Annual Report 2017

NEC Networks & System Integration Corporation

NEC Networks & System Integration Corporation Group Statement

To achieve sustainable growth and to create and provide social value,
the NEC Networks & System Integration Corporation Group has established this statement through internal discussion about the values that it has developed, its DNA, and its vision of what the Group should be.

The NEC Networks & System Integration Corporation Group enables communities throughout the world to enjoy a safe, secure and plentiful tomorrow by continually facilitating more welcoming and convenient communications, and supporting a connected society, from the floor of the ocean to the far reaches of outer space, with proven technologies and reliable services cultivated over many years.

(Established on January 4, 2017)

The NEC Networks & System Integration Corporation Group aims to contribute to creating an enriched society with more user-friendly and convenient communications.

The Company was founded in 1953 as a telecommunications construction company. Since then, we have built, maintained, and operated fixed-line and mobile communications and a wide range of communications infrastructures, including submarine cables and satellite communication systems, both in Japan and internationally. We now offer a variety of systems and services utilizing ICT.

Throughout the many years since its foundation, the Group has always valued its relationship of trust with customers. Going forward, we will continue to enhance the Group's strengths, its proven technology and its ability to provide services that meet customers' needs and solve customers' problems in order to provide value that meets or exceeds customers' expectations, thereby building valuable relationships of trust.

We aim to help create a connected society where people around the world can communicate a range of information and ideas freely so that they can enjoy safe, secure, full lives, and to contribute to the development of more user-friendly and convenient communications. We aspire to continue being a company that will be trusted by society and customers in all eras.

These aspirations and this resolution are reflected in the Group Statement.

Corporate Message

This is a message to the public based on the NEC Networks & System Integration Corporation Group Statement.

Re-designing your Communication

Editorial Policy and Scope of Report

Editorial Policy

Since 2016, NEC Networks & System Integration Corporation (NESIC) has been issuing its Annual Report as an integrated report with its CSR report.

For 2017, we have reported on a wide range of corporate activities, including formulating a business strategy for the creation and provision of social value and for our growth over the medium term as well as the initiatives we pursue under that strategy.

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

Full details, including our financial results and medium-term business strategy, are available on the "Investor Relations" section of our website. Further details of initiatives relating to corporate social responsibility meanwhile are available on the "CSR" section.

Period Covered

April 1, 2016 to March 31, 2017
(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

- ISO 26000 (Guidance on social responsibility)
- Sustainability Reporting Guideline 4.0 of the Global Reporting Initiative (GRI)
- International Integrated Reporting Council (IIRC) Integrated Reporting Framework

Contact

- Investor Relations
  http://www.nesic.co.jp/english/ir/
  Responsible section: IR Group, Corporate Finance & Controller Division
- Corporate Social Responsibility
  http://www. nesic.co.jp/english/csr/
  Responsible section: CSR Promotion & Corporate Communications Division

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

Under New Management, We Are Solving Social Issues and Accelerating Growth.

Masao Wada
Chairman of the Board

NEC Networks & System Integration Corporation (NESIC) is a communications system integrator that provides a range of telecommunications in an integrated fashion, from system integration to installation to service, to variety of customers including companies, telecom carriers, public offices and social infrastructure operators. Founded in 1953, we have for more than 60 years developed (i) construction capabilities used for telecommunications facilities, electric facilities, air-conditioning facilities, and building facilities, (ii) reliable ICT capabilities for developing sophisticated ICT infrastructure for telecom carriers and public institutions, and (iii) a range of support service platforms for safety and security, using operation centers which operate, monitor, and maintain networks, and comprehensive technical centers for the supply chain from the procurement and storage of equipment to evaluation, repairs, and distribution. Our advantage is providing these strengths in a comprehensive manner.

We Change Gears from Consolidating our Foothold to Growth.

In the fiscal year ended March 31, 2017, net sales and operating income weakened with the effect of the curbing of investment at telecom carriers and the completion of fire-fighting and emergency radio system digitization, which had been brisk until the previous fiscal year. Meanwhile, strategic businesses in the midterm plan expanded steadily. The gross margin improved thanks to cost structural reforms. We consolidated our foothold for regrowth.

Based on this understanding, we have changed management to shift gears for growth. Yushi Ushijima, former president of Q&A Corporation, a Group company, has become president. Under Mr. Ushijima, a young and vigorous leader, the NESIC Group will be united in accelerating growth. As Chairman of the Board, I will support the president, taking good care of important customers and partners.

We Will Work to Help Realize an Advanced Society Based on the Spirit of the NEC Networks & System Integration Corporation Group Statement.

In Japan, work-style reform is a major theme in relation to social issues, such as the work-life balance associated with childcare and nursing care and the improvement of productivity. We have been offering EmpowerdOffice since 2007. EmpoweredOffice is an innovative work style that promotes communication and enhances creativity by integrating ICT and office space design. In the past ten years, we have implemented EmpoweredOffice concept at our own office and have offered EmpoweredOffice to customers. The experience and expertise that we have accumulated in the course of these activities is one of our strengths. We will help customers promote work-style innovation, making the most of our experience and expertise.

In a networked society, cyber-terrorism has become a major threat. Cyber security to protect networks is becoming increasingly important as a consequence. We have a number of network users, including the NEC Group, and will provide safe communication, using our ability to provide comprehensive services ranging from the operation of networks to the monitoring of security.

We believe that the value we generate through communications is becoming more and more indispensable for society and that we will achieve growth and enhance our corporate value by working to solve social issues.

To achieve sustainable development through the 100th anniversary and beyond, we discussed our values, our DNA, and our vision of what we should be like and, in January 2017, established the NEC Networks & System Integration Corporation Group Statement. We will contribute to the sustainable development of society and will grow with all of our stakeholders by working to help realize an advanced society, where more comfortable and convenient communication is available, based on the spirit of the statement.

NESIC Has Grown 60+ Years by Being a Key Contributor to the Development of New Ways of Communication.

1950s
A time for building a foundation for communication infrastructure

1960s & 70s
Period of significant contributions to global communication infrastructure construction

1980s & 90s
Period of diversification in communications

Accumulation of a range of construction technologies and expertise through considerable achievements related to worldwide telecom infrastructure construction and office facilities installation

Construction of the first television broadcasting facility

Construction of satellite telecom infrastructure for the 1968 Olympic Games, in Mexico City

Construction of microwave telecom infrastructure for five Central American countries

Acquisition of special construction business and general construction business licenses for seven categories of construction business

- Telecom liberalization
- Birth of the New Common Carriers (NCCs)
- Expansion of the mobile telecom network

Business for NCCs takes on significant scale

Acquisition of overall ICT technologies related to a range of systems and security measures at companies based on our ability to design and build public networks requiring high reliability

Integration of intra-office voice and network systems

Expansion of the enterprise system integration business

Expansion of business based on our strengths in the total provision of network integration and support services

Strengthening of support capabilities through expansion of a nationwide maintenance network to support public infrastructure, along with the development of data centers, network monitoring facilities, call centers and other facilities

Opening of the Customer Support Center for the enhancement of customer support services

Net sales	Over ¥10 billion	Over ¥100 billion	Over ¥200 billion
	1974	1989	1997

1953 Nippon Electric Installation Company founded

1975 Relocated the head office to Minato-ku, Tokyo

1976 Established the first overseas affiliate, in Brazil

1980 Changed the company name to NEC System Integration & Construction, Ltd.

1983 Listed on the Tokyo Stock Exchange Second Section

1991 Establishment of subsidiaries in Thailand and the Philippines

1992 Listed on the Tokyo Stock Exchange First Section (Assignment to the First Section)

1992 Established NEC System Integration & Construction Engineering, Ltd.

1993 Relocated the head office to Shinagawa-ku, Tokyo

1995 Acquired Media Service, Ltd. (now NEC Networks & System Integration Services, Ltd.)

2000s

Period of explosive growth in communication

| Advance of IP[*1] and broadband networks
| Integration of communications and broadcasting

2010s

Pursuit of value creation via communication

| Expansion of the use of the cloud
| IoT[*2], Fourth Industrial Revolution

Construction Capabilities

ICT Capabilities

Support Service Platform

Digitalization of terrestrial broadcasting, and informatization of local communities

Started the EmpoweredOffice business

EmpoweredOffice

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

S-iDC Strategic Data Center

Established nTOC (Network Total Operation Center)

nTOC Network Total Operation Center

- Initiatives in high-speed mobile networks and next-generation broadcasting
- Launch of MVNO[*3] service for IoT

Established sDOC (Service Delivery Operations Center)

sDOC Service Delivery Operation Center

Strengthening of the contact center business (Acquired Q&A Corporation)

¥292.2 billion
FY 2015/3 (record high)

¥257.9 billion
FY 2017/3

2003 50th anniversary
2005 Changed the company name to NEC Networks & System Integration Corporation
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.

2010 Relocated the head office to Bunkyo-ku, Tokyo
2011 NESIC's industry sector classification in the stock market was changed from "construction" to "information & communication"
2013 Acquired NEC Magnus Communications, Ltd.
2014 Made NEC Net Innovation, Ltd. into a direct subsidiary
2015 Merged with NEC Networks & System Integration Engineering, Ltd. (former NEC System Integration & Construction Engineering, Ltd.)
2016 Established a local subsidiary in Myanmar as a joint venture with local companies

*1 **IP**: Internet Protocol *2 **IoT**: Internet of Things *3 **MVNO**: Mobile Virtual Network Operator

Drawing on Three Strengths, NESIC Provides Unique, Innovative Services.

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 diverse types of telecom infrastructure in Japan and abroad. We draw on all of that intellectual wealth in installing mobile base stations, broadcasting systems, and other types of public infrastructure, and in providing office facility management services encompassing all related electrical facilities, office furniture, and even space design.

Employees with managing engineer or technical supervisor qualifications

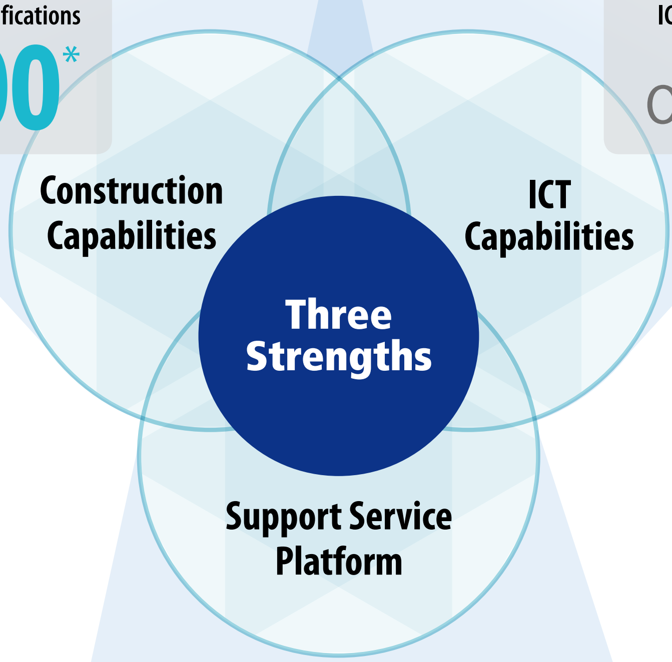
Over **1,400***

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 public networks operated by 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 **700***



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, maintenance and monitoring services; comprehensive technical centers 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

sDOC (Service Delivery Operation Center)

nTOC (Network Total Operation Center)

S-iDC (Strategic Internet Data Center)

Data figures on this page are as of March 31, 2017 *Detailed data are available on page 14.

Examples of the Use of **Three Strengths** 1

"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 deliver the work-style flexibility customers seek. With needs to work at home to fulfill child and elderly care responsibilities, together with other types of work-style demands, approaches designed to get work done regardless of time or location are becoming increasingly diversified. At NESIC, we implement work-style innovations ourselves and then use what we learn to develop solutions for customers.

EmpoweredOffice

When we began offering EmpoweredOffice solutions to customers in 2007, we also implemented the EmpoweredOffice concept at our own head office. In 2012, we started to implement EmpoweredOffice solutions at regional divisions and offices throughout Japan. Now, many customers visit our locations throughout Japan every day to see how EmpoweredOffice works for us. Over the past ten years, we have implemented work-style innovations at our own offices and have accumulated expertise in innovative work styles, including expertise in human resource systems. The number of visitors to our locations has exceeded 30,000*, and they are an important part of our customer base.

In July 2017, we introduce telework at all locations. We will accumulate know-how through the implementation of telework by around 5,000 employees and will promote activities to receive related orders, leveraging our customer base.

Head Office

At the EmpoweredOffice Center, customers can experience environments for demonstrating solutions according to their needs.

Examples of the Use of **Three Strengths** 2

Cyber Security Business

In addition to SI and maintenance, we provide support for security monitoring, analysis, and handling

With cyber attacks constantly increasing in sophistication and their threat expanding, information security measures for ICT systems, which are the backbone of the foundations of society and corporate activities, are becoming more and more important.

One of the strengths of the NESIC Group is that it provides comprehensive solutions, including the selection of equipment, design, building, and support, taking the customer's operations after system implementation into consideration. In particular, the unique benefit we offer lies in the fact that we have Security Operation Center (SOC) in our Network Total Operation Center (nTOC), which is for monitoring and operating customer networks. This means we monitor customers' information security 24 hours a day, seven days a week. We comprehensively analyze the logs of security equipment. If problems arise, we deal with them promptly.

We are able to rapidly and accurately analyze and respond to incidents using our network operation and security monitoring services. In addition to those services, we are leveraging our considerable track record of success in Japan to expand our cyber security business.

*Detailed data are available on page 14.

NESIC Contributes to a Safe, Secure, and Plentiful Tomorrow in Various Contexts of Daily Life.

Airports

Visual Docking Guidance Systems (VDGS), airport information, and a broad array 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.

Work-Style Innovation

Offices

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

Telework

Proposals on telework that is 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.

Fire-fighting & Ambulance

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

Disaster Prevention

Warning systems that provide information at times of emergency (earthquake, tsunami, 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 flip phone, and overall network support, together with system integration of core networks.

Shops and Public Facilities

Creation of convenient user environments for customers 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 – construction capabilities, ICT capabilities, and support services platform – we offer 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

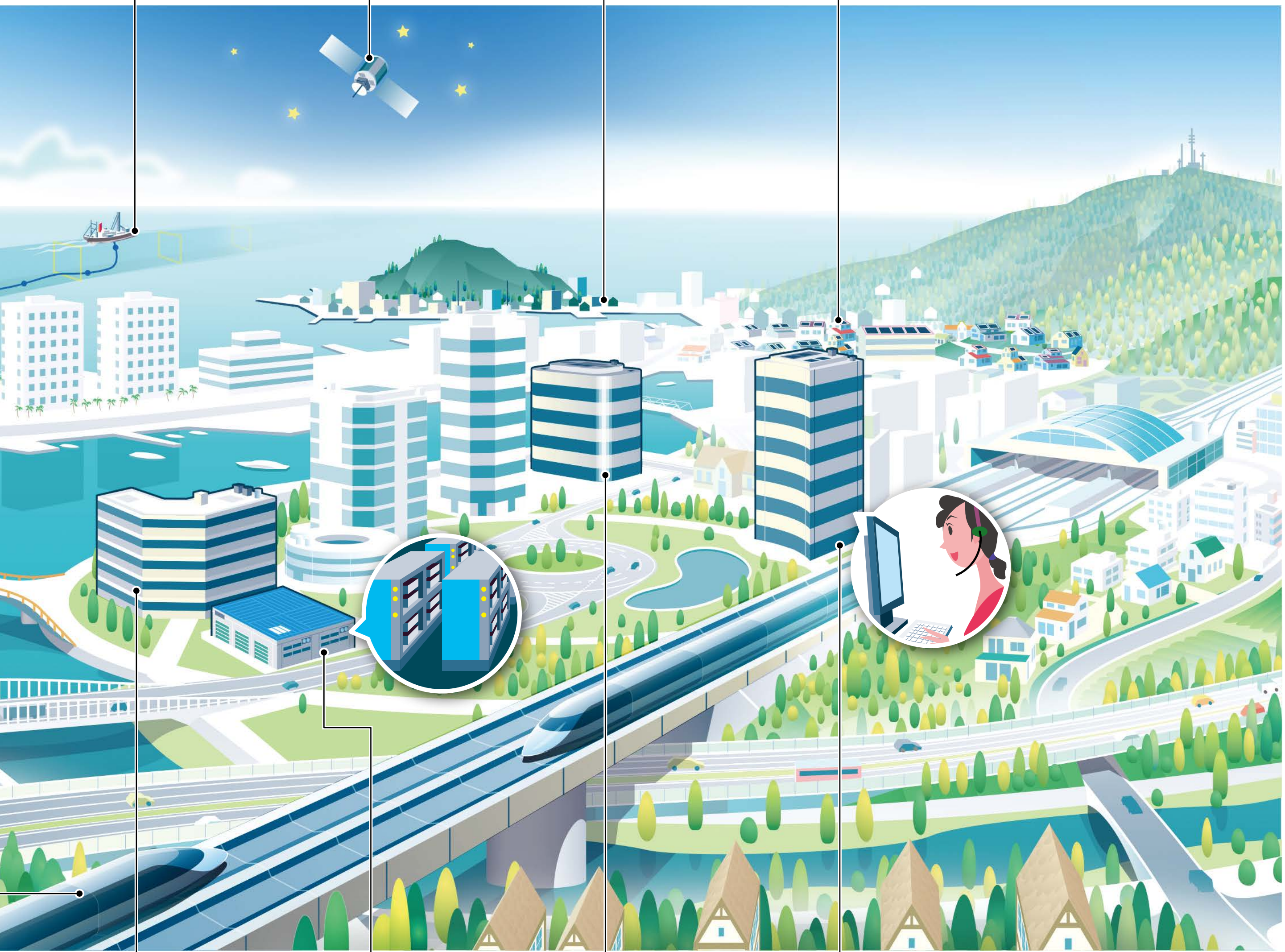
Support for control systems used to communicate with and operate asteroid exploration, and other types of satellites and probes.

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 Centers

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

Data Centers

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 Centers

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

Providing Value to Stakeholders by Promoting the Evolution of Communication

Social Challenges

- Mitigating the effects of and adapting to climate change
- Using clean energy
- Building and renovating social infrastructure
- Making communities safe and secure
- Eliminating inequality
- Improving job satisfaction and productivity
- Diffusing innovation and promoting industrialization
- Using safe and secure ICT

SDGs
Sustainable Development Goals

Three Strengths

Construction Capabilities
ICT Capabilities
Support Service Platform

pp. 7-8

NESIC Management Resources

- Business Locations (Operation Centers, Maintenance Network, etc.)
- Technology & Know-How
- Human Resources & Corporate Culture
- Stakeholder Relationships Built on Trust
- Financial Base

Chapter 1 Business and Strategy

Enterprise Networks business

In our Enterprise Networks Business, NESIC provide integration, operation, monitoring, and outsourcing services for networks, IT, etc. 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 a diversification of approaches to work so as to address social issues, such as striking balance between work and childcare and/or nursing care for family members .

