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Financial Results for the First 9 Months for the FY ending March 2017

January 30, 2017

NEC Networks & System Integration Corporation

(TSE: 1973, NESIC)

9M FY2017/3 Summary

Net sales and both operating and net income decreased year on year primarily due to reduced investments by telecom carriers and a decline in orders for the FF system business.

- Orders received increased year on year due to orders for the construction and maintenance of large-scale solar power generation plans.
- The gross margin continued to improve in 3Q due to the cost structural reform effect in the Carrier Networks business.

(¥ Bn.)

	9M			(ref.) 3Q		
	FY2016/3	FY2017/3	Change	FY2016/3	FY2017/3	Change
Orders received	197.4	202.1	+2%	55.9	57.7	+3%
Sales	194.1	179.3	-8%	66.3	60.5	-9%
(Gross margin)	15.3%	15.6%	+0.3pt	16.1%	16.3%	+0.2pt
Operating income	6.6	3.5	-3.2	3.1	1.7	-1.4
(to sales)	(3.4%)	(1.9%)	-1.5pt	(4.7%)	(2.9%)	-1.8pt
Net income attributable to owners of the parent	4.0	2.1	-1.9	2.1	1.1	-0.9
(to sales)	(2.1%)	(1.2%)	-0.9pt	(3.1%)	(1.9%)	-1.2pt
Free cash flows	0.4	16.3	+15.9	-13.2	-1.6	+11.6

＊FF: Fire-fighting

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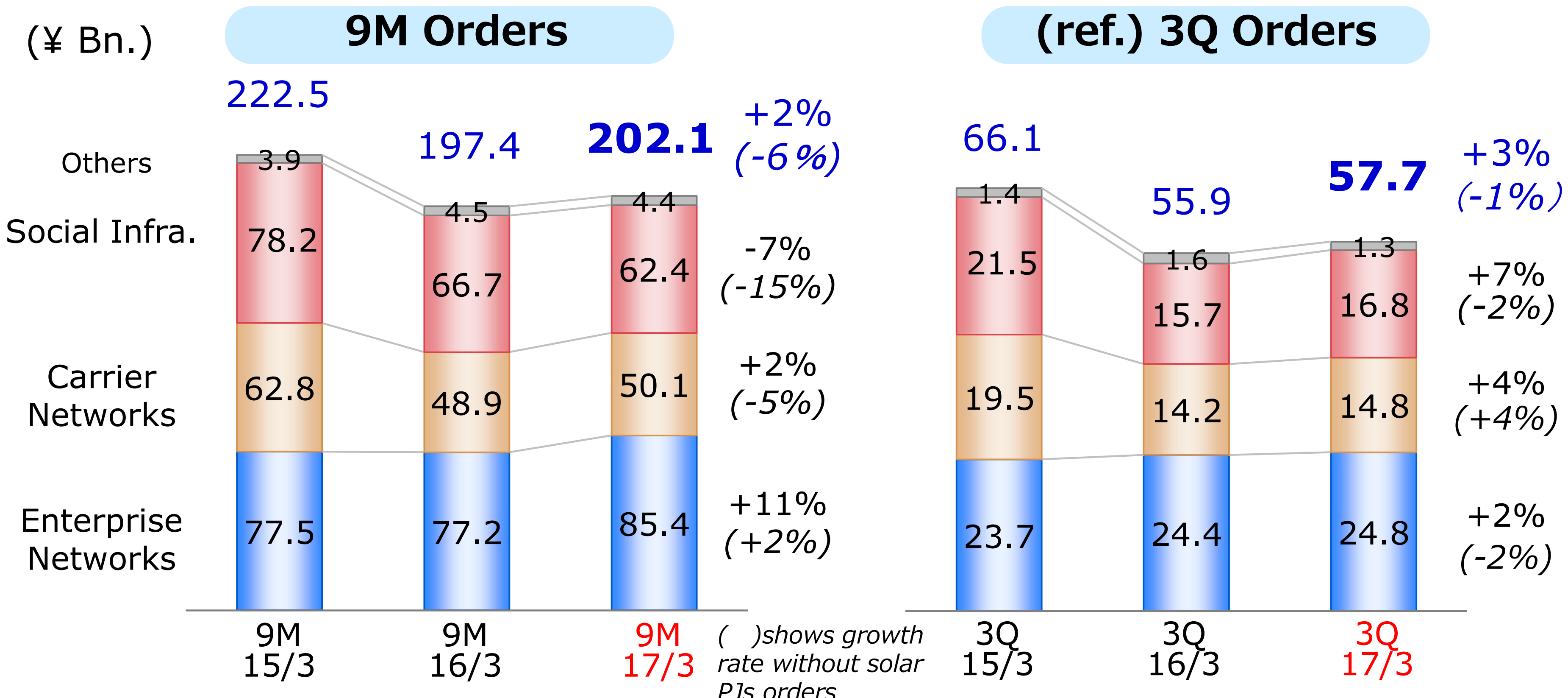
9M FY2017/3 Orders Received by Segment

