

Financial Results for the 1H ending March 2016

October 30, 2015

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NEC Networks & System Integration Corporation

(TSE: 1973, NESIC)

Agenda

I. Results for 1H FY2016/3

II. Forecasts for FY2016/3

III. Strategies for Future Growth



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1H FY2015/3 Summary

Net sales & incomes decreased year on year

- The environment for business with telecom carriers worsened beyond our expectations.

(Bil. ¥)

	1H FY15/3	1H FY16/3	Change	Forecasts as at Apr.28	Diff.
Orders Received	156.4	141.5	-10%	150	-8.5
Net Sales	130.6	127.8	-2%	130	-2.2
Operating Income	4.5	3.5	-1.0	4.5	-1.0
(to Sales)	(3.4%)	(2.8%)	-0.6pt	(3.5%)	-0.7pt
Net Income *	2.7	1.9	-0.7	2.4	-0.5
(to Sales)	(2.1%)	(1.5%)	-0.6pt	(1.8%)	-0.3pt
Free Cash Flows	4.4	13.5	9.1		

*Profit attributable to owners of parent

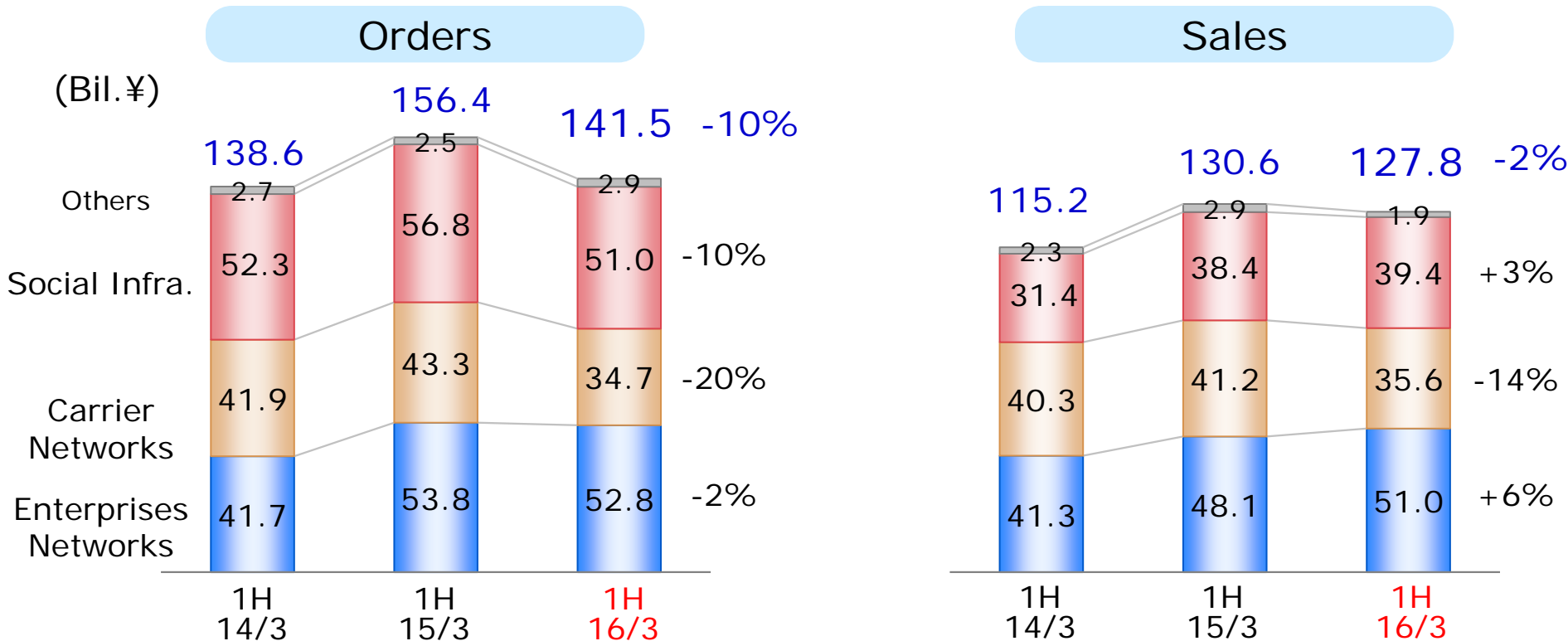
1H FY2016/3 Sales/Orders Received by Segment

Orders declined, mainly reflecting a decrease in orders for the FF & DP networks business (-¥11 bil.) & the impact of investment cuts by telecom carriers (-10).

- Orders from general corporate customers and overseas increased.

Sales remained almost flat, offsetting the impact of investment cuts by telecom carriers (-7), as the sales of Enterprise NW and Social Infrastructure businesses increased.

