

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

NEC Networks &amp; 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, 2016 to June 30, 2016)  
of Fiscal Year ending March 31, 2017**

(Rounded down to the nearest million yen.)

**(1) Net Sales and Income**

	Net sales (¥ million)	Year-on-year change (%)	Operating income	Year-on-year change (%)	Ordinary income	Year-on-year change (%)
<b>3 months ended June 2016</b>	<b>52,649</b>	<b>-7.7</b>	<b>-456</b>	<b>—</b>	<b>-517</b>	<b>—</b>
3 months ended June 2015	57,045	-0.3	762	157.4	872	129.7

	Net income attributable to owners of the parent (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
<b>3 months ended June 2016</b>	<b>-534</b>	<b>—</b>	<b>-10.77</b>	<b>—</b>
3 months ended June 2015	355	242.3	7.17	—

c.f. Comprehensive income: 1Q/FY Mar 2017: ¥-450 million (- %); 1Q/FY Mar 2016: ¥328 million (41.7%)

**(2) Financial Position**

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
<b>30/Jun/2016</b>	<b>177,613</b>	<b>92,259</b>	<b>51.0</b>	<b>1,823.90</b>
31/Mar/2016	196,569	94,397	47.2	1,868.25

c.f. Owner's equity: 30/Jun/2016: ¥90,536 million; 31/Mar/2016: ¥92,738 million

**2. Dividends**

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended Mar. 2016	—	35.00	—	35.00	70.00
<b>FY ending Mar. 2017</b>	—	<b>36.00</b> ※	— ※	<b>36.00</b> ※	<b>72.00</b> ※

※ Forecasts

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

**3. Financial Forecasts for Fiscal Year ending March 31, 2017 (April 1, 2016 to March 31, 2017)**

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
6 months ending Sep. 2016	120,000	-6.1	3,000	-15.1	3,000	-16.6	1,600	-17.8	32.23
FY ending Mar. 2017	270,000	-3.6	13,500	-4.3	13,500	-4.5	8,000	33.4	161.16

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, 2017

During the 1Q for the fiscal year ending March 31, 2017 (the period from April 1, 2016 to June 30, 2016), the Japanese economy continued to experience a moderate recovery, supported by the effects of various policies amid the continued improvement of employment and income conditions. However, there were some signs of weaknesses, such as the slower pace of improvement in corporate earnings.

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, the recovery of ICT investments continued. Investments for enhancing business management and competitiveness, in particular, work style innovation, remained firm, while corporate managers continued to hold critical views on the effects of investment.

The environment surrounding the telecom carrier business remained 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, while a sense of firmness in investments implemented under the concept of safety and security and for the improvement of urban infrastructure remained unchanged, investment in the digitalization of fire-fighting and emergency radio systems came to an end with the arrival of the deadline for migration from analog systems in May 2016.

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

Positioning the current fiscal year as a year to consolidate a foothold for regrowth over the medium term in this market environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) strived to strengthen their priority business fields such as EmpoweredOffice\*, IoT and MVNO by reinforcing their sales capabilities and proactively developing promotion activities and demonstration experiments for their solutions. The Group also moved forward with initiatives to strengthen its business capability, such as by developing the next generation of core systems and improving the cost effectiveness. Overseas, the Group also strengthened its efforts in the Myanmar market, into which it made a full-scale entry in the previous fiscal year, by establishing ICT Star Group Myanmar Co., Ltd., an overseas subsidiary, in April 2016 through joint venture with local companies. The purpose of this joint venture is to strengthen its business base and further expand its business by securing and cultivating engineers in Myanmar where infrastructure investment is expected to grow in the future.

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

Net sales	¥52,649 million	¥4,395 million	decrease year on year
Operating income (loss)	(¥456 million)	¥1,218 million	decrease year on year
Ordinary income (loss)	(¥517 million)	¥1,389 million	decrease year on year
Net income (loss) attributable to owners of the parent	(¥534 million)	¥890 million	decrease year on year
< Reference >			
Orders received	¥60,843 million	¥9,688 million	decrease year on year

Net sales decreased 7.7% year on year, to ¥52,649 million. This was caused by a substantial decline in sales in the Carrier Networks business linked to the restraint on capital spending by telecom carriers and the completion of projects in response to the digitization of fire-fighting and emergency radio systems, despite the increase in overseas sales. Orders received decreased 13.7% year on year to ¥60,843 million, due mainly to the effect of postponing projects in some social infrastructure areas to the second quarter or later, in addition to the effects of the restraint on capital spending by telecom carriers and the completion of projects in response to the digitization of fire-fighting and emergency radio systems.

