

Annual Report 2016



Re-designing your Communication

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

NEC Networks & System Integration Corporation is aiming to build a society that enjoys active communication. We will not merely create highly reliable networks that provide security and reassurance but will redesign future communications from customer perspectives to add value for customers and advance society.

Editorial Policy and Scope of Report

Editorial Policy

Beginning with the fiscal year (ended March 31, 2016) covered by this report, NEC Networks & System Integration Corporation (NESIC) is issuing Annual Report 2016.

Composed of three chapters titled, "History of Our Growth," "Our Growth Story Going Forward," and "Foundation for Growth," this report features broad coverage of our history, the growth strategy laid out in our midterm plan, financial and nonfinancial data, initiatives promoting financial and nonfinancial performance, and governance.

Referring to various types of reporting guidelines, we strive to provide information that stakeholders across a wide spectrum will find valuable. We would like for this report to be read as widely as possible, and welcome opinions and comments.

Period Covered

April 1, 2015 to March 31, 2016

(Some information related to the period following that noted above is also included.)

Scope of Report

NEC Networks & System Integration Corporation and consolidated subsidiaries

Guidelines

- ISO26000 (Guidance on social responsibility)
- GRI G4 Sustainability Reporting Guidelines

Published

September 2016

Contact

To contact us, please visit our website at <http://www.nesic.co.jp/english/index.html> and click on "Contact Us" at the top of the page.

Disclaimer

This report contains forecasts, outlooks, targets, plans, and other forward-looking statements concerning the business performance, financial condition, and other aspects of the management of the NEC Networks & System Integration Corporation Group. These forward-looking statements are based on information NEC Networks & System Integration Corporation had as of the time this report was prepared and on certain premises judged to be reasonable. These judgments and premises, by their nature, are subjective and characterized by uncertainty. Furthermore, forward-looking statements are not guarantees of future results and actual performance could be greatly affected by various factors.

Contents

Corporate Message	1
Editorial Policy and Scope of Report / Contents	2
Message from the President	3
The NESIC Social Value Creation Model	5

Chapter 1 History of Our Growth

History	7
NESIC in Daily Life	9
Three Strengths	11
Financial Information	13

Chapter 2 Our Growth Story Going Forward

Q&A with the President	15
Strategic Businesses under the New Midterm Plan	21
Message from the Director in Charge of Finance	24

Chapter 3 Foundation for Growth

NESIC Group Sustainability Initiatives	25
Developing Diverse Human Resources and Creating Worker-Friendly Workplaces	27
Information Security, Safety, and Confidence	29
Partnership with Suppliers	31
Partnership with the Earth (Reducing Environmental Impacts)	32
Compliance and Risk Management Initiatives	33
Building Stakeholder Relationships on Trust	34
Corporate Governance	35
Directors & Corporate Auditors	37
Messages from an Outside Director and an Outside Auditor	39
Financial Section	40
Corporate Overview / Stock Information	74



As a Communications System Integrator, We Work to Create and Provide Social Value, and Enhance Our Corporate Value

Acting on the Aspirations Expressed in Our Corporate Message, “Re-designing your Communication”

NEC Networks & System Integration Corporation (NESIC) was founded as a telecommunications infrastructure construction company in 1953. Since then, we have undertaken the construction and maintenance of various types of telecom infrastructure both in Japan and overseas, built and maintained ICT systems ranging from networks to entire office environments for businesses, and expanded into the field of ICT operation and outsourcing services.

Over the sixty-plus years since our founding, we have developed ICT expertise in both information technology and networks, execution capabilities underpinned by a solid track record in integration and installation, and a support and

service platform offering rapid maintenance response and a wide variety of services. Given the ability to draw on capabilities in these three areas, NESIC’s strength is that it has the organization and skills enabling it to perform every process related to ICT systems - consulting, design, integration, and installation, as well as operation and maintenance.

NESIC applies this strength in its three core businesses - Enterprise Networks, Carrier Networks, and Social Infrastructures, the latter of which supports systems used by, for example, central and local governments, broadcasters, and railway and road transportation enterprises. One area we have paid particular attention to in recent years is an initiative aimed at innovating work styles. Based on the “EmpoweredOffice (EO)” concept, we are implementing new



work styles in our own offices and using what we learn to offer solutions that will help customers change the way their employees work.

Through these business activities, we have helped to bring about prosperous, comfortable lifestyles with easy access to vast amounts of information and to interactive exchanges; urban environments safe and secure from crime and disasters; greater productivity with better work-life balance in offices and other settings; and reduce environmental impacts in business activities. We view these as forms of value that have emerged from the communication enabled by the systems and services NESIC offers.

"Re-designing your Communication," the corporate message we created on the 60th anniversary of our founding,

expresses our aspiration to benefit society and our customers through communication.

Our mission, as a "communications system integrator," is to enable new communication and offer our customers and society the various forms of new value that result. Looking to the future, we will continue our efforts to achieve ongoing growth and increases in corporate value to create even greater value for society.

Helping to Solve Social Issues and Contributing to the Development of a Sustainable Society through All of Our Business Activities

For NESIC, CSR means providing value to society through our principal business activities, and contributing to the sustainable development of the world and society by working to solve social issues through all of our business activities.

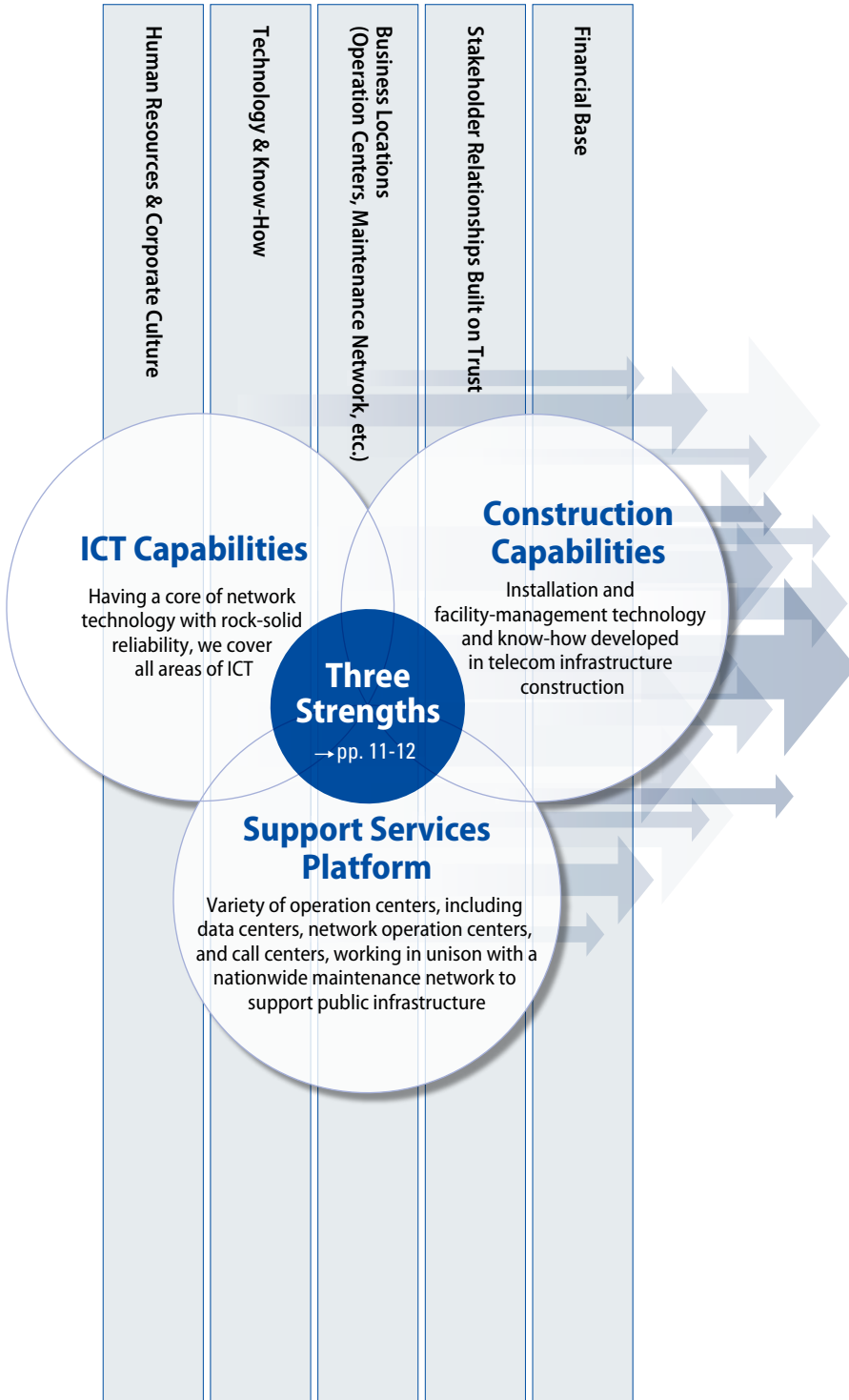
NESIC works to fulfill these social responsibilities in several ways. We take steps to strengthen our corporate governance and risk management, and ensure thorough compliance. We respect human rights; strive to reduce our environmental impacts do our best to develop a diverse workforce and create comfortable work environments; and advance initiatives aimed at ensuring the safety and quality of our services, and promoting information security. Furthermore, we endeavor to build trusting relationships with customers, shareholders and other investors, suppliers, and local communities.

In advancing these activities, it is critical that we communicate with stakeholders to confirm what is expected or desired of our company, and strive without rest to become even better at what we do. Every one of our employees, and our organization as a whole, is committed to being constantly aware of various social issues, listening to what society demands of us, and identifying and working to solve the most pressing issues first.

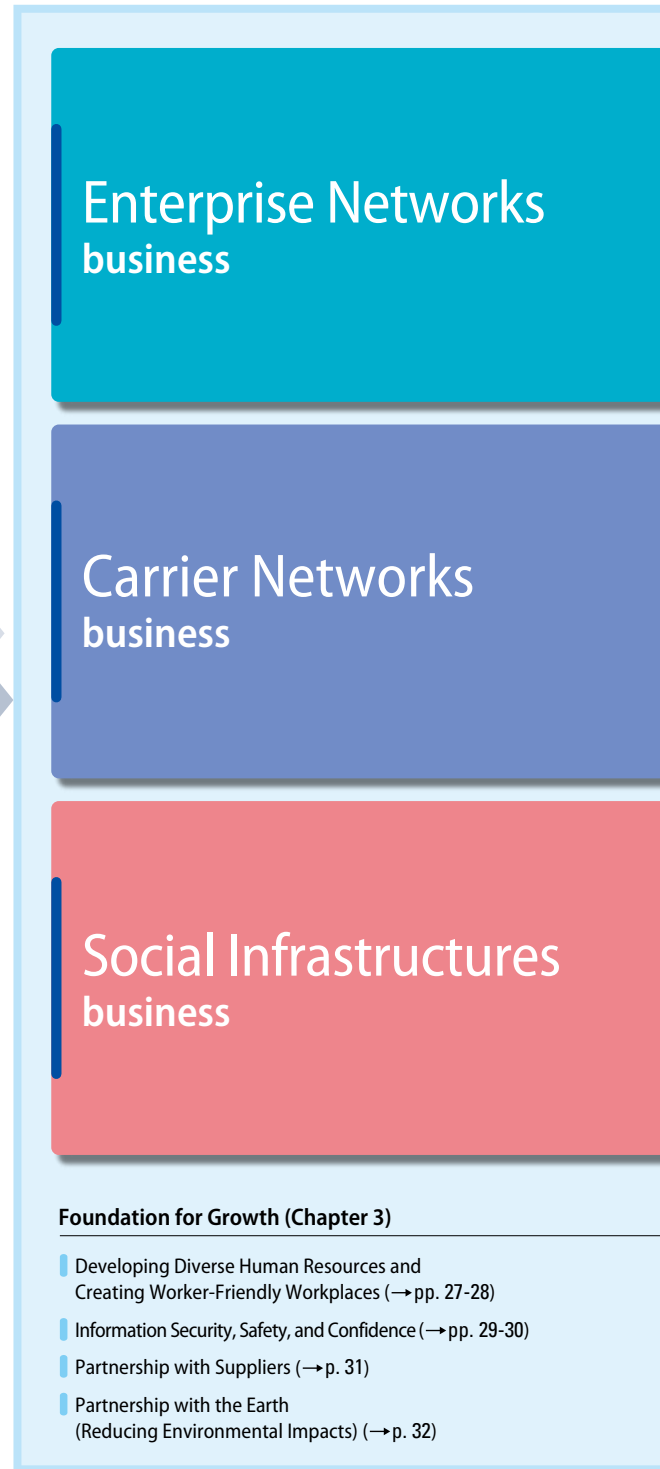
Masao Wada
President

Providing Value to Stakeholders by Promoting the Evolution of Communication

NESIC Management Resources



Enterprise Activities



Creating Value through Communication

In our Enterprise Networks Business, we provide integration, operation, monitoring, and outsourcing services for networks, and IT and various other forms of office ICT, that companies rely on. By also innovating work styles to increase productivity through the integration of office space design, office facilities and ICT, we enable work-at-home and other alternative ways to promote human productivity.

NESIC supports daily communication by providing system integration services, including network design and verification, and support services, such as system operation and maintenance services for telecom carriers. We contribute to greater convenience for society by providing IoT and other types of new communication services applying highly reliable, large-scale network technology and other assets developed in our business with telecom carriers.

NESIC makes daily life safer, more secure, and more comfortable through system integration, installation, maintenance, monitoring, and a wide array of other services for the ICT infrastructure used by central and local governments, broadcasters, expressway and railway operators, and other providers of social infrastructure.

- Compliance and Risk Management Initiatives (→ p. 33)
- Building Stakeholder Relationships on Trust (→ p. 34)
- Corporate Governance (→ pp. 35-36)

Providing value to customers and society

Increasing productivity

Building social infrastructure offering greater safety, security, and comfort

Reducing environmental impacts

Increasing the value of employees

Realizing flexible, satisfying work styles

Developing specialized human resources that promote business growth

Promoting diversity and motivation











Increasing shareholder value

Stable returns to shareholders

Increasing corporate value through business growth

Further strengthening of management resources

Founded at the Dawn of Broadcasting and Telecom in Japan, NESIC Has Grown Continuously over More Than 60 Years by Being a Key Contributor to the Development of New Ways of Communication

1950s	1960s & 70s	1980s & 90s
<p>A time for building a foundation for communication infrastructure</p> <ul style="list-style-type: none"> • Postwar recovery • Contributions to the construction of Japan's broadcasting and telecom infrastructure 	<p>Period of significant contributions to global communication infrastructure construction</p> <ul style="list-style-type: none"> • Rise of international telecom and satellite telecom • Construction of telecom infrastructure across the world • Growing construction of broadcasting, submarine cable, and satellite and microwave telecom infrastructure 	<p>Period of diversification in communications</p> <ul style="list-style-type: none"> • Telecom liberalization and the birth of the New Common Carriers (NCCs) • Construction for NCCs and expansion of the mobile telecom network • Expansion of the enterprise system integration business
<p>1953 Nippon Electric Installation Company founded</p>  <p>1956 Construction of the first television broadcasting facility</p>  <p>Around 1958 Installation of crossbar switching equipment</p> 	<p>1975 Relocation of the head office to Nishi-Shimbashi, Minato-ku, Tokyo</p>  <p>1968 Construction of satellite telecom infrastructure for the 1968 Olympic Games, in Mexico City</p>  <p>1970 Construction of microwave telecom infrastructure for five Central American countries</p>  <p>1974 Net sales ¥10 billion</p> <p>1976 Established the first overseas affiliate, in Brazil</p>	<p>1980 Changed the company name to NEC System Integration & Construction, Ltd.</p> <p>1983 Listed on the Tokyo Stock Exchange Second Section</p>  <p>1986 Business for NCCs takes on significant scale</p>  <p>1989 Net sales ¥100 billion</p> <p>1990 Integration of intra-office voice and network systems</p>  <p>1992 Listed on the Tokyo Stock Exchange First Section (Assignment to the First Section)</p> <p>1993 Relocated the head office to Shinagawa-ku, Tokyo</p>  <p>1997 Net sales ¥200 billion</p> <p>1992 Established NEC System Integration & Construction Engineering, Ltd. (Later changed the company name to NEC Networks & System Integration Engineering, Ltd. and merged with NESIC in 2015)</p> <p>1995 Acquired Media Service, Ltd. (now NEC Networks & System Integration Services, Ltd.)</p> <p>1991 Establishment of subsidiaries in Thailand and the Philippines</p>

2000s

Period of explosive growth in communication

- Advance of IP and broadband networks
- Expansion of solution service business
- Digitalization of terrestrial broadcasting, and informatization of communities

2005

Changed the company name to NEC Networks & System Integration Corporation

2004

Establishment of S-IDC (Strategic Internet Data Center), NESIC's first data center



2007

Started the EmpoweredOffice business



2008

Established nTOC (Network Total Operation Center)



2005

Acquired Toyo Networks & System Integration Co., Ltd. (Merged with NEC Magnus Communications, Ltd. in 2015)

2006

Established a subsidiary in Saudi Arabia

2006

Acquired NEC Telenetworks Co., Ltd. (Merged with NESIC in 2007)

2008

Acquired Nichiwa Co., Ltd.

2010s

Pursuit of value creation via communication

- Cloud gains popularity
- Strengthening of service businesses
- High-speed performance of mobile networks, development of next-generation broadcasting specifications

2010

Relocated the head office to Bunkyo-ku, Tokyo



2016

FY 2016/3
Net sales
¥280.0
billion

2011

NESIC's industry sector classification in the stock market was changed from "construction" to "information & communication"

2013

Announced a corporate message on the occasion of NESIC's 60th anniversary

Re-designing your Communication

2014

Established sDOC (Service Delivery Operations Center)



2012

Invested in Q&A Corporation (Acquired in 2013)

2013

Acquired NEC Magnus Communications, Ltd.

2014

Made NEC Net Innovation, Ltd. into a direct subsidiary

2015

Established a branch of NESIC (Thailand) Ltd. in Myanmar

NESIC Contributes to Safety, Security, and Comfort in Various Contexts of Daily Life

Airports

Visual Docking Guidance Systems (VDGS), airport information, and a wide variety of other services.

Hotels

Comprehensive hotel solutions such as telephones and switching equipment, room management systems, and systems for providing guests with information.

Broadcasting

Construction, operation, and maintenance of digital TV broadcasting facilities and relay stations, and studio facilities, as well as installation of fiber-optic cable for next-generation 4K and 8K broadcasting.

Offices

Office innovation combining ICT, office facilities, and design to resolve diverse problems and enhance the value of work.

Working at Home

Recommendations for home-based work styles that are derived from what we have implemented in our own offices and make the most of the productive teamwork and smooth communication that are the hallmarks of leading Japanese companies.



Firefighting & Ambulance

Construction of command systems and radio systems enabling rapid responses to 119 emergency calls, and provision of multilingual call center services.

Disaster Prevention

Warning systems that provide information in times of emergency (earthquake, typhoon, etc.) via simultaneous announcements over disaster prevention communication systems for greater safety and security in daily life.

Mobile Base Stations

Installation of mobile base stations indispensable for daily communication via smartphone and mobile phone, and overall network support, together with system integration of core networks.

Shops and Public Facilities

Creation of convenient user environments including Wi-Fi networks, information distribution systems, and value-added video services.

Railways and Roads

Support for public transportation by constructing and maintaining telecommunications networks and other systems for railway and highway traffic control.

Drawing on our three strengths – ICT capabilities, construction capabilities, and support services – NESIC offers comprehensive solutions in all project stages from consulting, to system design, integration, installation, operation and maintenance, and even BPO (business process outsourcing) to improve productivity and solve customers’ problems.

Oceans

Installation of submarine cables that support international communication, and support for earthquake warning systems by integrating submarine seismometer systems.

Space

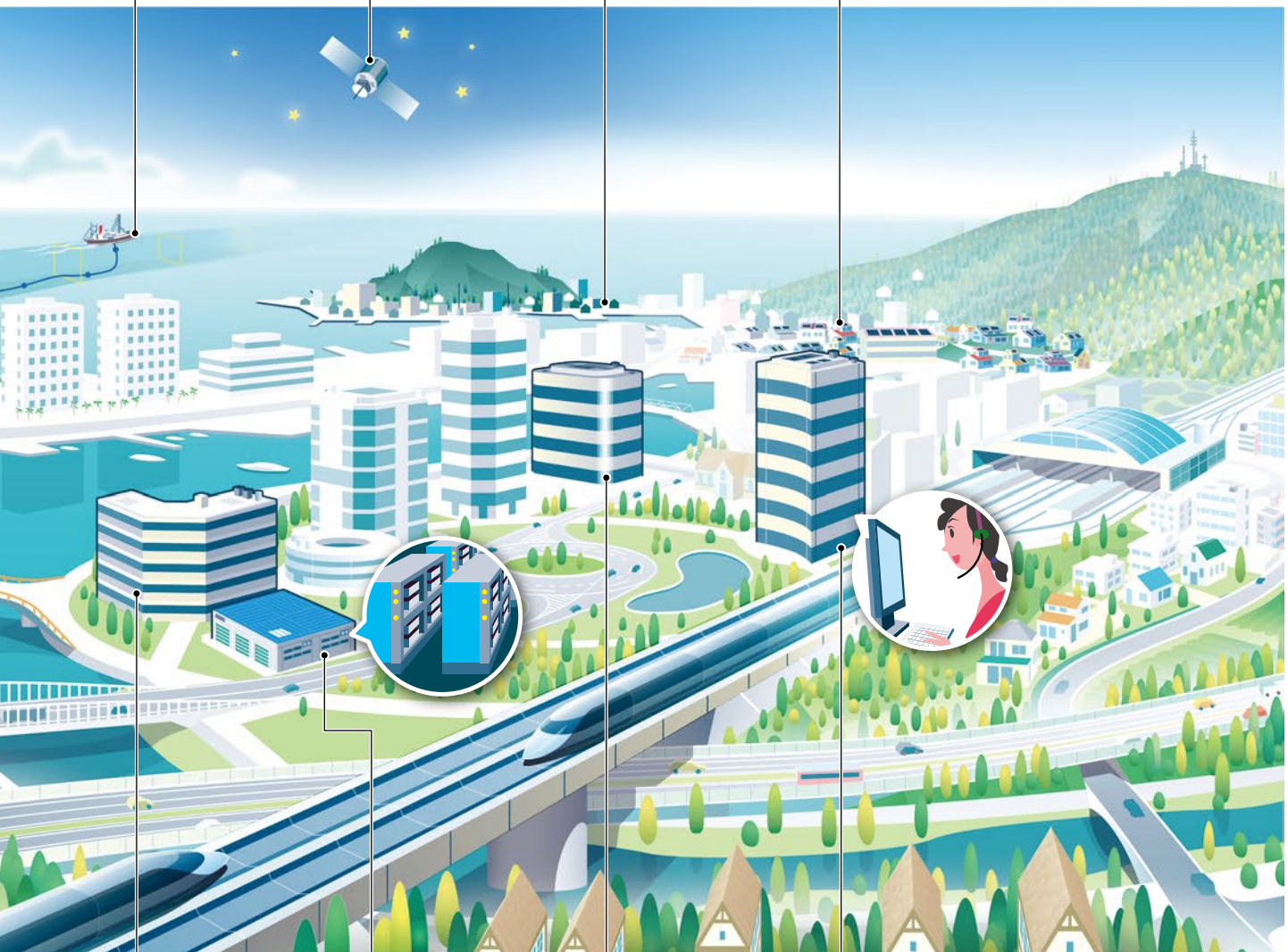
Support for control systems used to communicate with, and maintain and operate, lunar and asteroid exploration, and other types of satellites and probes.

