

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, 2015 to September 30, 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 (%)
6 months ended 9/15 (1H / FY3/2016)	127,834	-2.1	3,531	-21.5	3,597	-22.8
6 months ended 9/14 (1H / FY3/2015)	130,590	13.3	4,501	7.7	4,662	10.1

	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 (diluted) (¥)
6 months ended 9/15 (1H / FY3/2016)	1,945	-27.6	39.19	—
6 months ended 9/14 (1H / FY3/2015)	2,686	0.1	54.03	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
30/09/2015	187,804	94,766	49.6	1,876.23
31/03/2015	201,964	94,173	45.8	1,864.61

c.f. Owner's equity: 30/09/15 ¥93,134million ; 31/03/15: ¥92,559million

2. Dividends

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/2015	—	32.00	—	32.00	64.00
FY ending 3/2016	—	35.00	—	35.00 (projected)	70.00 (projected)

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		Profit attributable to owners of parent per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
FY ending 3/2016	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 1H for the Fiscal Year Ending March 31, 2016

During the first half for the fiscal year ending March 31, 2016 (the period from April 1, 2015 to September 30, 2015), the outlook for the Japanese economy remained uncertain due to concern over the downturn in overseas economies, particularly China and emerging economies in Asia. Nevertheless, in general the economy experienced a moderate recovery, supported by the government's economic measures and financial policy and corporate earnings and employment improved.

In the fields of information and communication technology (ICT), in which NEC Networks & System Integration Corporation ("the Company") operates, differences were observed in each field under these economic conditions.

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.

Capital spending by telecommunications carriers faced increasingly severe conditions, with capital spending in network infrastructure curbed further.

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 promote the sales of EmpoweredOffice* by reinforcing the business structure. The Group also moved forward with steady initiatives to respond to projects that were gaining momentum, such as the digitization of fire-fighting and emergency radio systems. In addition, the Group moved forward with its efforts to win orders by utilizing the new SCM base built in the previous period in the Tokyo Bay area and its management expertise. Meanwhile, the Group strengthened its business bases in preparation for expanding the service businesses by establishing a company that specializes in multi-lingual services, for which demand has been increasing recently, and launching an

MVNO service that predominantly targets the IoT field, where growth is expected. The Group also expanded new services. 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 1H under review:

Net sales	¥127,834 million	2.1% decrease year on year
Operating income	¥3,531 million	21.5% decrease year on year
Ordinary income	¥3,597 million	22.8% decrease year on year
Net income attributable to owners of parent	¥1,945 million	27.6% decrease year on year
< Reference >		
Orders received	¥141,500 million	9.5% decrease year on year

Net sales totaled ¥127,834 million, and remained mostly flat year-on-year. Due to the impact of CAPEX cuts by telecom carriers, sales in the field of carrier networks declined. The results, however, reflected the Group's aggressive initiatives to capture business opportunities from increased ICT investments in the field of enterprise networks, public investments for safety and security, and steady investments in the social infrastructure, such as the development of earth stations for satellite communications. There was an increase in orders from companies and businesses outside Japan, but overall orders received decreased 9.5% year-on-year to ¥141,500 million because telecom carriers cut CAPEX and the digitization of fire-fighting and emergency radio systems peaked out in terms of order placement.

On the profit front, the Group worked to steadily expand earnings in the fields of enterprise networks and social infrastructure, where sales increased, but in the field of carrier networks, sales declined and cost cutting was delayed due to the rapid change in the business environment. Consequently, operating income and ordinary income fell year-on-year to ¥3,531 million and ¥3,597 million, respectively. As a result, profit attributable to owners of parent decreased 27.6% year-on-year to ¥1,945 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
1H Fiscal 2016.3	50,956	35,618	39,373	1,886	127,834
1H Fiscal 2015.3	48,139	41,184	38,394	2,871	130,590
Increase or decrease	2,816	-5,565	979	-985	-2,755
Ratio of increase/decrease (%)	5.9	-13.5	2.6	-34.3	-2.1

