Empowered by Innovation NEC

Annual Report 2004

Year Ended March 31, 2004



Intelligence Adds Value, Added Value Generates Growth



NEC System Integration & Construction, Ltd.

PROFILE

As a leading systems integrator since its establishment in 1953, NEC System Integration & Construction, Ltd. (NESIC) has been a driving force of the information society, growing in tandem with telecommunications and information networks in Japan. NESIC is an industry leader in offering a wide range of systems integration solutions that meet customer requirements, from consultation and design to software development, system implementation and equipment supply. The Company's expertise also includes maintenance and operation of systems and related facilities.

In addition to its dominant domestic position, NESIC has a major presence in overseas markets, with system construction and facility engineering operations in more than 150 countries and territories.

The market for information and communications solutions continues to expand, with the shift toward broadband, Internet protocol (IP), mobile, digital and other technologies. NESIC is well-positioned to provide 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]
	2004	2003	2002	**2004**
For the year:				
Net sales	**¥194,012**	¥202,419	¥230,064	**$1,835,670**
Operating income	**4,419**	5,675	4,526	**41,811**
Net income	**500**	1,512	617	**4,731**
At year-end:				
Total assets	**¥118,416**	¥116,289	¥136,172	**$1,120,409**
Shareholders' equity	**50,971**	51,822	51,134	**482,269**
Per share of common stock (yen and U.S. dollars):				
Net income[2] (basic)	**¥ 10.87**	¥ 33.93	¥ 13.15	**$ 0.10**
Cash dividends	**10.00**	10.00	12.50	**0.10**
Ratios:				
Operating income to net sales	**2.3%**	2.8%	2.0%	
Net income to net sales	**0.3**	0.7	0.3	
Return on shareholders' equity	**1.0**	2.9	1.2	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥105.69=U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2004.
2. A new accounting standard for amounts per share became effective April 1, 2002. See Note 13 of Notes to Consolidated Financial Statements (page 21) 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.

TO OUR SHAREHOLDERS

NEC System Integration & Construction, Ltd. (NESIC) is implementing structural reforms throughout the company in shifting to high-value-added businesses. We are accelerating our shift to the solutions business to respond adeptly to the rapid changes taking place in the business environment and seize opportunities created by these changes. Through these steps, we will increase NESIC's corporate value.

PERFORMANCE DURING THE YEAR TO MARCH 31, 2004

During the fiscal year ended March 31, 2004, NESIC's business environment remained challenging. Domestically, the national government's "e-Japan Project" supported continued firm regional government investment in information systems. In the second half of the fiscal year, information technology (IT) investment among private-sector companies rebounded from previous low levels on the strength of improved corporate performance. However, telecommunications carriers continued to limit their investment in regional and mobile services. Overseas, the appreciation of the yen led to additional foreign exchange risk. In addition, competition for orders intensified, as did customer demands for lower prices.

Yukihiko Baba
President

Given this challenging business environment, NESIC worked to strengthen its ability to sell and deliver total solution services that meet customer needs. We focused on providing network and IT systems, with an emphasis on broadband networks and VoIP* systems, as well as related maintenance, outsourcing and other services.

For the year ended March 31, 2004, orders received decreased 3.4 percent, year-on-year, to ¥196,123 million. Net sales decreased 4.2 percent, year-on-year, to ¥194,012 million. The construction of advanced information network systems for regional governments as part of the e-Japan Project was firm, though less than expected. In the second half of the fiscal year, however, demand was strong for construction of network systems and related maintenance, outsourcing and other services for private-sector companies, particularly in the financial industry and information service industry. In the first half of the period, IT investment among private-sector companies was weak and telecommunications carriers held down capital investment. This caused a drop in orders for construction of backbone networks for local telecommunications companies and for construction of mobile base stations. Overseas orders decreased because of the appreciation of the yen. The absence of large orders received in the previous fiscal year also contributed to the year-on-year decrease in orders.

NESIC also focused on reforming its procurement processes and making innovations in construction technology to achieve cost reductions that exceed the pace of decline in market prices. Due to the impact of intensifying competition and lower selling prices, however, the gross margin decreased 20 basis points to 11.2 percent, and operating income decreased 22.1 percent, year-on-year, to ¥4,419 million.

NESIC recorded net other expenses totaling ¥3,055 million, primarily in connection with the amortization of its net retirement benefit obligation at transition and loss on return of the substitutional portion of the welfare pension fund plan. Consequently, net income decreased 66.9 percent, year-on-year, to ¥500 million. NESIC maintained cash dividends at ¥10.00 per share, the same as in the previous fiscal year.

*VoIP: Voice over Internet Protocol

KEY INITIATIVES DURING THE PAST FISCAL YEAR

NESIC operates in the IT market. Competition has intensified as companies from other sectors have entered this market. In addition, customers are becoming more assertive in demanding lower prices.

In this business environment, NESIC has promoted the measures discussed below in working to raise profitability and enhance growth in several areas.

STRENGTHENING SALES

Starting in April 2003, NESIC promoted the organizational reform of its sales divisions. Previously, sales divisions were organized along lines of business. NESIC separated and integrated these divisions to establish the Sales Operations Division. NESIC also established the System Engineering Sales Department within the Sales Operations Division to focus on system engineering functions. These moves created synergy by concentrating the sales divisions while strengthening and solidifying NESIC's emphasis on profit. Furthermore, they enhanced NESIC's ability to offer solutions to customers, enabling us to deepen ties with existing customers and develop relationships with new customers.

NESIC also strengthened customer service, which is central to sales activities. NESIC consistently takes the perspective of customers, and has created a company-wide contact and reporting system and built a framework to swiftly respond to customer requirements.

DEVELOPING ALLIANCE BUSINESSES

NESIC has been aggressively promoting alliances with strong vendors in Japan and overseas with an emphasis on the security and VoIP sectors. This approach combines the complementary technological strengths of NESIC and each alliance partner to create synergy. NESIC and its alliance partners also worked to expand the market by sharing their existing users. Looking forward, NESIC plans to maintain and build on this strategy.

COST REDUCTION ACTIVITIES

For some time, NESIC has been taking measures to reduce its costs to counter downward pressure on market prices. During the past fiscal year, NESIC continued to promote outsourcing of labor as well as concentrated, centralized purchasing of materials to reduce costs. Other efforts to raise profitability included innovating and executing construction technology and internalizing production.

MANAGEMENT POLICIES FOR THE YEAR ENDING MARCH 31, 2005

In the network and IT fields in Japan, NESIC's main business domain, telecommunications carriers continue to restrain capital investment. However, investment in the construction of local government-related public networks in connection with the e-Japan Project and investment related to the ongoing shift at the regional level to terrestrial digital broadcasting are projected to remain firm.

Moreover, the shift to broadband networks and the evolution of IP is enabling the integration of voice, data and image transmission via IP networks. As a result, companies that are working to raise management efficiency and lower communication costs have a broader range of options for incorporating IT into their in-house systems. In addition, the move to open and more complex networks is creating growing needs in areas including outsourcing services that contribute to higher asset efficiency and security measures that address problems such as viruses, improper access and information leaks.

