

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, 2019 to December 31, 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 (%)
9 months/FY Mar 2020	214,032	12.1	8,208	30.6	8,196	25.7
9 months / FY Mar 2019	190,986	3.3	6,283	41.4	6,521	45.9

	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 2020	4,296	(0.0)	86.55	—
9 months / FY Mar 2019	4,296	43.2	86.56	—

c.f. Comprehensive income: 9 Months/FY Mar 2020: ¥4,942 million (2.5%); 9 Months/FY Mar 2019: ¥4,821 million (32.0%)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
31/Dec/2019	210,431	108,574	50.2	2,128.93
31/Mar/2019	216,171	107,608	48.5	2,113.19

c.f. Owner's equity: 31/Dec/2019: ¥105,680 million; 31/Mar/2019: ¥104,888 million

2. Dividends

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

※ 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)	(%)	(¥)
FY ending Mar. 2020	300,000	7.9	15,000	17.4	5,000	15.2	9,000	1.3	181.31

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, 2020

During the first nine months of the fiscal year ending March 31, 2020 (the period from April 1, 2019, to December 31, 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 Digital Transformation(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, video 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, video 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-implemented proactively. We also accelerated open innovation initiatives to discover cutting-edge solution services such as

investment in a US venture fund and the facilitation of partnerships with global venture capitals/accelerators. In October 2019, we launched a distributed work initiative, distributing head office staff to satellite offices within 30 minutes from their homes to put into practice new working styles that exploit DX technology ourselves and to translate this into the development of new services. Moreover, the Group has entered into the onshore fish-farming business using ICT/digital technologies to expand the area of the Company's value chain from the existing ICT area to value-added areas through co-creation with our partners.

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

Net sales	¥214,032 million	12.1%	increase year on year
Operating income	¥8,208 million	30.6%	increase year on year
Ordinary income	¥8,196 million	25.7%	increase year on year
Net income attributable to owners of the parent	¥4,296 million	0.0%	decrease year on year
< Reference >			
Orders received	¥215,214 million	3.7%	increase year on year

Net sales increased 12.1% year on year, to ¥214,032 million. This result reflected increased sales in all segments, with expansion of Digital Solutions Business mainly in ICT services related to work-style innovation and network construction for hotels, and expansion of the Engineering & Support Services Business both in terms of maintenance/operation and construction, such as firefighting systems, municipal disaster-prevention radio systems, mega-solar and other infrastructure in Japan. Orders received increased 3.7% year on year, to ¥215,214 million. This result reflected steady expansion in the Digital Solutions Business and Network Infrastructures Business mainly by the workstyle innovation-related field and the social public infrastructure field where orders included firefighting systems, municipal disaster-prevention radio systems, and video and CATV systems, despite a reactionary drop in orders in the Engineering & Support Services Business due to the impact of large overseas projects in the same period last year.

Looking at profits, the Digital Solutions Business and Network Infrastructures Business posted large profit gains due to increased sales that led to greater fixed cost efficiency as well as the positive effect on profitability of initiatives such as the sharing of human resources to improve resource efficiency and tighter project management. These gains offset an increase in investments for growth, such as office realignment and new service development, and deterioration in the profits of the Engineering & Support Services Business caused by a loss-making project. Accordingly, operating income improved 30.6% year on year, to ¥8,208 million, and ordinary income improved 25.7%, to ¥8,196 million. Net income attributable to owners of the parent was ¥4,296 million unchanged year on year. This reflected the recording of extraordinary

losses such as impairment losses associated with the closure of a training facility and compensation of damage due to delays in a domestic construction project.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services business	Other	Total
9M Fiscal 2020.3	78,587	56,681	70,069	8,694	214,032
9M Fiscal 2019.3	69,572	54,639	62,272	4,502	190,986
Increase or (decrease)	9,014	2,042	7,797	4,192	23,046
Ratio of increase/(decrease) (%)	13.0	3.7	12.5	93.1	12.1

Reference: Orders received by business segment

(Million yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services business	Other	Total
9M Fiscal 2020.3	81,006	63,595	63,630	6,982	215,214
9M Fiscal 2019.3	77,363	59,210	64,928	5,950	207,452
Increase or (decrease)	3,642	4,384	(1,298)	1,031	7,761
Ratio of increase/(decrease) (%)	4.7	7.4	(2.0)	17.3	3.7

1. Digital Solutions business

Net sales increased 13.0% year on year, to ¥78,587 million, mainly reflecting expansion of ICT services related to work-style innovation and network construction for hotels.

