

Financial Results for the 1H ending March 2017

November 1, 2016

Masao Wada, President

NEC Networks & System Integration Corporation

(TSE: 1973, NESIC)

Agenda

I. Results for 1H FY2017/3

II. Forecasts for FY2017/3

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II. Forecasts for FY2017/3

1H FY2017/3 Summary

Net sales and both operating and net income decreased year on year primarily due to reduced investments by telecom carriers and a decline in orders for the FF & DP system business.

- Orders received increased yoy due to a large-scale PJs (solar power generation plants).
- Gross margin improved due to the cost structural reform effect in the Carrier Networks business.
- Operating income fell short of the forecast due to poor performance in the Carrier Networks business and handling of low-profitability projects.

	2Q FY2016/3	2Q FY2017/3	Change	1H FY2016/3	1H FY2017/3	Change	1H Forecasts as at Apr.28	Difference	(¥ Bn.)
Orders received	71.0	83.5	+18%	141.5	144.4	+2%	140	+4.4	
Sales	70.8	66.2	-7%	127.8	118.8	-7%	120	-1.2	
(Gross margin)	15.0%	15.7%	+0.7pt	15.0%	15.2%	+0.2pt	-	-	
Operating income	2.8	2.2	-0.6	3.5	1.7	-1.8	3.0	-1.3	
(to sales)	(3.9%)	(3.3%)	-0.6pt	(2.8%)	(1.5%)	-1.3pt	(2.5%)	-1.0pt	
Net income <small>attributable to owners of the parent</small>	1.6	1.5	-0.0	1.9	1.0	-0.9	1.6	-0.6	
(to sales)	(2.2%)	(2.3%)	+0.1pt	(1.5%)	(0.9%)	-0.6pt	(1.3%)	-0.4pt	
Free cash flows	-4.2	-0.1	+4.0	13.5	17.9	+4.3			

* FF: Fire-fighting DP: Disaster Prevention

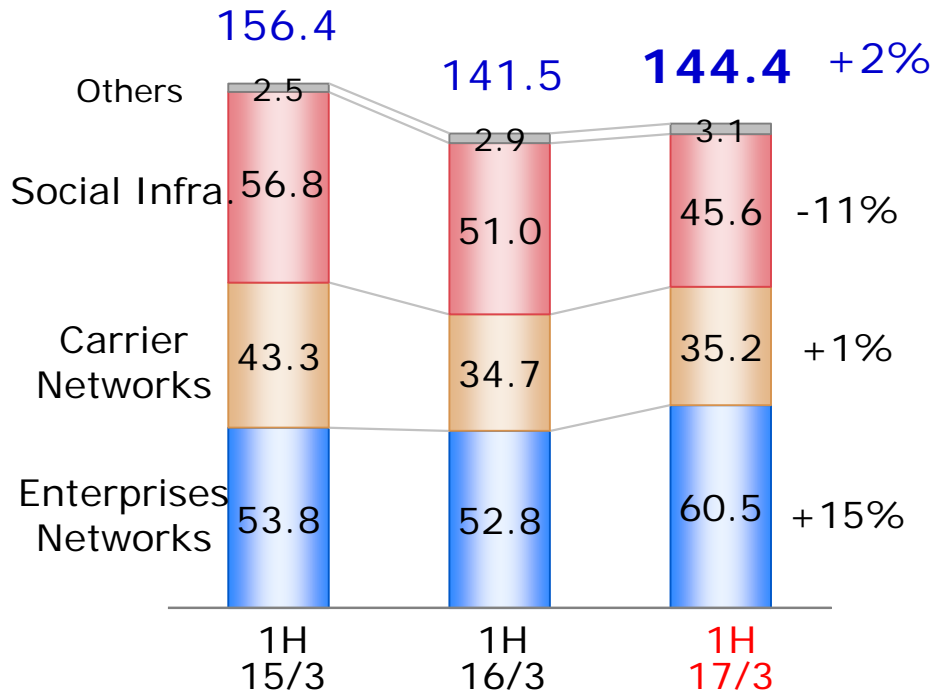
1H FY2017/3 Sales/Orders Received by Segment

Orders received increased year on year due to orders for a large-scale projects (+13) and the expansion of businesses for general enterprises despite the reduced investment by telecom carriers and a decline in orders for the FF & DP system business.

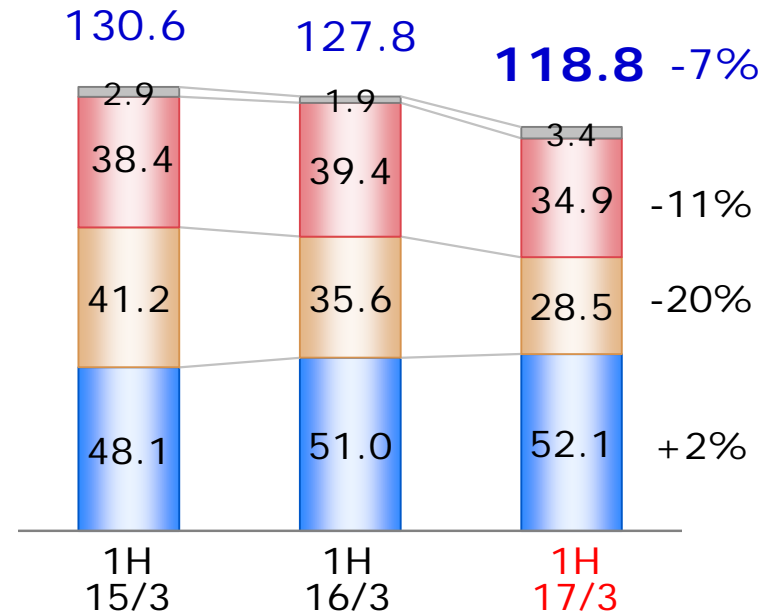
Sales fell year on year given reduced investment by telecom carriers and decreased business in FF & DP systems.

