

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, 2011 to December 31, 2011) of Fiscal Year 2011 ending March 31, 2012

(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 12/2011	140,089	-8.2	3,894	-33.0	4,091	-29.1
9 months ended 12/2010	152,580	3.4	5,816	22.1	5,774	15.9

	Net income (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
9 months ended 12/2011	1,272	-41.6	25.58	—
9 months ended 12/2010	2,176	-23.8	43.77	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owners' equity ratio (%)	Net assets per share (¥)
31/12/2011	138,178	77,242	55.5	1,542.39
31/03/2011	149,923	77,464	51.3	1,546.42

c.f. Owners' equity: 31/12/2011: ¥76,701 million; 31/03/2011: ¥76,904 million

2. Dividends

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/2011	—	13.00	—	13.00	26.00
FY ending 3/2012	—	14.00	—	14.00 (projected)	28.00 (projected)

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

3. Financial Forecasts for Fiscal Year 2011 ending March 31, 2012 (April 1, 2011 to March 31, 2012)

(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 3/2012	240,000	10.1	11,000	1.5	11,000	0.6	5,100	7.4	102.55

Note: Revisions to projected results for the quarter under review: yes

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. Qualitative Information and Financial Statements

(1) Operating Results for the First Nine Months of Fiscal 2011 (April – December 2011)

During the first nine months of the fiscal year ending March 31, 2012 (the period from April 1, 2011 to December 31, 2011), the outlook for the Japanese economy remained uncertain due to the appreciation of the yen, stemming from concerns over a slowdown in the global economy, including economic instability in Europe. Nonetheless, the economy was gradually recovering from the sharp contraction that followed the Great East Japan Earthquake in March.

Given these economic conditions, there were signs of a recovery from the temporary effects of the earthquake in the fields of information and communications technology (ICT), where NEC Networks & System Integration Corporation (the “Company”) operates.

In the enterprises market, some companies were cautious, holding off on investments that were not urgent because of uncertainty over the economy caused by a strong yen among other factors. However, the earthquake heightened awareness of business continuity plans and energy saving, which increased demand for the use of ICT services including data center service and cloud computing. Telecommunications carriers stepped up investments in the development of high-speed networks with large capacity to increase communications volume and improve communications quality in step with increases in the number of smartphone users.

In the central and local governments market, the peaking of investments related to local information networks targeting the shift to the digitalization of terrestrial TV broadcasting ended in the second half of the previous fiscal year and subsequently declined sharply. Reconstruction investment in the areas affected by the earthquake was slow. Investment in the digitalization of fire-fighting and disaster-prevention systems, expected to be pursued in earnest, increased gradually but more slowly than expected.

In this market environment, the Company and its consolidated subsidiaries (hereinafter the “Group”) sought to strengthen resources, including salespeople and system engineers, in priority areas, partly by shifting resources internally, and continued to make upfront investments to promote services by expanding data centers and developing cloud computing services.

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

Net Sales	¥140,089 million	(8.2% decrease year on year)
Operating Income	¥3,894 million	(33.0% decrease year on year)
Ordinary Income	¥4,091 million	(29.1% decrease year on year)
Net Income (For reference)	¥1,272 million	(41.6% decrease year on year)
Orders Received	¥154,091 million	(0.0% decrease year on year)

Net sales declined 8.2% year on year, to ¥140,089 million, reflecting a sharp decline in the Social Infrastructure business due to a pause in investments in local information networks, which more than offset increases in the Enterprises Networks business and the Carrier Networks business, growth segments the Company is focusing on. Orders were mostly on a par with the year-ago level at ¥154,091 million, thanks to increases in the Enterprises Networks business and the Carrier Networks business that offset a fall in the Social Infrastructure business.

Turning to profit, the gross margin was roughly at the same level, 14.6%, as a year ago with the decline in net sales offset by streamlining as a result of the acceleration of our innovations in work processes and work styles. Selling, general, and administrative expenses increased ¥158 million, reflecting the expansion of investment in future growth. As a result, both operating income and ordinary income declined from a year ago to ¥3,894 million and ¥4,091 million, respectively. Net income dropped 41.6% year on year, to ¥1,272 million, as income taxes resulting from a reversal of the deferred tax assets of ¥1,118 million, the realizability of which was eliminated due to a decrease in the effective tax rate associated with tax reform, were posted entirely in the third quarter.

