Empowered by Innovation NEC

Aiming to Be Japan's Number One Network System Integrator

Annual Report 2007

Year Ended March 31, 2007

NEC Networks & System Integration Corporation

PROFILE

NEC Networks & System Integration Corporation ("the Company") was established in 1953 as a builder of communication network infrastructure. Today, the Company is working to expand its business realm and increase shareholder value as a system integrator with its principal business in network integration / support service and telecommunications engineering.

The NEC Networks & System Integration Group ("the Group") is made up of core companies in the network solutions business of the NEC Group. As such, the Group will work in unison to fulfill this corporate philosophy and management guidelines. While strengthening its capabilities in national sales development, system creation, construction technology and support services, the Group will promote further corporate innovation, amid a rapidly changing operating environment.

The NEC Networks & System Integration Group's corporate philosophy and management guidelines follow below.

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

NEC Networks & System Integration Group Management Guidelines

- Aim to increase the corporate value of our customers.
- Contribute to shareholders, customers and communities through sound management.
- Maintain a commitment to the highest levels of quality and safety.
- Act as a good, environmentally conscious corporate citizen.
- Aim to create a workplace in which employees can fully exercise their capabilities.

CONTENTS

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.

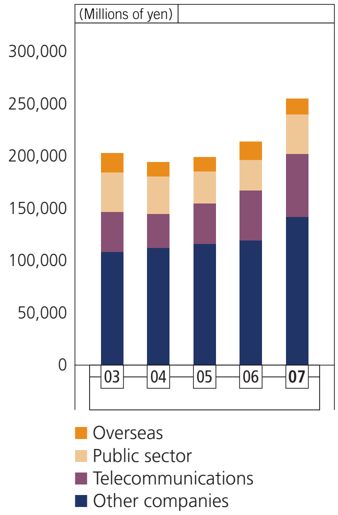
FINANCIAL HIGHLIGHTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31

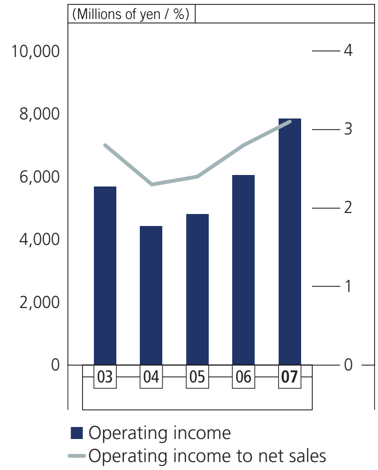
	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)
	2007	2006	2005	**2007**
For the year:				
Net sales	**¥254,641**	¥213,672	¥198,625	**$2,157,061**
Operating income	**7,849**	6,056	4,812	**66,489**
Net income	**3,476**	2,609	1,222	**29,445**
At year-end:				
Total assets	**¥148,797**	¥134,911	¥123,935	**$1,260,457**
Shareholders' equity	**—**	54,017	51,704	**—**
Total net assets	**62,201**	54,625	—	**526,904**
Per share of common stock (yen and U.S. dollars):				
Net income	**¥ 70.72**	¥ 60.56	¥ 28.24	**$ 0.60**
Cash dividends applicable to the year	**14.00**	14.00	12.00	**0.12**
Ratios (%):				
Operating income to net sales	**3.1**	2.8	2.4	
Net income to net sales	**1.4**	1.2	0.6	
Return on equity (ROE)	**6.0**	4.9	2.4	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118.05 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 30, 2007.

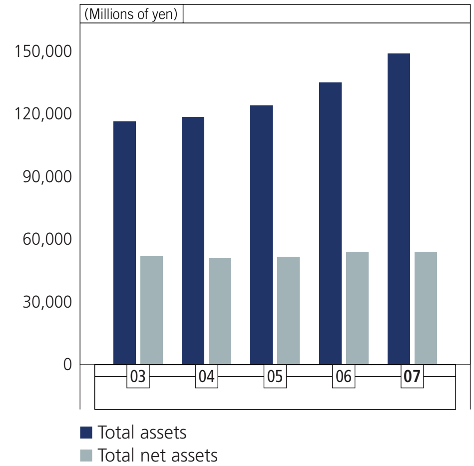
Net Sales by Customer



Operating Income and Operating Income to Net Sales



Total Assets and Total Net Assets*



* Shareholders' equity for the years 2003 through 2005

TO OUR SHAREHOLDERS

By enhancing the solutions menu that makes use of our strengths as a network system integrator, we are striving to provide services that satisfy customers.

Thank you for your patronage of NEC Networks & System Integration Corporation.

The network environment has rapidly evolved in recent years with advances of the ubiquitous network society, the advent of the Next Generation Network (NGN) and the convergence of networks and information technology.

In this environment, on April 1, 2007, NEC Networks & System Integration Corporation absorbed its consolidated subsidiary NEC Telenetworx, Ltd., which provides network systems support services, thereby establishing a solid base that unifies the strengths of both companies' nationwide sales, system construction and support capabilities. With the merger, we are now off to a fresh start with an even more powerful framework offering one-stop network system services from planning and consulting to maintenance, operation and outsourcing. As a total system integrator in the field of network solutions, NEC Networks & System Integration Corporation will continue to provide customers with reliability and security and convenient network systems by leveraging integration capabilities incorporating the latest technologies.

"Committed to being the best partner for our customers by ensuring reliability and security with leading-edge technologies."

As we look toward the coming NGN age, we will continue to serve our customers with leading-edge technologies and services. By doing so, we will increase our corporate value and meet the expectations of our shareholders, investors and other stakeholders.

All of us at NEC Networks & System Integration Corporation look forward to your continued patronage.

September 2007

Masahiko Yamamoto
President

Masahiko Yamamoto
President

OVERVIEW OF RESULTS AND PERFORMANCE OUTLOOK

Overview of the Year Ended March 31, 2007

In the year ended March 31, 2007 (fiscal 2006), despite concerns about factors including high prices for crude oil and other raw materials, the end of the zero interest rate policy, exchange rate fluctuations, and the effects of uncertainty in international conditions, the Japanese economy remained on a recovery path with increased capital investment along with improved corporate performance and an upturn in employment.

In the business environment of the NEC Networks & System Integration Group ("the Group"), trials began for the Next Generation Network (NGN) at telecommunications carriers, and measures aimed at commercialization continued to grow in scale. In addition, mobile communications carriers introduced a mobile phone number portability system in October 2006. In line with this introduction, and in order to acquire new customers, mobile communications carriers expanded development of base stations to make service enhancements, including improved voice quality. Other companies introduced internal control-related systems and security systems to prevent information leaks in line with the Japanese version of the Sarbanes-Oxley Act, in addition to IP telephony[1] systems for the purpose of increasing operating efficiency. These and other factors resulted in steady domestic private-sector demand for network-related investment.

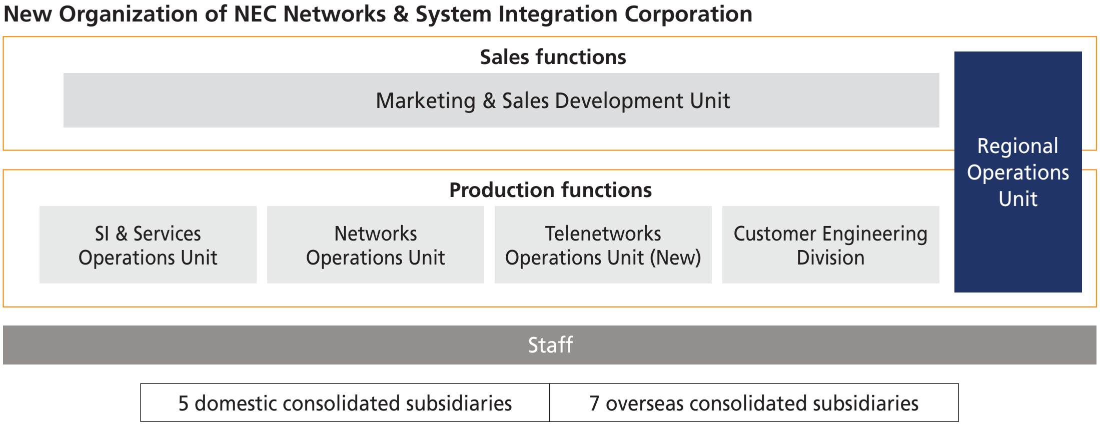
In this business environment, the Group strengthened its market responsiveness, and boldly moved to enhance its business structure through measures including bolstering profitability and improving the quality of construction.

In April 2006, NEC Networks & System Integration Corporation (the "Company") added NEC Telenetworx, Ltd. to the Group in order to enhance the Group's comprehensive services in the network field (the Company merged NEC Telenetworx, Ltd. on April 1, 2007). This addition allowed the Company to establish a firmer foundation, and to pursue related measures including strengthening responsiveness to telecommunications carriers in areas including NGN and expanding support services for other companies.

In addition to the above, the Company improved sales efficiency in order to strengthen its sales operations, and reinforced its market responsiveness. Specifically, the Company introduced a new solutions menu by expanding marketing functions, and aggressively expanded the market through measures including entering the Japanese PLC[2] market, which was legalized in October 2006.

Moreover, the Company enhanced profitability by accelerating cost reforms, including cost reductions, and undertook measures to improve construction quality such as establishing a training center for construction of mobile base stations.

New Organization of NEC Networks & System Integration Corporation



As a result, consolidated orders received during the fiscal year totaled ¥253,577 million, a 13.5 percent increase year-on-year, and consolidated net sales were ¥254,641 million, a 19.2 percent increase. Consolidated operating income increased ¥1,793 million year-on-year, or 29.6 percent, to ¥7,849 million, due to increased sales and improved profitability. Consolidated net income was ¥3,476 million, a 33.2 percent increase. Dividends for the full fiscal year totaled ¥14.00 per share, the same as the previous fiscal year.

