Empowered by Innovation

A Leading Networks & System Integration Company in the Next-Generation Network

Annual Report 2008

Year Ended March 31, 2008

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 services 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 its 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.

HISTORY

Foundation (1953~1957)

- Installation of switching equipment and its maintenance

Business Expansion (1958~1979)

- Data communications
- Software development
- Full-scale overseas operations

Being a Network System Integrator (1980~2000)

- 24 hours a day, 365 days a year nationwide maintenance service in Japan
- Focus on communication business
- LAN/WAN business

1953 — Established as Nippon Electric Installation Co., Ltd.

1954 — Began overseas operations

1958 — Began data communications construction

1977 — Began business of outsourced software development

1980 — Name changed to NEC System Integration & Construction, Ltd.

1983 — Listed on the Tokyo Stock Exchange, Second Section

1989 — Net sales surpassed ¥100.0 billion

1992 — Listed on the Tokyo Stock Exchange, First Section

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.

Further Business Expansion

(2001~)

- Network and IT solutions business
- Outsourcing services
- M&A

1997

Net sales surpassed ¥200.0 billion

2005

- Name changed to NEC Networks & System Integration Corporation
- TNSi[1] became a Group company

2006

NTWX[2] became a Group company (Merged in April 2007)

2008

Nichiwa Co., Ltd. became a Group company

Notes: 1. TNSi: Toyo Networks & System Integration Co., Ltd.
2. NTWX: NEC Telenetworx, Ltd.

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Cautionary Statement with Respect to Forward-Looking Statements

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

NEC Networks & System Integration Corporation provides leading-edge, high-quality network integration and support services that meet the diverse network system needs of customers in Japan and overseas.

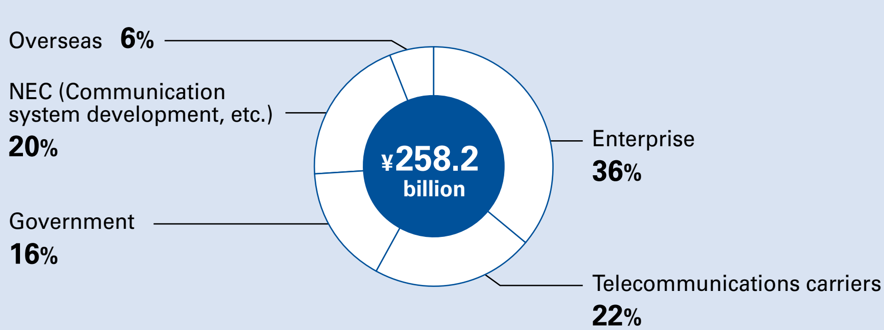
NEC Networks & System Integration Corporation was established in 1953 primarily as a builder of communications infrastructure. Today, as a top-class system integrator in Japan's network business sector, the Company conducts business not only domestically but globally, in regions such as Southeast Asia, South America and the Middle East.

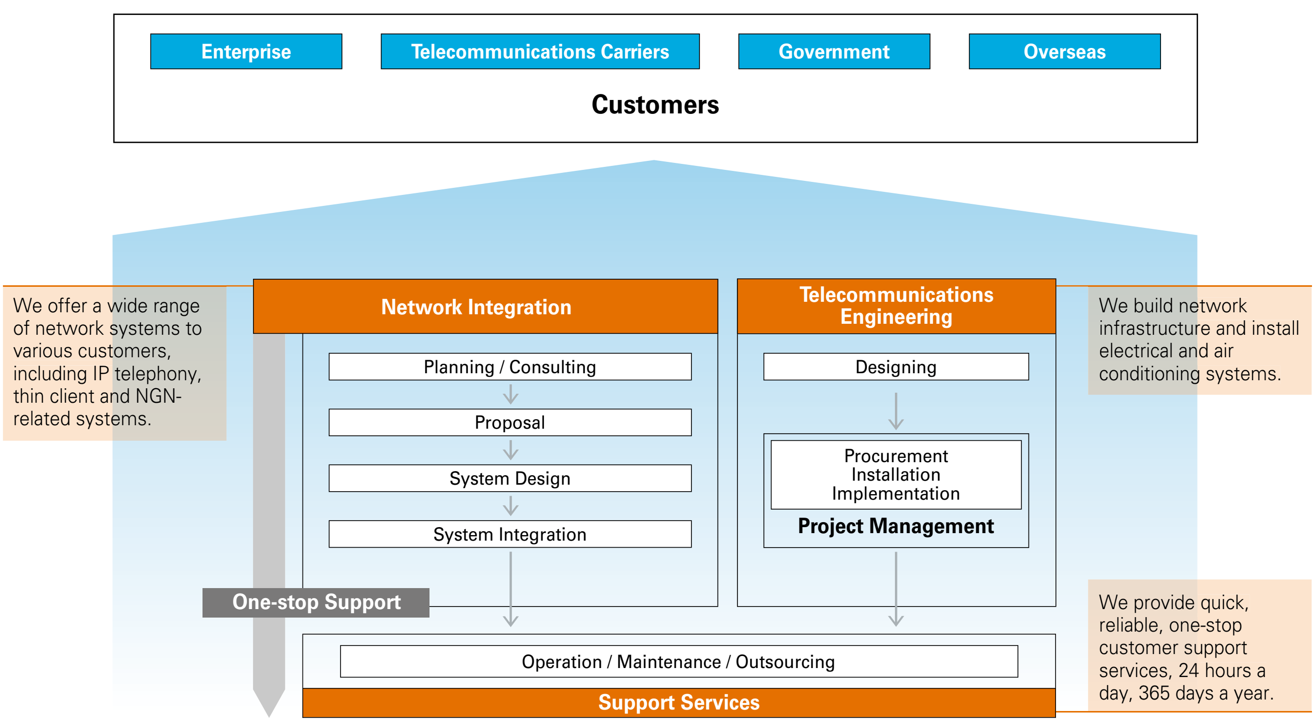
The Company provides leading-edge, high-quality network integration and support services for customers of various industries in Japan and overseas, as well as telecommunications engineering including building large-scale communications infrastructure and related facilities. As one of very few comprehensive system integrators in Japan, it is in a very unique position.

In addition, the Company sets itself apart by providing one-stop services encompassing planning, consulting, design, construction, maintenance, network operation and monitoring, and outsourcing for every network system it supplies to customers.

These services enable the Company to respond to customers' diverse network system needs and are a factor behind the deep trust it has established with them.

Consolidated Net Sales by Customer (Year ended March 31, 2008)




Enterprise
Telecommunications Carriers
Government
Overseas
Customers
We offer a wide range of network systems to various customers, including IP telephony, thin client and NGN-related systems.
Network Integration
Planning / Consulting
Proposal
System Design
System Integration
Telecommunications Engineering
Designing
Procurement
Installation
Implementation
Project Management
We build network infrastructure and install electrical and air conditioning systems.
One-stop Support
Operation / Maintenance / Outsourcing
Support Services
We provide quick, reliable, one-stop customer support services, 24 hours a day, 365 days a year.

Masahiko Yamamoto
President

Overview of the Year Ended March 31, 2008

In the operating environment of the NEC Networks & System Integration Group during the year ended March 31, 2008, telecommunications carriers stepped up investment in the Next Generation Network (NGN) ahead of the start of commercial service in March 2008. Other enterprises, particularly in urban areas, worked to streamline management using Information and Communication Technology (ICT) and expanded the introduction of network systems in order to strengthen security and internal controls. Local governments also continued to expand regional public network services and to improve the quality and reach of fire and disaster management systems. However, harsh regional economic conditions led to a slowdown in capital investment outside major urban centers. Moreover, mobile base station construction, which had been expanding as a result of the implementation of the mobile number portability (MNP) system, experienced a downturn. As a result, network-related investment weakened slightly.

Under these conditions, the Group worked to bolster its business base, including through investments, and to improve profitability in order to further enhance its NGN and enterprise solutions businesses, with a view toward medium-to-long-term business expansion.

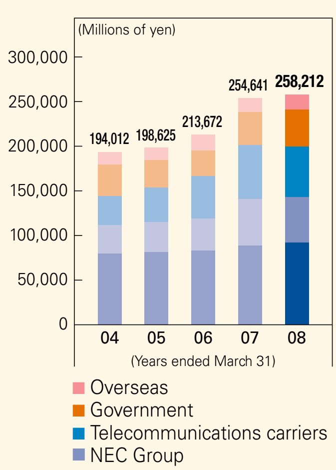
Measures to bolster our business base included our April 2007 merger with NEC Telenetworx, Ltd., which mainly handles network system maintenance, and Company-wide organizational reforms in October 2007. These moves strengthened our support service system and established a strong business base for the NGN era.

In addition to these organizational reforms, we made efforts to strengthen our medium-to-long-range capacity for growth with aggressive initiatives to upgrade our systems and enhance our market response, particularly for medium-sized businesses. We developed our EmpoweredOffice[1] total office solutions for enterprises into a full-fledged business and opened the EmpoweredOffice Center, where customers can get hands-on experience.

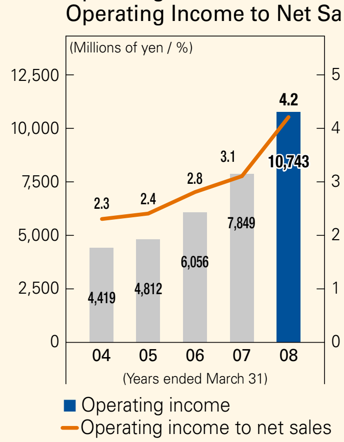
1. EmpoweredOffice: Solutions that efficiently fuse three elements of office work (communication, information, and facilities) in an effort to reform office work processes and the office environment, and also empower each individual employee to realize greater enterprise viability.

FINANCIAL HIGHLIGHTS

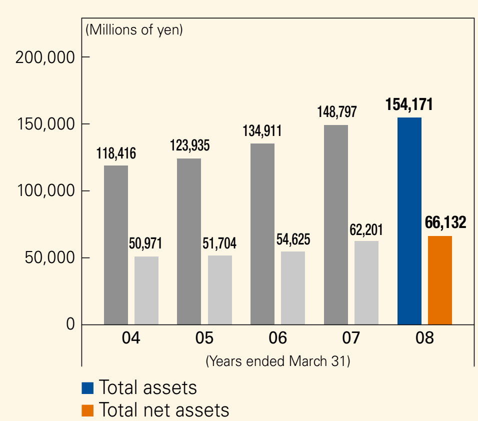
Net Sales by Customer



Operating Income and Operating Income to Net Sales



Total Assets and Total Net Assets*



* Shareholders' equity for 2004 and 2005

Full-scale investment in NGN-related business is forecast to grow, and we carried out measures to strengthen our response in this area. In addition to participating in demonstration tests conducted by telecommunications carriers, we established the NGN Laboratory in February 2008 to furnish our head office with an NGN environment on par with telecommunications carriers. We strengthened system testing, education, training, and personnel development. Moreover, we upgraded our environment to allow development and verification of services in cooperation with the EmpoweredOffice Center mentioned above in order to handle NGN services for enterprises, a market that is expected to grow in the future.

To improve profitability, we have firmly established AC-I[2] total cost reform activities in our corporate culture. As of this fiscal year, we have added process reforms and other activities linked to strengthening profitability. These activities have been showing steady results in improving profitability, with greater business efficiency from a reduction in follow-up work hours and reassessment of work processes.

