Empowered by Innovation NEC

Intelligence Adds Value,
Added Value Generates Growth

Annual Report 2005

Year Ended March 31, 2005

NEC Networks & System Integration Corporation

PROFILE

NEC Networks & System Integration Corporation has been at the forefront of the systems integration business in Japan since its establishment in 1953. As the use of telecommunications and information networks has expanded, we have adhered to our motto of "Customers First" in providing innovative solutions from consultation and design to software development, system implementation and equipment supply.

To reflect the evolution of our business activities and operating environment, we changed the Company name from NEC System Integration & Construction, Ltd. to NEC Networks & System Integration Corporation on October 1, 2005.

Company strengths include a sales network covering all of Japan, world-class systems engineering, systems integration and software development capabilities and some 200 maintenance locations throughout Japan. In addition, we have system construction and facility engineering operations in more than 150 countries and territories around the world.

As technologies and markets continue to change rapidly, we are using our expertise to promote business activities aimed at being the best partner for our customers, thereby increasing earnings and shareholder value.

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Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements concerning NEC Networks & System Integration Corporation 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 NEC Networks & System Integration Corporation management based on information currently available. NEC Networks & System Integration Corporation therefore wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks or uncertainties.

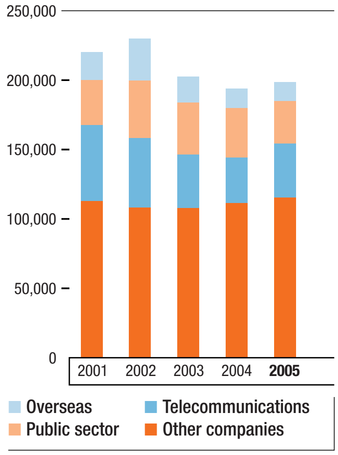
FINANCIAL HIGHLIGHTS

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

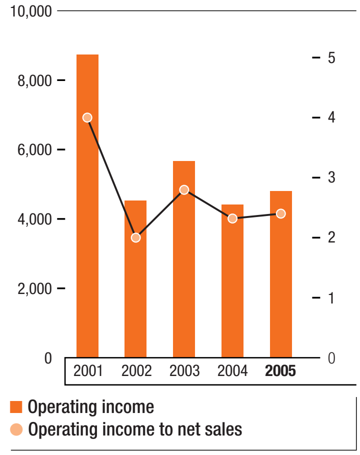
	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)[1]
	2005	2004	2003	**2005**
For the year:				
Net sales	**¥198,625**	¥194,012	¥202,419	**$1,849,567**
Operating income	**4,812**	4,419	5,675	**44,809**
Net income	**1,222**	500	1,512	**11,379**
At year-end:				
Total assets	**¥123,935**	¥118,416	¥116,289	**$1,154,065**
Shareholders' equity	**51,704**	50,971	51,822	**481,460**
Per share of common stock (yen and U.S. dollars):				
Net income (basic)	**¥ 28.24**	¥ 10.87	¥ 33.93	**$ 0.26**
Cash dividends	**12.00**	10.00	10.00	**0.11**
Ratios (%):				
Operating income to net sales	**2.4**	2.3	2.8	
Net income to net sales	**0.6**	0.3	0.7	
Return on shareholders' equity (ROE)	**2.4**	1.0	2.9	

Note: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107.39 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2005.

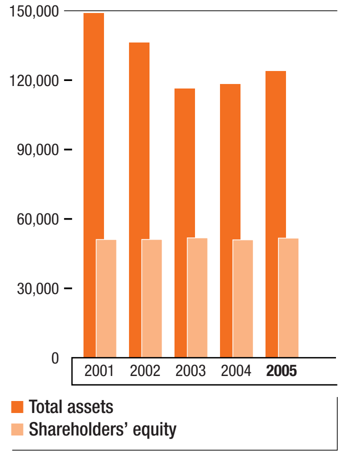
Net Sales by Customer
(Millions of yen)



Operating Income and Operating Income to Net Sales
(Millions of yen / %)



Total Assets and Shareholders' Equity
(Millions of yen)



TO OUR SHAREHOLDERS

Yukihiko Baba
President

During the fiscal year ended March 31, 2005, NEC Networks & System Integration Corporation (formerly NEC System Integration & Construction, Ltd.) worked to strengthen sales and solutions activities, and undertook reforms of its business structure, including cost-cutting measures. As a result, the Company met its numerical targets and achieved year-on-year increases in both sales and income.

These results are a reflection of our quick response to rapid technological innovation and constant change in the field of network integration, our main area of business. We will continue working to meet the expectations of shareholders by increasing the Company's corporate value.

The Company's Name Change and Establishment of a Corporate Philosophy

NEC Networks & System Integration Corporation ("the Company;" formerly NEC System Integration & Construction, Ltd.) was founded in 1953 as a builder of communication network infrastructure, and has completed numerous projects in Japan as well as in other countries and regions. Responding quickly to the rapid technological innovation and the changing business environment driven by the shift to Internet protocol (IP) in networks in recent years, the Company has worked to develop its business and expand its operations, and has grown to become one of Japan's leading systems integrators.

To reflect this transformation in the nature of our business, and aiming to further develop and grow as a systems integrator, the Company changed its name on October 1, 2005 from NEC System Integration & Construction, Ltd. to NEC Networks & System Integration Corporation.

The NEC Networks & System Integration Group will continue to be driven by its corporate DNA in responding quickly to the rapidly changing business environment and viewing change as opportunity. We will work to further raise our corporate value as an innovative business group.

Concurrent with the name change, we also established our Group corporate philosophy aimed at ensuring that everyone in the Group shares the same commitment to society, mission and purpose, as well as promoting the Group's future development.

NEC Networks & System Integration Group Corporate Philosophy

As a business partner to its customers, the NEC Networks & System Integration Group aims to build a bridge to a new era by:

- increasing customer value
- helping create a more convenient and prosperous society
- creating peace of mind through the establishment of reliable networks

Overview of the Year Ended March 31, 2005

In the business environment of NEC Networks & System Integration Corporation during the past fiscal year, the national government's "e-Japan Project" did not generate the expected level of investment. Among private-sector companies, customers showed greater interest in the expansion of their information network systems, including rebuilding networks and using outsourcing services as measures to reduce costs and raise efficiency, and the reinforcement of network security measures. However, negotiations leading to order placement tended to be prolonged as customers carefully assessed the investment benefits.

In these conditions, the NEC Networks & System Integration Group focused on reinforcing sales and solutions activities with comprehensive services to optimally meet customer needs. We worked to quickly and seamlessly coordinate the Group's strengths—a sales network covering all of Japan, systems engineering, systems integration and software development capabilities, and some 200 maintenance locations throughout Japan. We also constructed systems based on broadband networks and Voice over Internet Protocol (VoIP) systems, offered maintenance and outsourcing services, and strengthened in-house development of original products.

As a result, consolidated orders received increased 5.8 percent year-on-year to ¥207,460 million. Consolidated net sales increased 2.4 percent to ¥198,625 million, supported by domestic demand, including increased sales to telecommunications carriers and other private-sector companies. This offset a decrease in national and local government-related sales, which reflected a similar trend in orders. Operating income increased 8.9 percent to ¥4,812 million, while extraordinary loss related to amortization of net retirement benefit obligation at transition and provision for retirement benefits for directors and corporate auditors totaled ¥2,187 million. As a result, net income increased 144.4 percent to ¥1,222 million.

The Company increased cash dividends per share by ¥2.00 from the previous fiscal year to ¥12.00 per share, in view of steady business results. For the year ending March 31, 2006, management expects to increase annual dividends to ¥14.00 per share to return profits to the shareholders who have supported the Company.

Progress in Business Innovation

Our main business of system integration is projected to continue on an expansion trend over the long term.

