



Designing the Future with Communications



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# 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 the NEC Way with discussions involving all employees.

#### 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 2020, based on the theme of solving social issues, we introduce our initiatives for continuing to create new value that helps solve social issues through communications-centric technologies and co-creation and self-implementation with our 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, 2019 to March 31, 2020

(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 Standard)
- SASB Materiality Map
- ISO 26000 (Guidance on social responsibility)
- 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

- CSR-Related Information

<https://www.nesic.co.jp/english/csr/>

Responsible department: 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.

Company names, product names, and logos contained this report are the trademarks or registered trademarks of the respective companies.



#### About the Cover

By bringing together the technologies and strengths, NESIC is keen to spur innovation while accelerating co-creation with its customers and partners. The cover was designed to express these intentions of NESIC. (The top photo in cover is related to the Co-Creation Online Discussion on pages 42-43, and the customer and our employees are giving a high five remotely. It symbolizes the attitude of promoting co-creation by strengthening communication.)

# Our Potential

## Expanding Potential of NESIC

As a company that has built up strength in the communication domain, NESIC offers solutions for work-style innovation stemming from the COVID-19 pandemic, while leveraging Digital x 5G services to help solve various social issues over the medium to long term, constituting a broad growth of potential that will lead to corporate growth in turn.

### Short Term

## Work-Style Innovation

## Advancing communications,

### Social Issues

New ways of working that reflect social issues, such as declining birthrates, the aging population and associated decline in the working population, as well as spur innovation, have become even more important in the context of business continuity during the COVID-19 pandemic.

### Our Potential

While utilizing cutting-edge digital technologies, NESIC contributes to solving social issues by strengthening and advancing, through co-creation and self-implementation with its partners, its work-style innovations polished over time through self-implementation, including the challenge of distributed work.



→ Medium to Long Term →

Digital × 5G

designing the future with communications.

Social Issues

Once the pandemic winds down, completely new lifestyles will emerge as the new normal. In addition to work styles, NESIC will be expected to address a wide range of social issues, including the creation of a new society and communities that support different lifestyles.

Our Potential

NESIC has accumulated know-how through the construction of advanced ICT infrastructure, such as networks for telecom carriers. Leveraging this know-how and its ability to create businesses through the co-creation and self-implementation with its partners, NESIC brings together digital and 5G technologies to offer a foundation for lifestyles and related services, while always striving to solve social issues from the customer's point of view.

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General Standard Disclosures	This Report	Web
Strategy	<p><b>P06</b> Message from the President</p> <p><b>P24</b> Risk and Opportunity / Materiality Issues</p> <p><b>P28</b> Medium-Term Management Plan</p>	<p>Investor Relations</p> <p><a href="https://www.nesic.co.jp/english/ir/">https://www.nesic.co.jp/english/ir/</a></p>
Ethics and Integrity	<p><b>P46</b> Sound and Highly Transparent Management</p>	<p>About Us</p> <p><a href="https://www.nesic.co.jp/english/corporate/">https://www.nesic.co.jp/english/corporate/</a></p> <p>CSR &gt; Compliance / Risk Management</p> <p><a href="https://www.nesic.co.jp/english/csr/compliance.html">https://www.nesic.co.jp/english/csr/compliance.html</a></p>
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Stakeholder Engagement	<p><b>P46</b> Sound and Highly Transparent Management</p>	<p>CSR &gt; The NESIC Group's CSR &gt; Stakeholder Engagement</p> <p><a href="https://www.nesic.co.jp/english/csr/engagement.html">https://www.nesic.co.jp/english/csr/engagement.html</a></p> <p>Investor Relations</p> <p><a href="https://www.nesic.co.jp/english/ir/">https://www.nesic.co.jp/english/ir/</a></p> <p>About Us &gt; Procurement</p> <p><a href="https://www.nesic.co.jp/english/corporate/procurement.html">https://www.nesic.co.jp/english/corporate/procurement.html</a></p> <p>CSR &gt; Social Contributions</p> <p><a href="https://www.nesic.co.jp/english/csr/contribute.html">https://www.nesic.co.jp/english/csr/contribute.html</a></p>
Reporting Practice	This report	<p>Investor Relations &gt; IR Library</p> <p><a href="https://www.nesic.co.jp/english/ir/library.html">https://www.nesic.co.jp/english/ir/library.html</a></p>
Management Approach	<p><b>P05</b> Materiality</p> <p><b>P24</b> Risk and Opportunity / Materiality Issues</p>	<p>CSR</p> <p><a href="https://www.nesic.co.jp/english/csr/">https://www.nesic.co.jp/english/csr/</a></p> <p>CSR &gt; The NESIC Group's CSR &gt; Materiality</p> <p><a href="https://www.nesic.co.jp/english/csr/materiality.html">https://www.nesic.co.jp/english/csr/materiality.html</a></p>

## Environment

GHG Emissions	<p>NESIC's operations center on the construction of network systems and the provision of services related to operations, monitoring, maintenance and outsourcing. Since environmental risks are relatively low, related information is omitted from this integrated report. Please refer to the Company's website on the right.</p>	<p>CSR &gt; Environment</p> <p><a href="https://www.nesic.co.jp/english/csr/environment.html">https://www.nesic.co.jp/english/csr/environment.html</a></p>
Energy Management		
Water & Wastewater Management		
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## Social Capital

Customer Privacy	<p><b>P24</b> Materiality Issues</p>	<p>CSR &gt; Information Security / Personal Information Protection</p> <p><a href="https://www.nesic.co.jp/english/csr/security.html">https://www.nesic.co.jp/english/csr/security.html</a></p> <p>Privacy Policy</p> <p><a href="https://www.nesic.co.jp/privacy.html">https://www.nesic.co.jp/privacy.html</a></p>
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Employee Engagement, Diversity & Inclusion	<p><b>P50</b> Create a Culture Where Employees Can Take Initiative</p>	<p>CSR &gt; Human Rights</p> <p><a href="https://www.nesic.co.jp/english/csr/empowerment-humanrights.html">https://www.nesic.co.jp/english/csr/empowerment-humanrights.html</a></p> <p>CSR &gt; Human Resources Development</p> <p><a href="https://www.nesic.co.jp/english/csr/empowerment.html#Col3">https://www.nesic.co.jp/english/csr/empowerment.html#Col3</a></p>

## Business Model & Innovation

Supply Chain Management	<p><b>P46</b> Sound and Transparent Management</p>	<p>About Us &gt; Procurement</p> <p><a href="https://www.nesic.co.jp/english/corporate/procurement.html">https://www.nesic.co.jp/english/corporate/procurement.html</a></p>
Materials Sourcing & Efficiency	—	<p>About Us &gt; Procurement</p> <p><a href="https://www.nesic.co.jp/english/corporate/procurement.html">https://www.nesic.co.jp/english/corporate/procurement.html</a></p>

## Leadership & Governance

Competitive Behavior	—	<p>CSR &gt; Compliance / Risk Management</p> <p><a href="https://www.nesic.co.jp/english/csr/compliance.html">https://www.nesic.co.jp/english/csr/compliance.html</a></p>
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SASB (refer to materiality map for technology and information sectors)



## Materiality

### Vision for Society

# An inclusive and sustainable society created through communications

#### Initiatives to Provide Value to Society through 2030

- Create work environments in which everyone can take initiative
- 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 a culture where employees can take initiative

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

\* Well-being: Physical, mental and social well being



Message from the President



**Yushi Ushijima**

President



# While continuing its unwavering focus on communications, NESIC is accelerating reforms with an eye on 2030 while helping to solve emerging social issues.

## Aiming to solve emerging social issues

The COVID-19 pandemic continues unabated around the world. I would like to pause for a moment and express our heartfelt condolences for the people who have passed away due to COVID-19 and the many others who have been adversely affected by the pandemic. I am also extremely grateful to the medical practitioners who are working on the front lines to protect our livelihoods, and I have nothing but respect for the people who continue to support life-lines in society.

COVID-19 has had a profound impact on the global economy. While fighting this unprecedented threat, I believe it has become clearer what NESIC's role is in society as a communications company, as well as the value that it can provide to society.

## DNA of NESIC

Since its founding as a telecommunications construction company within the NEC Group in 1953, NESIC has changed and expanded its

business domains to cover overseas communications infrastructure construction, mobile communications infrastructure construction, systems integration for corporate ICT, and related services. Today, NESIC is taking on the challenge of moving away from a traditional systems provider model centered on equipment, to become a systems integrator with cloud-based service offerings. We have started to make inroads into new business domains, such as onshore fish farming, in a bid to add value from ICT-empowered business.

\* Please refer to page 08.

Throughout all these changes, NESIC has remained consistent in one aspect of its operations, and that is to contribute to society through communications. In 2017, we held discussions with all employees about our shared values, DNA, and vision of where we want to be in the future, and codified these thoughts in the NEC Networks & System Integration Corporation Group Statement, which also embodies the spirit of all our shared ideals. From the floor of the ocean to the far reaches

of outer space, at the NESIC Group, we all aim to be of use to society by facilitating communications among people, communications between people and satellites & space probes, and communications that send information and notifications about earthquakes detected from sensitive seismometers located deep underseas.

Another unchanging aspect of NESIC is its spirit of sparing no effort on behalf of its customers. This approach is rooted in our unique corporate culture of thoroughly implementing our services ourselves before providing them to our customers. NESIC is not a company that develops products and applications. Our value proposition is based on combining the products and services of our diverse partners into a solution that our customers can easily use. One of our greatest strengths is our laser focus on the customer, thinking from their perspective when co-creating with partners to find the best products and services for their needs, and

figuring out the best solutions by trying everything out ourselves without blindly relying on catalog specs. We do not have our own specific products and services so that we can nimbly evolve in response to changes in society and markets.

I believe NESIC has honed three core competencies born from its unique history and corporate culture.

One is our technological capabilities and credibility, which is derived from the high level of quality constantly accumulated as a NEC Group company in multi-vendor services, as well as our construction and installation capabilities and ICT technological capacity. Another core competency is our nationwide business capabilities, which include an extensive nationwide sales network and a maintenance & service network worthy of a company that supports essential public infrastructure that must not have any outages, such as infrastructure for telecom carriers and government

New  
Business

## Onshore Salmon Farming Business



NESIC entered into the onshore salmon farming business while leveraging its ICT / digital technologies. For this business, the Company created a new business model that expands into value added areas, as an extension of its business domains through partnerships while enhancing the value added of the business with digital technology, in addition to the provision of conventional ICT services.

NESIC forged a partnership with Hayashi Trout Farm, a pioneer in salmon farming in Japan and the largest onshore fish farming operation in the nation. By pairing NESIC's ICT and digital technologies with Hayashi Trout Farm's know-how and cutting-edge technologies in fish farming, we are digitally transforming the fish farming industry, such as by improving productivity and moving away from primary industry business practices unique to the marine products sector. AI is deployed to automate measurements of the length and weight of fish, and controls for regulating water temperatures, oxygen levels and feed. Through these innovations, costs are reduced through an industrial production process, while ensuring consistent supply throughout the year. The use of ICT and digital technologies ensures quality through traceability, and also reduces the burden on managers with remote observation and controls. In these ways, digital technologies can solve issues faced by the fish farming industry. Through these endeavors, we aim to help solve social issues around the world, namely protecting the marine environment and solving food shortages. By offering this business as a franchise model, NESIC supports greater involvement in the fish farming industry.

In addition to the onshore fish farming business, we will collaborate with partners in various fields to advance the use of our digital technologies while taking on the challenge of adopting new business models with the ultimate aim of solving issues faced by society.



entities. Our third core competency is our business creation capabilities, which create new services and business through co-creation with our partners and self-implementation while leveraging our other strengths.

### **Solving social issues through communications**

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NESIC's vision is to realize an inclusive and sustainable society created through communications, which is based on the idea of contributing to society through communications, a concept that has been shared by all of its employees since its founding. I believe communication is a human activity that forms the basis for all advances. If information can reach all corners of the world through communications technology, everyone can receive an education without being left behind. If communication can dispel misunderstandings, the world can become a more peaceful place. Problems can be addressed and solved as they arise, if communications can bring us the wisdom to do so. Aiming for such a society, NESIC has identified six materiality issues, embodied in three initiatives to provide value to society through 2030 and three initiatives for growth at NESIC. Japan currently faces some major social issues, such as a falling birthrate and aging population, declining labor force, and over-concentration in cities. Since 2007, NESIC has come up with work-style innovations ahead of society while putting them into practice itself in a bid to help solve these social issues. In the next 10 years, we believe that new technologies will dramatically change the structure of society, business models, and people's lives. In addition, digital technologies such as AI and the Internet of Things (IoT) will be utilized to an even greater extent. At the same time, we will see the full-scale roll out of 5G, which offers high speeds and greater bandwidth, enables connections between multiple devices, and provides low latency and high

reliability. In the future, we will move into a digital x 5G era, where various services are created from a confluence of digital technologies on top of 5G communications infrastructure. This will lead to rapid developments and changes on multiple fronts in society and business. By applying NESIC's technological capabilities and professionalism to both digital solutions and 5G infrastructure from a birds-eye view and a broad perspective, the Company should be able to not only make work-style innovations, but also help find solutions to a wide range of social issues such as forming new communities, and contribute to the achievement of a variety of SDGs.

On experiencing society's response to the COVID-19 outbreak, I am even more convinced in NESIC's ability to accomplish its mission. In autumn 2019, NESIC introduced a work system in which over half of the staff employed at its headquarters were moved to satellite offices located within 30 minutes of their homes. By reducing the burden of commuting to work, and polishing their own skills and leading a more fulfilling work-life balance, employees are able to work in ways that result in innovations. This new work style comes with its own challenges, such as a loss of communication by having people work in distributed offices, but the latest digital technologies can be deployed to achieve best practices in work processes, and we aim to propose these solutions to our customers. This initiative has also proven to be quite useful in business continuity plans during the COVID-19 pandemic. Nowadays, our employees are encouraged to work at home during the pandemic, and the transition to working remotely from home did not encounter any problems because it was an extension of our already initiated move toward distributed working environments. We have been using on video conferencing tools for internal meetings and communications with our customers. NESIC saw a sharp increase in inquiries from

customers who had been forced into remote working environments by the pandemic, generating a significant increase in opportunities to support new customers. A majority of our customers have found useful our health management and attendance & location management service, a tool using business chat feature, we offered for free to manage remote work. NESIC is also seeing opportunities to help solve issues at education providers, such as assistance with remote classrooms. For our customers that have started teleworking, we are keen to provide a wider range of solutions based on our diverse know-how, with the aim of moving beyond telework for emergency situations to providing solutions that lead to productivity improvements. Furthermore, the development of digital x 5G technologies has the potential to effectively protect the security and comfort in our livelihoods, by utilizing in real time sensor data on a large and broad scale in society to prevent infectious diseases. Our lives will return to normal after the COVID-19 pandemic fades. Until then, our lifestyles have changed under this “new normal” we are living today. Now that perceptions of corporate management, especially work styles have greatly changed, including teleworking, I believe there

will be no going back to what work looked like before the pandemic. To solve social issues, we are even more keenly aware of our important role in providing communications-based technologies and sharing our know-how through co-creation with our customers and partners.

### **Aiming to be “No. 1 communications company”**

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We believe communication also plays a key role in our initiatives for growth at NESIC. Dialogue with stakeholders is fundamental to enhancing corporate governance. For example, I make a point out of creating opportunities to engage with investors, who often convey constructive opinion that we incorporate into future measures. With regards to increasing our ability to innovate, we are not a startup firm where one genius creates all the innovation. In order to come up with new ideas, it is important to co-create both inside and outside the Company. Close-knit communication is essential for creating new services while collaborating more closely with various partners and moving ahead as one. We must fuse together a variety of concepts by communicating effectively as employees while plying their own skills. As diversity in the workforce increases,



achieving strict compliance with laws and regulations requires even more communications in order to get everyone on the same level of understanding. Invigorating discussions with coworkers are also an important aspect of attaining self-growth for each employee. As a communications company, I am inspiring our employees to follow our aim of being No. 1 in communications as a company, where everyone from managers to new employees can have open barrier-free conversations. Since becoming president, I have held “Ushijima Lunch” meetings as a way of interacting with younger employees. This gives me an opportunity to share information and directly hear about the problems and dreams of our younger employees. Recently, I have expanded these outreaches to business leader classes and regional bases over Zoom meetings. Starting in 2019, I have streamed online a radio talk show called “Ushijima Radio,” with employees as guests to discuss our various challenges. On Slack, the business chat application, I have written down my thoughts for all employees to read. I believe a soft approach to communication is important to tearing down psychological barriers. In the summer of 2019, I climbed Mt. Fuji (3,776 meters) and live-streamed the ascent to symbolize NESIC achieving its goal for orders and sales in excess of ¥300 billion. This year, NESIC welcomed its new employees via video conference because it was unable to hold an entrance ceremony due to COVID-19. Instead, we were able to have fulfilling discussions, in terms of both quality and quantity, with small groups of new employees.

I sense that these initiatives have translated into a better organizational climate, as shown by the even livelier communications happening within the Company. I have been receiving more opinions and questions from our employees lately, and some of our new hires have even volunteered to be on my radio talk show. Employees have spontaneously planned

companywide events in a bid to spur communications, and I feel that major progress has also been made on the diversity front, with a leader employee in his third year after joining the Company giving presentations to the Executive Committee.

As I mentioned earlier, we are changing our operations from the systems integration of “things” to the systems integration of “experiences/services.” Our corporate culture of “diligently doing our assigned work” leads to the creation of new value for our customers, as we must turn ideas into actions. With the aim of increasing speed and honing our strengths, we will also focus on reinforcing our business structure in order to be No. 1 in communications.

#### **Initial fiscal year of medium-term management plan saw strong progress on reinforcing business capabilities**

The first step toward achieving our vision for 2030 is our Beyond Borders 2021 medium-term management plan (FY2020/3 to FY2022/3). We are heading into the digital x 5G era, where NESIC can truly leverage its core competencies through its expertise in infrastructure construction and ICT services. In order to build a business structure that facilitates a virtuous cycle of growth centered on digital services and 5G infrastructure, NESIC is advancing preparations to create new competencies while refining the expertise it will require.



Recording “Ushijima Radio” with young employees in regional bases

## Message from the President

In the medium-term management plan, NESIC has set targets for net sales of ¥310 billion, operating income of ¥20 billion, an operating income margin of 6.5% and ROE of 10% or higher by the fiscal year ending March 31, 2022, as the first round of efforts to achieve profit levels with sector peers and reach new highs in performance.

In the fiscal year ended March 31, 2020, the first fiscal year of the plan, sales increased in all business segments, especially digital solutions, which saw greater-than-expected demand in the digital transformation (DX) field. NESIC posted record-high consolidated net sales and profits with strong growth on all fronts.

In the digital services, one of our key business fields, our successful relationship with Zoom Video Communications, Inc. has accelerated the development of partnerships with other startups, resulting in additions to our lineup of new cloud-based services from the likes of Slack, Box, Kloudspot, Wrike and DocuSign. In addition to using these cloud-based services

individually, NESIC has brought to market Symphonict, a multi-cloud platform for efficiently and effectively combining these services. This platform looks promising because, in addition to easily combining cloud-based services that are constantly evolving, existing audio and visual services can be linked together. This approach allows us to deepen our recurring relationships with customers, and steadily shift toward a service-oriented business model.

In the 5G field, NESIC is steadily preparing for its rollout, eyeing the time when investment in 5G infrastructure will expand in earnest, probably during the next medium-term management plan. Through a joint venture NESIC established with KDDI Corporation in 2018, we have steadily expanded our share of carrier infrastructure-related business. We have also launched demonstrations of local 5G services for cable TV providers and disaster prevention and mitigation entities. Using the 5G laboratory we plan to set up this autumn, we will enhance



President's live communication with employees from Mt. Fuji

our technological capabilities and seek to differentiate ourselves by leveraging our full-stack system integration capabilities, from core networks to base stations and services that run on top of these infrastructures.

In April 2019, when the current medium-term management plan got underway, we streamlined the organization to more efficiently utilize companywide resources that had been siloed in individual businesses. The benefits from this reorganization have materialized faster than we had anticipated. The Company is still dealing with a major problem, an unprofitable megasolar power plant construction project, but our business capabilities have steadily improved. I believe we have gotten off to a good start toward achieving our medium-term targets.

### **Ready to jump**

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In the fiscal year ended March 31, 2020, NESIC took a powerful step toward attaining its medium-term targets, but some problems emerged, such as unprofitable operations and tighter constraints on resources. At the beginning of 2020, I conveyed a message to our employees about being “Ready to Jump.” Because the Company is making smooth progress on its targets and strategies in the medium-term management plan, now is the time to identify any issues on the quality and technology fronts and work on fixing these issues. In other words, my message is intended to encourage our employees to flex their knees, find a firm footing and jump ahead. Our intentions go beyond achieving our medium-term targets, and understand the importance of readying for sustainable growth in the future. In the fiscal year ending March 31, 2021, the impact from COVID-19 is still a concern, but with our eyes unwaveringly locked on the future, we will spare no effort in accelerating growth through our current initiatives.

Having conquered various challenges in the

communications field, NESIC will see more opportunities to help solve issues that have emerged in society as a result of the COVID-19 pandemic. As a company that supports social infrastructure, we are pursuing our mission with a passion, and our highly motivated employees involved in providing this support have given the rest of us ample reason to be proud and confident in our future. For this, I am reminded that the well-being of all our employees is the wellspring of our corporate vitality. In order to enhance their well-being, NESIC must create an environment where each and every employee can shine and work with vigor as its work-style innovations continue to advance one or two steps ahead of society. At the same time, the Company must remain relevant and needed by the world.

From a firm footing, NESIC will continue its unwavering focus on communications, and continue to be an essential provider of services by contributing to the realization of an inclusive and sustainable society created through communications. We are grateful for your continued support of NESIC as it continues to take on new challenges.

President



# 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. Starting from a foundation in construction technology, NESIC has obtained ICT technologies and built a unique position as a systems integrator with construction capabilities. In recent years, the Company has gained the ability to create new kinds of solutions that combine its accumulated technological

**1953**

Founding: Telecommunication Construction

**1960s-**

Overseas Infrastructure Construction

**1990s-**

System Integrator

## History of Honing Core Competence

### 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
- Conducted first overseas project (construction and installation of switching equipment in the Philippines)
- Constructed the first television broadcasting facility **A**
- Constructed satellite telecom infrastructure for the 1968 Olympic Games, in Mexico City **B**
- Constructed microwave telecom infrastructure for five Central American countries (simultaneous construction in multiple countries)
- Acquired special construction business and general construction business licenses for seven categories of construction business
- Established the first overseas affiliate, in Brazil



- Changed the company name to NEC System Integration & Construction, Ltd.
- Listed on the Tokyo Stock Exchange
- 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 and received major orders from new private communications companies
- Constructed communications equipment on Mt. Everest (enabling broadcast from the peak of Mt. Everest for the first time)
- Expanded the enterprise system integration business **C**
- 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)



capabilities and know-how gained through self-implementation and co-creation with partners. Leveraging these advantages, NESIC aims to realize an inclusive and sustainable society as a communication services orchestrator that solves social issues.

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.



Realizing an inclusive and sustainable society as a communication services orchestrator

- Changed the company name to NEC Networks & System Integration Corporation
- Launched EmpoweredOffice work-style innovation solutions business and implemented it internally in certain sections **D**
- Established nTOC (Network Total Operation Center) **E**
- Practiced EmpoweredOffice in all sections upon transfer of head office to Bunkyo Ward Tokyo (Iidabashi Head Office)

- Implemented initiatives in high-speed mobile networks and next-generation broadcasting
- NESIC's industry sector classification in the stock market changed from "construction" to "information & communication"
- Established sDOC (Service Delivery Operations Center) **F**
- Launched MVNO service for IoT
- Introduced 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
- Established K&N System Integrations Corporation as a joint venture in mobile infrastructure construction **G**
- Launched joint business in low-power, wide-area (LPWA) communications protocol for IoT
- Entered onshore fish farming business utilizing ICT
- Realigned head office to challenge itself to new work styles including distributed work locations



Break above **¥300** billion  
(¥303.6 billion)  
2020 (record-high earnings)

2000s

Advance of IP and broadband networks  
Integration of communications and broadcasting

2010s

Expansion of the use of cloud  
IoT and Fourth Industrial Revolution

# COMPETENCE 01

## 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 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.

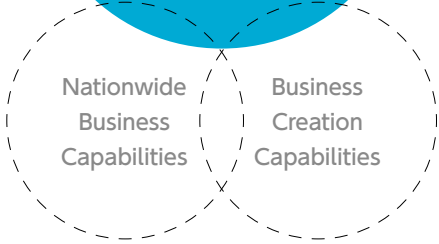
As society becomes more pleasant and convenient with “Digital x 5G,” NESIC’s technological capabilities in telecommunications infrastructure, which require high reliability, will remain a source of its competitiveness, along with its know-how in digital services.

Technological Capabilities for Integrating Diverse Products and Services





# Technological Capabilities & Credibility



## Employee Qualifications



Employees with managing engineer or technical supervisor qualifications  
Approx. **1,500**



Employees with advanced ICT qualifications  
Approx. **800**

## 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 foreign vendors who do not have these functions inside Japan, contributing to the creation of advanced networks for telecom carriers.

With infrastructure upgrades likely to accelerate alongside the rollout of 5G, NESIC has gained a foothold toward establishing 5G technology by participating in 5G!Pagoda, a project to create international standards for 5G. Furthermore, in autumn 2020, NESIC is opening Shin-Kawasaki Technical-Base as a new base for training personnel and exploring technologies related to 5G. The center is equipped with various facilities for advancing our technologies related to 5G base stations and core networks using real equipment. We plan to quintuple the number of 5G-related engineers by 2023. At this facility, we also provide 5G evaluation and BPO services to telecom carriers and equipment vendors, in addition to 5G support ranging from consulting to permit application, construction and operation services.