Consolidated results for the fiscal year were as follows:

Orders:	¥254,512 million (a 0.4% increase over the previous year)
Net Sales:	¥258,212 million (a 1.4% increase over the previous year)
Operating Income:	¥10,743 million (a 36.9% increase over the previous year)
Net Income:	¥4,412 million (a 26.9% increase over the previous year)

Outlook for the Year Ending March 31, 2009

Although the Japanese economy is expected to remain steady, the impact of trends in the U.S. economy, exchange rates and the stock market, as well as high prices for crude oil and raw materials, are giving rise to concerns about the direction of the economy.

Despite concerns about the uncertain economic environment, enterprises in the Group's business fields, particularly those in major urban areas, are expected to continue network-related investment, with more widespread use of ICT for purposes including strengthening internal control and security measures. In the telecommunications sector, although we project a decrease in total investment in equipment for the industry as a whole as companies reduce investment in conventional systems, we still expect generally solid investment due to full-scale upgrades to NGN and the increasing market share of telecommunications carriers.

In response to this business environment, the NEC Networks & System Integration Group will continue working to improve profitability and focus on strengthening its business in order to increase its capacity for growth.

Based on expansion measures revolving around initiatives in the previous fiscal year including the strengthening of the NGN business framework and the commercialization of EmpoweredOffice, we will work to further increase our competitive edge and improve our market response in the NGN-related business and the enterprise market, where full-scale expansion is expected. In the support services business, which underpins our Company's growth, we will work to reinforce our business base so that we can, in turn, strengthen our capabilities to provide maintenance on a nationwide level. Specifically, in April 2008, we set up our Network Total Operation Center (nTOC), an integrated operation center that concentrates our network system support service functions. With our nTOC-based services at the core of our support services business, we will expand the scope of our businesses by enhancing our support service line-up. At the same time, our efforts to meet new demand will help us expand our network integration business.

In April 2008 we made Nichiwa Co., Ltd., which operates primarily in Kobe and Himeji, a wholly owned subsidiary. This move will enhance our efforts to expand in Kansai's enterprise market by further strengthening our network systems business for medium-sized enterprises in this region through Nichiwa's sales capabilities and our Group's SE/SI capabilities.

In addition to efforts to expand markets and reinforce our business makeup, we will continue to forcefully conduct our AC-I activities in areas such as reducing follow-up work hours and to strengthen process reforms, both of which achieved results in the previous fiscal year. We will also work to further improve profitability by strengthening management capabilities for greater efficiency. In tandem with these efforts, our Group is carrying out initiatives to improve customer satisfaction in areas such as quality and CS[3].

2. AC-I activities: Abbreviation for "All Costs and Management Innovation."

3. CS: Abbreviation for "customer satisfaction." Providing products and services that put customer satisfaction first.

The following is our forecast of consolidated performance for the year ending March 31, 2009.

This forecast assumes average exchange rates for the year of ¥105 to the U.S. dollar and ¥155 to the euro.

Orders:	¥265.0 billion (a 4.1% increase over the previous year)
Net Sales:	¥265.0 billion (a 2.6% increase over the previous year)
Operating Income:	¥11.0 billion (a 2.4% increase over the previous year)
Net Income:	¥4.9 billion (an 11.1% increase over the previous year)

Dividend Policy

Increasing our shareholders' profits is a top priority for NEC Networks & System Integration Corporation. In addition to strengthening our management base, improving our financial soundness and increasing our profitability, we work to return earnings to our shareholders by increasing corporate value. Our dividend policy is to distribute profits appropriately in accordance with our shareholders' expectations while taking into account consolidated results, investment trends and other relevant factors.

Regarding internal reserves, our basic policy is to focus on strengthening our competitive edge and strategically investing in new and growing domains while taking into account the future expansion of network-related markets.

For the year ending March 2009, because we expect increased earnings as a result of cost and process reforms, we plan to increase our annual dividend by ¥2 per share to ¥22 per share (an increase of ¥1 per share for both the interim and year-end dividends) so that earnings are distributed to all our shareholders.

Cash Dividends Per Share (Yen)

	Interim Period	Year-end	Full Year
Year ended March 2008	10.00	10.00	20.00
Year ending March 2009 (Projected)	11.00	11.00	22.00

Looking Forward

In addition to steady growth, the NEC Networks & System Integration Group places great importance on efficient management that stresses increased profits in relation to total assets, net assets, and net sales.

Our medium-term targets for the year ending March 2009 are net sales of ¥300 billion or more and operating income of ¥11.5 billion or more.

During the current fiscal year, we intend to take into account changes in our business environment in setting medium-term targets for the year ending March 2010 and thereafter.

In the network-related business, which is one of the Group's business domains, we expect continued expansion in investment by telecommunications carriers and other enterprises over the medium to long term including investment in full-scale development of NGN and derivative services.

In this operating environment, based on our corporate philosophy and management guidelines, we will work as our customers' best partner to provide highly reliable systems and services that will satisfy our customers and contribute to increased customer value.

To strengthen our medium-term growth capabilities, we have been proactively conducting mergers and acquisitions. We made NEC Telenetworx, Ltd. a wholly owned subsidiary in April 2006 (merged in April 2007) to strengthen our NI/SS business and made Nichiwa a wholly owned subsidiary in April 2008 to strengthen our sales capabilities in the Kansai region. We will continue to make strategic investments to further increase our ability to grow in the future.

Furthermore, while constantly promoting enterprise innovation and strengthening our business capabilities and profitability, we will firmly establish our position in the network business sector with state-of-the-art technologies. In doing so, we aim to be a company trusted and valued by our customers, shareholders and other stakeholders. The entire NEC Networks & System Integration Group will work together to realize these goals.

September 2008
Masahiko Yamamoto
President

INTERVIEW WITH THE PRESIDENT

Raising Organizational Strength to Grow into a Strong Corporate Group

～Good Communication and Good Teamwork～

Masahiko Yamamoto
President

What were the factors behind the Company's strong performance in fiscal 2007, the year ended March 31, 2008?

NEC Networks & System Integration Corporation merged with NEC Telenetworx, Ltd. in April 2007 to expand its scope of business, and carried out large-scale organizational reforms in October 2007 to strengthen business related to the Next Generation Network (NGN). As a result, we enhanced our ability to attract customers in all our business areas. In addition, we saw positive results from internal management reforms that began several years ago. These factors were key in boosting profitability.

Internal reforms appear to be taking hold. What changes have you seen?

Employees' perspectives are gradually changing. Their ability to communicate with people outside the Company has increased remarkably, resulting in high marks from customers and the market. For example, the EmpoweredOffice Center we opened in the summer of 2007, the recently launched NGN Laboratory and the Network Total Operation Center (nTOC) all came from employees' ideas.

In order to bring out the latent capabilities of employees, I visit sites within and outside the Company, pose problems from my own point of view, pick up ideas while discussing these issues with employees and give those ideas shape. In other words, I am dedicated to the visualization of change. My aim is for management that results in improved performance for the entire Company through the growth of each employee.

What issues does the Company currently face?

Although we have enhanced profitability over the last several years, we still face issues related to growth. Sales growth was primarily due to the synergy of business expansion resulting from our merger with NEC Telenetworx and others. I believe my mission now is to expand our traditional businesses. To that end, we must have the trust of our customers.

I want to achieve growth by linking the capabilities of strong employees, from the division level to the entire Company, to bring out our combined strengths. As underperformance in any one of our businesses, from marketing and sales to system construction and support services, will result in the loss of customer trust, all divisions must cooperate to strengthen our service provision capabilities. That is why every day I stress the importance of good communication and good teamwork.

What areas will you focus on in the future?

The NGN market, which is expected to expand, presents an opportunity for our traditional businesses to change. While cooperating with the NEC Group, which is in an extremely strong market position, we will utilize our strengths and expand our market share. We will develop services using NGN for enterprises as well as for government.

Our aim is to be a dominant player in Japan. We intend to grow into an even stronger corporate group to become Japan's number one network system integrator.

We look forward to your continuing support.

FEATURE ARTICLE

The Advent of the NGN Age and the Challenge for NEC Networks & System Integration Corporation

In March 2008, commercial Next Generation Network (NGN) services began as the infrastructure of a ubiquitous network society in Japan. The advent of NGN is considered the first major communications revolution in 100 years.

NEC Networks & System Integration Corporation provides total solutions from system construction to outsourcing that suit the NGN age.

NGN: A Promising Growth Market

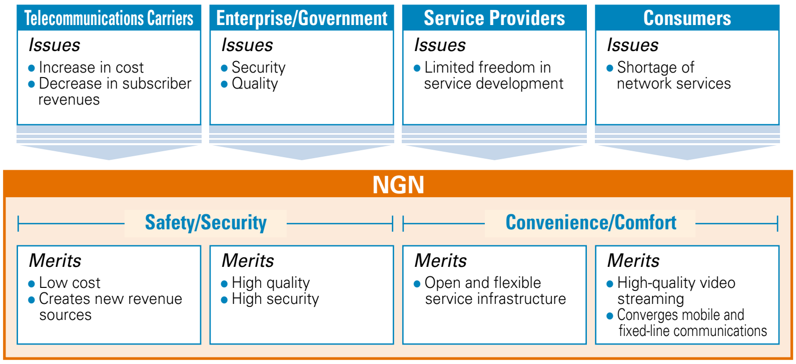
Investment in the Expanding NGN Business and Measures to Expand Business

Recently, newspapers and magazines often use the term "NGN." NGN is a next-generation information and telecommunications network utilizing characteristics of traditional networks such as fixed-line telephone networks and the Internet that enables the safe and convenient use of large amounts of diverse information.

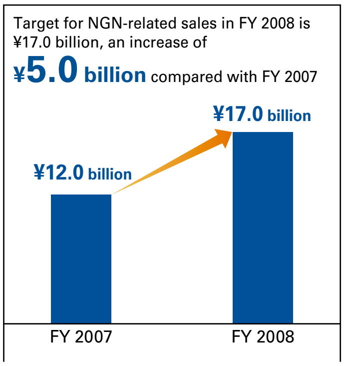
Our telecommunications carrier customers are expanding NGN-related capital investment for full-scale NGN-based services forecast to begin in fiscal 2010.

Expansion of the NGN market is a major business opportunity for the Company. The NEC Group has various strengths in NGN-related businesses. NEC Networks & System Integration Corporation in particular not only handles the core NGN-related system construction, operation and maintenance, but also actively develops original services. Our target for NGN-related sales to telecommunications carriers in fiscal 2008 is ¥17.0 billion, and we aim to further expand this business.

Image of NGN



Target for NGN-Related Sales to Telecommunications Carriers



The NGN Laboratory

Roles and Targets of the NGN Laboratory

1. Train engineering staff ➤ 1,300 by fiscal 2010
2. Improve quality ➤ Telecommunications connectivity testing and evaluation
3. Service creation ➤ Create services linked to EmpoweredOffice

Examples of NGN Initiatives

The Service Creation Center, NGN Laboratory

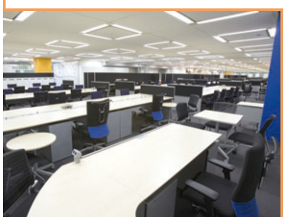
The NGN Laboratory was established in February 2008 as an internal base of development as we look toward the NGN age. It primarily serves to train engineers, improve quality and create services.