In this business environment, the NEC Networks & System Integration Group is shifting to a high-value-added business structure, and has set consolidated medium-term management targets for the year ending March 2009 to accelerate this process. Our numerical targets are net sales of ¥260 billion and operating income of ¥9.6 billion in the year ending March 2009. Our fundamental policies for medium-term targets are (1) securing steady growth and appropriate profits, and (2) moving to the next level as a systems integrator.

While we will continue to focus on network integration support services, we will endeavor to introduce our own original systems and services, which have particularly high added value, and develop niche products in order to broaden our business domain and expand into new markets.

As concrete measures to realize this, we are undertaking business innovations with an emphasis on five areas:

(i) Expanding high-value-added businesses
(ii) Improving our competitiveness in the telecommunications construction businesses
(iii) Strengthening market responsiveness
(iv) Increasing profitability through comprehensive cost reductions
(v) Cultivating professional human resources

(i) Expanding High-Value-Added Businesses

In the field of network integration, we are strengthening our system building technologies and our ability to offer solutions that extend to proposals for customer business models. In the field of support service, we are expanding our outsourcing service as well as our maintenance service, which provides consistently high-quality customer support nationwide through our Customer Support Center, 24 hours a day, 365 days a year.

(ii) Improving our Competitiveness in the Telecommunications Construction Businesses

We aim to increase the trust of customers by improving construction quality and through innovations in construction technology to reinforce our competitiveness. In addition, we will boost our cost competitiveness by implementing further cost-cutting measures.

(iii) Strengthening Market Responsiveness

In addition to strengthening our sales force through measures such as adding sales staff, we are focusing on cultivating new markets by introducing original products and services developed in-house. To promote these businesses and meet demand in expanding markets, we will work to increase market share through tie-ups and collaborative business arrangements with other companies.

(iv) Improving Profitability through Comprehensive Cost Reductions

We are reducing material costs through concurrent engineering and competitive purchasing, and are also reinforcing measures for standardization and innovation in construction technology. In addition, we are promoting more efficient allocation of expenses and improving personnel efficiency to strengthen our cost competitiveness.

(v) Cultivating Professional Human Resources

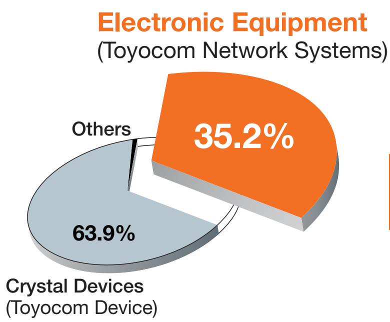
We are working to develop professional human resources with strong planning, system building and consulting skills and the ability to create a high level of customer satisfaction. In addition, we are fostering a learning culture in which employees themselves work to hone their sensitivity to changes in the business environment, raise their awareness of problems and improve the skills needed to perform their jobs.

On June 1, 2005, NEC Networks & System Integration Corporation acquired all of the shares of TOYO NETWORK SYSTEMS CO., LTD., which was separated from Toyo Communication Equipment Co., Ltd., and is primarily engaged

(Continued on pg. 6)

Acquisition of TOYO NETWORK SYSTEMS CO., LTD.

Outline of Businesses Transferred from Toyo Communication Equipment Co., Ltd.



* Names in parentheses are Toyo Communication Equipment internal company names.

Businesses Transferred

Approx. ¥11 billion (Non-consolidated sales, year ended March 2004)

• Money Handling Equipment Business

Manufacture and sale of automated ticket machines, money processing equipment, etc.

• Public Systems Business

Manufacture and sale of power line communication (PLC)[1] equipment, coarse wave division multiplexing (CWDM)[2] equipment, insulation monitoring equipment, etc.

1. **PLC** (Power Line Communication):
High-speed communication system using electrical wiring in the home or distribution lines.
Because it uses existing wiring, PLC enables inexpensive LANs or access lines for homes and businesses.

2. **CWDM** (Coarse Wave Division Multiplexing):
A low-density wave division multiplexing (WDM) system that multiplexes and simultaneously transmits multiple optical signals with different wavelengths on one fiber. Compared to dense wave division multiplexing (DWDM), which can multiplex many wavelengths, CWDM is designed for low-cost, short-distance transmission, and is suitable for construction of fiber optic networks in regions with complex geography and urban areas.

Outline of Newly Acquired Company

- **Company name:** TOYO NETWORK SYSTEMS CO., LTD.
- **Address:** 484, Tsukagoshi 3-chome, Saiwai-ku, Kawasaki-shi, Kanagawa
- **Representative:** Hiroshi Saito, President and Representative Director
- **Paid-in capital:** ¥400 million (100% owned by NEC Networks & System Integration Corp.)
- **Employees:** Approximately 280
- **Subsidiary:** TOYO ALPHANET CO., LTD. (Maintenance business related to TNS; about 80 employees)

We Aim to Generate Synergies from the Two Companies to Expand Our Operations.

Technological Synergy Systems

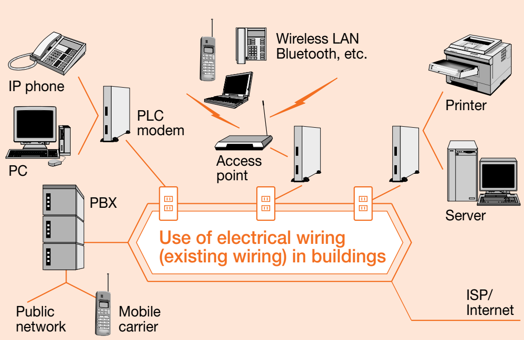
Integration (Our company) + Hardware technology (TNS)

Synergy in Sales & Support Services

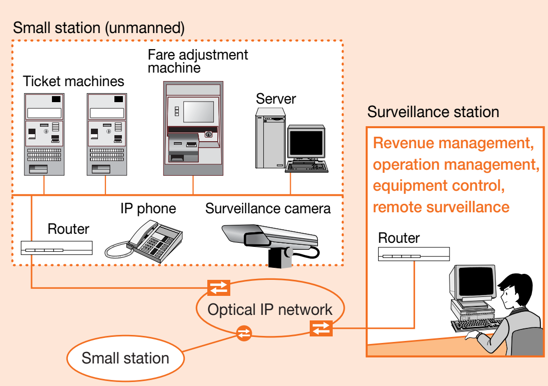
- Use of our domestic sales network of about 50 locations
- Use of our domestic service network of about 200 locations

Examples of Systems Using TNS Products

Intranet construction using a Power Line Carrier (PLC) system



A system incorporating money handling equipment (Station surveillance system)



in the electronic equipment business (network systems and money handling equipment). This acquisition will allow us to expand into new businesses in the area of network integration support services. In addition, it creates synergy for both companies in their technological, sales and maintenance capabilities, and will support expansion of earnings and further business development throughout the Group.

Enhancing and Promoting Corporate Governance and Compliance

We have now optimized the number of directors to six to facilitate quick response to changes in the operating environment. We have created a management structure that enables quick decision-making, and work to ensure management transparency and soundness by practicing timely, appropriate disclosure. NEC Networks & System Integration Corporation has also adopted the executive officer system to clearly separate supervision and execution. Moving to enhance management functions, we also formed the Executive Committee, consisting of executive officers at the managing director level and higher, to discuss policies pertaining to key management and operating issues, and the Business Execution Committee, which consists primarily of executive officers and division managers, to monitor the progress of and report on key matters concerning business execution. Corporate auditors attend meetings of the Board of Directors and other important meetings, thus contributing to a robust system for scrutinizing the directors' execution of their responsibilities.

The Group has also established the Corporate Behavior Subcommittee to provide a thorough basis for ethics and legal compliance in corporate activities. In January 2005, we completely revised the existing Corporate Behavior Charter and the Code of Corporate Behavior to promote common values and comprehensive standards of conduct throughout the Group, and established the new Group Corporate Behavior Charter and Group Code of Corporate Behavior. We plan to update these in October 2005 to reflect the establishment of our corporate philosophy and management policies.