Carrier Networks business

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, which are assets developed in our business with telecom carriers.

Social Infrastructures business

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.

Chapter 2 Foundation for Business

- Continuously Enhancing Values for Employees
- Promoting Diversity
- Establishing a Corporate Culture in Which Employees Can Work without Anxiety
- Encouraging Suppliers to Give Greater Consideration to Sustainability

Further strengthening of management resources

Examples in Strategic Businesses
pp. 21-24

Service Business Area

Infrastructure Business Area

Global Business Area

pp. 25-41

- Contributing to Mitigating Effects of and Adapting to Climate Change
- Providing Products and Services that Contribute to Safety and Security
- Continuing Thorough Efforts in Compliance
- Enhancing Corporate Governance

Creating Value through Communication

Providing value to customers and society

- Increasing productivity
  Improving work-life balance
- Building social infrastructure offering greater safety, security, and comfort
  Promoting and expanding the global use of ICT
- Reducing environmental impacts
  Expanding the use of renewable energy
- Increasing business value by expanding the use of ICT

Increasing the value of employees

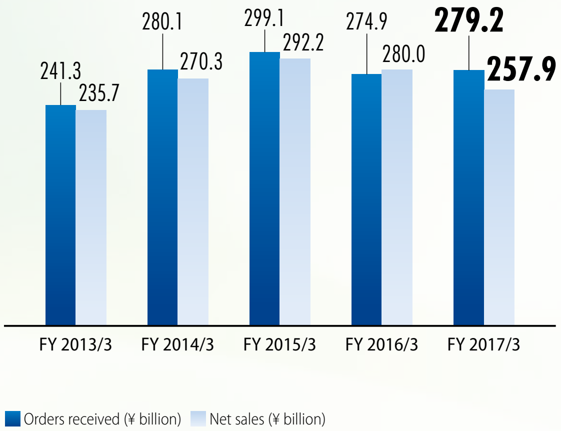
- Realizing flexible, satisfying work styles
- Developing specialized human resources that promote business growth
- Promoting diversity and motivation

Increasing shareholder value

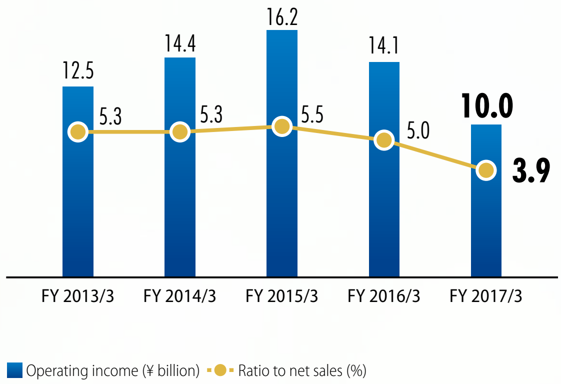
- Increasing corporate value through business growth
- Providing stable returns to shareholders

Financial Highlights

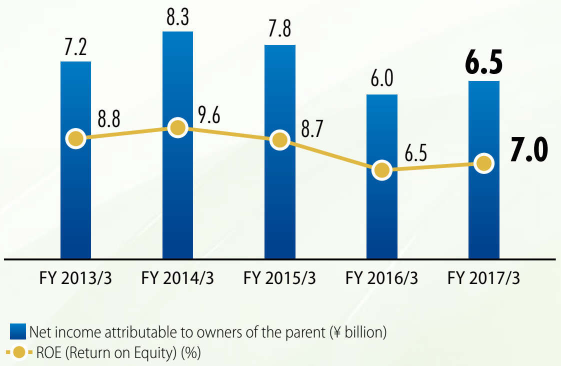
Orders Received / Net Sales



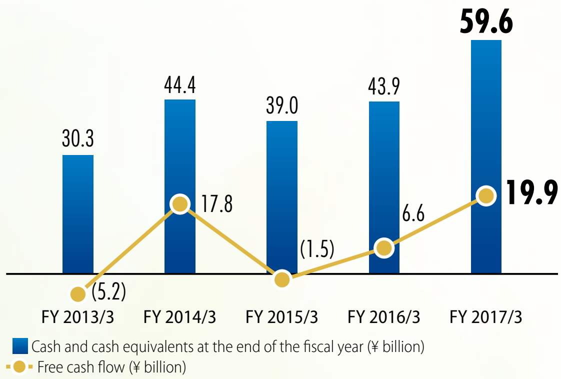
Operating Income / Ratio to Net Sales



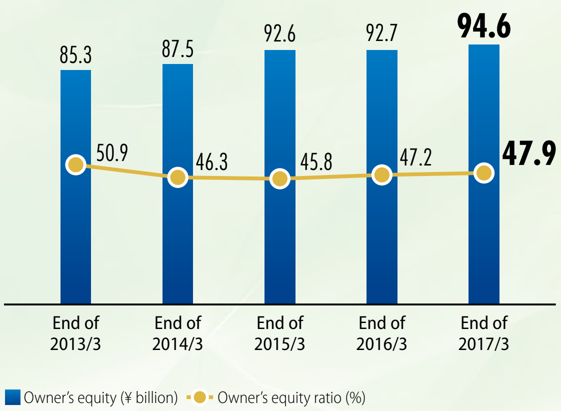
Net Income Attributable to Owners of the Parent / ROE



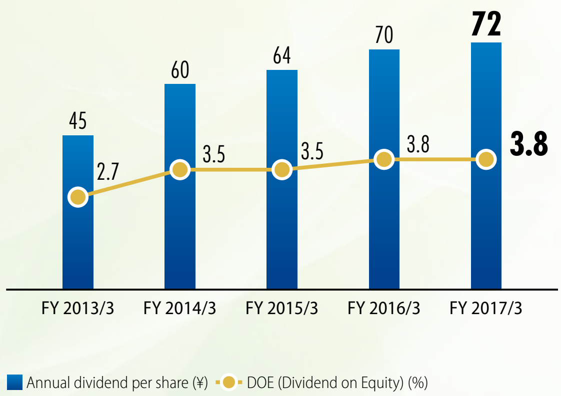
Free Cash Flow / Cash and Cash Equivalents at the End of the Fiscal Year



Owner's Equity / Owner's Equity Ratio

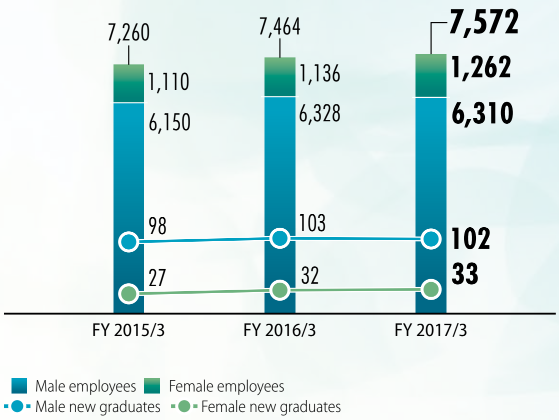


Annual Dividend per Share / DOE

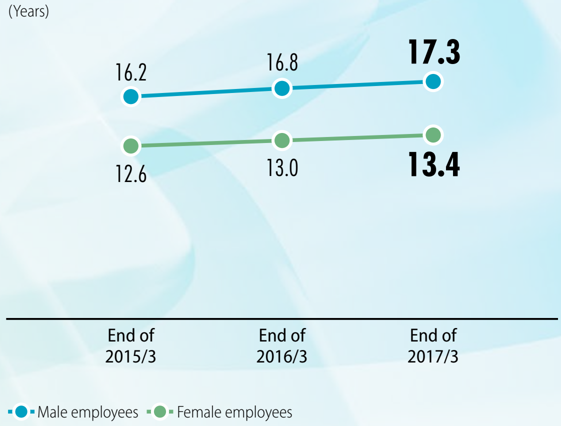


Non-Financial Highlights

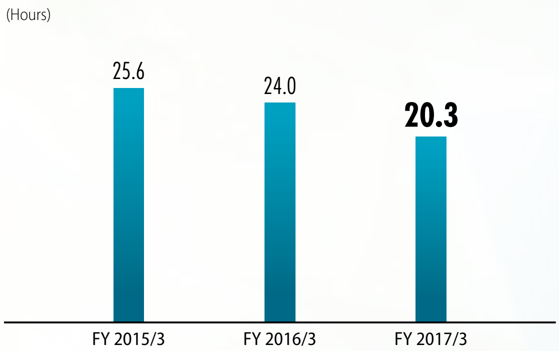
Number of Employees at the End of Fiscal Year / Number of New Graduates (Consolidated)



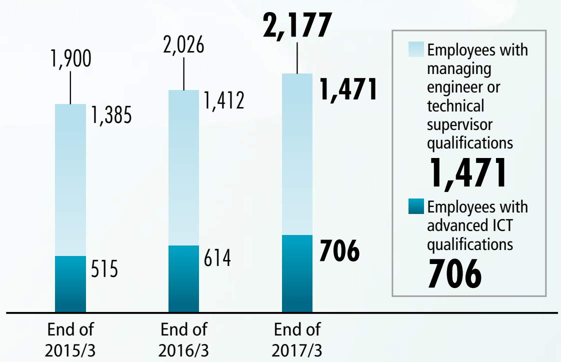
Length of Service (Non-consolidated)



Average Overtime (per month) (Non-consolidated)

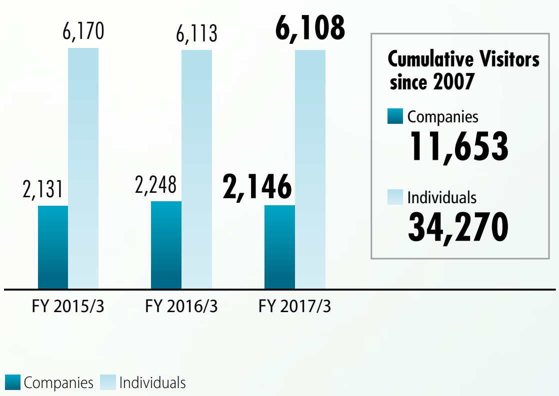


Employees with Qualifications (Non-consolidated)



*By each qualification

EmpoweredOffice Visitors



Carbon Statistics*1 (Non-consolidated)

CO_2 emissions: 14,474t < CO_2 emissions reduction contribution: 24,699

CO_2 emissions: 14,474t	
1 Office energy usage	10,642t
2 Logistics-related CO_2 emissions	104t
3 Paper usage	82t
4 Business travel (transportation)	3,119t
5 Company-owned vehicles(commercial)	527t

CO_2 emissions reduction contribution: 24,699	
1 Reductions in customer CO_2 emissions*2	23,274t
2 Renewable energy purchases	14t
3 Tree-planting (Carbon offset procurement)	12t
4 Teleconference system usage*3	1,399t

*1 Comparison of NESIC's CO_2 emissions from business activities to its contributions to CO_2 emissions reductions, during the fiscal year ended March 31, 2017.
*2 CO_2 emissions reductions expected from customers' use of environmentally conscious products and services provided by NESIC.
*3 CO_2 emissions reductions related to internal use of teleconference systems.

I Will Take the Lead in Making Change for Regrowth and the Evolution of the NESIC Group.

Please let me take this opportunity to say a few words as the new president.

I joined NEC Networks & System Integration Corporation (NESIC) in 1984. Since then, I have been committed to expanding our business fields, involved in sales and the development of sales strategies in sales sections. I was also involved in the launch of the EmpoweredOffice business. From 2014, I worked in management at Q&A Corporation (QAC) which provides B-to-B-to-C services, including technical support and contact center services. QAC started as a venture company and became a consolidated subsidiary of NESIC in 2014. QAC thus has a corporate culture that differs from that of NESIC. Its business style is also different from that of NESIC. QAC directly contacts consumers—individuals and households that use products or services of corporate customers—while NESIC engages primarily in B-to-B business. I was involved in management at a company that has a culture and a market different from those of NESIC and had opportunities to see NESIC from outside, in an objective way. That was a very valuable experience.

More and more businesses are shifting their focus from products to services. Against this backdrop, the NESIC Group, led by Chairman Masao Wada, focused on expanding services, promoting M&A, and strengthening the earnings structure. In the fiscal year ended March 31, 2015, we achieved new record sales and operating income. In the fiscal year ended March 31, 2017, we focused on rebuilding our business base. In the carrier networks business, results declined due to the adverse effect of a reduction in capital expenditure at telecom carriers, and we reformed the cost structure in the business. Meanwhile, we strove to expand strategic businesses in the midterm plan.

In the fiscal year ending March 31, 2018, a slowdown in our business targeting the telecom carriers and a reactionary decline after special demand associated with fire-fighting and emergency radio system digitization projects, the main causes of the decline in results, ended, and we moved from a phase of consolidating a foothold to a phase of regrowth through the expansion of strategic businesses. My missions are to achieve regrowth to implement the current midterm plan and to transform the NESIC Group for further growth as a "change leader." To fulfill these missions, I would like to focus on the following initiatives.

Further Strengthening Strategic Businesses for Regrowth

To achieve regrowth, we need to expand our strategic businesses in the midterm plan. I believe that the direction of our strategy is right. Taking advantage of my experience at sales divisions and in B-to-B-to-C business at QAC I will focus on improving our ability to provide services and to make proposals that consider the customers of our customers. I will thus expedite the execution of initiatives in our service, infrastructure, and global businesses.

Enhancing Strengths to Reach an Overwhelming Level

The key to regrowth, our challenge, is to provide high value-added services to customers. I would like to expand business scale and improve profitability by providing services that not only satisfy customers but also get customers to say that we are indispensable to them.

We have strengths that competitors cannot obtain easily, including network technologies, the ability to develop operations not only in Japan but in the world, and a support and service platform offering maintenance, operations, monitoring and outsourcing services across the nation 24/7, which we have developed over the sixty-plus years since our founding. I aim to achieve substantial growth by building on these strengths, raising them to an overwhelming, unbeatable level, and creating a number of businesses that have their own new strengths created on the existing ones.

Creating Innovations

To that end, we need to create major innovations from scratch without depending on the existing base. Our strengths are based on the strong trust we have built with our customers. They trust us as a reliable company because of our sincere attitude towards them and well-developed service platform. However, it is also important for us not to be satisfied with the current situation, but to always create innovations and take on challenges through outside-the-box approaches. The IoT (Internet of Things) has now emerged. Everything is connected to networks, and everything exchanges information through networks. Meanwhile, innovating work styles—the use of diverse human resources, a good work-life balance, and high productivity—are required. We were the forerunner of these trends and launched the EmpoweredOffice and IoT/MVNO (Mobile Virtual Network Operator) businesses. We have created new businesses, making the most of our strong track record. I aim to make innovations happen at NESIC by transforming it into a company that will change itself to achieve its own vision instead of considering development based on the existing situation.

Lastly, Aiming to Create a Company Where Each Employee Can Shine

Employees need to have high motives and a mindset for enjoying changes to create innovations and build on strengths. If each employee has a dream and is motivated to achieve it, all employees will shine and growth will accelerate. I will take the lead in changing the Group to a corporate group where each employee will be motivated and shine. I will do my best to ensure that NESIC remains a company trusted, acclaimed, and supported in society by achieving regrowth at the NESIC Group and change for the future, thereby living up to the expectations of customers, shareholders, and all other stakeholders.

I hope that we can rely on the continued support of all of our stakeholders.

Yushi Ushijima
President

Summary of FY 2017/3 and Growth Initiatives for the Future

Overview of Results in FY 2017/3

Although net sales and operating income declined, we consolidated our foothold for regrowth by expanding strategic businesses and cost structural reforms.

In the fiscal year ended March 31, 2017, our results weakened. Net sales and operating income declined with the effect of the curbing of investment at telecom carriers and the completion of fire-fighting and emergency radio system digitization. Meanwhile, there were signs of regrowth in the topline. The Carrier Networks business, which declined significantly for two years, bottomed out, and strategic businesses expanded steadily. On the profit front, the gross margin improved from the previous fiscal year thanks primarily to cost structural reforms in the Carrier Networks business. We consolidated our foothold in the past year. Orders received rose year on year, reflecting orders for projects for constructing and maintaining large-scale mega solar power generation plants.

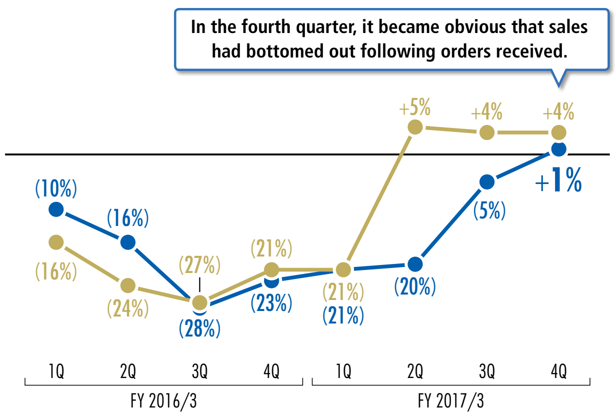
(¥ billion)

	FY 2016/3	FY 2017/3	YoY changes
Orders Received	274.9	**279.2**	+2%
Net Sales	280.0	**257.9**	(8%)
Gross Margin	16.1%	**16.5%**	+0.4pt
Operating Income Ratio to Net Sales	14.1 5.0%	**10.0** **3.9%**	-4.1 (1.1pt)
Net Income Attributable to Owners of the Parent Ratio to Net Sales	6.0 2.1%	**6.5** **2.5%**	+0.5 +0.4pt
ROE	6.5%	**7.0%**	+0.5pt

In the fiscal year ended March 31, 2017, differences in the business environment were evident in each field. There was active investment to bolster business management and competitiveness, including investment in work-style innovation, while telecom carriers continued to curb capital spending on network infrastructure. In this environment, net sales declined from a year ago on telecom carriers' investment restraint and the end of fire-fighting and emergency radio system digitization projects in May 2016, which had been brisk until the previous fiscal year. Given this fall, operating income also declined.

Orders received rose year on year, reflecting orders for projects for constructing and maintaining mega solar plants. The gross margin improved from the previous fiscal year, chiefly due to cost structural reforms in the Carrier Networks business, which continued from the previous fiscal year. Net income attributable to owners of the parent increased from the previous fiscal year due to a decrease in extraordinary losses and the absence of the reversal of deferred tax assets associated with changes in tax rates. As a result, ROE (Return on Equity) improved from the previous fiscal year.

Trends in Year-on-Year Changes in Orders Received and Sales in the Carrier Networks Business



*Excluding the effect of projects for constructing and maintaining large-scale mega solar power generation plants

Review by Segment

Enterprise Networks business

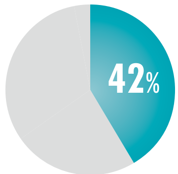
Net sales ¥**107.4** billion
(2% decrease year on year)

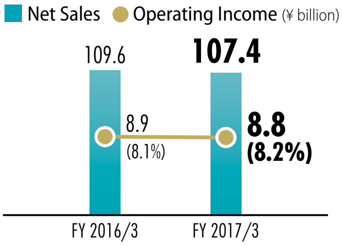
Business description

Integration and operation/monitoring services of office ICT, including intra-company networks and IT. Providing work-style innovation solutions, security solution and multilingual contact center services.