Under this business model characterized by major change, NESIC will work to increase its participation in growth sectors. In addition to strengthening its relationships with NEC Corporation and the companies of the NEC Group, NESIC will enhance its competitive strength and expand orders by promoting alliances with domestic and overseas vendors of highly competitive network equipment, telecommunications carriers, Internet service providers and other firms.

Moreover, the voice-related IP-PBX business and the server business are both undergoing immense change. NESIC has many years of experience in these businesses and a well-developed base of sophisticated voice technologies. We are therefore well equipped to respond to the move to IP by aggressively developing solutions that integrate voice and data. We are also working to expand business operations in which we apply IT technology, with an emphasis on servers and software.

Until now, NESIC's core business has been the construction of telecommunications and electrical facilities. We will respond to competition in these areas by further raising the quality of construction and innovating construction technology, while also boosting competitiveness by steadily implementing cost reduction measures.

In overseas operations, the appreciation of the yen is cause for concern regarding foreign exchange risk, and demand for telecommunications infrastructure projects overseas has been weak. We will therefore prudently work to generate orders, and will shift resources to growth sectors in Japan. Moreover, we will reduce material costs by standardizing, concentrating and consolidating purchasing to respond to this intensely competitive environment. We will also put substantial effort into innovation of construction technology and enhancement of cost efficiency, while also implementing measures to achieve cost reductions that exceed the pace of decline in market prices.

STRENGTHENING CORPORATE GOVERNANCE AND COMPLIANCE

NESIC works to ensure that the number of directors is appropriate for responding adeptly to changes in its business environment. We seek to engender sound, transparent management through timely, appropriate disclosure and a management system capable of swiftly arriving at decisions. In addition, we have worked to strengthen management and administration functions. We established the Executive Committee to deliberate on primary management policies, and the Business Execution Committee to discuss measures for key management and operational issues, business plans and the status of their execution. Moreover, NESIC has clearly separated supervision and business execution by introducing an executive officer system. Under our auditing system, corporate auditors attend Board of Directors meetings and other important meetings and conduct rigorous oversight of the directors' execution of their duties.

NESIC is also strengthening compliance and ensuring thorough implementation. We have formulated the NESIC Corporate Behavior Charter and the NESIC Corporate Activities Code and established the Corporate Behavior Subcommittee to provide a thorough legal and ethical basis for corporate activities. In October 2003, NESIC established the Business Morals Committee within the Corporate Behavior Subcommittee, and in April 2004 established the Corporate Activities Promotion Department within the General Affairs Division as part of its steady efforts to ensure thorough compliance.

MAXIMIZING CORPORATE VALUE THROUGH FURTHER MANAGEMENT REFORM

NESIC celebrated the fiftieth anniversary of its establishment on December 1, 2003, and I would like to thank everyone for their assistance and support. To continue growing, the entire company will strongly promote business structure reforms to further improve overall management efficiency and raise our corporate value. These endeavors are our responsibility to all stakeholders, including shareholders, customers, employees and society.

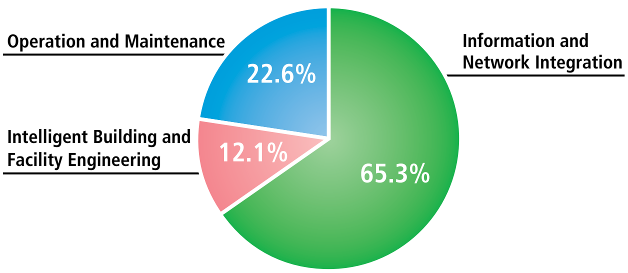
We appreciate the support we have received from our shareholders, and remain committed to earning their trust.

Yukihiko Baba

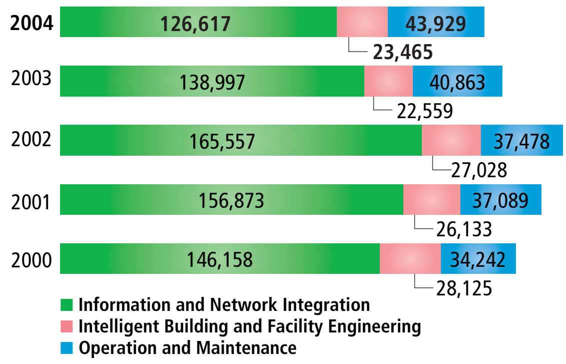
YUKIHIKO BABA
PRESIDENT

MANAGEMENT'S DISCUSSION & ANALYSIS OF OPERATIONS

COMPOSITION OF NET SALES BY BUSINESS SEGMENT
(Year ended March 31, 2004)



NET SALES BY SEGMENT
(Millions of yen)



INFORMATION AND NETWORK INTEGRATION

Orders received decreased 7.7 percent to ¥127,462 million. Orders for systems for regional telecommunication companies decreased. Orders from broadcasting companies for systems were also down in terms of size and volume from the previous fiscal year.

Segment sales decreased 8.9 percent, year-on-year, to ¥126,617 million. Although sales of corporate systems increased in the second half, mobile and terrestrial telecommunications carriers restrained capital investment and overseas sales decreased. Segment operating income decreased 17.7 percent to ¥5,356 million.

INTELLIGENT BUILDING AND FACILITY ENGINEERING

Orders received decreased 8.0 percent, year-on-year, to ¥21,957 million. Orders for telecommunications infrastructure decreased in Asia, and facility orders from financial institutions and other corporate customers were down. Segment sales increased 4.0 percent to ¥23,465 million. While corporate and overseas sales decreased, sales to regional governments for construction of information infrastructure related to the e-Japan Project increased. Segment operating income decreased 49.7 percent, year-on-year, to ¥755 million.

OPERATION AND MAINTENANCE

Orders received increased 13.9 percent, year-on-year, to ¥46,703 million. Orders from regional governments for network operation and maintenance related to the e-Japan Project increased, as did orders from private-sector companies for network system maintenance and outsourcing services, particularly among service companies.

Segment sales increased 7.5 percent to ¥43,929 million. Sales of network system maintenance and outsourcing services to telecommunications carriers and other corporate customers increased, as did sales to regional governments for network operation and maintenance related to the e-Japan Project. Segment operating income increased 4.5 percent to ¥3,498 million.

