Consolidated Financial Statements for the First Quarter of Fiscal Year ending March 31, 2016

30-Jul-15

These financial statements have been prepared in accordance with accounting principals generally accepted in Japan.

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 Quarter (April 1, 2015 to June 30, 2015) of Fiscal Year ending March 31, 2016

(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 (%)
3 months ended June 2015	57,045	-0.3	762	157.4	872	129.7
3 months ended June 2014	57,229	14.1	296	-80.6	379	-75.1

	Profit attributable to owners of parent (¥ million)	Year-on-year change (%)	Profit attributable to owners of parent per share (¥)	Profit attributable to owners of parent per share (diluted)
3 months ended June 2015	355	242.3	7.17	—
3 months ended June 2014	103	-90.1	2.09	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
30-Jun-15	181,134	92,917	50.4	1,838.72
31-Mar-15	201,964	94,173	45.8	1,864.61

c.f. Owner's equity: 30-Jun-15: ¥91,273 million; 31-Mar-15: ¥92,559 million

2. Dividends

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/15	—	32.00	—	32.00	64.00
FY ending 3/16 (projected)	—	35.00	—	35.00	70.00

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

3. Financial Forecasts for Fiscal Year ending March 31, 2016 (April 1, 2015 to March 31, 2016)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
6 months ending Sep 2015	130,000	-0.5	4,500	-0.0	4,500	-3.5	2,400	-10.7	48.35
FY ending Mar 2016	295,000	1.0	16,500	2.1	16,500	1.9	9,500	21.9	191.38

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 1Q for the Fiscal Year Ending March 31, 2016

During the 1Q for the fiscal year ending March 31, 2016 (the period from April 1, 2015 to June 30, 2015), the outlook for the Japanese economy remained uncertain by the 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 environment remained steady overall in the fields of information and communication technology (ICT), in which NEC Networks & System Integration Corporation ("the Company") operates, although differences were observed in each field.

First, in the corporate market, although corporate managers continued to hold severe views on investment effects, ICT investments recovered on the back of the economic recovery. As a result, investments for enhancing business management and competitiveness, in particular, the reform of work style, remained firm.

Telecommunications carriers continued to make investments for the improvement of high-speed broadband networks. However, overall capital spending, especially in mobile BTS investments, continued to face severe conditions.

In the central and local governments as well as the public interest market, ICT-related public investments implemented under the concept of safety and security, such as national resilience, remained solid. Investments in the digitization of fire-fighting and emergency radio systems peaked out in terms of order placement. However, installation work is in full swing in preparation for the deadline for migration in May 2016.

Meanwhile, overseas, particularly in Asia, there is a demand for the construction of such infrastructure as mobile communications networks.

In the environment for this market, the Company and its consolidated subsidiaries (hereinafter the "Group") strived to strengthen their sales capabilities and promoted the sales of EmpoweredOffice* by reinforcing the business structure. The Group also moved forward with its efforts to capture orders by leveraging the new SCM base built in the previous period in the bay area of Tokyo and its management expertise. At the same time, it strengthened its business bases toward the expansion of service businesses by establishing a company specializing in multi-lingual services, for which demand these days has been increasing. In addition, the Group moved forward with aggressive initiatives to respond to projects that were gaining momentum, such as the digitization of fire-fighting and emergency radio systems. Overseas, it established a branch of its Thai subsidiary in Myanmar, in which investments in infrastructure going forward are expected to expand, and began full-scale operations.

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

Net sales	¥57,045 million	0.3% decrease year on year
Operating income	¥762 million	157.4% increase year on year
Ordinary income	¥872 million	129.7% increase year on year
Net income contributable to owners of parent	¥355 million	242.3% increase year on year
＜Reference＞		
Orders received	¥70,531 million	12.0% decrease year on year

Net sales totaled ¥57,045 million, and remained almost flat year-on-year. Due to the impact of CAPEX cuts by telecom carriers, BTS-related construction work decreased as did sales.
The results, however, reflected the Group’s aggressive initiatives to capture business opportunities from ICT investments in the field of enterprise networks, and from public investments for safety and security in the social infrastructure, such as fire-fighting and disaster-prevention network systems. Orders received decreased 12.0% year-on-year to ¥70,531 million, as the digitization of fire-fighting and emergency radio systems peaked out in terms of order placement.

On the profit front, operating income and ordinary income increased year-on-year to ¥762 million and ¥872 million respectively, reflecting an improvement in the cost of sales ratio through such efforts as in-house production as well as the streamlining of sales expenses and SG&A spending. As a result, profit attributable to owners of parent increased 242.3% year-on-year to ¥355 million, despite the occurrence of an extraordinary loss associated with the realignment of domestic subsidiaries.

