Empowered by Innovation NEC

Annual Report 2009

Year Ended March 31, 2009

Further Enhancing Profitability and Setting the Stage for Growth

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 segments of 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.

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 billion

1992 Listed on the Tokyo Stock Exchange, First Section

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 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.

BUSINESS OVERVIEW

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.

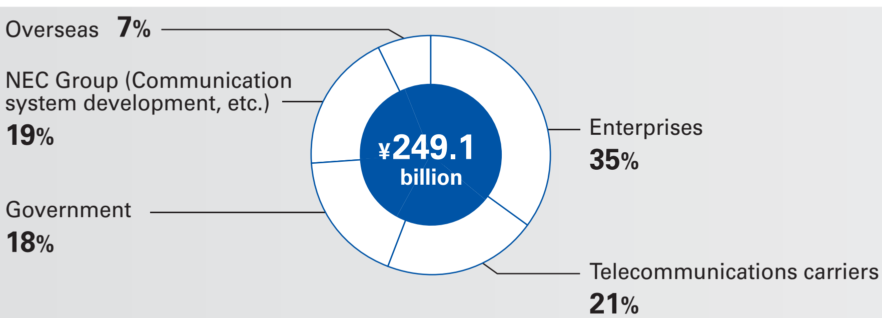
NEC Networks & System Integration Corporation was established in 1953 primarily as a builder of communications infrastructure. Today, as a top-class system integrator in Japan's network business field, the Company conducts business not only domestically but globally, in regions such as Southeast Asia,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

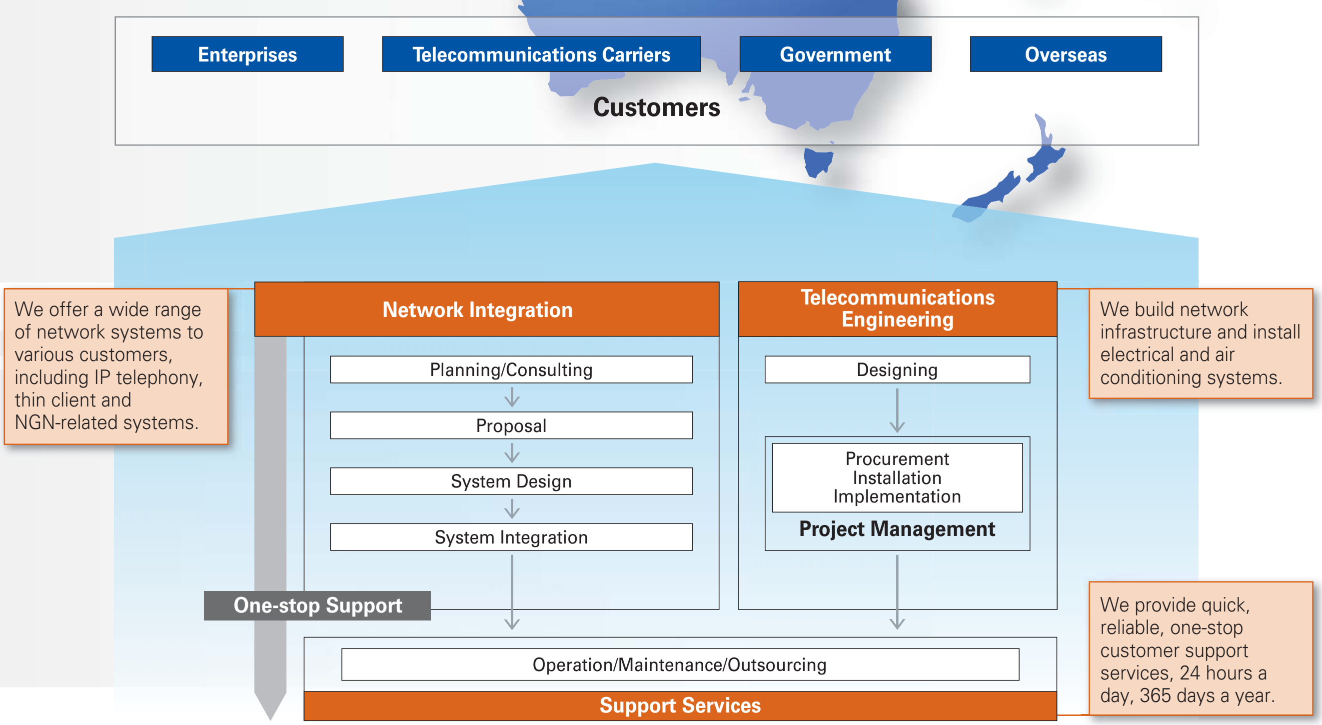
The Company provides leading-edge, high-quality network integration and support services for customers of various industries in Japan and overseas, as well as telecommunications engineering including building large-scale communications infrastructure and related facilities. As one of very few comprehensive 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, 2009)





Enterprises
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.

TO OUR SHAREHOLDERS

Masahiko Yamamoto
President

NEC Networks & System Integration achieved record profit in a challenging operating environment by boldly implementing management innovation activities.

In the year ended March 31, 2009, the NEC Networks & System Integration Group achieved record profit by further promoting work process and other comprehensive management innovation activities. Operating income was ¥10,968 million, a 2.1 percent increase compared with the previous fiscal year, and net income was ¥5,154 million, a 16.8 percent increase.

Net sales, however, decreased 3.5 percent to ¥249,070 million. Centered on the Product Sales segment, the decrease was due to restraint or postponement of investment in information technology (IT) by enterprises amid a challenging operating environment caused by significant economic deterioration in Japan and around the world from the second half of the year, triggered by the financial crisis. On the other hand, sales increased in our current focal areas of network integration and support services, which encompass maintenance and support for constructed networks. Initiatives behind this increase included enhanced proposals that meet changing needs for cost reduction and extending the life of existing systems. In addition, to increase management efficiency, we carried out support service infrastructure upgrades including the establishment of Network Total Operation Centers (nTOCs), which handle the operating and monitoring of customer networks, and the Parts Delivery Operation Center (pDOC), which integrates the deployment and delivery of maintenance parts throughout Japan.

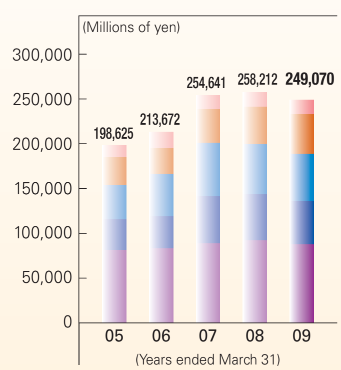
Given these conditions, we have increased our annual dividend for the year ended March 2009 to ¥22 per share.

The operating environment is expected to remain challenging in the year ending March 31, 2010. The NEC Networks & System Integration Group is working to enhance its ability to offer proposals that meet customer needs while reinforcing its capabilities in regional information networks of local governments and other solid business areas. Moreover, we will build a resilient business structure and work to achieve growth over the medium term by further accelerating management innovation activities.

September 2009
Masahiko Yamamoto
President

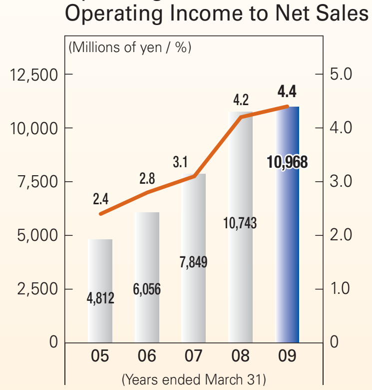
Financial Highlights

Net Sales by Customer



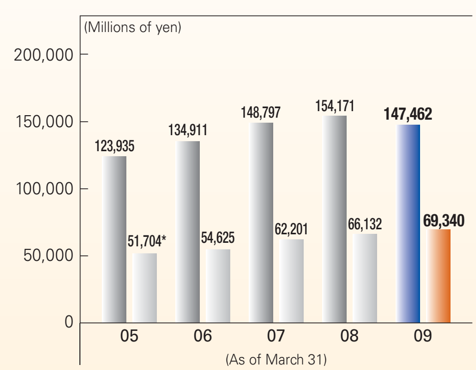
Overseas
Government
Telecommunications carriers
NEC Group
Enterprises

Operating Income and Operating Income to Net Sales



Operating income (left scale)
Operating income to net sales (right scale)

Total Assets and Total Net Assets



Total assets
Total net assets
* Shareholders' equity

INTERVIEW WITH THE PRESIDENT

Further enhancing profitability and setting the stage for growth by promoting corporate strength

Masahiko Yamamoto
President

Q *What were the factors behind the Company's strong performance in this once-in-a-century economic crisis?*

Our diverse customers include the national and local governments and telecommunications carriers in addition to enterprises. As such, the impact of the crisis was relatively small compared with that felt by companies doing business with individuals.

In addition, we saw a steady flow of results from Company-wide management innovation activities that we implemented early on in anticipation of challenging economic conditions.

For example, we previously conducted equipment configuration and other work at the customer's workplace. Concentrating work at one location, the Total SI Center, enabled us to steadily revise work processes and come up with new ideas. This dedicated, Company-wide drive helped improve profitability.

In our support services business, which maintains and operates customer networks, we made infrastructure upgrades that demonstrated our ability to ensure safety and security. For example, we established the nTOC[1] facilities to supervise networks 24 hours a day and the pDOC[2] facility to smoothly distribute maintenance parts. These facilities significantly contributed to performance.

Q *How will you respond to the challenging economic environment?*

In this economic crisis, I believe it is important to be critically aware of current conditions, reliably set firm, realistic targets and move to achieve them. We will work to produce results that meet shareholders' expectations regardless of the operating environment by reducing waste and building a robust corporate structure.

To increase sales, we will develop business in closer contact with customers with an eye on medium-to-long-term growth. In particular, we will make stronger proposals that effectively address customer needs, including solutions centered

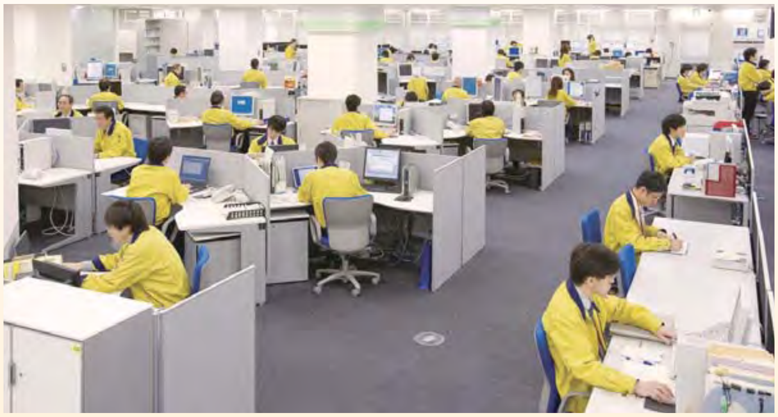
Right: EmpoweredOffice on site at the head office

Below: nTOC

on EmpoweredOffice[3] that make the office environment more dynamic, and solutions that reduce CO_2 emissions through energy-saving and reduced paper usage. Moreover, we will steadily expand business by offering solutions that tie in the support services business of maintenance and operation for established networks, as well as proposing solutions that utilize know-how gained through operational support.

