

NEC Networks &amp; System Integration Corporation

Stock exchange listing: Tokyo

Code number: 1973

<http://www.nesic.co.jp/english/index.html>**1. Consolidated Results for the Nine Months (April 1, 2015 to December 31, 2015) for the Fiscal Year ending March 31, 2016**

(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 (%)
9 months ended 12/2015	194,120	-3.1	6,634	-20.9	6,768	-21.0
9 months ended 12/2014	200,403	10.1	8,385	8.4	8,563	8.3

	Profit attributable to owners of parent (¥ million)	Year-on-year change (%)	Profit attributable to owners of parent per share (¥)	Profit attributable to owners of parent (diluted) (¥)
9 months ended 12/2015	4,007	-21.8	80.74	—
9 months ended 12/2014	5,127	6.9	103.13	—

**(2) Financial Position**

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
31/12/2015	184,431	95,561	51.0	1,893.29
31/03/2015	201,964	94,173	45.8	1,864.61

c.f. Owner's equity: 31/12/2015 ¥93,980million ; 31/03/15: ¥92,559million

**2. Dividends**

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/2015	—	32.00	—	32.00	64.00
FY ending 3/2016	—	35.00	—	35.00 (projected)	70.00 (projected)

Note: Revisions to projected dividends for the quarter under review: no

**3. Financial Forecasts for Fiscal Year ending March 31, 2016 (April 1, 2015 to March 31, 2016)**

(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)	(%)	(¥)
	FY ending 3/2016	295,000	1.0	16,500	2.1	16,500	1.9	9,500	21.9

Note: Revisions to projected results for the quarter under review: no

**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 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.

## 4. Business Results

### (1) Business Results for the First Nine Months for the Fiscal Year Ending March 31, 2016

During the first nine months for the fiscal year ending March 31, 2016 (the period from April 1, 2015 to December 31, 2015), the outlook for the Japanese economy remained uncertain due to concern over the downturn in overseas economies, particularly China and emerging economies in Asia. Nevertheless, in general the economy experienced a moderate recovery, supported by the government's economic measures and financial policy and corporate earnings and employment improved.

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, although corporate managers continued to hold severe views on investment effects, ICT investments recovered on the back of the economic recovery. As a result, investments for enhancing business management and competitiveness, in particular, the reform of work style, remained firm.

The environment for telecommunications carrier business remained severe, due partly to the ongoing restraint on capital spending on network infrastructure.

In the central and local governments as well as the public interest market, ICT-related public investments implemented under the concept of safety and security, such as national resilience, remained solid. Investments in the digitization of fire-fighting and emergency radio systems peaked out in terms of order placement. However, installation work is in full swing in preparation for the deadline for migration in May 2016.

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

In the environment for this market, the Company and its consolidated subsidiaries (hereinafter the "Group") strived to strengthen their sales capabilities and promote the sales of EmpoweredOffice\* by reinforcing the business structure. The Group also moved forward with steady initiatives to respond to projects that were gaining momentum, such as the digitization of fire-fighting and emergency radio systems. In addition, the Group strengthened its business bases in preparation for expanding the service businesses by establishing a company that specializes in multi-lingual services, for which demand has been increasing recently, and launching an MVNO service that predominantly targets the IoT field, where growth is expected. The Group also expanded new services. Overseas, it established a branch of its Thai

subsidiary in Myanmar, in which investments in infrastructure going forward are expected to expand, and began full-scale operations.

As a result, the Group posted the following consolidated results for the 1H under review:

Net sales	¥194,120 million	3.1% decrease year on year
Operating income	¥6,634 million	20.9% decrease year on year
Ordinary income	¥6,768 million	21.0% decrease year on year
Net income attributable to owners of parent	¥4,007 million	21.8% decrease year on year
<Reference>		
Orders received	¥197,423 million	11.3% decrease year on year

Net sales decreased 3.1% year-on-year, to ¥194,120 million. This was caused by a substantial decline in sales in the Carrier Networks business due to the capital spending control implemented by telecommunications carriers, which offset the Group's aggressive efforts to take advantage of increasing ICT investment in the Enterprises Networks business, as well as steady public investment in safety and security, and in social infrastructure such as earth stations for satellite communications. There was an increase in orders from companies and businesses outside Japan, but overall orders received decreased 11.3% year-on-year to ¥197,423 million because telecom carriers cut CAPEX and the digitization of fire-fighting and emergency radio systems peaked out in terms of order placement.

On the profit front, the Group worked to steadily expand earnings in the fields of enterprise networks and social infrastructure, where sales increased, but in the field of carrier networks, sales declined and cost cutting was delayed due to the rapid change in the business environment. Consequently, operating income and ordinary income fell year-on-year to ¥6,634 million and ¥6,768 million, respectively. As a result, profit attributable to owners of parent decreased 21.8% year-on-year to ¥4,007 million, including the occurrence of an extraordinary loss associated with the realignment of domestic subsidiaries.

