Consolidated Financial Statements for the First Three Quarters of Fiscal Year 2010 ending March 31, 2011

27-Jan-11

These financial statements have been prepared in accordance with accounting principals generally accepted in Japan.

NEC Networks & System Integration Corporation

Stock exchange listing: Tokyo
Code number: 1973

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

## 1. Consolidated Results for the First Three Quarters (April 1, 2010 to December 31, 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 (%) |
|---|---|---|---|---|---|---|
| 9 months ended 12/10 | 152,580 | 3.4 | 5,816 | 22.1 | 5,774 | 15.9 |
| 9 months ended 12/09 | 147,624 | -12.2 | 4,763 | -10.6 | 4,980 | -7.9 |

| | Net income (¥ million) | Year-on-year change (%) | Net income per share (¥) | Net income per share (diluted) (¥) |
|---|---|---|---|---|
| 9 months ended 12/10 | 2,176 | -23.8 | 43.77 | — |
| 9 months ended 12/09 | 2,856 | -6.3 | 57.44 | — |

### (2) Financial Position

| | Total assets (¥ million) | Net assets (¥ million) | Owners' equity ratio (%) | Net assets per share (¥) |
|---|---|---|---|---|
| 31/12/2010 | 139,559 | 75,064 | 53.3 | 1,495.27 |
| 31/03/2010 | 146,915 | 74,221 | 50.1 | 1,479.62 |

c.f. Owners' equity: 31/12/10: ¥74,361 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 | — | 13.00 | — | 13.00 (projected) | 26.00 (projected) |

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) | (%) | (¥) |
| FY ending 3/11 | 240,000 | 10.2 | 10,000 | 1.3 | 10,000 | -1.2 | 4,700 | -19.0 | 94.51 |

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

Cautionary Statement

Forecasts of results mentioned in this document are future estimates and are thus inclusive of risks and uncertain factors since they are not based on definite facts. Please be aware that a variety of factors could cause actual results to differ significantly from those projected. The major factors affecting actual results include the economic climate and social trends surrounding the business of this Company's group, consumer trends
vis-a-vis systems and services provided by this Company's group, as well as pressure to lower prices and ability to cope with the market in response to intensified competition.
Factors affecting results are not limited to the ones mentioned above.

4. Qualitative Information and Financial Statements

## (1) Operating Results for the First Nine Months of Fiscal 2010 (April – December 2010)

During the first nine months of the fiscal year ending March 31, 2011 (the period from April 1, 2010 to December 31, 2010), the Japanese economy achieved a moderate recovery owing to factors including the rebound of overseas economies and the introduction of stimulus packages by the government, which in turn reflected the upward momentum of corporate earnings and signs of an improvement in consumer spending. However, the economic recovery was somewhat lacking in strength, given that capital investment of companies remained weak and that a sense of anxiety over the future had yet to be eliminated, reflecting the appreciation of the yen, continued deflation, and sluggish employment conditions.

Given these economic conditions, no significant recovery was observed in the information and communications technology (ICT) market, where NEC Networks & System Integration Corporation (the “Company”) operates. However, projects that had been frozen after the collapse of Lehman Brothers did begin to resume, and the market was benefiting from a stronger trend in favor of ICT services.

Among our businesses, investments were recovering in areas such as relocation and management integration in the financial sector, network updating, and compliance enhancement, although companies remained generally cautious in their investment decisions. Also, the trend toward services was advancing in ICT investments of companies in general, as observed in higher demand for data center establishment associated with the expanded use of cloud computing and other services. Telecommunications carriers activated investments in the development of efficient and high-speed networks with large capacity to increase communications volume and improve communications quality in step with the expansion of ICT services and the sharp increase in the number of smartphone users. Central and local governments were beginning to invest in redeveloping fire-fighting and disaster-prevention systems and to strengthen administrative functions and improve efficiency by utilizing ICT, although investments related to local information networks and terrestrial digitalization, which had been active since the previous fiscal year, paused after the second half.

