

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, 2020 to June 30, 2020)**

of Fiscal Year ending March 31, 2021

(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 2020 | 67,369 | 11.3 | 1,008 | — | 941 | — |
| 3 months ended June 2019 | 60,537 | 9.2 | -178 | — | -251 | — |

| | 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 2020 | 326 | — | 2.20 | — |
| 3 months ended June 2019 | 21 | — | 0.14 | — |

c.f. Comprehensive income: 1Q/FY Mar 2021: ¥259 million (37.9%); 1Q/FY Mar 2020: ¥188 million (-%)

* The company conducted a three-for-one stock split for its common stock on June 1, 2020. The amount of "Net income per share" is calculated on the assumption that the stock split had been carried out at the beginning of the previous consolidated fiscal year.

(2) Financial Position

| | Total assets (¥ million) | Net assets (¥ million) | Owner's equity ratio (%) | Net assets per share (¥) |
|--------------------|-----------------------------|---------------------------|--------------------------------|-----------------------------|
| 30/Jun/2020 | 213,327 | 111,455 | 50.9 | 728.54 |
| 31/Mar/2020 | 230,244 | 113,510 | 47.9 | 741.12 |

c.f. Owner's equity: 30/Jun/2020: ¥108,494 million; 31/Mar/2020: ¥110,366 million

* The company conducted a three-for-one stock split for its common stock on June 1, 2020. The amount of "Net assets per share" is calculated on the assumption that the stock split had been carried out at the beginning of the previous consolidated fiscal year.

2. Dividends

| | Dividends per share (¥) | | | | |
|--|-------------------------|--------------|----------------|--------------|--------------|
| | 1st quarter | Interim | 3rd quarter | Year-end | Full year |
| FY ended Mar. 2020 | — | 13.33 | — | 14.00 | 27.33 |
| FY ending Mar. 2021(Forecast) | — | 14.00 | — | 14.00 | 28.00 |

Note: Revisions to projected dividends for the quarter under review: yes

* The company conducted a three-for-one stock split for its common stock on June 1, 2020. The dividends per share in the FY ended March 2020 is calculated on the assumption that the stock split had been carried out.

3. Financial Forecasts for Fiscal Year ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(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. 2020 | 142,000 | 4.2 | 4,500 | 3.0 | 4,500 | 3.8 | 3,000 | 3.4 | 20.15 |
| FY ending Mar. 2021 | 312,000 | 2.8 | 18,000 | 10.8 | 18,000 | 12.9 | 10,500 | 11.4 | 70.51 |

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 1Q for the Fiscal Year Ending March 31, 2021

During the first quarter under review (the period from April 1, 2020, to June 30, 2020), the Japanese economy was faced with an inevitable, sharp decline due to the impact of the novel coronavirus (COVID-19), which led to the government's declaration of a state of emergency in April. Although hopes for the start of recovery have been high since the end of May in response to the lifting of the state of emergency, the trend of infection in Japan and overseas continues to be less than promising, seeing that the number of the newly infected cases is increasing again. Under these economic conditions, COVID-19 affected some areas of the information and communication technology (ICT) market, the business domain where NEC Networks & System Integration Corporation (hereinafter "the Company") operates, although a robust trend continued from the previous year.

In the enterprises market, companies maintained a high level of investment in workstyle innovation, such as the introduction of teleworking as part of their response to COVID-19. Interest in cutting-edge technologies also remained high, including DX (digital transformation) such as cloud computing, artificial intelligence (AI), the Internet of Things (IoT) and robotic process automation (RPA). Meanwhile, the trend of postponing investment due to a fall in financial performance and other concerns has become more apparent in some industries such as commerce, services and manufacturing.

The central and local governments and public interest-related organizations continued their system investment in sophisticated urban infrastructure such as firefighting and disaster prevention and broadcasting, video transmission and CATV. The need for ICT investment such as remote (online) classes for schools also rapidly increased.

In addition, telecom carriers continued their capital investment in enhancing telecommunication quality.

In this market environment the NESIC Group actively engaged in projects that emerged in the workstyle innovation business, school ICT investment and infrastructure development for telecom carriers.