Operating results by business segment were as follows:

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Others	Total
1-3Q Fiscal 2012/3 (Nine months ended December 31, 2011)	56,455	33,602	41,407	8,624	140,089
1-3Q Fiscal 2011/3 (Nine months ended December 31, 2010)	56,053	30,280	57,164	9,082	152,580
Increase (decrease)	401	3,322	(15,757)	(457)	(12,491)
Percentage increase (decrease)	0.7	11.0	(27.6)	(5.0)	(8.2)

(Million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Others	Total
1-3Q Fiscal 2012/3 (Nine months ended December 31, 2011)	59,383	35,670	50,971	8,065	154,091
1-3Q Fiscal 2011/3 (Nine months ended December 31, 2010)	53,473	32,830	58,336	9,455	154,096
Increase (decrease)	5,909	2,840	(7,365)	(1,390)	(5)
Percentage increase (decrease)	11.1	8.7	(12.6)	(14.7)	(0.0)

1. Enterprises Networks (¥56,455 million, up 0.7% year on year)

Net sales recovered from a sharp decline immediately after the earthquake and rose slightly from a year ago, reflecting an increase in sales to the service industry and the consolidation of DAICHI AD SYSTEM, despite the postponement of the posting of certain sales. The Group enhanced its solution/service lineup, including the mainstay office innovation solution EmpoweredOffice*, in response to customer needs for business continuity plans and energy saving. Meanwhile, the Group bolstered its cloud-type and outsourcing services, using the Company's data centers. Orders received rose sharply, 11.1% year on year, to ¥59,383 million.

2. Carrier Networks (¥33,602 million, up 11.0% year on year)

As telecommunications carriers expanded investments in their networks in response to surging network traffic associated with increases in the number of smartphone users, the Group sought to bolster its entire supply chain, including network design, system building, and services. As a result, net sales rose at a double-digit pace from a year ago. Orders received increased 8.7% year on year, to ¥35,670 million.

3. Social Infrastructure (¥41,407 million, down 27.6% year on year)

Net sales declined from a year ago, attributable to a decrease in infrastructure construction work in reaction to expanded investments in the previous fiscal year in association with supplementary budgets for local information infrastructure in relation to the digitalization of terrestrial TV broadcasting. However, the Company set up a specialized organization for fire-fighting and disaster-prevention systems in April 2011 to promote Company-wide efforts, and as a result, sales expanded despite the slow start to the market. Orders received slipped, as sales did, to ¥50,971 million, down 12.6%, partly because of the concentration of large-scale local information network projects in the previous fiscal year.

(2) Consolidated Results Forecast

Income taxes resulting from a reversal of the deferred tax assets of ¥1.1 Billion, the realizability of which

was eliminated due to a decrease in the effective tax rate associated with tax reform were posted entirely in the third quarter. The Company thus revised its forecast of net income for the fiscal year ending March 31, 2012 to ¥5.1 billion, up 7.4% year on year.

Net sales	¥240 billion	(10.1% increase year on year)
Operating income	¥11 billion	(1.5% increase year on year)
Ordinary income	¥11 billion	(0.6% increase year on year)
Net income	¥5.1 billion	(7.4% increase year on year)

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2011	As of March 31, 2011
ASSETS		
Current assets		
Cash and deposits	28,645	25,611
Notes and accounts receivable-trade	59,209	86,331
Short-term investment securities	7,999	---
Purchased goods, materials and supplies	1,525	1,493
Work in process	9,215	5,612
Other	8,342	7,619
Allowance for doubtful accounts	(242)	(308)
Current assets	<u>114,696</u>	<u>126,360</u>
Noncurrent assets		
Property, plant and equipment	8,779	8,624
Intangible assets	3,685	3,673
Investments and other assets		
Other	11,082	11,337
Allowance for doubtful accounts	(65)	(73)
Investments and other assets	<u>11,017</u>	<u>11,264</u>
Noncurrent assets	<u>23,481</u>	<u>23,563</u>
Assets	<u>138,178</u>	<u>149,923</u>

(Millions of yen)

	As of December 31, 2011	As of March 31, 2011
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	25,145	31,354
Short-term loans payable	44	1,800
Current portion of long-term loans payable	3,500	500
Income taxes payable	1,785	3,302
Provision for directors' bonuses	16	89
Provision for loss on order received	118	75
Other	11,338	13,651
Current liabilities	<u>41,948</u>	<u>50,773</u>
Noncurrent liabilities		
Long-term loans payable	1,000	4,000
Provision for retirement benefits	16,817	16,301
Other	1,171	1,383
Noncurrent liabilities	<u>18,988</u>	<u>21,685</u>
Liabilities	<u>60,936</u>	<u>72,458</u>
NET ASSETS		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	47,652	47,722
Treasury stock	(52)	(50)
Shareholders' equity	<u>77,372</u>	<u>77,445</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(5)	2
Foreign currency translation adjustment	(665)	(543)
Accumulated other comprehensive income	<u>(671)</u>	<u>(540)</u>
Minority interests	<u>541</u>	<u>559</u>
Net assets	<u>77,242</u>	<u>77,464</u>
Liabilities and net assets	<u>138,178</u>	<u>149,923</u>

