

NEC Networks & System Integration Corporation (NESIC)

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, 2012 to December 31, 2012)****of Fiscal Year ending March 31, 2013**

(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 12/2012	159,876	14.1	6,586	69.1	6,742	64.8
9 months ended 12/2011	140,089	-8.2	3,894	-33.0	4,091	-29.1

	Net income (¥ million)	Year-on-year change (%)	Net income per share (¥)	Net income per share (diluted) (¥)
9 months ended 12/2012	3,980	212.9	80.04	—
9 months ended 12/2011	1,272	-41.6	25.58	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Owners' equity ratio (%)	Net assets per share (¥)
31/12/2012	147,562	83,014	55.8	1,657.05
31/03/2012	149,707	80,651	53.5	1,610.38

c.f. Owners' equity: 31/12/2012: ¥76,701 million; 31/03/2012: ¥76,904 million

2. Dividends

	Dividends per share (¥)				
	1st quarter	Interim	3rd quarter	Year-end	Full year
FY ended 3/2012	—	14.00	—	14.00	28.00
FY ending 3/2013	—	19.00	—	19.00 (projected)	38.00 (projected)

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

3. Financial Forecasts for Fiscal Year ending March 31, 2013 (April 1, 2012 to March 31, 2013)

(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)	(%)	(¥)
Current forecast for FY ending 3/2013	230,000	12.4	11,500	18.0	11,500	20.2	6,800	48.1	136.75
Previous forecast for FY ending 3/2013	220,000	7.5	10,500	7.7	10,500	9.7	6,200	35.0	124.68

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

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 Nine Months of Fiscal Year ending March 2013 (April – December 2012)

During the first nine months of the fiscal year ending March 2013 (the period from April 1, 2012 to December 31, 2012), the Japanese economy underwent a moderate recovery against the backdrop of demand for reconstruction from the earthquake disaster, etc. Uncertainty remains, however, such as concerns about the global economy due to the debt crisis in Europe. Yet in particular, toward the end of 2012, we saw some hope for the future, such as a correction of the appreciating yen and a rebound in the stock market in response to the change in government.

In this environment, the information and communication technology (ICT) market saw positive signs of progress.

In the enterprise market, senior managers became increasingly rigorous when assessing the effects of investment. Meanwhile, there has been growing demand for management innovation using ICT to improve corporate competitiveness, revolutionize how work is done in the office, and focus resources on core business areas using ICT as a service. In addition to the increased need for data centers, the cloud, and other ICT services as a result of a greater awareness of the need for business continuity planning (BCP) and energy conservation following the earthquake, there has been an increase in the number of projects related to office relocations due to a rush to construct new buildings.

Telecommunications carriers continued to invest in developing high-speed, large-capacity networks to improve communications quality, in tandem with the rapidly increasing communication volumes associated with a greater number of smartphone users, and have been intensifying their investments in cell phone base stations in response to the release of new frequencies.

In the central and local government market, investments to digitize fire-fighting and disaster prevention systems increased ahead of schedule, supported by supplementary budgets. Against the backdrop of reconstruction from the earthquake disaster, there was also progress in establishing submarine earthquake and tsunami observation systems using submarine cable communication systems.

In this market environment, the Company increased its upfront investments to expand its service business by improving its ability to provide comprehensive services through improved sales and cooperation with other companies. It has also been executing plans to improve its project management, and has been aggressively acquiring projects that emerged during the period.

As a result of these efforts, the Company posted the following consolidated results for the first nine months under review:

Net Sales	¥159,876 million (14.1% increase year on year)
Operating Income	¥6,586 million (69.1% increase year on year)
Ordinary Income	¥6,742 million (64.8% increase year on year)
Net Income	¥3,980 million (212.9% increase year on year)
(For Reference)	
Orders Received	¥177,202 million (15.0% increase year on year)

Net sales were ¥159,876 million, up 14.1% year on year. In addition to a continuous increase in revenue from the Company's focus areas for growth—namely, its Enterprises Networks business and Carrier Networks business—Social Infrastructure, in which revenues had declined in the last fiscal year, also recovered to produce increased revenue. Indicating significant growth, orders also increased across all segments, up 15.0% to ¥177,202 million, as focus on expanding sales strength since last year produced results, and there were efforts made in large-scale projects.