In this operating environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) sought to make a strong start this fiscal year ending March 31, 2011 and actively expand operations to accelerate growth over the medium to long terms. We took steps to bolster our growth potential and earnings, such as taking a more aggressive management posture centering on service businesses and further accelerating management innovation activities to build a more efficient business structure.

(i) Expanding the top line and accelerating management innovation activities with our new head office in Iidabashi as the starting point

- Practicing and verifying work style innovations and slim offices by the company-wide EmpoweredOffice (EO)* and creating new services through these initiatives
- Strengthening our ability to pull in more customers for the inspection tour of the EO and advancing promotions to increase orders
- Promoting work process innovation and improving cost efficiency through the EO above

(ii) Bolstering service businesses

- Expanding the contact center business and the operation business by making Daiichi Ad System Co., Ltd. a subsidiary
- Constructing service and cloud business systems tailored to local characteristics in the western Japan region by setting up a new service center in Suita, Osaka
- Restructuring our organization to enhance services tailored to customer needs and market characteristics in each of the Enterprises Networks, Carrier Networks, and Social Infrastructure businesses

As a result of the above, the Group posted the following consolidated results for the first nine months under review.

| | | |
|---|---|---|
| Net Sales | ¥ 152,580 million | Increasing ¥ 4,956 million |
| Operating Income | ¥ 5,816 million | Increasing ¥ 1,053 million |
| Ordinary Income | ¥ 5,774 million | Increasing ¥ 793 million |
| Net Income | ¥ 2,176 million | Decreasing ¥ 679 million |

Net sales increased ¥4,956 million year on year. In the Enterprises Networks business, sales rose 7.0%, centering on sales for the financial and manufacturing sectors. This performance was attributable to demand for network updating and head office relocation and integration projects in the financial sector as well as steady results in service business fields such as contact center and data center integration and outsourcing. In the Carrier Networks business, although sales declined 6.9% as next-generation networks (NGN) had run their course, projects for the speeding up and capacity enhancement of mobile networks and the improvement of communication quality increased from the second half, following a rise in the number of smartphone users. In the Social Infrastructure business, sales increased 8.6%, thanks to our efforts to strengthen the execution system to accomplish local information network projects, particularly for local governments.

Turning to profit, we continued to pursue Group-wide initiatives to improve overall cost efficiency, including prime costs and selling, general, and administrative expenses, by stepped up our efforts in management innovation activities, including innovations in work processes and work styles after the relocation to our new head office in October. Through these initiatives, we improved the cost of sales ratio, which had deteriorated year on year in the first half, to almost the same level as a year ago, and improved the ratio of selling and administrative expenses to sales by 0.7 points. As a result, both operating income and ordinary income increased (¥1,053 million and ¥794 million year on year, respectively). Net income declined ¥680 million year on year, attributable to the effect of posting extraordinary losses of ¥1,946 million mainly derived from the relocation of the head office.

Orders declined ¥4,924 million year on year, to ¥154,096 million, as orders for local information network projects ran their course in the second half in the Social Infrastructure business, although orders were firm in the Enterprise Networks business. The Social Infrastructure business was in an off-peak season before the future expansion of projects related to the upgrading and wider application of fire-fighting and disaster-prevention systems.

Operating results by business segment were as follows:

Net Sales （Million yen）

| | Enterprises Networks | Carrier Networks | Social Infrastructures | Others | Total |
|---|---|---|---|---|---|
| 1-3Q Fiscal 2011/3 (Nine months ended December 31, 2010) | 56,053 | 30,280 | 57,164 | 9,082 | 151,800 |
| 1-3Q Fiscal 2010/3 (Nine months ended December 31, 2009) | 52,399 | 32,512 | 52,616 | 10,095 | 147,600 |
| Increase (decrease) | 3,654 | (2,232) | 4,547 | (1,013) | 4,956 |
| Percentage increase (decrease) | 7.0 | (6.9) | 8.6 | (10.0) | 3.4 |

**Enterprises Networks**

Net sales increased year on year, with sales to the manufacturing sector rising and the service business fields related to contact centers and data centers performing solidly, in addition to an increase in sales for the relocation and integration-related projects in the financial sector. The result also reflects our active efforts to stimulate demand for system updating in other sectors.

