

Financial Results for the Fiscal Year Ended March 2017

May 9, 2017

NEC Networks & System Integration Corporation
(TSE: 1973, NESIC)

Agenda

I . FY 2017/3 Financial Results

II . FY 2018/3 Forecasts

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- I . FY 2017/3 Financial Results
 - II . FY 2018/3 Forecasts

FY2017/3 Financial Summary

Sales and operating income declined year on year given reduced investments by telecom carriers and a decline in sales in the FF & DP networks business.

- Orders received increased year on year due to orders for the construction and maintenance of large-scale solar power generation plants.
- The gross margin improved year on year mainly due to the cost structural reform effect in the Carrier Networks business.
- Net income increased year on year due to the reduction of extraordinary losses and others from the previous fiscal year.

	FY2016/3	FY2017/3	Change	Forecasts as at Jan 30, 2017	(¥bn.)
Orders received	274.9	279.2	+2%	280	
Sales	280.0	257.9	-8%	260	
Gross margin	16.1%	16.5%	+0.4pt	—	
Operating income	14.1	10.0	-4.1	10.0	
(to sales)	(5.0%)	(3.9%)	-1.1pt	(3.8%)	
Net income attributable to owners of the parent	6.0	6.5	+0.5	6.0	
(to sales)	(2.1%)	(2.5%)	+0.4pt	(2.3%)	
ROE	6.5%	7.0%	+0.5pt		
Free cash flows	6.6	19.9	+13.3		

*FF : Firefighting
DP: Disaster Prevention

FY2017/3 Orders Received/Sales by Segment

Orders received increased year on year due to orders for large-scale projects (+15.5)

Sales declined, mainly reflecting a decrease in orders for the FF & DP networks business & the impact of investment cuts by telecom carriers .

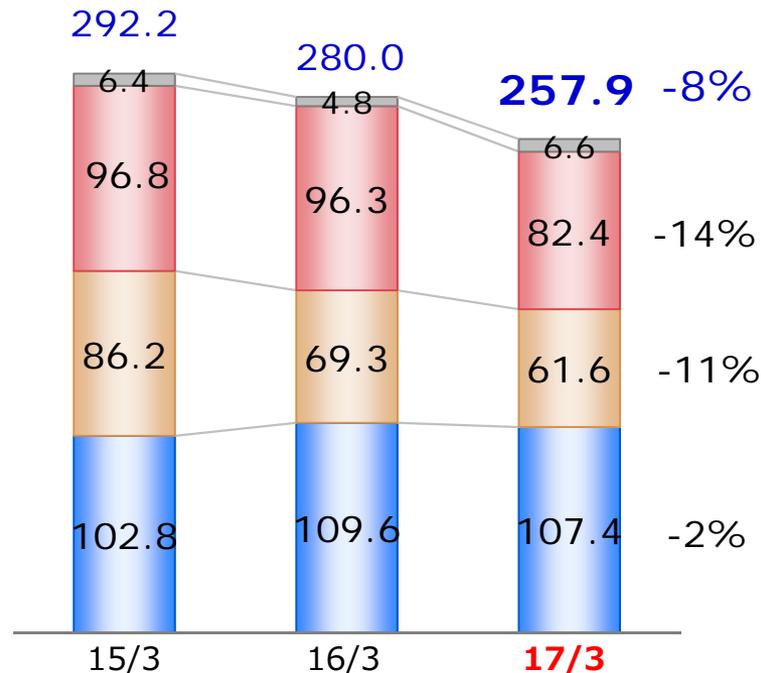
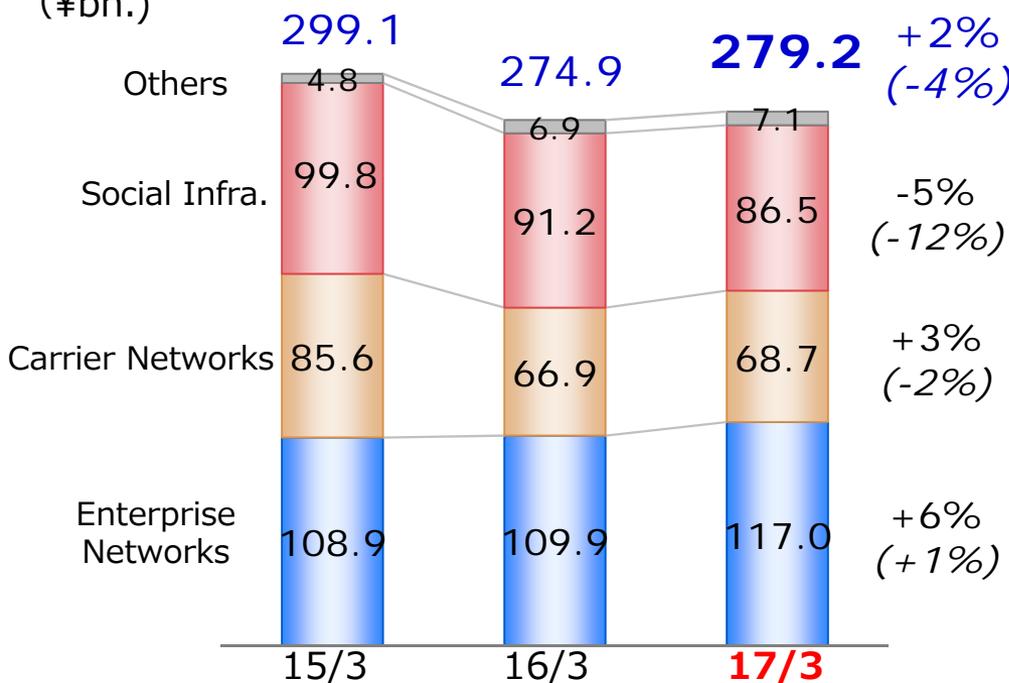
FF: Firefighting, DP: Disaster Prevention

