Empowered by Innovation

NEC

INTELLIGENCE ADDS VALUE, ADDED VALUE GENERATES GROWTH

ANNUAL REPORT 2003

Year Ended March 31, 2003

NEC System Integration & Construction, Ltd.

PROFILE

NEC System Integration & Construction, Ltd. (NESIC) has been a driving force of the information society as a leading systems integrator since its establishment in 1953, growing in tandem with telecommunications and information networks in Japan. Today, NESIC offers a comprehensive portfolio of systems integration solutions to meet customer needs from consulting to design, software development, construction and equipment supply. The Company's expertise also includes maintenance and operation of systems and related facilities.

NESIC's strong overseas presence extends to system construction and facility engineering in more than 150 countries and territories. Growth in the information and communications industry, driven by the shift toward network broadband, Internet protocol (IP), mobile, digital and other technologies, offers the potential for further successes. Based on its numerous technologies and long track record, NESIC aims to provide increasingly sophisticated business solutions that earn customer trust, thereby increasing earnings and shareholder value.

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)[1]
	2003	2002	2001	**2003**
For the year:				
Net sales	**¥202,419**	¥230,064	¥220,096	**$1,684,018**
Operating income	**5,675**	4,526	8,745	**47,213**
Net income	**1,512**	617	3,018	**12,579**
At year-end:				
Total assets	**¥116,289**	¥136,172	¥148,964	**$ 967,463**
Shareholders' equity	**51,822**	51,134	51,107	**431,131**
Per share of common stock (yen and U.S. dollars):				
Net income[2] (basic)	**¥ 33.93**	¥ 13.15	¥ 70.40	**$ 0.28**
Cash dividends	**10.00**	12.50	12.50	**0.08**
Ratios:				
Operating income/Net sales	**2.8%**	2.0%	4.0%	
Net income/Net sales	**0.7**	0.3	1.4	
Return on equity	**2.9**	1.2	6.1	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120.20=U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2003.
2. A new accounting standard for earnings per share became effective April 1, 2002. See Note 13 of Notes to Consolidated Financial Statements (page 31) for details.

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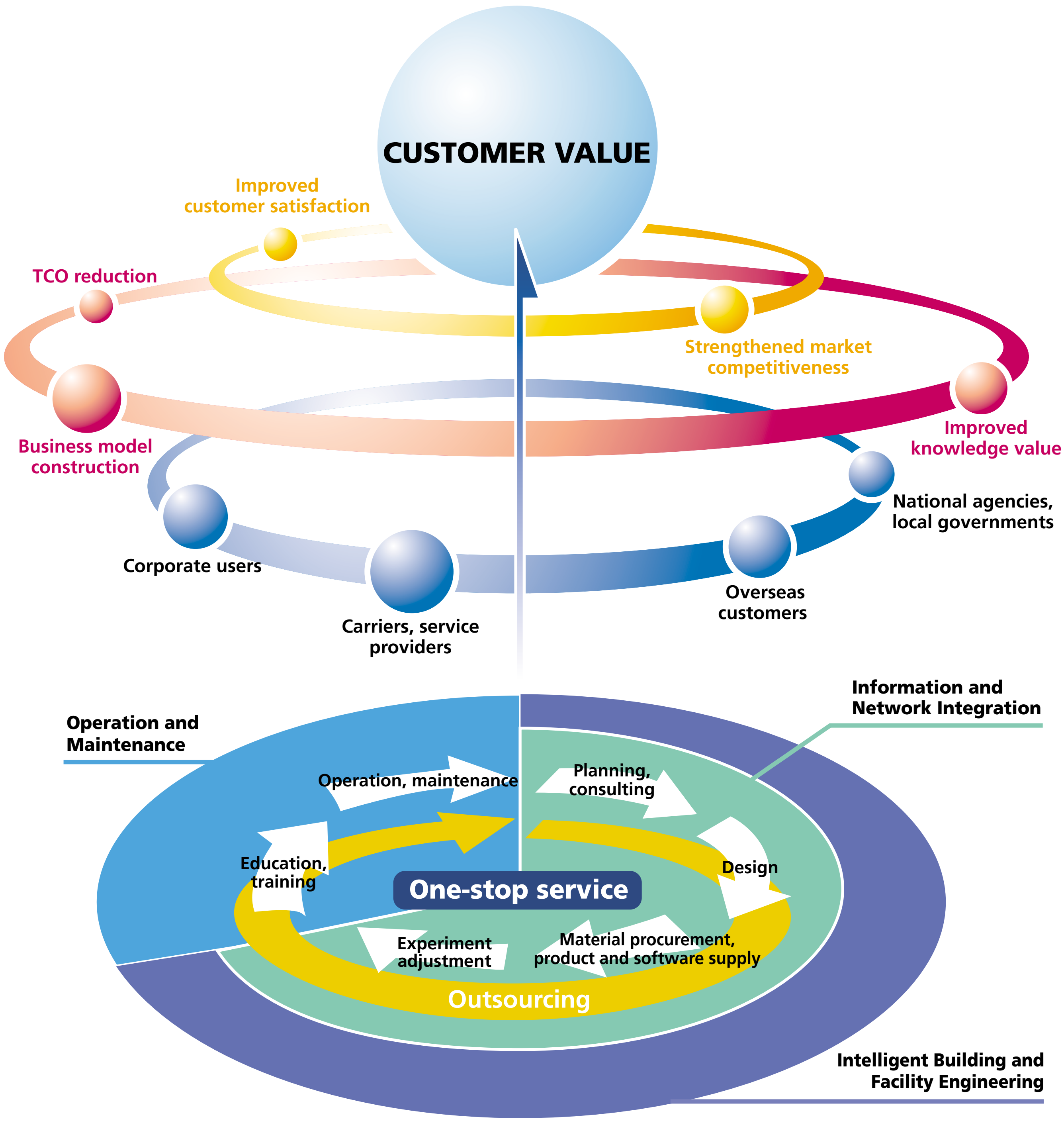
CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS
This annual report contains forward-looking statements concerning NESIC and its consolidated subsidiaries' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Rather they represent 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.

OUR BUSINESS CONCEPT

Effective customer support that provides a one-stop service for network and IT solutions

NESIC offers continuous, effective support that aims to solve the management problems of customers in a wide range of industries and businesses by creating solutions driven by network and information technology and providing them through a one-stop service that includes outsourcing.



TO OUR SHAREHOLDERS

As a solution provider, NESIC continues to work toward creating new value in the fields of networks and information technology (IT). By accelerating its shift to the solutions business, the Company is able to respond to the abrupt changes taking place in the business environment. By grasping opportunity through change, we strive for creativity and improved corporate value.

Yukihiko Baba
President

PERFORMANCE DURING THE YEAR TO MARCH 31, 2003

In general, the business environment surrounding NEC System Integration & Construction (NESIC) for the fiscal year ended March 31, 2003 remained severe. Domestically, the national government's "e-Japan Project" helped to encourage investment by regional governments both in information systems and in facilities related to the commencement of terrestrial digital broadcasting. However, capital investment by the private sector and communication enterprises, particularly mobile service providers, remained stagnant. Overseas, demand related to telecommunication infrastructure decreased, resulting in continued challenging business conditions.

To succeed in this challenging environment, NESIC must increase orders in value-added areas such as network integration, maintenance and outsourcing, while improving the Company's capabilities in consulting, planning and systems integration. Moreover, to achieve cost reductions that exceed market price downturns in these deflationary economic conditions, we are placing emphasis on innovating our construction technology and improving our procurement processes.

For the fiscal year ended March 31, 2003, consolidated orders received decreased 9.1 percent year-on-year to ¥203,038 million, and net sales declined 12.0 percent year-on-year to ¥202,419 million. Orders received in traditional businesses, including telecommunication construction projects and equipment sales, were down 21 percent compared with the previous year because of a decrease in orders for mobile communication base stations from telecommunications carriers. Orders in high-value-added businesses such as network integration, maintenance and outsourcing, however, increased 18 percent compared with the preceding year. Regional governments increased orders for emergency information systems and high-level information and telecommunication networks. Orders increased from NEC Corporation and its group companies for network outsourcing and software development. Telecommunication carriers also increased orders for broadband networks they supply to the private sector, which include Internet protocol virtual private networks (IP-VPN) and wide-area Ethernet projects. Sales in NESIC's traditional business sectors were down 22 percent, while sales in high-value-added businesses gained 13 percent year-on-year.

Gross profit increased 200 basis points as a percentage of net sales to 11.4 percent as a result of our improved product mix and cost reductions, which supported a 25.4 percent year-on-year increase in operating income to ¥5,675 million. Net income increased 145.0 percent year-on-year to ¥1,512 million, and was influenced by several non-operating factors accounted for as other income and expenses. In connection with the Company's retirement benefit program, gain on return of the substitutional portion of the welfare pension fund totaled ¥1,338 million, while amortization of net retirement benefit obligation at transition totaled ¥2,356 million. In addition, new legislation changed the aggregate statutory tax rate, which increased deferred income taxes by ¥141 million.

The amortization of the Company's retirement benefit obligation has resulted in increased extraordinary expenses, but NESIC has now completed three of the five annual amortizations. Beginning in the year ending March 2006, the Company will also begin amortizing actual loss on pension plan assets. Absent the amortization burden of the past several years, however, NESIC expects earnings to increase substantially.

PROGRESS IN INNOVATING AND STRENGTHENING OPERATIONS

In networks and the IT sector, which comprise our areas of expertise, competition has escalated with the rapid progress of technological innovation and with new players entering the market. At the same time, customer needs are diversifying because of the shift in networks to IP and broadband, and the increasing importance of software. In order to respond adeptly to the rapid changes taking place in this business environment, we continue to promote business innovation under the doctrine of "high-value-added business." This entails creating high customer value through robust adaptation to rapid technological innovation while balancing the needs of customers with quicker, less costly solutions.

We view five areas of focus as critically important.

1. Expanding High–Value–Added Businesses

NESIC is strengthening both its ability to propose user-centric solutions that seamlessly integrate with customer business models, and its technological capabilities in structuring systems. Our Customer Support Center is available 24 hours, 365 days a year, anchoring our ability to provide customer support of the highest quality while we continue to expand our maintenance and outsourcing operations as well.

2. Strengthening Market Response by Aggressively Building Alliances

Beginning with NEC and NEC Group companies, we have raised our competitiveness by forming alliances with strong vendors, telecommunications carriers and outstanding marketing partners both domestically and overseas.

3. Expanding and Enhancing New Business Sectors

We are opening new markets by launching original products that we have developed and by seeking out and launching the products of small venture firms.

4. Improving Profitability through Comprehensive Cost Reduction

NESIC is strengthening its cost competitiveness in a number of ways. We are employing market mechanisms including online purchasing and network-based bid solicitation, as well as centralizing and aggregating procurement. We have also innovated our construction technology by standardizing designs and using more packages, while promoting in-company production and operating cost efficiency.

5. Fostering a Culture of Learning that Cultivates Professionals

NESIC is fostering a learning culture in which our people are motivated to improve the skills that enhance their job performance, and are keenly aware of the issues resulting from changes in our operating environment. Cultivating professionals of this caliber enhances NESIC's capabilities in creating customer value through consulting, planning and system construction.

The telecommunication construction business has contracted and its underlying business model has changed dramatically. In networks and IT, technological innovation has become extremely rapid. We can only continue to grow by developing our technological strengths to keep pace with innovation and by swiftly understanding market needs. The five points outlined above are of the greatest strategic importance to NESIC as a network and IT solutions provider.