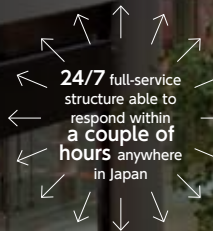


Shin-Kawasaki Technical-Base, our new base for training engineers and verifying and evaluating new technologies (Kawasaki City, Kanagawa Prefecture)

# COMPETENCE 02

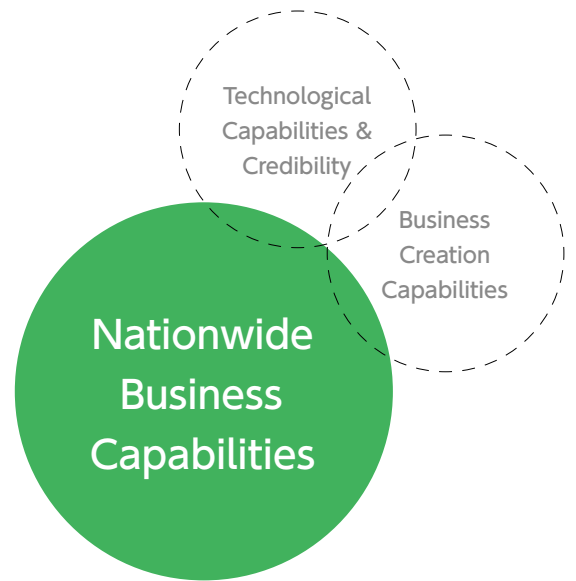
## NATIONWIDE BUSINESS CAPABILITIES

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 two hours anywhere in Japan—a unique strength that underpins the development of society for creating welcoming and convenient lifestyles.



Domestic Service Bases  
Over 400





**Example / Initiative Leveraging Core Competencies**

**Helping Isetan Mitsukoshi Move Nationwide PBX System, One of Largest in Japan, to Cloud**

In November 2019, NESIC delivered to Isetan Mitsukoshi Holdings, Ltd. (head office: Shinjuku, Tokyo; Representative Director, President and CEO: Toshihiko Sugie) its NetsVoice cloud-based voice service for internal and external phone calls via the cloud, replacing its PBX systems, and installed it at 55 group firms and all retail stores.

Isetan Mitsukoshi aims to create a new style of department store enabled by IT and other technologies. This cloud-based voice services project is one of the largest in Japan, replacing a PBX systems of approximately 20,000 fixed-line telephones spread across Japan with a cloud-based voice system. By moving to the cloud, Isetan Mitsukoshi is able to reduce costs associated with operating its telephone equipment, and improve the services the Isetan Mitsukoshi Group provides to its customers.

Backed by its extensive nationwide service network, NESIC will rapidly and reliably provide services to its customers across Japan.



Isetan Mitsukoshi's domestic department stores and credit card companies



NESIC has provided assistance to Isetan Mitsukoshi for setting up thermography cameras at the entrances of its stores to measure the body temperature of customers, and rolling out online customer services using Zoom, to prevent the spread of COVID-19.

# COMPETENCE 03

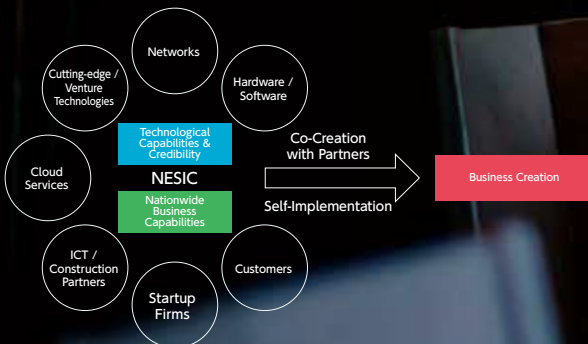
## BUSINESS CREATION CAPABILITIES

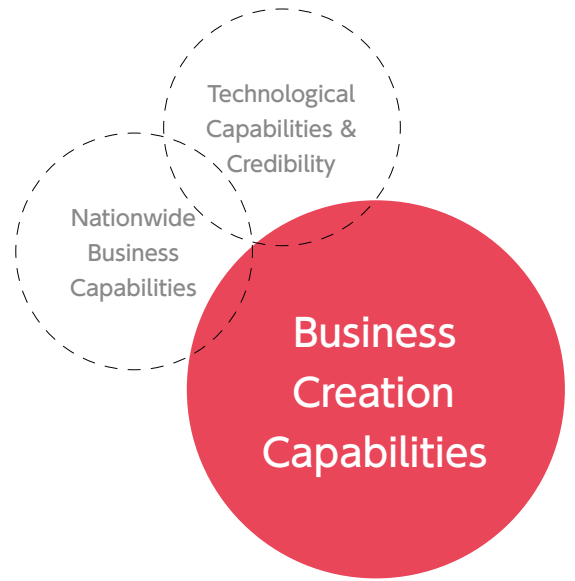
At the root of our corporate culture is our ambition to play a direct role in solving issues at our customers and in society as a whole. We have never stopped changing, constantly taking on new business challenges with the aim of solving such issues.

We develop solutions while co-creating with partners, such as startup firms that have cutting-edge technologies, and various vendors of hardware and software. Before providing these solutions to customers, we put them into practice first ourselves and at partner firms in order to evaluate and verify their ease of use and effectiveness. The know-how gained from this allows us to offer optimal solutions to our customers. These initiatives translate into a capacity to create new businesses in a way that only NESIC can accomplish.

With all eyes on the coming “Digital x 5G” era, NESIC will strengthen its business creation capabilities in order to provide new services that leverage its technological capabilities and expertise in both fields.

Creation of business through co-operation and self-implementation with our partners





**Example / Initiative Leveraging Core Competencies**

**Symphonict is a Multi-Cloud Service Platform in The Dx Business for Creating New Value by Bringing and Fusing Together Cutting-Edge Technologies and Services**

Lately, there are a variety of excellent digital tools and cloud services on the market, such as Zoom, Slack, Salesforce and Office 365, making it possible to inexpensively and rapidly roll out various functionality. In order to utilize each of these many services, each process must be adapted to the services, creating inefficiencies. Symphonict is a platform for drawing out the true usability of cloud services by automating the data linking and processing across multiple cloud services. By connecting existing networks for audio and video, for example, Symphonict makes it easy to swap out services and add new services. Furthermore, we leverage our knowledge gained by using cloud services on the Symphonict platform in order to provide services as a packaged bundle for facilitating changes in work styles and business processes in accordance with the needs of our customers. NESIC comprehensively offers solutions, from networking to DX technologies, along with services that combine "connections" in networking, its core business for more than 60 years, and the "bundling" of new value propositions generated from co-creation know-how and experience gained in-house and with partner companies. Through Symphonict, NESIC will help solve a variety of issues while accelerating co-creation with its customers.



# 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), air traffic control systems, 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**

Supports communication and operational control with various artificial satellites and spacecraft, including asteroid exploration.



**13 Local Governments and Education**

Provision of networks to local governments that support convenient and worry-free lifestyles, including its resident protection service, and ideas for invigorating regions, such as tourist information services. Provision of venues for learning by helping schools with IT deployments and assisting online classrooms.



**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.

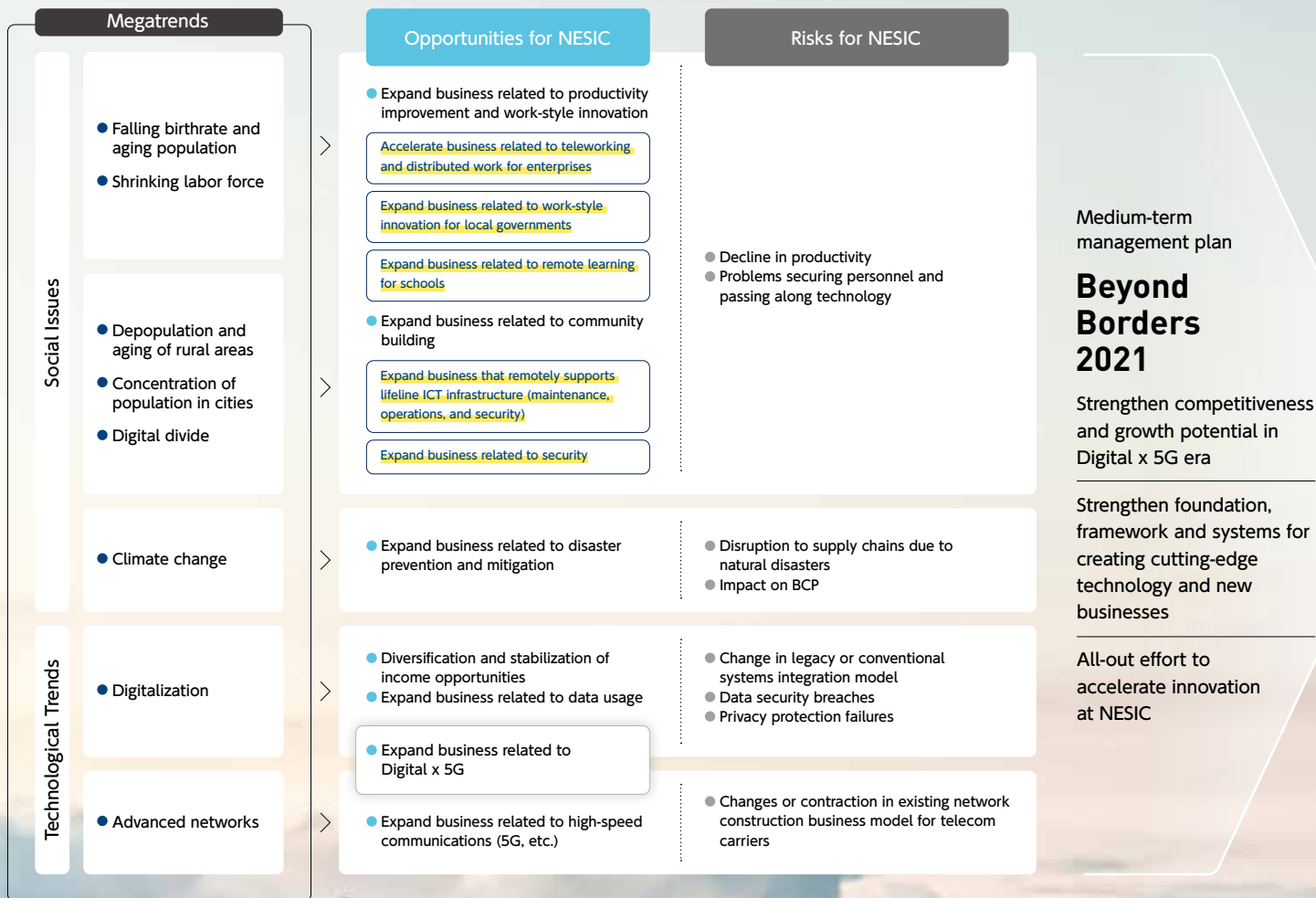
■ NESIC's service platform

# Risk and Opportunity / Materiality Issues

Along with the medium-term management plan Beyond Borders 2021 that was unveiled in May 2019, NESIC has identified six materiality issues as key initiatives for contributing to the sustainable development of society and realizing sustainable growth itself.

In the first fiscal year for addressing these materiality issues, the COVID-19 pandemic has been a paradigm shift, prompting us to reassess our roles and responsibilities in this “new normal” for society. We are reexamining our actionable goals for materiality issues on a companywide basis.

Opportunities and risks rediscovered during COVID-19 pandemic



## 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 cocreation 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.

**Vision for Society**

## An inclusive and sustainable society created through communications

**Initiatives to Provide Value to Society through 2030**

- Create work environments in which everyone can take initiative
- 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 a culture where employees can take initiative**

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

\* Well-being: Physical, mental and social well being

**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 work environments in which everyone can take initiative**

We aim to provide environments where everyone, regardless of age, gender, or nationality, can work proactively 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.

**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

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 a culture where employees can take initiative**

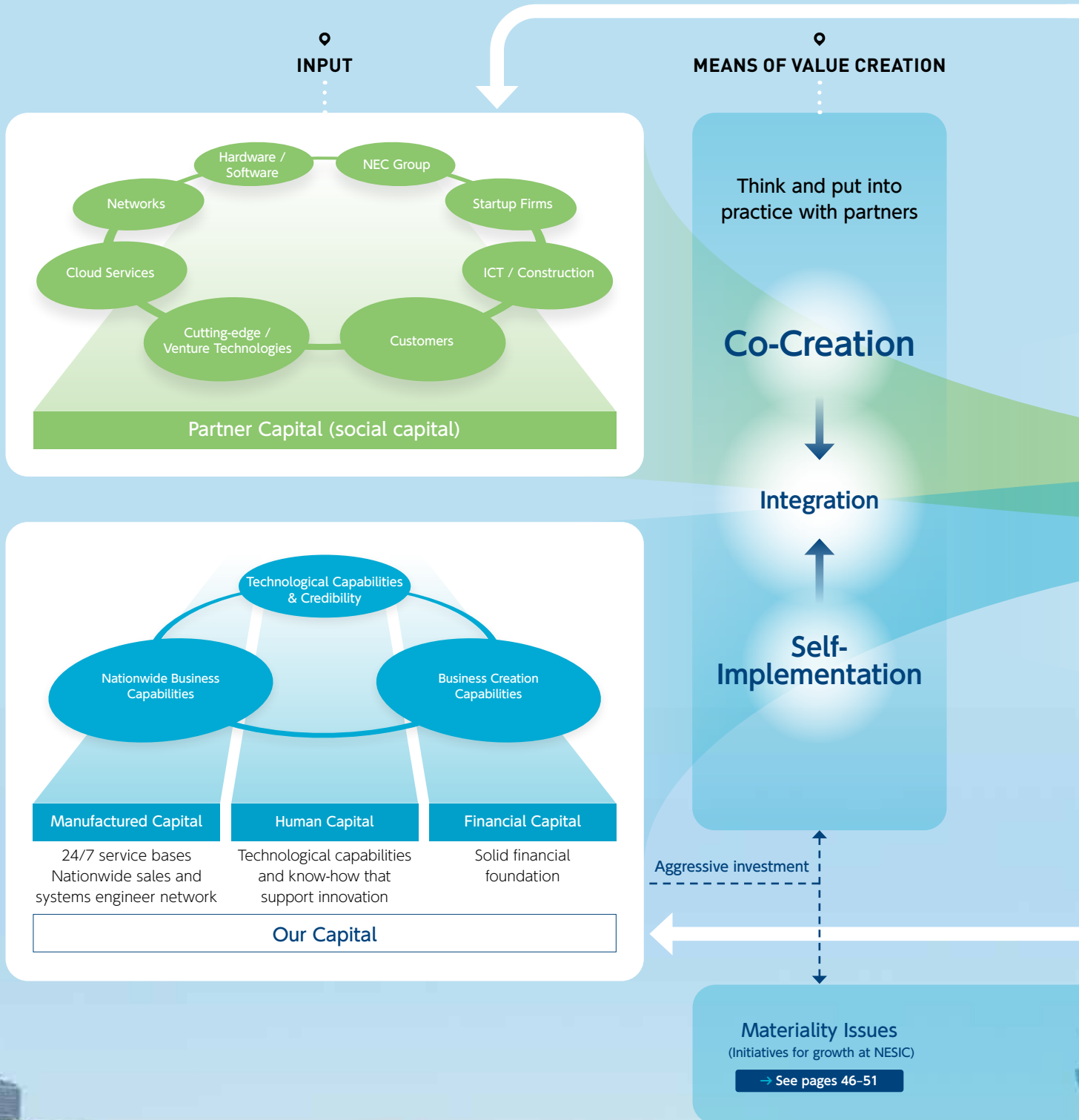
- Improve the well-being of employees
- Encourage frank and open discussions, enhance the corporate culture as a facilitator of self-growth

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 a culture that allow each and every employee to thrive and work to the best of their abilities.

# Value Creation Model

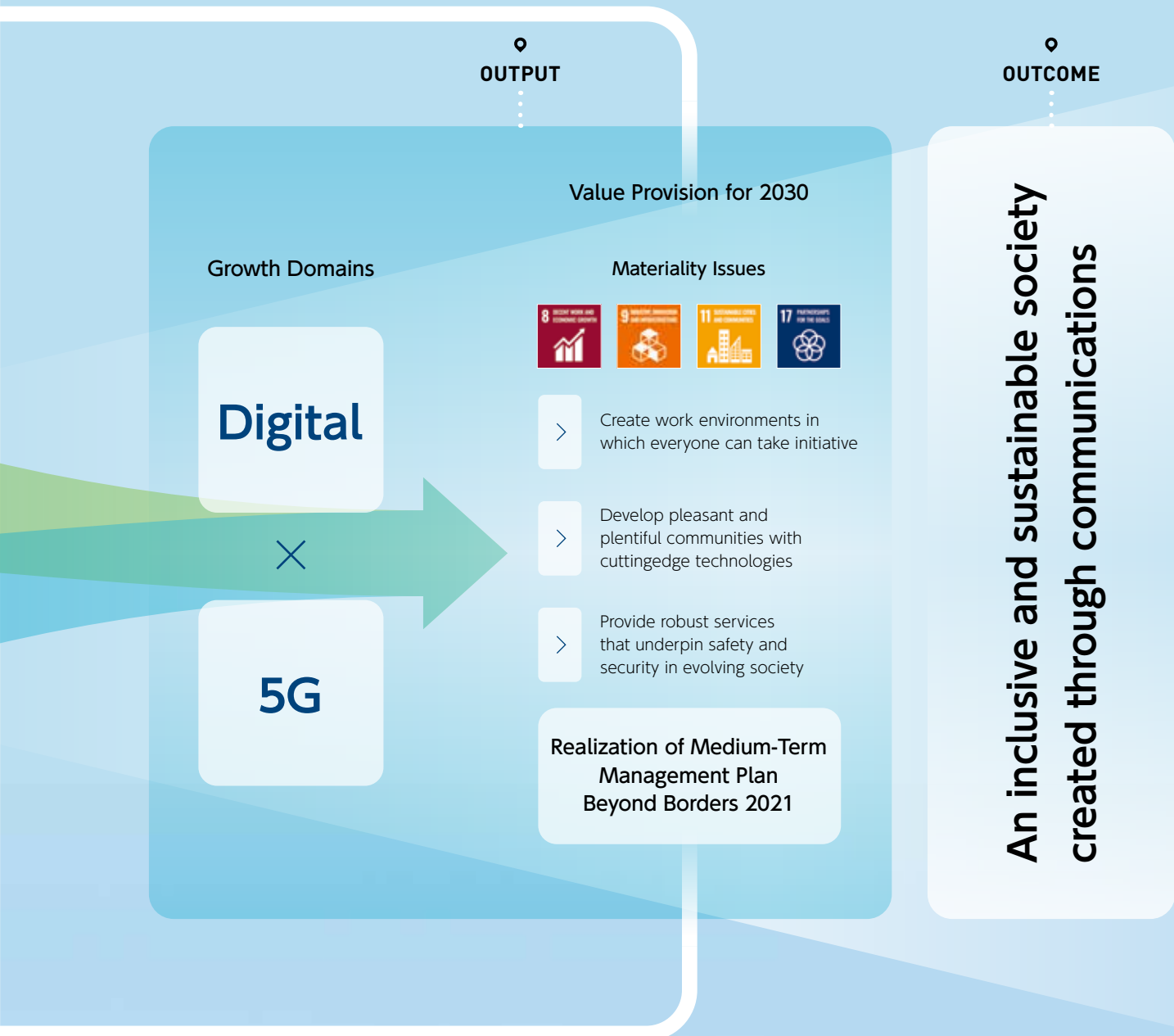
NESIC’s vision for society is “an inclusive and sustainable society created through communications.” To realize this vision for society, we have established a value creation model based on co-creation and putting ideas into practice with partners, with integrating various technologies and providing them to customers as easy-to-use solutions.

NESIC creates new businesses and services through its value proposition model, and will provide value to society in core areas (materiality) through 2030, namely “create work environments in which everyone can take initiative,” “develop pleasant and plentiful communities with cutting-edge technolo-



gies,” and “provide robust services that underpin safety and security in evolving society.” To continue providing this value to society, “strengthening our innovation capabilities to create new value,” as well as “creating a culture where employees can take initiative,” are of particular importance to our own growth, starting with “sound and highly transparent management.”

To sustain this value creation model, we intend to contribute to the development of society and achievement of SDGs, while aiming to enhance our corporate value over the long term.



Sound and highly transparent management

Strengthen innovation capabilities that create new value

Create a culture where employees can take initiative



# Beyond Borders 2021

Aim to Strengthen Growth and Earnings Potential by Reinforcing Business Structure and Systems for Changes in the “Digital x 5G” Era

When devising the new medium-term management plan Beyond Borders 2021, 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 “an inclusive and sustainable society created through communications.” To realize this vision, we have set our sights on the “Digital x 5G” era of digital technologies on 5G infrastructure that will be everywhere in the future, while latching onto technological change as business opportunities and tackling social issues. With a firm footing in each field, we will advance innovation across organizational borders, changing our business structure and reinforcing our foundation and systems.

Strengthening of competitiveness and growth potential for the Digital & 5G era

Strengthening of the base, schemes and structure to create advanced technologies and new businesses

Acceleration of innovation through All-NESIC

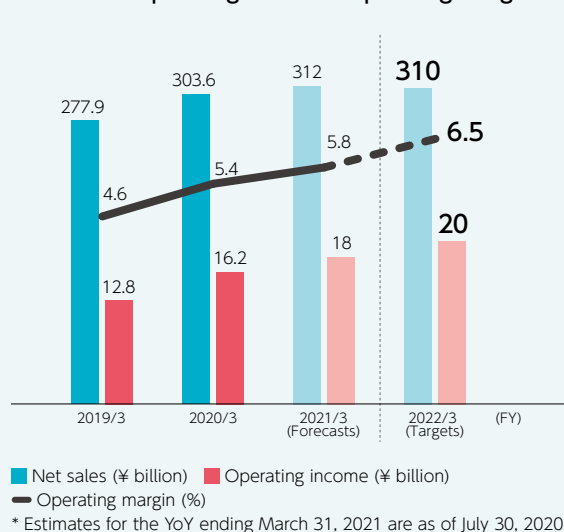
Changing gears for sustainable profit growth

## Management Targets and Summary of Progress

Under Beyond Borders 2021, NESIC targets growth in orders and net sales to levels above ¥300 billion, and aims to achieve operating income of ¥20 billion, far higher than before, as a passing point toward industry levels of profitability. Regarding capital efficiency, the Company targets return on equity (ROE) of at least 10%, taking into consideration of the cost of capital and industry levels.

In the fiscal year ended March 31, 2020, net sales blew past ¥300 billion, driven by the digital area, achieving our target in the initial fiscal year of the plan. NESIC improved its earnings power through Companywide efforts to reinforce its business capabilities, and as a result, record-high levels were attained in both net sales and operating income.

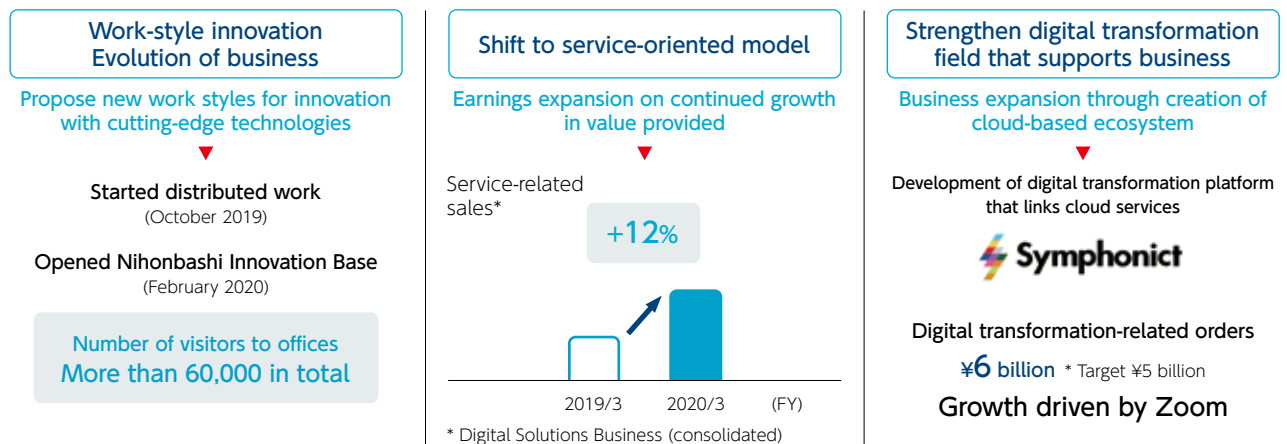
Net sales / operating income / operating margin



## 02

### Progress on Growth Strategy: Digital Area

Leveraging digital transformation technologies, NESIC began to take on the challenge of new work styles ahead of the times, such as distributed work, with the intention of showing novel ways of working to make innovation with cutting-edge technology to help solve social issues in Japan. Our business model is evolving into a service-oriented model amid strong growth in earnings as we continue to provide added value. As a result, service-related sales increased 12% from the previous fiscal year. On the technological side, the Company began to provide platform services with the aim of expanding business in the digital transformation area by creating a cloud-based ecosystem. Orders related to digital transformation were stronger than anticipated, mainly for Zoom services.