In regard to risks associated with decision-making for management strategies, the Executive Committee analyzes risks proactively and considers measures to address them. For risks related to business execution, specialized staff departments have been set up to establish risk management systems in cooperation with the relevant divisions. In July 2005, we established the Compliance Promotion Department to strengthen and promote compliance at the company-wide level.

All employees of the Group will focus on the point of contact with customers, based on the motto "Customers First," maintaining a constant awareness of and quickly responding to customer needs, and promoting business activities aimed at being the best partner for our customers. We ask for your continued steadfast support.

October 2005

Yukihiko Baba
President

The Group has changed its segment presentation beginning with the fiscal year ended March 31, 2005.
Results for the year ended March 2004 have been restated to permit year-on-year comparison.

Network integration / Support service

Segment orders received increased 8.4 percent, or ¥7,016 million, compared to the previous fiscal year to ¥90,080 million. Orders received increased primarily because of an increase in private-sector projects for new network systems in areas such as VoIP systems to raise efficiency and reduce costs, as well as for the upgrading of existing systems. In addition, network system construction for telecommunication companies also increased. Segment sales increased 8.2 percent, or ¥6,501 million, compared to the previous fiscal year to ¥85,786 million, primarily for the same reasons that orders received increased.

Telecommunications engineering

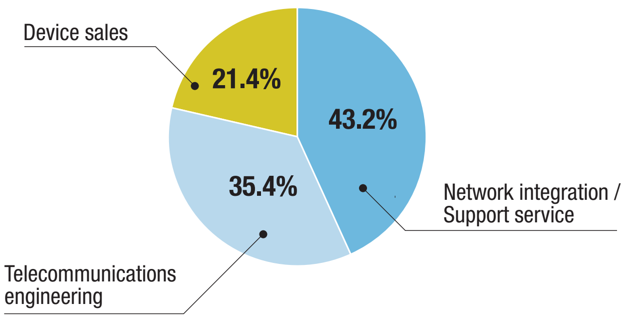
Segment orders received increased 4.9 percent, or ¥3,558 million, compared to the previous fiscal year to ¥75,703 million. Orders from telecommunication companies for construction of backbone networks increased. Moreover, orders for large-scale backbone network construction projects increased from broadcasting companies, particularly from cable television companies. Despite the solid increase in orders received, segment sales decreased 11.8 percent, or ¥9,449 million, compared to the previous fiscal year to ¥70,404 million. The Group will record sales from large-scale projects ordered during the past fiscal year in future fiscal years. As a result, their contribution to sales in the past fiscal year was minimal. Sales in connection with the construction of local government-related public networks decreased substantially.

Device sales

Segment orders received increased 1.9 percent, or ¥762 million, compared to the previous fiscal year to ¥41,676 million. Strong orders from the financial industry for information terminals and equipment in response to the introduction of new currency in the previous fiscal year decreased in the year ended March 2005, but orders from the service industry for new systems increased. Moreover, sales of equipment in cooperation with telecommunication companies increased. Segment sales increased 21.7 percent, or ¥7,561 million, compared to the previous fiscal year to ¥42,434 million. Sales increased to the financial industry for information terminals and equipment in response to the introduction of new currency in the previous fiscal year. Sales also increased to the service industry, particularly for the development of new systems.

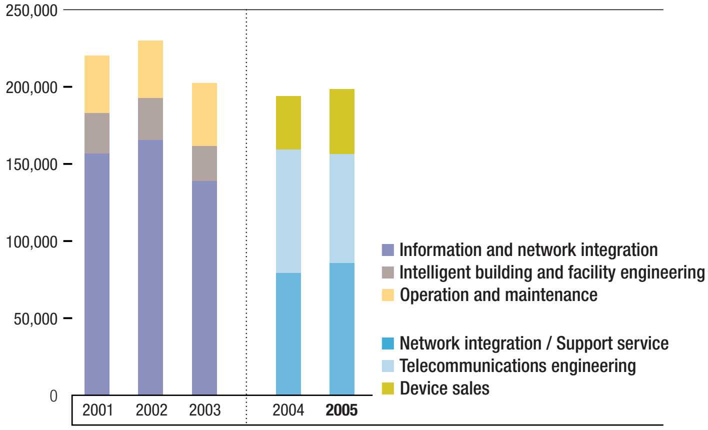
Composition of Net Sales by Business Segment

(Year ended March 31, 2005)



Net Sales by Business Segment

(Millions of yen)



SIX-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]
	2005	2004	2003	2002	2001	2000	**2005**
For the year:							
Orders	**¥ 207,460**	¥196,123	¥203,038	¥223,337	¥231,893	¥210,709	**$1,931,837**
Net sales	**198,625**	194,012	202,419	230,064	220,096	208,526	**1,849,567**
Network integration / Support service	**85,786**	79,285	—	—	—	—	**798,827**
Telecommunications engineering	**70,404**	79,853	—	—	—	—	**655,592**
Device sales	**42,434**	34,873	—	—	—	—	**395,139**
Information and network integration	**—**	126,617	138,997	165,557	156,873	146,158	**—**
Intelligent building and facility engineering	**—**	23,465	22,559	27,028	26,133	28,125	**—**
Operation and maintenance	**—**	43,929	40,863	37,478	37,089	34,242	**—**
Selling, general and administrative expenses	**16,921**	17,263	17,418	16,994	16,909	18,085	**157,566**
Operating income	**4,812**	4,419	5,675	4,526	8,745	5,562	**44,809**
Net income	**1,222**	500	1,512	617	3,018	1,292	**11,379**
Capital expenditures	**2,133**	1,120	755	1,506	686	1,010	**19,862**
Depreciation and amortization	**1,712**	1,455	1,464	1,099	1,033	1,001	**15,942**
Research and development costs	**428**	290	58	57	52	131	**3,985**
At year-end:							
Total assets	**¥ 123,935**	¥118,416	¥116,289	¥136,172	¥148,964	¥130,094	**$1,154,065**
Shareholders' equity	**51,704**	50,971	51,822	51,134	51,107	47,765	**481,460**
Per share of common stock (yen and U.S. dollars):							
Net income[2] (basic)	**¥ 28.24**	¥ 10.87	¥ 33.93	¥ 14.33	¥ 70.40	¥ 30.27	**$ 0.26**
Shareholders' equity (BPS)	**1,231.28**	1,213.62	1,202.58	1,187.31	1,186.95	1,118.95	**11.47**
Cash flows (CFPS)	**69.0**	45.00	67.95	39.86	94.49	53.73	**0.643**
Cash dividends	**12.00**	10.00	10.00	12.50	12.50	10.00	**0.11**
Ratios and return indicators (%):							
Operating income to net sales	**2.4**	2.3	2.8	2.0	4.0	2.7	
Return on shareholders' equity (ROE)	**2.4**	1.0	2.9	1.2	6.1	2.7	
Return on assets (ROA)	**1.0**	0.4	1.2	0.4	2.2	1.0	
Shareholders' equity ratio	**41.7**	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 ¥107.39 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2005.
2. A new accounting standard for amounts per share became effective April 1, 2002. See Note 13 of Notes to Consolidated Financial Statements (page 23) for details.

NEC Networks & System Integration Corporation ("the Company;" formerly NEC System Integration & Construction, Ltd.) and its 10 consolidated subsidiaries (together, "the Group") provide comprehensive systems, primarily in the area of network integration. Operations also include network maintenance, operation and monitoring services.

Review of Consolidated Operations

Net Sales

Moderate economic recovery continued during the fiscal year ended March 31, 2005. However, operating conditions remained unsettled because of underlying factors including rising crude oil and raw material prices and issues such as a growing trend toward falling prices and inventory adjustment in information-related sectors.

