ANNUAL REPORT 2018

NEC Networks & System Integration Corporation

Editorial Policy

Since 2016, NEC Networks & System Integration Corporation (NESIC) has been issuing its Annual Report as an integrated report with its CSR report. For the 2018 Annual Report, we have reported on a wide range of corporate activities, including formulating a business strategy for the creation and provision of social value and for our growth over the medium term as well as the initiatives we pursue under that strategy.

Referring to various types of reporting guidelines, we strive to provide information that stakeholders across a wide spectrum will find valuable, in the interests of providing a better understanding of the NESIC Group. We would like for this report to be read as widely as possible, and welcome opinions and comments.

Full details, including our financial results and medium-term business strategy, are available on the "Investor Relations" section of our website. Further details of initiatives relating to corporate social responsibility meanwhile are available in the "CSR" section.

Period Covered

April 1, 2017 to March 31, 2018
(Some information related to the period following that noted above is also included.)

Scope of Report

NEC Networks & System Integration Corporation and consolidated subsidiaries

Guidelines

- International Integrated Reporting Council (IIRC) Integrated Reporting Framework
- Global Reporting Initiative (GRI)
- ISO 26000 (Guidance on social responsibility)

Contact

- NEC Networks & System Integration Corporation CSR Promotion & Corporate Communications Division
- Investor Relations
  http://www.nesic.co.jp/english/ir/
- Corporate Social Responsibility
  http://www.nesic.co.jp/english/csr/

Disclaimer

This report contains forecasts, outlooks, targets, plans, and other forward-looking statements concerning the business performance, financial condition, and other aspects of the management of the NEC Networks & System Integration Corporation Group. These forward-looking statements are based on information NEC Networks & System Integration Corporation had as of the time this report was prepared and on certain premises judged to be reasonable. These judgments and premises, by their nature, are subjective and characterized by uncertainty. Furthermore, forward-looking statements are not guarantees of future results and actual performance could be greatly affected by various factors.

Contents

Our Vision

NEC Networks & System Integration Corporation Group Statement

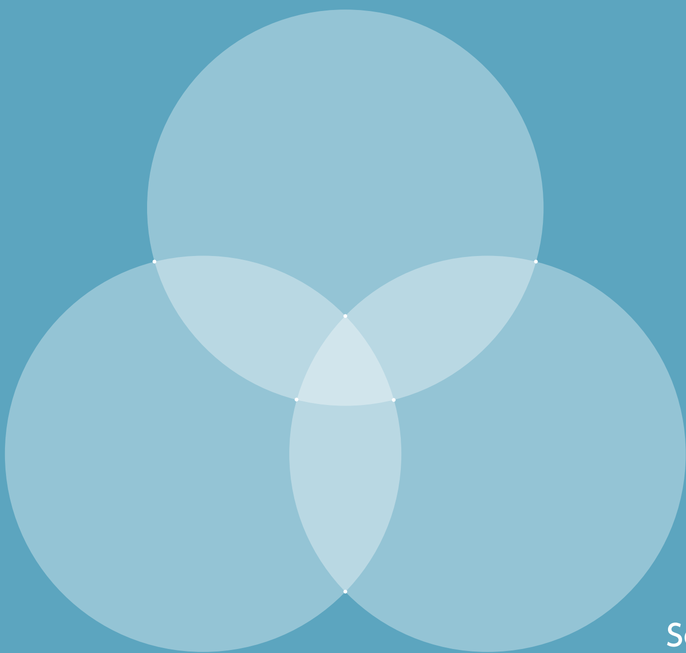
The NEC Networks & System Integration Corporation Group enables communities throughout the world to enjoy a safe, secure and plentiful tomorrow by continually facilitating more welcoming and convenient communications, and supporting a connected society, from the floor of the ocean to the far reaches of outer space, with proven technologies and reliable services cultivated over many years.

Corporate Message

Re-designing your Communication

Our Businesses

Since its founding as a telecommunications construction company in 1953, the NEC Networks & System Integration Corporation (NESIC) Group has expanded business fields in tune with changes in the times and technologies. Today, as a “communications system integrator,” the Company comprehensively supports the communications environments of its diverse customers such as companies, telecom carriers, governments, and social infrastructure providers, from system installation to daily support service.



Enterprise Networks Business

NESIC offers comprehensive services that include installation, operation, maintenance, and outsourcing for networks, IT, and other information communications technology (ICT), which are essential to corporate activities. Additionally, the Company supports diverse work styles that address social issues, such as balancing work with childcare or nursing care, while proposing work-style innovation that leads to greater productivity by developing frameworks that foster collaboration within and outside of companies through ICT, and by innovating offices through a combination of ICT and office space design.

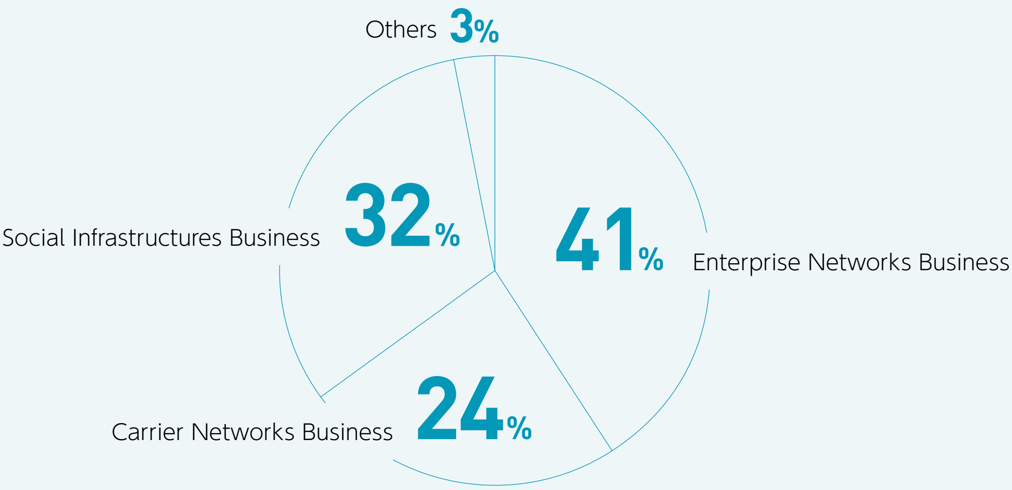
Carrier Networks Business

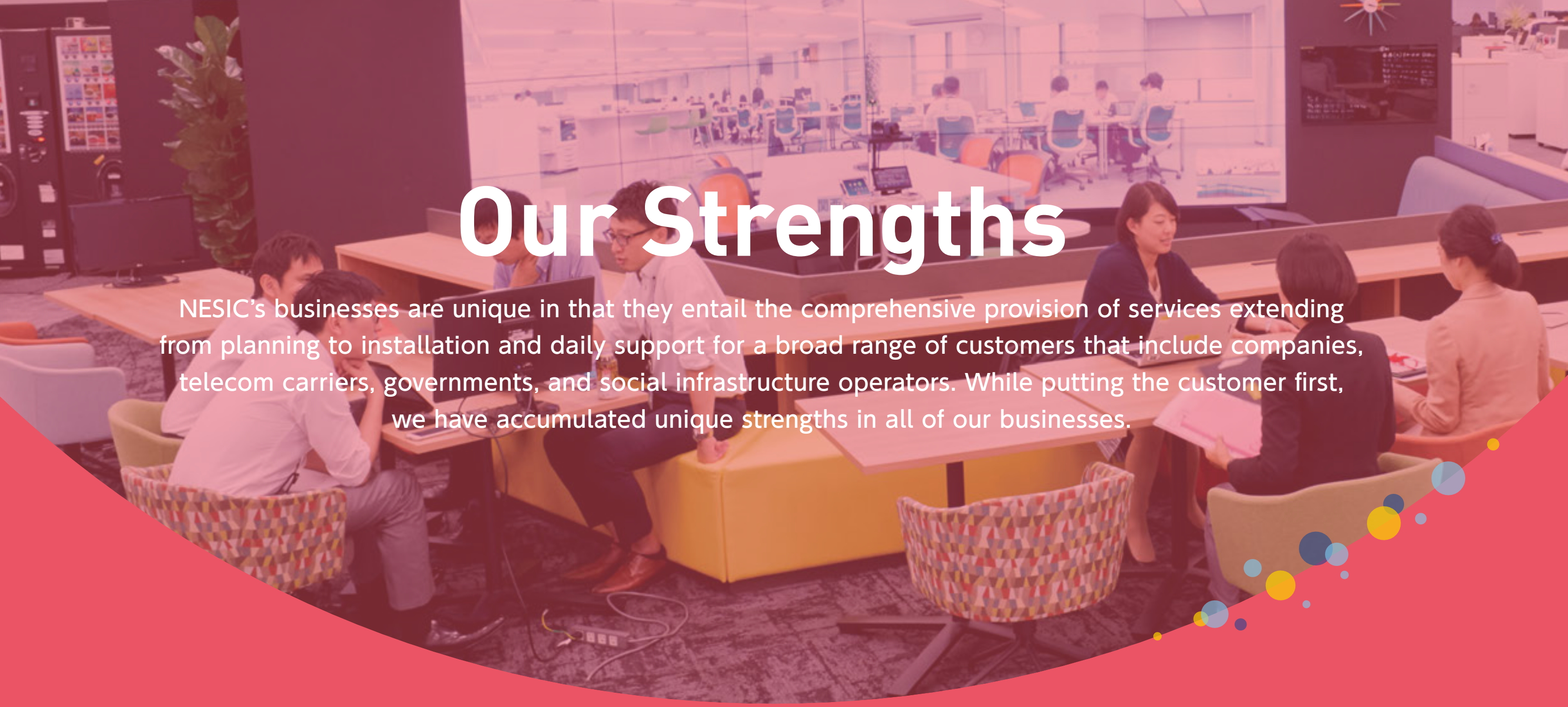
NESIC supports daily communication with network design, verification, and system integration, as well as operation and maintenance services for telecom carriers. We also contribute to greater convenience in society by providing new communications services, such as the Internet of Things (IoT), while leveraging our highly reliable, large-scale network technology, which are assets developed in our business with telecom carriers.

Social Infrastructures Business

NESIC helps make daily life safer, more secure, and more comfortable through system integration, installation, maintenance, monitoring, and a wide array of other services for the ICT infrastructure used by central and local governments, broadcasters, expressway and railway operators, and other providers of social infrastructure.

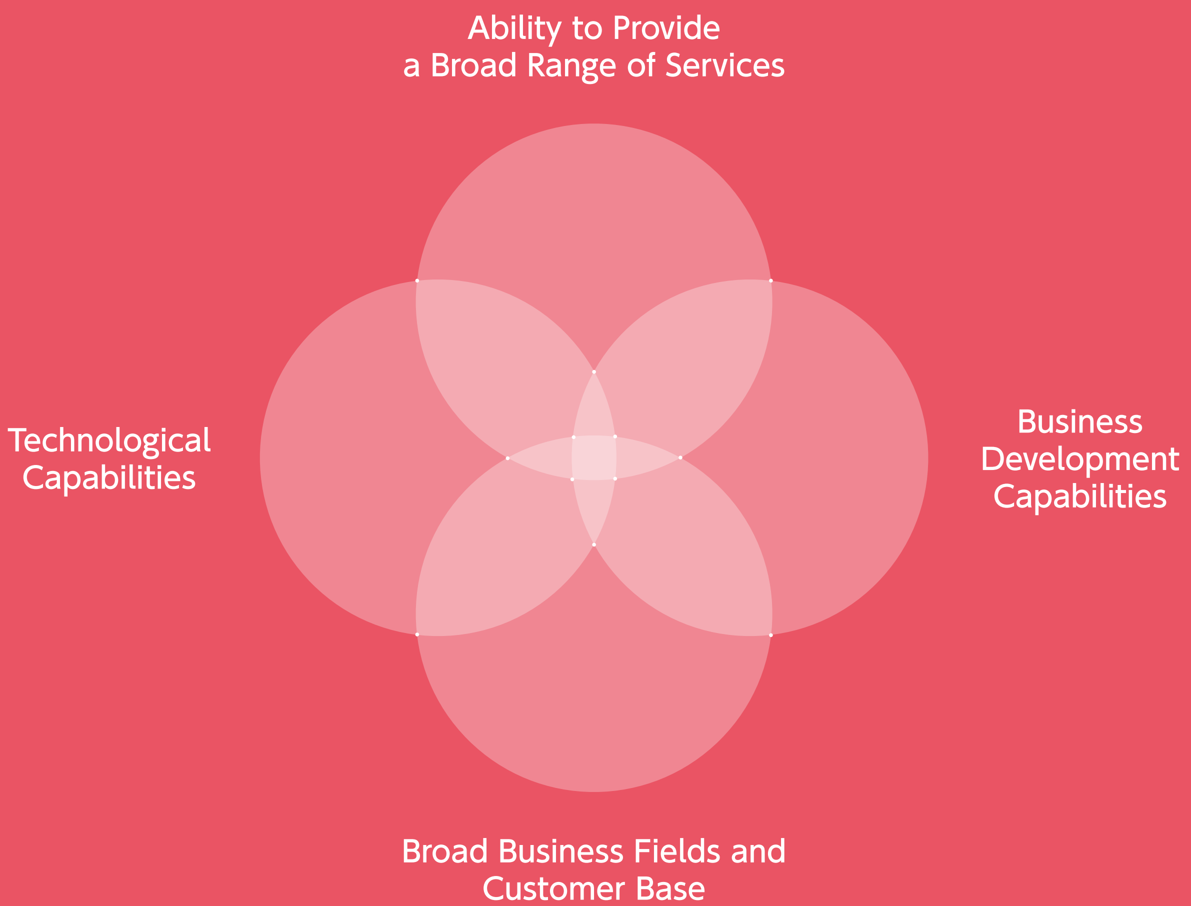
Breakdown of Net Sales in the Fiscal Year Ended March 31, 2018





Our Strengths

NESIC's businesses are unique in that they entail the comprehensive provision of services extending from planning to installation and daily support for a broad range of customers that include companies, telecom carriers, governments, and social infrastructure operators. While putting the customer first, we have accumulated unique strengths in all of our businesses.



Ability to Provide a Broad Range of Services

Comprehensive Services as an Integrator of Multiple Vendors

NESIC offers comprehensive services from equipment selection to system design, integration, operation, maintenance, and outsourcing. In addition to using reputable NEC products for networks, NESIC sources products and technologies from a broad range of vendors including venture firms in accordance with customer needs. The Company strives to provide optimal solutions to customers through unique, meticulous, and comprehensive services.

We Even Do This

NESIC combined a venture firm's autonomous robot with networks using its system integration capabilities to deliver amenity goods and beverages to guest rooms in hotels using elevators.

Business Development Capabilities

Nationwide Service Network

NESIC has put in place a robust service structure for serving its customers across Japan, including its nationwide network of sales bases, operation centers that cover network operations to security monitoring, and comprehensive technical centers that cover logistics and technology services. Our 24/7 full-service structure is able to dispatch people and deliver products within two hours anywhere in Japan—a unique strength that underpins public infrastructure supporting daily safety, security, and convenience.

Domestic Service Bases

Over **400** locations in Japan

Technological Capabilities

A System Integrator with Construction Capabilities

NESIC has built a unique position as a system integrator with construction capabilities by fusing together its accumulation of construction capabilities as a telecommunications construction company since its founding with its ICT technologies in tune with the changing times. For example, NESIC is involved in the design and construction of highly reliable core networks in addition to the installation of mobile base stations for telecom companies. Moreover, NESIC is also involved in the construction of spaces and facilities that take full advantage of ICT for offices.

Employee Qualifications

Employees with managing engineer or technical supervisor qualifications

Over **1,500**

Employees with advanced ICT qualifications

Over **700**

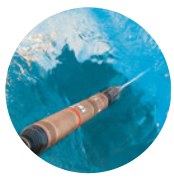
Broad Business Fields and Customer Base

From the Ocean Floor to the Far Reaches of Outer Space, From Government Agencies to Private Companies

NESIC is uniquely involved in a broad range of business fields related to communications, starting with corporate ICT, from telecommunications networks 8,000 meters under the ocean to operating satellites and probes in the far reaches of outer space. Accordingly, NESIC's customers also range from government agencies to social infrastructure providers, telecom carriers, and a variety of companies. This results in the accumulation of extensive know-how and stabilization of business.

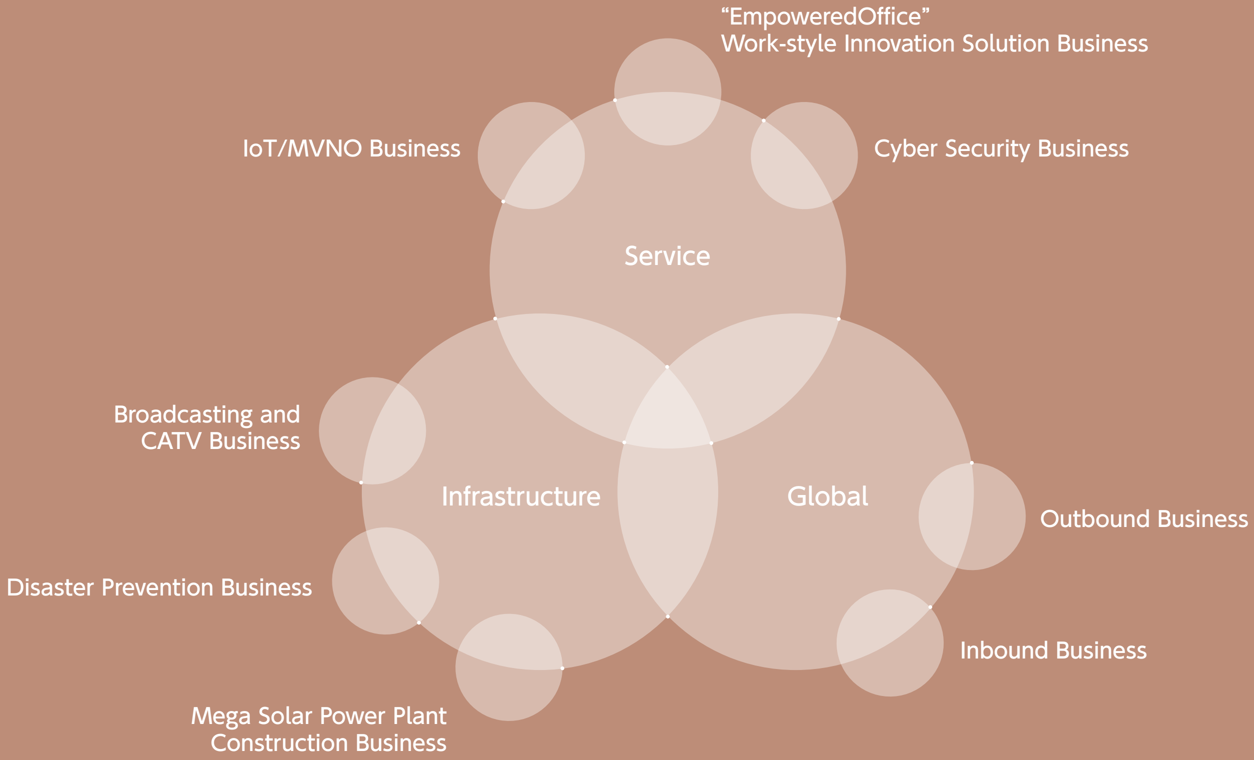
We Even Do This

NESIC has developed and installed submarine seismometers by placing sensors on cables in the ocean in order to rapidly collect and transmit data on earthquakes and tsunamis.



Our Focus Areas

Under the current medium-term management plan, which ends in the fiscal year ending March 31, 2019, NESIC aims for further growth as a “communications system integrator” by maximizing its assets and leveraging the strengths it has refined in its three focus business areas.



Service Business Area

The service business is a core business area that brings stable growth to the Company over the longer term. We are strengthening and expanding the service business in the B-to-B field to help our customers create and improve their enterprise value through initiatives including work-style innovation that addresses social issues and increases productivity.

Main Business Fields

"EmpoweredOffice" work-style innovation solution business

We propose new ideas for efficient and highly productive ways of working that free employees from the workplace, using the latest technologies in AI (artificial intelligence) and RPA (robotic process automation) while leveraging the practical know-how we have gained from reforms to our own work style since 2007.

Cyber security business

We rely on our achievements with our extensive customer base and the Security Operations Center (SOC), our support service network, to protect the networks of our customers with rapid responsiveness and highly accurate analysis by operating networks and monitoring security.

IoT/MVNO (Mobile Virtual Network Operator) business

NESIC provides innovative value to customers with its uniquely integrated services, from equipment installation to network connectivity and fine-tuning, as well as equipment maintenance, data accumulation and analysis in data centers, and flexible, highly secure network services.

Infrastructure Business Area

The infrastructure business is an area where we respond to the ebbs and flows of investments in distinct fields. We aim to expand this business by concentrating on fields that are likely to see brisk investment, such as the conversion to optical fiber in CATV for streaming next-generation 4K broadcasts, radio systems for disaster prevention to ensure safety during natural disasters, and the construction of mega solar power plants following revisions to feed-in tariff (FIT) laws.

Main Business Fields

Broadcasting and CATV business

We are aggressively addressing demand for upgrading terrestrial digital broadcasting equipment and converting to optical fiber in CATV for streaming next-generation 4K broadcasts.

Disaster prevention business

NESIC proactively proposes ideas to underprepared local governments for ensuring safety and security in the event of a natural disaster, while tapping into renewal demand for radio disaster prevention systems.

Mega solar power plant construction business

NESIC is moving aggressively to fill demand for the construction of mega solar power plants in the wake of revisions to feed-in tariff (FIT) laws, leveraging its strengths in comprehensive services from construction to maintenance of power plants as well as its relations with financial companies.

Global (Outbound / Inbound) Business Area

Overseas, demand has strengthened for the construction of infrastructure, especially within the ASEAN region. Moreover, an increasing number of foreign tourists visiting Japan has expanded business opportunities in airports, public transportation, hotels, and tourist destinations. NESIC aims to expand both the outbound business for overseas customers and the inbound business for accommodating tourists from foreign countries.

Main Business Fields

Outbound business

We aim to expand our outbound business through local subsidiaries in mainly the ASEAN region, where infrastructure investment has been robust in mobile communications networks and other areas. We will also leverage our strengths in Japanese federations to participate in Official Development Assistance (ODA) projects for airports, railways, and other network-related infrastructure.

Inbound business

We intend to expand our inbound business by tapping into business opportunities presented by the growing number of foreign tourists coming to Japan. The Company supports the provision of hospitality through a wide range of systems and services for hotels, including PBX (private branch exchange), guest room management systems, and Wi-Fi, as well as through ICT infrastructure and information services for various tourism settings, including Visual Docking Guidance Systems (VDGS) at airports, information transmission in buses and trains, and other information services at tourist destinations.