Orders

() shows growth rate without solar PJs orders

Sales

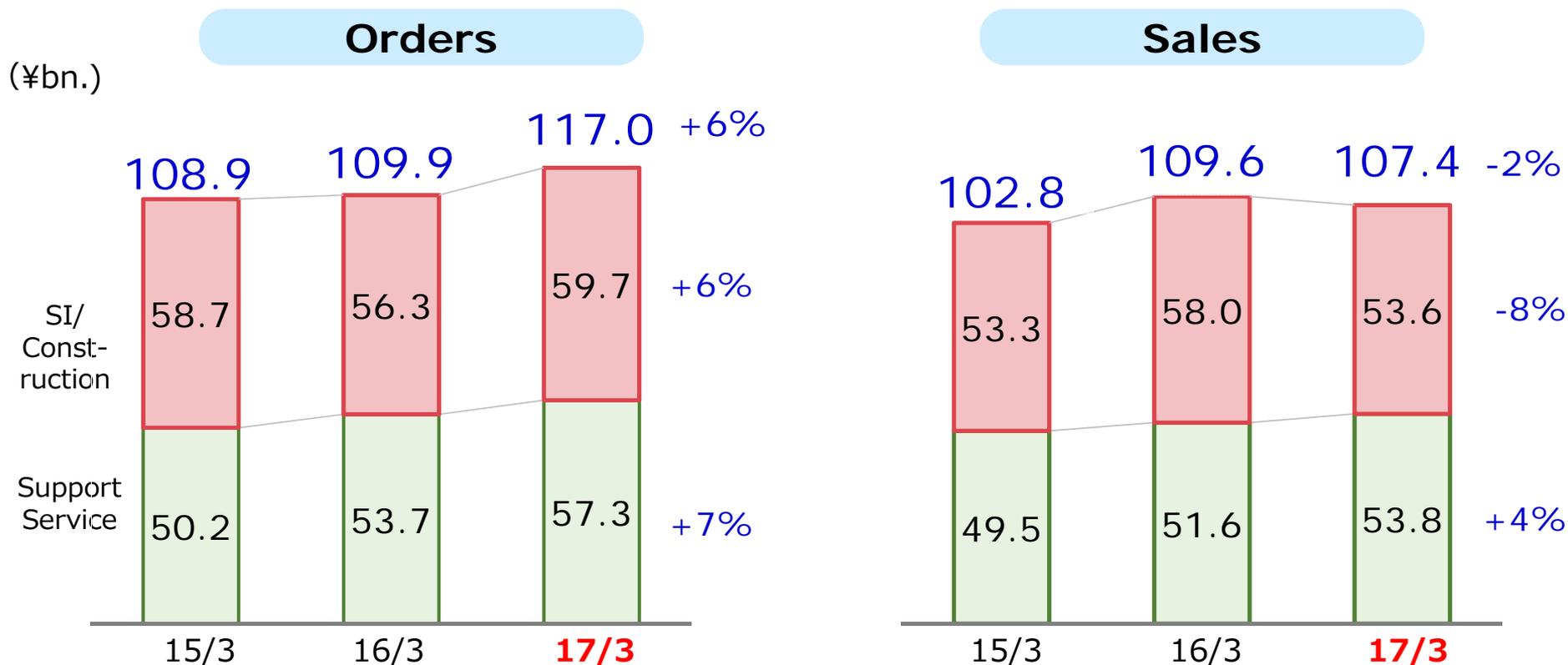
(¥bn.)



FY2017/3 Enterprise Networks Business

Sales declined slightly year on year associated with a decrease in sales in the PBX business, despite a solid increase in sales in the area of work style innovation.

- Sales of EmpoweredOffice: +11%
- Orders received from general enterprises increased steadily.

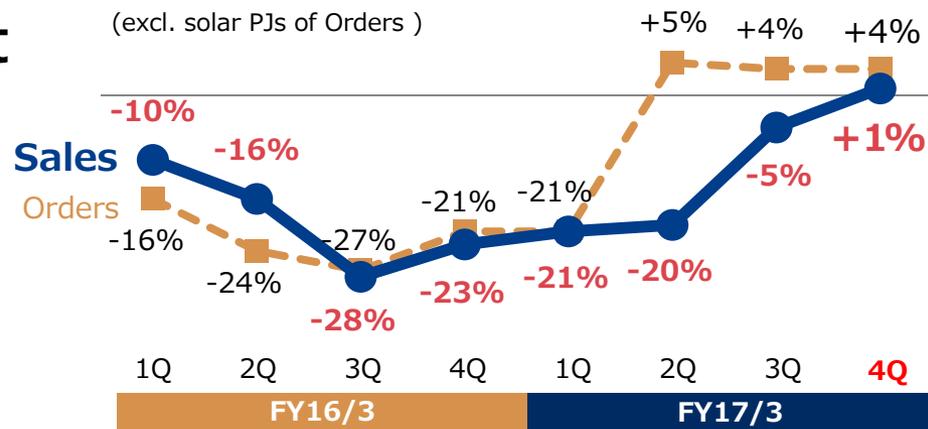


FY2017/3 Carrier Networks Business

Sales decreased because of the impact of investment cut by telecom carriers.

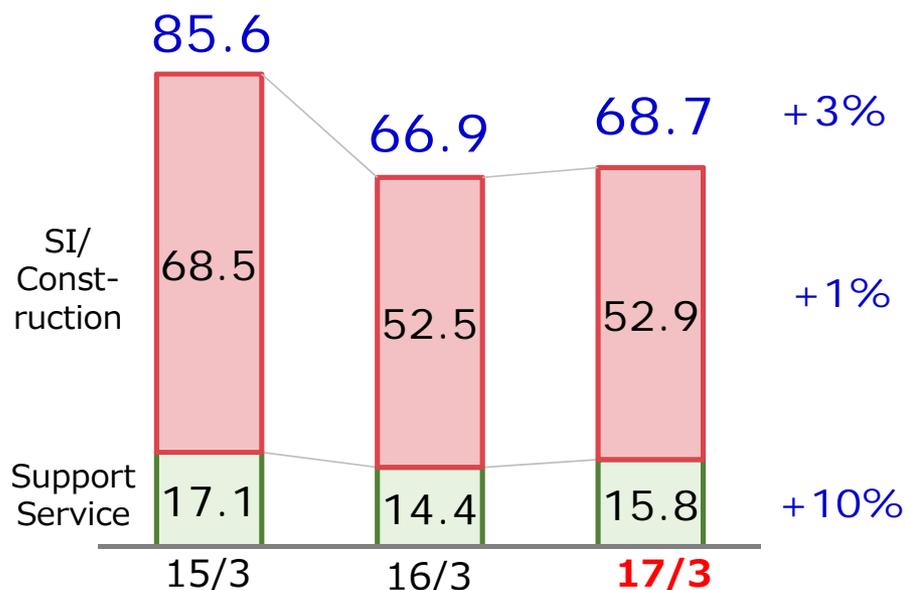
- Following orders received, sales appear to have bottomed out.

