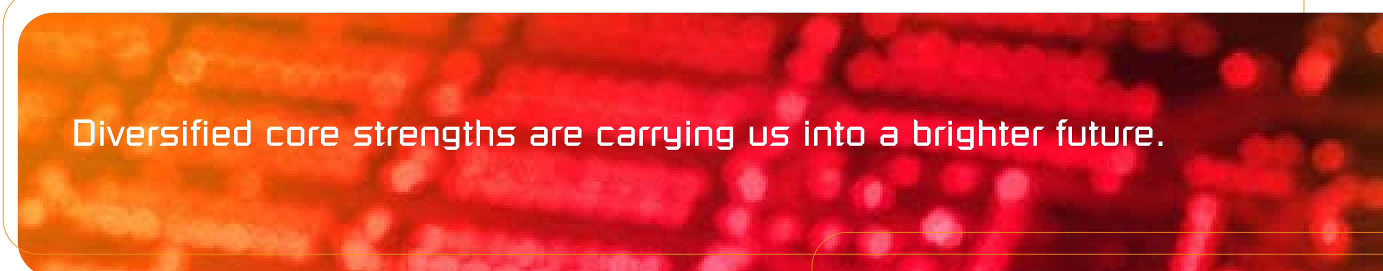
Empowered by Innovation NEC



annual report 2002

NEC System Integration & Construction, Ltd.

PROFILE

NEC System Integration & Construction, Ltd. (NESIC), a leading systems integrator established in 1953, has been a driving force behind the advancement of an information-oriented society for almost half a century. NESIC's growth has paralleled the development of telecommunications and information networks in Japan.

Today, the company has extended its expertise beyond the construction of these systems to provide a comprehensive suite of systems integration solutions to meet customers' needs. These solutions range from consulting to design, software development, construction and the supply of equipment. Expertise further extends to the maintenance and operation of systems and related facilities.

In addition, NESIC's accomplishments in telecommunications and information systems construction in more than 150 countries and territories are indicative of its aggressive overseas expansion drive.

Diversified core strengths are carrying us into a brighter future.

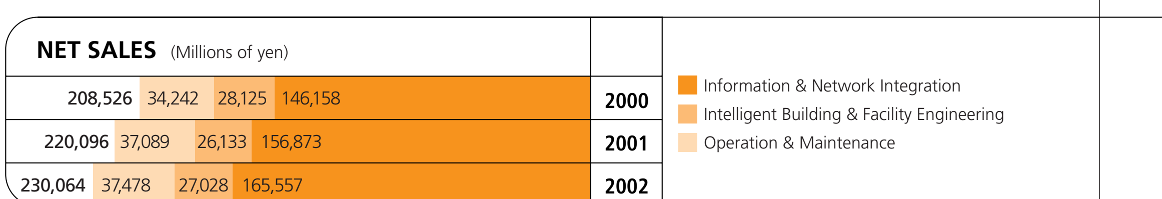
Cautionary Statement with respect to Forward-looking Statements
This annual report contains forward-looking statements concerning NESIC and its consolidated subsidiaries' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Rather they represent the assumptions and beliefs of NESIC management based on information currently available. NESIC therefore wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks or uncertainties.

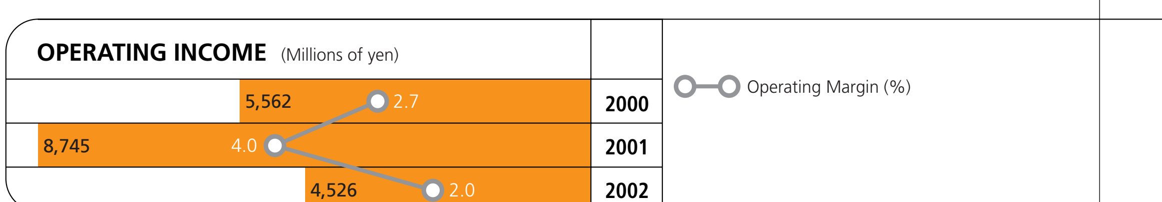
FINANCIAL HIGHLIGHTS

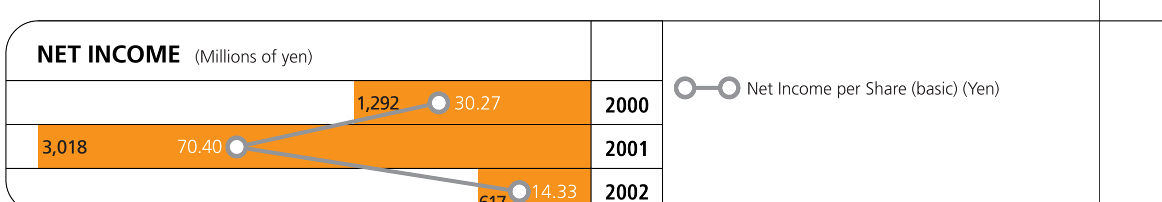
NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen Except per share amounts			Thousands of U.S. dollars Except per share amounts
	2002	2001	2000	**2002**
For the year:				
Net sales	**¥230,064**	¥220,096	¥208,526	**$1,726,559**
Operating income	**4,526**	8,745	5,562	**33,966**
Net income	**617**	3,018	1,292	**4,630**
At year-end:				
Total assets	**¥136,172**	¥148,964	¥130,094	**$1,021,929**
Shareholders' equity	**51,134**	51,107	47,765	**383,745**
Per share of common stock (yen and U.S. dollars)**:**				
Net income (basic)	**¥ 14.33**	¥ 70.40	¥ 30.27	**$ 0.11**
Net income (diluted)	**—**	61.89	27.43	**—**
Ratios:				
Operating income/net sales	**2.0%**	4.0%	2.7%	
Net income/net sales	**0.3%**	1.4%	0.6%	
Return on equity	**1.2%**	6.1%	2.7%	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥133.25=U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2002.







TO OUR SHAREHOLDERS

SEIJIRO YOKOYAMA, President

Progress requires having the courage to abandon past business practices and customs. There is no other way to capitalize on opportunities spawned by change. NESIC's actions have always reflected this stance. Determined to remain a source of comprehensive solutions, we are constantly restructuring our businesses to closely mirror shifts in the needs of customers.

Results Reflect Market Difficulties

In the past fiscal year, which ended March 31, 2002, NESIC dealt with adversity in Japan and overseas. Within Japan, public-sector demand was relatively solid as the government's e-Japan Strategy led to higher IT investments at the national, regional and local levels. Offsetting this growth was weakness in the private sector as telecommunications carriers, mainly in the mobile sector, and other companies curbed capital expenditures. Overseas, telecommunications infrastructure investments fell steeply due to the uncertain outlook for the global economy.

Amid these conditions, our consolidated orders received declined 3.7% to ¥223,337 million. Net sales, on the other hand, rose 4.5% to ¥230,064 million. Contributing to this growth were electronic toll collection system projects and demand for high-speed networks and systems associated with the e-Japan Strategy.

Earnings were hurt by severe pressure on pricing as companies in our industry competed fiercely for new orders. The impact of lower prices was far greater than the benefits of our ongoing efforts to cut the cost of sales by adopting entirely new procurement processes. As a result, operating income dropped 48.2% to ¥4,526 million. We recorded a special loss of ¥2,663 million for the transitional obligation due to the adoption of a new accounting method for retirement benefits. Consequently, net income fell 79.6% to ¥617 million. Dividends applicable to the fiscal year were unchanged at ¥12.50 per share.

Cash flows remained strong as lower earnings were offset by declines in trade receivables and inventories. This enabled us to use internal resources to fund the redemption upon maturity of ¥11.3 billion of convertible bonds on April 2, 2002.

Increasing Profitability by Adding Value

Rapid growth continues to characterize the IT sector, our primary market. Expansion is driven by both the Internet and mobile communication networks. Naturally, this market is continually undergoing fundamental change in line with advances in IT. One negative trend is the increasingly commodity-like nature of the construction side of our business, which involves the installation and movement of networking equipment. Behind this trend are the rising performance and falling size of computers and other networking facilities. Due to this situation, opportunities to add value through traditional construction activities are fading just as competition pushes prices even lower.

NESIC must grow in directions offering the greatest potential to add value. We need greater agility to respond to change. This is why we are bolstering our ability to quickly assemble competitively priced solutions that incorporate the latest technologies and reflect the needs of our customers' businesses. Through this process, we intend to reposition our own businesses to build an organization that can add large amounts of value to our products and services. We plan to accomplish this in the following three ways.

1. Increase sales from network integration, and maintenance and operation businesses

Social and economic activity is steadily becoming more network-oriented. For proof, one need look no further than the rising popularity of e-commerce and the ambitious e-Japan Strategy. Long-term growth prospects remain excellent for the already sizable network integration market. Expanding along with this market, however, demands the ability to cope with unprecedented speed in the evolution of market needs and technology. We will grow by tapping knowledge we have gained through working with companies in many industries to supply user-centric network solutions that are an integral part of each client's business model. Such solutions will inevitably embody greater added value.

Another target is network maintenance and operations, both increasingly vital services. We extend reliable and sophisticated services to clients on a 24-hour, 365-day basis from our nationwide network of customer support centers. Here again, our plan is to increase the value we add to these services, notably for the outsourcing of operations.

In the fiscal year ending March 31, 2003, our goal is to raise sales from businesses having high added value by about 5% to ¥70 billion, approximately one-third of total sales.

2. Become more cost competitive by revolutionizing procurement and construction methods

We are witnessing a prolonged and rapid fall in unit prices in IT-related markets. Our goal is to cut costs at a rate that is 1 percentage point above price declines. In construction technology, standardization of designs and the use of more packages are proving effective. For procurement activities, we are using online purchasing and network-based bid solicitations. Centralized and bulk procurement are two other initiatives. We will never lose sight of our priorities of becoming more competitive and preserving suitable profit margins.