(2) Consolidated Statements of Income

(Millions of yen)

	FY2011 1Q-3Q (9 months ended 12/2011)	FY2010 1Q-3Q (9 months ended 12/2010)
Net sales	140,089	152,580
Cost of sales	119,580	130,308
Gross profit	20,509	22,272
Selling, general and administrative expenses	16,614	16,455
Operating income	3,894	5,816
Non-operating income		
Interest income	53	62
Dividends income of insurance	105	101
Other	270	189
Non-operating income	428	353
Non-operating expenses		
Interest expenses	46	42
Foreign exchange losses	107	164
Other	78	189
Non-operating expenses	232	395
Ordinary income	4,091	5,774
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	4,091	3,827
Income taxes	2,795	1,716
Income before minority interests	1,295	2,110
Minority interests in income	23	(66)
Net income	1,272	2,176

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	FY2011 1Q-3Q (9 months ended 12/2011)	FY2010 1Q-3Q (9 months ended 12/2010)
Income before minority interests	1,295	2,110
Other comprehensive income		
Valuation difference on available-for-sale securities	(8)	(6)
Deferred gains or losses on hedges	-	(3)
Foreign currency translation adjustment	(164)	(49)
Other comprehensive income	(172)	(59)
Comprehensive income	1,123	2,051
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,141	2,120
Comprehensive income attributable to minority interests	(18)	(68)

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2011 1Q-3Q (9 months ended 12/2011)	FY2010 1Q-3Q (9 months ended 12/2010)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	4,091	3,827
Depreciation and amortization	1,395	1,584
Amortization of goodwill	61	53
Amortization of negative goodwill	(10)	(5)
Increase (decrease) in allowance for doubtful accounts	(70)	(71)
Increase (decrease) in provision for retirement benefits	518	437
Increase (decrease) in provision for subsidiaries directors' retirement benefits	(72)	(77)
Increase (decrease) in provision for directors' bonuses	43	47
Increase (decrease) in provision for loss on order received	(62)	(69)
Interest and dividends income	46	42
Interest expenses	1	0
Loss (gain) on valuation of investment securities	(2)	1
Loss (gain) on sales of property, plant and equipment	33	19
Loss on retirement of noncurrent assets	26,875	3,416
Decrease (increase) in notes and accounts receivable-trade	(3,650)	(3,350)
Decrease (increase) in inventories	(6,118)	(6,816)
Increase (decrease) in notes and accounts payable-trade	(604)	(420)
Increase (decrease) in accrued consumption taxes	(2,931)	402
Other, net	19,545	(977)
Subtotal	81	69
Interest and dividends income received	(35)	(37)
Interest expenses paid	-	(1,114)
Income taxes paid	(3,415)	(3,653)
Net cash provided by (used in) operating activities	16,176	(5,713)
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(1,082)	(1,767)
Proceeds from sales of property, plant and equipment	3	9
Purchase of intangible assets	(652)	(381)
Purchase of investment securities	(5)	(4)
Payments of loans receivable	(12)	(22)
Collection of loans receivable	19	30
Other, net	27	(1,028)
Net cash provided by (used in) investing activities	(1,702)	(3,165)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1,753)	2,288
Proceeds from sale and purchase of treasury stock, net	(2)	(1)
Cash dividends paid	(1,336)	(1,337)
Other, net	(231)	(2,186)
Net cash provided by (used in) financing activities	(3,323)	(1,236)
Effect of exchange rate change on cash and cash equivalents	(116)	(68)
Net increase (decrease) in cash and cash equivalents	11,034	(10,182)
Cash and cash equivalents at beginning of period	25,611	29,538
Cash and cash equivalents at end of period	36,645	19,355

(4) Segment Information

Business Segment

First three quarters of fiscal 2011 (9 months ended December 2011)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	59,383	35,670	50,971	8,065	-	154,091
Sales						
(1) Sales to third parties	56,455	33,602	41,407	8,624	-	140,089
(2) Intersegment sales	-	-	-	-	-	-
Total	56,455	33,602	41,407	8,624	-	140,089
Operating income and loss	4,800	3,354	720	(67)	(4,912)	3,894

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