Local Governments

Provision of networks used by local governments to protect citizens, provide municipal services, and promote citizen convenience and security, and tourism information services for local revitalization.

Solar Power

Construction of solar power systems, drawing on capabilities developed over many years, and solar panel maintenance and monitoring services capable of pinpointing panel damage.



Comprehensive Technical Center

Comprehensive technical services ranging from distribution control functions that run 24/7, to new-technology evaluation and SI, and maintenance and repair.

Data Center

Keeping of customers’ IT assets in secure, robust environments, and provision of wide-ranging operation, outsourcing, and cloud services.

Network Total Operation Center

24/7 customer network services ranging from security monitoring to network operation.

Contact Center

ICT system failure response, helpdesk, and other support services for customer system administrators and system users, and interpretation services for seven languages.

Drawing on Three Strengths, NESIC Provides Unique, Innovative Services

ICT Capabilities

Having a core of network technology with rock-solid reliability, we respond to a broad range of ICT needs

With outstanding capabilities in the design and integration of networks operated by public telecom carriers and other large-scale, wide-area networks for which impeccable reliability is essential, NESIC provides ICT services for a broad range of customers including central and local governments, social infrastructure operators, and enterprises. We handle various systems, depending on customer requirements, and provide customers with solutions that also include measures for outstanding security, energy efficiency, and environmental consciousness.



Employees with advanced ICT qualifications

Over 600

Construction Capabilities

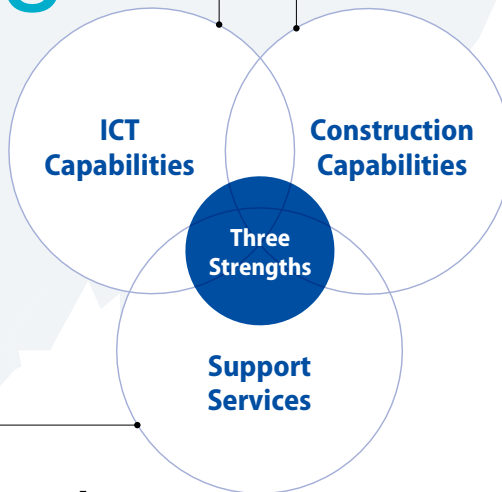
From telecom infrastructure, to office facility management, we get the job done

Over the 60-plus years we have been in business, we have accumulated a wealth of experience and knowledge in working with various types of telecom infrastructure in Japan and abroad. We draw on all of that intellectual wealth in integrating mobile base stations, broadcasting systems, and other types of public infrastructure, and in providing office facility management services covering all related electrical needs, furnishings and fixtures, and even space design.



Employees with managing engineer or technical supervisor qualifications

Over 1,400



Support Services

We have the organization wherewithal to provide a broad range of services customers can count on

NESIC offers operation center functions centralizing everything from help desk to network operation, monitoring, and maintenance services; a comprehensive technical center serving as a one-stop source for distribution functions, technical evaluations, testing, SI, maintenance and repairs; and data centers serving as a platform for outsourcing services. We have the organization wherewithal to provide customers with sophisticated support services 24/7.



Nationwide Service Network

Over 400 locations throughout Japan

* Figure is on a non-consolidated basis



* Data figures on this page are as of March 31, 2016.

EmpoweredOffice Work-Style Innovation Solutions

Integrating ICT, office facilities, and space design for innovation in work styles

Reforming the way people work in offices, and improving productivity, requires not only the latest information and communications technology (ICT) but also office innovations to unlock all of the benefits of ICT.

EmpoweredOffice is a work-style innovation solution that integrates ICT, office facilities, and space design to realize the work-style flexibility customers seek. With needs to work at home to meet childrearing and elderly care responsibilities, and other types of work-style needs, approaches for getting work done regardless of location are becoming more and more common. At NESIC, we implement work-style innovations at our own offices and then use what we learn to develop solutions for customers.



Inviting Customers to Our Own EmpoweredOffice Workplaces

When we began offering EmpoweredOffice solutions to customers in 2007, we also implemented EmpoweredOffice solutions at our own head office. As our business environment changed, we changed our own EmpoweredOffice implementation to achieve work efficiencies and improve work styles, and assessed the results. In 2012, we started to implement EmpoweredOffice solutions at regional divisions and offices throughout Japan. Now, many customers come to our locations throughout Japan every day to see how EmpoweredOffice works for us.

To give visitors a chance to experience an office environment that is even more advanced than our own, and delve more deeply into what office and work-style innovation could mean for them, we created the EmpoweredOffice Center.

This facility provides a venue for working with individual customers to explore ideas for solving problems and meeting needs.

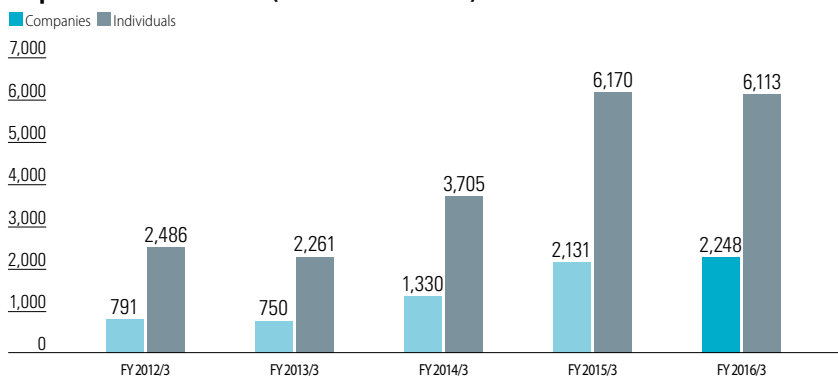


Iidabashi Head Office



EmpoweredOffice Center

EmpoweredOffice Visitors (for all NESIC offices)



Cumulative Visitors Since 2007



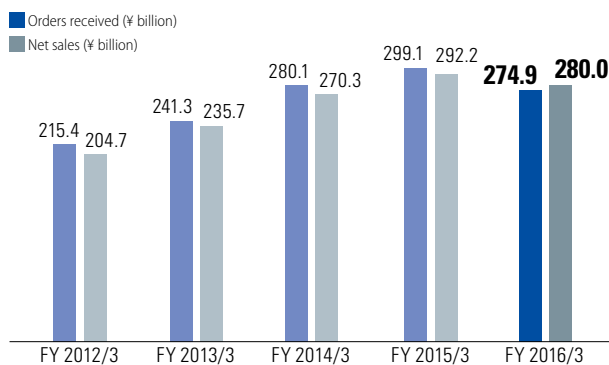
Economic conditions during the fiscal year ended March 31, 2016 differed greatly by sector. Conditions for businesses in general, and for central and local governments, were solid, but only worsened for telecom carriers, which greatly restricted investments in network infrastructure. NESIC, therefore, experienced steady growth in sales and operating income in its enterprise networks business, but a major sales reduction in its carrier networks business, due to greatly reduced infrastructure investment. At an overall level, sales and

earnings declined. The recording of an extraordinary loss and reduction of deferred tax assets, in addition to lower operating income, resulted in year-on-year declines in both net income attributable to owners of parent and ROE.

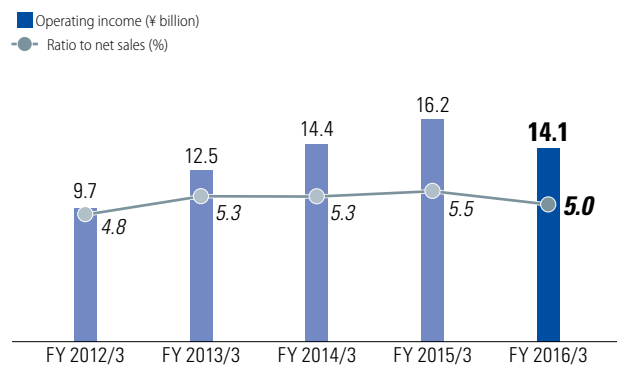
Despite the difficult business conditions mentioned above, however, there was no change in our emphasis on consistently paying a growing dividend. As a result, we increased the dividend for the ninth consecutive year.

Financial Highlights

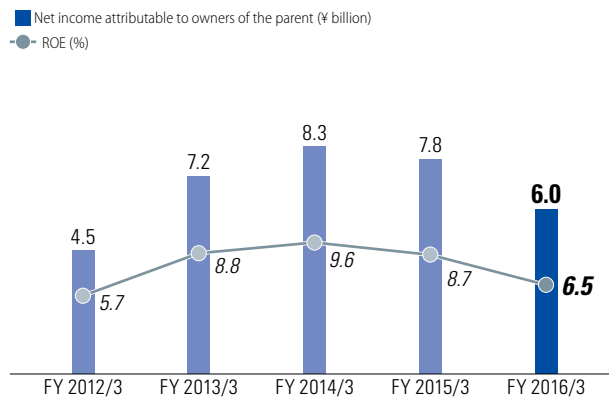
Orders Received / Net Sales



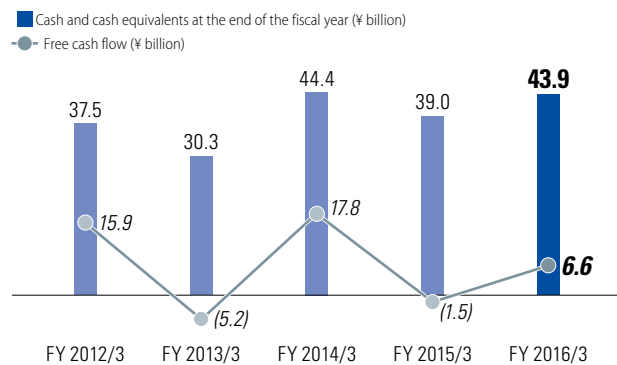
Operating Income / Ratio to Net Sales



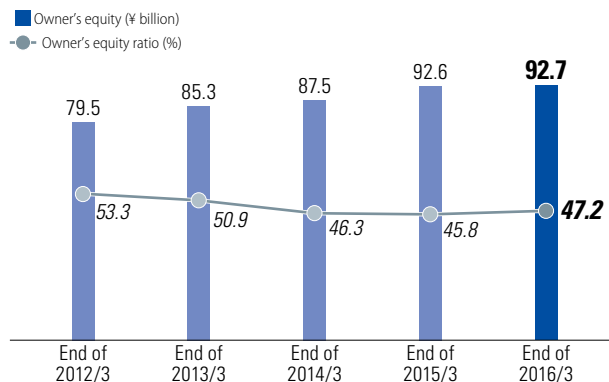
Net Income Attributable to Owners of the Parent / ROE



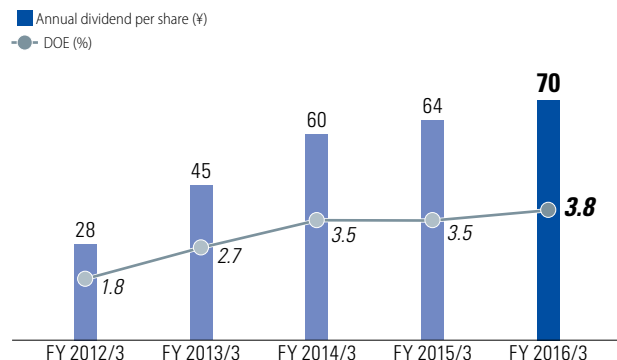
Free Cash Flow / Cash and Cash Equivalents at the End of the Fiscal Year



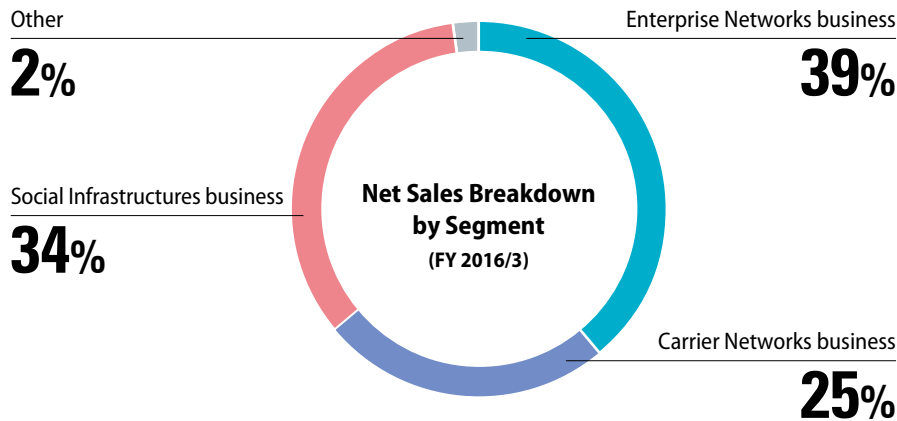
Owner's Equity / Owner's Equity Ratio



Annual Dividend per Share / DOE

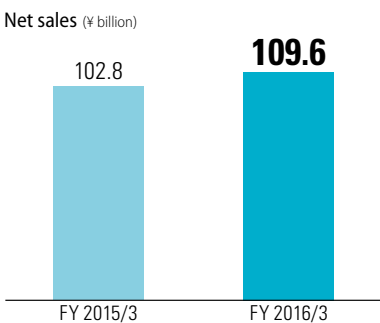


Results by Segment



EmpoweredOffice

Net sales **¥109.6 billion**
7% increase year on year



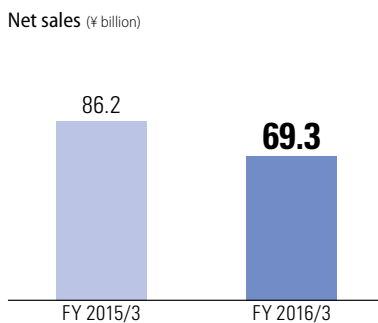
NESIC seized on ICT investment rising on an improvement in business sentiment to proactively respond to management innovation needs and PBX replacement demand to expand sales, with a focus on EmpoweredOffice work-style innovation solutions.

As a result, net sales in the enterprise networks business rose 7% year on year, to ¥109.6 billion.



Telecom Carrier Network Equipment

Net sales **¥69.3 billion**
20% decrease year on year



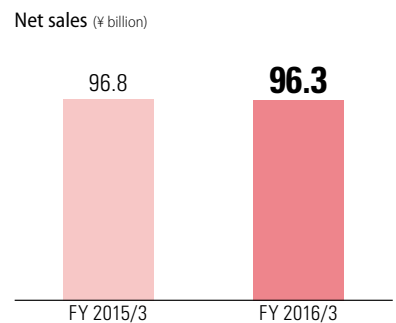
After years of investment focused on enabling reliable connections to mobile networks, Japan's telecom carriers no longer need to invest so heavily in this infrastructure and have greatly reduced their spending on mobile base stations and other aspects of telecom networks.

Net sales in the carrier networks business, therefore, declined 20% year on year, to ¥69.3 billion.



CATV System Construction

Net sales **¥96.3 billion**
1% decrease year on year



With the May 2016 deadline for firefighting and emergency radio system digitalization in sight, investment in these areas largely ended. However, with a shift in focus to safety-and-security-themed ICT-related public investment and earth stations for satellite communications, the global business expanded.

Overall, social Infrastructures business net sales, at ¥96.3 billion, were basically unchanged from the year earlier.

Implementing Our New Midterm Plan to Grow Our Business and Reinvent Our Company

Q Looking back on the previous midterm plan, what did the company achieve and were there any places where performance came up short?

A We accomplished what we planned to do, achieving net sales and operating income (operating income margin) targets a year ahead of schedule. Now, we have to focus on further cost restructuring and increasing profitability.

The previous midterm plan (covering the fiscal years ended March 2014 to March 2016) was formulated during the lead-up to the 60th anniversary of our founding (which we celebrated in 2013), so we decided it was appropriate to take that as an opportunity for reigniting sales growth, which had been lagging for several years.

To achieve growth, we looked at the broad array of telecom infrastructure the NESIC Group works with and set our sights on making the most of an anticipated wave of investment in areas where market growth could be expected over the term covered by the midterm plan. At the same time, we wanted to expand our service business as a primary source of growth over the medium-to-long term. The midterm targets we set were to achieve net sales of ¥290 billion, operating income of ¥16 billion with an

operating income margin of 5.5%, and ROE of 10%*. Our focus in achieving these targets fell on four areas – the EmpoweredOffice business offering work-style innovation solutions integrating ICT and office space design; the technical outsourcing business applying the rock-solid technical service capabilities we had developed over our 60 year history; the infrastructure business consisting mainly of the installation of firefighting and disaster prevention systems and mobile base stations; and the overseas business, where local subsidiaries play leading roles.

We achieved the midterm plan targets by vigorously capturing infrastructure investment and achieving steady expansion of our service business. Though to varying degrees, growth objectives were achieved basically as planned for the four businesses I mentioned



Masao Wada
President

above. And net sales, operating income, and operating income margin targets, were reached by the end of March 2015, a year earlier than planned.

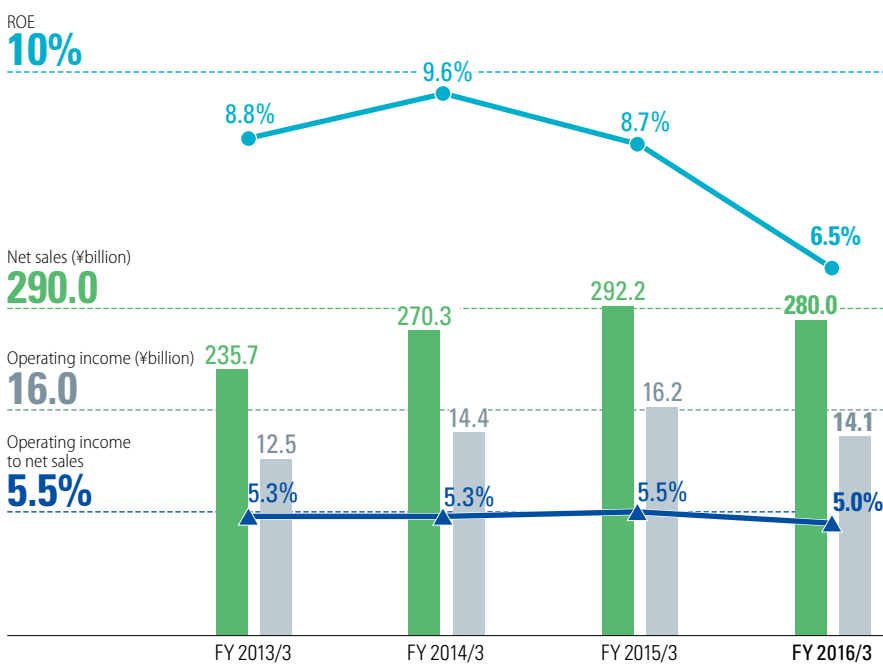
Unfortunately, the fiscal year ending in March 2016, the final fiscal year covered by the plan, saw a sudden cooling of the investment environment in the telecom industry and this led to declines in net sales and operating income for the group. It is regrettable that delays in responding to the unexpectedly rapid downturn caused a decline in profitability. So, too, is the fact that conditions in the final year of the plan prevented us from achieving our ROE target of 10%. That

target has been carried forward in the current midterm plan.

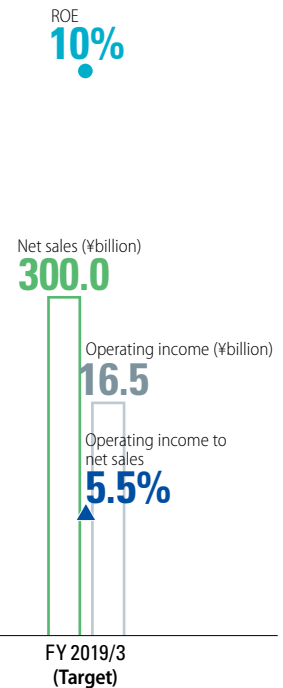
Responding to the downturn in business conditions for the telecom industry, we are focusing on restructuring costs - for example by bringing production in-house and pursuing efficiencies related to material costs - and, given positive indications emerging from the end of the fiscal year just completed, I believe we have created a foothold for improving profitability. Strengthening cost controls is a theme we aim to carry forward as a contributor to the achievement of our present midterm plan targets.

*1 Except for ROE, targets were revised in May 2014, in consideration of M&A initiatives implemented during the midterm plan covering the fiscal years ended March 2014 to March 2016.

Previous midterm plan targets*1



New midterm plan targets*2



Consolidated

		Record Highs
Net sales	¥300 billion	¥292.2 billion (FY 2015/3)
Operating income	¥16.5 billion	¥16.2 billion (FY 2015/3)
Operating income to net sales	5.5%	5.5% (FY 2015/3)
ROE	10%	9.6% (FY 2014/3)

*2 New midterm plan targets are as of May 10, 2016.