3. Foster a “learning culture” and a corps of professionals that can anticipate and embrace change

Serving clients calls for many skills. An understanding of business activities and the industry is just the beginning. Our people must study each company’s business model and value chain, and then tap their knowledge and creativity to tackle issues from the client’s standpoint. Skilled professionals who can generate this type of value are essential to our goal of becoming an organization that can add more value. This is true of consulting, planning, system construction and all other functions. Through revisions to our personnel management and training methods, we are fostering a culture of learning at NESIC. Our people need to be more sensitive to markets and issues facing our clients. Above all, we want to establish a highly motivated team of professionals who are constantly refining their skills. Exemplifying this drive is growth in licensed engineers. During the past fiscal year, the number of employees having qualifications from Cisco Systems, Microsoft and other companies rose to almost 700. These individuals represent the heart of our ability to compete. Building on this resource will contribute directly to more added value in all our activities.

Looking Ahead to the New NESIC

I firmly believe that the actions we are taking will position NESIC for greater achievements this century. We are clearly positioning ourselves as a premier source of system integration services and comprehensive solutions. Progress in both of these areas is certain to lead to still better services for customers along with gains in shareholder value.

Seijiro Yokoyama
President

TOPICS

ISO 9001:2000 Certification Obtained in December 2001

A Company-Wide Effort to Build an Effective Quality Management System

Long dedicated to quality, seven divisions at NESIC have met the 1994 standard for ISO 9001 certification from Japan Quality Assurance. Going one more step, the entire company received the 2000 standard of this certification on December 21, 2001. The more recent ISO 9001:2000 is an international standard for quality management systems with particular emphasis on customer satisfaction. Attaining this high level of performance will be invaluable to NESIC's drive to be a solution provider that supplies the optimal systems from the viewpoint of each client.

Adding Resources to Offer Highly Sophisticated IP Solutions

An Extensive Hardware Vendor Network in Japan and Overseas

The Internet's widespread use has prompted strong growth in demand for sophisticated networking systems based on Internet protocols. To meet a diverse spectrum of needs, NESIC is complementing its lineup of NEC products with equipment made by prominent suppliers around the world. Competing successfully mandates IP solution services of the highest caliber. This is why NESIC takes a global view when selecting hardware that can best address the requirements of each client. Total IP solutions also cover product guarantees, technical support and a nationwide maintenance network, further solidifying NESIC's competitive edge in IP networks.

Preparing for the Start of Terrestrial Digital Broadcasting

Full-scale terrestrial digital broadcasts are set to begin in Japan in 2003. NESIC is hard at work to capture a significant share of the attractive market for systems and equipment. To lead this initiative, the Digital Broadcast Promotion Division was established in April 2002 within the Networks Operations Unit.

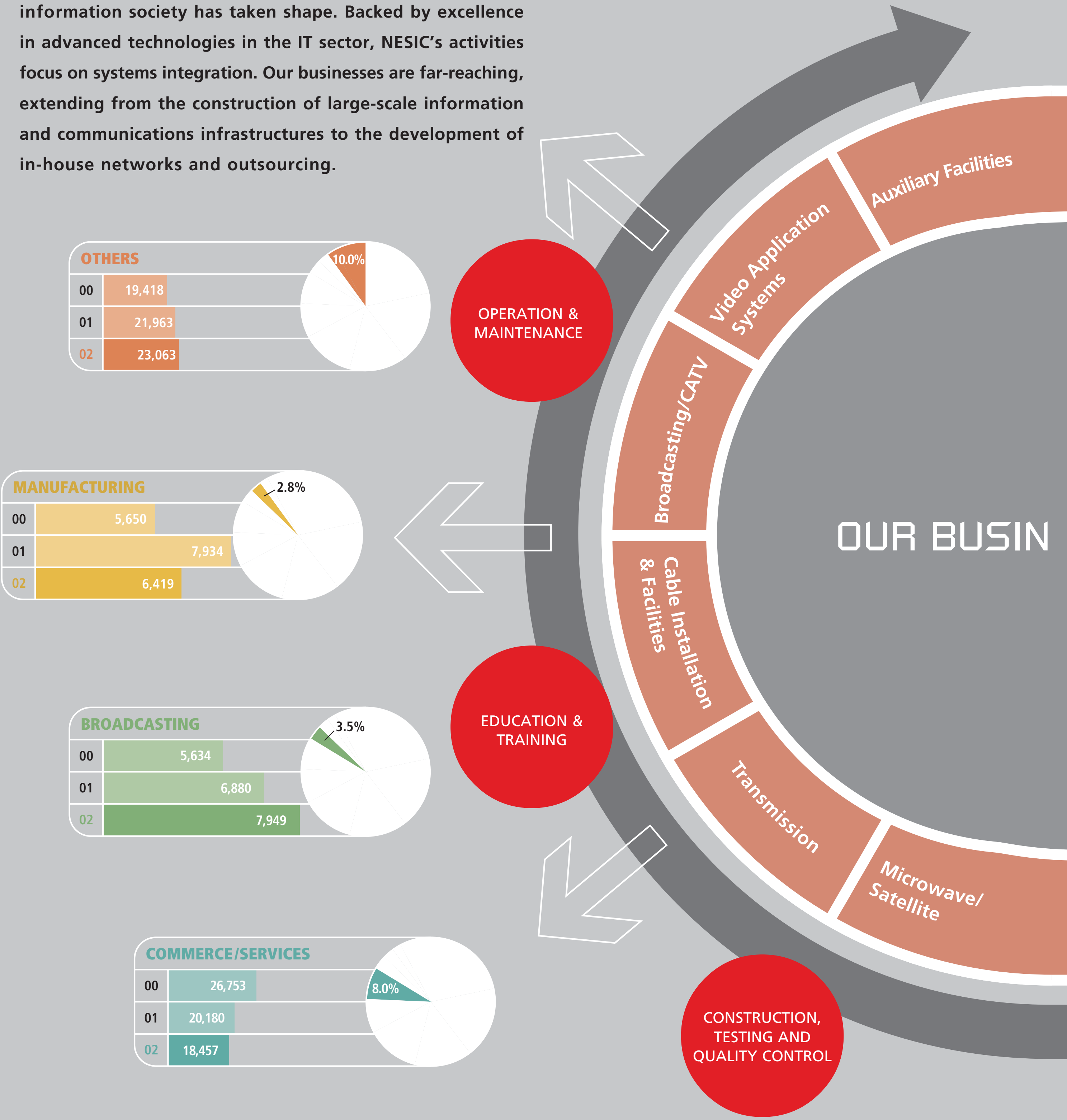
ISO Certification
Date certified: December 21, 2001
Inspecting authority:
Japan Quality Assurance Organization
Number of certificate: JQA-0471
Certification: ISO 9001: 2000
JIS Q 2001: 2000

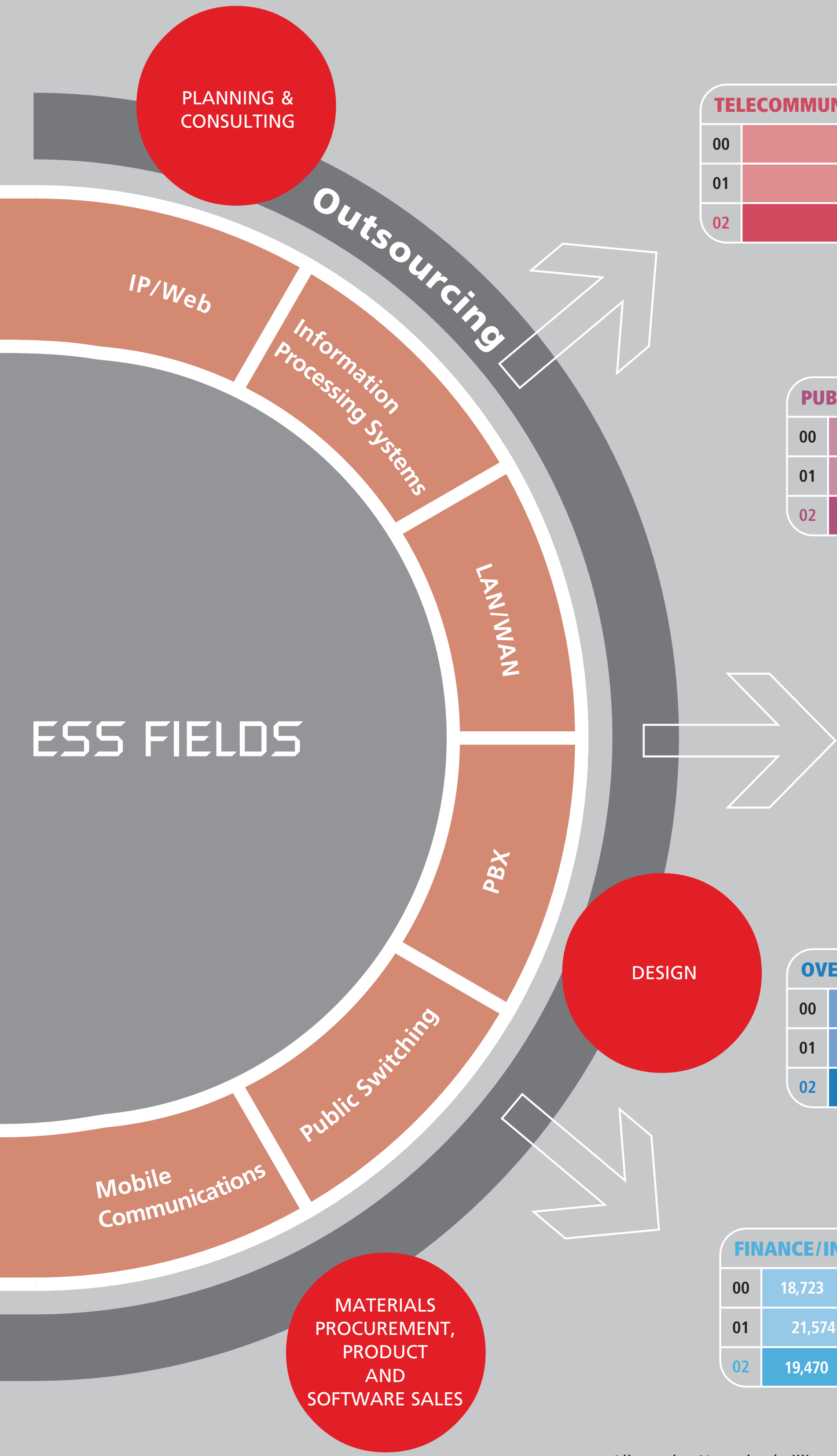
Web Traffic Management
"Array 500/1000"

Virtual Service Switch
"Inkra 4000"

OUR BUSINESS FIELDS

Over the years, NESIC has provided a broad range of optimal solutions to the challenges faced by customers as the information society has taken shape. Backed by excellence in advanced technologies in the IT sector, NESIC's activities focus on systems integration. Our businesses are far-reaching, extending from the construction of large-scale information and communications infrastructures to the development of in-house networks and outsourcing.