EXPANDING SALES IN NEW AREAS BY LAUNCHING STRATEGIC NEW PRODUCTS

One of NESIC's objectives is to expand in the areas of network integration, operation and maintenance, and outsourcing. As discussed earlier, however, we cannot look forward to a business environment of rapid growth. Rather, downward price pressure has begun to intensify. Responding to these conditions, NESIC is working to expand and strengthen its presence in new markets. We are deploying our strengths, making full use of our know-how in software development and our network technologies to develop new products, and are entering new markets with our own products developed both here and abroad by small venture companies.

Three representative new products launched in new markets during the past fiscal year include virtual service switch (VSS) solutions, total internet protocol (IP) telephony service solutions, and StarOffice21 solutions. We shipped our first VSS solutions device in December 2002, and anticipate that the Japanese data center market will grow substantially. Building our presence in total IP telephony solutions, in March 2003 we began marketing Voice over Internet Protocol — Terminal Adapter (VoIP-TA) to IP telephony service subscribers using our proprietary technologies. StarOffice21 is a corporate information portal made by NEC. We acquired experience and know-how in constructing and managing StarOffice21 solutions for NEC and NEC Group companies, and are now supplying solutions that are integrated from portal implementation to maintenance and operation to a broad range of customers. We expect these initiatives to compensate for any decrease in construction revenues, which currently account for more than half of net sales.

CORPORATE GOVERNANCE POLICIES

NESIC has taken steps to optimize the number of members of the Board of Directors to ensure an adept response to the changing business environment. Our key emphases in corporate governance have given rise to the creation of a management system that is able to make decisions swiftly while engendering sound, transparent management through timely, appropriate disclosure. Moving to enhance management oversight, NESIC created the Executive Committee, formed to consider primary management policies, and the Business Execution Committee to discuss policies pertaining to key management and operating issues, as well as business plans and the status of their execution. Moreover, half of NESIC's corporate auditors are from outside the company. Auditors attend key meetings of the Board of Directors, thus contributing to this robust system for scrutinizing the execution of the Board of Directors' responsibilities.

NESIC is also building a framework for compliance company-wide. We have established the NESIC Corporate Behavior Charter and the Corporate Behavior Subcommittee to provide a thorough legal and ethical basis for corporate activities. In June 2000, NESIC optimized the number of members of the Board of Directors and implemented the Executive Officer system with the objectives of clearly separating supervision and execution, while delineating the authority of executive officers, and speeding up the decision-making process of the Board of Directors.

NESIC adopted its present auditing system by basing its management structure on the revised Commercial Code. However, we continue to examine mechanisms that will further improve corporate governance. With this in mind, we established the NEC System Integration & Construction Code of Corporate Behavior in January 2000 to provide a thorough legal and ethical basis for corporate activities and link them to our corporate philosophy. In March 2003, NESIC further strengthened adherence to this code by establishing a compliance consultation hotline.

MAXIMIZING CORPORATE VALUE THROUGH MANAGEMENT REFORM

NESIC is increasing corporate value by steadily working to innovate its businesses, reforming its management structure and raising overall management efficiency. As NESIC's new president, I inherit a corporate philosophy that has evolved over the past half-century with a sincere desire to energetically drive business innovation that is precisely suited to the Company's market environment. We are committed to retaining the trust and support of our shareholders.

Yukihiko Baba

YUKIHIKO BABA
PRESIDENT

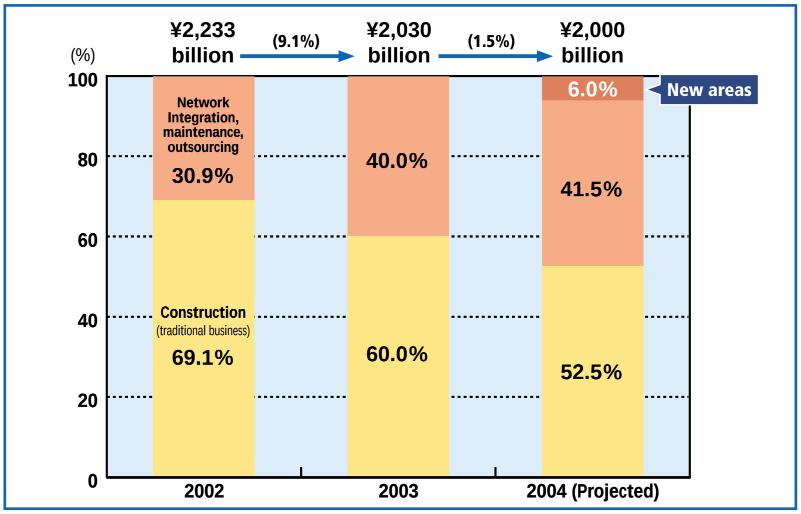
INTELLIGENCE ADDS VALUE, ADDED

Added Value through the Development of New Business Sectors

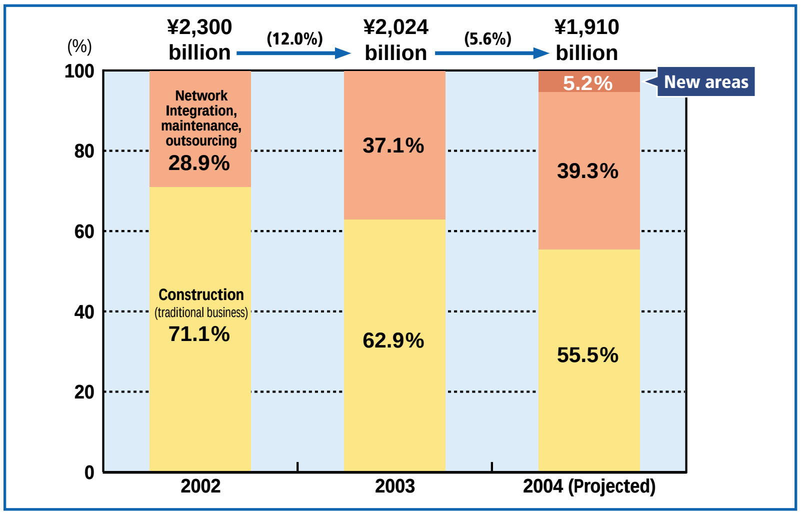
NESIC's core business has been telecommunication infrastructure construction, but factors such as reduced capital investment are causing this market to contract. As a result, we are concentrating on network integration, maintenance and outsourcing operations from the viewpoint of advancing growth on a market scale and aiming at a higher profit ratio.

As part of its business innovations, NESIC has been concentrating its management resources on the Internet and mobile communications. In the past fiscal year, however, NESIC demonstrated its capabilities in the new markets of network integration, maintenance and outsourcing by launching relevant new products and services. Key examples include Virtual Service Switch (VSS) solutions, total Internet protocol (IP) telephony service solutions, and StarOffice21 solutions. These three products are at the center of NESIC's business model for expanding revenues in new areas.

ORDERS BY BUSINESS AREA



SALES BY BUSINESS AREA



Note: Graphs are based on fiscal years ended March 31.

VALUE GENERATES GROWTH

Network and IT Systems

NESIC is active in forming partnerships with NEC and other unique companies with leading-edge technology, both in Japan and overseas. The aim is to find the best match between NESIC's integration capabilities, including products developed in-house, and the partner's components. Optimal coordination allows NESIC to maximize added value for customers.

Major Alliance Partners

Company	Country	Alliance Area
Inkra Networks, Inc.	U.S.A.	Virtual service switches
Top Layer Networks	U.S.A.	Network management equipment
ArrayNetworks Inc.	U.S.A.	Network management equipment
Mirapoint, Inc.	U.S.A.	Non-stop mail server, etc.
Improvista Interactive Music, Inc.	Japan	E-commerce software for cellular phones
SonicWALL, Inc.	U.S.A.	VPN firewall
Nippon Information Control System, Inc.	Japan	Terminal adapter for VoIP
DASAN Networks, Inc.	Korea	IP switches
F5 Networks, Inc.	U.S.A.	Load balancers

VSS SOLUTIONS

In May 2002, NESIC concluded an exclusive distribution agreement for Japan with the California based company, Inkra Networks, Inc., covering its VSS products, which enable next-generation data center solutions. “Virtualization” is the operative principle of these VSS solutions in creating an integrated and networked system that provides virtual and independent access to the functions multiple users need, whenever users need them.

Up to now, Internet data centers (IDC) have been constructed on a serial or sequential basis incorporating firewalls, SSL accelerators, load balancers, virtual private networks (VPN) and other network services where users accessed the IDC from fixed installations. With VSS, network service functions are integrated within a single unit, and multiple users can simultaneously access information.

The merits of implementing this kind of system include lower costs at the initial installation stage, as testing, evaluation and other functions require one-sixth the cost of conventional data centers. Moreover, operating costs are substantially lower, and time to start-up is significantly shorter, taking minutes instead of the days required by conventional set-ups. VSS solutions therefore respond to customer needs with unprecedented efficiency by reducing costs for both installation and operation. Target customer segments for VSS solutions include any user with sufficient IT infrastructure, including telecommunications carriers, Internet service providers (ISP), data centers, businesses in general, schools and government entities.

Having independently evaluated Inkra’s products, we offer these products to the Japanese market, fully backed by consistent, nationwide services in sales, engineering and maintenance. In July 2002, NESIC began marketing the Inkra 4000, a product for new data center construction that allows one unit to provide services to 1,000 discrete users. In December 2002, NESIC also began marketing the Inkra 1000, which can provide services to 25 discrete users.

NESIC’s business model for supplying VSS solutions encompasses business development in Japan using platforms created with superior products and concepts from entrepreneurial companies outside Japan. However, in addition to sales of equipment, we also expect increased opportunities for orders from data centers requesting maintenance services, as a result of our efforts in developing this business.

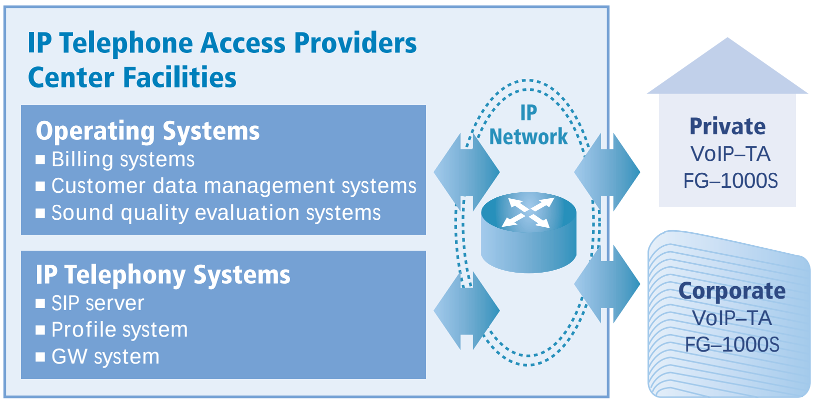
TOTAL INTERNET PROTOCOL (IP) TELEPHONY SERVICE SOLUTIONS

NESIC delivers total IP telephony solutions that encompass its proprietary Voice over Internet Protocol — Terminal Adapter (VoIP-TA[1]) for session initiation protocol (SIP[2]), used in customer data management, billing and other systems. NESIC is therefore able to provide server systems, network construction planning and consulting, construction, and operation support for seamless delivery of services from IP telephony providers to end users.

In 2003, a number of telecommunication carriers, ISPs, cable television providers and other firms began providing full-scale IP telephony services. Connection from conventional landlines to IP telephones, which became possible in summer 2003, is projected to significantly accelerate the diffusion of IP telephony. Given this background, numerous companies have announced plans to adopt the VoIP-TA standard protocol for SIP, indicating that demand for construction of SIP-based networks will increase.

