

Overview of Business Results as of the Third Quarter of the Fiscal Year Ending March, 31, 2004 (Consolidated)

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Company name **NEC System Technologies, Ltd.**
(URL <http://www.necst.co.jp/>)

(Code number:3717
Listed Exchange: Tokyo Stock Exchange)

Inquiries Title: Name: President Toshihiko Takahashi TEL(044)435-5641
Title: Name: Senior Vice President Hiroshi Minami

1. Changes in Preparation Method for Quarterly Business Results

- (a) Changes in accounting method since the last financial year-end: Yes
(Description) The simplified method has been adopted for tax effect accounting.
- (b) Changes in consolidation and equity method application scope: None
- (c) Because this third quarter falls in the first year that the company is preparing consolidated financial statements, there are no interim or full-year consolidated results for the previous fiscal year.

2. Overview of Business Results as of the Third Quarter of the Fiscal Year Ending March, 31, 2004 (April 1, 2003 through December 31, 2003)

(1) Consolidated business results (Amounts were rounded down to omit fractions less than 1 million yen)

	Sales		Operating profit		Ordinary profit		Net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
3Q FY2003	53,442	-	5,971	-	5,638	-	4,088	-
3Q FY2002	-	-	-	-	-	-	-	-
(For Reference)FY2003	-	-	-	-	-	-	-	-

	Net profit per share	Fully diluted net profit per share
	Yen	Yen
3Q FY2003	182.61	-
3Q FY2002	-	-
(For Reference)FY2003	-	-

(Notes)1. Percentages shown in sales and operating profits indicate changes from the same nine-month period in the previous fiscal year.

2. Since the third quarter falls in the first year that the company is preparing consolidated financial statements, there are no interim or full-year consolidated results for the previous fiscal year.

[Qualitative discussion of consolidated business results]

During the third quarter of the current fiscal year, the Japanese economy saw recovery in limited areas such as improvement in corporate earnings and an uptrend in capital investment. In the information service industry, there was a sign of brightness as sales turned upward on a year-to-year basis.

In such an environment, our IT Platform Software business continued to see expansion in our Open Mission Critical System and platform software development for mobile phones as well as in infrastructure construction, technological support and consulting services for large-scale backbone systems. Consolidated sales for the nine-month period of the current fiscal year totaled 22,741 million yen for the IT Platform Software business.

In the SI Services business, system integration for telecommunications/media and manufacturers grew, and consolidated sales from this area for the nine-month period came to 30,700 million yen.

Also, with approval from the Minister of Health, Labor and Welfare for the return of the portion of the employee pension fund substituted in the past, the company posted an extraordinary gain of

1,485 million yen in return of the substituted portion of the employee pension fund in the third quarter.

As a result, the company's consolidated results for the nine months (April 1, 2003 through December 31, 2003) were: 53,442 million yen in sales, 5,638 million in ordinary profit, and 4,088 million yen in net profit.

<Earnings trend in the third quarter>

In Japan, many companies adopt an accounting year starting in April and ending in March, and therefore receipt of software development and system implementation orders tends to fall in September and March. Since we post sales at the time of order receipt, our group earnings face seasonal fluctuations, with both sales and profits for the first and third quarters appearing smaller than they really are, while a greater portion is posted in the second and fourth quarters.

(For Reference 1)

Non-consolidated business results

	Sales		Operating profit		Ordinary profit		Net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
3Q FY2003	52,495	21.4	6,166	21.4	5,828	18.3	4,186	35.8
3Q FY2002	43,244	-	5,079	-	4,927	-	3,083	-
(For Reference)FY2003	70,921	50.8	7,797	86.2	7,490	86.4	4,409	79.7

	Net profit per share	Fully diluted net profit per share
	Yen	Yen
3Q FY2003	186.97	-
3Q FY2002	154.16	-
(For Reference)FY2003	220.41	-

(Notes) 1. Percentages shown in sales and operating profits indicate changes from the same nine-month period in the previous fiscal year.

2. The company conducted a 20-for-1 stock split on June 12, 2003. Per share net profit for the third quarter of the previous year and the previous fiscal year reflect the effect of the stock split and have been retroactively adjusted.