TELECOMMUNICATIONS (21.7%)

00	42,120
01	55,020
02	50,007

PUBLIC SECTOR (17.9%)

00	33,728
01	32,340
02	41,233

NEC/NEC GROUP (14.4%)

00	32,615
01	34,264
02	33,024

OVERSEAS (13.2%)

00	23,885
01	19,941
02	30,438

FINANCE/INSURANCE (8.5%)

00	18,723
01	21,574
02	19,470

All graphs: Net sales (millions of yen) for fiscal years ended March 31.

REVIEW OF OPERATIONS

As the Internet continues to grow at a rapid pace, it is driving demand for broadband networks built using fiber-optic, Digital Subscriber Line (DSL), cable and wireless LAN technology. This network growth is spawning a whole new family of network-centric businesses and service providers offering IP (Internet Protocol) telephone, data center, network security, ASP (Application Service Providers) and online purchasing services.

The mobile communications sector is also experiencing momentous change: third-generation (3G) services based on a family of standards called IMT-2000 are already available in some countries, heralding the dawn of a new stage of progress in mobile networks. And, with the imminent introduction of digital terrestrial broadcasting services in Japan, the convergence of broadcasting and communications will soon yield a raft of new interactive multimedia services.

Responding to emerging customer needs generated by this wave of change, companies like NESIC will play an increasingly important role by offering a comprehensive menu of systems integration (SI) services—from the integration of diverse hardware and software systems, to facility operation and maintenance.

As part of a revolutionary shift in its strategic posture, NESIC has been channeling resources into the Internet, mobile communications and related fields. This change of tack is underpinned by a strong track record and a wealth of experience in SI (System Integration), built up over many years. NESIC is now steadily increasing emphasis on solutions-based support, including outsourcing services for systems operation and maintenance.

INFORMATION AND NETWORK INTEGRATION

INTELLIGENT BUILDING AND FACILITY ENGINEERING

OPERATION AND MAINTENANCE

An increase in orders from central government agencies for Electronic Toll Collection (ETC) projects and from local governments for IT infrastructure was partially offset by a marked decline in demand from communications carriers mainly for mobile systems. This resulted in a 3.4% decline in orders to ¥157,650 million, representing 70.6% of total orders for the fiscal year. Net sales rose 5.5% to ¥165,557 million, accounting for 72.0% of total net sales.

This segment is involved in almost all areas of the network IT field: internal corporate networks such as LAN and WAN; network systems for communications carriers, such as public switching systems and mobile network base stations; wireless communication systems; and video broadcasting systems. As well as offering a lineup of conventional facility construction services centered on project design, construction and management, this segment is expanding its solutions-based SI business with a focus on consulting services.

With the precipitous growth of broadband networks, we are seeing an even greater expansion in the scope of applications. As a result, there are greater demands for more strategic, responsive, efficient, cost-competitive and scalable information system networks in all sectors of industry than ever before.

Riding this wave of change, NESIC has created numerous corporate networks that offer greater value to clients by incorporating new innovations and knowledge. Some representative examples of this are outlined below:

INFORMATION & NETWORK INTEGRATION	
146,158	2000
156,873	2001
165,557	2002

Net sales (millions of yen) for fiscal years ended March 31.

INFORMATION AND NETWORK INTEGRATION

Case Study 1:
A Wide-area Ethernet platform and Virtual Private Network (VPN) for a leading metals manufacturer

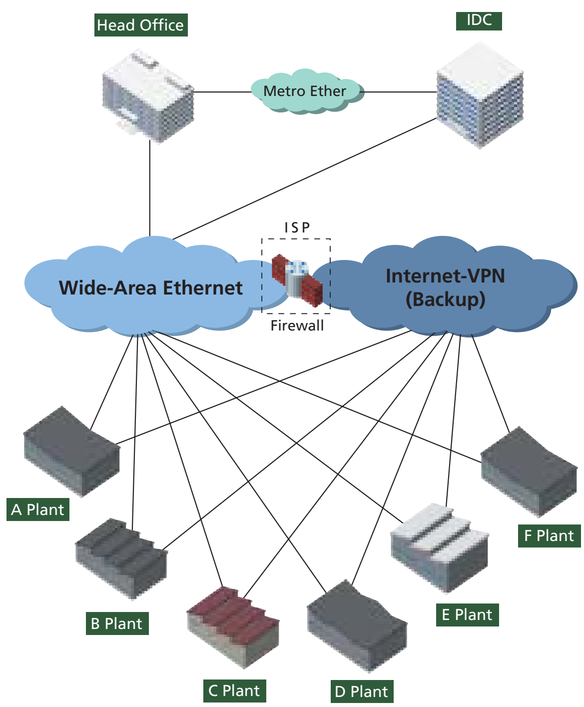
Our client came to us with a challenging request—to upgrade its dedicated IP-VPN[*1] used by its nationwide manufacturing and research facilities, to a Wide-area Ethernet[*2], and the unification of its dispersed business servers into a single data center. NESIC successfully met all the criteria, delivering a high-quality, wide-area network with low operating costs. Using a backup Internet-VPN[*3] network, we put in place a communications network with 10 times the coverage of the previous system but with the same communications costs. Better still, system reliability was significantly improved. This major project also included a total network outsourcing package that combined costs for carrier lines, network equipment, and network operation and maintenance into a single monthly fee. This one-stop approach is helping our clients to achieve major reductions in communication costs in their operations.

[*1] Virtual dedicated networks using wide-area IP (Internet Protocol) networks operated by major telecommunications providers.

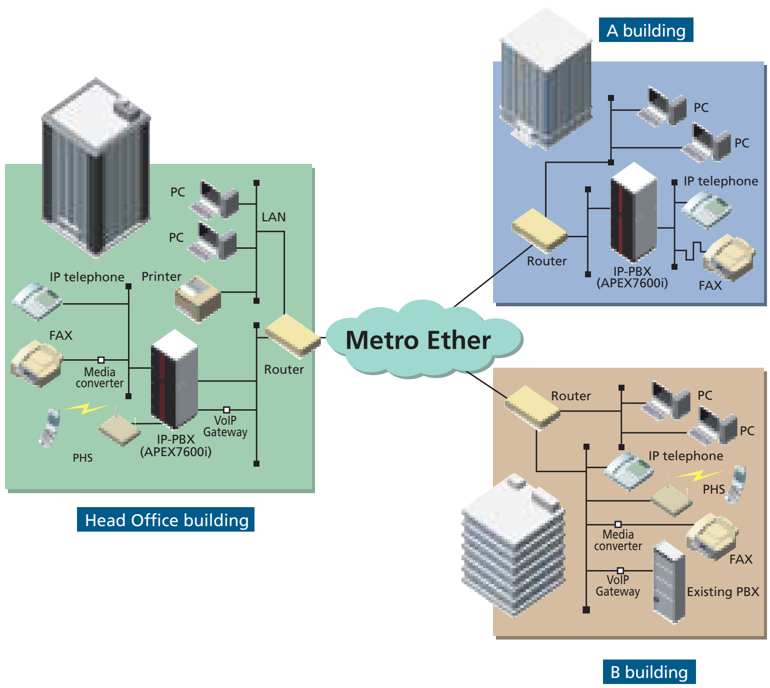
[*2] Based on the core Ethernet technology of Local Area Networks (LANs), and Wide-area Ethernets link multiple LANs to create a high-speed, high-capacity broadband network.

[*3] Inexpensive and easy-to-build private-access, virtual networks that use Internet architecture.

Case Study 1: Wide-Area Ethernet+Internet VPN



Case Study 2: IP-PBX System



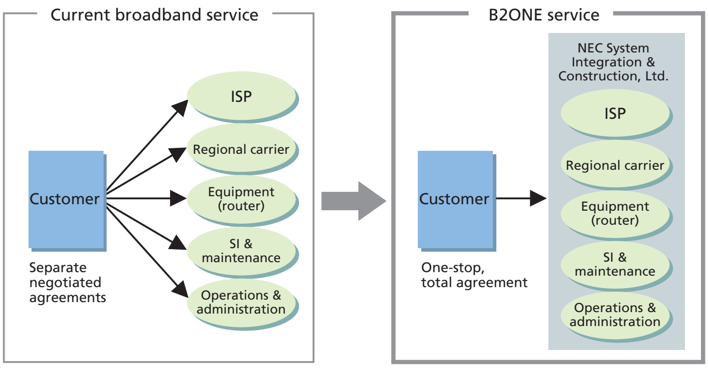
INFORMATION AND NETWORK INTEGRATION

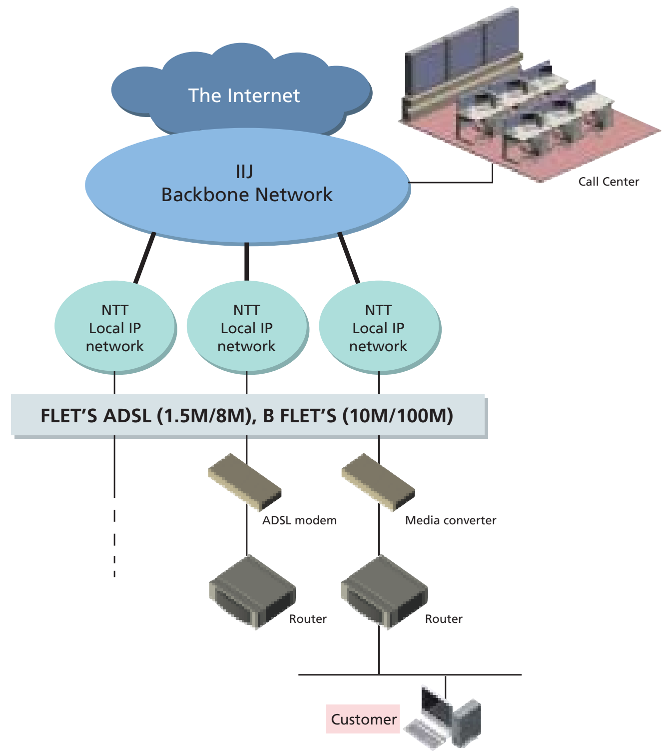
Case Study 2:
An IP-PBX system for a major newspaper company