Given these conditions, the Group worked to strengthen its ability to propose and sell comprehensive solutions and services that optimally meet customer needs. The Group enhanced its comprehensive domestic sales capabilities, system engineering capabilities, systems integration capabilities and software development capabilities. The Group also improved its ability to coordinate rapid, well-organized maintenance services from approximately 200 locations nationwide. In addition, the Group enhanced its ability to construct the foundation for systems such as broadband networks and VoIP systems, deliver maintenance and outsourcing services, and develop original network-related products.

As a result, on a consolidated basis orders received increased 5.8 percent compared to the previous fiscal year to ¥207,460 million. While orders decreased, mainly from national and regional government agencies, in the private sector orders from telecommunication companies and cable television providers for construction of backbone networks increased due to expansion in the communication services they provide. In addition, orders from the private sector for network and system construction were firm as a result of the Group's sales and proposal activities.

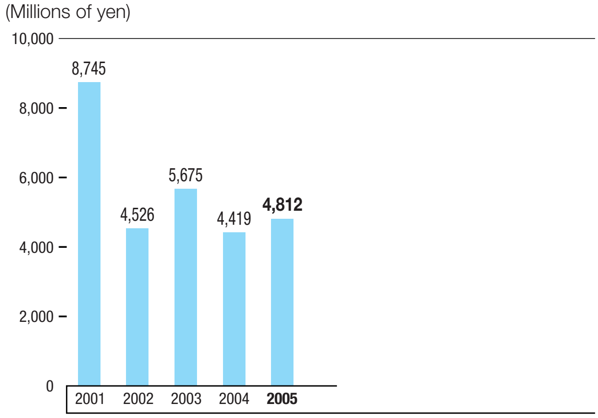
Net sales increased 2.4 percent compared to the previous fiscal year to ¥198,625 million. As in the case of orders received, net sales from national and regional government agencies decreased, while domestic demand supported increased sales from customers including telecommunication companies and the private sector. Domestic sales increased 2.8 percent to ¥185,071 million, while overseas sales decreased 3.2 percent to ¥13,554 million. NEC Networks & System Integration Corporation is a majority-owned subsidiary of NEC Corporation (NEC). Consolidated net sales included sales to NEC totaling ¥56,510 million. Sales to NEC accounted for 28.5 percent of net sales, compared to 28.2 percent for the previous fiscal year.

Operating Income

Gross profit increased 0.2 percent year-on-year to ¥21,733 million due to the increase in net sales. The gross margin decreased to 10.9 percent from 11.2 percent for the previous fiscal year. A primary reason for the decrease was reduced profitability in businesses such as equipment sales due to factors including the impact of strategic projects the Group took on at lower margins amid increasing competition. Selling, general and administrative expenses decreased 2.0 percent compared to the previous fiscal year to ¥16,921 million because the Group reduced the number of employees and personnel expenses.

As a result, operating income increased 8.9 percent year-on-year to ¥4,812 million due mainly to higher net sales and gross profit, and was 2.4 percent of net sales, compared to 2.3 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 ¥428 million for the year ended March 2005, compared to ¥290 million for the previous fiscal year. The Group conducts ongoing research and development in two main fields. One field involves information and communications technologies, drawing on the Group's many years of experience in serving telecommunication 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)

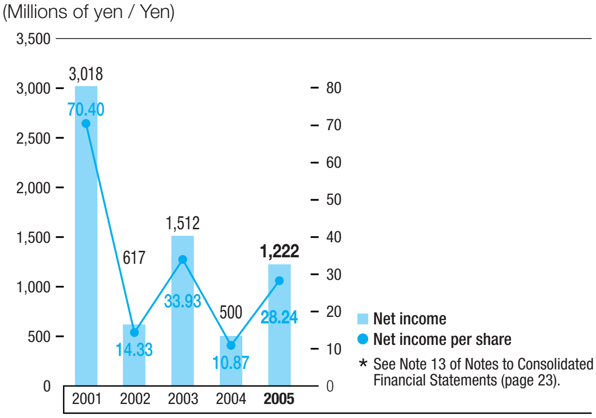
Net other expenses totaled ¥2,248 million, compared to ¥3,055 million for the previous fiscal year. Other income decreased ¥318 million from the previous fiscal year to ¥221 million. Gain on sale of investment securities totaled ¥98 million, a decrease of ¥104 million compared to the previous fiscal year, and interest and dividend income decreased to ¥123 million. Other factors included the absence of gain on sale of land that totaled ¥200 million in the previous fiscal year.

Other expenses decreased ¥1,125 million compared to the previous fiscal year to ¥2,468 million. As in the previous fiscal year, amortization of net retirement benefit obligation at transition totaled ¥2,138 million. However, loss on return of the substitutional portion of the welfare pension fund plan that totaled ¥640 million in the previous fiscal year did not recur. In addition, bad debt loss that totaled ¥311 million in the previous fiscal year and provision for doubtful receivables that totaled ¥251 million in the previous fiscal year did not recur. The Group began amortizing net retirement benefit obligation at transition as part of other expenses during the year ended March 31, 2001, and the fiscal year ended March 31, 2005 was the fifth and last year of this amortization process.

Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests increased 88.0 percent year-on-year to ¥2,563 million, and income taxes net of deferrals increased 59.0 percent to ¥1,294 million. As a result, net income increased 144.4 percent year-on-year to ¥1,222 million. Net income per share increased to ¥28.24 from ¥10.87 for the previous fiscal year.

Net Income and Net Income Per Share*
(Millions of yen / Yen)



* See Note 13 of Notes to Consolidated Financial Statements (page 23).

Dividend Policy

The Company considers increasing shareholder returns a management priority, and is working to raise corporate value by strengthening its operating foundation, enhancing its financial structure and increasing earnings capabilities. The Company's basic policy is to distribute dividends that are appropriate in terms of overall consideration of financial conditions and consolidated performance and that live up to shareholders' expectations. Based on this policy, the Company maintained stable performance and therefore increased the year-end dividend by ¥2.00 per share to increase total cash dividends for the year ended March 2005 to ¥12.00 per share from ¥10.00 for the previous fiscal year.

The Company'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.

Financial Policy

The Group is working to raise efficiency and implement structural reforms by strengthening innovation in business operations company-wide. A key emphasis in this drive is the further enhancement of the Group's financial position. The Group also seeks to enhance its financial structure by optimizing the balance of interest-bearing debt and reducing financial costs, which contributes to raising the Group's corporate value.

Liquidity and Financial Position

Cash Flow

Net cash provided by operating activities was ¥1,032 million, a ¥1,753 million decrease from ¥2,785 million for the previous fiscal year. Although inventories and trade notes and accounts payable improved over the previous fiscal year, an increase in trade notes and accounts receivable resulted in the year-on-year decrease in net cash provided by operations.

Net cash used in investing activities totaled ¥2,394 million, a ¥1,441 million increase from ¥952 million for the previous fiscal year. The main factor was payment for purchases of equipment for use in operations.

Net cash provided by financing activities totaled ¥2,110 million, a ¥3,328 million differential from net cash used in financing activities totaling ¥1,218 million in the previous fiscal year. With due consideration of funding costs, the Group reduced sales of notes and accounts receivable in stages and replaced this cash flow with short-term bank loans.

As a result of the above activities, cash and cash equivalents as of March 31, 2005 increased ¥739 million from a year earlier to ¥10,202 million.

