

NEC Networks & System Integration Corporation (NESIC)

Stock exchange listing: Tokyo

Code number: 1973

<http://www.nesic.co.jp/english/index.html>**1. Consolidated Results for the First Three Quarters (April 1, 2013 to December 31, 2013)****of Fiscal Year ending March 31, 2014**

(Rounded down to the nearest million yen.)

(1) Net Sales and Income

(Percentages represent change compared with the same period of the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
9 months ended 12/2013	181,941	13.8	7,738	17.5	7,907	22.4
9 months ended 12/2012	159,876	14.1	6,586	69.1	6,458	66.7

	Net income (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
9 months ended 12/2013	4,798	26.1	96.5	—
9 months ended 12/2012	3,804	234.4	76.51	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owners' equity ratio (%)	Net assets per share (¥)
31/12/2013	170,549	88,959	51.3	1,758.29
31/03/2013	167,472	85,974	50.9	1,714.74

c.f. Owners' equity: 31/12/2013: ¥87,427 million; 31/03/2013: ¥85,266 million

2. Dividends

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/2013	—	19.00	—	26.00	45.00
FY ending 3/2014	—	30.00	—	30.00 (projected)	60.00 (projected)

Note: Revisions to projected dividends for the quarter under review: no

3. Financial Forecasts for Fiscal Year ending March 31, 2014 (April 1, 2013 to March 31, 2014)

(Percentages represent change compared to the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Current forecast for FY ending 3/2014	260,000	10.3	14,000	12.1	14,000	14.9	8,300	14.5	166.92
Previous forecast for FY ending 3/2014	250,000	6.1	13,500	8.1	13,500	7.3	8,200	9.4	164.91

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

Cautionary Statement

Forecasts of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition. Factors affecting results are not limited to the ones mentioned above.

4. Business Results

(1) Business Results for the First 9 Months of the Fiscal Year Ending March 31, 2014

During the first nine months of the fiscal year ending March 31, 2014 (the period from April 1, 2013 to December 31, 2013), the outlook for the Japanese economy remained uncertain, given concern over a downturn in overseas economies and a volatile stock market. Nonetheless, the economy do benefit from the correction of the strong yen and the rebound in stock prices on expectations of the government's economic measures and financial policy. As a result, corporate earnings improved, especially at large companies, and the economy generally staged a moderate recovery.

Under these economic conditions, business remained steady in the fields of information and communication technology (ICT), in which NEC Networks & System Integration Corporation ("the Company") operates.

First, in the corporate market, the recovery in business sentiment did not yet lead to an increase in ICT investments. However, the need for management innovation that takes advantage of ICT, such as reforming work style in offices and concentrating resources in principal businesses that use ICT services with the aim of increasing competitiveness, remained firm.

For telecommunications carriers, investments in the development of high-speed broadband networks decreased slightly, but remained at a high level in response to the increase in communication volume in tandem with the increasing number of smartphone users. Investments in mobile base stations have started to change to investments in LTE from those in new frequency ranges.

In the central and local governments market, investments in the digitization of fire-fighting and disaster-prevention systems remained steady, thanks to the support of the government budget, and ICT-related public investments rose.

In this market environment, the Company and its consolidated subsidiaries (hereinafter the "Group") increased their upfront investments to expand their businesses in the future, mainly by strengthening their sales capabilities and proactively carrying out M&As to strengthen their ability to provide comprehensive services. The Group also sought to increase its project management capability and took aggressive initiatives to deal with emerging projects.

As a result, the Group posted the following consolidated results for the three months under review:

Net sales	¥181,941 million	13.8% increase year on year
Operating income	¥7,738 million	17.5% increase year on year
Ordinary income	¥7,907 million	22.4% increase year on year
Net income	¥4,798 million	26.1% increase year on year
< Reference >		
Orders received	¥204,607 million	15.5% increase year on year

Net sales rose 13.8% year on year, to ¥181,941 million, given double-digit increases in all the major segments, the Enterprises Networks business, the Carrier Networks business and the Social Infrastructure business. These results mainly reflected the Group's aggressive initiatives to capture business opportunities from increases in public investments in fire-fighting and disaster prevention systems and other systems for securing public security and safety, as well as taking

over the business related to the base stations from NEC Mobiling, Ltd. (now MX Mobiling Co., Ltd.) and the implementation of aggressive M&As, including the inclusion of Q&A Corporation and NEC Magnus Communications, Ltd. in the Group's consolidated subsidiaries, to expand the service business. Orders received also rose 15.5% year on year, to ¥204,607 million, reflecting significant increases in orders in each segment.