Taking on new businesses with our **system integration capabilities**

Our corporate culture takes on new business challenges without fear of failure.

→ P14

Launch of Companywide **digital transformation (DX) project**

We are creating new businesses with state-of-the-art technologies in AI, IoT, and RPA.

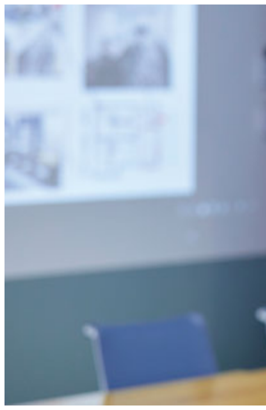
→ P15, 34

Growing as a "Communications System Integrator"

Accelerating **global business development**

We are developing new business in Myanmar with our local subsidiary.

→ P15, 21



Advancing **open innovation globally**

NESIC inspires innovation by collaborating with venture firms around the world through its own Corporate Venture Capital (CVC) Fund.

→ P16, 35, 36

Ricky the autonomous delivery robot works as an "employee" of the Company.

Over 10 years of
work-style innovation

We continue to put into practice our own work-style innovation such as rolling out telework throughout the Company.

→ P7, 15, 26

Business development from the
perspective of women

Female employees engaged in a project that led to the development of telework solutions.

→ P33

We are a “communications system integrator” that is constantly designing new ways of communication. With the aim of providing more value to customers, we will continue to innovate with the inclination for innovation that is embedded in our DNA.

Expanding business
fields via **M&A**

We aim to develop new businesses through M&A to acquire resources we do not have.

→ P19

15 years of ongoing
cost reforms

Ongoing cost reforms, including increasing the efficiency of processes, are a part of our DNA.

NESIC Contributes to a Safe, Secure, and Plentiful Tomorrow in Various Contexts of Daily Life.

1 Broadcasting
Construction, operation, and maintenance of digital TV broadcasting facilities and relay stations, and studio facilities, as well as installation of fiber-optic cable for next-generation 4K and 8K broadcasting.

2 Work-Style Innovation
Proposal of collaborative work concepts that marshal intelligence from within and outside of companies and for the creation of new ideas, using ICT as a tool to facilitate work styles unrestricted by location, such as working in the office or from home, while increasing work efficiency with state-of-the-art technologies including AI, IoT, and RPA.

3 Airports
Visual Docking Guidance Systems (VDGS), airport information, and a broad array of other services.

4 Hotels
Comprehensive hotel solutions such as telephones and switching equipment, room management systems, and systems for providing guests with information.

5 Mobile Base Stations
Installation of mobile base stations indispensable for daily communication via smartphone and flip phone, and overall network support, together with system integration of core networks.

6 Fire-fighting & Ambulance
Construction of command systems and radio systems enabling rapid responses to 119 emergency calls, and the provision of multilingual call center services.

7 Railways and Roads
Support for public transportation by constructing and maintaining telecommunications networks and other systems for railway and highway traffic control.

8 Disaster Prevention
Warning systems that provide information at times of emergency (earthquake, tsunami, typhoon, etc.) via simultaneous announcements over disaster prevention communication systems for greater safety and security in daily life.

9 Shops and Public Facilities
Creation of convenient user environments for customers including Wi-Fi networks, information distribution systems, and value-added video services.

Leveraging the strengths derived from our technological capabilities, ability to provide a broad range of services, business development capabilities, and broad business fields and customer base, we deliver comprehensive solutions that improve the productivity and solve the issues of our customers.

10 Oceans

Installation of submarine cables that support international communication, and support for earthquake warning systems by integrating submarine seismometers.

11 Space

Support for control systems used to communicate with and operate asteroid exploration, and other types of satellites and probes.

12 Local Governments

Provision of networks used by local governments to protect citizens, provide municipal services, and promote citizen convenience and security, and tourism information services for local revitalization.

13 Mega Solar Power Plants

Construction of mega solar power plants, drawing on capabilities developed over many years, and solar panel maintenance and monitoring services capable of pinpointing panel damage.

14 Plants

Provision of IoT systems able to detect and manage the location of people and things in real time at plants and other production sites.

15 Network Total Operation Centers

24/7 customer network services ranging from security monitoring to network operation.

16 Comprehensive Technical Centers

Comprehensive technical services ranging from distribution control functions that run 24/7, to new-technology evaluation and SI, and maintenance and repair.

17 Data Centers

Keeping of customers' IT assets in secure, robust environments, and provision of wide-ranging operation, outsourcing, and cloud services.

18 Contact Centers

ICT system failure response, help desk, and other support services for customer system administrators and system users, and interpretation services for multiple languages.

■ NESIC's service platform

Message from the President

With innovation as a driving force, we are accelerating change with the aim of achieving sustainable growth.

Yushi Ushijima
President

Advancing Reforms toward a “Strong and Attractive Company”

Upon becoming President, I declared that NESIC would turn into a “strong and attractive company” able to grow both in size and profitability by providing highly competitive services. This is based on the belief that sustainable growth is unattainable without changing our business amid the rapid changes in the operating environment. There is no future in maintaining the status quo. Although it may sound extreme, I would not mind changing everything except our core value of contributing to society through communications technology, which is embedded in the Group Statement and Corporate Message.

I joined NESIC in 1984 and built up a diverse range of experience throughout my career, marketing for customers in various industries and managing subsidiaries before being appointed President of NESIC in 2017. Although I thought I knew NESIC very well, I was reminded of its unique strengths after looking at NESIC from the perspective of top management through an objective view of a subsidiary. These unique strengths include its broad base of customers from various industries and its diverse range of technologies. During my first year as President, I initiated change and took on new challenges based on the belief that the quickest way to making NESIC a strong and attractive company was to further refine these strengths and leverage them to their fullest. An example of the new initiatives we have started is the launch of a digital transformation (DX) project as a Companywide initiative to promote the use of state-of-the-art technologies such as AI and IoT. We also engage in open innovation with startup firms through venture investment funds. However, we have only just begun our transition into a strong and attractive company.

Refining Our Strengths throughout History

NESIC was established in 1953 as a spin-off of NEC's telecommunication construction business section. In the 30 years or so since its founding, NESIC has refined its technological strengths to levels that satisfy the stringent requirements and expectations of customers for the NEC Group, centered on telecommunications projects in Japan and overseas. Having put into place a network of support and service bases in Japan, NESIC is able to offer comprehensive services related to telecommunications infrastructure in the country, from construction to operation and maintenance.

Back then, operations centered on NEC-related businesses, so the business structure was susceptible to changes in the external environment, such as capital investment trends at telecommunications companies. In light of this exposure to changes in the external environment, backed by its extensive installation technologies developed through telecommunications projects, NESIC moved on to ICT technologies with the advent of Internet Protocol (IP) in communications technology. NESIC has endeavored to build a stable earnings portfolio by expanding into new business domains, including systems integration and outsourcing service that target new customers, such as private-sector companies as well as the public domain, including local governments, transportation providers, and electric power companies. Our headline EmpoweredOffice business is a unique business that NESIC can undertake thanks to its accumulated ICT technologies as well as its technological capabilities in construction ranging from the wiring of offices to the installation of equipment and office design. This is why NESIC is able to turn ideas into reality for office environments that invigorate communications within companies with easy-to-use ICT. As business grew with customers involved in social infrastructure, such as government ministries and agencies, local governments, and public utilities, NESIC reinforced its 24/7 nationwide support and service network. NESIC began to handle a wider range of products from various vendors, including overseas companies, and this also contributed to the acquisition of new customers. NESIC's history has been one of business transformation in tune with the times, with a corporate culture unafraid of change.

Another unique aspect of NESIC's corporate culture is its spirit of hospitality that puts customers first, garnered from on-site interactions with customers in various industries. Working with multiple vendors, NESIC offers diverse products made in Japan and overseas to satisfy customer requirements with their best interest in mind. Another unique strength of NESIC is its solid relationship with customers in a broad range of industries, which has been carefully nurtured over many years.

Our corporate culture, which puts customers first and is unafraid of change, as well as the comprehensive strengths that have contributed to our sustainable development as a company, are the engines for future growth.

Innovation That Continues to Create

The technologies behind the fourth industrial revolution are often referred to as CAMBRIC (cloud, AI, mobility, Big Data, robotics, IoT, and cybersecurity). The major corporations that make full use of these technologies have increased their presence across national borders and industrial boundaries. Innovative services created by young startups have cannibalized traditional industries. The shift from products to services has also gained momentum in various industries.

While maintaining and further honing its strengths, NESIC is taking on the challenge of creating a higher dimension of service quality and speed with unconventional ideas that are truly helpful to its customers. From the perspective of our customers' customers, in other words, from the standpoint of end users and society, we are accelerating innovation by aggressively incorporating state-of-the-art technologies and maximizing our strengths. While reinforcing existing businesses, NESIC is making concerted efforts to create new businesses and expand markets.

> We have worked to stabilize earnings by continuing to expand our customer base.

Strengthening Existing Businesses by Reviewing from Scratch

Existing businesses will continue to be a critical part of our earnings foundation over the medium to long term. In a traditional order-based business with specification sheets, however, the value that can be provided to customers is limited. For this reason, NESIC aims to sharpen its competitiveness by reviewing every aspect of its business from scratch.

The EmpoweredOffice business is no exception. This is a headline business that increases the Company's brand recognition, and has achieved tremendous success. When widening the scope of the business to a framework of services that advance work-style innovation, we believe it is increasingly important to come up with ideas that go beyond office environments. It takes courage to reassess past successes, but by reviewing successful businesses from scratch, we are able to make them even stronger.

NESIC aims to further strengthen its technological and solutions capabilities. The Company is honing its technological strengths by investing heavily in the training of its engineers. Rather than seeking to satisfy customers within the parameters of specification sheets, we will leverage our broad business expertise accumulated to date to provide customers with high added value. At the same time, we will improve our solutions capabilities by bolstering our marketing activities.

Acceleration of Overseas Business Centered On the ASEAN Region

The expansion of our overseas business is also an important theme for realizing strong growth. When I joined NESIC in the 1980s, the overseas business comprised roughly half of the Company's business. The Company's overseas business, which centered on the installation of telecommunications equipment, has contracted due to a decrease in exports of telecommunications equipment from Japan alongside the advent of IP in communications technology. Even today, however, the spirit of taking on overseas business development lives on in our DNA, and we have strong relationships with local customers in a number of regions. From this foundation, we will leverage our expertise in project management and our accumulated technological capabilities. In particular, NESIC is focusing on the ASEAN region where investment in social infrastructure is advancing at a rapid pace, with the intention of expanding business through local subsidiaries.

In Myanmar, where the Company started full-fledged operations of the telecommunication infrastructure construction business in 2015, NESIC established a local joint venture in 2016 that has gotten off to a great start. Looking ahead, we see business opportunities in offshore software development, along with growth in local businesses alongside telecommunications companies and governments.

> NESIC is fully leveraging its strengths to provide new, easy-to-use products and services.

Aggressively Introducing World's Leading Technologies in New Businesses

One characteristic of the Company's businesses is its approach to providing services that are easy to use for its customers by leveraging its expertise gained from practical experience, while utilizing the latest technologies to the fullest extent and properly assessing these technologies. From its broad reach into business fields, NESIC has nurtured technologies within each section for enterprises, telecom providers, and social infrastructure providers, including government agencies. However, in order to address diversifying needs and advancing technologies, NESIC must be able to further deploy its comprehensive capabilities as a company. Based on this concept, our first round of initiatives is embodied in the Companywide digital transformation (DX) project, which commenced in April 2018. By bringing together engineers in DX technologies, who had been scattered across business divisions, the DX project aims to create new services that make use of state-of-the-art technologies while mutually sharing knowledge and innovating together. Plans call for DX technologies to first be introduced in businesses related to work-style innovation, and then be applied to social infrastructure and services for governments in the future.

Working with external companies is also an important part of the innovation process, allowing us to aggressively utilize the knowledge and resources of our external partners. As a part of this effort, NESIC established the Corporate Venture Capital (CVC) Fund in January 2018. Its first investment was in Boomtown Network, a startup in the U.S. Boomtown Network provides a new kind of support service leveraging state-of-the-art technologies based on the sharing economy concept. NESIC plans to utilize its business know-how and create similar businesses in Japan that leverage its more than 400 support service bases across the country. We are spreading the seeds of innovation across a broad field of businesses while honing our sensitivity to advanced technologies. One of our strengths is our advanced service and marketing network that covers all of Japan for supporting infrastructure that protects the safety and security of society and the networks of telecom providers. There is an extremely good complementary relationship between startups that possess rare state-of-the-art technologies and NESIC, which has the ability to integrate, deliver, and support systems for these technologies that are easy for customers to use. Through open innovation, we aim to create a series of new businesses and achieve a new growth trajectory that breaks out from past trends.

Focusing on Issues for Growth in First Year as President

In the fiscal year ended March 31, 2018, after I became President, the Company focused on identifying and addressing issues in order to advance the growth strategy I have discussed so far.

One issue is maximizing the use of our resources. NESIC has three core business fields, and the technologies in each field seem to be drawing closer together. The Companywide DX project has already shown results since its launch. Amid a recovery in investment in base stations at telecom providers, we took steps to address issues related to resources by visualizing how internal resources are deployed and optimizing construction resources with the social infrastructure business. Next, NESIC worked to improve the health of overseas subsidiaries during a lull in demand due to the postponement of projects and other factors. While addressing these issues, the Company worked to increase the ratio of high-value-added businesses, such as systems integration and services, in the Enterprise Networks Business, while continuing with reforms to the cost structure in the Carrier Networks Business.

As a result of these initiatives, in the fiscal year ended March 31, 2018, NESIC posted growth in both net sales and operating income for the first time in three years.

Shifting Gears toward Growth in the Fiscal Year Ending March 31, 2019

The fiscal year ending March 31, 2019 is positioned as a year for strengthening growth measures and solidifying NESIC's foundation for becoming a "strong and attractive company," with an eye on growth over the medium to long term under the next medium-term management plan. We will focus on creating "No. 1" and "Only 1" businesses that are unique to NESIC with a competitive edge not found at other companies. The Company is reinforcing businesses in state-of-the-art technological fields while accelerating the creation of new businesses by aggressively deploying DX technologies and utilizing the CVC Fund.

We expect year-on-year growth in both sales and profits in the fiscal year ending March 31, 2019, based on our forecast for net sales of ¥280 billion and operating income of ¥11.5 billion for an operating margin of 4.1%. Unfortunately, this means we do not expect to reach the targets set forth in our current medium-term management plan, owing mainly to lackluster growth in our global business. Another reason for not expecting to reach our targets is in aiming to get off to a better start under our next medium-term management plan, we have budgeted for aggressive upfront investments. The Company plans to spend around ¥2 billion on developing new services that utilize DX technologies, centered on the work-style innovation business, as well as training engineers and investing in internal IT.

As orders have been building up for major projects including the construction of mega solar power plants, we will make every effort to steadily bring these projects to completion. These large-scale projects are opportunities to polish our technologies and hone our project management skills, and we will take this know-how and apply it to other situations.

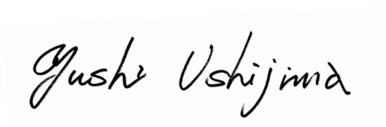
> The fiscal year ending March 31, 2019 is positioned as a year for solidifying the foundations for evolving into a "strong and attractive company."

Becoming a Strong Company and Consistently Contributing to Society

The Sustainable Development Goals (SDGs) and other global trends have put more demands on companies to help solve social issues through their business activities. NESIC is helping to solve diverse social issues through its core businesses, such as by promoting work-style innovation, building safe and secure social infrastructure, and spreading the use of ICT worldwide. The Company will also create new businesses that contribute to solutions for social issues, such as future labor shortages in Japan. In order to remain a company where employees can work toward their dreams while continuing to reliably help customers and society, we must truly become a "strong and attractive company."

With innovation as an engine, NESIC will try to rapidly create new businesses with a startup mentality and implement change in order to realize its mission of contributing to society through communications technologies. We will strive to meet the expectations of our stakeholders, including shareholders and investors. We ask for your continued support and encouragement.

> NESIC must become a "strong and attractive company" in order to continue contributing to the development of a sustainable society.



President

History of Change

NESIC has continued to change in tune with the times, adding new strengths and honing existing strengths with a focus on creating value through the innovation and development of communications technology. From our founding business of telecommunications infrastructure construction to the provision of services that invigorate communication, we aim to create new value throughout our broad business fields and customer base.

Changes in the Business Environment

1950s

Reconstruction after World War II. Era of construction in broadcasting and telecommunications infrastructure

1960s-1970s

Increase in international communications and satellite communications, expansion in demand for telecommunications infrastructure construction worldwide

1980s-1990s

Telecom liberalization, birth of New Common Carriers (NCCs)

Main Initiatives

1950s

- Nippon Electric Installation Company established in a spin-off from NEC Corporation
- Constructed the first television broadcasting facility

- Conducted first overseas project (construction and installation of switching equipment in the Philippines)

1960s-1970s

- Constructed satellite telecom infrastructure for the 1968 Olympic Games, in Mexico City

- Constructed microwave telecom infrastructure for five Central American countries
- Acquired special construction business and general construction business licenses for seven categories of construction business
- Established the first overseas affiliate, in Brazil

1980s-1990s

- Changed the company name to NEC System Integration & Construction, Ltd.
- Listed on the Tokyo Stock Exchange
- Business for NCCs took on significant scale
  Received major orders from new private-sector communications companies

- Constructed communications equipment on Mt. Everest (enabling broadcast from the peak of Mt. Everest for the first time)
- Expanded the enterprise system integration business

- Expanded business based on our strengths in the total provision of network integration and support services
- Opened the Customer Support Center for the enhancement of customer support services

Net Sales

Over ¥10 billion
1974

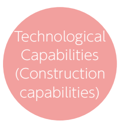
Over ¥100 billion
1989

Over ¥200 billion
1997

History of Change through Augmentation of Strengths

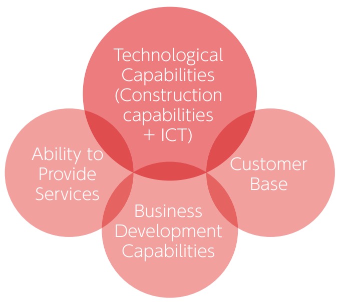
Growth as a Telecommunications Infrastructure Construction Company

NESIC was established in a spin-off of the telecommunications engineering division from NEC Corporation in 1953. NESIC steadily built up its construction capabilities, centered on NEC products, while tapping into growing demand for telecommunications infrastructure in Japan and overseas.



Growth with Construction Capabilities and Refinement of ICT

Alongside advances in technology, NESIC broadened its reach in the telecommunications infrastructure field to mobile communications base stations, etc. The Company also expanded business to provide ICT to corporations by creating voice networks, enabling it to provide construction, system integration, and maintenance services. Accordingly, NESIC set up sales bases across the country and broadened its customer base.



2000s

Advance of IP and broadband networks, integration of communications and broadcasting

- Established nTOC (Network Total Operation Center)
- Established S-iDC (Strategic Internet Data Center), NESIC's first data center
- Changed the company name to NEC Networks & System Integration Corporation
- Started the EmpoweredOffice business and began its rollout in certain sections

2010s

Expansion of the use of the cloud, IoT, Fourth Industrial Revolution

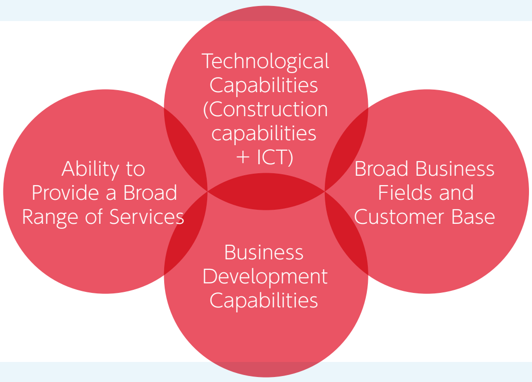
- Rolled out EmpoweredOffice in all sections upon transfer of head office to Bunkyo-ku, Tokyo (Iidabashi Head Office)
- NESIC's industry sector classification in the stock market changed from "construction" to "information & communication"
- Established sDOC (Service Delivery Operations Center)
- Implemented initiatives in high-speed mobile networks and next-generation broadcasting
- Launched MVNO service for IoT
- Established CVC Fund to create new businesses through open innovation with venture firms

¥292.2 billion
FY2015/3 (record high)

¥267.9 billion
FY2018/3

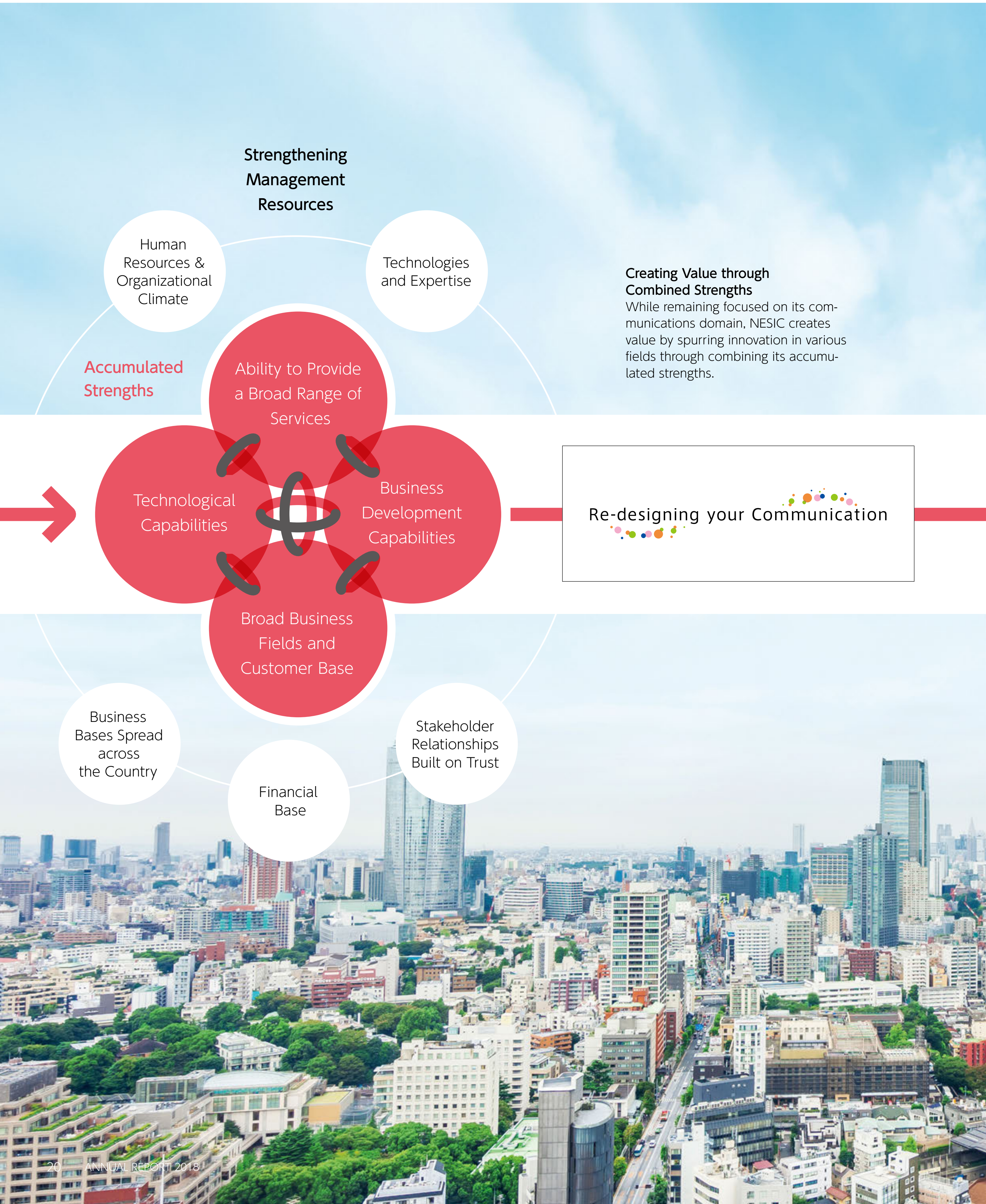
Substantial Expansion of Business Fields, Enhancement of Support Service Network

NESIC has substantially expanded its business fields by aggressively pursuing M&A, including a merger in 2007 with NEC Telenetworks Co., Ltd., a company with strength in the service field, and turning Q&A Corporation, which operates contact centers, into a subsidiary in 2013. At the same time, NESIC has built a robust service platform with a support service network of more than 400 locations around the nation. Moreover, its range of products and services has increased considerably to include EmpoweredOffice, which leverages the Company's strengths, as well as MVNO for IoT applications.