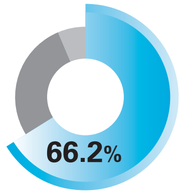
Meanwhile, local governments continue to upgrade regional information networks. In order to meet their needs and contribute to the creation of safe and secure communities, we will reinforce our project execution system throughout Japan while working to strengthen engineer recruitment and employee training.

Notes:
1. nTOCs: Two of the largest total network operation centers in Japan, these facilities concentrate the Company's support service functions such as monitoring, operation and maintenance of network systems.
2. pDOC: A parts distribution center that stores maintenance parts and integrates control to provide immediate parts delivery 24 hours a day, 365 days a year.
3. EmpoweredOffice: An office reform solution that we provide. It fuses our strengths in Information and Communication Technology (ICT) and facility installation to reform office work processes toward knowledge-building work styles and propose ideas for changing ways of working and the workplace environment to fulfill social responsibilities such as stronger security and environmental responsiveness.

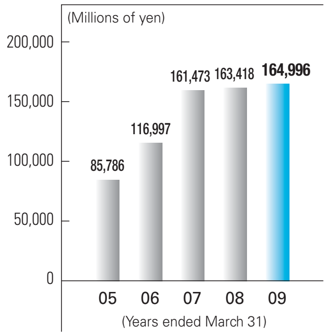


Network Integration/Support Services

Percentage of Net Sales
(Year ended March 31, 2009)



Segment Sales



Principal Businesses

Network Integration: Planning and consulting, software development and construction for network systems to strengthen the operating efficiency and competitiveness of customers, and supply of originally developed products and systems

Support Services: Operation and maintenance of network systems, and outsourcing services

Results of the Fiscal Year

In the year ended March 31, 2009, sales in the Network Integration (NI)/Support Services (SS) segment increased 1.0 percent year-on-year to ¥164,996 million. Sales in the NI business increased 0.3 percent to ¥87,169 million, basically unchanged from the previous fiscal year in a challenging operating environment of significantly reduced IT and network investment by financial companies and manufacturers due to the rapid deterioration of the economy following the bankruptcy of Lehman Brothers in 2008. Sales in the SS business increased 1.8 percent to ¥77,827 million. Factors behind the increase included strengthening of the nationwide support system for NGN, terrestrial digital broadcasting and other networks, and increased enterprise business due to strong proposals for operation, monitoring and outsourcing services that help ease the burden placed on customers in ways such as reducing operating costs and reinforcing security.

Gross profit was ¥26,540 million, which improved the gross profit margin 1.1 percentage points, and operating income was ¥12,960 million, which increased the ratio of operating income to sales 1.2 percentage points. Factors included the increase in sales of the SS business and the strengthening of ongoing management innovation activities.

The year ended March 31, 2009 was challenging for the NI/SS segment due to factors including restrained investment centered on enterprises. As projects decreased in scale, the Company worked to expand the number of projects by actively conducting customer-centered marketing, including proposing solutions addressing strong customer needs for cost reduction and improved operating efficiency. In addition, we worked to expand our range of proposals by utilizing our strengths in facility construction to propose EmpoweredOffice total office reform solutions that center on advanced Information and Communication Technology (ICT) and integrate office space design as well as air conditioning and electrical systems. In April 2008, we acquired Nichiwa Co., Ltd. in order to strengthen area coverage. With the expansion of the NGN service area, we steadily increased related business with telecommunications carriers. Business infrastructure upgrades also progressed in the NI/SS segment. (See "Topics," page 12.) In these ways, we are working to improve operating efficiency while enhancing service quality and strengthening high-value-added businesses.

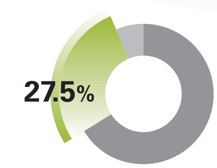
Outlook for the Year Ending March 31, 2010

Investment in network integration among financial companies and other enterprises is expected to be weak, but we will build up orders by proposing solutions that meet customer needs.

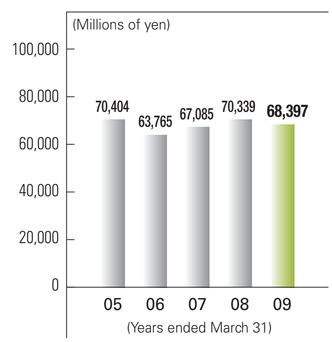
In the NI business, we will focus on EmpoweredOffice, leveraging the results and know-how from adopting it in our own company to provide customers with stronger solutions that meet their needs, such as to reduce costs and increase operating efficiency. In the SS business, we will step up our efforts to provide total services over the entire system life cycle, from proposing and installing ICT systems to operating, monitoring and outsourcing services, as well as subsequent system upgrades. We will do this by further expanding our range of solutions that combine the system installation and other flow businesses centered on EmpoweredOffice with nTOC and data center support service infrastructure. Evolving our value chain in the solutions business in this way will strengthen our market competitiveness.

Telecommunications Engineering

Percentage of Net Sales
(Year ended March 31, 2009)



Segment Sales



Principal Businesses

Construction of network infrastructure and installation of electrical and air conditioning systems

Results of the Fiscal Year

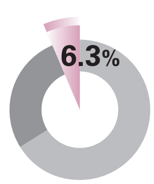
In the year ended March 31, 2009, sales in the Telecommunications Engineering segment decreased 2.8 percent year-on-year to ¥68,397 million. Construction of mobile base stations decreased due to a peak-out in investment by mobile communications carriers, and the completion of major projects for municipal governments in the previous fiscal year. Gross profit was ¥7,848 million, which decreased the gross profit margin 1.8 percentage points, and operating income was ¥3,206 million, which decreased the ratio of operating income to sales 1.3 percentage points. The decreases resulted from delayed response to the sharp decline in specialized mobile base station construction orders from some mobile communications carriers and the peak-out of highly profitable projects, including construction of facilities for a digital broadcasting studio.

Outlook for the Year Ending March 31, 2010

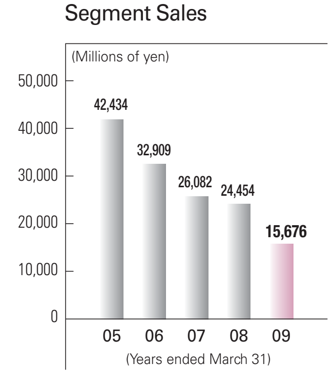
Solid investment is expected in fields such as expansion of terrestrial digital broadcast reception areas, elimination of the digital divide, and measures to establish wider area firefighting and disaster prevention networks. We will expand related businesses by working to further strengthen our agile operational structure, including shifting sales and technical personnel resources to these solid fields.

Product Sales

Percentage of Net Sales
(Year ended March 31, 2009)



Segment Sales



Principal Businesses

Sales of data communication products, etc.

Results of the Fiscal Year

In the year ended March 31, 2009, sales in the Product Sales segment decreased 35.9 percent year-on-year to ¥15,676 million. Factors included a reduction in sales of terminals for branch offices of financial companies resulting from restrained investment.

Gross profit was ¥1,081 million, which decreased the gross profit margin 0.1 percentage points. Despite the significant decrease in sales, operating income was ¥586 million, which increased the ratio of operating income to sales 0.1 percentage points, due to our emphasis on profitability in project selection.

Outlook for the Year Ending March 31, 2010

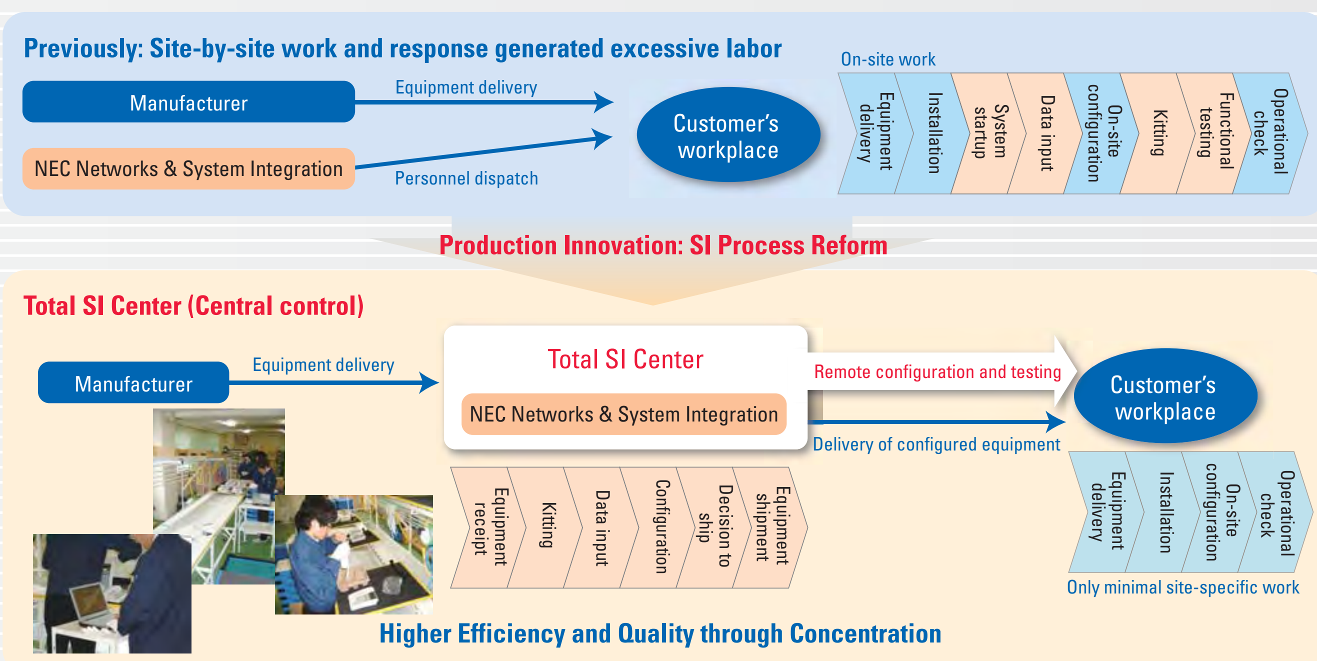
In the business environment of the Product Sales segment, the restraint in investment centered on enterprises that began in the previous fiscal year is expected to continue. Accordingly, we will continue to emphasize and improve operating profitability.

