Consolidated Financial Statements for the Second Quarter of Fiscal 2008

October 30, 2008

NEC Networks & System Integration Corporation
Ticker code: 1973
(URL: http://www.nesic.co.jp)
Representative: Masahiko Yamamoto, President
Contact: Katsunobu Mizutani, Associate Senior Vice President (+81-3-5463-1111)
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Start of distribution of dividends (scheduled): December 4, 2008

1. Consolidated Results for the Second Quarter of Fiscal 2008 (April 1, 2008 to September 30, 2008)

(Rounded down to the nearest million yen.)

(1) Net Sales and Income (Cumulative)

(Percentages represent change compared with the same period of the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
FY2008 Q2	115,136	—	4,135	—	4,442	—
FY2007 Q2	117,397	2.4	4,230	40.5	4,233	42.5

	Net income (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
FY2008 Q2	2,483	—	49.92	—
FY2007 Q2	2,039	32.4	40.98	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Shareholders' equity (net worth) ratio (%)	Net assets per share (¥)
FY2008 Q2	139,557	67,803	48.0	1,347.41
FY2007	154,171	66,132	42.3	1,311.71

(Reference) Total equity: FY2008 Q2: ¥67,036 million; FY2007: ¥65,267 million

2. Dividends

	Dividends per share (¥)				
Record date	June 30	September 30	December 31	March 31	Total (Full year)
FY2007	—	10.00	—	10.00	20.00
FY2008	—	11.00	—	—	—
FY2008 (projected)	—	—	—	11.00	22.00

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

3. Projected Results for Fiscal 2008 (April 1, 2008 to March 31, 2009)

(Percentages represent changes compared with the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
FY2008	265,000	2.6	11,000	2.4	10,600	1.7	4,900	11.1	98.48

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

4. Others

(1) Changes in major subsidiaries during the period (Changes in specified subsidiaries due to changes in the scope of consolidation): no

(2) Use of simplified accounting methods or accounting methods specific to preparation of the quarterly consolidated financial statements: yes
(For details, refer to "Qualitative Information and Financial Statements," "4. Other," page 8.)

(3) Changes in accounting rules, procedures, presentation method, etc. for the quarterly consolidated financial statements (Changes in material items that form the basis for the preparation of the quarterly consolidated financial statements):
(i) Changes related to revisions in accounting principles: yes
(ii) Other changes aside from those in (i) above: no
(For details, refer to "Qualitative Information and Financial Statements," "4. Other," page 8.)

(4) Number of shares issued and outstanding (Common stock)
(i) Number of shares issued and outstanding at the end of the period (including treasury stock): FY2008 Q2: 49,773,807; FY2007: 49,773,807
(ii) Number of treasury shares at the end of the period: FY2008 Q2: 21,765; FY2007: 16,352
(iii) Average number of shares during the period: FY2008 Q2: 49,754,985; FY2007 Q2: 49,761,912

Notes Regarding Forward-Looking Statements and Other Matters

1. These materials contain forward-looking statements concerning NEC Networks & System Integration Corporation and its consolidated subsidiaries' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Please be aware that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks and uncertainties. Major factors affecting performance include, but are not limited to, economic conditions in which the businesses of the NEC Networks & System Integration Group operate, social trends, downward pressure on prices due to increased competition or market trends with regard to the systems and services the Group provides, and ability to respond to the market. Please refer to "3. Qualitative Information on Consolidated Results Projections" on page 7 for assumptions related to projected results.
2. Effective from fiscal 2008, the Company applies the Accounting Standards Board of Japan (ASBJ) "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12) and its implementation guidance "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14). Quarterly consolidated financial statements have been prepared in accordance with the "Regulation for Quarterly Consolidated Financial Reporting."

   The quarterly financial statements are also based on the regulations for preparation of quarterly financial statements as revised by the proviso of Article 7, Paragraph 1, Item 5 of the "Cabinet Office Ordinance Partially Revising the Regulation for Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 50 of August 7, 2008).