Q How does the new midterm plan address the business environment and what does it include for the main businesses?

A Starting from achievements under the previous midterm plan, the new plan focuses on the service, infrastructure, and global businesses.

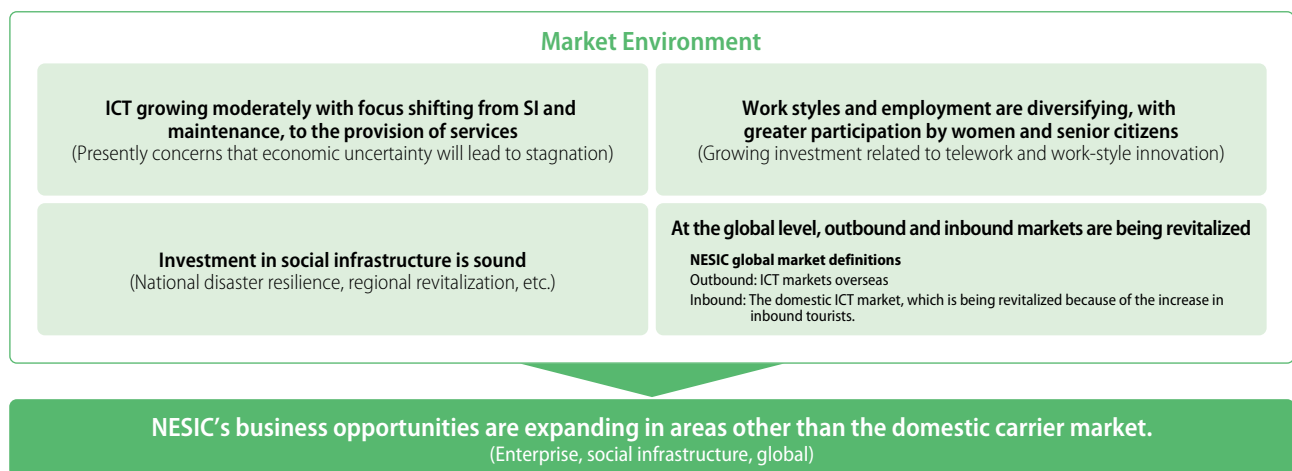
As I just discussed, focused efforts in the service business and the infrastructure business were instrumental in achieving targets under the previous midterm plan. Under the new plan, we are working to further enhance the strength and depth of these businesses, with adjustments for anticipated changes in the business environment.

Under the new midterm plan, we believe it is, unfortunately, necessary to assume that the severe conditions facing telecom

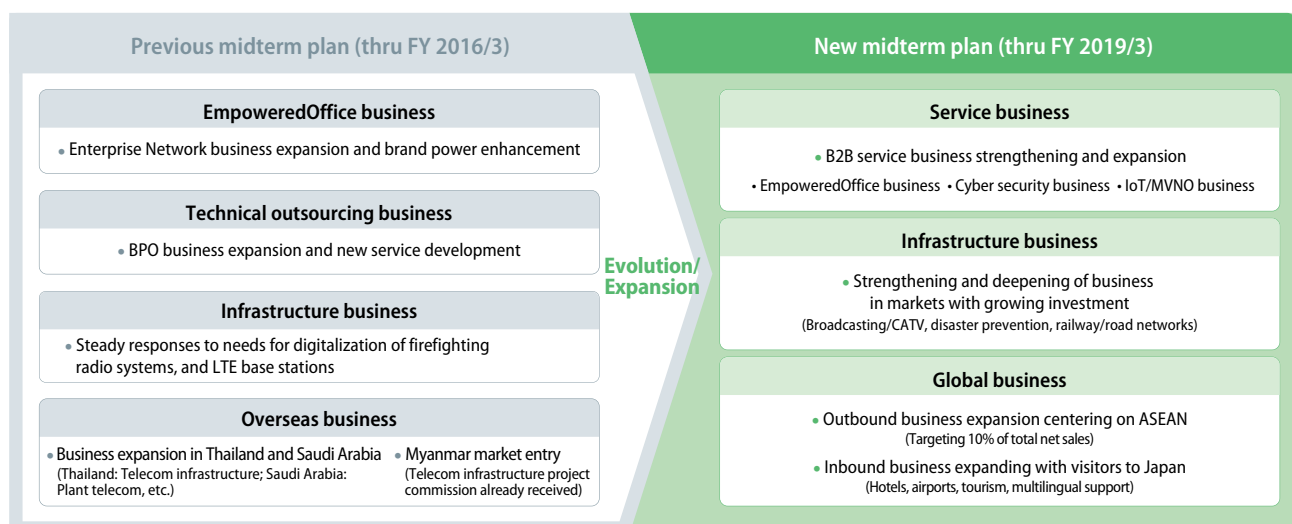
carriers will continue throughout the period covered by the plan. On the other hand, we believe there will be growing business opportunities for the NESIC Group in other enterprise business services, and in the social infrastructure and global businesses.

For example, in the enterprise-centric ICT market, we see the general trends toward greater workforce diversity - with growing numbers of women and senior citizens moving the country toward

Our View of the Market and Opportunities for NESIC



Basic Strategy under the New Midterm Plan



an all-inclusive workforce – and work-style diversification as driving demand for ways of working that are not restricted by distance or time. Systems and networks that respond to this demand, therefore, will likely take on greater and greater importance.

Looking to the domestic market for social infrastructure, it is expected that investments in digital radio systems for firefighting and emergency services will be followed by solid growth in national disaster resilience and regional revitalization, and updating of urban infrastructure, up through 2020, and that growth will also be seen in related ICT investment.

In the global market, outbound investment in the form of telecom, transportation, and other forms of infrastructure investment are expected to rise, particularly in the ASEAN countries, while inbound investment continues to grow in response to the increasing

numbers of international tourists resulting from the central government's drive to make Japan a prime tourism destination.

Our aims, therefore, are to focus on expanding our service, infrastructure, and global businesses, while adapting to these business environment changes. (Refer to p.21-23 for further discussion of these three businesses.)

As minimum quantitative targets under the new midterm plan, we aim to achieve net sales of ¥300 billion, operating income of ¥16.5 billion, an operating income margin of 5.5%, and an ROE of 10%. Even amid expectations that severe business conditions will continue for telecom carriers, we aim to make the fiscal year ending March 2019 one of record performance and to achieve the ROE target we failed to reach under the previous midterm plan.



What is the advantage NESIC will exercise in achieving the new midterm plan targets?



Our advantage is our combination of strengths in ICT capabilities, construction capabilities, and support services.

The NESIC Group, over the 60-plus years it has been in business, has built a record of solid performance in telecom infrastructure construction and installation in locations throughout the world, social infrastructure making daily life safer and more secure, and ICT systems serving as platforms for enterprise business activities.

Focusing on networks, we have performed system integration work, and provided operation maintenance services, for various types of ICT. Along the way, we have built a broad customer base including central and local governments, telecom carriers, and enterprises.

Infrastructure construction capabilities backed by both ICT technology and construction expertise, a full range of support services, and a solid customer base are the strengths we will draw on for growth.

Under our new midterm policy, we will pursue business development making the most of these strengths. For example, when it comes to inbound business serving international visitors to Japan, business opportunities for the NESIC Group begin at the doorstep to Japan – airports – and extend to transportation systems, hotels, shops, and all other types of tourism-related services and infrastructure. With regard to one area in particular, services for the hotel industry, which is currently experiencing a boom in new construction, expansion, and renovation, we are leveraging our high

market share in PBX (private branch exchange) equipment to provide hotels with a wide array of solutions spanning everything from ICT systems including telephone, and guestroom Wi-Fi and room management systems, to guest information services applying our 24/7 multilingual support capabilities.

In the field of cyber security, we offer the unique benefit of our Network Total Operation Center (nTOC), with 160 operation consoles and 300 operation engineers to monitor and operate customer networks, and, within the nTOC, our Security Operation Center (SOC). This means we are able to remotely and instantly isolate a network when a virus has been detected, and provide other services on a timely basis. Furthermore, leveraging experience and know-how we have acquired in serving the NEC Group and countless other users, we are able to rapidly and accurately analyze and respond to cyber attacks, which are constantly increasing in sophistication.

What sets the NESIC Group apart, therefore, is our combination of ICT capabilities, construction capabilities, and support services. We are particularly confident in the ICT capabilities and service quality we have developed in working with the highly advanced, large-scale networks of telecom carriers, and believe these assets will enable us to appropriately adapt to business environment changes and realize the growth we seek.

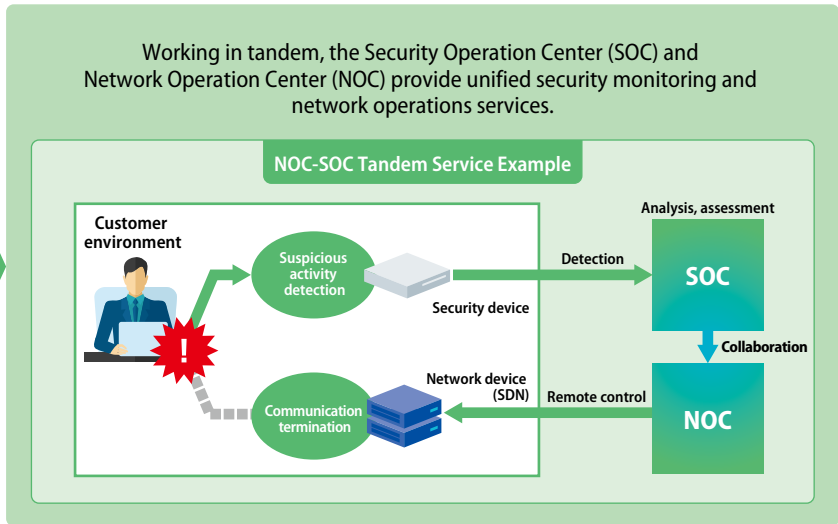
Cyber Security Business Platform

One of Japan's Largest Integrated Operation Centers
nTOC (Network Total Operation Center)



160 operation consoles

300 operation engineers



Q What were your main intentions in the new midterm plan?

A The new midterm plan constitutes a program for evolving the entire company, and all our employees, in ways that enable us to be even better partners for contributing to our customers' business development.

Until now, the NESIC Group has concentrated on offering systems and services to support customers' daily business operations. Going forward, however, we must evolve into partners capable of contributing to customers' business development by making recommendations to help them expand their businesses and earnings. The evolution I refer to must also happen for every one of our employees.

I see the new midterm plan as a program for evolving the entire company, including all of our employees. This means that every employee will have a firm grasp of the new midterm plan, share in a common understanding of the plan, translate the plan into personal objectives, and then act to achieve those objectives. And every one of our employees doing that will mean a tremendous increase in capabilities for our company as a whole.



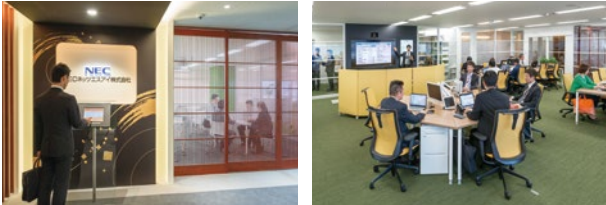
Briefing on the New Midterm Plan

NESIC president Masao Wada visited several company business locations throughout Japan to explain the plan directly to employees and share its key points and objectives.

Based on that intent, I had all of our employees think about how they would change themselves in implementing the new midterm plan. And as we began to implement the plan, I personally went to various business locations to explain the new midterm plan directly to employees and share with them its key points and objectives. My aim in sharing my thoughts in developing the new midterm plan was to have every one of us act in ways that enable even greater contributions to the development of customers' businesses and to society, and ultimately create more opportunities for business expansion.

In our head office, and regional offices and divisions throughout Japan, we have implemented the EmpoweredOffice concept. At each location, employees themselves have designed their office environments in ways that reflect the characteristics of their geographic areas and business activities. A key purpose of EmpoweredOffice is to create work environments where employees feel energized, and when customers see with their own eyes how it benefits our offices, they understand our ideas on work-style innovation. Acting as the customer's partner, we are then able to help the customer determine what work styles would be optimal for them, and then provide the customer with recommendations on how to realize them. This approach has been very effective in winning orders for our approach to work-style innovation.

As Japan continues to contend with a low birth rate and aging population, it is expected that the country's working-age population will decline and clear that work styles must be adapted. At the NESIC



Regional EmpoweredOffice Example

The Hokuriku Regional Office was completely redesigned to create a vigorous, energetic working environment. With its entranceway redone with a Bengal red traditional lattice work emphasizing vertical members, and other elements symbolizing local culture, the design of the Hokuriku Regional Office expresses hospitality unique to its location in Kanazawa.

Group, we are responsive to changes in the lives of employees, workplaces, and needs to adjust work styles. We apply ICT infrastructure and a human resources system that enable employees to work at home or in a mobile mode. We make improvements along the way and use what we learn to make recommendations to customers. To describe this more concretely, the idea of working at home, came about as a proof-of-concept project in which employees - mainly women - suggested the idea, designed the system, and made the necessary improvements. In implementing the new midterm plan, pursuing the EmpoweredOffice business is more than simply recommending systems that customers can use to innovate work styles; it is our opportunity to be a partner customers can consult even on questions of how to get work done.

Q Lastly, is there anything you would like to say to stakeholders?

A Close dialogue will be our emphasis in responding to the expectations of all stakeholders.

The NESIC Group aims to be the leading company in business areas revolving around the customer communication that networks underpin. The idea that communication can be a medium for providing value to society is shared throughout our group, and we aspire to be a company that uses not only its own technology and know-how but also outside knowledge to create solutions for all manner of social issues. On the occasion of the 60th anniversary of our founding, therefore, we devoted substantial time to discussing what corporate message would best express the way we view our past, present, and future and finally decided that "Re-designing your Communication" would do that.

I see achieving 100 years of continuous operation as only one step in the ongoing development of a company. For a company to remain in business 100 years requires solid fundamentals and an upstanding corporate culture. NESIC's fundamentals lie in its ICT capabilities, construction capabilities, and support services, and our corporate culture is one of putting the customer first and taking on challenges without fear of changing ourselves. Together, these form the foundation upon which we will work to be a company that will see its 100th anniversary.

Succeeding requires that we be a company that continuously satisfies customers, shareholders, and all other stakeholders. As a company focused on "Re-designing your Communication," we will engage in close communication with all of our stakeholders and properly respond to their expectations.



Lastly, I would like to acknowledge that a sense of ethics is the most important factor in pursuing business activities. The NESIC Group engages in business activities for the benefit of customers, and business activities are the medium through which we contribute to society. Going forward, every one of our employees will bring a solid sense of ethics to their business activities and always place compliance first.

Focusing Strengths on Developing Three Strategic Business Areas to Achieve New Midterm Plan Targets

1

Strategic Business Area

Service Business Area

The service business area is critical for NESIC to achieve stable growth over the medium-to-long term.

Here, attention will focus on strengthening B2B services that help customers achieve greater productivity and create business value. These include the EmpoweredOffice, cyber security, and IoT/MVNO businesses, which are all expected to experience market expansion.

Net Sales Target

(¥ billion)

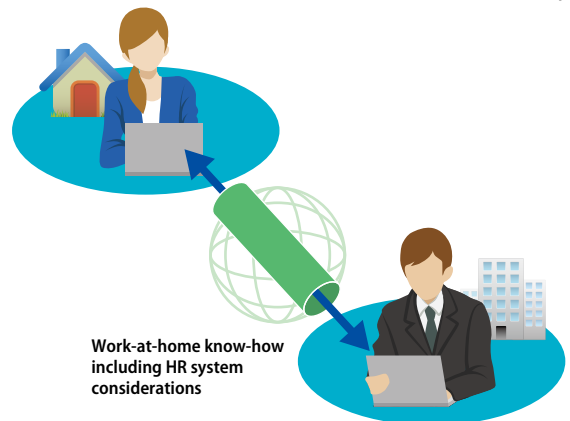
Fiscal Year	Net Sales Target (¥ billion)
FY 2016/3 Result	51
FY 2019/3 Target	70

* Target is as of May 10, 2016

EmpoweredOffice

We believe needs for work-style innovation will continue to rise as a high rate of new office construction and the resulting increase in office relocations energize demand for greater productivity. Adding to that, we anticipate that changes in society and social demands will promote an expansion in demand for mobile, work-at-home, and other new work styles that are not restricted to specific locations.

NESIC is further accelerating internal implementations of telework and other new work styles as we strive to develop new services. At the same time, we are further enhancing our abilities to apply our traditional strengths in ICT and facilities, and strengthening our capacity to perform consulting services extending to human resource system and other organizational needs.



Cyber Security



Security Operation Center (SOC)

With ICT now playing a central role for both society and enterprises, threats of cyber attacks are growing in both volume and sophistication, and demand for security measures to counter them is rising.

As a unique provider of both customer network operation and security monitoring services, NESIC is applying high-precision analytical and rapid response capabilities, and a considerable track record of success in Japan, to expand its cyber security business.

IoT/MVNO

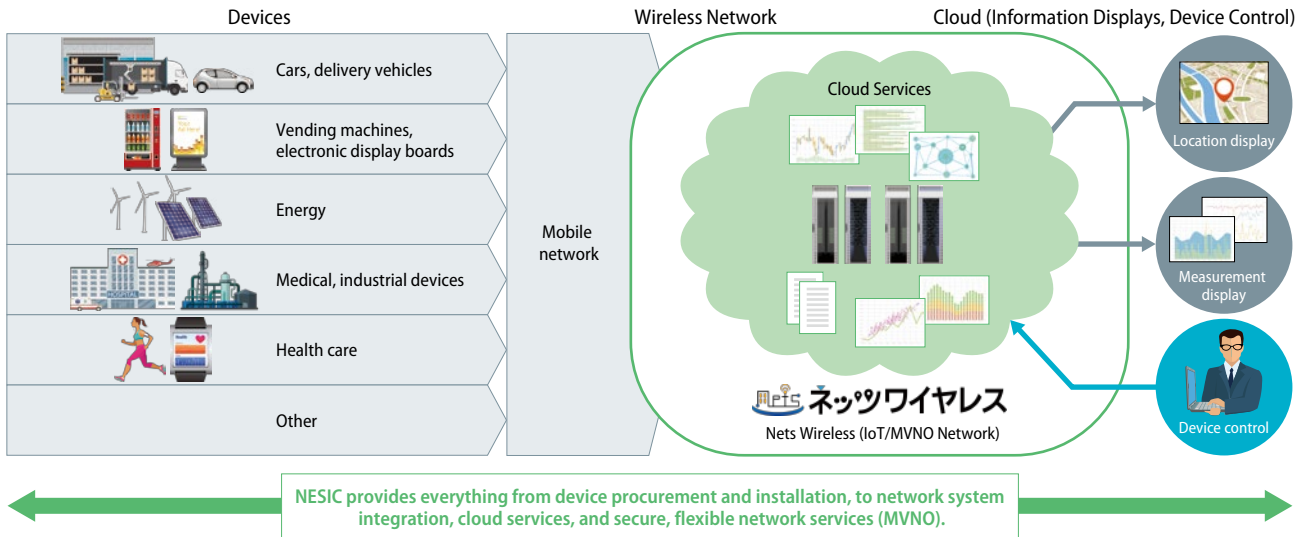
IoT means connecting not only information devices but also various “things” to the internet and engaging them in interactive exchanges of information. Given the ability to, for example, gather data from industrial equipment to prevent breakdowns, or analyze the movements of people and vehicles to create smoother flowing traffic, the market for IoT is expected to grow.

NESIC aims to expand its IoT/MVNO business by providing

integrated services available nowhere else - services ranging from installing devices, to connecting to and coordinating with networks, performing after-sales maintenance, using data centers to collect and analyze data, and even providing flexible, yet highly secure network services (MVNO).

*IoT: Internet of Things
MVNO: Mobile Virtual Network Operator

Illustration of IoT/MVNO Services



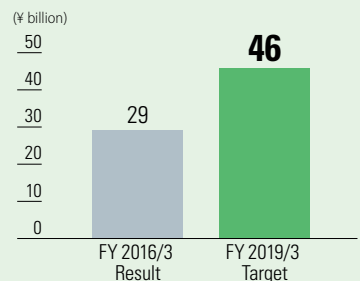
Strategic Business Area

2. Infrastructure Business Area

In pursuing the infrastructure business, participating in fields where investment is on the rise is key.

Over the period covered by the new midterm plan, business expansion efforts will focus on broadcasting and CATV facilities, disaster prevention, and roads and railways – all of which are areas consistent with the national disaster resilience and regional revitalization themes established by the government.

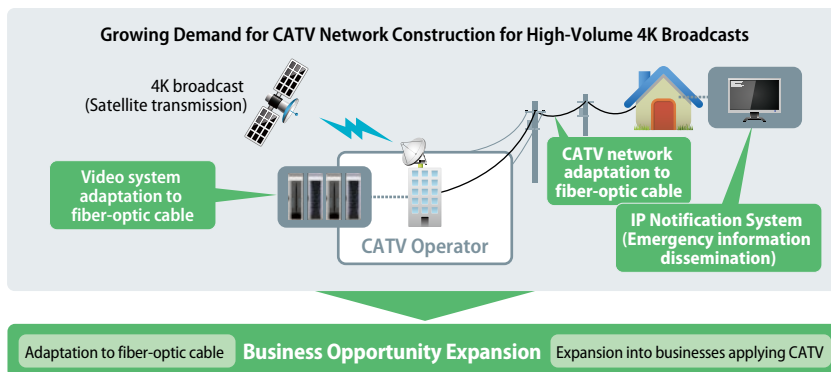
Net Sales Target



* Target is as of May 10, 2016

Broadcasting and CATV Facilities

NESIC aims to act with vigor in meeting demand for updating terrestrial digital broadcasting facilities and for installing fiber-optic CATV cable to distribute next-generation 4K and 8K content.



Disaster Prevention

NESIC aims to tap demand for upgrading emergency radio systems to digital technology and has focused marketing attention on municipalities that have yet to install disaster prevention systems. Efforts will also be made to strengthen our capabilities in gathering and analyzing disaster prevention information.

