Empowered by Innovation NEC

Annual Report 2013

Year Ended March 31, 2013

NEC Networks & System Integration Corporation

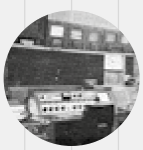
Profile

Growing with evolving communications, NEC Networks & System Integration Corporation will celebrate its 60th anniversary.

Since its establishment in 1953, NEC Networks and System Integration Corporation (NESIC) has expanded its businesses from the installation of telecommunications infrastructure to the SI and maintenance of office networks and the service businesses, including the operation of network systems and outsourcing. NESIC offers unique services, including EmpoweredOffice, an office innovation solution, taking advantage of its ability to provide a broad range of ICT related services, from system integration to installation and other services for diverse customers in an integrated manner.

Leveraging the strengths it has developed over 60 years, NESIC aims to grow by revitalizing its customers' communications and adding new value. This is the 30th year since the Company first listed its shares. We aim to enhance our enterprise value to become the top brand in the industry and increase the satisfaction of all stakeholders as an entity that contributes to society in various ways.


Founded in 1953


First construction of TV broadcasting systems


Crossbar switching equipment


Construction of broadcast automation systems for NHK


The Kashima Branch of the Radio Research Laboratory of the former Ministry of Posts and Communications

Sales ¥10bn
1973


Construction of satellite communication systems in Switzerland

1953
Nippon Electric Installation Company founded

1950 **1960** **1970**

Age of supporting the base of telecommunications

Nippon Electric Installation Company founded (1953)

- Starting with the installation of switching, broadcasting, and radio systems
- Contributing to the creation of communications infrastructure in the postwar years of recovery

Age of supporting global communications

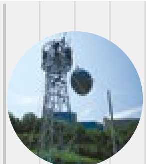
Full-scale development of international communications and satellite communications

- Building communications infrastructure worldwide
- Expanding the installation of broadcasting systems, submarine cables, and radio communication systems (satellite communications, microwave communications)

Contents

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements concerning NEC Networks & System Integration Corporation and its consolidated subsidiaries' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Rather, they represent the assumptions and beliefs of 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.

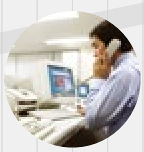


Construction of mobile base stations

1980
The company name changed to NEC System Integration & Construction, Ltd.

1983
Listed on the Tokyo Stock Exchange Second Section

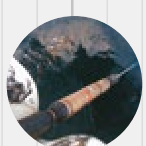
Sales ¥100 bn
1988



Integrating intra-office voice network systems

1992
Listed on the Tokyo Stock Exchange First Section

Sales ¥200 bn
1996

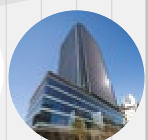


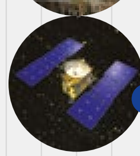
Submarine cables / Submarine seismometer systems

2005
The company name changed to NEC Networks & System Integration Corporation

2006
Acquired NEC Telenetworks Co., Ltd. merged

EmpoweredOffice





2010
The head office relocated to Iidabashi

2011
Industry classification on the Tokyo Stock Exchange changed from Construction to Information & Communication

Sales ¥235.7 bn
2013
A corporate message announced as the Company celebrates its 60th anniversary: "Re-designing your Communication"

60th Anniversary

1980 / 1990

Age of **responding to the diversification of communications**

Liberalization of telecommunications, the rise of New Common Carriers

- Expanding business for NCCs and the building of mobile communications networks
- Expanding system integration business for companies

2000

Age of **creating value in communications**

Developing IP and broadband networks

- The solution business expanding
- Responding to the digitization of terrestrial broadcasting and community informatization

Starting "EmpoweredOffice" (2007)

- Concept for changing ways of working and communication, using ICT and office facility

Now

Age of **designing new communications creating new value**

- Accelerating the expansion of "EmpoweredOffice"
- Promoting measures to enhancing service businesses
- Promoting the digitization of fire-fighting and disaster prevention networks, speeding up mobile networks

Financial Highlights

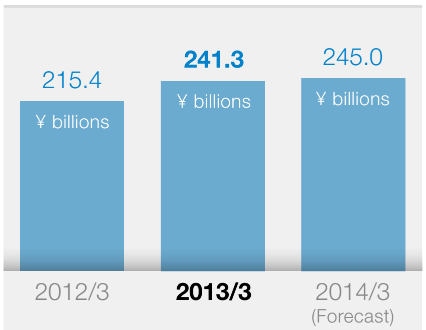
Key points of the results of the fiscal year under review

1 Both orders and net sales rose in all segments.

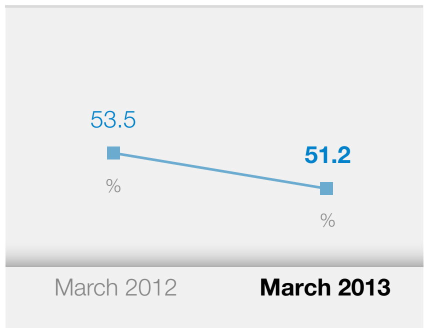
2 Income at all levels reached record highs.

3 Shareholder return expanded, as NESIC strengthened its earnings power.

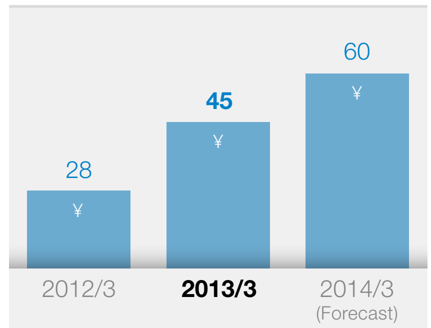
Net sales
¥235.7 billion
15.2% increase year on year



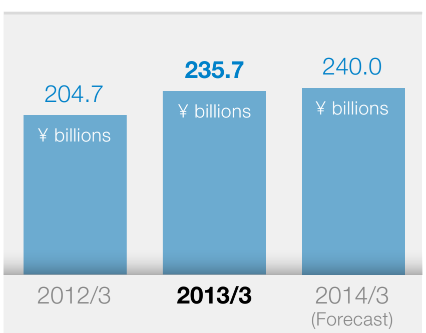
Operating income
¥12.5 billion
28.1% increase year on year



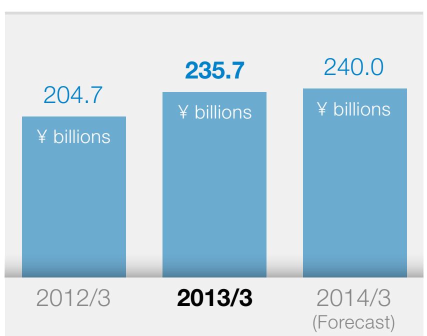
Net income
¥7.5 billion
63.1% increase year on year



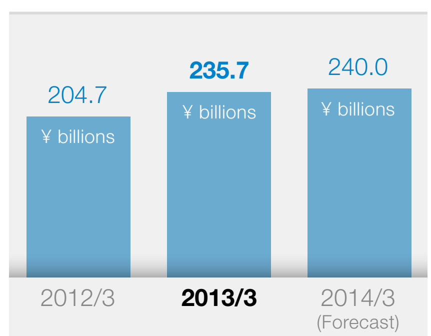
Orders
¥241.3 billion
12.0% increase year on year



Owner's equity ratio
51.2%
2.3 points decrease from the end of the previous fiscal year



Annual dividends
¥45 per share
¥17 increase year on year



Forecast figures are based on data as of April 26, 2013.
For the latest Company news and IR information, please use its website. (http://www.nesic.co.jp/english/index.html)

Interview with the President

NESIC's corporate message:
Re-designing Your Communication

NESIC has adopted a corporate message. We aim to facilitate active communications in society. The message expresses our determination to enhance value for our customers and to help enrich society not only by building secure, safe and reliable networks but also by designing future communications from customers' perspectives.

Q What were the results for the fiscal year under review (from April 1, 2012 to March 31, 2013)?

A We achieved record operating income and net income.

Orders, net sales and income all exceeded our forecasts. Orders rose 12% year on year, to ¥241.3 billion. Net sales increased sharply, 15% year on year, to ¥235.7 yen. Operating income and net income reached record highs, at ¥12.5 billion and ¥7.5 billion, respectively.

In the Enterprises Networks business, we bolstered our sales force and focused on customers' needs to strengthen their management, which produced results.

In the Carrier Networks business, we responded to telecommunications carriers' strengthening their networks associated with rapidly increasing numbers of smartphone users. We integrated submarine seismometer systems based on submarine cable communications systems, and this significantly boosted sales.

In the Social Infrastructure business, sales increased primarily in association with the digitization of fire and emergency radio and the installation of base stations for mobile networks for new frequency bands.

Masao Wada
President

Q Could you tell us your forecast for the next fiscal year?

A We will steadily expand sales and profits.

We will celebrate our 60th anniversary in December this year. In the first year for new growth, we aim to expand sales and profits to achieve net sales of ¥240 billion, operating income of ¥13 billion, and net income of ¥7.8 billion.

NESIC has been actively investing in growth. We have also pursued alliances and acquisitions. In the fiscal year under review, we formed a business alliance with MOSHI MOSHI HOTLINE, Inc. for outsourcing routine administrative operations, such as administration, personnel affairs and accounting. We have also formed a capital alliance with Q&A Corporation, which excels in the contact center business in the technical support field. We have decided to integrate the mobile communication base station business of NEC Mobiling, Ltd. Our plan is to steadily expand sales and profits through these growth investments.

Q You have increased dividends significantly.

A We will meet our shareholders' expectations by increasing our earnings strength.

With net income exceeding expectations, we will distribute a year-end dividend of ¥26 per share, which will make the annual dividend per share ¥45, an increase of ¥17 year on year.

With our earnings power increasing, we plan to pay an interim dividend per share of ¥30 and an annual dividend per share of ¥60 for next fiscal year. These figures reflect our gratitude to our shareholders as we celebrate our 60th anniversary, but the increase differs from a commemorative dividend. We will bolster our earnings power to meet our shareholders' expectations in terms of returns.

Q Could you describe the medium-term business plan?

A We aim to achieve growth, while shifting our focus to service businesses.

On May 9 we announced our medium-term plan for the period up to the fiscal year ending March 31, 2016.

We aim to achieve growth both in sales and profits and to record net sales of ¥260 billion and an operating margin of 6% in the fiscal syear ending March 31, 2016. As for ROE, an index that shows how capital from shareholders generates profits, we aim to achieve 10%. As a listed company, we will seek to enhance our shareholder value.