Turning to profit, operating income increased considerably from the previous year, to ¥7,738 million; ordinary income increased to ¥7,907 million; and net income increased to ¥4,798 million, respectively, reflecting a rise in net sales and the acceleration of cost-reduction efforts, including improvements in the efficiency of maintenance bases and in-house production, while investments were made to expand business.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1-3Q Fiscal 2014.3 (nine months ended Dec. 31, 2013)	67,855	43,731	59,400	10,954	181,941
1-3Q Fiscal 2013.3 (nine months ended Dec. 30, 2012)	60,082	39,214	49,594	10,986	159,876
Increase or decrease	7,772	4,517	9,806	-31	22,064
Ratio of increase or decrease (%)	12.9	11.5	19.8	-0.3	13.8

Reference: Orders received by business segment

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1-3Q Fiscal 2014.3 (nine months ended Dec. 30, 2013)	68,634	46,269	79,136	10,566	204,607
1-3Q Fiscal 2013.3 (nine months ended Dec. 30, 2012)	62,270	40,321	64,355	10,254	177,202
Increase or decrease	6,363	5,947	14,781	312	27,404
Ratio of increase or decrease (%)	10.2	14.8	23.0	3.0	15.5

1). Enterprises Networks business (¥67,855 million, up 12.9% year on year)

Net sales rose from the previous year, centering on the manufacturing industry, thanks to the results of growth investments including the strengthening of sales capabilities. The Group's sales focus on its office innovation solution EmpoweredOffice* increased further in response to customer needs for management innovation. In addition, the Group promoted the introduction of EmpoweredOffice to its offices and branches and expanded the target institutions to local companies, public offices, public facilities and other institutions, without limiting the targets to general corporate customers in the Tokyo metropolitan area. In addition, the Group continued to expand and strengthen its system for providing comprehensive services such as cloud computing and BPO, including using outside resources through partnerships to help customers improve their operations and management. As part of this

effort, in June 2013 the Group made Q&A Corporation, which is strong in the technical support and consulting service field, a consolidated company to produce more synergistic effects, and to enforce contact center business.

2). Carrier Networks business (¥43,731 million, up 11.5% year on year)

To capture businesses related to investments in network development by telecommunications carriers in response to the increase in communications volume in step with the increasing number of smartphone users, the Group took aggressive initiatives, mainly by taking over the SI and service business related to the base stations from NEC Mobiling, Ltd. (now MX Mobiling Co., Ltd.). With the impact of these initiatives, as well as the impact of the inclusion of NEC Magnus Communications, Ltd., which had its unique network technologies and security technologies in its consolidated subsidiaries, net sales rose 11.5% year on year, offsetting the impact of the absence of sales of temporary large-scale projects with a high equipment ratio and sales of submarine seismometer systems that were recorded in the previous fiscal year.

3). Social Infrastructure business (¥59,400 million, up 19.8% year on year)

The Group improved its ability to implement projects as well as its price competitiveness. The Group also increased its investment in the digitization of fire-fighting and disaster-prevention systems, which gained momentum, and investments in the installation of mobile base stations in response to new frequency ranges. As a result, net sales increased sharply from the previous year.

*EmpoweredOffice:

EmpoweredOffice is our office innovation solution. It combines our strengths in ICT and facility installation to enable more intellectual and creative styles of work through process reforms. It also proposes new methods and places of work that enable customers to fulfill their social responsibilities, such as the strengthening of security and environmental responsiveness.

