Empowered by Innovation NEC

Annual Report 2012

Year Ended March 31, 2012

NEC Networks & System Integration Corporation

Profile

NEC Networks & System Integration Corporation ("the Company") was established in 1953 primarily as a builder of communications infrastructure. Today, as a top-class system integrator in Japan's ICT business field, the Company provides a full range of customer-driven services in ICT with a core of networks along with total facility management for enterprises, telecom carriers and the government.

Although its business areas are centered on system integration and services such as BPO, cloud and system operation, the Company also retain engineering, our core business at the time of our foundation, as an element differentiating us from other system integrators. As one of very few comprehensive system integrators in Japan, it is in a very unique position.

Foundation Era

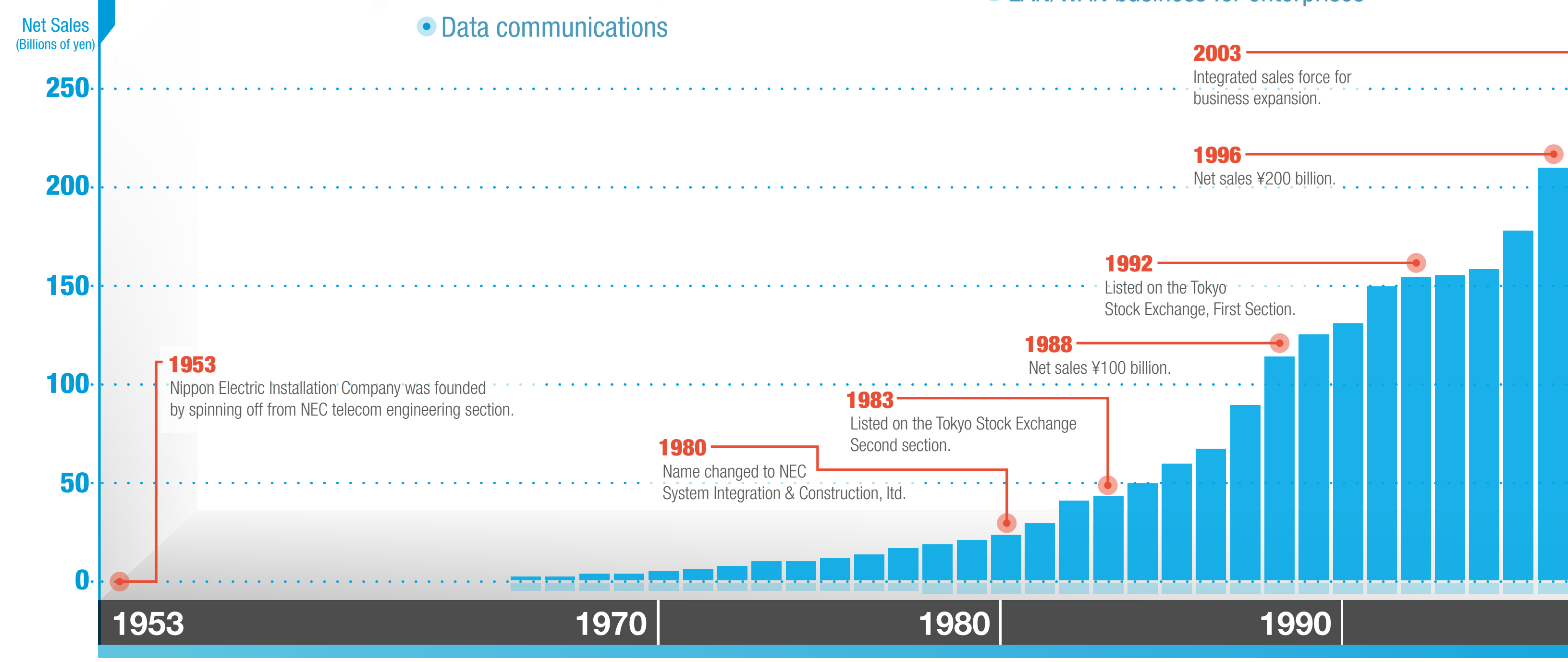
- Installation of switching equipment and its maintenance

Growth by Telecommunications Engineering Business

- Broadcasting system, submarine cable, radio communication (satellite, microwave communications system)
- Full-scale overseas operations
- Data communications

Telecommunications Engineering + Network SI & Maintenance

- 24/7 nationwide maintenance service in Japan
- Communications system for telecom carriers along with telecom liberalization (switching system, mobile communication base station)
- LAN/WAN business for enterprises



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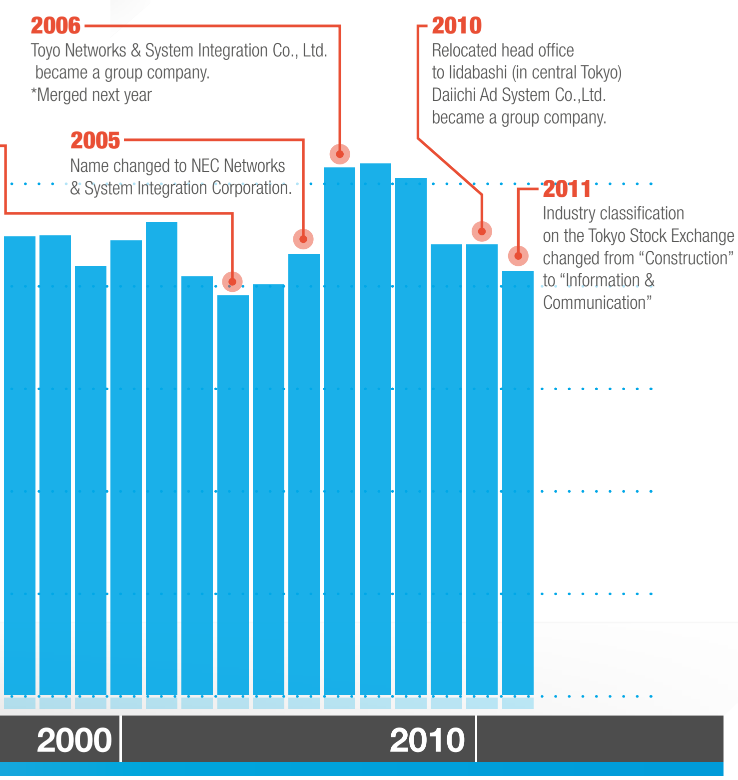
Development of ICT SI & Service Business

- Outsourcing service using our own data centers
- Bolstering the operations business through M&A



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 the company management based on information currently available. The company therefore wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks or uncertainties.

Financial Highlights

Check Points

1. Although net sales declined, sales from the growth business areas increased.

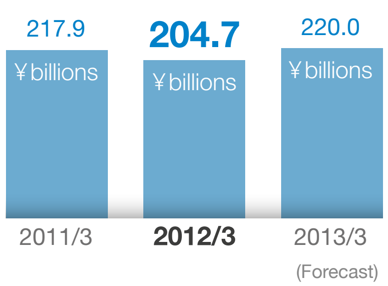
2. The Company made investments in future growth. Orders recovered, rising 1.5% year on year.

3. The Company strengthened operations to bolster its future performance by reforming the Social Infrastructure business.

Net sales

¥ 204.7 billion

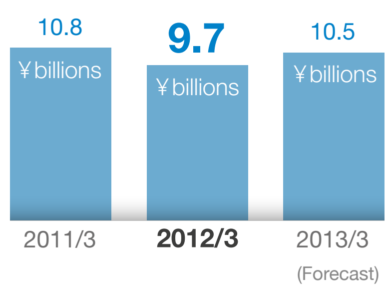
(6.1% decrease year on year)



Operating income

¥ 9.7 billion

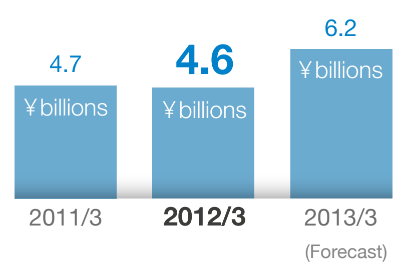
(10.0% decrease year on year)



Net income

¥ 4.6 billion

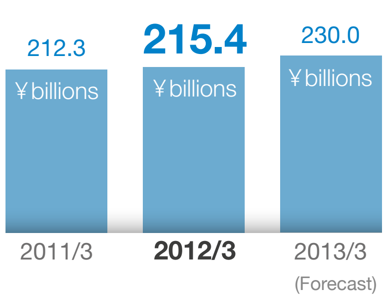
(3.2% decrease year on year)



Orders

¥ 215.4 billion

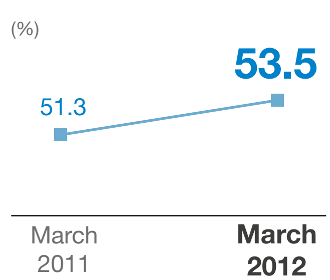
(1.5% increase year on year)



Owner's equity ratio

53.5%

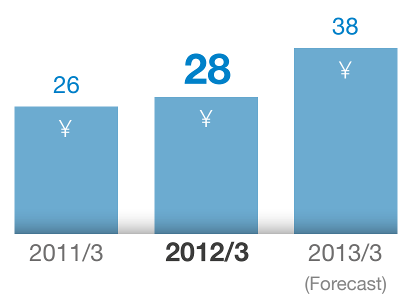
(2.2 points increase from the end of the previous fiscal year)



Annual dividends

¥ 28 per share

(¥ 2 increase year on year)



* Forecast figures are based on data as of April 27, 2012.
For the latest Company news and IR information, please use its website. (http://www.nesic.co.jp/english/index.html)

Q: Operating results for the fiscal year ended March 2012

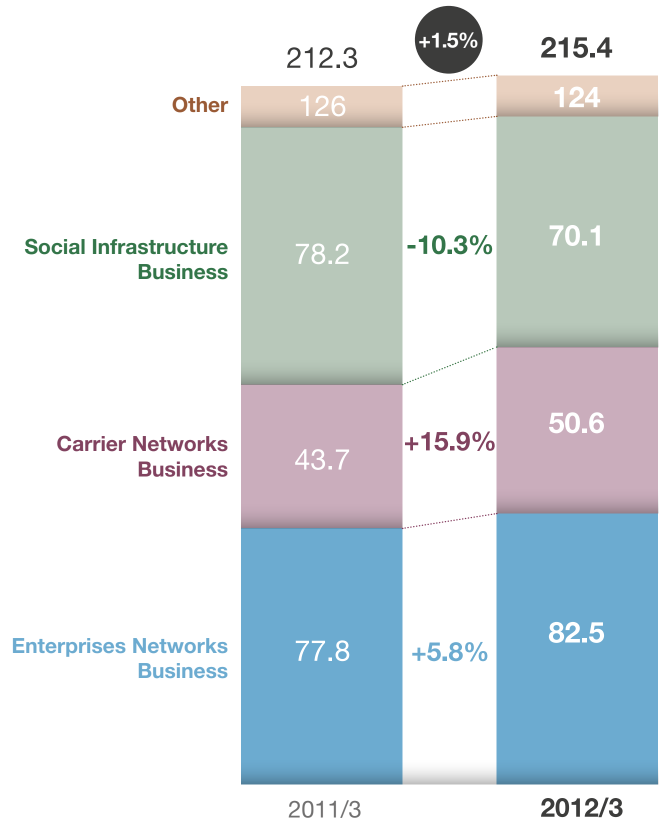
Net sales for the fiscal year under review fell 6.1% from the previous fiscal year.