YOY Changes Orders/Sales

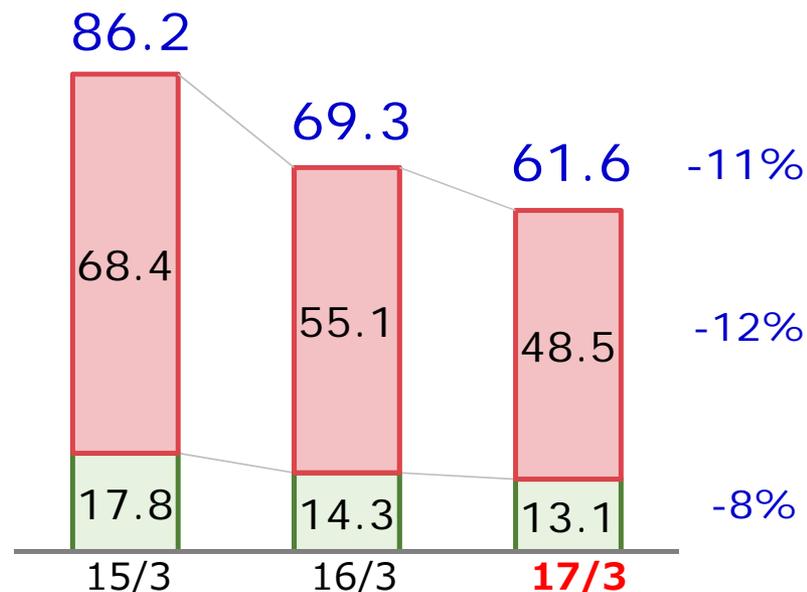


(¥bn.)

Orders



Sales



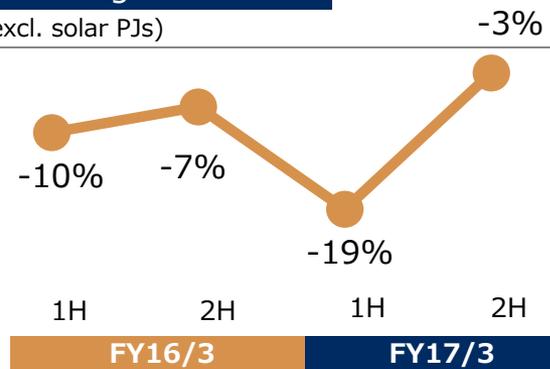
FY2017/3 Social Infrastructures Business

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

- Orders in 2H remained flat year on year except for solar PJs. ⇒ A reactionary fall in FF radio digitalization projects ended in 1H.
- Competition was intensifying in the public sector (roads, etc.).
- Sales increased steadily in the area of broadcasting and CATV (sales: +29% year on year)

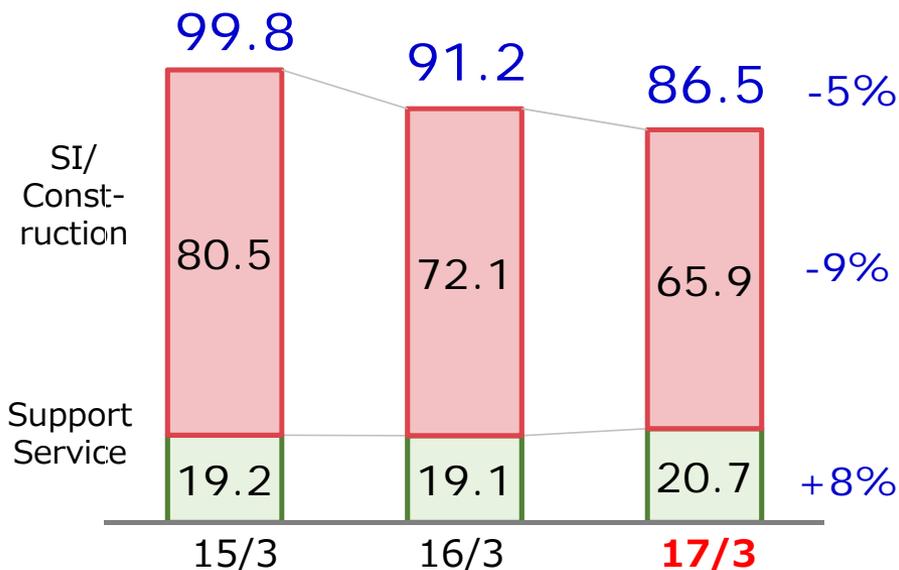
YoY change of orders

(excl. solar PJs)

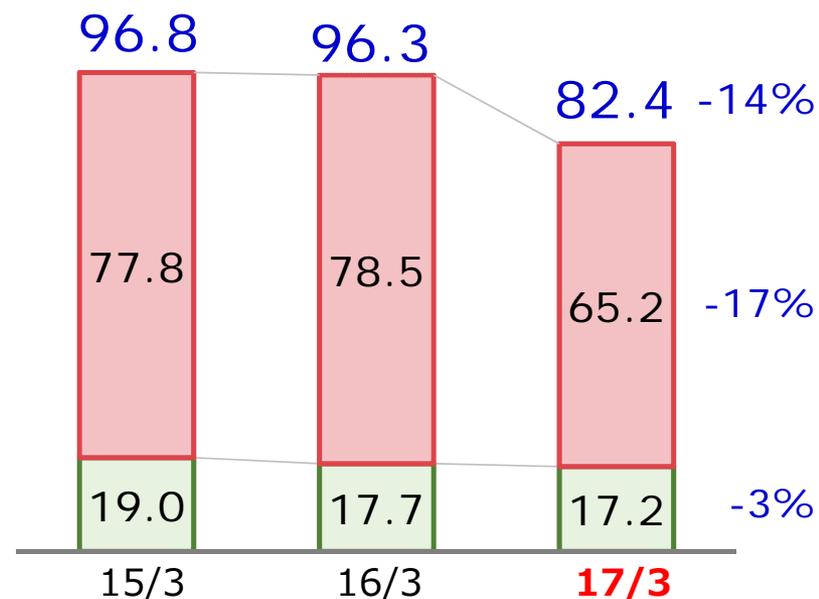


(¥bn.)

Orders



Sales



FY2017/3 Operating Income by Segment

(¥bn.)