Qualitative Information and Financial Statements

1. Qualitative Information on Consolidated Operating Results

Operating Results for the Second Quarter of Fiscal 2008

During the second quarter (April 1 to September 30, 2008), Japanese economic conditions were severe due to factors including decreases in corporate earnings and consumer spending resulting from the high yen and persistently high raw material prices. In addition, exports to Europe, the United States and China, which have supported the domestic economy, slowed as a result of the global economic downturn, against a background of turmoil in financial markets caused by the spread of the subprime mortgage crisis.

In the network-related business field, where the NEC Networks & System Integration Group ("the Group") operates, demand from enterprises was steady for ICT[1] applications and outsourcing services to optimize and accelerate operations, speed up the response of sales forces, and strengthen internal controls and security. Telecommunication carriers also increased investment related to the Next Generation Network (NGN) business area including service area expansion and system infrastructure upgrades. In addition, local governments continued to construct and enhance regional information networks and improve and expand the coverage of firefighting and disaster prevention systems. Overseas, the shift to broadband and mobile services expanded as well. However, despite this medium-to-long-term expansionary trend in network-related investment, enterprises are becoming increasingly cautious in their investment decisions against a background of growing concern about the future operating environment.

Despite this unclear operating environment, the Group has implemented the following measures to achieve its full-year targets and strengthen its ability to grow and generate profits over the medium to long term.

For enterprises, the Group has aggressively developed proposal activities centered on the EmpoweredOffice[2] total office solution launched in July 2007, particularly in areas where customer demand is strong. These activities include increasing operational efficiency, strengthening security responsiveness, and related outsourcing services. The Group has also strengthened and promoted activities to deepen relations with customers, including holding exhibitions. For telecommunications carriers, it trained engineers using the NGN Laboratory that opened in February 2008 as a base, and strengthened its response capabilities in NGN through measures including accumulating know-how in related areas, such as system development and operation.

In addition, as measures to reinforce the business foundation, in April 2008 the Group strengthened its support service business base and enhanced operational efficiency by establishing the largest-scale network integration operation center in Japan, the Network Total Operation Center (nTOC)[3], and bolstered its response capabilities in markets in the Kansai region by making Nichiwa Co., Ltd. a Group company.

To strengthen profitability, the Group continued to promote All Cost and Management Innovation (AC-I) activities and strengthened management reform activities, including process reforms such as in supply chain management and management enhancement.

As a result, the NEC Networks & System Integration Group's operating results for the second quarter were as follows:

Consolidated orders received:	¥125,794 million (a decrease of 1.9 percent compared with the same period of the previous fiscal year)
Consolidated net sales:	¥115,136 million (a decrease of 1.9 percent)
Consolidated operating income:	¥4,135 million (a decrease of 2.2 percent)
Consolidated ordinary income:	¥4,442 million (an increase of 5.0 percent)
Consolidated net income:	¥2,483 million (an increase of 21.8 percent)

Although consolidated orders received and consolidated net sales decreased because of the absence of the one-time large-scale projects for financial businesses in the same period of the previous fiscal year, the Group was able to minimize the decrease by steadily expanding its core enterprise solutions and NGN businesses and associated support services.

Excluding extraordinary factors such as the aforementioned large-scale projects in the same period of the previous fiscal year, conditions for individual businesses break down as follows. The postponement of investment and other factors affected enterprise-related businesses. However, the enterprise solutions business and associated support business grew. Factors included the growing shift to IP telephony mainly by manufacturers and the increase in related outsourcing services resulting from stronger proposal and promotional activities for using ICT applications centered on EmpoweredOffice to increase operational efficiency, speed up sales responsiveness and improve the office environment. NGN-related business with telecommunications carriers grew for reasons including system infrastructure construction to expand NGN service areas, the shift to IP communications networks, software development and expanded support services. In addition, the Group entered business fields related to new telecommunications services including WiMAX[4]. In the government sector, the Group achieved firm results despite intensifying competition, due to growth in space-related businesses and enhanced project management capabilities in regional information networks and national security-related fields such as crime and disaster prevention, including better estimation capabilities and training of supervisory engineers.

