Consolidated Financial Statements for the Fiscal Year ended March 31, 2017

27-Apr-2017

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, 2017

(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/17	**257,912**	**-7.9**	**9,974**	**-29.3**	**9,975**	**-29.4**	**6,549**	**9.2**
FY ended March/16	279,961	-4.2	14,111	-12.7	14,133	-12.7	5,996	-23.0

（Note) Comprehensive income : 31/3/2017 : ¥5,753 million (61.9%) ; 31/3/2016 : ¥3,553 million (-63.2%)

	Profit per share (¥)	Profit per share (diluted) (¥)	Return on equity (%)	Ordinary income/ Total assets (%)	Operating income/ Net sales (%)
FY ended March/17	**131.94**	**—**	**7.0%**	**5.1%**	**3.9%**
FY ended March/16	120.80	—	6.5%	7.1%	5.0%

（Reference) Equity in earnings (losses) of affiliates (million) : 31/3/2017 : — ; 31/3/2016 : ¥14million

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
31-Mar-17	**197,469**	**96,674**	**47.9**	**1,906.03**
31-Mar-16	196,569	94,397	47.2	1,868.25

c.f. Owner's equity: 31/3/2017 ¥94,611million ; 31/3/2016 ¥92,738million

(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/17	**22,634**	**-2,697**	**-4,144**	**59,648**
FY ended March/16	9,435	-2,822	-1,402	43,889

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 3/2016	—	35.00	—	35.00	70.00	3,474	57.9	3.8
FY ended 3/2017	**—**	**36.00**	**—**	**36.00**	**72.00**	**3,573**	**54.6**	**3.8**
FY ending 3/2018 （Projected)	—	37.00	—	37.00	74.00		54.8	

3. Financial Forecasts for Fiscal Year ending March 31, 2018

(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/17	120,000	1.0	2,000	15.9	2,000	7.9	1,100	8.7	22.16
FY ending 3/2018	270,000	4.7	10,500	5.3	10,500	5.3	6,700	2.3	134.98

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, 2017

During the fiscal year ended March 31, 2017 (the period from April 1, 2016 to March 31, 2016), despite some signs of weakness, the Japanese economy continued to experience a moderate recovery, supported by the effects of a range of economic measures by the government amid the continued improvement of employment and income conditions and the increase 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, 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. In addition, following the revision of the Feed-In Tariff (FIT) Act, demand for the construction of solar power generation plants has become brisk. Meanwhile, there was weakness in some areas, such as the public sector (road communication system, etc.), where there were delays in bidding and the competitive environment worsened.

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

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, including the development of next-generation ERP systems and the continuous improvement of cost effectiveness, as well as conducting cost reduction activities by driving internal production forward.

For enterprises, it launched NetsVoice, a cloud-based voice service, moved ahead with the internal demonstration of telework for which demand has become tangible as work style reform has spread with an eye toward sales expansion, and 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 and IoT/MVNO. In addition, it strengthened the project management system to reliably carry out a large-scale project for the construction of solar power generation plants for which it received orders in the fiscal period under review, including the establishment of the system for working cross-departmentally on the project on a companywide basis.

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 year under review:

Net sales	¥257,912 million	7.9%	decrease year on year
Operating income	¥9,974 million	29.3%	decrease year on year
Ordinary income	¥9,975 million	29.4%	decrease year on year
Net income attributable to owners of the parent	¥65.49 million	9.2%	increase year on year
＜Reference＞			
Orders received	¥279,241 million	1.6%	increase year on year

Net sales decreased 7.9% year on year, to ¥257,912 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 in the business related to work style reform and other businesses in focus under the medium-term business strategy (announced in May 2016). 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 1.6% year on year, to ¥279,241 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 ¥4,137 million and ¥4,158 million year on year, respectively, to ¥9,974 million and ¥9,975 million, chiefly reflecting a decrease in gross profit due to the significant decrease in net sales and increases in pro forma standards tax and the next-generation ERP systems development 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. Net income attributable to owners of the parent increased ¥553 million year on year, to ¥6,549 million, partly due to a decrease in extraordinary losses.