Reference: Orders received by business segment

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1H Fiscal 2016.3	52,839	34,712	51,010	2,936	141,500
1H Fiscal 2015.3	53,761	43,285	56,775	2,542	156,364
Increase or decrease	-921	-8,572	-5,764	394	-14,863
Ratio of increase/decrease (%)	-1.7	-19.8	-10.2	15.5	-9.5

1). Enterprise Networks business

Net sales increased 5.9% from one year ago to ¥50,956 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

Although the Group boosted sales in the enterprise and public sectors by using assets for telecom carriers, net sales decreased 13.5% year-on-year to ¥35,618 million, reflecting the impact of CAPEX cuts by telecom carriers.

3). Social Infrastructure business

Net sales increased 2.6% from one year ago to ¥39,373 million, reflecting aggressive initiatives to capture business opportunities from ICT-related public investments implemented under the concept of safety and security and investments in the development of earth stations for satellite communications.

***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 1H 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 is showing signs of recovery, reflecting the effect of economic measures by the government and the improvement of factors such as employment and income. However, it continues to face the risk of downward pressure due to factors such as concern over a downturn in the overseas economy. CAPEX by telecom carriers is expected to remain on a downward trend. In this environment, the Group's business results in the first half fell below the plan due to weak performance in the carrier network field. However, the Group plans to improve earnings by promoting cost cuts and other initiatives, and thus its consolidated forecast for FY2016/3 (April 1, 2015 to 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 attributable to owners of parent	¥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 September 30, 2015
Assets		
Current assets		
Cash and deposits	38,951	52,253
Notes and accounts receivable - trade	113,921	82,764
Purchased goods, materials and supplies	2,820	3,358
Work in process	7,314	8,324
Other	8,105	10,057
Allowance for doubtful accounts	-52	-48
Total current assets	171,061	156,709
Non-current assets		
Property, plant and equipment	10,830	11,057
Intangible assets		
Goodwill	2,728	2,568
Other	3,143	3,150
Total intangible assets	5,871	5,719
Investments and other assets		
Other	14,252	14,370
Allowance for doubtful accounts	-52	-52
Total investments and other assets	14,199	14,317
Total non-current assets	30,902	31,095
Total assets	201,964	187,804

(Millions of yen)

	As of March 31, 2015	As of September 30, 2015
Liabilities		
Current liabilities		
Notes and accounts payable - trade	48,662	36,074
Short-term loans payable	1,633	3,518
Current portion of long-term loans payable	3,168	3,168
Income taxes payable	4,358	1,547
Provision for directors' bonuses	125	44
Provision for product warranties	280	212
Provision for loss on order received	163	118
Other	20,909	19,201
Total current liabilities	79,302	63,885
Non-current liabilities		
Long-term loans payable	1,349	1,264
Net defined benefit liability	25,832	26,128
Other	1,307	1,759
Total non-current liabilities	28,488	29,152
Total liabilities	107,790	93,038
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	64,932	65,283
Treasury shares	-266	-269
Total shareholders' equity	94,438	94,787
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	47	29
Foreign currency translation adjustment	2	-108
Remeasurements of defined benefit plans	-1,927	-1,574
Total accumulated other comprehensive income	-1,878	-1,652
Non-controlling interests	1,613	1,631
Total net assets	94,173	94,766
Total liabilities and net assets	201,964	187,804

(2) Consolidated Statements of Income

(Millions of yen)

	FY3/2015 1H (6 months ended 9/2014)	FY3/2016 1H (6 months ended 9/2015)
Net sales	130,590	127,834
Cost of sales	110,207	108,691
Gross profit	20,382	19,143
Selling, general and administrative expenses	15,881	15,611
Operating income	4,501	3,531
Non-operating income		
Interest income	32	32
Dividend income of insurance	121	172
Other	222	177
Total non-operating income	376	382
Non-operating expenses		
Interest expenses	40	35
Loss on retirement of non-current assets	30	77
Other	144	204
Total non-operating expenses	215	317
Ordinary income	4,662	3,597
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	—	40
Total extraordinary income	—	40
Extraordinary losses		
Retirement benefit expenses	—	464
Affiliated companies transfer cost	—	116
Area business restructuring cost	221	—
Total extraordinary losses	221	581
Income before income taxes and minority interests	4,440	3,056
Income taxes	1,670	1,073
Profit	2,769	1,982
Profit attributable to non-controlling interests	82	37
Profit attributable to owners of parent	2,686	1,945