Under the Medium-Term Management Plan, "Beyond Borders 2021," established in May 2019, we aim to be a "communication services orchestrator" that produces new social value using our strengths and in collaboration with our partners. We consider that solving social issues and a wave of technological innovation as an opportunity for business expansion and are focusing on a shift to a new business model and new business creation based on digital and 5G communication.

Based on this concept, we have been practicing distributed operation since October 2019 in our workstyle innovation-related business, in which we have been engaged since 2007. The head office space has been reduced and head office staff members are separately assigned to satellite offices in the suburban areas of Tokyo that are within 30 minutes from their homes. The purpose is for our staff to experience workstyles that help create innovation for the future and provide our customers with a variety of solutions for workstyle innovation through the outcomes of the initiatives. During the first quarter under review, we carried out business using telecommuting as an extension of this practice while the state of emergency was in effect. As measures to prevent COVID-19, which has recently been a social issue, we shared our workstyle expertise with our customers and promptly built platforms for teleworking, remote and online classes, and other settings. In addition, we used the DX technology to implement a variety of initiatives and accelerate solution development corresponding to new workstyles created jointly with our partners such as increasing the efficiency of operation and communication, and digitizing approval procedures.

As a result, the Group marked a record high in all items and posted the following consolidated results for the fiscal year under review:

| | | |
|---|-----------------|--------------------------------------|
| Net sales | ¥67,369 million | ¥6,831 million increase year on year |
| Operating income | ¥1,008 million | ¥1,187 million increase year on year |
| Ordinary income | ¥941 million | ¥1,192 million increase year on year |
| Net income attributable to owners of the parent | ¥326 million | ¥305 million increase year on year |

< Reference >

| | | |
|-----------------|-----------------|--------------------------------------|
| Orders received | ¥84,359 million | ¥10,243million increase year on year |
|-----------------|-----------------|--------------------------------------|

Net sales increased 11.3% year on year, to ¥67,369 million. This result reflected increased sales in all segments, with the expansion of ICT services related to workstyle innovation, infrastructure development for telecom carriers and the domestic construction business particularly for the mega-solar projects. Orders received increased 13.8% year on year, to ¥84,359 million. This result reflected expansion of the Digital Solutions and Network Infrastructures businesses backed by demand for teleworking in the businesses related to workstyle innovation, schools, including remote classes and education IT, and services for telecom carriers.

Profit increased thanks to a decrease in provision for loss for unprofitable projects in the Engineering & Support Services business in addition to progress in profitability improvement through an increase in net sales and resource efficiency, and thorough project management. This more than offset the investment in growth, such as new service development and human resource development. Accordingly, operating income rose by ¥1,187 million year on year, to ¥1,008 million, and ordinary income improved by ¥1,192 million, to ¥941 million. Net income attributable to owners of the parent increased by ¥305 million, to ¥326 million.

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 |
|----------------------------------|-------------------|-------------------------|---|-------|--------|
| 1Q Fiscal 2021.3 | 26,819 | 16,610 | 20,841 | 3,098 | 67,369 |
| 1Q Fiscal 2020.3 | 24,107 | 15,362 | 17,824 | 3,243 | 60,537 |
| Increase or (decrease) | 2,711 | 1,248 | 3,016 | (144) | 6,831 |
| Ratio of increase/(decrease) (%) | 11.2 | 8.1 | 16.9 | (4.5) | 11.3 |

Reference: Orders received by business segment

(Million yen)

| | Digital Solutions | Network Infrastructures | Engineering & Support Services business | Other | Total |
|----------------------------------|-------------------|-------------------------|---|-------|--------|
| 1Q Fiscal 2021.3 | 34,036 | 25,398 | 22,152 | 2,771 | 84,359 |
| 1Q Fiscal 2020.3 | 26,501 | 23,101 | 22,324 | 2,188 | 74,115 |
| Increase or (decrease) | 7,535 | 2,297 | (172) | 582 | 10,243 |
| Ratio of increase/(decrease) (%) | 28.4 | 9.9 | (0.8) | 26.6 | 13.8 |

1. Digital Solutions Business :

Net sales increased 11.2% year on year, to ¥26,819 million, mainly reflecting the expansion of ICT services related to workstyle innovation.