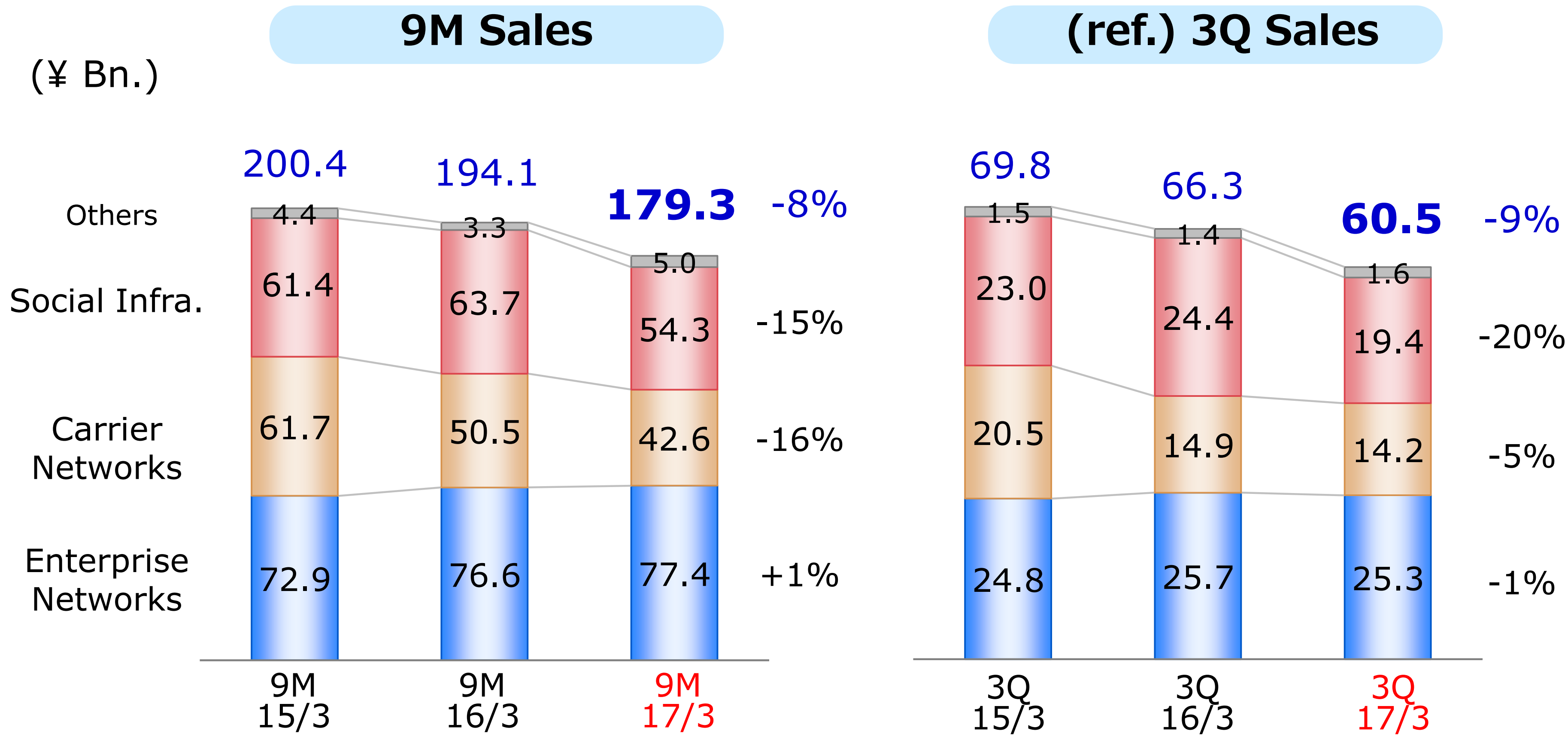
- Orders received increased year on year due to orders for a large-scale projects (+15.5) and the expansion of businesses for general enterprises despite the reduced investment by telecom carriers and a decline in orders for the FF radio digitalization projects.
  - 3Q: A reactionary fall in orders for FF radio digitalization projects ended in 1H. Orders in the Carrier Networks business appeared to have hit bottom.



9M FY2017/3 Sales by Segment

Sales fell year on year given reduced investment by telecom carriers and decreased FF radio digitalization projects.