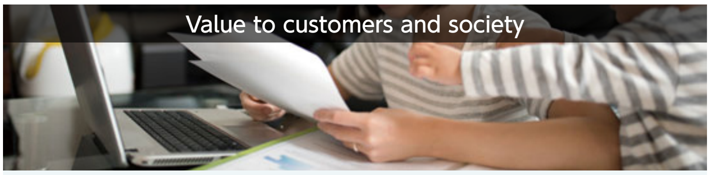
Social Value Creation Model

We provide diverse value to society by promoting advances in communications while continuing to design more pleasant and convenient means of communications.



Creating Value through Communications

Value to customers and society



- Improving productivity and work–life balance
- Building social infrastructure offering greater safety, security, and comfort
- Promoting the global use of ICT
- Reducing environmental impacts
- Expanding the use of renewable energy
- Increasing business value by expanding the use of ICT

Value to employees

- Realizing flexible, satisfying work styles
- Developing specialized human resources that promote business growth
- Promoting diversity and motivation

Value to shareholders and investors

- Increase corporate value by expanding cash flow
- Providing stable returns to shareholders

We will contribute to the achievement of the SDGs by creating value through communications.

Examples of Value Creation Leveraging Our Strengths

EmpoweredOffice Business

Please see pages 7 and 26.

Promoting the Use of State-of-the-Art Technologies

Zoom is a collaborative work solution that enables effortless visual communications within and outside of companies. Our autonomous delivery robots are put to use in hotels and clinical settings. In these ways, NESIC repackages the unique technologies of venture firms into easy-to-use formats by building out systems that take advantage of its customer base and nationwide service network. We aim to help create a more convenient society through state-of-the-art technologies.

IoT/MVNO Business

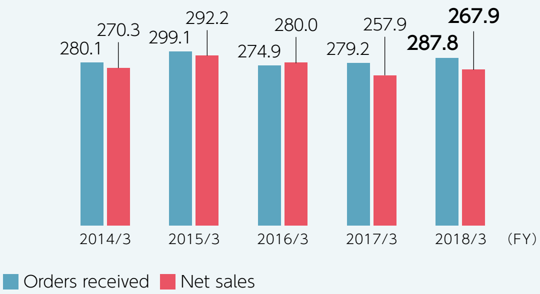
IoT connects various things over the Internet to exchange data. NESIC provides unique comprehensive services in these fields, from the installation of "things" to their connection to networks, and then collects and analyzes data after their installation, in addition to flexible and highly secure communications over its communications line services (MVNO). We aim to help create a more convenient society through such measures as using data from industrial equipment to prevent accidents before they happen and using location data for people and vehicles to mitigate traffic jams.

Infrastructure Modernization Project in Myanmar

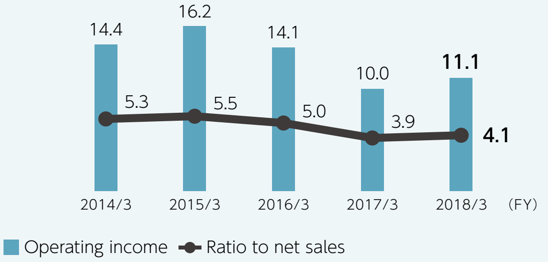
NESIC has made a full-scale entry into the market in Myanmar, which has been undergoing rapid democratization and economic reform, achieving remarkable development. By developing business in Myanmar, we are contributing to its job creation, human resource development, and information infrastructure development, helping to bridge the international digital divide.

Financial & Non-Financial Highlights

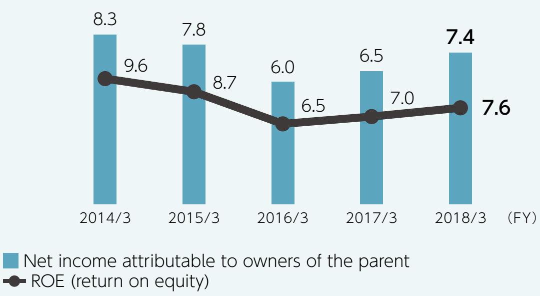
Orders Received / Net Sales
(¥ billion)



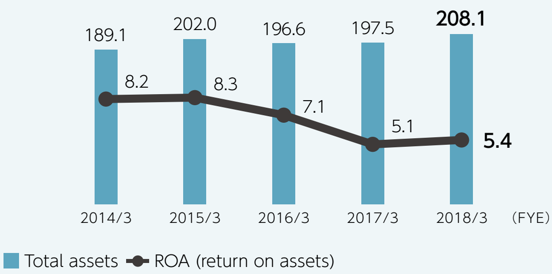
Operating Income / Ratio to Net Sales
(¥ billion / %)



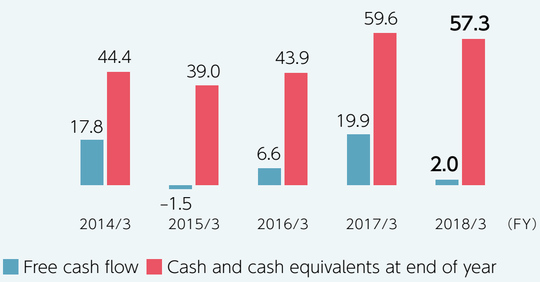
Net Income Attributable to Owners of the Parent / ROE
(¥ billion / %)



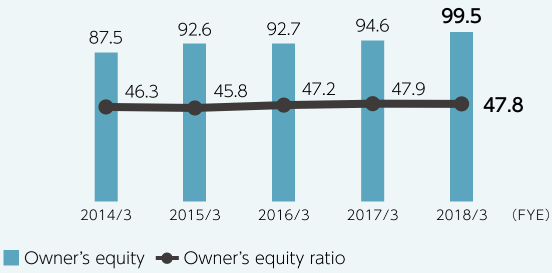
Total Assets / ROA
(¥ billion / %)



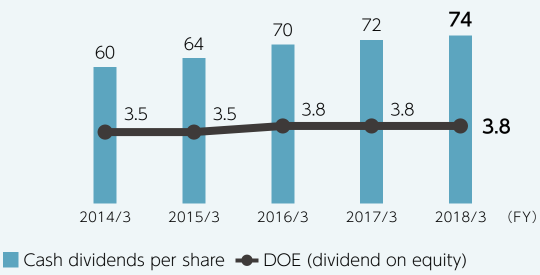
Free Cash Flow / Cash and Cash Equivalents at End of Year
(¥ billion)



Owner's Equity / Owner's Equity Ratio
(¥ billion / %)



Cash Dividends per Share / DOE
(¥ / %)

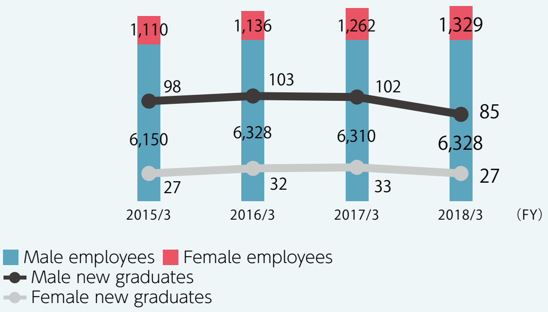


Stock Price / TSR*
(¥)

* Percentages represent the ratio of return under the assumption that the investment was made relevant number of years before FY2018/3.

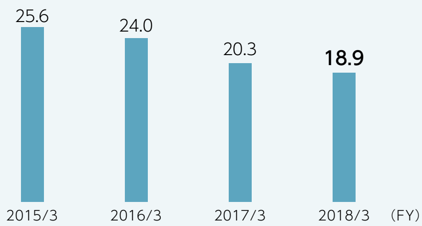
Number of Employees at End of Year / Number of New Graduates

(Employees)



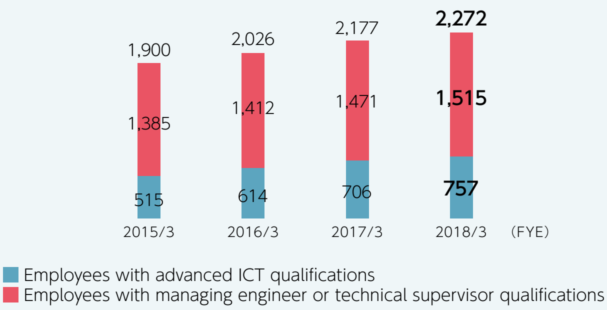
Average Overtime (per month) (Non-consolidated)

(Hours)



Employees with Qualifications (Non-consolidated)

(Employees)

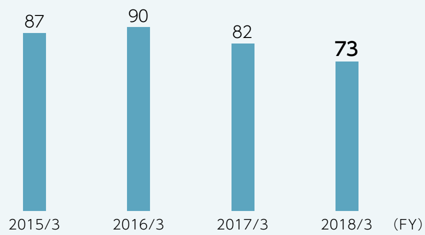


EmpoweredOffice Visitors

(Companies / Individuals)

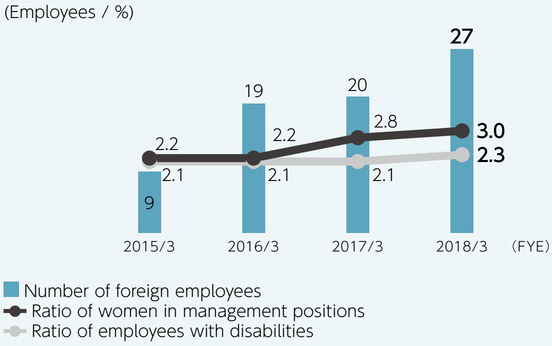
Volume of Copier Paper Purchased (Non-consolidated)

(t)



Number of Foreign Employees / Ratio of Women in Management Positions / Ratio of Employees with Disabilities (Non-consolidated)

(Employees / %)



Outside Evaluations

	2015	2016	2017	2018
Top Hundred Telework Pioneers (Announced in November)			○	—
SNAM Sustainability Index (Announced in June)	○	○	○	○
Certified Health and Productivity Management Organization (Announced in February) * Established in February 2017	—	—	○	○

Financial Base

Financial and Capital Strategy

From our solid financial base, we aim to increase corporate value while balancing aggressive growth investments with stable shareholder returns.

NESIC has designated ROE (return on equity) as a key performance indicator from the standpoint of its goal to improve corporate value by efficiently deploying the capital received from shareholders.

Basically, NESIC aims to improve ROE by increasing the earnings power of its businesses while being aware of the cost of capital. The Company has implemented various measures with a focus on reforming the cost structure by taking steps to reduce its cost of sales and shifting resources within a challenging business environment over the past few years. As a result, net sales and operating income returned to positive growth in the fiscal year ended March 31, 2018 for the first time in three years. ROE also improved from 7.0%, to 7.6%. However, in order to increase our earnings power even further, we believe a key point will be the creation of strong businesses in addition to ongoing measures. In the fiscal year ending March 31, 2019, management plans to invest about ¥2 billion in growth, including in state-of-the-art technology fields such as DX, as well as in personnel training. At the same time, the Company will promote management with an eye on the SDGs (Sustainable Development Goals) and fortify businesses in preparation for the next medium-term management plan, which will commence in the fiscal year ending March 31, 2020. With the growth investment, significant growth is not expected for the fiscal year ending March 31, 2019 with targets of ¥280 billion and ¥11.5 billion for net sales and operating income, respectively, management has designated it as a year for solidifying its footing with the objective of improving corporate value over the medium to long term. Accordingly, the Company intends to effectively and aggressively deploy its financial resources.

Returning profits to shareholders is one of our most important management issues. NESIC intends to provide steady returns to investors who hold its shares over the long term, and distributes dividends regardless of short-term profits by focusing instead on DOE (dividend on equity). Based on this policy, management distributed a dividend of ¥74 per share for the fiscal year ended March 31, 2018, an increase of ¥2 per share from the previous fiscal year, and plans to increase dividends per share, for the 12th consecutive year, to ¥76 for the fiscal year ending March 31, 2019.

Ensuring a sound financial position is essential to maintaining growth investments and realizing greater shareholder returns. NESIC has a solid financial position with an equity ratio of 48% and net cash* of ¥49.2 billion as of March 31, 2018. Management is working to improve cash flow and the balance sheet through earnings expansion. While ensuring a healthy financial position, the Company aims to balance aggressive growth investments with greater shareholder returns in its overall objective of improving corporate value over the medium to long term and achieving SDGs.

* Net cash: cash and cash equivalents (including marketable securities) minus debt

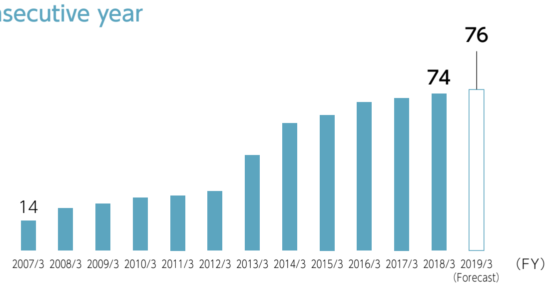
Hiroyuki Sekizawa

Associate Senior Vice President in charge of finance & IR

Cash Dividends Per-Share

(¥)

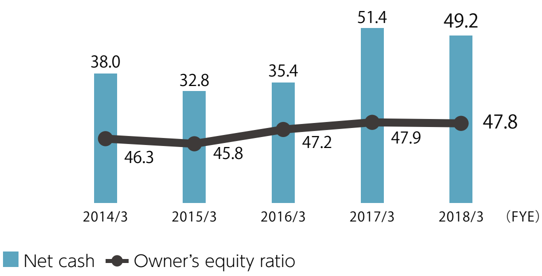
Stable expansion in shareholder returns
Plans to increase dividends for 12th consecutive year



Net Cash / Owner's Equity Ratio

(¥ billion / %)

Ensure a financial base for growth investments and greater shareholder returns



Review of Performance in the Fiscal Year Ended March 31, 2018

Review of Consolidated Results

In the fiscal year ended March 31, 2018, both consolidated net sales and operating income returned to positive growth for the first time in three fiscal years after bottoming out in the fiscal year ended March 31, 2017.

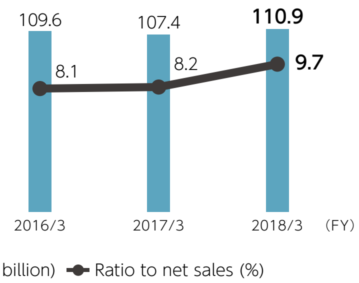
Orders received increased thanks to the acquisition of new large-scale mega solar power plants and major projects from national and local governments. In addition to increasing sales to telecom carriers, sales benefited from a large-scale mega solar power plant ordered in the fiscal year ended March 31, 2017, and sales expanded in focus fields including work-style innovation-related fields. As a result, net sales grew in all segments. On the earnings front, profits increased in each profit category, thanks to higher sales and reforms to the cost structure.

(¥ billion)

	FY2017/3	FY2018/3
Orders received	279.2	**287.8**
Net sales	257.9	**267.9**
Gross margin	16.5%	**16.5%**
Operating income (Ratio to net sales)	10.0 (3.9%)	**11.1** **(4.1%)**
Net income attributable to owners of the parent (Ratio to net sales)	6.5 (2.5%)	**7.4** **(2.7%)**
ROE	7.0%	**7.6%**

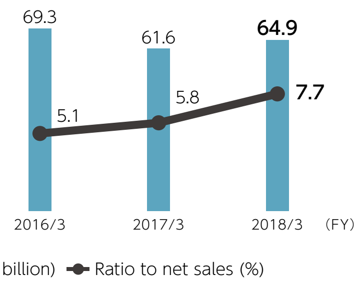
Enterprise Networks Business

Net sales increased 3% year on year, to ¥110.9 billion, reflecting growth in EmpoweredOffice work-style innovation solutions thanks to brisk ICT investment in work-style innovation. Operating income also increased a strong ¥2.0 billion from the previous year, to ¥10.8 billion, owing to higher sales, an improvement in the sales mix through a reduction in low-margin projects alongside an increase in high-value-added projects, and ongoing efforts to reduce cost of sales.



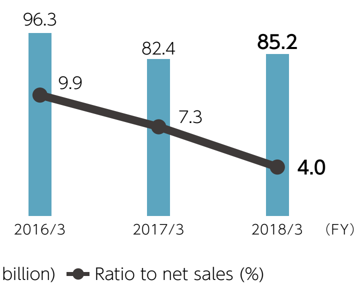
Carrier Networks Business

Net sales expanded 5% from the previous fiscal year, to ¥64.9 billion, as the Company proactively responded to capital investment by telecom carriers to improve the quality of their telecommunications networks. Operating income grew ¥1.4 billion, to ¥5.0 billion, reflecting higher sales and ongoing benefits from cost restructuring, including cuts in outsourcing expenses and deploying production in-house. The operating margin improved 1.9 percentage points, recovering to a level roughly equivalent to when business was brisk with telecom carriers.



Social Infrastructures Business

Net sales grew 3% year on year, to ¥85.2 billion, despite a decline in overseas business due to a lull in projects, with contributions to sales in the civil engineering field from the large-scale mega solar power plants ordered in the fiscal year ended March 31, 2017. Operating income, however, decreased ¥2.6 billion, to ¥3.4 billion, owing to deterioration in the cost of sales ratio due to the emergence of unprofitable projects. The Company aims to improve profitability by reinforcing project management while working to reduce its cost of sales.



Special Feature

Increasing Corporate Value through Work-Style Innovation

Work-style innovation is an important initiative that NESIC should prioritize from the dual perspectives of advancing human resources and seizing business opportunities. In 2007, NESIC came up with the EmpoweredOffice concept of combining ICT with its facility management capabilities, which include office furniture and office space design. NESIC leverages the expertise it has accumulated by constantly putting work-style innovation into practice internally to provide solutions and services to customers.

01

Ten Years of Work-Style Innovation at NESIC

The Company has spread work-style innovation, which began with office innovation, from the head office to bases across the country, while advancing telework, which frees employees from the office.

