Empowered by Innovation NEC

Annual Report 2010

Year Ended March 31, 2010

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
- 1997 — Net sales surpassed ¥200 billion

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

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.

Head office (Bunkyo-ku, Tokyo) since October 2010

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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.

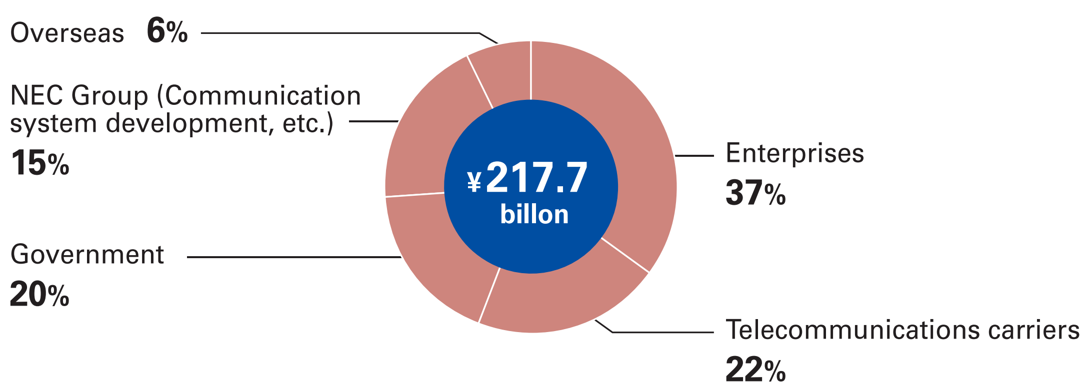
NEC Networks & System Integration Corporation was established in 1953 primarily as a builder of communications infrastructure. Today, as a top-class system integrator in Japan's network business field, the Company conducts business not only domestically but globally, in regions such as Southeast Asia,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

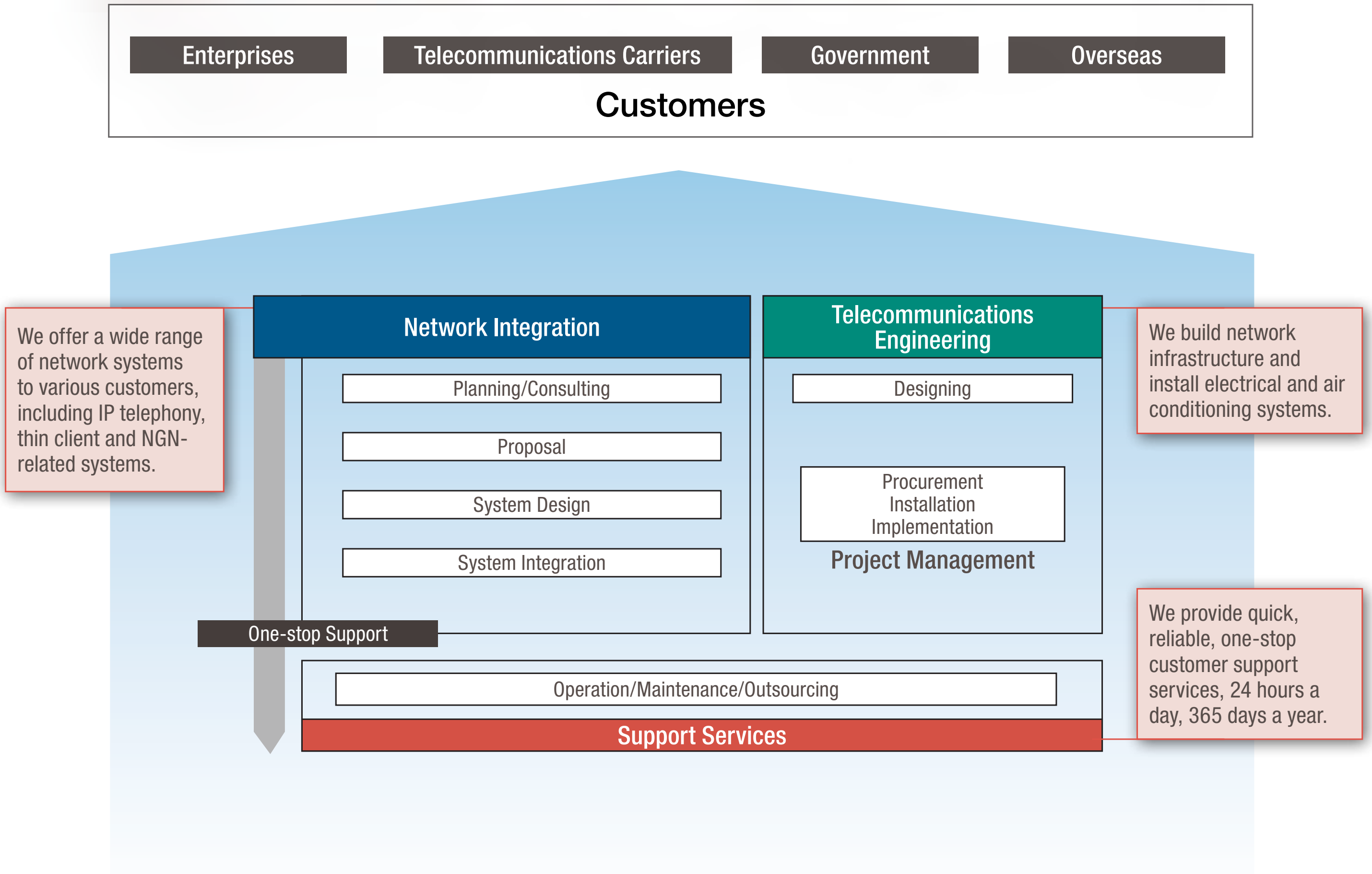
The Company provides leading-edge, high-quality network integration and support services for customers of various industries in Japan and overseas, as well as telecommunications engineering including building large-scale communications infrastructure and related facilities. As one of very few comprehensive 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, 2010)



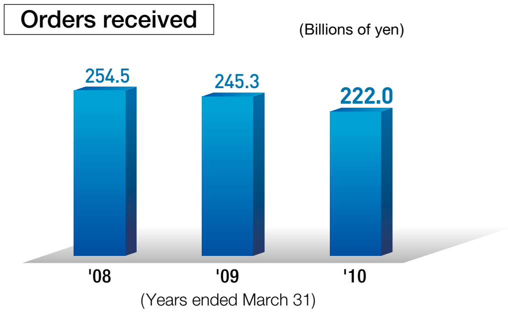

Enterprises
Telecommunications Carriers
Government
Overseas
Customers
Network Integration
Planning/Consulting
Proposal
System Design
System Integration
Telecommunications Engineering
Designing
Procurement
Installation
Implementation
Project Management
One-stop Support
Operation/Maintenance/Outsourcing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

Consolidated Financial Highlights

(for the period from April 1, 2009 to March 31, 2010)

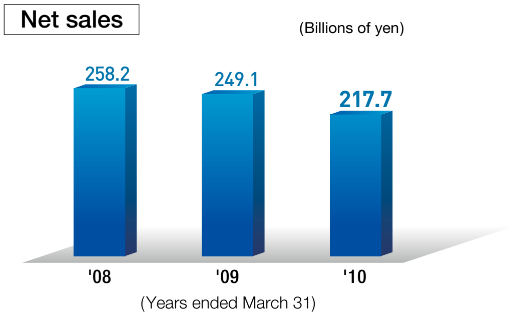
Orders received ······ ¥222.0 billion

Orders decreased 9% year on year, to ¥222.0 billion on a consolidated basis, influenced by the effects of investment controls implemented in the private sector, particularly in the enterprises and telecommunications carriers sectors. However, we enjoyed a significant increase in orders from central and local governments, which continued to invest actively in projects for regional informatization, and in the sophistication and broader application of firefighting and disaster prevention systems. Orders also grew steadily for cloud computing[1] related operations, such as the integration of data centers.



Net sales ······ ¥217.7 billion

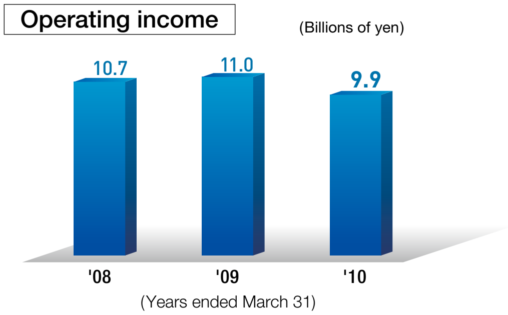
Net sales fell 13% year on year, to ¥217.7 billion on a consolidated basis, influenced by investment controls implemented in the private sector, particularly in enterprises and telecommunications carriers sectors. A significant increase in orders from central and local governments fell short of making contributions to consolidated net sales for the fiscal year under review. EmpoweredOffice[2], however, boosted net sales to corporate customers at a year-on-year rate of 18%, assisted by stepped-up proposals for reducing costs and streamlining management.

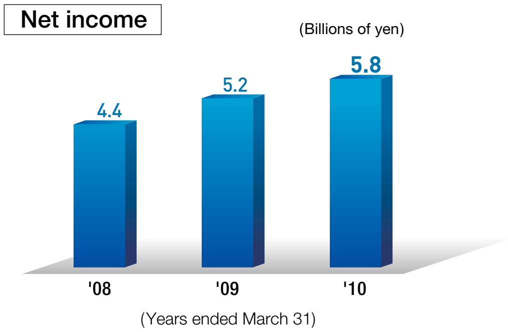


Operating income ······ ¥9.9 billion

Net income ······ ¥5.8 billion

Consolidated operating income and net income amounted to ¥9.9 billion and ¥5.8 billion, respectively. Operating income fell year on year, because of a drop in net sales. However, the Company and its consolidated subsidiaries improved the operating margin from the previous year by accelerating management innovation across the board, including working style and operational process innovation aimed at cutting common costs. Consequently, the Company and the Group achieved record net income.

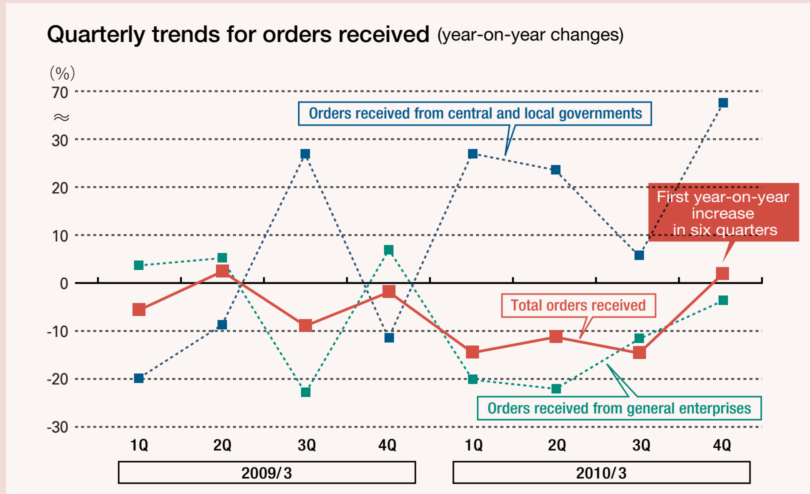




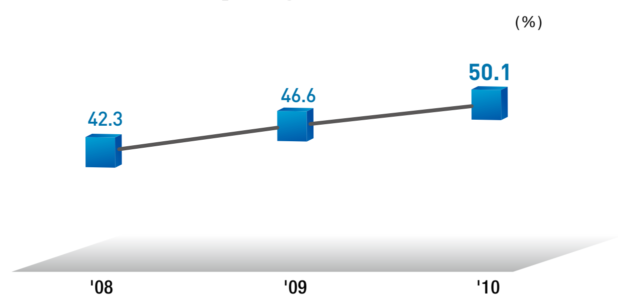
Point of account settlement for the fiscal year

Orders grew year on year in the fourth quarter, with expanding operations in priority areas

Operating conditions for the Group remained difficult during the fiscal year. However, in the fourth quarter of the year, the Group was able to increase orders for the first time in six quarters. This owed to stronger solutions proposals, such as ideas for reducing costs, streamlining operations, and increasing environmental friendliness, made to corporate customers, as well as to the strengthening of support services in areas including the new field of cloud computing. We were also able to substantially increase orders for local government projects, such as projects involving regional informatization, with initiatives designed to boost our ability to meet project requirements. Considering market changes as opportunities for growth, the Company will aggressively expand its operations in an attempt to achieve improvements over these results.