From delivery to the end user to installation and support services, NESIC is able to offer a simple one-step solution through our SIP compliant VoIP-TA, with our own internally developed auto-configuration functions[3] built in. In addition, NESIC employs its highly developed know-how and experience acquired in providing telecommunication carriers with design, construction and maintenance services for networks and ancillary equipment to provide optimal, full ranging services required for the IP telephony business, from network creation to operation support. Target markets include IP telephone access providers, ISPs, IP backbone providers, and regional governments implementing the e-Japan Strategy.

NESIC is using its broad customer database and know-how built over many years as a base for developing its solutions business. NESIC is complementing this base with its technological strength and proprietary technology from venture firms in Japan and alliances with overseas manufacturers to create its own original platforms.



Notes:

1. VoIP-TA: A terminal adapter transmission technology used in IP networks, such as the Internet and intranets, that splits voice signals into packets.
2. SIP: A communication control protocol for Internet telephony and other applications. Compared with similar protocols, SIP has functions that are close to those of the public telephone network, including the transfer and calling number identification functions in the specifications issued by the Internet Engineering Task Force (IETF) in March 1999. The format for addresses assigned to each terminal is similar to that for e-mail addresses, and standardization is possible in the future.
3. NESIC's auto-configuration functions: This technology facilitates instant use of IP telephony services by employing an exclusive embedded application to enable automatic user confirmation by receipt of user ID, telephone number and other information from the IP service provider's customer data control server with one click.

STAROFFICE21 SOLUTIONS

StarOffice21 is part of the Enterprise Information Portal (EIP), an NEC product. NESIC has established a foundation of experience and know-how in structuring and managing StarOffice21 solutions for NEC and its group companies. Our StarOffice21 business model provides integrated system construction, maintenance and operation services for customers when installing or adding to an enterprise portal.

Greater management speed has become essential for Japanese companies, increasing the need to share and distribute information and effectively deploy business-processing systems. However, many companies currently use a hodgepodge of discrete systems, and lack the framework for swift, efficient selection and deployment of internal information. A rapidly growing number of companies are adopting EIP as a concrete means to rationally resolve these issues.

Using StarOffice21 makes internal information systems more convenient and user-friendly through such means as the single sign-on function, which allows for a simple, one-time input of authentication (ID or password). This authentication was required each time users accessed previous systems. In addition, it allows access to internal information via a single Web interface, and new business systems can easily be connected to existing information systems without restructuring.

From diagnostics performed on existing internal information systems, to system construction, maintenance and operations, with the introduction of StarOffice21, NESIC sees to all of its customers' needs by providing a one-stop solution. NESIC's capabilities also extend to other information systems including knowledge management, customer relationship management (CRM) and sales force automation (SFA) systems.

REVIEW OF OPERATIONS

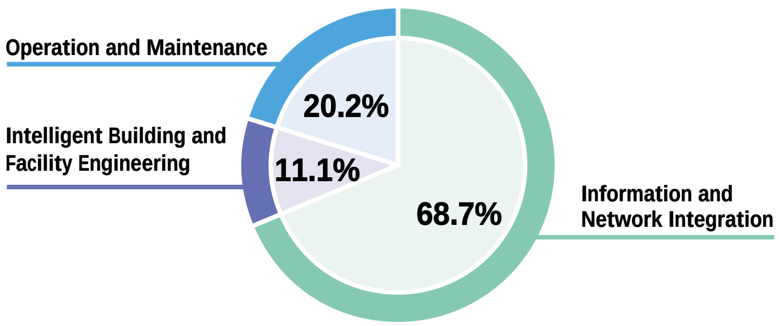
The ongoing transition to Internet protocol (IP) networks and broadband has been expanding new businesses and services. The diffusion of IP-VPN and wide-area Ethernet supplied by telecommunications providers, the construction of corporate networks based on these systems, and the expansion of new services using the Internet, such as IP telephone services and data centers, application service providers (ASP) and electronic transactions, have heightened the focus on the importance of network security.

In the field of mobile communications, convergence with the Internet through the long-awaited, full-fledged start of third-generation (3G) mobile telephone services using IMT-2000 standards is engendering new developments. In the field of broadcasting, phased implementation of terrestrial digital broadcasting is scheduled to begin in December 2003, leading to the future convergence with communications and the development of new services, including high-definition and interactive data broadcasts.

The role of solution providers who can swiftly understand customer needs and create customer value will become increasingly important. NESIC will promote business innovation through transition to a high-value-added business organization that works to create outstanding customer value. In addition to the network construction and software development technologies it has acquired over many years, NESIC will deploy its background in IP and Internet-related technologies in shifting to the network integration, maintenance and outsourcing businesses.

COMPOSITION OF NET SALES BY BUSINESS SEGMENT

(Year ended March 31, 2003)



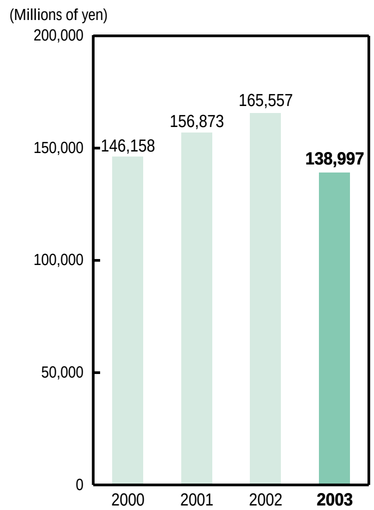
➤ INFORMATION AND NETWORK INTEGRATION

Broadcasting-related business grew due to increased orders in connection with the changeover to digital studio and transmission equipment in preparation for the start of terrestrial digital broadcasting. Restrained capital investment among domestic telecommunications carriers, however, resulted in decreased construction of mobile communication base stations, and orders from the central government related to internal information systems for government ministries also decreased. Orders decreased by 12.4 percent to ¥138,149 million, and net sales decreased 16.0 percent to ¥138,997 million.

In this segment, NESIC is primarily involved in consulting, design, construction, software development and related businesses for local area networks (LAN), wide area networks (WAN) and other internal corporate information systems; network systems for communications carriers, including station switching equipment and mobile network base stations; wireless communication systems; and video broadcasting systems.

At present, the accelerating pace of network switchover to IP and broadband is significantly changing market needs. As a result, there is strong demand from customers for network solutions that improve competitiveness, including the creation of business models.

NET SALES



Implementation of Railway Station Operating System

Figure 1 presents an overview of a total system implementation project for a railway company's station operations. With an optical IP system that integrates video, audio and other data as its backbone, a remote station provides control, supervision and operational support for train station equipment such as ticket gates, ticket vending equipment and fare adjustment machines; interactive television (ITV) equipment including monitors and remote cameras; and for facilities within the station such as elevators, escalators, shutters and passenger information displays. As a result, the system has improved station management efficiency, customer service and security.

This customer has begun providing unmanned, remote passenger service at eight train stations from a central station. Moreover, in recognition of NESIC's ability to deliver such advanced solutions, the customer plans to increase the number of stations covered by this system.

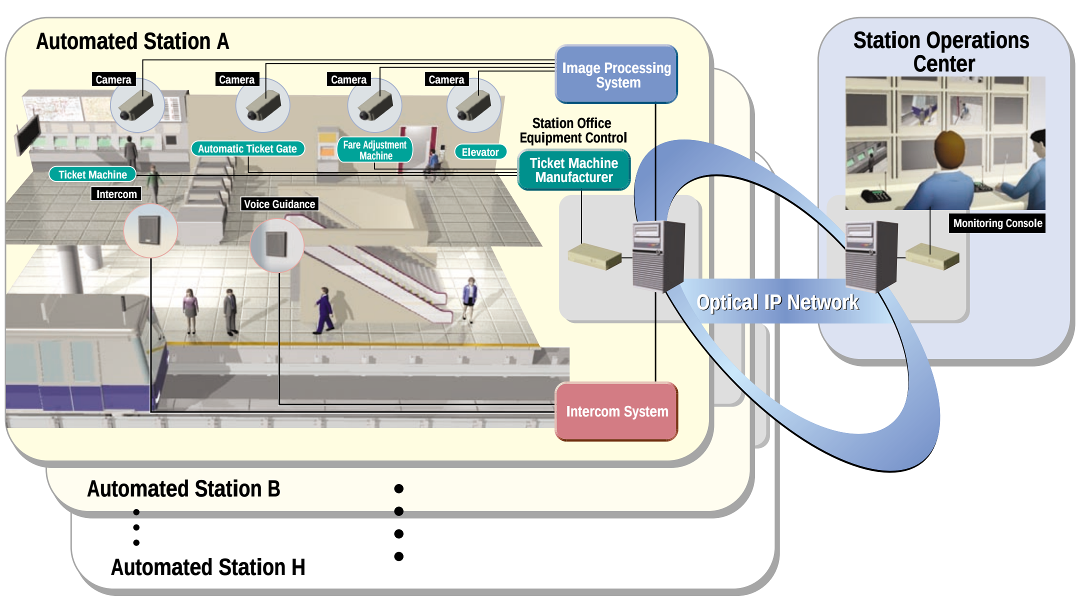


Figure 1

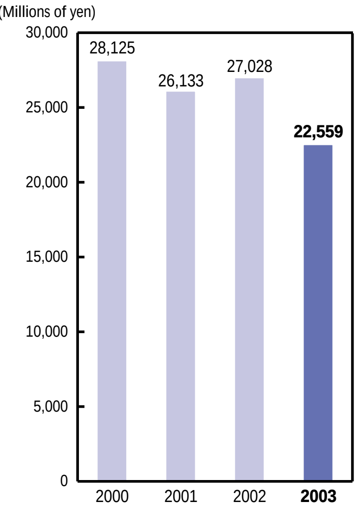
➤ INTELLIGENT BUILDING AND FACILITY ENGINEERING

Construction of information infrastructure by regional governments increased. However, construction of mobile communication base stations declined, and overseas business decreased due to the absence of the large-scale overseas orders in the previous fiscal year. Orders decreased by 9.3 percent to ¥23,874 million, and net sales decreased by 16.5 percent to ¥22,559 million.

NESIC's primary business areas in this segment include consulting, design, construction and other businesses related to network base stations and pylons; communication lines; power supply equipment; lighting equipment; heating, ventilation and air-conditioning (HVAC) systems; as well as fire prevention and security systems.

In addition to installation of information infrastructures for regional governments in connection with their accelerating shift to digitization, future areas of focus will include the construction of security infrastructure and building renovation projects, driven by increasing demand for IT-based environments in offices and housing complexes. Overseas, NESIC will emphasize construction of power generation, power supply and lighting systems for large-scale facilities such as international airports and various types of production facilities.

NET SALES



Relocation and Integration of IT Networks

Figure 2 outlines our proposal for the relocation and integration of the headquarters and its backbone network in connection with the merger of five financial firms by providing project management for the transfer of each company's IT equipment and networks. NESIC worked to reduce the time, man-hours and cost required to handle the complex mix of client-server and communications systems involved in this office relocation project. Moreover, precise, efficient planning and execution were essential to ensure that there were no operating impediments after the relocation.

In a short two-week period, NESIC handled the relocation of the different network environments used in the five merging companies, including some 1,000 personal computers. Conditions for executing the project were extremely challenging, as installation and construction could only take place on weekends, when the customer was not open for business. By employing its wealth of knowledge and know-how in providing such a strong solution for this project, NESIC received high praise from this client.

