


# Financial Results for 3Q for the Fiscal Year ending March 2014

January 30, 2014

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



# About a Fraud of an Employee of a Subsidiary Company (1)

We take very seriously the revelation that an employee of our subsidiary, Toyo Networks & System Integration Co., Ltd. has been engaged in fraud. We have formed an investigation committee that will thoroughly investigate the case and prevent any similar incident from recurring within the NESIC Group by focusing on compliance.

## Financial impact and disclosure

- Total damage amount : ¥1,560 million  
\*Yearly damage (pre-audit) shown on the next page
- Restatement of past financial sheets (Audited) : February 14 (planned)
- Announcement of investigation results and measures to prevent recurrence : Middle of February (target)

# About a Fraud of an Employee of a Subsidiary Company (2)

## Impact on annual results

(Billions of Yen)

	FY08/3	FY09/3	FY10/3	FY11/3	FY12/3	FY13/3	FY14/3	Total
Net Sales	No impact on sales and operating income							
Operating Income								
Ordinary Income	<b>-0.08</b>	<b>-0.26</b>	<b>-0.26</b>	<b>-0.14</b>	<b>-0.19</b>	<b>-0.40</b>	<b>-0.23</b>	<b>-1.56</b>
Net Income	<b>-0.05</b>	<b>-0.16</b>	<b>-0.16</b>	<b>-0.09</b>	<b>-0.12</b>	<b>-0.25</b>	<b>-0.14</b>	<b>-0.97</b>
Total Asset	<b>-0.05</b>	<b>-0.21</b>	<b>-0.37</b>	<b>-0.46</b>	<b>-0.58</b>	<b>-0.82</b>	<b>-0.97</b>	
Net Asset	<b>-0.05</b>	<b>-0.21</b>	<b>-0.37</b>	<b>-0.46</b>	<b>-0.58</b>	<b>-0.82</b>	<b>-0.97</b>	

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# 1. Outline of the Results for 3Q/9M FY2014/3

# FY2014/3 3Q & 9M Summary

Achieved a substantial increase in sales & profits due to M&A effect as well as strong social infra. business

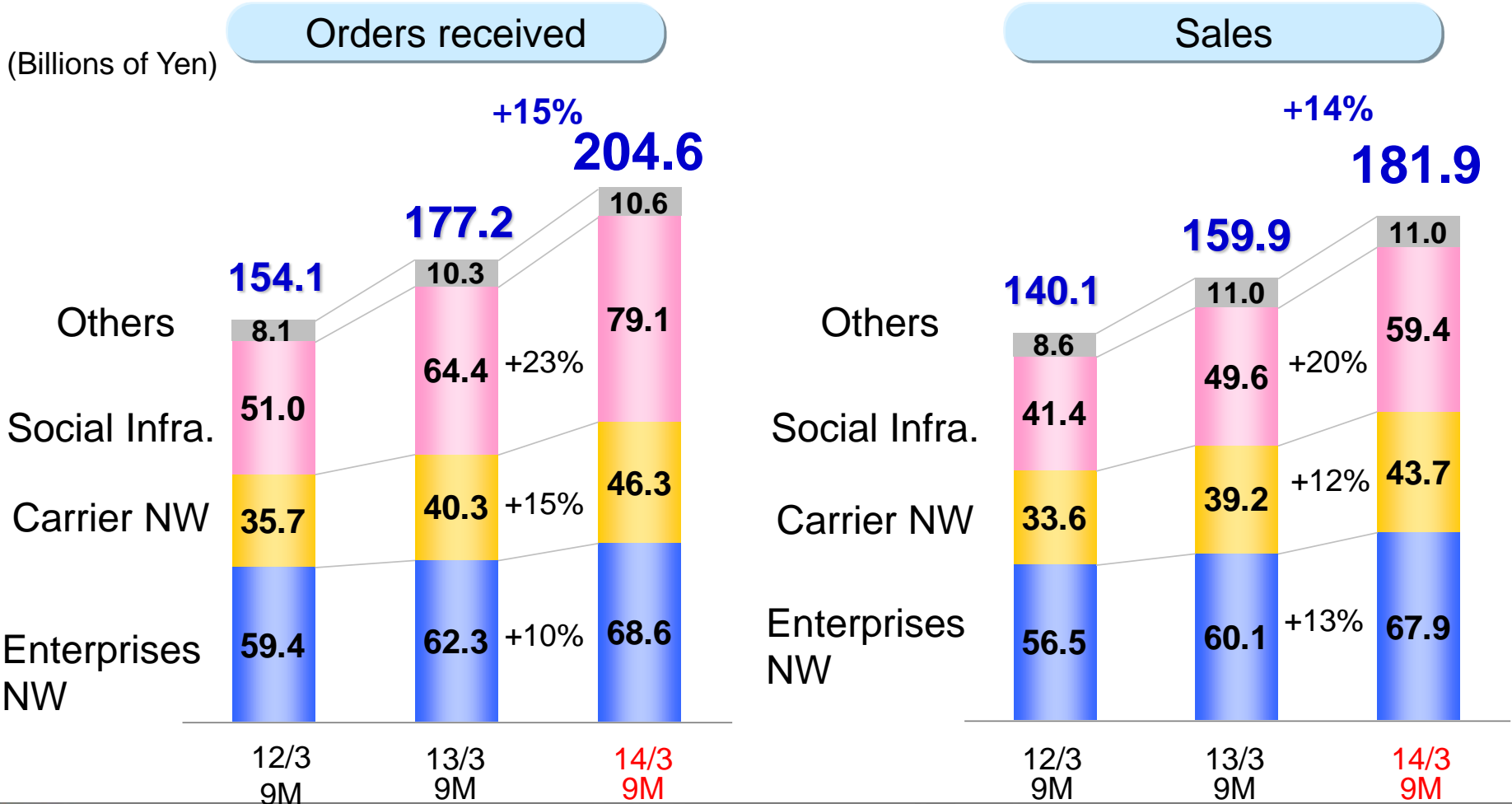
(Billions of Yen)