Turning to profits, operating income and ordinary income showed substantial growth compared with the same period last year, rising to ¥6,586 million and ¥6,742 million, respectively. The Company made upfront investments with an aim toward future business expansion. In addition to increased sales, this also reflects the results of its focus on a structural reform of its Social Infrastructure business during the last fiscal year and the acceleration of cost-cutting activities. Net income increased to ¥3,980 million, about three times as much as last year's net income. This reflects the effect of a reversal of deferred tax assets in the previous third quarter, which was caused by a revision to the taxation system, as well as increased ordinary income.

Operating results by business segment were as follows:

Net Sales by Segment

(million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1-3Q Fiscal 2013/3 (Nine months ended December 31, 2012)	60,082	39,214	49,594	10,986	159,876
1-3Q Fiscal 2012/3 (Nine months ended December 31, 2011)	56,455	33,602	41,407	8,624	140,089
Increase (decrease)	3,627	5,611	8,186	2,361	19,787
Percentage increase (decrease) %	6.4	16.7	19	27.4	14.1

Reference: Orders received by business segment

(million yen)

	Enterprises Networks	Carrier Networks	Social Infrastructure	Other	Total
1-3Q Fiscal 2013/3 (Nine months ended December 31, 2012)	62,270	40,321	64,355	10,254	177,202
1-3Q Fiscal 2012/3 (Nine months ended December 31, 2011)	59,383	35,670	50,971	8,065	154,091
Increase (decrease)	2,887	4,650	13,384	2,189	23,111
Percentage increase (decrease) %	4.9	13.0	26.3	27.1	15.0

1. Enterprises Networks business (¥60,082 million yen, up 6.4 % year on year):

Revenue increased compared with the same period last year, as sales rose in a wide range of industries, beginning with the financial sector and the manufacturing industry. Responding to clients' demand for management innovation in addition to even more widespread sales of the Company's office innovation solutions named EmpoweredOffice* as its mainstay solution, the Company planned to expand its foundation for providing comprehensive services to improve customers' business processes and provide management backup via the cloud, BPO (Business Process Outsourcing), and other services, including the use of outside resources through partnerships. As part of these efforts, a business tie-up in this shared service area was concluded with Moshi Moshi Hotline, Inc. in April 2012 and, in June 2012, the Company obtained a 22% stake in Q&A Corporation, which excels in technical support call centers. Orders received also showed growth, increasing to ¥62,270 million, up 4.9 % year on year.

2. Carrier Networks business (¥39,214 million, up 16.7 % year on year)

As telecommunications carriers stepped up their network investments in response to the surging network traffic associated with the increase in the number of smartphone users, the Company sought to strengthen its entire supply chain, including network design, system integration, and services, which is the basis for its multi-vendor SI (technical outsourcing), while also developing new service areas, resulting in a major increase in revenue of 16.7 % year on year. This also reflected the contribution to sales of submarine earthquake and tsunami observation systems. Orders received also increased 13.0 % year on year, to ¥40,321 million.

3. Social Infrastructure business (¥49,594 million, up 19.8 % year on year):

With improved price competitiveness and project management, the Company actively responded to increased investments in the digitalization of fire-fighting and disaster prevention systems, and to the installation demand of new cell phone base stations in response to the opening up of new frequencies. As a result, sales rose sharply from the previous year. Orders received also significantly increased 26.3 % year on year, to ¥64,355 million.

*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 enable customers to fulfill their social responsibilities, such as the strengthening of security and environmental responsiveness.