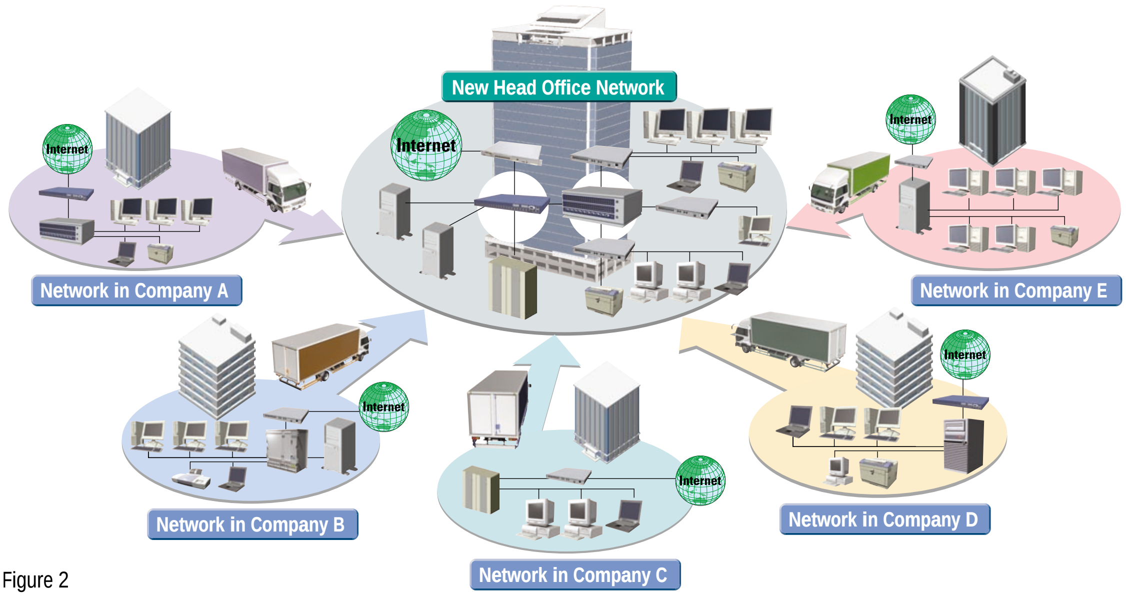


Figure 2

➤ OPERATION AND MAINTENANCE

Communication network outsourcing from NEC and its group companies increased, as did orders from regional governments for maintenance of fire and disaster systems, as well as regional network systems. As a result, orders increased by 4.2 percent to ¥41,013 million, and net sales increased 9.0 percent to ¥40,863 million.

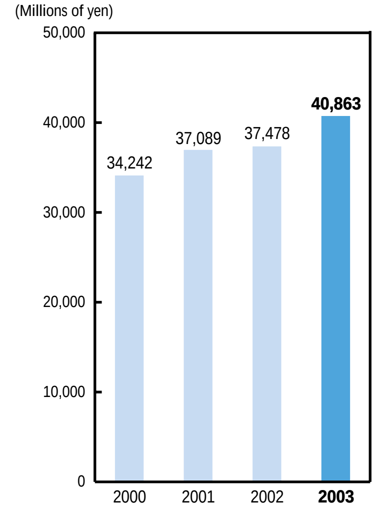
NESIC's primary business areas in this segment are maintenance, outsourcing and related operations for internal corporate information systems and for the network systems of telecommunications carriers.

Stable operation and maintenance management have become indispensable for increasingly advanced network systems. The ideal system can be realized through a regimen of support services that perform maintenance operations for such systems.

NESIC's Customer Support Centers comprise the nucleus of 19 service centers located throughout Japan that allow our Company to respond to customer calls 24 hours a day, 365 days a year. In addition, NESIC has established a full-scale system for remote maintenance, rapid supply of parts and other services at approximately 200 service offices and 40 parts centers.

NESIC also provides outsourcing services that offer total coordination support, regardless of the manufacturer or telecommunications carrier. As the best partner for its customers, NESIC consistently provides optimal, highly reliable management for the operation of their information assets.

NET SALES



Maintenance of Mobile Telephone Switching System

Figure 3 provides an overview of the maintenance of a switching system for a major mobile telephone company. NESIC has deployed approximately 270 maintenance specialists to this company's more than 30 switching system facilities for digital mobile communications systems throughout Japan. By providing around-the-clock maintenance, NESIC is able to offer powerful backup service for this mobile telephone provider's core system.

By taking advantage of our advanced technical know-how and many years of experience in communication network systems, NESIC will continue to support new systems that employ third-generation mobile telephone switching systems and IP-related technologies.

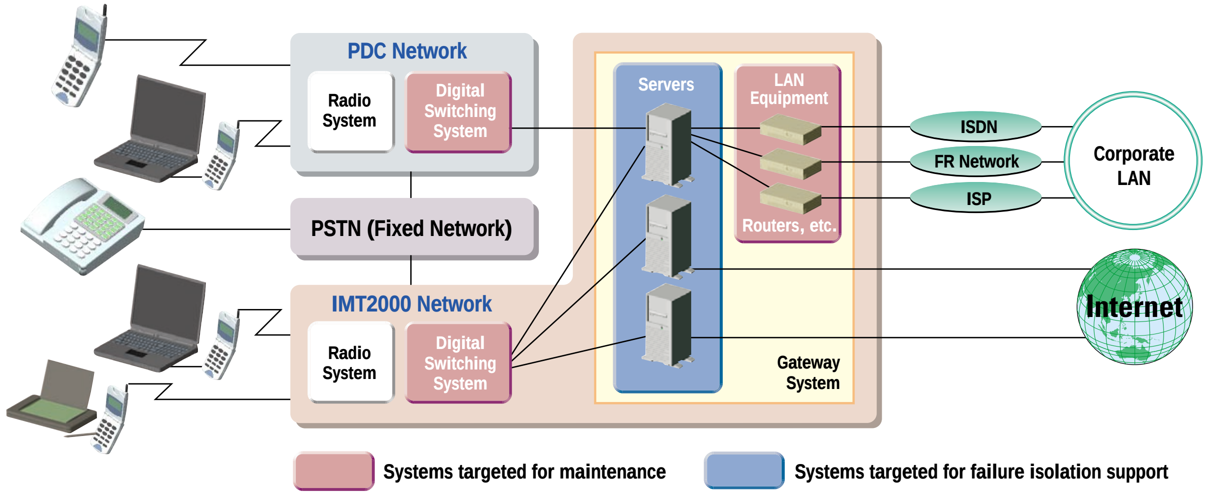


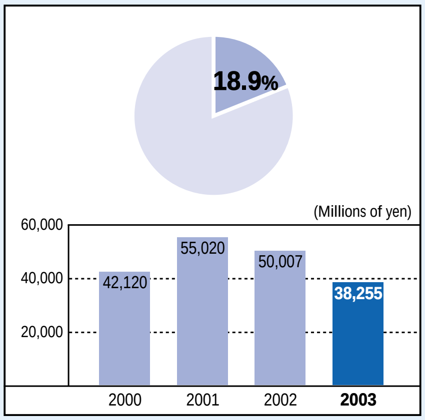
Figure 3

MANAGEMENT'S DISCUSSION & ANALYSIS

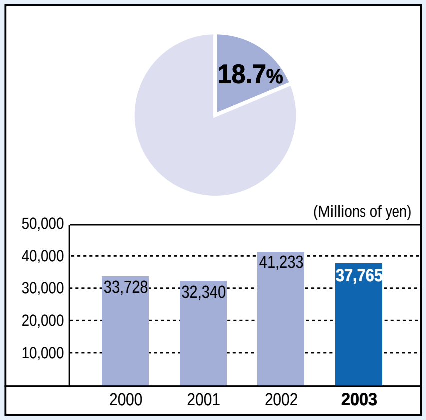
NESIC and its nine consolidated subsidiaries (together, the Company) are primarily engaged in the construction and maintenance of telecommunications and information systems and other facilities.

CONSOLIDATED SALES BY SECTOR AND PERCENTAGE OF TOTAL NET SALES

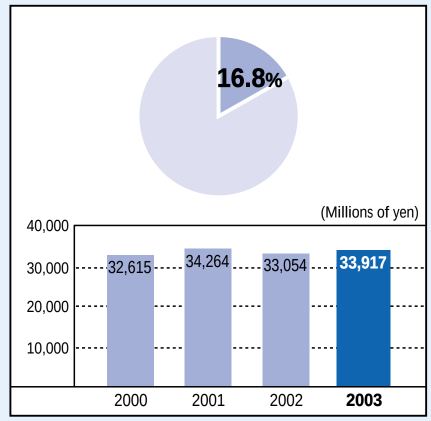
TELECOMMUNICATIONS



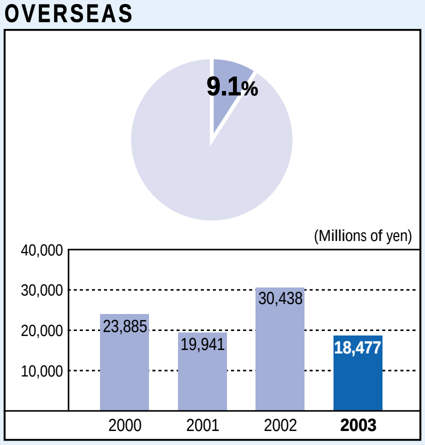
PUBLIC SECTOR



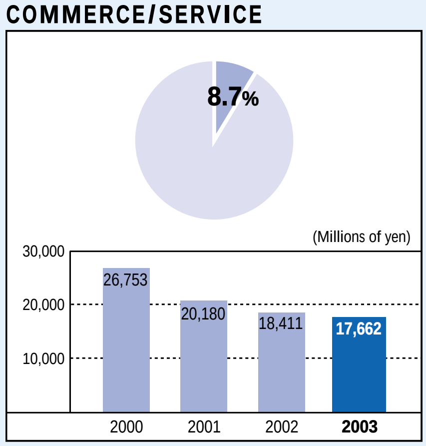
NEC/NEC GROUP



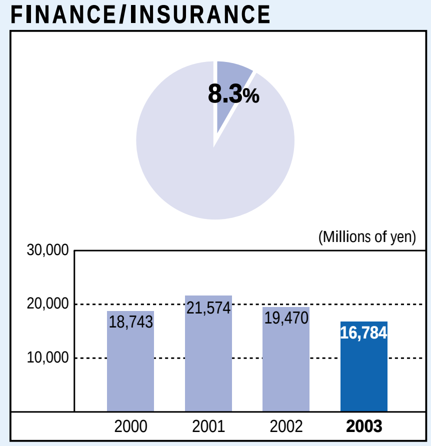
OVERSEAS



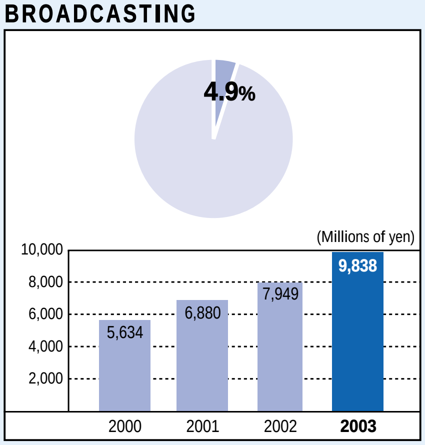
COMMERCE/SERVICE



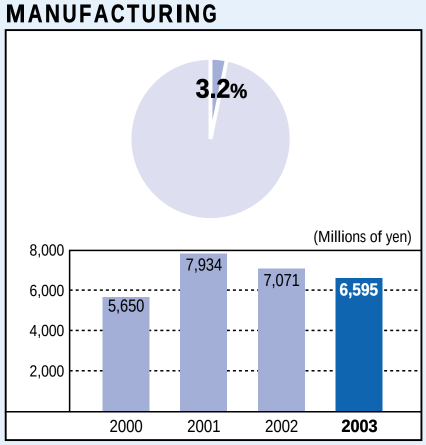
FINANCE/INSURANCE



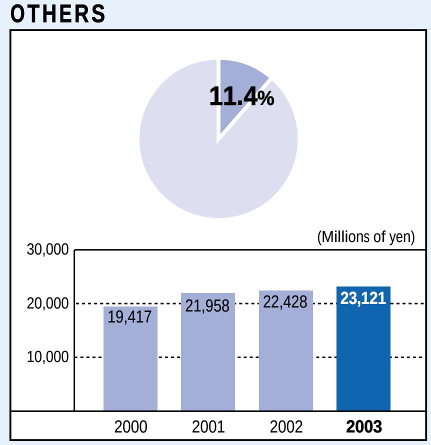
BROADCASTING



MANUFACTURING



OTHERS



Note: All graphs in this Management's Discussion & Analysis are based on fiscal years ended March 31.

