

NEC Networks &amp; System Integration Corporation

Stock exchange listing: Tokyo

Code number: 1973

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

**1. Consolidated Results for the First Quarter (April 1, 2010 to June 30, 2010)**  
**of Fiscal Year 2010 ending March 31, 2011**  
(Rounded down to the nearest million yen.)

**(1) Net Sales and Income**

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

	Net sales (¥ million)	Year-on- year change (%)	Operating income (¥ million)	Year-on- year change (%)	Ordinary income (¥ million)	Year-on- year change (%)
3 months ended 6/10 (1Q/FY10)	42,072	-2.7	334	22.6	321	-1.1
3 months ended 6/09 (1Q/FY09)	43,233	-8.8	273	70.2	325	-7.8

	Net income (¥ million)	Year-on- year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
3 months ended 6/10 (1Q/FY10)	-130	—	-2.63	—
3 months ended 6/09 (1Q/FY09)	211	54.4	4.26	—

**(2) Financial Position**

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
30/06/2010	131,236	73,414	55.5	1,463.62
31/03/2010	146,915	74,221	50.1	1,479.62

c.f. Owner's equity: 30/06/10: ¥72,789 million; 31/03/10: ¥73,585 million

**2. Dividends**

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/10	—	11.00	—	14.00	25.00
FY ending 3/11 (projected)	—	13.00	—	13.00	26.00

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

**3. Financial Forecasts for Fiscal Year 2010 ending March 31, 2011 (April 1, 2010 to March 31, 2011)**

(Percentages represent change compared to the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
6 months ending 9/10	100,000	0.8	3,300	1.8	3,300	-1	1,490	-22.5	29.96
FY ending 3/11	240,000	10.2	10,000	1.3	10,000	-1.2	4,700	-19	94.51

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

**Cautionary Statement**

Forecasts or results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends

vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.

Factors affecting results are not limited to the ones mentioned above.

#### 4. Analysis of Business Results

##### 1) Business Results for the First Quarter of the Year Ending March 31, 2011

The Japanese economy achieved a moderate recovery in the first quarter of the fiscal year ending March, 31, 2011 (the period from April 1, 2010 to June 30, 2010, hereinafter “the first quarter”), owing to factors that included an earnings turnaround in some elements of the corporate sector, aided by a rebound in exports to markets in Asia and elsewhere, and the support of countercyclical measures taken by the Japanese government. However, the Japanese economy failed to reach achieve a full-scale recovery, given weak domestic investment and the yen’s appreciation caused by credit worries in Europe.

In the Social Infrastructures segment of the ICT (Information and Communication Technology ) market, where NEC Networks & System Integration Corporation (hereinafter the “Company”) operates, central and local governments continued to invest actively in local information networks to eliminate the digital divide (interregional information gap), and sustained their vigorous investment in developing more sophisticated and extensive firefighting and disaster prevention systems. Capital investment in the Carrier Networks segment tended to remain limited especially in existing networks, but investment in next-generation mobile communications platforms, such as LTE and WIMAX, remained steady as did spending on projects to unify network protocols with the Internet Protocol. In the Enterprises Networks segment, small projects formed the core investment until the previous fiscal year, but large projects relating to network replacement and relocation are also emerging. Investment in data center establishment and related fields also grew in anticipation of the expansion of the market for cloud computing and other new services. As these developments suggested, a recovery was evident in this segment in the first quarter.

In this operating environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) posted the following consolidated results for the first quarter;

Orders received	¥ 54,541 million	a ¥ 1,727 million increase year on year
Net sales	¥ 42,072 million	a ¥ 1,161 million decrease year on year
Operating income	¥ 334 million	a ¥ 61 million increase year on year
Ordinary income	¥ 321 million	a ¥ 3 million decrease year on year
Net income (loss)	(¥ 130 million)	a ¥ 342 million decrease year on year