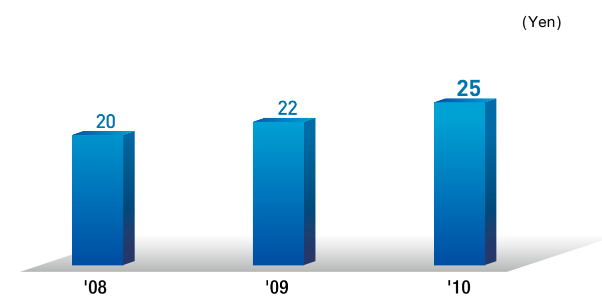
Owner's equity ratio[3]



(As of March 31)

The owner's equity ratio came to 50.1% at the end of the fiscal year. The current ratio also improved 15% from the end of the previous fiscal year, to 234%. As these figures show, we became financially stronger. We aim to sustain a sound financial footing, balancing our investment for growth with our financial position.

Dividends



(Years ended March 31)

To thank shareholders for their support, the Company paid ¥3 per share as a special dividend for the fiscal year, as consolidated net income reached a record-high level. As a result, the Company's year-end dividend and annual dividend for the year came to ¥14 per share and ¥25 per share, respectively.

Notes:

1. Cloud computing
   Cloud computing is a service that uses networks to make available information and communications technology (ICT) resources, including operational applications and other types of software and ICT infrastructure, such as servers, storage systems and networks, which companies and government offices would formerly develop and manage within their own facilities.
2. EmpoweredOffice
   EmpoweredOffice is the Company's office innovation solution. It combines the Company's strengths in ICT and facility installation to enable more intellectual and creative styles of work through process reforms. It also proposes new methods and places of work that allow customers to fulfill their social responsibilities, such as security enhancement and eco-friendliness.
3. Owner's equity ratio = owner's equity / total assets x 100
   Current ratio = current assets / current liabilities x 100

Interview with the President

Aiming to further our growth with aggressive management

Q **How do you evaluate the Company's results for fiscal year ended March 2010 (from April 1, 2009 to March 31, 2010)?**

A **Our sales declined under severe operating conditions, but we improved our profitability and achieved record net income. We succeeded in strengthening our operating foundations for the future.**

Market conditions for the Group remained severe in this fiscal year due to factors such as investment controls by enterprises and telecommunications carriers. From the beginning, we positioned this fiscal year as a period for strengthening our operating foundations with an emphasis on profitability, and accelerated management innovation activities that had been in progress. In this fiscal year, we focused in particular on strengthening our management capabilities. We advanced reforms in our working styles, including the conversion to paperless operations, and cut our selling, general and administrative expenses with comprehensive cost management, in addition to improving our cost rate. With these initiatives, we achieved a record net income of ¥5.8 billion. Operating conditions were more difficult than we had anticipated, but I believe that we were able to build solid foundations for our future business growth.

Based on these results, we paid ¥3 per share as special year-end dividends to show our appreciation to shareholders. We plan to increase our earnings capacity further and improve shareholder returns in the future.

Q What are your business policies for the future?

A I'll take an "aggressive management" approach for expanding our existing operations further and increasing our ability to offer a positive response in new business fields.

Sales conditions remained difficult, but we saw signs of recovery in this fiscal year. For example, orders surpassed net sales for the first time in four fiscal years. In the coming fiscal year ending March 2011, we anticipate corporate investment expansion with the business recovery, in addition to sustained active investment in local information network projects by local governments. The use of ICT services known as cloud computing will reach full scale, too. We expect investment in the network field will shift to and focus on infrastructure for these businesses as services.

Such market changes represent great opportunities for the Group. I am determined to manage the Group aggressively for growth.

One of the pillars of this management approach is expanding existing operations. I plan to enhance our competitiveness and achieve greater operational depth. To give an example, I'm planning to increase our market share by strengthening our nationwide business organization and, at the same time, linking expanded market share with subsequent support operations in social infrastructure fields, which encompass local information network projects and the broader application of firefighting and disaster prevention systems.

Developing new business fields will be another pillar. Proposing new solutions, including those for saving energy and making offices more resource efficient through "EmpoweredOffice," our office innovation solutions, is one example of this activity. In the field of cloud computing, we plan to accelerate our original initiatives, including the provision of new services from customer perspectives.

We also need aggressive and strategic investment to accelerate growth. We will invest aggressively in growth, for instance by forming alliances with other companies and making corporate acquisitions, based on our increasingly solid financial footing. We are planning to move our head office to the Iidabashi area (in Bunkyo-ku, Tokyo) in October 2010. With the relocation of our office to a site closer to our customers, we will transform the entire company into EmpoweredOffice, engage in more vigorous sales activities using the new head office as our showroom, and streamline our operations.

With these initiatives, we aim to achieve target net sales of ¥300 billion and a target operating profit margin of 6% in fiscal year ending March 2013, and to transform ourselves into the top networks system integrator in Japan.

June 2010

Masahiko Yamamoto
President

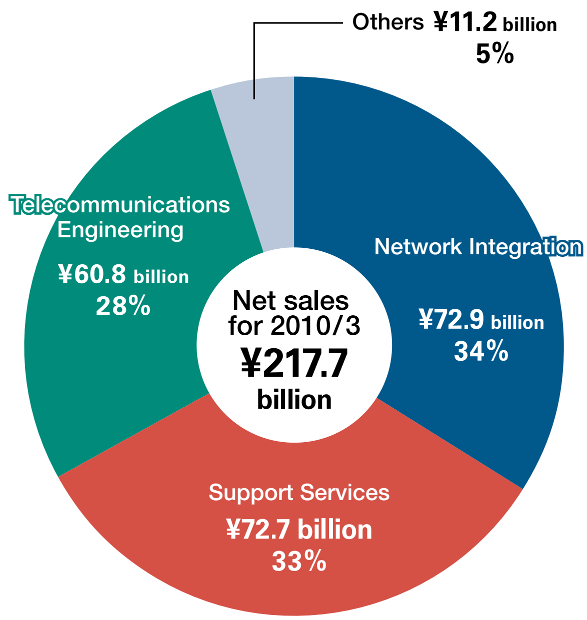
Segment Information

Overview of results by business segment
(for the period from April 1, 2009 to March 31, 2010)

The Company leads the networks system integration business with strength in the capacity to offer consistent services to customers in a broad range of fields, from in-house ICT to public and social infrastructures. In the roughly 60 years since its establishment, the Company has proposed optimum solutions to diverse customers, including central and local governments, telecommunications carriers, and other enterprises, calling on the technologies and business expertise it has developed through its support experience and achievements.

In recent years, the Company has integrated ICT and facility installation capabilities, two areas of proven strength, to provide office reform solutions complete with office space designs to its corporate customers.

In addition, the Company is contributing to national projects, including operation and management of a satellite reception system at the Showa Base in Antarctica.



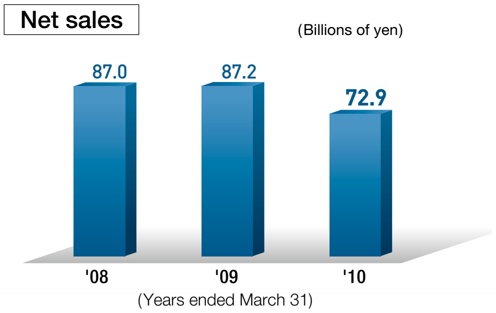
Network Integration

Principal businesses

Provision of consistent network development services in response to needs that range from planning and consultation, system design, to system integration relating to ICT system.

Fiscal year review

Net sales for the segment declined 16% year on year, influenced by investment controls in the private sector. However, EmpoweredOffice achieved a steady increase in net sales. Cloud operations, such as data center integration, also showed an uptrend. As these developments suggest, the segment achieved results in priority fields that could lead to improvements in the coming years.



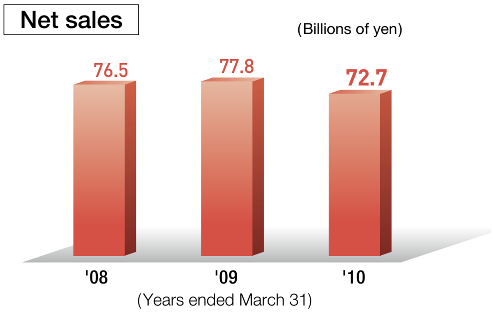
Support Services

Principal businesses

Operation and monitoring of ICT systems, provision of troubleshooting services, and provision of network and outsourcing services that make practical use of company data centers

Fiscal year review

Net sales for the segment fell 7% year on year, due mainly to decreased network operations for the NEC Group. However, net sales to other enterprise customers rose steadily as a result of service quality improvement through service infrastructure reinforcement, including the consolidation of parts centers that make maintenance parts arrangements, and the bolstering of proposal capabilities with an eye on cloud computing.



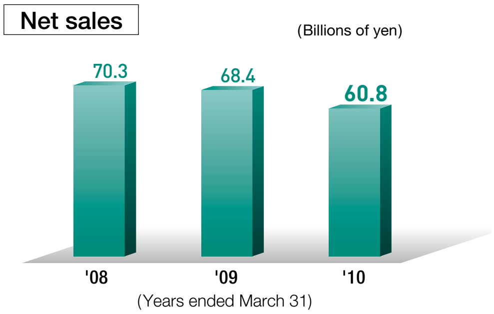
Telecommunications Engineering

Principal businesses

Construction work for highly public projects, such as digital terrestrial broadcasting facilities and official radio systems for disaster prevention and relief, installation work for cellular base and CATV stations, and construction work for satisfying office requirements, including power supplies and air conditioners

Fiscal year review

The segment continued to secure infrastructure construction work for central and local government projects designed to achieve local information network and other objectives, with its improved capability to meet project requirements. However, net sales for the segment plunged 11% year on year, reflecting factors such as a fall in base station investment by mobile communications service providers.



Topics

Contributing to local communities nationwide by advancing local information network projects

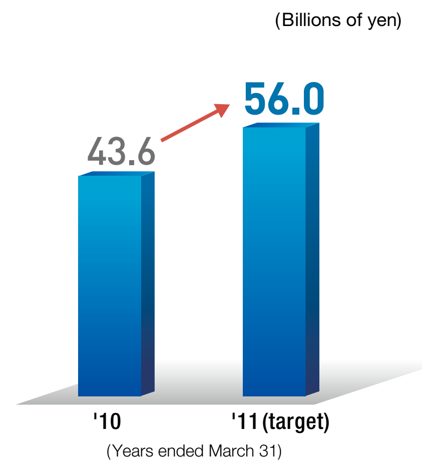
Initiatives to establish ICT infrastructures for local information network are being made in concert nationwide, to make our communities safe, reassuring, and lively.

Television broadcasts in Japan are scheduled to make a full transition to digital terrestrial broadcasting in July 2011. The Japanese government has been mapping out policies for achieving goals such as the elimination of interregional information disparities and broadband service extension to all Japanese households.

