

NEC Networks & System Integration Corporation

Stock exchange listing: Tokyo
Code number: 1973<http://www.nesic.co.jp/english/index.html>**1. Consolidated Results for the First Half (April 1, 2014 to September 30, 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 (%)
6 months ended 9/14 (1H / FY3/2015)	130,590	13.3	4,501	7.7	4,662	10.1
6 months ended 9/13 (1H / FY3/2014)	115,240	10.3	4,177	20.0	4,234	26.8

	Net income (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
6 months ended 9/14 (1H / FY3/2015)	2,686	0.1	54.03	—
6 months ended 9/13 (1H / FY3/2014)	2,682	33.7	53.95	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
30/09/2014	182,576	89,368	48.0	1,763.14
31/03/2014	189,059	89,166	46.3	1,760.06

c.f. Owner's equity: 30/09/14 ¥87,666 million ; 31/03/14: ¥87,514 million

2. Dividends

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/2014	—	30.00	—	30.00	60.00
FY ending 3/2015	—	32.00	—	32.00 (projected)	64.00 (projected)

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

3. Financial Forecasts for Fiscal Year ending March 31, 2015 (April 1, 2014 to March 31, 2015)

(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)	(%)	(¥)
FY ending 3/2014	285,000	5.4	15,000	4.0	15,000	3.2	9,000	9.0	181.01

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

4. Business Results

(1) Business Results for the First Half for the Fiscal Year Ending March 31, 2015

During the first half for the fiscal year ending March 31, 2015 (the period from April 1, 2014 to September 30, 2014), the outlook for the Japanese economy remained uncertain, given the reactionary decline after the last-minute surge in demand stemming from the consumption tax hike and concern over a downturn in overseas economies. Nonetheless, the economy generally staged a moderate recovery due to the government's economic measures and financial policy.

Under these economic conditions, our business remained steady overall in the fields of information and communication technology (ICT), in which NEC Networks & System Integration Corporation ("the Company") operates, although it varied from field to field.

First, in the corporate market, although corporate managers continued to hold severe views on investment effects, ICT investments for enhancing business management and competitiveness, including reforming the work style, remained firm. Given an economic recovery, there was a recovery in investment appetite.

Telecommunications carriers' capital spending faced a negative impact as their investments in large base stations for new frequency ranges, strong until the first half of the previous fiscal year, were completed. However, investments in the development of high-speed broadband networks, especially LTE networks, continued.

In the central and local governments market, investments in the digitization of fire-fighting and disaster-prevention network 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") strengthened their sales capabilities, and introduced to regional offices and branches the head office's initiative of opening EmpoweredOffice* to customers. The Group also strengthened its ability to provide comprehensive services, using M&A carried out in the previous fiscal year alongside the establishment of a strategic base for further strengthening its maintenance/technical services/SCM (Supply Chain Management) platform, which is one of the Group's strengths, in the Tokyo Bay area. The Group also took aggressive steps to deal with emerging projects, including dealing with digitization of fire-fighting and disaster-prevention network systems.

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

Net sales	¥130,590 million	13.3% increase year on year
Operating income	¥4,501 million	7.7% decrease year on year
Ordinary income	¥4,662 million	10.1% decrease year on year
Net income	¥2,686 million	0.1% decrease year on year
< Reference >		
Orders received	¥156,364 million	12.8% increase year on year

Net sales rose 13.3% year on year, to ¥130,590 million. While sales from the construction of large base stations declined, the Group aggressively took steps to capture business opportunities from increases in public investment in fire-fighting and disaster prevention systems and other systems for securing public security and safety. In addition, Q&A Corporation and NEC Magnus Communications, Ltd., which the Group made consolidated subsidiaries in June and October 2013, respectively, contributed to 1H results. Orders received expanded 12.8% year on year, to ¥156,364 million.

Turning to profit, operating income, ordinary income and net income increased year on year to ¥4,501 million, ¥4,662 million, and ¥2,686 million respectively, reflecting increased sales and the success of cost-cutting activities including in-house production, which offset an increase in temporary expenses associated with product development at a subsidiary.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1H Fiscal 2015.3	46,068	37,158	38,402	8,961	130,590
1H Fiscal 2014.3	41,308	33,973	31,382	8,575	115,240
Increase or decrease	4,759	3,185	7,019	385	15,350
Ratio of increase or decrease (%)	11.5	9.4	22.4	4.5	13.3

Reference: Orders received by business segment

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1H Fiscal 2015.3	51,759	39,234	56,781	8,589	156,364

1H Fiscal 2014.3	41,672	35,382	52,365	9,220	138,641
Increase or decrease	10,086	3,851	4,416	-631	17,722
Ratio of increase or decrease (%)	24.2	10.9	8.4	-6.8	12.8

1). Enterprise Networks business (¥46,068 million, up 11.5% year on year)

The Group's sales focus on its office innovation solution EmpoweredOffice* increased further in aggressively response to customer needs for management innovation. As part of its initiatives to expand and strengthen its system for providing comprehensive services to help customers improve their operations and management, in June 2013 the Group made Q&A Corporation, which has an advantage in technical support and consulting, its consolidated subsidiary. Reflecting these initiatives, net sales rose 11.5% year on year, to ¥46,068 million.

