NEC

NESIC × ☐ = INNOVATION

ANNUAL REPORT 2019

NEC Networks & System Integration Corporation

CONTENTS

Editorial Policy

NEC Networks & System Integration Corporation (NESIC) has published its Annual Report as an integrated report since 2016.

For the Annual Report, NESIC reports on a wide range of corporate activities, including its business strategy for the creation and provision of social value and for our growth over the medium to long term, as well as the initiatives it pursues under that strategy. In Annual Report 2019, based on the themes of co-creation and innovation, we introduce our initiatives for continuing to create new value for society through Groupwide innovation and co-creation with customers and partners.

With the aim of furthering everyone's understanding of the NESIC Group, we endeavor to disclose highly valuable information while making iterative improvements based on feedback we receive through dialogue with investors and other stakeholders. Accordingly, please provide us with your feedback after reading this report.

Full details, including on our financial results and medium-term business strategy, are available on the "Investor Relations" section of our website. In addition, the "CSR" section of our website provides more detail on our initiatives relating to corporate social responsibility.

Period Covered

April 1, 2018 to March 31, 2019
(Certain 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)
  GRI Standards
- ISO 26000 (Guidance on social responsibility)
- Minister of Economy, Trade and Industry
  Guidance for Collaborative Value Creation

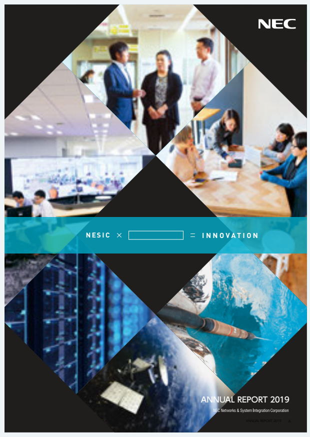
Contact

- Investor Relations
  https://www.nesic.co.jp/english/ir/
  Responsible department: IR Group of the Corporate Finance & Controller Division

- Sustainability-Related Information
  https://www.nesic.co.jp/english/csr/
- Environment-Related Information
  https://www.nesic.co.jp/english/csr/environment.html
  Responsible department: CSR Promotion & Corporate Communications Division

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.



About the Cover

By bringing together the technologies and strengths of its customers and partners, NESIC is keen to spur innovation while accelerating co-creation. The cover was designed to express these intentions of NESIC.






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

The NEC Networks & System Integration Corporation Group Statement and Corporate Message were crafted based on discussions involving all employees.






OUR BUSINESSES

Since its founding as a telecommunications construction company in 1953, the NEC Networks & System Integration Corporation (NESIC) Group has expanded its business fields in tune with changes in the times and technology. Today, NESIC creates various communications systems and services integrating various equipment, software, networks, and services, as well as brand new cutting-edge/venture technologies for its diverse base of customers, such as companies, telecom carriers, governments, and social infrastructure providers. Furthermore, the Company is a comprehensive provider of operating and monitoring, maintenance, and outsourcing services.

Digital Solutions Business

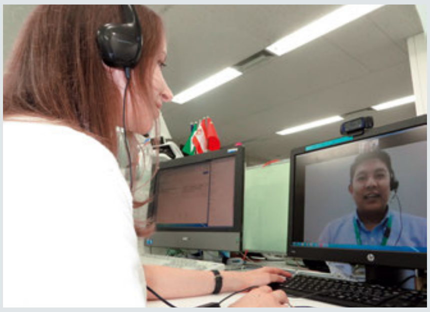
The Digital Solutions Business offers systems and services for information and communications technology (ICT), such as corporate networks and IT, that are essential for business. Using cutting-edge digital technologies, such as artificial intelligence (AI), the Internet of Things (IoT), and robotic process automation (RPA), NESIC proposes work styles that lead to higher productivity and the evolution of businesses, as well as work styles that allow employees to work anywhere and anytime. We support diverse and sophisticated work styles in response to social issues, such as balancing childcare or nursing care while working to the best of their ability.

Network Infrastructures Business

The Network Infrastructures Business builds systems and provides services for network infrastructure requiring the latest technology and high reliability, including networks for telecom carriers and ICT infrastructure that support society, such as national and local governments, broadcasters, and road- and railway-related businesses. We contribute to providing safe and comfortable daily lives.

Engineering & Support Services Business

The Engineering & Support Services Business provides maintenance, operating and monitoring, outsourcing, and other support services as well as construction for our ICT systems and services. Leveraging its construction capabilities, NESIC offers ICT infrastructure to overseas customers as well. We underpin safe and secure systems and services through our comprehensive domestic service network and strive to build global infrastructure.



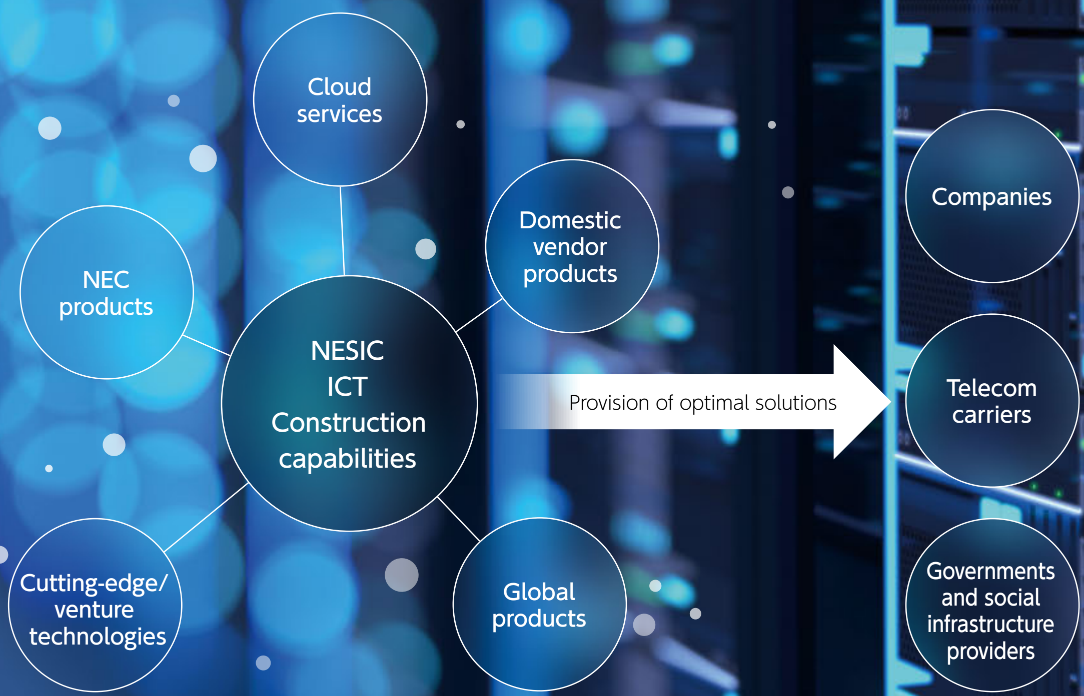
COMPETENCE 1

Technological Capabilities & Credibility

NESIC has built a unique position as a system integrator with construction capabilities by fusing together its ICT, which is kept in tune with the changing times, with its telecommunications construction technologies, which have been accumulated since its founding. NESIC has a wide range of technological capabilities centered on communications, from ICT services for corporations, to mission critical communications infrastructure for public use such as networks of telecom carriers and fire and ambulance emergency network systems. The Company offers comprehensive, high-quality services that are highly dependable, including for system design, integration, installation, operation, and maintenance, from the selection of equipment to outsourcing.

The technological capabilities we have accumulated to satisfy the stringent requirements and expectations of customers of the NEC Group are also utilized in services and various vendor products inside and outside Japan in tune with the needs of other customers. These capabilities are also being used for cloud-based services, which many companies have begun to adopt lately, and cutting-edge/venture technologies, and have led to the provision of optimal solutions for customers.

Technological Capabilities for Integrating Diverse Products and Services



Example / Initiative Leveraging Core Competencies

Development of Network Infrastructure for Telecom Carriers

NESIC cross-develops assets, including its maintenance service network in Japan, and deploys network engineers with the advanced technical skills only found in the NEC Group, to support overseas vendors who do not have these functions inside Japan, contributing to the creation of advanced networks for telecom carriers.

Looking ahead, NESIC will work to enhance its capabilities ahead of the full-fledged rollout of 5G infrastructure through 5G Pagoda, a Japan–Europe joint project to create international standards for 5G, and 5G Lab, which trains personnel and verifies technologies.

Employee Qualifications

Employees with managing engineer or technical supervisor qualifications

approx. **1,500**

Employees with advanced ICT qualifications

approx. **800**

COMPETENCE 2

Nationwide Business Capabilities

In order to support infrastructure that underpins safety and security in society and the networks of telecom carriers, including the salespeople and systems engineers who respond to customers across the country, we have put into place a service network with more than 400 locations in Japan, in addition to help desk services for network servers and security; operation centers that collectively address needs for network operation, monitoring, and maintenance services; and comprehensive technical centers able to provide one-stop services from technology assessments to repairs with logistics functions. Our 24/7 full-service structure is able to dispatch people and deliver products within a couple of hours anywhere in Japan—a unique strength that underpins the development of society forward creating welcoming and convenient lifestyles.

24/7 full-service structure able to respond within a couple of hours anywhere in Japan

Domestic Service Bases
Over 400

nTOC Network Total Operation Center

sDOC Service Delivery Operation Center

S-IDC Strategic Data Center

Example / Initiative Leveraging Core Competencies

Security Operation Center (SOC)

To combat cyberattacks, which are becoming increasingly clever and sophisticated, NESIC has established its Security Operation Center (SOC) to operate and monitor customer networks.

In addition to monitoring through systems, the SOC is able to identify risks and assess their degree of urgency based on analysis by security analysts who have extensive experience and knowhow, through services for operating and monitoring the networks of the NEC Group and other companies, as well as government agencies.

Combined with network operation services, NESIC is able to rapidly provide a complete range of services from alarm notifications to their follow-up.

NESIC offers a full range of services, from security consulting to basic design and construction of networks, security services that protect nationwide networks, and security operation services through the SOC. We address all the cybersecurity needs of our customers.

COMPETENCE 3

Business Creation Capabilities

NESIC has a unique corporate culture defined by its mind-set of providing customer-oriented hospitality, nurtured from being on the front lines for its customers, and a willingness to always take on the challenge of creating new businesses.

This corporate culture translates into an ability to create unique business models and new businesses. These unique business models entail fully understanding the issues and needs of our customers, developing solutions through co-creation with cutting-edge companies and startups as partners utilizing the latest technology, in addition to the use of in-house resources, validating these solutions by ourselves, and evaluating their ease-of-use and effectiveness before delivering them to customers. Using this know-how, we provide customers with solutions in the form of convenient, easy-to-use service.

Amid advances in digital transformation (DX), we are fully deploying our strengths to properly address the needs of our customers who are changing their focus from products to services.

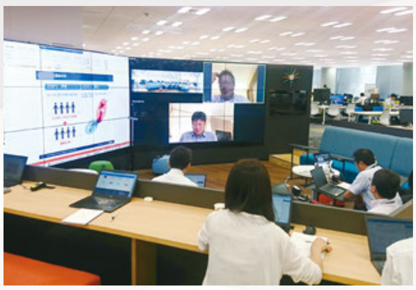
Creation of businesses after putting operations into practice in-house

Example / Initiative Leveraging Core Competencies

Provision of In-House Tested Solutions for Work-Style Innovation

The Company began tackling work-style innovation in 2007. Through co-creation and by constantly validating and putting into practice new technologies in-house, the Company aims to realize innovations that resolve social issues, such as alleviating labor shortages and improving productivity.

Beginning in autumn 2019, NESIC will adopt a distributed work model for corporate staff departments, in line with the aim of preventing a deterioration in the ability to innovate and reducing the stress of employees who commute long distances to work in Tokyo, issues that are peculiar to Japan (see page 28). We are evaluating the effectiveness of distributed work models while utilizing cloud-based services and making sweeping reforms to business processes to resolve issues that arise in communication, management, and administrative work. Validated outcomes and know-how are then delivered as solutions to our customers.



OUR HISTORY

NESIC has continued to change and grow, adding new strengths in tune with the times for its core business of innovating and developing communications technologies. Honing these strengths, the Company is keen to provide new value and pursue its vision of becoming a “communication services orchestrator.”

1953– Founding: Telecommunication Construction	1960s– Overseas Infrastructure Construction	1990s– System Integrator

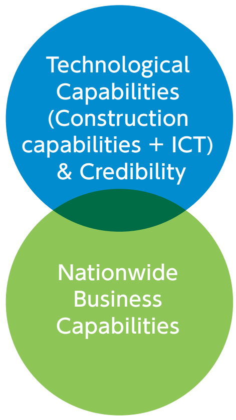
History of Honing Core Competencies

Refinement of Construction Technologies as a Telecom Infrastructure Constructor

NESIC was established in a spin-off of the telecommunications engineering division from NEC Corporation in 1953. The Company has steadily built up its construction capabilities, centered on NEC products, while tapping into growing demand for telecommunications infrastructure in Japan and overseas. We have also obtained and advanced high-quality technologies, which are symbolic of the NEC Group.

Growth through Construction Capabilities and Refinement of ICT

Alongside advances in technology, NESIC broadened its reach in the telecommunications infrastructure field to such areas as mobile base stations. 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, we have set up sales bases across the country and broadened our nationwide responsiveness.



Main Initiatives

- 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)

- Acquired special construction business and general construction business licenses for seven categories of construction business
- Constructed satellite telecom infrastructure for the 1968 Olympic Games, in Mexico City

- Constructed microwave telecom infrastructure for five Central American countries (simultaneous construction in multiple countries)
- Established the first overseas affiliate, in Brazil

- Changed the company name to NEC System Integration & Construction, Ltd.
- Listed on the Tokyo Stock Exchange
- Constructed communications equipment on Mt. Everest (enabling broadcast from the peak of Mt. Everest for the first time)
- Strengthened sales structure for private sector by creating a specialized division
- Reinforced nationwide network by setting up a business unit for regional sales

- Business for New Common Carriers (NCCs) took on significant scale
  Received major orders from new private-sector communications companies
- Expanded the enterprise system integration business

- Established S-iDC (Strategic Internet Data Center), NESIC’s first data center

Net Sales	Over ¥10 billion 1974	Over ¥100 billion 1989	Over ¥200 billion 1997

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

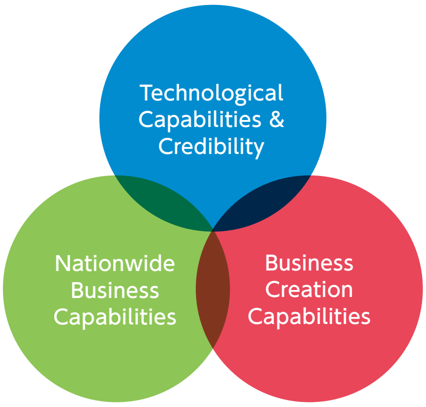
1980s–1990s
Telecom liberalization, birth of New Common Carriers (NCCs)

2010s
Solution Provider

2020s
Toward Becoming a Communication Services Orchestrator

Creation of New Businesses through Technological Capabilities and Nationwide Responsiveness

NESIC has reinforced its strengths by building a full-service network of more than 400 support and service bases across Japan through aggressive M&As, 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. Furthermore, NESIC has greatly expanded the products and services it offers, including through turning the innovative technologies of startups into services while advancing co-creation with partners, as well as creating EmpoweredOffice work-style innovation solutions and other new businesses that leverage its unique technological capabilities.



■ Changed the company name to NEC Networks & System Integration Corporation

● Established nTOC (Network Total Operation Center)

nTOC Network Total Operation Center

● Launched EmpoweredOffice work-style innovation solutions business and implemented it internally in certain sections

EmpoweredOffice

● Practiced EmpoweredOffice in all sections upon transfer of head office to Bunkyo Ward 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)

sDOC Service Delivery Operation Center

● Implemented initiatives in high-speed mobile networks and next-generation broadcasting

● Launched MVNO service for IoT

● Introducted telework system Companywide (spawned from a "Women's Project Experiment" idea created by female employees)

● Established CVC Fund to create new businesses through open innovation with startup firms

● Launched joint business in low-power, wide-area (LPWA) communications protocol for IoT

● Established K&N System Integrations Corporation as a joint venture in mobile infrastructure construction

KNSI

● Realigned head office to spur further innovation

¥**292.2** billion
FY2015/3 (record high)

¥**277.9** billion
FY2019/3

2000s
Advance of IP and broadband networks, integration of communications and broadcasting

2010s
Expansion of the use of cloud; IoT and Fourth Industrial Revolution

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

By bringing together various cloud-based tools and applying cutting-edge technologies, we make new work styles that foster innovation a reality, with venues where employees across organizations and companies can create together as a single team in a work environment free from specific locations. Accordingly, it allows people to work from home or satellite offices, with a focus on resolving issues that arise in communication, management, and administrative work.

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 Communications Network

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.

NESIC utilizes its strengths in technological capabilities & credibility, nationwide business capabilities, and business creation capabilities to provide customers with total solutions that help increase their productivity and resolve their issues.

10 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.

11 Oceans

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

12 Space

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

13 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.

14 Network Total Operation Centers

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

15 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.

16 Data Centers

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

17 Contact Centers

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

■ NESIC's service platform

Pushing Forward and Moving Beyond Borders as a Communication Services Orchestrator

Yushi Ushijima
President

NESIC's Unique Strengths

Two years have passed since I was appointed President of NESIC. During this time, I have deepened my understanding of our strengths and issues in preparation for future growth. Over the past year, my attention has been focused on formulating medium- and long-term growth strategies that leverage our strengths.

In 2017, when I returned to NESIC as President after serving at a subsidiary, I rediscovered its unique strengths, and when fully leveraged, NESIC has the potential to become a "Strong and Attractive Company" that is better than its rivals in terms of both services and earnings. NESIC boasts technological capabilities and reliability, derived from its proprietary technological capabilities in construction, installation, and ICT, and the advanced level of technologies and services it has accumulated as a NEC Group company, which is applied to multivendor services. Another strength is its nationwide business capabilities with a sales network spanning the entire country of Japan and the robust maintenance service network required of a company that supports public infrastructure without experiencing downtime, such as for telecom carriers and government agencies. Furthermore, NESIC has been gaining the unique ability to create businesses with these advantages. Taking EmpoweredOffice work-style innovation solutions as an example, the Company tests out new products and services on its own and provides them to customers as easy-to-use solutions. With this ingrained in its corporate culture, NESIC has recently been focusing its energy on providing new services that incorporate cutting-edge technologies. Another example is our collaboration with Zoom Video Communications, Inc. (see page 34). Zoom Video Communications was approached by a number of Japanese firms to bring its solutions to the Japanese market, but NESIC was able to seal a sales partnership agreement thanks to it being the first firm to contact Zoom Video Communications with a passionate approach. This successful arrangement boosted NESIC's profile among other startup firms in the U.S., creating a virtuous cycle of collaboration with new companies. I believe one of NESIC's core competencies is its ability to discover cutting-edge/venture technologies and rapidly translate them into new value without encountering complications.

Vision for 2030: Communication Services Orchestrator

Within common global frameworks like the Sustainable Development Goals (SDGs), governments, the private sector, and even individuals are increasingly expected to change their attitudes and behavior toward the global environment and the sustainable development of society. Japan is facing issues that threaten the sustainability of society, such as its declining workforce, and companies must step up to address both social issues and economic development.

In addition, taking an overhead view of technology over the next ten years or so until 2030, changes in business and social structures are likely to accelerate with the increasing adoption of digital technology, including AI and IoT. In Japan, fifth-generation (5G) telecommunications systems will commence operations in 2020, offering higher speeds, larger data volumes, simultaneous multiple connections, lower latencies, and greater reliability. These features could have an unprecedented, major impact on industries, such as remote medicine and self-driving cars. Looking further ahead, digital technology will converge with 5G infrastructure to create innovative new services.

With these significant changes afoot, NESIC aims for sustainable development along with society by leveraging its strengths in the communications domain where it has had a presence since its founding. "Communication services orchestrator" is our corporate vision for creating a more welcoming and convenient society through communications by the year 2030.

Amid the paradigm shift from products to services, NESIC must transform its traditional business model as a systems integrator that leans towards products, into a business model that includes systems integration for cloud-based services. To this end, the Company must produce a new value chain that incorporates a variety of services while accelerating co-creation with business partners. The meaning of "orchestrator" is to create new innovations that excite our customers by combining various partners and services into an optimal solution for customers to use.

Focusing on Digital Solutions and 5G Infrastructure

Digital solutions and 5G infrastructure are the two domains where we will concentrate our management resources in order to achieve our vision for society.