We were asked by a well-known newspaper publishing company to set up an IP-PBX system, capable of handling both voice and data communications. Acting as an automatic PBX exchange using IP-based architecture, the system had to be fully compatible with fixed-line phones, PHS mobile handsets and PC connections. NESIC fulfilled all the client's requirements by putting together a large-scale network system underpinned by two NEC APEX7600i machines connected to an IP-PBX exchange installed at the company's head office and linked to around 2,100 IP telephones and 500 PHS handsets. The system also connects three buildings using the Metro Ether network, a 100Mbps urban network service using Internet architecture. In the fast-moving world of newspaper publishing, the PHS and voicemail functions were a boon to the client, who needed to ensure smooth communications with editing staff both inside and outside its offices—in short, the realization of a mobile office.

The new system also made a significant dent in our client's communications costs by using single-layer IP architecture for voice and data, and the inexpensive, high-speed Metro Ether network. Installation costs were also pared back by using two networked PBX exchanges, as opposed to the three needed by the former system. Cost savings and efficiency gains were achieved in business processes through the utilization of existing LAN and FAX network resources.

Case Study 3: B2ONE Service

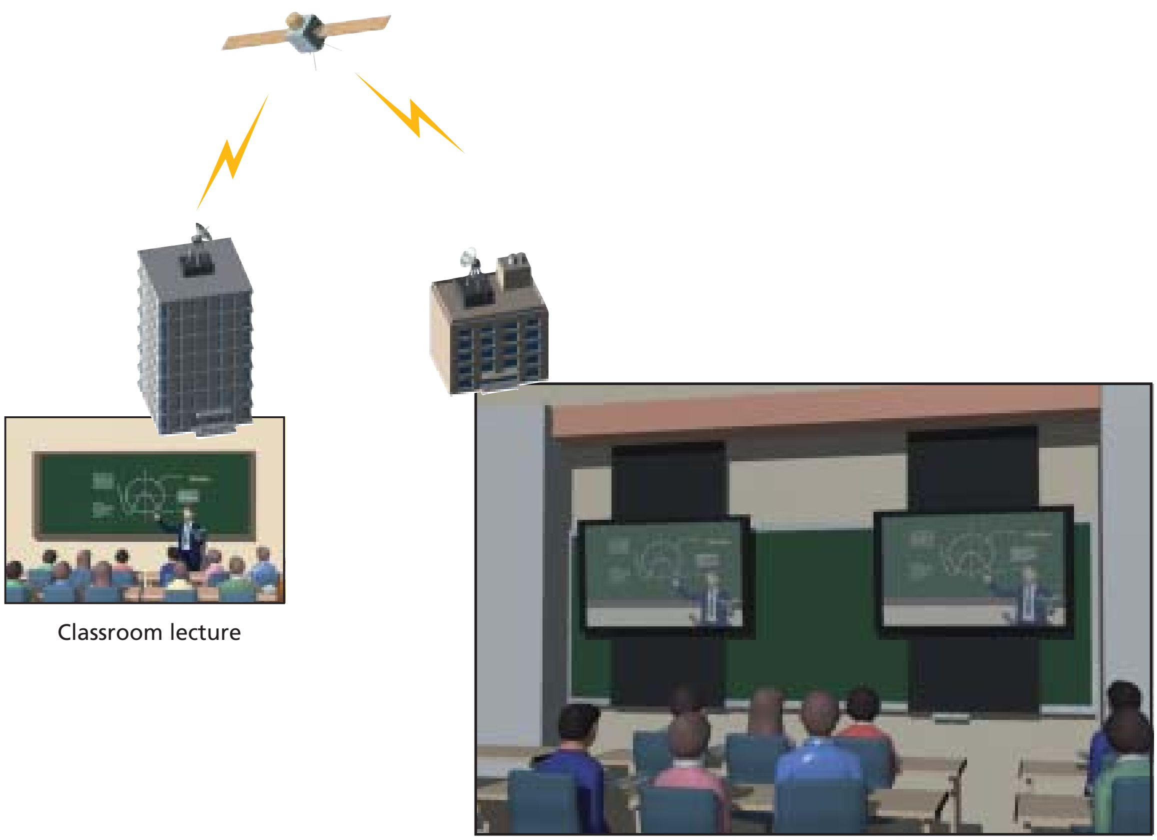




Case Study 3:
High-speed Internet connectivity services for corporate clients

NESIC teamed up with Internet Initiative Japan Inc., (IIJ) to offer B2ONE—high-speed Internet connectivity services for corporate clients. With B2ONE, we have simplified the whole process for companies looking to connect their operations to the Internet. Before B2ONE, companies had to negotiate and sign up with an Internet Service Provider (ISP) and numerous specialist contractors for the supply of network equipment and maintenance services. Our one-stop, total connectivity package eliminates this laborious process with a simple application procedure. The rest is left to NESIC, which together with IIJ, determines the best communications architecture for the scale and stance of the client company's operations. The building blocks of the package are NTT's ADSL and optic-fiber networks, used as access lines, an Internet connectivity service provided by IIJ and Internet routers rented from IIJ. NESIC efficiently integrates these resources and services into a complete system, which it installs and maintains for the client. A dedicated call center provides 24-hour remote monitoring and customer support ensuring minimum downtime and smooth operations.

Case Study: PDP System



Classroom lecture

Classroom using satellite transmission

INTELLIGENT BUILDING AND FACILITY ENGINEERING

INTELLIGENT BUILDING & FACILITY ENGINEERING	
28,125	2000
26,133	2001
27,028	2002

Net sales (millions of yen) for fiscal years ended March 31.

A fall in major overseas projects led to a 14.1% year-on-year decline in orders received, to ¥26,325 million, accounting for 11.8% of total orders. Net sales edged up 3.4%, to ¥27,028 million, representing 11.7% of total net sales.

Key operational areas in this segment are: the design and installation of fundamental infrastructure for information and communications systems, including network base stations and pylons, communications lines, power supply equipment, lighting equipment, heating, ventilation and air-conditioning (HVAC) systems, and fire prevention and security systems.

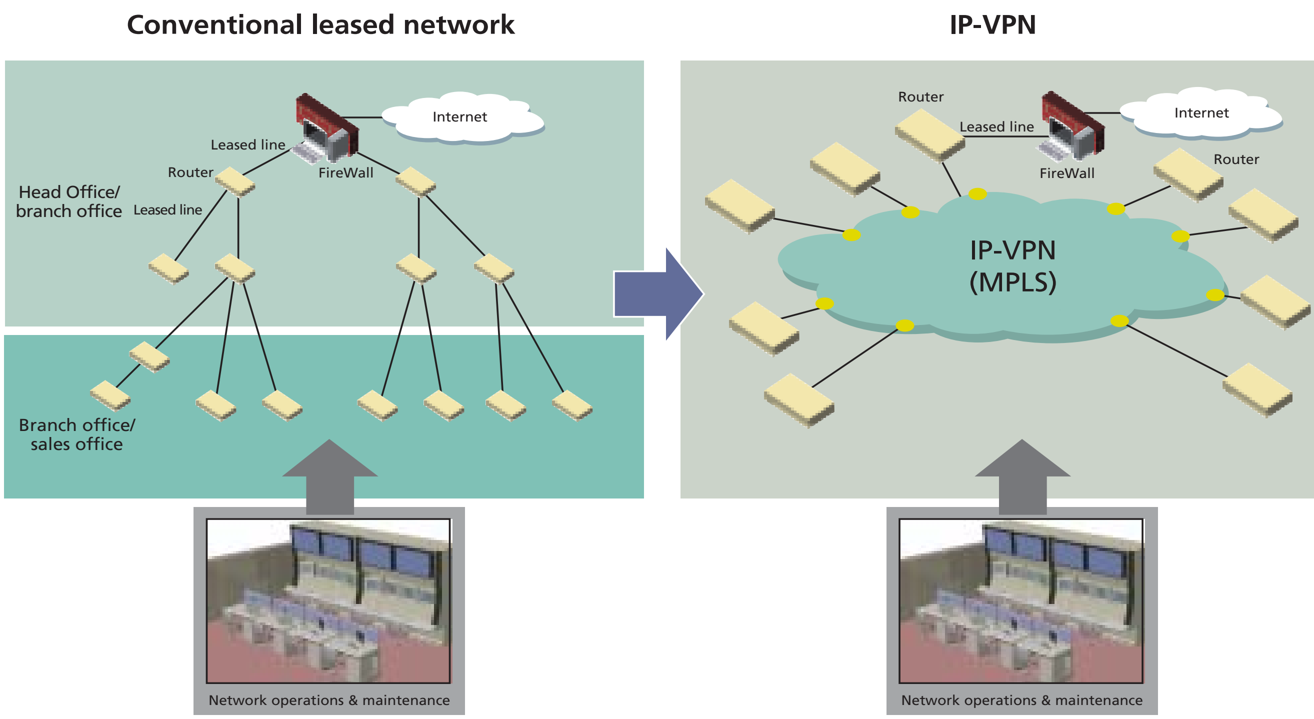
NESIC sees this business segment as a promising area for long-term growth in light of increasing demand for internal corporate networks. This is driving growth in the fields of building renovation and security. Demand for next-generation communication systems for major facilities such as airports and manufacturing plants is also on an upward curve.