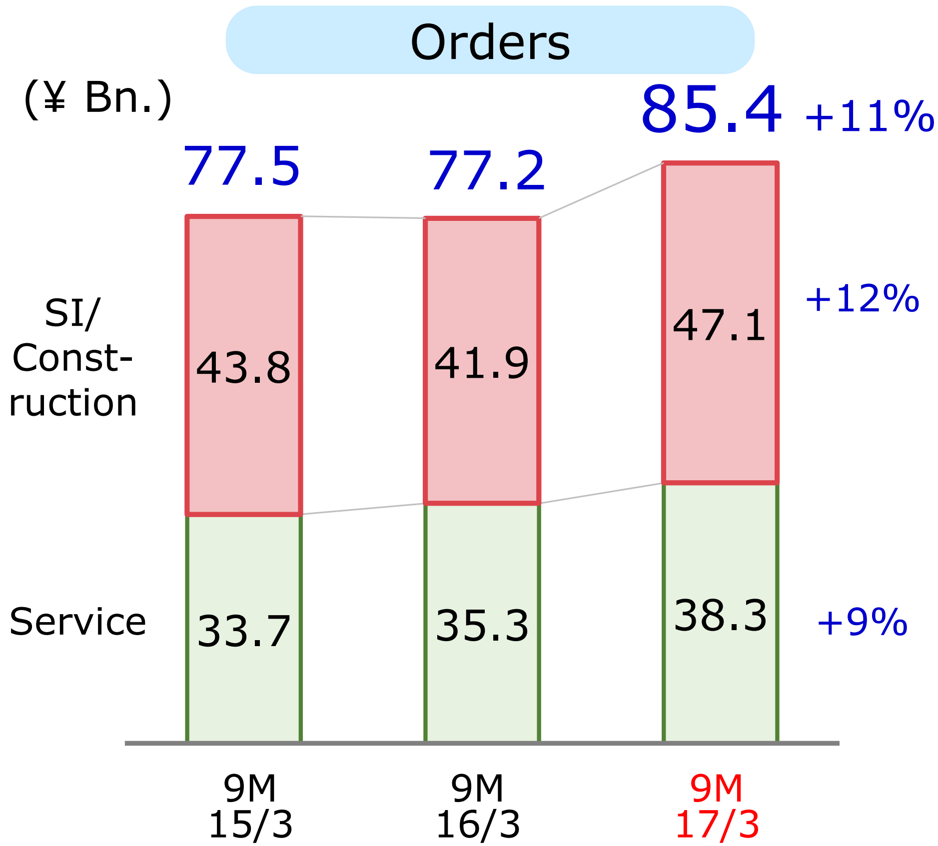
- 3Q: The year on year decline in the Carrier Networks business narrowed.

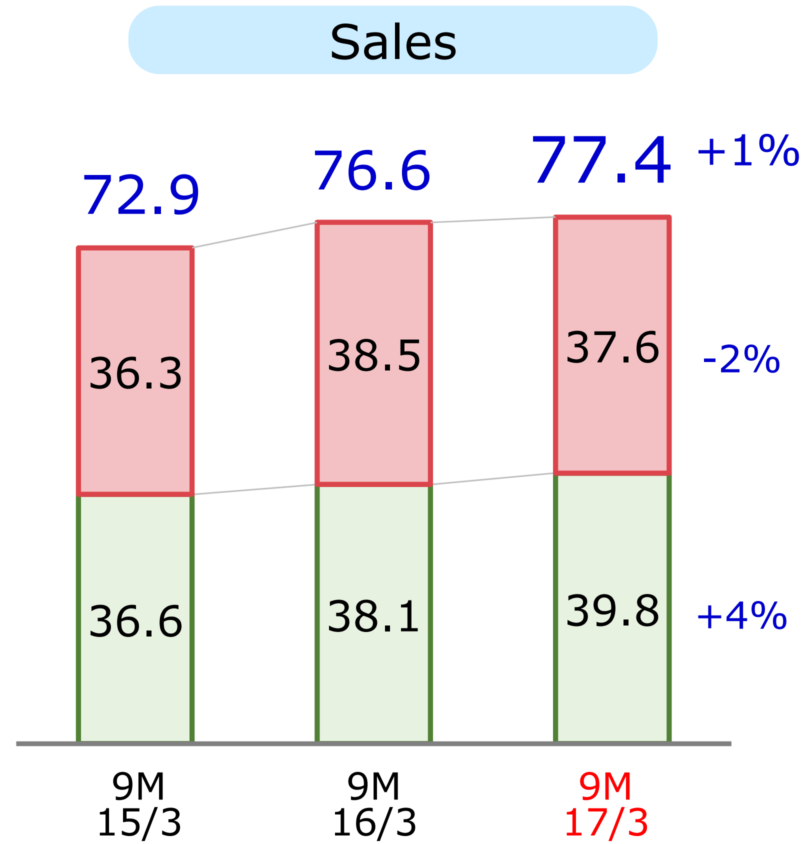


9M FY2017/3 Enterprise Networks Business

Net sales continued to increase year on year due to solid expansion in the area of work style innovation.

- Sales of EmpoweredOffice: +19%
- Orders received from general enterprises increased steadily.