With regard to digital solutions, a variety of cloud-based digital services have begun to be provided in tune with the shift to the cloud. Regarding 5G infrastructure, the Company expects capital investments to pick up in earnest from 2021. With this in mind, we believe the migration to 5G, including measures to deal with greater data volume, will take place during the current medium-term management plan. Furthermore, we expect local governments and companies to roll out their own local 5G service networks. Looking further ahead, we anticipate the arrival of a "digital x 5G" era with new digital services based on 5G infrastructure, and expect completely new services that utilize cutting-edge networks to begin emerging. In other words, customers of ordinary companies will be able to use networks of the same quality as telecom carriers, and this will create demand for system integration for cutting-edge backbone networks, as well as construction of base stations, and even proposals and provisions of new services based on this infrastructure. NESIC will be able to fully leverage its core competencies in this coming era, and build an "Only 1" position.

In order to make steady progress on this road map, we must come up with ideas that defy conventional wisdom and transcend existing frameworks. In last year's report, I said "I would not mind changing everything except our core value of contributing to society through communications technologies." This represents our true intentions.

In order to latch onto business opportunities amid the wave of digital transformation, NESIC must transition across borders, from traditional domains centered on product-based system integration to cloud-based service domains. Technological barriers must also be overcome in order to provide services that customers find easy to use while taking full advantage of the latest digital and 5G technologies. Amid the rapid changes taking place around the world, the Company must further refine its core competencies and move more quickly in order to survive competition from rivals. In other words, NESIC must surmount borders drawn by

The meaning of "orchestrator" is to create new innovations that excite our customers by combining various partners and services into an optimal solution for customers to use.

the competition. We must also break down walls between organizations and lift our capabilities above and beyond current borders, and clear away the barriers that exist in various markets and technologies.

Our determination to make this transformation over borders, barriers, or walls happen is mirrored in the Beyond Borders theme of the medium-term management plan (FY2020/3 to FY2022/3).

First Step Toward Our Vision: Beyond Borders 2021 Medium-Term Management Plan

With our eyes on the long-term road map, we are building a business structure and framework able to respond to major changes in the business environment. Our current medium-term management plan is positioned as a stepping stone for a leap ahead in growth under the next medium-term plan. NESIC will surmount performance barriers by focusing efforts on the reinforcement of existing operations and the creation of new businesses.

The Company targets ¥310 billion in net sales by the fiscal year ending March 31, 2022. As the top line shifts above the ¥300 billion level, NESIC aims to achieve targets for operating income of ¥20 billion, operating margin of 6.5%, and ROE of 10% or higher, to achieve profitability on a par with its sector peers.

All of these management targets are aimed at record-setting levels. The Company already started investing in growth in the previous fiscal year, and is advancing measures to attain these targets under the current medium-term management plan. We believe these targets are achievable, given the business environment, our ability to execute, and the progress made thus far on measures. In particular, we are keen to reach our operating margin target, mainly through cost reductions as a result of increasing management efficiency. NESIC plans to spend ¥13 billion on growth investments over the next three years with the intention of translating strong top-line expansion into profit growth over the medium and long terms. The Company will also invest heavily in human resources while strengthening growth businesses, co-creation, and alliances.

Measures Based on Our Basic Strategy

One of our basic strategies for moving Beyond Borders is to strengthen competitiveness and growth potential for the digital & 5G era. In the digital domain, NESIC launched the digital transformation (DX) project as a Companywide initiative in April 2018 to marshal internal resources and advance initiatives in digital businesses. In addition to Zoom, we introduced Workato (a workflow automation service that increases work efficiency by linking together cloud services), box (a secure storage service that facilitates online collaboration), and other cutting-edge services. We are accelerating the rollout of these services. In 5G, NESIC is participating in 5G!Pagoda, a project to create international standards for 5G between Japan and Europe, and has started creating a foothold for establishing 5G technologies. The Company is also making steady progress on new business schemes for the future. NESIC has launched a joint business with Sony Network Communications Inc. and ORIX Corporation for ELTRES™, a new specification for LPWA (a low-power, wide-area communications protocol for remote area communications), which is a promising platform for IoT. NESIC has also established a joint venture with KDDI Corporation to install mobile base stations, with the aim of expanding business by leveraging the strengths of both companies.

The second basic strategy is to strengthen the base, schemes, and structure to create advanced technologies and new businesses. Specifically, a central premise of this strategy is the co-creation of businesses with promising startup firms that boast innovative technologies. In January 2018, NESIC established its own Corporate Venture Capital (CVC) Fund, and has already invested in four startup firms in the U.S. and Japan. Among these firms is Savioke, Inc., a company with autonomous delivery robot technology that can be used in hotels and healthcare settings. It has also invested in ALE Co., Ltd., an aerospace venture aimed at applying our expertise in aerospace operations, including satellites and probes, to the private sector. We hope these investments will lead to the advanced of dream-inspiring new businesses. In April 2019, NESIC invested in Sozo Ventures, a venture capital fund in the U.S. that targets startup firms with more developed cutting-edge/venture technologies. In May 2019, NESIC partnered with Plug and Play Tech Center, an accelerator in Silicon Valley, with the intention of discovering promising technologies and applying them to communications platforms (see page 39).

Organizational Reforms for Beyond Borders

Our third basic strategy is to accelerate innovation through All-NESIC. To date, NESIC has grown its businesses with organizations targeting each market, such as corporations, telecom carriers, and social infrastructure providers. Since becoming President, I have noticed that, amid the sharing of technologies across organizations, the scattering of engineers with expertise in similar technologies is inefficient. To take full advantage of the resourcefulness and strengths of our engineers, we must marshal all of our resources and leverage them as a combined force for the entire company. With this in mind, in April 2019, NESIC reformed its market-focused organization into the Digital Solutions Business Unit and the Network Infrastructures Business Unit to create an organizational structure that is more specialized and competitive with strategies aligned toward digital solutions and 5G infrastructure. The Digital Solutions Business Unit consolidates businesses that provide services, such as system integration and other work-style innovation solutions, with systems engineering for enterprises, system integration for ICT platforms, and other service functions. The Network Infrastructures Business Unit combines system integration functions in the public network domain, such as social infrastructure and promising 5G-related networks. Bringing together core functions in installation and maintenance that had been scattered across previous business units, the Engineering & Support Services Business Unit was created to pursue higher levels of productivity and increase project quality through collaboration with the two aforementioned business units.

Looking at the business portfolio from another angle, NESIC plans to increase profitability while growing sales in the Digital Solutions and Network Infrastructures Business Units by enhancing competitiveness and creating new businesses. In the Engineering & Support Services Business Unit, the Company aims to improve profitability by enhancing efficiency in resource deployment.

In addition, the Business Design Operations Unit has been created with the mission to investigate new technologies and create new businesses with employees who had been previously scattered across business units and head office functions, aiming to increase co-creation with business partners including startup firms, and also to create business using digital technologies. This unit is also in charge of Companywide technology strategies, new business planning, partnering, and alliances. The Business Design Operations Unit will also develop business in domains where NESIC has not traditionally had a presence.

Challenging New “Only 1” Work-Style Innovation

As a catalyst for advancing these strategies, NESIC is realigning its office locations around the head office in a bid to accelerate work-style innovation. One aim of the realignment is to decentralize corporate staffing functions. We plan to reduce floor space at the head office by 60% and redistribute staff to activity bases in about 10 locations in the Tokyo metropolitan area. Around 60–70% of corporate staff will work at activity bases within a 30-minute commute, or telework from home, instead of commuting to the head office. The aim of this realignment is to turn the disadvantages of decentralization into advantages by using various digital technologies to their fullest potential while rethinking work processes from scratch. We will then propose this framework as a solution to our customers. Through decentralized work styles, employees will have an opportunity to achieve a better work–life balance and potentially become more creative. This way of working should also boost our ability to innovate, a widespread issue in Japan.

NESIC is also setting up innovation bases with cutting-edge technologies to promote co-creation and the creation of new businesses. With our venture bases in the U.S., we will demonstrate to our customers new initiatives for communicating, such as between offices with the feeling of sharing the same physical space.

As a pioneer in work-style innovation, NESIC will continue to come up with new work styles that are two or three steps ahead of the competition, by utilizing the technologies and expertise it has accumulated over the past 10+ years.

With an eye on 2030, NESIC will strive to overcome various hurdles through unified efforts and advance toward its 2030 vision for creating a more welcoming and convenient society through communications as a "communication services orchestrator." We hope you will support us as we continue to take on new challenges.

Moving Beyond Borders with Communication

I believe we must move aggressively forward while taking full advantage of the abilities of each and every employee in order to steadily push on changes that will allow us to overcome many barriers. Communication in our company is key to making this happen. With this in mind, I have visited our bases across the country to directly talk to many of our employees about the concepts behind the medium-term management plan. I am taking care to communicate with all levels of employees, with eye-catching digital signage on office floors and by answering questions posed by employees on a talking program called Ushijima Radio (see page 41). I am proud of the changes we have made at NESIC over the past two years to facilitate the undertaking of new challenges.

Communication is essential in people's everyday lives, and I believe advances in communication will lead to solutions for all issues faced by society. This belief is reflected in "an inclusive and sustainable society created through communications," the Company's vision.

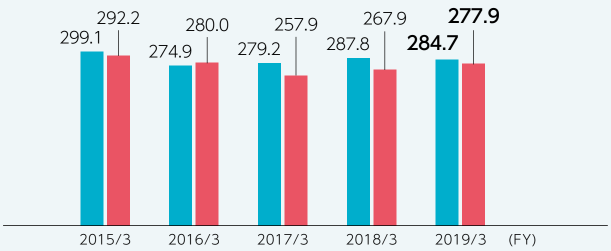
With an eye on 2030, NESIC will strive to overcome various hurdles through unified efforts and advance toward its 2030 vision for creating a more welcoming and convenient society through communications as a "communication services orchestrator." We hope you will support us as we continue to take on new challenges.

Yushi Ushijima

President

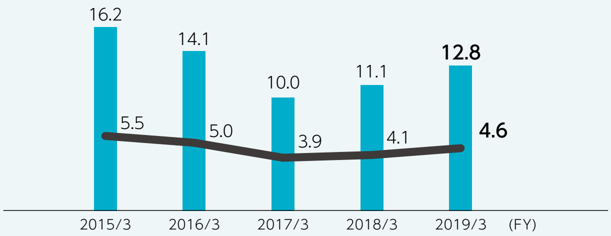
Financial & Non-Financial Highlights

Orders Received / Net Sales
(¥ billion)



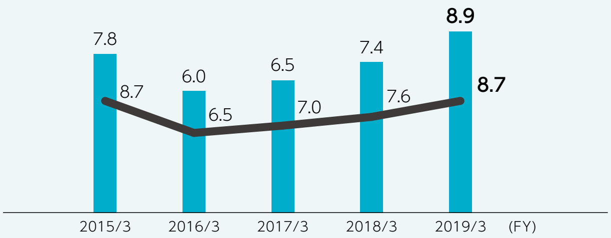
Orders received Net sales

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



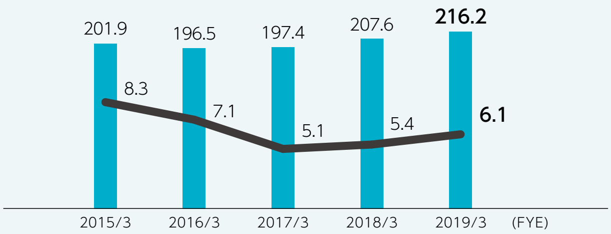
Operating income Operating income net sales

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



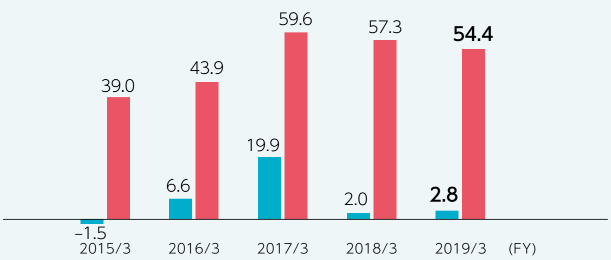
Net income attributable to owners of the parent
ROE (return on equity)

Total Assets / ROA
(¥ billion / %)



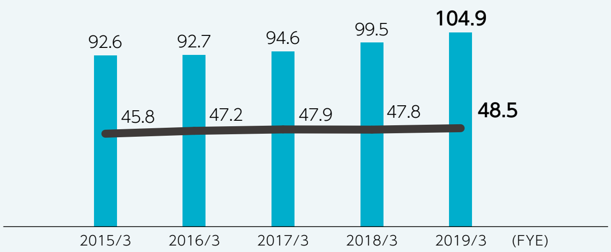
Total assets ROA (return on assets)

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



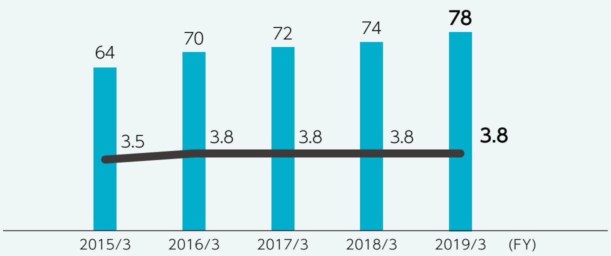
Free cash flows Cash and cash equivalents at end of year

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



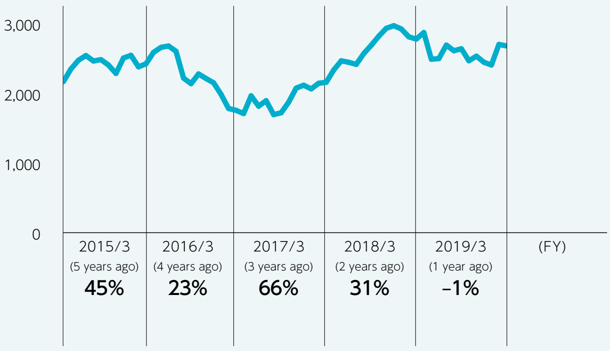
Owner's equity Owner's equity ratio

Cash Dividends per Share / DOE
(¥ / %)



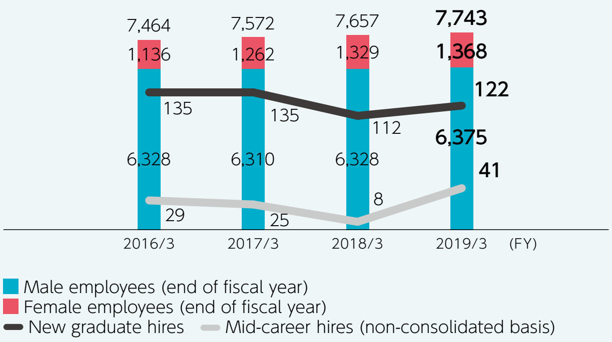
Cash dividends per share DOE (dividend on equity)

Stock Price / TSR*
(¥)

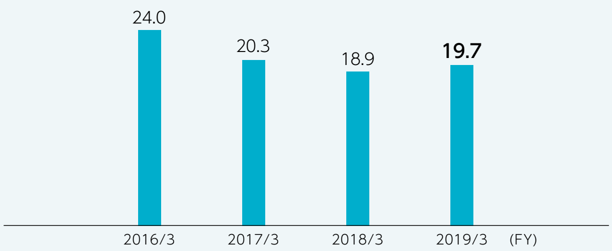


* Figures as of March 31, 2019, assuming investments were made X years ago

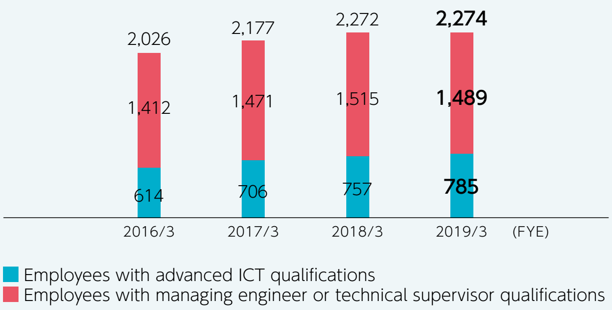
Number of Employees / Number of New Graduate Hires / Number of Mid-Career Hires
(Employees)



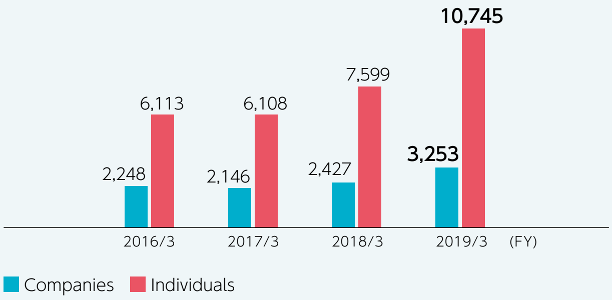
Average Overtime (per month) (Non-consolidated)
(Hours)



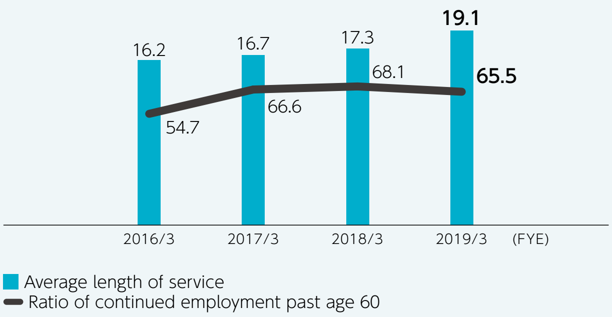
Employees with Qualifications (Non-consolidated) (Total number of people)
(Employees)



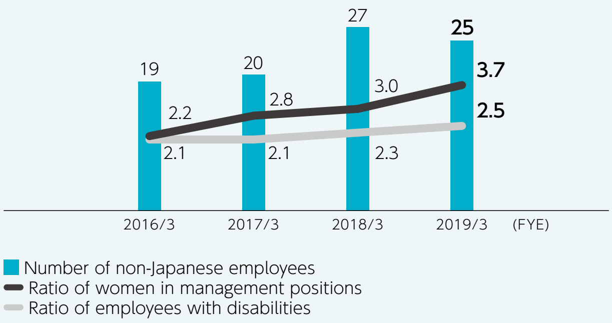
EmpoweredOffice Visitors
(Companies / Individuals)



Average Length of Service / Ratio of Continued Employment Past Age 60 (Non-consolidated)
(Years / %)



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



Outside Evaluations

	2016	2017	2018	2019
SNAM Sustainability Index (Announced in June)	○	○	○	○
Certified Health and Productivity Management Organization (Announced in February) * Established in February 2017	—	○	○	○

Social Value Creation Model

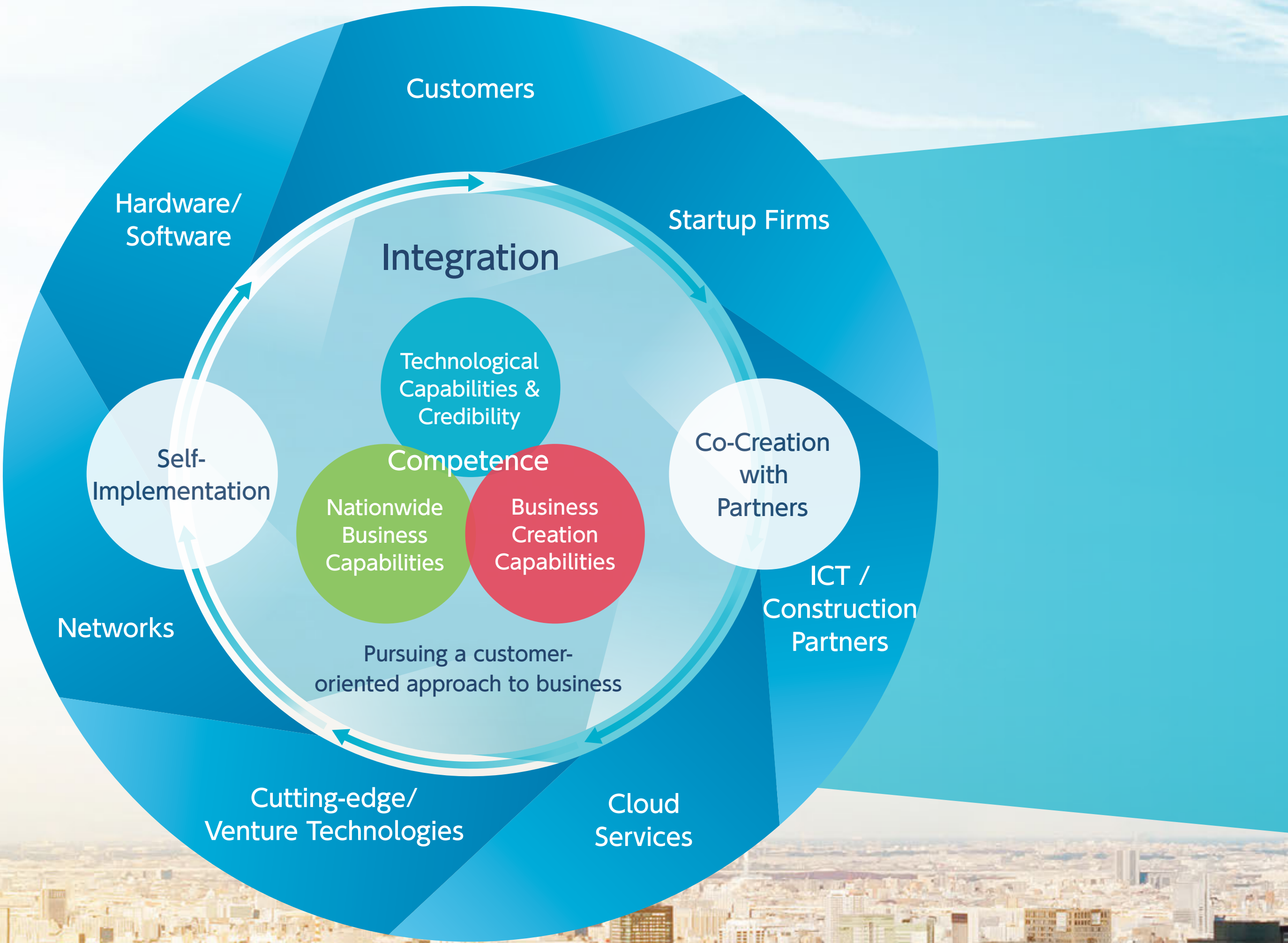
NESIC's vision for society is "an inclusive and sustainable society created through communications." To make this society a reality, we have established a social value creation model based on co-creation with partners and putting new ideas into practice ourselves, with the overriding objective of integrating various technologies and providing them to customers as easy-to-use solutions.