**Carrier Networks**

Although net sales declined year on year in the first nine months under review because NGN investment ran its course, they turned upward in the October-December period, thanks to solid sales for projects related to the speeding up and capacity enhancement of mobile networks and the improvement of communication quality.

**Social Infrastructure**

Net sales increased year on year, centering on local information network-related projects mainly for local governments.

Orders Received (Million yen)

| | Enterprises Networks | Carrier Networks | Social Infrastructures | Others | Total |
|---|---|---|---|---|---|
| 1-3Q Fiscal 2011/3 (Nine months ended December 31, 2010) | 53,473 | 32,830 | 58,336 | 9,455 | 154,096 |
| 1-3Q Fiscal 2010/3 (Nine months ended December 31, 2009) | 52,271 | 32,918 | 64,052 | 9,777 | 159,020 |
| Increase (decrease) | 1,201 | (88) | (5,716) | (321) | (4,924) |
| Percentage increase (decrease) | 2.3 | (0.3) | (8.9) | (3.3) | (3.1) |

Outline of Business Segments

| Business Segment | Descriptions of Main Business |
|---|---|
| Enterprises Networks | Service integration of ICT solutions, mainly for the enterprises market<br>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<br>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 |

To enable comparison with the first nine months under review, the first nine months of the previous fiscal year are presented as a reference by reclassifying the segments into those applied from the first quarter of the current fiscal year.

* EmpoweredOffice:

EmpoweredOffice is our office innovation solution. It combines our strengths in ICT and facility installation to enable more intellectual and creative styles of work through process reforms. It also proposed new methods and places of work that allow customers to fulfill their social responsibilities such as the strengthening of security and environmental responsiveness.

## 5. Consolidated Financial Statements
### (1) Consolidated Balance Sheets

(Millions of yen)

| | **As of December 31, 2010** | As of March 31, 2010 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and deposits | **14,855** | 29,538 |
| Notes and accounts receivable-trade | **76,957** | 79,988 |
| Short-term investment securities | **4,499** | --- |
| Purchased goods, materials and supplies | **1,643** | 1,696 |
| Work in process | **8,954** | 5,572 |
| Other | **7,590** | 7,316 |
| Allowance for doubtful accounts | **(188)** | (204) |
| Current assets | **114,312** | 123,908 |
| Noncurrent assets | | |
| Property, plant and equipment | **8,627** | 7,864 |
| Intangible assets | **3,729** | 3,656 |
| Investments and other assets | | |
| Other | **12,967** | 11,618 |
| Allowance for doubtful accounts | **(77)** | (131) |
| Investments and other assets | **12,889** | 11,486 |
| Noncurrent assets | **25,246** | 23,007 |
| Assets | **139,559** | 146,915 |

(Millions of yen)