With network equipment and servers vital to NGN, the laboratory has an environment equivalent to the facilities of telecommunications carriers. Full utilization of this advantage enables us to evaluate and verify newly developed services. In addition, by linking the NGN Laboratory with EmpoweredOffice, which the Company recommends for improving work processes and the office environment, we can test laboratory-developed services during actual operation at the adjacent EmpoweredOffice Center.

We will strengthen training for engineers who can handle NGN from design and construction to operation and maintenance, and work to achieve one-stop services for NGN-ready networks.

TOPICS

Sales Floor Transformed into an Environment that Boosts Sales and Proposal Abilities



A simple and spacious work space

Chairs and other fixtures reflect an employee survey.

Marketing and Sales Reform Project Introduced as Test Case for EmpoweredOffice

The Company promotes the Marketing and Sales Reform Project aimed at reforming marketing and sales processes and effectively utilizing Information and Communication Technology (ICT). In order to raise our ability to make proposals to customers by using network integration experience and actual products, we substantially renovated the office environment of the 7th floor of the head office (approx. 2,300m^2) in January 2008.

One major reform was the adoption of a group address system to freely choose seats for the day's business. Employees communicate openly with each other and exchange information and opinions quickly, which enhances sales and marketing and proposal abilities. A wireless LAN environment has saved time and raised efficiency by enabling employees to use PCs anywhere in the head office building and conduct meetings flexibly, even while standing.

We will open the renovated office to customer view as a proving ground for the EmpoweredOffice solutions and use it as a model office for conducting proposals and demonstrations.

Through these in-house demonstrations and improvements, we will provide better office environments for our customers.

Opening of the Largest Domestic Network Total Operation Center

Customer calls are divided between Tokyo and Osaka and mutually backed up.

A variety of support services are available 24 hours a day.

A Variety of Support Services 24 Hours a Day

On April 14, 2008, NEC Networks & System Integration Corporation opened the Network Total Operation Center (nTOC) in Tokyo and Osaka as a support base to offer customers safer and more convenient use of the network systems we provide.

nTOC is one of the largest network system support facilities in Japan in terms of floor space, the number of support engineers on staff, and client capacity.

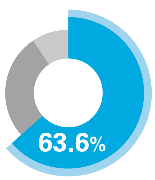
nTOC is a total operation center that concentrates countrywide support services such as monitoring, operation and maintenance for the network systems provided by the Company, including networks, telephony, servers and security. Operation engineers with seasoned knowledge of networks provide detailed services to meet customer needs 24 hours a day, 365 days a year.

nTOC-based services are the core of the Company's support service business. They enhance our support services menu and also help expand the network integration business.

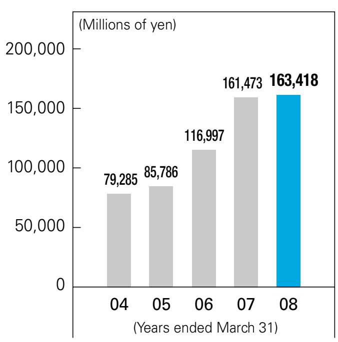
Network Integration / Support Services



Percentage of Net Sales
(Year ended March 31, 2008)



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

Results of the Fiscal Year

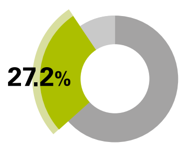
For the year ended March 31, 2008, orders for the Network Integration/Support Services segment increased 0.1 percent year-on-year to ¥164,765 million, and segment sales increased 1.2 percent to ¥163,418 million. The primary factors behind these results were increased system construction and development support to prepare for commercialization of NGN-related services, initiatives to meet office relocation demand and stable sales of Information and Communication Technology (ICT) applications and security-related products to enterprises primarily in major metropolitan areas, and an increase in support services for enterprises and government. However, orders and sales were essentially unchanged from the previous fiscal year due to a slowdown in investment in regional consumer-service networks and the weak performance of some consolidated subsidiaries.

Outlook for the Year Ending March 2009

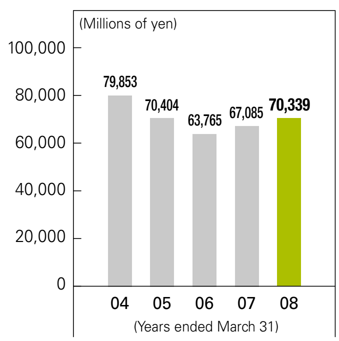
In the year ending March 31, 2009, network system construction and related support services for telecommunications carriers and other enterprises are projected to continue increasing due to strengthening of the NGN-related businesses and responsiveness to the enterprise market, as mentioned in the overall outlook. Accordingly, orders in the Network Integration/Support Services segment for the next fiscal year are projected to be ¥175.0 billion, a 6.2 percent increase year-on-year, and sales are projected to be ¥175.0 billion, a 7.1 percent increase.

Telecommunications Engineering

Percentage of Net Sales
(Year ended March 31, 2008)



Segment Sales



Principal Businesses

Installation of data communication bases and construction of ancillary facilities

Results of the Fiscal Year

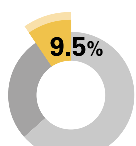
Orders received for this segment were ¥68,846 million, a 5.6 percent increase year-on-year, and sales were ¥70,339 million, a 4.8 percent increase. These increases were primarily the result of an overall increase in the Telecommunications Engineering segment due to solid expansion of regional public networks by local governments and an increase in construction of broadcasting facilities for digital broadcasting and CATV and telecommunications facilities for power companies, despite the end of the investment cycle for mobile base station construction driven by the introduction of the mobile number portability system (MNP).

Outlook for the Year Ending March 2009

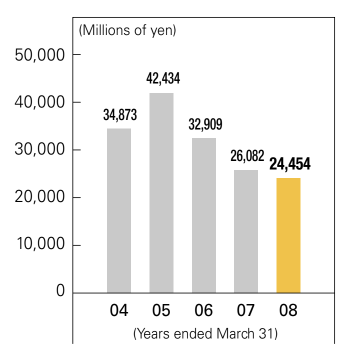
Demand is expected to remain strong for construction of telecommunications facilities in Japan, including regional information networks for local governments, and for telecommunications engineering overseas. Accordingly, orders in the Telecommunications Engineering segment for the next fiscal year are projected to be ¥70.0 billion, a 1.7 percent increase year-on-year, and sales are projected to be ¥70.0 billion, a 0.5 percent decrease.

Product Sales

Percentage of Net Sales
(Year ended March 31, 2008)



Segment Sales



Principal Businesses

Sales of data communication devices, etc.

Results of the Fiscal Year

Orders received for this segment were ¥20,900 million, a 12.0 percent decrease year-on-year, and sales were ¥24,454 million, a 6.2 percent decrease. The principal factor in the decreases was a reduction in sales of stand-alone devices not accompanied by system integration, as the Company concentrated resources in the Network Integration/Support Services segment, where it can deploy its system integration strengths.

Outlook for the Year Ending March 2009

Orders for the next fiscal year in the Product Sales segment, which handles stand-alone devices, are projected to be ¥20.0 billion, a 4.3 percent decrease year-on-year, and sales are projected to be ¥20.0 billion, an 18.2 percent decrease.

I. Basic Corporate Governance Policy

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.

II. Management Organization and Other Corporate Governance Systems for Decision-Making, Execution and Supervision

1. Organizational Structure and Operation, Business Execution, Auditing and Supervision, and Election

Board of Directors

The Board of Directors is composed of eight directors, including two outside directors. In addition to maintaining the number of directors at an optimum level for quick decision-making, the Company has reduced the terms of directors from two years to one year in order to clarify the management responsibility of directors and strengthen its management structure.

Principal Activities of Outside Directors

The outside directors attend regular monthly meetings of the Board of Directors, as well as extraordinary Board meetings when necessary. As members of the Board of Directors, the outside directors apply their ample experience and knowledge to the Company's operations in ways such as providing necessary input to discussions on important matters concerning management. At the same time, they provide advice and make decisions from an external perspective.

Executive Committee and Business Execution Committee

The Company has adopted an executive officer system to clearly separate supervision 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.

Board of Corporate Auditors

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 system for sufficiently scrutinizing directors' execution of their responsibilities.

Principal Activities of Outside Auditors

The outside auditors attend regular monthly meetings of the Board of Directors, extraordinary Board meetings when necessary, and meetings of the Board of Corporate Auditors. They utilize their individual knowledge in meeting discussions and other situations while auditing directors' execution of their responsibilities from a fair and objective point of view.

Internal Auditing Division

The Internal Auditing Division, consisting of 10 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.

Cooperation between the Corporate Auditors and the Internal Auditing Division

The Internal Auditing Division mutually cooperates with the corporate auditors, including making annual reports to them on the results of audits based on the audit plan for the fiscal year and exchanging opinions as necessary.

The corporate auditors, Internal Auditing Division and independent auditors also engage in mutual cooperation by regularly exchanging opinions as necessary in statutory audits.

Independent Auditors

The Company has an audit contract with Ernst & Young ShinNihon as its independent auditors to audit its accounts for the year ended March 31, 2008.

Note: KPMG AZSA & Co. was appointed to replace Ernst & Young ShinNihon as the Company's independent auditors at the General Meeting of Shareholders held on June 25, 2008.

Cooperation between the Corporate Auditors and Independent Auditors

The corporate auditors and independent auditors also engage in mutual cooperation by regularly exchanging opinions as necessary in statutory audits.

2. Special Factors with a Significant Effect on Corporate Governance

(1) The Company's parent company is NEC Corporation, which held 25.5 million shares, or 51.48 percent, of the Company's voting rights shares as of March 31, 2008.

Calculation of the actual ratio of voting rights of NEC Corporation includes 6.4 million shares contributed by NEC Corporation as a retirement benefit trust to the Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account).

(2) In order to strengthen cooperation with the parent company in management activities and promote sharing of information, at the Company's request one outside director and two outside auditors are appointed from the parent company. As the number of outside directors does not constitute a majority on the Board of Directors and decisions on key management issues are made after sufficient discussion, independent management judgment is maintained.

III. Basic Stance on and Status of Internal Control Systems

■ Basic Stance on and Status of Internal Control Systems

The Company established the following basic policy concerning internal control systems per resolution of the Board of Directors.

In addition to regularly evaluating the internal control system and implementing reform measures under the basic policy, the Company revises the policy in response to factors including changes in the management environment and works to make the system more effective.

1. Systems for Ensuring Compliance with Laws and the Company's Articles of Incorporation in the Performance of Duties by Directors and Employees

(1) Directors and corporate officers shall take the lead in practicing the NEC Networks & System Integration Group Charter of Corporate Behavior, (the "Charter of Corporate Behavior") and the NEC Networks & System Integration Group Code of Conduct (the "Code of Conduct") that were adopted to establish business ethics standards for NEC Networks & System Integration Corporation and its subsidiaries (the "Group"), and to ensure compliance by directors and employees with laws and the Company's Articles of Incorporation and rules, and promote their thorough understanding by way of repeatedly transmitting information about the importance of complying with them.