Based on this value creation model, we will continue to create new businesses and services. NESIC has identified three core areas (materiality) where it can provide value to society through 2030, namely "create environments in which everyone can work more vigorously," "develop pleasant and plentiful communities with cutting-edge technologies," and "provide robust services that underpin safety and security in evolving society."

Vision for Society

An inclusive and sustainable

Means of Creating Value



Materiality Issues (Initiatives for growth at NESIC) → See page 36-37

Sound and highly transparent management	Strengthen innovation capabilities that create new value	Create work environments where employees can work vigorously

To carry on with the creation of value for society, the Company is implementing three important initiatives (materiality) for ensuring growth: “sound and highly transparent management,” “strengthen innovation capabilities to create new value,” and “create work environments where employees can work vigorously.”

NESIC aims to increase its corporate value over the long term by contributing to the development of society and the Sustainable Development Goals (SDGs) through the continued implementation of this value creation model.

society created through communications

Growth Fields

Digital

×

5G

Materiality Issues

→ See pages 36–37

(Initiatives to provide value to society through 2030)

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
17 PARTNERSHIPS FOR THE GOALS

- Create environments in which everyone can work more vigorously
- Develop pleasant and plentiful communities with cutting-edge technologies
- Provide robust services that underpin safety and security in evolving society

Sustain Improvement in Corporate Value

Beyond Borders 2021

Review of Previous Medium-Term Management Plan

Under the previous medium-term management plan, which spanned from FY2017/3 to FY2019/3, NESIC was regrettably unable to achieve its management targets, as growth in business for enterprises did not fully offset the sharp declines in business for telecom providers and the social infrastructures business during the first year of the plan.

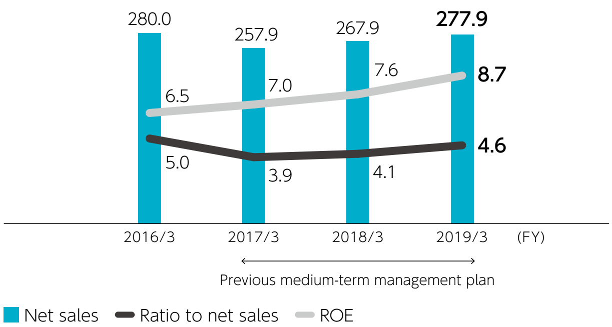
Toward the new medium-term management plan, however, NESIC has seen some results. Looking at profitability, the gross margin reached a record-setting level of 17% and ROE improved more than 2 percentage points. To reinforce our business foundation, we took steps to strengthen our growth potential and core competencies, launching the DX (digital transformation) business and accelerating co-creation with partners.

Targets of Previous Plan

Net Sales Over ¥300 billion	Ratio to Net Sales Over 5.5%
Operating Income Over ¥16.5 billion	ROE Over 10%

Results

(¥billion / %)



Positioning of New Medium-Term Management Plan

When devising the new medium-term management plan, we defined the most important initiatives to undertake over the next three years within the context of our vision for 2030 and our aim of sustaining growth.

The social vision we aim to achieve by 2030 is "a more welcoming and convenient society through communications." New technologies and services are constantly being created by startups and other companies. While leveraging its own strengths, NESIC aims to be a "communication services orchestrator" that creates new social value in collaborative initiatives with various partners including startup firms. Based on this outlook, our new medium-term management plan prioritizes the strengthening of our growth potential and profitability through revisions to the business structure in line with changes in the business environment over the next five to 10 years.

Positioning of Medium-Term Management Plan toward FY22/3

Strengthen
growth power and earnings power
by enhancing the business structure and constitution in anticipation of environmental changes within the next five to ten years.

- Strengthening of competitiveness in existing businesses
- Creation of new businesses and revenue sources
- Renewal of record-high performance

2019

2030 Vision

Social vision to realize

A more welcoming and convenient society through communications

Our future vision

Communication Services Orchestrator
that produces a new value chain leveraging our strengths, through collaboration with partners

Contribute to achievement of the SDGs by realizing our vision
(Aim to maximize both social and economic value)

Medium- and Long-Term Outlook for the Business Environment

Amid the increasingly borderless world, companies are transforming their business models, processes, and work styles in order to enhance their international competitiveness. On the technology side, advances in digital technology and faster, more sophisticated networking technology (5G) will lead to the creation of services never seen before, and possibly change the world. Moreover, labor shortages are likely to become a major problem for both NESIC and its customers. While they represent threats to NESIC in the sense that they may undermine existing operations, we also view them as major business opportunities for creating new services.

Opportunities		Threats
Diversification and leveling of earnings opportunities	**Digitalization**	Changes in existing SI model
Creation of new business opportunities	**5G**	Contraction of construction business
Need for higher productivity and outsourcing of operations among customers	**Labor shortage**	Securing of human resources and succession of technologies

Measures Taken toward New Medium-Term Management Plan

To ride this wave of change, NESIC has taken Companywide measures to strengthen its growth power, which include launching digital-related businesses, rolling out advanced services, forging new partnerships, and developing frameworks for co-creation with startups.

Strengthening of Growth Power

- Started up DX business & launched advanced services
- Promoted new business schemes/partnerships
- Created a foothold for establishing 5G technologies (Participation in 5G! Pagoda)

Strengthening of Competence

- Reorganized into three business units—Digital Solutions BU, Network Infrastructures BU, and Engineering & Support Services BU– to exert expertise and competitiveness
- Consolidated advanced technologies and business creation functions, and created Business Design Operations Unit

Acceleration of Collaboration with Partners

- Collaboration with startups for business creation (Discovery of cutting-edge solutions and services)

Beyond Borders 2021 Medium-Term Management Plan

Under Beyond Borders 2021 medium-term management plan, which commenced in the fiscal year ending March 31, 2020, alongside the achievements we have made to date, we aim to shift to a new business model centered on digital and 5G, and accelerate the creation of new businesses, with the view that resolving social issues and riding the wave of technological innovation will lead to opportunities for business expansion. NESIC intends to change its business structure for the coming era of "Digital x 5G," a future where digital and 5G technologies converge, while strengthening systems to create new businesses with cutting-edge/venture technologies and accelerating innovation across organizational boundaries. Through these initiatives, we aim to surmount various borders, realize sustainable growth, and help resolve social issues through our business activities.

Management Targets

While raising the level of net sales to more than ¥300 billion, NESIC has set the following management targets as a waypoint for achieving higher levels of profitability in line with industry standards.

(¥ billion)

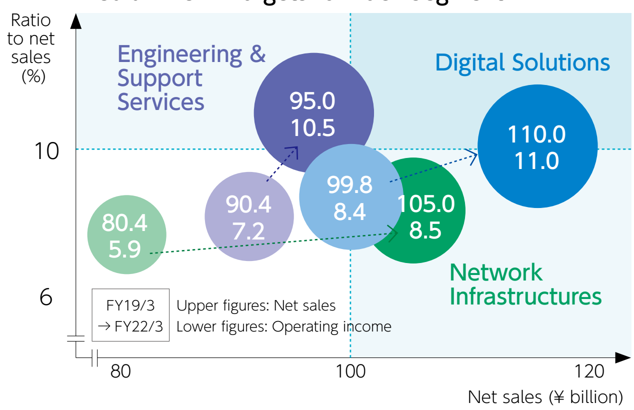
	FY2019/3 (Results)	FY2022/3 (Targets)	(Reference) Record-high
Net Sales	277.9	310.0	292.2 FY2015/3
Operating Income (Ratio to net sales)	12.8 (4.6%)	20.0 (6.5%)	16.2 FY2015/3 (5.5%) FY2015/3
ROE	8.7%	10% or more	9.6% FY2014/3

Reorganization and Positioning of Business Segments

Guided by these objectives, in April 2019, NESIC reorganized its operations into three business segments comprising the Digital Solutions Business, which provides system integration for office ICT platforms and related services for enterprises; the Network Infrastructures Business, which offers system integration and related services for highly public networks to telecom carriers, governments, and social infrastructure providers; and the Engineering & Support Services Business, which concentrates all construction functions and support service functions, such as maintenance, operations, and monitoring.

In the Digital Solutions Business and Network Infrastructures Business, which are positioned as growth-driving businesses, NESIC aims for growth in both net sales and operating income. In the Engineering & Support Services Business, our focus is on improving profitability through achieving greater efficiencies in Companywide platforms for construction work and support services.

Medium-Term Targets for Each Segment



Additionally, as a part of our business-reform efforts, we are accelerating initiatives to reform work styles and offices with an eye on speeding up innovation. We are challenging ourselves to come up with cutting-edge ways of working that go beyond traditional concepts for offices. While accumulating and providing know-how, we are keen to turn EmpoweredOffice into a business that drives innovation in our customers' businesses (see page 28).

Coming Era of "Digital x 5G"

In the coming era of "Digital x 5G," the close integration of ICT and networking technologies should bring about innovative changes in services. Against this backdrop, we believe our role will increase significantly as a creative force in business, advancing the EmpoweredOffice work-style innovation solutions and other pioneering businesses, and leveraging our core competencies in business platforms for providing a full range of services, from building mission critical networks for telecom carriers and social infrastructure providers, to ICT services for enterprises.

NESIC aims to contribute to the realization of a welcoming and convenient society by honing these core competencies and deepening its expertise.

Business Strategy

Digital Solutions Business

Advancing Business through DX

Leveraging the latest digital technologies, we create unprecedented work-style and business processes of the like never seen before. And we will evolve the work-style innovation business to further advance services that spur innovation and strengthen the businesses of our customers. With this aim, we are accelerating the creation of business through co-creation with companies that have cutting-edge/venture technologies while putting these new technologies into practice in-house.

Osamu Noda

Senior Vice President and Member of the Board
Executive General Manager, Digital Solutions Business Unit
Executive General Manager, Business Design Operations Unit

Network Infrastructures Business

Developing 5G across All Businesses, Centered on Operations for Telecom Carriers

We intend to expand operations for telecom carriers by leveraging our full-layer system integration capabilities, from mobile communications base stations to backbone networks, while reinforcing our technological capabilities for more advanced communications technologies like 5G. At the same time, we will accelerate business development in services compatible with 5G technology, and strengthen our ability to provide innovative solutions combining cutting-edge technologies, such as 5G, in the public infrastructure field.

Masaya Kadota

Senior Vice President
Executive General Manager, Network Infrastructures Business Unit

Engineering & Support Services Business

Increasing Efficiency of Construction and Maintenance Services, Nurturing and Advancing Resources

We aim to increase the efficiency of our business operations while reinforcing our operational capacity in all Companywide functions, such as construction and maintenance, by consolidating and integrating our construction functions and maintenance system inside and outside Japan. To this end, we are expanding training for all related engineers and focusing on improvements in project quality and management capabilities, while encouraging employees to learn multiple skills and promoting succession of technologies.

Masafumi Gouji

Senior Vice President and Member of the Board
Executive General Manager, Engineering & Support Services Business Unit

Realignment of Offices to Accelerate Innovation

Promotion of Distributed Work

As a leading company in work-style innovation, NESIC decided to take on the challenge of adopting new work styles from October 2019 in a bid to encourage innovation. We are creating venues for developing new businesses through co-creation with customers, startup firms, and other partners while leveraging cutting-edge/venture technologies. At the same time, our corporate staff will work at about 10 locations dispersed across the Tokyo metropolitan area to reassess our business processes from scratch, and put into practice innovative ways of working that maximize the use of digital technologies. Our distributed offices will reduce the hardship of commuting to work, enhancing the motivation of our employees and encouraging them to grow on their own by polishing their skills.

By providing new services that emerge from putting these innovation-driving work styles into practice, we will contribute to improving the innovation capabilities of our customers across Japan. NESIC will also help resolve issues in Japan arising from its declining workforce and overconcentration of population in the Tokyo metropolitan area.

Aims of Office Realignment

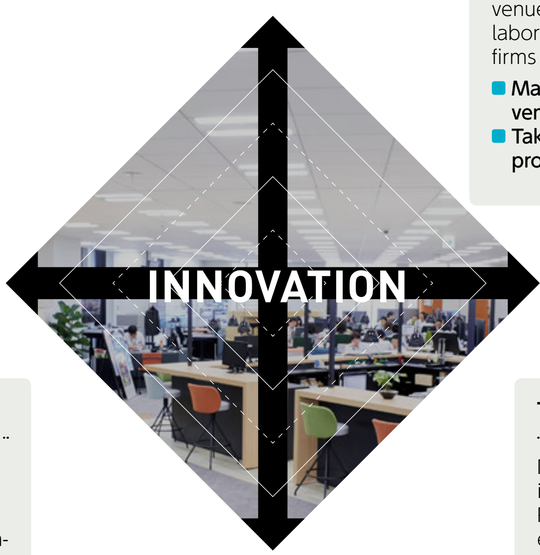
- ✔ Create new businesses by accelerating innovation
- ✔ Increase productivity
- ✔ Improve motivation of employees
- ✔ Cut time lost from work commutes
- ✔ Reduce costs

Creating New Business

Innovation Base

NESIC will establish an Innovation Base in Nihonbashi (Chuo Ward, Tokyo) as a venue for creating new business and collaborating with customers and startup firms through open innovation.

- **Maximize the use of cutting-edge/venture technologies**
- **Take on the challenge of putting new processes into practice**



Promoting Support Service Businesses

Service Base

To enhance the delivery of services to customers, NESIC established the sDOC* Kansai Center in Osaka City, Osaka Prefecture, in addition to technical service bases in Tokyo and Saitama Prefecture (April 2019).

- **Improve customer responsiveness across the nation**

* sDOC: Service Delivery Operation Center

Improving Technological Capabilities and Quality

Technical Base

NESIC will establish a Technical Base in Kawasaki City, Kanagawa Prefecture as a space for training engineers and evaluating and verifying new technologies.

- **Create 5G Laboratory to experiment with 5G technologies**
- **Conduct field tests with customers**
- **Acquire new technologies and construction technologies**

Deploying Innovation in Actual Business

Implement Distributed Work In-House and Turn Reform Processes into Actual Businesses

Business base: Current Head Office (Bunkyo Ward, Tokyo)
Activity bases: About 10 locations in the Tokyo metropolitan area

The Company will reduce the floor space currently in use by the Head Office and redistribute work to its approximately 10 office locations in the Tokyo metropolitan area to keep commuting times within 30 minutes for employees.

- **Co-creation and communication regardless of location**
- **Shift to highly creative work**
- **Create new work styles and develop new services using this know-how**

Strengthen new business creation by accelerating innovation through co-creation and in-house implementation of technologies

NESIC aims to sustain growth in corporate value by maximizing financial value focused on improving ROE and increasing non-financial value centered on materiality issues.

Hiroyuki Sekizawa
Senior Vice President and Member of the Board

NESIC believes that sustained improvements in corporate value result from the enhancement of shareholder value and the value it provides to society, by addressing the expectations of stakeholders, including shareholders, investors, customers, employees, and business partners.

To this end, the Company will engage in activities to consistently realize and maximize returns that exceed the cost of capital while aiming to improve return on equity (ROE), an indicator of capital efficiency. At the same time, NESIC will take action to improve non-financial value, with a focus on materiality and other key issues affecting the Company, in a bid to contribute to the resolution of social issues. We understand the importance of accurately disclosing these values to stakeholders.

Maximizing Financial Value Focused on Improving ROE

NESIC has designated ROE as an important management benchmark for enhancing shareholder value by consistently realizing returns in excess of the cost of capital. In the fiscal year ended March 31, 2019, ROE was 8.7%, a year-on-year improvement for the third consecutive year, thanks to stronger profitability resulting from greater cost efficiency, a shift to high-value-added projects, and top-line growth on the back of a stronger corporate structure. For the new medium-term management plan, we are targeting an ROE of 10% or higher.

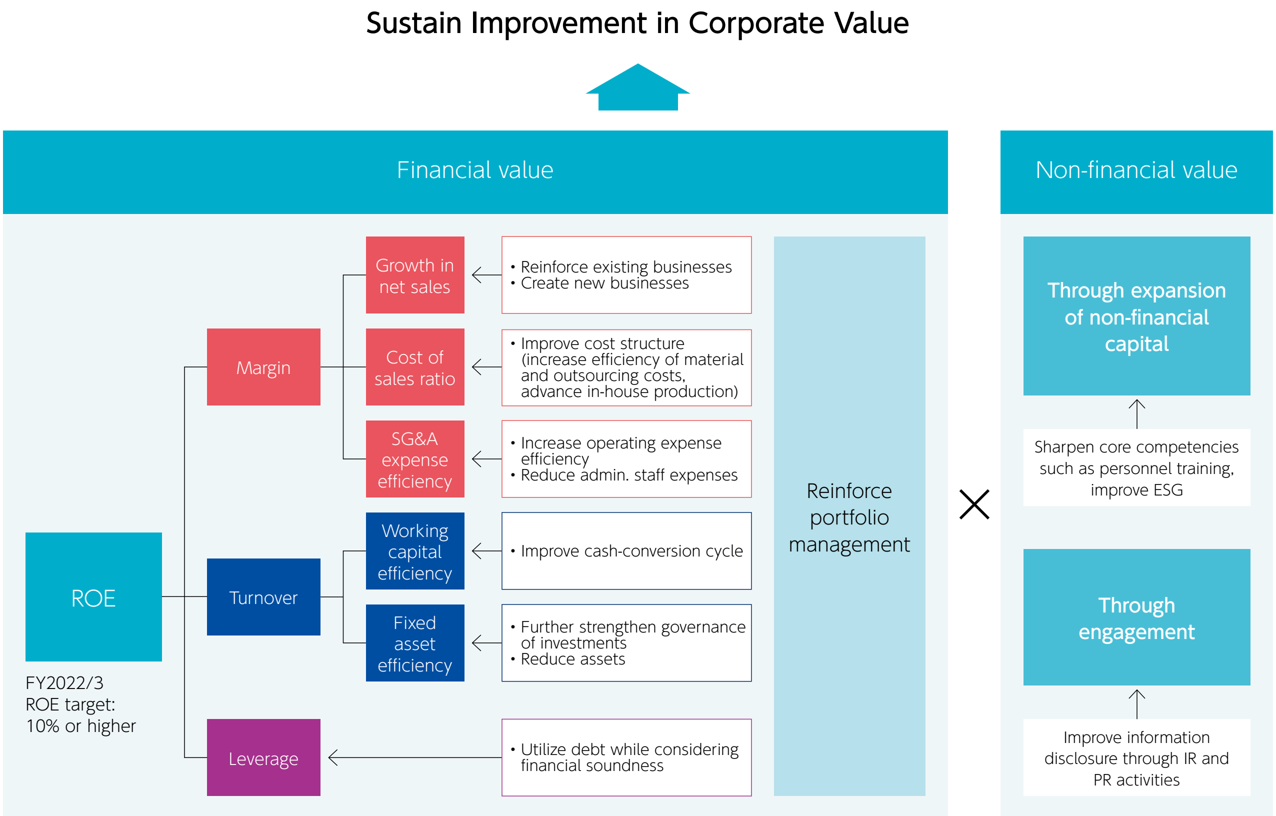
To achieve this target, the Company is rolling out measures for each business unit to increase margins and asset efficiency, the basic components of ROE, to guide their business activities. These measures are put through a PDCA cycle.