	9 Months (1Q-3Q)			3Q		
	FY13/3	FY14/3	YoY	FY13/3	FY14/3	YoY
Orders received	177.2	204.6	15%	53.2	66.0	24%
Net Sales	159.9	181.9	14%	55.4	66.7	20%
Operating income	6.6	7.7	+1.1	3.1	3.6	+0.5
(to sales)	(4.1%)	(4.3%)	+0.2pt	(5.6%)	(5.3%)	-0.3pt
Net Income	* 3.8	4.8	+1.0	* 1.8	2.1	+0.3
(to sales)	(2.4%)	(2.6%)	+0.2pt	(3.2%)	(3.2%)	-
Free Cash Flows	* -2.6	7.6	+10.2	* -6.6	-7.0	-0.4

\*Restated

# FY2014/3 9M Sales/Orders Received by Segment

Double-digit growth in orders and sales across all major segments

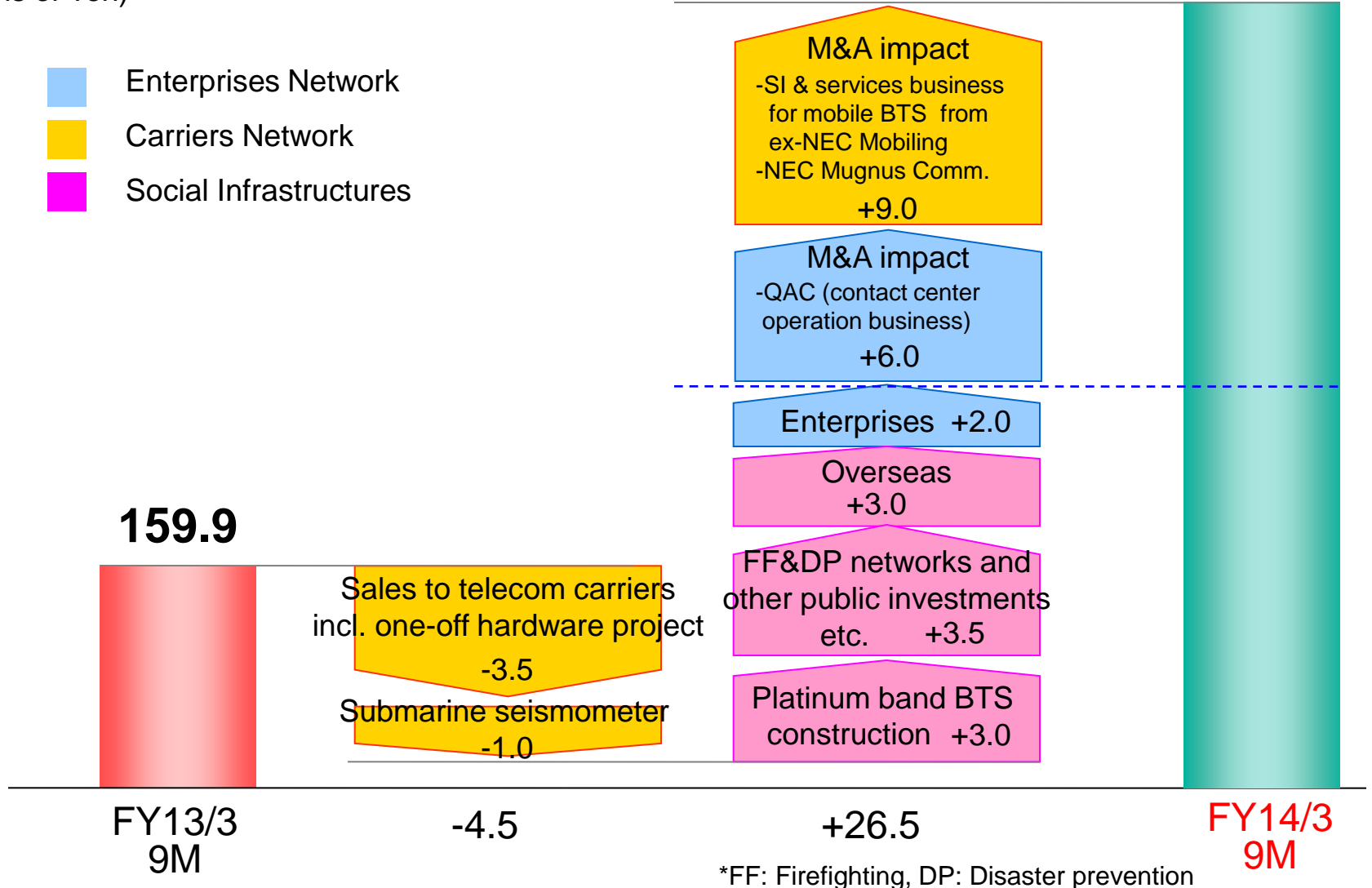