Our strength is that compared to our competitors we have an operating base covering a broader range of fields, including installation/construction, ICT technologies,

Targets for FY2015 (ending March 31, 2016)

Net sales: **¥260 billion** | Operating margin: **6%** | ROE: **10%**

Medium-term management policy

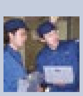
Expanding new businesses and service businesses | **Strengthening** a common operating base that supports businesses

Clients

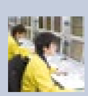
- Enterprises
- Carriers
- Government Offices, local governments
- Social Infrastructure Business
- Overseas Vendors
- Overseas Carriers

Integrated proposals and sales for each customer

Using and strengthening a common operating base


Base for **Installation**


Base for **ICT Technologies**


Base for **Support**

Strategic investments

- Development of new businesses
- Alliances with other companies

and support services. Our basic policy is to achieve growth by making strategic investments, seizing market opportunities through full, integrated use of this operating base, and changing our business structure to focus more on service businesses.

In the medium term, the market for conventional system integration and maintenance focused on hardware is unclear or is expected to decline overall. Meanwhile, some infrastructure markets are set to expand. Service businesses using ICT (information and communications technology) should grow sharply.

Given these market conditions, we have developed the following policies in line with our strategy map.

1 In our conventional businesses, we will enhance our strong relations with customers to promote these operations.

2 In the Social Infrastructure business, we will focus on infrastructures for fire-fighting and disaster prevention systems and mobile communications base stations, which are expected to grow in the medium term. We will seek to expand market share, while enhancing price competitiveness.

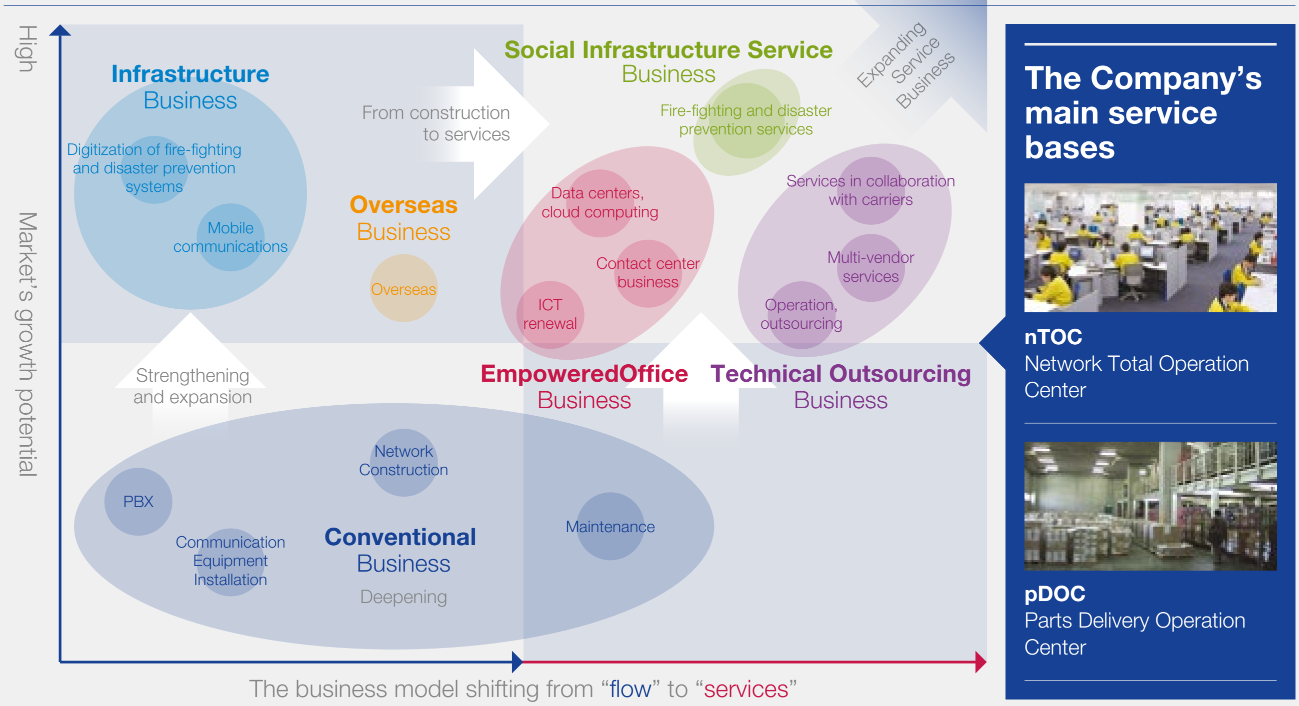
3 In overseas operations, we will expand our support to our domestic customers expanding into Asian markets and our existing infrastructure business through our overseas subsidiaries and affiliates, based on good relations with our customers.

4 We aim to expand high value-added service businesses to achieve stable growth over the medium to long terms.

We will seek to achieve growth, focusing on EmpoweredOffice, which promotes working-style innovation in offices through the contact center-related services and an ICT renewal, in the Enterprises Networks business and on the technical outsourcing business, including multi-vendor services, in the Carrier Networks business.

Following our 60th anniversary, we will strive to achieve the medium-term plan to realize our dream of becoming the top brand in the industry and will enhance our enterprise value through the growth of our businesses, organization and each employee. As we pursue this goal, we hope that we can count on the continued support and expectations of our stakeholders.

Priority business fields (strategy map)



Topics

An initiative to bolster the EmpoweredOffice business
Making Q&A Corporation a consolidated subsidiary

Expanding service business

To strengthen its contact center business, NESIC strengthened its capital alliance with Q&A Corporation and made Q&A Corporation a consolidated subsidiary on June 7, 2013. On the same day, NESIC made Daiichi Ad System Co., Ltd., its subsidiary, a consolidated subsidiary of Q&A Corporation to expand new services led by Q&A Corporation.

Three objectives of the reinforcement of the capital alliance:

1. **Strengthening and streamlining the contact center service infrastructure**
   NESIC will integrate the contact center systems of Q&A Corporation and Daiichi Ad System into NESIC's contact center infrastructure and will streamline the infrastructure significantly. NESIC will provide the infrastructure to contact center service providers as a common service base, using cloud computing systems.
2. **Providing new services, making full use of the operating base of each company**
   NESIC will create and provide new services by combining ICT systems and services for companies and public offices, where NESIC excels, and Q&A Corporation's ability to provide services for individual customers.
3. **Expanding high value-added contact center service businesses**
   We will expand high value-added contact center service businesses, for example by extending to Daiichi Ad System's customers value-added services that Q&A Corporation has provided to its corporate customers.

NESIC will provide competitive contact center infrastructure and high value-added contact center services and will achieve medium- to long-term growth, taking advantage of synergies between the two lines of services.

Q&A Corporation

Representative:	Yuichi Kanagawa, President
Head office:	Shibuya, Tokyo
Employees:	1,199
Capital:	897.4 million yen

Q&A Corporation provides on-site support services and contact center services that offer technical support to deal with failures, troubles and the way to use digital products by visiting customers or by telephone or e-mail.

An initiative to strengthen the infrastructure business
Integrating the mobile communication base station business of NEC Mobiling, Ltd.

Enhancing NESIC's ability to provide a broad range of services, from the design of base stations distribution to their installation and maintenance in an integrated manner.

On April 1, 2013, NESIC consolidated the mobile communication base station business of NEC Mobiling, Ltd. into its mobile communication base station business.

In response to increasing communications traffic associated with rapidly increasing diffusion rates of smartphones, carriers are striving to enhance their mobile communications networks, for example by introducing the LTE system, a new mobile communications technology.

On April 1, NESIC integrated the base station business of NEC Mobiling, Ltd. With this integration, NESIC can provide services covering the whole process related to base station installation, including, in addition to base station construction work, where NESIC has been strong, front-end services, such as research for and the design of the effective distribution of base stations, and maintenance services, where NEC Mobiling has exelled.

NESIC can now provide a range of services related to mobile communications base stations in an integrated manner and can make optimal comprehensive proposals involving a backbone communications network.

With this enhanced business structure, NESIC will expand its business, more actively responding to carriers' needs for strengthening their networks.

Base Station Establishment Process

Establishing a one-stop service system through the business integration.

Former NEC Mobiling, Ltd.

System design
Area design
(Distribution of base stations)

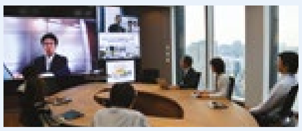
Engineering Solutions
Overall planning
of optimal system

Priority businesses in the medium-term plan

EmpoweredOffice business
Main segment: Enterprises Networks business

Expanding the market of EmpoweredOffice
- Expanding the market to include local governments, hospitals, and public facilities in addition to companies; developing overseas operations

Expanding service businesses
- Enhancing competitiveness by leveraging and strengthening a common operating base
- Expanding value-adding services in collaboration with Daiichi Ad System Co., Ltd. and Q&A Corporation



EmpoweredOffice Center

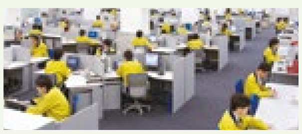
Infrastructure business
Main segment: Social Infrastructure business

Fire-fighting and disaster prevention business
- Expanding orders in cooperation with NEC Group companies
- Enhancing our ability to complete projects through structural changes

Mobile business
- Making the most of synergies through the integration of part of the business of NEC Mobiling, Ltd.
- Increasing the earnings strength by promoting cost reforms
    - Promoting self-manufacture and accelerating process reform and standardization

Technical outsourcing business
Main segment: Carrier Networks business

Leveraging NESIC's operating base and expanding technical services, including acceptance inspections of IT and network equipment, configuration, logistics and maintenance
- Deepening and expanding the carrier market
- Developing new service fields
- Expanding services for companies



nTOC
Network Total Operation Center

pDOC
Parts Delivery Operation Center

Overseas business

Expanding the JOC (Japan Originated Companies) business (support of overseas operations of domestic customers)
- Expanding the EmpoweredOffice business into Asia
- Leveraging the NEC Group's assets

Expanding the infrastructure business, taking advantage of relations with local customers
- Building mobile communications infrastructure in Thailand
- Constructing communications systems at oil plant facilities in Saudi Arabia

NEC Networks & System Integration Corporation

Construction planning | **Base station construction**

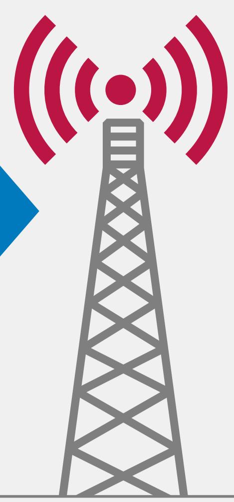
Planning and Construction
Quality, safety and schedule control

Former NEC Mobiling, Ltd.