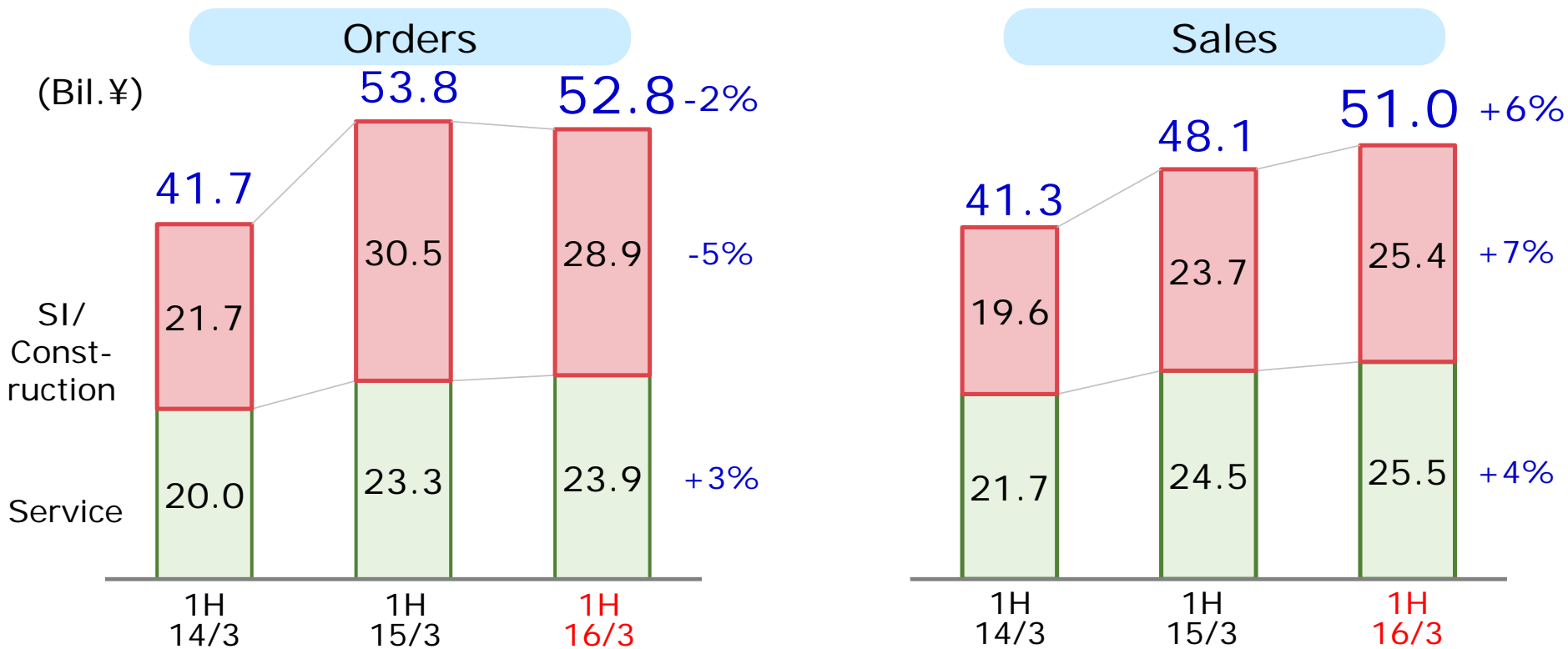
FF: fire fighting, DP: disaster prevention



1H FY2016/3 Enterprises Networks Business

Sales increased as the EmpoweredOffice business remained strong.

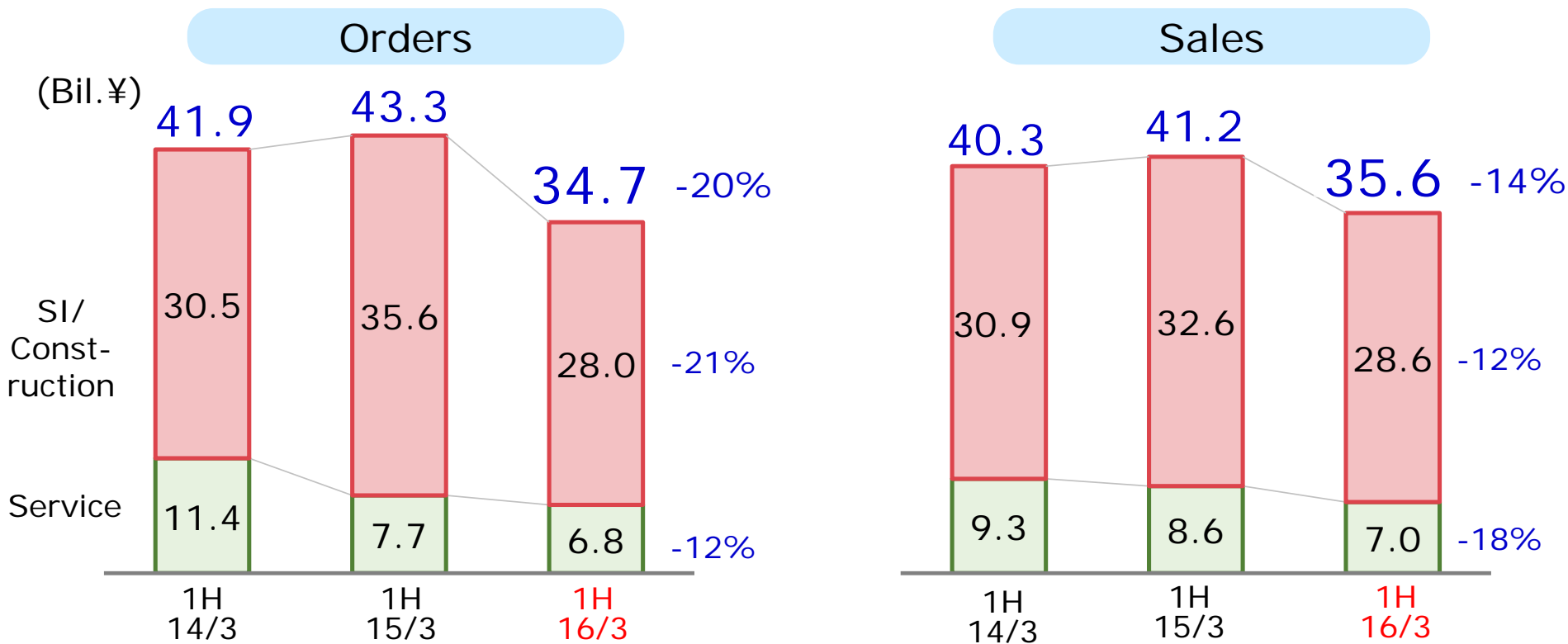
- Sales of EmpoweredOffice business : +10%
- Orders from general corporate increased.



1H FY2016/3 Carrier Networks Business

Both orders and sales decreased because of the impact of investment cut by telecom carriers.

