

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, 2014 to December 31, 2014) of Fiscal Year ending March 31, 2015**

(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 12/2014	200,403	10.1	8,385	8.4	8,563	8.3
9 months ended 12/2013	181,941	13.8	7,738	17.5	7,907	22.4

	Net income (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
9 months ended 12/2014	5,127	6.9	103.13	—
9 months ended 12/2013	4,798	26.1	96.50	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owners' equity ratio (%)	Net assets per share (¥)
31/12/2014	184,650	90,454	48.1	1,785.17
31/03/2014	189,059	89,166	46.3	1,760.06

c.f. Owners' equity: 31/12/2014: ¥88,760 million; 31/03/2014: ¥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)	(%)	(¥)
Current forecast for FY ending 3/2015	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: no

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 Nine Months for the Fiscal Year Ending March 31, 2015

During the first 9 months for the fiscal year ending March 31, 2015 (the period from April 1, 2014 to December 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, while corporate managers continued to hold conservative views on investment effects, there was a recovery in investment appetite against the backdrop of an economic recovery. Work style reforms, and particularly recent ICT investments for enhancing business management and competitiveness, showed encouraging signs

In the telecommunication carriers' market, there were continuous investments in the development of high-speed broadband networks, especially LTE networks. However, carriers' overall capital spending went through a difficult stage with the completion of large investments in base stations for new frequency ranges, although they had been strong until the first half of the previous fiscal year.

In the central and local governments market, ICT-related public investments with the concept of safety and security remained strong. Investments in the digitization of fire-fighting radio systems peaked out in the second half in terms of orders. Nevertheless, the construction of systems is brisk, aimed at completion before the deadline in May 2016.

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 projects that are in full swing, 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	¥200,403 million	10.1% increase year on year
Operating income	¥8,385 million	8.4% decrease year on year
Ordinary income	¥8,563 million	8.3% decrease year on year
Net income	¥5,125 million	6.9% decrease year on year
< Reference >		
Orders received	¥222,459 million	8.7% increase year on year

Net sales rose 10.1% year on year, to ¥200,403 million. While sales from the construction of large base stations declined, the Group aggressively took steps to capture business opportunities from increases in ICT investments in the area of corporate networks, as well as 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 the results. Orders received expanded 8.7% year on year, to ¥222,459 million.

Turning to profit, operating income, ordinary income and net income increased year on year to ¥8,385 million, ¥8,563 million, and ¥5,127 million respectively, reflecting increased sales.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1Q-3Q Fiscal 2015.3	69,809	55,593	61,427	13,572	200,403
1Q-3Q Fiscal 2014.3	62,957	54,180	51,375	13,428	181,941
Increase or decrease	6,852	1,413	10,051	144	18,461
Ratio of increase or decrease (%)	10.9	2.6	19.6	1.1	10.1

Reference: Orders received by business segment

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1Q-3Q Fiscal 2015.3	74,296	56,469	78,246	13,447	222,459
1Q-3Q Fiscal 2014.3	63,243	54,747	73,189	13,426	204,607
Increase or decrease	11,053	1,721	5,057	20	17,852
Ratio of increase or decrease (%)	17.5	3.1	6.9	0.2	8.7

1). Enterprise Networks business (¥69,809 million, up 10.9% 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 10.9% year on year, to ¥69,809 million.

2). Carrier Networks business (¥55,593million, up 2.6% year on year)

Despite the effect of decreased telecommunications carriers' capital spending, such as a reactionary decline in the construction of large base stations associated with new frequency ranges in the previous fiscal year, net sales increased 2.8% year on year, to ¥55,685 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 (¥61,427million, up 19.6% 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 19.6% year on year, to ¥61,427 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

Looking ahead, there are still uncertain factors in the domestic economy, including downside risks in the trend of telecommunications carriers' capital spending. That said, the business environment surrounding the Group is expected to remain steady, as ICT investments by companies show recovery and the central and local governments aggressively make investments in infrastructure for public safety and security.