This decline reflected a significant fall in sales from the Social Infrastructure business, given the peaking of investments related to local information networks. However, the Enterprises Networks business and the Carrier Networks business, both growth areas, performed solidly with higher sales.

Meanwhile, orders rose 1.5% year on year. This was attributable to significant growth in the Enterprises Networks business and the Carrier Networks business, which posted 5.8% and 15.9% year-on-year increases, respectively. In the Social Infrastructure business, orders declined 10.3%, but showed signs of bottoming out as domestic orders started to rise in the fourth quarter.

Operating income and ordinary income decreased from the previous fiscal year, reflecting active investments in growth business areas, in addition to lower net sales. However, the Company successfully managed to strengthen its operations for future growth, as it significantly improved its operating margin to 9.1% in the fourth quarter, thanks to the effects of an initiative to reform the Social Infrastructure business. Net income stood at ¥4.6 billion, almost unchanged from the previous fiscal year,reflecting the absence of an extraordinary loss mainly related to the relocation of the head office in the previous fiscal year, and the temporary effects of the reversal of deferred tax assets, which was the result of the revision of the effective tax rates in the fiscal year under review.

(¥billion)



Q: Initiatives for the next fiscal year

Anticipating a gradual recovery in demand, chiefly on the movement for the reconstruction from the Great East Japan Earthquake, the Company will position the next fiscal year (ending March 2013) as a year of “turnaround to re-growth,” and will aim to achieve the results exceeding the previous fiscal year (ended March 2011).

In the Enterprises Networks business, responding to customer needs to strengthen their management, the Company will strive to further bolster sales of the office innovation solution “Empowered Office,” and offer comprehensive services such as cloud computing and BPO, to help customers reinforce management. In the Carrier Networks business, responding to a rapid increase in network traffic accompanying the increasing use of smartphones, the Company will step up efforts to enhance the quality of the network of telecommunications carriers. In the Social Infrastructure business, while the Company will continue to bolster efforts for the reconstruction of disaster-afflicted areas, it will also focus on initiatives to respond to the full-scale investment in the digitalization of fire-fighting and disaster prevention systems, and an expansion in the installation of base stations for mobile phones.

With these initiatives, the Company will aim to return to the ¥220 billion level in net sales, and achieve a record net income of ¥6.2 billion.

(¥billion)

Consolidated Financial Forecasts for Fiscal Year ending March 31, 2013 *	
Net Sales	220.0
Operating Income	10.5
Net Income	6.2

* Forecast figures are based on data as of April 27, 2012.

President Masao Wada
expresses his views on initiatives to achieve further growth.

Interview with the President

Boosting Its Presence as a Network Systems Integrator

Aiming at a new growth trajectory, NEC Networks & System Integration Corporation has established a new management structure. We recently spoke with Masao Wada, who became President in June 2012, about his ambitions.

Q: What can you tell us about your recent appointment as president?

Stepping up efforts to achieve a steadier growth trajectory

My name is Masao Wada and I was appointed president in June 2012. I hope that I can count on your continuing support.

At NEC Corporation, I have a long involvement in the infrastructure-related system integration (SI) business for central and local governments. As a result, my experience extends to a wide range of the business fields, such as television broadcasting transmission equipment field and the integration of fire-fighting and transportation infrastructure systems.

While I was engaged in these businesses, I had many occasions to work together with NEC Networks & System Integration Corporation in areas such as installation, maintenance, and operation services.

What I have been convinced of once again since my appointment as president is the fact that the Company has an extensive range of business domains in the information and communication technology (ICT) business. This gives it strong potential that will only grow in the future. I am determined to vigorously lead the Company to new growth.

Q: Please tell us about your ambitions.

Aiming to become the top brand in the industry

The Company's strength lies in its ability to provide turnkey ICT solution, such as system integration, installation, maintenance and services business, including operation services and outsourcing services. It also possesses ICT technologies that it has developed over many years, and the brand strength as a member of the trusted NEC Group.

The Company's mission is to contribute to customers and society by bringing out the best of these strengths and advantages. I believe that fulfilling this mission will enable the Company to take a leading brand position in the industry and enhance its corporate value. I also believe that it is essential to increase the satisfaction of each and every shareholder and stakeholder.

NEC Networks & System Integration Corporation will also increasingly show its individuality while harnessing the advantages it enjoys as a member of the NEC Group.

Q: What do you value most for the management?

I like to listen carefully to voices from the workplace, which is close to customers.

Given the nature of our businesses, we have many opportunities to work closely with customers. As a result, knowing the situation in the workplace is the same as knowing about customers. Therefore, I believe that it is important to carefully listen to voices from the workplace.

In the workplace, we constantly need to deal with issues from the perspective of customers while understating their situation. I think that addressing these issues is the action that will ultimately contribute to customers.

Let’s make the impossible possible.

One of my favorite expressions is “Let’s make the impossible possible.” This means striving to achieve something that we have not able to achieve, even if only partially. I hope that all employees of the Company will keep this spirit in mind as they go about their duties.

When each employee changes their thinking in this way, the organization and the Company will change. I will clearly indicate the direction for chanes that all the employees will take, and show leadership in guiding the employees to achieve our mission.

Q: How will you respond to a rapidly changing society?

Make environmental changes a business opportunity.

From a macroeconomic perspective, the Japanese economy is recovering. However, I think that economic developments, such as the European debt crisis, are risk factors in our business environment.

In this economic environment, in ICT, I believe that needs for cloud computing will increase and demand related to the reconstruction effort from the 3.11 earthquake will grow strongly.

For example, I think the increasing use of smartphones and tablet terminals as a result of growing needs for cloud computing will mean that the Company’s Enterprises Networks business will have more opportunities to propose ICT systems based on cloud computing for customers. In addition, as a result of the rapid increase of communication traffic, reflecting the growing popularity of smartphones and other devices, telecommunications carriers have been stepping up their investment in infrastructure. Under these conditions, the Carrier Networks business also has excellent business opportunities. The Company’s Social Infrastructure business is also expected to play a more important role across broader business areas, such as reconstruction projects and the digitalization of fire-fighting and disaster prevention systems.

By responding to these changes in the business environment, I aim to ensure that the Company’s three business segments grow steadily.

Q: Do you have a message to our shareholders?

We will aim to further improve our corporate value.

To meet the expectations of our shareholders, I will aim to achieve sustained growth, and will make the upmost effort to bolster our corporate value.

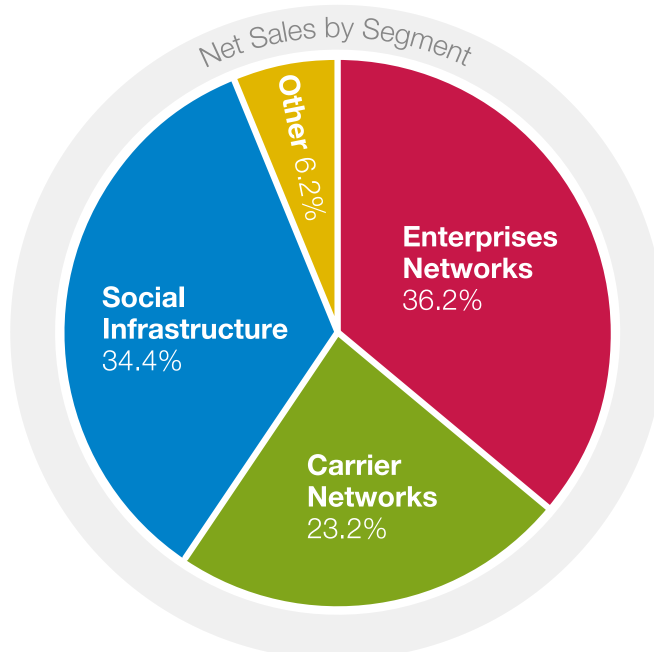
As we pursue this course, we hope that we can continue to count on the support and understanding of our shareholders.

Business Performance by Segment

Through its three main business pillars,

the Enterprises Networks business, the Carrier Networks business, and the Social Infrastructure business, NEC Networks & System Integration Corporation provides comprehensive services to customers, from planning to system design, maintenance and operation in a broad range of areas, including enterprise ICT and public and social infrastructure.

The Company offers support to bolster value for a wide range of customer by leveraging its customer-driven proposal capabilities and its comprehensive network knowhow and technologies.



Enterprises Networks business

The Enterprises Networks business provides solutions that use ICT, mainly for the enterprises market. Services include EmpoweredOffice, a comprehensive office innovation solution that achieves superior office productivity and efficiency together with energy savings, and related services such as the operation and monitoring of systems, as well as cloud computing services that use the Company's data centers.

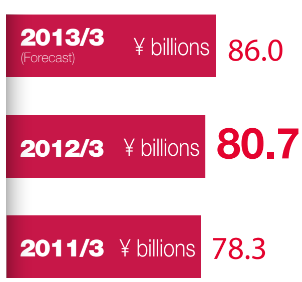
Having recovered from a sharp drop immediately after the earthquake, net sales rose 3.1% year on year, mainly reflecting higher sales for manufacturing and service companies and the effects of making Daiichi Ad System Co., Ltd. a consolidated subsidiary. Orders staged a further recovery, rising 5.8% from the previous fiscal year.

Sales Trends

Net Sales

¥ 80.7 billion

3.1% increase year on year



* Forecast figure is based on data as of April 27, 2012.

Carrier Networks business

The Carrier Networks business provides services related to public networks, mainly for telecommunications carriers.

It supports telecommunications carriers through a comprehensive structure by offering services that entail the integration of high quality and highly reliable networks, as well as operation and maintenance services that take advantage of its nationwide support service network. Through these activities, the Carrier Networks business supports daily communications including mobile phones and the internet.

By responding aggressively to increased investments in networks by telecommunications carriers in connection to increases in the number of users of smartphones, net sales rose 7.8% year on year. Orders achieved higher growth, posting a 15.9% year-on-year increase.

Sales Trends

Net Sales

¥ 46.7 billion

7.8% increase year on year

	¥ billions
2013/3 (Forecast)	51.0
2012/3	46.7
2011/3	43.3

* Forecast figure is based on data as of April 27, 2012.

Social Infrastructure business

The Social Infrastructure business mainly provides services related to the integration, operation, and monitoring of systems for ICT infrastructure used by governments and public utilities (including broadcasters and electric power companies).

It develops social infrastructure that enables safe and comfortable lives, including local information networks as well as fire-fighting and disaster prevention systems. It also offers installation of telecommunications infrastructure, such as mobile phone base stations.

Net sales fell 23.3% year on year, in comparison to peak investments in local information networks in the previous fiscal year, in relation to the introduction of digital terrestrial television broadcasting. Although orders also declined 10.3%, they showed signs of bottoming out as domestic orders started to grow year on year in the fourth quarter.

Sales Trends

Net Sales

¥ 64.5 billion

23.3% decrease year on year

	¥ billions
2013/3 (Forecast)	70.0
2012/3	64.5
2011/3	84.1

* Forecast figure is based on data as of April 27, 2012.

Integrating a digital television broadcasting system for Tokyo Skytree

Since its opening in May 2012, Tokyo Skytree has attracted a huge number of visitors. As the world's tallest free-standing broadcasting tower, it plans to start broadcasting in 2013.