Outlook for the Year Ending March 31, 2008

Although the Japanese economy can be expected to continue its gradual recovery, factors including uncertainty in international conditions and rising interest rates are creating concern about the future. In the Group's business areas, in regard to domestic demand, domestic network-related investment by telecommunications carriers is projected to remain firm, due to expected expansion of investment in NGN infrastructure.

Due to factors including growth in the network integration/support service business, centered on domestic private-sector demand from telecommunications carriers and other companies, for the year ending March 31, 2008, the Company projects orders received of ¥275.0 billion (an 8.4 percent increase year-on-year), net sales of ¥270.0 billion (a 21.7 percent increase year-on-year), operating income of ¥9.3 billion (an 18.5 percent increase year-on-year), and net income of ¥4.3 billion (a 23.7 percent increase year-on-year). The Company also expects to pay cash dividends of ¥20.00 per share, including an interim dividend of ¥10.00 per share. These projections are based on assumed average exchange rates during the fiscal year of ¥115 per US$1.00 and ¥150 per Euro.

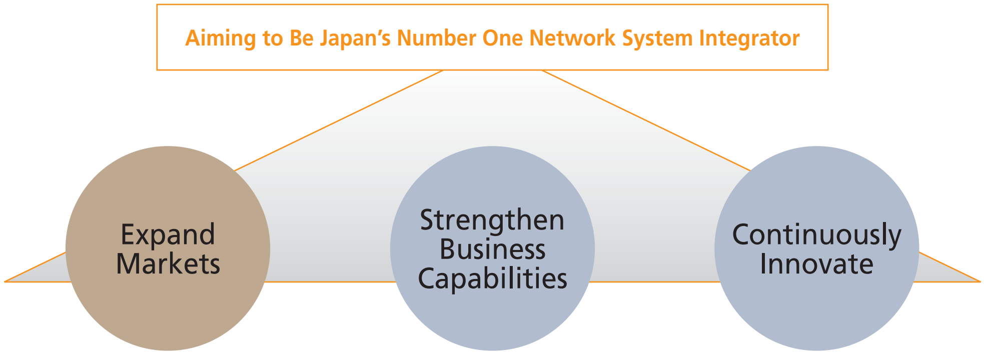
Medium-to-Long-Term Management Strategy

In the Group's network-related business domain, the medium-to-long-term expansion trend in domestic investment by telecommunications carriers and other private-sector companies is expected to continue, due to factors such as the anticipated full-scale development of the NGN and investment in services derived from it. Based on this business environment, the Company has set medium-term consolidated targets for fiscal 2009, the year ending March 31, 2010. Numerical targets for fiscal 2009 are net sales of ¥300.0 billion and operating income of ¥11.5 billion.

The Group will promote continuous innovation to expand its market and strengthen its business capabilities while continuing to enhance its market responsiveness and competitiveness and working to further develop the network business, which is expected to expand. Specific measures are as follows.

1. Expand Markets

The Group will bolster its efforts in its three priority markets – telecommunications carriers, other companies and the public sector – by establishing specific strategies for each.

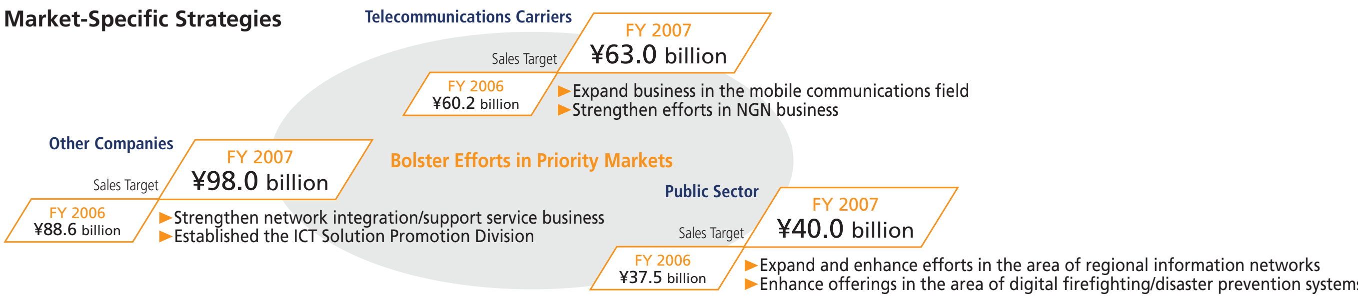


For telecommunications carriers, the Group will enhance its business operations through measures including the establishment of specialty divisions for accumulating expertise in NGN technologies and services and for personnel training to respond fully to the NGN business. As a result of these efforts, in the year ending March 31, 2008, sales are expected to increase ¥2.8 billion year-on-year to ¥63.0 billion.

For other companies, the Group established the ICT[3] Solution Promotion Division in April 2007 to further strengthen new solution planning, development and implementation. Based on this, the Group will enhance development of the new solutions menu that makes use of Company strengths, and will aggressively execute network-related businesses to meet domestic private-sector demand. As a result of these efforts, in the year ending March 31, 2008, sales are expected to increase ¥9.4 billion year-on-year to ¥98.0 billion.

For the public sector, the Group expects to increase sales ¥2.5 billion year-on-year to ¥40.0 billion by expanding and enhancing efforts in the area of regional information networks and by strengthening its offerings in the area of digital firefighting/disaster prevention systems.

Market-Specific Strategies



2. Strengthen Business Capabilities

To further enhance corporate governance, the Group will continue to strengthen internal controls based on the U.S. Sarbanes-Oxley Act, ensuring the compliance of financial statements and other documents and conducting thoroughly upright operations through measures including strict compliance with order reporting regulations in light of the coming enactment of the Japanese version of the act. In addition, the Group will continue to strengthen its review functions for determining the appropriateness of its business dealings, and take other steps to further strengthen internal controls.

Moreover, the Group will work to further improve profitability and increase customer satisfaction by conducting cost reform activities and by implementing and promoting measures to further enhance quality and CS[4].

3. Continuously Innovate

Based on its corporate philosophy and management guidelines, the Group will work as a business partner to increase customer value and achieve satisfaction by providing highly reliable systems and services.

While working to strengthen business capabilities and profitability, the Group will promote continuous innovation to establish a firm position in the network business with its leading-edge technology in order to cultivate the trust and support of its customers, shareholders and all other stakeholders.

As the core of the NEC Group's network solutions business, the NEC Networks & System Integration Group companies will work together to implement its corporate philosophy and management guidelines while promoting further innovation.

Notes:
1. IP telephony: This system, which can be used with so-called IP phones, transmits sound in the form of computer data over internet protocol (IP) networks.
2. PLC: Power Line Communication. PLC technology allows power lines to be used for telecommunications. Within the Group, TOYO NETWORK SYSTEMS CO., LTD. manufactures and sells PLC modems.
3. ICT: Information and Communication Technology
4. CS: Customer Satisfaction. This term refers to an approach to providing products and services that puts customers first.

CORPORATE GOVERNANCE

Corporate Governance System

The Company believes that the cornerstone of corporate governance is ensuring management soundness and transparency by establishing a management system that enables quick decision-making to respond promptly to changes in the operating environment, and by practicing timely, appropriate disclosure.

The Company has adopted the form of a “company with corporate auditors” in order to build a proper corporate governance system, centered on the Board of Directors and corporate auditors.

To maintain the number of directors at an optimum level for quick decision-making, the Board of Directors is composed of six directors, including one outside director. By setting the terms of the directors at one year, the Company has clarified the management responsibilities of directors and strengthened its management structure.

The Company has adopted an executive officer system to clearly separate oversight and business execution functions. Moving to enhance management functions, the Company also formed the Executive Committee, consisting of executive officers at the managing director level and higher and corporate auditors, 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 significant matters concerning business execution.

The Board of Corporate Auditors consists of five corporate auditors, including four outside auditors. It decides audit policies and related matters, and reports on the status of audits performed by each auditor. Corporate auditors also attend Board of Directors meetings and other important meetings, examine significant documents related to final decisions, and listen to directors and employees on performance of their duties, thus contributing to a robust system for scrutinizing directors’ execution of their responsibilities.

The Audit Division, consisting of 12 members, has been established to conduct internal audits. It examines whether business execution is being conducted legally and properly according to relevant laws, regulations and company rules.

The Company has an audit contract with Ernst & Young ShinNihon as its independent auditors to audit its accounts.

Executive Compensation

Details of the executive compensation of six directors and five corporate auditors for the year ended March 31, 2007 are as follows.

1. Compensation and other remuneration paid to directors and corporate auditors:
   - 7 directors **¥145 million** (including ¥0 million to 1 outside director)
   - 5 corporate auditors **¥40 million** (including ¥22 million to 4 outside corporate auditors)
2. Directors’ and corporate auditors’ bonuses paid by appropriation of profits:
   - 6 directors **¥36 million** (including ¥0 million to one outside director)
   - 4 corporate auditors **¥9 million** (including ¥0 million to 2 outside corporate auditors)
3. Special officers’ retirement benefits paid by resolution of the general meeting of shareholders during the fiscal year ended March 31, 2007:
   - 3 directors **¥75 million**
   - 1 corporate auditor **¥3 million**

Directors and Corporate Auditors (As of June 26, 2007)

Representative Director

President
Masahiko Yamamoto

Senior Vice Presidents and Members of the Board

Managing Executive Officer
Tatsu Fujita

Managing Executive Officer and General Manager, SI and Services Operations Unit
Yukio Yamazaki

Managing Executive Officer and General Manager, Regional Operations Unit
Tooru Rokusha

Managing Executive Officer, General Manager, Networks Operations Unit and General Manager, Network Solutions Division
Koshiro Konno

