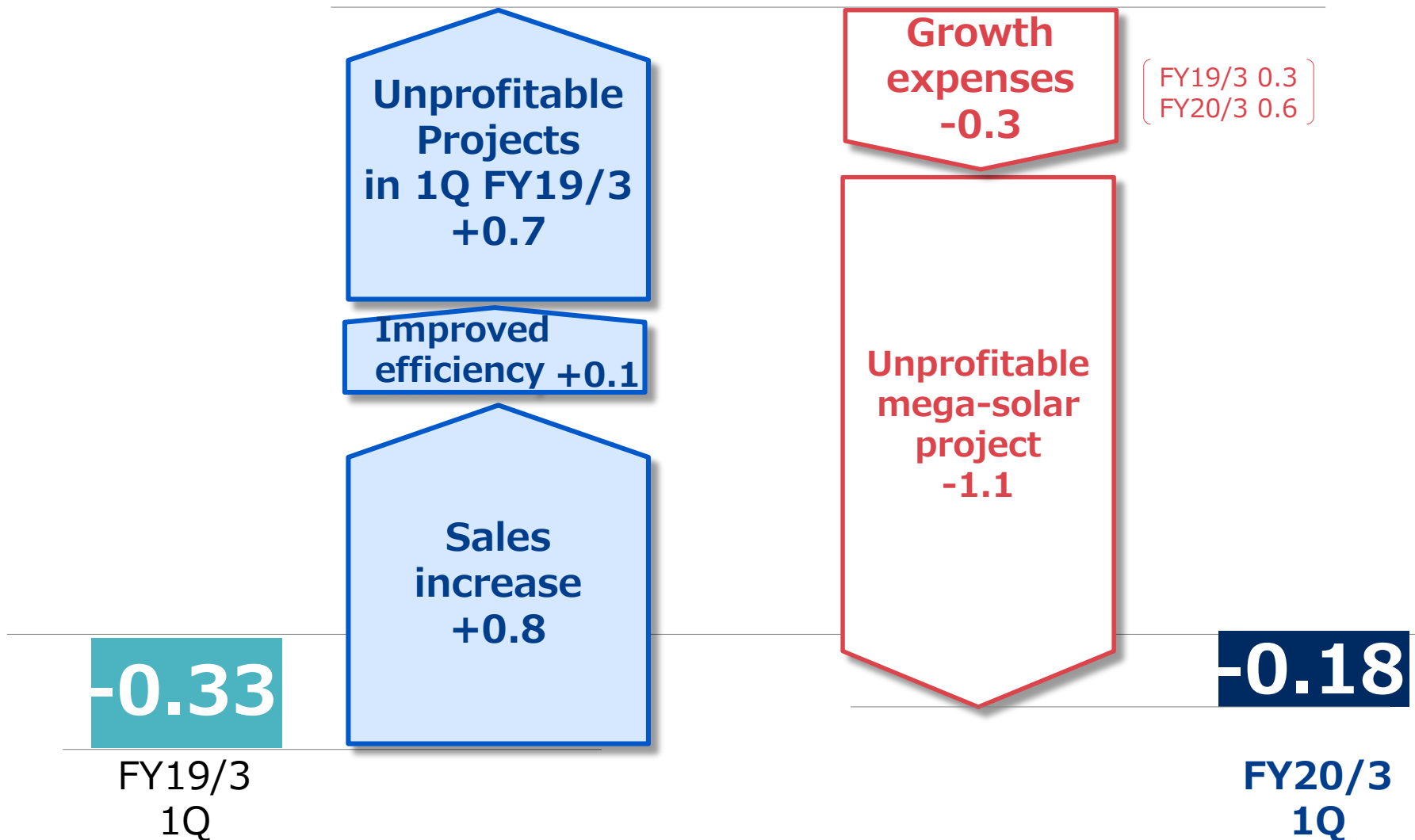
- The cost of sales ratio improved and income increased mainly due to the absence of an unprofitable project.

● ESS (Engineering & Support Services)

- Income decreased due to an unprofitable mega solar project.