REVIEW OF CONSOLIDATED OPERATIONS

Net Sales

During the fiscal year ended March 31, 2003, in Japan, local government investment in systems as part of the national government's e-Japan Strategy supported orders received, as did firm investment associated with the upcoming start of terrestrial digital broadcasting. Public-sector demand, however, did not fully compensate for restrained investment among private-sector companies and telecommunication carriers, particularly in the mobile communications segment. Conditions overseas remained challenging because of weak investment in telecommunications infrastructure.

As a result, consolidated orders received decreased 9.1 percent year-on-year to ¥203,038 million, and net sales declined 12.0 percent year-on-year to ¥202,419 million. The Company is a majority-owned subsidiary of NEC Corporation (NEC). Consolidated net sales included sales to NEC totaling ¥53,271 million. Sales to NEC accounted for 26.3 percent of net sales, compared to 29.3 percent for the previous fiscal year.

Operating Income

Cost of sales decreased 14.0 percent to ¥179,325 million, in tandem with the decrease in net sales. Gross profit therefore increased 7.3 percent to ¥23,094 million, and the gross margin rose from 9.4 percent to 11.4 percent as a result of improved product mix and cost reductions. Selling, general and administrative expenses increased 2.5 percent to ¥17,418 million despite efforts to reduce expenses, due mainly to increased costs in connection with expansion of network integration operations and increased amortization of software for the Company's new internal information system. Operating income increased 25.4 percent year-on-year to ¥5,675 million, and accounted for 2.8 percent of net sales, compared to 2.0 percent for the previous fiscal year.

Research and Development Expenses

Research and development expenses are included in selling, general and administrative expenses and manufacturing costs, and totaled ¥58 million for the past fiscal year. 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.

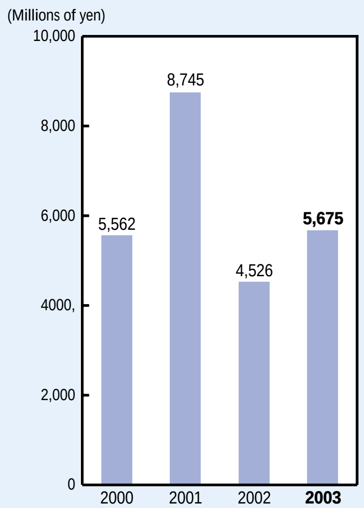
Other Expenses

Other expenses, net, totaled ¥2,346 million, compared to ¥2,617 million for the previous fiscal year. Interest expense decreased 28.0 percent to ¥190 million, reflecting the reduction in long-term debt from the redemption of convertible bonds during the fiscal year. The Company also recorded an exchange loss of ¥764 million, compared to an exchange gain of ¥228 million for the previous fiscal year. Gain on return of the substitutional portion of the welfare pension fund plan, detailed in Note 8 of the notes to the consolidated financial statements, totaled ¥1,338 million, offsetting amortization of net retirement benefit obligation at transition totaling ¥2,356 million. Loss on disposal of inventories totaled ¥397 million.

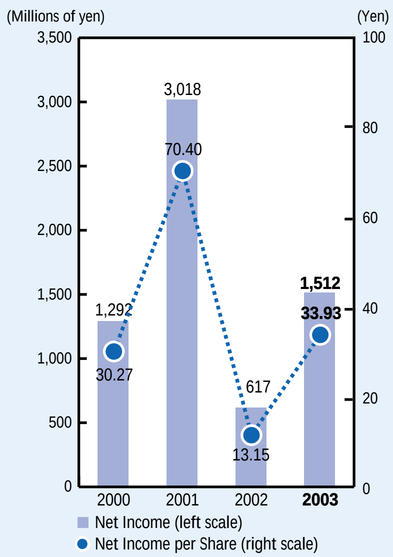
Income before Income Taxes and Minority Interests, and Net Income

Income before income taxes and minority interests increased 74.4 percent to ¥3,329 million, while income taxes net of deferrals increased 41.1 percent to ¥1,714 million. Consequently, net income increased 145.0 percent year-on-year to ¥1,512 million. Net income per share increased to ¥33.93 from ¥13.15 for the previous fiscal year.

OPERATING INCOME

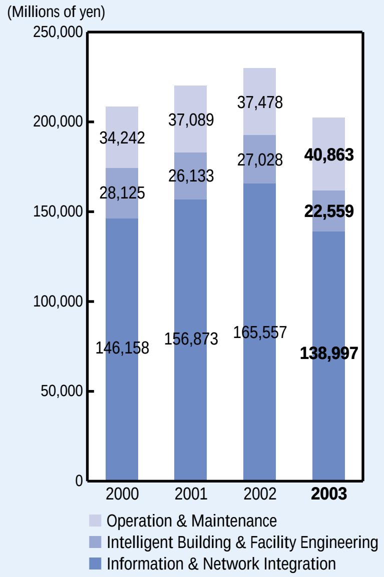


NET INCOME AND NET INCOME PER SHARE*



* See Note 13 of Notes to Consolidated Financial Statements (page 31).

NET SALES BY SEGMENT



CASH FLOW HIGHLIGHTS

Year ended March 31	**2003**	2002	2001
Net cash provided by operating activities	**6,668**	5,109	5,697
Net cash used in investing activities	**(1,256)**	(2,476)	(2,756)
Net cash used in financing activities	**(11,917)**	(1,182)	(5,186)

Dividends

NESIC's basic dividend policy is to strengthen earnings capabilities to maintain stable dividends while retaining sufficient internal reserves to invest in raising competitiveness and future growth. Cash dividends per share totaled ¥10.00, compared to ¥12.50 for the previous fiscal year, in light of the Company's capital requirements as it improves its competitiveness in a deflationary operating environment.

RESULTS BY SEGMENT

Information and Network Integration

Orders received decreased 12.4 percent to ¥138,149 million, while segment sales decreased 16.0 percent to ¥138,997 million. Segment operating income increased 11.8 percent to ¥6,508 million. Primary factors in the decrease in orders included restrained investment among domestic telecommunication carriers, which resulted in reduced construction of mobile communication base stations.

Intelligent Building and Facility Engineering

Orders received decreased 9.3 percent to ¥23,874 million, reflecting reduced demand for mobile communication base stations and the absence of the large-scale overseas orders in the previous fiscal year. Segment sales decreased 16.5 percent to ¥22,559 million. Segment operating income increased 410.8 percent to ¥1,501 million.

Operation and Maintenance

Orders received increased 4.2 percent to ¥41,013 million, reflecting increased outsourcing orders from NEC and its Group companies and from regional and local governments for fire and disaster systems, and for maintenance of regional network systems. Segment sales increased 9.0 percent to ¥40,863 million. Segment operating income decreased 15.9 percent to ¥3,346 million.

FINANCIAL POLICY

NESIC is working to make its operations more innovative by raising efficiency and implementing structural reforms companywide. A key emphasis in this drive is further enhancing the Company's financial position. In the past fiscal year, NESIC reduced total assets by ¥19,883 million, which raised the ratio of shareholders' equity to total assets by 700 basis points to 44.6 percent. The Company deployed free cash flow 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.

CASH FLOWS

Net cash provided by operating activities increased 30.5 percent year-on-year to ¥6,668 million, primarily reflecting the increase in income before income taxes and minority interests. Depreciation and amortization increased 33.2 percent to ¥1,464 million. Net changes in working capital increased cash flow by ¥6,022 million, compared to ¥3,231 million in the previous fiscal year, supported by the year-on-year gain in cash generated by reduction of trade receivables.

Net cash used in investing activities decreased to ¥1,256 million from ¥2,476 million in the previous fiscal year. The Company reduced purchases of property and equipment by 49.9

percent to ¥743 million, and reduced purchases of intangibles, net of allowance for amortization, by 56.8 percent to ¥453 million.

Information systems represent the majority of the Company's capital expenditures. In the year ended March 31, 2003, these expenditures amounted to ¥755 million, a decrease of 49.9 percent compared with the previous year. The main items were investment in new equipment including purchases of maintenance equipment and software development outlays.

Net cash used in financing activities was ¥11,917 million, more than 10 times higher than in the previous fiscal year because of the redemption with cash totaling ¥11,292 million of 0.375 percent convertible bonds that were due in 2002. The Company funded the redemption using internal capital resources. Decrease in short-term bank loans totaled ¥166 million, and cash dividends paid totaled ¥434 million.

As a result, cash and cash equivalents at the end of the year decreased ¥6,594 million from a year earlier to ¥8,865 million.

FINANCIAL POSITION

Assets

Total assets decreased 14.6 percent, or ¥19,883 million, from a year earlier to ¥116,289 million. Return on average total assets increased to 1.2 percent from 0.4 percent for the previous fiscal year.

Current assets decreased 17.0 percent, or ¥19,708 million, from a year earlier to ¥96,084 million. The redemption of convertible bonds discussed above resulted in a decrease in cash and cash equivalents. The Company also reduced notes and accounts receivable by ¥13,344 million to ¥65,725 million as a result of its efforts to speed up collection of receivables.

Property and equipment, net, decreased ¥339 million from a year earlier to ¥8,412 million. The decrease reflected the completion of the current cycle of investment in the Company's new internal information system.

Liabilities

Total liabilities decreased 24.3 percent, or ¥20,509 million, to ¥63,923 million. Current liabilities decreased ¥21,546 million to ¥54,119 million, due largely to reductions in notes and accounts payable and accrued income taxes. Redemption of convertible bonds totaling ¥11,292 million was a key factor in the decrease in notes and accounts payable. NESIC recorded the redemption in the fiscal year to March 31, 2003 because March 31, 2002, the final day of the previous fiscal year and the redemption date for the convertible bonds, was a bank holiday.

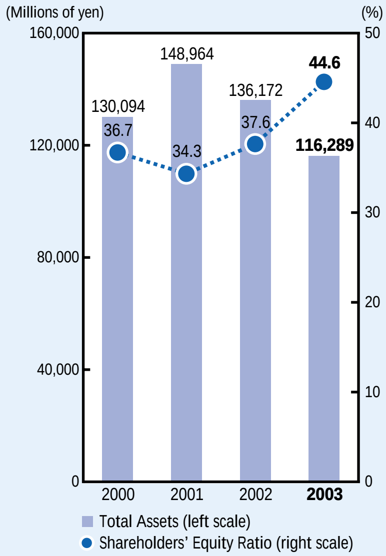
Working capital totaled ¥41,965 million, compared to ¥40,126 million a year earlier, while the current ratio was 1.8 to 1, compared to 1.5 to 1 at the end of the previous fiscal year.

Long-term liabilities increased 11.8 percent, or ¥1,036 million, to ¥9,803 million because of an increase in accrued employees' retirement benefits.