Operating results by business segment were as follows:

Net sales by business segment (Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1Q Fiscal 2016.3	23,502	16,511	16,209	822	57,045
1Q Fiscal 2015.3	22,817	18,316	14,505	1,590	57,229
Increase or decrease	685	-1,804	1,704	-768	-184
Ratio of increase/decrease (%)	3.0	-9.9	11.7	-48.3	-0.3

Reference: Orders received by business segment (Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1Q Fiscal 2016.3	25,156	17,913	26,210	1,251	70,531
1Q Fiscal 2015.3	27,180	21,247	30,501	1,225	80,154
Increase or decrease	-2,023	-3,333	-4,291	25	-9,623
Ratio of increase/decrease (%)	-7.4	-15.7	-14.1	2.1	-12.0

1). Enterprise Networks business

Net sales increased 3.0% from one year ago to ¥23,502 million, thanks to further sales efforts by the Group with a focus on its office innovation solution EmpoweredOffice, aggressively responding to the recovery of ICT investments and the need for management innovation on the part of customers.

2). Carrier Networks business

Net sales decreased 9.9% year-on-year to ¥16,511 million yen, mainly reflecting a decline in the amount of mobile BTS-related construction work due to the impact of CAPEX cuts by telecom carriers.

3). Social Infrastructure business

Net sales increased 11.7% from one year ago to ¥16,209 million yen, reflecting an aggressive initiative to capture business opportunities from ICT-related public investments implemented under the concept of safety and security, such as investments in the digitization of fire-fighting and disaster prevention network systems which were gaining momentum.

*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 Development, manufacturing, sales and systems integration of network equipment and other equipment.
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. Overseas subsidiaries
Others	Sales of purchased equipment

*The Group implemented the realignment of domestic subsidiaries to facilitate the efficient management of group companies, such as the integration (absorption-type merger) of Toyo Networks & System Integration Co., Ltd by NEC Magnus Communications, Ltd. As a result, changes were made to the consolidated financial results from the first quarter under review, such as the inclusion of Toyo Networks & System Integration Co., Ltd, which had been included in the “others” segment previously, in the “Carrier Networks” segment, which includes NEC Magnus Communications, Ltd.

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, 2016

The Japanese economy shows signs of recovery, reflecting the effect of economic measures by the government, among other factors. However, it continues to face a risk of downward pressure due to such factors as concern over a downturn in the overseas economy.

In this environment, the Company’s business results, as a Group, are in line with projections and therefore its consolidated forecast for FY2016/3 (April 1, 2015 – March 31, 2016) remains unchanged from the initial forecast.

Net sales	¥295 billion	1.0% increase year on year
Operating income	¥16.5 billion	2.1% increase year on year
Ordinary income	¥16.5 billion	1.9% increase year on year
Net income	¥9.5 billion	21.9% increase year on year

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2015	**As of June 30, 2015**
Assets		
Current assets		
Cash and deposits	38,951	**56,091**
Notes and accounts receivable - trade	113,921	**71,411**
Purchased goods,materials and supplies	2,820	**3,336**
Work in process	7,314	**9,813**
Other	8,105	**9,616**
Allowance for doubtful accounts	-52	**-47**
Total current assets	171,061	**150,221**
Non-current assets		
Property, plant and equipment	10,830	**10,683**
Intangible assets		
Goodwill	2,728	**2,648**
Other	3,143	**3,202**
Total intangible assets	5,871	**5,851**
Investments and other assets		
Other	14,252	**14,430**
Allowance for doubtful accounts	-52	**-52**
Total investments and other assets	14,199	**14,377**
Total non-current assets	30,902	**30,912**
Total assets	201,964	**181,134**
Liabilities		
Current liabilities		
Notes and accounts payable - trade	48,662	**33,671**
Short-term loans payable	1,633	**3,039**
Current portion of long-term loans payable	3,168	**3,168**
Income taxes payable	4,358	**560**
Provision for directors' bonuses	125	**23**
Provision for product warranties	280	**250**
Provision for loss on order received	163	**72**
Other	20,909	**18,579**
Total current liabilities	79,302	**59,365**
Non-current liabilities		
Long-term loans payable	1,349	**1,307**
Net defined benefit liability	25,832	**25,976**
Other	1,307	**1,567**
Total non-current liabilities	28,488	**28,851**
Total liabilities	107,790	**88,217**
Net assets		
Shareholders' equity		
Capital stock	13,122	**13,122**
Capital surplus	16,650	**16,650**
Retained earnings	64,932	**63,699**
Treasury shares	-266	**-268**
Total shareholders' equity	94,438	**93,204**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	47	**50**
Foreign currency translation adjustment	2	**-154**
Remeasurements of defined benefit plans	-1,927	**-1,826**
Total accumulated other comprehensive income	-1,878	**-1,931**
Non-controlling interests	1,613	**1,643**
Total net assets	94,173	**92,917**
Total liabilities and net assets	201,964	**181,134**

(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(Millions of yen)