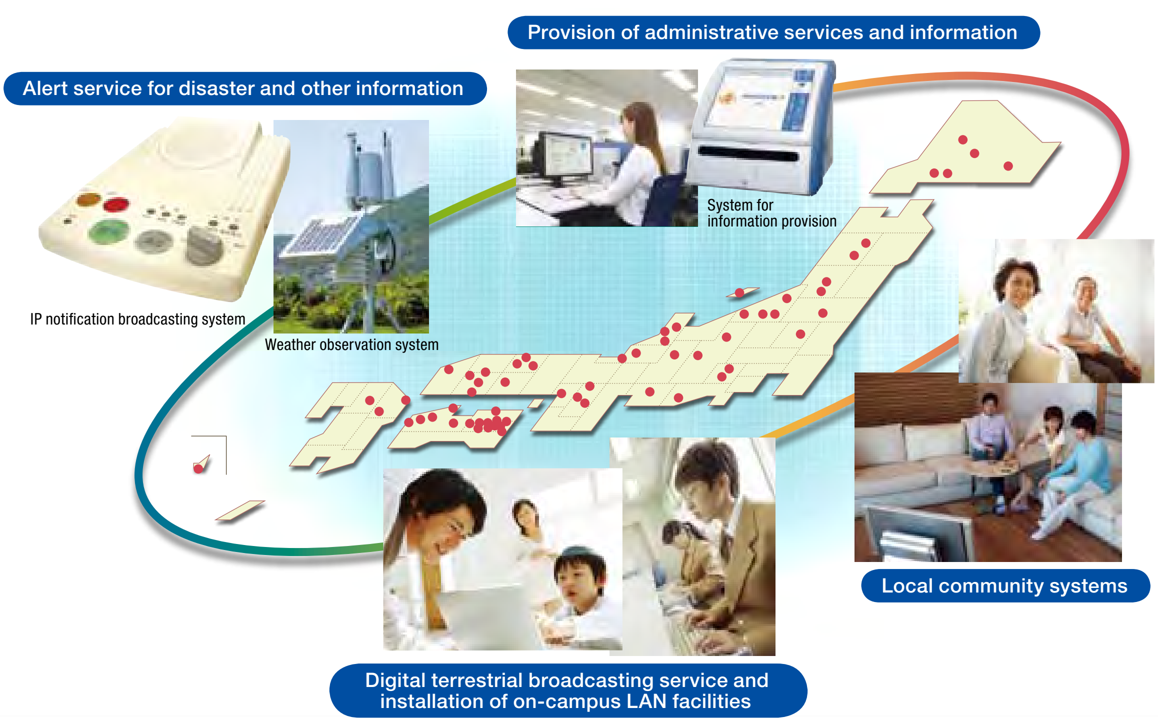
In this operating environment, the Company is taking responsibility for optical cable installation for CATV and other services essential for local information network, and offering a broad array of services that make use of ICT to households, administrative organs, medical institutions and other parties.

The Company aims to expand its operations and further its contributions to local communities, with steps that include the development and provision of new services that take advantage of established ICT infrastructures.

Net sales target to central and local governments



We are offering community-based services throughout Japan.



Environmental solutions are making pleasant lifestyles possible

The Company is proactively approaching environmental operations to create an affluent society that pays careful consideration to the global environment.

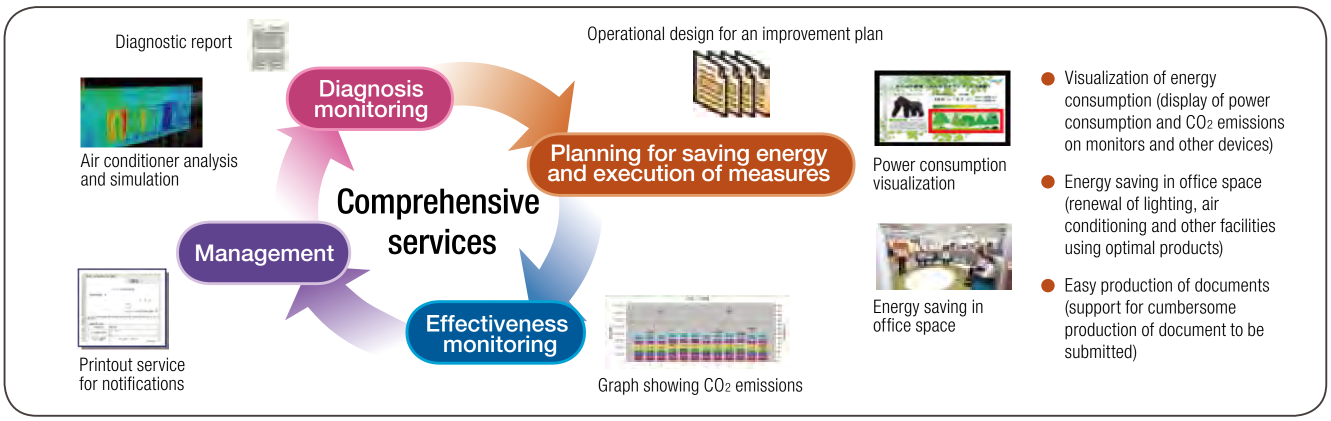
The Company is aiming to reduce the burden on the environment imposed by society as a whole by offering eco-friendly services to its customers, in addition to its own actions for the environment.

Example initiative – “environmental solutions”

Offering total support to energy-saving steps customers take in their offices

Measures for saving energy became an urgent task for companies following the introduction of the amended Law Concerning the Rational Use of Energy in April 2010 and other developments.

The Company is offering total support to customers adopting life cycle management to save energy, ranging from an analysis of present energy consumption to planning and execution of energy-saving measures.



Helping to create the society of the future with the proliferation of fast electric car chargers

Electric cars are becoming increasingly popular, based on a vision of a low-carbon society. Their mileage is limited, however, and this requires the installation of fast chargers nationwide.

The Company is working to build the fast charger infrastructure so that all residents of Japan can use electric cars with peace of mind.

Fast charger

Case study

Lemongas Co., Ltd.

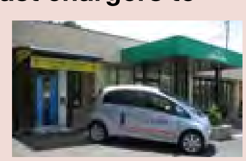
Retailer and wholesaler of LP gas and seller of LP gas instruments

Comprehensive customer support provided in areas ranging from installation of fast chargers to their operation and maintenance

Lemongas Co., Ltd. is a company that supplies liquefied petroleum (LP) gas, a clean, safe and disaster-resistant type of energy, to approximately 300,000 households in areas centering on the Tokyo metropolitan area and Shizuoka Prefecture. The Company supplied Lemongas with fast chargers to help the customer open Lemon Town Hachioji, a place for recreation and relaxation for the citizens of Hachioji City, Tokyo, equipped with cutting-edge energy-saving machines and equipment, in April 2010.

Lemongas is planning to install more fast chargers at its LP gas sales bases in Hachioji and other areas, based on an idea currently being considered, namely launching a car-sharing service* using electric cars.

The Company will continue to support Lemongas and will contribute to efforts to enrich local communities.



Lemon Town Hachioji

*Car-sharing service: A new way of using cars in which two or more registered members share one vehicle.

Corporate Governance

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. To that end, the Company has adopted a Board of Corporate Auditors system and has established a corporate governance system in which the Board of Directors and Board of Corporate Auditors play key roles.

The Company has also adopted an executive officer system to clearly demarcate the supervisory function and the business execution function. To enhance management transparency, the Company has outside directors and outside corporate auditors and seeks to achieve sound management by encouraging cooperation among corporate auditors, the Internal Auditing Division, and independent auditors.

I. Description of Corporate Organs

(1) 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 to one year in order to clarify the management responsibility of directors and strengthen its management structure.

(2) Executive Officers, Executive Committee, and Business Execution Committee

Based on an executive officer system, the Company also formed the Executive Committee, consisting of executive officers at senior vice president 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 general managers, to monitor the progress of and report on significant matters concerning business execution.

(3) 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.

(4) Internal Auditing Division

The Internal Auditing Division, consisting of nine members, has been established as an internal audit unit independent from the business execution division. It examines through internal audits whether business execution is being conducted legally and properly according to relevant laws, regulations and Company rules.

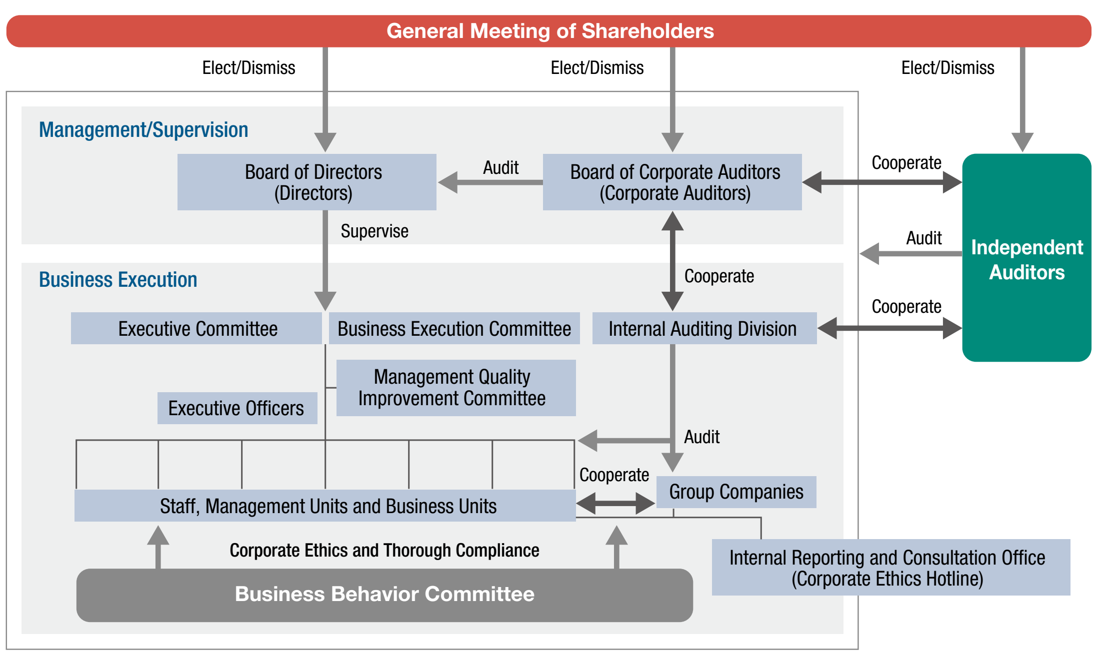
(5) Independent Auditors

The Company has an audit contract with KPMG AZSA & Co. as its independent auditors to audit its accounts. KPMG AZSA & Co. expresses its views on the financial statements as an auditor from an independent viewpoint.

II. Development of Internal Control Systems

The Company has established a basic policy for the development of internal control systems, as shown below, under Article 362, Paragraph 4, Item 6 of the Company Law and Article 100, Paragraphs 1 and 3 of the Enforcement Regulations of the Company Law. The Company maintains the appropriate execution of operations under the basic policy, laws and regulations, and internal regulations.

The Company's mechanisms of business execution, management oversight, and internal control



III. Situation of Outside Directors and Outside Corporate Auditors

Of the Company's eight directors, two are outside directors. The Company believes this number is appropriate for giving advice and participating in decision making from fair and objective standpoints, strengthening the Company's corporate governance.

Outside Director Takayuki Matsui is a professor at the Graduate School of Professional Accountancy of Aoyama Gakuin University. The Company has Mr. Matsui use his expert knowledge in business administration, including internal control, to ensure transparency in the management of the Company and to strengthen corporate governance. Mr. Matsui attended all 13 meetings of the Board of Directors held in FY2009 ended March 31, 2010. He has been designated as an independent director defined in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange.

Outside Director Noboru Wakita is engaged in the network solution business of NEC Corporation and uses his extensive experience and knowledge for the management of the Company. Mr. Wakita attended all ten meetings of the Board of Directors held in FY2009 after his appointment on June 23, 2009.

Of the Company's four corporate auditors, three are outside corporate auditors. We believe this number is appropriate for auditing the directors' execution of their duties from fair and objective standpoints, to strengthen the Company's corporate governance.

Outside Corporate Auditor Harutame Umezawa is qualified as a lawyer and has considerable knowledge in finance and accounting. Using his professional knowledge and viewpoint about the law, Mr. Umezawa audits the directors' performance of their duties from a fair and objective standpoint of an outsider. He attended all 13 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held in FY2009. Mr. Umezawa has been designated as an independent director defined in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange.