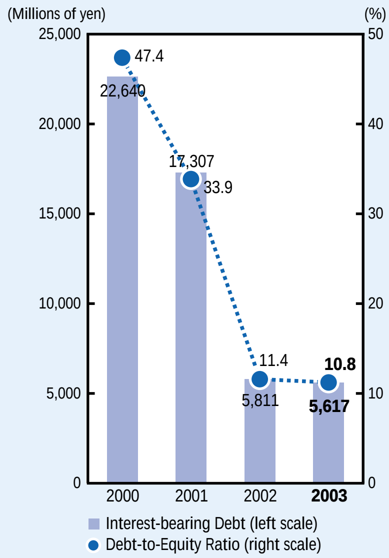
Interest-Bearing Debt

The Company had no long-term debt on its balance sheet as of March 31, 2003. Interest-bearing debt consisted entirely of short-term bank loans, which decreased 3.3 percent year-on-year to ¥5,617 million through repayments. The debt-to-equity ratio, defined as interest-bearing debt divided by shareholders' equity, was 10.8 percent, compared to 11.4 percent a year earlier.

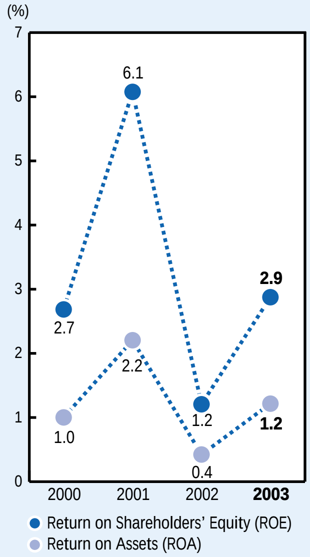
TOTAL ASSETS AND SHAREHOLDERS' EQUITY RATIO



INTEREST-BEARING DEBT AND DEBT-TO-EQUITY RATIO



RETURN ON SHAREHOLDERS' EQUITY AND RETURN ON ASSETS



Shareholders' Equity

Shareholders' equity increased 1.3 percent, or ¥687 million, to ¥51,822 million. Retained earnings increased ¥1,002 million to ¥26,672 million, but capitalized foreign currency translation adjustments increased to ¥614 million from ¥353 million for the previous fiscal year. Total capital, the sum of interest-bearing debt and shareholders' equity, was ¥57,439 million, compared to ¥56,946 million a year earlier, and shareholders' equity accounted for 90.2 percent of total capital, compared to 89.8 percent a year earlier. The ratio of shareholders' equity to total assets improved 700 basis points to 44.6 percent from 37.6 percent a year earlier.

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, 2003, equity investments in such companies amounted to ¥312 million, and would not have a material impact on the Company's earnings.

Interest Rate Risk

Of the Company's interest-bearing debt, ¥5,491 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 percent 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 loss, mainly because of the strong yen.

FOUR-YEAR SUMMARY OF SELECTED FINANCIAL DATA

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

	Millions of yen (except per share figures)				Thousands of U.S. dollars (except per share figures)[1]
	2003	2002	2001	2000	**2003**
For the year					
Orders	**¥203,038**	¥223,337	¥ 231,893	¥ 210,709	**$1,689,168**
Net sales	**202,419**	230,064	220,096	208,526	**1,684,018**
Information and network integration	**138,997**	165,557	156,873	146,158	**1,156,381**
Intelligent building and facility engineering	**22,559**	27,028	26,133	28,125	**187,679**
Operation and maintenance	**40,863**	37,478	37,089	34,242	**339,958**
Selling, general and administrative expenses	**17,418**	16,994	16,909	18,085	**144,908**
Operating income	**5,675**	4,526	8,745	5,562	**47,213**
Net income	**1,512**	617	3,018	1,292	**12,579**
Total assets	**116,289**	136,172	148,964	130,094	**967,463**
Shareholders' equity	**51,822**	51,134	51,107	47,765	**431,131**
Capital expenditures	**755**	1,506	686	1,010	**6,281**
Depreciation and amortization	**1,464**	1,099	1,033	1,001	**12,179**
Research and development costs	**58**	57	52	131	**482**
Per share figures (yen and U.S. dollars)					
Net income per share (EPS)[2]	**¥ 33.93**	¥ 13.15	¥ 70.40	¥ 30.27	**$ 0.28**
Shareholders' equity per share (BPS)	**1,202.58**	1,187.31	1,186.95	1,118.95	**10.00**
Cash flows per share (CFPS)	**67.95**	39.86	94.49	53.73	**0.56**
Cash dividends per share	**10.00**	12.50	12.50	10.00	**0.08**
Ratios and return indicators (%)					
Operating income to net sales	**2.8%**	2.0%	4.0%	2.7%	
Return on shareholders' equity (ROE)	**2.9**	1.2	6.1	2.7	
Return on assets (ROA)	**1.2**	0.4	2.2	1.0	
Shareholders' equity ratio	**44.6**	37.6	34.3	36.7	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120.20=U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2003.
2. A new accounting standard for earnings per share became effective April 1, 2002. See Note 13 of Notes to Consolidated Financial Statements (page 31) for details.

CONSOLIDATED BALANCE SHEETS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
As of March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents	**¥ 8,865**	¥ 15,460	**$ 73,752**
Short-term investments (Note 4)	**65**	65	**541**
Notes and accounts receivable:	**65,725**	79,070	**546,797**
Less allowance for doubtful receivables	**(1,083)**	(1,009)	**(9,010)**
Inventories (Note 5)	**16,455**	16,109	**136,897**
Deferred income taxes (Note 7)	**2,246**	2,376	**18,686**
Other current assets	**3,809**	3,718	**31,689**
Total current assets	**96,084**	115,792	**799,368**
Property and equipment:	**14,679**	14,733	**122,121**
Land	**2,806**	2,806	**23,344**
Buildings and structures	**6,900**	6,904	**57,404**
Machinery and vehicles	**132**	198	**1,098**
Furniture and fixtures	**4,632**	4,199	**38,536**
Construction in progress	**207**	624	**1,722**
Accumulated depreciation	**(6,266)**	(5,981)	**(52,130)**
Property and equipment, net	**8,412**	8,752	**69,983**
Investments and other assets:			
Investment in an unconsolidated subsidiary	**19**	19	**158**
Investment securities (Note 4)	**578**	821	**4,809**
Intangibles, net of allowance for amortization	**2,369**	2,546	**19,709**
Deferred income taxes (Note 7)	**3,662**	2,897	**30,466**
Other assets	**5,162**	5,342	**42,945**
Total investments and other assets	**11,791**	11,627	**98,095**
Total assets	**¥116,289**	¥136,172	**$967,463**

Liabilities and shareholders' equity	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 3) 2003
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 5,617**	¥ 5,811	**$ 46,730**
Notes and accounts payable	**33,999**	40,751	**282,854**
Advances received	**6,801**	9,616	**56,581**
Accrued income taxes (Note 7)	**887**	1,721	**7,379**
Other accounts payable	**—**	13,181	**—**
Other current liabilities	**6,813**	4,582	**56,681**
Total current liabilities	**54,119**	75,665	**450,241**
Long-term liabilities:			
Accrued employees' retirement benefits (Note 8)	**9,795**	8,730	**81,489**
Other liabilities	**7**	35	**58**
Total long-term liabilities	**9,803**	8,766	**81,556**
Minority interests in consolidated subsidiaries	**543**	605	**4,517**
Shareholders' equity (Notes 9 and 17):			
Common stock, without par value:			
Authorized — 100,000,000 shares			
Issued — 43,069,207 shares	**13,122**	13,122	**109,168**
Capital surplus	**12,622**	12,622	**105,008**
Retained earnings	**26,672**	25,670	**221,897**
Unrealized holding gain on securities	**36**	75	**300**
Foreign currency translation adjustments	**(614)**	(353)	**(5,108)**
	51,839	51,137	**431,273**
Treasury stock, at cost	**(17)**	(2)	**(141)**
Shareholders' equity, net	**51,822**	51,134	**431,131**
Contingent liabilities (Note 10)			
Total liabilities and shareholders' equity	**¥116,289**	¥136,172	**$967,463**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	**2003**
Net sales (Note 15)	**¥202,419**	¥230,064	**$1,684,018**
Cost of sales (Note 12)	**179,325**	208,544	**1,491,889**
Gross profit	**23,094**	21,520	**192,130**
Selling, general and administrative expenses (Note 12)	**17,418**	16,994	**144,908**
Operating income	**5,675**	4,526	**47,213**
Other income (expenses):			
Interest and dividend income	**141**	121	**1,173**
Interest expense	**(190)**	(264)	**(1,581)**
Exchange gain (loss)	**(764)**	228	**(6,356)**
Provision for doubtful receivables	**(136)**	(157)	**(1,131)**
Amortization of net retirement benefit obligation at transition	**(2,356)**	(2,663)	**(19,601)**
Gain on return of the substitutional portion of the welfare pension fund plan	**1,338**	—	**11,131**
Loss on disposal of inventories	**(397)**	—	**(3,303)**
Other, net	**19**	119	**158**
	(2,346)	(2,617)	**(19,517)**
Income before income taxes and minority interests	**3,329**	1,909	**27,696**
Income taxes (Note 7):			
Current	**2,321**	2,638	**19,309**
Deferred	**(606)**	(1,423)	**(5,042)**
	1,714	1,215	**14,260**
Minority interests	**102**	76	**849**
Net income (Note 13):	**¥ 1,512**	¥ 617	**$ 12,579**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized holding gains on securities	Foreign currency translation adjustment	Treasury stock
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)
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(51)**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(430)**	**—**	**—**	**—**
Net income for the year ended March 31, 2003	**—**	**—**	**—**	**1,512**	**—**	**—**	**—**
Decrease of consolidated subsidiaries	**—**	**—**	**—**	**(29)**	**—**	**—**	**—**
Unrealized holding gain on securities	**—**	**—**	**—**	**—**	**(39)**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**(261)**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(15)**
Balance at March 31, 2003	**43,069,207**	**¥13,122**	**¥12,622**	**¥26,672**	**¥ 36**	**¥(614)**	**¥(17)**