The Company is integrating digital television broadcasting systems for three television stations in Tokyo Skytree.

Achieving a reliable viewing environment for televisions and the One Seg service

Tokyo Skytree is expected to bring many advantages, including improved viewing of not only television broadcasting, but also the broadcasting service for smartphones and mobile phones such as One Seg*.

NEC Networks & System Integration Corporation has long acquired high-standard technologies and extensive service experience through its operations of integrating, operating and maintaining digital television broadcasting facilities, relay stations, studio equipment and other facilities essential for transmitting digital television broadcasting to households.

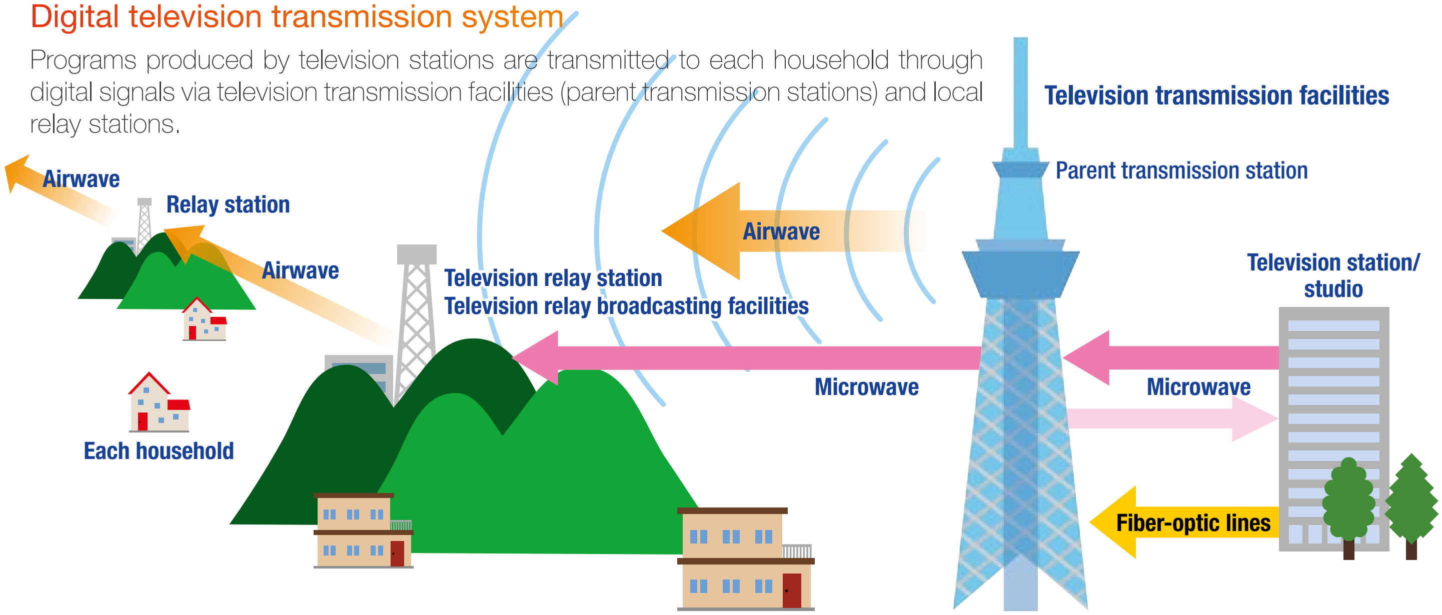
The Company will continue to contribute to the creation of a convenient and reliable viewing environment in the future by harnessing its strength in these technologies, while operating and maintaining systems that have been installed at Tokyo Skytree.

Trademark: Tokyo Skytree is the trademark of Tobu Railway Co., Ltd. and Tobu Tower Skytree Co., Ltd.

*One Seg is a digital television broadcasting service for mobile devices. It is broadcasting using the radio wave of the terrestrial digital television broadcasting, and generates higher quality images, even outside buildings or while travelling, than existing analog broadcasting for mobile devices.

Digital television transmission system

Programs produced by television stations are transmitted to each household through digital signals via television transmission facilities (parent transmission stations) and local relay stations.



Improving local community services by introducing Life Communication Service

Making local lives safer and more comfortable

To ensure a safer and more comfortable lifestyle, with the cooperation of NEC Corporation, NEC Networks & System Integration Corporation introduced Life Communication Service that used LifeTouch(R), an Android(TM) tablet terminal, to Shirakawa-cho, Kamo-gun, Gifu Prefecture (central area of Japan).

This service contributes to the creation of improved community service by providing functions such as confirming the safety of single-person households and communication via videophones.

Creating more extensive services by revitalizing communication

This service enables single-person households and municipalities to communicate through "LifeTouch(R)" on a daily basis. It offers a monitoring service that revitalizes mutual communication, while achieving a reduction in the operating burdens of the municipalities through functions such as concurrent and repeated information distribution.

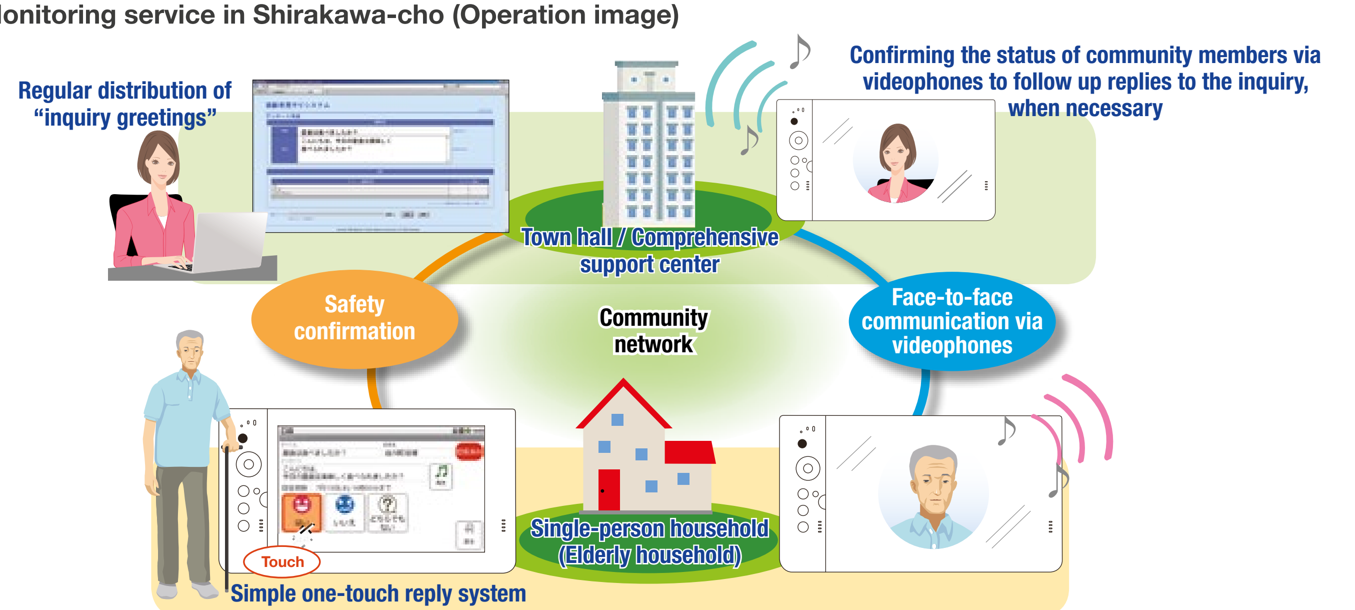
The Company is also planning to gradually launch services, including the electronics circular service that enables municipal offices to promptly distribute and circulate information and the shopping support service.

The Company is committed to continually supporting the safe and comfortable lifestyles of local community members in the future by developing and providing a range of services from the perspective of customers and users.

* LifeTouch(R): LifeTouch(R), a cloud computing communicator, is an Android(TM) cloud computing terminal that achieves new services through its portable size and user-friendly operability.

Supporting the creation of a town where the elderly are able to live comfortably by providing simple and user-friendly services

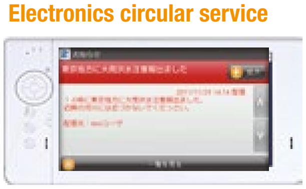
⦿ Monitoring service in Shirakawa-cho (Operation image)



⦿ Examples of services to be launched

Prompt information distribution from municipal offices

Electronics circular service



Information reaches residents quickly and easily.

The service is able to distribute a range of information, for example, sending messages with a siren sound in emergencies.

Easy everyday shopping

Shopping support service

Shoppers can place orders with local shops without going out, and receive information about sales and discount sales times.

Constructing undersea earthquake and tsunami observation systems

Faster and more accurate earthquake and tsunami warning

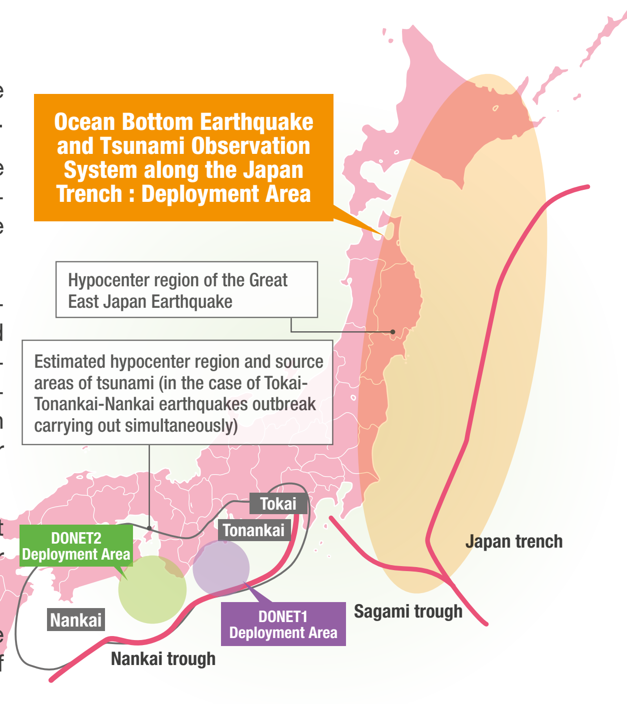
In the wake of the Great East Japan Earthquake, demand for faster and more accurate earthquake and tsunami detection and warning has been growing.

To respond to such demand, the Japanese government is accelerating the development of Ocean Bottom Earthquake and Tsunami Observation Systems in the Pacific coastal regions of eastern and western Japan, which are capable of monitoring earthquakes and tsunami in real time.

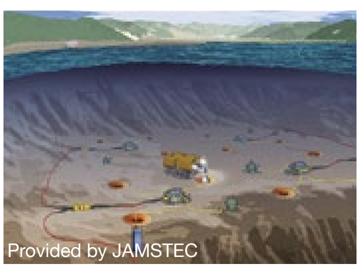
In this environment, the Company, in cooperation with NEC Corporation, has been designing and manufacturing systems and equipment for the construction of DONET2 (for the Japan Agency for Marine-Earth Science and Technology) and the Ocean Bottom Earthquake and Tsunami Observation System along the Japan Trench (for the National Research Institute for Earth Science and Disaster Prevention).

The construction of these observation systems will make it possible to detect earthquakes more quickly and predict the arrival time, height and other information of tsunami more accurately than before.

The Company will continue to contribute to building infrastructures where people live safely and comfortably through supporting construction of Ocean Bottom Earthquake and Tsunami Observation systems.