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

(2) Outlook for the Fiscal Year Ending March 31, 2013

In the ICT (information and communication technology) business environment surrounding the Company, there have been active developments in all fields, including enterprises networks, telecommunication carriers, and central and local governments. In particular, telecommunication carriers aggressively built up their networks and base stations in tandem with the rapidly rising communication volumes associated with greater numbers of smartphone users. There has been progress in central and local governments in digitizing fire-fighting and disaster prevention systems and establishing submarine earthquake and tsunami observation systems, due to increased disaster-prevention awareness after the Great East Japan Earthquake. In this dynamic business environment, Company sales are expected to increase to ¥ 230 billion, ¥10 billion higher than previously forecasted. Reflecting this increase in sales, we revised our forecasted operating income and ordinary income to ¥11.5 billion, and our forecasted net income to ¥6.8 billion, aiming for a record-high level of profits.

Net Sales	¥230 billion	(12.4% increase year on year)
Operating Income	¥11.5 billion	(18.0% increase year on year)
Ordinary Income	¥11.5 billion	(20.2% increase year on year)
Net Income	¥6.8 billion	(48.1% increase year on year)

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2012	As of March 31, 2012
ASSETS		
Current assets		
Cash and deposits	30,604	37,586
Notes and accounts receivable-trade	68,749	73,193
Purchased goods, materials and supplies	1,672	1,454
Work in process	12,954	6,588
Other	7,661	6,816
Allowance for doubtful accounts	(93)	(398)
Current assets	<u>121,548</u>	<u>125,240</u>
Noncurrent assets		
Property, plant and equipment	9,269	9,066
Intangible assets	4,339	3,936
Investments and other assets		
Other	12,491	11,541
Allowance for doubtful accounts	(85)	(78)
Investments and other assets	<u>12,405</u>	<u>11,463</u>
Noncurrent assets	<u>26,014</u>	<u>24,466</u>
Assets	<u>147,562</u>	<u>149,707</u>

(Millions of yen)

	As of December 31, 2012	As of March 31, 2012
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	28,789	30,321
Short-term loans payable	207	—
Current portion of long-term loans payable	500	3,500
Income taxes payable	1,336	3,130
Provision for directors' bonuses	21	59
Provision for loss on order received	89	36
Provision for product warranties	140	—
Other	14,050	13,230
Current liabilities	<u>45,135</u>	<u>50,277</u>
Noncurrent liabilities		
Long-term loans payable	500	500
Provision for retirement benefits	17,395	16,828
Other	1,516	1,449
Noncurrent liabilities	<u>19,411</u>	<u>18,778</u>
Liabilities	<u>64,547</u>	<u>69,055</u>
NET ASSETS		
Shareholders' equity		
Capital stock	13,122	13,122
Capital surplus	16,650	16,650
Retained earnings	53,312	50,973
Treasury stock	(55)	(53)
Shareholders' equity	<u>83,030</u>	<u>80,692</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	0
Foreign currency translation adjustment	(632)	(612)
Accumulated other comprehensive income	<u>(630)</u>	<u>(611)</u>
Minority interests	<u>615</u>	<u>571</u>
Net assets	<u>83,014</u>	<u>80,651</u>
Liabilities and net assets	<u>147,562</u>	<u>149,707</u>

(2) Consolidated Statements of Income

(Millions of yen)

	FY03/2013 1Q-3Q (9 months ended 12/2012)	FY03/2012 1Q-3Q (9 months ended 12/2011)
Net sales	159,876	140,089
Cost of sales	135,482	119,580
Gross profit	24,394	20,509
Selling, general and administrative expenses	17,807	16,614
Operating income	6,586	3,894
Non-operating income		
Interest income	40	53
Dividends income of insurance	106	105
Other	231	270
Non-operating income	378	428
Non-operating expenses		
Interest expenses	32	46
Loss on retirement of noncurrent assets	85	33
Other	104	152
Non-operating expenses	222	232
Ordinary income	6,742	4,091
Extraordinary loss		
Impairment loss	165	—
Extraordinary loss	165	—
Income before income taxes and minority interests	6,576	4,091
Income taxes	2,553	2,795
Income before minority interests	4,022	1,295
Minority interests in income	42	23
Net income	3,980	1,272