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	FY3/2015 1H (6 months ended 9/2014)	FY3/2016 1H (6 months ended 9/2015)
Profit	2,769	1,982
Other comprehensive income		
Valuation difference on available-for-sale securities	4	-14
Foreign currency translation adjustment	-60	-137
Remeasurements of defined benefit plans, net of tax	249	353
Total other comprehensive income	193	201
Comprehensive income	2,963	2,184
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,895	2,171
Comprehensive income attributable to non-controlling interests	67	12

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY3/2015 1H (6 months ended 9/2014)	FY3/2016 1H (6 months ended 9/2015)
Cash flows from operating activities		
Income before income taxes and minority interests	4,440	3,056
Depreciation	1,360	1,352
Amortization of goodwill	180	159
Increase (decrease) in net defined benefit asset	-146	-61
Increase (decrease) in net defined benefit liability	541	646
Increase (decrease) in provision for directors' bonuses	-43	-81
Increase (decrease) in provision for product warranties	-50	-67
Increase (decrease) in provision for loss on order received	-28	-44
Interest and dividend income	-41	-43
Interest expenses	40	35
Decrease (increase) in notes and accounts receivable - trade	18,761	31,012
Decrease (increase) in inventories	-4,292	-1,563
Increase (decrease) in notes and accounts payable - trade	-5,355	-12,545
Increase (decrease) in accrued consumption taxes	-439	-2,075
Other, net	1,176	-157
Subtotal	16,103	19,621
Interest and dividend income received	41	43
Interest expenses paid	-40	-34
Income taxes paid	-4,411	-4,113
Net cash provided by (used in) operating activities	11,691	15,516
Cash flows from investing activities		
Purchase of securities	-5,000	—
Purchase of property, plant and equipment	-1,775	-1,347
Proceeds from sales of property, plant and equipment	13	2
Purchase of intangible assets	-345	-411
Purchase of investment securities	-5	-4
Payments of loans receivable	-2	-2
Collection of loans receivable	3	3
Proceeds from sales of shares of subsidiaries and associates	—	151
Other, net	-183	-363
Net cash provided by (used in) investing activities	-7,295	-1,973
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-100	1,872
Repayments of long-term loans payable	-88	-84
Proceeds from sale and purchase of treasury stock, net	-1	-2
Cash dividends paid	-1,489	-1,590
Dividends paid to non-controlling interests	-16	-18
Other, net	-245	-233
Net cash provided by (used in) financing activities	-1,941	-56
Effect of exchange rate change on cash and cash equivalents	51	-184
Net increase (decrease) in cash and cash equivalents	2,505	13,301
Cash and cash equivalents at beginning of period	44,434	38,951
Cash and cash equivalents at end of period	46,940	52,253

(4) Segment Information

Business Segment

First half of fiscal 3/2016 (6 months ended September 2015)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	52,839	34,712	51,010	2,936	---	141,500
Sales						
(1) Sales to third	50,956	35,618	39,373	1,886	---	127,834
(2) Intersegment sales	---	---	---	---	---	---
Total	50,956	35,618	39,373	1,886	---	127,834
Operating income and loss	3,432	1,430	2,587	196	(4,115)	3,531

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	53,761	43,285	56,775	2,542	---	156,364
Sales						
(1) Sales to third parties	48,139	41,184	38,394	2,871	---	130,590
(2) Intersegment sales	---	---	---	---	---	---
Total	48,139	41,184	38,394	2,871	---	130,590
Operating income and loss	3,031	2,906	2,538	113	(4,089)	4,501