(¥ Bn.)

Orders



Sales



Received orders from X-Elio



※X-Elio : Global solar power generation company based on Spain

- **Total amount** **Approx. ¥13 Bn.**
- **Output** **58Mw**
 - Shiroishi 22Mw
 - Kurokawa 36Mw
- **Construction period** **October 2016 ~August 2018**

Total projects from land preparation, electricity construction to installation of monitoring systems & panels.

Company-wide formation

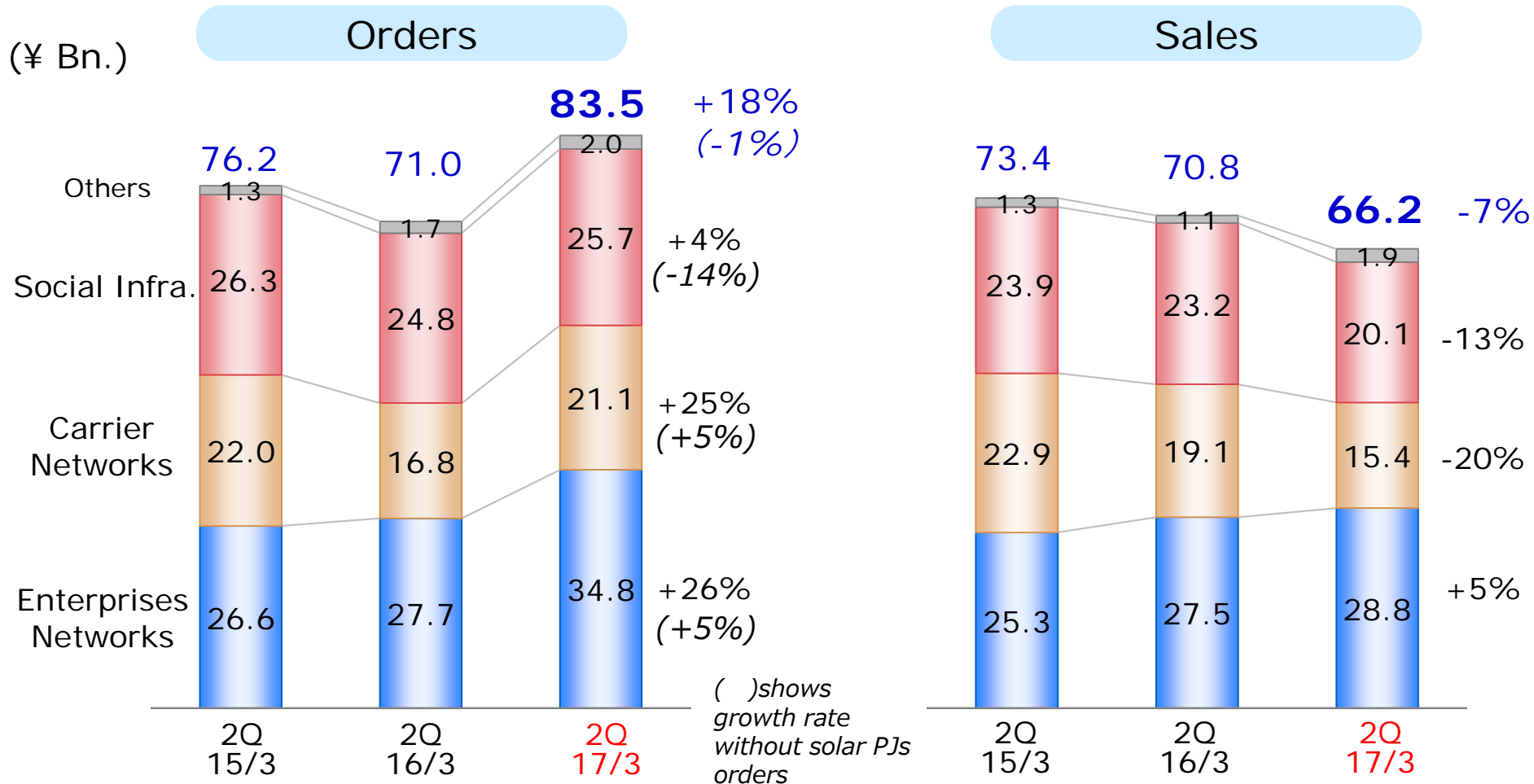


Plat of X-Elio
(Fuente Alamo, Spain)

2Q FY2017/3 Sales/Orders Received by Segment

Orders received increased significantly in the 2Q due to the impact of a large-scale projects (the construction of a solar power generation plants).

- Orders received, excluding the large-scale projects, remained almost unchanged from one year ago as the Enterprises Networks business remained firm.