Equipment testing | **Testing for system optimization** | **System maintenance and repair services**

Engineering Solutions
System optimization

Maintenance and Repair Services
Responding to users' needs in collaboration with carriers

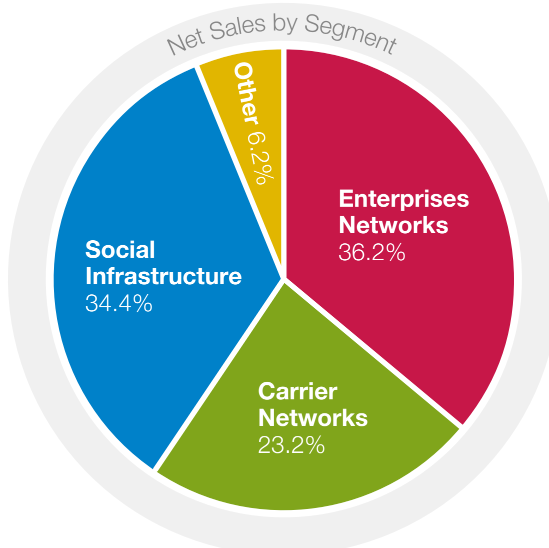


Business performance by segment

Our three core businesses

NESIC provides a range of services from planning to system design, maintenance, and operation in an integrated manner in a variety of fields ranging from ICT within companies to public and social infrastructure. NESIC has three core businesses: the Enterprises Networks business, Carrier Networks business, and Social Infrastructure business.

We will help a range of customers enhance their value, harnessing our ability to make proposals from customers' perspectives and our expertise and technological capabilities for all sorts of networks.



Enterprises Networks business

This business provides ICT solutions primarily for companies.

We provide EmpoweredOffice, an office innovation solution for improving productivity and efficiency and saving energy in offices. We also operate and monitor systems related to EmpoweredOffice and provide cloud computing services using our data centers.

We expanded comprehensive services to help customers improve business processes and management, focusing on EmpoweredOffice, an office innovation solution, and providing other services including cloud computing services and BPO services. The results of these initiatives were that net sales rose 5.7% year on year, and orders increased 8.8% year on year.

Sales Trends

Net Sales
¥85.3 billion

5.7% increase year on year

Year		billions
2013* Forecast	billions	88.0
2012	billions	85.3
2011	billions	80.7

Carrier Networks
business

This business provides services related to public networks, principally for telecommunications carriers.

We support carriers and daily communication tools, including mobile phones and the Internet, through integrated services, including the construction of high-quality and highly reliable networks and maintenance and operation services using a nationwide support and service network.

We focused on helping carriers improve their networks in response to increasing numbers of smartphone users. In addition, there were sales related to an submarine seismometer system using a submarine cable communications system. Net sales increased 17.2% year on year, and orders climbed 4.5% year on year.

Sales Trends

Net Sales
¥54.7 billion

17.2% increase year on year

2013* Forecast	billions	56.0
2012	billions	**54.7**
2011	billions	46.7

Social Infrastructure
business

This business builds, operates and monitors systems for ICT infrastructure primarily for government offices, local governments and public-service corporations (such as broadcasters and electric power companies).

We help build social infrastructures, including regional public networks and fire-fighting and disaster prevention systems, to help everyone live a secure, safe and convenient life. We also construct telecommunications infrastructures such as base stations for mobile phones.

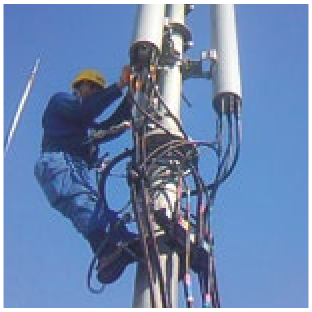
We actively responded to increasing investments in the digitization of fire-fighting and disaster prevention systems and expanding investments in the installation of base stations for mobile phones for new frequency bands. Net sales rose 25.4% year on year, and orders increased 20.5% year on year.

Sales Trends

Net Sales
¥80.9 billion

25.4% increase year on year

2013* Forecast	billions	83.0
2012	billions	**80.9**
2011	billions	64.5



*Forecast figure is based on data as of April 26, 2013

Corporate Governance (As of June 27, 2013)

The Company believes that the cornerstone of corporate governance is ensuring management soundness and transparency by establishing a management system that enables quick decision-making to respond promptly to changes in the operating environment, and by practicing timely, appropriate disclosure. To that end, the Company has adopted a Board of Corporate Auditors system and has established a corporate governance system in which the Board of Directors and Board of Corporate Auditors play key roles.

The Company has also adopted an executive officer system to clearly demarcate the supervisory function and the business execution function. To enhance management transparency, the Company has outside directors and outside corporate auditors and seeks to achieve sound management by encouraging cooperation among corporate auditors, the Internal Auditing Division, and independent 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 five 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 (10 members) 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.

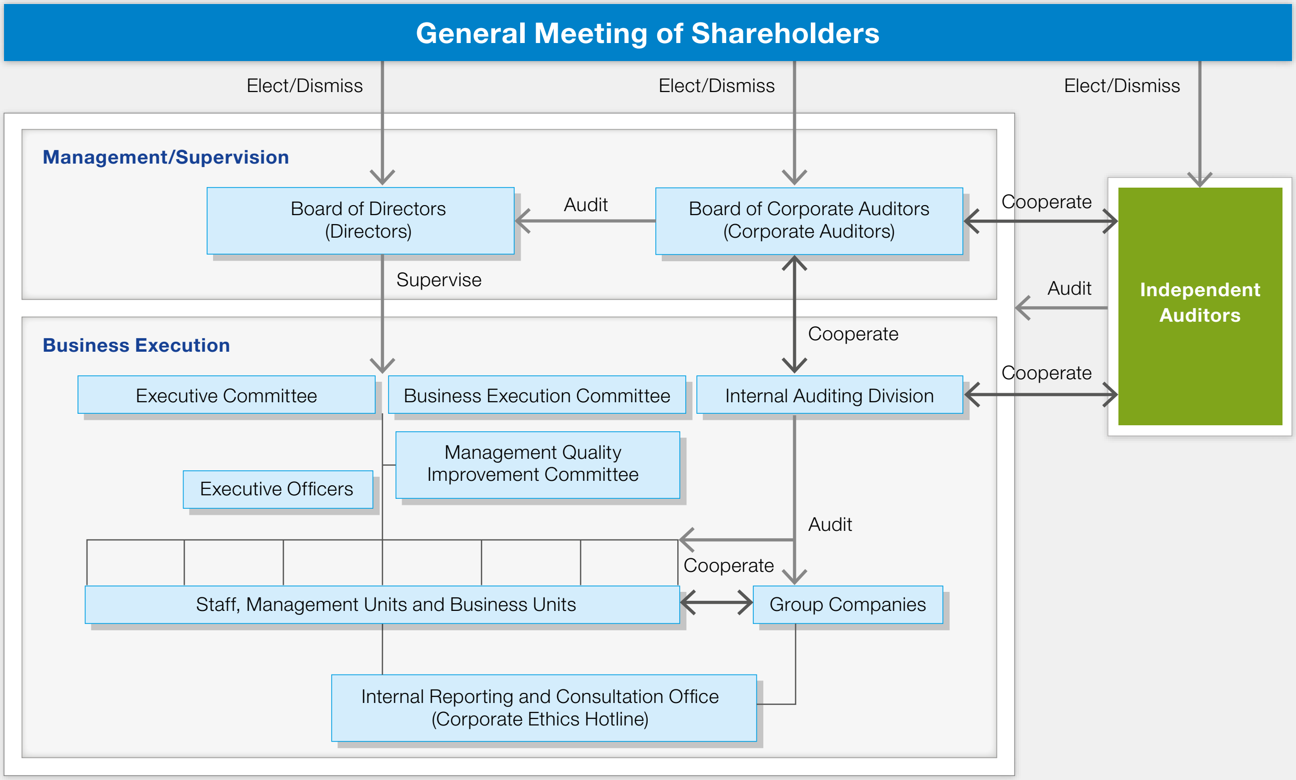
5 Accounting Auditors

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 13 meetings of the Board of Directors held in the fiscal year ended March 31, 2013. 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. Mr. Arano attended 10 of 11 meetings of the Board of Directors held in the fiscal year ended March 31, 2013 after his appointment on June 26, 2012.

Outside Director Yumiko Ichige is a lawyer at Nozomi Sogo Attorneys at Law. Using her professional knowledge and viewpoint about corporate legal affairs, Ms. Ichige oversees the business execution of the Company from a fair and objective standpoint of an outsider. Ms. Ichige attended all 11 meetings of the Board of Directors held in the fiscal year ended March 31, 2013 after her appointment 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. Mr. Hashitani attended 9 of 11 meetings of the Board of Directors held in the fiscal year ended March 31, 2013 after his appointment on June 26, 2012.

Of the Company's five 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 and accounting 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. Mr. Okuyama attended all 11 meetings of the Board of Directors and all 10 meetings of the Board of Corporate Auditors held in the fiscal year ended March 31, 2013 after his appointment 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 12 of 13 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held in the fiscal year ended March 31, 2013. 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 Takaaki Yamamoto is engaged in accounting in NEC Corporation. Making full use of his extensive experience and knowledge relating to internal control, Mr. Yamamoto chiefly audits the legality of business execution from a fair and objective standpoint. Mr. Yamamoto became an outside auditor at the ordinary general meeting of shareholders held on June 25, 2013.

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.

Corporate Social Responsibility (CSR)

CSR Policy

NEC Networks & System Integration Corporation is a network system integrator that creates new communication. Harnessing its strengths—technologies and experience associated with networks—and its expertise in IT, NESIC engages in a range of services, from planning and design to system integration, installation and outsourcing, for systems that enable diverse forms of communication.