(2) The CSR Promotion Division shall encourage understanding and implementation of the Charter of Corporate Behavior and Code of Conduct, and the Internal Auditing Division shall conduct internal audits of compliance with laws and the Company's Articles of Incorporation at each division.

(3) The CSR Promotion Division shall promote the use of the Internal Reporting and Consultation Office, a corporate ethics hotline, for reporting violation or suspected violation of laws, the Charter of Corporate Behavior or Code of Conduct, and work to detect such violations at an early stage.

(4) A director shall immediately report to corporate auditors on discovery of any material violation of laws or Company rules, and shall also report to the Board of Directors without delay and take corrective measures.

(5) The Management Quality Improvement Committee shall investigate the cause of misconduct within the Group and formulate and implement concrete preventative measures.

(6) The Company shall maintain no relationship whatsoever with antisocial factions or groups which threaten the order and safety of civil society, and shall respond to illegitimate demands in an uncompromising manner.

2. System for the Retention and Management of Information Relating to the Performance of Duties by Directors

Directors and employees shall appropriately create, store and control documents relating to the performance of duties by directors and employees pursuant to laws and Company rules including the Regulation on Document Organization. Appropriate storage and control of information shall be carried out in accordance with rules including the Basic Rules on Information Security, the Rules for Trade Secret Management, and the Rules of Protection and Management of Personal Information.

3. Rules and Other Systems for Risk Management

(1) The Company shall implement risk management effectively and comprehensively in accordance with the Basic Rules on Risk Management, and receive the advice of lawyers, public accountants and other outside professionals as necessary.

(2) The Management Quality Improvement Committee shall deliberate on important matters related to risk management, and promote implementation of concrete Company-wide risk management measures.

(3) The Executive Committee shall deliberate fully on important matters from the perspective of risk management, such as strategies to control material management risks, and report matters of particular importance to the Board of Directors.

(4) The Internal Auditing Division shall conduct audits of the enterprise risk management system and the status of implementation of risk management.

4. Systems for Ensuring the Efficient Performance of Duties by Directors

(1) The Board of Directors shall meet once a month and hold extraordinary meetings as necessary to make decisions in a timely manner.

(2) The performance of duties by directors and executive officers shall be properly reported to the Board of Directors.

(3) The Board of Directors shall delegate significant authority to the executive officers in order to carry out timely decision-making regarding business operations. The executive officers will carry out their duties in an agile and efficient manner based on the responsibilities set by the Board of Directors.

(4) The Company shall work to strengthen management functions through the Executive Committee, which consists of executive officers at the managing director level and higher and corporate auditors and discusses policies pertaining to key management and operating issues, and the Business Execution Committee, which consists primarily of executive officers and division managers and monitors the progress of and reports on significant matters concerning business execution.

(5) Executive officers and other employees shall perform their duties competently and efficiently in accordance with the Rules of Authority and other Company rules.

5. Systems for Ensuring the Proper Operation of the Group

(1) The Company shall cooperate with its parent company NEC Corporation as necessary with respect to matters including the establishment of systems for ensuring corporate ethics and compliance with laws, the Company's Articles of Incorporation and rules, and fairness of business operations.

(2) The Company shall guide and assist its subsidiaries in establishing systems for ensuring corporate ethics, compliance with laws, the Company's Articles of Incorporation and rules, and fairness of business operations, in accordance with the Charter of Corporate Behavior and the Code of Conduct.

(3) In addition to dispatching directors and corporate auditors to subsidiaries, the Company shall, at the Executive Committee, discuss important operational matters of subsidiaries and submit issues for consideration to the Board of Directors, and cooperate with NEC as necessary, in accordance with the Rules on Control of Affiliated Companies.

(4) The Company and its subsidiaries shall prepare financial statements in accordance with laws and Company rules and cooperate with the independent auditors in performing audits, in addition to evaluating, maintaining and improving internal control over financial reporting in accordance with laws.

(5) The Internal Auditing Division shall conduct audits to confirm the appropriateness of business operations at subsidiaries.

(6) The corporate auditors shall ensure the appropriateness of business operations at the Company and its subsidiaries through operational audits.

6. Matters Regarding Employees Assisting Corporate Auditors and the Independence of Such Employees from Directors

The Company shall assign employees to assist corporate auditors in performing their duties. Corporate auditors may express an opinion on matters regarding such employees including their transfer.

7. Systems of Reporting to Corporate Auditors by Directors and Employees and Other Systems Regarding Reporting to Corporate Auditors

(1) Directors and employees shall report to corporate auditors on the status of the performance of their duties, as required by the corporate auditors.

(2) The Internal Auditing Division and other divisions shall report regularly to the corporate auditors depending on their business contents.

(3) The CSR Promotion Division shall regularly report to the corporate auditors regarding the status of operations of the Internal Reporting and Consultation Office, a corporate ethics hotline.

(4) Documents evidencing approval of important matters shall be submitted to corporate auditors for their review.

8. Systems for Ensuring Effective Audits by Corporate Auditors

(1) Corporate auditors shall attend meetings of the Board of Directors and other important meetings as they deem necessary.

(2) Corporate auditors shall exchange information and consult with each other on the status of audits at meetings of the Board of Corporate Auditors.

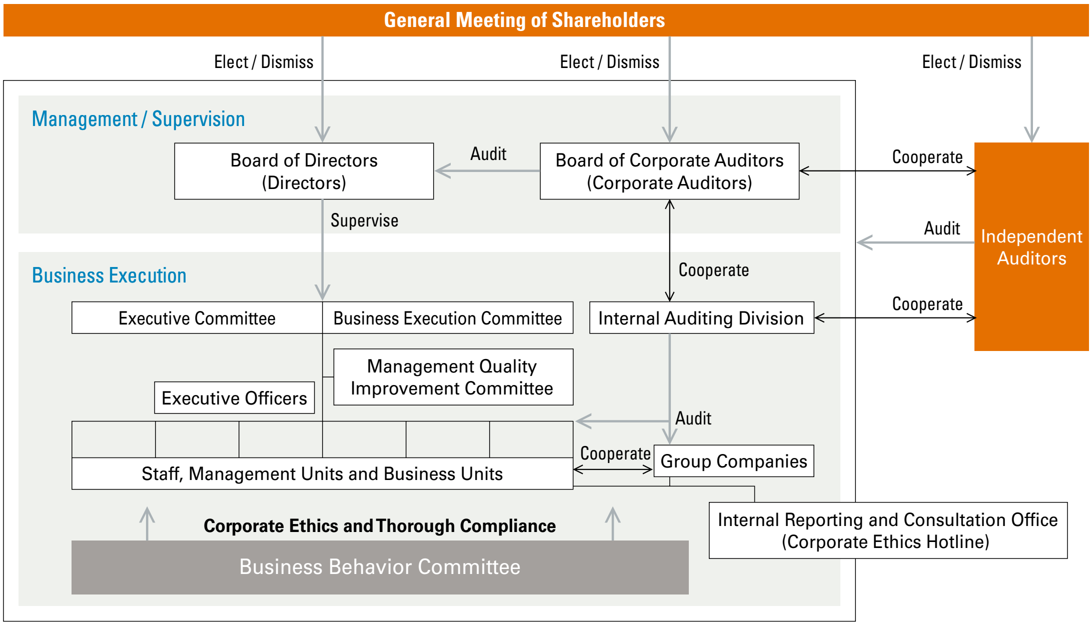
In addition, the corporate auditors shall cooperate with the independent auditors in the performance of their duties, regularly receive reports on accounting audits and exchange opinions with them, and cooperate with the Internal Auditing Division to ensure audit duties are conducted effectively.

■ Basic Stance on and Status of Measures for the Exclusion of Antisocial Factions

1. Basic Stance on the Exclusion of Antisocial Factions

The Company shall maintain no relationship whatsoever with antisocial factions or groups which threaten the order and safety of civil society, and respond to illegitimate demands in an uncompromising manner, as stipulated above in the Basic Stance on and Status of Internal Control Systems.

Corporate Governance System



2. Status of Measures for the Exclusion of Antisocial Factions

(1) The Code of Conduct stipulates that all officers and employees of Group companies take decisive action to ensure no relationship whatsoever with antisocial factions or groups that threaten the order and safety of civil society and not engage in actions that support their activities.

(2) The Company has established a division to counter antisocial factions by gathering and uniformly managing information on such factions.

(3) The Company cooperates closely with local police stations, lawyers and outside professional organizations regarding the exclusion of antisocial factions.

(4) The Company works to familiarize officers and employees with the exclusion of antisocial factions in ways such as providing regular educational opportunities.

IV. Other

■ Other Matters Concerning Corporate Governance

Following is the status of implementation of measures concerning corporate governance. The Company will further strengthen corporate governance through ongoing review of optimal management systems in response to changes in the social and operating environments.

(1) Documentation of the internal control system for financial reporting was carried out in April 2006 to further enhance the soundness and reliability of financial statements.

(2) The Basic Policy on Internal Control Systems was decided at the regular Board of Directors meeting in May 2006.

In addition, with the formulation of articles in October 2007 expressly regarding the blocking of relations with antisocial factions or groups, the Company is working to further ensure proper operations.

(3) In July 2007, the Company established the Monitoring & Verification Office to verify and approve sales calculations for orders received and uniformly manage invoicing and payment, and is working to strengthen internal controls.

(4) The Company improved the usability of the corporate ethics hotline by establishing an external consultation office in August 2007 for Company and other Group employees and staff to report issues without incurring unfair treatment, in addition to the existing Internal Reporting Office, and is working to identify risks at an early stage.

(5) In January 2008, the Company established the Management Quality Improvement Committee to strengthen internal controls throughout the Group and to review, examine and share information regarding compliance and risk management measures throughout the Company.

(6) To implement effective and comprehensive risk management, in April 2008 the Company established the Basic Rules on Risk Management to be observed by officers and employees.

(7) In July 2008, the Company established the CSR Promotion Division to further strengthen its CSR initiatives.

Directors and Corporate Auditors (As of June 25, 2008)

Directors

President
Masahiko Yamamoto

Senior Vice Presidents and Members of the Board
Tooru Rokusha
Koshiro Konno
Yasuo Iijima
Atsushi Fujita
Akinori Kanehako

Members of the Board
Kazuo Tsuzuki
Takayuki Matsui

Corporate Auditors

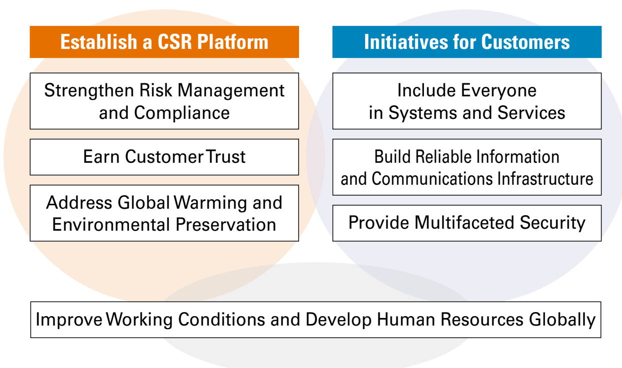
Masayuki Komura (full-time)
Tetsuiku Okada (full-time)
Harutame Umezawa
Kiyoshi Nakanishi
Tetsujiro Arano

CSR Policy

NEC Networks & System Integration Corporation builds trusting relationships with its stakeholders by putting compliance first, working to solve social issues through business activities, and soundly improving and returning profits to society.