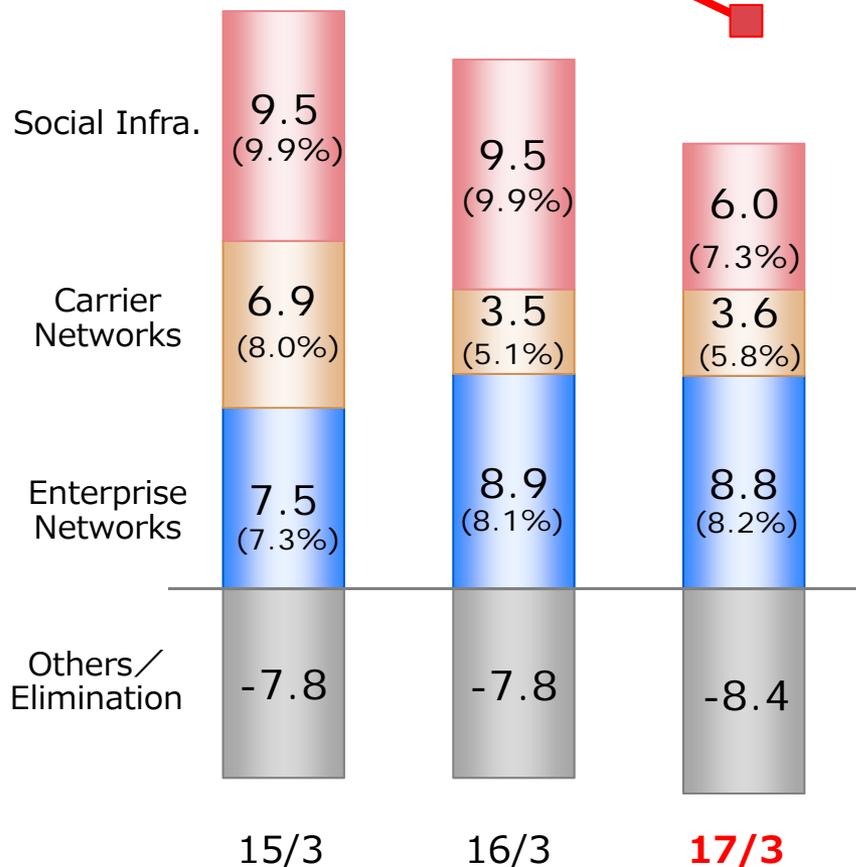
Total

16.2
(5.5%)

14.1
(5.0%)

10.0
(3.9%)

() = Operating Margin



Operating income decreased with the impact of the decline on sales in the Social Infrastructures business.

● Social infrastructures

- Operating income declined due to reduced sales.

● Carrier Networks

- Operating income increased due to cost structural reforms, despite smaller sales.

● Enterprise Networks

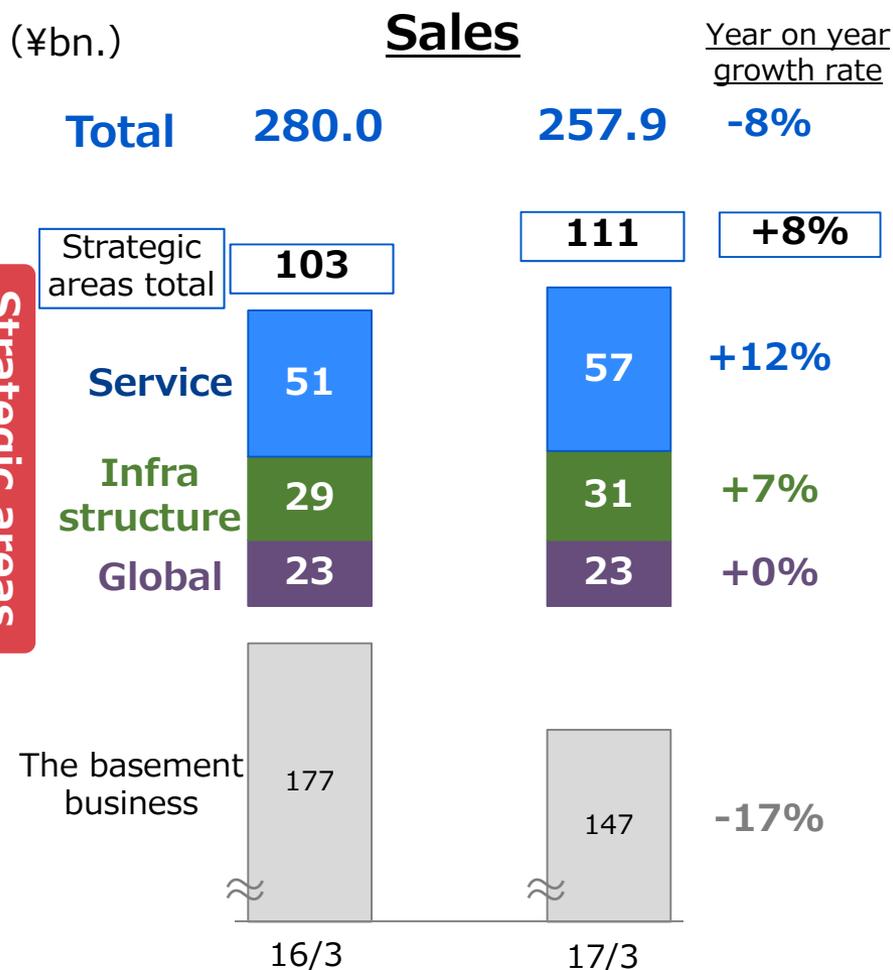
- Operating income remained almost unchanged from a year ago, despite smaller sales.

● Other/Elimination

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

Progress of the Strategic Areas for Midterm Plan

The strategic areas firmly expanded, although the basement business such as the telecom carriers business declined more than expected.



Service Business

※EmpoweredOffice, Cyber security, IoT/MVNO

- EmpoweredOffice, Cyber security expanded

Infrastructure Business

※Broadcasting/CATV, DP(Disaster prevention), Road/Railways, Mega solar

- Broadcasting/CATV, DP(Disaster prevention) expanded

Global Business

※ Inbound, Outbound

- Remain flat by higher yen, but outbound expanded in reality(+9%)

The basement business

- Telecom carriers business(-8)
- FF radio networks business(-14)

FY2017/3 Achievements and Challenges

Achievements

- Strategic areas expanded (+8%)
- The gross margin improved (+0.4pt) with the results of structural reforms in the Carrier Networks business.