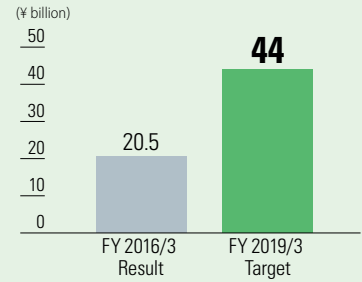
Roads and Railways

In this market, NESIC is directing its attention to the adoption of advanced network systems and SDN technology, as well as expanding into new areas such as deterioration monitoring.

Strategic Business Area 3 Global Business Area

In the global business area, NESIC sees growth opportunities in both outbound business, mainly in overseas telecom infrastructure construction, and inbound business, where the rising number of visitors to Japan is expected to invigorate investment demand.

Net Sales Target

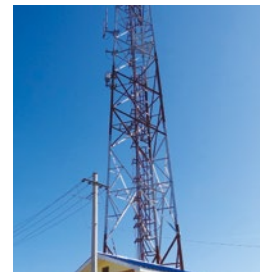


* Target is as of May 10, 2016

Outbound

In outbound business, NESIC aims to achieve business expansion mainly in the ASEAN countries, where infrastructure investment is expected to increase. With regard to Thailand and Myanmar, in particular, establishment of mobile networks by telecom carriers is expected to accelerate, and our efforts to serve the demand will be led by our local subsidiaries.

Railway and airport projects are also anticipated in ASEAN countries, and, with the benefit of Japan's Official Development Assistance, Japanese companies working together will draw on advanced technical capabilities and other strengths to capture business.



Base Station in Myanmar

Inbound

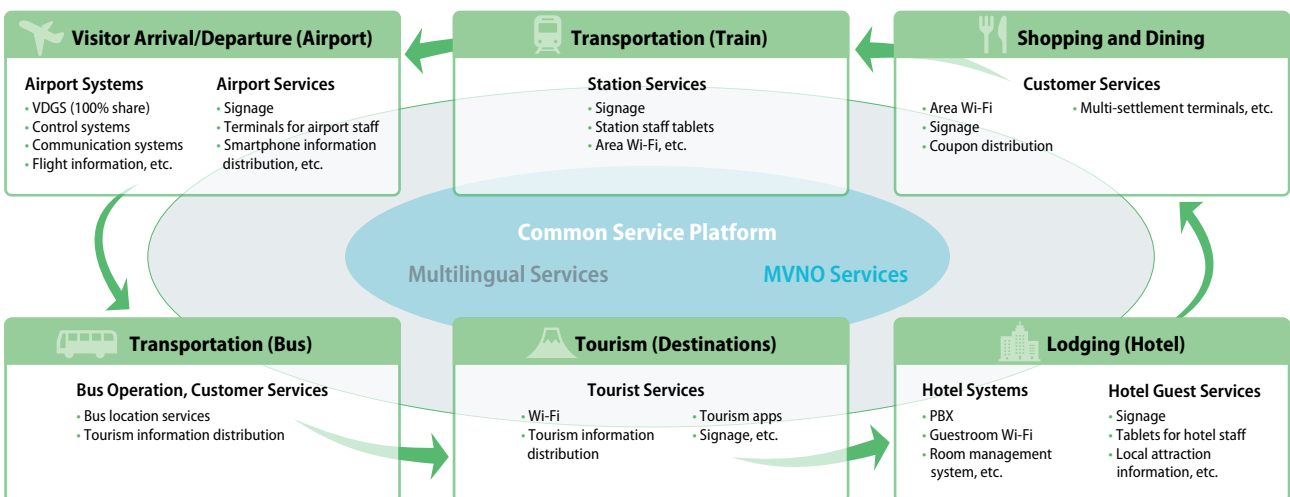
Looking ahead to the 2020 Olympic and Paralympic Games in Tokyo, and with the central government's targets for greatly increasing the number of visitors to Japan, plans for the aggressive construction of hotels and other facilities are being put forth.

Starting with PBX systems, room management systems, Wi-Fi and a broad range of other services for hotels, and including VDGS for airports,

information distribution systems for buses and trains, and information systems for tourism destinations and shops, NESIC provides various types of ICT facilities and services for tourism-related settings of all kinds.

Multilingual support services and other common platforms are additional tools we will draw on extensively to tap business opportunities.

*VDGS: Visual Docking Guidance System



Message from the Director in Charge of Finance

Enhancing Corporate Value with Growth Investment Backed by a Solid Financial Base



Tetsujiro Arano
Senior Vice President and
Member of the Board

Not Giving Up on an ROE of 10%

As its capital efficiency target for the midterm plan covering the period through March 31, 2019, NESIC has again committed itself to achieving an ROE of at least 10%, the only target not achieved under the previous midterm plan.

Increasing the profitability of our core businesses is fundamental to achieving that target, so we are also aiming to achieve operating income of ¥16.5 billion and an operating income margin of 5.5%. The new midterm plan anticipates the continuation of severe conditions in businesses that have been relatively profitable for us in the past – those that serve telecom carriers. Therefore, to achieve an operating income margin of 5.5%, which would be a record high for us, we are working to increase sales mainly in strategic business areas, and taking steps such as shifting to in-house production, to reduce outsourcing costs, and emphasizing bulk procurement, to reduce device and material costs, to thoroughly revamp our cost structure and business processes.

Looking back on our business performance over the years, we have been able to maintain earnings growth despite temporary downturns in business conditions. Ten years ago, we were posting operating income of about ¥5 billion. We increased that to ¥10 billion and are now capable of posting figures of around ¥14 billion. Implementing the new midterm plan will change us in ways that take us to our next stage of profitability and produce an ROE of 10%.

Active Pursuit of Growth Investments

Active pursuit of growth investments with a clear vision for the future is critical for maintaining business growth. NESIC, with an owners equity ratio of 47% and net cash* of ¥35.4 billion, as of March 31, 2016, has a solid financial base, which we will use to make ¥20 billion in investments over the three fiscal years covered by the new midterm plan.

For us, as a communication system integrator, key sources of competitiveness include our service development capability and service delivery platform. For our EmpoweredOffice work-style innovation solutions, it is critical that we develop and introduce advanced services responding to growing needs for new work styles. Exercising a unique approach, NESIC experiments with new work styles in its own offices to

develop new services and enhance the recommendations we make to customers, so we will make the investments required to advance Japanese-style work-at-home and other work styles that respond to society's needs. Diversification of needs is also envisioned in our IoT/MVNO business, where it is necessary to create a stronger platform, including environments where we can undertake proof-of-concept projects with significant numbers of customers. Regarding M&A, we are prepared to move dynamically on opportunities that fit well with our strategies, and can be expected to result in synergies with acceptable risk.

Another key source of competitiveness is our human resources. To enhance the sophistication of our services, we must augment our human resources with greater numbers of professionally skilled people and people prepared to work in a global environment. We must also proactively invest in systems and environments that strengthen operations through diversity.

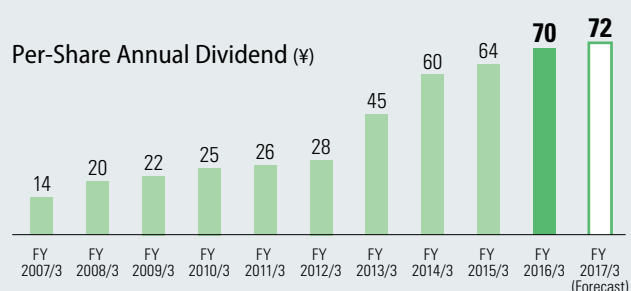
As we proceed with the investments described above, we must maintain solid financial condition in order to meet our responsibilities as a company counted upon to provide public infrastructure operators such as central and local governments, and telecom carriers, with construction and other types of services that must offer impeccable reliability. Investments, therefore, will be made within the scope of free cash flow resulting from profitability improvements achieved over the three years covered by the midterm plan.

* Cash and cash equivalents, less interest-bearing liabilities.

Augmenting Stable Shareholder Returns

Paying appropriate returns to shareholders is a top management priority for NESIC, and we would like to add to the stable returns we pay to investors who hold our shares over the long term. Toward that end, we aim to pay dividends that rise, with consideration of the DOE (debt-on-equity) ratio, and are unaffected by short-term fluctuations in earnings. For the fiscal year ended March 31, 2016, therefore, we paid a dividend of ¥70 per share, reflecting a per-share increase of ¥6. For the fiscal year ending March 31, 2017, we are planning to pay a dividend of ¥72 per share, making for a 10th consecutive year of increases in the per-share dividend.

Going forward, we intend to continue paying returns satisfactory to shareholders, even as we engage in proactive growth investment.



NESIC Group's Sustainability Initiatives

The NESIC Group's growth is underpinned by sustainability initiatives, which include measures for sound corporate governance. We, therefore, engage in a wide variety of activities that contribute to the development of a sustainable society.

Sustainability Initiatives

We are advancing the wide variety of initiatives shown below, in line with ISO26000 core issues.

CSR Initiatives

- Corporate Governance
- Compliance and Risk Management Initiatives
- Partnership with the Earth (Reducing Environmental Impacts)
- Partnership with Customers
- Partnership with Local Communities
- Information Security, Safety, and Confidence
- Developing Diverse Human Resources and Creating Worker-Friendly Workplaces
- Partnership with Suppliers



Details on NESIC's CSR activities are available in Japanese on the following webpage:



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

Strengthening and Improving Sustainability Initiatives

In order to pursue sustainability activities that meet with the expectations of society, we incorporate stakeholder opinions, have relevant corporate staff divisions work together to develop necessary measures, and strive to strengthen and improve our activities.

Dialogue with a Prominent Outside CSR Expert

We had a conversation with Hideto Kawakita, the CEO of the International Institute for Human, Organization and the Earth (IIHOE), and listened to his opinions about our sustainability initiatives.

Date: May 26, 2016
 NESIC Representatives: Tetsujiro Arano, Senior Vice President
 Komei Sakanashi, Associate Senior VP
 Heads of six relevant corporate staff divisions



Details on Mr. Kawakita's opinions and on NESIC's conversation with him are available in Japanese on the following webpage:

<http://www.nesic.co.jp/csr/engagement.html>



Board Reports on Sustainability Initiatives

In accordance with one of the principles of Japan’s Corporate Governance Code, regular reports on sustainability initiatives are presented to the Board of Directors.

Going forward, the opinions of board members will be reflected in the management and implementation of sustainability initiatives.

Construction of a PDCA Cycle for Sustainability Initiatives

The Sustainability Promotion Working Group has been formed to improve sustainability activities by establishing materiality standards and applying a PDCA cycle.

Relevant corporate staff divisions assess the results of their activities over the past fiscal year, develop activity plans (including KPIs), and strive to raise the level of their initiatives.

Defining Materiality

The NESIC Group has defined materiality for the matters it should address as its highest priorities for the fiscal year ending March 31, 2017. Materiality standards and the process for determining materiality will be revised as necessary.

Materiality Determination Process

1 Identification of Social Issues

Prioritize social issues by applying the following process.

- Summarize stakeholder input
- Identify global issues related to SDGs (Sustainable Development Goals)
- Define issues in relation to ISO26000 core subjects

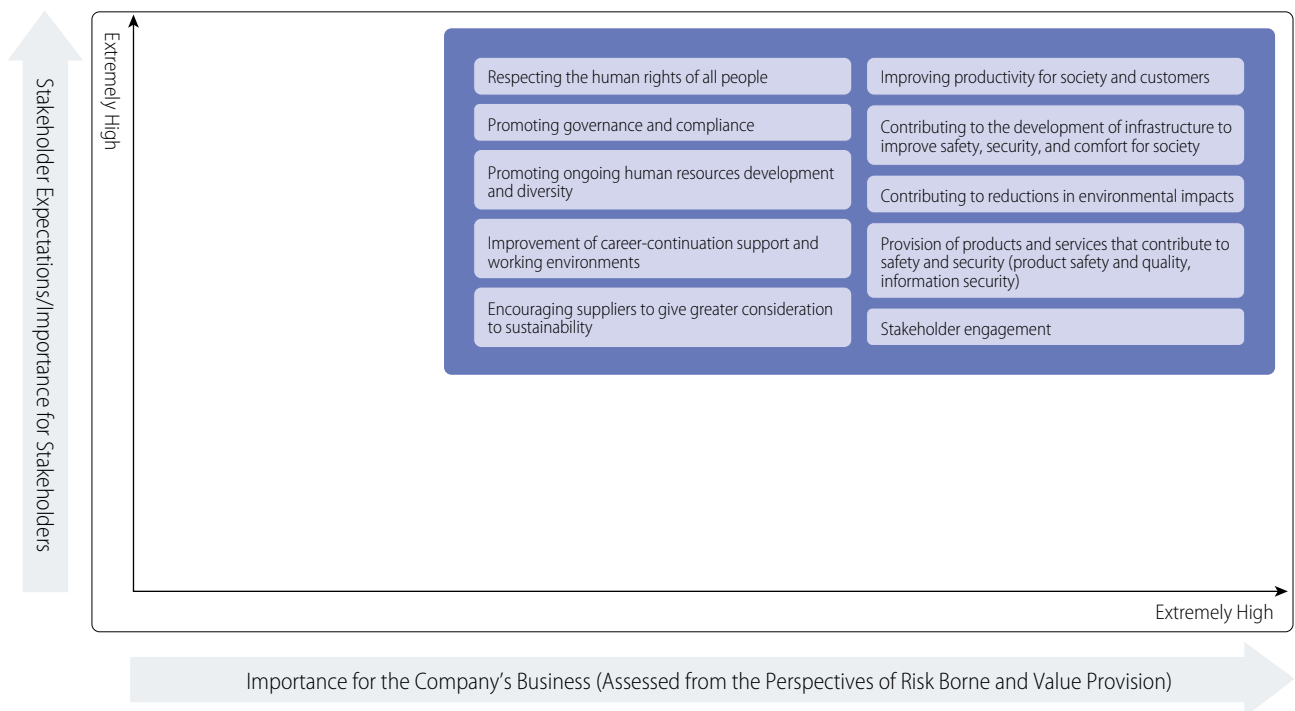
2 Identification of Priority Issues Related to Company Businesses

Organize issues in relation to the company’s businesses and highlight the highest priorities.

3 Materiality Determinations by the Management Quality Improvement Committee

In its January 2016 meeting, the Management Quality Improvement Committee made determinations on materiality. Regarding importance for the company, determinations were made from the perspectives of risk borne and value provided. Regarding stakeholder expectations and importance for stakeholders, determinations were made based on matters raised in stakeholder dialogue and on input by the Institute for International Socio-Economic Studies, the NEC Group’s think tank.

10 Material Issues



Developing Diverse Human Resources and Creating Worker-Friendly Workplaces

Basic Stance

The NESIC Group's greatest management resource for supporting sustainable growth is its people. Working from a foundation of respect for human rights, we implement measures for continuously increasing the value of our employees.

Human Resource Development

NESIC develops human resources capable of contributing to the growth of the company, and does so in a manner that satisfies both our customers and employees. We practice human resource development that enables employees to make the most of their talents and capabilities. Based on the NEC Group's core values of "self-help" and "collaboration," we continue to emphasize a culture of rising to challenges without fear of changing ourselves.

Training for New Hires

The goal we aim to achieve over three years is to have new hires learn to exercise leadership, and think and act autonomously. To develop these capabilities, new hires complete a training curriculum in which they work closely with a "coach" assigned to advise and guide them.

Companywide Training (Management Quality)

To develop people who are competent leaders and managers, we conduct the following types of training.

- Leadership training (Assistant managers)
- Management training (Section managers)
- Upper management training (Department managers), Senior management training

Technical Training (Operational Quality)

The following initiatives are being advanced to develop professionals who can support business operations with advanced execution capabilities.

Enhancement of Service Business Skills/ Enhancement of Global Human Resources

- Seminars for acquiring high-priority professional qualifications
- Development of project management personnel
- Support for acquiring external professional qualifications
- Overseas business training programs (Short-term, long-term)
- Temporary assignment to NESIC overseas subsidiaries (Approx. 1 year)

Diversity Management

In April 2010, NESIC set up an organization for diversity promotion. Consistent with our "Stance on Advancement of Diversity," presented below, we are focusing our efforts on promoting the development of a workplace environment that allows female workers to fully exercise their abilities, and on continued awareness-raising activities for the effective utilization of diversity in business.

Stance on Advancement of Diversity

"NEC Networks & System Integration Corporation believes that allowing employees with diverse individualities to fully exercise their abilities will lead to the further enhancement of its corporate competitiveness. With the aim of responding to the diverse needs of customers and continuing to grow as a company by adopting diverse perspectives, each of our employees will promote diversity."

Promoting Workplace Participation and Career Advancement for Women

To promote active participation by women we are working to add women to our management, expand our hiring of women, and advance the careers of women.

In support of those efforts, we hold career seminars for female employees and training on diversity and various other topics for managers.

Women as a Percent of Management

FY 2014/3	FY 2015/3	FY 2016/3
1.8%	2.2%	2.2%

* Target is to reach 5% by March 31, 2021. (General Employer Action Plan for Compliance with the Act on Promotion of Women's Participation and Advancement in the Workplace)

On May 27, 2016, Japan's Ministry of Health, Labour and Welfare presented NESIC with the highest level (level 3) of "Eruboshi" certification in recognition of our efforts to promote active participation by female employees in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace.

Employment of People with Disabilities and of the Elderly

As of March 31, 2016, NESIC's workforce included 81 people with disabilities, 2.06% of total employees. Supporting the independence of people with disabilities is a corporate social responsibility, and we actively work to increase our employment of people with disabilities. In addition, through our Senior Partner System, we were, as of March 31, 2016, continuing to employ 70 workers who had reached the mandatory retirement age. Our efforts to expand the employment of workers who have reached retirement age will continue.

Work-Life Balance

At NESIC, we believe a good work-life balance is crucial for enabling each individual employee to fully exercise their capabilities, and we are working to enhance our systems for supporting employees in balancing work and home responsibilities, meeting childcare or nursing care responsibilities, participating in volunteer activities, investing in career advancement, and various other aspects of their lives.

Balancing Work and Childcare

Numbers of Employees Who Have Taken Childcare Leave and Percentages of Those Who Return to Work

	FY 2015/3	FY 2016/3
Employees Taking Childcare Leave	30 (including 4 men)	40 (including 3 men)
Percentage Returning to Work	100%	100%

NESIC is enhancing systems to enable employees with children to feel easy about balancing work and childcare, and is taking steps to support these employees. In recognition of our efforts to establish a system that is open to diversity in work styles, enhance systems to support childcare, and create an environment in which employees feel easy about taking childcare leave and returning to work, we have been granted the "Kurumin" certification under Japan's Act on the Advancement of Measures to Support the Raising of Next-Generation Children.



"Kurumin" Mark
The "Kurumin" mark is a symbol of the certification granted to companies that have established an action plan, and achieved targets, in accordance with Japan's Act on the Advancement of Measures to Support the Raising of Next-Generation Children.

Balancing Work and Nursing Care

Numbers of Nursing Care Seminars Held and Participants

	FY 2015/3	FY 2016/3
Numbers of Nursing Care Seminars	1	2
Participants	80	154

NESIC is enhancing its systems to support employees balancing work and nursing care responsibilities, and promotes employees' understanding of the systems via the intranet while hosting relevant seminars for employees.



"Tomonin" Mark
The "Tomonin" Mark can be used by companies committed to developing a workplace environment ensuring the balancing of work and nursing care.

Encouraging Employees to Take Annual Paid Holidays

NESIC encourages employees to take paid holidays, as summer vacation, during the months of July, August, and September and, under the collective labor agreement, sets companywide paid holidays during August. Employees are also encouraged to take paid holidays during the second and third weeks of June and October. Employee awareness of paid holidays and the periods noted above is promoted through postings on the intranet and via other means, as well.

Average Numbers of Paid Holidays Granted and Taken

	FY 2015/3	FY 2016/3
Average Days Granted	21.1	21.1
Average Days Taken	14.1	14.2
Percent of Paid Holidays Taken	66.8%	67.3%

Initiatives to Promote Health

Mental Health Care Initiatives

NESIC has changed the focus of its mental health care measures from treatment to prevention, as it works to promote the mental health of its employees. For employees seeking mental health advice, we have industrial physicians and other mental health professionals available for initial consultations. And when an employee is returning to work after a prolonged absence due to a mental health issue, we put together a support team, including an industrial physician, the employee's supervisor, and a representative of the personnel department, to help ease the employee back into the workplace.

Telework Proof-of-Concept Initiative to Promote Work-style Innovation -Contributing to greater productivity

NESIC embarked on a telework proof-of-concept initiative as a work-style innovation project aimed at increasing productivity and creating a work environment enabling employees to fully exercise their capabilities. In recognition of our promotion of telework, this initiative was selected as a winner of the 16th Telework Promotion Award (Encouragement Award in the telework implementation category) sponsored by the Japan Telework Foundation. We will now use the results of our internal experiment to develop solutions that contribute to greater productivity for customers.



16th Telework Promotion Award

Information Security, Safety, and Confidence

Basic Stance

The NESIC Group believes that maintaining impeccable quality in the systems and services we provide to customers, and dependable information security for business, personal and all other customer data, are the foundation underpinning the trust that is essential for building trusting relationships with stakeholders.

NESIC, therefore, has implemented a broad spectrum of measures to ensure safety in the construction, integration and other types of work we perform, and secure information, so that customers can be confident in the systems and services we provide.

Main Initiatives in Information Security

Stringent Information Security Measures

The NESIC Group has compiled booklets containing rules to observe in our relationships with customers. One, "Basic Rules for Customer Related Work and Trade Secrets," is for the NEC Group. The other, "Basic Rules for Customer Related Work," is for business partners. These booklets are distributed to employees of the NESIC Group and employees of companies to which we outsource work, throughout Japan.

At a more specific level, the booklets are compilations of the rules on systems, networks, customer information, and corporate confidential information that apply throughout the NEC Group. Every individual employee performing work for NESIC is required to understand all of the rules contained in the booklets and to pledge compliance with them. A dedicated Electronic Pledge System, is used to facilitate compliance with this requirement.