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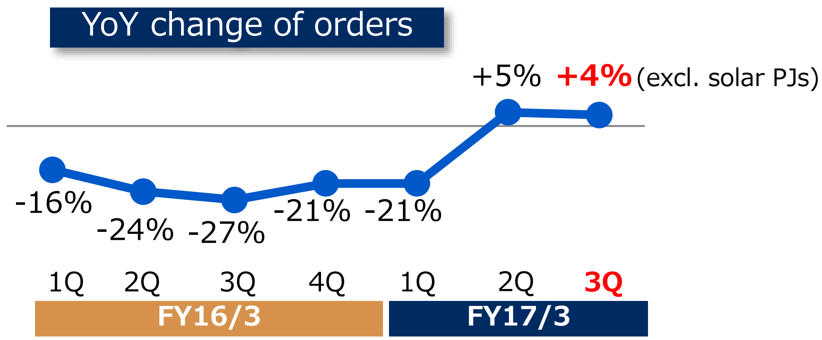
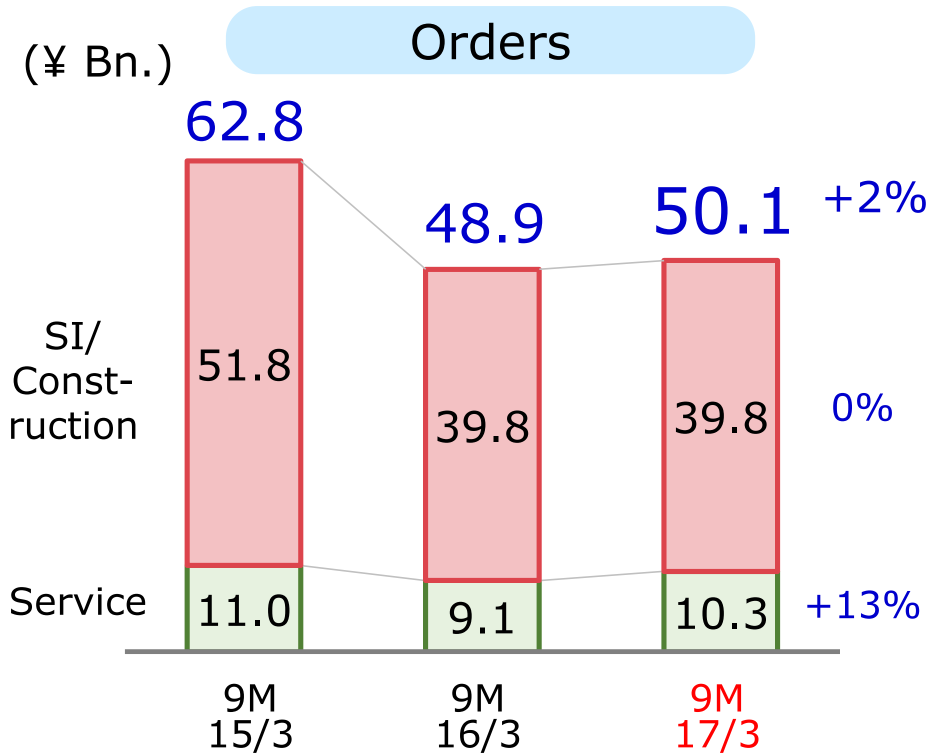
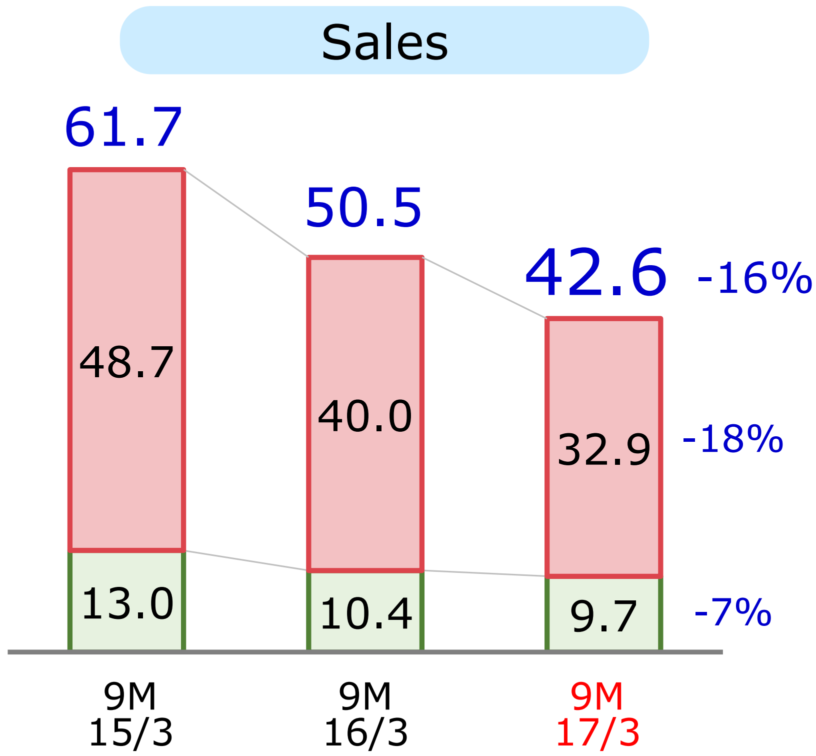
9M FY2017/3 Carrier Networks Business

Sales decreased year on year due to reduced investment by telecom carriers

- Orders received continue to level out.