New Total SI Center Increases Efficiency and Protects the Environment

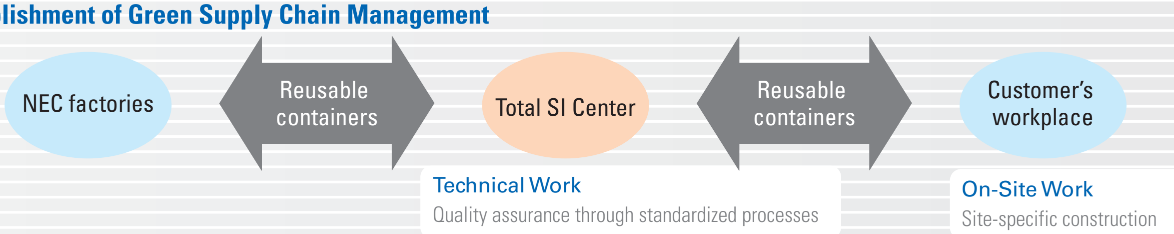
Enhancing system quality and construction speed by streamlining on-site work

NEC Networks & System Integration previously conducted system configuration at the customer's workplace when delivering IP telephony equipment. Establishing the Total SI Center to concentrate technical functions there has enabled us to reduce on-site work days to one-fourth of those previously necessary and deliver quality systems.

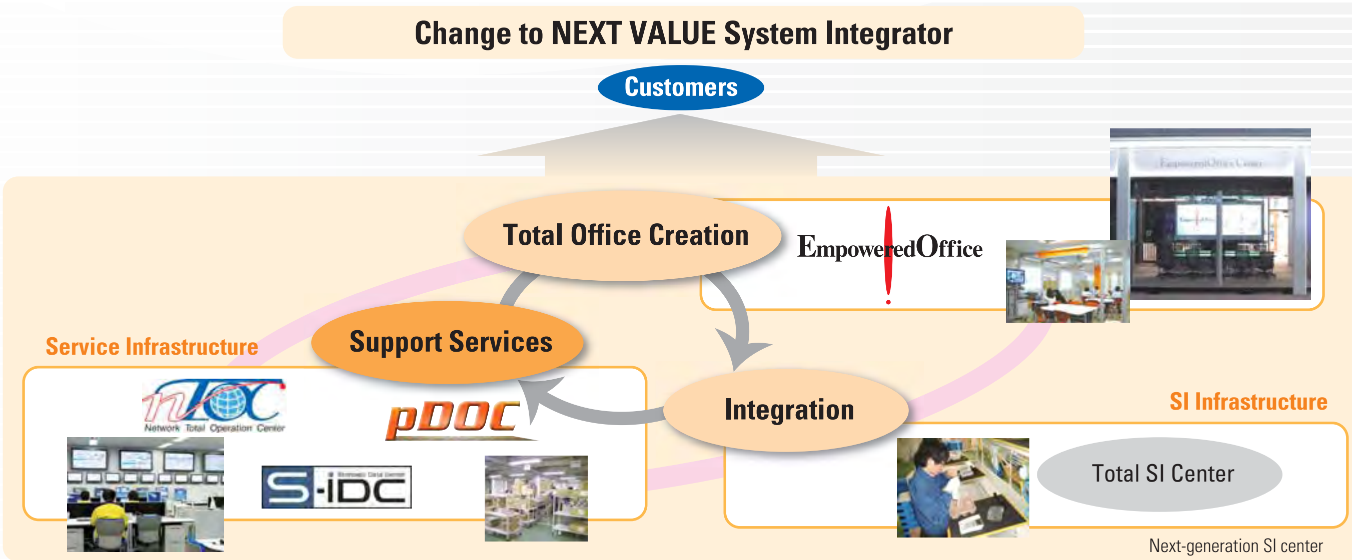
The Total SI Center has improved efficiency through stronger supply chain management while optimizing the shipment of equipment from factories to the Total SI Center and to customer workplaces. In addition, based on employee suggestions we switched from corrugated boxes to reusable containers for shipping IP telephony equipment. This has reduced industrial waste by 90 percent and significantly contributed to lowering CO_2 emissions. Green supply chain management (SCM) introduced at the Total SI Center is being strengthened. While working to further improve efficiency and enhance quality, we will continue to promote environmental measures including CO_2 reduction and energy saving.



Establishment of Green Supply Chain Management



Enhance the value chain by combining system integration (SI) and support services to expand business



Reinforcing the Infrastructure of the Support Services Business

Enhancing customer satisfaction through higher-quality services and faster response while reducing costs and promoting Life Cycle Management* business

In the support services area, where customer needs are increasing, we worked to strengthen our capabilities by reinforcing our service infrastructure, including providing more sophisticated services and faster recovery from system failure.

In April 2008, we opened nTOCs in Tokyo and Osaka to concentrate network monitoring, operation and call center functions. Moreover, in November we established pDOC to integrate control of parts deployment and delivery at over 300 centers throughout Japan. This has optimized the deployment of repair parts and shortened delivery time. Together with existing data centers, these infrastructure upgrades enable unified response with our complete lineup of support services, thereby making our work more efficient and reducing distribution costs, in addition to enhancing service quality and accelerating response to system failure.

Moving forward, we will work to more aggressively promote total services that match system life cycles. We will further expand solutions that combine the construction of systems centered on EmpoweredOffice with nTOC support service infrastructure and data centers, from proposing and introducing ICT systems to providing operation, monitoring and outsourcing, as well as ensuing system updates. In this way, we will further evolve our value chain, strengthening our market competitiveness and expanding our business.

* Life Cycle Management: A service that helps customers reduce complicated administration with support for optimal operation at every stage, from IT device and network system introduction to operation and maintenance, disposal, software updates, anti-virus measures, etc.

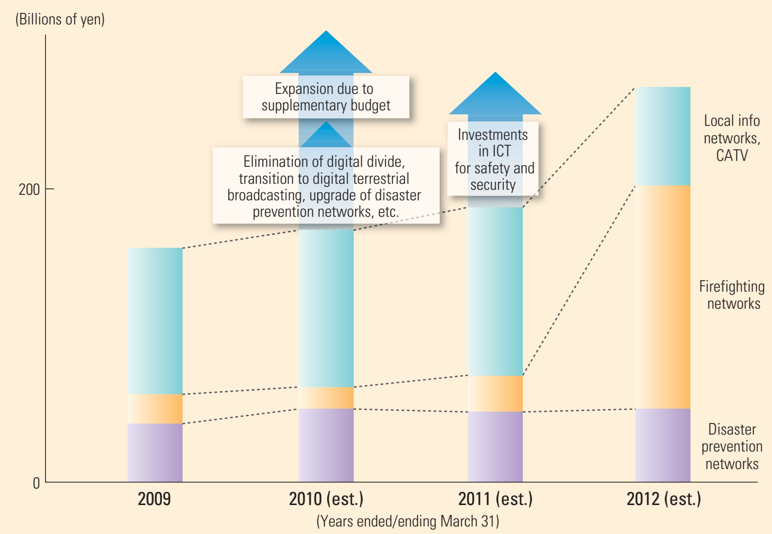
Strengthening the Local Government Communications Infrastructure Construction Business

Contributing to the establishment of broadband communications networks that eliminate the regional digital divide

Local governments in Japan are upgrading fiber-to-the-home, cable television and other broadband networks to rectify interregional information gaps and promote the establishment of flexible and efficient ICT infrastructure. As a result, higher-speed, higher-quality network services will become available. Dramatic improvement in convenience for regional residents and enterprises is expected, including the introduction of digital terrestrial broadcasting reception and the expansion of public services provided by local governments. Construction of public networks involves broadcasting and network system integration in addition to laying fiber-optic cable of over 200 to 300 kilometers. NEC Networks & System Integration helps local governments cross the digital divide by leveraging its traditional strengths in laying networks and its wealth of achievements and experience in upgrading communications infrastructure, including broadcasting facilities.

Revitalizing local economies is a key policy of Japan's national government, and upgrades to broadband networks by local governments are expected to gain speed through stronger government support. In order to enhance our ability to undertake projects throughout the country, we have changed to a fortified area management structure of large regions that encompass bases formerly managed separately. We will expand related businesses by working to further strengthen our agile operational structure, including shifting sales and technical personnel resources.

Market Size



(NEC Networks & System Integration forecasts based on government reports, etc.)

CORPORATE GOVERNANCE

I. Basic Corporate Governance Policy (As of June 30, 2009)

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 four corporate auditors, including three 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' performance of their duties.

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' performance of their duties 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 KPMG AZSA & Co. as its independent auditors to audit its accounts for the year ended March 31, 2009.

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 51.45 percent, of the Company's voting shares as of March 31, 2009. 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 one outside auditor are appointed from the parent company. As the number of outside directors from the parent company 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. Internal Control Systems and Exclusion of Antisocial Factions

■ 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 systems 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 systems 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 executive 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, retain and manage documents relating to the performance of duties by directors and employees pursuant to laws and Company rules including the Regulations on Document Organization. Appropriate retention and management 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 perform 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 exercise their authority 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

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.