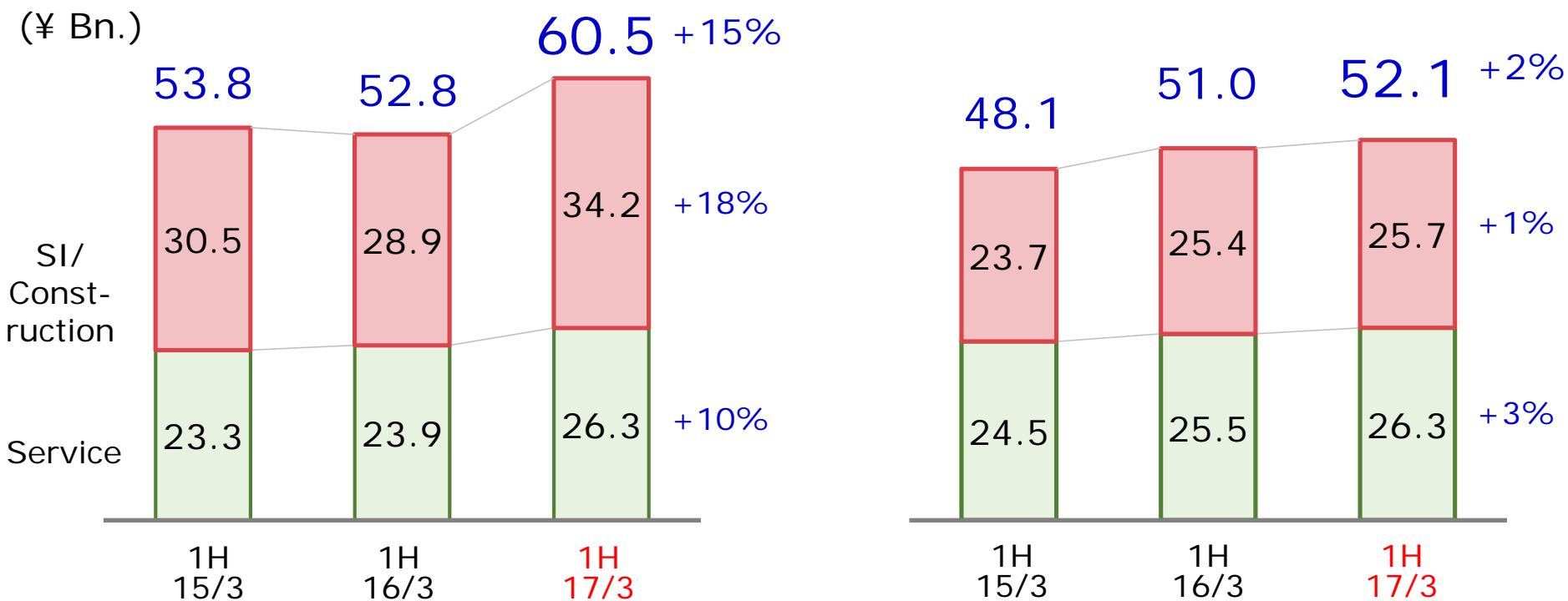
1H FY2017/3 Enterprises Networks Business

Net sales continued to increase year on year due to solid expansion in the area of work style innovation.

- Sales of EmpoweredOffice: +15%