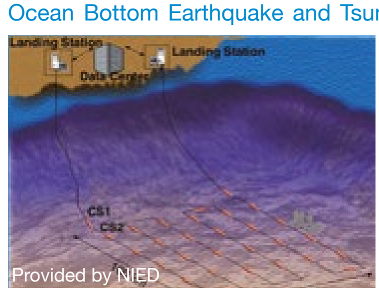


DONET: Dense Oceanfloor Network System for Earthquakes and Tsunamis


Provided by JAMSTEC

A system installed by the Japan Agency for Marine-Earth Science and Technology (JAMSTEC) under the budget of the Ministry of Education, Culture, Sports, Science and Technology to prevent and minimize disasters caused by massive earthquakes in the Tokai, Tonankai and Nankai areas of western Japan

Ocean Bottom Earthquake and Tsunami Observation System along the Japan Trench



Provided by NIED

A system installed by the National research Institute for Earth Science and Disaster Prevention (NIED) under the aegis of the Ministry of Education, Culture, Sports, Science and Technology to prevent and minimize disasters in the Pacific coastal regions of eastern Japan, which may be caused by a massive tsunami as a result of a major earthquake, by the means of the early warning system

NEWS! April 2012

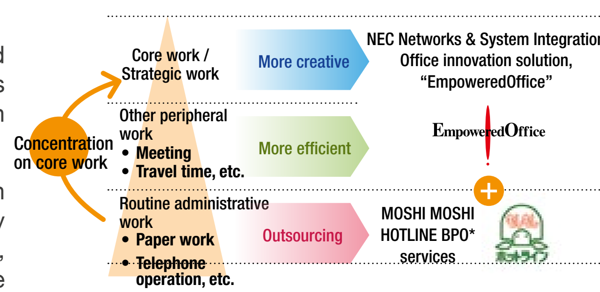
NEC Networks & System Integration Corporation forms an alliance with MOSHI MOSHI HOTLINE, Inc.

- Strengthening the ability to support customers' management innovation -

Against a backdrop of sluggish growth rate in the domestic market and escalating competition, reflecting growing globalization, Japanese companies have increasing needs to pursue management innovation so that they can concentrate management resources on core work.

To respond to these needs, NEC Networks & System Integration Corporation strives to streamline customers' operations and improve creativity by introducing office innovation and other measures based on ICT. Meanwhile, while focusing on the contact center outsourcing operation business, the core business, MOSHI MOSHI HOTLINE, Inc. has been bolstering its outsourcing operatioN service for routine administrative operations, such as administration, human resources and accounting by using its knowhow in human resources services.

The alliance is designed to integrate the strengths of the two companies and to improve their ability to provide a one-stop service in responding to customers' needs for management innovation. Based on this alliance, the Company will aim to expand its operations in the medium- to long-term by offering the optimal service for helping customers strengthen their corporate performance.



*BPO: Business Process Outsourcing
(Outsourcing of part of the company's operations)

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 accounting auditors.

I. Description of Corporate Organs

(1) Board of Directors

The Board of Directors is composed of nine directors, including four 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, to discuss policies pertaining to key management and operating issues, and the Business Execution Committee, to monitor the progress of and report on significant matters concerning business execution, consisting of mainly executive officers at senior vice president level and higher and corporate auditors.

(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 has been established as an internal audit unit independent from the business execution divisions. It examines through internal audits whether business execution is being conducted legally and properly according to relevant laws, regulations and Company rules.

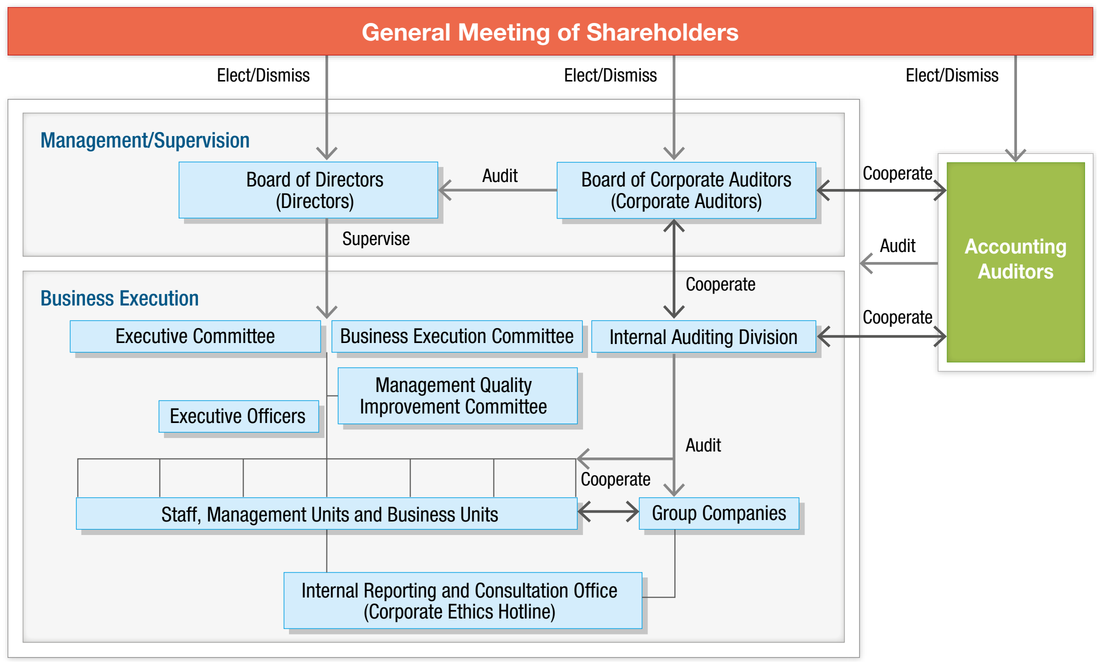
(5) Accounting Auditors

The Company has an audit contract with KPMG AZSA LLC as its accounting auditors. KPMG AZSA LLC 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 nine directors, four 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 12 meetings of the Board of Directors held in FY2011 ended March 31, 2012. 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 Tetsujiro Arano is engaged in the network solution business of NEC Corporation and uses his extensive experience and knowledge for the management of the Company. He became an outside director at the ordinary general meeting of shareholders held on June 26, 2012.

Outside Director Yumiko Ichige is a lawyer at Nozomi Sogo Attorneys at Law. Using her professional knowledge and viewpoint about the corporate legal affairs, Ms. Ichige oversees the business execution of the Company from a fair and objective standpoint of an outsider. Ms. Ichige became an outside director at the ordinary general meeting of shareholders held on June 26, 2012. She 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 Naoki Hashitani is engaged in the IT Service business of NEC Corporation and uses his extensive experience and knowledge for the management of the Company. He became an outside director at the ordinary general meeting of shareholders held on June 26, 2012.

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 Junichi Okuyama has been engaged in monitoring of sales activities for many years. Taking advantage of his extensive experience and knowledge relating to internal control, Mr. Okuyama primarily audits the legality of business execution from a fair and objective standpoint. He became an outside auditor at the ordinary general meeting of shareholders held on June 26, 2012.

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 12 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held in FY2011. Mr. Umezawa has been designated as an independent auditor defined in Rule 436-2, Paragraph 1 of the Securities Listing Regulations of the Tokyo Stock Exchange.

Outside Corporate Auditor Yasuo Totsuka is president at NEC Purchasing Service, Ltd. 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 all 12 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held in FY2011.

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 accounting auditors cooperate with each other, exchanging opinions as necessary for statutory audits.

Directors and Corporate Auditors

(As of June 26, 2012)

(From left)
Mr. Fujita,
Mr. Sato,
Mr. Wada,
Mr. Hara,
Mr. Kanehako

Directors

President:

Masao Wada

Senior Vice Presidents and Members of the Board:

Atsushi Fujita
Akinori Kanehako
Takahiko Hara
Yoichi Sato

Members of the Board:

Takayuki Matsui [1, 3]
Tetsujiri Arano [1]
Yumiko Ichige [1,3]
Naoki Hashitani [1]

Corporate Auditors

Junichi Okuyama (full-time) [2]
Hirotaka Akizuki (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 and an independent auditor 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: 2008
Certificate Number: JQA-0471

ISO 14001: 2004
Certificate Number: JQA-EM0640

ISO/IEC 27001: 2005
Certificate Number: IC03J0025
Organization: SI & Services Operations Unit Office Solutions Division
Certificate Number: JQA-IM0190
Organization: SI & Services Operations Unit Outsourcing Service Division
Certificate Number: JQA-IM0351
Organization: SI & Services Operations Unit Service Infrastructure Division
Certificate Number: BSKS0027
Organization: Network Infrastructures Operation Unit
Public Infrastructure System Division
Certificate Number: JQA-IM1013
Organization: Regional Operations Unit Kansai 1st & 2nd Service Center / Kansai SI Department

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

Privacy Mark
Certificate Number: 21000053

BS25999-2:2007(Business Continuity Management System)
Certificate Number: BCMS539922
Certificated Organization: NEC Group
Scope of the company's Certification: Operation and Maintenance Business (Unified Communication Network in Tokyo)
Carrier Operation and Maintenance Business

Six-Year Summary of Selected Financial Data

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

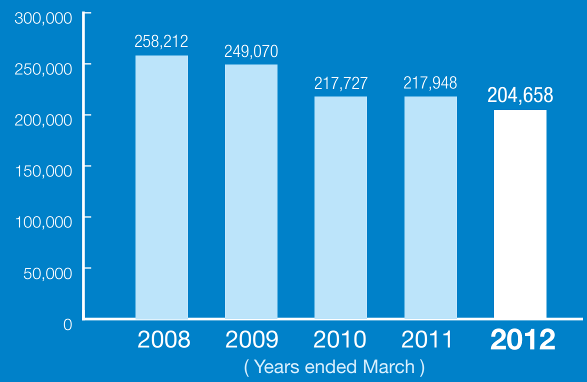
	Millions of yen						Thousands of U.S. dollars [1]
	2012	2011	2010	2009	2008	2007	**2012**
For the year:							
Orders	¥ 215,373	¥ 212,277	¥ 222,046	¥ 245,257	¥ 254,512	¥ 253,577	$ 2,598,926
Net sales	204,658	217,948	217,727	249,070	258,212	254,641	2,469,627
Selling, general and administrative expenses	22,332	22,297	23,070	24,501	24,824	25,413	269,482
Operating income	9,747	10,835	9,867	10,968	10,743	7,849	117,618
Net income	4,593	4,747	5,806	5,154	4,412	3,476	55,424
Free Cash Flows	16,053	-3,499	14,185	4,778	6,355	5,770	193,713
Capital expenditures	2,533	2,762	1,928	2,529	2,611	2,371	30,566
Depreciation and amortization	1,941	2,151	2,244	2,270	2,130	2,203	23,422
Research and development costs	92	52	119	290	419	595	1,110
At year-end:							
Total assets	¥ 149,707	¥ 149,923	¥ 146,915	¥ 147,462	¥ 154,171	¥ 148,797	$ 1,806,528
Shareholders' equity	80,692	77,445	74,043	69,334	65,251	61,692	973,718
Total net assets	80,651	77,464	74,221	69,340	66,132	62,201	973,223
Per share of common stock (yen and U.S. dollars) :							
Net income	¥ 92.36	¥ 95.46	¥ 116.74	¥ 103.61	¥ 88.67	¥ 70.72	$ 1,115
Net assets (BPS)	1,610.38	1,546.42	1,479.62	1,381.92	1,311.71	1,233.52	19,433
Cash dividends applicable to the year	28.00	26.00	25.00	22.00	20.00	14.00	338
Ratios and return indicators:							
Operating income to net sales (%)	4.8	5.0	4.5	4.4	4.2	3.1	
Net income to net sales (%)	2.2	2.2	2.7	2.1	1.7	1.4	
Return on assets (ROA) (%) [2]	6.4	7.4	6.9	7.4	6.9	5.5	
Return on equity (ROE) (%) [3]	5.9	6.3	8.2	7.7	7.0	6.0	
Owners' equity (Net worth) ratio (%)	53.5	51.3	50.1	46.6	42.3	41.3	
Debt to equity ratio (times) [4]	0.05	0.08	0.07	0.07	0.09	0.09	
Number of employees	5,934	5,939	5,998	5,906	5,817	6,407	
Net sales per employee (thousands of yen) [5]	¥ 34,475	¥ 36,516	¥ 36,580	¥ 42,493	¥ 42,247	¥ 45,053	$ 416,013
Net income per employee (thousands of yen) [6]	774	795	975	879	722	615	9,340