# FY2014/3 9M Sales Analysis

**181.9**

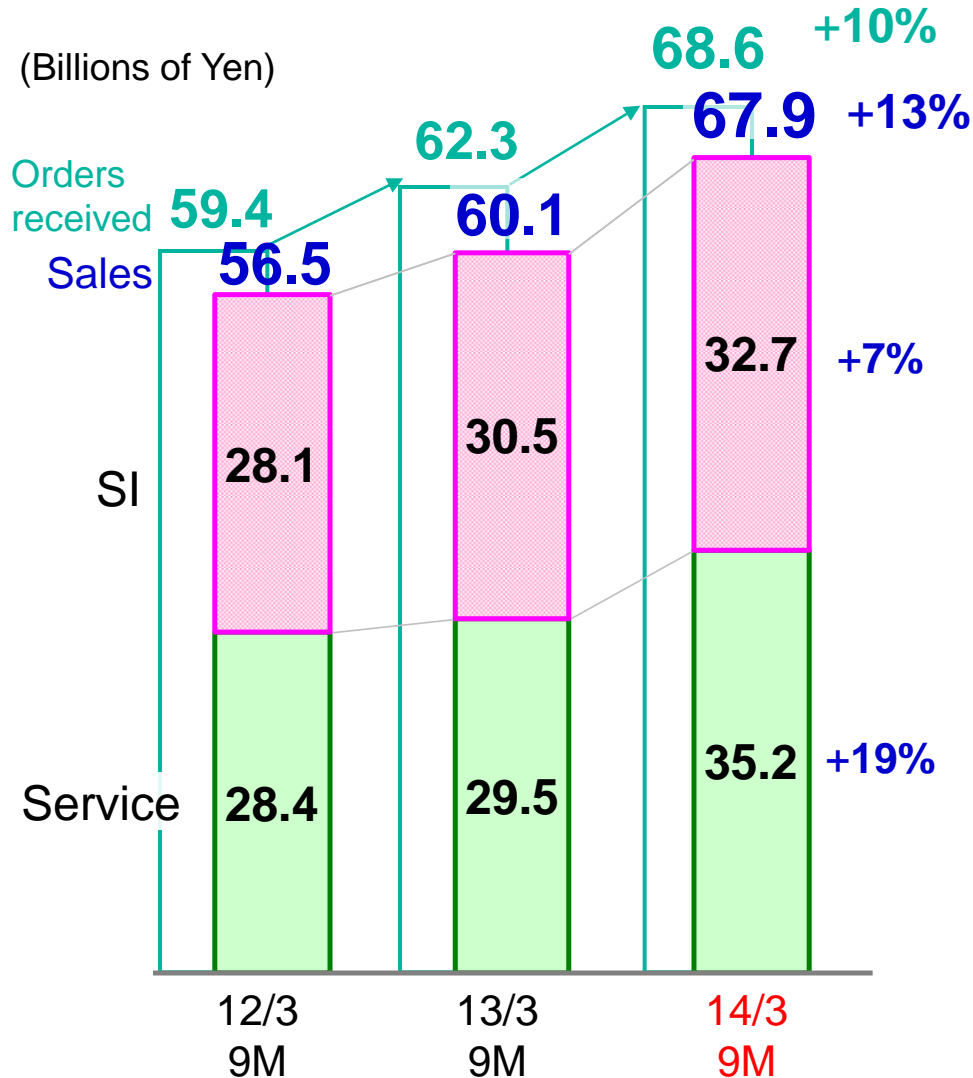
(Billions of Yen)

- Enterprises Network
- Carriers Network
- Social Infrastructures



\*FF: Firefighting, DP: Disaster prevention

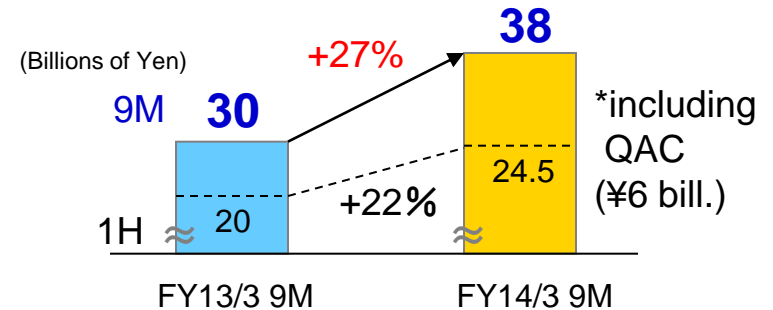
# FY2014/3 9M Enterprise Networks Business



## Continued expansion by investing in growth

- Accelerated growth in the EmpoweredOffice (EO) business

Sales of EmpoweredOffice Business



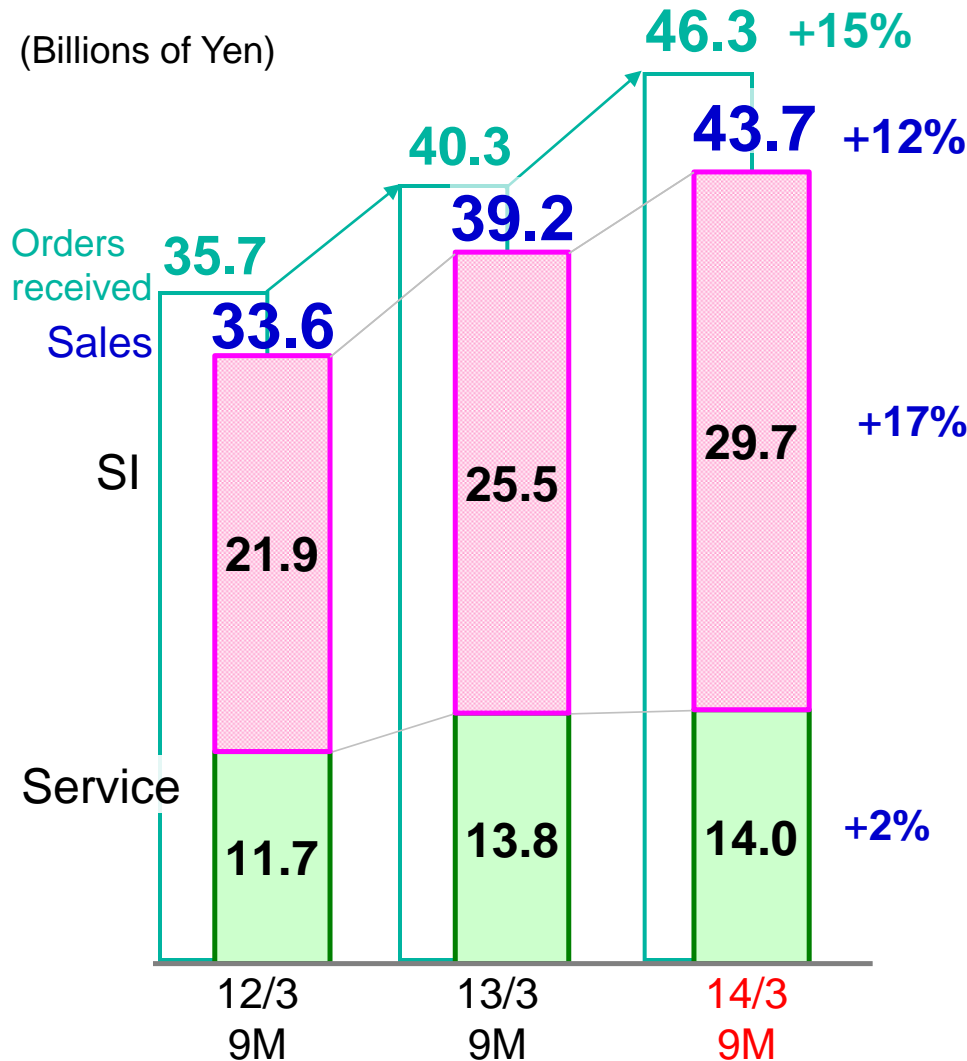
- Sales promotion utilizing EO introduction into regional offices

-Introduced: Six regional offices covering Tohoku, Chubu, Chugoku, Kyushu, etc.