Challenges

- The basement business declined more than expected (-17%).
- The operating margin decreased (-1.1pt) due to the smaller sales scale.

■ **The execution of growth strategies and the strengthening of business capabilities delivered some results.**

■ **The following had been factors for smaller sales, but**

- The telecom carriers business bottomed out.
- A reactionary fall in the FF & DP networks business also ran its course.

Aiming for regrowth with FY2017/3 as the bottom, taking advantage of the acceleration in strategic areas.

- 
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The market environment is firm overall, although there are light and shade.

- **Corporate market**

- Corporate ICT spending is expanding, particularly in work style innovation, the cloud, security, IoT and AI, etc.

- **Telecom carrier market**

- Capital investments of telecom carriers remained weak, although the decline is bottoming out.

- **Social and public infrastructures market**

- Intense competition in the public sector (road, etc.) continues.
- As an investment theme, 4K/8K, the Olympic and Paralympic Games, and local economy vitalization, etc. are expected.
- The construction of mega solar power plants is active with the enforcement of the revised FIT Act.

- **Global market**

- Infrastructure investment is expanding in the ASEAN region.

FY2018/3 Forecasts

Aiming for higher sales and income by expanding strategic areas such as work style innovation and mega solar.

- Orders are expected to rise 6%, excluding the effect of large-scale projects in the previous year.

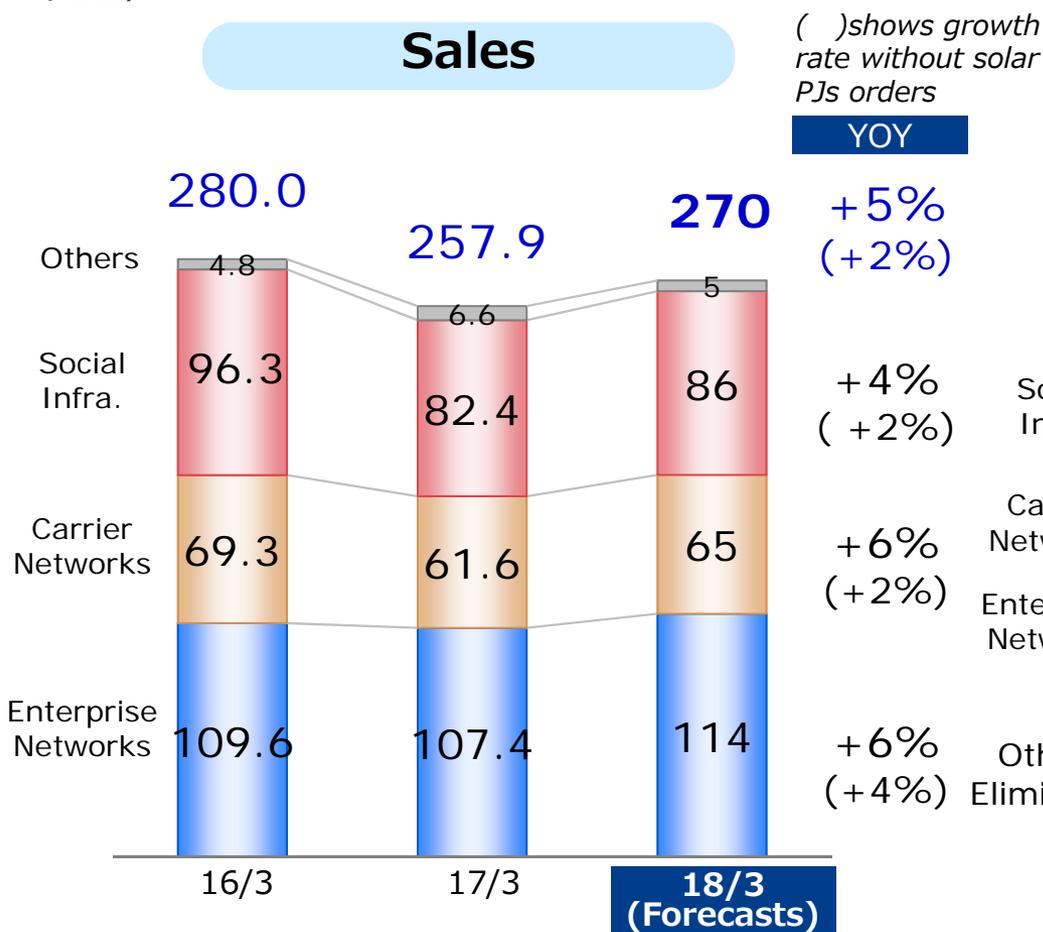
(¥bn.)

	FY17/3	FY18/3 Forecasts	Change
Orders Receipts	279.2	280	0%
Net Sales	257.9	270	+5%
Operating Income	10.0	10.5	+0.5
(to Sales)	(3.9%)	(3.9%)	0.0pt
Net income attributable to owners of the parent	6.5	6.7	+0.2
(to sales)	(2.5%)	(2.5%)	0.0pt