Under these environments, the consolidated results forecast for the fiscal year ending March 31, 2015 is the same as the previous forecast.

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 December 31, 2014	As of March 31, 2014
ASSETS		
Current assets		
Cash and deposits	39,855	44,434
Notes and accounts receivable - trade	88,388	95,975
Purchased goods, materials and supplies	3,148	2,308
Work in process	11,551	5,841
Other	9,691	8,852
Allowance for doubtful accounts	-63	-59
Total current assets	<u>152,571</u>	<u>157,351</u>
Non-current assets		
Property, plant and equipment	10,922	10,959
Intangible assets		
Goodwill	3,231	3,502
Other	3,052	3,014
Total intangible assets	<u>6,284</u>	<u>6,516</u>
Investments and other assets		
Other	16,472	15,834
Allowance for doubtful accounts	-1,600	-1,602
Total investments and other assets	<u>14,872</u>	<u>14,231</u>
Total non-current assets	<u>32,079</u>	<u>31,708</u>
Total assets	<u>184,650</u>	<u>189,059</u>

(Millions of yen)

	As of December 31, 2014	As of March 31, 2014
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	39,117	43,191
Short-term loans payable	1,557	1,742
Current portion of long-term loans payable	174	171
Income taxes payable	2,262	4,711
Provision for directors' bonuses	29	104
Provision for product warranties	313	374
Provision for loss on order received	294	357
Other	18,868	19,340
Total current liabilities	<u>62,618</u>	<u>69,994</u>
Non-current liabilities		
Long-term loans payable	4,391	4,518
Net defined benefit liability	26,060	24,152
Other	1,126	1,227
Total non-current liabilities	<u>31,577</u>	<u>29,898</u>
Total liabilities	<u>94,195</u>	<u>99,893</u>
NET ASSETS		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	62,267	61,474
Treasury shares	-68	-64
Total shareholders' equity	<u>91,972</u>	<u>91,182</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	42	25
Foreign currency translation adjustment	-169	-233
Remeasurements of defined benefit plans	-3,085	-3,459
Total accumulated other comprehensive income	<u>-3,211</u>	<u>-3,668</u>
Minority interests	1,694	1,652
Total net assets	<u>90,454</u>	<u>89,166</u>
Total liabilities and net assets	<u>184,650</u>	<u>189,059</u>

(2) Consolidated Statements of Income

(Millions of yen)

	FY03/2015 1Q-3Q (9 months ended 12/2014)	FY03/2014 1Q-3Q (9 months ended 12/2013)
Net sales	200,403	181,941
Cost of sales	168,445	152,935
Gross profit	31,957	29,006
Selling, general and administrative expenses	23,571	21,267
Operating income	8,385	7,738
Non-operating income		
Interest income	51	27
Dividend income of insurance	121	151
Other	322	392
Total non-operating income	495	571
Non-operating expenses		
Interest expenses	57	63
Loss on retirement of non-current assets	70	48
Other	189	290
Total non-operating expenses	317	402
Ordinary income	8,563	7,907
Extraordinary income		
Gain on step acquisitions	—	477
Gain on bargain purchase	—	170
Total extraordinary income	—	648
Extraordinary losses		
Area business restructuring cost	258	160
Loss on sales of shares of subsidiaries	—	369
Loss on retirement of non-current assets	—	285
Total extraordinary losses	258	814
Income before income taxes and minority interests	8,304	7,741
Income taxes	3,054	2,865
Income before minority interests	5,250	4,875
Minority interests in income	123	77
Net income	5,127	4,798

(Millions of yen)