- Orders received from general enterprises increased steadily.

Orders

Sales

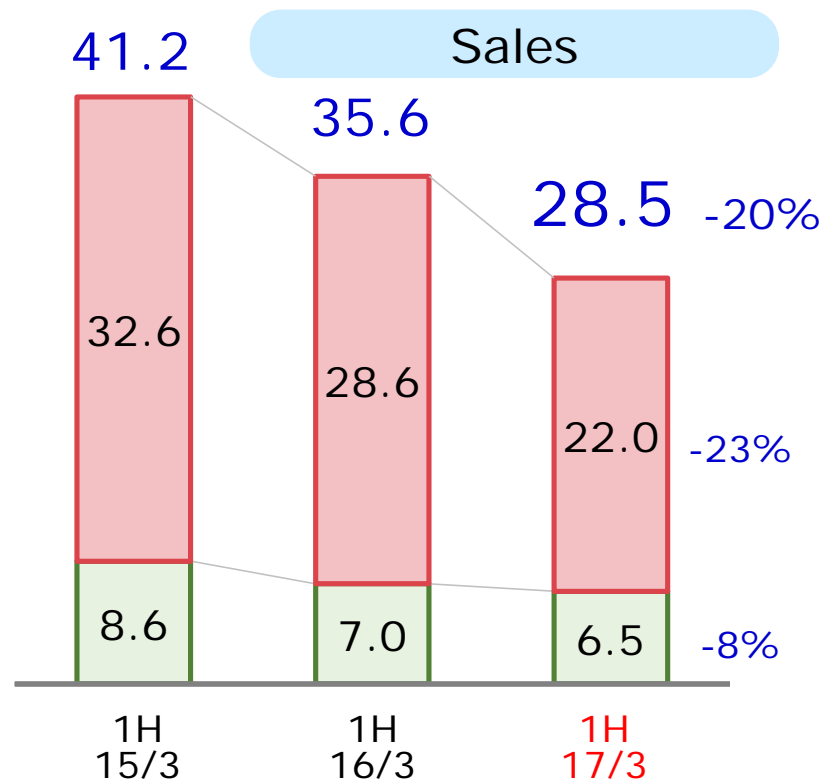
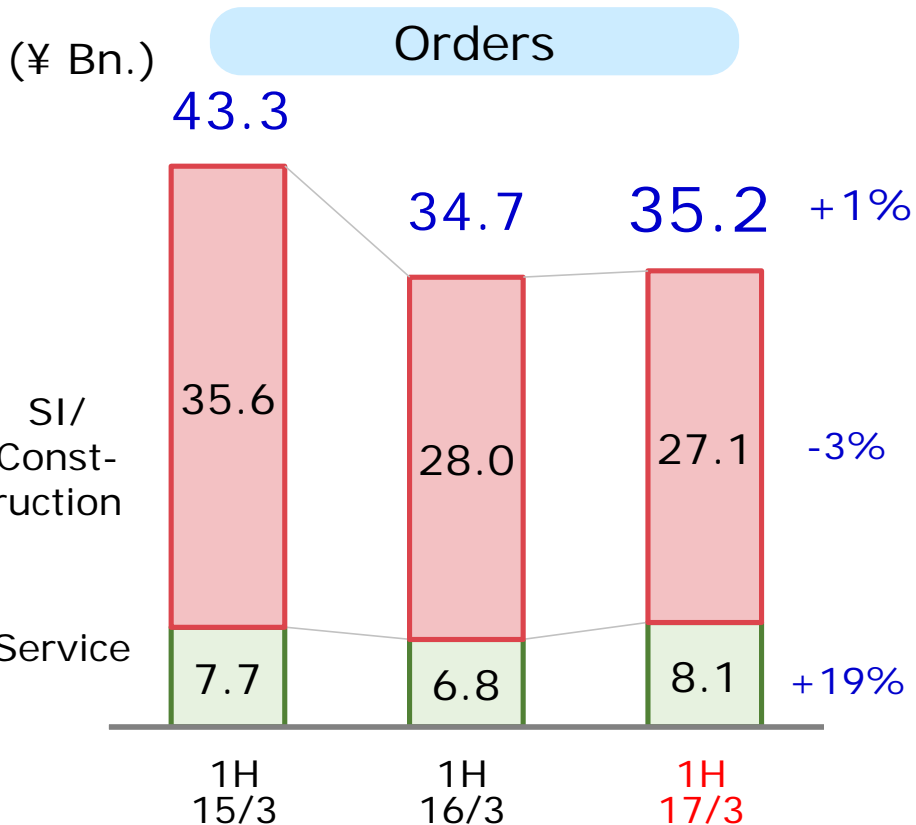
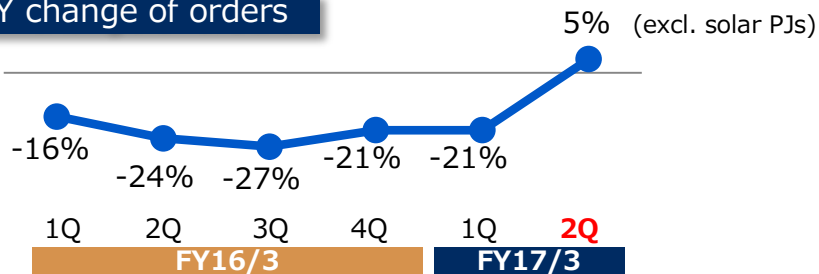