Start of Office Innovation: Full Reform of Head Office

2007 Launched office innovation business EmpoweredOffice
Innovated a part of the Shinagawa Head Office

2010 Started full reforms at head office on move to Iidabashi

Main Outcomes (Compared with before moving to Iidabashi Head Office)

- Office floor space **32**% cut
- Electricity use **52**% cut
- Copier paper **60**% cut
- Time employees from sales division spend with customers **10**% increase

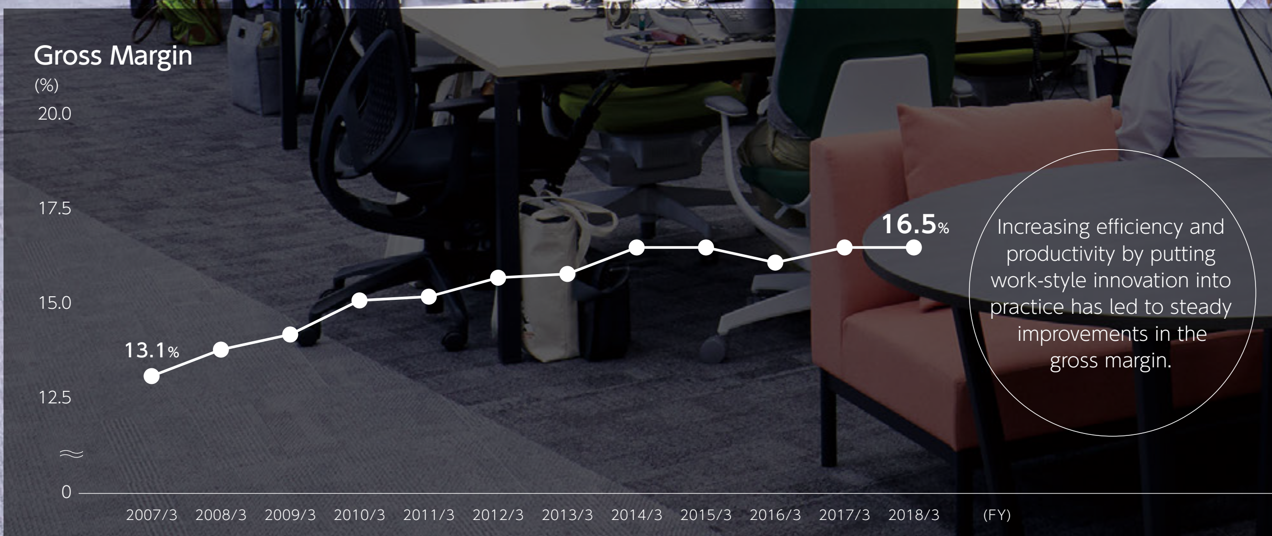
Awards

Telework Promotion Award (2008)

Nikkei New Office Award
(2009: Shinagawa Head Office, 2011: Iidabashi Head Office)

Example Solution

SmoothMeeting
Paperless meeting solution utilizing tablets



Office Innovation at Bases in Japan

2012 Enacted office innovation at 13 bases in Japan and one base overseas

Created offices at each base in tune with regional characteristics

Awards

Nikkei New Office Award

(**Two** bases in 2013, **four** bases in 2014, **one** base in 2015)

Japan Facility Management Association Award (Honorable Mention) (2014)

Example Solution

SmoothSpace
(Solution for communications integrated with separated environments by using projection mapping technology)

Telework Initiatives

2015 Experimented with work-at-home setups for female employees raising children (Women's Project)

→ See P.33 "Promoting Women in the Workplace"

2016 Conducted telework experiments

2017 Rolled out telework Companywide

Main Outcomes

Recovered about **50**% of lost work hours for employees with shortened work hours

Increased work efficiency **4.5** hours/month (per employee)

Awards

Telework Promotion Award (2016, 2018)

Top Hundred Telework Pioneers (2017)

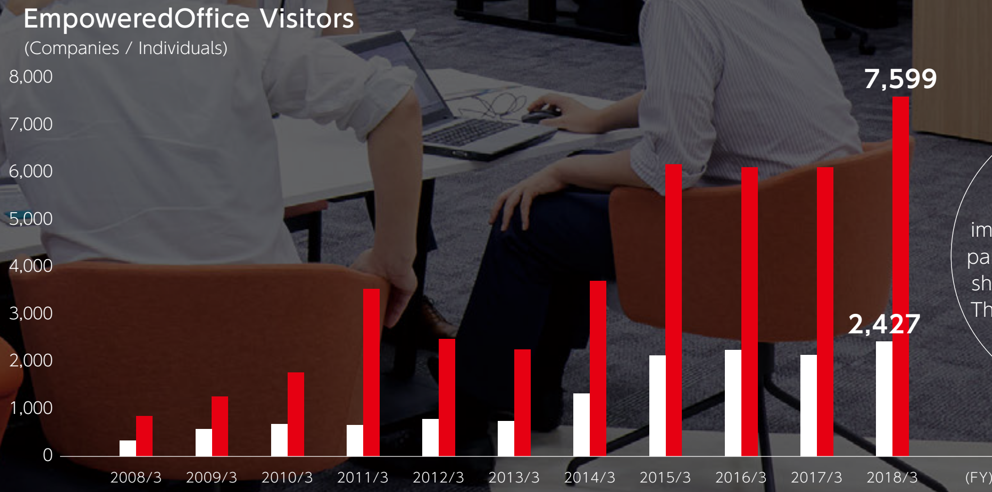
Example Solutions

Telework Watch (At-home work management system)

Zoom (Collaborative work solution)

EmpoweredOffice Visitors

(Companies / Individuals)



One feature of NESIC's work-style innovation is that it is implemented by the Company and the experience is shared with its customers. The number of cumulative visitors has exceeded 40,000 people.

02 Phase Two of Work-Style Innovation

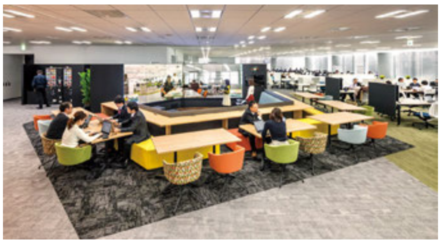
NESIC takes on the challenge of innovating work styles by combining collaborative work with DX technology.

Deployment of State-of-the-Art Technologies

NESIC has taken work-style innovation to the second phase, accelerating the creation of innovation at the core of work-style innovation.

The Company is thoroughly reducing administrative work through the use of DX (digital transformation) technologies such as AI, IoT, and RPA. At the same time, we are creating a framework where each and every employee is able to easily access and bring to bear our collective intelligence, including mutual information, know-how, skills, and contacts. Moreover, we are encouraging collaborative work that leads to the creation of new ideas as employees take full advantage of our collective intelligence with immediate connectivity via Zoom with other people inside and outside the Company.

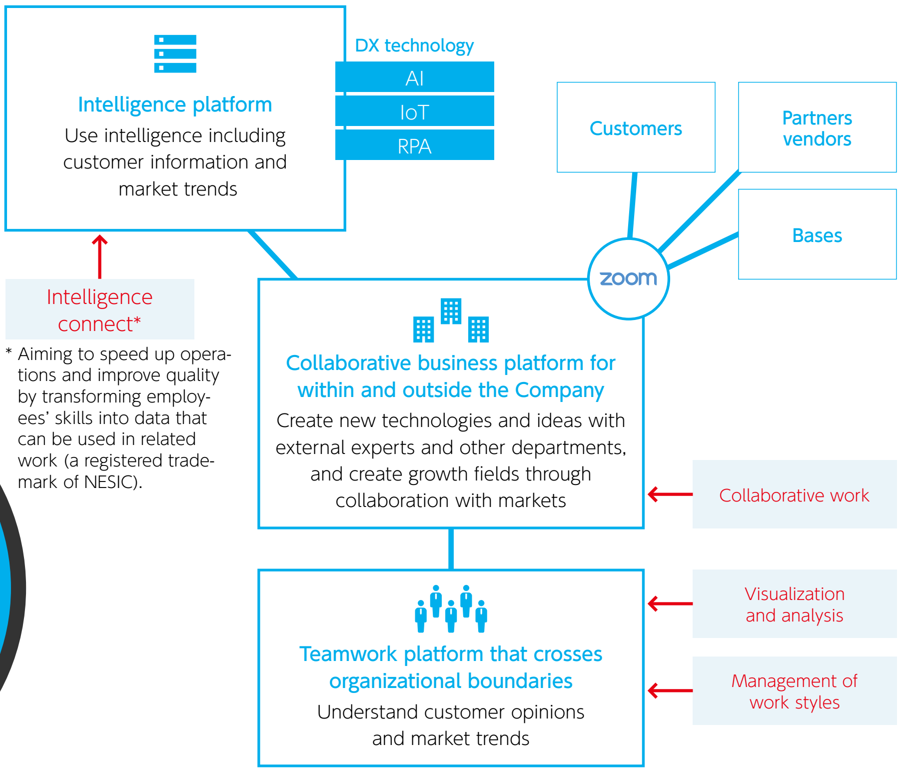
NESIC as a entire company is working union to accelerate initiatives to foster innovation, while it advance the introduction of state-of-the-art technologies by utilizing the CVC Fund established in January 2018.



System engineer (SE) floor: Located in the center of the floor, this collaborative area is designed to facilitate open innovation.

Sales floor: This area is for collaboration between sales personnel and system engineers that is constantly connected via Zoom to the SE floor.

Platform for Accelerating Collaborative Work within and Outside of the Company



* Aiming to speed up operations and improve quality by transforming employees' skills into data that can be used in related work (a registered trademark of NESIC).

Overseas

Number of meetings with Zoom

Within the Company | **2,620** times per month | Outside the Company

30% outside the Company, 10% overseas

As of February 2018

03

Providing Value to Customers through Services

We support work-style innovation of our customers by addressing their diverse needs. Below, we introduce some examples.

Example 1

Asahi Group Holdings, Ltd.

Help desk operations made more efficient with AI

Challenge

Asahi Group Holding's in-house OA help desk responds to 72,000 inquiries by telephone every year. Asahi wants to improve the productivity of its help desk and improve the literacy of people calling in so that they can solve issues on their own.

Solution

NESIC and Asahi Group Holdings, which has full knowledge of its in-house needs, developed a solution by forming a team together. In 2017, we built a system for a 24/7 chatbot service that uses AI technology to understand the nature of the inquiry, which forwards calls to help desk operators for inquiries it cannot solve on its own.

Customer Feedback

Our immediate response rate for inquiries, including via telephone, improved from 50% to 70%, and the chatbot was rated highly by our employees. Help desk productivity improved, and operating costs were reduced. Leveraging the know-how of the AI help desk, we plan to adapt this system so that it can handle inquiries from other business fields, such as the personnel department, from 2018.

Screenshot of AI help desk chatbot

Example 2

SCOPE Inc.

A project that integrated bases with the head office

Challenge

SCOPE wants to concentrate offices scattered about onto a single floor. As an expert planning group that creates value, SCOPE hopes to create an office environment that draws out the creativity of its employees through better communication across departments.

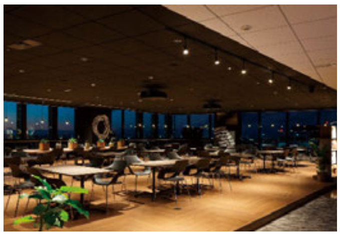
Solution

NESIC provided services ranging from consulting to ICT infrastructure upgrades and office design modernization for this customer, which was renewing its corporate identity and visual identity for the 30th anniversary of its founding. A state-of-the-art collaborative work environment was incorporated with Zoom into the highly refined office environment.

Customer Feedback

At the consulting stage, NESIC diagnosed and analyzed our current situation, identified specific issues, and then came up with a new office concept that became a reality. Our visit to NESIC was a great help by bringing clarity to our priorities.

Meeting rooms with clear glass walls for coming up with new ideas



The Palette multi-purpose community space is designed for people to mingle freely, like the mixing of colors for a painting.

Strengthening Management Resources

Management resources play an important role in supporting our growth. NESIC aims to differentiate itself from competitors by honing its strengths and ensuring competitiveness by maintaining and reinforcing these important management resources.

Key Management Resources	Reasons for Importance
Human Resources and Organizational Climate	As a communications system integrator, NESIC's greatest management resource is its human resources. Amid an aging society and a declining labor force, retaining employees and hiring new personnel has become a crucial issue. We focus on providing a work environment where employees from diverse backgrounds can continue to work without anxiety, while promoting health management. Furthermore, it is essential to have an organizational climate that encourages employees to take on challenges and to provide opportunities for open discussion so that each and every employee can utilize their abilities to their fullest.
Technologies and Expertise	The Company's strengths are its technological capabilities and its ability to provide a wide range of services, and these strengths are also the wellspring of its competitiveness. Further honing these strengths and enhancing specialization is an important aspect of our being able to continue providing value to our customers and society while sustaining growth as a company.
Business Bases Spread Across Japan	NESIC is engaged in the infrastructure business of supporting society and critical networks that must operate 24/7. NESIC's more than 400 business and service bases across Japan and its massive operation centers allow it to rapidly provide high-level support services even in the event of a breakdown. Our facilities are an essential component for vendors that do not have service networks in Japan, such as venture firms, in providing their cutting-edge technologies to customers with peace of mind.
Relationships of Trust with Stakeholders	Maintaining and strengthening relationships of trust with stakeholders important to NESIC, such as its customers, employees, shareholders, investors, suppliers, and business partners, is essential to sustaining growth of the Company.
Financial Base	Having a robust financial base is extremely important for achieving stable and sustainable growth without being affected by changes in the external business environment, as well as for consistently investing in the creation of innovation.

Materiality Identification Process for FY2019/3

1 Identify social issues (overseas / domestic)

Global social issues are identified based on the SDGs and compared with recent issues in Japan. ISO 26000 and GRI (Global Reporting Initiative) are also referred to for identifying issues.

2 Screen issues that are highly relevant to the Company's operations

Issues identified in Japan and overseas in 1 are compared with the Company's operations to screen for highly relevant issues. Relevance to the Company's operations is determined within the context of medium-term management plans, etc.

3 Outline company initiatives to solve social issues

The Company outlines the initiatives it will take to solve the issues screened in 2 that are highly relevant to its operations, and identifies 31 materiality candidates.

4 Assign priorities

Priorities are assigned to the 31 candidates from the standpoint of their importance to stakeholder expectations and the Company's own operations, and then divided into six categories.

Materiality to Address in FY2019/3	Contribution to the SDGs	Details
• Promote diversity • Establish an organizational climate where employees can work with peace of mind • Thorough efforts in corporate ethics and compliance	3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	P32–33
• Provide value to society through the creation of communications • Continue to improve value of employees • Provide secure products and services that deliver peace of mind	4 QUALITY EDUCATION; 8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 17 PARTNERSHIPS FOR THE GOALS	P34–35
• Provide value to society through the creation of communications • Provide secure products and services that deliver peace of mind	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 17 PARTNERSHIPS FOR THE GOALS	P35
• Provide value to society through the creation of communications • Encourage sustainability at suppliers	11 SUSTAINABLE CITIES AND COMMUNITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 17 PARTNERSHIPS FOR THE GOALS	P37
	8 DECENT WORK AND ECONOMIC GROWTH	P24

5 Identify materiality

The Management Quality Improvement Committee identifies materiality after ascertaining the appropriateness of issues in the six categories of priority issues and related initiatives.

Materiality in FY2019/3		
Continue to improve value of employees and promote diversity	Thorough efforts in corporate ethics and compliance	Establish an organizational climate where employees can work with peace of mind
Provide secure products and services that deliver peace of mind (reassuring quality and information security)	Provide value to society through the creation of communications	Encourage sustainability at suppliers

Message from the Senior Vice President

Constantly Strengthening Management Resources in Order to Sustain Value Creation

The five key business resources identified by NESIC are essential to the achievement of its vision of becoming a "strong and attractive company" and continuing to create value for society. NESIC is taking various measures to maintain and reinforce these resources while heeding the opinions of its stakeholders, including its customers, shareholders, investors, and employees, and considering international social issues and demands, including the SDGs.

As a communications system integrator, NESIC understands that the basis of its business rests on its human resources and organizational climate, as well as its technologies and expertise, and is evaluating measures in response to changes in the business environment.

Based on this way of thinking, we are creating plans to invest in our human resources from a medium- to long-term perspective, visualizing the skills and work experiences of our employees, in order to strategically reinforce and effectively utilize our human resources better in the future.

Since its founding, NESIC has nurtured a spirit of taking on challenges and innovation. With this spirit in mind, we are making every effort to create an open organizational climate that encourages broad-minded communication so that each and every employee can apply their abilities to their fullest and grow through work.

NESIC will continue to create value for society by reinforcing its foundation for growth while strengthening its management resources, starting with its human resources and organizational climate.

Komei Sakanashi
Senior Vice President

Human Resources and Organizational Climate

To Enable Our Diverse Human Resources to Work Here for a Long Time with Peace of Mind

Work-Style Innovations for a Self-Motivated Work Style

Work-style innovation has become a major topic in Japanese society. NESIC began its own efforts at work–style innovation more than 10 years ago. The Company has proactively worked to improve the work-life balance of its employees, and in July 2017, NESIC rolled out a telework system for all of its employees as a part of these efforts. Employees who take advantage of our reduced work hour system for child rearing and elderly care are able to telework from home, thereby reducing lost work hours by about 50%. For our employees who are dealing with life-changing events, we provide work environments that enable them to continue using their abilities and experience to their fullest, as before. We make every effort to create environments where employees from diverse backgrounds can work energetically in self-directed work styles.

Telework Use (From its rollout in July 2017 to March 31, 2018)
Full-time employees: **1.4** days per month
Shortened work hour employees **3.2** days per month

Promotion of Health Management

By paying attention to the health of our employees, we hope each and every employee will be able to work to the fullest of their abilities and boost productivity. At NESIC, in addition to our efforts for promoting health centered on preventive care, we seek to reduce total working hours including by reducing overtime. In the ICT industry, where mental healthcare has become an issue, we focus on preventive care while encouraging employees to take care of their own health through a comprehensive support system that covers them from the start of leave to their return to work.

Average Overtime and Paid Holidays Taken
Average overtime (per month) (as of FY2018/3): **18.9** hours
Ratio of paid holidays taken (as of FY2018/3): **67**%

Promoting Women in the Workplace

We are working to increase the ratio of women in management positions and expand the number of women hired as a part of efforts to promote women in the workplace. We are reflecting the viewpoints of women in the creation of new businesses and work environments. Led by a female employee who returned after taking leave for child rearing, the Women's Project was launched in 2014 for the purpose of creating new businesses based on the idea of empowering women in the workplace. The project is aimed at advancing the careers of women and creating work environments that are more welcoming for female employees who are raising children. This project also led to the introduction of the telework system, one of the Company's main work-style innovations today. Going beyond this project, we will continue encouraging the taking of new challenges from a woman's perspective with the aim of nurturing more innovation.

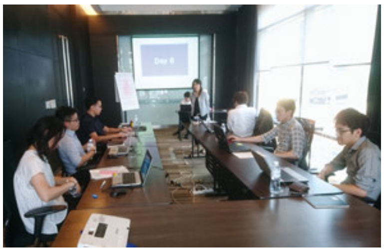
Ratio of Women in Management Positions

End of 2018/3: **3.0**%

A Human Resource Strategy Linked To Growth Strategy

Strengthening Global Human Resources

NESIC has created and implemented the following training programs in order to expand global business, one of the focus areas of its medium-term management plan.

System / Training	Objective
Overseas work training system	Through on-the-job training overseas, promote a global business mindset, understanding of foreign cultures, and relationship building through knowledge and skills acquired while working abroad, in addition to learning foreign languages (young employees are sent to one of the Company's overseas subsidiaries for a year)
Short-term overseas training	Develop human resources with a keen awareness of overseas operations through experience in cross-cultural communication  Short-term overseas training session (Bangkok)
Mission global training	Develop human resources who view differences in nationality as opportunities, not obstacles, as they go about their duties
Training for local employees at overseas subsidiaries	Develop human resources capable of sharing issues throughout the Group and taking the initiative in expanding our business

Hiring of Human Resources Able To Spur Innovation

Our basic policy on hiring is to reliably secure talented personnel by hiring recent college graduates, and to ensure we have people who can think on their feet by hiring experienced personnel. Based on this policy, in order to become a "strong and attractive company," NESIC seeks out people who have a tenacious mindset open to challenges and the ability to achieve goals without placing limits on themselves.

Through our hiring activities, we aim to secure diverse human resources that will help foster an innovation mindset and contribute to a corporate culture where employees can maximize their individuality and abilities.

Strengthening Resource Management

We endeavor to visualize the experience and skills of our employees as a way of facilitating the allocation of human resources and enhancing the rapid and proper training of personnel in tune with changes in business conditions. We are establishing a structure that facilitates employee awareness across organizational boundaries, a willingness to take on greater roles, speedy matching of skills to roles, and self-directed career formation.

Through these measures, we are strengthening resource management further by putting the right people in the right jobs in tune with changes in technologies and businesses while encouraging employees to grow their awareness across organizational boundaries.

Technologies and Expertise

Promoting Acquisition of Companywide High-Priority Professional Qualifications

To improve technological capabilities, we assist employees with the acquisition of high-priority professional qualifications that align with our business strategy by paying for their educational costs and improving their technical knowledge by holding seminars taught by in-house instructors.

Acquisition of Companywide High-Priority Professional Qualifications (FY2018/3)

- Information processing engineers (network specialist examination)
  15 employees with a pass ratio of 46.9% (national average: 13.6%)
- Information processing engineers (registered information security specialist examination)
  10 employees with a pass ratio of 100% (national average: 17.1%)
- Project management professionals
  60 employees with a pass ratio of 67.4% (national average: 60.0%)
- First-class electrical work operation and management engineers
  16 employees with a pass ratio of 69.6% (national average: 62.5%)

Senior Partner System for Passing Down Technical Skills

Involved in various business fields, NESIC must secure engineers and increase their skill levels. As engineers with various qualifications and experiences approach retirement, we are working to utilize their strengths and expertise. NESIC has set up the Senior Partner System for employees who have reached the mandatory retirement age but wish to continue working, and holds briefings on this system periodically. In FY2018/3, NESIC had a 100% retention rate for employees with technical qualifications. We strive to provide our employees with more opportunities to shine, while increasing opportunities for them to pass their skills down to younger employees, in a bid to maintain and strengthen our core technological capabilities.

Rate of Continued Employment after Mandatory Retirement

FY2016/3	FY2017/3	FY2018/3
54.7%	66.6%	68.1%

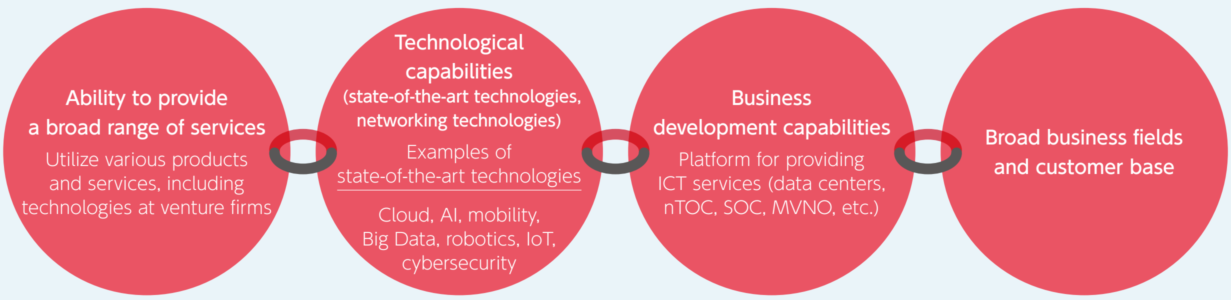
Strengthening State-of-the-Art Technologies

Companywide DX (Digital Transformation) Project

Aware of the importance of initiatives in new technological fields in order to achieve growth, NESIC launched a Companywide project to drive the DX business as an engine for innovation. While consolidating intelligence from across the Company, NESIC is investing heavily in this project to create “No. 1” and “Only 1” services and solutions with the aim of establishing a strong position in growth markets and taking the lead over its competitors.

Companywide DX Project to Marshal Strengths and Quickly Commercialize Business

Our Strengths

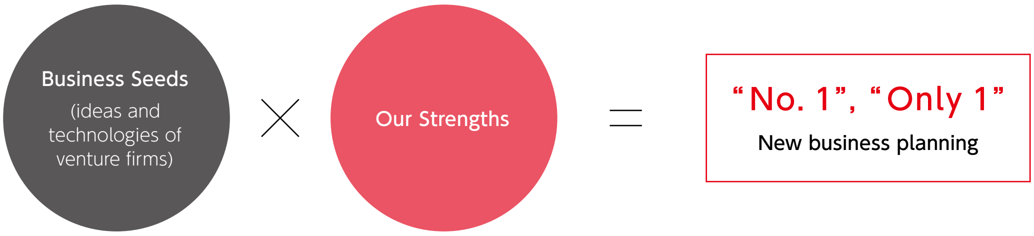


Leveraging our robust financial position, we are investing aggressively in improving technological capabilities and developing services.