Outside Corporate Auditor Takao Kaneko has been engaged in accounting and auditing for many years and has considerable knowledge about finance and accounting. Taking advantage of his extensive experience and knowledge relating to internal control, Mr. Kaneko primarily audits the legality of business execution from a fair and objective standpoint. He became an outside corporate auditor at the ordinary general meeting of shareholders held on June 23, 2010.

Outside Corporate Auditor Yasuo Totsuka is dealing with procurement in NEC Corporation. Making full use of his extensive experience and knowledge relating to internal control, Mr. Totsuka chiefly audits the legality of business execution from a fair and objective standpoint. He attended nine of ten meetings of the Board of Directors and all ten meetings of the Board of Corporate Auditors held in FY2009, after his appointment on June 23, 2009.

There are no special interests between the Company and its outside directors or outside corporate auditors.

The outside directors and outside corporate auditors regularly exchange information and consult with the Internal Auditing Division and staff departments, receiving reports on business execution at meetings of the Board of Directors and on other occasions.

The outside corporate auditors cooperate with the independent auditors, exchanging information and consulting with them regularly at meetings of the Board of Corporate Auditors and on other occasions.

IV. Internal Audits and Audits by Auditors

The Internal Auditing Division cooperates with the corporate auditors. The division reports the results of audits carried out under an audit plan for each fiscal year to the corporate auditors once a year and exchanges opinions with them as necessary.

The corporate auditors, the Internal Auditing Division, and the independent auditors cooperate with each other, exchanging opinions as necessary for statutory audits.

Directors and Corporate Auditors
(As of June 23, 2010)

(From left) Mr. Kanehako, Mr. Hara, Mr. Yamamoto, Mr. Konno, Mr. Fujita, Mr. Iijima

Directors

President:
Masahiko Yamamoto

Senior Vice Presidents and Members of the Board:
Yasuo Iijima
Koshiro Konno
Atsushi Fujita
Akinori Kanehako
Takahiko Hara

Members of the Board:
Takayuki Matsui [1, 3]
Noboru Wakita [1]

Corporate Auditors
Takao Kaneko (full-time) [2]
Yasuo Hayashi (full-time)
Harutame Umezawa [2, 3]
Yasuo Totsuka [2]

Notes:
1. Outside directors as stipulated in Item 15 of Article 2 of the Company Law of Japan
2. Outside corporate auditors as stipulated in Item 16 of Article 2 of the Company Law of Japan
3. Independent directors as stipulated in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange

Corporate Social Responsibility (CSR)

CSR Policy

The Company 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

The Company 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

The Company 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

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

ISO 9001: 2000
- Certificate Number: JQA-0471

ISO 14001: 2004
- Certificate Number: JQA-EM0640

ISO/IEC 27001: 2005
- Certificate Number: IC03J0025
- Organization: SI & Services Operations Unit Office Solutions Division
- Certificate Number: JQA-IMO190
- Organization: SI & Services Operations Unit Outsourcing Service Division
- Certificate Number: JQA-IMO351
- Organization: SI & Services Operations Unit Service Infrastructure Division

ISO/IEC20000-1:2005
- Certificate Number: JQA-IT0037
- Organization: SI & Services Operations Unit Outsourcing Service Division / Service Infrastructure Division

Privacy Mark
- Certificate Number: 21000053(02)

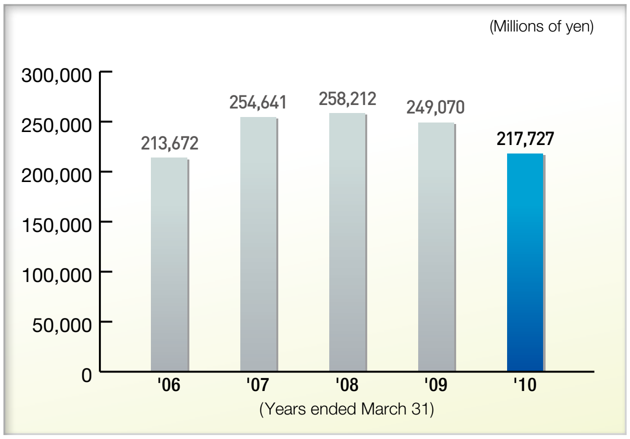
Six-Year Summary of Selected Financial Data

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

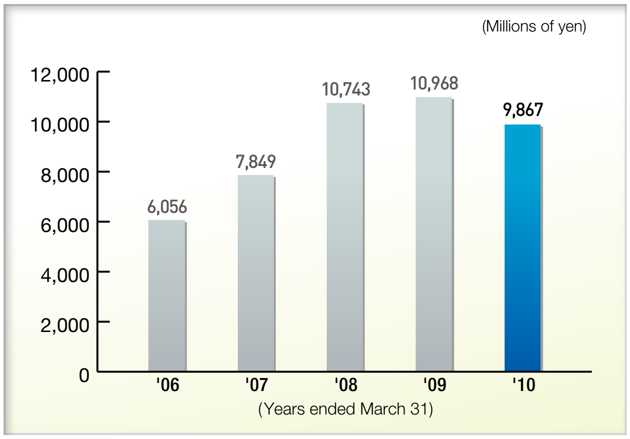
	Millions of yen						Thousands of U.S. dollars [1]
	2010	2009	2008	2007	2006	2005	**2010**
For the year:							
Orders	¥ 222,046	¥ 245,257	¥ 254,512	¥ 253,577	¥ 223,383	¥ 207,460	$ 2,386,565
Net sales	217,727	249,070	258,212	254,641	213,672	198,625	2 ,340,144
Selling, general and administrative expenses	23,070	24,501	24,824	25,413	20,502	16,921	247,958
Operating income	9,867	10,968	10,743	7,849	6,056	4,812	106,051
Net income	5,806	5,154	4,412	3,476	2,609	1,222	62,403
Capital expenditures	1,928	2,529	2,611	2,371	1,804	2,829	20,722
Depreciation and amortization	2,244	2,270	2,130	2,203	1,966	1,712	24,119
Research and development costs	119	290	419	595	455	428	1,279
At year-end:							
Total assets	¥ 146,915	¥ 147,462	¥ 154,171	¥ 148,797	¥ 134,911	¥ 123,935	$ 1,579,052
Shareholders' equity	74,043	69,334	65,251	61,692	54,017	51,704	795,819
Total net assets	74,221	69,340	66,132	62,201	54,625	—	797,732
Interest-bearing debt	5,000	5,121	5,652	5,531	8,800	8,163	32,244
Per share of common stock (yen and U.S. dollars) :							
Net income	¥ 116.74	¥ 103.61	¥ 88.67	¥ 70.72	¥ 60.56	¥ 28.24	$ 1,255
Net assets (BPS)	1,479.62	1,381.92	1,311.71	1,233.52	1,285.92	1,231.28	15,903
Cash flow (CFPS)	160.0	147.8	130.1	114.8	108.2	69.0	
Cash dividends applicable to the year	25.00	22.00	20.00	14.00	14.00	12.00	269
Ratios and return indicators:							
Operating income to net sales (%)	4.5	4.4	4.2	3.1	2.8	2.4	
Return on assets (ROA) (%) [2]	6.9	7.4	6.9	5.5	4.6	3.9	
Return on equity (ROE) (%) [3]	8.2	7.7	7.0	6.0	4.9	2.4	
Shareholders' equity (Net worth) ratio (%)	50.1	46.6	42.3	41.3	40.0	41.7	
Current ratio (times) [4]	2.35	2.18	1.97	1.93	1.86	1.77	
Debt to equity ratio (times) [5]	0.07	0.07	0.09	0.09	0.16	0.16	
Number of employees	5,998	5,906	5,817	6,407	4,897	4,199	
Net sales per employee (thousands of yen) [6]	¥ 36,580	¥ 42,493	¥ 42,247	¥ 45,053	¥ 46,982	¥ 46,864	$ 393,164
Net income per employee (thousands of yen) [7]	975	879	722	615	574	288	10,479

Notes:
1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥93.04 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2010.
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. Debt to equity ratio: Interest-bearing debt / Net assets
6. Net sales per employee: Net sales / Average number of employees during the term
7. Net income per employee: Net income / Average number of employees during the term

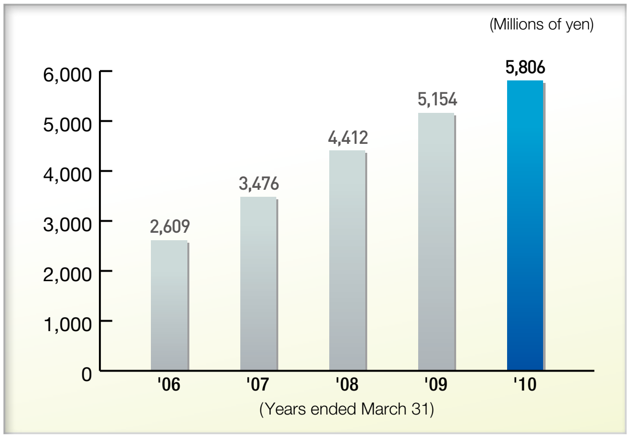
Net Sales



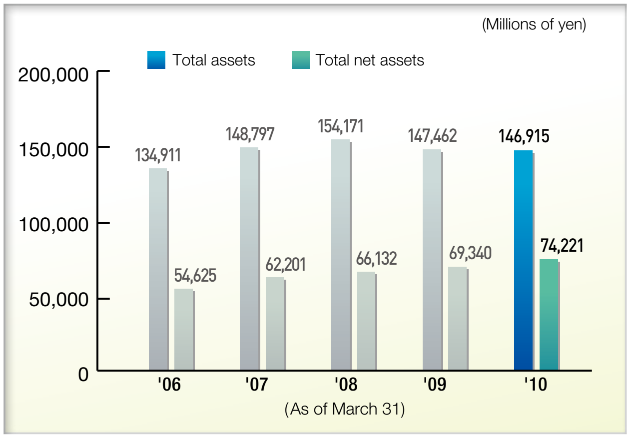
Operating Income



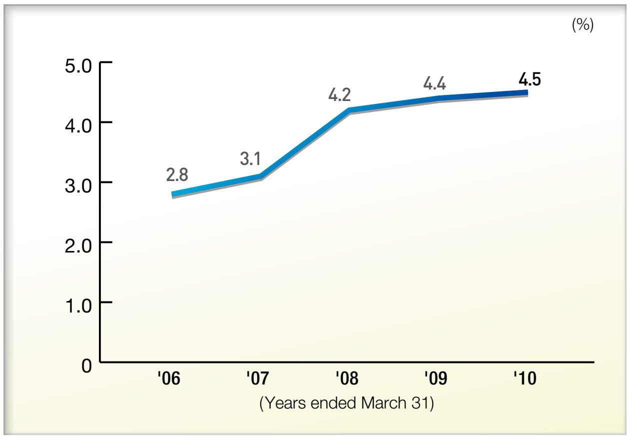
Net Income



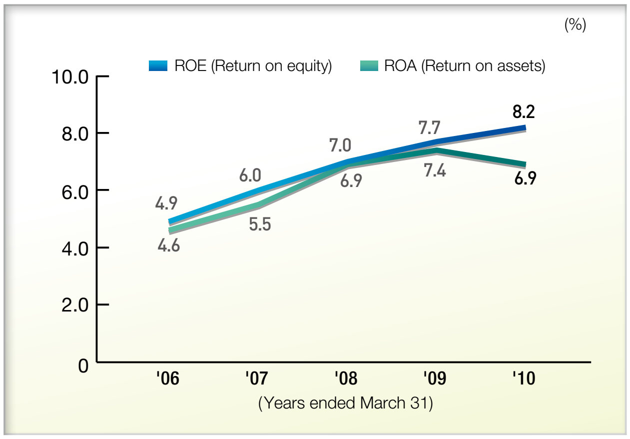
Total Assets and Total Net Assets



Operating Income to Net Sales



ROE and ROA



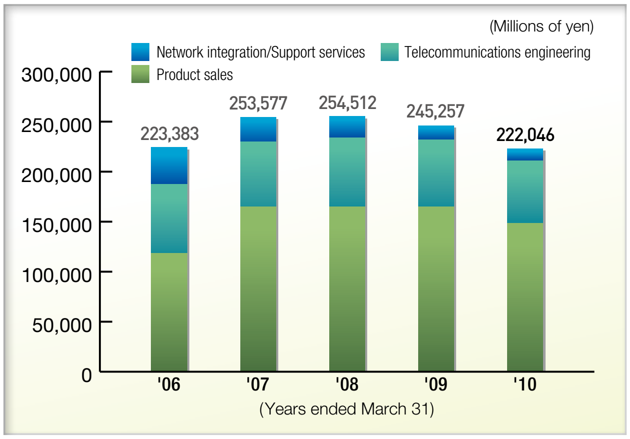
All graphs are presented on a consolidated basis.