1Q FY2020/3 Operating Income & Loss Analysis

(¥ Bn.)



Regarding the Unprofitable Mega Solar Plant Construction Project

- **Date of order** : 4Q of the FY.18/3
- **Reason for unprofitability** : Improvement cost and additional man-hours were triggered by a unique mega solar issue (assessment of the ground).
- **Next steps** : Changed the policy to receive mega solar orders from the FY.19/3.

*Considering risk and profitability for selective order receipt.



Introducing further stringent criteria to avoid risks

***Unprofitable projects other than mega solar projects**

Keeping the generation of unprofitable projects in check through the preliminary examination reinforcement measure established in April 2017.

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 attributable to owners of the parent	8.9	8.9	+0.0
(to sales)	(3.2%)	(3.0%)	-0.2pt

New service release (digital-related)

April	AI/ Robotics	Monitoring services using drones and AI
May	RPA/AI	Business process efficiency solution combining RPA and AI-OCR
	Cloud	Business visualization solution "Wrike"
	IoT	Partner program for ELTRES™(LPWA) service commences acceptance
June	AI/Cloud	Security monitoring/operation services using AI
July	Robotics	Automatic guidance robot "YUNJI SAIL" utilization service
	Cloud/ Work-style innovation-related	Preliminary implementation of dispersed work for TELEWORK DAYS.

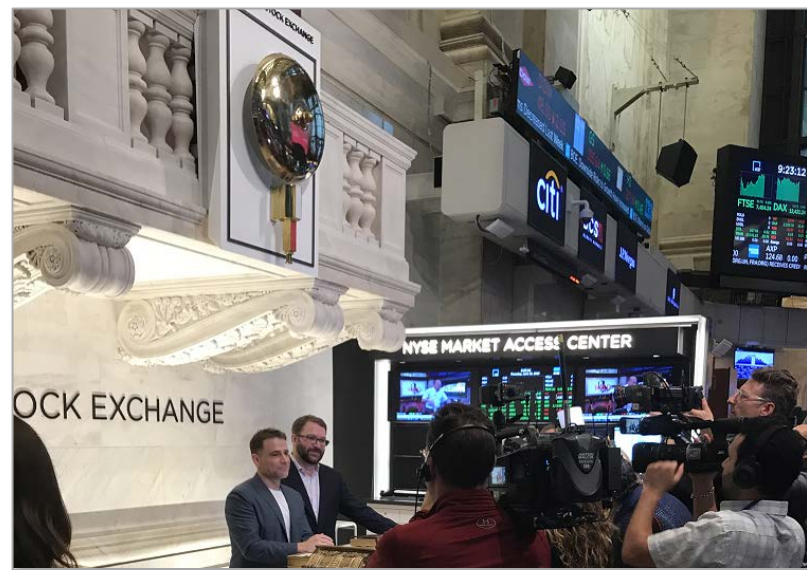
Establish a system for discovering new technologies

April Invested in a venture fund of a VC in the US.

June Signed a partnership agreement with Plug and Play in Silicon Valley in the US.

Established a favorable relationship with start-up companies.

One of a select group of companies invited to the NYSE listing ceremony of Slack Tech.



Topics: Taking on the Challenge of New Work-style Innovation

Disperse offices and work in a multi-location environment.
Dispersed work was implemented earlier for **TELEWORK DAYS**.

[Aim of dispersed work]