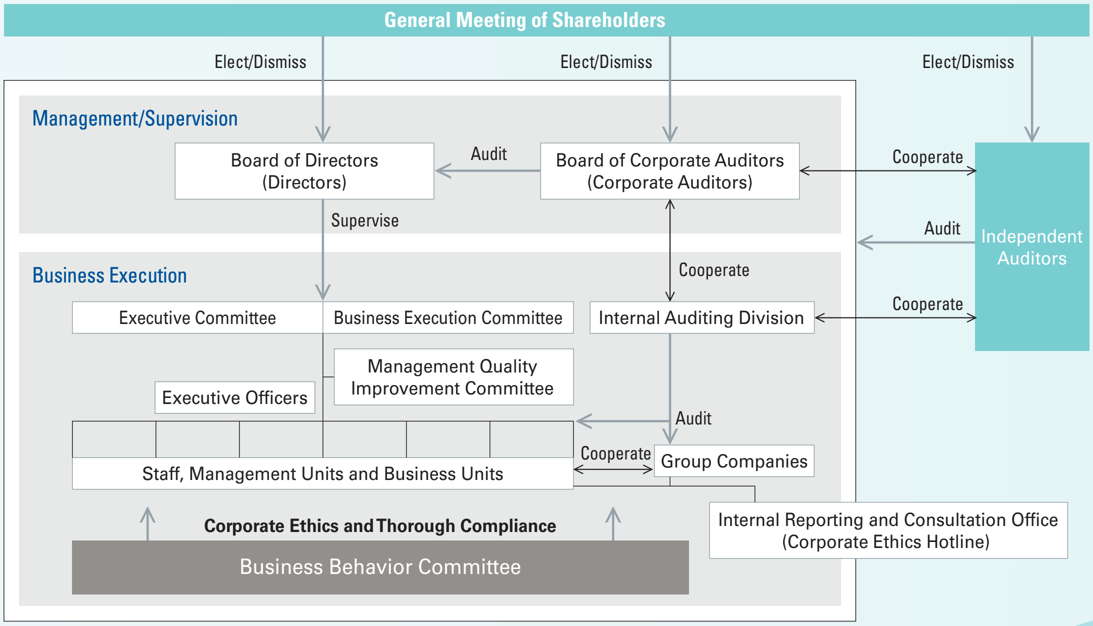
(4) Documents evidencing approval of important matters shall be submitted to corporate auditors for their review.

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.

Corporate Governance Structure



■ 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.

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) 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.

(2) 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.

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

Directors and Corporate Auditors (As of June 23, 2009)

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
Takayuki Matsui[1]
Noboru Wakita[1]

Corporate Auditors
Masayuki Komura[2] (full-time)
Tetsuiku Okada (full-time)
Harutame Umezawa[2]
Yasuo Totsuka[2]

Notes:
1. Outside director as defined in Item 15 of Article 2 of the Corporation Law of Japan
2. Outside auditor as defined in Item 16 of Article 2 of the Corporation Law of Japan

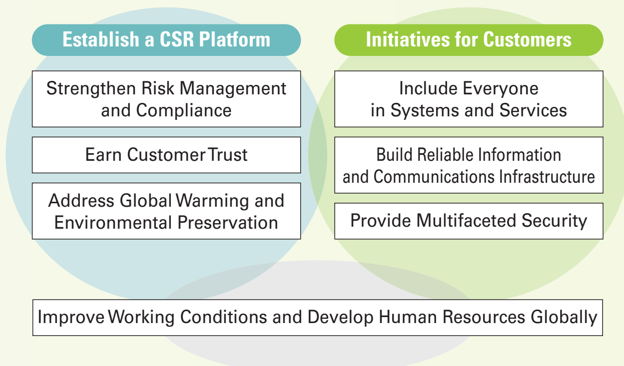
CORPORATE SOCIAL RESPONSIBILITY (CSR)

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 with 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 the year ended March 31, 2002, 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-IM0190
- Organization: SI & Services Operations Unit Outsourcing Service Division

- Certificate Number: JQA-IM0351
- Organization: SI & Services Operations Unit Customer Engineering Division

- Certificate Number: JQA-IM0514
- Organization: SI & Services Operations Unit Service Infrastructure Division

Privacy Mark
- Certificate Number: 21000053(02)

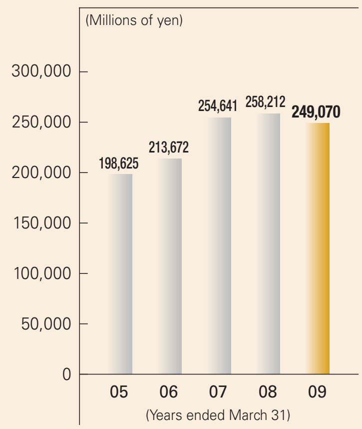
SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

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

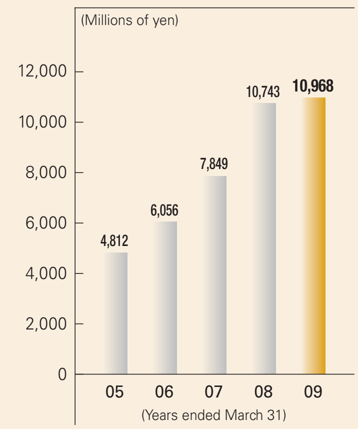
	Millions of yen						Thousands of U.S. dollars[1]
	2009	2008	2007	2006	2005	2004	2009
For the year:							
Orders	¥245,257	¥254,512	¥253,577	¥223,383	¥207,460	¥196,123	$2,496,763
Net sales	249,070	258,212	254,641	213,672	198,625	194,012	2,535,580
Selling, general and administrative expenses	24,501	24,824	25,413	20,502	16,921	17,263	249,425
Operating income	10,968	10,743	7,849	6,056	4,812	4,419	111,656
Net income	5,154	4,412	3,476	2,609	1,222	500	52,469
Capital expenditures	2,529	2,611	2,371	1,804	2,829	1,120	25,746
Depreciation and amortization	2,270	2,130	2,203	1,966	1,712	1,455	23,109
Research and development costs	290	419	595	455	428	290	2,952
At year-end:							
Total assets	¥147,462	¥154,171	¥148,797	¥134,911	¥123,935	¥118,416	$1,501,191
Shareholders' equity	69,334	65,251	61,692	54,017	51,704	50,971	705,833
Total net assets	69,340	66,132	62,201	54,625	—	—	705,894
Interest-bearing debt	5,121	5,652	5,531	8,800	8,163	5,624	52,133
Per share of common stock (yen and U.S. dollars):							
Net income	¥ 103.61	¥ 88.67	¥ 70.72	¥ 60.56	¥ 28.24	¥ 10.87	$ 1.05
Net assets (BPS)	1,381.92	1,311.71	1,233.52	1,285.92	1,231.28	1,213.62	14.07
Cash flow (CFPS)	147.8	130.1	114.8	108.2	69.0	45.0	1.50
Cash dividends applicable to the year	22.00	20.00	14.00	14.00	12.00	10.00	0.22
Ratios and return indicators:							
Operating income to net sales (%)	4.4	4.2	3.1	2.8	2.4	2.3	
Return on assets (ROA) (%)[2]	7.4	6.9	5.5	4.6	3.9	3.7	
Return on equity (ROE) (%)[3]	7.7	7.0	6.0	4.9	2.4	1.0	
Shareholders' equity (Net worth) ratio (%)	46.6	42.3	41.3	40.0	41.7	43.0	
Current ratio (times)[4]	2.18	1.97	1.93	1.86	1.77	1.79	
Interest coverage ratio (times)[5]	169.09	123.63	106.00	65.39	52.87	37.06	
Debt to equity ratio (times)[6]	0.07	0.09	0.09	0.16	0.16	0.11	
Number of employees	5,906	5,817	6,407	4,897	4,199	4,281	
Net sales per employee (thousands of yen)[7]	¥ 42,493	¥ 42,247	¥ 45,053	¥ 46,982	¥ 46,864	¥ 45,056	$ 432,587
Net income per employee (thousands of yen)[8]	879	722	615	574	288	116	8,948

Notes:
1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥98.23 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2009.
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

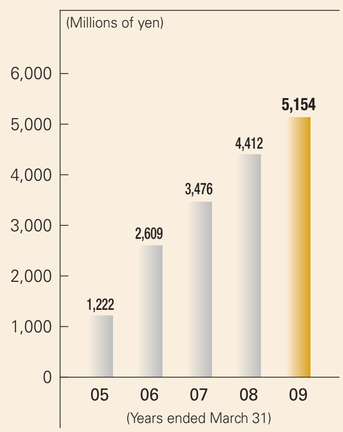
Net Sales



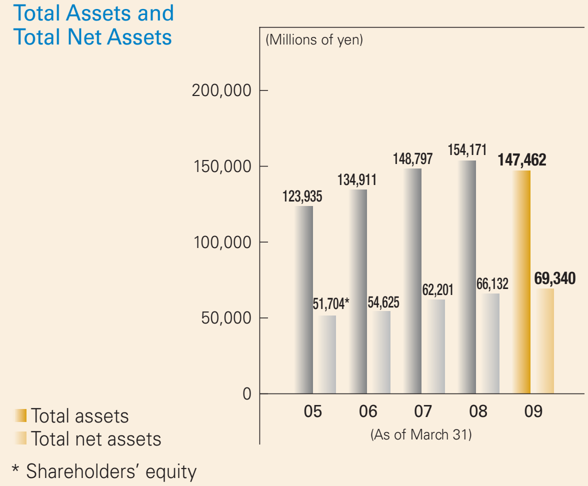
Operating Income



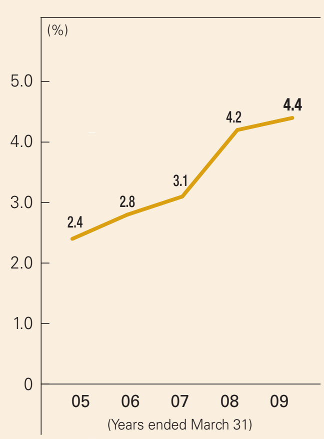
Net Income



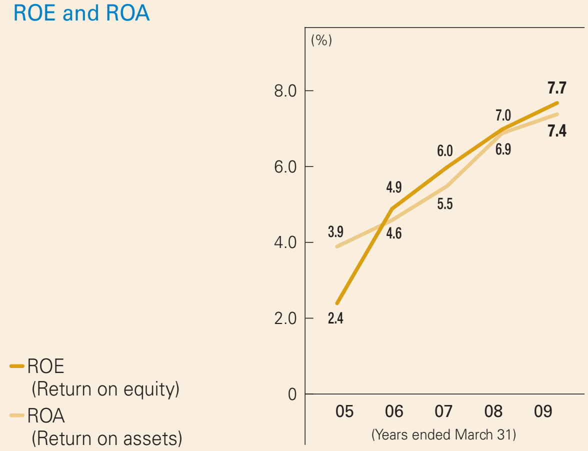
Total Assets and Total Net Assets



Operating Income to Net Sales



ROE and ROA



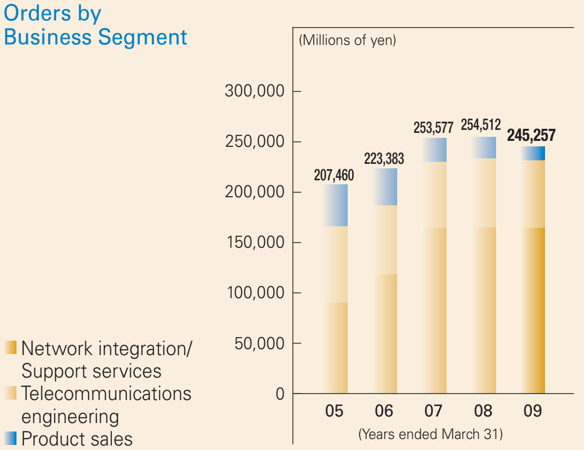
All graphs are presented on a consolidated basis.