Seven CSR Initiatives

We identified the most relevant and significant issues and themes for stakeholders and society as a whole and selected seven CSR initiatives.



Through these initiatives, we will fulfill our responsibilities to society, as expected.

Another important social responsibility is accountability, which the Company fulfills by disclosing the details and results of CSR initiatives to stakeholders.

Quality Initiatives, Environmental Activities, Information Security and Protecting Personal Information

Toward Greater Customer Satisfaction and Sustainable Development

Quality Initiatives

NEC Networks & System Integration Corporation constantly pursues the highest levels of quality and safety through measures such as customer satisfaction and quality management activities, including activities based on ISO 9001 certification. The Company provides customers high-quality, safe and secure systems with the latest technology.

Environmental Activities

NEC Networks & System Integration Corporation states in its Charter of Corporate Behavior that it will "contribute to society as an environment-conscious corporate citizen." In 1999, the Company received ISO 14001 certification for environmental management. Since then it has worked to reduce waste disposal volume, achieved 100 percent use of recycled paper for copy paper in fiscal 2001, improved the recycling rate, changed to small lots for lead soldering for on-site use, and introduced low-pollution vehicles. Moreover, in recent years, the Company has implemented green procurement to meet chemical substance regulations (the European RoHS directive and others), and conducted energy conservation and emissions trading aimed at preventing global warming.

Information Security and Protecting Personal Information

NEC Networks & System Integration Corporation has established a personal information protection policy. Moreover, the Company understands that personal information is an important information asset, and maintains a compliance program (a personal information management system) that conforms to JIS Q 15001: 2006. In this way, every employee works to properly protect personal information. In addition, the Company established the Basic Policy on Information Security and the Basic Rules on Information Security, and conducts activities to maintain and enhance information security. Based on the policy and rules, the Company strengthens security measures for internal information systems and promotes educational activities for Group employees and others, while strictly controlling security at data centers and other locations that handle important customer information, through operations based on ISO/IEC 27001, an international standard for information security systems.

ISO 9001: 2000
- Certificate Number: JQA-0471

ISO 14001: 2004
- Certificate Number: JQA-EM0640

ISO/IEC 27001: 2005
- Certificate Number: IC03J0025
- Organization: SI & Services Operations Unit Office Solutions Division

- Certificate Number: JQA-IMO190
- Organization: SI & Services Operations Unit Outsourcing Service Division

- Certificate Number: JQA-IMO351
- Organization: SI & Services Operations Unit Customer Engineering Division

- Certificate Number: JQA-IMO514
- Organization: SI & Services Operations Unit Service Infrastructure Division

Privacy Mark
- Certificate Number: 21000053(02)

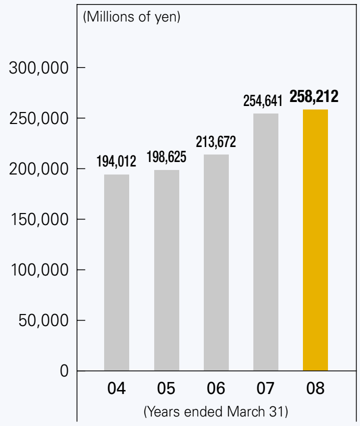
SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

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

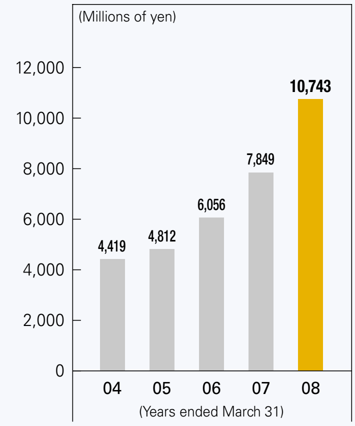
	Millions of yen (except per share figures)						Thousands of U.S. dollars (except per share figures)[1]
	2008	2007	2006	2005	2004	2003	2008
For the year:							
Orders	¥254,512	¥253,577	¥223,383	¥207,460	¥196,123	¥203,038	$2,540,293
Net sales	258,212	254,641	213,672	198,625	194,012	202,419	2,577,223
Selling, general and administrative expenses	24,824	25,413	20,502	16,921	17,263	17,418	247,769
Operating income	10,743	7,849	6,056	4,812	4,419	5,675	107,226
Net income	4,412	3,476	2,609	1,222	500	1,512	44,036
Capital expenditures	2,611	2,371	1,804	2,829	1,120	755	26,060
Depreciation and amortization	2,130	2,203	1,966	1,712	1,455	1,464	21,260
Research and development costs	419	595	455	428	290	58	4,182
At year-end:							
Total assets	¥154,171	¥148,797	¥134,911	¥123,935	¥118,416	¥116,289	$1,538,786
Shareholders' equity	65,251	61,692	54,017	51,704	50,971	51,822	651,273
Total net assets	66,132	62,201	54,625	—	—	—	660,066
Interest-bearing debt	5,652	5,531	8,800	8,163	5,624	5,617	56,413
Per share of common stock (yen and U.S. dollars):							
Net income	¥ 88.67	¥ 70.72	¥ 60.56	¥ 28.24	¥ 10.87	¥ 33.93	$ 0.89
Net assets (BPS)	1,311.71	1,233.52	1,285.92	1,231.28	1,213.62	1,202.58	13.09
Cash flow (CFPS)	130.1	114.8	108.2	69.0	45.0	68.0	1.30
Cash dividends applicable to the year	20.00	14.00	14.00	12.00	10.00	10.00	0.20
Ratios and return indicators:							
Operating income to net sales (%)	4.2	3.1	2.8	2.4	2.3	2.8	
Return on assets (ROA) (%)[2]	6.9	5.5	4.6	3.9	3.7	3.8	
Return on equity (ROE) (%)[3]	7.0	6.0	4.9	2.4	1.0	2.9	
Shareholders' equity (Net worth) ratio (%)	42.3	41.3	40.0	41.7	43.0	44.6	
Current ratio[4]	1.97	1.93	1.86	1.77	1.79	1.77	
Interest coverage ratio (times)[5]	123.63	106.00	65.39	52.87	37.06	30.61	
Debt to equity ratio (times)[6]	0.09	0.09	0.16	0.16	0.11	0.11	
Number of employees	5,817	6,407	4,897	4,199	4,281	4,331	
Net sales per employee (¥ thousands)[7]	¥ 42,247	¥ 45,053	¥ 46,982	¥ 46,864	¥ 45,056	¥ 61,056	$ 421,669
Net income per employee (¥ thousands)[8]	722	615	574	288	116	342	7,206

Notes:
1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥100.19 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 30, 2008.
2. Return on assets: Ordinary income / Average total assets during the term
3. Return on equity: Net income / Average net assets during the term
4. Current ratio: Current assets / Current liabilities
5. Interest coverage ratio: (Operating income + Interest income + Dividend income) / Interest expenses
6. Debt to equity ratio: Interest-bearing debt / Net assets
7. Net sales per employee: Net sales / Average number of employees during the term
8. Net income per employee: Net income / Average number of employees during the term

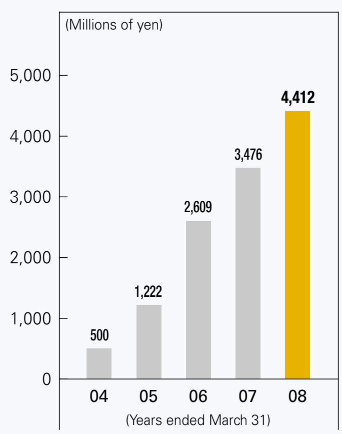
Net Sales



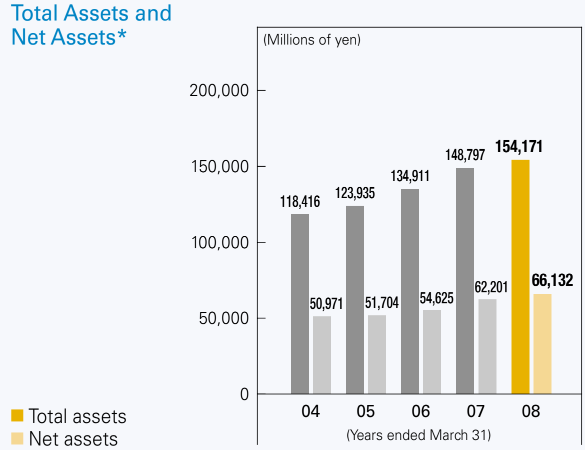
Operating Income



Net Income

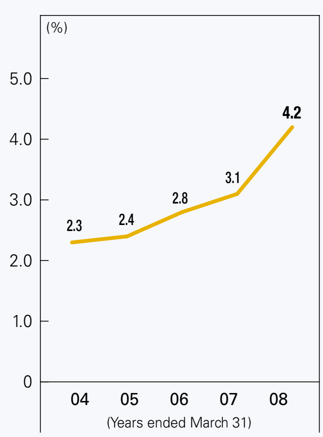


Total Assets and Net Assets*

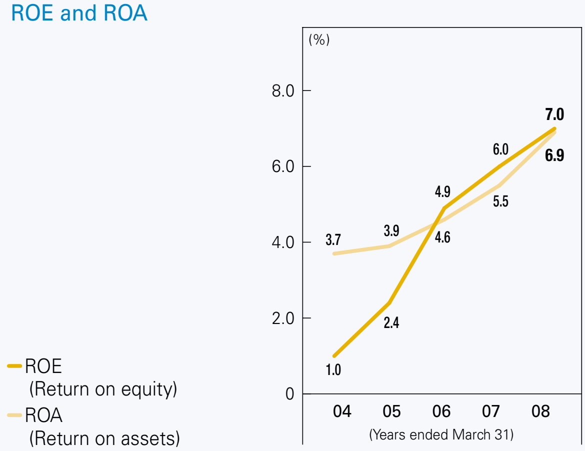


* Shareholders' equity for 2003 through 2005

Operating Income to Net Sales



ROE and ROA



All graphs are presented on a consolidated basis.