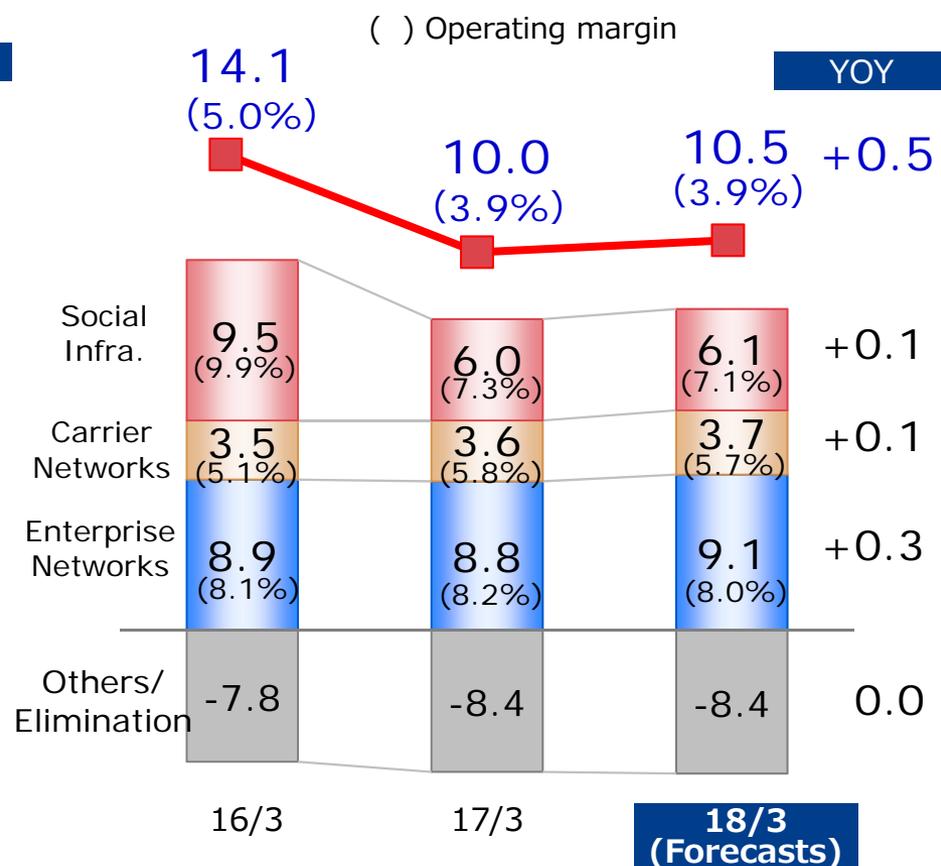
Aiming for high sales and income in each segment.

(¥bn.)

Sales



Operating Income



Aiming for regrowth with FY2017/3 as the bottom, taking advantage of the acceleration in strategic areas.

Top line expansion

- **Expansion of the strategic areas (Service, Infrastructure and Global)**
 - Work style innovation, Mega solar, Broadcasting/CATV, Disaster prevention, Outbound, etc.

Strengthening of earnings capability

- **Improvement of efficiency of the basement business and strengthening of strategic areas**
 - Promotion of cost efficiency improvement (COS and SG&A) by optimizing the in-house allocation of resources, etc.

Strengthening businesses related to work style innovation

- Expanding businesses based on the results of our own practice of work style innovation as well as on the customer base of EmpoweredOffice

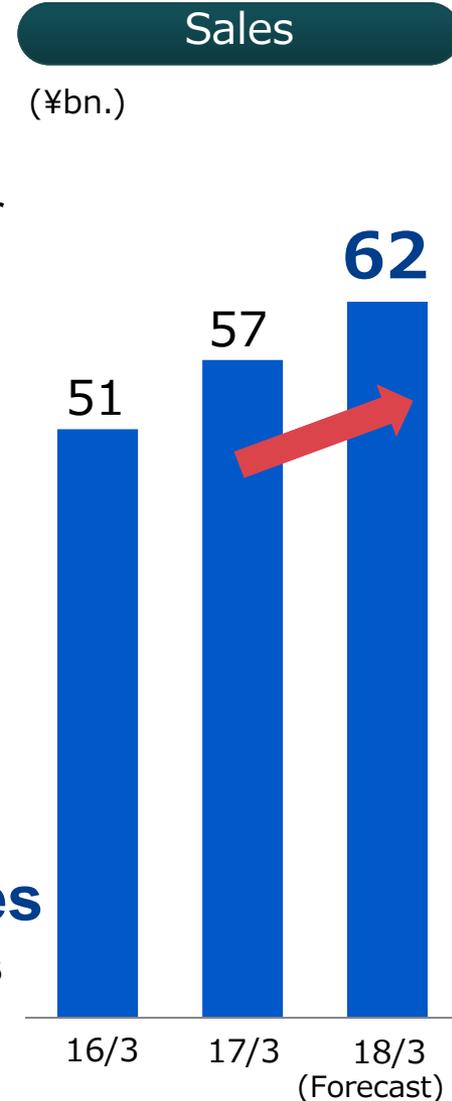
Strengthening the cyber security business

- The expansion of business fields, including terminal control and the prevention of information leaks via the cloud, harnessing our strengths in security operation and monitoring platform (SOC, NOC)./ The sophistication of operation and monitoring services, using AI and other new technologies

- SOC: Security Operation Center
- NOC: Network Operation Center

Accelerating the development of IoT services

- Accelerating the launches of value-added services, such as the global SIM service, and the IoT cloud service in collaboration with global partners.



Development of businesses making the most of our pioneering advocacy of work style innovation (expertise and customer base)

Introducing telework across the board this fiscal year (5,000 people)

Work style innovation and improvements, including an improvement in personnel systems, at the Company and expertise based on them

EmpoweredOffice for ten years: shown to more than 30,000 people

Accumulation of business expertise and the customer base of EmpoweredOffice

Use of expertise

- Sales expansion using the customer base
- Further accumulation of expertise

Strengthening consulting

How to improve business operations and systems, including personnel systems,

How to improve the office environment and efficiency



Expansion services and products for work style innovation

Accelerating the development and launches of ICT services

Services taking advantage of leading-edge technologies, including AI, IoT

Differentiation by providing a wide range of services and products

Consulting	
Systems, offices, businesses	Use of work style ICT
Products, solutions	
EmpoweredOffice solutions	AI, IoT
Business cloud infrastructure	
ICT platform/ devices	

Steady execution of the X-Elio projects

Sales

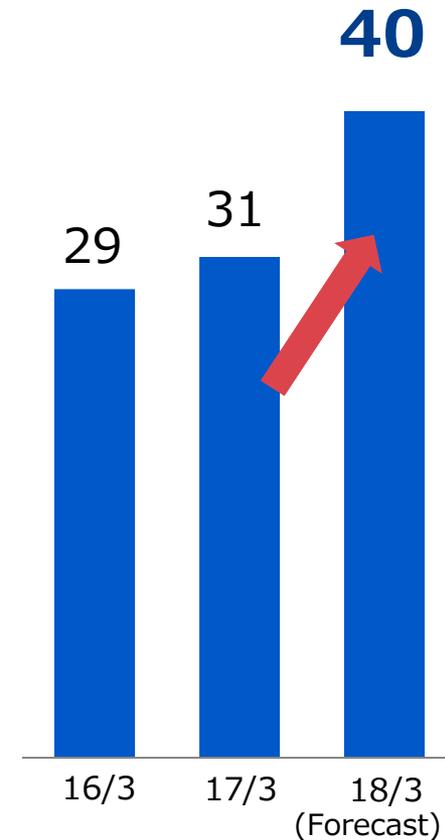
(¥bn.)