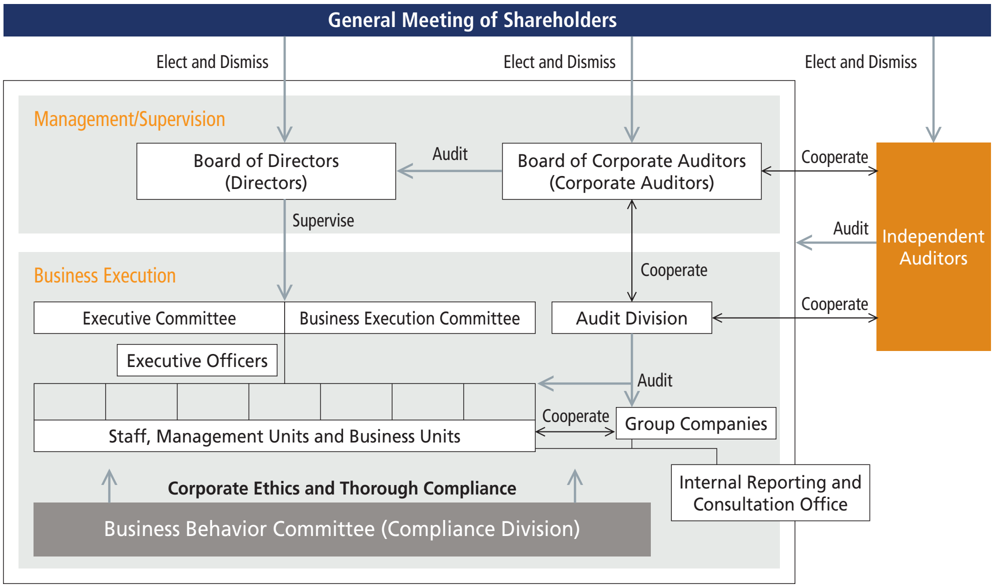
Member of the Board

Kazuo Tsuzuki*

Corporate Auditors

Masayuki Komura (full-time)**
Tetsuiku Okada (full-time)
Harutame Umezawa**
Kiyoshi Nakanishi**
Tetsujiro Arano**

* Outside Director
** Outside Corporate Auditor



Compliance

Gaining the trust of stakeholders is a fundamental item in the Group's management policies and the Group Corporate Behavior Charter. In addition, each officer and employee complies with and practices the Group Code of Corporate Behavior, which defines the points they should be conscious of in their business activities, thus working to ensure stakeholder-oriented management.

Internal Control and Risk Management

The Company is actively upgrading its internal control system in accordance with the Corporation Law. The Basic Policy on Internal Control Systems was decided at the regular Board of Directors meeting in May 2006, and the Company is working to ensure proper operations.

Responsible divisions appropriately control risk according to company rules by coordinating with staff and related divisions and receiving the advice of outside lawyers, public accountants and other external experts as necessary. As part of additional measures, the Executive Committee discusses issues of particular importance to risk management prior to meetings of the Board of Directors.

Environmental Preservation Activities

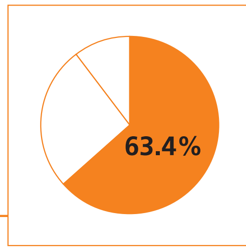
The Group aims to contribute to the environment by delivering to customers high-quality, secure and reliable products and services through its CS Quality Management Program and its Environmental Management Program, which are based on ISO9001 and ISO14001 standards.

Information Disclosure Policy

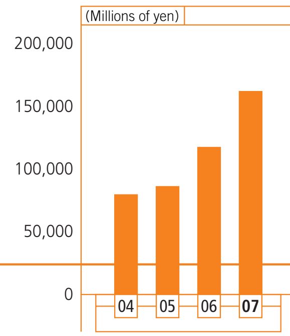
The Group understands that accurate, fair and timely disclosure of significant information concerning NEC Networks and System Integration Corporation and its subsidiaries and affiliates is an important responsibility. Accordingly, the Group makes timely disclosure based on the Rules for Timely Disclosure of Company Information of Issuers of Listed Securities set by the Tokyo Stock Exchange. Disclosure of information subject to the timely disclosure rules is made via the TDnet system provided by the Tokyo Stock Exchange, according to these same rules. Through press releases and its web site, the Company also voluntarily offers information not subject to the timely disclosure rules that concerns its business operations and is deemed significant and helps promote understanding of the Company. These measures exemplify the Company's proactive efforts to provide information to its stakeholders.

REVIEW OF OPERATIONS

Network Integration / Support Service



Composition of Net Sales by Business Segment
(Year ended March 31, 2007)

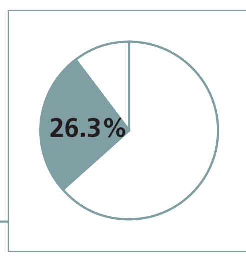


Segment Sales

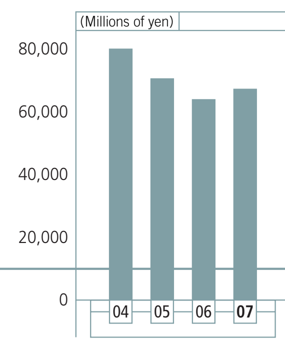
Principal Businesses

Planning and consulting, software development, construction, operation and maintenance, outsourcing services and supply of originally developed products and devices for network systems to strengthen the operating efficiency and competitiveness of customers

Telecommunications Engineering



Composition of Net Sales by Business Segment
(Year ended March 31, 2007)

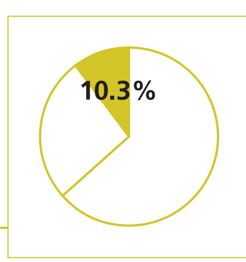


Segment Sales

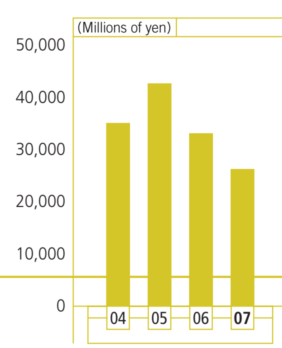
Principal Businesses

Installation of data communication bases and construction of ancillary facilities

Device Sales



Composition of Net Sales by Business Segment
(Year ended March 31, 2007)



Segment Sales

Principal Businesses

Sales of data communication devices, etc.

Overview of the Fiscal Year

For the year ended March 31, 2007, orders for the Network Integration/Support Service segment increased 39.0 percent year-on-year to ¥164,634 million, and segment sales increased 38.0 percent to ¥161,473 million.

The primary factors behind the 39.0 percent, or ¥46,223 million, year-on-year increase in orders received were strengthening of the business structure with the addition of NEC Telenetworx, Ltd. to the Group; the introduction of a new menu of solutions including relocation and consolidation solutions; and aggressive system proposal activities in areas including new network systems such as VoIP* compatible systems. These same factors drove the 38.0 percent, or ¥44,475 million, year-on-year increase in sales.

Outlook

In the year ending March 31, 2008, demand for construction of network systems, including NGN, for telecommunications carriers, and network and security systems for other private-sector companies, along with related support services, are projected to increase as telecommunications carriers and other private-sector companies strengthen their business infrastructure. As a result, orders in the Network Integration/Support Service segment for the next fiscal year are projected to be ¥182.5 billion, a 10.9 percent increase year-on-year, and sales are projected to be ¥177.5 billion, a 9.9 percent increase year-on-year.

Overview of the Fiscal Year

Orders received for this segment were ¥65,192 million, a 4.8 percent decrease year-on-year, and sales were ¥67,085 million, a 5.2 percent increase.

The main factor in the 4.8 percent, or ¥3,270 million, decrease in orders received was a decrease in orders for construction of broadcast systems for broadcasters, including cable TV companies, and for telecommunications carriers in reaction to the large-scale projects ordered in the previous fiscal year. However, orders for construction of regional information networks for local governments were steady due to aggressive proposal activities and strengthening of construction systems. The main factors in the 5.2 percent, or ¥3,320 million, year-on-year increase in sales were strong construction of base stations for mobile telecommunications carriers and regional information networks and firefighting/disaster prevention systems for local governments, and increased construction of telecommunications facilities including backbone networks for electric power companies.

Outlook

Strong demand is expected for installation of base stations for mobile communications carriers and construction of regional information networks for local governments. However, decreasing capital investment for cable television and terrestrial broadcast stations is expected to impact consolidated results for the Telecommunications Engineering segment for the full fiscal year. Orders are projected to be ¥67.5 billion, a 3.5 percent increase year-on-year, and sales are projected to be ¥67.5 billion, a 0.6 percent increase year-on-year.

Overview of the Fiscal Year

Orders received for this segment were ¥23,750 million, a 34.9 percent decrease year-on-year, and sales were ¥26,082 million, a 20.7 percent decrease.

The main factor in the 34.9 percent, or ¥12,759 million, year-on-year decrease in orders received and the 20.7 percent, or ¥6,826 million, year-on-year decrease in sales was a reduction in handling stand-alone devices not accompanied by system integration. This resulted from the Company's concentration of resources in the Network Integration/Support Service business, where it can exercise its strengths in system integration.

Outlook

Transactions in the stand-alone device category, which is independent of the system integration business, are forecast to be essentially unchanged year-on-year. Therefore, orders in the Device Sales segment for the full year are projected to be ¥25.0 billion, a 5.3 percent increase year-on-year, and sales are projected to be ¥25.0 billion, a 4.2 percent decrease year-on-year.

* Voice Over Internet Protocol. VoIP technology permits transmission of sound over IP networks.

SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen (except per share figures)						Thousands of U.S. dollars (except per share figures)[1]
	2007	2006	2005	2004	2003	2002	**2007**
For the year:							
Orders	**¥253,577**	¥223,383	¥207,460	¥196,123	¥203,038	¥223,337	**$2,148,047**
Net sales	**254,641**	213,672	198,625	194,012	202,419	230,064	**2,157,061**
Network integration / Support service	**161,473**	116,997	85,786	79,285	—	—	**1,367,836**
Telecommunications engineering	**67,085**	63,765	70,404	79,853	—	—	**568,276**
Device sales	**26,082**	32,909	42,434	34,873	—	—	**220,940**
Information and network integration	**—**	—	—	126,617	138,997	165,557	**—**
Intelligent building and facility engineering	**—**	—	—	23,465	22,559	27,028	**—**
Operation and maintenance	**—**	—	—	43,929	40,863	37,478	**—**
Selling, general and administrative expenses	**25,413**	20,502	16,921	17,263	17,418	16,994	**215,273**
Operating income	**7,849**	6,056	4,812	4,419	5,675	4,526	**66,489**
Net income	**3,476**	2,609	1,222	500	1,512	617	**29,445**
Capital expenditures	**2,371**	1,804	2,829	1,120	755	1,506	**15,357**
Depreciation and amortization	**2,203**	1,966	1,712	1,455	1,464	1,099	**18,662**
Research and development costs	**595**	455	428	290	58	57	**5,040**
At year-end:							
Total assets	**¥148,797**	¥134,911	¥123,935	¥118,416	¥116,289	¥136,172	**$1,260,457**
Shareholders' equity	**—**	54,017	51,704	50,971	51,822	51,134	**—**
Total net assets	**62,201**	54,625	—	—	—	—	**526,904**
Per share of common stock (yen and U.S. dollars)[2]:							
Net income	**¥ 70.72**	¥ 60.56	¥ 28.24	¥ 10.87	¥ 33.93	¥ 14.33	**$ 0.60**
Net assets (BPS)	**1,233.52**	1,285.92	1,231.28	1,213.62	1,202.58	1,187.31	**10.45**
Cash flow (CFPS)	**114.8**	108.2	69.0	45.0	68.0	39.9	**0.97**
Cash dividends applicable to the year	**14.00**	14.00	12.00	10.00	10.00	12.50	**0.12**
Ratios and return indicators (%):							
Operating income to net sales	**3.1**	2.8	2.4	2.3	2.8	2.0	
Return on equity (ROE)	**6.0**	4.9	2.4	1.0	2.9	1.2	
Return on assets (ROA)	**2.5**	2.0	1.0	0.4	1.2	0.4	
Shareholders' equity (Net worth) ratio	**41.3**	40.0	41.7	43.0	44.6	37.6	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118.05 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 30, 2007.
2. A new accounting standard for amounts per share became effective April 1, 2002. See Note 15 of Notes to Consolidated Financial Statements (page 27) for details.

Changes in Scope of Consolidation

The NEC Networks & System Integration Group (the "Group") consisted of NEC Networks & System Integration Corporation (the "Company") and 13 consolidated subsidiaries as of March 31, 2007. As a system integrator, the Group provides total system planning and consulting, design, construction, maintenance, network operation and monitoring, and outsourcing services, primarily for network-related systems, its main business area. In addition, the Group manufactures and sells network communication devices and other products.

On April 1, 2007, the Company merged its consolidated subsidiary NEC Telenetworx, Ltd. Following this merger, the Group now consists of the Company and 12 consolidated subsidiaries.

Review of Consolidated Operations

Net Sales

For the year ended March 31, 2007, consolidated net sales totaled ¥254,641 million, an increase of 19.2 percent year-on-year.

Sales of the Network Integration/Support Service business increased 38.0 percent year-on-year to ¥161,473 million. The increase resulted from strengthening of the business structure through the addition of NEC Telenetworx, Ltd. to the Group, the introduction of a new menu of solutions including relocation and consolidation solutions, and aggressive system proposal activities in areas including new network systems such as VoIP* compatible systems.

Sales of the Telecommunications Engineering business were ¥67,085 million, an increase of 5.2 percent year-on-year. The primary factors were strong construction of base stations for mobile telecommunications carriers and regional information networks and firefighting/disaster prevention systems for local governments, and increased construction of telecommunications facilities including backbone networks for electric power companies.

Sales of the Device Sales business were ¥26,082 million, a decrease of 20.7 percent year-on-year. The main factor in the decrease was a reduction in handling stand-alone devices not accompanied by system integration. This resulted from the Company's concentration of resources in the Network Integration/Support Service business, where it can exercise its strengths in system integration.

Gross Profit

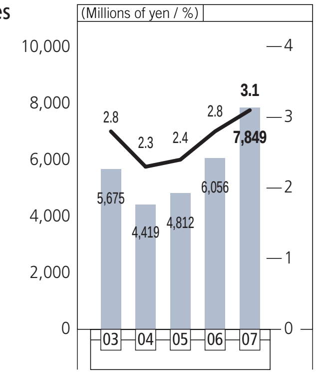
Gross profit increased 25.2 percent year-on-year to ¥33,262 million due to the increase in net sales and improved profitability. The gross margin improved 0.7 percentage points from the previous fiscal year to 13.1 percent.

Selling, General and Administrative Expenses and Operating Income

Selling, general and administrative (SG&A) expenses increased 24.0 percent year-on-year to ¥25,413 million due to the addition of NEC Telenetworx, Ltd. and other factors.

* VoIP: Voice Over Internet Protocol. VoIP technology permits transmission of sound over IP networks.

Operating Income and
Operating Income to Net Sales



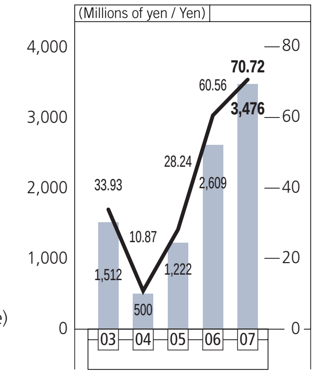
Despite the increase in SG&A expenses, operating income increased 29.6 percent year-on-year to ¥7,849 million, reflecting the increases in net sales and gross profit.

By business segment, operating income increased 64.0 percent to ¥10,964 million in the Network Integration/Support Service business, decreased 10.6 percent to ¥3,139 million in the Telecommunications Engineering business, and increased 300.0 percent to ¥140 million in the Device Sales business.

Income before Income Taxes and Minority Interests, Net Income

Income before income taxes and minority interests increased 31.5 percent year-on-year to ¥7,273 million, and net income increased 33.2 percent year-on-year to ¥3,476 million. Net income per share increased to ¥70.72 from ¥60.56 for the previous fiscal year.

Net Income and
Net Income Per Share*



* See Note 15 of Notes to Consolidated Financial Statements (page 27).

Dividend Policy

The Company places priority on increasing shareholder returns. While working to strengthen its operating foundation, enhance its financial position and increase earnings, the Company aims to return profits to shareholders by increasing its corporate value.

The Company's policy with regard to dividends is to make appropriate dividend payments to meet the expectations of shareholders, taking into general account factors such as consolidated performance and investment trends. Cash dividends for the year ended March 31, 2007 totaled ¥14.00 per share, including an interim dividend of ¥7.00 per share. For the year ending March 31, 2008, the Company plans to increase the interim and year-end dividends by ¥3.00 per share each, for a total of ¥20.00 per share.

The Company's fundamental policy for deploying internal capital reserves is to invest strategically in growth sectors, new businesses and enhanced competitiveness based on assessment of future developments in network-related markets.

In addition, to facilitate flexible execution of capital and dividend policies, the Company's articles of incorporation provide for the setting of dividends by resolution of the Board of Directors. The articles of incorporation stipulate that the Company may make interim dividend distributions, and the Company plans to continue to pay dividends twice a year with record dates of March 31 and September 30.

	Dividends per Share (Yen)		
	Interim	Year-end	Full Year
Year ended March 31, 2007	7.00	7.00	14.00
Year ending March 31, 2008 (Planned)	10.00	10.00	20.00

Liquidity

Cash Flows

Cash and cash equivalents ("cash") at the end of the fiscal year decreased by ¥1,301 million compared to the end of the previous fiscal year to ¥8,602 million. While cash flow from operating activities and cash flow from investing activities increased, cash flow from financing activities decreased.

Net cash provided by operating activities in the fiscal year ended March 31, 2007 was ¥7,899 million, due to factors including a decrease in notes and accounts receivable and a decrease in inventories, although trade notes and accounts payable increased. Net cash provided by operating activities increased by ¥4,406 million from ¥3,493 million for the previous fiscal year.

Investing activities used cash of ¥2,129 million, due to factors including purchases of property and equipment and intangibles. Net cash used in investing activities decreased ¥745 million from ¥2,874 million for the previous fiscal year.

Net cash used in financing activities was ¥7,360 million, due to factors including a decrease in short-term bank loans. This represented an increase of ¥6,392 million compared to the ¥968 million used in financing activities in the previous fiscal year. The Company paid cash dividends totaling ¥644 million, an increase of ¥59 million compared with the previous fiscal year.

Funding Requirements

The main components of the Group's funding requirements are purchases of materials and equipment for the Group's business operations, outsourcing expenses, selling, general and administrative expenses and other overhead expenses. The main components of selling, general and administrative expenses are personnel expenses and real estate rental expenses for the Group's business sites.

Financial Position

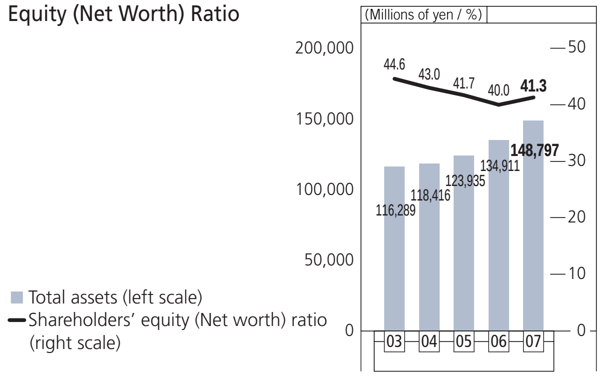
Assets

Total assets as of March 31, 2007 increased by ¥13,886 million from a year earlier to ¥148,797 million.

Current assets were ¥125,498 million, an increase of ¥12,379 million from a year earlier. The primary reason for the increase was a ¥12,697 million increase in notes and accounts receivable from a year earlier, due to factors including the addition of NEC Telenetworx, Ltd. to the Group during the fiscal year.

Net property and equipment increased ¥500 million from a year earlier to ¥8,260 million. Investments and other assets increased ¥1,007 million from a year earlier to ¥15,037 million.