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

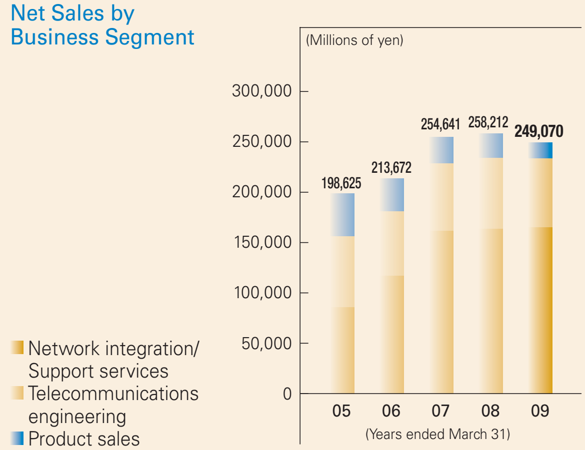
NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2009	2008	2007	2006	2005	2004	2009
Orders by business segment	¥245,257	¥254,512	¥253,577	¥223,383	¥207,460	¥196,123	$2,496,763
Network integration/Support services	164,451	164,765	164,634	118,410	90,080	83,063	1,674,142
Telecommunications engineering	66,904	68,846	65,192	68,462	75,703	72,145	681,095
Product sales	13,900	20,900	23,750	36,510	41,676	40,914	141,505
Net sales by business segment	249,070	258,212	254,641	213,672	198,625	194,012	2,535,580
Network integration/Support services	164,996	163,418	161,473	116,997	85,786	79,285	1,679,691
Telecommunications engineering	68,397	70,339	67,085	63,765	70,404	79,853	696,294
Product sales	15,676	24,454	26,082	32,909	42,434	34,873	159,585
Operating income by business segment	10,968	10,743	7,849	6,056	4,812	4,419	111,656
Network integration/Support services	12,960	11,002	10,964	6,684	5,785	5,644	131,935
Telecommunications engineering	3,206	4,197	3,139	3,510	3,434	2,826	32,638
Product sales	586	892	140	35	(96)	659	5,966
Eliminations or corporate	(5,785)	(5,348)	(6,394)	(4,173)	(4,312)	(4,710)	(58,892)
Orders by customer	245,257	254,512	253,577	223,383	207,460	196,123	2,496,763
Government	40,974	42,873	39,140	31,142	29,891	38,251	417,123
Telecommunications carriers	54,348	54,749	57,172	50,198	43,534	32,398	553,273
NEC Group	47,702	53,187	51,835	36,486	33,773	33,032	485,615
Enterprises	88,364	86,522	89,159	89,460	84,388	76,984	899,562
Overseas	13,867	17,177	16,267	16,096	15,873	15,457	141,169
Net sales by customer	249,070	258,212	254,641	213,672	198,625	194,012	2,535,580
Government	44,105	41,765	37,468	28,711	30,890	35,805	448,997
Telecommunications carriers	52,478	56,479	60,236	47,706	38,707	32,641	534,236
NEC Group	48,632	51,195	52,650	35,697	34,015	31,475	495,083
Enterprises	87,528	92,341	88,645	83,444	81,458	80,082	891,052
Overseas	16,325	16,429	15,640	18,114	13,554	14,008	166,192
Net sales via NEC	91,212	97,046	90,797	58,220	56,510	54,640	928,555
Ratio of net sales via NEC to total net sales (%)	36.6	37.6	35.7	27.2	28.5	28.2	

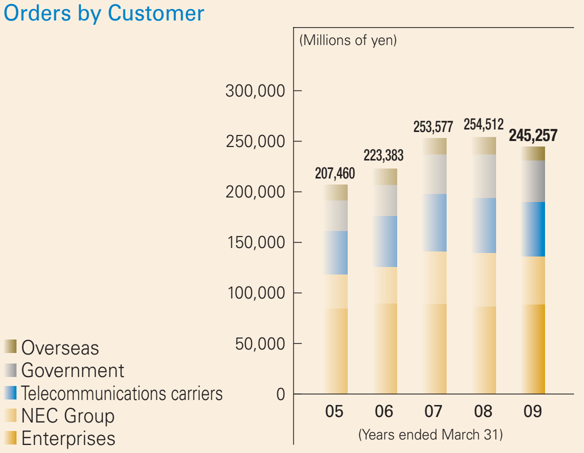
Orders by Business Segment



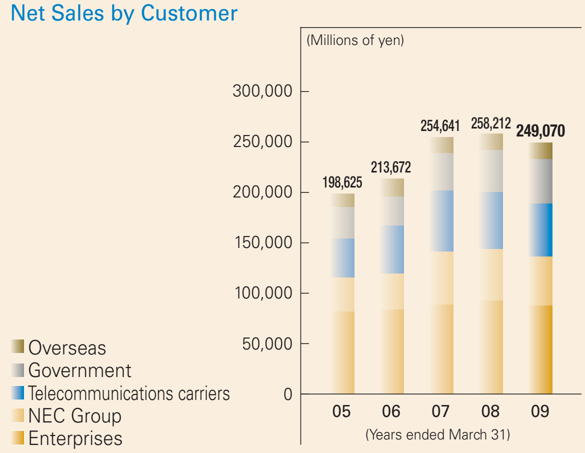
Net Sales by Business Segment



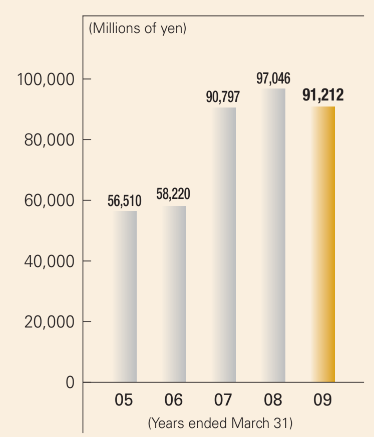
Orders by Customer



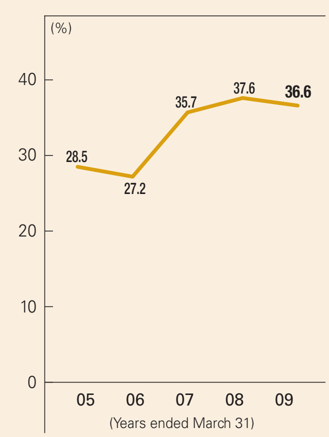
Net Sales by Customer



Net Sales via NEC



Ratio of Net Sales via NEC to Total Net Sales



All graphs are presented on a consolidated basis.

KPMG

Independent Auditors' Report

To the Board of Directors
NEC Networks & System Integration Corporation

We have audited the accompanying consolidated balance sheet of NEC Networks & System Integration Corporation and consolidated subsidiaries as of March 31, 2009, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of NEC Networks & System Integration Corporation and consolidated subsidiaries for the year ended March 31, 2008 were audited by other auditors whose report, dated June 25, 2008 expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NEC Networks & System Integration Corporation and consolidated subsidiaries as of March 31, 2009, and the consolidated results of their operations and their cash flows for the year 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, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 23, 2009

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2009	2008	2009
Assets			
Current assets:			
Cash and cash equivalents	¥ 16,614	¥ 14,341	$ 169,134
Notes and accounts receivable:	91,321	96,552	929,665
Less allowance for doubtful receivables	(378)	(461)	(3,848)
Inventories (note 5)	9,414	11,806	95,836
Deferred tax assets (note 8)	4,858	5,938	49,455
Other current assets	1,481	2,077	15,077
Total current assets	123,312	130,256	1,255,340
Property and equipment:			
Land	2,508	2,423	25,532
Buildings and structures	8,315	7,860	84,648
Machinery and vehicles	358	368	3,645
Furniture and fixtures	9,805	9,853	99,817
Construction in progress	70	207	713
Other	317	—	3,227
Accumulated depreciation	(13,249)	(12,477)	(134,877)
Property and equipment, net	8,126	8,236	82,724
Intangibles, net of accumulated amortization	4,307	3,862	43,846
Investments and other assets:			
Investment securities (note 4)	444	445	4,520
Deferred tax assets (note 8)	7,331	7,602	74,631
Other assets (note 6)	3,939	3,768	40,100
Total investments and other assets	11,715	11,816	119,261
Total assets	¥ 147,462	¥ 154,171	$ 1,501,191

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (note 3)
	2009	2008	2009
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans (note 7)	¥ 121	¥ 652	$ 1,232
Notes and accounts payable	39,915	46,625	406,342
Advances received	1,870	2,913	19,037
Accrued income taxes (note 8)	3,177	4,461	32,342
Accrued bonuses to directors and corporate auditors	70	59	713
Accrued losses on sales contracts	40	467	407
Other current liabilities (note 12)	11,314	11,060	115,179
Total current liabilities	56,511	66,239	575,293
Long-term liabilities:			
Long-term debt (note 7)	5,000	5,000	50,901
Accrued employees' retirement benefits (note 9)	15,817	16,660	161,020
Accrued retirement benefits for directors and corporate auditors	—	60	—
Other liabilities (notes 6 and 12)	793	79	8,073
Total long-term liabilities	21,610	21,800	219,994
Total liabilities	78,121	88,039	795,287
Shareholders' equity (note 10):			
Common stock:	13,122	13,122	133,584
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2009 and 2008			
Capital surplus	16,650	16,650	169,500
Retained earnings	39,606	35,497	403,197
Treasury stock, at cost; 38,581 shares at March 31, 2009 and 16,352 shares at March 31, 2008	(45)	(19)	(458)
Total shareholders' equity	69,334	65,251	705,833
Valuation and translation adjustments:			
Net unrealized gain (loss) on other securities	(0)	11	(0)
Deferred gain (loss) on hedges	(2)	51	(20)
Foreign currency translation adjustments	(601)	(46)	(6,118)
Total valuation and translation adjustments	(604)	16	(6,149)
Minority interests	610	865	6,210
Total net assets	69,340	66,132	705,894
Commitments and contingencies (note 11)			
Total liabilities and net assets	¥ 147,462	¥ 154,171	$ 1,501,191