Focusing on fields where active investment is expected

- Broadcasting, CATV, Disaster prevention, New mega solar power plants

In response to intensifying competition in the public sector, among other fields

- Focusing on fields & customers where we can take advantage of our strengths
 - ICT field, existing customers
- Strengthening cost competitiveness and streamlining through cost reduction and the flexible allocation of resources



Steady execution of the X-Elio projects

- Build a project management system by setting up a Company-wide organization dedicated to the projects.

▶ **Currently implementing the civil engineering phase.**



Track record and building know-how in mountainous areas via X-Elio projects

+

Collaboration with Japanese financial institutions

Activities to receive orders for large development projects

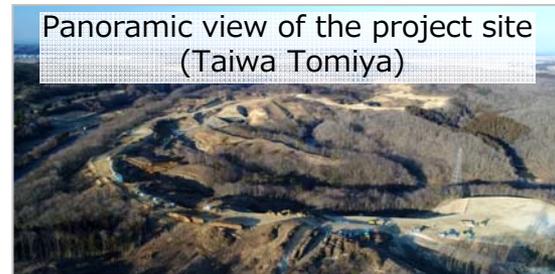
- Advance into Japan of overseas solar power generation operators such as X-Elio
⇒ High potential of the Japanese market

Project Overview

- Total order: Approx. ¥15.5bn
- Rated capacity: Total of 58Mw
- Total development area: 850,000 m² (the size of 13 Wembley Stadium)
- Construction period: Oct. 2016 to Aug. 2018

Ranging from civil engineering and the building of facilities such as electricity, panels and monitoring devices to subsequent maintenance.

Panoramic view of the project site (Taiwa Tomiya)



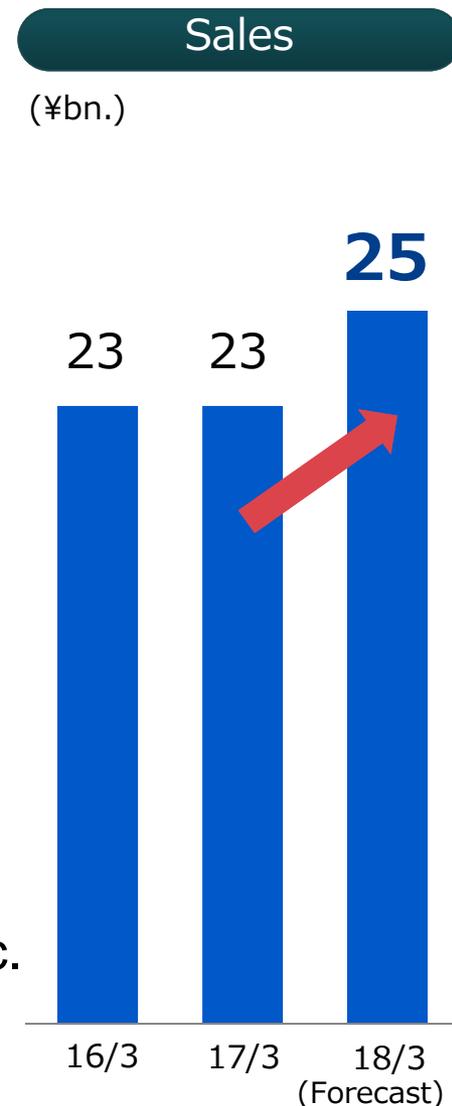
Site preparation in the mountain area (Shiroishi)

Outbound business

- Focusing on the ASEAN region, especially Myanmar, where the market is active
 - ✓ Expanding local business through localization
- Expanding the infrastructure business by tapping into ODA projects

Inbound business

- Taking advantage of markets that are revitalizing as inbound tourists are expanding
 - ✓ Hotels, tourism, airports, multilingual services, etc.
- Expanding sales in response to full-scale investment for the Olympics and Paralympics



Strong start-up of the joint venture in Myanmar (iSGM)

(Operation began in June 2016)

- Receiving a series of orders for the SI of infrastructure and telecom station facilities, while introducing a technology support project for telecom carriers in an environment of robust telecom infrastructure investment.

Sales in the first year

¥1bn.

Progress outperformed initial plans

Employees

40

At the beginning (June, 2016)



175

At the end of March, 2017

Employees quadrupled with business growth.

Further deepening and expansion in the Myanmar market, taking advantage of local costs and Japanese quality, the strengths of iSGM.

Strengthening areas

- Expansion of local business domains ... Deepening ties with local telecom carriers and participation in ICT business for the government and corporate sectors
- Strengthening of the offshore business, such as software development



**At present
(175 people)**
※ March, 2017



At the beginning (40 people)
※ June, 2016

Strategic Areas of Midterm Plan: FY2018/3 Forecast

(Forecast as at April 27, 2017)

Increase sales in strategic areas and reduce the decline in sales in the basement business.

(¥bn.)

Sales

Total

280.0

257.9

270

Strategic areas total

103

+8%

111

+14%

127

Service

51

57

+9%

62

Infrastructure

29

31

+29%

40

Global

23

23

+9%

25

The basement business

177

-17%

147

-3%

143

16/3

17/3

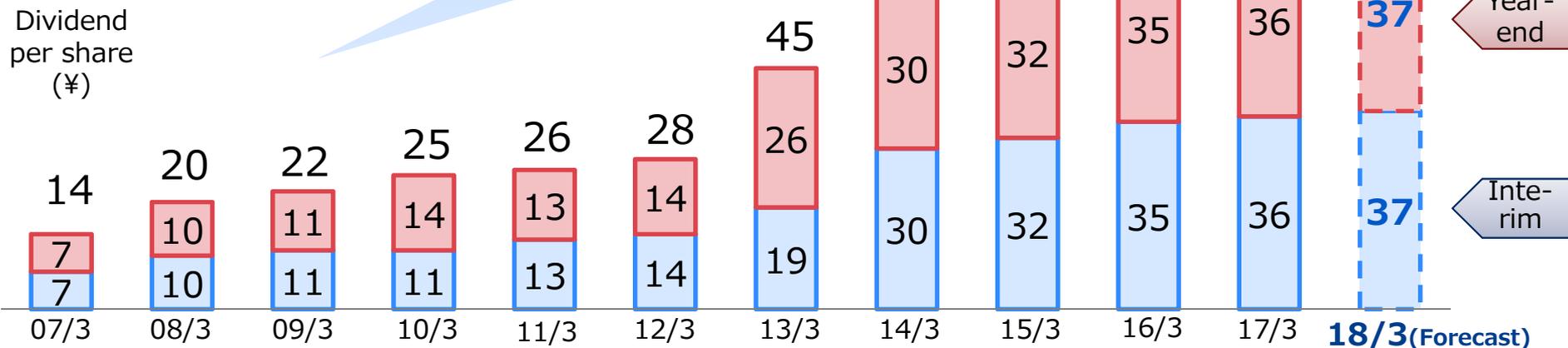
18/3 (Forecast)

Dividend Plan

Increasing the corporate value through growth investment and continuing to increase shareholder return based on stable dividends at the same time.

