

Consolidated Financial and Business Results for the Third Quarter of the Fiscal Year Ending March 31, 2005

January 26, 2005

Company name **NEC System Technologies, Ltd.**

(URL <http://www.necst.co.jp/>)

Representative

Contact

Toshihiko Takahashi, President

Hiroshi Minami, Senior Vice President

(Security code number: 3717 The First
Section of the Tokyo Stock Exchange)

TEL(044)435-5641

1. Preparation Method for Quarterly Financial and Business Results

(a) Adoption of simplified method in accounting method: Yes

(Description) The simplified method has been adopted for tax effect accounting.

(b) Changes in accounting method since the last financial year-end: None

(c) Changes in consolidation and equity method application scope: None

2. Consolidated Financial and Business Results for the Nine-Month Period Ending December 31, 2004 (April 1, 2004 through December 31, 2004)

(1) Consolidated Operating Results

(Amounts were rounded down to omit fractions of less than 1 million yen)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
3Q FY2004	58,690	9.8	5,953	(0.3)	5,924	5.1	3,576	(12.5)
3Q FY2003	53,442	-	5,971	-	5,638	-	4,088	-
(For Reference) FY2003	83,394	-	8,985	-	8,622	-	5,598	-

	Net income per share	Fully diluted net income per share
	Yen	Yen
3Q FY2004	146.10	-
3Q FY2003	182.61	-
(For Reference) FY2003	244.38	-

(Notes) 1. Percentages for sales, operating income, ordinary income and net income, respectively, represent the change from those of the same period the year before.

2. Because the last fiscal year was the first year that the Company prepared consolidated financial statements, comparative items for percentage of change from the same period the year before are not available.

3. 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.

[Qualitative discussion of consolidated business results]

During the third quarter of the current fiscal year, although exports and production slowed down slightly, the Japanese economy showed signs of moderate recovery as corporate earnings as well as the employment situation improved. According to dynamic statistics on specific service industries (released by the Ministry of Economy, Trade and Industry), the amount of sales in the information services industry in both October and November showed steady growth, about the same as those in the same period last year.

Consolidated results for the third quarter (April 1, 2004 through December 31, 2004) were: 58,690 million yen in net sales (up 9.8% from the same period last year), 5,924 million yen in ordinary income (up 5.1% from the same period last year), and 3,576 million yen in net income (down 12.5% from the same period last year). (In the third quarter of the previous fiscal year, we posted an entry for a "gain from the return of the substituted portion of the employee pension fund" of 1,485 million yen in extraordinary gains.)

The IT Platform Software Business continued to show steady growth in platform software development for Open Mission Critical Systems and the design and development of blade servers and storage devices. Consolidated sales from this segment for the third quarter totaled 25,680 million yen, up 12.9% from the same period last year.

In the SI Services Business, backbone system construction for process manufacturers, including pharmaceutical and food manufacturers, as well as distribution and the services industry grew, though backbone system construction for financial services decreased. As a result, consolidated sales from this segment for the third quarter totaled 33,009 million yen, up 7.5% from the same period last year.

<Earnings trend in the third quarter>

Due to the accounting year starting in April and ending in March, 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 are in reality, while a greater portion is posted in the second and fourth quarters.

(2) Changes in Consolidated Financial Position

	Total Assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
3Q FY2004	57,625	38,756	67.3	1,583.33
3Q FY2003	53,473	34,778	65.1	1,420.82
(For Reference) FY2003	63,225	36,283	57.4	1,482.28

(Note) 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.

(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 FY2004	1,262	(1,185)	(1,102)	24,178
3Q FY2003	1,143	(446)	11,608	24,088
(For Reference) FY2003	2,925	(1,101)	11,611	25,206

[Qualitative discussion of changes in consolidated financial position]

Cash and cash equivalents (hereinafter referred to as "funds") at the end of the third quarter were 24,178 million yen, a decrease of 1,028 million yen from the beginning of the period. Cash flows for the third quarter are as follows.

(Cash flow from operating activities)

The net increase in funds from operating activities was 1,262 million yen. Major components of the increase in funds were the third quarter net profit before adjustment for taxes of 5,932 million yen and a drop in accounts receivable of 11,358 million yen. Major components of the decrease in funds were the increase in inventories of 5,118 million yen, the decrease in purchase liabilities of 5,910 million yen, and the payment of taxes such as the corporate tax of 4,382 million yen.

(Cash flow from investing activities)

The net decrease in funds used by investing activities was 1,185 million yen. This is mainly due to the capitalization of software developed in-house as intangible fixed assets, as well as the capitalization of long-term advance payments due to the acquisition of intellectual property rights.