Cash Flow Highlights
(Millions of yen)

Years ended March 31	**2005**	2004	2003
Net cash provided by operating activities	**1,032**	2,785	6,668
Net cash used in investing activities	**(2,394)**	(952)	(1,256)
Net cash provided by (used in) financing activities	**2,110**	(1,218)	(11,917)

Financial Position

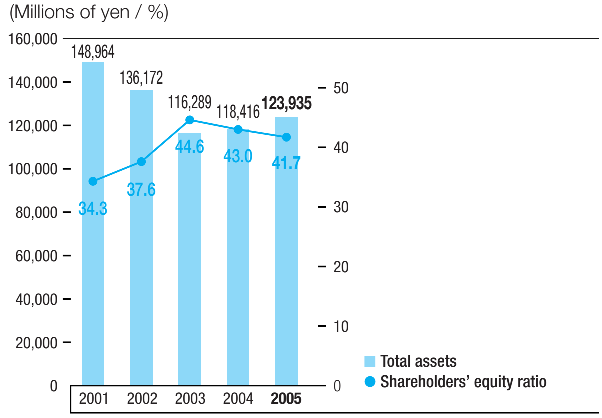
Assets

As of March 31, 2005, total assets were ¥123,935 million, an increase of 4.7 percent, or ¥5,519 million, from a year earlier. Return on average total assets (ROA) improved to 1.0 percent from 0.4 percent for the previous fiscal year.

Current assets as of March 31, 2005 totaled ¥102,537 million, an increase of 5.3 percent, or ¥5,203 million, from a year earlier. The primary reason was an increase of ¥9,552 million in notes and accounts receivable compared to the previous fiscal year-end, which more than offset a decrease of ¥2,876 million in inventories compared to the previous fiscal year-end.

Property and equipment, net decreased 11.3 percent from a year earlier, or ¥946 million, to ¥9,283 million, due to payment for purchases of equipment for use in operations.

Total Assets and Shareholders' Equity Ratio
(Millions of yen / %)



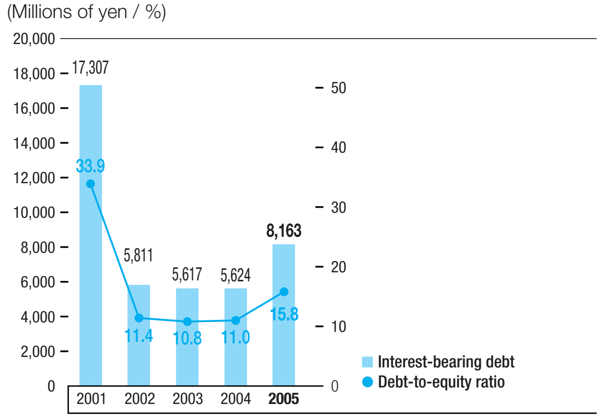
Liabilities

As of March 31, 2005, total liabilities were ¥71,687 million, an increase of 7.1 percent, or ¥4,760 million from a year earlier. Current liabilities increased 6.5 percent, or ¥3,570 million, from a year earlier to ¥58,103 million. The primary factor was increases in notes and accounts payable and short-term bank loans totaling ¥6,380 million.

As a result, working capital increased to ¥44,434 million from ¥42,801 million a year earlier, and the current ratio was unchanged at 1.8 times.

Long-term liabilities increased 9.6 percent from a year earlier, or ¥1,190 million, to ¥13,584 million, due to an increase in accrued employees' retirement benefits.

Interest-Bearing Debt and Debt-to-Equity Ratio
(Millions of yen / %)



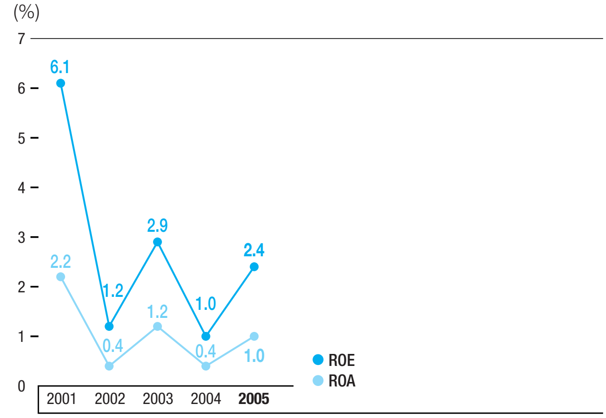
Interest-bearing debt as of March 31, 2005, which consisted of short-term bank loans, increased ¥2,539 million from a year earlier to ¥8,163 million. With due consideration of funding costs, the Group reduced sales of notes and accounts receivable in stages and replaced this cash flow with short-term bank loans.

For reference: The interest coverage ratio (cash flow from operating activities divided by interest expense) decreased from 20.2 percent in the previous fiscal year to 11.2 percent.

Shareholders' Equity

As of March 31, 2005, shareholders' equity totaled ¥51,704 million, an increase of 1.4 percent, or ¥733 million, compared to the previous fiscal year-end. The increase was primarily the result of the ¥724 million increase in retained earnings. The ratio of shareholders' equity to total assets decreased 1.3 percentage points to 41.7 percent. Return on average total shareholders' equity (ROE) was 2.4 percent, compared to 1.0 percent for the previous fiscal year.

Return on Shareholders' Equity (ROE) and Return on Assets (ROA)
(%)



Outlook for the Fiscal Year Ending March 31, 2006

The outlook for the current fiscal year is uncertain. While Japan's economy is likely to remain at its current level, issues such as rising crude oil and raw material prices and global conditions will exert a significant impact on results. The Group therefore projects that orders received will increase 6.0 percent year-on-year to ¥220,000 million, net sales will increase 5.7 percent year-on-year to ¥210,000 million, operating income will decrease 0.3 percent year-on-year to ¥4,800 million and net income will increase 50.6 percent year-on-year to ¥1,840 million.

Note: The above projections include projections for the equipment business transferred to the Group from Toyo Communication Equipment Co., Ltd. in June 2005.

CONSOLIDATED BALANCE SHEETS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	**2005**	2004	**2005**
Current assets:			
Cash and cash equivalents	**¥ 10,202**	¥ 9,463	**$ 95,000**
Short-term investments (Note 4)	**10**	32	**93**
Notes and accounts receivable:	**72,534**	62,982	**675,426**
Less allowance for doubtful receivables	**(1,186)**	(1,093)	**(11,044)**
Inventories (Note 5)	**16,239**	19,115	**151,215**
Deferred income taxes (Note 7)	**2,416**	2,562	**22,497**
Other current assets	**2,321**	4,270	**21,613**
Total current assets	**102,537**	97,334	**954,810**
Property and equipment:			
Land	**2,681**	2,681	**24,965**
Buildings and structures	**6,787**	6,774	**63,200**
Machinery and vehicles	**49**	54	**456**
Furniture and fixtures	**6,780**	4,838	**63,134**
Construction in progress	**271**	551	**2,524**
Accumulated depreciation	**(7,287)**	(6,563)	**(67,855)**
Property and equipment, net	**9,283**	8,337	**86,442**
Investments and other assets:			
Investment securities (Note 4)	**1,029**	1,046	**9,582**
Intangibles, net of allowance for amortization	**2,197**	2,207	**20,458**
Deferred income taxes (Note 7)	**5,713**	4,999	**53,199**
Other assets	**3,173**	4,491	**29,547**
Total investments and other assets	**12,114**	12,744	**112,804**
Total assets	**¥123,935**	¥118,416	**$1,154,065**