Orders increased ¥1,727 million from the same period of the previous fiscal year, to ¥54,541 million. In the Social Infrastructures segment, orders from customers centering on central and local governments rose as the Group took advantage of trends in favor of building local information networks and developing more sophisticated and extensive firefighting and disaster prevention systems. In the Enterprises Networks segment, orders from customers centering on the financial and manufacturing sectors grew, as a result of customer-oriented proposal activities focused on EmpoweredOffice (\*), which allowed the Group to aggressively respond to the recovery in ICT investment in Tokyo area and at large companies by winning large orders for network renewals and meeting demand for office relocation and consolidation. In addition, the Group enjoyed steady growth in promising new areas such as cloud computing, which includes next-generation data centers and server virtualization, and the environment, which encompasses green ICT, energy conservation in offices through power savings and other means, and electric vehicle-related businesses.

Net sales for the Social Infrastructures segment rose with orders, mainly incorporating higher sales to central and local governments. However, rises in orders failed to contribute to quarterly net sales for other businesses As a result, consolidated net sales were down ¥1,161 million from the year-ago period, to ¥42,072 million.

Turning to profit, we continued to pursue Group-wide initiatives to improve underlying profitability, including efforts to accelerate our AC-I (All Cost & Management Innovation) management innovation activities and steps to improve our overall cost efficiency. In particular, we reduced selling, general and administrative expenses by ¥297 million from the amount in the same period of the previous fiscal year, through the top-down implementation of work pattern and operational process reforms. As a result, consolidated operating income rose ¥61 million from the year-ago period, to ¥334 million. Consolidated ordinary income was down ¥3 million, to ¥321 million, because of foreign exchange losses incurred. We posted a consolidated net loss of ¥130 million for the first quarter, following the posting under extraordinary losses of ¥543 million related to the impact of the application of the accounting standard for asset retirement obligations as well as head office relocation expenses.

Operating results by business segment were as follows;

### Orders Received

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Total
Three months ended June 30, 2010	17,040	10,890	23,180	3,430	54,541
Three months ended June 30, 2009	16,859	10,985	21,842	3,126	52,813
Increase (decrease)	181	(95)	1,338	303	1,727
Percentage increase (decrease)	1.1	(0.9)	6.1	9.7	3.3

### Net Sales

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Total
Three months ended June 30, 2010	16,865	8,625	13,995	2,585	42,072
Three months ended June 30, 2009	16,982	9,884	13,124	3,241	43,233
Increase (decrease)	(116)	(1,259)	870	(655)	(1,161)
Percentage increase (decrease)	(0.7)	(12.7)	6.6	(20.2)	(2.7)

### Enterprises Networks

Orders rose on demand from finance companies and manufacturers, which grew as a result of proposals focused on EmpoweredOffice. Growth areas such as cloud computing and the environment also produced steady results. However, net sales fell as the recovery in orders was not fully translated into sales and demand from NEC Group companies declined.

### Carrier Networks

Operations such as network protocol unification with the Internet protocol achieved steady results. However, orders and net sales declined because of factors such as the peaking of an NGN investment cycle and reduced investment by mobile communications carriers.

### Social Infrastructures

Orders and net sales grew, reflecting strong results for work catering to central and local governments

building local information networks. Creating more sophisticated and extensive firefighting and disaster prevention systems was another source of growth, as was the expansion of the broadcast businesses for the coverage expansion of the digital terrestrial broadcasting service.

### Outline of Business Segments

Business Segments	Descriptions of Main Businesses
Enterprises Networks	Service integration of ICT solutions, mainly for the enterprises market Total office solutions based on ICT with securities or environmental solutions and related operations, monitoring, and outsourcing services, as well as cloud-type solutions using our own data centers
Carrier Networks	Service integration of ICT platforms mainly for telecom carriers Systems integration of large-scale, wide-area, carrier-grade ICT platforms and related operations, monitoring services
Social Infrastructures	Service integration of ICT infrastructure for governments and public utilities (broadcasters, electric power companies, etc.), such as systems integration, operation, and monitoring, and the construction of telecom infrastructure
Others	Toyo Networks & System Integration Co., Ltd. and sales of purchased equipment

※. EmpoweredOffice:

EmpoweredOffice is our office reform solution. It combines our strengths in ICT and facility installation to enable more intellectual and creative styles of work through process reforms. It also proposes new methods and places of work that allow customers to fulfill their social responsibilities, such as security enhancement and eco-friendliness.