More specifically, management aims to strengthen existing businesses; expand net sales and added value by creating new businesses utilizing cutting-edge/venture technologies and partnerships; improve profitability by strengthening the cost structure through reduction of material costs and outsourcing costs, increase of in house production, and greater efficiencies in selling, general and administrative (SG&A) expenses; and improve working capital efficiency by shortening the cash conversion cycle. I am confident that we can increase ROE with all employees working together toward improvement, by setting objectives for each business and employee based on the above.

Under the medium-term management plan, NESIC intends to invest aggressively in businesses to carry out its growth strategy for the coming era of "Digital x 5G." From the standpoint of improving ROE, however, management will continue to focus on making suitable decisions, by setting appropriate criteria for screening investments based on their characteristics with due consideration paid to quantitative factors such as future cash flow, qualitative factors such as strategic positioning, and the time frame for returns on investments within the context of managing risk from the ICT industry's rapid pace of technological change. After investments are made, management will periodically evaluate and assess their progress, while building investment know-how with the aim of increasing investment sophistication.

NESIC has an obligation to consistently provide highly dependable services, such as building public infrastructure for the national government, local governments, and telecom carriers. The Company must therefore maintain a sound financial position. Management intends to secure cash on hand equivalent to about two months of net sales in preparation for sudden capital requirements. In the event that more capital is required alongside growth or for major investments, management will prioritize the use of debt, without undermining financial soundness, in addition to the accumulation of cash on hand equivalent to more than two months of net sales, with due consideration paid to shareholder value.

Optimizing the business portfolio with a view to capital efficiency is an important issue for management to address in order to sustain improvements in ROE and profit growth. For this reason, when assessing businesses, management intends to optimize the business portfolio by selectively concentrating and reshuffling businesses while relying on predetermined evaluation methodologies, including matrixes of return on invested capital (ROIC) and growth potential, in addition to assessing profits.



Increasing Non-Financial Value Centered on Materiality Issues, Improving Engagement

To sustain improvement in corporate value, we believe it is necessary to focus our efforts on increasing non-financial value, such as ESG and management resources including personnel and service platforms, the wellspring of our core competencies that create value.

NESIC has identified new materiality issues in line with its vision for 2030. Human resources and organizational climate as well as technologies and expertise are particularly important management resources for NESIC as a company that aims to be a “communication services orchestrator” that produces new value chains through open innovation. Over the course of the medium-term management plan, NESIC will invest actively in the training of personnel who will underpin business growth and the establishment of core bases for training engineers and evaluating and validating new technologies such as 5G, while at the same time investing in businesses. We will also update our infrastructure to improve working environments for employees and to enhance our ability to spur innovation.

NESIC aims to increase both financial and non-financial value. At the same time, the Company will improve the visibility of this corporate value through two-way communication with stakeholders, including shareholders, investors, customers, employees, and business partners, from the belief in the importance of portraying its activities in an accurate manner. For this reason, management intends to improve its engagement with stakeholders through IR, PR, and CSR activities. I will actively engage in communication even further with investors and other stakeholders around the world, and will mirror their feedbacks in management.

* Please see "Materiality Issues" on pages 36–37 for information on our efforts to increase non-financial capital.
Please see "Relationships of Trust with Stakeholders" on pages 41–42 for details on our engagement with stakeholders

Shareholder Returns

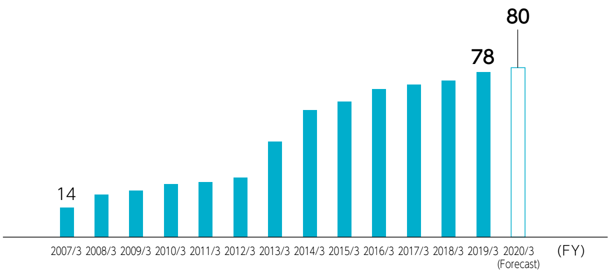
Under a healthy financial position, having secured the necessary funds for investing in growth, NESIC aims to provide stable returns to shareholders while taking into consideration shareholder expectations and comprehensive assessments of dividends on equity (DOE), consolidated earnings, and free cash flows. For shareholders holding NESIC stock with long-term investment horizons, the Company emphasizes DOE over the dividend payout ratio, which can be swayed by short-term earnings, as a benchmark for dividends, with the objective of providing steady returns to shareholders.

Based on this policy, NESIC distributed a dividend of ¥78 per share for the fiscal year ended March 31, 2019, an increase of ¥2 per share compared with its planned dividend and an increase of ¥4 per share over the fiscal year ended March 31, 2018, and plans to distribute a dividend of ¥80 per share for the fiscal year ending March 31, 2020, representing the 13th consecutive fiscal year of dividend increases. Regarding share buybacks, another form of shareholder returns, the Company bases its decision on a comprehensive analysis of requirements for growth investments, the current share price, the cost of capital, and improvements in shareholder value.

Cash Dividends per Share

(¥)

Stable expansion in shareholder returns
Plans to increase dividends for 13th consecutive year



Aiming to Sustain Improvements in Corporate Value

NESIC aims to realize an inclusive and sustainable society created through communications. To achieve this vision, we must become a "strong and attractive company" that is supported and chosen by shareholders, investors, customers, employees, business partners, and other stakeholders. In addition to maximizing financial value centered on ROE and strengthening non-financial value based on materiality issues, I will spare no effort in regard to sustaining improvements in corporate value with the understanding of my role of engaging with all of our stakeholders to further their understanding of NESIC and its business activities.

Review of Consolidated Performance in FY2019/3

In the fiscal year ended March 31, 2019, consolidated net sales and profits both increased, and we set a record high for net income attributable to owners of the parent. Net sales expanded on growth in business for enterprises, centered on work-style innovation fields, and brisk demand in the network field for telecom carriers. Orders received were almost unchanged, reflecting the reactionary fall of orders for major projects in the previous year and cancellation of orders for mega solar projects.

On the earnings front, profits increased on the back of strong improvement in profitability, despite increased spending on growth, thanks to greater cost efficiency and a higher ratio of sales of high-value-added projects, on top of stronger sales overall.

(¥ billion)

	FY2018/3	FY2019/3
Orders received	287.8	284.7
Net sales	267.9	277.9
Gross margin	16.5%	17.2%
Operating income (Ratio to net sales)	11.1 (4.1%)	12.8 (4.6%)
Net income attributable to owners of the parent (Ratio to net sales)	7.4 (2.7%)	8.9 (3.2%)
ROE	7.6%	8.7%

CO-CREATION IN ACTION **01**

Resolving Customer Issues

NESIC × Tamba City = Innovation in Regional Healthcare

Tamba City, in Hyogo Prefecture, aims to strengthen its regional healthcare system, which is a pillar of the local community. Together with Tamba City, NESIC developed a vaccination verification system, the first ever in Japan. Below is an introduction to the "co-creation in action" for this system, which has brought about major innovations to regional healthcare.

Identification of Vaccination-Related Issues

Mr. Kitano Vaccinations are key to living a healthy life, and must be administered 19 times to children between the ages of 0 and 3 years. Depending on the vaccine, the length of time that must pass before the next vaccination is administered is different. Citizens need to get their vaccinations in due time without forgetting, and doctors must make sure the correct vaccination is given. In Japan, cities are responsible for notifying their residents about vaccinations and making sure that doctors administered the vaccinations, which entail a considerable amount of work. Every year, there are dozens of cases involving improper handling of vaccinations, though this has yet to result in a major health problem. That is why I have long thought that this is a problem in need of a solution.

Ms. Otsuki I also have viewed this as a problem. We began to look for a solution for managing vaccination-related administrative work, and have worked with NESIC over the past year or so to roll out a vaccination verification system.

Co-Creation in Action

Yoshida We began building this system from scratch, a major challenge for NESIC. Although our direct customer is Tamba City, provided that both doctors and city residents, in other words, the customers of our customer, would actually be using the system, we knew it would have to be a highly polished system when it rolls out. During the planning stage, we held discussions with Tamba City all day from morning till night. The city had a strong sense of mission, and was not looking for a partial solution.

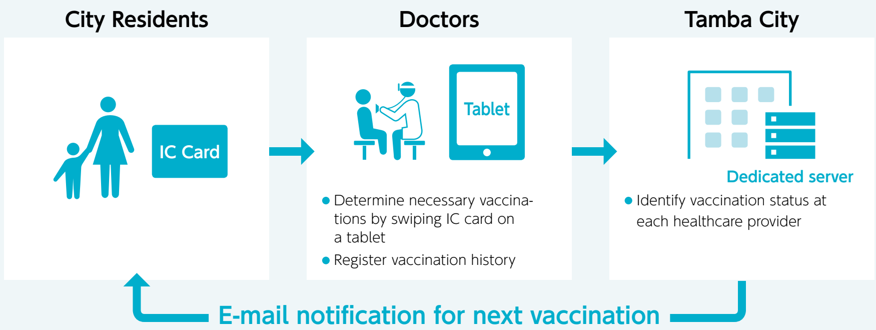
Mr. Kitano Since the system touches on the livelihoods of people, we could not make compromises on its security or convenience in any way. During the development phase, I occasionally expressed some harsh words to you, but I was also being grilled by the doctor's association. At some points during the project, I could not see how it would end.

Yoshida We frequently talked directly with the doctors. Even if doctors spend an extra minute with each patient, that means their workload increases by 100 minutes for every 100 patients. The doctors were therefore keen to minimize their workload as much as possible. This is

Targeted SDGs

System Overview

Special tablets are given to medical institutions and IC cards are distributed to city residents eligible for vaccinations. Tamba City and its medical institutions are connected over secure MVNO (Mobile Virtual Network Operator) networks, which are completely closed to ensure security. With this infrastructure, the system manages vaccination schedules and the status of vaccinations for city residents.



why we put a huge amount of effort into the user interface, which is a determining factor for convenience. Following numerous discussions involving the both of you, we finally settled on a system that can finish procedures with a few taps without requiring any text input.

Ms. Otsuki The finished system has received very positive reviews from doctors. Doctors who were skeptical at the development stage gave positive feedback on its convenience after the system was deployed. In addition to increasing the vaccination rates of residents, the system eliminated administrative work for the city while providing real-time information on the status of vaccinations to citizens. I strongly believe the system has been helpful for everyone involved.

Mr. Kitano Looking back, I feel that NESIC worked diligently until the conclusion of the project. When deploying this system, I was reminded of the importance of trial and error when testing out new ideas, as well as of finding common ground between participants with different perspectives in order to dive deeper into discussions on how to resolve issues together. We would not have been able to develop such a system that met our requirements without the commitment of the team at NESIC.

Under our motto of “No Attack! No chance!!,” we are creating communities based on our pillar of strengthening regional healthcare systems.

Mayor Shinichi Taniguchi

Yoshida The systems engineers I collaborated spent a considerable amount of time studying up on vaccinations. Looking back, I truly enjoyed the time I spent talking to the doctors and Tamba City officials about how to improve the usability of the system. I was strongly encouraged when I found out that the doctors who were initially against the system were in support of it at the end. Due to the success of deploying this system with Tamba City, we have received inquiries from other municipalities about deploying it in their cities.

Creating Communities That Offer More Pleasant Lifestyles

Ms. Otsuki NESIC and Tamba City are currently developing a healthcare information communication system that will support the livelihoods of city residents from the standpoint of healthcare services. Everyone involved in this project is cooperating well together, partly because of the success of the vaccination verification system.

Mr. Kitano I hope that this system will contribute to the creation of communities that offer more pleasant lifestyles by improving healthcare from the standpoint of “caring” for city residents instead of “managing” them.

Yoshida Tablets have already been distributed to healthcare providers and new functions can be simply added, enabling various improvements. NESIC is keen to realize multifaceted solutions for issues faced by society.

MEMBERS

Ms. Hidemi Otsuki
Health Section,
Health Department
Tamba City

Mr. Hiroshi Kitano
Health Section,
Health Department
Tamba City

Yoshitaka Yoshida
Kobe Branch Office
NEC Networks & System Integration Corporation

CO-CREATION IN ACTION 02

Creating Business with Business Partners

NESIC × zoom = Innovation in Co-Creation Work

Mr. Eric S. Yuan, CEO of Zoom Video Communications, Inc., and Osamu Noda, Senior Vice President at NESIC (at Zoom's office)

In September 2017, NESIC began domestic sales of the Zoom video conferencing solution developed by Zoom Video Communications, Inc., headquartered in Silicon Valley in the U.S. Zoom is an easy-to-use video conferencing system that connects people and organizations inside and outside companies anytime and anywhere. This system facilitates work-style innovation by enabling teleworkers and employees outside of the office to participate in internal meetings, while offering a new format for meetings and collaborative work with overseas business partners. Zoom, which has facilitated work-style innovation in a collaborative effort by NESIC and Zoom Video Communications, is already in use by over 500 companies in Japan.

Zoom Contracts with First Sales Partner in Japan to Roll Out Services

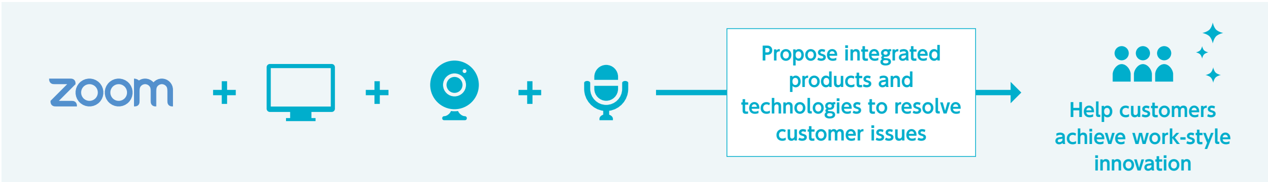
Noda NESIC has had personnel stationed in San Jose, California (U.S.) for quite a while with the objective of finding new products and services to market. When we came across the Zoom video conferencing solution, we were impressed by its extreme convenience, such as its compatibility with any device, its reliable communication capabilities, and the technology's ability to convey a sense of immediacy and the vibe of meetings across space and time. NESIC has had experience using other video conferencing software as a part of its solutions for work-style innovation, but because Zoom was the best hands down, we contacted Zoom Video Communications about introducing their solution to the Japanese market.

Mr. Saga Actually, we were approached by a number of Japanese firms, but NESIC contacted us early on and we could sense the Company's passion for our solutions. We were also drawn to NESIC by its approach for deploying communications technologies to improve the productivity of its organization, and therefore decided to enter into our first-in-Japan sales partnership agreement with NESIC in order to bring our solution to the Japanese market.

Noda In Japan, companies were just beginning to seriously consider telework and remote work options, and customers were increasingly introducing these innovative work styles. I was really excited to be able to introduce the Zoom system to customers in Japan. We also assigned Zoom accounts to all of our employees so that the entire Company can experiment with how it can be used more.

Targeted SDGs

Features of EmpoweredOffice Work-Style Innovation Solutions



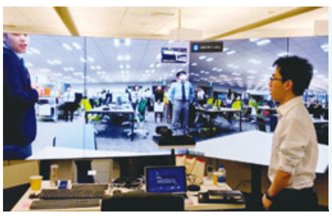
Major Benefits of Co-Creation

Mr. Saga I visited the head office of NESIC and was impressed by its forward-looking development of innovative solutions. I thought the concept and technologies behind SmoothSpace2 were quite innovative in that people are able to connect and conduct conferences with Zoom in real time and through life-size video. I was also very pleased to learn that the entire Company is committed to creating solutions through iterative improvements while applying the innovative solutions they have developed in their own operations.

Noda Thank you for those words. SmoothSpace2 is able to simultaneously connect multiple Zoom Rooms (meeting rooms), giving you a lifelike experience through large projection screens. It is also possible to broaden the range of applications with multi-region connectivity and interactions with other Zoom subscribers. NESIC uses Zoom for communication between its bases across Japan and its overseas locations, and the customers who visit our premises to see it in action often end up using it the same way. Zoom is a new concept in communications that goes beyond the evolution of video conferencing, as it enables quick customer responses and greater work efficiency, such as through remote instruction and double-checking at local worksites.

Mr. Saga As a single tool, Zoom can be paired with other hardware and innovations to create solutions that meet customer needs, and this would not have been possible without the help of NESIC. I can see the major benefits that have resulted from our co-creation with NESIC.

Noda When creating new solutions, on occasion we find areas that could be improved from a technical standpoint, and convey these points to the head office in the U.S.



By projecting video on a wall, SmoothSpace2 facilitates communication through a lifelike experience between people in remote locations

Mr. Saga Yes, I am aware that we have fine-tuned some services on the advice we received from NESIC. Our CEO Eric S. Yuan is someone who has built his career as an engineer, and we always want all of our customers to be happy with the services we provide. We therefore always welcome any feedback that can help make our services better. We highly value NESIC as not just a sales partner, but also as a partner for collaboration on the technology side.

Noda I am extremely pleased to hear that. Zoom also offers the extra benefit of enhancing the reputation of the NESIC brand. When we approach a potential new customer and talk about Zoom, this more often than not heightens the customer's interest in working with us.

Taking Our Capacity for Co-Creation Globally

Mr. Saga During the launch phase for Zoom in Japan with NESIC, I was quite excited to hear that it would help realize work-style innovation and create new forms of communication.

Noda Yes, we think Zoom can help resolve many issues in society, and could become a global standard for the development of new forms of communication around the world, in addition to our partnership in Japan.

Mr. Saga I believe this can be done with NESIC as our partner. While mutually increasing value, I hope that we can develop new forms of communication never seen before and facilitate communication around the world.

MEMBERS

Mr. Fuminori Saga
Country General Manager, Japan
Zoom Video Communications, Inc.

Osamu Noda
Senior Vice President and Member of the Board
Executive General Manager, Digital Solutions Business Unit
Executive General Manager, Business Design Operations Unit
NEC Networks & System Integration Corporation

Materiality Issues

In May 2019, NESIC unveiled its new medium-term management plan, “Beyond Borders 2021.” The Company also identified six materiality issues that should be addressed in order to contribute to the sustainable development of society and its own sustainable growth.

Vision for Society

An inclusive and sustainable society created through communications

Initiatives to Provide Value to Society through 2030

- **Create environments in which everyone can work more vigorously**
- **Develop pleasant and plentiful communities with cutting-edge technologies**
- **Provide robust services that underpin safety and security in evolving society**

Initiatives for Growth at NESIC

Sound and highly transparent management

- Strengthen governance through dialogue with stakeholders
- Promote compliance with an eye on diversity

Strengthen innovation capabilities to create new value

- Promote a culture that encourages change and embrace of new challenges
- Accelerate co-creation and the use of various services in our own business practices to better understand the customers’ point of view

Create work environments where employees can work vigorously

- Improve the well-being of employees
- Encourage frank and open discussions, and enhance the corporate culture as a facilitator of self-growth

Materiality Identification Process

The process for identifying materiality issues entailed discussions from various angles by the secretariat team, which involved the corporate planning, investor relations and CSR sections, within the context of a long-term standpoint and initiatives unique to NESIC, while taking into consideration the opinions of investors obtained at ESG meetings.

Top management also repeatedly discussed the issues, earnestly debating which issues it should address in order to achieve sustainable development of society and the Company. After listening to the opinions of outside directors, management determined specific materiality issues that NESIC should address.

STEP 1

Confirmation of social issues (overseas / domestic)

Global issues such as the SDGs, ISO 26000, and GRI were confirmed, and megatrends listed by research institutions.

STEP 2

Interviews and internal discussion on important initiatives at NESIC

Interviews with top management and free discussions among top management were held on the vision for society and the vision for NESIC, within the context of important initiatives that the Company should undertake.

Vision for Society

When identifying its materiality, NESIC came up with “an inclusive and sustainable society created through communications” as a long-term vision for society.

Our aim is to create, through communications technologies, a society in which people all over the world can acquire the information they need and have equal access to education and healthcare. This is a society in which walls throughout the world will be torn down in order to realize peace through the promotion of open communication. The society that we aim for will also contribute to resolving various social issues through communications and the sharing of ideas between people all over the world.

Initiatives to Provide Value to Society through 2030

NESIC has selected three initiatives to prioritize in its provision of value to society via communications through 2030.

■ **Create environments in which everyone can work more vigorously**

We aim to provide environments where everyone, regardless of age, gender, or nationality, can work vigorously and to the best of their abilities without regard to location.

■ **Develop pleasant and plentiful communities with cutting-edge technologies**

We aim to help develop communities, such as smart cities, where people can lead exciting and fulfilling lives with safety and convenience, and where various information services are provided on robust communication platforms using the latest mobile technologies, etc.

■ **Provide robust services that underpin safety and security in evolving society**

We will support the development and advancement of ICT essential for economic growth by creating safe and secure services that offer high quality and national reach.