Establishing the Corporate Venture Capital (CVC) Fund

Collaborating with external resources, or open innovation, is essential to the timely incorporation of new technologies. In particular, collaboration with venture firms with groundbreaking technologies is key to launching "Only 1" services. This is why NESIC established the CVC Fund in January 2018.

NESIC is able to forge mutually beneficial relationships with venture firms so that it can deliver brand new technologies to customers in an easy-to-use format while leveraging its nationwide sales network and service provision bases. Through this fund, NESIC invests in venture firms in Japan and overseas that have excellent technologies and novel ideas. As a business partner, NESIC aims to quickly deliver new value to society while aiming to advance its technologies to the next level.



Business Bases Spread Across Japan

Support and Service Network for Providing Safety and Security

Along with its branch offices, with sales and operating functions, NESIC has more than 400 services bases throughout Japan. NESIC has put in place a structure for providing high-quality support services to customers 24/7. The Company has operations centers that provide unified services ranging from help desk support to network operations, monitoring, and maintenance services. The Company also has comprehensive technical centers, which offer technical assessments, evaluations, and systems integration, maintenance, and repair services as well as logistics, and data centers, which are the foundation for outsourcing services.

nTOC (Network Total Operation Center)

Communications with Local Bases

NESIC technologies are used in constant communications between the head office in Tokyo and its local bases. Major branch offices in Osaka and Nagoya use SmoothSpace, a solution for visual and audio communications that uses projection mapping technology to project life-sized images, to stay in contact with other bases. SmoothSpace makes it easy to casually communicate whenever necessary while always projecting realistic images. Even coworkers in distant locations can communicate as if they were in the same space.

For meetings at the individual and organizational level, NESIC uses Zoom as a collaborative work solution that simplifies communications without regard to time or location. This solution enables effortless communications with teleworking employees and external parties such as customers and business partners, helping to increase efficiency and decision-making speed. NESIC is maintaining and strengthening collaboration across its bases throughout Japan while incorporating communications-related technologies, a Company strength.

Zoom Use at NESIC (As of February 2018)

- Number of meetings:
  2,620 per month
- Number of meetings with overseas members:
  300 per month (meetings with over 20 countries)
- Increase in work efficiency:
  4.5 hours per month (per person)

TOPIC

First investment by the CVC Fund

Transforming into a Next-Generation Support Service Business by Adopting the Latest Methods and Technologies
Investment in Boomtown Network

In recent years, the shortage of IT engineers has become more serious due to labor shortages, and the migration of IT systems into the cloud has accelerated. These factors demand that we change the support services we provide to our customers.

In light of these conditions, NESIC decided to invest in Boomtown Network, a startup in the U.S. that provides next-generation support services combining omnichannel-compatible contact centers that use such cutting-edge technologies as AI with on-site support networks incorporating the concept of the sharing economy.

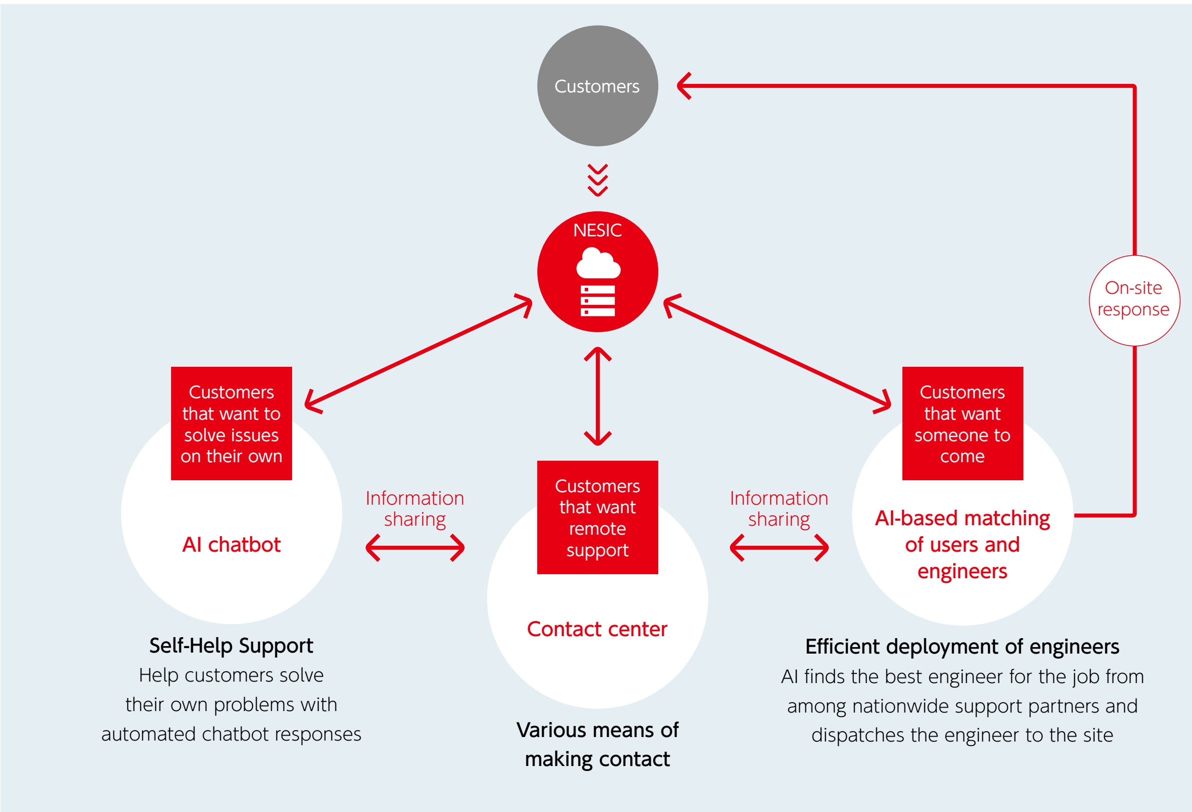
NESIC already has systems and frameworks in place to provide high-quality support services to its customers. By combining the Company's strength in nationwide support bases with the framework of Boomtown Network, it will become possible to provide our nationwide support services, which have been provided to major companies and major vendors that provide cloud services, more inexpensively and more flexibly. Moreover, we will be able to offer services at more affordable prices for small/medium-size companies, small/medium-size cloud vendors, and startup companies. We aim to expand our business further by providing meticulous support services while helping our customers create new businesses.

Boomtown SMARTER BUSINESS SUPPORT × NEC Networks & System Integration Corporation

Efficiently provides proven support services in North America

Nationwide support service network

Vision for Next-Generation Support Services



Relationships of Trust with Stakeholders

Communications with Customers

Ever since its founding, NESIC has placed a high priority on creating relationships built on trust with customers.

In order to continue growing toward its aim of becoming a "strong and attractive company," NESIC will continue efforts to win the trust and support of its customers by providing them valuable services and solutions.

Annual Main Initiatives

- Hold NESIC Customer's Fair, a private exhibition/seminar for customers (held in Tokyo and Osaka in 2018)
- Conduct customer surveys to implement improvement measures by sharing the results within the Company
- Present awards to outstanding customer satisfaction activities
- Hold outside instructor presentations on customer satisfaction

Topics in FY2018/3

- Increase in ratio of customers who responded "very satisfied" or "strategic business partner" (the highest mark) on the survey compared with the previous survey in FY2017/3
- Examples of awards received from customers
  - Award for zero human errors thanks to stronger efforts in safety quality
  - Award for quick work on restoring public facilities after natural disasters
  - Award for high technological capabilities and good faith in an electrical facility upgrade project

Customer's Fair

Communications with Suppliers

NESIC utilizes labor suppliers who subcontract work for installation, construction, and network integration orders received by NESIC, as well as hardware suppliers for procuring equipment used in systems integration. NESIC views labor and hardware suppliers as essential for the operations of the NESIC Group. Society strongly demands that entire supply chains endeavor to improve sustainability, and with the cooperation of our suppliers, we are promoting sustainable and ethical procurement activities.

Annual Main Initiatives

- Hold business activity briefings and safety quality meetings (held a total of 12 activities in FY2018/3)
- Conduct inspections and surveys (CSR surveys, quality audits, information security audits) (conducted at a total of 137 companies in FY2018/3)


Business activity briefing

Communications between the President and Younger Employees

"Ushijima lunches" are lunch meetings conducted between the President and younger employees as a venue for the open exchange of opinions. By talking frankly and openly about the President's thoughts and the daily issues dealt with by young employees, we aim to increase the motivation of younger people.


Lunch meeting between the President and younger employees

Message from the Chairman

> We aim to increase corporate value by further improving our corporate governance.

Proactive Efforts to Reinforce Corporate Governance

With its proven technologies and reliable services cultivated over many years based on the NEC Networks & System Integration Corporation Group Statement, NESIC has endeavored to solve the issues faced by its customers and society through the provision of solutions with its customers in mind. At NESIC, we believe corporate governance is the foundation upon which initiatives are taken to sustain growth for the Group and improve corporate value over the medium to long term. Accordingly, we have redoubled our efforts from the past to reinforce our corporate governance structure.

Since NESIC operates with a parent company, it is important to build a structure that better protects the rights of general shareholders. Since 2006, NESIC has steadily strengthened this area by nominating independent directors and auditors who do not have any conflicts of interest with general shareholders. Currently, over one-third of our directors and auditors are independent, as three of our ten directors are independent directors, and two of our four corporate auditors are independent auditors. We are making diligent efforts to improve management transparency, having set up in 2016 an advisory panel mainly consisting of independent outside directors to discuss nomination and compensation.

Invigorating Discussions and Improving Oversight Functions of the Board of Directors

As the chairman of the Board of Directors, I am aware that the independent directors and auditors play a significant role in corporate governance, and make every effort to listen carefully to their opinions. In addition to periodically sharing with them the opinions heard on capital markets, we provide tours of our facilities in order to deepen their understanding of our operations with the intention of filling any gaps in information between them and board members in charge of business execution. Independent directors and auditors receive premeeting briefings and opportunities to exchange opinions about matters on the agenda of the Board of Directors. On particularly important matters, meetings are held multiple times by the Board of Directors to ensure outside opinions are well referenced before a resolution is made. We believe outside directors and auditors are a vital part of lively discussions because they bring their knowledge and opinions about the Company's broad range of business fields. I believe we have a diverse board membership from the standpoint of experience, knowledge, expertise, and gender, having appointed people with corporate management experience in different industries and an associate professor with expert knowledge of business management and accounting.

Improving Corporate Value through Business Execution That Prioritizes Compliance

In my previous role as President and current role as Chairman of the Board at NESIC, I have always conveyed to our employees that the highest priority must be placed on compliance. All business activities begin with compliance with laws and regulations. To preserve the trust placed in us by our customers, shareholders, and other stakeholders, each and every employee will engage in business and contribute to society by maintaining high ethical standards with the ultimate goal of further improving corporate value.

M. Wada

Chairman of the Board

Corporate Governance (As of June 30, 2018)

NESIC believes that enhancing corporate governance is critical for realizing an advanced society with vibrant communication and for sustaining increases in corporate value. We therefore strive to build a management system that enables quick decision-making so that we can respond promptly to changes in the operating environment, and we work to ensure management soundness and transparency by practicing timely, appropriate disclosure.

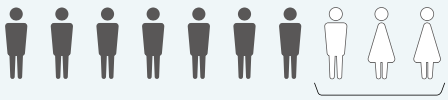
History of Enhancing of Corporate Governance at NESIC

	Measure	Objective
2000	Introduces an executive officer system	Clearly separate of the supervisory function from the business execution function
2005	Reduces the number of directors to ten or fewer from 20 or fewer	Expedite decision-making
	Shortens the director's term of office to a year	Clarify the directors' management responsibilities
2006	Appoints the first independent outside auditor (introduces the independent director/auditor (ID/A) system)	Improve management transparency
2008	Appoints an independent outside director, increasing the number of ID/A to two	Improve management transparency
2012	Appoints an independent outside director, increasing the number of ID/A to three	Improve management transparency
	Appoints the first female director	Increase the diversity of the directors
2015	Appoints an independent outside auditor, increasing the number of ID/A to four	Improve management transparency
2016	Strengthens compliance with the Corporate Governance Code: starts the assessment of board effectiveness and systematizes training for directors and corporate auditors	Strengthen the management oversight function
	Appoints the first independent outside director with experience in corporate management	Improve the diversity of directors
	Establishes an advisory panel consisting mainly of independent outside directors to discuss nomination and compensation	Improve management transparency
2017	Appoints an independent outside director (a female former CEO from a different industry), increasing the number of ID/A to five	Improve management transparency and increase the diversity of directors

Corporate Governance System

Board of Directors

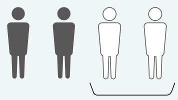
The Board of Directors consists of 10 directors (eight men and two women), who serve one-year terms and include three outside directors. NESIC endeavors to strengthen the management structure, such as by clarifying the management responsibilities of each director.



outside directors

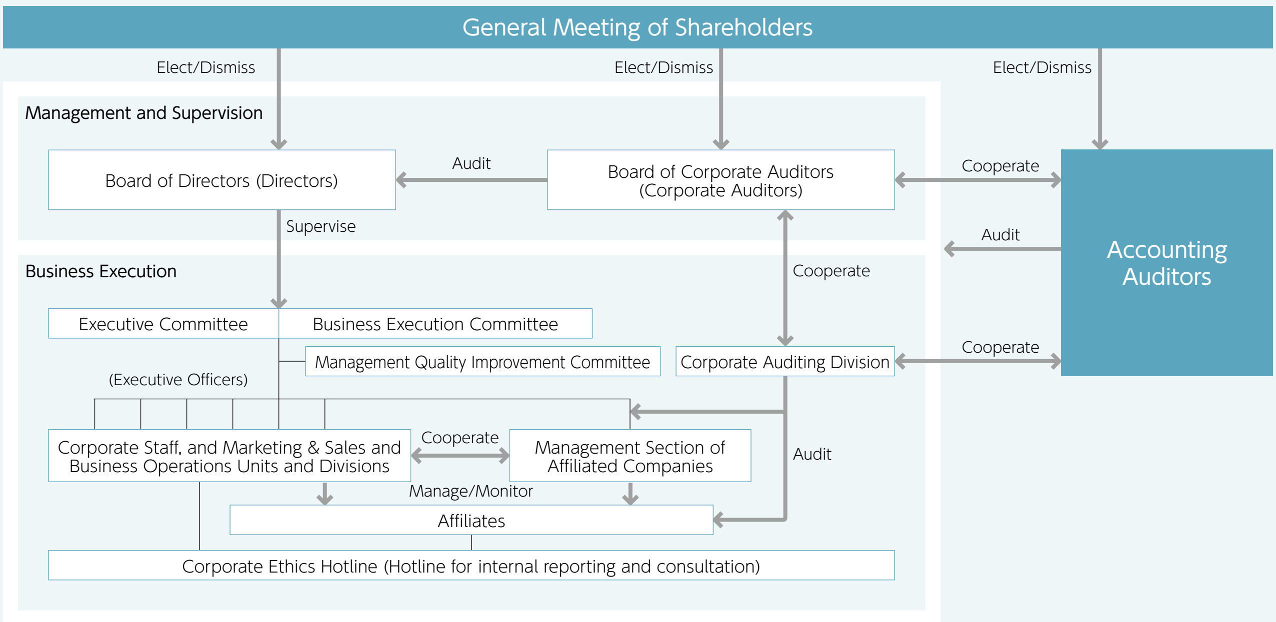
Board of Corporate Auditors

The Board of Corporate Auditors consists of four auditors, including two outside auditors. The auditors conduct business audits and accounting audits, and supervise directors as they perform their duties.



outside auditors

NESIC's Business Execution, Management Oversight, and Internal Control Framework



Independent Directors / Auditors

To further strengthen its corporate governance, since 2006, NESIC has nominated qualified independent directors and auditors who do not have any conflicts of interest with general shareholders.

NESIC has a total of five independent directors and auditors, comprising three directors and two auditors, who satisfy the requirements for independent directors and auditors, as defined by the Tokyo Stock Exchange. This represents more than a third of the total number of directors and auditors.

NESIC has worked to reinforce its corporate governance structure. In the past, our independent board members have included attorneys and university professors. Moreover, NESIC appointed experienced corporate managers in June 2016 to bring a broader range of experience and perspectives to the Company's management, as well as a female manager from a different industry in June 2017 to increase diversity.

Name	Reason for Nomination	Main Concurrent Positions	Attendance during FY2018/3	
			Board of Directors	Board of Corporate Auditors
Hisayoshi Fuwa	Hisayoshi Fuwa has extensive experience as a corporate manager, which has been benefit management at the Company. He also has the ability to provide appropriate advice and ideas on the Company's overall management from a standpoint independent from the managers who execute business. He is expected to continue to supervise management toward improvements in the Company's corporate value.	Outside Director, Tokyo Electron Device Limited	12/12	—
Michiko Hirono	Michiko Hirono has the ability to provide appropriate advice and supervise the Company's management strategy from diverse viewpoints without being constrained by traditional frameworks, backed by her management know-how in a different industry (B2C). She is expected to continue to supervise management toward improvements in the Company's corporate value.	Outside Director, JAPAN POST Co., Ltd.	10/10	—
Michiko Ashizawa	Michiko Ashizawa has the ability to provide appropriate advice and supervise the Company's management from an objective standpoint, backed by her specialized knowledge in business management.	· Associate Professor, International College of Arts and Sciences, Yokohama City University · Associate Professor, Graduate School of International Management, Yokohama City University · Part-Time Instructor, Graduate School of Business Administration, Keio University · Outside Director (audit committee member), Netyear Group Corporation	—	—
Yuji Kikuchi	Yuji Kikuchi has specialized knowledge of the Companies Act and corporate governance as an attorney. He is expected to supervise business execution from a fair and objective standpoint as an outsider through his extensive knowledge and experience.	Partner, Tokyo Hatchobori Law Office	12/12	14/14
Masayuki Horie	Masayuki Horie will exercise his expertise in internal controls and other aspects of corporate management, and apply the fair and objective perspective of an outsider in auditing the directors' performance of their duties.	Professor, College of Commerce, Nihon University	12/12	14/14

Notes
1. Michiko Hirono's attendance at the Board of Directors meetings is for after her appointment as director at the 85th General Meeting of Shareholders held on June 23, 2017.
2. Michiko Ashizawa was newly appointed as director at the 86th General Meeting of Shareholders held on June 21, 2018.

Directors' Remuneration

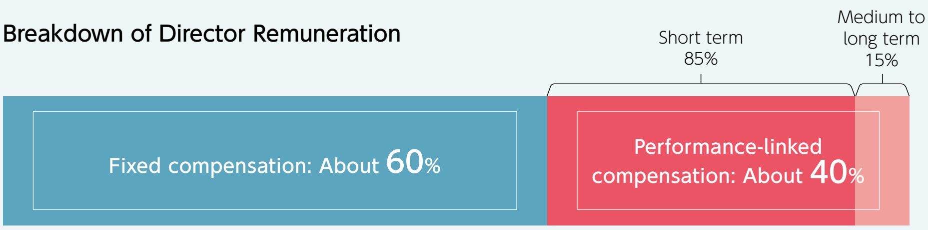
To maintain competitiveness in the industry and provide incentives to increase earnings, remuneration for the Company's directors is based on a compensation structure set at appropriate levels while taking into account their duties and achievements in order to link their performance to corporate earnings.

Remuneration consists of a monthly salary set at a level commensurate with rank, as well as a bonus that reflects an evaluation of personal performance in the previous fiscal year, contributions to the business for which the director is responsible, and an amount relative to the change in the Company's share price.

Remuneration for directors in non-executive positions is a fixed amount not linked to the Company's performance in light of their role of supervising business execution.

Directors' remuneration is determined by a representative director authorized by the Board of Directors, within an upper limit for total remuneration set by resolution of the General Meeting of Shareholders, based on compensation standards while referring to the opinion of an advisory panel, which consists mainly of independent board members (outside directors).

Breakdown of Director Remuneration



Fiscal 2018/3

Category	No. of Recipients	Total Amount (¥ million)
Directors	12	167
Outside directors	3	23
Auditors	5	43
Outside auditors	3	13

Notes:
1. Employees who also serve as directors do not receive a salary (including bonus) as an employee.
2. Includes two directors and one auditor who retired as of the 85th General Meeting of Shareholders held on June 23, 2017.
3. The director retirement bonus system was discontinued as of the conclusion of the 75th General Meeting of Shareholders held on June 26, 2007.

Shares Held for Strategic Reasons

NESIC may own stock in other companies for the purpose of forging, maintaining, and stabilizing business partnerships and commercial relations. Major strategic shareholdings are meticulously reviewed by the Board of Directors every year on the basis of the purpose and rationality for holding these stocks. Regarding the exercise of voting rights for these stocks, management decides to approve or reject proposals after a comprehensive evaluation centered on whether the proposals align with the purpose of owning the stocks.

Investor Relations (IR) Activities

NESIC's disclosure policy is to accurately and promptly explain business conditions and management policies to shareholders and other stakeholders. Management periodically holds briefings and meetings to engage in dialogue with capital markets.

Regarding dialogue with capital markets, the CSR Promotion & Corporate Communications Division (IR Group) and the President, among other top managers, periodically engage in dialogue with investors at briefings and one-on-one meetings. In fiscal 2018, 17 meetings were held with the President and/or Associate Senior Vice President in attendance. The opinions and suggestions received through these dialogues are reported to all board members, including independent directors and auditors, as a part of efforts toward constructive dialogue with capital markets.

Evaluation of the Board of Directors' Effectiveness

In accordance with the Corporate Governance Code, NESIC evaluates the effectiveness of its Board of Directors every year, and makes diligent efforts toward its strengthening and improvement.

Evaluation method	We conduct a survey once a year with all board members on the effectiveness of the Board of Directors.
Evaluation criteria	· Composition of the Board of Directors · Operational methods of the Board of Directors · Role of the Board of Directors · Support systems for board members
Evaluation results	In fiscal 2018/3, the evaluation concluded that the Board of Directors is functioning effectively and operating appropriately overall.
Initiatives to further increase effectiveness	· Enhance discussions on medium- to long-term management strategies, and provide more opportunities and information for such discussions · Expand opportunities to impart the knowledge necessary for directors to properly perform their expected duties and responsibilities

Three outside directors discussed strategies for change and corporate governance at NESIC.