Liabilities and shareholders' equity	Millions of yen 2005	2004	Thousands of U.S. dollars (Note 3) 2005
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 8,163**	¥ 5,624	**$ 76,013**
Notes and accounts payable	**37,587**	33,747	**350,005**
Advances received	**5,261**	7,475	**48,990**
Accrued income taxes (Note 7)	**1,235**	1,341	**11,500**
Other current liabilities	**5,856**	6,343	**54,530**
Total current liabilities	**58,103**	54,533	**541,047**
Long-term liabilities:			
Accrued employees' retirement benefits (Note 8)	**13,450**	12,361	**125,244**
Accrued retirement benefits for directors and corporate auditors (Note 2 (j))	**78**	—	**726**
Other liabilities	**55**	33	**512**
Total long-term liabilities	**13,584**	12,394	**126,492**
Minority interests in consolidated subsidiaries	**543**	516	**5,056**
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	**122,190**
Capital surplus	**12,622**	12,622	**117,534**
Retained earnings	**27,415**	26,691	**255,284**
Unrealized holding gain on securities	**88**	81	**819**
Foreign currency translation adjustments	**(635)**	(643)	**(5,913)**
	52,613	51,874	**489,925**
Treasury stock, at cost	**(909)**	(902)	**(8,464)**
Shareholders' equity, net	**51,704**	50,971	**481,460**
Contingent liabilities (Note 10)			
Total liabilities and shareholders' equity	**¥123,935**	¥118,416	**$1,154,065**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Net sales (Note 15)	**¥198,625**	¥194,012	**$1,849,567**
Cost of sales (Note 12)	**176,891**	172,329	**1,647,183**
Gross profit	**21,733**	21,682	**202,375**
Selling, general and administrative expenses (Note 12)	**16,921**	17,263	**157,566**
Operating income	**4,812**	4,419	**44,809**
Other income (expenses):			
Interest and dividend income	**123**	137	**1,145**
Interest expense	**(92)**	(121)	**(857)**
Provision for doubtful receivables	**(66)**	(251)	**(615)**
Amortization of net retirement benefit obligation at transition	**(2,138)**	(2,138)	**(19,909)**
Bad debt loss	**—**	(311)	**—**
Loss on return of the substitutional portion of the welfare pension fund plan	**—**	(640)	**—**
Gain on sale of investment securities	**98**	202	**913**
Gain on sale of land	**—**	200	**—**
Exchange loss	**(71)**	(13)	**(661)**
Provision for retirement benefits for directors and corporate auditors (Note 2 (j))	**(49)**	—	**(456)**
Loss on investments in partnerships	**(52)**	(59)	**(484)**
Other, net	**(0)**	(60)	**(0)**
	(2,248)	(3,055)	**(20,933)**
Income before income taxes and minority interests	**2,563**	1,363	**23,866**
Income taxes (Note 7):			
Current	**1,868**	2,498	**17,395**
Deferred	**(573)**	(1,684)	**(5,336)**
	1,294	814	**12,050**
Minority interests	**46**	48	**428**
Net income (Note 13)	**¥ 1,222**	¥ 500	**$ 11,379**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

		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, 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)
Net gains on sales of treasury stock	**—**	**—**	**0**	**—**	**—**	**—**	**—**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(37)**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(419)**	**—**	**—**	**—**
Net income for the year ended March 31, 2005	**—**	**—**	**—**	**1,222**	**—**	**—**	**—**
Decrease of consolidated subsidiaries	**—**	**—**	**—**	**(41)**	**—**	**—**	**—**
Unrealized holding gain on securities	**—**	**—**	**—**	**—**	**7**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**8**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(7)**
Balance at March 31, 2005	**43,069,207**	**¥13,122**	**¥12,622**	**¥27,415**	**¥88**	**¥(635)**	**¥(909)**

	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, 2004	$122,190	$117,534	$248,543	$754	$(5,988)	$(8,399)
Net gains on sales of treasury stock	**—**	**0**	**—**	**—**	**—**	**—**
Bonuses to directors and statutory auditors	**—**	**—**	**(345)**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**(3,902)**	**—**	**—**	**—**
Net income for the year ended March 31, 2005	**—**	**—**	**11,379**	**—**	**—**	**—**
Decrease of consolidated subsidiaries	**—**	**—**	**(382)**	**—**	**—**	**—**
Unrealized holding gain on securities	**—**	**—**	**—**	**65**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**74**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(65)**
Balance at March 31, 2005	**$122,190**	**$117,534**	**$255,284**	**$819**	**$(5,913)**	**$(8,464)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC System Integration & Construction, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	**2005**
Operating activities			
Income before income taxes and minority interests	**¥ 2,563**	¥ 1,363	**$ 23,866**
Depreciation and amortization	**1,712**	1,455	**15,942**
Amortization of excess of costs over net assets acquired	**(6)**	5	**(56)**
Provision for doubtful receivables	**(55)**	9	**(512)**
Provision for accrued employees' retirement benefits	**1,090**	2,565	**10,150**
Provision for retirement benefits for directors and corporate auditors	**78**	—	**726**
Interest and dividend income	**(63)**	(75)	**(587)**
Interest expense	**92**	121	**857**
Gain on sales of investment securities	**(98)**	(202)	**(913)**
Gain on sales of property and equipment	**(8)**	(206)	**(74)**
Trade notes and accounts receivable	**(9,592)**	2,705	**(89,319)**
Inventories	**2,859**	(2,683)	**26,623**
Trade notes and accounts payable	**3,849**	(238)	**35,841**
Other	**435**	144	**4,051**
	2,858	4,964	**26,613**
Interest and dividends received	**63**	2	**587**
Interest paid	**(92)**	(137)	**(857)**
Income taxes paid	**(1,796)**	(2,044)	**(16,724)**
Net cash provided by operating activities	**1,032**	2,785	**9,610**
Investing activities			
Sales of short-term investments	**—**	5	**—**
Purchases of property and equipment	**(2,132)**	(1,112)	**(19,853)**
Sales of property and equipment	**22**	332	**205**
Purchases of intangibles, net of allowance for amortization	**(695)**	(497)	**(6,472)**
Purchases of investment securities	**(26)**	(109)	**(242)**
Sales of investment securities	**154**	305	**1,434**
Loans receivable made	**(42)**	(49)	**(391)**
Collection of loans receivable	**39**	63	**363**
Other	**285**	109	**2,654**
Net cash used in investing activities	**(2,394)**	(952)	**(22,293)**
Financing activities			
Net increase in short-term bank loans	**2,546**	107	**23,708**
Purchases of treasury stock, net	**(7)**	(885)	**(65)**
Proceeds from sales of treasury stock	**1**	—	**9**
Cash dividends paid	**(418)**	(429)	**(3,892)**
Other	**(12)**	(10)	**(112)**
Net cash provided by (used in) financing activities	**2,110**	(1,218)	**19,648**
Effect of exchange rate changes on cash and cash equivalents	**(6)**	(16)	**(56)**
Net increase in cash and cash equivalents	**741**	597	**6,900**
Cash and cash equivalents at beginning of the year	**9,463**	8,865	**88,118**
Decrease due to the exclusion of subsidiaries from consolidation	**(3)**	—	**(28)**
Cash and cash equivalents at end of the year	**¥10,202**	¥ 9,463	**$ 95,000**

See notes to consolidated financial statements.

1. BASIS OF PREPARATION

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

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and, have been prepared in accordance with accounting principles 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 except for investments in limited partnerships that are accounted for by the equity method. 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 except for certain leased assets of the Company and property and equipment of certain foreign subsidiaries on which depreciation is computed by the straight-line method, based on the estimated useful lives of the respective assets. Significant renewals and improvements 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.

In addition, directors and corporate auditors are entitled, in most circumstances, to lump-sum severance payments based on current rates of pay, length of service and certain other factors. Provision for retirement benefits for these directors and corporate auditors are made at estimated amounts based on their internal rules.

Effective April 1, 2004, the Company and certain consolidated subsidiaries changed their method of accounting for retirement benefits for directors and corporate auditors from a cash basis to an accrual basis in order to achieve a better matching of revenue and expenses.

The effect of this change was to decrease operating income and income before income taxes and minority interests for the year ended March 31, 2005 by ¥29 million ($270 thousand) and ¥78 million ($726 thousand), respectively, as compared with the corresponding amounts, which would have been reported if the previous method had been applied.

