

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 Nine Months (April 1, 2016 to December 31, 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 (%)
9 months/FY Mar 2017	179,314	-7.6	3,456	-47.9	3,594	-46.9
9 months / FY Mar 2016	194,120	-3.1	6,634	-20.9	6,768	-21.0

	Net income attributable to owners of the parent (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
9 months/FY Mar 2017	2,132	-46.8	42.96	—
9 months/ FY Mar 2016	4,007	-21.8	80.74	—

c.f. Comprehensive income: 9 Months/FY Mar 2017: ¥2,341 million (-50.4%); 9 Months/FY Mar 2016: ¥4,717 million (-18.0%)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
31/Dec/2016	184,006	93,262	49.7	1,843.92
31/Mar/2016	196,569	94,397	47.2	1,868.25

c.f. Owner's equity: 31/Dec/2017: ¥91,528 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	260,000	-7.1	10,000	-29.1	10,000	-29.2	6,000	0.1	120.87

Note: Revisions to projected results for the quarter under review: yes

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 First Nine Months for the Fiscal Year Ending March 31, 2017

During the First Nine Months for the fiscal year ending March 31, 2017 (the period from April 1, 2016 to December 31, 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, while corporate managers continued to hold critical views on the effects of investment, there was active investment for enhancing business management and competitiveness, including investment in work style innovation.

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, investments for the safety and security and for the improvement of urban infrastructure, including infrastructure in the broadcasting business, remained firm. Meanwhile, there was weakness in some areas, such as the public sector (roads, etc.), in which there were delays in bidding.

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 it also opened an IoT laboratory to conduct validations and evaluations of customers’ IoT solutions while they are under development and a new base for providing technical services for IoT devices and other equipment. By doing so, the Group proceeded with measures for expanding its strategic business fields such as EmpoweredOffice[®], IoT/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 First Nine Months under review:

Net sales	¥179,314 million	7.6%	decrease year on year
Operating income	¥3,456 million	47.9%	decrease year on year
Ordinary income	¥3,594 million	46.9%	decrease year on year
Net income attributable to owners of the parent	¥21,32 million	46.8%	decrease year on year
< Reference >			
Orders received	¥202,127 million	2.4%	increase year on year

Net sales decreased 7.6% year on year, to ¥179,314 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, despite an increase in sales to other enterprises. Another factor was the completion of projects in response to the digitalization of fire-fighting and emergency radio systems in May 2016. Orders received increased 2.4% year on year, to ¥202,127 million, due to solid sales to enterprises and orders for large-scale projects for the construction of solar power generation plants, despite effects such as the restraint on capital spending by telecom carriers and the completion of projects in response to the digitalization of fire-fighting and emergency radio systems.

On the profit front, operating income and ordinary income declined ¥3,177 million and ¥3,174 million year on year, respectively, to ¥3,456 million and ¥3,594 million, chiefly reflecting the significant decrease in net sales and increases in pro forma standard tax and the development of next-generation ERP systems costs, despite an improvement in the cost of sales ratio mainly in the Enterprise 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 ¥1,875 million year on year, to ¥2,132 million.

Operating results by business segment were as follows:

Net sales by business segment

(Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
9M Fiscal 2017.3	77,404	42,646	54,311	4,951	179,314
9M Fiscal 2016.3	76,637	50,484	63,735	3,263	194,120
Increase or decrease	766	-7,837	-9,423	1,688	-14,806
Ratio of increase/decrease (%)	1.0	-15.5	-14.8	51.7	-7.6

Reference: Orders received by business segment

(Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
9M Fiscal 2017.3	85,354	50,054	62,359	4,359	202,127
9M Fiscal 2016.3	77,207	48,927	66,740	4,548	197,423
Increase or decrease	8,146	1,127	-4,381	-188	4,704
Ratio of increase/decrease (%)	10.6	2.3	-6.6	-4.1	2.4

1. Enterprise Networks business

Net sales increased 1.0% year on year, to ¥77,404 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 15.5% year on year, to ¥42,646 million, due to the effect of cut in capital spending by telecom carriers, particularly in mobile communications base stations.