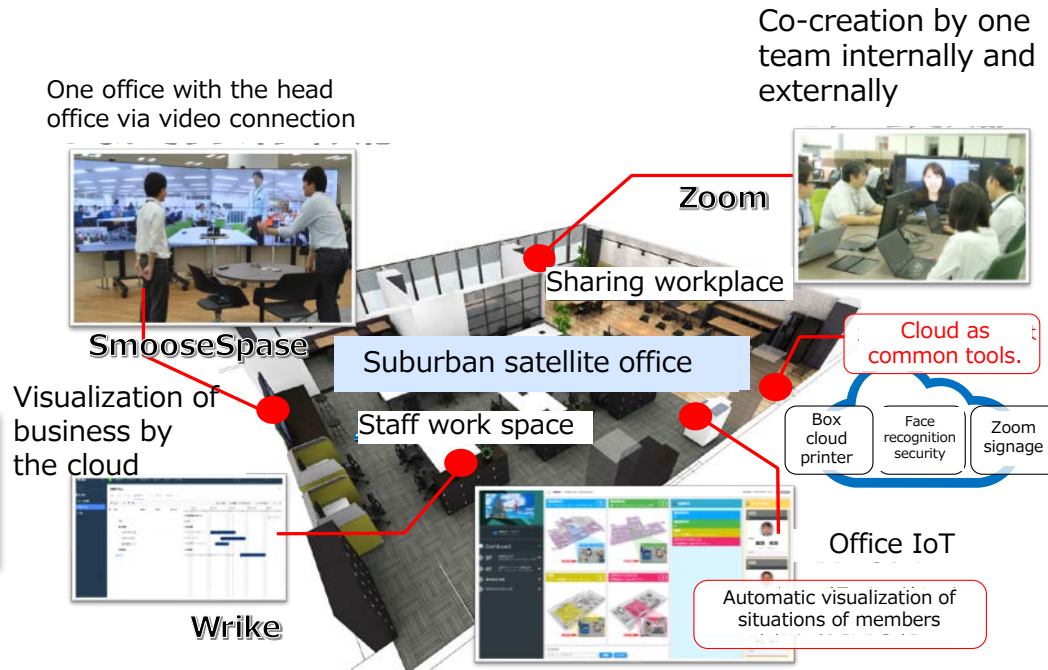
Take on the challenge of solving the issues faced by Japan

- Disperse offices to 10 locations in the Metropolitan area
(Commuting time less than 30 min.)
- Various issues such as communications or business process are solved by digital technology, including the cloud.



Drastically review and implement a work style leading to personal growth of employees, and innovation

Heavy concentration of workers in urban areas
& securement of labor force
Lag behind the world in terms of innovation
(international competitiveness)



APPENDIX

1Q FY2020/3 (June 2019) Balance Sheet

(¥ Bn.)

	End of Mar.19	End of Jun.19	Diff.
Cash and cash equivalents	54.4	67.9	13.6
Notes & accounts receivable	107.2	74.1	-33.1
Inventories	13.2	15.6	2.4
Others	6.3	7.4	1.1
Current Assets	181.0	165.0	-16.0
Noncurrent Assets	35.1	36.4	1.2
Assets	216.2	201.4	-14.8

Notes and accounts payable	41.1	31.2	-9.9
Loans/debt	6.4	6.8	0.3
Others	61.1	57.7	-3.4
Liabilities	108.6	95.6	-12.9
Shareholders' equity	109.0	107.1	-2.0
Accumulated other comprehensive income	-4.1	-4.0	0.2
Non-controlling interests	2.7	2.7	0.0
Net Assets	107.6	105.8	-1.8
Liabilities & Net Assets	216.2	201.4	-14.8