(Cash flow from financing activities)

The net decrease in funds used by financing activities was 1,102 million yen. This is attributed to dividend payments.

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2005 (April 1, 2004 through March 31, 2005)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Full Year	90,000	9,000	5,270

(Reference) Net income per share (for the full year) is forecast to be 215.30 yen

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

[Qualitative discussion of earning forecasts]

Consolidated results of the third quarter of the fiscal year have been generally in line with the plans. There are no revisions to the full-year consolidated forecasts in the mid-term financial report for the fiscal year ending March 2005, released on October 27, 2004. (Non-consolidated full-year forecasts remain unchanged as well.)

(Appendix)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2005

(1) The Third Quarter Consolidated Balance Sheet

	3Q FY2003 (Dec.31, 2003)		3Q FY2004 (Dec.31, 2004)		Change from the same period in the previous year		(For Reference) FY2003	
	Amount (Millions of yen)	%	Amount (Millions of yen)	%	Amount (Millions of yen)	%	Amount (Millions of yen)	%
(Assets)								
I Current Assets								
1. Cash and cash equivalents	14,153		8,039				10,993	
2. Deposits in affiliated companies	2,077		4,286				2,459	
3. Notes and accounts receivable	13,511		14,648				26,006	
4. Marketable securities	7,991		7,167				11,886	
5. Beneficial interests in trust	-		4,699				-	
6. Inventories	7,204		8,603				3,485	
7. Deferred tax assets	1,497		1,771				1,771	
8. Other assets	1,310		1,197				469	
Allowance for doubtful accounts	(7)		(4)				(12)	
Total current assets	47,739	89.3	50,408	87.5	2,669	5.6	57,060	90.2
II Fixed assets								
1. Property, plant and equipment	520		492				491	
2. Intangible assets	443		830				479	
3. Investments and other assets								
(1) Deferred tax assets	2,026		1,961				1,961	
(2) Other assets	2,747		3,933				3,232	
Allowance for doubtful accounts	(3)		-				-	
Total	4,770		5,894				5,194	
Total fixed assets	5,734	10.7	7,216	12.5	1,482	25.9	6,165	9.8
Total assets	53,473	100.0	57,625	100.0	4,151	7.8	63,225	100.0

	3Q FY2003 (Dec.31, 2003)		3Q FY2004 (Dec.31, 2004)		Change from the same period in the previous year		(For Reference) FY2003	
	Amount (Millions of yen)	%	Amount (Millions of yen)	%	Amount (Millions of yen)	%	Amount (Millions of yen)	%
(LIABILITIES)								
I Current liabilities								
1. Notes and trade accounts payable	5,460		5,027				10,937	
2. Accrued expenses	3,001		3,259				4,430	
3. Accrued corporate taxes	1,219		846				2,630	
4. Other liabilities	2,409		2,674				1,839	
Total current liabilities	12,090	22.6	11,808	20.5	(282)	(2.3)	19,837	31.4
II Long-term liabilities								
1. Accrued retirement benefits for employees	5,931		5,593				5,146	
2. Accrued retirement benefits for officers and corporate auditors	10		10				10	
3. Accrued annuity upon shift to defined contribution pension plans	-		997				1,295	
4. Other liabilities	-		1				2	
Total long-term liabilities	5,942	11.1	6,603	11.4	661	11.1	6,456	10.2
Total liabilities	18,033	33.7	18,412	31.9	378	2.1	26,293	41.6
(MINORITY INTERESTS)								
Minority interests	661	1.2	456	0.8	(205)	(31.0)	648	1.0
(SHAREHOLDERS' EQUITY)								
I Capital stock	6,796	12.7	6,796	11.8	-	-	6,796	10.8
II Additional paid-in capital	9,110	17.0	9,110	15.8	-	-	9,110	14.4
III Retained earnings	18,916	35.4	22,900	39.8	3,984	21.1	20,426	32.3
IV Unrealized gains and losses on other marketable securities	(0)	(0.0)	(0)	(0.0)	(0)	0.0	(0)	(0.0)
V Foreign currency translation adjustment	(43)	(0.0)	(49)	(0.1)	(5)	(13.7)	(48)	(0.1)
VI Treasury stock	-	-	(0)	(0.0)	(0)	-	-	-
Total shareholders' equity	34,778	65.1	38,756	67.3	3,977	11.4	36,283	57.4
Total liabilities, minority interests and shareholders' equity	53,473	100.0	57,625	100.0	4,151	7.8	63,225	100.0