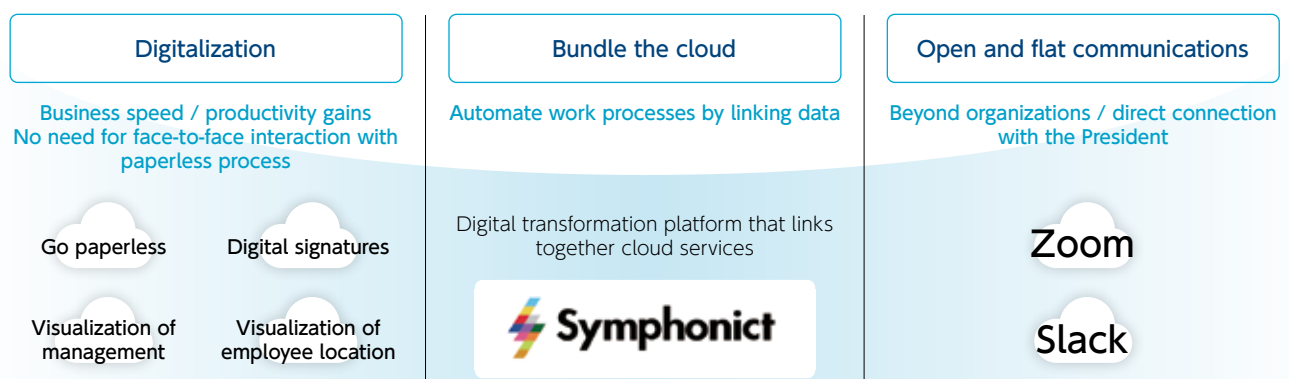
## 03

### Progress on Growth Strategy: Digital Area (Distributed Work)

NESIC initially took on distributed work with the objective of solving social issues in Japan, such as the overconcentration of people in Tokyo, and it has also been effective from a BCP standpoint. By having employees work in offices within a 30-minute commute from their homes, commuting is less tiring, improving the well-being of employees. In addition, we reassessed work processes from management and communication angles, and leveraged digital transformation technologies to create powerful ways of working that mitigate the disadvantages of working remotely, with the aim of creating more time for innovation and honing one's own skills. Furthermore, these initiatives have proven effective during the COVID-19 pandemic. We believe needs for distributed work will increase in the future, and will redouble our efforts to incorporate the latest technologies, such as 5G.

#### — Create a work style standard for Japan that leverages digital and cloud technologies —

Framework that supports distributed work



## 04 Progress on Growth Strategy: Digital Area (Tap into Teleworking Demand)

Demand for teleworking has expanded quickly during the COVID-19 pandemic. NESIC offers its know-how to customers that have not yet rolled out teleworking on their own and address this social issue. In particular, we have seen an increase in opportunities to assist new customers with which we had not done business with before. Currently, we are mainly providing licenses to Zoom and other services. Moreover, we deepen relationships with customers by introducing products and services, as well as various solutions for security and enhancing networks, related to teleworking. We expect demand to strengthen in terms of remote (contactless) services in all public and private sectors, and will improve our ability to tap into this demand.



### Recent demand trends

New opportunities from sharp increase in telework inquiries

Online inquiries	<b>5 times</b>
Order amount*	<b>6 times</b>
New customers	<b>Sharp growth</b>

\* Zoom-related order amount (as of March 2020, compared with February 2020)

### NESIC's initiatives

- ▶ Provide our know-how to support teleworking  
Acquire more new customers through Zoom
- ▶ Propose and sell related products and services, security, network enhancement, etc. to customers who have introduced Zoom
- ▶ Expand sales to government agencies, educational entities  
Prepare for decline in ICT investment by companies

## 05 Progress on Growth Strategy: 5G Area

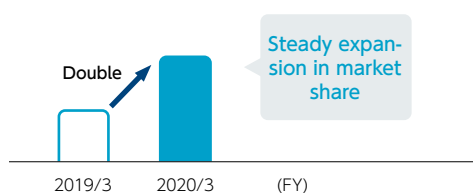
5G is another component of our growth strategy. Under our current medium-term management plan, the company has positioned this time as one for preparing for the rollout of 5G. NESIC aims to expand its share in the base station business in preparation for 5G investment picking up at telecom carriers. Although the Company was late at the starting line, NESIC has steadily expanded its market share and sales amid the current recovery. Local 5G also has market potential. NESIC is concentrating on fields where it can leverage its comprehensive capabilities (full layer of systems integration capabilities), from infrastructure, including its base stations and core networks to corporate services. The Company has already conducted field trials and made proposals to customers, making steady progress toward winning new orders. NESIC is preparing to establish a new base for training personnel and testing technologies related to 5G.

### Preparations for Full-Scale 5G Investment

#### Carrier infrastructure

Expansion of carrier infrastructure business

KNSI\* sales



\* K&N System Integrations Corporation (Joint venture with KDDI Corporation)

#### Local 5G

Focus on field where full layer of systems integration capabilities can be leveraged

Strengthen field experiments and proposals

- ▶ Regional BWA  
BWA: Broadband Wireless Access
- ▶ Cable TV provider
- ▶ ICT-related disaster prevention and mitigation, etc.

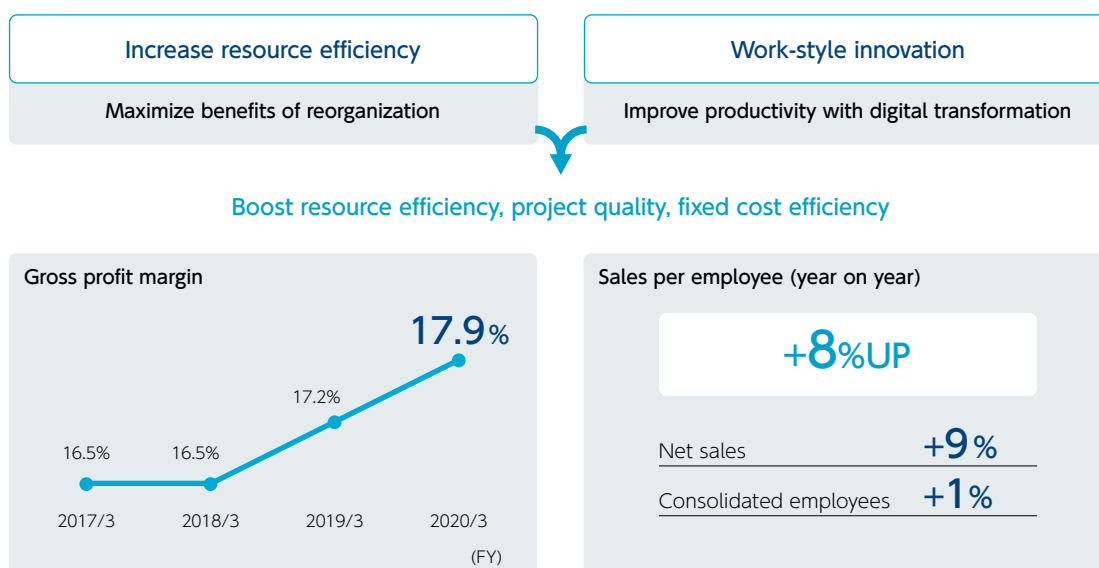


## 06

### Progress on Growth Strategy: Strengthen Business Capabilities

NESIC has seen a better-than-anticipated outcome from efforts to strengthen its business capabilities in support of its growth strategy. In April 2019, the Company reorganized and consolidated operations, which not only boosted resource efficiency, but also made it easier to cross-deploy organizational know-how of advanced technological capabilities. This resulted in improvements in project quality and the cost of sales ratio. In work-style innovations that utilize the Company's digital transformation technologies, productivity has improved as a result of raising the efficiency of systems engineers who propose solutions via video communications while working remotely, and increasing the efficiency of routine operations through robotic process automation (RPA). These gains in resource efficiency and productivity have led to strong year-on-year growth in net sales per employee and margins.

#### Better-than-expected progress on strengthening business capabilities through All-NESIC



## 07

### Business Environment and Future Aims

In the fiscal year ending March 31, 2021, we see risks in the external environment, such as uncertainties about business conditions due to COVID-19. On the other hand, we also see business opportunities in a broad range of fields, such as teleworking and work-style innovations, the educational field in terms of the GIGA school concept and remote learning, and the telecommunications field, such as helping telecom carriers migrate to 5G. NESIC has positioned the current fiscal year as a year for solidifying its footing for future growth, and intends to accelerate investments for strengthening its technological foundation and developing new services. Starting with its strengths in work-style innovation, the Company will reinforce its ability to provide solutions that solve social issues while properly controlling costs. NESIC is in position to achieve new record highs in profits and make progress toward achieving its medium-term targets.

#### FY2021/3 Business environment / business execution policies

General	Concerns the economy will worsen due to COVID-19
Corporations / public entities	Reduction in ICT investment by client companies due to deterioration in business conditions Stronger needs for teleworking / work-style innovation Trends in remote learning in educational field
Telecom carriers	Gradual migration toward 5G Increase in telecommunications traffic from teleworking
Government agencies	Concerns of delays in bidding, etc. Brisk investment in disaster prevention and mitigation

**Secure earnings by reinforcing cost controls and provision of solutions to social issues**

NESIC is accelerating organic efforts to improve both financial and non-financial value with the aim of sustainably increasing corporate value.



Hiroyuki Sekizawa

Senior Vice President and Member of the Board

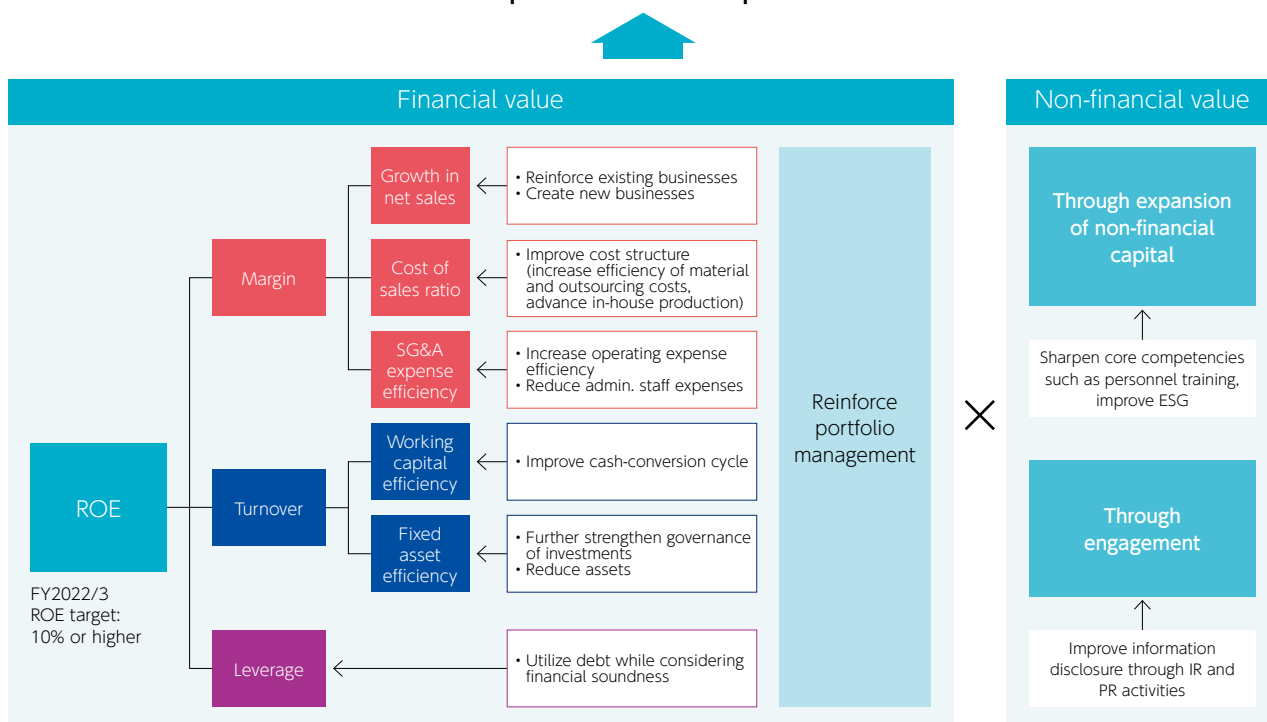
NESIC’s Approach to Increasing Shareholder Value and Corporate Value

NESIC rises to meet the expectations of diverse stakeholders, including shareholders, investors, customers, employees and partners by continuing to create and provide value to society from the long-term perspective. We believe this leads to sustained improvement in corporate value. In order to improve ROE, an indicator of capital efficiency, and continue to realize and maximize returns in excess of invested capital, NESIC intends to enhance non-financial value, focusing on materiality—important issues for the Company relevant to it helping resolve greater social issues. Aware of the importance of organically

combining financial and non-financial activities, the Company is keen to rotate through this cycle of corporate value improvement while accurately conveying this value to stakeholders.

NESIC has positioned ROE as a key management indicator, and engages in activities centered on ROE. In order to assuredly imbue ROE in various business activities, management deploys PDCA cycles in each business division through measures to increase the margin and asset efficiency, as key elements of ROE. To sustain growth in ROE and profits, one of management’s core aims is to continuously optimize the

Sustain Improvement in Corporate Value



business portfolio with an emphasis on capital efficiency. On the following pages, I introduce specific activities in this regard.

To strengthen non-financial value, the basis for improving financial value, the Company has identified materiality issues in the context of its vision for society and its own vision for the future. I have turned my attention to ESG and management resources, such as human resources and service platforms, which form the basis of our core competencies, the well-spring of corporate value creation. In particular, at the core of value creation at NESIC is the integration of various technologies and services with its partners through co-creation and putting into practice these technologies and services itself. For NESIC, human resources, organizational culture, technologies and

know-how are its most important business resources. The Company will spend aggressively in these areas while investing in businesses.

As it is important to visualize both financial and non-financial value through interactive communication with various stakeholders, such as shareholders, investors, customers and partners, in addition to improve them as stated above. Management is keen to strengthen stakeholder engagement through investor relations, public relations and CSR activities with the intention of accurately conveying information to facilitate stakeholder understanding. I proactively engage in dialogues with stakeholders, including investors in Japan and abroad, and will mirror their feedback in management.

## Progress on Maximizing Financial Value Focused on Improving ROE

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In the medium-term management plan, the Company targets ROE in the double digits by the fiscal year ending March 31, 2022, the final year of the plan. In the fiscal year ended March 31, 2020, NESIC achieved record-high orders, net sales and profits down the line, despite unprofitable projects and the booking of extraordinary losses. ROE was 8.8%, marking four consecutive years of improvement. We have made better-than-anticipated progress enhancing our business capabilities, but still see room for further growth while solidifying our progress thus far.

As an outward-facing initiative for improving the margins, the Company is investing in the digital field to develop Symphonict, a platform for digital transformation to expand the high-margin service provision business. These investments have already started to pay off in the form of higher than expected orders related to digital transformation projects. As an inward-facing initiative, our efforts to cut costs span companywide activities over the course of decades, and have become embedded in our DNA. Lately, under the name Ci-Next, we have advanced activities to incorporate QCD by having the Procurement Division proactively participate from the order-taking stage. Moreover, management has been increasing fixed cost efficiency by flexibly realigning resources through organizational reforms. This has made it easier to cross-develop know-how across the organization, translating into improvements in project quality and additional cost reductions. At the same time, work-style innovations being undertaken by NESIC

with DX technology, as well as business process reforms, have led to productivity improvements across the entire Company, from the front lines to administrative staff.

As a result of these initiatives, the gross margin improved 0.7 percentage points year on year, and the ratio of sales, general & administrative (SG&A) expenses was unchanged from the previous year, in spite of major outlays that included an office realignment. As a consequence, the operating margin rose a solid 0.8 percentage point from the previous fiscal year to 5.4%.

With the aim of improving asset efficiency, NESIC is reinforcing management of the cash conversion cycle (CCC) in a bid to increase the efficiency of working capital. In the fiscal year ended March 31, 2020, the Company worked to strengthen systems and structures, updating rules for account receivables management, setting up a unit focused solely on operational reforms in the sales divisions, and using the degree of improved CCC as an important performance indicator for evaluation. In order to consistently show results, it is imperative that each and every employee on the front lines engage in activities without holding back. We have launched education initiatives that use a comic book format, for example, to instill this attitude in employees. As a member of the management team, I use Slack and other digital communication tools to proactively send messages to employees.

NESIC has made aggressive business investments for the Digital x 5G era, setting evaluation benchmarks that reflect the nature of the investment to

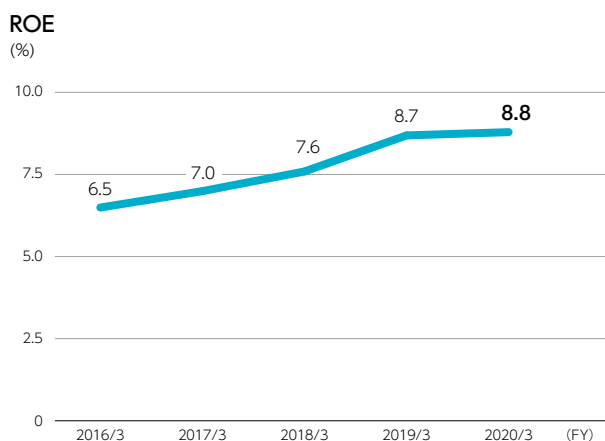
reinforce investment decisions. More specifically, the Company has clarified and implemented business investment guidelines that take into account a quantitative assessment of future cash flow, for example, a qualitative assessment of strategic importance, and the timeframe for recuperating the investment from the standpoint of stability in the fast-changing ICT industry. After the investment is made, projects of a certain scale are reassessed and evaluated by top management every six months.

As we formulate the next medium-term business plan, our discussions are focusing on optimizing the business portfolio. Management has been analyzing and evaluating each business from the standpoint of return on invested capital (ROIC) and growth potential. For problematic businesses, we are examining measures to replace the business or take steps to improve the business. NESIC started out in the construction and installation of large-scale telecommunications infrastructure, so-called “legacy systems.” Since then, the Company has changed and expanded business domains in tune with the times, up to the digital transformation field, a central focus today. NESIC aims to optimize its business portfolio by constantly analyzing and fixing issues, with the aim of rapidly making decisions in response to changes in the business environment.

NESIC has the responsibility to always provide highly reliable services, starting with the construction of public infrastructure for national and local governments, as well as for telecom carriers, and this

requires a sound financial foundation. To prepare for sudden requirements for funds, NESIC has cash on hand that is equivalent to about two months of net sales. The Company maintained this level of cash in the fiscal year ended March 31, 2020, while increasing investments in growth amid expanding profits. If the need for funds arises, such as for a major investment, the Company prioritizes the use of loans to the extent that financial soundness is not eroded, while considering shareholder value, in addition to the use of cash equivalents in amounts that exceed two months of net sales.

Although the COVID-19 pandemic has had a major impact on the economy and corporate activities, management sees a limited likelihood it will have a major impact on the Company's financial stability. Nevertheless, management is paying close attention to cash flow as the market environment changes.



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

NESIC's long-term vision for society is “an inclusive and sustainable society created through communications,” and has identified materiality issues for 2030 (page 25). As I said earlier, our initiatives to improve non-financial value, with a focus on materiality issues, are the basis for improving corporate value. We believe that enhancing ESG and engagement will lead to lower risks in the future and by better understanding risks, help reduce the cost of capital.

These activities are described in more detail from page 46. To support business growth and innovation, we are strengthening technological capabilities, training personnel and improving the well-being of employees. A prime example of this is our effort to distributed work by having employees commute to

satellite offices within 30 minutes of their home. Not only has this improved the work-life balance of our employees, it has increased the value added of operations through work styles that utilize digital transformation to stay one step ahead of society. It is also a great example of how increasing non-financial value can serve to increase financial value. In the fiscal year ending March 31, 2021, in addition to business investments, NESIC will invest aggressively in a technology center for training engineers, as well as evaluating and validating new technologies such as 5G, while putting into practice work-style innovations for this “new normal.” On the governance side, the Company is reviewing the director remuneration system, increasing the ratio of remuneration linked to

performance, and increasing the ratio of outside directors to one third of the total, among other efforts to strengthen governance.

With regards to engagement, NESIC proactively engages in investor relations activities, almost doubling the number of one-on-one meetings with investors and analysts since the previous fiscal year. I

## Shareholder Returns

From a healthy financial position, and having secured funds for growth investments, NESIC's policy is to continue distributing a stable dividend while considering the expectations of shareholders, based on a comprehensive evaluation of the dividend on equity (DOE) ratio, consolidated performance and free cash flow. Management emphasizes DOE, not dividend yield, which can be swayed by short-term earnings, as an indicator for dividends for the reliable distribution of dividends to our shareholders who have held onto shares for a long period.

Based on this policy, NESIC increased the dividend for the fiscal year ended March 31, 2020, to ¥27.3 per share (¥82 per share before the stock split), and plans to raise the dividend a 14th consecutive fiscal year to ¥28 per share in the fiscal year ending March

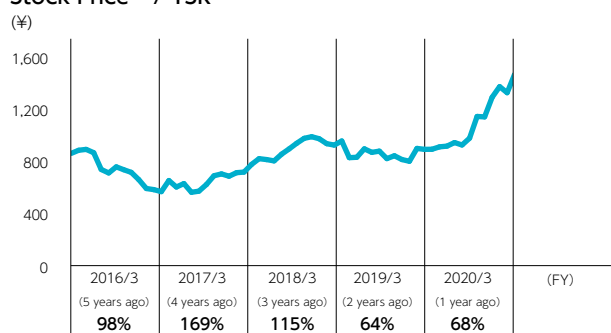
myself have made it a point to have conversations with more investors (page 47).

Management will spare no effort to enhance corporate value while improving information disclosure through more constructive dialogues with shareholders, investors and other stakeholders.

31, 2021. When deciding on share buybacks, one way of returning value to shareholders, management makes a comprehensive evaluation in the context of increasing shareholder value and the cost of capital, while considering growth investments and the prevailing share price. In June 2020, NESIC implemented a three-for-one stock split with the objective of increasing convenience for investors and improving the liquidity of its shares.

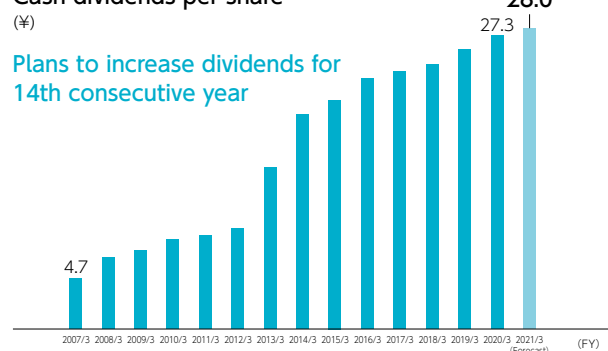
From the perspective of shareholder returns, we understand the importance of increasing total shareholder return (TSR) as the sum of dividends and share price gains. TSR has risen sharply alongside greater recognition of NESIC as a systems integrator, as a result of efforts to strengthen engagement and increase both financial and non-financial value.

Stock Price\*1 / TSR\*2



\*1 Share price reflects the three-to-one stock split on June 1, 2020.  
\*2 TSR as of March 31, 2020 for investments that were made prior to the year.

Cash dividends per share\*3



\*3 Figures prior to the fiscal year ended March 31, 2020, have been adjusted to reflect the three-to-one stock split on June 1, 2020.

## Aiming to Sustain Improvements in Corporate Value

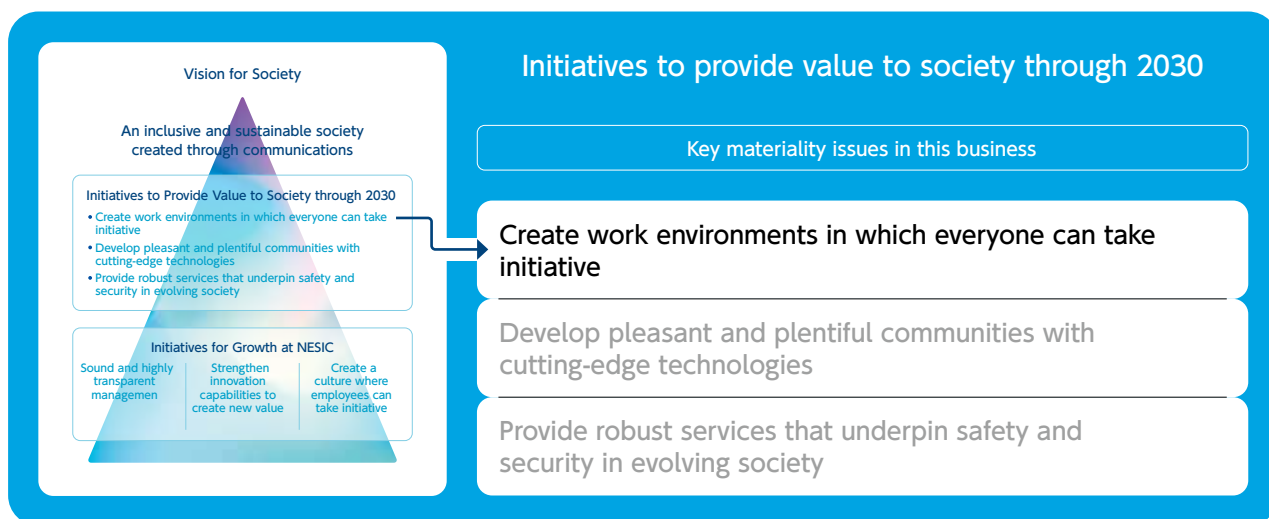
Corporate value cannot be described in terms of financial value alone. Amid the COVID-19 pandemic, non-financial value, such as helping society solve problems, has become even more important. From the standpoint of solving social issues, we will not only create excellent solutions, but also work harder to increase the motivation of our employees and

foster a sense of unity in the organization. I believe this will in turn sharpen our competitive advantages and lead to sustained growth. I will do my best to sustain improvements in corporate value while diligently working to increase non-financial value with the awareness that this is key to expanding financial value.