3. Social Infrastructures business

Despite an increase in broadcast/cable TV business, net sales dropped 14.8% year on year, to ¥54,311 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
Enterprise 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 Infrastructures	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

Consolidated net sales in the fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017) are forecast to be ¥260 billion, a decline of ¥10 billion from the previous forecast, chiefly reflecting the effects of intensifying competition and delays in bidding mainly in the public sector (roads, etc.) in the Social Infrastructures business and lower-than-expected sales in broadcast/cable TV business, a growth field, although the business will perform well. Both operating income and ordinary income are forecast to decline ¥3.5 billion respectively from the previous forecast, to ¥10.0 billion. Net income attributable to owners of the parent is expected to be ¥2.0 billion less than the previous forecast.

Net sales	¥260 billion	7.1% decrease year on year
Operating income	¥10.0 billion	29.1% decrease year on year
Ordinary income	¥10.0 billion	29.2% decrease year on year
Net income attributable to owners of the parent	¥6.0 billion	0.1% increase year on year

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	43,889	56,599
Notes and accounts receivable	104,841	76,731
Purchased goods, materials and supplies	2,878	2,648
Work in process	6,311	9,501
Other	9,760	10,675
Allowance for doubtful accounts	(44)	(50)
Total current assets	<u>167,638</u>	<u>156,105</u>
Non-current assets		
Property and equipment	10,967	10,785
Intangible assets		
Goodwill	1,944	1,753
Other	3,080	2,945
Total intangible assets	<u>5,025</u>	<u>4,698</u>
Investments and other assets		
Other	12,979	12,454
Allowance for doubtful accounts	(41)	(37)
Total investments and other assets	<u>12,937</u>	<u>12,416</u>
Total non-current assets	<u>28,931</u>	<u>27,900</u>
Total assets	<u>196,569</u>	<u>184,006</u>
Liabilities		
Current liabilities		
Notes and accounts payable	39,190	30,200
Short-term bank loans	4,154	4,207
Current installments of long-term debt	163	171
Accrued income taxes	3,883	1,044
Accrued bonuses to directors and corporate auditors	99	19
Accrued warranty on products	189	125
Accrued losses on sales contracts	399	339
Other current liabilities	19,032	19,771
Total current liabilities	<u>67,113</u>	<u>55,881</u>
Long-term liabilities		
Long-term debt	4,185	4,057
Liabilities for retirement benefits	28,960	28,688
Other liabilities	1,911	2,116
Total long-term liabilities	<u>35,057</u>	<u>34,861</u>
Total liabilities	<u>102,171</u>	<u>90,743</u>
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,652
Retained earnings	67,597	66,205
Treasury stock, at cost	(270)	(271)
Total shareholders' equity	<u>97,100</u>	<u>95,708</u>
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	32	42
Foreign currency translation adjustments	(376)	(677)
Accumulated adjustments for retirement benefits	(4,018)	(3,545)
Total accumulated other comprehensive income	<u>(4,362)</u>	<u>(4,179)</u>
Non-controlling interests	1,659	1,733
Total net assets	<u>94,397</u>	<u>93,262</u>
Total liabilities and net assets	<u>196,569</u>	<u>184,006</u>

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

(Millions of yen)

	FY Mar/2016 1Q-3Q (9 months ended Dec. 2015)	FY/Mar 2017 1Q-3Q (9 months ended Dec. 2016)
Net sales	194,120	179,314
Cost of sales	164,326	151,381
Gross profit	29,793	27,932
Selling, general and administrative expenses	23,159	24,476
Operating income	6,634	3,456
Non-operating income		
Interest income	44	31
Insurance income	172	190
Other	291	219
Total non-operating income	509	441
Non-operating expenses		
Interest expenses	57	65
Business reconstruction expenses for subsidiaries	43	78
Other	273	159
Total non-operating expenses	374	303
Ordinary income	6,768	3,594
Extraordinary income		
Gain on sale of investment in affiliates	40	-
Total extraordinary income	40	-
Extraordinary losses		
Closing of affiliates cost	-	87
Retirement benefit expenses	464	-
Relocation expenses for subsidiaries	118	-
Total extraordinary losses	583	87
Income before income taxes	6,225	3,507
Income taxes	2,128	1,233
Net income	4,097	2,273
Net income attributable to non-controlling interests	89	141
Net income attributable to owners of the parent	4,007	2,132