Operating results by business segment were as follows:

Net sales by business segment (Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
Fiscal 2017.3	107,366	61,579	82,362	6,602	257,912
Fiscal 2016.3	109,584	69,306	96,260	4,810	279,961
Increase (decrease)	(2,218)	(7,727)	(13,897)	1,792	(22,049)
Ratio of increase (decrease) (%)	(2.0)	(11.1)	(14.4)	37.3	(7.9)

Reference: Orders received by business segment (Million yen)

	Enterprise Networks	Carrier Networks	Social Infrastructures	Other	Total
Fiscal 2017.3	116,958	68,675	86,546	7,060	279,241
Fiscal 2016.3	109,944	66,899	91,195	6,907	274,946
Increase (decrease)	7,013	1,776	(4,648)	153	4,294
Ratio of increase (decrease) (%)	6.4	2.7	(5.1)	2.2	1.6

1. Enterprise Networks business

   Net sales decreased 2.0% year on year, to ¥107,366 million, reflecting decreased sales in the PBX business, which showed good results in the previous fiscal period, among other factors, despite solid sales of EmpoweredOffice, a solution for office innovation, as ICT investment in work style reform remained firm.

2. Carrier Networks business

   Net sales decreased 11.1% year on year, to ¥61,579 million, due to the effect of cuts in capital spending by telecom carriers, particularly in mobile communications base stations.

3. Social Infrastructures business

   Despite an increase in broadcast/CATV business, net sales decreased 14.4% year on year, to ¥82,362 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, 2018

In the fiscal year ending March 31, 2018, the Japanese economy is expected to continue to show a moderate recovery, reflecting the effect of a range of economic measures by the government and the continued improvement in employment and income. However, it continues to face uncertain factors such as the uncertainty of the overseas economies and the influence of fluctuations in the financial and capital market.

The ICT industry looks set to continue to face a situation where it is difficult to take an optimistic view, with telecom carriers expected to continue to curb capital spending on the network infrastructure, which hit the bottom, and with the continued competitive environment despite steady public investment by the governments. Still, some factors are expected to be favorable, including an increase in companies' investment appetite centered around work style reform.

In the fiscal year ending March 31, 2018, the Company forecasts that sales will increase 4.7%, to ¥270 billion, due to the strengthening of the initiatives for the businesses under focus in the medium-term business strategy and the steady conduct of the large-scale project of the construction of solar power generation plants, as the decrease in the reaction to the end of projects in response to the digitization of fire-fighting and emergency radio systems has run its course and the business for telecom carriers has bottomed out.

In the Enterprise Networks business, the Company will seek to actively expand the business, taking advantage of customers' increasing willingness to make ICT investments relating to work style reform. We will also continue to strive to expand sales to local companies and municipalities.

The Carrier Networks will be more proactive, pursuing initiatives in the business and public sectors and for overseas telecom carriers as well as in the IoT field, which is expected to grow, making the most of our assets for domestic telecom carriers and creating and proposing new value-added services while capital spending by domestic telecom carriers remains weak, although its curve has hit the bottom.

In the Social Infrastructures business, we will be active in the businesses that are expected to experience firm investment, such as the broadcasting/CATV business and the disaster prevention network business, while the decrease in reaction to the end of projects in response to the digitization of fire-fighting and emergency radio systems has run its course, despite the ongoing competitive environment in the public sector.

On the profit front, operating income and ordinary income are both forecast to increase to ¥10.5 billion due to increased sales. Net income attributable to owners of the parent is expected to increase to ¥6.7 billion year on year.