Owner's Equity Ratio	48.5%	51.2%	+2.7pt
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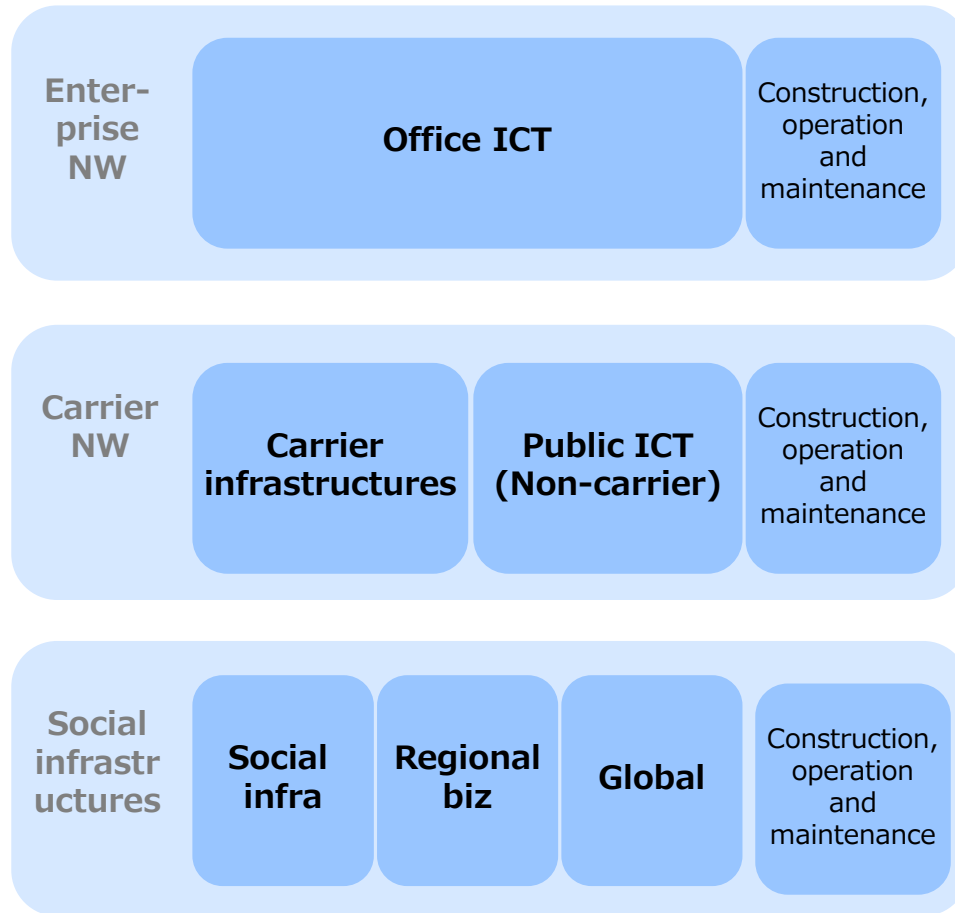
1Q FY2020/3 Cash Flows

(¥ Bn.)

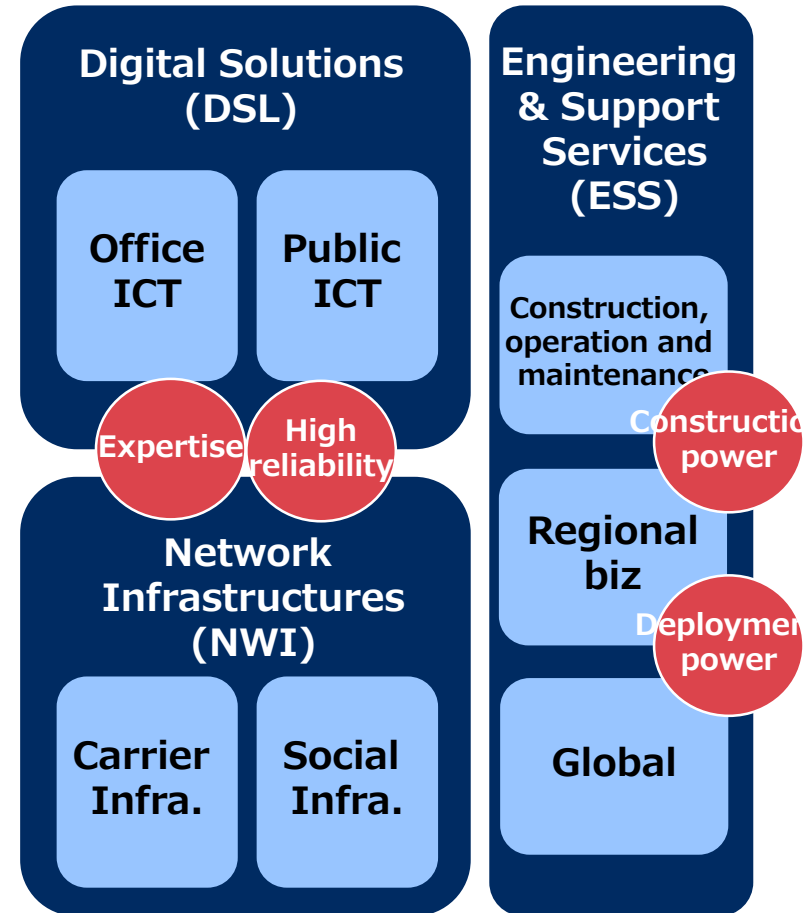
	1Q FY19.3	1Q FY20.3	Change
Operating Cash Flow (A)	20.3	16.9	-3.5
Investment Cash Flow(B)	-1.3	-1.5	-0.1
Free Cash Flows (A) + (B)	19.0	15.4	-3.6
Financial Cash Flow	-2.5	-1.8	0.7
Cash & cash equivalent	73.7	67.9	-5.8