	Thousands of U.S. dollars (Note 3)					
	Common stock	Capital surplus	Retained earnings	Unrealized holding gains on securities	Foreign currency translation adjustment	Treasury stock
Balance at March 31, 2002	$109,168	$105,008	$213,561	$ 624	$(2,937)	$ (17)
Bonuses to directors and statutory auditors	**—**	**—**	**(424)**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**(3,577)**	**—**	**—**	**—**
Net income for the year ended March 31, 2003	**—**	**—**	**12,579**	**—**	**—**	**—**
Decrease of consolidated subsidiaries	**—**	**—**	**(241)**	**—**	**—**	**—**
Unrealized holding gain on securities	**—**	**—**	**—**	**(324)**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**(2,171)**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(125)**
Balance at March 31, 2003	**$109,168**	**$105,008**	**$221,897**	**$ 300**	**$(5,108)**	**$(141)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2003	2002	**2003**
Operating activities			
Income before income taxes and minority interests	**¥ 3,329**	¥ 1,909	**$ 27,696**
Depreciation and amortization	**1,464**	1,099	**12,180**
Amortization of excess of costs over net assets acquired	**(31)**	(31)	**(258)**
Provision for accrued employees' retirement benefits	**1,062**	2,438	**8,835**
Interest and dividend income	**(141)**	(121)	**(1,173)**
Interest expense	**190**	264	**1,581**
Equity in earnings of affiliates	**—**	(8)	**—**
Trade notes and accounts receivable	**13,091**	12,761	**108,910**
Inventories	**(362)**	2,698	**(3,012)**
Trade notes and accounts payable	**(6,706)**	(12,227)	**(55,790)**
Other	**(2,053)**	1,670	**(17,080)**
	9,843	10,452	**81,889**
Interest and dividends received	**138**	118	**1,148**
Interest paid	**(173)**	(265)	**(1,439)**
Income taxes paid	**(3,139)**	(5,195)	**(26,115)**
Net cash provided by operating activities	**6,668**	5,109	**55,474**
Investing activities			
Sales of short-term investments	**—**	10	**—**
Purchases of property and equipment	**(743)**	(1,485)	**(6,181)**
Sales of property and equipment	**28**	86	**233**
Purchases of intangibles, net of allowance for amortization	**(453)**	(1,049)	**(3,769)**
Purchases of investment securities	**(70)**	—	**(582)**
Sales of investment securities	**127**	7	**1,057**
Loans receivable made	**(52)**	(38)	**(433)**
Collection of loans receivable	**77**	32	**641**
Other	**(168)**	(39)	**(1,398)**
Net cash used in investing activities	**(1,256)**	(2,476)	**(10,449)**
Financing activities			
Decrease in short-term bank loans	**(166)**	(520)	**(1,381)**
Repayment of long-term debt	**(11,292)**	—	**(93,943)**
Cash dividends paid	**(434)**	(643)	**(3,611)**
Other	**(25)**	(18)	**(208)**
Net cash used in financing activities	**(11,917)**	(1,182)	**(99,143)**
Effect of exchange rate changes on cash and cash equivalents	**(163)**	97	**(1,356)**
Net increase in cash and cash equivalents	**(6,668)**	1,547	**(55,474)**
Cash and cash equivalents at beginning of the year	**15,460**	13,912	**128,619**
Increase due to the inclusion of subsidiaries in consolidation	**74**	—	**616**
Cash and cash equivalents at end of the year	**¥ 8,865**	¥15,460	**$ 73,752**
Supplemental information:			
Conversion of convertible bonds into common stock and capital surplus	**¥ —**	¥ 20	**$ —**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
March 31, 2003

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.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

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 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.

c. Cash equivalents

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

d. Securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. 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. Cost of securities sold is determined by the moving average method.

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 vehicles	5 years
Furniture and fixtures	2 to 20 years

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

g. Allowance for doubtful receivables

The allowance for doubtful receivables is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

h. Leases

Non-cancelable lease transactions 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.

i. Research and development costs

Research and development costs are charged to income as incurred.

j. Retirement benefits

Accrued employees' retirement benefits are 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 is 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 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. Prior service cost is being amortized as incurred by the straight-line method over the average remaining years of service of the employees.

See Note 8 for the method of accounting for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under Welfare Pension Fund Plan.

k. 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.

l. Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period and, therefore, the accounts for the period do not reflect such appropriations. See Note 17.

m. 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.

n. 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.

o. Treasury stock and reduction of legal reserves

Effective April 1, 2002, the Company adopted a new accounting standard for treasury stock and reduction of legal reserves. The effect of the adoption of this new standard was immaterial.

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 ¥120.20 = U.S.$1.00, the approximate rate of exchange on March 31, 2003. 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. SECURITIES

a) The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2003 and 2002 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2003	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	**¥ 73**	**¥147**	**¥ 74**	**$ 607**	**$1,223**	**$ 616**
Debt securities	**5**	**5**	**0**	**42**	**42**	**0**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**78**	**152**	**74**	**649**	**1,265**	**616**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**176**	**164**	**(12)**	**1,464**	**1,364**	**(100)**
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**176**	**164**	**(12)**	**1,464**	**1,364**	**(100)**
Total	**¥255**	**¥317**	**¥ 61**	**$2,121**	**$2,637**	**$ 507**

	Millions of yen		
March 31, 2002	Acquisition cost	Carrying value	Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥125	¥267	¥141
Debt securities	9	9	0
Other	—	—	—
Subtotal	134	276	141
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	225	213	(11)
Debt securities	—	—	—
Other	84	84	—
Subtotal	310	298	(11)
Total	¥445	¥575	¥129

b) Sales of securities classified as other securities for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Proceeds from sales	**¥134**	¥10	**$1,115**
Gains on sales	**6**	2	**50**
Losses on sales	**17**	—	**141**

c) The components of non-marketable securities classified as other securities at March 31, 2003 and 2002 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Other securities:			
Unlisted securities (except for OTC securities)	**¥266**	¥265	**$2,213**
Other	**6**	67	**50**
Total	**¥273**	¥333	**$2,271**

d) The redemption schedule for securities with maturity dates classified as other securities as of March 31, 2003 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2003	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	**¥5**	**¥—**	**¥—**	**$42**	**$—**	**$—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥5**	**¥—**	**¥—**	**$42**	**$—**	**$—**

5. INVENTORIES

Inventories at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Work in process	**¥16,176**	¥15,721	**$134,576**
Purchased goods, materials and supplies	**278**	388	**2,313**
	¥16,455	¥16,109	**$136,897**

6. 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, 2003 and 2002 were approximately 2.0% and 3.2%, respectively.

7. 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 42.1% for both 2003 and 2002. 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, 2003 and 2002 differ from the statutory tax rate for the following reasons:

	2003	2002
Statutory tax rate	**42.1%**	42.1%
Effect of:		
Expenses not deductible for income tax purposes	**4.8**	11.5
Dividend income deductible for income tax purposes	**(0.7)**	(0.9)
Inhabitants tax per capita levy	**2.6**	4.3
Adjustment in deferred tax assets and liabilities due to the change in tax rates	**4.3**	—
Other, net	**(1.6)**	6.7
Effective tax rates	**51.5%**	63.7%

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 42.1% to 40.5% effective the fiscal year beginning after March 31, 2004. The effect of this tax rate change was to decrease deferred tax assets by ¥141 million ($1,173 thousand) at March 31, 2003 and to increase income tax – deferred by ¥141 million ($1,173 thousand) for the year ended March 31, 2003.

The significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Accrued bonuses	**¥1,187**	¥ 813	**$ 9,875**
Allowance for doubtful receivables	**555**	470	**4,617**
Accrued enterprise tax	**64**	150	**532**
Notes and accounts receivable	**116**	684	**965**
Unrealized profit on inventories	**9**	10	**75**
Foreign tax credits	**311**	232	**2,587**
Accrued retirement benefits	**3,321**	2,713	**27,629**
Other	**370**	258	**3,078**
	5,936	5,333	**49,384**
Deferred tax liabilities:			
Advanced depreciation of property and equipment	**(1)**	(1)	**(8)**
Unrealized holding gain on securities	**(25)**	(54)	**(208)**
Other	**(1)**	(3)	**(8)**
	(27)	(59)	**(224)**
Net deferred tax assets	**¥5,908**	¥5,273	**$49,151**

8. RETIREMENT BENEFIT PLANS

The Company and certain consolidated subsidiaries have defined benefit plans, i.e., Welfare Pension Fund Plans ("WPFP") 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, 2003 and 2002 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Retirement benefit obligation	**¥(27,734)**	¥(35,361)	**$(230,732)**
Plan assets at fair value	**6,843**	14,929	**56,930**
Unfunded retirement benefit obligation	**(20,890)**	(20,432)	**(173,794)**
Unrecognized actuarial loss	**7,938**	5,867	**35,574**
Unrecognized prior service cost	**(1,119)**	(2,155)	**(9,309)**
Unrecognized net retirement benefit obligation at transition	**4,276**	7,989	**66,040**
Accrued employees' retirement benefits	**¥ (9,795)**	¥ (8,730)	**$ (81,489)**

Following the enactment of the Welfare Pension Insurance Law in Japan, on September 1, 2002 the Welfare Pension Fund, in which the Company and its domestic consolidated subsidiaries participate, obtained an approval from the Minister of Health, Labor and Welfare for exemption from the future benefit obligation with respect to the portion of the Employees Pension Fund that the Company and its domestic consolidated subsidiaries operate on behalf of the Government (the so-called substitutional portion).

In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WPFP as of the date of approval of its exemption assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and related pension plan assets had been completed as of that date. As a result, the Company recognized a gain of ¥1,338 million ($11,131 thousand) for the year ended March 31, 2003. The pension assets which are to be transferred were calculated at ¥6,765 million ($56,281 thousand) at March 31, 2003.

The components of retirement benefit expenses for the years ended March 31, 2003 and 2002 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥ 1,429**	¥ 1,596	**$ 11,889**
Interest cost	**1,017**	1,127	**8,461**
Expected return on plan assets	**(633)**	(815)	**(5,266)**
Amortization of actuarial loss	**264**	178	**2,196**
Amortization of prior service cost	**(99)**	(134)	**(824)**
Amortization of net retirement benefit obligation at transition	**2,356**	2,663	**19,601**
Subtotal	**4,334**	4,617	**36,057**
Gain on return of the substitutional portion of WPFP	**(1,338)**	—	**(11,131)**
Total	**¥ 2,995**	¥4,617	**$ 24,917**

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

	2003	2002
Discount rate	**3.0%**	3.5%
Expected return on plan assets	**5.5%**	5.5%

9. 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 ($4,542 thousand) as of both March 31, 2003 and 2002.

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.

10. CONTINGENT LIABILITIES

At March 31, 2003, the Company was contingently liable as guarantor of indebtedness of a third party and the Company's employees in the aggregate amount of ¥2,030 million ($16,889 thousand).

11. 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, 2003 and 2002, 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
	2003	2002	**2003**
Acquisition costs:			
Machinery and vehicles	**¥ 199**	¥ 222	**$ 1,656**
Furniture and fixtures	**3,525**	4,319	**29,326**
	¥3,724	¥4,541	**$30,982**
Accumulated depreciation:			
Machinery and vehicles	**¥ 105**	¥ 129	**$ 873**
Furniture and fixtures	**1,833**	1,929	**15,250**
	¥1,938	¥2,058	**$16,123**
Net book value:			
Machinery and vehicles	**¥ 95**	¥ 92	**$ 790**
Furniture and fixtures	**1,692**	2,390	**14,077**
	¥1,787	¥2,483	**$14,867**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,120 million ($9,318 thousand) and ¥1,312 million for the years ended March 31, 2003 and 2002, 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 ¥977 million ($8,128 thousand) and ¥79 million ($657 thousand), respectively, for the year ended March 31, 2003 and ¥1,214 million and ¥110 million, respectively, for the year ended March 31, 2002.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 876**	¥1,090	**$ 7,288**
Due over one year	**966**	1,588	**8,037**
Total	**¥1,843**	¥2,678	**$15,333**

b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2003 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥20**	¥24	**$166**
Due over one year	**35**	38	**291**
Total	**¥56**	¥63	**$466**

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥58 million ($483 thousand) and ¥57 million for the years ended March 31, 2003 and 2002, respectively.

13. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2003	2002	**2003**
Net income	**¥ 33.93**	¥ 13.15	**$0.28**
Cash dividends applicable to the year	**10.00**	12.50	**0.08**
Net assets	**1,202.58**	1,186.13	**10.00**

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, net income per share for the year ended March 31, 2003 was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and amounts per share of net assets at March 31, 2003 was computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Net income per share and amount per share of net assets for the year ended March 31, 2002 have been recomputed based on this new accounting standard and are restated in the accompanying financial statements.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

14. 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, 2003 and 2002, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

15. RELATED PARTY TRANSACTIONS

The Company is a majority-owned subsidiary of NEC Corporation (“NEC”). Consolidated net sales included those to NEC in amounts of ¥53,271 million ($443,186 thousand) and ¥67,427 million for the years ended March 31, 2003 and 2002, respectively. In addition, the Company purchased communications equipment and other from NEC in amounts of ¥48,149 million ($400,574 thousand) and ¥51,180 million during the years ended March 31, 2003 and 2002, respectively.