Six-Year Summary of Selected Financial Data By Segment and Customer

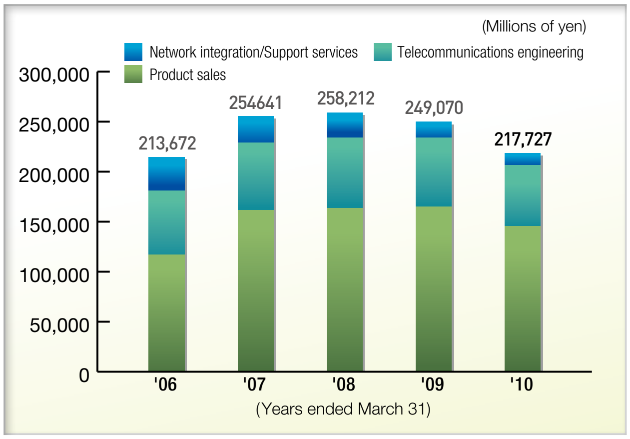
NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2010	2009	2008	2007	2006	2005	**2010**
Orders by business segment	¥ 222,046	¥ 245,257	¥ 254,512	¥ 253,577	¥ 223,383	¥ 207,460	$ 2,386,565
Network integration/Support services	148,159	164,451	164,765	164,634	118,410	90,080	1,592,423
Telecommunications engineering	62,580	66,904	68,846	65,192	68,462	75,703	672,614
Product sales	11,305	13,900	20,900	23,750	36,510	41,676	121,507
Net sales by business segment	217,727	249,070	258,212	254,641	213,672	198,625	2,340,144
Network integration/Support services	145,646	164,996	163,418	161,473	116,997	85,786	1,565,413
Telecommunications engineering	60,846	68,397	70,339	67,085	63,765	70,404	6,539,832
Product sales	11,233	15,676	24,454	26,082	32,909	42,434	120,733
Operating income by business segment	9,867	10,968	10,743	7,849	6,056	4,812	106,051
Network integration/Support services	12,183	12,960	11,002	10,964	6,684	5,785	130,944
Telecommunications engineering	2,689	3,206	4,197	3,139	3,510	3,434	28,902
Product sales	603	586	892	140	35	(96)	6,481
Eliminations or corporate	(5,607)	(5,785)	(5,348)	(6,394)	(4,173)	(4,312)	(60,264)
Orders by customer	222,046	254,257	254,512	253,577	223,383	207,460	2,386,565
Government	52,537	40,974	42,873	39,140	31,142	29,891	564,671
Telecommunications carriers	47,875	54,348	54,749	57,172	50,198	43,534	514,564
NEC Group	32,698	47,702	53,187	51,835	36,486	33,773	351,440
Enterprises	75,743	88,364	86,522	89,159	89,460	84,388	814,091
Overseas	13,191	13,867	17,177	16,267	16,096	15,873	141,778
Net sales by customer	27,727	249,070	258,212	254,641	213,672	198,625	298,012
Government	43,637	44,105	41,765	37,468	28,711	30,890	469,013
Telecommunications carriers	47,997	52,478	56,479	60,236	47,706	38,707	515,875
NEC Group	33,262	48,632	51,195	52,650	35,697	34,015	357,502
Enterprises	79,217	87,528	92,341	88,645	83,444	81,458	851,429
Overseas	13,611	16,325	16,429	15,640	18,114	13,554	146,292
Net sales via NEC	77,187	91,212	97,046	90,797	58,220	56,510	829,611
Ratio of net sales via NEC to total net sales (%)	35.5	36.6	37.6	35.7	27.2	28.5	

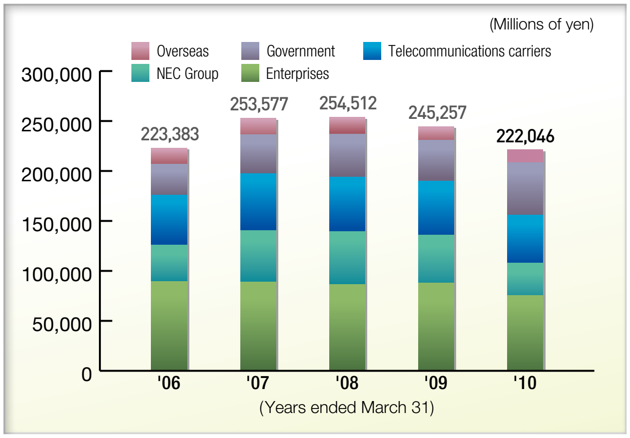
Orders by Business Segment



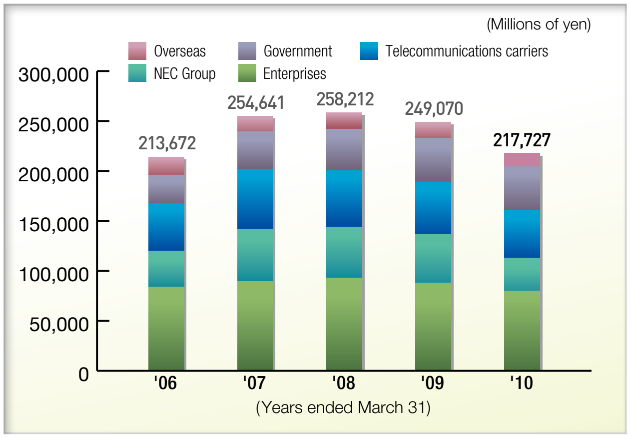
Net Sales by Business Segment



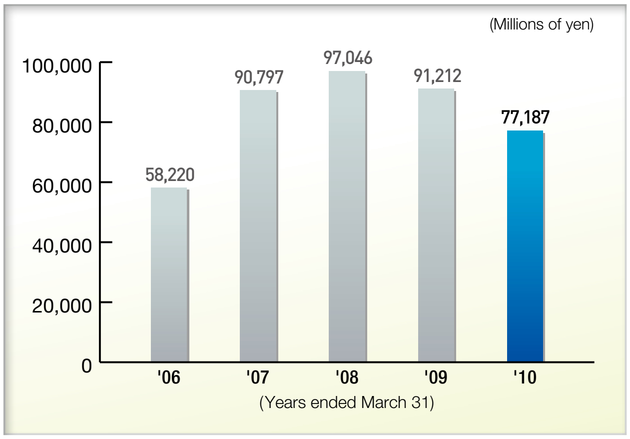
Orders by Customer



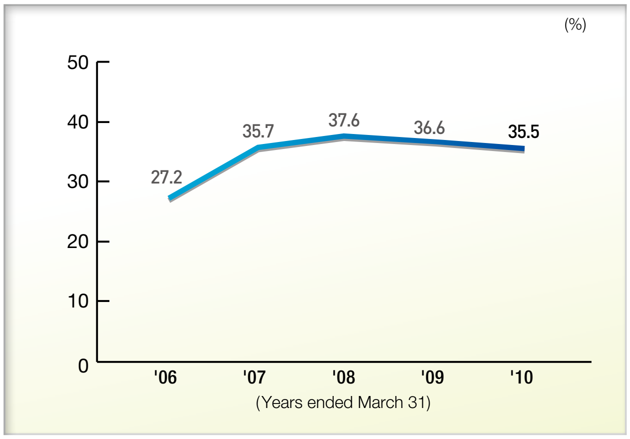
Net Sales by Customer



Net Sales via NEC



Ratio of Net Sales via NEC to Total Net Sales



All graphs are presented on a consolidated basis.

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 3)
	2010	2009	2010
Assets			
Current assets:			
Cash and cash equivalents	¥ 29,538	¥ 16,614	$ 317,476
Notes and accounts receivable (note 18)	79,988	91,321	859,716
Inventories (note 5)	7,269	9,414	78,128
Deferred tax assets (note 8)	4,590	4,858	49,334
Other current assets	2,726	1,481	29,299
Allowance for doubtful accounts	(204)	(378)	(2,193)
Total current assets	123,908	123,312	1,331,771
Property and equipment:			
Land	2,508	2,508	26,956
Buildings and structures	8,350	8,315	89,746
Machinery and vehicles	344	358	3,697
Furniture and fixtures	10,126	9,805	108,835
Construction in progress	161	70	1,730
Other	399	317	4,288
Accumulated depreciation	(14,026)	(13,249)	(150,752)
Property and equipment, net	7,864	8,126	84,523
Intangibles, net of accumulated amortization (note 6)	3,656	4,307	39,295
Investments and other assets:			
Investment securities (note 4)	381	444	4,095
Deferred tax assets (note 8)	7,142	7,331	76,763
Other assets (note 18)	4,094	4,114	44,003
Allowance for doubtful accounts	(131)	(174)	(1,408)
Total investments and other assets	11,486	11,715	123,452
Total assets	¥ 146,915	¥ 147,462	$ 1,579,052

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 3)
	2010	2009	2010
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans (note 7)	¥ —	¥ 121	$ —
Current installments of long-term debt (note 7)	2,000	—	21,496
Notes and accounts payable (note 18)	34,979	39,915	375,957
Advances received (note 18)	1,579	1,870	16,971
Accrued income taxes (note 8)	3,004	3,177	32,287
Accrued bonuses to directors and corporate auditors	92	70	989
Accrued losses on sales contracts	128	40	1,376
Other current liabilities	11,008	11,314	118,315
Total current liabilities	52,792	56,511	567,412
Long-term liabilities:			
Long-term debt (note 7)	3,000	5,000	32,244
Accrued employees' retirement benefits (note 9)	15,792	15,817	169,733
Other liabilities (notes 6 and 8)	1,109	793	11,920
Total long-term liabilities	19,901	21,610	213,897
Total liabilities	72,693	78,121	781,309
Shareholders' equity (note 10):			
Common stock:	13,122	13,122	141,036
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2010 and 2009			
Capital surplus	16,650	16,650	178,955
Retained earnings	44,318	39,606	476,333
Treasury stock, at cost; 41,180 shares at March 31, 2010 and 38,581 shares at March 31, 2009	(48)	(45)	(516)
Total shareholders' equity	74,043	69,334	795,819
Valuation and translation adjustments:			
Net unrealized holding gain (loss) on other securities (note 4)	6	(0)	64
Deferred gain (loss) on hedges	3	(2)	32
Foreign currency translation adjustments	(467)	(601)	(5,019)
Total valuation and translation adjustments	(457)	(604)	(4,912)
Minority interests	635	610	6,825
Total net assets	74,221	69,340	797,732
Commitments and contingencies (note 11)			
Total liabilities and net assets	¥ 146,915	¥ 147,462	$ 1,579,052