Net sales	¥270 billion	4.7% increase year on year
Operating income	¥10.5 billion	5.3% increase year on year
Ordinary income	¥10.5 billion	5.3% increase year on year
Net income attributable to owners of the parent	¥6.7 billion	2.3% increase year on year

(3)Profit Distribution Policy and Dividends for the Fiscal Year Ended March 2017 and the Fiscal Year Ending March 2018

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, strengthening the business foundation and creating new businesses that will allow us to expand our future businesses that will be areas of focus, 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 ¥36 per share and our annual dividend to ¥72 per share for the fiscal year ended March 2017, rising ¥2 from the previous fiscal year.

The dividend per share for the fiscal year ending March 2018 is expected to be ¥37 for both the interim and year-end periods, increasing our annual dividend to ¥74.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and cash equivalents	43,889	59,648
Notes and accounts receivable	104,841	91,152
Purchased goods,materials and supplies	2,878	2,679
Work in process	6,311	5,815
Deferred tax assets	4,246	4,102
Other	5,514	5,694
Allowance for doubtful accounts	(44)	(92)
Total current assets	167,638	168,999
Non-current assets		
Property and equipment		
Buildings and structures	9,817	9,875
Accumulated depreciation	(5,422)	(5,726)
Buildings and structures (net)	4,394	4,148
Machnery and vehicles	202	187
Accumulated depreciation	(176)	(155)
Machnery and vehicles (net)	25	32
Furniture and fixtures	13,642	14,435
Accumulated depreciation	(10,093)	(10,854)
Furniture and fixtures (net)	3,549	3,581
Land	2,507	2,507
Construction in progress	277	382
Other	1,053	443
Accumulated depreciation	(839)	(375)
Other (net)	214	67
Total property and equipment	10,967	10,719
Intangible assets		
Goodwill	1,944	1,689
Other	3,080	2,871
Total intangible assets	5,025	4,561
Investments and other assets		
Investment securities	412	421
Asset for retirement benefits	514	324
Deferred tax assets	8,250	8,881
Other	3,801	3,612
Allowance for doubtful accounts	(41)	(51)
Total investments and other assets	12,937	13,188
Total non-current assets	28,931	28,469
Total assets	196,569	197,469
Liabilities		
Current liabilities		
Notes and accounts payable	39,190	36,474
Short-term bank loans	4,154	4,069
Current installments of long-term debt	163	171
Accruedncome taxes	3,883	2,964
Accrued consumption taxes	2,423	1,965
Advanced received	3,721	4,678
Accrued bunuses to directors and corporate auditors	99	67
Accrued warranty on products	189	123
Accrued losses on sales contracts	399	645
Other current liabilities	12,887	12,337
Total current liabilities	67,113	63,498
Long-term liabilities		
Long-term debt	4,185	4,014
Liabilities for retirement benefits	28,960	31,206
Other liabilities	1,911	2,075
Total long-term liabilities	35,057	37,296
Total liabilities	102,171	100,795
Net assets		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,652
Retained earnings	67,597	70,622
Treasury stock, at cost	(270)	(272)
Total shareholders' equity	97,100	100,124
Accumulated other comprehensive income		
Net unrealized holding gain on other securities	32	35
Foreign currency translation adjustments	(376)	(394)
Accumulated adjustments for retirement benefits	(4,018)	(5,154)
Total accumulated other comprehensive income	(4,362)	(5,513)
Non-controlling interests	1,659	2,062
Total net assets	94,397	96,674
Total liabilities and net assets	196,569	197,469

(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(Millions of yen)

	FY Mar/2016	FY Mar/2017
Net sales	279,961	257,912
Cost of sales	234,798	215,326
Gross profit	45,162	42,585
Selling, general and administrative expenses	31,051	32,611
Operating income	14,111	9,974
Non-operating income		
Interest income	59	38
Insurance income	172	190
Insurance repayment	59	-
Other	283	303
Total non-operating income	574	532
Non-operating expenses		
Interest expenses	80	85
Loss on disposal of property and equipment	110	100
Business reconstruction expenses for subsiriaries	94	112
Other	267	232
Total non-operating expenses	553	532
Ordinary income	14,133	9,975
Extraordinary income		
Gain on sale of investment in affiliates	40	-
Total extraordinary income	40	-
Extraordinary losses		
Closing of affiliates cost	-	93
Amortization of goodwill	464	-
Retirement benefit expenses	464	-
Relocation expenses for subsidiaries	140	-
Total extraordinary losses	1,070	93
Income before income taxes	13,103	9,881
Income taxes - current	4,753	2,973
Income taxes - deferred	2,195	(16)
Income taxes	6,949	2,957
Net income	6,153	6,923
Net income attributable to non-controlling interests	157	374
Net income attributable to owners of the parent	5,996	6,549