-Planned in 4Q: 4 regional offices covering Hokkaido, Hokuriku, etc.



# FY2014/3 9M Carriers Networks Business



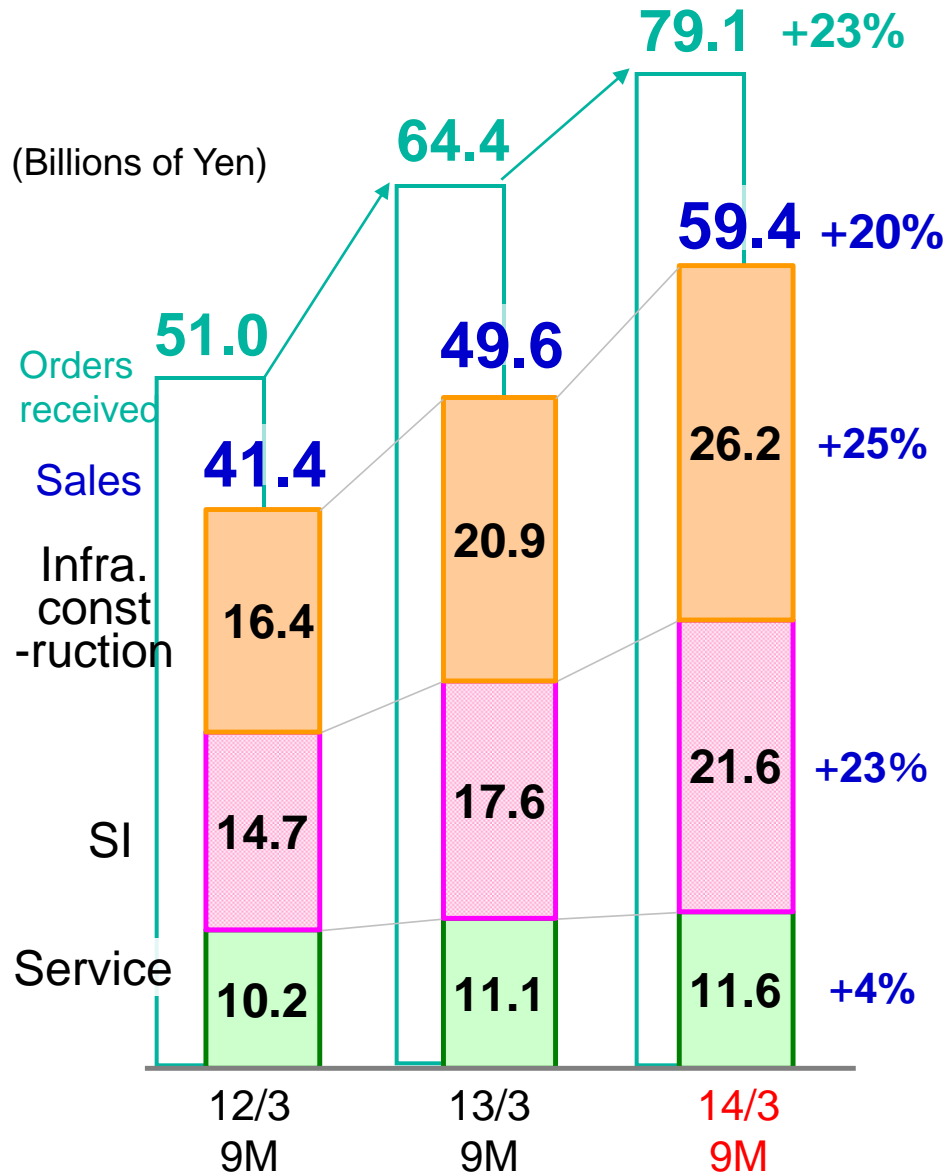
Achieved double-digit growth helped by the M&A effect, offsetting the absence of last year's large projects\*

\*One-off hardware project, Submarine seismometer systems

- Technical outsourcing business increased (+2%), despite a reactionary decrease following a spike in demand helped by investment in traffic in the previous year
- M&A contributed (¥9 bill.)

- Mobile BTS SI & services business from ex-NEC Mobiling
- NEC Magnus Communications

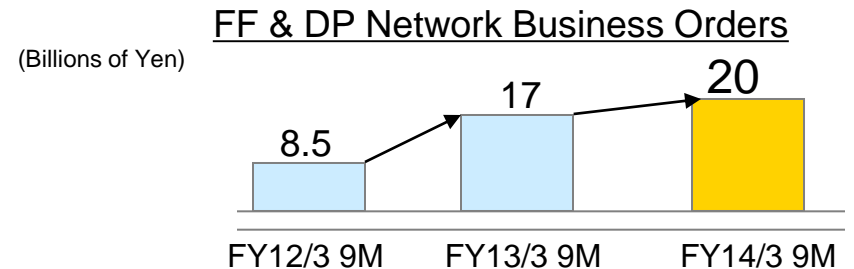
# FY2014/3 9M Social Infrastructure Business



## Orders & sales jumped

- 9M sales of the platinum BTS construction had increased, though its quarterly business have started to diminish in 3Q.
- Further expansion of safety & security themed investment centering on FF&DP network