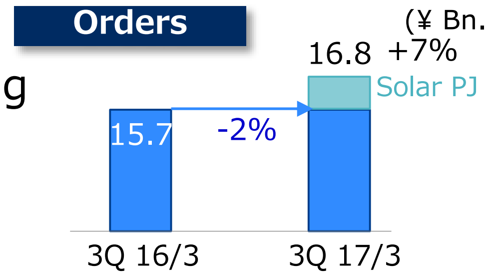


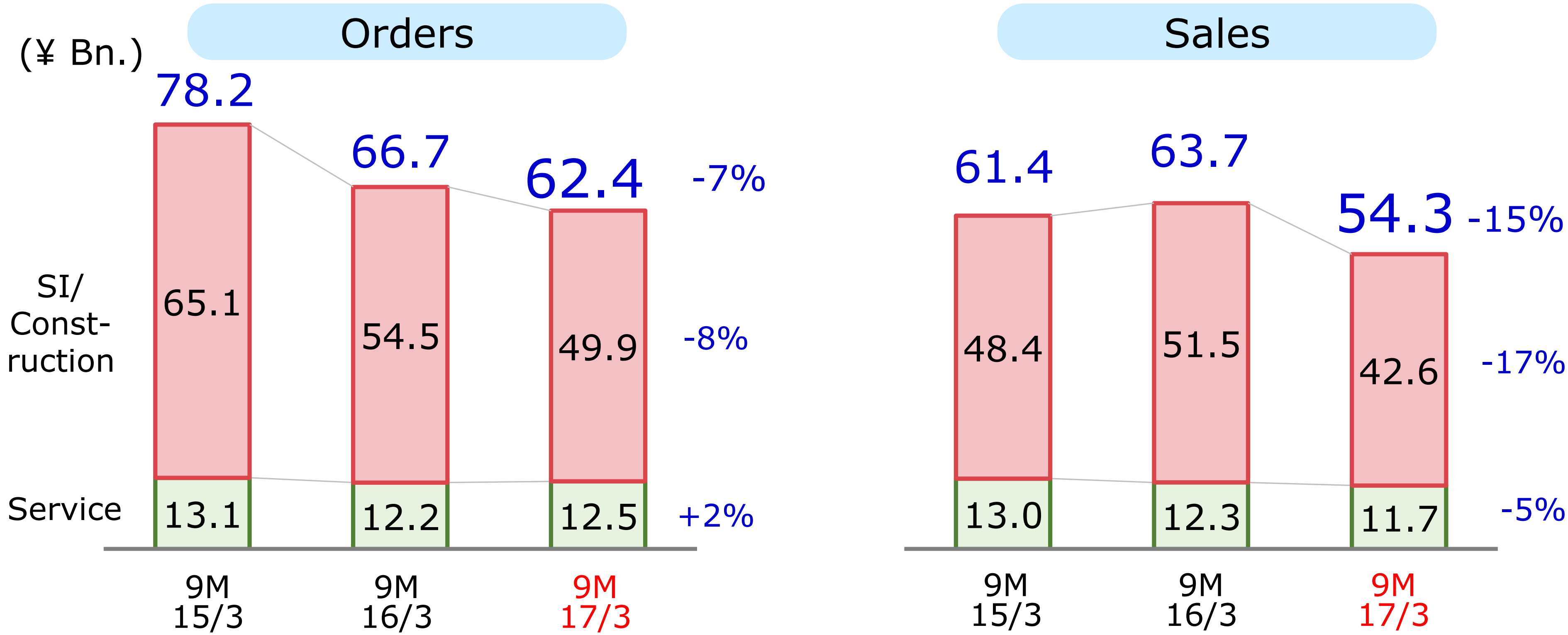




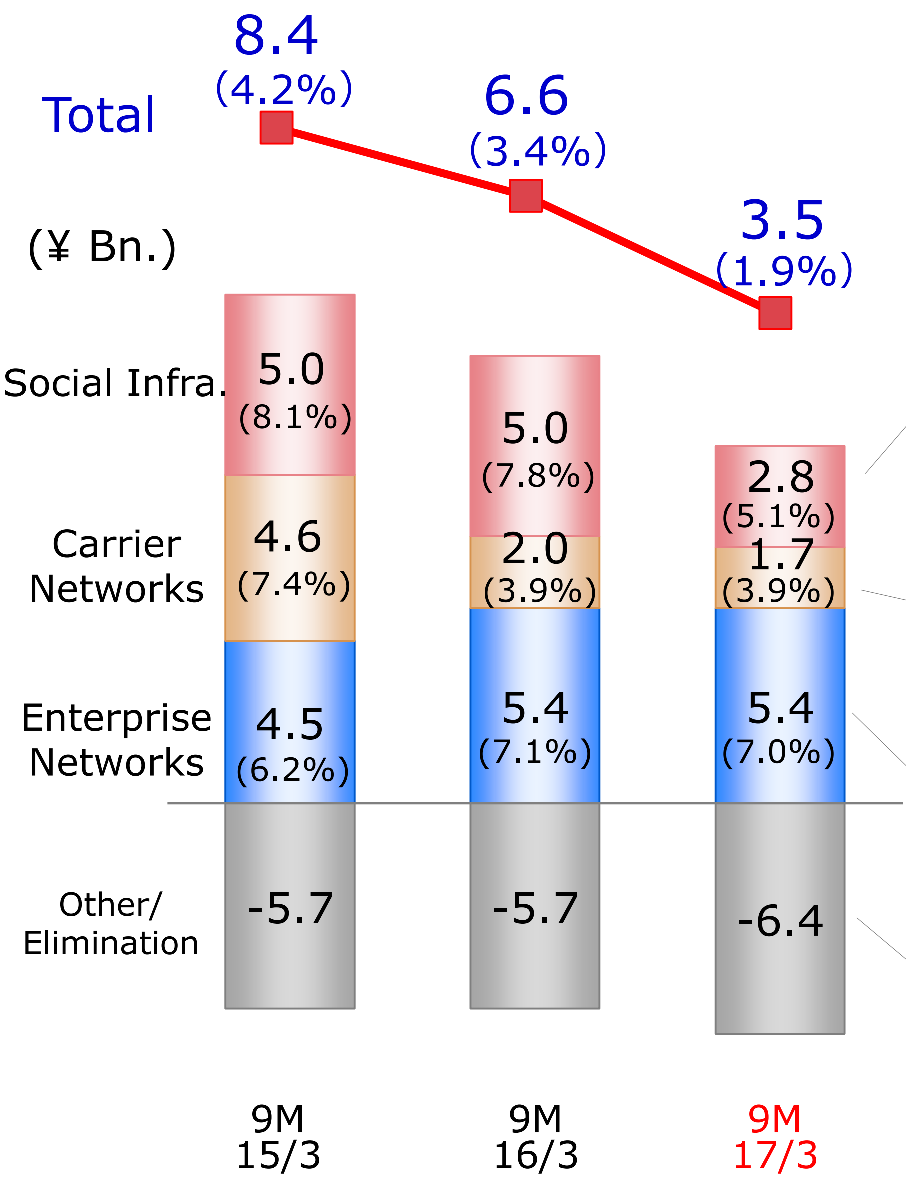
Sales decreased year on year due to the completion of FF radio digitalization projects.

- Results fell short of the targets mainly due to intensifying competition in the public sector (roads, etc.).
- Orders in 3Q remained flat year on year except for solar PJs. ⇒A reactionary fall in FF ratio digitalization projects ended in 1H.





9M FY2017/3 Operating Income by Segment



Operating income decreased with the impact of the decline on net sales in the Carrier Networks and Social Infrastructure businesses.

Social infrastructures

- Operating income declined due to reduced sales.
- Cost ratio fell on the temporary effect of low-profitability projects in 1Q.

Carrier Networks

- Operating income declined due to reduced sales.
- Cost ratio improved due to the effects of cost structure reform.

Enterprises Networks

- Operating income remained unchanged from a year ago.

Other/Elimination

- Increase in the system development costs and pro forma standard tax.

FY2017/3 Forecasts

The forecasts were revised chiefly due to shortfalls in the Social Infrastructures business during the first nine months.

	FY16/3	FY17/3 (Forecasts)	Change	Previous forecasts (2016/10/31)	Difference
Orders Received	274.9	280	+2%	280	+0
Net Sales	280.0	260	-7%	270	-10
Operating Income	14.1	10.0	-4.1	13.5	-3.5
(to Sales)	(5.0%)	(3.8%)	-1.2pt	(5.0%)	-1.2pt
Net income attributable to owners of the parent	6.0	6.0	0.0	8.0	-2.0
(to Sales)	(2.1%)	(2.3%)	+0.2pt	(3.0%)	-0.7pt

