

# Financial Results for the 1H ending March 2016 (For Press Conference)

October 29, 2015

NEC Networks & System Integration Corporation  
(TSE: 1973, NESIC)

# I. Results for 1H FY2016/3

# 1H FY2015/3 Summary

## Net sales & incomes decreased year on year

- The environment for business with telecom carriers worsened beyond our expectations.

(Bil. ¥)

	1H FY15/3	1H FY16/3	Change	Forecasts as at Apr.28	Diff.
Orders Received	156.4	141.5	-10%	150	-8.5
Net Sales	130.6	127.8	-2%	130	-2.2
Operating Income	4.5	3.5	-1.0	4.5	-1.0
(to Sales)	(3.4%)	(2.8%)	-0.6pt	(3.5%)	-0.7pt
Net Income *	2.7	1.9	-0.7	2.4	-0.5
(to Sales)	(2.1%)	(1.5%)	-0.6pt	(1.8%)	-0.3pt
Free Cash Flows	4.4	13.5	9.1		

\*Profit attributable to owners of parent

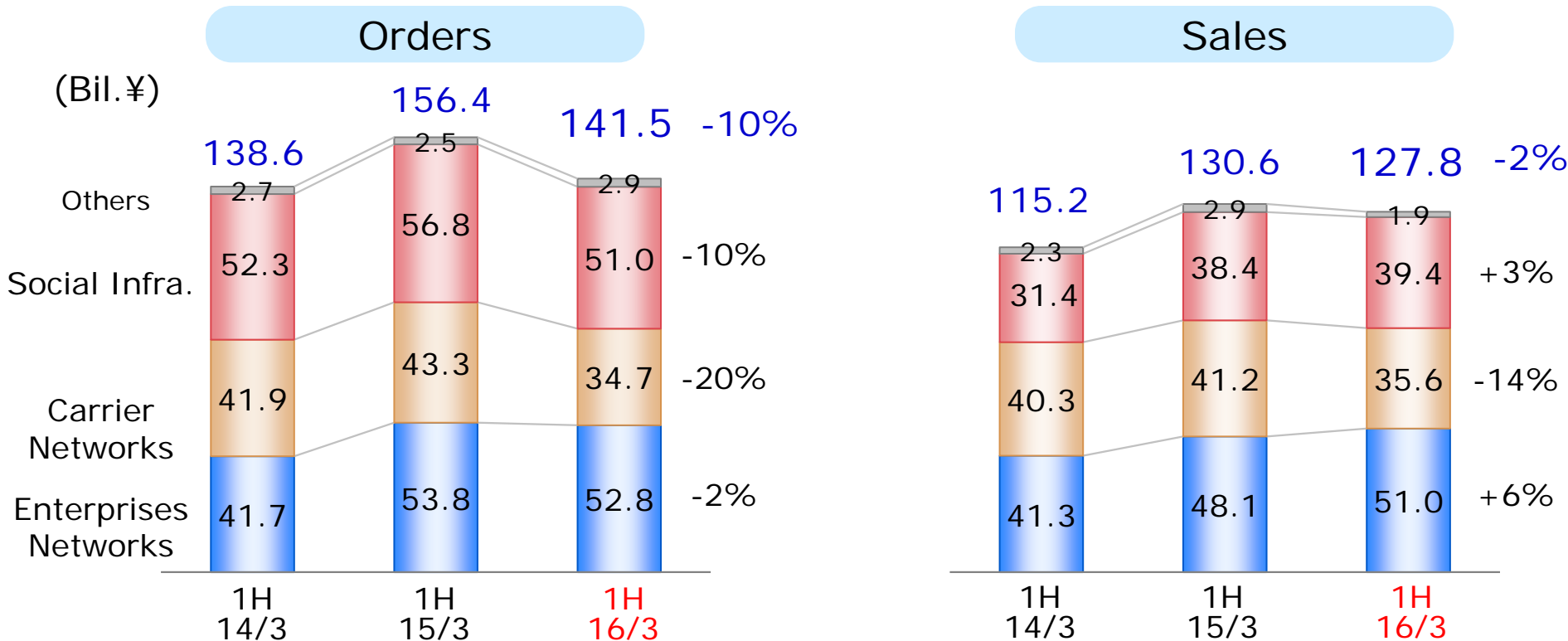
# 1H FY2016/3 Sales/Orders Received by Segment

Orders declined, mainly reflecting a decrease in orders for the FF & DP networks business (-¥11 bil.) & the impact of investment cuts by telecom carriers (-10).

- Orders from general corporate customers and overseas increased.

Sales remained almost flat, offsetting the impact of investment cuts by telecom carriers (-7), as the sales of Enterprise NW and Social Infrastructure businesses increased.