FIVE-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]
	2004	2003	2002	2001	2000	**2004**
For the year:						
Orders	**¥196,123**	¥203,038	¥223,337	¥ 231,893	¥ 210,709	**$1,855,644**
Net sales	**194,012**	202,419	230,064	220,096	208,526	**1,835,670**
Information and network integration	**126,617**	138,997	165,557	156,873	146,158	**1,198,004**
Intelligent building and facility engineering	**23,465**	22,559	27,028	26,133	28,125	**222,017**
Operation and maintenance	**43,929**	40,863	37,478	37,089	34,242	**415,640**
Selling, general and administrative expenses	**17,263**	17,418	16,994	16,909	18,085	**163,336**
Operating income	**4,419**	5,675	4,526	8,745	5,562	**41,811**
Net income	**500**	1,512	617	3,018	1,292	**4,731**
Capital expenditures	**1,120**	755	1,506	686	1,010	**10,597**
Depreciation and amortization	**1,455**	1,464	1,099	1,033	1,001	**13,766**
Research and development costs	**290**	58	57	52	131	**2,744**
At year-end:						
Total assets	**¥118,416**	¥116,289	¥136,172	¥148,964	¥ 130,094	**$1,120,409**
Shareholders' equity	**50,971**	51,822	51,134	51,107	47,765	**482,269**
Per share of common stock (yen and U.S. dollars):						
Net income (EPS)[2]	**¥ 10.87**	¥ 33.93	¥ 13.15	¥ 70.40	¥ 30.27	**$ 0.10**
Shareholders' equity (BPS)	**1,213.62**	1,202.58	1,187.31	1,186.95	1,118.95	**11.48**
Cash flows (CFPS)	**45.00**	67.95	39.86	94.49	53.73	**0.43**
Cash dividends	**10.00**	10.00	12.50	12.50	10.00	**0.10**
Ratios and return indicators (%):						
Operating income to net sales	**2.3%**	2.8%	2.0%	4.0%	2.7%	
Return on shareholders' equity (ROE)	**1.0**	2.9	1.2	6.1	2.7	
Return on assets (ROA)	**0.4**	1.2	0.4	2.2	1.0	
Shareholders' equity ratio	**43.0**	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 ¥105.69=U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2004.
2. A new accounting standard for amounts per share became effective April 1, 2002. See Note 13 of Notes to Consolidated Financial Statements (page 21) for details.

MANAGEMENT’S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION

NESIC and its nine consolidated subsidiaries (together, the NESIC Group) provide solutions for the telecommunications and information network sectors. Operations center on the construction and maintenance of telecommunications and information systems and related facilities, and include operation and monitoring of customer networks.

REVIEW OF CONSOLIDATED OPERATIONS

Net Sales

The business environment remained challenging during the fiscal year ended March 31, 2004. Domestically, the national government’s “e-Japan Project” supported continued firm regional government investment in information systems. Information technology (IT) investment among private-sector companies rebounded from previous low levels during the second half of the fiscal year, reflecting improved corporate performance. However, telecommunications carriers continued to restrain their capital investment in regional and mobile services. Overseas, the NESIC Group incurred additional foreign exchange risk due to the appreciation of the yen. In addition, competition for orders intensified, as did customer demands for lower prices.

Orders received decreased 3.4 percent, year-on-year, to ¥196,123 million. In the first half of the period, IT investment among private-sector companies decreased and telecommunications companies curtailed capital investment. This caused a drop in orders for construction of backbone networks for regional telecommunications companies and for construction of mobile communication base stations. Overseas orders decreased because of the appreciation of the yen. Orders also decreased, year-on-year, because of the absence of large-scale orders received in the previous fiscal year.

Net sales decreased 4.2 percent, year-on-year, to ¥194,012 million. Domestic sales decreased 2.8 percent to ¥188,512 million, while overseas orders decreased 35.8 percent to ¥5,499 million. NESIC is a majority-owned subsidiary of NEC Corporation (NEC). Consolidated net sales included sales to NEC totaling ¥54,669 million. Sales to NEC accounted for 28.2 percent of net sales, compared to 26.3 percent for the previous fiscal year.

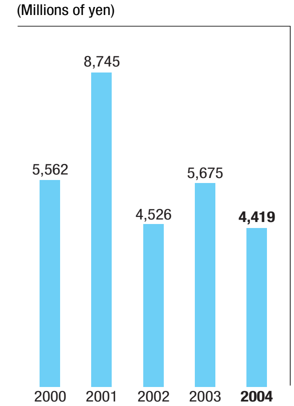
Operating Income

Gross profit decreased 6.1 percent, year-on-year, to ¥21,682 million, due to the decrease in net sales, the downward pressure on prices resulting from intensified competition, and the lower profitability of overseas projects. The gross margin decreased to 11.2 percent from 11.4 percent for the previous fiscal year. Compared with the previous term, selling, general and administrative expenses decreased 0.9 percent to ¥17,263 million. The NESIC Group had to begin paying royalties for the use of the NEC trademark during the past fiscal year, and in addition, research and development costs increased. However, the NESIC Group reduced personnel and overhead expenses by ¥721 million.

As a result, operating income decreased 22.1 percent, year-on-year, to ¥4,419 million, and was 2.3 percent of net sales, compared to 2.8 percent for the previous fiscal year.

OPERATING INCOME

(Millions of yen)



Research and Development Costs

Research and development costs, which are included in selling, general and administrative expenses and manufacturing costs, totaled ¥290 million for the year ended March 2004, compared to ¥58 million for the previous fiscal year. The NESIC Group conducts ongoing research and development in two main fields. One field involves information and communications technologies, drawing on the NESIC Group’s many years of experience in serving telecommunications companies. The other field is product and service solutions for diversifying market needs created by the rapid shift to IP networks, broadband access and high-value-added systems integration technologies.

Other Income (Expenses)

Net other expenses totaled ¥3,055 million, compared to ¥2,346 million for the previous fiscal year. Other income decreased to ¥539 million from ¥1,485 million for the previous fiscal year, primarily because the return of the substitutional portion of the welfare pension fund plan resulted in a gain of ¥1,338 million in the year ended March 31, 2003, but resulted in a loss of ¥640 million in the past fiscal year. This year-on-year change was offset by gain on sale of investment securities totaling ¥202 million and gain on sale of land totaling ¥200 million.

Other expenses decreased to ¥3,594 million from ¥3,831 million for the previous fiscal year. The NESIC Group used hedging instruments to eliminate foreign currency exchange losses recorded in other, net, which totaled an expense of ¥752 million for the previous fiscal year, and loss on disposal of inventories totaling ¥397 million in the previous fiscal year did not recur. However, in addition to the loss on return of the substitutional portion of the welfare pension fund plan discussed above, the NESIC Group incurred a bad debt loss of ¥311 million. Due to the application of a new retirement accounting standard in the year ended March 31, 2001, the NESIC Group is amortizing net retirement benefit obligation at transition totaling ¥13,136 million over a five-year period using the straight line method, resulting in a charge to income of ¥2,138 million for the year ended March 2004. This was the third annual amortization of the five.

Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests decreased 59.1 percent, year-on-year, to ¥1,363 million, and income taxes net of deferrals decreased 52.5 percent to ¥814 million. As a result, net income decreased 66.9 percent, year-on-year, to ¥500 million. Net income per share decreased to ¥10.87 from ¥33.93 for the previous fiscal year.

Dividend Policy

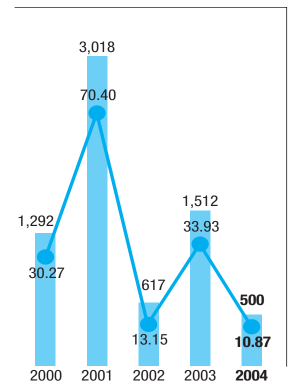
The NESIC Group considers shareholder returns a management priority, and is working to increase corporate value in a rapidly changing business environment by strengthening its operating foundation, enhancing its financial structure and increasing earnings capabilities.