The cost of sales ratio improved by 0.1 percentage points from the same period of the previous fiscal year despite reductions in selling prices and high raw material prices. This was the result of factors including the Group's management reform activities consisting of AC-I activities and process reforms, as well as increased operating efficiency of support services due to the establishment of nTOC. Consolidated operating income decreased from the same period of the previous fiscal year due to the decrease in net sales, but consolidated ordinary income and consolidated net income increased due to exchange gains and other factors.

Notes: 1. ICT: Information and Communication Technology

2. EmpoweredOffice: Solutions that efficiently fuse three elements of office work (communication, information and facilities) in an effort to reform office work processes and the office environment, and empower each individual employee to realize greater enterprise viability.

3. Network Total Operation Center (nTOC): One of the largest-scale total network integration operation centers in Japan, which aggregates the Company's network system support service functions (monitoring, operation, maintenance, etc.). Opened in April 2008.
4. WiMAX: Worldwide Interoperability for Microwave Access.
   An international wireless telecommunications standard, WiMAX is a next-generation high-speed wireless telecommunications technology that covers a wide range, from several kilometers to around a dozen kilometers.

Operating results by business segment are as follows.

Network Integration / Support Services

Orders received increased 3.8 percent compared with the same period of the previous fiscal year to ¥86,573 million, and sales increased 1.7 percent to ¥77,314 million. This was primarily due to initiatives to strengthen the network integration and support services business, such as enhancing the support service base through the establishment of nTOC and bolstering market response capabilities by making Nichiwa a Group company. In addition, the enterprise solution business and associated support service business grew as a result of enhanced activities to deepen relations with customers, including proposals and promotions centered on EmpoweredOffice that relate to improving operational efficiency and speed. In addition, in the telecommunications sector, NGN-related business grew due to factors including increases in NGN infrastructure construction, software development and support services resulting from efforts to enhance response capabilities such as strengthening training of NGN engineers. In the government sector, regional information network construction and space-related businesses were solid.

Telecommunications Engineering

Orders received decreased 8.5 percent compared with the same period of the previous fiscal year to ¥31,515 million, and sales decreased 3.7 percent to ¥29,494 million. Amid growth in regional information network construction for local governments, national security-related fields such as firefighting and disaster prevention, and the shift to broadband and mobile services in Japan and overseas, the Group worked to strengthen its operational response capabilities through measures including training construction engineers and enhancing project management. Under these conditions, although orders from local governments for firefighting and mobile base stations and orders from enterprises for telecommunications facilities were firm, overall orders decreased due to delays caused by protracted negotiations overseas, and the absence of regional information network-related orders from the same period of the previous fiscal year. Sales decreased slightly, despite firm sales of projects in Thailand, Saudi Arabia and other overseas locations as well as to local governments, due to a lull in large-scale projects such as construction of telecommunication facilities for the central government and cable television companies, and the installation of base stations by some mobile communications businesses.

Product Sales

Orders received decreased 25.1 percent compared with the same period of the previous fiscal year to ¥7,704 million, and sales decreased 22.7 percent to ¥8,327 million. The principal factor was a decrease in orders for customer-use terminals from financial businesses.

Main Contents of Business Segments by Type

Business	Main Contents
Network Integration / Support Services	Planning and consulting, software development, construction, operation and maintenance, outsourcing services and supply of originally developed products and devices for network systems to strengthen the operating efficiency and competitiveness of customers
Telecommunications Engineering	Network infrastructure construction and installation of electrical and air conditioning systems
Product Sales	Sales of data communication devices, etc.

Note 5: Comparisons with the same period of the previous fiscal year in "1. Qualitative Information on Consolidated Operating Results," "Operating Results for the Second Quarter of Fiscal 2008" are presented for reference.