Outline of Business Segments

Business Segment	Descriptions of Main Businesses
Enterprises Networks	Service integration of ICT solutions, mainly for the enterprises market Total office solutions based on ICT with securities or environmental solutions and related operations, monitoring, and outsourcing services, as well as cloud-type solutions using our own data centers
Carrier Networks	Service integration of ICT platforms mainly for telecom carriers Systems integration of large-scale, wide-area, carrier-grade ICT platforms and data centers and related operations, monitoring services
Social Infrastructures	Service integration of ICT infrastructure for governments and public utilities (broadcasters, electric power companies, etc.), such as systems integration, operation, and monitoring, and the construction of telecom infrastructure
Others	Toyo Networks & System Integration Co., Ltd. and sales of purchased equipment

(2) Outlook for the Fiscal Year Ending March 31, 2014

Although companies' ICT investments have not shown a full-scale recovery yet, there are strong needs for management reform. Despite increasing uncertainty, capital spending by carriers remains high. Meanwhile, with a further acceleration in investments in infrastructure for safety and security at government offices and local governments and other encouraging developments, the market environment is generally favorable, albeit to degrees that vary from market to market. By steadily capturing business opportunities in this business environment, the Company has been performing at a stronger pace than anticipated. Considering the progress of its recent performance, the Company has decided to revise its results forecast for the fiscal year ending March 2014 as follows. The net sales forecast has been revised to ¥260 billion. The Company expects to post record incomes: operating income and ordinary income of ¥14 billion and net income of ¥8.3 billion.

Net sales	¥260 billion	10.3% increase year on year
Operating income	¥14 billion	12.1% increase year on year
Ordinary income	¥14 billion	14.9% increase year on year
Net income	¥8.3 billion	14.5% increase year on year

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2013	As of March 31, 2013
ASSETS		
Current assets		
Cash and deposits	34,796	30,315
Notes and accounts receivable-trade	80,636	92,332
Purchased goods, materials and supplies	3,174	1,408
Work in process	10,978	8,965
Other	9,614	8,266
Allowance for doubtful accounts	△102	△116
Total current assets	<u>139,098</u>	<u>141,172</u>
Noncurrent assets		
Property, plant and equipment	10,249	9,292
Intangible assets		
Goodwill	3,592	1,080
Other	3,112	3,161
Total intangible assets	<u>6,704</u>	<u>4,241</u>
Investments and other assets		
Other	16,117	14,160
Allowance for doubtful accounts	△1,620	△1,395
Total investments and other assets	<u>14,497</u>	<u>12,765</u>
Total noncurrent assets	<u>31,451</u>	<u>26,299</u>
Total assets	<u>170,549</u>	<u>167,472</u>

(Millions of yen)

	As of December 31, 2013	As of March 31, 2013
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	32,385	36,404
Short-term loans payable	2,811	599
Current portion of long-term loans payable	672	500
Income taxes payable	1,855	4,367
Provision for directors' bonuses	21	96
Provision for product warranties	383	90
Provision for loss on order received	517	1,028
Other	17,221	16,526
Total current liabilities	<u>55,868</u>	<u>59,612</u>
Noncurrent liabilities		
Long-term loans payable	3,312	3,000
Provision for retirement benefits	21,205	17,641
Other	1,204	1,243
Total noncurrent liabilities	<u>25,721</u>	<u>21,884</u>
Total liabilities	<u>81,590</u>	<u>81,497</u>
NET ASSETS		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	58,015	56,001
Treasury stock	△62	△56
Total shareholders' equity	<u>87,725</u>	<u>85,717</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	32	13
Foreign currency translation adjustment	△330	△464
Total accumulated other comprehensive income	<u>△297</u>	<u>△451</u>
Minority interests	1,531	708
Total net assets	<u>88,959</u>	<u>85,974</u>
Total liabilities and net assets	<u>170,549</u>	<u>167,472</u>

(2) Consolidated Statements of Income

(Millions of yen)

	FY03/2014 1Q-3Q (9 months ended 12/2013)	FY03/2013 1Q-3Q (9 months ended 12/2012)
Net sales	181,941	159,876
Cost of sales	152,935	135,482
Gross profit	29,006	24,394
Selling, general and administrative expenses	21,267	17,807
Operating income	7,738	6,586
Non-operating income		
Interest income	27	40
Dividends income of insurance	151	106
Other	392	204
Total non-operating income	571	350
Non-operating expenses		
Interest expenses	63	32
Provision of allowance for doubtful accounts	216	256
Other	122	189
Total non-operating expenses	402	478
Ordinary income	7,907	6,458
Extraordinary income		
Gain on step acquisitions	477	—
Gain on bargain purchase	170	—
Total extraordinary income	648	—
Extraordinary loss		
Loss on sales of subsidiaries' stocks	369	—
Area business restructuring cost	160	—
Loss on retirement of noncurrent assets	285	—
Impairment loss	—	165
Total extraordinary losses	814	165
Income before income taxes and minority interests	7,741	6,292
Income taxes	2,865	2,445
Income before minority interests	4,875	3,846
Minority interests in income	77	42
Net income	4,798	3,804