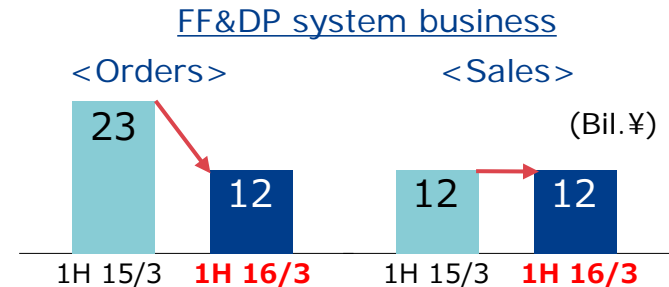
- Business for public and corporate customers increased utilizing assets for telecom carriers. (Order/sales: +15%)



1H FY2016/3 Social Infrastructures Business

Sales rose year on year, reflecting increased sales to government offices

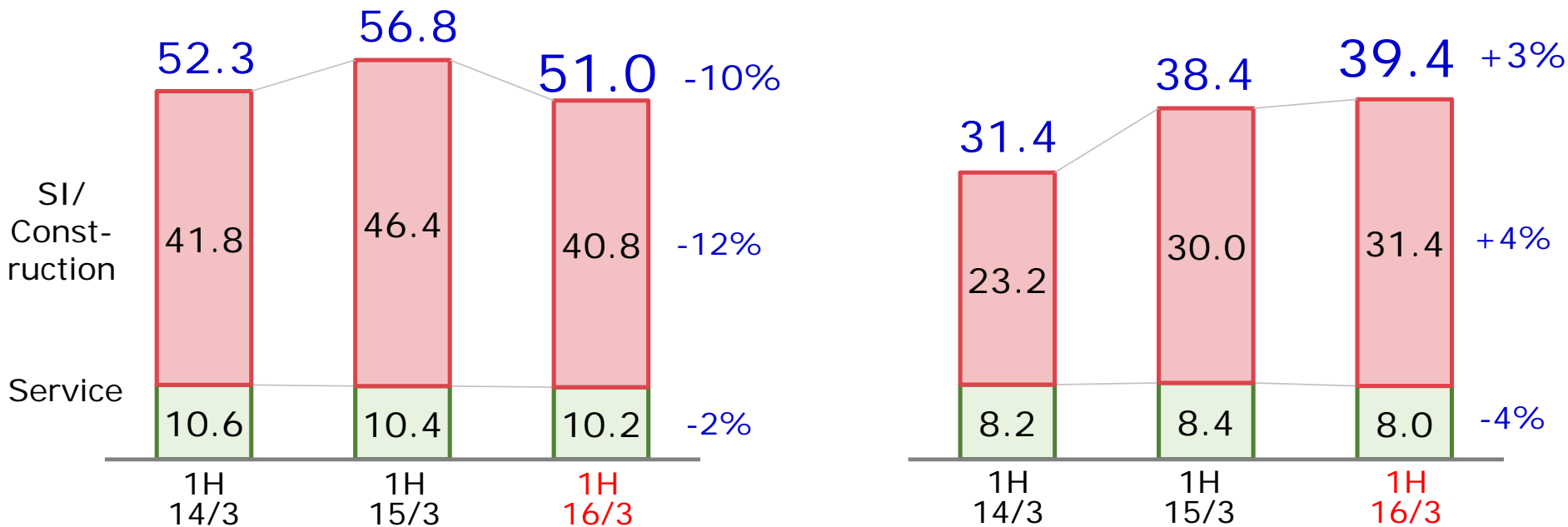
- Sales remained at high levels as the migration to digital FF systems progressed toward the May 2016 deadline.
- Orders increased for overseas infrastructure works (+¥2.5 bil.) and space-related projects (+1.5), although those for FF&DP systems decreased (-11).



(Bil.¥)