2. Network Infrastructures business

Net sales rose 3.7% year on year, to ¥56,681 million, reflecting expansion in social public infrastructures such as firefighting systems and municipal disaster-prevention radio systems.

3. Engineering & Support Services business

Net sales climbed 12.5% year on year, to ¥70,069 million, reflecting expansion in domestic construction business and maintenance and operation business.

*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
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 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 remain on a modest recovery path in the period under review, largely due to the effect of government economic stimulus and improvements in the employment and income conditions, although deterioration in the global situation, among other factors, had raised concerns about a downside impact on the Japanese economy.

In this business environment, the full-year forecasts for consolidated operating income and ordinary income for the fiscal year ending March 2020 have been revised upward as stated below in view of steady progress in the first nine months under review:

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Net sales	¥300 billion	7.9% increase year on year
Operating income	¥15.0 billion	17.4% increase year on year
Ordinary income	¥15.0 billion	15.2% increase year on year
Net income attributable to owners of the parent	¥9.0 billion	1.3% increase year on year

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	54,354	53,496
Notes and accounts receivable	106,553	97,088
Electronically recorded monetary claims	606	663
Purchased goods, materials and supplies	6,354	4,814
Work in process	6,827	10,208
Exc Other	6,423	7,774
Allowance for doubtful accounts	(82)	(84)
Total current assets	<u>181,036</u>	<u>173,960</u>
Non-current assets		
Property and equipment	10,217	8,738
Intangible assets		
Goodwill	1,146	961
Other	5,088	4,941
Total intangible assets	<u>6,234</u>	<u>5,902</u>
Investments and other assets		
Deferred tax assets	13,600	15,102
Other	5,144	6,785
Allowance for doubtful accounts	(62)	(57)
Total investments and other assets	<u>18,682</u>	<u>21,830</u>
Total non-current assets	<u>35,134</u>	<u>36,470</u>
Total assets	<u>216,171</u>	<u>210,431</u>
Liabilities		
Current liabilities		
Notes and accounts payable	40,274	35,428
Electronically recorded obligations	807	1,107
Short-term bank loans	2,284	3,923
Current installments of long-term debt	231	298
Accrued income taxes	3,175	302
Accrued bonuses to directors and corporate auditors	117	28
Accrued warranty on products	113	108
Accrued losses on sales contracts	1,980	1,719
Accrued compensation for damage	-	1,253
Accrued office transfer cost	-	372
Other current liabilities	23,344	21,542
Total current liabilities	<u>72,328</u>	<u>66,087</u>
Long-term liabilities		
Long-term debt	3,896	3,839
Liabilities for retirement benefits	30,609	30,492
Other liabilities	1,729	1,437
Total long-term liabilities	<u>36,234</u>	<u>35,769</u>
Total liabilities	<u>108,562</u>	<u>101,856</u>
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,659	16,664
Retained earnings	79,520	79,846
Treasury stock, at cost	(279)	(270)
Total shareholders' equity	<u>109,022</u>	<u>109,363</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	31	52
Deferred gains or losses on hedges	-	20
Foreign currency translation adjustments	(471)	(474)
Accumulated adjustments for retirement benefits	(3,694)	(3,281)
Total accumulated other comprehensive income	<u>(4,134)</u>	<u>(3,682)</u>
Non-controlling interests	2,719	2,894
Total net assets	<u>107,608</u>	<u>108,574</u>
Total liabilities and net assets	<u>216,171</u>	<u>210,431</u>

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

(Millions of yen)

	1Q-3Q, FY March 2019 (9 months ended Dec 2018)	1Q-3Q, FY March 2020 (9 months ended Dec 2019)
Net sales	190,986	214,032
Cost of sales	159,256	178,030
Gross profit	31,729	36,002
Selling, general and administrative expenses	25,446	27,793
Operating income (loss)	6,283	8,208
Non-operating income		
Interest income	30	29
Dividends income of insurance	193	117
Other	223	244
Total non-operating income	447	391
Non-operating expenses		
Interest expenses	77	79
Impairment loss on investment securities	4	94
Compensation for damage	3	83
Other	124	144
Total non-operating expenses	208	403
Ordinary income (loss)	6,521	8,196
Extraordinary losses		
Impairment loss	-	1,788
Compensation for damage	-	1,253
Office transfer cost	-	372
Total extraordinary losses	-	3,415
Income (loss) before income taxes	6,521	4,781
Income taxes	2,052	326
Net income (loss)	4,469	4,454
Net income (loss) attributable to non-controlling interests	172	157
Net income (loss) attributable to owners of the parent	4,296	4,296