2. Network Infrastructures Business :

Net sales rose 8.1% year on year, to ¥16,610 million, reflecting expansion of services for telecom carriers.

3. Engineering Support Services Business :

Net sales climbed 16.9% year on year, to ¥20,841 million, reflecting expansion of the domestic construction business largely comprising the mega-solar projects.

<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 |

We have reorganized our business segments in line with our corporate management due to the replacement of some businesses and a revision in the distribution of management resources implemented in April 2020 to optimize business efficiency.

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, 2021

The impact of COVID-19 has spread globally, and although we hope that the economy will gradually start to recover as the level of economic activity increases in stages, while measures to prevent the spread of infection remain in effect, Japan is experiencing a second wave of infection, which is clouding the outlook for the ending and requires the continued monitoring of the situation. In the business domains in which we operate, a fall in ICT investment caused by aggravated businesses of our corporate customers is becoming apparent, despite expected growth in demand particularly for teleworking in the workstyle innovation market. Meanwhile in the services for telecom carriers, migration to 5G communication systems is starting and we expect that the volume of capital investment will remain steady. In the business of government and public interest-related services, the volume of investment in disaster prevention and mitigation is likely to remain stable and the need for educational institutions for remote classes is expected to rise.

Under the conditions described thus far, we plan to steadily acquire market opportunities in areas such as teleworking and remote education and will improve project management and cost control. As we position this year as a year of consolidating our footholds for further growth, we also plan to accelerate investments, such as the strengthening of base technologies and the development of new services while cautiously watching out for the risk of a downturn in investment due to COVID-19. Considering these elements, we aim for year-on-year growth in income and profit by expanding our businesses with a focus on services related to workstyle innovation and telecom carriers despite expecting a decrease in operating income of ¥1.5 billion due to COVID-19, based on risks such as project postponement and a decline in business confidence in our forecasts for the full-year consolidated results for the fiscal year ending March 31, 2021.

| | | |
|--|---------------|-----------------------------|
| Net sales | ¥312 billion | 2.8% increase year on year |
| Operating income | ¥18.0 billion | 10.8% increase year on year |
| Ordinary income | ¥18.0 billion | 12.9% increase year on year |
| Net income attributable to owners of the parent | ¥10.5 billion | 11.4% increase year on year |