The NESIC Group's basic policy is to maintain stable dividends while taking financial conditions and consolidated performance into consideration. Based on this policy, the NESIC Group has maintained cash dividends at ¥10.00 per share, the same as in the previous fiscal year despite the challenging business environment.

The NESIC Group's fundamental policy for deploying internal capital reserves is to invest strategically in growth sectors, new businesses and enhanced competitiveness based on careful assessment of developments in the IT market.

NET INCOME AND NET INCOME PER SHARE*

(Millions of yen/Yen)



* See Note 13 of Notes to Consolidated Financial Statements (page 21).

FINANCIAL POLICY

The NESIC Group is working to raise efficiency and implement structural reforms by strengthening innovation in business operations companywide. A key emphasis in this drive is the further enhancement of the NESIC Group's financial position. The NESIC Group employs free cash flow to pay dividends to shareholders, enhance its competitive strength and make strategic investments in new and growing sectors while repaying interest-bearing debt to strengthen its financial structure and reduce financial costs.

CASH FLOWS

Net cash provided by operating activities decreased 58.2 percent, year-on-year, to ¥2,785 million from ¥6,668 million for the previous fiscal year. The decrease in income before income taxes and minority interests was a primary factor. In addition, changes in working capital used cash totaling ¥216 million, but provided cash totaling ¥6,023 million in the previous fiscal year. The NESIC Group securitized trade notes and accounts receivable to raise asset efficiency and diversify fund procurement methods. The resulting ¥2,705 million contribution to cash flow was less than the ¥13,091 million contribution to cash flow from reduction of trade receivables in the previous fiscal year. The NESIC Group continued to reduce payables, although less substantially than in the previous fiscal year. The increase in inventories used ¥2,683 million in cash, substantially more than in the previous fiscal year. The NESIC Group increased inventory of products for the security and VoIP sectors from domestic and overseas vendor alliance partners, and added to inventories of equipment that financial institutions will require for the new paper currency Japan will introduce.

Net cash used in investing activities decreased 24.2 percent, year-on-year, to ¥952 million from ¥1,256

CASH FLOW HIGHLIGHTS

(Millions of yen)

Years ended March 31	**2004**	2003	2002
Net cash provided by operating activities	**2,785**	6,668	5,109
Net cash used in investing activities	**(952)**	(1,256)	(2,476)
Net cash used in financing activities	**(1,218)**	(11,917)	(1,182)

million for the previous fiscal year. Purchases of property and equipment increased 49.7 percent, year-on-year, to ¥1,112 million, while purchases of intangibles, net of allowance for amortization increased 9.7 percent to ¥497 million. Sales of property and equipment totaled ¥332 million, compared to ¥28 million in the previous fiscal year, and sales of investment securities increased to ¥305 million from ¥127 million.

The NESIC Group's capital expenditures center on information systems. Capital expenditures in the year ended March 31, 2004 increased 48.3 percent, year-on-year, to ¥1,120 million. Principal projects included communications and other equipment for use in business operations, equipment for maintenance operations and construction of internal communication facilities.

Net cash used in financing activities decreased 89.8 percent, year-on-year, to ¥1,218 million from ¥11,917 in the previous fiscal year, reflecting the redemption of convertible bonds totaling ¥11,292 million in the previous fiscal year. The primary uses of cash in the fiscal year ended March 31, 2004 were cash dividends paid totaling ¥429 million and purchases of treasury stock, net totaling ¥885 million to acquire 1.08 million shares of the NESIC Group's stock. The NESIC Group also issued commercial paper during the fiscal year to fund working capital needs.

As a result of the above, cash and cash equivalents at the end of the year increased ¥598 million from a year earlier to ¥9,463 million.

FINANCIAL POSITION

Assets

As of March 31, 2004, total assets increased 1.8 percent from a year earlier, or ¥2,127 million, to ¥118,416 million. Return on average total assets decreased to 0.4 percent from 1.2 percent from a year earlier.

Current assets increased 1.3 percent from a year earlier, or ¥1,250 million, to ¥97,334 million. Cash and cash equivalents increased ¥598 million, and inventories increased ¥2,660 million. Notes and accounts receivable, however, decreased ¥2,743 million.

Property and equipment, net decreased 0.9 percent from a year earlier, or ¥75 million, to ¥8,337 million.

Liabilities

As of March 31, 2004, total liabilities increased 4.7 percent from a year earlier, or ¥3,005 million, to ¥66,927 million. Current liabilities increased 0.8 percent, or ¥414 million, to ¥54,533 million. Accrued income taxes increased ¥454 million, and advances received increased ¥674 million. Notes and accounts payable decreased. As a result, working capital increased to ¥42,801 million from ¥41,965 million a year earlier, and the current ratio was unchanged at 1.8 times.

Long-term liabilities increased 26.4 percent from a year earlier, or ¥2,591 million, to ¥12,394 million, due to an increase in accrued employees' retirement benefits.

Interest-bearing debt as of March 31, 2004 increased 0.1 percent from a year earlier to ¥5,624 million. The debt-to-equity ratio, defined as interest-bearing debt divided by shareholders' equity, was 11.0 percent, compared to 10.8 percent a year earlier.

Shareholders' Equity

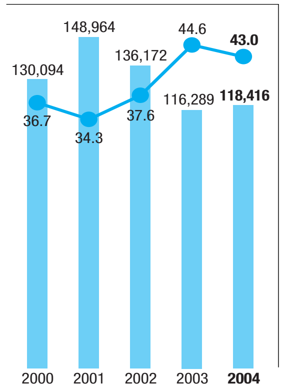
As of March 31, 2004, shareholders' equity decreased 1.6 percent from a year earlier, or ¥851 million, to ¥50,971 million. The decrease was primarily the result of the increase in treasury stock, at cost, to ¥902 million, which is subtracted from shareholders' equity. Total capital, the sum of interest-bearing debt and shareholder's equity, totaled ¥56,595 million, compared to ¥57,439 million a year earlier, and shareholders' equity accounted for 90.1 percent of total capital, compared to 90.2 percent a year earlier. The ratio of shareholders' equity to total assets decreased 160 basis points to 43.0 percent. Return on average total shareholders' equity decreased to 1.0 percent from 2.9 percent a year earlier.