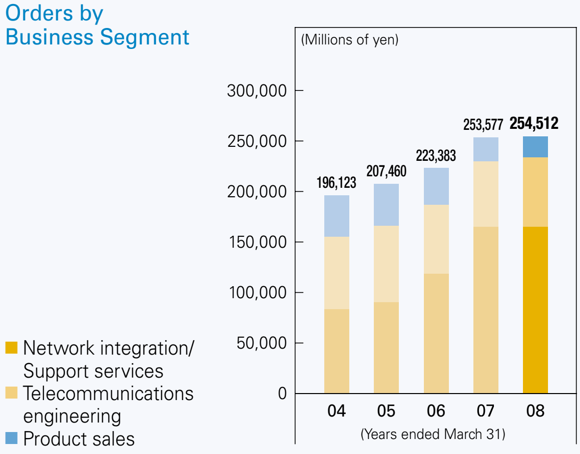
SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA BY SEGMENT AND CUSTOMER

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

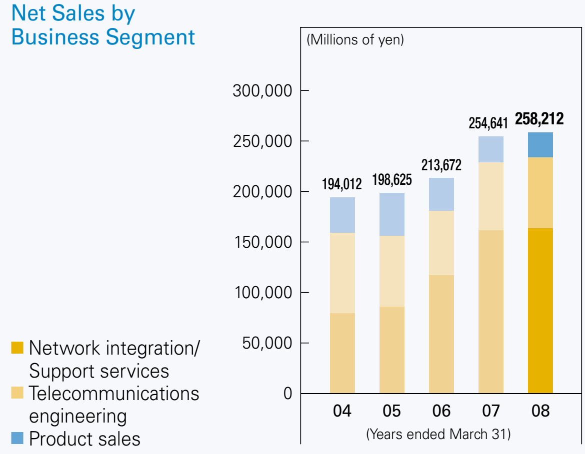
	Millions of yen (except per share figures)						Thousands of U.S. dollars (except per share figures)
	2008	2007	2006	2005	2004	2003	2008
Orders by business segment	¥254,512	¥253,577	¥223,383	¥207,460	¥196,123	¥203,038	$2,540,293
Information and network integration	—	—	—	—	—	138,149	—
Intelligent building and facility engineering	—	—	—	—	—	23,874	—
Operation and maintenance	—	—	—	—	—	41,013	—
Network integration/Support services	164,765	164,634	118,410	90,080	83,063	—	1,644,525
Telecommunications engineering	68,846	65,192	68,462	75,703	72,145	—	687,154
Product sales	20,900	23,750	36,510	41,676	40,914	—	208,604
Net sales by business segment	258,212	254,641	213,672	198,625	194,012	202,419	2,577,223
Information and network integration	—	—	—	—	—	138,997	—
Intelligent building and facility engineering	—	—	—	—	—	22,559	—
Operation and maintenance	—	—	—	—	—	40,863	—
Network integration/Support services	163,418	161,473	116,997	85,786	79,285	—	1,631,081
Telecommunications engineering	70,339	67,085	63,765	70,404	79,853	—	702,056
Product sales	24,454	26,082	32,909	42,434	34,873	—	244,076
Operating income by business segment	10,743	7,849	6,056	4,812	4,419	—	107,226
Network integration/Support services	11,002	10,964	6,684	5,785	5,644	—	109,811
Telecommunications engineering	4,197	3,139	3,510	3,434	2,826	—	41,890
Product sales	892	140	35	(96)	659	—	8,903
Eliminations or corporate	(5,348)	(6,394)	(4,173)	(4,312)	(4,710)	—	(53,379)
Orders by customer	254,512	253,577	223,383	207,460	196,123	203,038	2,540,293
Government	42,873	39,140	31,142	29,891	38,251	35,997	427,917
Telecommunications carriers	54,749	57,172	50,198	43,534	32,398	37,572	546,452
NEC Group	53,187	51,835	36,486	33,773	33,032	33,835	530,861
Enterprise	86,522	89,159	89,460	84,388	76,984	74,977	863,579
Overseas	17,177	16,267	16,096	15,873	15,457	20,675	171,444
Net sales by customer	258,212	254,641	213,672	198,625	194,012	202,419	2,577,223
Government	41,765	37,468	28,711	30,890	35,805	37,765	416,858
Telecommunications carriers	56,479	60,236	47,706	38,707	32,641	38,225	563,719
NEC Group	51,195	52,650	35,697	34,015	31,475	33,918	210,979
Enterprise	92,341	88,645	83,444	81,458	80,082	74,004	921,659
Overseas	16,429	15,640	18,114	13,554	14,008	18,477	163,978
Net sales via NEC	97,046	90,797	58,220	56,510	54,640	53,271	968,620
Ratio of net sales via NEC to total net sales (%)	37.6	35.7	27.2	28.5	28.2	26.3	

Business segments were changed in the year ended March 31, 2005.

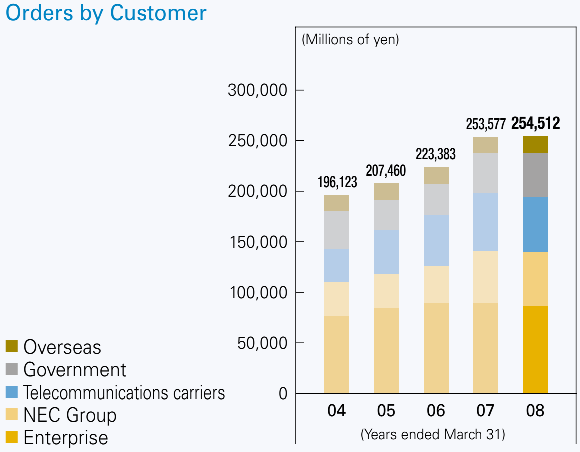
Orders by Business Segment



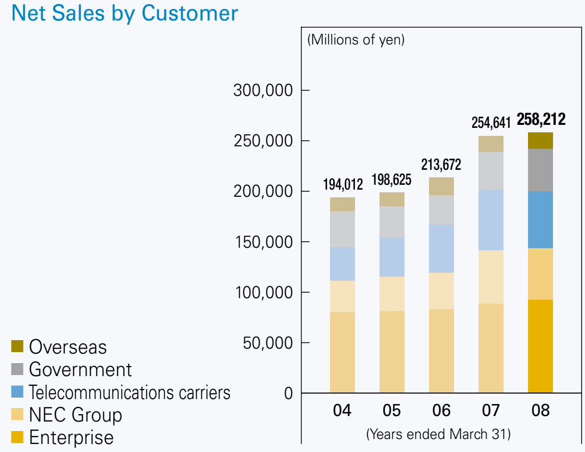
Net Sales by Business Segment



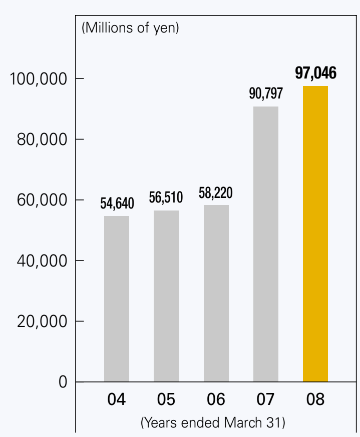
Orders by Customer



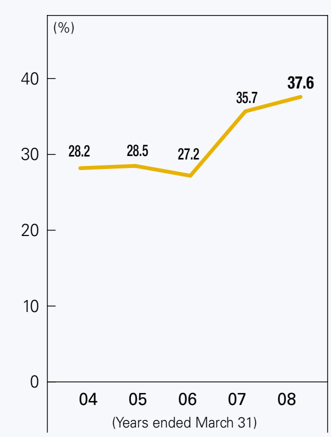
Net Sales by Customer



Net Sales via NEC



Ratio of Net Sales via NEC to Total Net Sales



All graphs are presented on a consolidated basis.

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (note 3)
Assets	2008	2007	2008
Current assets:			
Cash and cash equivalents	¥ 14,341	¥ 8,602	$ 143,138
Notes and accounts receivable:	96,552	95,353	963,689
Less allowance for doubtful receivables	(461)	(200)	(4,601)
Inventories (note 5)	11,806	15,090	117,836
Deferred income taxes (note 7)	5,938	5,493	59,267
Other current assets	2,077	1,159	20,731
Total current assets	130,256	125,498	1,300,090
Property and equipment:			
Land	2,423	2,423	24,184
Buildings and structures	7,860	7,522	78,451
Machinery and vehicles	368	394	3,673
Furniture and fixtures	9,853	9,295	98,343
Construction in progress	207	325	2,066
Accumulated depreciation	(12,477)	(11,700)	(124,533)
Property and equipment, net	8,236	8,260	82,204
Investments and other assets:			
Investment securities (note 4)	445	686	4,442
Intangibles, net of accumulated amortization	3,862	3,758	38,547
Deferred income taxes (note 7)	7,602	6,549	75,876
Other assets	3,768	4,044	37,609
Total investments and other assets	15,679	15,037	156,493
Total assets	¥154,171	¥148,797	$1,538,786

Liabilities and Net Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (note 3) 2008
Current liabilities:			
Short-term bank loans (note 6)	¥ 652	¥ 531	$ 6,508
Notes and accounts payable	46,625	48,333	465,366
Advances received	2,913	3,451	29,075
Accrued income taxes (note 7)	4,461	2,457	44,525
Accrued bonuses to directors and corporate auditors	59	78	589
Accrued losses on sales contracts	467	183	4,661
Other current liabilities	11,060	10,137	110,390
Total current liabilities	66,239	65,173	661,134
Long-term liabilities:			
Long-term debt (note 6)	5,000	5,000	49,905
Accrued employees' retirement benefits (note 8)	16,660	16,300	166,284
Accrued retirement benefits for directors and corporate auditors	60	95	599
Other liabilities	79	25	789
Total long-term liabilities	21,800	21,422	217,587
Total liabilities	88,039	86,596	878,720
Shareholders' equity (note 9):			
Common stock:			
Authorized 100,000,000 shares; issued and outstanding			
49,773,807 shares in 2008 and 2007	13,122	13,122	130,971
Capital surplus	16,650	16,650	166,184
Retained earnings	35,497	31,931	354,297
Treasury stock, at cost; 16,352 shares in 2008 and 10,255 shares in 2007	(19)	(11)	(190)
Total shareholders' equity	65,251	61,692	651,273
Valuation and translation adjustments:			
Net unrealized gain (loss) on other securities	11	(14)	110
Deferred gains (losses) on hedges	51	(40)	509
Foreign currency translation adjustments	(46)	(253)	(459)
Total valuation and translation adjustments	16	(308)	160
Minority interests	865	816	8,634
Total net assets	66,132	62,201	660,066
Commitments and contingencies (note 10)			
Total liabilities and net assets	¥154,171	¥148,797	$1,538,786

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (note 3)
	2008	2007	2008
Net sales (note 16)	¥258,212	¥254,641	$2,577,223
Cost of sales (note 16)	222,644	221,379	2,222,218
Gross profit	35,567	33,262	354,996
Selling, general and administrative expenses (note 12)	24,824	25,413	247,769
Operating income	10,743	7,849	107,226
Other income (deductions):			
Interest income	25	26	250
Interest expenses	(88)	(74)	(878)
Dividends income of insurance	111	—	1,108
Reversal of allowance for doubtful receivables	—	203	—
Foreign Exchange loss	(299)	—	(2,984)
Impairment loss on investment securities	(91)	—	(908)
Loss on disposal of property and equipment	(116)	(80)	(1,158)
Loss on devaluation of inventories	—	(77)	—
Sundry taxes	—	(71)	—
Loss on partial termination of an employees' retirement benefit plan	(1,041)	—	(10,390)
Restructuring charges of a subsidiary	(554)	(586)	(5,529)
Other, net	138	84	1,377
	(1,915)	(575)	(19,114)
Income before income taxes and minority interests	8,827	7,273	88,103
Income taxes (note 7):			
Current	5,985	3,784	59,737
Deferred	(1,575)	(29)	(15,720)
	4,409	3,754	44,006
Income before minority interests	4,417	3,518	44,086
Minority interests	5	41	50
Net income	¥ 4,412	¥ 3,476	$ 44,036