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

CONSOLIDATED STATEMENTS OF INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 3)
	2010	2009	2010
Net sales (note 18)	¥ 217,727	¥ 249,070	$ 2,340,144
Cost of sales (notes 5, 12 and 18)	184,788	213,600	1,986,113
Gross profit	32,939	35,470	354,031
Selling, general and administrative expenses (notes 12, 13 and 14)	23,070	24,501	247,958
Operating income	9,867	10,968	106,051
Other income (expense):			
Interest income	49	69	527
Interest expense	(66)	(66)	(709)
Dividends income of insurance	101	123	1,086
Insurance received	62	41	666
Reversal of allowance for doubtful receivables	166	9	1,784
Foreign currency exchange loss	(66)	(29)	(709)
Impairment loss on investment securities	(45)	(11)	(484)
Loss on disposal of property and equipment	(21)	(83)	(226)
Gain on sale of investment securities (note 4)	7	176	75
Other, net	71	189	763
	258	418	2,773
Income before income taxes and minority interests	10,125	11,387	108,824
Income taxes (note 8):			
Current	3,886	4,756	41,767
Deferred	454	1,403	4,880
	4,341	6,160	46,657
Income before minority interests	5,784	5,227	62,167
Minority interests	(21)	72	(226)
Net income	¥ 5,806	¥ 5,154	$ 62,403

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, 2010 and 2009

	Numbers of shares of common stock	Millions of yen				
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total
	(Thousands)					
Balance at March 31, 2008	49,773	¥ 13,122	¥ 16,650	¥ 35,497	¥ (19)	¥ 65,251
Changes arising during year:						
Cash dividends				(1,044)		(1,044)
Net income				5,154		5,154
Purchase of treasury stock					(35)	(35)
Disposition of treasury stock			(0)		9	9
Transfer from capital surplus to retained earnings			0	(0)		—
Net changes in accounts other than shareholders' equity						
Total changes during the year	—	—	(0)	4,108	(25)	4,083
Balance at March 31, 2009	49,773	13,122	16,650	39,606	(45)	69,334
Changes arising during year:						
Cash dividends				(1,094)		(1,094)
Net income				5,806		5,806
Purchase of treasury stock					(2)	(2)
Disposition of treasury stock			(0)		0	0
Transfer from capital surplus to retained earnings			0	(0)		—
Net changes in accounts other than shareholders' equity						
Total changes during the year	—	—	—	4,711	(2)	4,708
Balance at March 31, 2010	49,773	¥ 13,122	¥ 16,650	¥ 44,318	¥ (48)	¥ 74,043

	Millions of yen					
	Valuation and translation adjustments					
	Net unrealized holding 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	¥ 11	¥ 51	¥ (46)	¥ 16	¥ 865	¥ 66,132
Changes arising during year:						
Cash dividends						(1,044)
Net income						5,154
Purchase of treasury stock						(35)
Disposition of treasury stock						9
Transfer from capital surplus to retained earnings						—
Net changes in accounts other than shareholders' equity	(11)	(53)	(554)	(620)	(254)	(874)
Total changes during the year	(11)	(53)	(554)	(620)	(254)	3,208
Balance at March 31, 2009	(0)	(2)	(601)	(604)	610	69,340
Changes arising during year:						
Cash dividends						(1,094)
Net income						5,806
Purchase of treasury stock						(2)
Disposition of treasury stock						0
Transfer from capital surplus to retained earnings						—
Net changes in accounts other than shareholders' equity	7	5	133	146	25	171
Total changes during the year	7	5	133	146	25	4,880
Balance at March 31, 2010	¥ 6	¥ 3	¥ (467)	¥ (457)	¥ 635	¥ 74,221

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

Thousands of U.S. Dollars (note 3)

	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at March 31, 2009	$ 141,036	$ 178,955	$ 425,688	$ (484)	$ 745,206
Changes arising during year:					
Cash dividends			(11,758)		(11,758)
Net income			62,403		62,403
Purchase of treasury stock				(21)	(21)
Disposition of treasury stock		(0)		0	0
Transfer from capital surplus to retained earnings		0	(0)		—
Net changes in accounts other than shareholders' equity					
Total changes during the year	—	—	50,634	(21)	50,602
Balance at March 31, 2010	$ 141,036	$ 178,955	$ 476,333	$ (516)	$ 795,819

Thousands of U.S. Dollars (note 3)

	Valuation and translation adjustments: Net unrealized holding gain (loss) on other securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at March 31, 2009	$ (0)	$ (21)	$ (6,460)	$ (6,492)	$ 6,556	$ 745,271
Changes arising during year:						
Cash dividends						(11,758)
Net income						62,403
Purchase of treasury stock						(21)
Disposition of treasury stock						0
Transfer from capital surplus to retained earnings						—
Net changes in accounts other than shareholders' equity	75	54	1,429	1,569	269	1,838
Total changes during the year	75	54	1,429	1,569	269	52,451
Balance at March 31, 2010	$ 64	$ 32	$ (5,019)	$ (4,912)	$ 6,825	$ 797,732

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 3)
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,125	¥ 11,387	$ 108,824
Depreciation and amortization	2,244	2,270	24,119
Amortization of goodwill	59	41	634
Decrease in allowance for doubtful receivables	(223)	(71)	(2,397)
Decrease in accrued employees' retirement benefits	(29)	(968)	(312)
Increase (decrease) in accrued bonuses to directors and corporate auditors	21	11	226
Increase (decrease) in accrued losses on sales contracts	87	(426)	935
Interest and dividend income	(61)	(85)	(656)
Interest expense	66	66	709
Impairment loss on investment securities	45	11	484
(Gain) loss on sale of investment securities	10	(176)	107
Gain on sale of property and equipment	(0)	(2)	(0)
Loss on disposal of property and equipment	21	83	226
Decrease in notes and accounts receivable	11,610	4,818	124,785
Decrease in inventories	2,152	2,571	23,130
Decrease in notes and accounts payable	(5,013)	(7,081)	(53,880)
Other, net	(931)	489	(10,006)
Subtotal	20,186	12,940	216,960
Interest and dividend received	61	85	656
Interest paid	(66)	(66)	(709)
Income taxes paid	(4,111)	(5,988)	(44,185)
Net cash provided by operating activities	16,070	6,971	172,721
Cash flows from investing activities:			
Purchase of property and equipment	(1,097)	(1,088)	(11,791)
Proceeds from sale of property and equipment	3	5	32
Purchase of intangibles	(830)	(1,437)	(8,921)
Purchase of investment securities	(3)	(7)	(32)
Proceeds from sale of investment securities	33	180	355
Loans receivable made	(52)	(23)	(559)
Collection of loans receivable	47	23	505
Purchase of investments in a subsidiary, net of cash acquired	—	149	—
Other, net	14	4	150
Net cash used in investing activities	(1,885)	(2,193)	(20,260)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(124)	(950)	(1,333)
Repayments of long-term debt	—	(29)	—
Proceeds from sale and purchase of treasury stock, net	(2)	(26)	(21)
Dividends paid to shareholders	(1,090)	(1,040)	(11,715)
Other, net	(164)	(50)	(1,763)
Net cash used in financing activities	(1,382)	(2,096)	(14,854)
Effect of exchange rate changes on cash and cash equivalents	121	(408)	1,301
Net increase in cash and cash equivalents	12,923	2,272	138,897
Cash and cash equivalents at beginning of year	16,614	14,341	178,568
Cash and cash equivalents at end of year	¥ 29,538	¥ 16,614	$ 317,476

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, 2010 and 2009

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" (Accounting Standards Board of Japan (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 International Financial Reporting Standards (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. For the year ended March 31, 2009, the effect of the change on operating income and income before income taxes and minority interests was 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 IFRSs.
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, 2010 (13 subsidiaries as of March 31, 2009).
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.
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, except for the portion included in minority interests, are presented as a separate component of net assets in the accompanying consolidated financial statements.

(c) Cash equivalents
Cash and cash equivalents include all highly liquid investments – generally with original maturities of three months or less – that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

(d) Investment securities
Investment securities other than those in subsidiaries 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.
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. For the year ended March 31, 2009, the effect of the change on operating income and income before income taxes and minority interests was 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	3 to 17 years
Furniture and fixtures	2 to 20 years

Intangibles are amortized by the straight-line method over their estimated useful lives.
Software for sale is amortized based on projected sales volumes over the estimated effective periods (within 3 years). Software for internal use is amortized by the straight-line method over the estimated useful lives (within 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 process 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
Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line method, with the lease periods as their useful lives and no residual value.
Prior to April 1, 2008, the Company and consolidated domestic subsidiaries accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements.
On March 30, 2007, the ASBJ issued Statement No.13, "Accounting Standard for Lease Transactions" and Guidance No.16, "Guidance on Accounting Standard for Lease Transactions". The new accounting standards require that all finance lease transactions be treated as capital leases.
Effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.
For the year ended March 31, 2009, the effect of adopting the new standards on the consolidated financial statements was 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 benefit or 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 benefit or cost is amortized beginning the year it is incurred by the straight-line method over the average remaining years of service of the employees.
From the year ended March 31, 2010, the Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No. 19, July 31, 2008). The accounting standard removes the treatment, which provides that a company may use the discount rate determined taking into consideration fluctuations in the yield of bonds over a certain period, and the Company is required to use the discount rate at the each year end. There was no effect of this adoption on consolidated financial statements for the year ended March 31, 2010.

(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

The percentage-of-completion method is applied if the outcome of the construction activity can be estimated reliably, otherwise the completed-contract method is applied. The percentage of completion as of the end of the reporting period is estimated based on the percentage of the cost incurred to the estimated total cost.

Previously, revenues from construction contracts of the Company is 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.

From the year ended March 31, 2010, the Company adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007). With respect to construction contracts whose activity commenced in the year ended March 31, 2010, the percentage-of-completion method is applied if the outcome of the construction activity can be estimated reliably, otherwise the completed-contract method is applied. The effect of the change on net sales, gross profit, operating income and income before income taxes and minority interests is immaterial.

Revenues recognized by the percentage-of-completion method were ¥33,042 million for the year ended March 31, 2009.

(o)Accrued bonuses to directors and corporate auditors

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

(p)Accounting for consumption taxes

Consumption taxes generally withheld upon sale as well as that paid for purchases of goods or services, are recorded as a liability or an asset, and are 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 ¥93.04 = U.S.$1.00, the approximate rate of exchange on March 31, 2010. 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, 2010 and 2009 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2010	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 64	¥ 40	¥ 23	$ 688	$ 430	$ 247
Subtotal	64	40	23	688	430	247
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	20	32	(11)	215	344	(118)
Debt securities	2	2	—	21	21	—
Subtotal	22	34	(11)	236	365	(118)
Total	¥ 86	¥ 74	¥ 12	$ 924	$ 795	$ 129

Unlisted equity securities of ¥220 million ($2,365 thousand) and investments in limited partnerships of ¥73 million ($785 thousand) are not included in the above table because there is no market value and future cash flows cannot be estimated, therefore it is extremely difficult to measure the fair value.

	Millions of yen		
March 31, 2009	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 44	¥ 61	¥ 16
Subtotal	44	61	16
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	108	92	(16)
Subtotal	108	92	(16)
Total	¥ 153	¥ 153	¥ (0)

b) Sales of securities classified as other securities for the years ended March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Proceeds from sales	¥ 32	¥ 180	$ 344
Gains on sales	7	176	75
Losses on sales	17	—	183

c) The Company recognized impairment losses on other securities with fair value of ¥43 million ($462 thousand) for the year ended March 31, 2010. The Company recognizes impairment losses on other securities when the market value declines by more than 50 percent, or when the market value declines by more than 30 percent but less than 50 percent, the Company recognizes necessary impairment losses as a result of considering the possibility of recovery.

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

	Millions of yen
Other securities:	
Unlisted equity securities	¥ 212
Corporate bond securities	2
Investments in limited partnerships	76
Total	¥ 291

5. INVENTORIES

a) Inventories at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Work in process	¥ 5,572	¥ 7,333	$ 59,888
Purchased goods and materials	1,696	2,081	18,229
Total	¥ 7,269	¥ 9,414	$ 78,128

b) Loss from revaluation of lower-of-cost or net selling value for the years ended March 31, 2010 and 2009 is ¥486 million ($5,224 thousand) and ¥544 million, respectively.

c) Losses on sales contracts for the year ended March 31, 2010 is ¥128 million ($1,376 thousand).