(2) Changes in consolidated financial conditions

	Total Assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
3Q FY2003	53,473	34,778	65.1	1,420.82
3Q FY2002	-	-	-	-
(For Reference)FY2003	-	-	-	-

(3) Consolidated Cash Flows

	Cash flow from operating activities	Cash flow from Investing activities	Cash flow from financing activities	Cash and cash equivalents
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
3Q FY2003	1,143	(446)	11,608	24,088
3Q FY2002	-	-	-	-
(For Reference)FY2003	-	-	-	-

(Notes) Since the third quarter falls in the first year that the company is preparing consolidated financial statements, there are no interim or full-year consolidated results for the previous fiscal year.

[Qualitative discussion of changes in consolidated financial conditions]

Cash and cash equivalents (hereinafter referred to as "funds") at the end of the third quarter increased by 12,208 million yen from the beginning of the period to 24,088 million yen.

Cash flow for the third quarter is as follows.

(Cash flow from operating activities)

The net increase in funds provided by operating activities was 1,143 million yen. Major components of the increase in funds were the posting of 7,130 million yen in third quarter net profit before adjustment for taxes and a drop in accounts receivable of 9,223 million yen. Major components of the decrease in funds were the payment of taxes such as the corporate tax of 4,777 million yen, the decrease in accrued retirement benefits for employees of 1,044 million yen, the increase in inventories of 4,549 million yen, and the decrease in purchase liabilities of 4,198 million yen.

(Cash flow from investing activities)

The net decrease in funds used by investing activities was 446 million yen. This is mainly due to the acquisition of tangible fixed assets relating to the partial relocation of the Hiroshima office and the capitalization of intangible fixed assets, including software developed in-house.

(Cash flow from financing activities)

The net increase in funds from financing activities was 11,608 million yen. This is mainly attributed to the income of 13,148 million yen gained from issuing new shares in September 2003 and dividend payments of 1,451 million yen.

(For Reference 2)

Changes in non-consolidated financial conditions

	Total Assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
3Q FY2003	52,858	34,919	66.1	1,426.58
3Q FY2002	29,970	15,451	51.6	772.59
(For Reference)FY2003	42,678	18,954	44.4	903.55

(Notes)The company conducted a 20-for-1 stock split on June 12, 2003. Per share net profit for the third quarter of the previous year and the previous fiscal year reflect the effect of the stock split and have been retroactively adjusted.

[Non-consolidated cash flows]

	Cash flow from operating activities	Cash flow from Investing activities	Cash flow from financing activities	Cash and cash equivalents
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
3Q FY2003	1,291	(923)	11,608	23,348
3Q FY2002	1,899	(397)	(1,100)	6,711
(For Reference)FY2003	4,515	(520)	1,067	11,372

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 2004 (April 1, 2003 through March 31, 2004)

	Sales	Ordinary profit	Net profit	Net profit per share
	Millions of yen	Millions of yen	Millions of yen	Yen
Full year	80,000	8,600	5,000	204.27

(Note) This forecast contains forward-looking statements that are based on managements' estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations.

[Qualitative discussion of earnings forecasts]

The group's performance for the first nine months of the fiscal year through the third quarter, in general, is going as planned. The company posted an extraordinary gain of 1,485 million yen in return of the substituted portion of the employee pension fund in the third quarter. In the fourth quarter, it plans to shift its corporate pension and retirement benefits to the defined-contribution pension scheme and expects losses arising from the pension transfer. With these factors considered, however, the company has not revised its consolidated earnings outlook for the entire fiscal year as

forecast in the mid-term results announcement (October 21, 2003). (There are also no revisions to the non-consolidated earnings forecast for the entire fiscal year.)

(For Reference 3)

Non-consolidated earnings forecasts (April 1, 2003 through March 31, 2004)

	Sales	Ordinary profit	Net profit	Net profit per share
	Millions of yen	Millions of yen	Millions of yen	Yen
Full year	78,700	8,800	5,100	208.35

(Note) This forecast contains forward-looking statements that are based on managements' estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations.

(Appendix)

1. Consolidated Financial Statements of the Third Quarter of the Fiscal Year Ending March, 31, 2004

Since the third quarter falls in the first year that the company is preparing consolidated financial statements, there are no interim or full-year consolidated results for the previous fiscal year.