(Millions of yen)

	FY Mar/2016	FY Mar/2017
Net income	6,153	6,923
Other comprehensive income		
Net unrealized holding loss on other securities	(13)	4
Foreign currency translation adjustments	(496)	(38)
Adjustments for retirement benefit	(2,090)	(1,136)
Total other comprehensive income	(2,600)	(1,170)
Comprehensive income	3,553	5,753
Comprehensive income attributable to:		
Owners of the parent	3,512	5,398
Non-controlling interests	40	355

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY Mar/2016	FY Mar/2017
Cash flows from operating activities		
Net income before income taxes	13,103	9,881
Depreciation and amortization	2,753	2,834
Amortization of goodwill	784	255
Increase (decrease) in allowance for doubtful receivables	(12)	54
Increase (decrease) in asset for retirement benefit	(370)	8
Increase (decrease) in liability for retirement benefits	593	810
Increase (decrease) in accrued bonuses to directors and corporate auditors	(25)	(31)
Increase (decrease) in accurued warranty on products	(90)	(66)
Increase (decrease) in accurued losses on sales contracts	236	242
Interest and dividend income	(74)	(50)
Interest expense	80	85
(Increase) decrease in notes and accounts receivable	8,316	13,463
(Increase) decrease in inventories	901	678
Increase (decrease) in notes and accounts payable	(9,287)	(2,640)
Increase (decrease) in accrued consumption taxes	(1,165)	(447)
Other, net	(974)	1,654
Subtotal	14,769	26,733
Interest and dividend income received	74	50
Interest paid	(80)	(85)
Income taxes paid	(5,328)	(4,063)
Net cash provided by (used in) operating activities	9,435	22,634
Cash flows from investing activities		
Purchase of property and equipment	(2,417)	(1,886)
Proceeds from sale of property and equipment	6	2
Purchase of intangibles	(631)	(688)
Purchase of investment securities	(11)	(9)
Loans receivable made	(4)	(1)
Collection of loans receivable	6	5
Proceeds from sales of investments in affiliates	151	-
Other, net	78	(119)
Net cash used in investing activities	(2,822)	(2,697)
Cash flows from financing activities		
Net increase (decrease) in short-term bank loans	2,623	23
Repayments of long-term debt	(3,168)	(163)
Proceeds from long-term debt	3,000	-
Proceeds from sale and purchase of treasury stock, net	(3)	(2)
Dividends paid to shareholders	(3,326)	(3,521)
Dividends paid to minority shareholders of subsidiaries	(18)	(14)
Other, net	(509)	(466)
Net cash provided by used in financing activities	(1,402)	(4,144)
Effect of exchange rate changes on cash and cash equivalents	(272)	(33)
Net increase (decrease) in cash and cash equivalents	4,938	15,758
Cash and cash equivalents at beginning of period	38,951	43,889
Cash and cash equivalents at end of period	43,889	59,648

(4) Segment Information

Business Segment

Year ended March 31, 2017

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	**116,958**	**68,675**	**86,546**	**7,060**	**---**	**279,241**
Sales						
(1) Sales to third	**107,366**	**61,579**	**82,362**	**6,602**	**---**	**257,912**
(2) Intersegment sales	**---**	**---**	**---**	**---**	**---**	**---**
Total	**107,366**	**61,579**	**82,362**	**6,602**	**---**	**257,912**
Operating income and loss	**8,823**	**3,569**	**6,029**	**246**	**-8,693**	**9,974**

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 parties	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