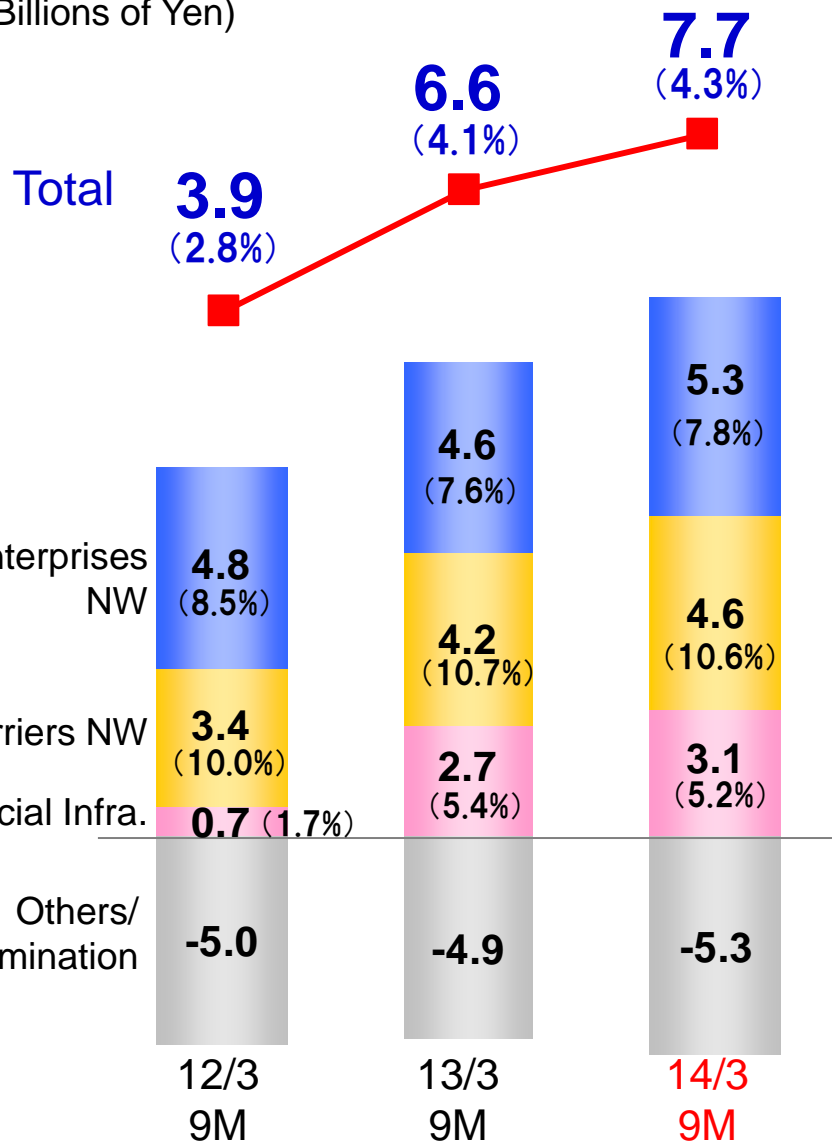
\*FF: fire fighting, DP: disaster prevention



- Expansion in overseas infra. business  
-Continued increase in 3Q centering on 3G network construction in Thailand

# FY2014/3 9M Operating Income/Loss by Segment

(Billions of Yen)