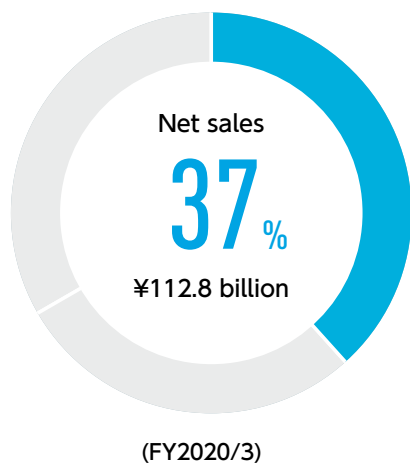
# Digital Solutions Business

## Business Overview

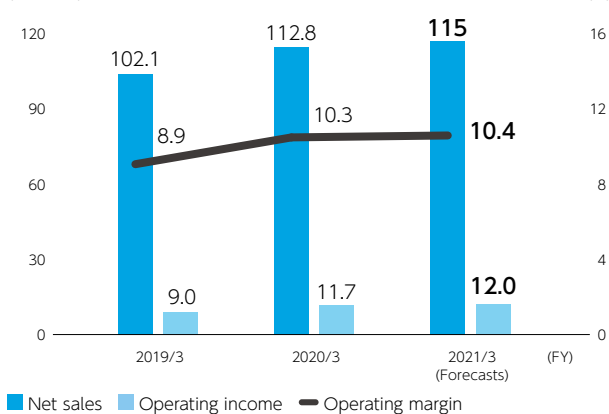
The Digital Solutions Business offers systems and services for information and communications technology (ICT), such as corporate networks and IT, that are essential for business. Using cutting-edge digital technologies, such as artificial intelligence (AI), the Internet of Things (IoT), and robotic 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, in addition to addressing the social issue of preventing the spread of COVID-19 and other infectious diseases.



## Breakdown of net sales



## Net sales / operating income / operating margin over three years



\* Forecasts for the fiscal year ending March 31, 2021 are as of July 30, 2020.  
\* Figures for the years ended March 31, 2019 and 2020 have been reclassified to reflect business transfers among segments in the fiscal year ending March 31, 2021 (reclassified figures for the fiscal year ended March 31, 2019 have not been audited by the accounting auditor).

## Review of Fiscal Year Ended March 31, 2020

In the fiscal year ended March 31, 2020, the Digital Solutions Business had a great year in terms of net sales and profitability.

Net sales rose 10% year on year, to ¥112.8 billion, due to several factors. These include the continued growth of the work-style innovation business, one of our core fields, and the increased establishment of networks for hotels to meet demand from inbound tourism. These also include an increase in sales from our subsidiaries in charge of sales in the Kansai area and the contact center business.

In this business segment, we are actively utilizing digital transformation (DX) technology to advance the work-style innovation business, and in this context NESIC launched distributed work in October 2019 in a bid to show the world new ways of working. At the same time,

to support new ways of working, NESIC reinforced its product lineup of cutting-edge cloud services, starting with Zoom and other kinds of online meeting services, as well as Slack, a business chat service, and Wrike, which helps to visualize business processes and management. Combining these services together, we launched Symphonict as a multi-cloud service platform for effectively utilizing these services to their fullest. With respect to the business model, we aimed to expand the highly profitable service provision business, but its weighting was basically unchanged year on year due to flow-type business expanding more than anticipated. Nonetheless, we were able to expand the service business in line with our expectations.

Operating income increased by ¥2.7 billion to ¥11.7 billion, and the margin improved by 1.4 percentage points, thanks to improvement in system engineer efficiency, which kept fixed costs in check as sales grew.

## Initiatives for Fiscal Year Ending March 31, 2021

For the fiscal year ending March 31, 2021, the Digital Solutions Business targets net sales of ¥115 billion. Due to the COVID-19 pandemic, signs of deceleration have appeared in some sectors, such as the manufacturing industry, with companies curtailing or postponing investments. On the other hand, demand has rapidly strengthened for online meeting services as more people telework during the pandemic. NESIC has stepped in to address these recent social needs by offering its unique bundle of services, including security, discussion tools and automated responses that work alongside or enhance these online meeting services. The Company has received many inquiries from new customers with which it had not done business with before. We will propose our solutions, such as ICT infrastructure platforms with the latest technologies, to these new customers with the aim of acquiring recurring business while strengthening and expanding our relationships with customers. In the first quarter, through our subsidiaries, orders have come in for ICT projects for schools, which we call GIGA school projects. NESIC aims to contribute to advances in education through library systems that provide new use value, as well as remote classrooms and university campus networking.

Turning to profits, our systems engineers are already operating at high capacity, making it important to

accelerate our transformation into a highly efficient business that does not depend on our number of systems engineers, such as service- and package-oriented businesses. Accordingly, we plan to maintain profit margins and target operating income growth to ¥12 billion, while we increase investments in growth, such as development expenditures for constantly rolling out new solutions.



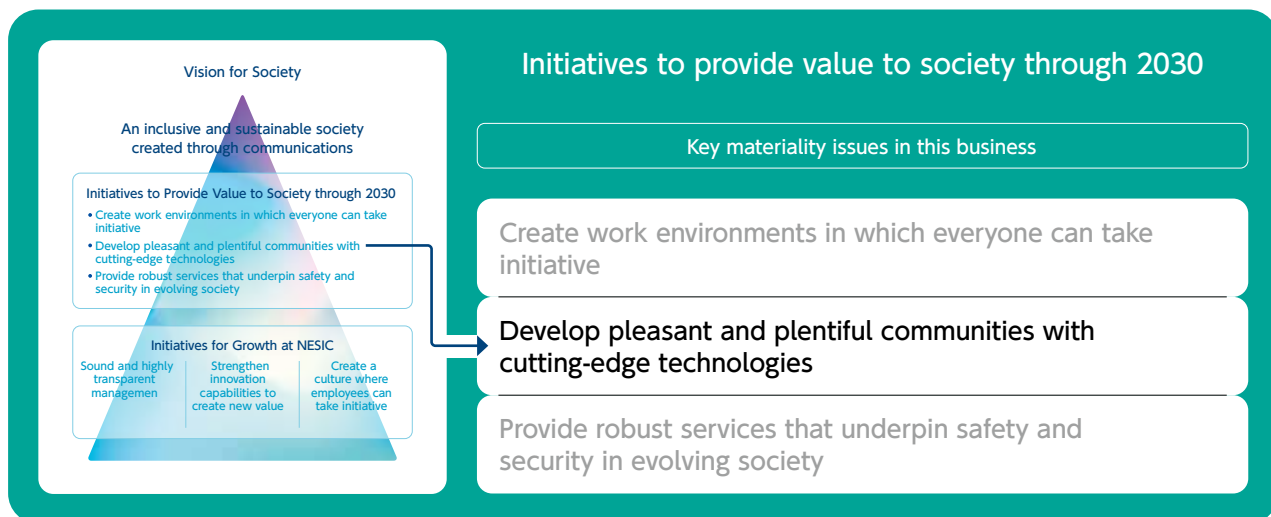
Senior Vice President  
Executive General Manager, Digital Solutions Business Unit

**Seiji Shiga**

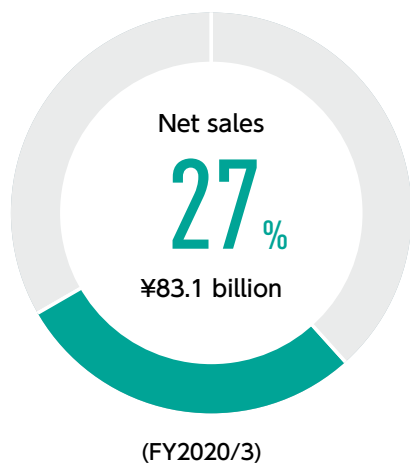
# Network Infrastructures Business

## Business Overview

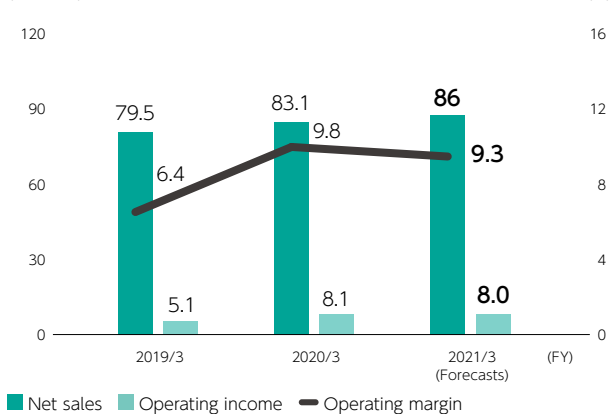
The Network Infrastructures Business builds systems and provides services for the network infrastructure for public use, which requires the latest technology and high reliability, including networks for telecom carriers and ICT infrastructure that support society, such as national and local governments, as well as broadcasters. We contribute to providing safe and comfortable daily lives.



## Breakdown of net sales



## Net sales / operating income / operating margin over three years



■ Net sales ■ Operating income — Operating margin  
 \* Forecasts for the fiscal year ending March 31, 2021 are as of July 30, 2020.  
 \* Figures for the years ended March 31, 2019 and 2020 have been reclassified to reflect business transfers among segments in the fiscal year ending March 31, 2021 (reclassified figures for the fiscal year ended March 31, 2019 have not been audited by the accounting auditor).



## Review of Fiscal Year Ended March 31, 2020

The Network Infrastructures Business saw profitability improve strongly in the fiscal year ended March 31, 2020, thanks to the steady execution of growth strategies and the strengthening of business capabilities.

Net sales rose by 5% to ¥83.1 billion on broad growth in social and public infrastructure. In sales to telecoms carriers, in the second half, we made up for lost ground in the first half, ending the year more or less flat compared with the previous fiscal year.

In this business segment, we made various preparations for the ramping up of investment in 5G in the future. NESIC aims to expand business in infrastructure for telecoms carriers through K&N Systems Integrations Corporation, its joint venture with KDDI Corporation, in order to grow the base station business.

## Initiatives for Fiscal Year Ending March 31, 2021

For the fiscal year ending March 31, 2021, the Network Infrastructures Business plans to invest aggressively because the year is a milestone for the ramping up of 5G investment.

We target net sales of ¥86 billion in the business. In telecoms carriers, migration demand related to 5G is on the move, and capital investment should remain brisk in this area. We are still keen to expand the business, including K&N System Integrations Corporation.

NESIC is focusing on local 5G as a field where it can fully leverage its comprehensive strengths, given the growth potential of this market and the scope of its offerings from infrastructure construction for telecoms carriers to services for enterprises. With its field experiments showing promise, the Company expects earnings to get a boost from stronger activities to propose solutions for regional broadband wireless access (BWA), cable TV providers and disaster prevention and mitigation applications.

In social / public infrastructure field, meanwhile, NESIC intends to contribute more to solving social issues by providing solutions that lead to advances and greater work efficiency through digital transformation of overall operations at customers, in addition to constructing standalone systems as in the past.

Operating income increased ¥3 billion year on year to ¥8.1 billion, and the operating margin improved by a strong 3.4 percentage points. This achievement reflects sales growth and the disappearance of unprofitable public projects booked in the previous fiscal year. Furthermore, divisions for telecoms carriers business and social / public infrastructure projects, which were restructured in April 2019 into a new organization, realized greater efficiencies through the combined use of resources. Know-how from doing business with telecoms carriers, which requires advanced networking technology and project management, was crossed over to social / public infrastructure field, which led to a strong reinforcement of business capabilities.

We estimate operating income will hold steady at ¥8 billion, but expect the operating margin to decline slightly year on year to 9.3%. We anticipate a lift from higher sales, but plan to invest aggressively in technology verification and training personnel in 5G at a 5G laboratory being built this fiscal year. With that said, we will make every effort to beat these estimates by increasing cost efficiency, for example.



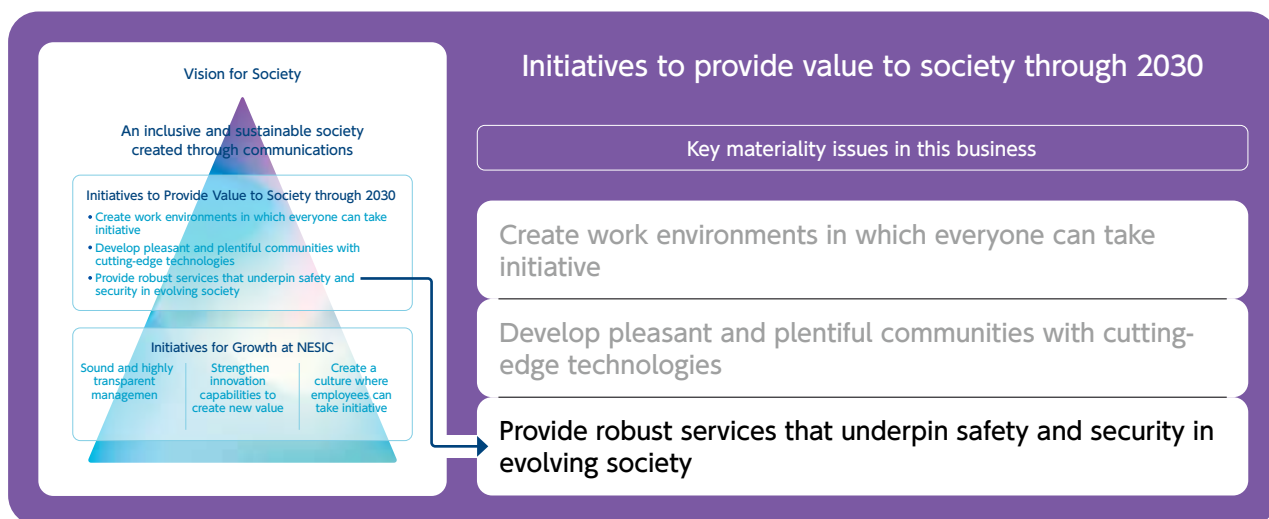
Senior Vice President and Member of the Board  
Executive General Manager, Network Infrastructures Business Unit

**Kazuhiko Takeuchi**

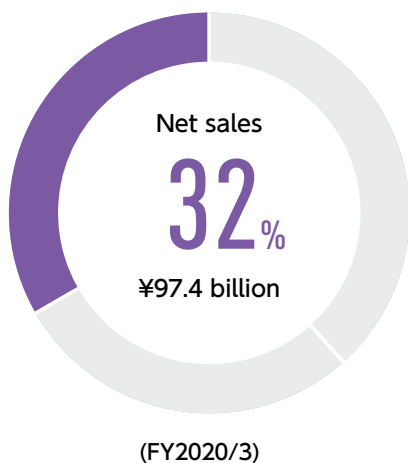
# Engineering & Support Services Business

## Business Overview

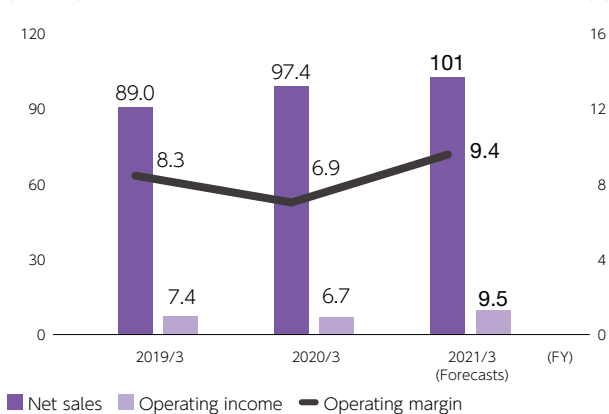
The Engineering & Support Services Business provides maintenance, operating and monitoring, outsourcing, and other support services as well as construction for our ICT systems and services. Our overseas business, which centers on the construction of ICT infrastructure, and our regional businesses in East and West Japan are also included in this business. To protect social and public infrastructure, NESIC has built a 24/7 full-service structure able to respond within a couple of hours anywhere in Japan, including operation centers that take an integrated approach to network management and security monitoring, and comprehensive technical centers in charge of logistics and technical services. This business segment plays a central role in “providing robust services that underpin safety and security in evolving society,” our commitment to providing value to society as expressed in materiality issues.



Breakdown of net sales



Net sales / operating income / operating margin over three years (¥ billion) (%)



■ Net sales ■ Operating income — Operating margin  
\* Forecasts for the fiscal year ending March 31, 2021 are as of July 30, 2020.  
\* Figures for the years ended March 31, 2019 and 2020 have been reclassified to reflect business transfers among segments in the fiscal year ending March 31, 2021 (reclassified figures for the fiscal year ended March 31, 2019 have not been audited by the accounting auditor).

## Review of Fiscal Year Ended March 31, 2020

In the fiscal year ended March 31, 2020, net sales grew strongly in the Engineering & Support Services Business, but profitability remained a major problem.

Net sales increased 9% year on year, to ¥97.4 billion, owing to the expansion of the domestic construction business, the overseas construction business, and the maintenance and operation business. Fire-fighting and disaster-prevention systems in regions that were in a transition period in the previous fiscal year contributed to the expansion of the domestic construction business, as did construction projects for mega-solar power plants. In overseas construction, growth was boosted by a major plant communications project in Saudi Arabia that was received in the previous year. In maintenance & operations, equipment kitting services grew at the Company's service center.

## Initiatives for Fiscal Year Ending March 31, 2021

For the fiscal year ending March 31, 2021, the Engineering & Support Services Business targets net sales of ¥101 billion and operating income of ¥9.5 billion. We aim to achieve these targets in two ways.

First of all, we will see through to completion the mega-solar power plant construction projects on the order books. The Company added to its reserves in the first quarter, and strengthened project management to prevent losses from expanding. As a side effect, measures we have taken to date have eliminated unprofitable projects other than the mega-solar power plants, and lead to better profits elsewhere.

Secondly, we will increase resource efficiency. Our medium-term strategy is to increase profitability by efficiently deploying construction resources that have been concentrated in this segment, and by improving project quality and working to imbue multiple skills in our employees. We intend to train our engineers using the basic technology center we plan to finish this fiscal year. In the segment, the overseas business has been adversely affected by COVID-19, delaying customs clearances of equipment and materials, and prompting customers to halt work on projects. We estimate COVID-19 will negatively impact annual net sales by ¥2 billion and operating income by ¥0.5 billion.

Operating income decreased ¥0.7 billion to ¥6.7 billion, reflecting a year-on-year increase of about ¥3 billion in reserves for an unprofitable project to ¥4 billion. The unprofitable project in the fiscal year ended March 31, 2020 was related to the construction of a mega-solar power plant, owing to additional costs for changing construction methods due to hard soil and dealing with muddy water after heavy rainfall. When the business environment deteriorated in the past, the Company relaxed its stance on contract conditions in the civil engineering field, an area of inexperience, in order to maintain operating rates by increasing orders. Once management became aware this was causing profitability to worsen, we immediately took a tougher stance on contract terms and conditions. Excluding this factor, however, profitability has been improving. In April 2019, we began to see efficiency increase as a result of concentrating construction resources in this business segment.

At construction sites and service centers, this business provides services that contribute to safety and security in society. While taking thorough precautions to prevent the spread of COVID-19, we are in position to provide value to society without disruption.



Senior Vice President  
Executive General Manager,  
Engineering & Support Services Business Unit

**Hiroshi Nagao**

# Special Feature 1: Co-Creation Online Discussion

## Solving Social Issues with Customers through Co-Creation

NESIC and FUJI OIL CO., LTD. have built a relationship based on trust over many years. The following conversation is about both companies' approach to co-creation with an eye on solving social issues while responding to the COVID-19 crisis.



**Shigeru Tanaka**  
FUJI OIL CO., LTD.  
General Manager Information  
System Department



**Yoshimi Nishitani**  
FUJI OIL CO., LTD.  
Assistant manager  
Sales Strategy Department  
Sales Division



**Akira Yamamoto**  
NEC Networks &  
System Integration Corporation  
Manager  
Kansai Branch Division  
Marketing & Sales Operations Unit



**Takehito Fujihara**  
NEC Networks &  
System Integration Corporation  
Assistant Manager  
Kansai Branch Division  
Marketing & Sales Operations Unit

### A partnership spanning 15 years that is built on trust

**Tanaka** NESIC proactively proposes new technologies in addition to providing support from the ground up in areas not usually visible, such as IT infrastructure. NESIC is always responsive even in support for solving PC problems and has received high marks in our IT user surveys.

**Fujihara** Thank you very much. Our relationship began about 20 years ago, with NESIC helping out in infrastructure fields including internal networks and data centers. I am very grateful for the opportunity to have a broader partnership including office renovations and building out teleworking environments with a shift to cloud computing.



**Yamamoto** Always focused on the customer, NESIC takes special care to ensure that the provision and operation of infrastructure will lead to business expansion at its customers. To this end, it is extremely important to have a deep understanding of Fuji Oil's businesses. Since Fuji Oil supplies food ingredients that are essential to people's lifestyles, there can be no downtime in its operations for any reason. It is our responsibility to always be conscious of contributing to business continuity by providing IT infrastructure.



### Rapid response to business continuity during COVID-19 outbreak thanks to relationship of trust

**Tanaka** NESIC was an immense help to us in continuing operations during the COVID-19 pandemic. In April, Japan declared a state of emergency. The

following week, all employees switched to a work-from-home model, requiring the immediate setting up of new work environments. NESIC got us up and running at full capacity by setting up and distributing hundreds of PCs, allowing Fuji Oil to put into place a remote work system in short order with the speed demanded by management.

**Nishitani** In the sales division, we set up teleworking and rapidly dusted off a web conferencing system that we had barely used in the past. In addition to distributing PCs, NESIC helped us get these tools up and running, for a seamless rollout of teleworking.

**Tanaka** As a result of being forced to deploy digital technology due to the COVID-19 pandemic, I believe our IT literacy has improved across the company. Our approach changed to one focused on increasing productivity while keeping employees away from the office as much as possible, and I feel that overall productivity has improved.



**Fujihara** In this case, speed was of paramount importance. With the aim of using IT tools on hand as much as possible, seven of our members stationed at Fuji Oil directly responded to their needs while providing real-time support. I believe we were able to rapidly respond because we have coordinated closely during normal times and we have pursued effective methods of deploying IT by using it ourselves first.

**Yamamoto** Although it is not that flashy to solve problems by working closely with our customers on-site, it is a unique facet of our services at NESIC.

**Nishitani** When we updated the office environment at our Tokyo location with NESIC, we reduced paperwork to the point that all personal documents could fit into a single locker. I believe that this helped facilitate a smooth transition to IT tools.

## Continuing to take on challenge of solving social issues through co-creation

**Tanaka** Based on the spirit of “Work for people”, we aim to be a company that is essential to the world, one that helps solve the social issue of food shortages. Diversity is a key element for achieving this goal. Advanced work styles that allow diverse employees to work with enthusiasm are a part of this solution.

**Yamamoto** NESIC is implementing work-style innovations through the quality of communications in order to realize an inclusive and sustainable society created through communications. By providing these innovations to our customers, we help them reform their own work styles with the aim of contributing to solutions for social issues on behalf of the customer. I am happy beyond words to hear Mr. Tanaka’s comments.

**Nishitani** NESIC has proposed ideas for more relaxing spaces for our employees, including the cafeteria, which aligns with our emphasis on health management, and this has led to better work environments.



**Tanaka** It will be necessary to constantly update our work styles in order to stably secure personnel, so I think it will be even more important to co-create with NESIC. While receiving assistance as our partner, we intend to tackle issues affecting society.

**Fujihara** Thank you very much for those kind words. In this new normal, we are even more committed to being useful to society by helping your company. Starting with President Ushijima, all of us will do our best to help Fuji Oil. Thank you for your time today.

## Special Feature2: Staff Reforms Online Discussion



### Aiming for the Best Staff in Japan

Starting in October 2019, NESIC took on the challenge of adapting to a new way of working called distributed work. Our aim is to reinforce the corporate foundation by reforming business processes from scratch with the deployment of cutting-edge technologies in distributed work environments, while reducing commute times, improving work-life balance and spurring innovation. Reforms our staff are key to turning this initiative into a reality.

#### Staff reforms picked up in earnest with launch of distributed work

**Fujii** We launched distributed work in October 2019 with the idea that it would lead to more innovative work and reduce commute times by setting up satellite offices within 30 minutes of the homes of employees. It was fortunate that we had started this initiative before the COVID-19 pandemic.

**Yoshida** I agree. The fact that we were ahead of the curve on implementing distributed work and other work-style innovations allowed us to smoothly transition to a work-at-home environment during the COVID-19 pandemic. However, some issues arose after we began this initiative.

**Baba** Most companies have turned to teleworking because of the pandemic, and this has made it imperative to go paperless, a thorny issue for some firms.

The Procurement Division has many opportunities to come into contact with various business partners, and as we co-create with these partners, the Procurement Division is keen to add value and contribute to operations. After implementing DocuSign as an electronic approval and signature platform, we explained directly to customers with our business divisions the process we implement. A majority of companies have approval processes that rely on paper and signatures (official seals in Japan). We engage with our customers from a user standpoint, which is more convincing in the end.

**Fujii** Indeed, this is a good example of our strength, putting new ideas into practice ourselves. Under the EmpoweredOffice brand that launched in 2007, NESIC has reformed its own offices and invited customers to see the actual results of these reforms, acquiring new business in the process. The staff reforms that began with distributed work will not

only reduce costs, but also allow us to put into practice new work-style innovations ahead of the rest of the world while leveraging digital technologies to their fullest in conjunction with our growth strategy. We must use this know-how to solve social issues.

**Yoshida** In rolling out distributed work, there were honestly some concerns about losing productivity as a result of dispersion. However, the president showed a strong conviction that productivity would improve more than before based on a distributed approach, and the staff took this to heart when implementing changes.

However, it is impossible to continue doing work the same way while operating at higher levels of productivity. For example, in the Personnel Relations Division, we must think of how to communicate with people in distant locations, and figure out how to evaluate and train personnel remotely. Deploying cutting-edge technologies is an essential element to creating new value this way. To this end, we are keen to find ways that make routine work easier with ICT, in order to emphasize more productive work.

### Solving social issues by addressing materiality issues

**Fujii** With a sustainable society and this “new normal” during COVID-19 on our minds, we understand the necessity of changing ourselves and taking work-style innovation to the next level. In this “new normal,” we aim to “create a culture where employees can take initiative,” one of our materiality issues. In this way, NESIC aims to provide value to society by

“creating work environments in which everyone can take initiative.”

**Baba** Thinking about vibrant work environments, one example of an issue we encountered is that chat declines when communicating remotely, compared with gathering together in a room to work. In distributed satellite offices, we use large displays to make it feel more like a seamless experience when communicating with other offices. But, when people work at home, casual talk tends to be nonexistent. Such conversations can lead to innovative insights, so I believe we should find a way to enhance the quality of communications, such as by setting up venues for free-wheeling conversations.