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2009	2008	2009
Net sales (note 17)	¥ 249,070	¥ 258,212	$ 2,535,580
Cost of sales (notes 5 and 17)	213,600	222,644	2,174,488
Gross profit	35,470	35,567	361,091
Selling, general and administrative expenses (notes 13 and 14)	24,501	24,824	249,425
Operating income	10,968	10,743	111,656
Other income (expense):			
Interest income	69	25	702
Interest expense	(66)	(88)	(672)
Dividends income of insurance	123	111	1,252
Foreign currency exchange loss	—	(299)	—
Impairment loss on investment securities	—	(91)	—
Loss on disposal of property and equipment	(83)	(116)	(845)
Loss on partial termination of an employees' retirement benefit plan	—	(1,041)	—
Restructuring charges of a subsidiary	—	(554)	—
Gain on sale of investment securities	176	—	1,792
Other, net	199	138	2,026
	418	(1,915)	4,255
Income before income taxes and minority interests	11,387	8,827	115,922
Income taxes (note 8):			
Current	4,756	5,985	48,417
Deferred	1,403	(1,575)	14,283
	6,160	4,409	62,710
Income before minority interests	5,227	4,417	53,212
Minority interests	72	5	733
Net income	¥ 5,154	¥ 4,412	$ 52,469

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Numbers of shares of common stock (Thousands)	Millions of yen										
		Shareholders' equity					Valuation and translation adjustments					
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain (loss) on other securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
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
Changes arising during year:												
Cash dividends				(1,044)		(1,044)						(1,044)
Net income				5,154		5,154						5,154
Purchase of treasury stock					(35)	(35)						(35)
Disposition of treasury stock			(0)		9	9						9
Transfer from capital surplus to retained earnings			0	(0)		—						—
Net changes in accounts other than shareholders' equity							(11)	(53)	(554)	(620)	(254)	(874)
Total changes during the year	—	—	(0)	4,108	(25)	4,083	(11)	(53)	(554)	(620)	(254)	3,208
Balance at March 31, 2009	49,773	¥ 13,122	¥ 16,650	¥ 39,606	¥ (45)	¥ 69,334	¥ (0)	¥ (2)	¥ (601)	¥ (604)	¥ 610	¥ 69,340

	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 gain (loss) on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at March 31, 2008	$ 133,584	$ 169,500	$ 361,366	$ (193)	$ 664,268	$ 112	$ 519	$ (468)	$ 163	$ 8,806	$ 673,236
Changes arising during year:											
Cash dividends			(10,628)		(10,628)						(10,628)
Net income			52,469		52,469						52,469
Purchase of treasury stock				(356)	(356)						(356)
Disposition of treasury stock		(0)		92	92						92
Transfer from capital surplus to retained earnings		0	(0)		—						—
Net changes in accounts other than shareholders' equity						(112)	(540)	(5,640)	(6,312)	(2,586)	(8,897)
Total changes during the year	—		41,820	(255)	41,566	(112)	(540)	(5,640)	(6,312)	(2,586)	32,658
Balance at March 31, 2009	$ 133,584	$ 169,500	$ 403,197	$ (458)	$ 705,833	$ (0)	$ (20)	$ (6,118)	$ (6,149)	$ 6,210	$ 705,894

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (note 3)
	2009	2008	2009
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 11,387	¥ 8,827	$ 115,922
Depreciation and amortization	2,270	2,130	23,109
Amortization of goodwill	41	53	417
Increase (decrease) in allowance for doubtful receivables	(71)	296	(723)
Increase (decrease) in accrued employees' retirement benefits	(968)	361	(9,854)
Increase in prepaid employees' retirement benefits	—	261	—
Decrease in accrued retirement benefits for directors and corporate auditors	—	(35)	—
Increase (decrease) in accrued bonuses to directors and corporate auditors	11	(19)	112
Increase (decrease) in accrued losses on sales contracts	(426)	283	(4,337)
Interest and dividend income	(85)	(37)	(865)
Interest expense	66	88	672
Impairment loss on investment securities	11	91	112
Gain on sale of investment securities	(176)	(12)	(1,792)
Gain on sale of property and equipment	(2)	(12)	(20)
Loss on disposal of property and equipment	83	116	845
Restructuring charges of a subsidiary	—	554	—
Decrease (increase) in notes and accounts receivable	4,818	(971)	49,048
Decrease in inventories	2,571	3,198	26,173
Decrease in notes and accounts payable	(7,081)	(1,762)	(72,086)
Other, net	489	(565)	4,978
Subtotal	12,940	12,845	131,732
Interest and dividend received	85	37	865
Interest paid	(66)	(93)	(672)
Income taxes paid	(5,988)	(3,980)	(60,959)
Net cash provided by operating activities	6,971	8,809	70,966

Cash flows from investing activities:			
Purchase of property and equipment	(1,088)	(1,518)	(11,076)
Proceeds from sale of property and equipment	5	19	51
Purchase of intangibles	(1,437)	(1,085)	(14,629)
Purchase of investment securities	(7)	(10)	(71)
Proceeds from sale of investment securities	180	24	1,832
Loans receivable made	(23)	(46)	(234)
Collection of loans receivable	23	55	234
Purchase of investments in a subsidiary, net of cash acquired	149	—	1,517
Other, net	4	106	41
Net cash used in investing activities	(2,193)	(2,454)	(22,325)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(950)	125	(9,671)
Repayments of long-term debt	(29)	—	(295)
Proceeds from sale and purchase of treasury stock, net	(26)	(7)	(265)
Dividends paid to shareholders	(1,040)	(842)	(10,587)
Other, net	(50)	(3)	(509)
Net cash used in financing activities	(2,096)	(727)	(21,338)
Effect of exchange rate changes on cash and cash equivalents	(408)	112	(4,154)
Net increase in cash and cash equivalents	2,272	5,739	23,129
Cash and cash equivalents at beginning of year	14,341	8,602	145,994
Cash and cash equivalents at end of year	¥ 16,614	¥ 14,341	$ 169,134

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
March 31, 2009 and 2008

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. Its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.
Prior to the year ended March 31, 2008, the accounts of consolidated overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. From the year ended March 31, 2009, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006). This PITF requires that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. The effect of the change on operating income and income before income taxes and minority interests is none.
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 Company has 13 subsidiaries (companies over which the Company exercises control operations) as of March 31, 2009 (12 subsidiaries as of March 31, 2008).
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 financial statements of the subsidiaries with year ends of December 31 have been used for consolidation. All material transactions that occurred in the periods from such year ends and March 31, the Company's year ends, have been adjusted.
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 lower of cost or net selling value determined on a specific project basis. Purchased goods and materials are stated at lower of cost or net selling value determined primarily by the moving-average method. Supplies are stated by the last purchased price method.
Work in process, and purchased goods and materials were previously stated principally at cost. From the year ended March 31, 2009, the Company adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006), and inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The effect of the change on operating income and income before income taxes and minority interests is immaterial.

(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 65 years
Machinery and vehicles	4 to 11 years
Furniture and fixtures	2 to 20 years

From the year ended March 31, 2008, 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.

From the year ended March 31, 2008, 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
Previously, finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases. On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the former accounting standard for lease transactions issued on June 17, 1993, and ASBJ Guidance No.16, "Guidance on Accounting Standard for Lease Transactions," which revised the former guidance issued on January 18, 1994. The revised accounting standards are permitted to be adopted for years beginning on or after April 1, 2008. From the year ended March 31, 2009, the Company adopted the revised accounting standards. The revised accounting standards principally require that all finance lease transactions shall be capitalized. Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value. Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to the initial year in which these new accounting standards apply, the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses. The effect of this change on operating income and income before income taxes and minority interests is immaterial.

(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 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 services 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. The remaining provision for directors and corporate auditors will be paid at the time of termination or retirement and the remaining balance was reclassified as other long-term liabilities.

(Changes to presentation (Year ended March 31, 2009))
In consolidated statements of cash flows, the amounts which had been presented as "Decrease in accrued retirement benefits for directors and corporate auditors" were presented as "Other net" in cash flows from operating activities from the year ended March 31, 2009. "Decrease in accrued retirement benefits for directors and corporate auditors" was ¥139 million ($1,415 thousand) for the year ended March 31, 2009.

(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 construction 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. Revenues recognized by the percentage-of-completion method are ¥33,042 million ($336,374 thousand) and ¥25,886 million for the years ended March 31, 2009 and 2008, respectively.

(o)Accrued bonuses to directors and corporate auditors
The Company and its domestic consolidated subsidiaries provide accrued bonuses to directors and corporate auditors based on the estimated amounts to be paid in respect of the year.

(p)Accounting for consumption taxes
Consumption taxes generally withhold upon sale as well as that paid for purchases of goods or services, is recorded as a liability or an asset, and is excluded from the relevant revenue, costs or expenses.

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 ¥98.23 = U.S.$1.00, the approximate rate of exchange on March 31, 2009. 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, 2009 and 2008 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2009	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	¥ 44	¥ 61	¥ 16	$ 448	$ 621	$ 163
Subtotal	44	61	16	448	621	163
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	108	92	(16)	1,099	937	(163)
Subtotal	108	92	(16)	1,099	937	(163)
Total	¥ 153	¥ 153	¥ (0)	$ 1,558	$ 1,558	$ (0)

March 31, 2008	Millions of yen Acquisition cost	Carrying value	Unrealized gain or loss
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 80	¥ 99	¥ 19
Subtotal	80	99	19
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	12	12	—
Subtotal	12	12	—
Total	¥ 92	¥ 112	¥ 19

b) Sales of securities classified as other securities for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Proceeds from sales	¥ 180	¥ 24	$ 1,832
Gains on sales	176	12	1,792
Losses on sales	—	—	—

c) The components of non-marketable securities classified as other securities at March 31, 2009 and 2008 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Other securities:			
Unlisted equity securities	¥ 212	¥ 222	$ 2,158
Corporate bond securities	2	—	20
Investments in limited partnerships	76	110	774
Total	¥ 291	¥ 332	$ 2,962

d) Projected future redemption of other securities with maturities at March 31, 2009 was summarized as follows:

	Millions of yen Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Corporate bond securities	¥ —	¥ 2	¥ —	¥ —
	¥ —	¥ 2	¥ —	¥ —

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Corporate bond securities	$ —	$ 20	$ —	$ —
	$ —	$ 20	$ —	$ —

5. INVENTORIES
a) Inventories at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Work in process	¥ 7,333	¥ 9,054	$ 74,651
Purchased goods, materials and supplies	2,081	2,752	21,185
Total	¥ 9,414	¥ 11,806	$ 95,836

b) Loss from revaluation of lower-of-cost or net selling value for the year ended March 31, 2009 is ¥544 million ($5,538 thousand)

6. GOODWILL
Goodwill at March 31, 2009 and 2008 are recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Intangibles, net of accumulated amortization	¥ 1,084	¥ 1,023	$ 11,035
Other liabilities	(25)	(44)	(255)

7. 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, 2009 and 2008 were approximately 1.8% and 1.1%, respectively.