Notes:

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥82.87 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2012.
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. Debt to equity ratio: Interest-bearing debt / Net assets
5. Net sales per employee: Net sales / Average number of employees during the term
6. Net income per employee: Net income / Average number of employees during the term

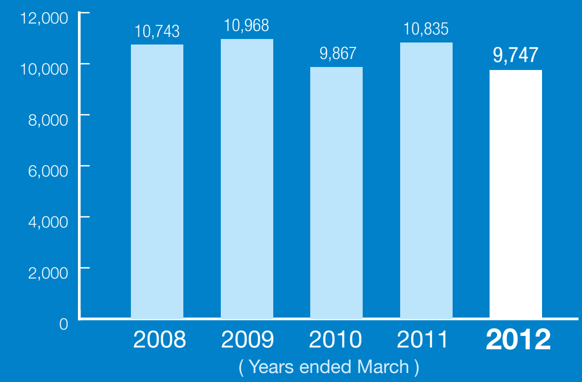
Net Sales

(Millions of yen)



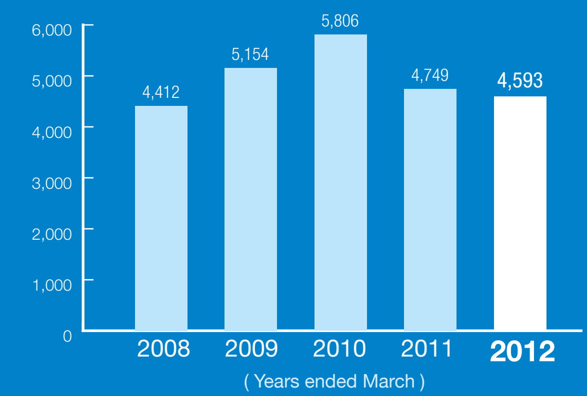
Operating Income

(Millions of yen)



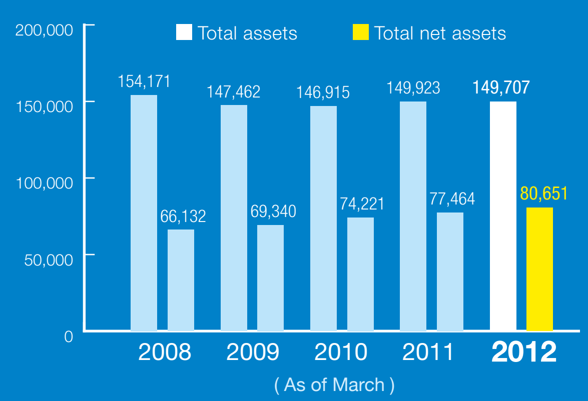
Net Income

(Millions of yen)



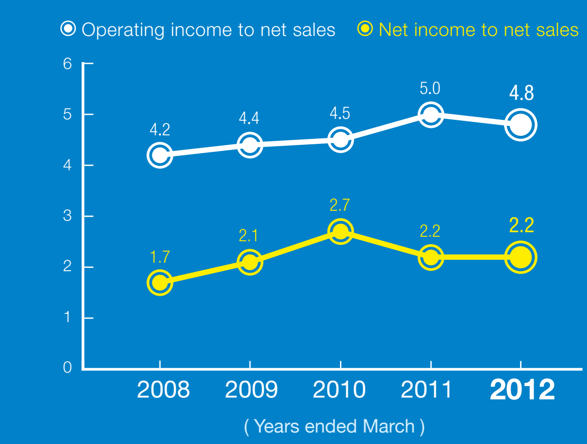
Total Assets and Total Net Assets

(Millions of yen)



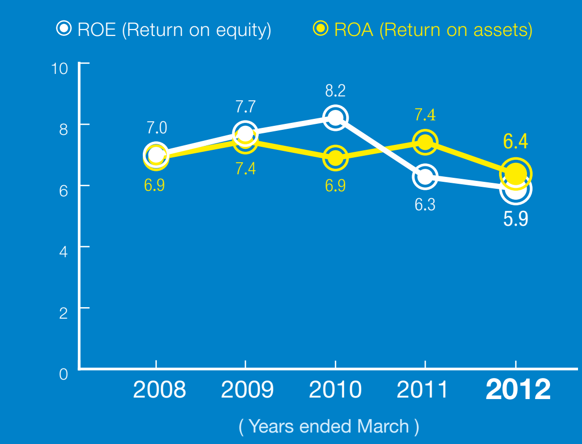
Operating Income to Net Sales and Net Income to Net Sales

(%)



ROE and ROA

(%)



CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2011	2012
Assets			
Current assets:			
Cash and cash equivalents	¥ 37,586	¥ 25,611	$ 457,306
Notes and accounts receivable (note 21)	73,193	86,331	890,534
Inventories (note 6)	8,043	7,105	97,859
Deferred tax assets (note 9)	4,158	4,929	50,590
Other current assets	2,657	2,689	32,328
Allowance for doubtful accounts	(398)	(308)	(4,842)
Total current assets	125,240	126,360	1,523,786
Property and equipment:			
Land	2,508	2,508	30,515
Buildings and structures	8,123	8,105	98,832
Machinery and vehicles	286	311	3,480
Furniture and fixtures	9,526	9,605	115,902
Construction in progress	248	120	3,017
Other	1,112	718	13,530
Accumulated depreciation	(12,739)	(12,746)	(154,995)
Property and equipment, net	9,066	8,624	110,305
Intangibles, net of accumulated amortization (note 7)	3,936	3,673	47,889
Investments and other assets:			
Investment securities (note 5)	309	360	3,760
Deferred tax assets (note 9)	6,239	7,071	75,909
Other assets (notes 10 and 21)	4,992	3,906	60,737
Allowance for doubtful accounts	(78)	(73)	(949)
Total investments and other assets	11,463	11,264	139,470
Total assets	¥ 149,707	¥ 149,923	$ 1,821,475

		Millions of yen		Thousands of U.S. dollars (note 3)
		2012	2011	2012
Liabilities and Net Assets				
Current liabilities:				
Short-term bank loans (note 8)	¥	—	¥ 1,800	$ —
Current installments of long-term debt (note 8)		3,500	500	42,584
Notes and accounts payable (note 21)		30,321	31,354	368,913
Advances received (note 21)		1,987	1,625	24,176
Accrued income taxes (note 9)		3,130	3,302	38,082
Accrued bonuses to directors and corporate auditors		59	89	718
Accrued losses on sales contracts		36	75	438
Other current liabilities		11,242	12,025	136,781
Total current liabilities		50,277	50,773	611,717
Long-term liabilities:				
Long-term debt (note 8)		500	4,000	6,083
Accrued employees' retirement benefits (note 10)		16,828	16,301	204,745
Accrued retirement benefits for directors of subsidiary (note 10)		—	170	—
Other liabilities (notes 7 and 9 , 11)		1,449	1,212	17,630
Total long-term liabilities		18,778	21,685	228,471
Total liabilities		69,055	72,458	840,187
Shareholders' equity (note 12):				
Common stock:		13,122	13,122	159,654
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2012 and 2011				
Capital surplus		16,650	16,650	202,579
Retained earnings		50,973	47,722	620,185
Treasury stock, at cost; 41,180 shares at March 31, 2012 and 42,922 shares at March 31, 2011		(53)	(50)	(645)
Total shareholders' equity		80,692	77,445	981,774
Accumulated other comprehensive income:				
Net unrealized holding gain on other securities (note 5)		0	2	0
Foreign currency translation adjustments		(612)	(543)	(7,446)
Total accumulated other comprehensive income		(611)	(540)	(7,434)
Minority interests		571	559	6,947
Total net assets		80,651	77,464	981,274
Commitments and contingencies (note 13)				
Total liabilities and net assets	¥	149,707	¥ 149,923	$ 1,821,475

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2011	2012
Net sales (note 21)	¥ 204,658	¥ 217,948	$ 2,490,060
Cost of sales (notes 6 and 21)	172,578	184,816	2,099,744
Gross profit	32,079	33,132	390,303
Selling, general and administrative expenses (notes 15 and 16)	22,332	22,297	271,712
Operating income	9,747	10,835	118,591
Other income (expense):			
Interest income	69	79	840
Interest expense	(63)	(57)	(767)
Dividends income of insurance	105	103	1,278
Insurance received	53	38	645
Gain on adjustments of the cost share relating to seconded employees	—	279	—
Provision of allowance for doubtful receivables	(132)	(140)	(1,606)
Bad debts expenses	(92)	(119)	(1,119)
Cumulative effect of accounting change (note 11)	—	(437)	—
Expenses relating to move of the head office	—	(1,509)	—
Loss on disaster	—	(282)	—
Restructuring charges of subsidiaries	—	(366)	—
Other, net	(117)	(88)	(1,424)
	(176)	(2,499)	(2,141)
Income before income taxes and minority interests	9,570	8,335	116,438
Income taxes (note 9):			
Current	3,261	4,008	39,676
Deferred	1,659	(219)	20,185
	4,920	3,788	59,861
Income before minority interests	4,649	4,546	56,564
Minority interests	56	(200)	681
Net income	¥ 4,593	¥ 4,747	$ 55,883

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (note 3)
	2012		2011	2012
Income before minority interests	4,649	¥	4,546	$ 56,564
Other comprehensive income arising during the year (note 17):				
Net unrealized holding loss on other securities	(1)		(4)	(12)
Deferred loss on hedges	—		(3)	
Foreign currency translation adjustments	(114)		(87)	(1,387)
Total other comprehensive income arising during the year	(116)		(95)	(1,411)
Comprehensive income	4,533	¥	4,451	$ 55,153
Comprehensive income attributable to:				
Owners of the parent	4,522		4,663	55,019
Minority interests	11		(211)	134