Net sales decreased 2% year on year, to ¥107.4 billion, reflecting decreased sales in the PBX (private branch exchange) business, which showed good results in the previous fiscal year due to special demand for replacement, among other facts, despite growth in EmpoweredOffice, a solution for work-style innovation, owing to active ICT investment in work-style innovation. Operating income stood at ¥8.8 billion, a slight decrease due to the fall in net sales. The operating margin increased with improvements in cost-effectiveness.

Sales Breakdown





The figures in parentheses are operating margins.

Carrier Networks business

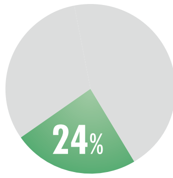
Net sales ¥**61.6** billion
(11% decrease year on year)

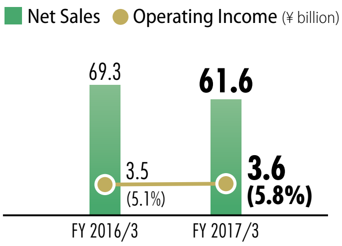
Business description

Building, operation and maintenance of network infrastructure for telecom carriers. Providing other communication services, including the installation of Wi-Fi equipment, and IoT.

Net sales decreased 11% year on year, to ¥61.6 billion, given the effect of cuts in capital spending by telecom carriers, particularly in mobile communications base stations. In the fourth quarter, however, net sales appeared to have bottomed out, rising 1% year on year, to ¥18.9 billion. Despite the decline in net sales, operating income rose to ¥3.6 billion due to the effect of cost structural reforms, primarily in-house production and a reduction in outsourcing costs.

Sales Breakdown





The figures in parentheses are operating margins.

Social Infrastructures business

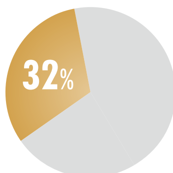
Net sales ¥**82.4** billion
(14% decrease year on year)

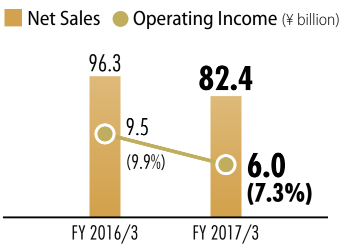
Business description

Provision of ICT infrastructure-related services, which underpin society, including building of fire-fighting networks, installation of CATV facilities, and disaster prevention solutions.

Net sales decreased 14% year on year, to ¥82.4 billion, reflecting the effect of the completion of fire-fighting and emergency radio system digitization projects because of the arrival of the deadline for migration from analog systems in May 2016. The competitive environment in the public sector, including road networks, worsened, but the field of broadcasting and CATV, including the opticalization of CATV, expanded steadily. With the fall in net sales, operating income declined to ¥6.0 billion.

Sales Breakdown





The figures in parentheses are operating margins.

Achievements and Challenges in FY 2017/3

The strategic areas in the midterm plan expanded steadily.

Achievements

- Strategic areas expanded (+8%)
- The gross margin improved (+0.4pt) with the results of cost structural reforms in the Carrier Networks business.

Challenges

- The basement business declined more than expected (-17%).
- The operating margin decreased (-1.1pt) due to the smaller sales scale.

The execution of growth strategies and the strengthening of business capabilities delivered some results.

The following had been factors for smaller sales, but
- The telecom carriers business bottomed out.
- A reactionary fall following special demand for fire-fighting and emergency radio system digitization projects ended.

Although net sales declined year on year in the fiscal year ended March 31, 2017, sales in the strategic areas in the midterm plan announced in 2016 expanded steadily as described below.

In the service business, sales increased 12% year on year, reflecting the expansion of the EmpoweredOffice business against a backdrop of rising interest in work-style innovation and increasing needs for cyber security.

In the infrastructure business, sales rose 7% year on year with the expansion of the broadcasting and CATV field and the disaster prevention field. In the mega solar business, orders for large-scale projects were received from a Spanish operator, which has implications for the future.

In the global business, sales remained flat from the previous fiscal year due to the effect of the stronger yen, but outbound business effectively expanded in local currency terms. ICT Star Group Myanmar Co., Ltd., a local joint venture in Myanmar that commenced operations in June 2016, received a series of orders, including orders for telecom infrastructure SI, making a good start.

In terms of profitability, the gross margin improved 0.4 pt as a result of cost structural reforms in the Carrier Networks business, among other factors, in response to a significant reduction in investment at telecom carriers.

As described above, we consider that in the fiscal year ended March 31, 2017, we achieved some results in the implementation of growth strategies and the strengthening of business capabilities. Net sales declined, however, because results in strategic businesses were more than offset by a fall in the basement business due to a decline in business for telecom carriers and the end of fire-fighting and emergency radio system digitization projects, and as a result, sales were insufficient in comparison with the business structure developed for growth.

For reference ▸▸▸ Outline of the Midterm Plan (FY 2017/3 – FY 2019/3)

Basic Strategy

Expansion of the topline (orders received, net sales)
- Further growth by strengthening the service, infrastructure, and global businesses

Strengthening business capabilities
- Strengthening the business base that supports growth
- Improving management efficiency further

New midterm plan targets (FY 2019/3)
* New midterm plan targets are as of May 10, 2016.

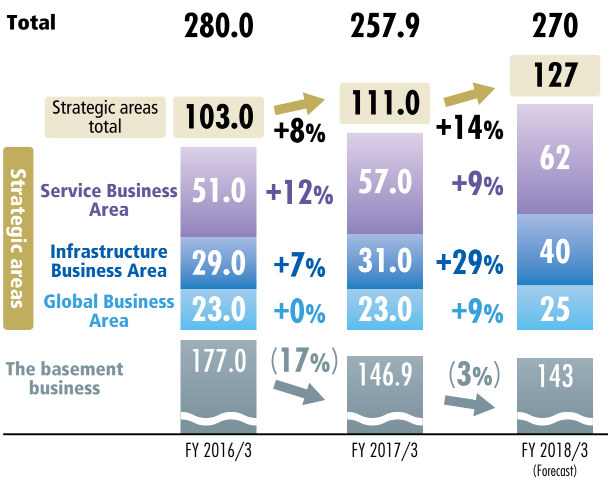
- **Net sales ¥300 billion**
- **Operating income ¥16.5 billion**
- **Operating income margin 5.5%**
- **ROE 10%**

Service Business Area	**B-to-B service business expansion** EmpoweredOffice business Cyber security business IoT/MVNO business
Infrastructure Business Area	**Strengthening and deepening of business in markets with growing investment** (Broadcasting/CATV, disaster prevention, railway/road networks, etc.)
Global Business Area	**Outbound business expansion centered on ASEAN** **Inbound business expanding with visitors to Japan** (Hotels, airports, tourism, multilingual support)

Initiatives for Growth

We will accelerate growth in the strategic areas to achieve regrowth from the bottom in the fiscal year ended March 31, 2017.

■ **Progress in Strategic Areas and Target Net Sales** (¥ billion)



*Forecast as at April 27, 2017

The business targeting telecom carriers and fire-fighting and emergency radio system digitization projects were the two main reasons behind our decrease in net sales in the fiscal year ended March 31, 2017. However, the business for telecom carriers has obviously bottomed out, although a significant recovery is unlikely. Also, the reactionary fall following special demand for fire-fighting and emergency radio system digitization projects has ended. In the next fiscal year (ending March 31, 2018), we aim for regrowth based on achievements in the fiscal year ended March 31, 2017 by accelerating the expansion of the strategic businesses in the midterm plan.

In the service business, work-style innovation is gathering momentum in Japan. We will expand the business, making the most of the customer base of EmpoweredOffice, which we have accumulated since we launched EmpoweredOffice in 2007, and the expertise that we have developed through our implementation of work-style innovation at our own office. We will work to strengthen and expand the cyber security business, for which needs are growing due mainly to cyber terrorism. In the IoT/MVNO business, we will accelerate the development and introduction of new services, including SIM (global Subscriber Identity Module) service and services in collaboration with other companies.

In the infrastructure business, we expect the opticalization of CATV for next-generation 4K broadcasts. In the mega solar field, where an increase in projects is expected in the medium term, we will focus on executing large-scale projects for which we received orders in the previous fiscal year, and will seek to receive orders for new projects based on the execution of projects for which orders have been received.

In the global business, we will work to strengthen our local business capabilities in the ASEAN region, primarily Myanmar and Thailand, where continued active investment is expected. We will also seek to receive orders for ODA projects, and will thus expand our outbound business. In the inbound business, inbound tourists are increasing steadily, reflecting the government's policy. We will work to expand services for sightseeing spots, airports, and many other places, especially for hotels, where there is strong demand for a variety of services, including Wi-Fi and room management systems, based on our common base, including multilingual service and MVNO.

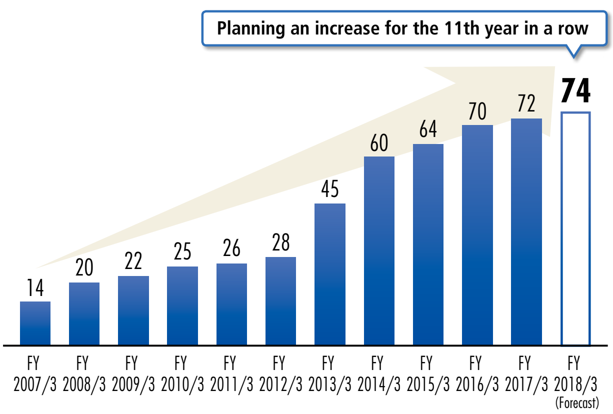
Shareholder Returns

We aim to expand shareholder returns steadily.

We view the distribution of a reasonable share of profits to shareholders as one of our top management priorities and focus on steadily increasing returns to shareholders who hold shares for the long term. To this end, while investing actively in M&A, among other purposes, for business growth, we aim to pay dividends without being affected by changes in profits in the short term, taking DOE (Dividend on Equity) into consideration.

Although our results were weak in the fiscal year ended March 31, 2017, we paid an annual dividend per share of ¥72, up ¥2 from the previous fiscal year, as planned, in accordance with our policy. In the fiscal year ending March 31, 2018, we plan to pay an annual dividend per share of ¥74, an increase for the 11th consecutive fiscal year.

■ **Per-Share Annual Dividend** (¥)



Service Business

Initiatives Aimed at Work-Style Innovation

Providing solutions to help customers resolve management issues, based on our own initiatives over the past decade.

NESIC provides total support for everything from designing and developing systems and rules for new working practices, through to improving ICT environments in the interests of work-style innovation. As well as improving productivity or reducing extended overtime, for instance, this enables us to help tackle social challenges, such as striking a balance between work and caring for children and family.

Social Value Creation

- Contribution to Productivity Improvement
- Striking a Balance between Work and Caring for Children and Family
- Reduction of Extended Overtime

We have been offering EmpoweredOffice solutions to enable people to work more efficiently and creatively since 2007, based on the conviction that "management innovation starts with office innovation." We also take the initiative in introducing new working practices ourselves, practices that eliminate the use of paper, overcome distances between offices and facilitate more collaborative work, as we continue to make improvements.

We brought in telework, including telecommuting in July 2017, building on the expertise we have accumulated over the last decade to enable employees to work without being bound to specific locations or times. When customers actually see how dynamically our employees are working, they appreciate our approach to work innovation. We can then work in partnership to come up with the optimum working solution for each customer, to help innovate their own working practices.

We intend to keep on developing the skills and expertise we have built up to date, so that we can pave the way for further innovation, and improvements in productivity and efficiency. We will continue to offer work-style innovation solutions, as a driving force behind growth and improved competitiveness for all of our customers.

2007-

Launched EmpoweredOffice innovation solution business

EmpoweredOffice

2010-

Relocated head office to Koraku, Bunkyo-ku

Rolled out EmpoweredOffice companywide (head office and offices in Japan and overseas)

2015-

Implemented demonstration experiment of working from home aimed at striking a balance between work and private life

- Formulated rules for working from home
- Developed and introduced attendance management app

2016-

Trialed telework on a companywide scale

- Explored telework models from a range of professions
- Experimented with flexible telework system, using hourly units as well as daily units

Laying the foundations for telework → Putting telework into practice

TOPICS

Taking Part in Telework Day

On July 24, 2017, three years ahead of the opening ceremony of the 2020 Tokyo Olympic Games, we took part in "Telework Day," a government project aimed at getting the Japanese people on board with telework by the year 2020. We took part as a special supporting organization, to assist with measuring the effects of the project.

On the day, not only more than 50% of our employees in our head office area signed up for telework, but half of our executives, including the President, took part in executive meetings from their offices or homes via telework too. We were successfully able to make effective use of this system when referring to documents, engaging in discussions and making decisions.

An executive meeting, in which half of the members took part via telework

2017-

Took on the challenge of innovating working practices to improve productivity

- Brought in new telework scheme with no restrictions on where and when employees work for all of about 5,000 employees
- Created mechanisms to share and co-create knowledge, combining technologies such as IoT and AI (Artificial Intelligence)

On to the next stage

Visualizing and analyzing working practices

Analyzing bottlenecks that impede efficiency and productivity in operating processes, and working to reduce extended overtime and improve productivity

Intelligence Connect

Aiming to speed up operations and improve quality by transforming employees' skills into data that can be used in related work

Increasing efficiency of staff operations

Aiming to make significant improvements in operating efficiency through measures such as using AI to automate inquiry responses, and automating standard operations through RPA (robotic process automation)

Making the most of accumulated expertise based on our own initiatives to show customers the best way to innovate working practices

New innovations in working practices for the future

STAFF VOICE

Tomoyuki Takahashi 1st Consulting Group, EmpoweredOffice Business Development Division

My work involves providing solutions and consulting services to help customers innovate working practices. We have customers from a wide range of sectors coming to visit us here, including private companies, public bodies and local government. With more and more top management staff coming to see us these days, work-style innovation is definitely becoming a key element of management strategy. As improving productivity is a major priority for all of our customers, many of them want to know more about the initiatives we have implemented to innovate working practices over the last decade, and the challenges we have faced. There is a real sense that the market is focusing more on us as a company.

I get a real sense of satisfaction on a daily basis, as we think through challenges with our customers and come up with solutions to their problems, all the while playing to our strengths in terms of "re-designing communication." I intend to continue to work closely with our customers, as we do our bit to create a society in which everyone can live their lives to the full and improve productivity.

Infrastructure Business Area

Orders for Large-Scale Mega Solar Power Projects Received

NESIC will contribute to mitigating global warming and achieving a diversified energy supply through the construction and maintenance of large-scale mega solar power generation plants.

With growing expectations of solar energy as a renewable energy source, we received orders for large-scale mega solar power projects from a leading global company. We will execute the projects reliably, making the most of the construction capabilities that we have developed through telecommunications infrastructure construction work worldwide to expand our infrastructure business and contribute to reducing CO_2 emissions.

Social Value Creation

- Contribution to Mitigation of Global Warming
- Expansion of the Use of Renewable Energy
- Diversified Supply of Energy

From the Construction of Mega Solar Plants to Maintenance in an Integrated Manner

We received orders for projects for constructing and maintaining large-scale mega solar power generation plants from X-Elio*1, a global solar power generation company based in Spain. We are executing construction work to start power generation in the summer of 2018.

We are constructing mega solar plants at two sites in Miyagi Prefecture, in Shiroishi City and in Kurokawa County (Taiwa and Tomiya). The number of solar panels will be approximately 200,000. Total rated power output*2 will amount to 58 MW. Annual output is expected to be equivalent to power consumption at 15,000 general households. In these large-scale projects, we are carrying out land preparation, the design, construction and installation of electric facilities, monitoring systems, and panels. After the plants are completed, we will maintain them for 20 years.

There are high expectations of solar power generation as a renewable energy that does not emit any greenhouse gas. Following the change in the feed-in-tariff scheme, there is a need for a surge in power generation plant construction, given the relatively high tariffs. A number of foreign power generation companies have been entering Japan, and we recognize that more than 20 large-scale projects are planned.

Focusing on Mega Solar Plants as Part of Our Infrastructure Business for Medium-Term Growth and the Creation of Environmental Value

Recognizing that there are ebbs and flows in investment in the infrastructure business area in accordance with the needs of society, we have adopted a basic policy of focusing on fields where investment is rising. We have positioned solar power generation plants as one of the infrastructure businesses that we should focus on in the medium term.

The projects we are undertaking involve for the first time large-scale mega solar power generation plants whose output exceeds 10 MW. Making the most of the construction capabilities that we have developed through telecommunications infrastructure construction work around the world for more than 60 years since our founding, we will execute these projects reliably to win additional large-scale projects and expand the business in the future. We also aim to contribute to expanding the use of renewable energy through the business.

*1 **X-Elio**: A global solar power generation company headquartered in Spain. X-Elio operates in 18 or more countries.
*2 Maximum output in a JIS standard test environment

STAFF VOICE

Kazuya Hashioka Taiwa Tomiya Solar Farm Division, Mega Solar Project

I am involved in electric work at the mega solar plant being constructed in Taiwa Town and Tomiya City. I had never been involved in a project as large as this. We are working to arrange approximately 117,000 solar panels to generate power efficiently and build a system to send generated power to the electric power company's power grid.

When this project is completed, electricity as clean, natural energy will be generated. I am performing day-to-day tasks, feeling proud of helping to protect the global environment. As this is large-scale construction work, we are working to complete it safely in cooperation with other companies, while seeking the understanding of neighborhood residents.

Global Business

Business Development in the Myanmar Market

NESIC is building telecommunications infrastructure in growing myanmar to help bridge the international digital divide.

NESIC has made a full-scale entry into the Myanmar market. Myanmar has been promoting rapid democratization and economic reform and is achieving remarkable development. By building its business in this country, we are contributing to job creation, human resource development, and information infrastructure development, which will help bridge the international digital divide.

Social Value Creation

- Bridging the International Digital Divide
- Job Creation in an Emerging Country
- Use of Local Human Resources and Cultivation of Engineers

Strengthening Our Ability to Adapt to Expanding Markets, Focusing on Those in the ASEAN Region, to Expand Our Global Business

We position the global business as one of the strategic businesses in our midterm plan. We are striving to bolster our ability to adapt to expanding markets, focusing on those in the ASEAN region, where investment in social capital is expected to expand significantly.

Myanmar achieved a transition to civilian rule in 2011 and has been promoting democratization and economic reform. The Myanmar economy is achieving remarkable growth. The penetration rate of mobile communications*1 in that country was 13% in 2013. Although the rate expanded rapidly to 77% in 2015, it was still low compared with advanced countries and other countries in Asia. An international digital divide remains.