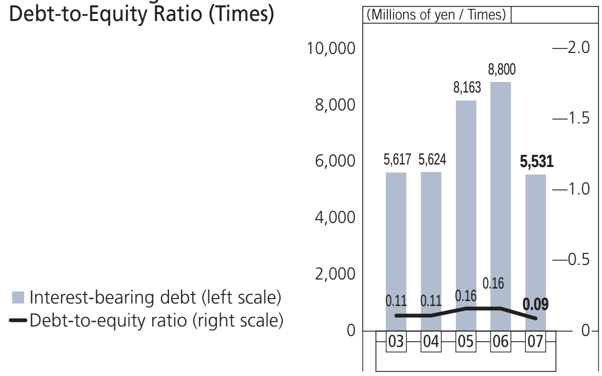
Total Assets and Shareholders' Equity (Net Worth) Ratio



Liabilities

Current liabilities as of March 31, 2007 were ¥65,173 million, an increase of ¥4,413 million from a year earlier. The main factor was a ¥4,739 million increase in notes and accounts payable, trade compared to the end of the previous fiscal year, partly due to the addition of NEC Telenetworx, Ltd. to the Group in the consolidated fiscal year. Long-term liabilities increased by ¥1,898 million from a year earlier to ¥21,422 million due to an increase in accrued employees' retirement benefits.

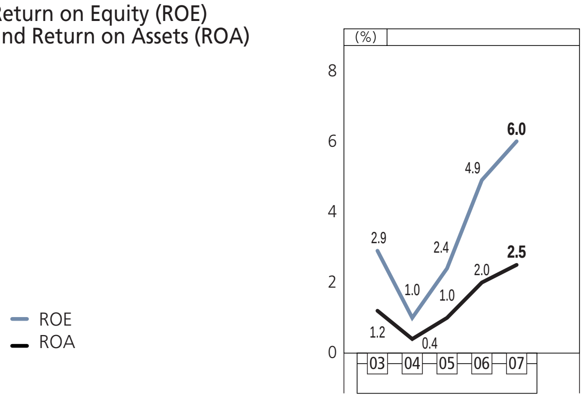
Interest-Bearing Debt and Debt-to-Equity Ratio (Times)



Net Assets

Total net assets, including minority interests in consolidated subsidiaries, as of March 31, 2007 increased by ¥7,576 million from a year earlier to ¥62,201 million. The main factors were an increase in capital surplus resulting from the allocation of Company treasury stock and newly issued shares in the share exchange conducted with NEC Telenetworx, Ltd. on April 1, 2006, and an increase in retained earnings. The ratio of shareholders' equity to total assets increased 1.3 percentage points from a year earlier to 41.5 percent. Return on average total shareholders' equity (ROE) increased 1.1 percentage points from a year earlier to 6.0 percent.

Return on Equity (ROE)
and Return on Assets (ROA)



Research and Development Activities

The Group conducts ongoing research and development activities centered on the network business to develop high-value-added products, services and software in response to diversification of customer needs accompanying the rapid shift to IP and broadband in networks, as well as to develop environment-friendly and energy-saving materials. As a result, research and development costs for the year ended March 31, 2007 totaled ¥595 million.

Risk Information

Matters that can be considered main risk factors in the Group's business operations are as follows. Note that the risks described herein do not cover all the risks related to investing in the Company's stock.

Security Management

As a system integrator, the NEC Networks & System Integration Group is engaged in the supply and maintenance of total systems with a focus on networks and related fields; network operation and monitoring services; and outsourcing services, and therefore possesses the information of a large number of customers. The Group has obtained Privacy Mark certification, and has obtained ISO/IEC27001 certification for information security management at its Customer Support Center in the Customer Engineering Division and the Outsourcing Service Division. In addition, the Group also promotes ethics education for employees and education on measures to prevent information leaks.

However, the occurrence of an information leak, in spite of measures the Group is implementing such as those described above, not only could cause harm to the Group, but would also be expected to be detrimental to operating activities due to loss of social trust, and therefore could potentially have an impact on the Group's business results.

Response to Complaints from Customers

The Group follows the principles of "Customers First" and "Customer Oriented," based on its policy of always taking the customer's perspective in its various points of contact with customers. In particular, in the event that a complaint is received from a customer regarding the Group's systems and services, rules are established for communication and reporting systems at the company-wide level according to the content of the complaint, and a system has been created to respond quickly. Also, because the market environments of the Group's business areas of networks and network-related services are constantly changing due to rapid technological innovation and other factors, the Group systematically conducts technical training of its employees and the employees of partner companies to upgrade their skills on a regular basis.

However, in spite of such measures as those described above, the occurrence of a shortcoming or dissatisfaction in regard to the Group's technologies or in the speed of its response to customer needs could have an adverse effect on the Group's business results.

Relationship with NEC Corporation

As a member of the NEC Group, the Group conducts its business based on cooperation with NEC Corporation, and primarily handles the products and equipment of NEC Corporation. Consequently, any major change in the competitiveness or positioning of NEC Corporation's products and equipment in the market could have an adverse effect on the Group's business results.

Overseas Business Development

In executing its overseas business, the Group conducts business based on project management that leverages the know-how it has accumulated in regard to the various risks in each region.

In the event of system damage or the cancellation of projects due to events such as deterioration of political conditions or the occurrence of terrorist acts or war, or if the Group withdraws from a site due to an evacuation advisory from the government, the Group would incur additional costs and could be liable for compensation due to project delays. Such occurrences, or a sudden change in foreign exchange rates, could have an adverse effect on the Group's business results.

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
Assets	**2007**	2006	**2007**
Current assets:			
Cash and cash equivalents	¥ 8,602	¥ 9,903	$ 72,867
Short-term investments (Note 4)	—	6	—
Notes and accounts receivable:	95,353	82,656	807,734
Less allowance for doubtful receivables	(200)	(1,214)	(1,694)
Inventories (Note 5)	15,090	16,744	127,827
Deferred income taxes (Note 7)	5,493	3,045	46,531
Other current assets	1,159	1,977	9,818
Total current assets	125,498	113,119	1,603,092
Property and equipment:			
Land	2,423	2,422	20,525
Buildings and structures	7,522	6,922	63,719
Machinery and vehicles	394	345	3,338
Furniture and fixtures	9,295	6,757	78,738
Construction in progress	325	283	2,753
Accumulated depreciation	(11,700)	(8,971)	(99,111)
Property and equipment, net	8,260	7,760	69,970
Investments and other assets:			
Investment securities (Note 4)	686	1,164	5,811
Intangibles, net of accumulated amortization	3,758	3,226	31,834
Deferred income taxes (Note 7)	6,549	6,405	55,476
Other assets	4,044	3,233	34,257
Total investments and other assets	15,037	14,030	127,378
Total assets	¥148,797	¥134,911	$1,260,457

Liabilities and net assets	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 3) 2007
Current liabilities:			
Short-term bank loans (Note 6)	¥ 531	¥ 3,800	$ 4,498
Notes and accounts payable	48,333	43,594	409,428
Advances received	3,451	4,156	29,233
Accrued income taxes (Note 7)	2,457	2,060	20,813
Accrued bonuses to directors and corporate auditors	78	—	661
Accrued losses on sales contracts	183	24	1,550
Other current liabilities	10,137	7,123	85,870
Total current liabilities	65,173	60,760	552,080
Long-term liabilities:			
Long-term debt (Note 6)	5,000	5,000	42,355
Accrued employees' retirement benefits (Note 8)	16,300	14,353	138,077
Accrued retirement benefits for directors and corporate auditors	95	130	805
Other liabilities	25	40	212
Total long-term liabilities	21,422	19,524	181,465
Total liabilities	86,596	80,285	733,554
Shareholders' equity (Note 9):			
Common stock:			
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares in 2007 and 43,069,207 shares in 2006	13,122	13,122	111,156
Capital surplus	16,650	12,622	141,042
Retained earnings	31,931	29,413	270,487
Treasury stock, at cost; 10,255 shares in 2007 and 1,115,207 shares in 2006	(11)	(920)	(93)
Total shareholders' equity	61,692	54,238	522,592
Valuation and translation adjustments:			
Net unrealized gain (loss) on other securities	(14)	150	(119)
Deferred losses on hedges	(40)	—	(339)
Foreign currency translation adjustments	(253)	(370)	(2,143)
Total valuation and translation adjustments	(308)	(220)	(2,609)
Minority interests	816	608	6,912
Total net assets	62,201	54,625	526,904
Commitments and contingencies (Note 11)			
Total liabilities and net assets	¥148,797	¥134,911	$1,260,457

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	**2007**
Net sales (Note 17)	¥254,641	¥213,672	$2,157,061
Cost of sales (Note 17)	221,379	187,113	1,875,299
Gross profit	33,262	26,559	281,762
Selling, general and administrative expenses (Note 14)	25,413	20,502	215,273
Operating income	7,849	6,056	66,489
Other income (deductions):			
Interest income and dividend income	26	108	220
Interest expenses	(74)	(93)	(627)
Reversal of allowance for doubtful receivables	203	—	1,720
Loss on disposal of property and equipment	(80)	—	(678)
Loss on devaluation of inventories	(77)	—	(652)
Sundry taxes	(71)	—	(601)
Restructuring charges of a subsidiary	(586)	—	(4,964)
Provision for doubtful receivables	—	(62)	—
Gain on sale of investment securities	—	82	—
Loss on sale of land	—	(154)	—
Exchange loss	—	(126)	—
Impairment loss on investment securities	—	(70)	—
Expense for a change in company's name	—	(159)	—
Loss on disposal of obsolete inventories	—	(138)	—
Other, net	84	87	712
	(575)	(525)	(4,871)
Income before income taxes and minority interests	7,273	5,530	61,609
Income taxes (Note 7):			
Current	3,784	2,804	32,054
Deferred	(29)	66	(246)
	3,754	2,871	31,800
Income before minority interests	3,518	2,659	29,801
Minority interests	41	50	347
Net income	¥ 3,476	¥ 2,609	$ 29,445