New Segment According to Reorganization

Old segments



New segments

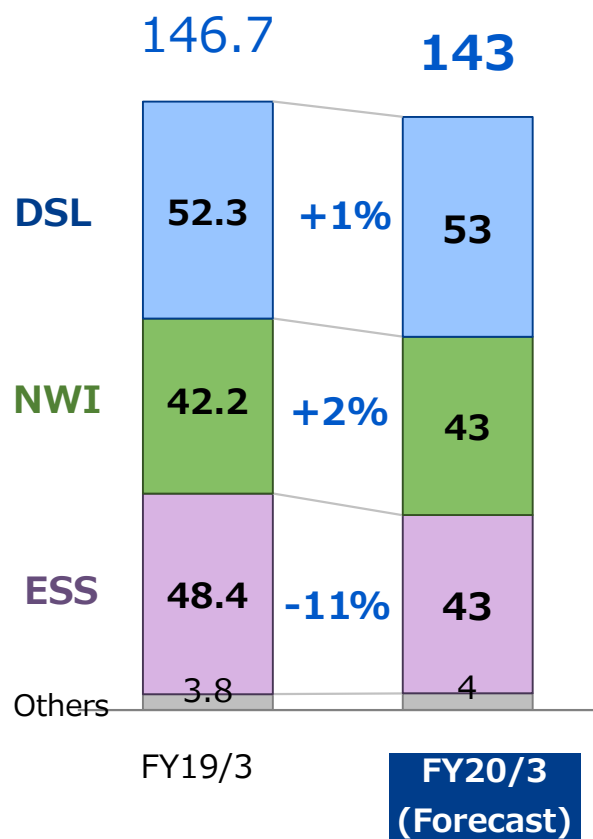


1H FY2020/3 Forecasts by Segment

(¥ Bn.)