Basic Policy for Relationship with Parent Company

NEC Corporation (NEC) is the parent company of NESIC under the financial statement regulations. NEC is a substantial shareholder of NESIC, and retains voting and other rights to which it has been entitled since NESIC was founded. The NESIC Group is included in the consolidated results of the NEC Group, and while it

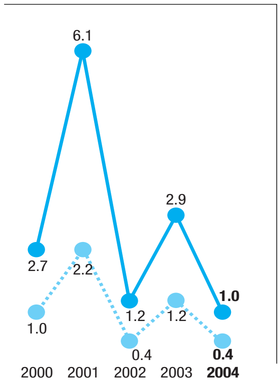
TOTAL ASSETS AND SHAREHOLDERS' EQUITY RATIO

(Millions of yen/%)



RETURN ON SHAREHOLDERS' EQUITY AND RETURN ON ASSETS

(%)



develops its own markets and customers independently, the NESIC Group seeks to contribute to business expansion and a strong operating base for the overall NEC Group, and will strengthen its focus in this area. In addition, the NESIC Group provides network and IT system design, construction, maintenance and other services to the NEC Group. Looking forward, the NESIC Group will work to expand its business in such ways as further strengthening exchanges of information and employees with NEC to respond to challenges including new technologies.

OPERATIONAL ISSUES AND RISKS

Security Administration Risk

The NESIC Group operates in the network and IT systems business using a unified organizational structure that encompasses everything from planning and consulting to design, construction, software development, maintenance and outsourcing. The NESIC Group has acquired Information Security Management System (ISMS) certification of its security management capabilities, and is preparing to acquire a Privacy Mark, which the Japan Information Processing Development Center grants upon certifying that the applicant has the proper systems to protect personal data processed with computers in accordance with Japanese Industrial Standards. Employees also receive thorough training in ethics and in measures to prevent information leaks.

Nevertheless, the occurrence of information leaks has the potential to materially impact results, as it would damage the NESIC Group and cause a loss of public trust that would interfere with business activities.

Claim Risk

The NESIC Group consistently takes the perspective of customers into consideration as a fundamental policy in emphasizing customer interests and placing customers first. The NESIC Group has established rules for companywide communication and reporting in the event of customer complaints, and has organizational structures in place to swiftly handle complaints. Moreover, the NESIC Group operates in the IT market, which is characterized by rapid cycles of technological advancement and a market environment of intense change. The NESIC Group therefore consistently works to train and improve the skills of its employees and those of partner companies. However, technological change, an inability to respond swiftly to customer needs and customer dissatisfaction have the potential to materially impact performance.

Relationship with NEC

The NESIC Group is a member of the NEC Group, and builds on its close relationship with the NEC Group in developing its network and IT system business. The NESIC Group also primarily handles the products and equipment of the NEC Group. As a result, a significant change in the competitiveness and positioning of NEC Group products in the marketplace has the potential to materially impact results.

Overseas Operating Risk

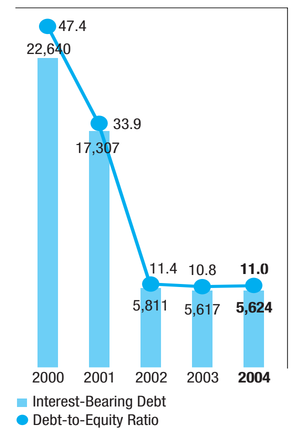
In its overseas operations, the NESIC Group uses its accumulated experience and rigorous project management to address the various risks in the regions it serves. New country risks that present global safety issues, however, can increase rapidly. Events including deteriorating political conditions and acts of terror or war can damage systems and halt projects. In addition, government instructions to evacuate a particular area or region or terminate a project would delay project completion and result in additional costs for the NESIC Group. These issues have the potential to materially impact results.

Currency Exchange Rate Risk

The NESIC Group operates internationally, primarily in Asia and the Middle East, and has receivables denominated in foreign currencies including the U.S. dollar. The NESIC Group also purchases materials and equipment from North America and Europe. The NESIC Group therefore works to mitigate risk by using forward currency exchange instruments for such receivables and payables. However, rapid change in the relative value of currencies has the potential to materially impact results.

INTEREST-BEARING DEBT AND DEBT-TO-EQUITY RATIO

(Millions of yen/%)



CONSOLIDATED BALANCE SHEETS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	**2004**	2003	**2004**
Current assets:			
Cash and cash equivalents	**¥ 9,463**	¥ 8,865	**$ 89,535**
Short-term investments (Note 4)	**32**	65	**303**
Notes and accounts receivable:	**62,982**	65,725	**595,913**
Less allowance for doubtful receivables	**(1,093)**	(1,083)	**(10,342)**
Inventories (Note 5)	**19,115**	16,455	**180,859**
Deferred income taxes (Note 7)	**2,562**	2,246	**24,241**
Other current assets	**4,270**	3,809	**40,401**
Total current assets	**97,334**	96,084	**920,939**
Property and equipment:			
Land	**2,681**	2,806	**25,367**
Buildings and structures	**6,774**	6,900	**64,093**
Machinery and vehicles	**54**	132	**511**
Furniture and fixtures	**4,838**	4,632	**45,775**
Construction in progress	**551**	207	**5,213**
Accumulated depreciation	**(6,563)**	(6,266)	**(62,097)**
Property and equipment, net	**8,337**	8,412	**78,882**
Investments and other assets:			
Investment in an unconsolidated subsidiary	**—**	19	**—**
Investment securities (Note 4)	**657**	578	**6,216**
Intangibles, net of allowance for amortization	**2,207**	2,369	**20,882**
Deferred income taxes (Note 7)	**4,999**	3,662	**47,299**
Other assets	**4,880**	5,162	**46,173**
Total investments and other assets	**12,744**	11,791	**120,579**
Total assets	**¥118,416**	¥116,289	**$1,120,409**