(i) The Third Quarter Consolidated Balance Sheet

		The third quarter of the fiscal year ending Mar. 31, 2004 (As of Dec. 31, 2003)	
Account title	Notes	Amount (Millions of yen)	Percentage (%)
(ASSETS)			%
Current assets			
1. Cash and cash equivalents		14,153	
2. Deposits in affiliated companies		2,077	
3. Notes and accounts receivables		13,511	
4. Marketable securities		7,991	
5. Inventories		7,204	
6. Deferred tax assets		1,497	
7. Other assets		1,310	
Allowance for doubtful accounts		(7)	
Total current assets		47,739	89.3
Fixed assets			
1. Property, plant and equipment		520	
2. Intangible assets		443	
3. Investments and other assets			
(1) Deferred tax assets		2,026	
(2) Other assets		2,747	
Allowance for doubtful accounts		(3) 4,770	
Total fixed assets		5,734	10.7
Total assets		53,473	100.0

	The third quarter of the fiscal year ending Mar. 31, 2004 (As of Dec. 31, 2003)	
Account title	Amount (Millions of yen)	Percentage (%)
(LIABILITIES)		
Current liabilities		
1. Notes and Trade accounts payable	5,460	
2. Accrued expenses	3,001	
3. Accrued corporate taxes	1,219	
4. Other liabilities	2,409	
Total current liabilities	12,090	22.6
Long-term liabilities		
1. Accrued retirement benefits for employees	5,931	
2. Accrued retirement benefits for directors and corporate auditors	10	
Total long-term liabilities	5,942	11.1
Total liabilities	18,033	33.7
(MINORITY INTERESTS)		
Minority interests	661	1.2
(SHAREHOLDERS' EQUITY)		
Capital stock	6,796	12.7
Additional paid-in capital	9,110	17.0
Retained earnings	18,916	35.4
Net unrealized gains on securities	(0)	(0.0)
Accumulated foreign currency translation adjustments	(43)	(0.0)
Total shareholders' equity	34,778	65.1
Total liabilities, minority, interests and Shareholders' equity	53,473	100.0

(ii) The Third quarter Consolidated Statement of Income

Account title	The third quarter of the fiscal year ending Mar. 31, 2004 (Apr. 1, 2003 – December 31, 2003)		
	Amount (Millions of yen)		Percentage (%)
			%
Net sales		53,442	100.0
Cost of goods and services sold		42,395	79.3
Gross profit		11,046	20.7
Selling, general and administrative expenses			
1. Sales promotion expenses	1,036		
2. Salaries expenses	1,313		
3. Employee bonus	378		
4. Allowance for employees' retirement benefit	64		
5. Payroll taxes expense	224		
6. Depreciation expenses	56		
7. Others	2,000	5,075	9.5
Operating income		5,971	11.2
Non-operating income			
1. Interest income	6		
2. Dividend income	2		
3. Charge for insurance agency	15		
4. Others	6	31	0.1
Non-operating expenses			
1. Interest expenses	0		
2. Differences from changes in accounting standards for retirement benefits	173		
3. Loss on disposal of fixed assets	20		
4. New stock issuing expenses	81		
5. Expenses related to stock listing	88		
6. Others	0	364	0.7
Ordinary income		5,638	10.6
Extraordinary gains			
1. Gain from return of allowance for doubtful accounts	6		
2. Extraordinary gain in return of the employee pension fund	1,485	1,491	2.8
Net income before adjustment for deferred income taxes		7,130	13.4
Corporate, inhabitants' and enterprise taxes		3,136	5.9
Minority interest losses		94	0.2
The third quarter net income		4,088	7.7