Case Study:

Large-size Plasma Display Panels (PDP) for a leading cram school

NESIC was asked by a leading cram school to add a viewing system to 61 classrooms at 21 locations nationwide to its existing network infrastructure, used to provide live satellite feeds of lectures at other schools. Our client already offered live broadcasts of lectures by popular teachers, but was looking to further expand the service. We were happy to offer a solution. Our proposal involved the installation of storable 61-inch Plasma Display Panels (PDP), the world's largest. These PDPs can be used for broadcasts and in conjunction with conventional blackboard-based lectures. This new PDP system also addressed the problem our client was experiencing with existing projectors, which needed long classrooms to project large images. PDPs are the ideal solution. They produce sharp, clear images even in brightly lit environments, and have a slim profile that does not obstruct blackboard-based lectures. The PDPs were also installed using a revolutionary mounting, allowing them to be moved horizontally and vertically. This enables our client to maximize classroom teaching space. Despite a tight installation schedule of 45 days, especially challenging considering the size of the PDPs, NESIC was able to meet the deadline by overcoming many hurdles, resulting in another satisfied client. Using advanced solutions-proposal capabilities and accumulated expertise in this field, NESIC was able to provide the client with an integrated approach—from planning and design, to installation and operation—a vital element in the successful delivery of this system.

Case Study: IP-VPN



OPERATION & MAINTENANCE	
34,242	2000
37,089	2001
37,478	2002

Net sales (millions of yen) for fiscal years ended March 31.

OPERATION AND MAINTENANCE

During the year, demand for systems maintenance from mobile communications carriers, financial services providers and transportation companies grew, leading to a 3.4% rise in orders received, to ¥39,360 million. This accounted for 17.6% of total orders received. Net sales edged up 1.0%, to ¥37,478 million, representing 16.3% of total net sales.

Information and communications systems are becoming ever more advanced. This trend is driving demand for systems operation and maintenance services of the same high caliber. Customers are now calling for more than just systems operation, monitoring and recovery services. They also want high-quality IT backup and upgrade services tailored to the specific needs of the end user—24-hours a day, all year round. To meet this demand, NESIC is working to make its systems operation and maintenance engineers even more skilled in the provision of solutions for system upgrades and expansion. An in-house Customer Support Center means NESIC can also offer a high level of systems monitoring.

Case Study

Installation of an IP-VPN for an existing client, a leading trading company dealing in manufactured goods

As the client company's existing provider of systems operation and maintenance services, NESIC was perfectly placed to identify any weaknesses in the client's systems. We realized that the existing dedicated network was insufficient because of growing demand for communications capacity from the company's core business. The answer? An IP-VPN to enhance data transmission speeds, boost capacity and reduce costs. With the installation of the IP-VPN, NESIC reduced costs by 15% compared to the previous system and brought the company into the broadband era by boosting total capacity from 20Mbps to 42Mbps. We met the user's other requirements by utilizing existing PC workstations and router equipment, building in extra flexibility with scalable access points and enhancing network security. In the event that significant growth is foreseen in demand for network capacity for IP telephone services and IP video conferencing, with the signing of the monitoring maintenance agreement, we are ready to provide further system upgrades to the client through the installation of a Wide-area Ethernet platform and other next-generation technologies.

Moving forward, NESIC is determined to apply its wealth of IT technology-related resources throughout its operation and maintenance services. The focus will be on helping to reduce customers' Total Cost of Ownership (TCO). This will involve offering a comprehensive lineup of one-stop services such as facility expansion, Service Level Agreements (SLAs) and an enhanced lineup of outsourcing services.

BOARDS OF DIRECTORS AND CORPORATE AUDITORS

DIRECTORS

PRESIDENT
Seijiro Yokoyama

SENIOR EXECUTIVE VICE PRESIDENT
Yukihiko Baba

SENIOR VICE PRESIDENT
Mamoru Kataoka
SENIOR VICE PRESIDENT
Hitoshi Kinoshita
SENIOR VICE PRESIDENT
Kimio Yagawa
SENIOR VICE PRESIDENT
Sadao Harada

Yukio Yamazaki

CORPORATE AUDITORS

Tsuneo Aomori (full-time)
Tsunatoshi Sakakura (full-time)
Satoshi Tamaki
Kunitomo Matsuoka

(As of June 27, 2002)

CORPORATE DATA

HEAD OFFICE
1-39-9 Higashishinagawa, Shinagawa-ku, Tokyo
140-8620, Japan
Tel: +81-3-5463-1111

INTERNET ADDRESS
http://www.nesic.co.jp/

DATE OF ESTABLISHMENT
November 26, 1953

AUTHORIZED NUMBER OF SHARES
100,000,000

NUMBER OF SHARES ISSUED
(As of March 31, 2002)
43,069,207

NUMBER OF SHAREHOLDERS
(As of March 31, 2002)
17,645

SECURITIES TRADED
Common stock: Tokyo Stock Exchange, First Section

INDEPENDENT AUDITORS
Shin Nihon & Co.

TRANSFER AGENT
The Sumitomo Trust and Banking Company, Limited
4-4 Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8233, Japan

FINANCIAL SUMMARY

NESIC, its nine consolidated subsidiaries and one affiliated company are primarily engaged in the construction and maintenance of telecommunications and information systems and other facilities.

REVIEW OF CONSOLIDATED OPERATIONS

Net Sales

In the fiscal year ended March 31, 2002, a difficult market confronted NESIC both at home and overseas. Within Japan, public-sector demand was relatively strong as governments at the national, regional and local levels stepped up IT-related investments. Offsetting this growth however, was weakness in the private sector as telecommunications carriers and other companies curtailed capital expenditures. Overseas telecommunications infrastructure investments fell steeply due to the uncertain outlook for the global economy. Set against this backdrop, consolidated orders received declined 3.7% year on year to ¥223,337 million. Net sales, on the other hand, rose 4.5% to ¥230,064 million.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales climbed 7.3% over the previous year to ¥208,544 million, mainly a reflection of the higher sales. The impact of lower sales prices brought on by fierce competition was greater than the benefits of ongoing efforts to reduce the cost of sales. As a result, the cost of sales ratio rose from 88.3% to 90.6%.

On a positive note, measures to curb selling, general and administrative (SG&A) expenses were successful. The ratio of SG&A expenses to sales improved 0.3 percentage points from 7.7% the previous fiscal year to 7.4%, totaling ¥16,994 million.

Operating Income

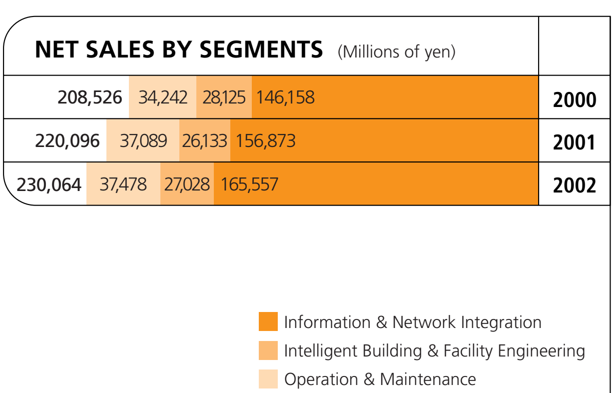
Operating income fell sharply by 48.2% to ¥4,526 million due to the increase in cost of sales relative to sales.

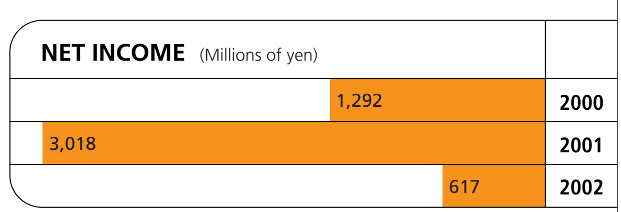
Other Income and Expenses

Other expenses, net, improved by ¥320 million to ¥2,617 million due to a foreign exchange gain and other income. The principal item was a charge of ¥2,663 million for amortization of net retirement benefit obligation at transition of ¥13,316 million, which is being amortized over 5 years by the straight-line method. This arose from the application beginning in the fiscal year ended March 2001 of a new accounting standard for retirement benefits.

Income Before Income Taxes and Minority Interests, and Net Income

As a result of the above, income before income taxes and minority interests fell 67.1% to ¥1,909 million. Net income fell 79.6% to ¥617 million. Basic net income per share declined ¥56.07 to ¥14.33. ROE fell from 6.1% to 1.2%, a drop of 4.9 percentage points.





SEGMENT INFORMATION

Information and Network Integration

Orders received decreased 3.4% to ¥157,650 million, owing to cutbacks in capital investments by Japan's telecommunications carriers. At the same time, net sales rose 5.5% to ¥165,557 million due to systems sales to the public sector and the strong performance by overseas subsidiaries. Operating income was down 35.4% to ¥5,820 million.

Intelligent Building and Facility Engineering

Orders received fell 14.1% to ¥26,325 million, reflecting a drop in large-scale overseas projects. On the other hand, sales from large-scale projects boosted net sales by 3.4% to ¥27,028 million. Operating income fell 84.2% to ¥293 million.

Operation and Maintenance

Orders received improved 3.4% to ¥39,360 million and net sales edged up 1.0% to ¥37,478 million. Operating income climbed 4.1% to ¥3,979 million. The main reason was the solid performance of network systems operation and maintenance services for telecommunications carriers.

FINANCIAL POSITION

As of March 31, 2002, total assets stood at ¥136,172 million, down ¥12,792 million, or 8.6%, from a year ago.

Current Assets

As of March 31, 2002, current assets were ¥115,792 million, down ¥13,220 million, or 10.3%. This was attributable to a fall in the balance of notes and accounts receivable due to measures to accelerate the collection of these receivables.

Fixed Assets

NESIC acquired additional software for its core in-house information systems. As a result, fixed assets rose 2.2% to ¥20,379 million.

Current Liabilities

Current liabilities decreased 16.8% to ¥75,665 million. The main reason for the change was a drop in notes and accounts payable in line with the fall in procurement activities following the completion of large-scale projects. As March 31, 2002 was a Sunday, ¥11,292 million in convertible bonds due on this day were included in other accounts payable.