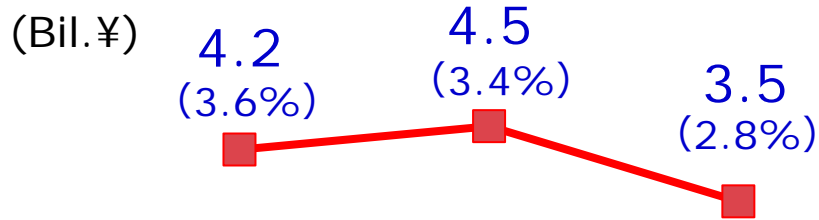
Orders

Sales

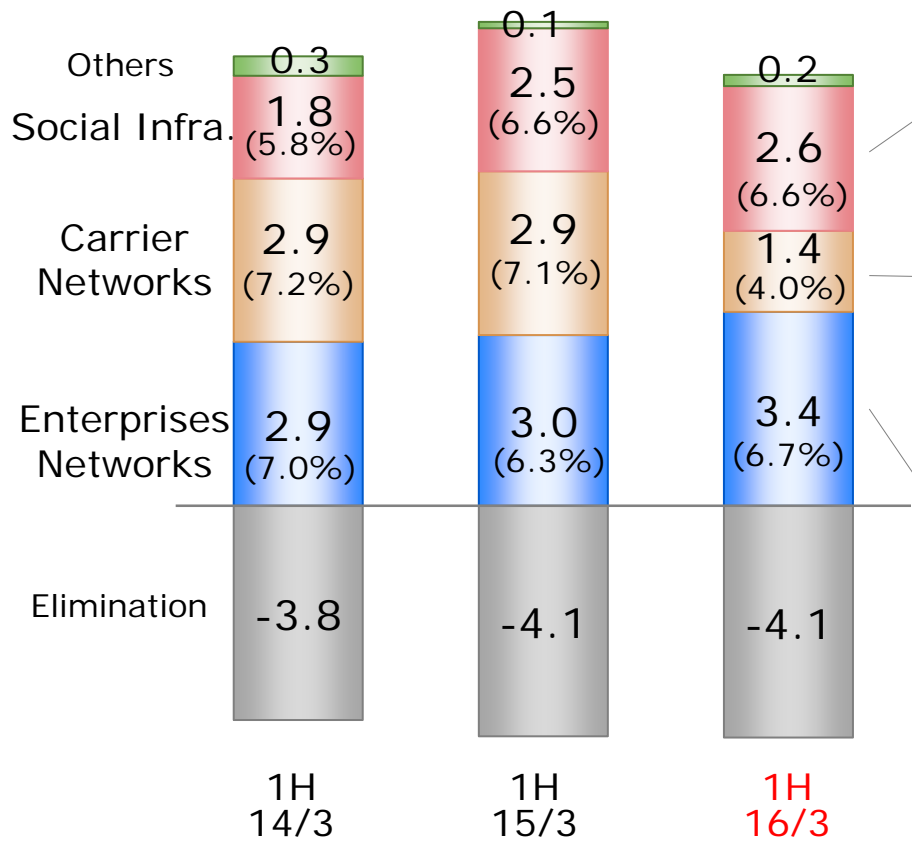


FF: fire fighting, DP: disaster prevention

1H FY2016/3 Operating Income by Segment



Operating income declined due to a fall in sales of the Carrier Networks business, although the Enterprises Networks & Social Infrastructure businesses posted higher income.



- Social Infrastructure
 - Income rose on increased sales.
- Carrier Networks
 - Income declined on decreased sales and the delay in cost cutting to adapt to rapid changes in the business environment.
- Enterprises Networks
 - Income rose on increased sales.

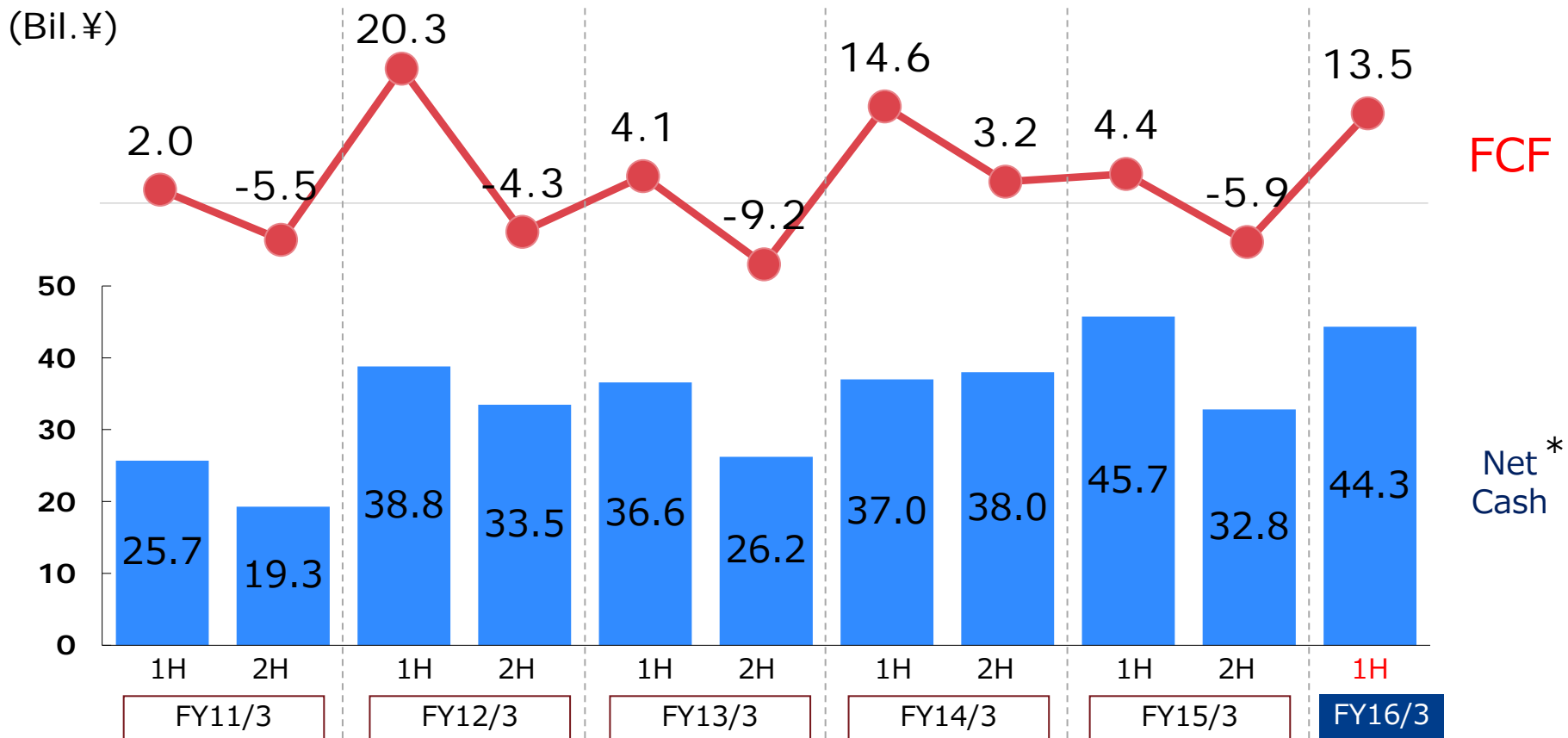
1H FY2016/3 Balance Sheet (End of September, 2015)

Owner's equity ratio improved 3.8% mainly because of a reduction in total assets through the collection of accounts receivables and payment of accounts payables.