Collaborating with Local Companies to Steadily Expand Businesses Such as SI of Telecom Infrastructure and Installation of Facilities at Telecommunications Stations

To tap into the fast-growing market, we opened a Yangon branch of NESIC (Thailand) Ltd., an overseas subsidiary, in 2015, making a full-scale entry into the market. In 2016, we established ICT Star Group Myanmar Co., Ltd. (iSGM) as a joint venture with two local companies: GUSTO Technology Limited, which provides education for IT engineers, and Technology & Magical Trading Co., Ltd., which engages in the import and procurement of IT equipment.

By collaborating with these local companies, we were able to secure excellent human resources and build a business base, including SCM (Supply Chain Management) primarily local equipment procurement. As a result, we received orders for SI of telecom infrastructure, installation of facilities in telecommunications stations, and technical assistance for introductory technology. Net sales in the first year stood at approximately 1 billion yen, exceeding the forecast. The number of employees expanded rapidly to 175 at the end of March 2017 from 40 when the joint venture started.

We plan to leverage iSGM's strengths, cost competitiveness and its ability to provide Japanese-quality projects using excellent human resources, to expand local business targeting telecom carriers and other companies and the government of Myanmar. We also plan to expand into offshore software development and to contribute to the development of the country through telecom infrastructure development and the cultivation of engineers.

*1 Source: International Telecommunication Union (ITU)

STAFF VOICE

Yadanar Facilities BU, ICT Star Group Myanmar Co., Ltd.

iSGM has established an in-house human resources system to facilitate the personal development of local employees like us. It maximizes the potential of employees, helping younger and relatively inexperienced employees become leaders and professionals. iSGM actively transfers technology to local employees and offers comprehensive support. Thanks to the support, we can set high targets and take on challenges.

What we like best about iSGM is that we can build strong trust with the company and are proud to work for it. We are highly motivated and we enjoy our work. We will work hard together to make iSGM the No. 1 company in the Myanmar ICT industry.

NESIC Group's Sustainability Initiatives

Contributing to the development of a sustainable society based on engagement with stakeholders

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. Before carrying out such activities, we check stakeholder opinions and expectations, so that we can evaluate and determine what measures need to be prioritized. We then identify material issues (materiality) based on our findings, clearly set out priority initiatives as a group, and evaluate and disclose progress with the relevant measures and their results.

Major communication opportunities by stakeholder are as follows

Customers

- Annual questionnaire surveys to major customers about our services
- Questionnaire surveys on individual project at completion
- Face-to-face surveys on individual project at completion
- Other communications with customers

Suppliers

- Briefing sessions on business trends
- Joint activities related to matters such as quality, safety and information security, with a council of key cooperating companies
- Periodic audit of matters, such as quality and information security
- Communications through individual transactions

Shareholders and investors

- IR tools (IR website, annual report, shareholder's magazine (kabunushi-tsushin), etc.)
- General meetings of shareholders and questionnaire surveys on shareholders
- Presentations (financial results presentation, presentation for individual investors, presentation at IR conference, etc.)
- One-on-one meetings/group meetings

NPOs and experts

- Information sharing based on the activities of respective NPOs
- Participation in and cooperation with the activities of respective NPOs
- Joint activities with various external research associations
- Stakeholder dialogues: Held once annually

Local community members

- Periodic information exchanges with local governments, such as Bunkyo Ward, where the company's head office is located, and social welfare councils
- Participation of local residents in events sponsored by the company, such as local food fairs for disaster-affected areas and benefit concerts
- Communications with companies, organizations, residents, and local governments in disaster-affected areas

Employees

- President's briefing on medium-term management plans and others
- Study on the awareness of employees (opinion survey): Conducted once annually
- Various questionnaire surveys and studies including the survey on compliance awareness
- Training programs by rank and individual purpose

Dialogue with a Prominent Outside CSR Expert

Hideto Kawakita, CEO, "the International Institute for Human, Organization and the Earth [IIHOE]" and Editor and Publisher, "Socio Management."

We organized a stakeholder dialogue session on the Company's business activities and related CSR initiatives, including Senior Vice Presidents Tetsujiro Arano and Komei Sakanashi, and Associate Senior Vice Presidents Tokuo Yamamoto and Masamitsu Kisaki, as well as members of the CSR Promotion & Corporate Communications Division and other related staff divisions.

We exchanged opinions on a whole host of topics during this, our third dialogue session with Mr. Kawakita, ranging from ways to improve productivity and encourage employees to keep on working for the Company, through to sustainable procurement activities.

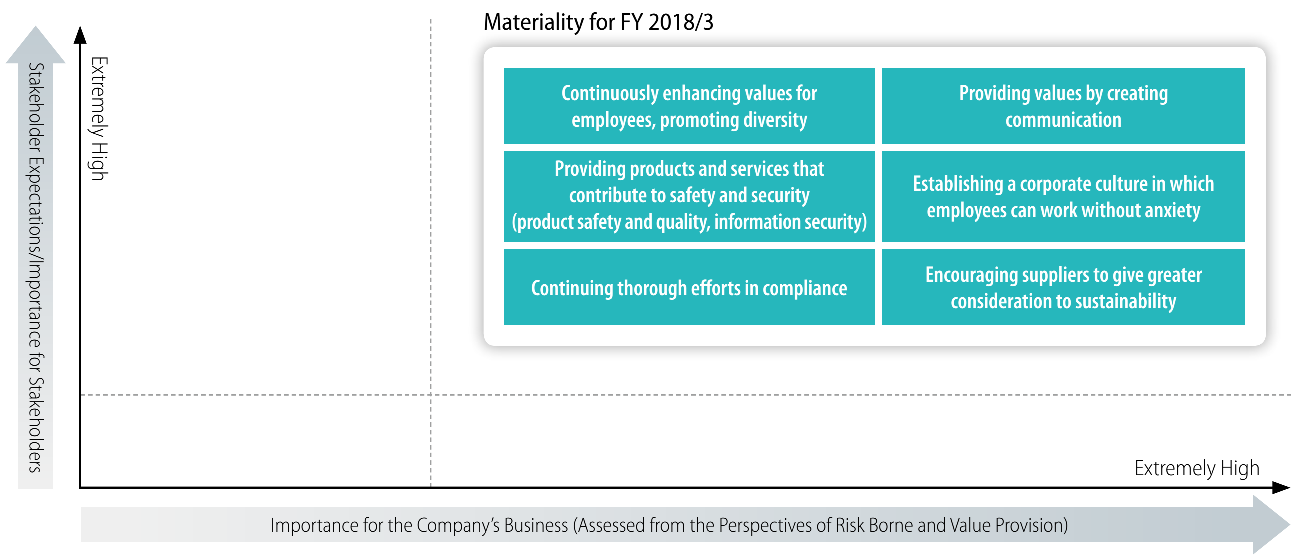
*Positions correct as of May 24, 2017.

Details on Mr. Kawakita's opinions and on NESIC's conversation with him on the following webpage:
http://www.nesic.co.jp/english/csr/engagement.html

Materiality for FY 2018/3

To ensure that our sustainability initiatives are in line with public expectations, we actively take on board stakeholder opinions, and make sure that we have adequate processes in place for identifying material issues (materiality). Once we have determined material issues, the relevant staff divisions work together to formulate a range of measures, as part of a continuing process of strengthening and improving activities via the PDCA cycle.

We review material issues every year, as necessary.



Materiality Determination Process

We determined materiality with respect to entire process based on feedback from the Institute for International Socio-Economic Studies (IISE), which serves as a think tank for the NEC Group.

STEP 1 Identification of social issues (in and outside Japan)

Identified global issues related to SDGs (Sustainable Development Goals)*1, compared them with recent domestic issues, and took into account ISO 26000*2 and GRI*3.

STEP 2 Detection of issues that are highly relevant to Company business

Compared with Company business the issues in and outside Japan that were identified in **STEP 1** and selected highly relevant issues. Determined relevance with Company business in light of the medium-term management plan and so forth.

STEP 3 Measures to be taken by the Company towards solving social issues

Sorted out measures to be taken by the Company for solving issues that are highly relevant to Company business as identified in **STEP 2** and narrowed down to 31 items as candidates for material issues.

STEP 4 Priority setting

Set priorities for the 31 items based on the two cores of stakeholder expectations/importance for stakeholders and importance for Company business and categorized them into six themes.

STEP 5 Identification of materiality

Validated in the Management Quality Improvement Committee the six themes that were narrowed down as material issues and measures included in said issued, and identified them as materiality.

*1 **SDGs**: Short for "Sustainable Development Goals," the SDGs are a set of international goals for the period from 2016 to 2030. They were set out in the 2030 Agenda for Sustainable Development at a UN summit in September 2015.

*2 **ISO 26000**: International standard for organizational social responsibility, issued by the International Organization for Standardization (ISO) (headquartered in Geneva, Switzerland) on November 1, 2010

*3 **GRI**: Short for "Global Reporting Initiative," GRI is a non-profit organization whose goal is to set out international standards for sustainability. It formulates "Sustainability Reporting Guidelines" in its capacity as an official body recognized by the United Nations Environment Program (UNEP).

Once we have identified material issues, we clearly set out specific initiatives and work to continually improve the standard of our activities based on the PDCA cycle.
http://www.nesic.co.jp/english/csr/materiality.html

Continuously Enhancing Values for Employees

The NESIC Group's most important 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. We engage in human resources development systematically, to enable employees to make the most of their talents and capabilities, and achieve our management objectives in accordance with the Basic Policy on Human Resource Development set out below.

Basic Policy on Human Resource Development

(1)We will continue to engage in systematic, incremental human resource development based on strategic long-term schemes as part of our management plans.
(2)We will dedicate ourselves to developing experts equipped with specialist skills, knowledge and expertise.
(3)We will create a culture of self-innovation that promotes independent capacity building by employees themselves.
(4)We will engage in effective, integrated human resource development in line with personnel management systems.

Specific initiatives as part of our systematic training framework include job-level specific training, training to improve individual expertise, and external qualifications.

Education and Training Framework

		Companywide training (management quality)	Global training	Technical human resource development (operational quality)	Support programs for external qualifications	Self-development (TOEIC, distance learning, online courses, seminars, etc.)	Rotation, in-house study at other sections	Progress/career reviews (annual interviews with superior)
Elective training	Senior management	• Next-generation executive training						
Elective training	Section managers	• Department manager candidate training						
	Section managers	• Year three training for managers • New managerial staff training		• Companywide high-priority professional qualifications (elective) • Project management human resource development program • Section-specific technical education				
	Assistant managers	• Year three training for assistant managers • New assistant manager training						
	Job-level specific	• Year seven training • Year five training	• Overseas business training programs (one year) • Short-term overseas training • Mission global training					
Three-year development program for new employees	Job-level specific	• Year three training • Year two training		• Training for qualifications in line with job-specific career plans				
Three-year development program for new employees	New recruits	• Follow-up training • Communication training (new recruits + more senior employees) • Basic corporate citizenship/ Understanding our operations	• Global mindset training	• Basic training in universal technologies · IP networks · Wireless technology · Security · Servers · Installation (practical) · Safety and quality				

Stepping up Global Human Resource Development

We planned and implemented the following training programs during the fiscal year ended March 2017, with an eye to expanding operations globally.

Training	Objective	Location	Duration	Trainees
Short-term overseas training	Develop human resources with a keen awareness of overseas operations through experience in cross-cultural communication	Philippines	10 days	14 trainees (10 male, 4 female)
Mission global training	Develop human resources who view differences in nationality as opportunities not obstacles as they go about their duties	Vietnam	10 days	12 trainees (10 male, 2 female)
Training for local employees at overseas subsidiaries	Develop human resources capable of sharing issues throughout the group and taking the initiative in expanding our business	Tokyo	11 days	9 trainees, from Saudi Arabia, Brazil, Philippines and Thailand (5 male, 4 female)

Developing Engineers

In addition to skills in specific areas, such as SI, maintenance services and installation, developing engineers includes selecting and providing support to obtain "companywide high-priority professional qualifications," in order to equip personnel with the skills they need in line with our business strategy.

We make every effort to improve the skills and knowledge of employees who are keen to obtain such qualifications and those who have already obtained external qualifications, through activities such as assisting with funding and organizing seminars led by in-house staff.

Comprehensive Career Advancement Support

We take an integrated approach to human resource development, through a combination of personnel systems and treatment, systematic job rotation, and offering training opportunities wherever possible. To enable employees to work on advancing their own careers, employees have regular meetings with their superiors, to discuss progress towards improving their abilities and career planning. We also enable employees to take on new challenges at work by opening up human resource applications.

Promoting Diversity

The NESIC Group believes that encouraging employees with diverse individualities to fully exercise their abilities will lead to the further enhancement of its corporate competitiveness. In the interests of our continued growth as a company, we are focusing our efforts such as developing a workplace environment that encourages female workers to fully exercise their abilities, and continued awareness-raising activities for the effective utilization of diversity in business, and we help each employee promote diversity.

Promoting Workplace Participation and Career Advancement for Women

To promote active participation by women we are working to add women to our managerial staff and expand our hiring of women.

Women as a Percent of Managerial Staff

End of 2016/3	End of 2017/3
2.2%	2.8%

* 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.

This scheme enables companies that have formulated and submitted an action plan in accordance with the act, which came into effect on April 1, 2016, to apply to their Prefectural Labour Bureau and receive certification from the Minister of Health, Labour and Welfare, providing that they meet the specified criteria. Certification is divided into three levels, depending on the number of categories in which the company meets evaluations criteria.

Having satisfied criteria in all five categories, covering recruitment, continued employment, working practices (hours, etc.), the percentage of women in management positions, and career path diversity, we have obtained the highest Level 3 certification.

We are also implementing the following measures in an effort to promote greater roles for female employees.

Eruboshi logo
The logo is only available to companies that have formulated an action plan in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace, and are implementing initiatives to a high standard.

Seminar for managerial staff (December 2016, 200 participants)	We invited an outside expert to deliver a seminar aimed at improving understanding of the importance of diversity promotion activities, so that managerial staff can incorporate that into their day-to-day management activities.
Discussion between a female director and female managerial staff (December 2016, 10 participants)	We organized a discussion session as a means of sharing information from both sides, with the aim of raising awareness regarding career development (rising to more senior positions), making new contacts, and continuing to boost motivation.

Support for the Continued Participation of Elderly Employees

We continue to employ workers who have reached the mandatory retirement age through our Senior Partner Program. As of the end of March 2017, we have 117 employees working for us under this scheme, whereby we assign elderly employees with a wealth of experience and technical skills to positions that make the most of their strengths and expertise.

Number of Employees Rehired after Retirement and Percentage of Employees Continuing Work

	End of 2016/3	End of 2017/3
Number of employees rehired after retirement	70	117
Percentage of employees continuing work	54.7%	66.6%

Promoting Employment of Persons with Disabilities

We consider it one of our corporate social responsibilities to help people with disabilities to become more independent, and are fully committed to increasing disabled employment. Having taken part in nine events, including interview fairs for people with disabilities, and worked hard to promote disabled employment throughout the fiscal year ended March 2017, this year we hired three new employees. We currently have 81 employees with disabilities, as of the end of March 2017, which translates into a 2.07% rate of disabled employment.

Rather than focusing solely on our rate of employment however, we believe it is important to offer employees with disabilities a long career. We arrange interviews with individual employees after they have been with the company for three to six months, and immediately provide feedback to their workplace if there are any issues discouraging them from continuing to work for us. Through regular talks such as these and other measures, we are constantly working to create pleasant working environments, and have continued to increase the length of service for employees with disabilities as a result.

Employment Rate of Persons with Disabilities

End of 2016/3	End of 2017/3
2.06%	2.07%

Length of Service for Employees with Disabilities

End of 2016/3	End of 2017/3
13.5 years	14.4 years

Establishing a Corporate Culture in Which Employees Can Work without Anxiety

NESIC takes a number of steps from different perspectives, including an improved work-life balance, innovation in work styles, and employee health management, to establish a corporate culture that allows employees to continue to work with a sense of security. We are striving to improve employee satisfaction, conducting an opinion survey of all employees once a year and reflecting the results of surveys in our development of these steps.

Balancing Work and Childcare

NESIC is enhancing systems to enable employees with children to feel easy about balancing work and childcare, and are 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 able to take childcare leave and return to work, we have been granted the "Kurumin" certification under Japan's Act on Advancement of Measures to Support Raising Next-Generation Children.

We hold monthly meetings for male employees due to become fathers and their supervisors to explain systems to enable employees to balance work and childcare and to encourage them to take leave. A total of 120 male employees attend meetings annually.

"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 Advancement of Measures to Support Raising Next-Generation Children.

■ Number of Employees Taking Childcare Leave and Percentage Returning to Work

Employees Taking Childcare Leave (The numbers in parentheses are numbers of male employees.)

	FY 2016/3	FY 2017/3
Number of employees taking childcare leave	40 (3)	38 (5)
Percentage returning to work	100%	100%

Balancing Work and Nursing Care

NESIC is enhancing our systems to help employees balance work and nursing care responsibilities, and encourage employees' understanding of the systems via the intranet while hosting relevant seminars for employees.

Nursing care seminars are held to share information for the successful nursing care of all family members, including those living apart or living a long distance away, and to explain how to use nursing-care insurance service so as to relieve concern over balancing work and nursing care responsibilities.

仕事と介護の両立支援

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

Management Emphasizing Health

NESIC promotes efforts to improve employees' health, focusing on preventing diseases, and to reduce total working hours including by reducing overtime.

Promotion of Health

We take steps to prevent diseases. The main initiatives are as follows:

- Raising each employee's awareness of health promotion
- Health guidance, interviews by the industrial physician, and work restrictions based on the results of medical examinations
- Promoting cancer screening

In mental health care, we encourage self-examinations and provide initial consultations with industrial physicians and other mental health professionals. We also help employees who have taken leave to return to the workplace.

Reducing Total Working Hours

To encourage employees to take paid holidays, we set intensive period for taking paid holidays and grant paid holidays according to plans.

To reduce overtime, we have built a flexible work system and raise awareness. Departments take steps to distribute work load according to working conditions.

■ Average Overtime (per month) and Paid Holidays Taken

	FY 2016/3	FY 2017/3
Average overtime (per month)	24.0 h	20.3 h
Ratio of paid holidays taken	68.1%	70.3%

As a result of these efforts, we have been recognized by Nippon Kenko Kaigi as one of the 2017 Certified Health and Productivity Management Organizations in the large enterprise category (White 500). The Nippon Kenko Kaigi is an organization that takes practical community- and workplace-based actions, through collaboration among private organizations and with full government support, in order to increase healthy life-spans and to provide appropriate medical care targeting individuals in Japan.

2017
健康経営優良法人
Health and productivity
ホワイト500

Encouraging Suppliers to Give Greater Consideration to Sustainability

To execute its business, the NESIC Group needs to cooperate with its suppliers. We promote sustainable and ethical procurement by taking steps, not only within the Group but across its entire supply chain, in all aspects of sustainability, particularly human rights, labor, information security, the environment, and corruption prevention.