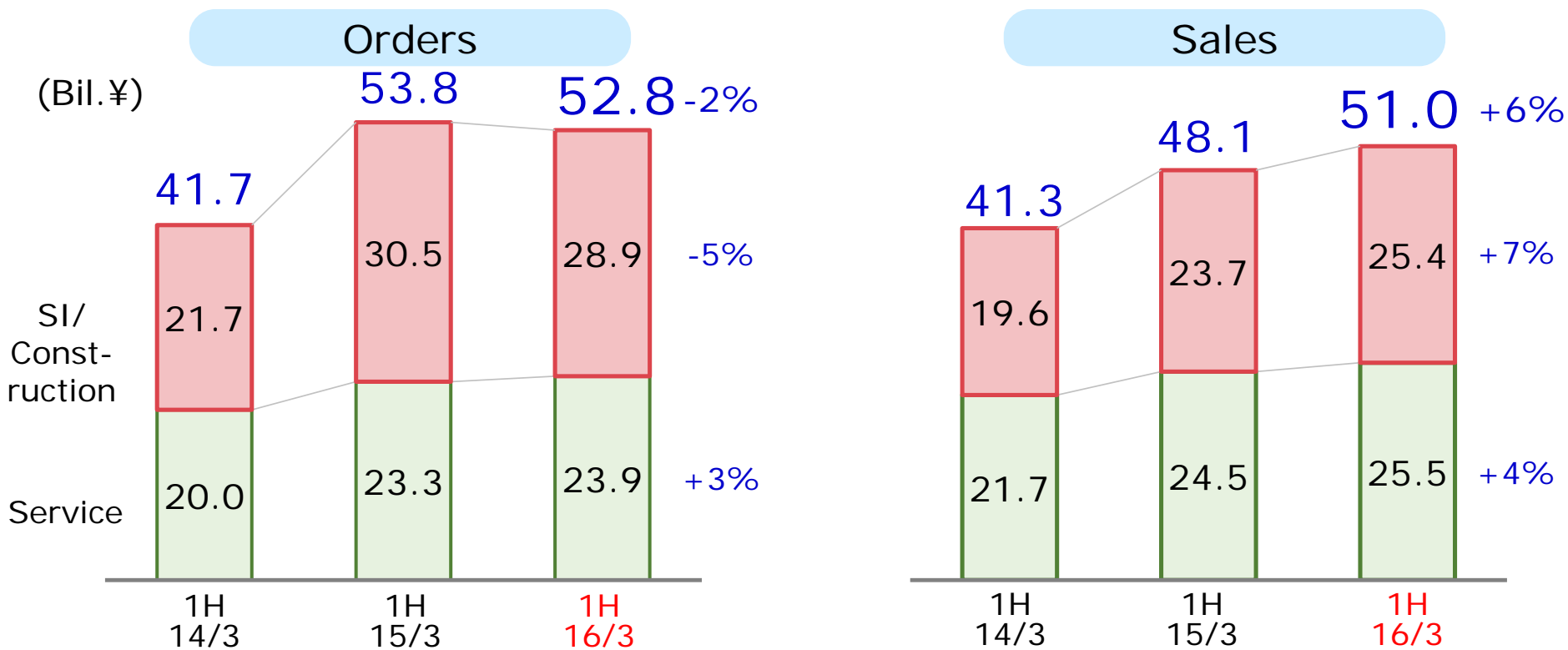
FF: fire fighting, DP: disaster prevention



# 1H FY2016/3 Enterprises Networks Business

Sales increased as the EmpoweredOffice business remained strong.

