Consolidated Financial Statements for the Fiscal Year ended March 31, 2016

28-Apr-16

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 Fiscal Year ended 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 (%)	Profit attributable to owners of parent (¥ million)	Year-on-year change (%)
FY ended March/16	**279,961**	**-4.2**	**14,111**	**-12.7**	**14,133**	**-12.7**	**5,996**	**-23.0**
FY ended March/15	292,164	8.1	16,158	12.1	16,189	11.4	7,791	-5.6

（Note) Comprehensive income : 31/3/2016 : ¥3,553 million (-63.2%) ; 31/3/2015 : ¥9,668 million (10.5%)

	Profit per share (¥)	Profit per share (diluted) (¥)	Return on equity (%)	Ordinary income/ Total assets (%)	Operating income/ Net sales (%)
FY ended March/16	**120.80**	**—**	**6.5%**	**7.1%**	**5.0%**
FY ended March/15	156.72	—	8.7%	8.3%	5.5%

（Reference) Equity in earnings (losses) of affiliates (million) : 31/3/2016 : ¥14million ; 31/3/2015 : ¥12million

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
31-Mar-16	**196,569**	**94,397**	**47.2**	**1,868.25**
31-Mar-15	201,964	94,173	45.8	1,864.61

c.f. Owner's equity: 31/3/2016 ¥92,738million ; 31/03/2015: ¥92,559million

(3) Cash Flows

	Net cash provided by (used in) operating activities (¥ million)	Net cash provided by (used in) investing activities (¥ million)	Net cash provided by (used in) financing activities (¥ million)	Cash and cash equivalents at end of year (¥ million)
FY ended March/16	**9,435** *	**-2,822** *	**-1,402**	**43,889**
FY ended March/15	2,460	-3,929	-4,127	38,951

* Correctd at June 16, 2016

2. Dividends

	Dividends per share (¥)					Total dividends paid (full year)	Payout ratio (consolidated) (%)	Dividends/ Net assets (consolidated
	1st quarter	Interim	3rd quarter	Year-end	Full year			
FY ended 3/2015	—	32.00	—	32.00	64.00	3,179	40.8	3.5
FY ended 3/2016	**—**	**35.00**	**—**	**35.00**	**70.00**	**3,474**	**57.9**	**3.8**
FY ending 3/2017（Projected)	—	36.00	—	36.00	72.00		44.7	

3. Financial Forecasts for Fiscal Year ending March 31, 2017

(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)	(%)	(¥)
6 Months ending Sep/16	120,000	-6.1	3,000	-15.1	3,000	-16.6	1,600	-17.8	32.23
FY ending 3/2017	270,000	-3.6	13,500	-4.4	13,500	-4.5	8,000	33.4	161.16

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 ondefinite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factorsaffecting actual results include the economic climate and social trends surrounding the business of this Company’s group, consumer trends vis-a-vissystems and services provided by this Company’s group, as well as pressure to lower prices and ability to cope with the market in response tointensified competition.Factors affecting results are not limited to the ones mentioned above.

4. Business Results

(1)Business Results for the Fiscal Year Ended March 31, 2016

During the fiscal year ended March 31, 2016 (the period from April 1, 2015 to March 31, 2016), 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.

The environment surrounding the telecom carrier business became more severe, because of the ongoing restraint on capital spending on network infrastructure.