The Company's corporate message, "Re-designing your communication," expresses its aspirations to enhance communication through those services and to create and develop connections, ties, and links between people, between people and society, and between people and the earth. In addition to contributions through our services, we will engage in a range of activities that help to protect the global environment and strengthen our connection with the earth. We will also take steps to enhance customer satisfaction so that we build trust and strengthen our connection with our customers. Meanwhile, we will participate in local contribution activities to maintain and enhance our connection with communities.

The basis of those connections are our human resources, organization, and activities to ensure compliance, safety and security. We are hiring diverse human resources and offering systematic career development. In addition, we are creating better working environments. We ensure compliance and security while developing and providing secure systems and services with reliable quality.

Through a range of challenges in society through all our corporate activities, we are contributing to sustainable development in society and the world.

Major Themes in CSR

1 People's communication

As a network system integrator, we will fuse our strengths—technologies and experience associated with networks—and our IT expertise to provide systems that enable diverse forms of communication. Through these systems, we will enhance human communication and help to create and develop connections between people, between people and society, and between people and the earth.

2 Connection with the earth

We will offer systems and services that help reduce CO_2 emissions and energy consumption. Meanwhile, we will contribute to reducing society's environmental footprint (load) and protecting the global environment through activities in our business that minimize the environmental burden, use resources effectively, and maintain biological diversity.

3 Connection with customers

As a partner of our customers, we will strive to build trust by providing systems and services that contribute to our customers' businesses.

4 Connection with communities

As a good corporate citizen, we will engage in assistance to disaster areas and international cooperation, among other activities, in response to demands from society. We will contribute to communities through communication with them.

5 Enhancing compliance and achieving safety and security

We will consistently enhance compliance and pursue and ensure information security and safe work. We will deliver systems and services that have reliable quality.

6 Cultivating diversity and creating better working environments

We will respect fundamental human rights in all corporate activities and will hire and cultivate human resources with diverse individuality. We will take steps to create better working environments where people can fulfill their potential.

Assistance in disaster areas

Volunteer reconstruction assistance in areas affected by the Great East Japan Earthquake

Contribution to education for the young

Antarctic Club natural science classes are held in elementary schools. In the classes, NESIC employees that we have dispatched to the Antarctic each year to join winter groups there come together for talks.

Directors and Corporate Auditors (As of June 25, 2013)

(From top left)
Mr. Minami
Mr. Wada
Mr. Kodama
Mr. Hara
Mr. Sato

Board of Directors

President
Masao Wada

Senior Vice President and Member of the Board
Takahiko Hara
Yoichi Sato
Shougo Minami
Yoshifumi Kodama

Member of the Board
Takayuki Matsui *1, 2
Tetsujiro Arano *1
Yumiko Ichige *1, 2
Naoki Hashitani *1

Corporate Auditors

Junichi Okuyama (full-time) *3
Akinori Kanehako (full-time)
Hirotaka Akizuki
Harutame Umezawa *3, 4
Takaaki Yamamoto *3

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

Six-Year Summary of Selected Financial Data

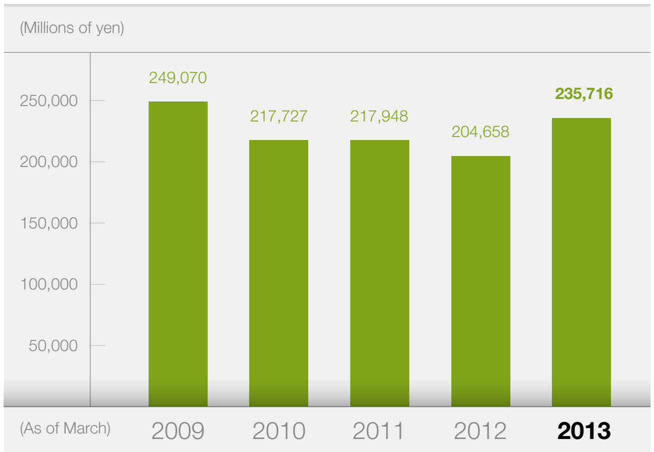
NEC Networks & System Integration Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen						Thousands of U.S. dollars [1]
	2013	2012	2011	2010	2009	2008	**2013**
For the year:							
Orders	¥ 241,271	¥ 215,373	¥ 212,277	¥ 222,046	¥ 245,257	¥ 254,512	$ 2,561,535
Net sales	235,716	204,658	217,948	217,727	249,070	258,212	2,502,559
Selling, general and administrative expenses	24,699	22,332	22,297	23,070	24,501	24,824	262,225
Operating income	12,483	9,747	10,835	9,867	10,968	10,743	132,530
Net income	7,492	4,593	4,747	5,806	5,154	4,412	79,541
Free Cash Flows	-4,662	16,053	-3,499	14,185	4,778	6,355	-49,496
Capital expenditures	3,070	2,533	2,762	1,928	2,529	2,611	32,594
Depreciation and amortization	2,164	1,941	2,151	2,244	2,270	2,130	22,975
Research and development costs	98	92	52	119	290	419	1,040
At year-end:							
Total assets	¥ 168,295	¥ 149,707	¥ 149,923	¥ 146,915	¥ 147,462	¥ 154,171	$ 1,786,761
Shareholders' equity	86,540	80,692	77,445	74,043	69,334	65,251	918,781
Total net assets	86,797	80,651	77,464	74,221	69,340	66,132	921,510
Per share of common stock (yen and U.S. dollars) :							
Net income	¥ 150.67	¥ 92.36	¥ 95.46	¥ 116.74	¥ 103.61	¥ 88.67	$ 1,600
Net assets (BPS)	1,731.29	1,610.38	1,546.42	1,479.62	1,381.92	1,311.71	18,381
Cash dividends applicable to the year	45.00	28.00	26.00	25.00	22.00	20.00	478
Ratios and return indicators:							
Operating income to net sales (%)	5.3	4.8	5.0	4.5	4.4	4.2	
Net income to net sales (%)	3.2	2.2	2.2	2.7	2.1	1.7	
Return on assets (ROA) (%) [2]	7.9	6.4	7.4	6.9	7.4	6.9	
Return on equity (ROE) (%) [3]	9.0	5.9	6.3	8.2	7.7	7.0	
Owners' equity (Net worth) ratio (%)	51.2	53.5	51.3	50.1	46.6	42.3	
Debt to equity ratio (times) [4]	0.05	0.05	0.08	0.07	0.07	0.09	
Number of employees	6,024	5,936	5,939	5,998	5,906	5,817	
Net sales per employee (thousands of yen) [5]	¥ 39,130	¥ 34,475	¥ 36,516	¥ 36,580	¥ 42,493	¥ 42,247	$ 415,437
Net income per employee (thousands of yen) [6]	1,244	774	795	975	879	722	13,207

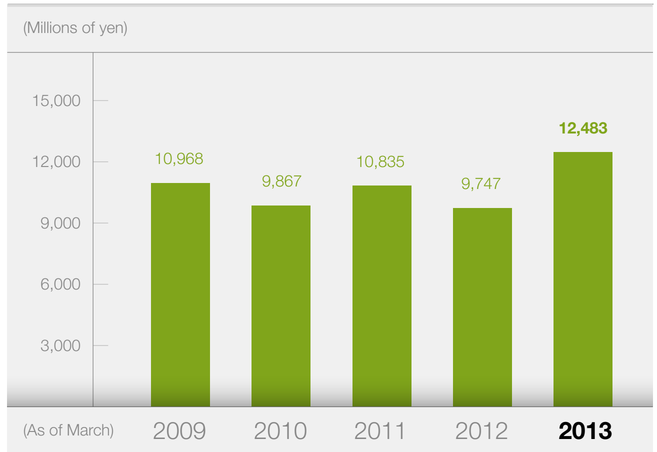
Notes

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥94.19 = U.S.$1.00, the approximate Tokyo foreign exchange market rate as of March 31, 2013.
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