The weighted average interest rates of long-term debt for both the years ended March 31, 2009 and 2008 were approximately 1.0%. The annual maturities of the long-term debt at March 31, 2009 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2011	¥ 2,000	$ 20,360
2013	3,000	30,541
Total	¥ 5,000	$ 50,901

As of March 31, 2008, the Group had executed a ¥11,000 million committed borrowing facility with three domestic banks, and no amount was drawn from this facility.

8. 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 both 2009 and 2008. 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, 2009 and 2008 differ from the statutory tax rate for the following reasons:

	2009	2008
Statutory tax rate	40.7%	40.7%
Effect of:		
Expenses not deductible for tax purposes	1.5	1.7
Dividend income not taxable for tax purposes	(0.0)	(0.0)
Inhabitant tax per capita levy	1.0	1.2
Reversal of deferred tax assets	9.3	—
Increase in valuation allowance	3.0	6.2
Other, net	(1.4)	0.2
Effective tax rates	54.1%	50.0%

The significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Accrued bonuses	¥ 2,150	¥ 2,004	$ 21,887
Social security on employee bonuses	255	235	2,596
Allowance for doubtful receivables	82	114	835
Accrued enterprise tax	270	369	2,749
Percentage-of-completion method	91	77	926
Loss on revaluation of inventories	2,535	2,504	25,807
Unrealized profit on inventories	47	23	478
Accrued losses on sales contracts	16	190	163
Depreciation	399	369	4,062
Software	379	343	3,858
Accrued retirement benefits	6,411	6,756	65,265
Stock dividends	146	146	1,486
Impairment loss on investment securities	286	301	2,912
Loss on restructuring of subsidiaries	111	116	1,130
Other	786	1,725	8,002
Subtotal	13,971	15,278	142,227
Valuation allowance	(1,741)	(1,632)	(17,724)
Total	12,229	13,646	124,494
Deferred tax liabilities:			
Advanced depreciation of property and equipment	—	(0)	—
Reserve for special depreciation	(33)	(61)	(336)
Unrealized holding gain on other securities	(1)	(8)	(10)
Deferred gains on hedges	—	(35)	—
Other	(11)	(0)	(112)
Total	(46)	(105)	(468)
Net deferred tax assets	¥ 12,183	¥ 13,540	$ 124,025

Net deferred tax assets and liabilities as of March 31, 2009 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen	Thousands of U.S. dollars
Current assets - Deferred tax assets	¥ 4,858	$ 49,455
Investments and other assets - Deferred tax assets	7,331	74,631
Long-term liabilities – Other liabilities	(6)	(61)

9. 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.

And the Company has 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, 2009 and 2008 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥ (35,723)	¥ (35,476)	$ (363,667)
Plan assets at fair value	14,332	16,176	145,902
Unfunded retirement benefit obligation	(21,390)	(19,299)	(217,754)
Unrecognized actuarial loss	11,386	8,949	115,912
Unrecognized prior service benefit	(5,812)	(6,310)	(59,167)
Accrued employees' retirement benefits	¥ (15,817)	¥ (16,660)	$ (161,020)

The components of retirement benefit expenses for the years ended March 31, 2009 and 2008 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥ 1,693	¥ 1,811	$ 17,235
Interest cost	875	888	8,908
Expected return on plan assets	(398)	(435)	(4,052)
Amortization of actuarial loss	789	567	8,032
Amortization of prior service benefit	(490)	(373)	(4,988)
Total	2,468	2,459	25,125
Other	227	—	2,311
Loss on partial termination of an employees' retirement benefit plan	—	1,041	—
	¥ 2,696	¥ 3,501	$ 27,446

"Other" is the contribution to the defined contribution plan.

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:

	2009	2008
Discount rate	Mainly 2.5%	2.5%
Expected rate of return on plan assets	Mainly 2.5%	2.5~3.5%

10. SHAREHOLDERS' EQUITY

The Corporation Law became effective on May 1, 2006, replacing the Commercial Code. Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

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 earnings reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal earnings reserve equals 25% of their respective stated capital. The Corporation Law also provides that additional paid-in capital and legal earnings reserve are available for appropriations by the resolution of the shareholders. The legal earnings reserve amounted to ¥546 million ($5,558 thousand) as of both March 31, 2009 and 2008. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Cash dividends charged to retained earnings for the years ended March 31, 2009 and 2008 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.

Movement of treasury stocks was as follows:

	Shares	
	2009	2008
At beginning of years	16,352	10,255
Increase - purchase of odd lot shares	30,310	6,826
Decrease - sale of odd lot shares	(8,081)	(729)
At end of years	38,581	16,352

a) Dividends paid during the year ended March 31, 2009

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

(a)	Total dividends	¥497 million ($5,060 thousand)
(b)	Cash dividends per common share	¥10 ($0.10)
(c)	Record date	March 31, 2008
(d)	Effective date	June 9, 2008

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

(a)	Total dividends	¥547 million ($5,569 thousand)
(b)	Cash dividends per common share	¥11 ($0.11)
(c)	Record date	September 30, 2008
(d)	Effective date	December 4, 2008

b) Dividends to be paid after March 31, 2009 but the record date for the payment belongs to the year ended March 31, 2009

The following was approved by the Board of Directors held on May 12, 2009.

(a)	Total dividends	¥547 million ($5,569 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥11 ($0.11)
(d)	Record date	March 31, 2009
(e)	Effective date	June 2, 2009

11. CONTINGENT LIABILITIES

At March 31, 2009, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥137 million ($1,395 thousand).

12. 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, 2009 and 2008, 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
	2009	2008	2009
Acquisition costs:			
Machinery and vehicles	¥ 101	¥ 125	$ 1,028
Furniture and fixtures	3,176	4,789	32,332
Software	496	498	5,049
	¥ 3,774	¥ 5,413	$ 38,420
Accumulated depreciation:			
Machinery and vehicles	¥ 68	¥ 66	$ 692
Furniture and fixtures	2,213	2,806	22,529
Software	311	226	3,166
	¥ 2,592	¥ 3,100	$ 26,387
Net book value:			
Machinery and vehicles	¥ 33	¥ 58	$ 336
Furniture and fixtures	963	1,983	9,804
Software	185	271	1,883
	¥ 1,181	¥ 2,313	$ 12,023

Lease payments relating to finance leases accounted for as operating leases amounted to ¥932 million ($9,488 thousand) and ¥1,289 million for the years ended March 31, 2009 and 2008, respectively. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms and the interest expense portion, which is calculated based on the interest method, included in the lease payments amounted to ¥874 million ($8,897 thousand) and ¥45 million ($458 thousand), respectively, for the year ended March 31, 2009 and ¥1,200 million and ¥84 million, respectively, for the year ended March 31, 2008.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 and 2008 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 747	¥ 1,038	$ 7,605
Due over one year	478	1,299	4,866
Total	¥ 1,226	¥ 2,338	$ 12,481

b) Operating leases
Future minimum operating lease payments subsequent to March 31, 2009 and 2008 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 7	¥ 211	$ 71
Due over one year	9	371	92
Total	¥ 16	¥ 583	$ 163

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Employees salary	¥ 10,666	¥ 10,787	$ 108,582
Provision for bonuses to directors and corporate auditors	80	54	814
Retirement benefit expenses	1,120	801	11,402
Provision for doubtful receivables	81	296	825
Provision for retirement benefits for directors and corporate auditors	—	11	—

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥290 million ($2,952 thousand) and ¥419 million for the years ended March 31, 2009 and 2008, respectively.

15. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2009	2008	2009
Net income	¥ 103.61	¥ 88.67	$ 1.05
Net assets	1,381.92	1,311.71	14.07

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.

16. DERIVATIVES
The Company has entered into foreign exchange forward contracts with major Japanese banks in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates.
At March 31, 2009 and 2008, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

17. RELATED PARTY TRANSACTIONS
Prices and terms of business are determined according to arms length base.
The Company's outstanding common stock was owned by NEC Corporation by 51.45% and 51.48% at March 31, 2009 and 2008, respectively.
Balances with NEC Corporation at March 31, 2009 and 2008, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 91,212	¥ 97,046	928,555
Balances:			
Accounts receivable	¥ 40,160	¥ 47,124	$ 408,836
Advances received	308	825	3,135
Purchases of communication device:			
Transactions:			
Purchases	¥ 38,823	¥ 45,734	$ 395,225
Balances:			
Accounts payable	¥ 8,088	¥ 10,457	$ 82,337

NEC Fielding, Ltd. is a subsidiary of NEC Corporation as at March 31, 2009 and 2008. Balances with NEC Fielding, Ltd. at March 31, 2009 and 2008, and related transactions for the years then ended are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
Construction and maintenance of network system:						
Transactions:						
Sales	¥	2,895	¥	3,638		29,472
Balances:						
Notes receivable	¥	197	¥	—	$	2,005
Accounts receivable		711		—		7,238
Notes and accounts receivable		—		1,076		—
Advance received		44		50		448
Purchases of communication device:						
Transactions:						
Purchases	¥	1,785	¥	1,513	$	18,172
Balances:						
Accounts payable	¥	510	¥	525	$	5,192

NEC Communication Systems, Ltd. is a subsidiary of NEC Corporation as at March 31, 2009 and 2008. Balances with NEC Communication Systems, Ltd. at March 31, 2009 and 2008, and related transactions for the years then ended are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
Construction and maintenance of network system:						
Transactions:						
Sales	¥	8,522	¥	8,765		86,756
Balances:						
Accounts receivable	¥	2,132	¥	—		21,704
Notes and accounts receivable		—		2,651		—
Advance received		4		—		41