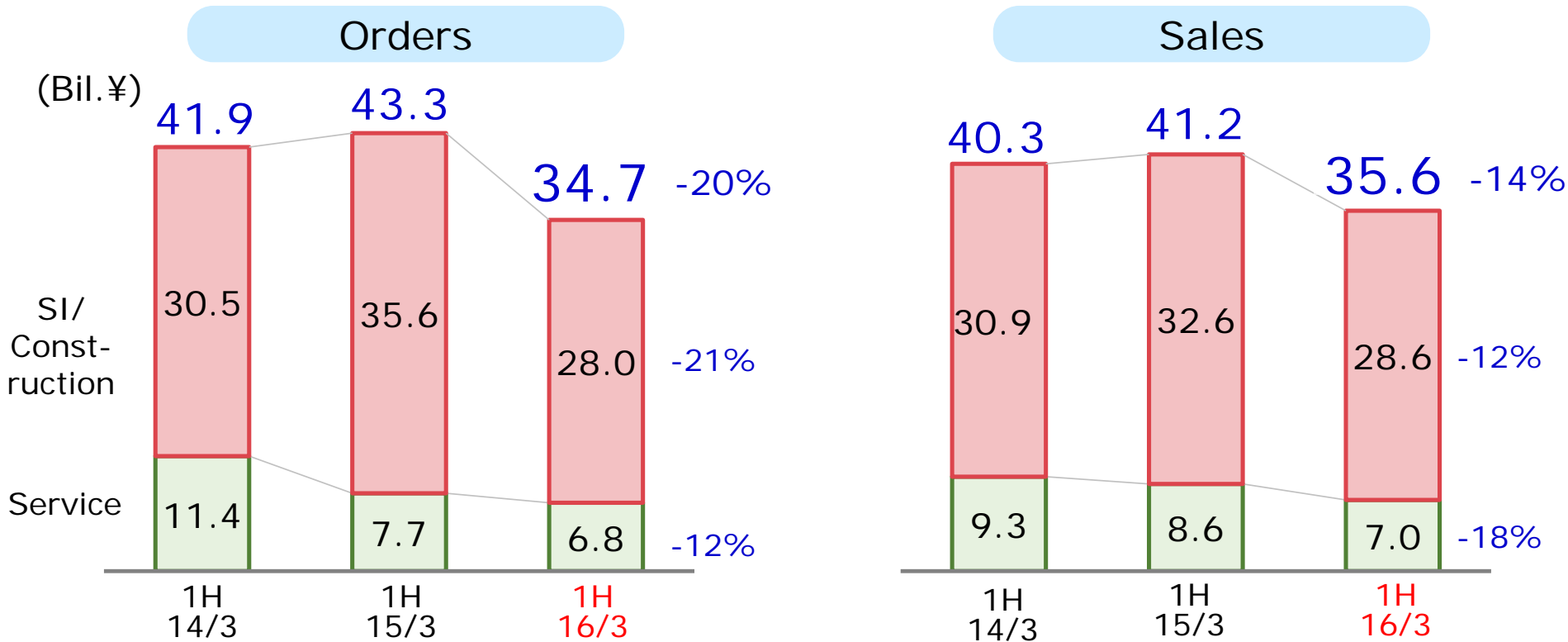
- Sales of EmpoweredOffice business : +10%
- Orders from general corporate increased.



# 1H FY2016/3 Carrier Networks Business

Both orders and sales decreased because of the impact of investment cut by telecom carriers.

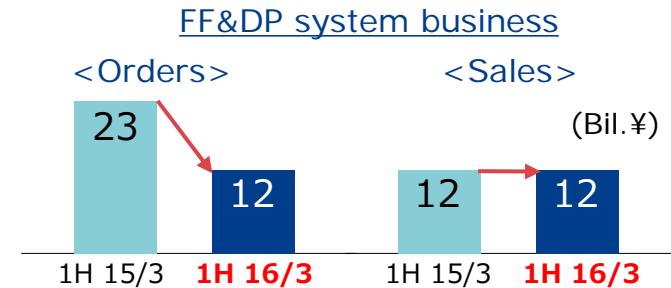
- Business for public and corporate customers increased utilizing assets for telecom carriers. (Order/sales: +15%)