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. Investment in the digitization of fire-fighting and emergency radio systems peaked out in terms of order replacement, as the deadline for migration in May 2016 approached. Installation work remained at a high level but appeared to be gradually peaking- out. 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 active projects such as the digitization of fire-fighting and emergency radio systems. In addition, 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. In February 2016, the Group expanded the functions of the security operation center to enhance its cyber security business, for which needs are increasing. 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	¥279,961 million	4.2% decrease year on year
Operating income	¥14,111 million	12.7% decrease year on year
Ordinary income	¥14,133 million	12.7% decrease year on year
Profit attributable to owners of parent	¥5,996 million	23.0% decrease year on year
＜Reference＞		
Orders received	¥274,946 million	8.1% decrease year on year

Net sales decreased 4.2% year-on-year, to ¥279,961 million. This was caused by a substantial decline in sales in the Carrier Networks business linked to the capital spending controls by telecom carriers, and the peaking-out of sales from projects in response to the digitization of fire-fighting and emergency radio systems. These trends offset the Group's aggressive efforts to take advantage of increasing ICT investment in the Enterprises Networks business, as well as steady public investment in safety and security and in social infrastructure such as earth stations for satellite communications. There was an increase in orders from companies, but overall orders received decreased 8.1% year-on-year to ¥274,946 million because telecom carriers cut the capital spending and the digitization of fire-fighting and emergency radio systems peaked out in terms of order placement.

On the profit front, earnings expanded in the field of the Enterprise Networks thanks to increased sales and improved cost efficiency, but in the field of the Carrier Networks, sales declined significantly 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 ¥14,111 million and ¥14,133 million, respectively. Profit attributable to owners of parent decreased 23.0% year-on-year to ¥5,996 million, reflecting, in addition to the abovementioned results, an extraordinary loss associated with the realignment of domestic subsidiaries, a reversal of deferred tax assets at certain subsidiaries, and a reversal of deferred tax assets associated with a reduction in the effective tax rate due to the tax revision.

Operating results by business segment were as follows:

Net sales by business segment (Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
Fiscal 2016.3	**109,584**	**69,306**	**96,260**	**4,810**	**279,961**
Fiscal 2015.3	102,797	86,164	96,767	6,434	292,164
Increase or decrease	6,786	-16,857	-507	-1,624	-12,202
Ratio of increase/decrease (%)	6.6	-19.6	-0.5	-25.2	-4.2

Reference: Orders received by business segment (Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
Fiscal 2016.3	**109,944**	**66,899**	**91,195**	**6,907**	**274,946**
Fiscal 2015.3	108,909	85,618	99,757	4,812	299,097
Increase or decrease	1,035	-18,718	-8,562	2,095	-24,150
Ratio of increase/decrease (%)	1.0	-21.9	-8.6	43.5	-8.1

1). Enterprises Networks business

Net sales grew 6.6% year on year, to ¥109,584 million, thanks to the Group's active response to its customers' recovery of ICT investment and their need for management reforms in its efforts to increase sales based on its office innovation solution EmpoweredOffice, and to serve demand for PBX renewal.

2). Carrier Networks business

Net sales decreased 19.6% year-on-year to ¥69,306 million, reflecting the impact of the capital spending cuts by telecom carriers.

3). Social Infrastructure business

Net sales remained roughly flat from a year ago at ¥96,260 million. This reflected 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, although sales related to the digitization of fire-fighting and emergency radio systems declined as the deadline for migration in May 2016 drew near.

*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 year has been changed to reflect the change in the content of business segments.

(2) Outlook for the Fiscal Year Ending March 31, 2017

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 financial performance has been falling behind the targets in the first nine months of the fiscal year under review, and conditions in the Carrier Networks business are expected to remain difficult in the fourth quarter of the fiscal year. The Group’s consolidated forecasts for FY2016/3 (April 1, 2015, to March 31, 2016), however, currently remain unchanged from the initial figures owing to its continued efforts to increase earnings by focusing on growth areas, implementing further cost reductions, and carrying out other initiatives.

In the fiscal year ending March 31, 2017, the Japanese economy is expected to continue to show improved business sentiment, reflecting an improvement in corporate earnings and employment, despite uncertainties, including concern over a slowdown in overseas economies.

The ICT industry looks set to continue to face a challenging situation, with telecom carriers expected to curb the capital spending on network infrastructure. Still, some factors are expected to be favorable, including an increase in companies’ investment appetite and continued public investment by the governments.