Initiatives for growth at NESIC

To continue growing as a company through such value creation efforts, NESIC must further strengthen its own business foundation. To this end, the Company has selected the following three priority initiatives. We believe communication, such as through co-creation and dialogue, is important for our own growth as a company.

■ **Sound and highly transparent management**

- Strengthen governance through dialogue with stakeholders
- Promote compliance with an eye on diversity

While aiming for further growth, NESIC engages in governance and compliance activities that form the foundation for continuing to be a sound company acknowledged by all stakeholders. Amid advances in diversity and accelerating co-creation and innovation, all of us need to take action based on high ethical standards in order to maintain and strengthen our relationship of trust with society. To that end, we will reinforce governance and promote compliance through engaging in dialogue with various stakeholders.

■ **Strengthen innovation capabilities to create new value**

- Promote a culture that encourages change and embrance of new challenges
- Accelerate co-creation and the use of various services in our own business practices to better understand the customers’ point of view

Innovation is the source of our ability to continue providing value to society. Management is focusing its efforts on encouraging employees to take on new challenges and spur new change through not only iterative improvements, but also various initiatives starting from scratch. We intend to offer new value through easier-to-use systems and services by accelerating efforts to co-create with stakeholders, using various services in our own business practices to better understand the customers’ point of view.

■ **Create work environments where employees can work vigorously**

- Improve the well-being of employees
- Encourage frank and open discussions, enhance the corporate culture as a facilitator of self-growth

People are the source of innovation. As a front-runner in work styles, NESIC strives to create systems that allow employees to work without having to worry about their physical or mental health and have a balanced social life. Our aim is to nurture a corporate culture where employees are highly motivated and engage in frank and open discussions within an invigorating environment that facilitates self-growth. We aim to realize work environments that allow each and every employee to thrive and work to the best of their abilities.

STEP 3

Candidate materiality issues and internal discussions

A list of candidate materiality issues was created based on the vision for society and the Company initiatives to be undertaken to realize the visions that were examined in steps 1 and 2, which was followed by discussions with top management

STEP 4

Interviews with outside directors

The candidate materiality issues proposed in Step 3 were explained to the outside directors, who offered their insight.

STEP 5

Identification of materiality issues

The Executive Committee determined materiality issues based on internal and external opinions. The issues were reported to the Board of Directors.

Human Resources and Organizational Climate

NESIC's greatest management resource is its human resources. We identified "create environments in which everyone can work more vigorously" as one of materiality initiative. While further refining systems so that our diverse workforce can continue to work with peace of mind, we endeavor to create an open organizational climate that provides venues for free discussion and encourages employees to take on challenges, in order to accelerate co-creation and innovation in a bid to create new value, giving all of our employees the opportunity to leverage their abilities to their fullest.

Basic Approach

Based on its basic policy for human resource development, NESIC takes a systematic and effective approach to training its employees so that they can leverage their qualifications and abilities to their fullest toward achieving the Company's management objectives.

Basic Policy for Human Resource Development

(1) As a part of its management plan, NESIC continuously, systematically, and strategically trains human resources based on rank.
(2) NESIC actively nurtures experts with specialized technical skills, knowledge, and know-how.
(3) NESIC creates a culture that encourages self-innovation and initiatives to develop one's own capabilities.
(4) NESIC effectively trains personnel through an integrated human resource management system.

Hiring People Who Inspire Innovation

Regarding hiring practices, based on its basic policy of reliably securing promising personnel by hiring new graduates, and acquiring human resources with expertise in technologies and businesses by recruiting experienced professionals, NESIC seeks out people who are willing and have the capability to take on challenges, who do not impose limits on themselves, and who are keen to innovate.

NESIC has put in place systems for actively hiring veteran engineers with the expert knowledge and specialized skills and extensive experience in domains different from those of the Company, in order to take advantage of cutting-edge/venture technologies, such as AI, cloud computing, and robotics, and to continue creating new businesses in a fast-moving process.

Through these hiring activities, the Company aims to secure diverse human resources, nurture an innovation mind-set, and foster a corporate culture where employees can maximize their individual abilities.

Creating Environments That Sustain Confortable Work Styles

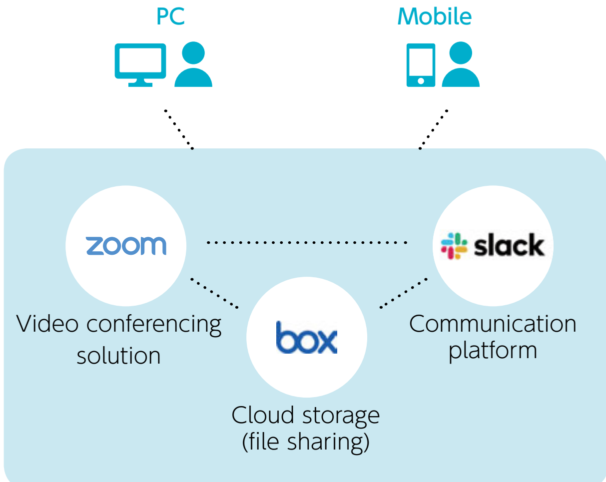
NESIC began its own efforts at work-style innovation more than 10 years ago. In addition to the introduction of its telework system, the Company combines a variety of cloud-based tools with cutting-edge/venture technologies to resolve communication issues and various other problems, creating work environments that allow employees to work from home or satellite offices anytime, anywhere. We provide venues that enable co-creation as a single team across organizational and corporate borders.

Starting in autumn 2019, NESIC will focus on implementing distributed work (see page 28). The Company has opened about 10 satellite offices in the Tokyo metropolitan area so that employees will not have to commute longer than 30 minutes, thereby reducing the physical and mental stress of commuting and creating opportunities for employees to reassess their work–life balance. By reducing the physical burden on employees and freeing up their time, we expect to see improvements in their motivation, more drive to self-improve by polishing their own skills or adding new skills, and sparks of innovation.

Telework Use (Fiscal year ended March 31, 2019)

2.6 days per month per employee

Realizing a work style that is not bound by time or location, thanks to cutting-edge/venture technologies



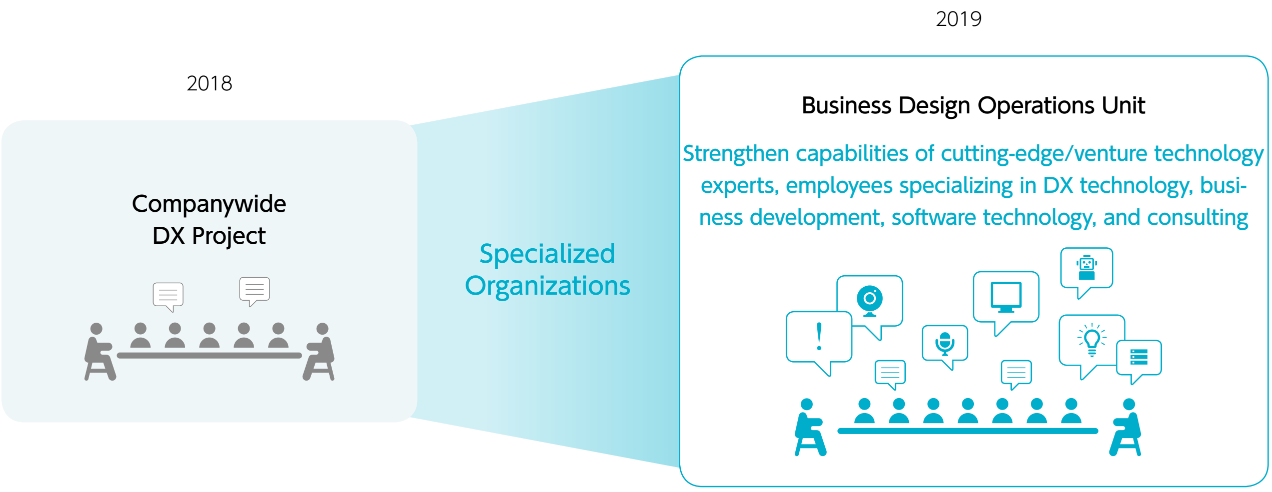
Human Resource Strategy to Enhance Core Competencies

Ability to Create New Businesses

To achieve the targets in the medium-term management plan "Beyond Borders 2021," it is important that we continue to create new businesses while strengthening our ability to co-create.

NESIC established the Business Design Operations Unit, based on a Companywide digital transformation (DX) project it launched in 2018, with the objective of enhancing its ability to create new businesses, one of its core competencies.

In this unit, the Company plans to triple the number of specialists with the expertise and know-how in DX technology, software, business development, and consulting, which currently stand at 20, over the next three years. We are focusing our efforts on creating new businesses in potential growth fields such as the DX business, work-style innovation, image recognition and analysis, and 5G services.



Toward Accelerating Innovation

Partnership Agreement with Plug and Play Tech Center in Silicon Valley, U.S.

NESIC is accelerating the deployment of cutting-edge/venture technologies inside and outside Japan in response to major changes in technology. The Company is focusing particularly on business creation with startup firms, having established its Corporate Venture Capital (CVC) Fund and invested in other venture capital funds in the U.S. In July 2019, NESIC signed a partnership agreement with Plug and Play Tech Center (headquarters: California, U.S., founder and CEO: Saeed Amidi) with the intention of further strengthening the creation of business with startup firms, creating new businesses that go beyond its own boundaries, and advancing innovation. Together, we have taken steps to discover cutting-edge solutions/services.

Along with this new partnership agreement, NESIC set up a booth on the main floor of Plug and Play Tech Center, and increased the number of employees stationed in the U.S. Our booth featured SmoothSpace2, a solution for visual and audio communications between separate spaces, connected to our head office in Tokyo, demonstrating its efficient way of communicating using environments that provide the feeling of being in the same office space. By sharing a space with startup firms in the U.S., which have a different work culture, NESIC is able to put into practice work styles that spur co-creation and new innovation by invigorating bidirectional communication. We will continue to train employees who are able to generate even higher value-added services.


The Plug and Play Tech Center is connected with NESIC using SmoothSpace2

Technological Capabilities

To further refine the broad range of technical skills that support our operations, we have defined Companywide high-priority qualifications that employees should obtain in a bid to improve their knowledge of technologies while covering the educational cost of obtaining these qualifications and offering courses taught by in-house instructors.

Companywide High-Priority Qualifications

- Information processing engineers (network specialists, registered information security specialists)
- Project management professionals
- First-class electrical work operation and management engineers

Number of employees who acquired qualifications during the fiscal year ended March 31, 2019:	**49** employees
Total number of employees with high-priority qualifications:	**1,411** employees

Securing engineers and passing down technical expertise are major issues for NESIC, a company involved in a wide variety of business fields.

NESIC aims to expand the scope of activity for elderly people through its Senior Partner System for employees who have reached the mandatory retirement age but wish to continue working.

Since the fiscal year ended March 31, 2016, the Company has maintained over 50% of continued employment after mandatory retirement. As more of our engineers with various qualifications and diverse experiences approach their retirement age, we will expand their range of opportunities to continue working after reaching the mandatory retirement age, passing down their technical knowledge to younger employees in a bid to maintain and strengthen our technological capabilities.

Supporting Career Advancement to Improve Motivation and Encourage Self-Growth

NESIC takes an integrated approach to human resource development that combines personnel systems and compensation, planned personnel rotations, and training opportunities at the appropriate time. Employees periodically discuss with their superiors about their career plans and progress on improving their skills with the intention of enhancing their own careers. We have frameworks in place to allow employees to take on new roles through an internal job posting system.

System	Details
Internal Job Posting System	This system allows employees to apply for internal jobs on their own, responding to internal needs for personnel resulting from moves into new business fields and greater focus on priority businesses.
Job Challenge System	This system encourages employees to take on new roles (new sections), mainly through skills development and career formation.
Position Entry System	This system allows employees to apply for desired positions within the Company.
Career Reviews	These reviews of work-related interests, aptitude, and desires for transfers of employees are used by their superiors in career development and personnel training processes.

Supporting the Success of Women in the Workplace (Promoting diversity)

It is important to promote diversity among employees in order to accelerate innovation, and our initiatives to promote the empowerment of women in the workplace is one such initiative.

We are advancing a variety of measures to this end, including initiatives to increase the ratio of women in management positions. Every year since the fiscal year ended March 31, 2017, as a company that believes in the importance of communication, we have held meetings for female employees to share their opinions with each other and with female outside directors.

In the fiscal year ended March 31, 2019, we held such a meeting with directors (the President and two female outside directors) and 12 female employees (three senior managers and above, and nine newly appointed to management positions). The participants talked about what the Company needs to do to further promote the success of women in the workplace, and their ideas will be reflected in future measures.

Target Ratio for Women in Management Positions

By March 31, 2021	**5**% (3.7% as of March 31, 2019)

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. We strive to reflect the opinions and requests of our stakeholders in management.

Communication with Customers

Ever since its founding, NESIC has placed a high priority on creating relationships of 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 valuable services and solutions.

Main Initiatives

- Hold NESIC Customer's Fair, a private exhibition/seminar for customers (held in Tokyo and Osaka in 2019)
- Conduct customer surveys to implement improvement measures by sharing the results within the Company (Annual survey and inquiries upon completion of projects)
- Present awards for outstanding customer satisfaction activities (once a year)
- Invite outside instructors to give presentations on customer satisfaction (once a year)

Topics in FY2019/3

- Improvement in customer satisfaction index compared with the previous customer survey conducted in FY2018/3 (achieved highest score)
- Examples of awards received from customers
  - Award for rapidly repairing public communication facilities in the wake of a major earthquake in Hokkaido
  - Award for ensuring secure transition to modernized communication platform for all customer locations, maintaining a high-quality deployment system over a six-year period
  - Award for a system using Wi-Fi and GPS that has contributed to the advancement of regional information and resolution of tourism issues

Communication between the President and Employees

Since his appointment, the President Ushijima has consistently placed emphasis on his communication with employees. With more employees working from remote locations, such as through teleworking, and at local bases distantly located from the head office, it is becoming more important for the President to directly convey his message and hear the opinions of employees in order to share their thoughts. We aim to make communication even more effective through various techniques and innovations.

Briefing for Medium-Term Management Plan "Beyond Borders 2021"

"Beyond Borders 2021" is the new medium-term management plan that was launched in the fiscal year ending March 31, 2020. At a total of 15 briefings held in 10 locations, the President conveyed his thoughts behind the new plan to all employees and explained in his own words the initiatives he is undertaking.

"Ushijima Radio"

In February 2019, the President started an Internet broadcast (streaming audio) so that everyone can hear his voice directly. In addition to providing his own thoughts as President, he aims to share opinions through two-way communication by addressing the thoughts and opinions of employees who listen to Ushijima Radio and the thoughts freely written down by employees on the in-house social network system. He answers questions about the medium-term management plan and work-style innovation, as well as inviting employees as guests to talk about the challenges they face in various fields, including a young employee involved in the Hayabusa 2 project. The ultimate aim is to promote communication across boundaries formed by organization and rank.

Ushijima Radio recording session

"Ushijima Lunch" Meetings

"Ushijima Lunch" meetings are an opportunity for the President and young employees to openly share their opinions with each other. By talking frankly and openly about the President's thoughts and the dreams of and daily issues faced by young employees, we aim to increase the motivation of younger people. In the fiscal year ending March 31, 2020, we started to have "Ushijima Lunch" meetings with general managers.

Conveying Messages via In-House Digital Signage

Messages from the President are shown on digital signage placed around offices as an alternative to bulletin boards. He posts brief messages such as "Let's Break! (break stereotypes for creating the future)" and "Challenge!," to draw the attention of employees to important topics and inspire them.

Message ("Let's Break!") from the President shown on in-house digital signage

Communication 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 system integration. NESIC views labor and hardware suppliers as important stakeholders essential for the operations of NESIC. NESIC holds briefings on business trends, visits the sites of suppliers, and conducts surveys as part of its efforts for valuing communication with suppliers. In the fiscal year ending March 31, 2020, the Company began strengthening its collaborative structure and instilling awareness of suppliers in a bid to increase contributions to the SDGs throughout its supply chain, while promoting sustainable and ethical procurement activities.

Main Initiatives for Suppliers

- Hold business trend briefings (once a year)
- Hold safety and quality meetings (every other month)
- Conduct inspections and surveys (CSR surveys, quality audits, information security audits) (for a total of 281 companies in FY2019/3)

Briefing on business trends with suppliers

Communication with Shareholders and Investors

NESIC has a disclosure policy of explaining its business conditions and management policies to shareholders and other stakeholders in an accurate and timely manner. Management periodically engages in dialogue with shareholders and investors on capital markets in Japan and overseas, including through briefings and interviews.

In addition to meetings through the investor relations section, NESIC periodically provides opportunities for dialogue with top management including the President, such as briefings for investors and one-on-one meetings (25 individual meetings were held with the President and/or Associate Senior Vice President in FY2019/3). Since the fiscal year ended March 31, 2018, meetings have been held with investors in charge of ESG. In the fiscal year ended March 31, 2019, a total of seven meetings were arranged between domestic and foreign institutional investors and the CSR section. The opinions and requests received from these meetings are directly reported to all Board members, including independent directors/auditors, from investor relations in an effort to engage in constructive dialogue with capital market participants.

Examples of Opinions Received at Meetings with Investors and NESIC's Responses

Opinion (1)

- Investment decisions based on ESG must be considered from a long-term perspective.
- The medium-term management plan should be viewed as a milestone for NESIC's long-term vision beyond three years.
- NESIC's vision/mission is unclear due to its many priority businesses.

Response to these opinions:

Under the medium-term management plan "Beyond Borders 2021," which began in the fiscal year ending March 31, 2020, NESIC aims to be a company that achieves sustainable growth based on its vision for the future through 2030. To that end, the Company established the medium-term management plan by examining and drawing up key initiatives that it should undertake in the next three years (see pages 24–27).

Opinion (2)

- As it does with its management strategy, I want NESIC to identify materiality issues (key management issues) that it believes are uniquely important from the standpoint of creating social value over the long term.

Response to this opinion:

When reevaluating materiality issues to coincide with the announcement of its medium-term management plan, NESIC identified important issues based on two perspectives, namely initiatives for providing value to society and initiatives to achieve growth through 2030 (see pages 36–37).

Opinion (3)

- In addition to protecting minority shareholders as a listed subsidiary, I would like to know more about the benefits that NESIC stands to gain from its parent company. This information should be stated in its annual report.

Response to this opinion:

The annual report now includes an explanation of the benefits on being a listed subsidiary in addition to protection for the interests of minority shareholders (see page 46).

NESIC aims to reinforce corporate governance while prioritizing dialogue with stakeholders

Maintaining and Improving Our Optimal Corporate Governance Structure

NESIC aims to resolve the issues of its customers and society through the design of more welcoming and convenient communications so that everyone around the world can enjoy a safe, secure, and plentiful tomorrow, as exemplified by the NEC Networks & System Integration Corporation Group Statement. We believe corporate governance is the basis for our business activities and a facilitator of sustainable growth and improvements in corporate value over the medium to long term.

NESIC is one-of-a-kind in the sense that it benefits from being a member of the NEC Group and a listed company (see page 46). This also means that it is increasingly important to protect the rights of general shareholders, and management has been strengthening systems to protect their rights. Since 2016, NESIC has increased the number of independent directors and auditors who do not have any conflicts of interest with general shareholders. Today, three out of 10 directors are independent outside directors, and two out of four auditors are independent outside auditors. Over one-third of the members on the Board of Directors are independent outside directors or outside auditors. In order to ensure transparency in management, in 2016, NESIC established an advisory panel consisting mainly of outside directors to discuss issues related to the nomination and compensation of directors and auditors. As a result, in June 2019, the Company introduced a transfer-restricted stock compensation system with the objective of aligning the values of directors involved in business execution with those of shareholders. As the core business activities of NESIC center on communication, dialogue with various stakeholders is highly valued. The investor relations department reports on the opinions of general shareholders and investors, and shares them with management to reflect them in business decisions. NESIC makes every effort to improve corporate value and ensure transparency in management by continuing to strengthen its corporate governance structure.

Reinforcing the Diversity and Oversight Functions of the Board of Directors

As the chairman of the Board of Directors, I make sure that all members, including outside directors, participate fully and enthusiastically in deliberations. To improve the quality of discussions, we have outside directors visit worksites to further their understanding of our businesses. For important corporate matters and proposals presented to the Board of Directors, we hold pre-meeting briefings and exchange opinions while reflecting external opinions in our decision-making. For particularly important matters, discussions are held several times by the Board of Directors. When creating the medium-term management plan, we held many lively discussions.

I believe the makeup of our outside directors should emphasize diversity in terms of experience, knowledge, specialization, and gender, because opinions based on different backgrounds is important. In June 2019, NESIC welcomed Ms. Kuniko Muramatsu, who has advanced knowledge of CSR and corporate ethics, as a new outside director.