Hisayoshi Fuwa
Outside Director

2011 President, Representative Director of the Board and Chief Executive Officer (CEO), JVC KENWOOD Holdings, Inc. (currently JVC KENWOOD Corporation)
President and Representative Director of the Board, Victor Company of Japan, Limited
President, Kenwood Corporation
President, J&K Car Electronics Corporation
President and Representative Director of the Board, JVC KENWOOD Corporation
2012 Senior Adviser, JVC KENWOOD Corporation
2016 Outside Director of the Company (present position)

Michiko Hirono
Outside Director

2000 President and Representative Director of the Board, 21 Lady Co., Ltd.
2002 Representative Director of the Board, HIROTA Co., Ltd.
2010 Representative Director of the Board, ILLUMS JAPAN Co., Ltd.
2011 Representative Director, Chairman and President, HIROTA Co., Ltd.
2017 Outside Director of the Company (present position)

Michiko Ashizawa
Outside Director

1996 Joined Century Audit Corporation (currently KPMG AZSA LLC), International Department
* Retired in May 2001
2000 Registered as a certified public accountant
2003 Joined Industrial Revitalization Corporation of Japan
2006 Joined Advantage Partners LLP (currently Advantage Partners, Inc.)
2013 Associate Professor in Faculty of Liberal Arts at Yokohama City University (present position)
Associate Professor in Graduate School of International Management at Yokohama City University (present position)
2016 Part-time instructor in Graduate School of Business Administration at Keio University (present position)
2018 Outside Director of the Company (present position)

Q To begin, Ms. Ashizawa, what is your first impression of NESIC after being appointed in June 2018? Ms. Hirono, what is your opinion of the Company after serving as outside director for a year?

■ Hirono
Having seen work done on-site, my first impression of NESIC is that it is a company with on-site presence, its feet firmly planted on the ground, with the ability to provide total solutions through construction of large-scale projects such as mega solar plants, in addition to IT services. As an outside director, I aim to help NESIC leverage these strengths and take on challenges in markets where it can create “No. 1” and “Only 1” businesses.

■ Ashizawa
When I heard that NESIC has a support service network of over 400 bases in Japan, I was impressed with the huge potential this represents. As networks become decentralized through IoT, “things” will always be involved. The business of supporting the maintenance of these “things” from brick-and-mortar bases is likely to become a major pillar for “No. 1” and “Only 1” businesses, in my opinion. I also feel that the Company needs to grow in some fields, including application software. “Offensive governance” is important for strongly supporting the Company as it takes on these challenges, and we must find a way to balance this with “defensive governance.” Before being appointed to this position, I trained board

members at the Company as an instructor, and this experience left me with the impression that NESIC is a company where lively discussions take place. This impression has not changed since becoming an outside director. In addition to lively debates by the Board of Directors, there is open discussion on other topics such as identifying the Company's true strengths.

Q In 2017, President Ushijima became the first president to rise through the ranks at NESIC. What has changed since his appointment as president?

■ Fuwa
I am convinced that President Ushijima is an adept leader in this era where "offensive management" is essential. After becoming president, he wasted no time making changes, such as strengthening systems for creating new businesses. At the top, he is well aware of management issues, being well versed in the strengths and values that NESIC has built up throughout its history. The advisory panel also advocated for his nomination.

■ Hirono
I believe President Ushijima's leadership style is unique because of his ability to anticipate changes in needs and to take action, thanks to his experience interacting directly with customers on-site and his experience managing a B-to-B-to-C subsidiary. In a global business, one must often go directly on-site in order to fully understand the situation. He has recently visited overseas bases and decided that some changes were urgently needed, which were quickly implemented. I was surprised by his ability to take action and the speed of his decision-making.

■ Ashizawa
I think President Ushijima is an enthusiastic type of person who energizes everyone around him. He is an effective communicator who can deliver a strong message while also flexibly forming teams of people and getting involved. His message of aiming to be "No. 1" and "Only 1" is simple and persuasive.

■ Fuwa
Instead of arguing someone into submission, his communication style is unique in that it takes a "we are in this together" approach. The open atmosphere of the Board of Directors is a reflection of the president's unique communication style, in my opinion.

■ Ashizawa
Indeed, the president strongly intends to move the Company in a good direction with everyone on the same team. He also gives us access to information without holding anything back. However, since we are representatives of shareholders, we will remain objective observers and raise issues with internal matters as needed and without hesitation.

■ Fuwa
At briefings for independent directors and auditors held prior to meetings of the Board of Directors, executive officers and other company managers courteously address any concerns or questions we raise. The Company's business executives have a tradition of listening carefully to concerns and opinions from the standpoint of an independent director and auditors. I believe this creates opportunities to have meaningful dialogues. This also improves the quality of discussions at the Board of Directors meetings. I am convinced that the benefits of these pre-meeting briefings go beyond complementing the Board of Directors.

I believe it is the responsibility of the outside directors to strike a balance between "offensive" and "defensive" postures.

Ashizawa

■ Hirono
Behind the respect for different values and culture of collaborating and learning together is the shared goal of increasing corporate value.

Q In 2018, NESIC held another meeting for outside directors and female employees, which began at the heeding of former director Ms. Ichige. Regarding cultures that recognize diverse opinions, do you have any opinions of your own about diversity?

■ Hirono
I believe NESIC is a company where talented women can work with enthusiasm. In retail and other areas, some management positions are held by women, and while NESIC is a B-to-B company, it provides opportunities for women to use their abilities to their fullest. I am impressed with the culture here, as employees do not hesitate to voice their opinions with their superiors.

With a culture that respects diverse opinions, NESIC aims to change in ways that increase corporate value.

Fuwa

■ Ashizawa
The key to innovation is diversity. Joseph Schumpeter, an economist who came up with the theory that innovation drives economic development, pointed out that new things are created by combining things with different qualities. Diversity, including the empowerment of women, is absolutely necessary for the creation of added value in tune with the needs of the customers of NESIC's customers. Moreover, it is important to increase diversity beyond gender. In the ICT domain, young people are probably more adept at thinking up new ideas. Companies that hire foreigners and other people from various backgrounds have a strong capacity for innovation, in my opinion. As independent directors, we should also support the various employees of the Company in order to further increase its diversity.

■ Fuwa
Indeed, women are actively participating in the workforce, but the fact is the ratio of female employees is still quite low. Instead of general talking points, I think more in-depth discussion on this matter is needed within the context of the Company's growth strategy.

Q Now that you mention growth strategy, NESIC plans to unveil its next medium-term management plan in spring 2019. What is your perception of issues and opportunities for growth?

■ Hirono
NESIC has spread many seeds for growth. For example, its work-style innovation field perfectly matches the needs of the times. I think one important issue is deciding the fields to target for "No. 1" and "Only 1" businesses from among these seeds, and then selectively concentrating on fostering them with a long-term perspective.

■ Ashizawa
It is not easy to focus on the fields where the Company's strengths can be applied, but I believe NESIC has put into place a foundation to grow in unison with the areas of IoT and digital transformation (DX).

■ Fuwa
Among the broad business fields of the NEC Group, NESIC is aggressively engaging in new business fields where it can leverage its strengths. President Ushijima's extensive knowledge of the Company's qualities will be an effective tool in this regard. As more effort is put into its overseas business, it will be important to manage project risk. I think establishing effectively functioning processes overseas is an urgent management issue.

Hirono
I agree. I think management is taking the right steps, but projects are gradually getting larger and taking longer to complete, and the Company is also moving into new fields. I will continue keeping management alert to these risks.

Ashizawa
I think management could do a better job at conveying the good aspects of NESIC to the outside world. In other words, I think the Company needs to improve its outward communications ability. I believe NESIC can become a stronger company with a clear and strong message about what its services can accomplish and how they can change the world.

Fuwa
I think so too. The Board of Directors needs to consider in more depth how to communicate to the outside world, such as specific goals for creating “No. 1” and “Only 1” businesses. The Company’s current businesses have changed considerably since their establishment. Over this period, NESIC has polished its know-how and improved its quality in telecommunications infrastructure construction and maintenance businesses, and these live on in its DNA today. I think it is important to approach the creation of new businesses by emphasizing this DNA in the selection of business fields.

Hirono
From a base built up over decades, I see the potential for the Company’s business structure to change a substantial 20% in essence, such as through its CVC Fund, which invests in venture firms in North America. While maintaining 80% of its business foundation and leveraging this 20% in new ventures, I believe NESIC will be able to consistently expand corporate value in its own unique way. As an outside director, I will support these endeavors.

“

I would like to point out the ongoing need for more sophisticated risk management.

Hirono

Directors & Corporate Auditors (As of June 21, 2018)

10 9 5 4 3 2 1

10
Morihiko Kudo
Member of the Board

4
Yasuhiro Ito
Senior Vice President and Member of the Board

1
Masao Wada
Chairman of the Board

5
Osamu Noda
Senior Vice President and Member of the Board

2
Yushi Ushijima
President

9
Junji Ashida
Member of the Board

3
Masafumi Gouji
Senior Vice President and Member of the Board

6

Hisayoshi Fuwa

Member of the Board
(Outside Director)

13

Yuji Kikuchi

Corporate Auditor
(Outside Auditor)

12

Shoichi Fukaya

Corporate Auditor
(Full-time)

7

Michiko Hirono

Member of the Board
(Outside Director)

14

Masayuki Horie

Corporate Auditor
(Outside Auditor)

8

Michiko Ashizawa

Member of the Board
(Outside Director)

11

Tokuo Yamamoto

Corporate Auditor
(Full-time)

Corporate Overview (As of March 31, 2018)

Name	NEC Networks & System Integration Corporation
Head Office	Iidabashi First Tower, 2-6-1 Koraku, Bunkyo-ku, Tokyo 112-8560, Japan URL: http://www.nesic.co.jp/english/
Established	December 1, 1953
Registered as a Stock Company	November 26, 1953
Capital	¥13,122,000,000
Number of Employees	5,009 (Non-consolidated), 7,657 (Consolidated)
Fiscal Year	April 1–March 31
Ordinary General Shareholders Meeting	Annual meeting held in June
Listing	Tokyo Stock Exchange, First Section Ticker Code: 1973
Accounting Auditor	KPMG AZSA LLC
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

Major Consolidated Subsidiaries (As of August 31, 2018)

Japan

- NEC Magnus Communications, Ltd.
- NICHIWA Co.
- NEC Net Innovation, Ltd.
- Q&A Corporation
- K&N System Integration Corporation
- NEC Networks & System Integration Services, Ltd.

Overseas

- NESIC BRASIL S/A
- NESIC (Thailand) Ltd.
- NESIC PHILIPPINES, INC.
- Networks & System Integration Saudi Arabia Co. Ltd.
- ICT Star Group Myanmar Co., Ltd.

Outside Evaluations

Member of SNAM Sustainability Index 2018

SNAM Sustainability Index

2018 健康経営優良法人 Health and productivity ホワイト500

Certified Health and Productivity Management Organization 2018

TW100 Telework Pioneer

Top Hundred Telework Pioneers

くるみん

"*Kurumin*" certification mark*1

女性が活躍しています!

Highest-grade "*Eruboshi*" certification*2

*1 The "*Kurumin*" mark is a symbol of the certification granted to companies that have established an action plan and achieved targets in accordance with Japan's Act on Advancement of Measures to Support Raising Next-Generation Children.

*2 The "*Eruboshi*" logo is a symbol of the certification granted to companies that have formulated an action plan in accordance with Japan's Act on Promotion of Women's Participation and Advancement in the Workplace, and are implementing initiatives to a high standard.

Stock Information (As of March 31, 2018)

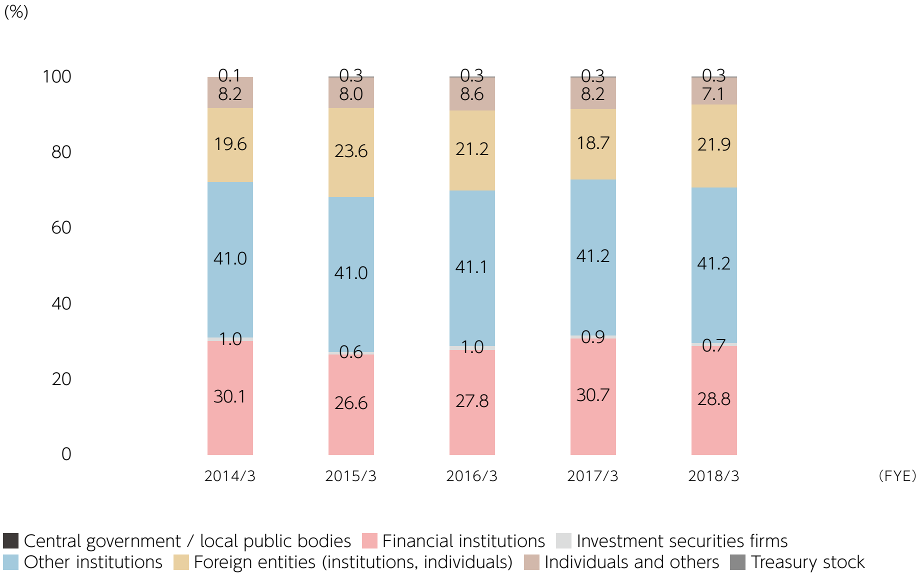
Number of Shareholders	7,267
Common Stock Authorized	100,000,000 shares
Issued	49,773,807 shares
Trading Unit	100 shares

Major Shareholders (Top 10)

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding (%)*2
NEC Corporation	19,106	38.49
Japan Trustee Services Bank, Ltd.*1 (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.89
Japan Trustee Services Bank, Ltd. (Trust account)	2,394	4.82
The Master Trust Bank of Japan, Ltd. (Trust account)	2,126	4.28
Sumitomo Realty & Development Co., Ltd.	1,200	2.42
Japan Trustee Services Bank, Ltd. (Trust account No. 9)	879	1.77
THE BANK OF NEW YORK MELLON 140044	703	1.42
Employees' Stock Ownership Plan	692	1.40
GOVERNMENT OF NORWAY	625	1.26
STATE STREET BANK AND TRUST COMPANY 505103	479	0.97

*1 Shares held by Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2018 was 51.49%.
*2 Percentage of total shares outstanding is calculated based on the total number of shares outstanding minus treasury stock (137,435 shares) and effectively non-held stock (100 shares) despite the Company being listed on the shareholder registry for this stock.

Breakdown of Shareholders by Type



Financial Section

CONSOLIDATED TEN-YEAR SUMMARY

	FY2009/3	FY2010/3	FY2011/3	FY2012/3
Performance Indicators (Millions of yen)				
Orders received	¥245,257	¥222,046	¥212,277	¥215,373
Net sales	249,070	217,727	217,948	204,658
Gross profit	35,470	32,938	33,132	32,079
Operating income	10,968	9,867	10,835	9,747
Operating income to net sales (%)	4.4	4.5	5.0	4.8
Net income attributable to owners of the parent	4,995	5,644	4,660	4,474
Financial Condition (Fiscal year end) (Millions of yen)				
Total assets	¥147,251	¥146,543	¥149,464	¥149,130
Net assets	69,129	73,849	77,005	80,074
Owner's equity	68,518	73,213	76,445	79,503
Cash Flows (Millions of yen)				
Cash flows from operating activities	¥ 6,953	¥16,070	¥(1,595)	¥18,595
Cash flows from investing activities	(2,193)	(1,885)	(1,904)	(2,648)
Free cash flows	4,759	14,184	(3,499)	15,946
Cash flows from financing activities	(2,096)	(1,382)	(337)	(3,979)
Cash and cash equivalents at end of year	16,590	29,514	25,587	37,456
Per-Share Indicators (Yen)				
EPS	¥ 100.41	¥ 113.50	¥ 93.72	¥ 89.98
BPS	1,377.68	1,472.14	1,537.19	1,598.77
Cash dividends	22.00	25.00	26.00	28.00
Key Indicators (%)				
ROE*2	7.5	8.0	6.2	5.7
ROA*3	7.3	6.7	7.3	6.3
Owner's equity ratio	46.5	50.0	51.1	53.3
DOE*4	1.6	1.8	1.7	1.8
Payout ratio	21.9	22.0	27.7	31.1
Other				
Number of employees	5,906	5,998	5,939	5,936
Number of shares outstanding	49,773,807	49,773,807	49,773,807	49,773,807

*1 U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106.24 = US$1.00 as of March 31, 2018.
*2 ROE (Return on Equity): Net income attributable to owners of the parent / Owner's equity during the term [Average of owner's equity at the beginning of the term and at the end of the term] x 100
*3 ROA (Return on Assets): Ordinary income / Total assets during the term [Average of total assets at the beginning of the term and at the end of the term] x 100
*4 DOE (Dividend on Equity): Total annual dividends / Owner's equity during the term [Average of owner's equity at the beginning of the term and at the end of the term] x 100

FY2013/3	FY2014/3	FY2015/3	FY2016/3	FY2017/3	FY2018/3	
						(Thousands of U.S. dollars) *1
¥241,271	¥280,071	¥299,097	¥274,946	¥279,241	**¥287,831**	**$2,709,252**
235,716	270,326	292,164	279,961	257,912	**267,939**	**2,522,016**
37,182	44,690	48,110	45,162	42,585	**44,265**	**416,650**
12,483	14,418	16,158	14,111	9,974	**11,057**	**104,075**
5.3	5.3	5.5	5.0	3.9	**4.1**	**—**
7,246	8,257	7,791	5,996	6,549	**7,357**	**69,248**
						(Thousands of U.S. dollars) *1
¥167,472	¥189,059	¥201,964	¥196,569	¥197,469	**¥208,050**	**$1,958,301**
85,974	89,166	94,173	94,397	96,674	**101,732**	**957,567**
85,266	87,514	92,559	92,738	94,611	**99,473**	**936,304**
						(Thousands of U.S. dollars) *1
¥ (1,723)	¥23,313	¥ 2,460	¥ 9,435	¥22,634	**¥ 4,779**	**$ 44,983**
(3,429)	(5,504)	(3,929)	(2,822)	(2,697)	**(2,802)**	**(26,374)**
(5,152)	17,809	(1,469)	6,613	19,936	**1,976**	**18,599**
(2,066)	(3,824)	(4,127)	(1,402)	(4,144)	**(4,366)**	**(41,095)**
30,315	44,434	38,951	43,889	59,648	**57,281**	**539,166**
						(U.S. dollars) *1
¥ 145.73	¥ 166.06	¥ 156.72	¥ 120.80	¥ 131.94	**¥ 148.23**	**$ 1.39**
1,714.74	1,760.06	1,864.61	1,868.25	1,906.03	**2,004.04**	**18.86**
45.00	60.00	64.00	70.00	72.00	**74.00**	**0.69**
8.8	9.6	8.7	6.5	7.0	**7.6**	**—**
7.7	8.2	8.3	7.1	5.1	**5.4**	**—**
50.9	46.3	45.8	47.2	47.9	**47.8**	**—**
2.7	3.5	3.5	3.8	3.8	**3.8**	**—**
30.9	36.1	40.8	57.9	54.6	**49.9**	**—**
6,024	7,164	7,260	7,464	7,572	**7,657**	**—**
49,773,807	49,773,807	49,773,807	49,773,807	49,773,807	**49,773,807**	**—**

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 57,281	¥ 59,648	$ 539,166
Notes and accounts receivable (notes 4 and 23)	103,911	90,711	978,077
Electronically recorded monetary claims (note 4)	494	441	4,649
Inventories (note 7)	8,237	8,494	77,532
Deferred tax assets (note 10)	4,524	4,102	42,582
Other current assets	5,414	5,694	50,960
Allowance for doubtful accounts	(121)	(92)	(1,138)
Total current assets	179,742	168,999	1,691,848
Non-current assets:			
Property and equipment			
Land	2,410	2,507	22,684
Buildings and structures	9,763	9,875	91,895
Machinery, equipment and vehicles	182	187	1,713
Tools, furniture and fixtures	14,826	14,435	139,551
Construction in progress	222	382	2,089
Other	258	443	2,428
Accumulated depreciation	(17,570)	(17,112)	(165,380)
Property and equipment, net	10,093	10,719	95,001
Intangibles, net of accumulated amortization (note 8)	5,384	4,561	50,677
Investments and other assets			
Investment securities (notes 5 and 6)	516	421	4,856
Asset for retirement benefits (note 11)	444	324	4,179
Deferred tax assets (note 10)	8,596	8,881	80,911
Other assets (note 23)	3,309	3,612	31,146
Allowance for doubtful accounts	(37)	(51)	(348)
Total investments and other assets	12,829	13,188	120,754
Total non-current assets	28,308	28,469	266,453
Total assets	¥208,050	¥197,469	$1,958,301

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (note 9)	¥ 4,086	¥ 4,069	$ 38,460
Current installments of long-term debt (note 9)	3,171	171	29,847
Notes and accounts payable (notes 4 and 23)	39,574	36,474	372,496
Electronically recorded obligations	728	—	6,852
Advances received (note 23)	3,811	4,678	35,871
Accrued income taxes (note 10)	3,768	2,964	35,466
Accrued bonuses to directors	102	67	960
Accrued warranty on products	116	123	1,091
Accrued losses on sales contracts (note 7)	557	645	5,242
Other current liabilities	16,957	14,303	159,610
Total current liabilities	72,874	63,498	685,937
Non-current liabilities:			
Long-term debt (note 9)	842	4,014	7,925
Liability for retirement benefits (note 11)	30,428	31,206	286,408
Other liabilities (notes 10 and 12)	2,172	2,075	20,444
Total non-current liabilities	33,444	37,296	314,796
Total liabilities	106,318	100,795	1,000,734
Shareholders' equity (note 13):			
Common stock:	13,122	13,122	123,512
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2018 and 2017			
Capital surplus	16,655	16,652	156,767
Retained earnings	74,357	70,622	699,896
Treasury stock, at cost; 137,435 shares at March 31, 2018 and 135,911 shares at March 31, 2017	(276)	(272)	(2,597)
Total shareholders' equity	103,858	100,124	977,579
Accumulated other comprehensive income:			
Net unrealized holding gains on other securities (note 5)	42	35	395
Foreign currency translation adjustments	(374)	(394)	(3,520)
Accumulated adjustments for retirement benefits (note 11)	(4,053)	(5,154)	(38,149)
Total accumulated other comprehensive income	(4,385)	(5,513)	(41,274)
Non-controlling interests	2,258	2,062	21,253
Total net assets	101,732	96,674	957,567
Total liabilities and net assets	¥208,050	¥197,469	$1,958,301

