

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, 2011 to June 30, 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 (%)
3 months ended 6/11 (1Q/FY11)	39,827	-5.3	151	-54.8	194	-39.6
3 months ended 6/10 (1Q/FY10)	42,072	-2.7	334	22.6	321	-1.1

	Net income (¥ million)	Year-on- year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
3 months ended 6/11 (1Q/FY11)	104	—	2.10	—
3 months ended 6/10 (1Q/FY10)	-130	—	-2.63	—

**(2) Financial Position**

	Total assets (¥ million)	Net assets (¥ million)	Owner's equity ratio (%)	Net assets per share (¥)
30/06/2011	130,588	76,963	58.5	1,536.25
31/03/2011	149,923	77,464	51.3	1,546.42

c.f. Owner's equity: 30/06/11: ¥76,399 million; 31/03/11: ¥76,904 million

**2. Dividends**

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/11	—	13.00	—	13.00	26.00
FY ending 3/12 (projected)	—	14.00	—	14.00	28.00

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)	(%)	(¥)
6 months ending 9/11	105,000	6.9	3,100	1.0	3,100	3.2	1,700	213.1	34.18
FY ending 3/12	240,000	10.1	11,000	1.5	11,000	0.6	6,200	30.6	124.67

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. Business Results

### (1) Business Results for the First Quarter of the Year Ending March 31, 2012

The Japanese economy remained uncertain over its future outlook in the first quarter of the fiscal year ending March 31, 2012 (the period from April 1, 2011 to June 30, 2011, hereinafter the “first quarter”), mainly reflecting lower production activities among certain companies, given the disruption to supply chains, the accident at the Fukushima I Nuclear Power Plant, and a power shortage in the wake of the Great East Japan Earthquake that struck in March 2011.

In the information and communications technology (ICT) market, where NEC Networks & System Integration Corporation (hereinafter the “Company”) operates, although the earthquake delivered a temporary impact, certain activities got underway that should lead to a market recovery in the future.

In the enterprises market, the experience of the earthquake raised awareness of the need for business continuity plans (BCP) and energy saving. As a result, corporate investment momentum has been trending stronger, as demand for the use of ICT services, such as the use of data centers and the cloud computing, have been growing. Telecommunications carriers also stepped up their investments in the development of more efficient and higher-speed networks with a larger capacity to increase network traffic and improve communications quality, in step with the growing use to ICT services by companies and the sharp increase in the number of smartphone users.

In the central and local governments market, investments related to local information networks, targeting the shift to terrestrial broadcasting digitalization, dropped and remained low after peaking in the first half of the previous fiscal year. Meanwhile, investments in redeveloping and digitalizing fire-fighting and disaster prevention systems in broader areas have been growing. Although investments in these projects are still slow, they are likely to grow strongly in the future.

In this environment, the Company took steps to strengthen sales staff, systems engineers, and other key human resources through internal reallocations of human resources and other measures. The Company also continued to invest in the growth of its services businesses, specifically in areas such as data center capacity.

As a result of the above, the Company posted the following consolidated results for the first quarter of the fiscal year under review.

Net sales	¥39,827 million	(a ¥2,244 million decrease year on year)
Operating income	¥151 million	(a ¥183 million decrease year on year)
Ordinary income	¥194 million	(a ¥127 million decrease year on year)
Net income	¥104 million	(a ¥235 million increase year on year)

Net sales fell 5.3% from the same period of the previous fiscal year. This fall was attributable to the decline in sales from the Social Infrastructure business, as extensive investments related to local information networks came to an end. However, sales of the Enterprises Networks business and the Carrier Networks business, the Company’s growth segments, both increased.

The performance by main business segment is as follows.

#### 1. Enterprises Networks business (¥17,168 million, up 1.8% year on year):

The Enterprises Networks business recorded higher sales, mainly reflecting an increase in sales to the manufacturing sector and the effects of the inclusion of DAIICHI AD SYSTEM in consolidated subsidiaries, despite the continued restraint of investments from companies and other temporary effects in the aftermath of the disaster. Orders, meanwhile, recovered to ¥18,152 million, up 6.5% from the same period of the previous fiscal year. This was mainly

attributable to initiatives to strengthen the menu, including the BCP and energy saving centered on EmpoweredOffice (\*), an office innovation solution, to meet customers' needs, and bolstering service businesses, such as cloud computing and outsourcing that use the Company's data centers.

2. Carrier Networks business (¥9,727 million, up 12.8% year on year):

Sales of the Carrier Networks business rose year on year, reflecting the impact of the Company's initiatives to strengthen the supply chain from system inspections to systems integration and operation. These initiatives aimed to respond to the increase in investments in networks by telecommunications carriers in step with a rapid increase in network traffic, which in turn is attributable to the increase in the number of smartphone users. Orders also increased 10.4% from the same period of the previous fiscal year, to ¥12,022 million.