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

		Millions of yen										
		Shareholders' equity					Valuation and translation adjustments					
	Numbers of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain (loss) on other securities	Deferred losses on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at March 31, 2005	43,069	¥13,122	¥12,622	¥27,415	¥(909)	¥52,250	¥ 88	¥ —	¥(635)	¥(547)	¥543	¥52,247
Changes arising during year:												
Gain on sales of treasury stock			0			0						0
Cash dividends				(587)		(587)						(587)
Bonuses to directors and corporate auditors				(37)		(37)						(37)
Net income				2,609		2,609						2,609
An adjustment to record deferred tax assets at a consolidated subsidiary				12		12						12
Other, net					(11)	(11)	62		265	327	65	2,378
Total changes during the year	—	—	—	1,997	(11)	1,986	62	—	265	327	65	2,378
Balance at March 31, 2006	43,069	13,122	12,622	29,413	(920)	54,238	150	—	(370)	(220)	608	54,625
Changes arising during year:												
Stock-for-stock exchange transaction	6,704		3,779		916	4,695						4,695
Cash dividends				(642)		(642)						(642)
Bonuses to directors and corporate auditors				(68)		(68)						(68)
Net income				3,476		3,476						3,476
Purchase of treasury stock					(8)	(8)						(8)
Disposition of treasury stock			0		0	0						0
Transfer from other capital surplus to unappropriated retained earnings			248	(248)		—						—
Net changes in accounts other than shareholders' equity							(164)	(40)	117	(87)	208	120
Total changes during the year	6,704	—	4,027	2,518	908	7,454	(164)	(40)	117	(87)	208	7,575
Balance at March 31, 2007	49,773	¥13,122	¥16,650	¥31,931	¥ (11)	¥61,692	¥ (14)	¥ (40)	¥(253)	¥(308)	¥816	¥62,201

	Thousands of U.S. dollars (Note 3)										
	Shareholders' equity					Valuation and translation adjustments					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain (loss) on other securities	Deferred losses on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at March 31, 2006	$111,156	$106,921	$249,157	$(7,793)	$459,449	$ 1,271	$ —	$(3,134)	$(1,864)	$5,150	$462,728
Changes arising during year:											
Stock-for-stock exchange transaction		32,012		7,759	39,771						39,771
Cash dividends			(5,438)		(5,438)						(5,438)
Bonuses to directors and corporate auditors			(576)		(576)						(576)
Net income			29,445		29,445						29,445
Purchase of treasury stock				(68)	(68)						(68)
Disposition of treasury stock		0		0	0						0
Transfer from other capital surplus to unappropriated retained earnings		2,101	(2,101)		—						—
Net changes in accounts other than shareholders' equity						(1,389)	(339)	991	(736)	1,762	1,017
Total changes during the year		34,113	21,330	7,691	63,143	(1,389)	(339)	991	(736)	1,762	64,168
Balance at March 31, 2007	$111,156	$141,042	$270,487	$ (93)	$522,592	$ (119)	$(339)	$(2,143)	$(2,609)	$6,912	$526,904

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 7,273	¥ 5,530	$ 61,609
Depreciation and amortization	2,203	1,966	18,662
Amortization of goodwill	54	53	457
Decrease in allowance for doubtful receivables	(1,115)	(18)	(9,445)
Decrease in accrued employees' retirement benefits	(1,011)	(885)	(8,564)
Increase in prepaid employees' retirement benefit	(162)	—	(1,372)
Accrued retirement benefits for directors and corporate auditors	(35)	52	(296)
Increase in accrued bonuses to directors and corporate auditors	78	—	661
Increase in accrued losses on sales contracts	159	24	1,347
Interest and dividend income	(39)	(38)	(330)
Interest expenses	74	93	627
Impairment loss on investment securities	48	70	407
Gain on sale of investment securities	(63)	(82)	(534)
Gain on sale of property and equipment	(22)	(12)	(186)
Loss on sale of property and equipment	0	154	0
Loss on disposal of property and equipment	80	—	678
Restructuring charges of a subsidiary	586	—	4,964
Decrease (increase) in notes and accounts receivable	1,280	(5,701)	10,843
Decrease in inventories	2,614	4,095	22,143
Increase (decrease) in notes and accounts payable	(1,171)	679	(9,920)
Other, net	406	(365)	3,439
Subtotal	11,238	5,616	95,197
Interest and dividend received	39	38	330
Interest paid	(70)	(89)	(593)
Income taxes paid	(3,307)	(2,072)	(28,014)
Net cash provided by operating activities	7,899	3,493	66,912
Cash flows from investing activities			
Purchase of property and equipment	(1,216)	(1,506)	(10,301)
Sale of property and equipment	32	129	271
Purchase of intangibles	(1,149)	(738)	(9,733)
Purchase of investment securities	(42)	(113)	(356)
Sale of investment securities	96	94	813
Loans receivable made	(55)	(22)	(466)
Collection of loans receivable	56	19	474
Purchase of common stocks of newly consolidated subsidiaries	—	(748)	—
Other, net	146	11	1,237
Net cash used in investing activities	(2,129)	(2,874)	(18,035)
Cash flows from financing activities			
Net decrease in short-term bank loans	(6,521)	(5,366)	(55,239)
Proceeds from long-term debt	—	5,000	—
Purchase of treasury stock	(8)	(11)	(68)
Proceeds from sale of treasury stock	0	1	0
Dividends paid to shareholders	(644)	(585)	(5,455)
Other, net	(185)	(6)	(1,567)
Net cash used in financing activities	(7,360)	(968)	(62,346)
Effect of exchange rate changes on cash and cash equivalents	82	51	695
Net decrease in cash and cash equivalents	(1,507)	(298)	(12,766)
Cash and cash equivalents at beginning of year	9,903	10,202	83,888
Cash and cash equivalents of newly consolidated subsidiaries	56	—	474
Increase in cash and cash equivalents resulting from the stock-for-stock exchange transaction	150	—	1,271
Cash and cash equivalents at end of year	¥ 8,602	¥ 9,903	$ 72,851

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
March 31, 2007 and 2006

1. BASIS OF PREPARATION

NEC Networks & System Integration Corporation (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.

Certain amounts in the prior year's consolidated 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. All significant intercompany balances and transactions have been eliminated in consolidation.

The difference between the carrying amount and the underlying net assets at fair value at the respective dates of acquisition is allocated to identifiable assets and liabilities based on fair market value at the dates of acquisition. The unallocated portion of the difference, which is recognized as goodwill or negative goodwill, is amortized by the straight-line method over a period, up to twenty years, in which the future benefit of each investment is expected to continue.

(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 separate component and included in minority interests of net assets 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) Investment securities

Investment securities other than those in subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are measured at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are measured at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. 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. Investment securities classified as other securities are reviewed annually for impairment. An impairment loss is recognized when such impairment is considered other than temporary. 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. Maintenance and repair costs are charged to income.

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

Buildings and structures	3 to 47 years
Machinery and vehicles	4 to 11 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, and an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(h) Accrued losses on sales contracts

Accrued losses on sales contracts are provided for at the amount of estimated losses for work in progress at the balance sheet date. Among sales orders of the Company on hand at balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order, such excess costs on sales contracts are accrued.

(i) Leases

Non-cancellable 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.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) 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. 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.

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.

(l) 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.

(m) Stock issuance expenses

Stock issuance expenses are charged to income as incurred.

(n) Derivative financial instruments

Derivatives are recorded at their fair value with any changes in unrealized gain or loss charged or credited to income, 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.

(o) Revenue recognition

Revenues from construction contracts of the Company and the domestic consolidated subsidiaries are recognized by the completed-contract method except for those from construction work with contracted amounts exceeding ¥100 million, which 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.

(p) Directors' bonuses

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Directors' bonus" (Accounting Standards Board of Japan Statement No. 4, issued on November 29, 2005).

According to the Standard, directors' bonuses are accounted for as an expense when such bonuses are accrued, instead of being accounted for as an appropriation of retained earnings upon approval at a general meeting of shareholders. The effect of adoption of the new standard was to decrease income before income taxes and minority interests by ¥78 million ($661 thousand).

(q) Presentation of net assets on the balance sheet

Effective from the year ended March 31, 2007, the Company adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, issued on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, issued on December 9, 2005).

According to the Standards, former "Shareholders' equity" is presented as "Net assets" and classified into "Shareholders' equity," "Valuation and translation adjustments" and "Minority interests." "Minority interests" formerly listed after "Liabilities" is included in "Net Assets." The shareholders' equity at March 31, 2007 amounted to ¥61,424 million ($520,322 thousand) based on the former classification.

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the standard.

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 ¥118.05 = U.S.$1.00, the approximate rate of exchange on March 30, 2007. 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. INVESTMENT SECURITIES

a) The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2007 and 2006 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2007	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	¥112	¥191	¥78	$949	$1,618	$661
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	112	191	78	949	1,618	661
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	—	—	—	—	—	—
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	¥112	¥191	¥78	$949	$1,618	$661

	Millions of yen		
March 31, 2006	Acquisition cost	Carrying value	Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥136	¥412	¥275
Debt securities	—	—	—
Other	—	—	—
Subtotal	136	412	275
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	—	—	—
Debt securities	—	—	—
Other	—	—	—
Subtotal	—	—	—
Total	¥136	¥412	¥275

b) Sales of securities classified as other securities for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Proceeds from sales	¥96	¥94	$813
Gains on sales	63	82	534
Losses on sales	—	—	—

c) The components of non-marketable securities classified as other securities at March 31, 2007 and 2006 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Other securities:			
Unlisted securities	¥284	¥304	$2,406
Investments in limited partnerships	210	391	1,779
Total	¥495	¥695	$4,193

5. INVENTORIES

Inventories at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Work in process	¥11,397	¥12,523	$ 96,544
Purchased goods, materials and supplies	3,692	4,220	31,275
Total	¥15,090	¥16,744	$127,827

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans and long-term debt are unsecured. The weighted average interest rates of short-term bank loans for the years ended March 31, 2007 and 2006 were approximately 0.9% and 0.7%, respectively.