The Company has been working to achieve continuous growth in the enterprises and public sectors on the back of the solid business environment. However, in the fiscal year ending March 31, 2017, the Company forecasts that sales will decline 3.6%, to ¥270 billion, as projects in response to the digitization of fire-fighting and emergency radio systems, which have performed well in the past few years, end and telecom carriers curb their capital spending.

In the Enterprises Networks business, the Company will seek to expand the business, taking advantage of customers’ increasing willingness to make ICT investments. We will strive to continue to expand sales of the office innovation solution EmpoweredOffice to local companies and municipalities. Meanwhile, we will work to expand the cyber security business, focusing on the security operation center, which we strengthened in the previous fiscal year.

The Carrier Networks business is expected to face a challenging situation as telecom carriers will likely continue to curb the capital spending. However, we will be even more proactive, pursuing initiatives in the business and public sectors and in the IoT field, which is expected to grow, making the most of our assets for telecom carriers and creating and proposing new value-added services.

In the Social Infrastructure business, projects in response to the digitization of fire-fighting and emergency radio systems, which have performed well in the past few years, will end. However, we expect that public investment in infrastructure for safety and security will remain strong and we will be active in response.

On the profit front, we will work to produce results from cost cutting in the Carrier Networks business. However, sales are expected to decline given the end of projects in response to the digitization of fire-fighting and emergency radio systems, and operating income and ordinary income are both forecast to decline to ¥13.5 billion. Profit attributable to owners of parent is expected to increase to ¥8.0 billion without the effect of a reversal of deferred tax assets, which was posted in the fiscal year ended March 31, 2016.

Net sales	¥270 billion	3.6% decrease year on year
Operating income	¥13.5 billion	4.3% decrease year on year
Ordinary income	¥13.5 billion	4.5% decrease year on year
Profit attributable to owners of parent	¥8.0 billion	33.4% increase year on year

(3)Profit Distribution Policy and Dividends for the Fiscal Year Ended March 2016 and the Fiscal Year Ending March 2017

We view the distribution of a reasonable share of profits to shareholders as one of our top management priorities, and make every effort to reinforce the Company’s management foundation, strengthen its financial standing, and increase its earning capacity. While we also place a great deal of importance on increasing our corporate value through growth by accelerating strategic investment in M&A and creating new businesses that will allow us to expand our future services, we strive to continually meet the expectations of our shareholders in our profit distribution.

On that basis, in line with forecasts made previously, we have decided to increase our year-end dividend to ¥35 per share and our annual dividend to ¥70 per share for the fiscal year ended March 2016, rising ¥6 from the previous fiscal year.

The dividend per share for the fiscal year ending March 2017 is expected to be ¥36 for both the interim and full-year periods, increasing our annual dividend to ¥72.

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2015	**As of March 31, 2016**
Assets		
Current assets		
Cash and deposits	38,951	**43,889**
Notes and accounts receivable - trade	113,921	**104,841**
Purchased goods,materials and supplies	2,820	**2,878**
Work in process	7,314	**6,311**
Deferred tax assets	4,778	**4,246**
Other	3,327	**5,514**
Allowance for doubtful accounts	-52	**-44**
Total current assets	171,061	**167,638**
Non-current assets		
Property, plant and equipment		
Buildings and structures	9,885	**9,817**
Accumulated depreciation and impairment loss	-5,576	**-5,422**
Buildings and structures, net	4,309	**4,394**
Machinery, equipment and vehicles	233	**202**
Accumulated depreciation and impairment loss	-215	**-176**
Machinery, equipment and vehicles, net	18	**25**
Tools, furniture and fixtures	13,365	**13,642**
Accumulated depreciation and impairment loss	-10,201	**-10,093**
Tools, furniture and fixtures, net	3,163	**3,549**
Land	2,508	**2,507**
Construction in progress	512	**277**
Other	1,180	**1,053**
Accumulated depreciation and impairment loss	-861	**-839**
Other, net	318	**214**
Total property, plant and equipment	10,830	**10,967**
Intangible assets		
Goodwill	2,728	**1,944**
Other	3,143	**3,080**
Total intangible assets	5,871	**5,025**
Investments and other assets		
Investment securities	550	**412**
Net defined benefit asset	992	**514**
Deferred tax assets	8,578	**8,250**
Other	4,129	**3,801**
Allowance for doubtful accounts	-52	**-41**
Total investments and other assets	14,199	**12,937**
Total non-current assets	30,902	**28,931**
Total assets	201,964	**196,569**