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, 2012 and 2011

	Numbers of shares of common stock	Millions of yen				
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total
	(Thousands)					
Balance at April 1, 2010	49,773	¥ 13,122	¥ 16,650	¥ 44,318	¥ (48)	¥ 74,043
Changes arising during year:						
Cash dividends				(1,342)		(1,342)
Net income				4,747		4,747
Purchase of treasury stock					(1)	(1)
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	—	—	—	3,404	(1)	3,402
Balance at March 31, 2011	49,773	13,122	16,650	47,722	(50)	77,445
Changes arising during year:						
Cash dividends				(1,342)		(1,342)
Net income				4,593		4,593
Purchase of treasury stock					(4)	(4)
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	—	—	—	3,250	(3)	3,246
Balance at March 31, 2012	49,773	¥ 13,122	¥ 16,650	¥ 50,973	¥ (53)	¥ 80,692

	Millions of yen					
	Accumulated other comprehensive income					
	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 April 1, 2010	¥ 6	¥ 3	¥ (467)	¥ (457)	¥ 635	¥ 74,221
Changes arising during year:						
Cash dividends						(1,342)
Net income						4,747
Purchase of treasury stock						(1)
Disposition of treasury stock						0
Transfer from capital surplus to retained earnings						—
Net changes in accounts other than shareholders' equity	(4)	(3)	(75)	(83)	(75)	(159)
Total changes during the year	(4)	(3)	(75)	(83)	(75)	3,243
Balance at March 31, 2011	2	—	(543)	(540)	559	77,464
Changes arising during year:						
Cash dividends						(1,342)
Net income						4,593
Purchase of treasury stock						(4)
Disposition of treasury stock						0
Transfer from capital surplus to retained earnings						—
Net changes in accounts other than shareholders' equity	(1)	—	(69)	(70)	11	(59)
Total changes during the year	(1)	—	(69)	(70)	11	3,187
Balance at March 31, 2012	¥ 0	¥ —	¥ (612)	¥ (611)	¥ 571	¥ 80,651

(Continued)

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2011	$ 159,654	$ 202,579	$ 580,630	$ (608)	$ 942,268
Changes arising during year:					
Cash dividends			(16,328)		(16,328)
Net income			55,883		55,883
Purchase of treasury stock				(49)	(49)
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		—	39,543	(36)	39,494
Balance at March 31, 2012	$ 159,654	$ 202,579	$ 620,185	$ (645)	$ 981,774

	Thousands of U.S. Dollars (note 3)					
	Accumulated other comprehensive income					
	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 April 1, 2011	$ 24	$ —	$ (6,607)	$ (6,570)	$ 6,801	$ 942,499
Changes arising during year:						
Cash dividends						(16,328)
Net income						55,883
Purchase of treasury stock						(49)
Disposition of treasury stock						0
Transfer from capital surplus to retained earnings						
Net changes in accounts other than shareholders' equity	(12)	—	(840)	(852)	134	(718)
Total changes during the year	(12)	—	(840)	(852)	134	38,776
Balance at March 31, 2012	$ 0	$ —	$ (7,446)	$ (7,434)	$ 6,947	$ 981,275

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,570	¥ 8,335	$ 116,438
Depreciation and amortization	1,941	2,151	23,616
Amortization of goodwill	69	67	840
Increase in allowance for doubtful receivables	100	47	1,217
Increase in liability for retirement and severance benefits	358	469	4,356
Decrease in accrued bonuses to directors and corporate auditors	(30)	(2)	(365)
Decrease in accrued losses on sales contracts	(37)	(52)	(450)
Interest and dividend income	(79)	(86)	(961)
Interest expense	63	57	767
Cumulative effect of accounting change		437	—
Expenses relating to move of the head office		1,509	—
Loss on disaster	—	282	—
Restructuring charges of subsidiaries	—	366	—
(Increase) decrease in notes and accounts receivable	12,861	(6,281)	156,479
Increase in inventories	(948)	(31)	(11,534)
Decrease in notes and accounts payable	(935)	(3,413)	(11,376)
Other, net	(788)	(549)	(9,588)
Subtotal	22,144	3,305	269,425
Interest and dividend received	98	85	1,192
Interest paid	(63)	(58)	(767)
Payment of expenses relating to move of the head office	—	(1,114)	—
Income taxes paid	(3,477)	(3,814)	(42,304)
Net cash provided by (used in) operating activities	18,701	(1,595)	227,534

(Continued)

	Millions of yen		Thousands of U.S. dollars (note 3)
	2012	2011	2012
Cash flows from investing activities:			
Purchase of property and equipment	(1,395)	(2,206)	(16,973)
Proceeds from sale of property and equipment	25	10	304
Purchase of intangibles	(1,137)	(555)	(13,834)
Proceeds from sale of intangibles	—	378	—
Purchase of investment securities	(6)	(5)	(73)
Loans receivable made	(17)	(31)	(207)
Collection of loans receivable	23	44	280
Purchase of investments in a subsidiary, net of cash acquired	—	(473)	—
Payments of lease deposits relating to move of the head office	—	(747)	—
Collection of lease deposits relating to move of the head office	—	1,879	—
Payments made to settle asset retirement obligations	—	(367)	—
Other, net	(139)	171	(1,691)
Net cash used in investing activities	(2,648)	(1,904)	(32,218)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(1,800)	1,778	(21,900)
Repayments of long-term debt	(500)	(2,014)	(6,083)
Proceeds from long-term debt	—	1,500	—
Proceeds from sale and purchase of treasury stock, net	(3)	(1)	(37)
Dividends paid to shareholders	(1,340)	(1,341)	(16,304)
Other, net	(335)	(257)	(4,076)
Net cash used in financing activities	(3,979)	(337)	(48,412)
Effect of exchange rate changes on cash and cash equivalents	(98)	(89)	(1,192)
Net increase in cash and cash equivalents	11,975	(3,926)	145,699
Cash and cash equivalents at beginning of year	25,611	29,538	311,607
Cash and cash equivalents at end of year	¥ 37,586	¥ 25,611	$ 457,306

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, 2012 and 2011

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.
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 14 subsidiaries (companies over which the Company exercises control operations) as of March 31, 2012 (14 subsidiaries as of March 31, 2011).

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.

(f) Depreciation and amortization
From this fiscal year, the Company and its consolidated subsidiaries (the "Group") changed the depreciation method. In prior periods, the Group principally depreciated property and equipment using the declining-balance method, except for certain leased assets and property and equipment of certain foreign subsidiaries. From this fiscal year, the Group uniformly adopted straight-line depreciation method.
The reason for this change is that the Company assessed the depreciation costs being equally allocated over the useful lives of all property and equipment is reasonable method which reflects the actual business condition more properly due to the increased importance of long-term stable profitable services, such as "Cloud Computing Services" and "Operation Support Services" resulting from a change in business environment of the Group. Another reason is that the parent company changed the depreciation method to the straight-line depreciation method from this fiscal year.
Compared to the previous method of accounting, the impact of this change on operating income and income before income taxes and minority interests are immaterial.
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 50 years
Machinery and vehicles	4 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.

(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.

Certain consolidated subsidiary has unfunded defined benefit pension plans for directors. The provision for the plans has been made in the accompanying consolidated financial statements for vested benefits to which directors are entitled if they were to retire and sever immediately at the balance sheet date.

(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.

(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.

(q) Presentation of comprehensive income

From the year ended March 31, 2011, the Company applied "the Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, June 30, 2010) and "the Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, Revised on June 30, 2010).

(r) Accounting standards for accounting changes and error corrections
The Group adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No.24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

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 ¥82.19 = U.S.$1.00, the approximate rate of exchange on March 30, 2012. 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. NOTES MATURING on MARCH 31, 2012
As financial institutions in Japan were closed on March 31, 2012, notes maturing on March 31, 2012 were settled on the following business day.
The following notes are included in the consolidated balance sheet.

Notes and accounts receivable	¥160 million	($1,947 thousand)
Notes and accounts payable	¥57 million	($694 thousand)

5. INVESTMENT SECURITIES
a) The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2012 and 2011 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2012	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 65	¥ 51	¥ 13	$ 791	$ 621	$ 158
Subtotal	65	51	13	791	621	158
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	34	46	(12)	414	560	(146)
Subtotal	34	46	(12)	414	560	(146)
Total	¥ 99	¥ 98	¥ 1	$ 1,205	$ 1,192	$ 12

March 31, 2011	Millions of yen Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 72	¥ 52	¥ 19
Subtotal	72	52	19
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	24	39	(15)
Subtotal	24	39	(15)
Total	¥ 96	¥ 91	¥ 4

Unlisted equity securities of ¥209 million ($2,543 thousand) at March 31, 2012, and unlisted equity securities of ¥212 million and investments in limited partnerships of ¥51 million at March 31, 2011are 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.

b) The Company recognized impairment losses on other securities with fair value of ¥1 million ($12 thousand) and ¥8 million for the years ended March 31, 2012 and 2011, respectively. The Company recognizes impairment losses on other securities with market value 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. The Company recognizes impairment losses on securities without market value when the net asset value per share declines by more than 50 percent from the acquisition cost due to an issuer's financial condition.

6. INVENTORIES

a) Inventories at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Work in process	¥ 6,588	¥ 5,612	$ 80,156
Purchased goods and materials	1,454	1,493	17,691
Total	¥ 8,043	¥ 7,105	$ 97,859

b) Losses from revaluation of lower-of-cost or net selling value for the years ended March 31, 2012 and 2011 are ¥621 million ($7,556 thousand) and ¥496 million, respectively.

c) Losses on sales contracts for the years ended March 31, 2012 and 2011 are ¥44 million ($535 thousand) and ¥53 million, respectively.

7. GOODWILL

Goodwill at March 31, 2012 and 2011 are recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Intangibles, net of accumulated amortization	¥ 1,161	¥ 1,243	$ 14,126
Other liabilities	-	(11)	

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

Short-term bank loans and long-term debt are unsecured.

The weighted average interest rates of long-term debt for the both years ended March 31, 2012 and 2011 were approximately 0.9%. The annual maturities of the long-term debt at March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2013	¥ 3,500	$ 42,584
2014	¥ 500	$ 6,083

As of March 31, 2012, the Group executed a ¥10,000 million ($121,669 thousand) committed borrowing facility with three domestic banks, and there is no utilization from this facility.

9. 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 2012 and 2011. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 38.01% for years beginning on or after April 1, 2012 and 35.64% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 38.01% and 35.64%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥1,075 million ($13,079 thousand) as of March 31, 2012 and net income for the year ended March 31, 2012 decreased by ¥1,075 million ($13,079 thousand).