	FY March 2015 1Q (3 months ended 6/14)	**FY March 2016 1Q (3 months ended 6/15)**
Net sales	57,229	**57,045**
Cost of sales	48,965	**48,485**
Gross profit	8,263	**8,559**
Selling, general and administrative expenses	7,967	**7,797**
Operating income	296	**762**
Non-operating income		
Interest income	15	**15**
Other	147	**145**
Total non-operating income	163	**160**
Non-operating expenses		
Interest expenses	20	**18**
Other	59	**32**
Total non-operating expenses	79	**50**
Ordinary income	379	**872**
Extraordinary losses		
Retirement benefit expenses	–	**268**
Area business restructuring cost	104	**–**
Total extraordinary losses	104	**268**
Income before income taxes	275	**604**
Income taxes	139	**209**
Profit	135	**394**
Profit attributable to non-controlling interests	31	**38**
Profit attributable to owners of parent	103	**355**

(Millions of yen)

	FY March 2015 1Q (3 months ended 6/14)	**FY March 2016 1Q (3 months ended 6/15)**
Profit	135	**394**
Other comprehensive income		
Valuation difference on available-for-sale securities	6	**3**
Foreign currency translation adjustment	-35	**-170**
Remeasurements of defined benefit plans, net of tax	124	**101**
Total other comprehensive income	95	**-66**
Comprehensive income	231	**328**
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	204	**303**
Comprehensive income attributable to non-controlling interests	26	**24**

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY March 2015 1Q (3 months ended 6/14)	**FY March 2016 1Q (3 months ended 6/15)**
Cash flows from operating activities		
Income before income taxes and minority interests	275	**604**
Depreciation	665	**653**
Retirement benefit expenses	–	**268**
Area business restructuring cost	104	**–**
Amortization of goodwill	90	**79**
Increase (decrease) in net defined benefit asset	0	**-31**
Increase (decrease) in net defined benefit liability	212	**27**
Increase (decrease) in provision for directors' bonuses	-77	**-102**
Increase (decrease) in provision for product warranties	-23	**-29**
Increase (decrease) in provision for loss on order received	-159	**-91**
Interest and dividend income	-23	**-25**
Interest expenses	20	**18**
Decrease (increase) in notes and accounts receivable - trade	32,695	**42,359**
Decrease (increase) in inventories	-2,992	**-3,040**
Increase (decrease) in notes and accounts payable - trade	-11,125	**-14,940**
Increase (decrease) in accrued consumption taxes	-1,110	**-2,334**
Other, net	-591	**-787**
Subtotal	17,960	**22,627**
Interest and dividend income received	23	**25**
Interest expenses paid	-14	**-12**
Income taxes paid	-4,289	**-4,065**
Net cash provided by (used in) operating activities	13,680	**18,575**
Cash flows from investing activities		
Purchase of property, plant and equipment	-1,135	**-449**
Purchase of intangible assets	-206	**-227**
Purchase of investment securities	-1	**-1**
Payments of loans receivable	-2	**-1**
Collection of loans receivable	2	**2**
Other, net	-142	**-196**
Net cash provided by (used in) investing activities	-1,486	**-874**
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-100	**1,408**
Repayments of long-term loans payable	-45	**-42**
Proceeds from sale and purchase of treasury stock, net	-1	**-1**
Cash dividends paid	-1,477	**-1,578**
Dividends paid to non-controlling interests	-13	**-14**
Other, net	-124	**-124**
Net cash provided by (used in) financing activities	-1,761	**-352**
Effect of exchange rate change on cash and cash equivalents	-25	**-209**
Net increase (decrease) in cash and cash equivalents	10,406	**17,139**
Cash and cash equivalents at beginning of period	44,434	**38,951**
Cash and cash equivalents at end of period	54,840	**56,091**

(4) Segment Information

Business Segment Information

First quarter of fiscal March 2016 (3 months ended June 2015)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	23,502	16,511	16,209	822	-	57,045
(2) Intersegment sales	-	-	-	-	-	-
Total	23,502	16,511	16,209	822	-	57,045
Operating income and loss	1,497	666	549	99	(2,051)	762

First quarter of fiscal March 2015 (3 months ended June 2014)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	22,817	18,316	14,505	1,590	-	57,229
(2) Intersegment sales	-	-	-	-	-	-
Total	22,817	18,316	14,505	1,590	-	57,229
Operating income and loss	1,159	786	289	57	(1,997)	296

The Group implemented the realignment of domestic subsidiaries to facilitate the efficient management of group companies, such as the integration (absorption-type merger) of Toyo Networks & System Integration Co., Ltd by NEC Magnus Communications, Ltd. As a result, changes were made to the consolidated financial results from the first quarter under review, such as the inclusion of Toyo Networks & System Integration Co., Ltd, which had been included in the "others"another segment previously, in the "Carrier Networks" business segment, which includes NEC Magnus Communications, Ltd.
Segment information for the previous fiscal year has been changed to reflect the change in the content of business segments.