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
Net sales (note 23)	¥267,939	¥257,912	$2,522,016
Cost of sales (notes 7 and 23)	223,674	215,326	2,105,365
Gross profit	44,265	42,585	416,650
Selling, general and administrative expenses (notes 16 and 17)	33,208	32,611	312,575
Operating income	11,057	9,974	104,075
Other income (expense):			
Interest income	35	38	329
Interest expense	(127)	(85)	(1,195)
Dividends income of insurance	197	190	1,854
Gains on sale of investments in subsidiaries and affiliates	38	—	357
Gain on sales of non-current assets (note 18)	283	—	2,663
Loss on disposal of non-current assets	(120)	(100)	(1,129)
Business restructuring expenses for subsidiaries and affiliates	(56)	(112)	(527)
Closing expenses for subsidiaries and affiliates	—	(93)	—
Relocation expenses for subsidiaries and affiliates	(60)	—	(564)
Other, net	32	71	301
Subtotal	222	(93)	2,089
Income before income taxes	11,279	9,881	106,165
Income taxes (note 10):			
Current	4,548	2,973	42,808
Deferred	(790)	(16)	(7,435)
Subtotal	3,757	2,957	35,363
Net Income	7,521	6,923	70,792
Net Income attributable to:			
Non-controlling interests	164	374	1,543
Owners of the parent	¥ 7,357	¥ 6,549	$ 69,248

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
Net Income	¥7,521	¥ 6,923	$70,792
Other comprehensive income arising during the year (note 19):			
Net unrealized holding loss on other securities	7	4	65
Foreign currency translation adjustments	81	(38)	762
Adjustments for retirement benefit	1,101	(1,136)	10,363
Share of other comprehensive income of entities accounted for using equity method	0	—	0
Total other comprehensive income arising during the year	1,190	(1,170)	11,201
Comprehensive income	¥8,712	¥ 5,753	$82,003
Comprehensive income attributable to:			
Owners of the parent	¥8,486	¥ 5,398	$79,875
Non-controlling interests	225	355	2,117

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Numbers of shares of common stock (Thousands)	Millions of yen				
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2016	49,773	¥13,122	¥16,650	¥67,597	¥(270)	¥ 97,100
Changes arising during the year:						
Cash dividends				(3,524)		(3,524)
Profit attribute to owners of the parent				6,549		6,549
Purchase of treasury stock					(2)	(2)
Disposition of treasury stock			(0)		0	0
Increase in share of consolidated subsidiaries by capital increase			1			1
Net changes in accounts other than shareholders' equity						—
Total changes during the year	—	—	1	3,025	(2)	3,024
Balance at March 31, 2017	49,773	13,122	16,652	70,622	(272)	100,124
Changes arising during the year:						
Cash dividends				(3,623)		(3,623)
Profit attribute to owners of the parent				7,357		7,357
Purchase of treasury stock					(4)	(4)
Disposition of treasury stock			0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests			3			3
Net changes in accounts other than shareholders' equity						—
Total changes during the year	—	—	3	3,734	(4)	3,733
Balance at March 31, 2018	49,773	¥13,122	¥16,655	¥74,357	¥(276)	¥103,858

	Millions of yen					
	Accumulated other comprehensive income					
	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥32	¥(376)	¥(4,018)	¥(4,362)	¥1,659	¥ 94,397
Changes arising during the year:						
Cash dividends				—		(3,524)
Profit attribute to owners of the parent				—		6,549
Purchase of treasury stock				—		(2)
Disposition of treasury stock				—		0
Increase in share of consolidated subsidiaries by capital increase				—		1
Net changes in accounts other than shareholders' equity	3	(18)	(1,136)	(1,151)	403	(748)
Total changes during the year	3	(18)	(1,136)	(1,151)	403	2,276
Balance at March 31, 2017	35	(394)	(5,154)	(5,513)	2,062	96,674
Changes arising during the year:						
Cash dividends				—		(3,623)
Profit attribute to owners of the parent				—		7,357
Purchase of treasury stock				—		(4)
Disposition of treasury stock				—		0
Change in ownership interest of parent due to transactions with non-controlling interests				—		3
Net changes in accounts other than shareholders' equity	7	20	1,101	1,128	196	1,324
Total changes during the year	7	20	1,101	1,128	196	5,057
Balance at March 31, 2018	¥42	¥(374)	¥(4,053)	¥(4,385)	¥2,258	¥101,732

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2017	$123,512	$156,739	$664,740	$(2,560)	$942,432
Changes arising during the year:					
Cash dividends			(34,102)		(34,102)
Net income			69,248		69,248
Purchase of treasury stock				(37)	(37)
Disposition of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		28			28
Net changes in accounts other than shareholders' equity					—
Total changes during the year	—	28	35,146	(37)	35,137
Balance at March 31, 2018	$123,512	$156,767	$699,896	$(2,597)	$977,579

	Thousands of U.S. Dollars (note 3)					
	Accumulated other comprehensive income					
	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Non-controlling interests	Total net assets
Balance at April 1, 2017	$329	$(3,708)	$(48,512)	$(51,891)	$19,408	$909,958
Changes arising during the year:						
Cash dividends				—		(34,102)
Net income				—		69,248
Purchase of treasury stock				—		(37)
Disposition of treasury stock				—		0
Change in ownership interest of parent due to transactions with non-controlling interests				—		28
Net changes in accounts other than shareholders' equity	65	188	10,363	10,617	1,844	12,462
Total changes during the year	65	188	10,363	10,617	1,844	47,599
Balance at March 31, 2018	$395	$(3,520)	$(38,149)	$(41,274)	$21,253	$957,567

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
Cash flows from operating activities:			
Net income before income taxes	¥ 11,279	¥ 9,881	$ 106,165
Depreciation and amortization	2,526	2,834	23,776
Amortization of goodwill	251	255	2,362
Increase (decrease) in allowance for doubtful accounts	12	54	112
(Increase) decrease in asset for retirement benefits	310	8	2,917
Increase (decrease) in liability for retirement benefits	872	810	8,207
Increase (decrease) in accrued bonuses to directors	34	(31)	320
Increase (decrease) in accrued warranty on products	(7)	(66)	(65)
Increase (decrease) in accrued losses on sales contracts	(90)	242	(847)
Interest and dividend income	(46)	(50)	(432)
Interest expense	127	85	1,195
(Increase) decrease in notes and accounts receivable	(13,061)	13,463	(122,938)
(Increase) decrease in inventories	266	678	2,503
Increase (decrease) in notes and accounts payable	3,801	(2,640)	35,777
Other, net	2,326	1,207	21,893
Subtotal	8,604	26,733	80,986
Interest and dividend received	47	50	442
Interest paid	(127)	(85)	(1,195)
Income taxes paid	(3,744)	(4,063)	(35,240)
Net cash provided by operating activities	4,779	22,634	44,983

	Millions of yen		Thousands of U.S. dollars (note 3)
	2018	2017	2018
Cash flows from investing activities:			
Purchase of property and equipment	(1,628)	(1,886)	(15,323)
Proceeds from sale of property and equipment	386	2	3,633
Purchase of intangibles	(1,532)	(688)	(14,420)
Proceeds from sales of intangibles	11	—	103
Purchase of investment securities	(27)	(9)	(254)
Loans receivable made	(2)	(1)	(18)
Collection of loans receivable	3	5	28
Proceeds from sales of investments in subsidiaries and affiliates	74	—	696
Other, net	(87)	(119)	(818)
Net cash used in investing activities	(2,802)	(2,697)	(26,374)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(111)	23	(1,044)
Repayments of long-term debt	(171)	(163)	(1,609)
Proceeds from sale and purchase of treasury stock, net	(4)	(2)	(37)
Dividends paid to shareholders	(3,620)	(3,521)	(34,073)
Dividends paid to non-controlling interest	(23)	(14)	(216)
Other, net	(435)	(466)	(4,094)
Net cash used in financing activities	(4,366)	(4,144)	(41,095)
Effect of exchange rate changes on cash and cash equivalents	22	(33)	207
Net increase (decrease) in cash and cash equivalents	(2,366)	15,758	(22,270)
Cash and cash equivalents at beginning of year	59,648	43,889	561,445
Cash and cash equivalents at end of year	¥ 57,281	¥59,648	$ 539,166

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

1. BASIS OF PREPARATION

NEC Networks & System Integration Corporation (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan. Its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Japanese Financial Instruments and Exchange Law and, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRSs.

As permitted by the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company has 17 subsidiaries (companies over which the Company has the ability to control their operations) as of March 31, 2018 (17 subsidiaries as of March 31, 2017) (the "Group").

The accompanying consolidated financial statements include the accounts of the Company and the significant companies controlled directly or indirectly by the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements of the 7 subsidiaries with year-end of December 31 have been used for consolidation. All material transactions that occurred in the period from such year-end to March 31, which is the Company's year-end, have been adjusted.

The difference between the carrying amount and the underlying net assets at fair value at the respective dates of acquisition is allocated to identifiable assets and liabilities based on fair market value at the dates of acquisition. The unallocated portion of the difference, which is recognized as goodwill, is amortized by the straight-line method over a period of up to 20 years in which the future benefit of each investment is expected.

The Company also has 2 affiliates accounted for using equity method.
If the closing date of affiliates differs from the Company, financial statements prepared by their closing date are utilized in consolidation.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the foreign subsidiaries are translated into yen at the average exchange rates prevailing during the year, and, except for the components of shareholders' equity, the balance sheet accounts are translated at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments, except for the portion included in non-controlling interests, are presented as a separate component of net assets in the accompanying consolidated financial statements.

(c) Cash equivalents

Cash and cash equivalents include all highly liquid investments – generally with original maturities of three months or less – that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

(d) Investment securities

Marketable securities classified as other securities are measured at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(e) Inventories

Work in process is stated at the lower of cost or net selling value determined on a specific project basis. Purchased goods and materials are stated at the lower of cost or net selling value determined primarily by the moving-average method.

(f) Depreciation and amortization

Depreciation of property and equipment is principally computed by the straight-line method.

Significant renewals and improvements are capitalized. Maintenance and repair costs are charged to expense.

The useful lives of property and equipment are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	2 to 17 years
Tools, furniture and fixtures	2 to 20 years

Intangibles are amortized by the straight-line method over their estimated useful lives.

Software for sale is amortized based on projected sales volumes over the estimated effective periods (within 3 years). Software for internal use is amortized by the straight-line method over the estimated useful lives (within 5 years).

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(h) Accrued warranty on products
Accrued warranty on products is provided for at the estimated warranty cost.

(i) Accrued losses on sales contracts
Accrued losses on sales contracts are provided for at the amount of estimated losses for work in process at the balance sheet date. Among sales orders of the Company on hand at the balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order, such excess costs on sales contracts are accrued.

(j) Leases
Leased assets related to finance lease transactions without title transfer are depreciated by the straight-line method, with the lease term as their useful lives and no residual value.

(k) Research and development costs
Research and development costs are charged to expense as incurred.

(l) Retirement benefits
Liability for retirement benefits is provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for the actuarial gain or loss and past service costs that are yet to be recognized. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of services of the eligible employees. Actuarial gain or loss is amortized in the subsequent year that it occurs by the straight-line method within the average remaining years (11 to 18 years) of service of the employees. Past service costs are amortized beginning from the year it is incurred by the straight-line method within the average remaining years (12 to 18 years) of service of the employees.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit asset and liability and retirement benefit costs that for lump-sum payment plans, the payment for voluntary retirement at fiscal year-end is deemed as retirement benefit obligation, and for annuity payment plans, the actuarial obligation on pension finance calculation in the recent years is deemed as the retirement benefit obligation.

(m) Income taxes
Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(n) Derivative financial instruments
Derivatives are recorded at their fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is directly included in net assets.

Methods for significant hedge accounting

(i) Hedge accounting method
Deferral hedge accounting is applied. For forward exchange contracts, the allocation method is applied if the criteria for the allocation method are met.

(ii) Hedging instruments and hedged items
Hedging instruments: Forward exchange contracts
Hedged items: Any monetary receivables and payables and planned trading transactions that are denominated in foreign currencies.

(iii) Hedging policy
The Company uses derivative transaction in accordance with internal policies to mitigate and avoid the foreign exchange fluctuation risk.

(iv) Hedging evaluation
Hedge effectiveness is evaluated by comparing the total changes in values of hedging instruments and hedged items for the periods from the commencement of hedge contracts to the evaluation dates. For forward exchange contracts which meet the criteria for the allocation method, the evaluation of hedge effectiveness is omitted.

(o) Revenue recognition
The percentage-of-completion method is applied if the outcome of the construction activity can be estimated reliably, otherwise, the completed-contract method is applied. The percentage of completion as of the end of the reporting period is estimated based on the percentage of the cost incurred to the estimated total cost.

(p) Accrued bonuses to directors
The Company and its domestic consolidated subsidiaries provide accrued bonuses to directors based on the estimated amounts to be paid in respect of the year.

(q) Accounting for consumption taxes
Consumption taxes generally withheld upon sale, as well as those paid for purchases of goods or services, are recorded as a liability or an asset, and are excluded from relevant revenue, costs or expenses.

(r) Reclassifications
Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2017 to conform to the presentation for the year ended March 31, 2018.

(s) Accounting standards and guidance issued but not yet adopted
The following accounting standards and guidance were issued but not yet adopted.

"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018)
"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 (revised 2018), February 16, 2018)

(1) Overview
The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as 'Type1' according to the guidance.

(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Effects of the application of the standards
The adoption of the above guidance would have no significant impact on the consolidated financial statements.

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview
International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) had jointly developed comprehensive accounting standards on revenue recognition and had issued "Revenue from Contracts with Customers" (which is called "IFRS 15" in IASB, and "Topic 606" in FASB) in May 2014, and IFRS 15 applies to an annual reporting period beginning on or after January 1 2018, and Topic 606 applies to an annual reporting period beginning after December 15, 2017. In these circumstances, the ASBJ has developed comprehensive accounting standards on revenue recognition, and has issued the above accounting standard and implementation guidance.

The ASBJ followed two policies in developing a new revenue standard. Basically, incorporate all IFRS 15 requirements for international comparability as one of the benefit from conformity with IFRS 15, and consider additional alternative treatments where they would make application easier for the practice of business in Japan, within the extent of that would not significantly hinder international comparability.

(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(t) Changes in presentation
Changes in the consolidated balance sheets
"Electronically recorded monetary claims" included in "Notes and accounts receivable" in "Current assets" for the year ended March 31, 2017 is presented as a separate account for the year ended March 31, 2018 due to an increase in materiality.

The consolidated financial statements for the year ended March 31, 2017 have been reclassified to conform to the presentation used for the year ended March 31, 2018.

As a result, "Notes and accounts receivable" of ¥91,152 million in "Current assets" for the year ended March 31, 2017 were reclassified to "Notes and accounts receivable" of ¥90,711 million and "Electronically recorded monetary claims" of ¥441 million for the year ended March 31, 2017, were presented as a separate account for the year ended March 31, 2018.

In addition, the above separate account of "Electronically recorded monetary claims" for the year ended March 31, 2017, was reclassified in fair value of financial instruments in note 21 (FINANCIAL INSTRUMENTS).

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥106.24 = U.S.$1.00, the approximate rate of exchange on March 31, 2018. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. NOTES AND ELECTRONICALLY RECORDED MONETARY CLAIMS MATURING

Notes and electronically recorded monetary claims are settled on the clearing date. As financial institutions in Japan were closed on March 31, 2018, the following notes and electronically recorded monetary claims maturing on March 31, 2018 and collected or paid on the following business day, are included in the consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Notes receivable	¥75	¥—	$705
Electronically recorded monetary claims	18	—	169
Notes payable	30	—	282

5. INVESTMENT SECURITIES

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2018 and 2017 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2018	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥179	¥ 98	¥ 80	$1,684	$ 922	$ 753
Subtotal	179	98	80	1,684	922	753
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	49	74	(25)	461	696	(235)
Subtotal	49	74	(25)	461	696	(235)
Total	¥228	¥172	¥ 55	$2,146	$1,618	$ 517

	Millions of yen		
March 31, 2017	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥167	¥ 89	¥ 78
Subtotal	167	89	78
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	51	74	(22)
Subtotal	51	74	(22)
Total	¥219	¥163	¥ 55

Sales of securities classified as other securities for the years ended March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Proceeds from sales	¥4	¥ 3	$37
Gain(Loss) on sales	3	(1)	28

Unlisted equity securities of ¥223 million ($2,099 thousand) and ¥202 million at March 31, 2018 and 2017, respectively, are not included in the above table because there is no market value thereof and future cash flows cannot be estimated therefor, thus, making it extremely difficult to measure the fair value.

Impairment loss recognized on investment securities
During the fiscal year ended March 31, 2018, the Company recognized impairment losses of ¥11 million ($103 thousand) and ¥0 million ($0 thousand) on available-for-sale securities with and without market value, respectively. During the fiscal year ended March 31, 2017, the Company recognized impairment losses of ¥2 million and ¥0 million on available-for-sale securities with and without market value, respectively.

Securities with market value are fully impaired if their market value as at fiscal year-end falls below 50% of their original cost. If the decline in their market value is between 30% and 50%, the recoverability of their market value is taken into account to determine the amount of losses. Securities without market value are impaired if the net asset per share falls below 50% of original cost due to deterioration of issuers' financial conditions.

6. INVESTMENT IN AN AFFILIATE

The aggregate carrying amount of investment in an affiliate as of March 31, 2018 is ¥64 million ($602 thousand).

7. INVENTORIES

a) Inventories at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Work in process	¥5,858	¥5,815	$55,139
Purchased goods and materials	2,379	2,679	22,392
Total	¥8,237	¥8,494	$77,532

b) Losses from revaluation of the lower of cost or net selling value included in cost of sales for the years ended March 31, 2018 and 2017 were ¥149 million ($1,402 thousand) and ¥–474 million, respectively.

c) Losses on sales contracts included in cost of sales for the years ended March 31, 2018 and 2017 were ¥338 million ($3,181 thousand) and ¥555 million, respectively.

d) Accrued losses on sales contracts and work in process corresponding to the loss contract are not offset in the accompanying consolidated balance sheets.

Work in process inventories corresponding to accrued losses on sales contracts at March 31, 2018 and 2017 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Work in process	¥263	¥127	$2,475

8. GOODWILL

Goodwill at March 31, 2018 and 2017 is recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Intangibles, net of accumulated amortization	¥1,394	¥1,689	$13,121

According to Article 32 of the "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (Accounting Practice Committee Statement No. 7 amended on November 28, 2014 by the Japan Institute of Certified Public Accountants), goodwill is amortized.

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans and long-term debt are unsecured.

The weighted average interest rates of current installments of long-term debt for the years ended March 31, 2018 and 2017 were approximately 0.4% and 0.5% and those of long-term debt for the years ended March 31, 2018 and 2017 were approximately 0.4% and 0.4%, respectively.

The annual maturities of long-term debt at March 31, 2018 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥3,171	$29,847
2020	171	1,609
2021	171	1,609
2022	171	1,609
2023	171	1,609
2024 and thereafter	157	1,477

As of March 31, 2018 and 2017, the Group executed a ¥9,000 million ($84,713 thousand) and ¥8,000 million, respectively committed borrowing facility with two domestic banks, and there are no outstanding borrowings having been occurred during the year.

10. INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 30.9% and 30.9% for 2018 and 2017, respectively. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2018 and 2017 differed from the statutory tax rate for the following reasons:

	2018	2017
Statutory tax rate	30.9%	30.9%
Effect of:		
Expenses not deductible for tax purposes	1.5	1.4
Inhabitant tax per capita levy	1.2	1.4
Tax credit	(0.3)	(0.3)
Increase/(Decrease) in valuation allowance	(0.3)	(2.8)
Amortization of goodwill	0.2	0.3
Other, net	0.1	(1.0)
Effective tax rate	33.3%	29.9%

Tax effects of significant temporary differences and tax loss carry-forwards that resulted in deferred tax assets or liabilities at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,211	¥ 1,973	$ 20,811
Social security contribution on employees' bonuses	316	284	2,974
Allowance for doubtful accounts	33	39	310
Accrued enterprise tax	282	246	2,654
Loss on revaluation of inventories	1,278	1,187	12,029
Unrealized profit on inventories	17	16	160
Accrued losses on sales contracts	162	177	1,524
Depreciation	200	189	1,882
Asset retirement obligations	240	240	2,259
Liability for retirement benefits	9,304	9,789	87,575
Stock dividends	106	106	997
Impairment loss on investment securities	29	57	272
Asset adjustment account	—	101	—
Tax loss carry-forwards	1,696	1,495	15,963
Other	408	376	3,840
Subtotal	16,288	16,282	153,313
Valuation allowance	(2,975)	(2,694)	(28,002)
Total	13,313	13,588	125,310
Deferred tax liabilities:			
Asset for retirement benefits	(56)	(28)	(527)
Restoration cost for asset retirement obligations	(151)	(167)	(1,421)
Goodwill	(251)	(302)	(2,362)
Liability adjustment account	(147)	(150)	(1,383)
Other	(26)	(46)	(244)
Total	(634)	(694)	(5,967)
Net deferred tax assets	¥12,678	¥12,893	$119,333

Net deferred tax assets and liabilities as of March 31, 2018 and 2017 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets—Deferred tax assets	¥4,524	¥4,102	$42,582
Investments and other assets—Deferred tax assets	8,596	8,881	80,911
Non-current liabilities—Other liabilities	(442)	(90)	(4,160)

11. RETIREMENT BENEFIT PLANS

The Company and its consolidated subsidiaries have funded or unfunded defined benefit plans and defined contribution plans.

Lump-sum or annuity payments are paid from the corporate defined benefit pension plans, all of which are funded based on the employees' job grade and length of service.

Lump-sum payments are paid from unfunded lump-sum payment plans based on the employees' job grade, performance and length of service.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit asset and liability and retirement benefit costs that for lump-sum payment plans, the payment for voluntary retirement at fiscal year-end is deemed as retirement benefit obligation, and for annuity payment plans, the actuarial obligation on pension finance calculation in the recent years is deemed as the retirement benefit obligation.

The information for the Company's and the consolidated subsidiaries' defined benefit plans at March 31, 2018 and 2017 for the years then ended is as follows.

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligation at beginning of year	¥59,713	¥56,364	$562,057
Service cost	2,585	2,510	24,331
Interest cost	541	507	5,092
Actuarial gain and loss	(989)	2,042	(9,309)
Benefits paid	(1,948)	(1,885)	(18,335)
Changes arising from the changes in accounting policy from the simplified method to the standard method	—	174	—
Other	27	(1)	254
Retirement benefit obligation at end of year	¥59,929	¥59,713	$564,090

Note: The above table excludes certain plans that have adopted the simplified method.