# 1H FY2016/3 Social Infrastructures Business

Sales rose year on year, reflecting increased sales to government offices

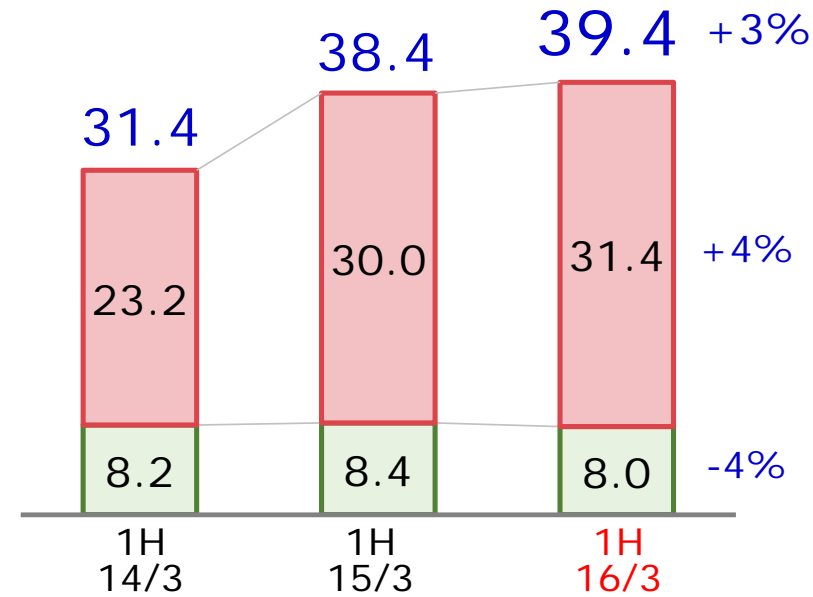
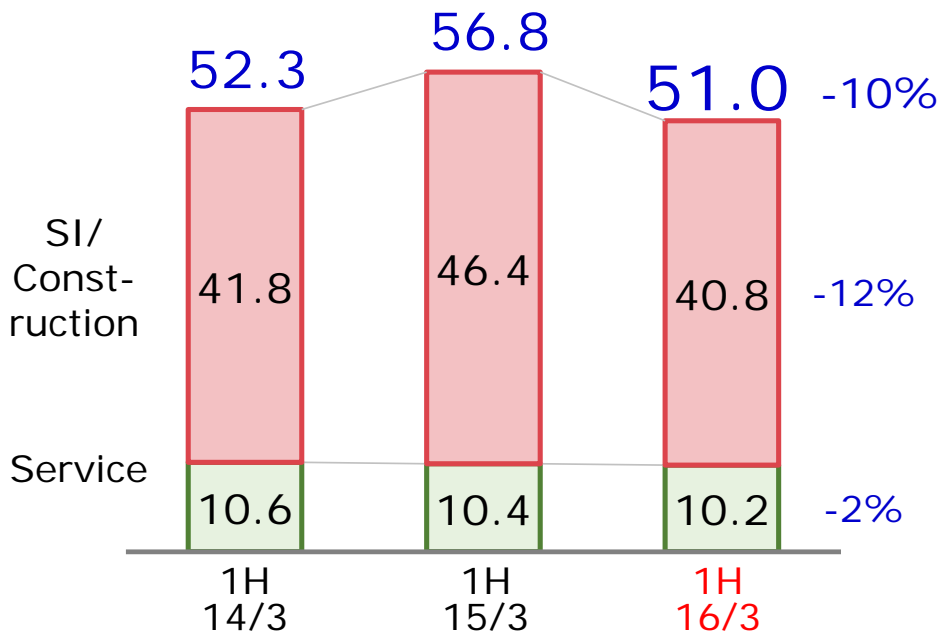
- Sales remained at high levels as the migration to digital FF systems progressed toward the May 2016 deadline.
- Orders increased for overseas infrastructure works (+¥2.5 bil.) and space-related projects (+1.5), although those for FF&DP systems decreased (-11).



(Bil.¥)