(Millions of yen)

	As of March 31, 2015	**As of March 31, 2016**
Liabilities		
Current liabilities		
Notes and accounts payable - trade	48,662	**39,190**
Short-term loans payable	1,633	**4,154**
Current portion of long-term loans payable	3,168	**163**
Income taxes payable	4,358	**3,883**
Accrued consumption taxes	3,602	**2,423**
Advances received	3,175	**3,721**
Provision for directors' bonuses	125	**99**
Provision for product warranties	280	**189**
Provision for loss on order received	163	**399**
Other	14,132	**12,887**
Total current liabilities	79,302	**67,113**
Non-current liabilities		
Long-term loans payable	1,349	**4,185**
Net defined benefit liability	25,832	**28,960**
Other	1,307	**1,911**
Total non-current liabilities	28,488	**35,057**
Total liabilities	107,790	**102,171**
Net assets		
Shareholders' equity		
Capital stock	13,122	**13,122**
Capital surplus	16,650	**16,650**
Retained earnings	64,932	**67,597**
Treasury shares	-266	**-270**
Total shareholders' equity	94,438	**97,100**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	47	**32**
Foreign currency translation adjustment	2	**-376**
Remeasurements of defined benefit plans	-1,927	**-4,018**
Total accumulated other comprehensive income	-1,878	**-4,362**
Non-controlling interests	1,613	**1,659**
Total net assets	94,173	**94,397**
Total liabilities and net assets	201,964	**196,569**

(2) Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2015	**Year ended March 31, 2016**
Net sales	292,164	**279,961**
Cost of sales	244,054	**234,798**
Gross profit	48,110	**45,162**
Selling, general and administrative expenses	31,951	**31,051**
Operating income	16,158	**14,111**
Non-operating income		
Interest income	70	**59**
Dividend income of insurance	121	**172**
Insurance premiums refunded cancellation	1	**59**
Other	294	**283**
Total non-operating income	486	**574**
Non-operating expenses		
Interest expenses	72	**80**
Loss on retirement of non-current assets	99	**110**
Business restructuring expenses of subsidiaries and affiliates	11	**94**
Other	271	**267**
Total non-operating expenses	455	**553**
Ordinary income	16,189	**14,133**
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	—	**40**
Total extraordinary income	—	**40**
Extraordinary losses		
Amortization of goodwill	413	**464**
Retirement benefit expenses	573	**464**
Affiliated companies transfer cost	378	**140**
Area business restructuring cost	349	**—**
Total extraordinary losses	1,715	**1,070**
Profit before income taxes	14,474	**13,103**
Income taxes - current	5,565	**4,753**
Income taxes - deferred	1,129	**2,195**
Total income taxes	6,695	**6,949**
Profit	7,779	**6,153**
Profit (loss) attributable to non-controlling interests	-12	**157**
Profit attributable to owners of parent	7,791	**5,996**

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Year ended March 31, 2015	**Year ended March 31, 2016**
Profit	7,779	**6,153**
Other comprehensive income		
Valuation difference on available-for-sale securities	19	**-13**
Foreign currency translation adjustment	337	**-496**
Remeasurements of defined benefit plans, net of tax	1,532	**-2,090**
Total other comprehensive income	1,888	**-2,600**
Comprehensive income	9,668	**3,553**
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,580	**3,512**
Comprehensive income attributable to non-controlling interests	87	**40**