**Yoshida** In addition, I think it is important to increase the happiness of employees. Through staff reforms, I hope to create work environments where everyone can take pride in giving back to society and feel strongly about opportunities for self-growth. Once each employee can take action on their own accord, we will have achieved the materiality issue of “strengthening innovation capabilities to create new value.”

**Baba** While growing ourselves, we should reinforce the relationships we have with customers in the staffing divisions, so that we can share these experiences with our customers. By having our initiatives catch on more broadly, we will be able to contribute to society and help solve social issues.

**Yoshida** With the situation around the world changing so much, we have to move more quickly than ever before. We will accelerate reforms to staffing until we can confidently say “we have the best staff in Japan.”



**Masahiro Yoshida**  
General Manager of  
Personnel Relations Division



**Hiroki Fujii**  
General Manager of  
Administration Division



**Ken Baba**  
General Manager of  
Procurement Division

# Sound and Highly Transparent Management



## Sound and highly transparent management

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

### Corporate Governance

(See pages 52-57)

### Compliance

The NESIC Group believes that compliance means not only adhering to laws and regulations, but also following social norms and common sense from a broader perspective. We believe it is important to strive for improvements in corporate value for NESIC and the entire Group by having each and every employee fulfill their social responsibilities with a high sense of ethics, so that society perceives and trusts NESIC as a sound corporation. Based on this way of thinking, we promote compliance with our eyes set on moving compliance from the “fostering” stage to the “corporate culture” level.

### Ensuring Sound Management through Communications

NESIC engages in corporate activities that center on communications to achieve sound and highly transparent management.

### Communication with Customers

#### Main Initiatives

- Hold NESIC Customer’s Fair (exhibition/seminar for customers)
- Conduct customer satisfaction surveys and 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 FY2020/3

- Percentage of answers in customer survey that were “very satisfied” or “strategic business partner,” the highest evaluations, increased from the previous survey in FY2019/3 (best score)

- Examples of awards received from customers
  - Award for rapidly repairing a customer’s communications facilities after typhoons No. 15 (Faxai) and No. 19 (Hagibis) struck in 2019
  - Award for advanced technologies and enthusiasm in construction projects under proper process management for an electrical facility upgrade project at a water purification plant
  - Award from the National Institute of Polar Research for contributions to observations of the south pole region by operating and maintaining satellite communications equipment and dispatching many personnel as observation teams to the south pole since the 29th expedition in 1987

### Communications with Suppliers

For the project orders it receives, NESIC utilizes labor suppliers who subcontract for on-site work, such as installation and construction, as well as suppliers of hardware and software for system integration projects. These suppliers are important stakeholders who are essential to our business execution. While communicating with suppliers through business trend briefings, visits and surveys, we are strengthening the cooperation structure throughout the supply chain with the objective of contributing to SDGs. In this way, our procurement activities are sustainable and fair.



Lecture by outside expert about customer satisfaction (held in September 2019)



### Main Initiatives for Suppliers

- Hold business trend briefings (once a year)
- Share business information at New Year meeting (once a year)
- Hold safety conferences (bimonthly)
- Hold Companywide safety conference (once a year)
- Implement Inspections and surveys (a total of 296 companies as of FY2020/3)
- An emergency survey was conducted of important partners and major suppliers about the impact from COVID-19. NESIC provided free assistance for setting up teleworking environments (online meetings, networks, etc.) the most requested item, and distributed 30,000 masks free of charge.



Business trend briefing for suppliers held online

### Communications 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 with 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 (of the 171 IR meetings in FY2020/3, 30 meetings were held with the President and/or Senior Vice President). In the fiscal year ended March 31, 2020, in order to deepen understanding of the medium-term business plan that was unveiled in May 2019, the President held small group meetings with sell-side analysts. After the COVID-19 pandemic began to spread, we quickly switched to online meeting formats for discussing the Digital Solutions Business, which drew strong interest among investors, with the head of the business (Senior Vice President) in attendance.

We increased the number of meetings held with investors in charge of ESG, which began in the fiscal year ended March 31, 2018. In the fiscal year ended March 31, 2020, a total of 12 meetings were arranged with staff in the sustainability section and Japan and foreign institutional investors. The opinions and requests received from these meetings are reported to all executives, including independent directors/auditors, from the investor relations section, and reflected in efforts to strengthen management and improve corporate value.



Briefing for Digital Solutions Business held online (March 16, 2020)

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

#### Opinion

- While many companies find materiality issues that align with CSR, I like that NESIC has newly identified materiality issues that express its social values.
- I want to see information disclosed about progress, problems and solutions to materiality issues.

#### Responses to these opinions:

In our first fiscal year addressing materiality issues, we reaffirmed our roles and responsibilities in this "new normal" for society, and the entire company examined action targets for each materiality. Companywide, we have had detailed discussions about how to help solve social issues, and plan to report on specific targets and progress in the next integrated report.

#### Opinion

- Investors tend to focus on the environment. I understand that the environment is a matter of low importance in the information and communications sector, and although it does not warrant an entire page of the integrated report, I would like to see more written about this topic.
- Investors turn first to the integrated report, and are less inclined to search on a company's website. It would be helpful to have URLs pointing to information not contained in the integrated report.

#### Response to these opinions:

Due to the nature of the content in the past, we did not include information about the environment in the integrated report. For such information, we added an index page to direct readers to this information on NESIC's website. (See page 4)

## Strengthen Innovation Capabilities to Create New Value



### Inclusion & Diversity Supports Our Ability to Innovate

NESIC has been focusing more on inclusion & diversity with the understanding that innovation comes from the synergies generated by the unique qualities found in each and every employee. To promote diversity in employees, in addition to empowering women, our hiring practices take into consideration factors such as age (the youth and seniors) and disabilities, while aiming to forge organizations where diverse and self-directed individuals can function well together.

#### Main Initiatives for Raising Internal Awareness of Inclusion & Diversity

- Director training on inclusion & diversity (February 2020)  
Outside directors talked about why inclusion & diversity is important now, and how it can be achieved, in discussions with top management at Group companies. A declaration was also drawn up as a call to action.
- Establishment of Inclusion & Diversity Promotion Committees (June 2020)  
We have created a Companywide committee for promoting inclusion & diversity and taking discussions to the next level. This committee is reassessing the personnel system and other systems, and supporting efforts in each department.

• Engagement Index\* (Target)  
80% (2022 target, 25% in 2019)

\* Score on diversity categories in an internal survey

#### Main Initiatives for Promoting Diversity Among Employees

- Conference held for younger employees in families where both the husband and wife work to share their thoughts on the Company's direction, one's own career, and work-life balance (December 2019)
- Follow-up with female candidates for management positions based on their career and grooming plans
- Ratio of male and female employees  
March 31, 2019: 84.3% male, 15.7% female  
→ March 31, 2020: 83.8% male, 16.2% female

Ratio of women in management positions  
March 31, 2019: 3.7% → March 31, 2020: 4.2%

Number of employees with disabilities  
March 31, 2019: 95 → March 31, 2020: 94

Ratio of employees continuing employment after mandatory retirement age  
FY2019/3: 65.5% → FY2020/3: 77.4%

Number of experienced hires  
FY2019/3: 41 → FY2020/3: 80



Director training in inclusion & diversity

## Technological Capabilities that Support Innovation

To further refine the broad range of technical skills that support our operations, we aim to enhance the technical knowledge of our employees by covering their educational costs for acquiring qualifications and by holding seminars guided by in-house lecturers. In autumn 2020, NESIC constructs the Shin-Kawasaki Technical-Base as a new technical base in Kanagawa Prefecture. At this base, we will hone our technological capabilities through various types of technical training, ranging from basic technologies to 5G and other advanced technologies.

- Reinforcing Technological Capabilities at Shin-Kawasaki Technical-Base

Plan to **quintuple** number of 5G engineers by 2023

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.

Employees with managing engineer or technical supervisor qualifications

Approx. **1,500** people

Employees with advanced ICT qualifications

Approx. **800** people

## Environments that Spur Innovation Opening of Nihonbashi Innovation-Base

In February 2020, NESIC opened the Nihonbashi Innovation-Base as a new base for spurring innovation. We will pursue open innovation while using Zoom, Slack and other communications tools to facilitate open dialogues and co-creation among diverse parties, including customers, partners and venture firms.



Open innovation area of Nihonbashi Innovation-Base

### Track Record in Open Innovation

Leveraging our ability to assess the needs of customers, we are accelerating co-creation with our partners.

#### Example of co-creation with cloud vendors

- Face-to-face communications **Zoom**
- Business chat **Slack**
- Management visualization **Wrike**
- Electronic signatures **DocuSign**, etc.

NESIC invests in venture firms through its own Corporate Venture Capital (CVC) program, and has strengthened co-creation with venture firms through tie-ups with Sozo Ventures II-S, L.P. and Plug and Play Tech Center, which are venture funds in Silicon Valley in the United States. The Company is keen to quickly provide competitive services.

### NESIC Employee Internship Training at Plug and Play Tech Center

In July 2019, NESIC signed a partnership agreement with Plug and Play Tech Center (founder & CEO: Saeed Amidi) in California, U.S.A. with the objective of advancing innovation and co-creation of new businesses beyond its own boundaries, while further strengthening business co-creation with startup firms. NESIC has dispatched two of its employees to Plug and Play Tech Center with the mission of discovering cutting-edge solutions and services while working there.

In January 2020, the Company's employees began taking internship training at the head office of Plug and Play Tech Center. In the first round, three young employees in their second to fourth years at NESIC were sent to Plug and Play Tech Center for a period of about three months to research startup firms, gather information at local exhibitions and seminars, and support collaboration with existing partners.

\* The second round of interns that had planned to start in May 2020 has been indefinitely postponed due to COVID-19.



NESIC's assigned employees and first round of interns at Plug and Play Tech Center

## Create a Culture Where Employees Can Take Initiative



### Create a culture where employees can take initiative

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

### Efforts to Improve Well-Being of Employees

Improving the well-being of employees is essential to create work environments where employees can work proactively. We aim to create work environments where all employees can work physically and mentally without worry in a socially satisfying way.

### Creation of Environments Conducive to Work

#### Taking on Challenge of Distributed Work

Following experimentation that began in 2015, NESIC rolled out teleworking across the entire company in July 2017, and starting in October 2019, corporate staff were reassigned to satellite offices (activity bases in seven locations in the Tokyo metropolitan area) within a 30-minute commute of their homes, marking the commencement of a distributed work system along with working from home.

#### Time Working at Home Per Employee

FY2019/3: 2.5 days / month

→ FY2020/3: 3.3 days / month

\* Due to COVID-19, all employees have worked from home in principle since the state of emergency was declared in April 2020.



Satellite office (Funabashi activity base)

### Personnel System Promotes Career Advancement

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
<b>Internal Job Posting System</b>	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.
<b>Job Challenge System</b>	This system encourages employees to take on new roles (new sections), mainly through skills development and career formation.
<b>Position Entry System</b>	This system allows employees to apply for desired positions within the Company.
<b>Career Reviews</b>	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.



Video content platform "Ushitube," which promptly distributes the latest information from the Company

### Aiming to be No. 1 in Communications

NESIC aims to be the No. 1 communications company in Japan and is working cleverly toward this goal.

### Launch of Corporate Culture Design Office (April 2020)

Based on employee ideas and their self-driven participation, we launched a team tasked with creating a corporate culture well suited to this new era. Led by this new office, all employees will participate in efforts to improve communications at NESIC in order to become the No. 1 communications company in Japan.

### Using Business Chat Slack to Facilitate Internal Discussions

Various topic-based channels have been set up internally on Slack to facilitate open discussions across organizational boundaries.

Examples of topics:

“Thoughts about post-COVID-19” and “staff reforms”

Beyond Borders Connect, a Companywide discussion plan commemorating the 66th anniversary, also took place on Slack, following an idea to do so by following an idea brought up by several volunteers. The discussion theme was about “NESIC likes and dislikes,” where opinions about the Company were exchanged across organizational lines.

### Ushijima Radio and Ushitube

In addition to Ushijima Radio, a talk show where the President invites various guests, which is streamed online to employees, Ushitube was launched as a series of videos for rapidly distributing latest information about internal matters. In the first broadcast, the President came on to talk about Nihonbashi Innovation-Base, the Company’s new office that opened in February 2020.

## Internal Communications during COVID-19

In response to the COVID-19 pandemic, NESIC has minimized the number of people coming into work and asked everyone to work remotely. Employees feeling stress about venturing outside their homes or worry about getting infected are able to actively participate in communications by using digital tools, such as video conferencing and business chat software.

### Communications between the President and Employees

- The President has reached out via video meetings to newly hired employees who have had to work from their homes despite joining the Company in April 2020. The President took the time to meet with small groups of employees in order to have meaningful conversations.
- The President came up with the idea to have an online drinking event where anyone could join and vent about their work stress during the pandemic. The President and 160 employees talked freely in turns, for a frank and open conversation.
- In addition to Ushijima Lunch meetings between the President and young employees, a Nationwide Ushijima Lunch was held online with employees at 16 locations across Japan.



President Ushijima communicating remotely with new employees

### Communications Among Employees

- Casual conversations are encouraged on Slack’s “small talk” channels, such as about lunch while teleworking and ways to spend time in comfort.
- Awards were given for employee ideas about new and healthy ways of working, and the Live! NESIC Workout was held as online lessons for stretching and strength training, led by instructors.
- A “compliment someone” session was held to strengthen the corporate culture into one with more positive communications, robust discussions and opportunities for self-growth.



### Basic Approach to Corporate Governance

NESIC believes that enhancing corporate governance is critical for realizing an advanced society with vibrant communication and for sustaining increases in corporate value. NESIC is able to benefit dually from being a member of the NEC Group and being a listed company on the stock exchange (see P56). We are therefore well aware of the importance of protecting the rights of general shareholders, and endeavor to reinforce our systems to this end. In 2006, NESIC began to nominate independent auditors who do not have any conflicts of interest with general shareholders, and has continued to push for the nomination of independent outside directors since 2008. In June 2020, the ratio of independent outside directors was increased to one-third of the total number of directors. Candidates for the position of

director are nominated with due consideration paid to diversity, such as their experience, knowledge, specialization and gender. Recently, NESIC welcomed Mr. Mamoru Yoshida as an independent outside director who has experience in business and technology management, as well as new business creation.

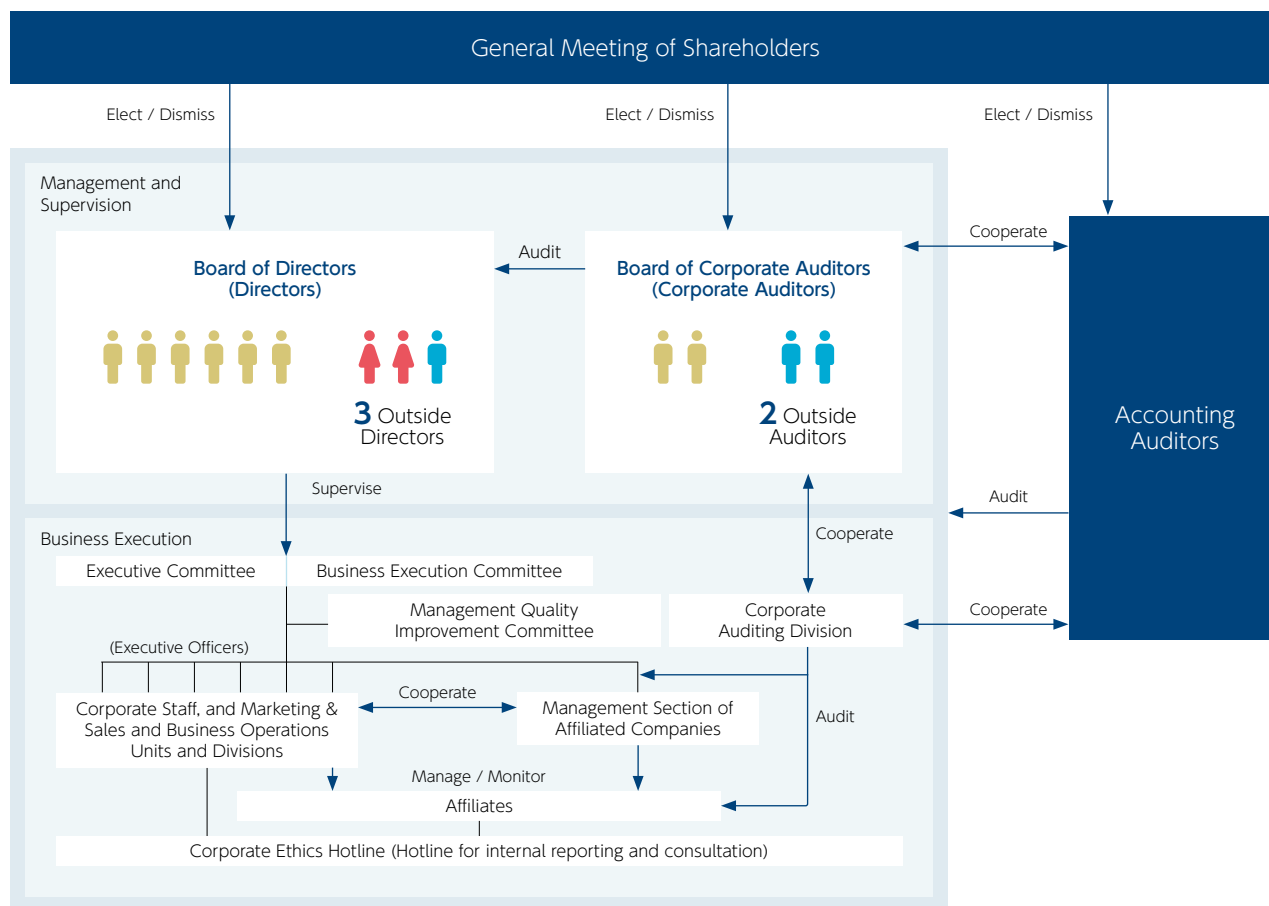
We believe our independent outside directors will contribute to management by actively participating in deliberations of the Board of Directors and facilitate decision-making that reflects outside opinions. NESIC will spare no effort to improve corporate value and ensure transparency in management by aiming to maintain and improve an appropriate corporate governance structure, starting with business execution that prioritizes compliance first and foremost.

### History of Reinforcing Corporate Governance

	2000	2005	2010	2015	2020
Clarified and strengthened Board of Directors' functions	<b>2000</b> Introduction of executive officer system	<b>2005</b> Reduced maximum number of directors from 20 to 10 Shortened terms of directors to one year			<b>2016</b> Started to evaluate effectiveness Systemized training of directors and auditors
Improved management transparency		<b>2006</b> First independent auditor		<b>2015</b> Two independent auditors	<b>2017</b> Three independent directors
Improved diversity on Board of Directors*		<b>2008</b> First independent director	<b>2012</b> Two independent directors	<b>2016</b> Set up advisory panel	<b>2017</b> Corporate management <b>2018</b> College (business administration) <b>2019</b> CSR / Corporate management <b>2020</b> Corporate management
Strengthened remuneration system linked to corporate value					<b>2017</b> Introduced stock-linked remuneration system <b>2019</b> Introduced transfer-restricted stock remuneration system

\* Only for independent outside directors

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



### 1 Directors and Board of Directors

As the principal decision-making authority within the Company, the Board of Directors makes decisions on important matters based on the procedural rules of the Board of Directors, and it is also positioned as a venue for deepening discussions about the broader direction of corporate strategy, including the medium-term business plan. NESIC endeavors to strengthen the management structure by setting the terms of directors to one year so that clarifying the management responsibilities of each director.

### 2 Corporate Auditors and Board of Corporate Auditors

The Board of Corporate Auditors decides auditing policies and reports on the audits performed by individual auditors. Corporate auditors participate in meetings of the Board of Directors and other important meetings, review important documents related to final decisions, and listen to reports on business execution by directors and employees. This system is able to adequately monitor the directors as they perform their duties.

### 3 Executive Officers, Executive Committee, and Business Execution Committee

The Company has adopted an executive officer system to clearly demarcate the supervisory function and the business execution function. NESIC has also formed the Executive Committee to discuss policies pertaining to key management and operating issues, consisting of mainly executive officers at senior vice president level and higher and corporate auditors. The Business Execution Committee was set up to monitor the progress of and report on significant matters concerning business execution. NESIC continues to strengthen management functions.

Independent Directors / Auditors

To further strengthen its corporate governance, since 2006, NESIC has sequentially 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 (out of nine directors) and two auditors (out of four auditors), who satisfy the requirements for independent directors and auditors, as defined by the Tokyo Stock Exchange. Accordingly, one third of its directors are independent outside directors. Regarding the composition of independent directors,

NESIC aims to strengthen its corporate governance structure by nominating personnel needed in management to address the changing times, while taking into account the diversity of the Board of Directors. With the aim of improving its technological capabilities and ability to provide solutions that solve social issues, as well as its ability to innovate, NESIC appointed in June 2019 a director who has deep knowledge of corporate ethics and CSR, and in June 2020, a director who has expertise in business and technology management, as well as experience in new business creation.

Name	Reason for Nomination	Main Concurrent Positions	Attendance during FY2020/3	
			Board of Directors	Board of Corporate Auditors
Michiko Ashizawa	Michiko Ashizawa has the ability to provide appropriate advice and proposal to 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.	<ul style="list-style-type: none"> <li>Associate Professor, School of Economics and Business Administration, Yokohama City University</li> <li>Associate Professor, Graduate School of International Management, Yokohama City University</li> <li>Part-Time Instructor, Graduate School of Business Administration, Keio University</li> <li>Outside Director (audit and supervisory committee member), Netyear Group Corporation</li> </ul>	12/12	—
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. She is expected to continue to supervise management toward improvements in the Company's corporate value.	<ul style="list-style-type: none"> <li>Representative Director, Wellness Systems Institute Co., Ltd.</li> <li>Senior Researcher, Business Ethics Research Center</li> <li>Outside Director, YOKOWO CO., LTD.</li> <li>Outside Director, Kyushu Railway Company</li> </ul>	10/10	—
Mamoru Yoshida	Mamoru Yoshida has the ability to provide appropriate advice and supervise the Company's management from an objective standpoint, backed by his extensive experience in business management, technology management, manufacturing, marketing and new business creation.	—	—	—
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.	<ul style="list-style-type: none"> <li>Partner, Tokyo Hatchobori Law Office</li> <li>Outside Director, KH Neochem Co., Ltd.</li> </ul>	12/12	14/14
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, backed by his knowledge and experience.	<ul style="list-style-type: none"> <li>Professor, College of Commerce, Nihon University</li> <li>Outside Auditor, INTELLIGENT WAVE INC.</li> </ul>	12/12	14/14

Notes: 1. Kuniko Muramatsu's attendance at the Board of Directors meetings is for after her appointment as director at the 87th General Meeting of Shareholders held on June 21, 2019.  
 2. Mamoru Yoshida was newly appointed as director at the 88th General Meeting of Shareholders held on June 24, 2020.  
 3. Main concurrent positions as of September 30, 2020.

Invigorating Discussions by Board of Directors / Training of Directors and Auditors

All members of the Board of Directors, including outside directors, endeavor to reach decisions that reflect outside opinions from the standpoint of protecting minority shareholders in a venue conducive to raising questions and having constructive dialogues.

To enhance the quality of deliberations by the Board of Directors, NESIC creates opportunities for pre-meeting discussions about proposals being submitted to the Board of Directors. Moreover, sufficient time is allocated for deliberations, and multiple discussions were held about especially important matters by the Board of Directors.

Additionally, to further enhance the skills of board members, NESIC creates opportunities for gaining knowledge and sharing essential information with directors and auditors so they can execute business and monitor business execution.

Outside directors and auditors are given the opportunity to learn about the Company's history, businesses, financial data, business strategies, business environment, competitive landscape, and internal organizations, while also taking advantage of opportunities to visit business sites and facilities.



## Advisory Panel for Nominations and Remuneration

- Members:** Three independent outside directors (one of whom chairs the panel) and one representative director are members on the panel.
- Purpose:** Enhance transparency of nomination of directors and auditors and director remuneration
- Description:** Following sufficient discussion, the panel gives its opinions to the Board of Directors about the fairness of procedures for nominating candidates for director and auditor, and whether policies and procedures for deciding remuneration are adequate. The Board of Directors decides on nominations and remuneration after considering the opinions of the advisory panel.

## Policies and Procedures for Nominating Directors

### Nomination Policies and Procedures

When nominating candidates for director or auditor, NESIC's Board of Directors makes decisions after a comprehensive evaluation based on finding the right person for the job, taking into account the desired qualifications shown below, while seeking people who can contribute to the Company's business development with a combination of essential skills and experiences needed to lead.

Headed by an independent outside director, the advisory panel's members, which consist mainly of independent outside directors, discuss nominations and voice their opinions. The Board of Directors deliberates on the agenda for nominating directors, and the Board of

Auditors deliberates and consents to the nomination of corporate auditors, which are submitted for approval by the General Meeting of Shareholders.

### Dismissal Policies and Procedures

On dismissing a director, NESIC Board of Directors explains the reasons for their dismissal to the advisory panel, which mainly consists of independent outside directors, in the event that a director is not adequately carrying out their duties. After receiving suitable advice, the Board of Directors makes a decision and moves to dismiss the director, which requires approval by the General Meeting of Shareholders.