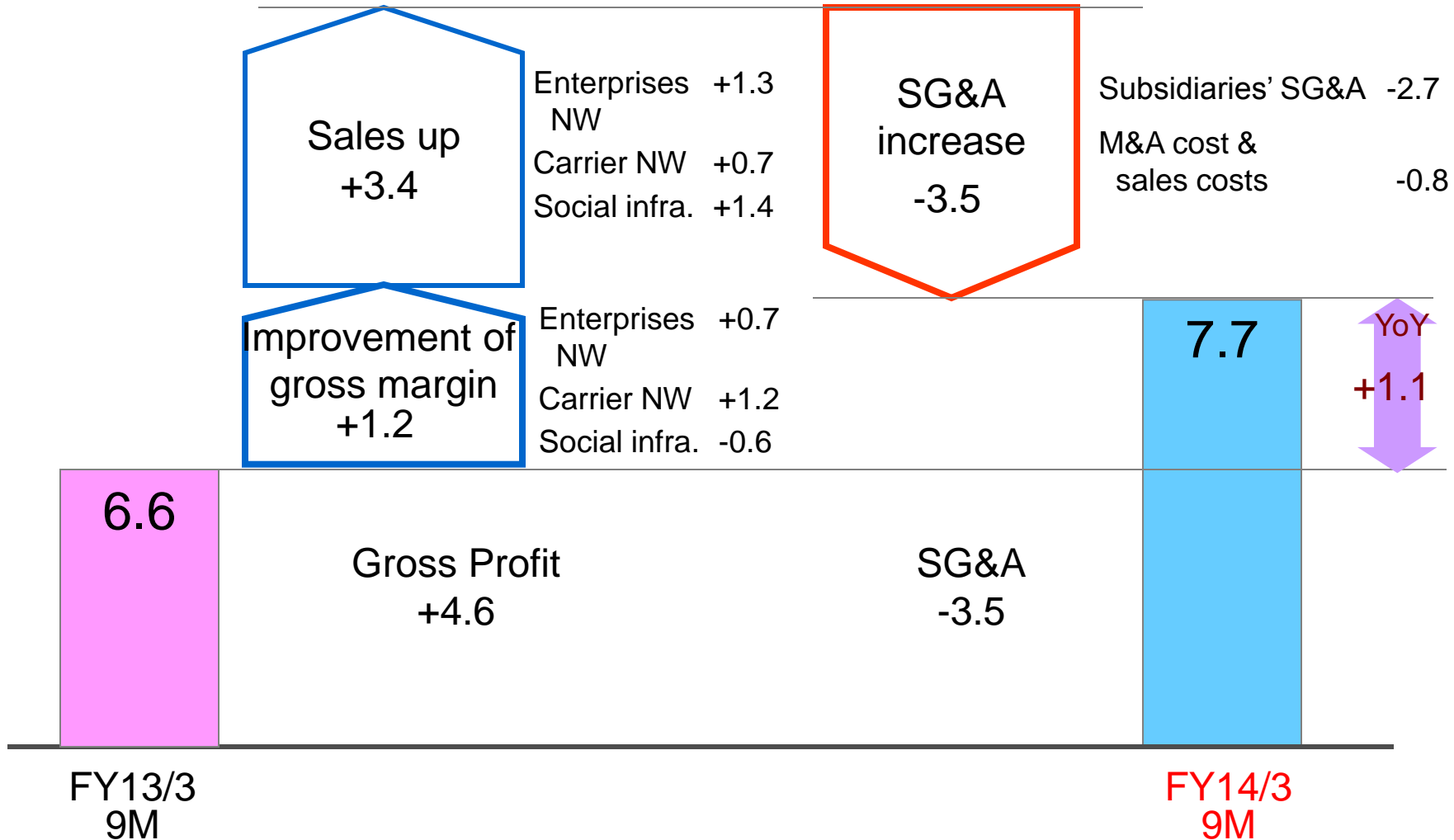


Operating income steadily increased across all three segments

- Enterprises NW:
  - Operating income rose with sales increase and efficiency improvement by in-house production
- Carriers NW:
  - Operating income rose due to M&A and efficiency increase through in-house production
  - Profitability maintained, despite the absence of a profit contribution from the newly consolidated NEC Magnus in 3Q
- Social Infrastructure:
  - Operating income rose with the sales increase
- Others/Elimination:
  - Strategic spending increased for M&A and sales promotions

# FY2014/3 9M Operating Income Analysis

(Billions of Yen)



# FY2014/3 9M Cash Flows

Free cash flow was positive by recouping cash from large projects at the end of last fiscal year, offsetting M&A and other investments in future growth

(Billions of Yen)

	* FY13/3 9M	FY14/3 9M
Operating cash flow (a)	0.3	12.4
Investment cash flow (b)	-2.9	-4.7
Free cash flows (a)+(b)	-2.6	7.6
Financial cash flow	-4.8	-3.3
Cash and cash equivalents at the end of the period	30.1	34.7

\*Restated

# FY2014/3 End of 3Q (December 2013) Balance Sheet

(Billions of Yen)

		*			
			End of Mar/13	End of Dec/13	Difference
	Cash and cash equivalents		30.3	34.8	4.5
	Notes and accounts receivable		92.3	80.6	-11.7
	Inventories		10.4	14.2	3.8
	Other		8.1	9.5	1.4
	<b>Current Assets</b>		<b>141.2</b>	<b>139.1</b>	<b>-2.1</b>
	<b>Noncurrent Assets</b>		<b>26.3</b>	<b>31.5</b>	<b>5.2</b>
	<b>Assets</b>		<b>167.5</b>	<b>170.5</b>	<b>3.1</b>
	Notes and accounts payable		36.4	32.4	-4.0
	Loans		4.1	6.8	2.7
	Other		41.0	42.4	1.4
	<b>Liabilities</b>		<b>81.5</b>	<b>81.6</b>	<b>0.1</b>
	Shareholders' equity		85.7	87.7	2.0
	Valuation and translation adjustments		-0.5	-0.3	0.2
	Minority interests		0.7	1.5	0.8
	<b>Net Assets</b>		<b>86.0</b>	<b>89.0</b>	<b>3.0</b>
	<b>Liabilities &amp; Net Assets</b>		<b>167.5</b>	<b>170.5</b>	<b>3.1</b>
	<b>Owner's Equity Ratio</b>		<b>50.9%</b>	<b>51.3%</b>	<b>+0.4pt</b>

\*Restated

# Impact of the Fraud on Profit & Loss Statement

(Billions of Yen)

	FY13/3 9M			FY14/3 9M		
	Non restaed	Impact	Restated	Impact	Restated	
Net sales	159.88	-	159.88	-	181.94	
Operating income	6.59	-	6.59	-	7.74	
Non-operating income	0.16	* -0.28	-0.13	* -0.23	0.17	
Ordinary income	6.74	-0.28	6.46	-0.23	7.91	
Income before income taxes	6.58	-0.28	6.29	-0.23	7.74	
Net income	3.98	-0.18	3.80	-0.14	4.80	

\*Provision of allowance for doubtful accounts

# Impact of the Fraud on Balance Sheet

(Billions of Yen)

	End of Mar/13			End of Dec/13	
	Non restaed	Impact	Restated	Impact	Restated
Cash & cash equivalent	30.9	-0.6	30.3	-0.7	34.8
Notes & accounts receivable	93.0	-0.7	92.3	-0.8	80.6
Others	18.5	-	18.5	-	23.7
<b>Current assets</b>	<b>142.5</b>	<b>-1.3</b>	<b>141.2</b>	<b>-1.6</b>	<b>139.1</b>
<b>Noncurrent assets *</b>	<b>25.8</b>	<b>0.5</b>	<b>26.3</b>	<b>0.6</b>	<b>31.5</b>
<b>Assets</b>	<b>168.3</b>	<b>-0.8</b>	<b>167.5</b>	<b>-1.0</b>	<b>170.5</b>
<b>Liabilities</b>	<b>81.5</b>	<b>-</b>	<b>81.5</b>	<b>-</b>	<b>81.6</b>
Retained earnings	56.8	-0.8	56.0	-1.0	58.0
Others	30.0	-	30.0	-	30.9
<b>Net assets</b>	<b>86.8</b>	<b>-0.8</b>	<b>86.0</b>	<b>-1.0</b>	<b>89.0</b>
<b>Liabilities &amp; net assets</b>	<b>168.3</b>	<b>-0.8</b>	<b>167.5</b>	<b>-1.0</b>	<b>170.5</b>

\*Noncurrent assets increased due to increase of DTA



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## 2. Forecasts for FY2014/3

# FY2014/3 Full-Year Forecasts

Revised upwards full-year forecasts  
based on progress for nine months

(Billions of Yen)