2. Qualitative Information on Financial Position

Assets

Current assets at the end of the second quarter were ¥115,138 million, a decrease of ¥15,117 million from the end of the previous fiscal year. The main factors included a ¥22,057 million decrease in notes and accounts receivable and a ¥5,934 million increase in cash and cash equivalents.

Fixed assets increased ¥503 million to ¥24,419 million.

As a result of the above, total assets were ¥139,557 million, a decrease of ¥14,614 million from the end of the previous fiscal year.

Liabilities

Current liabilities at the end of the second quarter were ¥50,115 million, a decrease of ¥16,123 million from the end of the previous fiscal year. The main factors were a ¥12,164 million decrease in notes and accounts payable and a ¥2,217 million decrease in income taxes payable.

Long-term liabilities decreased ¥161 million to ¥21,638 million.

As a result of the above, total liabilities at the end of the second quarter were ¥71,753 million, a decrease of ¥16,285 million from the end of the previous fiscal year.

Interest-bearing debt at the end of the second quarter was ¥5,462 million, a decrease of ¥189 million from the end of the previous fiscal year.

Net Assets

Net assets at the end of the second quarter were ¥67,803 million, an increase of ¥1,671 million from the end of the previous fiscal year. One of the main factors was a ¥1,986 million increase in retained earnings.

3. Qualitative Information on Consolidated Results Projections

Outlook for Fiscal 2008

Severe conditions are expected to persist in the Japanese economy for the remainder of fiscal 2008, due to factors including further decreases in exports and capital investment, sluggish consumer spending, and an increase in corporate bankruptcies resulting from difficulties in raising funds amid growing concern about a possible global recession caused by the spread of the impact of turmoil in financial and capital and markets, and the European and U.S. financial crisis, to the real economy.

In the Group's business domains, demand among enterprises is expected to continue to expand for ICT applications in order to deal with this operating environment by optimizing and accelerating operations, speeding up the response capabilities of sales forces and strengthening security. Among telecommunications carriers, network-related investment is expected to steadily expand due to factors including efforts to enhance NGN services and increase market share, as well as progress in upgrades in preparation for the start of new telecommunications services such as WiMAX. In the government sector, the construction, enhancement and wide-area expansion of regional information networks and firefighting and disaster prevention projects for local governments is expected to continue.

Given this business environment, the Group will implement initiatives to enhance its ability to grow, with an eye on medium-to-long-term market expansion, and strengthen profitability. In the enterprise market, the Group will further expand and enhance solutions linked to the support services base nTOC and data centers, centered on EmpoweredOffice, which is the core of system installation and other flow businesses, in order to enhance its efforts to provide total services that respond to system life cycles, from ICT system proposals and installation to operation, monitoring and outsourcing services, as well as subsequent version upgrades. In this way, the Group will bolster the market competitiveness of and expand the enterprise solutions business by further advancing the shift to a value chain.

In the telecommunications sector, the Group will keep an eye on the development of new telecommunications technologies as it works aggressively to strengthen its ability to respond to new technologies and services. The Group will further expand the NGN business domain through measures including training NGN engineers using the NGN Laboratory as a base, and developing NGN service-related businesses such as SaaS[6]. In the mobile business domain, the Group will enhance its response capabilities in new technological domains and expand and enhance human resources and organizations including training construction engineers and strengthening the nationwide organization for responding to the expansion of WiMAX construction, as well as bolstering initiatives in new technologies such as LTE[7] and in the new mobile services that employ them.

The Group is working to achieve its targets for the fiscal year through these initiatives, but the risk of not achieving targets for orders and net sales is currently increasing as a sense of uncertainty about the direction of the economy grows and factors such as the trend toward caution in and postponement of future investment become more widespread. In these circumstances, the Group will work to achieve its earnings targets by continuing to enhance management reform activities, including strengthening management capabilities, through the Company's unique initiatives for increasing business efficiency including production reform methods at plants and other locations, process reforms such as supply chain management and other means.