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

| | (Millions of yen) | |
|---|-------------------|----------------|
| | As of | As of |
| | March 31, 2020 | June 30, 2020 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 58,321 | 72,358 |
| Notes and accounts receivable | 112,358 | 81,480 |
| Electronically recorded monetary claims | 728 | 1,230 |
| Purchased goods, materials and supplies | 4,898 | 3,258 |
| Work in process | 8,259 | 8,594 |
| Exc Other | 7,359 | 7,841 |
| Allowance for doubtful accounts | (77) | (71) |
| Total current assets | <u>191,847</u> | <u>174,693</u> |
| Non-current assets | | |
| Property and equipment | 8,942 | 9,243 |
| Intangible assets | | |
| Goodwill | 899 | 800 |
| Other | 4,948 | 4,708 |
| Total intangible assets | <u>5,847</u> | <u>5,509</u> |
| Investments and other assets | | |
| Deferred tax assets | 16,520 | 16,553 |
| Other | 7,142 | 7,383 |
| Allowance for doubtful accounts | (56) | (55) |
| Total investments and other assets | <u>23,606</u> | <u>23,881</u> |
| Total non-current assets | <u>38,397</u> | <u>38,633</u> |
| Total assets | <u>230,244</u> | <u>213,327</u> |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable | 41,666 | 32,361 |
| Electronically recorded obligations | 1,441 | 2,055 |
| Short-term bank loans | 4,632 | 4,478 |
| Current installments of long-term debt | 298 | 298 |
| Accrued income taxes | 3,580 | 605 |
| Accrued bonuses to directors and corporate auditors | 139 | 34 |
| Accrued warranty on products | 105 | 98 |
| Accrued losses on sales contracts | 2,159 | 970 |
| Accrued compensation for damage | 1,326 | 1,590 |
| Accrued office transfer cost | 218 | 32 |
| Other current liabilities | 24,558 | 22,801 |
| Total current liabilities | <u>80,128</u> | <u>65,327</u> |
| Long-term liabilities | | |
| Long-term debt | 3,764 | 3,690 |
| Liabilities for retirement benefits | 31,215 | 31,113 |
| Other liabilities | 1,625 | 1,739 |
| Total long-term liabilities | <u>36,605</u> | <u>36,543</u> |
| Total liabilities | <u>116,734</u> | <u>101,871</u> |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 13,122 | 13,122 |
| Capital surplus | 16,664 | 16,661 |
| Retained earnings | 84,972 | 83,164 |
| Treasury stock, at cost | (271) | (272) |
| Total shareholders' equity | <u>114,488</u> | <u>112,675</u> |
| Accumulated other comprehensive income | | |
| Net unrealized holding gain on other securities | 30 | 21 |
| Deferred gains or losses on hedges | 25 | 23 |
| Foreign currency translation adjustments | (392) | (542) |
| Accumulated adjustments for retirement benefits | (3,783) | (3,684) |
| Total accumulated other comprehensive income | <u>(4,121)</u> | <u>(4,181)</u> |
| Non-controlling interests | 3,143 | 2,961 |
| Total net assets | <u>113,510</u> | <u>111,455</u> |
| Total liabilities and net assets | <u>230,244</u> | <u>213,327</u> |

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

(Millions of yen)

| | 1Q, FY March 2020 (3 months ended June 2019) | 1Q, FY March 2021 (3 months ended June 2020) |
|---|---|---|
| Net sales | 60,537 | 67,369 |
| Cost of sales | 51,801 | 57,026 |
| Gross profit | 8,736 | 10,343 |
| Selling, general and administrative expenses | 8,915 | 9,334 |
| Operating income (loss) | (178) | 1,008 |
| Non-operating income | | |
| Interest income | 11 | 7 |
| Other | 85 | 102 |
| Total non-operating income | 97 | 110 |
| Non-operating expenses | | |
| Interest expenses | 23 | 30 |
| Infectious disease related expenses | - | 42 |
| Other | 146 | 104 |
| Total non-operating expenses | 169 | 177 |
| Ordinary income (loss) | (251) | 941 |
| Extraordinary losses | | |
| Compensation for damage | - | 262 |
| Impairment loss | 1,788 | - |
| Office transfer cost | 405 | - |
| Total extraordinary losses | 2,194 | 262 |
| Income (loss) before income taxes | (2,445) | 678 |
| Income taxes | (2,448) | 251 |
| Net income (loss) | 2 | 426 |
| Net income (loss) attributable to non-controlling interests | (18) | 100 |
| Net income (loss) attributable to owners of the parent | 21 | 326 |

(Millions of yen)

(Millions of yen)

| | 1Q, FY March 2020 (3 months ended June 2019) | 1Q, FY March 2021 (3 months ended June 2020) |
|---|---|---|
| Net income (loss) | 2 | 426 |
| Other comprehensive income | | |
| Net unrealized holding loss on other securities | (0) | (8) |
| Deferred gains or losses on hedges | - | (1) |
| Foreign currency translation adjustments | 48 | (256) |
| Adjustments for retirement benefit | 137 | 99 |
| Share of other comprehensive income of associates | (0) | (0) |
| Total other comprehensive income | 185 | (167) |
| Comprehensive income (loss) | 188 | 259 |
| Comprehensive income (loss) attributable to: | | |
| Owners of the parent | 180 | 266 |
| Non-controlling interests | 8 | (6) |