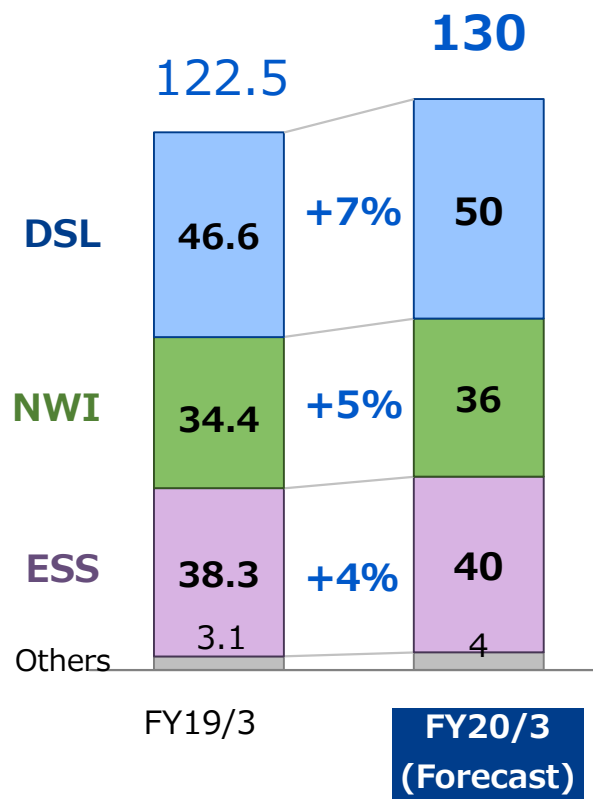
Orders

-3%



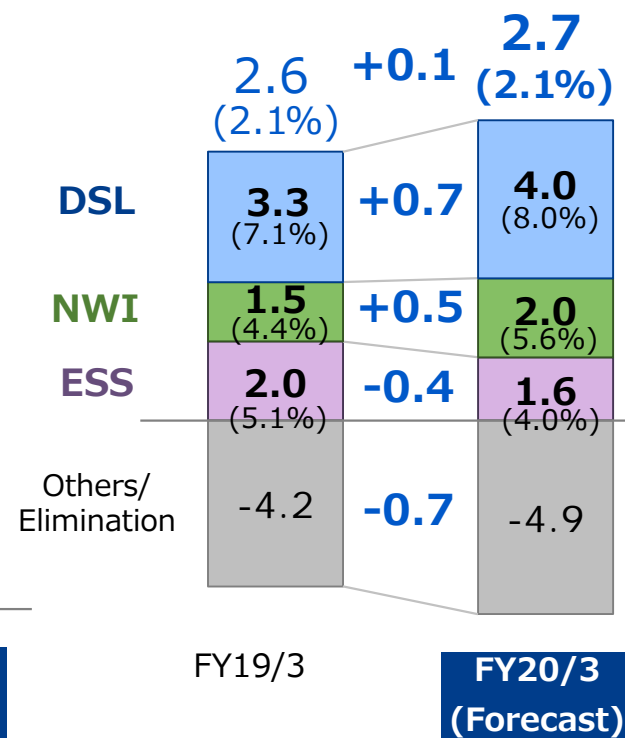
Net Sales

+6%



Oper. Income

() to sales



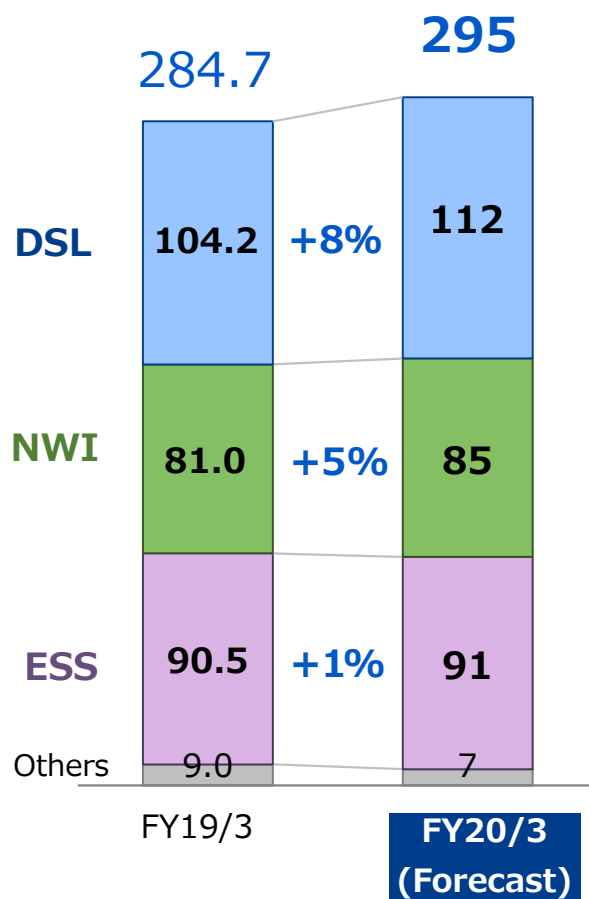
※Forecasts as at July 31, 2019

FY2020/3 Forecasts by Segment

(¥ Bn.)