The weighted average interest rate of long-term debt for both years ended March 31, 2007 and 2006 was approximately 1.0%. The annual maturities of the long-term debt at March 31, 2007 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥2,000	$16,942
Thereafter	3,000	25,413
Total	¥5,000	$42,355

The Group has executed a ¥11,000 million ($93,181 thousand) committed borrowing facility with three domestic banks. As of March 31, 2007, no amount was drawn from this facility.

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 2007 and 2006. 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, 2007 and 2006 differ from the statutory tax rate for the following reasons:

	2007	2006
Statutory tax rate	40.7%	40.7%
Effect of:		
Expenses not deductible for tax purposes	2.9	2.7
Dividend income deductible for tax purposes	(0.2)	(0.1)
Inhabitants' tax per capita levy	1.3	1.7
Increase in valuation allowance	8.2	—
Foreign tax credits	—	6.0
Tax credits	—	(1.6)
Other, net	(1.3)	2.5
Effective tax rates	51.6%	51.9%

The significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Accrued bonuses	¥ 1,754	¥1,281	$ 14,858
Social security on employee bonuses	201	121	1,703
Allowance for doubtful receivables	59	406	500
Accrued enterprise tax	233	181	1,974
Percentage-of-completion method	125	192	1,059
Loss on revaluation of inventories	2,204	571	18,670
Unrealized profit on inventories	21	15	178
Accrued losses on sales contracts	74	—	627
Depreciation	133	124	1,127
Software	551	400	4,668
Accrued retirement benefits	6,089	5,807	51,580
Stock dividends	146	—	1,237
Loss on revaluation of securities	247	—	2,092
Loss on restructuring of subsidiaries	199	—	1,686
Other	1,149	850	9,733
Subtotal	13,193	9,952	111,758
Valuation allowance	(1,031)	(384)	(8,734)
Total	12,162	9,567	103,024
Deferred tax liabilities:			
Advanced depreciation of property and equipment	(1)	(1)	(8)
Reserve for special depreciation	(89)	—	(754)
Unrealized holding gain on securities	(29)	(112)	(246)
Other	(0)	(3)	(0)
Total	(119)	(116)	(1,008)
Net deferred tax assets	¥12,042	¥9,451	$102,008

8. RETIREMENT BENEFIT PLANS

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

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Retirement benefit obligation	**¥(37,646)**	¥(28,690)	**$(318,899)**
Plan assets at fair value	**20,165**	13,972	**170,817**
Unfunded retirement benefit obligation	**(17,481)**	(14,718)	**(148,081)**
Unrecognized actuarial loss	**6,776**	5,998	**57,399**
Unrecognized prior service cost	**(5,335)**	(5,633)	**(45,193)**
Net amount recognized in the consolidated balance sheets	**(16,039)**	(14,353)	**(135,866)**
Prepaid employees' retirement benefits	**(261)**	—	**(2,211)**
Accrued employees' retirement benefits	**¥(16,300)**	¥(14,353)	**$(138,077)**

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥1,770**	¥1,438	**$14,994**
Interest cost	**924**	685	**7,827**
Expected return on plan assets	**(449)**	(262)	**(3,803)**
Amortization of actuarial loss	**629**	582	**5,328**
Amortization of prior service cost	**(395)**	(385)	**(3,346)**
Total	**¥2,480**	¥2,058	**$21,008**

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

	2007	2006
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**2.5~3.5%**	2.5~3.5%

9. SHAREHOLDERS' EQUITY

On May 1, 2006, a new corporation law (the "Corporation Law") became effective, which reformed and replaced the Commercial Code of Japan with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The Corporation Law provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Corporation Law also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the shareholders. The legal reserve amounted to ¥546 million ($4,625 thousand) as of both March 31, 2007 and 2006.

Cash dividends charged to retained earnings for the years ended March 31, 2007 and 2006 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Corporation Law.

Dividends paid during the year ended March 31, 2007, which were approved by the General Meeting of Shareholders held on June 29, 2006, are as follows:

(a) Total dividends	¥293 million ($2,482 thousand)
(b) Cash dividends per common share	¥7 ($0.06)
(c) Record date	March 31, 2006
(d) Effective date	June 30, 2006

Dividends paid during the year ended March 31, 2007, which were approved by the Board of Directors held on October 26, 2006, are as follows:

(a) Total dividends	¥348 million ($2,948 thousand)
(b) Cash dividends per common share	¥7 ($0.06)
(c) Record date	September 30, 2006
(d) Effective date	December 8, 2006

Dividends to be paid after the balance sheet date, but the record date for the payment belongs to the year ended March 31, 2007, which were approved by the Board of Directors held on May 15, 2007, are as follows:

(a) Total dividends	¥348 million ($2,948 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥7 ($0.06)
(d) Record date	March 31, 2007
(e) Effective date	June 5, 2007

10. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Significant non-cash transactions

For the year ended March 31, 2007, as a result of the stock-for-stock exchange transaction as stated in note 12, capital surplus and treasury stock changed as follows:

	Millions of yen	Thousands of U.S. dollars
Increase in capital surplus resulting from stock-for-stock exchange	¥4,028	$34,121
Decrease in capital surplus resulting from stock-for-stock exchange (Loss on disposal of treasury stock)	248	2,101
Decrease in treasury stock resulting from stock-for-stock exchange	916	7,759

11. CONTINGENT LIABILITIES

At March 31, 2007, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥194 million ($1,643 thousand).

12. BUSINESS COMBINATIONS

Effective from the year ended March 31, 2007, the Company adopted the "Accounting Standard for Business Combinations" (Statement of Opinion issued by the Business Accounting Deliberation Council, issued on October 31, 2003), "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No. 7, issued on December 27, 2005) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Implementation Guidance No. 10 revised on December 22, 2006).

On December 15, 2006, the Company entered into stock-for-stock exchange agreements with NEC Telenetworx, Ltd. ("Telenetworx"). The exchange was executed on April 1, 2006, and therefore Telenetworx became a wholly owned subsidiary of the Company. 26.051 shares of the Company's common stock were allotted to 1 share of Telenetworx common stock and total of 7,815,300 shares of the Company (6,704,600 new shares issued and 1,110,700 treasury shares) were allotted to NEC Corporation, shareholder of Telenetworx.

The combination constitutes a transaction under common control under the "Accounting Standard for Business Combinations," and the transaction has been accounted for in accordance with the Standard.

13. 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, 2007 and 2006, 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
	2007	2006	2007
Acquisition costs:			
Machinery and vehicles	¥ 18	¥ 135	$ 152
Furniture and fixtures	3,952	3,710	33,477
Software	473	412	4,007
	¥4,444	¥4,258	$37,645
Accumulated depreciation:			
Machinery and vehicles	¥ 11	¥ 71	$ 93
Furniture and fixtures	1,857	1,494	15,731
Software	206	117	1,745
	¥2,075	¥1,683	$17,577
Net book value:			
Machinery and vehicles	¥ 7	¥ 64	$ 59
Furniture and fixtures	2,095	2,216	17,747
Software	266	295	2,253
	¥2,369	¥2,575	$20,068

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,043 million ($8,835 thousand) and ¥1,012 million for the years ended March 31, 2007 and 2006, 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 ¥970 million ($8,217 thousand) and ¥76 million ($644 thousand), respectively, for the year ended March 31, 2007 and ¥943 million and ¥70 million, respectively, for the year ended March 31, 2006.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 and 2006 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 908	¥ 882	$ 7,692
Due over one year	1,520	1,764	12,876
Total	¥2,428	¥2,646	$20,568

b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2007 and 2006 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥7	¥25	$59
Due over one year	2	39	17
Total	¥9	¥65	$76

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥595 million ($5,040 thousand) and ¥455 million for the years ended March 31, 2007 and 2006, respectively.

15. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2007	2006	2007
Net income	¥ 70.72	¥ 60.56	$ 0.60
Net assets	1,233.52	1,285.92	10.45

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. There are no equity instruments issued that have dilutive effect on earnings per share.

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

16. DERIVATIVES

The Company has entered into foreign exchange forward contracts with major Japanese banks in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.

At March 31, 2007 and 2006, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

17. RELATED PARTY TRANSACTIONS

The Company is a majority-owned subsidiary of NEC Corporation ("NEC"). Consolidated net sales included those to NEC in amounts of ¥56,422 million ($477,950 thousand) and ¥58,220 million for the years ended March 31, 2007 and 2006, respectively. In addition, the Company purchased communications equipment and other from NEC in amounts of ¥42,544 million ($360,390 thousand) and ¥44,739 million during the years ended March 31, 2007 and 2006, respectively.

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

18. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and foreign countries in three major segments: the Network integration/Support service segment, the Telecommunications engineering segment, and the Device sales segment.