1H FY2017/3 Carrier Networks Business

Sales decreased year on year due to reduced investment by telecom carriers

- Orders received show signs of leveling out

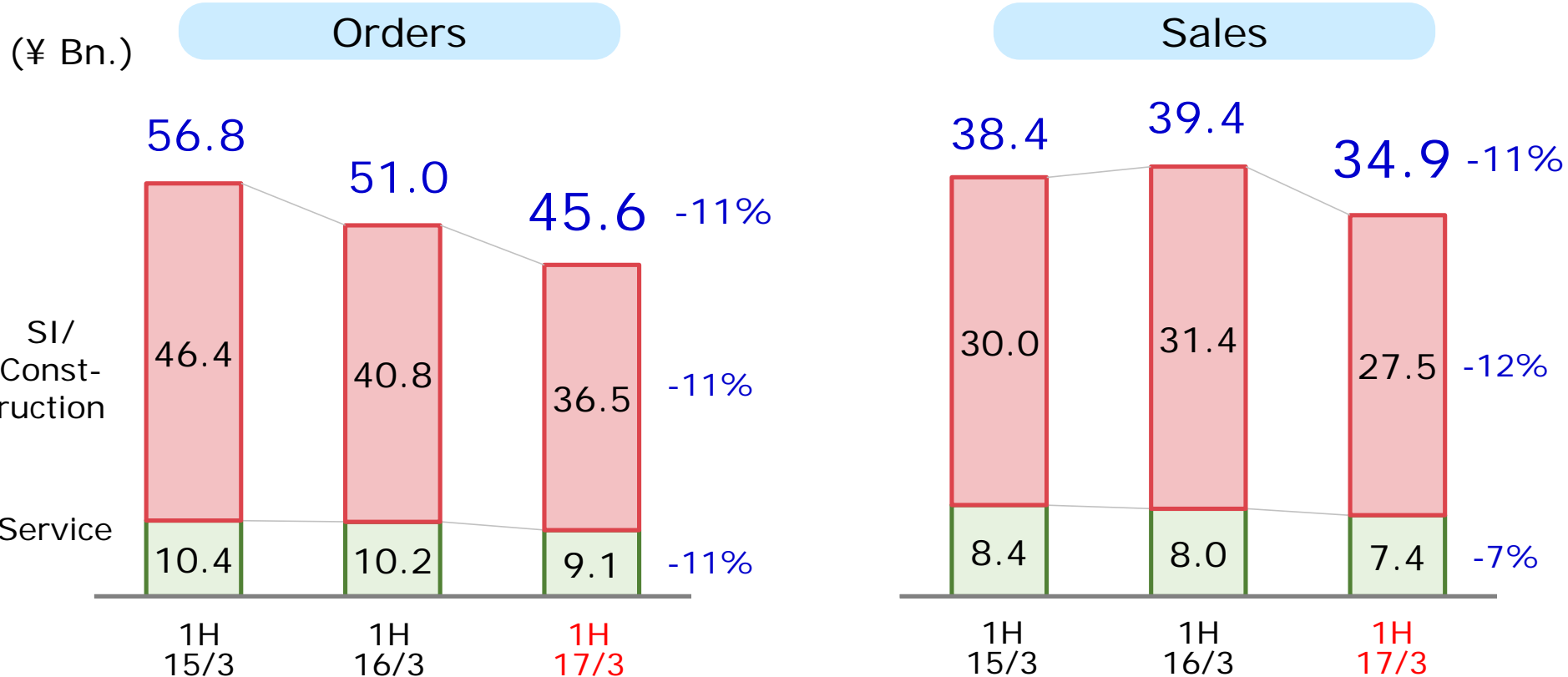
YoY change of orders



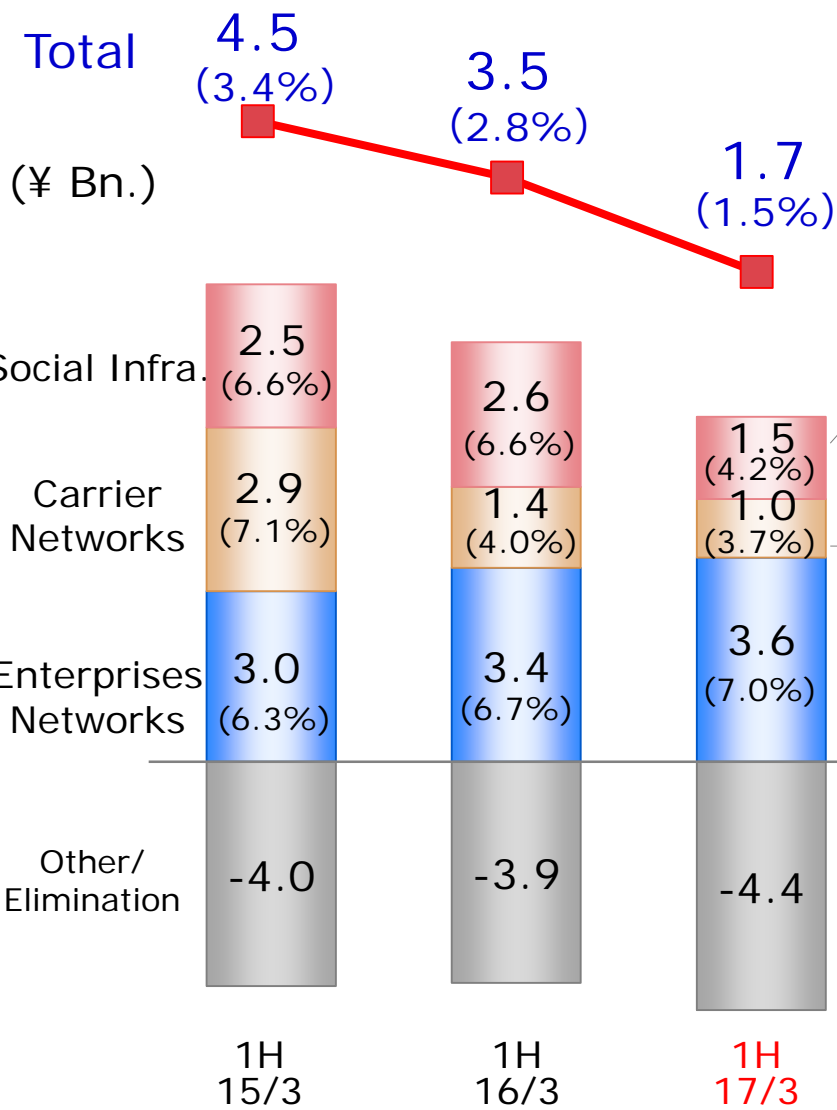
1H FY2017/3 Social Infrastructures Business

Despite growth of overseas and broadcasting/CATV businesses, sales decreased year on year due to the completion of the FF emergency radio system digitalization projects.

- The decline in orders was caused largely by reduced business in FF and DP systems and pushing projects back to 3Q or later



1H FY2017/3 Operating Income by Segment



Operating income decreased due to the impact of a decline in net sales in the Carrier Networks and Social Infrastructure businesses, offsetting an increase in the operating income of the Enterprises Networks business.

● Social infrastructure

- Operating income declined due to reduced sales.
- Cost ratio fell on the temporary effect of low-profitability projects in 1Q.

● Carrier Networks

- Operating income declined due to reduced sales.
- Cost ratio improved due to the effects of cost structure reform.

● Enterprises Networks

- Operating income rose due to increased sales.

● Other/Elimination

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

I. Results for 1H FY2017/3

II. Forecasts for FY2017/3

FY2017/3 Forecasts

We will recover from shortfalls in the 1H and aim to achieve the initial forecasts.

(¥ Bn.)

	FY16/3	FY17/3 Forecasts	Change
Orders receipts	274.9	280	+2%
Net sales	280.0	270	-4%
Operating income	14.1	13.5	-0.6
(to sales)	(5.0%)	(5.0%)	0.0pt
Net income attributable to owners of the parent	6.0	8.0	+2.0
(to sales)	(2.1%)	(3.0%)	+0.9pt

※Forecasts as at October 31, 2016

FY2017/3 Forecasts by Segment (Sales & Operating Income)