Initial projections for fiscal 2008 remain unchanged.

The exchange rates assumed in preparing the outlook for the fiscal year are US$1 = ¥105 and 1 euro = ¥140.

Orders received	¥265.0 billion	(4.1 percent increase year on year)
Net sales	¥265.0 billion	(2.6 percent increase year on year)
Operating income	¥11.0 billion	(2.4 percent increase year on year)
Ordinary income	¥10.6 billion	(1.7 percent increase year on year)
Net income	¥4.9 billion	(11.1 percent increase year on year)

Notes: 6. SaaS: Software as a Service.

A form of software distribution that uses networks to distribute only the software features that users require by making them usable online.

7. LTE: Long Term Evolution.

A high-speed data communications standard that evolved from the current third-generation (3G) data communications method standards. Work is progressing on an international standard, aimed at high-speed communications between 50Mbps and 100Mbps. Domestic services are scheduled to start from fiscal 2010.

Note: Accounting standards have changed as of the first quarter of fiscal 2008. However, this report uses simple comparisons with the previous fiscal year because there is no material impact from the changes. Details of the changes are presented in "4. Other," "(2) Changes in principles, procedures, and methods of presentation, etc., related to the preparation of quarterly consolidated financial statements."

4. Other

(1) Use of simplified accounting methods or accounting methods specific to preparation of the quarterly consolidated financial statements

(i) Method of estimating doubtful receivables

As the actual rate of doubtful receivables at September 30, 2008 is not significantly different from the rate at the end of the previous fiscal year, the Company has used the rate at the end of the previous fiscal year to estimate doubtful receivables.

(ii) Method of valuation of inventories

The carrying amount of inventories is reduced to estimated net selling value only where there is an obvious decrease in profitability.

(iii) Methods of calculating depreciation of fixed assets

For assets depreciated using the declining balance method, depreciation expenses applicable to the fiscal year are calculated on a pro-rata basis.

(iv) Method of calculating deferred tax assets and liabilities

Judgments regarding the recoverability of deferred tax assets are made based on methods using performance projections and tax planning applied in the previous fiscal year in the event it is determined there are no significant changes in the management environment from the end of the previous fiscal year or conditions resulting in temporary differences.

(v) Calculation of tax expenses

The Company has calculated net income before income taxes for the period under review using a reasonable tax rate estimate based on the actual tax rate for net income before income taxes for the fiscal year after applying tax-effect accounting.

(2) Changes in principles, procedures, and methods of presentation, etc., related to the preparation of quarterly consolidated financial statements

(i) Effective from the first quarter of fiscal 2008, the Company applies the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12) and its implementation guidance "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14).

Quarterly consolidated financial statements have been prepared in accordance with the "Regulation for Quarterly Consolidated Financial Reporting."

(ii) Effective from the first quarter of fiscal 2008, the Company applies the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006). Inventories were previously stated at the lower of cost or market, determined principally by the average method. However, with the adoption of ASBS Statement No. 9, inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, determined principally by the average method.

The impact of the change on gross profit, operating income, ordinary income and income before income taxes is immaterial.

The impact on segment information is noted in the relevant sections.

(iii) Effective from the first quarter of fiscal 2008 the Company applies the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18, May 17, 2006).

There was no effect on operating income, ordinary income or income before income taxes from these changes.

The impact on segment information is noted in the relevant sections.

(iv) Effective from the first quarter of fiscal 2008, the Company has opted for early adoption of the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, June 17, 1993, last revised March 30, 2007) and its implementation guidance "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, January 18, 1994, last revised March 30, 2007). Accordingly, for lease contracts beginning on or after April 1, 2008, all finance lease transactions are capitalized and accounted for as leased assets.

In addition, leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value.

The Company will continue to account for finance lease transactions without title transfer that started prior to fiscal 2008 as operating leases.