It has become increasingly important for companies to address social issues, including the SDGs. Also, I believe compliance is at the core of all business activities. The NESIC Group engages in business with compliance as its highest priority in order to earn and maintain the trust of its stakeholders, including customers, shareholders, and citizens, as a company that works to resolve social issues. We will continue to contribute to society through our business activities, and with each and every employee acting with strong ethical views, we will make every effort to increase corporate value further.

M. Wada

Chairman of the Board

Corporate Governance (As of June 30, 2019)

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 work to ensure management soundness and transparency by practicing timely, appropriate disclosure.

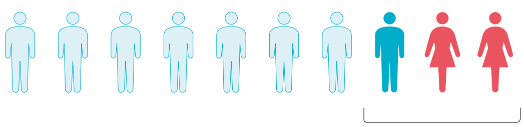
History of Enhancing Corporate Governance at NESIC

	Measure	Objective
2000	Introduces executive officer system	● Clearly separate supervisory function from business execution function
2005	Reduces number of directors to ten or fewer from 20 or fewer	● Expedite decision-making
	Shortens directors' term of office to one year	● Clarify management responsibilities of directors
2006	Appoints first independent outside auditor (introduces 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 first female director	● Improve the diversity of directors
2015	Appoints an independent outside auditor, increasing the number of ID/A to four	● Improve management transparency
2016	Strengthens compliance with Corporate Governance Code: implements evaluation of the Board's effectiveness and systematizes training for directors and corporate auditors	● Strengthen management oversight function
	Appoints first independent outside director with experience in corporate management	● Improve diversity of directors
	Establishes advisory panel consisting mainly of independent outside directors to discuss nomination and compensation	● Improve management transparency
2017	Appoints an independent outside director (a female CEO from a different industry), increasing the number of ID/A to five Introduces stock-linked remuneration	● Improve management transparency ● Improve the diversity of directors ● Enhance remuneration system linked to improvements in corporate value
2019	Introduces transfer-restricted stock remuneration system	● Enhance remuneration system linked to improvements in corporate value

Corporate Governance System

Board of Directors

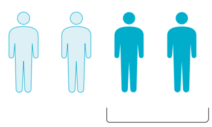
The Board of Directors consists of 10 directors (eight men and two women), including three outside directors. NESIC endeavors to strengthen the management structure, such as by clarifying the management responsibilities of each director, who serve one-year terms.



Outside directors

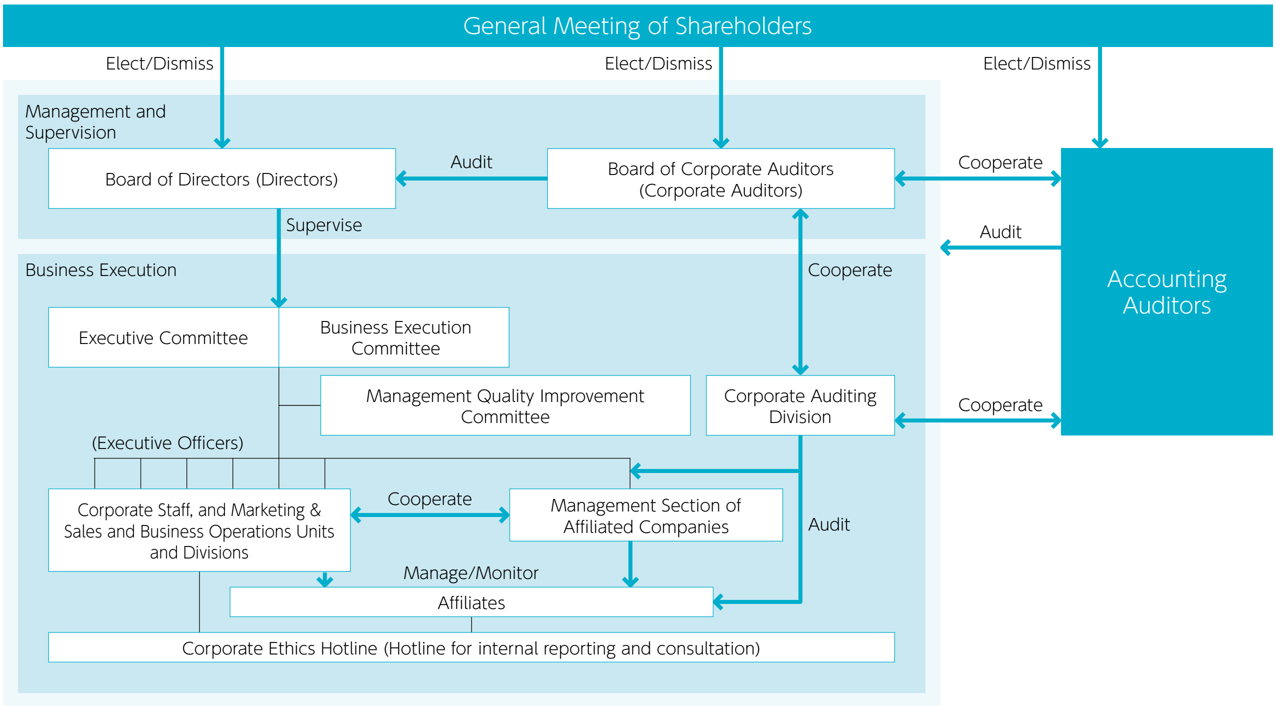
Board of Corporate Auditors

The Board of Corporate Auditors consists of four auditors, including two outside auditors. The auditors conduct business audits and accounting audits, and supervise directors on the performance of 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 one-third of the total number of directors and auditors.

Regarding the composition of independent directors, NESIC aims to strengthen its corporate governance structure by promoting diversity, including the appointment of a new director in June 2018 who has specialized knowledge in business administration and accounting, as well as a director in June 2019 who has advanced knowledge of corporate ethics and CSR.

Name	Reason for Nomination	Main Concurrent Positions	Attendance during FY2019/3	
			Board of Directors	Board of Corporate Auditors
Hisayoshi Fuwa	Hisayoshi Fuwa has extensive experience as a corporate manager, which has been benefit to 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.	—	13/13	—
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 administration. She is expected to continue to supervise management toward improvements in the Company's corporate value.	• Associate Professor, School of Economics and Business Administration, 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 and supervisory committee member), Netyear Group Corporation	11/11	—
Kuniko Muramatsu	Kuniko Muramatsu has the ability to provide appropriate advice and supervise the Company's management from an objective standpoint, backed by her advanced knowledge of CSR and compliance and her global insight.	• Representative Director of the Board, Wellness Systems Institute • Senior Researcher, Business Ethics Research Center • Outside Director, YOKOWO CO., LTD.	—	—
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	13/13	15/15
Masayuki Horie	Masayuki Horie possesses deep insight on internal controls and IT risk management in corporate management as a university professor. He has the ability to monitor the business execution of directors from a fair and objective standpoint as an outsider.	• Professor, College of Commerce, Nihon University	12/13	14/15

Notes:
1. Michiko Ashizawa's attendance at the Board of Directors meetings is for after her appointment as director at the 86th General Meeting of Shareholders held on June 21, 2018.
2. Kuniko Muramatsu was newly appointed as director at the 87th General Meeting of Shareholders held on June 21, 2019.

Director Remuneration

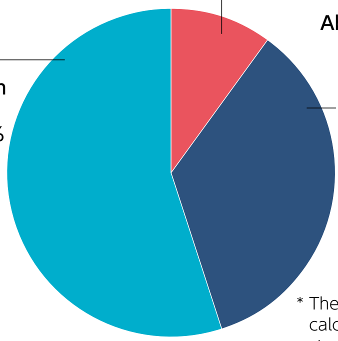
To maintain competitiveness in the industry and provide incentives to improve performance, remuneration for the Company's directors is based on a compensation structure set at appropriate levels while taking into account their duties and achievements in order to link their performance to corporate results.

Remuneration consists of a monthly salary set at a level commensurate with rank, a bonus that reflects an evaluation of personal performance in the previous fiscal year, and incentives to improve medium- and long-term performance. For incentives to improve medium- and long-term performance, the Company has provided remuneration linked to its share price in the past. Starting in June 2019, however, NESIC introduced restricted-transfer stock remuneration with the objective of aligning the values of directors with those of shareholders, and increased the ratio of this remuneration to about 10% of the total.

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.

Director 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 Shareholder 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



* Theoretical values calculated from standard amounts

Fiscal Year Ended March 31, 2019

Category	No. of Recipients	Total Amount (¥ million)
Directors	13	185
Outside directors	4	26
Auditors	4	44
Outside auditors	2	10

Notes:
1. Directors who also serve as employees do not receive a salary (including bonus) as an employee.
2. Includes three directors who retired as of the 86th General Meeting of Shareholders held on June 21, 2018.
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 shares in other companies for the purpose of building, maintaining, and strengthening business ties and relationships. Shares held for strategic reasons are examined in detail every year by the Board of Directors in terms of whether the aim and meaning of owning these shares align with their cost of capital.

Regarding the execution of voting rights for these strategic shareholdings, management decides whether to vote in approval or disapproval of matters based on a comprehensive evaluation that centers on whether it contributes to medium- to long-term improvements in the corporate value of the NESIC Group and the company in which it holds shares.

Relationship with Parent Company

As a member of the NEC Group, NESIC benefits greatly from the privilege of being in charge of system building and maintenance services among the services provided by NEC Group companies, and from being able to tap into recognition of the NEC brand and having access to business resources, such as technological capabilities and human resources. In addition to the field of 5G, which has drawn attention of late NEC has exceptional technological capabilities in the digital realm, including facial recognition technology, which NESIC can actively deploy to increase corporate value.

With that said, however, NESIC is an independent listed company that engages in business while making business decisions on its own accord. This translates into credibility as a listed company from our customers and business partners, while improving the morale of our employees and making it easier to hire talented human resources. With a wide range of products and services that go beyond NEC products, NESIC is able to develop business in tune with the needs of its customers and society. Independent businesses generate over 70% of net sales. In particular, one of NESIC's unique strengths is its application of the NEC Group's relentless focus on quality to the development of multivendor services.

In order to benefit from these advantages as a member of the NEC Group and as a listed company, NESIC must have systems in place for protecting the rights of general shareholders. With this in mind, the Company is strengthening its corporate governance structure by, for example, enhancing the composition of its independent directors and auditors.

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

Every year, all members of the Board of Directors fill out questionnaires on the overall effectiveness of the Board of Directors, and interviews are conducted with certain members.

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 FY 2019/3, 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 business strategy, and provide more opportunities to follow up and exchange opinions on these discussions
- Expand opportunities to provide the knowledge necessary for directors to properly perform their expected duties and responsibilities

Message from the Newly Appointed Outside Director

I have served as the manager of the corporate communications department, head of the corporate ethics office, and leader of diversity promotion at a foreign semiconductor manufacturer. They were followed by my role as an advisor for corporate ethics, diversity, and corporate governance based on the concept of creating foundations that enable organizations to drive sustainable growth.

At NESIC, top management has made a commitment to giving compliance the highest priority, and I believe management has struck a balance between offensive and defensive approaches to business, clarifying the Company's direction in the medium-term management plan. Management intends to accelerate innovation with an eye on longer-term growth, and I believe the spread of diversity and inclusion is fundamental to achieving this. An environment in which all employees can express their diverse viewpoints and leverage their skills will lead to improvements in their productivity as individuals and growth as a team. The Company's operations are closely tied to resolving social issues, and communication is key to co-creation with such a diverse base of stakeholders, in my opinion.

Utilizing the practical experience and specialized knowledge I gained from working at a global company, I aim to help NESIC improve corporate value by providing advice from diverse viewpoints in order to heighten the effectiveness of the Company's corporate governance even further.

Kuniko Muramatsu
Outside Director

NESIC held a dialogue between two outside directors where they exchanged their opinions on changes in the Board of Directors over the past year, with a focus on corporate governance and strategic issues.

Key Changes in the Board of Directors over the Past Year

Ashizawa ● Looking back over the past year, there were a large number of matters related to new business, including partnerships with other companies. For instance, there were discussions on whether common goals existed with partner firms, and the nature of our complementary relationships. I believe NESIC began to take steps toward making solid advances.

Fuwa ● The Company's Board of Directors takes their time discussing matters. When deliberating on new businesses, certain proposals were occasionally revised to reflect the opinions of the Board of Directors.

Ashizawa ● For developing new business, while properly identifying risks, I believe the members of the Board of Directors take an "offensive" corporate governance posture of encouraging people to take on new challenges.

Fuwa ● Compared with last year, the pre-meeting briefings on matters presented before the Board of Directors were more helpful this year. I believe this translated into more efficient and lively meetings of the Board of Directors. Furthermore, I see improvements in the management of investment risks, an issue that was raised in last year's annual report. From the standpoint of an outside director, I shared my views on risks for each project with the Board of Directors, and during deliberations of matters, I made sure there was adequate discussion on specific issues in risk management.

Ashizawa ● Speaking of risks, I think management should conduct further discussions on the burden placed on each company by the risks associated with NESIC's increased collaboration with partner companies.

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)

Further Strengthening "Offensive" Corporate Governance

Ashizawa ● I believe NESIC's Board of Directors is gradually evolving from a management approach to monitoring business execution. In order to strengthen "offensive" corporate governance, I think management should spend more time discussing strategies. For example, more time needs to be spent on talking about broader strategies, even for individual projects. Instead of thinking about risks and returns on an individual project basis, management should take a broader view that includes other businesses as well. It is also important to discuss the Companywide use of management resources within the context of management and financial strategies. I have already conveyed my concerns about these issues, and they have been shared with all members of the Board of Directors.

Fuwa ● The executive officers have an abundance of knowledge and experience in specialized fields, while the outside directors have a duty to examine matters at a distance from these fields, giving them a fresh perspective, in my opinion. In management, the situational awareness, ability to take action, and decisiveness to tackle issues of the management teams in charge of actual business execution are tested on a daily basis. By assessing these abilities from a comprehensive standpoint aligned with corporate governance, outside directors are able to detect from a different angle important matters that may be overlooked by management.

Ashizawa ● I have asked the Company to examine increasing the ratio of outside directors to at least one-third of the total, because diverse opinions are also valuable for the Board. I believe there are two points to discuss with regard to corporate governance for a listed subsidiary like NESIC. The first is whether more synergies can be generated with its parent company. Directors from NEC have talked excitedly about this topic, and a lively discussion ensued. From the standpoint of enhancing corporate value, I believe it is also vital to hold discussions on NEC's proposals for assets that could feasibly be utilized in projects, as well as on recent case studies at NEC. However, such discussions should always be framed within the context of

Michiko Ashizawa

Outside Director

1996 Joined Century Audit Corporation (currently KPMG AZSA LLC), International Department
* Retired in May 2001

2003 Joined Industrial Revitalization Corporation of Japan

2006 Joined Advantage Partners LLP (currently Advantage Partners, Inc.)

2013 Associate Professor in Faculty of Liberal Arts (currently the School of Economics and Business Administration) 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) protecting minority shareholders and, on this point, I am keenly aware of my responsibilities as an outside director. On the rare occasion, I criticize comments when I feel that they lean too much toward NEC's perspective.

Fuwa ● It is my understanding that the discussion on having outside directors represent more than one-third of the Board of Directors is not just about the ratio of members, but also about exercising the leadership of each Board member to create a governance framework that shareholders can accept. I am paying close attention to this point. The directors from NEC comment from the viewpoint of their approach to corporate governance of the Company. Outside auditors also freely state their opinions at meetings of the Board of Directors with the intention of maintaining and improving the Company's corporate governance structure.

Ashizawa ● Various discussions were held by the advisory panel, and I voiced my opinions on diversity in particular. For example, the age group of directors tends to be the same generation as the President, so I would like to see more discussions on age diversity. Moreover, I think the Company should improve diversity in terms of gender representation and international experience. This applies not only to the makeup of the Board of Directors, but also to employees in order to spur innovation into the future. It is generally the male employees who come to the pre-meeting briefings for outside directors about business and other matters, but I believe the female employees I have met at periodic meetings for female employees also provide valuable opinions on various matters. As a first step, I would like to see the appointment of a female executive officer as soon as possible.

Fuwa ● The advisory panel also discusses director compensation, which has been linked to performance. In the discussion we had this fiscal year, we talked about the link between NESIC's long-term vision and compensation, and I proposed grants of stock with restrictions on transfer. As a result, although the overall compensation framework does not change, the General Meeting of Shareholders approved the provision of a portion of compensation as stock grants. NESIC is a company with a high public utility and social profile, so I thought it would be effective to motivate directors to enhance corporate value from a longer-term perspective.

“

I am excited to see how the management plan will leverage NESIC's core competencies.

Ashizawa

Vision for 2030 & Beyond Borders 2021 Medium-Term Management Plan

Ashizawa ● I give high marks to the Beyond Borders management plan, which aims to overcome existing frameworks from a variety of perspectives amid significant changes in the external environment. This medium-term management plan can truly leverage the Company's capabilities such as its ability to take the lead over rivals to propose work-style innovations or platforms for discovering new products in Silicon Valley, for example. I think it is an exciting plan.

Fuwa ● I agree. I believe now is the time for a drastic change in business structures, including business portfolios. The Company was not aware of this when drawing up the medium-term management plan, but when it was testing access in new markets several years ago, it examined how its existing technologies could be further refined. About two years ago, NESIC identified the specific business domains on which to focus its energy and the combination of these domains (its business portfolio). That has led to strategic partnerships in recent years. The new medium-term management plan takes this momentum a step further, in my opinion.

Ashizawa ● We voiced our opinions when the medium-term management plan was being formulated. The expression "ability to create business," one of the Company's core competencies, is emblematic of NESIC's strengths from the external standpoint of an outside director, and an example of its uniqueness. For example, NESIC employees discovered Zoom, a highly competitive product in the U.S., and turned it into a successful business in Japan. Although NESIC thinks this is a natural process, from an outsider's perspective, I believe it is a source of its unique ability to create value. I believe pointing out strengths and weaknesses unaware to NESIC is an important role played by outside directors.

Fuwa ● I think the medium-term management plan is a road map for achieving the Company's vision of leveraging its core competencies in pursuit of new business creation. Naturally, as the Company targets new domains with rivals also entering the fray, NESIC must reinforce its ability to analyze competitive factors of the market. In order to prosper in a fiercely competitive environment, I believe the executive officer team needs to constantly ask themselves what NESIC's value proposition is from a broad viewpoint, while leveraging its core competencies in both new and existing businesses. Our discussions frequently include talk about the attractive aspects of markets or potential business partners. In my opinion, NESIC needs to think about what kinds of value it can provide through their highly compelling products and services. The other day, I talked with some managers in the EmpoweredOffice business, and I am confident in their ability to create new value with the abundant know-how they have accumulated in the business.

Ashizawa ● I believe NESIC should address two issues. The first is getting all employees, not just directors, on board with the Company's strategic direction in order to ensure steady progress. To this end, the President needs to sound like a "broken record" and constantly talk about the strategic framework with employees at every opportunity for discussion. The second issue is the importance of conveying how NESIC provides value and contributes to society. I therefore think more emphasis needs to be placed on the Company's message about contributing to the SDGs. It may be hard for people to understand how IT services can contribute to society, but taking EmpoweredOffice as an example, the Company can state its contribution to the SDGs in the context of reducing energy consumption while supporting job satisfaction and economic growth. I intend to have more in-depth discussions at the Board of Directors on encouraging NESIC employees to think of themselves as global players and actively seek out knowledge outside of the Company.

Fuwa ● I agree. Regarding the SDGs, I think it is important for NESIC to explore an open society and discover value that will be necessary to society in the future while expanding across the borders of current markets. This rings true in its Beyond Borders slogan. Together with the executive officers, I will do my best to reflect this on management going forward.

"I think now is the time for a drastic change in business structures.