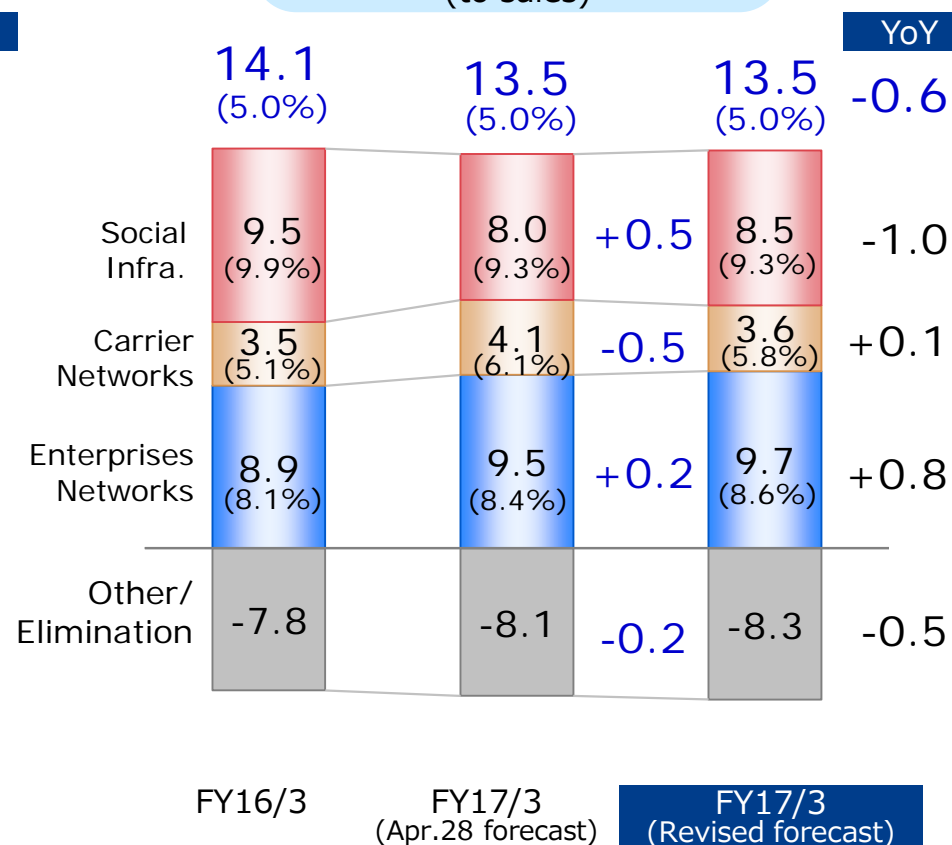
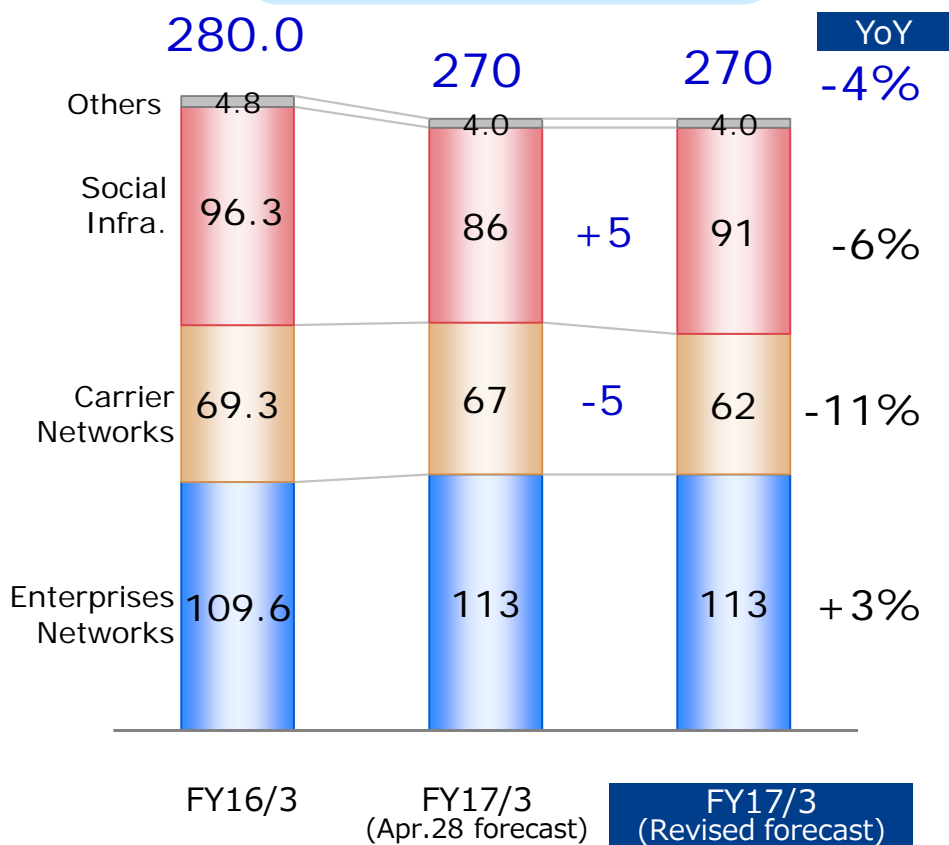
(Forecasts as at October 31, 2016)

Revised segment forecasts considering the progress in 1H

(¥ Bn.)

Sales

Operating income (to sales)



Year for laying the foundation for regrowth

Expansion of top-lines

- Ensuring the steady growth in the Enterprises Networks business that currently remains firm and the execution of large-scale projects* in Japan and abroad.

*Expansion of businesses related to broadcasting/CATV, public works, and overseas infrastructures

- Strengthening the strategy business fields of the mid-term business plan.
 - Service business, infrastructure business, and global business

Rebuilding the revenue structure

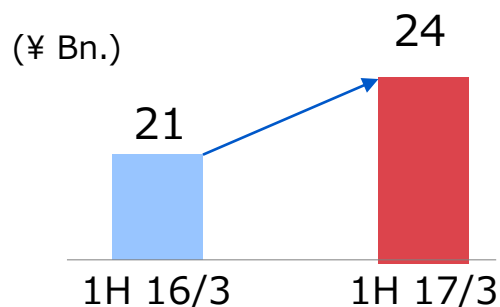
- Further improvement of profitability in the Carrier Networks business.
- Strengthening of project management capabilities.

Priority Measures (Expansion of Top-lines)

Service business (EmpoweredOffice)

- Business expansion of solutions for work style innovation
 - Sales of EmpoweredOffice: +15%
- Initiatives to enhance our presence
 - Participated in the field test organized by the Agency for Cultural Affairs for the relocation to Kansai.
 - Provided a tele-work environment utilizing SmoothSpace
 - Visitors to the live office: Exceeded 30,000 visitors on a cumulative basis.
 - Increase in the number of visitors accelerated with the growing interest in work style innovation
- Release of new products related to work style innovation
 - NetsVoice, a cloud-based PBX
 - SmoothDiscussion, a two-way discussion tool

EmpoweredOffice Sales



Expanding business by steadily addressing strong needs for work style innovation.
Cultivating such markets as local governments and schools by leveraging field tests.