Long-term Liabilities

Long-term liabilities rose 37.9% to ¥8,766 million. This was attributable to the increase in accrued employees' retirement benefits.

Interest-bearing Debt

Interest-bearing debt declined 66.4% to ¥5,811 million due to the repayment of bank loans and the redemption of convertible bonds. The ratio of interest-bearing debt to shareholders' equity improved 22.5 percentage points from 33.9% to 11.4%.

Shareholders' Equity

Shareholders' equity increased ¥27 million to ¥51,134 million. Retained earnings decreased in line with the decrease in net income, while unrealized holding gain on securities and foreign currency translation adjustments increased slightly. The equity ratio improved 3.3 percentage points from 34.3% to 37.6% reflecting the Company's efforts to strengthen its financial position.

Research and Development Costs

Research and development costs were ¥57 million in the fiscal year ended March 31, 2002. NESIC's R&D programs are focused on two fields. One is information and communication technology, a field that draws on the Company's many years of experience in the provision of telecommunications and related systems. The other field is solutions for customer needs in the IP network market and high-value-added systems integration (SI) technologies.

Capital Expenditures

Information systems represent the majority of the Company's capital expenditures. In the year ended March 31, 2002, these expenditures amounted to ¥2,565 million, an increase of 49.7% over the previous fiscal year. The main items were the development of information systems software for internal use and equipment for the outsourcing business.

CASH FLOWS

Net cash provided by operating activities decreased ¥587 million to ¥5,109 million. The improvements in trade notes and accounts receivable and in inventories largely offset the fall in income before income taxes and minority interests. Net cash used in investing activities was ¥2,476 million, mainly reflecting purchases of property and equipment and purchases of intangibles, net of allowance for amortization relating to the development of new information systems software for internal use. Net cash used in financing activities was ¥1,182 million. The Company continued to reduce short-term bank loans and there was an increase in cash dividends paid. As a result, cash and cash equivalents as of March 31, 2002 were ¥15,460 million, an increase of ¥1,547 million from the previous year.

Financial Policy

NESIC is working to improve the efficiency and nature of its operations by promoting business reforms across the entire organization. A prime focus in this drive is bolstering the Company's financial position. In the past fiscal year, NESIC succeeded in reducing total assets by ¥12,792 million, raising the equity ratio by 3.3 percentage points to 37.6%. Free cash flows were used to pay dividends, develop new products and production technology, and repay interest-bearing debt, thereby improving the Company's balance sheet and reducing interest expenses.

MARKET RISKS

Stock Price Volatility Risk

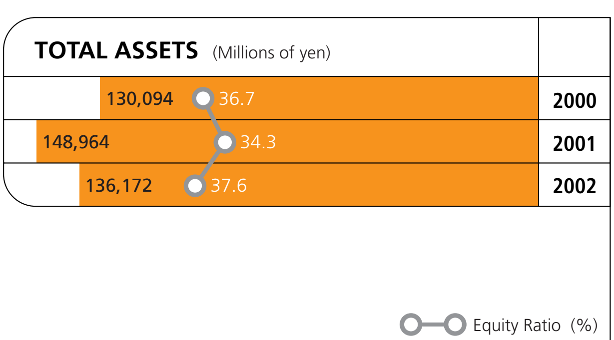
NESIC holds shares of certain companies to maintain relationships essential to its business activities. The potential market risk is limited to the shares held in publicly owned companies. As of March 31, 2002, equity investments in such companies amounted to ¥481 million. This level of holdings is not considered to pose a material risk to the Company's earnings.

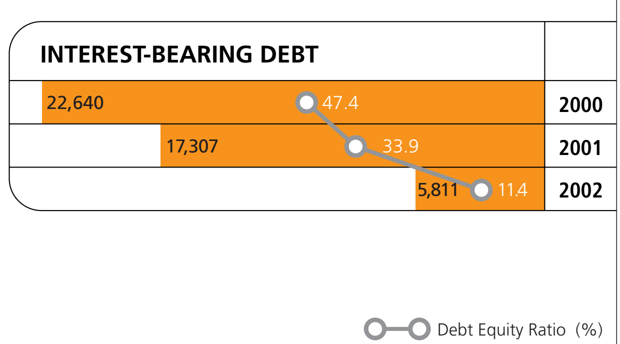
Interest Rate Risk

Of the Company's interest-bearing debt, ¥5,782 million is subject to interest rate risk. NESIC has, however, entered into interest rate swap transactions to hedge against risks arising from interest rate increases.

Foreign Exchange Rate Risk

Exports account for approximately 10% of the Company's total net sales, and there is normally a significant amount of receivables denominated in foreign currencies at each fiscal year-end. In the past fiscal year, the Company recorded a nominal exchange gain, mainly because of the weakness of the Japanese yen.





CONSOLIDATED BALANCE SHEETS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
March 31, 2002 and 2001

ASSETS	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 3) 2002
Current assets:			
Cash and cash equivalents	¥ 15,460	¥ 13,912	$ 116,023
Short-term investments (Note 5)	65	229	488
Notes and accounts receivable:	79,070	91,646	593,396
Less allowance for doubtful receivables	(1,009)	(817)	(7,572)
Inventories (Note 6)	16,109	18,807	120,893
Deferred income taxes (Note 8)	2,376	1,957	17,831
Other current assets	3,718	3,277	27,902
Total current assets	115,792	129,013	868,983
Property and equipment:	14,733	14,096	110,567
Accumulated depreciation	(5,981)	(5,613)	(44,886)
Property and equipment, net	8,752	8,483	65,681
Investments and other assets:			
Investment in an unconsolidated subsidiary	19	19	143
Investment securities (Note 5)	821	844	6,161
Intangibles, net of allowance for amortization	2,546	1,913	19,107
Deferred income taxes (Note 8)	2,897	1,952	21,741
Other assets	5,342	6,733	40,090
Total investments and other assets	11,627	11,468	87,257
Total assets	¥136,172	¥148,964	$1,021,929

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 3) 2002
Current liabilities:			
Short-term bank loans (Note 7)	¥ 5,811	¥ 5,995	$ 43,610
Current portion of long-term debt (Note 7)	—	11,312	—
Notes and accounts payable	40,751	52,924	305,824
Advances received	9,616	9,209	72,165
Accrued income taxes (Note 8)	1,721	4,280	12,916
Other accounts payable	13,181	—	98,919
Other current liabilities	4,582	7,267	34,386
Total current liabilities	75,665	90,989	567,842
Long-term liabilities:			
Accrued employees' retirement benefits (Note 9)	8,730	6,292	65,516
Other liabilities	35	66	263
Total long-term liabilities	8,766	6,359	65,786
Minority interests in consolidated subsidiaries	605	508	4,540
Shareholders' equity (Notes 10 and 19):			
Common stock, without par value:			
Authorized—100,000,000 shares			
Issued—43,069,207 shares in 2002 and 43,058,127 in 2001	13,122	13,112	98,477
Capital surplus	12,622	12,612	94,724
Retained earnings	25,670	25,801	192,645
Unrealized holding gain on securities	75	—	563
Foreign currency translation adjustments	(353)	(418)	(2,649)
	51,137	51,107	383,767
Treasury stock, at cost	(2)	(0)	(15)
Shareholders' equity, net	51,134	51,107	383,745
Contingent liabilities (Note 11)			
Total liabilities and shareholders' equity	¥136,172	¥148,964	$1,021,929

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars) (Note 3)
	2002	2001	2002
Net sales (Notes 4 and 17)	¥230,064	¥220,096	$1,726,559
Cost of sales (Notes 14 and 17)	208,544	194,441	1,565,058
Gross profit	21,520	25,654	161,501
Selling, general and administrative expenses (Note 14)	16,994	16,909	127,535
Operating income	4,526	8,745	33,966
Other income (expenses):			
Interest and dividend income	121	183	908
Interest expense	(264)	(255)	(1,981)
Exchange gain	228	349	1,711
Provision for doubtful receivables	(157)	(552)	(1,178)
Amortization of net retirement benefit obligation at transition	(2,663)	(2,663)	(19,985)
Other, net	119	0	893
	(2,617)	(2,937)	(19,640)
Income before income taxes and minority interests	1,909	5,807	14,326
Income taxes (Note 8)**:**			
Current	2,638	5,121	19,797
Deferred	(1,423)	(2,402)	(10,679)
	1,215	2,718	9,118
Minority interests	76	70	570
Net income (Note 15)	¥ 617	¥ 3,018	$ 4,630

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

		Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized holding gain on securities	Foreign currency translation adjustment	Treasury stock
Balance at March 31, 2000	42,688,049	¥12,778	¥12,278	¥23,312	¥	¥ —	¥(0)
Conversion of convertible bonds	370,078	334	334	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(102)	—	—	—
Cash dividends paid	—	—	—	(428)	—	—	—
Net income for the year ended March 31, 2001	—	—	—	3,018	—	—	—
Unrealized holding gain on securities	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	(418)	—
Treasury stock	—	—	—	—	—	—	(0)
Balance at March 31, 2001	43,058,127	13,112	12,612	25,801	—	(418)	(0)
Conversion of convertible bonds	11,080	10	10	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(102)	—	—	—
Cash dividends paid	—	—	—	(645)	—	—	—
Net income for the year ended March 31, 2002	—	—	—	617	—	—	—
Unrealized holding gain on securities	—	—	—	—	75	—	—
Foreign currency translation adjustments	—	—	—	—	—	64	—
Treasury stock	—	—	—	—	—	—	(2)
Balance at March 31, 2002	**43,069,207**	**¥13,122**	**¥12,622**	**¥25,670**	**¥75**	**¥(353)**	**¥(2)**