2). Carrier Networks business (¥37,158million, up 9.4% year on year)

Despite the effect of the construction of large base stations associated with new frequency ranges in the previous fiscal year, net sales increased 9.4% year on year, to ¥37,158 million due to the effect of having made NEC Magnus Communications, Ltd., which has its own network technology and security technology, its consolidated subsidiary in October 2013.

3). Social Infrastructure business (¥38,402million, up 22.4% year on year)

The Group actively responded to increasing ICT investments for security and safety in the public sector, especially investments in the digitization of fire-fighting and disaster prevention systems. As a result, net sales climbed 22.4% year on year, to ¥38,402 million.

*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 operation/monitoring services, as well as outsourcing services using our own contact centers and data centers
Carrier Networks	Service integration mainly for telecom carriers' ICT platforms (from mobile communications base stations to core networks), including systems integration, installation, and related services such as operations and monitoring. Systems integration of large-scale, wide-area, carrier-grade ICT platforms and data centers and related operations, monitoring services

Social Infrastructure	Service integration of ICT infrastructure for governments and public utilities (broadcasters, electric power companies, etc.), such as systems integration, installation, operation, and monitoring, and operations in markets other than the Tokyo, Nagoya, and Osaka areas
Others	Toyo Networks & System Integration Co., Ltd. and sales of purchased equipment

*The Group has reviewed its operational structure, aiming to enhance it by restructuring it in accordance with markets. In the fiscal year under review, the Group has changed the contents of business segments, and construction work for carriers, including the construction of mobile communications base stations, has been transferred from Social Infrastructure segment to Carrier Networks segment, among other changes.

Segment information for the previous fiscal year has been changed to reflect the change in the content of business segments.

(2) Outlook for the Fiscal Year Ending March 31, 2015

The domestic economy is on a recovery trend, chiefly because of the effect of the government's economic policies. However, there are downside risks in the domestic economy, including concern over a downturn in overseas economies.

Against this backdrop, the results of the Company have remained almost in line with expectations. The consolidated results forecast for the fiscal year ending March 31, 2015 is the same as the initial forecast. Although the outlook for the domestic economy remains uncertain, the Group's market environment is generally expected to remain firm on the back of recovery of ICT investment in the corporate market and an increase in safety and security-related infrastructure investment by central and local governments.

Against this backdrop and in light of the first-half business results, the consolidated results forecast for the fiscal year ending March 31, 2015 is revised as follows:

Net sales	¥285 billion	5.4% increase year on year
Operating income	¥15 billion	4.0% increase year on year
Ordinary income	¥15 billion	3.2% increase year on year
Net income	¥9 billion	9.0% increase year on year

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2014	As of September 30, 2014
Assets		
Current assets		
Cash and deposits	44,434	46,940
Notes and accounts receivable - trade	95,975	77,091
Securities	—	5,000
Purchased goods, materials and supplies	2,308	3,190
Work in process	5,841	9,241
Other	8,852	8,871
Allowance for doubtful accounts	-59	-64
Total current assets	157,351	150,271
Non-current assets		
Property, plant and equipment	10,959	10,950
Intangible assets		
Goodwill	3,502	3,321
Other	3,014	3,149
Total intangible assets	6,516	6,471
Investments and other assets		
Other	15,834	16,484
Allowance for doubtful accounts	-1,602	-1,600
Total investments and other assets	14,231	14,884
Total non-current assets	31,708	32,305
Total assets	189,059	182,576

(Millions of yen)

	As of March 31, 2014	As of September 30, 2014
Liabilities		
Current liabilities		
Notes and accounts payable - trade	43,191	37,781
Short-term loans payable	1,742	1,609
Current portion of long-term loans payable	171	168
Income taxes payable	4,711	2,084
Provision for directors' bonuses	104	61
Provision for product warranties	374	323
Provision for loss on order received	357	328
Other	19,340	19,144
Total current liabilities	69,994	61,501
Non-current liabilities		
Long-term loans payable	4,518	4,433
Net defined benefit liability	24,152	26,100
Other	1,227	1,172
Total non-current liabilities	29,898	31,706
Total liabilities	99,893	93,208
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	61,474	61,418
Treasury shares	-64	-66
Total shareholders' equity	91,182	91,124
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25	30
Foreign currency translation adjustment	-233	-278
Remeasurements of defined benefit plans	-3,459	-3,210
Total accumulated other comprehensive income	-3,668	-3,458
Minority interests	1,652	1,702
Total net assets	89,166	89,368
Total liabilities and net assets	189,059	182,576