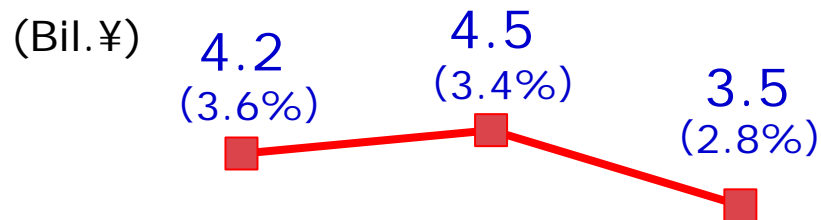
Orders

Sales

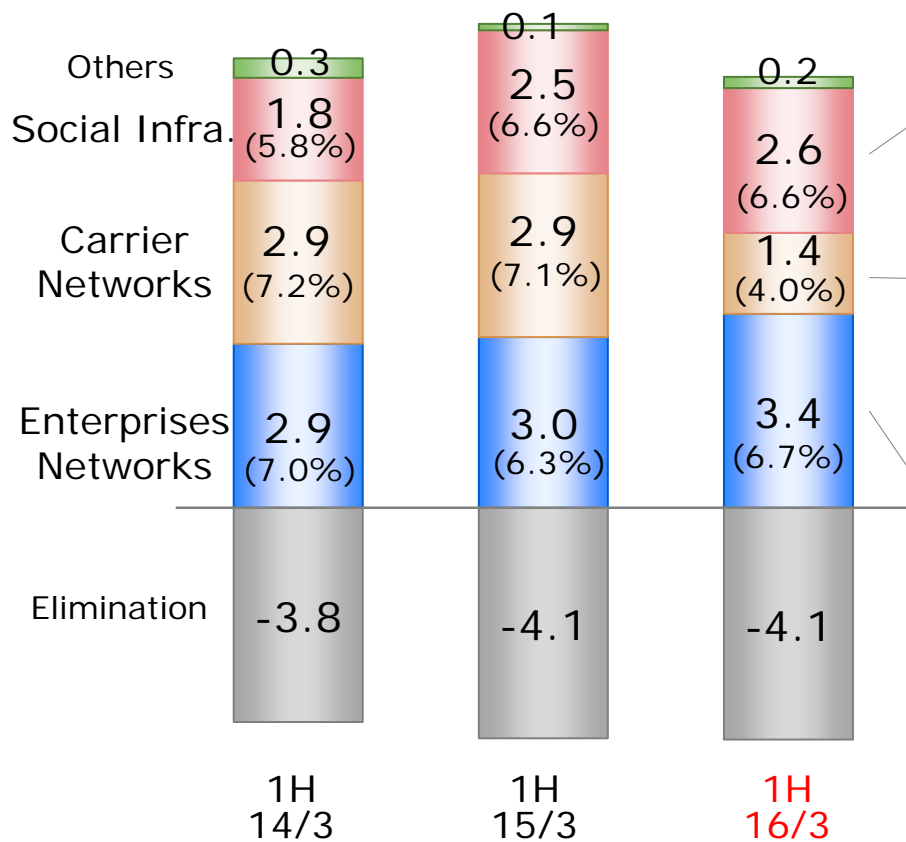


FF: fire fighting, DP: disaster prevention

# 1H FY2016/3 Operating Income by Segment



Operating income declined due to a fall in sales of the Carrier Networks business, although the Enterprises Networks & Social Infrastructure businesses posted higher income.



## ● Social Infrastructure

- Income rose on increased sales.

## ● Carrier Networks

- Income declined on decreased sales and the delay in cost cutting to adapt to rapid changes in the business environment.

## ● Enterprises Networks

- Income rose on increased sales and streamlined SG&A.



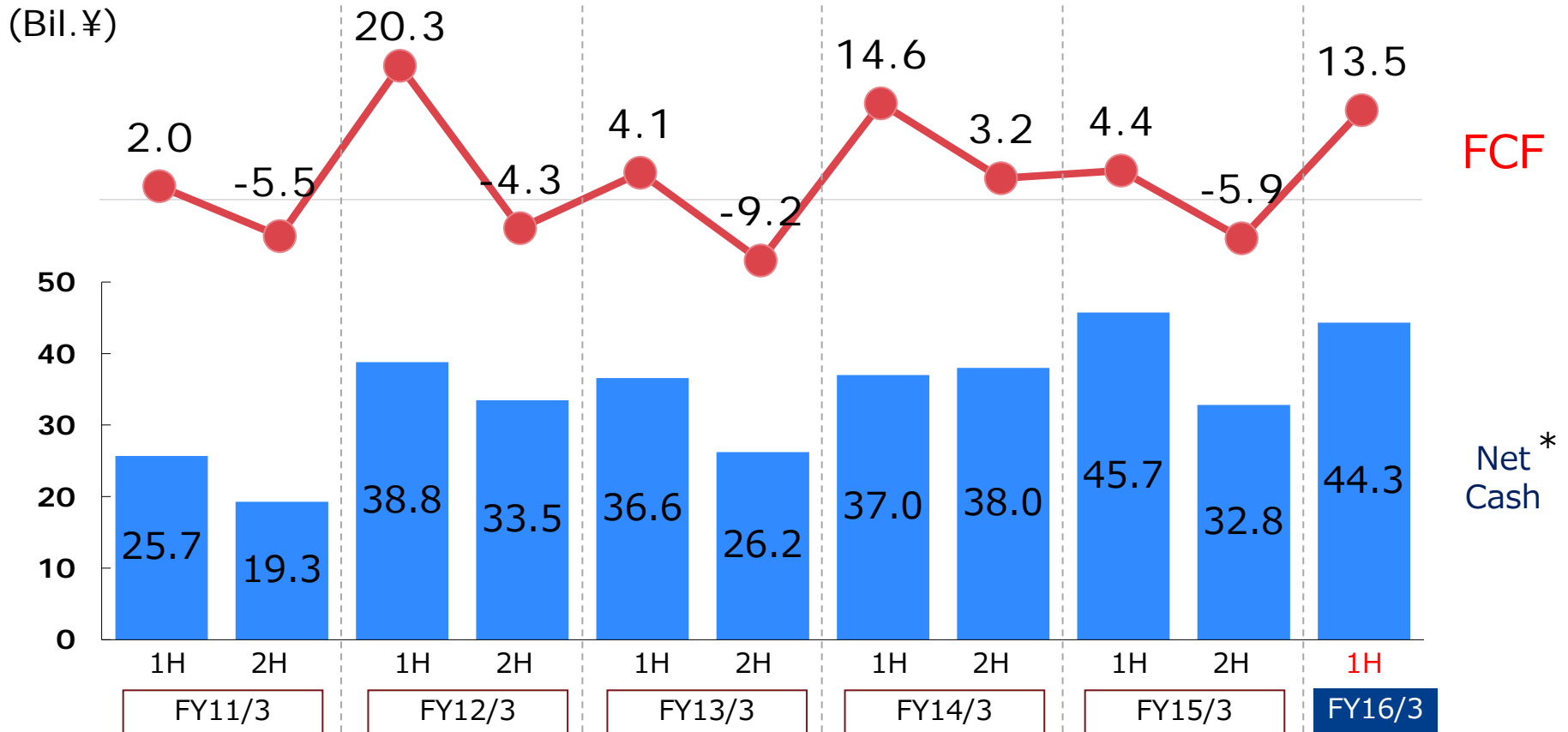
# 1H FY2016/3 Balance Sheet (End of September, 2015)