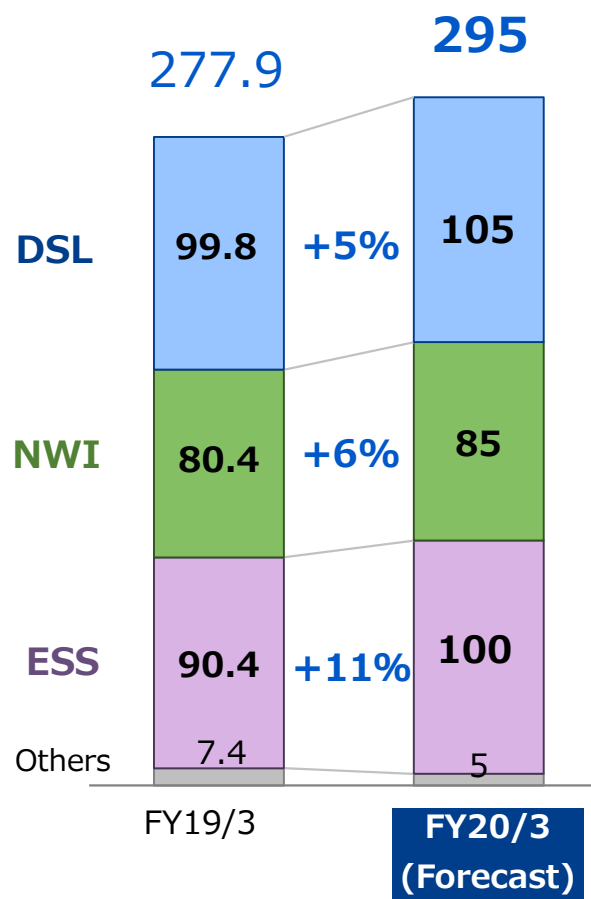
Orders

+4%



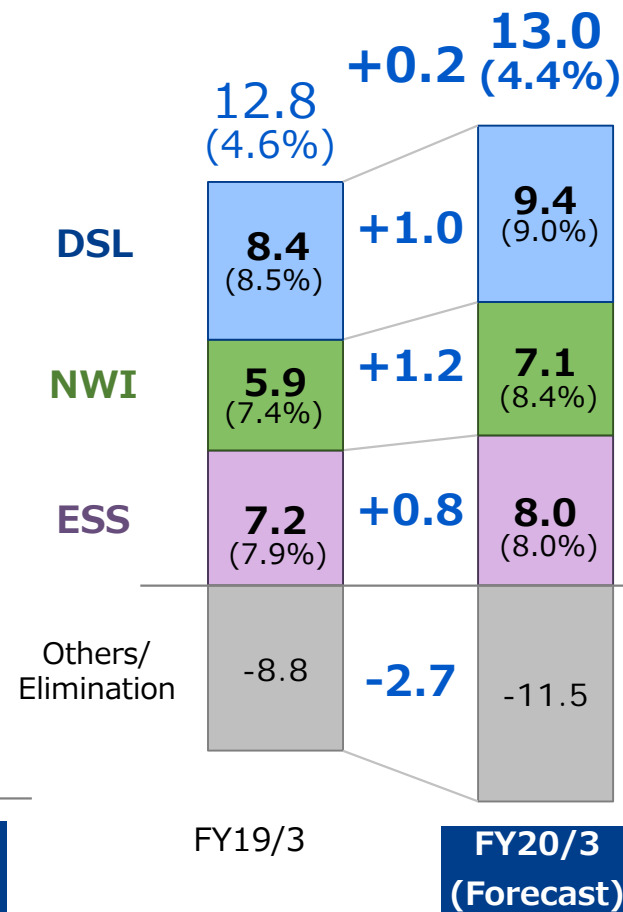
Net Sales

+6%



Oper. Income

() to sales



※Forecasts as at July 31, 2019

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.

Re-designing your Communication

NEC Networks & System Integration Corporation is committed to increasing customer value by redesigning future communications from the user's perspective.





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