On the profit front, operating income and ordinary income declined ¥1,218 million and ¥1,389 million year on year, to losses of ¥456 million and ¥517 million respectively, chiefly reflecting the significant decrease in net sales, despite an improvement in the cost of sales ratio in the Enterprises Networks and the Carrier Networks businesses through the improvement of cost effectiveness. As a result, net income attributable to owners of the parent decreased ¥890 million year on year, to a loss of ¥534 million.

Operating results by business segment were as follows:

**Net sales by business segment**

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
<b>1Q Fiscal 2017.3</b>	23,253	13,109	14,794	1,492	52,649
1Q Fiscal 2016.3	23,502	16,511	16,209	822	57,045
Increase or decrease	-249	-3,401	-1,414	670	-4,395
Ratio of increase/decrease (%)	-1.1	-20.6	-8.7	81.6	-7.7

**Reference: Orders received by business segment**

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
<b>1Q Fiscal 2017.3</b>	25,724	14,143	19,867	1,107	60,843
1Q Fiscal 2016.3	25,156	17,913	26,210	1,251	70,531
Increase or decrease	568	-3,770	-6,342	-143	-9,688
Ratio of increase/decrease (%)	2.3	-21.0	-24.2	-11.5	-13.7

1. Enterprises Networks business

Net sales decreased 1.1% year on year, to ¥23,253 million, reflecting the overconcentration of sales for projects in the first half on the second quarter, although ICT investment for the reform of work style remained firm.

2. Carrier Networks business

Net sales declined 20.6% year on year, to ¥13,109 million, due to the effect of further cuts in capital spending by telecom carriers, particularly in mobile communications base stations.

3. Social Infrastructure business

Despite an increase in overseas sales, net sales dropped 8.7% year on year, to ¥14,794 million, reflecting a fall in sales related to the digitalization of fire-fighting and emergency radio systems because of the arrival of the deadline for migration from analog systems in May 2016.

**\*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

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

The Japanese economy is expected to show a moderate recovery trend, reflecting the effect of economic measures by the government and improvements in the employment and income conditions. However, it continues to face a risk of downward pressure due to such factors as the sharp appreciation of the yen and concerns over a downturn in the overseas economy. Capital spending by telecom carriers is also expected to remain restrained.

In this environment, the Company's business results, as a Group, continue to be affected by the severe operating environment in the Carrier Networks business. However, its consolidated forecast for the fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017) remains

unchanged from the initial forecast as of this moment, given that the Group will continue to make efforts to improve its earnings by focusing on growth areas and promoting further cost reductions.

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
Net income attributable to owners of the parent	¥8.0 billion	33.4% increase year on year

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of June 30, 2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	43,889	60,346
Notes and accounts receivable	104,841	65,995
Purchased goods, materials and supplies	2,878	2,742
Work in process	6,311	8,658
Other	9,760	11,520
Allowance for doubtful accounts	-44	-41
Total current assets	<u>167,638</u>	<u>149,222</u>
Non-current assets		
Property and equipment	10,967	10,849
Intangible assets		
Goodwill	1,944	1,880
Other	3,080	2,935
Total intangible assets	<u>5,025</u>	<u>4,815</u>
Investments and other assets		
Other	12,979	12,764
Allowance for doubtful accounts	-41	-38
Total investments and other assets	<u>12,937</u>	<u>12,726</u>
Total non-current assets	<u>28,931</u>	<u>28,391</u>
Total assets	<u>196,569</u>	<u>177,613</u>
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	39,190	24,871
Short-term bank loans	4,154	4,385
Current installments of long-term debt	163	164
Accrued income taxes	3,883	384
Accrued bonuses to directors and corporate auditors	99	17
Accrued warranty on products	189	171
Accrued losses on sales contracts	399	580
Other current liabilities	19,032	19,894
Total current liabilities	<u>67,113</u>	<u>50,468</u>
Long-term liabilities		
Long-term debt	4,185	4,142
Liabilities for retirement benefits	28,960	28,808
Other liabilities	1,911	1,933
Total long-term liabilities	<u>35,057</u>	<u>34,885</u>
Total liabilities	<u>102,171</u>	<u>85,354</u>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,652
Retained earnings	67,597	65,325
Treasury stock, at cost	-270	-270
Total shareholders' equity	<u>97,100</u>	<u>94,829</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	32	24
Foreign currency translation adjustments	-376	-483
Accumulated adjustments for retirement benefits	-4,018	-3,834
Total accumulated other comprehensive income	<u>-4,362</u>	<u>-4,293</u>
Non-controlling interests	1,659	1,722
Total net assets	<u>94,397</u>	<u>92,259</u>
Total liabilities and net assets	<u>196,569</u>	<u>177,613</u>