	FY13/3 Actual	FY14/3 Forecasts	YoY	Previous forecasts (13 Oct.30)	Difference
Net sales	235.7	260	10%	250	+10
Operating income	12.5	14.0	1.5	13.5	+0.5
(to sales)	(5.3%)	(5.4%)	+0.1pt	(5.4%)	-
Net income	* 7.2	8.3	1.1	8.2	+0.1
(to sales)	(3.1%)	(3.2%)	+0.1pt	(3.3%)	-0.1pt

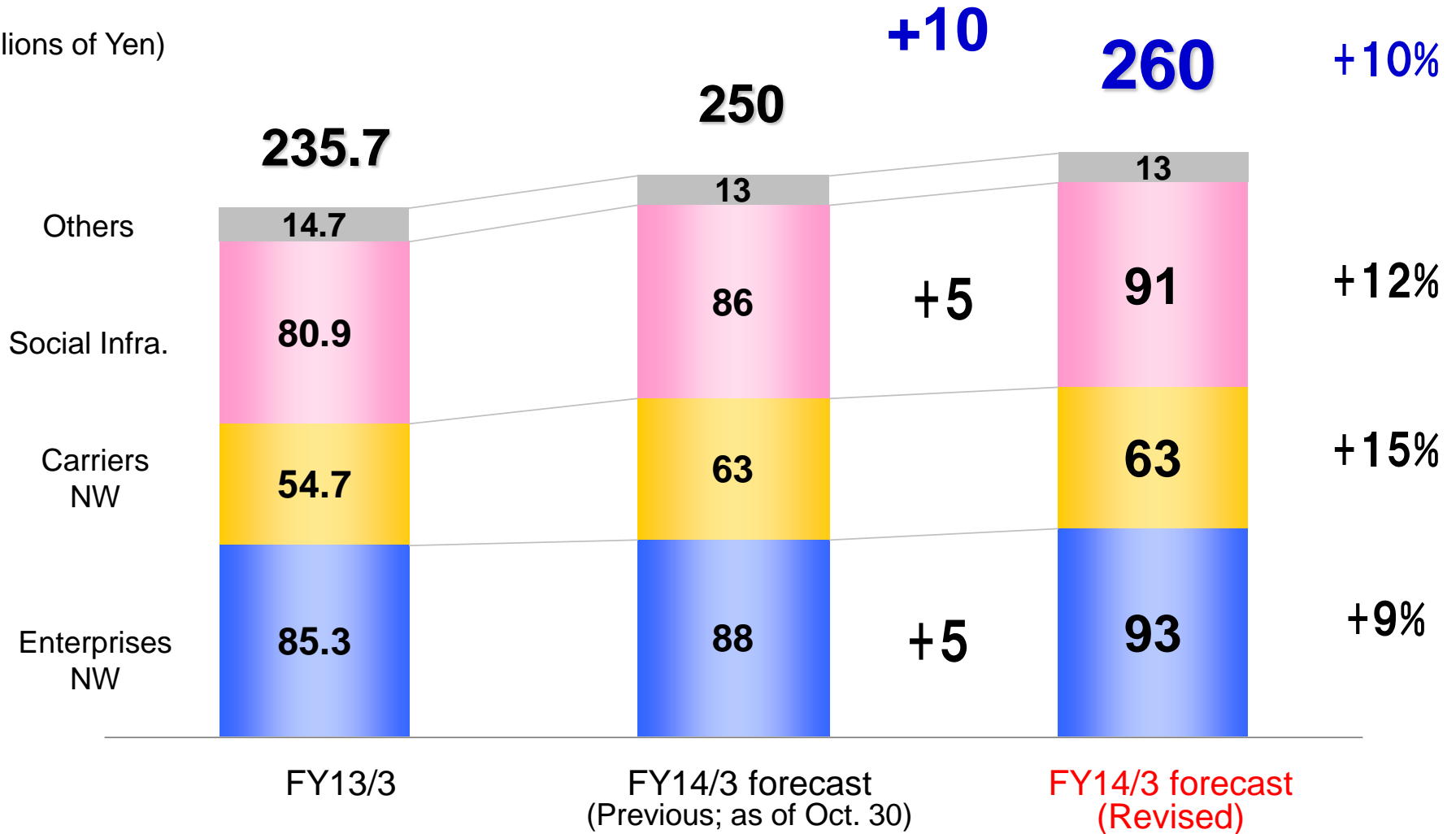
\*Restated

\*Forecasts as of January 30, 2014

# FY2014/3 Full-Year Sales Forecasts by Segment

(YoY)

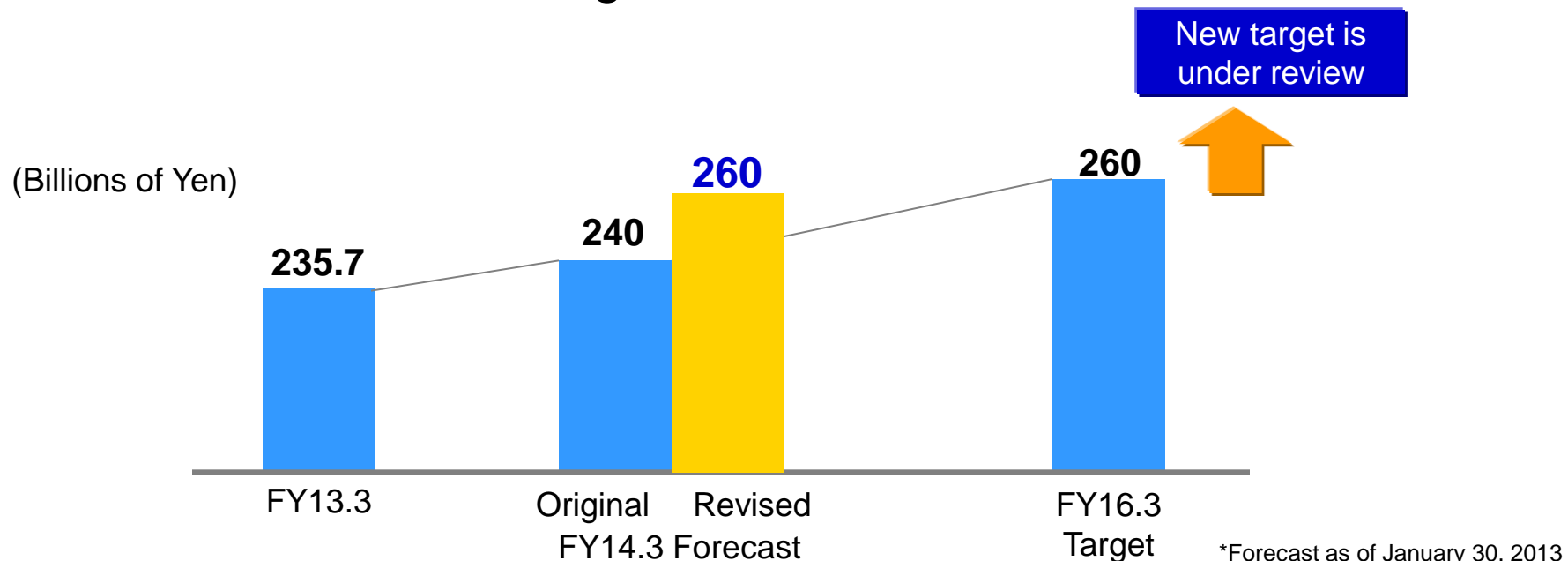
(Billions of Yen)