### Qualities Desired in Directors and Auditors

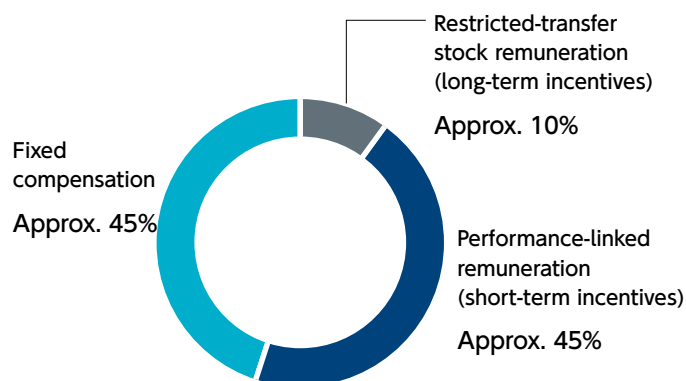
- A person who has a high level of knowledge about management, objective judgment ability, foresight and insight
- A person who has a high level of dignity and high ethical standards
- A person who has ability, knowledge, experience and track records in his/her special fields
- A person who is unbiased and decisive
- A person who understands the overall business activities of the Company

## 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. Director remuneration consists of a monthly salary set at a level commensurate with rank, a bonus that reflects rank and 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 introduced restricted-transfer stock remuneration with the objective of aligning the values of directors with those of shareholders. Performance-based remuneration makes up approximately 55% of total director remuneration (10% higher than the previous fiscal year), which consists of

performance-linked remuneration (short-term incentives) and restricted-transfer stock remuneration (long-term incentives).

### Breakdown of Director Remuneration



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 Shareholders based on compensation standards, while referring to the opinion of an advisory panel, which consists mainly of independent outside directors.

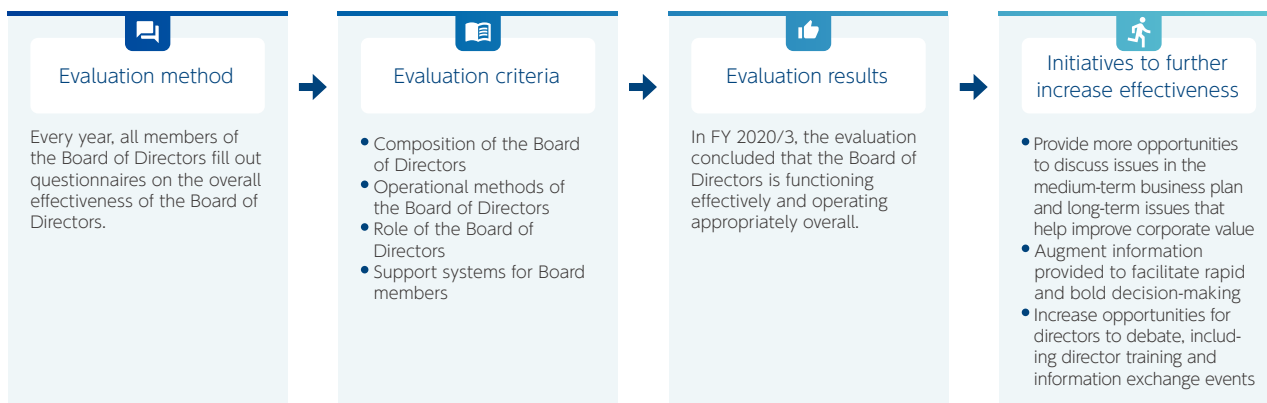
**Fiscal Year Ended March 31, 2020**

Category	No. of Recipients	Total Amount (Millions of yen)
Directors	12	206
Outside directors	4	26
Auditors	6	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 two directors and two auditors who retired as of the 87th General Meeting of Shareholders held on June 21, 2019.
  3. The figures above include up to ¥17 million in expenses related to performance-linked stock compensation (restricted-transfer stock remuneration) for five directors (excluding directors in non-executive positions) during the fiscal year under review.

**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.



**Relationship with Parent Company**

As a member of the NEC Group, NESIC benefits greatly from being in charge of system integration 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 more than ever 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 create value added by providing solutions 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. Business transactions with the parent company are decided based on proper negotiations while referencing prevailing market prices. Terms and conditions are on equal ground with other business partners and to avoid conflicts of interest, the Board of Directors verifies all business transactions with the NEC Group. As a listed company, NESIC engages in dialogue with shareholders and investors to keep their opinions and expectations in mind when managing business. We believe this effort makes the Company stronger and leads to higher corporate value.

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, as noted above.

Message from Newly Appointed Independent Outside Director

## Drawing from my broad experience at a global firm, I will help improve corporate value and shareholder value at NESIC.

MESSAGE

I believe NESIC has a clear aim of contributing to the continuous development of society by realizing a plentiful society with more welcoming and convenient communications. The Company's medium-term business plan Beyond Borders 2021 sets its sights on 2030 with a focus on augmenting and reinforcing its strengths, carrying out its "only one" strategy, and raising business performance.

A once-in-a-century pandemic has accelerated trends in AI, IoT and digital transformation. NESIC's initiatives in teleworking and distributed work have received high admiration from customers. These initiatives are one step ahead of the times, and I believe that NESIC is keen to expand business further and improve profitability by augmenting and reinforcing its relationships with customers.

Against this backdrop, I am ready to help NESIC grow by leveraging my broad experience in R&D, bringing products to market, marketing, and distribution, as well as in creating and putting into practice growth strategies for the white goods business, including B2B, while rebuilding problematic businesses and creating new businesses

related to digital videos. While actively participating in the Board of Directors, I will also leverage my experience as an auditor to help create business portfolio strategies for growth, strengthen governance, and ensure an emphasis on high transparency and compliance in management.

I will do my utmost to improve corporate value and shareholder value, while meeting the expectations of all stakeholders including minority shareholders.



Independent  
Outside Director  
**Mamoru Yoshida**

### Shares Held for Strategic Reasons

NESIC may hold shares for strategic reasons, 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 purpose of owning these shares is appropriate, and whether the gains and risks from owning these shares align with their cost of capital. Based on the outcome of this examination, stocks that are

determined to have inadequate reasons for holding onto become candidates for divestiture and reduction. Regarding the execution of voting rights for these strategic shareholdings, management decides whether to vote in approval or disapproval of proposed matters based on a comprehensive evaluation of whether it contributes to medium- to long-term improvements in the company in which it holds shares and the corporate value of the NESIC Group.

# Online Talk

Two outside directors exchanged their thoughts and opinions about discussion at the Company's Board of Directors and its response to COVID-19, new possibilities and issues that should be addressed.



Outside Director  
**Michiko Ashizawa**

Outside Director  
**Kuniko Muramatsu**

#### Outside Director **Michiko Ashizawa**

- 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)

#### Outside Director **Kuniko Muramatsu**

- 2003 Officer, Ethics Office, Texas Instruments Japan Limited
- 2009 Chief Researcher, Business Ethics Research Center
- 2010 Representative Director, Wellness Systems Institute Co., Ltd. (present position)
- 2016 Chair of the Board, NPO GEWEL
- 2018 Senior Researcher, Business Ethics Research Center (present position)
- 2019 Outside Director of the Company (present position)
- 2020 Outside Director of Kyushu Railway Company (present position)

## Looking Back at the Board of Directors over the Past Year

Ashizawa

This past year has been one where COVID-19 has shed light on the outcome of the Company's efforts to date. Internally, momentum has coalesced around its aim of becoming a communication services orchestrator, and steady progress is being made toward achieving ambitious medium-term targets. However, management still needs to reflect upon the issues that led to an unprofitable project and related extraordinary loss being recorded. I believe management must get a better handle on risks from a Companywide perspective.

Muramatsu

In my first fiscal year as an outside director, I thought that the Board of Directors had struck a good balance on decision-making and supervision/oversight functions. There were many in-depth discussions about not only the medium-term management plan, but also materiality, risk management and new businesses. From a big picture standpoint, the outside directors shared their thoughts about the Company's future with the executive side, asking some tough questions along the way. I thought that the Board of Directors' meetings had a lively but tense atmosphere.

Ashizawa

The executive officers took seriously the opinions of the outside directors, and took action within a reasonable time frame, a unique trait at NESIC, in my opinion. For example, the executive side quickly fulfilled our request for monthly reports on the status of risk management for unprofitable projects, an initiative that should be undertaken from a long-term standpoint and on behalf of minority shareholders. Instead of taking a narrow perspective on issues that crop up from time to time, the entire Board of Directors engaged in discussions from the standpoint of shareholders, i.e., a longer-term perspective that enables monitoring of a broader spectrum of activities. I believe this change has enhanced the effectiveness of the Board of Directors.

Muramatsu

Discussions about thorough compliance went beyond reporting in form only, and were framed around their effectiveness, including deep dives into on-site conditions and issues related to individual ethics and organizational cultures.

I take special care to frame my comments around ESG and SDGs, as the Board of Directors acts as a point of contact between the Company and society. I felt the need to disseminate more information to

shareholders and interested parties about how the Company's business strategies relate to solving social issues.

Ashizawa

One critical point I would like to make is that there were not many opportunities to discuss strategies from the ground up, while there was plenty of talk about growth trajectories in existing businesses. I would like to see more opportunities for outside directors to participate in ground-level discussions outside the scope of the process for drawing up the medium-term management plan. In my opinion, the composition of the Board of Directors should be diversified more in terms of not only gender, but also age, nationality and people with disabilities.

Muramatsu

I agree. To advance innovation, the Board of Directors should function as a diverse and nimble team of directors and executive officers with a mix of special skills and experiences. Its composition needs to be reevaluated.

Regarding corporate governance, I believe it is vital that the Company continue to update its systems and reinforce corporate governance in ways unique to NESIC and that align with its vision and strategies, with the objective of ensuring an effective governance structure for a listed subsidiary.

## Enhancing Effectiveness of Materiality

Muramatsu

NESIC has embodied its approach to diversity in the core area of "creating work environments in which everyone can take initiative." To connect this materiality to improvements in corporate value, each and every employee must embrace this concept and put it into practice in their daily work. For this to happen, management needs to convey internally and externally the links between business strategies and jobs to the creation of social value.

NESIC has contributed to a sustainable society through its various businesses, such as onshore fish farming to sustain this primary industry, or by creating safe and secure communities resilient to natural disasters. However, people on the front lines do not seem to be all that aware of how their jobs relate to the materiality of providing value to society through 2030. As an outside director coming from an external viewpoint, I intend to proactively point out the significance of the Company's businesses in ways that we can see as outsiders.

Sustainability of NESIC and Society

Ashizawa

I agree that the key to effectively addressing materiality is instilling awareness internally. For example, the Company's business in the education field has seen a strong increase in inquiries due to COVID-19, and it has high social significance and matches well with materiality issues. On the front lines, employees tend to focus solely on business opportunities. If employees can become more aware of the social significance of their work, they can be prouder of the work they do and make the Company even stronger, in my opinion.

Muramatsu

To actually put this into practice, it will be necessary to monitor progress as a KPI.

No. 1 Communications Company

Ashizawa

The President has set an example through his leadership steering NESIC toward becoming a No. 1 communications company. I think it is wonderful that the President conveys his thoughts about management on various occasions within the Company. The President worked in ways visible to employees while the Company's offices were being moved last fiscal year, closing the physical distance with employees. Employees were able to directly voice their ideas to the President, instilling an open style of management. As the volume of information increases, organizations in society and the conveyance of information change to flatter structures instead of a pyramid structure. I can feel the intention of management to put this framework into practice. Instead of taking a uniform approach to thinking about this, I see the need for further discussion about the state of communications and organizational cultures in light of the different nature of businesses in network infrastructures and digital solutions, for instances.



I value the relationships of trust we have with managers in charge of business execution, while continuing to represent the interests of minority shareholders.

Ashizawa

Muramatsu

From an effectiveness standpoint, it is indeed important to examine the state of organizational operations with the nature of the business taken into account. Advancing inclusion & diversity requires the formulation of strategies and setting of targets based on conditions in each business.

Most companies, and not just NESIC, have diverse businesses with different characteristics. I think that NESIC's own experiences and expertise in communications and diverse work styles, including telework, will be of use to a broad range of companies.

NESIC and COVID-19

Ashizawa

NESIC's work-style innovations that have drawn attention not only address short-term issues, but also widely spread the seeds for solutions over the long term for resolving social issues. I give high marks to management for rapidly making decisions and executing them during the COVID-19 pandemic. For example, I talked with the President about the situation faced by educational institutions dealing with remote learning issues, and he immediately formed a team dedicated to solving issues related to remote education. The next week, an online seminar on this topic was held by the Company's support, where around 1,000 educators attended. NESIC has been able to leverage its inherent capabilities in response to the pandemic.

Muramatsu

It was impressive for me that the COVID-19 outbreak hadn't brought any delays in the management of the Company. In addition to creating business, from a BCP and risk management standpoint as well, management's initiatives to distributed work and enable remote working have paid off handsomely.

I think the importance of ICT infrastructure as an underpinning of society has been strongly felt by people during the pandemic. I am grateful for all of the



Education seminar

employees working on the front lines, and remembered once again that these employees working in these businesses are the true backbone of NESIC.

If more people become aware of NESIC's considerable significance to society, I believe employee engagement will improve and lead to more co-creation on innovation.

**Ashizawa**

I feel the same way. Even though the Company is doing all these wonderful things, I am disappointed in the lack of information on its website and press releases. Since NESIC focuses on B2B, information is distributed on a limited fashion to specific customers, but as NESIC engages more with society, I think it should make an effort to disseminate information more broadly.

## Hurdles to Achieving Medium-term Management Plan

**Ashizawa**

Steady progress is being made on the medium-term management plan, but there are still some lingering issues. As the Company advances its strategies for digital transformation and 5G, I believe management must define more clearly how it plans to monetize its services and establish a firm footing in specific fields, as it seems that all layers, including infrastructure, platforms and software, are being virtualized and moving to the cloud. NESIC is already providing solutions that combine various SaaS on its Symphonict platform. I expect management to discuss how best to clarify its strategy for success. Another important issue is how to leverage synergies with the parent company, and take advantage of the benefits of being a listed subsidiary. Directors from NEC can provide helpful advice on how to leverage NEC's resources. When discussing these matters, I make a critical comment if an idea is voiced from NEC's perspective, as I said in the dialogue last year, with the intention of protecting profits for minority interests. Furthermore, I believe it is my role to always check that discussions encompass a broader space and timeline, widening the scope to greater society.

**Muramatsu**

We must proactively disclose externally the significance of the parent-subsidary listing, such as how NESIC generates synergies with NEC. If their collaboration can be taken to global markets, I believe the NEC Group as a whole will be able to provide greater value to broader society.



I think that disseminating information about NESIC's considerable significance to society will improve employee engagement and lead to co-creation on innovation at NESIC.

— Muramatsu

## Responsibilities as an Outside Director

**Ashizawa**

Shareholders and companies are in a relationship where shareholders trust management and management is entrusted by shareholders. In this context, relationships built on trust are essential. While I am strongly prepared to represent the interests of shareholders, as a representative of shareholders, I am also keen to build stronger relationships of trust with the executives in charge of carrying out business. Starting with such good relationships, I believe corporate value will increase further.

**Muramatsu**

At training sessions and workshops for board members, there are frank discussions about how to address issues related to sustainability, and these discussions are not left hanging in the end. I think that by having management tackle issues from an ESG and SDG perspective, NESIC will see more business opportunities while minimizing risks.

As an independent outside director entrusted by shareholders and other stakeholders, I will supervise and offer advice from an objective medium- to long-term perspective, and strive to contribute to highly effective corporate governance at NESIC.



Diversity training for directors

Directors

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**Yushi Ushijima**  
President



**Osamu Noda**  
Senior Vice President  
and Member of the  
Board



**Hiroyuki Sekizawa**  
Senior Vice President  
and Member of the  
Board



**Kazuhiko Takeuchi**  
Senior Vice President  
and Member of the  
Board



**Michiko  
Ashizawa**  
Member of the Board  
(Outside Director)



**Kuniko  
Muramatsu**  
Member of the Board  
(Outside Director)



**Mamoru  
Yoshida**  
Member of the Board  
(Outside Director)



**Junji Ashida**  
Member of the Board



**Toru Kawakubo**  
Member of the Board



## Corporate Auditors



**Naoki Iwasaki**

Corporate Auditor  
(Full-Time)



**Yohei Otani**

Corporate Auditor  
(Full-Time)



**Yuji Kikuchi**

Corporate Auditor  
(Outside Auditor)



**Masayuki Horie**

Corporate Auditor  
(Outside Auditor)

### Main background and specializations that NESIC expects of outside directors and outside auditors

		Business administration and planning	Finance and accounting	Legal affairs	Internal controls and risk management	CSR	Technological standpoint / New businesses	Diversity
Outside Directors	Michiko Ashizawa							
	Kuniko Muramatsu							
	Mamoru Yoshida							
Outside Auditors	Yuji Kikuchi							
	Masayuki Horie							

\* This table does not show all of the knowledge of the outside directors and outside auditors. It highlights their backgrounds and specializations with an emphasis on the oversight functions of outside members.

## Stock Information (As of March 31, 2020)

Number of Shareholders	10,130
Common Stock Authorized	100,000,000 shares*
Issued	49,773,807 shares*
Trading Unit	100 shares

\* On June 1, 2020, NESIC conducted a three-for-one common stock split. On this date, the number of issuable shares was 300,000,000 shares, and the number of shares outstanding was 149,321,421 shares.

### Major Shareholders (Top 10)

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding *2
NEC Corporation	19,106	38.49%
Japan Trustee Services Bank, Ltd.*1 (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.89%
Japan Trustee Services Bank, Ltd. (Trust account)	3,177	6.40%
The Master Trust Bank of Japan, Ltd. (Trust account)	3,014	6.07%
Sumitomo Realty & Development Co., Ltd.	1,200	2.42%
Japan Trustee Services Bank, Ltd. (Trust account 9)	853	1.72%
GOVERNMENT OF NORWAY	718	1.45%
Employees' Stock Ownership Plan	668	1.35%
STATE STREET BANK AND TRUST COMPANY 505001	598	1.21%
JPMC GOLDMAN SACHS TRUST JASDEC LENDING ACCOUNT	556	1.12%

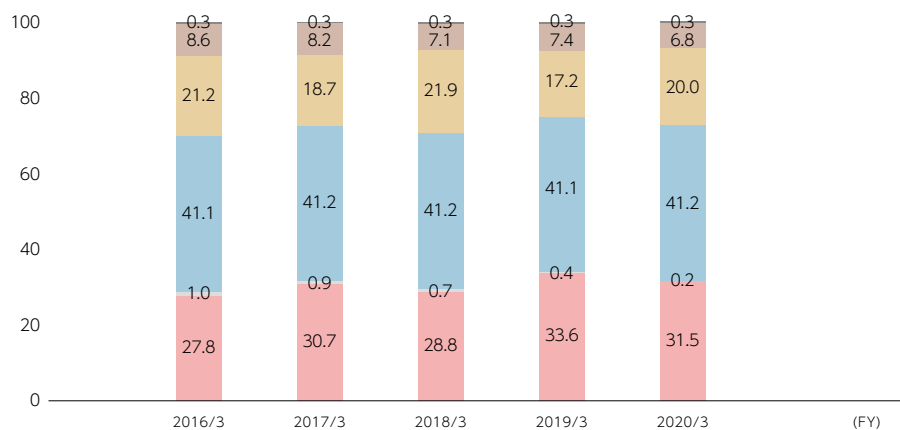
\*1 Shares held by Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2020 was 51.48%.

\*2 The percentage of total shares outstanding is calculated based on the number of shares excluding treasury stock (134,067 shares) and shares that are in the company's name in the shareholder registry but are not substantially owned (100 shares).

\*3 As of June 1, 2020, the Company conducted a 3-for-1 stock split of its common stock. The above figures represent the number of shares before the stock split.

### Breakdown of Shareholders by Type

(%)



Financial institutions Investment securities firms Other institutions  
Foreign entities (institutions, individuals) Individuals and others Treasury stock

## Corporate Overview (As of March 31, 2020)

Name	NEC Networks & System Integration Corporation
Head Office	Iidabashi First Tower, 2-6-1 Koraku, Bunkyo-ku, Tokyo 112-8560, Japan
Established	December 1, 1953
Registered as a Stock Company	November 26, 1953
Capital	¥ 13,122,000,000
Fiscal Year	April 1-March 31
Ordinary General Shareholders Meeting	Annual meeting held in June
Number of Employees	4,871 (Non-consolidated), 7,818 (Consolidated)
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.
- NICHIIWA Co.
- NEC Net Innovation, Ltd.
- NESIC advanced aquaculture, Inc.
- NetsForest RAS Technologies, Inc.
- 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 2020



Top Hundred Telework Pioneers



"Kurumin" certification mark



Highest-grade "Eruboshi" certification

### Editorial Postscript

Thank you for reading NESIC's Annual Report 2020. When work began on this integrated report, the COVID-19 pandemic had just started to drastically change the world. We have been strongly reminded of our role and responsibilities in helping society during this "new normal," and hoped to convey our passion for solving social issues as a theme in this year's integrated report.

During the production of this integrated report, all team members worked from home in principle in order to eliminate the risk of COVID-19, and all interviews and conversations were held online. While publication of the integrated report has been delayed compared with a regular year, we recognize this is also an area for improvement for the next publication. We are pleased to think that through the publication of this integrated report, NESIC's important message will be heard by more people.

# Financial Section

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## CONSOLIDATED TEN-YEAR SUMMARY

	FY2011/3	FY2012/3	FY2013/3	FY2014/3
<b>Performance Indicators</b> (Millions of yen)				
Orders received	¥212,277	¥215,373	¥241,271	¥280,071
Net sales	217,948	204,658	235,716	270,326
Gross profit	33,132	32,079	37,182	44,690
Operating income	10,835	9,747	12,483	14,418
Operating income to net sales (%)	5.0	4.8	5.3	5.3
Net income attributable to owners of the parent	4,660	4,474	7,246	8,257
<b>Financial Condition (Fiscal year-end)</b> (Millions of yen)				
Total assets*2	¥149,464	¥149,130	¥167,472	¥189,059
Net assets	77,005	80,074	85,974	89,166
Owner's equity	76,445	79,503	85,266	87,514
<b>Performance Indicators</b> (Millions of yen)				
Cash flows from operating activities	¥(1,595)	¥18,595	¥(1,723)	¥23,313
Cash flows from investing activities	(1,904)	(2,648)	(3,429)	(5,504)
Free cash flows	(3,499)	15,946	(5,152)	17,809
Cash flows from financing activities	(337)	(3,979)	(2,066)	(3,824)
Cash and cash equivalents at end of year	25,587	37,456	30,315	44,434
<b>Per-Share Indicators</b> (Yen)*3				
EPS	¥ 93.72	¥ 89.98	¥ 145.73	¥ 166.06
BPS	1,537.19	1,598.77	1,714.74	1,760.06
Cash dividends	26.00	28.00	45.00	60.00
<b>Key Indicators</b> (%)				
ROE*4	6.2	5.7	8.8	9.6
ROA*5	7.3	6.3	7.7	8.2
Owner's equity ratio	51.1	53.3	50.9	46.3
DOE ratio	1.7	1.8	2.7	3.5
Payout ratio	27.7	31.1	30.9	36.1
<b>Other</b>				
Number of employees	5,939	5,936	6,024	7,164
Number of shares outstanding (FYE)*3	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 ¥108.83 = US\$1.00 as of March 31, 2020.

\*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 On June 1, 2020, NESIC conducted a 3-for-1 common stock split. The figures have not been retroactively adjusted to reflect this stock split.