	Thousands of U.S. dollars (Note 3)					
	Common stock	Capital surplus	Retained earnings	Unrealized holding gain on securities	Foreign currency translation adjustment	Treasury stock
Balance at March 31, 2001	$98,402	$64,649	$193,629	$ —	$(3,136)	$ (0)
Conversion of convertible bonds	75	75	—	—	—	—
Bonuses to directors and statutory auditors	—	—	(765)	—	—	—
Cash dividends paid	—	—	(4,841)	—	—	—
Net income for the year ended March 31, 2002	—	—	4,630	—	—	—
Unrealized holding gain on securities	—	—	—	563	—	—
Foreign currency translation adjustments	—	—	—	—	480	—
Treasury stock	—	—	—	—	—	(15)
Balance at March 31, 2002	**$98,477**	**$94,724**	**$192,645**	**$563**	**$(2,649)**	**$(15)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
Operating activities			
Income before income taxes and minority interests	¥ 1,909	¥ 5,807	$ 14,326
Depreciation and amortization	1,099	1,033	8,248
Amortization of excess of costs over net assets acquired	(31)	(31)	(233)
Provision for accrued employees' retirement benefits	2,438	3,108	18,296
Interest and dividend income	(121)	(219)	(908)
Interest expense	264	255	1,981
Equity in earnings of affiliates	(8)	7	(60)
Trade notes and accounts receivable	12,761	(13,465)	95,767
Inventories	2,698	(3,885)	20,248
Trade notes and accounts payable	(12,227)	13,793	(91,760)
Other	1,670	1,866	12,533
	10,452	8,271	78,439
Interest and dividends received	118	218	886
Interest paid	(265)	(268)	(1,989)
Income taxes paid	(5,195)	(2,524)	(38,987)
Net cash provided by operating activities	5,109	5,697	38,341
Investing activities			
Sales of short-term investments	10	110	75
Purchases of property and equipment	(1,485)	(736)	(11,144)
Sales of property and equipment	86	20	645
Purchases of intangibles, net of allowance for amortization	(1,049)	(1,024)	(7,872)
Purchases of investment securities	—	(31)	—
Sales of investment securities	7	—	53
Loans receivable made	(38)	(510)	(285)
Collection of loans receivable	32	510	240
Other	(39)	(1,094)	(293)
Net cash used in investing activities	(2,476)	(2,756)	(18,582)
Financing activities			
Decrease in short-term bank loans	(520)	(4,744)	(3,902)
Cash dividends paid	(643)	(426)	(4,826)
Other	(18)	(15)	(135)
Net cash used in financing activities	(1,182)	(5,186)	(8,871)
Effect of exchange rate changes on cash and cash equivalents	97	(3)	728
Net increase in cash and cash equivalents	1,547	(2,248)	11,610
Cash and cash equivalents at beginning of the year	13,912	16,160	104,405
Cash and cash equivalents at end of the year	¥ 15,460	¥ 13,912	$116,023
Supplemental information:			
Conversion of convertible bonds into common stock and capital surplus	¥ 20	¥ 668	$ 150

See notes to consolidated financial statements.

1. Basis of Preparation

NEC System Integration & Construction, Ltd. (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and, have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and the significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of costs over underlying net assets at fair value at the respective dates of acquisition is amortized by the straight-line method over a period of five years.

Investments in affiliates which are not accounted for by the equity method are principally stated at cost.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates, except for assets and liabilities hedged by forward foreign exchange contracts. All other assets and liabilities denominated in foreign currencies are translated at their historical rates.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The revenue and expense accounts of the foreign subsidiaries are translated into yen at the average exchange rates prevailing during the year, and, except for the components of shareholders' equity, the balance sheet accounts are translated at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation adjustments are presented as a component of shareholders' equity and minority interests in the accompanying consolidated financial statements.

A revised accounting standard for foreign currency translation became effective April 1, 2000. The effect of the adoption of this revised standard on the consolidated financial statements for the year ended March 31, 2001 was immaterial.

(c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

(d) Securities

Until the year ended March 31, 2000, marketable securities were stated at the lower of cost or market, cost being determined by the moving average method. Non-marketable securities were stated at cost.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. As of April 1, 2000, the Company and its subsidiaries assessed their intent in holding their investments in securities and classified their investments as "other securities."

Under this new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost.

Because the adoption of the valuation method under the new standard with respect to the securities classified as other securities became mandatory for the year ended March 31, 2002, securities as of March 31, 2002 have been accounted for in accordance with the new standard referred to above, and those as of March 31, 2001 were stated at cost determined by the moving average method. If the marketable securities classified as other securities at March 31, 2001 amounting to ¥2,130 million had been carried at fair value, the unrealized holding gain would have been ¥60 million and would have been included in shareholders' equity at March 31, 2001.

The effect of the adoption of this new standard referred to above was to increase unrealized holding gain on securities by ¥75 million ($563 thousand), deferred tax liabilities by ¥54 million ($405 thousand) and investment securities by ¥129 million ($968 thousand) as of March 31, 2002.

(e) Inventories

Work in process is stated at cost determined on a specific project basis. Purchased goods, materials and supplies are stated at cost determined primarily by the moving average method.

(f) Depreciation and amortization

Depreciation of property and equipment is principally computed by the declining-balance method based on the estimated useful lives of the respective assets. Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income.

The useful lives of property and equipment are summarized as follows:

Buildings and structures	2 to 47 years
Machinery and vehicle	3 to 5 years
Furniture and fixtures	2 to 20 years

Intangible assets are amortized by the straight-line method over their estimated useful lives.

(g) Leases

Non-cancelable leases are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(h) Research and development costs

Research and development costs are charged to income as incurred.

(i) Retirement benefits

In accordance with a new accounting standard for employees' retirement benefits which became effective April 1, 2000, accrued employees' retirement benefits at March 31, 2002 and 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for the unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation has been attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition of ¥13,316 millions as of April 1, 2000 is being amortized over a period of 5 years by the straight-line method. Actuarial gain or loss is being amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the average remaining years of service of the employees (17 years). Prior service cost is being amortized as incurred by the straight-line method over the average remaining years of service of the employees (17 years).

The effect of the adoption of this new standard for retirement benefits was to decrease income before income taxes and minority interests by ¥2,942 million for the year ended March 31, 2001.

(j) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(k) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period and the accounts for the period do not, therefore, reflect such appropriations. See Note 19.

(l) Derivative financial instruments

Derivatives positions are carried at their fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

(m) Revenue recognition

Revenues from construction contracts of the Company and the domestic consolidated subsidiaries are recognized by the completed-contract method except that those from construction work with contracted amounts exceeding ¥100 million are recognized by the percentage-of-completion method. Revenues from construction work of the foreign consolidated subsidiaries are generally recognized by the percentage-of-completion method. See Note 4.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥133.25 = U.S.$1.00, the approximate rate of exchange on March 31, 2002. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. Accounting Change

Until the year ended March 31, 2000, revenues from construction contracts were recognized by the completed-contract method except that those arising from contracts whose construction work extended beyond a one-year period and with contract amounts exceeding ¥500 million were recognized by the percentage-of-completion method. Effective April 1, 2000, the Company changed its method of accounting for revenues from construction contracts with contract amounts exceeding ¥100 million and commenced recognizing such revenues by the percentage-of-completion method.

The effect of this change in method of accounting was to increase net sales by ¥7,453 million and operating income and income before income taxes and minority interests by ¥745 million for the year ended March 31, 2001.

5. Marketable and Investment Securities

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2002 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain or loss	Acquisition cost	Carrying value	Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥125	¥267	¥141	$ 938	$2,004	$1,058
Debt securities	9	9	0	68	68	0
Other	—	—	—	—	—	—
Subtotal	134	276	141	1,006	2,071	1,058
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	225	213	(11)	1,689	1,598	(83)
Debt securities	—	—	—	—	—	—
Other	84	84	—	630	630	—
Subtotal	310	298	(11)	2,326	2,236	(83)
Total	¥445	¥575	¥129	$3,340	$4,315	$ 968

Sales of securities classified as other securities amounted to ¥10 million ($75 thousand) with an aggregate gain of ¥2 million ($15 thousand) for the year ended March 31, 2002.

The components of non-marketable securities classified as other securities at March 31, 2002 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Carrying value	Carrying value
Other securities:		
Unlisted securities (except for OTC securities)	¥265	$1,989
Other	67	503
Total	¥333	$2,499

The redemption schedule for securities with maturity dates classified as other securities as of March 31, 2002 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Debt securities	¥4	¥ 5	¥—	$30	$ 38	$ —
Other	—	65	19	—	488	143
Total	¥4	¥70	¥19	$30	$525	$ 143

6. Inventories

Inventories at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Work in process	¥15,721	¥18,274	$117,981
Purchased goods, materials and supplies	388	533	2,912
	¥16,109	¥18,807	$120,893

7. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans are unsecured. The weighted average interest rates of short-term bank loans for the years ended March 31, 2002 and 2001 were approximately 3.2% and 1.3%, respectively.

Long-term debt at March 31, 2002 and 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
0.375% convertible bonds payable in yen, due 2002	—	¥11,312	—

8. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 42% for both 2002 and 2001. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2002 and 2001 differ from the statutory tax rate for the following reasons:

	2002	2001
Statutory tax rate	42.1%	42.1%
Effect of:		
Expenses permanently not deductible for income tax purposes	11.5	4.2
Dividend income deductible for income tax purposes	(0.9)	(0.4)
Tax rate changes on deferred taxes	4.3	1.5
Other, net	6.7	(0.6)
Effective tax rates	63.7%	46.8%

The significant components of deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Accrued bonuses	¥ 813	¥ 906	$ 6,101
Allowance for doubtful receivables	470	364	3,527
Accrued enterprise tax	150	398	1,126
Notes and accounts receivable	684	488	5,133
Unrealized profit on inventories	10	15	75
Foreign tax credits	232	119	1,741
Accrued severance indemnities	2,713	1,594	20,360
Other	258	32	1,936
	5,333	3,920	40,023
Deferred tax liabilities:			
Advanced depreciation of property and equipment	(1)	(1)	(8)
Unrealized gain on securities	(54)	—	(405)
Other	(3)	(13)	(23)
	(59)	(14)	(443)
Net deferred tax assets	¥5,273	¥3,904	$39,572

9. Retirement Benefit Plans

The Company and certain consolidated subsidiaries have defined benefit plans, i.e., Welfare Pension Fund plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2002 and 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Retirement benefit obligation	¥(35,361)	¥(34,798)	$(265,373)
Plan assets at fair value	14,929	14,831	112,038
Unfunded retirement benefit obligation	(20,432)	(19,967)	(153,336)
Unrecognized actuarial loss	5,867	3,021	44,030
Unrecognized prior service cost	(2,155)	—	(16,173)
Unrecognized net retirement benefit obligation at transition	7,989	10,653	59,955
Accrued employees' retirement benefits	¥ (8,730)	¥ (6,292)	$ (65,516)

The government-sponsored portion of the benefits under the Welfare Pension Fund plans has been included in the amounts shown in the above table. Effective April 1, 2001, the Company made amendments to their welfare pension fund plans which resulted in a decrease in the related retirement benefit obligation. As a result, prior service cost of ¥2,290 million was incurred.