The impact of this change on total leased assets, operating income, ordinary income and income before income taxes is immaterial.

The impact on segment information is noted in the relevant sections.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of September 30, 2008	As of March 31, 2008
Assets		
Current assets		
Cash and cash equivalents	20,275	14,341
Notes and accounts receivable	74,495	96,552
Equipment and materials	2,485	2,752
Semifinished items	10,444	9,054
Other current assets	7,868	8,016
Allowance for doubtful receivables	(431)	(461)
Total current assets	115,138	130,256
Fixed assets		
Property and equipment	8,289	8,236
Intangible fixed assets	4,128	3,862
Investments and other assets	12,166	11,979
Allowance for doubtful receivables	(165)	(162)
Total investments and other assets	12,000	11,816
Total fixed assets	24,419	23,915
Total assets	139,557	154,171

(Millions of yen)

	As of September 30, 2008	As of March 31, 2008
Liabilities		
Current liabilities		
Notes and accounts payable	34,460	46,625
Short-term bank loans	462	652
Accrued income taxes	2,243	4,461
Accrued bonuses to directors and corporate auditors	17	59
Accrued losses on sales contracts	0	467
Other current liabilities	12,930	13,973
Total current liabilities	50,115	66,239
Long-term liabilities		
Long-term debt	5,000	5,000
Accrued employees' retirement benefits	16,431	16,660
Other liabilities	206	139
Total long-term liabilities	21,638	21,800
Total liabilities	71,753	88,039
Net assets		
Shareholders' equity		
Common stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	37,483	35,497
Treasury stock	(27)	(19)
Total shareholders' equity	67,229	65,251
Valuation and translation adjustments		
Net unrealized gain on available-for-sale securities	20	11
Deferred losses on hedges	(0)	51
Foreign currency translation adjustments	(213)	(46)
Total valuation and translation adjustments	(193)	16
Minority interests	767	865
Total net assets	67,803	66,132
Total liabilities and net assets	139,557	154,171

(2) Consolidated Statements of Income

(Millions of yen)

	FY2008 Q2
Net sales	115,136
Cost of sales	99,186
Gross profit	15,950
Selling, general and administrative expenses	11,815
Operating income	4,135
Non-operating income	
Interest income	32
Insurance dividend income	123
Other	283
Total non-operating income	440
Non-operating expenses	
Interest expenses	33
Loss on disposal of property and equipment	36
Other	61
Total non-operating income	132
Ordinary income	4,442
Income before income taxes and minority interests	4,442
Income taxes-current	1,928
Minority interests	30
Net income	2,483

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2008 Q2
Cash flows from operating activities	
Income before income taxes and minority interests	4,442
Depreciation and amortization	1,113
Amortization of goodwill	33
Amortization of negative goodwill	(16)
Decrease in allowance for doubtful receivables	(34)
Decrease in accrued employees' retirement benefits	(362)
Decrease in accrued bonuses to directors and corporate auditors	(41)
Decrease in accrued losses on sales contracts	(467)
Interest income and dividend income	(47)
Interest expenses	33
Impairment loss on investment securities	7
Gain on sale of property and equipment	(1)
Loss on disposal of property and equipment	36
Decrease in notes and accounts receivable	22,455
Increase in inventories	(988)
Decrease in notes and accounts payable	(12,857)
Decrease in unpaid sales tax and other	(1,094)
Other, net	294
Subtotal	12,505
Interest and dividend received	48
Interest paid	(33)
Income taxes paid	(4,261)
Net cash provided by operating activities	8,259
Cash flows from investing activities	
Purchase of property and equipment	(593)
Sale of property and equipment	2
Purchase of intangibles	(673)
Purchase of investment securities	(3)
Loans receivable made	(13)
Collection of loans receivable	12
Purchase of common stock of newly consolidated subsidiaries	175
Other, net	22
Net cash used in investing activities	(1,071)
Cash flows from financing activities	
Net decrease in short-term bank loans	(630)
Repayment of long-term debt	(29)
Purchase of treasury stock	(7)
Dividends paid to shareholders	(493)
Dividends paid to minority interests in consolidated subsidiaries	(2)
Other, net	(5)
Net cash used in financing activities	(1,168)
Effect of exchange rate changes on cash and cash equivalents	(84)
Net increase in cash and cash equivalents	5,934
Cash and cash equivalents at beginning of period	14,341
Cash and cash equivalents at end of period	20,275