	End of 15/3	End of 15/9	Diff.	(Bil.¥)
Cash and cash equivalents	39.0	52.3	13.3	
Notes & accounts receivable	113.9	82.8	-31.2	
Inventories	10.1	11.7	1.5	
Others	8.1	10.0	2.0	
Current Assets	171.1	156.7	-14.3	
Noncurrent Assets	30.9	31.1	0.2	
Assets	202.0	187.8	-14.2	
Notes and accounts payable	48.7	36.1	-12.6	
Loans	6.2	8.0	1.8	
Others	53.0	49.0	-4.0	
Liabilities	107.8	93.0	-14.7	
Shareholders' equity	94.4	94.8	0.3	
Accumulated other comprehensive income	-1.9	-1.7	0.2	
Non-controlling interests	1.6	1.6	0.0	
Net Assets	94.2	94.8	0.6	
Liabilities & Net Assets	202.0	187.8	-14.2	
Owner's Equity Ratio	45.8%	49.6%	+3.8pt	

1H FY2016/3 Cash Flows

Improved FCF by recouping cash from large projects at the end of last fiscal year



※Net Cash = Cash & cash equivalent – interest bearing debt



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2H FY2016/3 Business Environments

- Market conditions for telecom carriers will be severe, but those for the Enterprises Networks and Social Infrastructure businesses will remain solid.
- Enterprises Networks
 - ICT investments by companies, centered on those in the retail, service and manufacturing sectors, will remain firm.
 - Demand for the renewal of voice network systems is a positive factor.
- Carrier Networks
 - Telecom carriers are likely to continue curbing their investments.
 - Areas of new services such as IoT/M2M are promising.
- Social Infrastructure
 - ICT investments will remain firm to address objectives such as safety & security and the improvement of transportation infrastructures.
 - Overseas infrastructure investment markets, centered on Asia, will be brisk.

Actions to deal with changing market environments

- Further efforts to focus on Enterprises Networks and Social Infrastructure businesses that continue to perform well.
- Improvement of profitability of Carrier Networks business.
 - Further cost reductions.
 - Streamlining of the structure of support and maintenance businesses.

Initiatives for future growth

- Services business, global business, etc.
- Creation of new businesses
 - IoT/MVNO, SDN, etc.

FY2016/3 Forecasts

No change from the initial forecasts, albeit with variations in individual business areas.

(Bil.¥)

	FY15/3	FY16/3 Forecasts	Change
Orders Receipts	299.1	300	0%
Net Sales	292.2	295	+1%
Operating Income	16.2	16.5	0.3
(to Sales)	(5.5%)	(5.6%)	+0.1pt
Net Income [*]	7.8	9.5	1.7
(to Sales)	(2.7%)	(3.2%)	+0.5pt

*Profit attributable to owners of parent

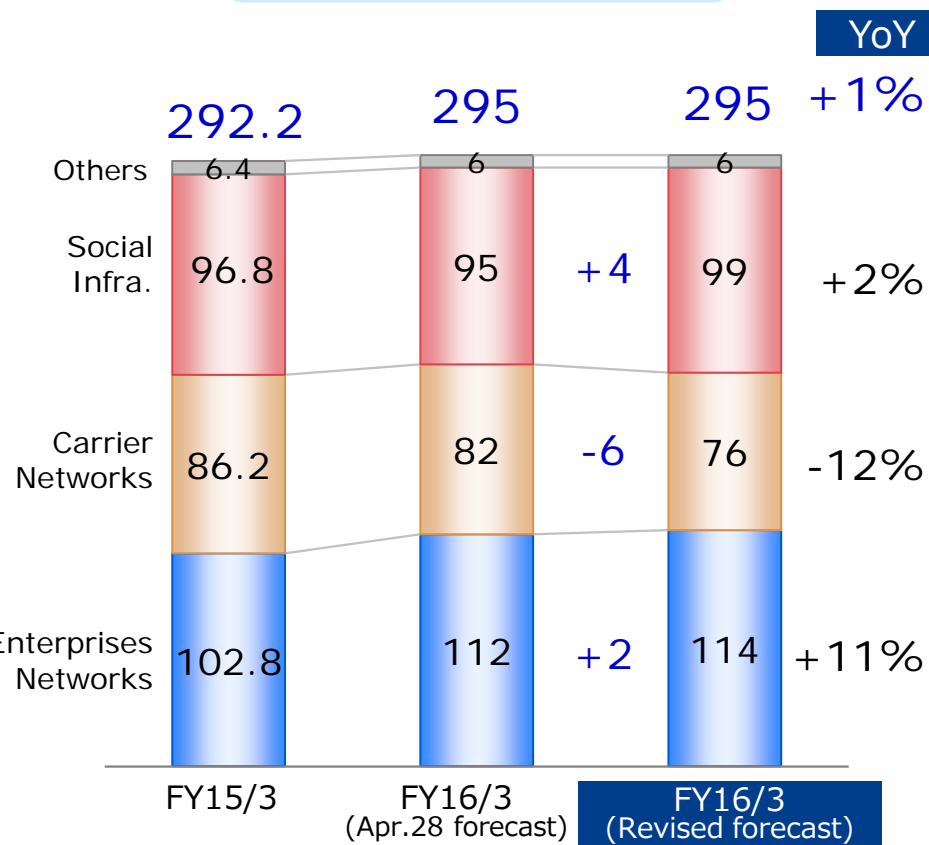
(Forecasts as at October 29, 2015)

FY2016/3 Forecasts by Segment (Sales & Operating Income)