(2) The Third Quarter Consolidated Statement of Income

	3Q FY2003 (Apr. 1, 2003 – Dec.31, 2003)		3Q FY2004 (Apr. 1, 2004 – Dec.31, 2004)		Change from the same period in the previous year		(For Reference) FY2003	
	Amount (Millions of yen)	%	Amount (Millions of yen)	%	Amount (Millions of yen)	%	Amount (Millions of yen)	%
I Net Sales	53,442	100.0	58,690	100.0	5,248	9.8	83,394	100.0
II Cost of goods and services sold	42,395	79.3	47,254	80.5	4,858	11.5	67,589	81.0
Gross profit	11,046	20.7	11,436	19.5	389	3.5	15,805	19.0
III Selling, general and administrative expenses	5,075	9.5	5,483	9.4	408	8.0	6,819	8.2
1. Sales promotion expenses	1,036		1,153				1,306	
2. Allowance for doubtful accounts	-		-				1	
3. Salary expense	1,313		1,383				1,737	
4. Employee bonuses	378		453				498	
5. Allowance for employees retirement benefits	64		67				89	
6. Payroll taxes expense	224		228				289	
7. Depreciation expense	56		32				67	
8. Allowance for depreciation of consolidation adjustment account	48		-				48	
9. Other	1,952		2,163				2,779	
Operating income	5,971	11.2	5,953	10.1	(18)	(0.3)	8,985	10.8
IV Non-operating income	31	0.1	56	0.1	24	77.8	41	0.0
1. Interest income	6		16				10	
2. Dividend income	2		4				3	
3. Charge for insurance agency	15		15				20	
4. Other	6		20				7	
V Non-operating expenses	364	0.7	85	0.1	(279)	(76.6)	403	0.5
1. Interest expense	0		0				0	
2. Differences from the change in the accounting standards for retirement benefits	173		75				206	
3. Loss on disposal of property, plant and equipment	20		7				28	
4. New stock issuing expenses	81		-				81	
5. Expenses related to stock listing	88		-				85	
6. Other	0		1				0	
Ordinary income	5,638	10.6	5,924	10.1	285	5.1	8,622	10.3
VI Extraordinary gains	1,491	2.8	7	0.0	(1,483)	(99.5)	1,485	1.8
1. Gain from the return of allowance for doubtful accounts	6		7				-	
2. Gain from the return of substituted portion of employee pension fund	1,485		-				1,485	

VII Extraordinary losses	-	-	-	-	-	-	265	0.3
Loss from the								
1. amendment of defined benefit pension plans	-		-				265	
Income before adjustment for defined income taxes	7,130	13.4	5,932	10.1	(1,198)	(16.8)	9,842	11.8
Corporate and inhabitants' taxes	3,136	5.9	2,546	4.3	(590)	(18.8)	4,550	5.5
Enterprise tax adjustment	-	-	-	-	-	-	(208)	(0.3)
Loss on minority interests	94	0.2	189	0.3	95	100.3	98	0.1
Net income	4,088	7.7	3,576	6.1	(512)	(12.5)	5,598	6.7

(3) The Third Quarter Consolidated Statement of Cash Flows

	3Q FY2003 (Apr. 1, 2003 – Dec.31, 2003)	3Q FY2004 (Apr. 1, 2004 – Dec.31, 2004)	(For Reference) FY2003
	Amount (Millions of yen)	Amount (Millions of yen)	Amount (Millions of yen)
I Cash flows from operating activities			
1. Income before taxes	7,130	5,932	9,842
2. Depreciation	370	452	519
3. Allowance for depreciation on consolidation adjustment account	48	-	48
4. Increase (decrease) in accrued retirement benefits for employees	(1,044)	246	(1,964)
5. Increase (decrease) in accrued annuity upon shift to defined contribution pension plans	-	(298)	1,295
6. Increase (decrease) in accrued retirement benefits for officers and corporate auditors	(6)	-	(6)
7. Increase (decrease) in allowance for doubtful accounts	(9)	(7)	(7)
8. Interest and dividend income	(9)	(20)	(13)
9. Interest expense	0	0	0
10. Loss on disposal of property, plant and equipment	20	6	28
11. New stock issuing expenses	81	-	81
12. Expenses related to stock listing	88	-	85
13. (Increase) decrease in sales credit	9,223	11,358	(3,268)
14. (Increase) decrease in inventories	(4,549)	(5,118)	(830)
15. (Increase) decrease in other assets	106	(172)	345
16. Increase (decrease) in purchase liabilities	(4,198)	(5,910)	1,280
17. Increase (decrease) in other liabilities	(913)	(783)	228
18. Increase (decrease) in consumption taxes payable	(430)	(55)	(24)
Subtotal	5,911	5,629	7,643
19. Interest and dividends received	10	15	13
20. Interest paid	(0)	(0)	(0)
21. Corporate taxes paid	(4,777)	(4,382)	(4,731)
Net cash provided by (used in) operating activities	1,143	1,262	2,925
II Cash flows from investing activities			
1. Proceeds from sales of securities	-	121	-
2. Payments for acquisition of property, plant and equipment	(116)	(90)	(127)
3. Payments for acquisition of intangible assets	(328)	(538)	(449)
4. Proceeds from sales of intangible assets	1	-	1