Priority Measures (Expansion of Top-lines)

Global Business (Outbound)

● Myanmar business

- Business increased strongly since the establishment of the joint venture in April 2016, surpassing the plan, through such initiatives as system integration of the telecom carrier infrastructure and the expansion of station facilities.

➡ **Strengthening of local business.
Expansion of business areas such as
offshore development.**

● Thai business

- Execution of an optical cable installation project for AIS in Thailand.
- Installation work on optical cables for the expansion of broadband (Phase 1 & 2: approx. ¥1.5 Bn)

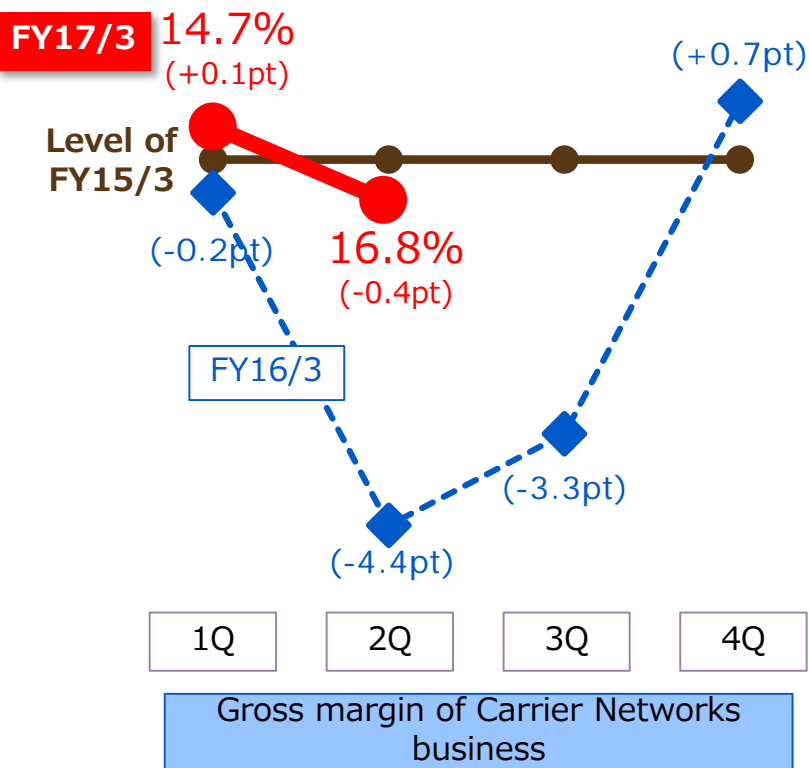
➡ **An order for Phase 3 is expected to be received as a result of the good evaluations for the installation (approx. ¥1.5 Bn).**



Priority Measures (Revenue Structure)

Improvement of the profitability of the Carrier Networks business

The gross margin recovered to its prior level before its deterioration due to the achievements of the cost structural reform initiatives.



Previous initiatives

- Reduction of outsourcing expenses through in-house production
- Streamlined maintenance business structure

➔ We will continue to improve efficiency by reviewing the business from scratch.

For further improvement in profitability

- Optimization of internal resources
 - Shift of resources from the Carrier Networks business will be implemented

➔ Strengthening of the operational capability of the Enterprises Network business and Social Infrastructure business.

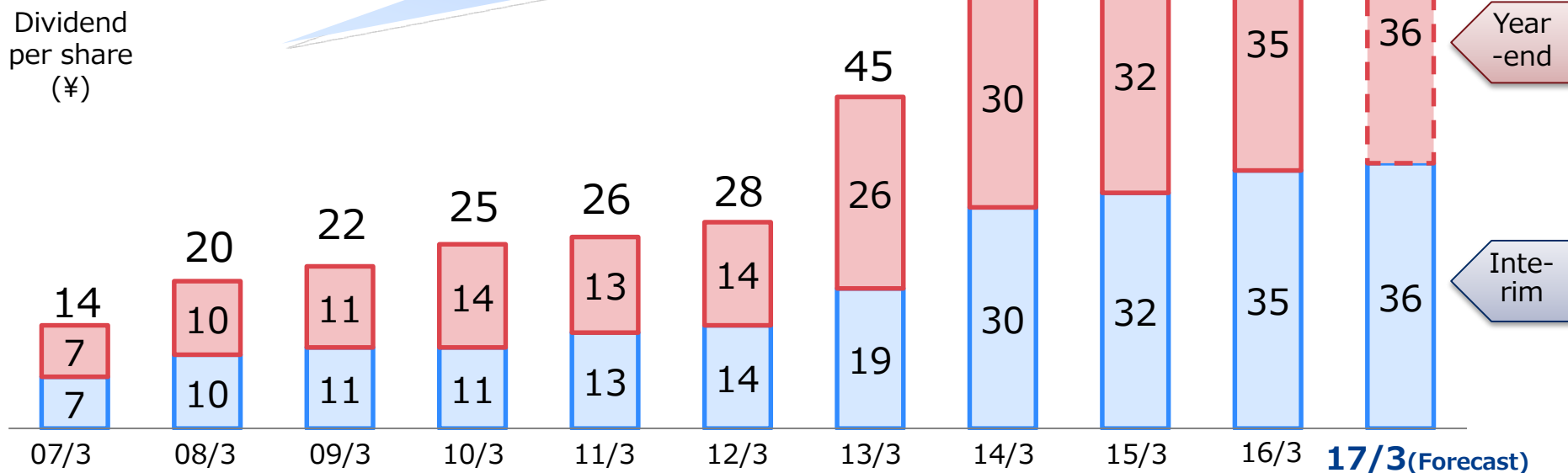
Dividend Plan

(Forecasts as at October 31, 2016)

Payment of interim dividend of ¥36 as planned at the beginning of the fiscal year

- No change in year-end dividend planned

Planning increase for the 10th year in a row



We will accelerate our efforts to increase orders and rebuild the revenue structure to achieve the mid-term business plan.