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2015	**Year ended March 31, 2016**	
Cash flows from operating activities			
Profit before income taxes	14,474	**13,103**	
Depreciation	2,805	**2,753**	*
Amortization of goodwill	773	**784**	
Increase (decrease) in allowance for doubtful accounts	-1,557	**-12**	
Increase (decrease) in net defined benefit asset	274	**-370**	
Increase (decrease) in net defined benefit liability	978	**593**	
Increase (decrease) in provision for directors' bonuses	20	**-25**	
Increase (decrease) in provision for product warranties	-93	**-90**	
Increase (decrease) in provision for loss on order received	-193	**236**	
Interest and dividend income	-80	**-74**	
Interest expenses	72	**80**	
Decrease (increase) in notes and accounts receivable - trade	-17,156	**8,316**	
Decrease (increase) in inventories	-1,978	**901**	
Increase (decrease) in notes and accounts payable - trade	5,307	**-9,287**	
Increase (decrease) in accrued consumption taxes	1,376	**-1,165**	
Other, net	3,142	**-974**	*
Subtotal	8,164	**14,769**	*
Interest and dividend income received	80	**74**	
Interest expenses paid	-73	**-80**	
Income taxes paid	-5,711	**-5,328**	
Net cash provided by (used in) operating activities	2,460	**9,435**	*
Cash flows from investing activities			
Purchase of securities	-5,000	**—**	
Proceeds from redemption of securities	5,000	**—**	
Purchase of property, plant and equipment	-2,819	**-2,417**	
Proceeds from sales of property, plant and equipment	16	**6**	
Purchase of intangible assets	-786	**-631**	
Purchase of investment securities	-8	**-11**	
Payments of loans receivable	-6	**-4**	
Collection of loans receivable	6	**6**	
Proceeds from sales of shares of subsidiaries and associates	—	**151**	
Payments for liquidation of subsidiaries	-109	**—**	
Other, net	-222	**78**	*
Net cash provided by (used in) investing activities	-3,929	**-2,822**	*
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	-213	**2,623**	
Repayments of long-term loans payable	-172	**-3,168**	
Proceeds from long-term loans payable	—	**3,000**	
Proceeds from sale and purchase of treasury stock, net	-202	**-3**	
Cash dividends paid	-3,077	**-3,326**	
Dividends paid to non-controlling interests	-16	**-18**	
Other, net	-445	**-509**	
Net cash provided by (used in) financing activities	-4,127	**-1,402**	
Effect of exchange rate change on cash and cash equivalents	114	**-272**	
Net increase (decrease) in cash and cash equivalents	-5,482	**4,938**	
Cash and cash equivalents at beginning of period	44,434	**38,951**	
Cash and cash equivalents at end of period	38,951	**43,889**	

* Correctd at June 16, 2016

(4) Segment Information

Business Segment

Year ended March 31, 2016

(Millions of yen)

	Enterprises Networks	**Carrier Networks**	**Social Infrastructures**	**Others**	**Adjustments**	**Total**
Orders received	**109,944**	**66,899**	**91,195**	**6,907**	**---**	**274,946**
Sales						
(1) Sales to third	**109,584**	**69,306**	**96,260**	**4,810**	**---**	**279,961**
(2) Intersegment sales	**---**	**---**	**---**	**---**	**---**	**---**
Total	**109,584**	**69,306**	**96,260**	**4,810**	**---**	**279,961**
Operating income and loss	**8,900**	**3,503**	**9,490**	**376**	**-8,159**	**14,111**

Year ended March 31, 2015

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	108,909	85,618	99,757	4,812	---	299,097
Sales						
(1) Sales to third parties	102,797	86,164	96,767	6,434	---	292,164
(2) Intersegment sales	---	---	---	---	---	---
Total	102,797	86,164	96,767	6,434	---	292,164
Operating income and loss	7,464	6,920	9,548	93	-7,868	16,158