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

16. 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, 2003 and 2002 is summarized as follows:

	Millions of yen					
Year ended March 31, 2003	Information and network integration	Intelligent building and facility engineering	Operation and maintenance	Total	Eliminations or Corporate	Consolidated
I. Sales:						
(1) Sales to third parties	**¥138,997**	**¥22,559**	**¥40,863**	**¥202,419**	**¥ —**	**¥202,419**
(2) Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**138,997**	**22,559**	**40,863**	**202,419**	**—**	**202,419**
Operating expenses	**132,448**	**21,057**	**37,516**	**191,062**	**5,681**	**196,743**
Operating income	**¥ 6,508**	**¥ 1,501**	**¥ 3,346**	**¥ 11,357**	**¥(5,681)**	**¥ 5,675**
II. Assets, depreciation expenses, capital expenditures:						
Assets	**¥ 67,135**	**¥11,692**	**¥10,467**	**¥ 89,295**	**¥26,993**	**¥116,289**
Depreciation expenses	**238**	**5**	**381**	**625**	**840**	**1,465**
Capital expenditures	**220**	**0**	**413**	**634**	**584**	**1,218**

Year ended March 31, 2003	Information and network integration	Intelligent building and facility engineering	Operation and maintenance	Total	Eliminations or Corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales:						
(1) Sales to third parties	**$1,156,381**	**$187,679**	**$339,958**	**$1,684,018**	**$ —**	**$1,684,018**
(2) Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**1,156,381**	**187,679**	**339,958**	**1,684,018**	**—**	**1,684,018**
Operating expenses	**1,101,897**	**175,183**	**312,113**	**1,589,534**	**47,263**	**1,636,797**
Operating income	**$ 54,143**	**$ 12,488**	**$ 27,837**	**$ 94,484**	**$(47,263)**	**$ 47,213**
II. Assets, depreciation expenses, capital expenditures:						
Assets	**$ 558,527**	**$ 97,271**	**$ 87,080**	**$ 742,887**	**$224,567**	**$ 967,463**
Depreciation expenses	**1,980**	**42**	**3,170**	**5,200**	**6,988**	**12,188**
Capital expenditures	**1,830**	**0**	**3,436**	**5,275**	**4,859**	**10,133**

Year ended March 31, 2002	Information and network integration	Intelligent building and facility engineering	Operation and maintenance	Total	Eliminations or Corporate	Consolidated
	Millions of yen					
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 expenses, capital expenditures:						
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

Geographical segments

As net sales and total assets of the foreign operations constituted less than 10% of the consolidated totals for the years ended March 31, 2003 and 2002, the disclosure of geographical segment information has been omitted.

Overseas sales

As overseas sales constituted less than 10% of the consolidated net sales for the year ended March 31, 2003, the disclosure of overseas sales information was omitted.

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:

Year ended March 31, 2002	Asia	South America	Other	Total
	Millions of yen			
Overseas sales	¥18,901	¥6,185	¥5,350	¥ 30,438
Consolidated net sales	—	—	—	230,064
Ratio of overseas sales to consolidated net sales	8.2%	2.7%	2.3%	13.2%

17. SUBSEQUENT EVENTS

(i) 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, 2003, were approved at a meeting of the shareholders held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 = $0.042 per share)	¥215	$1,789
Bonuses to directors and statutory auditors	51	424

(ii) On June 27, 2003, the shareholders approved a stock repurchase plan as described below:

a) Class of shares to be repurchased: Shares of common stock of the Company

b) Aggregate number of shares to be repurchased: Up to 21,500,000 shares (5% of the outstanding shares)

c) Aggregate amount of repurchase price: Not to exceed ¥2,000 million

REPORT OF INDEPENDENT AUDITORS

Shin Nihon & Co.

Certified Public Accountants
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho,
Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

Phone:03 3503-1100
Fax: 03 3503-1197

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

We have audited the accompanying consolidated balance sheets of NEC System Integration & Construction, Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NEC System Integration & Construction, Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. 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, 2003

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. and consolidated subsidiaries under Japanese accounting principles and practices.

DIRECTORS AND CORPORATE AUDITORS

(as of June 27, 2003)

DIRECTORS

PRESIDENT

Yukihiko Baba

SENIOR VICE PRESIDENTS

Hitoshi Kinoshita
In charge of Networks Operations Unit, Plant Engineering Division, and SI & Services Operations Unit

Hideaki Kihara
In charge of Administration Division, Personnel Relations Division, New Business Promotion Office, Information Systems Division, Staff Center Corporate Planning Division, and Corporate Finance & Controller Division

Sadao Harada
In charge of Purchasing Division and Regional Operations Group

Hiroshi Watanabe
In charge of Marketing & Sales Development Unit

Yukio Yamazaki

CORPORATE AUDITORS

Mamoru Kataoka (full-time)
Tsunatoshi Sakakura (full-time)
Kunitomo Matsuoka
Yasuo Matoi

NETWORK

(as of March 31, 2003)

Head Office:

1-39-9 Higashishinagawa, Shinagawa-ku,
Tokyo 140-8620, Japan
Tel: +81-3-5463-1111
Fax: +81-3-5463-7781
http://www.nesic.co.jp

Domestic Regional Offices:

Hokkaido, Tohoku, Shinetsu, Kitakanto, Chiba, Kanagawa, Shizuoka, Chubu, Hokuriku, Kansai, Keiji, Kobe, Shikoku, Kyushu

Overseas Representative Offices

Brazil, Chile, Thailand, Philippines, Indonesia, China

Subsidiaries and Affiliates:

NESIC BRASIL S/A
Head Office: São Paulo
Established: November 1, 1976

NESIC CHILE S.A.
Head Office: Santiago
Established: December 4, 1989

NESIC (Thailand) Ltd.
Head Office: Bangkok
Established: March 7, 1991

NESIC PHILIPPINES, INC.
Head Office: Manila
Established: April 10, 1991

P.T. NESIC BUKAKA
Head Office: Jakarta
Established: May 10, 1993

NESIC (GUANGZHOU) CO., LTD.
Head Office: Guangzhou
Established: August 4, 1998

INVESTOR INFORMATION

(as of March 31, 2003)

NEC SYSTEM INTEGRATION & CONSTRUCTION, LTD.

Established:
November 26, 1953

Number of Employees:
3,163 (non-consolidated)
4,331 (consolidated)

Fiscal Year:
April 1 — March 31
Annual meeting held in June

Common Stock Authorized:
100,000,000 shares

Issued:
43,069,207 shares

Number of Shareholders:
17,138

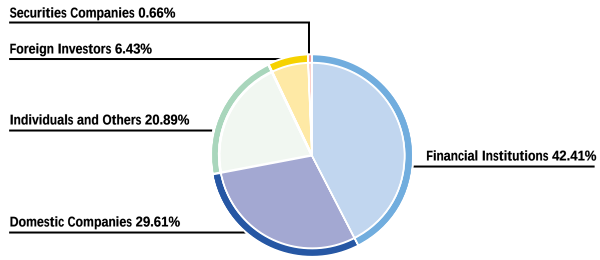
Paid-in Capital:
¥13,122 million

Listing:
The Tokyo Stock Exchange, First Section
(Ticker Code: 1973)

Transfer Agent:
The Sumitomo Trust and Banking Company, Limited
4-4 Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8233, Japan

Independent Auditor:
Shin Nihon & Co.

Distribution of Shareholders:

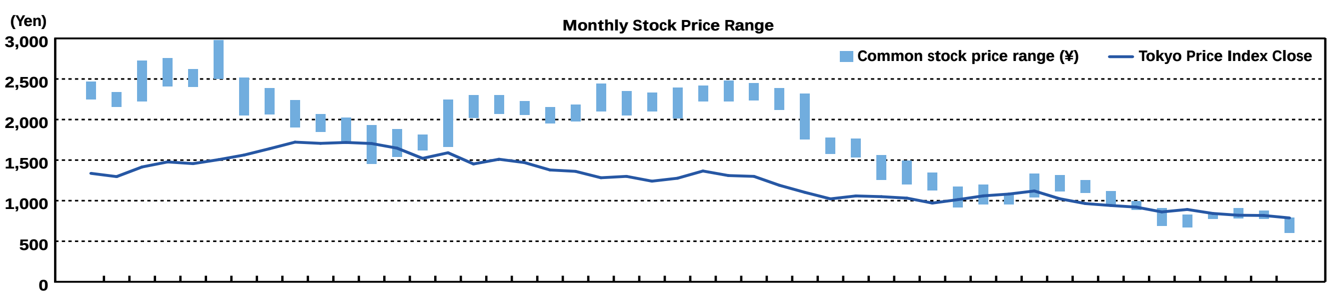


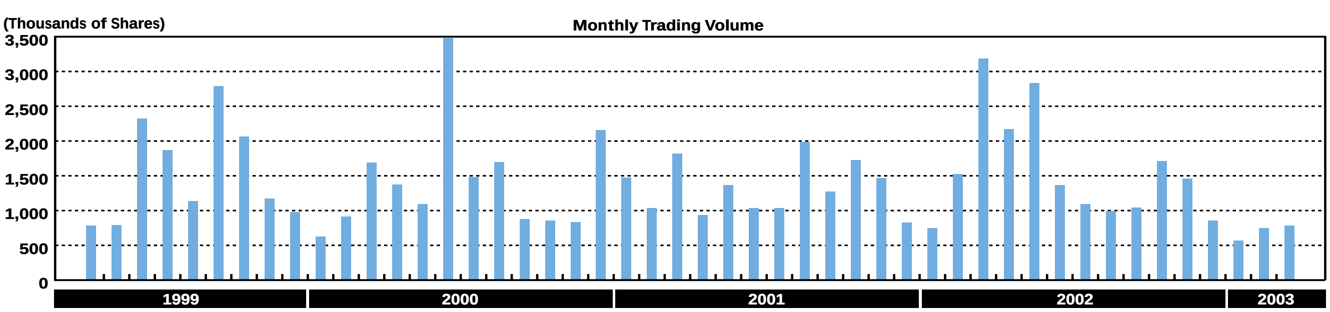
Major Shareholders:

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding
NEC Corporation	11,291	26.22%
Japan Trustee Services Bank, Ltd. (re-entrustment of portion of NEC Corporation retirement benefit trust account held by The Sumitomo Trust and Banking Company, Limited)	6,400	14.86
Japan Trustee Services Bank, Ltd. (trust account)	2,860	6.64
The Master Trust Bank of Japan, Ltd. (trust account)	2,069	4.81
Sumitomo Realty & Development Co., Ltd.	1,200	2.79
Employees' Stock Ownership Plan	860	2.00
UFJ Trust Bank Limited (trust account A)	633	1.47
The Sumitomo Trust and Banking Company, Limited (trust account B)	507	1.18
Trust & Custody Services Bank, Ltd. (trust account A)	491	1.14
The Chase Manhattan Bank 380560	476	1.11

Note: In a Notification of Change (notification under Article 27-26-2 of the Securities and Exchange Law) dated March 12, 2003 and submitted by Nomura Securities Co., Ltd., the Company received notification that Nomura Asset Management Co., Ltd. held 3,053 thousand shares of the Company's stock as of February 28, 2003. However, the Company was unable to determine the actual number of shares held as of March 31, 2003.

MONTHLY STOCK DATA (TOKYO STOCK EXCHANGE)





NEC System Integration & Construction, Ltd.
1-39-9 Higashishinagawa, Shinagawa-ku, Tokyo 140-8620, Japan
http: //www.nesic.co.jp

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