Business growth

Organizational growth

Human growth

Conduct business giving top priority to compliance

Enhance shareholder value

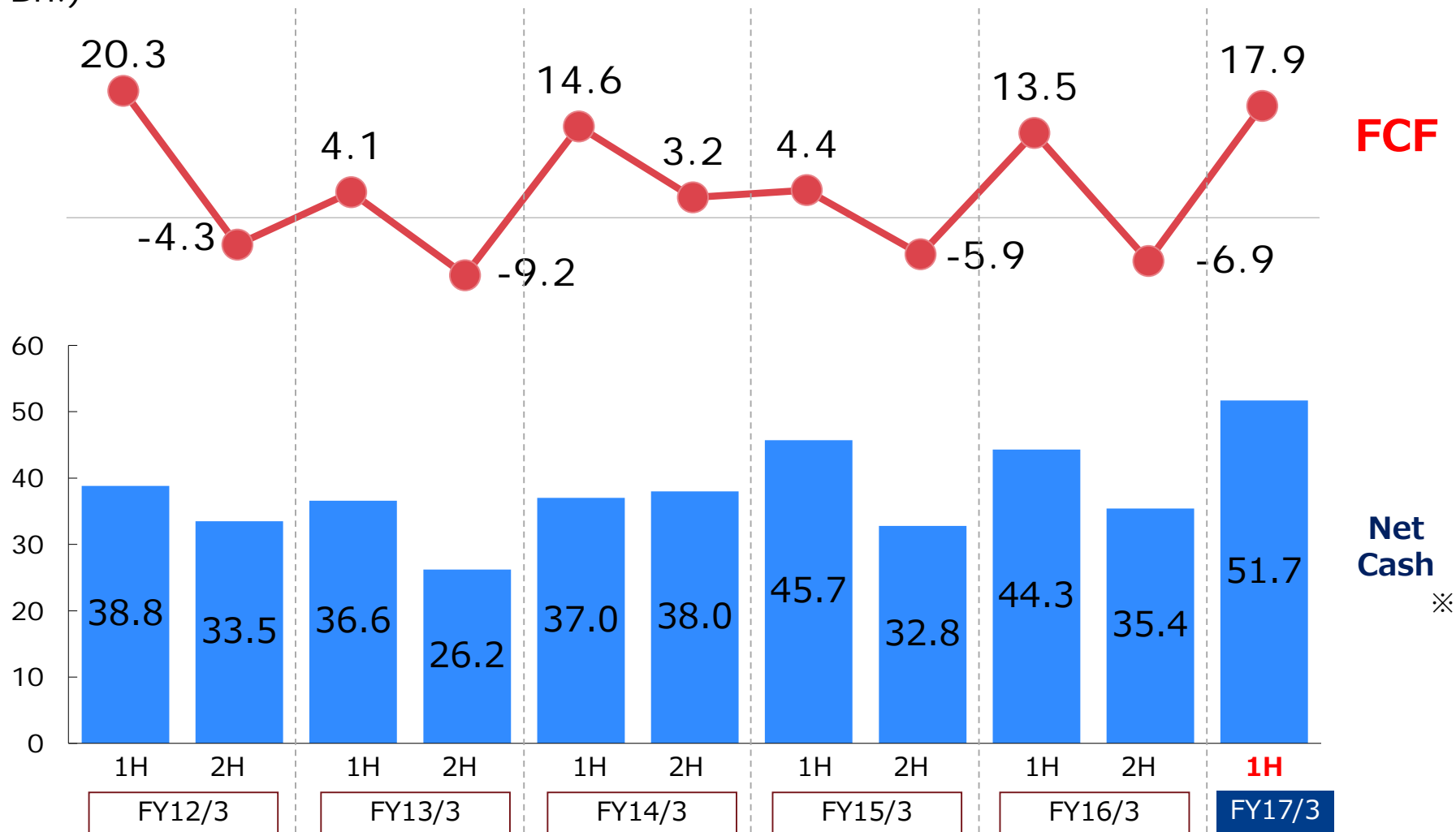
(Ref.) 1H FY2017/3 Balance Sheet (End of Sep., 2016)

(¥ Bn.)

	End of 16/3	End of 16/9	Diff.
Cash and cash equivalents	43.9	60.2	16.3
Notes & accounts receivable	104.8	74.9	-29.9
Inventories	9.2	11.0	1.8
Others	9.7	10.8	1.1
Current Assets	167.6	157.0	-10.7
Noncurrent Assets	28.9	28.1	-0.9
Assets	196.6	185.0	-11.5
Notes and accounts payable	39.2	31.0	-8.2
Loans	8.5	8.6	0.1
Others	54.5	51.7	-2.8
Liabilities	102.2	91.3	-10.9
Shareholders' equity	97.1	96.4	-0.7
Accumulated other comprehensive income	-4.4	-4.3	0.1
Non-controlling interests	1.7	1.7	0.0
Net Assets	94.4	93.8	-0.6
Liabilities & Net Assets	196.6	185.0	-11.5
Owner's Equity Ratio	47.2%	49.8%	+2.6pt

(Ref.) 1H FY2017/3 Cash Flows

(¥ Bn.)



※Net Cash = Cash & cash equivalents - Debt

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 of the FY 2016/3, 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 FY 2015/3 has been changed to reflect the change in the content of business segments.



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