Effective from fiscal 2008, the Company applies the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12) and its implementation guidance "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14). Quarterly consolidated financial statements are prepared in accordance with the "Regulation for Quarterly Consolidated Financial Reporting."

(4) Notes Regarding Going Concern Assumption:

Second quarter of fiscal 2008: none

(5) Segment Information

Business Segment Information

Second quarter of fiscal 2008

(Millions of yen)

	Network Integration/ Support Services	Telecom-munications Engineering	Product Sales	Total	Eliminations and corporate	Consolidated
Orders received	86,573	31,515	7,704	125,794	—	125,794
Sales (1) Sales to third parties	77,314	29,494	8,327	115,136	—	115,136
(2) Intersegment sales	—	—	—	—	—	—
Total	77,314	29,494	8,327	115,136	—	115,136
Operating income	5,408	1,234	246	6,889	(2,754)	4,135

Notes: 1. Business classification method and names of main businesses

(1) The Company classifies its businesses according to content.

(2) Main businesses of each classification

(i) Network Integration / Support Services – Planning and consulting, software development, construction, operation and maintenance, outsourcing services and supply of originally developed products and devices for network systems to strengthen the operating efficiency and competitiveness of customers

(ii) Telecommunications Engineering – Network infrastructure construction and installation of electrical and air conditioning systems

(iii) Product Sales – Sales of data communication devices, etc.

2. The total of unallocable operating expenses included in eliminations and corporate of operating expenses was ¥2,754 million, consisting mostly of administrative personnel expenses and overhead.

3. Effective from the first quarter of fiscal 2008, the Company applies the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006) as stated in note 2 of "Changes in principles, procedures, and methods of presentation, etc., related to the preparation of quarterly consolidated financial statements." The impact on segment information is immaterial.

4. Effective from the first quarter of fiscal 2008, the Company applies the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18, May 17, 2006) as stated in "4. Other," "(2) Changes in principles, procedures, and methods of presentation, etc., related to the preparation of quarterly consolidated financial statements." There is no impact on segment information from these changes.

5. Effective from the first quarter of fiscal 2008, the Company promptly applies the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, June 17, 1993, last revised March 30, 2007) and its implementation guidance "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, January 18, 1994, last revised March 30, 2007) as stated in "4. Other," "(2) Changes in principles, procedures, and methods of presentation, etc., related to the preparation of quarterly consolidated financial statements." The impact on segment information is immaterial.

Geographical Segment Information
Second quarter of fiscal 2008
Geographical segment information is omitted because Japan accounted for more than 90 percent of the total sales of all segments.

Overseas Sales
Second quarter of fiscal 2008
Overseas sales information is omitted because overseas sales accounted for less than 10 percent of consolidated net sales.

(6) Major Changes in Shareholders' Equity
Second quarter of fiscal 2008: none

(Reference)

Consolidated Statements of Income

Second quarter of fiscal 2007

(Millions of yen)

	FY2007 Q2	
I. Net sales	117,397	100.0%
II. Cost of sales	101,253	86.2
Gross profit	16,143	13.8
III. Selling, general and administrative expenses	11,913	10.2
Operating income	4,230	3.6
IV. Non-operating income:	387	0.3
Interest income	12	
Insurance dividend income	111	
Compensation for transfer	76	
Other non-operating income	186	
V. Non-operating expenses:	384	0.3
Interest expense	48	
Exchange losses	85	
Evaluation loss on inventories	63	
Evaluation loss on investment securities	62	
Loss on disposal of property and equipment	60	
Other non-operating expenses	63	
Ordinary income	4,233	3.6
VI. Extraordinary losses:	238	0.2
Loss on liquidation of a subsidiary	238	
Income before income taxes and minority interests	3,995	3.4
Income taxes - Current	2,788	2.4
- Deferred	(804)	(0.7)
Minority interests in consolidated subsidiaries	(28)	(0.0)
Net income	2,039	1.7