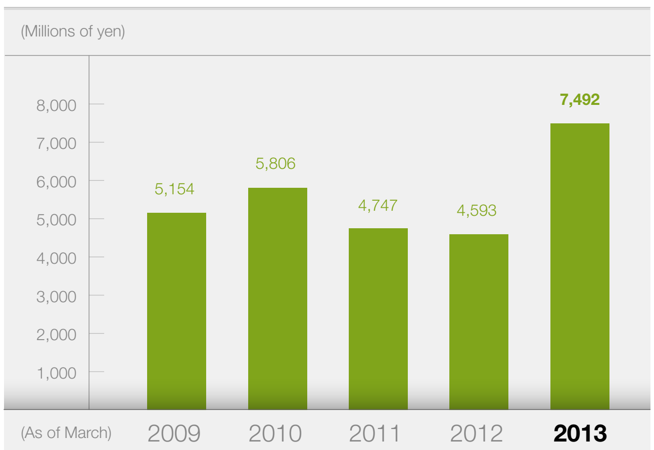
Net Sales



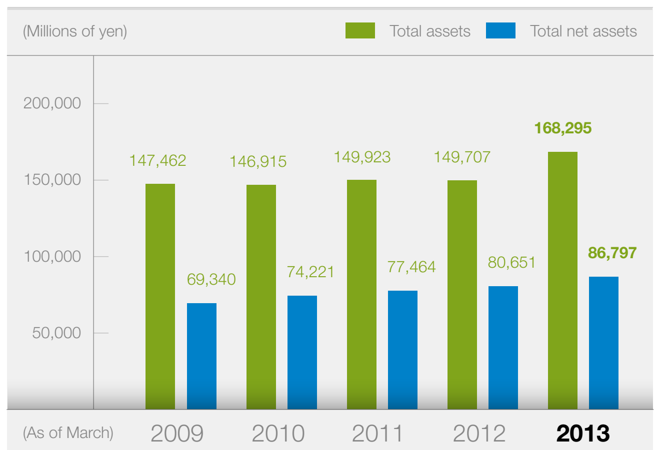
Operating Income



Net Income

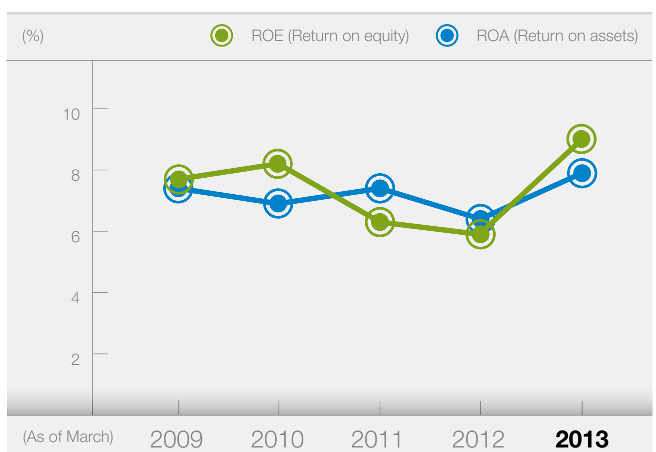


Total Assets and Total Net Assets



Operating Income to Net Sales and Net Income to Net Sales

ROE and ROA



Consolidated Financial Statements

Contents

CONSOLIDATED BALANCE SHEETS

NEC Networks & System Integration Corporation and Consolidated Subsidiaries
As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
Assets			
Current assets:			
Cash and cash equivalents	¥ 30,935	¥ 37,586	$ 328,921
Notes and accounts receivable (notes 4 and 23)	93,039	73,193	989,250
Inventories (note 7)	10,374	8,043	110,303
Deferred tax assets (note 11)	4,941	4,158	52,536
Other current assets	3,324	2,657	35,343
Allowance for doubtful accounts	(116)	(398)	(1,233)
Total current assets	142,499	125,240	1,515,141
Property and equipment:			
Land	2,508	2,508	26,667
Buildings and structures (note 8)	8,549	8,123	90,898
Machinery and vehicles	215	286	2,286
Furniture and fixtures (note 8)	9,515	9,526	101,170
Construction in progress	163	248	1,733
Other (note 8)	1,315	1,112	13,982
Accumulated depreciation	(12,973)	(12,739)	(137,937)
Property and equipment, net	9,292	9,066	98,799
Intangibles, net of accumulated amortization (note 9)	4,241	3,936	45,093
Investments and other assets:			
Investment securities (notes 5 and 6)	747	309	7,943
Deferred tax assets (note 11)	6,179	6,239	65,699
Other assets (notes 12 and 23)	5,403	4,992	57,448
Allowance for doubtful accounts	(69)	(78)	(734)
Total investments and other assets	12,261	11,463	130,367
Total assets	¥ 168,295	¥ 149,707	$ 1,789,421

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans (note 10)	¥ 599	¥ —	$ 6,369
Current installments of long-term debt (note 10)	500	3,500	5,316
Notes and accounts payable (notes 4 and 23)	36,404	30,321	387,071
Advances received (note 23)	2,550	1,987	27,113
Accrued income taxes (note 11)	4,367	3,130	46,433
Accrued bonuses to directors and corporate auditors	96	59	1,021
Accrued warranty on products	90	—	957
Accrued losses on sales contracts	1,028	36	10,930
Other current liabilities	13,975	11,242	148,591
Total current liabilities	59,612	50,277	633,833
Long-term liabilities:			
Long-term debt (note 10)	3,000	500	31,898
Accrued employees' retirement benefits (note 12)	17,641	16,828	187,570
Other liabilities (notes 11 and 13)	1,243	1,449	13,216
Total long-term liabilities	21,884	18,778	232,685
Total liabilities	81,497	69,055	866,528
Shareholders' equity (note 14):			
Common stock:	13,122	13,122	139,522
Authorized 100,000,000 shares; issued and outstanding 49,773,807 shares at March 31, 2013 and 2012			
Capital surplus	16,650	16,650	177,033
Retained earnings	56,824	50,973	604,189
Treasury stock, at cost; 48,119 shares at March 31, 2013 and 46,158 shares at March 31, 2012	(56)	(53)	(595)
Total shareholders' equity	86,540	80,692	920,149
Accumulated other comprehensive income:			
Net unrealized holding gain on other securities (note 5)	13	0	138
Foreign currency translation adjustments	(464)	(612)	(4,934)
Total accumulated other comprehensive income	(451)	(611)	(4,795)
Minority interests	708	571	7,528
Total net assets	86,797	80,651	922,881
Commitments and contingencies (note 15)			
Total liabilities and net assets	¥ 168,295	¥ 149,707	$ 1,789,421

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
Net sales (note 23)	¥ 235,716	¥ 204,658	$ 2,506,284
Cost of sales (notes 7 and 23)	198,533	172,578	2,110,930
Gross profit	37,182	32,079	395,343
Selling, general and administrative expenses (notes 17 and 18)	24,699	22,332	262,616
Operating income	12,483	9,747	132,727
Other income (expense):			
Interest income	45	69	478
Interest expense	(44)	(63)	(468)
Dividends income of insurance	106	105	1,127
Exchange gain	68		723
Loss on disposal of property and equipment	(149)	(50)	(1,584)
Impairment loss (note 8)	(165)	—	(1,754)
Other, net	69	(238)	734
	(70)	(176)	(744)
Income before income taxes and minority interests	12,412	9,570	131,972
Income taxes (note 11):			
Current	5,554	3,261	59,054
Deferred	(712)	1,659	(7,570)
	4,841	4,920	51,473
Income before minority interests	7,571	4,649	80,500
Minority interests	78	56	829
Net income	¥ 7,492	¥ 4,593	$ 79,660

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
Income before minority interests	¥ 7,571	¥ 4,649	$ 80,500
Other comprehensive income arising during the year (note 19):			
Net unrealized holding loss on other securities	12	(1)	128
Foreign currency translation adjustments	208	(114)	2,212
Total other comprehensive income arising during the year	221	(116)	2,350
Comprehensive income	¥ 7,792	¥ 4,533	$ 82,850
Comprehensive income attributable to:			
Owners of the parent	¥ 7,652	¥ 4,522	$ 81,361
Minority interests	139	11	1,478

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, 2013 and 2012

		Millions of yen					
	Numbers of shares of common stock	Shareholders' equity					
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total	
	(Thousands)						
Balance at April 1, 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	
Changes arising during year:							
Cash dividends				(1,640)		(1,640)	
Net income				7,492		7,492	
Purchase of treasury stock					(2)	(2)	
Disposition of treasury stock					—	—	
Net changes in accounts other than shareholders' equity							
Total changes during the year	—	—	—	5,851	(2)	5,848	
Balance at March 31, 2013	49,773	¥ 13,122	¥ 16,650	¥ 56,824	¥ (56)	¥ 86,540	

	Millions of yen				
	Accumulated other comprehensive income				
	Net unrealized holding gain (Loss) on other securities	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at April 1, 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
Changes arising during year:					
Cash dividends					(1,640)
Net income					7,492
Purchase of treasury stock					(2)
Disposition of treasury stock					—
Net changes in accounts other than shareholders' equity	12	147	160	136	297
Total changes during the year	12	147	160	136	6,145
Balance at March 31, 2013	¥ 13	¥ (464)	¥ (451)	¥ 708	¥ 86,797

(Continued)

	Thousands of U.S. Dollars (note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balance at April 1, 2012	$ 139,522	$ 177,033	$ 541,978	$ (564)	$ 857,969
Changes arising during year:					
Cash dividends			(17,438)		(17,438)
Net income			79,660		79,660
Purchase of treasury stock				(21)	(21)
Disposition of treasury stock				—	—
Net changes in accounts other than shareholders' equity					
Total changes during the year	—	—	62,212	(21)	62,180
Balance at March 31, 2013	$ 139,522	$ 177,033	$ 604,189	$ (595)	$ 920,149

	Thousands of U.S. Dollars (note 3)				
	Accumulated other comprehensive income				
	Net unrealized holding gain (loss) on other securities	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at April 1, 2012	$ 0	$ (6,507)	$ (6,497)	$ 6,071	$ 857,533
Changes arising during year:					
Cash dividends					(17,438)
Net income					79,660
Purchase of treasury stock					(21)
Disposition of treasury stock					—
Net changes in accounts other than shareholders' equity	128	1,563	1,701	1,446	3,158
Total changes during the year	128	1,563	1,701	1,446	65,338
Balance at March 31, 2013	$ 138	$ (4,934)	$ (4,795)	$ 7,528	$ 922,881

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 12,412	¥ 9,570	$ 131,972
Depreciation and amortization	2,164	1,941	23,009
Impairment loss	165	—	1,754
Amortization of goodwill	81	69	861
Increase (decrease) in allowance for doubtful receivables	(292)	100	(3,105)
Increase in liability for retirement and severance benefits	808	357	8,591
Increase (decrease) in accrued bonuses to directors and corporate auditors	37	(30)	393
Increase (decrease) in accrued losses on sales contracts	991	(37)	10,537
Increase in accrued warranty on products	89	—	946
Interest and dividend income	(52)	(79)	(553)
Interest expense	44	63	468
Loss on disposal of property and equipment	149	50	1,584
(Increase) decrease in notes and accounts receivable	(19,556)	12,861	(207,932)
Increase in inventories	(2,317)	(948)	(24,636)
Increase (decrease) in notes and accounts payable	5,953	(935)	63,296
Other, net	2,445	(839)	25,997
Subtotal	3,124	22,144	33,216
Interest and dividend received	52	98	553
Interest paid	(45)	(63)	(478)
Income taxes paid	(4,365)	(3,477)	(46,411)
Net cash provided by (used in) operating activities	(1,233)	18,701	(13,110)

(Continued)

	Millions of yen		Thousands of U.S. dollars (note 3)
	2013	2012	2013
Cash flows from investing activities:			
Purchase of property and equipment	(1,529)	(1,395)	(16,257)
Proceeds from sale of property and equipment	1	25	11
Purchase of intangibles	(1,418)	(1,137)	(15,077)
Purchase of investment securities	(49)	(6)	(521)
Proceeds from sale of investment securities	8	—	85
Loans receivable made	(10)	(17)	(106)
Collection of loans receivable	14	23	149
Purchase of investments in affiliates accounted for by the equity method	(396)	—	(4,211)
Other, net	(50)	(139)	(532)
Net cash used in investing activities	(3,429)	(2,648)	(36,459)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	552	(1,800)	5,869
Repayments of long-term debt	(3,500)	(500)	(37,214)
Proceeds from long-term debt	3,000	—	31,898
Proceeds from sale and purchase of treasury stock, net	(2)	(3)	(21)
Dividends paid to shareholders	(1,642)	(1,340)	(17,459)
Dividends paid to minority shareholders of subsidiaries	(2)	—	(21)
Other, net	(470)	(335)	(4,997)
Net cash used in financing activities	(2,066)	(3,979)	(21,967)
Effect of exchange rate changes on cash and cash equivalents	77	(98)	819
Net increase (decrease) in cash and cash equivalents	(6,651)	11,975	(70,718)
Cash and cash equivalents at beginning of year	37,586	25,611	399,638
Cash and cash equivalents at end of year	¥ 30,935	¥ 37,586	$ 328,921

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, 2013 and 2012

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 has the ability to control their operations) as of March 31, 2013 (14 subsidiaries as of March 31, 2012) and 1 affiliated company which the company has the ability to exercise significant influence.