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	FY03/2013 1Q-3Q (9 months ended 12/2012)	FY03/2012 1Q-3Q (9 months ended 12/2011)
Income before minority interests	4,022	1,295
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(8)
Foreign currency translation adjustment	(15)	(164)
Other comprehensive income	(14)	(172)
Comprehensive income	4,008	1,123
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	3,961	1,141
Comprehensive income attributable to minority interests	46	(18)

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	FY03/2013 1Q-3Q	FY03/2012 1Q-3Q
	(9 months ended	(9 months ended
	12/2012)	12/2011)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	6,576	4,091
Depreciation and amortization	1,609	1,395
Impairment loss	165	—
Amortization of goodwill	61	61
Amortization of negative goodwill	—	(10)
Increase (decrease) in allowance for doubtful accounts	(295)	(70)
Increase (decrease) in provision for retirement benefits	566	518
Increase (decrease) in provision for subsidiaries directors' retirement benefits	—	(170)
Increase (decrease) in provision for directors' bonuses	(37)	(72)
Increase (decrease) in provision for loss on order received	52	43
Increase (decrease) in provision for product warranties	140	—
Interest and dividends income	(47)	(62)
Interest expenses	32	46
Loss on retirement of noncurrent assets	85	33
Equity in (earnings) losses of affiliates	41	—
Decrease (increase) in notes and accounts receivable-trade	4,399	26,875
Decrease (increase) in inventories	(6,583)	(3,650)
Increase (decrease) in notes and accounts payable-trade	(1,524)	(6,118)
Increase (decrease) in accrued consumption taxes	(370)	(604)
Other, net	152	(2,760)
Subtotal	5,026	19,545
Interest and dividends income received	47	81
Interest expenses paid	(31)	(35)
Income taxes paid	(4,345)	(3,415)
Net cash provided by (used in) operating activities	696	16,176
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(1,245)	(1,082)
Proceeds from sales of property, plant and equipment	1	3
Purchase of intangible assets	(1,147)	(652)
Purchase of investment securities	(48)	(5)
Payments of loans receivable	(9)	(12)
Collection of loans receivable	12	19
Purchase of stocks of equity method affiliate	(396)	—
Other, net	(66)	27
Net cash provided by (used in) investing activities	(2,898)	(1,702)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	211	(1,753)
Repayment of long-term loans payable	(3,000)	—
Proceeds from sale and purchase of treasury stock, net	(1)	(2)
Cash dividends paid	(1,632)	(1,336)
Other, net	(352)	(231)
Net cash provided by (used in) financing activities	(4,774)	(3,323)
Effect of exchange rate change on cash and cash equivalents	(5)	(116)
Net increase (decrease) in cash and cash equivalents	(6,982)	11,034
Cash and cash equivalents at beginning of period	37,586	25,611
Cash and cash equivalents at end of period	30,604	36,645

(4) Segment Information

Business Segment

First three quarters of fiscal year ending March 2013 (9 months ended December 2012)

(Millions of yen)

	Enterprises Networks	Carrier Networks	Social Infrastructures	Others	Adjustments	Total
Orders received	62,270	40,321	64,355	10,254	-	177,202
Sales						
(1) Sales to third parties	60,082	39,214	49,594	10,986	-	159,876
(2) Intersegment sales	-	-	-	-	-	-
Total	60,082	39,214	49,594	10,986	-	159,876
Operating income and loss	4,582	4,179	2,683	617	(5,476)	6,586

First three quarters of fiscal year ended March 2012 (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