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 ¥107.39 = U.S.$1.00, the approximate rate of exchange on March 31, 2005. 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, 2005 and 2004 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2005	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	**¥152**	**¥301**	**¥149**	**$1,415**	**$2,803**	**$1,387**
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**152**	**301**	**149**	**1,415**	**2,803**	**1,387**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**—**	**—**	**—**	**—**	**—**	**—**
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**
Other	**—**	**—**	**—**	**—**	**—**	**—**
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥152**	**¥301**	**¥149**	**$1,415**	**$2,803**	**$1,387**

	Millions of yen		
March 31, 2004	Acquisition cost	Carrying value	Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥147	¥284	¥137
Debt securities	—	—	—
Other	—	—	—
Subtotal	147	284	137
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	—	—	—
Debt securities	—	—	—
Other	—	—	—
Subtotal	—	—	—
Total	¥147	¥284	¥137

b) Sales of securities classified as other securities for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Proceeds from sales	**¥154**	¥305	**$1,434**
Gains on sales	**98**	202	**913**
Losses on sales	**19**	—	**177**

c) The components of non-marketable securities classified as other securities at March 31, 2005 and 2004 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Other securities:			
Unlisted securities (except for OTC securities)	**¥373**	¥373	**$3,473**
Investments in limited partnerships	**354**	389	**3,296**
Total	**¥727**	¥762	**$6,770**

5. INVENTORIES

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Work in process	**¥14,736**	¥17,612	**$137,219**
Purchased goods, materials and supplies	**1,503**	1,503	**13,996**
	¥16,239	¥19,115	**$151,215**

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, 2005 and 2004 were approximately 0.6% and 1.0%, 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 40.7% for 2005 and 42.1% for 2004. 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, 2005 and 2004 differ from the statutory tax rate for the following reasons:

	2005	2004
Statutory tax rate	**40.7%**	42.1%
Effect of:		
Expenses not deductible for income tax purposes	**5.3**	8.9
Dividend income deductible for income tax purposes	**(0.2)**	(0.7)
Inhabitants tax per capita levy	**3.1**	6.0
Adjustment in deferred tax assets and liabilities due to the change in tax rates	**—**	4.6
Tax credit	**(1.3)**	(7.6)
Other, net	**2.9**	6.4
Effective tax rates	**50.5%**	59.7%

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Accrued bonuses	**¥1,115**	¥1,190	**$10,383**
Allowance for doubtful receivables	**512**	468	**4,768**
Accrued enterprise tax	**115**	114	**1,071**
Notes and accounts receivable	**174**	278	**1,620**
Unrealized profit on inventories	**8**	12	**74**
Foreign tax credits	**329**	380	**3,064**
Accrued retirement benefits	**5,285**	4,657	**49,213**
Other	**755**	535	**7,030**
Sub-total	**8,297**	7,637	**77,260**
Valuation allowance	**(103)**	(17)	**(959)**
Total	**8,193**	7,619	**76,292**
Deferred tax liabilities:			
Advanced depreciation of property and equipment	**(1)**	(1)	**(9)**
Unrealized holding gain on securities	**(60)**	(55)	**(559)**
Other	**(1)**	(1)	**(9)**
	(63)	(58)	**(587)**
Net deferred tax assets	**¥8,129**	¥7,561	**$75,696**

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, 2005 and 2004 for the Company’s and the consolidated subsidiaries’ defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Retirement benefit obligation	**¥(24,823)**	¥(30,512)	**$(231,148)**
Plan assets at fair value	**9,925**	8,545	**92,420**
Unfunded retirement benefit obligation	**(14,897)**	(21,967)	**(138,719)**
Unrecognized actuarial loss	**6,694**	8,512	**62,334**
Unrecognized prior service cost	**(5,247)**	(1,044)	**(48,859)**
Unrecognized net retirement benefit obligation at transition	**—**	2,138	**—**
Accrued employees’ retirement benefits	**¥(13,450)**	¥(12,361)	**$(125,244)**

The components of retirement benefit expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥1,362**	¥1,344	**$12,683**
Interest cost	**643**	823	**5,988**
Expected return on plan assets	**(213)**	(376)	**(1,983)**
Amortization of actuarial loss	**543**	425	**5,056**
Amortization of prior service cost	**(341)**	(74)	**(3,175)**
Amortization of net retirement benefit obligation at transition	**2,138**	2,138	**19,909**
Subtotal	**4,131**	4,280	**38,467**
Loss on return of the substitutional portion of WPFP	**—**	640	**—**
Total	**¥4,131**	¥4,921	**$38,467**

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 for the year ended March 31, 2003. For the year ended March 31, 2004, the Company adjusted the previously recognized gain by ¥640 million because of the actuarial loss incurred as attributable to the pension assets to be transferred to the government.

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

	2005	2004
Discount rate	**2.5%**	2.5%
Expected return on plan assets	**2.5%**	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 ($5,084 thousand) as of both March 31, 2005 and 2004.

10. CONTINGENT LIABILITIES

At March 31, 2005, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥286 million ($2,663 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, 2005 and 2004, 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
	2005	2004	**2005**
Acquisition costs:			
Machinery and vehicles	**¥ 171**	¥ 219	**$ 1,592**
Furniture and fixtures	**4,273**	4,331	**39,790**
	¥4,444	¥4,550	**$41,382**
Accumulated depreciation:			
Machinery and vehicles	**¥ 66**	¥ 94	**$ 615**
Furniture and fixtures	**2,091**	2,064	**19,471**
	¥2,157	¥2,159	**$20,086**
Net book value:			
Machinery and vehicles	**¥ 105**	¥ 124	**$ 978**
Furniture and fixtures	**2,181**	2,267	**20,309**
	¥2,286	¥2,391	**$21,287**

Lease payments relating to finance leases accounted for as operating leases amounted to ¥968 million ($9,014 thousand) and ¥1,032 million for the years ended March 31, 2005 and 2004, 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 ¥900 million ($8,381 thousand) and ¥64 million ($596 thousand), respectively, for the year ended March 31, 2005 and ¥944 million and ¥60 million, respectively, for the year ended March 31, 2004.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2005 and 2004 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Due within one year	**¥ 752**	¥ 846	**$ 7,003**
Due over one year	**1,535**	1,533	**14,294**
Total	**¥2,288**	¥2,379	**$21,306**

b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2005 and 2004 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Due within one year	**¥25**	¥26	**$233**
Due over one year	**43**	39	**400**
Total	**¥69**	¥66	**$643**

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥428 million ($3,985 thousand) and ¥290 million for the years ended March 31, 2005 and 2004, respectively.

13. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2005	2004	**2005**
Net income	**¥ 28.24**	¥ 10.87	**$ 0.26**
Cash dividends applicable to the year	**12.00**	10.00	**0.11**
Net assets	**1,231.28**	1,213.62	**11.47**

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, 2005 and 2004, 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 ¥56,510 million ($526,213 thousand) and ¥54,640 million for the years ended March 31, 2005 and 2004, respectively. In addition, the Company purchased communications equipment and other from NEC in amounts of ¥47,112 million ($438,700 thousand) and ¥43,735 million during the years ended March 31, 2005 and 2004, respectively.

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

16. SEGMENT INFORMATION

In order to better manage its operating results by types of services, nature and business models, effective the year ended March 31, 2005, the Company changed its business segmentation from the information and network integration segment, the intelligent building and facility engineering segment and the operation and maintenance segment to the network integration support service segment, the telecommunications engineering segment and the device sales segment.

To conform to the segmentation used in the year ended March 31, 2005, the segment information for the year ended March 31, 2004 has been restated in accordance with the new segments.