(iii) The Third quarter Consolidated Statement of Cash Flows

	The third quarter of the fiscal year ending Mar. 31, 2004 (Apr. 1, 2003 – December 31, 2003)
Account title	Amount (Millions of yen)
Cash flow from operating activities	
1. Net income before adjustment for deferred income taxes	7,130
2. Depreciation	370
3. Allowance for depreciation on consolidation adjustment account	48
4. Increase (decrease) in accrued retirement benefits for employees	*
5. Increase (decrease) in accrued retirement benefits for directors and corporate auditors	(6)
6. Increase (decrease) in allowance for doubtful accounts	(9)
7. Interest and dividend income	(9)
8. Interest expenses	0
9. Loss on disposal of property, plant and equipment	20
10. New stock issuing expenses	81
11. Expenses related to stock listing	88
12. (Increase) decrease in sales credit	9,223
13. (Increase) decrease in inventories	(4,549)
14. (Increase) decrease in other assets	106
15. Increase (decrease) in purchase liabilities	(4,198)
16. Increase (decrease) in other liabilities	(913)
17. Increase (decrease) in consumption taxes payable	(430)
Subtotal	5,911
18. Interest and dividends received	10
19. Interest paid	(0)
20. Corporate taxes paid	(4,777)
Cash flow from operating activities	1,143
Cash flow from investing activities	
1. Payments for acquisition of property, plant and equipment	(116)
2. Payments for acquisition of intangible assets	(328)
3. Income from the sale of intangible fixed assets	1
4. Disbursements for long-term loans	(2)
5. Payments received on long-term loans	5
6. Proceeds from other investing activities	84
7. Payments for other investing activities	(90)
Cash flow from investing activities	(446)
Cash flow from financing activities	
1. Proceeds from stock offerings	13,148
2. Expenses related to stock listing	(88)
3. Dividends paid	(1,451)
Cash flow from financing activities	11,608
Effect of exchange rate changes on cash and cash equivalents	(97)
Increase (decrease) in cash and cash equivalents	12,208

Cash and cash equivalents at the beginning of the period	11,372
Cash and cash equivalents of newly consolidated subsidiary at the beginning of the period	507
Cash and cash equivalents at end of the period	24,088

*The increase (decrease) in accrued retirement benefits includes an increase in prepaid pension expense.

2. Orders and Sales

Because this third quarter falls in the first year that the company is preparing consolidated financial statements, there are no interim or full-year consolidated results for the previous fiscal year.

(1) Orders (Consolidated)

	Amount of orders accepted			
	3Q FY2003 (April 1, 2003 – December 31, 2003)	3Q FY2002 (April 1, 2002 – December 31, 2002)	increase and decrease	Preceding fiscal year (Consolidated) (April 1, 2002 – March 31, 2003)
	millions of yen	millions of yen	millions of yen	millions of yen
IT Platform Software Business	24,976	-	-	-
SI Services Business	37,905	-	-	-
Total	62,882	-	-	-

(Note) The figures above do not include consumption tax.

(For Reference 4) Orders (Non-consolidated)

	Amount of orders accepted			
	3Q FY2003 (April 1, 2003 – December 31, 2003)	3Q FY2002 (April 1, 2002 – December 31, 2002)	increase and decrease	Preceding fiscal year (April 1, 2002 – March 31, 2003)
	millions of yen	millions of yen	millions of yen	millions of yen
IT Platform Software Business	24,029	18,856	5,173	26,637
SI Services Business	37,905	34,066	3,839	48,044
Total	61,935	52,922	9,012	74,682

(Note) The figures above do not include consumption tax.

(2) Sales (Consolidated)

	3Q FY2003	3Q FY2002	increase and decrease	Preceding fiscal year (Consolidated)
	(April 1, 2003 – December 31, 2003)	(April 1, 2002 – December 31, 2002)		(April 1, 2002 – March 31, 2003)
	millions of yen	millions of yen	millions of yen	millions of yen
IT Platform Software Business	22,741	-	-	-
SI Services Business	30,700	-	-	-
Total	53,442	-	-	-

(Note) 1. Transactions between segments are balanced out.

2. Sales by major customer and their proportion out of total sales are as follows.

	3Q FY2003		3Q FY2002		increase and decrease	Preceding fiscal year (Consolidated)
	(April 1, 2003 – December 31, 2003)	%	(April 1, 2002 – December 31, 2002)	%		(April 1, 2002 – March 31, 2003)
	millions of yen	%	millions of yen	%	millions of yen	%
NEC Corporation	44,528	(83.3)	-	(-)	-	(-)

3. The figures above do not include consumption tax.

(For Reference 5) Sales (Non-Consolidated)

	3Q FY2003 (April 1, 2003 – December 31, 2003)	3Q FY2002 (April 1, 2002 – December 31, 2002)	increase and decrease	Preceding fiscal year (April 1, 2002 – March 31, 2003)
	millions of yen	millions of yen	millions of yen	millions of yen
IT Platform Software Business	21,794	16,098	5,696	25,414
SI Services Business	30,700	27,145	3,555	45,506
Total	52,495	43,244	9,251	70,921

(Note) Transactions between segments are balanced out.