Owner's equity ratio improved 3.8% mainly because of a reduction in total assets through the collection of accounts receivables and payment of accounts payables.

	End of 15/3	End of 15/9	Diff.	(Bil.¥)
Cash and cash equivalents	39.0	52.3	13.3	
Notes & accounts receivable	113.9	82.8	-31.2	
Inventories	10.1	11.7	1.5	
Others	8.1	10.0	2.0	
Current Assets	171.1	156.7	-14.3	
Noncurrent Assets	30.9	31.1	0.2	
Assets	202.0	187.8	-14.2	
Notes and accounts payable	48.7	36.1	-12.6	
Loans	6.2	8.0	1.8	
Others	53.0	49.0	-4.0	
Liabilities	107.8	93.0	-14.7	
Shareholders' equity	94.4	94.8	0.3	
Accumulated other comprehensive income	-1.9	-1.7	0.2	
Non-controlling interests	1.6	1.6	0.0	
Net Assets	94.2	94.8	0.6	
Liabilities & Net Assets	202.0	187.8	-14.2	
Owner's Equity Ratio	45.8%	49.6%	+3.8pt	

# 1H FY2016/3 Cash Flows

Improved FCF by recouping cash from large projects at the end of last fiscal year



※Net Cash = Cash & cash equivalent – interest bearing debt

## II. Forecasts for FY2016/3

# 2H FY2016/3 Business Environments

- Market conditions for telecom carriers will be severe, but those for the Enterprises Networks and Social Infrastructure businesses will remain solid.
- Enterprises Networks
  - ICT investments by companies, centered on those in the retail, service and manufacturing sectors, will remain firm.
  - Demand for the renewal of voice network systems is a positive factor.
- Carrier Networks
  - Telecom carriers are likely to continue curbing their investments.
  - Areas of new services such as IoT/M2M are promising.
- Social Infrastructure
  - ICT investments will remain firm to address objectives such as safety & security and the improvement of transportation infrastructures.
  - Overseas infrastructure investment markets, centered on Asia, will be brisk.

## Actions to deal with changing market environments

- Further efforts to focus on Enterprises Networks and Social Infrastructure businesses that continue to perform well.
- Improvement of profitability of Carrier Networks business.
  - Further cost reductions.
  - Streamlining of the structure of support and maintenance businesses.

## Initiatives for future growth

- Services business, global business, etc.
- Creation of new businesses
  - IoT/MVNO, SDN, etc.

# FY2016/3 Forecasts

No change from the initial forecasts, albeit with variations in individual business areas.

(Bil.¥)

	FY15/3	FY16/3 Forecasts	Change
Orders Receipts	299.1	300	0%
Net Sales	292.2	295	+1%
Operating Income	16.2	16.5	0.3
(to Sales)	(5.5%)	(5.6%)	+0.1pt
Net Income <sup>*</sup>	7.8	9.5	1.7
(to Sales)	(2.7%)	(3.2%)	+0.5pt