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, 2008 and 2007

		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 gains (losses) on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
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 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
Changes arising during year:												
Cash dividends				(845)		(845)						(845)
Net income				4,412		4,412						4,412
Purchase of treasury stock					(8)	(8)						(8)
Disposition of treasury stock			0		0	0						0
Net changes in accounts other than shareholders' equity							26	91	206	324	48	372
Total changes during the year	—	—	0	3,566	(8)	3,558	26	91	206	324	48	3,931
Balance at March 31, 2008	49,773	¥13,122	¥16,650	¥35,497	¥ (19)	¥65,251	¥ 11	¥ 51	¥ (46)	¥ 16	¥865	¥66,132

	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 gains (losses) on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at March 31, 2007	$130,971	$166,184	$318,704	$(110)	$615,750	$(140)	$(399)	$(2,525)	$(3,074)	$8,145	$620,830
Changes arising during year:											
Cash dividends			(8,434)		(8,434)						(8,434)
Net income			44,036		44,036						44,036
Purchase of treasury stock				(80)	(80)						(80)
Disposition of treasury stock		0		0	0						0
Net changes in accounts other than shareholders' equity						260	908	2,056	3,234	479	3,712
Total changes during the year	—	0	35,592	(80)	35,513	260	908	2,056	3,234	479	39,235
Balance at March 31, 2008	$130,971	$166,184	$354,297	$(190)	$651,273	$ 110	$ 509	$ (459)	$ 160	$8,634	$660,066

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (note 3)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 8,827	¥ 7,273	$ 88,103
Depreciation and amortization	2,130	2,203	21,260
Amortization of goodwill	53	54	539
Increase (decrease) in allowance for doubtful receivables	296	(1,115)	2,954
Increase (decrease) in accrued employees' retirement benefits	361	(1,011)	3,603
(Increase) decrease in prepaid employees' retirement benefits	261	(162)	2,605
Decrease in accrued retirement benefits for directors and corporate auditors	(35)	(35)	(349)
Increase (decrease) in accrued bonuses to directors and corporate auditors	(19)	78	(190)
Increase in accrued losses on sales contracts	283	159	2,825
Interest and dividend income	(37)	(39)	(369)
Interest expenses	88	74	878
Impairment loss on investment securities	91	48	908
Gain on sale of investment securities	(12)	(63)	(120)
Gain on sale of property and equipment	(12)	(22)	(120)
Loss on sale of property and equipment	0	0	0
Loss on disposal of property and equipment	116	80	1,158
Restructuring charges of a subsidiary	554	586	5,529
Decrease (increase) in notes and accounts receivable	(971)	1,280	(9,692)
Decrease in inventories	3,198	2,614	31,919
Decrease in notes and accounts payable	(1,762)	(1,171)	(17,587)
Other, net	(565)	406	(5,639)
Subtotal	12,845	11,238	128,206
Interest and dividend received	37	39	369
Interest paid	(93)	(70)	(928)
Income taxes paid	(3,980)	(3,307)	(39,725)
Net cash provided by operating activities	8,809	7,899	87,923
Cash flows from investing activities:			
Purchase of property and equipment	(1,518)	(1,216)	(15,151)
Sale of property and equipment	19	32	190
Purchase of intangibles	(1,085)	(1,149)	(10,829)
Purchase of investment securities	(10)	(42)	(100)
Sale of investment securities	24	96	240
Loans receivable made	(46)	(55)	(459)
Collection of loans receivable	55	56	549
Other, net	106	146	1,058
Net cash used in investing activities	(2,454)	(2,129)	(24,493)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	125	(6,521)	1,248
Purchase of treasury stock	—	(8)	—
Proceeds from sale of treasury stock	—	0	—
Proceeds from sale and purchase of treasury stock, net	(7)	—	(70)
Dividends paid to shareholders	(842)	(644)	(8,404)
Other, net	(3)	(185)	(30)
Net cash used in financing activities	(727)	(7,360)	(7,256)
Effect of exchange rate changes on cash and cash equivalents	112	82	1,118
Net increase (decrease) in cash and cash equivalents	5,739	(1,507)	57,281
Cash and cash equivalents at beginning of year	8,602	9,903	85,857
Cash and cash equivalents of newly consolidated subsidiaries	—	56	—
Increase in cash and cash equivalents resulting from the stock-for-stock exchange transaction	—	150	—
Cash and cash equivalents at end of year	¥14,341	¥ 8,602	$143,138

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

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 Japanese Financial Instruments and Exchange Law 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 Japanese Financial Instruments and Exchange Law, 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) Consolidation

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.

(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 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 for impairment. An impairment loss is recognized when the fair value of investment securities declines significantly. 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 and materials 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

Pursuant to an amendment to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries changed the estimated residual value of property and equipment which was acquired on or after April 1, 2007 from 5% of the acquisition cost to ¥1. The effect of this change was immaterial.

Pursuant to an amendment to the Corporation Tax Law, property and equipment acquired on or before March 31, 2007 which were depreciated to the allowable limit (95% of the acquisition cost) in a particular business year can be further depreciated down to ¥1 evenly over five years starting from the following business year. The effect of this change was immaterial.

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

Software for sale is amortized based on projected sales volumes within the estimated effective periods (3 years). Software for internal use is amortized by the straight-line method over the estimated useful lives (5 years).

(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 amortized in the subsequent year that it occurs by the straight-line method over the average remaining years of service of the employees. Prior service cost is amortized beginning the year it is 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 at certain subsidiaries. Provision for retirement benefits for these directors and corporate auditors are made at estimated amounts based on their internal rules.

In the year ended March 31, 2008, the Company abolished the retirement benefit plan to directors and corporate auditors in accordance with a resolution of the general shareholders' meeting held on June 26, 2007. The remaining provision for directors and corporate auditors will be paid at the time of termination or retirement. The remaining balance was reclassified as other long-term liabilities at March 31, 2008.

(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) 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, net of the applicable income taxes, is directly included in the net assets.

(n) Revenue recognition

Revenues from construction contracts of the Company and the domestic consolidated subsidiaries are recognized by the completed-contract method except for network integration and telecommunications engineering 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.

(o) Directors' bonus

Directors' bonuses are charged to income as incurred.

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 ¥100.19 = U.S.$1.00, the approximate rate of exchange on March 31, 2008. 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, 2008 and 2007 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2008	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	¥80	¥ 99	¥19	$798	$ 988	$190
Subtotal	80	99	19	798	988	190
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	12	12	—	120	120	—
Subtotal	12	12	—	120	120	—
Total	¥92	¥112	¥19	$918	$1,118	$190

	Millions of yen		
March 31, 2007	Acquisition cost	Carrying value	Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥112	¥191	¥78
Subtotal	112	191	78
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	—	—	—
Subtotal	—	—	—
Total	¥112	¥191	¥78

b) Sales of securities classified as other securities for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Proceeds from sales	¥24	¥96	$240
Gains on sales	12	63	120
Losses on sales	—	—	—

c) The components of non-marketable securities classified as other securities at March 31, 2008 and 2007 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Other securities:			
Unlisted securities	¥222	¥284	$2,216
Investments in limited partnerships	110	210	1,098
Total	¥332	¥495	$3,314

5 INVENTORIES

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Work in process	¥ 9,054	¥11,397	$ 90,368
Purchased goods, materials and supplies	2,752	3,692	27,468
Total	¥11,806	¥15,090	$117,836

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, 2008 and 2007 were approximately 1.1% and 0.9%, respectively.

The weighted average interest rates of long-term debt for the years ended March 31, 2008 and 2007 were approximately 1.0%. The annual maturities of the long-term debt at March 31, 2008 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥2,000	$19,962
2013	3,000	29,943
Total	¥5,000	$49,905

As of March 31, 2008 and 2007, the Group has executed a ¥11,000 million ($109,791 thousand) committed borrowing facility with three domestic banks. As of March 31, 2008 and 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 2008 and 2007. 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, 2008 and 2007 differ from the statutory tax rate for the following reasons:

	2008	2007
Statutory tax rate	40.7%	40.7%
Effect of:		
Expenses not deductible for tax purposes	1.7	2.9
Dividend income not taxable for tax purposes	(0.0)	(0.2)
Inhabitant tax per capita levy	1.2	1.3
Increase in valuation allowance	6.2	8.2
Other, net	0.2	(1.3)
Effective tax rates	50.0%	51.6%

The significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Accrued bonuses	¥ 2,004	¥ 1,754	$ 20,002
Social security on employee bonuses	235	201	2,346
Allowance for doubtful receivables	114	59	1,138
Accrued enterprise tax	369	233	3,683
Percentage-of-completion method	77	125	769
Loss on revaluation of inventories	2,504	2,204	24,993
Unrealized profit on inventories	23	21	230
Accrued losses on sales contracts	190	74	1,896
Depreciation	369	133	3,683
Software	343	551	3,423
Accrued retirement benefits	6,756	6,089	67,432
Stock dividends	146	146	1,457
Impairment loss on investment securities	301	—	3,004
Impairment loss on securities	—	247	—
Loss on restructuring of subsidiaries	116	199	1,158
Other	1,725	1,149	17,217
Subtotal	15,278	13,193	152,490
Valuation allowance	(1,632)	(1,031)	(16,289)
Total	13,646	12,162	136,201
Deferred tax liabilities:			
Advanced depreciation of property and equipment	(0)	(1)	(0)
Reserve for special depreciation	(61)	(89)	(609)
Unrealized holding gain on other securities	(8)	(29)	(80)
Deferred gains on hedges	(35)	—	(349)
Other	(0)	(0)	(0)
Total	(105)	(119)	(1,048)
Net deferred tax assets	¥13,540	¥12,042	$135,143

8 RETIREMENT BENEFIT PLANS

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

In March 2008, the Company revised its defined benefit plan attributable to employees' future services, and on April 1, 2008, converted a part of its defined benefit plan into a defined contribution plan for certain future pension benefits.

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, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥(35,476)	¥(37,646)	$(354,087)
Plan assets at fair value	16,176	20,165	161,453
Unfunded retirement benefit obligation	(19,299)	(17,481)	(192,624)
Unrecognized actuarial loss	8,949	6,776	89,320
Unrecognized prior service benefit	(6,310)	(5,335)	(62,980)
Net amount recognized in the consolidated balance sheets	(16,660)	(16,039)	(166,284)
Prepaid employees' retirement benefits	—	(261)	—
Accrued employees' retirement benefits	¥(16,660)	¥(16,300)	$(166,284)

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥1,811	¥1,770	$18,076
Interest cost	888	924	8,863
Expected return on plan assets	(435)	(449)	(4,342)
Amortization of actuarial loss	567	629	5,659
Amortization of prior service benefit	(373)	(395)	(3,723)
Total	2,459	2,480	24,543
Loss on partial termination of an employees' retirement benefit plan	1,041	—	10,390
	¥3,501	¥2,480	$34,944

When the Company merged with NEC Telenetworx, Ltd., the Company partially terminated its retirement benefit plan and loss on termination of the retirement benefit plan was recognized by specifying the plan asset amount transferred from NEC corporate pension fund.

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

	2008	2007
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 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 ($5,450 thousand) as of both March 31, 2008 and 2007.

Cash dividends charged to retained earnings for the years ended March 31, 2008 and 2007 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.

a) Dividends paid during the year ended March 31, 2008

The following was approved by the Board of Directors held on May 15, 2007.

(a) Total dividends	¥348 million ($3,473 thousand)
(b) Cash dividends per common share	¥7 ($0.07)
(c) Record date	March 31, 2007
(d) Effective date	June 5, 2007

The following was approved by the Board of Directors held on November 14, 2007.