| | **As of December 31, 2010** | As of March 31, 2010 |
|---|---|---|
| LIABILITIES | | |
| Current liabilities | | |
| Notes and accounts payable-trade | **28,153** | 34,979 |
| Short-term loans payable | **2,313** | --- |
| Current portion of long-term loans payable | **---** | 2,000 |
| Income taxes payable | **1,035** | 3,004 |
| Provision for derectors' bonuses | **15** | 92 |
| Provision for loss on order received | **176** | 128 |
| Other | **11,999** | 12,588 |
| Current liabilities | **43,694** | 52,792 |
| Noncurrent liabilities | | |
| Long-term loans payable | **3,011** | 3,000 |
| Provision for retirement benefits | **16,272** | 15,792 |
| Other | **1,516** | 1,109 |
| Noncurrent liabilities | **20,800** | 19,901 |
| Liabilities | **64,494** | 72,693 |
| NET ASSETS | | |
| Shareholders’ equity | | |
| Capital stock | **13,122** | 13,122 |
| Capital surplus | **16,650** | 16,650 |
| Retained earnings | **45,152** | 44,318 |
| Treasury stock | **(49)** | (48) |
| Shareholders' equity | **74,875** | 74,043 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | **0** | 6 |
| Deferred gains or losses on hedges | **---** | 3 |
| Foreign currency translation adjustment | **(515)** | (467) |
| Valuation and translation adjustments | **(514)** | (457) |
| Minority interests | **702** | 635 |
| Net assets | **75,064** | 74,221 |
| Liabilities and net assets | **139,559** | 146,915 |

### (2) Consolidated Statements of Income

(Millions of yen)

| | **FY2010 1Q-3Q (9 months ended 12/2010)** | FY2009 1Q-3Q (9 months ended 12/2009) |
|---|---|---|
| Net sales | **152,580** | 147,624 |
| Cost of sales | **130,308** | 125,883 |
| Gross profit | **22,272** | 21,740 |
| Selling, general and administrative expenses | **16,455** | 16,977 |
| Operating income | **5,816** | 4,763 |
| Non-operating income | | |
| Interest income | **62** | 36 |
| Dividends income of insurance | **101** | 100 |
| Reversal of allowance for doubtful accounts | **---** | 106 |
| Other | **189** | 193 |
| Non-operating income | **353** | 436 |
| Non-operating expenses | | |
| Interest expenses | **42** | 49 |
| Loss on valuation of investment securities | **---** | 45 |
| Foreign exchange losses | **164** | 72 |
| Bad debts expenses | **119** | --- |
| Other | **69** | 52 |
| Non-operating expenses | **395** | 219 |
| Ordinary income | **5,774** | 4,980 |
| Extraordinary loss | | |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | **437** | --- |
| Head office transfer cost | **1,509** | --- |
| Extraordinary loss | **1,946** | --- |
| Income before income taxes and minority interests | **3,827** | 4,980 |
| Income taxes | **1,716** | 2,121 |
| Income before minority interests | **2,110** | --- |
| Minority interests in income | **(66)** | 2 |
| Net income | **2,176** | 2,856 |

### (3) Consolidated Statements of Cash Flows

(Millions of yen)