\*Profit attributable to owners of parent

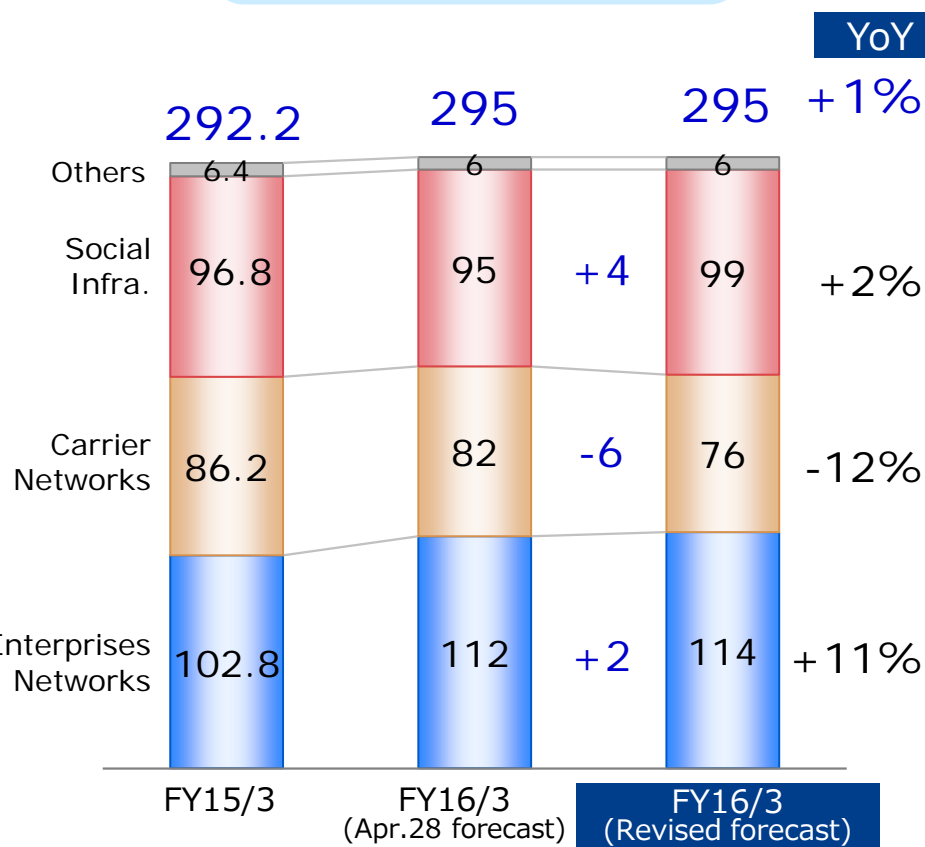
(Forecasts as at October 29, 2015)

# FY2016/3 Forecasts by Segment (Sales & Operating Income)

(Forecasts as at October 29, 2015)

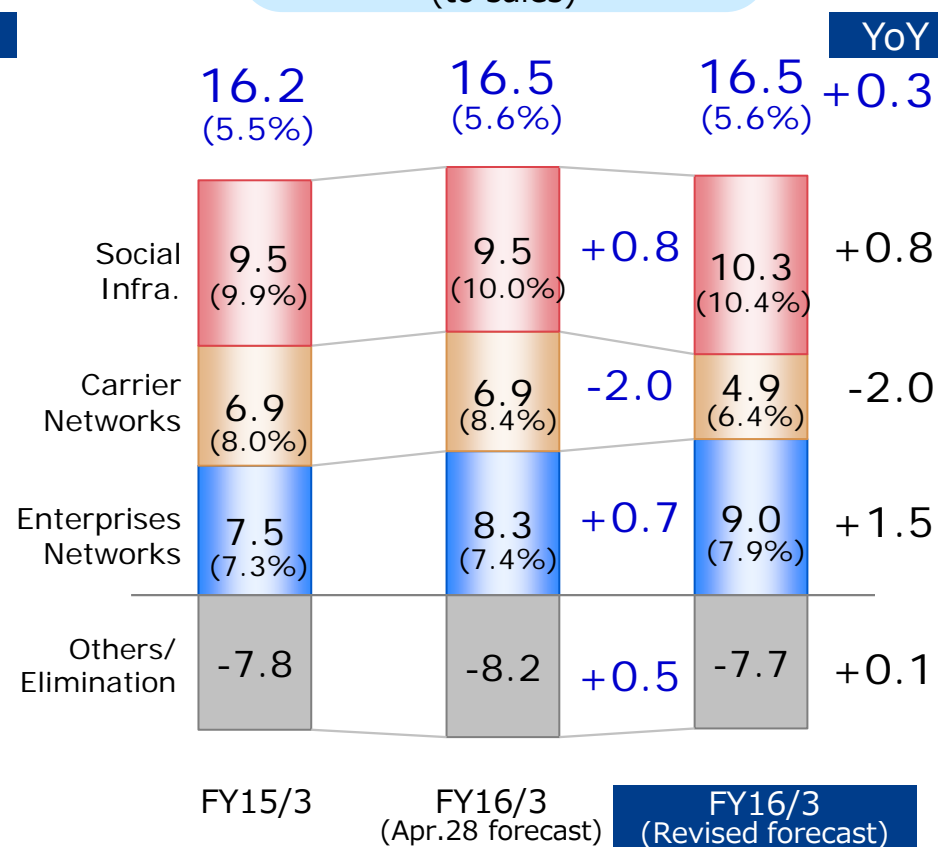
Revised segment forecasts considering environment change and progress in 1H