(3) Consolidated Statements of Cash Flows

(Millions of yen)

| | 1Q, FY March 2020 (3 months ended June 2019) | 1Q, FY March 2021 (3 months ended June 2020) |
|--|---|---|
| Cash flows from operating activities | | |
| Net income (loss) before income taxes | (2,445) | 678 |
| Depreciation and amortization | 899 | 782 |
| Amortization of goodwill | 61 | 98 |
| Impairment loss | 1,788 | - |
| Increase (decrease) in allowance for doubtful | (2) | (3) |
| Increase (decrease) in asset for retirement benefit | 39 | (15) |
| Increase (decrease) in liability for retirement benefits | 109 | 103 |
| Increase (decrease) in accrued bonuses to directors and | (88) | (105) |
| Increase (decrease) in accrued warranty on products | 6 | (6) |
| Increase (decrease) in accrued losses on sales contracts | 710 | (1,189) |
| Increase (decrease) in accrued compensation for | - | 263 |
| Interest and dividend income | (29) | (27) |
| Interest expense | 23 | 30 |
| (Increase) decrease in notes and accounts receivable | 33,164 | 29,078 |
| (Increase) decrease in inventories | (2,427) | 1,297 |
| Increase (decrease) in notes and accounts payable | (9,881) | (8,630) |
| Increase (decrease) in accrued consumption taxes | (773) | (602) |
| Other, net | (1,565) | (1,148) |
| Subtotal | 19,591 | 20,605 |
| Interest and dividend income received | 29 | 27 |
| Interest paid | (20) | (27) |
| Income taxes paid | (2,718) | (3,127) |
| Net cash provided by (used in) operating activities | 16,881 | 17,478 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (395) | (445) |
| Proceeds from sale of property and equipment | 4 | 1 |
| Purchase of intangibles | (203) | (146) |
| Proceeds from sale of intangibles | 0 | - |
| Purchase of investment securities | (397) | (189) |
| Collection of loans receivable | 0 | 0 |
| Other, net | (486) | (213) |
| Net cash used in investing activities | (1,477) | (992) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term bank loans | 369 | 435 |
| Repayments of long-term debt | (57) | (74) |
| Net (increase) decrease in treasury shares | (0) | (0) |
| Dividends paid to shareholders | (1,973) | (2,071) |
| Dividends paid to minority shareholders of subsidiaries | (19) | (19) |
| Other, net | (128) | (123) |
| Net cash provided by used in financing activities | (1,810) | (1,854) |
| Effect of exchange rate changes on cash and cash equivalents | | |
| | 0 | (60) |
| Net increase (decrease) in cash and cash equivalents | 13,594 | 14,570 |
| Cash and cash equivalents at beginning of period | 54,354 | 58,321 |
| (Decrease) in cash and cash equivalents resulting from exclusion of a subsidiary from consolidation | - | (532) |
| Cash and cash equivalents at end of period | 67,948 | 72,358 |

(4) Segment Information

Business Segment Information

First quarter of fiscal March 2021 (3 months ended June 2020)

(Millions of yen)

| | Digital Solutions | Network Infrastructures | Engineering & Support Services | Others | Adjustments | Total |
|----------------------------|-------------------|-------------------------|--------------------------------|--------|-------------|--------|
| Sales | | | | | | |
| (1) Sales to third parties | 26,819 | 16,610 | 20,841 | 3,098 | - | 67,369 |
| (2) Intersegment sales | - | - | - | - | - | - |
| Total | 26,819 | 16,610 | 20,841 | 3,098 | - | 67,369 |
| Operating income and loss | 2,101 | 208 | 726 | 145 | (2,173) | 1,008 |

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 | 24,107 | 15,362 | 17,824 | 3,243 | - | 60,537 |
| (2) Intersegment sales | - | - | - | - | - | - |
| Total | 24,107 | 15,362 | 17,824 | 3,243 | - | 60,537 |
| Operating income and loss | 1,832 | 160 | (124) | 120 | (2,166) | (178) |

**Our business segments were reorganized in line with our corporate management due to the replacement of some businesses and a revision in the distribution of management resources implemented in April 2020 to optimize business efficiency. Segment information related to the first quarter of the previous fiscal year was reclassified for disclosure to reflect the changes in this event.*