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.

Investment in an affiliate is accounted for by the equity method as of March 31, 2013.

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. 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
Depreciation of property and equipment is principally computed by the straight-line method.

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	2 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 warranty
Accrued warranty is provided for the estimated warranty cost.

(i) 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.

(j) 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.

(k) Research and development costs
Research and development costs are charged to income as incurred.

(l) 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.

(m) 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.

(n) Derivative financial instruments

Derivatives are recorded at their fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is directly included in the net assets.

(o) 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.

(p) 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.

(q) 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.

(r) Accounting standards issued but not yet applied

Accounting standard for retirement benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No.26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No.25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 and the other related guidance.

Under the revised accounting standard, actuarial gains and losses and past service costs shall be recognized within net assets in the consolidated balance sheets, after adjusting tax effects, and the funding deficit or surplus shall be recognized as a liability or asset. In addition, the new accounting standard allows a choice for the method of attributing expected benefits to periods of either the straight-line basis or plan's benefit formula basis. In addition, the determination method of the discount rate was amended.

The Company expects to apply the revised accounting standard from the end of the fiscal year ending March 31, 2014 except for the amendment of the calculation method for present value of defined benefit obligations and current service costs, which will be adopted from the beginning of the fiscal year ending March 31, 2015.

The effect of adoption of this revised accounting standard is now under assessment at the time of preparation of the accompanying consolidated financial statements.

(s) Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2012 to conform to the presentation for the year ended March 31, 2013.

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 ¥94.05 = U.S.$1.00, the approximate rate of exchange on March 29, 2013. 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, 2013 and 2012

As financial institutions in Japan were closed on March 31, 2013 and 2012, notes maturing on March 31, 2013 and 2012 were settled on the following business day.
The following notes are included in the consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Notes and accounts receivable	¥ 255	¥ 160	$ 2,711
Notes and accounts payable	53	57	564

5. INVESTMENT SECURITIES

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2013	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 97	¥ 62	¥ 34	$ 1,031	$ 659	$ 362
Subtotal	97	62	34	1,031	659	362
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	27	40	(12)	287	425	(128)
Subtotal	27	40	(12)	287	425	(128)
Total	¥ 124	¥ 103	¥ 21	$ 1,318	$ 1,095	$ 223

	Millions of yen		
March 31, 2012	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 65	¥ 51	¥ 13
Subtotal	65	51	13
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	34	46	(12)
Subtotal	34	46	(12)
Total	¥ 99	¥ 98	¥ 1

Unlisted equity securities of ¥262 million ($2,786 thousand) and ¥209 million at March 31, 2013 and 2012, are not included in the above table because there is no market value and future cash flows cannot be estimated, therefore it is extremely difficult to measure the fair value.

6. INVESTMENT IN AN AFFILIATE

The aggregate carrying amount of investment in an affiliate as of March 31, 2013 is ¥360 million ($3,828 thousand).

7. INVENTORIES

a) Inventories at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Work in process	¥ 8,965	¥ 6,588	$ 95,322
Purchased goods and materials	1,408	1,454	14,971
Total	¥ 10,374	¥ 8,043	$ 110,303

b) Losses from revaluation of lower-of-cost or net selling value for the years ended March 31, 2013 and 2012 are ¥476million ($5,061 thousand) and ¥621 million, respectively.

c) Losses on sales contracts for the years ended March 31, 2013 and 2012 are ¥1,032 million ($10,973 thousand) and ¥44 million, respectively.

d) Accrued losses on sales contracts and work in process corresponding to the contract are not offset in the accompanying consolidated balance sheets.
Work in process corresponding to accrued losses on sales contracts at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Work in process	¥ 930	¥ 13	$ 9,888

8. IMPAIRMENT LOSS ON FIXED ASSETS

The Company recognized impairment loss for the year ended March 31, 2013 as follows:

Location	Usage	Description	Millions of yen	Thousands of U.S. dollars
Kawasaki city, Kanagawa prefecture	Business facilities	Buildings and structures	¥ 46	$ 489
		Furniture and fixtures	57	606
		Other	62	659
		Total	¥ 165	$ 1,754

The fixed assets are grouped according to the classification for management reporting, and idle assets are grouped as an individual property. Impairment loss is recognized as the difference between the carrying amount and the estimated recoverable amount for the assets group which have generated operating losses continuingly.

The net realizable value of the business facilities is estimated by the value in use and is estimated zero because no future cash flow is estimated.

9. GOODWILL

Goodwill at March 31, 2013 and 2012 are recorded in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Intangibles, net of accumulated amortization	¥ 1,080	¥ 1,161	$ 11,483

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

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

The weighted average interest rates of current installments of long-term debt for the both years ended March 31, 2013 and 2012 were approximately 0.9% and long-term debt for the years ended March 31, 2013 and 2012 were approximately 0.8% and 0.7%, respectively.

The annual maturities of the long-term debt at March 31, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2014	¥ 500	$ 5,316
2016	3,000	31,898

As of March 31, 2013, the Group executed a ¥10,000 million ($106,326 thousand) committed borrowing facility with three domestic banks, and there is no utilization from this facility.

11. 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 38.0% and 40.7% for 2013 and 2012, respectively. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2013 and 2012 differ from the statutory tax rate for the following reasons:

	2013	2012
Statutory tax rate	38.0%	40.7%
Effect of:		
Expenses not deductible for tax purposes	0.9	1.0
Inhabitant tax per capita levy	0.9	1.2
Decrease in valuation allowance	(1.0)	(2.7)
Adjustments of deferred tax assets due to change in statutory tax rate	—	11.2
Other, net	0.3	0.0
Effective tax rate	39.0%	51.4%

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued employees' bonuses	¥ 2,440	¥ 1,850	$ 25,944
Social security contribution on employees' bonuses	295	246	3,137
Allowance for doubtful receivables	52	153	553
Accrued enterprise tax	343	251	3,647
Loss on revaluation of inventories	1,718	2,048	18,267
Unrealized profit on inventories	19	32	202
Accrued losses on sales contracts	387	10	4,115
Depreciation	416	323	4,423
Software	108	172	1,148
Accrued employees' retirement benefits	6,336	6,068	67,368
Stock dividends	123	123	1,308
Impairment loss on investment securities	89	103	946
Other	816	900	8,676
Subtotal	13,147	12,285	139,787
Valuation allowance	(1,115)	(1,251)	(11,855)
Total	12,032	11,034	127,932
Deferred tax liabilities:			
Prepaid employees' retirement benefits	(813)	(587)	(8,644)
Other	(115)	(58)	(1,223)
Total	(929)	(646)	(9,878)
Net deferred tax assets	¥ 11,103	¥ 10,388	$ 118,054

Net deferred tax assets and liabilities as of March 31, 2013 and 2012 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets - Deferred tax assets	¥ 4,941	¥ 4,158	$ 52,536
Investments and other assets - Deferred tax assets	6,179	6,239	65,699
Long-term liabilities – Other liabilities	(17)	(10)	(181)

12. 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, 2013 and 2012 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥ (44,798)	¥ (44,729)	$ (476,321)
Plan assets at fair value	22,149	19,214	235,502
Unfunded retirement benefit obligation	(22,648)	(25,514)	(240,808)
Unrecognized actuarial loss	11,122	14,658	118,256
Unrecognized prior service benefit	(3,853)	(4,344)	(40,968)
Net amount recognized in the consolidated balance sheets	(15,379)	(15,201)	(163,519)
Prepaid retirement and severance benefits	2,261	1,627	24,040
Accrued employees' retirement benefits	¥ (17,641)	¥ (16,828)	$ (187,570)

The components of retirement benefit expenses for the years ended March 31, 2013 and 2012 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥ 2,082	¥ 1,669	$ 22,137
Interest cost	755	969	8,028
Expected return on plan assets	(467)	(432)	(4,965)
Amortization of actuarial loss	1,451	1,095	15,428
Amortization of prior service benefit or cost	(491)	(491)	(5,221)
Total	3,330	2,810	35,407
Other	327	310	3,477
	¥ 3,658	¥ 3,120	$ 38,894

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

The assumptions used in accounting for the above plans at March 31, 2013 and 2012 are as follows:

	2013	2012
Discount rate	Mainly 1.7%	Mainly 1.7%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%

13. 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, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Balance, beginning of year	¥ 320	¥ 279	$ 3,402
Obligations incurred by asset acquisition	44	—	468
Obligations settled	(36)	(15)	(383)
Accretion expense	5	4	53
Revisions in estimated cash flows	—	51	—
Balance, end of year	¥ 333	¥ 320	$ 3,541

14. 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 ($5,805 thousand) as of both March 31, 2013 and 2012. 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, 2013 and 2012 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	
	2013	2012
At beginning of year	46,158	42,922
Increase - purchase of odd lot shares	1,961	3,646
Decrease - sale of odd lot shares	—	(410)
At end of year	48,119	46,158

a) 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
(b)	Cash dividends per common share	¥13
(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
(b)	Cash dividends per common share	¥14
(c)	Record date	September 30, 2011
(d)	Effective date	December 2, 2011

b) Dividends paid during the year ended March 31, 2013

The following was approved by the Board of Directors held on April 27, 2012.

(a)	Total dividends	¥696 million ($7,400 thousand)
(b)	Cash dividends per common share	¥14 ($0.15)
(c)	Record date	March 31, 2012
(d)	Effective date	June 5, 2012

The following was approved by the Board of Directors held on October 25, 2012.

(a)	Total dividends	¥944 million ($10,037 thousand)
(b)	Cash dividends per common share	¥19 ($0.20)
(c)	Record date	September 30, 2012
(d)	Effective date	December 4, 2012

c) Dividends to be paid after March 31, 2013 but the record date for the payment belongs to the year ended March 31, 2013

The following was approved by the Board of Directors held on April 26, 2013.