Initiatives in Japan

The NESIC Group has developed a procurement policy and supply chain CSR guidelines. We conduct surveys of suppliers' attitudes towards CSR and inspect their compliance. In this way, we deepen mutual understanding between it and its suppliers, and the entire supply chain works to help realize a sustainable society.

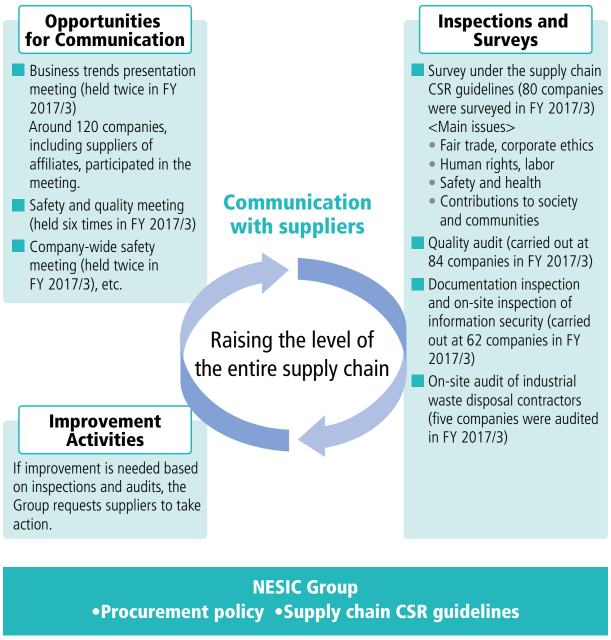
Initiatives Overseas

As the NESIC Group is expanding its global business, a strategic business area in its midterm plan, we are emphasizing CSR more strongly when procuring from suppliers overseas.

We have prepared guidelines, such as supply chain CSR guidelines, green procurement guidelines, and standards for restriction on the procurement of products containing chemicals, in English to request CSR activities and promote the understanding of CSR.

In agreements with overseas suppliers, we include provisions stipulating compliance with requirements related to respect for human rights, the environment, and safety management. In addition, we ask suppliers of its overseas subsidiaries in writing to comply with local environmental regulations and to ensure the safety of workers at construction sites and confirm in writing their compliance with regulations and the safety of their workers. We will pursue activities to strengthen its partnership with overseas suppliers.

Activities to Raise the Level of CSR Activities across the Entire Supply Chain



Contributing to Mitigating Effects of and Adapting to Climate Change

To mitigate climate change, a global challenge, NESIC helps society and customers reduce CO_2 emissions through a variety of solutions and services, including the work-style innovation solution "EmpoweredOffice." Meanwhile, we are reducing its CO_2 emissions by using less electricity and other measures. As initiatives for adaptation to climate change, we are offering a range of solutions, primarily disaster prevention measures and disaster countermeasures, to local governments and companies.

Carbon Statistics*1 (Non-consolidated)

CO_2 emissions: 14,474t < CO_2 emissions reduction contribution: 24,699t

CO_2 emissions: 14,474t	
1 Office energy usage	10,642t
2 Logistics-related CO_2 emissions	104t
3 Paper usage	82t
4 Business travel (transportation)	3,119t
5 Company-owned vehicles (commercial)	527t

CO_2 emissions reduction contribution: 24,699t	
1 Reductions in customer CO_2 emissions*2	23,274t
2 Renewable energy purchases	14t
3 Tree-planting (carbon offset procurement)	12t
4 Teleconference system usage*3	1,399t

*1 Comparison of NESIC's CO_2 emissions from business activities to its contributions to CO_2 emissions reductions, during the fiscal year ended March 31, 2017.
*2 CO_2 emissions reductions expected from customers' use of environmentally conscious products and services provided by NESIC.
*3 CO_2 emissions reductions related to internal use of teleconference systems.

Further information on efforts at NESIC are available in Japanese on the following webpage.

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

Providing Products and Services that Contribute to Safety and Security

The NESIC Group maintains impeccable quality in the products and services that it provides to customers and manages safety and quality in construction work and other kinds of work. Meanwhile, we maintain reliable information security for business, personal and all other customer data, and implement a broad spectrum of measures to ensure safety so that customers can be confident in the systems and services we provide.

Major Initiatives for Advancement of Safety and Quality

We promote a range of initiatives to enhance safety and quality management so that we will provide impeccable quality in products and services. We comply with laws and regulations related to occupational safety and health and give our employees a safe, healthy, and comfortable environment.

Process Transition Determination

We establish clear quality and control standards, and specify matters required to meet certain standards for each process of a project, and set 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

We conduct internal third-party project inspections to help ensure compliance with relevant laws such as 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 to help improve safety and quality activities in each of our departments.

On-Site Safety Patrols

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

Countermeasures against Cyber-Attacks

To protect customer information and confidential information, we have instituted a range of countermeasures against the threat of cyber-attacks, which are growing more sophisticated and advanced, in line with the NEC Group's information security policy.

(1) Detection of Unknown Attacks

As part of inbound and outbound countermeasures of the NEC Group intranet, we have introduced a system for detection of unknown malware (software and codes with malicious intent) to monitor Web communication and e-mail sending and receiving and filter unauthorized communication. We also treat PCs and servers that are suspected to be infected with a virus.

We analyze and examine traces of attackers through the integrated management and analysis of log data of employees' communication and operation and the examination of packets.

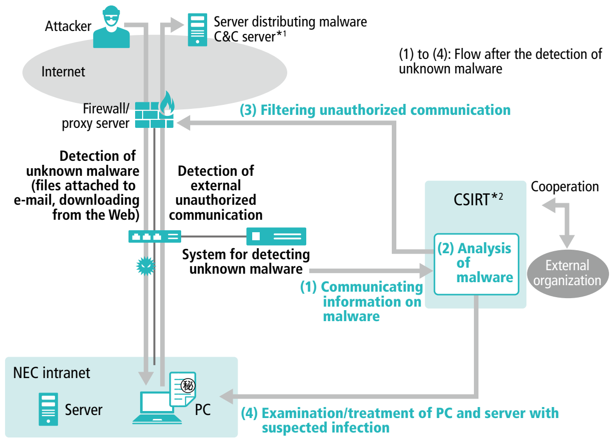
(2) Strengthening PCs and Servers

We have strengthened countermeasures to overcome the vulnerability of PCs and servers and have introduced a tool to improve the efficiency of incident response. We are stepping up action to protect PCs and servers in two stages: proactive protection, or countermeasures based on risk awareness, and reactive protection when incidents are detected.

(3) Countermeasures in Human Resources

We provide education through the simulated experience of targeted attacks to all employees to strengthen their ability to respond to sophisticated attacks. We have installed a tool to detect suspicious e-mail in each terminal throughout the company to raise awareness.

■ Detection of Unknown Malware and Unauthorized Communication



*1 C&C server: Command & Control server

*2 CSIRT: Computer Security Incident Response Team

Raising Employees' Information Security Awareness

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 2017, all our employees in Japan underwent DVD-based training on sending e-mails to wrong recipients and participated in training on information security and protection of personal information.

As we are promoting globalization, we are strengthening information security risk countermeasures at overseas subsidiaries, providing education about information security and conducted interviews to identify risks.

Certifications

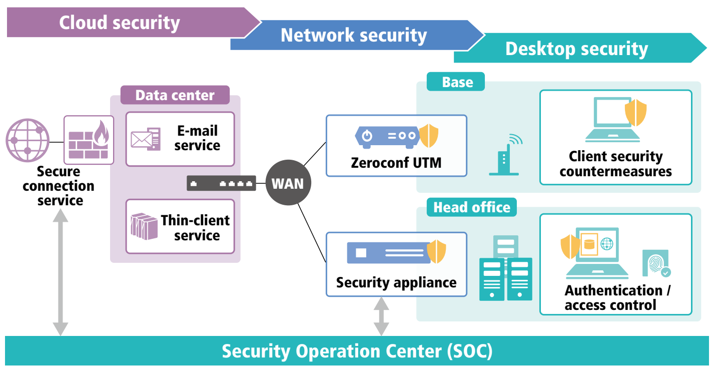
We are making efforts to obtain and maintain third-party certifications related to quality, information security, and personal information protection.

Obtained quality management system international standard ISO 9001 certification	·NEC Networks & System Integration Corporation ·NEC Magnus Communications, Ltd.
Obtained ISMS international standard ISO/IEC 27001 certification	·NEC Networks & System Integration Corporation ·Q&A Corporation
Obtained Privacy Mark certificate from JIPDEC (Japan Information Processing and DEvelopment Center)	·NEC Networks & System Integration Corporation ·NEC Magnus Communications, Ltd. ·NICHIWA Co. ·NEC Net Innovation, Ltd. ·Q&A Corporation

Cyber Security Countermeasures Provided to Customers

Our cyber security solutions protect customers' information assets from cyber-attacks.

We not only take cyber security countermeasures for ourselves but provide cyber security solutions to customers, contributing to secure information society. In addition to traditional SI-type systems, we provide a range of detection and defense systems using cloud service and security operation services to minimize any damage that does occur. We provide a safe security environment to customers in a comprehensive manner.



We support security countermeasures to protect customers' information assets from the threat of cyber-attacks through defense by layers (cloud, network, and desktop).

Continuing Thorough Efforts in Compliance

The NESIC Group believes that it is important to gain acclaim and trust in society as a healthy corporate group and enhance the overall Group's corporate value, with each of its employees fulfilling their social responsibilities according to high ethical standards. We emphasize compliance, aiming to raise the level from the compliance building stage to a stage of compliance as part of our culture.

Activities for Promoting Compliance

Compliance Education

NESIC runs a diverse array of education programs systematically throughout the year. In the fiscal year ended March 31, 2017, we provided many online education programs on topics such as compliance (semiannual courses), the Subcontract Act, the Construction Industry Act, the Worker Dispatching Act, competition law, antibribery laws, fair trade, and trade control and ensured employee participation.

We also provide a "back-to-basics as a businessperson" education every year, during which employees learn what is expected of them as employees at the NESIC Group. All employees at NESIC, domestic affiliates, and local subsidiaries overseas participate in the program.

Back-to-Basics as a Businessperson Education

(fiscal year ended March 31, 2017)

Domestic affiliates	100% of the employees participated in a face-to-face program
Overseas subsidiaries	100% of the employees participated in an online program

Compliance Awareness Survey of Employees

A survey of officers and employees is conducted to assess the extent to which compliance awareness has taken hold and a "culture of compliance" has been fostered in the organization.

Results of these surveys are fed back to each workplace in the NESIC Group and are used in developing and executing initiatives related to compliance awareness.

Corporate Ethics Hotline

The NESIC Group has established its Corporate Ethics Hotline and Sexual Harassment and Power Harassment Hotline so that compliance problems may be prevented altogether. The hotlines are internal reporting and consultation resources 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. We operate the hotlines effectively under the Whistle-Blower Protection Act.

Number of Internal Reports (fiscal year ended March 31, 2017)

50

Risk Management System

NESIC works to correctly identify every risk related to its business in and outside it to achieve sustainable growth as a business. We assess risk and take the appropriate measures. We then assess the implementation of these measures and improve it. If risk events occur, we need to gather information and assess the situation to minimize the resultant damage. This is our attitude towards risk management.

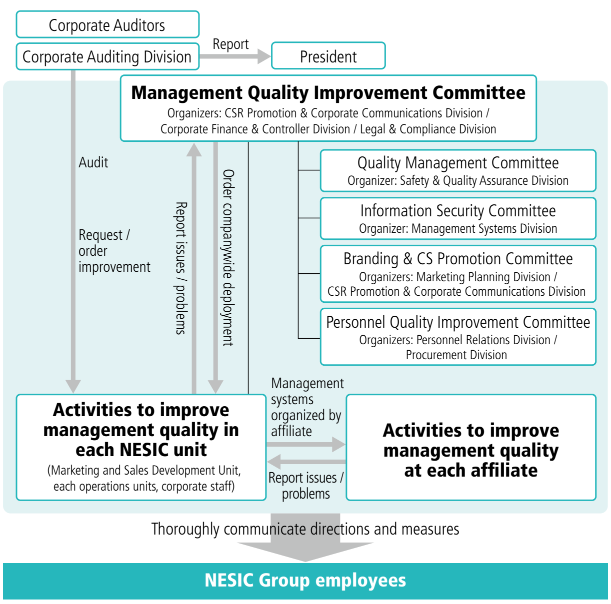
The Management Quality Improvement Committee, which plays a key role in the risk management system, has identified the three high-priority risks below for the fiscal year ending March 31, 2018. The marketing and sales development unit, operations units, and corporate staff are now working together to prevent these risks from being realized.

Risk management in projects, particularly large-scale projects, is an important challenge in management. We are taking steps, including the establishment of dedicated teams, to strengthen our project management capabilities.

Priority Risks

- ☐ Risk of long working hours and overwork
- ☐ Risk of violations of competition law
- ☐ Risk of safety and quality accidents

Risk Management System (as of March 31, 2017)



Enhancing Corporate Governance

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

Corporate Governance System (as of June 23, 2017)

Board of Directors and Board of Corporate Auditors

The Board of Directors comprises 10 directors (eight men and two women), including three 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 members of the Board of Directors are diversified in terms of experience, knowledge, expertise, and gender. Three outside directors (independent directors) have been appointed. In this way, we strive to improve the Board of Directors' function of making decisions on important matters and supervisory function. At monthly Board meetings, discussion takes place based on a wide range of knowledge.

The Board of Corporate Auditors consists of four corporate auditors, including two 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 auditing the directors' performance of their duties.

The Board of Corporate Auditors exchanges information regularly with the outside directors, accounting auditors, and the Corporate Auditing Division and enhances cooperation with them. In this way, the Board of Corporate Auditors endeavors to improve the effectiveness of audits.

Executive Officers, 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 primarily of 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.

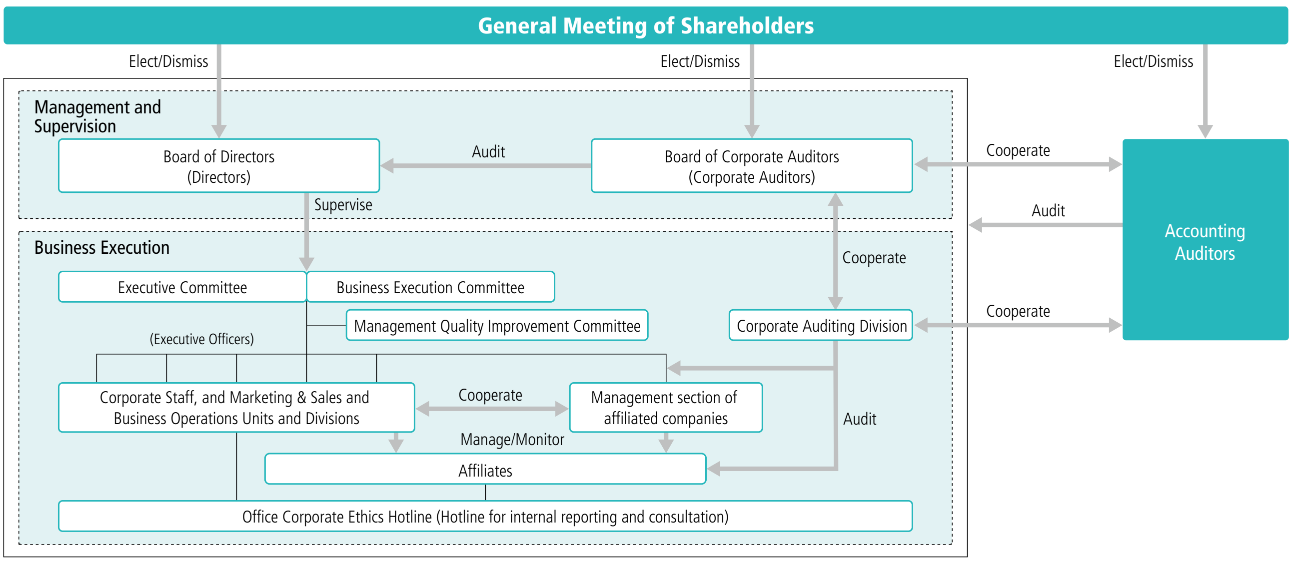
Corporate Auditing Division

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 auditors. 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



■ **History of Enhancement of Corporate Governance at NESIC**

2000	**Introduces an executive officer system** (making the division of the supervisory function and the business execution function clear)
2005	**Reduces the number of directors to ten or fewer from 20 or fewer** (expediting decision-making) **Shortens the director's term of office to a year** (making the director's management responsibility clear)
2006	**Appoints the first independent auditor (introduces the independent director/auditor (ID/A) system)** (improving management transparency)
2008	**Appoints an independent director, making the number of ID/A two** (improving management transparency)
2012	**Adds an independent director, making the number of ID/A three** (improving management transparency) **Appoints the first female director** (increasing the diversity of the directors)
2015	**Adds an independent corporate auditor, making the number of ID/A four** (improving management transparency)
2016	**Strengthens compliance with the Corporate Governance Code: starts the assessment of board effectiveness and systematizes training for directors and corporate auditors** (strengthening the management oversight function) **Appoints the first person having experience in corporate management as an outside director** (improving the diversity of directors) **Establishes an advisory panel consisting of mainly of independent outside directors to discuss nomination and compensation** (improving management transparency)
2017	**Adds an independent director (a female CEO in a different industry), making the number of ID/A five** (improving management transparency and increasing the diversity of the directors)

Independent Directors/Auditors (as of June 23, 2017)

To further strengthen its corporate governance, NESIC in 2006 adopted the practice of nominating independent directors/auditors (ID/A) who, in accordance with Tokyo Stock Exchange requirements, are unlikely to have conflicts of interest with general shareholders. NESIC has expanded the number of ID/A to five, three directors and two corporate auditors. ID/A account for more than a third of the total number of directors and auditors.

To strengthen the corporate governance system, we have been diversifying our ID/A, whereas previously they had only been attorneys and university professors. In June 2016, we 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. In June 2017, we nominated a female CEO from a different industry.

■ **Reasons for Nominations of Independent Directors and Auditors**

Name	Reason for Nomination	Meetings Attended: Board of Directors	Meetings Attended: Board of Corporate Auditors
Yumiko Ichige	Yumiko Ichige has extensive experience and expertise as an attorney handling corporate legal matters. It is anticipated that as a legal expert with an objective perspective, she will contribute to the proper supervision of management at NESIC.	13/13	—
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 of the managers directing business execution.	11/11	—
Michiko Hirono	As a management executive in a different industry, Michiko Hirono is expected to give appropriate advice on NESIC's management strategies from out-of-box perspectives and to contribute to the proper supervision of management.	—	—
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.	11/13	12/13
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.	13/13	13/13

(Note 1) Figures for Board of Directors and Board of Corporate Auditors meeting attendance are for the fiscal year ended March 31, 2017.
(Note 2) Hisayoshi Fuwa was appointed as a director at the 84th General Meeting of Shareholders, held on June 21, 2016. The figures for Board of Directors meeting attendance above are figures after he was appointed.
(Note 3) Michiko Hirono was appointed as a director at the 85th General Meeting of Shareholders, held on June 23, 2017.