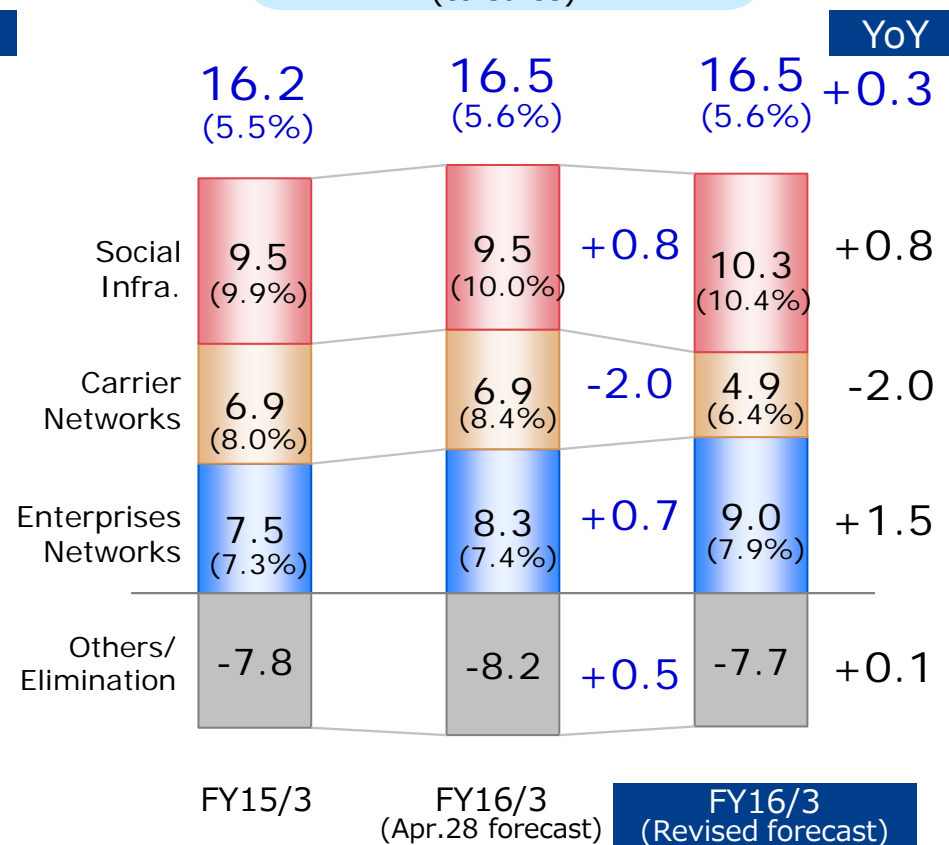
(Forecasts as at October 29, 2015)

Revised segment forecasts considering environment change and progress in 1H

Sales



Operating income (to sales)



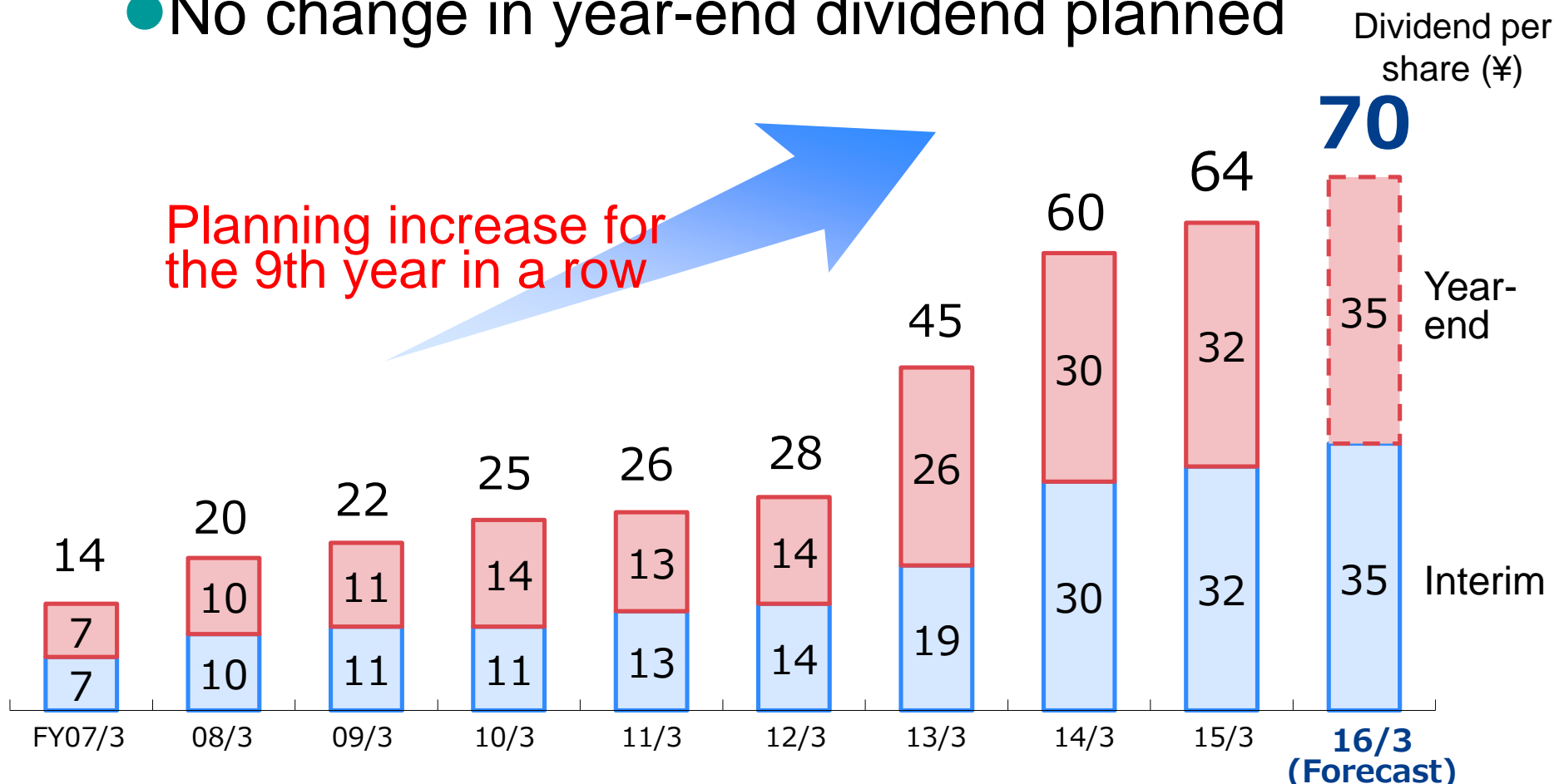
Dividend Plan

(Forecast as at October 29, 2015)

Payment of interim dividend of ¥35 as planned at the beginning of the fiscal year

- No change in year-end dividend planned

Planning increase for the 9th year in a row





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Strategies for Future Growth

Aim for further advance and expansion based on the basic strategy of “strengthening and further developing our service and infrastructure businesses” and “embarking on new businesses in new markets”, taking advantage of achievements in the current midterm plan.