6. GOODWILL

Goodwill at March 31, 2010 and 2009 are recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Intangibles, net of accumulated amortization	¥ 1,017	¥ 1,084	$ 10,931
Other liabilities	(18)	(25)	(193)

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 year ended March 31, 2009 were approximately 1.8%.

The weighted average interest rates of long-term debt for the years ended March 31, 2010 and 2009 were approximately 1.0%. The annual maturities of the long-term debt at March 31, 2010 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2011	¥ 2,000	$ 21,496
2013	3,000	32,244
Total	¥ 5,000	$ 53,740

As of March 31, 2010, the Company and subsidiaries (the "Group") had executed a ¥3,000 million ($32,244 thousand) 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 2010 and 2009. 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, 2010 and 2009 differ from the statutory tax rate for the following reasons:

	2010	2009
Statutory tax rate	40.7%	40.7%
Effect of:		
Expenses not deductible for tax purposes	1.2	1.5
Dividend income not taxable for tax purposes	(0.0)	(0.0)
Inhabitant tax per capita levy	1.1	1.0
Reversal of deferred tax assets	—	9.3
Increase (decrease) in valuation allowance	0.4	3.0
Other, net	(0.5)	(1.4)
Effective tax rates	42.9%	54.1%

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,184	¥ 2,150	$ 23,474
Social security contribution on employees' bonuses	258	255	2,773
Allowance for doubtful receivables	42	82	451
Accrued enterprise tax	264	270	2,837
Percentage-of-completion method	79	91	849
Loss on revaluation of inventories	2,354	2,535	25,301
Unrealized profit on inventories	36	47	387
Accrued losses on sales contracts	52	16	559
Depreciation	330	399	3,547
Software	342	379	3,676
Accrued employees' retirement benefits	6,397	6,411	68,755
Stock dividends	141	146	1,515
Impairment loss on investment securities	224	286	2,408
Other	680	897	7,309
Subtotal	13,389	13,971	143,906
Valuation allowance	(1,633)	(1,741)	(17,552)
Total	11,755	12,229	126,344
Deferred tax liabilities:			
Reserve for special depreciation	(14)	(33)	(150)
Unrealized holding gain on other securities	—	(1)	—
Other	(12)	(11)	(129)
Total	(27)	(46)	(290)
Net deferred tax assets	¥ 11,727	¥ 12,183	$ 126,043

Net deferred tax assets and liabilities as of March 31, 2010 and 2009 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current assets - Deferred tax assets	¥ 4,590	¥ 4,858	$ 49,334
Investments and other assets - Deferred tax assets	7,142	7,331	76,763
Long-term liabilities – Other liabilities	(5)	(6)	(54)

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.
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, 2010 and 2009 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥ (36,781)	¥ (35,723)	$ (395,325)
Plan assets at fair value	17,269	14,332	185,608
Unfunded retirement benefit obligation	(19,512)	(21,390)	(209,716)
Unrecognized actuarial loss	9,041	11,386	97,173
Unrecognized prior service benefit	(5,320)	(5,812)	(57,180)
Accrued employees' retirement benefits	¥ (15,792)	¥ (15,817)	$ (169,733)

The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 1,638	¥ 1,693	$ 17,605
Interest cost	889	875	9,555
Expected return on plan assets	(347)	(398)	(3,730)
Amortization of actuarial loss	808	789	8,684
Amortization of prior service benefit or cost	(490)	(490)	(5,267)
Total	2,497	2,468	26,838
Other	242	227	2,601
	¥ 2,739	¥ 2,696	$ 29,439

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

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

	2010	2009
Discount rate	Mainly 2.5%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%

10. SHAREHOLDERS' EQUITY

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 firther 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 ($5,868 thousand) as of both March 31, 2010 and 2009. 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, 2010 and 2009 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	
	2010	2009
At beginning of year	38,581	16,352
Increase - purchase of odd lot shares	2,688	30,310
Decrease - sale of odd lot shares	(89)	(8,081)
At end of year	41,180	38,581

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
(b)	Cash dividends per common share	¥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
(b)	Cash dividends per common share	¥11
(c)	Record date	September 30, 2008
(d)	Effective date	December 4, 2008

b) Dividends paid during the year ended March 31, 2010

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

(a)	Total dividends	¥547 million ($5,879 thousand)
(b)	Cash dividends per common share	¥11 ($0.12)
(c)	Record date	March 31, 2009
(d)	Effective date	June 2, 2009

The following was approved by the Board of Directors held on October 29, 2009.

(a)	Total dividends	¥547 million ($5,879 thousand)
(b)	Cash dividends per common share	¥11 ($0.12)
(c)	Record date	September 30, 2009
(d)	Effective date	December 3, 2009

c) Dividends to be paid after March 31, 2010 but the record date for the payment belongs to the year ended March 31, 2010

The following was approved by the Board of Directors held on May 12, 2010.

(a)	Total dividends	¥696 million ($7,481 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥14 ($0.15)
(d)	Record date	March 31, 2010
(e)	Effective date	June 2, 2010

11. CONTINGENT LIABILITIES

At March 31, 2010, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥114 million ($1,225 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, 2010 and 2009, 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
	2010	2009	2010
Acquisition costs:			
Machinery and vehicles	¥ 5	¥ 101	$ 54
Furniture and fixtures	2,075	3,176	22,302
Software	409	496	4,396
	¥ 2,490	¥ 3,774	$ 26,763
Accumulated depreciation:			
Machinery and vehicles	¥ 2	¥ 68	$ 21
Furniture and fixtures	1,719	2,213	18,476
Software	317	311	3,407
	¥ 2,040	¥ 2,592	$ 21,926
Net book value:			
Machinery and vehicles	¥ 2	¥ 33	$ 21
Furniture and fixtures	356	963	3,826
Software	91	185	978
	¥ 450	¥ 1,181	$ 4,837

Lease payments relating to finance leases accounted for as operating leases amounted to ¥723 million ($7,771 thousand) and ¥932 million for the years ended March 31, 2010 and 2009, 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 ¥679 million ($7,298 thousand) and ¥24 million ($258 thousand), respectively, for the year ended March 31, 2010 and ¥874 million and ¥45 million, respectively, for the year ended March 31, 2009.

Future minimum lease payments subsequent to March 31, 2010 and 2009 for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 362	¥ 747	$ 3,891
Due over one year	109	478	1,172
Total	¥ 471	¥ 1,226	$ 5,062

b) Operating leases

Future minimum operating lease payments subsequent to March 31, 2010 and 2009 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥ 26	¥ 7	$ 279
Due over one year	51	9	548
Total	¥ 77	¥ 16	$ 828

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Employees salary	¥ 10,737	¥ 10,666	$ 115,402
Provision for bonuses to directors and corporate auditors	111	80	1,193
Retirement benefit expenses	1,098	1,120	11,801
Provision for doubtful receivables	—	81	—

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥119 million ($1,279 thousand) and ¥290 million for the years ended March 31, 2010 and 2009, respectively.

15. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2010	2009	2010
Net income per share	¥ 116.74	¥ 103.61	$ 1.25
Net assets per share	1,479.62	1,381.92	15.90

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. FINANCIAL INSTRUMENTS

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and its "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 Guidance, March 10, 2008) were applied from the year ended March 31, 2010.

Conditions of Financial instruments

(1) Management policy

The Group makes short-term deposits or high-security financial instruments for fund management purposes.
The Group finances funds for capital expenditure plans mainly through bank loans.
The Group utilizes derivative financial instruments to hedge various risks as described in detail below and does not enter into derivatives for trading or speculative purposes.

(2) Financial instruments and risks

The notes and accounts receivable are exposed to credit risk of customers. Operating receivables and payables denominated in foreign currencies are exposed to foreign currency fluctuation risk.
Marketable and investment securities, except for short-term investments, are held for business and capital alliances with business associates, and are exposed to stock market fluctuation risk.
Maturities of notes and accounts payable are mostly within one year.
Long-term debt and lease obligations are for financing funds for capital expenditure and their maximum maturities are 5 and half years after the balance sheet date. All of the obligations are with fixed interest rates and are not exposed to interest rate risk.
In order to hedge the foreign exchange rates fluctuation risk associated with the operating receivables and payables denominated in foreign currencies, forward foreign exchange contracts are used.
Hedge accounting is applied for certain derivative transactions. Please refer to note 2(m).

(3) Financial instruments risk management

1) Credit risk

To mitigate and quickly capture the collectability issues, the Group regularly monitors customers' credit status, and performs due date controls and balance controls for each customer.
When the Group utilizes derivatives or deposits money and purchases securities for cash management purposes, to mitigate the counterparty risk, the counterparties to these transactions are financial institutions with high credit ratings.

2) Market risk

To mitigate the foreign currency fluctuation risk, the Group enters into a forward exchange contract for hedging the cash flow fluctuation risk associated with operating receivables and payables denominated in foreign currencies.
To mitigate the stock market fluctuation risk, the Group regularly monitors a stock price and a business associate's financial status, and continuously considers whether the Group holds the stock.
Derivative transactions entered into by the Group are in accordance with the policies and rules which provide risk management, approvals, reports and verifications.

3) Liquidity risk

To mitigate the liquidity risk, the Group prepares and updates a funds management plan on a timely basis, and maintains an appropriate level of liquidity which is total of cash and cash equivalents and unused committed lines.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note 17. DERIVATIVES does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At March 31, 2010, 44% of operating receivables are receivables from a certain major customer.

Fair value of financial instruments

The carrying amounts on the consolidated balance sheets, fair value, and differences as of March 31, 2010 are as follows.

Financial instruments, of which it is extremely difficult to measure the fair value, are not included. (Please see "(2) Financial instruments of which the fair value is extremely difficult to measure")

	Millions of yen			Thousands of U.S. dollars		
March 31, 2010	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 29,538	¥ 29,538	¥ —	$ 317,476	$ 317,476	$ —
(2) Notes and accounts receivable	79,988	79,982	(5)	859,716	859,652	(54)
(3) Investments securities:						
Other securities	86	86	—	924	924	—
Total	¥ 109,613	¥ 109,607	¥ (5)	$ 1,178,128	$ 1,178,063	$ (54)
Liabilities:						
(1) Notes and accounts payable	¥ 34,979	¥ 34,979	¥ —	$ 375,957	$ 375,957	$ —
(2) Current portion of long-term debt	2,000	2,000	—	21,496	21,496	—
(3) Long-term debt	3,000	3,014	(14)	32,244	32,395	(150)
Total	¥ 39,979	¥ 39,993	¥ (14)	$ 429,697	$ 429,847	$ (150)
Derivative transactions	¥ 5	¥ 5	¥ —	$ 54	$ 54	$ —

* Derivative receivables and liabilities are on net basis.

(1) Fair value measurement of financial instruments

Assets:

1) Cash and cash equivalents

The carrying amount approximates fair value because of the short maturity of these instruments.

2) Notes and accounts receivable

The fair value is based on the present value of future cash flows through maturity discounted using an estimated credit-risk-adjusted interest rate.

3) Investment securities

The fair value of equity securities is calculated by quoted market price. Please see note 4. INVESTMENT SECURITIES for information by category.

Liabilities:

1) Notes and accounts payable

The carrying amount approximates fair value because of the short maturity of these instruments.

2) Current portion of long-term debt

The carrying amount approximates fair value because of the short maturity of these instruments.

3) Long-term debt

Fair value of long-term debts is based on the present value of future cash flows discounted using the current borrowing rate for similar debt of a comparable maturity.

Derivative Transactions:

Please see note 17. DERIVATIVES.