### 2) Outlook for the Fiscal Year Ending March 31, 2011

Despite concerns about the repercussions of credit turmoil in Europe, the yen's continued appreciation and other factors, the Japanese economy is likely to continue to improve at a moderate pace, aided by the improved performance of exporters and other companies. In this environment, we expect to results to be in line with our plan. Our consolidated results forecasts for the fiscal year ending March 31, 2011 therefore remain unchanged from our initial projections.

Orders received	¥ 240 billion	(8.1% increase year on year)
Net sales	¥ 240 billion	(10.2% increase year on year)
Operating income	¥ 10 billion	(1.3% increase year on year)
Ordinary income	¥ 10 billion	(1.2% decrease year on year)
Net income	¥ 4.7 billion	(19.0% decrease year on year)

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

	(Millions of yen)	
	As of June 30, 2010	As of March 31, 2010
<b>ASSETS</b>		
Current assets		
Cash and deposits	16,341	29,538
Notes and accounts receivable-trade	60,255	79,988
Short-term investment securities	13,999	---
Purchased goods, materials and supplies	1,742	1,696
Work in process	7,581	5,572
Other	8,028	7,316
Allowance for doubtful accounts	(169)	(204)
Current assets	<u>107,780</u>	<u>123,908</u>
Noncurrent assets		
Property, plant and equipment	7,655	7,864
Intangible assets	3,569	3,656
Investments and other assets		
Other	12,344	11,618
Allowance for doubtful accounts	(113)	(131)
Investments and other assets	<u>12,230</u>	<u>11,486</u>
Noncurrent assets	<u>23,455</u>	<u>23,007</u>
Assets	<u>131,236</u>	<u>146,915</u>

	(Millions of yen)	
	As of June 30, 2009	As of March 31, 2009
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable	24,794	34,979
Current portion of long-term loans payable	---	2,000
Income taxes payable	192	3,004
Provision for directors' bonuses	18	92
Provision for loss on order received	78	128
Other	12,737	12,588
Current liabilities	<u>37,820</u>	<u>52,792</u>
Noncurrent liabilities		
Long-term loans payable	3,000	3,000
Provision for retirement benefits	15,842	15,792
Other	1,159	1,109
Noncurrent liabilities	<u>20,001</u>	<u>19,901</u>
Liabilities	<u>57,821</u>	<u>72,693</u>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	43,491	44,318
Treasury stock	(48)	(48)
Shareholders' equity	<u>73,215</u>	<u>74,043</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	0	6
Deferred gains or losses on hedges	2	3
Foreign currency translation adjustment	(430)	(467)
Valuation and translation adjustments	<u>(426)</u>	<u>(457)</u>
Minority interests	<u>625</u>	<u>635</u>
Net assets	<u>73,414</u>	<u>74,221</u>
Liabilities and net assets	<u>131,236</u>	<u>146,915</u>

## (2) Consolidated Statements of Income

(Millions of yen)

	FY2010 1Q (3 months ended 6/10)	FY2009 1Q (3 months ended 6/09)
Net sales	42,072	43,233
Cost of sales	36,276	37,201
Gross profit	5,796	6,031
Selling, general and administrative expenses	5,461	5,758
Operating income	334	273
Non-operating income		
Interest income	18	7
Gain on sales of investment securities	35	---
Reversal of allowance for doubtful accounts	32	58
Other	48	58
Non-operating income	133	124
Non-operating expenses		
Interest expenses	16	15
Foreign exchange losses	110	34
Other	19	22
Non-operating expenses	146	72
Ordinary income	321	325
Extraordinary loss		
Loss on adjustment for changes of accounting standard for asset retirement obligations	437	---
Head office transfer cost	106	---
Extraordinary loss	543	---
Income before income taxes and minority interests	(222)	325
Income taxes	(58)	115
Income before minority interests	(164)	---
Minority interests in income	(33)	(2)
Net income	(130)	211