\*4 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

\*5 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

FY2015/3	FY2016/3	FY2017/3	FY2018/3	FY2019/3	FY2020/3	
					(Thousands of U.S. dollars) *1	
¥299,097	¥274,946	¥279,241	¥287,831	¥284,739	<b>¥304,978</b>	<b>\$2,802,333</b>
292,164	279,961	257,912	267,939	277,949	<b>303,616</b>	<b>2,789,818</b>
48,110	45,162	42,585	44,265	47,681	<b>54,374</b>	<b>499,623</b>
16,158	14,111	9,974	11,057	12,774	<b>16,245</b>	<b>149,269</b>
5.5	5.0	3.9	4.1	4.6	<b>5.4</b>	—
7,791	5,996	6,549	7,357	8,885	<b>9,422</b>	<b>86,575</b>
					(Thousands of U.S. dollars) *1	
¥201,904	¥196,505	¥197,386	¥207,643	¥216,171	<b>¥230,244</b>	<b>\$2,115,629</b>
94,173	94,397	96,674	101,732	107,608	<b>113,510</b>	<b>1,043,002</b>
92,559	92,738	94,611	99,473	104,888	<b>110,366</b>	<b>1,014,114</b>
					(Thousands of U.S. dollars) *1	
¥ 2,460	¥ 9,435	¥22,634	¥ 4,779	¥ 8,396	<b>¥12,935</b>	<b>\$118,855</b>
(3,929)	(2,822)	(2,697)	(2,802)	(5,604)	<b>(6,726)</b>	<b>(61,803)</b>
(1,469)	6,613	19,936	1,976	2,791	<b>6,208</b>	<b>57,043</b>
(4,127)	(1,402)	(4,144)	(4,366)	(5,615)	<b>(2,300)</b>	<b>(21,133)</b>
38,951	43,889	59,648	57,281	54,354	<b>58,321</b>	<b>535,890</b>
					(U.S. dollars) *1	
¥ 156.72	¥ 120.80	¥ 131.94	¥ 148.23	¥ 179.02	<b>¥ 189.83</b>	<b>\$ 1.74</b>
1,864.61	1,868.25	1,906.03	2,004.04	2,113.19	<b>2,223.36</b>	<b>20.42</b>
64.00	70.00	72.00	74.00	78.00	<b>82.00</b>	<b>0.75</b>
8.7	6.5	7.0	7.6	8.7	<b>8.8</b>	—
8.3	7.1	5.1	5.4	6.1	<b>7.1</b>	—
45.8	47.2	47.9	47.8	48.5	<b>47.9</b>	—
3.5	3.8	3.8	3.8	3.8	<b>3.8</b>	—
40.8	57.9	54.6	49.9	43.6	<b>43.2</b>	—
7,260	7,464	7,572	7,657	7,743	<b>7,818</b>	—
49,773,807	49,773,807	49,773,807	49,773,807	49,773,807	<b>49,773,807</b>	—

## CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries  
As of March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	¥ 58,321	¥ 54,354	\$ 535,890
Notes and accounts receivable (notes 4 and 24)	112,358	106,553	1,032,417
Electronically recorded monetary claims (note 4)	728	606	6,689
Inventories (note 7)	13,158	13,181	120,904
Other current assets	7,359	6,423	67,619
Allowance for doubtful accounts	(77)	(82)	(707)
Total current assets	<b>191,847</b>	181,036	<b>1,762,813</b>
Non-current assets:			
Property and equipment			
Land	1,429	2,410	13,130
Buildings and structures	9,930	10,033	91,243
Machinery, equipment and vehicles	161	173	1,479
Tools, furniture and fixtures	15,400	15,016	141,505
Construction in progress	482	499	4,428
Other	605	392	5,559
Accumulated depreciation	(19,067)	(18,309)	(175,199)
Property and equipment, net	<b>8,942</b>	10,217	<b>82,164</b>
Intangibles, net of accumulated amortization (note 8)	<b>5,847</b>	6,234	<b>53,725</b>
Investments and other assets			
Investment securities (notes 5 and 6)	1,454	635	13,360
Asset for retirement benefits (note 11)	168	364	1,543
Deferred tax assets (note 10)	16,520	13,600	151,796
Other assets (note 24)	5,519	4,144	50,712
Allowance for doubtful accounts	(56)	(62)	(514)
Total investments and other assets	<b>23,606</b>	18,682	<b>216,907</b>
Total non-current assets	<b>38,397</b>	35,134	<b>352,816</b>
Total assets	<b>¥230,244</b>	¥216,171	<b>\$2,115,629</b>



	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Short-term bank loans (note 9)	¥ 4,632	¥ 2,284	\$ 42,561
Current installments of long-term debt (note 9)	298	231	2,738
Notes and accounts payable (notes 4 and 24)	41,666	40,274	382,853
Electronically recorded obligations	1,441	807	13,240
Advances received (note 24)	6,181	6,290	56,795
Accrued income taxes (note 10)	3,580	3,175	32,895
Accrued bonuses to directors	139	117	1,277
Accrued warranty on products	105	113	964
Accrued losses on sales contracts (note 7)	2,159	1,980	19,838
Provision for compensation for damage	1,326	—	12,184
Provision for office transfer cost	218	—	2,003
Other current liabilities	18,376	17,053	168,850
Total current liabilities	80,128	72,328	736,267
Non-current liabilities:			
Long-term debt (note 9)	3,764	3,896	34,586
Liability for retirement benefits (note 11)	31,215	30,609	286,823
Other liabilities (notes 10 and 12)	1,625	1,729	14,931
Total non-current liabilities	36,605	36,234	336,350
Total liabilities	116,734	108,562	1,072,627
Shareholders' equity (note 13):			
Common stock:	13,122	13,122	120,573
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2020 and 2019			
Capital surplus	16,664	16,659	153,119
Retained earnings	84,972	79,520	780,777
Treasury stock, at cost; 134,067 shares at March 31, 2020 and 138,615 shares at March 31, 2019	(271)	(279)	(2,490)
Total shareholders' equity	114,488	109,022	1,051,989
Accumulated other comprehensive income:			
Net unrealized holding gains on available-for-sale securities (note 5)	30	31	275
Deferred gains or losses on hedges	25	—	229
Foreign currency translation adjustments	(392)	(471)	(3,601)
Accumulated adjustments for retirement benefits (note 11)	(3,783)	(3,694)	(34,760)
Total accumulated other comprehensive income	(4,121)	(4,134)	(37,866)
Non-controlling interests	3,143	2,719	28,879
Total net assets	113,510	107,608	1,043,002
Total liabilities and net assets	¥230,244	¥216,171	\$2,115,629

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

\* At a meeting on April 28, 2020, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of June 1, 2020. The number of common stock and treasury stock as stated above do not take the stock split into account.

## CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries  
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
Net sales (note 24)	<b>¥303,616</b>	¥277,949	<b>\$2,789,818</b>
Cost of sales (notes 7 and 24)	<b>249,242</b>	230,268	<b>2,290,195</b>
Gross profit	<b>54,374</b>	47,681	<b>499,623</b>
Selling, general and administrative expenses (notes 16 and 17)	<b>38,128</b>	34,906	<b>350,344</b>
Operating income	<b>16,245</b>	12,774	<b>149,269</b>
Other income (expense):			
Interest income	<b>38</b>	40	<b>349</b>
Interest expense	<b>(112)</b>	(95)	<b>(1,029)</b>
Dividends income of insurance	<b>117</b>	193	<b>1,075</b>
Insurance benefit	<b>65</b>	70	<b>597</b>
Reward income	<b>52</b>	18	<b>477</b>
Loss on disposal of non-current assets	<b>(184)</b>	(53)	<b>(1,690)</b>
Foreign exchange loss	<b>(95)</b>	(43)	<b>(872)</b>
Loss on valuation of investment securities	<b>(116)</b>	(29)	<b>(1,065)</b>
Compensation for damage	<b>(108)</b>	(3)	<b>(992)</b>
Other, net	<b>36</b>	151	<b>330</b>
Subtotal	<b>(307)</b>	248	<b>(2,820)</b>
Ordinary Income	<b>15,938</b>	13,023	<b>146,448</b>
Extraordinary loss			
Impairment loss (note 18)	<b>1,788</b>	—	<b>16,429</b>
Provision of allowance for compensation for damage (note 19)	<b>1,253</b>	—	<b>11,513</b>
Office transfer cost	<b>372</b>	—	<b>3,418</b>
Subtotal	<b>3,415</b>	—	<b>31,379</b>
Income before income taxes	<b>12,522</b>	13,023	<b>115,060</b>
Income taxes (note 10):			
Current	<b>5,657</b>	4,894	<b>51,980</b>
Deferred	<b>(2,894)</b>	(1,052)	<b>(26,591)</b>
Subtotal	<b>2,763</b>	3,842	<b>25,388</b>
Net Income	<b>9,759</b>	9,180	<b>89,671</b>
Net Income attributable to:			
Non-controlling interests	<b>336</b>	295	<b>3,087</b>
Owners of the parent	<b>¥ 9,422</b>	¥ 8,885	<b>\$ 86,575</b>

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
Net Income	<b>¥9,759</b>	¥9,180	<b>\$89,671</b>
Other comprehensive income arising during the year (note 20):			
Net unrealized holding loss on available-for-sale securities	(1)	(11)	(9)
Deferred gains or losses on hedges	25	—	229
Foreign currency translation adjustments	185	(143)	1,699
Adjustments for retirement benefit	(89)	359	(817)
Share of other comprehensive income of entities accounted for using equity method	0	(1)	0
Total other comprehensive income arising during the year	<b>120</b>	203	<b>1,102</b>
Comprehensive income	<b>¥9,879</b>	¥9,383	<b>\$90,774</b>
Comprehensive income attributable to:			
Owners of the parent	<b>¥9,436</b>	¥9,136	<b>\$86,704</b>
Non-controlling interests	<b>443</b>	247	<b>4,070</b>

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, 2020 and 2019

	Numbers of shares of common stock (Thousands)	Millions of yen				
		Common stock	Capital surplus	Shareholders' equity		Total
			Retained earnings	Treasury stock		
Balance at April 1, 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 transactions with non-controlling interests			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
Changes arising during the year:						
Cash dividends				(3,971)		(3,971)
Profit attribute to owners of the parent				9,422		9,422
Purchase of treasury stock					(4)	(4)
Disposition of treasury stock			5		11	16
Net changes in accounts other than shareholders' equity						—
Total changes during the year	—	—	5	5,452	7	5,465
Balance at March 31, 2020	<b>49,773</b>	<b>¥13,122</b>	<b>¥16,664</b>	<b>¥84,972</b>	<b>¥(271)</b>	<b>¥114,488</b>

	Millions of yen						
	Accumulated other comprehensive income					Total net assets	
	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Non-controlling interests	
Balance at April 1, 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 transactions with non-controlling interests					—		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
Changes arising during the year:							
Cash dividends					—		(3,971)
Profit attribute to owners of the parent					—		9,422
Purchase of treasury stock					—		(4)
Disposition of treasury stock					—		16
Net changes in accounts other than shareholders' equity	(1)	25	79	(89)	13	423	437
Total changes during the year	(1)	25	79	(89)	13	423	5,902
Balance at March 31, 2020	<b>¥ 30</b>	<b>¥25</b>	<b>¥(392)</b>	<b>¥(3,783)</b>	<b>¥(4,121)</b>	<b>¥3,143</b>	<b>¥113,510</b>

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2019	\$120,573	\$153,073	\$730,680	\$(2,563)	\$1,001,764
Changes arising during the year:					
Cash dividends			(36,488)		(36,488)
Net income			86,575		86,575
Purchase of treasury stock				(36)	(36)
Disposition of treasury stock		45		101	147
Net changes in accounts other than shareholders' equity					—
Total changes during the year	—	45	50,096	64	50,215
Balance at March 31, 2020	\$120,573	\$153,119	\$780,777	\$(2,490)	\$1,051,989

	Thousands of U.S. Dollars (note 3)						
	Accumulated other comprehensive income						
	Net unrealized holding gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total	Non-controlling interests	Total net assets
Balance at April 1, 2019	\$284	\$ —	\$(4,327)	\$(33,942)	\$(37,985)	\$24,983	\$ 988,771
Changes arising during the year:							
Cash dividends					—		(36,488)
Net income					—		86,575
Purchase of treasury stock					—		(36)
Disposition of treasury stock					—		147
Net changes in accounts other than shareholders' equity	(9)	229	725	(817)	119	3,886	4,015
Total changes during the year	(9)	229	725	(817)	119	3,886	54,231
Balance at March 31, 2020	\$275	\$229	\$(3,601)	\$(34,760)	\$(37,866)	\$28,879	\$1,043,002

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
Cash flows from operating activities:			
Net income before income taxes	¥12,522	¥13,023	\$115,060
Depreciation and amortization	3,572	2,764	32,821
Amortization of goodwill	247	247	2,269
Impairment loss	1,788	—	16,429
Increase (decrease) in allowance for doubtful accounts	(13)	(11)	(119)
(Increase) decrease in asset for retirement benefits	208	251	1,911
Increase (decrease) in liability for retirement benefits	450	517	4,134
Increase (decrease) in accrued bonuses to directors	21	14	192
Increase (decrease) in accrued warranty on products	(8)	(2)	(73)
Increase (decrease) in accrued losses on sales contracts	178	1,422	1,635
Increase (decrease) in provision for compensation for damage	1,326	—	12,184
Interest and dividend income	(62)	(58)	(569)
Interest expense	112	95	1,029
(Increase) decrease in notes and accounts receivable	(5,719)	(2,934)	(52,549)
(Increase) decrease in inventories	29	(4,951)	266
Increase (decrease) in notes and accounts payable	2,010	824	18,469
Other, net	1,500	2,724	13,782
Subtotal	18,167	13,927	166,930
Interest and dividend received	62	58	569
Interest paid	(112)	(95)	(1,029)
Income taxes paid	(5,182)	(5,495)	(47,615)
Net cash provided by operating activities	12,935	8,396	118,855

	Millions of yen		Thousands of U.S. dollars (note 3)
	2020	2019	2020
Cash flows from investing activities:			
Purchase of property and equipment	(3,004)	(1,922)	(27,602)
Proceeds from sale of property and equipment	19	5	174
Purchase of intangibles	(995)	(2,578)	(9,142)
Proceeds from sales of intangibles	0	15	0
Purchase of investment securities	(936)	(162)	(8,600)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(68)	—	(624)
Loans receivable made	(2)	—	(18)
Collection of loans receivable	1	1	9
Other, net	(1,741)	(962)	(15,997)
Net cash used in investing activities	(6,726)	(5,604)	(61,802)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	2,268	(1,750)	20,839
Repayments of long-term debt	(264)	(3,186)	(2,425)
Proceeds from long-term debt	200	3,300	1,837
Proceeds from sale and purchase of treasury stock, net	(4)	(2)	(36)
Dividends paid to shareholders	(3,965)	(3,717)	(36,432)
Dividends paid to non-controlling interest	(23)	(27)	(211)
Proceeds from share issuance to non-controlling interest	3	245	27
Other, net	(514)	(474)	(4,722)
Net cash used in financing activities	(2,300)	(5,615)	(21,133)
Effect of exchange rate changes on cash and cash equivalents	58	(104)	532
Net increase (decrease) in cash and cash equivalents	3,967	(2,927)	36,451
Cash and cash equivalents at beginning of year	54,354	57,281	499,439
Cash and cash equivalents at end of year	¥58,321	¥54,354	\$535,890

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, 2020 and 2019

## 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 19 subsidiaries (companies over which the Company can control their operations) as of March 31, 2020 (17 subsidiaries as of March 31, 2019) (the "Group").

### (Changes in the scope of consolidation)

NESIC advanced aquaculture, Inc. and Nets Forest RAS Technologies, Inc. have been established in August 2019, and these companies are 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 3 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 available-for-sale 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 available-for-sale securities are carried at cost. Cost of securities sold is determined by the moving-average method. Investments to investment limited partnerships (that are regarded as securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act.), are recognized at an amount equivalent to the Company's percentage share of the net assets of such partnerships, based on the latest financial statements available at the reporting date stipulated in a partnership agreement.

### (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	4 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) Provision for compensation for damage**

Provision for compensation for damage is provided for at the amount of estimated compensation for damage.

**(k) Provision for office transfer cost**

Provision for office transfer cost is provided for at the amount of estimated losses occurred in the process of office transfer,

**(l) Leases**

Leased assets under finance lease transactions that do not transfer ownership are depreciated by using the straight-line method over the lease term as their useful lives with zero residual value.

**(m) Research and development costs**

Research and development costs are charged to expense as incurred.

**(n) 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. 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 (10 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.

**(o) 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.

**(p) 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.

**(q) 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.

**(r) 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.

**(s) 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.

**(t) Reclassifications**

Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2019 to conform to the presentation for the year ended March 31, 2020.

“Reward income”, which was included in “Other, net” under “Other income (expense)” in the year ended March 31, 2019, is presented separately in the current fiscal year due to an increase in materiality. To reflect this change in presentation, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2019 to conform to the presentation for the year ended March 31, 2020. As a result, the amount of ¥256 million included in “Other, net” in the year ended March 31, 2019 was reclassified into ¥18 million of “Reward income” and ¥238 million of “Other”.

In addition, “Loss on valuation of investment securities” and “Compensation for damage” which were included in “Other, net” under “Other income (expense)” in the year ended March 31, 2019, are presented separately in the current fiscal year due to an increase in materiality. To reflect this change in presentation, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2019 to conform to the presentation for the year ended March 31, 2020. As a result, the amount of ¥119 million included in “Other, net” in the year ended March 31, 2019 was reclassified into ¥29 million of “Loss on valuation of investment securities”, ¥3 million of “Compensation for damage” and ¥86 million of “Other”.

**(u) Accounting standards and guidance issued but not yet adopted**

The following accounting standards and guidance were issued but not yet adopted.

1. “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 (revised 2020), March 31, 2020)  
 “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 (revised 2020), March 31, 2020)  
 “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 (revised 2020), March 31, 2020)

(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.

2. “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)  
 “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 (revised 2019), July 4, 2019)  
 “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 (revised 2019), July 4, 2019)  
 “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)  
 “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 (revised 2020), March 31, 2020)

(1) Overview

International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) had issued mostly the same detailed guidance on measurement of fair value (which is called "IFRS 13 Fair Value Measurement" in IASB, and "Topic 820 Fair Value Measurement" of Accounting Standards Codification in FASB). In these circumstances, the ASBJ has achieved to ensure consistency with international accounting standards on guidance and disclosure related to fair value measurement, mainly of financial instruments and has issued the above accounting standard and implementation guidance.

The ASBJ utilized a unified measurement method as basic policy in developing accounting standard for fair value measurement to improve comparability of financial statements among companies in domestic and overseas. Basically, incorporate all IFRS 13 requirements for international comparability, and consider other treatments for individual items 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 standard and guidance on the consolidated financial statements.

3. "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

The disclosure for sources of estimation uncertainty is required in Paragraph 125 of "IAS 1 Presentation of Financial Statements" (hereinafter, "IAS 1") which had been issued in 2003 by IASB. The ASBJ had developed and issued a new accounting standard for disclosure of accounting estimates (hereinafter, "the accounting standard") to meet public demand for considering disclosure requirement as footnotes in Japanese accounting standards in conformity with the above requirement to provide highly useful information to users of financial statements.

As the basic policy in developing the accounting standard, the ASBJ did not expand each footnote but indicated the principle (disclosure purpose) for each entity to consider the appropriate contents of disclosure in conformity with disclosure purpose. The ASBJ had developed the accounting standard in reference to Paragraph 125 of "IAS 1".

(2) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

4. "Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24 (revised 2020), March 31, 2020)

(1) Overview

The ASBJ had issued the revised accounting standard for accounting policy disclosures, accounting changes and error corrections to respond the recommendation of considering for improving footnotes on "Principle and procedure of accounting treatment which were adopted when the related requirements of accounting standard are not apparent". The ASBJ succeeds the regulation of explanatory note (Note 1-2) of Corporate Accounting Principles to achieve improvement of footnotes on "Principle and procedure of accounting treatment which were adopted when the related requirements of accounting standard are not apparent" in order not to affect the practice of business in cases where the regulation of related accounting standards are apparent.

(2) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

**(v) Additional information**

For dealing with Novel Coronavirus Disease (hereinafter, the Disease), the Group has been continuing its business operations by executing broad measures strictly.

However, the Disease would have pervasive influence on economy and corporate activities, and there is also a concern about a second wave of Coronavirus, it is difficult to forecast how the Disease would spread further or when the situation would get resolved. Therefore, the Group has made the accounting estimates such as recoverability of deferred tax assets on the assumption that the influence would continue for certain period during the fiscal year ending March 31, 2021.

**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  $\yen108.83 = \text{U.S.}\$1.00$ , the approximate rate of exchange on March 31, 2020. 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 the following notes and electronically recorded monetary claims maturing on the fiscal year-end and collected or paid on the following business day, are included in the consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Notes receivable	¥—	¥146	\$—
Electronically recorded monetary claims	—	36	—
Notes payable	—	31	—

**5. INVESTMENT SECURITIES**

The components of unrealized gain or loss on marketable securities classified as available-for-sale securities at March 31, 2020 and 2019 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
March 31, 2020						
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥116	¥ 80	¥ 35	\$1,065	\$ 735	\$ 321
Subtotal	116	80	35	1,065	735	321
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	39	58	(18)	358	532	(165)
Subtotal	39	58	(18)	358	532	(165)
Total	¥156	¥138	¥ 17	\$1,433	\$1,268	\$ 156

	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
March 31, 2019			
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥144	¥ 96	¥47
Subtotal	144	96	47
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	31	32	(1)
Subtotal	31	32	(1)
Total	¥175	¥129	¥45

Sales of securities classified as available-for-sale securities for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Proceeds from sales	¥1	¥18	\$9
Gain (Loss) on sales	0	18	0

Unlisted equity securities of ¥380 million (\$3,491 thousand) and ¥373 million, investment partnership of ¥672 million (\$6,174 thousand) and ¥0 (\$0 thousand), corporate bond type bonds with stock acquisition rights of ¥108 million (\$992 thousand) and ¥0 (\$0 thousand) at March 31, 2020 and 2019, 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, 2020, the Company recognized impairment losses of ¥0 million (\$0 thousand) and ¥107 million (\$983 thousand) on available-for-sale securities with and without market

value, respectively. During the fiscal year ended March 31, 2019, the Company recognized impairment losses of ¥25 million and ¥3 million on available-for-sale securities with and without market value, respectively.

Marketable securities whose fair value as at fiscal year-end has declined by 50% or more, the carrying value are reduced to its fair value, except in cases where the decline in fair value is expected to be recoverable. If the decline in their market value is between 30% and 50%, the carrying value are reduced to the amount that is considered to be necessary, except in cases where the decline in fair value is expected to be recoverable. Non-marketable securities are impaired if the net asset per share has declined by 50% or more due to deterioration of issuers' financial conditions.

## 6. INVESTMENT IN AN AFFILIATE

The aggregate carrying amount of investment in an affiliate as of March 31, 2020 and 2019 are ¥137 million (\$1,258 thousand) and ¥86 million, respectively,

## 7. INVENTORIES

a) Inventories at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Work in process	¥ 8,259	¥ 6,827	\$ 75,889
Purchased goods and materials	4,898	6,354	45,005
Total	¥13,158	¥13,181	\$120,904

b) Losses from revaluation of the lower of cost or net selling value included in cost of sales for the years ended March 31, 2020 and 2019 were ¥-37 million (\$-339 thousand) and ¥260 million, respectively.

c) Losses on sales contracts included in cost of sales for the years ended March 31, 2020 and 2019 were ¥1,511 million (\$13,884 thousand) and ¥1,588 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, 2020 and 2019 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Work in process	¥36	¥642	\$330

## 8. GOODWILL

Goodwill at March 31, 2020 and 2019 is recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Intangibles, net of accumulated amortization	¥899	¥1,146	\$8,260

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, 2020 and 2019 were approximately 0.5% and 0.4% and those of long-term debt for the years ended March 31, 2020 and 2019 were approximately 0.4% and 0.4%, respectively.

The annual maturities of long-term debt at March 31, 2020 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 298	\$ 2,738
2022	3,298	30,304
2023	264	2,425
2024	201	1,846
2025 and thereafter	—	—

As of March 31, 2020 and 2019, the Group have entered into contracts for committed credit lines totaling ¥8,000 million (\$73,509 thousand) and ¥9,000 million, respectively with two domestic banks and have unused committed lines of credit amounting to ¥8,000 million and ¥9,000 million, respectively.

## 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 30.6% for 2020 and 2019, 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, 2020 and 2019 differed from the statutory tax rate for the following reasons:

	2020	2019
Statutory tax rate	30.6%	30.6%
Effect of:		
Expenses not deductible for tax purposes	1.5	1.4
Inhabitant tax per capita levy	1.2	1.1
Tax credit	(1.4)	(2.2)
Increase/(Decrease) in valuation allowance	(10.4)	(1.6)
Amortization of goodwill	0.2	0.2
Other, net	0.4	0.0
Effective tax rate	22.1%	29.5%

Tax effects of significant temporary differences and tax loss carry-forward that resulted in deferred tax assets or liabilities at March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,515	¥ 2,409	\$ 23,109
Social security contribution on employees' bonuses	352	346	3,234
Allowance for doubtful accounts	25	29	229
Accrued enterprise tax	297	282	2,729
Loss on revaluation of inventories	1,299	1,307	11,936
Unrealized profit on inventories	21	17	192
Accrued losses on sales contracts	656	603	6,027
Depreciation	331	228	3,041
Asset retirement obligations	368	271	3,381
Liability for retirement benefits	9,623	9,390	88,422
Stock dividends	106	106	973
Impairment loss on investment securities	62	31	569
Impairment loss on assets	539	—	4,952
Allowance for compensation for damage	406	—	3,730
Provision for office transfer cost	68	—	624
Tax loss carry-forward (Note 2)	1,159	1,290	10,649
Other	574	495	5,274
Subtotal	18,409	16,809	169,153
Valuation allowance on tax loss carry-forward	(352)	(1,101)	(3,234)
Valuation allowance on total deductible temporary differences and other	(976)	(1,540)	(8,968)
Subtotal (Note 1)	(1,328)	(2,641)	(12,202)
Total	17,081	14,167	156,951
Deferred tax liabilities:			
Asset for retirement benefits	(43)	(60)	(395)
Restoration cost for asset retirement obligations	(203)	(164)	(1,865)
Goodwill	(151)	(201)	(1,387)
Liability adjustment account	(134)	(136)	(1,231)
Other	(27)	(17)	(248)
Total	(560)	(580)	(5,145)
Net deferred tax assets	¥16,520	¥13,587	\$151,796

(Notes)

1. Valuation allowance on tax loss carry-forward was decreased by ¥1,313 million (\$12,064 thousand). The decrease mainly results from reassessment of recoverability of deferred tax assets.

2. The amounts of tax loss carry-forward and related deferred tax assets by carry-forward period

	Millions of yen						Total
	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	
March 31, 2020							
Tax loss carry-forward (*1)	¥ 5	¥ 10	¥ 2	¥35	¥759	¥ 346	¥1,159
Valuation allowance	(5)	(10)	(2)	(0)	(0)	(333)	(352)
Deferred tax assets	—	—	—	34	758	13	807(*2)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	Total
March 31, 2020							
Tax loss carry-forward <sup>(*)</sup>	\$ 45	\$ 91	\$ 18	\$ 321	\$ 6,974	\$ 3,179	\$ 10,649
Valuation allowance	(45)	(91)	(18)	(0)	(0)	(3,059)	(3,234)
Deferred tax assets	—	—	—	—	6,964	119	7,415 <sup>(*)2</sup>

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	Total
March 31, 2019							
Tax loss carry-forward <sup>(*)</sup>	¥ 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 <sup>(*)2</sup>

(\*)1 Tax loss carry-forward is after multiplying the statutory tax rate.

(\*)2 Deferred tax assets of ¥807 million (\$7,415 thousand) and ¥189 million are recognized for tax loss carry-forward of ¥1,159 million (\$10,649 thousand) and ¥1,290 million for the years ended March 31, 2020 and 2019, respectively, which are 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, 2020 and 2019 for the years then ended is as follows.