(2) Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥ 220	$ 2,365
Investments in limited partnerships	73	785

(3) Projected future redemption of monetary claim and securities with maturities

	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
Cash and cash equivalents	¥ 29,538	¥ —	¥ —	¥ —
Notes and accounts receivable	79,912	76	—	—
Investments securities:				
Other securities (Corporate bond securities)	1	1	—	—
	¥ 109,451	¥ 77	¥ —	¥ —

	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
Cash and cash equivalents	$ 317,476	$ —	$ —	$ —
Notes and accounts receivable	858,899	817	—	—
Investments securities:				
Other securities (Corporate bond securities)	11	11	—	—
	$ 1,176,387	$ 828	$ —	$ —

(4) The annual maturities of the long-term debt

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term debt	¥ 2,000	¥ —	¥ 3,000	¥ —	¥ —	¥ —

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term debt	$ 21,496	$ —	$ 32,244	$ —	$ —	$ —

17. DERIVATIVES

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

At March 31, 2010, the disclosure of fair value information for derivatives which is accounted for as hedges are as follows:

			Millions of yen		Thousands of U.S. dollars	
Hedge accounting method	Nature of transaction	Hedged items	Contract amounts	Fair value	Contract amounts	Fair value
	Forward exchange contracts:					
Deferral hedge accounting	To sell foreign currency:					
	U.S. dollar	Accounts receivable	¥ 91	¥ 6	$ 978	$ 64
	Euro	Accounts receivable	3	0	32	0
	To buy foreign currency:					
	U.S. dollar	Accounts payable	5	0	54	0
	Euro	Accounts payable	39	(1)	419	(11)
	Total		¥ 139	¥ 5	$ 1,494	$ 54

The fair value of forward exchange contracts is computed based on quotes from counterparties.

At March 31, 2009, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

18. RELATED PARTY TRANSACTIONS

The Company's outstanding common stock was owned by NEC Corporation by 51.44% and 51.45% at March 31, 2010 and 2009, respectively.

Balances with NEC Corporation at March 31, 2010 and 2009, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 77,187	¥ 91,212	$ 829,611
Balances:			
Accounts receivable	¥ 34,884	¥ 40,160	$ 374,936
Advances received	248	308	2,666
Purchases of communication device:			
Transactions:			
Purchases	¥ 31,499	¥ 38,823	$ 338,553
Balances:			
Accounts payable	¥ 7,180	¥ 8,088	$ 77,171

NEC Fielding, Ltd is a subsidiary of NEC Corporation as at March 31, 2010 and 2009. Balances with the company at March 31, 2010 and 2009, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 2,652	¥ 2,895	$ 28,504
Balances:			
Notes receivable	¥ 216	¥ 197	$ 2,322
Accounts receivable	572	711	6,148
Advances received	18	44	193
Purchases of communication device:			
Transactions:			
Purchases	¥ 1,418	¥ 1,785	$ 15,241
Balances:			
Accounts payable	¥ 258	¥ 510	$ 2,773

NEC Communication Systems, Ltd is a subsidiary of NEC Corporation as at March 31, 2010 and 2009. Balances with the company at March 31, 2010 and 2009, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 5,487	¥ 8,522	$ 58,975
Balances:			
Accounts receivable	¥ 1,483	¥ 2,132	$ 15,939
Advances received	3	4	32

NEC Engineering, Ltd is a subsidiary of NEC Corporation as at March 31, 2010 and 2009. Balances with the company at March 31, 2010 and 2009, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 2,758	¥ 3,133	$ 29,643
Balances:			
Accounts receivable	¥ 1,152	¥ 1,214	$ 12,382
Advances received	0	5	0

NEC Facilities, Ltd is a subsidiary of NEC Corporation as at March 31, 2010 and 2009. Balances with the company at March 31, 2010 and 2009, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Rental of a buildings:			
Transactions:			
Lease deposit payment	¥ 20	¥ 15	$ 215
Balances:			
Lease deposit	¥ 2,913	¥ 2,886	$ 31,309

NEC Magunus Communications, Ltd is a subsidiary of NEC Corporation as at March 31, 2010 and 2009. Balances with the company at March 31, 2010 and 2009, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 1,898	¥ 1,849	$ 20,400
Balances:			
Accounts receivable	¥ 645	¥ 1,100	$ 6,933

19. SEGMENT INFORMATION

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

Business segments

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 is summarized as follows:

	Millions of yen					
Year ended March 31, 2010	Network integration /Support service	Telecommu -nications engineering	Device sales	Total	Elimination or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	¥ 145,646	¥ 60,846	¥ 11,233	¥ 217,727	¥ —	¥ 217,727
(2) Intersegment sales	—	—	—	—	—	—
Total sales	145,646	60,846	11,233	217,727	—	217,727
Operating expenses	133,463	58,157	10,630	202,251	5,607	207,859
Operating income	¥ 12,183	¥ 2,689	¥ 603	¥ 15,475	¥ (5,607)	¥ 9,867
II. Assets, depreciation expenses, capital expenditures:						
Assets	¥ 64,408	¥ 28,092	¥ 3,271	¥ 95,771	¥ 51,143	¥ 146,915
Depreciation expenses	1,027	34	—	1,062	1,182	2,244
Capital expenditures	935	15	—	951	1,141	2,092

Year ended March 31, 2010		Network integration /Support service		Telecommu -nications engineering		Device sales		Total		Elimination or corporate		Consolidated
	Thousands of U.S. dollars											
I. Sales:												
(1) Sales to third parties	$	1,565,413	$	653,977	$	120,733	$	2,340,144	$	—	$	2,340,144
(2) Intersegment sales		—		—		—		—		—		—
Total sales		1,565,413		653,977		120,733		2,340,144		—		2,340,144
Operating expenses		1,434,469		625,075		114,252		2,173,807		60,264		2,234,082
Operating income	$	130,944	$	28,902	$	6,481	$	166,326	$	(60,264)	$	106,051
II. Assets, depreciation expenses, capital expenditures:												
Assets	$	692,261	$	301,935	$	35,157	$	1,029,353	$	549,688	$	1,579,052
Depreciation expenses		11,038		365		—		11,414		12,704		24,119
Capital expenditures		10,049		161		—		10,221		12,264		22,485

Year ended March 31, 2009		Network integration /Support service		Telecommu -nications engineering		Device sales		Total		Elimination or corporate		Consolidated
	Millions of yen											
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

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.
   - Device sales: Sales of data communication devices, etc.
3. The non-categorized operating expenses of ¥5,607 million ($60,264 thousand) and ¥5,785 million for the years ended March 31, 2010 and 2009 in the Elimination or corporate line consist primarily of administrative operation expenses.
4. Corporate assets of ¥51,143 million ($549,688 thousand) and ¥38,893 million as of March 31, 2010 and 2009 in the Elimination or 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
(Retirement benefits)
For the year ended March 31, 2010, as described in Note 2 (k), the Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No. 19, July 31, 2008). The effect of the change on segments is none.

(Revenue recognition)
For the year ended March 31, 2010, as described in Note 2 (n), the Company adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007). The effect of the change on segments is immaterial.

(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.

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, 2010 and 2009, 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, 2010 and 2009, the disclosure of overseas sales information was omitted.

20. SUBSEQUENT EVENT
The Board of Directors held on April 26, 2010 approved that the head office of the Company would move to Sumitomo Fudosan Iidabashi First Tower, and head office transfer cost (asset retirement cost, loss on disposal and other related expenses) of approximately ¥1,500 million ($16,122 thousand) will be incurred during the year ending March 31, 2011.

KPMG

Independent Auditors' Report

To the Board of Directors of NEC Networks & System Integration Corporation:

We have audited the accompanying consolidated balance sheets of NEC Networks & System Integration Corporation and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NEC Networks & System Integration Corporation and consolidated subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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, 2010

Global Network

(As of October 1, 2010)

Head Office

2-6-1 Koraku, Bunkyo-ku, Tokyo 112-8560, Japan
Tel: +81-3-6699-7000
Fax: +81-3-6699-7405

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: June 1951
Capitalization: ¥20 million
Voting rights: 100.00%

TOYO ALPHANET CO., LTD.
Head office: Kanagawa, Japan
Established: April 1981
Capitalization: ¥20 million
Voting rights[1]: 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[1]: 100.00% (100.00%)

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

Investor Information
(As of March 31, 2010)

Corporate Name:
NEC Networks & System Integration Corporation

Established:
November 26, 1953

Number of Employees:
4,282 (Non-consolidated)
5,998 (Consolidated)

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

Listing:
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:
10,637

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

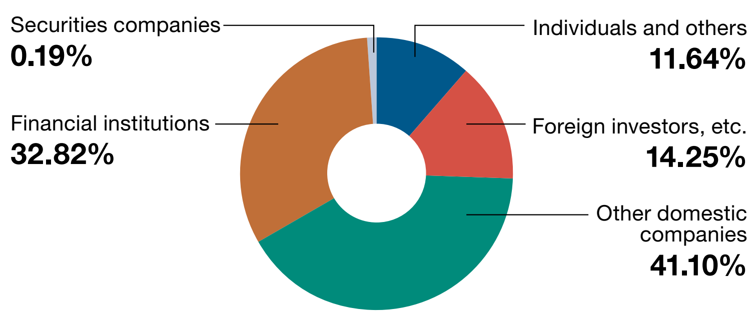
Independent Auditors:
KPMG AZSA & Co.

Major Shareholders:

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding[2]
NEC Corporation	19,106	38.42%
Japan Trustee Services Bank, Ltd.[1] (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.87%
Japan Trustee Services Bank, Ltd. (Trust account)	5,657	11.38%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,761	3.54%
Sumitomo Realty & Development Co., Ltd.	1,200	2.41%
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	755	1.52%
Employees' Stock Ownership Plan	751	1.51%
Mellon Bank, N.A. As Agent For Its Client Mellon Omnibus US Pension	549	1.10%
State Street Bank And Trust Company 505019	535	1.08%
Japan Trustea Services Bank, Ltd. (Trust account 9)	520	1.05%

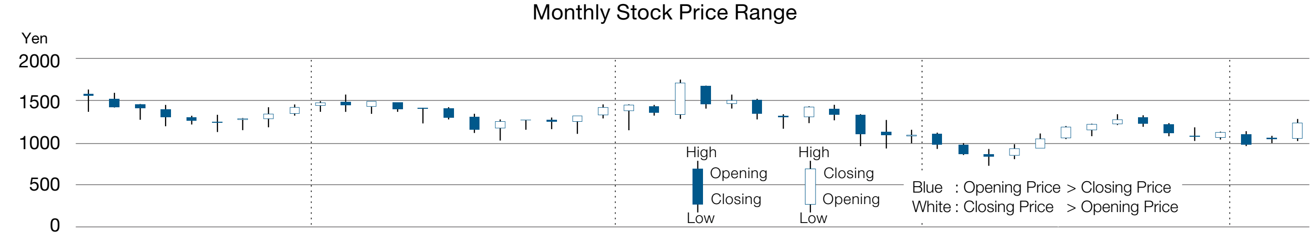
Notes:
1. Shares held by Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2010 was 51.44%.
2. The percentage of total shares outstanding is calculated based on the number of shares excluding treasury stock (41,280 shares).

Composition of Shareholders:

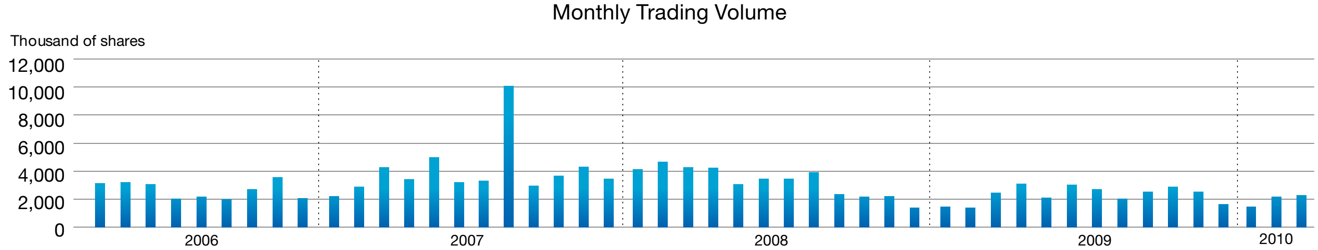


Monthly Stock Data (Tokyo Stock Exchange):

Monthly Stock Price Range



Monthly Trading Volume



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