Information Security Education

To enhance security awareness, information security training is actively conducted for all employees (including temporary employees) of the NESIC Group in Japan.

In the fiscal year ended March 2016, all NESIC Group employees in Japan underwent DVD-based training on handling personal information and participated in training on information security and protection of personal information.

Information Security Self-Inspections

Abiding by the NEC Group's information security standards, all NESIC departments conduct self-inspections to determine whether they are properly implementing information security measures. These self-inspections allow each department to identify its strengths and weaknesses, and then take steps needed to improve information security.

Strict Controls on Information Devices and Personal Information

To prevent information leaks, NESIC exercises strict controls on the movement of personal computers, USB memory sticks, and other information devices to locations outside of company premises.

When business activities necessitate that information devices be taken off site, employees are required to take the least amount of information needed and must implement encryption measures. Information devices taken off site are tracked with a dedicated management system.

When personal information is received from a customer, it must be registered in the "Personal Identifiable Information Control System," a dedicated system for this purpose.

The proper functioning of the systems mentioned above was confirmed in internal audit procedures focusing on information security and protection of personal information in the fiscal year ended March 2016.

National Personal Identification Number System

When the Japanese government announced that it would introduce a national personal identification number system, the NESIC Group assembled a project team with members drawn from throughout its organization. The team developed a process for preparing a report on legal matters concerning employees, sole proprietors and others, and security management measures for that process.

This work helped to significantly lower the risk that personal identification numbers could be leaked.

Creation and Application of DVD-based Information Security Materials

NESIC has created DVD-based training materials on information security, including the protection of personal information. Used in practical training, these materials, streamed internally, are viewed by employees, who then discuss information security in their own workplaces and try to develop ways of correcting problems.



Information Security DVD

Main Initiatives in Safety and Quality

Process Transition Determination

NESIC establishes clear quality and control standards, and specifies matters required to meet certain standards for each process of a project, and sets checkpoints between processes.

Our project management scheme, in which process transition determinations are made to ensure standards have been met before going on to the next process, contributes to the maintenance of high quality.

Project Inspections

NESIC conducts internal third-party project inspections to help ensure compliance with Japan's Industrial Safety and Health Law and Construction Industry Law, as well as our own rules, and ultimately prevent compliance violations.

Going beyond the discovery and correction of unsatisfactory conditions, project inspections also take note of excellence in processes and tools. Project inspection findings are shared throughout the company through monthly postings on our internal website, and other means as well, to help improve safety and quality activities in each of our departments.

On-Site Safety Patrols

To eliminate safety and quality problems, NESIC conducts thorough checks of individual processes and has top company managers and the heads of business sections systematically conduct on-site safety patrols in an effort to prevent accidents.

In the fiscal year ended March 2016, the performance of these safety patrols, with greater frequency than in the previous fiscal year and in excess of the number included in plans, contributed to a significant year-on-year reduction in accidents.

Enhancing Safety and Quality Awareness

Various measures are being pursued to foster a common awareness of safety and quality problems and solutions, and outstanding activities, among individual employees and organizational units of the NESIC Group.

Companywide Safety Convention

Once a year, the company's top managers and the managers of all of its business sections come together to receive the latest information on safety and quality initiatives in each of the company's organizational units and be present for the presentation of awards to employees who have produced outstanding safety-related results.

Outstanding Safety and Quality Awards for Divisions

Every year, awards are presented to divisions and group companies with outstanding performance in areas of safety and quality and their achievements are announced throughout the group.

Safety and Quality Workshops

Outside experts are invited to lead safety and quality workshops, where they discuss best practices outside of the company or provide participants with opportunities to learn from actual examples.

Safety and Quality Awareness Survey

Surveys are regularly conducted on topics such as the degree to which important measures are understood and the extent to which information on safety and quality is being shared. Survey results are then used to shape awareness measures going forward.

Learning from Serious Accidents in the Past

As part of our efforts to eliminate safety and quality problems, we established the Safety & Quality Promotion Center in our head office building to provide opportunities to learn from serious accidents and keep the lessons alive. The center contributes to the elimination of safety and quality accidents, and enhances our credibility with customers, by providing a venue where individual employees can learn lessons of the past and think about actions that should have been taken.



Safety & Quality Promotion Center

Safety & Quality Promotion Center Exhibits

Learning from past serious accidents

To learn from past accidents that must never be forgotten and renew our determination to prevent their recurrence, the center exhibits accident artifacts and provides descriptions of the responses mounted.

Initiatives to eliminate accidents

In an effort to promote awareness of personal safety and health, and encourage individuals to think about their daily activities and notice areas where improvements are required, the center provides hands-on learning content that employees may freely access. Slide- and animation-based accounts of accidents, and examples of close calls, are also available.

Self-commitment

To promote personal action that precludes accidents, employees are encouraged to make a personal safety and quality pledge and post it on a designated wall in the center. This activity itself enhances personal safety and quality awareness.

Partnership with Suppliers

Basic Stance

The suppliers that support our business activities are important stakeholders for NESIC.

NESIC Group is committed to contribute to both a rise of the corporate value of NESIC Group and a mutual growth with supply-chain partners, through the procurement activity. Therefore, we work with suppliers to advance sustainability throughout the supply chain.

Requirements of CSR

NESIC Group will promote improvements of human rights, labor, environment and anti-corruption and other social responsibility through the procurement activities, with the cooperation of its supply-chain partners, for pursuit of sustainable and ethical procurement. We, therefore, encourage suppliers to act with awareness of the following matters of corporate social responsibility.

Requests to Supply-Chain Partners

- General CSR Requirements
- Product Quality and Safety
- Environmental Conservation
- Information Security
- Fair Trade and Corporate Ethics
- Occupational Health and Safety
- Human Rights and Labor

Advancement of Environmental Conservation

To advance environmental conservation, NESIC engages in procurement activities that abide by the NESIC Group's Green Procurement Guidelines and Standards Pertaining to Procurement Restrictions for the Inclusion of Chemical Substances in Products, and asks that suppliers act in ways that are consistent with these guidelines and standards.

Advancement of Product Safety and Quality, and Information Security

Within NESIC, we regularly share information and viewpoints to improve, and regularly undertake, activities to prevent problems in the areas of product safety and quality, and information security. Through regular inspections and surveys, we are also working to promote improvements in supplier activities, as well.

Supplier Inspections and Surveys Conducted during the Fiscal Year Ended March 31, 2016

Inspection Type	Implementation Details	
Quality		85 companies
Information Security	Documentation inspection	56 companies
	Onsite inspection	4 companies
Industrial Waste Disposal Contractors	Field audit	4 companies

Dialogue with Suppliers

Adding to communications related to regular business activities, we create various opportunities for dialogue with suppliers to share information.

Business Direction Briefings

NESIC holds semiannual business direction briefings for principal suppliers, whom we see as important partners. These briefings serve as an opportunity for us to encourage cooperation with our compliance-centric business approach.



Business Direction Briefings for Principal Suppliers

Partnership with the Earth (Reducing Environmental Impacts)

Priority Themes

The NESIC Group is advancing various activities to reduce environmental impacts and promote environmental protection in other ways, as well, under the following high-priority themes.

High-Priority Themes

- (1) Strengthening CO₂-reducing initiatives to realize a low-carbon society
- (2) Reducing environmental impacts through activities aimed at reducing costs and enhancing quality
- (3) Strengthening operations and management of environmental management systems
- (4) Maintaining platforms and strengthening systems
- (5) Greater thoroughness in environmental compliance
- (6) Promotion of greater environmental awareness among employees

Reducing CO₂ Emissions

NESIC is working to cut its CO₂ emissions by reducing its electricity usage, improving the fuel economy of company-owned vehicles, reducing the environmental impact of logistics activities, using tradable green certificates, and implementing carbon offset measures.

At the same time, through EmpoweredOffice and other solutions we offer, we are helping customers reduce their CO₂ emissions.

Carbon Statistics^{*1}

(Figures are for NESIC alone.)

CO ₂ emissions: 13,351 t		CO ₂ emissions reduction contribution: 15,019 t	
1 Office energy usage	8,916 t	1 Reductions in customer CO ₂ emissions ^{*2}	13,922 t
2 Logistics-related CO ₂ emissions	175 t	2 Renewable energy purchases	11 t
3 Paper usage	91 t	3 Tree-planting (Carbon offset procurement)	10 t
4 Business travel (transportation)	3,647 t	4 Teleconference system usage ^{*3}	1,076 t
5 Company-owned vehicles (commercial)	522 t		

*1 Comparison of NESIC's CO₂ emissions from business activities to its contributions to CO₂ emissions reductions, during the fiscal year ended March 31, 2016.

*2 CO₂ emissions reductions expected from customers' use of environmentally conscious products and services provided by NESIC.

*3 CO₂ emissions reductions related to internal use of teleconference systems.

ISO14001 Certification

Efforts are being made to obtain the ISO14001 environmental management system certification for the NESIC Group, including affiliates. By December 2015, two affiliates had obtained the NESIC Group certification and plans are to increase this number. We are also working to achieve certification under the ISO14001/2015 standard beginning in 2017.

Ecosystem and Biodiversity Conservation Activities

In 2012, we launched the Rice Paddy Cultivation Project to bring dormant rice paddies in Ibaraki Prefecture, back into production and recreate conditions favorable for various forms of life to restore the ecosystem. This project also constitutes a program in which employees and their families can experience a rural ecosystem. Participants engage in work that begins with planting and extends through harvest, and carry out ecosystem surveys, under the guidance of local experts.



Planting Rice in a Paddy with Planting Lines Laid Out



Weeding to Promote the Growth of Rice Plants



Celebrating the Project's Fifth Anniversary

Environmental Report

Details on NESIC's environmental and social contribution activities are available in Japanese on the following webpage.

<http://www.nesic.co.jp/csr/environment-report.html>

Compliance and Risk Management Initiatives

Basic Stance

A corporate culture in which compliance is embraced is a fundamental element for establishing trust in a company.

At the NESIC Group, managers at all levels from the top down make compliance their number one priority and repeat that stance within their units to have all employees embrace compliance.

Charter of Corporate Behavior, Code of Conduct and Compliance Education

The Charter of Corporate Behavior clearly states the issues that we should proactively address in order to meet our corporate social responsibilities. With that as a foundation, the Code of Conduct has been established to help ensure that individual employees make decisions, and act, responsibly at all times.

Clear understanding of the Code of Conduct is promoted through annual businessperson education held in a face-to-face format, and through job-level specific group education, as well as online programs for all employees. In addition, numerous education programs are conducted on topics such as the Subcontract Act, the Construction Industry Act, the Worker Dispatching Act, and fair trade.

Corporate Ethics Hotline

The NESIC Group has established its Corporate Ethics Hotline, so that compliance problems in corporate activities may be discovered early on and ethical problems and legal violations may be prevented altogether. The Corporate Ethics Hotline is an internal reporting and consultation resource for employees to use when they are concerned that certain behavior may be in violation of laws, regulations, internal rules, or social norms, and, for any reason, feel they cannot consult with their supervisor or relevant departments.

Compliance Awareness Survey of Employees

A survey of employees is conducted to gauge their awareness of compliance and determine the extent to which compliance awareness has taken hold within the NESIC Group in Japan.

Results of these surveys are compared to those from similar surveys at other companies to assess compliance awareness for the NESIC Group as a whole, and within individual organizations, and then develop organization-level improvement measures.

Advancing Risk Management

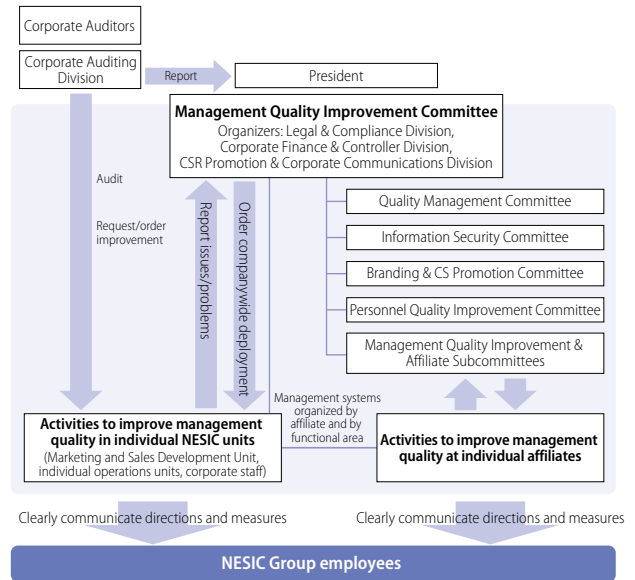
The Management Quality Improvement Committee comes together for quarterly meetings at which it hears reports by marketing and sales units, operations units, subcommittees and other bodies on improvement measures taken and risks identified. The committee then considers and discusses actions to take going forward.

Three high-priority risks identified by the Management Quality Improvement Committee for the fiscal year ending March 31, 2017 are given below. The marketing and sales unit, operations units, and corporate staff are now working together to prevent these risks from being realized.

Priority Risks

- Risk of accounting improprieties
- Risk of safety and quality problems
- Risk of violations of the Construction Industry Act

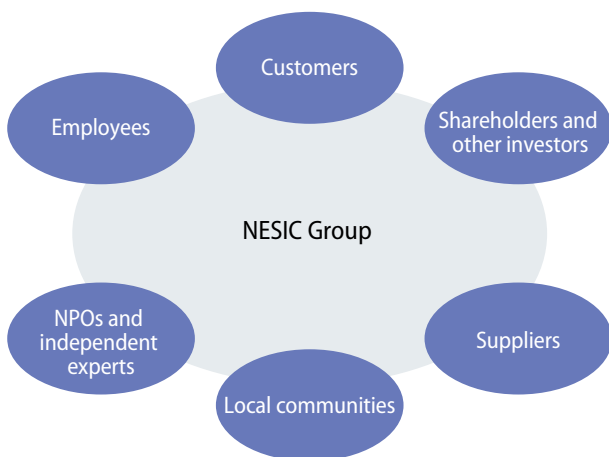
Risk Management System (as of July 2016)



Building Stakeholder Relationships on Trust

Communication with Stakeholders

NESIC actively engages in communication with customers, shareholders and other investors, suppliers, and other stakeholders, and reflects their opinions and desires in our business activities.



Customer Satisfaction

To provide customers with higher-quality solutions and be a trusted partner, NESIC conducts surveys and reflects the results in actions to improve customer satisfaction.

Annual Customer Survey

NESIC regularly asks customers to rate our business activities. We then use their input to identify matters requiring attention and implement improvement measures.

Survey on Business Operations

When a project is completed or it is time to renew an agreement, NESIC asks customers to evaluate the quality of our business operations, products, and services, and uses customer input to make improvements and develop solutions for problems customers are facing.

Connections to Local Communities

In contributing to local communities, our approach is to be proactive and to move forward gradually, beginning with what is immediately possible.

Supporting Recovery in Areas Hit by the Great East Japan Earthquake

Disaster Recovery Volunteerism as Training for New-Hires

Since April 2012, a little over a year after the Great East Japan Earthquake struck, NESIC has been sending new hires to assist with recovery work in disaster-hit areas. Our aim is to provide these employees, all of whom are volunteers, with an opportunity to consider how we as a business entity should contribute to society, and learn the basic attitudes (safety consciousness, the “go-and-see” principle, etc.) required of our employees.

This initiative was highlighted at the Japan management Association’s KAICA Awards 2014 as an exceptional example of an activity designed to solve a social problem.



Disaster Recovery Volunteerism as Training for New-hires

Local Food Fair

We hold the Tohoku Local Food Fair at our Iidabashi Head Office building to give people in Tokyo a way to support remote disaster-stricken areas. Japan’s Ministry of Agriculture, Forestry and Fisheries, recognizing that this program supports the ministry’s “Support by Eating” campaign, presented NESIC with a certificate of appreciation on March 4, 2015.



Local Food Fair

Corporate Governance

Basic Stance

NESIC believes that enhancing corporate governance is critical for realizing an advanced society with vibrant communication and for achieving continuous increases in corporate value. We, therefore, strive to have a management system that enables quick decision-making for responding promptly to changes in the operating environment, and we work to ensure management soundness and transparency by practicing timely, appropriate disclosure.

Corporate Governance System

Board of Directors and Audit & Supervisory Board

The Board of Directors is composed of 9 directors (eight men and one woman), including two outside directors. In addition to maintaining the number of directors at an optimum level for quick decision-making, NESIC has reduced the terms of directors to one year in order to clarify the management responsibilities of the directors, and strengthen its management structure.

The Board of Corporate Auditors consists of four corporate auditors, including three outside auditors. It decides audit policies, and hears reports on audit work performed by each auditor. Corporate auditors attend Board of Directors' meetings and other important meetings, examine significant documents related to final decisions, and hear reports by directors and employees on the performance of their duties. Through activities such as these,

corporate auditors properly fulfill the function of overseeing the directors' performance of their duties.

Executive Committee and Business Execution Committee

NESIC has adopted an executive officer system to clearly demarcate the supervisory function and the business execution function and has formed the Executive Committee consisting of mainly executive officers at the senior vice president level and higher and corporate auditors, to discuss key management and operating issues.

We have also established the Business Execution Committee to monitor the progress of business execution and report on significant matters to strengthen management functions.

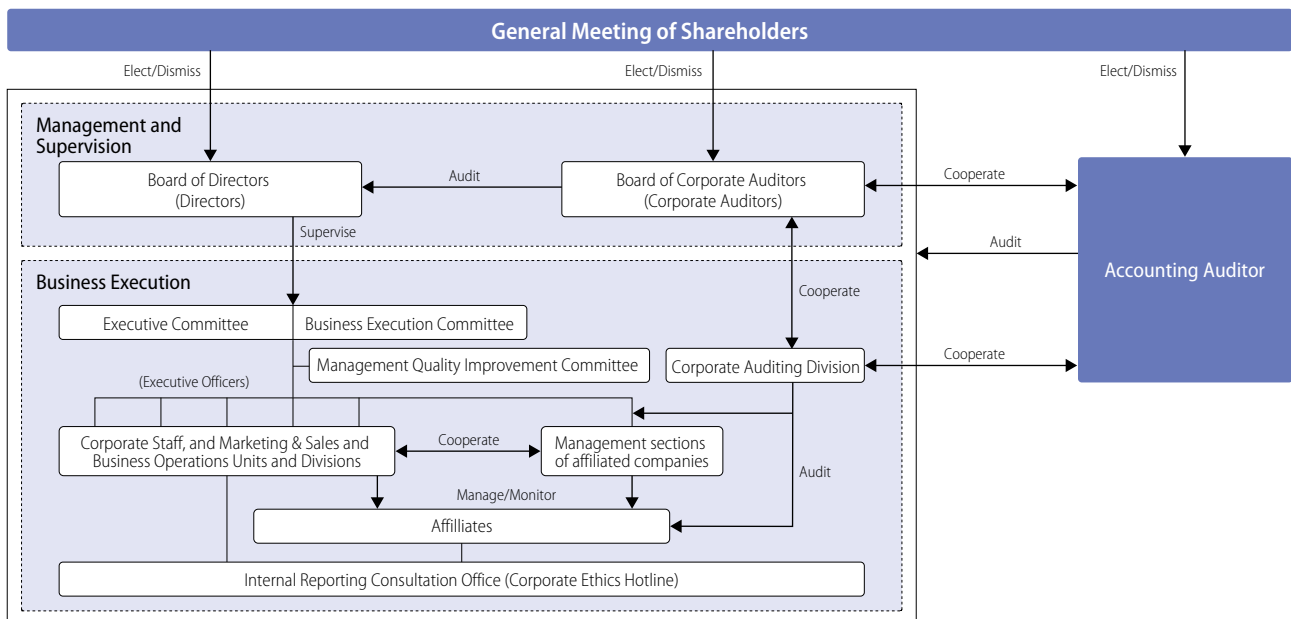
Corporate Auditing Division

The Corporate Auditing Division has been established as an internal audit unit independent from the business execution divisions. It examines through internal audits whether business execution is being conducted legally and properly according to relevant laws, regulations and Company rules.

Accounting Auditors

The Company has engaged KPMG AZSA LLC as its accounting auditor. KPMG AZSA LLC expresses its views on the financial statements and related matters from an independent viewpoint.

NESIC's Business Execution, Management Oversight, and Internal Control Framework



Independent Officers

To further strengthen its corporate governance, NESIC in 2006 adopted the practice of nominating independent officers – outside directors or corporate auditors who, in accordance with Tokyo Stock Exchange requirements, are unlikely to have conflicts of interest with general shareholders. NESIC has expanded the number of independent officers to four, included two directors and two corporate auditors.

To strengthen the corporate governance system, we have, as of June 2016, nominated an independent director who is experienced in corporate management and will be able to apply his broad experience and expert perspectives for the benefit of NESIC's management. The new independent director joins incumbent independent officers, including two attorneys and a university professor.

Compliance with Japan's Corporate Governance Code

With the finalization of the Corporate Governance Code for companies listed on exchanges in Japan, NESIC is working to appropriately implement the code and further enhance its own corporate governance by closely complying with its requirements.

Main Points of Enhancement or Improvement

Assessment of Board Effectiveness

Beginning with the fiscal year ending March 31, 2016, we are conducting a survey of all members of the Board of Directors to analyze and assess the effectiveness of the board as a whole. The

current assessment is that the board is operating properly and is effective in its performance. To further enhance the effectiveness of the board, certain improvements, such as revisions in its operation and composition, have been implemented.

Establishment of an Advisory Panel

An advisory panel composed mainly of outside directors (independent officers) has been established to discuss the nomination and compensation of directors and corporate auditors. NESIC believes that having the Board of Directors consider the opinions of the panel in making final decisions further enhances transparency.

Officer Training

NESIC has long created opportunities for directors and corporate auditors to acquire necessary knowledge and information, and is moving forward with the provision of more such opportunities.

Dialogue with Shareholders and Other Investors

NESIC has formulated a disclosure policy and holds meetings, briefings on financial results and management strategies, and general shareholders' meetings with the aim of providing shareholders and other stakeholders with accurate, timely explanations of business performance and management direction.

Dialogue with capital markets is promoted by the IR staff, working under the leadership of the Associate Senior Vice President in charge of Accounting, Finance, and IR to arrange briefings, and private meetings for investors with the president and other top managers.