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	FY03/2014 1Q-3Q (9 months ended 12/2013)	FY03/2013 1Q-3Q (9 months ended 12/2012)
Income before minority interests	4,875	3,846
Other comprehensive income		
Valuation difference on available-for-sale securities	19	0
Foreign currency translation adjustment	183	△15
Total other comprehensive income	202	△14
Comprehensive income	5,078	3,832
Comprehensive income attributable to		
Comprehensive income attributable to owners of the paren	4,951	3,785
Comprehensive income attributable to minority interests	126	46

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY03/2014 1Q-3Q (9 months ended 12/2013)	FY03/2013 1Q-3Q (9 months ended 12/2012)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	7,741	6,292
Depreciation and amortization	1,875	1,609
Impairment loss	—	165
Loss (gain) on sales of subsidiaries' stocks	369	—
Loss (gain) on step acquisitions	△477	—
Area business restructuring cost	160	—
Amortization of goodwill	241	61
Gain on bargain purchase	△170	—
Increase (decrease) in allowance for doubtful accounts	203	△11
Increase (decrease) in provision for retirement benefits	2,330	566
Increase (decrease) in provision for directors' bonuses	△75	△37
Increase (decrease) in provision for product warranties	△176	140
Increase (decrease) in provision for loss on order received	△512	52
Interest and dividends income	△34	△47
Interest expenses	63	32
Loss on retirement of noncurrent assets	333	85
Equity in (earnings) losses of affiliates	13	41
Decrease (increase) in notes and accounts receivable-trade	18,476	4,298
Decrease (increase) in inventories	△1,761	△6,583
Increase (decrease) in notes and accounts payable-trade	△7,875	△1,524
Increase (decrease) in accrued consumption taxes	△739	△370
Other, net	△2,036	△130
Subtotal	<u>17,949</u>	<u>4,642</u>
Interest and dividends income received	34	47
Interest expenses paid	△56	△31
Income taxes paid	△5,561	△4,345
Net cash provided by (used in) operating activities	<u>12,365</u>	<u>312</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	△1,411	△1,245
Proceeds from sales of property, plant and equipment	0	1
Purchase of intangible assets	△644	△1,147
Purchase of investment securities	△51	△48
Payments of loans receivable	△27	△9
Collection of loans receivable	24	12
Purchase of stocks of equity method affiliate	—	△396
Purchase of investments in subsidiaries	△1,479	—
Payments for transfer of business	△1,857	—
Other, net	698	△66
Net cash provided by (used in) investing activities	<u>△4,747</u>	<u>△2,898</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	△14	211
Repayment of long-term loans payable	△103	△3,000
Proceeds from sale and purchase of treasury stock, net	△6	△1
Cash dividends paid	△2,774	△1,632
Other, net	△374	△352
Net cash provided by (used in) financing activities	<u>△3,273</u>	<u>△4,774</u>
Effect of exchange rate change on cash and cash equivalents	76	△5
Net increase (decrease) in cash and cash equivalents	<u>4,421</u>	<u>△7,366</u>
Cash and cash equivalents at beginning of period	<u>30,315</u>	<u>37,456</u>
Cash and cash equivalents at end of period	<u>34,736</u>	<u>30,090</u>

(4) Segment Information

Business Segment

First three quarters of fiscal year ending March 2014 (9 months ended December 2013)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	68,634	46,269	79,136	10,566	-	204,607
Sales						
(1) Sales to third parties	67,855	43,731	59,400	10,954	-	181,941
(2) Intersegment sales	-	-	-	-	-	-
Total	67,855	43,731	59,400	10,954	-	181,941
Operating income and loss	5,269	4,639	3,088	535	(5,793)	7,738

First three quarters of fiscal year ended March 2013 (9 months ended December 2012)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	62,270	40,321	64,355	10,254	-	177,202
Sales						
(1) Sales to third parties	60,082	39,214	49,594	10,986	-	159,876
(2) Intersegment sales	-	-	-	-	-	-
Total	60,082	39,214	49,594	10,986	-	159,876
Operating income and loss	4,582	4,179	2,683	617	(5,476)	6,586