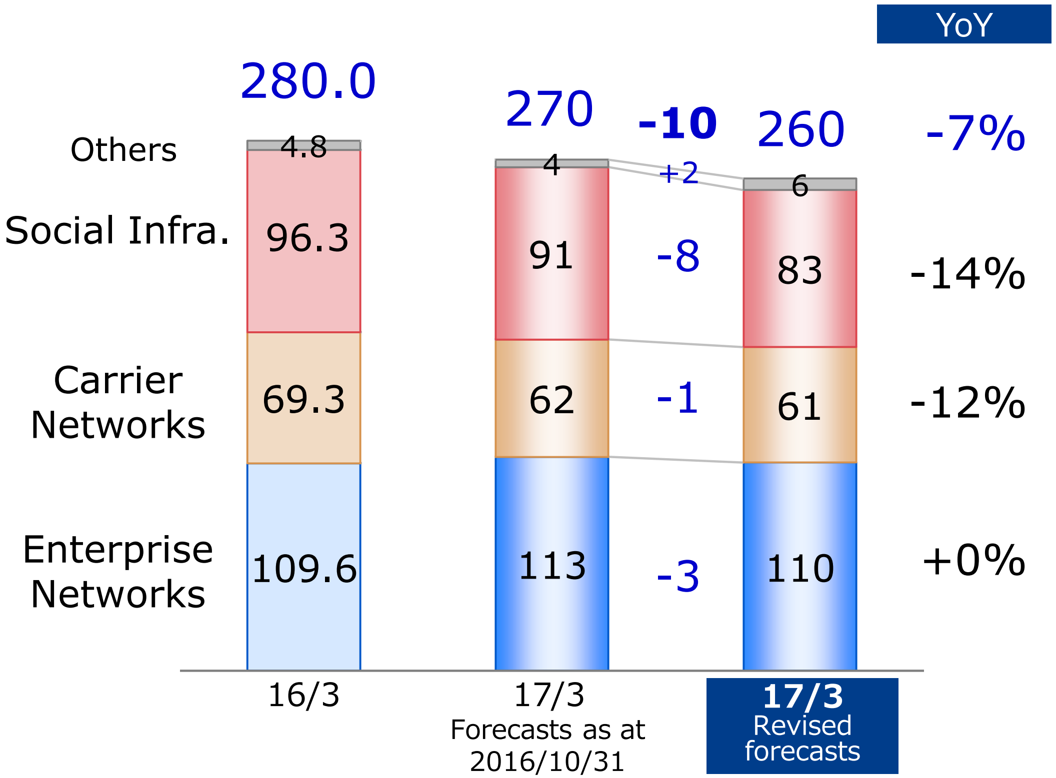
*Forecasts as at January 30, 2017

FY2017/3 Forecasts by Segment (Sales & Operating Income)

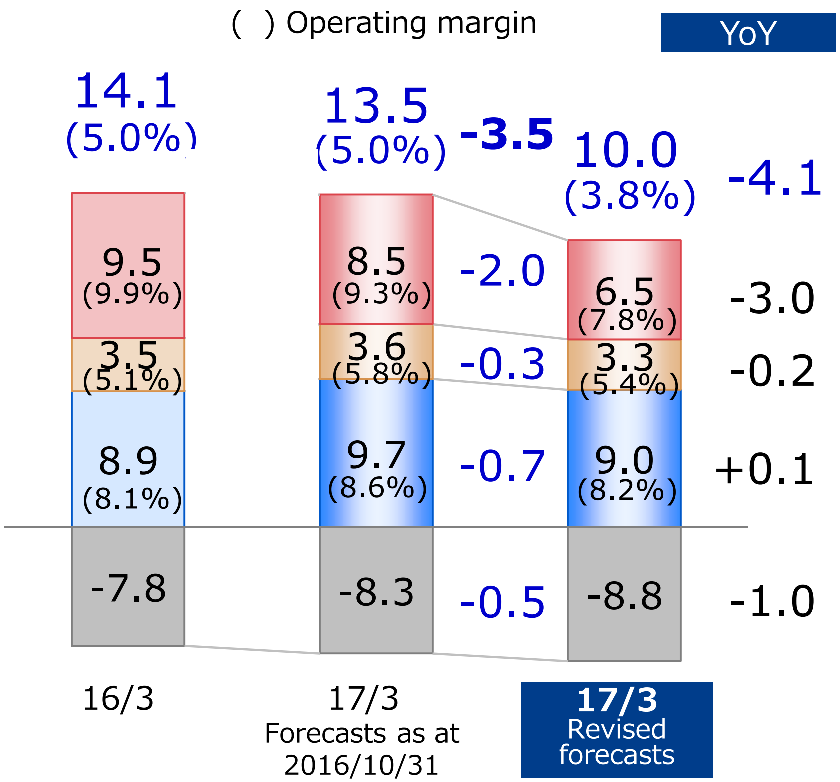
*Forecasts as at January 30, 2017

- **The sales was revised considering the effects of intensifying competition and delays in bidding in the public sector (roads, etc.) are expected.**
  - The broadcasting/CATV business is expected to fall short of the forecast but expand.
- **The operating income was revised due to a fall in sales.**

