

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 Half (April 1, 2016 to September 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 (%)
6 months ended September 2016	118,833	-7.0	1,725	-51.2	1,852	-48.5
6 months ended September 2015	127,834	-2.1	3,531	-21.5	3,597	-22.8

	Net income attributable to owners of the parent (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
6 months ended September 2016	1,011	-48.0	20.39	—
6 months ended September 2015	1,945	-27.6	39.19	—

c.f. Comprehensive income: 1H/FY Mar 2017: ¥1,072 million (-50.9%); 1H/FY Mar 2016: ¥2,184 million (-26.3%)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
30/Sep/2016	185,036	93,782	49.8	1,855.05
31/Mar/2016	196,569	94,397	47.2	1,868.25

c.f. Owner's equity: 30/Sep/2016: ¥92,081 million; 31/Mar/2016: ¥92,738 million

2. Dividends

	Dividends per share (¥)					※ Forecasts
	1st quarter	Interim	3rd quarter	Year-end	Full year	
FY ending Mar. 2017	—	36.00	— ※	36.00 ※	72.00 ※	
FY ended Mar. 2016	—	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, 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)	(%)	(¥)
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 1H for the Fiscal Year Ending March 31, 2017

During the 1H for the fiscal year ending March 31, 2017 (the period from April 1, 2016 to September 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 weakness, such as a standstill in the improvement of 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 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, a sense of firmness in investments implemented under the concept of safety and security and for the improvement of urban infrastructure remained unchanged.

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 for consolidating its foothold for regrowth in the medium term in this market environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) worked to reinforce their sales capabilities and actively develop promotion activities for solutions, while moving forward internally with initiatives to strengthen the Group’s business capabilities, such as the development of next-generation ERP systems and the continuous improvement of cost effectiveness. For enterprises, it launched NetsVoice, a cloud-based voice service, to drive service-oriented businesses by addressing demand for PBX renewals, and also opened an IoT laboratory to conduct validations and evaluations of customers’ IoT solutions while they are under development. By doing so, the Group proceeded with measures for expanding its strategic business fields such as EmpoweredOffice*, IoT and MVNO.

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 1H under review:

Net sales	¥118,833 million	7.0% decrease year on year
Operating income	¥1,725 million	51.2% decrease year on year
Ordinary income	¥1,852 million	48.5% decrease year on year
Net income attributable to owners of the parent	¥1,011 million	48.0% decrease year on year
< Reference >		
Orders received	¥144,385 million	2.0% increase year on year

Net sales decreased 7.0% year on year, to ¥118,833 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. Another factor was the completion of projects in response to the digitization of fire-fighting and emergency radio systems, despite the increase in overseas sales. Orders received increased 2.0% year on year, to ¥144,385 million, due to solid sales to enterprises and orders for large-scale projects for the construction of solar power generation plants, despite such effects as 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 ¥1,806 million and ¥1,744 million year on year, respectively, to ¥1,725 million and ¥1,852 million, chiefly reflecting the significant decrease in net sales, despite an improvement in the cost of sales ratio mainly in the Enterprises Networks and Carrier Networks businesses due to the improvement of cost effectiveness. As a result, net income attributable to owners of the parent also decreased ¥933 million year on year, to ¥1,011 million.

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 2017.3	52,060	28,477	34,928	3,366	118,833
1H Fiscal 2016.3	50,956	35,618	39,373	1,886	127,834
Increase or decrease	1,104	-7,141	-4,445	1,480	-9,001
Ratio of increase/decrease (%)	2.2	-20.0	-11.3	78.5	-7.0

Reference: Orders received by business segment

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1H Fiscal 2017.3	60,512	35,210	45,565	3,096	144,385
1H Fiscal 2016.3	52,839	34,712	51,010	2,936	141,500
Increase or decrease	7,672	497	-5,445	159	2,885
Ratio of increase/decrease (%)	14.5	1.4	-10.7	5.4	2.0

1. Enterprises Networks business

Net sales increased 2.2% year on year, to ¥52,060 million, reflecting solid sales of EmpoweredOffice, a solution for office innovation, as ICT investment for work style reform remained firm.

2. Carrier Networks business

Net sales declined 20.0% year on year, to ¥28,477 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 and broadcast/cable TV business, net sales dropped 11.3% year on year, to ¥34,928 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 Enterprises Networks and Social Infrastructure businesses 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 September 30, 2016
Assets		
Current assets		
Cash and cash equivalents	43,889	60,237
Notes and accounts receivable	104,841	74,921
Purchased goods, materials and supplies	2,878	2,819
Work in process	6,311	8,171
Other	9,760	10,861
Allowance for doubtful accounts	(44)	(45)
Total current assets	<u>167,638</u>	<u>156,966</u>
Non-current assets		
Property and equipment	10,967	11,021
Intangible assets		
Goodwill	1,944	1,816
Other	3,080	2,793
Total intangible assets	<u>5,025</u>	<u>4,610</u>
Investments and other assets		
Other	12,979	12,475
Allowance for doubtful accounts	(41)	(37)
Total investments and other assets	<u>12,937</u>	<u>12,437</u>
Total non-current assets	<u>28,931</u>	<u>28,070</u>
Total assets	<u>196,569</u>	<u>185,036</u>
Liabilities		
Current liabilities		
Notes and accounts payable	39,190	31,002
Short-term bank loans	4,154	4,305
Current installments of long-term debt	163	164
Accrued income taxes	3,883	1,048
Accrued bonuses to directors and corporate auditors	99	33
Accrued warranty on products	189	142
Accrued losses on sales contracts	399	919
Other current liabilities	19,032	18,705
Total current liabilities	<u>67,113</u>	<u>56,323</u>
Long-term liabilities		
Long-term debt	4,185	4,100
Liabilities for retirement benefits	28,960	28,694
Other liabilities	1,911	2,137
Total long-term liabilities	<u>35,057</u>	<u>34,931</u>
Total liabilities	<u>102,171</u>	<u>91,254</u>
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,652
Retained earnings	67,597	66,872
Treasury stock, at cost	(270)	(270)
Total shareholders' equity	<u>97,100</u>	<u>96,375</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	32	36
Foreign currency translation adjustments	(376)	(640)
Accumulated adjustments for retirement benefits	(4,018)	(3,689)
Total accumulated other comprehensive income	<u>(4,362)</u>	<u>(4,293)</u>
Non-controlling interests	1,659	1,700
Total net assets	<u>94,397</u>	<u>93,782</u>
Total liabilities and net assets	<u>196,569</u>	<u>185,036</u>