Operating results by business segment were as follows:

**Net sales by business segment**

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
<b>9M Fiscal 2016.3</b>	76,637	50,484	63,735	3,263	194,120
9M Fiscal 2015.3	72,896	61,692	61,416	4,397	200,403
Increase or decrease	3,741	-11,208	2,319	-1,134	-6,282
Ratio of increase/decrease (%)	5.1	-18.2	3.8	-25.8	-3.1

**Reference: Orders received by business segment**

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
<b>9M Fiscal 2016.3</b>	77,207	48,927	66,740	4,548	197,423
9M Fiscal 2015.3	77,494	62,788	78,239	3,937	222,459
Increase or decrease	-286	-13,861	-11,498	610	-25,036
Ratio of increase/decrease (%)	-0.4	-22.1	-14.7	15.5	-11.3

1). Enterprise Networks business

Net sales grew 5.1% year on year, to ¥76,637 million, thanks to the Group's active response to its customers' recovery of ICT investment and their need for management reforms in its efforts to increase sales based on its office innovation solution EmpoweredOffice, and to serve demand for PBX renewal.

2). Carrier Networks business

Although the Group boosted sales in the enterprise and public sectors by using assets for telecom carriers, net sales decreased 18.2% year-on-year to ¥50,484 million, reflecting the impact of CAPEX cuts by telecom carriers.

3). Social Infrastructure business

Net sales increased 3.8% from one year ago to ¥63,735 million, reflecting aggressive initiatives to capture business opportunities from ICT-related public investments implemented under the concept of safety and security and investments in the development of earth stations for satellite communications.

**\*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
Enterprises 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 Infrastructure	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

\*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 previous 9M has been changed to reflect the change in the content of business segments.

(2) Outlook for the Fiscal Year Ending March 31, 2016

The Japanese economy is showing signs of recovery, reflecting the effect of economic measures by the government and the improvement of factors such as employment and income. However, it continues to face the risk of downward pressure due to factors such as concern over a downturn in the overseas economy. CAPEX by telecom carriers is expected to remain on a downward trend.

In this environment, the Group's financial performance has been falling behind the targets in the first nine months of the fiscal year under review, and conditions in the Carrier Networks business are expected to remain difficult in the fourth quarter of the fiscal year. The Group's consolidated forecasts for FY2016/3 (April 1, 2015, to March 31, 2016), however, currently remain unchanged from the initial figures owing to its continued efforts to increase earnings by focusing on growth areas, implementing further cost reductions, and carrying out other initiatives.

Net sales	¥295 billion	1.0% increase year on year
Operating income	¥16.5 billion	2.1% increase year on year
Ordinary income	¥16.5 billion	1.9% increase year on year
Net income attributable to owners of parent	¥9.5 billion	21.9% increase year on year

**5. Consolidated Financial Statements**  
**(1) Consolidated Balance Sheets**

(Millions of yen)

	As of March 31, 2015	As of December 31, 2015
<b>Assets</b>		
Current assets		
Cash and deposits	38,951	37,250
Notes and accounts receivable - trade	113,921	91,755
Purchased goods, materials and supplies	2,820	3,250
Work in process	7,314	10,936
Other	8,105	10,718
Allowance for doubtful accounts	-52	-43
Total current assets	171,061	153,868
Non-current assets		
Property, plant and equipment	10,830	11,011
Intangible assets		
Goodwill	2,728	2,489
Other	3,143	3,176
Total intangible assets	5,871	5,665
Investments and other assets		
Other	14,252	13,927
Allowance for doubtful accounts	-52	-41
Total investments and other assets	14,199	13,886
Total non-current assets	30,902	30,562
Total assets	201,964	184,431

(Millions of yen)

	As of March 31, 2015	As of December 31, 2015
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	48,662	34,030
Short-term loans payable	1,633	3,575
Current portion of long-term loans payable	3,168	3,174
Income taxes payable	4,358	1,337
Provision for directors' bonuses	125	23
Provision for product warranties	280	201
Provision for loss on order received	163	181
Other	20,909	18,076
Total current liabilities	79,302	60,601
Non-current liabilities		
Long-term loans payable	1,349	1,222
Net defined benefit liability	25,832	25,240
Other	1,307	1,804
Total non-current liabilities	28,488	28,267
Total liabilities	107,790	88,869
<b>Net assets</b>		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	64,932	65,609
Treasury shares	-266	-269
Total shareholders' equity	94,438	95,112
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	47	43
Foreign currency translation adjustment	2	-384
Remeasurements of defined benefit plans	-1,927	-790
Total accumulated other comprehensive income	-1,878	-1,131
Non-controlling interests	1,613	1,580
Total net assets	94,173	95,561
Total liabilities and net assets	201,964	184,431

**(2) Consolidated Statements of Income**

(Millions of yen)