The components of retirement benefit expenses for the years ended March 31, 2002 and 2001 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost	¥1,596	¥1,673	$11,977
Interest cost	1,127	1,121	8,458
Expected return on plan assets	(815)	(870)	(6,116)
Amortization at actuarial loss	178	—	1,336
Amortization of prior service cost	(134)	—	(1,006)
Amortization of net retirement benefit obligation at transition	2,663	2,663	19,985
Total	¥4,617	¥4,587	$34,649

The assumptions used in accounting for the above plans were as follows:

	2002	2001
Discount rate	3.5%	3.5%
Expected return on plan assets	5.5%	5.5%

10. Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the capital surplus account equals 25% of the common stock account. The legal reserve amounted to ¥546 million ($4,098 thousand) and ¥504 million at March 31, 2002 and 2001, respectively.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On October 1, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. In addition, the Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment came into effect, the Company's shares had a par value of ¥500.

11. Contingent Liabilities

At March 31, 2002, the Company was contingently liable as guarantor of indebtedness of a third party and the Company's employees in the aggregate amount of ¥2,280 million ($17,111 thousand).

12. Leases

(a) *Finance leases*

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2002 and 2001, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Acquisition costs:			
Property and equipment	¥4,541	¥5,990	$34,079
Accumulated depreciation:			
Property and equipment	¥2,058	¥3,296	$15,445
Net book value:			
Property and equipment	¥2,483	¥2,693	$18,634

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,312 million ($9,846 thousand) and ¥1,416 million for the years ended March 31, 2002 and 2001, respectively. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms and the interest expense portion included in the lease payments amounted to ¥1,214 million ($9,111 thousand) and ¥110 million ($826 thousand), respectively, for the year ended March 31, 2002 and ¥1,290 million and ¥102 million, respectively, for the year ended March 31, 2001.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2002 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥1,090	$ 8,180
Due over one year	1,588	11,918
Total	¥2,678	$20,098

(b) *Operating leases*

Future minimum operating lease payments subsequent to March 31, 2002 for non-cancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥24	$180
Due over one year	38	285
Total	¥63	$473

13. Depreciation

Depreciation of property and equipment for the years ended March 31, 2002 and 2001 was as follows:

Millions of yen		Thousands of U.S. dollars
2002	2001	2002
¥1,099	¥1,033	$8,248

14. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥57 million ($427 thousand) and ¥52 million for the years ended March 31, 2002 and 2001, respectively.

15. Amounts Per Share

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the shares of common stock issuable upon conversion of the convertible bonds.

Cash dividends per share represent the cash dividends declared as applicable to the respective year.

Net assets per share are computed based on the outstanding shares of common stock at the end of the respective year.

	Yen		U.S. dollars
	2002	2001	**2002**
Net income:			
Basic	**¥ 14.33**	¥ 70.40	**$0.11**
Diluted	**—**	61.89	**—**
Cash dividends applicable to the year	**12.50**	12.50	**0.09**
Net assets	**1,187.31**	1,186.95	**8.91**

16. Derivatives

The Company has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates.

At March 31, 2002, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

17. Related Party Transactions

The Company is a majority-owned subsidiary of NEC Corporation ("NEC"). Consolidated net sales included those to NEC and its subsidiaries in amounts of ¥67,427 million ($506,019 thousand) and ¥61,829 million for the years ended March 31, 2002 and 2001, respectively. In addition, the Company purchased communications equipment and other from NEC in amounts of ¥51,180 million ($384,090 thousand) and ¥50,771 million during the years ended March 31, 2002 and 2001, respectively.

The terms of the transactions referred to above were negotiated and determined on an arm's-length basis.

18. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and foreign countries in three major segments: the information and network integration segment, the intelligent building and facility engineering segment, and the operation and maintenance segment.

Business segments

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 is summarized as follows:

						Millions of yen
Year ended March 31, 2002	Information and network integration	Intelligent building and facility engineering	Operation and maintenance	Total	Eliminations or Corporate	Consolidated
I. Sales:						
(1) Sales to third parties	¥165,557	¥27,028	¥37,478	¥230,064	¥ —	¥230,064
(2) Intersegment sales	—	—	—	—	—	—
Total sales	165,557	27,028	37,478	230,064	—	230,064
Operating expenses	159,737	26,734	33,498	219,971	5,567	225,538
Operating income	¥ 5,820	¥293	¥ 3,979	¥ 10,093	¥ (5,567)	¥ 4,526
II. Assets, depreciation expense, capital expenditure:						
Assets	¥ 75,511	¥17,474	¥12,371	¥105,357	¥30,814	¥136,172
Depreciation expenses	202	3	279	486	613	1,099
Capital expenditures	782	0	606	1,389	1,176	2,565

						Thousands of U.S. dollars
Year ended March 31, 2002	Information and network integration	Intelligent building and facility engineering	Operation and maintenance	Total	Eliminations or Corporate	Consolidated
I. Sales:						
(1) Sales to third parties	$1,242,454	$202,837	$281,261	$1,726,559	$ —	$1,726,559
(2) Intersegment sales	—	—	—	—	—	—
Total sales	1,242,454	202,837	281,261	1,726,559	—	1,726,559
Operating expenses	1,198,777	200,630	251,392	1,650,814	41,779	1,692,593
Operating income	$ 43,677	$ 2,199	$ 29,861	$ 75,745	$ (41,779)	$ 33,966
II. Assets, depreciation expense, capital expenditure:						
Assets	$ 566,687	$131,137	$ 92,841	$ 790,672	$231,250	$1,021,929
Depreciation expenses	1,516	23	2,094	3,647	4,600	8,248
Capital expenditures	5,869	0	4,548	10,424	8,826	19,250

						Millions of yen
Year ended March 31, 2001	Information and network integration	Intelligent building and facility engineering	Operation and maintenance	Total	Eliminations or Corporate	Consolidated
I. Sales:						
(1) Sales to third parties	¥156,873	¥26,133	¥37,089	¥220,096	¥ —	¥220,096
(2) Intersegment sales	—	—	—	—	—	—
Total sales	156,873	26,133	37,089	220,096	—	220,096
Operating expenses	147,860	24,269	33,267	205,397	5,953	211,350
Operating income	¥ 9,013	¥ 1,863	¥ 3,821	¥ 14,698	¥ (5,953)	¥ 8,745
II. Assets, depreciation expense, capital expenditure:						
Assets	¥ 85,821	¥18,030	¥10,151	¥114,003	¥34,961	¥148,964
Depreciation expenses	214	33	251	499	534	1,033
Capital expenditures	205	5	306	517	1,196	1,713

As a result of a change in the method of accounting for revenues from construction contracts as explained in Note 4, net sales and operating income for the "Information and network integration" segment increased by ¥6,034 million and ¥560 million, respectively, those for the "Intelligent building and facility engineering" segment increased by ¥1,409 million and ¥183 million, respectively, and those for the "Operation and maintenance" segment increased by ¥9 million and ¥1 million, respectively, for the year ended March 31, 2001 as compared with the corresponding amounts for the previous year.

Geographical segments

As net sales of Japan constituted more than 90% of the consolidated totals for the years ended March 31, 2002 and 2001, the disclosure of geographical segment information has been omitted.

Overseas sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the year ended March 31, 2002 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars			
Year ended March 31, 2002	Asia	South America	Other	Total	Asia	South America	Other	Total
Overseas sales	**¥18,901**	**¥6,185**	**¥5,350**	**¥ 30,438**	**$141,846**	**$46,417**	**$40,150**	**$ 228,428**
Consolidated net sales				**230,064**				**1,726,559**
Ratio of overseas sales to consolidated net sales	**8.2%**	**2.7%**	**2.3%**	**13.2%**				

As overseas sales constituted less than 10% of the consolidated net sales for the year ended March 31, 2001, the disclosure of overseas sales information was omitted.

19. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2002, were approved at a meeting of the shareholders held on June 27, 2002:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00=$0.038 per share)	**¥215**	**$1,614**
Bonuses to directors and corporate auditors	**51**	**383**

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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The Board of Directors and the Shareholders
NEC System Integration & Construction, Ltd.

We have audited the consolidated balance sheets of NEC System Integration & Construction, Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, expressed in yen, present fairly the financial position of NEC System Integration & Construction, Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period subsequent to the change, with which we concur, made as of April 1, 2000, in the method of accounting for revenues from construction contracts as described in Note 4 to the consolidated financial statements.

As described in Note 2 to the consolidated financial statements, NEC System Integration & Construction, Ltd. and consolidated subsidiaries have adopted new accounting standards for employees' retirement benefits, financial instruments and foreign currency translation effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience of the reader. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Shin Nihon & Co.

June 27, 2002

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of NEC System Integration & Construction, Ltd. under Japanese accounting principles and practices.

GROUP COMPANIES

JAPAN

NEC System Integration & Construction Engineering, Ltd.

NEC System Integration & Construction Media Services, Ltd.

OVERSEAS

ASIA

Thailand

NESIC (Thailand) Ltd.

Philippines

NESIC PHILIPPINES, INC.

Indonesia

P. T. NESIC BUKAKA

Singapore

NESIC Singapore Pte. Ltd.

China

NESIC (GUANGZHOU) CO., LTD.

South America

Brazil

NESIC BRASIL S/A

Chile

NESIC CHILE S.A.

Affiliated company accounted for by the equity method

CHUGOKU SOFT WING CO, LTD.

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