5.	Payments for acquisition of investments in securities	-	(120)	(32)
6.	Disbursements for long-term loans	(2)	(4)	(2)
7.	Payments received on long-term loans	5	4	6
8.	Payments for acquisition of long-term prepaid expenses	-	(510)	(605)
9.	Payments for other investing activities	(90)	(65)	(1)
10.	Proceeds from other investing activities	84	16	108
	Net cash provided by (used in) investing activities	(446)	(1,185)	(1,101)
III	Cash flows from financing activities			
1.	Proceeds from stock issuance	13,148	-	13,148
2.	Payments for expenses related to stock listing	(88)	-	(85)
3.	Payments for acquisition of treasury stock	-	(0)	-
4.	Dividends paid	(1,451)	(1,101)	(1,451)
	Net cash provided by (used in) financing activities	11,608	(1,102)	11,611
IV	Effect of exchange rate changes on cash and cash equivalents	(97)	(3)	(107)
V	Net increase (decrease) in cash and cash equivalents	12,208	(1,028)	13,326
VI	Cash and cash equivalents at beginning of period	11,372	25,206	11,372
VII	Cash and cash equivalents of newly consolidated subsidiary at beginning of period	507	-	507
VIII	Cash and cash equivalents at end of period	24,088	24,178	25,206

1. Orders and Sales

(1) Consolidated Orders

	3Q FY2003 (Apr. 1, 2003 - Dec. 31, 2003)	3Q FY2004 (Apr. 1, 2004 - Dec. 31, 2004)	Changes from the same period in the previous year	(For Reference) FY2003
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
IT Platform Software Business	24,976	27,752	2,775	35,787
SI Services Business	37,905	39,451	1,545	51,419
Total	62,882	67,203	4,321	87,206

(Note) The above figures do not include consumption and other taxes.

(2) Consolidated Net Sales

	3Q FY2003 (Apr. 1, 2003 - Dec. 31, 2003)	3Q FY2004 (Apr. 1, 2004 - Dec. 31, 2004)	Changes from the same period in the previous year	(For Reference) FY2003
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
IT Platform Software Business	22,741	25,680	2,939	34,163
SI Services Business	30,700	33,009	2,309	49,231
Total	53,442	58,690	5,248	83,394

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

2. Sales by major customers and their proportion of total sales in 3Q FY2003 and 3Q FY2004 are as follows.

	3Q FY2003 (Apr. 1, 2003 - Dec. 31, 2003)	3Q FY2004 (Apr. 1, 2004 - Dec. 31, 2004)	Changes from the same period in the previous year	(For Reference) FY2003
	Millions of yen %	Millions of yen %	Millions of yen	Millions of yen %
NEC Corporation	44,528 (83.3)	49,179 (83.8)	4,650	69,407 (83.2)

3. The figures above do not include consumption and other taxes.

<Reference> Result of the Tender Offer Bid by NEC Corporation

NEC System Technologies, Ltd., pursuant to the resolutions made at the meeting of the Board of Directors held on December 2, 2004, has decided to support the tender offer ("Tender Offer") by NEC Corporation ("NEC") and the subsequent stock-for-stock exchange for shares of NEC for the purpose of taking complete control of NEC System Technologies.

Result of the Tender Offer bid conducted beginning December 6, 2004 until January 20, 2005 by NEC is as follows.

Number of shares owned by NEC prior to the Tender Offer Bid (As of September 30, 2004)	Number of shares purchased	Number of shares owned by NEC after the Tender Offer Bid (As of January 20, 2005)
Shares %	Shares %	Shares %
16,320,000 (66.67)	3,510,596 (14.34)	19,830,596 (81.01)

Listed below are planned events for the coming months.

February 2005	Board Meeting to approve execution of the stock-for-stock exchange agreement
	Execution of the stock-for-stock exchange agreement
April 2005	Extraordinary Shareholders' Meeting to approve the stock-for-stock exchange agreement
June 1, 2005	Effective date of the stock-for-stock exchange