Compliance with Japan's Corporate Governance Code

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

Main Points in Enhancement or Improvement

Bolstering the Assessment of Board Effectiveness

Beginning with the fiscal year ended 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. In the fiscal year ended March 31, 2017, we enhanced the assessment, including individual interviews based on the survey. The assessment for the fiscal year ended March 31, 2017 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.

We believe that we need to continue to make improvements, including more discussions on medium- to long-term management strategies, among other subjects, and more opportunities and information for discussions, to further enhance the operation of the board. We will seek to enhance the board's decision-making function and supervisory function, reviewing the operation of the board and officer training.

Review of the Structure of Directors' Remuneration (Incentives for Sustainable Growth)

We discussed the structure of directors' remuneration in the fiscal year ended March 31, 2017 based on the Corporate Governance Code. We have reviewed the remuneration structure. We have decided to link directors' bonuses to performance and introduce remuneration linked to stock prices in June 2017 for the identity of interest between shareholders and directors and for raising directors' motivation to improve results.

Enhancement of Director/Auditor Training

In the fiscal year ended March 31, 2017, we systematized director/auditor training, which was provided individually, and conducted training for the acquisition of knowledge necessary for the management of the Company, knowledge about the Company's businesses, business environment, finance, and what the Board of Directors should be like, among other subjects. We also conducted a survey of directors and corporate auditors after each training session. We will review and enhance director/auditor training, taking the results of the survey into consideration, such as increasing the number of site tours.

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 pursued 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 senior managers.

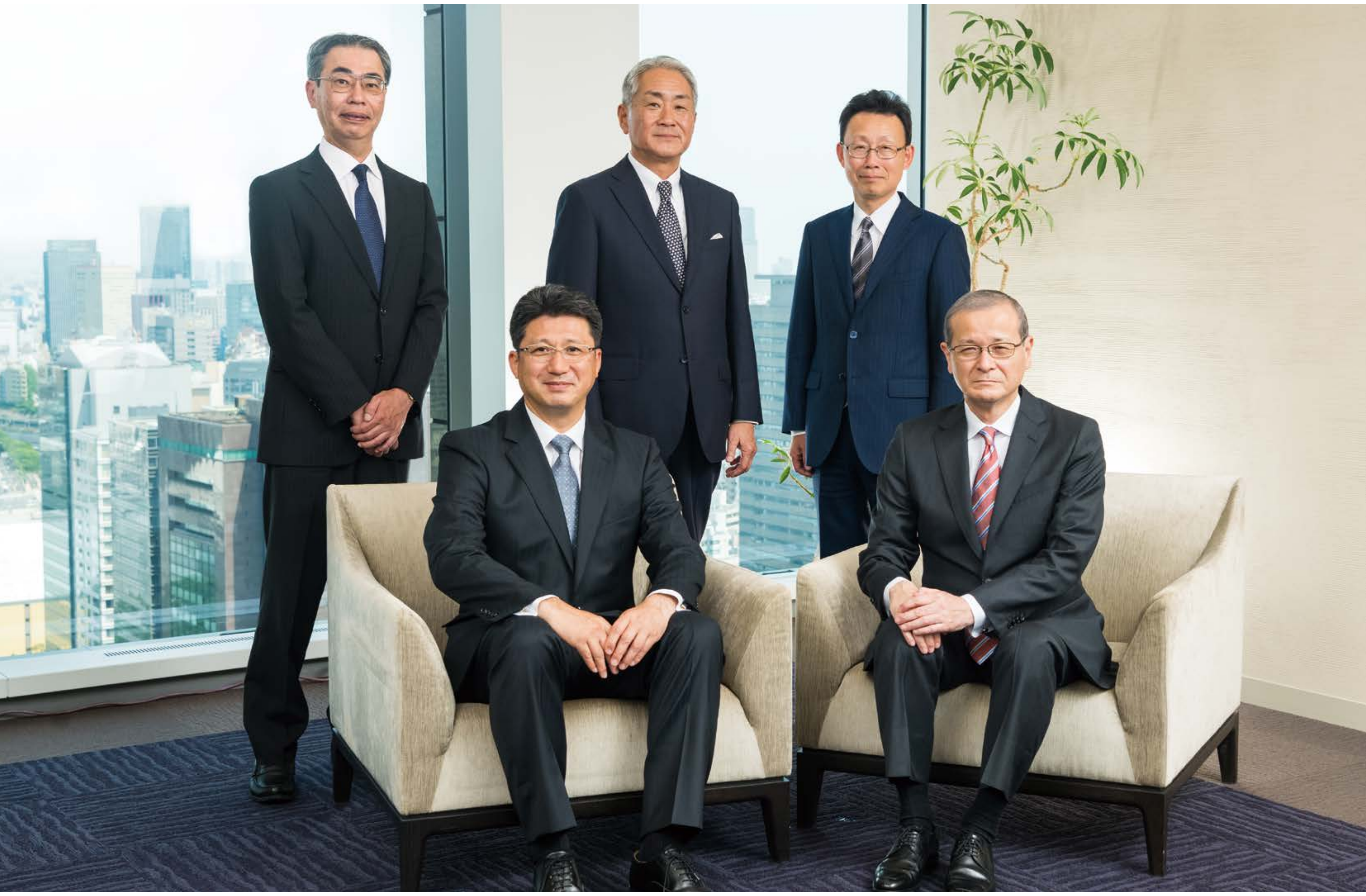
Opinions and requests received from the dialogue are reported to all officers, independent directors and auditors, for further constructive dialogue with capital markets.

Message from New Outside Director

Michiko Hirono
Outside Director

I feel that the message "Re-designing your Communication" is very good as it clearly expresses the Company's aspirations. Information and communications are changing every day and are becoming more sophisticated. In this environment, I believe that we need to express opinions about management from various perspectives.

I usually work in a different industry. Taking advantage of that, I would like to put emphasis on the customer perspective when I consider management and thereby contribute to sustainable growth.



Yasuhiro Ito
Senior Vice President and Member of the Board

Yoichi Sato
Senior Vice President and Member of the Board

Masafumi Gouji
Senior Vice President and Member of the Board

Yushi Ushijima
President

Masao Wada
Chairman of the Board

Yumiko Ichige
Member of the Board (Outside Director)

Partner, Nozomi Sogo Attorneys at Law

Outside Auditor, AEON MALL, Co., Ltd.

Outside Director
(Audit and Supervisory Committee Member),
SANYO TRADING CO., LTD.

Outside Director
(Audit and Supervisory Committee Member),
Sushiro Global Holdings Ltd.

Hisayoshi Fuwa
Member of the Board (Outside Director)

Outside Director, Tokyo Electron
Device Limited

Michiko Hirono
Member of the Board (Outside Director)

President and Representative Director of the
Board, 21 Lady Co., Ltd.

Representative Director of the Board,
ILLUMS JAPAN Co., Ltd.

Representative Director Chairman and
President, HIROTA Co., Ltd.

Outside Director, JAPAN POST Co., Ltd.

Yukinori Nakayama
Member of the Board

General Manager, Telecom Carrier
Business Planning Division, NEC Corporation

Junji Ashida
Member of the Board

General Manager, Corporate Strategy Division,
NEC Corporation

Tokuo Yamamoto
Corporate Auditor (Full-time)

Shoichi Fukaya
Corporate Auditor (Full-time)

Yuji Kikuchi
Corporate Auditor (Outside Auditor)

Partner, Tokyo Hatchobori Law Office

Masayuki Horie
Corporate Auditor (Outside Auditor)

Professor, College of Commerce,
Nihon University

A Dialogue between Outside Directors

In June 2015, Japan's Corporate Governance Code, issued by the Tokyo Stock Exchange, entered into force. Under the Code, listed companies have been required to strengthen their corporate governance. NESIC has been taking steps in this regard. It was one of the first companies to begin appointing independent directors/auditors, and it has increased their number. It has recently established an advisory panel consisting of mainly of independent outside directors to discuss nomination and compensation. We asked Outside Directors Yumiko Ichige and Hisayoshi Fuwa to provide their opinions about our corporate governance and management.

Hisayoshi Fuwa

Q1 Could you tell us your views about the characteristics of our corporate governance and the changes since you became outside directors?

Ms. Ichige: NESIC began to appoint independent directors/auditors in 2006. I feel the Company is actively strengthening its corporate governance. Last year, Mr. Fuwa, who has experience in corporate management, joined the Board of Directors. After that, our board members are exchanging more in-depth discussions and opinions, including those about management strategies, the organization needed to implement them, and personnel strategies.

When I took the post of outside director of NESIC, the other independent outside director was only one male, who was university professor with expertise in internal control. Now, the board is diversified and discussions on strategies are well balanced. This year, a female CEO of other company has joined to our board as an independent outside director, and I expect more productive discussions.

Mr. Fuwa: I have been an outside director for a year. I feel that NESIC is a company that shows consideration to those participating in board meetings, including outside directors, helping them to understand each single issue in the items by explaining them before meetings and providing opportunities for discussion. When outside directors try to understand individual management issues, they can hear concrete perceptions of challenges and strategies in open discussions with executive officers and heads of divisions. I appreciate that.

I also appreciate the opportunity to communicate with frontline employees, including visits to the Company's exhibitions, work-style innovation model offices, and product maintenance sites. Management is sincerely engaged in PR activities in consideration of ordinary shareholders and deals with the opinion of capital markets, and that is good.

Ms. Ichige: I agree. When I took office, explanations about the agenda of the board meeting before the meeting were given to individual directors and auditors separately. At present, a face-to-face meeting to brief all independent directors and auditors at the same time is held before the board meeting. I can hear questions and opinions of other directors and auditors and can share perceptions of issues, which is very helpful. In addition, we exchange opinions with corporate auditors twice a year. At the meetings, we hear explanations about management issues that the Board of Corporate Auditors detects in audits. These meetings are very meaningful.

Q2 The management structure changed on June 23, 2017. What are your impressions and expectations? How were you involved as outside directors?

Ms. Ichige: I kept saying that executive officers who began their

Hisayoshi Fuwa (left)

May 2011	President, Representative Director of the Board and Chief Executive Officer (CEO), JVC KENWOOD Holdings, Inc. (currently JVC KENWOOD Corporation) President and Representative Director of the Board, Victor Company of Japan, Limited President, Kenwood Corporation President, J&K Car Electronics Corporation
Oct. 2011	President and Representative Director of the Board, JVC KENWOOD Corporation
June 2012	Special Adviser, JVC KENWOOD Corporation
June 2016	Outside Director of the Company (present position)

Significant concurrent positions outside the Company

Outside Director, Tokyo Electron Device Limited

Yumiko Ichige (right)

Apr. 1989	Registered as an attorney Joined IBM Japan, Ltd.
Dec. 2007	Partner, Nozomi Sogo Attorneys at Law (present position)
Apr. 2009	Vice President, Daini Tokyo Bar Association
Sept. 2010	Deputy Secretary General, Japan Federation of Bar Associations
June 2012	Outside Director of the Company (present position)

Significant concurrent positions outside the Company

Outside Auditor, AEON MALL, Co., Ltd.
Outside Director (Audit and Supervisory Committee Member), SANYO TRADING CO., LTD.
Outside Director (Audit and Supervisory Committee Member), Sushiro Global Holdings Ltd.

career at NESIC should account for a greater percentage of the board members for diversity. I also said female directors should increase. What I said has come true, and I appreciate that.

It is wonderful that Mr. Yushi Ushijima, one of executive officers who began his career at NESIC, has become president, and I believe that employees have been encouraged. I expect that Mr. Ushijima will show his long-term strategies such as visions of the Company in ten years and in twenty years and that he will share the visions and strategies with board members, shareholders, employees, and other stakeholders. I also hope that the president will seek to enhance the supervisory function of the Board of Directors based on such shared visions and strategies. To that end, I believe that regular communication between the independent outside directors, Chairman Masao Wada and Mr. Ushijima is important. I would like to discuss this more actively at meetings of the Board of Directors.

Mr. Fuwa: I am also pleased that a person who began his career at NESIC has become president.

NESIC's relationship with the NEC Group—what are the expectations of NESIC in group strategies and how will NESIC cooperate with the NEC Group and take advantage of its strengths—is all the more likely to be implicit knowledge because NEC respects the independence of NESIC's management. It is expected for senior management to exchange opinions, while taking the position of minority shareholders into consideration.

Ms. Ichige: I agree. With regards to NESIC's relationship with NEC, checking any and all conflicts of interest is very important. In addition, we need to discuss our position in the group's medium- to long-term growth strategies and how we can leverage the advantages owing to the fact that we belong to the NEC Group.

Mr. Fuwa: The first year after the change in the management structure is very important. Immediately before taking office as president of NESIC, Mr. Ushijima has improved results at subsidiary Q&A Corporation as president by making changes. I believe that he will make changes at NESIC as well. Mr. Ushijima has an opportunity to raise questions— "why" and "how" questions—about the Company's traditional management. I believe that changes will result in an improvement in profitability and growth at NESIC. I am looking forward to seeing how he will lead employees to address issues such as diversity, improvement in productivity, and the cultivation of human resources, which are closely connected to innovation in work styles, one of our priorities.

I have great expectations of Mr. Wada. I hope that the chairman will create a good, alert relationship between the business execution side and the outside directors to promote in-depth discussions about the midterm plan and quarterly results.

Mr. Wada took the lead in bolstering internal control, always telling employees to give first priority to compliance. I look forward to Mr. Ushijima following his example.

Q3 What has impressed you most in the past year?

Mr. Fuwa: As an outside director, I feel that projects related to work-style innovation made progress in the past year. I was impressed also by the entry into the large-scale mega solar plants construction business. I believe that the Company will be able to make the most of the technology that it has developed in the building of network systems. I hope that it will expand the solar power generation business, including not only the construction and maintenance of solar power generation plants but also services related to the facilities.

Ms. Ichige: As to the discussions about mega solar projects, our interest was focused on positive aspects at the beginning, but as the discussion continued, we came to see the direction of risk and countermeasures. I believe that the Board of Directors' roles as both the accelerator and the brakes will remain important.

Let me add a different view point to what Mr. Fuwa said. We held a meeting with senior female staff members based on my proposal, and that was very meaningful. At the Company, diversity is considered important in terms of its operations and business category. I have made remarks repeatedly to promote women's participation from different perspectives. At the meeting, I was able to hear their worries and expectations, find commonalities of the theme, and reported issues to the Board of Directors. Now, the Company has two female outside directors. I would like to continue to express opinions actively so that internal women should work in a position where they can participate in making decisions on business execution such as executive officers, in addition to outside directors on board.

Q4 What are your views on challenges related to our corporate governance and management?

Ms. Ichige: We need to encourage information sharing with the internal audit unit. The internal audit unit has a deep understanding of the progress in the Company's management issues and associated risks from an internal perspective. Promoting the sharing of information and perceptions between the outside directors/auditors and the internal audit unit will improve governance.

As an attorney, I check whether risks are considered in the process of decision-making, or whether decisions are made based on an understanding of the opinions of the legal section, the legal advisor, and other experts. As far as agenda items of meetings of the Board of Directors are concerned, I appreciate that the Company considers risks. However, at the level of management at individual front sites, there are certain challenges, including the elimination of "cost control failures." I feel that we need to raise risk awareness and risk management awareness both qualitatively and quantitatively.

Mr. Fuwa: I think we should determine core values through further classification, discussion and analysis and make them the seeds of growth.

Considering a slowdown in the Carrier Networks and Social Infrastructures businesses up to the previous fiscal year (ended March 2017), I think we face an urgent need to focus on new business opportunities in the Carrier Networks and Social Infrastructures businesses. I hope that the Company will generate growth in new business fields, such as the development of new solutions related to innovation in work styles, and improve the profit ratio using new technologies and new solutions.

Ms. Ichige: I also view focusing on new business opportunities as a challenge. It is important to develop strategies ahead of changes in the business environment. We need to be careful, but we will miss opportunities if we do not act quickly. Discussing strategies will become increasingly important.

Mr. Fuwa: Business growth and improvements in profitability are correlated. We are seeking to achieve growth chiefly by developing new businesses, and we have many challenges to improve the margin. I will be active in making remarks about how we can achieve growth in business and profits and about strategies for using resources to contribute to the continuity, growth, and development of our businesses.