| | **FY2010 1Q-3Q (9 months ended 12/2010)** | FY2009 1Q-3Q (9 months ended 12/2009) |
|---|---|---|
| Net cash provided by (used in) operating activities | | |
| Income before income taxes and minority interests | **3,827** | 4,980 |
| Depreciation and amortization | **1,584** | 1,641 |
| Amortization of goodwill | **53** | 49 |
| Amortization of negative goodwill | **(5)** | (5) |
| Increase (decrease) in allowance for doubtful accounts | **(71)** | (153) |
| Increase (decrease) in provision for retirement benefits | **437** | (27) |
| Increase (decrease) in provision for directors' bonuses | **(77)** | (51) |
| Increase (decrease) in provision for loss on order received | **47** | (25) |
| Interest and dividends income | **(69)** | (48) |
| Interest expenses | **42** | 49 |
| Loss (gain) on valuation of investment securities | **0** | 45 |
| Loss (gain) on sales of property, plant and equipment | **1** | 0 |
| Loss on retirement of noncurrent assets | **19** | 19 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | **437** | --- |
| Head office transfer cost | **1,509** | --- |
| Decrease (increase) in notes and accounts receivable-trade | **3,416** | 25,312 |
| Decrease (increase) in inventories | **(3,350)** | (2,505) |
| Increase (decrease) in notes and accounts payable-trade | **(6,816)** | (13,217) |
| Increase (decrease) in accrued consumption taxes | **(420)** | (1,278) |
| Other, net | **(1,544)** | (1,249) |
| Subtotal | **(977)** | 13,536 |
| Interest and dividends income received | **69** | 48 |
| Interest expenses paid | **(37)** | (41) |
| Payments for head office transfer cost | **(1,114)** | --- |
| Income taxes paid | **(3,653)** | (4,093) |
| Net cash provided by (used in) operating activities | **(5,713)** | 9,450 |
| Net cash provided by (used in) investing activities | | |
| Purchase of property, plant and equipment | **(1,767)** | (679) |
| Proceeds from sales of property, plant and equipment | **9** | 0 |
| Purchase of intangible assets | **(381)** | (613) |
| Proceeds from sales of intangible assets | **378** | --- |
| Purchase of investment securities | **(4)** | (3) |
| Proceeds from sales of investment securities | **35** | 9 |
| Payments of loans receivable | **(22)** | (39) |
| Collection of loans receivable | **30** | 37 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | **(464)** | --- |
| Payments for lease deposits for head office transfer | **(747)** | --- |
| Payments made to settle asset retirement obligations | **(357)** | --- |
| Other, net | **126** | 2 |
| Net cash provided by (used in) investing activities | **(3,165)** | (1,286) |
| Net cash provided by (used in) financing activities | | |
| Net increase (decrease) in short-term loans payable | **2,288** | (126) |
| Decrease in current portion of long-term loans payable | **(2,000)** | --- |
| Proceeds from sale and purchase of treasury stock, net | **(1)** | (2) |
| Cash dividends paid | **(1,337)** | (1,085) |
| Cash dividends paid to minority shareholders | **---** | (2) |
| Other, net | **(186)** | (161) |
| Net cash provided by (used in) financing activities | **(1,236)** | (1,378) |
| Effect of exchange rate change on cash and cash equivalents | **(68)** | 86 |
| Net increase (decrease) in cash and cash equivalents | **(10,182)** | 6,872 |
| Cash and cash equivalents at beginning of period | **29,538** | 16,614 |
| Cash and cash equivalents at end of period | **19,355** | 23,487 |

**(4) Segment Information**

Business Segment
First three quarters of fiscal 2010 (9 months ended December 2010)

**(Millions of yen)**

| | **Enterprises Networks** | **Carrier Networks** | **Social Infrastructures** | **Others** | **Adjustments** | **Total** |
|---|---|---|---|---|---|---|
| **Orders received** | **53,473** | **32,830** | **58,336** | **9,455** | **---** | **154,096** |
| **Sales** | | | | | | |
| **(1) Sales to third parties** | **56,053** | **30,280** | **57,164** | **9,082** | **---** | **152,580** |
| **(2) Intersegment sales** | **---** | **---** | **---** | **---** | **---** | **---** |
| **Total** | **56,053** | **30,280** | **57,164** | **9,082** | **---** | **152,580** |
| **Operating income and loss** | **5,309** | **2,697** | **2,202** | **158** | **(4,551)** | **5,816** |

First three quarters of fiscal 2009 (9 months ended December 2009)

(Millions of yen)

| | Enterprises Networks | Carrier Networks | Social Infrastructures | Others | Adjustments | Total |
|---|---|---|---|---|---|---|
| Orders received | 52,271 | 32,918 | 64,052 | 9,777 | --- | 159,020 |
| Sales | | | | | | |
| (1) Sales to third parties | 52,399 | 32,512 | 52,616 | 10,095 | --- | 147,624 |
| (2) Intersegment sales | --- | --- | --- | --- | --- | --- |
| Total | 52,399 | 32,512 | 52,616 | 10,095 | --- | 147,624 |
| Operating income and loss | 4,333 | 2,644 | 1,837 | 351 | (4,404) | 4,763 |

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