3. Social Infrastructure business (¥10,591 million, down 24.3% year on year):

Sales of the Social Infrastructure business declined year on year, as investments related to local information networks came to an end, following the introduction of terrestrial broadcasting digitalization. Orders also fell 20.3% from the same period of the previous fiscal year, to ¥18,481 million, mainly reflecting the concentration of large-scale projects related to local information networks in the previous fiscal year. In response, in the fire-fighting and disaster prevention systems business, the Company has stepped up its comprehensive initiatives by establishing a specialized organization in April 2011. As a result, orders for fire-fighting and disaster prevention systems have grown, although project commencement has been relatively slow.

Turning to profit, the Company strove to pursue initiatives across the Group to improve overall cost efficiency, including prime costs and selling, general, and administrative expenses, by stepping up its efforts in management innovation, including innovations in work processes and styles, taking the opportunity of the relocation of the head office in October 2010.

As a result, despite lower net sales and the increase of investments in future growth, the Company achieved profitability for the first quarter of the fiscal year under review, with operating income of ¥151 million and the ordinary income of ¥194 million. It also recorded net income of ¥104 million, moving into the black from the net loss registered in the same period of the previous fiscal year, given the absence of extraordinary losses posted in the previous fiscal year.

Operating results by business segment were as follows:

**<Net sales by business segment>**

(Million yen)

		Enterprises Networks	Carrier Networks	Social Infrastructure	Others	Total
Net sales	Three months ended June 30, 2011	17,168	9,727	10,591	2,340	39,827
	Three months ended June 30, 2010	16,865	8,625	13,995	2,585	42,072
	Increase (Decrease)	302	1,101	(3,403)	(245)	(2,244)
	Percentage increase (decrease)	1.8	12.8	(24.3)	(9.5)	(5.3)

**<Reference: Orders received by business segment>**

(Million yen)

		Enterprises Networks	Carrier Networks	Social Infrastructure	Others	Total
Orders received	Three months ended June 30, 2011	18,152	12,022	18,481	2,439	51,095
	Three months ended June 30, 2010	17,040	10,890	23,180	3,430	54,541
	Increase (Decrease)	1,111	1,132	(4,698)	(990)	(3,445)
	Percentage increase (decrease)	6.5	10.4	(20.3)	(28.9)	(6.3)

## Outline of Business Segments

Business Segment	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 data centers 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

Note: The Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17 on March 27, 2009) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20 on March 21, 2008) are applied from the fiscal year under review.

### \*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 proposes new methods and places of work that allow customers to fulfill their social responsibilities, such as the strengthening of security and environmental responsiveness.

## (2) Outlook for the Fiscal Year Ending March 31, 2012

The Japanese economy is expected to gradually recover in the fiscal year ending March 31, 2012, with a recovery in production activities, as a result of the restoration of the supply chain, and the effect of policies for rebuilding disaster-stricken areas. However, the economic impact of the Great East Japan Earthquake, the resulting accident at the Fukushima I Nuclear Power Plant, and power shortages, is still uncertain.

In this business environment, although the performance of the Social Infrastructure business is slightly slow, the Company generally is performing almost as planned. As a result, the consolidated operating forecasts for the fiscal year ending March 31, 2012 remain unchanged from the previous forecasts.

Net sales	¥240.0 billion	(10.1% increase year on year)
Operating income	¥11.0 billion	(1.5% increase year on year)
Ordinary income	¥11.0 billion	(0.6% increase year on year)
Net income	¥6.2 billion	(30.6% increase year on year)

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

	(Millions of yen)	
	As of June 30, 2011	As of March 31, 2011
<b>ASSET</b>		
Current assets		
Cash and deposits	33,931	25,611
Notes and accounts receivable-trade	56,596	86,331
Purchased goods, materials and supplies	1,556	1,493
Work in process	7,078	5,612
Other	8,031	7,619
Allowance for doubtful accounts	(264)	(308)
Current assets	<u>106,929</u>	<u>126,360</u>
Noncurrent assets		
Property, plant and equipment	8,689	8,624
Intangible assets	3,601	3,673
Investments and other assets		
Other	11,431	11,337
Allowance for doubtful accounts	(64)	(73)
Investments and other assets	<u>11,367</u>	<u>11,264</u>
Noncurrent assets	<u>23,658</u>	<u>23,563</u>
Assets	<u>130,588</u>	<u>149,923</u>

	(Millions of yen)	
	As of June 30, 2011	As of March 31, 2011
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	18,897	31,354
Short-term loans payable	1,000	1,800
Current portion of long-term loans payable	3,500	500
Income taxes payable	364	3,302
Provision for directors' bonuses	21	89
Provision for loss on order received	62	75
Other	11,125	13,651
Current liabilities	<u>34,972</u>	<u>50,773</u>
Noncurrent liabilities		
Long-term loans payable	1,000	4,000
Provision for retirement benefits	16,474	16,301
Other	1,177	1,383
Noncurrent liabilities	<u>18,652</u>	<u>21,685</u>
Liabilities	<u>53,624</u>	<u>72,458</u>
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	47,180	47,722
Treasury stock	(50)	(50)
Shareholders' equity	<u>76,903</u>	<u>77,445</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	2
Foreign currency translation adjustment	(504)	(543)
Accumulated other comprehensive income	<u>(504)</u>	<u>(540)</u>
Minority interests	564	559
Net assets	<u>76,963</u>	<u>77,464</u>
Liabilities and net assets	<u>130,588</u>	<u>149,923</u>