Reasons for Nominations of Independent Officers

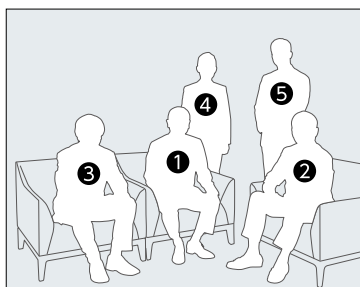
Name	Reason for Nomination	Meetings Attended	
		Board of Directors	Board of Corporate Auditors
Yumiko Ichige	Yumiko Ichige has extensive experience and expertise as an attorney handling corporate legal matters. It is anticipated that she, as a legal expert with an objective perspective, will contribute to the proper supervision of management at NESIC.	12/12	—
Hisayoshi Fuwa	Hisayoshi Fuwa has a wealth of experience in corporate management. It is anticipated that he will be able to apply this experience for the benefit of management at NESIC, and provide appropriate management advice and suggestions from a perspective independent from the managers directing business execution.	—	—
Yuji Kikuchi	Yuji Kikuchi is expected to exercise his knowledge and perspective as a legal expert, and to apply the fair and objective perspective of an outsider in auditing the directors' performance of their duties.	12/12	13/13
Masayuki Horie	Masayuki Horie is expected to exercise his expertise in internal controls and other aspects of corporate management, and to apply the fair and objective perspective of an outsider in auditing the directors' performance of their duties.	10/10	10/10

(Note 1) Figures for Board of Directors and Board of Corporate Auditors meeting attendance are for the fiscal year ended March 31, 2016.

(Note 2) Hisayoshi Fuwa was newly appointed as a director at the 84th General Meeting of Shareholders, held on June 21, 2016.

(Note 3) Masayuki Horie was newly appointed as a corporate auditor at the 83rd General Meeting of Shareholders, held on June 23, 2015. Board of Directors and Board of Corporate Auditors meeting attendance figures for him reflect his service since that time.

Directors & Corporate Auditors



① Masao Wada
President

② Yoichi Sato
Senior Vice President and
Member of the Board

③ Tetsujiro Arano
Senior Vice President and
Member of the Board

④ Masafumi Gouji
Senior Vice President and
Member of the Board

⑤ Yushi Ushijima
Member of the Board



Yumiko Ichige
Outside Director
Partner, Nozomi Sogo Attorneys at Law



Junichi Okuyama
Corporate Auditor
(Outside Auditor, Full-time)



Hisayoshi Fuwa
Outside Director



Shoichi Fukaya
Corporate Auditor (Full-time)



Masamitsu Kisaki
Member of the Board
General Manager, Corporate Strategy
Division, NEC Corporation



Yuji Kikuchi
Corporate Auditor
(Outside Auditor)
Partner, Tokyo Hatchobori Law Office



Yukinori Nakayama
Member of the Board
General Manager, Telecom Carrier
Business Planning Division,
NEC Corporation



Masayuki Horie
Corporate Auditor
(Outside Auditor)
Professor, College of Commerce,
Nihon University

Messages from an Outside Director and an Outside Auditor

NESIC began appointing independent officers in 2006, when it added its first independent auditor, to strengthen its corporate governance by incorporating external viewpoints. Below, an independent director and an independent auditor discuss their opinions on the value of this governance initiative and issues going forward.

What are your thoughts on governance at NESIC (NEC Networks & System Integration Corporation)? How are you trying to apply your expertise and experience in your position as an outside director?

I think NESIC is a company that is proactive about corporate governance. Agendas, for example, are always distributed prior to the board meeting in a briefing. Questions and issues are addressed by staff or executives before the board meeting, so ample information and opportunities are provided for us - outside officers - to express our opinions.

As an attorney and outside director, I recognize that one of my main roles is monitoring the company's decision-making process from a legal point of view. More specifically, I pay attention to whether conditions are fulfilled, or not, for application of the "Business Judgment Principal," the theory of precedent regarding directors' responsibilities and duty of diligence. Management decisions in pursuit of gain always have some kind of risks attached. If (1) the base facts for the decision and possible risks have been properly recognized and accounted for and (2) rational decisions have been made based on the recognized facts and risks, and on a comprehensive consideration of factors such as disadvantages caused by the realization of such risks and potential business advantages of the project, the "Business Judgment Principal" applies. In meetings of the Board of Directors, the role of an outside director is to enhance the precision of management decisions by contributing to the discussion from legal and other expert perspectives, and pointing out oversights if any have been made.



Yumiko Ichige
Outside Director

Partner, Nozomi Sogo Attorneys at Law

What are your expectations regarding NESIC?

I think NESIC is typical of a traditional Japanese company in a positive sense - its character is to be careful and diligent, and its employees perform their work with great precision. On the other hand, given the speed of market changes and technology innovations, the ability to respond to changes with rapidity is very important. Companies cannot rest on past successes; they must be able to exercise new perspectives in pursuing businesses without delay, and I believe that requires diversity in the decision-making process. Indeed, I see one of my roles as contributing the perspective of a woman. Advancing diversity, by increasing employee motivation and making the company more international, will make NESIC into a stronger organization in the future.

What is the status of governance and internal controls at NESIC?

I believe that governance and internal control should be seen as resulting from people who have the will and desire to make them happen; they are not simply mechanisms. Furthermore, they are not like a bit of medicine that can be taken for immediate improvements in performance and ROE; governance and internal control must be practiced as a matter of daily routine, and care must be taken to ensure that they do not become seen as just a bunch of prohibitions.

At NESIC, top management takes into account the strengths and weaknesses of the corporate culture in emphasizing compliance in everything. This, together with the pursuit of human resource development that enables synergies by matching the strengths of individual employees to the directions the organization is pursuing, is an important indicator that governance and internal controls are seen as fundamentally important to the company's identity.

How are you trying to apply your expertise and experience in your position as an outside auditor?

I have specialized in the academic fields of internal control theory and audit theory. As an independent auditor, I believe my lack of knowledge concerning the details of the company's internal circumstances works to my advantage, allowing me to say what I think and feel from my perspective as an expert.

That NESIC has created an atmosphere in which outside officers can freely express themselves in meetings of the Board of Directors and of the Board of Corporate Auditors is a positive thing. It is possible, though, that I could lose my external perspective as I get deeper into the company's internal functions over time. My aim, therefore, is to continue to be an auditor who always considers the expectations of shareholders and can speak from the perspective of an outside stakeholder.



Masayuki Horie
Outside Auditor

Professor, College of Commerce,
Nihon University

Financial Section

Consolidated Eight-Year Summary	41
--	-----------

Consolidated Financial Statements

Consolidated Balance Sheets	43
Consolidated Statements of Income	45
Consolidated Statement of Comprehensive Income	46
Consolidated Statements of Changes in Net Assets	47
Consolidated Statements of Cash Flows	49
Notes to Consolidated Financial Statements	51
Independent Auditors' Report	73

Consolidated Eight-Year Summary

	FY 2009/3	FY 2010/3	FY 2011/3
Performance Indicators (Millions of yen)			
Orders	¥245,257	¥222,046	¥212,277
Net sales	249,070	217,727	217,948
Gross margin	35,470	32,938	33,132
Operating income	10,968	9,867	10,835
Operating income to net sales (%)	4.4	4.5	5.0
Net income attributable to owners of the parent	4,995	5,644	4,660
Financial Condition (Fiscal year end) (Millions of yen)			
Total assets	¥147,251	¥146,543	¥149,464
Net assets	69,129	73,849	77,005
Owner's equity	68,518	73,213	76,445
Cash Flows (Millions of yen)			
Cash flows from operating activities	¥6,953	¥16,070	¥ (1,595)
Cash flows from investing activities	(2,193)	(1,885)	(1,904)
Free cash flow	4,759	14,184	(3,499)
Cash flows from financing activities	(2,096)	(1,382)	(337)
Cash and cash equivalents at end of year	16,590	29,514	25,587
Per-Share Indicators (yen)			
EPS	¥100.41	¥113.50	¥93.72
BPS	1,377.68	1,472.14	1,537.19
Cash dividends	22.00	25.00	26.00
Key Indicators (%)			
ROE *2	7.5	8.0	6.2
ROA *3	7.3	6.7	7.3
Owner's equity ratio	46.5	50.0	51.1
DOE	1.6	1.8	1.7
Payout ratio	21.9	22.0	27.7
Other			
Number of employees	5,906	5,998	5,939
Number of shares outstanding	49,773,807	49,773,807	49,773,807

*1 U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥113.68 = US\$1.00 as of March 31, 2016.

*2 Return on equity: Net income attributable to owners of the parent / Owner's equity during the term [Average of owner's equity at the beginning of the term and at the end of the term] x 100

*3 Return on assets: Ordinary income / Total assets during the term [Average of total assets at the beginning of the term and at the end of the term] x 100

FY 2012/3	FY 2013/3	FY 2014/3	FY 2015/3	FY 2016/3	
				(Thousands of U.S. dollars) *1	
¥215,373	¥241,271	¥280,071	¥299,097	¥274,946	\$2,418,601
204,658	235,716	270,326	292,164	279,961	2,462,719
32,079	37,182	44,690	48,110	45,162	397,281
9,747	12,483	14,418	16,158	14,111	124,137
4.8	5.3	5.3	5.5	5.0	—
4,474	7,246	8,257	7,791	5,996	52,749
				(Thousands of U.S. dollars) *1	
¥149,130	¥167,472	¥189,059	¥201,964	¥196,569	\$1,729,144
80,074	85,974	89,166	94,173	94,397	830,383
79,503	85,266	87,514	92,559	92,738	815,783
				(Thousands of U.S. dollars) *1	
¥18,595	¥(1,723)	¥23,313	¥2,460	¥9,435	\$83,004
(2,648)	(3,429)	(5,504)	(3,929)	(2,822)	(24,831)
15,946	(5,152)	17,809	(1,469)	6,613	58,172
(3,979)	(2,066)	(3,824)	(4,127)	(1,402)	(12,334)
37,456	30,315	44,434	38,951	43,889	386,084
				(U.S. dollars) *1	
¥89.98	¥145.73	¥166.06	¥156.72	¥120.80	\$1.06
1,598.77	1,714.74	1,760.06	1,864.61	1,868.25	16.43
28.00	45.00	60.00	64.00	70.00	0.62
				(U.S. dollars) *1	
5.7	8.8	9.6	8.7	6.5	—
6.3	7.7	8.2	8.3	7.1	—
53.3	50.9	46.3	45.8	47.2	—
1.8	2.7	3.5	3.5	3.8	—
31.1	30.9	36.1	40.8	57.9	—
				(U.S. dollars) *1	
5,936	6,024	7,164	7,260	7,464	—
49,773,807	49,773,807	49,773,807	49,773,807	49,773,807	—

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries

As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	(note 3) 2016
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	¥ 43,889	¥ 38,951	\$ 389,501
Notes and accounts receivable (note 21)	104,841	113,921	930,431
Inventories (note 6)	9,190	10,134	81,558
Deferred tax assets (note 9)	4,246	4,778	37,681
Other current assets	5,514	3,327	48,935
Allowance for doubtful accounts	(44)	(52)	(390)
Total current assets	<u>167,638</u>	<u>171,061</u>	<u>1,487,735</u>
Property and equipment:			
Land	2,507	2,508	22,248
Buildings and structures	9,817	9,885	87,122
Machinery and vehicles	202	233	1,792
Furniture and fixtures	13,642	13,365	121,068
Construction in progress	277	512	2,458
Other	1,053	1,180	9,345
Accumulated depreciation	(16,532)	(16,855)	(146,716)
Property and equipment, net	<u>10,967</u>	<u>10,830</u>	<u>97,328</u>
Intangibles, net of accumulated amortization (note 7)	5,025	5,871	44,595
Investments and other assets:			
Investment securities (notes 4 and 5)	412	550	3,656
Asset for retirement benefits (note 10)	514	992	4,561
Deferred tax assets (note 9)	8,250	8,578	73,216
Other assets (note 21)	3,801	4,129	33,732
Allowance for doubtful accounts	(41)	(52)	(363)
Total investments and other assets	<u>12,937</u>	<u>14,199</u>	<u>114,811</u>
Total assets	¥ <u>196,569</u>	¥ <u>201,964</u>	\$ <u>1,744,488</u>

(Continued)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	(note 3) 2016
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Short-term bank loans (note 8)	¥ 4,154	¥ 1,633	\$ 36,865
Current installments of long-term debt (note 8)	163	3,168	1,446
Notes and accounts payable (notes 21)	39,190	48,662	347,799
Advances received (note 21)	3,721	3,175	33,022
Accrued income taxes (note 9)	3,883	4,358	34,460
Accrued bonuses to directors and corporate auditors	99	125	878
Accrued warranty on products	189	280	1,677
Accrued losses on sales contracts (note 6)	399	163	3,541
Other current liabilities	15,310	17,734	135,871
Total current liabilities	67,113	79,302	595,607
Long-term liabilities:			
Long-term debt (note 8)	4,185	1,349	37,140
Liability for retirement benefits (note 10)	28,960	25,832	257,011
Other liabilities (notes 9 and 11)	1,911	1,307	16,959
Total long-term liabilities	35,057	28,488	311,119
Total liabilities	102,171	107,790	906,735
Shareholders' equity (note 12):			
Common stock:	13,122	13,122	116,453
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2016 and 2015			
Capital surplus	16,650	16,650	147,763
Retained earnings	67,597	64,932	599,902
Treasury stock, at cost; 134,825 shares at March 31, 2016 and 133,413 shares at March 31, 2015	(270)	(266)	(2,396)
Total shareholders' equity	97,100	94,438	861,732
Accumulated other comprehensive income:			
Net unrealized holding gain on other securities (note 4)	32	47	283
Foreign currency translation adjustments	(376)	2	(3,336)
Accumulated adjustments for retirement benefits (note 10)	(4,018)	(1,927)	(35,658)
Total accumulated other comprehensive income	(4,362)	(1,878)	(38,711)
Non-controlling interests	1,659	1,613	14,723
Total net assets	94,397	94,173	837,744
Commitments and contingencies (note 13)			
Total liabilities and net assets	¥ 196,569	¥ 201,964	\$ 1,744,488

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	(note 3) 2016
Net sales (note 21)	¥ 279,961	¥ 292,164	\$ 2,484,566
Cost of sales (notes 6 and 21)	234,798	244,054	2,083,759
Gross profit	45,162	48,110	400,798
Selling, general and administrative expenses (notes 15 and 16)	31,051	31,951	275,567
Operating income	14,111	16,158	125,230
Other income (expense):			
Interest income	59	70	523
Interest expense	(80)	(72)	(709)
Dividends income of insurance	172	121	1,526
Insurance repayment	59	1	523
Gain on sale of investment in affiliates	40	—	354
Loss on disposal of property and equipment	(110)	(99)	(976)
Business reconstruction expenses for subsidiaries	(94)	(11)	(834)
Restructuring charges	—	(349)	—
Amortization of goodwill (note 7)	(464)	(413)	(4,117)
Retirement benefit costs (note 10)	(464)	(573)	(4,117)
Relocation expenses for subsidiaries	(140)	(378)	(1,242)
Other, net	15	22	133
Subtotal	(1,008)	(1,683)	(8,945)
Income before income taxes	13,103	14,474	116,285
Income taxes (note 9):			
Current	4,753	5,565	42,181
Deferred	2,195	1,129	19,479
Subtotal	6,949	6,695	61,670
Net Income	6,153	7,779	54,605
Net Income (Loss) attributable to:			
Non-controlling interests	157	(12)	1,393
Owners of the parent	¥ 5,996	¥ 7,791	\$ 53,212

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	(note 3) 2016
Net Income	¥ 6,153	¥ 7,779	\$ 54,605
Other comprehensive income arising during the year (note 17):			
Net unrealized holding loss on other securities	(13)	19	(115)
Foreign currency translation adjustments	(496)	337	(4,401)
Adjustments for retirement benefit	<u>(2,090)</u>	<u>1,532</u>	<u>(18,548)</u>
Total other comprehensive income arising during the year	<u>(2,600)</u>	<u>1,888</u>	<u>(23,074)</u>
Comprehensive income	¥ <u>3,553</u>	¥ <u>9,668</u>	\$ <u>31,531</u>
Comprehensive income attributable to:			
Owners of the parent	¥ 3,512	¥ 9,580	\$ 31,167
Non-controlling interests	40	87	354

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen						
	Numbers of shares of common stock	Shareholders' equity					Total
		Common stock	Capital surplus	Retained earnings	Treasury stock		
	(Thousands)						
Balance at April 1, 2014	49,773 ¥	13,122 ¥	16,650 ¥	61,474 ¥	(64) ¥	91,182	
Cumulative effects of changes in accounting policies				(1,250)		(1,250)	
Restated balance	49,773	13,122	16,650	60,223	(64)	89,932	
Changes arising during year:							
Cash dividends				(3,082)		(3,082)	
Net income				7,791		7,791	
Purchase of treasury stock					(202)	(202)	
Disposition of treasury stock			0		0	0	
Net changes in accounts other than shareholders' equity						—	
Total changes during the year	—	—	0	4,708	(202)	4,506	
Balance at March 31, 2015	49,773	13,122	16,650	64,932	(266)	94,438	
Changes arising during year:							
Cash dividends				(3,325)		(3,325)	
Net income				5,996		5,996	
Purchase of treasury stock					(3)	(3)	
Disposition of treasury stock				(5)		(5)	
Net changes in accounts other than shareholders' equity						—	
Total changes during the year	—	—	—	2,665	(3)	2,661	
Balance at March 31, 2016	49,773 ¥	13,122 ¥	16,650 ¥	67,597 ¥	(270) ¥	97,100	

	Millions of yen					
	Accumulated other comprehensive income				Non- controlling interests	Total net assets
	Net unrealized holding gain on other securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total		
	¥	¥	¥	¥	¥	
Balance at April 1, 2014	25	(233)	(3,459)	(3,668)	1,652	89,166
Cumulative effects of changes in accounting policies				—		(1,250)
Restated balance	25	(233)	(3,459)	(3,668)	1,652	87,916
Changes arising during year:						
Cash dividends				—		(3,082)
Net income				—		7,791
Purchase of treasury stock				—		(202)
Disposition of treasury stock				—		0
Net changes in accounts other than shareholders' equity	21	235	1,532	1,789	(38)	1,750
Total changes during the year	21	235	1,532	1,789	(38)	6,257
Balance at March 31, 2015	47	2	(1,927)	(1,878)	1,613	94,173
Changes arising during year:						
Cash dividends				—		(3,325)
Net income				—		5,996
Purchase of treasury stock				—		(3)
Disposition of treasury stock				—		(5)
Net changes in accounts other than shareholders' equity	(14)	(378)	(2,090)	(2,483)	46	(2,437)
Total changes during the year	(14)	(378)	(2,090)	(2,483)	46	224
Balance at March 31, 2016	¥ 32	¥ (376)	¥ (4,018)	¥ (4,362)	¥ 1,659	¥ 94,397

(Continued)

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2015	\$ 116,453	\$ 147,763	\$ 576,251	\$ (2,360)	\$ 838,107
Changes arising during year:					
Cash dividends			(29,508)		(29,508)
Net income			53,212		53,212
Purchase of treasury stock				(26)	(26)
Disposition of treasury stock			(44)		(44)
Net changes in accounts other than shareholders' equity					—
Total changes during the year	—	—	23,651	(26)	23,615
Balance at March 31, 2016	<u>\$ 116,453</u>	<u>\$ 147,763</u>	<u>\$ 599,902</u>	<u>\$ (2,396)</u>	<u>\$ 861,732</u>

	Thousands of U.S. Dollars (note 3)					
	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Net unrealized holding gain on other securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total		
Balance at April 1, 2015	\$ 417	\$ 17	\$ (17,101)	\$ (16,666)	\$ 14,314	\$ 835,756
Changes arising during year:						
Cash dividends				—		(29,508)
Net income				—		53,212
Purchase of treasury stock				—		(26)
Disposition of treasury stock				—		(44)
Net changes in accounts other than shareholders' equity	(124)	(3,354)	(18,548)	(22,035)	408	(21,627)
Total changes during the year	<u>(124)</u>	<u>(3,354)</u>	<u>(18,548)</u>	<u>(22,035)</u>	<u>408</u>	<u>1,987</u>
Balance at March 31, 2016	<u>\$ 283</u>	<u>\$ (3,336)</u>	<u>\$ (35,658)</u>	<u>\$ (38,711)</u>	<u>\$ 14,723</u>	<u>\$ 837,744</u>

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	(note 3) 2016
Cash flows from operating activities:			
Net income before income taxes	¥ 13,103	¥ 14,474	\$ 116,285
Depreciation and amortization	2,753	2,805	24,432
Amortization of goodwill	784	773	6,957
Increase (decrease) in allowance for doubtful receivables	(12)	(1,557)	(106)
(Increase) decrease in asset for retirement benefits	(370)	274	(3,283)
Increase (decrease) in liability for retirement benefits	593	978	5,262
Increase (decrease) in accrued bonuses to directors and corporate auditors	(25)	20	(221)
Increase (decrease) in accrued warranty on products	(90)	(93)	(798)
Increase (decrease) in accrued losses on sales contracts	236	(193)	2,094
Interest and dividend income	(74)	(80)	(656)
Interest expense	80	72	709
(Increase) decrease in notes and accounts receivable	8,316	(17,156)	73,801
(Increase) decrease in inventories	901	(1,978)	7,996
Increase (decrease) in notes and accounts payable	(9,287)	5,307	(82,419)
Other, net	(2,139)	4,518	(18,982)
Subtotal	14,769	8,164	131,070
Interest and dividend received	74	80	656
Interest paid	(80)	(73)	(709)
Income taxes paid	(5,328)	(5,711)	(47,284)
Net cash provided by (used in) operating activities	9,435	2,460	83,732

(Continued)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	(note 3) 2016
Cash flows from investing activities:			
Purchase of securities	—	(5,000)	—
Proceeds from redemption of securities	—	5,000	—
Purchase of property and equipment	(2,417)	(2,819)	(21,450)
Proceeds from sale of property and equipment	6	16	53
Purchase of intangibles	(631)	(786)	(5,599)
Purchase of investment securities	(11)	(8)	(97)
Loans receivable made	(4)	(6)	(35)
Collection of loans receivable	6	6	53
Payments for liquidation of subsidiaries	—	(109)	—
Proceeds from sales of investments in affiliates	151	—	1,340
Other, net	78	(222)	692
Net cash used in investing activities	(2,822)	(3,929)	(25,044)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	2,623	(213)	23,278
Proceeds from long-term debt	3,000	—	26,624
Repayments of long-term debt	(3,168)	(172)	(28,115)
Proceeds from sale and purchase of treasury stock, net	(3)	(202)	(26)
Dividends paid to shareholders	(3,326)	(3,077)	(29,517)
Dividends paid to minority shareholders of subsidiaries	(18)	(16)	(159)
Other, net	(509)	(445)	(4,517)
Net cash used in financing activities	(1,402)	(4,127)	(12,442)
Effect of exchange rate changes on cash and cash equivalents	(272)	114	(2,413)
Net increase (decrease) in cash and cash equivalents	4,938	(5,482)	43,823
Cash and cash equivalents at beginning of year	38,951	44,434	345,678
Cash and cash equivalents at end of year	¥ 43,889	¥ 38,951	\$ 389,501

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries

March 31, 2016 and 2015

1. BASIS OF PREPARATION

NEC Networks & System Integration Corporation (the “Company”) and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan. Its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Japanese Financial Instruments and Exchange Law and, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRSs.