Financial Section

Consolidated Nine-Year Summary

	FY 2009/3	FY 2010/3	FY 2011/3	FY 2012/3
Performance Indicators (Millions of yen)				
Orders received	¥245,257	¥222,046	¥212,277	¥215,373
Net sales	249,070	217,727	217,948	204,658
Gross margin	35,470	32,938	33,132	32,079
Operating income	10,968	9,867	10,835	9,747
Operating income to net sales (%)	4.4	4.5	5.0	4.8
Net income attributable to owners of the parent	4,995	5,644	4,660	4,474
Financial Condition (Fiscal year end) (Millions of yen)				
Total assets	¥147,251	¥146,543	¥149,464	¥149,130
Net assets	69,129	73,849	77,005	80,074
Owner’s equity	68,518	73,213	76,445	79,503
Cash Flows (Millions of yen)				
Cash flows from operating activities	¥6,953	¥16,070	¥ (1,595)	¥18,595
Cash flows from investing activities	(2,193)	(1,885)	(1,904)	(2,648)
Free cash flow	4,759	14,184	(3,499)	15,946
Cash flows from financing activities	(2,096)	(1,382)	(337)	(3,979)
Cash and cash equivalents at end of year	16,590	29,514	25,587	37,456
Per-Share Indicators (yen)				
EPS	¥100.41	¥113.50	¥93.72	¥89.98
BPS	1,377.68	1,472.14	1,537.19	1,598.77
Cash dividends	22.00	25.00	26.00	28.00
Key Indicators (%)				
ROE *2	7.5	8.0	6.2	5.7
ROA *3	7.3	6.7	7.3	6.3
Owner’s equity ratio	46.5	50.0	51.1	53.3
DOE *4	1.6	1.8	1.7	1.8
Payout ratio	21.9	22.0	27.7	31.1
Other				
Number of employees	5,906	5,998	5,939	5,936
Number of shares outstanding	49,773,807	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 ¥112.19 = US$1.00 as of March 31, 2017.
*2 ROE (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 ROA (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
*4 DOE (Dividend on Equity): Total annual dividends / 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

	FY 2013/3	FY 2014/3	FY 2015/3	FY 2016/3	FY 2017/3	
						(Thousands of U.S. dollars) *1
	¥241,271	¥280,071	¥299,097	¥274,946	**¥279,241**	**$2,489,001**
	235,716	270,326	292,164	279,961	**257,912**	**2,298,885**
	37,182	44,690	48,110	45,162	**42,585**	**379,579**
	12,483	14,418	16,158	14,111	**9,974**	**88,902**
	5.3	5.3	5.5	5.0	**3.9**	**—**
	7,246	8,257	7,791	5,996	**6,549**	**58,374**
						(Thousands of U.S. dollars) *1
	¥167,472	¥189,059	¥201,964	¥196,569	**¥197,469**	**$1,760,130**
	85,974	89,166	94,173	94,397	**96,674**	**861,698**
	85,266	87,514	92,559	92,738	**94,611**	**843,313**
						(Thousands of U.S. dollars) *1
	¥ (1,723)	¥23,313	¥2,460	¥9,435	**¥22,634**	**$201,747**
	(3,429)	(5,504)	(3,929)	(2,822)	**(2,697)**	**(24,039)**
	(5,152)	17,809	(1,469)	6,613	**19,936**	**177,703**
	(2,066)	(3,824)	(4,127)	(1,402)	**(4,144)**	**(36,937)**
	30,315	44,434	38,951	43,889	**59,648**	**531,669**
						(U.S. dollars) *1
	¥145.73	¥166.06	¥156.72	¥120.80	**¥131.94**	**$1.17**
	1,714.74	1,760.06	1,864.61	1,868.25	**1,906.03**	**16.98**
	45.00	60.00	64.00	70.00	**72.00**	**0.64**
	8.8	9.6	8.7	6.5	**7.0**	**—**
	7.7	8.2	8.3	7.1	**5.1**	**—**
	50.9	46.3	45.8	47.2	**47.9**	**—**
	2.7	3.5	3.5	3.8	**3.8**	**—**
	30.9	36.1	40.8	57.9	**54.6**	**—**
	6,024	7,164	7,260	7,464	**7,572**	**—**
	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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Assets			
Current assets:			
Cash and cash equivalents	¥ 59,648	¥ 43,889	$ 531,669
Notes and accounts receivable (note 20)	91,152	104,841	812,478
Inventories (note 5)	8,494	9,190	75,710
Deferred tax assets (note 8)	4,102	4,246	36,562
Other current assets	5,694	5,514	50,753
Allowance for doubtful accounts	(92)	(44)	(820)
Total current assets	168,999	167,638	1,506,364
Property and equipment:			
Land	2,507	2,507	22,346
Buildings and structures	9,875	9,817	88,020
Machinery and vehicles	187	202	1,666
Furniture and fixtures	14,435	13,642	128,665
Construction in progress	382	277	3,404
Other	443	1,053	3,948
Accumulated depreciation	(17,112)	(16,532)	(152,526)
Property and equipment, net	10,719	10,967	95,543
Intangibles, net of accumulated amortization (note 6)	4,561	5,025	40,654
Investments and other assets:			
Investment securities (notes 4)	421	412	3,752
Asset for retirement benefits (note 9)	324	514	2,887
Deferred tax assets (note 8)	8,881	8,250	79,160
Other assets (note 20)	3,612	3,801	32,195
Allowance for doubtful accounts	(51)	(41)	(454)
Total investments and other assets	13,188	12,937	117,550
Total assets	¥ 197,469	¥ 196,569	$ 1,760,130

(Continued)

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans (note 7)	¥ 4,069	¥ 4,154	$ 36,268
Current installments of long-term debt (note 7)	171	163	1,524
Notes and accounts payable (notes 20)	36,474	39,190	325,109
Advances received (note 20)	4,678	3,721	41,697
Accrued income taxes (note 8)	2,964	3,883	26,419
Accrued bonuses to directors and corporate auditors	67	99	597
Accrued warranty on products	123	189	1,096
Accrued losses on sales contracts (note 5)	645	399	5,749
Other current liabilities	14,303	15,310	127,489
Total current liabilities	63,498	67,113	565,986
Long-term liabilities:			
Long-term debt (note 7)	4,014	4,185	35,778
Liability for retirement benefits (note 9)	31,206	28,960	278,153
Other liabilities (notes 8 and 10)	2,075	1,911	18,495
Total long-term liabilities	37,296	35,057	332,436
Total liabilities	100,795	102,171	898,431
Shareholders' equity (note 11):			
Common stock:	13,122	13,122	116,962
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2017 and 2016			
Capital surplus	16,652	16,650	148,426
Retained earnings	70,622	67,597	629,485
Treasury stock, at cost; 135,911 shares at March 31, 2017 and 134,825 shares at March 31, 2016	(272)	(270)	(2,424)
Total shareholders' equity	100,124	97,100	892,450
Accumulated other comprehensive income:			
Net unrealized holding gain on other securities (note 4)	35	32	311
Foreign currency translation adjustments	(394)	(376)	(3,511)
Accumulated adjustments for retirement benefits (note 9)	(5,154)	(4,018)	(45,939)
Total accumulated other comprehensive income	(5,513)	(4,362)	(49,139)
Non-controlling interests	2,062	1,659	18,379
Total net assets	96,674	94,397	861,698
Commitments and contingencies (note 12)			
Total liabilities and net assets	¥ 197,469	¥ 196,569	$ 1,760,130

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Net sales (note 20)	¥ 257,912	¥ 279,961	$ 2,298,885
Cost of sales (notes 5 and 20)	215,326	234,798	1,919,297
Gross profit	42,585	45,162	379,579
Selling, general and administrative expenses (notes 14 and 15)	32,611	31,051	290,676
Operating income	9,974	14,111	88,902
Other income (expense):			
Interest income	38	59	338
Interest expense	(85)	(80)	(757)
Dividends income of insurance	190	172	1,693
Insurance repayment	—	59	—
Gain on sale of investment in affiliates	—	40	—
Loss on disposal of property and equipment	(100)	(110)	(891)
Business reconstruction expenses for subsidiaries	(112)	(94)	(998)
Shutdown expenses for subsidiaries	(93)	—	(828)
Amortization of goodwill (note 6)	—	(464)	—
Retirement benefit costs (note 9)	—	(464)	—
Relocation expenses for subsidiaries	—	(140)	—
Other, net	71	15	632
Subtotal	(93)	(1,008)	(828)
Income before income taxes	9,881	13,103	88,073
Income taxes (note 8):			
Current	2,973	4,753	26,499
Deferred	(16)	2,195	(142)
Subtotal	2,957	6,949	26,357
Net Income	6,923	6,153	61,707
Net Income (Loss) attributable to:			
Non-controlling interests	374	157	3,333
Owners of the parent	¥ 6,549	¥ 5,996	$ 58,374

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Net Income	¥ 6,923	¥ 6,153	$ 61,707
Other comprehensive income arising during the year (note 16):			
Net unrealized holding loss on other securities	4	(13)	35
Foreign currency translation adjustments	(38)	(496)	(338)
Adjustments for retirement benefit	(1,136)	(2,090)	(10,125)
Total other comprehensive income arising during the year	(1,170)	(2,600)	(10,428)
Comprehensive income	¥ 5,753	¥ 3,553	$ 51,279
Comprehensive income attributable to:			
Owners of the parent	¥ 5,398	¥ 3,512	$ 48,114
Non-controlling interests	355	40	3,164

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, 2017 and 2016

	Numbers of shares of common stock	Millions of yen				
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total
	(Thousands)					
Balance at April 1, 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)
Decrease in retained earnings due to exclusion of equity method companies				(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
Changes arising during year:						
Cash dividends				(3,524)		(3,524)
Net income				6,549		6,549
Purchase of treasury stock					(2)	(2)
Disposition of treasury stock			(0)		0	0
Increase/(Decrease) in share of consolidated subsidiaries by capital increase			1			1
Net changes in accounts other than shareholders' equity						—
Total changes during the year	—	—	1	3,025	(2)	3,024
Balance at March 31, 2017	49,773	¥ 13,122	¥ 16,652	¥ 70,622	¥ (272)	¥ 100,124

	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, 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)
Decrease in retained earnings due to exclusion of equity method companies				—		(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
Changes arising during year:						
Cash dividends				—		(3,524)
Net income				—		6,549
Purchase of treasury stock				—		(2)
Disposition of treasury stock				—		0
Increase/(Decrease) in share of consolidated subsidiaries by capital increase				—		1
Net changes in accounts other than shareholders' equity	3	(18)	(1,136)	(1,151)	403	(748)
Total changes during the year	3	(18)	(1,136)	(1,151)	403	2,276
Balance at March 31, 2017	¥ 35	¥ (394)	¥ (5,154)	¥ (5,513)	¥ 2,062	¥ 96,674

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2016	$ 116,962	$ 148,408	$ 602,522	$ (2,406)	$ 865,496
Changes arising during year:					
Cash dividends			(31,410)		(31,410)
Net income			58,374		58,374
Purchase of treasury stock				(17)	(17)
Disposition of treasury stock		(0)		0	0
Increase/(Decrease) in share of consolidated subsidiaries by capital increase		8			8
Net changes in accounts other than shareholders' equity					—
Total changes during the year	—	8	26,963	(17)	26,954
Balance at March 31, 2017	$ 116,962	$ 148,426	$ 629,485	$ (2,424)	$ 892,450

	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, 2016	$ 285	$ (3,351)	$ (35,814)	$ (38,880)	$ 14,787	$ 841,402
Changes arising during year:						
Cash dividends				—		(31,410)
Net income				—		58,374
Purchase of treasury stock				—		(17)
Disposition of treasury stock				—		0
Increase/(Decrease) in share of consolidated subsidiaries by capital increase				—		8
Net changes in accounts other than shareholders' equity	26	(160)	(10,125)	(10,259)	3,592	(6,667)
Total changes during the year	26	(160)	(10,125)	(10,259)	3,592	20,287
Balance at March 31, 2017	$ 311	$ (3,511)	$ (45,939)	$ (49,139)	$ 18,379	$ 861,698

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Cash flows from operating activities:			
Net income before income taxes	¥ 9,881	¥ 13,103	$ 88,073
Depreciation and amortization	2,834	2,753	25,260
Amortization of goodwill	255	784	2,272
Increase (decrease) in allowance for doubtful receivables	54	(12)	481
(Increase) decrease in asset for retirement benefits	8	(370)	71
Increase (decrease) in liability for retirement benefits	810	593	7,219
Increase (decrease) in accrued bonuses to directors and corporate auditors	(31)	(25)	(276)
Increase (decrease) in accrued warranty on products	(66)	(90)	(588)
Increase (decrease) in accrued losses on sales contracts	242	236	2,157
Interest and dividend income	(50)	(74)	(445)
Interest expense	85	80	757
(Increase) decrease in notes and accounts receivable	13,463	8,316	120,001
(Increase) decrease in inventories	678	901	6,043
Increase (decrease) in notes and accounts payable	(2,640)	(9,287)	(23,531)
Other, net	1,207	(2,139)	10,758
Subtotal	26,733	14,769	238,283
Interest and dividend received	50	74	445
Interest paid	(85)	(80)	(757)
Income taxes paid	(4,063)	(5,328)	(36,215)
Net cash provided by (used in) operating activities	22,634	9,435	201,747

(Continued)

	Millions of yen		Thousands of U.S. dollars (note 3)
	2017	2016	2017
Cash flows from investing activities:			
Purchase of property and equipment	(1,886)	(2,417)	(16,810)
Proceeds from sale of property and equipment	2	6	17
Purchase of intangibles	(688)	(631)	(6,132)
Purchase of investment securities	(9)	(11)	(80)
Loans receivable made	(1)	(4)	(8)
Collection of loans receivable	5	6	44
Proceeds from sales of investments in affiliates	—	151	—
Other, net	(119)	78	(1,060)
Net cash used in investing activities	(2,697)	(2,822)	(24,039)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	23	2,623	205
Proceeds from long-term debt	—	3,000	—
Repayments of long-term debt	(163)	(3,168)	(1,452)
Proceeds from sale and purchase of treasury stock, net	(2)	(3)	(17)
Dividends paid to shareholders	(3,521)	(3,326)	(31,384)
Dividends paid to minority shareholders of subsidiaries	(14)	(18)	(124)
Other, net	(466)	(509)	(4,153)
Net cash used in financing activities	(4,144)	(1,402)	(36,937)
Effect of exchange rate changes on cash and cash equivalents	(33)	(272)	(294)
Net increase (decrease) in cash and cash equivalents	15,758	4,938	140,458
Cash and cash equivalents at beginning of year	43,889	38,951	391,202
Cash and cash equivalents at end of year	¥ 59,648	¥ 43,889	$ 531,669

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, 2017 and 2016

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, 2017 (17 subsidiaries as of March 31, 2016) (the "Group").

Toyo Alpha Net Co., Ltd., which was a consolidated subsidiary in the previous fiscal year, was merged by NEC Magnus Communications, Ltd. on April 1, 2016 and excluded from the scope of consideration from the current fiscal year.
Also, ICT Star Group Myanmar Co., Ltd., which was established in April 2016, has been included in the scope of consolidation from the current fiscal year.

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 7 subsidiaries with year-end of December 31 have been used for consolidation. All material transactions that occurred in the period from such year-end to 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.

(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 expense 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 (12 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.

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the current fiscal year.

(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, 2016 to conform to the presentation for the year ended March 31, 2017.

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 ¥112.19 = U.S.$1.00, the approximate rate of exchange on March 31, 2017. 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, 2017 and 2016 are summarized as follows:

March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 167	¥ 89	¥ 78	$ 1,488	$ 793	$ 695
Subtotal	167	89	78	1,488	793	695
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	51	74	(22)	454	659	(196)
Subtotal	51	74	(22)	454	659	(196)
Total	¥ 219	¥ 163	¥ 55	$ 1,952	$ 1,452	$ 490

March 31, 2016	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 159	¥ 76	¥ 82
Subtotal	159	76	82
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	51	90	(38)
Subtotal	51	90	(38)
Total	¥ 211	¥ 167	¥ 43

Sales of securities classified as other securities for the years ended March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Proceeds from sales	¥ 3	¥ 9	$ 26
Gain on sales	—	5	—

Unlisted equity securities of ¥202 million ($1,800 thousand) and ¥201 million at March 31, 2017 and 2016, 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, 2017, the Company recognized impairment losses of ¥2 million ($17 thousand) and ¥0 million ($0 thousand) on available-for-sale securities with and without market value, respectively. During the fiscal year ended March 31, 2016, the Company recognized impairment losses of ¥6 million and ¥4 million 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. INVENTORIES

a) Inventories at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Work in process	¥ 5,815	¥ 6,311	$ 51,831
Purchased goods and materials	2,679	2,878	23,879
Total	¥ 8,494	¥ 9,190	$ 75,710

b) Losses from revaluation of the lower of cost or net selling value for the years ended March 31, 2017 and 2016 were ¥ -474 million ($ -4,224 thousand) and ¥529 million, respectively.

c) Losses on sales contracts for the years ended March 31, 2017 and 2016 were ¥555 million ($4,946 thousand) and ¥393 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, 2017 and 2016 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Work in process	¥ 127	¥ 33	$ 1,132

6. GOODWILL

Goodwill at March 31, 2017 and 2016 is recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Intangibles, net of accumulated amortization	¥ 1,689	¥ 1,944	$ 15,054

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 was ¥464 million recognized in the Other income (expense).
Also, some goodwill was lump-sum amortized.

7. 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, 2017 and 2016 were approximately 0.5% and 0.8% and those of long-term debt for the years ended March 31, 2017 and 2016 were approximately 0.4% and 0.5%, respectively.

The annual maturities of long-term debt at March 31, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2018	¥ 171	$ 1,524
2019	3,171	28,264
2020	171	1,524
2021	171	1,524
2022	171	1,524
2023 and thereafter	328	2,923

As of March 31, 2017, the Group executed a ¥8,000 million ($71,307 thousand) committed borrowing facility with two domestic banks, and there is no outstanding borrowings having been occurred during the year.

8. 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 30.9% and 33.1% for 2017 and 2016, respectively. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2017 and 2016 differed from the statutory tax rate for the following reasons:

	2017	2016
Statutory tax rate	30.9%	33.1%
Effect of:		
Expenses not deductible for tax purposes	1.4	0.9
Inhabitant tax per capita levy	1.4	0.9
Tax credit	(0.3)	(2.5)
Increase/(Decrease) in valuation allowance	(2.8)	14.5
Adjustments of deferred tax assets due to change in statutory tax rate	—	4.1
Amortization of goodwill	0.3	1.6
Other, net	(1.0)	0.4
Effective tax rate	29.9%	53.0%

Tax effects of significant temporary differences and tax loss carry-forwards that resulted in deferred tax assets or liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Accrued employees' bonuses	¥ 1,973	¥ 2,036	$ 17,586
Social security contribution on employees' bonuses	284	281	2,531
Allowance for doubtful receivables	39	24	347
Accrued enterprise tax	246	298	2,192
Loss on revaluation of inventories	1,187	1,534	10,580
Unrealized profit on inventories	16	19	142
Accrued losses on sales contracts	177	123	1,577
Depreciation	189	177	1,684
Software	10	14	89
Asset retirement obligations	240	215	2,139
Liability for retirement benefits	9,789	9,194	87,253
Stock dividends	106	106	944
Impairment loss on investment securities	57	59	508
Asset adjustment account	101	202	900
Tax loss carry-forwards	1,495	1,626	13,325
Other	365	331	3,253
Subtotal	16,282	16,247	145,128
Valuation allowance	(2,694)	(2,968)	(24,012)
Total	13,588	13,278	121,115
Deferred tax liabilities:			
Asset for retirement benefits	(28)	(161)	(249)
Restoration cost for asset retirement obligations	(167)	(159)	(1,488)
Goodwill	(302)	(353)	(2,691)
Liability adjustment account	(150)	(156)	(1,337)
Other	(46)	(45)	(410)
Total	(694)	(876)	(6,185)
Net deferred tax assets	¥ 12,893	¥ 12,402	$ 114,921

Net deferred tax assets and liabilities as of March 31, 2017 and 2016 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets - Deferred tax assets	¥ 4,102	¥ 4,246	$ 36,562
Investments and other assets - Deferred tax assets	8,881	8,250	79,160
Long-term liabilities – Other liabilities	(90)	(94)	(802)

9. 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, 2017 and 2016 for the years then ended is as follows.