NEC Engineering, Ltd. is a subsidiary of NEC Corporation as at March 31, 2009 and 2008. Balances with NEC Engineering, Ltd. at March 31, 2009 and 2008, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 3,133	¥ 4,286	31,895
Balances:			
Accounts receivable	¥ 1,214	¥ —	12,359
Notes and accounts receivable	—	1,652	—
Advance received	5	5	51

NEC Facilities, Ltd. is a subsidiary of NEC Corporation as at March 31, 2009 and 2008. Balances with NEC Facilities, Ltd. at March 31, 2009 and 2008, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Rental of a buildings:			
Transactions:			
Lease deposit payment	¥ 15	¥ —	153
Building maintenance fee	—	191	—
Balances:			
Lease deposit	¥ 2,866	¥ —	29,176
Other assets	—	2,870	—

NEC Magunus Communications, Ltd. is a subsidiary of NEC Corporation as at March 31, 2009 and 2008. Balances with NEC Magunus Communications, Ltd. at March 31, 2009 and 2008, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 1,849	¥ 3,004	18,823
Balances:			
Accounts receivable	¥ 1,100	¥ —	11,198
Notes and accounts receivable	—	1,556	—

18. SEGMENT INFORMATION

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

Business segments

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 is summarized as follows:

	Millions of yen					
Year ended March 31, 2009	Network integration /Support service	Telecommu -nications engineering	Product sales	Total	Elimination or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	¥ 164,996	¥ 68,397	¥ 15,676	¥ 249,070	¥ —	¥ 249,070
(2) Intersegment sales	—	—	—	—	—	—
Total sales	164,996	68,397	15,676	249,070	—	249,070
Operating expenses	152,036	65,190	15,089	232,316	5,785	238,101
Operating income	¥ 12,960	¥ 3,206	¥ 586	¥ 16,754	¥ (5,785)	¥ 10,968
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥ 72,302	¥ 32,288	¥ 3,978	¥ 108,569	¥ 38,893	¥ 147,462
Depreciation expenses	1,078	36	—	1,115	1,155	2,270
Capital expenditures	1,185	39	—	1,225	1,665	2,890

	Thousands of U.S. dollars					
Year ended March 31, 2009	Network integration /Support service	Telecommu -nications engineering	Product sales	Total	Elimination or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	$ 1,679,691	$ 696,294	$ 159,585	$ 2,535,580	$ —	$ 2,535,580
(2) Intersegment sales	—	—	—	—	—	—
Total sales	1,679,691	696,294	159,585	2,535,580	—	2,535,580
Operating expenses	1,547,755	663,647	153,609	2,365,021	58,892	2,423,913
Operating income	$ 131,935	$ 32,638	$ 5,966	$ 170,559	$ (58,892)	$ 111,656
II. Assets, depreciation expenses, capital expenditures:						
Assets	$ 736,048	$ 328,698	$ 40,497	$ 1,105,253	$ 395,938	$ 1,501,191
Depreciation expenses	10,974	366	—	11,351	11,758	23,109
Capital expenditures	12,063	397	—	12,471	16,950	29,421

Notes:

1. Business segments are classified based on nature of business.
2. The main business of each segment is as follows:
   Network integration /Support service: Planning and consulting, software development, construction, operation and maintenance, outsourcing services and supply of originally developed products and devices for network systems to strengthen the operating efficiency and competitiveness of customers
   Telecommunications engineering: Construction of network infrastructure, and electric and air-conditioning facilities
   Product sales: Sales of data communication devices, etc.
3. The non-categorized operating expenses of ¥5,785 million ($58,892 thousand) and ¥5,348 million for the years ended March 31, 2009 and 2008 in the Elimination/ corporate line consist primarily of administrative operation expenses.

4. Corporate assets of ¥38,893 million ($395,938 thousand) and ¥38,364 million as of March 31, 2009 and 2008 in the Elimination / corporate line consist primarily of surplus funds (cash and deposits), land, long-term investments (investment securities), long-term deposits and assets relating to the administrative operations.
5. Accounting changes
(Inventories)
For the year ended March 31, 2009, as described in Note 2 (e), the Company adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006). The effect of the change on segments is immaterial.

(Leases)
For the year ended March 31, 2009, as described in Note 2 (i), the Company adopted revised ASBJ Statement No.13, "Accounting Standard for Lease Transactions." The effect of the change on segments is immaterial.

(Accounting policies applied to foreign subsidiaries)
For the year ended March 31, 2009, as described in Note 1, the Company adopted "Practical Solution on unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006). The effect of the change on segments is none.

	Millions of yen					
Year ended March 31, 2008	Network integration /Support service	Telecommu -nications engineering	Product sales	Total	Elimination 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

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, 2009 and 2008, 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, 2009 and 2008, the disclosure of overseas sales information was omitted.

GLOBAL NETWORK

(As of April 1, 2009)

Head Office

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

Major Domestic Regional Offices

Higashinihon, Nakanihon, Kansai, Nishinihon
Hokkaido, Tohoku, Shin-etsu, Kitakanto, Kanagawa, Chubu,
Shizuoka, Hokuriku, Keiji, Kobe, Chugoku, Shikoku, Kyushu

Subsidiaries and Affiliates

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

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

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

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

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

Nichiwa Co., Ltd.
- Head office: Hyogo, Japan
- Established: January 1953
- Capitalization: ¥50 million
- Voting rights: 100.00%

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

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

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

P. T. NESIC BUKAKA
- Head office: Jakarta, Indonesia
- Established: May 1993
- Capitalization: ¥86 million
- Voting rights: 80.00%

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

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

TNSi Europe GmbH
- Head office: Köln, Germany
- Established: October 2005
- Capitalization: ¥6 million
- Voting rights*: 100.00% (100.00%)

* Figures in parentheses after the percentage of voting rights held represent percentages inclusive of indirectly held shares.

INVESTOR INFORMATION

(As of March 31, 2009)

Corporate Name:
NEC Networks & System Integration Corporation

Established:
November 26, 1953

Number of Employees:
4,154 (Non-consolidated)
5,906 (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:
11,291

Transfer Agent:
The Sumitomo Trust and Banking Company, Limited
3-1, Yaesu 2-chome, Chuo-ku,
Tokyo 104-0028, Japan

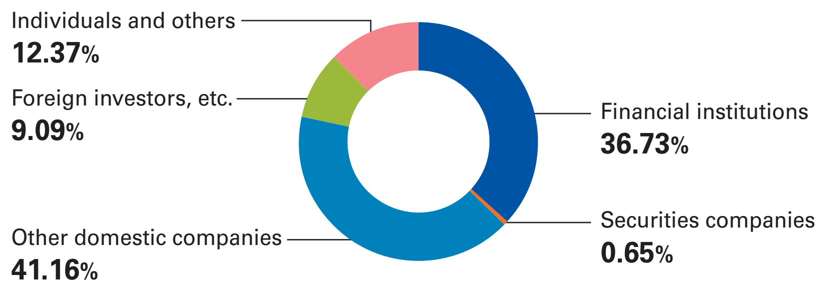
Independent Auditors:
KPMG AZSA & Co.

Major Shareholders:

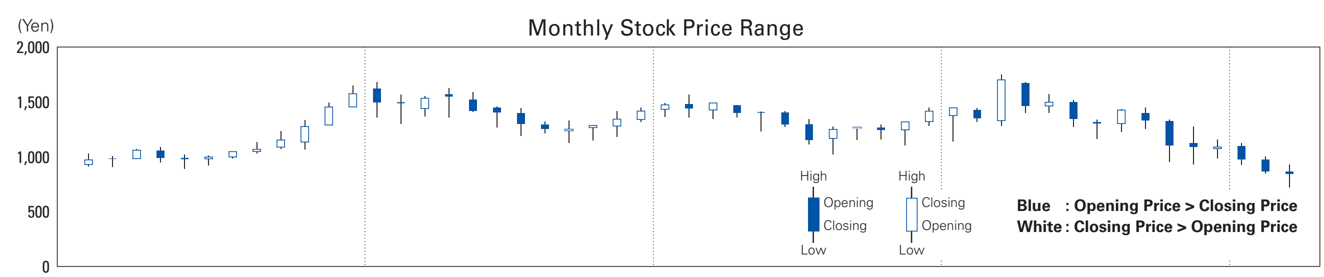
Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding
NEC Corporation	19,106	38.39%
Japan Trustee Services Bank, Ltd. (Trust account)	7,385	14.84
Japan Trustee Services Bank, Ltd.* (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.86
The Master Trust Bank of Japan, Ltd. (Trust account)	1,645	3.31
Japan Trustee Services Bank, Ltd. (Trust account 4G)	1,496	3.01
Sumitomo Realty & Development Co., Ltd.	1,200	2.41
Employees' Stock Ownership Plan	740	1.49
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	417	0.84
CBNY Principal Life Insurance Company	256	0.51
Goldman Sachs International	251	0.51

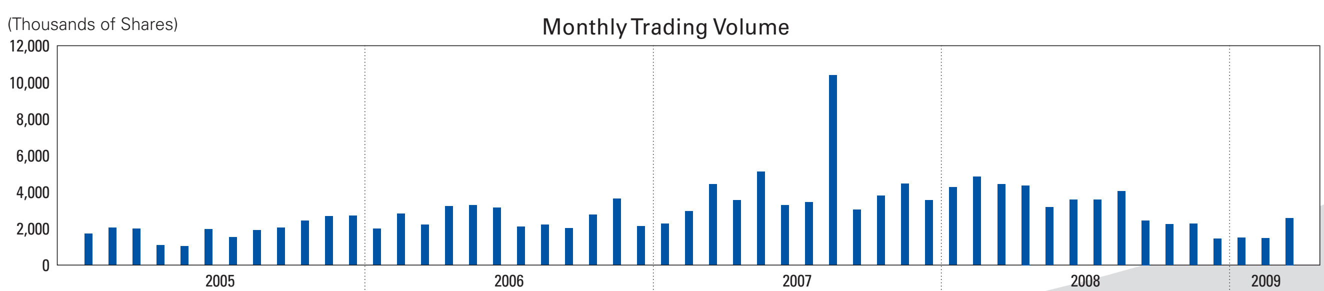
*Shares held by Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2009 was 51.45%.

Composition of Shareholders:



Monthly Stock Data (Tokyo Stock Exchange)





NEC Networks & System Integration Corporation

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