(Millions of yen)

	FY3/2016 1Q-3Q (9 months ended Dec. 2015)	FY/3 2017 1Q-3Q (9 months ended Dec. 2016)
Net income	4,097	2,273
Other comprehensive income		
Net unrealized holding loss on other securities	(0)	11
Foreign currency translation adjustments	(516)	(417)
Adjustments for retirement benefit	1,137	473
Total other comprehensive income	619	67
Comprehensive income	4,717	2,341
Comprehensive income attributable to:		
Owners of the parent	4,755	2,315
Non-controlling interests	(38)	26

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY Mar/2016 1Q-3Q (9M ended Dec. 2015)	FY Mar/2017 1Q-3Q (9M ended Dec. 2016)
Cash flows from operating activities		
Net income before income taxes	6,225	3,507
Depreciation and amortization	2,347	2,164
Amortization of goodwill	239	191
Increase (decrease) in asset for retirement benefit	(195)	(70)
Increase (decrease) in liability for retirement benefits	438	534
Increase (decrease) in accrued bonuses to directors and corporate auditors	(102)	(80)
Increase (decrease) in accrued warranty on products	(78)	(63)
Increase (decrease) in accrued losses on sales contracts	17	(55)
Interest and dividend income	(57)	(40)
Interest expense	57	65
(Increase) decrease in notes and accounts receivable	21,344	26,870
(Increase) decrease in inventories	(4,085)	(3,004)
Increase (decrease) in notes and accounts payable	(14,460)	(8,749)
Increase (decrease) in accrued consumption taxes	(1,543)	(861)
Other, net	(2,108)	1,990
Subtotal	8,040	22,396
Interest and dividend income received	57	40
Interest paid	(51)	(62)
Income taxes paid	(5,300)	(4,060)
Net cash provided by (used in) operating activities	2,746	18,314
Cash flows from investing activities		
Purchase of property and equipment	(1,943)	(1,340)
Purchase of intangibles	(532)	(550)
Purchase of investment securities	(7)	(7)
Loans receivable made	(4)	(1)
Collection of loans receivable	5	4
Proceeds from sales of investments in affiliates	151	–
Other, net	(49)	(120)
Net cash used in investing activities	(2,380)	(2,017)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	2,070	551
Repayments of long-term debt	(120)	(120)
Dividends paid to shareholders	(3,321)	(3,514)
Dividends paid to minority shareholders of subsidiaries	(18)	(14)
Other, net	(367)	(383)
Net cash provided by used in financing activities	(1,757)	(3,482)
Effect of exchange rate changes on cash and cash equivalents	(310)	(104)
Net increase (decrease) in cash and cash equivalents	(1,701)	12,709
Cash and cash equivalents at beginning of period	38,951	43,889
Cash and cash equivalents at end of period	37,250	56,599

(4) Segment Information

Business Segment Information

1Q-3Q of fiscal March 2017 (9 months ended December 2016)

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	77,404	42,646	54,311	4,951	-	179,314
(2) Intersegment sales	-	-	-	-	-	-
Total	77,404	42,646	54,311	4,951	-	179,314
Operating income (loss)	5,416	1,663	2,793	178	(6,596)	3,456

1Q-3Q of fiscal March 2016 (9 months ended December 2015)

(Millions of yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Sales						
(1) Sales to third parties	76,637	50,484	63,735	3,263	-	194,120
(2) Intersegment sales	-	-	-	-	-	-
Total	76,637	50,484	63,735	3,263	-	194,120
Operating income (loss)	5,405	1,955	4,974	330	(6,032)	6,634