(Millions of yen)

(Millions of yen)

	1Q-3Q, FY March 2019 (9 months ended Dec 2018)	1Q-3Q, FY March 2020 (9 months ended Dec 2019)
Net income (loss)	4,469	4,454
Other comprehensive income		
Net unrealized holding loss on other securities	(34)	21
Deferred gains or losses on hedges	-	20
Foreign currency translation adjustments	(72)	34
Adjustments for retirement benefit	460	412
Share of other comprehensive income of associates	(1)	(0)
Total other comprehensive income	352	488
Comprehensive income (loss)	4,821	4,942
Comprehensive income (loss) attributable to:		
Owners of the parent	4,666	4,748
Non-controlling interests	154	194

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	1Q-3Q, FY March 2019 (9 months ended Dec 2018)	1Q-3Q, FY March 2020 (9 months ended Dec 2019)
Cash flows from operating activities		
Net income (loss) before income taxes	6,521	4,781
Depreciation and amortization	1,977	2,721
Amortization of goodwill	185	185
Impairment loss	-	1,788
Increase (decrease) in allowance for doubtful	(16)	(3)
Increase (decrease) in asset for retirement benefit	190	126
Increase (decrease) in liability for retirement benefits	549	401
Increase (decrease) in accrued bonuses to directors and	(74)	(88)
Increase (decrease) in accrued warranty on products	(9)	(4)
Increase (decrease) in accrued losses on sales contracts	812	(259)
Increase (decrease) in accrued compensation for	-	1,253
Interest and dividend income	(46)	(49)
Interest expense	77	79
(Increase) decrease in notes and accounts receivable	18,718	9,434
(Increase) decrease in inventories	(10,316)	(1,843)
Increase (decrease) in notes and accounts payable	(6,135)	(4,534)
Increase (decrease) in accrued consumption taxes	(968)	(300)
Other, net	431	(2,034)
Subtotal	11,895	11,653
Interest and dividend income received	46	50
Interest paid	(74)	(77)
Income taxes paid	(5,465)	(4,976)
Net cash provided by (used in) operating activities	6,402	6,650
Cash flows from investing activities		
Purchase of property and equipment	(1,514)	(2,051)
Proceeds from sale of property and equipment	4	9
Purchase of intangibles	(2,300)	(638)
Proceeds from sale of intangibles	17	0
Purchase of investment securities	(148)	(772)
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	-	(68)
Collection of loans receivable	1	0
Other, net	(438)	(1,242)
Net cash used in investing activities	(4,379)	(4,761)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	(1,296)	1,630
Repayments of long-term debt	(128)	(190)
Proceeds from long-term debt	300	200
Net (increase) decrease in treasury shares	(2)	(2)
Dividends paid to shareholders	(3,712)	(3,960)
Dividends paid to minority shareholders of subsidiaries	(27)	(23)
Proceeds from share issuance to non-controlling	245	3
Other, net	(351)	(382)
Net cash provided by used in financing activities	(4,973)	(2,725)
Effect of exchange rate changes on cash and cash	(79)	(21)
Net increase (decrease) in cash and cash equivalents	(3,030)	(857)
Cash and cash equivalents at beginning of period	57,281	54,354
Cash and cash equivalents at end of period	54,251	53,496

(4) Segment Information

Business Segment Information

First nine months of fiscal March 2019 (9 months ended December 2018)

(Millions of yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Sales						
(1) Sales to third parties	69,572	54,639	62,272	4,502	-	190,986
(2) Intersegment sales	-	-	-	-	-	-
Total	69,572	54,639	62,272	4,502	-	190,986
Operating income and loss	5,086	3,125	4,323	256	(6,508)	6,283

*NESIC has changed the reportable segments from the FY March 2020 according to the reorganization at April 2019.

The segment figures for the FY March 2019 reclassified for disclosure to reflect the changes in this event.

First nine months of fiscal March 2020 (9 months ended December 2019)

(Millions of yen)

	Digital Solutions	Network Infrastructures	Engineering & Support Services	Others	Adjustments	Total
Sales						
(1) Sales to third parties	78,587	56,681	70,069	8,694	-	214,032
(2) Intersegment sales	-	-	-	-	-	-
Total	78,587	56,681	70,069	8,694	-	214,032
Operating income and loss	7,279	4,825	3,189	405	(7,492)	8,208