Fuwa

Directors & Corporate Auditors (As of June 21, 2019)

Directors

Masao Wada
Chairman of the Board

Yushi Ushijima
President

Masafumi Gouji
Senior Vice President and Member of the Board

Osamu Noda
Senior Vice President and Member of the Board

Hiroyuki Sekizawa
Senior Vice President and Member of the Board

Hisayoshi Fuwa
Member of the Board (Outside Director)

Michiko Ashizawa
Member of the Board (Outside Director)

Kuniko Muramatsu
Member of the Board (Outside Director)

Junji Ashida
Member of the Board

Morihiko Kudo
Member of the Board

Corporate Auditors

Komei Sakanashi
Corporate Auditor
(Full-Time)

Naoki Iwasaki
Corporate Auditor
(Full-Time)

Yuji Kikuchi
Corporate Auditor
(Outside Auditor)

Masayuki Horie
Corporate Auditor
(Outside Auditor)

Backgrounds and Specializations of Outside Directors and Outside Auditors

	Corporate management	Business administration and planning	Finance and accounting	Legal affairs	Internal controls and risk management	CSR
Hisayoshi Fuwa Member of the Board (Outside Director)	○	○	○			
Michiko Ashizawa Member of the Board (Outside Director)		○	○			
Kuniko Muramatsu Member of the Board (Outside Director)		○			○	○
Yuji Kikuchi Corporate Auditor (Outside Auditor)				○		
Masayuki Horie Corporate Auditor (Outside Auditor)					○	

Corporate Overview (As of March 31, 2019)

Name	NEC Networks & System Integration Corporation
Head Office	Iidabashi First Tower, 2-6-1 Koraku, Bunkyo-ku, Tokyo 112-8560, Japan URL: https://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	4,841 (Non-consolidated), 7,743 (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

Japan

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

SNAM Sustainability Index

Certified Health and Productivity Management Organization 2019

Top Hundred Telework Pioneers

"*Kurumin*" certification mark*1

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, 2019)

Number of Shareholders	7,591
Common Stock Authorized	100,000,000 shares
Issued	49,773,807 shares
Trading Unit	100 shares

Major Shareholders (Top 10)

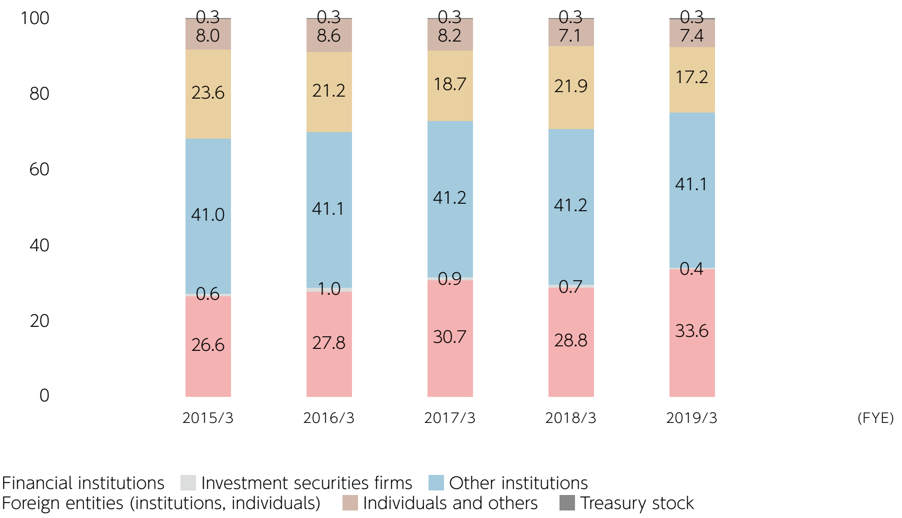
Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding (%)
NEC Corporation	19,106	38.49
Japan Trustee Services Bank, Ltd.*1 (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.89
Japan Trustee Services Bank, Ltd. (Trust account)	3,852	7.76
The Master Trust Bank of Japan, Ltd. (Trust account)	2,899	5.84
Sumitomo Realty & Development Co., Ltd.	1,200	2.42
Japan Trustee Services Bank, Ltd. (Trust account No. 9)	1,034	2.08
Employees' Stock Ownership Plan	697	1.41
GOVERNMENT OF NORWAY	649	1.31
THE BANK OF NEW YORK MELLON 140044	502	1.01
SSBTC CLIENT OMNIBUS ACCOUNT	491	0.99

*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, 2019 was 51.48%.

*2 Percentage of total shares outstanding is calculated based on the total number of shares outstanding minus treasury stock (138,615 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 FINANCIAL STATEMENTS

CONSOLIDATED TEN-YEAR SUMMARY

	FY2010/3	FY2011/3	FY2012/3	FY2013/3
Performance Indicators (Millions of yen)				
Orders received	¥222,046	¥212,277	¥215,373	¥241,271
Net sales	217,727	217,948	204,658	235,716
Gross profit	32,938	33,132	32,079	37,182
Operating income	9,867	10,835	9,747	12,483
Operating income to net sales (%)	4.5	5.0	4.8	5.3
Net income attributable to owners of the parent	5,644	4,660	4,474	7,246
Financial Condition (Fiscal year end) (Millions of yen)				
Total assets*2	¥146,543	¥149,464	¥149,130	¥167,472
Net assets	73,849	77,005	80,074	85,974
Owner's equity	73,213	76,445	79,503	85,266
Cash Flows (Millions of yen)				
Cash flows from operating activities	¥16,070	¥(1,595)	¥18,595	¥(1,723)
Cash flows from investing activities	(1,885)	(1,904)	(2,648)	(3,429)
Free cash flows	14,184	(3,499)	15,946	(5,152)
Cash flows from financing activities	(1,382)	(337)	(3,979)	(2,066)
Cash and cash equivalents at end of year	29,514	25,587	37,456	30,315
Per-Share Indicators (Yen)				
EPS	¥ 113.50	¥ 93.72	¥ 89.98	¥ 145.73
BPS	1,472.14	1,537.19	1,598.77	1,714.74
Cash dividends	25.00	26.00	28.00	45.00
Key Indicators (%)				
ROE*3	8.0	6.2	5.7	8.8
ROA*4	6.7	7.3	6.3	7.7
Owner's equity ratio	50.0	51.1	53.3	50.9
DOE	1.8	1.7	1.8	2.7
Payout ratio	22.0	27.7	31.1	30.9
Other				
Number of employees	5,998	5,939	5,936	6,024
Number of shares outstanding (FYE)	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 ¥110.99 = US$1.00 as of March 31, 2019.
*2 Partial revisions to accounting standards for tax-benefit accounting (Corporate Accounting Standard No. 28, February 16, 2018) have been adopted from the fiscal year ended March 31, 2019. Accordingly, the figures for the fiscal year ended March 31, 2015 to the fiscal year ended March 31, 2018 have been retroactively adjusted to comply with this revision.
*3 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
*4 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

FY2014/3	FY2015/3	FY2016/3	FY2017/3	FY2018/3	FY2019/3	
						(Thousands of U.S. dollars) *1
¥280,071	¥299,097	¥274,946	¥279,241	¥287,831	¥284,739	$2,565,447
270,326	292,164	279,961	257,912	267,939	277,949	2,504,270
44,690	48,110	45,162	42,585	44,265	47,681	429,597
14,418	16,158	14,111	9,974	11,057	12,774	115,091
5.3	5.5	5.0	3.9	4.1	4.6	—
8,257	7,791	5,996	6,549	7,357	8,885	80,052
						(Thousands of U.S. dollars) *1
¥189,059	¥201,904	¥196,505	¥197,386	¥207,643	¥216,171	$1,947,661
89,166	94,173	94,397	96,674	101,732	107,608	969,528
87,514	92,559	92,738	94,611	99,473	104,888	945,022
						(Thousands of U.S. dollars) *1
¥23,313	¥ 2,460	¥ 9,435	¥22,634	¥ 4,779	¥ 8,396	$ 75,646
(5,504)	(3,929)	(2,822)	(2,697)	(2,802)	(5,604)	(50,491)
17,809	(1,469)	6,613	19,936	1,976	2,791	25,155
(3,824)	(4,127)	(1,402)	(4,144)	(4,366)	(5,615)	(50,590)
44,434	38,951	43,889	59,648	57,281	54,354	489,719
						(Thousands of U.S. dollars) *1
¥ 166.06	¥ 156.72	¥ 120.80	¥ 131.94	¥ 148.23	¥ 179.02	$ 1.61
1,760.06	1,864.61	1,868.25	1,906.03	2,004.04	2,113.19	19.04
60.00	64.00	70.00	72.00	74.00	78.00	0.70
9.6	8.7	6.5	7.0	7.6	8.7	—
8.2	8.3	7.1	5.1	5.4	6.1	—
46.3	45.8	47.2	47.9	47.8	48.5	—
3.5	3.5	3.8	3.8	3.8	3.8	—
36.1	40.8	57.9	54.6	49.9	43.6	—
7,164	7,260	7,464	7,572	7,657	7,743	—
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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 54,354	¥ 57,281	$ 489,719
Notes and accounts receivable (notes 4 and 23)	106,553	103,911	960,023
Electronically recorded monetary claims (note 4)	606	494	5,459
Inventories (note 7)	13,181	8,237	118,758
Other current assets	6,423	5,414	57,870
Allowance for doubtful accounts	(82)	(121)	(738)
Total current assets	181,036	175,218	1,631,101
Non-current assets:			
Property and equipment			
Land	2,410	2,410	21,713
Buildings and structures	10,033	9,763	90,395
Machinery, equipment and vehicles	173	182	1,558
Tools, furniture and fixtures	15,016	14,826	135,291
Construction in progress	499	222	4,495
Other	392	258	3,531
Accumulated depreciation	(18,309)	(17,570)	(164,960)
Property and equipment, net	10,217	10,093	92,053
Intangibles, net of accumulated amortization (note 8)	6,234	5,384	56,167
Investments and other assets			
Investment securities (notes 5 and 6)	635	516	5,721
Asset for retirement benefits (note 11)	364	444	3,279
Deferred tax assets (note 10)	13,600	12,714	122,533
Other assets (note 23)	4,144	3,309	37,336
Allowance for doubtful accounts	(62)	(37)	(558)
Total investments and other assets	18,682	16,947	168,321
Total non-current assets	35,134	32,425	316,551
Total assets	¥216,171	¥207,643	$1,947,661

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (note 9)	¥ 2,284	¥ 4,086	$ 20,578
Current installments of long-term debt (note 9)	231	3,171	2,081
Notes and accounts payable (notes 4 and 23)	40,274	39,574	362,861
Electronically recorded obligations	807	728	7,270
Advances received (note 23)	6,290	3,811	56,671
Accrued income taxes (note 10)	3,175	3,768	28,606
Accrued bonuses to directors	117	102	1,054
Accrued warranty on products	113	116	1,018
Accrued losses on sales contracts (note 7)	1,980	557	17,839
Other current liabilities	17,053	16,957	153,644
Total current liabilities	72,328	72,874	651,662
Non-current liabilities:			
Long-term debt (note 9)	3,896	842	35,102
Liability for retirement benefits (note 11)	30,609	30,428	275,781
Other liabilities (notes 10 and 12)	1,729	1,765	15,577
Total non-current liabilities	36,234	33,037	326,461
Total liabilities	108,562	105,911	978,124
Shareholders' equity (note 13):			
Common stock:	13,122	13,122	118,226
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2019 and 2018			
Capital surplus	16,659	16,655	150,094
Retained earnings	79,520	74,357	716,460
Treasury stock, at cost; 138,615 shares at March 31, 2019 and 137,435 shares at March 31, 2018	(279)	(276)	(2,513)
Total shareholders' equity	109,022	103,858	982,268
Accumulated other comprehensive income:			
Net unrealized holding gains on other securities (note 5)	31	42	279
Foreign currency translation adjustments	(471)	(374)	(4,243)
Accumulated adjustments for retirement benefits (note 11)	(3,694)	(4,053)	(33,282)
Total accumulated other comprehensive income	(4,134)	(4,385)	(37,246)
Non-controlling interests	2,719	2,258	24,497
Total net assets	107,608	101,732	969,528
Total liabilities and net assets	¥216,171	¥207,643	$1,947,661

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
Net sales (note 23)	¥277,949	¥267,939	$2,504,270
Cost of sales (notes 7 and 23)	230,268	223,674	2,074,673
Gross profit	47,681	44,265	429,597
Selling, general and administrative expenses (notes 16 and 17)	34,906	33,208	314,496
Operating income	12,774	11,057	115,091
Other income (expense):			
Interest income	40	35	360
Interest expense	(95)	(127)	(855)
Dividends income of insurance	193	197	1,738
Insurance benefit	70	41	630
Gains on sale of investments in subsidiaries and affiliates	—	38	—
Gain on sales of non-current assets (note 18)	—	283	—
Loss on disposal of non-current assets	(53)	(120)	(477)
Foreign exchange loss	(43)	(51)	(387)
Business restructuring expenses for subsidiaries and affiliates	—	(56)	—
Other, net	136	(18)	1,225
Subtotal	248	222	2,234
Income before income taxes	13,023	11,279	117,334
Income taxes (note 10):			
Current	4,894	4,548	44,094
Deferred	(1,052)	(790)	(9,478)
Subtotal	3,842	3,757	34,615
Net Income	9,180	7,521	82,710
Net Income attributable to:			
Non-controlling interests	295	164	2,657
Owners of the parent	¥ 8,885	¥ 7,357	$ 80,052

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
Net Income	¥9,180	¥7,521	$82,710
Other comprehensive income arising during the year (note 19):			
Net unrealized holding loss on other securities	(11)	7	(99)
Foreign currency translation adjustments	(143)	81	(1,288)
Adjustments for retirement benefit	359	1,101	3,234
Share of other comprehensive income of entities accounted for using equity method	(1)	0	(9)
Total other comprehensive income arising during the year	203	1,190	1,828
Comprehensive income	¥9,383	¥8,712	$84,539
Comprehensive income attributable to:			
Owners of the parent	¥9,136	¥8,486	$82,313
Non-controlling interests	247	225	2,225

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, 2019 and 2018

	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, 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
Changes arising during the year:						
Cash dividends				(3,722)		(3,722)
Profit attribute to owners of the parent				8,885		8,885
Purchase of treasury stock					(3)	(3)
Disposition of treasury stock			0		0	0
Change in ownership interest of parent due to capital increase of consolidated subsidiaries			4			4
Net changes in accounts other than shareholders' equity						—
Total changes during the year	—	—	4	5,163	(3)	5,164
Balance at March 31, 2019	49,773	¥13,122	¥16,659	¥79,520	¥(279)	¥109,022

	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, 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
Changes arising during the year:						
Cash dividends				—		(3,722)
Profit attribute to owners of the parent				—		8,885
Purchase of treasury stock				—		(3)
Disposition of treasury stock				—		0
Change in ownership interest of parent due to capital increase of consolidated subsidiaries				—		4
Net changes in accounts other than shareholders' equity	(11)	(97)	359	250	460	711
Total changes during the year	(11)	(97)	359	250	460	5,876
Balance at March 31, 2019	¥ 31	¥(471)	¥(3,694)	¥(4,134)	¥2,719	¥107,608

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2018	$118,226	$150,058	$669,943	$(2,486)	$935,741
Changes arising during the year:					
Cash dividends			(33,534)		(33,534)
Net income			80,052		80,052
Purchase of treasury stock				(27)	(27)
Disposition of treasury stock		0		0	0
Change in ownership interest of parent due to capital increase of consolidated subsidiaries		36			36
Net changes in accounts other than shareholders' equity					—
Total changes during the year	—	36	46,517	(27)	46,526
Balance at March 31, 2019	$118,226	$150,094	$716,460	$(2,513)	$982,268

	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, 2018	$378	$(3,369)	$(36,516)	$(39,508)	$20,344	$916,587
Changes arising during the year:						
Cash dividends				—		(33,534)
Net income				—		80,052
Purchase of treasury stock				—		(27)
Disposition of treasury stock				—		0
Change in ownership interest of parent due to capital increase of consolidated subsidiaries				—		36
Net changes in accounts other than shareholders' equity	(99)	(873)	3,234	2,252	4,144	6,405
Total changes during the year	(99)	(873)	3,234	2,252	4,144	52,941
Balance at March 31, 2019	$279	$(4,243)	$(33,282)	$(37,246)	$24,497	$969,528

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
Cash flows from operating activities:			
Net income before income taxes	¥13,023	¥ 11,279	$117,334
Depreciation and amortization	2,764	2,526	24,903
Amortization of goodwill	247	251	2,225
Increase (decrease) in allowance for doubtful accounts	(11)	12	(99)
(Increase) decrease in asset for retirement benefits	251	310	2,261
Increase (decrease) in liability for retirement benefits	517	872	4,658
Increase (decrease) in accrued bonuses to directors	14	34	126
Increase (decrease) in accrued warranty on products	(2)	(7)	(18)
Increase (decrease) in accrued losses on sales contracts	1,422	(90)	12,811
Interest and dividend income	(58)	(46)	(522)
Interest expense	95	127	855
(Increase) decrease in notes and accounts receivable	(2,934)	(13,061)	(26,434)
(Increase) decrease in inventories	(4,951)	266	(44,607)
Increase (decrease) in notes and accounts payable	824	3,801	7,424
Other, net	2,724	2,326	24,542
Subtotal	13,927	8,604	125,479
Interest and dividend received	58	47	522
Interest paid	(95)	(127)	(855)
Income taxes paid	(5,495)	(3,744)	(49,508)
Net cash provided by operating activities	8,396	4,779	75,646

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
Cash flows from investing activities:			
Purchase of property and equipment	(1,922)	(1,628)	(17,316)
Proceeds from sale of property and equipment	5	386	45
Purchase of intangibles	(2,578)	(1,532)	(23,227)
Proceeds from sales of intangibles	15	11	135
Purchase of investment securities	(162)	(27)	(1,459)
Loans receivable made	—	(2)	—
Collection of loans receivable	1	3	9
Proceeds from sales of investments in subsidiaries and affiliates	—	74	—
Other, net	(962)	(87)	(8,667)
Net cash used in investing activities	(5,604)	(2,802)	(50,491)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(1,750)	(111)	(15,767)
Repayments of long-term debt	(3,186)	(171)	(28,705)
Proceeds from long-term debt	3,300	—	29,732
Proceeds from sale and purchase of treasury stock, net	(2)	(4)	(18)
Dividends paid to shareholders	(3,717)	(3,620)	(33,489)
Dividends paid to non-controlling interest	(27)	(23)	(243)
Proceeds from share issuance to non-controlling interest	245	—	2,207
Other, net	(474)	(435)	(4,270)
Net cash used in financing activities	(5,615)	(4,366)	(50,590)
Effect of exchange rate changes on cash and cash equivalents	(104)	22	(937)
Net increase (decrease) in cash and cash equivalents	(2,927)	(2,366)	(26,371)
Cash and cash equivalents at beginning of year	57,281	59,648	516,091
Cash and cash equivalents at end of year	¥54,354	¥ 57,281	$489,719

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
March 31, 2019 and 2018

1. BASIS OF PREPARATION

NEC Networks & System Integration Corporation (the "Company") and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in 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, 2019 (17 subsidiaries as of March 31, 2018) (the "Group").

(Changes in the scope of consolidation)

K&N System Integrations Corporation has been established in May 2018, and it is included in the consolidated financial statements from the current fiscal year.

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 6 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 year-end of affiliates differs from that of the Company, financial statements prepared by their year-end 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 from 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.

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, 2018 to conform to the presentation for the year ended March 31, 2019.

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

"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 benefits 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 consolidated statements of income)
"Insurance benefit", which was included in "Other, net" under "Other income (expense)" in the previous fiscal year, is presented separately in the current fiscal year due to an increase in materiality. To reflect this change in presentation, the amount of ¥41 million included in "Other, net" in the previous fiscal year is reclassified into "Insurance benefit".

In addition, "Relocation expenses in subsidiaries and associates" under "Other income (expense)", which was presented separately in the previous fiscal year, is included in "Other, net" in the current fiscal year because its materiality has declined.

Also, "Foreign exchange loss", which was included in "Other, net" under "Other income (expense)" in the previous fiscal year, is presented separately in the current fiscal year due to an increase in materiality. To reflect this change in presentation, the amount of ¥51 million included in "Other, net" in the previous fiscal year is reclassified into "Foreign exchange loss".

(Changes following the adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting")
The Group adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and changed the classification of "Deferred tax assets" to "Investments and other assets", and "Deferred tax liabilities" to "Non-current liabilities". Simultaneously, footnotes for "Income Taxes" are also changed.

As a result, in the previous fiscal year, "Deferred tax assets" of ¥4,524 million classified as "Current assets" is reclassified into "Investments and other assets".

In addition, the Group set off "Deferred tax assets" against "Deferred tax liabilities" of the same taxable entity, and "Total assets" are decreased by ¥406 million compared to the amount before the change.

As for the notes related to tax effect accounting, those specified in notes 8 (excluding total amount of valuation allowance) and 9 of "Accounting Standard for Tax Effect Accounting", which are required in paragraphs 3 to 5 of Statement No.28, are additionally included. However, this additional information corresponding to the previous fiscal year is not disclosed, in accordance with the transitional treatments prescribed in paragraph 7 of Statement No.28.