Current midterm plan (~FY16.3)

FY13/3 ⇒ FY16/3e (Bil.¥)

EO business

53 ⇒ 82

- Market expansion and further penetration
- Market recognition (won prestigious awards, visitors have exceeded 20K)

Technical outsourcing business

27 ⇒ 31

- Strengthen BPO service (established sDOC)
- Multilingual services (established a JV)

Infrastructure business

30 ⇒ 40

- Fire-fighting info digitization, LTE base stations

Overseas business

11 ⇒ 16

- Expanded Thai and Saudi Arabia business
- Entered into Myanmar business

Advance
Expansion

Next midterm plan (~FY19.3)

◆ Strengthen service business

- Managed service, BPO
- Next generation EmpoweredOffice

◆ Expand infra. business

- Strengthen and further develop infrastructure business in Japan (4K/8K, DPI, traffic infrastructure, etc.)

◆ Expand global business

- Carrier/social infra. businesses and JOC business mostly in ASEAN region

◆ Embark on new business

- Create new services such as IoT/MVNO

Strengthen Service Business (EmpoweredOffice Business)

Market environment

- ◆ Increase the use of ICT as an operational infra. for domestic and overseas branches and mobile work
- Increase the use of cloud computing
- Increase the security level

UC cloud market forecasts
2018 : Approx. ¥120 bill.

<1.6 times growth from 2014>
Source: Fuji Chimera Research

Forecasts for information security service market
2018 : Approx. ¥350 bill

<1.4 times growth from 2014> Source: NRI

- ◆ Workplaces and work styles are to increasingly diverse.
(Work-life balance, women/senior contribution...)

Government goals (KPI for 2020)

- Teleworkers
(over 10% of total working population)
- Companies adopting telecommuting systems
(over 30% of all companies)

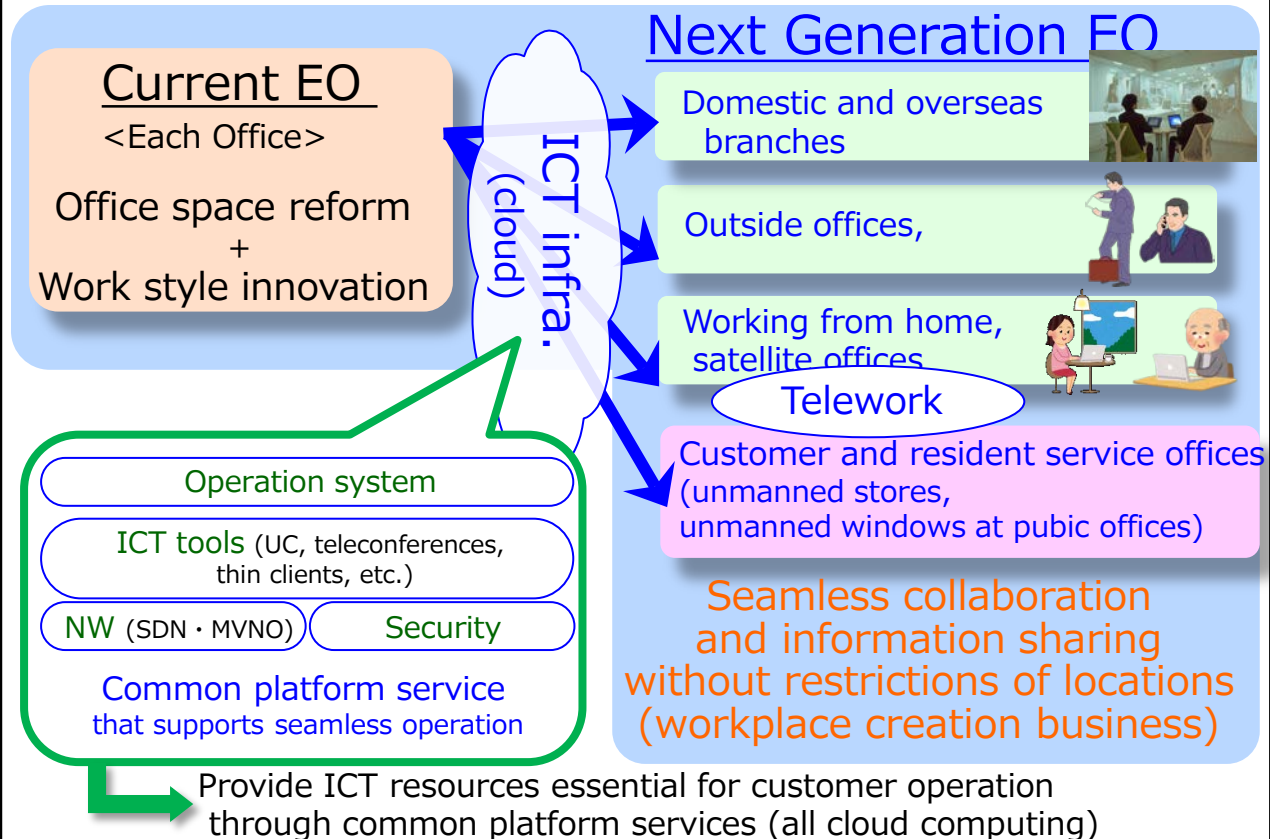
Strategic direction

- ◆ EO business development (to next generation EO)
- ◆ Strengthening outsourcing bus.