(2) Consolidated Statements of Income

(Millions of yen)

	FY3/2014 1H (6 months ended 9/2013)	FY3/2015 1H (6 months ended 9/2014)
Net sales	115,240	130,590
Cost of sales	97,700	110,207
Gross profit	17,539	20,382
Selling, general and administrative expenses	13,362	15,881
Operating income	4,177	4,501
Non-operating income		
Interest income	18	32
Dividend income of insurance	151	121
Other	160	222
Total non-operating income	330	376
Non-operating expenses		
Interest expenses	44	40
Other	229	174
Total non-operating expenses	273	215
Ordinary income	4,234	4,662
Extraordinary income		
Gain on step acquisitions	477	—
Total extraordinary income	477	—
Extraordinary losses		
Area business restructuring cost	—	221
Loss on sales of shares of subsidiaries	369	—
Total extraordinary losses	369	221
Income before income taxes and minority interests	4,342	4,440
Income taxes	1,609	1,670
Income before minority interests	2,732	2,769
Minority interests in income	50	82
Net income	2,682	2,686

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	FY3/2014 1H (6 months ended 9/2013)	FY3/2015 1H (6 months ended 9/2014)
Income before minority interests	2,732	2,769
Other comprehensive income		
Valuation difference on available-for-sale securities	9	4
Foreign currency translation adjustment	214	-60
Remeasurements of defined benefit plans, net of tax	—	249
Total other comprehensive income	223	193
Comprehensive income	2,956	2,963
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,847	2,895
Comprehensive income attributable to minority interests	109	67

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY3/2014 1H (6 months ended 9/2013)	FY3/2015 1H (6 months ended 9/2014)
Cash flows from operating activities		
Income before income taxes and minority interests	4,342	4,440
Depreciation	1,204	1,360
Area business restructuring cost	—	221
Loss (gain) on sales of shares of subsidiaries	369	—
Loss (gain) on step acquisitions	-477	—
Amortization of goodwill	151	180
Increase (decrease) in allowance for doubtful accounts	128	3
Increase (decrease) in provision for retirement benefits	1,455	—
Increase(decrease)in net defined benefit liability	—	7
Increase (decrease) in provision for directors' bonuses	-54	-43
Increase (decrease) in provision for product warranties	-35	-50
Increase (decrease) in provision for loss on order received	-417	-28
Interest and dividend income	-24	-41
Interest expenses	44	40
Decrease (increase) in notes and accounts receivable - trade	23,865	18,761
Decrease (increase) in inventories	85	-4,292
Remeasurements of defined benefit plans	—	249
Increase (decrease) in notes and accounts payable - trade	-8,192	-5,355
Increase (decrease) in accrued consumption taxes	-1,075	-439
Other, net	20	1,089
Subtotal	21,390	16,103
Interest and dividend income received	24	41
Interest expenses paid	-46	-40
Income taxes paid	-4,143	-4,411
Net cash provided by (used in) operating activities	17,224	11,691
Cash flows from investing activities		
Purchase of securities	—	-5,000
Purchase of property, plant and equipment	-933	-1,775
Proceeds from sales of property, plant and equipment	0	13
Purchase of intangible assets	-498	-345
Purchase of investment securities	-3	-5
Payments of loans receivable	-18	-2
Collection of loans receivable	15	3
Payments for transfer of business	-1,857	—
Other, net	655	-183
Net cash provided by (used in) investing activities	-2,642	-7,295
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	402	-100
Repayments of long-term loans payable	-67	-88
Proceeds from sale and purchase of treasury stock, net	-3	-1
Cash dividends paid	-1,290	-1,489
Cash dividends paid to minority shareholders	-3	-16
Other, net	-247	-245
Net cash provided by (used in) financing activities	-1,210	-1,941
Effect of exchange rate change on cash and cash equivalents	87	51
Net increase (decrease) in cash and cash equivalents	13,459	2,505
Cash and cash equivalents at beginning of period	30,315	44,434
Cash and cash equivalents at end of period	43,774	46,940

(4) Segment Information

Business Segment

First half of fiscal 3/2015 (6 months ended September 2014)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	51,759	39,234	56,781	8,589	---	156,364
Sales						
(1) Sales to third	46,068	37,158	38,402	8,961	---	130,590
(2) Intersegment sales	---	---	---	---	---	---
Total	46,068	37,158	38,402	8,961	---	130,590
Operating income and loss	2,902	3,057	2,535	94	(4,089)	4,501

First half of fiscal 3/2014 (6 months ended September 2013)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	41,672	35,382	52,365	9,220	---	138,641
Sales						
(1) Sales to third parties	41,308	33,973	31,382	8,575	---	115,240
(2) Intersegment sales	---	---	---	---	---	---
Total	41,308	33,973	31,382	8,575	---	115,240
Operating income and loss	2,911	2,673	1,822	570	(3,800)	4,177