Consolidated Statements of Cash Flows

Second quarter of fiscal 2007

(Millions of yen)

	FY2007 Q2
I Cash flows from operating activities	
Income before income taxes and minority interests	3,995
Depreciation and amortization	1,042
Amortization of goodwill	33
Amortization of negative goodwill	(10)
Increase in allowance for doubtful receivables	97
Decrease in prepaid employees' retirement benefit	261
Decrease in accrued employees' retirement benefits	(589)
Accrued retirement benefits for directors and corporate auditors	(48)
Increase in accrued losses on sales contracts	299
Interest and dividend income	(24)
Interest expenses	48
Impairment loss on investment securities	62
Loss on disposal of property and equipment	60
Restructuring charges of a subsidiary	238
Decrease in notes and accounts receivable	14,438
Increase in inventories	(2,813)
Decrease in notes and accounts payable	(8,360)
Other, net	(1,482)
Subtotal	7,247
Interest and dividend received	24
Interest paid	(48)
Income taxes paid	(2,260)
Net cash provided by operating activities	4,963
II Cash flows from investing activities	
Purchase of property and equipment	(731)
Sale of property and equipment	11
Purchase of intangibles	(390)
Purchase of investment securities	(10)
Sale of investment securities	7
Dividends from investment associations	145
Loans receivable made	(38)
Collection of loans receivable	44
Other	(81)
Net cash used in investing activities	(1,043)
III Cash flows from financing activities	
Net decrease in short-term bank loans	48
Dividends paid to shareholders	(344)
Dividends paid to minority interests in consolidated subsidiaries	(3)
Other	(4)
Net cash used in financing activities	(303)
IV Effect of exchange rate changes on cash and cash equivalents	123
V Net increase in cash and cash equivalents	3,739
VI Cash and cash equivalents at beginning of the period	8,602
VII Cash and cash equivalents at end of period	12,342

Segment Information

Business Segment Information

Second quarter of fiscal 2007

(Millions of yen)

	Network Integration/ Support Services	Telecom-munications Engineering	Product Sales	Total	Eliminations and corporate	Consolidated
Orders received	83,428	34,459	10,283	128,170	—	128,170
Sales						
(1) Sales to third parties	75,993	30,626	10,777	117,397	—	117,397
(2) Intersegment sales	—	—	—	—	—	—
Total	75,993	30,626	10,777	117,397	—	117,397
Operating expenses	71,524	28,672	10,436	110,633	2,533	113,167
Operating income	4,468	1,954	340	6,763	(2,533)	4,230

Notes: 1. Business classification method and names of main businesses

(1) The Company classifies its businesses according to content.

(2) Main businesses of each classification

(i) Network Integration / Support Services – Planning and consulting, software development, construction, operation and maintenance, outsourcing services and supply of originally developed products and devices for network systems to strengthen the operating efficiency and competitiveness of customers

(ii) Telecommunications Engineering – Network infrastructure construction and installation of electrical and air conditioning systems

(iii) Product Sales – Sales of data communication devices, etc.

2. The total of unallocable operating expenses included in eliminations and corporate of operating expenses was ¥2,533 million, consisting mostly of administrative personnel expenses and overhead.

Geographical Segment Information

Second quarter of fiscal 2007

Geographical segment information is omitted because Japan accounted for more than 90 percent of the total sales of all segments.

Overseas Sales

Second quarter of fiscal 2007

Overseas sales information is omitted because overseas sales accounted for less than 10 percent of consolidated net sales.