Liabilities and shareholders' equity	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 3) 2004
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 5,624**	¥ 5,617	**$ 53,212**
Notes and accounts payable	**33,747**	33,999	**319,302**
Advances received	**7,475**	6,801	**70,726**
Accrued income taxes (Note 7)	**1,341**	887	**12,688**
Other current liabilities	**6,343**	6,813	**60,015**
Total current liabilities	**54,533**	54,119	**515,971**
Long-term liabilities:			
Accrued employees' retirement benefits (Note 8)	**12,361**	9,795	**116,955**
Other liabilities	**33**	7	**312**
Total long-term liabilities	**12,394**	9,803	**117,267**
Minority interests in consolidated subsidiaries	**516**	543	**4,882**
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	**124,156**
Capital surplus	**12,622**	12,622	**119,425**
Retained earnings	**26,691**	26,672	**252,540**
Unrealized holding gain on securities	**81**	36	**766**
Foreign currency translation adjustments	**(643)**	(614)	**(6,084)**
	51,874	51,839	**490,815**
Treasury stock, at cost	**(902)**	(17)	**(8,534)**
Shareholders' equity, net	**50,971**	51,822	**482,269**
Contingent liabilities (Note 10)			
Total liabilities and shareholders' equity	**¥118,416**	¥116,289	**$1,120,409**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Net sales (Note 15)	**¥194,012**	¥202,419	**$1,835,670**
Cost of sales (Note 12)	**172,329**	179,325	**1,630,514**
Gross profit	**21,682**	23,094	**205,147**
Selling, general and administrative expenses (Note 12)	**17,263**	17,418	**163,336**
Operating income	**4,419**	5,675	**41,811**
Other income (expenses):			
Interest and dividend income	**137**	141	**1,305**
Interest expense	**(121)**	(190)	**(1,145)**
Provision for doubtful receivables	**(251)**	(136)	**(2,374)**
Amortization of net retirement benefit obligation at transition	**(2,138)**	(2,356)	**(20,228)**
Bad debt loss	**(311)**	—	**(2,943)**
(Loss) gain on return of the substitutional portion of the welfare pension fund plan	**(640)**	1,338	**(6,055)**
Loss on disposal of inventories	**—**	(397)	**—**
Gain on sale of investment securities	**202**	6	**1,911**
Gain on sale of land	**200**	—	**1,892**
Other, net	**(133)**	(752)	**(1,258)**
	(3,055)	(2,346)	**(28,906)**
Income before income taxes and minority interests	**1,363**	3,329	**12,896**
Income taxes (Note 7)**:**			
Current	**2,498**	2,321	**23,635**
Deferred	**(1,684)**	(606)	**(15,933)**
	814	1,714	**7,702**
Minority interests	**48**	102	**454**
Net income (Note 13)	**¥ 500**	¥ 1,512	**$ 4,731**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized holding gain on securities	Foreign currency translation adjustment	Treasury stock
Balance at March 31, 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)
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(51)**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(430)**	**—**	**—**	**—**
Net income for the year ended March 31, 2004	**—**	**—**	**—**	**500**	**—**	**—**	**—**
Unrealized holding gain on securities	**—**	**—**	**—**	**—**	**44**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**(29)**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(885)**
Balance at March 31, 2004	**43,069,207**	**¥13,122**	**¥12,622**	**¥26,691**	**¥ 81**	**¥(643)**	**¥(902)**

	Thousands of U.S. dollars (Note 3)					
	Common stock	Capital surplus	Retained earnings	Unrealized holding gain on securities	Foreign currency translation adjustment	Treasury stock
Balance at March 31, 2003	$124,156	$119,425	$252,360	$350	$(5,809)	$ (161)
Bonuses to directors and statutory auditors	**—**	**—**	**(482)**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**(4,068)**	**—**	**—**	**—**
Net income for the year ended March 31, 2004	**—**	**—**	**4,731**	**—**	**—**	**—**
Unrealized holding gain on securities	**—**	**—**	**—**	**416**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**(274)**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(8,373)**
Balance at March 31, 2004	**$124,156**	**$119,425**	**$252,540**	**$766**	**$(6,084)**	**$(8,534)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Operating activities			
Income before income taxes and minority interests	**¥ 1,363**	¥ 3,329	**$ 12,896**
Depreciation and amortization	**1,455**	1,464	**13,766**
Amortization of excess of costs over net assets acquired	**5**	(31)	**47**
Provision for accrued employees' retirement benefits	**2,565**	1,062	**24,269**
Interest and dividend income	**(75)**	(141)	**(710)**
Interest expense	**121**	190	**1,144**
Gain on sales of investment securities	**(202)**	—	**(1,911)**
Gain on sales of property and equipment	**(206)**	—	**(1,949)**
Trade notes and accounts receivable	**2,705**	13,091	**25,593**
Inventories	**(2,683)**	(362)	**(25,385)**
Trade notes and accounts payable	**(238)**	(6,706)	**(2,251)**
Other	**154**	(2,053)	**1,457**
	4,964	9,843	**46,968**
Interest and dividends received	**2**	138	**19**
Interest paid	**(137)**	(173)	**(1,296)**
Income taxes paid	**(2,044)**	(3,139)	**(19,339)**
Net cash provided by operating activities	**2,785**	6,668	**26,351**
Investing activities			
Sales of short-term investments	**5**	—	**47**
Purchases of property and equipment	**(1,112)**	(743)	**(10,521)**
Sales of property and equipment	**332**	28	**3,141**
Purchases of intangibles, net of allowance for amortization	**(497)**	(453)	**(4,702)**
Purchases of investment securities	**(109)**	(70)	**(1,031)**
Sales of investment securities	**305**	127	**2,886**
Loans receivable made	**(49)**	(52)	**(463)**
Collection of loans receivable	**63**	77	**596**
Other	**109**	(168)	**1,031**
Net cash used in investing activities	**(952)**	(1,256)	**(9,007)**
Financing activities			
Net increase (decrease) in short-term bank loans	**107**	(166)	**1,012**
Repayment of long-term debt	**—**	(11,292)	**—**
Purchases of treasury stock, net	**(885)**	—	**(8,373)**
Cash dividends paid	**(429)**	(434)	**(4,059)**
Other	**(10)**	(25)	**(94)**
Net cash used in financing activities	**(1,218)**	(11,917)	**(11,524)**
Effect of exchange rate changes on cash and cash equivalents	**(16)**	(163)	**(151)**
Net increase in cash and cash equivalents	**597**	(6,668)	**5,649**
Cash and cash equivalents at beginning of the year	**8,865**	15,460	**83,877**
Increase due to the inclusion of subsidiaries in consolidation	**—**	74	**—**
Cash and cash equivalents at end of the year	**¥ 9,463**	¥ 8,865	**$ 89,535**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
March 31, 2004

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 generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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.

Certainly amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

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.

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.

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 ¥105.69 = U.S.$1.00, the approximate rate of exchange on March 31, 2004. 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, 2004 and 2003 were summarized as follows:

March 31, 2004	Millions of yen Acquisition cost	Millions of yen Carrying value	Millions of yen Unrealized gain or loss	Thousands of U.S. dollars Acquisition cost	Thousands of U.S. dollars Carrying value	Thousands of U.S. dollars Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥147**	**¥284**	**¥137**	**$1,391**	**$2,687**	**$1,296**
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**147**	**284**	**137**	**1,391**	**2,687**	**1,296**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**—**	**—**	**—**	**—**	**—**	**—**
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥147**	**¥284**	**¥137**	**$1,391**	**$2,687**	**$1,296**

March 31, 2003	Millions of yen Acquisition cost	Millions of yen Carrying value	Millions of yen Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 73	¥147	¥74
Debt securities	5	5	0
Other	—	—	—
Subtotal	78	152	74
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	176	164	(12)
Debt securities	—	—	—
Other	—	—	—
Subtotal	176	164	(12)
Total	¥255	¥317	¥61

b) Sales of securities classified as other securities for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Proceeds from sales	**¥305**	¥134	**$2,886**
Gains on sales	**202**	6	**1,911**
Losses on sales	**—**	17	**—**

c) The components of non-marketable securities classified as other securities at March 31, 2004 and 2003 were summarized as follows:

	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Other securities:			
Unlisted securities (except for OTC securities)	**¥373**	¥266	**$3,529**
Other	**—**	6	**—**
Total	**¥373**	¥273	**$3,529**

5. INVENTORIES

Inventories at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Work in process	**¥17,612**	¥16,176	**$166,638**
Purchased goods, materials and supplies	**1,503**	278	**14,221**
	¥19,115	¥16,455	**$180,859**