## (2) Consolidated Statements of Income

(Millions of yen)

	FY2011 1Q (3 months ended 6/11)	FY2010 1Q (3 months ended 6/10)
Net sales	39,827	42,072
Cost of sales	34,295	36,276
Gross profit	5,531	5,796
Selling, general and administrative expenses	5,380	5,461
Operating income	151	334
Non-operating income		
Interest income	18	18
Reversal of allowance for doubtful accounts	54	32
Other	55	83
Non-operating income	128	133
Non-operating expenses		
Interest expenses	15	16
Foreign exchange losses	42	110
Other	26	19
Non-operating expenses	84	146
Ordinary income	194	321
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	194	(222)
Income taxes	94	(58)
Income before minority interests	100	(164)
Minority interests in income	(4)	(33)
Net income	104	(130)

**(Consolidated Statements of Comprehensive Income)**

(Millions of yen)

	FY2011 1Q (3 months ended 6/11)	FY2010 1Q (3 months ended 6/10)
Income before minority interests	100	(164)
Other comprehensive income		
Valuation difference on available-for-sale securities	(3)	(6)
Deferred gains or losses on hedges	-	(0)
Foreign currency translation adjustment	48	60
Other comprehensive income	45	53
Comprehensive income	145	(110)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	141	(99)
Comprehensive income attributable to minority interests	4	(10)

## (3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2011 1Q (3 months ended 6/11)	FY2010 1Q (3 months ended 6/10)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	194	(222)
Depreciation and amortization	456	509
Amortization of goodwill	20	16
Amortization of negative goodwill	(7)	(1)
Increase (decrease) in allowance for doubtful accounts	(54)	(53)
Increase (decrease) in provision for	170	48
subsidiaries directors' retirement benefits	(170)	-
Increase (decrease) in provision for	(68)	(74)
directors' bonuses	(68)	(74)
Increase (decrease) in provision for	(13)	(50)
loss on order received	(13)	(50)
Interest and dividends income	(25)	(23)
Interest expenses	15	16
Loss (gain) on valuation of investment securities	1	0
Loss (gain) on sales of property, plant	0	1
and equipment	0	1
Loss on retirement of noncurrent assets	10	7
Decrease (increase) in notes and accounts	29,801	19,783
receivable-trade	29,801	19,783
Decrease (increase) in inventories	(1,513)	(2,064)
Increase (decrease) in notes and	(12,492)	(10,191)
accounts payable-trade	(12,492)	(10,191)
Increase (decrease) in accrued	(1,032)	(961)
consumption taxes	(1,032)	(961)
Other, net	(1,970)	(132)
Subtotal	<u>13,322</u>	<u>6,609</u>
Interest and dividends income received	44	23
Interest expenses paid	(4)	(11)
Income taxes paid	(3,085)	(2,828)
Net cash provided by (used in) operating activities	<u>10,276</u>	<u>3,791</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(333)	(158)
Proceeds from sales of property, plant and equipment	0	0
Purchase of intangible assets	(135)	(130)
Purchase of investment securities	(1)	(1)
Payments of loans receivable	(5)	(9)
Collection of loans receivable	9	12
Other, net	(16)	28
Net cash provided by (used in) investing activities	<u>(483)</u>	<u>(258)</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(800)	-
Proceeds from sale and purchase of	(0)	(0)
treasury stock, net	(0)	(0)
Cash dividends paid	(635)	(684)
Other, net	(73)	(2,058)
Net cash provided by (used in) financing activities	<u>(1,509)</u>	<u>(2,743)</u>
Effect of exchange rate change on cash	35	13
and cash equivalents	35	13
Net increase (decrease) in cash and cash equivalents	<u>8,319</u>	<u>803</u>
Cash and cash equivalents at beginning of period	<u>25,611</u>	<u>29,538</u>
Cash and cash equivalents at end of period	<u>33,931</u>	<u>30,341</u>

(4) Segment Information

Business Segment Information

First quarter of fiscal 2011 (3 months ended June 2011)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	18,152	12,022	18,481	2,439	---	51,095
Sales						
(1) Sales to third parties	17,168	9,727	10,591	2,340	---	39,827
(2) Intersegment sales	---	---	---	---	---	---
Total	17,168	9,727	10,591	2,340	---	39,827
Operating income and loss	1,152	960	(339)	(72)	(1,550)	151

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

(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