(a)	Total dividends	¥1,292 million ($13,737 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥26 ($0.28)
(d)	Record date	March 31, 2013
(e)	Effective date	June 4, 2013

15. CONTINGENT LIABILITIES

At March 31, 2013, the Company was contingently liable as guarantor of indebtedness of the Company's employees in the aggregate amount of ¥53 million ($564 thousand).

16. LEASES

Operating leases

Future minimum operating lease payments subsequent to March 31, 2013 and 2012 for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥ 1,974	¥ 1,886	$ 20,989
Due over one year	2,350	4,129	24,986
Total	¥ 4,325	¥ 6,015	$ 45,986

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The significant components of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Employees salary	¥ 11,537	¥ 10,556	$ 122,669
Provision for bonuses to directors and corporate auditors	126	71	1,340
Retirement benefit expenses	1,313	1,065	13,961

18. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses amounted to ¥98 million ($1,042 thousand) and ¥92 million for the years ended March 31, 2013 and 2012, respectively.

19. OTHER COMPREHENSIVE INCOME (LOSS)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive loss for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized holding gain on other securities:			
Unrealized holding loss arising during the year	¥ 19	¥ (3)	$ 202
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	19	(3)	202
Tax benefit	(7)	1	(74)
Net-of-tax amount	12	(1)	128
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	208	(170)	2,212
Reclassification adjustment for gain/loss realized in net income	—	—	—
Before tax amount	208	(170)	2,212
Tax benefit	0	55	0
Net-of-tax amount	208	(114)	2,212
Total other comprehensive income (loss)	¥ 221	¥ (116)	$ 2,350

20. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2013	2012	2013
Net income per share	¥ 150.67	¥ 92.36	$ 1.60
Net assets per share	1,731.29	1,610.38	18.41

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.

21. 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 years and 5 and half years after the balance sheet date for the years ended March 31, 2013 and 2012, 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

The Group comprehends the foreign currency fluctuation risk by currency and by month, and to mitigate the 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 22, DERIVATIVES does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At March 31, 2013 and 2012, 37% and 43% 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, 2013 and 2012 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, 2013	Carrying amount	Fair value	Differences	Carrying amount	Fair value	Differences
Assets:						
(1) Cash and cash equivalents	¥ 30,935	¥ 30,935	¥ —	$ 328,921	$ 328,921	$ —
(2) Notes and accounts receivable	93,039	93,039	—	989,250	989,250	—
(3) Investments securities:						
Other securities	124	124	—	1,318	1,318	—
Total	¥ 124,098	¥ 124,098	¥ —	$ 1,319,490	$ 1,319,490	$ —
Liabilities:						
(1) Notes and accounts payable	¥ 36,404	¥ 36,404	¥ —	$ 387,071	$ 387,071	$ —
(2) Short-term bank loans	599	599	—	6,369	6,369	—
(3) Current installments of long-term debt	500	500	—	5,316	5,316	—
(4) Long-term debt	3,000	3,002	2	31,898	31,919	21
Total	¥ 40,503	¥ 40,505	¥ 2	$ 430,654	$ 430,675	$ 21
Derivative transactions	¥ 0	¥ 0	¥ —	$ 0	$ 0	$ —

March 31, 2012	Millions of yen Carrying amount	Fair value	Differences
Assets:			
(1) Cash and cash equivalents	¥ 37,586	¥ 37,586	¥ —
(2) Notes and accounts receivable	73,193	73,193	—
(3) Investments securities:			
Other securities	99	99	—
Total	¥ 110,879	¥ 110,879	¥ —
Liabilities:			
(1) Notes and accounts payable	¥ 30,321	¥ 30,321	¥ —
(2) Short-term bank loans	—	—	—
(3) Current installments of long-term debt	3,500	3,500	—
(4) Long-term debt	500	504	4
Total	¥ 34,321	¥ 34,325	¥ 4
Derivative transactions	¥ 2	¥ 2	¥ —

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

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 22. DERIVATIVES.

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted equity securities	¥ 262	¥ 209	$ 2,786
Investment in an affiliate	360	—	3,828

(3) Projected future redemption of monetary claim and securities with maturities at March 31, 2013

	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	¥ 30,935	¥ —	¥ —	¥ —
Notes and accounts receivable	93,039	—	—	—
	¥ 123,974	¥ —	¥ —	¥ —

	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	$ 328,921	$	$ —	$
Notes and accounts receivable	989,250	—	-	-
	$ 1,318,171	$ —	$ —	$ —

(4) The annual maturities of the long-term debt and other interest-bearing debt at March 31, 2013

	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 afte five year
Short-term bank loans	¥ 599	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	500		3,000	—	—	—

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due afte five year
Short-term bank loans	$ 6,369	$ —	$ —	$	$ —	$
Long-term debt	5,316	—	31,898	—		—

22. 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, 2013 and 2012, 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, 2013	Contract amount	Fair value	Valuation gain	Contract amount	Fair value	Valuation gain
Forward exchange contracts:						
To buy foreign currency:						
U.S. dollars	¥ 18	¥ (0)	¥ (0)	$ 191	$ (0)	$ (0)
Total	¥ 18	¥ (0)	¥ (0)	$ 191	$ (0)	$ (0)

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

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

23. RELATED PARTY TRANSACTIONS

The Company's outstanding common stock was owned by NEC Corporation by 51.42% and 51.43% at March 31, 2013 and 2012, respectively.

Balances with NEC Corporation at March 31, 2013 and 2012, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 85,092	¥ 77,723	$ 904,753
Balances:			
Accounts receivable	¥ 34,429	¥ 30,806	$ 366,071
Advances received	440	229	4,678
Purchases of communication device:			
Transactions:			
Purchases	¥ 34,763	¥ 32,164	$ 369,623
Balances:			
Accounts payable	¥ 9,913	¥ 7,360	$ 105,401

NEC Fielding, Ltd is a subsidiary of NEC Corporation as at March 31, 2013 and 2012. Balances with the company at March 31, 2013 and 2012, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 1,828	¥ 1,483	$ 19,436
Balances:			
Notes receivable	¥ 200	¥ 104	$ 2,127
Accounts receivable	458	344	4,870
Advances received	12	16	128
Purchases of communication device:			
Transactions:			
Purchases	¥ 978	¥ 1,138	$ 10,399
Balances:			
Accounts payable	¥ 288	¥ 277	$ 3,062

NEC Communication Systems, Ltd is a subsidiary of NEC Corporation as at March 31, 2013 and 2012. Balances with the company at March 31, 2013 and 2012, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 3,333	¥ 3,350	$ 35,439
Balances:			
Accounts receivable	¥ 727	¥ 780	$ 7,730

NEC Engineering, Ltd is a subsidiary of NEC Corporation as at March 31, 2013 and 2012. Balances with the company at March 31, 2013 and 2012, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Construction and maintenance of network system:			
Transactions:			
Sales	¥ 1,368	¥ 1,447	$ 14,545
Balances:			
Accounts receivable	¥ 543	¥ 557	$ 5,774

NEC Facilities, Ltd is a subsidiary of NEC Corporation as at March 31, 2013 and 2012. Balances with the company at March 31, 2013 and 2012, and related transactions for the years then ended are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	2013		2012		2013	
Rental of a buildings:						
Transactions:						
Lease deposit payment	¥	122	¥	22	$	1,297
Lease deposit repayment		130		-		1,382
Balances:						
Lease deposit	¥	1,582	¥	1,589	$	16,821

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

	Millions of yen	
Construction and maintenance of network system:		
Transactions:		
Sales	¥	839
Balances:		
Accounts receivable	¥	173

24. 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, 2013 and 2012 are summarized as follows:

	Millions of yen					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	¥ 85,338	¥ 54,732	¥ 80,935	¥ 14,709	¥ —	¥ 235,716
(2) Intersegment sales	—	—	—	—	—	—
Total	¥ 85,338	¥ 54,732	¥ 80,935	¥ 14,709	¥ —	¥ 235,716
Segment income	¥ 7,368	¥ 6,306	¥ 6,162	¥ 396	¥ (7,751)	¥ 12,483
Segment assets	¥ 33,620	¥ 21,824	¥ 51,357	¥ 10,235	¥ 51,256	¥ 168,295
Others:						
Depreciation and amortization	¥ 858	¥ 184	¥ 109	¥ 70	¥ 941	¥ 2,164
Purchases of property and equipment, and intangible assets	976	115	149	357	1,934	3,533
Investments in an affiliate accounted for by the equity method	360	—	—	—	—	360

	Thousands of U.S. dollars					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Sales:						
(1) Sales to third parties	$ 907,368	$ 581,946	$ 860,553	$ 156,396	$ —	$ 2,506,284
(2) Intersegment sales	—	—	—	—	—	—
Total	$ 907,368	$ 581,946	$ 860,553	$ 156,396	$	$ 2,506,284
Segment income	$ 78,341	$ 67,049	$ 65,518	$ 4,211	$ (82,414)	$ 132,727
Segment assets	$ 357,469	$ 232,047	$ 546,061	$ 108,825	$ 544,987	$ 1,789,421
Others:						
Depreciation and amortization	$ 9,123	$ 1,956	$ 1,159	$ 744	$ 10,005	$ 23,009
Purchases of property and equipment, and intangible assets	10,377	1,223	1,584	3,796	20,564	37,565
Investments in an affiliate accounted for by the equity method	3,828	—	—	—	—	3,828

March 31, 2012	Millions of yen 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

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 ¥7,751 million ($82,414 thousand) and ¥6,678 million in segment income for the years ended March 31, 2013 and 2012, respectively are mainly administrative operation expenses.
3. "Adjustments" of ¥51,256 million ($544,987 thousand) and ¥56,785 million in segment assets at March 31, 2013 and 2012, 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, 2013 and 2012 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
	2013	2012	2013
Customer name:			
NEC Corporation			
Sales	¥ 86,079	¥ 78,594	$ 915,247

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, 2013 and 2012

	Millions of yen					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Impairment loss	¥ —	¥ —	¥ —	¥ 165	¥ —	¥ 165

	Thousands of U.S. dollars					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Impairment loss	$ —	$ —	$ —	$ 1,754	$ —	$ 1,754

Not applicable for the year ended March 31, 2012.

Information of amortization of goodwill and balances of goodwill by reported segments as of and for the years ended March 31, 2013 and 2012

	Millions of yen					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	¥ 21	¥ —	¥ —	¥ 60	¥ —	¥ 81
Balances as of goodwill	358	—	—	722	—	1,080

	Thousands of U.S. dollars					
March 31, 2013	Enterprise networks	Carrier networks	Social infrastructures	Others	Adjustments	Total
Amortization of goodwill	$ 223	$ —	$ —	$ 638	$ —	$ 861
Balances as of goodwill	3,806	—	—	7,677	—	11,483

	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

Negative goodwill incurred by reported segments for the years ended March 31, 2013 and 2012
Not applicable.