**(2) Consolidated Statements of Income and Comprehensive Income****(Consolidated Statements of Income)**

(Millions of yen)

	1Q, FY March 2016 (3 months ended June 2015)	1Q, FY March 2017 (3 months ended June 2016)
Net sales	57,045	52,649
Cost of sales	48,485	44,987
Gross profit	8,559	7,661
Selling, general and administrative expenses	7,797	8,118
Operating income (loss)	762	-456
Non-operating income		
Interest income	15	9
Insurance income	22	21
Other	123	72
Total non-operating income	160	102
Non-operating expenses		
Interest expenses	18	21
Foreign exchange losses	2	35
Other	29	106
Total non-operating expenses	50	163
Ordinary income (loss)	872	-517
Extraordinary losses		
Closing of affiliates cost	-	59
Retirement benefit expenses	268	-
Total extraordinary losses	268	59
Income (loss) before income taxes	604	-576
Income taxes	209	-98
Net income (loss)	394	-478
Net income (loss) attributable to non-controlling interests	38	55
Net income (loss) attributable to owners of the parent	355	-534

(Millions of yen)

	1Q, FY March 2016 (3 months ended June 2015)	1Q, FY March 2017 (3 months ended June 2016)
Net income (loss)	394	-478
Other comprehensive income		
Net unrealized holding loss on other securities	3	-6
Foreign currency translation adjustments	-170	-149
Adjustments for retirement benefit	101	184
Total other comprehensive income	-66	28
Comprehensive income (loss)	328	-450
Comprehensive income (loss) attributable to:		
Owners of the parent	303	-465
Non-controlling interests	24	15



**(3) Consolidated Statements of Cash Flows**

(Millions of yen)

	1Q, FY March 2016 (3 months ended June 2015)	1Q, FY March 2017 (3 months ended June 2016)
<b>Cash flows from operating activities</b>		
Net income (loss) before income taxes	604	-576
Depreciation and amortization	653	714
Amortization of goodwill	79	63
Increase (decrease) in asset for retirement benefit	-31	-16
Increase (decrease) in liability for retirement	295	114
Increase (decrease) in accrued bonuses to directors and	-102	-82
Increase (decrease) in accrued warranty on	-29	-18
Increase (decrease) in accrued losses on sales contracts	-91	182
Interest and dividend income	-25	-15
Interest expense	18	21
(Increase) decrease in notes and accounts	42,359	38,385
(Increase) decrease in inventories	-3,040	-2,226
Increase (decrease) in notes and accounts payable	-14,940	-14,232
Increase (decrease) in accrued consumption taxes	-2,334	-1,241
Other, net	-787	956
Subtotal	22,627	22,027
Interest and dividend income received	25	15
Interest paid	-12	-18
Income taxes paid	-4,065	-3,486
Net cash provided by (used in) operating activities	18,575	18,538
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	-449	-440
Purchase of intangibles	-227	-91
Purchase of investment securities	-1	-1
Loans receivable made	-1	-1
Collection of loans receivable	2	1
Other, net	-196	-27
Net cash used in investing activities	-874	-561
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term bank loans	1,408	415
Repayments of long-term debt	-42	-42
Dividends paid to shareholders	-1,578	-1,725
Dividends paid to minority shareholders of	-14	-11
Other, net	-125	-125
Net cash provided by used in financing activities	-352	-1,488
Effect of exchange rate changes on cash and cash equivalents	-209	-32
Net increase (decrease) in cash and cash equivalents	17,139	16,456
Cash and cash equivalents at beginning of period	38,951	43,889
Cash and cash equivalents at end of period	56,091	60,346

#### (4) Segment Information

##### Business Segment Information

First quarter of fiscal March 2017 (3 months ended June 2016)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	23,253	13,109	14,794	1,492	-	52,649
(2) Intersegment sales	-	-	-	-	-	-
Total	23,253	13,109	14,794	1,492	-	52,649
Operating income and loss	1,515	157	-51	51	-2,129	-456

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