- Taking DOE (dividend on equity ratio) into account.
- FY17/3: Year-end dividends: ¥36 per share (Full year ¥72)
- FY18/3: Planning increased dividends of ¥74 per share

Planning increase for the 11th year in a row



First Year of Regrowth

**Achieve the target in FY 2018/3
and
Accelerate strategic areas.**

Business
growth

Organizational
growth

Human
growth

Conduct business giving top priority to compliance

Enhance shareholder value

(ref.) End of FY2017/3 (March 2017) Balance Sheet

(¥bn.)

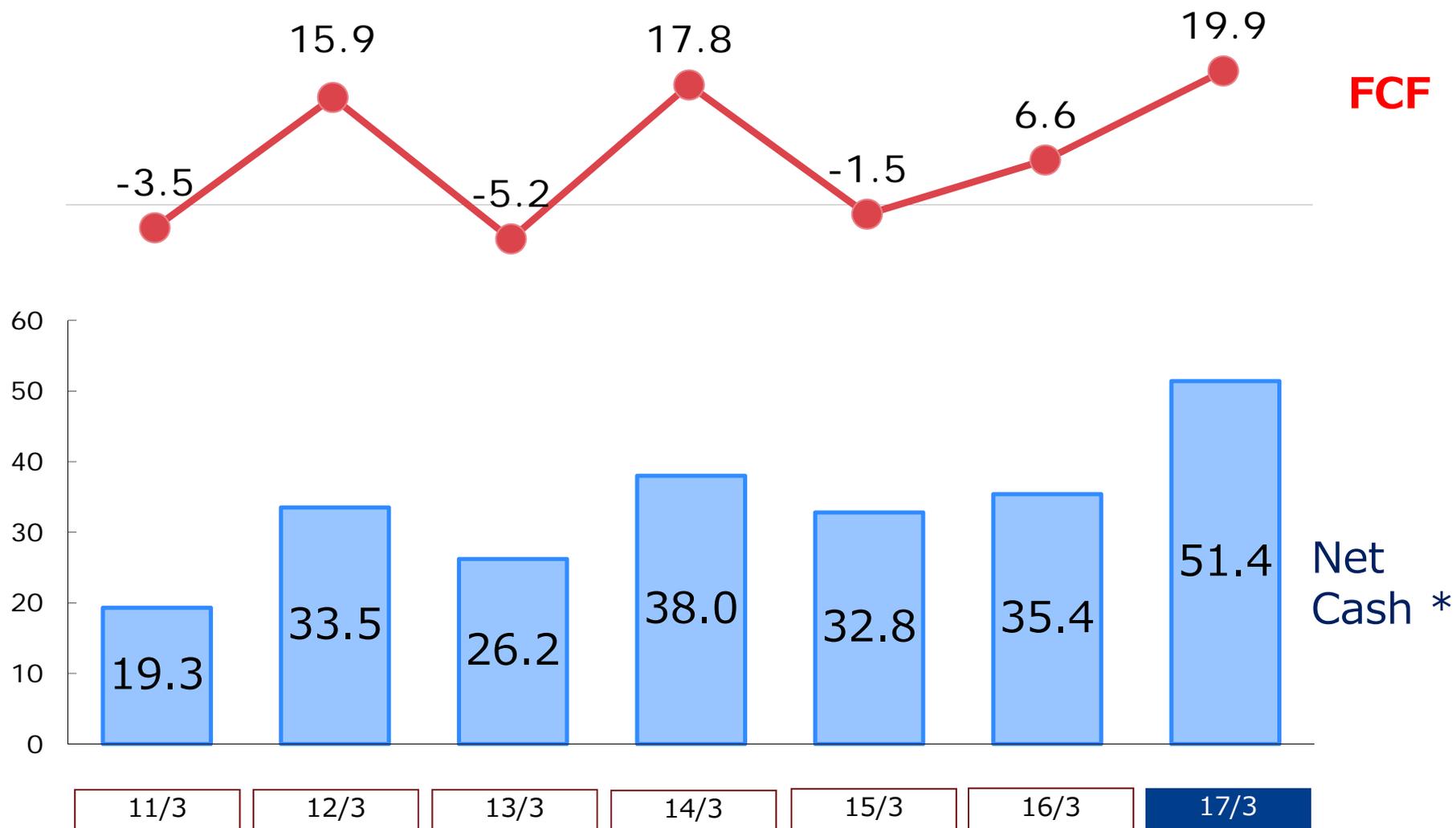
	End of Mar/16	End of Mar/17	Diff.
Cash and cash equivalents	43.9	59.6	15.8
Notes & accounts receivable	104.8	91.2	-13.7
Inventories	9.2	8.5	-0.7
Others	9.7	9.7	0.0
Current Assets	167.6	169.0	1.4
Noncurrent Assets	28.9	28.5	-0.5
Assets	196.6	197.5	0.9

Notes and accounts payable	39.2	36.5	-2.7
Loans	8.5	8.3	-0.2
Others	54.5	56.1	1.6
Liabilities	102.2	100.8	-1.4
Shareholders' equity	97.1	100.1	3.0
Accumulated other comprehensive income	-4.4	-5.5	-1.2
Non-controlling interests	1.7	2.1	0.4
Net Assets	94.4	96.7	2.3
Liabilities & Net Assets	196.6	197.5	0.9

Owner's Equity Ratio	47.2%	47.9%	+0.7pt
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(ref.) FY2017/3 Cash Flows

(¥bn.)



*Net cash means an amount obtained by deducting loans payable from cash and cash equivalents

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 under review, 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 fiscal year ended March 2015 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

NEC Networks & System Integration Corporation

<http://www.nesic.co.jp/english/index.html>