## Sales



## Operating income

(to sales)



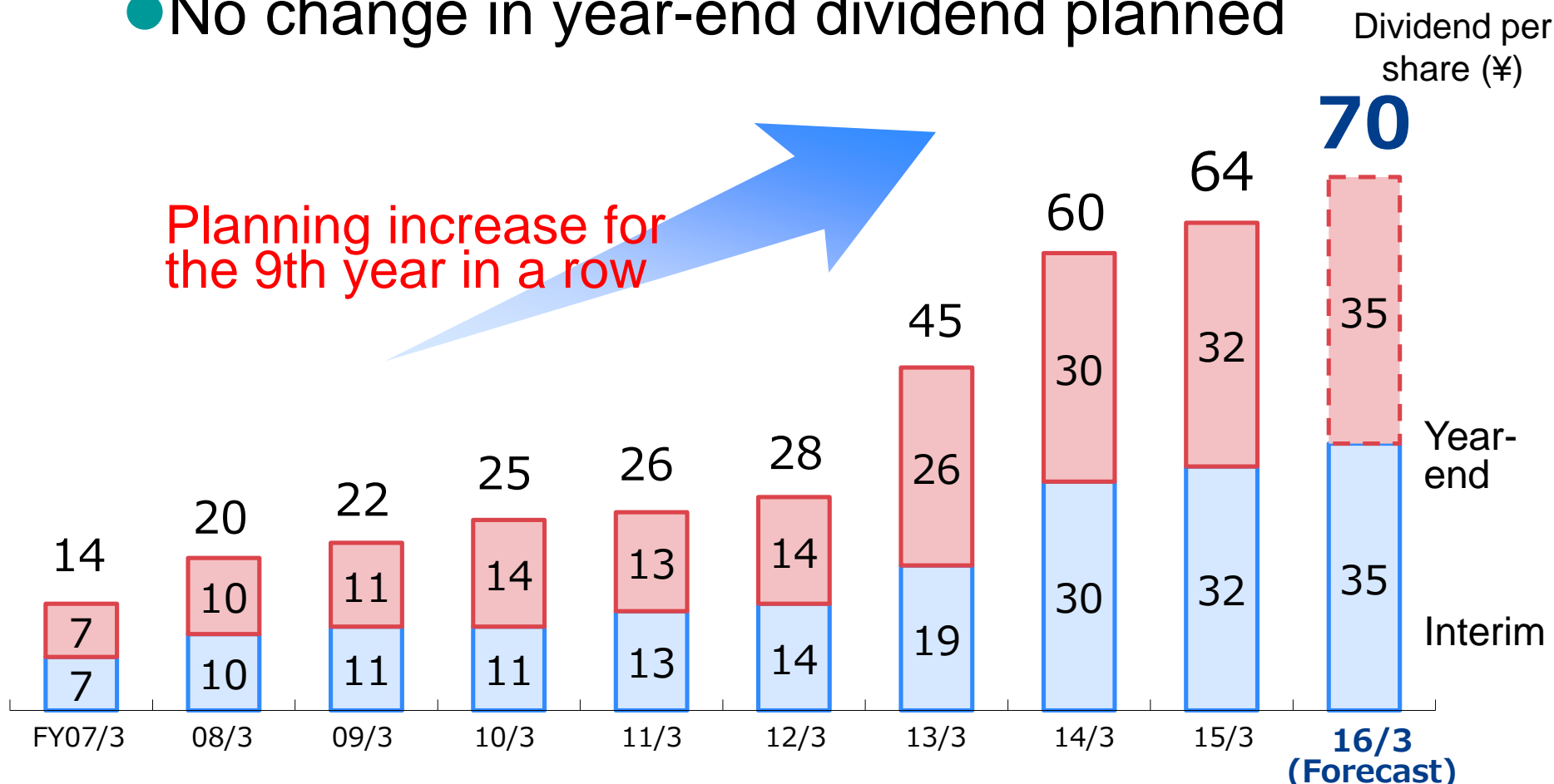
# Dividend Plan

(Forecast as at October 29, 2015)

Payment of interim dividend of ¥35 as planned at the beginning of the fiscal year

- No change in year-end dividend planned

Planning increase for the 9th year in a row





# Cautionary Statement

Forecasts and targets 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.

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 fiscal years ended March 2014 and 2015 has been changed to reflect the change in the content of business segments.

# Re-designing your Communication

NEC Networks & System Integration Corporation is committed to increasing customer value by redesigning future communications from the user's perspective.



# NEC

NEC Networks & System Integration Corporation

<http://www.nesic.co.jp/english/index.html>