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 ¥110.99 = U.S.$1.00, the approximate rate of exchange on March 31, 2019. 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, 2019 and 2018, the following notes and electronically recorded monetary claims maturing on these fiscal year-ends and collected or paid on their following business days, are included in the consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Notes receivable	¥146	¥75	$1,315
Electronically recorded monetary claims	36	18	324
Notes payable	31	30	279

5. INVESTMENT SECURITIES

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2019 and 2018 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2019	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥144	¥ 96	¥47	$1,297	$ 864	$423
Subtotal	144	96	47	1,297	864	423
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	31	32	(1)	279	288	(9)
Subtotal	31	32	(1)	279	288	(9)
Total	¥175	¥129	¥45	$1,576	$1,162	$405

	Millions of yen		
March 31, 2018	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥179	¥ 98	¥ 80
Subtotal	179	98	80
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	49	74	(25)
Subtotal	49	74	(25)
Total	¥228	¥172	¥ 55

Sales of securities classified as other securities for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Proceeds from sales	¥18	¥4	$162
Gain(Loss) on sales	18	3	162

Unlisted equity securities of ¥373 million ($3,360 thousand) and ¥223 million at March 31, 2019 and 2018, 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, 2019, the Company recognized impairment losses of ¥25 million ($225 thousand) and ¥3 million ($27 thousand) on available-for-sale securities with and without market value, respectively. During the fiscal year ended March 31, 2018, the Company recognized impairment losses of ¥11 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 affiliates as of March 31, 2019 and 2018 are ¥86 million ($774 thousand) and ¥64 million, respectively,

7. INVENTORIES

a) Inventories at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Work in process	¥ 6,827	¥5,858	$ 61,510
Purchased goods and materials	6,354	2,379	57,248
Total	¥13,181	¥8,237	$118,758

b) Losses from revaluation of the lower of cost or net selling value included in cost of sales for the years ended March 31, 2019 and 2018 were ¥260 million ($2,342 thousand) and ¥149 million, respectively.

c) Losses on sales contracts included in cost of sales for the years ended March 31, 2019 and 2018 were ¥1,588 million ($14,307 thousand) and ¥338 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, 2019 and 2018 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Work in process	¥642	¥263	$5,784

8. GOODWILL

Goodwill at March 31, 2019 and 2018 is recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Intangibles, net of accumulated amortization	¥1,146	¥1,394	$10,325

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, 2019 and 2018 were approximately 0.4% and 0.4% and those of long-term debt for the years ended March 31, 2019 and 2018 were approximately 0.4% and 0.4%, respectively.

The annual maturities of long-term debt at March 31, 2019 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	¥ 231	$ 2,081
2021	231	2,081
2022	3,231	29,110
2023	231	2,081
2024	202	1,819
2025 and thereafter	—	—

As of March 31, 2019 and 2018, the Group have entered into contracts for committed credit lines totaling ¥9,000 million ($81,088 thousand) with two domestic banks and have unused committed lines of credit amounting to ¥9,000 million.

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 30.6% and 30.9% for 2019 and 2018, 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, 2019 and 2018 differed from the statutory tax rate for the following reasons:

	2019	2018
Statutory tax rate	30.6%	30.9%
Effect of:		
Expenses not deductible for tax purposes	1.4	1.5
Inhabitant tax per capita levy	1.1	1.2
Tax credit	(2.2)	(0.3)
Increase/(Decrease) in valuation allowance	(1.6)	(0.3)
Amortization of goodwill	0.2	0.2
Other, net	0.0	0.1
Effective tax rate	29.5%	33.3%

Tax effects of significant temporary differences and tax loss carry-forwards that resulted in deferred tax assets or liabilities at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,409	¥ 2,211	$ 21,704
Social security contribution on employees' bonuses	346	316	3,117
Allowance for doubtful accounts	29	33	261
Accrued enterprise tax	282	282	2,540
Loss on revaluation of inventories	1,307	1,278	11,775
Unrealized profit on inventories	17	17	153
Accrued losses on sales contracts	603	162	5,432
Depreciation	228	200	2,054
Asset retirement obligations	271	240	2,441
Liability for retirement benefits	9,390	9,304	84,602
Stock dividends	106	106	955
Impairment loss on investment securities	31	29	279
Tax loss carry-forwards (Note)	1,290	1,696	11,622
Other	495	408	4,459
Subtotal	16,809	16,288	151,446
Valuation allowance on tax loss carry-forwards (Note)	(1,101)	—	(9,919)
Valuation allowance on total deductible temporary differences and other	(1,540)	—	(13,875)
Subtotal	(2,641)	(2,975)	(23,794)
Total	14,167	13,313	127,642
Deferred tax liabilities:			
Asset for retirement benefits	(60)	(56)	(540)
Restoration cost for asset retirement obligations	(164)	(151)	(1,477)
Goodwill	(201)	(251)	(1,810)
Liability adjustment account	(136)	(147)	(1,225)
Other	(17)	(26)	(153)
Total	(580)	(634)	(5,225)
Net deferred tax assets	¥13,587	¥12,678	$122,416

(Note) The amounts of tax loss carry-forward and related deferred tax assets by carry-forward period

	Millions of yen						
March 31, 2019	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	Total
Tax loss carry-forward (*1)	¥ 1	¥ 7	¥ 9	¥ 0	¥152	¥ 1,119	¥ 1,290
Valuation allowance	(1)	(7)	(9)	(0)	(0)	(1,082)	(1,101)
Deferred tax assets	—	—	—	—	151	37	189(*2)

	Thousands of U.S. dollars						
March 31, 2019	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	Total
Tax loss carry-forward (*1)	$ 9	$ 63	$ 81	$ 0	$1,369	$10,081	$11,622
Valuation allowance	(9)	(63)	(81)	(0)	(0)	(9,748)	(9,919)
Deferred tax assets	—	—	—	—	1,360	333	1,702(*2)

(*1) Tax loss carry-forward is after multiplying the statutory tax rate.
(*2) Deferred tax assets of ¥189 million ($1,702 thousand) are recognized for tax loss carry-forward of ¥1,290 million ($11,622 thousand), which is after multiplying the statutory tax rate, of the consolidated subsidiaries.
As for the above tax loss carry-forward, valuation allowance has not been recognized for the part that deemed to be recoverable since future taxable income will be available.

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

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, 2019 and 2018 for the years then ended is as follows.

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligation at beginning of year	¥59,929	¥59,713	$539,949
Service cost	2,596	2,585	23,389
Interest cost	537	541	4,838
Actuarial gain or loss	(614)	(989)	(5,532)
Benefits paid	(2,421)	(1,948)	(21,812)
Changes arising from the changes in accounting policy from the simplified method to the standard method	175	—	1,576
Other	22	27	198
Retirement benefit obligation at end of year	¥60,226	¥59,929	$542,625

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
	2019	2018	2019
Plan assets at beginning of year	¥30,471	¥29,407	$274,538
Expected return on plan assets	751	722	6,766
Actuarial gain or loss	(986)	127	(8,883)
Contributions paid by the employer	1,117	1,116	10,063
Benefits paid	(992)	(900)	(8,937)
Other	(3)	(2)	(27)
Plan assets at end of year	¥30,358	¥30,471	$273,520

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
	2019	2018	2019
Liability for retirement benefits at beginning of year	¥ 526	¥576	$ 4,739
Retirement benefit costs	36	60	324
Benefits paid	(5)	(42)	(45)
Changes arising from the changes in accounting policy from the simplified method to the standard method	(165)	—	(1,486)
Other	(15)	(67)	(135)
Liability for retirement benefits at end of year	¥ 376	¥526	$ 3,387

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ 32,316	¥ 32,417	$ 291,161
Plan assets	(30,817)	(30,919)	(277,655)
	1,498	1,497	13,496
Unfunded retirement benefit obligation	28,745	28,486	258,987
Net liability for retirement benefits	¥ 30,244	¥ 29,984	$ 272,493
Liability for retirement benefits	¥ 30,609	¥ 30,428	$ 275,781
Asset for retirement benefits	(364)	(444)	(3,279)
Net liability for retirement benefits	¥ 30,244	¥ 29,984	$ 272,493

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
	2019	2018	2019
Service cost	¥2,596	¥2,585	$23,389
Interest cost	537	541	4,838
Expected return on plan assets	(751)	(722)	(6,766)
Net actuarial loss amortization	1,377	1,534	12,406
Past service costs amortization	(500)	(574)	(4,504)
Retirement benefit costs calculated by the simplified method	36	60	324
Other	(1)	(0)	(9)
Retirement benefit costs	¥3,295	¥3,424	$29,687

(6) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Past service costs	¥ (500)	¥ (574)	$(4,504)
Actuarial gains and losses	1,005	2,652	9,054
Total	¥ 505	¥2,077	$ 4,549

(7) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service costs	¥(1,724)	¥(2,224)	$(15,532)
Unrecognized actuarial gains and losses	7,001	8,006	63,077
Total	¥ 5,276	¥ 5,782	$ 47,535

(8) Plan assets

(a) The components of plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Debt securities	¥14,100	¥15,376	$127,038
Equity securities	4,562	4,645	41,102
General account	3,623	3,612	32,642
Alternative	7,609	6,368	68,555
Other	463	468	4,171
Total	¥30,358	¥30,471	$273,520

Note: Total plan assets include ¥318 million ($2,865 thousand) and ¥413 million in a retirement benefit trust established for the corporate pension plan as of March 31, 2019 and 2018, 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, 2019 and 2018 (expressed as weighted averages) are as follows:

	2019	2018
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 ¥472 million ($4,252 thousand) and ¥479 million for the years ended March 31, 2019 and 2018.

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, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance, beginning of year	¥777	¥781	$7,000
Obligations incurred by asset acquisition	91	8	819
Obligations settled	(5)	(42)	(45)
Accretion expense	10	10	90
Remeasurements	—	18	—
Balance, end of year	¥873	¥777	$7,865

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 ($4,919 thousand) as of both March 31, 2019 and 2018. 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, 2019 and 2018 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	
	2019	2018
At beginning of year	137,435	135,911
Increase - purchase of odd lot shares	1,277	1,534
Decrease - sale of odd lot shares	97	10
At end of year	138,615	137,435

a) 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
(b) Cash dividends per common share	¥36
(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
(b) Cash dividends per common share	¥37
(c) Record date	September 30, 2017
(d) Effective date	December 4, 2017

b) 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
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥37
(d) Record date	March 31, 2018
(e) Effective date	May 31, 2018

c) Dividends paid during the year ended March 31, 2019

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

(a) Total dividends	**¥1,836 million ($16,542 thousand)**
(b) Cash dividends per common share	**¥37 ($0.33)**
(c) Record date	**March 31, 2018**
(d) Effective date	**May 31, 2018**

The following was approved by the Board of Directors on October 30, 2018.

(a) Total dividends	**¥1,886 million ($16,992 thousand)**
(b) Cash dividends per common share	**¥38 ($0.34)**
(c) Record date	**September 30, 2018**
(d) Effective date	**December 4, 2018**

d) Dividends to be paid after March 31, 2019 although record date for payment falls within the year ended March 31, 2019

The following was approved by the Board of Directors on April 26, 2019.

(a) Total dividends	**¥1,985 million ($17,884 thousand)**
(b) Dividend source	**Retained earnings**
(c) Cash dividends per common share	**¥40 ($0.36)**
(d) Record date	**March 31, 2019**
(e) Effective date	**May 31, 2019**

14. CONTINGENT LIABILITIES

At March 31, 2019 and 2018, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥1 million ($9 thousand) and ¥4 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, 2019 and 2018 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Due within one year	¥2,966	¥2,521	$26,723
Due over one year	5,440	3,064	49,013
Total	¥8,407	¥5,585	$75,745

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Employees salary	¥16,584	¥16,035	$149,418
Provision for bonuses to directors	56	38	504
Retirement benefit costs	1,181	1,232	10,640
Provision of allowance for doubtful accounts	—	13	—

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥784 million ($7,063 thousand) and ¥425 million for the years ended March 31, 2019 and 2018, 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 for the year ended March 31, 2018.

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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized holding gain on other securities:			
Unrealized holding gain(loss) arising during the year	¥ (48)	¥ (0)	$ (432)
Reclassification adjustment for gain/loss realized in net income	29	11	261
Before tax amount	(19)	10	(171)
Tax effect	7	(3)	63
Net-of-tax amount	(11)	7	(99)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	(137)	83	(1,234)
Reclassification adjustment for gain/loss realized in net income	(8)	—	(72)
Before tax amount	(145)	83	(1,306)
Tax effect	2	(2)	18
Net-of-tax amount	(143)	81	(1,288)
Adjustments for retirement benefit:			
Adjustments for retirement benefit arising during the year	(371)	1,117	(3,342)
Reclassification adjustment for gain/loss realized in net income	877	960	7,901
Before tax amount	505	2,077	4,549
Tax effect	(146)	(976)	(1,315)
Net-of-tax amount	359	1,101	3,234
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	(1)	0	(9)
Total other comprehensive income	¥ 203	¥1,190	$ 1,828

20. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2019	2018	2019
Net income per share	¥ 179.02	¥ 148.23	$ 1.61
Net assets per share	2,113.19	2,004.04	19.04

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income attributable to owners of the parent	¥ 8,885	¥ 7,357	$80,052
Amounts not attributable to common stock	—	—	—
Net income attributable to owners of the parent related to common stock	8,885	7,357	80,052
Average number of shares during the term (thousands of shares)	49,635	49,637	49,635

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 5 years and 6 years after the balance sheet date for the years ended March 31, 2019 and 2018, 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, 2019 and 2018, 30% and 24% 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, 2019 and 2018 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, 2019	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 54,354	¥ 54,354	¥—	$ 489,719	$ 489,719	$—
(2) Notes and accounts receivable	106,553			960,023		
(3) Electronically recorded monetary claims	606			5,459		
Allowance for doubtful accounts	(22)			(198)		
	107,138	107,138	—	965,294	965,294	—
(4) Investment securities	175	175	—	1,576	1,576	—
Total	¥161,667	¥161,667	¥—	$1,456,590	$1,456,590	$—
Liabilities:						
(1) Notes and accounts payable	¥ 40,274	¥ 40,274	¥—	$ 362,861	$ 362,861	$—
(2) Electronically recorded obligations	807	807	—	7,270	7,270	—
(3) Short-term bank loans	2,284	2,284	—	20,578	20,578	—
(4) Current installments of long-term debt	231	231	—	2,081	2,081	—
(5) Long-term debt	3,896	3,896	—	35,102	35,102	—
Total	¥ 47,494	¥ 47,494	¥—	$ 427,912	$ 427,912	$—
Derivative transactions	¥ —	¥ —	¥—	$ —	$ —	$—

	Millions of yen		
March 31, 2018	Carrying amount	Fair value	Differences
Assets:			
(1) Cash and cash equivalents	¥ 57,281	¥ 57,281	¥—
(2) Notes and accounts receivable	103,911		
(3) Electronically recorded monetary claims	494		
Allowance for doubtful accounts	(55)		
	104,350	104,350	—
(4) Investments securities	228	228	—
Total	¥161,860	¥161,860	¥—
Liabilities:			
(1) Notes and accounts payable	39,574	39,574	¥—
(2) Electronically recorded obligations	728	728	—
(3) Short-term bank loans	4,086	4,086	—
(4) Current installments of long-term debt	3,171	3,171	—
(5) Long-term debt	842	842	—
Total	¥ 48,403	¥ 48,403	¥—
Derivative transactions	¥ —	¥ —	¥—

(Note) 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

2) Notes receivable, accounts receivable

3) Electronically recorded monetary claims
The carrying amount approximates fair value because of the short maturity of these instruments.

4) 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

2) Electronically recorded obligations

3) Short-term bank loans

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

5) 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
	2019	2018	2019
Unlisted equity securities	¥460	¥287	$4,144

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, 2019

	Millions of yen			
	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	¥ 54,354	¥—	¥—	¥—
Notes and accounts receivable	106,553	—	—	—
Electronically recorded monetary claims	606	—	—	—
	¥161,514	¥—	¥—	¥—

	Thousands of U.S. dollars			
	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	$ 489,719	$—	$—	$—
Notes and accounts receivable	960,023	—	—	—
Electronically recorded monetary claims	5,459	—	—	—
	$1,455,212	$—	$—	$—

(4) The annual maturities of long-term debt and other interest-bearing debt at March 31, 2019

	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	¥2,284	¥ —	¥ —	¥ —	¥ —	¥—
Long-term debt	231	231	3,231	231	202	—

	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	$20,578	$ —	$ —	$ —	$ —	$—
Long-term debt	2,081	2,081	29,110	2,081	1,819	—

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, 2019 and 2018, there is no derivative transactions to report.

23. RELATED PARTY TRANSACTIONS

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

NEC Corporation owned 51.48% and 51.49% of the Company's outstanding common stock as of both March 31, 2019 and 2018, respectively.

Balances with NEC Corporation at March 31, 2019 and 2018, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Construction and maintenance of network system:			
Transactions:			
Sales	¥63,859	¥60,855	$575,358
Balances:			
Accounts receivable	¥30,791	¥25,250	$277,421
Advances received	¥ 313	¥ 386	$ 2,820
Purchases of communication device:			
Transactions:			
Purchases	¥46,191	¥44,171	$416,172
Balances:			
Accounts payable	¥13,615	¥12,533	$122,668
Advance payments	¥ 408	¥ —	$ 3,676

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, 2019 and 2018 is summarized as follows:

	Millions of yen					
March 31, 2019	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥122,775	¥70,529	¥77,260	¥7,383	¥ —	¥277,949
(2) Intersegment sales	—	—	—	—	—	—
Total	¥122,775	¥70,529	¥77,260	¥7,383	¥ —	¥277,949
Segment income	¥ 13,408	¥ 4,714	¥ 3,454	¥ 276	¥ (9,078)	¥ 12,774
Segment assets	¥ 52,593	¥35,161	¥49,112	¥2,766	¥76,537	¥216,171
Others:						
Depreciation and amortization	¥ 1,543	¥ 351	¥ 169	¥ —	¥ 698	¥ 2,764
Purchases of property and equipment, and intangible assets	1,975	672	210	1	1,718	4,578
Investment to entities accounted for using equity method	41	—	45	—	—	86

	Thousands of U.S. dollars					
March 31, 2019	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	$1,106,180	$635,453	$696,098	$66,519	$ —	$2,504,270
(2) Intersegment sales	—	—	—	—	—	—
Total	$1,106,180	$635,453	$696,098	$66,519	$ —	$2,504,270
Segment income	$ 120,803	$ 42,472	$ 31,119	$ 2,486	$ (81,791)	$ 115,091
Segment assets	$ 473,853	$316,794	$442,490	$24,921	$689,584	$1,947,661
Others:						
Depreciation and amortization	$ 13,902	$ 3,162	$ 1,522	$ —	$ 6,288	$ 24,903
Purchases of property and equipment, and intangible assets	17,794	6,054	1,892	9	15,478	41,246
Investment to entities accounted for using equity method	369	—	405	—	—	774

March 31, 2018	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
	Millions of yen					
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

Notes: 1. "Others" includes purchases of information and telecommunications equipment, etc., which are not included in the reported segments.
2. "Adjustments" of ¥–9,078 million ($–81,791 thousand) and ¥–8,424 million in segment income for the years ended March 31, 2019 and 2018, respectively, are mainly administrative operation expenses.
3. "Adjustments" of ¥76,537 million ($689,584 thousand) and ¥76,054 million in segment assets at March 31, 2019 and 2018, 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. "Purchases of property and equipment, and intangible assets" for the years ended March 31, 2019 and 2018 include long-term prepaid expenses and their amortization.
6. The Company has reorganized the business structures as of April 1, 2019 and will change the reportable segments from the year ended March 31, 2020 from "Enterprise Networks Business", "Carrier Networks Business" and "Social Infrastructures Business" to "Digital Solutions Business", "Network Infrastructures Business" and "Engineering & Support Services Business".

Related information

Related segment information for the years ended March 31, 2019 and 2018 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 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Customer name:			
NEC Corporation			
Sales	¥68,808	¥67,203	$619,947

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, 2019 and 2018
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, 2019 and 2018

	Millions of yen					
March 31, 2019	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 22	¥ 224	¥—	¥—	¥—	¥ 247
Balances of goodwill	127	1,018	—	—	—	1,146

	Thousands of U.S. dollars					
March 31, 2019	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	$ 198	$2,018	$—	$—	$—	$ 2,225
Balances of goodwill	1,144	9,171	—	—	—	10,325

	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

Negative goodwill incurred by reported segments for the years ended March 31, 2019 and 2018
There are no amounts to report.

(Subsequent events)
Change of the reportable segments
The Company has reorganized the business structures as of April 1, 2019 to accelerate the Company's growth as well as strengthen the business structures for the Company's competitiveness and, accordingly, will change the reportable segments from the year ended March 31, 2020 from "Enterprise Networks Business", "Carrier Networks Business" and "Social Infrastructures Business" to "Digital Solutions Business", "Network Infrastructures Business" and "Engineering & Support Services Business".

The Group is currently in the process of determining each reportable segment's sales revenue, profit or loss, and other effects on the consolidated financial statements in the newly designed reportable segments.

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 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, 2019
Tokyo, Japan

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