(a) Total dividends	¥497 million ($4,961 thousand)
(b) Cash dividends per common share	¥10 ($0.10)
(c) Record date	September 30, 2007
(d) Effective date	December 4, 2007

b) Dividends to be paid after March 31, 2008 but the record date for the payment belongs to the year ended March 31, 2008

The following was approved by the Board of Directors held on May 30, 2008.

(a) Total dividends	¥497 million ($4,961 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥10 ($0.10)
(d) Record date	March 31, 2008
(e) Effective date	June 9, 2008

10 CONTINGENT LIABILITIES

At March 31, 2008, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥160 million ($1,597 thousand).

11 LEASES

a) Finance leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2008 and 2007, 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
	2008	2007	2008
Acquisition costs:			
Machinery and vehicles	¥ 125	¥ 18	$ 1,248
Furniture and fixtures	4,789	3,952	47,799
Software	498	473	4,970
	¥5,413	¥4,444	$54,027
Accumulated depreciation:			
Machinery and vehicles	¥ 66	¥ 11	$ 659
Furniture and fixtures	2,806	1,857	28,007
Software	226	206	2,256
	¥3,100	¥2,075	$30,941
Net book value:			
Machinery and vehicles	¥ 58	¥ 7	$ 579
Furniture and fixtures	1,983	2,095	19,792
Software	271	266	2,705
	¥2,313	¥2,369	$23,086

Lease payments relating to finance leases accounted for as operating leases amounted to ¥1,289 million ($12,866 thousand) and ¥1,043 million for the years ended March 31, 2008 and 2007, respectively. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms and the interest expense portion included in the lease payments amounted to ¥1,200 million ($11,977 thousand) and ¥84 million ($838 thousand), respectively, for the year ended March 31, 2008 and ¥970 million and ¥76 million, respectively, for the year ended March 31, 2007.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 and 2007 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥1,038	¥ 908	$10,360
Due over one year	1,299	1,520	12,965
Total	¥2,338	¥2,428	$23,336

b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2008 and 2007 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥211	¥7	$2,106
Due over one year	371	2	3,703
Total	¥583	¥9	$5,819

12 RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥419 million ($4,182 thousand) and ¥595 million for the years ended March 31, 2008 and 2007, respectively.

13 AMOUNTS PER SHARE

	Yen		U.S. dollars
	2008	2007	2008
Net income	¥ 88.67	¥ 70.72	$ 0.89
Net assets	1,311.71	1,233.52	13.09

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 is no equity instruments issued that has 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.

14 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, 2008 and 2007, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

15 RELATED PARTY TRANSACTIONS

The Company is a majority-owned subsidiary of NEC Corporation ("NEC"). Consolidated net sales included those to NEC in amounts of ¥97,046 million ($968,620 thousand) and ¥56,422 million for the years ended March 31, 2008 and 2007, respectively. In addition, the Company purchased communications equipment and other from NEC in amounts of ¥45,734 million ($456,473 thousand) and ¥42,544 million during the years ended March 31, 2008 and 2007, respectively.

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

16 SEGMENT INFORMATION

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

Business segments

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen					
Year ended March 31, 2008	Network integration / Support services	Telecommu-nications engineering	Product sales	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	¥163,418	¥70,339	¥24,454	¥258,212	¥ —	¥258,212
(2) Intersegment sales	—	—	—	—	—	—
Total sales	163,418	70,339	24,454	258,212	—	258,212
Operating expenses	152,416	66,142	23,561	242,120	5,348	247,469
Operating income	¥ 11,002	¥ 4,197	¥ 892	¥ 16,091	¥ (5,348)	¥ 10,743
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥ 76,084	¥32,731	¥ 7,309	¥116,125	¥38,046	¥154,171
Depreciation expenses	877	29	—	907	1,223	2,131
Capital expenditures	1,121	81	—	1,203	1,580	2,783

Year ended March 31, 2008	Network integration / Support services	Telecommu-nications engineering	Product sales	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales:						
(1) Sales to third parties	$1,631,081	$702,056	$244,076	$2,577,223	$ —	$2,577,223
(2) Intersegment sales	—	—	—	—	—	—
Total sales	1,631,081	702,056	244,076	2,577,223	—	2,577,223
Operating expenses	1,521,270	660,166	235,163	2,416,608	53,379	2,469,997
Operating income	$ 109,811	$ 41,890	$ 8,903	$ 160,605	$ (53,379)	$ 107,226
II. Assets, depreciation expenses, capital expenditures:						
Assets	$ 759,397	$326,689	$ 72,951	$1,159,048	$379,738	$1,538,786
Depreciation expenses	8,753	289	—	9,053	12,207	21,270
Capital expenditures	11,189	808	—	12,007	15,770	27,777

Year ended March 31, 2007	Network integration / Support services	Telecommu-nications engineering	Product sales	Total	Eliminations or corporate	Consolidated
	Millions of yen					
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

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, 2008 and 2007, 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, 2008 and 2007, the disclosure of overseas sales information was omitted.

ERNST & YOUNG

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C.P.O Box 1196, Tokyo 100-8641

Tel : 03 3503 1100
Fax : 03 3503 1197

Report of Independent Auditors

The Board of Directors
NEC 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, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, 2008 and 2007, 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, 2008 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 25, 2008

GLOBAL NETWORK

(As of March 31, 2008)

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[3]: ¥400 million
Voting rights: 100.00%

NEC Networks & System Integration Engineering, Ltd.
Head office: Tokyo, Japan
Established: October 1992
Capitalization[3]: ¥50 million
Voting rights: 100.00%

NEC Networks & System Integration Services, Ltd.
Head office: Tokyo, Japan
Established: July 1988
Capitalization[3]: ¥60 million
Voting rights: 100.00%

NESIC Ascerent, Ltd.
Head office: Tokyo, Japan
Established: September 1995
Capitalization[3]: ¥20 million
Voting rights: 100.00%

TOYO ALPHANET CO., LTD.
Head office: Kanagawa, Japan
Established: April 1981
Capitalization[3]: ¥20 million
Voting rights[4]: 100.00% (100.00%)

NESIC BRASIL S/A
Head office: São Paulo, Brazil
Established: November 1976
Capitalization[3]: ¥1,325 million
Voting rights: 87.44%

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

NESIC PHILIPPINES, INC.
Head office: Manila, The Philippines
Established: April 1991
Capitalization[3]: ¥167 million
Voting rights: 100.00%

P. T. NESIC BUKAKA
Head office: Jakarta, Indonesia
Established: May 1993
Capitalization[3]: ¥86 million
Voting rights: 60.00%

NESIC (GUANGZHOU) CO., LTD.
Head office: Guangzhou, China
Established: August 1998
Capitalization[3]: ¥115 million
Voting rights: 100.00%

Networks & System Integration Saudi Arabia Co., Ltd.
Head office: Al-Khobar, Saudi Arabia
Established: April 2006
Capitalization[3]: ¥56 million
Voting rights: 100.00%

TNSi Europe GmbH[2]
Head office: Köln, Germany
Established: October 2005
Capitalization[3]: ¥6 million
Voting rights[4]: 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. On August 22, 2007, TNS Europe GmbH changed its name to TNSi Europe GmbH.
3. As of March 31, 2008
4. Figures in parentheses after the percentage of voting rights held represent percentages inclusive of indirectly held shares.
5. On April 1, 2008, the Company made Nichiwa Co., Ltd. a wholly owned subsidiary.

INVESTOR INFORMATION

(As of March 31, 2008)

Corporate Name:
NEC Networks & System Integration Corporation

Established:
November 26, 1953

Number of Employees:
4,228 (Non-consolidated)
5,817 (Consolidated)

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

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:
12,024

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

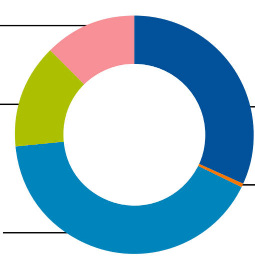
Independent Auditors:
Ernst & Young ShinNihon

Major Shareholders:

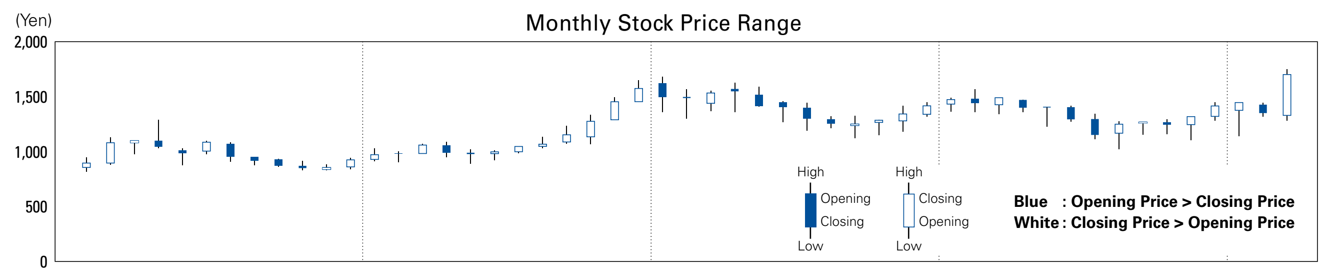
Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding
NEC Corporation	19,106	38.57%
Japan Trustee Services Bank, Ltd.* (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.92
Japan Trustee Services Bank, Ltd. (Trust account)	6,142	12.40
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	1,314	2.65
The Master Trust Bank of Japan, Ltd. (Trust account)	1,219	2.46
Sumitomo Realty & Development Co., Ltd.	1,200	2.42
Goldman Sachs International	874	1.76
Japan Trustee Services Bank, Ltd. (Trust account 4)	727	1.47
Employees' Stock Ownership Plan	726	1.47
Morgan Stanley and Co., Inc.	592	1.20

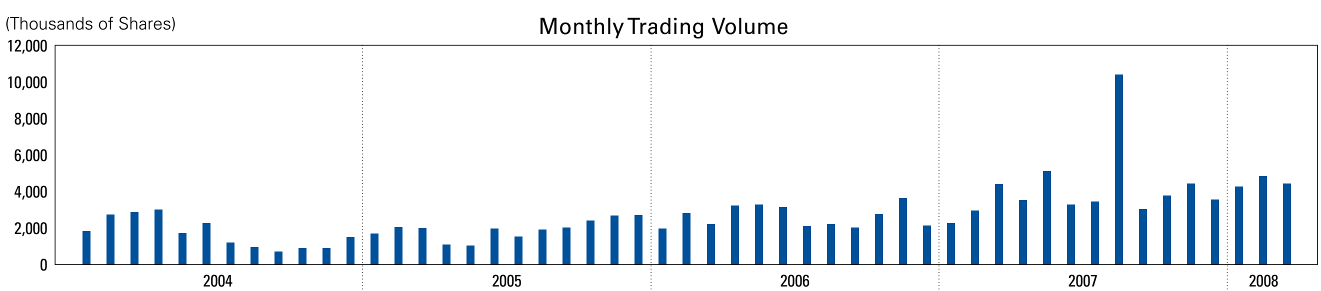
*Shares held by Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2008 was 51.48%.

Composition of Shareholders:



Monthly Stock Data (Tokyo Stock Exchange)





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