#### (1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligation at beginning of year	¥60,226	¥59,929	\$553,395
Service cost	2,604	2,596	23,927
Interest cost	528	537	4,851
Actuarial gain or loss	(426)	(614)	(3,914)
Benefits paid	(2,720)	(2,421)	(24,993)
Changes arising from the changes in accounting policy from the simplified method to the standard method	—	175	—
Other	(2)	22	(18)
Retirement benefit obligation at end of year	¥60,209	¥60,226	\$553,238

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
	2020	2019	2020
Plan assets at beginning of year	<b>¥30,358</b>	¥30,471	<b>\$278,948</b>
Expected return on plan assets	<b>751</b>	751	<b>6,900</b>
Actuarial gain or loss	<b>(1,356)</b>	(986)	<b>(12,459)</b>
Contributions paid by the employer	<b>1,115</b>	1,117	<b>10,245</b>
Benefits paid	<b>(1,278)</b>	(992)	<b>(11,743)</b>
Other	<b>(2)</b>	(3)	<b>(18)</b>
Plan assets at end of year	<b>¥29,587</b>	¥30,358	<b>\$271,864</b>

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
	2020	2019	2020
Liability for retirement benefits at beginning of year	<b>¥376</b>	¥ 526	<b>\$ 3,454</b>
Retirement benefit costs	<b>103</b>	36	<b>946</b>
Benefits paid	<b>(39)</b>	(5)	<b>(358)</b>
Changes arising from the changes in accounting policy from the simplified method to the standard method	<b>—</b>	(165)	<b>—</b>
Other	<b>(15)</b>	(15)	<b>(137)</b>
Liability for retirement benefits at end of year	<b>¥424</b>	¥ 376	<b>\$3,895</b>

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligation	<b>¥ 32,026</b>	¥ 32,316	<b>\$ 294,275</b>
Plan assets	<b>(30,018)</b>	(30,817)	<b>(275,824)</b>
	<b>2,007</b>	1,498	<b>18,441</b>
Unfunded retirement benefit obligation	<b>29,038</b>	28,745	<b>266,819</b>
Net liability for retirement benefits	<b>¥ 31,046</b>	¥ 30,244	<b>\$ 285,270</b>
	<b>31,215</b>	30,609	<b>286,823</b>
Liability for retirement benefits	<b>31,215</b>	30,609	<b>286,823</b>
Asset for retirement benefits	<b>(168)</b>	(364)	<b>(1,543)</b>
Net liability for retirement benefits	<b>¥ 31,046</b>	¥ 30,244	<b>\$ 285,270</b>

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
	2020	2019	2020
Service cost	<b>¥2,604</b>	¥2,596	<b>\$23,927</b>
Interest cost	<b>528</b>	537	<b>4,851</b>
Expected return on plan assets	<b>(751)</b>	(751)	<b>(6,900)</b>
Net actuarial loss amortization	<b>1,283</b>	1,377	<b>11,789</b>
Past service costs amortization	<b>(496)</b>	(500)	<b>(4,557)</b>
Retirement benefit costs calculated by the simplified method	<b>103</b>	36	<b>946</b>
Other	<b>(2)</b>	(1)	<b>(18)</b>
Retirement benefit costs	<b>¥3,269</b>	¥3,295	<b>\$30,037</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (6) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Past service costs	<b>¥(496)</b>	¥ (500)	<b>\$(4,557)</b>
Actuarial gains and losses	<b>352</b>	1,005	<b>3,234</b>
Total	<b>¥(143)</b>	¥ 505	<b>\$(1,313)</b>

### (7) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized prior service costs	<b>¥(1,227)</b>	¥(1,724)	<b>\$(11,274)</b>
Unrecognized actuarial gains and losses	<b>6,650</b>	7,001	<b>61,104</b>
Total	<b>¥ 5,422</b>	¥ 5,276	<b>\$ 49,820</b>

### (8) Plan assets

#### (a) The components of plan assets

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Debt securities	<b>¥13,845</b>	¥14,100	<b>\$127,216</b>
Equity securities	<b>3,972</b>	4,562	<b>36,497</b>
General account	<b>3,591</b>	3,623	<b>32,996</b>
Alternative	<b>7,904</b>	7,609	<b>72,627</b>
Other	<b>273</b>	463	<b>2,508</b>
Total	<b>¥29,587</b>	¥30,358	<b>\$271,864</b>

Note: Total plan assets include ¥220 million (\$2,021 thousand) and ¥318 million in a retirement benefit trust established for the corporate pension plan as of March 31, 2020 and 2019, 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, 2020 and 2019 (expressed as weighted averages) are as follows:

	2020	2019
Discount rate	<b>0.9%</b>	0.9%
Long-term expected rate of return	<b>2.5%</b>	2.5%
Expected increase rate of salary	<b>4.1%</b>	4.1%

The amounts to be paid by the Company and its consolidated subsidiaries to the defined contribution plans were ¥478 million (\$4,392 thousand) and ¥472 million for the years ended March 31, 2020 and 2019.

## 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 3 years to 20 years and a discounted rate of 0.0% to 2.2%.

The following table provides Company's total asset retirement obligations for the years ended March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance, beginning of year	¥ 873	¥777	\$ 8,021
Obligations incurred by asset acquisition	423	91	3,886
Obligations settled	(64)	(5)	(588)
Accretion expense	8	10	73
Remeasurements	(52)	—	(477)
Balance, end of year	¥1,188	¥873	\$10,916

## 13. SHAREHOLDERS' EQUITY

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

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal earnings reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal earnings reserve equals 25% of their respective stated capital. The Companies Act also

provides that additional paid-in capital and legal earnings reserve are available for appropriations by the resolution of the shareholders. The legal earnings reserve amounted to ¥546 million (\$5,016 thousand) as of both March 31, 2020 and 2019. 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, 2020 and 2019 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	
	2020	2019
At beginning of year	138,615	137,435
Increase - purchase of odd lot shares	1,352	1,277
Decrease - sale of odd lot shares	5,900	97
At end of year	134,067	138,615

(Note) At a meeting on April 28, 2020, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of June 1, 2020. The number of treasury stock as stated above do not take the stock split into account.

### a) 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
(b) Cash dividends per common share	¥37
(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
(b) Cash dividends per common share	¥38
(c) Record date	September 30, 2018
(d) Effective date	December 4, 2018

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### b) 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
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥40
(d) Record date	March 31, 2019
(e) Effective date	May 31, 2019

### c) Dividends paid during the year ended March 31, 2020

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

(a) Total dividends	<b>¥1,985 million (\$18,239 thousand)</b>
(b) Cash dividends per common share	<b>¥40 (\$0.36)</b>
(c) Record date	<b>March 31, 2019</b>
(d) Effective date	<b>May 31, 2019</b>

The following was approved by the Board of Directors on October 29, 2019.

(a) Total dividends	<b>¥1,985 million (\$18,239 thousand)</b>
(b) Cash dividends per common share	<b>¥40 (\$0.36)</b>
(c) Record date	<b>September 30, 2019</b>
(d) Effective date	<b>December 3, 2019</b>

(Note) At a meeting on April 28, 2020, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Cash dividends per common share as stated above do not take the stock split into account.

### d) Dividends to be paid after March 31, 2020 although record date for payment falls within the year ended March 31, 2020

The following was approved by the Board of Directors on April 28, 2020.

(a) Total dividends	<b>¥2,084 million (\$19,149 thousand)</b>
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	<b>¥42 (\$0.38)</b>
(d) Record date	<b>March 31, 2020</b>
(e) Effective date	<b>June 3, 2020</b>

(Note) At a meeting on April 28, 2020, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Cash dividends per common share as stated above do not take the stock split into account.

## 14. CONTINGENT LIABILITIES

At March 31, 2020 and 2019, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥0 million (\$0 thousand) and ¥1 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 Digital Solution 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, 2020 and 2019 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Due within one year	<b>¥ 3,046</b>	¥2,966	<b>\$ 27,988</b>
Due over one year	<b>10,565</b>	5,440	<b>97,078</b>
Total	<b>¥13,612</b>	¥8,407	<b>\$125,075</b>

## 16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Employees salary	<b>¥16,553</b>	¥16,584	<b>\$152,099</b>
Provision for bonuses to directors	<b>74</b>	56	<b>679</b>
Retirement benefit costs	<b>1,180</b>	1,181	<b>10,842</b>

## 17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥720 million (\$6,615 thousand) and ¥784 million for the years ended March 31, 2020 and 2019, respectively.

## 18. IMPAIRMENT LOSS

The Company recognized an impairment loss on the following asset group for the year ended March 31, 2020.

Location	Use	Type	Millions of yen	Thousands of U.S. dollars
Isehara-city, Kanagawa Pref.	Training facilities	Land and Buildings, etc.	<b>¥1,788</b>	<b>\$16,429</b>

The Company conducts an impairment test by grouping the assets, mainly based on business segment classification, as a minimum unit that generates independent cash flows. As for the above assets, the Company reduced the carrying amount of the assets related to the determination of closing training facilities to the recoverable amount and recognized an impairment loss of ¥1,788 million (\$16,429 thousand) as an extraordinary loss in consolidated statement of income. The details of impairment loss are ¥981 million (\$9,014 thousand) for Land, ¥805 million (\$7,396 thousand) for Buildings and Structures, and ¥2 million (\$18 thousand) for Tools, furniture and fixtures.

In addition, the recoverable amount is measured using net realizable value and the amount for Land and Buildings is based on a valuation conducted by an independent real-estate appraiser.

## 19. PROVISION OF ALLOWANCE FOR COMPENSATION FOR DAMAGE

Provision of allowance for compensation for damage is provided for constructions based on the estimated loss amount reasonably calculated at the end of the current fiscal year.

**20. 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized holding gain on available-for-sale securities:			
Unrealized holding gain (loss) arising during the year	¥ (2)	¥ (48)	\$ (18)
Reclassification adjustment for gain/loss realized in net income	0	29	0
Before tax amount	(2)	(19)	(18)
Tax effect	0	7	0
Net-of-tax amount	(1)	(11)	(9)
Deferred gains or losses on hedges			
Deferred gains or losses on hedges arising during the year	38	—	349
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	38	—	349
Tax effect	(13)	—	(119)
Net-of-tax amount	25	—	229
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	185	(137)	1,699
Reclassification adjustment for gain/loss realized in net income	—	(8)	—
Before tax amount	185	(145)	1,699
Tax effect	(0)	2	(0)
Net-of-tax amount	185	(143)	1,699
Adjustments for retirement benefit:			
Adjustments for retirement benefit arising during the year	(930)	(371)	(8,545)
Reclassification adjustment for gain/loss realized in net income	786	877	7,222
Before tax amount	(143)	505	(1,313)
Tax effect	53	(146)	486
Net-of-tax amount	(89)	359	(817)
Share of other comprehensive income of entities accounted for using equity method			
Share of other comprehensive income of entities accounted for using equity method arising during the year	0	(1)	0
Total other comprehensive income	¥ 120	¥ 203	\$ 1,102

**21. AMOUNTS PER SHARE**

	Yen		U.S. dollars
	2020	2019	2020
Net income per share	¥ 63.28	¥ 59.67	\$0.58
Net assets per share	741.12	704.40	6.80

(Note) At a meeting on April 28, 2020, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Net income per share and Net assets per share were calculated as if the relevant stock split were executed at the beginning of the previous consolidated fiscal year ended March 31, 2019.

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
	2020	2019	2020
Net income attributable to owners of the parent	¥ 9,422	¥ 8,885	\$ 86,575
Amounts not attributable to common stock	—	—	—
Net income attributable to owners of the parent related to common stock	9,422	8,885	86,575
Average number of shares during the term (thousands of shares)	148,915	148,907	1,368,326

(Note) At a meeting on April 28, 2020, the Board of Directors passed a resolution to implement a 3-for-1 stock split of common stock with an effective date of June 1, 2020. Average number of shares during the term was calculated as if the relevant stock split were executed at the beginning of the previous consolidated fiscal year ended March 31, 2019.

## 22. 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 4 years and 5 years after the balance sheet date for the years ended March 31, 2020 and 2019, 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 (p).

#### (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 23 DERIVATIVES does not represent the market risk of the derivative transactions.

##### (5) Concentration of credit risk

At both March 31, 2020 and 2019, 24% and 30% of operating receivables were receivables from a certain major customer (NEC Corporation).

**Fair value of financial instruments**

The carrying amount on the consolidated balance sheets, fair value and differences as of March 31, 2020 and 2019 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		
	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
March 31, 2020						
Assets:						
(1) Cash and cash equivalents	¥ 58,321	¥ 58,321	¥—	\$ 535,890	\$ 535,890	\$—
(2) Notes and accounts receivable	112,358			1,032,417		
(3) Electronically recorded monetary claims	728			6,689		
Allowance for doubtful accounts <sup>(*)</sup>	(17)			(156)		
	113,068	113,068	—	1,038,941	1,038,941	—
(4) Investment securities	156	156	—	1,433	1,433	—
Total	¥171,545	¥171,545	¥—	\$1,576,265	\$1,576,265	\$—
Liabilities:						
(1) Notes and accounts payable	¥ 41,666	¥ 41,666	¥—	\$ 382,853	\$ 382,853	\$—
(2) Electronically recorded obligations	1,441	1,441	—	13,240	13,240	—
(3) Short-term bank loans	4,632	4,632	—	42,561	42,561	—
(4) Current installments of long-term debt	298	298	—	2,738	2,738	—
(5) Long-term debt	3,764	3,763	(1)	34,586	34,576	(9)
Total	¥ 51,803	¥ 51,802	¥(1)	\$ 475,999	\$ 475,990	\$ (9)
Derivative transactions <sup>(*)2</sup>	¥ 37	¥ 37	¥—	\$ 339	\$ 339	\$—

	Millions of yen		
	Carrying amount	Fair value	Differences
March 31, 2019			
Assets:			
(1) Cash and cash equivalents	¥ 54,354	¥ 54,354	¥—
(2) Notes and accounts receivable	106,553		
(3) Electronically recorded monetary claims	606		
Allowance for doubtful accounts <sup>(*)1</sup>	(22)		
	107,138	107,138	—
(4) Investments securities	175	175	—
Total	¥161,667	¥161,667	¥—
Liabilities:			
(1) Notes and accounts payable	¥ 40,274	¥ 40,274	¥—
(2) Electronically recorded obligations	807	807	—
(3) Short-term bank loans	2,284	2,284	—
(4) Current installments of long-term debt	231	231	—
(5) Long-term debt	3,896	3,896	—
Total	¥ 47,494	¥ 47,494	¥—
Derivative transactions <sup>(*)2</sup>	¥ —	¥ —	¥—

(\*)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.



(Note 1) Fair value measurement of financial instruments, investment securities and derivative transactions

Assets:

- 1) Cash and cash equivalents
- 2) Notes receivable and 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 and 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 23 DERIVATIVES.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unlisted equity securities	<b>¥517</b>	¥460	<b>\$4,750</b>
Investment partnership	<b>672</b>	—	<b>6,174</b>
Corporate bonds with equity purchase warrant	<b>108</b>	—	<b>992</b>

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.

(Note 3) Projected future redemption of monetary claims and securities with maturities at March 31, 2020

	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	<b>¥ 58,321</b>	¥—	¥—	¥—
Notes and accounts receivable	<b>112,358</b>	—	—	—
Electronically recorded monetary claims	<b>728</b>	—	—	—
	<b>¥171,407</b>	¥—	¥—	¥—

	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	<b>\$ 535,890</b>	\$—	\$—	\$—
Notes and accounts receivable	<b>1,032,417</b>	—	—	—
Electronically recorded monetary claims	<b>6,689</b>	—	—	—
	<b>\$1,574,997</b>	\$—	\$—	\$—

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Note 4) The annual maturities of long-term debt and other interest-bearing debt at March 31, 2020

		Millions of yen					
		Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans		¥4,632	¥ —	¥ —	¥ —	¥—	¥—
Long-term debt		298	3,298	264	201	—	—

		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		\$42,561	\$ —	\$ —	\$ —	\$—	\$—
Long-term debt		2,738	30,304	2,425	1,846	—	—

### 23. 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, there is no derivative transactions to report.

At March 31, 2020, the disclosure of fair value information for derivatives are as follows:

#### 1. Derivatives that are not accounted for as hedges

		Millions of yen			
		Contract amount		Fair value	Valuation gain/loss
Transaction type		Total	Over 1 year		
Transactions out of market	Forward exchange contract				
	Order to buy:				
	Euro	¥71	¥—	¥(0)	¥(0)
	British pound	10	—	(0)	(0)
	Total	¥82	¥—	¥(0)	¥(0)

		Thousands of U.S. dollars			
		Contract amount		Fair value	Valuation gain/loss
Transaction type		Total	Over 1 year		
Transactions out of market	Forward exchange contract				
	Order to buy:				
	Euro	\$652	\$—	\$(0)	\$(0)
	British pound	91	—	(0)	(0)
	Total	\$753	\$—	\$(0)	\$(0)

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

## 2. Derivatives that are accounted for as hedges

Method of hedge accounting	Transaction type	Main hedged item	Millions of yen		
			Contract amount		Fair value
			Total	Over 1 year	
Deferral hedge accounting for forecasted transactions as hedged item	Forward exchange contract	Foreign currency denominated forecasted transactions			
	Order to buy:				
	U.S. dollar		¥1,021	¥1,021	¥38
	Total				
			¥1,021	¥1,021	¥38

Method of hedge accounting	Transaction type	Main hedged item	Thousands of U.S. dollars		
			Contract amount		Fair value
			Total	Over 1 year	
Deferral hedge accounting for forecasted transactions as hedged item	Forward exchange contract	Foreign currency denominated forecasted transactions			
	Order to buy:				
	U.S. dollar		\$9,381	\$9,381	\$349
	Total				
			\$9,381	\$9,381	\$349

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

## 24. RELATED PARTY TRANSACTIONS

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

NEC Corporation owned 51.48% and 51.48% of the Company's outstanding common stock as of both March 31, 2020 and 2019, respectively.

Balances with NEC Corporation at March 31, 2020 and 2019, and related transactions for the years then ended are summarized as follows:

Transactions	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Construction and maintenance of network system:			
Transactions:			
Sales	¥63,488	¥63,859	\$583,368
Balances:			
Accounts receivable	¥25,615	¥30,791	\$235,367
Advances received	¥ 482	¥ 313	\$ 4,428
Purchases of communication device:			
Transactions:			
Purchases	¥47,961	¥46,191	\$440,696
Balances:			
Accounts payable	¥11,936	¥13,615	\$109,675
Advance payments	¥ 476	¥ 408	\$ 4,373

**25. 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 “Digital Solutions Business,” “Network Infrastructures Business” and “Engineering & Support Services 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 Digital Solutions Business mainly renders system integration related to ICT platform and outsourcing/cloud services for business of enterprises and other customers and provision of solutions/services that are helpful for customers’ business transformation by using cutting-edge/digital technologies, and contact center services

The Network Infrastructures Business mainly centered on telecom carriers, central and local governments and social infrastructures service providers, provide system integration/services related to network infrastructures of a public nature with the required high reliability, and the development/manufacture and sales of network equipment, and provide system integration.

The Engineering & Support Services Business mainly renders construction business in Japan and abroad, provision of support services such as maintenance and operations/monitoring related to ICT systems/ services provided by the Company and operations of company-wide service infrastructures, in addition to technical support using these.

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, 2020 and 2019 is summarized as follows:

	Millions of yen					
	Digital solutions	Network infrastructures	Engineering & support services	Others	Adjustments	Total
March 31, 2020						
Sales:						
(1) Sales to third parties	¥109,986	¥83,953	¥99,362	¥10,314	¥ —	¥303,616
(2) Intersegment sales	—	—	—	—	—	—
Total	¥109,986	¥83,953	¥99,362	¥10,314	¥ —	¥303,616
Segment income	¥ 11,005	¥ 9,193	¥ 6,300	¥ 511	¥(10,763)	¥ 16,245
Segment assets	¥ 44,667	¥48,662	¥54,176	¥2,266	¥ 80,470	¥230,244
Others:						
Depreciation and amortization	¥ 1,466	¥ 473	¥ 344	¥ 51	¥ 1,237	¥ 3,572
Purchases of property and equipment, and intangible assets	2,057	461	428	155	1,358	4,461
Investment to entities accounted for using equity method	99	—	37	—	—	137

	Thousands of U.S. dollars					
	Digital solutions	Network infrastructures	Engineering & support services	Others	Adjustments	Total
March 31, 2020						
Sales:						
(1) Sales to third parties	\$1,010,622	\$771,414	\$913,001	\$94,771	\$ —	\$2,789,818
(2) Intersegment sales	—	—	—	—	—	—
Total	\$1,010,622	\$771,414	\$913,001	\$94,771	\$ —	\$2,789,818
Segment income	\$ 101,121	\$ 84,471	\$ 57,888	\$ 4,695	\$ (98,897)	\$ 149,269
Segment assets	\$ 410,429	\$447,137	\$497,803	\$20,821	\$739,410	\$2,115,629
Others:						
Depreciation and amortization	\$ 13,470	\$ 4,346	\$ 3,160	\$ 468	\$ 11,366	\$ 32,821
Purchases of property and equipment, and intangible assets	18,901	4,235	3,932	1,424	12,478	40,990
Investment to entities accounted for using equity method	909	—	339	—	—	1,258

March 31, 2019	Millions of yen					Total
	Digital solutions	Network infrastructures	Engineering & support services	Others	Adjustments	
Sales:						
(1) Sales to third parties	¥99,767	¥80,353	¥90,444	¥7,383	¥ —	¥277,949
(2) Intersegment sales	—	—	—	—	—	—
Total	¥99,767	¥80,353	¥90,444	¥7,383	¥ —	¥277,949
Segment income	¥ 8,436	¥ 5,917	¥ 7,188	¥ 311	¥ (9,078)	¥ 12,774
Segment assets	¥41,826	¥50,212	¥44,812	¥3,048	¥76,270	¥216,171
Others:						
Depreciation and amortization	¥ 1,445	¥ 327	¥ 292	¥ 58	¥ 640	¥ 2,764
Purchases of property and equipment, and intangible assets	1,914	566	378	45	1,674	4,578
Investment to entities accounted for using equity method	41	—	45	—	—	86

- Notes: 1. "Others" includes purchases of information and telecommunications equipment, etc., which are not included in the reported segments.  
2. "Adjustments" of ¥-10,763 million (\$-98,897 thousand) and ¥-9,078 million in segment income for the years ended March 31, 2020 and 2019, respectively, are mainly administrative operation expenses.  
3. "Adjustments" of ¥80,470 million (\$739,410 thousand) and ¥76,270 million in segment assets at March 31, 2020 and 2019, 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, 2020 and 2019 include long-term prepaid expenses and their amortization.  
6. The Company implemented a reorganization as of April 1, 2019 and changed 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". Information on reportable segments related to the year ended March 31, 2019 was reclassified for disclosure to reflect the changes in this event.

## Related information

Related segment information for the years ended March 31, 2020 and 2019 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

Customer name:	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
NEC Corporation			
Sales	¥68,110	¥68,808	\$625,838

The above sales are related to the "Digital Solutions Business", "Network Infrastructures Business" and "Engineering & Support Services Business".

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Information of impairment loss on fixed assets by reported segments for the years ended March 31, 2020 and 2019

Due to the determination to close training facilities, the Company reduced the carrying amount of the corresponding assets to the recoverable amount and recognized impairment loss of ¥1,788 million (\$16,429 thousand) for the year ended March 31, 2020. These facilities are included in "Adjustments" as corporate assets and not allocated to certain reportable segments. There are no amounts to report for the year ended March 31, 2019.

### Information of amortization of goodwill and balances of goodwill by reported segments as of and for the years ended March 31, 2020 and 2019

	Millions of yen					
	Digital solutions	Network infrastructures	Engineering & support services	Others	Adjustments	Total
March 31, 2020						
Amortization of goodwill	¥ 22	¥224	¥—	¥—	¥—	¥247
Balances of goodwill	104	794	—	—	—	899

	Thousands of U.S. dollars					
	Digital solutions	Network infrastructures	Engineering & support services	Others	Adjustments	Total
March 31, 2020						
Amortization of goodwill	\$202	\$2,058	\$—	\$—	\$—	\$2,269
Balances of goodwill	955	7,295	—	—	—	8,260

	Millions of yen					
	Digital solutions	Network infrastructures	Engineering & support services	Others	Adjustments	Total
March 31, 2019						
Amortization of goodwill	¥ 22	¥ 224	¥—	¥—	¥—	¥ 247
Balances of goodwill	127	1,018	—	—	—	1,146

### Negative goodwill incurred by reported segments for the years ended March 31, 2020 and 2019

There are no amounts to report.

## 26. SUBSEQUENT EVENT

### Stock split

At a meeting on April 28, 2020, the Board of Directors passed a resolution to implement a stock split with the effective date of June 1, 2020.

(1) Purpose of the stock split

The purpose of the stock split is to improve convenience for investors, thereby increasing the liquidity of the Company's stock.

(2) Outline of the stock split

A) Method of the stock split

The Company will implement a 3-for-1 stock split for each one share of common stock owned by shareholders listed or recorded in the closing register of shareholders with a record date of May 31, 2020 (since this day falls on a non-business day of the administrator of the shareholder register, the practical record date will be May 29, 2020).

B) Increase in number of shares due to the stock split

The subject of the stock split is common stock and increase in number of shares are calculated by multiplying total number of shares in issue as of May 31, 2020 by 3.

Total number of shares in issue before the stock split	49,773,807 shares
Increase in number of shares due to the stock split	99,547,614 shares
Total number of shares in issue after the stock split	149,321,421 shares
Total number of issuable shares after the stock split	300,000,000 shares

C) Schedule of the stock split

Record date announcement	May 15, 2020 (Friday)
Record date	May 31, 2020 (Sunday)
(since this day falls on a non-business day of the administrator of the shareholder register, the practical record date will be May 29, 2020)	
Effective date	June 1, 2020 (Monday)

(3) Effect on per share data

Effect on per share data is stated at the above note 21 AMOUNTS PER SHARE.

(4) Other

A) Change in the amount of capital stock

The amount of capital stock has not been changed after the stock split.

B) Impact on dividend

Since the stock split will be effective as of June 1, 2020, year-end dividend as of March 31, 2020 is calculated by the number of shares before the stock split.



## Independent auditor's report

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

### Opinion

We have audited the accompanying consolidated financial statements of NEC Networks & System Integration Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.



## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

### Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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Designated Engagement Partner

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