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, 2004 and 2003 were approximately 1.0% and 2.0%, 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 2004 and 2003. 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, 2004 and 2003 differ from the statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate	**42.1%**	42.1%
Effect of:		
Expenses not deductible for income tax purposes	**8.9**	4.8
Dividend income deductible for income tax purposes	**(0.7)**	(0.7)
Inhabitants tax per capita levy	**6.0**	2.6
Adjustment in deferred tax assets and liabilities due to the change in tax rates	**4.6**	4.3
Tax credit	**(7.6)**	—
Other, net	**6.4**	(1.6)
Effective tax rates	**59.7%**	51.5%

The significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Accrued bonuses	**¥1,190**	¥1,187	**$11,259**
Allowance for doubtful receivables	**468**	555	**4,428**
Accrued enterprise tax	**114**	64	**1,079**
Notes and accounts receivable	**278**	116	**2,630**
Unrealized profit on inventories	**12**	9	**114**
Foreign tax credits	**380**	311	**3,595**
Accrued retirement benefits	**4,657**	3,321	**44,063**
Other	**517**	370	**4,892**
	7,619	5,936	**72,088**
Deferred tax liabilities:			
Advanced depreciation of property and equipment	**(1)**	(1)	**(9)**
Unrealized holding gain on securities	**(55)**	(25)	**(520)**
Other	**(1)**	(1)	**(9)**
	(58)	(27)	**(548)**
Net deferred tax assets	**¥7,561**	¥5,908	**$71,540**

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, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Retirement benefit obligation	**¥(30,512)**	¥(27,734)	**$(288,693)**
Plan assets at fair value	**8,545**	6,843	**80,850**
Unfunded retirement benefit obligation	**(21,967)**	(20,890)	**(207,843)**
Unrecognized actuarial loss	**8,512**	7,938	**80,537**
Unrecognized prior service cost	**(1,044)**	(1,119)	**(9,878)**
Unrecognized net retirement benefit obligation at transition	**2,138**	4,276	**20,229**
Accrued employees' retirement benefits	**¥(12,361)**	¥ (9,795)	**$(116,955)**

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥1,344**	¥ 1,429	**$12,716**
Interest cost	**823**	1,017	**7,787**
Expected return on plan assets	**(376)**	(633)	**(3,558)**
Amortization of actuarial loss	**425**	264	**4,021**
Amortization of prior service cost	**(74)**	(99)	**(700)**
Amortization of net retirement benefit obligation at transition	**2,138**	2,356	**20,229**
Subtotal	**4,280**	4,334	**40,496**
Loss (gain) on return of the substitutional portion of WPFP	**640**	(1,338)	**6,055**
Total	**¥4,921**	¥ 2,995	**$46,561**

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 in, 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 for the year ended March 31, 2003. The pension assets which are to be transferred were calculated at ¥6,765 million at March 31, 2003. For the year ended March 31, 2004, the Company made an adjustment to reduce the previously recognized gain by ¥640 million ($6,055 thousand) because of the recognition of actuarial loss arising from the pension assets to be transferred to the government.

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

	2004	2003
Discount rate	**2.5%**	3.0%
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 ($5,166 thousand) as of both March 31, 2004 and 2003.

10. CONTINGENT LIABILITIES

At March 31, 2004, the Company was contingently liable as guarantor of indebtedness of a third party and the Company's employees in the aggregate amount of ¥410 million ($3,879 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, 2004 and 2003, 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
	2004	2003	**2004**
Acquisition costs:			
Machinery and vehicles	**¥ 223**	¥ 199	**$ 2,110**
Furniture and fixtures	**4,331**	3,525	**40,978**
	¥4,555	¥3,724	**$43,098**
Accumulated depreciation:			
Machinery and vehicles	**¥ 96**	¥ 105	**$ 908**
Furniture and fixtures	**2,064**	1,833	**19,529**
	¥2,161	¥1,938	**$20,447**
Net book value:			
Machinery and vehicles	**¥ 126**	¥ 95	**$ 1,192**
Furniture and fixtures	**2,267**	1,692	**21,450**
	¥2,394	¥1,787	**$22,651**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,032 million ($9,764 thousand) and ¥1,120 million for the years ended March 31, 2004 and 2003, 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 ¥944 million ($8,932 thousand) and ¥60 million ($568 thousand), respectively, for the year ended March 31, 2004 and ¥977 million and ¥79 million, respectively, for the year ended March 31, 2003.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 and 2003 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 846**	¥ 876	**$ 8,005**
Due over one year	**1,533**	966	**14,505**
Total	**¥2,380**	¥1,843	**$22,519**

b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2004 and 2003 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥26**	¥20	**$246**
Due over one year	**39**	35	**369**
Total	**¥66**	¥56	**$624**

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥290 million ($2,744 thousand) and ¥58 million for the years ended March 31, 2004 and 2003, respectively.

13. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2004	2003	**2004**
Net income	**¥ 10.87**	¥ 33.93	**$ 0.10**
Cash dividends applicable to the year	**10.00**	10.00	**0.10**
Net assets	**1,213.62**	1,202.58	**11.48**

Net income per share is 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.

Amounts per share of net assets is computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

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, 2004 and 2003, 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 ¥54,640 million ($516,984 thousand) and ¥53,271 million for the years ended March 31, 2004 and 2003, respectively. In addition, the Company purchased communications equipment and other from NEC in amounts of ¥43,735 million ($413,805 thousand) and ¥48,149 million during the years ended March 31, 2004 and 2003, 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, 2004 and 2003 is summarized as follows:

	Millions of yen					
Year ended March 31, 2004	Information and network integration	Intelligent building and facility engineering	Operation and maintenance	Total	Eliminations or Corporate	Consolidated
I. Sales:						
(1) Sales to third parties	**¥126,617**	**¥23,465**	**¥43,929**	**¥194,012**	**¥ —**	**¥194,012**
(2) Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**126,617**	**23,465**	**43,929**	**194,012**	**—**	**194,012**
Operating expenses	**121,260**	**22,709**	**40,430**	**184,400**	**5,191**	**189,592**
Operating income	**¥ 5,356**	**¥ 755**	**¥ 3,498**	**¥ 9,611**	**¥(5,191)**	**¥ 4,419**
II. Assets, depreciation expenses, capital expenditures:						
Assets	**¥ 65,484**	**¥13,392**	**¥15,056**	**¥ 93,933**	**¥24,482**	**¥118,416**
Depreciation expenses	**265**	**8**	**367**	**641**	**814**	**1,456**
Capital expenditures	**678**	**4**	**421**	**1,105**	**513**	**1,618**

Year ended March 31, 2004	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	**$1,198,004**	**$222,017**	**$415,640**	**$1,835,670**	**$ —**	**$1,835,670**
(2) Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**1,198,004**	**222,017**	**415,640**	**1,835,670**	**—**	**1,835,670**
Operating expenses	**1,147,318**	**214,864**	**382,534**	**1,744,725**	**49,115**	**1,793,850**
Operating income	**$ 50,677**	**$ 7,144**	**$ 33,097**	**$ 90,936**	**$(49,115)**	**$ 41,811**
II. Assets, depreciation expenses, capital expenditures:						
Assets	**$ 619,586**	**$126,710**	**$142,454**	**$ 888,760**	**$231,640**	**$1,120,409**
Depreciation expenses	**2,507**	**76**	**3,472**	**6,065**	**7,702**	**13,776**
Capital expenditures	**6,415**	**38**	**3,983**	**10,455**	**4,854**	**15,309**

Year ended March 31, 2003	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	¥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	132,488	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

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, 2004 and 2003, 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, 2004, the disclosure of overseas sales information was omitted.