## (3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2010 1Q (3 months ended 6/10)	FY2009 1Q (3 months ended 6/09)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	(222)	325
Depreciation and amortization	509	536
Amortization of goodwill	16	16
Amortization of negative goodwill	(1)	(1)
Increase (decrease) in allowance for doubtful accounts	(53)	(58)
Increase (decrease) in provision for retirement benefits	48	(157)
Increase (decrease) in provision for directors' bonuses	(74)	(58)
Increase (decrease) in provision for loss on order received	(50)	(40)
Interest and dividends income	(23)	(18)
Interest expenses	16	15
Loss (gain) on valuation of investment securities	0	0
Loss (gain) on sales of investment securities	(35)	---
Loss (gain) on sales of property, plant and equipment	1	0
Loss on retirement of noncurrent assets	7	2
Loss on adjustment for changes of accounting standard for asset retirement obligations	437	---
Head office transfer cost	106	---
Decrease (increase) in notes and accounts receivable-trade	19,783	27,089
Decrease (increase) in inventories	(2,064)	(1,936)
Increase (decrease) in notes and accounts payable-trade	(10,191)	(13,984)
Increase (decrease) in accrued consumption taxes	(961)	(1,669)
Other, net	(640)	(1,675)
Subtotal	<u>6,609</u>	<u>8,386</u>
Interest and dividends income received	23	18
Interest expenses paid	(11)	(7)
Income taxes paid	(2,828)	(3,067)
Net cash provided by (used in) operating activities	<u>3,791</u>	<u>5,330</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(158)	(159)
Proceeds from sales of property, plant and equipment	0	0
Purchase of intangible assets	(130)	(184)
Purchase of investment securities	(1)	(0)
Proceeds from sales of investment securities	35	1
Payments of loans receivable	(9)	(15)
Collection of loans receivable	12	11
Other, net	(7)	(5)
Net cash provided by (used in) investing activities	<u>(258)</u>	<u>(352)</u>
Net cash provided by (used in) financing activities		
Decrease in current portion of long-term loans payable	(2,000)	---
Proceeds from sale and purchase of treasury stock, net	(0)	(0)
Cash dividends paid	(684)	(535)
Other, net	(58)	(23)
Net cash provided by (used in) financing activities	<u>(2,743)</u>	<u>(560)</u>
Effect of exchange rate change on cash	13	62
Net increase (decrease) in cash and cash equivalents	<u>803</u>	<u>4,480</u>
Cash and cash equivalents at beginning of period	<u>29,538</u>	<u>16,614</u>
Cash and cash equivalents at end of period	<u>30,341</u>	<u>21,095</u>

#### (4) Segment Information

Business Segment Information

First quarter of fiscal 2010 (3 months ended June 2010)

(3 months ended 6/10)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	17,040	10,890	23,180	3,430	---	54,541
Sales						
(1) Sales to third parties	16,865	8,625	13,995	2,585	---	42,072
(2) Intersegment sales	---	---	---	---	---	---
Total	16,865	8,625	13,995	2,585	---	42,072
Operating income and loss	1,280	477	16	28	(1,468)	334

First quarter of fiscal 2009 (3 months ended June 2009)

(3 months ended 6/09)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	16,900	11,000	21,800	3,100	---	52,800
Sales						
(1) Sales to third parties	17,000	9,900	13,100	3,200	---	43,200
(2) Intersegment sales	---	---	---	---	---	---
Total	17,000	9,900	13,100	3,200	---	43,200
Operating income and loss	1,200	700	(200)	0	(1,400)	300

※ From the first quarter for the year ending 2011/3, the business segment has been changed based on a new organization geared towards strengthening customer-oriented service businesses in compliance with its management approach.

※ The rounded actual first quarter figures for the year ended 2010/3 are reclassified for comparison in connection with the change of reporting segments and have not been audited.