As permitted by the Japanese Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The Company has 17 subsidiaries (companies over which the Company has the ability to control their operations) as of March 31, 2016 (19 subsidiaries as of March 31, 2015) (the “Group”).

NESIC Ascerent, Ltd., a consolidated subsidiary in prior years, ceased to be consolidated during the year through an absorption-type merger by NEC Networks & System Integration Services, Ltd. occurred on April 1, 2015.

Also, Toyo Networks & System Integration Co., Ltd., a consolidated subsidiary in prior years, ceased to be consolidated during the year through an absorption-type merger by NEC Magnus Communications, Ltd. occurred on April 1, 2015.

The accompanying consolidated financial statements include the accounts of the Company and the significant companies controlled directly or indirectly by the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements of the subsidiaries with year-end of December 31 have been used for consolidation. All material transactions that occurred in the periods from such year-end and March 31, which is the Company’s year-end, have been adjusted.

The difference between the carrying amount and the underlying net assets at fair value at the respective dates of acquisition is allocated to identifiable assets and liabilities based on fair market value at the dates of acquisition. The unallocated portion of the difference, which is recognized as goodwill, is amortized by the straight-line method over a period of up to 20 years in which the future benefit of each investment is expected.

The Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013 (hereinafter, “Statement No.21”), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013 (hereinafter, “Statement No.22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7, September 13, 2013 (hereinafter, “Statement No.7”)) (together, the “Business Combination Accounting Standards”), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests”. Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities”.

There is no impact on the accompanying consolidated financial statements and amounts per share resulting from the adoption of the above revised standards.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the foreign subsidiaries are translated into yen at the average exchange rates prevailing during the year, and, except for the components of shareholders’ equity, the balance sheet accounts are translated at the rates of exchange in effect at the balance sheet date. The components of shareholders’ equity are translated at their historical exchange rates. Translation adjustments, except for the portion included in non-controlling interests, are presented as a separate component of net assets in the accompanying consolidated financial statements.

(c) Cash equivalents

Cash and cash equivalents include all highly liquid investments – generally with original maturities of three months or less – that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

(d) Investment securities

Investment securities other than those in subsidiaries are classified into one of three categories: trading, held-to-maturity or other securities. Trading securities are measured at fair value, and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are measured at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Investment securities classified as other securities are reviewed for impairment. An impairment loss is recognized when the fair value of investment securities declines significantly. Cost of securities sold is determined by the moving-average method.

(e) Inventories

Work in process is stated at the lower of cost or net selling value determined on a specific project basis. Purchased goods and materials are stated at the lower of cost or net selling value determined primarily by the moving-average method.

(f) Depreciation and amortization

Depreciation of property and equipment is principally computed by the straight-line method.

Significant renewals and improvements are capitalized. Maintenance and repair costs are charged to income.

The useful lives of property and equipment are summarized as follows:

Buildings and structures	3 to 50 years
Machinery and vehicles	2 to 17 years
Furniture and fixtures	2 to 20 years

Intangibles are amortized by the straight-line method over their estimated useful lives.

Software for sale is amortized based on projected sales volumes over the estimated effective periods

(within 3 years). Software for internal use is amortized by the straight-line method over the estimated useful lives (within 5 years).

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(h) Accrued warranty on products

Accrued warranty on products is provided for at the estimated warranty cost.

(i) Accrued losses on sales contracts

Accrued losses on sales contracts are provided for at the amount of estimated losses for work in process at the balance sheet date. Among sales orders of the Company on hand at the balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order, such excess costs on sales contracts are accrued.

(j) Leases

Leased assets related to finance lease transactions without title transfer are depreciated by the straight-line method, with the lease term as their useful lives and no residual value.

(k) Research and development costs

Research and development costs are charged to income as incurred.

(l) Retirement benefits

Liability for retirement benefits is provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for the actuarial gain or loss and past service costs that are yet to be recognized. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of services of the eligible employees. Actuarial gain or loss is amortized in the subsequent year that it occurs by the straight-line method within the average remaining years (13 to 18 years) of service of the employees. Past service costs are amortized beginning from the year it is incurred by the straight-line method within the average remaining years (12 to 18 years) of service of the employees.

(m) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(n) Derivative financial instruments

Derivatives are recorded at their fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is directly included in net assets.

(o) Revenue recognition

The percentage-of-completion method is applied if the outcome of the construction activity can be estimated reliably, otherwise, the completed-contract method is applied. The percentage of completion as of the end of the reporting period is estimated based on the percentage of the cost incurred to the estimated total cost.

(p) Accrued bonuses to directors and corporate auditors

The Company and its domestic consolidated subsidiaries provide accrued bonuses to directors and corporate auditors (except for internal corporate auditors) based on the estimated amounts to be paid in respect of the year.

(q) Accounting for consumption taxes

Consumption taxes generally withheld upon sale, as well as those paid for purchases of goods or services, are recorded as a liability or an asset, and are excluded from relevant revenue, costs or expenses.

(r) Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2015 to conform to the presentation for the year ended March 31, 2016.

(s) New accounting pronouncements

“Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

(1) Overview

Following the framework in Auditing Committee Report No. 66 “Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets”, which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Scheduled application date

The Company plans to apply the above guidance from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥112.68 = U.S.\$1.00, the approximate rate of exchange on March 31, 2016. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. INVESTMENT SECURITIES

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2016 and 2015 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
March 31, 2016						
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 159	¥ 76	¥ 82	\$ 1,411	\$ 674	\$ 727
Subtotal	159	76	82	1,411	674	727
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	51	90	(38)	452	798	(337)
Subtotal	51	90	(38)	452	798	(337)
Total	¥ 211	¥ 167	¥ 43	\$ 1,872	\$ 1,482	\$ 381

	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
March 31, 2015			
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 209	¥ 120	¥ 88
Subtotal	209	120	88
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	25	41	(15)
Subtotal	25	41	(15)
Total	¥ 234	¥ 162	¥ 72

Sales of securities classified as other securities for the year ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Proceeds from sales	¥ 9	¥ 3	\$ 79
Gain on sales	5	0	44

Unlisted equity securities of ¥201 million (\$1,783 thousand) and ¥182 million at March 31, 2016 and 2015, respectively, are not included in the above table because there is no market value thereof and future cash flows cannot be estimated therefor, thus, making it extremely difficult to measure the fair value.

Impairment loss recognized on investment securities

During the fiscal year ended March 31, 2016, the Company recognized impairment losses of ¥6 million (\$53 thousand) and ¥4 million (\$35 thousand) on available-for-sale securities with and without market value, respectively. Securities with market value are fully impaired if their market value as at fiscal year end falls below 50% of their original cost. If the decline in their market value is between 30% and 50%, the recoverability of their market value is taken into account to determine the amount of losses. Securities without market value are impaired if the net asset per share falls below 50% of original cost due to deterioration of issuers' financial conditions.

5. INVESTMENT IN AN AFFILIATE

The aggregate carrying amount of investment in an affiliate as of March 31, 2015 was ¥133 million (\$1,180 thousand). There is no consolidated balance sheets amount as of March 31, 2016.

6. INVENTORIES

a) Inventories at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Work in process	¥ 6,311	¥ 7,314	\$ 56,008
Purchased goods and materials	2,878	2,820	25,541
Total	¥ 9,190	¥ 10,134	\$ 81,558

b) Losses from revaluation of the lower of cost or net selling value for the years ended March 31, 2016 and 2015 were ¥529 million (\$4,694 thousand) and ¥-146 million, respectively.

c) Losses on sales contracts for the years ended March 31, 2016 and 2015 were ¥393 million (\$3,487 thousand) and ¥132 million, respectively.

d) Accrued losses on sales contracts and work in process corresponding to the loss contract are not offset in the accompanying consolidated balance sheets.

Work in process inventories corresponding to accrued losses on sales contracts at March 31, 2016 and 2015 are as follows

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Work in process	¥ 33	¥ 44	\$ 292

7. GOODWILL

Goodwill at March 31, 2016 and 2015 are recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Intangibles, net of accumulated amortization	¥ 1,944	¥ 2,728	\$ 17,252

According to Article 32 of the "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (Accounting Practice Committee Statement No. 7 amended on November 28, 2014 by the Japan Institute of Certified Public Accountants), goodwill is amortized and the amortization of goodwill for the years ended March 31, 2016 and 2015 was ¥464 million (\$4,117 thousand) and ¥413 million, respectively recognized in the Other income (expense).

Also, some goodwill was lump-sum amortized.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans and long-term debt are unsecured.

The weighted average interest rates of current installments of long-term debt for both the years ended March 31, 2016 and 2015 were approximately 0.8% and those of long-term debt for the years ended March 31, 2016 and 2015 were approximately 0.5% and 0.7%, respectively.

The annual maturities of long-term debt at March 31, 2016 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2017	¥ 163	\$ 1,446
2018	171	1,517
2019	3,171	28,141
2020	171	1,517
2021	171	1,517

As of March 31, 2016, the Group executed a ¥10,000 million (\$88,746 thousand) committed borrowing facility with three domestic banks, and there is no outstanding borrowings having been occurred during the year.

9. INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 33.1% and 35.6% for 2016 and 2015, respectively. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The "Act for Partial Amendment of the Income Tax Act, etc."(Act No.9 of 2015) and "Act for Partial Amendment of the Council Tax Act, etc."(Act No.2 of 2015) were enacted in the Diet session on March 29, 2016 and on March 31, 2016 respectively. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2017, from April 1, 2017 to March 31, 2018 and on or after April 1, 2018 were changed from 33.10% to 30.86% , from 32.34% to 30.86% , and from 32.34% to 30.62%, respectively.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥652 million (\$5,786 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥533 million (\$4,730 thousand), and accumulated adjustments for retirement benefits decreased by ¥117 million (\$1,038 thousand).

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2016 and 2015 differed from the statutory tax rate for the following reasons:

	2016	2015
Statutory tax rate	33.1%	35.6%
Effect of:		
Expenses not deductible for tax purposes	0.9	1.0
Inhabitant tax per capita levy	0.9	0.9
Tax credit	(2.5)	(3.5)
Increase in valuation allowance	14.5	1.9
Adjustments of deferred tax assets due to change in statutory tax rate	4.1	7.6
Amortization of goodwill	1.6	1.5
Other, net	0.4	1.3
Effective tax rate	<u>53.0%</u>	<u>46.3%</u>

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,036	¥ 2,477	\$ 18,068
Social security contribution on employees' bonuses	281	329	2,493
Allowance for doubtful receivables	24	32	212
Accrued enterprise tax	298	360	2,644
Loss on revaluation of inventories	1,534	1,534	13,613
Unrealized profit on inventories	19	38	168
Accrued losses on sales contracts	123	53	1,091
Depreciation	177	338	1,570
Software	14	20	124
Asset retirement obligations	215	284	1,908
Liability for retirement benefits	9,194	8,675	81,593
Stock dividends	106	112	940
Impairment loss on investment securities	59	63	523
Asset adjustment account	202	321	1,792
Tax loss carry-forwards	1,626	957	14,430
Other	331	175	2,937
Subtotal	16,247	15,775	144,187
Valuation allowance	(2,968)	(1,351)	(26,340)
Total	13,278	14,424	117,838
Deferred tax liabilities:			
Asset for retirement benefits	(161)	(305)	(1,428)
Restoration cost for asset retirement obligations	(159)	(163)	(1,411)
Goodwill	(353)	(426)	(3,132)
Liability adjustment account	(156)	(172)	(1,384)
Other	(45)	(58)	(399)
Total	(876)	(1,126)	(7,774)
Net deferred tax assets	¥ 12,402	¥ 13,298	\$ 110,063

Net deferred tax assets and liabilities as of March 31, 2016 and 2015 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets - Deferred tax assets	¥ 4,246	¥ 4,778	\$ 37,681
Investments and other assets - Deferred tax assets	8,250	8,578	73,216
Long-term liabilities – Other liabilities	(94)	(59)	(834)

10. RETIREMENT BENEFIT PLANS

The Company and its consolidated subsidiaries have funded or unfunded defined benefit plans and defined contribution plans.

Lump-sum or annuity payments are paid from the corporate defined benefit pension plans, all of which are funded based on the employees' job grade and length of service.

Lump-sum payments are paid from unfunded lump-sum payment plans based on the employees' job grade, performance and length of service.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit asset and liability and retirement benefit costs that for lump-sum payment plans, the payment for voluntary

retirement at fiscal year-end is deemed as retirement benefit obligation, and for annuity payment plans, the actuarial obligation on pension finance calculation in the recent years is deemed as the retirement benefit obligation.

The Company recorded the retirement benefit expense arising from the difference between the lump sum contribution due to the transfer of personnel and curtailment of its pension plan in association with NEC Magnus Communications, Ltd.'s reorganization and retirement benefit obligations, among others, as an item of extraordinary loss.

The information for the Company's and the consolidated subsidiaries' defined benefit plans at March 31, 2016 and 2015 for the years then ended is as follows.

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligation at beginning of year	¥ 52,864	¥ 48,899	\$ 469,151
Cumulative effects of changes in accounting policies	—	1,943	—
Retirement benefit obligation with restatement at beginning of year	52,864	50,842	469,151
Service cost	2,394	2,318	21,246
Interest cost	684	698	6,070
Actuarial gain and loss	4,336	(213)	38,480
Past service cost	(1,076)	—	(9,549)
Benefits paid	(1,892)	(1,815)	(16,790)
Changes resulting from business combination	—	550	—
Changes arising from the changes in accounting policy from the simplified method to the standard method	154	467	1,366
Changes arising from employment transfer	154	—	1,366
Changes arising from partial settlement of retirement benefit plans	(1,255)	—	(11,137)
Other	(0)	15	(0)
Retirement benefit obligation at end of year	¥ 56,364	¥ 52,864	\$ 500,212

Note: The above table excludes certain plans that have adopted the simplified method.

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Plan assets at beginning of year	¥ 28,823	¥ 25,591	\$ 255,795
Expected return on plan assets	696	628	6,176
Actuarial gain and loss	(860)	1,426	(7,632)
Contributions paid by the employer	1,719	1,713	15,255
Benefits paid	(930)	(1,044)	(8,253)
Changes resulting from partial settlement of the plan	(877)	—	(7,783)
Changes resulting from business combination	—	500	—
Other	(13)	7	(115)
Plan assets at end of year	¥ 28,558	¥ 28,823	\$ 253,443

Note: The above table excludes certain plans that have adopted the simplified method.

(3) Reconciliation of changes in liability for retirement benefits whose plans adopted the simplified method

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Liability for retirement benefits at beginning of year	¥ 798	¥ 844	\$ 7,082
Retirement benefit costs	(3)	119	(26)
Benefits paid	(52)	(52)	(461)
Changes arising from the changes in accounting policy from the simplified method to the standard method	(90)	—	(798)
Changes resulting from business combination	—	(50)	—
Other	(11)	(63)	(97)
Liability for retirement benefits at end of year	¥ 639	¥ 798	\$ 5,670

(4) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligation	¥ 31,099	¥ 28,992	\$ 275,993
Plan assets	(28,967)	(29,215)	(257,073)
	2,131	(223)	18,911
Unfunded retirement benefit obligation	26,314	25,062	233,528
Net liability for retirement benefits	¥ 28,446	¥ 24,839	\$ 252,449
Liability for retirement benefits	¥ 28,960	¥ 25,832	\$ 257,011
Asset for retirement benefits	(514)	(992)	(4,561)
Net liability for retirement benefits	¥ 28,446	¥ 24,839	\$ 252,449

Note: The above table includes certain plans that have adopted the simplified method.

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 2,394	¥ 2,318	\$ 21,246
Interest cost	684	698	6,070
Expected return on plan assets	(696)	(628)	(6,176)
Net actuarial loss amortization	1,059	1,359	9,398
Past service costs amortization	(529)	(477)	(4,694)
Retirement benefit costs calculated by the simplified method	(3)	119	(26)
Loss on partial settlement of the plan	196	—	1,739
Amortization expenses arising from transfer to the Company from subsidiaries	134	—	1,189
Other	131	479	1,162
Retirement benefit costs	¥ 3,371	¥ 3,869	\$ 29,916

(6) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Past service costs	¥ 598	¥ (477)	\$ 5,307
Actuarial gains and losses	(3,983)	2,998	(35,347)
Total	¥ (3,384)	¥ 2,521	\$ (30,031)

(7) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Past service costs that are yet to be recognized	¥ (3,373)	¥ (2,774)	\$ (29,934)
Actuarial gains and losses that are yet to be recognized	9,614	5,631	85,321
Total	¥ 6,240	¥ 2,856	\$ 55,378

(8) Plan assets

(a) The components of plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Debt securities	¥ 14,705	¥ 15,120	\$ 130,502
Equity securities	3,762	5,194	33,386
General account	3,280	3,025	29,108
Alternative	4,164	4,203	36,954
Other	2,644	1,279	23,464
Total	¥ 28,558	¥ 28,823	\$ 253,443

Note: Total plan assets include ¥578 million (\$5,129 thousand) and ¥579 million in a retirement benefit trust established for the corporate pension plan as of March 31, 2016 and 2015, respectively.

From the fiscal year ended March 31, 2016, "Alternative", which had been included in "Other", has been listed separately due to its increased materiality. It has been reclassified in the above for the fiscal year ended March 31, 2015 to reflect this change in the presentation method. As a result, the amounts of ¥5,483 million of "Other" has been reclassified as ¥4,203 million of "Alternative" and ¥1,279 million of "Other".

Alternative is mainly investment to hedge fund.

(b) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2016 and 2015 (expressed as weighted averages) are as follows:

	2016	2015
Discount rate	0.9%	1.4%
Long-term expected rate of return	2.5%	2.5%
Expected increase rate of salary	5.8%	5.9%

The amounts to be paid by the Company and its consolidated subsidiaries to the defined contribution plans were ¥457 million (\$4,055 thousand) and ¥439 million for the years ended March 31, 2016 and 2015.

11. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations are based on estimated future restoration obligations related to leasehold contracts of head office and other facilities.

The obligations are calculated based on the estimated office rental period of mainly 20 years and a discounted rate of 1.7%.

The following table provides Company's total asset retirement obligations for the years ended March 31, 2016 and 2015:

	Millions of yen		Thousands of
	2016	2015	U.S. dollars
Balance, beginning of year	¥ 871	¥ 774	\$ 7,729
Obligations incurred by asset acquisition	64	189	567
Obligations settled	(193)	(99)	(1,712)
Accretion expense	14	42	124
Remeasurements	(0)	(35)	(0)
Balance, end of year	¥ 756	¥ 871	\$ 6,709

12. SHAREHOLDERS' EQUITY

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal earnings reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal earnings reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal earnings reserve are available for appropriations by the resolution of the shareholders. The legal earnings reserve amounted to ¥546 million (\$4,845 thousand) as of both March 31, 2016 and 2015. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Cash dividends charged to retained earnings for the years ended March 31, 2016 and 2015 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

The movement of treasury stock is as follows:

	Shares	
	2016	2015
At beginning of year	133,413	51,535
Increase - acquisition of treasury stock arising from the exercise of appraisal rights of dissenting shareholders in an absorption-type merger	—	80,000
Increase - purchase of odd lot shares	1,412	1,973
Decrease - sale of odd lot shares	—	95
At end of year	134,825	133,413

a) Dividends paid during the year ended March 31, 2015

The following was approved by the Board of Directors on April 28, 2014.

- | | |
|-------------------------------------|----------------|
| (a) Total dividends | ¥1,491 million |
| (b) Cash dividends per common share | ¥30 |
| (c) Record date | March 31, 2014 |
| (d) Effective date | June 3, 2014 |

The following was approved by the Board of Directors on October 30, 2014.

(a) Total dividends	¥1,591 million
(b) Cash dividends per common share	¥32
(c) Record date	September 30, 2014
(d) Effective date	December 2, 2014

b) Dividends paid during the year ended March 31, 2016

The following was approved by the Board of Directors on April 28, 2015.

(a) Total dividends	¥1,588 million (\$14,093 thousand)
(b) Cash dividends per common share	¥32 (\$0.28)
(c) Record date	March 31, 2015
(d) Effective date	June 2, 2015

The following was approved by the Board of Directors on October 29, 2015.

(a) Total dividends	¥1,737 million (\$15,415 thousand)
(b) Cash dividends per common share	¥35 (\$0.31)
(c) Record date	September 30, 2015
(d) Effective date	December 2, 2015

c) Dividends to be paid after March 31, 2016 although record date for payment falls within the year ended March 31, 2016

The following was approved by the Board of Directors on April 28, 2016.

(a) Total dividends	¥1,737 million (\$15,415 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥35 (\$0.31)
(d) Record date	March 31, 2016
(e) Effective date	May 31, 2016

13. CONTINGENT LIABILITIES

At March 31, 2016, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥18 million (\$159 thousand).