\*Forecasts as of January 30, 2013

# Mid-Term Business target

- We expect to achieve our mid-term sales target ahead of schedule, helped by a solid business environment and the impact of consolidating NEC Magnus Communications
- We will announce our new target figures at analyst briefing for business results for FY2014/3, after determining the effect of business integration.



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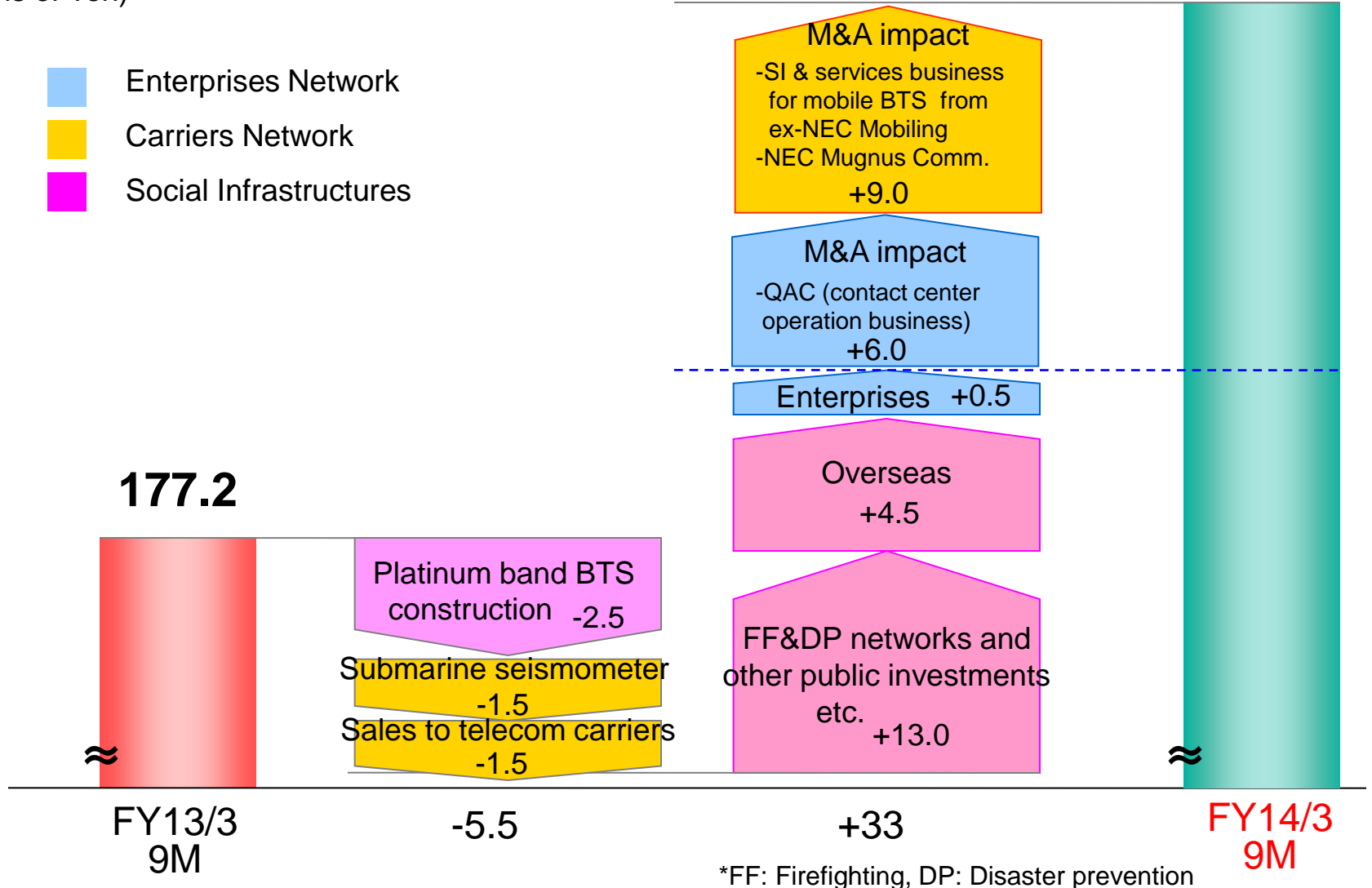
(APENDIX)

# FY2014/3 9M Order Receipts Analysis


**204.6**

(Billions of Yen)

- Enterprises Network
- Carriers Network
- Social Infrastructures



\*FF: Firefighting, DP: Disaster prevention



# Re-designing your Communication

NEC Networks & System Integration Corporation is committed to increasing customer value by redesigning future communications from the user's perspective.



# Cautionary Statement

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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.



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# NEC

NEC Networks & System Integration Corporation

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