Business segments

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is summarized as follows:

	Millions of yen					
Year ended March 31, 2005	Network integration / Support service	Telecommunications engineering	Device sales	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	**¥85,786**	**¥70,404**	**¥42,434**	**¥198,625**	**¥ —**	**¥198,625**
(2) Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**85,786**	**70,404**	**42,434**	**198,625**	**—**	**198,625**
Operating expenses	**80,000**	**66,969**	**42,531**	**189,500**	**4,312**	**193,813**
Operating income	**¥ 5,785**	**¥ 3,434**	**¥ (96)**	**¥ 9,124**	**¥ (4,312)**	**¥ 4,812**
II. Assets, depreciation expenses, capital expenditures:						
Assets	**¥42,019**	**¥37,835**	**¥15,435**	**¥ 95,291**	**¥28,643**	**¥123,935**
Depreciation expenses	**696**	**30**	**—**	**727**	**984**	**1,712**
Capital expenditures	**1,886**	**39**	**—**	**1,926**	**904**	**2,830**

Year ended March 31, 2005	Network integration / Support service	Telecommu-nications engineering	Device sales	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales:						
(1) Sales to third parties	**$798,827**	**$655,592**	**$395,139**	**$1,849,567**	**$ —**	**$1,849,567**
(2) Intersegment sales	**—**	**—**	**—**	**—**	**—**	**—**
Total sales	**798,827**	**655,592**	**395,139**	**1,849,567**	**—**	**1,849,567**
Operating expenses	**744,948**	**623,606**	**396,042**	**1,764,596**	**40,153**	**1,804,758**
Operating income	**$ 53,869**	**$ 31,977**	**$ (894)**	**$ 84,961**	**$ (40,153)**	**$ 44,809**
II. Assets, depreciation expenses, capital expenditures:						
Assets	**$391,275**	**$352,314**	**$143,728**	**$ 887,336**	**$266,719**	**$1,154,065**
Depreciation expenses	**6,481**	**279**	**—**	**6,770**	**9,163**	**15,942**
Capital expenditures	**17,562**	**363**	**—**	**17,935**	**8,418**	**26,353**

Year ended March 31, 2004	Network integration / Support service	Telecommu-nications engineering	Device sales	Total	Eliminations or corporate	Consolidated
	Millions of yen					
I. Sales:						
(1) Sales to third parties	¥79,285	¥79,853	¥34,873	¥194,012	¥ —	¥194,012
(2) Intersegment sales	—	—	—	—	—	—
Total sales	79,285	79,853	34,873	194,012	—	194,012
Operating expenses	73,641	77,026	34,213	184,881	4,710	189,592
Operating income	¥ 5,644	¥ 2,826	¥ 659	¥ 9,130	¥ (4,710)	¥ 4,419
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥33,497	¥37,053	¥20,092	¥ 90,643	¥27,772	¥118,416
Depreciation expenses	457	43	—	500	955	1,456
Capital expenditures	779	59	—	838	779	1,618

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, 2005 and 2004, 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 years ended March 31, 2005 and 2004, the disclosure of overseas sales information was omitted.

17. SUBSEQUENT EVENTS

a) In accordance with an agreement dated March 28, 2005 between the Company and Toyo Communication Equipment Co., Ltd. ("Toyo Communication"), on June 1, 2005, the Company acquired all shares of Toyo Network Systems Co., Ltd. from Toyo Communication for ¥3,410 million ($31,753 thousand).

b) 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, 2005, were approved at a meeting of the shareholders held on June 29, 2005:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7.00 = $0.065 per share)	¥293	$2,728
Bonuses to directors and statutory auditors	37	345

ERNST & YOUNG

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Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
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C.P.O Box 1196, Tokyo 100-8641

■ Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

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, 2005 and 2004, 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, 2005 and 2004, 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.

Supplemental Information

1. As described in Note 16, the Company changed its business segmentation effective the year ended March 31, 2005.
2. As described in Note 17, the Company acquired all shares of Toyo Network Systems Co., Ltd. on June 1, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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, 2005

DIRECTORS AND CORPORATE AUDITORS

(As of June 29, 2005)

Directors:

President

Yukihiko Baba

Senior Executive Vice President and Member of the Board

Hideaki Kihara

Senior Vice Presidents and Members of the Board

Sadao Harada

Yukio Yamazaki

Hiroshi Miwa

Member of the Board

Saburou Takizawa

Corporate Auditors:

Hitoshi Kinoshita (full-time)

Norikazu Tomioka (full-time)

Yasuo Matoi

Tetsujiro Arano

NETWORK

(As of October 1, 2005)

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, Thailand, Philippines, Indonesia, China

Subsidiaries and Affiliates:

TOYO NETWORK SYSTEMS CO., LTD.
Head Office: Kanagawa, Japan
Established: May 2005

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

NEC Networks & System Integration Services, 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 (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, 2005)

NEC System Integration & Construction, Ltd.

Established:
November 26, 1953

Number of Employees:
2,877 (non-consolidated)
4,328 (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:
14,884

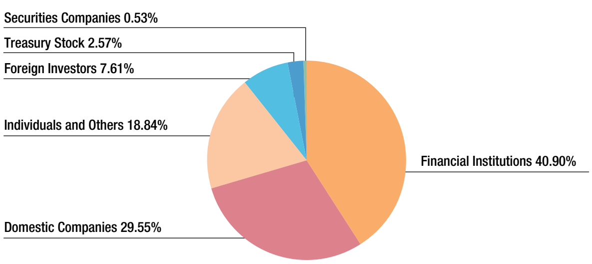
Paid-in Capital:
¥13,122 million

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

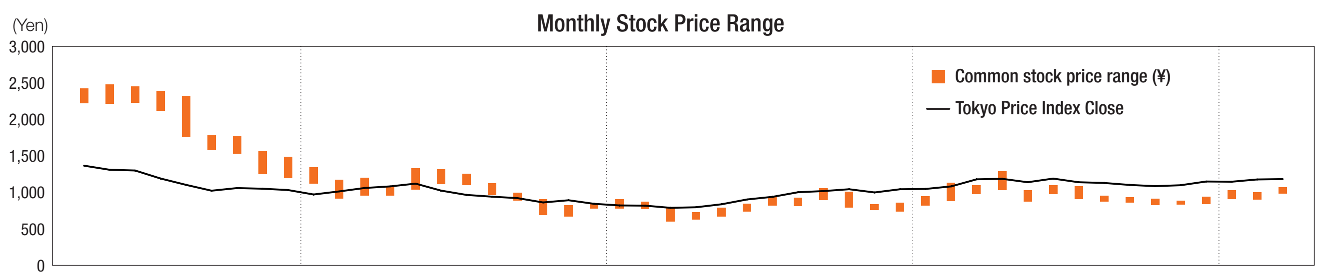
Distribution of Shareholders:

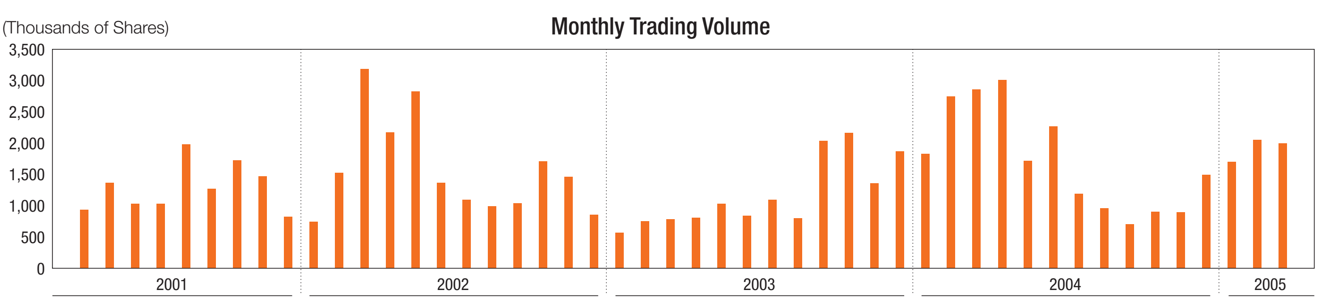


Major Shareholders:

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)	3,903	9.06
The Master Trust Bank of Japan, Ltd. (trust account)	3,144	7.30
Sumitomo Realty & Development Co., Ltd.	1,200	2.79
NEC Networks & System Integration Corporation	1,107	2.57
Trust & Custody Services Bank, Ltd. (trust account A)	1,049	2.44
Employees' Stock Ownership Plan	887	2.06
UBS AG London Asia Equities	513	1.19
Trust & Custody Services Bank, Ltd. (pension tokkin account)	395	0.92

Monthly Stock Data (Tokyo Stock Exchange)





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