14. LEASES

Operating leases

Future minimum operating lease payments subsequent to March 31, 2016 and 2015 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of
	2016	2015	U.S. dollars
Due within one year	¥ 2,523	¥ 883	\$ 22,390
Due over one year	7,674	1,783	68,104
Total	¥ 10,198	¥ 2,667	\$ 90,504

15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Employees salary	¥ 14,814	¥ 14,998	\$ 131,469
Provision for bonuses to directors and corporate auditors	31	114	275
Retirement benefit costs	865	1,164	7,676
Provision of allowance for doubtful accounts	6	2	53

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥192 million (\$1,703 thousand) and ¥428 million for the years ended March 31, 2016 and 2015, respectively.

17. OTHER COMPREHENSIVE INCOME

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized holding gain on other securities:			
Unrealized holding gain arising during the year	¥ (22)	¥ 31	\$ (195)
Reclassification adjustment for gain/loss realized in net income	–	(0)	–
Before tax amount	(22)	31	(195)
Tax	9	(11)	79
Net-of-tax amount	(13)	19	(115)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	(494)	342	(4,384)
Reclassification adjustment for gain/loss realized in net income	–	–	–
Before tax amount	(494)	342	(4,384)
Tax	(2)	(4)	(17)
Net-of-tax amount	(496)	337	(4,401)
Adjustments for retirement benefit:			
Adjustments for retirement benefit arising during the year	(4,120)	1,639	(36,563)
Reclassification adjustment for gain/loss realized in net income	735	882	6,522
Before tax amount	(3,384)	2,521	(30,031)
Tax	1,294	(989)	11,483
Net-of-tax amount	(2,090)	1,532	(18,548)
Total other comprehensive income	¥ (2,600)	¥ 1,888	\$ (23,074)

18. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2016	2015	2016
Net income per share	¥ 120.80	¥ 156.72	\$ 1.07
Net assets per share	1,868.25	1,864.61	16.58

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. There is no equity instrument issued that has dilutive effect on earnings per share.

Amounts per share of net assets are computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at year-end.

19. FINANCIAL INSTRUMENTS

Conditions of Financial instruments

(1) Management policy

The Group makes short-term deposits or uses high-security financial instruments for fund management purposes. The Group obtains funding for capital expenditure plans mainly through bank loans.

The Group utilizes derivative financial instruments to hedge various risks as described in detail below and does not enter into derivatives for trading or speculative purposes.

(2) Financial instruments and risks

The notes and accounts receivable are exposed to credit risk of customers. Operating receivables and payables denominated in foreign currencies are exposed to foreign currency fluctuation risk.

Marketable and investment securities, except for short-term investments, are held for business and capital alliances with business associates, and are exposed to stock market fluctuation risk.

Maturities of notes and accounts payable are within one year.

Debts are for funding capital expenditure, and their maximum maturities are 7 years and 8 years after the balance sheet date for the years ended March 31, 2016 and 2015, respectively. All of the obligations have fixed interest rates and are not exposed to interest rate risk.

In order to hedge the foreign exchange rates fluctuation risk associated with operating receivables and payables denominated in foreign currencies, forward foreign exchange contracts are used.

Hedge accounting is applied for certain derivative transactions. Please refer to note 2 (n).

(3) Financial instruments risk management

1) Credit risk

To mitigate and quickly capture collectability issues, the Group regularly monitors customers' credit status, and performs due date controls and balance controls for each customer.

When the Group utilizes derivatives or deposits money and purchases securities for cash management purposes, to mitigate the counterparty risk, the counterparties to these transactions are financial institutions with high credit ratings.

2) Market risk

The Group comprehends foreign currency fluctuation risk by currency and by month, and to mitigate the risk, the Group enters into a forward exchange contract for hedging the cash flow fluctuation risk associated with operating receivables and payables denominated in foreign currencies.

To mitigate the stock market fluctuation risk, the Group regularly monitors stock prices and financial status of its business associates and continuously considers whether the Group should hold the stock.

Derivative transactions entered into by the Group are in accordance with policies and rules that provide for risk management, approvals, reporting and verifications.

3) Liquidity risk

To mitigate the liquidity risk, the Group prepares and updates its funds management plan on a timely basis, and maintains an appropriate level of liquidity through its cash and cash equivalents and unused committed lines.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which quoted market price is not available is calculated based on certain assumptions, and the fair value may differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note 20 (DERIVATIVES) does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At both March 31, 2016 and 2015, 38% and 34% of operating receivables were receivables from a certain major customer.

Fair value of financial instruments

The carrying amount on the consolidated balance sheets, fair value and differences as of March 31, 2016 and 2015 are as follows.

Financial instruments, of which the fair value is extremely difficult to measure, are not included. (Please see (2) "Financial instruments of which the fair value is extremely difficult to measure")

March 31, 2016	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 43,889	¥ 43,889	¥ —	\$ 389,501	\$ 389,501	\$ —
(2) Notes and accounts receivable	104,841	104,841	—	930,431	930,431	—
(3) Investments securities:						
Other securities	211	211	—	1,872	1,872	—
Total	¥ 148,942	¥ 148,942	¥ —	\$ 1,321,813	\$ 1,321,813	\$ —
Liabilities:						
(1) Notes and accounts payable	¥ 39,190	¥ 39,190	¥ —	\$ 347,799	\$ 347,799	\$ —
(2) Short-term bank loans	4,154	4,154	—	36,865	36,865	—
(3) Current installments of long-term debt	163	163	—	1,446	1,446	—
(4) Long-term debt	4,185	4,184	(0)	37,140	37,131	(0)
Total	¥ 47,694	¥ 47,693	¥ (0)	\$ 423,269	\$ 423,260	\$ (0)
Derivative transactions	¥ (0)	¥ (0)	¥ —	\$ (0)	\$ (0)	\$ —
March 31, 2015						
	Millions of yen					
	Carrying amount	Fair value	Differences			
Assets:						
(1) Cash and cash equivalents	¥ 38,951	¥ 38,951	¥ —			
(2) Notes and accounts receivable	113,921	113,921	—			
(3) Investments securities:						
Other securities	234	234	—			
Total	¥ 153,107	¥ 153,107	¥ —			
Liabilities:						
(1) Notes and accounts payable	¥ 48,662	¥ 48,662	¥ —			
(2) Short-term bank loans	1,633	1,633	—			
(3) Current installments of long-term debt	3,168	3,168	—			
(4) Long-term debt	1,349	1,349	—			
Total	¥ 54,813	¥ 54,813	¥ —			
Derivative transactions	¥ (147)	¥ (147)	¥ —			

* Derivative receivables and liabilities are on a net basis.

(1) Fair value measurement of financial instruments

Assets:

1) Cash and cash equivalents

The carrying amount approximates fair value because of the short maturity of these instruments.

2) Notes and accounts receivable

The carrying amount approximates fair value because of the short maturity of these instruments.

3) Investment securities

The fair value of equity securities is calculated by the quoted market price. Please see note 4 (INVESTMENT SECURITIES) for information by category.

Liabilities:

1) Notes and accounts payable

The carrying amount approximates fair value because of the short maturity of these instruments.

2) Short-term bank loans

The carrying amount approximates fair value because of the short maturity of these instruments.

3) Current installments of long-term debt

The carrying amount approximates fair value because of the short maturity of these instruments.

4) Long-term debt

Fair value of long-term debts is based on the present value of future cash flows discounted using the current borrowing rate for similar debt with comparable maturity.

Derivative transactions:

Please see note 20 (DERIVATIVES).

(2) Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen		Thousands of
	2016	2015	U.S. dollars
Unlisted equity securities	¥ 201	¥ 182	\$ 1,783
Investment in an affiliate	—	133	—

The above securities are not included in Note 4 "Investment securities - equity securities", as market prices are not available and also future cash flows cannot be estimated reliably. Thus the fair value cannot be reasonably obtained. During the fiscal year ended March 31, 2016, the Company recorded impairment loss of ¥4 million (\$35 thousand) on those unlisted securities.

(3) Projected future redemption of monetary claims and securities with maturities at March 31, 2016

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 43,889	¥ —	¥ —	¥ —
Notes and accounts receivable	104,841	—	—	—
	¥ 148,731	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	\$ 389,501	\$ —	\$ —	\$ —
Notes and accounts receivable	930,431	—	—	—
	<u>\$ 1,319,941</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(4) The annual maturities of long-term debt and other interest-bearing debt at March 31, 2016

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	¥ 4,154	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	163	171	3,171	171	171	500

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term bank loans	\$ 36,865	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt	1,446	1,517	28,141	1,517	1,517	4,437

20. DERIVATIVES

The Company enters into forward exchange contracts with major Japanese banks in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.

At March 31, 2016 and 2015, the disclosure of fair value information for derivatives which are not accounted for as hedges is as follows:

March 31, 2016	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Valuation gain	Contract amount	Fair value	Valuation gain
Forward exchange contracts:						
To buy foreign currency:						
U.S. dollars	¥ 61	¥ (0)	¥ (0)	\$ 541	\$ (0)	\$ (0)
Euro	11	(0)	(0)	97	(0)	(0)
Great Britain Pound	9	0	0	79	0	0
Total	<u>¥ 82</u>	<u>¥ (0)</u>	<u>¥ (0)</u>	<u>\$ 727</u>	<u>\$ (0)</u>	<u>\$ (0)</u>

March 31, 2015	Millions of yen		
	Contract amount	Fair value	Valuation gain
Forward exchange contracts:			
To sell foreign currency:			
Thai baht	¥ 729	¥ (143)	¥ (143)
To buy foreign currency:			
U.S. dollars	72	0	0
Euro	48	(4)	(4)
Total	<u>¥ 850</u>	<u>¥ (147)</u>	<u>¥ (147)</u>

The fair value of forward exchange contracts is computed based on quotes from counterparties.

21. RELATED PARTY TRANSACTIONS

(1) The Company's balances with related parties and related transactions

NEC Corporation owned 51.49% of the Company's outstanding common stock as of both March 31, 2016 and 2015, respectively.

Balances with NEC Corporation at March 31, 2016 and 2015, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 79,787	¥ 82,202	\$ 708,084
Balances:			
Accounts receivable	¥ 38,933	¥ 36,220	\$ 345,518
Advances received	385	469	3,416
Purchases of communication device:			
Transactions:			
Purchases	¥ 44,707	¥ 44,684	\$ 396,760
Balances:			
Accounts payable	¥ 12,080	¥ 14,588	\$ 107,206

NEC Facilities, Ltd. is a subsidiary of NEC Corporation at March 31, 2016 and 2015. Balances with NEC Facilities, Ltd. at March 31, 2016 and 2015, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Rental of a buildings:			
Transactions:			
Lease deposit payments	¥ 27	¥ 79	\$ 239
Lease deposit repayments	120	72	1,064
Balances:			
Lease deposits	¥ 1,536	¥ 1,630	\$ 13,631

22. SEGMENT INFORMATION

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine the distribution of management resources and evaluate their business results.

The “Enterprises networks business,” “Carrier networks business” and “Social infrastructures business” are the Company’s reportable segments. The Company combines business segments which have similar economic characteristics into these reportable segments. The business segments are based on the operation headquarters by service lines, which are the units used for internal reporting for performance management.

The Enterprises networks business mainly renders service integration relating to ICT solution for enterprises. The segment renders total office solution services based on ICT with securities or environmental solutions and related operating/monitoring services, as well as outsourcing services using our own data centers and contact centers.

The Carrier networks business mainly renders service integration 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, and systems integration of large-scale, wide-area, carrier-grade ICT platforms and data centers and the related operations/ monitoring services.

The Social infrastructures business mainly renders 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.

Segment sales, income, assets and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements.

The Group has reviewed its operational structure, aiming to make the management of the entire Group more efficient by restructuring domestic subsidiaries, such as an absorption-type merger of Toyo Networks & System Integration Co., Ltd. by NEC Magnus Communications, Ltd. With this restructuring, the Group has changed the contents of business segments, including the transfer of Toyo Networks & System Integration Co., Ltd., from the Others segment to the Carrier networks segment, in which NEC Magnus Communication, Ltd. is included.

Segment information for the previous fiscal year has been changed to reflect the changes in the content of business segments.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2016 and 2015 is summarized as follows:

March 31, 2016	Millions of yen					
	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 109,584	¥ 69,306	¥ 96,260	¥ 4,810	—	¥ 279,961
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 109,584	¥ 69,306	¥ 96,260	¥ 4,810	—	¥ 279,961
Segment income	¥ 8,900	¥ 3,503	¥ 9,490	¥ 376	¥ (8,159)	¥ 14,111
Segment assets	¥ 40,062	¥ 29,062	¥ 61,378	¥ 1,973	¥ 64,091	¥ 196,569
Others:						
Depreciation and amortization	¥ 1,429	¥ 297	¥ 150	—	¥ 875	¥ 2,753
Purchases of property and equipment, and intangible assets	2,404	656	195	—	344	3,602

Thousands of U.S. dollars

March 31, 2016	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	\$ 972,523	\$ 615,069	\$ 854,277	\$ 42,687	\$ —	\$ 2,484,566
(2) Intersegment sales	—	—	—	—	—	—
Total	\$ 972,523	\$ 615,069	\$ 854,277	\$ 42,687	\$ —	\$ 2,484,566
Segment income	\$ 78,984	\$ 31,088	\$ 84,220	\$ 3,336	\$ (72,408)	\$ 125,230
Segment assets	\$ 355,537	\$ 257,916	\$ 544,710	\$ 17,509	\$ 568,787	\$ 1,744,488
Others:						
Depreciation and amortization	\$ 12,681	\$ 2,635	\$ 1,331	\$ —	\$ 7,765	\$ 24,432
Purchases of property and equipment, and intangible assets	21,334	5,821	1,730	—	3,052	31,966

Millions of yen

March 31, 2015	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 102,797	¥ 86,164	¥ 96,767	¥ 6,434	¥ —	¥ 292,164
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 102,797	¥ 86,164	¥ 96,767	¥ 6,434	¥ —	¥ 292,164
Segment income	¥ 7,464	¥ 6,920	¥ 9,548	¥ 93	¥ (7,868)	¥ 16,158
Segment assets	¥ 39,824	¥ 39,051	¥ 62,115	¥ 1,242	¥ 59,731	¥ 201,964
Others:						
Depreciation and amortization	¥ 1,186	¥ 371	¥ 173	¥ —	¥ 1,073	¥ 2,805
Purchases of property and equipment, and intangible assets	2,358	322	152	—	643	3,476
Investments in an affiliate accounted for by the equity method	133	—	—	—	—	133

- Notes:
- "Others" includes purchases of information and telecommunications equipment, etc., which are not included in the reported segments.
 - "Adjustments" of ¥-8,159 million (\$-72,408 thousand) and ¥-7,868 million in segment income for the years ended March 31, 2016 and 2015, respectively, are mainly administrative operation expenses.
 - "Adjustments" of ¥64,091 million (\$568,787 thousand) and ¥59,731 million in segment assets at March 31, 2016 and 2015, respectively, mainly consist of surplus funds (cash and deposits), land, long-term deposits and assets relating to the administrative operations of the parent company.
 - Segment income is adjusted with operating income in the consolidated statements of income.
 - "Depreciation and amortization" and "purchases of property and equipment, and intangible assets" include long-term prepaid expenses and their amortization.

Related information

Related segment information for the years ended March 31, 2016 and 2015 are as follows:

(1) Information by products and services

Please refer to the reported segment information.

(2) Geographical information

1) Sales

Disclosures are omitted because sales to Japanese customers are over 90% of sales in the consolidated statements of income.

2) Property and equipment

Disclosures are omitted because property and equipment located in Japan are over 90% of property and equipment in the consolidated balance sheets.

(3) Information by major customers

Customer name:	Millions of yen		Thousands of
	2016	2015	U.S. dollars
NEC Corporation			2016
Sales	¥ 87,726	¥ 96,416	\$ 778,541

The above sales are related to the “Enterprise networks” segment, “Carrier networks” segment and “Social infrastructures” segment.

Information of impairment loss on fixed assets by reported segments for the years ended March 31, 2016 and 2015

There are no material amounts to report.

Information of amortization of goodwill and balances of goodwill by reported segments as of and for the years ended March 31, 2016 and 2015

March 31, 2016	Millions of yen					
	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 559	¥ 224	¥ —	¥ —	¥ —	¥ 784
Balances of goodwill	251	1,692	—	—	—	1,944

Note: This figure includes “Amortization of goodwill” recognized as other income (expense).

March 31, 2016	Thousands of U.S. dollars					
	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	\$ 4,960	\$ 1,987	\$ —	\$ —	\$ —	\$ 6,957
Balances of goodwill	2,227	15,015	—	—	—	17,252

March 31, 2015	Millions of yen					
	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 548	¥ 224	¥ —	¥ —	¥ —	¥ 773
Balances of goodwill	811	1,917	—	—	—	2,728

Note: This figure includes “Amortization of goodwill” recognized as other income (expense).

Negative goodwill incurred by reported segments for the years ended March 31, 2016 and 2015

There are no amounts to report.



Independent Auditor's Report

To the Board of Directors of NEC Networks & System Integration Corporation:

We have audited the accompanying consolidated financial statements of NEC Networks & System Integration Corporation, and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NEC Networks & System Integration Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA LLC

June 21, 2016
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Name NEC Networks & System Integration Corporation
Head Office Iidabashi First Tower,
 2-6-1 Koraku, Bunkyo-ku, Tokyo
 112-8560, Japan
 URL: <http://www.nesic.co.jp/english/>
Established December 1, 1953
Registered as a Stock Company November 26, 1953
Representative Masao Wada, President
Capital ¥13,122,000,000
Number of Employees 7,464 (Consolidated)
 5,109 (Non-consolidated)
Fiscal Year April 1 - March 31
Regular General Shareholders Meeting Annual meeting held in June
Listing Tokyo Stock Exchange, First Section
 Ticker Code: 1973
Independent Auditors KPMG AZSA & Co.
Transfer Agent Sumitomo Mitsui Trust Bank, Limited
 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
 100-8233, Japan

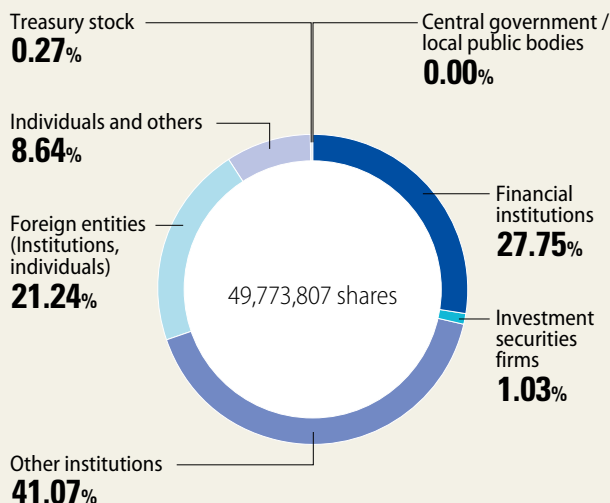
Principal Consolidated Subsidiaries

Japan
 NEC Magnus Communications., Ltd.
 Nichiwa Co.
 NEC Net Innovation, Ltd.
 Q&A Corporation
 NEC Networks & System Integration Services, Ltd.

Overseas
 NESIC BRASIL S/A
 NESIC (Thailand) Ltd.
 NESIC PHILIPPINES, INC.
 NESIC (GUANGZHOU) CO., LTD.
 Networks & System Integration Saudi Arabia Co. Ltd.

Number of Shareholders 8,753
Common Stock Authorized 100,000,000 shares
Issued 49,773,807 shares
Trading Unit 100 shares

Breakdown of Shareholders by Type



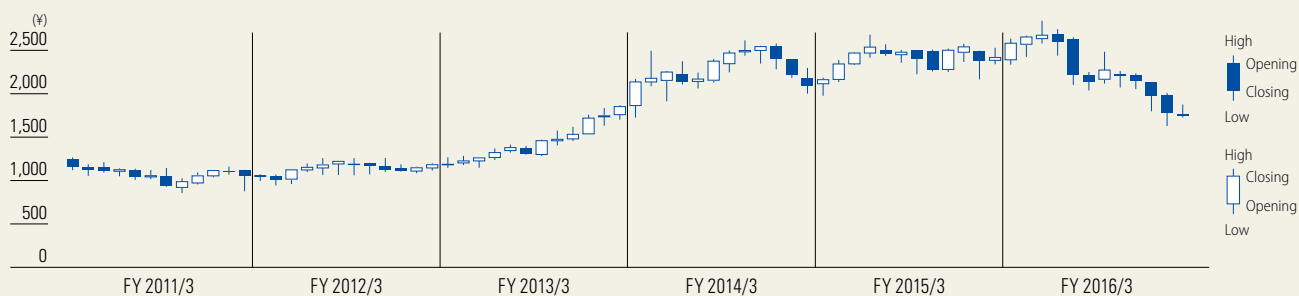
Principal Shareholders (Top 10)

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding (%) ²
NEC Corporation	19,106	38.49
Japan Trustee Services Bank, Ltd. ¹ (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.89
The Master Trust Bank of Japan, Ltd. (Trust account)	1,877	3.78
Japan Trustee Services Bank, Ltd. (Trust account)	1,456	2.93
Japan Trustee Services Bank, Ltd. (Trust account ⁹)	1,436	2.89
Sumitomo Realty & Development Co., Ltd.	1,200	2.42
J.P. MORGAN BANK LUXEMBOURG S.A. 380578	1,057	2.13
Employees' Stock Ownership Plan	664	1.34
GOLDMAN SACHS INTERNATIONAL	574	1.16
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	525	1.06

Notes

¹ Shares held by Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2016 was 51.49%.
² The percentage of total shares outstanding is calculated based on the number of shares excluding treasury stock (134,925 shares).

Monthly Stock Price Range ■ Opening Price > Closing Price □ Closing Price > Opening Price



NEC Networks & System Integration Corporation

2-6-1, Koraku, Bunkyo-ku, Tokyo
112-8560, Japan
Telephone: +81-3-6699-7000
Website: <http://www.nesic.co.jp/english/>