Examples of initiatives for growth

◆ EO business development

- From work-style innovation in the office pace to the creation of work styles and work environments beyond the boundaries of spaces/places
- Achieve diverse work styles + increase corporate strength



Expand Infrastructure Business (4K, 8K, etc. and broadcasting / CATV business)

Market environment

- ◆ Investment in infra. is increasing for a safe, secure, and comfortable society

ICT market forecasts in key industries

(estimates for our business areas)

- ◆ National resilience and regional revitalization
¥400 bill/year
- ◆ Electric power-related business
¥200 bill (total of 14 through 18)
- ◆ Economic effects of Tokyo 2020
¥300 bill (total of 14 through 20)
- ◆ Broadcasting related capex
¥250 bill (total of 14 through 18)
- ◆ CATV related capec
¥200 bill (total of 14 through 18)

Strategic direction

- ◆ Further develop existing markets
- ◆ Expand business areas
 - Strengthen the seamless services from construction to the design & SE area

Examples of initiatives for growth

- ◆ Advanced broadcasting such as 4K/8K, entering the area of imaging technology application
 - Response to increasingly advanced broadcasting infrastructure
 - CATV: development to 4K/8K, strengthen FTTH development expansion of business areas
 - Broadcasting: Expand the market by taking advantage of the strengths of the NEC Group, which has a large market share

		2015	2016	2017	2018	2019	2020
4K/8K schedule	CATV	Start 4K	▯▯▯	Start experimental activities for 8K		Start 8K	▯▯▯
	CS	Start 4K	▯▯▯				
	BS		Test 4K/8K broadcasting	▯▯▯	Start 4K/8K (earlier than planned)		▯▯▯
CATV Update 4K/8K facilities FTTH development		FTTH installation HFC and reduction of cell size (extension of HFC life) Burying transmission lines underground (remove utility poles)				● Achieve full-FTTH installation ▯▯▯	
Broadcasting station Increasing demand for renewing broadcasting facilities		Stations in Tokyo: Studio master renewal Switch AM radio to FM radio		Regional stations: Studio master renewal			

- Strengthen the area of imaging technology application
 - Strengthen the video monitoring and security business towards 2020

Expand Global Business (ASEAN Business)

Market environment

- ◆ Growth of ASEAN infra. market
 - Rapid economic growth: Increasing measures to deregulate foreign capital, etc.

Forecasts for investment in ASEAN telecom. infra.

(related to installation)

Approx. ¥600 bill/year

NESIC estimates based on the forecasts of Asian Development Bank

- ◆ Investment in Asian railroad infra. is also increasing

Forecasts for railroad infra. market in ASEAN region

(related to railroad communication and security systems such as video monitoring)

Approx. ¥100 bill/year

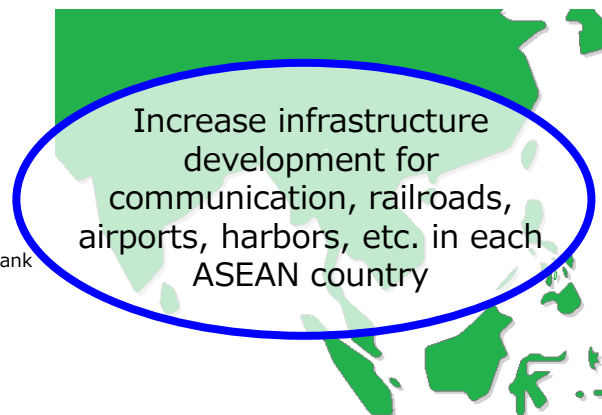
NESIC estimates based on MLIT data and media information

Strategic direction

- ◆ Expand business area in ASEAN region
- Carrier business development
- Expand social infra. business

Examples of initiatives for growth

Strengthen and expand businesses in the growing ASEAN area



- Develop collaboration between infra-related companies with local subsidiaries.
- For the time being, strengthen and enhance the carrier and railroad communication business.

Full-scale entry into the Burmese market

- Received orders for carrier/energy-related projects

< Carrier-related projects >

- Mobile base station (150 stations) development project
- Satellite communication project

< Energy-related projects >

- Solar power system project for villages which used to be no-electric-power villages



Embark on New Business (IoT Business)

Market environment

- ◆ Domestic IoT market is growing rapidly

Forecasts for domestic IoT market
(related to network and service infra)

¥500 bill ⇒ approx. ¥1.5 trillion
(2014) (2018)

Source: NESIC estimates based on information provided by IDC Japan

Strategic direction

- ◆ Strengthen IoT service targeting B2B industries
 - Manufacturing, distribution services, etc.
 - Government offices, public business operators, etc.
- ◆ Promote vertically integrated IoT business
- ◆ Exert strengths as a MVNO operator
 - Differentiation by providing flexible network operation services

Examples of initiatives for growth

◆ Entry into IoT business

- Start vertically integrated IoT services covering SI, MVNO, and operations (Oct. 2015)

< Model of providing IoT service >

Industry	Expected Model
Manufacturing	Production line management for factories Vending machine management (sales data, machine status management)
Distribution and service industries	Inventory management at stores and warehouses, etc. Digital signage, information distribution, etc.
Security and maintenance industries	Building facility management (BEMS, elevators, etc.) Security (smart lock, home security)
Government offices, public services	Disaster monitoring (torrential rain, earth/sand and river monitoring, etc.) Infra. facility monitoring (obsolescence, error detection, etc.)

- Promote partner alliance for service & sales channel enhancement
 - MVNO partner program started (currently participated in by 50 partners (sales partners and devices vendors))
 - Create new services through university-industry collaborations
 - Under execution of verification experiments for push technology-based information distribution service for passengers such as tourist information linked to bus location information
- < Sep. 2015 – Mar. 2016 >

Achieve full-year targets and take strategic steps forward for growth.

Business
Growth

Organizational
Growth

Human
Growth

Conduct business giving top priority to compliance

Enhance shareholders value

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 years ended March 2014 and 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>