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2012 and 2011 differ from the statutory tax rate for the following reasons:

	2012	2011
Statutory tax rate	40.7%	40.7%
Effect of:		
Expenses not deductible for tax purposes	1.0	1.7
Dividend income not taxable for tax purposes	(0.0)	(0.0)
Inhabitant tax per capita levy	1.2	1.3
Increase (decrease) in valuation allowance	(2.7)	0.1
Adjustments of deferred tax assets due to change in statutory tax rate	11.2	
Other, net	0.0	1.7
Effective tax rates	51.4%	45.5%

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Accrued employees' bonuses	¥ 1,850	¥ 2,216	$ 22,509
Social security contribution on employees' bonuses	246	274	2,993
Allowance for doubtful receivables	153	121	1,862
Accrued enterprise tax	251	306	3,054
Loss on revaluation of inventories	2,048	2,312	24,918
Unrealized profit on inventories	32	35	389
Accrued losses on sales contracts	10	19	122
Depreciation	323	273	3,930
Software	172	268	2,093
Accrued employees' retirement benefits	6,068	6,612	73,829
Stock dividends	123	141	1,497
Impairment loss on investment securities	103	230	1,253
Other	900	1,277	10,950
Subtotal	12,285	14,090	149,471
Valuation allowance	(1,251)	(1,681)	(15,221)
Total	11,034	12,408	134,250
Deferred tax liabilities:			
Prepaid employees' retirement benefits	(587)	(304)	(7,142)
Other	(58)	(111)	(706)
Total	(646)	(416)	(7,860)
Net deferred tax assets	¥ 10,388	¥ 11,991	$ 126,390

Net deferred tax assets and liabilities as of March 31, 2012 and 2011 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets - Deferred tax assets	¥ 4,158	¥ 4,929	$ 50,590
Investments and other assets - Deferred tax assets	6,239	7,071	75,909
Long-term liabilities – Other liabilities	(10)	(9)	(122)

10. RETIREMENT BENEFIT PLANS

The Company and certain consolidated subsidiaries have defined benefit 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, 2012 and 2011 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥ (44,729)	¥ (39,175)	$ (544,215)
Plan assets at fair value	19,214	17,996	233,775
Unfunded retirement benefit obligation	(25,514)	(21,178)	(310,427)
Unrecognized actuarial loss	14,658	10,456	178,343
Unrecognized prior service benefit	(4,344)	(4,830)	(52,853)
Net amount recognized in the consolidated balance sheets	(15,201)	(15,552)	(184,950)
Prepaid retirement and severance benefits	1,627	749	19,796
Accrued employees' retirement benefits	¥ (16,828)	¥ (16,301)	$ (204,745)

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥ 1,669	¥ 1,658	$ 20,307
Interest cost	969	915	11,790
Expected return on plan assets	(432)	(418)	(5,256)
Amortization of actuarial loss	1,095	973	13,323
Amortization of prior service benefit or cost	(491)	(490)	(5,974)
Total	2,810	2,637	34,189
Other	310	279	3,772
	¥ 3,120	¥ 2,917	$ 37,961

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

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

	2012	2011
Discount rate	Mainly 1.7%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%

Directors and corporate auditors are not covered by the plans described above. For such persons, the certain consolidated subsidiary has unfunded defined benefit pension plans. Under the plans, directors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the company. The liability for retirement and severance benefits related to these plans was ¥170 million at March 31, 2011.

11. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations are based on estimated future restoration obligations related to leasehold contracts of head office and other facilities.
The obligations are calculated based on the estimated office rental period of mainly 20 years and discounted rate of 1.7%.

The following table provides Company's total asset retirement obligations for the years ended March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Balance, beginning of year	¥ 279	¥ 459	$ 3,395
Obligations incurred by asset acquisition	—	234	—
Obligations settled	(15)	(418)	(183)
Accretion expense	4	2	49
Revisions in estimated cash flows	51	—	621
Balance, end of year	¥ 320	¥ 279	$ 3,893

The balance of the asset retirement obligations at beginning of the fiscal year was determined based upon the guidance set forth in "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No.18, issued on March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No.21, issued on March 31, 2008). As a result of adopting these standards, the effect of operating income was minor, and income before income taxes and minority interests decreased by ¥ 458 million for the year ended March 31, 2011.

12. 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 Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal earnings reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal earnings reserve equals 25% of their respective stated capital. The Companies Act 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 ($6,643 thousand) as of both March 31, 2012 and 2011. 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, 2012 and 2011 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 Companies Act.

Movement of treasury stocks was as follows:

	Shares	
	2012	2011
At beginning of year	42,922	41,180
Increase - purchase of odd lot shares	3,646	1,873
Decrease - sale of odd lot shares	(410)	(131)
At end of year	46,158	42,922

a) Dividends paid during the year ended March 31, 2011
The following was approved by the Board of Directors held on May 12, 2010.

(a)	Total dividends	¥696 million
(b)	Cash dividends per common share	¥14
(c)	Record date	March 31, 2010
(d)	Effective date	June 2, 2010

The following was approved by the Board of Directors held on October 28, 2010.

(a)	Total dividends	¥646 million
(b)	Cash dividends per common share	¥13
(c)	Record date	September 30, 2010
(d)	Effective date	December 2, 2010

b) Dividends paid during the year ended March 31, 2012
The following was approved by the Board of Directors held on April 28, 2011.

(a)	Total dividends	¥646 million ($7,860 thousand)
(b)	Cash dividends per common share	¥13 ($0.16)
(c)	Record date	March 31, 2011
(d)	Effective date	June 2, 2011

The following was approved by the Board of Directors held on October 27, 2011.

(a)	Total dividends	¥696 million ($8,468 thousand)
(b)	Cash dividends per common share	¥14 ($0.17)
(c)	Record date	September 30, 2011
(d)	Effective date	December 2, 2011

c) Dividends to be paid after March 31, 2012 but the record date for the payment belongs to the year ended March 31, 2012
The following was approved by the Board of Directors held on April 27, 2012.

(a)	Total dividends	¥696 million ($8,468 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥14 ($0.17)
(d)	Record date	March 31, 2012
(e)	Effective date	June 5, 2012

13. CONTINGENT LIABILITIES

At March 31, 2012, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥72 million ($876 thousand).

14. LEASES

Operating leases

Future minimum operating lease payments subsequent to March 31, 2012 and 2011 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥ 1,886	¥ 1,886	$ 22,947
Due over one year	4,129	6,008	50,237
Total	¥ 6,015	¥ 7,895	$ 73,184

15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Employees salary	¥ 10,556	¥ 10,518	$ 128,434
Provision for bonuses to directors and corporate auditors	71	110	864
Retirement benefit expenses	1,065	920	12,958

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥92 million ($1,119 thousand) and ¥52 million for the years ended March 31, 2012 and 2011, respectively.

17. COMPREHENSIVE LOSS

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive loss for the year ended March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
Net unrealized holding gain on other securities:		
Unrealized holding loss arising during the year	¥ (3)	$ (37)
Reclassification adjustment for gain/loss realized in net income		
Before tax amount	(3)	(37)
Tax benefit	1	12
Net-of-tax amount	(1)	(12)
Foreign currency translation adjustments:		
Foreign currency translation adjustments arising during the year	(170)	(2,068)
Reclassification adjustment for gain/loss realized in net income	—	
Before tax amount	(170)	(2,068)
Tax benefit	55	669
Net-of-tax amount	(114)	(1,387)
Total other comprehensive loss	¥ (116)	$ (1,411)

18. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2012	2011	2012
Net income per share	¥ 92.36	¥ 95.46	$ 1.12
Net assets per share	1,610.38	1,546.42	19.59

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.

19. FINANCIAL INSTRUMENTS

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 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 and 6 and half years after the balance sheet date for the years ended March 31, 2012 and 2011, respectively. 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 20. DERIVATIVES does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk
At March 31, 2012 and 2011, 42% and 39% of operating receivables are receivables from a certain major customer, respectively.

Fair value of financial instruments
The carrying amount on the consolidated balance sheets, fair value, and differences as of March 31, 2012 and 2011 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, 2012	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 37,586	¥ 37,586	¥ —	$ 457,306	$ 457,306	$ —
(2) Notes and accounts receivable	73,193	73,193	—	890,534	890,534	—
(3) Investments securities:						
Other securities	99	99	—	1,205	1,205	—
Total	¥ 110,879	¥ 110,879	¥ —	$ 1,349,057	$ 1,349,057	$ —
Liabilities:						
(1) Notes and accounts payable	¥ 30,321	¥ 30,321	¥ —	$ 368,913	$ 368,913	$ —
(2) Current installments of long-term debt	3,500	3,500	—	42,584	42,584	—
(3) Long-term debt	500	504	4	6,083	6,132	49
Total	¥ 34,321	¥ 34,325	¥ 4	$ 417,581	$ 417,630	$ 49
Derivative transactions	¥ 2	¥ 2	¥ —	$ 24	$ 24	$ —

March 31, 2011	Millions of yen Carrying amount	 Fair value	 Differences
Assets:			
(1) Cash and cash equivalents	¥ 25,611	¥ 25,611	¥
(2) Notes and accounts receivable	86,331	86,329	(1)
(3) Investments securities:			
Other securities	96	96	—
Total	¥ 112,039	¥ 112,037	¥ (1)
Liabilities:			
(1) Notes and accounts payable	¥ 31,354	¥ 31,354	¥ —
(2) Short-term bank loans	1,800	1,800	-
(3) Current installments of long-term debt	500	500	—
(4) Long-term debt	4,000	4,001	(1)
Total	¥ 37,654	¥ 37,656	¥ (1)
Derivative transactions	¥ 0	¥ 0	¥ —

* 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 5. 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) Short-term bank loans
The carrying amount approximates fair value because of the short maturity of these instruments.

3) Current installments of long-term debt
The carrying amount approximates fair value because of the short maturity of these instruments.

4) 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 20. DERIVATIVES.

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

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Unlisted equity securities	¥ 209	¥ 212	$ 2,543
Investments in limited partnerships		51	

(3) Projected future redemption of monetary claim and securities with maturities at March 31, 2012

	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	¥ 37,586	¥ —	¥	¥ —
Notes and accounts receivable	73,193	—	—	—
	¥ 110,779	¥ —	¥ —	¥ —

	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	$ 457,306	$ —	$ -	$ —
Notes and accounts receivable	890,534		—	
	$ 1,347,840	$ —	$ —	$ —

(4) The annual maturities of the long-term debt at March 31, 2012

	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	¥ 3,500	¥ 500	¥	¥	¥	¥

	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	$ 42,584	$ 6,083	$	$	$	$

20. 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, 2012 and 2011, the disclosure of fair value information for derivatives which is not accounted for as hedges are as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2012	Contract amount	Fair value	Valuation gain	Contract amount	Fair value	Valuation gain
Forward exchange contracts:						
To buy foreign currency:						
Euro	¥ 27	¥ 2	¥ 2	$ 329	$ 24	$ 24
Pound Sterling	2	0	0	24	0	0
Total	¥ 30	¥ 2	¥ 2	$ 365	$ 24	$ 24

	Millions of yen		
March 31, 2011	Contract amount	Fair value	Valuation gain
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar	¥ 159	¥ 0	¥ 0
Singapore dollar	1	0	0
Total	¥ 160	¥ 0	¥ 0

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

21. RELATED PARTY TRANSACTIONS

The Company's outstanding common stock was owned by NEC Corporation by 51.43% and 51.44% at March 31, 2012 and 2011, respectively.