	FY03/2015 1Q-3Q (9 months ended 12/2014)	FY03/2014 1Q-3Q (9 months ended 12/2013)
Income before minority interests	5,250	4,875
Other comprehensive income		
Valuation difference on available-for-sale securities	16	19
Foreign currency translation adjustment	109	183
Remeasurements of defined benefit plans, net of tax	374	—
Total other comprehensive income	500	202
Comprehensive income	5,751	5,078
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,583	4,951
Comprehensive income attributable to minority interests	167	126

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY03/2015 1Q-3Q (9 months ended 12/2014)	FY03/2014 1Q-3Q (9 months ended 12/2013)
Cash flows from operating activities		
Income before income taxes and minority interests	8,304	7,741
Depreciation	2,047	1,875
Area business restructuring cost	258	160
Loss (gain) on sales of shares of subsidiaries	—	369
Loss (gain) on step acquisitions	—	-477
Amortization of goodwill	270	241
Gain on bargain purchase	—	-170
Increase (decrease) in allowance for doubtful accounts	2	203
Increase (decrease) in provision for retirement benefits	—	2,330
Increase (decrease) in net defined benefit liability	-39	—
Increase (decrease) in provision for directors' bonuses	-74	-75
Increase (decrease) in provision for product warranties	-59	-176
Increase (decrease) in provision for loss on order received	-62	-512
Interest and dividend income	-61	-34
Interest expenses	57	63
Share of (profit) loss of entities accounted for using equity method	-6	13
Decrease (increase) in notes and accounts receivable - trade	7,826	18,476
Decrease (increase) in inventories	-6,555	-1,761
Remeasurements of defined benefit plans	374	—
Increase (decrease) in notes and accounts payable - trade	-4,107	-7,875
Increase (decrease) in accrued consumption taxes	467	-739
Other, net	-848	-1,702
Subtotal	7,793	17,949
Interest and dividend income received	61	34
Interest expenses paid	-51	-56
Income taxes paid	-5,629	-5,561
Net cash provided by (used in) operating activities	2,173	12,365
Cash flows from investing activities		
Purchase of securities	-5,000	—
Proceeds from redemption of securities	5,000	—
Purchase of property, plant and equipment	-2,196	-1,411
Proceeds from sales of property, plant and equipment	15	0
Purchase of intangible assets	-507	-644
Purchase of investment securities	-6	-51
Payments of loans receivable	-4	-27
Collection of loans receivable	5	24
Payments for liquidation of subsidiaries	-109	—
Purchase of shares of subsidiaries	—	-1,479
Payments for transfer of business	—	-1,857
Other, net	-250	698
Net cash provided by (used in) investing activities	-3,054	-4,747
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-210	-14
Repayments of long-term loans payable	-124	-103
Proceeds from sale and purchase of treasury stock, net	-3	-6
Cash dividends paid	-3,072	-2,774
Cash dividends paid to minority shareholders	-16	-3
Other, net	-358	-371
Net cash provided by (used in) financing activities	-3,785	-3,273
Effect of exchange rate change on cash and cash equivalents	87	76
Net increase (decrease) in cash and cash equivalents	-4,578	4,421
Cash and cash equivalents at beginning of period	44,434	30,315
Cash and cash equivalents at end of period	39,855	34,736

(4) Segment Information

Business Segment

First three quarters of fiscal year ending March 2015 (9 months ended December 2014)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	74,296	56,469	78,246	13,447	-	222,459
Sales						
(1) Sales to third parties	69,809	55,593	61,427	13,572	-	200,403
(2) Intersegment sales	-	-	-	-	-	-
Total	69,809	55,593	61,427	13,572	-	200,403
Operating income and loss	4,337	4,815	4,986	131	(5,885)	8,385

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

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	63,243	54,747	73,189	13,426	-	204,607
Sales						
(1) Sales to third parties	62,957	54,180	51,375	13,428	-	181,941
(2) Intersegment sales	-	-	-	-	-	-
Total	62,957	54,180	51,375	13,428	-	181,941
Operating income and loss	4,437	4,368	3,756	836	(5,660)	7,738