Sales



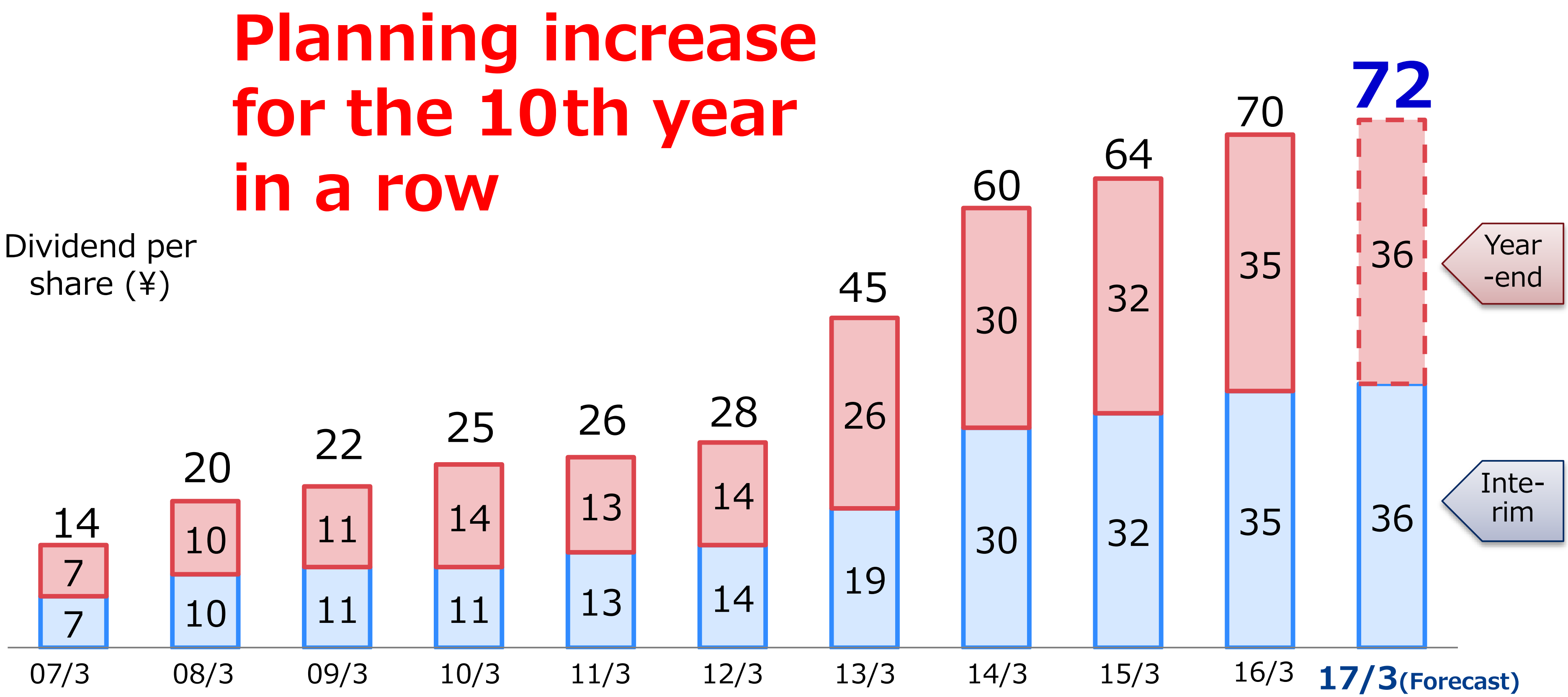
Operating Income



Dividend Plan

*Forecasts as at January 30, 2017

The year-end dividend plan remains unchanged under the basic policy of paying stable dividends.



(Ref.) End of December 2016 Balance Sheet

(¥ Bn.)

	End of 16/3	End of 16/12	Diff.
Cash and cash equivalents	43.9	56.6	12.7
Notes & accounts receivable	104.8	76.7	-28.1
Inventories	9.2	12.1	3.0
Others	9.7	10.6	0.9
Current Assets	167.6	156.1	-11.5
Noncurrent Assets	28.9	27.9	-1.0
Assets	196.6	184.0	-12.6

Notes and accounts payable	39.2	30.2	-9.0
Loans	8.5	8.4	-0.1
Others	54.5	52.1	-2.4
Liabilities	102.2	90.7	-11.4
Shareholders' equity	97.1	95.7	-1.4
Accumulated other comprehensive income	-4.4	-4.2	0.2
Non-controlling interests	1.7	1.7	0.1
Net Assets	94.4	93.3	-1.1
Liabilities & Net Assets	196.6	184.0	-12.6

Owner's Equity Ratio	47.2%	49.7%	+2.5pt

(Ref.) 9M FY2017/3 Cash Flows

(¥ Bn.)

	9M FY16/3	9M FY17/3
Operating Cash Flow (A)	**2.7**	**18.3**
Investment Cash Flow(B)	**-2.4**	**-2.0**
Free Cash Flows (A)+(B)	**0.4**	**16.3**
Financial Cash Flow	**-1.8**	**-3.5**
Cash and Cash Equivalents	**37.3**	**56.6**

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 of the FY 2016/3, 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 FY 2015/3 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

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