Balances with NEC Corporation at March 31, 2012 and 2011, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 77,723	¥ 72,986	$ 945,650
Balances:			
Accounts receivable	¥ 30,806	¥ 33,545	$ 374,814
Advances received	229	230	2,786
Purchases of communication device:			
Transactions:			
Purchases	¥ 32,164	¥ 33,552	$ 391,337
Balances:			
Accounts payable	¥ 7,360	¥ 7,863	$ 89,549

NEC Fielding, Ltd is a subsidiary of NEC Corporation as at March 31, 2012 and 2011. Balances with the company at March 31, 2012 and 2011, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 1,483	¥ 2,148	$ 18,044
Balances:			
Notes receivable	¥ 104	¥ 124	$ 1,265
Accounts receivable	344	514	4,185
Advances received	16	18	195
Purchases of communication device:			
Transactions:			
Purchases	¥ 1,138	¥ 1,042	$ 13,846
Balances:			
Accounts payable	¥ 277	¥ 276	$ 3,370

NEC Communication Systems, Ltd is a subsidiary of NEC Corporation as at March 31, 2012 and 2011. Balances with the company at March 31, 2012 and 2011, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 3,350	¥ 4,542	$ 40,759
Balances:			
Accounts receivable	¥ 780	¥ 981	$ 9,490

NEC Engineering, Ltd is a subsidiary of NEC Corporation as at March 31, 2012 and 2011. Balances with the company at March 31, 2012 and 2011, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 1,447	¥ 1,922	$ 17,606
Balances:			
Accounts receivable	¥ 557	¥ 670	$ 6,777

NEC Facilities, Ltd is a subsidiary of NEC Corporation as at March 31, 2012 and 2011. Balances with the company at March 31, 2012 and 2011, and related transactions for the years then ended are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2011		2012	
Rental of a buildings:						
Transactions:						
Lease deposit payment	¥	22	¥	941	$	268
Lease deposit repayment		—		2,287		—
Balances:						
Lease deposit	¥	1,589	¥	1,567	$	19,333

NEC Magunus Communications, Ltd is a subsidiary of NEC Corporation as at March 31, 2012 and 2011. Balances with the company at March 31, 2012 and 2011, and related transactions for the years then ended are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2011		2012	
Construction and maintenance of network system:						
Transactions:						
Sales	¥	839	¥	5,159	$	10,208
Balances:						
Accounts receivable	¥	173	¥	2,507	$	2,105

22. SEGMENT INFORMATION

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results.

"Enterprises networks business", "Carrier networks business" and "Social infrastructures business" are the Company's reported segments. The Company summarized business segments which have similar economic features and are based on the operational headquarters by services which are units for performance management into the reported segments.

Enterprises networks business mainly renders Service Integration relating to ICT Solution for enterprises. The segment renders total office solution which includes support for security or environment issues by using the ITC, operation, monitoring and providing outsourcing service of the total office solution and providing cloud services by own data center.

Carrier networks business mainly renders Service Integration relating to ICT Foundation for carriers. The segment renders SI services relating to large-scale and wide-range ICT Foundation and data center of carrier grade and operation and monitoring service of the SI services.

Social infrastructures business mainly renders Service Integration relating to SI services of ICT Infrastructure for governments or public-interest corporations (broadcasters, electric companies, etc.) and related operation and monitoring service, and provides construction of communication.

Segment sales, income, assets and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2012 and 2011 was summarized as follows:

	Millions of yen					
March 31, 2012	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 80,722	¥ 46,716	¥ 64,518	¥ 12,700	¥ —	¥ 204,658
(2) Intersegment sales	—		—	—		—
Total	¥ 80,722	¥ 46,716	¥ 64,518	¥ 12,700	¥ —	¥ 204,658
Segment income	¥ 7,594	¥ 4,941	¥ 3,576	¥ 313	¥ (6,678)	¥ 9,747
Segment assets	¥ 31,024	¥ 17,209	¥ 34,607	¥ 10,079	¥ 56,785	¥ 149,707
Others:						
Depreciation and amortization	¥ 772	¥ 220	¥ 95	¥ 136	¥ 716	¥ 1,941
Purchases of property and equipment, and intangible assets	1,338	190	145	127	1,429	3,232

	Thousands of U.S. dollars					
March 31, 2012	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	$ 982,139	$ 568,390	$ 784,986	$ 154,520	$	$ 2,490,060
(2) Intersegment sales	—	—	—	—	—	—
Total	$ 982,139	$ 568,390	$ 784,986	$ 154,520	$ —	$ 2,490,060
Segment income	$ 92,396	$ 60,117	$ 43,509	$ 3,808	$ (81,251)	$ 118,591
Segment assets	$ 377,467	$ 209,381	$ 421,061	$ 122,630	$ 690,899	$ 1,821,475
Others:						
Depreciation and amortization	$ 9,393	$ 2,677	$ 1,156	$ 1,655	$ 8,712	$ 23,616
Purchases of property and equipment, and intangible assets	16,279	2,312	1,764	1,545	17,387	39,324

	Millions of yen					
March 31, 2011	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 78,266	¥ 43,317	¥ 84,099	¥ 12,266	¥ —	¥ 217,948
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 78,266	¥ 43,317	¥ 84,099	¥ 12,266	¥ —	¥ 217,948
Segment income	¥ 7,709	¥ 4,439	¥ 4,817	¥ 235	¥ (6,366)	¥ 10,835
Segment assets	¥ 29,002	¥ 20,479	¥ 45,815	¥ 9,208	¥ 45,417	¥ 149,923
Others:						
Depreciation and amortization	¥ 866	¥ 302	¥ 110	¥ 89	¥ 783	¥ 2,151
Purchases of property and equipment, and intangible assets	1,188	151	129	47	1,693	3,211

Notes:

1. "Others" includes Toyo Networks & System Integration Co., Ltd. and purchases of information and telecommunications equipment, etc., which are not included in reported segments.
2. "Adjustments" of ¥6,678 million ($81,251 thousand) and ¥6,366 million in segment income for the years ended March 31, 2012 and 2011, respectively are mainly administrative operation expenses.
3. "Adjustments" of ¥56,785 million ($690,899 thousand) and ¥45,417 million in segment assets at March 31, 2012 and 2011, respectively mainly consist of surplus funds (cash and deposits), land, long-term deposits and assets relating to the administrative operations of the parent company.
4. Segment income is adjusted with operating income in the consolidated statements of income.
5. "Depreciation and amortization" and "Purchases of property and equipment, and intangible assets" include long-term prepaid expenses and its amortization.

Related information

Related segment information for the years ended March 31, 2012 and 2011 are as follows:

(1) Information by products and services

Please refer to the reported segment information.

(2) Geographical information

1) Sales

Disclosures are omitted because sales to Japanese customer are over 90% of sales in the consolidated statements of income.

2) Property and equipment

Disclosures are omitted because property and equipment located in Japan are over 90% of property and equipment in the consolidated balance sheets.

(3) Information by major customers

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Customer name:			
NEC Corporation			
Sales	¥ 78,594	¥ 73,577	$ 956,248

Above sales are related to the "Enterprise networks" segment, "Carrier networks" segment and "Social infrastructures" segment.

Information of impairment loss on fixed assets by reported segments for the years ended March 31, 2012 and 2011

Not applicable.

Information of amortization of goodwill and balances of goodwill by reported segments as of and for the years ended March 31, 2012 and 2011

	Millions of yen					
March 31, 2012	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 21	¥ —	¥ —	¥ 60	¥ —	¥ 81
Balances as of goodwill	379	—	—	782	—	1,161

	Thousands of U.S. dollars					
March 31, 2012	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	$ 256	$ —	$	$ 730	$	$ 986
Balances as of goodwill	4,611	—	—	9,515	—	14,126

	Millions of yen					
March 31, 2011	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 13	¥ —	¥ —	¥ 60	¥ —	¥ 74
Balances as of goodwill	400	—	—	842	—	1,243

Negative goodwill incurred by reported segments for the years ended March 31, 2012 and 2011

Not applicable.

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of NEC Networks & System Integration Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of NEC Networks & System Integration Corporation and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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 LLC

June 26, 2012
Tokyo, Japan

Global Network

(As of March 31, 2012)

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%

DAIICHI AD SYSTEM CO., LTD.

Head office: Tokyo, Japan
Established: August 1979
Capitalization: ¥75 million
Voting rights: 78.18%

NESIC BRASIL S/A

Head office: Sao Paulo, Brazil
Established: November 1976
Voting rights: 87.44%

NESIC (Thailand) Ltd.

Head office: Bangkok, Thailand
Established: March 1991
Voting rights: 49.00%

NESIC PHILIPPINES, INC.

Head office: Manila, The Philippines
Established: April 1991
Voting rights: 100.00%

P. T. NESIC BUKAKA

Head office: Jakarta, Indonesia
Established: May 1993
Voting rights: 80.00%

NESIC (GUANGZHOU) CO., LTD.

Head office: Guangzhou, China
Established: August 1998
Voting rights: 100.00%

Networks & System Integration Saudi Arabia Co., Ltd.

Head office: Al-Khobar, Saudi Arabia
Established: April 2006
Voting rights: 100.00%

TNSi Europe GmbH

Head office: Koln, Germany
Established: October 2005
Voting rights[1] : 100.00% (100.00%)

Note:

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

Investor Information

(As of March 31, 2012)

Corporate Name:
NEC Networks & System Integration Corporation

Established:
November 26, 1953

Number of Employees:
4,393 (Non-consolidated)
5,934 (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:
9,664

Transfer Agent:
The Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

Accounting Auditors:
KPMG AZSA & Co.

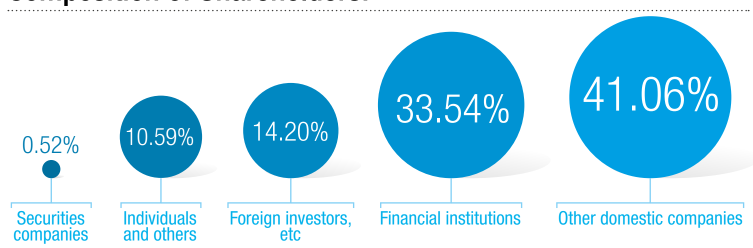
Major Shareholders:

Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding[2]
NEC Corporation	19,107	38.39%
Japan Trustee Services Bank, Ltd.[1] (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.86%
Japan Trustee Services Bank, Ltd. (Trust account)	4,193	8.42%
The Master Trust Bank of Japan, Ltd. (Trust account)	2,599	5.22%
Sumitomo Realty & Development Co., Ltd.	1,200	2.41%
Japan Trustee Services Bank, Ltd. (Trust account 9)	940	1.89%
JP Morgan Chase Bank 385166	750	1.51%
Employees' Stock Ownership Plan	731	1.47%
Mellon Bank, N.A. As Agent For Its Client Mellon Omnibus US Pension	508	1.14%
The Chase Manhattan Bank, N.A. London Secs Leading Omnibus Account	548	1.10%

Notes:

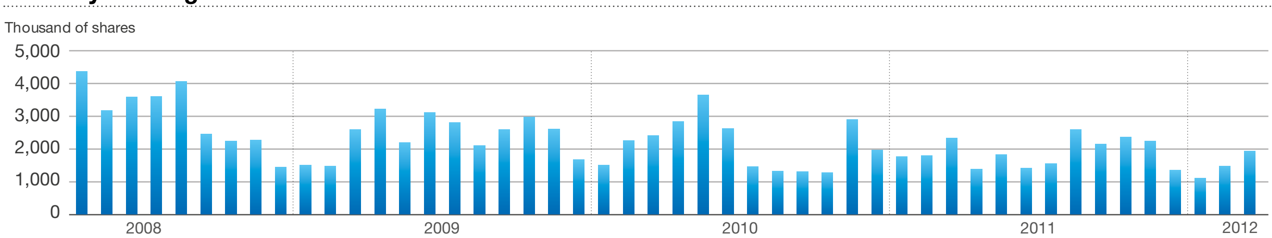
1. Shares held by Japan Trustee Services Bank, Ltd. (The Sumitomo Trust and Banking Company, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust. The percentage of material voting rights held by NEC Corporation as of March 31, 2011 was 51.44%.
2. The percentage of total shares outstanding is calculated based on the number of shares excluding treasury stock (46,258 shares).

Composition of Shareholders:



Monthly Stock Price Range:

Monthly Trading Volume:



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