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

(Millions of yen)

	1H, FY March 2016 (6 months ended Sep. 2015)	1H, FY March 2017 (6 months ended Sep. 2016)
Net sales	127,834	118,833
Cost of sales	108,691	100,748
Gross profit	19,143	18,085
Selling, general and administrative expenses	15,611	16,359
Operating income	3,531	1,725
Non-operating income		
Interest income	32	21
Insurance income	172	190
Other	177	154
Total non-operating income	382	366
Non-operating expenses		
Interest expenses	35	42
Other	282	195
Total non-operating expenses	317	238
Ordinary income	3,597	1,852
Extraordinary income		
Gain on sale of investment in affiliates	40	–
Total extraordinary income	40	–
Extraordinary losses		
Closing of affiliates cost	–	79
Retirement benefit expenses	464	–
Relocation expenses for subsidiaries	116	–
Total extraordinary losses	581	79
Income before income taxes	3,056	1,773
Income taxes	1,073	655
Net income	1,982	1,118
Net income attributable to non-controlling	37	106
Net income attributable to owners of the parent	1,945	1,011

(Millions of yen)

	1H, FY March 2016 (6 months ended Sep. 2015)	1H, FY March 2017 (6 months ended Sep. 2016)
Net income	1,982	1,118
Other comprehensive income		
Net unrealized holding loss on other securities	(14)	4
Foreign currency translation adjustments	(137)	(378)
Adjustments for retirement benefit	353	328
Total other comprehensive income	201	(45)
Comprehensive income	2,184	1,072
Comprehensive income attributable to:		
Owners of the parent	2,171	1,080
Non-controlling interests	12	(7)

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	1H, FY March 2016 (6 months ended Sep. 2015)	1H, FY March 2017 (6 months ended Sep. 2016)
Cash flows from operating activities		
Net income before income taxes	3,056	1,773
Depreciation and amortization	1,352	1,431
Amortization of goodwill	159	127
Increase (decrease) in asset for retirement benefit	(61)	(63)
Increase (decrease) in liability for retirement benefits	646	275
Increase (decrease) in accrued bonuses to directors and	(81)	(65)
Increase (decrease) in accrued warranty on	(67)	(47)
Increase (decrease) in accrued losses on sales contracts	(44)	524
Interest and dividend income	(43)	(28)
Interest expense	35	42
(Increase) decrease in notes and accounts	31,012	28,735
(Increase) decrease in inventories	(1,563)	(1,849)
Increase (decrease) in notes and accounts payable	(12,545)	(7,944)
Increase (decrease) in accrued consumption taxes	(2,075)	(1,214)
Other, net	(157)	954
Subtotal	19,621	22,653
Interest and dividend income received	43	28
Interest paid	(34)	(42)
Income taxes paid	(4,113)	(3,564)
Net cash provided by (used in) operating activities	15,516	19,074
Cash flows from investing activities		
Purchase of property and equipment	(1,347)	(991)
Purchase of intangibles	(411)	(172)
Purchase of investment securities	(4)	(4)
Loans receivable made	(2)	(1)
Collection of loans receivable	3	2
Proceeds from sales of investments in affiliates	151	–
Other, net	(361)	(36)
Net cash used in investing activities	(1,973)	(1,204)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	1,872	626
Repayments of long-term debt	(84)	(84)
Dividends paid to shareholders	(1,590)	(1,735)
Dividends paid to minority shareholders of	(18)	(14)
Other, net	(235)	(249)
Net cash provided by used in financing activities	(56)	(1,458)
Effect of exchange rate changes on cash and cash equivalents	(184)	(64)
Net increase (decrease) in cash and cash equivalents	13,301	16,347
Cash and cash equivalents at beginning of period	38,951	43,889
Cash and cash equivalents at end of period	52,253	60,237

(4) Segment Information

Business Segment Information

First half of fiscal March 2017 (6 months ended September 2016)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	52,060	28,477	34,928	3,366	-	118,833
(2) Intersegment sales	-	-	-	-	-	-
Total	52,060	28,477	34,928	3,366	-	118,833
Operating income (loss)	3,621	1,048	1,459	106	(4,511)	1,725

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

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	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 (loss)	3,432	1,430	2,587	196	(4,115)	3,531