25. SUBSEQUENT EVENTS

The Company resolved at the Board of Directors meeting held on February 13, 2013 to succeed the system engineering business of NEC Mobiling Ltd. through a simplified absorption-type corporate split. The system engineering business comprised area surveys, area designing and optimization, installation works, testing and maintenance related to the mobile base stations. The Company entered into a corporate split agreement with NEC Mobiling Ltd. on February 13, 2013 and the corporate split was consummated on April 1, 2013.

1. Outline of the corporate split
(1) Corporate split date
April 1, 2013
As this corporate split meets the provisions regarding a simplified absorption-type corporate split stipulated under Article 796, Paragraph 3 and Article 784, Paragraph of the Companies Act of Japan for the Company and NEC Mobiling Ltd., respectively, the corporate split does not require either company for a resolution of the shareholders' meeting.

(2) Corporate split method
Under this corporate split, the Company is the succeeding company and NEC Mobiling Ltd. is the splitting company.

(3) Corporate split objectives
The Company's advantage in the mobile base stations business is a construction and NEC Mobiling Ltd's advantage in the base stations business is an upper process such as area surveys, area designing and optimization and maintenance service. Through the corporate split, human resource, technology and knowhow in the mobile base stations business is concentrated and value chain is reinforced, and the Company aims to farther expand its business by strengthening comprehensive services for all networks from mobile base stations to backbone networks.

2. Outline of the applied accounting method
This corporate split was accounted for as a "transaction under common control" in accordance with the "Accounting Standards for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestures" (ASBJ Guidance No. 10, December 26, 2008).

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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 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 25, 2013
Tokyo, Japan

Global Network (As of March 31, 2013)

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: 100.0%
Subsidiaries: Toyo Alphanet Co., Ltd.
TNSi Europe GmbH

Nichiwa Co.
Head office: Hyogo, Japan
Established: January 1953
Capitalization: ¥50 million
Voting rights: 100.0%

Q&A Corporation
Head office: Tokyo, Japan
Established: July 1997
Capitalization: ¥897 million
Voting rights: 55.9%
Subsidiaries: DAIICHI AD SYSTEM Co., Ltd.
Net Life Partner Corporation (NLP)
ARKPOWER Co., Ltd.

NEC Networks & System Integration Engineering, Ltd.
Head office: Tokyo, Japan
Established: October 1992
Capitalization: ¥50 million
Voting rights: 100.0%

NEC Networks & System Integration Services, Ltd.
Head office: Tokyo, Japan
Established: July 1988
Capitalization: ¥60 million
Voting rights: 100.0%

NESIC Ascerent, Ltd.
Head office: Tokyo, Japan
Established: June 1951
Capitalization: ¥20 million
Voting rights: 100.0%

NESIC BRASIL S/A
Head office: Sao Paulo, Brazil
Established: November 1976
Voting rights: 87.4%

NESIC (Thailand) Ltd.
Head office: Bangkok, Thailand
Established: March 1991
Voting rights: 49.0%

NESIC PHILIPPINES, Inc.
Head office: Manila, Philippines
Established: April 1991
Voting rights: 100.0%

NESIC (GUANGZHOU) Co., Ltd.
Head office: Guangzhou, China
Established: August 1998
Voting rights: 100.0%

Networks & System Integration Saudi Arabia Co. Ltd.
Head office: Al-Khobar, Saudi Arabia
Established: April 2006
Voting rights: 95.0%

Certifications

ISO9001: 2008
Certificate No. : JQA-0471

ISO14001: 2004
Certificate No. : JQA-EM0640

ISO/IEC27001: 2005
Certificate No. : C03J0025
Organization : Office Service Division
(SI & Services Operations Unit)
(Security Control Center)
Certificate No. : JQA-IM0190
Organization : Office Service Division
(SI & Services Operations Unit)
(Service Infrastructure Construction Department)
(Network Service & Operation Department)
Certificate No. : JQA-IM0351
Organization : Service Infrastructure Division
(SI & Services Operations Unit)
(ICT Help Desk Service Department)
(Remote Operation Service Department)
Certificate No. : BSKS0027
Organization : Public Infrastructure Systems Division (Network Infrastructures Operation Unit) *as of March 31, 2013
Certificate No. : JQA-IM1086
Organization : Fire & Disaster Prevention Systems Division
(Network Infrastructures Operation Unit)
Certificate No. : JQA-IM1013
Organization : Kansai 1st Service Center
(Regional Operations Unit)
Kansai 2nd Service Center
(Regional Operations Unit)
Kansai SI Department
(Regional Operations Unit)
*as of March 31, 2013

ISO/IEC 20000-1:2011
Certificate No. : JQA-IT0037
Organization : Office Service Division
Customer Engineering Division
Service Infrastructure Division
(SI & Services Operations Unit)

Privacy Mark
Certificate No. : 21000053

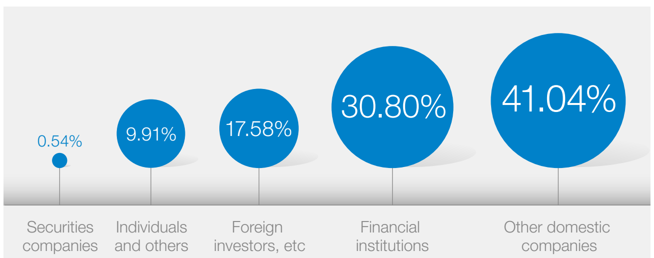
BS25999-2: 2007
(Business Continuity Management System)
Certificate No. : BCMS539922
Certified Organization : NEC Group
Scope of the Company's Certification:
Operation and Maintenance Business
(Unified Communication Network in Tokyo)
Carrier Operation and Maintenance Business

Investor Information (As of March 31, 2013)

Corporate Data

Corparate Name	NEC Networks & System Integration Corporation
Established	December 1, 1953 (registered as a stock company on November 26, 1953)
Number of Employees	4,530 (Non-consolidated) 6,024 (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	9,272
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan
Independent Auditors	KPMG AZSA & Co.

Composition of Shareholders



Major Shareholders

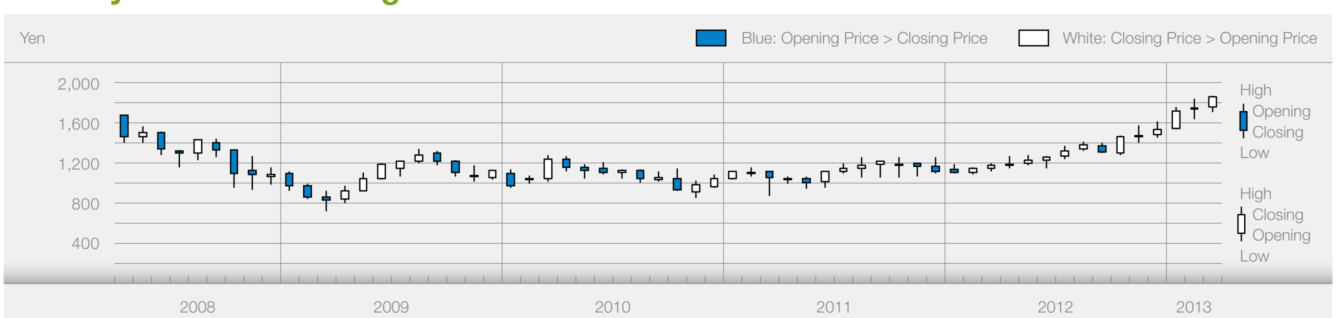
Name of Shareholder	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding [2]
NEC Corporation	19,106	38.42%
Japan Trustee Services Bank, Ltd. [1] (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account)	6,400	12.87%
Japan Trustee Services Bank, Ltd. (Trust account)	3,502	7.04%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,892	3.81%
Sumitomo Realty & Development Co., Ltd.	1,200	2.41%
Japan Trustee Services Bank, Ltd. (Trust account 9)	928	1.87%
Employees' Stock Ownership Plan	724	1.46%
CMBL S . A . Re Mutual Funds	685	1.38%
Mellon Bank, N.A. As Agent For Its Client Mellon Omnibus US Pension	665	1.34%
The Chase Manhattan Bank , N.A. London Secs Lending Omnibus Account	630	1.27%

Notes

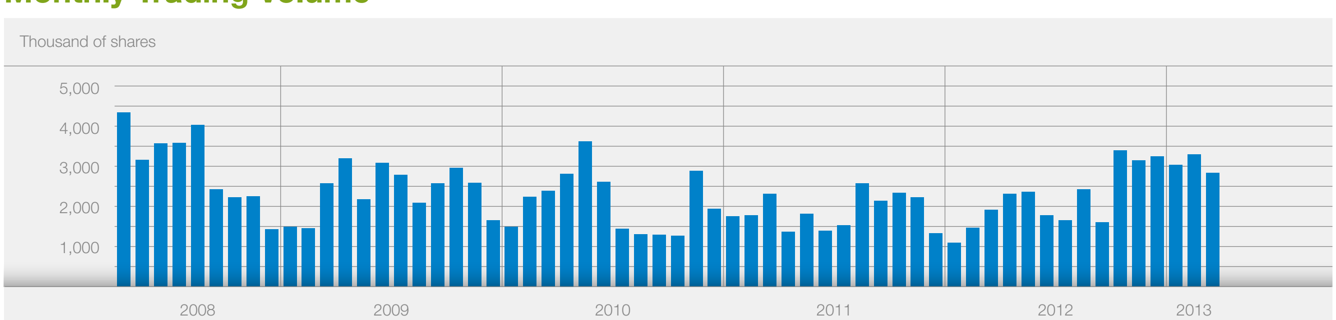
1 Shares held by Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited beneficiary trust account, NEC Corporation retirement benefit trust account) give NEC Corporation material voting rights because NEC Corporation has contributed shares of the Company to its retirement benefit trust.
The percentage of material voting rights held by NEC Corporation as of March 31, 2013 was 51.42%.

2 The percentage of total shares outstanding is calculated based on the number of shares excluding treasury stock (48,219 shares).

Monthly Stock Price Range



Monthly Trading Volume



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