	FY3/2015 1Q-3Q (9 months ended 12/2014)	FY3/2016 1Q-3Q (9 months ended 12/2015)
Net sales	200,403	194,120
Cost of sales	168,445	164,326
Gross profit	31,957	29,793
Selling, general and administrative expenses	23,571	23,159
Operating income	8,385	6,634
Non-operating income		
Interest income	51	44
Dividend income of insurance	121	172
Other	322	291
Total non-operating income	495	509
Non-operating expenses		
Interest expenses	57	57
Loss on retirement of non-current assets	70	89
Other	189	228
Total non-operating expenses	317	374
Ordinary income	8,563	6,768
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	—	40
Total extraordinary income	—	40
Extraordinary losses		
Retirement benefit expenses	—	464
Affiliated companies transfer cost	—	118
Area business restructuring cost	258	—
Total extraordinary losses	258	583
Income before income taxes and minority interests	8,304	6,225
Income taxes	3,054	2,128
Profit	5,250	4,097
Profit attributable to non-controlling interests	123	89
Profit attributable to owners of parent	5,127	4,007

**(Consolidated Statements of Comprehensive Income)**

(Millions of yen)

	FY3/2015 1Q-3Q (9 months ended 12/2014)	FY3/2016 1Q-3Q (9 months ended 12/2015)
Profit	5,250	4,097
Other comprehensive income		
Valuation difference on available-for-sale securities	16	-0
Foreign currency translation adjustment	109	-516
Remeasurements of defined benefit plans, net of tax	374	1,137
Total other comprehensive income	500	619
Comprehensive income	5,751	4,717
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,583	4,755
Comprehensive income attributable to non-controlling interests	167	-38



**(3) Consolidated Statements of Cash Flows**

(Millions of yen)

	FY3/2015 1Q-3Q (9 months ended 12/2014)	FY3/2016 1Q-3Q (9 months ended 12/2015)
Cash flows from operating activities		
Income before income taxes and minority interests	8,304	6,225
Depreciation	2,047	2,347
Amortization of goodwill	270	239
Increase (decrease) in net defined benefit asset	-219	-195
Increase (decrease) in net defined benefit liability	762	438
Increase (decrease) in provision for directors' bonuses	-74	-102
Increase (decrease) in provision for product warranties	-59	-78
Increase (decrease) in provision for loss on order received	-62	17
Interest and dividend income	-61	-57
Interest expenses	57	57
Decrease (increase) in notes and accounts receivable - trade	7,826	21,344
Decrease (increase) in inventories	-6,555	-4,085
Increase (decrease) in notes and accounts payable - trade	-4,107	-14,460
Increase (decrease) in accrued consumption taxes	467	-1,543
Other, net	-800	-2,108
Subtotal	7,793	8,040
Interest and dividend income received	61	57
Interest expenses paid	-51	-51
Income taxes paid	-5,629	-5,300
Net cash provided by (used in) operating activities	2,173	2,746
Cash flows from investing activities		
Purchase of securities	-5,000	—
Proceeds from redemption of securities	5,000	—
Purchase of property, plant and equipment	-2,196	-1,943
Proceeds from sales of property, plant and equipment	15	4
Purchase of intangible assets	-507	-532
Purchase of investment securities	-6	-7
Payments of loans receivable	-4	-4
Collection of loans receivable	5	5
Payments for liquidation of subsidiaries	-109	—
Proceeds from sales of shares of subsidiaries and associates	—	151
Other, net	-250	-53
Net cash provided by (used in) investing activities	-3,054	-2,380
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-210	2,070
Repayments of long-term loans payable	-124	-120
Proceeds from sale and purchase of treasury stock, net	-3	-3
Cash dividends paid	-3,072	-3,321
Dividends paid to non-controlling interests	-16	-18
Other, net	-358	-363
Net cash provided by (used in) financing activities	-3,785	-1,757
Effect of exchange rate change on cash and cash equivalents	87	-310
Net increase (decrease) in cash and cash equivalents	-4,578	-1,701
Cash and cash equivalents at beginning of period	44,434	38,951
Cash and cash equivalents at end of period	39,855	37,250

**(4) Segment Information**

Business Segment

9 months ended December 2015

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
<b>Orders received</b>	<b>77,207</b>	<b>48,927</b>	<b>66,740</b>	<b>4,548</b>	---	<b>197,423</b>
<b>Sales</b>						
(1) Sales to third	76,637	50,484	63,735	3,263	---	194,120
(2) Intersegment sales	---	---	---	---	---	---
<b>Total</b>	<b>76,637</b>	<b>50,484</b>	<b>63,735</b>	<b>3,263</b>	---	<b>194,120</b>
<b>Operating income and loss</b>	<b>5,405</b>	<b>1,955</b>	<b>4,974</b>	<b>330</b>	<b>(6,032)</b>	<b>6,634</b>

9 months ended December 2014

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
<b>Orders received</b>	<b>77,494</b>	<b>62,788</b>	<b>78,239</b>	<b>3,937</b>	---	<b>222,459</b>
<b>Sales</b>						
(1) Sales to third parties	72,896	61,692	61,416	4,397	---	200,403
(2) Intersegment sales	---	---	---	---	---	---
<b>Total</b>	<b>72,896</b>	<b>61,692</b>	<b>61,416</b>	<b>4,397</b>	---	<b>200,403</b>
<b>Operating income and loss</b>	<b>4,547</b>	<b>4,576</b>	<b>4,984</b>	<b>163</b>	<b>(5,885)</b>	<b>8,385</b>