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligation at beginning of year	¥ 56,364	¥ 52,864	$ 502,397
Service cost	2,510	2,394	22,372
Interest cost	507	684	4,519
Actuarial gain and loss	2,042	4,336	18,201
Past service cost	—	(1,076)	—
Benefits paid	(1,885)	(1,892)	(16,801)
Changes arising from the changes in accounting policy from the simplified method to the standard method	174	154	1,550
Changes arising from employment transfer	—	154	—
Changes arising from partial settlement of retirement benefit plans	—	(1,255)	—
Other	(1)	(0)	(8)
Retirement benefit obligation at end of year	¥ 59,713	¥ 56,364	$ 532,248

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
	2017	2016	2017
Plan assets at beginning of year	¥ 28,558	¥ 28,823	$ 254,550
Expected return on plan assets	699	696	6,230
Actuarial gain and loss	(413)	(860)	(3,681)
Contributions paid by the employer	1,496	1,719	13,334
Benefits paid	(929)	(930)	(8,280)
Changes resulting from partial settlement of the plan	—	(877)	—
Other	(3)	(13)	(26)
Plan assets at end of year	¥ 29,407	¥ 28,558	$ 262,117

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
	2017	2016	2017
Liability for retirement benefits at beginning of year	¥ 639	¥ 798	$ 5,695
Retirement benefit costs	86	(3)	766
Benefits paid	20	(52)	178
Changes arising from the changes in accounting policy from the simplified method to the standard method	(157)	(90)	(1,399)
Other	(13)	(11)	(115)
Liability for retirement benefits at end of year	¥ 576	¥ 639	$ 5,134

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 32,798	¥ 31,099	$ 292,343
Plan assets	(29,815)	(28,967)	(265,754)
	2,982	2,131	26,579
Unfunded retirement benefit obligation	27,899	26,314	248,676
Net liability for retirement benefits	¥ 30,881	¥ 28,446	$ 275,256
Liability for retirement benefits	¥ 31,206	¥ 28,960	$ 278,153
Asset for retirement benefits	(324)	(514)	(2,887)
Net liability for retirement benefits	¥ 30,881	¥ 28,446	$ 275,256

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
	2017	2016	2017
Service cost	¥ 2,510	¥ 2,394	$ 22,372
Interest cost	507	684	4,519
Expected return on plan assets	(699)	(696)	(6,230)
Net actuarial loss amortization	1,411	1,059	12,576
Past service costs amortization	(574)	(529)	(5,116)
Retirement benefit costs calculated by the simplified method	86	(3)	766
Loss on partial settlement of the plan	—	196	—
Amortization expenses arising from transfer to the Company from subsidiaries	—	134	—
Other	14	131	124
Retirement benefit costs	¥ 3,256	¥ 3,371	$ 29,022

(6) Adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs	¥ (574)	¥ 598	$ (5,116)
Actuarial gains and losses	(1,044)	(3,983)	(9,305)
Total	¥ (1,619)	¥ (3,384)	$ (14,430)

(7) Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service costs	¥ (2,798)	¥ (3,373)	$ (24,939)
Unrecognized actuarial gains and losses	10,659	9,614	95,008
Total	¥ 7,860	¥ 6,240	$ 70,059

(8) Plan assets
(a) The components of plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Debt securities	¥ 14,792	¥ 14,705	$ 131,847
Equity securities	4,328	3,762	38,577
General account	3,517	3,280	31,348
Alternative	6,172	4,164	55,013
Other	597	2,644	5,321
Total	¥ 29,407	¥ 28,558	$ 262,117

Note: Total plan assets include ¥509 million ($4,536 thousand) and ¥578 million in a retirement benefit trust established for the corporate pension plan as of March 31, 2017 and 2016, respectively.
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, 2017 and 2016 (expressed as weighted averages) are as follows:

	2017	2016
Discount rate	0.9%	0.9%
Long-term expected rate of return	2.5%	2.5%
Expected increase rate of salary	4.1%	5.8%

The amounts to be paid by the Company and its consolidated subsidiaries to the defined contribution plans were ¥477 million ($4,251 thousand) and ¥457 million for the years ended March 31, 2017 and 2016.

10. 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, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance, beginning of year	¥ 756	¥ 871	$ 6,738
Obligations incurred by asset acquisition	34	64	303
Obligations settled	(19)	(193)	(169)
Accretion expense	10	14	89
Remeasurements	—	(0)	—
Balance, end of year	¥ 781	¥ 756	$ 6,961

11. 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 ($4,866 thousand) as of both March 31, 2017 and 2016. 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, 2017 and 2016 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	
	2017	2016
At beginning of year	134,825	133,413
Increase - purchase of odd lot shares	1,141	1,412
Decrease - sale of odd lot shares	55	—
At end of year	135,911	134,825

a) 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
(b)	Cash dividends per common share	¥32
(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
(b)	Cash dividends per common share	¥35
(c)	Record date	September 30, 2015
(d)	Effective date	December 2, 2015

b) Dividends paid during the year ended March 31, 2017
The following was approved by the Board of Directors on April 28, 2016.

(a)	Total dividends	¥1,737 million ($15,482 thousand)
(b)	Cash dividends per common share	¥35 ($0.31)
(c)	Record date	March 31, 2016
(d)	Effective date	May 31, 2016

The following was approved by the Board of Directors on October 31, 2016.

(a)	Total dividends	¥1,786 million ($15,919thousand)
(b)	Cash dividends per common share	¥36 ($0.32)
(c)	Record date	September 30, 2016
(d)	Effective date	December 2, 2016

c) Dividends to be paid after March 31, 2017 although record date for payment falls within the year ended March 31, 2017
The following was approved by the Board of Directors on April 27, 2017.

(a)	Total dividends	¥1,786 million ($15,919 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥36 ($0.32)
(d)	Record date	March 31, 2017
(e)	Effective date	June 2, 2017

12. CONTINGENT LIABILITIES

At March 31, 2017, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥9 million ($80 thousand).

13. LEASES

Operating leases
Future minimum operating lease payments subsequent to March 31, 2017 and 2016 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 2,447	¥ 2,523	$ 21,811
Due over one year	5,231	7,674	46,626
Total	¥ 7,678	¥ 10,198	$ 68,437

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Employees salary	¥ 15,485	¥ 14,814	$ 138,024
Provision for bonuses to directors and corporate auditors	39	31	347
Retirement benefit costs	1,194	865	10,642
Provision of allowance for doubtful accounts	37	6	329

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥387 million ($3,449 thousand) and ¥192 million for the years ended March 31, 2017 and 2016, respectively.

16. 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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized holding gain on other securities:			
Unrealized holding gain arising during the year	¥ 5	¥ (22)	$ 44
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	5	(22)	44
Tax	(1)	9	(8)
Net-of-tax amount	4	(13)	35
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	(38)	(494)	(338)
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	(38)	(494)	(338)
Tax	(0)	(2)	(0)
Net-of-tax amount	(38)	(496)	(338)
Adjustments for retirement benefit:			
Adjustments for retirement benefit arising during the year	(2,456)	(4,120)	(21,891)
Reclassification adjustment for gain/loss realized in net income	836	735	7,451
Before tax amount	(1,619)	(3,384)	(14,430)
Tax	483	1,294	4,305
Net-of-tax amount	(1,136)	(2,090)	(10,125)
Total other comprehensive income	¥ (1,170)	¥ (2,600)	$ (10,428)

17. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2017	2016	2017
Net income per share	¥ 131.94	¥ 120.80	$ 1.17
Net assets per share	1,906.03	1,868.25	16.98

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.

18. 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 7 years after the balance sheet date for the years ended March 31, 2017 and 2016, 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 19 (DERIVATIVES) does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At both March 31, 2017 and 2016, 27% and 38% 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, 2017 and 2016 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")

	Millions of yen			Thousands of U.S. dollars		
March 31, 2017	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 59,648	¥ 59,648	¥ —	$ 531,669	$ 531,669	$ —
(2) Notes and accounts receivable	91,152	91,152	—	812,478	812,478	—
(3) Investments securities:						
Other securities	219	219	—	1,952	1,952	—
Total	¥ 151,019	¥ 151,019	¥ —	$ 1,346,100	$ 1,346,100	$ —
Liabilities:						
(1) Notes and accounts payable	¥ 36,474	¥ 36,474	¥ —	$ 325,109	$ 325,109	$ —
(2) Short-term bank loans	4,069	4,069	—	36,268	36,268	—
(3) Current installments of long-term debt	171	171	—	1,524	1,524	—
(4) Long-term debt	4,014	4,010	(3)	35,778	35,742	(26)
Total	¥ 44,730	¥ 44,726	¥ (3)	$ 398,698	$ 398,662	$ (26)
Derivative transactions	¥ 2	¥ 2	¥ —	$ 17	$ 17	$ —

	Millions of yen		
March 31, 2016	Carrying amount	Fair value	Differences
Assets:			
(1) Cash and cash equivalents	¥ 43,889	¥ 43,889	¥ —
(2) Notes and accounts receivable	104,841	104,841	—
(3) Investments securities:			
Other securities	211	211	—
Total	¥ 148,942	¥ 148,942	¥ —
Liabilities:			
(1) Notes and accounts payable	¥ 39,190	¥ 39,190	¥ —
(2) Short-term bank loans	4,154	4,154	—
(3) Current installments of long-term debt	163	163	—
(4) Long-term debt	4,185	4,184	(0)
Total	¥ 47,694	¥ 47,693	¥ (0)
Derivative transactions	¥ (0)	¥ (0)	¥ —

* 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 19 (DERIVATIVES).

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities	¥ 202	¥ 201	$ 1,800

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.

(3) Projected future redemption of monetary claims and securities with maturities at March 31, 2017

	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	¥ 59,648	¥ —	¥ —	¥ —
Notes and accounts receivable	91,152	—	—	—
	¥ 150,800	¥ —	¥ —	¥ —

	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	$ 531,669	$ —	$ —	$ —
Notes and accounts receivable	812,478	—	—	—
	$ 1,344,148	$ —	$ —	$ —

(4) The annual maturities of long-term debt and other interest-bearing debt at March 31, 2017

	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	¥ 4,069	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	171	3,171	171	171	171	328

	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	$ 36,268	$ —	$ —	$ —	$ —	$ —
Long-term debt	1,524	28,264	1,524	1,524	1,524	2,923

19. 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, 2017 and 2016, the disclosure of fair value information for derivatives which are not accounted for as hedges is as follows:

	Millions of yen				Thousands of U.S. dollars			
	Contract amount				Contract amount			
March 31, 2017	Total	Over 1 year	Fair value	Valuation gain	Total	Over 1 year	Fair value	Valuation gain
Forward exchange contracts:								
Order to buy:								
U.S. dollars	¥ 65	¥ 6	¥ 2	¥ 2	$ 579	$ 53	$ 17	$ 17
Total	¥ 65	¥ 6	¥ 2	¥ 2	$ 579	$ 53	$ 17	$ 17

	Millions of yen			
	Contract amount			
March 31, 2016	Total	Over 1 year	Fair value	Valuation gain
Forward exchange contracts:				
Order to buy:				
U.S. dollars	¥ 61	¥ —	¥ (0)	¥ (0)
Euro	11	—	(0)	(0)
Great Britain Pound	9	—	0	0
Total	¥ 82	¥ —	¥ (0)	¥ (0)

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

20. 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, 2017 and 2016, respectively.
Balances with NEC Corporation at March 31, 2017 and 2016, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 64,804	¥ 79,787	$ 577,627
Balances:			
Accounts receivable	¥ 24,172	¥ 38,933	$ 215,455
Advances received	347	385	3,092
Purchases of communication device:			
Transactions:			
Purchases	¥ 45,140	¥ 44,707	$ 402,353
Balances:			
Accounts payable	¥ 12,202	¥ 12,080	$ 108,761

NEC Facilities, Ltd. is a subsidiary of NEC Corporation at March 31, 2017 and 2016. Balances with NEC Facilities, Ltd. at March 31, 2017 and 2016, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Rental of a buildings:			
Transactions:			
Lease deposit payments	¥ 4	¥ 27	$ 35
Lease deposit repayments	14	120	124
Balances:			
Long-term lease deposits	¥ 1,526	¥ 1,536	$ 13,601

21. 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 reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016 is summarized as follows:

	Millions of yen					
March 31, 2017	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 107,366	¥ 61,579	¥ 82,362	¥ 6,602	¥ —	¥ 257,912
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 107,366	¥ 61,579	¥ 82,362	¥ 6,602	¥ —	¥ 257,912
Segment income	¥ 8,823	¥ 3,569	¥ 6,029	¥ 246	¥ (8,693)	¥ 9,974
Segment assets	¥ 38,046	¥ 27,872	¥ 50,780	¥ 1,339	¥ 79,430	¥ 197,469
Others:						
Depreciation and amortization	¥ 1,536	¥ 337	¥ 152	¥ —	¥ 806	¥ 2,834
Purchases of property and equipment, and intangible assets	1,529	520	130	9	533	2,723

	Thousands of U.S. dollars					
March 31, 2017	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	$ 957,001	$ 548,881	$ 734,129	$ 58,846	$ —	$ 2,298,885
(2) Intersegment sales	—	—	—	—	—	—
Total	$ 957,001	$ 548,881	$ 734,129	$ 58,846	$ —	$ 2,298,885
Segment income	$ 78,643	$ 31,812	$ 53,739	$ 2,192	$ (77,484)	$ 88,902
Segment assets	$ 339,121	$ 248,435	$ 452,625	$ 11,935	$ 707,995	$ 1,760,130
Others:						
Depreciation and amortization	$ 13,691	$ 3,003	$ 1,354	$ —	$ 7,184	$ 25,260
Purchases of property and equipment, and intangible assets	13,628	4,634	1,158	80	4,750	24,271

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

Notes:
1. "Others" includes purchases of information and telecommunications equipment, etc., which are not included in the reported segments.
2. "Adjustments" of ¥ -8,693 million ($ -77,484 thousand) and ¥ -8,159 million in segment income for the years ended March 31, 2017 and 2016, respectively, are mainly administrative operation expenses.
3. "Adjustments" of ¥79,430 million ($707,995 thousand) and ¥64,091 million in segment assets at March 31, 2017 and 2016, respectively, mainly consist of surplus funds (cash and deposits), land, long-term deposits and assets relating to the administrative operations of the parent company.
4. Segment income is adjusted with operating income in the consolidated statements of income.
5. "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, 2017 and 2016 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

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Customer name:			
NEC Corporation			
Sales	¥ 71,421	¥ 87,726	$ 636,607

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, 2017 and 2016

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, 2017 and 2016

	Millions of yen										
March 31, 2017		Enterprise networks		Carrier networks		Social infrastructures		Others		Adjustments		Total
Amortization of goodwill	¥	30	¥	224	¥	—	¥	—	¥	—	¥	255
Balances of goodwill		221		1,468		—		—		—		1,689

	Thousands of U.S. dollars											
March 31, 2017		Enterprise networks		Carrier networks		Social infrastructures		Others		Adjustments		Total
Amortization of goodwill	$	267	$	1,996	$	—	$	—	$	—	$	2,272
Balances of goodwill		1,969		13,084		—		—		—		15,054

	Millions of yen											
March 31, 2016		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).

Negative goodwill incurred by reported segments for the years ended March 31, 2017 and 2016

There are no amounts to report.

KPMG

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, 2017 and 2016, 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 misstatement, 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, 2017 and 2016, 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, 2017 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 23, 2017
Tokyo, Japan

Corporate Overview / Stock Information (As of March 31, 2017)

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
Capital	¥13,122,000,000
Number of Employees	7,572 (Consolidated) 5,089 (Non-Consolidated)
Fiscal Year	April 1 - March 31
Ordinary General Shareholders Meeting	Annual meeting held in June
Listing	Tokyo Stock Exchange, First Section Ticker Code: 1973
Accounting Auditors	KPMG AZSA LLC
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

Principal Consolidated Subsidiaries

Japan

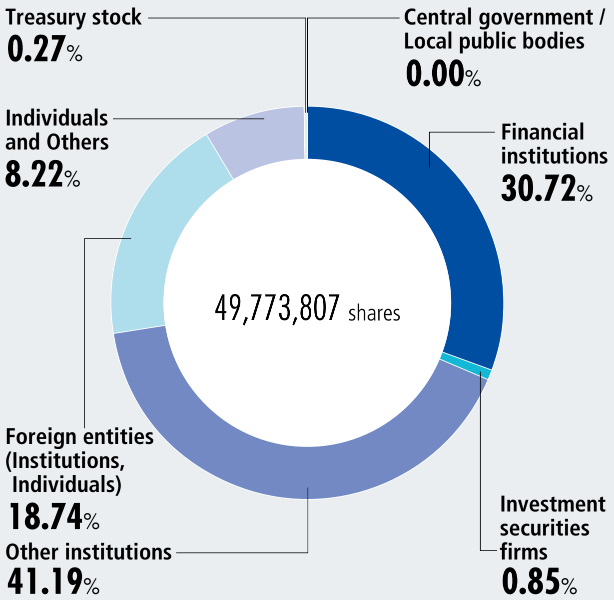
NEC Magnus Communications, Ltd.
NICHIWA Co.
NEC Net Innovation, Ltd.
Q&A Corporation
NEC Networks & System Integration Services, Ltd.

Overseas

NESIC BRASIL S/A
NESIC (Thailand) Ltd.
NESIC PHILIPPINES, INC.
Networks & System Integration Saudi Arabia Co.Ltd.
ICT Star Group Myanmar Co., Ltd.

Number of Shareholders	8,180
Common Stock Authorized	100,000,000 shares
Issued	49,773,807 shares
Trading Unit	100 shares

Breakdown of Shareholders by Type

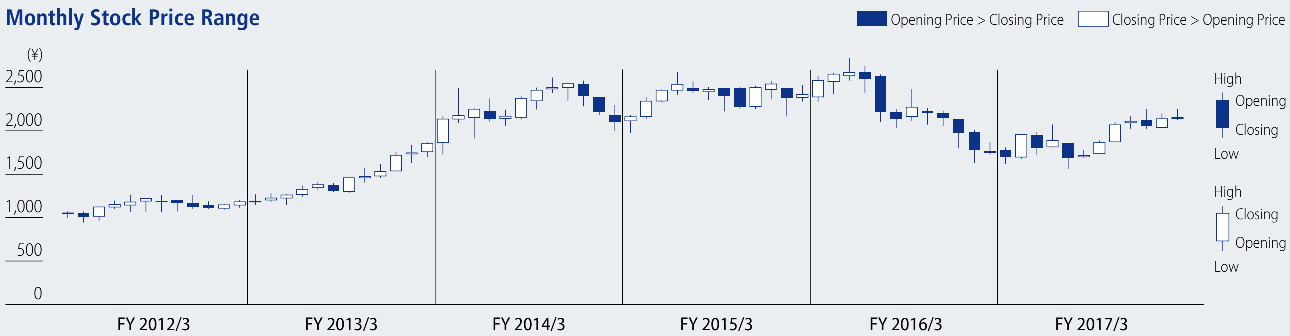


Principal Shareholders (Top 10)

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)	2,854	5.75
Japan Trustee Services Bank, Ltd. (Trust account)	1,832	3.69
Japan Trustee Services Bank, Ltd. (Trust account No.9)	1,387	2.79
Sumitomo Realty & Development Co., Ltd.	1,200	2.42
Employees' Stock Ownership Plan	692	1.39
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	598	1.21
THE BANK OF NEW YORK MELLON 140044	597	1.20
BNYMSANV RE BNYMTD RE CF MORANT WRIGHT NIPPON YIELD FUND	495	1.00

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, 2017 was 51.49%.
2 The percentage of total shares outstanding is calculated based on the number of shares excluding treasury stock (136,011 shares).

Monthly Stock Price Range



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/

171100400-BC-00