17. SUBSEQUENT EVENTS

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, 2004, were approved at a meeting of the shareholders held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 = $0.047 per share)	¥209	$1,977
Bonuses to directors and statutory auditors	37	350

REPORT OF INDEPENDENT AUDITORS

Ernst & Young

Ernst & Young ShinNihon
Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011
C.P.O Box 1196, Tokyo 100-8641

Tel : 03 3503 1100
Fax : 03 3503 1197

The Board of Directors
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, 2004 and 2003, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.

Ernst & Young ShinNihon

June 29, 2004

DIRECTORS AND CORPORATE AUDITORS

(As of June 29, 2004)

DIRECTORS

PRESIDENT

Yukihiko Baba

SENIOR VICE PRESIDENTS

Hideaki Kihara
In charge of Administration Division, Personnel Relations Division, Business Promotion Office, Information Systems Division, System Construction Engineering Innovation Division, Purchasing Division, Corporate Planning Division, and Corporate Finance & Controller Division

Sadao Harada
In charge of Regional Operations Group and Safety & Quality Control Division

Hiroshi Watanabe
In charge of Marketing & Sales Development Unit

Yukio Yamazaki
In charge of SI & Services Operations Unit

CORPORATE AUDITORS

Hitoshi Kinoshita (full-time)
Tsunatoshi Sakakura (full-time)
Yasuo Matoi
Tetsujiro Arano

NETWORK

(As of March 31, 2004)

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, Chugoku, Shikoku, Kyushu

Overseas Representative Offices:

Brazil, Chile, Thailand, Philippines, Indonesia, China

Subsidiaries and Affiliates:

NEC System Integration & Construction, Engineering, Ltd.
Head Office: Tokyo, Japan
Established: October 1992

NEC System Integration & Construction, Media Service, Ltd.
Head Office: Tokyo, Japan
Established: July 1988

NESIC Ascerent Company
Head Office: Tokyo, Japan
Established: September 1995

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

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

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

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

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

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

INVESTOR INFORMATION

(As of March 31, 2004)

NEC SYSTEM INTEGRATION & CONSTRUCTION, LTD.

Established:
November 26, 1953

Number of Employees:
2,958 (non-consolidated)
4,281 (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:
15,607

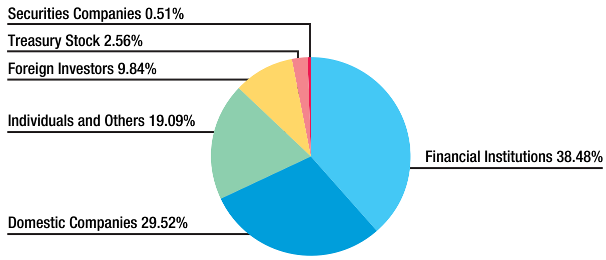
Paid-in Capital:
¥13,122 million

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:
Ernst & Young ShinNihon

Distribution of Shareholders:

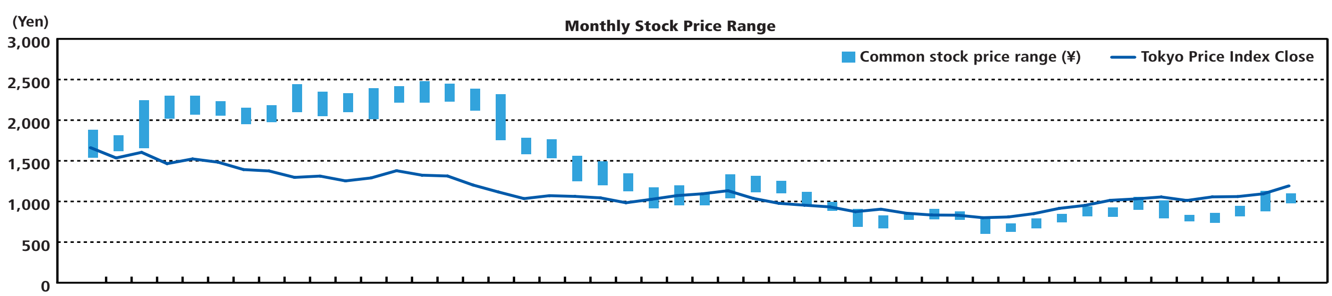


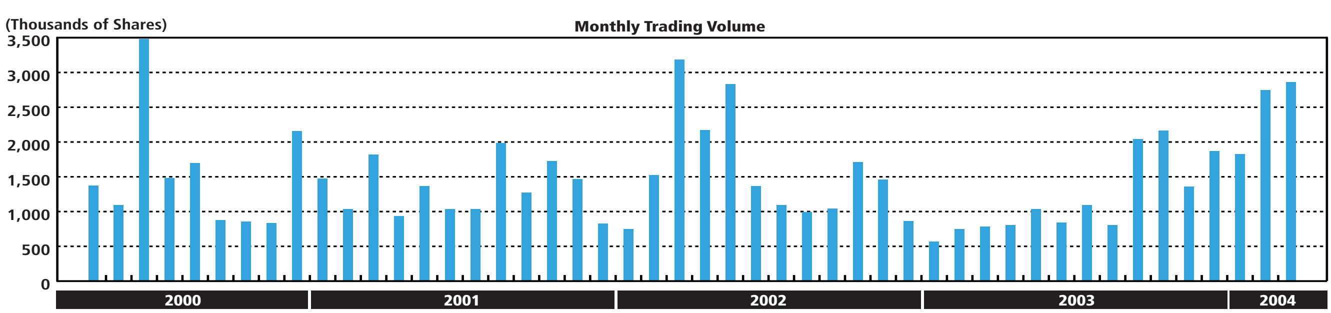
Major Shareholders:

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding
NEC Corporation	11,291	26.22%
Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company, Limited's re-trust [entrustment of trust assets] account, NEC Corporation retirement benefit trust account)	6,400	14.86
Japan Trustee Services Bank, Ltd. (trust account)	4,000	9.29
The Master Trust Bank of Japan, Ltd. (trust account)	2,771	6.43
Sumitomo Realty & Development Co., Ltd.	1,200	2.79
NEC System Integration & Construction, Ltd.	1,100	2.56
Employees' Stock Ownership Plan	893	2.08
Trust & Custody Services Bank, Ltd. (trust account A)	789	1.83
The Chase Manhattan Bank N.A. London	531	1.23
State Street Bank and Trust Company	443	1.03

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)





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