Business segments

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is summarized as follows:

	Millions of yen					
Year ended March 31, 2007	Network integration / Support service	Telecommun-ications engineering	Device sales	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	¥161,473	¥67,085	¥26,082	¥254,641	¥ —	¥254,641
(2) Intersegment sales	—	—	—	—	—	—
Total sales	161,473	67,085	26,082	254,641	—	254,641
Operating expenses	150,508	63,946	25,941	240,397	6,394	246,792
Operating income	¥ 10,964	¥ 3,139	¥ 140	¥ 14,244	¥ (6,394)	¥ 7,849
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥ 78,882	¥31,448	¥11,731	¥122,062	¥26,734	¥148,797
Depreciation expenses	1,242	6	—	1,248	956	2,205
Capital expenditures	1,493	34	—	1,527	840	2,367

	Thousands of U.S. dollars					
Year ended March 31, 2007	Network integration / Support service	Telecommun-ications engineering	Device sales	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	$1,367,836	$568,276	$220,940	$2,157,061	$ —	$2,157,061
(2) Intersegment sales	—	—	—	—	—	—
Total sales	1,367,836	568,276	220,940	2,157,061	—	2,157,061
Operating expenses	1,274,951	541,686	219,746	2,036,400	54,163	2,090,572
Operating income	$ 92,876	$ 26,590	$ 1,186	$ 120,661	$ (54,163)	$ 66,489
II. Assets, depreciation expenses, capital expenditures:						
Assets	$ 668,208	$266,396	$ 99,373	$1,033,986	$226,463	$1,260,457
Depreciation expenses	10,521	51	—	10,572	8,098	18,679
Capital expenditures	12,647	288	—	12,935	7,116	20,051

	Millions of yen					
Year ended March 31, 2006	Network integration / Support service	Telecommun-ications engineering	Device sales	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	¥116,997	¥63,765	¥32,909	¥213,672	¥ —	¥213,672
(2) Intersegment sales	—	—	—	—	—	—
Total sales	116,997	63,765	32,909	213,672	—	213,672
Operating expenses	110,313	60,254	32,874	203,442	4,173	207,616
Operating income	¥ 6,684	¥ 3,510	¥ 35	¥ 10,230	¥ (4,173)	¥ 6,056
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥ 54,165	¥35,474	¥13,766	¥103,406	¥31,504	¥134,911
Depreciation expenses	905	30	—	936	1,030	1,967
Capital expenditures	1,549	30	—	1,579	675	2,254

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, 2007 and 2006, 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, 2007 and 2006, the disclosure of overseas sales information was omitted.

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

Report of Independent Auditors

The Board of Directors
NEC Networks & System Integration Corporation

We have audited the accompanying consolidated balance sheets of NEC Networks & System Integration Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, 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 Networks & System Integration Corporation and consolidated subsidiaries at March 31, 2007 and 2006, 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, 2007 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 26, 2007

CORPORATE INFORMATION
(As of March 31, 2007)

Corporate Name
NEC Networks & System Integration Corporation

Established
November 26, 1953

Number of Employees
2,920 (Non-consolidated)
6,407 (Consolidated)

URL
http://www.nesic.co.jp/english/index.html

Network
(As of August 22, 2007)

Head Office
1-39-9 Higashishinagawa, Shinagawa-ku,
Tokyo 140-8620, Japan
Tel: +81-3-5463-1111
Fax: +81-3-5463-7781

Domestic Regional Offices
Hokkaido, Tohoku, Shinetsu, Kitakanto, Chiba, Kanagawa, Shizuoka, Chubu, Hokuriku, Kansai, Keiji, Kobe, Chugoku, Shikoku, Kyushu, Okinawa

Subsidiaries and Affiliates

Toyo Networks & System Integration Co., Ltd.[1]
Head office: Kanagawa, Japan
Established: May 2005
Capitalization[5]: ¥400 million
Voting rights: 100.00%

TOYO ALPHANET CO., LTD.[2]
Head office: Kanagawa, Japan
Established: April 1981
Capitalization[5]: ¥20 million
Voting rights[6]: 100.00% (100.00%)

NEC Networks & System Integration Engineering, Ltd.
Head office: Tokyo, Japan
Established: October 1992
Capitalization[5]: ¥50 million
Voting rights: 100.00%

NEC Networks & System Integration Services, Ltd.
Head office: Tokyo, Japan
Established: July 1988
Capitalization[5]: ¥60 million
Voting rights: 100.00%

NESIC Ascerent, Ltd.
Head office: Tokyo, Japan
Established: September 1995
Capitalization[5]: ¥20 million
Voting rights: 100.00%

NESIC BRASIL S/A
Head office: São Paulo, Brazil
Established: November 1976
Capitalization[5]: ¥628 million
Voting rights: 72.82%

NESIC (Thailand) Ltd.[3]
Head office: Bangkok, Thailand
Established: March 1991
Capitalization[5]: ¥79 million
Voting rights: 49.00%

NESIC PHILIPPINES, INC.
Head office: Manila, The Philippines
Established: April 1991
Capitalization[5]: ¥167 million
Voting rights: 100.00%

P. T. NESIC BUKAKA
Head office: Jakarta, Indonesia
Established: May 1993
Capitalization[5]: ¥86 million
Voting rights: 60.00%

NESIC (GUANGZHOU) CO., LTD.
Head office: Guangzhou, China
Established: August 1998
Capitalization[5]: ¥115 million
Voting rights: 100.00%

Networks & System Integration Saudi Arabia Co., Ltd.
Head office: Al-Khobar, Saudi Arabia
Established: April 2006
Capitalization[5]: ¥56 million
Voting rights: 100.00%

TNSi Europe GmbH[4]
Head office: Köln, Germany
Established: October 2005
Capitalization[5]: ¥6 million
Voting rights[6]: 100.00% (100.00%)

Notes:
1. On July 2, 2007, TOYO NETWORK SYSTEMS CO., LTD. changed its name to Toyo Networks & System Integration Co., Ltd.
2. TOYO ALPHANET CO., LTD. is a maintenance subsidiary of Toyo Networks & System Integration Co., Ltd.
3. NESIC (Thailand) Ltd. is a minority-owned consolidated subsidiary over which the Company exercises control.
4. On August 22, 2007, TNS Europe GmbH changed its name to TNSi Europe GmbH.
5. As of March 31, 2007
6. Figures in parentheses after the percentage of voting rights held represent inclusive percentages of indirectly held shares.

INVESTOR INFORMATION

(As of March 31, 2007)

Listing:
The Tokyo Stock Exchange, First Section

Ticker Code:
1973

Fiscal Year:
April 1- March 31

Annual meeting held in June

Common Stock Authorized:
100,000,000 shares

Issued:
49,773,807 shares

Number of Shareholders:
13,111

Transfer Agent:
The Sumitomo Trust and Banking Company, Limited

4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo

100-8233, Japan

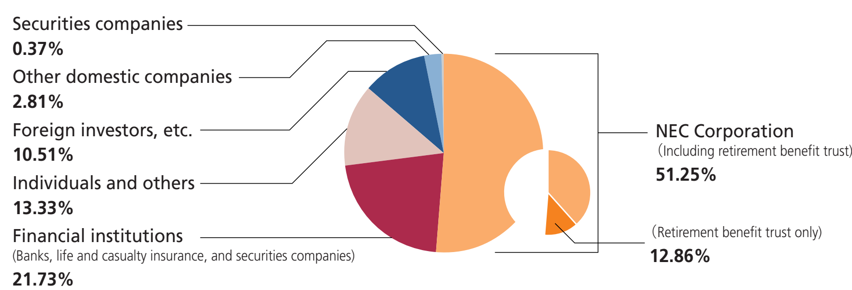
Independent Auditors:
Ernst & Young ShinNihon

Major Shareholders:

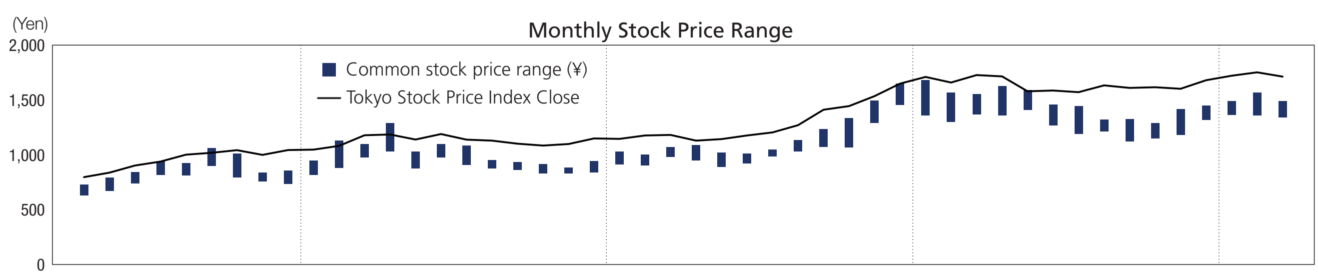
Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding
NEC Corporation	19,106	38.39%
Japan Trustee Services Bank, Ltd.* (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.86
Japan Trustee Services Bank, Ltd. (Trust account)	4,825	9.70
The Master Trust Bank of Japan, Ltd. (Trust account)	1,702	3.42
The Master Trust Bank of Japan, Ltd. (Trust account 4)	1,578	3.17
Sumitomo Realty & Development Co., Ltd.	1,200	2.41
State Street Bank and Trust Company 505019	935	1.88
Employees' Stock Ownership Plan	761	1.53
Trust & Custody Services Bank, Ltd. (Trust account B)	669	1.35
Sumitomo Life Insurance Company (Special account)	569	1.14

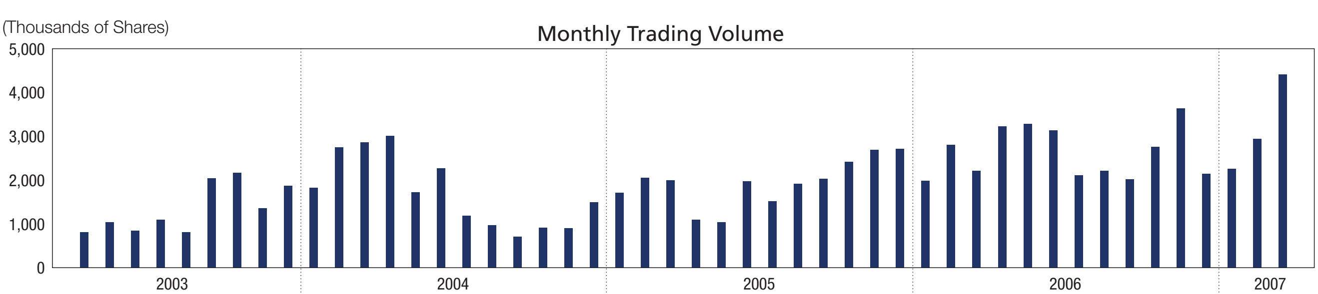
* Shares held by Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2007 was 51.49%.

Composition of Shareholders:



Monthly Stock Data (Tokyo Stock Exchange)





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

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