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of year	¥29,407	¥28,558	$276,797
Expected return on plan assets	722	699	6,795
Actuarial gain and loss	127	(413)	1,195
Contributions paid by the employer	1,116	1,496	10,504
Benefits paid	(900)	(929)	(8,471)
Other	(2)	(3)	(18)
Plan assets at end of year	¥30,471	¥29,407	$286,812

Note: The above table excludes certain plans that have adopted the simplified method.

(3) Reconciliation of changes in liability for retirement benefits whose plans adopted the simplified method

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liability for retirement benefits at beginning of year	¥576	¥ 639	$5,421
Retirement benefit costs	60	86	564
Benefits paid	(42)	20	(395)
Changes arising from the changes in accounting policy from the simplified method to the standard method	—	(157)	—
Other	(67)	(13)	(630)
Liability for retirement benefits at end of year	¥526	¥ 576	$4,951

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ 32,417	¥ 32,798	$ 305,129
Plan assets	(30,919)	(29,815)	(291,029)
	1,497	2,982	14,090
Unfunded retirement benefit obligation	28,486	27,899	268,128
Net liability for retirement benefits	¥ 29,984	¥ 30,881	$ 282,228
Liability for retirement benefits	¥ 30,428	¥ 31,206	$ 286,408
Asset for retirement benefits	(444)	(324)	(4,179)
Net liability for retirement benefits	¥ 29,984	¥ 30,881	$ 282,228

Note: The above table includes certain plans that have adopted the simplified method.

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥2,585	¥2,510	$24,331
Interest cost	541	507	5,092
Expected return on plan assets	(722)	(699)	(6,795)
Net actuarial loss amortization	1,534	1,411	14,439
Past service costs amortization	(574)	(574)	(5,402)
Retirement benefit costs calculated by the simplified method	60	86	564
Other	(0)	14	(0)
Retirement benefit costs	¥3,424	¥3,256	$32,228

(6) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service costs	¥ (574)	¥ (574)	$ (5,402)
Actuarial gains and losses	2,652	(1,044)	24,962
Total	¥2,077	¥(1,619)	$19,550

(7) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service costs	¥(2,224)	¥ (2,798)	$(20,933)
Unrecognized actuarial gains and losses	8,006	10,659	75,357
Total	¥ 5,782	¥ 7,860	$ 54,423

(8) Plan assets

(a) The components of plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Debt securities	¥15,376	¥14,792	$144,728
Equity securities	4,645	4,328	43,721
General account	3,612	3,517	33,998
Alternative	6,368	6,172	59,939
Other	468	597	4,405
Total	¥30,471	¥29,407	$286,812

Note: Total plan assets include ¥413 million ($3,887 thousand) and ¥509 million in a retirement benefit trust established for the corporate pension plan as of March 31, 2018 and 2017, respectively.
Alternative is mainly investment to hedge fund.

(b) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2018 and 2017 (expressed as weighted averages) are as follows:

	2018	2017
Discount rate	0.9%	0.9%
Long-term expected rate of return	2.5%	2.5%
Expected increase rate of salary	4.1%	4.1%

The amounts to be paid by the Company and its consolidated subsidiaries to the defined contribution plans were ¥479 million ($4,508 thousand) and ¥477 million for the years ended March 31, 2018 and 2017.

12. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations are based on estimated future restoration obligations related to leasehold contracts of head office and other facilities.

The obligations are calculated based on the estimated office rental period of mainly 20 years and a discounted rate of 1.7%.

The following table provides Company's total asset retirement obligations for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance, beginning of year	¥781	¥756	$7,351
Obligations incurred by asset acquisition	8	34	75
Obligations settled	(42)	(19)	(395)
Accretion expense	10	10	94
Remeasurements	18	—	169
Balance, end of year	¥777	¥781	$7,313

13. SHAREHOLDERS' EQUITY

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal earnings reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal earnings reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal earnings reserve are available for appropriations by the resolution of the shareholders. The legal earnings reserve amounted to ¥546 million ($5,139 thousand) as of both March 31, 2018 and 2017. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Cash dividends charged to retained earnings for the years ended March 31, 2018 and 2017 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

The movement of treasury stock is as follows:

	Shares	
	2018	2017
At beginning of year	135,911	134,825
Increase - purchase of odd lot shares	1,534	1,141
Decrease - sale of odd lot shares	10	55
At end of year	137,435	135,911

a) Dividends paid during the year ended March 31, 2017

The following was approved by the Board of Directors on April 28, 2016.

(a) Total dividends	¥1,737 million
(b) Cash dividends per common share	¥35
(c) Record date	March 31, 2016
(d) Effective date	May 31, 2016

The following was approved by the Board of Directors on October 31, 2016.

(a) Total dividends	¥1,786 million
(b) Cash dividends per common share	¥36
(c) Record date	September 30, 2016
(d) Effective date	December 2, 2016

b) Dividends to be paid after March 31, 2017 although record date for payment falls within the year ended March 31, 2017

The following was approved by the Board of Directors on April 27, 2017.

(a) Total dividends	¥1,786 million
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥36
(d) Record date	March 31, 2017
(e) Effective date	June 2, 2017

c) Dividends paid during the year ended March 31, 2018

The following was approved by the Board of Directors on April 27, 2017.

(a) Total dividends	**¥1,786 million ($16,810 thousand)**
(b) Cash dividends per common share	**¥36 ($0.33)**
(c) Record date	**March 31, 2017**
(d) Effective date	**June 2, 2017**

The following was approved by the Board of Directors on October 31, 2017.

(a) Total dividends	**¥1,836 million ($17,281 thousand)**
(b) Cash dividends per common share	**¥37 ($0.34)**
(c) Record date	**September 30, 2017**
(d) Effective date	**December 4, 2017**

d) Dividends to be paid after March 31, 2018 although record date for payment falls within the year ended March 31, 2018

The following was approved by the Board of Directors on April 27, 2018.

(a) Total dividends	**¥1,836 million ($17,281 thousand)**
(b) Dividend source	**Retained earnings**
(c) Cash dividends per common share	**¥37 ($0.34)**
(d) Record date	**March 31, 2018**
(e) Effective date	**May 31, 2018**

14. CONTINGENT LIABILITIES

At March 31, 2018 and 2017, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥4 million ($37 thousand) and ¥9 million, respectively.

15. LEASES

(1) Finance leases

Under finance leases that do not transfer ownership of the leased property to the lessee

Most of finance lease transactions are telecommunications equipment in Enterprise network business, and capitalized lease assets and lease obligations in the balance sheet. Finance lease assets that do not deem to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with zero residual value

(2) Operating leases

Future minimum operating lease payments subsequent to March 31, 2018 and 2017 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥2,521	¥2,447	$23,729
Due over one year	3,064	5,231	28,840
Total	¥5,585	¥7,678	$52,569

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Employees salary	¥16,035	¥15,485	$150,931
Provision for bonuses to directors	38	39	357
Retirement benefit costs	1,232	1,194	11,596
Provision of allowance for doubtful accounts	13	37	122

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥425million ($4,000 thousand) and ¥387 million for the years ended March 31, 2018 and 2017, respectively.

18. GAIN ON SALES OF NON-CURRENT ASSETS

Gain on sales of non-current assets are due to the sales of buildings and land of company dormitory.

19. OTHER COMPREHENSIVE INCOME

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holding gain on other securities:			
Unrealized holding gain(loss) arising during the year	¥ (0)	¥ 5	$ (0)
Reclassification adjustment for gain/loss realized in net income	11	—	103
Before tax amount	10	5	94
Tax effect	(3)	(1)	(28)
Net-of-tax amount	7	4	65
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	83	(38)	781
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	83	(38)	781
Tax effect	(2)	(0)	(18)
Net-of-tax amount	81	(38)	762
Adjustments for retirement benefit:			
Adjustments for retirement benefit arising during the year	1,117	(2,456)	10,513
Reclassification adjustment for gain/loss realized in net income	960	836	9,036
Before tax amount	2,077	(1,619)	19,550
Tax effect	(976)	483	(9,186)
Net-of-tax amount	1,101	(1,136)	10,363
Share of other comprehensive income of entities accounted for using equity method			
Share of other comprehensive income of entities accounted for using equity method arising during the year	0	—	0
Total other comprehensive income	¥1,190	¥(1,170)	$11,201

20. AMOUNTS PER SHARE

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income per share	¥ 148.23	¥ 131.94	$ 1.39
Net assets per share	2,004.04	1,906.03	18.86

The basis of calculation for net income per share and net income per share is as shown below.

	2018	2017
Net income attributable to owners of the parent (millions of yen)	7,357	6,549
Amounts not attributable to common stock (millions of yen)	—	—
Net income attributable to owners of the parent related to common stock (millions of yen)	7,357	6,549
Average number of shares during the term (thousands of shares)	49,637	49,638

21. FINANCIAL INSTRUMENTS

Conditions of Financial instruments

(1) Management policy

The Group makes short-term deposits or uses high-security financial instruments for fund management purposes.

The Group obtains funding for capital expenditure plans mainly through bank loans.

The Group utilizes derivative financial instruments to hedge various risks as described in detail below and does not enter into derivatives for trading or speculative purposes.

(2) Financial instruments and risks

The notes, accounts receivable and electronically recorded monetary claims are exposed to credit risk of customers. Operating receivables and payables denominated in foreign currencies are exposed to foreign currency fluctuation risk.

Marketable and investment securities, except for short-term investments, are held for business and capital alliances with business associates, and are exposed to stock market fluctuation risk.

Maturities of notes, accounts payable and electronically recorded obligations are within one year.

Debts are for funding capital expenditure, and their maximum maturities are 6 years and 7 years after the balance sheet date for the years ended March 31, 2018 and 2017, respectively. Part of the obligations has floating interest rates and is exposed to interest rate risk.

In order to hedge the foreign exchange rates fluctuation risk associated with operating receivables and payables denominated in foreign currencies, forward foreign exchange contracts are used.

Hedge accounting is applied for certain derivative transactions. Please refer to note 2 (n).

(3) Financial instruments risk management

1) Credit risk

To mitigate and quickly capture collectability issues, the Group regularly monitors customers' credit status, and performs due date controls and balance controls for each customer.

When the Group utilizes derivatives or deposits money and purchases securities for cash management purposes, to mitigate the counterparty risk, the counterparties to these transactions are financial institutions with high credit ratings.

2) Market risk

The Group comprehends foreign currency fluctuation risk by currency and by month, and to mitigate the risk, the Group enters into a forward exchange contract for hedging the cash flow fluctuation risk associated with operating receivables and payables denominated in foreign currencies.

To mitigate the stock market fluctuation risk, the Group regularly monitors stock prices and financial status of its business associates and continuously considers whether the Group should hold the stock.

Derivative transactions entered into by the Group are in accordance with policies and rules that provide for risk management, approvals, reporting and verifications.

3) Liquidity risk

To mitigate the liquidity risk, the Group prepares and updates its funds management plan on a timely basis, and maintains an appropriate level of liquidity through its cash and cash equivalents and unused committed lines.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which quoted market price is not available is calculated based on certain assumptions, and the fair value may differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note 22 (DERIVATIVES) does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At both March 31, 2018 and 2017, 24% and 27% of operating receivables were receivables from a certain major customer.

Fair value of financial instruments

The carrying amount on the consolidated balance sheets, fair value and differences as of March 31, 2018 and 2017 are as follows.

Financial instruments, of which the fair value is extremely difficult to measure, are not included. (Please see (2) “Financial instruments of which the fair value is extremely difficult to measure”)

	Millions of yen			Thousands of U.S. dollars		
March 31, 2018	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 57,281	¥ 57,281	¥—	$ 539,166	$ 539,166	$—
(2) Notes and accounts receivable	103,911			978,077		
(3) Electronically recorded monetary claims	494			4,649		
Allowance for doubtful accounts	(55)			(517)		
	104,350	104,350	—	982,210	982,210	—
(4) Investment securities	228	228	—	2,146	2,146	—
Total	¥161,860	¥161,860	¥—	$1,523,531	$1,523,531	$—
Liabilities:						
(1) Notes and accounts payable	¥ 39,574	¥ 39,574	¥—	$ 372,496	$ 372,496	$—
(2) Electronically recorded obligations	728	728	—	6,852	6,852	—
(3) Short-term bank loans	4,086	4,086	—	38,460	38,460	—
(4) Current installments of long-term debt	3,171	3,171	—	29,847	29,847	—
(5) Long-term debt	842	842	—	7,925	7,925	—
Total	¥ 48,403	¥ 48,403	¥—	$ 455,600	$ 455,600	$—
Derivative transactions	¥ —	¥ —	¥—	$ —	$ —	$—

	Millions of yen		
March 31, 2017	Carrying amount	Fair value	Differences
Assets:			
(1) Cash and cash equivalents	¥ 59,648	¥ 59,648	¥—
(2) Notes and accounts receivable	90,711		
(3) Electronically recorded monetary claims	441		
Allowance for doubtful accounts	(27)		
	91,124	91,124	—
(4) Investments securities	219	219	—
Total	¥150,992	¥150,992	¥—
Liabilities:			
(1) Notes and accounts payable	¥ 36,474	¥ 36,474	¥—
(2) Electronically recorded obligations	—	—	—
(3) Short-term bank loans	4,069	4,069	—
(4) Current installments of long-term debt	171	171	—
(5) Long-term debt	4,014	4,010	(3)
Total	¥ 44,730	¥ 44,726	¥(3)
Derivative transactions	¥ 2	¥ 2	¥—

Notes: 1. Allowance for doubtful accounts are deducted from the above Notes and accounts receivable, and Electronically recorded monetary claims.
2. Derivative receivables and liabilities are on a net basis.

(1) Fair value measurement of financial instruments
Assets:
1) Cash and cash equivalents
The carrying amount approximates fair value because of the short maturity of these instruments.

2) Notes receivable, accounts receivable and electronically recorded monetary claims
The carrying amount approximates fair value because of the short maturity of these instruments.

3) Investment securities
The fair value of equity securities is calculated by the quoted market price. Please see note 5 (INVESTMENT SECURITIES) for information by category.

Liabilities:
1) Notes payable, accounts payable and electronically recorded obligations
The carrying amount approximates fair value because of the short maturity of these instruments.

2) Short-term bank loans
The carrying amount approximates fair value because of the short maturity of these instruments.

3) Current installments of long-term debt
The carrying amount approximates fair value because of the short maturity of these instruments.

4) Long-term debt
Fair value of long-term debts is based on the present value of future cash flows discounted using the current borrowing rate for similar debt with comparable maturity.

Derivative transactions:
Please see note 22 (DERIVATIVES).

(2) Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unlisted equity securities	¥287	¥202	$2,701

The above securities are not included in "Assets:(4) Investment securities", as market prices are not available and also future cash flows cannot be estimated reliably. Thus, the fair value cannot be reasonably obtained.

(3) Projected future redemption of monetary claims and securities with maturities at March 31, 2018

	Millions of yen			
March 31, 2018	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 57,281	¥—	¥—	¥—
Notes and accounts receivable	103,911	—	—	—
Electronically recorded monetary claims	494	—	—	—
	¥161,687	¥—	¥—	¥—

	Thousands of U.S. dollars			
March 31, 2018	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$ 539,166	$—	$—	$—
Notes and accounts receivable	978,077	—	—	—
Electronically recorded monetary claims	4,649	—	—	—
	$1,521,903	$—	$—	$—

(4) The annual maturities of long-term debt and other interest-bearing debt at March 31, 2018

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥4,086	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	3,171	171	171	171	171	157

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	$38,460	$ —	$ —	$ —	$ —	$ —
Long-term debt	29,847	1,609	1,609	1,609	1,609	1,477

22. DERIVATIVES

The Company enters into forward exchange contracts with major Japanese banks in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.

At March 31, 2018, there is no derivative transactions to report.
At March 31, 2017, the disclosure of fair value information for derivatives which are not accounted for as hedges is as follows:

	Millions of yen			
	Contract amount			
March 31, 2017	Total	Over 1 year	Fair value	Valuation gain
Forward exchange contracts:				
Order to buy:				
U.S. dollars	¥65	¥6	¥2	¥2
Total	¥65	¥6	¥2	¥2

The fair value of forward exchange contracts is computed based on quotes from counterparties.

23. RELATED PARTY TRANSACTIONS

(1) The Company's balances with related parties and related transactions

NEC Corporation owned 51.49% of the Company's outstanding common stock as of both March 31, 2018 and 2017, respectively.
Balances with NEC Corporation at March 31, 2018 and 2017, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Construction and maintenance of network system:			
Transactions:			
Sales	¥60,855	¥64,804	$572,806
Balances:			
Accounts receivable	¥25,250	¥24,172	$237,669
Advances received	386	347	3,633
Purchases of communication device:			
Transactions:			
Purchases	¥44,171	¥45,140	$415,766
Balances:			
Accounts payable	¥12,533	¥12,202	$117,968

24. SEGMENT INFORMATION

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine the distribution of management resources and evaluate their business results.

The "Enterprises networks business," "Carrier networks business" and "Social infrastructures business" are the Company's reportable segments. The Company combines business segments which have similar economic characteristics into these reportable segments. The business segments are based on the operation headquarters by service lines, which are the units used for internal reporting for performance management.

The Enterprises networks business mainly renders service integration relating to ICT solution for enterprises. The segment renders total office solution services based on ICT with securities or environmental solutions and related operating/monitoring services, as well as outsourcing services using our own data centers and contact centers.

The Carrier networks business mainly renders service integration for telecom carriers' ICT platforms (from mobile communications base stations to core networks), including systems integration, installation, and related services such as operations and monitoring, and systems integration of large-scale, wide-area, carrier-grade ICT platforms and data centers and the related operations/monitoring services.

The Social infrastructures business mainly renders service integration of ICT infrastructure for governments and public utilities (broadcasters, electric power companies, etc.), such as systems integration, installation and operation/monitoring services, and these services provided by foreign subsidiaries.

Segment sales, income, assets and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2018 and 2017 is summarized as follows:

	Millions of yen					
March 31, 2018	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥110,887	¥64,902	¥85,192	¥6,957	¥ —	¥267,939
(2) Intersegment sales	—	—	—	—	—	—
Total	¥110,887	¥64,902	¥85,192	¥6,957	¥ —	¥267,939
Segment income	¥ 10,797	¥ 5,021	¥ 3,399	¥ 263	¥ (8,424)	¥ 11,057
Segment assets	¥ 44,999	¥30,750	¥54,383	¥1,862	¥76,054	¥208,050
Others:						
Depreciation and amortization	¥ 1,418	¥ 361	¥ 131	¥ —	¥ 615	¥ 2,526
Purchases of property and equipment, and intangible assets	1,469	288	229	16	1,746	3,750
Investment to entities accounted for using equity method	40	—	24	—	—	64

	Thousands of U.S. dollars					
March 31, 2018	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	$1,043,740	$610,899	$801,882	$65,483	$ —	$2,522,016
(2) Intersegment sales	—	—	—	—	—	—
Total	$1,043,740	$610,899	$801,882	$65,483	$ —	$2,522,016
Segment income	$ 101,628	$ 47,260	$ 31,993	$ 2,475	$ (79,292)	$ 104,075
Segment assets	$ 423,559	$289,439	$511,888	$17,526	$715,869	$1,958,301
Others:						
Depreciation and amortization	$ 13,347	$ 3,397	$ 1,233	$ —	$ 5,788	$ 23,776
Purchases of property and equipment, and intangible assets	13,827	2,710	2,155	150	16,434	35,297
Investment to entities accounted for using equity method	376	—	225	—	—	602

	Millions of yen					
March 31, 2017	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥107,366	¥61,579	¥82,362	¥6,602	¥ —	¥257,912
(2) Intersegment sales	—	—	—	—	—	—
Total	¥107,366	¥61,579	¥82,362	¥6,602	¥ —	¥257,912
Segment income	¥ 8,823	¥ 3,569	¥ 6,029	¥ 246	¥ (8,693)	¥ 9,974
Segment assets	¥ 38,046	¥27,872	¥50,780	¥1,339	¥79,430	¥197,469
Others:						
Depreciation and amortization	¥ 1,536	¥ 337	¥ 152	¥ —	¥ 806	¥ 2,834
Purchases of property and equipment, and intangible assets	1,529	520	130	9	533	2,723

Notes: 1. "Others" includes purchases of information and telecommunications equipment, etc., which are not included in the reported segments.
2. "Adjustments" of ¥–8,424 million ($–79,292 thousand) and ¥–8,693 million in segment income for the years ended March 31, 2018 and 2017, respectively, are mainly administrative operation expenses.
3. "Adjustments" of ¥76,054 million ($715,869 thousand) and ¥79,430 million in segment assets at March 31, 2018 and 2017, respectively, mainly consist of surplus funds (cash and deposits), land, long-term deposits and assets relating to the administrative operations of the parent company.
4. Segment income is adjusted with operating income in the consolidated statements of income.
5. "Depreciation and amortization" for the years ended March 31, 2017 and "purchases of property and equipment, and intangible assets" for the years ended March 31, 2018 and 2017 include long-term prepaid expenses and their amortization.

Related information

Related segment information for the years ended March 31, 2018 and 2017 are as follows:

(1) Information by products and services

Please refer to the reported segment information.

(2) Geographical information

1) Sales

Disclosures are omitted because sales to Japanese customers are over 90% of sales in the consolidated statements of income.

2) Property and equipment

Disclosures are omitted because property and equipment located in Japan are over 90% of property and equipment in the consolidated balance sheets.

(3) Information by major customers

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Customer name:			
NEC Corporation			
Sales	¥67,203	¥71,421	$632,558

The above sales are related to the "Enterprise networks" segment, "Carrier networks" segment and "Social infrastructures" segment.

Information of impairment loss on fixed assets by reported segments for the years ended March 31, 2018 and 2017

There are no amounts to report.

Information of amortization of goodwill and balances of goodwill by reported segments as of and for the years ended March 31, 2018 and 2017

	Millions of yen					
March 31, 2018	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 27	¥ 224	¥—	¥—	¥—	¥ 251
Balances of goodwill	150	1,243	—	—	—	1,394

	Thousands of U.S. dollars					
March 31, 2018	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	$ 254	$ 2,108	$—	$—	$—	$ 2,362
Balances of goodwill	1,411	11,699	—	—	—	13,121

	Millions of yen					
March 31, 2017	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 30	¥ 224	¥—	¥—	¥—	¥ 255
Balances of goodwill	221	1,468	—	—	—	1,689

Negative goodwill incurred by reported segments for the years ended March 31, 2018 and 2017

There are no amounts to report.

KPMG

Independent Auditor's Report

To the Board of Directors of NEC Networks & System Integration Corporation:

We have audited the accompanying consolidated financial statements of NEC Networks & System Integration Corporation, and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits.
We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NEC Networks & System Integration Corporation and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

June 21, 2018
Tokyo, Japan

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